Bangladesh
Journal of
Political
Economy

© 2011 Bangladesh Journal of Political Economy
Vol. 27, No. 1 & 2, 2011, pp. 061-083
Bangladesh Economic Association
(ISSN 2227-3182)

Impact of Global Financial Crisis on the Economy of Bangladesh

Md. Selim Reza[1]
M. Moazzem Hossain Khan

Abstract

The recent global financial turmoil started on July 2007, mainly in the USA and spread among developed nations in the latter part of 2008 and subsequently shifted to the developing nations. This crisis had some major setbacks not only for the developed countries but also for developing countries like Bangladesh. We have investigated the causes of global financial meltdown in the first part of this paper. We have got several reasons behind the global recession but the most immediate cause was the reckless sub prime lending. The second part of this paper attempts to identify the impacts of global financial crisis on the global as well as Bangladesh economy. Our findings show that the developed countries like USA, UK, EU, Japan as well as developing countries are greatly affected by the recent financial crisis. Measures taken by the developed countries and Bangladesh government to overcome the crisis are shown in the third part of this paper. As a measure, developed countries nationalized most of their banks and took huge bailout plans aimed at injections of capital into the financial system. Bangladesh government has also taken huge plans to protect its export sector as well as foreign migrants and financial institutions. Finally, some policy suggestions to overcome the crisis and achieve a sustainable development are given.

1 The authors are, respectively, Lecturer and Professor at the Department of Economics, Rajshahi University.

I. Introduction

The most talked about issue in the recent financial arena is the global financial crisis, which started to show its effect in the middle of the year 2007. The turmoil, however, was rooted in the sub-prime mortgage crisis that began in mid-2007, when two Bear Stearns hedge funds collapsed. During boom period, mortgage brokers were tempted by big commissions, talked with buyers with poor creditworthiness, into accepting housing mortgages with little or no down payment and without credit checks. Banks and financial institutions often repackaged these debts with other high-risk debts and sold those to world-wide investors creating financial instruments called CDOs or collateralized debt obligations. The turmoil started with the collapse of Lehman Brothers, which was heavily dependent on mortgage market and relied on repurchase market for short-term financing. Shortly after Lehman Brothers, Merrill Lynch filed for bankruptcy which was suffering from the same disease. The rising defaults on sub-prime mortgages in the US triggered a global crisis for the money markets. Consequently, the world stock markets crashed, and many of the world's leading investment banks and financial institutions collapsed or were bought out.

The massive global crisis, already being dubbed by some as the Great Recession since the Great Depression of the 1930's, began since the end of 2007 with the sub-prime mortgage crisis in the US. It subsequently and quickly spread to the international financial system, resulting in negative growth rates in key countries or regions, including the US, EU, and Japan. Many developing countries were also infected by the contagion, from China, Brazil and South Africa to the countries of South East Asia and Latin America. Asian countries were more affected by a strong recession in the USA. Some Chinese and Japanese banks suffered significant losses in the Mortgage-Backed Securities (MBS) trade. Global crisis reduced Chinese growth from 11.5% to only 8.0% in 2008.

Bangladesh is a developing country and globalization integrates it with the global market in diverse areas. Bangladesh is equally affected by the global turmoil in the short run as well as in the long run. It is very difficult to predict the scenario in the long term; however, short term impacts should duly be taken into consideration. The global financial crisis hits the country's exports, foreign remittance and balance of payments. It is imprudent to consider the economy of Bangladesh as 'vulnerable' just like the US economy which is basically 'credit oriented' rather than 'savings oriented' that ultimately results in enhancement of debt burden on individuals and the country as a whole. The economic crisis in the US was the outcome of the deregulations but Bangladesh is unlikely to experience such debacle as its regulatory bodies, including Bangladesh Bank (BB), regulate and supervise the financial market strictly. The overall financial leverage in Bangladesh is low and unlike the global financial institutions, Bangladesh's banking system has no toxic derivative engagements that could make overnight defaults. Moreover, prudential regulations and monitoring by BB kept the lending-deposit ratio of private banks within a tolerable limit.

Objectives of the study

The study has been undertaken with the following objectives:

1. To highlight the reasons behind the global financial crisis;
2. To investigate the impact of global financial crisis on global as well as Bangladesh economy;
3. To assess the measures taken by world as well as Bangladesh authority to mitigate the crisis;
4. To give policy suggestions to overcome the crisis.

II. Methodology and Data

Data used in the study are collected from secondary sources. The study tries to see the change in the volume of export-import, flow of remittance, and foreign assistance. The major sources of information are published articles, research reports, journals, daily newspapers, internet etc. However, exact sources of the data are Economic Review of Bangladesh, Bangladesh Bank, and Statistical Year Book of Bangladesh. The time period of the study is up to December 2011.

III. Reasons behind the Global Financial Crisis

The previous major financial crisis occurred during 1929 to 1933. A financial crisis occurs when there a disorderly contraction in money supply and wealth in an economy. It is also known as a credit crunch. It occurs when participants in an economy lose confidence in the repayment capacity of debtors. This causes lenders to limit loans as well as recall existing loans. The financial/banking system relies on credit creation as a result of debtors spending the money, which in turn is "banked" and loaned to other debtors. As a result, a relatively small contraction in lending can lead to a dramatic contraction in money supply. The Great Depression occurred after a dramatic expansion in debt and money supply in the roaring twenties. Total US private credit market debt as a percentage of GDP reached 250% in 1929. The next time debt exceeded this level in the USA was in reaching a peak of 350% prior to the bubble bursting. The financial crisis of 2007-2009 began in July 2007, when a loss of confidence by investors in the value of securitized mortgages in the United States resulted in a liquidity crisis that prompted a substantial injection of capital into financial markets by the United States Federal Reserve, Bank of England and the European Central Bank.

A common claim during the first weeks of the financial crisis was that the problem was simply caused by reckless, sub-prime lending. However, the sub-prime mortgages were only part of a far more extensive problem affecting the entire $20 trillion US housing market; the sub-prime sector was simply the first sign that the collapse of the bubble affecting the housing market showed up.

Sub-Prime Lending (American Housing Bubble)

In the American financial system, there are two large institutions, now called Fannie Mae (The Federal National Mortgage Association) and Freddie Mac (The federal Home Loan Mortgage Corporation), both of which had originated as government organizations to help fund housing. They worked in two ways. Firstly, they purchased mortgages made by banks, thus refinancing the lending banks and enabling them to make still more loans. Secondly, they guaranteed mortgages so that the lending bank did not face any risk and could cover its potential loss from default by paying the insurance premium to these two insurers. This pooling of the risk meant that lower interest rates could be made available to the guy that wanted to buy a house. These two organizations got their money by borrowing from the capital markets. They borrowed from central banks around the world with the encouragement of the US Treasury, which assured everyone that this was as sound as a US government security. This channeled substantial foreign savings into the mortgage market in the United States, enabling more and more to be directed to housing. Those housing loans that went through Fannie and Freddie were called ‘prime’ mortgages. The availability of funds from the foreign lending to the US was so great that the financial institutions needed to increase the amount of lending and hence, the so-called ‘sub-prime’ mortgage market emerged. This market comprised loans that did not meet the conditions of Fannie and Freddie and so were generally riskier. Of course, such sub-prime loans could not be refinanced through the two institutions.

As the price of houses increased, Americans found that their houses were much more valuable. For example, Mr. X bought a house for US$ 300,000 in 1995. He took a mortgage for 20 years for US$ 250,000 and paid from his savings for the rest. In 2003, he had repaid US$ 50,000 of the principal, so he owed US$ 200,000.

But the market value of the house had increased to US$ 450,000. The bank will allow him to borrow 80% of the value of the house or US$ 360,000. He owed US$ 200,000; so he could borrow another US$ 160,000 as a home equity loan. He did this, borrowing US$ 100,000, which he used to buy a car (US$ 40,000) and to make the down payment on a summer home that cost US$ 300,000 (he paid US$ 60,000 in cash and borrowed the rest). Now, he owed US$ 540,000 altogether, and by purchasing a second house he added to demand in the housing sector. That was what the upper-middle class Americans were doing. The world economy is facing very serious problems because of plunging house prices, falling credit availability and decreasing real incomes in many countries. The crisis began when Fannie Mae and Freddie Mae, the two largest mortgage lenders, went bankrupt. The bankruptcy of Fannie and Freddie and federal takeover of these institutions surely is one of the most serious financial crises since the Wall Street crash in 1929.

The Role of Central Bank

Some have proposed that the crisis is an excellent example of the Austrian Business Cycle Theory, in which credit created through the policies of central bank gives rise to an artificial boom, which is inevitably followed by a bust. Proponents of this theory have predicted the current financial crises and argued that central banks should not be involved in debt markets. The history of the yield curve from 2000 through 2007 illustrates that credit creation by the Federal Reserve may have played a role in the on-set of the financial crisis in 2007 and 2008. The yield curve (also known as the term structure of interest rates) is the shape formed by a graph showing US Treasury Bill or Bond interest rates on the vertical axis and time to maturity on the horizontal axis. When short-term interest rates are lower than long-term interest rates, the yield curve is said to be "positively sloped". This in turn encourages an expansion in money supply and in turn favours debt induced bubbles. When long-term interest rates are lower than short-term interest rates the yield curve is said to be "inverted". This favours a contraction in money supply. When long term and short term interest rates are equal, the yield curve is said to be "flat". The yield curve is believed by some to be a strong predictor of recession (when inverted) and inflation (when positively sloped). A positively sloped yield curve allows Primary Dealers (such as large investment banks) in the Federal Reserve system to fund themselves with cheap short term money while lending out at higher long-term rates. This strategy is profitable so long as the yield curve remains positively sloped. However, it creates a liquidity risk if the yield curve were to become inverted and banks would have to refund themselves at expensive short term rates while losing money on longer term loans.

Following the bursting of the Dot-com bubble (also referred to as the Internet bubble and the Information Technology Bubble) in 2000 and the Stock market downturn of 2002, the US Federal Reserve reacted sharply by lowering short-term interest rates. The Fed lowered the Fed Funds target rate beginning in January 2001 at 6.5% to a nadir of 1% in June 2003. The Fed also held rates at this low level for an unusually long period of time (1year) until June 2004. This prolonged period of stimulative Federal Reserve monetary policy created a very positively sloped yield curve. The yield on the 3-month Treasury-bill reached its lowest point (0.88%) for the cycle in the late fall of 2003 while at the same time 30-year Treasury-bond rates were in excess of 5%. In June 2004, the Fed began to slowly increase Fed Fund rates and the yield curve slowly narrowed. Fed Chairman Alan Greenspan notably described this narrowing of spreads between short term and long term rates as a "conundrum" during testimony in February 2005. The chairman expected long term rates to rise in line with short term rates. However, the tightening of monetary policy caused by rising short term rates was slowing the economy and reducing demand for long-term borrowing. The Fed raised Fed Funds target rates to a peak of 5.25% in June 2006. By October 2006 the yield curve on 90-day T-bills vs 30-year T-bonds was essentially flat indicating neutral monetary policy (neither stimulative nor contractionary). While the Fed maintained Fed Funds rates at this high level, long term rates began to fall causing the yield curve to become more and more inverted. The yield curve was most strongly inverted in March 2007 when concern about current inflation was reaching its peak.

Commodity Bubble

A commodity bubble was created following the collapse in the housing bubble. In 2007, US economy began to crumble. Several things happened more or less in conjunction. The mortgage market in the United States had built on an increase in interest rate, suddenly increasing the required payment; as the market for housing weakened the increase in house prices stopped and it became more difficult to use home equity financing as a cushion. At the same time the American economy slowed, somewhat, making it even more difficult as people lost jobs and bonuses and overtime were reduced. There were dramatic increases in the prices of food and gasoline, undermining consumer purchasing power. The oil price increased also by the cause of high demand levels in a rapidly growing economy. The price of oil rose to over US$ 140 dollars per barrel in 2008 before plunging as the financial crisis began to take hold in late 2008.

Deregulation

In 1992, the 102nd Congress and the Clinton Administration weakened regulation of government sponsored enterprises Fannie Mae and Freddie Mac with the goal of making available more money for the issuance of home loans. The Washington Post wrote: “Congress also wanted to free up money for Fannie Mae and Freddie Mac to buy mortgage loans and specified that the pair would be required to keep a much smaller share of their funds on hand than other financial institutions. Where banks that held US$ 100 could spend US$ 90 buying mortgage loans, Fannie Mae and Freddie Mac could spend US$ 97.50 buying loans. Finally, Congress ordered that the companies be required to keep more capital as a cushion against losses if they invested in riskier securities. But the rule was never set during the Clinton Administration, which came to office that winter, and was only put in place nine years later.

Booms and Collapse of Shadow Banking System

In a June 2008 speech, U.S. Treasury Secretary Timothy Geithner, then President and CEO of the NY Federal Reserve Bank, placed significant blame for the freezing of credit markets on a “run” on the entities in the “parallel” banking system, also called the shadow banking system. These entities became critical to the credit markets underpinning the financial system, but were not subject to the same regulatory controls. Further, these entities were vulnerable because they borrowed short-term in liquid markets to purchase long-term, illiquid and risky assets. This meant that disruptions in credit markets would make them subject to rapid deleveraging, selling their long-term assets at depressed prices. He described the significance of these entities: “In early 2007, asset-backed commercial paper conduits, in structured investment vehicles, in auction-rate preferred securities, tender option bonds and variable rate demand notes, had a combined asset size of roughly US$ 2.2 trillion. Assets financed overnight in triparty repo grew to US$ 2.5 trillion. Assets held in hedge funds grew to roughly US$ 1.8 trillion. The combined balance sheets of the then five major investment banks totaled US$ 4 trillion. In comparison, the total assets of the top five bank holding companies in the United States at that point were just over US$ 6 trillion, and total assets of the entire banking system were about US$ 10 trillion.” He stated that the “combined effect of these factors was a financial system vulnerable to self-reinforcing asset price and credit cycles”. Nobel laureate Paul Krugman described the run on the shadow banking system as the “core of what happened” to cause the crisis. “As the shadow banking system expanded to rival or even surpass conventional banking in importance, politicians and government officials should have realized that they were re-creating the kind of financial vulnerability that made the Great Depression possible and they should have responded by extending regulations and the financial safety net to cover these new institutions. Influential figures should have proclaimed a simple rule: anything that does what a bank does, anything that has to be rescued in crises the way banks are, should be regulated like a bank.” He referred to this lack of controls as “malign neglect”.

Systematic Crisis

Another analysis, different from the mainstream explanation, is that the financial crisis is merely a symptom of another, deeper crisis, which is a systemic crisis of capitalism itself. According to Samir Amin, an Egyptian economist, the constant decrease in GDP growth rates in Western countries since the early 1970s created a growing surplus of capital which did not have sufficient profitable investment outlets in the real economy. The alternative was to place this surplus into the financial market, which became more profitable than productive capital investment, especially with subsequent deregulation. According to Samir Amin, this phenomenon has lead to recurrent financial bubbles (such as the internet bubble) and is the deep cause of the financial crisis of 2007-2009.

IV. Impact on Global Economy

The global financial crisis which started with the collapse of US sub-prime mortgage system has not only engulfed the entire US and European financial and banking system but also began to affect the global economy. Britain, Germany, Japan and many other countries have gone for sweeping nationalization of bank and banking institutions as last ditch effort to avoid a total collapse. The frontier countries such as USA, UK, EU and Japan have already experienced a sharp decline in their GDP growth on an average 2 percent in 2008. Thus, the quarterly GDP growth rates in the major economies began to decline in early 2008 but by the third quarter negative growth rates began to be posted. The USA experienced a decline of 3.8 percent in the third quarter 2008, compared to the same quarter in 2007. Germany experienced a sharp fall in GDP as well 1.8 percent during the same period, while EU also posted negative growth of over 1 percent.

After an overnight 10 percent drop Indonesia suspended trading. Iceland with the world’s top per capita income is now bankrupt. The global slowdown also affected the major emerging-market economies such as China, Brazil, Russia and India. Projections of the Chinese and Indian economies suggest a decline in GDP growth rates to 9 and 7.3 percent in 2009 from 13 and 9.3 percent in 2008, respectively.

In spite of GDP growth slowing to 6.1% in the first quarter 2009 - the lowest since 1992 - the Chinese Government is optimistic about an economic recovery.

Because of financial crisis the most affected area are financial and banking institutions. One of the first victims was Northern Rock, a medium-sized British bank. The highly leveraged nature of its business led the bank to request security from the Bank of England. This in turn led to investor's panic and a bank run in mid-September 2007. Calls by Liberal Democrat Shadow Chancellor Vince Cable to nationalise the institution were initially ignored in February 2008. However, the British government (having failed to find a private sector buyer) relented, and the bank was taken into public hands. Northern Rock's problems proved to be an early indication of the troubles that would soon fall on other banks and financial institutions.

Initially the companies affected were those directly involved in home construction and mortgage lending such as Northern Rock and Countrywide Financial Institutions which had engaged in the securitization of mortgages such as Bear Stearns then fell prey. Later on, Bear Stearns was acquired by JP Morgan Chase through deliberate assistance from the US government. On July 11, 2008, the largest mortgage lender in the US, IndyMac Bank, collapsed, and federal regulators seized its assets after the mortgage lender succumbed to the pressures of tighter credit, tumbling home prices and rising foreclosures. That day, the financial markets plunged as investors tried to gauge whether the government would attempt to save mortgage lenders Fannie Mae and Freddie Mae, which it did by placing the two companies into federal conservatorship on September 7, 2008 after the crisis further accelerated in late summer.

At the heart of the portfolios of many of these institutions were investments whose assets had been derived from bundled home mortgages. Exposure to these mortgage-backed securities, or to the credit derivatives used to insure them against failure, threatened an increasing number of firms such as Lehman Brothers, AIG, Merrill Lynch, and HBOS. Beginning with bankruptcy of Lehman Brothers on September 14, 2008, the financial crisis entered an acute phase marked by failures of prominent American and European banks and efforts by the American and European governments to rescue distressed financial institutions. Afterwards, Iceland almost claimed to go bankrupt as the country's three largest banks, and in effect financial system, collapsed. Many financial institutions in Europe also faced the liquidity problem that they needed to raise their capital adequacy ratio. As the crisis developed, stock markets fell worldwide, and global financial regulators attempted to coordinate efforts to contain the crisis. Other firms that came under pressure included Washington Mutual, the largest savings and loan association in the United States, and the remaining large investment firms, Morgan Stanley and Goldman Sachs.

In the Eastern European economies of Poland, Hungary, Romania, and Ukraine the economic crisis was characterized by difficulties with loans made in hard currencies such as the Swiss franc. As local currencies in those countries lost value, making payment on such loans became progressively more difficult. In January 2009, the government leaders of Iceland were forced to call elections two years early after the people of Iceland staged mass protests and clashed with the police due to the government's handling of the economy. Hundreds of thousands protested in France against President Sarkozy's economic policies. Prompted by the financial crisis in Latvia, the opposition and trade unions organized a rally against the cabinet of premier Ivars Godmanis. The rally gathered some 10-20 thousand people. In the evening, the rally turned into a Riot. The crowd moved to the building of the parliament and attempted to force their way into it, but were repelled by the state's police. In late February, many Greeks took part in a massive general strike because of the economic situation and they shut down schools, airports, and many other services in Greece. Police and protesters clashed in Lithuania where people protesting the economic conditions were shot by rubber bullets. In addition to various levels of unrest in Europe, Asian countries have also seen various degrees of protest. Communists and others rallied in Moscow to protest the Russian government's economic plans. Protests have also occurred in China as demands from the west for exports have been dramatically reduced and unemployment has increased. ILO chief Juan Somavia warned that the financial crisis could lead to record global unemployment with 20 million more people out of work by the end of 2009. ILO indicated that, the number of unemployed could rise from 120 million in 2007 to 190 million in 2009. The population of working poor living on less than a dollar a day could grow by 40 million and those on two dollars a day by over 100 million.

V. Impact on Bangladesh Economy

The global financial disaster that initially affected the US and EU countries, was now spreading to Asia. Two Indian banks ICICI and HDFC ware affected because of their business links with the US and EU markets. Bangladesh was also affected by the global financial crisis. The major affected sectors are exports-imports, remittance and foreign assistance.

Impact on Export

Bangladesh's export earnings had risen rapidly since the early 1990s. Exports grew from around 7 percent of GDP in 1991 to around 18 percent in 2006. Two main sources of economic growth have been manufacturing and services, both crucially dependent on the RMG sector. The main driver of our exports sector is the readymade garments industry (RMG) which accounts for almost four fifth of our total exports earnings. Almost two and a half million people, ninety percent of them women, are employed in the RMG sector; while a large but undetermined number of people are involved in various ancillary and support services e.g. banking, insurance, transport etc. to this sector.

According to EPB data, export earnings of Bangladesh stood at US$ 16,597 million in FY 2009-10, which was 6.63% higher than the export earnings in FY 2008-09. But the export earning in FY 2007-08 was 15.87% higher than the export earning in FY 2006-07. The value of export commodities like raw jute (10.23%), tea (20.0%), frozen food (14.89%), jute goods (15.42%), leather (37.65) fell in FY 2008-09 compared to FY 2007-08. The price of raw leather has decreased substantially in the international market. Frozen foods lost international market due to global turmoil and mandatory test of Bangladeshi frozen fish by EU. The export of tea fell due to global recession and using older mode of production process. The country was gradually losing the market of jute and jute goods because the life cycle of most of the capital machineries expired and the demand fell in the international market due to global turmoil.

Bangladesh Bank data on countrywise export shows that in FY 2009-10 exports to the USA and EU have fallen compared to FY 2008-09. Also, the total export value gradually declined after the financial crisis started. The small garments industries which are not competitive collapsed. In the meantime, it was observed that the RMG Sector's orders fell by around 14-20 percent. Huge number of male and female workers of the export-led growth industries were losing their jobs.

Impact on Imports

Bangladesh's imports as a share of GDP have been rising steadily over the past three decades. Given the importance of imports for Bangladesh's economic growth and development, it is important to asses the likely impact of the world recession on the volume and structure of imports and the terms of trade. Import-based revenues also comprise of a significant part of the national budget and could be a cause for concern. Because of global recession, imports declined, so government had less revenue and less money to push into development and social safety programme resulting in increase poverty. On the other hand, the advent of the recession brought prices down drastically, and as an importer Bangladesh benefited hugely with domestic price pressures falling quickly, and government made large savings from reduced subsidies, especially on diesel. In order to understand the nature of the impact of increased imports in the economy, it is important to take a more disaggregated view. From the composition of imports it is clear that capital machinery, crude petroleum products, cotton, yarn and fertilizer, textiles and articles, were the key commodities the imports of which increased significantly. In other words, the nature of imports suggests that these were meant either to increase production or raise productivity in manufacturing industry and agriculture.

According to Bangladesh Bank data, the value of import payments amounted to US$ 21629 million in FY 2007-08, which is 26.1% greater than in the previous year. But in 2008-09 the total import payment was US$ 22507 and the annual change was only 4.1%. Because of global recession, the world food price and oil price have fallen. Bangladesh benefited from low price of import commodities, which helps to curb inflation. Domestic factors including excellent agricultural performance and bumper food harvests also helped to reduce inflation.

Impact on Remittance and Migrates

A sizable number of Bangladeshi labour forces are deployed in different parts of the world including Middle East. According to the Bureau of Manpower, Employment and Training, a total of about 7.34 million Bangladeshi workers went overseas during 1976 - 2011. Bangladesh has achieved a huge success in manpower export in 2007 and 2008. It is seen from Table-1 that a total of 0.83 million Bangladeshi went abroad for employment in 2007 which is 141.62% greater than the previous year. But after 2008 the manpower export has declined. In 2009 and 2010 the total manpower export were 0.47 and 0.37 million which were 45.68% and 55.35% lower than the year 2008.

As Table 2 shows, Middle East countries together constitute the major sources of total remittances for Bangladesh. Individually, Saudi Arabia stands top of the list followed by UAE and USA. Because of global recession remittances were projected to fall drastically as Bangladeshi expatriates were to be the first ones to get the ‘chop’ in foreign countries particularly in the Middle-eastern countries whose economy are entirely dependent on oil exports and the prices of which were falling drastically. After the FY 2007-08, the remittance inflows from the KSA, UAE and Qatar grew significantly but the remittance inflows from Oman,

Table 1: Number of Expatriate Bangladeshi by Country during 2004-2010

Country	2004	2005	2006	2007	2008	2009	2010
Saudi Arabia	139031	80425	109513	204112	132124	14666	7069
Kuwait	41108	47029	35775	4212	319	10	48
UAE	47012	61978	130204	226392	419355	258348	203308
Bahrain	9194	10716	16355	16433	13182	28426	21824
Oman	4435	4827	8082	17478	52896	41704	42641
Malaysia	224	2911	20469	273201	131762	12402	919
Singapore	6948	9651	20139	38324	56581	39581	39053
Others	25006	37903	44032	52457	68836	80141	75840
Total	**272958**	**255440**	**381516**	**832609**	**875055**	**475278**	**390702**

Source: Bureau of Manpower, Employment and Training.

Kuwait, USA, UK and Singapore declined. The total remittance inflows show a positive trend but the rate of change declined after the financial crisis.

Impact on Foreign Assistance

The international financial institutions have greatly suffered because of the global financial crisis. International financial institutions and development agencies such as World Bank, IMF and ADB could not dole out credits and grants. Because of

Table 2: Country wise Remittance of Bangladesh during 2004-2011

(In million US $)

Country	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
KSA	1510.45	1696.96	1734.70	2324.23	2859.09	3427.05	2393.89
UAE	442.24	561.44	804.84	1135.14	1754.92	1890.31	1467.15
Qatar	136.41	175.64	233.17	289.79	343.36	1019.18	240.09
Oman	131.32	165.25	196.47	220.64	290.06	170.14	257.62
Bahrain	67.18	67.33	79.96	138.20	157.45	193.46	131.92
Kuwait	406.80	494.39	680.70	863.73	970.75	587.09	779.47
USA	557.31	760.69	930.33	1380.08	1575.22	349.08	1398.62
UK	375.77	555.71	886.90	896.13	789.65	360.91	683.49
Malaysia	25.51	20.82	11.84	92.44	282.20	827.51	524.44
Singapore	47.69	684.84	80.24	130.11	165.13	145.89	143.22
Others	147.60	238.81	339.32	444.38	501.33	453.86	591.11
Total	**3848.29**	**4801.88**	**5978.47**	**7914.78**	**9689.16**	**1098.40**	**8611.02**

Source: Bangladesh Bank. * Up to March 2011 global meltdown, USA stopped their foreign assistance. In 2008-09 Bangladesh did not get any assistance from USA. The major foreign assistance comes from IDA (International Development Assistance), ADB, UN agency and EU. But the assistance from IDA declined after the FY 2007-08. Japan also shows the same trend. The total assistance in FY 2007-08 was US$ 2061.51 million, which was 26.44% greater than the previous year. But in 2008-09 this assistance dropped to US$ 1847.31 million, which was 10.38% lower than the FY 2007-08 (Table-3). In 2009-10 aid flows showed a positive trend, but sources like USA, KSA, Netherlands, France, India, and Australia almost dried up.

Table 3: Foreign Assistance by Sources during 2004-2011

(In million US $)

Country	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
IDA	696.34	635.33	680.10	795.84	507.52	397.48	390.01
Japan	45.04	31.05	31.62	88.74	103.04	78.96	93.30
ADB	208.28	264.56	342.46	448.32	618.56	1086.75	437.82
USA	7.75	395	61.91	14.57	0.00	0.0	0.00
UN Agency	33.93	111.15	76.15	177.94	143.38	211.74	160.32
Canada	7.82	62.04	17.7	41.75	19.25	13.66	21.89
Germany	23.64	15.29	19.71	29.79	63.62	70.39	22.93
UK	85.21	156.80	69.37	127.62	132.15	124.33	79.15
EU	7.87	72.65	66.38	70.20	32.60	83.01	80.14
Netherlands	4.60	12.61	23.88	5.41	11.01	1.21	0.33
KSA	0.16	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	0.26	1.79	57.42	42.44	24.77	9.30	7.46
Norway	3.87	10.79	46.45	0.00	0.00	0.00	0.00
Denmark	5.35	14.28	50.00	32.80	21.89	30.11	13.11
France	0.11	0.00	0.00	0.00	0.00	0.00	0.00
UNICEF	25.19	18.09	29.78	52.01	78.00	0.00	0.00
India	25.88	0.00	0.00	0.00	0.00	0.00	0.00
Australia	5.77	10.56	0.00	6.45	0.00	0.00	0.00
IDB	70.15	25.08	22.64	10.76	21.21	25.76	11.31
Others	250.13	121.62	35.01	116.91	70.30	84.25	81.07
Total	**1507.35**	**1567.64**	**1630.58**	**2061.51**	**1847.31**	**2216.95**	**1398.84**

Source: Economic Relation Department, Ministry of Finance, Excluding UNICEF, Up to April 2011

Impact on Balance of Payment

It is seen from Table-4 that the trade deficit declined by 12% during FY 2008-09 compared to the deficit of the previous FY 2007-08. In FY 2007-08 the trade deficit had increased by 54% compared to the FY 2006-07. Despite the deficits in trade and service payments during the period, the robust growth in remittances led to a large surplus in the current account in 2008-09 and 2009-10. The overall balance showed a larger surplus of US$ 2,058 million in FY 2008-09 against a surplus of US$ 331 million in the previous fiscal year.

Table 4: Balance of Payment during 2004-2011

(In million US $)

	Items	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11***
Trade	Export f.o.b. (including EPZ)	8573	10412	12053	14151	15581	16236	14111
	Import c.i.f. (including EPZ)	-11870	-13301	-15511	-19481	-20291	-21388	-18966
Trade balance		**-3297**	**-2889**	**-3458**	**-5330**	**-4710**	**-5152**	**-4855**
Service	Receipts	1177	1340	1484	1891	1832	2471	1702
	Payments	-2047	-2313	-2739	-3416	-3448	-3711	-3260
Service balance		**-870**	**-1023**	**-1255**	**-1525**	**-1616**	**-1240**	**-1558**
Income	Receipts	116	136	244	217	95	52	72
	Payments	-796	-838	-1149	-1211	-1579	-1536	-926
Income balance		**-680**	**-702**	**-905**	**-994**	**-1484**	**-1484**	**-854**
Current Transfer	Official	37	125	97	127	72	125	71
	Private	4253	5313	6457	8402	10154	11488	7798
	(remittance)	(3848)	(4802)	(5979)	(7915)	(9689)	(10987)	(7508)
Balance of current transfer		**4290**	**5438**	**6554**	**8529**	**10226**	**11613**	**7869**
Current account balance		**-557**	**824**	**936**	**680**	**2416**	**3737**	**602**
Capital account balance		**163**	**375**	**490**	**576**	**451**	**488**	**211**
Financial balance		**760**	**-141**	**762**	**-457**	**-825**	**-638**	**-1243**
Errors and omissions		**-323**	**-720**	**-695**	**-468**	**16**	**-722**	**-60**
Overall balance		**67**	**338**	**1493**	**331**	**2058**	**2865**	**-490**
Reserve assets		**-67**	**-338**	**-1493**	**-331**	**-2058**	**-2865**	**490**

Source: Statistical Department, Bangladesh Bank. * up to February 2011.

Measures Taken to Overcome the Crisis

Measures Taken by Developed Countries

In October 2008, the US government proposed a US$ 700 billion plan to purchase unperforming collaterals and assets. However, the plan failed to pass because some members of the US Congress rejected the idea of using taxpayers' money to bail out Wall Street investors. After the stock market plunged, Congress amended the US$700 billion bail out plan and passed the legislation. While the market turned extremely pessimistic, the British government launched a 500 billion pound bail out plan aimed at injecting capital into the financial system. The British government nationalized most of the financial institutions in trouble. Many European governments followed suit, as well as the US government. Stock markets appeared to have stabilized as October 2008 ended. Other countries like Russia are bailing out their banks through guarantees of millions of dollars. Iceland has gone bankrupt and has to take credits of millions from Russia to survive. In October, 2008 Iceland's major banks were nationalized. In November, 2008 China created a stimulus plan of £393 billion. The Australian Government injected 'economic stimulus package' to avoid the country going into recession in December, 2008. U.S. President Barack Obama proposed federal spending bill aproaching US$ 1 trilion in an attempt to remedy financial crisis in January, 2009. Canadian Parliament passed an early budget with a US$ 40 billion stimulus package.

In March 18 2009, the Federal Reserve announced that it will purchase US$ 1.15 trillion in US assets (US$ 750 billion in mortgage backed securities, US$ 300 billion in Treasuries, US$ 100 billion in Agencies) in a bid to prop up liquidity and lending to spur economic growth. The markets initially rallied on the news, but concerns began to grow regarding long term devaluation of the US dollar and subsequent inflation. In March 23, 2009, in the United States, the FDIC, the Federal Reserve, and the Treasury Department jointly announced the Public-Private Investment Program to leverage US$ 75–US$ 100 billion of TARP funds with private capital to purchase US$ 500 billion of Legacy Assets (a.k.a. toxic assets). The world's biggest central banks sprang into action to help shield the eurozone and the entire global system from the debt crisis in November 2011 with extra funds for banks. The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the US Federal Reserve and the Swiss National Bank collectively announced liquidity support to the global financial system.

Measures taken by Bangladesh

Bangladesh also took some significant measures to save the economy from the adverse impact of global economic meltdown. Bangladesh government as well as Bangladesh Bank adopted different measures to overcome the crisis.

(I) Measures Taken by the Government

1. A high-powered technical committee was formed in early November, 2008 to closely monitor the impact on the country's economy from the fallout of the global financial crisis and take instant remedial measures.
2. Government undertook a seven-point strategy to ensure the well being of the Bangladeshi workers abroad and to explore new manpower export markets in the Scandinavian, European and East European countries like Norway, Sweden and Romania.

(II) Measures Taken by the Central Bank (Bangladesh Bank)

1. Bangladesh Bank (hereinafter BB) set up a Forex Investment Committee headed by a deputy governor of the Bank. The high-profile committee monitors the situation on a daily basis, and, accordingly, manages the currency composition of forex reserves.
2. BB withdrew about 90 per cent of its total investment from international banks which were perceived to be at risk.
3. Commercial banks had about US$ 500 million worth of foreign exchange assets with various commercial institutions (and savings instruments) abroad (Nostro Account). BB advised them to be cautious about such investments and was keeping an eye on activities of commercial banks in this regard and advising them on a day to day basis.
4. Being apprehensive of falling remittance at a time of slowing down of the economies of developed countries and Middle-East (from where about 80 per cent of remittance come), BB has instructed banks to take measures to reduce the time and cost of transferring remittances. Four suggested measures are: cutting down time and costs of transferring remittances; bringing remittances through legal channels; creating opportunities for investment of remitted money; and welfare of expatriates. The BB directed the bank branches or exchange houses overseas to keep their organizations open on holidays to help expatriates remit funds.

5. BB continues its intervention in the inter-bank foreign exchange market by selling and buying US dollar directly and providing such short term facilities to the banks aiming to keep the market stable.
6. BB has allowed settlement of import payments in Euro alongside the US dollar among the Asian Clearing Union (ACU) member countries.
7. In view of the losses incurred by importers as a result of the fall in global commodity prices (e.g. wheat, edible oil and pulses) and the difficulties faced by importers in honoring L/Cs, BB has relaxed the conditions for opening fresh letters of credit (L/Cs) from the existing 90 days' time to 150 days.
8. BB will continue its foreign currency support to the commercial banks mainly for making payments of fuel oils, fertilizer and food grains import.

Bangladesh Bank in its Monetary Policy Statement for July-December, 2008 provided its policy stance envisaging possible impact of global economic meltdown on the domestic economy.

(III) Other Measures

Supporting productive sectors

Priority was given to unhindered flow of private sector credit to productive sectors, with agriculture, SMEs, and the rural economy being the prime targets.

Private sector credit

Growth in private sector credit would be watched carefully and if the situation warrants, necessary policy adjustments would be introduced.

Soundness of banking sector and their liquidity position

Bangladesh Bank continued monitoring the liquidity situation in the banking system and adopted appropriate measures to overcome any temporary pressure on liquidity.

Exchange rate

Desired exchange rate stability would be maintained to keep the pressure of imported inflation under control. BB would routinely conduct surprise inspections on banks and exchange companies relating to compliance with foreign exchange regulations as well as the anti money laundering act.

Remittances

Measures would be taken to divert increasing amount of remittances toward investment in productive sectors to ease the potential demand pressure and expand the economy's productive capacity.

Import payments

For facilitating more efficient import of essential goods, BB has made available forward hedging mechanism to importers. In this context, BB would ensure that the facility is used only for true hedging.

Women entrepreneurs

BB would continue to encourage increased flow of credit to women entrepreneurs for investment in productive sectors.

Measures for protecting the poor and the vulnerable Social Safety Net Programmes

In order to provide support to the poor and vulnerable group, a number of social safety net programmes have been implemented in the country on a regular basis. This includes among others, public food distribution system (PFDS), rural employment and road maintenance programme, and 100 Days Employment Generation Scheme. The last two programmes were introduced under the national budget for FY2008-09.

Financing SMEs

Under the national budget for FY2008-09, government allocated an endowment fund of Tk.100 crore (US$14.6 million) for the SME Foundation to provide credit to SMEs through private commercial banks. The SME Refinancing Scheme of BB was allocated Tk.500 crore (US$72.9 million) in FY2008-09 compared to Tk.300 crore (US$43.7 million) in FY2007-08.

Stimulus Package

In April 2009, Finance Minister Abul Maal Abdul Muhith announced a stimulus package of Tk. 34.24 billion, which was effective as blanket coverage of power, agriculture and export sectors to help the national economy from the impact of the fallouts of global crisis.

VII. Policy Suggestions and Conclusion

The economic crisis affected the poor first in USA and then throughout the world. The world, especially the poor world needs to seriously re-consider capitalism as a way of their economy because it is controlled by a neo-colonialist country and backed by small ex-colonialists.

1. Directly and indirectly, the world is bound to remain at their (developed countries) mercy. The only way out is to stand on our own feet, live on our own resources and develop ourself with sustainable development plans that should not and must not be influenced by the outside world.

2. The government should ensure smooth supply of electricity and gas to the industrial plants and development of transportation especially of Dhaka-Chittagong highway. Increasing efficiency of the country's prime Chittagong Port and also calling for developing new alternative port soon are the major tasks of the government for maintaining a higher export growth.

3. Our garments sector has 25 percent shortage of skilled workers. Bangladesh needs not only skilled workers but skilled designers also, as the next business of garment would be the business of fashion design and brands. So, it is necessary to establish government-owned training centres across the country to train new workers for the garment sector and training centres can also organize seminars and workshops for the mid-level managers of different factories to enhance their negotiation capacity with workers, buyers and other managements. The owners of the garment units should work closely with the workers and trade unions so that any kind of problem could be resolved immediately through negotiation.

4. Now buyers are offering at least 17 percent reduced prices due to the recession. So, at this time improving productivity and looking for new export destinations is a must for countries like Bangladesh. The interest rate at 18 percent is really very high for establishing industrial plants in this competitive age. So, government should address the issue of reducing bank interest rate so that the investors can set up new industrial plants with ease.

5. Specific sectors have already been hit by the recession, including leather, frozen fish and jute. During the last three years the jute production reached its peak but the market price fell at the lowest level, which deprives farmers from the jute production. So, government should take immediate steps to increase the price of jute at local market and find the new destination of export of jute and jute goods.

6. In the case of frozen fish, dwindling demand has been compounded by questionable phyto-sanitary standards that have hurt our reputation. Given the market situation, it is imperative to improve competitiveness in terms of price and quality, including bio-security considerations, if markets are to be retained. Our leather industries are situated in Hajaribug which is not a suitable place to expand the leather industry. It is very necessary to shift the tannery in Savar, the allotted area for leather industry.

7. Because of global recession, the price of food, oil and capital goods has fallen in world market. So, we can get benefit by importing cheap food, fuel and other crucial capital goods in the recession period. When recovery starts, the present situation will be slowly reversed so that we need to exploit all the advantages. We should reduce import taxes and encourage a massive build up of inventories, spares, capital goods so that we can take full advantage from the recession. Also we have to reduce imports of primary commodities and give attention to increasing local production to achieve food security.

8. Bangladesh needs to move away from the traditional industrial park concept to a mixed type zoning regime where some will be privately owned, some will be public-private partnerships, while others will be specialized.

9. Because of global financial crisis and the restless situation in Middle East countries, huge Bangladeshi migrants are sent back to their home country. Government must accelerate the implementation of Annual Development Plan (ADP) in investing more in labour intensive income generating activities (e.g. basic infrastructure, water supply, sanitation, rural roads and electricity) to mitigate the impacts of job losses abroad and the downturn in the export of manpower. The central bank should continue to think innovative ways to draw more remittances away from the *hundi* channel and activate the *probashi kallyan* bank with full-speed.

10. Foreign assistance has fallen drastically because of the financial crisis. So, it is wise for us not to depend on foreign aid or grants for development programme but to take necessary steps to attract foreign direct investment in productive sectors.

11. Finally, we can say, global crisis requires a global response. Developed countries as well as IMF, WB, WTO, including regional institutions, need to recognize the global consequences, and provide compensatory facilities to developing countries to mitigate the crisis.

Bangladesh came out very well from the global financial crisis due to the nature and extent of its integration with the world economy and its basic economic structure. Bangladesh benefited from the low import prices, which helped to curb inflation. It benefited from increased market share for its RMG exports and has been able to position itself very well in the world market for RMG. Domestic factors also helped, including excellent agricultural performance and bumper food harvests. Remittances increased, but not just for Bangladesh. Overall, the world remittance market performed reasonably well despite the recession. Another important channel for transmission of shocks is the exchange rate. This too was stable, remaining close to its equilibrium value, particularly against the US dollar. In addition, the net effect was positive due to a favorable movement in the terms of trade. In short, Bangladesh was not only able to minimize the impact, it was actually able to reap some concrete benefits as a result of the global crisis. Finally, global cooperation is an important ingredient where real, monetary and also external sector should work to complement each other for strengthening macroeconomic variables. Without the cooperation among the world leaders, it will not be possible to address the global financial repression syndrome. Developed and developing nations should work for their common interest and the danger of financial crisis should be overcome by a structured and regulated market system.

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