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Global Financial Crises and Its Impacts on The Economy of Bangladesh: A Case Study

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Abstract

The response of Bangladesh to the ongoing global economic crisis involves a complex interplay of both internal and external elements. This study examines how the global financial crisis affected Bangladesh's economy. Primary and secondary data were used to achieve goals. Analysis of data from the previous ten (2013-2014 to 2022-2023) fiscal years indicates the economic scenario of Bangladesh. There has been a marked increase in the global prices of oil, gas, and other commodities, fueled by strong domestic demand. Depreciation of the Bangladeshi taka against the US dollar caused inflation. Rising global commodity prices, gasoline prices, and local electricity tariffs contribute to Bangladesh's inflation. These factors will likely continue to affect inflation in the future months. The population is struggling to afford essentials, which lowers their living standards and savings.This research will help Bangladeshi lawmakers, academics, and policymakers comprehend the global financial crisis's causes and effects on the economy.

Keywords: Global Financial Crisis, Inflation, Exchange Rate, Economic Growth.

1. INTRODUCTION

A financial crisis occurs when there is a significant decrease in the value of financial instruments and assets. Blundell-Wignall et al. (2009) argue that an economic crisis has a wider impact than just the banking and financial sectors, affecting the entire economy. The global financial crisis denotes a pervasive financial calamity that concurrently affects numerous nations. The issue has the potential to become a major concern, especially considering the backdrop of living in a developing nation. The current global financial crisis has affected us, requiring the deployment of governmental measures to reduce its impact. These strategies encompass lowering interest rates, increasing government spending, strengthening oversight of financial institutions, and especially, fostering a reasonably strong economic performance. The global financial crisis of 2007-2009 has led to an examination of the profitability and effectiveness of alternative banking systems. The purpose is to prevent possible future financial crises (Erfani & Vasigh, 2018). Bangladesh is categorized as a developing country. As a developing nation, we face numerous hurdles on our journey towards economic and social progress (Kumar et al., 2024). The COVID-19 outbreak caused a slowdown in global financial development (Rahman, 2018). The devaluation of the taka in relation to the US dollar, escalating inflation, an energy shortage, and frequent power outages have had detrimental impacts on both the nation's economy and the welfare of its inhabitants. The current issue in Bangladesh can be partially attributable to the decrease in its foreign exchange reserves, as the country's spending on foreign exchange exceeds its revenue in this area. The devaluation of the taka against the dollar is due to a higher demand for the dollar, which exceeds the inflow of currency. As a result, this circumstance has led to a dilemma regarding the importation of essential commodities such as petroleum and raw materials. However, it is important to acknowledge that the economic occurrence in issue can be ascribed to a sequence of political actions, choices, and protocols (Mustafa, 2023).

The strengthening of the US dollar compared to other major currencies has led to significant volatility in the global foreign exchange market. Most major global currencies, including the Euro, Pound Sterling, and Indian Rupee, have been seeing a sustained decrease in value as they attempt to match the good performance of the United States Dollar. The dollar has appreciated by 13% against the Euro, 15% against the Pound, and 20% against the Yen. There have been no observed deviations with the Bangladeshi Taka. Rahman (2022) suggests that the increase in the landing costs of imported goods and services in Bangladesh may be related to the widespread use of dollar-priced goods in the majority of imports. This pattern has consequently resulted in a rise in inflation rates in countries outside the United States. The crisis in Bangladesh commenced in the first quarter of fiscal year 2022. The banks devalued the taka implicitly, abstaining from making any public declarations regarding changes to the exchange rates. However, the exporters did not receive any kind of improvement, leading to a significant discrepancy between the prices offered by banks to importers and the exchange rates at which Taka was sold to exporters. The growing reliance of the energy sector on imported fuels has placed additional strain on the balance of payments and resulted in a decrease in the accessibility of gas and electricity. Furthermore, the situation was worsened by a shortage of supplies, in addition to the rise in energy expenses. The central bank utilized its reserves to fund the shortfall in the balance of payments. However, no actions were taken to reduce imports and stimulate exports (Cookson, 2023). The country's economic interdependence is marked by a substantial dependency on both imports and exports. The readymade garments (RMG) business holds significant significance in the export sector, representing more than 80% of the country's total exports. In contrast, the import side is distinguished by the procurement of diverse commodities, raw materials, capital equipment, and other associated things. The RMG industry has been greatly impacted by the ongoing trade tensions and the global economic downturn in major regions such as the United States and Europe. As a result, there has been a decrease in the amount of money earned from exporting goods, which has caused a slowdown in the growth of the economy. An examination of the financial transactions involving exports and imports from 2013 to 2022 reveals that Bangladesh continuously devoted a larger proportion of its financial resources to imports than it earned from exports each year. However, it is crucial to recognize that although the government managed to reduce the gap between imports and exports to $2 billion in 2021, it experienced a revival to $4 billion in 2022 (Sohail, 2023).

This study is highly significant as it examines the detrimental effects of the global financial crisis on the population of Bangladesh, taking into account the global perspective. The population of Bangladesh faces considerable difficulties in sustaining their living standards, as the acquisition of necessary goods and services frequently hampers their ability to save.

2. LITERATURE REVIEW

The following is a list of scholars. The list is given considering the current economic situation in Bangladesh and the global situation: Based on an assessment conducted by the World Economic Forum (WEF), Bangladesh is confronted with five primary risks during the upcoming two-year period. Among these risks, the most prominent dangers to the country's economy are identified as chronic inflation, debt issues, and substantial shocks in commodity prices (Daily Star Business Report, 2023). There is less evidence that the financial crisis will end soon. Several financial indicators have declined. Energy and power issues have worsened. Foreign reserves fell roughly 11 billion dollars this year. Remittances and exports have slowed. Underperforming foreign exchange profits has driven the transaction deficit to a record high. At present, inflation is the biggest public worry. The cost of living has risen while most people's real income has fallen. Company owners worry most about electricity and energy issues. Lower results have been observed. Bangladesh Bank struggles with the dollar exchange rate. Additionally, government revenue is low (Hossain & Shah, 2022). According to Ullah et al. (2009), the ongoing global crisis has had a substantial influence on the financial institutions of emerging nations. The existing financial crisis has an impact on emerging nations in two potential manners. Firstly, it is plausible that there exists a possibility of financial contagion and spillover effects on stock markets inside emerging economies. There is a need to enhance our comprehension of the inherent characteristics of financial links, including their occurrence and potential measures to mitigate contagion. Additionally, the topic of discussion pertains to commercial loans. Banks in industrialized nations may face constraints that limit their ability to lend at levels comparable to previous periods. Jałtuszyk (2022) discovered a large increase in worldwide inflation during 2021-2022. Examining the main characteristics of the 2007–2009 financial crisis, the COVID-19 pandemic economic crisis, and the rise in non-financial sector debt shows that government sector debt caused the 2020–2021 inflationary surge. The government sector's debt expansion at that time was intended to pay COVID-19 relief efforts. Aid initiatives helped prevent a deep worldwide recession. Their high cost hindered their effectiveness, making worldwide inflation difficult to control. The cumulative effects of individual nations' actions may have global ramifications, making international fiscal intervention cooperation essential. Over five years ago, Ramskogler (2015), the worst economic disaster in recent history, occurred. The causes of this disaster have been explained countless times since then. An apparently minor disruption in a relatively isolated part of the US mortgage market grew into a global financial and economic crisis between 2007 and 2008. The economic profession was surprised. The effects of these events persist today (Kumar et al., 2020; Masud et al., 2023). Thus, the crisis is projected to change economic policy and thought paradigms. The drop in short-term interest rates contributed to the crisis. Other factors caused the drop. Since the early 1990s, central banks have adopted inflation targeting tactics. Foreign credit availability in Denmark decreased significantly during the summer of 2008, according to Hoffner (2008). Thus, Danish banks relied largely on short-term borrowing. On October 5, 2008, the government launched a voluntary General Guarantee Scheme to fully insure banks' deposits and other senior commitments. Starting October 5, 2008, the General Guarantee Scheme insured PCA bank depositors and senior unsecured creditors for two years, ending September 30, 2010. The Prompt Corrective Action (PCA) program included 133 banks, representing roughly 99% of Danish deposits. The PCA allocated up to 35 billion Danish kroner (USD 6.25 billion) from member bank fees for the guarantee fund. The government also promised to cover further costs. Wang et al. (2021) found that Pakistan's economic instability and health burden had outlasted the global financial disequilibrium. Poor healthcare and a weak economy caused the problem in Pakistan. This study examines the health consequences of Pakistan's economic crisis, which may have global repercussions. Implement intelligent lockdown measures in badly damaged locations to promote economic recovery while maintaining strict preventative measures to limit the COVID-19 pandemic's detrimental effects (Kumar et al., 2022; Uddin et al., 2022). The global pandemic has devastated healthcare facilities and the economy. In 2020, Pakistan's GDP fell -0.05, the first time in 60 years. This economic recession caused a major financial crisis. Erfani and Vasigh (2018) notices that financial institutions, particularly major commercial banks, engaged in excessive risk-taking as a result of their assertive expansion strategies. The notable expansion of commercial banks can be attributed to a substantial rise in their mortgage lending activities targeted at the general people. The primary factors contributing to the crisis were the implementation of deregulatory measures inside the financial industry and the subsequent introduction of novel financial products (Kumar et al., 2021).

Implementing stricter banking laws and imposing restrictions on the hazardous financial activities of commercial banks may serve as effective measures to mitigate the occurrence of future financial crises. The recent modifications in banking laws are making a favorable contribution to the overall stability of the financial system. Blundell-Wignall et al. (2009) noted economists' emphasis on exogeneity in causality discussions. Exogeneity is when relatively independent components change and cause endogenous events. According to the analysis, this is the greatest financial crisis since the Great Depression. Previous government actions caused distortions and incentives, causing the problem. Rahman (2018) describes early 2000s US investors' home market returns optimism. The 2008 financial crisis was a catastrophic economic disaster like the Great Depression. After rising for a while, housing values plunged 32%. Perverse incentives made things worse. The crisis impacted the worldwide economy. The housing industry launched the domino effect that hit most economies. According to Ollivaud and Turner (2014), it has been argued that within the group of 19 OECD countries that encountered a banking crisis between 2007 and 2011, the estimated median decline in potential output in 2014 is approximately 5½ percent. This figure is in comparison to the overall decline in aggregate potential output across all OECD countries, which is estimated to be around 3½ percent. However, it is important to note that the extent of the loss varies significantly among countries, with numerous smaller European nations, particularly those in the euro region, seeing a loss exceeding 10%. The most significant negative consequences arise from a decline in productivity trends, resulting from a simultaneous decrease in both total factor productivity and capital per worker. Despite experiencing significant increases in structural unemployment in many nations, the impact on prospective employment is very minimal since it does not significantly hinder labor force participation, contrary to expectations based on prior severe economic downturns. Laeven et al. (2010) found that the current global financial crisis has both familiar and new causes. The current crisis has shown financial regulation and structure flaws in systemically significant financial institution handling, systemic risk and vulnerability assessment, and financial institution resolution. The global financial crisis showed that financially integrated markets, despite their many benefits, may pose significant risks that affect the economy. Therefore, considerable international financial framework reforms are needed to ensure the stability of a highly integrated global financial system. Ivashina and Scharfstein (2010) found that new loans to major borrowers dropped significantly in the fourth quarter of 2008 during the strongest financial crisis. The drop was 47% from the previous quarter and 79% from the credit boom's peak in the second quarter of 2007. In the fourth quarter of 2008, real investment loans, which comprise working capital and capital expenditures, fell 14%. Compared to the credit boom's peak, it shrank similarly to restructuring financing such leveraged buyouts, mergers and acquisitions, and share repurchases. After Lehman Brothers collapsed in September 2008, short-term bank creditors ran, preventing banks from renewing their loans. Bank balance statements showed a significant increase in commercial and industrial loans as customers began using their credit lines. According to Anderson and Gascon (2009), the US commercial paper sector has grown significantly since its founding in the early 1800s. With an average daily issuance of $100 billion, it has become a vital short-term financing tool for major firms. Due to market pressure, the commercial paper sector garnered national attention in autumn of 2008. Given its size and importance, this market's failure could worsen the recession. Credit and liquidity were provided by the Treasury and Federal Reserve to restore investor confidence.

The literature evaluation covers worldwide financial crises and their repercussions, but Bangladesh's economy's distinctive implications are not fully studied. Bangladesh's economic sectors, governmental responses, and long-term effects are rarely examined compared to developing market trends. This gap allows researchers to study how global financial upheavals affect Bangladesh's economic stability, growth, and development strategies, providing insights into tailored policy interventions and resilience-building measures.

Objectives:

The objectives of the study are given below:

- To know the reasons for the global financial crisis that occurred in Bangladesh.
- To discuss the impacts of the global financial crises on the economy of Bangladesh.

3. METHODOLOGY

we employed a mixed-methods approach, combining quantitative data analysis with qualitative insights. For the quantitative aspect, we gathered extensive macroeconomic data from June 2014 to July 2023, focusing on key indicators such as GDP growth rate, inflation, exchange rates, Ready Made Garments (RMG) export, reserves, and foreign direct investment, primarily sourced from Bangladesh’s Central Bank, the World Bank, Statista and the International Monetary Fund. Complementing this, our qualitative analysis involved conducting semi-structured interviews with a diverse group of stakeholders including government economic policymakers, business leaders in major impacted sectors, academic economists, and representatives from international financial organizations. The interviews were aimed at gaining in-depth perspectives on the impacts of global financial crises on the Bangladeshi economy. We used quantitative data and applied thematic analysis for qualitative data, ensuring a comprehensive understanding of the subject. Ethical guidelines were strictly adhered to, with particular attention to informed consent and data confidentiality. While acknowledging limitations such as data availability and potential biases, this methodology offers a balanced and detailed exploration of the research topic.

4. DISCUSSION AND FINDINGS OF THE STUDY

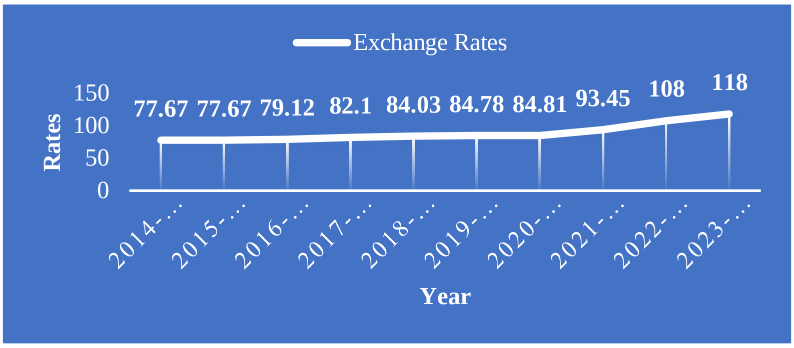
The following data were collected from different authentic sources to assess the economic situation of Bangladesh. These data are presented and discussed below:

4.1 Data Regarding Exchange Rates

Table 1. Represents Exchange Rates

Year	Rates
2023-2024	118.00
2022-2023	108.00
2021-2022	93.45
2020-2021	84.81
2019-2020	84.78
2018-2019	84.03
2017-2018	82.10
2016-2017	79.12
2015-2016	77.67
2014-2015	77.67

Figure 1. Shows Exchange Rates



Source: Bangladesh Bank

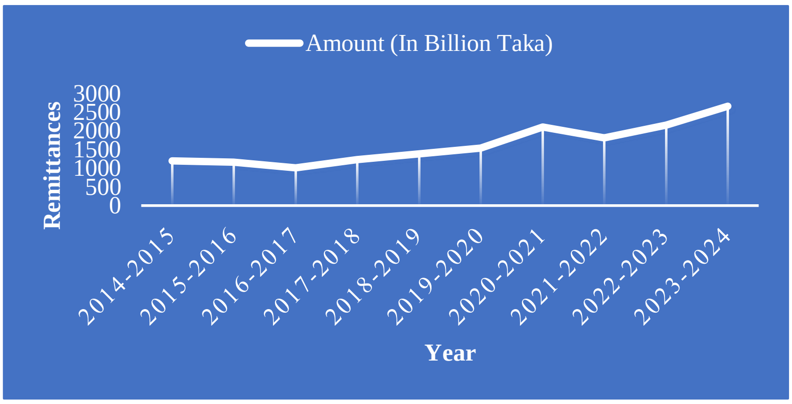
The exchange rates of the Bangladeshi Taka (BDT) compared to the US Dollar (USD) exhibited various trends over the past decade. From 2014 to 2016, the rates remained relatively stable, reflecting a balanced economic environment. However, from 2016 to 2018, there was a noticeable increase, likely due to changing global economic dynamics. Subsequently, from 2018 to 2024, the exchange rate continued to rise, reaching its peak at 118.00 BDT per USD in 2023-2024. The significant depreciation of the Taka in 2023-2024 may have been driven by various macroeconomic forces, leading to a higher exchange rate against the US Dollar.

4.2 Data Regarding Remittances

Table 2. Denotes Remittances

Year	Amount (In Billion Taka)
2023-2024	2661.80
2022-2023	2150.47
2021-2022	1815.80
2020-2021	2101.31
2019-2020	1543.52
2018-2019	1380.07
2017-2018	1231.56
2016-2017	1010.99
2015-2016	1168.57
2014-2015	1189.93

Figure 2. Illustrates Remittances



Source: Bangladesh Bank

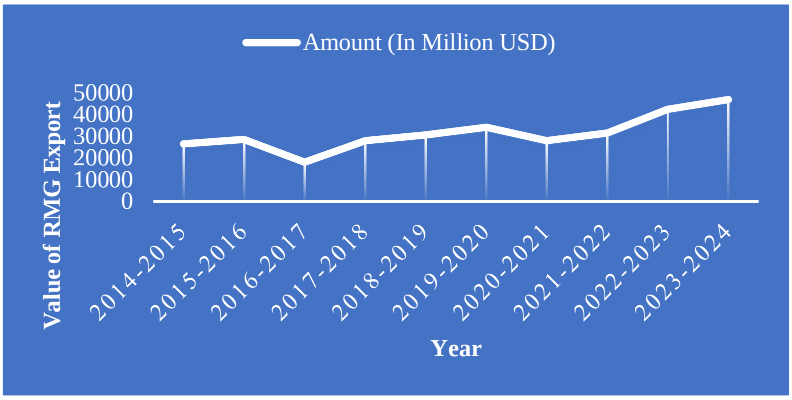
The data shows a general upward trend in remittances over the years, with some fluctuations. Notably, there has been substantial growth in remittances, reaching 2661.80 million USD in 2023-2024, which is a significant increase compared to previous years. This increase can be attributed to several factors, including a large Bangladeshi diaspora, increased migration for work opportunities abroad, and various government initiatives to encourage remittances.

4.3Data Regarding Value of Ready-Made Garments (RMG)

Table 3. Value of RMG Export

Year	Amount (In Million USD)
2023-2024	46991.6
2022-2023	42613.2
2021-2022	31456.7
2020-2021	27949.2
2019-2020	34133.3
2018-2019	30614.8
2017-2018	28149.9
2016-2017	18094.2
2015-2016	28668.3
2014-2015	26602.7

Figure 3. Value of RMG Export



Source: Bangladesh Bank

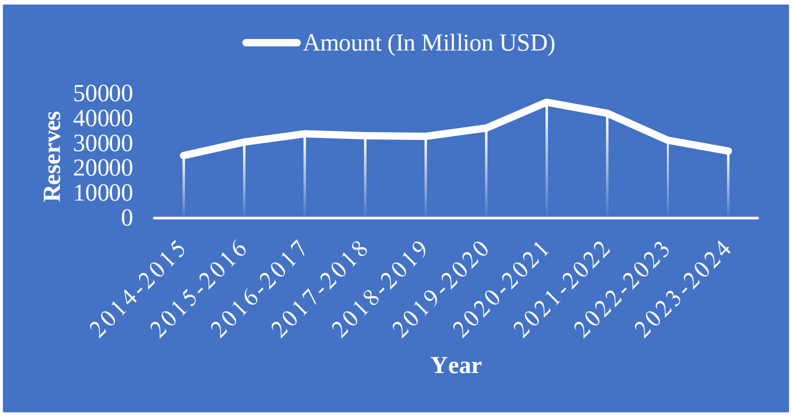
The RMG industry is a crucial driver of Bangladesh's economy and is one of the largest contributors to its export earnings. The data reveals a generally upward trend in RMG exports, with some fluctuations along the way. Notably, there was significant growth in exports, reaching 46,991.6 million USD in 2023-2024, reflecting the industry's resilience and competitiveness on the global stage. Factors contributing to this growth include Bangladesh's cost-effective labor force, its status as a major hub for apparel manufacturing, and its ability to fulfill international demand for clothing products.

4.4 Data Regarding Reserves

Table 4. Presents Reserves

Year	Amount (In Million USD)
2023-2024	26714.2
2022-2023	31203.0
2021-2022	41826.7
2020-2021	46391.4
2019-2020	36037.0
2018-2019	32716.5
2017-2018	32943.5
2016-2017	33679.4
2015-2016	30355.6
2014-2015	25026.1

Figure 4. Shows Reserves



Source: Bangladesh Bank

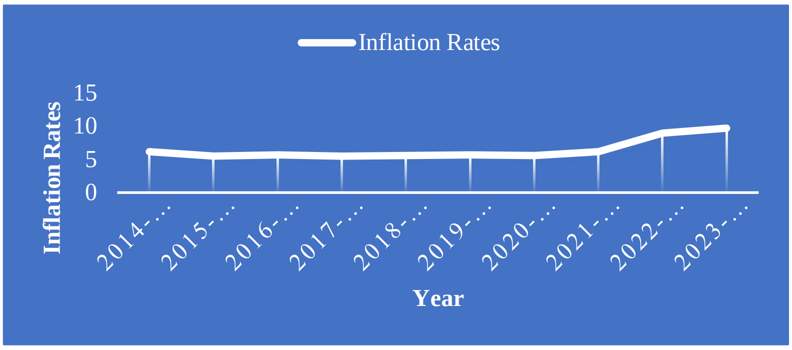
Foreign exchange reserves are a critical component of a country's economic stability, as they provide a buffer against external shocks and help maintain the stability of the domestic currency. The data shows that Bangladesh's foreign exchange reserves have generally been on an upward trajectory, with some variations. Notably, there was a significant increase in reserves in 2020-2021, reaching 46,391.4 million USD, which could be attributed to factors such as remittances, export earnings, and foreign aid.

4.5 Data Regarding Inflation Rates

Table 5. Represents Inflation Rates

Year	Rates
2023-2024	9.73
2022-2023	9.02
2021-2022	6.15
2020-2021	5.56
2019-2020	5.65
2018-2019	5.59
2017-2018	5.54
2016-2017	5.70
2015-2016	5.51
2014-2015	6.19

Figure 5. Displays Inflation Rates



Source: Bangladesh Bank and Statista

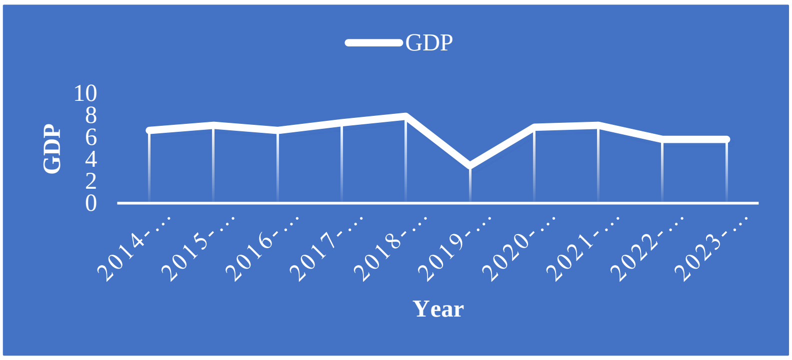
Inflation rates measure the percentage increase in the general price level of goods and services over time. The data indicates that Bangladesh has experienced relatively moderate inflation rates during this period, with fluctuations within a narrow range. Notably, there was a decline in inflation in 2020-2021 to 5.56%, which might be attributed to the economic disruptions caused by the COVID-19 pandemic. Generally, the inflation rates have remained below double digits, which is a positive sign for economic stability. A stable inflation environment is important for maintaining the purchasing power of the currency and ensuring the affordability of goods and services for the population.

4.6 Data Regarding Gross Domestic Product (GDP)

Table 6. Denotes GDP

Year	Rates
2023-2024	5.82
2022-2023	5.78
2021-2022	7.10
2020-2021	6.90
2019-2020	3.40
2018-2019	7.90
2017-2018	7.30
2016-2017	6.60
2015-2016	7.10
2014-2015	6.60

Figure 6. Exhibits GDP



Source: Bangladesh Bank and The World Bank

GDP is a key economic indicator that measures the total value of all goods and services produced within a country's borders. The data shows that Bangladesh has experienced varying GDP growth rates during this period. Notably, there was a significant jump in GDP growth in 2018-2019 to 7.90%, indicating a robust expansion of economic activity. However, there have been fluctuations, and growth rates have ranged from as low as 3.40% in 2019-2020 to as high as 7.90% in 2018-2019. These fluctuations can be attributed to factors such as changes in global economic conditions, domestic policy measures, and external shocks. Overall, Bangladesh has demonstrated resilience and the ability to maintain a positive GDP growth trajectory, which is indicative of its growing economy and its potential for further development in the coming years.

4.7 Opinions of the Respondents Regarding the Economic Situation of Bangladesh

Dollar value increases because of the devaluation of BDT. Out of twenty respondents, six opine that in Bangladesh, the value of BDT is suddenly devalued, and so the value of the dollar increases instantly. Reduce remittance because of employee feedback from foreign countries and unemployment. There are ten respondents who describe that in the COVID-19 period, because of the Russia and Ukraine wars, huge numbers of employees came back to Bangladesh, and in Bangladesh, they lead a miserable life. As a result, remittance inflows have significantly decreased, and many people are now unemployed.

Ready-made garment sectors lost their marketplace, and so economics has slowed down. Five respondents explain that because of COVID-19 and the Russia-Ukraine war, the global business market is being hampered. The ready-made garment sectors cannot import their raw materials from foreign countries, and the marketing is totally closed, causing the total global marketing to slow down.

Reducing reserves: Three responders amply indicated that Bangladesh Bank reserves are being drastically cut. They see that the Bangladeshi daily newspaper informs them that the country's economy is suffering due to global volatility, which is causing Bangladesh's reserve to decline.

High inflation and GDP reduced: According to ten respondents, Bangladesh's inflation rate is extremely high. The inflation rate was quite high between January and July 2023, according to the daily newspapers of Bangladesh. Additionally, during the past three years, the cost of luxury goods has increased significantly relative to the cost of daily necessities. Therefore, inflation is evident in Bangladesh.

Self-confidence reduced and people felt nervous: Two respondents opine that because of price hikes, businessmen felt nervous and lost their confidence to produce new products. They think that if their products are not launched in the market, the market will be unstable.

LC cannot be opened because of the dollar crisis. Two respondents said that inflation and instability are responsible for increasing the dollar and that global policy is responsible for the crisis of the dollar. This is why businessmen and people cannot open LCs for importing products from foreign countries.

Price increases and living standards: According to 13 respondents, price increases are a typical occurrence in Bangladesh. Ordinary folks are unable to meet their fundamental demands as a result of the price increase.

Food security is reduced because of the loss of importing foods. Three respondents opine that the people of Bangladesh are suffering from food security because Bangladesh cannot import necessary foods because of these global crises.

Demand increases because of reduced production: Six respondents told that in Bangladesh, production is being reduced because of price hikes, and so demand is increasing in the market to meet the needs of common people.

The use of non-food products is reduced. One respondent mentions that because of the increasing price of luxurious products, the businessmen of those products are losing a lot of profit, and the small businessmen of those products are disappearing.

The global business system is hampered: Two respondents opine that COVID-19 and Russia and Ukraine's war on the global business system are hampered.

Labor migration is hampered. Two respondents explain that because of moving restrictions, a slowdown in agriculture has been noticed. Labor migration is being hampered, so remittances are being reduced.

Increased propensity to save and liquidity crisis in Bangladesh's banks: Three respondents demonstrated that the people are in fear of global instability and that they think that they have to save money, and they do that. This is why the banks of Bangladesh face a lot of problems. The liquidity problem is one of them.

South Asian countries are passing their days in great hardship: One respondent said that the economic condition of south Asian countries is in great crisis because of COVID-19 and Russia and Ukraine.

Foreign exchange markets fluctuate, monetary policies change, and foreign investment is reduced. Six respondents express that the global business market is not stable and international businessmen are changing their business policies. This is why FDI is very low in Bangladesh.

5. RECOMMENDATIONS AND CONCLUSION

Over the past decade and a half, the global community has encountered two significant global economic crises. The first occurred between 2007 and 2009, while the second unfolded during the era marked by the COVID-19 pandemic. The economic challenges faced by Bangladesh can be attributed to the lingering consequences of the epidemic as well as the current conflict between Russia and Ukraine. However, the underlying problems inside our economy are intricately linked to the historically neglected framework of national government. The level of living in Bangladesh has been adversely affected by the global financial crisis. They encountered a multitude of obstacles in their efforts to sustain their level of material well-being. Bangladesh has exhibited commendable performance in its response to the global economic crisis through the implementation of policy measures that encompass both demand-side and supply-side approaches. The excessive demand for foreign exchange will decrease, leading to a further increase in the inflow of foreign exchange. The depreciation of the taka versus the US dollar, rising inflation, an energy crisis, and frequent power shedding have had adverse effects on both the country's economy and the well-being of its citizens. The current issue in Bangladesh may be attributed, to some extent, to the decline in its foreign currency reserves, which can be attributed to the fact that its current expenditure on foreign exchange exceeds its revenue from foreign exchange. The depreciation of the taka relative to the dollar is attributed to a significant increase in demand for the dollar, surpassing the inflow of currency. Consequently, this situation has resulted in a crisis concerning the importation of vital commodities like as gasoline and raw materials.

Irrespective of their degree of economic prosperity, all nations have been affected by the prevailing global economic crisis. Nevertheless, countries that possess efficient institutional frameworks and robust mechanisms are more aptly positioned to address the challenges at hand.

In the present context, it is imperative for the government to prioritize several pressing matters, including the regulation of pricing, enhancement of supply, and provision of aid to low-income households. However, it is equally crucial for the government to concurrently introduce medium-term strategies. There exists a pressing imperative to undertake measures aimed at reducing vulnerabilities within the financial sector, enhancing efforts to collect tax, fostering a conducive climate for private and international investment, cultivating human resources, and facilitating the creation of employment prospects.

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