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## **ECONOMIC IMPACTS OF COVID-19 IN BANGLADESH: PROPOSING A SET OF POLICY PROPOSALS**

### **Abstract**

This paper aims to (i) briefly look into covid-19 induced economic impacts on Bangladesh's external sectors and some of its internal sectors; (ii) succinctly highlight stimulus packages and other steps Government of Bangladesh (GoB) has taken so far to address the impacts, and (iii) propose a set of policy proposals to facilitate government measures. It refrains from making an assessment of existing policy measures. Its data are from open sources and reports published by various public and non-public organisations. The paper should be seen as evolving and considers 08 March 2020 to 31 May 2020 as the timeframe. It also finds that exports are decreasing, imports are facing delays, manpower export is declining, remittance is shrinking, investment inflows are facing uncertainty, additional government financing requirements are being demanded from external sources, unemployment in informal sectors is increasing, agricultural supply chain is disrupted, impacts on large, medium and small industries, stock market, energy, Information and Communication Industry (ICT) are being bigger. Sectoral impacts are affecting revenue mobilisation, rate of growth and poverty. The GoB has already announced, beyond other steps, 19 stimulus packages worth about USD 1031.17 billion, more than 3.6 per cent of Gross Domestic Product (GDP), to recover the impacts and the affected sectors. This paper finds government measures by sectors are comprehensive. But implementing those and reaching out to the affected sectors are challenging. It moreover, proposes that following are vital to facilitate measures provided by GoB: a) having an inclusive arrangement for external sectors; b) reaching targeted support measures to whom it is concerned; c) prioritizing support for agriculture sector; d) increasing fiscal measures for manufacturing and services sectors, initiating a government job support scheme reducing unemployment; e) facilitating ICT industry, pursuing expansionary approaches, f) increasing mobilization, strengthening banking sector, broadening measures in Fiscal Year 2021-22 budget for the affected sectors; g) ensuring implementation and transparency, raising Least Developed Countries' voice together; and h) having possible options for stimulus packages.

**Keywords:** Covid-19, Economic Impact, Bangladesh Economy, Government Measures, Policy Proposals.

### **1. Introduction**

Since early December 2019, spread of novel coronavirus became uncontrollable, defying all efforts to tame it. The world is already grappling with

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its economic fallout. There are possibilities of a global economic downturn through three direct impacts on (i) production (ii) supply chain and market disruption, and (iii) financial impact on firms and financial markets.<sup>1</sup> Slowdown in China is having impact on exports and imports by countries. Industries dependent on China for raw materials such as fabrics, Readymade Garments (RMG), electronics, medicines, etc, are facing negative impact on their production. Many manufacturing firms are highly dependent on imported intermediate inputs from China and rely on China for their sales and achieving their financial targets. They are facing risk of a negative performance. Disruption in supply chain and production is putting pressure on some firms. Companies with inadequate liquidity are under stress. Firms are reducing their engagement in equity and corporate bond markets due to uncertainties.

Disruption in supply chain, lower production of agriculture and industrial goods, and closure of aviation, tourism and hospitality businesses are having a knock-on effect on job market. Countries continue to lay off workers, companies are slashing salaries, payments and freezing recruitments. The outbreak of coronavirus is deepening and risk on economy is getting high i.e. cross-border trade getting squeezed, domestic economic activities coming to a near standstill, demand and expenditure being depressed and limited respectively due to people's movement restrictions, marginalised people being affected, supply shocks being observed, both global and domestic supply chains being disrupted due to closure of factories, reduced production and lack of supply of goods and services in markets, people losing jobs and other sources of income, etc. Therefore, countries continue to feel the heat of economic slowdown. This is now almost clear that consequences of this outbreak will be felt beyond the middle of 2020 and lead to the hardest and longest global recession so far, along with loss of global Gross Domestic Product (GDP), income and annual growth.

Bangladesh is not out of global economic consequences. The Asian Development Bank (ADB) warns that coronavirus pandemic will drive an additional 13 million people into poverty, cut 3.7 million jobs, take budget deficit to as high as 7.5 per cent and inflict a minimum revenue loss of 2 per cent of GDP in Bangladesh as the killer bug is wreaking havoc throughout the economy.<sup>2</sup> As the situation is evolving every day, such estimates can only provide a magnitude of the impact. Actual effect will depend on the extent of the spread and length of the duration of the outbreak. By now, Bangladesh, in the wake of Covid-19, is being severely affected

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<sup>1</sup> Mustafizur Rahman, "Navigating Covid-19 impacts on Bangladesh's external sector", *The Daily Star*, 27 March 2020.

<sup>2</sup> RejaulKarim Byron and FazlurRahman "Taming Coronavirus Pandemic A Bleak Picture on Bangladesh Economy" *The Daily Star*, 08 May 2020.

as orders worth US\$ 3.15 billion<sup>3</sup> have already been cancelled, affecting 2.25 million workers in 1,134 factories.<sup>4</sup> Remittance flows have started to shrink, no less because of the slump in oil price hitting the economy of host countries in the Middle East. Loss of market predictability and investor confidence preempts the flow of Foreign Direct Investment (FDI) as well as investment from domestic sources. All these effects are also spilling over to both money market and capital market in the forms of growing non-performing loans, increased capital outflows and widening of bond spreads. Achievements of various short- and medium-term economic objectives have thus been difficult to maintain for Bangladesh.

In a bid to tackle coronavirus induced economic fallout, the Government of Bangladesh (GoB) has already announced 19 stimulus packages worth US\$ 1031.17 billion and taken several other steps. Nearly every sector will receive financial assistance to cope with the crisis. Financial assistance and policy support under sector-wise stimulus packages will help the economy overcome the fallout and stay functional. Such immediate measures seem to be comprehensive but implementing the schemes and to reach out to the affected and marginalised will be challenging.

In this backdrop, this paper aims to: (i) briefly look into Covid-19 induced economic impacts on Bangladesh's external sectors and some of its internal sectors; (ii) succinctly highlight stimulus packages and other steps GoB has taken so far to address the impacts; and (iii) suggest a set of policy proposals to facilitate government measures. It collects data from open sources and reports published by various public and non-public organisations. This paper should be seen as evolving. It considers 08 March 2020 to 31 May 2020 as the timeframe.

Barring introduction and conclusion, this paper consists of three consecutive sections. Economic impacts of Covid-19 in Bangladesh are detailed in section two. Next one highlights measures taken by GoB so far. Section four proposes a set of policy proposals following the conclusion in the final section.

## **2. Economic Impacts of Covid-19: Bangladesh in Perspective**

### **2.1 Economics of Pandemics**

Economics of the pandemics is a comprehensive piece of research. Economic impact from a pandemic can be estimated, but it varies depending on affected people,

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<sup>3</sup> The currency conversion has been considered US\$ 1= BDT 84.60 dated on 27 August 20 20.

<sup>4</sup> Shahab Enam Khan, "COVID-19 Notes from Bangladesh: A Human Security Discourse", paper prepared for the NESACenter, National Defense University, Washington D.C., USA, April 2020.

severity of the pandemic, political and socio-cultural reaction and importantly whether state measures are effective. During any pandemic, peoples' movement is restricted. It, economists argue, may noticeably reduce economic output. Bloom and Canning find a broad link between epidemic and economics, noting that the former impedes economic development.<sup>5</sup> In measuring probable macro-economic impact of a pandemic, Jonung and Roeger quantify macro-economic cost, and argue that a pandemic reduces production and GDP.<sup>6</sup>

Paulo Surico, professor of economics, London Business School, with a 'cash-flows spiral' shows how pandemic like Covid-19 affects firm's production, workers' jobs and uncertainty and household consumption as well as how it causes impact on economic surplus, inequality of income, productivity and opportunities.<sup>7</sup> A theory of Keynesian supply shocks is applied by Guerrieri et al to quantify macro-economic effects of corona virus, see whether adverse supply shock causes demand scarcity and how lower production and unemployment lead to an economic recession.<sup>8</sup> In a study, Jorda, Singh and Taylor find that pandemic like coronavirus reduces economic activities, particularly volume of trade and employment generation, with long term impact on natural interest rate.<sup>9</sup>

For short period of time, the study of Gourinchas shows that 'flattening infection curve inexorably steepens macroeconomic recession curve'; hence, policy measures are required to be effective to deal with recession, economic shock and contagion.<sup>10</sup> While studying on economics of pandemic, Correia, Luck and Verner disclose that decreasing employment and production in manufacturing sector, declining consumption in durable commodities and bank assets are evident now due to Covid-19.<sup>11</sup> This requires policy steps to be upcoming economic outcomes orient.

<sup>5</sup> David E. Bloom and David Canning, "Epidemics and Economics", *PGDA Working Paper No. 9*, 2006, available at <http://www.hsph.harvard.edu/pgda/working.htm>, accessed on 28 July 2020.

<sup>6</sup> Lars Jonung and Werner Roeger, "The macroeconomic effects of a pandemic in Europe - A model-based assessment", Directorate-General for Economic and Financial Affairs, European Commission, 2006, available at [https://ec.europa.eu/economy\\_finance/publications/pages/publication708\\_en.pdf](https://ec.europa.eu/economy_finance/publications/pages/publication708_en.pdf), accessed on 29 July 2020.

<sup>7</sup> Paulo Surico, "Leading Through A Pandemic", an LBS webinar series on *The Economics of a pandemic: The case of Covid-19*, 29 May 2020, available at <https://www.london.edu/think/the-economics-of-a-pandemic>, accessed on 29 July 2020.

<sup>8</sup> Veronica Guerrieri, Guido Lorenzoni, Ludwig Straub and Ivan Werning, "Macroeconomic Implications of COVID-19: Can Negative Supply Shocks Cause Demand Shortages?", available at <https://www.nber.org/papers/w26918.pdf>, accessed on 29 July 2020.

<sup>9</sup> Oscar Jorda, Sanjay R. Singh, and Alan M. Taylor, "Longer-Run Economic Consequences of Pandemics", *Federal Reserve Bank of San Francisco, Working Paper 2020-09*, 2020, available at <https://doi.org/10.24148/wp2020-09>, accessed on 29 July 2020.

<sup>10</sup> Pierre-Olivier Gourinchas, "Flattening the Pandemic and Recession Curves", available at <https://voxeu.org/article/flattening-pandemic-and-recession-curves>, accessed on 30 July 2020.

<sup>11</sup> Correia, Stephan Luck, and Emil Verner, "Fight the Pandemic, Save the Economy: Lessons from the 1918 Flu." *Federal Reserve Bank of New York, Liberty Street Economics*, 27 March 2020, available at <https://libertystreeteconomics.newyorkfed.org/2020/03/fight-the-pandemic-save-the-economy-lessons-from-the->

By using a model, Eichenbaum, Rebelo and Trabandt study links between epidemic and economic decision, find out the former causes supply and demand shocks and a long term economic recession, which are tricky to address simultaneously.<sup>12</sup>

Pandemics in general have long economic hangover. The study of Jorda, Singh and Taylor indicates such and states that even if global production, trade and employment start a new journey, global economic fallout due to Covid-19 will remain for more than a generation.<sup>13</sup> The study of the World Bank concludes the same highlighting longer recession, declining investment, unemployment, collapse in trade and supply shocks due to Covid-19 will severely affect global GDP and growth.<sup>14</sup> Bangladesh's economy, though not so globalised yet, has already started to observe the hit. Owing to Covid-19, the GoB had to lockdown almost every sector of the economy since 26 March to 30 May 2020. It has resulted in several impacts on the economy's external and internal sectors.

### 2.3 Impact on External Sectors

Covid-19 induced impacts on Bangladesh's external sectors are diverse. For example, export outflows are getting disrupted, import inflows are facing delays, outmigration has ground to a halt, tourist arrivals are virtually non-existent, business contacts are getting delinked, investment inflows are facing uncertainties, etc. Such early signs of adverse effects are already being seen in Bangladesh economy, at the levels of financial transactions and real economy, and on business, commerce and consumers at the levels of enterprises, entrepreneurs and workers. If identified transmission channels are examined in conjunction with Bangladesh's overseas partner countries, it will be evident that Covid-19 will have critical implication for Bangladesh's external sector performance over the coming months of Fiscal Year (FY) 2020, and most likely even beyond. Indeed, some repercussions are already becoming visible.

Bangladesh's major export destinations are some of the countries hardest hit by Covid-19: United States of America (USA), Germany, United Kingdom (UK), Spain, etc. This observation holds true for other export items as well: for raw leather,

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1918-flu.html, accessed on 30 July 2020.

<sup>12</sup> Martin S. Eichenbaum, Sergio Rebelo and Mathias Trabandt, "The Macroeconomics of Epidemics", National Bureau of Economic Research, *Working Paper No. 26882*, 2020, available at <https://doi.org/10.3386/w26882>, accessed on 30 July 2020.

<sup>13</sup> Oscar Jorda, Sanjay R. Singh, and Alan M. Taylor, "long economic hangover of pandemics", *Finance and Development*, Vol. 57, No. 2, 2020, pp. 12-15, available at <https://www.imf.org/external/pubs/ft/fandd/2020/06/pdf/long-term-economic-impact-of-pandemics-jorda.pdf>, accessed on 30 July 2020.

<sup>14</sup> The World Bank, "Global Economic Prospect", June 2020, available atfile:///C:/Users/Seminar%20Hall/Downloads/9781464815539.pdf, accessed on 30 June 2020.

Hong Kong and China together account for more than half of the export; for leather goods, USA and Japan are major markets; for jute and jute goods, Turkey is a key market; for exports of fish, China and UK are the most important destinations.<sup>15</sup> Exporters are experiencing delays in shipment of goods. RMG entrepreneurs are experiencing deferment of orders and disruption in imports of primary and secondary inputs. Hence, export earnings and receipts have declined. Again, major import sub-components such as intermediate inputs and capital goods including capital machineries have posted negative growth in terms of import payments. Therefore, revenue mobilisation at import stage is being affected in terms of reduction of import payments and export receipts. Consequent result is trade deficit.

Covid-19 is set to deal a blow to overseas job market and remittance inflow as a large number of migrants has already lost their jobs and only documented workers are being provided with basic wages amid global shutdown. The number of workers going abroad in recent times is low which could fall further and a big number of migrant workers has returned from abroad.<sup>16</sup> Thousands of Bangladeshi migrants who came home on leave and were waiting to fly after securing work visas are not being able to join work abroad as the destination countries have imposed travel bans. This is like a double-edged sword that Bangladesh is facing. The Middle East,<sup>17</sup> counting for about two-thirds of the remittance flows, has to deal with dual challenges of the pandemic and falling oil prices. Southeast Asian countries, a major source of remittance, have enforced shutdowns for a certain period of time. The countries which receive foreign workers have already allocated a significant portion of their budget for the recovery of their economy. It means development activities in those countries may be cut and demand for foreign workers may drop. Consequently, those who are already in the countries may also face job cuts given the looming economic recession. Thus, remittances may see a reduction. Accordingly, Bangladesh's foreign exchange reserve may face trouble for a short period of time as export earnings and remittances are now showing a declining trend.

With rising expenditure and declining revenues, as well as to ward off impacts of virus and embark on implementing stimulus packages, additional government financing requirements are likely to be increased. A bigger amount is to be financed through external sources.<sup>18</sup> Beyond regular project funding, Covid-19 finance from sources with flexible or minimum conditions is a pressure on Bangladesh's economy. Again, Bangladesh's recent surge in FDI is largely driven by Chinese investment.

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<sup>15</sup> Mustafizur Rahman, op. cit.

<sup>16</sup> Most, including tens of thousands from Italy, entered unscreened, *The Economist*, 2020, 01 April 2020.

<sup>17</sup> An extremely crucial time lies ahead to contain the Covid-19 pandemic, as roughly 29,000 Bangladeshis are set to return to the country over the next couple of weeks from the Middle East, *The Daily Star*, 19 May 2020.

<sup>18</sup> For example, the World Bank (WB), Asian Development Bank (ADB), International Monetary Fund (IMF), Asian Infrastructure Investment Bank (AIIB), European Union (EU), etc.

China has invested in a number of projects including in transport and energy sectors. Activities of several infrastructure projects in Bangladesh which are being implemented by Chinese construction firms have slowed down due to Covid-19. Not only has the supply of construction materials been hampered, but also many Chinese workers engaged in Bangladesh's infrastructure projects have also been confined in their country. It has led to time over-run and cost escalation of projects leading Bangladesh to borrow more. Besides, those who wished to invest and have investments in the country are now concerned about uncertainties. Therefore, investment in capital market is also taking a downturn. FDI is thus taking a pause.

## 2.4 Impact on Internal Sectors

Owing to shutdown of different businesses, lives and livelihoods of low-income people, indeed workers of informal sectors, losing their regular jobs, have been affected and are at risks. According to the Centre for Research and Information (CRI), 'permanent' impact job loss estimates are six million, which will nearly double unemployment rate.<sup>19</sup> It would affect approximately 24 million people.<sup>20</sup> Again, in formal employment sectors, e.g., in RMG, due to cancellation of work order and uncertainty, about five million workers are at risk of losing their job.<sup>21</sup> According to a report of the Center for Global Workers' Rights in 2020, more than a million have already lost jobs as global fashion companies have cancelled orders.<sup>22</sup> It is being apprehended by the ADB that there could be 0.9 million job losses due to a global economic downturn.<sup>23</sup> One of the most crucial impacts on Covid-19 in Bangladesh has thus been in the country's employment sector.

Agriculture, a crucial internal sector of Bangladesh economy, is at risk due to stoppage of transportation. There has been a breakdown of agricultural supply chain. Farmers are direct victims, as they are not getting proper price for their products, while prices remain high in markets. Besides, product items, e.g., paddy, vegetables or fruits are yet to be taken out from the field. Vegetables and local fruits that are grown to reach the table have very little shelf-life and are becoming a headache for farmers. Again, agro-based sectors, e.g., fisheries, livestock, dairy, eggs and poultry are being affected. Fish farmers are incurring losses due to transport disruption. Farmers are unable to harvest fish and sell those to different parts of the country due to lack of buyers and smooth inter-district transportation. Farmers are having

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<sup>19</sup> Imran Ahmed and Syed Mafiz Kamal, "Bangladesh at Work Job Creation and Inclusive Growth in the Era of Covid-19", CRI Studies, 01 June 2020

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Shahab Enam Khan, *op. cit.*

<sup>23</sup> Ibid.



difficulty in finding labours. Restoration of agricultural supply chain has been a concern.

In the wake of Covid-19, heavy industries (e.g., steelmakers and cement manufacturers) have been affected in three ways: shutdown of production with disrupted import of raw materials, limited sales and continuing paying workers and bearing other expenses, thus requiring immediate working capital. This is taking a toll on infrastructure development. Likewise, owners of Small and Medium Enterprises (SMEs) are at crisis owing to coronavirus, facing challenges to continue their businesses and are thinking of employees' layoff. Only 15 per cent of total GDP comes from export sector.<sup>24</sup> Rest comes from different domestic industries, heavy industries and SMEs. If they are at risk, the whole GDP will be affected.

Amid the closure of two bourses, its stakeholders and GoB are depriving from revenue earnings, while brokerage house employees are at risk of losing their jobs if the Covid-19 pandemic persist. Market insiders have said that if current trend continues, at least 40-50 per cent of total staff employed at brokerage houses may lose their jobs, while branch offices of leading houses are likely to be closed down.<sup>25</sup>

Like other sectors, outbreak of covid-19 has affected global energy picture. Bangladesh's development is dependent on energy. Mega projects, energy projects, now at different stages of implementation, are being affected and may not be completed on schedule if Covid-19 prolongs. Even after hoping that global community would find some way out and normalcy will resume soon, dampening impacts on energy security would last for long. Bangladesh cannot even derive benefits from current low oil price in world market due to its limited strategic reserve capacity. Most of its liquid fuel and Liquefied Natural Gas (LNG) contracts are long-term and have limited opportunities to renegotiate. Besides, Production Sharing Contract (PSC) bidding round for offshore exploration in Bangladesh may be delayed in the prevailing low global crude oil pricing situation and over supplied LNG market scenario.

Covid-19 pandemic that started from China, did not remain confined there, but rapidly spread outside, hit the EU and some of North American countries the hardest - one of the main target markets for Information and Communication Technology (ICT) companies of Bangladesh, especially companies who are doing outsourcing. ICT industry is passing tough time. Experts suggest that many active companies (working for global and local markets) will not be able to run their operations as losing work orders continue, working capital shortages go on, and

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<sup>24</sup> "Renegotiations at Firm Levels Comprehensive Effects of Covid-19" Economic Research Group, *Research Brief*, 06 June 2020.

<sup>25</sup> Ibid.



uncertainty in clients' bill payment rises. Sustainability of ICT firms is now at risk, meaning that a hit for implementing Digital Bangladesh is knocking at the door.

Sectoral impacts give rise to impact on growth and poverty. Projected GDP growth of 8.2 percent for FY 2020-21 may decline by 2 to 3 percent, i.e., economic growth may settle somewhere between 5 to 6 per cent.<sup>26</sup> Robust economic growth during the last decade helped Bangladesh to win the fight against poverty, mainly through employment generation channels. Covid-19 induced unemployment and lack of access to basic necessities have created a subsection of the poor named the 'new poor'. These are people who have fallen back below the poverty-line due to income loss from recent economic disruption. According to CRI, estimated number of new poor is 38 million.<sup>27</sup> This new poverty rate is estimated at 22.6 per cent.<sup>28</sup> When existing 18.9 per cent poor is added to the new poor, poverty incidence jumps to 41.5 per cent.<sup>29</sup> A reduction in economic growth, along with a rise in joblessness, inevitably leads to an increase in poverty rate and pushes more people into poverty. That is, vulnerable people requiring support may rise exponentially in FY2020-21 and beyond, although perhaps for a temporary period.

### 3. Government Steps

With a view to increasing aggregate demand and spending, overcome supply shocks, stimulate economic activities and create vibrancy in economy, GoB has announced 19 different stimulus packages worth US\$ 1031.17 million, which is more than 3.6 percent of GDP, and taken other different steps simultaneously.

The government announced US\$ 357.5 million for export oriented industries to pay salaries and allowances of workers and employees, affected enterprises in industrial and service sectors, SMEs including cottage industries, expanding benefits under Bangladesh Bank-managed Export Development Fund (EDF), and introducing Pre-Shipment Credit Refinance Scheme.<sup>30</sup> The last four aims are to introduce fiscal package, increase money supply, public expenditure, social security and safety net programmes. The four aims will be implemented in three phases- 1<sup>st</sup> phase (immediate) by FY 2020-21, the short phase in FY 2021-22, and the medium phase in next three FYs. In the name of social security packages, the government announced US\$ 67.57 million for sale of rice at US\$ 0.08 per kg under Open Market Sale (OMS), free distribution of food, cash handouts for targeted groups

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26 "COVID-19 may pull down BD's growth even below 6.0 pc", *The Financial Express*, 30 May 2020.

27 Imran Ahmed and Syed Mafiz Kamal, op. cit.

28 Ibid.

29 Ibid.

30 "Bangladesh Responses to Covid-19", op.cit.

(who have lost jobs due to lockdown), speedy implementation of providing a home to every homeless, and old age, widowed and abandoned women allowance.<sup>31</sup> These five are social security packages focusing on people living under poverty line, day labourers and those involved in informal sectors.

The Bangladesh government declared US\$ 224.89 million for agricultural re-financing scheme, subsidy in agriculture, purchasing Boro paddy/rice, agricultural automation, and re-financing scheme for low-income professionals, farmers and micro enterprises.<sup>32</sup> The five are to reinvigorate agricultural sector and marginal businesses. For employment creation programmes, US\$ 02 billion was announced.<sup>33</sup> Furthermore, US\$ 27 million was announced to assist migrant workers who lost job, unemployed youth and rural population.<sup>34</sup> It has been said that if one dies abroad as Bangladeshi migrant workers, he/she will get US\$ 0.3 million.<sup>35</sup> To stimulate working attitude of physicians, nurses and other health workers, US\$ 8.5 million was announced.<sup>36</sup> It will be provided as special honorarium, health and life insurances. Bangladesh's Prime Minister provided a donation of US\$ 01 billion to continue healthcare and other services of the Centre for the Rehabilitation of the Paralysed (CRP). For commercial banks, BDT 20 billion has been announced as interest subsidy to ease loan burden on businesses.<sup>37</sup> It is to waive bank interest of the people affected. Borrowers numbering about 13.8 million will benefit from the package.

Besides the stimulus packages, the government took different steps and the Bangladesh Bank (BB) highlighted different guidelines under their instructions. Government approved two projects related to Covid-19 emergency response and preparedness to fortify health system and preparedness of health workers for surveillance, detection and diagnosis, to enhance capacity and coverage of diagnostic laboratories, and to increase treatment scope for patients.

BB on behalf of the government, has initiated several actions. It has published guidelines to allow commercial banks to get down on implementing the aforesaid stimulus packages for agriculture sector, cottage, micro, SMEs (CMSME – BDT 20 billion) and export-oriented firms.<sup>38</sup> It has also published guidelines for 'pre-shipment credit refinance scheme' and 'small and medium businesses and

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<sup>31</sup> Prime Minister Sheikh Hasina's Address to the Nation, delivered on 24 May 2020.

<sup>32</sup> Ibid.

<sup>33</sup> "Corona Pandemic and Bangladesh: Health and Economic Risks and Recommendations", *Centre for Policy Dialogue (CPD) Working Paper Series 133*, 18 April 2020.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

<sup>36</sup> "Bangladesh Responses to Covid-19", op.cit.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

entrepreneurs in farm sector.’ It has asked banks to release required foreign exchange to Bangladeshi nationals stranded abroad for travel freeze brought on by covid-19 and take same measures for those who are getting treatment abroad. It directed banks to transfer all interest accrued or to be accrued between 01 April and 31 May 2020 from all of their loans to an interest-free blocked account.<sup>39</sup> It announced several other support measures – extending timeline for repayment of installments of credit for six months and for bill of entry of import letters of credit from six months to one year; reducing repo rate to 4.75 per cent, Cash Reserve Ratio (CRR) to 04 per cent, asking commercial banks not to change classification of loans between January and June 2020 even if a business fails to repay its loan, starting to buy treasury bills and bonds to add to liquidity in banking system.<sup>40</sup>

Besides, some government agencies have taken several stimulus initiatives. For example, National Board of Revenue (NBR) is likely to give relief to taxpayers from penalties for their inability to comply with deadlines during shutdown, also working to extend deadline regarding filing of Value Added Tax (VAT) returns. Ministry of power, energy and mineral resources has announced deferred payment facility of monthly charges of utilities, e.g., gas and electricity without deferred fees. This is to provide temporary relief to businesses and households up to May-June, 2020. Bangladesh Railway has started three special train services for transportation of raw materials, vegetables and fruits. The Ministry of Agriculture (MoA) and Bangladesh Post Office have taken joint initiatives. MoA has decided to supply mangoes and litchis to different parts of the country by postal vehicles.

Stimulus packages announced by GoB can broadly be categorised into three groups: (a) targeted support measures for all domestic level businesses (b) targeted support measures for export-oriented industries and (c) targeted measures for working people particularly those working in informal sector. A major focus of such packages is to support workers who are involved in different formal and informal economic activities and have almost no risk-coping capacities. All categories of enterprises operating domestically are to get support of the measures announced by different public agencies. Such measures would help local businesses to increase the flow of fund at the enterprise level. The export-oriented enterprises are to be benefitted in three ways. Firstly, measures targeted to domestic enterprises will also be applicable for them. Secondly, these enterprises will get the facility to realise the export receipts at an extended timeline from four to six months, which will help to

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<sup>39</sup> A blocked account refers to an account that does not allow for indiscriminate withdrawal but instead has certain restrictions or limitations on when, how much, and by who, capital can be withdrawn. Besides, banks are not allowed to transfer interest or profits deposited in blocked account of borrowers to lenders’ income book until further notice

<sup>40</sup> AKM Zamir Uddin, “BB throws kitchen sink at downturn with its latest monetary policy”, *The Daily Star*, 30 July 2020.

increase cash flow at these enterprises. And lastly, the government has announced a US\$ 5 billion package to meet the expenses related to wages and salaries of workers and staffs for export-oriented industries. These would help them to survive and assist Bangladesh economy.

For the marginalized people, a number of support measures has been announced, which include operation of Vulnerable Group Development (VGD) and Vulnerable Group Feeding (VGF) programmes, operation of OMS services, selling rice at a subsidised price of Tk 10 per kg and food support for six months under the Social Safety Net (SSN) programmes at district levels. Besides, ‘*Ghorefera* (return home)’ programme and ‘Bhashanchar Housing Facility’ programme are available to be used extensively for the marginalized. Furthermore, the government requested social organisations and well-off people to come forward and participate in the support programmes for them. These will be helpful for working people of the informal sector.

The government has emphasized on coordinated planning to pull together all public and private resources, assistance from Non-Government Organisations (NGOs) and Development Partners (DPs) for maximising prioritisation and allocation. The Prime Minister ordered for speedy delivery of cash, goods and services as well as effective and timely disbursement of funds and distribution of assistances. She has employed one secretary for each of the 64 districts to monitor the stimulus packages announced. Government is eyeing extension of support from Bangladesh Bank for quick approval of loans. The government recently has formed district-based monitoring committees across the country for smooth disbursement of loans for SMEs. These measure and incentive packages are expected to improve the economic downturn caused by Covid-19.

Before disbursement of stimulus packages, it is essential to undertake some activities that include: a) setting priorities in terms of demand for different target groups b) selecting target groups by maintaining transparency, efficiency and inclusivity and c) distributing the support (working capital) to target groups by ensuring accountability at all levels. Package-related activities will be implemented in three phases: immediate, short and long terms. Hence, it is important to identify which activities should be carried out at which periods and under which mechanism, priority groups will be identified, target groups will be selected and the package support will be distributed. This task can be carried out by creating a dedicated cell within the Planning Commission for Covid-19.

The ambitious stimulus packages laid out by Prime Minister is commendable, however, with relatively weak institutions and service delivery mechanisms, coupled

with widespread corruption and the culture of political impunity, implementing these schemes and to reach out to the marginalised and affected can be challenging. This will perhaps require strong transparency and proactive transparent public disclosure of goods and services distributed by government agencies and public representatives involved. Major task lies ahead in promptly and efficiently implementing policies and judicious assessment will have to be made while identifying actual sufferers. An innovative, interactive linkage mechanism may be put in place to identify real needy micro entrepreneurs spread across remote areas and cities including farmers and sharecroppers within the country keeping aside local geopolitical dynamics.

Covid-19 induced scenario calls for dynamic and prudent macro-economic management on the part of Bangladesh's policymakers. And the government should be ahead of the curve in dealing with health issues, meaning it will have to be proactive rather than reactive. While Bangladesh can rightly claim success in reference to sustained economic growth of the past decade, the coming days will test whether the economy has also the capacity to absorb shocks without undermining macroeconomic stability and by sustaining the growth momentum.

#### **4. Suggesting a Set of Policy Proposals**

This section puts forward a set of policy proposals. Rationales behind the proposals are to: (i) ensure that no affected persons and businesses remain out of government stimulus packages (ii) increase scope of supports for the affected economic sectors (iii) broaden fiscal and monetary expansionary measures (iv) increase scope of revenue mobilisation (v) increase allocation in the SSN and affected sectors in FY 2021-22 budget (vi) strengthen banking sector (vii) secure implementation and monitoring mechanism, and (viii) engage international development actors in Covid-19 response. These rationales behind proposing a set of proposals mentioned below, indeed, are to facilitate the government measures.

First, it is important to have a more inclusive arrangement for external sectors. Even with exceeding fiscal deficit, pursuing expansionary macroeconomic stance, underpinned by higher public expenditure, quantitative easing, fiscal incentives and sector-specific targeted support measures is crucial. For export-oriented industries, banking facilities and regulatory actions are to be increased and eased respectively. It will help survive the industries. For migrant workers, there should be a robust database of returnees, their contacts and skills. Based on that, they could be re-skilled and provided with microloans in productive sectors to ensure their social and financial protection. It will help reduce unemployment. For attracting FDI, it is vital to undertake a new and generous incentive package to perk up the whole investment climate and attract foreign investors, e.g., in economic zones. A renewed

focus could be on attracting FDI in agro-processing firms in economic zones, by providing attractive incentives to investors.

Second, targeted support measures are essential to be available for whom the measures are taken. For US\$ 5 billion announced for export-oriented industries, identifying the most affected ones properly and ensuring coverage of workers' wages transparently are crucial. The fund may be created as 'revolving loan fund' for entrepreneurs to provide low-interest credit facility. For domestic-level enterprises, initiatives could be such that not a single one remains out of the government support measures. That is, SMEs and similar enterprises should get adequate level of benefits from the announced measures. In that case, setting up of a 'revolving fund' with low-interest credit facility from where the enterprises can borrow to pay workers and meet necessary industrial expenses is important. For the marginalised people working in different informal sectors or services, identifying a real data on vulnerable groups and helping them by taking steps efficiently, not to fall below poverty line are very important. It is also important to extend the list of beneficiaries in SSN programmes so that peoples in sudden risks are included in the programmes.

Third, prioritising support for agricultural sector is essential. It is to continue all initiatives and functions for increasing farmers' capacity like providing all types of production-incentives in agricultural sector, waiver of loans, waiver of interest of small loans, providing agricultural loans with minimum interest and in specific cases with no interest. Necessary steps and plans must be undertaken and implemented in FY 2021-22 budget to keep moving rural (agricultural) economy. Banking system must be more farmer friendly as small and marginal farmers often find it difficult to access credits or loans. This is to ensure that target groups under the stimulus package for agriculture are benefitted without any banking hassle. When Covid-19 like emergency situation emerges, GoB must take initiative by local administration to create 'special agriculture markets' for perishable crops, vegetables and fruits. It is also to ensure effective government procurements of rice, paddy and wheat with utmost care so that no real growers are deprived of getting due benefits. If needed, it is important to announce two different prices - one that will be offered to growers/farmers and the other for traders/mill owners - to help real growers get offered incentives. Besides, GoB may consider several fiscal measures for affected agro-based industries - waiver of VAT at domestic stage, deferred payment of quarterly advance income taxes, payment of corporate taxes by installments for a certain period.

Fourth, increasing fiscal measures for manufacturing and services sectors is important. Coverage of the stimulus package worth US\$ 5 billion can also include enterprises exporting below 80 per cent of their production such as textiles, accessories, processed and frozen food, footwear, pharmaceuticals, plastic and

ceramic etc. GoB may consider more support measures for the groups i.e. increased depreciation of assets for companies, special reduced rate of VAT for domestic purchase of goods and services, relief from penalties and interest for tax-related payments, deferred payment of quarterly advance income taxes, relief of VAT for travel and tourism sectors, allowing domestic and export-oriented companies to pay their corporate taxes in installments. Also, raising tax-exempted yearly turnover limit for SMEs from US\$ 5 million to 10 million can be considered. Besides, domestic market-oriented industries could be given a special package with a revolving loan fund facility at a subsidised interest rate.

Fifth, it is important to initiate a government job support scheme for workers affected by coronavirus. In this regard, vital steps could include - retaining and employing workers through re-skilling and re-training, providing working capital to start small businesses, initiating a special financial scheme for small enterprises, continuing investment expenditure with efficiency in economy for job creation, increasing public expenditure to safeguard low-income group and the poor through expanded SSNs. It is likely that the covid-19 pandemic will continue for a few more months. Accordingly, selected urban jobs with limited investment requirements can be temporarily shifted to rural areas for ensuring some level of supply of goods and services to the demanders, and for creating income opportunities for many temporarily unemployed people. For that, the government should provide additional incentives to labor-intensive subsectors, resume labor-intensive infrastructure projects, provide immediate access to finance for informal sector, re-focus skills and development programmes to train healthcare workers and upskill returning remittance workers, and fast track 'Amar Gram, Amar Shohor' initiative to promote localised economic activity and job creation.

Sixth, for implementing 'Digital Bangladesh', facilitating ICT industry is important. First, the industry requires immediate financial assistance to pay salary of employees and a portion of operational costs. This industry demands banning all foreign software for at least three years, which will help local companies to sustain and grow in this tough situation. Other steps that may help sustain the industry include - exempting VAT on local software at least for a certain period of time, giving special emphasis on information technology, etc.

Seventh, it is important to pursue expansionary (fiscal and monetary) approaches. Pursuing expansionary fiscal approach will boost domestic demand. It is essential to identify expenses that can be deferred for easing pressure on public expenditure. Government needs to have targeted expansionary measures in trade, supply chain management, public expenditure and monetary policy. Pursuing expansionary monetary policy and re-prioritising public expenditure are in dire



need. For monetary policy responses, lowering of repo rate and reducing CRR to generate liquidity space are important. BB could create special funds, along with fiscal measures (tax and subsidy) and utility measures (lower rates and deferred payments) to support SMEs. Also, BB could help commercial banks through refinancing schemes to provide loans to small businesses. However, the foremost task is to maintain balance between monetary and fiscal policy in the light of real scenario.

Eighth, increasing resource mobilisation is crucial for Bangladesh economy. In these regards, NBR must set a revenue mobilisation target in a more prudent manner. Primary focus is to strengthen monitoring and enforcement mechanisms to effectively curb tax evasion and Illicit Financial Flows (IFFs). It is important to initiate new sources of tax for mobilising additional revenue and to increase number of effective taxpayers and follow up on return submissions. Besides, launching a comprehensive online payment system for VAT, income tax and customs is essential.

Ninth, strengthening banking sector is important. First of all, it is crucial to have tax management and immediately some necessary reforms of banking sectors to help government to effectively collect/accommodate money announced by stimulus packages. BB must generate money by (issuing bond or) quantitative easing by reducing policy rates (e.g., by reducing CRR) further and other rates like Statutory Liquidity Ratio (SLR) given the demand for liquidity. Commercial Banks (CBs) must generate funds to provide working capital loan for business, trade and services. For repayable loan, they must take responsibility to select customers and absorb risks attached to the loan, ensuring that loan is paid back to banks in due course, genuine victims of Covid-19 enjoys opportunity to delay non-performing loan, and truly affected businesses and individuals get loan facility. This is to take loan defaulters out from the stimulus coverage. It is important to de-prioritise loans and re-capitalising the state-owned enterprises. CBs must be compliant of disbursing loans. BB has to oversee it. For bank loans, necessary proposals include - paying interest subsidy on loans, assessing loans to affected businesses, particularly small and medium ones, more leniently, extending pay-back period and easing interest rate (e.g. offering affected SMEs loans at 5 per cent with a longer repayment period).

Tenth, eyeing budgetary measures for FY 2021-22 is essential. It is important to allocate specific budgets for the sectors affected. The FY 2021-22 budget must have priority-based re-allocation to cope with potential impact. It is vital to prioritize activities and spending (which are immediate, and which can wait for few months) pragmatically so that expenditure reduction does not affect employment and income of people. Allocating more in health sector and increasing allocation to provide medical support to the poor affected people and returnee migrant workers are

important. For the people in informal sectors, it is to consider further allocation in revised budget for FY20 and in budget FY 2021-22 under SSN programmes (OMS, cash transfer, VGD, VGF). Bangladesh government must reorient budget focus and channel resources from traditional sectors, e.g., energy and physical infrastructure to social protection, poverty alleviating programmes, health insurance, universal health programmes and programmes for SMEs. It is time to increase higher allocation in employment generation and poverty alleviation programmes. In that case, current social protection allocation of 2.2 to about 5 per cent of GDP may be increased. Practical consideration must be taken in Annual Development Programme (ADP), tax structure and issues of sectoral allocations. Besides, it is vital to announce some fiscal stimulus package targeting individuals, private sector and agriculture in the forms of VAT waiver, deferred payment of advance income tax and payment of corporate tax by installments, raising tax-free income and limit for low-income people and SMEs respectively.

Eleventh, it is important to strictly administer and monitor any measure designed for affected workers and businesses with full transparency, undertake innovative ideas, effective actions and management. For policy planners of different programmes and their implementable agencies, working in light of reality and if necessary, considering some changes for undertaken steps, having the global situation, are vital. For the Ministry of Finance, BB, banking sector and others concerned, it is important to immediately identify implementation mechanism and start to act accordingly. On the other hand, it is essential to put an in-built technology-induced mechanism in place to ensure minimum leakages and avoid selection bias concerning beneficiaries. There should be a published list for beneficiaries through websites with key details, addresses and phone numbers. To maximize utilization of support measures for SSN programme beneficiaries, it is important to engage local bodies for making selection and distribution transparent. Formulating specific guidelines for efficient utilisation of each package is essential. A monitoring committee must be formed to ensure maximum transparency and accountability for proper utilisation and distribution of incentive/stimulus packages and relief programmes. Indeed, undertaking a clear policy making and ensuring transparency and accountability to implement the policy for implementing stimulus packages is crucial. For fast and efficient low-cost fund transferring, taking help from digital finance service providers (bKash, Rocket and Nagad) and monitoring channels of funds' distribution are vital.

Twelfth, Least Developed Countries (LDCs) need to raise their voice together so that actors of international development cooperation move soon to create a targeted package of international support measures involving, among others, concessional financial flow, debt cancellation, food aid, market access of exports, availability of drugs and vaccines. South-South cooperation has to play a prominent

role in this initiative. Discernible progress made by LDCs in recent past, particularly of those in graduation pipeline, for example Bangladesh, should not be allowed to be wiped away by this unfortunate, unmatched coronavirus pandemic.

Thirteenth, the government must pursue an effective and strong diplomatic effort – with Prime Minister being the vanguard - to get financial assistance from globally formed Covid-19 protection fund by now. Other sources from where funds could be availed include (i) imposing wealth tax on rich people (ii) restoration of black money and illegally transferred money<sup>41</sup> (iii) exploring supports (loans) from DPs (e.g., IMF, WB, ADB, AIIB, EU) (iv) cutting cost of unnecessary projects, and (v) borrowing loans from domestic banks. GoB is already having funds from the DPs but must effectively negotiate for flexible conditions. Excessive borrowing from domestic banks should not be a preferable option as it has several negative impacts.

In summary, this section proposes a set of 13 policy proposals to facilitate government steps in the wake of Covid-19 induced impact on Bangladesh’s external and internal economy, shown below:

- (1) Having an inclusive arrangement for external sectors
- (2) Reaching targeted support measures to whom these are concerned
- (3) Prioritising supports for agriculture sector
- (4) Increasing fiscal measures for manufacturing and services sectors
- (5) Initiating a government job support scheme for unemployment crisis
- (6) Facilitating ICT industry
- (7) Pursuing expansionary fiscal and monetary approaches
- (8) Increasing scope of revenue mobilisation
- (9) Strengthening banking sector
- (10) Broadening budgetary measures in FY 2021-22 budget for the sectors affected
- (11) Ensuring implementation and transparency
- (12) Bangladesh being an LDC to raise its voice together with other similar countries, and
- (13) Mobilizing source of money for the stimulus packages announced

## 5. Conclusion

This paper has found out that due to Covid-19, exports are getting upset, imports are facing delays, manpower export is decreasing, remittance is shrinking, investment inflows are facing uncertainty, additional government financing requirements are being demanded from external sources, unemployment in both formal and informal sectors is increasing, agricultural supply chain is disrupted, impacts on large, medium

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<sup>41</sup> Wealth tax decreases discrimination and illegal money transfer and black money increase discrimination.

and small industries, stock market, energy and ICT are being bigger. Impacts by sectors are affecting revenue mobilisation target, rate of growth and poverty. That is, Covid-19-induced impacts on Bangladesh's economy are going to be ever increasing.

In order to increase aggregate demand and spending, overcome supply shocks, stimulate economic activities and create vibrancy in Bangladesh economy, the government has announced 19 various stimulus packages worth US\$ 1031.17 million, which is more than 3.6 percent of GDP, and taken other different steps simultaneously. Such ambitious stimulus packages laid out by the government is commendable, however, with relatively weak institutions and service delivery mechanisms, coupled with widespread corruption and the culture of political impunity, implementing these schemes, reaching out to the marginalised and affected can be challenging.

This paper proposes a set of 13 policy proposals to facilitate measures provided by Bangladesh government. The proposals are: having an inclusive arrangement for external sectors, reaching targeted support measures to whom these are concerned, prioritising supports for agriculture sector, increasing fiscal measures for manufacturing and services sectors, initiating a government job support scheme for unemployment, facilitating ICT industry, pursuing expansionary approaches, increasing revenue mobilisation, strengthening banking sector, broadening measures in FY 2021-22 budget for the sectors affected, ensuring implementation and transparency, Bangladesh being an LDC, raising its voice together, and having possible options for the stimulus packages announced by the government.

Bangladesh is well known for its resilience, and has many times in the past, surpassed expectations and overcome all obstacles in the end. Following on those, it is presumed that the country, with support from DPs, will eventually emerge as a stronger nation after weathering the perils of Covid-19. Effective state intervention in the area of preparedness and support from the global community may smoothen the peak of the curve of fatality as well as enable the exit from the crisis.