MACROECONOMIC IMPACTS OF THE GLOBAL FINANCIAL CRISIS ON THE BANGLADESH ECONOMY

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Abstract

This paper examined the impacts of the current 2007-09 global crisis on the macro-economy of Bangladesh. The evidence suggests that the impact of the crisis had been rather mild with modest slowdown of the economy and a few critical sectors (exports and remittances), but at the same time, the adverse effects being offset by improvements in some other sectors (agriculture and equity markets), thus showing remarkable resilience to the crisis. Further, the impact on Bangladesh was much milder than those felt in both developed countries (such as the U.S. and EU countries) and other emerging economies such as India and China. Appropriate and timely policy actions at the global level along with the country's own fiscal and monetary policy stimulus were helpful in achieving these results.

Additional factors that helped minimize the adverse impacts include the country's relative non-exposure to the overseas toxic assets, growth of the agricultural sector, and resilience of garment exports and worker remittance sectors. A SWOT analysis of the country indicates that, as the global economy turns around, the country could take advantage of many global opportunities provided the country can capitalize on its strengths, improve upon its weaknesses and deal effectively with emerging threats. Policy actions that may be helpful include strengthening internal and external sector reforms, infrastructure development, export diversification, finding new markets for exports and worker employment abroad, and leveraging benefits from cooperation and partnerships with foreign businesses including overseas Bangladeshi expatriates, among others.

Keywords: Global, Financial, Catastrophe, Bangladesh.

JEL Classification: F24, F33, G01.

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INTRODUCTION

Bangladesh is a poor developing country in South Asia and is moderately interlinked with the global economy especially since the various internal and external reforms were carried out in the 1990's. These reforms were designed internally to strengthen the market forces and the private sector and externally to open up the economy to the rest of the world. With greater global integration, the country has naturally become more vulnerable to external shocks emanating from abroad. As such, the ongoing global financial catastrophe, which originated in the U.S. in 2007 and that has subsequently spread to many developed and developing nations since 2008, has strong potential implications for Bangladesh. Unfortunately, the country has to face this massive global meltdown on the heels of two other severe crises affecting the country since 2007, one being the domestic political crisis and the other being the most recent energy crisis with substantial price hikes for food and energy in the global markets.

The current massive global financial catastrophe has created major setbacks not only for developed nations, but also for many developing and emerging countries like Bangladesh. This study has been undertaken with the purpose of examining whether and to what extent the Bangladesh economy has been affected by the crisis and how to overcome the challenges potentially arising from the crisis. A SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis will also be conducted to explore possible opportunities the country may take advantage of as the global economy comes out of the crisis. Authors suggest that to mitigate the problems of the crisis, the policy makers need to be more proactive in the sense of taking policy actions ahead of time rather than being reactive in the sense of taking action after the fact.

The empirical evidence suggests that the impact of the crisis on the Bangladesh economy to date has been rather mild with a modest slowdown of the overall economy and a few critical sectors such as exports and overseas remittance flows, but at the same time, this adverse impact has been offset by improvements in some other growing sectors such as agriculture and the equity markets. This is contrary to the initial fears of serious adverse effects expressed by some experts and policy makers, the business community, and some international organizations such as the ADB, IMF, and the World Bank. Further, the impact of the crisis on Bangladesh was much milder than the impact felt in both developed countries where the crisis originated and initially spread, but also milder compared to other emerging economies such as India and China. Timely and appropriate policy actions at the global level along with the country's own fiscal and monetary policy stimulus actions were also helpful in achieving these remarkable results. Additional factors that helped minimize the adverse impact of the crisis included the non-exposure of the country's financial sector to the toxic assets originating from the U.S., continued strong export earnings particularly in the garment sector, and continued strong flow of overseas remittances.

As already mentioned, the country's economy was found to be quite resilient to the global crisis because of a number of reasons such as the economy in general and the financial sector in particular had not been "too open" yet and hence remained less vulnerable to external shocks emanating from the crisis;- exports being -dominated by garments of which low elasticity and low value range products are the primary export items which are less vulnerable to crisis, agricultural sector recording stronger gains to partially offset manufacturing slowdowns;- massive stimulus packages adopted by many rich and emerging countries to stabilize the crisis at the global scale;- and the fiscal and monetary stimulus packages adopted by the government of Bangladesh itself as preemptive measures to mitigate any possible fallout from the crisis.

Further, using the SWOT analysis, this paper argues that, as the global economy turns around, the country could take advantage of many global opportunities, provided the country can capitalize on its strengths, improve upon its weaknesses and deal effectively with emerging threats. Policy actions that may be helpful going forward include strengthening internal and external sector reforms, infrastructure development, export market diversification, exploring new markets for Bangladeshi exports and worker employment abroad, leveraging benefits from cooperation and partnerships with foreign businesses including overseas Bangladeshi expatriates, among others.

STUDY OBJECTIVES, DATA, METHODOLOGY, AND LIMITATIONS

The Bangladesh economy is substantially linked up with the global economy through various channels such as overall GDP, industrial production, financial markets and capital markets, trade, remittances, foreign investments, international reserves and exchange rates, among others. As such, the domestic economy could be quite vulnerable to the shocks emanating from the global economic disorder. Within this framework, the study has been undertaken with the following specific objectives in mind: (1) to understand the meaning and nature of the Global Financial catastrophe; (2) to assess the present situation of the domestic economy of Bangladesh; (3) to evaluate the impact of the Global financial catastrophe on the domestic macro-economy along with some major segments of the Bangladesh economy; (4) to suggest some recommendations as to how the country can take advantage of global emerging opportunities as becomes available with the onset of the global recovery and how to overcome obstacles in realizing these opportunities for the benefit of the country and its citizens.

In carrying out the above objectives, the study will use the following methodology. The study will examine the impact of world economic meltdown on the Bangladesh economy such as on the GDP, agricultural and industrial production, financial and capital markets, trade (exports, imports), remittances, foreign investments, among others. The major sources of data include the publications of the International Monetary Fund (IMF), the World Bank (WB), the Bangladesh Bank (BB), and other publicly available sources. The other articles and publications of various authors and organizations were obtained from academic journals, newspapers, working papers, research reports, and Internet sources. The exact sources will be mentioned in the citations inside the paper as well as in the list of references. A SWOT analysis of the Bangladesh economy in the context of the global financial catastrophe will also be conducted. The time period of the study will cover up to June 2011.

As already mentioned, the study is primarily based on secondary data. It doesn't attempt to deal with primary sources such as questionnaire for survey purposes to assess the impact of the crisis at the grass roots level. These grass roots level analysis were deliberately kept beyond the scope of this paper due to time and budget constraints and hopefully be carried out by other researchers in the field.

BACKGROUND OF THE 2007 GLOBAL FINANCIAL CRISIS

The global crisis originated in the U.S. and the root of this crisis can be traced back to former U.S. President Ronald Reagan when he began the massive deregulation campaign with heavy deregulation of the U.S. financial markets and the Clinton period with the abolition of the Glass-Steagall Act which led to undue consolidation of commercial and investment banking. Moreover, the subsequent Bush administration placed too much focus on market- friendly policies led to further relaxed regulation and oversight of the financial markets and institutions by appropriate regulatory agencies, which provided more fuel to the fire.

The weaknesses and problems started in the U.S. housing market with excessive lending to sub-prime borrowers without much oversight and due diligence. The prevailing easy money and credit policies provided a ripe environment for sub-prime lending activities by the financial institutions. Further, these mortgages originated by local financial institutions were subsequently packaged, tranched (sliced and diced based on risk categories), formed into securities and financial derivatives (such as CDO's: Collateralized Debt Obligations) and insurance against such instruments (such as CDS: Credit Default Swaps), which were sold to bigger banks, financial institutions, and governments at home and abroad. Thus the traditional "originate and hold" model of mortgage financing was transformed into a more risky "originate and distribute" model of mortgage financing (Blanchard 2008 and Brunnermeier 2009). These financial instruments were very complex whose values could not be easily understood and evaluated by the investors. Adding fuel to the fire, the rating agencies provided faulty ratings to these instruments causing further problems in the market.

The U.S. regulators did not supervise and monitor properly the way the financial institutions were providing housing loans to all kinds of people with low or marginal credit worthiness during the housing- boom period, creating this massive sub-prime crisis that initially led to a severe credit crunch that began in early 2007, which eventually engulfed the entire U.S. financial system and subsequently spread to the entire economy by late 2007 (Blanchard 2008; Brunnermeier 2009, and Mizen 2010). Further, since a lot of these financial instruments and derivatives now known as "toxic assets" were sold in the markets around the globe, which resulted in the quick spread of the U.S. crisis into a global financial and economic crisis by early 2008. As the crisis started to unfold, it became a shocking news investors at home and abroad that the sub-prime mortgage pools and all kinds of financial instruments derived from them were highly overrated by well-respected credit rating agencies and these assets began declining sharply in value as foreclosures rose in the housing market unraveling the credit crunch like a house of cards. The most devastating issue was that the perceptions and trust of the customers and citizens were broken.

There is much blame to go around. However, the easy money policy (excessive liquidity and low interest rate) of the U.S. Federal Reserve Bank (the central bank of the U.S.) played a significant role in encouraging such behavior and creating this mess. All these led to the housing price bubble that ultimately collapsed, causing this massive global financial crisis. Further, as the financial crisis started to affect the real economy with falling GDP and rising unemployment, the financial crisis became a full-blown economic crisis in the U.S. This massive crisis is now known as Great Recession of 2007. As the global economy is more integrated and interdependent than ever before and as the U.S. generated toxic assets found their way into many foreign markets, the crisis subsequently spread like wildfire first European countries and then to many developing and emerging countries by 2008 (the contagion effect).

As will be found from the literature review given in the next section on the nature of the catastrophe and factors identified by various researchers as causative factors, it could be safely argued that the development of risky financial instruments and financial engineering (such as financial derivatives like Mortgaged-backed Securities (MBS) insurance against them using Credit default swaps (CDS) in an easy money policy environment with lax supervision and oversight, poor corporate governance, asymmetric information, corporate greed and possible market manipulations, faulty credit ratings by credit rating agencies, too much reliance of short-term debt, among others, had been identified as some of the causative factors behind the credit crunch that led to the massive financial meltdown in the in early 2007. In other words, there were serious institutional failures in the form of both market failures and government failures that were responsible (Helleiner and Pagliari 2008 and Rogers 2010) for the most severe global meltdown since Great depression of the 1930's.

It is to be noted that these types of financial instabilities were experienced during other time periods as well such as the currency crisis in France, Italy, Spain, and UK during early nineties and Mexico during mid-nineties. Moreover, the Southeast Asian currency crisis occurred during 1996-1998. Russia and Brazil were also affected by the currency crisis. But this time, the magnitude and intensity of the crisis is much deeper except the Great Depression of the 1930's. Due to its enormity and scope, this crisis is already dubbed in the U.S. as the "Great Recession" (note: not Great Depression) by some analysts, policy makers, and economists (Wynne and Kersting 2009).

REVIEW OF SELECTED LITERATURE ON THE GLOBAL CRISIS

As the global financial crisis spreads all over the globe, academics and policy makers have been debating on the nature, extent, and causes of the crisis and will continue to do so for years to come. Since the literature is already huge by now, this section will focus on a limited but relevant part of the literature discussed in two subsections, covering first those related to the U.S. and the global context, followed by those in the context of Bangladesh.

Literature Review in the Global Context

First, we focus on the crisis from a global perspective in dealing with the nature, causes, and extent of the catastrophe reported by various studies. The literature in this area has grown in volume over the years since the crisis began; so only some selected literature will be reviewed here as pertains to the scope of this paper.

The current global economic and financial meltdown began with the deterioration in the U.S. sub-prime mortgage market in early 2007 that quickly turned into a severe credit crunch leading to a full blown financial crisis requiring huge liquidity injections and corporate bail-outs by the U.S. Federal Reserve along with massive fiscal stimulus by the federal government. The crisis resulted in trillions of dollars of losses to households and investors in both the housing and equity markets that ultimately engulfed the entire U.S. economy and became a full blown economic crisis with high household and corporate bankruptcies, high unemployment, and decline of economic activities. Blanchard (2008) has shown that the initial sub-prime market loss was miniscule compared to the subsequent amplified effects on the global economy (20 times) and the global equity market (100 times). He further discussed appropriate policy responses to curb the current fire and how to prevent similar fires occurring in the future.

Brunnermeier (2009) conducted an in-depth analysis of the conditions, processes, and mechanisms that lead to a credit and housing market boom in an easy credit environment and how the subsequent credit crunch evolved engulfing the entire financial system. He also showed how the traditional mortgage market model of "originate and hold" was replaced by the non-traditional model of "originate and distribute" through the entire financial system at home and abroad, fueling the credit boom and creating the conditions for ultimate collapse of the system. Additional insights into these areas, particularly the credit boom, how the financial system's innovative but highly risky financial instruments and derivatives (such as mortgage backed securities) in an easy money environment could be found in several other articles such as ADB (2010), Cecchetti (2009), Mizen (2008), Rogers (2010), Taylor (2010), among others.

Further, the Fed and the U.S. government responses to dealing with the crisis and the lessons learned to avoid similar crisis in the future and their implications for future public policy have also been discussed extensively in a number of articles such as Cecchetti (2009), Mizen (2008), Taylor (2010), and Wheelock (2010), among others. These papers discussed extensively the root causes of the crisis and the fiscal and monetary policy responses in dealing with the crisis. On the other hand, the article by Mankiw (2010) focused on the relative potency of tax cuts versus spending stimulus in stimulating the economy. He argued that tax cuts could be as potent as, if not more, than spending stimulus, which is contrary to conventional Keynesian argument that spending multipliers are stronger than tax multipliers.

It is now widely understood and recognized that the current global meltdown ushered in by the push for free market capitalism (also known as market fundamentalism) since the eighties in the U.S., the U.K., and several other western countries along with strong support from the international organizations such as the IMF and the World Bank has gradually led to a situation where some policy makers and economists have started questioning the soundness and viability of such an economic and financial structure.

In a paper, Helleiner and Pagliari (2008) argued that the global spread of the financial crisis already has had the repercussion of weakening the credibility of the Anglo-American financial model and, fuelling centrifugal pressures in the international financial system. Failure of the corporate governance in the western countries owing to excessive financial engineering has increased the gravity of the situation. It was suggested that regulated and controlled market and economic structure may be followed where unregulated economy cannot work. If unregulated capitalistic structure fails to work, and serious corruption, mismanagement, and distortion prevails, then it is argued that there should be some degree regulation and oversight. In a different paper, Rogers (2010) examined this crisis in detail and argued that there were massive institutional failures on the part of both government (easy money policy for a prolonged period coupled with lax oversight and supervision on the part of the regulatory agencies) and the private sector (excessive financial engineering and risk taking, lack of transparency, poor corporate governance, greed and corruption, conflict of interest on the part of credit rating agencies, among others). Similarly, Anwar (2009) argued that the US recession have two causalities on governance and welfare, one being crowding out of private expenditure by some non-productive government expenditures and the other being high degree of corporate greed imposing negative social and economic externalities on the society. In both the cases, lack of accountability on the part of both government and the private sector were partly responsible for the crisis.

Several prominent economists such as Blanchard (2009) and Brunnermeier (2009) examined in detail the mechanics and processes of the of the credit crunch that led to the crisis and the response by the monetary and fiscal authorities in controlling the crisis. The U.S. Federal Reserve with Bernanke as its Chairman has pumped massive amounts of liquidity into the financial system through using both conventional monetary policy tools to keep interest rate low and some unprecedented non-conventional means to pump additional liquidity (such as quantitative easing, credit allocation to specific sectors and firms even including direct lending to specific financial firms). However, Aversa (2009) reported that, unlike the previous Chairman Alan Greenspan of the U.S. Federal Reserve Bank (U.S. Central Bank) who put too much emphasis on free markets and less regulatory oversight, the current Chairman Ben Bernanke has urged lawmakers to work on reforming the of U.S. financial regulations, something the U.S. Congress is expected to work on in the future. He called for stricter oversight of companies – such as the AIG – whose failures would endanger the entire financial system and the broader economy (too big to fail hypothesis). He also argued that the U.S. needs a process and structure to deal with the downfall of globally interconnected companies, as the Federal Deposit Insurance Corporation (FDIC) does for failing banks in the U.S.

David (2009) described how the turbulent financial tsunami has spread to the real economy. In the current international financial crisis, many foreign trade enterprises, especially export-oriented SMEs are facing difficulties. The financial crisis can be called as the most serious financial disaster since the Great Depression due to its global effects characterized by significant slowdowns of global trade and commerce, decline in consumer wealth estimated in trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Various causes have been ascribed to the crisis, with experts placing different weights upon particular issues. In a different paper, Loser (2009) argued that the financial crisis that erupted in August 2007 after the collapse of the U.S. sub-prime mortgage market entered a tumultuous new phase in September 2008. These developments badly shook confidence in global financial institutions and markets. Most dramatically, intensifying solvency concerns triggered a cascading series of bankruptcies, forced mergers, and public interventions in the United States and Western Europe, which eventually resulted in a drastic reshaping of the financial landscape.

In a research study, Roodposhti et. al. (2009) examined the intensity of correlation between main stock markets in different countries and found that these correlations have been increased since 2001 with the largest increase found in the North America region and the smallest increase is found for the European region. In that sense, stock markets have become more correlated and hence more vulnerable to any external shocks including this crisis. One implication of this study is that the economies which are more interlinked with the U.S., where this crisis originated, would be more adversely affected by this crisis than those less connected with the U.S. Further, Wynne and Kersting (2009) reported that this recession has been dubbed the Great Recession by some. They found that the world trade decline in this recession surpassed that of the Great Depression period in the first year of the crisis, a decline of 32% during the first year of this recession compared to 15% fall in the first year of the Great Depression period. They argued that this unprecedented level of trade decline does not reflect deglobalization, and can be explained by a recession induced fall in export demand along with a severe crunch in trade credit due to financial meltdown.

As the crisis spread to European and other rich industrialized countries, the impact has also been felt in many other developing and emerging economies. Some studies have examined the impact of the global crisis on some emerging and developing economies. Only a few selected studies are reported below. In a recent article, Adamu (2009) observed that the risk of global recession has heightened significantly and volatility of commodity prices and hence risks on the commodity exporting developing countries such as Nigeria has increased further. If this condition continues to deteriorate, many developing countries could be in great jeopardy. He found that this crisis will cause a fall in commodity prices, decline in export, lower portfolio and FDI inflows, fall in equity markets, decline in remittance from abroad, among others. Islam (2009) examined the impact of the crisis on the capital markets in India and argued that it will take time to "nurse its wounds" because of low demand for investments in emerging markets, and the impact will be on the cost and related risk premium. The impact will be felt for some time in the trade and capital account.

Goelton (2009) examined the impact of the global crisis on the Indonesian economy and the adverse effects may continue and even become worse in the near future through other indirect effects such as reduction in employment and hence labor share of income and subsequently through their impact on consumption and GDP. The study concluded that the Indonesian economy was affected significantly by the crisis and the adverse impacts happened more through the trade channel than through the financial channel. In another paper on the impact of the global crisis on Philippines, Yap, Reyes, and Cuenca (2009), argued that this global crisis raised fears that the emerging markets would face similar debacle as they faced in the 1997 Asian financial crisis. He reported that the capital markets and currency exchange rates have suffered initially, but these countries seems to have weathered the crisis quite well this time and are already underway to recovery. In the study by Jongwanich et. al. (2009), they conducted an empirical study under the auspices of the Asian development Bank (ADB) using the sophisticated

Computational General Equilibrium (CGE) model to examine the transmission channels of the global crisis from OECD economies to the developing Asian economies. They identified two major channels through which developing Asia were affected, which were trade and financial channels, and found that China and India had been affected most by the crisis through the above two channels. They predicted that this adverse effect on these two large emerging economies will likely continue as they will continue to face weak demand for their export goods in the OECD country markets.

Further, under the auspices of the Asian Development Bank (ADB), Bhaskaran (2010) conducts a study of the possible impact of the global crisis on the six developing South Asian countries, notably Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka. He identified a number of transmission channels through these economies could be affected by the crisis such as exports, imports, and remittances, among others. The impact of the crisis was not uniform; a more severe effect was felt on India than other countries in the region.

The World Bank (2009a) observed that the global economic disaster has created risks for increased poverty in many developing countries. In another World Bank study, the World Bank's Global Monitoring Report (2009b), the deepening of global recession, rising unemployment, and volatile commodity prices in 2008 and 2009 are seriously affecting progress toward poverty reduction. The recent food crisis has thrown millions into extreme poverty. Deteriorating growth prospects in developing countries will further slow the pace of poverty reduction. The report suggests around 40% of developing countries may be highly exposed to the poverty effects of the crisis.

The International Monetary Fund (IMF), in its October 2009 edition of the World Economic Outlook (IMF 2009a), predicted that international trade as measured by sum of exports and imports of goods and services will decline by 11.9 percent in 2009 with advanced economies declining by 13.6 percent compared to more modest fall of 7.2 percent in emerging and developing economies (IMF 2009).

Literature Review in the Context of Bangladesh

Several studies have also been conducted to examine the impact of the crisis on the Bangladesh economy. However, these literatures have only begun to emerge and are only a few in number. A brief review of this literature is given below. In a paper, Ahmed and Mujeri (2009) found that economic growth in Bangladesh has slowed down, and exports and remittance inflows, two of Bangladesh's critical parameters of macroeconomic strength, have grown at slower rates relative to pre-crisis projections. They argued that the quantitative nature of this impact on Bangladesh were much less sever compared to the impact experienced by comparable countries, especially those in the Asia-Pacific region. Moreover, Bangladesh's growth prospects remain relatively less affected by the crisis. They further argued that inflation has eased somewhat due to falling global commodity prices and good domestic production especially in agriculture.

In a different paper, Khalily (2008) argued that capital market of Bangladesh may not face any adverse impact of the crisis. He cautioned that as Bangladesh grows, it may be exposed to the types of financial risks that banks in the developed countries have faced. Regulators should be innovative as in the free market economy, moral hazard and adverse selection problems will always prevail. Further, Ahsan (2009) commented that the financial system in Bangladesh & many LDCs has been free of the direct contagion of toxic assets plaguing the advanced economies. Even then, however, he argued that active monitoring of the capital structure of the banking and the financial system should be conducted to retain public confidence.

In a more elaborate paper, Murshid et. al. (2009) argued that the benefits of lower world prices are already being felt in Bangladesh, especially through lower inflation, including lower food and energy prices. Another channel that can help lower the inflation rate of Bangladesh is the declining trend of inflation in major trading partners. The headline inflation rate of Bangladesh already started to decline from 10.82 percent in July, 2008 to 6.03 percent in December 2008. The inflation rate of the major trading partners like India, China, and Hong Kong has declined significantly in recent months as well.

In a different paper related to outmigration, Talukder (2009) observed that according to Bangladesh Bank data, the total number of persons going abroad in July-March of FY 2008-09 was about 26.4% less than that of the comparable period of the previous fiscal year. Bangladeshi workers abroad are being laid off in the Middle East, the South East Asia and other countries where Bangladeshis find low-skilled and low-wage work. In a micro study based on survey, Rahman, Hossain, and Saifuddin (2009) found that, due to decelerating global demand, price of export products has declined as per the perception of sample entrepreneurs. Price of some categories of RMG and textile products was perceived to have declined by 5 to 8 per cent during said period. According to the survey, a large number of entrepreneurs have taken various cost- cutting measures to deal with the crisis such as increasing work hours, reducing fringe benefits, reduction of firm's capacity utilization, and even closing down of some production units.

Imam (2009) argued that the economy of Bangladesh may not be affected much in the short run. He commented that to withstand the shock emerging from global economic slowdown and ultimately its impact on growth depends on how long the recession lasts and the depth and severity of the recent global crisis. Further, Choudhury and Habib (2009-2010) observed that the recession did not affect international trade and trade financing activities of Bangladesh significantly to date. However, the extent of the complete implication of the recession is yet to be revealed. Ahmad (2011) opined that the global financial crisis along with rising energy and food prices do have serious implications for the inflationary situation of Bangladesh. The range of economic policies including fiscal policy, monetary policy, trade policy, and in particular, exchange rate policy are to be coordinated and carefully and judiciously implemented in order to arrest the current inflationary situation.

In a different study conducted by the South Asia region of the World Bank (World Bank, 2009c) and another study conducted by the Asian Development Bank (ADB, 2009), it is argued that the crisis will severely impact many developing countries including the South Asian countries, with Pakistan, India, Sri Lanka, and Maldives were being more vulnerable from the first stage effects of the crisis than some other South Asian countries such as Bangladesh, Nepal, and Bhutan. According to the report, even the latter countries may suffer severely from the second stage effects of the crisis from the continued adverse feedback loop that may occur through slowdown in exports, remittances, and foreign private capital inflows emanating from the global meltdown.

A very recent study (Ali, Islam, and Wise, 2011) empirically examined the impact of the crisis on Bangladesh from a microeconomic perspective, particularly an international business perspective, and found that while the overall economic impact has been limited to date, potential risk remains in some key sectors such as financial sectors, remittance sector, and export sector. The paper also discussed some institutional weaknesses that may exacerbate impact if these weaknesses are not tackled by policymakers and consequently, these vulnerable sectors may deteriorate further if the global crisis persists causing more damages down the road as the impact of the crisis plays out over time (Ali, Islam and Wise 2011).

In a study conducted under the auspices of the Asian Development Bank (ADB), Bhaskaran (2009) conducts a detailed study of the possible impact of the global crisis on the six developing South Asian countries, notably Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka. He identified a number of transmission channels through these economies which could be affected by the crisis such as exports, imports, and remittances, among others. He reported that the economic impact on Bangladesh has been limited to some slowdown of the economy but cautioned that the risk for further deterioration remains as the full effect of the crisis may not yet played out fully. In a similar Asian Development Bank sponsored study, Carassco, Hayashi Mukhopadhyay (2010) found that India and Sri Lanka within South Asia were affected the most by the crisis whereas other South Asian countries such as Bangladesh were affected the least by the crisis. The resilience of Bangladesh was attributed largely to Bangladesh's low exposurte to foreign financial markets and partly to the dominance of its exports by RMG (ready-made garments) for which demand is quite inelastic in foreign rich country markets.

Further, in a recent paper, Afser (2011) took a cautionary approach and argued that that the liquidity crisis along with potential inflation and currency devaluation are matters of intense concern in the financial and economic circles of Bangladesh since the crisis began to unfold in the global economy. For vulnerable and largely unstable small economies like Bangladesh, a fairly severe financial shock can have a devastating effect on their entire economic, political and social structure. Economic disruptions and dislocations can lead to political and social unrest, even, conflict and chaos.

GLOBAL CRISIS: MACROECONOMIC IMPACTS ON BANGLADESH

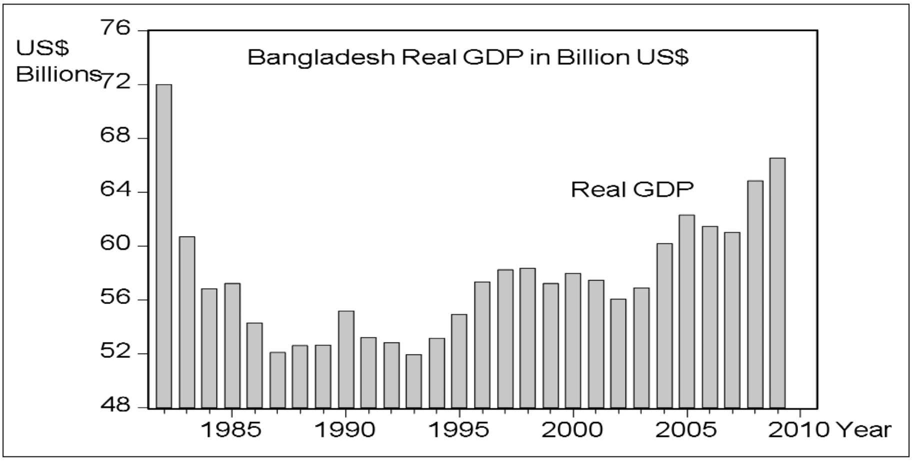
This section will provide empirical evidence on the economy of Bangladesh from the global financial crisis. The discussion will be conducted in two sub-sections, first dealing with the impact on the overall macro-economy, followed by the impact on specific major sector of the macro-economy.

Impact on the Overall Macro-Economy

As previously mentioned in the literature review section on Bangladesh, there were fears expressed in different quarters that the overall economy of Bangladesh will be seriously affected. According to the Asian Development Bank report (ADB, 2009), Bangladesh's GDP growth rate was reported at 5.9% in the fiscal year 2008-09, compared to a higher rate of 6.2% in 2007-08. This study examined in more details any possible impacts of the global crisis on the Bangladesh economy as follows.

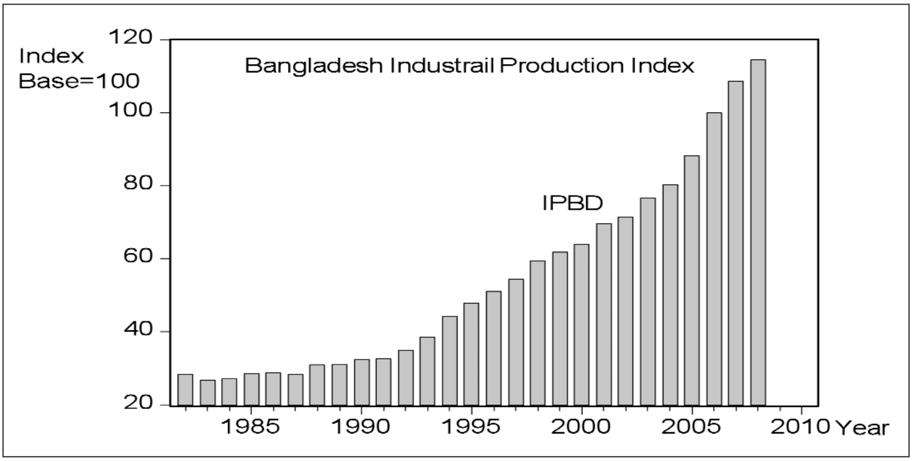
Figure 1 is constructed and reported here to show the time path of the real GDP, a widely used indicator of real production in the economy. This figure shows that the level of real GDP (in billions of US$) also continued to rise in 2009, but at a slower rate than 2008 as indicated by the height of the bars tapering off in 2009 compared to 2008.

Figure 1: Level of Real GDP in Bangladesh (Billion US$)



Source: IMF (2009c): International Financail Statistics CD Rom.

Figure 2: Industrial Production Index of Bangladesh



Source: IMF (2009c): International Financail Statistics CD Rom.

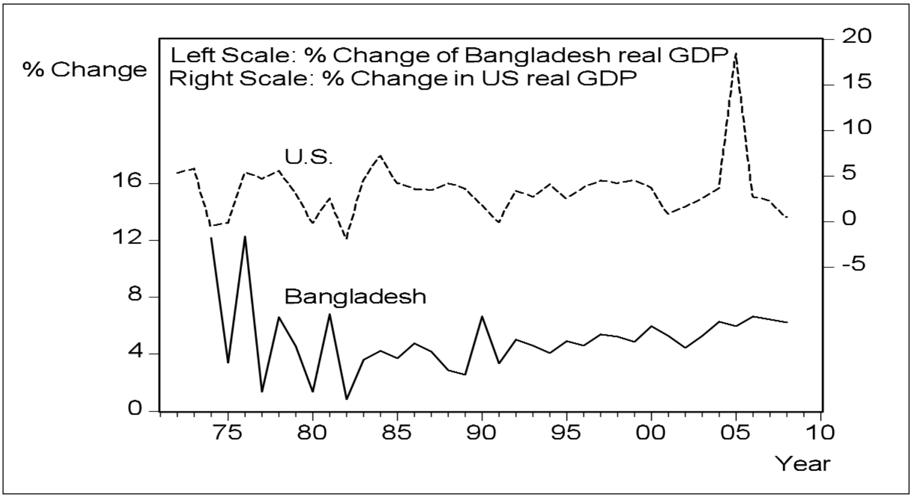
Industrial production index reported in Figure 2 shows production in the manufacturing sector. This curve shows that the index is still rising in 2009, but at a somewhat slower rate compared to 2008 as shown by the height of the bars tapering off. This slowdown in the growth rate of industrial production index is more vividly depicted in Figure 4, which shows the year-to-year percentage growth rate of industrial production index, as shown by the decline in the height of the bars in 2008 and 2009. In other words, the industrial production growth rate is still positive around 5.5% in 2008, but the growth rate is much smaller than before. Similar result was reported by the Asian Development Bank that the growth rate in the industrial sector was lower at 5.9% in 2008-09 compared to a higher rate of 6.8% in 2007-08 (ADB, 2009). Further, the most recent ADP quarterly update reports that the growth rate can be higher at around 6.3% in the next year as the various sectors of the economy including agriculture, manufacturing, and service sectors are showing strong upward trends in recent quarters of 2010 (ADB, 2010). A recent government report (GOB, 2011) argued that GDP growth rate can be even as high as 7% in the fiscal period 2011-12. This rate is not impossible to achieve given the higher growth rate achieved by China and India over several decades. But this higher growth rate will depend crucially on infrastructure development (such as improvements in roads, highways, and energy infrastructure), institutional reforms (improved governance and financial sector reforms) and a stable political environment with improved law and order situation.

Industrial production representing the manufacturing sector has declined more than the decline in real GDP. This is perhaps due to some mitigating factors occurring in some other sectors. Although the industrial sector slowed down, the country's agricultural sector, the major sector contributing to GDP, did perform remarkably well. This sector was somewhat affected by the 2007 energy and food price hikes, but quickly turned around and showed a strong and higher growth rate of 4.6% in 2009-09 compared to a lower rate of 3.2% in the previous year (ADB, 2009). This helped mitigate the slowdown in the industrial sector and may have helped in part to keep the overall GDP growth healthy.

The degree of economic synchronization of the Bangladesh economy with the global economy should be assessed. This will give a better picture of the degree of vulnerability of the Bangladesh economy to the crisis. In the absence of a readily available variable to represent the global economy, the paper uses the U.S. real GDP and U.S. industrial production index as proxies as global indicators. These proxies are not completely unreasonable given the fact that the crisis originated in the U.S. and the U.S. is the largest economy in the world. Besides, the U.S. is also the largest trading partner of Bangladesh (Rahman and Islam 2008); - Because of these reasons, the comparison of the Bangladesh economy with reference to the U.S. economy is deemed reasonable.

Figure 3 reports the relationship between the changes in U.S. real GDP growth rate with the changes in the Bangladesh real GDP over the years including most recent years for which data is available at the writing of this paper. It shows the existence of any co-movement between Bangladesh and the U.S. economy from 1973 to 2008. From this figure, there seems to be some co-movement of the two series, but the co-movement appears to be quite weak. The overall correlation coefficient is r = 0.2287 which is quite low. Further, when the U.S. economy and the world economy went into a major recession since the end of 2007, Bangladesh economy seems to have slowed down a bit, but it is still having healthy growth in 2008. It thus appears that although Bangladesh economy has some co-movement with the U.S. economy, such co-movement is very weak.

Figure 3: Changes in Real GDP: Bangladesh versus the U.S.: 1973-2008



Source: Authors' calculation based on data from IMF CD Rom (2009c).

As an alternative measurement, a percentage change in industrial production index for Bangladesh and the U.S. is presented in Figure 6. It also shows any co-movement between Bangladesh and U.S. economy from 1973 to 2009. Similar to the real GDP series, there again appear to have some co-movement of the industrail industrial production index of two countries, but note that the co-movement is somewhat stronger. The overall correlation coefficient is r = 0.4135, which is somewhat higher than the correlation between the changes in the real GDP series. Further, when the U.S. economy and the world economy went into a major recession since the end of 2007, Bangladesh industrial production seems to have slowed down a bit, but it is still having healthy and positive growth in 2008 and 2009.

From the above discussion, it seems quite clear that there are some co-movements between the two economies, those co-movements are very weak. This perhaps explains that the Bangladesh economy remained quite resilient and was able to escape from any serious repercussions from the U.S. and global meltdown. In addition to this factor, this resilience can also be traced partly to reasonably strong performance of some major sectors of the economy in spite of the crisis as discussed below.

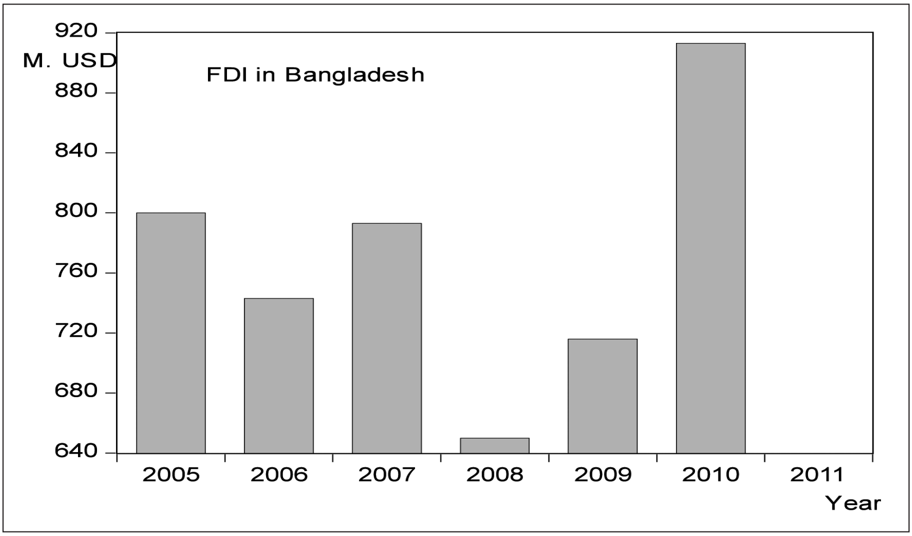
Impact on Major Sectors of the Economy

Turning now to examine the impacts of the crisis on major sectors, the focus will be on some important but vulnerable sectors. These include foreign investments, the financial and capital markets, exports, remittances, foreign investments, international reserves, and home currency exchange rates. Since the global crisis originated in the U.S. financial sector, the discussion is focusing first on the foreign investments along with the financial and capital markets.

Since its inception, Bangladesh has not succeeded in attracting much foreign investments. Figure 4 shows the amount remains very small at less than one billion USD compared to, for example, more than 60 billion USD a year for China. However, Bangladesh has the potential to attract more foreign investments, but due to structural and institutional weaknesses and political uncertainty, the country has so far failed to attract large amount for its development. As this Figure shows, from fiscal 2005 to 2010 period, this investment has remained low and has declined from USD 793 million in 2007 to 650 million in 2008 possibly as a consequence of the global crisis, but quickly rebounded to USD 913 million by 2010 (BDnews 2011).

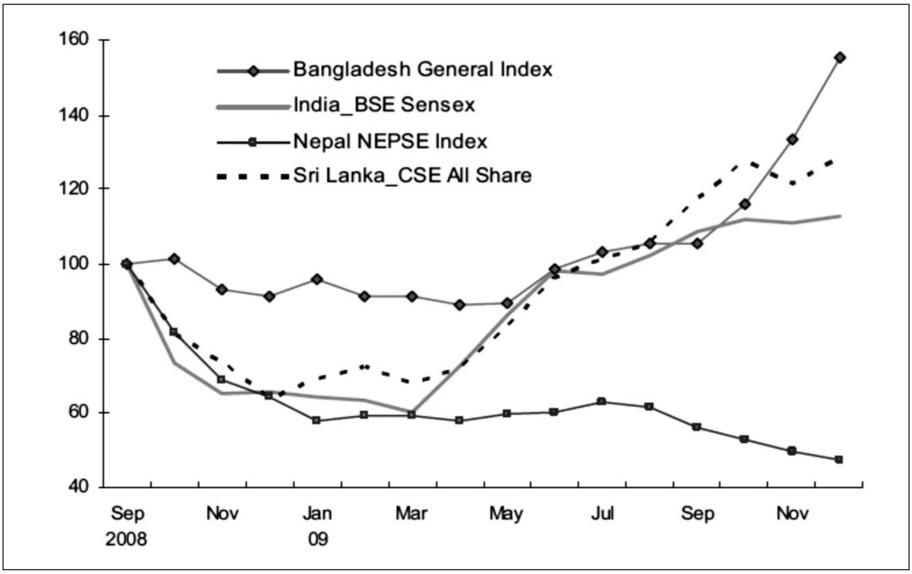
The Bangladeshi capital market also did perform quite well for a time being with the country's two main stock price indices, have recorded gains and as a result, the market capitalization has even increased during this crisis period. Figure 5, taken from Bhaskaran (2010) clearly shows that the stock price general index for Bangladesh has remained stable from September 2008 to May 2009 and increased rapidly thereafter compared to substantial declines experienced by India, Nepal and Sri Lanka during the same periods when the crisis has hitting South Asia. Along with the rise in the stock price index in Bangladesh, market capitalization increased during that period.

Figure 4: FDI Investments in Bangladesh: 2005-2010



Source: Figure drawn by authors based on data reported in ADB (2009) and BDNews (2011).

Figure 5: Stock Price Indices for Selected South Asian Countries



Source: Bhaskaran (2010).

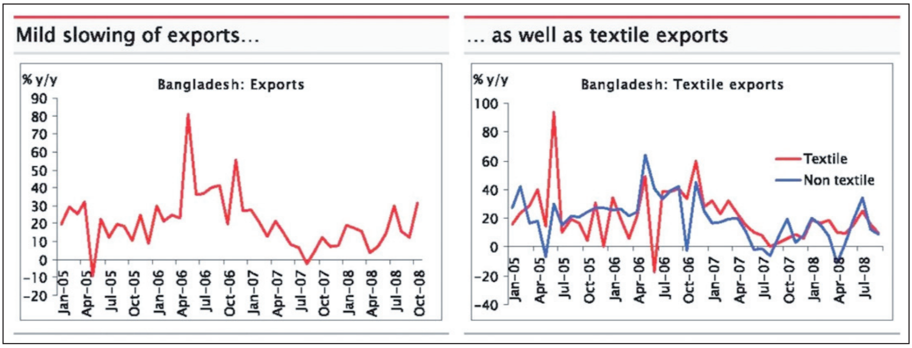
These results are quite contrary to what is experienced by many emerging countries such India, Nepal and Sri Lanka mentioned above and some other emerging Asian economies such as in Indonesia (Goelton, 2009; and Yap, Reyes, and Cuenca, 2009), and in S. Korea and Philippines (Yap, Reyes, and Cuenca, 2009), and the two largest Asian emerging economies, China and India (Jongwanich et. al., 2009), where large declines in market capitalization was observed. The Bangladeshi financial and capital markets remained resilient and strong partly because of the fact that these markets were not "too" open to foreign investments and as such were not as vulnerable. The banking sector has only a few foreign banks in operation and the magnitude of foreign portfolio investment in the stock markets remain low at around only 2.83% of total market capitalization (ADB, 2009). This relatively low foreign exposure in fact acted as a blessing in disguise in that these sectors were not exposed to the toxic assets arising from the U.S. financial markets.

Within the financial markets, the banking sector played the most dominant role in Bangladesh. It seems that the banking sector in particular did reasonably well and stayed quite stable despite the global financial meltdown (ADB, 2010). However, one should note that the country's financial system, particularly the banking system of the country is not free from the danger. The banking sector is not structurally sound and suffers from various ailments such as lack of adequate regulation and oversight, rampant corruption, and administrative inefficiencies. In addition, if and to the extent the exporters face difficulties in global markets due to the crisis, the banking and financial sector may face severe repercussions due to possible non-recovery of advances against export financing. Moreover, there are reports of liquidity surplus prevailing in the commercial banks that may also hurt the financial sector. According to the ADB report, the banking system has had a big liquidity surplus of Tk 347.6 billion as of 30th June, 2009 (ADB, 2009). Further, the capital markets also have serious structural weaknesses with such ailments as market manipulation, insider trading, lack of transparency, weak and ineffective oversight and regulation, and domination by few but powerful vested interests.

Regarding the export sector, Bangladesh is still doing well, in spite of dire forecasts that this sector may be severely affected (Zaman, 2009). The dire consequences were predicted because the Bangladeshi market is highly concentrated in a few rich country markets which are severely affected by the current crisis. A very high percentage exceeding 90% of total export earnings of the country are derived from the U.S. and EU countries and about 75% of same total export earnings are derived from the ready made garments

(RMG) sector alone (Islam and Quddus 2008), making the export sector highly vulnerable to the crisis. However, in spite of the global crisis affecting those rich countries, Bangladeshi export sector in general and the RMG sector in particular remained quite resilient as shown in Figure 6 below. This figure clearly shows that the growth rate of total exports as well as Textile and Non-textile exports slowed down somewhat but remained in the positive growth and healthy growth rates during the crisis period. This remarkable achievement was possible partly because Bangladesh's exports, dominated by RMG exports, generally face low price and income elasticity of demand abroad and partly because these products are mainly destined towards relatively lower income groups in those major importing rich country markets. According to ADB report, the rate of growth of export has gone down to 10.3% in the fiscal year 2008-09 compared to a much higher rate of 15.9% in the fiscal year 2007-08 (ADB, 2009). This conclusion is reinforced based on the most recent ADB 2010 quarterly update report on Bangladesh and also shows even stronger export growth in 2010. That growth rate is expected to continue in 2011, particularly through strong growth of the RMG exports (ADB 2010).

Figure 6: Growth of Textile, Non-Textile and Total Exports 2005-2008



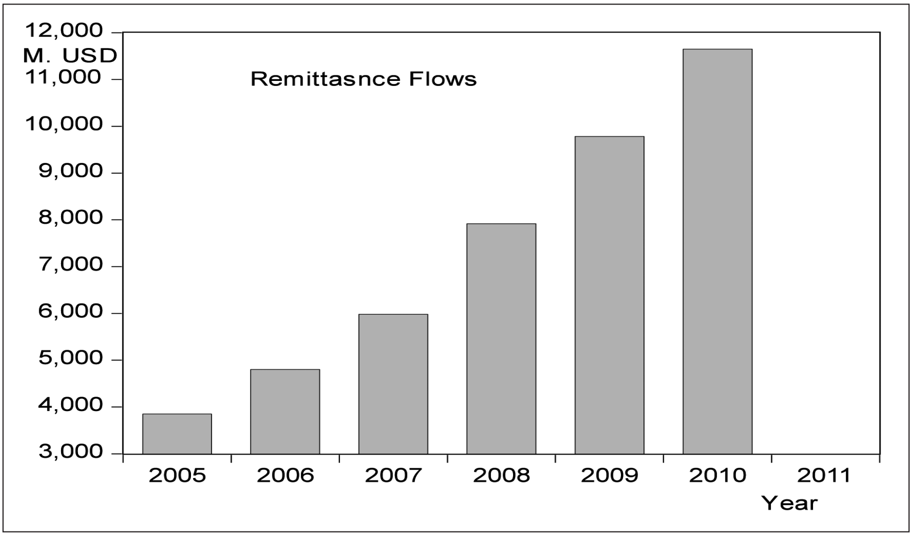
Source: Bhaskaran (2010).

In the import area, Bangladesh relies on foreign markets for many products, including raw materials, industrial machinery, energy, and food, among others. As such, the country is highly import- dependent causing big trade deficits for the country year after year. But the global crisis, which has lowered many commodity prices including food and energy, may have created some beneficial effects for the country on this front. As a result, the country was able to import some sensitive commodities such as food and energy at a much lower cost than before, helping the country improve its trade deficit position as well as to enhance domestic production with cheaper imports of raw materials and energy. According to the ADB reports, imports in the fiscal year 2008-09 rose at a much slower rate of only 4.1 percent in 2008-09 compared to a much higher rate in 2007-08 (ADB, 2009). However, as of the writing of this paper, global food prices and energy prices have been rising again, putting adverse pressure on the country's current account position.

Another very important but sensitive and vulnerable sector for Bangladesh is the remittance sector. Over the years, this sector has grown quite fast and provided a strong source of foreign exchange earnings. However, some experts and policy makers have raised concerns that the remittance flows from expatriate Bangladeshi workers may be severely affected as many workers may lose jobs abroad and others may be hit by salary cuts due partly to the global crisis and partly to the falling oil prices, both adversely affecting these labor importing countries. For example, in a recent conference organized by the ESCAP (Economic and Social Commission for Asia and Pacific) on overseas migration held in Bangkok, Thailand, a delegate from Bangladesh, Talukder, reported that Bangladeshi workers are the main players in sending remittances from abroad estimated at 9 billion US$ to the country in 2008 (Talukder 2009). He also reported that the majority of workers are deployed in three Middle Eastern countries, Saudi Arabia, Kuwait, and UAE with 48% of workers being employed in low-skill jobs and many of these workers are being laid off in these countries and are returning home. He reported that about 54 thousand workers lost jobs overseas in 2008, but about 30 thousand lost jobs in the first four months of 2009 alone.

However, there is a good news in that, in spite of these job losses in some of these countries, overall overseas employment of Bangladeshi workers was up by 5.1% and remittances were up by 37.21% in 2008 compared to 2007 (Talukder 2009). Further, as shown in Figure 7, Bangladesh flows have shown consistent increase in spite of rthe global crisis, the growth rate may have slowed down a bit. According to the ADB report, the remittance inflows grew by 22.4% in the fiscal year 2008-09, down from 32.4% in the year 2007-08 (ADB, 2009). In fact, some countries such as Lebanon and Libya opened up their job markets for Bangladeshi laborers while some expatriate workers were returning home from other Middle Eastern countries such as Saudi Arabia, Malaysia, and Mauritius, the former thus offsetting the latter at least to some extent. However, the remittance flows remain vulnerable and may slow down even further if the global crisis is prolonged.

Figure 7: Bangladesh Remittance Flows: 2005-2010



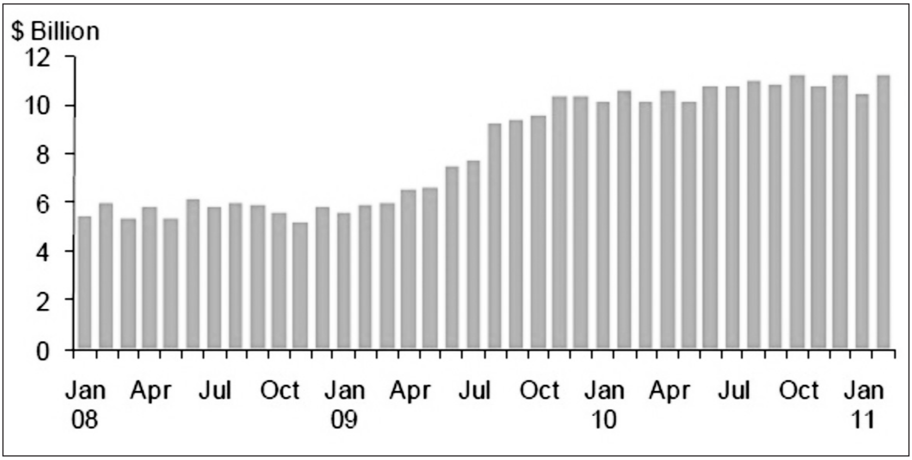
Source: BB (2010), Economic Trends.

In order to mitigate any possible adverse effects on remittances, the Government is also trying to retain existing foreign labor markets and discover new markets for sending Bangladeshi workers abroad. According to a recent report, the government itself will send manpower abroad from now on alongside private recruiting agencies, to reduce excessive cost of labor migration and it has already instructed Bangladesh's labor councilors in its foreign missions to arrange work orders for job seekers who will migrate under direct government management (The Daily Star 2010b).

Bangladesh is also doing quite well in the area of international reserves as shown in Figure 8. The foreign exchange reserves held by the Bangladesh Bank has remained at a reasonably high level and has not been affected by the crisis. Given that the exports, remittances, and foreign exchange reserves remained at good levels, the home currency (Taka) maintained its value during and in the aftermath of the crisis period until 2010, despite the massive global crisis. The currency in fact appreciated somewhat against the U.S. dollar, which is remarkable in that the currency has been declining continuously against the U.S. dollar from many years in a row. The currency exchange value of Taka against the U.S. dollar from 1975-76 to 2010-11 is given in Figure 9, which shows stable currency value with slight appreciation of Taka against the dollar in 2008-09 of Tk 68 = 1 US$ compared to Tk70.00 = 1 US$

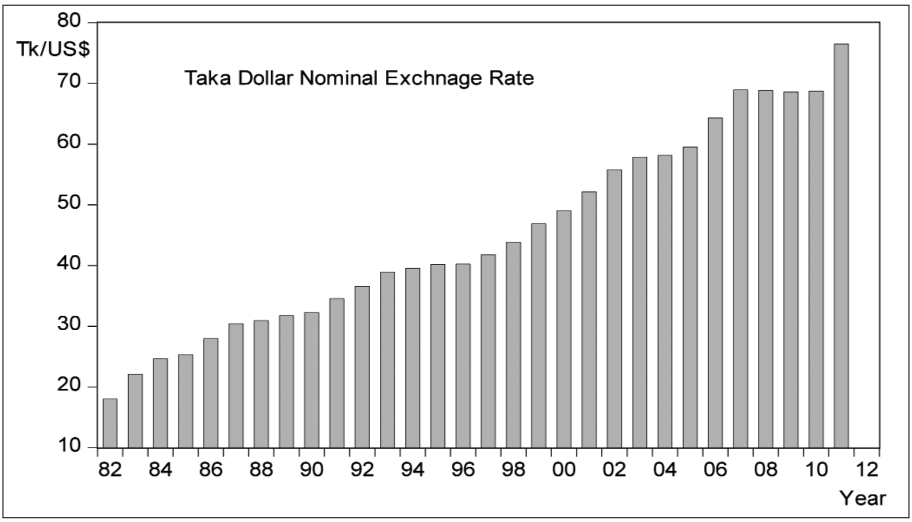
in 2007-08. However, very recent data for 2011 shows a strong depreciation of the currency against the US dollar perhaps because the inflation rate has been heating up in recent times as discussed below.

Figure 8: Foreign Exchange Reserves: January 2008 - January 2011



Source: ADB (2010) and BB (2011).

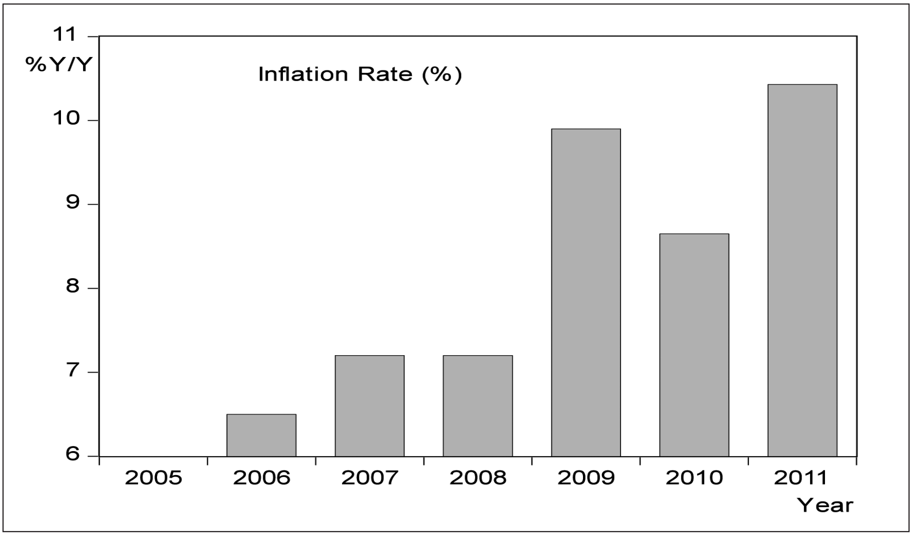
Figure 9: Trend in Taka per US Dollar: 1973-2011



Source: IMF (2009c), International Financial Statistics CD Rom.

Although the currency exchange rate has remained stable in the face of the crisis, a recent report shows that inflation is becoming a concern. When the crisis began, Bangladesh benefited from declining energy and food prices, but the inflation rate remains moderately high edging up in recent years hovering around a 10% annual rates as shown in Figure 10. High food prices in the world markets along with high petroleum and energy prices may be contributing significantly to this upward price pressure. If this pressure continues unabted, then the currency exchange rate is bound to depreciate in value along with deterioration in the current account position in the near future. Ahmad (2011) observed that the global financial crisis and recently rising energy and food prices do have serious implications for the inflationary situation of the country. He argues that the range of economic policies including fiscal policy, monetary policy, trade policy and in particular exchange rate policy are to be coordinated carefully and judiciously implemented in order to arrest the current inflationary situation

Figure 10: Yearwise Inflation Rate in Bangladesh: 2006-2011



Source: Figure drawn by authors based on data reported in BB (2011) and Bhaskaran (2010), Tab 2.11

It is thus clear from the above analysis that the overall Bangladesh economy measured in terms of GDP and industrial production has slowed down somewhat due to the global crisis, but the economic impact has been limited to a modest slowdown and has not gone to a full-blown recession. Several factors were helpful for Bangladesh in this respect. One of the reasons is that the country's dominant agricultural sector growth was higher that partially mitigated the slowdown from the manufacturing sector. Besides, the financial and capital markets remained resilient in the face of this crisis. Further, the export sector including the RMG sector showed stability and the fall in import prices acted as a mitigating factor in keeping the domestic inflation rate down. Further, remittances and the international reserve position remained at a reasonably strong level. As a result of the above and possibly other factors, the currency exchange value was maintained at a strong level and did even appreciate somewhat against the US$. These are quite noteworthy performances for a poor and vulnerable country like Bangladesh.

DOMESTIC POLICY RESPONSES TO OVERCOME THE GLOBAL CRISIS

The crisis that originated in the U.S. quickly began to spread in EU countries first and gradually to other emerging economies. It became clear that the policy response in the U.S. would not be enough to stem the tide of this massive financial tsunami. Fearing widespread repercussions, the European and other emerging countries began to adopt and implement policy responses to deal with the crisis. Based on the economic situation of different countries, respective governments introduced some conventional and some non-conventional measures including fiscal measures, monetary policies, nationalization of financial institutions, financial packages to bail out, providing subsidies, and cash flows, among others. The U.S. government and the U.S. Federal Reserve acted quickly by the outgoing Bush administration and the incoming Obama administration in 2007 when the crisis was taken very seriously. In the U.S., massive bailout packages and fiscal stimulus packages involving thousands of billions of dollars were adopted quickly. Other advanced countries (such as EU countries, Japan, Canada, and Australia) as well as some prominent emerging countries (such India, China) also quickly adopted big stimulus packages to prevent a free fall of their economies.

Just emerging out of the global energy crisis and the political turmoil over the last several years since 2007, the global crisis could not have come at a worse time for Bangladesh. The newly elected government that emerged through a general election at the heels of the energy and the political crises had to face the global crisis immediately after assuming power in 2009.

There was a lot of pressure on the government from the business community, civil society, policy experts, and international organizations to act quickly. Considering both micro and macro perspectives, the government of Bangladesh began to develop policy responses to mitigate any adverse effects that may emanate from the global turmoil.

The national budget for the fiscal year of 2010-11 adopted by the government projected that the gross domestic products growth rate will probably be 6.7% (GOB 2010). The analysis conducted in this paper also showed that the economy remains resilient and is maintaining a reasonably strong performance despite the high inflation rate. In spite of these "not too bad" scenarios for the country, the government wanted to take some concrete fiscal and monetary measures anyway probably as pre-cautionary steps. This is perhaps also due to the advice and pressure from different business and other interest groups including prominent international organizations such as the World bank, the Asian development Bank, and the International Monetary Fund (Rahman, 2009; World Bank 2009b and 2009c). These groups and organizations made predictions that Bangladesh may be badly affected and hence needs to take concrete measures to deal with the fallout from the crisis. As such, the government initially decided to organize a task force to develop strategies and to take concrete measures to deal with the possible adverse impacts of the crisis.

The government initially formed a taskforce to give advice to the government on various strategies and policy responses that could be used to deal with the crisis. The prime objectives of these policy responses have been to create employment opportunities, infrastructural development, and to safeguard the economy from the worst impact of the global financial catastrophe. In concert with the government, the Bangladesh Bank (the central bank) also adopted monetary policy responses to deal with the crisis. Some of these fiscal and monetary policy responses are discussed below.

On the fiscal front, the government of Bangladesh on 19th April, 2009 declared an initial fiscal stimulus package of Tk 3,424 Core (The Daily Star, 2009). Later, the government allocated a special financial package of Tk 5,000 crore in the budget for the fiscal year 2009-10 (Financial Express, 2009). On November 25, 2009, the government again declared a series of additional fiscal stimulus package worth over Tk 1,000 crore for the export sector to offset the possible adverse impacts of global meltdown on the domestic economy (Financial Express, 2009). However, the business groups, academics, civil society, and political leaders have been demanding stronger stimulus packages as they feel the current levels are inadequate.

On the monetary front, the Bangladesh Bank adopted an easy money and credit policy to keep liquidity high and the interest rate low in order to keep the economic engine moving smoothly. The most recent monetary policy stance as of July and December, 2009 is designed to support the attainment of highest sustainable output growth without triggering escalation of inflation and to deal effectively with the ongoing crisis. Also, the Bangladesh Bank and the government adopted precautionary measures to mitigate at least some institutional weaknesses (such as weak regulation and oversight, lack of transparency, endemic corruption, and management inefficiency) of the financial markets, particularly the banking system. However, due to business pessimism and weak demand for credit, the banking system is currently facing serious liquidity surplus, potentially threatening banking sector viability.

In addition, the central bank signaled its intention of fostering a culture where equity-based investments would be emphasized over debt-based investments. However, one wonders how this discretionary foreign exchange financing will take place. The central bank underscored that it is set to strengthen its oversight on liquidity, capital adequacy, and risk management in banks and financial institutions to protect the domestic financial sector from instabilities of the kind now afflicting markets in advanced economies. It was informed that the government along with the central bank had finalized steps for obtaining sovereign credit rating for Bangladesh to lower costs for private sector borrowers and banks.

Further, to strengthen the financial sector, the Bangladesh Bank has recently decided to strengthen the banking rules and regulations under the guidance of the Bank for International Settlements such as raising the quality, consistency and transparency of the Tier 1 capital base; introducing a leverage ratio as a supplementary measure to the risk-based framework; introducing a minimum global standard for funding; incorporating a framework for countercyclical capital buffers above the minimum requirement; issuing recommendations to reduce the systemic risk associated with the resolution of cross-border banks (BIS, 2009).

It is to be noted here that due to good economic performance, the global rating agency Standard & Poor's, after analyzing the macro and micro economic conditions of the country, has issued the Bangladesh a relatively favorable bond rating of 'BB-' for long term and 'B' for short term instruments (Financial Express, 2010). It argued that the country's outlook is stable. In another newspaper report, the credit rating agency Moody's Investors Service for the first time assigned a 'Ba3' rating to Bangladesh and termed the country's outlook stable (The Daily Star, 2010a). The agency said that the combination of a conservative institutional framework for managing the economy, supported by capital controls, has ensured better external balance and price stability than at many other emerging markets at a similar level of development. However, this study will also cautioned about whether the country would be able to utilize the opportunity provided by the aforesaid ratings to its advantage.

A SWOT ANALYSIS OF THE BANGLADESH ECONOMY

The latest information reveals that the free fall from the global crisis may be arrested and perhaps the recovery has begun. IMF Chief Blanchard has stated that the global economy is on the path to recovery (IMF, 2009a), The U.S. Federal Reserve and the U.S. Government also declared that the U.S. economy has bottomed out and is on the path to recovery and is confirmed by some reports (FRB-Dallas, 2009). Various reports indicate the other major economies such as China and India are registering strong growth. As the global economy recovers, many opportunities may open up for the Bangladesh to explore in the global markets. A SWOT (Strengths, Weaknesses, Opportunities and Threats) has been conducted for the Bangladesh economy to examine the opportunities which may avail for the country as the global economy begins to recover. The result of this analysis is reported in Chart 1. This analysis allows one to understand the strengths the country has, any weaknesses that needs to be overcome, and any opportunities that may be available to explore and the threats that may prevent the country from realizing those opportunities.

Column 1 in following Chart reports the strengths which include the economy not being too vulnerable to the crisis and the economy maintaining reasonable growth, financial sector remaining stable, exports, remittance flows and international reserves staying healthy, falling import prices keeping inflation subdued, declining currency maintaining its value, availability of young entrepreneurs, among others. The weaknesses facing the country are many, but a few relevant but important ones are identified and reported in column 2, which include lack of an efficient and dynamic economy, weak financial and physical infrastructure, persistent energy (oil, gas and power) shortages, high population growth rate, information asymmetry, and weak organizational leadership in private sector and poor governance in public sector, among others.

In spite of the weaknesses, the country can avail some opportunities and some of those are identified and reported in column 3 that includes diversifying exports including moving to higher value range products, exploring new markets for goods and labor, avail necessary imports at lower international prices and keep home inflation subdued, improve balance of payments deficits. However, Bangladesh has to keep an eye on the potential threats that may prevent the country from realizing these opportunities. These threats are reported in column 4 and include political instability, possible worsening of foreign investments, exports, and remittances if the global crisis gets prolonged or worsens, poor corporate governance, and continued appreciation of the home currency threatening exports and remittances. The country needs to keep an eye on these threats and be willing and able to deal with them in a timely manner.

Chart 1: A SWOT Analysis of the Bangladesh Economy

Strengths	**Weaknesses**	**Opportunities**	**Threats**
1. Economy resilient to the crisis 2. Remittances remain strong 3. Financial and capital markets remain stable 4. Import prices declining 5. Exchange rate remain stable 6. Young entrepreneurs ready to explore opportunities 7. Exports and foreign reserves remain healthy 8. Abundance of low wage labor	1. Lack of an efficient institutional structure 2. Lack of skill in labor force 3. Difficulty in attracting foreign Investments 4. Weak physical Infrastructure 5. Lack of transparency, corruption, and poor governance 6. Weak organizational leadership in private sector 7. Poor corporate governance in private sector 8. Energy shortages	1. Explore new markets for exports 2. Expand and Diversify export base, particularly in lower-value range 3. Gradually move to higher value-added export products 4. Explore new markets for labor 5. Cheaper import of food, energy and other essential imports possible 6. Potential for more foreign investments 7. Utilize abundant cheap labor	1. Political instability 2. Possible labor unrest 3. Potential deterioration in trade balance through weaker exports, higher imports and lower remittances 4. Foreign investments may decline 5. Foreign exchange reserve may dwindle 6. Exportable items are limited and mostly of low elasticity. 7. Low Productivity of the labor

(Source: Prepared by the authors).

CONCLUSION AND RECOMMENDATIONS

The paper examined in detail with data and facts the 2007 global financial crisis and its impact on the Bangladesh economy. The evidence suggests that the impact of the crisis on the Bangladesh economy to date had been rather limited. This is contrary to the initial fears of serious adverse effects expressed by some experts and policy makers, business community, and some international organizations such as the ADB, IMF, and the World Bank. However, the evidence presented in this paper shows that the overall GDP and major segments such as manufacturing, agriculture, financial and capital markets, exports, remittances, international reserves and exchange rates have shown remarkable resilience and must continue to grow, but at a somewhat slower pace. A few segments such as the agricultural sector and the capital markets even showed higher growth rates in the current 2008-09 fiscal year than the previous year.

The country’s economy was found to be resilient because of a number of reasons such as: the economy in general and the financial sector in particular has not been “too open” and hence remained less vulnerable to external shocks emanating from the crisis;- exports are dominated by garments of which low elasticity and low value range products are the primary export items which are less vulnerable to crisis;- agricultural sector recording stronger gains to partially offset manufacturing slowdowns;- massive stimulus packages adopted by many rich and emerging countries to stabilize the crisis on a global scale;- and the fiscal and monetary stimulus packages adopted by the government of Bangladesh itself as preemptive measures to mitigate any possible fallout from the crisis.

As the global economy has been recovering slowly, a number of opportunities may open up for Bangladesh. The SWOT analysis conducted in the paper identified some of these opportunities which include: exploring new markets for export goods;- diversify into new export products including higher value range within existing export goods;-encourage more foreign investments through appropriate and further economic and financial reforms;- find new markets for Bangladeshi labor to increase remittance flows, and keep inflation subdued through cheaper imports of food, energy, and other essential inputs and raw materials. To explore these opportunities, the paper suggests that the country needs to build on its key strengths and overcome various weaknesses as identified and reported in Chart 1.

At the same time, policy makers and the government need to keep a keen eye on the threats that may prevent the country from realizing emerging opportunities. Key threats include possible eruption of political and labor unrest, possible fall in exports, remittances, and foreign investments, possible rise in energy and food prices in global markets, emerging intense competition from other nations (such as China and India), possible rise in protectionism in rich country markets, and continued stronger (appreciated) currency values which may adversely affect exports and remittances. It is recommended that the policy makers be more proactive by taking appropriate corrective policy actions ahead of time rather than reactive (waiting to take action until the adverse effects begins to occur) in dealing with the weaknesses and emerging threats and need to continue with additional measures as discussed below.

The government should continue taking strong measures to help vulnerable groups (such as the poor, unemployed, those returning home from abroad due to being laid off) by providing social safety nets through public spending programs and by generating employment opportunities through various public infrastructure projects. Further, financial market regulations should be strengthened and public sector governance needs to be improved in order to reduce inefficiency, mismanagement and rampant corruption. Since power and energy shortages remain a critical threat, solar and other alternative green energy initiatives including nuclear energy sources should be pursued side by side with conventional fossil fuel energy sources.

In addition, the government needs to maintain strong cooperation with advanced and emerging countries and major international organizations in monitoring and overcoming any other possible adverse effects. The government should utilize its diplomatic missions more effectively in promoting the country's commercial and trading interests abroad. These missions should also try to improve communication with expatriate Bangladeshi community living abroad to encourage more home-bound investments and utilize their skills and expertise towards transfer of technology and managerial skills for the benefit of the country.

The government has been under pressure from western countries and international organizations to reform and open up its financial markets. But here, the government needs to be extra careful while considering policy options for reforming the financial markets, particularly with respect to possibly opening up the capital markets. These are some valuable lessons that have been derived from the experiences of the 1997 Asian financial crisis and the experiences derived from the current financial catastrophe. Bangladesh should also be cautious to avoid financial and capital market scams which occurred in the year 1996 and again in 2011 in the country.

Further, regional cooperation through strengthening of SAFTA (South Asian Free Trade Agreement) or arranging other free trade agreements like

BIMSTEC (Bay of Bengal of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (under which it was proposed to start free trade agreement) would be highly conducive for the development of the country. Bangladesh has the potential to improve the standard of living of its people and reduce poverty by achieving a double-digit growth rate. Institutional framework of Bangladesh should be strengthened so as to realize better economic performance in the coming years.

Although Bangladesh was not that much affected in the short-run, the scenario could be different in the medium and long run, as there could be delayed effects of the global catastrophe on the Bangladesh economy, more so if the global recovery is weak and takes longer to gain momentum (FRB-Dallas 2009). The government needs to keep a close eye on this front as well. In other words, instead of being complacent, the government should remain ever vigilant and be prepared to take any necessary steps to deal with any possible delayed but unpredictable adverse effects as the situation demands.

Even though the overall economy was not severely affected, unemployment may still rise in some sectors such as manufacturing and some vulnerable groups may be severely affected. To mitigate these problems, it is may still be necessary for the government to remain vigilant and continue to create employment opportunities and to develop schemes for protection of the vulnerable groups in society. Taking measures to try to diversify its export base and reduce production and transportation costs of goods and services for exports could also be very helpful in this difficult economic environment. At the same time, exploring new markets overseas for Bangladeshi export goods and for manpower exports should be vigorously pursued by the government. Further, financial market regulations should be strengthened in order to reduce inefficiency, mismanagement and rampant corruption. Since power and energy are critical inputs and the country has severe shortages, solar and other alternative energy initiatives should be pursued side by side with possible development of nuclear energy. Thus the macro management of the country should work for long run sustainability for while the micro foundation of the country should be strengthened in both the private and the public sector.

Notes:

1. 1 Crore = 10 Million
2. Central Bank of Bangladesh = Bangladesh Bank
3. Currency Code of Bangladesh = BDT (Bangladesh Taka)

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Résumé

Le document examine les impacts de l'actuelle crise mondiale (2007-09) sur la macroéconomie du Bangladesh. Les preuves suggèrent que l'impact de la crise avait été plutôt doux avec un léger ralentissement de l'économie et de quelques secteurs critiques (les exportations et les envois de fonds), mais dans le même temps, les effets négatifs étaient compensés par des améliorations dans certains autres secteurs (agriculture et marchés d'actions), montrant ainsi une résistance remarquable à la crise. De plus, les impacts sur le Bangladesh ont été beaucoup plus doux que ceux ressentis

dans les pays développés (comme les Etats-Unis et les pays de l'UE) et d'autres économies émergentes comme l'Inde et la Chine. Des actions politiques appropriées et opportunes au niveau mondial ainsi que les choix budgétaires et monétaires du pays ont été utiles pour atteindre ces résultats. Les autres facteurs qui ont contribué à minimiser les effets néfastes comprennent la relative non-exposition du pays aux actifs toxiques à l'étranger, la croissance du secteur agricole, et la résilience des exportations de vêtements et du secteur des envois de fonds. Une analyse SWOT du pays indique que, comme l'économie mondiale tourne autour, le pays pourrait tirer profit des nombreuses opportunités mondiales à condition que le pays ne puisse capitaliser sur ses forces, améliorer ses faiblesses et traiter efficacement les menaces émergentes. Les actions politiques qui peuvent être utiles incluent le renforcement des réformes du secteur interne et externe, le développement des infrastructures, la diversification des exportations, trouver de nouveaux marchés pour les exportations et l'emploi des travailleurs à l'étranger, et en tirant parti des avantages de la coopération et des partenariats avec des entreprises étrangères, y compris, par exemple, les expatriés bangladais à l'étranger.