

## **6.0 Recent Global Financial Crisis: Bangladesh Context**

- Until the beginning of 2007, the world economy experienced a boom by recording an average GDP growth rate of about 5%. But the subprime mortgage debacle in the United States of America in the middle of 2007 triggered a global financial crisis. Leading economies of the world grew at an average of only 1% during the period. From the fourth quarter of 2007 through the second quarter of 2008, the growth rate was 2.5% lower than that of the first three quarters of 2008.
- The emerging and developing economies have also been experiencing lower growth rates. India, the largest economy of the South Asian region, is facing a huge negative impact of the crisis. Its growth in the industrial, service and export sectors have started to decline. Demand for bank credit has gone down. Currency has also significantly depreciated. The economy of Pakistan is also at a critical juncture. Inflation has doubled within a few months; value of Rupee in relation to US dollar has fallen significantly.
- In order to overcome the crisis, governments all over the world have introduced various measures such as increasing public spending, providing support to recapitalize the loosing financial institutions, injecting liquidity by central banks, easing the lending norms and so on. Widening and deepening of social protection programs like cash transfer, targeted subsidy and concessional credit are the common programs to protect the poor from the adverse affects of the global economic meltdown.

## **6.1 Impact on economy of Bangladesh**

- Over the last few years, the economy of Bangladesh continued to register a growth rate at around 6% despite natural disasters, political unrest and external shocks. This growth rate is expected to be sustained in the current fiscal year despite the current financial crisis which may affect Bangladesh's economy mainly in the areas of exports, remittances and foreign investment. The question is then when and by how much it would be affected.
- There is hardly any presence of foreign capital stock as portfolio investment in the capital markets of Bangladesh and as such the possibility of drain-out of capital through this channel is less likely. However, due to ongoing world financial crisis, there is an apprehension that FDI inflow may decrease which may adversely affect the economy.
- The macroeconomic fundamentals in Bangladesh have been stable for the last few years with sustainable budget deficit and public debt. In this context, if the crisis affects the economy of Bangladesh, government may have to resort to expansionary fiscal policy.
- There are conflicting views among the economists on the actual impact of the current global financial crisis on garment exports of Bangladesh. One view is that because of recession, the middle and lower middle class in US and EU will be badly affected and this might dampen our

RMG export potential. The other view is that the RMG exports could increase because there could be a shift of demand from high-end garment segment to low-end segment.

- The major share of remittances comes from the Gulf region, where growth prospects have remained largely unchanged in 2008 but are projected to be marginally low in 2009. Most of the Bangladeshi workers are unskilled/semi-skilled and are employed in the construction sector. The current crisis may affect them in the context of fall in oil revenues, promoting a slowdown in the construction sector. The skilled Bangladeshi workers in the USA may face job losses.
- Due to the economic crisis, foreign aid flow to Bangladesh may decline. However, this may not trigger a significant problem since most of the foreign aid of Bangladesh come through multilateral agencies.
- Bangladesh largely depends on import in meeting the demands for food and non-food items. In the world market, commodity prices including wheat, rice, edible oils, fertilizers, have declined substantially particularly after the financial crisis. The price of crude oil has also declined substantially. The overall situation would then allow Bangladesh to import these commodities at lower prices which will improve the BOP situation of the country.

