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Navigating the turbulent waters in 2009

PROFESSOR MUSTAFIZUR RAHMAN

BECAUSE of the ongoing global financial crisis, by all counts the year 2009 is going to be a bumpy ride for all countries, high, middle and low income, large and small, North and South. The related discourse with regard to the crisis has now shifted from 'where did it all originate' and 'who were the main culprits' to 'what are the possible consequences' and 'how the adverse impacts should be best addressed'. A common refrain, oft-repeated and widely circulated, is that things will get worse before they start to get better. Experts tend to agree that the recession will continue and deepen in 2009, and possibly stabilise in early 2010, to be followed by recovery which will perhaps kick start only towards the end of 2010. Across the globe, from US to Germany, and from China and India to Singapore and Malaysia, countries are preparing to negotiate and navigate the turbulent waters in 2009.

To address the attendant challenges, developed and emerging economies have by now set in motion various initiatives in the form of bailout measures and stimulus packages. The objectives of such initiatives appear to be primarily five-fold: (a) to stimulate domestic demand, (b) to create new jobs, (c) to stabilise financial markets,

(d) to support domestic industries and (e) to safeguard export interests. In view of the above, it is only pertinent to ask how the recession and the consequent adverse affects, as also the wide-ranging response-measures taken by partner countries, are going to impact on the overall macroeconomic performance, price levels, domestic industries, exports of goods and services as also the balance of payment position of low income economies such as Bangladesh. How the current crisis will impact on the above mentioned performance indicators, during the current fiscal year and over the next, and which policies Bangladesh should pursue in this regard, are important questions that merit serious and urgent consideration by the policymakers.

So far so good...

Bangladesh's increasing integration with the global economy through trade in goods and services is a measure of the potential impact that the ongoing crisis could have on the economy. However, thankfully, till now Bangladesh has been spared the worst consequences of the ongoing crisis. When the early signals started to blip on the radar screen in 2008, Bangladesh Bank took speedy and energetic steps to safeguard the country's reserves. Since foreign portfolio investment accounted for less than three per cent of market capitalisation

in Bangladesh, her capital market did not witness the sort of volatility that was experienced by stock markets world over including those of the neighbouring India. With hindsight, it also proved to be a blessing in disguise that the SEC and the Bangladesh Bank did not succumb to pressure by various quarters to allow trading in exotic but toxic derivatives in the country's share market. That Bangladesh did not go for capital market convertibility of her currency also proved to be a saving grace.

During the first six months of FY 2008-09 (July-December, 2008) export from Bangladesh posted a growth of 19.4 per cent over the corresponding period of FY2007-08; remittance flow during the same period registered a growth of about 31 per cent. The fall in the prices of food, fertiliser and fuel eased the burden of import payments, growth of which is expected to decelerate further in near future. This is likely to lead to some improvement in the balance of payments situation over the coming months. Some deceleration in inflation, particularly food inflation, is already visible. Bangladesh Bank's projections about GDP growth for FY2008-09, with its low case of 6.3 per cent and high case of 6.6 per cent, appears to be realistic and attainable.

A close look at the various recent trends concerning some key macro-economic and sectoral indicators

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