

Global financial crunch

Friday, 10 October 2008

Bangladesh to be hard hit Collapse of the US sub-prime mortgage system resulting in global financial crises has not only engulfed the entire US and European financial and banking system but also affected the global economy. The crux of the problem is that banks and financial institutions have, for many different reasons, gone bankrupt and had to be bailed out by States such as the US government pumping in US\$ 700 million into the system and the UK government nationalizing banks and other financial institutions.

Bangladesh to be hard hit

Collapse of the US sub-prime mortgage system resulting in global financial crises has not only engulfed the entire US and European financial and banking system but also affected the global economy. The crux of the problem is that banks and financial institutions have, for many different reasons, gone bankrupt and had to be bailed out by States such as the US government pumping in US\$ 700 million into the system and the UK government nationalizing banks and other financial institutions. Other countries like Russia are bailing out their banks through guarantees of millions of dollars and at least one country, Iceland has gone bankrupt and has to take credits of millions from Russia to survive. The effect of banks and financial institutions going bankrupt is that there is no money available as credits or loans to run businesses and so businesses in all the major economies in USA, Europe and Russia are either closing down altogether or retrenching leading to massive job losses and unemployment. The common people in all these economies long habituated to consumerism that is, buying everything from food to houses, on credit are now forced to return the money which they cannot do because they have lived way beyond their incomes. Incomes too have either decreased or are unavailable as businesses, factories and manufacturing have closed down or retrenched. Many things. For one, our exports of garments and all the other consumer goods are going to slow down drastically as USA and Europe who are the major importers of these goods will not import as much as they did because now their consumers do not have enough cash or credit to buy these goods. So our industries too will have to retrench leading to job losses. Since imports will reduce, so government will have less revenue and less money to push into "development and social safety" resulting in an increase in poverty. Banks and financial institutions too will have less money to give as credits to businesses, factories and manufacturing, if they at all want this money. Next, remittances will also reduce drastically as expatriate Bangladeshis will be the first ones to get the chop in the foreign countries where they are working particularly in the Middle-eastern countries whose economies are entirely dependent on oil exports, the price of which is falling drastically. Again, international financial institutions and development agencies such as the World Bank, the IMF and ADB, the UN will not dole out credits and grants like they did in the past because their major financiers in USA, Europe, Japan and Middle-east are all either going bankrupt or are bailing out their own economies. So, the global financial crisis is going to have a severe impact on Bangladesh sooner rather than later and the global financial crisis is here to stay for at least the next 5 years. Our governments and politicians need to take stock of this immediately and take steps at the earliest.