Seminar on **Global Financial Recession**
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"Global Financial Recession: Causes, Consequences and Responses"

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Chief Guest

Background:

The world economy has changed spectacularly since September 2008. A year has passed since the collapse of Lehman Brothers—a watershed event for the world economy. The recession in many of the major industrial economies has already set several records. In the case of the US, this recession is the longest since the Great Depression. The financial sector in the US, UK, and some eurozone countries remains fragile as many banks retain loan portfolios tainted with nonperforming assets—including toxic residential and commercial mortgage-backed securities.

Shortcomings in financial system regulation and supervision regimes are now under intense scrutiny everywhere. Authorities across the world responded quickly and decisively to the threat of a potential replay of the Great Depression including steps to shore up the stumbling international financial system and restore confidence, opening wide the taps on money supply, boosting public spending plans and so on. Central banks and governments around the world have taken timely policy actions to prevent a complete collapse of the financial system and to provide stimulus to demand.

Impact on Developing Countries:

Developing countries-at first sheltered from the worst elements of the turmoil-are now much more vulnerable, with dwindling capital flows, huge withdrawals of capital leading to losses in equity markets, and skyrocketing interest rates. The crisis presents developing Asia with its most difficult economic challenges in recent times. Overall growth in developing Asia tumbled from its impressive peak of 9.5% in 2007 to 6.3% in 2008 and is further expected to decline in 2009 (ADB forecasts at 3.4% in 2009). However, Bangladesh, Brazil, China and India have achieved positive growth in the face of the meltdown.

The longer or deeper the crisis becomes, the greater the risks to the region's financial sector. A delayed or disorderly resolution of the credit crisis in the developed countries could undermine financial stability in developing Asia by further shaking investor confidence in financial systems and instruments. Already the region is experiencing:

- Radical cut back in external financing, a key driver of economic expansion;
- Decline or slower growth in remittances which are damaging economies dependent on their overseas workers;
- Slowing economic growth destroying jobs and driving down wages, consumption, and welfare of the developing countries. The International Labour Organization (ILO) has warned that this recession may add more than 30 million people to the rolls of the unemployed by the end of 2009.
- Women workers are likely to suffer the most as the crisis decimates their jobs and makes them more vulnerable.

Impact on Bangladesh:

Financial markets and institutions in Bangladesh remained free of the toxic assets and contagion afflicting the global financial markets over the past couple of years, because of the limited, regulated exposure to the global economy.

- Economic growth in Bangladesh has thus far been only mildly impacted by the ongoing global slowdown, attaining 5.9 percent real GDP growth in FY 09 following the 6.2 percent growth in FY 08. This year growth rate is expected cross 6 percent.

- FY O9 growth in inflows of workers' remittances (22.4 percent) and export receipts (10.1 percent) were well in excess of the tepid 4.6 percent growth in import payments. Foreign exchange reserve is more than USD 9.5 billion and likely to touch USD 10 billion in the year end.

- Apart from a net FDI outflow of USD 159 million in FY 09 there has been no additional outflow pressure attributable to the global crisis.

BB's response to Global Financial Crisis:

- Regulatory and supervisory capacities in Bangladesh Bank (BB) are being continually upgraded. Current supervision routines include supervisory CAMELS ratings of banks based on a set of performance indicators, early warning to banks with deteriorating trends in performance indicators, intensive oversight on problem banks with CAMELS rating below a specified minimum.

- Recently, steps have been initiated to build up an adequate pool of stress testing capabilities, towards introduction of stress testing routines for identifying institutional and systemic vulnerabilities in probable stress events.

- BB has engaged banks in major programs of upgrading their IT platforms with ample processing powers and online connectivity; to enable efficient data management, processing and analysis in banks for own risk management purposes and for reporting to BB.

- Bangladesh Bank has increased the target for agriculture credit by 22.7 percent this year (FY2009-10) compared to that of the last year. BB remains active in promoting and supporting deeper engagement of the financial sector in the under-served priority areas like agriculture, SMEs, low cost housing, renewable energy and environmental sustainability (solar/ biogas/ effluent treatment plants); in comprehensive programs with access to refinance support in case of need.

- A Taka 2.0 billion refinance line has been introduced in FY 10 against bank loans for environment friendly investments in solar energy, biogas plants and effluent treatment plants. In FY 10 BB has also introduced a first ever Taka 5.00 billion refinancing line against loans to landless sharecroppers in a group-based special program designed by a major MFI, BRAC. Further, BB has been urging banks and financial institutions to embrace specific commitment to financial inclusion as a Corporate Social Responsibility (CSR) obligation.

- The banking sector is currently witnessing a liquidity glut of about Tk. 38,000 crore, up from Tk. 35,000 crore in June 2009. To mop up excess liquidity, BB has reduced repo and reverse repo rate to 4.5% and 2.5% from 8.5% and 6.5% respectively.

In conclusion, the crisis provides an opportunity to undertake difficult, long-term policy reforms that often may not have been feasible during normal times. The crisis has an important human dimension. Undertaking actions to mitigate the social impact of the crisis and protect investments in human capital is critically important. These measures can help obtain broader support for reforms and can also ensure early recovery and long-term growth.

Finally, regional cooperation, sharing of information and lessons, and coordinated surveillance are key elements in an effective response to the crisis. No single country can manage the crisis on its own. Global dialogues for a new global financial architecture need also to start in right earnest; with coordinated voice of smaller economies for safeguards against buildup of global imbalances from negative spillovers of lax unbalanced policies of dominant economies.