

## The Global Financial Crisis and What it means for Bangladesh

Centre for Policy Dialogue (CPD) organised a dialogue on The Global Financial Crisis and What it Means for Bangladesh at the CIRDAP Auditorium on 25 October 2008. Professor Rehman Sobhan, Chairman, CPD moderated the Dialogue. Dr. Salehuddin Ahmed, Governor, Bangladesh Bank attended the Dialogue as the Chief Guest. Dr. Debapriya Bhattacharya, Bangladesh's Ambassador and Permanent Representative to the World Trade Organisation (WTO) in Geneva and immediate past Executive Director of CPD presented the keynote paper.

### Key Issues Discussed

- Origin, causes and consequences of the current global financial crisis: the crisis originated from sub-prime mortgage defaults in US; US budget and trade deficit, running now for many years, has compounded the situation; reluctance of some developed market economies and international financial institutions to better monitor and regulate financial markets has contributed to deepening of the crisis; global structural imbalances have reinforced the crisis.
- Likely effects of the crisis on the global economy: access to liquidity; trade; inflation; employment; private capital flows; official development assistance.
- Possible impacts of the crisis on different country groups and regions and different sets of global economies comprising the multilateral system: advanced economies, emerging economies and developing economies.
- Patterns of rescue packages developed by various countries and financial institutions to tackle the crisis and stabilize the economy.
- Factors contributing to relative resilience of developing economies in the context of the global financial crisis: the issue of decoupling from the advanced economies; reorientation to other emerging economies and relatively less affected economies.
- Globally coordinated appropriate policy measures that should be pursued to improve the systemic impact at the international level to face the global crisis.
- New multilateral initiative which will be participated by all countries - by the poor, medium, rich - and which will work through a system of coordinated multilateralism.
- Implications of the global financial crisis on the overall economy of Bangladesh and on different sectors: export; import; balance of trade; foreign aid; foreign direct investment; management of foreign exchange; remittance.

- Policies and measures taken by the Bangladesh Bank (BB) in view of the crisis: shifting reserves from risky foreign banks; moving investments from various foreign banks; management of foreign exchange portfolio; advising commercial banks with regard to respective nostro accounts.
- Recommendations for the current government and subsequently the next elected government with regard to macroeconomic policy adjustments required to address the attendant challenges.

### Suggested Recommendations

- Government of Bangladesh (GoB) should set up a competent taskforce which should include political representations. The Task Force will be mandated to put together an adjustment package, which will include macro, fiscal, and monetary measures with both short and medium term policy and institutional measures.
- The Task Force will monitor global trends and provide policy feedbacks in view of the financial crisis.
- Relevant regulatory bodies such as BB, Securities and Exchange Commission (SEC) will need to be further strengthened through empowerment.
- To compensate for the possible fall in the global demand, GoB should initiate programmes that would stimulate domestic demand. To this end, investment in infrastructure projects and expansion of credit flow will need to be given priority.
- Taking the advantage of the recent sobering trend in terms of inflation, BB should design appropriate monetary and interest rate policies that will encourage and promote economic activities.
- BB should take special care so that credit rating agencies work transparently and provide reliable information about the financial health of companies to the investors.
- BB should demonstrate due diligence with regard to sophisticated financial products such as derivative

instruments and interest swaps which are often inadequately understood by the market.

- BB should limit involvement of banks with agencies that are weakly regulated and consider limiting credit deterioration linked to securitisation.
- BB has to take careful steps while dealing with foreign banks and carefully scrutinise their portfolio and the types of operation they perform.
- Appropriate policy measures should be taken to consolidate and expand the country's labour markets in the non-OECD countries, particularly in the Middle East and South East Asian countries.
- Additional capital inflow injected by BB should go to small farmers, medium-sized entrepreneurs and producers involved in the agricultural sector.
- In view of the challenges of maintaining a competitive exchange rate, both from the perspective of the interest of export and import (which could sometimes be conflicting), BB should design a dynamic exchange rate policy that serves the best overall interest of the country.
- GoB should take appropriate steps to improve transparency in the areas of corporate governance, operational modalities, portfolio management and fund movements of foreign banks. Careful maintaining and regulation of insurance companies and the securities markets will also be required.
- Exporters should receive support from the GoB to remain competitive particularly in view of the fact that price of electricity or gas price could rise in the near future significantly.
- Bangladesh should take energetic efforts to expand her export markets beyond the traditional ones. Particular attention in this respect should be given to targeting the emerging economies which will possibly be less adversely affected by the crisis.
- Steps will need to be taken to address the problems of the importers who have imported raw materials by taking bank loans and suffered losses because of fall in commodity prices in global markets.
- Rather than taking initiative to establish another set of Bretton Woods institutions, efforts should be geared towards bringing into existence a new multilateral order to be participated by all countries.
- Political parties will need to design policy packages to deal with the adverse consequences and take advantage of the opportunities emanating from the ongoing financial crisis.

