

The Role of Remittances on National Economic Development: A Study on Bangladesh Perspective

Sunjida Wadud Upama

Department of Natural Science, Port City International University, Chattogram, Bangladesh

Email address:

sunjidaupama@gmail.com

To cite this article:

Sunjida Wadud Upama. The Role of Remittances on National Economic Development: A Study on Bangladesh Perspective. *American Journal of Theoretical and Applied Business*. Vol. 9, No. 3, 2023, pp. 70-74. doi: 10.11648/j.ajtab.20230903.11

Received: July 22, 2023; **Accepted:** August 8, 2023; **Published:** August 17, 2023

Abstract: Bangladesh is a lower middle income country in the world with a large share of income earning from foreign workers' remittance and it helps to improve the country's GDP, enhances national savings, significant changes in household lifestyle, and boosting money flow. Most of the lower and middle-class people in Bangladesh are financially solvent and lead a standard life for the main reason of foreign remittance, because at least one or two members of that family went abroad for the purpose of earning. The second biggest source of foreign exchange earnings is remittance that can be contributed to improve the nation's capital, BOP (Balance of Payment), and reserve money of the nation. The aim of the study is to find out the remittances and its contribution to economic growth of Bangladesh. This paper reveals the present scenario of remittance inflows in Bangladesh and how it helps to generate national capital reserves and solve the unemployment problem through exporting skill migration to abroad. The study suggests that there is a positive relationship between remittances and economic development and also makes clear policy recommendations that can assure sustainable remittance inflow, ease easy emigration, and direct a sizeable portion of received remittances into productive industries with the goal of boosting growth, creating jobs, and reducing poverty.

Keywords: Remittances, Economic Development, GDP, Bangladesh

1. Introduction

Bangladesh is the 8th largest remittance earning country and 6th largest labor sending country in world. Over the past 50 years, more than 12 million Bangladeshis have left the country as migrant workers and have sent back a total of USD 275 billion in remittances, according to the Bureau of Manpower Employment and Training (BMET) under the ministry of expatriate welfare and overseas employment [4].

The word "remittance" came from the word 'remit' which is meaning 'to send back'. Money that is sent or transferred to another party, typically abroad, is referred to as a remittance. Remittances may be transmitted via check, draft, wire transfer, electronic payment method, or postal mail. Remittances are non-commercial money transfers made by expatriate workers, members of the diaspora, or nationals with relatives living abroad to support their families back in their home country. Workers' remittances are defined by the International Monetary Fund (IMF) as the amount of money transferred by workers who have lived abroad for more than

a year to their home country and are noted in various balance of payments sections. According to Giuliano and Ruiz-Arranz collaborated with the International Monetary Fund (IMF) to do research on how remittances affect growth [10]. In this essay, the interaction between remittance growth and the economic advancement of the recipient nation was examined.

There is a long-term relationship between remittances and the GDP of developing nations that receive remittances, such as Bangladesh [8]. The findings suggest that remittances and GDP have a long-term favorable relationship. Their findings also suggest that developing nations should create strategies to redirect this outside resource toward more profitable industries. When immigrants send money home, remittances offer a tool to combat poverty and promote economic growth. Azam studied how remittances influenced economic growth in Bangladesh, India, Pakistan, and Sri Lanka and discovered that they had a beneficial effect on all of those nations' economies [2]. Bangladesh's economic development has been significantly aided by remittances from workers [3, 6, 13,

18]. To avoid using an unofficial conduit to receive remittances from migrants, Bangladesh still has to make a few modifications to its remittance delivery system. Rao and Hassan investigated the direct growth impacts of remittances as well as the growth effects of the channels via which remittances may affect growth by considering them as conditioning variables [17]. However, remittances are a major source of foreign funding in many developing nations, and they also contribute to the eradication of poverty and the improvement of living conditions for the populace.

Objectives of the Study

Based on the importance of the study, the researchers are stimulated to clarify the contribution of remittances to the national economic growth of Bangladesh.

2. Literature Review

Remittances are playing a more and bigger role in the economies of labor-sending nations like Bangladesh. Receiving countries can better their balance of payments, build their foreign currency reserves, pay off import debt, and improve their import liabilities by using the incoming foreign exchange. Comes et al. used panel data from seven countries in Central and Eastern Europe spanning the years 2010–2016 to explain the relationship between remittances, foreign direct investment, and economic growth [7]. Meyer and Shera used a panel data set covering the years 1999 to 2013 to investigate the varied effects that remittances have on the economic growth of six countries that receive a high volume of remittances: Albania, Bosnia and Herzegovina, Bulgaria, Romania, Macedonia, and Moldova [12].

Ramirez used panel data for 23 higher- and lower-income Latin American and Caribbean (LAN) nations from 1990 to 2007 to conduct a study that looked at the effect of remittances on economic growth [16]. He highlighted how remittances have a positive and considerable impact on the growth of the real per capita GDP. Using a panel dataset of 33 developing nations for the years 2003 to 2014, Ferdaous came to the conclusion that a much smaller percentage of remittances received in developing countries are utilised for constructive reasons [9]. By using extensive time series data from 1975 to 2009, Jawaid and Raza examined the impact of workers' remittances and their volatility on the economic growth of five South Asian nations [11]. The findings show a strong positive long-term correlation between remittances and economic growth in Bangladesh, India, Sri Lanka, and Nepal, but a strong negative relationship in Pakistan.

Remittances assist people meet their fundamental

necessities and enhance their living circumstances [1]. According to this study, remittances have a favorable effect on practically all of a nation's macroeconomic metrics. Remittances aid in revenue generation, advanced education for children, social status advancement, the creation of career opportunities for the underprivileged, and, most crucially, the empowerment of women [5]. Pradhan et al. used panel data spanning 25 years from 39 developing countries to assess the effect of workers' remittances on economic growth during the years 1980–2004, and they discovered a large and favorable influence of remittances on economic growth [14]. The empirical finding demonstrates that remittances and foreign direct investments have a favorable impact on economic development for all of the chosen nations.

3. Methodology

This study mainly depended on secondary sources of information. The secondary data, which is pertinent to this research article, have been collected from Bangladesh Bureau of Statistics; Bangladesh Bank Annual Report; Statistics Department of Bangladesh Bank; Foreign Exchange Policy Department of Bangladesh Bank; World Bank–KNOMAD staff estimates; World Development Indicators; IMF Balance of Payments Statistics, different article, books, web-sites, publication of the World Bank, news paper and journal report etc.

4. Analysis and Discussion

4.1. Inflows of Remittance in Bangladesh

The second-largest source of foreign currency earnings and a significant contributor to Bangladesh's economy are its expatriate earnings. Even though the world was grappling with rising inflation, Bangladesh's remittance inflows in January to March 2023 saw a strong influx (14.97%) as expats sent more money home in anticipation of Ramadan and other festivals [19].

During the July to March period of FY'23, the total amount of remittances received totaled USD 16035.08 million, which was USD 15298.26 million more than during the same period of FY'22 (Table 1). It is projected that the total inflow of remittances, the growth of remittances and its percentage shares in terms of GDP, and export earnings, which suffered a significant setback in FY'22 due to the COVID-19 pandemic scenario, will all improve in the current fiscal year [19].

Table 1. Total remittance, growth of remittance as percentage of GDP and export earnings.

FY	Total Remittance Million USD	Growth (%) of Remittance	Remittance (%) of GDP	Remittance (%) of Export Earnings (f.o.b)
FY'16	14931.16	-2.51	5.63	43.59
FY'17	12769.45	-14.48	5.11	37.54
FY'18	14981.69	17.32	4.66	41.29
FY'19	16419.63	9.60	4.67	41.46
FY'20	18205.01	10.87	4.87	56.68
FY'21	24777.71	36.10	6.03	67.14

FY	Total Remittance Million USD	Growth (%) of Remittance	Remittance (%) of GDP	Remittance (%) of Export Earnings (f.o.b)
FY'22p	21031.68	-15.12	4.56	42.71
FY'23 (Upto March'23)	16035.08	4.82	-	40.78

Source: 1) Bangladesh Bureau of Statistics. 2) Statistics Department, Bangladesh Bank (from July, 2016) and Foreign Exchange Policy Department, Bangladesh Bank (up to June, 2016).

With a significant boost from India and Nepal, remittance flows to South Asia are predicted to increase by 3.5 percent to reach \$163 billion in 2022. According to the World Bank

research titled "Migration and Development Brief 37, November 2022," India's remittances are projected to hit a historic \$100 billion in 2022 [19].

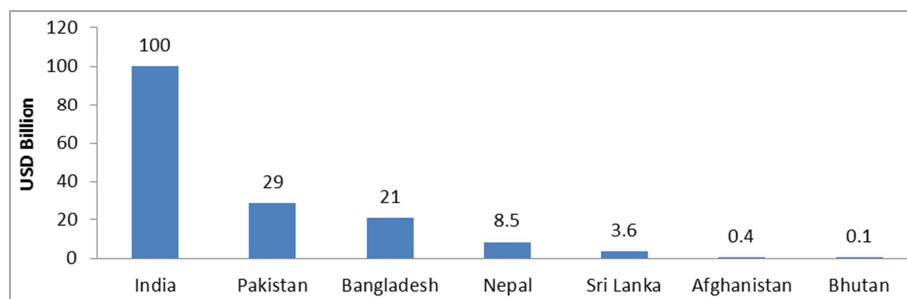
Table 2. Top Remittance Earning Countries & Contributing to GDP in South Asian 2022.

Top remittance recipient countries			Top countries (Contributing to GDP)*	
Country	Amount of remittances (Billion USD)e	Percent of total Global remittance inflow	Country	Percentage Share of GDP
India	100	12.59	Nepal	21.8
Pakistan	29	3.65	Pakistan	7.7
Bangladesh	21	2.64	Sri Lanka	4.9
Nepal	8.5	1.07	Bangladesh	4.6
Sri Lanka	3.6	0.45	India	2.9
Afghanistan	0.4	0.05	Bhutan	2.1
Bhutan	0.1	0.01	Afghanistan	2.0
			Maldives	0.1

*Source: Migration and Development Brief 37, World Bank.

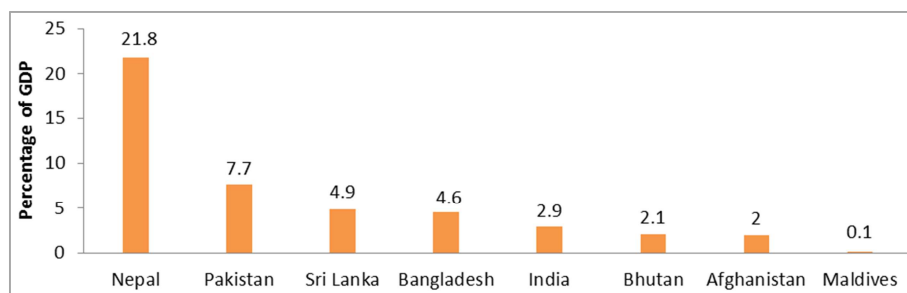
Table 2 shows that top remittance earning countries in South Asia in 2022, Pakistan earned foreign remittance 29.0 billion dollars, Bangladesh earned USD 21 billion which was percentage of total 2.64% Global remittance inflow, Nepal

earned \$8.5 billion, Sri Lanka earned 3.6 billion dollar, Afghanistan and Bhutan earned less than \$1 billion dollars (figure 1).



Source: Migration and Development Brief 37, November 2022

Figure 1. Top Remittance Recipients in South Asia.



Source: Migration and Development Brief 37, November 2022

Figure 2. Contributing to GDP in South Asia Countries.

Given that remittances make up about 73 percent of all resource flows to the region in 2022, it is anticipated that the region's reliance on remittances will continue [19], despite significant differences between nations. Remittances are expected to increase as a percentage of GDP in 2022,

reaching 22 percent in Nepal, and contributing 0.1 percent of GDP in the Maldives, while falling to 8 percent in Pakistan, 4-5 percent in Bangladesh and Sri Lanka, 2-3 percent in India, Bhutan, and Afghanistan (chart 2).

4.2. Government Motivation for Remittances Fighters

Remittance flows to Bangladesh are projected to decrease to USD 21 billion dollars in 2022, lower than the \$22 billion in 2021. Bangladesh's foreign reserves have significantly decreased as a result of rising global commodity prices and a widening balance-of-payments imbalance. The government removed the interest cap on nonresident foreign currency deposits, the cap on internet banking transfers, and the necessity for verification of source of income for remittances in order to provide incentives to migrants and stop the decline in remittances. For the first time, the government established a 2 percent cash incentive for inbound international remittances sent through banking channels, which took effect on July 1, 2019. Cash incentive for inward remittances has been increased by the government of Bangladesh to 2.5 percent for foreign workers who transfer their remittance through the government authorize banks and others legal ways. The aforementioned actions are now assisting in motivating Bangladeshi migrant workers to remit remittances through official banking channels to their homeland.

4.3. Challenges of Remittance

If there is a positive correlation between remittances and economic growth, it indicates the productive motive while a negative correlation indicates the altruistic drive. When transferring remittances, also known as informal remittances, people would occasionally use unauthorized channels like Hundi and Hawala to cut costs. Even though Hundi is casual, it is organized and consists of a network of ties to friends, family, and the local community [15]. Sometimes remittances are transferred through underworld activities, e.g. smuggling, Hundi, where these people collect remittances in foreign country and their agents pay the equivalent taka in Bangladesh to sender agents. Banks, postal services, money transfer companies, and other wire transfer services are examples of formal channels that are subject to government regulation and rules. These channels are frequently connected to high transaction costs and exchange loss. The unofficial technique known as Hundi is utilized to transfer money to Bangladesh. These procedures prevent the government from collecting taxes, and foreign exchange inflows fall.

5. Conclusions & Recommendations

Remittances have an important effect on the nation's economic development and helped to enlarge the national savings and to increase the country's GDP of developing countries as Bangladesh. After evaluating the overall scenarios of remittance inflows in Bangladesh, the report concludes that the remittance earnings for FY22 stood at USD 21031.68 million and it's contribute to 4.56 percent in GDP. The purpose of the study was to determine how remittances affected Bangladesh's economic expansion. In conclusion, the study's findings suggest that a connection between remittances and GDP may exist. Remittances may

enhance domestic consumption and the level of income for the poor, which could both contribute to a decrease in poverty which is beneficial for developing country like Bangladesh. Government of Bangladesh should take proper initiative to prevent the illegal ways of transferring remittance and motivated to use the government authorize banks and others legal ways to transfer workers remittance.

References

- [1] Ali M. A. (2014): "Socio-economic impact of foreign remittance in Bangladesh". *Global Journal Inc. (USA)*. Vol. 14, Issue 5, pp. 44-54.
- [2] Azam, M. (2015). The role of migrant workers' remittances in fostering economic growth: The four Asian developing countries' experiences. *International Journal of Social Economics*, 42 (8), 690–705.
- [3] Barai, M. K. (2012). Development dynamics of remittances in Bangladesh. *Sage Open*, 2 (1), 2158244012439073.
- [4] BMET (2023). Bureau of Manpower Employment and Training, Ministry of Expatriate Welfare and Overseas Employment. Retrieved from <https://www.thedailystar.net/supplements/32nd-anniversary/towards-smart-bangladesh/news/better-care-migrants-can-ensure-higher-remittance-earnings-3244666>
- [5] Chowdhury I. A. (2014): "Impacts of remittance on the socio-economic condition of Bangladesh: An analysis", *Innovative Issues and Approaches in Social Science*, Vol. 7, No. 3, pp. 23-43.
- [6] Chowdhury, M. B. (2011). Remittances flow and financial development in Bangladesh. *Economic Modelling*, 28 (6), 2600–2608.
- [7] Comes, C. A., Bunduchi, E., Vasile, V., & Stefan, D. (2018). The impact of foreign direct investments and remittances on economic growth: A case study in Central and Eastern Europe. *Sustainability*, 10 (1), 1–16.
- [8] Das, A., and Chowdhury, A., (2011). "Remittances and GDP Dynamics in 11 Developing Countries: Evidence from Panel Cointegration and PMG Technique", *Romanian Economic Journal*, 14, 3–24.
- [9] Ferdaous, J. (2016). Impact of remittances and FDI on economic growth: A panel data analysis. *Journal of Business Studies Quarterly*, 8 (2), 58–77.
- [10] Giuliano, P., & Ruiz-Arranz, M., (2005). "Remittances, Financial Development and growth", IMF Working Paper, WP/05/234. <http://www.imf.org/external/pubs/ft/wp/2005/wp05234.pdf>
- [11] Jawaid, S. T. and Raza, S. A., (2014). Effects of Workers' Remittances and its Volatility on Economic Growth in South Asia. *International Migration*. (<http://onlinelibrary.wiley.com/doi/10.1111/imig.12151/epdf>).
- [12] Meyer, D., & Shera, A. (2017). The impact of remittances on economic growth: An econometric model. *Economia*, 18 (2), 147–155.
- [13] Paul, B. P., & Das, A. (2011). The remittance-GDP relationship in the liberalized regime of Bangladesh: Cointegration and innovation accounting. *Theoretical and Applied Economics*, 9 (9), 41–60.

- [14] Pradhan, G., Upadhyay, M., & Upadhyaya, K. (2008). Remittances and economic growth in developing countries. *The European journal of development research*, 20 (3), 497–506.
- [15] Rahman, Md M, & Yeoh, B. S. A. (2008). The social organization of Hundi'. *Asian Population Studies*, 4 (1), 5–29.
- [16] Ramirez, M. D. (2013). Do financial and institutional variables enhance the impact of remittances on economic growth in Latin America and the Caribbean? A panel cointegration analysis. *International Advances in Economic Research*, 19 (3), 273–288.
- [17] Rao, B. B. and Hassan, G. M., (2012). Are the Direct and Indirect Growth Effects of Remittances Significant?. *World Economy*, 35, 351–372.
- [18] Wadood, S. N., & Hossain, Md. A. (2015). Impact of overseas remittances on economic growth: Evidences from Bangladesh. *Munich Personal RePEc Archive*. Paper No. 81657, <https://mpira.ub.uni-muenchen.de/81657/>. The Dhaka University Studies [*Journal of the Faculty of Arts*], 70 (1), 93–111.
- [19] World Bank, (2022). *The World Bank Migration and Development Brief*. 37, Migration and Remittances Team, Development Prospects Group. Retrieved from <https://www.gktoday.in/world-bank-migration-and-development-brief/>