

**High-level Regional Policy Dialogue on
"Asia-Pacific economies after the global financial crisis: Lessons learnt,
challenges for building resilience, and issues for global reform"**

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Country Experiences 4: LDCs and SIDS

Presentation

**Bangladesh's Experience during the Crisis: Lessons Learnt and
Challenges**

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Outline

- Introduction
- Global Crisis: Impact and Responses
- Bangladesh's experience: Lessons and Challenges
- Conclusions

Introduction

- Despite considerable resilience, Bangladesh economy slowed down due to crisis
- Major concern: social impact especially on poverty and other outcomes
- Stimulus package: limited fiscal and policy space
- Focus: social dimensions and broad elements of a possible post-crisis agenda

Global Crisis: Impact and Responses

- **Flow channels:** (i) Financial channels; (ii) Trade and remittance channels
- **Financial channels:** Limited linkages; past reforms; underdeveloped market; foreign capital inflow including aid unaffected; low FDI (mostly longer term nature) and portfolio investment
- Nonconvertible capital account with few private transactions
- Insulated financial sector

Global crisis (contd.)

- **Trade and remittance channels:** important avenues of transmission
- Composition and direction of exports: high dominance of RMGs (nearly 80%); high reliance (87 %) on US, EU and developed country markets
- Global price declines: both positive and negative impacts
- Migration and remittances: new migration drastically reduced; remittances less affected in the short term

Global crisis (contd.)

- **Ripple effects** transmitted to real economy
- GDP growth declined, un/under employment rose
- Estimated loss of new employment: 1 million during 2009-2011 mostly in industry and services sectors especially in export related activities
- Workers' lost more in terms of lower wages and reduced overtime income
- Slow remittance growth: income loss of rural poor households and multiplier effects on consumption, education, nutrition, and investment

Global crisis (contd.)

- **Poverty and MDGs:** Rate of reduction slowed down
- **Policy response:** adjustments in monetary policy and expansionary fiscal policy stance; boost domestic demand and provide support to social indicators
- **Stimulus package:** fiscal and financial measures to support export oriented industries, strengthen poverty reduction and safety nets programs
- Impacts mostly unknown; small size; low priority to employment protection; weak implementation
- Take longer term rather than reactive measures

Bangladesh's experience: Lessons and Challenges

- **Macroeconomic challenges:** strong macroeconomic fundamentals essential to shielding
- Current challenges: urgent concern is high inflation fueled mostly by food inflation; liquidity management challenges due to injections from high fiscal deficit and strong credit demand by both public and private sectors
- Greater fiscal/monetary coordination needed; changes in government's debt management strategy to improve balance between short and long term borrowing

Bangladesh's experience (contd.)

- **Strengthen financial sector resilience:** prudent intervention and careful regulation to avoid systemic distress
- Plug gaps in regulatory/supervisory infrastructures and strengthen regulatory regime
- **Create Framework for a Basic Social Floor:** measures to prevent deterioration in living conditions of poor; a basic social floor to act also as a countercyclical policy response to boost aggregate demand, maintain labor productivity, sustain human capital building and economic growth

Bangladesh's experience (contd.)

- Social Protection Floor (SPF) Initiative of the UN; Basic Social Security Floor (BSSF) of ILO
- In Bangladesh, proposed package having (i) guaranteed employment program with universal coverage of all poor households (employment for 3.3 million persons per day) and a built-in unemployment benefit; (ii) scheme for subsidizing job preservation through work sharing; (iii) scheme for introducing active labor market policies including retraining and redeployment; (iv) increase in public investment in infrastructure especially focusing on labor based approaches and linked with the proposed guaranteed employment program

Bangladesh's experience (contd.)

- Total cost at Tk. 187 billion per year at 2009-10 prices which is 2.6 percent of the country's GDP.
- If the proposed package is dovetailed into the existing programs, then incremental cost is 45 percent of the above amount.
- A feasible package for implementation both financially and otherwise

Bangladesh's experience (contd.)

- Options for enhancing fiscal and policy space for implementing the package with domestic resources:
(i) increase efficiency of utilization of existing resources; (ii) raise additional domestic resources; (iii) ensure more efficient utilization of remittances; and (iv) promote public private partnership especially in infrastructure and in active labor market policies.

Conclusions

- Strong macroeconomic fundamentals alone not adequate from the point of view of social dimensions of development.
- Greater attention needed to social dimensions for developing a post-crisis agenda
- A package of employment and labor market programs within the framework of a basic social floor may serve useful purposes for which it is not too difficult to create the necessary fiscal space even using the country's own resources