

State of the Bangladesh Economy in FY2021

First Reading

Economic Recovery during the Pandemic Period How does the economy fare in view of sustainable recovery?

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First Reading

SECTION I. INTRODUCTION

Halfway through FY2021, the Bangladesh economy is still reeling from the adverse consequences of the ongoing COVID-19 pandemic as manifested by key macroeconomic and sectoral performance indicators. Although, in terms of GDP, Bangladesh was an outlier as one of the very few countries which posted positive growth rates in 2020, there are reasons for concern as one examines the underlying factors that informed economic performance as the country moves towards the end of FY2021. The key question here is whether the economy has been able to overcome the initial stress, make a turnaround and is set on the course for rebound and recovery.

The objectives of the present review carried out under CPD's flagship Independent Review of Bangladesh's Development (IRBD) are threefold:

- Firstly, to have a conceptual understanding about how to define economic recovery in the backdrop of adverse impacts on an economy.
- Secondly, taking cue from the above, to analyse the performance of Bangladesh economy, as it crosses the midway mark of FY2021, to assess to what extent macro and key sectoral performance indicators have fared from the vantage point of turnaround, rebound and sustainable recovery.
- Thirdly, to offer suggestions to address some of the important attendant concerns associated with the selected areas of analysis.

In view of the above, following the Introductory Section, Section 2 undertakes an attempt to arrive at an analytical framework to assess the state of rebound and recovery of the Bangladesh economy in the backdrop of the ongoing COVID pandemic. Section 3 examines the movements of major macroeconomic correlates to assess trends and anticipate prospects of resilient recovery. Section 4 reviews performance of the agriculture sector in view of the dual impacts of the pandemic and natural disasters. Section 5 provides an analysis of the performance of the industrial sector and perceptions of key stakeholders as regards near-term recovery. Section 6 undertakes an analysis of the key performance indicators concerning the banking sector, particularly in view of the stimulus packages disbursed through the banking sector, to assess the prospects of rebounds and recovery. Section 7 reviews trends in the external sector with a view to assessing the state of play of major correlates in the backdrop of pre-covid context. Section 7 concludes with some final observations.

SECTION II. ANALYTICAL FRAMEWORK

2.1 Context

The global economy has been gravely affected by the COVID-19 pandemic. Nearly a year later after the pandemic had first made its presence known, the global economy is perhaps showing some signs of economic recovery. Global economic output is projected to increase by 4 per cent in 2021 even though the growth rate is 5 per cent below pre-pandemic estimates (World Bank, 2021). However, the recovery is expected to be uneven across the world as some economies will regain output faster than others depending on the extent of the loss and their capacity to recover. Developed countries (3.1 per cent) are expected to experience a slower pace of recovery compared to developing countries (5.7 per cent) (UNCTAD, 2020). This has significant implications for many economies including Bangladesh. The growth outcomes in China, the European Union and the United States directly affect the South Asian countries through impacts on export demand, remittances and access to foreign financing (World Bank, 2016). For example, nearly 62 per cent of the ready-made garments (RMG) exports from Bangladesh go to European markets (BGMEA, 2020). Consequently, recovery of any particular country is not only dependent on the strength of its domestic economy, but also on how the other economies recover.

Moreover, within the country, economic recovery may not follow the same pace and pattern across sectors. Several factors have implications for the recovery of economic sectors including: (i) extent of loss due to the pandemic; (ii) size of the business/firm in terms of investment and returns; (iii) type of policy measures put in place by the concerned government; and (iv) support received from the government. Despite some positive signs, the sustainable recovery route for majority of countries and most sectors is dependent on many factors and remain uncertain. In the course of the recovery, the need for appropriate policy measures is thus of critical importance. Indeed, appropriate policies can expedite recovery in a sustainable manner. Moreover, much of it also depend on the scale and timing of policy responses. Against this backdrop, this section provides a brief description of the paths of economic recovery.

2.2 Shapes of economic recovery from recessions

Currently, there is a lively debate involving experts regarding the shape of economic recovery from recession: K, L, U, V, W and "shoosh" shaped recovery curves. These are discussed below in brief:

- a) K-shaped recovery occurs when a segment of the economy pulls out of a recession, while others stagnate (Aldrich, 2020).
- b) L-shaped crisis represents a permanent loss of output (Sharma et al., 2020).
- c) U-shaped recovery refers to an initial drop, followed by sluggish recovery in output (Hong and Tornell, 2005).
- d) V-shaped recovery is when an initial drop is followed by a sharp increase in the growth rate (Hong and Tornell, 2005).
- e) W-shaped or Double-dip recession- double-dip recession is defined as "a second decline of real gross domestic product (GDP) after a trough of the economic cycle but prior to the reversion point or the previous peak level of real GDP" (Kyer and Maggs, 2019).
- f) In case of a "swoosh" shaped recovery, the output experiences a rapid drop followed by an excruciatingly slow recovery (Sharma et al., 2020).

Despite the discussion on various shapes of recovery, there is a gap in the literature regarding the definition of economic recoveries. Most of the existing studies have explored the resilience of economies while the recovery aspect as the central focus of research has received little attention. In relevant literature, the most commonly used indicators are quarterly GDP and employment scenario.

Martin and Sunley (2015) suggested that "recovery could mean a return to the peak level of employment, a return to the original growth path, a return to the original growth rate, or the adoption of a new, favourable growth path". Instead of defining recovery as a certain level of employment to be achieved or a return back to a pre-shock trend, Han and Goetz (2015) identified recovery as the rate of employment change in the six months following a region's trough, the rate of employment changes in the six months following the trough of a region. For assessing the resilience of various counties in the USA during and after global financial crisis (GFC), Ringwood, Watson and Lewin (2018) tracked the total employment behaviour during the months from a county's local peak, associated with the beginning of the shock response, to six months after the trough, to include both the magnitude of the impact of the recession locally and the beginning of recovery.

2.3 Indicators for assessing economic recovery: beyond GDP and employment

A survey of literature reveals that the analysis of economic recovery has incorporated several variables beyond GDP and employment. Barthelemey and Binet (2020) analysed economic recoveries from financial crises using a dataset of 104 emerging and advanced countries covering the period from 1973 to 2017. The authors found that credit growth, real currency appreciation, a declining share of government spending in the GDP and, to a lesser extent, rising liquidity, resurgent inflation or greater trade openness following the crisis were more likely to facilitate substantial recoveries that were V, S or U shaped. Caro (2015) used employment series instead of GDP or other economic measures to analyse economic resilience. Although employment data can be affected by labour market dynamics, the choice of variable was justified on two grounds: (i) employment data are more "articulated" at the regional level and does not require to be deflated, and (ii) they offer interesting insights into the evolution of the geographic context.

Based on a review of a large body of literature, Rose and Krausmann (2013) cited the following indicators for assessing economic and community resilience indices: business size income; equality; avoidance of losses; redundant capacity; stabilising measures; recovery time; household income; property value; employment investments; excess capacity; inventories; input/import substitution; diversity of economic resources; equity of resource; distribution; percent employed; household income; business size; inventories; excess capacity; input substitution; business relocation. The authors concluded that most of the indicators are only applicable to major disasters.

In their analysis of the impact of the great financial crisis (GFC) on the European region, Antoshin et al. (2017) found that a 10 per cent rise in bank credit to the private sector is associated with a 0.6–1 per cent increase in real GDP and 2–2.5 per cent growth in real private investment. Economic recovery in the United States following the GFC showed a rise in household net worth, stock market, investment spending, and a fall in personal savings rate in 2012 (Elwell, 2012). Roberts' (2004) review of post-collapse experiences of Cameroon, Cambodia, Ethiopia, Mozambique, Nicaragua, Rwanda, Uganda and Zambia found that, in all but two cases, the first three years of recovery saw positive per capita income growth. The post-collapse rate of recovery is the growth of real final demand – government consumption expenditure, investment expenditure and exports. Due to their inherited macroeconomic and external financial condition, and the need to constrain government spending, Nicaragua and Zambia could not raise their per capita incomes in the immediate post-collapse period.

2.4 How to chart out Bangladesh's economic recovery path?

According to the official estimates of the government of Bangladesh (GoB), Bangladesh's growth of gross domestic product (GDP) in fiscal year (FY) 2020 was 5.2 per cent. Though this is lower than the projected 8.2 per cent for FY 2020 and lowest in the last decade (Figure 2.1), Bangladesh's growth during the pandemic is way above all other countries. The economy remained resilient thanks to its domestic strength. High agricultural production, remittances and

exports, particularly that of the readymade garments (RMG) have played a crucial role in achieving the growth.



Figure 2.1: GDP Growth rate over the years (%)

In the current FY2021, the government has projected a growth rate of 7.4 per cent. This is very promising and, if achieved, Bangladesh will be an outlier in terms of the pace of recovery of economy, which will be much faster than other countries. However, official estimates of GDP provided by the government of Bangladesh (GoB) have created debates in Bangladesh due to its disjuncture with fundamental macroeconomic variables including private sector credit, revenue mobilisation, import payments for capital machineries, energy consumption, export receipts, and employment generation (CPD, 2020). In fact, the GDP estimates for FY2020 have also come under scrutiny mainly due to the significant discrepancy between the GoB numbers and the estimates provided by a number of international organisaitons including the World Bank and International Monetary Fund (IMF). Indeed, the provisional growth figures may as well be revised when the final numbers come out.

The other issue is even if this growth is achieved, all sectors may not be able to recover in the same way. Globally, the possibility of a K-shaped recovery is being discussed widely. This implies that stimulus packages and liquidity support will help large industries and public organisations recover at a faster pace while the small and medium enterprises (SMEs) will lag behind. Bangladesh is likely to follow a similar shape as smaller firms, people belonging to the low income category and the poors in general have been affected disproportionately and have not received adequate government support. Given that SMEs are important sources of employment, the slow recovery of this sector could lead to further rise in inequality. This could jeopardise the sustainability of the recovery. Therefore, policymakers need to chart out the recovery path in a manner that does not leave out the weaker but critically important sectors of the economy.

However, in the absence of quarterly and disaggregated data on GDP and employment, it is not possible to diagnose economic performance and predict future outcomes in a pragmatic manner. In Bangladesh, quarterly GDP data are not prepared and the publication of the quarterly Labour Force Survey has been suspended for quite some time. Therefore, how the COVID-19 pandemic has affected the economy and how the economy would recover from the pandemic have to be analysed on the basis of macroeconomic variables and proxy indicators. In this backdrop, CPD has made an attempt to assess current growth trajectory of the economy based on an analysis of performance, trends, levels and pace of growth of key macroeconomic and sectoral indicators.

Source: MoF (2020); GED (2020).

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SECTION III. MACROECONOMIC MANAGEMENT

The pandemic-hit economy closed FY2020 with major departures from annual targets

Economic performance of Bangladesh in FY2020 ought to be assessed from the vantage point of an extraordinary year when an once in a lifetime global crisis of our time had unfolded in the form of the COVID-19 pandemic. To note, even before the outbreak the Bangladesh economy was facing significant challenges in a number of areas including domestic resource mobilisation, governance in the banking sector and export earnings. Macroeconomic challenges were further exacerbated by the pandemic and were accentuated by multiple natural disasters that struck Bangladesh in 2020 (e.g. cyclone and floods). The impact of COVID-19 was particularly evident during the last quarter of FY2020 (April-June) when the economic activities were severely disrupted in the backdrop of the 'general holidays' (i.e. lockdown) declared by the government. Indeed, FY2020 ended with a fall in economic growth¹, a large shortfall in revenue mobilisation, disruption in the pace of the implementation of public investment projects, escalation of budget deficit and bank borrowing, slowdown of private sector credit growth and sharp fall in trade. As can be seen from Table 3.1, all major economic correlates experienced major departures from their respective annual targets as far as FY2020 economic performance was concerned.

Indicators	Target FY2020	Actual FY2020
GDP Growth (%)	8.2	5.2
Investment (as % of GDP)	34.4	31.8
Private Investment (as % of GDP)	26.6	23.6
Public Investment (as % of GDP)	7.8	8.1
Total Revenue (as % of GDP)	13.2	9.4
Tax revenue (as % of GDP)	11.8	7.8
NBR Tax Revenue (as % of GDP)	11.3	7.6
Total Expenditure (as % of GDP)	18.1	14.9
ADP (as % of GDP)	7.0	5.5
Budget Deficit (excluding grants) (as % of GDP)	5.0	5.5
Inflation (%)	5.5	5.7
Private Sector Credit (Growth, %)	14.8	8.6
Money Supply (Growth, %)	12.5	12.6
Export (Growth, %)	12.2	-16.9
Import (Growth, %)	10.0	-8.6
Remittance (Growth, %)	13.0	10.9

Table 3.1: Major Macroeconomic Indicators in FY2020: Target vs Achievement

Source: Author's calculations based on the data from the Ministry of Finance (MoF). Note: National accounts estimates are based on provisional figures released by the BBS. The provisional estimates are expected to be revised and finalised in the coming months.

Revenue mobilisation registered a positive growth rate with disquieting underlying trends

In the run up to the national budget for FY2021, CPD (2020) had flagged concern that lack of fiscal space could constrain the government's response to the COVID-19 pandemic (CPD, 2020). Regrettably, the fiscal framework underpinning the budget apparently did not consider the pandemic. As the Ministry of Finance (MoF) data reveal, FY2020 ended with a subdued revenue mobilisation growth of 4.4 per cent. This meant that the target for FY2021 was 43.7 per cent higher than the actual collection in FY2020 (Table 3.2).

¹ At present, only a provisional estimate of economic growth is available. CPD (2020) has earlier argued that the provisional estimates prepared by the BBS should be significantly revised as it did not reflect the impact of the COVID-19 pandemic.

Particulars	Budget FY20	Actual FY20	Budget FY21	Jul-Oct FY20	Jul-Oct FY21	Required Nov-Jun FY21
Tax Revenue (a+b)	50.5	-2.3	56.3	3.2	2.6	80.4
a. NBR Tax	48.9	-1.7	53.6	3.4	3.4	76.0
a.1 Income Tax	69.3	12.0	38.0	32.8	-10.1	61.2
a.2 VAT	44.8	-6.0	56.6	-5.6	17.3	73.2
a.3 Import Duty	50.3	-2.3	59.4	1.4	7.0	85.5
a.4 Export Duty	-53.3	-32.5	-28.3	-96.8	-100.0	-27.5
a.5 Excise Duty	-4.2	-1.8	60.5	10.4	-58.6	85.7
a.6 Supplementary Duty	25.3	-2.1	77.7	-22.2	6.8	106.0
a.7 Other Taxes	45.8	-18.3	62.8	14.7	-84.1	160.4
b. Non-NBR Tax	97.5	-19.0	152.4	-2.8	-19.0	262.5
c. Non-tax Revenue	45.5	63.1	-21.9	3.8	36.8	-47.4
c.1 Dividend and Profit	31.8	30.8	-49.7	-36.7	-6.6	-58.2
c.2 IFT and Others	47.0	66.8	-19.5	7.0	38.8	-46.2
Total Revenue (a+b+c)	50.0	4.4	43.7	3.3	8.0	59.7

Table 3.2: Revenue Mobilisation Growth Scenario (in per cent)

Source: Author's calculations based on the data from the Ministry of Finance (MoF). Note: NBR: National Board of Revenue.

During the July-October period of FY2021, total revenue mobilisation rose by 8.0 per cent compared to the corresponding period of FY2020. However, this was underwritten by the phenomenal growth of 38.8 per cent from collection on revenue from interest, fees and tolls and others (IFT and others). It is to be noted that the growth thanks to IFT and others may not sustain over the coming months due to its nature of being a one-time payment. NBR tax collection increased by 3.4 per cent during the July-October period of FY2021 over the comparable period of FY2020, thus requiring a growth of 76 per cent (!) during the remainder of the fiscal year². The growth in revenue mobilisation during the aforementioned period was primarily driven by a better collection of VAT (17.3 per cent). However, income tax collection exhibited a negative (-) 10.1 per cent growth during the July-October period of FY2021. This can perhaps be attributed to the various tax exemptions provided in view of the pandemic. Indeed, the total revenue collection would have to grow by a whooping 59.7 per cent during the remainder of FY2021 if the target was to be achieved.

Public investment was restrained

According to IMED data, only 76.8 per cent of the original annual development programme (ADP) allocation could be spent in FY2020. In the first two quarters of FY2021, the implementation rate of the ADP allocation has been less than that of the same period of FY2020. In total, only 24.3 per

² According to the NBR data, tax collected by the NBR posted a growth of 3.5 per cent during the July-October period of FY2021. This implies that the required growth for November-June of FY2021 would be 71.6 per cent. As per the same source, tax collection growth during July-December of FY2021 was 3.9 per cent which takes the required growth rate for the remainder of FY2021 to 95.7 per cent.

cent of the total ADP allocation was spent during July-December of FY2021. The implementation rate of the 'Taka component' was 24.0 per cent, while that of 'Project Aid' was 24.9 per cent.

Total expenditure for the top ten ministries during the July-December period has fallen compared to FY2020. Ironically, amongst the top ten ministries/divisions in terms of allocation, the implementation has been the lowest in the Health Services Division. In an ideal situation, taking into account the current pandemic, the spending by the Division should have led the way. Only 14.6 per cent of the initially allocated amount to be spent by the Health Services Division has been spent. Even in pre-COVID situations, the ADP implementation rate of this sector was higher than this, at 16.5 per cent for FY2020's first two quarters. The failure of implementing the allocation earmarked for the Health Services Division is a reminder that Bangladesh has not been able to address many of the problems afflicting the country's healthcare system. Implementation status of eight mega-projects³ during the first half of FY2021 indicates that only 17.4 per cent of allocations has been spent, which is far below from the average implementation rate for the total ADP.

Expansionary fiscal policy was not in place

According to MoF data, total expenditure accounted for 14.9 per cent of the GDP in FY2020, which is less than FY2019 share of 15.4 per cent of the GDP. In FY2020, operating expenditure had a growth rate of 5.6 per cent while development expenditure increased by 6.4 per cent. Overall, there has been a growth of 6.1 per cent in total expenditure in FY2020.

Contrary to the needs triggered by the pandemic and as advocated by CPD (2020), the government was not able to pursue an expansionary fiscal policy. Public expenditure fell by a large amount during the first four months of FY2021 compared to the pre-COVID situation. A substantial fall is noticed in development expenditure, with a 35.1 per cent decline in ADP expenditure compared to the corresponding period of FY2020 (Table 3.3). Operating expenditure was also lower. In fine, public expenditure has been largely subdued.

Particulars	Jul	Jul-Aug	Jul-Sep	Jul-Oct
Total expenditure	20.2	-6.7	-7.6	-12.9
Development expenditure	-35.4	-37.8	-26.1	-34.6
Of which ADP	-35.4	-37.8	-26.3	-35.1
Operating expenditure	42.7	10.1	3.9	-2.5

Table 3.3: Government Expenditure Scenario (FY2021 amount over FY2020 amount)

Source: Author's calculations based on the data from the Ministry of Finance (MoF)

With a view to saving about Tk. 33,661 crore from the ADP in FY2021, the Finance Division has allowed ministries and agencies to spend only 75 per cent of the fund allocated by the government for ADP in FY2021. The remaining 25 per cent cannot be spent for operation under any circumstances. The rest 25 per cent of allocation has been put under hold since the Finance Division suspects that the revenue target will be difficult to achieve under the pandemic.⁴ Funding for low-priority projects was also suspended to make Tk. 52,000 crore (about one-fourth of the ADP budget) available for spending measures related to tackling the impact of the pandemic. High-priority projects have been allocated 40 per cent of the overall ADP allocation (New Age,

³ The projects are Padma Multipurpose Bridge, Dhaka Mass Rapid Transit Development Project, Ruppur Nuclear Power Plant, Matarbari Ultra-Super Critical Coal-Fired Power Project, Moitree Super Thermal Power Project, Deep Sea Port at Paira, Padma Bridge Rail Link and Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border.

⁴ However, projects receiving foreign funds have been allowed to go for full expenditure (The Business Standard, 2020).

2020). The Hon'ble Prime Minister had earlier stated back in April 2020 that unutilised funds from the ADP allocation would be redirected towards tackling the COVID-19 pandemic (The Business Standard, 2020). Curiously, the created fiscal space (by reducing the scope of ADP expenditure) was not diverted to expenditure for other priority purposes. This has perhaps made Bangladesh an exception in the global map as the country had apparently gone for austerity during the time of a crisis.

Budget surplus at a time of crisis!

FY2020 ended with a budget deficit of 5.5 per cent of GDP, which was well within the revised target of 6 per cent. As of October FY2021, there was in fact a surplus in the fiscal balance (Table 3.4). Although revenue mobilisation was somewhat subdued, a higher fall in public expenditure, particularly ADP expenditure, has primarily contributed to this situation.

Description	BFY20	AFY20	BFY21	Up to Oct FY20	Up to Oct FY21
Deficit					
Revenue Collection	377,811	263,062	378,002	81,303	87,817
Total - Expenditure	523,191	415,523	567,999	100,564	87,620
ADP	202,721	154,238	205,145	27,324	17,744
Non-ADP	320,470	261,285	362,854	73,240	69,876
Overall Deficit (Excluding Grants):	-145,380	-152,461	-189,997	-19,261	197
Financing					
Foreign Grants	4,168	1,957	4,013	0	0
Foreign Borrowing-Net	63,848	45,116	76,004	-125	2,218
Foreign Loan	75,390	57,085	88,824	3,797	5,409
Amortisation	-11,542	-11,968	-12,820	-3,923	-3,190
Domestic Borrowing	77,363	105,083	109,983	19,384	-2,384
Bank Borrowing (Net)	47,364	81,718	84,980	33,510	14,008
Non-Bank Borrowing (Net)	30,000	23,365	25,003	-14,126	-16,392
NSD Certificates (Net)	27,000	15,089	20,000	5,902	16,120
Others	3,000	8,276	5,003	-20,028	-32,512
Total Financing	145,379	152,156	190,000	19,259	-166

Table 3.4: Fiscal Balance and Government Borrowing (in crore Tk.)

Source: Author's calculations based on the data from the Ministry of Finance (MoF).

As expected, the government borrowing scenario under the pandemic was quite extraordinary. While the inflow of foreign grants was zero, that on account of net foreign borrowing saw a significant increase. Net sale of NSD certificates was extraordinarily high and this was used, along with bank borrowing, to repay the borrowing from other non-bank sources. Despite capping the purchase of three types of national savings certificates at Tk. 50 lakh in total under a single name and at Tk. 1 crore under joint names, NSD certificate sales surpassed its annual target by the end of the first half of the fiscal year.

Stable inflationary trends despite volatility in prices of essentials

FY2021 started with an inflation rate (moving average) of 5.64 per cent, which reached its highest level at 5.77 per cent in October 2020 but managed to come down to the initial level of 5.64 per cent by January 2021 (Figure 3.1). Food inflation has been exhibiting a generally increasing trend while non-food inflation has been coming down. The fiscal year started with a comparatively high non-food inflation rate of 5.79 per cent, which by January stood at 5.43 per cent. Curiously, an increase can be observed in the inflation rate for medical care and health expenses, which started with 7.47 per cent in July 2020 and stood at 8.72 per cent in January 2021.⁵ However, the highlight of the inflationary trend since the outbreak of the pandemic was the instability seen in the prices of several essential items, including rice, onion, potato, sugar, edible oil, vegetables etc. The official food inflation data do not reflect the anxiety of low-income people of the country who are struggling to keep their purchasing power intact in the backdrop of rise of prices of the essentials.





Turn-around in industrial production despite volatile export

FY2020 ended with a slump in the export scene as export earnings declined by 16.9 per cent and missed the growth target of 12.2 per cent by a large margin. In FY2021, the volatility in export earnings had continued. During the July-January period of FY2021, total export earnings decreased by (-) 1.1 per cent. This implies that total export earnings will need to grow by 70.4 per cent during the remainder of FY2021 if the annual growth target of 21.8 per cent was to be reached, an impossibility given the current situation, both nationally and globally, and the global trade forecasts. On a positive note, industrial production for large and medium industries increased by 7.7 per cent during the July-October FY2021 period while the corresponding figure for FY2020 was 5.4 per cent according to the BBS data.⁶ It is to be noted that, the data portray extraordinarily high growth figures for several industries. For example, the production of leather and associated products increased by 58 per cent although the associated exports of leather and leather goods had declined by 10.6 per cent during the same time frame. Increase in electricity production was 4.6 per cent. However, intermediate goods import declined by 8.8 per cent during

Source: Author's calculations based on the data from Bangladesh Bureau of Statistics (BBS).

⁵ This is perhaps indicative of the added demand for healthcare and medical supplies in view of the COVID-19 pandemic.

⁶ In FY2020, production of large and medium manufacturing industries increased by a meagre 1 per cent.

the first six months of FY2021. Nevertheless, it is apparent that domestic market-oriented industries primarily contributed to the enhanced industrial production growth.

Significant surplus in balance of payments piled up foreign exchange reserve

The overall balance of payments registered a buoyant surplus of about USD 6.2 billion during the first six months of FY2021 providing a big boost to foreign exchange reserves. This also helped maintain a stable exchange rate of BDT against the USD.⁷ The trade deficit narrowed further riding on reduced import payments. Import payments for the first six months of FY2021 fell by 6.8 per cent, faster than that of the export earnings, despite a whopping 50.4 per cent growth in payments against foodgrain imports.⁸ Thanks to extraordinary remittance inflow, current account balance posted a surplus of USD 4.3 billion as of December, 2020. This has created a large flow of net foreign assets for the commercial banks.

Expansionary monetary policy provided some boost for private sector credit

The government response to the COVID-19 pandemic was primarily driven by monetary (or 'hybrid') policy instruments, i.e., cheaper credits under the stimulus packages along with monetary easing. However, private sector credit growth as of December 2020 fell to 8.4 per cent as against monetary policy target of 11.5 per cent. This is pointer towards the depressed investment scenario in view of the pandemic. Indeed, capital goods import has also decreased by 16.7 per cent while the import of capital machinery experienced a decline of 29.2 per cent. Net FDI inflow also registered a negative growth of (-) 22 per cent during the July-December period of FY2021. Hence, it may be inferred that, while the economy, to some extent, may have turned around in terms of using its existing capacities; private investment may need more time to recover. In the meantime, the monetary system is flooded with excess liquidity and low interest rates for both deposit and lending in the backdrop of depressed demand for new investment.

Six emergent trends in the economy in FY2021

The review of major macroeconomic correlates over the first half of FY2021 is indicative of the followings. First, many critically important macroeconomic indicators evince signs of a turnaround. Production of manufacturing industries and electricity has posted a rise and VAT collection has registered positive growth rate. Second, one also needs to be remindful that the pace and turnaround have not been even for all indicators or sectors. For example, the RMG export, knitwear posted a positive growth (3.8 per cent), while woven wear had experienced a sharp decline ((-) 10.9 per cent). Third, recovery in production was better, showing signs of consolidation as regards use of the existing capacities in the economy. On the contrary, both private and public investment-related indicators had remained subdued. Indeed, the economy may need more time to recover fully. *Fourth*, the global recovery is likely to be slow, uneven and uncertain. On a comparative scale, recovery in the domestic demand has shown much stronger resilience. *Fifth*, macroeconomic stability has been maintained as reflected in surplus budget, declining aggregate inflation, overall surplus balance of payment, and stable exchange rate of BDT against USD. Sixth, the objectives of the macroeconomic policy interventions pursued to address the adverse impacts of the COVID-19 pandemic were not fully achieved. The constrained fiscal space was already a major concern in the pre-pandemic months, which perhaps constrained the government to pursue a larger fiscal stimulus programme as has been done in many other countries. As is known, most of the stimulus packages primarily hinged on subsidised credit. Regrettably, even the available fiscal space was not utilised fully. The weak budgetary programming had resulted in a surplus budget for the first four months of FY2021. Monetary policy was the primary policy block for the government. Several policy steps were taken which may have contributed to the turnaround. However, the benefits of such policies were not well

⁷ Foreign exchange reserve has recently crossed the USD 43 billion mark.

⁸ However, individual month wise analysis shows that import has increased during the months of November and December in 2020.

distributed. Export-oriented industries were far better positioned to take the early benefits compared to the domestic market-oriented industries. Similarly, large and medium industries were able to reap the benefit to larger extent compared to the small industries and agriculture sector.

The need for a recrafted policy approach

The national budget for FY2021 needs to be revised at the earliest. The economy needs to come out of a possible second round of flawed programming when the budget is revised. Money should be directly injected where it is needed the most. It will take more time for the global economy to recover; hence the immediate focus should be on the domestic economy where stimulating domestic demand ought to be prioritised. The economy requires continued policy support over the medium term to be able to recover fully. To this end, the experience of implementing the stimulus packages will need to inform policy choices. Indeed, the next round of stimulus package will require revisiting and reformulating. Relaunching the same packages with time extension will not produce the intended results. An innovative approach to absorb the need of small and micro enterprises, agriculture and young and new entrepreneurs should be considered to this end. In the run up to the next national budget for FY2022, the policy package must lay out the plan to phase out the tax exemptions and subsidised credit schemes. The recovery of the economy needs to be carefully monitored by generating credible and timely data. At present, the country does not have any credible data on the overall employment situation, or livelihood conditions of the marginalised communities, and those that tend to be left behind. Indeed, tracking traditional macroeconomic correlates is inadequate to understand the recovery status of the economy as new indicators of economic performance are emerging in the backdrop of the pandemic. This also underscores the demand for a renewed effort to generate the needed data.

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SECTION IV. RECOVERY OF AGRICULTURE AND AGRO-BASED INDUSTRIES DURING PANDEMIC PERIOD: HOW THIS FARES AGAINST THE PRE-PANDEMIC LEVEL?

4.1 Introduction

Despite its healthy state in the early phase of the COVID-pandemic, the agriculture sector of Bangladesh was confronted with multiple challenges as the pandemic started to tighten its grip on the economy over the subsequent period. This had adverse implications for an early recovery of the sector, although the level and range of impacts varied across agricultural products and agro-based industries. This section examines the state of recovery of agriculture and agro-based industries by analysing performance of related indicators including distribution of agricultural and non-farm credit and production and export of agricultural products.

4.2 Methodology

Following the 'purchasing managers' index'⁹, a composite index has been estimated to assess the level of recovery of agriculture and agro-based industries.¹⁰ Necessary data as regards selected agro-based entrepreneurs was collected through limited perception survey.¹¹ The index was employed to evaluate the pre-and-post COVID economic health status of agriculture and agro-based industries of Bangladesh. Based on a structured questionnaire, primary data were collected to generate necessary inputs for calculating the indexes. Questions were divided into five broad sections: a) New Orders, b) Output, c) Employment, d) Suppliers' Delivery Times, and e) Stocks of Purchases. Changes in the performance have been analysed for three different periods. These refer to - period 1 (December 2019 compared to December 2018), period 2 (June 2020 compared to June 2019) and period 3 (December 2020 compared to December 2019).

All surveyed questions were closed-ended where participants were instructed to choose between three possible answers¹² based on their respective performance in agriculture and agro-based economic activities. The index value was calculated by putting weighted proportions of respondents responding, up, same, and lower.¹³ The resulting index values are, therefore bounded between zero and 100.¹⁴

Data on agriculture production, export and credit during FY2019, FY2020 and several months of FY2021 have been compiled to compare the performance of agriculture and agro-based activities during pre-COVID and COVID period with a view to appreciate the level of recovery.

⁹ PMI is an economic indicator which is applied to compare the performance of businesses in a particular period against another period. The weights assigned for different components are same as is applied in the HIS Markit method, where weight for 'new order' is 30per cent, for 'output' is 25per cent, for 'employment' is 20per cent, for suppliers' delivery times is 15per cent weight and for 'stocks of purchases' is 10per cent. ¹⁰ A total of 18 entrepreneurs from different agro-based industries have been surveyed.

¹¹ The three comparable time periods include pre-COVID period (December 2018 and December 2019), COVID period (June 2019 and June 2020), and late-COVID period (December 2019 and December 2020).

¹² These include a) same (if their business for the given indicator remained same compared to previous period); b) lower (if their business for the given indicator deteriorated compared to previous period), c) higher (if their business for the given indicator improved compared to previous period)

¹³ Value 1 was multiplied with the percentage number of answers that reported an improvement, 0.5 was multiplied with the percentage number of answers that reported no change, and 0 was multiplied with the percentage number of answers that reported deterioration.

Generalised equation of the index is as follows: $PMI = (P_1 \times 1) + (P_2 \times 0.5) + (P_3 \times 0)$ where, $P_1 =$ Percentage of answers reporting improvement; $P_2 =$ Percentage of answers reporting no change; and $P_3 =$ Percentage of answers reporting deterioration.

¹⁴ Thus, if 100% of the panel reported an improvement, the index would be 100. If 100% reported a deterioration, the index would be zero. If 100% of the panel saw no change, the index would be 50.

4.3 Performance of agriculture production and agro-based industrial outputs

4.3.1 Agriculture production & export

Agriculture sector of Bangladesh was impacted by the COVID pandemic during the second half of FY2020 and first half of FY2021. Available official data mainly provides information on agriculture production for the second half of FY2020. According to the data, the agriculture production especially that of rice and wheat during FY2020 was higher compared to the previous year (Figure 4.1). However, the production of rice, particularly aus and aman rice during FY2021 was adversely affected due to the consecutive floods which affected about one-third of the districts in the country. Approximately 2.57 million hectares of paddy fields were inundated which affected about 1.27 million farmers in 37 districts. An early estimate indicates that aman rice, which accounts for 36 per cent of total rice produced in the country, was 10 lakh metric ton less than the targeted amount. As a result, domestic stock of rice particularly of public food stock because of procurement remaining low, was significantly less at the end of December, 2020 (7.63 lac m ton as on 14 January 2021 which was 15.70 lakh m ton as on 16 January, 2020 – about 51.4 per cent less compared to the year before). Similarly, production of jute was adversely affected due to flood and production was 6.2 per cent less compared to that in the previous year. Domestic market prices of rice and jute posted a significant rise because of low production and delay in import (particularly rice). Food inflation although declining but still higher than the pre-covid period (January-February, 2020) (Figure 4.2).

Indeed, the agriculture sector of Bangladesh has witnessed a contrasting performance during COVID period, an early resilience during initial phase of COVID pandemic and weak performance in the following periods. Loss of production of rice and other agricultural crops mainly occurred due to flood which had no relationship with the COVID. Overall, the weak performance of agriculture sector at the end of 2020 portrays that the sector is yet to recover despite the fact that this didn't have direct interface with the COVID pandemic.



Figure 4.1: Growth in area and production of agriculture goods, FY20 over FY19

Source: Prepared based on the Bangladesh Bureau of Statistics (BBS); Note: p=provisional.



Figure 4.2: Food inflation (m-o-m basis)

Source: BBS, 2021.

Export of agricultural products has somewhat improved in the first five months of FY2021 (July-December, 2020) after the poor performance in FY2020 (Figure 4.3). In other words, the export of agricultural products has yet to recover after the setback during the initial phase of COVID pandemic. During January-March, 2020 and April-June, 2020, export growth of agricultural products was -3.4 per cent and -24.8 per cent respectively, mainly due to fall in global demand and restriction of movement of goods by air and water transfer by major countries due to the COVID pandemic. In the subsequent period, while the cross-border movement of goods started, export earnings from agricultural products posted a rise – mainly from export of jute and jute goods (+37.8 per cent) during July-December of FY20 compared to the same period of the previous year and. Earnings from frozen and live fish and other agricultural products although negative (-3.7 per cent and -0.5 per cent respectively) had improved compared to that in FY2020 (-8.8 per cent and -5.2 per cent respectively). Overall, export performance during July-December FY20 reflects a sign of modest level of recovery. Since, the export of agriculture products comprises a negligible share of total agriculture production, the sector's performance will need to assess in view of domestic market situation.



Figure 4.3: Growth in export of agriculture goods

Source: Prepared based on the data of the Bangladesh Bank and Export Promotion Bureau (EPB);

Note: * = Includes tea, vegetables, tobacco, cut flower and foliage, fruits, spices, dry food & others; p (provisional)= Till December, 2020.

4.3.2 Growth in credit

Disbursement pattern of agricultural credit reflects the nature of investment in agriculture production. Since January, 2020, the growth of agriculture credit had gradually declined with a dip in April and May, 2020. Over the following months, disbursement of credit has started to rise and reached a high level in August, 2020, following which credit growth has declined (Figure 4.4). The changes in credit are mainly on account of decreased demand in large part of the country due to consecutive floods. Overall, disbursement of agricultural credit reflects a slow recovery in the agriculture sector. Given the sluggish trend in the disbursement of farm loan, Bangladesh Bank has slashed the disbursement target for the current fiscal year. According to the Central Bank's '2020-21 Agriculture and Rural Credit Policy and Programme,' target for growth of agricultural credit has been reduced to 9 per cent from the 10.7 per cent set for the previous year.





■ Jan-20 ■ Feb-20 ■ Mar-20 ■ Apr-20 ■ May-20 ■ Jun-20 ■ Jul-20 ■ Aug-20 ■ Sep-20 ■ Oct-20 ■ Nov-20

Source: Author's illustration by the compilation of data from Bangladesh Bank, 2021.

Disbursement of credit in the non-farm sector reflects the same trend during January-November, 2020 (Figure 4.5). After the fall in the demand for credit during the initial period of the pandemic, it had started to rise in the following months. However, this was stalled after August, 2020. During July-November, 2021, non-farm rural credit plummeted by 6.25 per cent compared to that of the previous year.



Figure 4.5: Changes in non-farm rural credit disbursement

■ Jan-20 ■ Feb-20 ■ Mar-20 ■ Apr-20 ■ May-20 ■ Jun-20 ■ Jul-20 ■ Aug-20 ■ Sep-20 ■ Oct-20 ■ Nov-20 **Source:** Author's illustration based on data from Bangladesh Bank, 2021.

4.4 Agri-businesses entrepreneurs views as regards recovery: Perception Survey

Agri-business entrepreneurs' views regarding business recovery has been analysed based on a sample perception survey conducted in early February, 2021. The respondents were replied to a set of structured questions prepared to calculate a composite index of recovery. Detail of the methodology is discussed in section 2.

4.4.1 Recovery situation concerning different components

According to the composite index, state of agri-businesses are almost at par with the pre-COVID situation (Figure 4.6). Majority of components have experienced deterioration during the early phase of the pandemic (June, 2020). A significant drop in new orders was observed during June 2020 due to nationwide lockdown and limited level of economic activities. However, the situation of new orders has quickly recovered and reached pre-COVID level. Similarly, the output level has reached pre-COVID period during December 2020. The employment level in agro-based enterprises is still behind, although this has recovered well since June, 2020. Better performance is observed in the case of suppliers' delivery time. Overall, agro-based enterprises have reached the pre-COVID level at the end of December, 2020- this is mainly attributed to changes in output, employment, orders and suppliers' delivery time.



Figure 4.6: Recovery indices of agro-based businesses and enterprises

Source: Author's compilation from perception survey on agro-based businesses and enterprises.

4.4.2 Recovery of different categories of enterprises

Recovery performance is not the same across the different agro-based businesses and enterprises (Table 4.1). The highest level of recovery was observed in case of business of vegetable production and poultry sub-sectors, both of which reached the pre-COVID level (during December, 2020 vis-à-vis December, 2019). A moderately better recovery was observed in case of dairy farming; however, it has yet to reach the pre-COVID level. Crop-production and businesses were hit at a moderate level but was still behind the of pre-COVID benchmark level. Fisheries subsector's recovery was at the slowest pace – over production, and lack of rise in demand for fishes are the main reason behind this. Fisheries sector has faced significant losses due to supply shortages of feed during the pandemic period and consequent rise in prices of fish meals/feeds. Besides, the 'Amphan' storm damaged about 149 thousand hectares of agricultural land and fish farms in 26 districts, including nine districts under the Khulna and Barisal divisions (UNDP, 2020).

Table 4.1: Composite Index scores for various agro-based businesses and enterprises during three	e
periods	

Enterprises	Dec'18 to Dec'19	June'19 to June'20	Dec'19 to Dec'20
Dairy Farm	0.50	0.45	0.47
Agriculture (Crop)	0.37	0.28	0.32
Poultry	0.52	0.37	0.58
Fisheries	0.74	0.52	0.54
Agriculture (Vegetable)	0.35	0.28	0.58
PMI	0.45	0.35	0.44

Source: Author's compilation from perception survey on Agro-based businesses and enterprises

4.5 Factors responsible for the changing recovery situation concerning agrobased enterprises

Agriculture sector has experienced a mixed trend in terms of recovery. On the one hand, agriculture production, particularly crop and fisheries sector have been recovering at a slow pace; on the other hand, agro-based enterprises and businesses have recovered well and were able to reach the pre-COVID level. The prolonged flood during 2020 had a major detrimental impact on crop cultivation which in turn caused a slow recovery. Majority of agro-based industries and agribusinesses have quickly recovered because of the government decision in spite of attendant risks, to open the economy early (in June 2020). Various supports provided by the government such as launching of the free train service 'Krishak Bondhu Postal Service (KBPS)' by the Bangladesh Post-Office, with support of the Bangladesh Railway, for transporting agricultural products to the wholesale market of Dhaka and increase in DAP fertiliser production had some positive impacts on recovery of the agriculture sector.

Various stimulus packages announced by the government were not able to ensure the expected benefits for the farmers (Table 4.2). Allocation for additional procurement of rice was not realised due to poor procurement response from farmers and rice millers. Allocation for farm mechanization is in the process of implementation. Allocation for agriculture refinance scheme (Tk.5000 crore) and for professional farmers and small traders (Tk.3000) was yet to reach the target – only 69 per cent and 47 per cent have so far been implemented (Table 4.3). Lack of interest of banks as regards disbursement of credit is a major constraining factor which hindered timely disbursement of credit. Due slow progress, the Central Bank has extended the timeline for disbursement of loans twice and had refixed the target date for 31 March, 2021. Out of 43 banks which had signed an agreement with the Central Bank for disbursement of funds for the agriculture sector, 16 banks have disbursed less than 30 per cent of the targeted amount. Even if this is fully realised, the allocation of the fund could cover only less than 2 per cent of total farm households of the country.¹⁵ Due to procedural difficulties and other complexities, farmers and small traders are not being able to access loans through formal banking channels.

Name of the Stimulus Package in the Agriculture sector	Allocated Amount (in crore Tk.)
Additional procurement of paddy/rice (2.0 lac ton)	860
Support for farm mechanisation	200
Subsidy for agriculture	9,500
Agriculture Refinance Scheme	5,000
Refinance Scheme for the professional farmer and small traders	3,000
Total	18560

Table 4.2: Stimulus Packages for Agriculture	e sector announced in April 2020
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Source: MoF & Bangladesh Bank.

¹⁵ Assuming that an amount of Tk.2 lakh will be allocated to each farm household. This would mean an allocation of Tk.8000 crore which could cover only 2.42 per cent of total 16.5 million farm households. According to BRAC (2020) only 20 per cent farmers have prior experience of taking formal credit.

	Agricult	ure Refinance Sch	eme	Refinance Scher aı	onal farmer	
Period	Disbursement *	Implementatio n rate	No of borrower s	Disbursement *	Implementatio n rate	No of borrower s
Aug- 20	1095	21.9	46804	286	9.5	
Sep- 20	1892	37.8	78,526	564	18.8	57977
Oct-20	2,256	45.1	89,517	648	21.6	100,227
Jan-21	3450	69	144903	1410	47	
C		D]. N * (:	TT-)			

Table 4.3: Disbursement of Loan from the Stimulus Package

Source: MoF & Bangladesh Bank; Note *= (in crore Tk).

Overall, the performance of the agriculture and agri-businesses during the COVID period is more influenced by natural calamities than by the pandemic induced disruptions in the domestic value chains. The sector has shown its moderate level of resilience during the early phase of the pandemic particularly in case of rice production; however, the poultry, milk and fisheries subsectors were moderately affected due to pandemic. The agriculture production was mainly disrupted due to consecutive floods and cyclone Amphan and decline in production of rice, jute and vegetables in the following periods. These caused lower level of domestic supply of agricultural products which had inflationary impact in the market and that has continued afterwards. The recovery of the agriculture sector is better compared to that of manufacturing and services sectors; however, the sector has experienced an inflationary pressure during the recovery period which would continue in the coming months. The study showed that the agriculture and agro-based industries are almost reached the pre-covid level particularly in case of production, employment, orders and suppliers' delivery time etc. Despite that few sub-sectors are still lagging behind such as fisheries. Majority of agro-based industries and agri-businesses have quickly recovered because of the government decision in spite of attendant risks, to open the economy early (in June 2020). Various stimulus packages announced by the government were not able to ensure the expected benefit for the farmers due to procedural difficulties and other complexities. In this backdrop, government needs to change its rice procurement strategy by sequencing the procurement plan – first should be to complete procurement of paddy from farmers directly from farmers from rural haats and bazzars and then procure rice. The procedural difficulties need to be eased in accessing subsidized credit by farmers and rural non-farm enterprises. The government should involve micro-finance organisations to disburse credit to rural enterprises.

SECTION V. RECOVERY OF MANUFACTURING AND SERVICES INDUSTRIES DURING PANDEMIC PERIOD: HOW THIS FARES AGAINST THE PRE-PANDEMIC LEVEL?

5.1 Introduction

The state of recovery of the manufacturing and services sectors in view of the COVID 19 pandemic may be judged by assessing the nature of changes in business activities against pre-pandemic level. During recovery from a recession, manufacturing and service sectors tend to undergo a process of adaptation and adjustment to new conditions - labour, capital goods, and other productive resources that were tied up in the businesses that failed and went under during the recession are re-employed in new activities. Recovery of Bangladesh's manufacturing and services sectors in the backdrop of the pandemic needs to be examined from these vantage points.

With the gradually declining intensity of the pandemic and simultaneous opening of various economic activities, Bangladesh's manufacturing and service sectors can be expected to enter the post-COVID recovery phase. Given the differences in the level of disruptions caused by the pandemic, and also different levels of opening up of local and global economies, the pace of recovery is likely to be different for different sectors of the Bangladesh economy. Indeed, the nature and paces of recovery are expected to be different for different categories of enterprises within a particular sector. Fiscal and monetary policy support targeted at different sectors and enterprises is also likely to have a varied level of matches and implications in view of the recovery process. Hence, it is important to identify the level of recovery in the manufacturing and service sectors and the factors driving the process.

5.2 Methodology

Both primary and secondary data were used to conduct the analysis as regards the recovery of Bangladesh's service and manufacturing industries. Secondary data were gathered and analysed targeting a few broad aspects of these sectors, including sales, production, export, capacity utilisation and investment. Furthermore, secondary information regarding the stimulus packages was gathered to assess those packages' actual implications in the recovery process of these industries.

Primary data were collected mainly to calculate the rate of recovery based on the widely used 'purchasing managers' indexes (PMI)'. The index was employed to evaluate the pre-and-post COVID economic health status of manufacturing and service industries of Bangladesh. Based on a structured questionnaire, primary data were collected from a selected number of enterprises to generate necessary inputs for calculating the indexes.¹⁶ Questions were divided into five broad sections: a) New Orders, b) Output, c) Employment, d) Suppliers' delivery times (inverted), and e) Stocks of purchases. Changes in the performance have been analysed for three different periods. These refer to - period 1 (December 2019 compared to December 2018), period 2 (June 2020 compared to June 2019) and period 3 (December 2020 compared to December 2019).

All surveyed questions were closed-ended, where participants were instructed to choose between three possible answers¹⁷ based on their respective business performance. The index value was calculated by putting weighted proportions of companies responding, up, same, and

¹⁶ In total, 21 enterprises were surveyed, of which 13 were from the manufacturing industry, and eight were from the service industry. Participants of the survey were higher-level officials of respective enterprises from service and manufacturing industries. Selection of surveyed enterprises and industries was random. A panel was built following the size category of "industrial policy 2016" definition which was followed to identify the participants of the survey (except that of RMG industry).

¹⁷ These include a) same (if their business for the given indicator remained same compared to previous period); b) lower (if their business for the given indicator deteriorated compared to previous period), c) higher (if their business for the given indicator improved compared to previous period)

lower.¹⁸ The resulting index values are, therefore bounded between zero and 100.¹⁹ The weights for different sectors are different.²⁰

5.3 Performance analysis of different manufacturing and service-related industries

This section discusses the performance of important indicators related to manufacturing and service sectors since January, 2020, to appreciate the level of changes that would help delineate the industries' pace of recovery.

Performance of Production

Manufacturing sector's performance evinces an indication of recovery in terms of production. From the dip in April, 2020 when the growth of QIP was -23.5%, the manufacturing production has gradually improved over the following months – in June, 2020 the growth in QIP was 18.3% (Figure 1). However, in the following months, the production growth has slowed down and somewhat stagnated below the 10% level. The latest available monthly data (September, 2020) portrayed positive growth (9.4%); however, the level of growth was much lower compared to the pre-COVID months (January-February, 2020) when it was about 22 per cent. This is largely attributed to sluggish growth of export-oriented RMG and non-RMG industries as well as domestic market-oriented food products and non-metallic products (Figures 1 and 2). However, pharmaceutical sector has performed exceptionally well during the pandemic period thanks to the rise in the demand for medicine and other medical equipments.²¹ A slow rise in consumer demand, both at local and global markets, meant that concerned industries did not get enough new orders; prices offered were also not attractive. Consequently, manufacturing production suffered (CPD, 2021).

Figure 5.1: QIP growth (%) in 2020 compared to 2019





Source: BBS (2021).

¹⁹ Thus, if 100% of the panel reported an improvement, the index would be 100. If 100% reported a deterioration, the index would be zero. If 100% of the panel saw no change, the index would be 50.

²⁰ In case of overall and manufacturing sectors the weight for different indicators varied - where New Order was given 30% weight; Output: 25% weight; Employment: 20% weight, Suppliers' Delivery Times: 15%, and Stocks of Purchases: 10%. The generalised equation of the index was as follows: PMI = $(P_1 \times 1) + (P_2 \times 0.5) + (P_3 \times 0)$ where, P_1 = Percentage of answers reporting improvement; P_2 = Percentage of answers reporting deterioration.

²¹ The industry grew by 6.5% in the third quarter of 2020 whereas its annual growth was 10-12% (The Financial Express, 2021)

Source: EPB (2021).

¹⁸ Value 1 was multiplied with the percentage number of answers that reported an improvement, 0.5 was multiplied with the percentage number of answers that reported no change, and 0 was multiplied with the percentage number of answers that reported deterioration.

Uncertainties arising from the second wave of the pandemic, with consequent fall in income, loss of employment and other adverse impacts, across major export destinations of Bangladesh, could induce further detrimental supply-side response (CPD, 2021). In view of the ongoing vaccination across almost all parts of the world, uncertainties as regards the pandemic are expected to decline in the near future. This may impact production positively. However, it will take more time to trigger consumers' confidence in key partner countries which is needed to stimulate Bangladesh's export. Losses in employment (around 10.1 million became unemployed in April, 2020) and income (65% lost their income) in the early months of the pandemic were significant, and it will take some time for the economy to fully recover. The consequent sluggish growth in domestic consumer demand will likely have adverse implications for industrial production in the near term.

It is to be noted that the pace of recovery is different for different categories of enterprises (Figure 3). In case of the RMG industry, capacity utilisation for all types of enterprises has increased during April-September, 2020 period. However, the pace of growth has varied widely between small scale enterprises, vis-à-vis medium and large scale enterprises. Indeed, this gap has been widening over recent months. In other words, small scale enterprises are lagging behind in terms of recovery in capacity utilisation compared to medium and large-scale enterprises (CPD & MiB, 2021). According to the resilience index, estimated for 600 RMG enterprises (CPD, 2021), while the overall score was 43.4 (out of 100), the index values for small, medium and large-scale enterprises were 37.8, 49.2 and 54.2 respectively. The RMG industry, in general, is lagging behind in terms of resilience and within RMG smaller enterprises are in a more disadvantageous situation.



Figure 5. 3: Rate of Capacity Utilization (70% and above)

Source: CPD-MiB (2021).

Electricity use across economic activities

Electricity use is a good proxy indicator to understand the state of economic activities, particularly in manufacturing and service-oriented industries, and could therefore serve as an indicator of economic recovery. Electricity generation has maintained a positive growth during January, 2020- August, 2020 period compared to that of the previous year (Figure 5.4). However, growth has slowed down and, since September, 2020, it has gone negative (except during the month of October, 2020). In other words, sluggish rise in electricity demand commensurate with slow recovery did not continue since September, 2020.²² Overall, manufacturing and service-

²² It is to be noted that a section of enterprises of manufacturing and service industries utilise captive power generated of their own which is not reflected in this data.

oriented industries are yet to create adequate demand for electricity due to the slow rise in the activities.





Source: BPDB (2021).

Investment Performance

Uncertainties caused by economic disruptions owing to COVID-like pandemic tends to have a serious adverse impact on private investment. Industrial term loan, which indicates long term investment in manufacturing and service-oriented activities, has experienced a significant fall during the early period of COVID pandemic (April-June, 2020) (Figure 5.5). However, small scale industries were more severely affected (-71.2%) compared to the medium and large-scale ones (-37.8% and -43.2% respectively). There was no sign of recovery in the first quarter of FY2021 (July-September, 2020) since the negative growth has continued though it has shown some sign of improvement (-29.65%) in July-September, 2020. Indeed, the decline in investment by large scale enterprises (34.03%), which accounted for 76% of total industrial term loans, portrays a medium-term recovery challenge for manufacturing and service-oriented industries.

Figure 5.5: Industrial Term Loan Disbursement growth (%)



Source: Bangladesh Bank (2021).

As Figure 5.6 shows, quarterly growth in advances made to different sectors has tended to vary across sectors during the first three quarters of 2020 (end of March, June and September, respectively).²³ Stagnation of the manufacturing industry in the post COVID recovery phase could be observed in case of the performance as regards advances as well. The growth of advances for the industry sector was declining in 2020 when compared to 2019. On the other hand, the advances growth of construction sector was also stalling. However, a different scenario may be observed in case of trade and e-commerce, and from the transport sector. The pandemic came as a blessing for the e-commerce industry which took off at a very fast pace as consumers started to make greater use of it. This is reflected in the high and consistent growth rate in advances. Advances to transport sector picked up in the early months, till June, 2020 but fell significantly in the third quarter of 2020.





Source: Bangladesh Bank (2021).

The changes in opening and settlement of LCs at import stage is a good indicator to understand the state of production based on demands for working capital and term loan by different manufacturing and service-oriented industries.

The ratio of opening and settlement reflects the rate of settlement against the opening of import LCs during a specific time period. A ratio value closer to 1.0 reflects businesses respond quickly in terms of settling their import payment given the demand for the imported goods. As analysis of opening-settlement ratio depicts that the ratio has been gradually declining in case of industrial raw materials, intermediate goods and capital machineries (Table 5.1). However, the ratio fell to a lower level for industrial raw materials compared to intermediate and capital machinery. In other words, importers are not quickly responding to settling the LCs, particularly in case of capital machineries given the uncertainties in future demand for goods and services. This may be indicative of businesses in manufacturing and services sectors are struggling more to ensure their existing capacities thus are responding slowly to settlement of LCs, particularly for capital machineries which would further rise the capacity.

²³ In April, 2020 followed by June, 2020, the Central Bank had waived the payment of instalments by borrowers which is likely to increase the amount of advances to different sectors during April-December, 2020 period. Hence, the positive changes in advances may not necessarily be attributed to rise in disbursement of loans alone.

	Inter	rmediate g	oods	Industrial raw materials			Capital machinery		
Period	Opening	Settled	Ratio	Opening	Settled	Ratio	Opening	Settled	Ratio
FY 2020	4795.83	4812.56	1.00	19099.5	17658.8	0.92	4737.47	4374.02	0.92
				9	1				
July (FY 21)	329.34	313.04	0.95	1619.21	1534.52	0.95	377.4	251.64	0.67
July-August	-	-	-	-	-	-	-	-	-
(FY 21)									
July-	1040.55	871.22	0.84	4637.09	4320.02	0.93	1195.19	822.9	0.69
September (FY									
21)									
July-October	1483.67	1200.99	0.81	6324.05	5721.97	0.90	1639.26	1072.3	0.65
(FY 21)									

Table 5.1: Item-wise fresh opening and settlement of import LCs

Source: Bangladesh Bank (2021).

5.4 Opinion of entrepreneurs as regards business recovery prospects: results from perception survey

An attempt was made to capture entrepreneurs' perception as regards prospects of business recovery through a small sample survey which was undertaken during February 1-4, 2021. Following the Purchasing Managers' Index (PMI) method to assess the level of business recovery, a similar index for manufacturing and service industries was developed for this purpose. Following sections highlight the key findings of the survey.

Entrepreneurs felt that the industrial enterprises, in general, are in the process of recovery from the COVID-19 induced crisis. However, the process of recovery is slow, and enterprises are lagging far behind when compared to the pre-COVID-19 situation. Table 5.2 portrays the overall status of recovery of the sample manufacturing and services enterprises. The index values reveal that enterprises were hit hard by the coronavirus pandemic but had rebound rather quickly. The overall index value for industries was 65 out of 100 in December 2019 compared to that in December 2018.²⁴ However, the level declined to almost half in June 2020 compared to what they were in December 2019 (32 in June 2020 vis-à-vis 65 in December 2019). Since June 2020, the enterprises have shown signs of a rebound, and after six months (December 2020) the level reached 43, which was 34.4% higher than the level in June 2020. Despite the pace of recovery appears to be slow – the overall level is 57% lower than what this was in December 2019.

	In December 2019	In June 2020	In December 2020
	compared to	compared to June	compared to
	December 2018	2019	December 2019
Index Value Overall	65	32	43
Manufacturing	69	28	37
enterprises			
Service enterprises	63	39	53

 Table 5.2: Overall recovery situation of manufacturing and service enterprises

Source: Author's calculation.

The pace of recovery is found to be different for manufacturing and services enterprises. A drastic fall is seen in case of manufacturing enterprises during the lockdown phase (69 in December, 2019 vis-à-vis 28 in June, 2020). The state of service sector enterprises was to some extent better in comparison (from 63 in December, 2019 to 39 in June, 2020). A somewhat faster recovery is also seen in case of service sector enterprises compared to that of manufacturing ones. The PMI was 37 in December 2020 for manufacturing enterprises whereas it was 53 for service sector

²⁴ In other words, industrial enterprises were not in the same state in December 2019 compared to a year earlier; their level of performance in 2019 was perceived to be at two-thirds of what this was a year earlier.

enterprises. Thus, the state of service sector is perceived to be better, albeit only marginally, than that of manufacturing sectors though both are still lagging behind their respective performance level in 2019.

Recovery situation of different components

The index was calculated based on five headline sub-indexes/components: new orders, output/business activities, employment, backlog of works and stocks of purchases. Each of the components is separately showing signs of recovery from the COVID-19 shock (Table 5.3). Immediately after the pandemic induced crisis, the component 'new order' fell drastically. Major manufacturing and service sectors have experienced a significant decline in new orders. In case of the RMG sector, a part of existing orders was either cancelled or postponed/deferred. However, the fall was rather moderate between December, 2019 and June, 2020 in case of output/business activities, employment, backlog of works and stock of purchases. Towards the end of the year 2020, enterprises started recovering, as is seen from movements in the index values. Nevertheless, the pace of recovery is still very low in case of new orders. While the output/business activities, employment and stocks of purchases have made a moderate level of progress, the other components such as backlog of works are almost stagnant.²⁵ In case of some components such as employment and backlog of workers, service-oriented enterprises have almost reached the pre-COVID level. However, manufacturing sector enterprises are way behind as regards most of the components except backlog of works.

	In December 2019 compared to December 2018	In June 2020 compared to June 2019	In December 2020 compared to December 2019
New Orders/ new business	70	13	29
Output/ business activities	71	35	49
Employment	74	36	47
Backlogs of Work	48	46	46
(Suppliers' delivery times)			
Stocks of Purchases	38	42	52

Table 5.3: PMI Index categorised by components	Table	5.3: PMI	Index	categorised	by	components
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Source: Author's calculation.

Recovery of different categories of enterprises

In general, it is found that the recovery from the COVID-19 crisis is not of the same type for all categories of enterprises (Table 5.4). Compared to other categories of enterprises, the mediumsized enterprises suffered the most during the pandemic; on the other hand, there are the enterprises which are in the front in view of the recovery process. However, micro and small enterprises are facing formidable problems and difficulties in view of getting into the recovery phase. According to the PMI index, no sign of recovery of micro and small-scale enterprises is discernible even after almost one year after the pandemic had first struck in Bangladesh.

Table 5.4:	PMI Index	categorised by	company size	(Overall)
				()

Company size	In December 2019 compared to December 2018	In June 2020 compared to June 2019	In December 2020 compared to December 2019
Large	64	34	40
Medium	68	29	46
Micro and small	61	38	38

Source: Author's calculation.

²⁵ In case of output component, enterprises, especially the RMGs, mentioned that they are getting back only the orders that were postponed.

5.5 Factors responsible for changing recovery situation in manufacturing and services enterprises

The recovery of the manufacturing and service sector is likely to be hinge on a number of factors. First, it is sluggish rise in consumer demand, both in local and global markets, which is the key factor responsible for the slow recovery. The economy has indeed benefitted significantly thanks to the government's risky decision to open up economic activities at an early phase of the pandemic. This had helped the economy's quick rebound by June, 2020. However, as far as industrial service sectors were concerned, recovery will primarily depend on market signals, particularly rise in consumer demand.

Since the private sector is still struggling in making full use of their existing capacities, let alone going for substantial new investment, the government will need to do more incentivise investment and stimulate domestic demand. Public sector investment in projects/activities which is capable of generating high employment within a short time, in both urban and rural areas. For example, rural infrastructure development programme, ministry-wise employment generating programmes for different areas, training and capacity building for self-employed youth and implementing 'Amar gram Amar shohor' type of projects on a large scale, across the country, will be important. The upcoming national budget (FY2021-22) should put a focus on this type of activities.

Second, the stimulus package in the form of a waiver of VAT payment, allowing delayed payment of utility bills and bank loans etc. had helped enterprises cope with the immediate adverse effects. However, the stimulus package mainly in the form of subsidised credit support was likely to have a limited role in ensuring a robust recovery in the manufacturing and services sectors. As is known, the government has announced 21 stimulus packages for different sectors, including the manufacturing and service industries towards mitigating the negative impacts and recovery of the economy (Table 5.5). The stimulus package of BDT 10,500 crores for the export-oriented industry could be considered the most successful in this connection. The repayment of credit could prove to be challenging for small-scale enterprises, particularly because reaching the pre-COVID level of production and employment is likely to take more time for these enterprises, as our preceding analysis reveals,

Name	Initial	Final	Rate of	Number of	Disbursement
	Allocation	Allocation	Application	Beneficiaries	Status
			Acceptance		
Working Capital loans	BDT 30,000	BDT 40,000	100%ª	2549ª	92% ^b
provided to affected	crores	crores			
industries and service					
sector					
Working Capital loans	BDT 20,000		88.24% ^a	41069 a	58% ^b
provided to CMSMEs	crores				
Special Fund for	BDT 5,000	BDT 10,500	100% ^a	1992 a	100% ^b
Salary support to	crores	crores			
export-oriented					
manufacturing					
industry workers					
Expansion of facility	BDT 12,750		100% ^a	2379ª	91.80% ^b
provided through the	crores				
Export Development					
Fund (EDF) by					
Bangladesh Bank					

Table 5.5: Disbursement status of stimulus packages

Source: Bangladesh Bank (2021), MoF (2020). Note: ^a As of October 2020, ^b As of January 2021 In terms of disbursement, the stimulus package of BDT 20,000 crore announced for CMSMEs may be considered to be the least effective support. CMSMEs have been one of the most affected sectors due to the pandemic, yet the allocation of the package for this huge sector of critical importance in the economy was significantly low. On top of that, almost after one year of the announcement of the package, as of January 2021, only 58% of the funds could be disbursed. The second stimulus package announced by the government in January 2021 targeting MCSMEs, to be disbursed through an alternate channels other than the banks, needs to be implemented by drawing needed lessons from the experience of the first package. In this context, procedural complexities associated with selection of enterprises, collaterals, repayment schedule and risk mitigation etc. should be addressed in a way that caters to the needs of the CMSMEs and also safeguards the interest of disbursing entities. Recovery of the economy will hinge, to a large extent, on such second generation of support measures.

SECTION VI. PERFORMANCE OF THE BANKING SECTOR

Banks have a crucial role to play in implementing COVID-19 related stimulus packages announced by the government since the major portion of these packages is in the form of liquidity support through the commercial banks. This is indeed a huge responsibility on the banks since the banking sector has been in weak condition during the pre-pandemic period. Indeed, during the last decade the situation of the banking sector has been deteriorating steadily which are reflected through high volume of non-performing loans (NPL), escalation of loan write-offs, major scams, irregularities and heists in banks. With the added responsibility, how the sector would manage its responsibility and how it would recover itself from the long weakness have been the two important issues that took the centre stage of discussion on the banking sector. CPD had earlier emphasized on clear guidelines to determine the eligibility of commercial banks for disbursing the liquidity support and highlighted the long-standing problems of the banking (CPD, 2020). This section discusses the current scenario of the banking sector in view of the ongoing pandemic.

6.1 Implementation of liquidity support packages: Driving a "k" shaped recovery

Bangladesh's economic recovery is expected to be driven by a fiscal stimulus package which is a meagre 19.29 per cent of its total COVID-19 relief funds or only 0.83 per cent of its GDP (Table 1), and falls far short of the 11 per cent of GDP that is estimated to be required to mitigate the socioeconomic impacts of COVID-19 (UNESCAP, 2020a). Ironically, the largest industries which are relatively more capable of dealing with shocks received the greatest support from COVID-19 relief funds. Moreover, the varying speed of implementation of the various liquidity support packages has created an unequal turnaround as bigger firms have rebounded more strongly, owing to quick access to liquidity packages, while smaller firms have been left behind.

From the outset of the announcement of the COVID-19 liquidity support packages by the government, banks have been willing to lend to large borrowers, but were less enthusiastic to lend to small borrowers. In a "k" shaped economic recovery curve, the COVID-19 recovery path splits in two directions: large firms and public-sector institutions with direct access to government and central bank stimulus packages will make some areas of the economy recover fast but leave behind small and medium-sized enterprises (SMEs), blue-collar workers, and the dwindling middle class. It seems that the design of the stimulus packages and their distribution are driving a "k" shaped economic recovery path for Bangladesh.

Package for export-oriented industries

As of November 2020, the Ministry of Finance's officially published report showed that 100 per cent of the funds allocated under this package, or USD 595 million, was completely disbursed to 1,992 export-oriented business enterprises through 47 commercial banks (MoF, 2020). This money was used to pay the wages and salaries for the months of April 2020 and May 2020 of 3.5 million people working in export-oriented industries of the country (MoF, 2020). A rapid response telephonic survey of 62 RMG workers has shown that 85.1 per cent of workers did not receive their full wages for the month of March 2020, while 14.75 per cent of the workers did not receive their full wages for the month of April 2020 (CPD 2020b). Trade union leaders estimated that 10 per cent of RMG factories did not pay their wages in April 2020 and the industrial police reported that approximately 50 per cent of RMG factories did not pay the Eid bonus (CPD 2020b).

Working capital stimulus package for affected large industries and services

As of 31 October 2020, around 71 per cent of the total funds allocated under this package were disbursed to 2,549 large industries and service sector business enterprises through 51 commercial banks (MoF, 2020). Out of the total USD 4,762 million, an amount of USD 654 million was earmarked for the payment of wages and salaries of 1.5 million persons working in large industries and services sector for the months of June 2020 and July 2020 (MoF, 2020). Due to the liquidity support offered by the government under this package, 2,549 large industries and

service sector business enterprises could keep their businesses afloat during the pandemic. This liquidity support package also protected the jobs of 1.5 million employees and workers who were working in large industries and service sector enterprises and prevented their families from falling into financial hardship during the pandemic.

Special Working Capital facility for Cottage, Micro, Small and Medium Enterprises (CMSME) sector

As of 31 October 2020, around 32 per cent of the total funds allocated under this package were disbursed to 41,069 entrepreneurs through 56 commercial banks and 20 non-bank financial institutions (MoF, 2020). Gender-wise disaggregation shows that 94 per cent of the beneficiaries of loans under this package were male and only 6 per cent were female (MoF, 2020). However, since no data on the share of women in the total number of entrepreneurs in Bangladesh could be obtained at the time of writing, it could not be ascertained whether providing only 6 per cent of loans to women was equitable or inequitable. It is worth noting that the government's directive was to provide at least 5 per cent of the loans under this package to women, so providing 6 per cent of the total loans under this package exceeds the pre-determined minimum quota for women. Nevertheless, this liquidity support package will allow 41,069 entrepreneurs of the CMSME sector to keep their businesses running and retain the livelihoods of 2.5 million workers involved with this sector (MoF, 2020).

Status of other packages

Export Development Fund: As of 31 October 2020, around 81 per cent of the total funds allocated under this package were disbursed to 2,379 exporters through 56 commercial banks (MoF, 2020).

Pre-shipment Credit Refinancing Scheme: As of 21 October 2020, only 1 per cent of the total funds allocated under this package were disbursed to 9 applicants through 31 commercial banks (MoF, 2020).

Special Incentive Refinancing Scheme for the Agricultural Sector: As of 31 October 2020, around 45 per cent of the total funds allocated under this package were disbursed to 89,934 farmers through 43 commercial banks (MoF, 2020).

Refinance scheme for the low-income professionals, farmers and marginalised businesses: As of 31 October 2020, around 22 per cent of the total funds allocated under this package were disbursed to 1,00,227 low-income farmers and small traders through 42 commercial banks and microfinance institutions (MoF, 2020). Among the beneficiaries of loans under this package, 6 per cent were male and 94 per cent were female (MoF, 2020). However, since no data on the share of women in the total number of low-income farmers and small traders in Bangladesh could be obtained at the time of writing, it could not be ascertained whether providing 94 per cent of loans to women was equitable or inequitable.

			Allocation			Disbursement	
Name of the Package	Туре	In crore BDT	As share of total COVID funding	As share of GDP ⁱⁱ	Share of funds disbursed (in %)	Number of recipients	
Special fund for salary support to export oriented manufacturing industry workers	Liquidity support	5,000	4.120	0.178	100	3,500,000 persons	

Table 6.1: COVID-19 funds announced by the government

		Allocation		Disbursement		
Name of the Package	Туре	In crore BDT	As share of total COVID funding	As share of GDP ⁱⁱ	Share of funds disbursed (in %)	Number of recipients
Providing working capital facilities for the affected large industries and service sector organizations	Liquidity support	40,000	32.962	1.426	71 ⁱⁱⁱ	2,549 ⁱⁱⁱ entities
Providing working capital facilities to small (including cottage industries) and medium enterprises	Liquidity support	20,000	16.481	0.713	32 ⁱⁱⁱ	41,069 ⁱⁱⁱ persons (94% male; 6% female)
To increase the facilities of Export Development Fund introduced by Bangladesh Bank	Liquidity support	12,750	10.507	0.454	81 ⁱⁱⁱ	2,379 ⁱⁱⁱ entities
Pre-shipment Credit Refinance Scheme	Liquidity support	5,000	4.120	0.178	1	N/A
Agricultural Refinancing Scheme	Liquidity support	5,000	4.120	0.178	45 ⁱⁱⁱ	89,934 ⁱⁱⁱ persons
Refinancing scheme for low- income farmers and small traders	Liquidity support	3,000	2.472	0.107	22 ⁱⁱⁱ	1,00,227 ⁱⁱⁱ persons (6% male; 94% female)
Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and Palli Karma Sahayak Foundation)	Liquidity support	3,200	2.637	0.114	31 ^{iv}	N/A
Government subsidy for interest waiver of deferred bank loans for the month of April-May/2020	Liquidity support	2,000	1.648	0.071	N/A	N/A
Credit guarantee scheme for small and medium enterprises sector	Liquidity support	2,000	1.648	0.071	N/A	N/A
Total liquidity support		97,950	80.715	3.491		
Special honorarium to doctors, nurses and health workers	Fiscal stimulus	100	0.082	0.004	N/A	N/A
Health insurance and life insurance	Fiscal stimulus	750	0.618	0.027	2 ^v	42º persons (41 male; 1 female)
Distribution of free food items	Fiscal stimulus	2,500	2.060	0.089	43 ^{vi}	2,34.00,000 ^{vi} households (70% male-headed; 30% female- headed)
Distribution of rice at the rate of BDT 10 per kilogram	Fiscal stimulus	770	0.635	0.027	100	N/A

			Allocation		Disbursement		
Name of the Package	Туре	In crore BDT	As share of total COVID funding	As share of GDP ⁱⁱ	Share of funds disbursed (in %)	Number of recipients	
Distribution of cash among the targeted population	Fiscal stimulus	1,258	1.037	0.045	70 ^{vii}	34,97,353 ^{vii} households (75% male-headed; 25% female- headed)	
Increase the coverage of the allowance programmes	Fiscal stimulus	815	0.672	0.029	3viii	156,218 ^{viii} persons	
Construction of houses for homeless people	Fiscal stimulus	2,130	1.755	0.076	N/A	9,039 households (62% male- headed; 38% female-headed)	
Procurement of Boro Paddy/Rice (Additional 0.2 million metric tonnes)	Fiscal stimulus	860	0.709	0.031	N/A	N/A	
Support for farm mechanization	Fiscal stimulus	3,220	2.653	0.115	5	N/A	
Agricultural subsidies	Fiscal stimulus	9,500	7.828	0.339	76 ^{vii}	N/A	
Social safety net programme for unemployed and poor workers of export-oriented ready-made garments, leather and footwear sectors	Fiscal stimulus	1,500	1.236	0.053	N/A	N/A	
Total fiscal stimulus		23,403	19.285	0.834			
Total COVID-19 funding		121,353	100	4.325			

Source: Authors' compilation based on data from the Ministry of Finance, Government of Bangladesh (MoF, 2020)
Note: i) Assuming an exchange rate of USD 1 equal to BDT 84, as per national budget documents of FY2021; ii)
Assuming that GDP is equal to USD 334,000 million, as per the GDP for FY2020 in the national budget documents of FY2021; iii) Till 31 October 2020; iv) Till 7 August 2020; v) Till 4 November 2020; vi) Till 30 September 2020; vii) Till October 2020; viii) Till June 2020; xi) N/A implies no data was available at the time of writing.

Although the liquidity support and fiscal stimulus packages for COVID-19 began to be announced from 25 March 2020 onwards, even after more than six months, the pace of fund disbursement appears to be slow. As of 31 October 2020, only 32 per cent funds of the USD 2,381 million liquidity support package for SMEs was disbursed to 41,069 recipients (Table 6.1). On the other hand, as of 31 October 2020, only 31 per cent funds were disbursed under the package designed for the creation of jobs through loans. Under the refinancing scheme for low-income farmers and small traders liquidity support package, only 22 per cent of the funds were disbursed till 31 October 2020 (Table 6.1).

Paving the way for a "k" shaped recovery

Data from Bangladesh Bureau of Statistics (BBS) shows that the quantum index of industrial production (QIIP) fell more for small industries, compared to medium and large industries, after the start of the COVID-19 pandemic. For example, in June 2020, the QIIP for small industries fell

by 98 units compared to a fall of 91 units for medium and large industries (BBS, 2020) (Figure 6.1).





Source: CPD illustration based on data from BBS (BBS, 2020).

The slow pace of disbursement of loans under the government's liquidity support package for CSSMEs means that small businesses, which have been disproportionately damaged by the adverse effects of the pandemic, will find it more difficult to recover their losses and get back on track. As a result, it is likely that Bangladesh economy will experience a "k" shaped recovery from COVID-19, not only due to the blow of the pandemic which is beyond our control, but also from the policy related mistakes which could be avoided.

6.2 Excess liquidity in the banking sector

In the early months of the pandemic, Bangladesh Bank undertook a number of measures to ensure adequate liquidity in the financial system to support the operations of financial institutions. It announced to buy treasury bonds and bills from banks (Bangladesh Bank, 2020a); lowered REPO rates from 6 per cent to 5.75 per cent effective from 24th March 2020 (Bangladesh Bank, 2020b) and further reduced them to 5.25 per cent effective from 12th April 2020 (Bangladesh Bank, 2020c); reduced Cash Reserve Ratio (CRR) from 5 per cent to 4.5 per cent (daily-basis) and from 5.5 per cent to 5 per cent (bi-weekly basis) (Bangladesh Bank, 2020d), and again reduced it to 3.5 per cent and 4 per cent, respectively from 15th April 2020 (Bangladesh Bank, 2020e); increased advance-deposit ratio (ADR) for all the conventional banks from 85 per cent to 87 per cent, effective from 15th April 2020 (Bangladesh Bank, 2020f); increased investment deposit ratio (IDR) for Islami Shariah-based banks and the conventional banks operating under Islamic Shariah rules from 90 per cent to 92 per cent, effective from 15th April 12020 (Bangladesh Bank, 2020f).

Data from Bangladesh Bank shows that excess liquidity in the banking sector has nearly doubled from BDT 103 thousand crore in January 2020 to BDT 205 thousand crore in December 2020 (Bangladesh Bank, 2021a). During the same period, excess liquidity has more than doubled in state-owned commercial bank (SCBs) and more than tripled in Islamic banks (IBs). Excess liquid assets comprised of 49 per cent of the total liquid assets of the banking sector in December 2020 (Figure 6.2).





[■] Jan-20 ■ Feb-20 ■ Mar-20 ■ May-20 ■ Jun-20 ■ Jul-20 ■ Aug-20 ■ Sep-20 ■ Oct-20 ■ Dec-20

Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2021a). Note: i) SCB: State-owned Commercial Bank; ii) PCB: Private Commercial Bank; iii) IB: Islamic Bank; iv) FCB: Foreign Commercial Bank.

Signs of excess liquidity were also manifested in the call money market, as the monthly average call money market borrowing and lending rates both tumbled down from June 2020 onwards (Figure 6.3A and 6.3B). The low cost of funds in the call money market indicates that there was hardly any demand for funds, since the majority of banks most likely had excess liquidity.





Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2021b).

Excess liquidity in the banking system led to a fall in the interest rates, which were already quite low even prior to 2020. The real deposit rate, calculated as the weighted average of the monthly deposit rate of all scheduled banks adjusted with the point-to-point monthly consumer price index inflation, fell from 0.12 per cent in January 2020 to -0.88 per cent in November 2020 (Bangladesh Bank, 2021b) (Figure 6.4). The negative real interest rate on bank deposits means that the value of savings of ordinary people was being depleted away during the pandemic—a time when they needed to utilise their savings the most.





Generally, banks want to hold enough liquidity to make payments and convert excess liquidity into assets that provide returns. Excess liquidity in the banking system may induce commercial banks to behave in ways which may jeopardise the stability of the financial system and make it difficult for the central bank to achieve its monetary policy goals. For example, banks may attempt to offset their losses from holding excess liquidity by giving out risky loans which may lead to higher volume of NPLs, higher inflation and the creation of asset bubbles. Excess liquidity in the banking system also weakens the interest-rate transmission mechanism of monetary policy, making monetary policy less effective in fine-tuning aggregate demand. Moreover, when there is excess liquidity in the banking system, commercial banks may perceive the opportunity cost of holding excess balances at the central bank to be low, and hence be slow to act to reduce excess liquidity. As a result, the central bank would find it more challenging to determine the ideal level of desired and excess reserves.

Data from Bangladesh Bank shows that in 2020, excess reserves of all banks increased from BDT 6.74 thousand crore, or 2.15 per cent of total liquid assets, in January 2020, to BDT 44.78 thousand crore, or 10.81 per cent of total liquid assets, in December 2020 (Bangladesh Bank, 2021a) (Figure 6.5). Since excess reserves represent un-invested cash, holding excess reserves is costly for banks.

Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2021b).



Figure 6.5: Excess reserves (un-invested cash) as a share of total liquid assets (in per cent)

Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2021a). Note: i) SCB: State-owned Commercial Bank; ii) PCB: Private Commercial Bank; iii) IB: Islamic Bank; iv) FCB: Foreign Commercial Bank.

However, during the same period, banks have also increased their holdings of unencumbered approved securities, which are zero risk rated assets issued or guaranteed by the government. Excess liquidity held as unencumbered approved securities brings returns to banks, since such securities are earning assets. Data from Bangladesh Bank shows that in 2020, holdings of unencumbered approved securities of all banks increased from BDT 211 thousand crore, or 67.15 per cent of total liquid assets in January 2020, to BDT 280 thousand crore, or 67.69 per cent of total liquid assets in December 2020 (Bangladesh Bank, 2021a) (Figure 6.6). The decision of commercial banks to hold excess liquidity in the form of unencumbered approved securities instead of funds for lending shows that commercial banks perceive that the yields on risk free unencumbered approved securities are better than the risk adjusted returns on interest-bearing loans that come with default risk. This implies that commercial banks are hesitant to lend, as they probably believe that economic activity is yet to pick up and so their loans may have a high probability of turning bad.



Figure 6.6: Unencumbered approved securities as a share of total liquid assets (in per cent)

Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2021a). Note: i) SCB: State-owned Commercial Bank; ii) PCB: Private Commercial Bank; iii) IB: Islamic Bank; iv) FCB: Foreign Commercial Bank.

Alternatively, excess liquidity is also a sign that the demand for loans is low, which is likely since the real economy is still experiencing the repercussions of the COVID-19 shock. The advance-deposit ratio of all banks fell to a three-year low of 0.81 in November 2020 (Bangladesh Bank, 2021b) (Figure 6.7).



Figure 6.7: Advance-deposit ratio

Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2021b).

The plummeting advance-deposit ratio points to the fact that economic activity is yet to pick up. This is also manifested in other economic indicators, such as proxy indicators of investment. Import of capital machinery, which is often used as a proxy indicator for investment, fell from BDT 2,788 crore in January 2020 to BDT 1,222 crore in crore in May 2020 at the height of the pandemic, and then increased to only BDT 2,175 crore in November 2020 (Bangladesh Bank, 2021b).

6.3 Non-performing loans may be underreported

The central bank's decision to allow loan defaulters to access two of the largest liquidity support packages may lead to a rise in NPLs in the post COVID-19 period. Due to the year-long moratorium on loan classification in 2020 by the central bank, it is not possible to understand the real situation of NPLs in the banking sector at present. As of September 2020, the ration of NPL was 8.9 per cent. This may not be the real picture the central bank's moratorium on loan classification. Under the lax regulations due to COVID-19, the performance of weak and poorly governed banks may get worse. Since the Financial Institutions Division (FID) of the Ministry of Finance has stopped publishing data on banks for several years, it is difficult to ascertain the actual state of the individual banks in the country.

Since the greatest share of COVID-19 related liquidity support has been offered to large industries, wilful defaulters may take this opportunity to default once again. Therefore, commercial banks have to use their own judgement to decide which potential loan seekers have been "affected" by COVID-19, since no clear, objective and quantitative criteria for defining the term "affected" has been declared by the central bank. The central bank has given the provision to commercial banks to provide loans for import of coronavirus related life-saving drugs, medical kits, equipment and other essential medical items without repayment guarantee, and in some cases at zero tariff. It is yet to be assessed how much illicit financial outflows may be boosted inadvertently due to the absence of repayment guarantee and import tariff, which may be leveraged for import over-invoicing and trade-based money laundering.

Conclusions and recommendations

There are a number of concerns about the state of the banking sector during the pandemic, and its role in the recovery of the economy. Unfortunately, there is no access to information on the true health and performance of the banking sector during the ongoing pandemic. Nevertheless, this report has discussed some of the pressing issues of the banking sector based on the limited data which was available at the time of writing this report. Based on current trends and related concerns, a number of recommendations have been made for enabling the banking sector to play a more constructive role in the economic recovery from the pandemic. These are mentioned below.

- Loan defaulters should not be allowed to access any of the COVID-19 related liquidity support packages.
- Weak and poorly governed banks should not be allowed to participate in the COVID-19 related liquidity support packages. Banks which are not fully compliant with BASEL III or the Banking Company Act should be not be allowed to participate in the COVID-19 related liquidity support packages.
- Clear, objective and quantitative criteria should be declared to properly identify "affected" businesses and individuals.
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis.
- Disbursement of the government's COVID-19 liquidity support for small businesses, farmers and low-income professionals should be expedited immediately.
- Working capital support for the affected businesses and industries should be converted to term loans and loan repayment to banks should start in order to have a healthy banking sector.

• A multi-stakeholder taskforce consisting of representatives from the various ministries, central bank, commercial banks, trade bodies, civil society, non-government organisations and academia should be formed for monitoring the delivery of the COVID-19 liquidity support packages and evaluating their effectiveness.

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SECTION VII. EXTERNAL SECTOR PERFORMANCE: A TALE OF MULTIPLE NARRATIVES

From the perspectives of turnaround, rebound and recovery the Bangladesh external sector performance evinces a mixed picture as one traces the developments from the vantage point of February 2021. One recalls that both exports and imports were under pressure even before the COVID-induced public holidays were announced by the government towards the end of March 2020. A key reason driving the state of the external sector at that point was that economies of Bangladesh's major trade partners in the developed world - in EU and North America - as also other key trading partners such as China, had already by this time been afflicted by the adverse impacts of the pandemic. This resulted in demand depression for Bangladesh's exports and supply-chain disruptions for the country's imports. The global market-driven scenario was further impacted by the supply-side disruptions in the fourth quarter of FY 2020 consequent to the dual pressure of health-related uncertainties arising from the COVID pandemic and the shutdown of economic activities following the public holidays.

The reflection of the above was felt on the trade balance which was further weakened as the state of external balance of payment at the end of FY 2020 indicates. Further deterioration of the trade balance was, however, arrested in the backdrop of sluggish import sector performance. The robust performance of remittance, on the other hand, kept the current account balance comfortable. The twin forces of the turnaround in the global demand and supply-side response supported by the government stimulus packages resulted in the arrest of the fast-falling export, which, however, is yet to enter positive terrain at the end of the first seven months of FY2021. Imports registered a higher pace of decline with the result that there was some improvement in the trade balance at the end of December 2020. Thanks to continued robust flow of remittances, balance of payment position at the end of first six months of FY2021 (December 2020) as against the corresponding period of the previous FY2020 shows a significant improvement as evidenced by Table 7.1. However, the overall picture conceals a diverse range of undercurrents and multiple narratives, with the level of export earnings flattening, continued sluggish performance in case of imports payments and in the backdrop of continued robust performance of remittances.

Items	FY19	FY20	Jul-Dec FY20	Jul-Dec FY21
Trade balance	-15,835	-17,861	-8,222	-6,465
Export f.o.b. (including EPZ)	39,604	32,830	18,844	18,761
Import f.o.b. (including EPZ)	55,439	50,691	27,066	25,226
Secondary Income Balance	16,903	18,782	9,690	13,261
Workers remittance	16,420	18,205	9,408	12,945
Current account balance	-4,490	-4,849	-1,667	4,322
Capital account	239	256	134	87
Financial account	5,129	7,952	2,035	2,201
Foreign direct investment (net)	2,628	1,804	583	455
Portfolio investment (net)	171	276	37	-157
Errors and omissions	-699	296	-475	-455
Overall balance	179	3,655	27	6,155

Table 7.1: Balance of Payments Scenario (in USD Million)

Source: Bangladesh Bank.

Table 7.1 testifies that overall balance position has continued to improve significantly in the recent past, from US\$ 179.0 at the end of FY 2019, to US\$ 3,655.0 million at the end of FY2020. The BoP position further strengthened at the end of December 2020 (Q2 of FY2021) when the balance stood at US\$ 6,155.0 million. This has led to increasingly robust replenishment of the forex reserves which stood at US\$ 43.2 billion as of 10 February, 2021.

Prospects of recovery in the backdrop of the emerging global scenario

Understandably, Bangladesh's external sector performance and outlook critically hinges on the state of the emerging global economic scenario, underpinned by growth projections, trade forecasts and consumer confidence.

As was pointed out earlier, performance of the external sector, particularly of export sector, was significantly impacted when economic growth in Bangladesh's major export destination countries first slowed down, and then contracted in 2019 and over the early months of 2020. Some major economic partners of Bangladesh such as the UK, USA and Germany experienced economic recession. In 2020 world economy shrank by 3.5 per cent, about two times more than during the global financial crisis of 2009. The modest growth recovery of 4.3 per cent in the 2021 would barely offset the losses of 2020. The projected cumulative output losses during 2020 and 2021, estimated to be of about US\$ 8.5 trillion, would wipe out nearly all output gains of previous four years. All these had consequent adverse impact on Bangladesh's export sector in FY2020 when export earnings dropped by about 17.0 per cent. There was some optimism that developed economies would be able to get into recovery phase and would post high GDP growth in 2021 and 2022. However, in view of the second wave of the pandemic and the consequent impact on economic recovery, earlier growth projections were revised downward by both the IMF and the World Bank.





Source: IMF Growth Projections.

Figure 7.2: IMF Projections for 2021 and 2022



Source: IMF Projections.

Figure 7.1 and Figure 7.2 present projections made by the IMF for 2021 and 2022. For OECD countries as a group, including key export destinations of Bangladesh such as the USA and Germany, the growth projections for the next two years, while positive, have been revised downward compared to the earlier projections. For 2022, the anticipated growth rates are lower than those of 2021. In all likelihood, it will be a 'difficult ascent' particularly for the developed countries which are Bangladesh's major markets. Also, as per WTO projections, protectionist policies pursued by many developed countries could linger in the coming months in view of the less than robust recovery.

The tepid recovery will also have negative impact on consumer confidence and consumer demand. All these do not augur well for sustainable recovery of Bangladesh's export sector in foreseeable future, to the pre-COVID level.

Export performance and prospects of recovery

Items	FY2019	FY2020	July-January		
			FY2020	FY2021	
RMG	34133.3	27949.2	19063.2	18407.7	
: Knitwear	16888.5	13908.0	9620.0	9989.1	
: Woven wear	17244.7	14041.2	9443.2	8418.6	
Home Textiles	851.7	758.9	442.7	638.9	
Leather and Leather Products	1019.8	797.6	558.9	526.6	
Frozen Fish	500.0	456.2	337.3	308.3	
Jute and Jute Goods	816.3	882.4	602.5	765.6	
Others	3213.9	2829.8	1914.9	2023.1	
Total	40535.0	33674.1	22919.5	22670.2	
Growth Rate	-	(-) 16.9%	-	(-) 1.1.%	

Table 7.2: Export performance: FY2019 to Latest (million US\$)

Source: Export Promotion Bureau (EPB).

FY2020, exports were hit by three-pronged pressure of demand-side shrinkages, global supply chain disruptions associated with COVID-impacted global market and low supply-side capacity utilisation in view of the impact of the COVID on the domestic economy of Bangladesh.

As can be seen from the Table 2, export earnings were 16.9 per cent lower in FY2020 compared to that of FY2019. While the sharp fall has now been arrested, rebound and recovery are still not

there. Export value over the first seven months of FY2021 (July-January) was lower than that of the corresponding period of FY2020, by about 1.1. per cent. It is already evident that the target growth rate of 21 per cent set for FY2021, which would have taken the export earnings (projected to be US\$ 41.0 billion) to the pre-COVID level (40.5 billion), is not going to be achieved. Indeed, at this pace of growth, export earnings in FY2021will likely be about 6.0-7.0 billion lower than the pre-COVID figure.

As would be anticipated, the low performance of export sector during the July-January period of FY2021 was primarily underpinned by negative growth of the RMG sector (-3.4 per cent), although knitwear exports (3.7 per cent) had performed better than the woven wear exports (-10.9 per cent). Interestingly, jute and jute goods (27.1 per cent) and home textiles (44.3 per cent) have continued their impressive performance contrary to the overall export trends.

EU	Bangladesh			Vietnam		
Items	2019	2020	%Change	2019	2020	%Change
T-shirts, singlets and other						
vests of cotton, knitted or						
crocheted	1097.5	1091.5	-1%	2099.7	2157.9	3%
Women's or girls' jerseys,						
pullovers, cardigans, and						
similar articles, of cotton,						
knitted or crocheted	1428.1	1329.5	-7%	2148.2	2157.8	0%
Women's or girls' jerseys,						
pullovers, cardigans, and						
similar articles, of man-made						
fibres, knitted or crocheted	1409.6	1319.4	-6%	1960.8	1906.2	-3%
Men's or boys' trousers and						
breeches of cotton denim	1229.0	1207.0	-2%	2206.3	2259.3	2%
Men's or boys' trousers and						
breeches of cotton	1372.2	1365.7	0%	1913.0	1898.8	-1%

Table 7.3: Price dynamics of apparels in EU market: Bangladesh Vs. Vietnam (in Euro)

Source: Authors' calculations based on Eurostat data.

USITC	Bangladesh			Vietnam		
Items	2019	2020	%Change	2019	2020	%Change
T-shirts-Singlets, Tank Tops						
and Similar Garments of Cotton	22.43	17.99	-20%	38.2	31.9	-17%
Sweaters, Pullovers and Similar						
Articles, Knitted or Crocheted of						
Cotton	40.23	39.31	-2%	47.1	46.9	0%
Men's or Boys' Trousers, Bib						
and Brace Overalls, Breeches						
and Shorts of Cotton	70.62	64.35	-9%	90.9	83.0	-9%
Women's or Girls' Trousers, Bib						
and Brace Overalls, Breeches						
and Shorts of Cotton	72.88	64.17	-12%	90.5	84.6	-6%
Men's or Boys' Shirts of Cotton,						
Not Knitted or Crocheted	61.10	58.49	-4%	96.1	95.3	-1%

Source: Authors' calculations based on US data.

An analysis of export performance reveals a number of underlying factors which had impacted on the trends. First, the high domestic-content driven knitwear sector has performed better than the import-intensive woven wear sector. Second, export structure points to home textile and jute products as items with high export potentials. Third, export performance was impacted by both value and volume. For example, prices of Bangladesh's exports of key apparels items have seen decline in average prices, for most items, at a higher pace compared to that of Vietnam, both in the EU and US markets. This is revealed by Table 7.3 and Table 7.4. Fourth, in view of the shifts in the demand structure in the global market, more emphasis will need to be put on, for example, man-made fibre items in export of woven wear and synthetic items in export of leather goods. Fifth, in view of the anticipated slow uptake of developed country economies in 2021 and 2022, and in the context of the anticipated high growth of Asian economies (China, India and the ASEAN), a renewed effort will be needed towards market diversification as a strategy to mitigate market risks and exploit potential export market opportunities that the resurgent Asian markets could offer. Sixth, and this had been underscored in successive earlier IRBDs, a strategic exchange rate management will be crucial to maintaining export competitiveness of Bangladesh. CPD analysis had shown, in recent years Bangladesh's competitors have been pursuing aggressive exchange rate (depreciation) policy with a view to enhancing export competitiveness. This has resulted in relative appreciation of BDT against currencies of key competitors resulting in Bangladesh's weak competitive strength vis-a-vis major market rivals such as Vietnam, Cambodia, and India. Seventh, and not the least, the support to the export sector through targeted policies and incentives, will need to be sustained to help export-oriented industries navigate the current difficult times. However, the incentives will need to be recalibrated to incentivise access to regional markets, export of non-traditional items that are demonstrating robust growth (such as home textiles and jute goods) and to promote the cause of intra-RMG diversification.

In view of the need to prepare Bangladesh for its post-LDC future, the urgency of capacitybuilding to undertake complex negotiations cannot be overemphasized. Here comprehensive economic partnership agreement (CEPA) type of deals will need to be given highest priority. Bangladesh's trade and industrial policies will have to be designed keeping this in the purview. These negotiations are expected to entail a distinct departure from the past, based on varying degrees of reciprocity. This will require in-depth analysis of the requests and offers to be made in view of complex negotiations. The idea of setting up a well-endowed *Negotiation Cell*, preferably in the Ministry of Commerce, ought to be given the highest consideration in this connection.

USD Million	2019	2020	Change (in %)	Period
India	83332	56454.27	-32.3	Jan-Dec
Philippines	27612.19	27346	-0.9	Jan-Oct
Bangladesh	18363	21741.83	+18.4	Jan-Dec
Pakistan	22245	25965.63	+16.7	Jan-Dec
Sri Lanka	6052	6291.3	+4.0	Jan-Nov

Robust Remittance earnings: Mainstay of improved b.o.p position Table 7.5: Remittance Flows to Selected Countries in 2020

Source: Latest data from respective Central Banks.

Contrary to projections by global institutions such as the World Bank and the IMF remittance flows to Bangladesh have been quite robust over the past months. The earlier projections made by the Bank for 2020 anticipated that remittance flows to South Asia would post a negative growth of (-) 22.1 per cent. However, actual remittance flows to Bangladesh had turned out to be about US\$ 18.36 billion in 2020, which was 18.4 per cent higher than that of 2019. To compare from Table 7.5, in 2020 remittance flows to India came down by 32.3 per cent compared to 2019. Indeed, during July-December period of FY2021, remittances were 38 per cent higher than the corresponding period of FY2020 (Figure 3), demonstrating an acceleration in the flows towards the end of 2020. However, no discernible shift in the sources of the flows is visible with Saudi Arabia, USA and UAE holding the top three positions. Briefing Note published by the Citizen's

Platform for SDGs, Bangladesh identifies seven reasons driving the high flows: (a) additional demand for support on the part of cash-strapped remittance-receiving households; (b) greater use of formal channels in view of disruption of informal (*hundi/hawla*) channels; (c) 2 per cent cash incentives put in place by the GoB in July 2019 on the remitted amount; (d) additional 1 per cent incentive by mobile platforms such as bKash; (e) relaxation of ceilings for remitted money sent without documentation (raised to US\$ 5000 from the earlier US\$ 1500); (f) transfer of money saved on account of *Hajj* not being performed in 2020; (g) sending of savings back home in view of job uncertainties in host countries and apprehensions about forced-return of Bangladeshi migrant workers.





Source: Bangladesh Bank.

The robust remittance flows have led to an improvement in the current account balance and significantly strengthened Bangladesh's overall balance of payment position. These have also contributed to a significant rise in forex reserves which at US\$ 43.2 billion was equivalent to about 10 months of import at the prevailing level.

While high remittance flows have been a welcome development, a cautionary statement is perhaps called for at this stage. The first concerns the issue of sustainability of of high flows. Some of the underlying reasons driving this are COVID-related, to (as was noted earlier, high demand of households, disruption of informal transfer channels, dis-savings, job uncertainties in host countries), these may have induced a one-time rise in remittance flows which may not be sustained over time. Second, the number of migrant workers leaving for overseas jobs had come down sharply in FY2021 (if during the 7FYP about 7.4 lac workers had left the country every year, on average, number of those in FY2021 (July-November, 2020) was only 7670. While this is expected to go up as countries relax travel restrictions and host country economies open up, the figures are unlikely to reach the high mark of pre-COVIDCOVID level. This is likely to have adverse impact on future remittance flows, from medium-term perspective. Thirdly, recent BBS figures testify to the high cost of migration in Bangladesh (about US\$ 5.0 thousand per migrant worker which was higher than any comparator country and was equivalent to about 17 months of average earnings of a migrant worker). Estimates show that about US\$3.7 billion was spent, on average, for this purpose annually during the 7FYP period. This amount was equivalent to about 24 per cent of remitted amount to Bangladesh in an average year. Renewed effort must be put to bring down cost of migration, promote host market diversification and to send more migrant workers through G to G channels.

Import Sector Performance: A reflection of the sluggish investment scenario

Itoms	FY19	EV20	July-December		
Items		F120	FY20	FY21	
Primary goods	5,067.8	5,377.2	2,286.5	2,815.6	
Intermediate goods	33,608.4	31,912.6	16,811.1	15,332.1	
Capital goods	14,601.9	11,108.9	6,670.3	5,557.7	
Of which, capital machinery	5,412.6	3,581.3	2,154.1	1,525.8	
Others	6,636.6	6,386.0	3,482.0	3,563.8	
Total	59,914.7	54,784.7	29,249.9	27,269.2	
(Growth rate)	(1.8)	(-8.6)	(-2.7)	(-6.8)	

Table 7.6: Ma	ior import items	of Bangladesh	(in million USD	n
Table 7 ioi Pla	joi import items	of Dunglaucon		

Source: Bangladesh Bank.

In the backdrop of the COVID-induced slowdown of the economy, global supply-chain disruptions, lower demands by both export-oriented and domestic-market focused enterprises and imports posted a negative growth of 8.6 per cent in FY2020 over FY2019 (Table 7.6). The sluggish trends have continued in FY2021: over the first six months (July-December, 2020) imports came down by (-) 6.8 percent compared to the corresponding period of FY 2020. A decomposition of the structure of import indicates that a larger part of the fall is accounted for by fall in imports of intermediate goods (-8.8 per cent), and more so, of capital goods (-16.7 per cent). Decline in import payments for raw cotton (-19.9 per cent), textile articles (-15.7 per cent) and only an insignificant rise in import of yarn (+2.1 per cent), indicate depressed demand by the export-oriented RMG sector. Similarly, the significant fall in import payments for capital machineries (-29.2 per cent) indicate lack of investment demand in the domestic market.

The above import scenario is indeed corroborated by the sluggish domestic demand for investment (as borne out by slow growth of private sector investment demand and low growth of private sector credit uptake) and also by significant fall in the FDI flows. Indeed, as Figure 4 indicates, there has been significant fall in FDI flows in recent months. Indeed, FDI flows in FY 2020 was 39.0 per cent lower than that of FY2019.



Figure 7. 4: FDI Flows in FY2019 and FY2020

Source: Bangladesh Bank.

It is important to note in this connection that foreign equity component in the FDI amount has come down sharply, by about 39.1 per cent. This is in line with the trend of stagnating domestic demand for investment.

Concluding Remarks

Bangladesh's external sector performance in the backdrop of the COVID pandemic transmits a diverse range of signals as regards to turnaround, rebound and recovery of the economy. Strengthened balance of payments position augurs well for the economy, from the point of view of maintaining healthy reserves, ensuring exchange rate stability, robust import payment ability and comfortable debt servicing capacity. On the other hand, these also underpin disquieting developments in the economy. Export growth has remained negative over the first seven months of FY2021; actual earnings in FY2021 will remain far off the target. Indeed, it may take some years for the exports to get back to the pre-COVID level. Balance of trade shows robust improvement only because the pace of fall in import payments have exceeded that of export earnings. True, current account balance position has improved significantly because of the robust growth of remittances. However, the high remittance flows seen in recent past are unlikely to continue over the coming months (high growth on such high growth is unlikely to sustain). Imports, both of intermediate imports, including those by export-oriented enterprises and capital goods, including capital machineries, have experienced a significant dip, indicating sluggish domestic demand for production and new investment. There is, thus, a need for sustained efforts at maintaining robust flows of remittance, raising export competitiveness and export earnings and stimulating domestic demand and investment for the external sector performance to contribute towards sustainable recovery of the Bangladesh economy.

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SECTION VIII. CONCLUSION

The previous fiscal year, FY2020, concluded with significant divergences from the relevant annual targets set for most key macroeconomic correlates. The already existing pre-COVID stress points in the economy were exacerbated as a consequence of the COVID-19 pandemic compounded by repeated natural disasters. These multiple shocks, alongside the longstanding reform and policy related challenges, underpinned a shaky foundation as the economy embarked on its FY2021 journey.

Since the beginning of FY2021, a large of the discussions and debates in the national policy discourse have centred around the shape of economic recovery – whether K, L, U, V, W or "swoosh" shaped. Also, there were debates as regards whether the economy has entered into a recovery phase or is only exhibiting early signs of rebound or just a mere turnaround. As the analyses in the preceding chapters show, there are mixed signals as far as rebound and recovery was concerned if the first half of FY2021 is taken as the reference point.

Our analyses reveal that a number of indicators such as revenue mobilisation, industrial production of large and medium industries, remittance inflow, and foreign exchange reserve have experienced positive trends despite the adverse situation originating from the pandemic. However, one needs to be mindful that these encouraging developments are underpinned by disquieting underlying trends involving several critically important macroeconomic correlates.

In general, indicators pertaining to production have exhibited better performance in terms of recovery compared to the investment related indicators. This is perhaps indicative of the consolidation as regards use of prevailing capacities in the economy. However, both public and private investment correlates remained subdued throughout the first half of FY2021 as can be discerned from the dynamics of, inter alia, ADP utilisation, private sector credit offtake, FDI, industrial term loans, and import of capital machineries. The restrained state of investment, in all likelihood, is indicative of the uncertainties triggered by the pandemic.

One can see that macroeconomic stability was maintained, to a large extent, during the first half of the ongoing fiscal year. This was reflected in the surplus budget, declining aggregate inflation as per official data, large overall surplus in the balance of payments, and a stable exchange rate of BDT against USD. Regrettably, this positive scenario is underpinned by several negative factors. It was surprising to find that the fiscal balance was in a state of surplus. Surely, it was not the intention of the government. This only shows a lack of institutional capacity and lax macroeconomic management. If prioritisation of public expenditure, in view of a possible large shortfall in revenue, was the intention, this is not reflected by low implementation of 'fast track' projects.

The asymmetry of recovery is a recurring phenomenon from within and across sectors perspectives. For example, within the RMG sector, knitwear and woven items exhibited different recovery trends during the first half of FY2021. Of the agricultural enterprises, the highest level of recovery was observed in case of vegetable production and poultry sub-sectors while recovery of fisheries was the slowest. Service sector enterprises recovered faster compared to their manufacturing counterparts. This type of evidence reinforces the possibility of recovery similar to being a 'K-shaped' one and calls for a much granular approach while designing government support measures.

The stimulus packages announced by the government had attempted to facilitate the economic recovery process by offering cheaper credits alongside monetary easing. The reliance on monetary instruments (or the so-called 'hybrid') rather than fiscal ones is perhaps a recognition of the restrained fiscal space which was already evident prior to the inception of FY2021. The banking channel was considered to be the key conduit for delivering the stimulus packages despite the fragile health of the sector. Asymmetry is also observed in terms of access to and implementation of the aforementioned stimulus packages. As available evidence suggests, large

industries were more successful in accessing and attaining the benefits of the packages compared to their smaller counterparts. There is no doubt that the economy will require a second round of stimulus packages for the attainment of a sustainable recovery. Taking the experience of the first stimulus package into cognisance, the next round of packages will require serious revisiting to formulate and design new support measures. These packages should be SME prioritised and employment focused. Continuation of the same packages with an extended timeline will not produce the intended results and outcomes. It will be critically important to monitor the recovery of the loans disbursed under the stimulus packages. Commercial banks may like to convert these working capital loans into term loans, to be repaid over medium-term. A policy guideline may be required to this end after proper assessment.

Progress as regards the implementation of the medium-term reform agenda has been less than satisfactory. Successive IRBDs have pointed this out. Weak budgetary programming has resulted in a budget surplus even in the backdrop of the pandemic during the early months of FY2021. To this end, the budget for FY2021 should be revised at the earliest for mid-course correction. Also, the national budget for FY2022 should come up with a medium-term strategy to phase out tax exemptions and subsidised credit schemes. At the same time, public expenditure priorities should be revisited and adjusted accordingly to meet the attendant needs in view of the pandemic. Indeed, more public money needs to be injected for rural infrastructure and employment related social protection programmes. Given that the banking sector has been entasked with the key responsibility of delivering the stimulus packages, weak and poorly governed commercial banks should not be allowed to provide COVID-19 related support packages. Transparency and accountability mechanisms should be built into all such packages including timely dissemination of relevant information and data. MFIs should be more actively engaged in the implementation process of the next stimulus packages in order to reach the grassroot levels and the marginalised population groups. The stimulus packages, however, should not be considered as the panacea for economic recovery. Longstanding issues such as improving the ease of doing business should be given the highest priority. This pandemic has revealed the potential opportunities of the digital economy. Possibility of tapping the benefits of the digital economy by providing support to startups and entrepreneurs should be explored with due urgency. Given Bangladesh's transition from a low income to lower-middle-income economy and upcoming graduation from the least developed country category, enhancement of negotiating skills to go for CEPA type of arrangements should be a key policy priority. This will be particularly pertinent in the backdrop of the depressed global trade scenario as projected by several multilateral agencies. The government should think of setting up a Negotiating Cell in the Ministry of Commerce.

COVID-19 management at the national level is going to be a key driving force underpinning economic recovery of Bangladesh. The success of the ongoing vaccination programme will play a critical role in restoring confidence of investors and entrepreneurs which is so important for sustainable recovery of the Bangladesh economy in the near term.