Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2020-21

First Reading

Economic Recovery during the Pandemic Period

How does the economy fare in view of sustainable recovery?

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CENTRE FOR POLICY DIALOGUE

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The CPD IRBD 2021 Team alone remains responsible for the analyses, interpretations and conclusions presented in this paper.

Content

Section I. Introduction

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.
- In terms of GDP, Bangladesh was an outlier as one of the very few countries which posted positive growth rates in 2020.
- However, 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.

Introduction

- The objective 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.

Introduction

- 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 macro-economic 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.

Introduction

- ***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 8*** 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 loss and their capacity to recover.
- Developed countries (3.1 per cent) are expected to experience a slower recovery rate 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).

2.1 Context

- 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:
  - extent of loss due to the pandemic
  - size of the business/firm in terms of investment and returns
  - type of policy measures put in place by the concerned government; and (iv) support received from the government.
- Despite some positive signs, the recovery route for most countries as well as sectors is still uncertain.
- 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.
- 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:
  - **K-shaped** recovery occurs when a segment of the economy pulls out of a recession, while others stagnate (Aldrich, 2020).
  - **L-shaped** crisis represents a permanent loss of output (Sharma et al., 2020) .
  - **U-shaped** recovery is an initial drop, followed by sluggish recovery in output (Hong and Tornell, 2005).
  - **V-shaped** recovery is when an initial drop is followed by a sharp increase in the growth rate (Hong and Tornell, 2005).
  - **W-shaped** or 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).
  - In case of a "**swoosh**" shaped recovery, the output experiences a rapid drop followed by an excruciatingly slow recovery (Sharma et al., 2020).

2.2 Shapes of Economic Recovery from Recessions

- 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.

2.2 Shapes of Economic Recovery from Recessions

- 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".
- 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:
    - employment data are more "articulated" at the regional level and does not require to be deflated
    - they offer interesting insights into the evolution of the geographic context.

2.3 Indicators for assessing economic recovery: beyond GDP and employment

- Rose and Krausmann (2013) cited the following indicators used in 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.
- 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 2–2½ per cent growth in real private investment during the great financial crisis (GFC) in the European region.

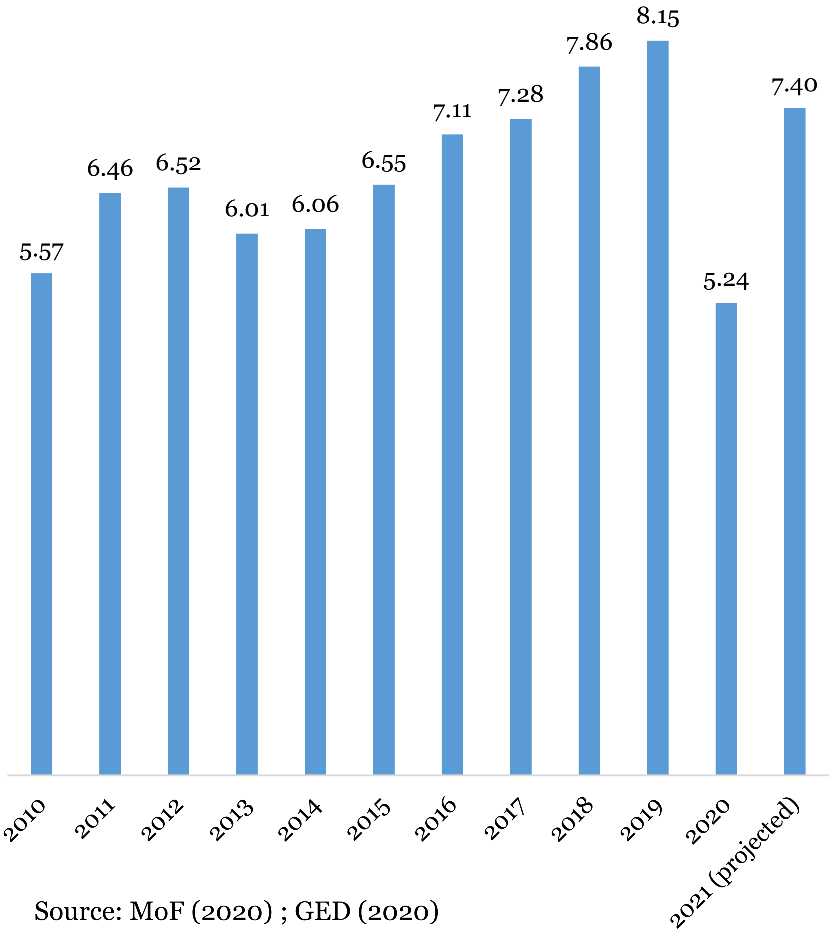
2.3 Indicators for assessing economic recovery: beyond GDP and employment

- 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 was observed through the growth of real final demand
    - **government consumption expenditure**
    - **investment expenditure**
    - **exports**.

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

- According to the official estimates of the government of Bangladesh (GoB), Bangladesh's GDP growth in FY2020 was 5.2 per cent.
- This is lower than the projected 8.2 per cent for FY2020 and lowest in the last decade.
- 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
- In the current FY 2021, the government has projected a growth rate of 7.4 per cent.

Figure: GDP Growth rate over the years (%)



Source: MoF (2020) ; GED (2020)

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

- 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 organisations including the World Bank and International Monetary Fund (IMF).
- The other issue is even if this growth is achieved, all sectors may not be able to recover in the same way.
- Indeed, the provisional growth figures may as well be revised when the final numbers come out.

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

- 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.
  - 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.

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

- 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 gowth trajectory of the economy based on an analysis of performance, trends, levels and pace of growth of key marcroeconomic and sectoral indicators.

Section III. Macroeconomic Management

Closure of FY2020 was far from the annual target

- The COVID-19 pandemic exacerbated the already existing macroeconomic challenges in areas such as domestic resource mobilisation, governance in the banking sector and export earnings
- Natural disasters such as the cyclone and floods further slowed down economic recovery
- FY2020 ended with a fall in economic growth, 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
- All major economic correlates experienced major departures from their respective annual targets as far as FY2020 economic performance was concerned

Major Macroeconomic Indicators in FY2020: Target vs Achievement

Indicators	Target FY20	Actual FY20
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

Positive growth in revenue mobilisation with disquieting underlying trends

- FY2020 ended with a subdued revenue mobilisation growth of 4.4 per cent
- Despite this poor performance, the target for FY2021 is 43.7 per cent higher than the actual collection in FY2020
- During the July-October period of FY2021, total revenue mobilisation rose by 8.0 per cent compared to the corresponding period of FY2020
- This was underwritten by the phenomenal growth of 38.8 per cent from collection on revenue of interest, fees and tolls and others (IFT and others)
- NBR tax collection increased by 3.4 per cent during the July-October period of FY2021 over the comparable period of FY2020, which is mainly driven by a 17.3 per cent growth in VAT collection as income tax collection exhibited a negative (-) 10.1 per cent
- NBR tax collection requires a growth of 76 per cent (!) during the remainder of FY2021, achieving which seems to be a far cry like every year
- 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

Revenue Mobilisation Growth Scenario (in per cent)

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

❑ Public investment was restrained

- Only 76.8 per cent of the original annual development programme (ADP) allocation could be spent in FY2020
- For July-December period of FY2021, only 24.3 per cent of the total ADP allocation was spent
- The implementation rate of the 'Taka component' was 24.0 per cent, while that of 'Project Aid' was 24.9 per cent
- In the first half of the year, implementation in FY2021 has been the lowest in the Health Services Division with only 14.6 per cent of the initially allocated amount being spent, which is lower than pre-COVID spending of FY2020 for the same period
- Implementation status of eight mega-projects 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

- 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

Government Expenditure Scenario (FY2021 amount over FY2020 amount)

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

- Public expenditure fell by 12.9 per cent 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

❑ Inability in pursuing an expansionary fiscal policy

- Finance Division has allowed ministries and agencies to spend only 75 per cent of the fund allocated by the government for ADP in FY2021 to save Tk. 33,661 crore from the ADP in doubt that revenue target will be difficult to achieve under the pandemic
- The remaining 25 per cent cannot be spent for operation under any circumstances
- Funding for low-priority projects was also suspended to make about one-fourth of the ADP budget available for spending COVID-19 measures
- High-priority projects have been allocated 40 per cent of the overall ADP allocation
- Curiously, the created fiscal space 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
- As of October FY2021, there was in fact a surplus in the fiscal balance
- Although revenue mobilisation was somewhat subdued, a higher fall in public expenditure, particularly ADP expenditure, has primarily contributed to this situation
- 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

Macroeconomic Management

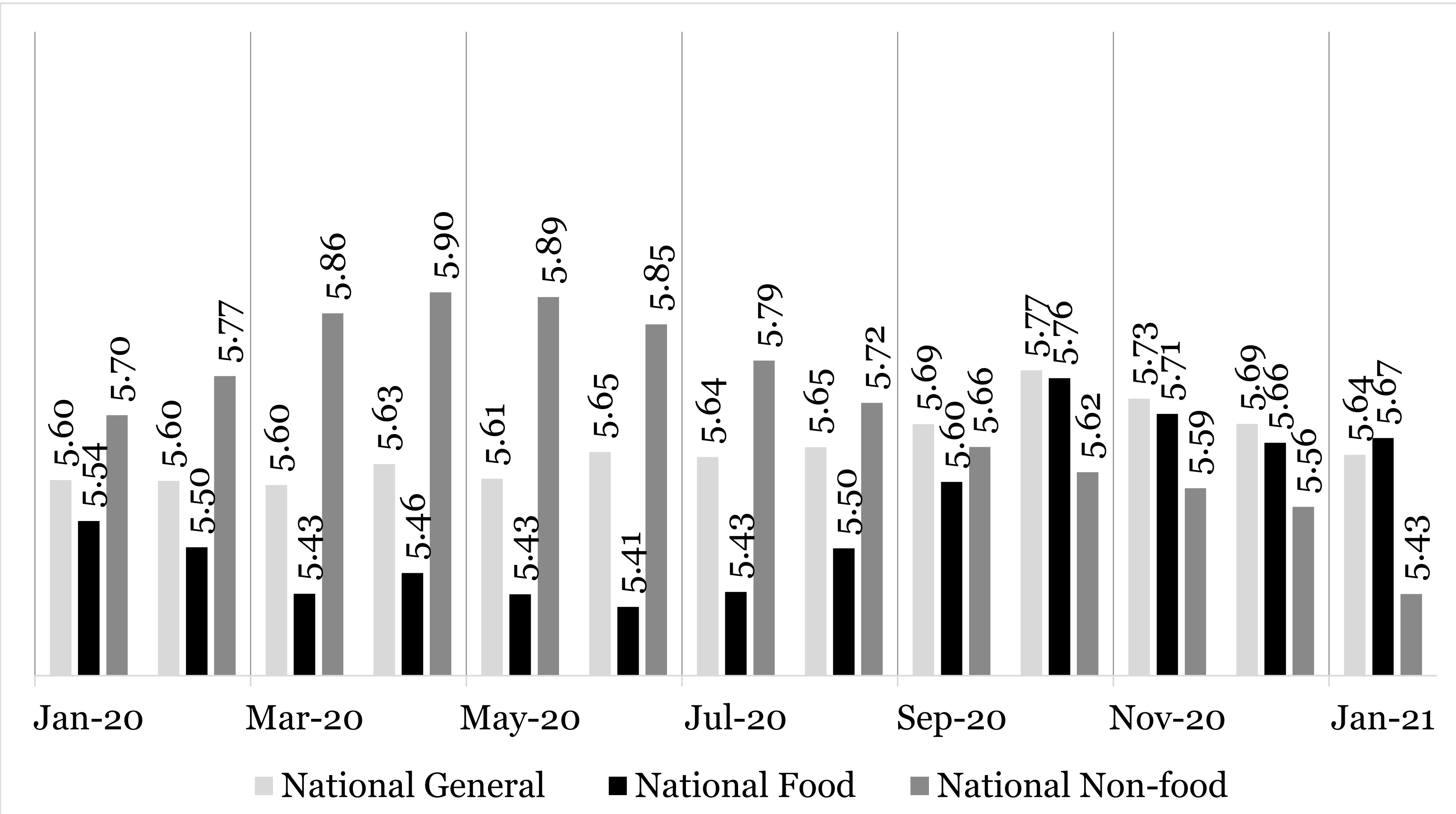
Fiscal Balance and Government Borrowing (in crore Tk.)

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

❑ Stable inflationary trends despite volatility in prices of essentials

- FY2021 started with an inflation rate 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
- 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
- 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
- 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

Inflation Rate (12 Month Moving Average, in Per Cent)



❑ 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
- During the July-January period of FY2021, total export earnings decreased by (-) 1.1 per cent, implying that export earnings will need to grow by 70.4 per cent during the remainder of FY2021 to meet the annual growth target of 21.8 per cent, which can be deemed as an impossibility given the current situation
- 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
- The production of leather and associated products increased by 58 per cent although the associated exports 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
- 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
- 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
- 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 which points towards the depressed investment scenario in view of the pandemic
- 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

Macroeconomic Management

❑ Six emergent trends in the economy in FY2021

- **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*

Six emergent trends in the economy in FY2021 (contd.)

- 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 already existing limited fiscal space further constrained the government to pursue a larger fiscal stimulus programme as has been done in many other countries*
  - *Regrettably, even the available fiscal space was not utilised fully as 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*
  - *Although, several policy steps were taken which may have contributed to the turnaround, the benefits of such policies were not well 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 prioritized
- 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

Macroeconomic Management

❑ The need for a recrafted policy approach (contd.)

- 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

Section IV.
Recovery of agriculture and agro-based industries during pandemic period: How This Fares Against the pre-pandemic level?

Introduction & Methodology

- 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
- Following the 'purchasing managers' index', a composite index has been estimated to assess the level of recovery of agriculture and agro-based industries
  - The index was employed to evaluate the pre-and-post COVID economic health status of agriculture and agro-based industries of Bangladesh
  - Primary data was collected on five areas: a) New Orders, b) Output, c) Employment, d) Suppliers' Delivery Times, and e) Stocks of Purchases
- Changes in the performance of agriculture and agro-based enterprises 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)

Performance of agriculture production and agro-based industrial outputs

Agriculture production & export

- Agriculture sector of Bangladesh was impacted by the COVID pandemic during the second half of FY2020 and first half of FY2021
  - According to the data (second half of FY2020), the agriculture production especially that of rice and wheat during FY2020 was higher compared to the previous year
- The production of rice, particularly aus and aman rice during FY2021 was adversely affected due to the consecutive floods
  - The flood affected about one-third of the districts in the country
  - An early estimate indicates that aman rice, which accounts for 36% 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)
  - 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)

Performance of agriculture production and agro-based industrial outputs

Figure 1: Growth in area and production of agriculture goods, FY20 over FY19

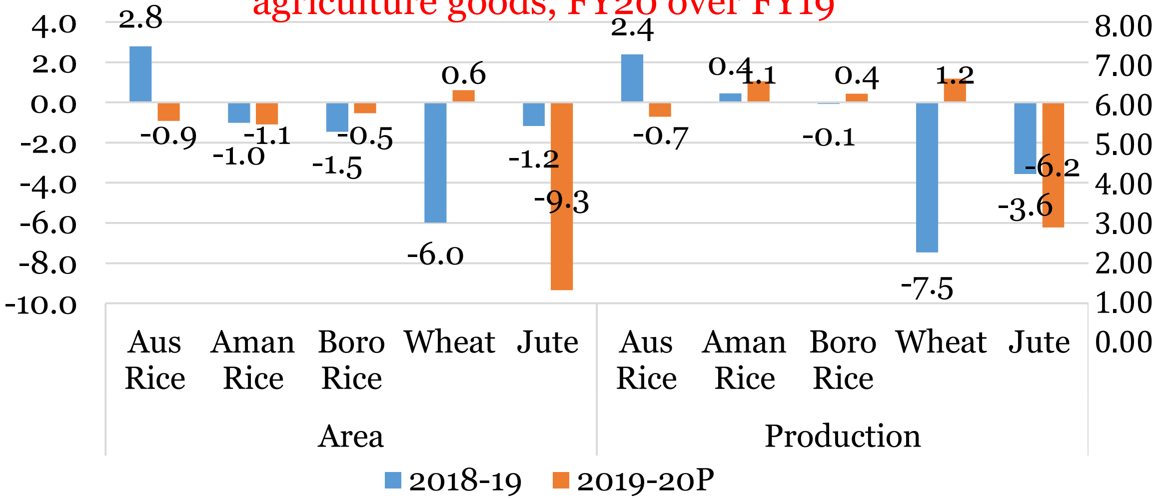
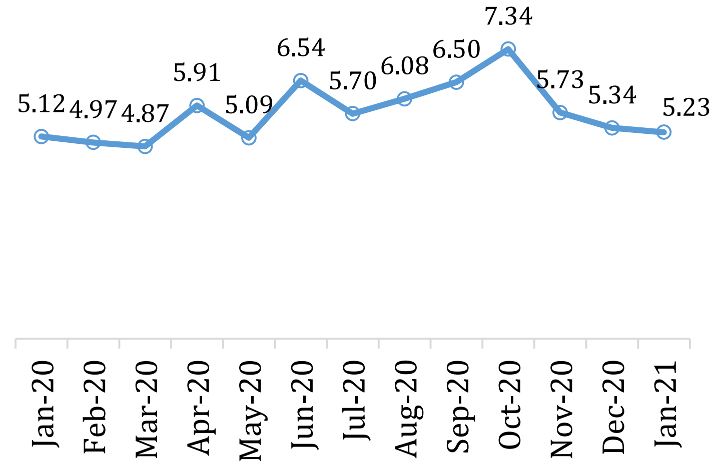


Figure 2: Food inflation (m-o-m basis)



- 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

Performance of agriculture production and agro-based industrial outputs

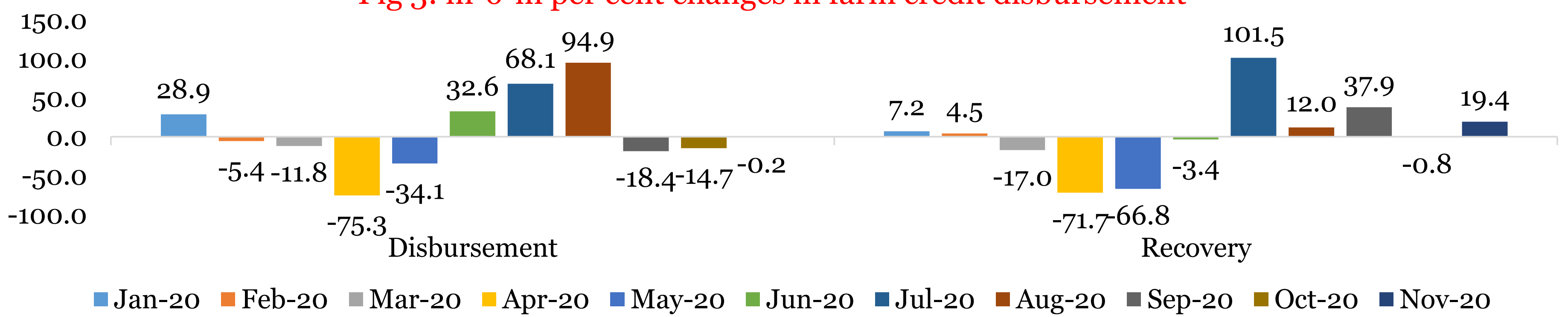
- Export of agricultural products has somewhat improved in the first five months of FY2021 (July-December, 2020) after the poor performance in FY2020
  - During January-March, 2020 and April-June, 2020, export growth of agricultural products was -3.4 per cent and -24.8 per cent, respectively mainly due to fall in global demand and restriction of movement of goods by air and water
  - 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 (+36.72 per cent)
  - Earnings from frozen and live fish although negative (-3.7 per cent) had improved compared to that in FY2020 (-8.8 per cent)
- Overall, export performance during July-November FY20 reflects a sign 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

Performance of agriculture production and agro-based industrial outputs

Growth in credit

- Since January, 2020, the growth of agriculture credit had gradually declined with a dip in April and May, 2020
  - Disbursement of credit has started to rise and reached a high level in August, 2020, following which credit growth has declined
  - The changes in credit are mainly on account of decreased demand in large part of the country due to consecutive floods
- 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

Fig 3: m-o-m per cent changes in farm credit disbursement

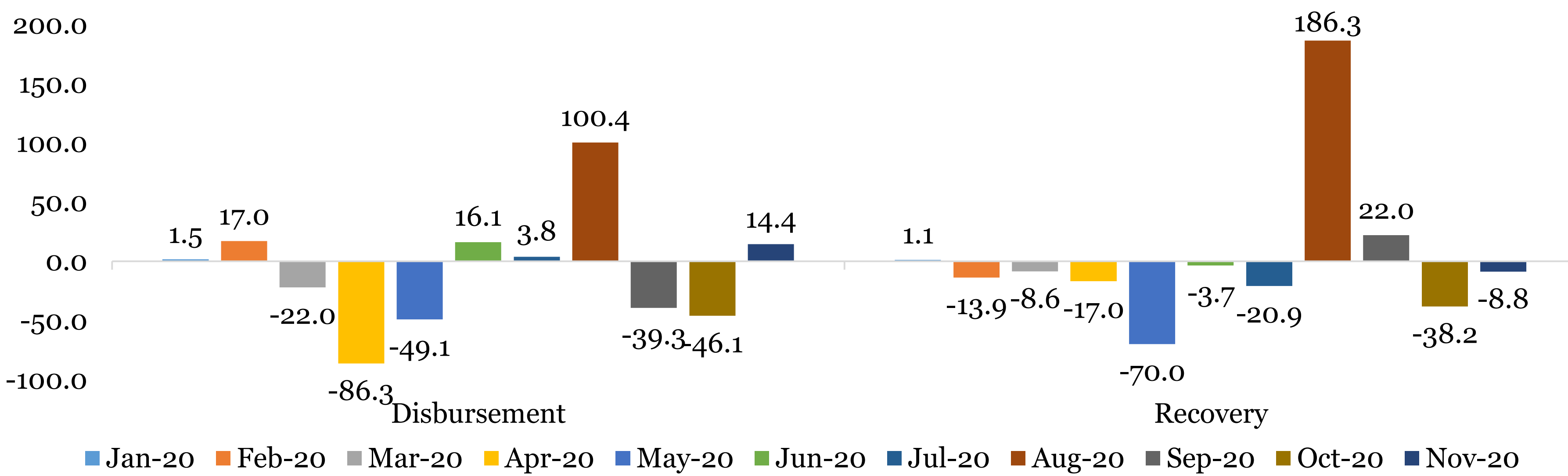


Performance of agriculture production and agro-based industrial outputs

Growth in credit

- Disbursement of credit in the non-farm sector reflects the same trend during January- November, 2020
  - After the fall in the demand for credit during the initial period of the pandemic, disbursement of credit in the non-farm sector had started to rise in the following months
  - 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

Fig 4: M-o-M per cent changes in non-farm rural credit disbursement



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

Recovery situation concerning different components

- According to the composite index, state of agri-businesses are almost at par with the pre-COVID situation
- Majority of components of agri-business 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
- The situation of new orders has quickly recovered and reached pre-COVID level as well as the output level
  - The employment level in agro-based enterprises is still behind, although this has recovered well since June, 2020

Fig 5: Recovery indices of agri-businesses and enterprises

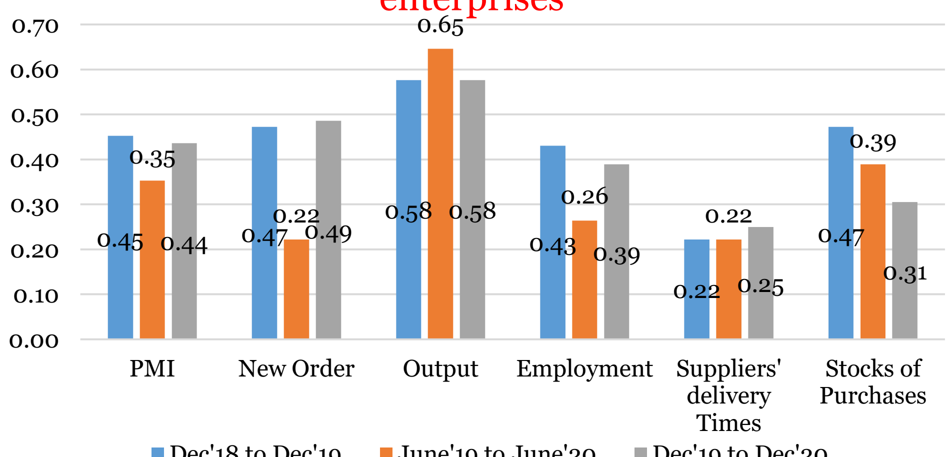


Table 1: PMI scores for agri-businesses and enterprises during three periods

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

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

Recovery of different categories of enterprises

- Overall, agro-based enterprises have reached the pre-COVID level at the end of December, 2020
  - The highest level of recovery was observed in case of business of vegetable production and poultry sub-sectors
  - A moderately better recovery was observed in case of dairy farming
- Crop-production and businesses were hit at a moderate level but was still behind the 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
  - This 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)
- Production of crop and fisheries sector have been recovering at a slow pace due to the prolonged flood
  - Agro-based enterprises and businesses have recovered well and was able to reach the pre-COVID level

Factors responsible for the changing recovery situation concerning agro-based 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
- Majority of agro-based industries and agri-businesses have quickly recovered because of the government decision, despite attendant risks, to open the economy early (in June 2020)
- Supports provided by the government had marginal impact on recovery of the agriculture sector
  - Launching of the free train service 'Krishak Bondhu Postal Service' 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 fertilizer production
- Various stimulus package announced by the government were unable to ensure the expected benefit for the farmers
  - Allocation for additional procurement of rice was not realized due to poor procurement response from farmers and rice millers
  - Allocation for farm mechanization is in the process of implementation
  - The allocation for agriculture refinance scheme (Tk.5,000 crore) and for professional farmers and small traders (Tk.3,000) was yet to reach the target – only 69 per cent and 47 per cent respectively have so far been implemented

Factors responsible for the changing recovery situation concerning agro-based enterprises

- 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 lowest 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 the stimulus package loan for agriculture sector is fully realized—
  - The allocation of the fund could cover only less than 2.42 per cent of total farm households of the country
- Due to procedural difficulties and other complexities, farmers and small traders are not being able to access loans from formal banking channels

Table 2: Disbursement of Loan from the Stimulus Package

Period	Agriculture Refinance Scheme			Refinance Scheme for the professional farmer and small traders		
	Disbursement*	Implementation rate	No of borrowers	Disbursement*	Implementation rate	No of borrowers
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	

Factors responsible for the changing recovery situation concerning agro-based enterprises

- 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 agriculture production was mainly disrupted due to consecutive floods and cyclone Amphan and a decline in rice production, jute and vegetables
  - These caused a lower level of domestic supply of agricultural products which had an inflationary impact in the market
- Despite of having better recovery performance than the manufacturing and service sectors, agriculture sector has experienced an inflationary pressure during the recovery period
  - This would continue in the coming months
- The government needs to change its rice procurement strategy by sequencing the procurement plan
  - First to complete procurement of paddy as per target from farmers directly from rural haats and bazaars and then starting procurement of rice
- The government should involve micro-finance organisations to disburse credit to rural enterprises
  - The procedural difficulties need to be eased in accessing subsidised credit by farmers and rural non-farm enterprises

Section V.
Recovery of Manufacturing and Services Industries During Pandemic Period: How This Fares Against the Pre-Pandemic Level?

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 as 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
  - Fiscal and monetary policy support targeted at different sectors and enterprises are also likely to have a varied level of impacts and implications in view of the recovery process
- It is important to identify the level of recovery in the manufacturing and service sectors and the factors driving the process

Methodology

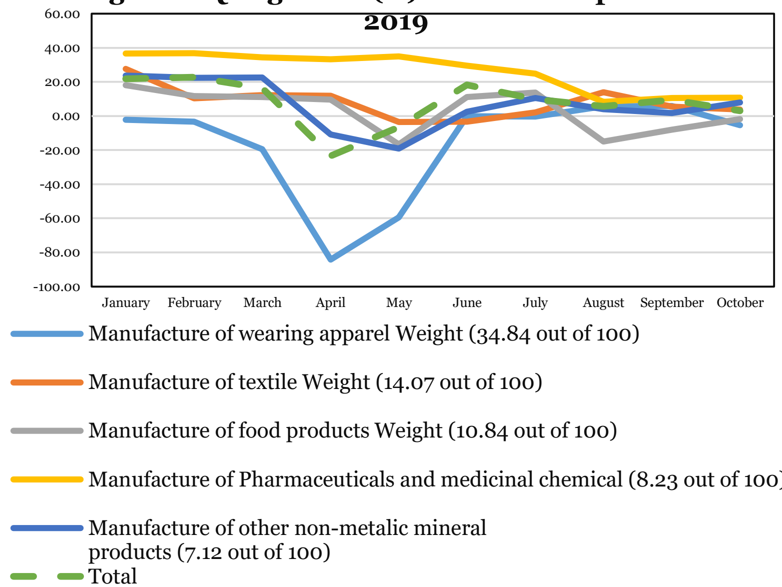
- Both primary and secondary data were used to conduct the analysis as regards the recovery of Bangladesh's service and manufacturing industries
  - Secondary data were gathered and analysed targeting a few broad aspects of these sectors, including sales, production, export, capacity utilisation and investment
- 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
  - Questions were divided into five broad sections: a) New Orders, b) Output, c) Employment, d) Suppliers' delivery times (inverted), and e) Stocks of purchases
  - All surveyed questions were closed-ended
- 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)
  - Participants were instructed to choose between three possible answers - increase, remain same and decrease replies

Performance analysis of different manufacturing and service-related industries

Performance of Production

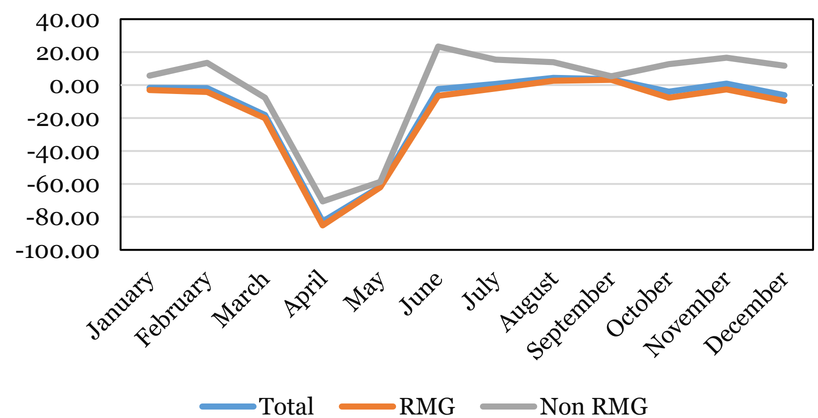
- From the dip in April, 2020 when the growth of QIP was -23.5%, the manufacturing production has gradually improved over the following months
  - In June, 2020 the growth in QIP was 18.3%
  - However, in the following months, the production growth has slowed down and somewhat stagnated below the 10% level
- 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 (Fig 1 & 2)
  - Pharmaceutical sector has performed exceptionally well thanks to the rise in the demand for medicine & medical equipments
- 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

Figure 1: QIP growth (%) in 2020 compared to 2019



Source: BBS (2021)

Figure 2: Export growth in 2020 compared to 2019



Source: EPB (2021)

Performance analysis of different manufacturing and service-related industries

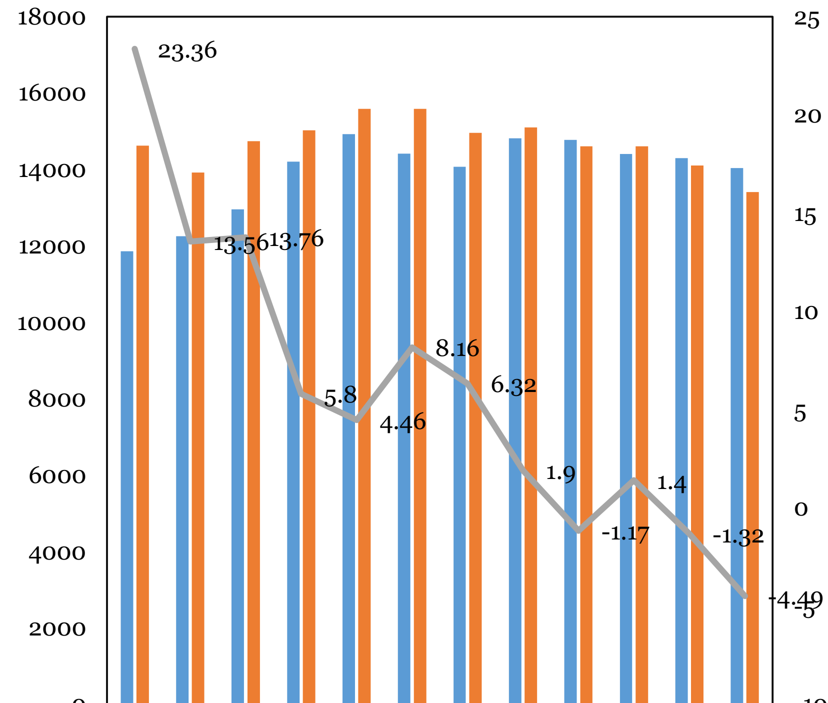
- Uncertainties arising from the second wave of the pandemic, with consequent fall in income, loss of employment and other adverse impacts, across major export destinations of Bangladesh, could induce further detrimental supply-side response
  - In view of the ongoing vaccination across almost all parts of the world, uncertainties as regards the pandemic are expected to decline in the near future
  - 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
- Small scale enterprises for example in the RMG sector 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) small and medium-scale enterprises are far below the mid-level line (50 out of 100)

Performance analysis of different manufacturing and service-related industries

Electricity use by across economic activities

- ❑ Electricity use is a good proxy indicator to understand the state of economic activities
  - ➢ This could 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
  - ➢ Growth has slowed down and, since September, 2020, it has gone negative (except during the month of October, 2020)
  - ➢ Manufacturing and service-oriented industries are yet to create adequate demand for electricity due to the slow rise in the activities

Figure 3: Electricity Max Generation Growth in 2020 compared to 2019 (Second Sunday of every month)



	January	February	March	April	May	June	July	August	September	October	November	December
2019	1185	1225	1295	1420	1492	1441	1406	1481	1477	1440	1429	1403
2020	1462	1391	1474	1502	1558	1558	1495	1510	1460	1460	1410	1340
% Change	23.4	13.6	13.8	5.8	4.46	8.16	6.32	1.9	-1.2	1.4	-1.3	-4.5

2019 2020 % Change

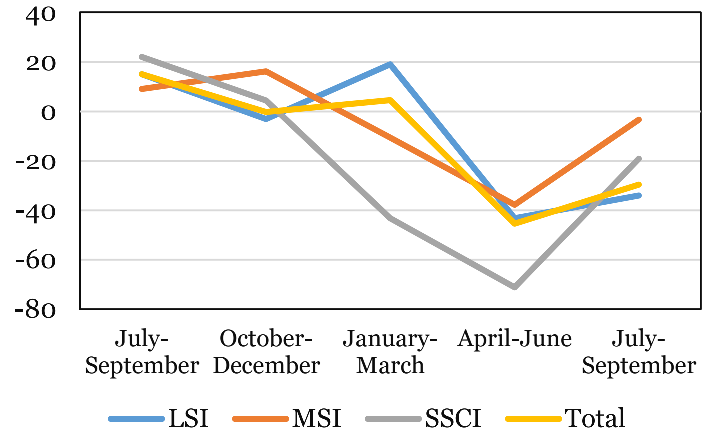
Source: BPDB (2021)

Performance analysis of different manufacturing and service-related industries

Investment Performance

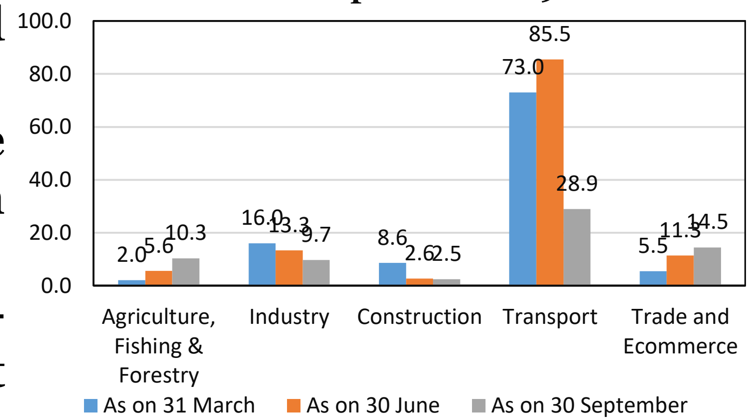
- Uncertainties caused by economic disruptions tend to have serious adverse impact on pvt. investment
- Industrial term loan, has experienced a significant fall during April-June, 2020 period
  - Investment in small scale industries were more severely affected (-71.2%) compared to that of medium and large-scale ones (-37.8% and -43.2% respectively)
  - The decline in investment by large scale enterprises, which accounted for 76% of total industrial term loans, portrays a medium-term recovery challenge for manufacturing and service-oriented industries
- Stagnation of the manufacturing industry in the post COVID recovery phase could be observed in case advances as well
  - The pandemic came as a blessing for the e-commerce industry which took off at very fast pace as consumers started to make greater use of it

Figure 4: Industrial Term Loan Disbursement growth (%)



Source: Bangladesh Bank (2021)

Figure5: Advances growth rate (%) in 2020 compared to 2019



Source: Bangladesh Bank (2021)

Performance analysis of different manufacturing and service-related industries

Table 1: Item-wise fresh opening and settlement of import LCs

	Intermediate goods			Industrial raw materials			Capital machinery		
Period	Opening	Settled	Ratio	Opening	Settled	Ratio	Opening	Settled	Ratio
FY 2020	4795.83	4812.56	1.00	19099.59	17658.81	0.92	4737.47	4374.02	0.92
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-September (FY 21)	1040.55	871.22	0.84	4637.09	4320.02	0.93	1195.19	822.9	0.69
July-October (FY 21)	1483.67	1200.99	0.81	6324.05	5721.97	0.90	1639.26	1072.3	0.65

Source: Bangladesh Bank (2021)

- The ratio of opening and settlement reflects the rate of settlement against the opening of import LCs during a specific time period
  - 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 which are struggling more to ensure their existing capacities thus are responding slowly to settlement of LCs
  - This is particularly happened in case of capital machineries which would further rise the capacity

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

Results from perception survey

- The index was calculated based on five headline sub-indexes/components
  - These are: 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
- The pace of recovery is found to be different for manufacturing and services enterprises
  - A somewhat faster recovery is seen in case of service sector enterprises compared to that of manufacturing ones
- The pace of recovery is still very low in case of new orders
  - 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

Overall recovery situation of manufacturing and service enterprises

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

Recovery Index categorised by components

Components	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 (Suppliers' delivery times)	48	46	46
Stocks of Purchases	38	42	52

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

Recovery 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

- Compared to other categories of enterprises, the medium-sized enterprises suffered the most during the pandemic
  - There are the enterprises which are in the front in view of the recovery process.
- According to the recovery 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

Factors responsible for changing recovery situation in manufacturing and services enterprises

- *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
- 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 incentivize 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 garm Amar shohor' type of projects on a large scale, across 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

Independent Review of IRBD Bangladesh's Development

Factors responsible for changing recovery situation in manufacturing and services enterprises

- The stimulus package of BDT 10,500 crores for the export-oriented industry could be considered the most successful in this connection
  - However, 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
- In terms of disbursement, the stimulus package of BDT 20,000 crore announced for CMSMEs may be considered to be the least effective
  - 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
  - Almost after one year of the announcement of the package, as of January 2021, only 58% of the funds could be disbursed
- In this context, procedural complexities associated with selection of enterprises, collaterals, repayment schedule and risk mitigation etc. will need to be addressed
  - In a way that caters to be the needs of the CSMEs 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

An unlikely candidate for leading the recovery

- 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.
- This section discusses the current scenario of the banking sector in view of the ongoing pandemic. .

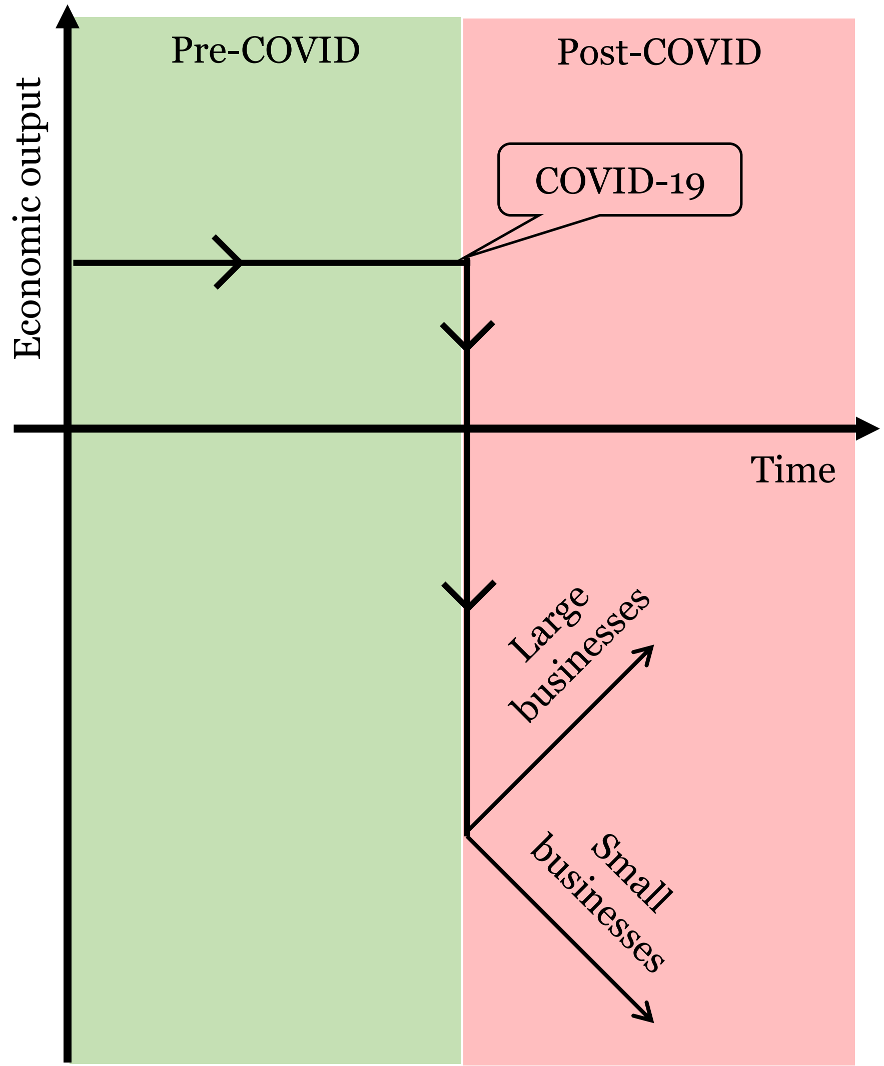
Implementation of liquidity support packages

- Bangladesh's economic recovery is expected to be driven by a **fiscal stimulus package** which is only 19.29% of its total COVID-19 relief funds or **only 0.83% of its GDP**, and falls far short of the 11% of GDP that is estimated to be required to mitigate the socioeconomic impacts of COVID-19.
- 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.

Driving a "k" shaped recovery

- 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.**

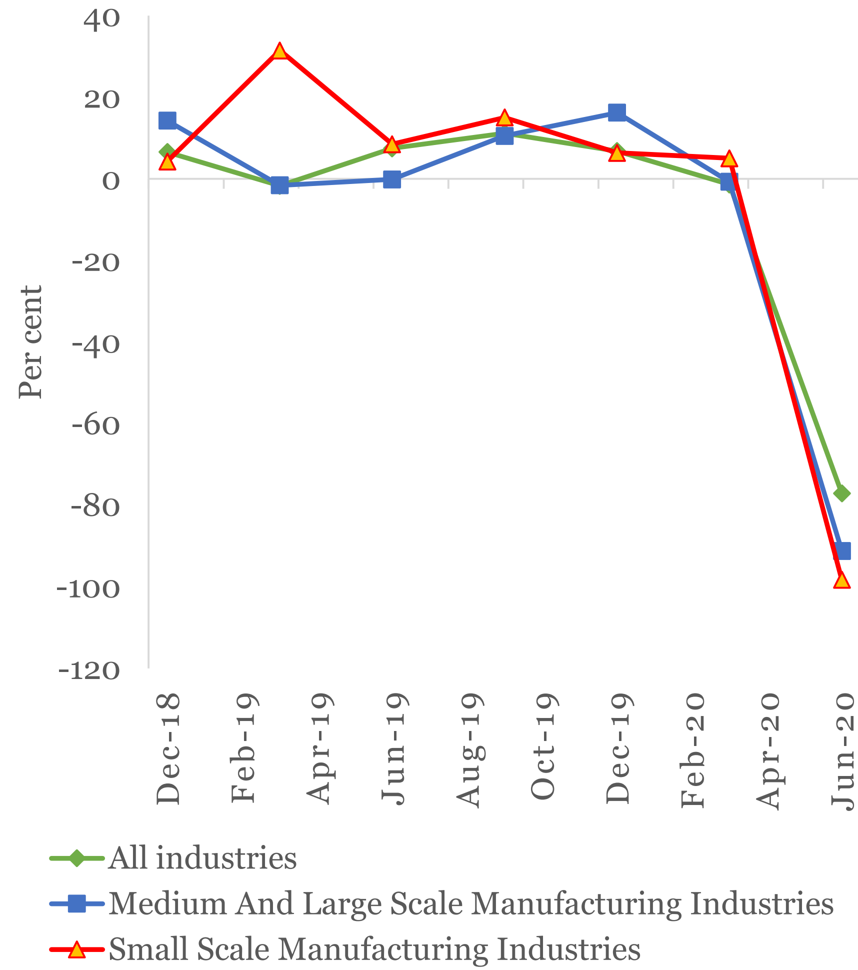
Figure: A "k" shaped recovery path



Paving the way for a "k" shaped recovery

- **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.
  - In June 2020, the QIIP for small industries fell by 98 units compared to a fall of 91 units for medium and large industries
- 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 blunders of policymaking which we could have avoided.

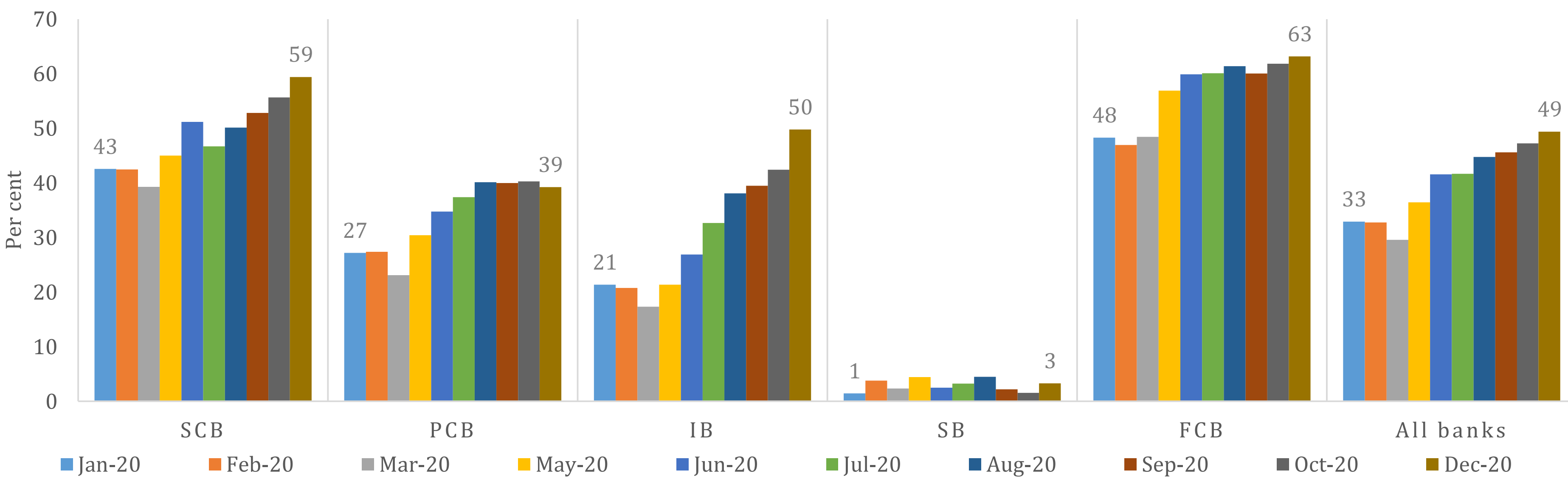
Figure: Change in Quantum Index of Industrial Production (QIIP)



Excess liquidity in the banking sector

- **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
- 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: Excess liquid assets as a percentage of total liquid assets



No calls heard in the call money market

- 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**
- 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.

Figure: Monthly average call money market lending rate

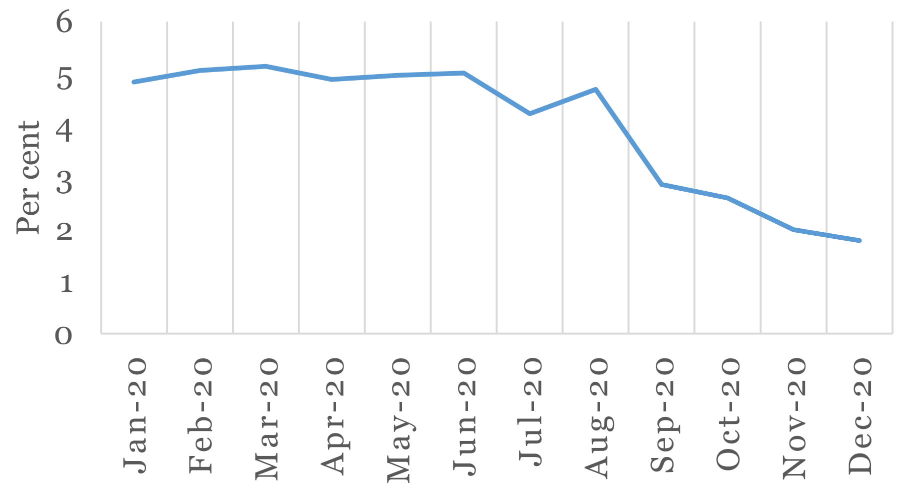
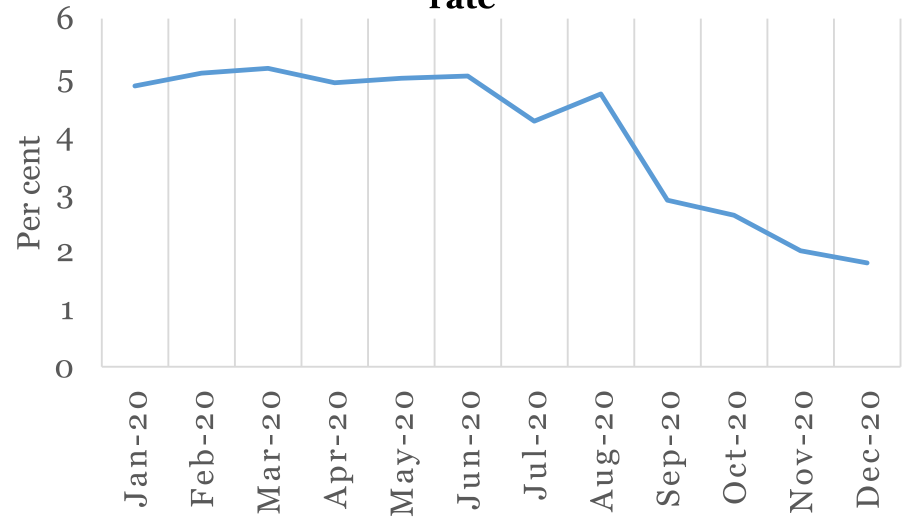


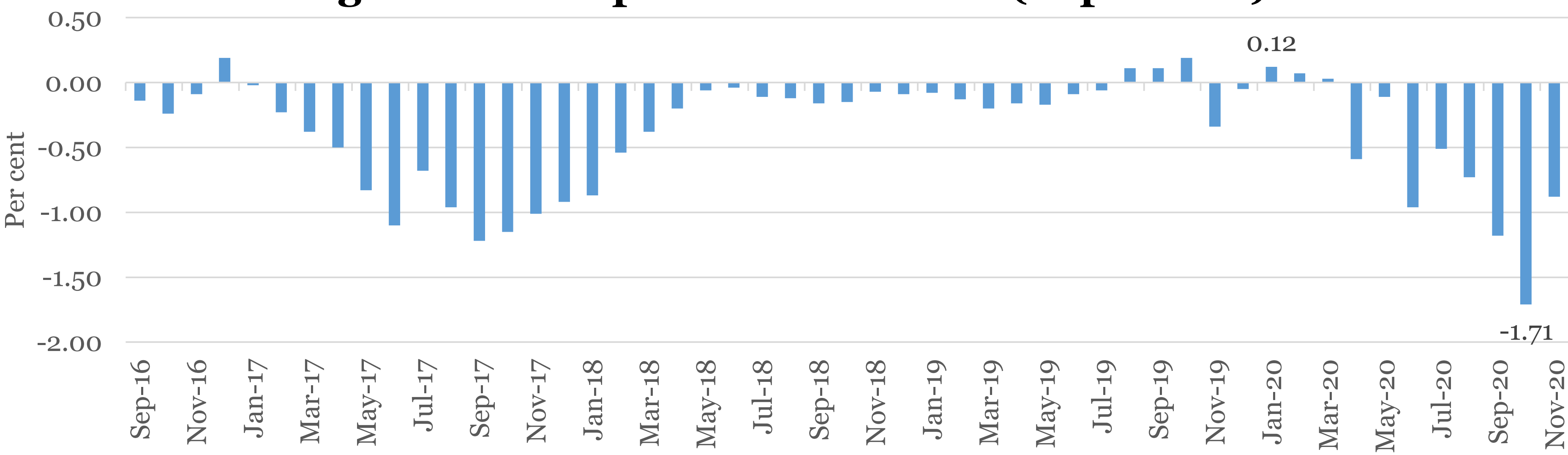
Figure: Monthly average call money market borrowing rate



Negative real interest rate on bank deposits

- Excess liquidity in the banking system has 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
- The **negative real interest rate on bank deposits** means that value of the savings of ordinary people was being depleted away during the pandemic—a time when they needed to utilise their savings the most.

Figure: Real deposit rate in banks (in per cent)



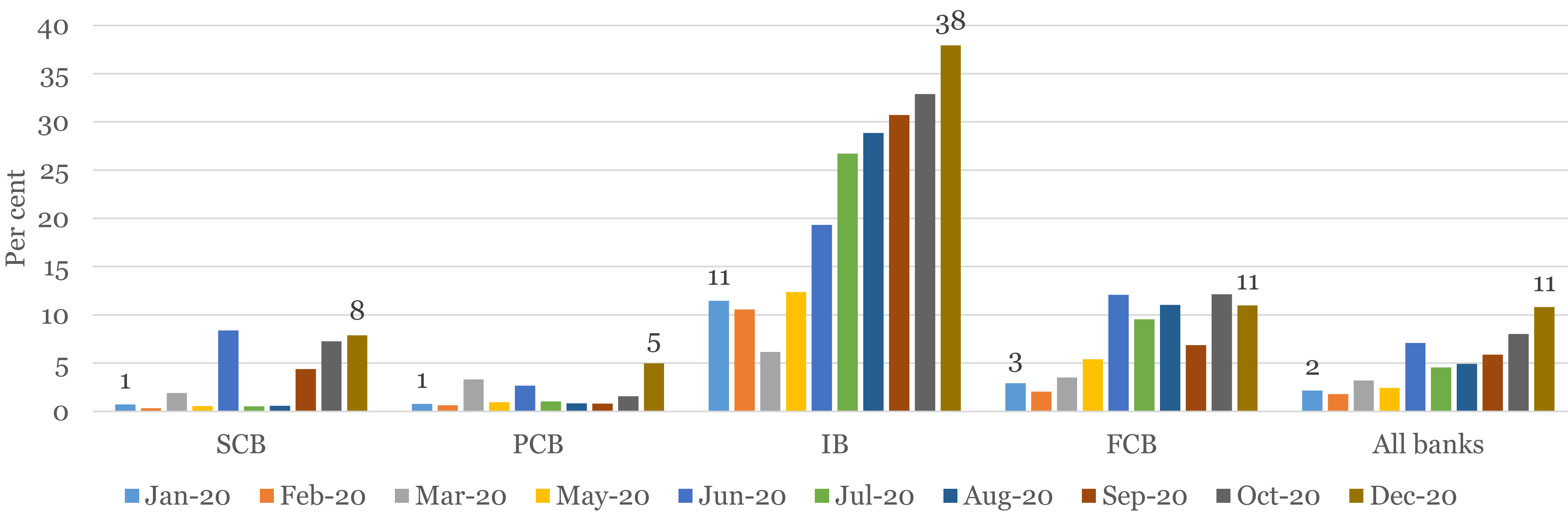
Potential consequences of excess liquidity

- 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**.
- 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 polic**y, making monetary policy less effective in fine-tuning aggregate demand.
- 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.*

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**.
- *Since excess reserves represent un-invested cash, holding excess reserves is costly for banks.*

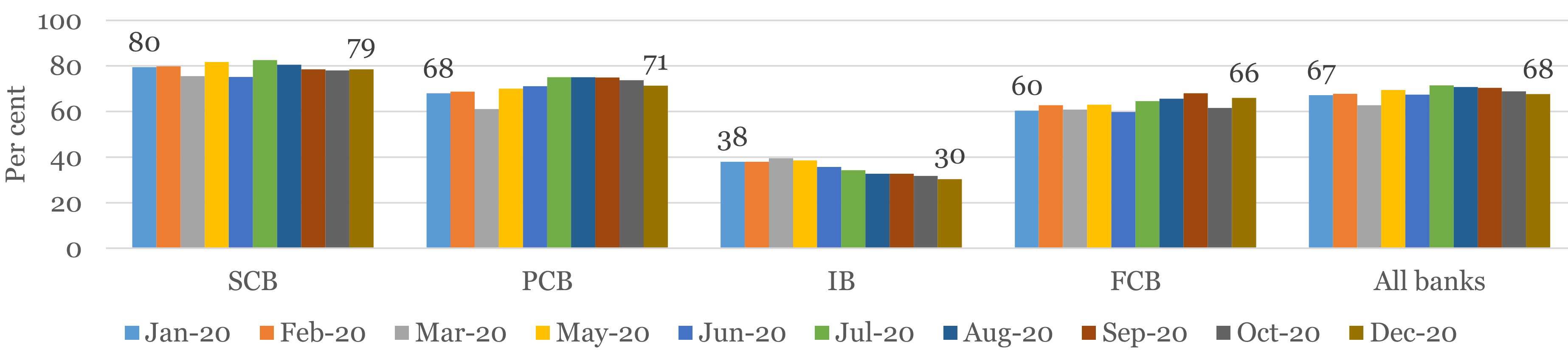
Figure: Excess reserves (un-invested cash) as a share of total liquid assets (in per cent)



Reluctance to lend?

- Banks have also increased their holdings of unencumbered approved securities, which are zero risk rated assets issued or guaranteed by the government
- 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
- 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 that believe that economic activity is yet to pick up and so their loans may have a high probability of turning bad.*

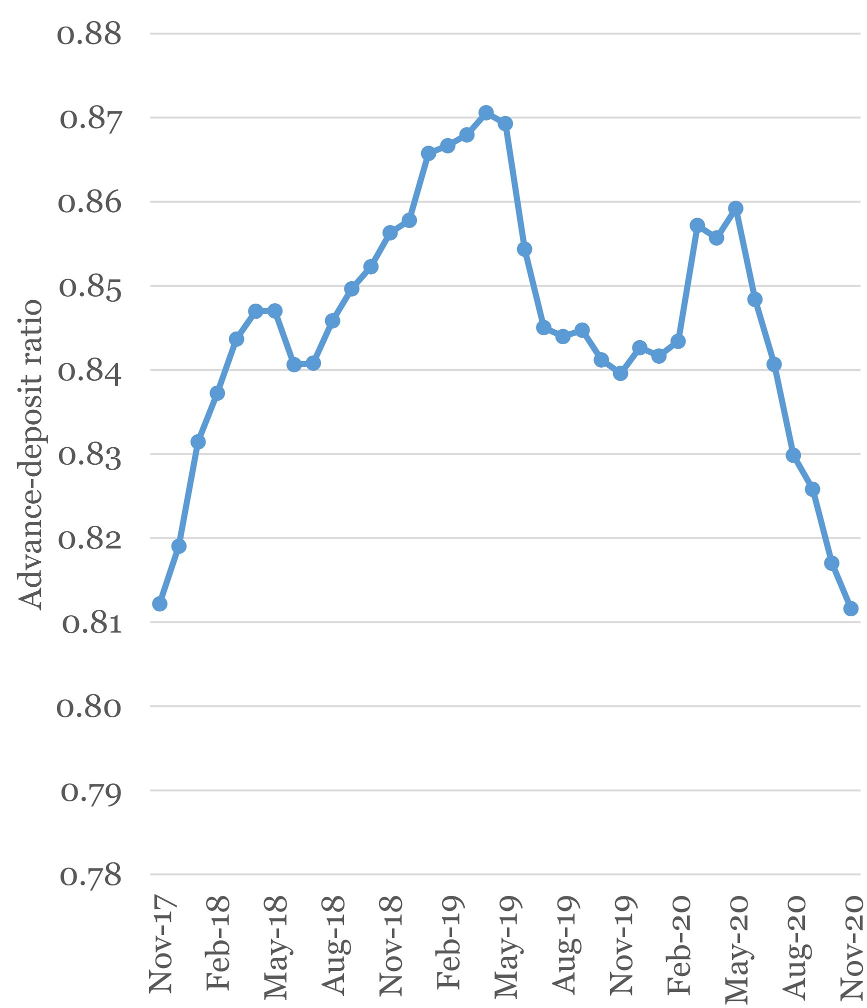
Figure: Unencumbered approved securities as a share of total liquid assets (in per cent)



An economy yet to recover

- 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
- **The plummeting advance-deposit ratio points to the fact that economic activity is yet to pick up.**
- 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

Figure: Advance-deposit ratio



Uncertainty regarding the performance of the banking sector

Known	Unknown
Banks will be responsible for operationalizing the COVID-19 liquidity support packages	Are **weak and poorly governed banks** receiving the COVID-19 liquidity support packages?
	How much liquidity support has each bank received, and **what amount of loans** has each bank given out?
Loan defaulters will be able to access two of the largest liquidity support packages	Which loan defaulters have received new loans from the COVID-19 liquidity support packages?
A year-long moratorium on loan classification was announced in 2020 by the central bank	What is the **volume of NPL** in each bank and the banking sector as a whole?
Greatest share of COVID-19 related liquidity support has been offered to large industries	Did any borrower get a disproportionately large share of loans from the liquidity support packages?
Banks must use their judgement to decide which loan seekers have been "affected" by COVID-19	How did banks assess which businesses were **"affected"** by COVID-19?
Banks may 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.	How much was **illicit financial outflows** boosted inadvertently due to the absence of repayment guarantee and import tariff on import of coronavirus related life-saving drugs, medical kits, equipment and other essential medical items?

Policy recommendations

- There are a number of causes for concern 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.
- Based on this, 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.
- **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.

Policy recommendations

- Clear, objective and quantitative criteria should be declared to properly identify **"affected" businesses** and individuals.
- **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.
- **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.
- 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.

Section VII. External Sector

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 uncertainities arising from the covid pandemic and the shutdown of economic activities following the public holidays

External Sector Performance: A Tale of Multiple Narratives

Table 1: Balance of Payments Scenario (in USD Million)

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

Source: Bangladesh Bank.

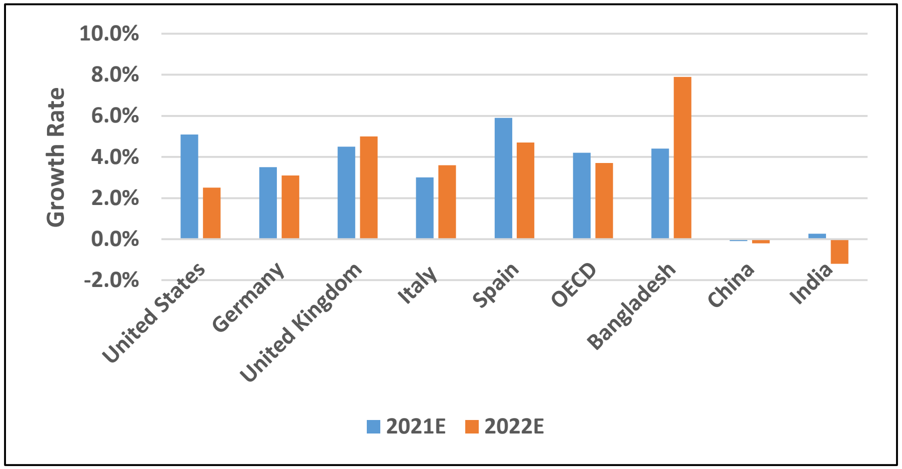
- Trade balance further weakened in FY2020 with faster fall in exports (-16.9 per cent) compared to fall in imports (-8.6 per cent)
- However, the scenario reversed in FY2021, when over the first half of the fiscal year imports fell at a faster pace (-6.8 per cent) than exports (-1.1 per cent) leading to some improvement in the trade balance
- Thanks to continued robust flow of remittances, balance of payment position at the end of first six months of FY2021 (December 2020) shows significant improvement
- 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

Prospects of recovery in the backdrop of the emerging global scenario

Figure 1: Global Economic Outlook

Source: IMF Growth Projections

Figure 2: IMF Projections for 2021 and 2022



Source: IMF Projections.

- Global recovery projections and projections of growth in Bangladesh's key markets have been revised downward by the World Bank and IMF. This does not augur well for sustained recovery of Bangladesh's export sector
- In view of this, the need for export product and market diversification, favouring the resurgent Asian markets, has emerged as an urgent necessity

External Sector Performance: A Tale of Multiple Narratives

Export performance and prospects of recovery

Table 2: Export performance: FY2019 to Latest (million US$)

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.%

Source: Export Promotion Bureau (EPB)

- The target of export set for FY2021 (21 per cent growth over FY2020) will not be achieved
- It will take some time even to reach the pre-COVID export level of US$ 40.5 billion
- Knitwear has performed better in July-January period of FY2021 (+3.8 per cent) compared to Woven wear (-10.9 per cent)
- Jute and jute goods (+27.1 per cent) and home textiles (+44.3 per cent) have posted robust growth
- Global demand for man-made fibre apparels and synthetic leather products are rising at a fast pace
- There is a need to revisit the incentive regime in view of new export product and export market dynamics

External Sector Performance: A Tale of Multiple Narratives

Table 3: Price dynamics of apparels in EU market: Bangladesh Vs. Vietnam (in Euro)

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%

Source: Authors' calculations based on Eurostat data.

Table 4: Price dynamics of apparels in US market: Bangladesh Vs. Vietnam (In USD)

US	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%
Women's or Girls' Trousers, Bib and Brace Overalls, Breeches and Shorts of Cotton	72.88	64.17	-12%	90.5	84.6	-6%

Source: Authors' calculations based on USITC data.

- Bangladesh's export performance was driven by both volume and value factors
- Compared to Vietnam Bangladesh's prices of apparels have experienced sharper fall in both EU and US markets
- Exchange rate management is emerging as a key factor driving export competitiveness

Robust Remittance earnings: Mainstay of improved b.o.p position

Table 5: Remittance Flows to Selected Countries in 2020

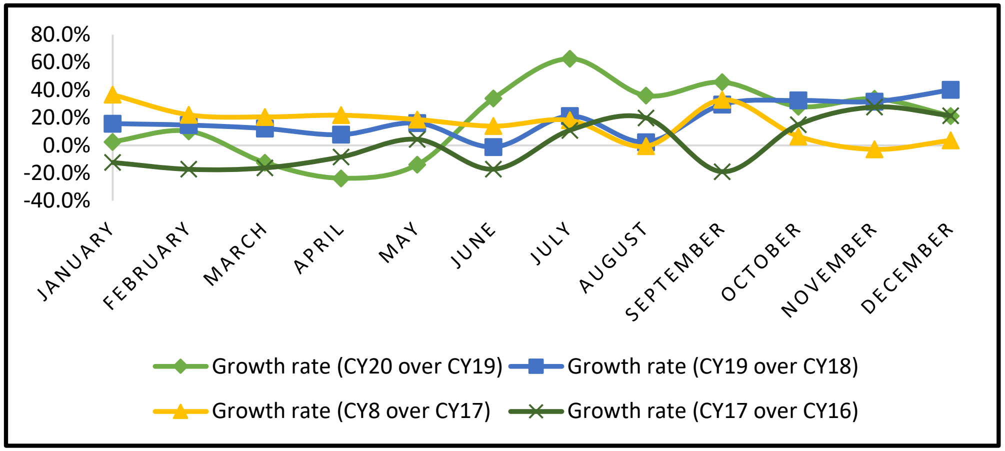
USD Million	2019	2020	Change (in %)	Period
India	83332	56454.27	-32.3	Jan-Dec
Philippines	27612.19	27346	-0.9	Jan-Oct
Bangladesh	18363	21741.83	+18.4	Jan-Dec
Pakistan	22245	25965.63	+16.7	Jan-Dec
Sri Lanka	6052	6291.3	+4.0	Jan-Nov

Source: Latest data from respective Central Banks

- Contrary to World Bank and IMF projections, remittance flows have posted robust growth in FY 2020 (+18.4 per cent) and over the first half of FY2021 (+38.0 per cent) compared to corresponding figures of previous years

External Sector Performance: A Tale of Multiple Narratives

Figure 3: Month on month growth of remittance flows to Bangladesh: CY 2016 to CY 2020 (%)



Source: Bangladesh Bank

- ❑ Month on month remittance growth was robust during the pandemic months
- ❑ Factors driving the high remittance flows appear to be the followings:
  - ➢ additional demand for support on the part of cash-strapped remittance-receiving households;
  - ➢ greater use of formal channels in view of disruption of informal (*hundi/hawla*) channels;
  - ➢ 2 per cent cash incentives put in place by the GoB in July 2019 on the remitted amount;
  - ➢ additional 1 per cent incentive by mobile platforms such as bKash;
  - ➢ relaxation of ceilings for remitted money sent without documentation (raised to US$ 5000 from the earlier US$ 1500);
  - ➢ transfer of money saved on account of *Hajj* not being performed in 2020;
  - ➢ sending of savings back home in view of job uncertainties in host countries and apprehensions about forced-return of Bangladeshi migrant workers.

- The robust remittance flows have led to an improvement in the current account balance and have significantly strengthened Bangladesh's overall balance of payment position
- Higher remittance earnings 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
- A cautionary note: Such high growth may not sustain in future as the immediate COVID-induced underlying reasons lose importance and urgency

Import Sector Performance: A reflection of sluggish investment scenario

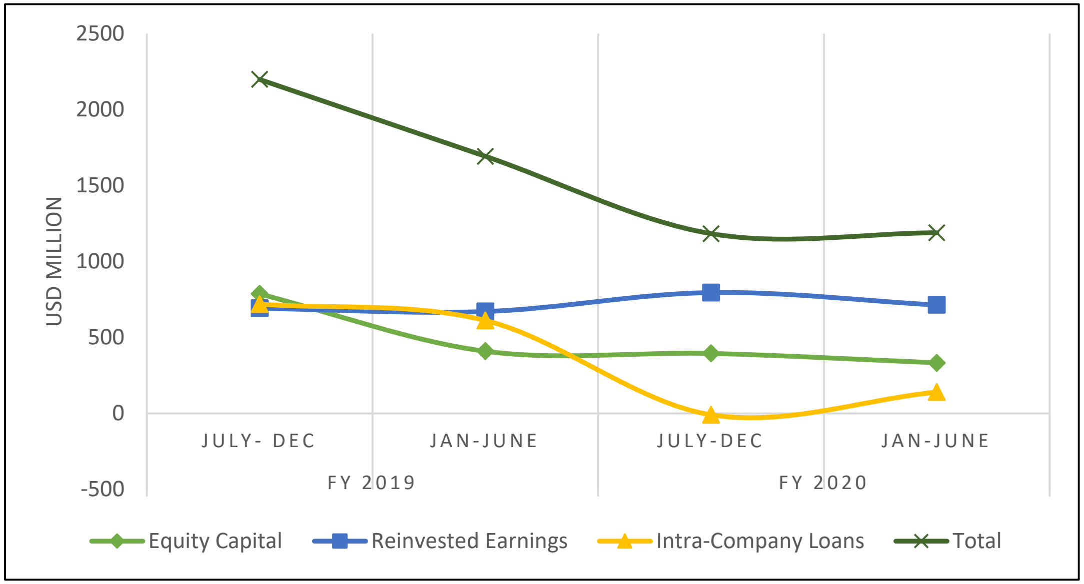
Table 6: Major import items of Bangladesh (in million USD)

Items	FY19	FY20	July-December	
			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 (Growth rate)	59,914.7 (1.8)	54,784.7 (-8.6)	29,249.9 (-2.7)	27,269.2 (-6.8)

Source: Bangladesh Bank.

- The sharp fall in imports of immediate goods (-8.7 per cent), as also of capital machineries (29.2 per cent), indicates sluggish domestic demand
- Fall in imports of raw cotton (-19.9 per cent), textile articles (-15.7 per cent) do not augur well for prospects of export-oriented industries over the coming months

Figure 4: FDI Flows in FY2019 and FY2020



Source: Bangladesh Bank

- ❑ FDI Flows have come down significantly in FY 2020
- ❑ 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
- ❑ A triangulation of transport, trade and investment connectivities will be needed to realise the potentials of the SEZs

Summary observations

- Bangladesh's strengthened balance of payments position, while good from the perspective of macroeconomic management (robust forex reserves, exchange rate stability, import purchasing power), conceals disquieting developments
- Export performance in FY2021 will be significantly below pre-COVID levels, not to speak of the FY2021 targets
- Import performance and structure of decline are indicative of sluggish demand, both for import-substituting as also export-oriented industries
- There is a need to pursue strategic currency depreciation in view of exchange rate management pursued by competing countries
- Bangladesh's current export performance and likely adverse impacts originating from loss of international support measures consequent to LDC graduation calls for recalibration of incentive measures towards sectors with new export potentials and opportunities of the resurgent Asian markets
- The GoB should set up a Negotiating Cell in view of the urgent task of undertaking negotiations to sign CEPA type of trade deals based on reciprocity and mutual market access

Section VIII. Conclusion

Conclusion

- **FY20** concluded with **major departures** from the **relevant annual targets** set for most key macroeconomic correlates
  - Pre-COVID stress points in the economy were exacerbated due to the COVID-19 pandemic compounded by repeated natural disasters
- These multiple shocks, alongside the longstanding reform and policy related challenges, underpinned **a shaky foundation for FY21**
- Since the beginning of FY21, a large part of the national policy discourse have centred around the **shape of economic recovery**
  - Whether it is 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 earlier analyses show, **there are mixed signals** as far as rebound and recovery was concerned if the first half of FY21 is taken as the reference point

Conclusion

- A number of indicators have experienced **positive trends despite the adverse situation** originating from the pandemic
  - These include, *inter alia*, revenue mobilisation, industrial production of large and medium industries, remittance inflow, and foreign exchange reserve
- However, these encouraging developments are **underpinned by disquieting underlying trends**
- In general, **indicators** pertaining to **production** have exhibited **better performance** in terms of **recovery compared to the investment** related indicators
  - Perhaps indicative of the consolidation as regards **use of prevailing capacities** in the economy
  - Both **public and private investment** correlates remained **subdued** throughout the first half of FY21
  - The **restrained state of investment**, in all likelihood, is **indicative of** the **uncertainties** triggered by the pandemic

Conclusion

- **Macroeconomic stability was maintained**, to a large extent, during the first half of FY21
  - Reflected in the surplus budget, declining aggregate inflation as per official data, large overall surplus in the BoP, and a stable exchange rate of BDT against USD
- This **positive scenario is underpinned by several negative factors**
- It was surprising to find that the **fiscal balance was in a state of surplus**!
  - Shows a **lack of institutional capacity** and **lax macroeconomic management**
  - **Low implementation of 'fast track' projects** is **not indicative of prioritisation** of public expenditure
- The **asymmetry of recovery** is a **recurring phenomenon** from within and across sectors perspectives
  - For example, within the RMG sector, knitwear vs woven; of the agricultural enterprises, vegetable production and poultry vs fisheries
  - Perhaps **indicative of a 'K-shaped'** recovery
  - Calls for a much **granular approach** while designing govt. support measures

Conclusion

- The **reliance on monetary instruments** (or the so-called 'hybrid') for **stimulus** packages rather than fiscal ones is perhaps a **recognition of the restrained fiscal space**
- **Asymmetry** is observed **in terms of access to** and **implementation of** the **stimulus** packages
  - **Large industries** were **more successful** in accessing and attaining the benefits of the packages **compared to** their **smaller** counterparts
- The economy is **most likely to 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**

Conclusion

- Progress as regards the **implementation of** the **medium-term reform agenda** has been **less than satisfactory**
- **Weak budgetary programming** has **resulted in** a **budget surplus** even in the backdrop of the pandemic during the early months of FY21
  - The **budget for FY21** should be **revised** at the **earliest** for mid-course correction
  - Also, the **budget for FY22** should come up with a **medium-term strategy** to **phase out tax exemptions** and **subsidised credit schemes**
- **Public expenditure priorities** should be **revisited** and **adjusted** accordingly to **meet the attendant needs** in view of the pandemic
  - **More public money** needs to be injected for **rural infrastructure** and **employment related social protection programmes**
- **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**

Independent Review of iRBD Bangladesh's Development

Conclusion

- **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
- Longstanding issues such as **improving the ease of doing business** should be given the **highest priority**
- Given Bangladesh's dual transition scenario, **enhancement of negotiating skills** to go for CEPA type of arrangements should be a **key policy priority**
  - Particularly pertinent in the backdrop of the depressed global trade scenario
  - The govt. 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 important for **sustainable recovery** in the near term

Thank You