



Global Financial Crisis Workshop

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Presentation on

Global Financial Crisis: Possible Implications for Bangladesh

Presentation by

Professor Mustafizur Rahman

Executive Director, Centre for Policy Dialogue (CPD), Dhaka



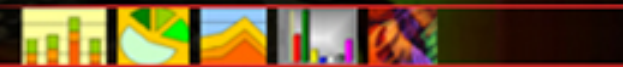
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I. Exposure of Bangladesh Economy to the Global Economy

- Over the recent past, global integration of the Bangladesh economy has been gaining momentum
- Bangladesh's exports constitute 17.8 per cent of GDP whilst export of goods and remittance constituted 25.8 per cent of GNI; degree of openness ($X+M$ as % of GDP) of Bangladesh was about 43.4 per cent
- About 85 per cent of Bangladesh's exports are destined for developed countries whilst these account for about 33.0 per cent of Bangladesh's imports. If China and India are added, this share would go up by 60.8 per cent.
- Growth projections of Bangladesh's all major partner countries indicate significant slowdown in the latter half of 2008, to continue and deepen in 2009. The impact of global recession is thus likely to have important implications for the globalising economy of Bangladesh

**TABLE: BANGLADESH'S DEGREE OF OPENNESS AND EXTENT OF GLOBALISATION**

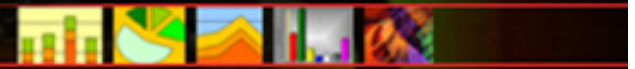
	FY 1981	FY1991	FY 2001	FY 2007	FY2008
1. Export (X) (mln USD)	725	1718	6467	12154	14088
2. Import (M) (mln USD)	1954	3472	9335	17157	20217
3. Remittance (R) (mln USD)	379	764	1882	5978	7915
4. ODA Disbursed (mln USD)	1146	1733	1369	1565	1873
5. FDI (net) (mln USD)	0	24	550	793	650
Total (1-5) (mln USD)	4204.0	7710.5	19603.4	37646.3	44743.8
GDP (Current Price) (mln USD)	19811.6	30974.8	47306.0	67714.0	78996.9
Degree of Openness (Export + Import as % of GDP)	13.5	16.8	33.4	43.3	43.4
Extent of Globalisation (%)	21.2	24.9	41.4	55.6	56.6
X as % of M	37.1	49.5	69.3	70.8	69.7
(X+R) as % of M	56.5	71.5	89.4	105.7	108.8
ODA as % of GDP	5.8	5.6	2.9	2.3	2.4
ODA As % of Export	158.1	100.9	21.2	12.9	13.3

Source: CPD-IRBD Database



II. Impact of the global crisis on Bangladesh economy: Transmission Channels

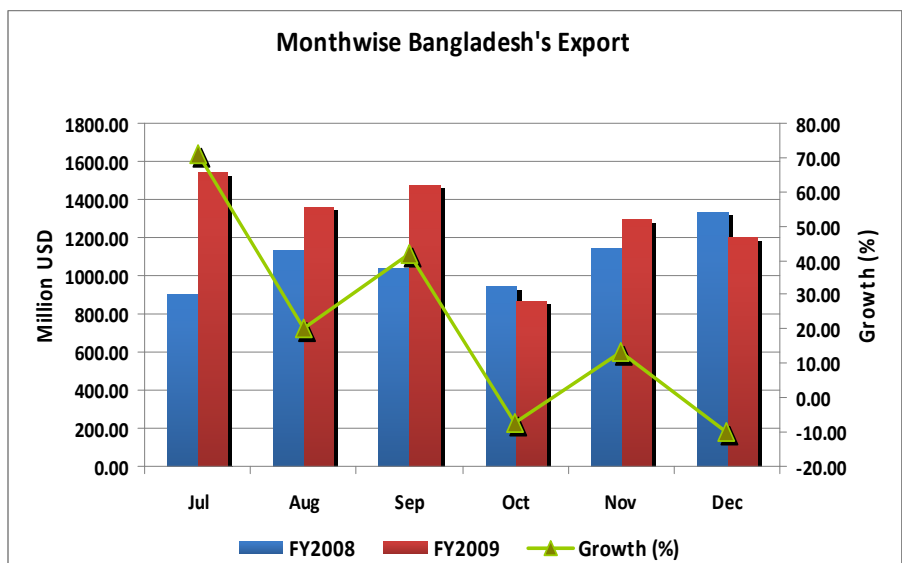
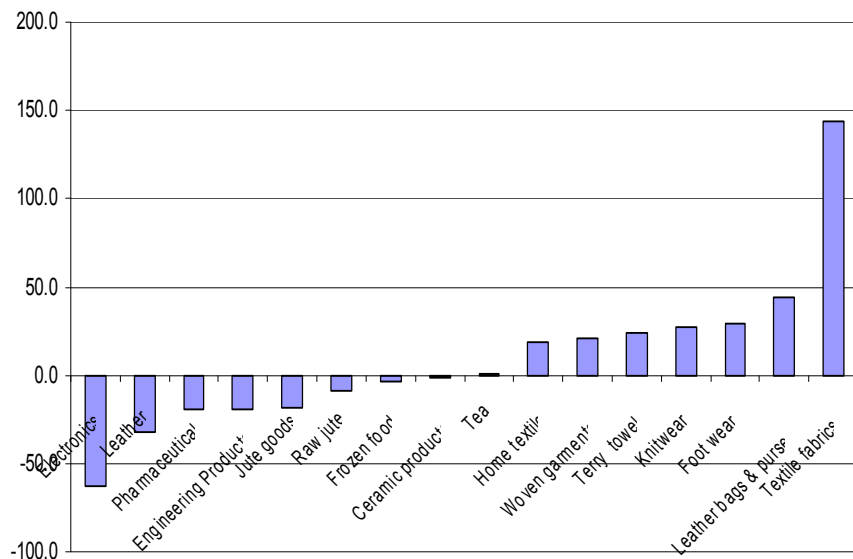
- **Export of Goods**
- **Export of Services – Inflow of Remittance**
- **FDI**
- **ODA**
- **Import Payments**
- **Domestic Resource Mobilisation**
- **Initiatives taken by Competing Countries**
- **Bangladesh is an interesting case – export of low-end goods (apparels) and low-end services (remittance sent by migrant workers) have helped Bangladesh, thus far, to tide over the worst consequences of the global financial crisis**
- **The fall in global commodity prices have also helped Bangladesh in containing the inflationary pressure and provided some cushion in macroeconomic management**



❑ **Export: Gradual Slowdown in Growth**

- Export of low-end apparels (accounting for 76 per cent of total export) have been less affected inspite of slowdown of import in both EU and USA (the so-called *Wal-Mart* effect)
- Export growth in the first six months of FY2008-09 (July-December, 2008), at 19.6 per cent, remain robust
- However, slowdown is visible in recent months. Growth in Q2 of FY2008-09 (October-December, 2008) was -1.2 per cent, a first time negative growth in recent times. Export of primary products such as frozen foods, raw jute, leather have been adversely affected. Some of the promising sectors such as ship-building have seen orders cancelled
- Some export diversion from China – but higher discount asked, and lower C&M charge offered by major buyers; at times orders being deferred

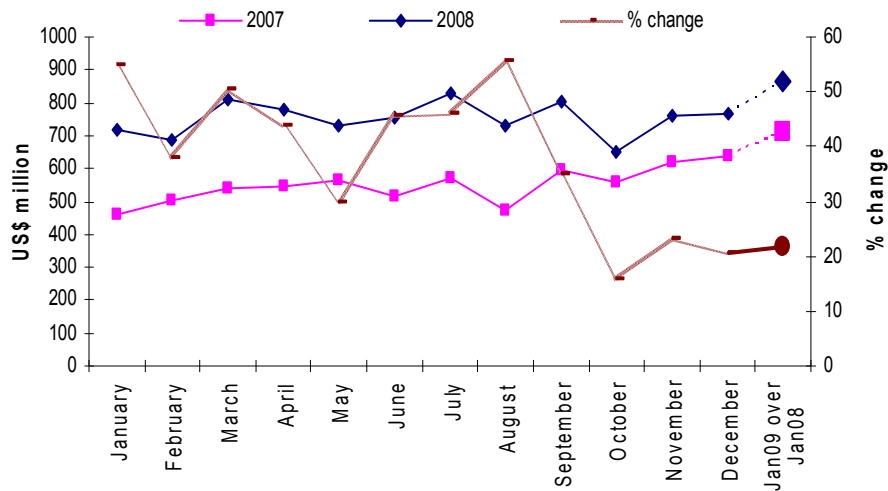
Figure: Changes in Export of Selected Commodities during July-December, 2008
Over July-December, 2007



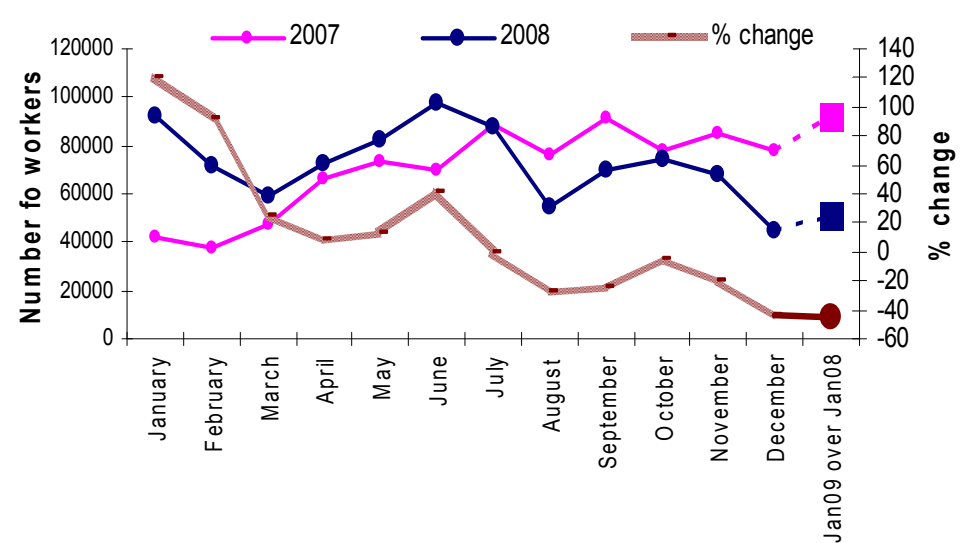
❑ **Remittance: Robust Inflow, but Deceleration in Number of Workers Leaving**

- Growth of remittance has been robust during July-January of FY2008-09, at 33.3 per cent (major sources: Middle East: 60 per cent; US: 17 per cent; UK: 11 per cent)
- In recent times Saudi Arabia, Kuwait, Singapore have drastically curtailed issuance of workers' visas. In past few months there has been a significant deceleration in number of workers leaving for jobs abroad (45.0 per cent fall in January 2009)
- However, remittance growth has sustained (6.2 million people working abroad at present)

Figure 4: Flow of Remittances in 2007 and 2008



Overseas Employment in 2007 and 2008





□ **Foreign Investment: Net Outflow of Portfolio Investment**

- **FDI inflow to Bangladesh has been traditionally very low**
- **No visible negative impact on FDI flow**
- **Adverse impact on portfolio investment – net outflow. However, exposure of stock market to PFI is low, at 2.5 per cent of market capitalisation – so no visible impact on stock market**

TABLE: FDI IN BANGLADESH

(million US\$)

	FY2006-07R	FY2007-08P	FY2007-08 July-Nov.	FY2008-09P July-Nov.
Foreign Investment				
Foreign direct investment	793	650	238	480
Portfolio investment (Net)	106	48	45	-34

Source: CPD-IRBD Database

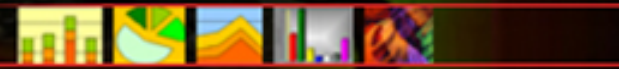


□ ODA: No Visible Adverse Impact

- Total ODA disbursed in FY2007-08 was US\$ 1956.7 mln
- Highest ever commitment by World Bank for FY2008-09 (US\$ 1.34 bln)
- However, actual disbursement will depend on Bangladesh's own utilisation capacity

TABLE: FLOW OF AID IN ANNUAL DEVELOPMENT PROGRAMME (ADP)

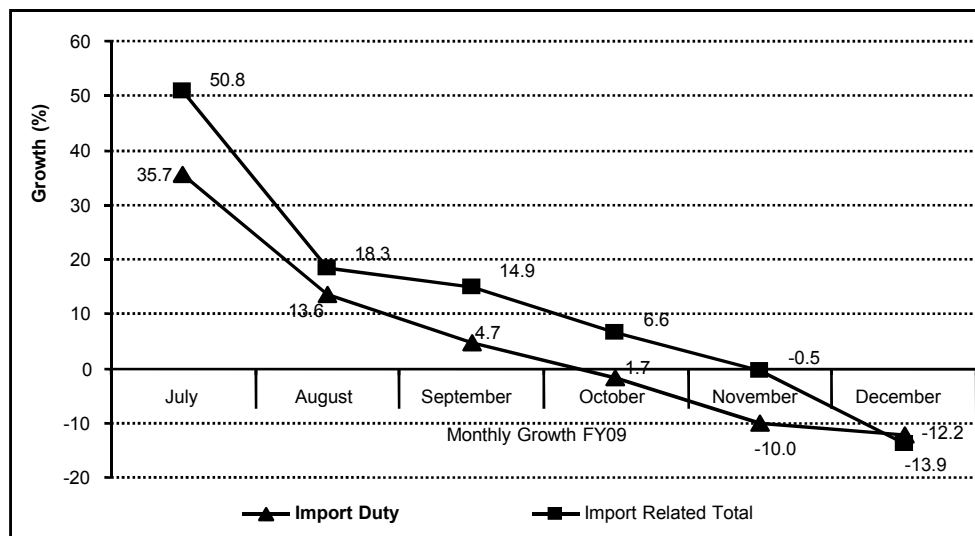
ADP	ADP of FY2007-08 (July-December)	ADP of FY2008-09 (July-December)
Total Aid disbursed for ADP (mln US\$)	315.7	391.9
Share of Aid in ADP Utilisation (%)	39.6	44.2



□ **Macroeconomic Management and Domestic Resource Mobilisation: Falling Commodity Prices; But Low Resource Mobilisation from Import Duties**

- **Falling commodity prices have helped Bangladesh – inflation rate has come down.**
- **Easing of subsidy expenditure on food, fuel, fertiliser providing cushion to the budget**
- **However, the import-duty dependent domestic resource mobilisation has suffered (low growth of import duty and VAT at import stage).**

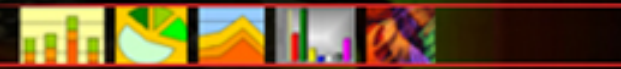
FIGURE : GROWTH IN IMPORT AND IMPORT RELATED DUTY EARNINGS (2008 OVER 2007)



Source: CPD-IRBD Database



- ❑ ***Adverse impact of stimulus packages offered by competing countries***
 - **Exchange rate devaluation by competitors**
 - **Stimulus packages in support of export sector by competing countries (credit, duty drawback, subsidy – by China, India)**
 - **Implications for Bangladesh's export-oriented industries (backward linkage spinning sector)**
 - **Weakening of competitive strength in global market**



III. Various Projections as Regards Bangladesh GDP Growth in 2009

- Projections tend to indicate *no to moderately negative* impact on performance of the Bangladesh economy in 2008-9. If projected growth rates are achieved, Bangladesh's growth rate in FY 2008-09 will approximate that of India, and be only somewhat lower than that of China!

TABLE: GDP GROWTH PROJECTIONS FOR FY2008-09 (BANGLADESH)

Organisation	Projected GDP Growth (per cent)	
Bangladesh Bank (Monetary Policy Statement, H2)	6.5 (high case 6.6 per cent; low case 6.3 per cent)	
IMF ¹	5.6	
World Bank ²	Scenario 1	Scenario 2
	5.4	4.8
Country Report, EIU ³	5.5	
ADB ⁴	6.5	

Source:¹World Economic Outlook, IMF published in October 2008 (year ending December 31);²Media Briefing (Likely Implications of the Ongoing Global Financial Crisis for Bangladesh) by the World Bank November 26, 2008; ³Economist Intelligence Unit (EIU); ⁴Asian Development Outlook, September 2008

- However, that is not to say that all sectors of the economy have been immune from the adverse impact of the current crisis.



IV. GoB Initiatives

- **The GoB has constituted two Committees to monitor the consequences of global recession and suggest policy measures**
- **Bangladesh Bank (BB) has taken steps to safeguard its own reserves and reserves of commercial banks**
- **Cautious Monetary Policy stance by BB in view of financial crisis-close monitoring of capital markets and banks**
- **However, no stimulus package or support programmes; although exporters and backward linkage industries (spinning) are calling for speedy action (devaluation, credit subsidy, moratorium on bank payments, cash compensation schemes).**



V. Likely Impact on Growth, Equity, Employment, Social Safety Net

- **Growth projections remain modestly high**
- **However, if growth of export-oriented sectors decelerates further, jobs may be lost – already some negative affect in primary goods and backward linkage sector**
- **Lower number of migrant workers means lost opportunities**
- **Lower resource mobilisation could undermine creation of jobs through revision of ADP downward**
- **Impact on Social Safety Net programmes will need to be monitored**
- **Some commercial banks are facing problems in view of fall of commodity prices and honouring of L/C payments by importers**
- **Slow movement apprehended in multilateral (WTO) and bilateral (NPDA) initiatives for LDCs**



*Thank You
for
Your Attention*