

# Global Financial Meltdown and International Trade Finance

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Global financial crisis started in July 2007, deepened with a collapse in global trade and finance at the end of 2008. Bangladesh weathered the crisis so far, because of smaller exposure to international trade, credible monetary policy; timely announcement of stimulus package; banking and foreign exchange policy changes in favour of trade finance and so on.

However, fragile demand situation in USA and European countries, particularly for RMG, frozen food, leather etc. has been pushing a downward pressure (a somewhat belated pass through) on our export<sup>1</sup> during July-September 09 (Q1 FY10); expected to rebound by the continuing gains in global demand recovery.

A recent survey on trade finance, conducted by the Department of Off-site Supervision (DOS) of Bangladesh Bank finds many instances, where export orders (export L/Cs) started to increase gradually. In fact, cost of production is lower in Bangladesh than in China and India, which has resulted in increased orders from the West.

Import payment remained low because of overall lower cost of imports and reduced import of food grain (since good domestic harvest) and capital machinery (due to excess capacity, no expansion or new investment). However, increased L/C opening in recent months signals the pace of output activities in near future.

Unlike recession ridden advanced countries, finance has not dried up here rather we have excess liquidity in the banking sector, which has started to decline gradually<sup>2</sup>; appears appropriate with the highest foreign exchange reserve of USD 10 billion and tolerable inflation rate of 4.69 percent (point to point, as of August 09), and also necessary in keeping the economy on course of the targeted six percent real GDP growth in FY 10.

In the backdrop of global economic downturn, Bangladesh Bank continues to keep credit conditions easy; high emphasis on channelling the liquidity into productive and

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<sup>1</sup> a negative total export growth of 11.66 percent in Q1FY10 in September09 compared to the same quarter of FY09

<sup>2</sup> Excess liquidity is Tk. 33,995 crore in September 09, which was highest Tk. 35,051 crore in August 09

supply augmenting investments including mandatory agricultural<sup>3</sup> and SME activities; expected to lead to more broad-based and inclusive growth processes; while discouraging excessive consumer credit and similar demand-side lending to avoid build up of inflationary pressures. BB is giving approval for SME and rural (agricultural) bank branches on priority basis.

Bangladesh Bank has opened refinance windows for share croppers (collateral free loan), SME, Solar Energy, Bio-gas and Effluent Treatment Plant (ETP) under its (BB) newly introduced '**Green Banking**' program with a view to ensure environment friendly and diversified investment portfolio in the banking sector.

A wide range of measures has already been adopted to keep the economy safe from the contagion effects of global meltdown, international trade – in particular:

Export subsidy/cash incentive has been enhanced for affected industries; Frozen food, Jute and leather products (shipped April-June 09). Besides, plastic and finished leather products are included in addition to the existing 13 categories of export subsidies.

70 percent of the export subsidy/cash incentive may be released before audit formalities, and remaining 30 percent shall be payable after completion of audit.

Limit of advance payment from Exporters' Retention Quota (ERQ) has been enhanced to USD 10,000 from USD 5,000 for emergency import payment.

Relaxation of loan rescheduling conditions, waiving down payment requirements (up to Sept 30, 2009) for recession-hit export oriented industries (depending on banker-customer relationship), especially frozen food, leather and leather products, jute and jute goods, textiles (including spinning) and RMG.

Regulations for undertaking forward transaction of foreign exchange have been liberalized to reduce the foreign exchange risk in international trade.

The limit for borrowing (single borrower) from Export Development Fund (EDF) has been increased to USD 2.0 million from USD 1.5 million for importing raw materials (Back to Back L/C) against export L/C.

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<sup>3</sup> A target of agricultural credit for Tk. 11,500 crore by the banking sector for FY10

Interest rate cut in lending, prescribing ceiling of maximum 13 percent in financing trade, agriculture, large and medium scale industries, term and working capital and housing.

Fiscal stimulus for Tk. 4.50 billion to support recession-hit export sectors; Jute, Leather and Frozen food.

Rationalization of service charges of banks and financial institutions.

Introduction of 'E-commerce' operation in the banking sector; accelerated banking and business transactions, electronic fund transfer etc.

Mobile Phone banking, on-line CIB report and Automated Cheque Processing System will help bringing dynamism in trade and business.

Steps have been taken to obtain Sovereign Credit Rating for Bangladesh to facilitate borrowing abroad by private sector industrial enterprises, and confirmation of credit lines on more favourable terms. Sovereign Rating is expected to reduce cost of trade finance with low-cost fund/loans (since low country risk premiums charged) and least credit confirmation lines. Indeed, the high reserve position (over USD 10 billion) will be a vital parameter to get a better sovereign rating.

### **Concluding Remarks**

Global economic condition is expected to improve in 2010; still uncertainty exists and a further rebound of adverse effects remains possible. Our main challenge is to stall the declining trend of export; diversify products (shipbuilding, IT sector, for example) in line with the growing demand of the advanced countries; looking for new markets in fast growing economies in Europe, Asia and South America.