

An Impact of Foreign Remittance on the Profitability of EXIM (Export Import) Bank in Bangladesh

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Abstract

Remittance is an important and challenging issue in the banking industry nowadays. Remittance affects the health of banking sector and also the economy of a country. The aim of this paper is to identify the trend of remittance and the contribution of remittance to the profitability of EXIM Bank. The study based on secondary data collected from the different annual reports of the bank during its establishment year 1999 to 2016. The findings of this study show that remittance has the significant positive impact on the profitability.

Keywords: Remittance, Profitability, EXIM BANK, Bangladesh

1. Introduction

Bank can play as the lifeblood in the economy of a country. It helps the economic structure with pursuing the economic policy by the support of government. Bank is related to finance body for the any organization or the institution. Export and Import facility provided by the banks works as an incentive to the producer to increase the production. Most of the banks carried on foreign exchange trade (Chowdhury and Ahmed, 2009). Export Import (EXIM) Bank of Bangladesh Limited was established in the year 1999 to fulfil the dream of founder chairman of floating a commercial bank which would contribute to the socio-economic development of our country. This bank is very active in the foreign business assistance by their financial support in Bangladesh. Export growth is often considered to be a principal determinant of production and employment growth in an economy. Remittance is another major source of foreign earnings for Bangladesh. Bangladeshi workers, unskilled and semi-skilled, send huge amounts of foreign currency, which at times exceeds the exports earning from goods and services. Mamun and Nath (2005) investigate the link between exports and economic growth in Bangladesh. Remittance constitutes an important source of foreign exchange for the poor countries, which have substantial development impact as can be understood from micro and macro point of view (Ahmed and Uddin, 2009). Ali (2014) mentioned that there is enough scope to increase the foreign remittance by increasing manpower export through good training, good monitoring and good advertisement and international liaison. Therefore, remittance coming through a bank has a great contribution to the development of its growth as well as overall improvement of a country. Thus, this paper attempts to identify the impact of remittance on the profitability of EXIM Bank in Bangladesh.

2. Methodology

The present study has been carried out to evaluate the impact of remittance on the profitability for the EXIM bank. The relevant data are collected from the annual reports of EXIM bank, reports of Bangladesh bank, various websites etc. In this article, we have analyzed the different data of EXIM bank that are related to foreign remittance in Bangladesh and their profits during the period 1999-2000 to 2015-2016. For evaluating the impact measurement of the foreign remittance of this bank on its profitability, the data has been analyzed through the various statistical measures like descriptive statistics, trend analysis and regression model.

3. Results and Discussion

The following table represents the remittance, net profit and contribution of remittance to the Net Profit (percentage) over the study period from 1999-2000 to 2015-2016. The amount of remittances and net profits in million Taka (Taka is the currency of Bangladesh).

Table 1: Financial position of EXIM Bank in Bangladesh during 1999 to 2016

Year	Remittance	Net Profit	Contribution of remittance to the Net Profit
2000	104	48.13	216.08%
2001	402.8	154.05	261.47%
2002	156	201.42	77.45%
2003	124	254.79	48.67%
2004	113.1	381.8	29.62%
2005	223	555.34	40.15%
2006	383.8	650.29	69.02%
2007	712.46	93.84	759.55%
2008	1428.46	1096.64	130.26%
2009	2456.33	1694.1	144.95%
2010	3036.42	3476.4	87.35%
2011	3744.36	2009.37	186.34%
2012	5770.2	2083.08	277.00%
2013	2889.48	1885.61	153.24%
2014	3776.67	2465.68	153.17%
2015	5766.7	2086.51	276.38%
2016	4026.5	3034.76	132.68%

Source: EXIM Bank Annual Report 1999 to 2016

The results given in Table 1 depicts that the contribution remittance has fluctuated over the periods. However, it significantly lows in few years. The maximum contribution is more than 750% which occurs in the year 2007 and lowest in 2004 just under 30%. On an average, the contribution is more than 175%. Table 2 shows the descriptive statistics of remittances and net profits of the selected bank between 1999 and 2016. The results are given in million takas.

Table 2: Descriptive statistics of Remittance and net profit of EXIM Bank during 1999 to 2016

Statistic	Remittance	Net Profit
Average	1944.655	1353.785
Standard Deviation	1840.507	1074.794
Minimum	104	48.13
Maximum	5770.2	3476.01

Source: EXIM Bank Annual Report 1999 to 2016

It can be observed from the results provided in Table 2 that the average of remittances and net profits are 1944.655 and 1353.785 million takas respectively. The highest remittance received by this bank is approximately six thousand million takas whereas in case of net profit it was near about three thousand and five hundred million takas which are almost half of the remittances. However, the greater variation is observed in the data series of remittance. The following bar chart given in Figure 1 illustrates the comparison of remittances and the net profit of the selected bank from 2000 to 2016. Overall, it can be seen that there is an increasing trend of both remittances and net profit. From the starting year of the bank, net profits are more than remittance received by this bank up to the year 2007. However, from the year 2008 and onward the remittances are more than the net profit except for the year 2010. Also, both of them increased rapidly after the year 2008. Moreover, the gap between remittance and net profit is significantly large.

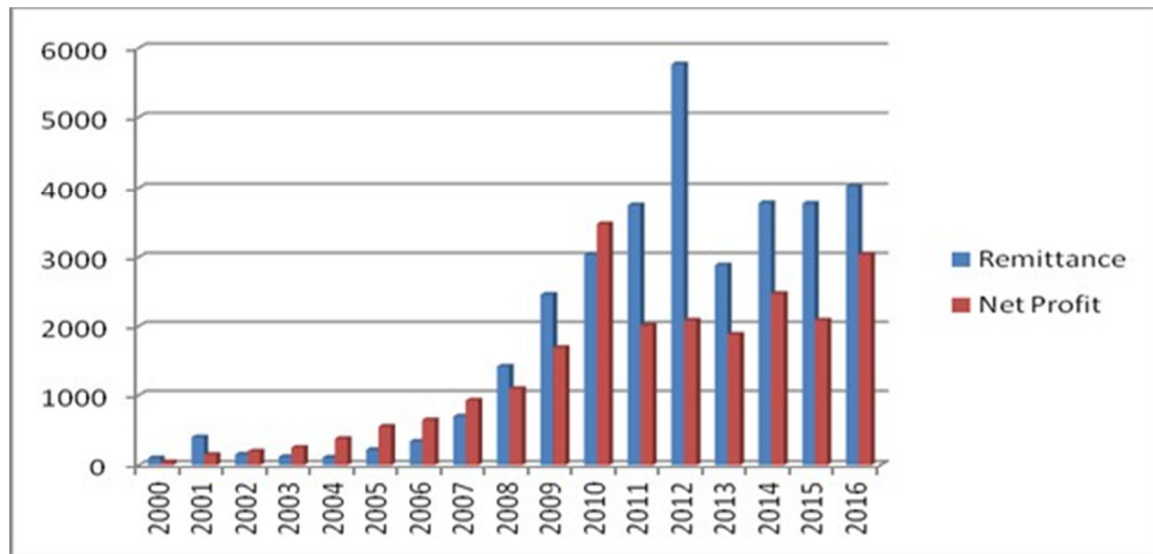


Figure 1: Remittance and net profit of the EXIM bank from 1999 to 2016

Figure 2 depicts scatter plot with trend equation of the remittances received by the selected bank. It can be seen that there is an upward trend in the remittances.

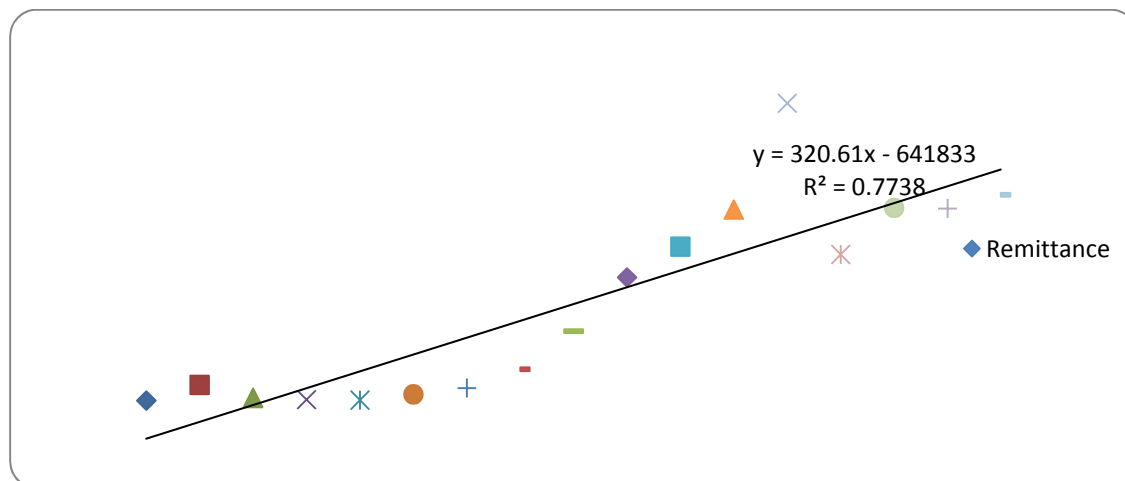


Figure 2: Trend line of the remittance of EXIM Bank during 2000 to 2016

Figure 3 displays a scatter plot with trend equation of the net profit of EXIM bank. It can be observed that there is an increasing trend in the net profit of this bank which indicates that the bank earns more profit in future.

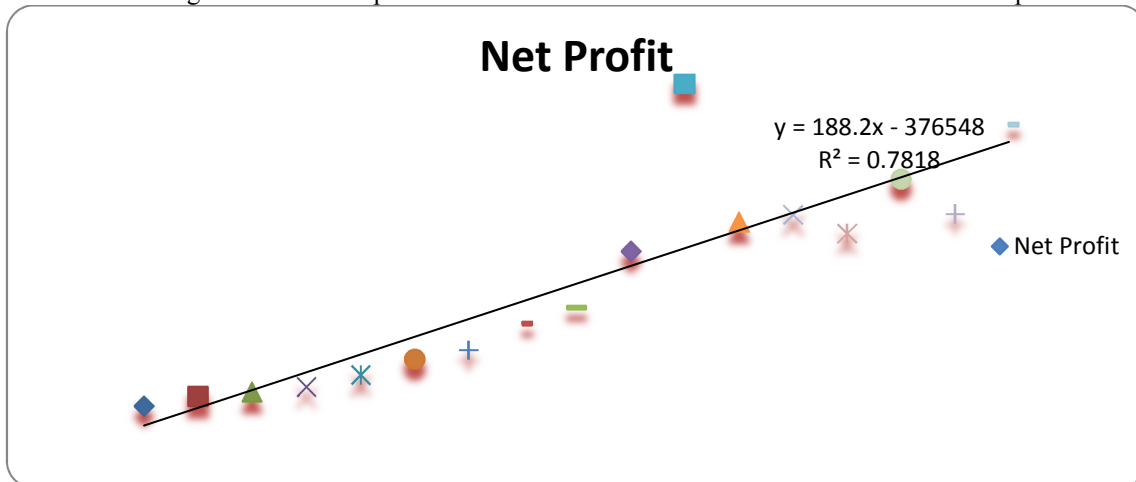


Figure 3: Trend line of the net profit of EXIM Bank during 2000 to 2016

Table 3 and Table 4 represents the results of regression analysis. Here, net profit is considered as the dependent variable and remittances received by the EXIM bank treated as the independent variable. It can be said that 67.7% of the variation in the net profit is explained by the remittance. Also, the value of Durbin-Watson d indicates that there is no autocorrelation problem among the residuals of the fitted regression model (Table 3).

Table 3: ANOVA table with model summary

Model	Sum of Squares	Df	Mean Square	F	p-value	Model Summary
Regression	13430000.00	1	13430000.00	31.46	0.000	R Square = 0.677, Adjusted R Square = 0.656, d = 2.073
Residual	6402874.654	15	426858.31			
Total	19830000.00	16				

The p-value of the regression coefficient of remittance is 0.0 which indicate that it significant at 5 percent level of significance. It is observed that if the remittances are increased by one unit then the net profit of this bank will be increased by 0.456 units. Thus, it can be concluded that the remittance has the significant positive effects on the net profit.

Table 4: Results of regression analysis

Model	Coefficients		t	p-value
	B	Std. Error		
Constant	356.859	231.590	1.541	0.144
Remittance	0.456	0.081	5.609	0.000

4. Conclusion

Remittances are a very important source of external finance in many developing like Bangladesh. Bangladeshi workers including unskilled and semi-skilled send a huge amount of foreign currency, which sometimes exceeds the exports earning from goods and services. In case of EXIM bank, this study found that both remittances and net profit having the upward trend. It is also observed that remittance and profitability of this bank are significantly positively related i.e., remittance has a positive effect on the profit. Thus, this paper is helpful to the policymakers in the banking sector in order to set the future goal of a bank.

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