The Foreign Exchange Reserve and Economic Crisis: Evidence from Bangladesh

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ABSTRACT

The paper attempts to reveal different aspects of Bangladesh's ongoing foreign exchange reserve crisis. Data from the Bangladesh Bank shows why Forex reserves have recently decreased. Deferring payment during COVID, higher cost of imports, lower export revenue, and the devaluation of the Taka are a few of the factors. In the short term, the Government has acted exactly as it should have - capping the fancy tours, pampering the remitters, creating entry barriers for luxury products, scaling up exports, and attracting FDI. Its medium-term action includes bringing back illicit money that crossed borders to raise reserves. This study focuses on those aspects that are yet to be done. Production should be increased, and imports should be reduced further. Money laundering must be dealt with firmly. Increasing market supervision and keeping products reasonable are also essential for economic stability. Employment should be created through small industries; easy loans should be disbursed to promote self-employment. Significant sectors cannot be allowed to go bankrupt, and developing alternative export markets is also essential. Last but not least, it emphasizes supervising the actions of government employees at all levels to eliminate corruption.

Key words: Forex Reserve, Economic Crisis, Inflation, Inward Remittance, Money Laundering, Mega Project

INTRODUCTION

Foreign Exchange Reserves of Bangladesh are the foreign assets held or controlled by its central bank. The reserves are made of gold or different foreign currencies. These assets serve many purposes but are most significantly held to ensure that the Government has backup funds if its national currency rapidly devalues or becomes entirely insolvent. It is a common practice in countries around the world for a central bank to hold significant reserves in its foreign exchange. Most of these reserves are held in the US dollar since it is the most traded currency in the world.

Bangladesh's $465-billion economy has been one of the world's fastest-growing for years. However, rising energy and food prices, sparked by Russia's invasion of Ukraine and shrinking foreign exchange reserves, have swelled its import bill and current account deficit. The country's foreign exchange reserves had dwindled to $35.74 billion by November 2 from $46.49 billion a year ago. The main objective of this study is to give an overview of Bangladesh's foreign exchange reserve crisis. The other objectives include:

- Identify the reasons for the foreign exchange reserve crisis
- Understand the uses of the reserve fund
- Discuss the steps taken by our Government to mitigate the reserve crisis
- Suggest further measures to alleviate the crisis

The study is limited to analyzing the foreign exchange reserve crisis in Bangladesh, focusing on understanding the immediate causes (such as the Russia-Ukraine war, rising import costs, and declining remittances) and suggesting possible solutions. The research covers data from recent years, primarily focusing on the 2020–2022 period, which captures the impact of both the COVID-19 pandemic and the global geopolitical instability due to the Russia-Ukraine conflict.

The study adopts a descriptive research design suitable for understanding and explaining Bangladesh's recent decline in foreign exchange reserves and its economic implications. The research primarily relies on secondary data from authoritative sources such as the Bangladesh Bank and the Bangladesh Bureau of Statistics to provide an empirical basis for the analysis. The descriptive approach also allows for identifying trends, causes, and consequences related to the foreign exchange reserve crisis.

Since Bangladesh's foreign exchange reserve crisis is a relatively recent phenomenon, there is limited academic literature specifically addressing the current situation. Thus, the study relies heavily on real-time data and media reports. In some cases, accurate data on certain aspects, such as illicit money flows and informal remittance channels (Hundi), were unavailable or incomplete. This may affect the accuracy of the analysis in these areas. The study covers a brief timeline of events, focusing primarily on the crisis's recent escalation, and does not delve into long-term historical trends in foreign exchange reserves.

RESEARCH METHODOLOGY

The research methodology for this study is designed to explore Bangladesh's foreign exchange reserve crisis. It provides a comprehensive analysis of the factors contributing to this economic challenge and potential solutions. The methodology employs quantitative and qualitative approaches to ensure a robust problem understanding.

Both primary and secondary data were used in the study. Primary data was collected through interviews with key personnel from the Bangladesh Bank and the Bangladesh Securities and Exchange Commission (BSEC). These interviews were used to validate and strengthen the findings derived from secondary data, offering expert insights into the causes and potential remedies for the crisis. The interviewees included senior officials involved in monetary policy and foreign exchange management. The bulk of the data used in this study comes from secondary sources:

- Bangladesh Bank Economic Data: This includes detailed statistics on foreign exchange reserves over the years, imports and exports data, remittance flows, and inflation rates. These data points are used to analyze trends and quantify the reserve decline.
- Bangladesh Bureau of Statistics: National economic data, such as GDP growth, inflation, and the balance of payments, were sourced to contextualize the impact of the reserve crisis on the broader economy.
- Newspapers, TV, and YouTube Interviews: Given the novelty of the issue, much of the current discourse surrounding Bangladesh's foreign exchange reserves is found in real-time media reports. Major national dailies, such as The Daily Star and Financial Express, and YouTube interviews with economists and government officials, were analyzed to extract insights and opinions on the subject.

The research utilizes qualitative and quantitative analysis to examine the causes and consequences of the foreign exchange reserve crisis. Quantitative Analysis Data from Bangladesh Bank, including historical foreign exchange reserve figures, export-import balances, and remittance inflows, were analyzed to identify trends and calculate the magnitude of the reserve depletion. Descriptive statistics were employed to interpret these trends over time. The research also utilized visual aids such as graphs and tables to present data on inflation, reserve levels, and trade balances for more straightforward interpretation. In addition to the quantitative analysis, qualitative data from interviews with experts and media reports were analyzed thematically. Key themes, such as the impact of the Russia-Ukraine war, rising global inflation, and the role of money laundering, were explored to provide context for the reserve depletion and suggest practical policy responses.

Research Instruments

- Interviews: Semi-structured interviews were conducted with Bangladesh Bank and BSEC personnel. The interview questions were designed to gain insights into the underlying causes of the reserve crisis and the effectiveness of government interventions.
- Data Analysis Software: Statistical tools such as Excel were used to manage and analyze the quantitative data. Graphs and charts were generated to represent reserve, import, and remittance trends.

LITERATURE REVIEW

Regardless of their size, almost all countries hold a significant foreign currency reserve. More than half of the reserves are held in the US dollar, the most traded currency on the world market. British pound sterling, euros, and the Japanese yen are among the currencies used in foreign exchange reserves. The foreign exchange reserves are used to pay a country's currency debts, influencing the monetary policy. Foreign exchange reserves increase the shock resistance and flexibility of the economy. Foreign exchange reserves are used to hedge market shocks in the event of a rapid devaluation of the domestic currency. Many economists believe that foreign exchange should be held in currencies that are not directly linked to the domestic currency so that it is easier to prevent shocks (Rahman, 2022). However, this is not easy to do in today's era, as all the currencies are now highly connected. China now has the largest foreign exchange reserves. Its amount is equal to three trillion US dollars. Most of it is denominated in the US dollar.

Three generations of models are typically used to explain currency crises that took place during the past four decades, as Claessens & Kose (2013) proposed in their paper Financial Crises: Explanations, Types, and Implications (January 2013). The first generation of models, primarily motivated by the collapse in the price of gold, a crucial nominal anchor before the floating of exchange rates in the 1970s, was often applied to currency devaluations in Latin America and other developing countries (Claessens & Qian, 1992). These models are from seminal papers by Krugman (1979) and Flood and Garber

(1984), and hence called "KFG" models. They show that a sudden speculative attack on a fixed or pegged currency can result from rational behavior by investors who correctly foresee a government running excessive deficits financed with central bank credit.

Investors continue to hold the currency as long as they expect the exchange rate regime to remain intact, but they start dumping it when they anticipate that the peg is about to end. This run leads the central bank to lose its liquid assets or hard foreign currency supporting the exchange rate, and the currency then collapses.

The second generation of models stresses the importance of multiple equilibria. These Models show that doubts about whether a government will maintain its exchange rate peg could lead to various equilibria and currency crises (Obstfeld & Rogoff, 1985). In these models, self-fulfilling prophecies are possible, in which investors attack the Currency simply because they expect other investors to attack the currency. As discussed in Flood and Marion (1998), policies prior to the attack in the first generation models can translate into a crisis, whereas changes in policies in response to a possible attack (even if these policies are compatible with macroeconomic fundamentals) can lead to an attack and be the trigger of a crisis. The second generation models are in part motivated by episodes like the European Exchange Rate Mechanism crisis, where countries like the UK came under pressure in 1992 and ended up devaluing, even though other outcomes (that were consistent with macroeconomic fundamentals) were possible too (Eichengreen et al., 1996; Frankel and Rose, 1996).

The third generation of crisis models explores how rapid deteriorations of balance sheets associated with fluctuations in asset prices, including exchange rates, can lead to currency crises. These models are primarily motivated by the Asian crises of the late 1990s. In the case of Asian countries, macroeconomic imbalances were slight before the crisis – fiscal positions were often in surplus, and current account deficits appeared to be manageable. However, vulnerabilities associated with the financial and corporate sectors were significant. Models show how balance sheet mismatches in these sectors can give rise to currency crises. For example, Chang and Velasco (2000) show how, if local banks have large debts outstanding denominated in foreign currency, this may lead to a banking cum currency crisis.

Economists and researchers have earlier warned that the ongoing global economic recession would help tackle a major reserve crisis (Aman, 2022). Brazil and Mexico in 2008–09 are examples of adequate foreign exchange reserves during major crises. Research shows that Brazil did well in dealing with the economic crisis at that time. Mexico failed. Brazil had enough reserves to handle the economic shock, but Mexico did not. As a result, while Brazil could maintain the value of its currency, Mexico's situation was the opposite. In this situation, economists think investing money from the reserve is harmful and dangerous. Many people do not know clearly what kind of crisis will take place. So, it is wisest to hold on to the reserve, instead of using it arbitrarily.

Long-Run Strategy in Dealing with Foreign Currency Crisis

After showing a sign of reserve growth, there has been a free fall, reaching a crisis level in a few countries. In addition to corruption, mismanagement, and war, experts and the media have already cited many other reasons. For a remedy, several policies and regulatory measures such as increasing interest rates, depreciating the currency, practicing austerity, reducing imports, controlling invoices, limiting expenditure, increasing exports, earning more remittances, and many more have also been cited (Rokonuzzaman, 2022). However, will they find a long-term solution to helping these countries keep growing while maintaining healthy foreign currency reserves? It depends on how these countries create economic value. Whatever a producer sells contains four major cost components or factors: natural resources, capital, labor, knowledge, and ideas.

A few countries have been improving their living standards through imports and maintaining healthy foreign currency reserves by selling natural resources. But not all less developed countries are equally blessed with high per capita natural resources. Hence, their next option is to add value to imported ingredients with imported capital, knowledge, and ideas, as well as locally supplied labor. However, in many products, the role of labor has been falling, while the role of capital has been increasing.

Consumers have been looking for better quality products at a lower price, and producers are looking for growing profits. To address this conflicting situation, we need to find a way to keep improving the quality and reducing the cost of production. The solution is to keep adding more knowledge and ideas, such as the better design of products, capital machinery, and processes. However, that reduces the role of labor-based value added in making each output unit. Furthermore, reliance on increasingly sophisticated capital machinery reduces the demand for locally supplied skills, knowledge, and ideas in replicating products. As a result, despite expanding education and skill development programs, local value addition through knowledge and ideas in replication is difficult to expand.

With the success of export-oriented manufacturing jobs and remittance flow, most countries witnessed growing foreign currency reserves and living standards through import-driven consumption. Hence, to accelerate it, they started improving physical capital by importing all kinds of things, from bridges and tunnels to factory machinery. Furthermore, to augment it, most of these countries accelerated the expansion of the education system with the belief that there is a natural correlation between human capital development and economic value creation.

However, ironically, these countries have been facing a bleak reality of growing unemployed university graduates and labor shortages in farming.

The wave of economic growth from labor-based value addition through incentives and a capital-import-based agenda has reached its limit. Furthermore, the expansion of education and skill development has also failed to add value because the scope of value creation in replication through knowledge and skill has been eroding. Often, we cite the poor quality of education. Of course, quality is a concern, but quality improvement will not do much unless we succeed in creating demand for education.

To find a long-term solution, aspiring countries must upgrade the means of creating economic value. It is time to focus on producing knowledge and ideas locally and integrate them into capital and products so that their producers succeed in improving the quality and reducing the cost of what they produce. Moreover, they should do it far better than others to succeed in extracting profitable revenue by trading them in the globally connected competitive market. Of course, it is not an easy path. However, that is the only option these countries have, and they have to find a way to keep increasing consumption and improving foreign currency reserves simultaneously. Hence, it is time to go back to the basics of economic value creation, change beliefs, upgrade strategies, make decisions, and keep uplifting to migrate to the orbit of economic value creation out of knowledge and ideas.

The Analysis of the Forex Reserve Crisis of Bangladesh

Forex Reserve of Bangladesh

When Bangladesh's foreign exchange reserves reached $48 billion in August 2021, many breathed a sigh of relief. However, since the Russia–Ukraine war began, the crisis of fuel oil and food supplies has caused economic unrest around the world. At the same time, Sri Lanka's recent economic crisis and public protests have caused anxiety among many. Because of this, a decrease in Bangladesh's foreign exchange reserves has become the focus of discussion. The current $34 billion reserve may still sound comfortable, but the ongoing inflation crisis worldwide is only natural to raise concern about the dwindling reserve.

Forex Reserve over the years

After independence, the Government of the day embarked on a war-torn Bangladesh with almost an empty foreign exchange reserve. According to World Bank data, the foreign exchange reserve of the war-torn Bangladesh, including hoarded gold, in 1972 was only $27.4 million. However, since 2000, there has been an increasing trend in Bangladesh's foreign exchange reserves. Gradually, the reserve increased to $36 billion in the 2019–20 financial year, and in August 2021, the reserve rose to $48 billion amidst the COVID-19 outbreak, the highest of all time. However, after the start of the Ukraine war, Bangladesh was hit because of an abnormal increase in fuel prices, and the reserve came down. Accepting the IMF's objections to the reserve calculation, one thing has become clear: the amount of the reserve that the central bank refers to was never the actual reserve. When the reserve was claimed to be $48 billion in August 2021, the actual reserve was $40 billion. It is still said that the reserve has decreased to $36 billion. This is also not true. The actual reserve will be $28 billion. Not only has the reserve decreased, but there has also been a problem in decision-making because of the mistake.

During the early days of the COVID-19 pandemic, foreign currency entered the economy only through the proper banking channels. During the initial months of the pandemic, many people lost their jobs and brought home all their money, including their savings. Since travelling abroad has stopped, the demand for foreign exchange has been significantly reduced. All this boosted the forex reserve.

Reasons for the reserve crisis in Bangladesh

Our interviews with some of the personnel in the Bangladesh Bank and the Bangladesh Securities and Exchange Commission have identified several reasons that triggered the reserve crisis in Bangladesh. Some of them are as follows:

Russia-Ukraine War: Bangladesh is already feeling the heat of the Russia-Ukraine war in many ways, i.e., export reduction and increased import bills. Being an oil-importing country, Bangladesh already feels pressured by high import payments. It was reported earlier by the Bangladesh Petroleum Corporation (BPC) that it was losing about Tk 19 crore per day. The costs of other imported products have also increased significantly, pushing the production costs up and resulting in a higher inflation rate. Global sanctions on Russia also affected our country. In FY2021, Bangladesh's RMG exports to Russia were almost USD 550 million, and imports from Russia (wheat and maize) were USD 480 million. Sanctions mean Bangladesh has to import these items from somewhere else. Russia is also implementing several projects in Bangladesh, i.e., the Rooppur Nuclear Power Plant of USD 12.65 billion, which is scheduled to be completed by 2025. The ongoing war and economic sanctions against Russia could delay this expensive project. This implies higher loans and a burden on the country.

Global inflation: Global prices of coal, oil, gas, and other primary commodities, including food grains, have more than doubled over the last 12 months, resulting in an unprecedented rise in the cost, insurance, and freight value of those imports.

Decrease in Export against import expenditure: Settling high import payments was the main reason for the depletion of the forex reserve. The country's import

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payments increased to $19.34 billion in July-September from $17.32 billion in the same months of the past year. In the first two months of FY 2022-2023, the country's import payments rose by 16.95% to $1.84 billion compared with those of the same months of the previous year. The country's trade deficit widened by $270 million to $4.55 billion in the July-August period of the current fiscal year 2022-23 compared with the same period in the past financial year. The trade deficit hit a record of $33.24 billion in FY22 against $FY21.

Decreasing trend in inward remittance flow: At the macro level, remittance improves the balance of payment position; helps pay import bills, builds foreign exchange reserves, helps debt servicing, and boosts economic growth, promoting employment. The country's inward remittance dropped by 10.84% to $1.54 billion in September 2022, during the third month of the 2022-2023 fiscal year, from $1.72 billion in the same month of the previous year.

Money Laundering: The GFI ranked Bangladesh among the top 30 countries globally, with around 20% of its international trade value being siphoned out of the country annually. The exponential growth in money laundering has become a serious threat to Bangladesh's rising economy, hindering economic good governance and social justice. It has turned into a safe avenue for white-collar criminals, i.e., business tycoons, corrupt politicians, and their criminal enterprises.

Government mega projects: The Government initiated many mega projects in the areas of energy, connectivity, ports, and telecommunication infrastructures. Therefore, government spending accelerated, and a large part of the forex reserve was employed in these projects. Time and cost overruns are perennial issues in the developing world, and Bangladesh is no exception.

Falling price of Taka against the US Dollar: For the last 5 years, the US dollar was sold at TK 84.80 per dollar in the interbank market. As a result of the sharp increase in import payments compared with export earnings, demand for the dollar in the interbank money market has increased significantly in recent times. The exchange rate rose sharply to Tk 108 from Tk 84.8 against the US Dollar within a year. The Bangladesh Bank approved the floating rate of dollars on September 14, 2022.

Settlement in foreign countries selling domestic assets: Many Bangladeshi citizens who move to Europe and America rarely return home. They sell their assets and resources in the country and take the proceeds. Even if this money is earned legally, Bangladeshi people cannot take out money exceeding a certain amount. This is when they sometimes need to rely on illegal means like Hundi.

Foreign education expenses: Apart from this, a considerable sum of money is smuggled out of the country every year in the guise of education expenses for children of the elite. This is another reason for the decreasing amount of foreign currency reserves.

Steps Taken by the Government to Combat the Reserve Crisis

Bangladesh Bank has taken a few measures to ease the pressure on the forex reserves, such as: Restrictions on importing luxury items, reporting of all types of foreign exchange transactions by banks, Encashment by banks of 50 percent of the total balance held in exporters' retention quota (ERQ) accounts in the exporters' names.

Depreciated Taka: Bangladesh Bank considered a depreciated taka against the dollar good for exports and remittances. As part of this move, BB is selling dollars from August 2022 to keep the market stable. However, the Bangladesh Bank approved the floating rate of dollars on September 14, 2022. However, expensive imports are further fuelling the inflation rate and have already depleted the forex reserves by a significant amount.

Injection of dollars in the domestic economy by Bangladesh Bank (BB): The Bangladesh Bank injected over $7.34 billion into the country's volatile foreign exchange (forex) market in around 11 months of the fiscal year 2021-22 to protect the Taka against the strengthening US dollar. Market analysts said the Central Bank had never released such a high amount in the history of Bangladesh in a fiscal year.

Encouraging boost of inward remittance: In the post-pandemic period, the number of temporary migrant workers has significantly increased, which is suitable for Bangladesh. During 2021-22, the number steeply rose to 877,371 (till May) from 280,258 in 2020-2021, 530,578 in 2019-20, and 692,978 in 2018-2019. The reasons include the devaluation of the currency and the Government's granting the recipients a 2.5 percent cash bonus.

Load-shedding schedule: Given the soaring prices, the Government took measures to reduce the cost of energy and rolled out a load-shedding schedule of one hour per day throughout Bangladesh. It also announced that petrol pumps should be closed one day a week to reduce nationwide electricity consumption by 25 percent. However, many factories and businesses have been buying more fuel for generators to maintain uninterrupted production and sales, putting the success of austerity measures in question. Factories that use generators said their production costs have jumped significantly. Consequently, factory production has declined, and workers have been laid off.

IMF financial support: Amid increasing balance of payments pressure and falling foreign exchange reserves, Bangladesh requested financial support from the IMF in July. IMF agreed to support Bangladesh with a 42-month arrangement of about US$ 3.2 billion (SDR 2.5 billion, equivalent of 231.4 percent of quota), and a concurrent RSF arrangement of about US$1.3 billion (SDR 1 billion, equivalent of 93.8 percent of quota) under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) as well as of about US$1.3 billion under the Resilience and Sustainability Facility (RSF). Funds will be disbursed in seven tranches, and the first installment of $447.48 million will be available in February 2023, and the last in December 2026, while the loan's interest rate will depend on the market rate at the time of maturity.

Measures Yet to be Taken to Deal with the Foreign Reserve Crisis

Based on several personal interviews and newspaper reading, the following steps have been highlighted that the Government must take in order to make an efficient control of reserve money:

Dealing with manipulated dollar price: Bangladesh Bank must act more against banks and exchange houses that allegedly manipulate the dollar price. It can serve as a show-cause notice to the managing directors of banks allegedly involved in dollar price manipulation.

Creation of a skilled workforce to migrate: Demand for skilled workforces has been rising worldwide, and Bangladesh should capitalize on it as these jobs offer higher pay. We should chalk out long-term, medium-term, and short-term programs to develop human resources with the necessary training to cater to the different needs of overseas job markets. Thus, we will be able to rake in more remittances. To boost remittance inflows in a one-year term, we need to tailor vocational training with overseas markets in mind.

Increasing cash incentives on remittance: Cash incentives on remittance through banking channels can be raised to 5% from 2.5% for a short term. If the Government provides such a facility, no one will transact money through a hundi.

Reducing dollar value differences in the kerb market and bank: By taking policy steps like reducing dollar value differences in the kerb market and bank, giving incentives, or taking strict legal measures against Hundi (illegal) traders, it is possible to increase the flow of foreign exchange through banking channels.

Raising the ceiling on investment bonds: As an immediate step to boost remittance, we must raise the ceiling on investment in bonds by expatriates. The Government launched the Wage-Earner Development Bond, US Dollar Premium Bond, and US Dollar Investment Bonds, which provide a scope of secured investment for NRBs. However, in 2020, the Government fixed the investment limit in these bonds at Tk1 crore. The Government must revise the policy and allow NRBs to invest up to Tk10 crore or even more.

Monitoring government spending: Government spending must decrease. Every element of government expenditure must undergo a critical review. The Government's spending on unproductive activities should be better eliminated or substantially curtailed. The spending on social safety nets must also be revised and made more efficient.

Reducing military expense and imports: Bangladesh had the second-largest relative increase in military spending between 2008 and 2017, according to arms watchdog Stockholm International Peace Research Institute (SIPRI). The military budget finances employee salaries and training costs, the maintenance of equipment and facilities, support of new or ongoing operations, and development and procurement of new weapons, equipment, and vehicles. Military spending and large-scale imports of military goods should be avoided as much as possible.

Governance in project implementation: Improving governance in project implementation and reducing corruption in public expenditures is crucial. Many mega projects in Bangladesh have reportedly exceeded the budgeted fund several times, reducing the project's feasibility.

Initiatives for new gas exploration: Energy experts view a lack of initiatives for new gas exploration and efficient management as the causes of the country's current power shortage crisis. Despite the prospect of success in gas exploration, according to various geological surveys, the Government has been reluctant to explore new gas fields. Instead, it opted for importing expensive liquefied natural gas (LNG) from the international market.

Blue Economy: Exploration of the blue economy can help Bangladesh address its current economic woes and maintain continuous economic growth in the long run. It will be beneficial in promoting the blue bio-economy of Bangladesh and can open the way to an export-driven increase in foreign money.

Tackling the illegal tax evasion: There is a significant increase in tax evasion within the country. The Government's revenue is highly dependent on tax revenues. For instance, tax revenues for 1987-1988 accounted for 84.9% of all state revenue, 81.60% in 1990-1991, 80.4% in 2011-12, and 76.5% in 2014-15. The Bangladesh government has taken action to combat tax evasion over the last few years, and further actions need to be taken to tackle tax evasion.

Restructuring the government job terms & conditions to fight corruption: Important issues must be considered carefully to implement anticorruption strategies successfully. Firstly, recruiting honest and meritorious people in government service and observing their actions and behavior are crucial to fighting corruption and ultimately stopping money laundering, which will eventually have a favorable impact on the economy of Bangladesh.

Restructuring the interest rate caps on banks: BB is unlikely to lift the interest rate cap on bank loans anytime soon, although it has allowed the market forces to determine the foreign currency exchange rate. However, gradually, it should remove the interest rate ceiling and let the market determine it.

Developing a good relationship with major suppliers (exporters) of food and energy: Bangladesh has turned to courting foreign direct investment to fill its ever-growing gap between energy consumption and supply. Companies from Great Britain, China, India, and the United States have invested in the energy industry in Bangladesh. It should improve its diplomatic and commercial relationship with the other major exporters like Russia, the Middle East, and Iran. Foreign policies should be economic rather than political.

Privatization of sectors that are making continuous losses under the Government: The Bangladesh government operates 49 organizations in the non-financial sectors: utilities, services, transport and communications, trade, agriculture and fisheries, manufacturing, construction, and others. Among these state-owned enterprises, those are profitable only in sectors where they are monopoly businesses, such as energy import and distribution, submarine cables, and utilities. Service and manufacturing-related state-owned firms are struggling to compete in the market with the private sector. Many state-owned organizations are incurring losses regularly and have a lot of inefficiencies and irregularities. These firms should adopt alternative forms of industrialization and be privatized.

Fostering renewable sources of energy: With 95% of the population now having access to electricity, Bangladesh must focus on increasing its use of renewable energy to reduce the increasing pressure on imported petroleum.

MAJOR FINDINGS

The data analyses we have produced have come up with the following findings:

- Critics of the Government are drawing an improper equivalence between Bangladesh and other South Asian neighbors, such as Sri Lanka and Pakistan, concerning the issue of debt sustainability.
- The country's external debt stock was reported to be $93.2 billion as of May 2022. Of this, the public sector's external indebtedness was $68.3 billion. This is 19.25 percent of GDP, and 81.4 percent of it is long-term in nature.
- The foreign currency held by commercial banks plunged by 13.5% in the past months, making it harder for them to open LCs for importing essential products.
- The interbank foreign exchange market has nearly collapsed, and banks cannot meet their demand.
- At least 21 banks with negative balances in foreign currency holdings struggle to pay their due import payments against their issued LCs.
- Most of the banks delayed paying their payment obligations. Some foreign buyers are reluctant to receive export orders and are delaying export payments, whereas importers are under pressure to pay due payments on time.
- Forex reserve fell to 34.26 billion. According to the International Monetary Fund's (IMF) suggestion, if the $8 billion used as an export development fund is excluded from the foreign exchange reserve, the reserve would stand at $26.3 billion, the lowest in seven years.
- The difference in dollar rates between remittance and export bill encashment added salt to the wounds, as remitters earn Tk 100 per dollar while paying TK 105-107 per dollar to import the raw materials.
- Production in the textile industry was reduced by 40-50% due to the gas and energy crisis induced by the reserve crisis, and workers were laid off.
- The price of many commodities skyrocketed, with multiple price hikes. This situation made all economic indicators, such as the balance of payments, remittances, national reserve, etc., look gloomy.

RECOMMENDATIONS

The current crisis requires immediate government intervention to improve the foreign currency supply in the market. Here are some concrete recommendations to overcome the current forex challenges:

- A separate fund should be set up for government imports such as fuel. This should be given to banks only for settling government imports; banks will not keep any profit margin for these payments. This will reduce pressure on the private sector demand for the dollar to import other essentials.
- The Taka should be devalued to be closer to the interbank rate and be realistic to the market rate to align with the current situation. This should cool the market down and restore stability.
- The forex reserves should be used judiciously. Import of luxury items should be restricted till the situation improves.
- Effective measures are needed to improve the remittance flow, as Hundiseems more lucrative to remitters because it offers higher rates compared to the formal banking channel.

- Bangladesh should gradually establish links with the future commodities market to ensure a long-term supply contract with global suppliers.
- All sorts of illegal tax evasion need to be dealt with firmly. All sorts of government spending should be monitored and controlled.
- Investment should be made to create a skilled workforce to migrate.
- The ceiling on investment bonds should be raised to make it more lucrative for expatriates.
- Govern all mega project planning and implementation with austerity, and tolls should be imposed to generate continuous government earnings.
- Unnecessary government subsidies should be removed during the crisis period.
- Diversification of the economic sectors is a must to eliminate the long-term dependency on the textile sector for export and foreign earnings.
- Initiatives for new gas exploration should be emphasized, and all sorts of potential need to be utilized from the Bay of Bengal, keeping the concept of the Blue Economy in mind.
- The terms and conditions of government jobs must be restructured to fight corruption.
- The interest rate caps on banks need to be restructured, and the interest rates can be increased to boost the money supply.
- Fostering renewable energy sources can significantly decrease the import of energy and fuel.

Conclusion

In recent times, Bangladesh's macroeconomic stability has faced various challenges originating from both domestic and external fronts, mainly due to the COVID-19 pandemic and the Russia-Ukraine war. The measures taken to address the challenges are inadequate. In order to deal with the concerns, it is important to take short- and medium-term measures to address both macro and micro issues. Moreover, the Government needs to adopt effective policies on austerity measures to help achieve macroeconomic stability. Bangladesh is not a failing country; it has always shown its resilience in any historical crisis.

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