SNAPSHOT

REMITTANCE INFLOWS TO BANGLADESH (2019–2022)

INTRODUCTION

The inflow of remittances is one of the main driving forces in Bangladesh's economic growth and development (IOM, 2021b). Remittances support the economy by increasing foreign exchange reserves and national savings and reducing poverty levels (Chowdhury and Chakraborty, 2021). During the COVID-19 global pandemic in 2020, there was a decrease in overseas Bangladeshi migrant workers and the inflow of remittances to the country was initially predicted to decline significantly in 2020 (Asia Development Bank, 2020; World Bank, 2020a). However, contrary to all negative forecasts, recorded remittance inflows to Bangladesh remained resilient during 2020 (IOM, 2021a; IOM, 2022). Nevertheless, even though the emigration of migrants increased again in 2021 and in 2022, the inflow of remittances to Bangladesh started to decline. The World Bank's prognosis for 2023 expects a further drop in remittances to South Asian countries (World Bank, 2023). This snapshot aims to provide an overview of the remittance situation in Bangladesh between 2019 and 2022.

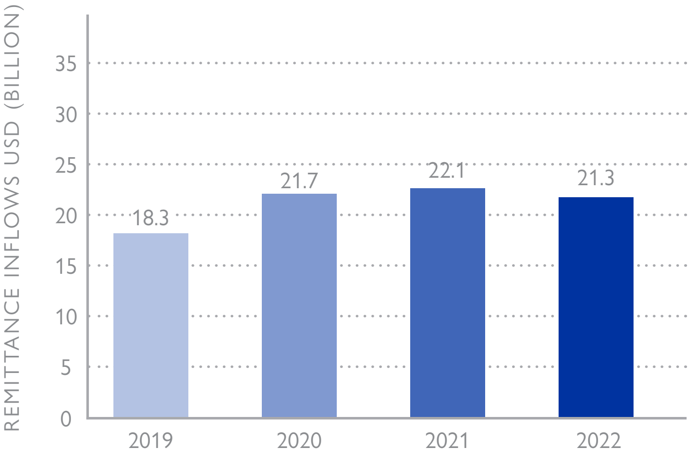
PART 1: OVERVIEW OF REMITTANCE INFLOWS TO BANGLADESH (2019–2022)

ANNUAL TRENDS

Between 2019 and 2020, the level of remittance inflows increased by a significant 20.8 per cent, surpassing the 8 per cent increase projected by the World Bank in October 2020 (World Bank, 2020b). Between 2020 and 2021, the remittance inflows increased slightly by 1.8 per cent. This increase of remittance inflows in Bangladesh, rising from USD 18 billion in 2019 to USD 22 billion in 2021 – a growth of 20 per cent (Figure 1) – defied all predictions of a decline due to the COVID-19 pandemic (Bangladesh Bank, 2023a). Various reasons could explain the growth of remittance inflows in the country during this time. On one hand, the introduction of Government policies and bank-led initiatives that boosted remittances and accelerated the transition from cash to digital – and likely from informal to formal channels. For example, the Government introduced a 2 per cent cash incentive on remittance receipts to encourage overseas migrants to send money through formal channels (Bangladesh Bank, 2022a). The Bangladesh Bank also supported the use of formal channels through initiatives of time and cost-effective transactions (Bangladesh Bank, 2022a). According to the United Nations Capital Development Fund (UNCDF), the proportion of remittances transactions that were digitally received through BRAC Bank[1], a major commercial bank in Bangladesh, increased from 37 per cent in 2019 to 75 per cent in 2020 (UNCDF, 2022). Another reason mentioned was the cancellation of the pilgrimage to Mecca (hajj) during the pandemic (World Bank, 2020b, World Bank, 2021b).

Between 2021 and 2022, the lifting of restrictions and opening of GCC economies enabled a slow outflow of migrants. Subsequently, the number of annual registered overseas migrants almost doubled in one year, rising from 637,399 in 2021 to 1,248,006 migrants in 2022. Nevertheless, remittance inflows in 2022 amounted to USD 21.3 billion, thus showing a slowdown by 3.6 per cent of the remittances received. Remittances contributed about 4.7 per cent to the national GDP in 2022 which is also lower compared to the 6.2 per cent of the previous year (World Bank, 2023a). By the end of 2022, Bangladesh contributed about 12 per cent to South Asian remittances, a considerable decrease from the 18 per cent contribution made the year before.

Figure 1: Total remittance inflows (January 2019 – December 2022)



Source: Statistics Department, Bangladesh Bank – Monthly Data of Wage Earners' Remittances (2023).

As per statistics provided by the Bureau of Manpower, Employment, and Training (BMET), over 2.1 million workers ventured abroad for employment during the Financial Years (FY) 2022 and FY23, surpassing pre-COVID levels. The upswing in migration primarily stemmed from the growing demand for labor in Gulf Cooperation Council (GCC) countries and the reopening of major labor markets like Malaysia. Despite the substantial increase in migrant workers, this surge did not proportionally boost official remittance inflows, marking a departure from the historical correlation where the outflow of migrant workers typically contributed to subsequent inflows of remittances in Bangladesh. This altered relationship between migration and post-COVID remittance inflow represents a notable shift from past trends (World Bank, 2023d). Additionally, remittance inflows from GCC countries notably declined, resulting in a clear impact on Bangladesh's overall remittance growth. Remittances from Saudi Arabia, being Bangladesh's largest overseas labor market, experienced a decline during FY22 and FY23, despite a steady rise in the outflow of migrant workers. Likewise, remittance growth from other key GCC countries

1. BRAC Bank Limited is a commercial bank in Bangladesh that, since its inception in 2001, has partnered with 57 exchange houses and seven banks to build a worldwide remittance network. bKash, one of BRAC Bank's subsidiaries, is the country's largest mobile wallet provider with 40 million customers, including 400,000 digital remittance recipients (UNCDF, 2022).

like Kuwait and the United Arab Emirates (UAE) decelerated. In contrast, remittances from non-GCC countries such as the United States and the United Kingdom showed an increasing trend. As the economic recovery in the host countries in the region, as well as the United States, Europe and GCC countries progressed, substantial fiscal stimuli, vaccine availability, high employment rates and increased wages drove the increase in remittances (World Bank, 2022). In FY21, the United States emerged as the second-largest contributor to remittances for Bangladesh, and by FY23, it nearly equaled remittances inflows from Saudi Arabia (World Bank, 2023d).

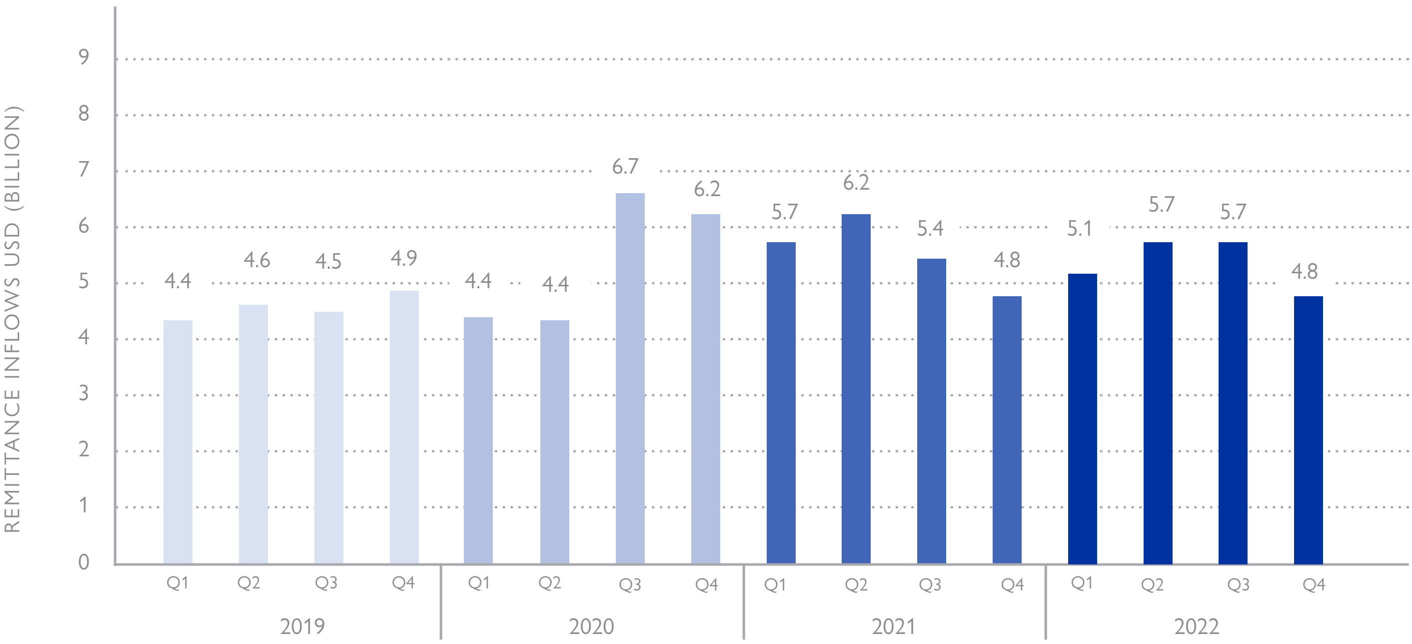
The drop of remittances to Bangladesh can be explained by the surge in worldwide prices of fuel and food which intensified pressure on the country's balance of payments, prompting currency depreciations and inflation. This situation led to economic uncertainty, thereby widening the gap between official and unofficial exchange rates in Bangladesh to about 12 to 18 per cent. Despite the government's efforts to boost cash incentives for remittance receipts, currency depreciation further amplified the exchange rate gap, leading labour migrants to use informal channels for the sending of remittances (World Bank, 2023a)[2].

QUARTERLY TRENDS

Quarterly remittance inflows for Q1 and Q2 2020 were similar to those in the same periods in 2019. Nevertheless, as seen in Figure 2, remittance inflows for Q3 2020 (USD 6.7 billion) significantly increased compared to Q3 2019 levels (USD 4.5 billion) – an increase of 49 per cent (Bangladesh Bank, 2023a). Q4 2020 also experienced an increase of 27 per cent compared to Q4 2019. Despite the economic downturn related to the COVID-19 pandemic, remittance inflows kept rising throughout Q1 and Q2 2021, reflecting an increase of 29 per cent and 39 per cent, respectively, against the same periods in 2020 (ibid.). Remittance inflows for Q3 and Q4 2021, nonetheless, showed a decreasing trend, with figures almost above pre-pandemic levels. With the return to normal economic activity after COVID-19, remittance inflows for Q1 and Q2 2022 were lower than the previous year by 11 per cent in Q1 and 7 per cent in Q2, respectively. Nevertheless, remittance inflows increased by 5 per cent in Q3 2022 compared to Q3 2021, while Q4 2022 remittance inflows were similar to Q4 2021. Remittance inflows for Q3 and Q4 2022, nonetheless, showed a decreasing trend.

The slowed down growth in remittance inflows during Q3 and Q4 2022 was shaped by several factors. Firstly, international events such as the Russian Federation’s invasion of Ukraine, and its effects on the global economic conditions, such as price hikes, higher living costs and restrained employment opportunities, and inflation leading to decreasing real wages in destination countries, had an impact on remittances (World Bank, 2022a; Bangladesh Bank, 2022). Secondly, as the informal market exchange rate premium emerged in the second half of 2022, the parallel exchange rate gap widened, remittance inflows reverted back to informal channels available again (World Bank, 2023a), even though remittance incentives were still in place (Bangladesh Bank, 2022). Nevertheless, the sustained inflows of remittances throughout Q1 - Q4 2022 at slightly higher than pre-pandemic levels, highlight the resilience of remittance flows, based both on altruistic motives of migrants, as well as self-interested motives such as financial security in case of forced deportations (Goswami et al., 2023).

Figure 2: Quarterly remittance inflows (Q1 2019 – Q4 2022)



Source: Statistics Department, Bangladesh Bank – Monthly Data of Wage Earner’s Remittance (2023).

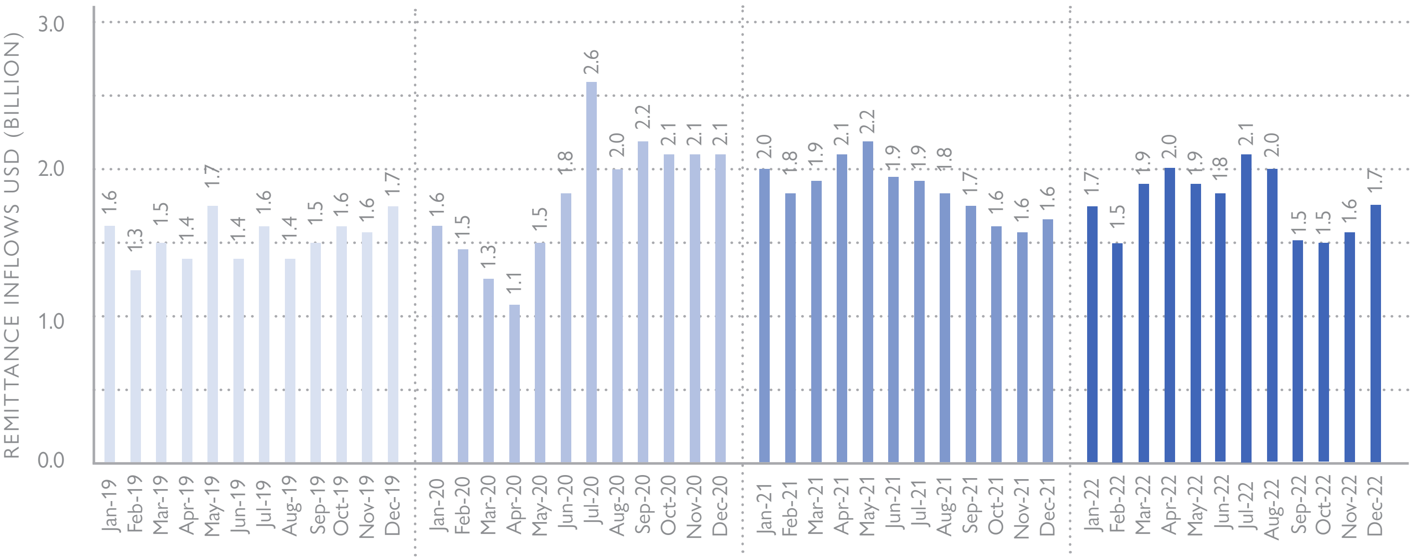
2. An econometric analysis by the World Bank showed a statistically significant negative correlation between the gap in official and informal exchange rates and official remittance inflows in South Asian countries. At the same time, there is no a statistically significant correlation between the official interbank exchange rate and official remittance inflows. This implies that a devaluation of the official exchange rate alone would not yield a positive impact on remittances unless there is a reduction in the gap of informal rates (World Bank, 2023d). Economic uncertainty coupled with this disparity potentially contributed to the shift of remittances to unofficial channels such as 'Hundi' (World Bank, 2023d).

MONTHLY TRENDS

Amid the COVID-19 pandemic, remittance inflows in Bangladesh showed notable fluctuations. In the first four months of 2020, there was a considerable decline from USD 1.6 billion in January to USD 1.1 billion in April, reflecting a 33% decrease (Bangladesh Bank, 2023a). The outbreak prompted major host countries to enforce extensive lockdowns, leading to an initial reduction in remittance inflows. Nevertheless, a distinctive trend has been observed in previous years persisted, with remittances surging during festive seasons. In May 2020, coinciding with Ramadan, remittance inflows increased by 38% compared to the previous month, reaching USD 1.5 billion. This upward trajectory continued into June 2020, reaching USD 1.8 billion. A significant surge occurred in July 2020, with remittance inflows reaching USD 2.6 billion, marking a substantial 63% increase compared to July 2019 (Bangladesh Bank, 2023a), as migrants typically send larger amounts of money home during the Eid-ul-Adha festival in Bangladesh (IOM, 2021a). This surge was attributed to the pandemic-induced cancellation of the Hajj pilgrimage, prompting families to redirect travel funds to remittances. Additionally, the flooding in July 2020, affecting nearly 4.7 million people, contributed to the rise in remittances (World Bank, 2020b).

In 2021, monthly remittance inflows in Bangladesh exhibited resilience despite figures below those of 2020. The gradual outflow of migrants, driven by the availability of vaccines and the opening of GCC economies, contributed to this trend (World Bank, 2022). The first three months of 2021 saw a slow outflow of return migrants, reflecting a 19% decrease in the deployment of workers compared to the same period in 2020 (World Bank, 2021). Although the annual total of registered overseas migrants almost reached pre-pandemic levels, with a majority leaving for the Kingdom of Saudi Arabia (74.1%), a slight decrease in remittances occurred in the second half of 2021, potentially attributed to migrants reverting to informal channels of money transfers (World Bank, 2022). The growth of remittances slowed, particularly from mid-2021, suggesting downside risks for 2022, largely influenced by the gradual remigration of return migrants, keeping remittances flat (World Bank, 2021).As mentioned before, post-pandemic remittance flows in 2022 witnessed a slight decline, primarily attributed to a decrease in the use of formal channels. By mid-2022, remittance inflows were approximately 10% below mid-2021 levels but 21% above pre-pandemic figures. Besides the reduction in the use of formal channels (as explained in the Annual Remittances section), the decline in 2022 can be attributed to other factors, including turbulent domestic economic conditions. Weak global trade demand for Bangladeshi goods and higher interest rates increased debt repayment costs, contributing to economic instability (World Bank, 2023a).

Figure 3: Monthly remittance inflows (January 2019 – December 2022)



Source: Statistics Department, Bangladesh Bank – Monthly data of Wage earner's remittance (2023).

PART 2: EXPLORING THE LINK BETWEEN THE BANGLADESHI DIASPORA AND REMITTANCES

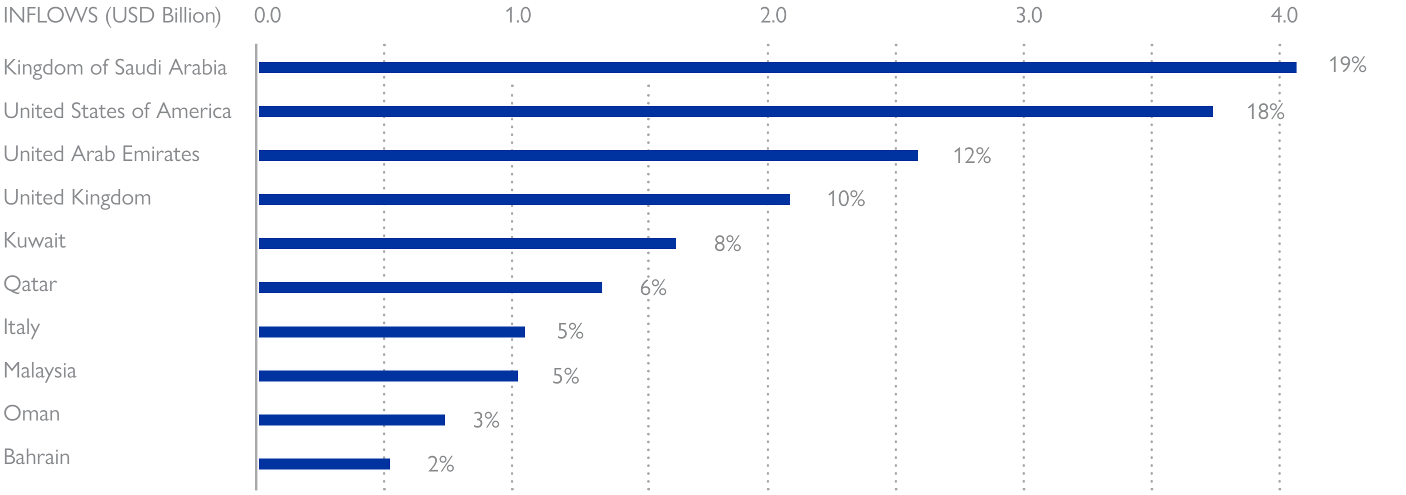
This section explores how the Bangladeshi diaspora[3] supported the overall remittance resilience by analyzing the main remitting countries and major countries of destination for Bangladeshi migrant workers. First, it is important to note that the Bangladeshi diaspora could be categorized into two main groups. The first group includes emigrants, permanent residents and students in Europe and North America – particularly in the United Kingdom and the United States (Islam, 2020). Migration to the United Kingdom first dates to World War II, when the country faced labour shortages and families from Bangladesh and India initiated migration. Migration expanded when immigration laws were relaxed in the 1970s, leading to close transnational connections between Bangladesh and the United Kingdom today (IOM, 2022). This migration process later expanded to other nations, including the United States and Canada. The second diaspora group includes short-term migrant workers to the Middle East, particularly to the Gulf Cooperation Council (GCC) countries – a process that began in the wake of the 1973 oil price spike and the emergence of the

3. IOM defines diasporas as "migrants or descendants of migrants, whose identity and sense of belonging have been shaped by their migration experience and background" (IOM, 2019).

GCC countries as affluent economies (Islam, 2020). A further distinction to be made in this regard is that most South Asian migrants in the United States (part of the first group) are employed in higher-income jobs, whereas most Bangladeshi migrants in the GCC countries are employed in unskilled sectors (Mahmud, 2023; World Bank, 2021).

According to the Statistics Department of the Bangladesh Bank, more than half of remittances inflows (51%) came from the GCC countries in 2022, predominately from Saudi Arabia, which sent almost one fifth (19%) of the total remittances (Figure 4). The United States and the United Arab Emirates ranked second and third, respectively, accounting for 18 per cent and 12 per cent of remittances inflows to Bangladesh in 2022 (Bangladesh Bank, 2023b). Hence, Bangladeshi emigrants – including migrant workers – and diasporas hosted in these three major remitting countries play a crucial role in Bangladesh's economic development, given that remittances are the second largest source of foreign income (World Bank, 2021).

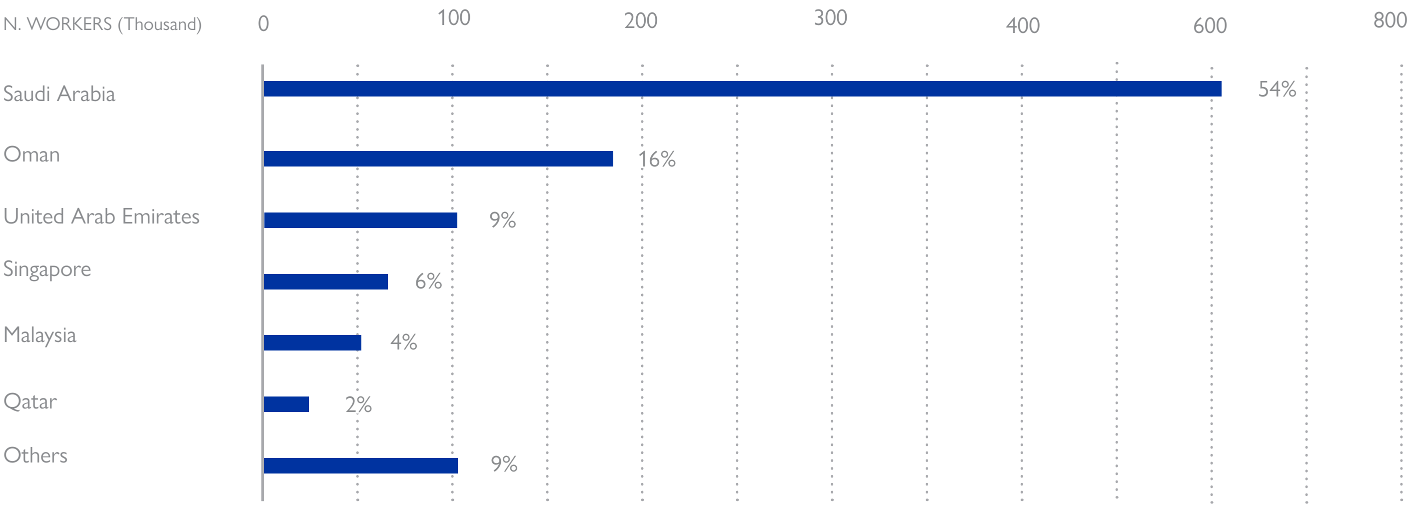
Figure 4: Top 10 source countries of remittance inflows to Bangladesh (January – December 2022)



Source: Statistics Department, Bangladesh Bank – Wage Earners' Remittance Inflows – Top 30 Countries (2023).

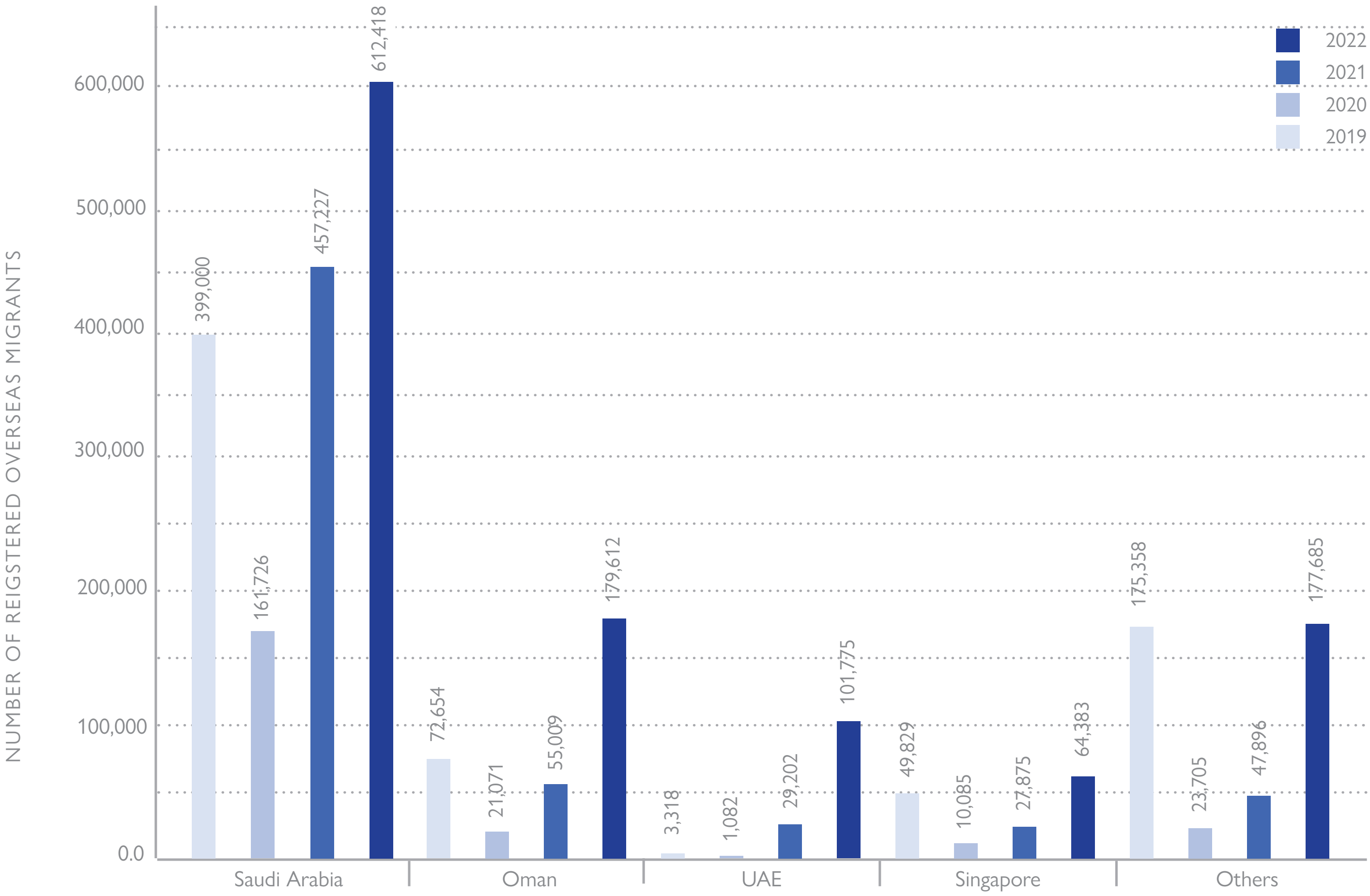
The Bangladeshi Government has long promoted the deployment of workers abroad (Mahmud, 2023). However, in 2020 and early 2021, the COVID-19 pandemic caused disruptions in major labour receiving countries for Bangladeshi migrant workers (IOM, 2021c). The spike in COVID-19 cases in South Asia and the emergence of the Delta variant in 2021 were followed by widespread travel bans, preventing Bangladeshi nationals from entering major labour receiving countries, such as Saudi Arabia, the United Arab Emirates, Singapore, Malaysia and Thailand (IOM, 2022). However, by 2022, the number of overseas migrant workers experienced a rapid recovery, nearly doubling the figures from 2021. Recent data from the Bureau of Manpower, Employment and Training (BMET), indicates that the number of registered overseas migrants surged to 1,135,873 in 2022 up from 617,000 in 2021 (BMET, 2023). This figure represents the highest number of registered workers that have gone abroad to date. As seen in Figure 5, nearly 83 per cent of Bangladeshi workers went to GCC countries in 2022 (54% to Saudi Arabia, 16% to Oman, 9% to the United Arab Emirates) (ibid.). Saudi Arabia alone hosted 612,418 employees in 2022, which was nearly equivalent to the annual total of overseas migrants in 2021 (ibid.) It is important to highlight that the actual number of Bangladeshi migrant workers is likely to be higher as irregular migrants are not generally counted in official records.

Figure 5: Main countries of destination for overseas Bangladeshi workers in 2022



Source: Compiled from the Bureau of Emigration and Overseas Employment Country Wise Emigration Database (2022).

Figure 6: Annual total of registered overseas migrants (2019 - 2022)



Source: Bureau of Manpower, Employment and Training (BMET) – Overseas Employment Country-Wise Monthly (2023).

CONCLUSION

Remittances inflows to Bangladesh have proven resilient at a time of global economic instability following the COVID-19 outbreak in 2020 and 2021. However, the resilience in remittances during the pandemic is not a new phenomenon. During the Global Financial Crisis (GFC) in 2008, remittances flows to Bangladesh grew over 37 per cent and contributed to 56 per cent of all foreign exchange earnings (BMET, 2023; Chowdhury and Chakraborty, 2021). The GFC did not only disrupt the demand side of the global economy, but it also created a supply shock by restricting the 'movement' of resources, particularly labour services. Therefore, the resilience in remittances in Bangladesh – and in other countries in the region – is an intrinsic long-lasting characteristic of the countercyclical nature of remittances, which have the tendency to increase in times of recession to support relatives at home (IOM, 2022). Additionally, as discussed in this snapshot, there are other factors that could have contributed to the countercyclical nature of remittances in Bangladesh. Government policies boosted and eased the use of formal remitting channels; and bank-led initiatives encouraged overseas migrants and workers to use e-transfers and cashless digital solutions over informal cash-based exchanges. Hence, the observed resilience of remittances during the first two years of the COVID-19 pandemic in the country is the result of both the altruistic nature of migrants to support their families and the positive effects of the government initiatives.

Furthermore, it can also be seen that heightened global inflation induced by the war in Ukraine did not affect remittance growth in South Asia as significantly as expected (World Bank, 2023a). Nevertheless, it is also visible that remittance growth in /sending to Bangladesh is highly dependent on two factors: 1) External shocks to the local economy, such as diminished global demand for exports from the country and increased interest rates amplifying the burden of debt servicing, as well as elevated global prices for fuel and food further intensifying balance of payment pressures, resulting in currency depreciations and 2) the resulting widening parallel exchange rate gap between the official and market exchange rate, which, coupled with the economic uncertainty incentivized migrants to send remittances through unofficial channels (World Bank, 2023a). Further research has shown that a one per cent deviation between the formal and informal exchange rate in Bangladesh is estimated to shift 3.6 per cent of remittances from the formal to the informal financial sector, which could explain the decline of official remittance inflows to Bangladesh in 2022 (World Bank 2023c, as cited in World Bank, 2023a). The trends observed in remittance inflows during 2021 and 2022 indicate a certain resilience despite the challenges posed by the pandemic and global economic fluctuations.

The economic forecast for 2023 hints at a continuation of the declining trend in remittances, particularly impacting South Asian countries. After high remittance levels in 2022, remittances are expected to have minimal growth (0.3%), due to factors such as the weakening demand for highly skilled IT workers in the United States and Europe, combined with slowing demand for migrants in the GCC countries and weak balance of payment conditions, which are expected to divert remittances towards informal money transfer channels in countries like Pakistan, Bangladesh, and Sri Lanka (World Bank, 2023a). Nevertheless, government initiatives have been introduced to encourage the inflow of remittances through formal channels. In August of 2023, the government of Bangladesh further raised the remittance incentive to 2.5 per cent to encourage sending remittances to Bangladesh through formal channels, and introduced a pension scheme for citizens abroad (Ministry of Foreign Affairs, 2023, Poutiainen, 2023).

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