

National Policy Responses to the Financial and Economic Crisis: The Case of Bangladesh

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Till now, no concerted strategy has been adopted in Bangladesh in view of the ongoing global economic crisis. This owes partly to the fact that the (negative) impacts are yet to be visible in the economy. Performance of Bangladesh in such areas as export, remittance, share market, and aid has been along historical trends during the July-December 2008 period. However, some of the early disquieting developments are starting to emerge in some sectors (banking and finance, import duties). Government of Bangladesh has set up a technical committee and The Central Bank (Bangladesh Bank) has taken some precautionary measures through its monetary policy and has set up a Task Force to review and monitor the situation.

In the following sections, under some broad headings, a number of initiatives which concern the relevant areas, have been highlighted. However, as was pointed out earlier, many of these initiatives that were taken in the recent past were not directly related to the causes or consequences of the global financial crisis, and are in many instances, coincidental. Nevertheless, some of the very recent initiatives (encouraging higher remittance, banking sector practices, reserve management) appear to be inferred by concerns about possible impacts and consequences.

Fiscal/monetary policy packages to stimulate domestic demand, income and employment

Measures taken by the Government

- A high-powered technical committee has been formed in early November, 2008 to closely monitor the impact on the country's economy from the fallout of the current global financial crisis and take instant remedial measures. The Finance Secretary will head the 8- member committee. (Source: 3 November 2008, *The New Nation*)

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- Government undertook a seven-point strategy to ensure the well being of the Bangladeshi workers abroad and to explore new manpower export markets in the Scandinavian, European and East European countries like Norway, Sweden and Romania. (Source: 30 November, 2008, *Financial Express*)

Measures taken by the Central Bank (Bangladesh Bank)

- Bangladesh Bank (hereinafter BB) has set up a *Forex Investment Committee* headed by a deputy governor of the Bank. The high-profile committee monitors the situation on a daily basis, and, accordingly, manages the currency composition of forex reserves. (Source: 22 September, *The Daily Star*)
- BB has prudently withdrawn about 90 per cent of its total investment from international banks which were perceived to be at risk. Withdrawal of substantial amount of country's reserve from international banks located mainly in the European countries will have direct impact on central bank's earnings in the current fiscal (BB's total profit in FY2007-08 was US\$364.4 million)
- Commercial banks had about USD500 million worth of foreign exchange assets with various commercial institutions (and savings instruments) abroad (Nostro Account).¹ BB has advised them to be cautious about such investments and is keeping an eye on activities of commercial banks in this regard and advising them on a day to day basis.
- Being apprehensive of falling remittance at a time of slowing down of economies of developed countries and Middle-East (from where about 80 per cent of remittance come), BB has instructed banks to take measures to reduce the time and cost of transferring remittances. Four suggested measures are: cutting down time and costs of transferring remittances; bringing remittances through legal channels; creating opportunities for investment of remitted money; and welfare of expatriates. The BB directed the bank branches or exchange houses overseas to keep their organisations open on holidays to help expatriates remit funds. (Source: 16 December, 2008, *The Daily Star*)
- BB continues its intervention in the inter-bank foreign exchange market by selling and buying US dollar directly and providing such short term facilities to the banks aiming to keep the market stable. BB sold \$14 million at the market rate directly to

¹ Rahman, M. (2008): State of the Bangladesh Economy in FY2007-08 and Some Early Signals Regarding FY2008-09 (First Reading); pp. 58. Accessible at: <http://www.cpd.org.bd/images/pdf1.jpg>

one SCB and a foreign commercial bank the same day to meet the growing demand for the greenback. (Source: 16 December, 2008, *Financial Express*)

- BB has allowed settlement of import payments in Euro alongside the US dollar among the Asian Clearing Union (ACU) member countries. (Source: 24 December, 2008, *Financial Express*)
- In view of the losses incurred by importers as a result of the fall in global commodity prices (e.g. wheat, edible oil and pulses) and the difficulties faced by importers in honouring L/Cs, BB has relaxed the conditions for opening fresh letters of credit (L/Cs) from the existing 90 days' time to 150 days. (Source: 17 November, 2008, *The New Age*)
- BB will continue its foreign currency support to the commercial banks mainly for making payments of fuel oils, fertiliser and food grains import. (Source: 16 December 2008, *Financial Express*)

Bangladesh Bank's 'Monetary Policy Statement for July-December, 2008'

Bangladesh Bank in its *Monetary Policy Statement* for July-December, 2008 has provided its policy stance envisaging possible impact of global economic meltdown on the domestic economy.²

Supporting productive sectors: Give priority to unhindered flow of private sector credit to productive sectors, with agriculture, SMEs, and the rural economy being the prime targets.

Private sector credit: Growth in private sector credit would be watched carefully and if the situation warrants, necessary policy adjustments would be introduced.

Soundness of banking sector and their liquidity position: BB will continue monitoring the liquidity situation in the banking system and adopt appropriate measures to overcome any temporary pressure on liquidity.

Exchange rate: Desired exchange rate stability would be maintained to keep the pressure of imported inflation under control. BB would routinely conduct 'surprise inspections' on banks and exchange companies relating to compliance with foreign exchange regulations as well as the anti money laundering act.

² For details, please visit: http://www.bangladesh-bank.org/mps/mps_current.pdf

Remittances: Measures would be taken to divert increasing amount of remittances toward investment in productive sectors to ease the potential demand pressure and expand the economy's productive capacity.

Import payments: For facilitating more efficient import of essential goods, BB has made available forward hedging mechanism to importers. In this context, BB would ensure that the facility is used only for true hedging.

Women entrepreneurs: BB would continue to encourage increased flow of credit to women entrepreneurs for investment in productive sectors.

Measures protecting the poor and the vulnerable

Social Safety Net Programmes: In order to provide support to the poor and vulnerable group, a number of social safety net programmes have been implemented in the country on a regular basis. This includes among others, public food distribution system (PFDS), rural employment and road maintenance programme, and 100 Days Employment Generation Scheme. The last two programmes have been introduced under the national budget for FY2008-09.

- ***Public Food Distribution System (PFDS)***: Under the PFDS, government provides in-kind support to poor people particularly vulnerable group, people affected by natural calamities and disaster. The government mainly distributes rice and wheat through priced and non-priced (targeted) channels. Monetised distribution relates to sale of rice and wheat through Open Market Sale (OMS), Fair Price Card (FPC) etc., while non-monetised (targeted) channels include Food for Works (FFW), Test Relief (TR), Gratuitous Relief (GR), Vulnerable Group Development (VGD), Vulnerable Group Feeding (VGF), Food for Education (FFE) and other relief channels. Total food grains distribution in FY2008-09 (01 July-20 November) through PFDS was 697.89 thousand metric tons.
- ***Rural Employment and Road Maintenance Programme***: Government has recently introduced the *Rural Employment and Road Maintenance Programme* for the ultra poor and destitute women of some of the crisis prone districts, namely *Panchagarh* and *Rangpur* districts. The programme is designed in such a way that everyone will have five years' guaranteed employment, and at the end of the programme each will get cash worth of Tk.70,000 (USD1,020). During the project period, 52,000

destitute women will be employed to work in the maintenance of 90,000 kms of road network in the northern part of the country.

- ***'100 Days Employment Generation Scheme'***: Under the national budget for FY2008-09 government has introduced a new programme titled '*100 Days Employment Generation Scheme*' with an allocation of Tk.2,000 crore (USD291.5 million) to generate employment for 20 crore man-days (2.92 million) to combat *Monga* (seasonal chronic food shortage among the absolute poor in selected areas) in greater *Rangpur* and *Dinajpur* districts. The 60-day first phase of the special programme had started on September 15, 2008 and ended successfully on November 30, 2008. The first phase continued during the peak period of the seasonal *monga* for which the government had allocated 60 percent of the money amounting Taka 181.2 crore (USD26.4 million). A total of 30,20,400 beneficiaries including women labourers will get Tk.100 (USD1.46) as wage a day in two phases of the 100-day programme.

Supporting productive and sustainable enterprises to safeguard employment

- ***Support programme for low income working mothers***: A new programme has been introduced under the national budget for FY2008-09 with a monetary support of Tk.20 crore (USD2.92 million) to provide support to low-income workers particularly for working mothers of the garment factories.
- ***Second Primary Education Development Programme (PEDP-II)***: Under the national budget for FY2008-09, government has continued Second Primary Education Development Programme (PEDP-II); as part of which 5.5 million primary students are receiving stipends on a annual basis. Total outlay for this programme is Tk.1,800 crore (USD262.4 million).
- ***Financing SMEs***: Under the national budget for FY2008-09, government has allocated an endowment fund of Tk.100 crore (USD14.6 million) for the *SME Foundation* to provide credit to SMEs through private commercial banks. The *SME Refinancing Scheme* of BB has been allocated Tk.500 crore (USD72.9 million) in FY2008-09 from Tk.300 crore (USD43.7 million) in FY2007-08.

Measures safeguarding workers' rights

- Minimum wage for RMG workers was enforced in October 2006. A Minimum Wage Commission has been set up in the recent past to come up with recommendations with regard to a national minimum wage.

