Working Paper 135

The Challenges of Policymaking in the Time of Pandemic

State of the Bangladesh Economy in FY2019–20

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Centre for Policy Dialogue (CPD)
House 40/C, Road 11 (new)
Dhanmondi, Dhaka-1209, Bangladesh
Telephone: (+88 02) 48118090, 55001185, 58156979
Fax: (+88 02) 48110414
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd

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Centre for Policy Dialogue (CPD) was established in 1993 as a civil society initiative to promote an ongoing dialogue between the principle partners in the decision-making and implementing process. Over the past more than 25 years, the Centre has emerged as a globally reputed independent think tank, with local roots and global reach. With a view to influencing policies, CPD deploys both research and dialogue which draw synergy from one another.

A key area of CPD's activism is to organise dialogues to address developmental policy issues that are critical to national, regional and global interests, with a view to seeking constructive solutions from major stakeholders. CPD involves all important cross-sections of the society in its dialogue process, including public representatives, government officials, business leaders, activists of grassroots organisations, academics, development partners and other relevant interest groups.

The other key area of CPD's activities is to undertake research programmes on current and strategic issues.Major research themes are: macroeconomic performance analysis; poverty and inequality; agriculture; trade; regional cooperation and global integration; infrastructure; employment, and enterprise development; climate change and environment; development governance; policies and institutions, and the 2030 Agenda for Sustainable Development.

As part of its global networking initiatives, CPD hosts the secretariat of the *LDC IV Monitor*—an independent global partnership for monitoring the outcome of the Fourth UN Conference on the LDCs. CPD was also the initial convener and founding host of the Southern Voice on Post-MDGs, a network of 50 think tanks from Africa, Asia and Latin America, which seeks to contribute to the ongoing global discourse on the SDGs. CPD was the Secretariat of Southern Voice during January 2013–June 2019. At present, CPD hosts the office of the Chair of the network. At the national level, CPD hosts the Secretariat of the *Citizen's Platform for SDGs, Bangladesh*—a civil society initiative that include more than 100 Partner organisations, founded with an objective to contribute to the delivery of the SDGs and enhance accountability in its implementation process.

Dissemination of information and knowledge on critical developmental issues is another important component of CPD's activities. Pursuant to this, CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has been bringing out **CPD Working Paper Series** on a regular basis. Research work in progress, background papers of dialogues, investigative reports and results of perception surveys which relate to issues of high public interest are published under this series.

The present paper titled *The Challenges of Policymaking in the Time of Pandemic: State of the Bangladesh Economy in FY2019–20* has been prepared by the CPD IRBD 2020 Team. For any queries related to the paper, please contact: info@cpd.org.bd

The paper has been prepared under CPD's flagship programme *Independent Review of Bangladesh's Development (IRBD)*, as part of the project titled "Institutional Strengthening to Support Bangladesh's Dual Transition," which is being implemented by CPD, in partnership with the Embassy of Denmark in Bangladesh and the Embassy of the Kingdom of the Netherlands in Bangladesh.

The report was released at a virtual media briefing live streamed from CPD office in Dhaka on 7 June 2020.

Series Editor: *Dr Fahmida Khatun*, Executive Director, CPD.

CPD IRBD 2020 Team

Lead contributions were provided by *Dr Fahmida Khatun*, Executive Director; *Professor Mustafizur Rahman*, Distinguished Fellow; *Dr Khondaker Golam Moazzem*, Research Director; and *Mr Towfiqul Islam Khan*, Senior Research Fellow, CPD.

Excellent research support was received from *Mr Md. Zafar Sadique*, Senior Research Associate; *Mr Mostafa Amir Sabbih*, Senior Research Associate; *Mr Muntaseer Kamal*, Senior Research Associate; *Mr Md. Al-Hasan*, Senior Research Associate; *Mr Syed Yusuf Saadat*, Senior Research Associate; and *Mr Abu Saleh Md. Shamim Alam Shibly*, Programme Associate; *Ms Nawshin Nawar*, Programme Associate; *Mr Tamim Ahmed*, Programme Associate; *Mr Md Jahurul Islam*, Programme Associate; *Ms Iqra Labiba Qamari*, Programme Associate; and *Ms Fariha Islam Munia*, Research Intern; *Ms Taslima Taznur*, Research Intern, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2020 Team.

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

Abstract

The ongoing COVID-19 pandemic is having a significant impact on various aspects of the economy. The obvious impacts have important repercussions for the FY2020–21 budget. This fifth periodic review of the current fiscal year, prepared under CPD's flagship Independent Review of Bangladesh's Development (IRBD) programme, offers an analysis of the economy that started off on a normal course at the beginning of the fiscal year and then entered into an unforeseen terrain and uncharted waters soon after the first quarter. The analysis, therefore, captures development of the economy in two phases—the pre-COVID phase and the ongoing COVID phase. The report focuses on the impact of the pandemic on the economy, subsequent measures taken to address the implications of the pandemic and what these developments mean for the upcoming budget.

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Acronyms

ADB	Asian Development Bank
ADP	Annual Development Programme
AIT	Advance Income Tax
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BoP	Balance of Payment
BPC	Bangladesh Petroleum Corporation
COVID-19	Coronavirus Disease 2019
CPD	Centre for Policy Dialogue
CRR	Cash Reserve Ratio
EDF	Export Development Fund
EFD	Electronic Fiscal Device
EIU	Economist Intelligence Unit
EPB	Export Promotion Bureau
EU	European Union
FDI	Foreign Direct Investment
FOB	Free on Board
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GoB	Government of Bangladesh
HIES	Household Income and Expenditure Survey
HS (Code)	Harmonized Commodity Description and Coding System
IFI	International Financial Institution
IFF	Illicit Financial Flow
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
IRBD	Independent Review of Bangladesh's Development
LMIC	Lower-Middle Income Country
LIBOR	London Inter-Bank Offered Rate
MLT	Medium and Long-Term
MMF	Man-Made Fibre
MoF	Ministry of Finance
MoM	Month-on-Month
MT	Metric Ton
NBR	National Board of Revenue

NID	National Identity (card)
NSD	National Savings Directorate
NSPMLCFT	National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism
NSSS	National Social Security Strategy
OECD	The Organisation for Economic Co-operation and Development
PFDS	Public Food Distribution System
PERC	Public Expenditure Review Commission
PKB	Probashi Kallyan Bank
POL	Petroleum, Oil and Lubricants
RADP	Revised Annual Development Programme
RMG	Readymade Garments
SD	Supplementary Duty
SDC	Sales Data Controller
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SSNP	Social Safety Net Programme
TIN	Taxpayer's Identification Number
UHC	Universal Health Coverage
US	The United States (of America)
USD	United States Dollar
USITC	United States International Trade Commission
VAT	Value Added Tax
WHO	The World Health Organization
WTO	The World Trade Organization
7FYP	Seventh Five Year Plan

1. INTRODUCTION

This report has been prepared in continuation of the Centre for Policy Dialogue's (CPD) longstanding tradition of coming up with an analysis of the state of the economy prior to presentation of the national budget. The backdrop of this particular year is informed by unprecedented and exceptional circumstances. The ongoing COVID-19 pandemic is having a significant impact on various aspects of the economy and will undoubtedly have important repercussions for the FY2020–21 budget to be presented on June 11, 2020. This fifth periodic review of the current fiscal year, prepared under CPD's flagship *Independent Review of Bangladesh's Development (IRBD)* programme, offers an analysis of the economy that started off on a normal course at the beginning of the fiscal year and then entered into an unforeseen terrain and uncharted waters soon after the first quarter. The analysis, therefore, captures development of the economy in two phases—the pre-COVID phase and the ongoing COVID phase. The report focuses on the impact of the pandemic on the economy, subsequent measures taken to address the implications of the pandemic and what these developments mean for the upcoming budget.

In its first periodic review of the economy for the ongoing fiscal year, released on 3 November 2019, CPD had raised *red flags* in four areas which it felt should call for attention of policymakers. The red flags include concerning performance in the areas of revenue mobilisation, banking sector, capital market and export sector. CPD had argued that the weak state of governance, the inability to undertake necessary reforms and the lack of proactive initiatives to address structural impediments could undermine the continuity of Bangladesh's growth narrative and pose a question on the sustainability of the growth dynamics. The tell-tale signs of slowing down of the economy were already becoming visible.

Taking into cognisance the demand-side repercussions of the pandemic, and keeping in the purview the emergent health risks when the pandemic has reached the shores of Bangladesh, CPD had organised a virtual media briefing titled '*Health and Economic Risks of Corona Pandemic and Recommendations*'. The CPD presentation at the briefing examined the impact of the various transmission channels on Bangladesh's macroeconomic and sectoral performance and the measures that needed to be taken to mitigate the risks of the pandemic and pandemic-stricken economy.

At the second virtual media briefing on 13 April 2020, CPD presented its initial assessment of public policy interventions and offered a set of proposals for food and income security of the marginalised people. It was in the respective briefing that CPD came up with its proposal for a cash transfer programme to be launched in order to cover the old and new poor requiring an amount equivalent to about one per cent of the gross domestic product (GDP), i.e., approximately Tk. 30 thousand crore.

Keeping in the purview the upcoming national budget for FY2020–21, CPD organised its third virtual media briefing on 9 May 2020 which came up with a set of budgetary recommendations in the areas of resource mobilisation, tax proposals, expenditure priorities and deficit financing. These were geared to address the immediate health and economic challenges and the necessary tasks needed to steer the economy back on track towards recovery.

There will be another webinar on 9 June 2020 which will discuss the effectiveness of implementing the stimulus packages and the readiness of the banking sector regarding addressing the attendant challenges in this context.

The current report builds on CPD's aforesaid works and examines the state of the economy on the eve of FY2020–21 budget by keeping the footprints of the pandemic on the radar screen of analysis. The report puts under scrutiny the macroeconomic and sectoral management, financing issues, vulnerabilities and risks and the impact of these on the upcoming budget, budgetary proposals for resource mobilisation, prioritisation of allocation and allocative efficacy. Given the scenario, four areas are particularly looked at, in dedicated sections of this report: (a) growth, poverty and inequality; (b) public finance; (c) inflation; and (d) and external sector performance.

Each section tracks the key trends, identifies the major challenges and risks and offers a set of recommendations for the policymakers to consider in view of the upcoming FY2020–21 budget. The concluding section presents a succinct summary of the policy recommendations presented in the preceding sections..

2. IMPLICATIONS OF COVID-19 ON GROWTH, POVERTY AND INEQUALITY

The COVID-19 pandemic, which primarily surfaced as a public health concern, has rapidly transformed into a socio-economic-humanitarian catastrophe of an unprecedented nature and level around the world. Not a singular facet of modern-day life—be it individual, collective, social, national or international—has been spared from the adverse impacts of this multi-dimensional crisis. Alongside the enormous loss of human lives and the suffering, the extent of coverage and severity of the pandemic is such that the possibility of a worldwide economic recession, within about a decade of the global financial crisis (GFC) of 2008-09, cannot be discarded. As a matter of fact, this is the likely scenario that emerges from the various projections and early estimates released by several national statistical agencies as well as international organisations around the world.

The Bangladesh economy was not significantly affected by the detrimental impacts of the GFC (Rahman et al., 2010). Exports and remittance flows were impacted, however, not significantly; and the reliance of the large part of the economy on domestic market-oriented activities played a favourable role. This time around both the demand side (recession-induced) and supply side (lockdown-induced) disruptions are having adverse implications for Bangladesh's macroeconomic and sectoral performance. A closer inspection of the ongoing pandemic-induced challenges reveals that the economy is being adversely impacted through a host of transmission channels, both global and national (CPD, 2020a).

Although the ramification of the pandemic for the Bangladesh economy is still unfolding, various projections and estimates by international financial institutions (IFIs), academics and practitioners indicate a downturn in Bangladesh's economic performance, though the degree varies between institutions. World Bank (2020a) forecasted that the economic growth of Bangladesh in FY2019–20 will be between 2.0–3.0 per cent; while IMF (2020) projected this to be 3.8 per cent. According to the ADB (2020), the GDP growth rate in FY2019–20 would be reduced by 0.2-0.4 percentage points depending on the extent of demand shock and duration of containment. However, the reduction could additionally increase by 1.6-4.4 percentage points in case of a significant outbreak. The Economist Intelligence Unit (EIU) forecasted the GDP growth rate of Bangladesh for FY2019–20 to be 1.6 per cent (EIU, 2020). Thus, the general consensus is that the GDP growth rate will be significantly lower than the planned target of 8.2 per cent.

The provisional estimates of Bangladesh's GDP, produced by Bangladesh Bureau of Statistics (BBS), are usually available by May of any fiscal year. These provisional estimates are carried out based on the data available for the first eight to nine months of a fiscal year, for most of the correlates. However, this year the provisional economic growth figure for FY2019–20 is yet to be published. This delay may be understandable given the fact that data flow was seriously impeded as the country entered a period of 'general holiday' (commonly perceived as 'lockdown') since 25 March 2020. Although the estimates may be made available soon in the run up to the national budget, as the 'general holiday' has come to an end as of 30 May 2020, to what extent the to-be published estimates will be able to capture the impacts of COVID-19 remains a moot question. This will also have adverse implications for providing proper guidance in preparing budgetary and fiscal proposals for FY2020–21 budget to be placed before the national parliament on 11 June 2020.

In this backdrop, CPD has carried out an exercise to understand to what extent the pandemic and associated downturn in economic activities may impact the GDP growth outcome for the ongoing FY2019–20. To this end, recent trends in proxy indicators as reflected in official data along with anecdotal information from various unofficial sources have been reviewed. It has been taken into consideration that all economic activities of all sectors were affected, at varying degrees. No doubt, this was most prominent during the almost two-month long 'general holiday period' during which a significant part of the economy was affected by the lockdown and disruptions, both domestic and global. Sectors such as manufacturing, construction, hotels and restaurants, transport, storage and communication and community, social and personal services are likely to be the hardest hit in this period. Even if the claim of some policymakers is taken to be true that the economy was in course to attain an 8.2 per cent GDP growth in FY2019–20, our estimates of the possible adverse impacts of the lockdown indicate a significant decline in GDP growth in FY2019–20. CPD estimates suggest that the GDP growth in FY2019–20 was likely to come down to about 2.5 per cent under the most optimistic scenario if further 'general holidays' are not announced or stricter measures are not enforced during the rest of the fiscal year.

Given the unprecedented nature of the pandemic, the decline in economic growth should not be perceived as something unexpected and exceptional. Countries across the globe, developed, developing and least developed, have been experiencing lower, and at worst, negative growth rates. Realistic GDP projections only help to understand the direction and range of the adverse impacts at macro-sectoral-household levels and thereby assist policymakers to take necessary measures. As a matter of fact, CPD, in view of the nature of ramifications of COVID-19 on socio-economic and development outcomes over the last few months, has been stressing that the GDP growth rate should not be the anchor outcome variable for economic policies including the national budget in the current context. Indeed, the focus should be on saving lives of people of the country and reducing the vulnerabilities of the marginalised groups. An assessment of impact of the ongoing pandemic on poverty, inequality and employment should be the primary area of policy interest and policy focus. Disruption of economic activities led to loss of employment (in terms of number of jobs or working hours) leading to decline in income for a large section of the population—be it extreme poor, moderate poor, vulnerable non-poor or non-poor households. The coping mechanisms for the households include erosion of savings and assets. And when such options are not available, they have to resort to reduced consumption. Indeed, households have succumbed to negative shocks of varying degrees.

In view of the above, CPD has conducted an analysis to explore the implications of COVID-19 on poverty and inequality of Bangladesh in the short-term, using the unit-level data of the Household Income and Expenditure Survey (HIES) 2016. The analysis has applied negative shocks on household consumption in the range of 9-25 per cent among various household groups.[1] This leads to an increase of national (upper) poverty rate from 24.3 per cent in 2016 to 35.0 per cent in 2020. At the same time, consumption inequality, measured by the gini coefficient, rose from 0.32 in 2016 to 0.35 in 2020. A similar analysis with a disaggregated income shock results in an increase of the income gini coefficient from 0.48 in 2016 to 0.52 in 2020.

While the aforementioned CPD estimates paint somewhat a disquieting picture of the outgoing fiscal year, the real challenge perhaps lies ahead. There is a debate on whether the recovery path of the Bangladesh economy after the pandemic will be 'V-shaped' (where an economy experiences a sharp but brief period of decline and then also rises sharply), 'U-shaped' (where an economy suffers a prolonged recession before commencement of recovery) or 'W-shaped' (also known as a 'double-dip recession' where an economy falls into recession, recovers but the period is short-lived, then falls back into recession before upturn sets in). For Bangladesh, the pattern of growth trend will depend not only on the duration and evolution of the ongoing contagion but also on the appropriateness and adequacy of the remedial measures taken to counter the pandemic. Subsequently for resumption and recovery of economic activities, effective implementation of measures and enforcement capacity and on ensuring an enabling political economy environment conducive to growth.

3. PUBLIC FINANCE

In the backdrop of the ongoing pandemic and its short-term impacts and medium to long-term implications for the recovery phase, the key policy concern emerging from the current public finance discourse relates to the creation and utilisation of 'fiscal space'. However, the concept of 'fiscal space' needs to be well-understood for all practical purposes as the government prepares the national budget for FY2020–21. According to the IMF (2018), fiscal space is defined as the room for pursuing discretionary fiscal policy compared to a pre-existing baseline, without compromising market access and debt sustainability. Kose et al. (2017) understands fiscal space as the availability of budgetary resources at government's disposal to meet its financial obligations. Bhattacharya (2020) defined fiscal space as the room or extra money available within the budget which allows a government to allocate resources for a designated purpose, in view of the current scenario, to address the challenges emanating from COVID-19, without endangering macroeconomic stability. As the national budget for FY2020–21 will be placed before the parliament on 11 June 2020, it has become critically important to identify the sources of fiscal space to underpin the government's intended fiscal policy stance.

Revenue mobilisation in FY2019–20: No beacon of hope

The most obvious scope for creating and expanding the fiscal space can be originated from within the domestic resource mobilisation space. Regrettably, as can be evinced from the data available in the public domain, the ongoing trends as regards to revenue mobilisation do not appear to be promising by any account. During July-February of FY2019–20, growth in terms of total revenue mobilisation was a mere 0.1 per cent over the corresponding period of FY2018–19 (Table 1). As the growth target for the full fiscal year was set at 50.0 per cent (over actual realisation in FY2018–19), total revenue

[1]The shocks are determined based on review of past and recent relevant literature on Bangladesh.

collection should have increased by an astounding 131.6 per cent during the March-June period of FY2019–20, which obviously is not going to happen. As can be discerned from Table 1, not a single component of the revenue mobilisation framework is set to attain the respective annual targets. Indeed, the economic slowdown originating from the nationwide lockdown and the adverse impacts of the ongoing pandemic on international trade are expected to further exacerbate the situation during the rest of the period. While the extent of the consequent drawdown will be known only when the data for relevant months become available, it is not difficult to assume that the fourth quarter performance will pull down the July-February trends.

Table 1: Revenue mobilisation growth scenario

(in per cent)

Component	Growth				
	Target FY19	Actual FY19	Target FY20	Actual FY20 (Jul-Feb)	Required FY20 (Mar-Jun)
Tax revenue (a+b)	57.4	16.3	50.5	-1.7	133.2
a. NBR tax	58.3	16.8	48.9	-1.7	128.5
a.1 Income tax	*70.6*	*14.0*	*69.3*	*23.7*	*133.0*
a.2 VAT	*62.1*	*24.6*	*44.8*	*-10.8*	*135.1*
a.3 Import duty	*62.9*	*21.5*	*50.3*	*-12.1*	*160.7*
a.4 Export duty	*17.6*	*274.5*	*-53.3*	*-99.1*	*1041.3*
a.5 Excise duty	*-1.2*	*10.5*	*-4.2*	*-63.1*	*179.1*
a.6 Supplementary duty	*33.6*	*5.3*	*25.3*	*-12.1*	*50.6*
a.7 Other taxes	*22.6*	*-4.9*	*45.8*	*10.8*	*99.4*
b. Non-NBR tax	34.7	1.6	97.5	-3.3	296.3
c. Non-tax revenue	50.0	16.6	45.5	14.2	114.1
Total revenue (a+b+c)	**56.7**	**16.3**	**50.0**	**0.1**	**131.6**

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

Note: NBR: National Board of Revenue.

NBR tax, which constitutes 86.2 per cent of the total targeted revenue, recorded a negative growth of 1.7 per cent during the July-February period of FY2019–20 according to the MoF data. The NBR data itself, available for up to April FY2019–20, however, shows a growth of 0.6 per cent compared to the corresponding period of FY2018–19. This implies that NBR tax collection will need to grow by 196.5 per cent during the remainder of FY2019–20 to meet the annual target. Within the components of the NBR tax, duties at import and export stage, value added tax (VAT) at local level and income tax will need to increase by 303.5 per cent, 150.9 per cent and 186.8 per cent respectively during the May-June period of FY2019–20 to reach respective individual annual targets. Not only are such targets unattainable, given the COVID-19 induced economic slowdown, the annual growth rates will come down further.

Revenue shortfall is expected to shoot up

CPD had earlier projected that the total revenue shortfall in FY20-1920 may reach to Tk. 100,000 crore (CPD, 2020a). However, this projection did not fully capture the impacts of the pandemic given that the data was available only for the July-December period of FY2019–20. Based on the latest available data from MoF (i.e. July-February of FY2019–20) and other relevant sources, the revenue

shortfall figure for FY2019–20, against the original target has been re-estimated to be around Tk. 125,000 crore. This implies that the revenue earnings in FY2019–20 is likely to record a minuscule growth of 0.4 per cent; hence, revenue-GDP ratio may see a decline.

Realistic revenue mobilisation targets will be crucial for overall fiscal management

As has been mentioned in several media reports, the total revenue collection target for the upcoming FY2020–21 has been projected to be around Tk. 395,000 crore. This target is respectively 4.5 per cent and 10.5 per cent higher compared to the original target and revised target for the ongoing fiscal year. However, if the revenue shortfall for the outgoing fiscal year is indeed Tk. 125,000 crore, the growth target for FY2020–21 mentioned above would be a whopping 56.2 per cent higher than what we estimate to be the case for FY2019–20. Given that the highest annual revenue mobilisation growth during the last 10 years, recorded in FY2011–12, was about 23.3 per cent, it can be safely argued that the target set for FY2020–21 is also unlikely to be achieved. As a matter of fact, similar concern has also been raised by the top brass of the NBR citing the revenue implications of the economic downturn originating from the COVID-19 pandemic (Prothom Alo, 2020; The Business Standard, 2020). Given the scenario, the national budget for FY2020–21 must provide detailed explanation of how the programmed revenue mobilisation target will be achieved through the proposed fiscal measures. Indeed, if the revenue mobilisation targets are not set in a realistic manner and does not reflect the reality of the situation, it will put undue pressure on the revenue collection authorities, stress the fiscal framework beyond a tolerable limit and undermine the efficacy of other relevant policy instruments. This will weaken the fiscal framework, result in misinterpretation of fiscal deficit and consequently put into question the veracity of financing of the fiscal deficit.

Support domestic demand

A key objective of the government must be to use the fiscal policy to boost domestic demand, and raise disposable income and consumption, particularly of the lower and middle-income class. In the FY2020–21 budget, raising the tax-free income threshold levels from Tk. 250,000 to Tk. 350,000 should be considered. Also, the first three slabs of income tax from 10, 15, and 20 per cent may be restructured to 5, 10, and 15 per cent respectively, at least for the next two years. Allowing payment of individual income taxes for FY2019–20, in instalments, by March 2021 may also be considered. With a view to ensure food security of low-income people, reduction of import related tariffs (including advance income tax (AIT) and VAT) on essential food items should be considered. Thus, duties on items such as onion, lentil, garlic, ginger and soybean oil etc. (where applicable) should be considered on a dynamic basis based on the evolving market scenario in terms of price, projections about production and the demand situation. Seasonal features of the production cycle should be considered to protect the interest of the farmers in this context.

Focus on augmenting revenue by balancing fiscal incentives and more strong enforcement

The planned procurement and installation of the Electronic Fiscal Device (EFD) and Sales Data Controller (SDC) devices by the NBR must be accelerated in order to ensure effective implementation of the VAT and supplementary duty (SD) Act and augment revenue mobilisation. It is to be anticipated that demands for incentives will be lined up and rise in view of COVID-19. The primary objective of all tax incentives should be to directly support the marginalised groups. The government must conduct proper cost-benefit analysis before devising any new provisions. Indeed, the government must be

cautious and very selective regarding the respective process, and should restrain all ad hoc provisions concerning tax incentives. Fiscal incentives provided should take into cognisance the overall fiscal and monetary support measures in place about particular groups of stakeholders and sectors. For example, corporate tax rate should be unchanged since a number of measures have already been taken in support of large entrepreneurs. MoF has to release credible estimates of revenue forgone for all tax incentives, in a disaggregated manner.

Also, some of the existing provisions should be reviewed and discontinued if considered to be of low priority. The existing black money whitening facilities create moral hazards, thereby discouraging honest taxpayers. CPD has highlighted this issue and made its stance clear in the successive IRBDs. This provision should not be continued in the next fiscal budget. Indeed, all types of tax evasions and illicit financial flows (IFF) will need to be curbed strongly. In view of the emergent situation, it is hoped that the government will strengthen its enforcement measures in this regard. As is known, Bangladesh loses a sizable amount of resources as a consequence of IFF. Coordinated efforts by several policy actors will be required to implement the National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism (NSPMLCFT) 2019-21 in all areas concerning tax evasion and IFF.

Emphasise progressive reforms for the medium-term benefits

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

The government is set to propose a fiscal budget of about Tk. 560 thousand crore in FY2020–21 which is higher than the original budget of FY2019–20 and the revised budget of FY2019–20 by about 7.0 per cent and 11.3 per cent respectively. It is pertinent to have some idea about the benchmark situation based on latest available data to assess government's development, non-development and sectoral allocative priorities in view of immediate and short-term economic recovery in the context of COVID-19.

It is evident that the government in FY2019–20 did not have the fiscal space to scale up public expenditures, or the administrative capacity to deliver those. According to MoF (2020), total public expenditure recorded a growth of 9.7 per cent during July-February of FY2019–20, compared to the corresponding period of FY2018–19. This would have meant that the total public expenditure, Annual Development Programme (ADP), as well as non-development expenditure, had to grow by 52.5 per cent and 40.1 per cent and 64.3 per cent respectively, over the remaining four months of FY2019–20 to reach the public expenditure targets. The impossibility of this being realised is reinforced by the fact that a significant part of this period falls under COVID-related lockdowns.

Historically, there had been some fat in the non-ADP budget, areas where ADP tended to remain unutilised. During FY2016–FY2019, on an average, about 18 per cent of non-ADP budget remained unutilised particularly in areas including subsidies and incentives, investments in shares and equities, operating capital expenditure, loans & advances (net), non-ADP programmes (Table 2). To note, these five components constitute about 30 per cent of total non-ADP expenditure..

This situation is expected to persist in FY2019–20. According to the MoF, actual expenditure under non-ADP head during July-February of FY2019–20 was 44.3 per cent of the originally planned allocation (48.3 per cent in FY2019). Apart from the aforementioned traditional areas, allocation for few other components such as goods and services and acquisition of assets and works are likely to

Table 2: Share (%) of some key revenue budget components that remain unutilised

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

Source: Author's calculations based on the data from the MoF.

remain unutilised by 30–35 per cent considering the implications of COVID-19 during March to June of FY2019–20. Falling oil prices in the international market in the aftermath of COVID-19 and the oil-war between Saudi Arab and Russia have provided an opportunity for Bangladesh Petroleum Corporation (BPC) to make significant profits. This is likely to create some fiscal cushion to the government.[2]

Undoubtedly, the policymakers involved in preparation of the budget are aware of these pre-existing 'fat' in the budget and the likely under-implementation at the end of the fiscal year. This, along with the over-ambitious revenue mobilisation target have persistently undermined the robustness of the fiscal framework of successive national budgets. Regrettably, the forthcoming budget is going to be no exception in this regard. However, when the final budget figures for FY2019–20 is available, the government should make an early assessment of the real scenario to formulate a revised budget with credible fiscal framework. This will be critically important to address the adverse impacts of COVID-19 with suitable fiscal measures.

Reprioritisation, and reigniting interest in structural reforms in ADP

According to the Implementation Monitoring & Evaluation Division (IMED) data, for the first eight months (July-February), the actual spending under ADP was 38.5 per cent (30.9 per cent as per MoF data) of the originally planned allocation of Tk. 202,721 crore (38.8 per cent in FY2018–19).[3] Lower utilisation (35.5 per cent) of foreign aid (lower than both FY2017–18 and FY2018–19 for the corresponding period) led to the reduction of ADP by Tk. 9,800 crore (or 4.8 per cent), downsizing the ADP to Tk. 192,921 crore in the Revised Annual Development Programme (RADP) for FY2019–20. Government has already identified 330 projects as less priority; it expects to save about Tk. 10 thousand crore to be diverted for spending in priority sectors. This will lead to further reduction of RADP for FY2019–20.[4]

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

i. *The ADP for FY2020–21 would call for due diligence to ensure that required the allocative priorities are followed and inclusivity is maintained in view of responding to the ongoing COVID-19*

[2]BPC made a profit of BDT 10,741 crore during the FY2015-16 and FY2016-17 oil price slump. This allowed it to pay BDT 2,200 crore (20.5 per cent of total profit) to the government exchequer as dividend. BPC is currently making a profit of around Tk. 23 crore per day since late February 2020 (particularly in view of short-term procurement).

[3]According to IMED, ADP expenditure registered a growth of 46 per cent during July-April of FY2019–20 (lowest at least since FY2005–06).

[4]Total allocation for these 330 projects in FY2019-20 was about Tk. 20 thousand crore. Up to April 2020, these projects were able to spend less than 50 per cent of the respective allocations.

pandemic (e.g. adequate and priority allocation for health, agriculture, social protection and, labour and employment sectors). However, the share of the proposed ADP allocation in FY2020–21 for health, nutrition, population & family welfare is set to remain unchanged (6.4 per cent) while the same has risen marginally for agriculture (from 3.8 per cent to 4.1 per cent), Social welfare, women affairs & youth development (from 0.4 per cent to 0.5 per cent) and labour & employment sectors (from 0.2 per cent to 0.3 per cent) compared to that of FY2019–20.

ii. Given that the overall size of the ADP is proposed to be increased only to an insignificant extent in FY2020–21 (1.2 per cent and 6.3 per cent higher than ADP and RADP for FY2019–20 respectively), *the Government of Bangladesh (GoB) should identify which projects need additional funds for completion in FY2020–21 which are considered to be critical to addressing health and economic emergencies*. Identification of such projects could be based on a number of criteria including: (i) projects which did not involve commitment of foreign aid and those which were likely to spend less than 50 per cent of their allocated funds in FY2019–20; (ii) projects where economic costs for delayed implementation could be accommodated (compensated) through economic gains accruing from some other priority projects. It is to be noted in this connection that apart from the four aforementioned priority sectors, approximately 974 (66 per cent of total) projects from 13 sectors in FY2019–20 ADP did not have project aid component. Allocation for these projects in FY2019–20 amounted to Tk. 82,677 crore (41 per cent of the total ADP allocation). GoB can target projects with less than 50 per cent spending (by June 2020) for its purposes of reallocation.

iii. *Efficient utilisation of the allocated funds needs to be ensured in FY2020–21 so that no major revisions are required towards the end of the fiscal year*. Regrettably, the quality of ADP utilisation has not made any major breakthrough over the past years. Alike the previous fiscal years, 61.5 per cent of the original ADP was supposed to be implemented in the last four months (March to June) of FY2019–20. This is not going to happen given the COVID-induced lockdown in this four month period (MoF, 2020).

iv. *Better utilisation of project aid in the upcoming fiscal years will, to a large extent, determine the overall pace of implementation*. This is also important in view of reducing the debt-servicing liability. Surprisingly, ADP financing projection from project aid (about 34.4 per cent) for FY2020–21 does not indicate any explicit ambition for greater use of the sizable foreign aid in the pipeline.

v. *GoB should restrict itself from including and allocating funds for the 'carryover' and 'ageing' projects in FY2020–21*. There are a total of 297 carryover projects, accounting for 8 per cent of the total allocation, in the FY2019–20 budget. Similarly, about one-third of the total 1,588 projects (excluding projects implemented by autonomous bodies) are set to be included in the ADP for FY2020–21. Furthermore, a total of 200 ADP projects (14.7 per cent of total investment projects) in FY2019–20 are aged more than six years while 29 of those were aged between 10-16.5 years. The inclusion of such projects and the resultant cost and time over-run undermine the efficacy and discipline of public investment and lead to waste of scant public resources.

vi. *The government should avoid taking populist projects (e.g. 'symbolic projects' for transport and local government) and limit the total number of projects*. There was a total of 100 projects (6.8 per cent of total projects) in ADP for FY2019–20 which received allocation of less than or equal to Tk. 1 crore. Their combined allocation was only Tk. 25.5 crore (0.01 per cent of the total ADP allocation in FY2019–20). Such projects should not be included in the FY2020–21 ADP.

Raise health budget based on proper demand assessment

The health sector should get priority in the national budget for FY2020–21 for obvious reasons. The spread and scale of the pandemic have proved that there is no way to contain COVID-19 without

necessary resource allocations to the health sector. The health sector of Bangladesh has been plagued by many longstanding problems. In addition to the lack of infrastructure and equipment, healthcare facilities in Bangladesh are also not staffed with adequate number of healthcare service-providers.[5] Low budget allocation for health, high out-of-pocket healthcare expenditure and poor utilisation of health budget are endemic features of the health sector of Bangladesh. Indeed, according to the World Bank data for 2017, out-of-pocket expenditure on healthcare in Bangladesh was the second highest in South Asia after Afghanistan. The allocation for health as share of total budget has also fallen (from 5.1 per cent in budget of FY2018–19 to 4.9 per cent in the budget of FY2019–20); it has remained stagnant at 0.9 per cent as a share of GDP.

Since the outbreak of COVID-19, the government has undertaken a number of budgetary measures targeting the health sector, health professionals and health-care service providers.[6] There is no doubt that the upcoming budget will call for enhanced allocation for the health sector, but it will have to be determined on the basis of demand assessment (for facilities, human resources, equipment, trainings, sharing the out-of-pocket burden of treatment cost of the affected individuals); and the channel of budgetary allocation (whether non-development budget will increase or new projects targeting COVID-19 will be taken under the ADP).

COVID-19 should induce the government to follow-up on its commitment of achieving universal health coverage (UHC). The government should be reminded to revisit its election manifesto commitment to provide free health services to every person below 1 year and above 65 years. The next budget will also be a good opportunity for the government to follow-up on its commitment of raising the health sector's share in total budget to 12 per cent in 2021 as outlined in the Health Care Financing Strategy 2012-2032.

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

The national budget for FY2020–21 should give special focus on the social safety net programmes (SSNPs) and related activities in light of COVID-19. It is true that the budgetary allocations for SSNPs have grown in absolute terms as well as a share of GDP over the years; however, majority of the vulnerable groups are still not adequately covered and protected under the programmes. The pandemic has worsened the situation of the vulnerable groups, reinforcing the need for additional public investment in the SSNPs. Correspondingly, government's strategy to expand SSNPs as one of the four strategic priorities for the next three fiscal years needs to be proactively pursued. SSNP budget, excluding pension, has been stagnant at 1.7 per cent of GDP over the last decade. It is also much lower than the FY2019–20 target of 2.3 per cent of the GDP outlined in the Seventh Five Year Plan (7FYP). The government should allocate at least 3 per cent of the GDP for SSNPs as outlined in its National Social Security Strategy (NSSS) formulated in 2015.

The government has prepared a list of 50 lakh households as beneficiaries to be covered under its support programme in response to COVID-19. It is important to ensure that transparency is maintained

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[5]As of 2018, there was only one registered physician for every 1,581 individuals in the country. Among the healthcare facilities in Bangladesh, 28 per cent had access to specialists, 59.1 per cent had access to general practitioners and 79.7 per cent had access to nurses, as of 2017 (NIPORT and ICF, 2019).

[6]Budgetary measures include allocation of Tk. 250 crore to procure coronavirus test kits and equipment and personal protective equipment; incentive package for health professionals for their active engagement in dealing with corona patients; health insurance ranging from Tk. 5 lakh to Tk. 10 lakh for physicians and others dealing with corona patients and related facilities and recruitment of 2000 doctors and 6000 nurses on an emergency basis to deal with corona patients.

in implementation and that preparation of lists and distribution of cash and kind support is free from political influence and free of cost. However, several anomalies have already been reported in the media with regard to the listing of beneficiaries, political influence on inclusion and exclusion and in connection with the opening of mobile banking accounts. Government should take support of NGOs and local level social organisations in identifying, selecting and distributing the support, and addressing 'inclusion' and 'exclusion' bias in selection process. Indeed, the situation demands a whole of society approach. There should be an option for 'self-selection' with adequate evidence to avoid such biases. In addition, GoB should take necessary measures to ensure that the National Household Database is expeditiously completed. To recall, the database was scheduled to be completed by December 2017.

Since it is the final year of the NSSS and the government lags far behind (both in terms of allocation and coverage) as regards implementation of the targeted life-cycle based programmes, GoB should take this opportunity to revisit the strategy and make necessary revisions. The government, following its earlier commitment, should consider introducing the Universal Pension Scheme by launching a limited scale pilot project. That would also allow the government to redesign the non-contributory old age allowance programme and provide the beneficiaries the much-needed support to cope with COVID-19 induced health and economic vulnerabilities, in the immediate and the recovery phases.

Stimulate agriculture sector through additional allocation and proper utilisation of subsidies

The economic adversities caused by COVID-19 have reemphasised the importance of country's food security through higher food production and have also underscored the need for increased public food stockholding. FY2020–21 will be a crucial period from the perspective of ensuring food security both during COVID and post-COVID periods. The agriculture sector would be one of the most vital sectors for providing a cushion for the 'new poor' emerging from the pandemic. A vibrant agriculture sector will also support the cause of creating additional employment opportunities for people who are likely to lose jobs and livelihood opportunities in urban and peri-urban informal sectors. Budget allocation for agriculture sector has been declining over the years—from 4.5 per cent of the total budget in FY2015–16 to 2.7 per cent in FY2019–20. Given the demand for additional funds, particularly for implementing important priority projects associated with providing food security and creating employment opportunities, the allocation for the agriculture sector needs to be raised at least to 3 per cent of total budget in FY2020–21.

Agriculture sector needs to ensure proper utilisation of subsidy during FY2020–21. Despite an allocation of Tk. 9,000 crore in successive budgets over the last three years, a significant part of the allocated amount remained unutilised. For example, Tk. 2,570 crore, Tk. 5,390 crore and Tk. 3,800 crore have remained unutilised in FY2015–16, FY2016–17 and FY2017–18 respectively.

Government needs to allocate about Tk. 6,373 crore in FY2020–21 for the procurement of rice, paddy and wheat during the 'Boro' season. It is to be noted that the government has decided on a procurement target of 8 lakh m. ton of paddy (at Tk. 26 per kg) and 11.5 lakh m. ton of rice (at Tk. 36 per kg) and 75 thousand m. ton of wheat (at Tk. 28 per kg) for FY2020–21. Furthermore, the stimulus package for the agriculture sector and agro-based industries (Tk. 5000 crore credit line at the subsidised interest rate of 4.0 per cent) should give priority to those farmers who were most affected by the pandemic such as vegetable farmers and poultry producing small and medium enterprises (SMEs).

Protect SMEs through fiscal measures

Domestic SMEs were particularly hit hard in view of the pandemic. As is known, these account for majority of economic enterprises—about 87.5 per cent of these enterprises are cottage and 11 per cent are small-scale enterprises. Moreover, majority of these enterprises operate informally: 51 per cent of enterprises have no formal registration and 90.2 per cent enterprises have no VAT registration. Since the businesses of these enterprises are overwhelmingly dependent on a few important religious and cultural events, COVID-19 related restrictive measures have resulted in significant losses to these SMEs. Considering the adverse financial situation facing particularly the cottage, micro and SMEs, MoF should consider raising tax exempted annual turnover limit for SMEs from Tk. 50 lakh to Tk. 1.0 crore for FY2020–21.

The GoB may consider several fiscal measures for the affected SMEs which could include waiver of VAT at the domestic stage for the period July-September, 2020, deferred payment of quarterly advance income taxes for July-September quarter of FY2020–21 and payment of corporate taxes for FY2019–20 by instalments till March, 2021. Besides, companies which are incurring losses in FY2019–20 may be allowed to 'carry back losses' against taxable profits for the two previous years (FY2017–18 and FY2018–19).

The government has announced a stimulus package of Tk. 20 thousand crore of which Tk. 10 thousand crore is exclusively allocated for SMEs as credit line facility at subsidised interest rate of 2.0 per cent. Proper selection of affected enterprises and timely delivery of credit to the deserving enterprises are particularly important from the point of view of delivery of the expected results. Correspondingly, the Central Bank may take support from the business bodies/associations, chambers, local business samities and specialised commercial banks. Database on SMEs maintained by these entities could help proper identification and selection of the affected enterprises.

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

Lower subsidy demand for some cash incentives and lower utilisation of project aid in mega projects could help lower the overall expenditure at the end of FY2019–20. However, a significant revenue shortfall and an expected rise in the public expenditure depending on the extent of COVID-19 and associated costs and implementation of policy measures, may result in even higher overall deficit financing by the end of FY2019–20 compared to FY2018–19 (5.5 per cent of GDP). In the backdrop of subdued revenue mobilisation, the possibility of pushing the budget deficit beyond the traditional cap of 5 per cent of the GDP may be a necessity in view of the upcoming FY2020–21. Given that Bangladesh currently enjoys a robust debt sustainability index (public-debt-to-GDP ratio is around 34 per cent), the country could afford a couple of additional percentage of fiscal deficit (perhaps up to 7-8 per cent of GDP). However, this increased budget deficit should be managed through appropriate diversion of available resources, proper sourcing and prudent use of resources.

Financing from external sources: Opportunities need to be utilised

It is critically important to give heightened attention to seek and utilise new funding opportunities available from external sources. Particularly those from multilateral and bilateral sources must be mobilised to the fullest to combat the COVID-19 pandemic. Deterioration in the utilisation of foreign resources in FY2018–19 was a worrying sign, which has also continued in FY2019–20, and may further exacerbate due to COVID-19. Net foreign borrowing registered a 22.1 per cent growth in FY2018–19

(119.8 per cent in FY2017–18). It recorded a 0.5 per cent negative growth during July-February of FY2019–20. The government has already approached several development partners in this regard. Reportedly, the government is seeking USD 2.6 billion worth of budget support from various IFIs including the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB).[7] Such efforts should be intensified, and every available opportunity should be exploited. Given the higher cost of borrowing and stringent terms and conditions set by IFIs in the coming days, GoB should actively seek budgetary support from potential external sources which allows more flexibility in terms of spending. Bangladesh should take advantage of the decision of the G-20 as regards providing low income countries with funds at zero or low interest to combat the pandemic. There may also be opportunities for suspension of debt service payments and debt cancellation not only from traditional OECD (Organisation for Economic Co-operation and Development) development partners but also from southern countries which are members of the G-20. These should be proactively explored and pursued.

Sale of NSD certificates target may be difficult to attain

Sale of NSD certificates has already come down by a significant degree. Automation and regulatory deterrents (e.g. making mandatory the submission of e-TIN (Taxpayer's Identification Number), national identity cards (NID), bank accounts, mobile numbers and cheque transaction, 10 per cent tax at source on total amount of yields) and high repayment rate (55.1 per cent) have contributed to a drastic fall in the net sale of National Savings Directorate (NSD) certificates (-48.7 per cent growth) during July-February of FY2019–20. This has led the savers to shift their investment from NSD to long-term bank deposits.[8] However, the recent interest rate cap on bank deposits may change depositors' behaviour in favour of investment in NSD certificates. It would be prudent to continue with the current regulations pertaining to NSD certificates and properly enforce those. Overall, since the people are likely to have lower levels of savings in view of COVID-19, net sales of NSD certificates is likely to be low in any case.

Burden to be borne by borrowing from the banking system

Within domestic financing structure, high bank borrowing has been the key contributor in FY2019–20 unlike the previous fiscal years. According to MoF (2020), net borrowings from banking sources registered 1,631 per cent growth during July-February of FY2019–20 compared to the corresponding period of FY2018–19; this is already 218 per cent of the annual target for FY2019–20. Since a large share of the financing has already been secured from bank borrowing, the need for non-bank borrowing was rather limited. As the budget deficit is projected to go much beyond the programmed level, it is likely that the overwhelming majority of the budget deficit in FY2020–21 will need to be financed with borrowings from the banking sources. However, there has already been signs of deposit slowdown from January 2020 due to recent interest rate cap on deposits by the Central Bank.[9] It may

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[7]ADB has signed an agreement to provide USD 100 million loan for buying equipment and testing kits and for development of health infrastructures to fight COVID-19. The ADB is likely to approve USD 500 million worth of credit support for Bangladesh to help meet its budget deficit during FY2018–20. The World Bank has approved a fast-track USD 100 million financing to help Bangladesh prevent, detect, and respond to the COVID-19 pandemic and strengthen its national systems for public health emergencies. The IMF has sanctioned a total of USD 732 million for the country—with USD 244 million at zero interest rate under the Rapid Credit Facility and USD 488 million at below one per cent interest rate under the Rapid Financing Instrument.

[8]According to Bangladesh Bank (2020), time deposits registered a net growth of 61.1 per cent during July-December of FY2019–20 over the corresponding period of FY2018–19.

[9]Time deposits registered a growth of 0.6 per cent in January 2020 over December 2020 which was the lowest month-on-month growth since April 2019.

force the time depositors to re-shift their funds from banks to NSD certificates, creating another possible liquidity crunch in the banks. In the face of the rising demand of bank borrowing by the government to finance its deficit, this will result in further shrinking of private sector credit growth which is already in a dire situation.[10] In fact, the criticality of plugging fiscal space became evident when the government, quite early in the process, resorted to seigniorage (printing of money). On May 4, 2020 Bangladesh Bank released new cash amounting to more than Tk. 70,000 crore, which is almost one-third of the ADP outlay. With the bulk of the stimulus package to be implemented through the commercial banks and, in view of prevailing weaknesses in the banking sector, overreliance in the banking sector to finance the widened budget deficit may put the macroeconomic management in a challenging state.

Mobilisation of idle funds lying with state-owned entities could be accelerated to finance the increased deficit in view of the added expenditure required to tackle the ongoing pandemic. For example, windfall gains of the BPC in the backdrop of lower oil prices should be channelled towards resource mobilisation in view of the FY2020–21 budget. GoB may also look for the option to borrow short-term loans from international money markets. As of May 2020, the 12 months US Dollar London Inter-Bank Offered Rate (LIBOR) interest rate is 0.7 per cent.[11] The Financial Institutions Division also has a plan to make it mandatory for insurance companies to invest a certain part of their investible funds in government securities and allow investment of undisclosed income in the capital market. However, such black money whitening facility through voluntary disclosure of undisclosed income and investment in capital market discourages honest taxpayers while tax evaders are encouraged. It has also failed to register any notable response (CPD, 2020a). This provision should not be continued from the next fiscal year.

Time to ensure transparency in fiscal and budgetary processes

More transparency in fiscal and budgetary processes should be one of the key areas of economic reforms in Bangladesh. In this connection, particular focus is required to be put on implementing ‘second generation’ reforms to ensure higher levels of transparency and independence of regulatory bodies in order to raise efficiency, enhance competitiveness and guarantee distributive justice. In successive IRBD reports, CPD has strongly suggested in favour of undertaking a number of necessary reform measures with a view to improve macroeconomic and sectoral performance. The issue of transparency has become ever more important in the current context. In view of these, the budget for the next fiscal year needs to be informed by the following transparency agenda:

i. Establish a Public Expenditure Review Commission (PERC);
ii. Make a detailed reporting in the budget speech, with adequate follow-up measures as regards issues related to demand assessment, beneficiary selection process, fiscal tool to increase allocation etc. as identified in the sectoral priorities;
iii. Formulate appropriate follow-up mechanism for monitoring government tax incentives; and
iv. Take steps to ensure disclosure of financial accounts of state-owned enterprises including the BPC.

[10] Private sector credit registered the slowest growth (9.2 per cent), at least since FY2011–12, during July-January period of FY2019–20.
[11] This is the average interest rate at which a selection of banks in London are prepared to lend to one another in US dollars with a maturity of 12 months.

Key considerations for fiscal policy stance

In light of the ongoing crisis originating from the pandemic, CPD (2020a) urges for pursuing a set of expansionary counter-cyclical policy measures to offset the adverse impacts of the pandemic. This could be achieved through fiscal policy tools by the government and it could be supported by the necessary monetary policy actions by the Central Bank. The government has already responded by announcing four key elements in this connection: i) increasing public expenditures, ii) incentivising economic activities, iii) broadening social protection and iv) enhancing money supply. However, sequencing of the application of the aforementioned policy instruments has been quite interesting.

As was observed, majority of the proposed measures to confront the attendant crisis has come from the monetary side of the policy spectrum. These included liquidity enhancing measures such as lowering of repo rate, reducing cash reserve ratio (CRR), deferring loan repayments, buying back of treasury bonds, increasing allocation to the Export Development Fund (EDF). At the same time, the announced economic recovery packages also centred around lowering interest rates. Only a handful of measures were taken from the fiscal side which included added allocation to the Ministry of Health and Family Welfare and removal of duties and taxes on imports required to fight COVID-19.

The precedence of monetary policy tools over fiscal measures was perhaps dictated by the aspiration of transmitting market signal and the comparative ease of implementation. Nonetheless, it might also be attributed to the deteriorating fiscal framework of the economy. It can be argued that the government went for this because it did not have fiscal space in FY2019–20, and also it lacked the required administrative capacity to pursue an expansionary fiscal policy.

Drawing on insights from the discussion so far, four key considerations as regards the public finance framework may guide formulation of the FY2020–21 budget in view of the pandemic. These include:

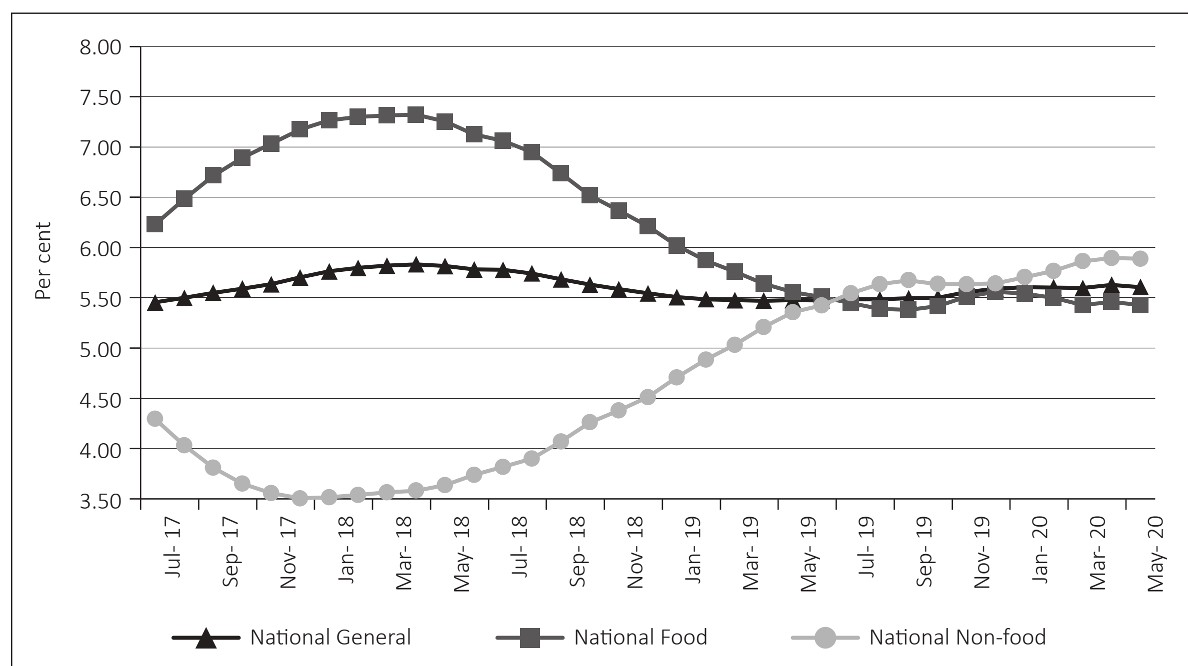
i. designing a credible fiscal framework based on reliable and realistic income-expenditure figures so that proper planning and effective implementation is possible in a crisis-ridden year;
ii. addressing the redistribution issue in a judicious manner using instruments from both the income side (e.g. raising the personal income tax threshold) and expenditure side (e.g. redirecting the savings from oil import at lower price and reprioritisation of public expenditure to health sector and social protection to the poor);
iii. enhancing the budget delivery capacity in terms of revenue mobilisation, public expenditure and deficit management by undertaking a number of much needed reform measures; and
iv. linking the short-term measures to medium-term recovery strategy while being cognisant of the implications for the Eighth Five-Year Plan (which will be launched with the FY2020–21 budget) and the aspirations of the Sustainable Development Goals (SDGs) deliverables.

4. INFLATION

Overall inflation trend remained stable

Over the past few months, the inflationary trend has broadly remained stable. In the beginning of the FY2019–20, the inflation rate was about 5.48 per cent, which eventually rose to 5.61 per cent in May FY2019–20 (Figure 1). Food inflation stood at 5.43 per cent in May FY2019–20 (as opposed

Figure 1: Inflation rate (12-month average, %)



Source: Compiled from BBS data.

to 5.55 per cent in May FY2018–19), while non-food inflation was 5.89 per cent (as against 5.35 per cent in corresponding period of the previous fiscal year).

Food security concerns cannot be overlooked

While inflation outlook is expected to be stable, food security continues to remain a key area of concern particularly so amidst the ongoing pandemic. Provisional production estimates of Aus (27.54 lakh metric tons) and that of Aman (140.63 lakh metric tons) indicate that rice production may remain more or less similar to the previous fiscal year. The outlook of Boro production was looking promising till super-cyclone Amphan had hit with consequent crop losses. Early estimates suggest that about 47,000 hectares of standing Boro paddy and 6,528 hectares of Aus paddy have been damaged.

Import of rice and wheat during the months of July-May of FY2019–20 was 60.4 lakh metric tons (MT), which was driven by wheat import by private sector. The Aman procurement by the government has been largely successful. The paddy collection was to the tune of 626,657 MT against the target of 625,991 MT. The government procured 337,407 MT of parboiled rice against the target of 337,618 MT and 43,401 MT of sundried rice against the target of 43,900 MT. The government plans to procure about 11.5 lakh MT of rice (10 lakh MT of parboiled rice and 1.5 lakh MT of non-parboiled rice) and 6.0 lakh MT of paddy rice during the ongoing Boro season. Over the first one month, the progress is not satisfactory. Attaining the procurement targets during Boro season, the deadline for which is 31 August 2020, will be critically important this year as the government needs to distribute higher amounts of food grains in view of COVID-19 and Amphan cyclone. Until 1 June 2020, the government has allocated 1.82 lakh MT of rice, half of which has been distributed. As of 27 May 2020, the government had 11.4 lakh MT of rice and wheat as public stock which was 13.9 lakh MT at this point of the previous year.

It is encouraging to note that the global agricultural markets have been stable till now. The recent bumper harvests, especially of maize and wheat, have ensured that there was a sufficient supply in global food markets. Agricultural commodity prices in the global context have also remained broadly stable, except for rice, which is 14 per cent higher than a year ago. Policy actions such as enforcement of trade restrictions by some key exporters (e.g. Russia's discontinuation of wheat exports and Vietnam's rice export ban) have, however, raised concerns about global food security. Vietnam has, however, lifted its initial ban on rice exports, but possibility of restrictive measures on the part of large exporters of food commodities cannot be overlooked. Excessive buying and hoarding by some importers may further exacerbate the already prevailing uncertainty in the global food market. Hence, Bangladesh will need to closely monitor the global trends in food prices over the next few months. Disruptions in supply chains due to continuing mitigation measures could potentially put the most vulnerable groups under threat from the perspective of maintaining food security (World Bank, 2020b). Thus, there is a need for vigilance and proactive and prompt actions towards ensuring food security.

Agriculture should be a priority sector for the upcoming budget

With a view to ensure food security, the Prime Minister in her '31-point directive' mentioned a number of measures such as utilisation of all cultivable lands and providing fiscal-monetary support to the farmers. The currently operating food distribution programmes under the various social safety nets are to be continued and broadened to ensure food safety of all citizens, mainly the day-labourers and the marginalised groups. In the context of food security, the government may consider the following policy measures:

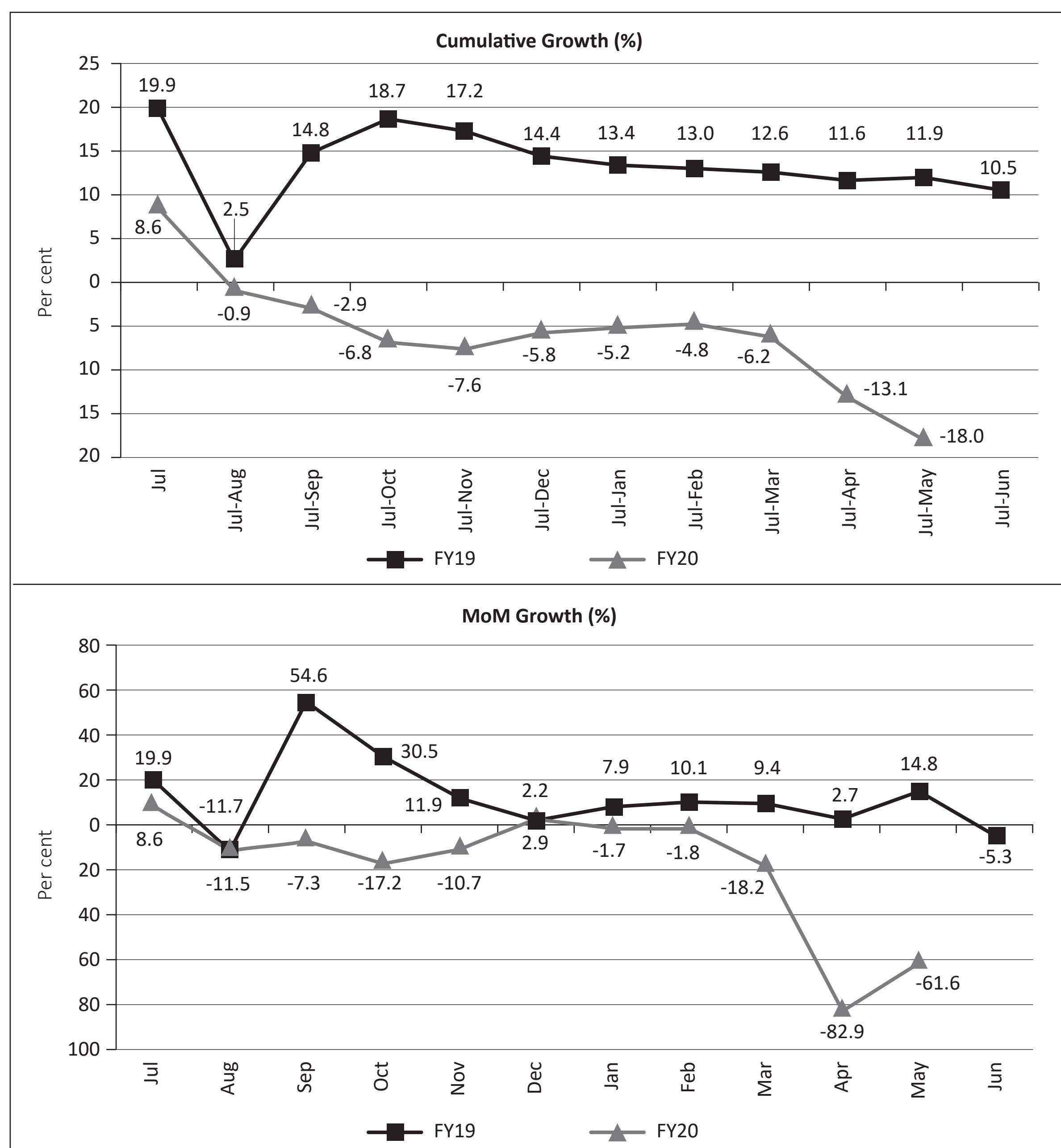
i. ***Reduce import related tariffs:*** As mentioned earlier, import related tariffs (such as AIT and VAT) may be reduced on essential food items such as onion, lentil, garlic, ginger and soybean oil. Some steps have already been taken in the current fiscal year. Evolving market situation in terms of price, projections about production, demand and global supply scenario should inform policy decisions in this regard.
ii. ***Prioritise and increase allocation for the agriculture sector:*** Budget for FY2021 should put special priority on the agriculture sector in view of ensuring food security through higher levels of food production. Public food stockholding has seen some depletion in view of greater amounts of food distribution. Food stock levels should be raised to ensure food security to tide over the pandemic as also during post-COVID period. The allocation for the agriculture sector should be raised to meet the demand for additional funds, particularly for implementing important priority projects associated with providing food security and creating employment opportunities.
iii. ***Fast-track ongoing top-priority projects:*** Fast-tracking some of the ongoing projects in the agriculture sector, specifically with a view to completion in FY2020–21, should be one of the priorities of the new budget.
iv. ***Make proper use of agriculture subsidy:*** Allocation of agricultural subsidy needs to be increased to accommodate the additional expenditure from food support required to cover the additional households planned for coverage under the SSNPs. A large part of agricultural subsidy demand will emanate from the announced interest rate subsidy for agricultural loans in the stimulus package. However, the subsidy structure of agriculture sector should expand beyond crop to include non-crop agriculture sectors such as non-rice crops, poultry, fisheries and livestock. Realistic estimates of the prevailing input subsidies should be made and allocations should be ensured in the budget.

v. ***Earmark necessary financial resources for food budget:*** Adequate allocation for procurement of rice, paddy and wheat should be ensured in the budget, particularly in view of the Boro season. Considering the need of maintaining food security during the pandemic period and post-pandemic period, financial resources should be earmarked in the national budget of FY2020–21 for food related social protection programmes taking into cognisance (expanded) coverage and (larger) amount.

5. EXTERNAL SECTOR

The outbreak of COVID-19 has exposed the global economy to unprecedented uncertainties. Outlook for the global economy is rather gloomy when normal economic activities have been severely

Figure 2: Cumulative and month-on-month growth of total export (%)



Source: Compiled from Export Promotion Bureau (EPB) data.

disrupted in almost all countries, developing and developed, in a similar way. The spectre of global recession is now a reality. According to the WTO (2020), global trade may fall by 13-32 per cent in 2020. Remittance inflow to lower-middle income countries (LMICs) of which Bangladesh is one, may decline by about 20 per cent in 2020, while for South Asia the decline could be to the tune of 22.1 per cent (World Bank, 2020c). Foreign Direct Investment (FDI) flow is also likely to contract by about 35 per cent in 2020 (World Bank, 2020c). In the abovementioned context, as far as Bangladesh's external sector dynamics are considered, significant challenges will need to be addressed, of various nature and degrees. Added to the demand-side uncertainties are the domestic supply-side disruptions which, together, have put the country's external sector under formidable risks.

Bangladesh's export earnings will likely fall back to pre-FY2016–17 level

Export earnings in Bangladesh were already under stress during the early months of FY2019–20 (CPD, 2019); this has aggravated further in the wake of the pandemic when production for export was grounded to a virtual standstill and the supply chains were disrupted. Export earnings during July-May of FY2019–20 has now declined by (-) 18.0 per cent compared to corresponding periods of FY2018–19 (Figure 2).[12] Indeed, export of both RMG and non-RMG products have experienced significant fall, and this was true for both traditional and non-traditional markets (see Annex Table 1). In the month of May 2020, Bangladesh was able to export only USD 1,465 million worth of merchandise while the corresponding figure for May 2019 was USD 3,813 million—a month-on-month (MoM) decline of (-) 61.6 per cent. Even if export earnings for the last month of FY2019–20 is able to match that of FY2018–19 (around USD 2.8 billion), total export earnings will still be below the level achieved in FY2016–17 (USD 34.7 billion). Consequently, exports could see double digit negative growth in FY2019–20. This, in turn, will have important adverse impact on the country's manufacturing output and hence, the FY2019–20 GDP growth rate..

Bangladesh is falling behind in apparel exports to the EU market

There is an apprehension that global trade will come down by 12.9 per cent in 2020 and will rebound by 21.3 per cent 2021 in an optimistic scenario (WTO, 2020). European Commission's DG Trade team, in its 17 April 2020 report, forecasted that the COVID-19 outbreak will have significant negative implications for extra-EU (European Union) international trade in 2020. For the EU27, the predicted COVID-19 related economic contraction will result in a 8.8 per cent decrease in the EU import in 2020 (European Commission, 2020). Since Bangladesh is the second largest exporter of apparel to the EU market, following China, it is important to closely examine EU's apparels import data in recent months. As data evince, import of readymade garments (RMG) products (all items under HS code 61 and 62) experienced a deceleration during July-January period of FY2019–20 (1.8 per cent) compared to the same period in July-January of FY2018–19 (6.0 per cent) (see Annex Table 2). Eurostat data for the same period (latest available) indicates that Bangladesh's relative position has suffered some deterioration in view of RMG export. Among the top 10 knitwear (HS code 61) exporters, Myanmar (43.2 per cent), Vietnam (17 per cent), Sri Lanka (15.2 per cent) and Pakistan (6.9 per cent) have achieved significantly higher growth rates compared to Bangladesh (3.2 per cent). The same is also in the case of woven garments. Among the top 10 woven garments (HS code 62) exporters, Myanmar (33.9 per cent), Pakistan (8.4 per cent), Indonesia (8.2 per cent) and Turkey (7.0 per cent) have achieved higher growth rates when compared to Bangladesh (1.9 per cent) over the same period.

[12] Export information for the month of May has been collected from Bangladesh Protidin (2020).

In the US apparels market, performance of Bangladesh and Vietnam remain resilient

The United States (US) international trade has fallen significantly and registered negative growth in the recent past, partly because of global trade war with China, EU, Canada, Mexico and also because of the ongoing COVID-19 situation (Swanson, 2020). Slack demand of RMG import by the US is evident from United States International Trade Commission (USITC) data for August 2019 and onward. US had imported USD 9.2 billion worth of RMG (HS code 61 and 62) items in July 2019, which came down to USD 5.4 billion in March 2020. However, the US market has continued to be Bangladesh's single largest export destination. Among the top RMG exporters, China, Mexico and Indonesia have experienced a significant fall in their market shares since 2017 (details in Annex Table 3). In contrast, Vietnam, Bangladesh, Cambodia and Jordan have strengthened respective market position during the same period. Most recent data from USITC for the last three quarters (July 2019-March 2020) shows, Bangladesh's RMG export to the US remained relatively steady thanks to its knit exports. RMG export from Bangladesh posted 4.6 per cent rise over corresponding period of last year. In absolute terms, export of RMG products to the USA over the first three quarters of FY2017–18, FY2018–19, and FY2019–20 were USD 3.8 billion, USD 4.3 billion and USD 4.8 billion respectively. Cambodia and Jordan's growth have been phenomenal in the recent past. RMG exports from Cambodia (17.4 per cent) and Jordan (21.5 per cent) rose at a faster pace over the first three quarters of FY2019–20 at a time when US import of RMG had contracted by (-) 5.9 per cent.

Limited scope to support export sector with new incentives

It is important to review the underlying factors driving Bangladesh's export competitiveness. The RMG, recognised as the most dynamic export sector of Bangladesh, has significant influence over the country's policy environment. It may be recalled that even before the COVID-19 outbreak, RMG in particular, and exports in general, have been enjoying significant number of incentives including reduced corporate income tax, cash subsidy, tax rebate, tax holiday, duty drawback and bonded warehouse facilities. Over the years, the opportunity cost of such incentives in terms of potential revenue foregone has been quite significant. Indeed, in response to the ongoing pandemic, the first stimulus package of Tk. 5,000 crore that has been announced was for the export-oriented RMG sector. The export sector has also been extended additional USD 1.5 billion from the EDF. Earlier the advance income tax was reduced to 0.25 per cent of FOB (Free on Board) price (from the highest 1.0 per cent fixed previously). The existing support measures to RMG and export sector should continue in the next budget. The RMG sector is having to face the challenges of cancelled orders, deferred payments, and low overseas demand. Supply-side disruptions have compounded the demand-side slowdowns. The future for RMG exports and exports in general, in view of global recession, appears to be bleak. It will be challenging indeed for Bangladesh to reclaim its position as the second largest exporter of apparels in the world.

To mitigate the risks and address the emerging concerns, strong effort should be made to (a) ensure that stimulus packages are delivered timely and used effectively, (b) mobilise global support to help the exporters and workers, (c) raise export competitiveness and improve business environment, and (d) explore and realise opportunities emerging from shift of orders from the global leader, China by attracting FDI and diversifying into man-made fibre (MMF) and upmarket segment of the global demand curve.

Depressed import demand to deepen further in face of the pandemic

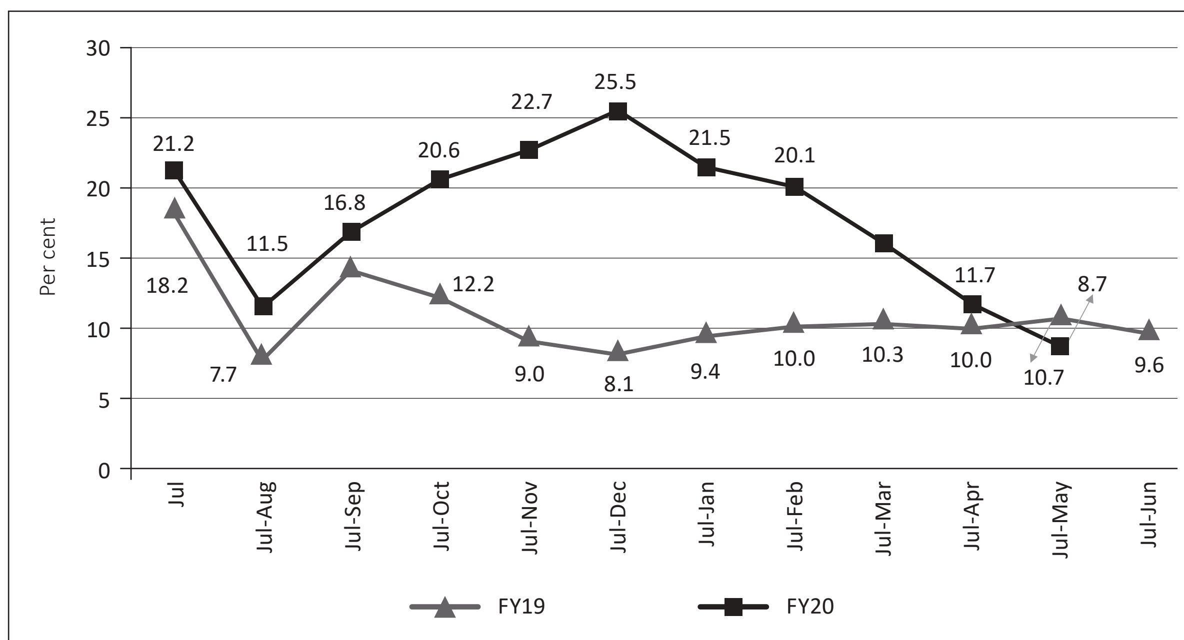
During the first three quarters of FY2019–20, import payments declined by 4.8 per cent which had increased by 5.1 per cent during the corresponding period of FY2019. Notable exceptions include high growth in import payments for food grains (12.8 per cent), thanks to significant higher import of wheat (21.9 per cent). Payments for import of consumer goods was positive (3.5 per cent) in an otherwise slack period. Falling prices of petroleum oil in the international market, in view of Russia-Saudi Arabia oil war and other developments, followed by the depressed global demand induced by the pandemic, brought some relief to fuel import dependent countries, such as Bangladesh. Regrettably, Bangladesh was perhaps able to reap only a limited advantage from the drastic drop in oil prices because most imports of fuel are carried out under its medium-term fuel import contract. Nevertheless, import bill for petroleum-based products (petroleum, oil and lubricants–POL) came down by (-) 7.8 per cent. As RMG export earnings declined, significant drop in payments for import of relevant raw materials was perhaps to be expected. Indeed, import payments for raw cotton, yarn and textiles recorded negative growths of (-) 3.2 per cent, (-) 20.0 per cent and (-) 6.7 per cent respectively.

It is to be noted that there has been a significant decline in cotton prices in the international market. During the first nine months of FY2019–20, according to World Bank Commodities Price Data, average price of cotton declined by (-) 14.5 per cent compared to the corresponding period of previous year. If this proxy price data is applied over import payments for cotton of the similar periods, Bangladesh's import of cotton during the mentioned period increased by 15.1 per cent in volume terms (kg). This implies the following four possibilities: (i) the drastic fall in export earnings for RMG is cost-induced and not so much volume-induced, with consequent implications for profitability; (ii) Bangladesh's RMG export-oriented industries have radically shifted to use of Bangladesh-made yarn or cloth in FY2019–20; (iii) there has been a buoyant rise of demand for domestic use of cotton in Bangladesh; and (iv) there is a rise in illicit financial outflow against import of cotton (over pricing). This issue may be further reviewed and investigated by the concerned policymakers who should act accordingly.

Growth of import payments of capital goods came down to a negative (-) 16.3 per cent in July-March, FY2019–20 as against a positive 3.3 per cent for the corresponding period in FY2018–19, indicating a significant fall. Import of capital goods thus had a falling share of 21.5 per cent in import payments for the period of July-March, FY2019–20 (24.4 per cent for the same period in FY2018–19). Import payments for capital machineries have decreased by (-) 30.6 per cent for the period under consideration, in contrast to the growth of 4.2 per cent in FY2018–19. This is perhaps indicative of the poor investment scenario prevailing in Bangladesh. However, the pandemic-induced disruptions in the import sources of Bangladesh could also be a possible reason. Further investigation using more disaggregated data, which is currently not available, will be required to this end since this has important implications for growth and investment.

During the almost two-month long 'holiday' imports have most likely slumped significantly. Hence, although the 'holiday' came to an end on 30 May 2020, to what extent imports will pick up remains to be seen. If further holidays or more stringent measures are required in future, it will be almost impossible for import-related activities to bounce back anytime soon.

Figure 3: Cumulative remittances growth (%) in FY2019–20



Source: Computed from Bangladesh Bank data.

Remittance inflow remains buoyant amidst uncertain migrant outflow

Remittances growth during July-May of FY2019–20 was 8.7 per cent—an impressive performance considering the shift of COVID-19 epicentre to the European countries and the US, low-level of oil prices in the international market afflicting the Middle East economies and the prolonged lockdown and curfew in almost all important countries hosting Bangladesh's migrant workers (Figure 3). Counter-cyclicality of remittances suggests that remitters are expected to send higher amount of remittances during crisis period in home country. On top of that, Bangladesh observed that the Eid festival during the last week of May 2020, which was a reason for higher amount of remittances (about USD 1.5 billion) in the corresponding month.

Remittance inflow had registered a robust 25.5 per cent growth during the first half of FY2019–20, partial thanks to the government-introduced 2 per cent cash incentive initiative to all remittance receivers. Although, remittance earning in FY2019–20 is set to surpass last fiscal year's record inflow of USD 16.4 billion, the pre-pandemic trends (assuming 20 per cent annual growth in FY2019–20) suggests that remittance earnings may fall short by about USD 3.3 billion from the potential income in FY2019–20.

As per the latest available data, during the first eight months (July-February) of FY2019–20, growth of number of migrant workers going abroad was about 5.9 per cent with an average of about 60,000 migrants leaving the country every month. As fallout of the pandemic, Bangladesh may not be able to send higher number of migrants abroad, for several reasons: travel restrictions; stringent health-related conditionality; restrictive measures; economic downturn and lack of job opportunities in the host countries. Compliance cost for out-migration may also become higher to address the public health-related concerns and other associated factors (Chugh, 2020). At the same time, the returnee migrants who came back home during the crisis period may face job cut and difficulty in getting back to the host countries amidst international travel bans. Finally, higher number of undocumented or

illegal migrants may be sent back home after the crisis period. All these will create an additional pressure on Bangladesh's domestic job market.

In the backdrop of the above, Bangladesh could face the following challenges in areas of remittance inflows and overseas migration of workers. First, remittance inflow may continue to decline over the next few months due to job losses in the host countries. Many host countries have already reported or have predicted a sharp increase in unemployment rate originating from the adverse repercussions of the pandemic. World Bank (2020) has reported that foreign-born citizens are relatively more vulnerable to unemployment compared to the native-born ones during a crisis situation. Second, outbound remittances from Gulf Cooperation Council (GCC) countries may face considerable decline due to COVID-19 and there could also be a fall in oil prices. Most of the GCC countries have undertaken new fiscal measures and introduced new taxes to underwrite the gap between the expenditure and available resources. This will have negative implications for investment and job hiring and also reduce disposable income and savings capacity of migrant workers, which could affect their ability to send money back home. Third, Bangladeshi migrant workers and non-resident Bangladeshis are facing significant difficulties in the host countries. Economic slowdown arising from lockdowns and travel bans in the US and the EU directly affected the employment and wages of migrants. Lockdown in congested labour dormitories in Singapore has raised the risk of COVID-19 contagion among the Bangladeshi migrant labours. GoB has played a welcome move by opening helplines in a number of important host countries for Bangladesh migrant workers. The outlook, in totality, is indeed bleak.

The 2 per cent cash incentive on the remitted money should be continued and the changes that have been introduced in this regard (e.g. limit of remittance without documentation and timeline of payment of incentives). Earlier, CPD (2020a) had urged the government to develop a database of visiting migrant workers who are not being able to join their workplaces. These people will need support from the government to tide over these uncertain times. A special stimulus package can be designed for these workers and credit facilities extended to them, where Probashi Kallyan Bank (PKB) can play the lead role. Adequate support of Bangladesh missions abroad to ensure safety and security of the diaspora, in coordination with host country governments, will need to be continued in these trying times. Bilateral diplomatic efforts should be intensified to address issues of layoffs and pushbacks of Bangladeshi workers from host countries. Global processes, such as Colombo Process (a platform that include host and sending countries) should be used to safeguard the interests of migrant workers.

Balance of Payment (BoP) scenario is stable on the surface with disquieting trends underneath

Current account deficit was in somewhat better state (USD (-) 2,648 million) during the July-March period of FY2019–20 compared to that of the corresponding period of FY2018–19 (USD (-) 4,212 million), thanks to strong workers' remittance inflow and slack import-related activities. This upward push was also contributed by a marginal improvement in the trade balance, from USD (-) 12,201 million during July-March period of FY2018–19 to USD (-) 12,078 million during the corresponding period of FY2019–20. Although the situation pertaining to services had deteriorated, that of primary income had posted some improvement.

The financial account surplus, at USD 3,497 million, decreased by a significant (-) 20.4 per cent during the July-March period of FY2019–20 over the corresponding period of FY2018–19. All three components of the financial account viz. FDI inflow (net), portfolio investment (net) and other investments (net)

exhibited negative growth during the period under consideration. Within the components of other investments (net), medium and long-term (MLT) loans decreased by (-) 4.4 per cent during July-March of FY2019–20 while the situation pertaining to trade credit (net) had somewhat improved. The overall balance position remained more or less same: USD 345 million during the period of July-March, FY2019–20 as against USD (-) 326 million during the comparable period of FY2018–19.

The indications are that, the current account balance position which has weakened over the past few years may not see any significant change in FY2020–21. As the economy tries to return to some semblance of normalcy, demand for imports will rise in view of tackling the pandemic and ensuring recovery. However, to what extent export earnings and remittance flows will be able to counter balance this to improve the current account balance remains to be seen. Even an unchanged scenario could indicate a low-level equilibrium where all relevant debit and credit side correlates fail to evince robust growth. The rise of forex reserves from USD 32.7 billion to USD 32.8 billion (between 30 June 2019 and 17 May 2020) can be interpreted as a sign of this. Flow of MLT will possibly gain some momentum as the government is actively seeking foreign funds to mitigate the impacts of COVID-19. As of now, government is negotiating loans amounting to about USD 2.6 billion from various international development partners. However, the pressure on overall balance and foreign exchange reserves may rise in 2021, requiring a cautious approach on the part of the Central Bank in pursuing the monetary policy over the coming days. Management of exchange rate, foreign exchange reserves and foreign debt servicing will call for close attention and supervision. The Central Bank, considering the limited scope to further incentivise export and remittances with fiscal instruments, should consider gradual depreciation of Bangladeshi Taka. This issue requires urgent attention. Since a lower import demand is anticipated, and in the backdrop of likely slump in global commodity prices, likelihood of Taka depreciation contributing to rising inflation may not be significant. This will also be supportive of an expansionary fiscal and monetary policy stance as more money will be injected into the economy.

6. CONCLUSION

The Bangladesh economy, from the very beginning of the ongoing fiscal year, has been grappling with formidable challenges in the areas of revenue mobilisation, banking sector, capital market and export sector. The outbreak of COVID-19 has exacerbated these challenges by having impacts on the economy through the various transmission channels, both domestic and global. This has now been further aggravated on account of the super-cyclone Amphan which had hit the coastal area of the country, causing significant losses to crops, assets and also costing human lives. The spread of the pandemic in Bangladesh and the subsequent 'general holidays' have affected almost all macroeconomic correlates adversely. The analyses in the preceding sections have provided evidence that the pandemic has led to a slowdown in economic growth, given rise in poverty and inequality, triggered a record shortfall in revenue mobilisation, disrupted the implementation of public investment projects, escalated budget deficit and bank borrowing, decelerated export growth and induced a fall in remittance inflow. CPD estimates have shown that economic growth is likely to be at best 2.5 per cent in FY2019–20. The (upper) poverty rate is likely to rise around 35 per cent in FY2019–20 while both consumption and income inequalities have increased. The present report also apprehended that revenue shortfall may turn out to be as high as Tk. 125,000 crore in FY2019–20. Alongside this, there are also signs of some resilience, as evinced by official data. Inflationary trend is by and large stable and the balance of payments position and exchange rate are steady. The foreign exchange reserves have seen some rise in recent years.

The government has come up with a number of policy interventions over the past few months in the form of several stimulus packages and monetary easing, and by providing reliefs. Regrettably, the policy response has not been adequate. The government has relied primarily on monetary policy tools as is manifested by the design of the stimulus packages. Generally, as an economy faces such a crisis, in the design of the policy packages, fiscal stimulus takes the lead role. One could argue that the lack of adequate financial resources may have influenced such a design. Also, the stimulus package remains largely focused on large enterprises (CPD, 2020b). The scope of direct assistance to the marginalised groups has been found to be limited. CPD (2020b), in April 2020, has argued for providing Tk. 16,000 assistance to each of 1 crore 90 lakh households over a period of two months to ensure meaningful implementation of 'general holiday' which should have been a 'lockdown'. The government in the end went for a down-sized cash transfer to a lower number of people. Weakness of administrative capacity and lack of good governance have further limited the effectiveness of the government efforts in view of this. The aforesaid cash transfer programme could not be fully implemented in time as evidence of large-scale mistargeting (inclusion and exclusion) and corruption came into light. The other constraint felt during the overall policy response is a lack of required coordination among the various agencies and actors involved. Even during the 'general holiday' period, flip-flops in decision-making were in evidence concerning the opening of RMG factories and allowing people's movements during Eid holidays (after initially banning any such movement). The onus of health safety has largely been shifted from state to individuals and enterprises.

The economic policies in response to the pandemic over the last couple of months were influenced by the false dichotomy between life and livelihood. While it is true that CPD has also earlier urged to focus on life and livelihood, putting the so-called 'life versus livelihood' debate on the table has misguided the policy discourse. The decision to open up economic activities without taking proper precaution, plan and preparation is having a significant cost in terms of lives and sufferings of the citizens, and sustainable recovery of the economy. It is critically important to review the current state of the pandemic spread (as is known, the 'curve' is yet to flatten) and take a planned phased approach to allow movements and economic activities. To this end, it is of utmost urgency that the government takes immediate steps to increase the number of COVID-19 tests and prepares a detailed plan involving health experts and economists, not a select group of business leaders only. Relevant guidelines released by the World Health Organisation (WHO) should be followed in this connection. These need to be complemented by adequate budgetary allocations for COVID-19 test capacity and support to lower income groups so that they are able to cope with the required 'lock-down' period.

There is a broad consensus among the relevant professionals as regards the needed macroeconomic policy stance. CPD in March 2020 has urged in favour of an expansionary macroeconomic policy stance, from both fiscal policy and monetary policy perspectives. The government has taken a number of steps as part of the monetary policy it intends to pursue. In the run-up to the budget for FY2020–21, it is crucial that the fiscal policy response should also be used to its fullest potential. Bangladesh is in a comfortable zone with a better debt-GDP ratio; this will allow the country to go for a higher budget deficit. However, to pursue this policy the major challenge lies in creating the required fiscal space.

In order to create the fiscal space, the government will face the challenge of augmenting a substantial amount of revenue in a year when the economy is likely to struggle while raising tax rates will be difficult. To this end, success will depend on the government's ability to plugging tax evasion and curbing illicit financial flows. The government must continue to harness all potential sources for

foreign finance (grant and loan). One may predict that the onus will largely be on bank borrowing. The governance of banking sector and undertaking the long-awaited reforms assume heightened importance in view of this.

While financing remains the top challenge, allocative priorities of the budget for FY2020–21 need to be right. CPD has argued to put utmost priority to four sectors—health, social protection, agriculture and employment. If the government does not come out of the usual budget framework driven by inertia of business as usual, the needed resources may not be allocated to these areas. The demand estimations in these areas also need to be realistic and evidence-based. For example, while providing resources to the health sector for testing and treatment, to address COVID-19 pandemic, there has to be a clear projection as regards the likely number of infections over the next fiscal year in the country. These assumptions and information should be clearly mentioned in the budget speech so that these numbers and the concerned budgetary allocation can be examined thoroughly. Same is true for social protection and agriculture sectors. Not to forget, the resources have to be utilised in a timely manner, and corruption against these allocations should be severely dealt with. The recent information published in media as regards the COVID-19 related health project reemphasises this need more than ever. In the recent past, this type of incidences has also been experienced in the areas of social protection support put in place to address COVID-19.

CPD has also called for other supportive measures such as gradual depreciation of Bangladeshi Taka and implementation of the stimulus packages in a timely manner by prioritising the deserving and marginalised entrepreneurs. In view of the uncertain global environment, the government needs to focus adequately to stimulate domestic demand by incentivising domestic consumption. Also, aggressive diplomatic efforts will be required for market diversification and to address the challenges in the areas of overseas employment and remittance inflow.

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

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ANNEXES

Annex Table 1: Destination-wise comparative export growth (%) of RMG and non-RMG products

Markets	Full Fiscal FY19			Jul-Apr FY20		
	RMG	Non-RMG	Total	RMG	Non-RMG	Total
Traditional market	***9.6***	***5.3***	***9.3***	***-14.5***	***-8.4***	***-14.0***
EU	7.7	0.9	**7.1**	-14.6	-7.2	**-14.0**
Germany	4.7	6.8	**4.8**	-16.1	-4.6	**-15.5**
Spain	5.7	-18.0	**3.9**	-8.2	29.9	**-6.2**
France	11.6	-1.4	**10.6**	-21.8	-15.6	**-21.4**
UK	3.6	17.1	**4.5**	-12.2	-6.2	**-11.7**
Italy	5.6	1.3	**5.3**	-19.2	-16.0	**-19.0**
USA	14.6	17.6	**14.9**	-12.6	-6.6	**-12.0**
Canada	22.4	3.2	**19.8**	-21.8	-29.3	**-22.8**
Non-traditional market	***21.8***	***6.1***	***15.0***	***-12.1***	***-7.6***	***-10.3***
Australia	13.5	7.5	**12.9**	-14.7	-6.8	**-13.8**
China	29.3	7.0	**19.6**	-29.9	-17.9	**-25.0**
India	79.1	26.0	**42.9**	-5.3	-0.6	**-2.5**
Japan	28.9	-3.8	**20.7**	-10.2	-13.5	**-10.9**
Total export	**11.5**	**5.8**	**10.5**	**-14.1**	**-7.9**	**-13.1**

Source: Compiled from EPB data.

Annex Table 2: Top apparels exporters to the EU market: Recent growth performance

Country	Market share			Growth (last year)		Growth (last 7 months)	
	Year 2017	Year 2018	Year 2019	Year 2018	Year 2019	Jul-Jan 2019	Jul-Jan 2020
Bangladesh	21.7	22.6	23.4	6.3	8.2	11.7	3.2
Cambodia	6.2	6.4	6.2	5.6	0.7	9.3	-3.9
China	31.0	30.0	28.8	-1.2	0.2	3.4	-1.4
India	6.4	6.0	5.9	-3.2	1.6	-0.7	0.7
Indonesia	1.4	1.3	1.2	-9.1	-5.2	-5.0	-6.1
Morocco	1.8	1.8	1.7	0.9	1.1	7.3	-1.4
Myanmar	0.9	1.3	1.9	47.8	48.8	53.5	43.2
Pakistan	2.9	3.0	3.2	4.8	9.8	9.1	6.9
Sri Lanka	2.3	2.2	2.4	0.1	15.3	3.9	15.2
Turkey	13.6	13.5	13.3	1.3	2.9	3.1	3.2
Vietnam	2.4	2.6	3.0	9.4	19.9	14.0	17.0
Total EU import of 61	**100.0**	**100.0**	**100.0**	**2.1**	**4.3**	**6.1**	**2.1**
	(46.7b)	*(49.8b)*	*(49.4b)*				
Bangladesh	15.7	16.2	16.8	6.0	7.6	9.4	1.9
Cambodia	2.8	2.9	2.9	6.3	5.4	9.8	0.1
China	35.3	33.8	32.3	-2.0	-0.5	3.0	-2.7
India	5.9	5.6	5.5	-2.9	2.8	-4.3	0.7
Indonesia	1.6	1.6	1.7	0.4	14.2	7.7	8.2

(Annex Table 2 contd.)

(Annex Table 2 contd.)

Country	Market share			Growth (last year)		Growth (last 7 months)	
	Year 2017	Year 2018	Year 2019	Year 2018	Year 2019	Jul-Jan 2019	Jul-Jan 2020
Morocco	4.7	4.7	4.6	4.0	0.7	7.5	-2.1
Myanmar	1.8	2.7	3.6	54.3	39.4	56.7	33.9
Pakistan	3.6	3.5	3.7	-1.9	11.2	1.0	8.4
Sri Lanka	1.5	1.5	1.5	2.8	5.9	6.8	-0.9
Turkey	9.7	9.7	9.9	2.5	5.7	2.6	7.0
Vietnam	5.3	5.3	5.4	4.0	5.0	9.6	1.2
Total EU import of 62	**100.0**	**100.0**	**100.0**	**2.3**	**4.2**	**5.8**	**1.6**
	(46.5b)	*(49.7b)*	*(49.1b)*				
Bangladesh	18.7	19.4	20.1	6.2	8.0	10.8	2.7
Cambodia	4.5	4.7	4.6	5.8	2.2	9.4	-2.7
China	33.1	31.9	30.5	-1.7	-0.2	3.2	-2.1
India	6.1	5.8	5.7	-3.1	2.2	-2.3	0.7
Indonesia	1.5	1.4	1.4	-4.1	5.5	1.6	1.8
Morocco	3.2	3.2	3.1	3.1	0.8	7.4	-1.9
Myanmar	1.4	2.0	2.8	52.1	42.5	55.6	37.1
Pakistan	3.3	3.2	3.4	1.1	10.5	4.8	7.7
Sri Lanka	1.9	1.8	2.0	1.1	11.5	5.0	9.1
Turkey	11.6	11.6	11.6	1.8	4.1	2.9	4.8
Vietnam	3.8	4.0	4.2	5.7	9.8	11.0	6.3
Total EU import of RMG	**100.0**	**100.0**	**100.0**	**2.2**	**4.3**	**6.0**	**1.8**
	(93.2b)	*(99.5b)*	*(98.5b)*				

Source: Author's elaborations based on Eurostat data.

Note: Figures in parenthesis are actual EU imports in billion EUR converted in billion USD.

Eur to USD conversion rates: 2017: 1 Eur=1.13 USD; 2018: 1.18 USD; 2019: 1.12 USD. Retrieved from https://www.statista.com/statistics/412794/euro-to-u-s-dollar-annual-average-exchange-rate/

Annex Table 3: Top apparels exporters in the US market: Recent growth performance

Country	Market share			Growth (last year)		Growth (last 3-quarters)		Growth (last quarter)	
	Year 2017	Year 2018	Year 2019	Year 2018	Year 2019	Jul-Mar 2019	Jul-Mar 2020	Jan-Mar 2019	Jan-Mar 2020
Bangladesh	3.1	3.2	3.4	8.2	9.4	8.4	9.2	11.5	11.9
Cambodia	3.6	3.9	4.3	14.0	12.6	11.1	15.1	8.4	17.0
China	32.5	32.0	29.2	4.5	-7.9	5.6	-20.9	2.1	-41.3
Honduras	4.7	4.7	5.1	6.6	9.1	12.0	0.6	12.4	-8.5
India	3.8	4.0	4.3	11.5	8.1	15.1	-0.4	17.8	-7.0
Indonesia	5.4	5.0	4.7	-1.1	-4.6	-0.1	-7.1	3.0	-9.1
Jordan	2.2	2.2	2.8	7.8	25.0	8.8	30.3	15.4	15.5
Mexico	3.4	2.8	2.3	-14.8	-15.9	-21.0	-12.1	-20.7	-6.8
Nicaragua	2.5	2.5	2.7	10.0	6.8	10.4	3.3	-0.1	-0.4
Pakistan	1.7	1.8	1.9	12.0	8.8	15.1	1.0	19.7	-8.1

(Annex Table 3 contd.)

(Annex Table 3 contd.)

Country	Market share			Growth (last year)		Growth (last 3-quarters)		Growth (last quarter)	
	Year 2017	Year 2018	Year 2019	Year 2018	Year 2019	Jul-Mar 2019	Jul-Mar 2020	Jan-Mar 2019	Jan-Mar 2020
Sri Lanka	2.5	2.4	2.6	2.6	6.9	3.7	1.7	9.7	-8.1
Thailand	1.4	1.5	1.4	9.9	-1.3	8.5	-3.4	5.3	-5.2
Vietnam	15.3	15.7	16.7	9.1	7.4	10.2	4.4	13.2	0.0
Total US import of 61	**100.0**	**100.0**	**100.0**	**6.0**	**0.9**	**6.9**	**-5.4**	**6.3**	**-12.5**
	(45.7b)	*(48.4b)*	*(48.9b)*						
Bangladesh	9.6	10.0	10.9	9.8	10.4	16.9	2.9	22.2	1.2
Cambodia	1.5	1.7	1.8	15.1	7.7	11.2	24.3	4.5	42.7
China	35.7	34.3	30.9	1.4	-9.0	2.5	-23.6	-1.7	-41.5
Honduras	1.3	1.2	1.2	3.5	1.0	1.7	0.8	-1.7	-8.4
India	5.7	5.6	5.8	4.1	5.1	5.8	0.1	10.9	-1.6
Indonesia	6.1	5.8	5.8	1.3	1.1	5.8	-2.3	5.5	-1.1
Jordan	1.0	1.1	1.2	14.4	10.3	18.2	0.8	32.1	6.8
Mexico	5.7	5.5	5.4	2.2	-0.8	3.7	-10.0	5.4	-17.2
Nicaragua	1.1	1.2	1.3	19.6	7.6	23.6	-0.8	11.5	-8.9
Pakistan	1.6	1.5	1.6	2.7	8.1	4.6	6.6	12.9	8.7
Sri Lanka	2.4	2.4	2.4	5.1	2.7	7.1	-1.4	6.5	-0.5
Thailand	0.7	0.7	0.9	15.3	19.3	21.1	17.3	19.1	15.0
Vietnam	12.8	13.5	15.3	11.3	13.8	12.9	10.8	14.8	6.4
Total US import of 62	**100.0**	**100.0**	**100.0**	**5.5**	**1.1**	**6.9**	**-6.5**	**6.4**	**-12.8**
	(37.7b)	*(39.7b)*	*(40.2b)*						
Bangladesh	6.0	6.2	6.8	9.4	10.1	14.4	4.6	19.5	3.7
Cambodia	2.7	2.9	3.2	14.2	11.4	11.1	17.4	7.2	24.4
China	33.9	33.1	30.0	3.0	-8.4	4.2	-22.1	0.1	-41.4
Honduras	3.1	3.1	3.3	6.1	7.6	10.1	0.6	9.5	-8.5
India	4.6	4.7	5.0	7.4	6.5	10.1	-0.2	13.9	-4.0
Indonesia	5.7	5.4	5.2	0.1	-1.8	2.8	-4.7	4.3	-4.9
Jordan	1.7	1.7	2.1	9.7	20.7	11.4	21.5	21.4	12.1
Mexico	4.4	4.0	3.7	-5.0	-6.6	-6.6	-10.8	-5.1	-13.7
Nicaragua	1.8	2.0	2.1	12.6	7.1	14.0	2.1	2.8	-2.7
Pakistan	1.6	1.7	1.8	7.9	8.5	10.5	3.3	16.7	-0.9
Sri Lanka	2.5	2.4	2.5	3.7	5.0	5.2	0.3	8.2	-4.6
Thailand	1.1	1.1	1.2	11.4	4.7	12.1	2.8	9.2	1.1
Vietnam	14.2	14.7	16.1	10.0	10.1	11.3	7.0	13.9	2.8
Total US import of RMG	**100.0**	**100.0**	**100.0**	**5.8**	**1.0**	**6.9**	**-5.9**	**6.3**	**-12.7**
	(83.3b)	*(88.1b)*	*(89.0b)*						

Source: Author's elaborations based on USITC data.

Note: Figures in parenthesis are actual US imports in billion USD.

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House 40/C, Road 11 (new)
Dhanmondi, Dhaka-1209, Bangladesh
Telephone: (+88 02) 48118090, 55001185, 58156979
Fax: (+88 02) 48110414
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd