

## Economic stimulus package for Bangladesh?

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Bangladesh economy seldom, if ever, goes into a recession. This is also true of most developing countries.

Technically speaking, when GDP declines for two consecutive quarters, the economy is said to be in recession.

Quarterly estimates of Bangladesh GDP are not available. So one has to rely on annual figures only. By that

measure, since 1980, there was only one year in which our GDP declined. That was in 1989-90, following

devastating floods and massive political unrest. For all the negative projections for the coming year, they can at

worst shave off a few percentage points from Bangladesh's six percentage plus annual growth.

Not so for the developed world. It is now confirmed that the developed world is officially in recession. That

includes the USA, UK, Eurozone countries, and Japan. Even Canada, which a month earlier had boasted to keep

recession at bay with modest growth, has now succumbed to the contagion of recession as reported in the latest

Government report that also acknowledges that its coffers will soon run dry due to falling revenues. Together,

these countries account for some 75% of global GDP. The question that comes to mind is: When three-quarters

of the world economy goes into recession, can the remaining quarter be left unscathed?

Recessions are not unknown in capitalist economic systems. The US economy - the world's largest - has

suffered a recession once every decade on average since the 1950s. Some were short, spanning only a few months. Others were long and drawn out, leaving a trail of high unemployment and diminished incomes. Across the Atlantic, European economies experienced similar slowdowns, often in tandem with the US economy. When America sneezes, Europe catches a cold, goes the adage. This time around the signals were different as it came on the heels of a global meltdown of the financial system whose aftermath soon engulfed the real economy of production, jobs and income. The specter of a 1930s-type Depression looms large, prompting world leaders to craft a coordinated effort to stem the tide of a global slowdown of demand. As we all know, the epicenter of the global crisis was in the USA. To be fair, the Bush Administration seems to be doing everything in its power to prevent the recession from getting out of hand. The first order of business was to stem the rot in the financial system. The \$700 billion bail-out package crafted by the US Treasury Department went to address that part of the problem. Realizing that was not enough to get the banking and credit system rolling, another \$300 billion lifeline was quickly prepared to shore up consumer spending, the principal driver of the US economy. Not to be seen as removed from the challenge that lay ahead, President-elect Obama, backed by his high-profile economic team, has come up with his own plan to hit the ground running as far as the economy was concerned. His advisers have crafted an economic stimulus package to create or save 2.5 million American jobs in his first year and to stave off a recession that threatens to be deep and protracted. The cost? Another \$700 billion plus. What is surprising is the alacrity with which a large debtor nation as the USA should be drawing up such massive spending plans on top of its existing \$10 trillion public debt, all with a view to

forestall a deep recession from gaining hold. These proposals imply that its budget deficit would rise from 3% of GDP to nearly 8%, financed of course with more public debt and perhaps some borrowing from the Federal Reserve (tantamount to printing money).

Make no mistake, the British Government finds itself in much the same situation. Its own economic stimulus package that is expected to boost spending comes with a net borrowing of 8% of GDP in the coming year at a time when its outstanding debt is around 40% of GDP. Add to this the economic stimulus packages devised by the Governments of Germany, France and other Eurozone countries. The common element in all of these stimulus packages would be the increase in fiscal deficits and rise in public debt outstanding of all these countries. It is only China that is currently capable of financing its economic stimulus package of \$586 billion with its own resources without entering into domestic or foreign debt obligations, thanks to its own fiscal surplus and \$2 trillion of foreign exchange reserves.

Fundamental changes to the global financial system might still be several months off. For the moment, the world's leading economies have chosen the route of economic stimulus packages to prevent the oncoming recession from becoming anything like a depression of the 1930s variety. One question that has been raised but not answered is the following: isn't it paradoxical that a global crisis that was triggered by mounting private debt is being resolved through the creation of mounting public debt. Such mounting public debt could be unsustainable and could generate its own forces of instability over the long run via pressure on prices and interest rates. It could also contain the seeds of currency volatility. Imagine what would

happen if China, which holds a fifth of US public debt, were to switch out of its US dollar holdings! For now, it appears that even the known costs of debt-financed fiscal stimulus is being ignored since the highest priority right now is to shore up demand and avert a free fall of economies around the globe. Be that as it may, what are the options for Bangladesh? Should the Bangladesh government devise its own economic stimulus package in light of some pessimistic prognostications? The implications of such a stimulus need to be kept in mind. Any fiscal stimulus would lead to a budget deficit in excess of 5% of GDP, which will have to be financed by more public debt, domestic or foreign. For Bangladesh, foreign financing of its budget has been the cheapest option but is subject to fulfillment of conditions. Domestic financing through borrowing from the central bank or the public at large has well known adverse consequences on inflation and private investment. Suffice it to say that Bangladesh does not face the prospect of a recession in the conventional sense notwithstanding the chilling predictions made in a recent World Bank report. At its worst, if export demand and remittances record slower growth in the coming year, that would shave a few percentages off the projected GDP growth of 6.5% for FY09. Available data for the first quarter, however, suggest that economic performance for the first half of fiscal year 2008-09 is on track to hit 6.5-7% growth. Exports are up 43%, imports grew 35%, and remittance rose 22% in the first quarter. The two major export associations (BGMEA and BKMEA) have expressed optimism about sustained export orders for the near future. The uncertainty lies with potential external developments starting January 2009, which could affect growth performance adversely in the second

half of fiscal 2008-09 or, more likely, in fiscal 2009-10.

But that is no ground for complacency. At a time when Bangladesh should be eyeing 7% GDP growth, —

something that would have been within reach if there was no global economic crisis — an economic slowdown

caused by external developments would be worth staving off in order to avert jobs and income losses.

Since the leading economies of the world have embraced Keynesian economic stimulus packages, Bangladesh

might consider coming up with one of its own? If so, what would an economic stimulus package for Bangladesh

look like? First, a tax cut – income tax — is off the table because of low compliance and limited coverage. An

across-the-board scaling down of tariffs or VAT might be a booster, besides taking the economy a step forward

in the direction of trade liberalization. More effective stimulus, however, has to come from the spending side. In

these circumstances, an augmented Annual Development Programme (ADP) would have done wonders but

experience shows the government machinery simply lacks capacity to implement a larger ADP, should that be necessary.

To get the US economy out of the Depression and create jobs, President Roosevelt took up major public works

projects like roads and highways under his famous New Deal. The new Bangladesh government that takes

power in January 2009 ought to have a 100-day plan to reverse any slowdown in the economy. A number of

high-profile projects could be in the list for accelerated approval and/or implementation:

Padma Bridge, Dhaka-Chittagong highway, Elevated Dhaka Expressway, Karnafuli Bridge in Chittagong, and several power projects.

The mode of project implementation could be through public-private partnerships (PPP). What is important is to

find innovative ways to ensure quick start and rapid implementation. Not to be ignored,

### Upazillas and Union

Parishads could play a major role in implementing local level projects. These institutions could indeed serve as catalysts for economic revival in the event of a slowdown of economic activity, should that occur.

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