



World Financial Crisis and Global Business Challenges

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1. Introduction- the crisis:

1.1. I am happy to be invited to make a keynote speech in the opening session of this seminar on challenges facing businesses in the post-global financial crisis world. The global economy is recovering, supported by government bailouts and stimulus on a truly massive scale, but the effects of the crisis on businesses and other economic activities around the globe will quite probably linger for quite some time to come. While governments and supranational multilateral agencies need to take lessons in bolstering resilience and preventive defenses against future episodes of such crisis; the business community also faces the challenge of learning the right lessons in charting their future path carefully avoiding the extremes of illiquidity and insolvency distresses in possible future financial instability on a global scale.

1.2. In looking for lessons from the crisis we may begin with a brief glance at its genesis. The makings of the crisis were in the mounting global imbalances from about two decades of US external current account deficits; dollar's position as the dominant global reserve currency permitting indefinitely long spells of lax macroeconomic policies in the US. The export driven Asian growth hubs kept financing the US deficits avidly, piling up mountains of dollar denominated US debt as reserve assets. The two sides occasionally exchanged blames for the global imbalance, citing excessive profligacy of the US and excessive frugality of Asia, with little said or done about putting in place safeguards in the global monetary order against buildup of large imbalances.

1.3. The surfeit of global liquidity arising from debt fuelled spending did help growth in real global output, but this contribution to real growth was outpaced by faster growth in financial claims; with credit bubbles created by glut of cheap liquidity leading to price bubbles in asset and commodity markets. The frenetic activities of sub-prime consumer and mortgage lending, reckless corporate leveraging for acquisitions and buyouts, speculative trading in securities and opaque derivatives backed by poor quality assets, futures trading in commodities and financial assets in the markets of mature advanced economies that rendered the entire global financial system fragile to the breaking point are already well documented and need no

elaboration here. As the credit and price bubbles collapsed in advanced markets precipitating chains of corporate and household insolvencies on massive scale, the distresses spread fast to the reach the shores of our region; in lost export orders, failed businesses and lost jobs, plummeting tourist arrivals, return of emigrant workers retrenched in host markets abroad.

2. The responses:

2.1. The global community has been quick in mobilizing coordinated near term responses to the fallouts from the global crisis, organizing massive rescue packages for bailing out failing institutions and markets, and massive stimulus packages to uphold economic activities and domestic demand in individual economies. The robust coordinated near term responses appear to have already averted a feared prolonged global economic downturn; although there are still lingering concerns about the robustness of recovery of some of the troubled large financial institutions, and business activities in general are still well short of fully regaining their pre-crisis growth momentum.

The crisis did not impact Bangladesh economy severely because of its limited, regulated openness to short term external capital flows. Despite some demand weakening in markets abroad, exports held on to double digit growth rate in FY 09, with real GDP growth slowing modestly to 5.9 percent against 6.2 percent of FY 08. Remittance inflows from migrant Bangladeshi workers continued on uptrend. Uncertainties associated with the global slowdown weakened new investment activities however, with decline in capital goods imports. Low outflows for imports from the growing export receipts and workers' remittance inflows kept local financial markets awash with liquidity. Bangladesh government made ample allocations in the FY 09 and FY 10 national budgets to uphold domestic demand by expanding the social safety net for the weak and vulnerable population segments, and to provide temporary support to economic sectors hurt in the global crisis. Exports facing demand decline and/or price decline in markets abroad were extended cash incentives at different rates out of allocations from the national budget (a new incentive is under consideration for apparels exports to new markets, for five years, starting at five percent of export value and diminishing by one percent each year). Bangladesh Bank (BB) on its part has maintained easy monetary conditions to facilitate investment activities, allowed banks to reschedule nonperforming export loans temporarily on more lenient terms, widened its foreign exchange lending window (the Export Development Fund) to banks for financing input imports of exporters, and has also launched elaborate refinance support networks for promoting bank lending to under-served sectors of productive economic activities including agriculture, SMEs, sustainability /renewable energy related projects. *Broad-based, inclusive, socially and environmentally responsible economic growth is viewed by Bangladesh Bank as the way forward in strengthening domestic demand*

with rapid reduction of poverty. Following some sluggishness in Q4 FY 09 and Q1 FY 10, available data indicate that from Q2 FY10 output and investment activities in Bangladesh are regaining momentum. Subject to global recovery not losing pace, the 5.9 percent FY 09 real GDP growth is expected to be exceeded or at least matched in FY 10.

2.2. In gradually phasing out emergency stimulus packages adopted at the height of the crisis, in this region these will need to be substituted by longer term policy initiatives towards sustained, continuing growth in domestic demand and intraregional trade. Global consultations are ongoing on the longer term issues including the needed reforms in financial sector regulatory and compensation regimes, accounting standards, leveraging norms and tax treatments of debt finance and equity; serious dialogue is however still to begin about putting in place safeguards in the global monetary order against buildup of large imbalances that were the root of the crisis.

3. Challenges for businesses on the path ahead

3.1. Promoting intraregional trade and investment: The export led growth strategies of our region are often blamed by the West, for the regional economies consuming too little of what their growth hubs produce. Although poverty and low purchasing power of broad masses of the population is the main factor holding down demand, there are also numerous large enough customer bases of more affluent consumers in our region that businesses can better cater to; and the quest for environment friendly options of energy generation and use is opening up vast new markets in the region for the appropriate new capital goods and durables for industries and households. With alertness of businesses in taking advantage of these opportunities, the resulting increase in intraregional trade will compensate for the lingering demand weaknesses in mature markets in the West.

Instead of being proactive in channeling the mounting regional reserves in physical infrastructure and real sector investments in the region, financial institutions and markets in our region have largely been passively passing on regional surpluses to markets in the West, in the run up to the crisis fuelling further the bubbles from speculative financial wizardries. Banks and financial institutions in our region now face the challenge of swiftly developing modalities of channeling the region's savings into infrastructure and other real sector investments in the region, with appropriate product and market structures in debt and equity taking lessons from these activities in the Western markets.

Just as there are important lessons from the West to embrace and emulate, there are also some important lessons in what to avoid and keep distance from.

In the recent crisis, excessive dependence on debt deepened distresses for businesses in the Western markets, dragging many of these into insolvency. Avoidance of excessive leveraging with greater reliance on equity may well be the most important lesson to learn from the crisis. Businesses will be well advised to maintain adequate equity bases and to adopt judicious self restraint in borrowing, in preparedness for new international norms on leveraging expected from global standard setters now at work. Even within safe enough limits of borrowing, particular caution is warranted against excessive dependence on short term external borrowing, because these become very hard to refinance in crisis situations.

Mitigation of liquidity risks is another must-learn for the recent global crisis episode; large globally active financial institutions like the Lehman Brothers fell prey to the crisis even though maintaining adequate capital cushion. Both financial and non financial businesses will need to be wary of actual or potential serious mismatches between maturity structures of their receivables and payables.

While the roots of the global financial crisis were in the global imbalances, it was actually precipitated by serious dereliction in risk management and aberrant corporate governance in the troubled financial institutions seeking short term gains for small coteries in senior management and board at the expense of longer term institutional viability and the interests of general equity holders. As defenses against future crisis episodes, both financial and non financial businesses must adopt and maintain high standards of corporate governance and risk management, with clear accountabilities and transparency in qualitative and quantitative disclosures for effective market discipline.

3.2. Role of spontaneity of businesses in adopting self regulatory practices: Global platforms of regulatory authorities and professional bodies are at work reviewing and revising regulatory structures and best practice standards in various areas including corporate governance, socially and environmentally responsible practices towards bolstering defenses against future crisis episodes. Open mindedness and spontaneous proactivity of businesses in seeking and adopting better corporate governance and safer business practices towards safeguarding longer term interests of all stakeholders can hugely facilitate progress. I hope the initiative of this international conference will be a stepping stone in that direction, creating and strengthening networks of communication and consultation for local businesses and there counterparts abroad.
