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Strengthening the Response to the Global Financial Crisis in Asia- Pacific: The Role of Monetary, Fiscal and External Debt Policies¹

Keynote Address

Mr. Chairman, the Honorable Minister for Finance, the Director and other learned ESCAP staff members and resource persons, the distinguished participants:

I am very happy to be invited to give a keynote address in the opening session of this regional workshop for sharing experiences and ideas on how we have responded to the global financial crisis and how countries in our region can bolster defenses and responses against such crisis in future, individually and collectively. I am grateful to the ESCAP for inviting Bangladesh Bank to host this important workshop for finance ministry and central bank officials from developing economies in the Asia Pacific region. I am also grateful to our honorable Minister for Finance for gracing this opening session with his august presence.

As we all know, the global financial crisis originated far away from us geographically; banks in the Asia Pacific region did not indulge in sub-prime lending or the other lax, dubious practices that triggered the crisis in financial institutions and markets in North America and Europe. Fallouts of the crisis were quick to reach our shores as well pretty fast mostly through the trade and financial channels in the present day integrated global economy.

In the trade channel, demand weakness in North America and Europe caused by chains of insolvencies and wide-scale job losses sharply weakened exports from the manufacturing hubs in our region. Intraregional exports declined nearly as fast, these mainly being primary and intermediate inputs consigned to the regional manufacturing hubs for onward export of final output to the North American and European markets. Tourist destinations in our region faced declining tourist arrival; migrant workers from the region faced pay cuts and job losses in host markets in recession, affecting remittance inflows to their dependents at home.

In the financial channel, our region faced substantial net withdrawal of financial investments from the North American and European economies in crisis, availability of fresh inflows also narrowed sharply. Investments of the huge foreign exchange reserves and sovereign wealth funds of our region in markets in North America and Europe incurred substantial losses in bond defaults, collapsed values of equity and complex derivative assets, and exchange rate risks. These financial channel impacts triggered stock price slump and liquidity crunch in markets in our region, particularly in economies facing heavy withdrawals of foreign financial investments.

These adversities roughly mirror those in the North American and European economies where the global crisis originated, but the distresses by way of corporate and

¹ The keynote speech was delivered by Dr. Atiur Rahman, Governor of Bangladesh Bank in the inaugural session of ESCAP-Bangladesh Bank Workshop on the captioned subject during 27-30 July 2009 in Dhaka

personal insolvencies in our region were less severe, partly because of timely and appropriate intervention by fiscal and monetary authorities, but perhaps mainly because of much lower levels of indebtedness and higher reliance on equity and savings ingrained in the general cultural attitude of our region. *We would be well advised to preserve this positive cultural trait while charting the future paths for our real and financial economies.*

To sustain economic activities and growth under the shadow of the global financial crisis and recession, countries in our region have acted counter-cyclically to prop up domestic demand, with increased public expenditure towards subsistence safety nets and alternative employment for vulnerable population segments including those losing jobs in the affected export sectors. This has meant *increased public debt*, raising tax rates not being much of an option in economies facing slowdown. Increased government borrowing at non concessional market rates increase concern about *debt sustainability*; demanding well designed debt management strategies for the existing and likely future growth path of domestic and external public debt.

To maintain adequate liquidity and credit flow in the markets, central banks in our region have lowered policy interest rates; and have relaxed conditions for borrowing by banks from the central bank, widening the range of financial assets admissible as collaterals. Some central banks like Bangladesh Bank have also provided special refinance windows for banks against their lending in priority economic sectors (e.g. agriculture, SMEs); and all central banks in the region are shoring up regulatory oversight on liquidity, solvency and capital adequacy of banks and financial institutions to limit or prevent contagion from the current or future episodes of financial turmoil, regional or global. The stimulatory measures adopted by governments and central banks to support domestic demand and economic activity will need to be phased off carefully as the global economic recovery takes hold, to avoid buildup of inflationary pressures and macroeconomic imbalance in lax monetary conditions.

Different countries in the Asia Pacific region have been impacted by the global financial crisis by varying degrees, depending on the structures and extents of external openness of their economies. Bangladesh has been impacted relatively lightly because of her limited, regulated openness, particularly to short term capital flows. The financial sector in Bangladesh remains free of the toxic assets and contagion from the external turmoil, and liquidity conditions remain normal. The competitiveness of our apparels exports, particularly at the lower end, have retained overall export growth rate at double digit levels; workers' remittance inflows have grown strongly; and the economy has registered 5.9 percent real GDP growth in FY 09 with single digit inflation. Nevertheless, to cope effectively with likely prolonging of the global downturn, the government and Bangladesh Bank have adopted fiscal and monetary measures underpinning domestic demand and maintaining easy credit conditions, like other countries in the region.

I see several areas where regional and global cooperation can strengthen and supplement the individual country responses to the current and possible future global financial crises. *Firstly, our intraregional exports need to grow faster, not just in primary or intermediate inputs but also in finished consumer and capital goods, to reduce dependence on North American and European markets where debt driven demand may be slower to recover to previous levels as corporates and households continue deleveraging. Secondly,*

the governments and central banks in the Asia Pacific region may foster accelerated development of regional bond markets to channel regional savings into real sector investments within the region rather than investing the savings in opaque, complex financial assets of dubious quality in the western financial markets. The swap arrangements between regional central banks for mutual support at times of pressure have lots of room for extension. *Thirdly*, regional dialogues may urge the more affluent emerging economies to broaden windows of concessional lending to governments of lower income economies, to help protect their debt sustainability. Regional intergovernmental dialogues need to discuss positive and negative externalities of domestic policies of the larger economies, to minimize the negative spillovers and to strengthen the benign ones. *Lastly*, in dialogues in UN, IMF, WB and other global forums, countries in the Asia Pacific region need to present a unified front favoring a new global financial architecture that ensures global financial and economic stability by tethering global financial growth in some suitable mechanism to the trend of growth in real global output; with effective grasp on global liquidity growth to inhibit speculative bubbles and roller coaster swings in markets.

I believe the workshop sessions guided by the learned staff members and resource persons from ESCAP secretariat will bring up useful ideas and suggestions on the issues mentioned here; and I would like to conclude with thanks for your patient attention, wishing the best success for this joint initiative of the ESCAP and Bangladesh Bank.

Once again, I want to thank the honorable Finance Minister for joining us in this opening session of the international workshop on an issue which is also very close to his heart.

Thank you all.