

Remittance Earnings and its Impact on Foreign Currency Reserve in Bangladesh

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ABSTRACT

This paper explores the relationship between remittance earnings and their impact on foreign currency reserves in Bangladesh. Remittances have emerged as a vital source of external financing, contributing significantly to the country's economy. By providing an influx of foreign currency, remittances bolster the national reserves, helping to stabilize the balance of payments and support economic growth. This study examines the trends in remittance inflows, their role in enhancing foreign currency reserves, and the challenges in maximizing their potential. The analysis highlights the need for policy interventions to increase formal remittance channels and ensure sustainable economic benefits for Bangladesh.

Keywords: Foreign, Remittance, Currency, Financial, Reserves, Global Economic, Relationship.

INTRODUCTION

Remittances—financial transfers from migrant workers to their home countries—have emerged as a cornerstone of the global economy, particularly for developing nations like Bangladesh. With over 10 million Bangladeshis employed abroad, primarily in the Middle East and Southeast Asia, these inflows have significantly enhanced household incomes, improved living standards, and driven domestic consumption.

More critically, remittances have become a vital source of foreign exchange for Bangladesh, substantially contributing to the country's foreign currency reserves. These reserves play a crucial role in stabilizing the national currency, financing imports, servicing external debt, and ensuring overall economic resilience. In times of global financial volatility, the steady stream of remittances has helped Bangladesh maintain macroeconomic stability and meet its external obligations more effectively.

However, the link between remittances and foreign exchange reserves is multifaceted. Factors such as global economic trends, labor migration policies, and the use of formal versus informal transfer channels shape how remittances translate into reserve accumulation. Moreover, the long-term sustainability of these inflows and their evolving impact on economic health merit deeper investigation.

This study aims to examine the role of remittance earnings in bolstering Bangladesh's foreign currency reserves, evaluate their influence on economic stability, and explore the durability of these inflows as a key component of external financing. Through this analysis, the paper will also propose policy recommendations to optimize the benefits of remittance income for the national economy.

Introductory Background of the Issues

Over the past few decades, Bangladesh has witnessed a notable surge in remittance inflows, which has had profound socio-economic implications. These financial transfers from migrant workers have contributed significantly to poverty alleviation, enhanced household consumption, and improved overall living standards. Beyond their social impact, remittances have emerged as a critical component of the national economy,

particularly in strengthening foreign currency reserves. These reserves are indispensable for maintaining exchange rate stability, financing essential imports, and fulfilling external debt obligations. The consistent inflow of remittances has enabled Bangladesh to build and sustain a relatively stable level of reserves, thereby contributing to broader macroeconomic stability.

Nevertheless, the nexus between remittance earnings and foreign exchange reserves is complex and fraught with challenges. A considerable proportion of remittances is transmitted through informal channels, which often bypass the formal financial system and, consequently, do not reflect in official reserve figures. Furthermore, the flow of remittances is vulnerable to external factors such as global economic fluctuations, evolving labor migration trends, and policy shifts in host countries. These variables introduce significant uncertainty into Bangladesh's reserve management strategy. Additionally, the country's increasing reliance on remittances raises critical questions regarding the sustainability of this income stream as a long-term mechanism for maintaining reserve adequacy.

In light of these considerations, a comprehensive analysis of the contribution of remittances to Bangladesh's foreign currency reserves is essential. Such an examination must also consider the associated risks and opportunities inherent in this dependency. A nuanced understanding of these dynamics is vital for formulating effective policy measures aimed at optimizing the benefits of remittances while safeguarding the country's long-term economic stability.

Statement of the Topic

Remittance earnings, the financial transfers made by migrant workers to their home countries, have become a critical source of income for many developing economies, including Bangladesh. With over 10 million Bangladeshis working abroad, particularly in the Middle East, Southeast Asia, and other regions, remittances have a profound impact on the country's economy. These inflows not only support millions of households but also significantly contribute to the nation's foreign currency reserves, a key factor in maintaining financial stability.

Foreign currency reserves are vital for a country's economic health. They help maintain the stability of the local currency, manage external debt, and ensure that essential imports, such as oil and raw materials, can be paid for. In Bangladesh, remittance inflows are one of the primary sources of foreign exchange, contributing to reserve accumulation and buffering the economy against external shocks. As Bangladesh's economy grows and faces global challenges, the role of remittances in supporting the country's reserves has become increasingly important.

However, the relationship between remittances and foreign currency reserves is multifaceted. Factors such as the use of formal versus informal remittance channels, global economic trends, exchange rate policies, and government regulations all influence how much of the remitted funds contribute to reserves. This term paper will explore how remittance earnings impact Bangladesh's foreign currency reserves and assess the sustainability of this source of foreign exchange. By examining trends, challenges, and policy implications, this paper aims to provide a clearer understanding of the role remittances play in ensuring the stability and growth of Bangladesh's foreign currency reserves.

Objectives of the Study

The principal aim of this paper is to critically examine the relationship between remittance earnings and foreign currency reserves in Bangladesh. As remittances have become an increasingly integral part of the national economy—serving as a key source of foreign exchange—their role in sustaining reserve levels warrants thorough investigation. A nuanced understanding of this relationship is essential for evaluating the long-term viability of Bangladesh's foreign reserves and for informing sound economic policymaking. To this end, the specific objectives of this study are as follows:

1. To Analyze the Contribution of Remittance Earnings to Bangladesh's Foreign Currency Reserves

This objective involves quantifying the extent to which remittance inflows have contributed to the accumulation of foreign currency reserves. The analysis will draw on recent empirical data to identify trends and assess the magnitude of remittance-driven reserve growth over time.

2. To Examine the Impact of Remittances on Economic Stability and Reserve Management

This paper aims to evaluate how remittance inflows have influenced Bangladesh's foreign exchange market, particularly in terms of exchange rate stabilization, volatility reduction, and resilience to external economic shocks. The study will assess the role of remittances in supporting the country's capacity to manage international payments and maintain macroeconomic equilibrium.

3. To Assess the Sustainability of Remittance Contributions to Foreign Reserves

A critical objective of this research is to explore the long-term sustainability of remittances as a stable and reliable source of foreign exchange. This includes an examination of evolving global labor migration trends, the prevalence of formal versus informal transfer channels, and the influence of domestic and international policy frameworks on remittance flows.

4. To Identify Policy Implications and Offer Strategic Recommendations

Finally, the study aims to propose policy measures that could enhance the positive impact of remittance inflows on Bangladesh's foreign currency reserves and broader economic development. This includes strategies for incentivizing the use of formal channels, reducing transaction costs, and implementing regulatory reforms that support efficient reserve management and economic resilience.

CONCEPTUAL ISSUES

The relationship between remittance earnings and foreign currency reserves encompasses several conceptual dimensions that are critical for understanding their broader economic implications. Remittances—defined as cross-border financial transfers made by expatriates to their home countries—play a pivotal role in many developing economies, including Bangladesh. However, the mechanisms through which remittances influence the accumulation of foreign exchange reserves and their contribution to long-term economic development involve multiple complexities.

One of the foremost conceptual issues is the characterization of remittances as a source of foreign currency. Remittance inflows provide a relatively stable and non-debt-creating form of foreign exchange, which strengthens a country's reserve position. For Bangladesh, remittances constitute a significant share of foreign exchange earnings, contributing to balance of payments stability and supporting the national currency. However, a substantial portion of these funds is transmitted through informal, unregulated channels such as hundi systems, which are not captured in official statistics. This raises concerns about the accuracy of reserve data and the actual economic impact of remittances on the formal financial system.

A second conceptual concern relates to the utilization of remittance funds—specifically, the dichotomy between consumption and investment. In many cases, remittances are predominantly allocated to immediate consumption needs, including food, housing, healthcare, and education. While such expenditures enhance household welfare and contribute to poverty reduction, they may have limited multiplier effects on the broader economy if not channeled into productive investments. This distinction is crucial in assessing the extent to which remittances can drive long-term economic growth and sustain foreign currency reserves. Their developmental impact depends significantly on whether remittances are integrated into formal financial channels and leveraged for capital formation.

A third and closely related issue is the sustainability of remittance-driven foreign reserves. As Bangladesh continues to rely heavily on remittance inflows to bolster its foreign exchange reserves, questions arise regarding the long-term viability of this strategy. The sustainability of remittances is subject to external factors such as global economic fluctuations, shifts in labor migration trends, and changes in migration policies within host countries. These vulnerabilities underscore the need for a diversified approach to foreign exchange earnings. Relying predominantly on remittances exposes the economy to risks associated with overdependence on a single income stream, thereby highlighting the importance of developing alternative sources of foreign exchange, such as export earnings, foreign direct investment, and tourism.

In sum, while remittances provide essential support to foreign currency reserves and overall economic stability, their role must be examined within a broader conceptual framework. This includes considerations of formality, economic utilization, and sustainability, all of which are crucial for formulating policies that maximize the developmental benefits of remittance earnings while mitigating associated risks.

Available Research On The Topic

Contribution to GDP and Foreign Reserves

Remittances as a Significant GDP Contributor: Research has shown that remittances account for a substantial portion of Bangladesh's Gross Domestic Product (GDP). According to the World Bank, remittance inflows reached approximately \$24 billion in 2021, constituting about 6% of the GDP, demonstrating their crucial role in economic growth and stability.

Impact on Foreign Currency Reserves: Studies indicate that remittances directly contribute to the accumulation of foreign currency reserves. A report from the Bangladesh Bank highlighted that remittance inflows have bolstered foreign reserves, providing a buffer against external shocks and enhancing the country's ability to manage its balance of payments.

Stabilizing Effects on Exchange Rates

Exchange Rate Stability: Research has found that remittances help stabilize the Bangladeshi Taka (BDT) against foreign currencies. The inflow of foreign currency through remittances mitigates exchange rate volatility, which is vital for maintaining economic stability, particularly in a developing economy where currency fluctuations can have pronounced effects.

Impact of Global Economic Conditions

Sensitivity to Global Conditions: Several studies have examined how global economic conditions impact remittance flows. For instance, during the COVID-19 pandemic, remittances to Bangladesh temporarily declined due to economic slowdowns in host countries. However, subsequent recovery highlighted the resilience of remittance flows, as expatriates resumed sending money home in the face of economic recovery.

Role of Government Policies

Policy Influence: Research indicates that government policies can significantly affect remittance channels. The Bangladeshi government has implemented various initiatives, such as reducing remittance transfer fees and promoting formal channels, which have encouraged higher remittance inflows. The introduction of incentives for sending money through formal banking channels has helped improve the visibility of remittance flows in official statistics.

Socioeconomic Impact

Household Well-Being: Studies have shown that remittances improve household welfare, leading to better access to education, healthcare, and investment in local businesses. This socioeconomic upliftment

contributes indirectly to economic stability and growth, reinforcing the importance of remittances beyond their direct financial impact.

Nature of Data

In the study of remittance earnings and their impact on foreign currency reserves in Bangladesh, it is essential to utilize both qualitative and quantitative data to provide a comprehensive analysis of the topic.

Quantitative Data: Quantitative data plays a pivotal role in this research by offering measurable and statistical insights into the trends and patterns associated with remittance flows and foreign currency reserves. This type of data typically includes:

Remittance Inflows: Data on the total remittance inflows to Bangladesh over specific periods (e.g., annually) can be sourced from government reports, the Bangladesh Bank, and international financial organizations such as the World Bank. This data allows for the analysis of trends, growth rates, and contributions to GDP.

Foreign Currency Reserves: The amount of foreign currency reserves held by the Bangladesh Bank is crucial for understanding the relationship between remittances and reserve levels. Statistical data on foreign reserves can also be sourced from official publications and financial reports.

Economic Indicators: Other quantitative data, such as GDP growth rates, inflation rates, and exchange rate stability, can be analyzed to understand the broader economic context in which remittances operate. These indicators help in assessing how remittances influence overall economic stability and reserve management.

Demographic Data: Data on the demographics of Bangladeshi migrants, including the number of workers abroad and their countries of employment, can provide insights into the potential sources and channels of remittances. Quantitative data enables the use of statistical analysis and econometric models to identify correlations, trends, and causal relationships between remittance inflows and foreign currency reserves.

Qualitative Data: Qualitative data complements the quantitative data by providing context, depth, and understanding of the underlying factors that influence remittance behaviors and their impacts. This data can include:

Interviews and Surveys: Conducting interviews with migrant workers, their families, and financial institutions can yield insights into the motivations for sending remittances, the challenges faced in the remittance process, and the impact of remittances on household well-being. Surveys can capture perceptions and attitudes towards remittances and their use in local economies.

Policy Analysis: Reviewing government policies related to labor migration, remittance facilitation, and foreign exchange management can provide qualitative insights into the regulatory environment that shapes remittance flows and their contributions to foreign reserves.

Case Studies: Analyzing specific case studies of families or communities that rely heavily on remittances can illustrate the socio-economic impacts and the dynamics of remittance use in everyday life. Such qualitative findings can shed light on the broader implications of remittance dependency and its effects on local development.

Focus Groups: Organizing focus group discussions with stakeholders, such as policy-makers, economists, and remittance service providers, can reveal diverse perspectives on the challenges and opportunities associated with remittance flows and reserve management. By integrating both qualitative and quantitative data, this term paper aims to provide a holistic understanding of the impact of remittance earnings on foreign currency reserves in Bangladesh. This multifaceted approach will enable a more nuanced analysis, capturing both statistical trends and the lived experiences of individuals affected by these financial flows.

Sources and Uses of Data

In conducting research on remittance earnings and their impact on foreign currency reserves, selecting appropriate data sources and understanding how to use these data effectively is crucial. Data for this topic can be sourced from a variety of reliable national and international organizations, as well as academic research. As John Naisbitt once said, “We are drowning in information but starved for knowledge,” emphasizing the importance of not just accessing data, but using it meaningfully to generate insights.

Sources of Data

Bangladesh Bank: The central bank of Bangladesh is a primary source for data on remittance inflows, foreign currency reserves, and other key economic indicators. The bank’s official reports, publications, and online databases provide detailed and up-to-date statistics on foreign exchange reserves and remittance trends over time. This data is vital for understanding how remittances directly influence national reserves.

World Bank and IMF: Both the World Bank and the International Monetary Fund (IMF) are key international sources of economic data, including remittance flows, balance of payments, and GDP growth. Their databases allow for comparative analysis between Bangladesh and other remittance-receiving countries, providing global context to national trends.

Bureau of Manpower, Employment and Training (BMET): This government agency provides data on labor migration, including the number of Bangladeshis working abroad and their country of employment. This information is useful for analyzing the sources of remittances and identifying trends in labor migration that affect the inflow of funds.

Academic Journals and Research Papers: Scholarly research provides in depth analyses of the impact of remittances on the economy. Peer-reviewed journals, such as *The Journal of Development Economics* or *The Journal of Asian Economics*, offer empirical studies and theoretical insights into the remittance reserves relationship, often with case studies on Bangladesh.

NGOs and Development Organizations: Non-governmental organizations like the **International Organization for Migration (IOM)** and the **United Nations Development Program (UNDP)** also publish reports and case studies on migration and remittances, focusing on the socio-economic effects of these financial flows on developing countries.

Uses of Data

The data sourced from these organizations can be used in several ways to support the analysis of remittance earnings and their effect on foreign currency reserves:

Trend Analysis: By analyzing historical data on remittance inflows and foreign currency reserves, trends over time can be identified. This allows for the examination of the long-term effects of remittances on Bangladesh’s economy. For instance, one could assess whether remittance flows increase during global economic booms or recessions and how that correlates with reserve levels.

Policy Evaluation: Data on remittance flows and their formal vs. informal channels can be used to assess the effectiveness of government policies aimed at promoting formal remittance transfers. By comparing remittance inflows before and after certain policy interventions, one can evaluate their impact on increasing foreign currency reserves.

Case Studies: Qualitative data from interviews, surveys, and NGO reports can be used to complement quantitative findings. Case studies of migrant workers and their families can illustrate how remittances are spent or invested, and whether these funds contribute to the formal financial sector, thus influencing foreign currency reserves.

In conclusion, the combination of diverse and reliable data sources enables a holistic understanding of how remittances impact foreign currency reserves. As the philosopher Aristotle said, “The more you know, the more you realize you don’t know.” This data driven approach helps in unraveling the complexities of the remittance-reserve relationship, fostering informed policy decisions.

FINDINGS OF THE STUDY

Introduction

Provide a brief summary of your research objectives and the overall significance of remittances to Bangladesh's economy, particularly their impact on foreign currency reserves. Mention how the study examines both the positive and negative aspects of remittance inflows and its relation to the country's economic stability.

Overview of Companies/Entities Involved

Bangladesh Bank

Role: Bangladesh Bank, as the central bank, regulates foreign exchange and remittance inflows. It is the key institution overseeing foreign currency reserves.

Functions: Controls the supply of foreign currency, monitors remittances through formal channels, and manages policies that influence exchange rates and foreign currency reserves.

Impact on Remittances: Initiatives like improving banking access for overseas workers and reducing remittance transaction costs have been critical to increasing foreign currency reserves.

Commercial Banks

Examples: Sonali Bank, Agrani Bank, Islami Bank Bangladesh Limited (IBBL)

Role: These banks handle a significant portion of remittance inflows, offering services in partnership with global money transfer companies (e.g., Western Union, MoneyGram).

Impact: By facilitating easier and quicker remittance transfers through official banking channels, these banks play a direct role in enhancing foreign currency reserves.

Non-Bank Financial Institutions and Digital Platforms

Key Players: bKash, Nagad

Role: Mobile banking platforms have made remittances more accessible, especially in rural areas, allowing quicker and more formal remittance inflows.

Impact: Their contribution to the formal remittance ecosystem increases the amount of money flowing into official reserves.

Contribution of Remittances to Foreign Currency Reserves

Remittances as a Major Source of Foreign Currency

Current Statistics: Highlight the proportion of foreign currency reserves made up of remittance inflows (e.g., more than \$20 billion annually).

Comparison with Exports: Compare remittance earnings with Bangladesh's key export sectors, such as garments and textiles, to demonstrate the significance of remittances in maintaining foreign reserves.

Examples: Specific years when remittance inflows surpassed export earnings, especially during times of global economic slowdown.

Impact on Economic Stability and Growth

Buffer for Economic Shocks: Remittances act as a financial buffer during times of economic uncertainty, such as global recessions or natural disasters. Discuss examples where remittance inflows sustained reserves during crises (e.g., the COVID-19 Pandemic).

Case Study: Analyze how remittances helped maintain foreign reserves during the 2008 global financial crisis or the pandemic in 2020.

Exchange Rate Stability and Inflation Control

Stabilizing the Bangladeshi Taka (BDT)

Supply of Foreign Currency: Explain how remittances increase the availability of foreign currencies in Bangladesh, thus stabilizing the exchange rate.

Prevention of Currency Depreciation: Discuss how remittances help reduce the pressure on the Taka, preventing devaluation, which could otherwise lead to inflation.

Case Studies: Analyze specific instances when remittances contributed to stabilizing the exchange rate, despite fluctuations in export earnings.

Control of Inflation

Mechanism: Detail how higher foreign reserves through remittance inflows give the central bank more control over inflation by managing currency circulation.

Role of Government Policies and Incentives

Policy Initiatives to Encourage Remittance Inflows

Incentives for Overseas Workers: Highlight key policies, such as reduced fees, tax exemptions, and competitive exchange rates that have encouraged Bangladeshi workers to remit more through formal channels.

Special Investment Opportunities: Mention government programs that offer higher interest rates on savings or investment schemes tailored for expatriates.

Promotion of Formal Channels

Government Crackdown on Informal Channels (Hundi): Discuss efforts to reduce the use of informal remittance systems like hundi, leading to more foreign currency entering the official reserves.

Digital and Financial Inclusion: The role of expanding mobile financial services and partnerships with international money transfer companies to make formal remittances easier and more efficient.

Impact of Global Regulations and Agreements

Bilateral Labor Agreements: Highlight how labor migration agreements between Bangladesh and host countries (e.g., Saudi Arabia, Malaysia) have contributed to stable remittance inflows.

International Policies on Remittances: Discuss global trends, such as the

Sustainable Development Goals (SDGs), which prioritize reducing remittance costs globally, benefiting countries like Bangladesh.

Risks and Challenges

Over-Reliance on Remittances

Economic Vulnerability: Bangladesh's heavy reliance on remittance earnings makes it vulnerable to global labor market trends and economic changes in host countries (e.g., Middle Eastern oil economies).

Labor Market Volatility: The dependence on a few key regions for migrant labor

poses a risk if those countries reduce their demand for foreign workers or enact policies

that limit migrant employment.

Limited Long-Term Growth

Consumption vs. Investment: Most remittances are used for short-term household consumption, such as food, housing, and education, rather than being invested in productive sectors. This limits their contribution to sustainable economic growth.

Lack of Diversification: The over-reliance on remittances as a source of foreign exchange means that other sources, such as exports or foreign direct investment (FDI), remain underdeveloped.

Global Political and Economic Shifts

Impact of Global Economic Slowdowns: Explore how economic downturns, such as recessions in the Gulf countries, could reduce remittance inflows, negatively impacting foreign reserves.

Changing Migration Policies in Host Countries: Address potential threats from labor market policies in countries like Saudi Arabia, which may reduce opportunities for Bangladeshi workers.

FUTURE OUTLOOK

Diversification of Foreign Exchange Sources

Expanding Export Sectors: Discuss the need for Bangladesh to strengthen its export industries to reduce dependence on remittances.

Attracting Foreign Direct Investment (FDI): Explore the government's plans to attract more foreign investments, thereby adding to foreign currency reserves from sources other than remittances.

Strategic Use of Remittances for Economic Development

Channeling Remittances into Investments: Discuss potential strategies to encourage the use of remittance earnings for investment in infrastructure, entrepreneurship, and local industries.

Data and Case Studies: Support each section with specific data and case studies. For example, reference figures on remittance inflows for certain years or economic crises to demonstrate remittances' stabilizing role.

Graphs and Tables: Include graphs showing remittance growth over the years, foreign reserve levels, and a comparison between remittances and export earnings. These visual aids can help in explaining trends and impacts effectively.

Remittance Inflows in Bangladesh (April-June of FY21 to FY24)

With a robust growth of 22.64 percent during April-June of FY24, remittance inflows jumped to USD 6837.76 million buoyed by increasing exchange rate of BDT altogether sending more money on the occasion of two Eid-festivals compared to during (April- June of F Y23). Given some initiatives of BB in collaboration with government to encourage remit in banking channel, total remittances inflow witnessed a strong recovery in FY24 with a significant growth of 10.65 percent compared to 2.75 percent during FY23. With the increasing GDP, remittance-GDP ratio increased slightly to 5.21 percent in FY24. As a no debt creating external financing sources of balance of payment, the surging of remittance inflows helped to improve the deficit situation in current account during FY24 reflecting in larger share of remittances as a percentage of exports and imports. The inflow of remittances and its percentage (in terms of GDP, exports and imports) exhibit a significant improvement during FY24 (Table-I).

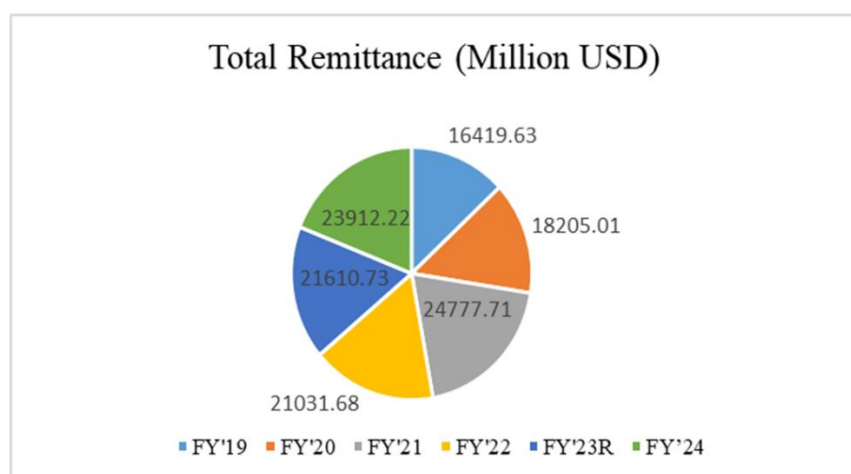
Table-1: Trend of remittance growth and remittance as percentage of nominal GDP, export earnings and import payment

FY	Total Remittance (Million USD)	Growth (%) of Remittance	Of Remittance (%) of GDP	Remittance (%) of Export Earnings	Remittance (%) Of Import (f.o.b)
FY'19	16419.63	9.60	4.67	41.46	29.62
FY'20	18205.01	10.87	4.87	56.68	35.91
FY'21	24777.71	36.10	5.95	67.14	40.83
FY'22	21031.68	-15.12	4.57	42.71	25.49
FY'23R	21610.73	2.75	4.79	49.84	30.55
FY'24	23912.22	10.65	5.21	58.59	37.81

Source:

Bangladesh Bureau of Statistics

Statistics Department, Bangladesh Bank (from July, 2016) and Foreign Exchange Policy Department, Bangladesh Bank (up to June, 2016). R— Revised, P= Provisional.



Migration and Remittance Inflows: April-June of FY19 to FY24:

Source: Bureau Of Manpower, Employment and Training, Bangladesh (BMET).

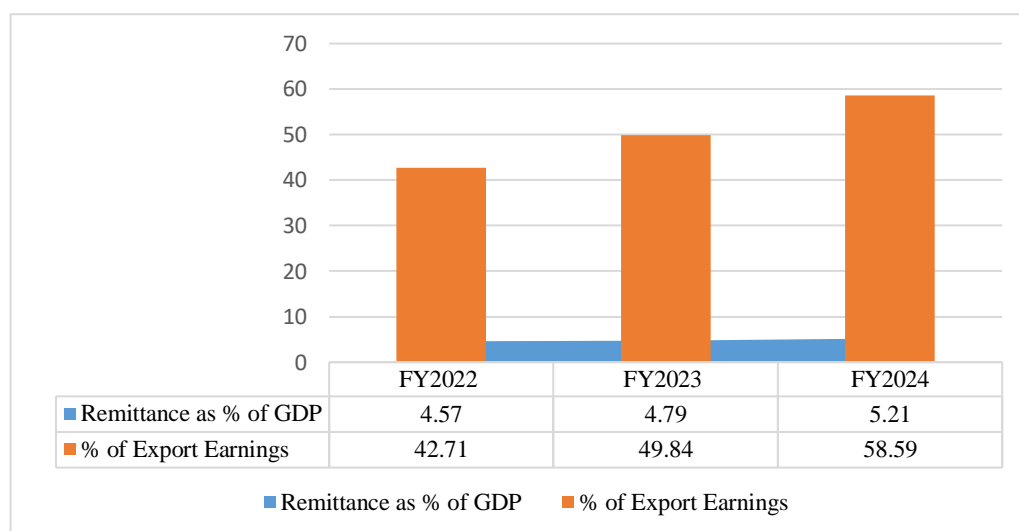
According to BMET data, there were some co-movements between up surging the remittance inflows along with increasing the total number of expatriate workers during April-June of FY24. Though, being the largest

overseas labor market of Bangladeshi workers, Saudi Arabia experienced a declining trend in remittance earnings during the last couple of quarters. On the other hand, with a small number of migrant workers, UAE registered outstanding inflows during the above mentioned period might be attributed to participation of skilled labor force.

Table -2 Remittance as percentage of GDP and Export Earnings

Fiscal year	FY2022	FY2023	FY2024
Remittance as % of GDP	4.57	4.79	5.21
% of Export Earnings	42.71	49.84	58.59

Source: Bangladesh Bank, 2024



The aggregate import of goods and services has gone up for Bangladesh almost twice over between 2018 and 2023. Remittances significantly exceed foreign direct investment and foreign aid for Bangladesh. Since 2023 onwards, remittance earnings also cover its trade deficit. It would enable countries to more vigorously pursue the objective of maximizing GNP rather than just GDP. The importance of foreign remittances in the economy of Bangladesh is widely recognized. Along with the readymade garment (RMG) sector and non-farm activities in the agricultural sector, remittances have been identified as one of the three key factors that have been responsible for reducing the overall incidence of poverty in Bangladesh.

SUMMARY OF FINDINGS

Here are the key findings regarding remittance earnings and their impact on foreign currency reserves in Bangladesh:

Substantial Contribution to GDP: Remittances account for approximately 6-7% of Bangladesh's GDP, highlighting their significance as a major source of foreign currency.

Direct Impact on Foreign Currency Reserves: Remittances provide a steady inflow of foreign currency, significantly enhancing the country's foreign exchange reserves. This stability is crucial for international trade and economic security.

Positive Balance of Payments: Increased remittance inflows have a direct positive correlation with the current account balance, helping to offset trade deficits and improve the overall balance of payments.

Exchange Rate Stability: Regular remittances inflows help stabilize the Bangladeshi Taka, reducing exchange rate volatility. This stability is essential for maintaining investor confidence and managing inflation.

Investment and Economic Growth: Remittances contribute to increased domestic consumption and investment. Family's on use remittance income to invest in businesses, education, and housing, stimulating local economic growth.

Social Development and Poverty Alleviation: Remittances play a crucial role in reducing poverty levels and improving living standards. They provide families with the means to access education and healthcare, fostering overall development.

Community and Infrastructure Development: Investment of remittance funds in local communities often leads to infrastructure improvements and enhanced services, contributing to broader socio-economic development.

Challenges and Vulnerabilities: Over-reliance on remittances can make the economy vulnerable to external shocks, such as changes in global labor markets or economic downturns in host countries. High transfer costs associated with sending remittances can diminish their overall benefits, necessitating efforts to lower these costs.

Government Policy Influence: The government can use remittance data to inform economic policies, including strategies aimed at enhancing financial inclusion and reducing transaction costs.

CONCLUSION AND POLICY RECOMMENDATIONS

In recent years Bangladesh has made some significant improvements in achieving high remittance inflow and in mounting its foreign exchange reserve. Hence, the remittance and foreign exchange reserve became leading contributors to Bangladesh's economy. On the other hand, the country lags in accelerating its investment scenario as it is hovering around 25 to 30 percent during the last decade. Given this context, this paper has made an investigation to find the effects of remittance and foreign exchange reserve on investment in Bangladesh.

However, the results have come out with some strong features. For example, remittance, as the result shows, does not have any significant impact on investment growth in Bangladesh both in the short-run and in long run. This finding is a serious concern to the policy sector in Bangladesh as high remittance inflow might increase the inflation rate and create income inequality in the economy if it is not spent for investment. Given this context, the paper recommends prudent policies that would emphasize the utilization of remittances mainly to increase investment growth. On the other hand, the paper found a positive impact of foreign exchange reserve on investment both in the short run and long run. Hence, despite foreign exchange reserves having multidimensional investment opportunities, the paper suggests the government use its high foreign exchange reserve mainly to increase physical investment particularly for industrialization and infrastructure development in Bangladesh.

Furthermore, the authorities can invest excess foreign reserves into the Exchange Traded Funds (ETF) to diversify and get better returns from the foreign exchange reserves. ETF is a kind of investment fund which is generally dealt with financial assets and stock exchanges. Some ongoing development projects such as green initiatives, promoting women empowerment, export promotion activities, etc. can also be some viable sources of returns for the excess foreign exchange reserves in Bangladesh.

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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