Independent Review of Bangladesh's Development (IRBD)

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

Challenges of Policymaking in Times of Pandemics

State of the Bangladesh Economy in FY2020

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CENTRE FOR POLICY DIALOGUE

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The CPD IRBD 2020 Team alone remains responsible for the analyses, interpretations and conclusions presented in this paper.

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Section I. Introduction

Introduction

- The ongoing COVID-19 pandemic is having significant impact on various aspects of the economy and will no doubt have important repercussions for the FY2021 budget to be presented on June 11, 2020
- This fifth periodic review, prepared under CPD's flagship ***Independent Review of Bangladesh's Development (IRBD)*** programme, offers analysis of an economy that started off on a normal course at the beginning of the fiscal year and then entered into unforeseen terrain and unchartered waters during the last part of the year
- The analysis captures development of the economy in two phases – the pre-COVID phase and the ongoing COVID phase, with the report focusing on impacts of the pandemic on the economy, measures taken to address the implications of the pandemic and what these developments mean for the budget to be presented

Introduction

- In its first periodic review of the economy for the ongoing fiscal year, released on 3 November 2019, CPD had raised red flags in four areas - performance in the areas of revenue mobilisation, banking sector, capital market and export sector
  - CPD had argued that weak state of governance, inability to undertake necessary reforms and lack of proactive initiatives to address structural impediments could undermine the continuity of Bangladesh's growth narrative and put under question the sustainability of the growth dynamics
- Taking into cognisance the demand-side repercussions of the COVID-19 pandemic, and keeping in the purview the emergent health risks when the pandemic has reached the shores of Bangladesh, CPD had organised a virtual media briefing titled 'Health and Economic Risks of Corona Pandemic and Recommendations'
  - The CPD presentation at the briefing examined how the various transmission channels were impacting on Bangladesh's macroeconomic and sectoral performance and the measures that needed to be taken to mitigate the risks of the pandemic and pandemic-stricken economy

Introduction

- At the second virtual media briefing on 13 April 2020, CPD presented its initial assessment of public policy interventions and offered a set of proposals for food and income security of the marginalised
  - It is in this briefing that CPD came up with its proposal for a cash transfer programme to be launched, to cover the old and new poors which would require an amount equivalent to about 1% of the GDP (approximately Tk. 30 thousand crore)
- Keeping in the purview the upcoming national budget for FY21, CPD organised its third virtual media briefing on 9 May 2020 which came up with a set of budgetary recommendations in the areas of resource mobilisation, tax proposals, expenditure priorities and deficit financing
- There will be another webinar on 9 June 2020 which will discuss issues of effectiveness of implementing stimulus packages and readiness of the banking sector in view of addressing the attendant challenges in this context

Introduction

- The current report builds on CPD's aforesaid works, and examines the state of the economy on the eve of FY21 budget by keeping the footprints of the pandemic on the radar screen of analysis
- The report puts under scrutiny macroeconomic and sectoral management, financing issues, vulnerabilities and risks and what all these mean for the upcoming budget, budgetary proposals for resource mobilisation, prioritisation of allocation and allocative efficacy
  - In view of this, four areas are particularly looked at, in dedicated sections of this report: (a) growth, poverty and inequality; (b) public finance; (c) inflation and (d) external sector performance
  - Each section tracks the key trends, identifies major challenges and risks and offers a set of recommendations for the policymakers to consider in view of the upcoming FY21 budget
  - The concluding section presents a succinct summary of the policy recommendations presented in the preceding sections

Section II. The Growth, Poverty and Inequality Implications of COVID-19

The Growth, Poverty and Inequality Implications of COVID-19

- The COVID-19 pandemic, primarily surfaced as a public health concern, has rapidly transformed into a socio-economic-humanitarian catastrophe of an unprecedented nature and level around the world, affecting every single facet of modern day life
- Alongside the enormous loss of human lives and suffering, the possibility of a worldwide economic recession, within about a decade of the global financial crisis (GFC) of 2008-09, cannot be discarded
- Effects of the GFC on Bangladesh economy was limited to insignificant impacts in exports and remittance flows, as large part of the economy relied on domestic market oriented activities
- In case of the recent pandemic, both the demand side (recession-induced) and supply side (lockdown-induced) disruptions are having adverse implications for Bangladesh's macroeconomic and sectoral performance, as the economy is being adversely impacted through a host of transmission channels, both global and national

CPD (2020): Challenges of Policymaking in Times of Pandemics: State of the Bangladesh Economy in FY2020

The Growth, Poverty and Inequality Implications of COVID-19

- Although the ramification of the pandemic for the Bangladesh economy is still unfolding, various projections and estimates by international financial institutions (IFIs), academics and practitioners indicate a downturn in Bangladesh's economic performance, but the degree varies from estimate to estimate

Institution	Economic growth projection for FY20
World Bank	2.0% – 3.0%
International Monetary Fund	3.8%
Asian Development Bank	Reduction of 0.2-0.4 percentage points (depending upon the extent of demand shock and duration of containment) which could additionally increase by 1.6-4.4 percentage points in case of a significant outbreak
Economist Intelligence Unit	1.6%

- Thus, the general consensus is that the GDP growth rate will be significantly lower than the planned target of 8.2%

The Growth, Poverty and Inequality Implications of COVID-19

- The delay in publishing the provisional estimates of Bangladesh's GDP, produced by Bangladesh Bureau of Statistics (BBS), is understandable given the fact that data flow was seriously impeded as the country entered into a 'general holiday' (commonly perceived as 'lockdown') since 25 March 2020
- Although the estimates may be made available soon in the run up to the national budget, as the 'general holiday' has come to an end as of 30 May 2020, to what extent the to be published estimates will be able to capture the impacts of COVID-19 remains a moot question
- This will also have adverse implications for providing proper guidance in preparing budgetary and fiscal proposals for FY21 budget to be placed before the national parliament on 11 June 2020
- In this backdrop, CPD has carried out an exercise to understand to what extent the COVID-19 pandemic and associated downturn in economic activities may impact the GDP growth outcome for the ongoing FY20, reviewing recent trends in proxy indicators as reflected in official data along with anecdotal information from various unofficial sources

The Growth, Poverty and Inequality Implications of COVID-19

- It has been taken into consideration that all economic activities were affected prominently during the almost two-month long 'general holiday period', at varying degrees concerning all sectors of the economy
- The hardest hit sectors include:
  - Manufacturing
  - Construction
  - Hotels and restaurants
  - Transport, storage and communication
  - Community, social and personal services
- **CPD estimates suggest that the GDP growth in FY2020 is likely to come down to about 2.5%**, under the most optimistic scenario if further 'general holidays' are not announced or stricter measures are not enforced during the rest of days of the fiscal year

The Growth, Poverty and Inequality Implications of COVID-19

- As countries across the globe, developed, developing and least developed, have been experiencing lower, and at worst, negative growth rates, the decline in Bangladesh's economic growth should not be perceived as something unexpected and exceptional
- Realistic GDP projections only help to understand the direction and range of the adverse impacts at macro-sectoral-household levels and thereby assist policymakers to take necessary measures
- CPD, over the last few months has been stressing that **GDP growth rate should not be the anchor outcome variable for economic policies**, including the national budget in the current context; instead, **focus should be on saving lives of people of the country and reduce the vulnerabilities of the marginalised groups**
- An assessment of impact of the ongoing pandemic on poverty, inequality and employment should be the primary area of policy interest and policy focus

The Growth, Poverty and Inequality Implications of COVID-19

- In view of the aforesaid, CPD has conducted an analysis to explore implications of COVID-19 in the short-term on poverty and inequality of Bangladesh, using the unit-level data of the Household Income and Expenditure Survey (HIES) 2016
  - The analysis has applied negative shocks on household consumption in the range of 9-25%, which lead to **an increase of national (upper) poverty rate to 35.0% in 2020 from 24.3% in 2016**
  - At the same time, **consumption inequality**, measured by the gini coefficient, **is expected to rise from 0.32 in 2016 to 0.35 in 2020**
  - A similar analysis with a disaggregated income shock results in an **increase of the income gini coefficient from 0.48 in 2016 to 0.52 in 2020**

The Growth, Poverty and Inequality Implications of COVID-19

- It is still debatable whether the recovery path of the Bangladesh economy after the COVID-19 pandemic will be:
  - 'V-shaped'; (where an economy experiences a sharp but brief period of decline and then also rises sharply),
  - 'U-shaped'; (where an economy suffers a prolonged recession before commencement of recovery)
  - 'W-shaped'; (also known as a 'double-dip recession' where an economy falls into recession, recovers but the period is short lived, then falls back into recession before upturn sets in)
- For Bangladesh, the pattern of growth trend will depend not only on the duration and evolution of the ongoing contagion but also on:
  - appropriateness and adequacy of the remedial measures taken to counter the pandemic and subsequently for resumption and recovery of economic activities
  - effective implementation of measures and enforcement capacity and on ensuring an enabling political economy environment conducive to growth

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Section III. Public Finance

Public Finance

- The **key policy concern** emerging from the current public finance discourse relates to the **creation and utilisation of 'fiscal space'**
  - Particularly relevant in the backdrop of the COVID-19 pandemic and associated impacts and implications for the recovery phase
- The concept of 'fiscal space' needs to be well-understood in the current context
  - According to the IMF, fiscal space is defined as the room for pursuing discretionary fiscal policy compared to a pre-existing baseline, without compromising market access and debt sustainability (IMF, 2018)
  - World Bank understands fiscal space as the availability of budgetary resources at government's disposal to meet its financial obligations (Kose *et al.*, 2017)
  - Bhattacharya (2020) defined fiscal space as the room or extra money available within the budget which allows a government to allocate resources for a designated purpose, in view of the current scenario, to address the challenges emanating from COVID-19, without endangering macroeconomic stability
- As the FY21 budget will be placed before the parliament on 11 June 2020, it has become critically important to identify the sources of fiscal space to underpin the government's intended fiscal policy stance

Revenue Mobilisation

- **No beacon of hope in terms of revenue mobilisation in FY20**
- The most obvious scope for creating and expanding the fiscal space originated from within the domestic resource mobilisation space
- Ongoing trends (Jul-Feb FY20) do not appear to be promising by any account
  - Not a single component of the revenue mobilisation framework is set to attain the respective annual targets

Table: Revenue mobilisation growth scenario (in Per cent)

Component	Growth				
	Target FY19	Actual FY19	Target FY20	Actual FY20 (Jul-Feb)	Required FY20 (Mar-Jun)
Tax revenue (a+b)	57.4	16.3	50.5	-1.7	133.2
a. NBR tax	58.3	16.8	48.9	-1.7	128.5
b. Non-NBR tax	34.7	1.6	97.5	-3.3	296.3
c. Non-tax revenue	50.0	16.6	45.5	14.2	114.1
Total revenue (a+b+c)	56.7	16.3	50.0	0.1	131.6

- Economic slowdown originating from the nationwide lockdown and the adverse impacts of COVID-19 on international trade are expected to further exacerbate the situation during the rest of FY20

Revenue Mobilisation

❑ Revenue shortfall is expected to shoot up

- ❑ CPD had earlier projected that the total revenue shortfall in FY20 may reach to Tk. 100,000 crore
  - ➢ However, this projection did not fully capture the impacts of the COVID-19 pandemic given that the data was available only for the Jul-Dec period of FY20
- ❑ Based on the latest available data from MoF (i.e. Jul-Feb of FY20) and other relevant sources, the revenue shortfall figure for FY20, against the original target has been re-estimated to be around Tk. 125,000 crore
- ❑ This implies, the revenue earnings in FY20 is likely to record a minuscule growth of 0.4%
- ❑ As a result, revenue-GDP ratio may see a decline in FY20 (9.9% in FY19)

Revenue Mobilisation

- **Realistic revenue mobilisation targets will be crucial for overall fiscal management**
- The total revenue collection target for FY21 has been projected to be around Tk. 395,000 crore
  - 4.5% and 10.5% higher then BFY20 and RBFY20 respectively
- However, if the revenue shortfall for FY20 is indeed Tk. 125,000 crore, the growth target for FY21 would be a whopping 56.2% higher than the estimated case for FY20
- As the highest annual revenue mobilisation growth during the last 10 years was about 23.3% (in FY12), it can be safely argued that the target set for FY21 is also unlikely to be achieved
  - Similar concern has also been raised by the top brass of the NBR citing the revenue implications of the economic downturn originating from the COVID-19 pandemic
- Hence, the budget for FY21 must provide detailed explanation as to how the programmed revenue mobilisation targets will be achieved through the proposed fiscal measures
- If the revenue mobilisation targets are not set in a realistic manner and does not reflect the reality of the situation, it will put undue pressure on the revenue collection authorities, stress the fiscal framework beyond a tolerable limit and undermine the efficacy of other relevant policy instruments. This will weaken the fiscal framework, result in misinterpretation of fiscal deficit and consequently put into question the veracity of financing of the fiscal deficit

Revenue Mobilisation

❑ Support domestic demand

❑ A key objective of the govt. must be to use the fiscal policy to boost domestic demand, and raise disposable income and consumption, particularly of the lower- and middle-income class

❑ In the FY21 budget, raising the tax-free income threshold levels from Tk. 250,000 to Tk. 350,000 should be considered. Also, the first three slabs of income tax from 10%, 15%, and 20% may be restructured to 5%, 10%, and 15% respectively, at least for the next two years

- Allowing payment of individual income taxes for FY20, by instalments, by March 2021 may also be considered

❑ With a view to ensure food security of low-income people, reduction of import related tariffs (including AIT and VAT) on essential food items should be considered

- Thus, duties on items such as onion, lentil, garlic, ginger and soybean oil etc. (where applicable) should be considered on a dynamic basis based on the evolving market scenario in terms of price, projections about production and the demand situation
- Seasonal features of the production cycle should be considered to protect the interest of the farmers in this context

Revenue Mobilisation

- **Focus on augmenting revenue by balancing fiscal incentives and more strong enforcement**
- The planned procurement and installation of the EFD and SDC devices by the NBR must be accelerated in order to ensure effective implementation of the VAT and SD Act and augment revenue mobilisation
- It is to be anticipated that demands for incentives will be lined up and rise in view of COVID-19. The primary objective of all tax incentives should be to directly support the marginalised groups
- The government must conduct proper cost-benefit analysis before devising any new provisions. Indeed, the govt. must be cautious and very selective in this regard, and should be restrained from all ad hoc provisions concerning tax incentives
- Fiscal incentives provided should take cognisance the overall fiscal and monetary support measures in place with regard to particular groups of stakeholders and sectors. For example, corporate tax rate should be unchanged in view of the fact that a number of measures have already been taken in support of large entrepreneurs
  - MoF has to release credible estimates of revenue forgone for all tax incentives, in a disaggregated manner

Revenue Mobilisation

- **Focus on augmenting revenue by balancing fiscal incentives and more strong enforcement (contd.)**
- Some of the existing provisions should be reviewed and discontinued if considered as being of low priority
- The existing black money whitening facilities create moral hazards, discouraging honest taxpayers. CPD has highlighted this issue and made its stance clear in successive IRBDs. This provision should not be continued in the next fiscal budget
- All types of tax evasions and illicit financial flows (IFF) will need to be curbed with a strong hand. In view of the emergent situation, it is hoped that the govt. will strengthen its enforcement measures in this regard
- Coordinated efforts by several policy actors will be required to implement the National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism (NSPMLCFT) 2019-21 in all areas concerning tax evasion and IFF

Public Expenditure

❑ Time to lose the 'fat' in the 'non-ADP public expenditure'

- The government is set to propose a fiscal budget of about Tk. 5lakh 60 thousand crore in FY21 (7.0% and 11.3% higher than the original budget and the revised budget of FY20, respectively)
- It is evident that the government, in FY20 did not have the fiscal space to scale up public expenditures, or the administrative capacity to deliver those
- Total public expenditure recorded a growth of 9.7% during July-February of FY20, compared to the corresponding period of FY19, which means that the total public expenditure, ADP, as well as non-development expenditure, had to grow by 52.5% and 40.1% and 64.3% respectively, over the remaining four months of FY20 to reach the public expenditure targets
- The impossibility of this being realised is reinforced by the fact that a significant part of this period falls under COVID-related lockdowns

Public Expenditure

❑ Time to lose the 'fat' in the 'non-ADP public expenditure'

- Historically, there have been some 'fat' in the non-ADP budget, areas where ADP tended to remain unutilized
- During FY16-FY19, on an average, about 18% of non-ADP budget remained unutilized, particularly in areas including subsidies and incentives, investments in shares and equities, operating capital expenditure, loans & advances (net), non-ADP programmes
- To note, these five components constitute about 30% of total non-ADP expenditure

Share (%) of some key revenue budget components that remain unutilised

Components	FY16	FY17	FY18	FY19	FY16-FY19 (average)
Subsidies and incentives	25	61	44	21	38
Investments in Shares and Equities	82	99	98	99	95
Operating Capital Expenditure	38	58	53	34	46
Loans & Advances -Net	86	69	82	180	104
Non-ADP Programmes	96	47	57	36	59
Total non-ADP expenditure	20	19	18	16	18

Public Expenditure

❑ Time to lose the 'fat' in the 'non-ADP public expenditure'

- Actual expenditure under non-ADP head during July–February of FY20 was 44.3% of the originally planned allocation (48.3% in FY19)
- Apart from the aforesaid traditional areas, allocation for few other components, such as goods and services and acquisition of assets and works are likely to remain unutilised by 30-35% considering the implications of COVID-19 during March to June of FY20
- Falling oil prices in the international market in the aftermath of COVID-19 and the oil-war between Saudi Arab and Russia have provided an opportunity for Bangladesh Petroleum Corporation (BPC) to make significant profits which is likely to create some fiscal cushion to the government

❑ Time to lose the 'fat' in the 'non-ADP public expenditure'

- The policymakers involved in preparation of the budget are no doubt aware of these pre-existing 'fat' in the budget and the likely under-implementation at the end of the fiscal year
- This, along with the over-ambitious revenue mobilisation target have persistently undermined the robustness of the fiscal framework of successive national budgets
- Regrettably, the forthcoming budget is going to be no exception in this regard
- However, when the final budget figures for FY20 is available, the government should make an early assessment of the real scenario to formulate a revised budget with credible fiscal framework
- This will be critically important to address the adverse impacts of COVID-19 with suitable fiscal measures

Public Expenditure

❑ Reprioritisation, and reigniting interest in structural reforms in ADP

- According to the IMED data, for the first eight months (July–February), the actual spending under ADP was 38.5% (30.9% as per MoF data) of the originally planned allocation of Tk. 202,721 crore (38.8% in FY19)
- Lower utilisation (35.5%) of foreign aid (lower than both FY18 and FY19 for the corresponding period) led to the reduction of ADP by Tk. 9,800 crore (or 4.8%), downsizing the ADP to Tk. 192,921 crore in the RADP for FY20
- Government has already identified 330 projects as less priority; it expects to save about Tk. 10 thousand crore to be diverted for spending in priority sectors which will lead to further reduction of RADP for FY20

❑ Reprioritisation, and reigniting interest in structural reforms in ADP

Based on the analysis of the current fiscal year, six major conclusions can be drawn in view of the ADP for the next fiscal year:

- The ADP for FY21 needs to ensure that required allocative priorities are followed and inclusivity is maintained in view of responding to the ongoing COVID-19 pandemic (e.g. adequate and priority allocation for health, agriculture, social protection and, labour and employment sectors)
- GoB should identify which projects need additional funds for completion in FY21 and which are considered to be critical to addressing health and economic emergencies. Identification of such projects could be based on a number of criteria including: (i) projects which did not involve commitment of foreign aid and those which were likely to spend less than 50% of their allocated funds in FY20; (ii) projects where economic costs for delayed implementation could be accommodated (compensated) through economic gains accruing from some other priority projects

Public Expenditure

Reprioritisation, and reigniting interest in structural reforms in ADP

- Efficient utilisation of the allocated funds needs to be ensured in FY21 so that no major revisions are required towards the end of the fiscal year
- Better utilisation of project aid in the upcoming fiscal years will, to a large extent, determine the overall pace of implementation. This is also important in view of reducing the debt-servicing liability
- GoB should restrict itself from including and allocating funds for the 'carryover' and 'ageing' projects in FY21. The inclusion of such projects and the resultant cost and time over-run undermine the efficacy and discipline of public investment and lead to waste of scant public resources
- The government should avoid taking populist projects (e.g. 'symbolic projects' for transport and local government) and limit the total number of projects

Public Expenditure

❑ Raise health budget based on proper demand assessment

- The allocation for health as share of total budget has fallen (from 5.1% in budget of FY19 to 4.9% in the budget of FY20); it has remained stagnant at 0.9% as a share of GDP
- The upcoming budget will call for enhanced allocation for the health sector, but it will have to be determined on the basis of assessment of demand (for facilities, human resources, equipments, trainings, sharing the out-of-pocket burden of treatment cost of the affected individuals); and the channel of budgetary allocation (whether non-development budget will increase or new projects targeting COVID-19 will be taken under the ADP)
- COVID-19 pandemic should induce the government to follow-up on its commitment of achieving universal health coverage (UHC)
- The government should revisit its election manifesto commitment to provide health services to every person below one and above 65 free of cost
- The next budget will also be a good opportunity for the government to follow-up on its commitment of raising the health budget to 12% in 2021 as outlined in the Health Care Financing Strategy 2012-2032

❑ Take steps to ensure proper implementation of reform initiatives in social protection

- Government's strategy to expand SSNPs as one of the four strategic priorities for the next three fiscal years needs to be proactively pursued
- The government should allocate at least 3% of the GDP for SSNPs as outlined in its National Social Security Strategy (NSSS) formulated in 2015
- The government has prepared a list of 50 lakh households as beneficiaries to be covered under its support programme in response to COVID-19
- Government should take support of NGOs and local level social organisations in identifying, selecting and distributing the support, and to address 'inclusion' and 'exclusion' bias in selection process and adopt a whole of society approach
- GoB should take necessary measures to ensure that the National Household Database is expeditiously completed
- The government should consider introducing the Universal Pension Scheme by launching a limited scale pilot project as it would also allow the government to redesign the non-contributory old age allowance programme and provide the beneficiaries the much-needed support to cope with COVID-19 induced health and economic vulnerabilities, in the immediate and also in the recovery phases

Public Expenditure

- **Stimulate agriculture sector through additional allocation and proper utilisation of subsidies**
  - Given the demand for additional funds, the allocation for the agriculture sector needs to be raised at least to 3% of total budget in FY21
  - Agriculture sector needs to ensure proper utilisation of subsidy during FY21
  - Despite an allocation of Tk. 9,000 crore in successive budgets over the last three years, a significant part of the allocated amount remained unutilized (Tk. 2,570 crore, Tk. 5,390 crore and Tk. 3,800 crore have remained unutilised in FY16, FY17 and FY18 respectively)
  - Government needs to allocate about Tk. 6,373 crore in FY2021 for the procurement of rice, paddy and wheat during the Boro season
  - It is to be noted that the government has decided a procurement target of 8 lakh m. ton of paddy (at Tk. 26 per kg) and 11.5 lakh m. ton of rice (at Tk. 36 per kg) and 75 thousand m. ton of wheat (at Tk. 28 per kg) for FY21
  - Furthermore, the stimulus package for the agriculture sector and agro-based industries (Tk. 5000 crore credit line at the subsidised interest rate of 4.0%) should give priority to those farmers who were most affected by the pandemic such as vegetable farmers and poultry, and chicken and egg producing SMEs

❑ Protect small and medium enterprises (SMEs) through fiscal measures

- Considering the adverse financial situation facing particularly the cottage, micro and SMEs, MoF should consider raising tax exempted annual turnover limit for SMEs from Tk. 50 lakh to Tk. 1.0 crore for FY21
- GoB may consider several fiscal measures for the affected SMEs which could include waiver of VAT at the domestic stage for the period July-September, 2020, deferred payment of quarterly advance income taxes for July-September quarter of FY21 and payment of corporate taxes for FY20 by instalments till March, 2021
- Besides, companies which are incurring losses in FY20 may be allowed to 'carry back losses' against taxable profits for the two previous years (FY18 and FY19)
- Government has announced a stimulus package of Tk. 20 thousand crore of which Tk. 10 thousand crore is exclusively allocated for SMEs as credit line facility at subsidised interest rate of 2.0%

❑ Protect small and medium enterprises (SMEs) through fiscal measures

- Proper selection of affected enterprises and timely delivery of credit to the deserving enterprises are particularly important from the point of view of delivery of the expected results
- In this connection, the Central Bank may take support from the business bodies/associations, chambers, local business samities and specialised commercial banks
- Database on SMEs maintained by these entities could help proper identification and selection of the affected enterprises

Budget Deficit and Financing

❑ Higher budget deficit is understandable but financing-mix remains a key concern

- Lower subsidy demand for some cash incentives and lower utilisation of project aid in mega projects could help lower the overall expenditure at the end of FY20
- However, a significant revenue shortfall and expected rise in the public expenditure depending on the extent of COVID-19 and associated costs and implementation of policy measures, may result in even higher overall deficit financing by the end of FY20 compared to FY19 (5.5% of GDP)
- In the backdrop of subdued revenue mobilisation, the possibility of pushing the budget deficit beyond the traditional cap of 5% of the GDP may be a necessity in view of the upcoming FY21
- Given that Bangladesh currently enjoys a robust debt sustainability index (public-debt-to-GDP ratio is around 34%), the country could afford a couple of additional percentage of fiscal deficit (perhaps up to 7-8% of GDP)
- However, this increased budget deficit should be managed through appropriate diversion of available resources, proper sourcing and prudent use of resources

Budget Deficit and Financing

❑ Financing from external sources: Opportunities need to be utilised

- Attention should be heightened to seek and utilise new funding opportunities available from external sources, particularly those from multilateral and bilateral sources
- Net foreign borrowing registered (-) 0.5% growth during July–February of FY20
- The government is seeking USD 2.6 billion worth of budget support from various international financial institutions (IFIs) including the World Bank, the IMF and the ADB
- Such efforts should be intensified and every available opportunity should be exploited
- Bangladesh should take advantage of the decision of the G-20 as regards providing low income countries with funds at zero or low interest to combat COVID-19 pandemic

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❑ Sale of NSD certificates target may be difficult to attain

- Sale of NSD certificates has already come down by a significant degree
- Automation and regulatory deterrents (e.g. making mandatory the submission of e-TIN, national identity cards, bank accounts, mobile numbers and cheque transaction, 10% tax at source on total amount of yields) and high repayment rate (55.%) have contributed to a drastic fall in net sale of NSD certificates (-48.7% growth) during July-February of FY20
- This has led the savers to shift their investment from NSD to long term bank deposits
- However, the recent interest rate cap on bank deposits may change depositors' behaviour in favour of investment in NSD certificates
- It would be prudent to continue with the current regulations pertaining to NSD certificates and properly enforce those
- Overall, since the people are likely to have lower levels of savings in view of COVID-19, net sales of NSD certificates is likely to be low in any case

Budget Deficit and Financing

❑ Burden to be borne by borrowing from the banking system

- Net borrowings from banking sources registered 1,631% growth during July–February of FY20 compared to corresponding period of FY19; this is already 218% of the annual target for FY20
- As the budget deficit is projected to go much beyond the programmed level, it is likely that the overwhelming majority of the budget deficit in FY21 will need to be financed with borrowings from the banking sources
- However, there has already been signs of deposit slowdown from January 2020 due to recent interest rate cap on deposits by the central bank
- It may force the time depositors to re-shift their funds from banks to NSD certificates creating another possible liquidity crunch in the banks
- In the face of the rising demand of bank borrowing by the government to finance its deficit, this will result in further shrinking of private sector credit growth which is already in a dire situation

Budget Deficit and Financing

❑ **Burden to be borne by borrowing from the banking system**

- Bangladesh Bank on May 4, 2020 released new cash amounting more than Tk. 70,000 crore, which is almost one-third of the ADP outlay
- With the bulk of the stimulus package to be implemented through the commercial banks and, in view of prevailing weaknesses in the banking sector, overreliance in the banking sector to finance the widened budget deficit may put the macroeconomic management in a challenging state
- Mobilisation of idle funds lying with state owned entities could be accelerated to finance the increased deficit in view of the added expenditure required to tackle the ongoing pandemic
- For example, windfall gains of the BPC in the backdrop of lower oil prices should be channelled towards resource mobilisation in view of FY21 budget. GoB may also look for the option to borrow short term loans from international money markets

Budget Deficit and Financing

❑ Burden to be borne by borrowing from the banking system

- As of May 2020, the 12 months US Dollar London Inter-Bank Offered Rate (LIBOR) interest rate is 0.7%
- The Financial Institutions Division also has a plan to make it mandatory for insurance companies to invest a certain part of their investible funds in government securities and allow investment of undisclosed income in the capital market
- However, such black money whitening facility through voluntary disclosure of undisclosed income and investment in capital market discourages honest taxpayers while tax evaders are encouraged. It has also failed to register any notable response. This provision should not be continued from the next fiscal year

Budget Deficit and Financing

❑ Time to ensure transparency in fiscal and budgetary processes

- More transparency in fiscal and budgetary processes should be one of the key areas of economic reforms, with particular focus on implementing 'second generation' reforms to ensure higher levels of transparency and independence of regulatory bodies in order to raise efficiency, enhance competitiveness and guarantee distributive justice
- The budget for next FY needs to be informed by the following transparency agenda:

i. Establish a Public Expenditure Review Commission (PERC)

ii. Make a detailed reporting in the budget speech, with adequate follow-up measures as regards issues related to demand assessment, beneficiary selection process, fiscal tool to increase allocation etc. as identified in the sectoral priorities

iii. Formulate appropriate follow up mechanism for monitoring government tax incentives

iv. Take steps to ensure disclosure of financial accounts of state-owned enterprises including the BPC

Independent Review of Bangladesh's Development

Fiscal Policy Stance

- **Key considerations for fiscal policy stance**
- In view of the ongoing crisis originating from the COVID-19 pandemic, CPD urges for pursuing a set of expansionary counter cyclical policy measures to offset the adverse impacts of the pandemic
- This could be achieved through fiscal policy tools by the government supported by the needed monetary policy actions by the central bank
- The govt. has already responded by announcing four key elements in this connection:

    i) increasing public expenditures

    ii) incentivising economic activities

    iii) broadening social protection

    iv) enhancing money supply
- However, sequencing of the application of the aforesaid policy instruments has been quite interesting

Fiscal Policy Stance

- As was observed, majority of the proposed measures to confront the attendant crisis has come from the monetary side of the policy spectrum
  - These included liquidity enhancing measures such as lowering of repo rate, reduction of cash reserve ratio (CRR), deferment of loan repayments, buying back of treasury bonds, increasing allocation to the Export Development Fund (EDF)
  - At the same time, the announced economic recovery packages also centred around lowering interest rates
- Only a handful of measures were taken from the fiscal side
  - These included added allocation to the Ministry of Health and Family Welfare and removal of duties and taxes on imports required to fight COVID-19
- The precedence of monetary policy tools over fiscal measures was perhaps dictated by the aspiration of transmitting market signal and the comparative ease of implementation
- **Nonetheless, it might also be attributed to the deteriorating fiscal framework of the economy**
- It can be argued that the government went for this because it did not have fiscal space in FY20, and also it lacked the required administrative capacity to pursue an expansionary fiscal policy

Fiscal Policy Stance

- Drawing on insights from the discussion so far, four key considerations as regards the public finance framework may guide formulation of the FY21 budget in view of the COVID-19 pandemic. These include:

  i) designing a credible fiscal framework based on reliable and realistic income-expenditure figures so that proper planning and effective implementation is possible in a crisis-ridden year

  ii) addressing the redistribution issue in a judicious manner using instruments from both the income side (e.g. raising the personal income tax threshold) and expenditure side (e.g. redirecting the savings from oil import at lower price and reprioritisation of public expenditure to health sector and social protection to the poor)

  iii) enhancing the budget delivery capacity in terms of revenue mobilisation, public expenditure and deficit management by undertaking a number of much needed reform measures

  iv) linking the short-term measures to medium-term recovery strategy while being cognisant of the implications for the eighth five-year plan (which will be launched with the FY21 budget) and the aspirations of the SDGs deliverables

Section IV. Inflation

❑ Inflation

- Inflationary trend has broadly remained stable
- As of May 2020, inflation rate stood at 5.61%
- Food inflation stood at 5.43% (as opposed to 5.55% in May FY19), while non-food inflation was 5.89% (as against 5.35% in May FY19)

❑ Food Security (National context)

- Provisional production estimates of Aus (27.54 lakh MT) and that of Aman (140.63 lakh MT) indicate that rice production may remain more or less similar to previous fiscal year
- The outlook of Boro production was looking promising till super-cyclone Amphan had hit with consequent crop losses
- Early estimates suggest that about 47,000 hectares of standing Boro paddy and 6,528 hectares of Aus paddy have been damaged

❑ Food Security (National context)

- Import of rice and wheat during the months of July-May of FY20 was 60.4 lakh metric tons
- The government procured 337,407 MT of parboiled rice against the target of 337,618 MT and 43,401 MT of sundried rice against the target of 43,900 MT
- The government plans to procure about 11.5 lakh MT of rice (10 lakh MT of parboiled rice and 1.5 lakh MT of non-parboiled rice) and 6.0 lakh MT of paddy rice during the ongoing Boro season
- Attaining the procurement of Boro will be critically important this year as the government needs to distribute higher amounts of food grains in view of COVID-19 and Amphan cyclone
- Until 1 June 2020, the government has allocated 1.82 lakh MT of rice, half of which has been distributed
- As of 27 May 2020, the government had 11.4 lakh MT of rice and wheat as public stock which was 13.9 lakh MT at this point of the previous year

Inflation

❑ Food Security (National context)

With a view to ensure food security, the Prime Minister in her 31-point directive mentioned a number of measures such as,

- Utilisation of all cultivable lands
- Providing fiscal-monetary support to the farmers
- Continuation and broadening of all currently operating food distribution programmes under the various social safety nets

Inflation

❑ Food Security (Global context)

- Global agriculture markets have been stable till now due to recent bumper harvests, especially of maize and wheat
- Agricultural commodity prices in the global context have also remained broadly stable, except for rice, which is at 14% higher than a year ago
- Policy actions such as enforcement of trade restrictions by some key exporters (e.g. Russia's discontinuation of wheat exports and Vietnam's rice export ban) have, however raised concerns about global food security
- Excess buying and hoarding by some importers may further exacerbate the already prevailing uncertainty in the global food market
- Hence, Bangladesh will need to closely monitor global trends in food prices over the next few months

Inflation

- **Recommendations:**
  - ***Reduce import related tariffs:***
    - Import related tariffs (such as AIT and VAT) may be reduced on essential food items such as onion, lentil, garlic, ginger and soybean oil
  - ***Prioritise and increase allocation for the agriculture sector:***
    - The allocation for the agriculture sector should be raised to meet the demand for additional funds, particularly for implementing important priority projects associated with providing food security and creating employment opportunities
  - ***Fast-track ongoing top-priority projects:***
    - Fast-tracking some of the ongoing projects in the agriculture sector with a view to completion in FY21, should be one of the priorities of the new budget

Inflation

❑ Recommendations:

➢ ***Make proper use of agriculture subsidy:***

- The subsidy structure of agriculture sector should expand beyond crop to include non-crop agriculture sectors such as non-rice crops, poultry, fisheries and livestock
- Realistic estimates of the prevailing input subsidies should be made as allocations ensured in the budget

➢ ***Earmarking necessary financial resources for food budget:***

- Adequate allocation for procurement of rice, paddy and wheat should be ensured in the budget, particularly in view of the Boro season
- Financial resources should be earmarked in the national budget for FY21 for food related social protection programmes taking into cognizance (expanded) coverage and (larger) amount

Section V. External Sector

External Sector

- Outlook for the global economy is rather gloomy
  - normal economic activities severely disrupted
  - global recession is now a reality
- In 2020
  - Global trade may fall by 13-32%
  - Remittance inflow to LMICs may decline by 20%; South Asia: 22.1%
  - FDI flow is likely to contract by 35%
- Demand-side uncertainties and domestic supply-side disruptions, together, have put external sector under formidable risks

External Sector

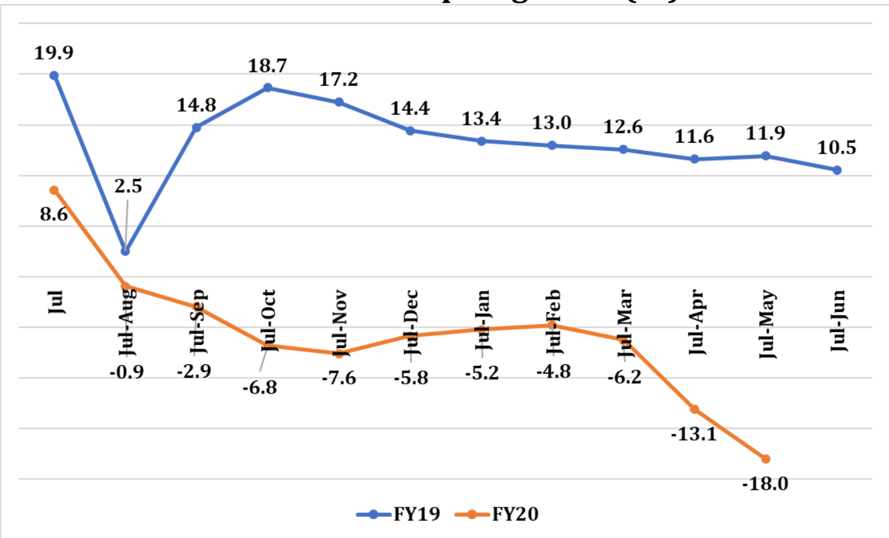
❑ Export earnings

- Jul-May FY20 growth: (-) 18%
- Export of both RMG and non-RMG products in both traditional and non-traditional markets have experienced significant fall
- May 2020 export: USD 1.5 bln (May 2019: USD 3.8 bln); Fall in growth: (-) 61.6%

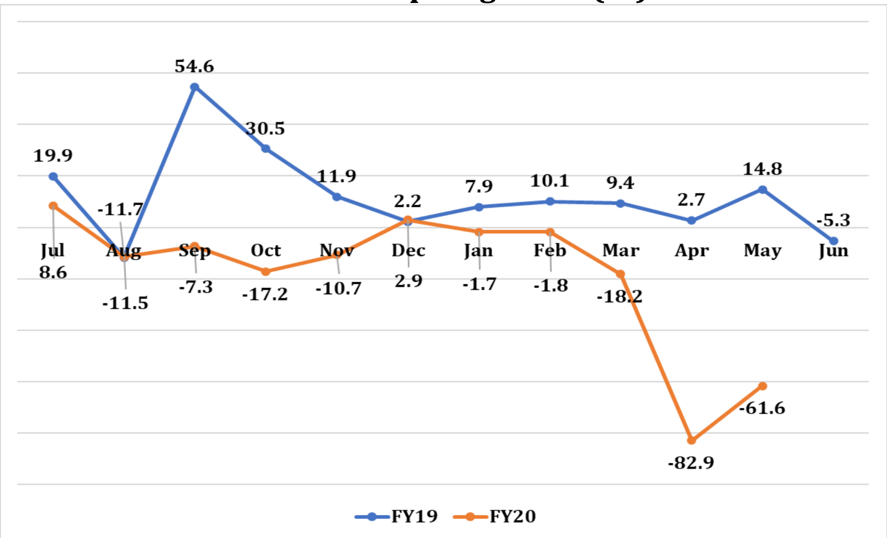
❑ Total export earnings will be below the level achieved in FY17 (USD 34.7 bln)

- Double digit negative growth

Cumulative export growth (%)



MoM export growth (%)



External Sector

❑ Apparels export to EU market

- Estimated extra-EU import will decrease by 8.8% in 2020 (EC, 2020)
- Apparels growth during July-January FY20: 1.8% (July-January FY19: 6%)
- Among the top 10 knitwear (HS code 61) exporters: Myanmar (43.2%), Vietnam (17%), Sri Lanka (15.2%) and Pakistan (6.9%) fared better growth than Bangladesh (3.2%)
- Among the top 10 woven garments (HS code 62) exporters: Myanmar (33.9%), Pakistan (8.4%), Indonesia (8.2%) and Turkey (7.0%) achieved higher growth than that of Bangladesh (1.9%)

❑ US apparels market

- ➢ US international trade has fallen significantly and registered negative growth
    - Due to Global trade war with China, EU, Canada, Mexico and partly because of the ongoing COVID-19
- ➢ Slack demand of RMG import: July 2019: USD 9.2 bln; March 2020: USD 5.4 bln
    - Jul-Mar FY20 growth: (-) 5.9%
    - Vietnam, Bangladesh, Cambodia and Jordan strengthened market position since 2017
    - Jul-Mar FY20 RMG growth: Bangladesh: 4.6%; Vietnam: 7% ; Cambodia: 17.4%; Jordan: 21.5%

Support for export sector

- Forms of support: reduced corporate income tax, cash subsidy, tax rebate, tax holiday, duty drawback and bonded warehouse facilities
- The RMG, the most dynamic export sector, has significant influence over the country's policy environment
  - AIT was reduced to 0.25% of f.o.b. value (from the highest 1.0% fixed previously)
  - In response to the ongoing pandemic, the first stimulus package of Tk. 5,000 crore was announced for the export-oriented RMG sector
  - Additional USD 1.5 billion support extended from the EDF
- The existing support measures to RMG and export sector should continue

External Sector

- RMG sector challenges
  - cancelled orders,
  - deferred payments,
  - low overseas demand and
  - supply-side disruptions
- Addressing the challenges
  - ensure that stimulus packaged are delivered timely and used effectively
  - mobilise global support to help the exporters and workers
  - raise export competitiveness and improve business environment and
  - explore and realise opportunities emerging from shift of orders from China by attracting FDI and diversifying into man-made fibre (MMF) and upmarket segment of the global market

❑ Import demand

- Depressed import demand to deepen further in face of the COVID-19 pandemic
- Q1-Q3 FY20 import growth: (-) 4.8% (Q1-Q3 FY19: 5.1%)
- High demand
  - foodgrains growth: 12.8%
    - ✓ wheat: 21.9%
  - consumer goods growth: 3.5%
- Negative demand: Growth of petroleum-based products: (-) 7.8%
  - Falling petroleum prices, depressed global demand induced by the COVID-19 brought some relief
  - Bangladesh could take limited advantage from the drastic drop because of medium-term fuel import contract
- Capital goods import: (-) 16.3% (3.3% growth in Q1-Q3 FY19)
  - Import of capital machineries: (-) 30.6% (4.2% growth in Q1-Q3 FY19)
    - ✓ Indicative of poor investment scenario, disruptions in the import sources etc.

External Sector

- Import of RMG raw materials was also negative during Q1-Q3 FY20
  - Raw cotton: (-) 3.2%; yarn: (-) 20% and textiles: (-) 6.7%
  - During Q1-Q3 FY20 cotton price in the global market declined: (-) 14.5%
    - ✓ This implies, Bangladesh's cotton import increased: 15% in volume terms (kg)
  - **Four consequences!!**
    - ✓ Drastic fall in RMG export is cost-induced and not so much volume induced
    - ✓ RMG exporters radically shifted to use of Bangladesh-made yarn or cloth in FY20
    - ✓ A buoyant rise of demand for cotton in Bangladesh for domestic use
    - ✓ A rise in illicit financial outflow against import of cotton (over pricing)
  - Should be further reviewed and investigated by the concerned policymakers
- Two-month long 'holiday' slumped imports significantly, which come to an end on 30 May 2020
  - Further holidays or more stringent measures, if required, will make import activities impossible to bounce back soon

External Sector

❑ Remittances

- Remittance inflow remains buoyant amidst uncertain migrant outflow
- Jul-May FY20 growth: 8.7%
  - Energetic performance considering pandemic epicentre shift to European countries and the US, oil price slump in Middle East migrant destinations and prolonged lockdown and curfew in migrant host countries
- Remittance growth in H1 FY20 was 25.5%
  - Thanks to 2% cash incentive initiative to all remittance receivers
- Pre-pandemic trends (assuming 20% annual growth in FY2020) suggests that Bangladesh may fall short by about USD 3.3 billion of remittances from the potential income in FY20

❑ Growth of number of migrant workers going abroad, Jul-Feb FY20: 5.9%

- Average out-migration 60,000 migrants per month

External Sector

- There will be additional pressure on Bangladesh's domestic job market
  - May not be possible to send higher number of migrants in the coming months
    - travel restrictions
    - stringent health related conditionalities
    - restrictive measures
    - economic downturn and lack of job opportunities in the host countries
    - Higher cost of migration to address public health concerns
  - The returnee migrants who came back home during the crisis period may face job cut and difficulty in getting back to the host countries amidst international travel bans
  - Higher number of undocumented or illegal migrants may be sent back home after the crisis period
- Remittance and migration related challenges in the post-COVID-19 era
  - Remittance inflow may continue to decline due to job losses in the host countries
  - Outbound remittances from GCC countries may face considerable decline due to COVID-19 and also fall in oil prices
  - Bangladeshi migrant workers and NRBs are facing significant difficulties in the host countries

External Sector

- GoB opened helplines in a number of important host countries for migrants – a welcome move
- The outlook, in totality, is indeed bleak
- Addressing the challenges
  - The 2% cash incentive on the remitted money should continue and the other changes (e.g. limit of remittance without documentation and timeline of payment of incentives)
  - CPD (2020) had urged the government to develop a database of visiting migrant workers who are not being able to join their workplaces
    - A special stimulus package can be designed for these workers and credit facilities extended to them, where Probashi Kallyan Bank (PKB) can play the lead role
  - Adequate support of Bangladesh missions abroad to ensure safety and security of the diaspora, in coordination with host country governments, will need to be continued
  - Bilateral diplomatic efforts should be intensified to address issues of layoffs and push backs of Bangladeshi workers from host countries
  - Global processes, such as Colombo Process (a platform that include host and sending countries) should be used to safeguard the interests of migrant workers

❑ Balance of payment

- Current account deficit was in somewhat of a better state
  - Jul-Mar FY20 USD (-) 2.6 bln as against Jul-Mar FY19: USD (-) 4.2 bln
  - thanks to strong workers' remittance inflow and slack import-related activities
- Marginal improvement in the trade balance
  - Jul-Mar FY20 USD (-) 12.1 bln as against Jul-Mar FY19: USD (-) 12.2 bln
- Financial account surplus, at USD 3.5 bln; decreased by (-) 20.4%
  - FDI inflow (net), portfolio investment (net) and other investments (net) exhibited negative growth
  - Within 'other investments (net)', medium and long-term (MLT) loans also decreased by (-) 4.4% during Jul-Mar FY20 as against the previous corresponding periods
- The overall balance position remained more or less same: USD 345 mln during July-March FY20 as against USD (-) 326 million during July-March FY19

External Sector

- Current account balance position which has weakened over the past few years may not see significant change in FY2021
- Demand for imports will rise in view of tackling the COVID19 pandemic and ensuring recovery
- To what extent export earnings and remittance flows will be able to counter balance this to improve the current account balance remains to be seen
- An unchanged scenario could indicate a low-level equilibrium where all relevant debit and credit side correlates fail to evince robust growth
  - The rise of forex reserves from USD 32.7 bln to USD 32.8 bln (between 30 June 2019 and 17 May 2020) can be interpreted as a sign of this

External Sector

- MLT will likely gain some momentum as the government is actively seeking foreign funds to mitigate the impacts of COVID 19
  - As of now, government is negotiating loans amounting to about USD 2.6 billion from various international development partners
- However, pressure on overall balance and foreign exchange reserves may likely rise in 2021
  - Requires a cautious approach by the central bank in pursuing the monetary policy over the coming days
  - Management of exchange rate, foreign exchange reserves and foreign debt servicing will call for close attention and supervision
- With limited scope to further incentivise export and remittances
  - The central bank should consider gradual depreciation of Bangladeshi Taka; likelihood of this contributing to rising inflation may not be significant
- This will also be supportive of an expansionary fiscal and monetary policy stance as more money will be injected into the economy

Section VI. Conclusion

Conclusion

- The Bangladesh economy, from the very beginning of FY20, has been grappling with formidable challenges in the areas of revenue mobilisation, banking sector, capital market and export sector
- The outbreak of COVID-19 has exacerbated these challenges by having impacts on the economy through the various transmission channels, both domestic and global
- This has now been further aggravated on account of the super-cyclone Amphan
- The spread of the pandemic in Bangladesh and the subsequent 'general holidays' have affected almost all macroeconomic correlates adversely. The analyses so far have provided evidence that the COVID-19 pandemic has led to:
  - **a slowdown in economic growth (at best 2.5% in FY20)**
  - **given rise in poverty (to 35% in FY20) and (both income and consumption) inequality**
  - **triggered a record shortfall in revenue mobilisation (Tk. 125,000 crore)**

Conclusion

- And also:
  - disrupted the implementation of public investment projects,
  - escalated budget deficit and bank borrowing,
  - decelerated export growth
  - induced a fall in remittance inflow

- Alongside this, there are also signs of some resilience, as evinced by official data.
  - Inflationary trend is by and large stable
  - Balance of payments position and exchange rate are steady
  - Foreign exchange reserves have seen some rise

Conclusion

- The government has come up with a number of policy interventions over the past few months in the form of several stimulus packages and monetary easing, and by providing reliefs
- Regrettably, the policy response has not been adequate. The government has relied primarily on monetary policy tools (instead of fiscal stimulus as generally practiced) as is manifested by the design of the stimulus packages
  - One could argue that lack of adequate financial resources may have influenced such a design
  - Also, the stimulus package remains largely focused on large enterprises
  - Scope of assistance to the marginalised groups has been found to be limited
- CPD, in April 2020, has argued for providing Tk. 16,000 assistance to each of 1 crore 90 lakh households over a period of two months to ensure meaningful implementation of 'general holiday' which should have been a 'lockdown'.
- The government in the end went for a down-sized cash transfer to a lower number of people

Conclusion

- Weakness of administrative capacity and lack of good governance have further limited the effectiveness of the government efforts in view of this
  - The aforesaid cash transfer programme could not be fully implemented in time as evidence of large scale mistargeting (inclusion and exclusion) and corruption came into light
- The other constraint felt during the overall policy response is lack of required coordination among the various agencies and actors involved
  - Even during the 'general holiday' period, flip-flops in decision-making were in evidence concerning opening of RMG factories and allowing people's movements during Eid holidays (after initially banning any such movement)
- The onus of health safety has largely been shifted from state to individuals and enterprises

Conclusion

- The economic policies in response to the COVID-19 pandemic over the last couple of months were influenced by the false dichotomy between life and livelihood
- While it is true that CPD has also earlier urged to focus on life and livelihood, putting the so-called ‘life versus livelihood’ debate on the table has misguided the policy discourse
- The decision to open up economic activities without taking proper precaution, plan and preparation is having a significant cost in terms of lives and sufferings of the citizens, and sustainable recovery of the economy
- It is critically important to review the current state of the pandemic spread (as is known, the ‘curve’ is yet to flatten) and take a planned phased approach to allow movements and economic activities
  - To this end, it is of utmost urgency that the government takes immediate steps to increase the number of COVID-19 tests and prepare a detailed plan involving health experts and economists, not a select of business leaders only

Conclusion

- ➢ Relevant guidelines released by the WHO should be followed in this connection
- ➢ These need to be complemented by adequate budgetary allocations for COVID-19 test capacity and support to lower income groups so that they are able to cope with the required 'lock-down' period

- ❑ There is a broad consensus as regards the needed macroeconomic policy stance
- ❑ CPD in March 2020 has urged in favour of an expansionary macroeconomic policy stance, from both fiscal policy and monetary policy perspectives
- ❑ The government has taken a number of steps as part of the monetary policy it intends to pursue
- ❑ In the run-up to the budget for FY21, it is crucial that the fiscal policy response should also be used to its fullest potential
- ❑ Bangladesh is in a comfortable zone with a better debt-GDP ratio; this will allow the country to go for a higher budget deficit
- ❑ However, to pursue this policy the **major challenge lies in creating the required fiscal space**

Conclusion

- In order to create the fiscal space, the government will face the challenge of augmenting a substantial amount of revenue in a year when the economy is likely to struggle while raising tax rates will be difficult
  - To this end, success will depend on the govt.'s ability to plugging tax evasion and curbing IFF
- The government must continue to harness all potential sources for foreign finance (grant and loan)
- One may predict that the onus will largely be on bank borrowing
  - The governance of banking sector and undertaking the long-awaited reforms assume heightened importance in view of this

Conclusion

- While financing remains the top challenge, allocative priorities of the budget for FY21 need to be right. CPD has argued to put utmost priority for four sectors – health, social protection, agriculture and employment
  - If the government does not come out of the usual budget framework driven by inertia of business as usual, the needed resources may not be allocated to these areas
- The demand estimations in these areas also need to be realistic and evidence-based
  - For example, while providing resources to the health sector for testing and treatment, to address COVID-19 pandemic, there has to be a clear projection as regards the likely number of infections over the next fiscal year in the country.
  - These assumptions and information should be clearly mentioned in the budget speech so that these numbers and the concerned budgetary allocation can be examined thoroughly. Same is true for social protection and agriculture sectors

Conclusion

- The resources have to be utilised in a timely manner, and corruption against these allocations should be severely dealt with
  - The recent information published in media as regards the COVID-19 related health project reemphasises this need more than ever. In the recent past, this type of incidences has also been experienced in the areas of social protection support put in place to address COVID-19
- CPD has also called for other supportive measures such as gradual depreciation of BDT and implementation of the stimulus packages in a timely manner by prioritising the deserving and marginalised entrepreneurs
- In view of the uncertain global environment, the government needs to focus adequately to stimulate domestic demand by incentivising domestic consumption
- Aggressive diplomatic efforts will be required for market diversification and to address the challenges in the areas of overseas employment and remittance inflow

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Conclusion

- It has been the tradition in Bangladesh policy circles to prepare the national budget with a view to sustaining high economic growth
  - The target and attainment of robust economic growth appear to find the centre stage in the government's economic policy discourse
- It may be easy to conceptualise and monitor the path of economic recovery, be it 'V-shaped', 'W-shaped' or 'U-shaped'; hopefully not 'L-shaped', with economic growth number
- However, it is important to understand that this year and the present crisis are not of the types that are generally associated with the usual business cycle or recession
  - **The elephant in the room for economic policymaking including the upcoming national budget is the COVID-19 pandemic**
  - **Saving people from loss of lives and sufferings ought to be the highest priority**
  - **The economic recovery should be measured and monitored in terms of poverty, inequality and employment**
- It is hoped that the next budget will be able to rise up to this emergent challenge

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Stay Well, Stay Safe

CPD (2020): Challenges of Policymaking in Times of Pandemics: State of the Bangladesh Economy in FY2020