Bangladesh Economy in FY2020–21

Interim Review of Macroeconomic Performance

Prepared under CPD's programme on

Independent Review of Bangladesh's Development

CENTRE FOR POLICY DIALOGUE

June 2021

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

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Acronyms

7FYP	Seventh Five Year Plan
8FYP	Eighth Five Year Plan
ADB	Asian Development Bank
ADF	Augmented Dickey-Fuller Test
ADP	Annual Development Programme
ADR	Advance Deposit Ratio
AIIB	Asian Infrastructure Investment Bank
AIT	Advance Income Tax
ARDL	Auto Regressive Distributive Lag
AT	Advance Tax
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BFIU	Bangladesh Financial Intelligence Unit
BOP	Balance of Payment
CBO	Community-Based Organisation
CEPA	Comprehensive Economic Partnership Agreement
CIID	Customs Intelligence and Investigation Directorate
CMSME	Cottage, Micro, Small and Medium Enterprise
COVID-19	Coronavirus Disease 2019
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
CSO	Civil Society Organisation
CRR	Cash Reserve Ratio
DAP	Diammonium Phosphate
DAM	Department of Agriculture Marketing
DFI	Development Finance Institution
ECNEC	Executive Committee of the National Economic Council

ED	Excise Duty
EPB	Export Promotion Bureau
EU	European Union
FCB	Foreign Commercial Bank
FDI	Foreign Direct Investment
FID	Financial Institutions Division
FPMU	Food Policy Monitoring Unit
GAVI	Global Alliance for Vaccines and Immunization
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GoB	Government of Bangladesh
GR	Gratuitous Relief
HRA	Health Risk Allowance
HSCT	Harmonised Social Cash Transfer
HSD	Health Services Division
IB	Islamic Bank
ICU	Intensive Care Unit
IDR	Investment Deposit Ratio
IFI	International Financial Institution
IFT	Invitation for Tender
IMED	Implementation Monitoring & Evaluation Division
IMF	International Monetary Fund
IRBD	Independent Review of Bangladesh's Development
KBPS	Krishak Bandhu Postal Service
LC	Letter of Credit
LDC	Least Developed Country
LFS	Labour Force Survey
LGBTQ	Lesbian, Gay, Bisexual, Transgendered and Questioning
MFI	Micro Finance Institution
MFS	Mobile Financial Service
MiB	Mapped in Bangladesh
mmt	Million Metric Ton
MoA	Ministry of Agriculture
MoC	Ministry of Commerce
MoF	Ministry of Finance
MoHFP	Ministry of Health and Family Planning
MoPEMR	Ministry of Power, Energy and Mineral Resources
MoWCA	Ministry of Women and Children Affairs
MPS	Market Price Support

MRP	Maximum Retail Price
MSP	Minimum Support Price
MT	Metric Ton
NBR	National Board of Revenue
NGO	Non-Government Organisation
NID	National Identity (Card)
NPL	Non-Performing Loan
NSD	Department of National Services
OECD	Organisation for Economic Co-operation and Development
OMS	Open Market Sale
PCB	Private Commercial Bank
PFM	Public Financial Management
PIT	Personal Income Tax
PMI	Purchasing Managers' Index
PMO	Prime Minister's Office
POL	Petroleum Oil and Lubricant
PPE	Personal Protective Equipment
PSF	Price Stabilisation Fund
QIP	Qualified Institutional Placement
QIIP	Quantum Index of Industrial Production
RADP	Revised Annual Development Programme
RD	Regulatory Duty
RMG	Readymade Garment
RoA	Return on Asset
RoE	Return on Equity
SCB	State-owned Commercial Bank
SD	Supplementary Duty
SDG	Sustainable Development Goal
SME	Small and Medium-sized Enterprise
SREDA	Sustainable and Renewable Energy Development Authority
SSNP	Social Safety Net Programme
SRO	Statutory Regulatory Order
SO	Sales Order
TCB	Trading Corporation of Bangladesh
TDS	Tax Deducted at Source
TIN	Taxpayer Identification Number
TPC	Transfer Pricing Cell
UK	United Kingdom
USD	United States Dollar

USA	United States of America
USDA	United States Department of Agriculture
VAT	Value Added Tax
VECM	Vector Error Correction Model
VGD	Vulnerable Group Development
WB	World Bank
WTO	World Trade Organization

Chapter 1

State of the Bangladesh Economy in FY2020–21

(Third Reading)

1.1 INTRODUCTION

As part of its regular exercise to review the performance of the economy and analyse the key emerging development trends, the Centre for Policy Dialogue (CPD) closely monitors the economy throughout a fiscal year. The present report is the third instalment of the State of the Bangladesh Economy in FY2020–21 Prepared under CPD's flagship programme titled Independent Review of Bangladesh's Development (IRBD). This report has been prepared in context of the unprecedented impact of the ongoing COVID-19 pandemic on the economy of Bangladesh since March 2020. Though many had expected the wrath of the pandemic to fade away towards the first quarter of FY2020–21, it has resurfaced in the third and fourth quarters of FY2020–21. This has reiterated the need for designing the national budget for FY2021–22 to be presented by the Finance Minister on 3 June 2021, keeping in mind the new challenges that have emerged and are apprehended to emerge.

CPD has been emphasising right from the beginning for medium-term policy measures to address both the immediate and medium-term challenges faced by the economy due to the pandemic. Since March 2020, CPD has undertaken several empirical and survey-based research on the impact of the pandemic, various aspects of the government support measures to tackle the pandemic and made evidence-based sector-wise specific policy recommendations. CPD has also made concrete suggestions to the Ministry of Finance (MoF) as well as to the National Board of Revenue (NBR) prior to the national budget for both FY2020–21 and FY2021–22.

This review of the current FY2020–21, prepared under CPD's flagship IRBD programme, offers an analysis of the economy that experienced an unusual state of affairs due to the COVID-19 pandemic throughout the fiscal year. The current IRBD report reviews the macroeconomic management (Section 1.2) of the government during the pandemic. Besides, the report presents an analysis of food prices volatility (Section 1.3) and banking sector challenges (Section 1.4). While discussing these aspects, the report has critically analysed the impacts of the pandemic on the economy and policy measures taken by the Government of Bangladesh (GoB) to address the challenges of the pandemic. The report also makes a set of important recommendations (Section 1.5) in the context of the upcoming budget and the ongoing pandemic.

1.2 MACROECONOMIC MANAGEMENT

1.2.1 Public Finance

Despite exhibiting signs of improvement, the annual revenue mobilisation target is unlikely to be attained

Latest data on budget implementation published by the MoF reveals that there is a turnaround in tax collection in recent months. It registered a growth of 10.5 per cent during the July–April period of FY2020–21 as opposed to the negative growth of (-) 9.3 per cent for the corresponding period of FY2019–20 (Table 1.1).[1] As against this, revenue mobilised from non-tax sources posted an impressive growth of 29.9 per cent. In aggregate, total revenue mobilisation recorded 13.4 per cent growth during the first ten months of FY202–21 against the annual target of 43.7 per cent. This implies that total revenue collection will need to grow by an astounding 122.8 per cent in the remaining two months of FY2020–21 if the highly ambitious targets set in the budget for FY2020–21 were to be achieved. Foreign grants registered a negative growth (-69.7 per cent) during the July–April period of FY2020–21.

[1]The latest data available from MoF does not provide disaggregated data on sources of revenue mobilisation. However, according to the NBR data, tax collected by NBR exhibited a growth of 7.3 per cent during the July–March period of FY202–21. This implies that required growth for the last quarter of FY2020–21 is an impossible 190.2 per cent!

Table 1.1
Revenue Mobilisation Scenario during Jul–Apr FY2020–21

Particulars	Growth (in per cent)			
	Annual Target	Jul–Apr FY20	Jul–Apr FY21	Required May–Jun FY21
Tax revenue	56.3	-9.3	10.5	182.2
Non-tax revenue	-21.9	36.4	29.9	-127.3
Total revenue	43.7	-4.5	13.4	122.8
Foreign grants	105.1	-45.3	-69.7	120.8
Total revenue and grants	44.1	-4.6	13.3	122.8

Source: Authors' calculations based on the data from the MoF.

Weak implementation of public expenditure continues

Up to April FY2020–21, the implementation rate of total public expenditure stood at 42.0 per cent, which is marginally lower than the implementation rate for the corresponding period of FY2019–20 (43.9 per cent) (Table 1.2). Operating activity registered an implementation rate of 50.2 per cent, while, for development activities, the corresponding figure was 29.0 per cent. Such low levels of budget implementation, when the economy is ravaged by the adverse impacts of the pandemic, and is experiencing a second wave, is a matter of grave concern. Indeed, it reflects both weak programming of the budget as well as weak administrative capacities in terms of budget execution.

Table 1.2
Implementation Status of Public Expenditure

Particulars	Value (in crore Tk)			Implementation Rate (in per cent)	
	Budget FY21	Jul–Apr FY20	Jul–Apr FY21	Up to April FY20	Up to April FY21
Operating activity except loan	348,180.0	156,480.0	174,933.0	50.4	50.2
Loans and advances (Net)	4,210.0	-3,997.0	-2,463.2	-426.6	-58.5
Development activity	215,043.0	70,334.0	62,277.0	33.2	29.0
Net food operation	567.0	7,041.0	3,873.8	2,286.0	683.2
Total expenditure	**567,999.0**	**229,858.0**	**238,620.5**	**43.9**	**42.0**

Source: Authors' calculations based on the data from the MoF.

ADP expenditure remains sluggish

As per Implementation Monitoring and Evaluation Division (IMED) data, only 48.7 per cent of the original annual development programme (ADP) allocation was utilised during the July-April period of FY2020–21.[2] During the mentioned period, the implementation rate of the 'Taka component' of ADP was 49.4 per cent, while that of 'Project Aid' amounted was 47.5 per cent. Regrettably, pace of

[2]No comparative analysis can be drawn as data from the IMED is not available for the July-April period of FY2019–20. It is also to be noted that IMED data is not congruent with the figures presented in Table 2.2 under the row titled 'Development activity'. However, discrepancy in data reported by IMED and MoF have been repeatedly spotlighted in previous analyses under CPD's IRBD successive reports.

implementation remains the lowest in the Health Services Division among the top 10 ministries/divisions, with only a rate of 31.3 per cent during the July–April period. Given the increased pressure on the public health service sector in view of the COVID-19 pandemic, the current scenario is in stark contrast to the citizen's expectations and the realities of the demands on the ground.

Budget deficit is likely to be within the programmed limit

During July–April FY2020–21, the overall deficit (including grants) was Tk 22,814 crore, as per the latest MoF data on 'budget execution. This is about 42 per cent lower than the corresponding figure for the July–April period of FY2019–20. As has been mentioned above, while the revenue collection during the July–April period of FY2020–21 recorded a double-digit positive growth rate, the public expenditure did not increase in a corresponding manner. As a result, the overall deficit (including grants) remained (-) 42.2 per cent lower than the previous year. High net sales of Department of National Services (NSD) certificates had largely financed the major part of the budget deficit till April 2021, which exhibited a 69.2 per cent growth during July–April of FY2020–21. Use of net foreign financing also improved as a source of deficit financing in FY2020–21. According to MoF (2021), the debt-GDP (gross domestic product) ratio of Bangladesh (including both domestic and external) was 35.9 per cent at the end of FY2019–20. As per the same report, the overall risk of debt distress for the country is low. As such, there should be ample scope for the policymakers to pursue an expansionary fiscal policy in view of the pandemic.

1.2.2 Industrial Production

Growth in industrial production was subdued, especially for small industries

During the July-December period of FY2020–21, the growth rate of Quantum Index of Industrial production (QIIP) for large and medium industries was 5.7 per cent, while the corresponding figure for the same period of FY2019–20 was 14.3 per cent. A substantial fall can also be observed in the growth rate of QIIP for small scale industries for the same period of FY2020–21. The recorded growth rate was only 1.8 per cent which was 10.6 per cent over the corresponding period of FY2019–20. This is indicative of the slow pace of recovery in manufacturing and industrial production. A drastic difference is discernible in the rate of recovery across the sectors. Production of textile and apparels, two of the largest manufacturing industries, registered negative growth rates of (-) 5.2 per cent and (-) 7.2 per cent, respectively, during the first half of FY2020–21, according to the QIIP data for large and medium industries. In contrast, production of leather and associated products registered an extraordinary growth rate of 32.6 per cent despite the negative growth of export earnings to the tune of (-) 6.2 per cent for these products during the corresponding period.

1.2.3 Inflation

Food inflation is creeping up

General inflation at the national level, as per the data from Bangladesh Bureau of Statistics (BBS), remained somewhat stable during the first 10 months of FY2020–21. However, the inflationary trends of the constituting elements did not move in tandem. FY2020–21 started with food inflation of 5.43 per cent at the national level, which gradually crept up to 5.73 per cent in April FY2020–21.[3] In contrast, non-food inflation at the national level decreased to 5.22 per cent in April FY2020–21 from 5.79 per cent in July FY2020–21. However, within non-food items, inflation related to medical

[3] A detail discussion on food price volatility is presented in Section 1.3.

care and health expenses increased to 8.64 per cent in April FY2020–21 from 7.47 per cent in July FY2020–21. The rising trends in food inflation and that related to healthcare are worrisome, particularly in view of the ongoing COVID-19 pandemic, as these are expected to adversely impact the low-income population disproportionately.

1.2.4 Monetary Aggregates

Private sector credit did not pick up despite stimulus packages

Data from Bangladesh Bank evince that as of March 2021, growth of net foreign assets stood at 29.7 per cent, exceeding both the half-yearly and annual targets. This was primarily thanks to the large inflow of remittances (Table 1.3). Regrettably, the growth of domestic credit (11.4 per cent as of March 2021) lagged behind both its half-yearly and annual targets. This subdued state is attributable to the lack of credit obtained by the private sector and lower than the programmed requirement of credit to the public sector. Indeed, despite several stimulus packages in the form of subsidised interest rates, private sector credit did not pick up. Disbursement of industrial term loan was (-) 30.8 per cent lower during the first half of FY2020–21. Loans to small and medium-sized enterprises (SMEs) were also almost the same as last year's and recorded a growth rate of (-) 0.3 per cent during the same period. Growth rate of agricultural credit was on a decline throughout the fiscal year and recorded a 9.6 per cent growth during July–February of FY2020–21. Non-farm rural credit disbursement also recorded a fall of (-) 2.2 per cent over the corresponding period. Indeed, despite average interest rate on lending being at a historical low point (7.5 per cent), private investment did not pick up indicating that other factors had been at play.

Table 1.3
Growth of Monetary Aggregates

(in per cent)

Indicators	Mar 21 (Actual)	Dec 20 (Jul 20 MPS target)	Jun 21 (Jul 20 MPS target)	Jun 21 (Revised target)
1. Net foreign assets	29.7	12.5	5.8	20.1
2. Net domestic assets	8.7	14.4	18.3	13.6
2.1 Domestic credit	11.4	15.0	19.3	17.4
2.1.1 Credit to the public sector (including government)	28.3	35.7	44.4	31.7
2.1.2 Credit to the private sector	8.8	11.5	14.8	14.8
3. Broad money	13.2	14.0	15.6	15.0
4. Reserve money	11.3	15.5	13.5	13.5

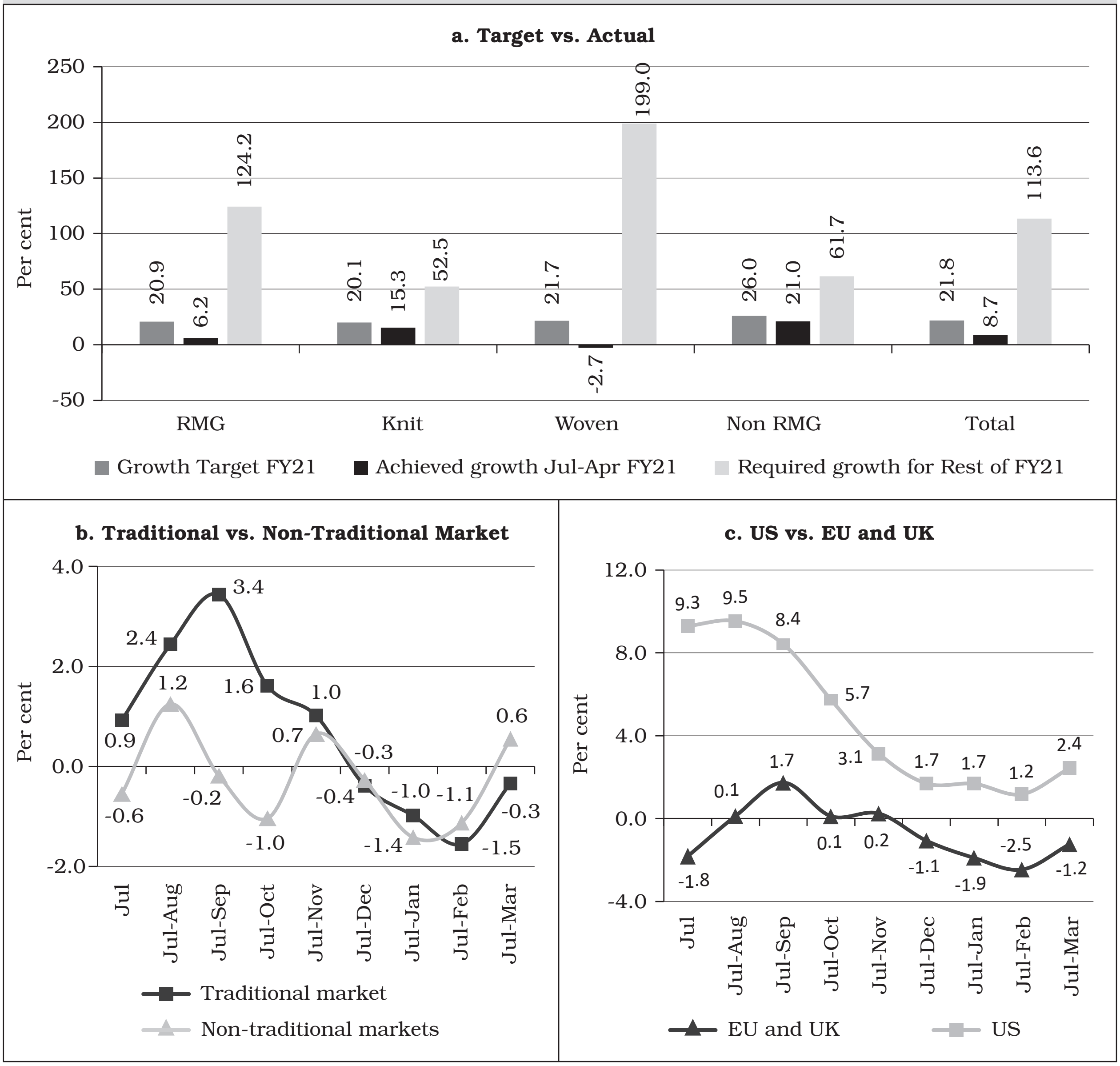
Source: Authors' calculations based on the data from Bangladesh Bank.
Note: MPS = Market Price Support.

1.2.5 External Sector

A limited scale rebound is observed in export earnings

According to Export Promotion Bureau (EPB) data, total export earnings increased by 8.7 per cent during the July–April period of FY2020–21 against the annual growth target of 21.8 per cent (Figure 1.1a). Thus, total export in FY2020–21 is likely to remain significantly below the pre-pandemic level

Figure 1.1
Current Scenario of Export (July–March/April of FY2020–21)



Source: Authors' calculation based on data from Export Promotion Bureau (EPB).

of about USD 40.5 billion. Export growth of Readymade Garments (RMG) products (6.2 per cent) was below the annual target (20.9 per cent). Knit RMG items attained 15.3 per cent growth during July–April of FY2020–21 against the annual target of 20.1 per cent. In contrast, woven RMG items recorded a negative (-) 2.7 per cent growth as opposed to the target of 21.7 per cent. It is to be noted that a higher growth rate of knit RMG export implies better value addition and hence, higher net export. On the contrary, non-RMG products registered a 21.0 per cent growth against the annual target of 26.0 per cent. Here, the proportion of net exports is also higher. Estimates carried out by the CPD indicates that the share of Knit-RMG export in total export has been on the rise, which is a positive structural change in terms of domestic value addition component of Bangladesh's export (Table 1.4).

Table 1.4

Share of Export of Bangladesh by Major Items: Gross and Net Exports

(in per cent)

Export Item	Gross Export			Net Export		
	July–April FY19	**July–April FY20**	**July–April FY21**	**July–April FY19**	**July–April FY20**	**July–April FY21**
Knitwear	41.50	41.14	43.64	42.27	41.90	44.45
Woven garments	42.45	41.85	37.44	27.51	27.13	24.27
Agricultural Products	2.33	2.56	2.57	3.88	4.27	4.29
Raw Jute	0.30	0.41	0.38	0.53	0.72	0.67
Jute Goods	1.75	2.27	2.85	2.92	3.79	4.75
Raw Leather	0.43	0.31	0.30	0.64	0.45	0.44
Leather products	2.03	2.07	2.07	2.64	2.68	2.69
Frozen foods	1.32	1.40	1.23	2.19	2.33	2.05
Home textile	2.13	2.11	2.98	2.17	2.14	3.04
Pharmaceuticals	0.33	0.39	0.40	0.24	0.29	0.30
Engineering Products	0.86	0.89	1.36	0.56	0.57	0.88
Others	7.46	7.76	8.40	11.05	11.50	12.45
Total (In Billion USD)	**100.00 (33.94)**	**100.00 (29.49)**	**100.00 (32.07)**	**100.00 (18.33)**	**100.00 (15.93)**	**100.00 (17.32)**

Source: Based on Rahman and Al-Hasan (2021).

Export growth in the non-traditional markets (0.6 per cent) surpassed that of traditional markets (-0.3 per cent) during the July–March period of FY2020–21 (Figure 1.1b). The boost in non-traditional markets was mostly attained by way of impressive performance of RMG products in Australia, Russia and South Africa. Non-RMG products attained considerable growth in non-traditional markets such as Australia, Brazil, China, South Korea, Russia and Turkey.

Export growth performance in the United States of America (USA) market has remained in the positive terrain throughout FY2020–21 (Figure 1.1c). Both knit and non-RMG exports to the US market have registered substantial growth during the July–March period of FY2020–21. Performance in the European Union (EU) and the United Kingdom (UK) was rather subdued during the first nine months of FY2020–21. This is particularly so in the case of woven exports. As demand picks up in developed country markets, competition among exporting countries is intensifying. Vietnam in the USA and Cambodia, India, Turkey in the EU are trying their best to fill in the gap left by the general trend of a declining share of China. Bangladesh should try to raise its market share in these countries by raising its competitive strengths.

Some turnaround is noticed in the import payments scenario

Growth of import payments reached 6.1 per cent during July–March FY2020–21, the highest so far in the ongoing fiscal year. The corresponding figure for the previous fiscal year was negative (-) 4.8 per cent. The boost in import payments was primarily driven by intermediate goods. More than 77 per cent of the incremental payments were made against imports of intermediate goods, thanks to crude petroleum and petroleum products (Petroleum oils and lubricants or POL), which contributed almost entirely to the incremental growth of total imports. Given the declining food stock situation in Bangladesh, payments for food grains import increased by 20.9 per cent during July–March period of FY2020–21, mainly due to a whopping 3059 per cent growth in rice import. However, import payments for capital machineries declined by (-) 12.8 per cent. It is to be noted that, during the same period of the previous fiscal year, capital machinery declined by (-) 30.6 per cent. This, once again, points towards the depressed investment scenario prevailing in the backdrop of the pandemic.

Surplus in overall balance and continued rise in foreign exchange reserve attributable to phenomenal inflow of remittances

Bangladesh's trade deficit stands at USD 14.5 billion as of March FY2020–21, which is higher than the deficit of USD 12.1 billion for the corresponding period of FY2019–20 (Table 2.5). The current account had a surplus of USD 0.1 billion during the aforementioned period, largely thanks to a 35.1 per cent increase in remittance inflow. Regrettably, net foreign direct investment (FDI) inflow has fallen by (-) 8.0 per cent during the July–March period of FY2020–21 compared to the corresponding period of FY2019–20. During July–March FY2020–21, overall balance recorded a surplus of nearly USD 7.0 billion, which was only USD 0.6 billion for the corresponding period of FY2019–20. Thanks to a healthy surplus in overall balance, the foreign exchange reserves reached USD 45.0 billion in April 2021. However, the exchange rate of BDT against USD remained stable throughout the July–April period of FY2020–21 thanks to periodic interventions by the central bank.

Table 1.5

Balance of Payment (BOP) Scenario

(in USD million)

Items	**FY20**	**Jul–Mar FY20**	**Jul–Mar FY21**	**Change (%)**
Trade balance	-17,858	-12,078	-14,497	-
Export f.o.b. (including EPZ)	32,832	28,252	28,270	0.1
Import f.o.b. (including EPZ)	50,690	40,330	42,767	6.0
Current account balance	-4,723	-2,651	125	-
Capital account	256	199	125	-37.2
Financial account	7,537	3,482	6,942	99.4
Foreign direct investment (net)	1,271	1,030	948	-8.0
Portfolio investment (net)	44	39	-222	-
Errors and omissions	-145	-406	-202	-
Overall balance	2,925	624	6,990	1020.2

Source: Bangladesh Bank.

1.2.6 Policy Recommendations

The economic downturn and uncertainty induced by the COVID-19 pandemic continued in FY2020–21, although at a lower intensity than was initially perceived. During the first half of the ongoing fiscal year, much of the discussions and debates in the national policy discourse had centred around economic recovery and its shape, in view of the worst effects of the pandemic receding. However, as the second wave of the pandemic started to unfold, the overarching focus once again shifted to the protection of lives and livelihood.

The trends of macroeconomic correlates in FY2020–21, as have been presented above, unveil a number of contrasting developments. First, although the growth in revenue mobilisation started to pick up, the pace of public expenditure in FY2020–21 failed to do so. This slow pace of public expenditure can be attributable to a number of attendant factors, viz. design, execution and quality. The public expenditure framework for FY2020–21 was designed in a very formulaic manner, and a number of constraints were introduced in cases of public expenditure, including for ADP allocations after the budget was announced.[4] The limited administrative capacity to implement the budget has also restrained the pace of public expenditure. Failures to fully operationalise the targeted cash transfer programme (Tk 2,500 each to five million poor households) and special honorarium to healthcare providers are glaring examples to this end. Quality of public expenditure has also come under scrutiny, particularly in view of irregularities in health sector related public procurements. Second, in terms of growth in industrial production and manufacturing, small industries were lagging behind their large and medium counterparts. Third, food inflation was on the rise, while the opposite was true for non-food items. Fourth, although positive developments were observed in cases of export earnings, remittance inflow and foreign exchange reserves, disquieting trends were evident as regards overseas migration, import of capital goods and FDI inflow.

The aforementioned macro-level indicators, however, often fail to capture the underlying micro-level trends within the economy. Regrettably, barring one BBS telephonic survey, no other government effort was visible to capture such dynamics. This lacuna in the data ecosystem was somewhat bridged by independent actors, researchers and academia. Although the figures they produced had variations, some general trends could be drawn from these micro-level surveys. It is observed that, while people lost their jobs due to COVID-19, the majority were able to be reemployed (Rahman et al., 2021). Many had to shift from services sectors to agricultural jobs. Consequently, their income and working hours did not restore to the pre-pandemic level. As such, downward adjustments can be observed in the consumption and saving pattern of people, particularly those belonging to low- and middle-income groups who were compelled to adjust to the loss in income. There is an indication of a significant rise in both the poverty rate and inequality (PPRC-BIGD, 2021). And finally, structural transformation, both in terms of employment generation and rural-urban migration, was contradictory to what was expected, defying the concept of progress towards modernisation of the economy.

In order to ameliorate the situation induced by the pandemic, economists and analysts have unequivocally identified four sectors of the economy that require additional and particular attention. These are health, social protection, agriculture and small and medium industries. Furthermore, they have asserted that, instead of focusing on economic growth, more emphasis should be given to saving human lives and livelihoods. While assessing the government's policy responses in view of the pandemic, the independent actors were of the opinion that the overall use of fiscal instruments in terms of policy response was inadequate. It was repeatedly highlighted that the design of the stimulus packages did not take cognisance of the needs of the people most distressed, such as the small entrepreneurs. Finally, it was stressed that policy responses by the government were mostly deployed through the traditional channels. However, some innovative efforts were observed, particularly in the distribution of relief packages. The prevailing weaknesses in traditional channels and failure to comprehend local contexts oftentimes resulted in ineffective delivery of policy supports. This was evidenced in the cases of providing stimulus packages through commercial banks and while disseminating information through digital platforms which could not reach the backward people residing in peripheries. Marginalised people lacked access to these instruments, which had put a brake on the attainment of the desired outcome of these policy responses.

[4]In July 2020, Finance Division advised the agencies to prepare lists of ADP projects according to three priority categories: high, medium and low (New Age, 2020). The Division also advised that only 70 per cent of the budgetary allocation from government fund against ADP projects can be spent. Later in December 2020, the Finance Division allowed the agencies to spend 75 per cent of the ADP allocation (The Business Standard, 2020). It is to be noted that the projects with foreign funding were allowed to fully utilise the allocated funds. At the same time, purchasing vehicles was suspended till 30 June, 2021.

Taking cue from the above discussion, the following policy recommendations are put forward, which should inform the upcoming budget and medium-term macroeconomic framework.

Take cognisance of the possible impacts of the second wave of the COVID-19 pandemic

As availability of real-time data from public sources remains a concern in Bangladesh, the existing trends and evidence as presented by both public and independent sources need to be utilised to design the path towards recovery. As the second wave is already here, it is important for the policymakers to formulate a national budget that fully recognises the economic damage inflicted by the pandemic as well as its long- and medium-term implications.

Formulate a medium-term recovery plan

One of the major criticisms of the FY2020–21 budget was that instead of designing a COVID-specific budget, the government largely opted for a business-as-usual one. The budget for FY2020–21 was apparently designed under the assumption that managing the fallout from COVID-19 will be easy, and the economy will bounce back within a short period in FY2020–21. Given the current dynamics of the pandemic, it can be said that recovery from the entire fallout will take much longer than expected by the MoF a year ago. Over the next few years, all recoveries are susceptible to changes in the nature of COVID-19 and the availability and effectiveness of vaccines. Taking these into cognisance, the government needs to formulate a medium-term recovery plan to consolidate its position, contain the virus, and progress towards sustainable recovery.

Focus on equity and redistribution, not economic growth

The national budget for FY2021–22 should focus more on equity, redistributive justice, protecting jobs and saving lives, and less on economic growth. Attaining a high GDP growth should not be what the budget for FY2021–22 should set its target on. Rather, the budget should be one of redistribution, particularly addressing the underlying factors driving rising inequality. Although the BBS has not yet released the final GDP growth data for FY2019–20 and provisional estimates for FY2020–21, it is likely to be lower than the target despite positive growth in the per capita income. For a change, the budget should set targets as regards employment and growth in income at the household level rather than GDP growth or per capita income.

Pursue an expansionary fiscal policy in FY2021–22

CPD has urged in favour of an expansionary fiscal policy since the onset of the pandemic in Bangladesh. An expansionary fiscal policy for macro-level recovery should be informed by the needs of public expenditure rather than the worries about the budget deficit. Public expenditure-GDP ratio should increase in FY2021–22 not only at the programmed level but also at the execution level. In order to pursue the proposed expansionary fiscal policy, the following six issues should be considered.

First, revenue collection should be raised in FY2021–22 by not introducing new taxes but by curbing tax evasion, black money and illicit financial flows. More equitable fiscal measures are expected in the national budget for FY2021–22. Strategic support measures should be extended to domestic market-oriented industries with a view to diversifying the economy.

Second, the sectoral prioritisation for public expenditure is critical in the budget for FY2021–22. As discussed earlier, four sectors, viz. health, social protection, agriculture, and small and medium businesses, should receive priority in budgetary allocation. In addition to these, sectors related to education and employment-generating public work programmes should also receive due attention.

Third, expediting the implementation of ongoing projects under the ADP which are closer to completion should receive the highest priority. The high priority projects should be monitored closely on a regular basis.

Fourth, the time has come to make a significant investment in strengthening administrative preparedness and raising institutional capacity and line Ministry capacities to implement the budget in due time, within stipulated cost and with good governance.

Fifth, value for money and good governance need to be ensured in order to fully realise the synergistic effects of the policy measures. Overpriced projects and rampant corruption in public procurement should not define expansionary fiscal policy. Nepotism in implementing social safety net programmes (SSNPs) should also be addressed to avoid mistargeting and inclusion error.

Sixth, the medium-term debt scenario should enable Bangladesh to provide the much-needed policy space to pursue an expansionary fiscal policy. The high level of excess liquidity in the banking system will be able to provide residual financing for a higher budget deficit. However, it is recommended that, available foreign financing should be prioritised to underwrite the required public expenditure from the perspective of cost-effective utilisation of available resources.

Put supportive macroeconomic and sectoral policy measures in place

In the budget for FY2021–22, a number of supportive macroeconomic and sectoral policy measures should receive attention. Redesigning the stimulus packages, taking cognisance of their weaknesses and past implementation experiences should be one of the priorities. Continuation of the tax-exemption facilities in view of the pandemic, such as on personal protective equipment (PPE) and medicines, should also continue in FY2021–22. The government should continue the two per cent incentive on remittances as it has contributed significantly to the increase in remittance flows, replenished foreign exchange reserves and reinforced exchange rate stability, which is essential to maintain in such unpredictable global market conditions. Price volatility of essential commodities must be controlled. As part of sectoral policy measures, promotion of agricultural diversity should receive continued and expanded support. As there are rising concerns as regards the food-stock situation, adequate food-stock must be maintained through imports considering the amount procured through domestic procurement.

Enhance institutional capacity and collaborative efforts

In the final analysis, the budget and all policies are indicative and provide directions. Much depends on implementation, its quality, timeliness and good governance in the implementation ecosystem. For attaining the inclusive development agenda, the benefits of the taken policies should reach the doorsteps of the marginalised. For the policies to provide the expected outcomes, the institutional capacity of the institutions must be enhanced. In the previous budget, selected non-state actors were given the responsibility of distributing the stimulus packages. In redesigning the stimulus packages and their disbursement, other non-state actors should be made a party to the process. Involvement of non-state actors can bring in important dimensions and perspectives in case of designing the stimulus packages, their delivery and monitoring processes. This is particularly important from the vantage point of addressing the demands of the marginalised groups.

Do not undermine medium-term reform agenda

Without addressing the reform agenda, the underlying weaknesses in the fiscal framework and implementation of the budget will not be feasible. CPD has been drawing attention to this in successive

IRBD reports. A viable completion timeline should be chalked out in the FY2021–22 budget for reforms that are under consideration—Customs Act, Direct Tax Act and others. At the same time, efforts towards raising the ease of doing business and improving the investment climate should be put into high gear. The pandemic should be no excuse in this connection; rather, these steps are essential for building back better.

1.3 FOOD PRICE VOLATILITY DURING COVID PANDEMIC PERIOD: 'BEYOND BUSINESS AS USUAL' PUBLIC POLICY INTERVENTIONS NEEDED

1.3.1 Introduction

In view of the ongoing covid pandemic, food price volatility has emerged as a major concern in Bangladesh. The impact of global food price fluctuations owing to higher cost of production and fluctuations in production, and the import scenario, had cumulative adverse effect on food availability and price stability in the domestic market. Unlike the previous global economic and financial crises (in 2007–08), global food market has experienced a complicated situation during the covid pandemic due to the dual risks caused by health and economic risks and socio-economic challenges faced by the people. The challenges included logistic problems in marketing of agricultural products due to restrictions in movement during the lockdown period, health risks facing farm workers, adverse weather condition in some key food exporting countries, panic buying by consumers, hoarding of staple foods and export bans and restrictions put in place by some of the traditional food exporting countries (ADB, 2020). In addition to this, Bangladesh's domestic market was influenced by a number of other internal factors including challenges in implementing government's procurement programme, and timely import of food items and food grains. These will be discussed in some details in the following sections. Due to volatility in the market, consumers, particularly, the poor, new poor and low-income earners, have been impacted in ensuring food security of their families, which also merit special attention.

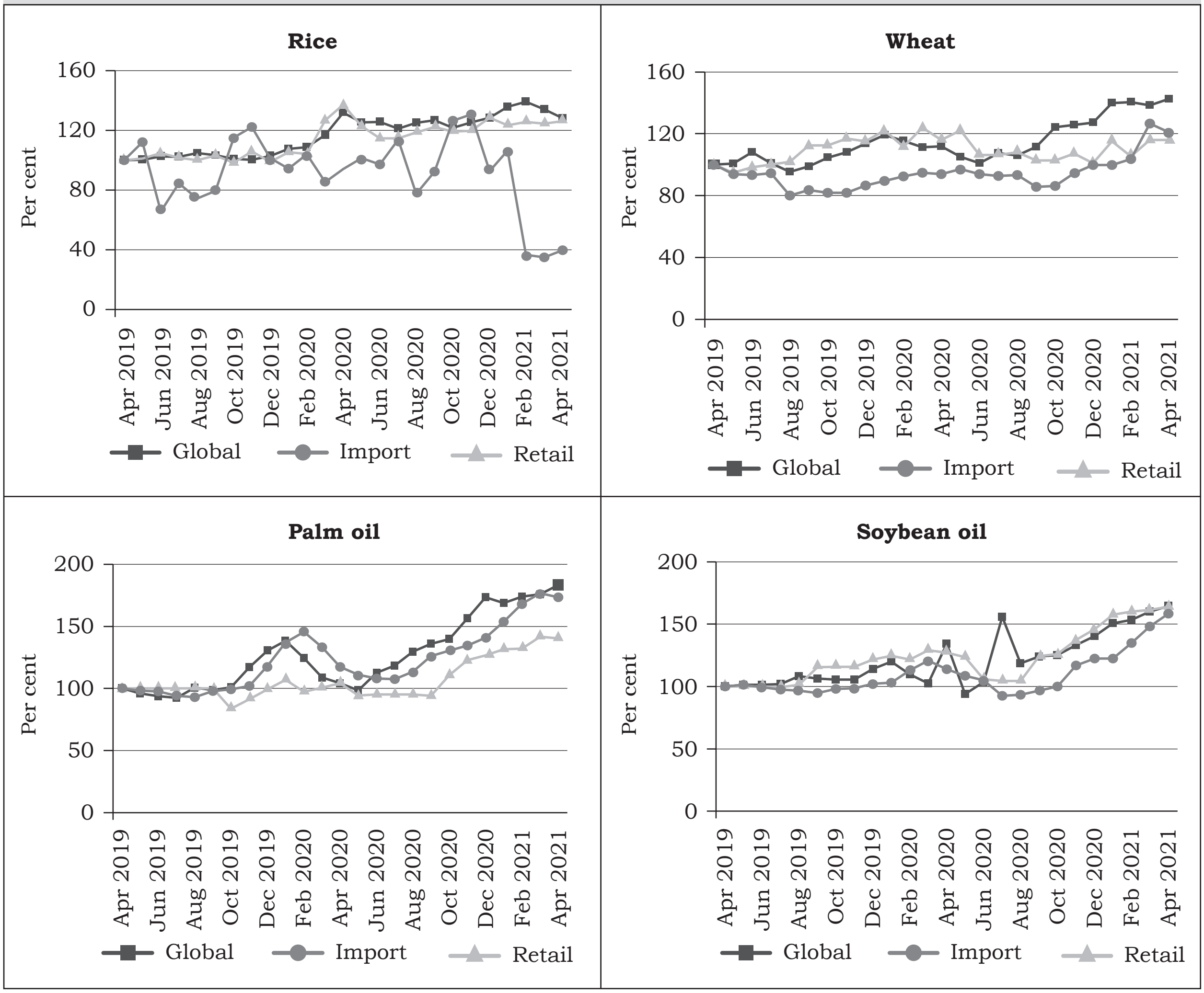
This section discusses the volatility in food prices in domestic retail market and factors responsible for the price volatility. Based on the secondary data on selected essential food items including rice, wheat, palm oil, soybean oil, sugar and onion, food price volatility analysis has been carried out, in a comparative setting, concerning the situation during the covid period (April, 2020–April, 2021) as against the pre-covid period (April, 2019–March, 2020).

1.3.2 Trends in Prices of Consumer Goods in Domestic and International Markets during Pre-Covid and Covid Period

The analysis takes into consideration the prices in the global market, the price at which the goods are imported and the retail market price at the domestic level. An overall increase in the price of all consumer goods is discernible in international and local markets during the covid period (Figure 1.2). Since August 2020 when the global economy started to bounce back following the first wave of covid pandemic, the demand for food products at the global level (along with the rising shipment cost for higher petroleum prices) also started to rise in tandem. Data show that, between pre-covid and covid period, global price for rice, wheat, palm oil, soybean oil and sugar had increased by 27 per cent, 42 per cent, 83 per cent, 64 per cent and 26 per cent respectively. Domestic retail market has experienced similar volatility in prices. The retail prices of rice, wheat, palm oil, soybean oil and sugar have increased by 26 per cent, 16 per cent, 40 per cent, 63 per cent and 25 per cent respectively during this corresponding period. Overall, global and local retail markets have experienced rising trend in retail prices during the covid period. The rise in prices had adverse effect on consumers' purchasing capacity, definitely on that of the marginal groups. In the backdrop

Figure 1.2

Trends in Food Prices during Pre-Covid and Covid Periods



Source: Authors' estimation based on data collected from Trading Corporation of Bangladesh (TCB) and other sources.

of the fall in income of the consumers during the pandemic period, the rising food prices had led to an erosion of purchasing power with consequent deterioration in nutritional intake of the poor, marginalised and low-income households.

1.3.3 Price Volatility of Food Products in the World and Domestic Markets

Despite the general trends in price movement at domestic retail and global markets, which tended to be similar, the level of volatility in prices of different products were not the same. As part of the study, price volatility was measured by using the variance in monthly prices during pre-covid period (April, 2019–March, 2020) and covid period (April, 2020–March, 2021) (Table 1.6). It is to be noted that price fluctuations were rather high during the covid year compared to that of the pre-covid year concerning the selected products, both in global and local markets. Significant price volatility was observed in case of rice in the domestic retail market and palm oil, and soybean oil in the global market.

Table 1.6

Volatility Index of Market Prices of Selected Food Products

Periods	Rice		Wheat		Palm oil		Soybean		Sugar	
	Global	Retail	Global	Retail	Global	Retail	Global	Retail	Global	Retail
Pre-covid (April 2019–March 2020)	2.21	269.84	1.42	2.18	54.21	72.58	12.43	7.62	2.12	0.03
Covid (April 2020–March 2021)	2.99	849.53	5.44	5.88	185.58	113.85	153.51	98.35	0	0.71

Source: Estimated by authors.

Domestic retail prices are impacted to a large extent by the level and price of import of food concerned item. The study analyses the import dependency ratio of major food products of Bangladesh (Table 1.7). According to the estimates, none of the selected products has a level of dependence of even 1 per cent. The highest level of import dependence is observed in case of wheat (0.99) followed by rice (0.83 in 2020) and lentil (0.67 in 2020). The level of dependence has varied depending on the level of domestic production in a particular year. Given the very low level of dependence on imported products, volatility in domestic retail price is likely to be explained more by internal factors as against the external factors (particularly the fluctuations in the global market price).

Table 1.7

Import Dependency Ratio of Selected Agricultural Products

	Rice	Wheat	Lentil	Onion	Garlic
2019	0.00	0.99	0.55	0.15	0.52
2020	0.83	0.99	0.67	0.06	0.47

Source: Estimated by authors based on data collected from different sources.

Retail market price variation may be estimated in terms of daily, weekly and monthly levels (Table 1.8). It is to be noted that the majority of essential food products are outside of the purview of the structure of maximum retail price (MRP). In case of stable supply of foods in the domestic market, price variations between daily, weekly and monthly levels was within a tolerable limit. The study has analysed the retail prices of two important food products—rice and wheat (atta) in Dhaka retail market during July–December 2020. In case of rice, the monthly price fluctuation was found to be higher than the daily and weekly ones. On the other hand, in case of wheat, the daily price fluctuation is higher which is followed by weekly and monthly price fluctuation. Such inconsistent pattern of market price movements indicate that domestic market supply and market price were influenced by non-market factors.

Table 1.8

Variance in Dhaka Retail Prices of Rice and Wheat at Daily, Weekly and Monthly Levels (July–December 2020)

	Daily	Weekly	Monthly
Rice	1.30	0.73	3.04
Wheat	1.95	0.84	0.76

Source: Authors' calculation based on TCB data (TCB, 2021).

When marketing channels of food products work smoothly across the country, variation in retail prices in different markets are expected to be within certain limits. This section analyses the spatial variation of retail prices of rice and wheat in six major markets in the country—Dhaka, Khulna, Chittagong, Rajshahi, Barisal, Rangpur and Sylhet. The price levels vary widely between different markets within the country (Table 1.9). The highest level of variance in rice price was observed in Sylhet followed by Chittagong and Rangpur. On the other hand, the highest variance in wheat price is observed in Rangpur followed by Dhaka and Barisal. Hence, the price movement within the country are not same and different retail markets behave differently in terms of market price levels. This is partly due to variance in timely availability of supply in the market, but there are also other factors at play which need to be examined.

Table 1.9

Variance in Retail Prices of Rice and Wheat at Selected Markets in the Country (July–December, 2020)

	Dhaka	Khulna	Chittagong	Rajshahi	Barisal	Rangpur	Sylhet
Rice	0.81	1.37	3.94	0.09	1.75	2.3	4.91
Wheat	9.01	0.36	0.0	0.16	6.19	9.54	0.1

Source: Authors' calculation based on Department of Agriculture Marketing (DAM) data (DAM, 2021).

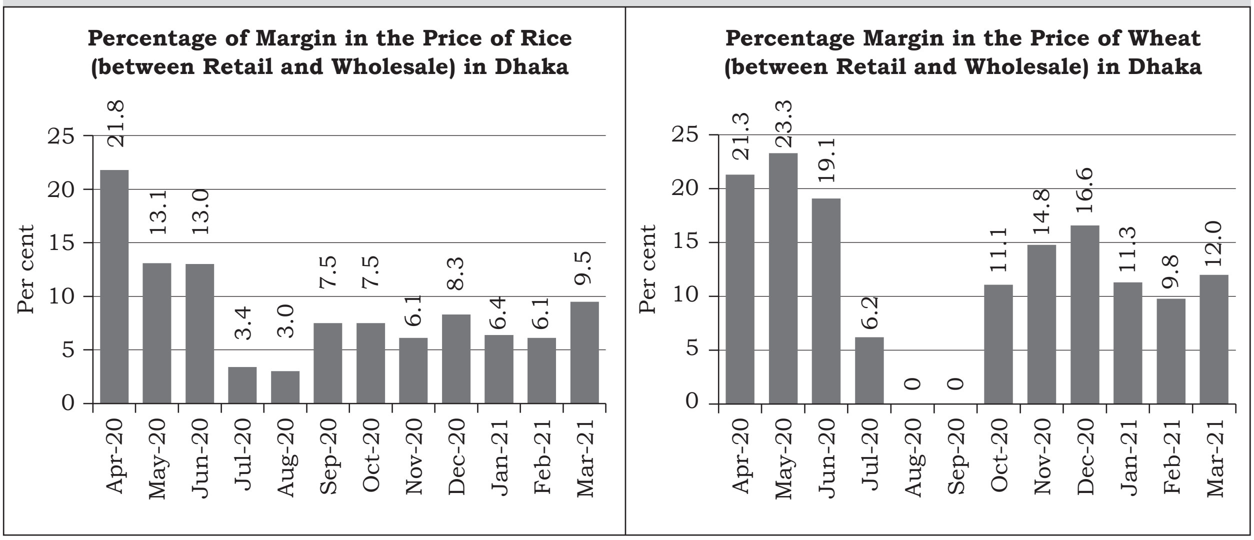
1.3.4. Factors Driving Volatility of Retail Market Prices

Distribution of margins in the value chain

The retail market price is influenced by the margin enjoyed by the intermediate market agents particularly at wholesale and retail levels (Figure 1.3). Based on the analysis carried out by the Food Policy Monitoring Unit (FPMU), the margin in rice and wheat prices in Dhaka retail market during the covid period was found to vary widely. In case of rice, the rate of margin was as low as 3 per cent during August, 2020 to as high as 21.8 per cent in April, 2020. On the other hand, the rate of margin

Figure 1.3

Percentage of Margin in the Prices of Rice and Wheat in Dhaka



Source: FPMU, 2021.

in wheat (atta) varied between as low as 0 per cent in August and September, 2020 to as high as 23.3 per cent in May, 2020. The margin in March 2021 (during the second wave) has started to rise both in rice and wheat. Uncertainties in domestic supply related to production, import and stock due to the covid pandemic were to some extent responsible for the aforesaid trends.

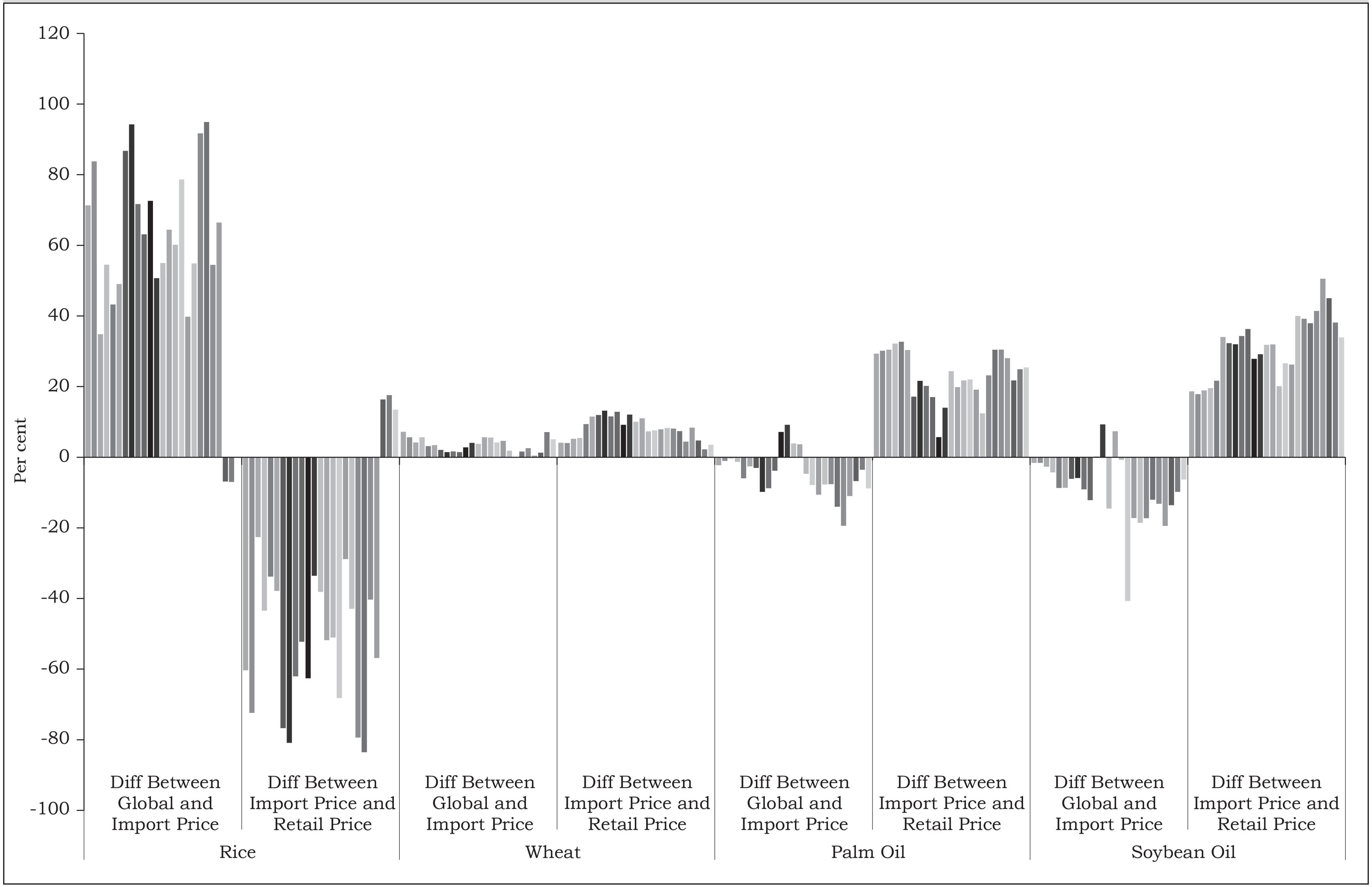
1.3.5 Influence of Variation of Import Prices

Import of different food products as per requirement, and delivery on time, are highly important for ensuring stable market price. The study has carried out an analysis of import of selected food products through Chittagong seaport during April 2019 to April 2020. The products included rice, wheat, palm oil, soybean oil and sugar. It is to be noted that a major part of rice is imported through land port from India and hence the data analysed in this section will keep this out of the purview of the analysis. It is generally expected that import price should reflect the price associated with global export price, shipment cost, import duties and charges, and importers' margin. Figure 1.4 shows that the gap between global market price and import price is found to be very high. More importantly, import prices of rice (Tk per kg), both during pre-covid and covid periods, shows extremely high figures (Tk 99.9 and Tk 94.9 respectively). A possible explanation of the high market price of rice at the domestic level relates to the import of high-quality rice which is usually consumed at a limited scale by a section of high-end consumers. The huge volume of import of rice at higher prices through the Chittagong port indicates that this is not high-quality rice only. In other words, a part of high import cost is likely to be over invoiced by the importers. However, such anomalous activities cannot be strongly explained from import price of other imported products. The particular case of rice needs to be investigated.

Import price of food products is likely to be reflected in the domestic market prices—where the latter is supposed to reflect import cost, loading/unloading charges at ports, transportation cost, wholesale price and retailers' margin at the retail level. It appears that the differences between import price and retail price is inexplicably high in case of palm oil and soybean oil (Figure 1.4). The price gap both at the import end as the well as retail end of the value chain cannot be explained by general economic logic. In other words, domestic retail market is likely to be influenced by non-market practices by importers, wholesalers and retailers; this has also been painted out in a government report.

Figure 1.4

Difference between Global and Import Price and Difference between Retail and Import Price of Selected Food Products (April 2019–April 2021)



Source: Authors' estimates based on collected data.

1.3.6 Changes in Domestic Production and Import of Selected Food Items and Food Stock of Rice and Wheat

Domestic supply of food grains in a particular year is largely influenced by changes in domestic production and net import. This section analyses the changes in domestic production as also of import during pre-covid and covid periods. Table 1.10 shows that major food products have experienced a rise in production, except that of wheat, in FY2020–21. On the other hand, import of rice, soybean and onion through the Chittagong port has declined during covid period. It is to be noted that changes in import of rice and onion presented in this section provide only a partial picture as it did not capture import through land port from India. As is known, the rising prices and demand for additional food support for low-income people, import of rice, onion and soybean oil both by the public and private sector have been encouraged by the government. In this connection, a number of policy support measures were announced including reduction of import tariff on rice and onion and setting higher targets for domestic procurement of rice and encouraging production of onion etc. In case of import and level of procurement of rice, the impacts were not notable. Import of onion has increased though only in recent times, and acreage of onion production has increased. In the backdrop of high price of soybean oil, reduction of import in the covid period has further led to the increase of the prices of soybean oil at the retail market.

Table 1.10

Changes in Domestic Production and Import of Selected Food

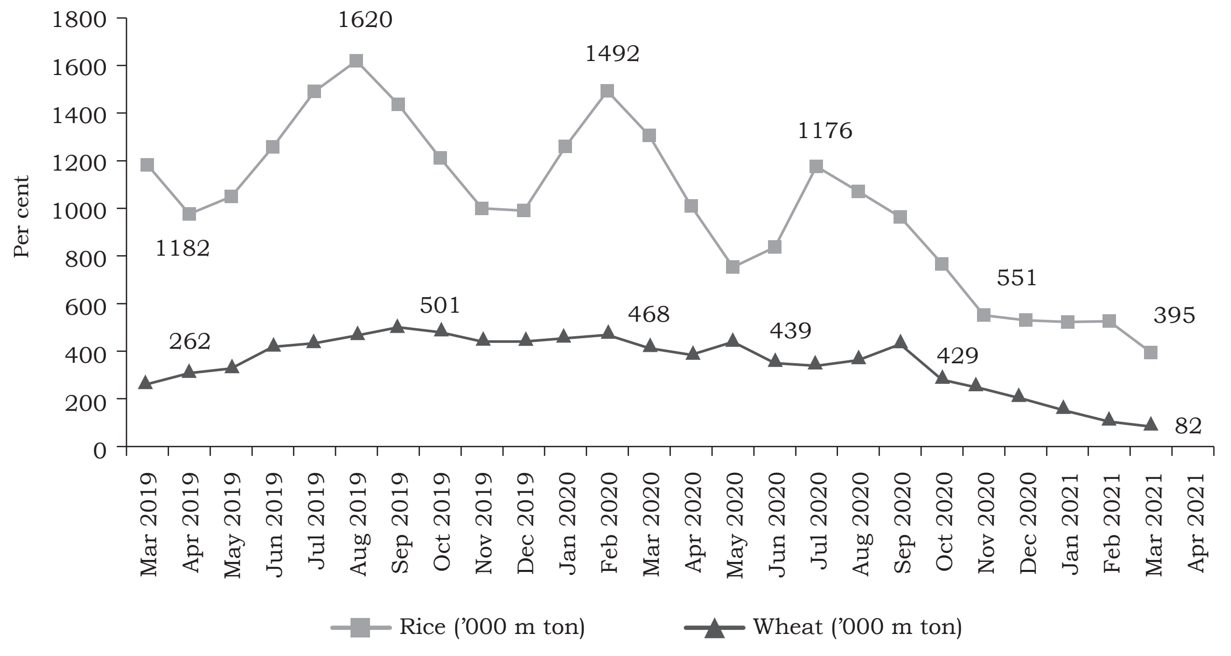
	Rice	Wheat	Lentil	Soybean	Onion
Production (percentage change)					
FY18–FY19	0.71	4.46	5.88	19.33	0.04
FY19–FY20	0.18	-10.37	3.17	3.52	9.82
FY20–FY21 (target)	8.41	26.24	2.31	3.40	15.43
Import (percentage change)					
FY20	-24.14			51.71	-5.48
FY21 (up to April 2021)	-94.89			-89.6	-86.76

Source: Authors' estimates based on the data collected from different sources (DAM, FPMU and others).

Domestic retail prices of rice and wheat are partly influenced by the availability of public food stock of rice and wheat. Stocks of both rice and wheat were at their lowest level at the end of April 2021 (Figure 1.5). This is because of the failure to attain the targeted amount of procurement of rice and wheat against the increased targets set for procurement and public food distribution under the various social support programmes. The procurement of boro and aman rice during 2021 was not achieved. Against the target of 1.3 million metric tons (MT) of rice and 0.10 million metric tons (mmt) of wheat for FY2020–21, only 0.66 mmt of rice could be procured up to March 2021. In other words, the procurement was only half of the total targeted amount. It is alleged that the low procurement price set in Aman season discouraged farmers and millers to sell to the government. Although procurement price of boro increased, the collection till now has not been satisfactory because of higher market price. On the other hand, import duty on rice has been brought down by the NBR, till April 2021, with a view to encouraging import of rice by the private sector. However, private sector has shown only a meek interest in importing rice from the global market and the amount was rather low. Against the huge shortage in public food stock and high local market price, import of rice during FY2020–21 (up to 22 April) was a significant 923.1 thousand metric ton—of which 265.8 thousand metric ton was imported by the government and the 657.3 thousand metric ton was imported by the private sector. However, import of rice had only a modest effect on the market and the retail

Figure 1.5

Trends in Public Food Stock during Pre-Covid and Covid Period



Source: FPMU, 2021.

price of rice. Market tends to be highly influenced by the harvest of boro rice. Due to the low level of procurement, government has revised downward the target for distribution of rice and wheat under social support programmes. This will adversely affect the low-income people in terms of ensuring minimum level of food security during the ongoing pandemic.

1.3.7 Impact of Different Factors in Determining Retail Price: A Regression Analysis

The analysis has been carried out for rice, wheat, palm oil, soybean oil and sugar for the period of April 2019–April 2021. All the variables are in logarithmic form. The Augmented Dickey-Fuller (ADF) test has been conducted separately for each commodity's prices and stock (when needed) to check the unit root in the data. All the commodity prices at retail, global and imported level have a stationary at I (1) except for sugar. Johansen cointegration test has been applied with vector error correction model for all commodities except sugar as it is assumed that there could be a cointegrating relationship among them. Auto Regressive Distributive Lag (ARDL) bound test with error correction model has been applied for sugar prices.

From the Johansen cointegrating equation analysis (based on the significance of the estimated coefficients), long-run cointegrating relationships between rice, wheat, soybean oil, and palm oil prices, was found.

From the vector error correction model (VECM), it has been found that the speed of adjustment (coefficient of the error-correction term) of retail rice and wheat prices are 31 and 25 per cent above their respective equilibrium points. A negative shock is needed to push back to the equilibrium. However, soybean and palm oil prices are lower by 6 and 8 per cent, respectively. From ARDL EC test, sugar retail prices are 68 per cent lower from its equilibrium point. This suggests that there is a discrepancy between long-term and short-term retail prices of commodities will be adjusted, ceteris paribus. A moderate rate of adjustment to equilibrium for rice and wheat prices and slow rate of adjustment for soybean and palm oil prices will occur.

Based on the analysis, following results can be drawn (Table 1.11):

- *Rice:* The domestic retail rice price is found to be cointegrated with global and imported price of rice and public rice stock. However, imported price and public stock of rice will have a positive impact and global rice price will have a negative impact on domestic retail price in the long run.
- *Wheat, soybean and palm oil:* There is significantly high cointegrating relationship between domestic wheat, soybean and palm oil prices and global and imported prices. Similar to rice, imported price and public stock of wheat have a positive impact and global wheat price has a negative impact on domestic retail price, in the long run.
- *Sugar:* Both in the long run and short run, domestic retail sugar price is significantly cointegrated with the global sugar price.

Table 1.11

Cointegrating Coefficients of Variables with P Values for Selected Commodities

Commodities	beta	Coefficient	P Values
Rice	Retail Price	1	.
	Global Price	0.163	0.000
	Imported Price	-1.167	0.000
	Public Stock	-0.217	0.000
	_cons	4.100	.
Wheat	Retail Price	1	.
	Imported Price	-2.841	0
	Global Price	1.426	0
	Public Stock	-0.584	0
	_cons	12.785	.
Soybean	Retail Price	1	.
	Global Price	-5.574	0
	Imported Price	5.608	0
	_cons	-3.979	.
Palm Oil	Retail Price	1	.
	Global Price	-2.869	0
	Imported Price	2.315	0
	_cons	-2.084	.
Sugar (ARDL)	Long Run Equation		
	Global Price	0.324	0
	Imported Price	0.137	0.658
	Short Run Equation (Log of global sugar price)		
	First difference	-0.132	0.052
	Lagged difference	-0.155	0.016
	_cons	3.367	0.002

Source: Authors' estimates.

1.3.8 Different Policy Measures to Stable the Market Supply and Market Price

Policy measures undertaken at the national level

Ensuring availability of essential food products and price stability are major responsibilities of the government and concerned public entities such as the Ministry of Commerce (MoC), Ministry of Agriculture (MoA), Ministry of Finance (MoF), NBR, Bangladesh Tariff Commission and a number of other ministries and departments. During the covid pandemic period, various measures have been undertaken by concerned ministries and departments in addressing the supply of food products in the market (Table 1.12).

Rice: In case of rice, initiatives are mainly targeted at enhancing the supply of rice in the market. This has been carried out by encouraging the private sector to import more rice, by reducing the import duties and by putting emphasis on procurement of rice directly from growers in order to replenish the public food stock. These initiatives had limited positive impact because of the overwhelming dominance of rice millers in the domestic market and large-scale importers at the import stage. The influence of dominant market players in the rice value chain needs to be properly investigated and to be addressed under the jurisdiction of the Competition Commission. Domestic procurement policy needs major revisions where procurement from growers needs to be expedited through new measures and setting procurement price of paddy and rice at a competitive level. In case of import, decisions on changes in import duties need to be timely and specific to the needs of the market in order to avoid adverse consequences on rice growers and consumers.

Onion: In the backdrop of imposition of export ban by India, the government and the private sector took measures to import onion from other sources including Myanmar, Turkey, Egypt and China. Due to inadequate amount of import, domestic supply and price experienced only a limited lagged positive effect. In this backdrop, the government has decided to enhance domestic production further in order to reduce dependence on imported onion particularly from India. At the same time, the government has decided to reinstate the earlier import duties on onion in order to discourage import and to protect domestic onion growers. Given the high cost of production against the low-priced onion imported from India, how far the domestic growers will be incentivised to expand onion production taking the risks of supply of low-priced Indian onion remains a question.

Edible Oil: It is alleged that a handful of importers dominate the market who used influences of their 'dominant market position' in the edible oil market as mentioned in a report of the MoC. Although the oil refiners claimed that the change in duty structure was the reason for higher import price, the NBR held the view that this had little relation to the rising import price. Rather, there are allegations that importers dominated the supply in the wholesale market by issuing more SS slips during the pandemic period, but later reduced the supply in the market. Government took initiatives to make the fixed price functional by introducing MRP at the retail level. This had only a limited success—sales in the retail market took place at a higher price than the stipulated price.

Sugar: Domestic sugar market is dependent on imported sugar which is dominated by a few large-scale importers. Although government has reduced duties as was demanded by the importers, the effect in the domestic supply and retail market price was only limited. It was the importers who were able to enjoy the benefits of reduced duties depriving the consumers.

Overall, various policy measures undertaken by the government, to ensure stable market supply and prices of food products during the pandemic, had only limited positive effect on the market and particularly in view of interests of the consumers. The policy measures have indirectly benefitted the

Table 1.12

Major Food Items Related Decisions Taken by the Public Authorities

Products	Decisions Taken by Different Public Authorities
Rice	• The food ministry announced to buy paddy from growers by the end of October with the objective to push up prices of the grain and help growers recoup losses, reducing its focus to buy the grain only from millers. • The NBR might reduce duty on rice import by issuing a Statutory Regulatory Order (SRO). The review comes in response to separate proposals made by the ministries of food and commerce and trade bodies concerned. Currently the import duty on rice is 62.5 per cent. There has been a surge in the prices of the staple in recent months. • Government has identified three main reasons behind the rise in rice price—(a) inadequate production against the local demand; (b) increasing price; and (c) the lower government stock of rice. Considering the overall situation, the government has allowed the private sector to import rice. NBR have reduced the import duty on rice from 62.5 per cent to 25 per cent which was valid till 30 April.
Onion	• India lifted ban on onion export. • The decision would have adverse effect on local onion farmers. • MoA, GoB discouraged importers to import onion from India. • MoA suggested MoC to impose higher import duties on onion. • The government took steps to withdraw the 5 per cent import duty on onions up to March 2021. • The MoC and the Directorate of National Consumers' Right Protection have intensified monitoring of the overall situation. • To keep the price and supply of onion normal in the country, TCB, under the MoC started selling onions in the open market at a price of Tk 30 per kg from September 13, 2020 at important places of Dhaka city. • TCB decided to import onions from other sources and use e-commerce platform to sell, mainly imported from Myanmar and Turkey. • NBR to review duty on rice, onion for addressing price volatility. It is likely to reinstate 5.0 per cent duty and levy a new regulatory duty (RD) onion to discourage the import of the item to help the onion growers in getting better price.
Essential products	• The Minister of Commerce under the supervision of the Prime Minister of Bangladesh was seen to form a committee with the TCB to maintain a stable price of essential goods during the first phase of the lockdown.
Edible oil	• Edible oil manufacturers are causing problems in the product's supply chain to local markets as they have issued advance sales orders (SO/Sleep Order) more than their production capacity. • Thus, when the price in the international market increases, the local marketers reduce the supply of the products owing to the advance SOs. • A decision has been taken by the MoC to sell all brands of loose edible oil in consumer packs or bottles to help easily identify brand names and prevent adulteration of edible oil in the market. • *Refiners cut edible oil prices by Tk 3 per litre:* Vanaspati Manufacturers Association, the association of edible oil importers and manufacturers, sent a letter to the Bangladesh Trade and Tariff Commission to inform them of their decision to raise edible oil prices. • *Commerce ministry seeks VAT, duty cuts on edible oil, sugar:* The NBR levied 15 per cent value added tax (VAT) on all three stages—import, production, and distribution—of soybean and palm oil from this fiscal year, ending the previous rule of collecting the indirect tax at the import stage only, which have resulted in the sky soaring prices. • According to the MoC, the country imports 2.2–2.6 million tonnes of crude soybean oil and palm oil annually against the domestic demand of 2.2 million tonnes. • Of the total import, soybean accounts for 0.7-0.8 million tonnes and palm oil 1.4-1.6 million tonnes, while the remaining are mustard, sunflower, rice bran and other edible oils. • The tariff commission recently sent letters to all deputy commissioners in the country asking them to form committees in their districts under their chair to monitor the supply chain.

(Table 1.12 contd.)

(Table 1.12 contd.)

Products	Decisions Taken by Different Public Authorities
	• After analysing the international market—during a meeting with traders in the last week of January, 2021—the MoC directed that soybean oil would be sold at a maximum of Tk 124 per litre. • However, the traders have raised the price several times since then.
Sugar	• *The rise in the price of refined sugar:* The specific duty on raw sugar rose 50 per cent year-on-year to Tk 3,000 per tonne in FY2019–20, the Commerce Ministry said in another letter to the NBR. • The letter also mentioned refiners who import raw sugar also saw the imposition of 5 per cent advance tax (AT) and 5 per cent advance income tax (AIT) apart from the highest rate of VAT. • The NBR has declined to reduce the import duty and taxes on sugar and edible oil on the Ramadan. It said, any cut in duty and taxes would not benefit the consumers as prices did not increase significantly because of fiscal measures.

Source: Compiled from different newspapers.

importers, wholesalers and retailers and partly growers, to varying degrees. The poor, marginalised and low-income people who are the consumers are, however, deprived from getting the advantage of low market price of essential consumer goods. It is important to review entire process, identify the major weakness in policy measures and to identify innovative measures to ensure stability in market supply and market price and give the benefits to the consumers.

Policy measures followed in other countries

Given the sensitivity of market prices of food products, it is a general practice in developed and developing countries to take targeted measures through specific institutions (Table 1.13). The study has analysed the policies, institutions and measures practised in different countries including India, Pakistan, Sri Lanka, Thailand, Vietnam and USA. Majority of countries vest the responsibility of price stabilisation with a particular institution. For example, India assigns these tasks to Commission for Agricultural Costs and Prices, Pakistan delegates this to National Food Security and Research and Thailand delegates the responsibility to Central Committee on the Price of Goods and Services etc. Three countries applied a host of measures to address the issue of the price volatility. For example, Price Stabilization Fund (PSF) and minimum support price have been put in place in India, market price support policy is being implemented in Vietnam, Pakistan has intensified crackdown on profiteers and hoarders across different provinces, and price department monitors and ensures price stabilisation in USA etc.

Table 1.13

Relevant Institutions and Measures Undertaken in Different Countries

Name of the Department	Measures Taken for Stability in Market Prices
Bangladesh: Ministry of Agriculture	• Keeping the prices of the essentials within the purchasing power of the consumers. • Selling essential commodities such as rice, pulses in open market through the trading corporation of Bangladesh at fair prices.
India: Commission for Agricultural costs and prices (Ministry of Agriculture and Farmers Welfare)	• The CACP provides a “Price Policy Report” along with different state governments and national organisations and ministries. • A Plan Scheme titled Price Stabilisation Fund or PSF is being implemented to regulate price volatility of agricultural commodities.

(Table 1.13 contd.)

(Table 1.13 contd.)

Name of the Department	Measures Taken for Stability in Market Prices
	• Advisory was issued to state governments to take strict action against hoarding and black marketing and effectively enforcing the Essential Commodities Act 1955 and the Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities Act 1980. • Higher MSP (Minimum Support Price is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices) has been announced to incentivise production and thereby enhance availability of food items which may help moderate prices.
Vietnam: Ministry of Agriculture and Rural Development	• The MPS policy provides an estimate called "producers support estimate" that helps determine the final market price. • MPS is net of producer levies and excess feed cost. MPS commodities for Vietnam are rice, rubber, coffee, maize, cashew nuts, sugar, pepper, tea, beef and veal, pig meat, poultry and eggs.
Pakistan: Ministry of National Food Security and Research.	• This ministry is responsible for formulating different economic policies related to agriculture and food stability. • Administrative officers would have to ensure implementation of the fixed rates. • Intensifying the crackdown on profiteers and hoarders across the province.
Thailand: Central Committee on the Price of Goods and Services, Department of Internal trade	• The Central Committee on the price of goods and services and the department of internal trade controls the market price and helps the Ministry of Commerce to take the final decision.
USA: United States Department of Agriculture (USDA)	• The price department under the USDA helps in monitoring and stabilizing the prices.
South Africa: South African Agricultural Union	• The South African Agricultural Union along with different member organization and co-operatives of provinces help the government in determining different prices of the essential food commodities. • Government has imposed regulations that will limit unjustified price hikes and product stockpiling, to protect consumers. • The regulations will cover the full supply chain and will limit price increases of suppliers. • Regarding stockpiling, all retailers will be required to take steps to curb this while ensuring stock availability, including weekends and month end. • Companies fail to comply; government may have to set limit prices on certain products. In the same vein, a breach in the regulations may see the concerned party heavily penalised.

Sources: Compiled from different websites.

1.3.9 Conclusion

The study reveals that the volatility of market prices at the domestic level is influenced primarily by domestic and internal factors, and only partly by global factors. The retail prices of major food products cannot be fully explained by the margin enjoyed at the wholesale and retail levels, wholesale and importers level and wholesale and growers/miller level. Public policies undertaken to address the issue of price volatility though, taken with right intention, are often found to be ineffective in addressing the price volatility. A major weakness is the role of 'dominant market players' played by major importers and by the millers and big suppliers. Over invoicing practices at import stage also play a role. Against these practices, both public monitoring and public enforcement of 'competitive practices' have little impact. Markets of each of the agricultural products, at each stage, need to be made competitive. Transparency and accountability and institutional effectiveness are the key here. The Competition Commission should investigate whether major importers and millers use their dominant market player and thereby influence the market for their interest.

Bangladesh needs to establish formal integrated network of value chain for each of the agricultural products. All market players involved in those value chains should be registered. A transparent and accountable reporting system needs to be established across the value chains. All types of transactions in the value chains should be based on banking system except transactions at the lowest retail levels. Each market agents should be legally bound to share basic market information on a regular basis (e.g., monthly basis) to the public authorities which include production, procurement. Stock, sales, purchase and sales price, opening of letters of credit (LCs), price of imported products, amount of import, amount of sales to whole sellers' and retailers' level etc. Government should form a monitoring unit which will cover all essential food and non-food products. The unit would work under the Prime Minister's Office (PMO) and operational activities would be in the nature of FPMU which deals with rice and wheat related issues. Based on the regular assessment, the monitoring unit will extend necessary guidance for the concerned public offices and private sector associations to undertake prompt action.

The government may think of setting up a permanent Agricultural Rice Commission as in India, given the highlighted importance of the concerning issues. Indeed, such a proposal was floated by the CPD some years back. This proposal merits urgent consideration by the government.

1.4 BANKING SECTOR—UNCLEAR PRESENT AND UNCERTAIN FUTURE

1.4.1 Introduction

In response to the COVID-19 pandemic, the government has rolled out several liquidity support and fiscal stimulus packages, as part of its overall countercyclical policy to deal with the economic downturn. Since about 80 per cent of the government's COVID-19 response funds are in the form of liquidity support, banks are anticipated to play a central role in view of recovery of the pandemic-affected economy. As is known, the banking sector was already far too vulnerable even before the advent of COVID-19. Thus, when the banking sector was tasked with delivering the largest ever liquidity support and fiscal stimulus packages, it was rather doubtful whether the sector would be able to successfully carry out the responsibilities.

CPD had previously pointed out that the longstanding problems of the banking sector could become even more acute due to the additional challenges arising from the pandemic. It was stressed that the nature and design of Bangladesh's COVID-19 relief funds left ample room for financial malpractices (CPD, 2020). Despite issuing more than 100 circulars related to the liquidity support packages over the past year, the central bank has not been able to address the regulatory gaps. This has made some of the government's liquidity support packages available also for banks that are weak and poorly governed; these supports were also made accessible to loan defaulters. Regrettably, publicly available data on the implementation status of the liquidity packages from official sources has been hard to come by, although the central bank has instructed all commercial banks to submit such data within the fifth day of each month. However, it is not clear as to which banks have received the government's COVID-19 liquidity support packages, how much liquidity they have received, and what amount of loans they have given out.

Citing the second wave of COVID-19, the central bank has extended its moratorium on loan classification by three more months, up to 30 June 2021. It is not clear what the real situation of non-performing loans (NPLs) in the banking sector is at present, and it is uncertain as to how large NPLs may actually turn out to be in the future when the moratorium is lifted.

Since the highest share of COVID-19 related liquidity support has been offered to large industries, crony capitalists may take advantage of their strong political foothold to use the banks to obtain more than their fair share of funds. Commercial banks must exercise their own judgement to decide which potential loan seekers have been "affected" by COVID-19, since no clear, objective and quantitative criteria for defining the term "affected" has been stipulated by the central bank. It is not certain as to how commercial banks have assessed which businesses were "affected" by COVID-19 and on what basis they have offered loans from the government's COVID-19 liquidity support packages.

Thus, there are reasons for being apprehensive about the state of the banking sector during the ongoing pandemic. This report discusses some of the pressing issues concerning the banking sector based on the limited data which was available at the time of writing and makes a number of policy recommendations for enabling the banking sector to play a more constructive role in the economic recovery from the pandemic.

1.4.2 Government's COVID-19 Response

The Government of Bangladesh had responded to health and economic emergencies caused by COVID-19 by announcing a number of liquidity support and fiscal stimulus packages targeting various sectors and people. The objective of the stimulus packages was to provide liquidity support to the affected businesses. These packages are also to boost public spending, expand social security net coverage, and improve cash availability for the immediate, medium, and long terms. As was noted, the liquidity support was channeled through the banking sector which has proven to be the weakest link in the economy of Bangladesh for the past decade.

A summary of the COVID-19 relief packages announced by the government is outlined in Table 1.14. Bangladesh's fiscal stimulus package is a meagre 20.41 per cent of its total COVID-19 relief funds or only 0.91 per cent of its GDP (Table 1.14), and falls far short of the 11 per cent of GDP that is estimated to be required to mitigate the socioeconomic impacts of COVID-19 (UNESCAP, 2020). Ironically, the largest industries which are relatively more capable of dealing with shocks got the greatest support from COVID-19 relief funds (Annex Table 1.1). Moreover, the varying speed of implementation of the various liquidity support packages has created an unequal turnaround as bigger firms have rebounded more strongly, owing to quick access to liquidity packages, while smaller firms have been largely left behind. From the outset of the announcement of the COVID-19 liquidity support packages by the government, banks have been more willing to lend to large borrowers, but were hesitant to

Table 1.14

Summary of COVID-19 Response Funding by the Government

	Allocation			
	In million USD	**In crore BDT**[i]	**As share of total COVID funding**	**As share of GDP**[ii]
Total liquidity support	11,839	99,450	79.59	3.54
Total fiscal stimulus	3,037	25,503	20.41	0.91
Total COVID-19 funding	14,876	1,24,953	100.00	4.45

Source: Authors' compilation based on the data from the Ministry of Finance, Government of Bangladesh (MoF, 2020; Bangladesh Awami League, 2021a; Bangladesh Awami League, 2021b).

Note: i) Assuming an exchange rate of USD 1 equal to BDT 84, as per national budget documents of FY2020–21; ii) Assuming that GDP is equal to USD334,000 million, as per the GDP for FY2019–20 in the national budget documents of FY2020–21.

lend to small borrowers. In a “k” shaped economic recovery curve, the COVID-19 recovery path splits in two directions: large firms and public-sector institutions with direct access to government and central bank stimulus packages will make some areas of the economy recover fast but leave behind SMEs, blue-collar workers, and the under-pressure middle class. The design of the stimulus packages and their distribution services a mostly “k” shaped economic recovery path in Bangladesh.

The transparency and accountability of Bangladesh’s COVID-19 stimulus plan will be key to its successful operationalisation and implementation. Hence, it is critical to make sure that the beneficiaries are selected based on clear, objective and quantitative criteria and vested interests are not allowed to intervene. The government has rightly issued a stern warning against misappropriation and misuse of the COVID-19 stimulus package funds. Besides, the general problems of errors in the listing of people who need relief will deprive the poor and vulnerable groups, including women. Such faulty listing of beneficiaries is prevalent also in the case of the existing SSNPs. Without connections with the local powerful people, it has been proved to be difficult to get included in the list of beneficiaries. Widespread corruption has taken place in the distribution of government’s relief items. Such malpractices have been reported in the media at a time when the economy was reeling from the worst effects of the COVID-19 crisis. Since the vast majority of Bangladesh’s COVID-19 relief funds will be distributed through banks, there is an opportunity for unscrupulous individuals to profit from humanitarian aid without coming into the limelight. This is because financial theft can be hidden from the public eye far more easily than physical theft. Since the nature and design of the COVID-19 relief funds make these susceptible to corruption, it is of paramount importance to ensure transparency and accountability. The government should work in collaboration with NGOs, international development partners and other stakeholders to ensure efficient allocation of COVID-19 related support.

Although the government declared the liquidity support packages in view of the crisis caused by the pandemic, ultimately liquidity support cannot be treated as philanthropy and so banks cannot provide loans to anyone on humanitarian grounds. Any bank must follow its due diligence whilst providing loans, meaning that banks are generally more inclined to providing loans to their old borrowers who are familiar to them rather than new borrowers who are unfamiliar with them. As a result, new borrowers with no credit history and limited records of business-related bank transactions found it difficult to obtain loans from any bank under any liquidity support package regardless of how badly affected they were due to the pandemic.

Physically challenged individuals, including disabled women, have not been able to travel to the location of relief distribution and hence were not able to get government support. Many of the poorest and most vulnerable do not have national identity cards or mobile phones, so distributing relief or providing liquidity support or fiscal stimulus to such people in an efficient manner proved to be challenging. Liquidity support through bank loans is not the best way to cater to the needs of small borrowers and new borrowers, as well as those who are the poorest and most vulnerable. Direct cash support has proven to be more effective to reach these groups to help adjust to the shocks of COVID-19.

There is a lack of awareness among women, and the general public at large, regarding the government’s liquidity support and stimulus packages. Public awareness on the liquidity support and fiscal stimulus packages should be increased through nation-wide campaigns so that the general population can clearly understand what kinds of support are being provided by the government, who are eligible for such support, and how to obtain that.

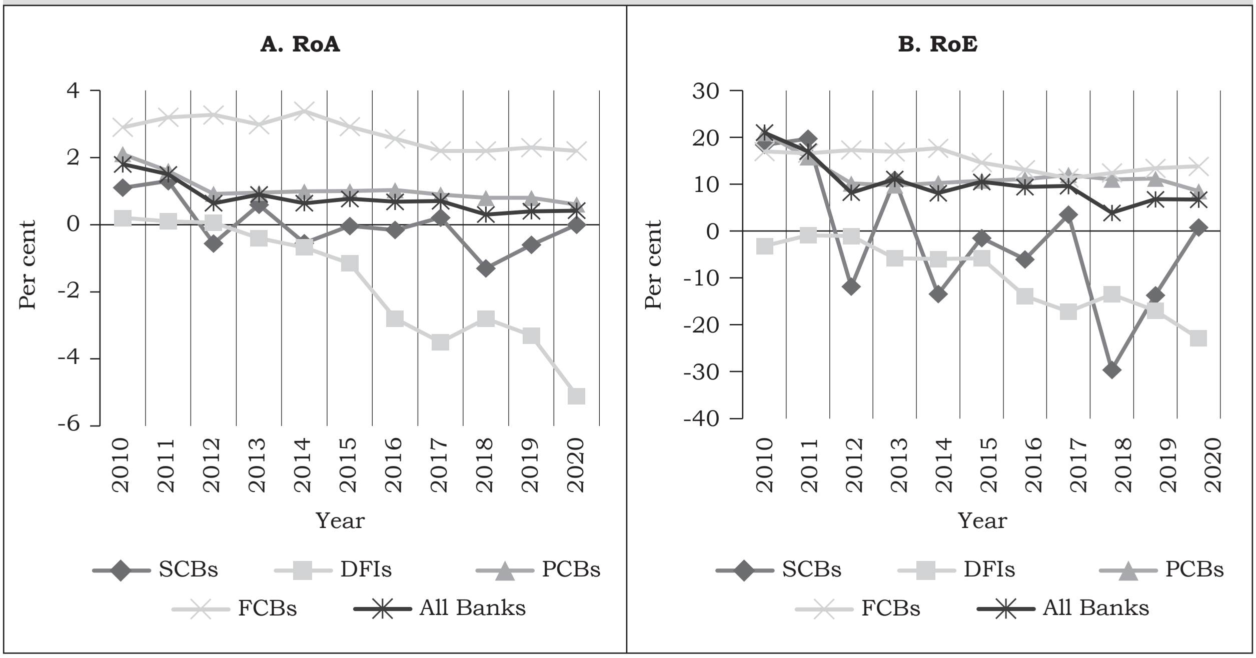
A large portion of people, who are actually poor and in dire need, did not receive any form of support from the government—in the form of relief items, liquidity support or fiscal stimulus. It appears that most of the liquidity support and fiscal stimulus packages were designed arbitrarily without considering the ground reality. The government must acknowledge the actual scale of the COVID-19 crisis and then formulate a specific and target-oriented post-COVID recovery plan that aims to build back better. A thorough needs assessment should be carried out to more fully understand and capture the extent of damage done by COVID-19, the amount of support required, and the people who need the support.

1.4.3 State of the Banking Sector during the Pandemic

The pandemic has taken its toll on the profitability of banks. Private commercial banks (PCBs) experienced a decline in profitability, as their return on asset (RoA) fell from 0.80 per cent in 2019 to 0.60 per cent in 2020, and their return on equity (RoE) fell from 11.2 per cent in 2019 to 8.5 per cent in 2020 (Bangladesh Bank, 2021a). Development finance institutions (DFIs) dug themselves into a deeper hole after the pandemic, as their RoA and RoE plummeted in 2020. However, foreign commercial banks (FCBs) were largely unaffected by the pandemic, whereas state-owned commercial banks (SCBs) actually managed to improve their profitability in 2020 (Figure 1.6).

In the early months of the pandemic, Bangladesh Bank undertook a number of measures to ensure adequate liquidity in the financial system to support the operations of financial institutions. However, in the backdrop of stagnant aggregate demand, such injections of funds have resulted in excess liquidity. The data from Bangladesh Bank shows that excess liquidity in the banking sector has nearly doubled from BDT 103 thousand crore in January 2020 to BDT 205 thousand crore in

Figure 1.6
Profitability of the Banks

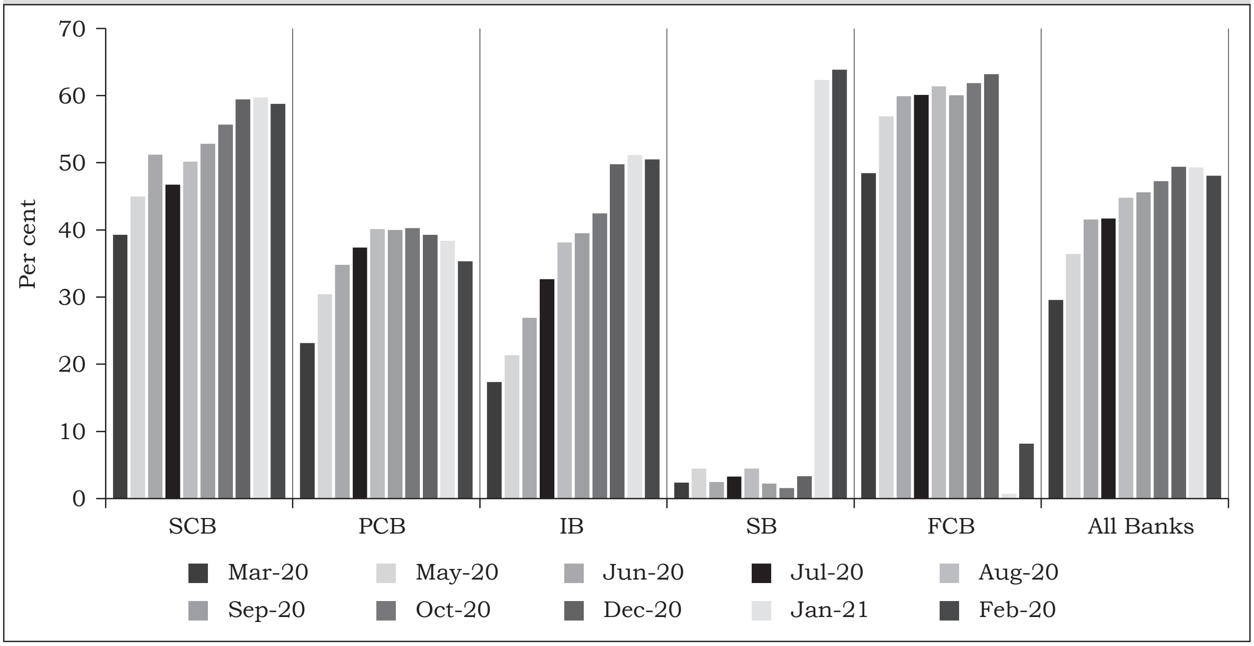


Source: CPD illustration based on the data from Bangladesh Bank (Bangladesh Bank, 2021a).

December 2020 (Bangladesh Bank, 2021b). During the same period, excess liquidity has more than doubled in SCBs and more than tripled in Islamic banks (IBs). Excess liquid assets comprised of 48 per cent of the total liquid assets of the banking sector in March 2021. (Figure 1.7).

Figure 1.7

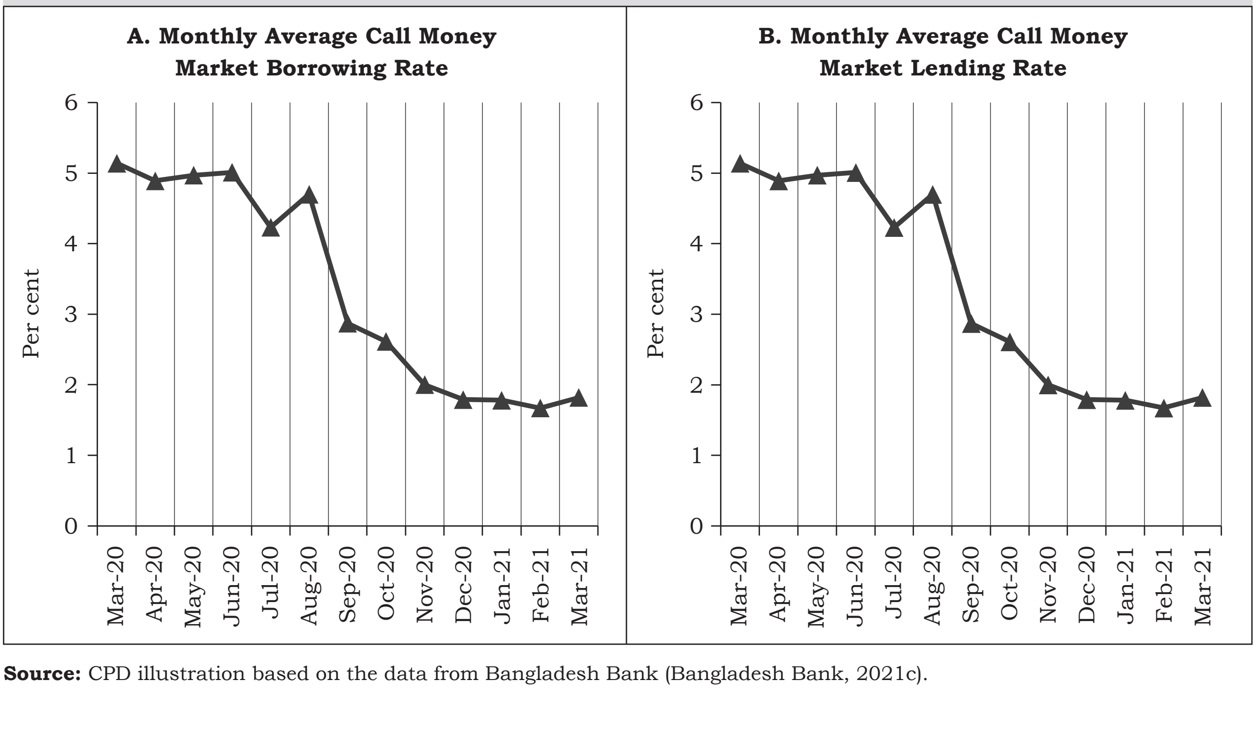
Excess Liquid Assets as a Percentage of Total Liquid Assets



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

Figure 1.8

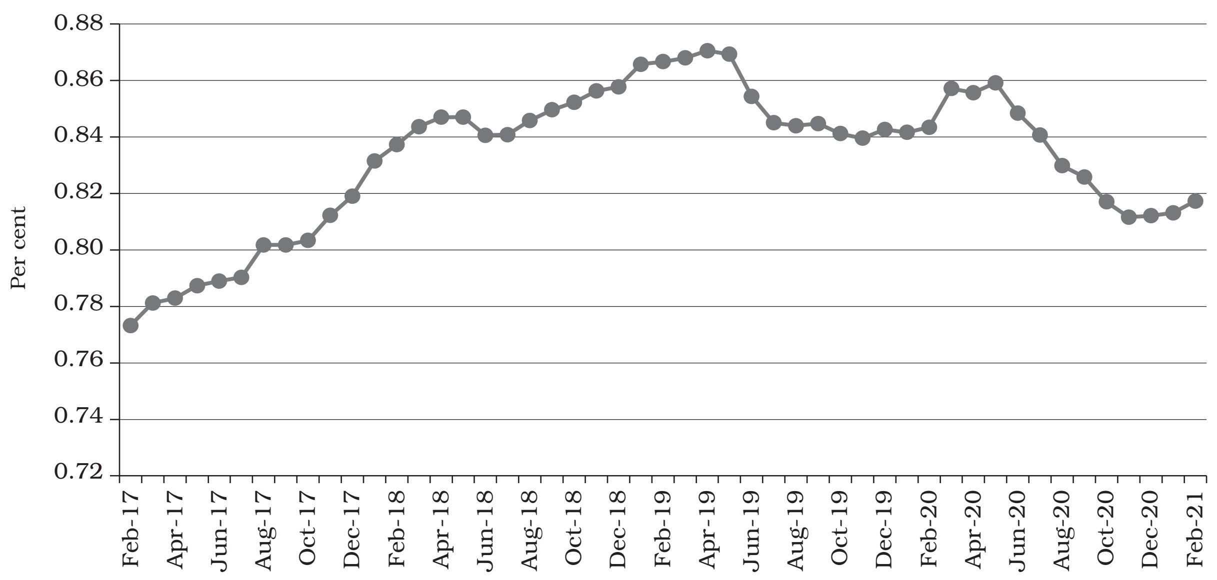
Monthly Average Call Money Market Interest Rate



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

Figure 1.9

Advance Deposit Ratio



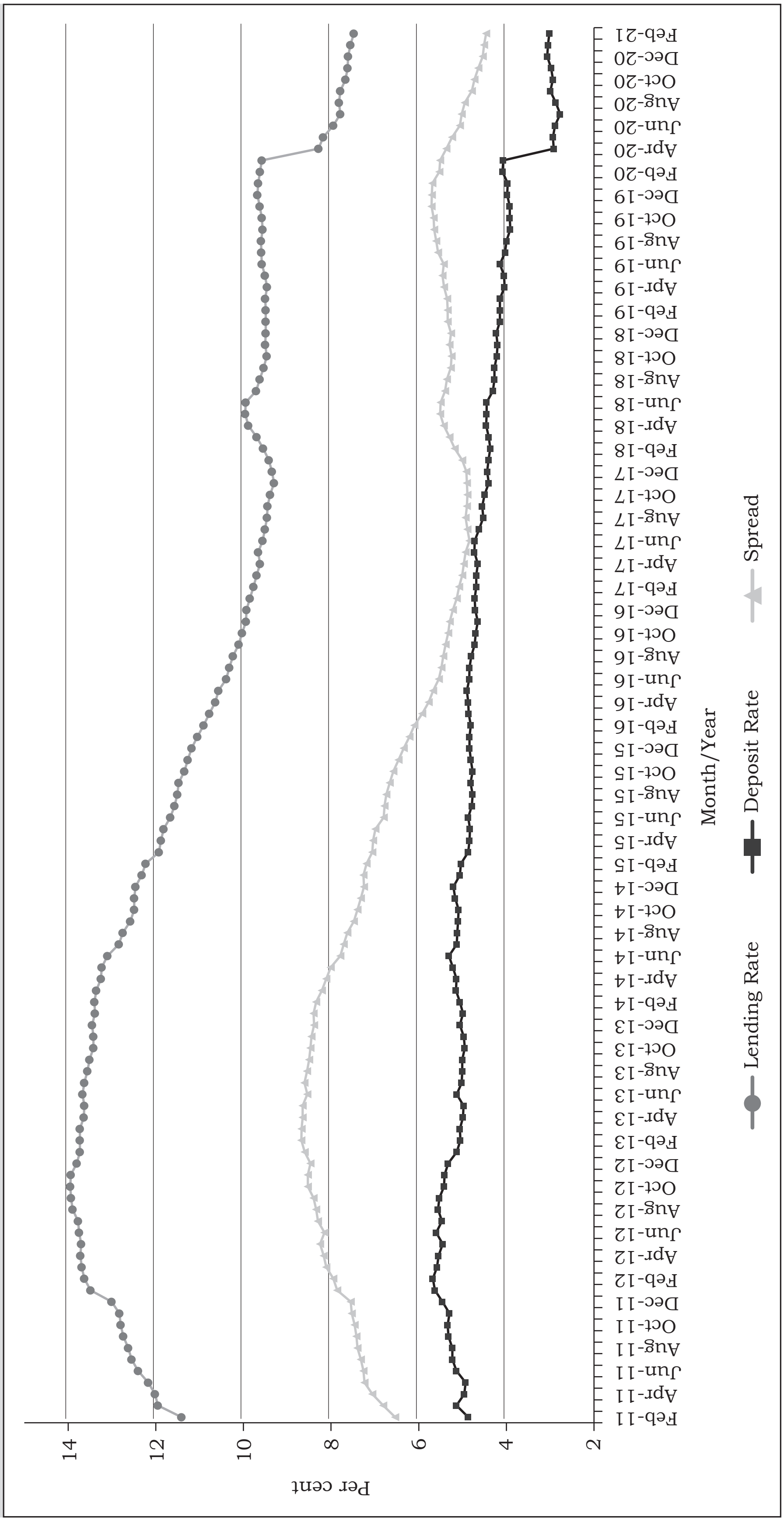
Source: CPD illustration based on the data from Bangladesh Bank (Bangladesh Bank, 2021c).

Signs of excess liquidity were also manifested in the call money market, as the monthly average call money market borrowing and lending rates both tumbled down from June 2020 onwards (Figure 1.8A and 1.8B). The low cost of funds in the call money market indicates that there was hardly any demand for funds, since the majority of banks most likely had excess liquidity. However, the monthly average call money market borrowing and lending rates have both somewhat increased from February 2021 to March 2021, indicating that the situation is maybe changing gradually.

Alternatively, excess liquidity is also a sign that the demand for loans is low, which is likely because the real economy is still experiencing the repercussions of the COVID-19 shock. The advance-deposit ratio of all banks fell to a three-year low of 0.81 in November 2020 (Bangladesh Bank, 2021c). However, in the early months of 2021, the advance-deposit ratio increased slightly, indicating that economic activity may be slowly picking up (Figure 1.9).

Excess liquidity in the banking system has led to a fall in the interest rates, which were already quite low even prior to 2020. During the pandemic, the weighted average lending rate in all scheduled banks has come down sharply and the weighted average borrowing rate in all scheduled banks has also declined. As a result, the interest rate spread has come down, adding to the woes of the commercial banks (Figure 1.10).

Figure 1.10
Interest Rate Spread



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

1.4.4 Monetary Policy and Inflation

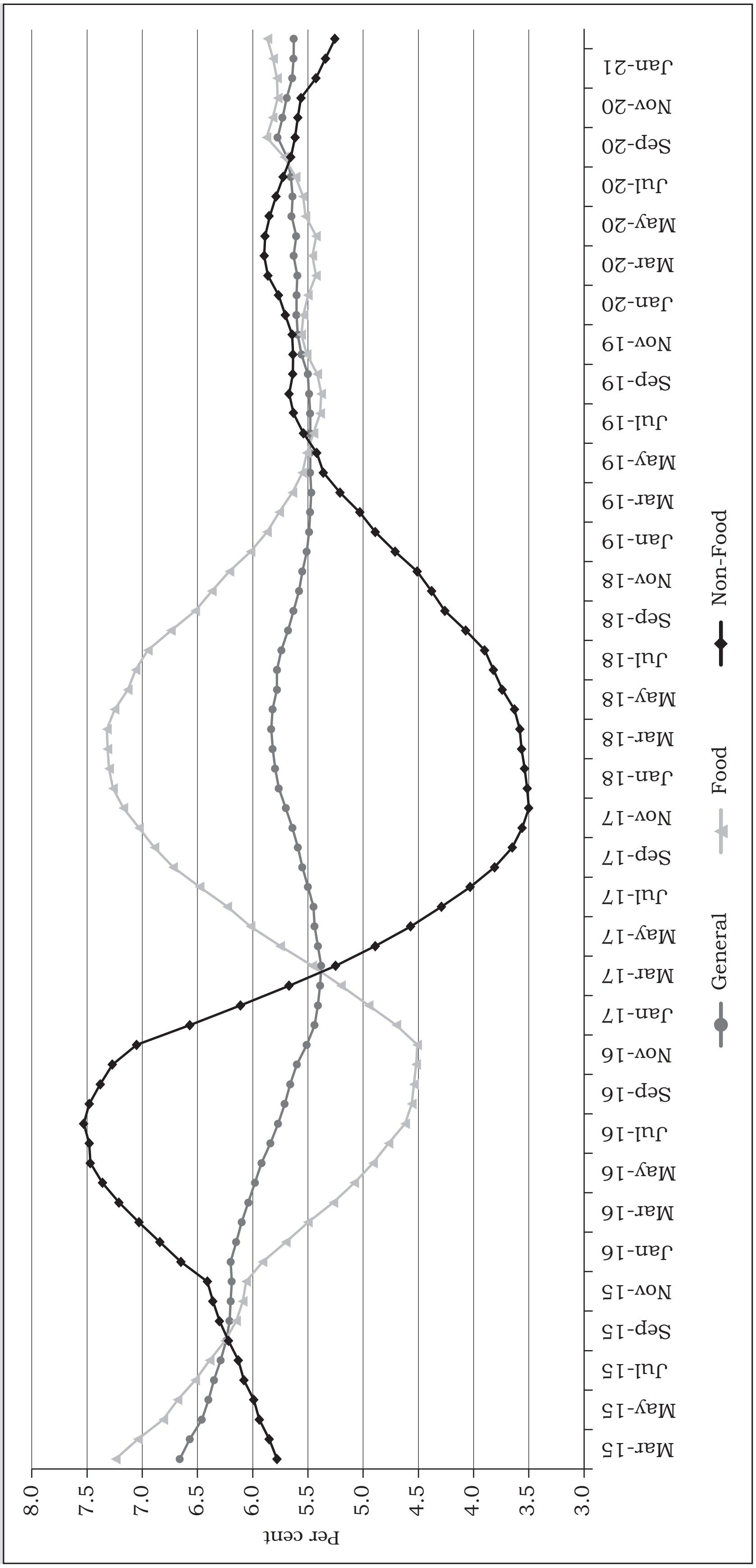
Monetary policy in the upcoming fiscal year (FY2021–22) will have to tackle the challenges posed by the uncertainties caused by COVID-19, while at the same time reigning in the rising cost of living which is harming the middle class and the poor. Such formidable feats must be performed in the backdrop of excess liquidity in the banking sector, which will make this effort even more arduous.

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

Over the years, the central bank has set various targets for inflation and seemingly achieved or come close to achieving them. However, it appears that the inflation rate has lost its relevance to the real world as even the middle class are increasingly finding it difficult to make ends meet in the face of income erosion. The data shows that the 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past several years. Increases in food inflation were generally accompanied by decreases in non-food inflation, so the overall general inflation rate has remained largely stable in the short term. In the long term, the overall general inflation rate has experienced a slight decline (Figure 1.11).

Engel's law states that as income increases, people spend a smaller proportion of their total income on food (Norton, Alwang & Masters, 2014). In Bangladesh, nominal household income increased by 7.86 per cent per year on average and real household income increased by 0.16 per cent per year on average between 2010 and 2016 (BBS, 2019). Food expenditure as a share of income decreased from 53 per cent in 2010 to 46 per cent in 2016, whereas food expenditure as a share of total consumption expenditure decreased from 55 per cent in 2010 to 48 per cent in 2016 (BBS, 2019). However, the weights used for food in the calculation of the consumer price index (CPI) are significantly higher than share of food expenditure in either income or consumption expenditure. As it is, the consumption basket used for calculating overall general inflation was created in 2005 and does not reflect the current consumption pattern of consumers or the actual prices in the market (Table 1.15).

Figure 1.11
12-Month Average Inflation Rate



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

Table 1.15
Consumption Basket Versus Consumption Pattern

Food expenditure as a share of income (in per cent)			
	National	**Rural**	**Urban**
2000	42	48	32
2005	45	50	36
2010	53	57	45
2016	46	52	37
Food expenditure as a share of consumption expenditure (in per cent)			
	National	**Rural**	**Urban**
2000	55	59	45
2005	54	59	45
2010	55	59	48
2016	48	50	43
Weights used for food in calculation of CPI (base year 2005)			
	National	**Rural**	**Urban**
2000	-	-	-
2005	56	61	47
2010	56	61	47
2016	56	61	47

Source: Based on the data from BBS (2019) and BBS (2011).

Crowd-sourced data of prices of 5,621 items contributed by 449 respondents during November 2019 to November 2020 show that: i) share of non-food items in actual consumption expenditure was 16 per cent higher than the weight in CPI; ii) share of rent in actual consumption expenditure was 2 per cent higher than the weight in CPI; and iii) share of transport in actual consumption expenditure was 15 per cent higher than the weight in CPI. Thus, the consumption basket used for calculating non-food inflation does not accurately portray the behaviour of the consumers at present or the market prices prevailing at the moment (Table 1.16).

Table 1.16
Weights Used for Calculating CPI Versus Actual Distribution of Consumption Expenditure

	Weights Used for Non-Food Items in Calculating CPI (Base Year 2005)	Distribution of Consumption Expenditure Based on Crowd-Sourced Data
Non food	44	60
Clothing	7	3
Rent	15	17
Transport	6	21
Recreation	4	7

Source: Based on BBS data and Numbeo (Numbeo, 2020).

Therefore, for calculating CPI, a new consumption basket should be formulated based on rigorous research of consumer behaviour and expenditure patterns. All targets, projections, and plans in the upcoming monetary policy, as well as the Eighth Five Year Plan (8FYP), should be revised in accordance with this new consumption basket for CPI and new base year for inflation.

1.4.5 Conclusion and Recommendations

The inherent weaknesses of the banking sector will make it challenging to deliver on the large volume of liquidity support that the government has provided in response to COVID-19. Moreover, the distribution of stimulus packages through banking channel has created new avenues for corruption and malpractices. Repayment of loans provided through stimulus packages may become a cause of concern in the coming days. To add to this, once the moratorium on loan classification is eventually lifted, the level of NPLs may also rise suddenly. Consequently, the persistent concern as regards poor governance in the banking sector are appended to become even more severe.

Liquidity support and fiscal stimulus packages rolled out without prior assessment of the ground realities may not be able to address the needs of the most vulnerable people in society. In particular, providing loans to vulnerable individuals and small businesses may not yield the expected results. Hence, it is urgent for the government to reconsider liquidity support as the primary mode of economic response to COVID-19, and increase fiscal stimulus and direct cash transfers to the poor. Unfortunately, the experience of social safety nets has proved that in the absence of good governance, social protection programmes can only have limited success. Problems of exclusion, inclusion, targeting, effective delivery, redress of grievances, among others must be addressed in all seriousness.

Sound macroeconomic management and prudential supervision must be rooted in established economic theory and high-quality empirical evidence. Unfortunately, lack of data integrity in recent years has seriously compromised the effectiveness of the government's policies and the central bank's directives, thus jeopardising the overall economic progress of the country. Calculating CPI on a base year and consumption basket which is 16 years old appears to be naive at best and manipulative at worst. As even the middle-class struggle to make ends meet, it seems unlikely that long-term inflation is declining. It is apprehended that actual inflation may likely be significantly higher than the reported values.

In light of the findings from the aforementioned analysis, the following recommendations are made to policymakers:

- Loan defaulters should not be allowed to access any of the COVID-19 related liquidity support packages.
- Weak and poorly governed banks should be barred from participating in the COVID-19 related liquidity support packages. Banks which are not fully compliant with BASEL III or the Banking Company Act should be not be allowed to participate in the COVID-19 related liquidity support packages.
- Clear, objective and quantitative criteria should be declared to properly identify "affected" businesses and individuals.
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis.
- Disbursement of the government's COVID-19 liquidity support for small businesses, farmers, and low-income professionals should be expedited immediately.
- The government must acknowledge the actual scale of the COVID-19 crisis and then formulate a specific and target-oriented post-COVID recovery plan that aims to build back better. A thorough needs assessment should be conducted to understand the extent of damage done by COVID-19, the amount of support required, and the people who need the support the most.

- Public awareness about the liquidity support and fiscal stimulus packages should be raised through nation-wide campaigns so that the general population can clearly understand what kinds of support are being provided by the government, who are eligible for such support, and how to obtain that.
- Liquidity support is inappropriate for small borrowers and new borrowers, as well as those who are the poorest and most vulnerable. Therefore, direct cash support should be provided by the government so that these groups can adjust to the shocks of COVID-19.
- Corruption in targeting and selection of beneficiaries of cash transfer programmes must be addressed immediately.
- A multi-stakeholder taskforce with representatives from various ministries, central bank, commercial banks, trade bodies, civil society, non-government organisations (NGOs). and academia should be formed for monitoring the delivery of the COVID-19 liquidity support and fiscal stimulus packages and assessing their effectiveness.
- Banks with excessive liquidity should be discouraged by the central bank from taking unnecessary risks.
- A goal-specific, time-bound, inclusive, transparent, unbiased and independent Citizen's Commission on Banking should be set up in order to bring transparency in the prevailing situation, identify the root causes of the manifest problems, and suggest credible measures for improving the situation sustainably.
- A new consumption basket should be formulated for calculating CPI inflation, based on rigorous research as regards consumer behaviour and expenditure patterns. All targets, projections, and plans in the monetary policy and the 8FYP should be revised in accordance with this new consumption basket for CPI and new base year for inflation.

1.5 CONCLUDING REMARKS

The state of the Bangladesh economy, at a time when it is posed for the announcement of the FY2021–22 Budget, transmits some worrying signals. While the government did come up with a number of initiatives to mitigate the sufferings of the people and overcome the adverse effects on the economy in view of the pandemic, the much expected turnaround is still not there. One conclusion that can be drawn from the analysis presented in the proceeding sections is that addressing embedded institutional weaknesses and resilient recovery have become entwined. Inherent weaknesses in the banking sector are undermining the government's efforts to trigger economic recovery through bank-dependent stimulus packages. Attempts to trigger private sector investment through subsidies, incentives and working capital support are not being able to compensate for the inherent challenges that continue to undermine the competitiveness of the private enterprises. Reaching the marginal groups and those who are left behind are proving to be difficult in the absence of effective local-level institutions and access to real time data. Generating domestic resources to underwrite the needed resources has been weakened in the absence of the much needed fiscal reforms.

The net outcome of the above has been that private sector investment has been below the targets set out in the plans and budget and as manifested in the negative growth of capital goods and term loan uptake and that of FDI. Revenue generation figures remain way below the targets, and redistributive functions of fiscal policies can not be excluded because of the enforcement capacities and failure to implement long-awaited fiscal reforms. Even during the pandemic, the much needed expansionary fiscal-budgetary policies could not be implemented because of continuing and endemic weaknesses of implementing agencies and line Ministries. No tangible change could be brought in terms of the capacity to both earn and to spend.

In view of the above, a number of recommendations have been put forward in the preceding sections that cover both short-term urgent measures and medium-term macroeconomic management, institutional capacity building and reform measures. As was emphasised above, both these tasks have emerged as independent and mutually enforcing. These have covered three areas. From the approach to the design of budget for FY2021–22, stress has been given to pursuance of expansionary fiscal policy, and, focusing on redistribution rather than economic growth. From the public expenditure side, priority has been urged for social safety net expenditure, health and education and CSME-oriented investment-augmenting measures. Adequately, affordability and price stability has been prioritised in the discussion as regards food items. Towards this, fiscal measures, timely import, and food stock management has been stressed. In terms of reform measures setting up of Banking Commission, Agriculture Price, Competition Commission, and fiscal reforms have been emphasised to create the foundations of a good-governed and well-functioning economy that will help to recover from the pandemic and build back better.

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ANNEX

Annex Table 1.1

COVID-19 Response Funding by the Government of Bangladesh

Name of the Package	Type	Allocation				Disbursement	
		In Million USD	In Crore BDT[i]	As Share of Total COVID Funding	As Share of GDP[ii]	Share of Funds Disbursed (in %)	Number of Recipients
Special fund for salary support to export oriented manufacturing industry workers	Liquidity support	595	5,000	4.00	0.18	100	3,500,000 persons
Providing working capital facilities for the affected large industries and service sector organizations	Liquidity support	4,762	40,000	32.01	1.43	71[iii]	2,549[iii] entities
Providing working capital facilities to small (including cottage industries) and medium enterprises	Liquidity support	2,381	20,000	16.01	0.71	32[iii]	41,069[iii] persons (94% male; 6% female)
To increase the facilities of Export Development Fund (EDF) introduced by Bangladesh Bank	Liquidity support	1,518	12,750	0.00	0.00	81[iii]	2,379[iii] entities
Pre-shipment credit refinance scheme	Liquidity support	595	5,000	10.20	0.45	1	N/A
Agricultural refinancing scheme	Liquidity support	595	5,000	4.00	0.18	45[iii]	89,934[iii] persons
Refinancing scheme for low-income farmers and small traders	Liquidity support	357	3,000	4.00	0.18	22[iii]	1,00,227[iii] persons (6% male; 94% female)
Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and Palli Karma Sahayak Foundation)	Liquidity support	381	3,200	2.40	0.11	31[iv]	N/A
Government subsidy for interest waiver of deferred bank loans for the month of April-May/2020	Liquidity support	238	2,000	0.00	0.00	N/A	N/A
Credit guarantee scheme for small and medium enterprises sector	Liquidity support	238	2,000	0.00	0.00	N/A	N/A
Stimulus package for small businesses	Liquidity support	178.57	1,500	1.20	0.05	N/A	N/A

(Annex Table 1.1 contd.)

(Annex Table 1.1 contd.)

Name of the Package	Type	Allocation				Disbursement	
		In Million USD	In Crore BDT[i]	As Share of Total COVID Funding	As Share of GDP[ii]	Share of Funds Disbursed (in %)	Number of Recipients
and entrepreneurs, delivered through various associations and foundations (2021)							
Credit guarantee scheme for small and medium enterprises sector	Liquidity support	238	2,000	0.00	0.00	N/A	N/A
Stimulus package for small businesses and entrepreneurs, delivered through various associations and foundations (2021)	Liquidity support	178.57	1,500	1.20	0.05	N/A	N/A
Total liquidity support		11,839	99,450	79.59	3.54		
Special honorarium to doctors, nurses and health workers	Fiscal stimulus	12	100	0.08	0.00	N/A	N/A
Health insurance and life insurance	Fiscal stimulus	89	750	0.60	0.03	2[v]	42[v] persons (41 male; 1 female)
Distribution of free food items	Fiscal stimulus	298	2,500	2.00	0.09	43[vi]	2,34.00,000[vi] households (70% male-headed; 30% female-headed)
Distribution of rice at the rate of BDT 10 per kilogram	Fiscal stimulus	92	770	0.62	0.03	100	N/A
Distribution of cash among the targeted population	Fiscal stimulus	150	1,258	1.01	0.04	70[vii]	34,97,353[vii] households (75% male-headed; 25% female-headed)
Increase the coverage of the allowance programmes	Fiscal stimulus	97	815	0.65	0.03	3[viii]	156,218[viii] persons
Construction of houses for homeless people	Fiscal stimulus	254	2,130	1.70	0.08	N/A	9,039 households (62% male-headed; 38% female-headed)
Procurement of Boro Paddy/Rice (Additional 0.2 MMTs)	Fiscal stimulus	102	860	0.69	0.03	N/A	N/A
Support for farm mechanization	Fiscal stimulus	383	3,220	2.58	0.11	5	N/A

(Annex Table 1.1 contd.)

(Annex Table 1.1 contd.)

Name of the Package	Type	Allocation				Disbursement	
		In Million USD	In Crore BDT[i]	As Share of Total COVID Funding	As Share of GDP[ii]	Share of Funds Disbursed (in %)	Number of Recipients
Agricultural subsidies	Fiscal stimulus	1,131	9,500	7.60	0.34	76[ix]	N/A
Social safety net programme for unemployed and poor workers of export-oriented ready-made garments, leather and footwear sectors	Fiscal stimulus	179	1,500	1.20	0.05	N/A	N/A
Stimulus package for social safety nets (2021)	Fiscal stimulus	142.86	1,200	0.96	0.04	N/A	N/A
Cash disbursement among pandemic-hit people	Fiscal stimulus	107.14	900	0.72	0.03	N/A	BDT 2,500 each for 3,600,000 families;
Total fiscal stimulus		3,037	25,503	20.41	0.91		
Total COVID-19 funding		14,876	1,24,953	100.00	4.45		

Source: Authors' compilation based on data from the MoF, GoB (MoF, 2020) (Bangladesh Awami League, 2021a) (Bangladesh Awami League, 2021b).

Note: i) Assuming an exchange rate of USD 1 equal to BDT 84, as per national budget documents of FY2020–21; ii) Assuming that GDP is equal to USD 334,000 million, as per the GDP for FY2019–20 in the national budget documents of FY2020–21; iii) Till 31 October 2020; iv) Till 7 August 2020; v) Till 4 November 2020; vi) Till 30 September 2020; vii) Till October 2020; viii) Till June 2020; ix) N/A implies no data was available at the time of writing.

Chapter 2

State of the Bangladesh Economy in FY2020–21 *(Second Reading)*

CPD's Recommendations for the National Budget FY2021–22

2.1 INTRODUCTION

The national budget for FY2021–22 is being prepared in the backdrop of a number of disquieting developments in the economy: weak performance of FY2020–21 budget implementation, the persistence of adverse impacts of the first wave of COVID-19, continuing stagnation in private investment, the second wave of the COVID-19 pandemic, and failure of the external sector to pick-up. FY2021–22 budget will need to address these as well as the medium-term fiscal reform issues with a view to making a recovery sustainable. In this backdrop, the Centre for Policy Dialogue (CPD) has proposed a number of fiscal budgetary measures and initiatives, keeping in the purview the upcoming FY2021–22 budget.

The paper is structured in the following manner. Section 2.2 presents a brief review of the state of macroeconomic developments in FY2020–21 and a stance for FY2021–22 budget. Section 2.3 puts forward a set of recommendations from the perspective of revenue mobilisation and fiscal measures. Section 2.4 deals with budget deficit and its financing. Section 2.5 presents recommendations in the areas of public expenditure and budgetary allocations and prioritisation thereof.

2.2 MACROECONOMIC POLICY STANCE FOR FY2021–22 BUDGET

2.2.1 Brief Overview of the Macroeconomic Scenario in FY2020–21

Almost after a year since the first wave of the COVID-19 pandemic in Bangladesh, the country is passing through a second wave of the pandemic. The second wave seems to be stronger than the first one both in the number of affected people and the deaths. Therefore, just when the government was hoping to recover from the fallouts of the pandemic, it had to go for lockdown once again to contain the spread of the deadly virus. While strong restrictions on the mobility of people is the only way to flatten the curve, it has brought back the miseries for the people and uncertainty for the economy. The policymakers, once again, are posed with the challenge of maintaining a balance between the lives and livelihoods.

In the midst of the pandemic, the FY2019–20 was completed with lower than projected growth of the gross domestic product (GDP). However, the official GDP growth of 5.2 per cent in a pandemic year was not so unsatisfactory, particularly because almost all other countries have experienced much lower if not negative growth. In anticipation of the pandemic slowing down and economic activities reviving, the government had projected a growth rate of 7.4 per cent for FY2020–21. This was a highly optimistic projection too.

However, with almost 10 months on, the key economic indicators appear to be far less promising than what was earlier projected. The fiscal framework continues to be weak in view of poor achievements, more specifically, both in terms of revenue mobilisation and public expenditure.

Available data for the first six months of FY2020–21 reveal subdued performance as regards several key economic indicators. For example, during the first six months (July–December) of FY2020–21, both revenue mobilisation and public expenditure have shown lower uptake compared to the same period of the previous fiscal year. As Section 3 of this report shows, as of December 2021, the growth in revenue collection is significantly lower. Given the track record, it is unlikely that the target will be fulfilled during the next six months of FY2020–21. Clearly, a major reason for the large gap in revenue collection is because of the COVID-19 pandemic, but more importantly, this also points to the need to address some of the underlying weaknesses in institutional structure, which needs to be strengthened through urgent reforms.

In the case of public expenditure, a much-needed measure during the pandemic to boost the economy, there was hardly any effort to go for a strong expansionary fiscal policy. Instead, public expenditure during July–December of FY2020–21 exhibited a downward trend. This is true for both the Annual Development Programme (ADP) and non-ADP expenditures. Lower public expenditure, in the backdrop of the revenue mobilisation during this period, has led to a lower budget deficit as of December 2021 compared to that of December 2020. Such a tepid expenditure pattern fails to meet the need to boost demand and supply in view of the ongoing pandemic.

It is good that the agriculture sector has remained resilient during the pandemic. However, the external sector has shown a mixed performance in the first three quarters of FY2020–21. Following the outbreak of the pandemic in March 2020, exports had experienced a drastic fall due to demand collapse and, more particularly, the cancellation of readymade garments (RMG) orders by the global brands and buyers. The situation has, however, improved slightly towards the later part of 2020 and the beginning of FY2020–21. However, the level of export earnings is still flat. Also, import continues to be sluggish for both intermediate imports and capital goods imports. This is worrisome since it indicates lower domestic demand and lack of new investment. Remittance flow, on the other hand, has shown robust growth. Due to higher remittance flow, the balance of payment (BOP) situation improved significantly during July–December of FY2020–21 compared to the same period of FY2019–20.

In the above context, there is a need for sustained efforts at stimulating the economy through appropriate policy measures. The national budget for the upcoming FY2021–22 will have to be designed in such a way that budgetary measures should not only address the immediate needs but also help a sustainable recovery of the economy from the pandemic.

2.2.2 Macroeconomic Stance for the FY2021–22 Budget

The unexpected outbreak of the pandemic led to the initiation of a number of stimulus packages by the government in FY2019–20 and also in FY2020–21 to help people address the immediate shocks and mitigate the economic losses. The stimulus packages, which are equivalent to about 4.4 per cent of Bangladesh's annual GDP, were undoubtedly helpful, but these only had limited impact in terms of addressing the enormous challenges faced by the poor and the small businesses. For the poor, the amount of direct cash and food support that were distributed proved to be highly inadequate. Moreover, the distribution mechanism is also fraught with multiple problems. And for the micro and small businesses, the liquidity support from the commercial banks at a subsidised interest rate proved to be cumbersome and could not be accessed by a large part of deserving entrepreneurs.

Hence, the Ministry of Finance (MoF) will have to plan for higher public expenditures for addressing the affected people and sectors of the economy on the one hand and mobilise adequate resources to undertake such expenditures on the other. Though the government had planned for an expansionary fiscal and monetary policy in FY2020–21, the fiscal framework as of December 2021 does not vindicate this, as mentioned above and discussed in more detail in Section 2.3.

In view of the ongoing situation, CPD reiterates the need for an expansionary macroeconomic stance in the budget for FY2021–22 which accommodates the needed additional public spending. While this will imply pursuing a higher fiscal deficit in the FY2021–22 budget, this is the appropriate policy stance in the current circumstances. Of course, the MoF will have to design deficit financing in a prudent way so that any likely inflationary pressure is contained. There is a likelihood that such deficit financing could crowd out loanable funds for the private sector. However, private sector credit has been low during the ongoing fiscal year, and this crowding out should not be a major concern.

Also, the government should put more efforts into higher foreign aid to underwrite the fiscal deficit. Increased budget deficit should be justified by prudent reallocation and reprioritisation of public expenditure needs in FY2021–22.

As was the case in FY2020–21, the upcoming budget will also have to allocate resources in a way that would address needs of both the immediate and the recovery phase. In the immediate term, it will need to focus on health risk mitigation and ensuring food security through expanded safety nets. In the recovery phase, which should be pursued parallelly, the budget will have to make allocations and undertake measures in view of the demands of entrepreneurs, enterprises, businesses and commerce. The experience of FY2020–21 should be a guide for the MoF in formulating the second budget during the COVID-19 pandemic.

Unfortunately, despite being hit hard by the pandemic, the health sector received only a marginally higher allocation in the FY2020–21, with the share remaining less than one per cent of the GDP. The spending so far has been much lower, even in this backdrop, primarily because of the weak spending capacity of the Health Ministry. The urgency of improving the implementation capacity of the relevant ministries and departments cannot be overemphasised. The ongoing pandemic has created a significant number of new poor and is apprehended to accentuate inequality, as have been borne out by many studies, including studies carried out by CPD. Consequently, a higher allocation for social protection in the FY2021–22 budget is critically important. COVID-19 has particularly impacted the education sector most adversely, and the risk of deteriorating future human capital is very high. Unless the government addresses the situation by providing online education facilities for all students, the recovery of the anticipated losses will take a long time. The medium to long term costs to the economy and society will be significant if these concerns are not addressed adequately and the urgency they deserve. The budget for FY2021–22 should allocate adequate resources for digital support and technologies for continuing education at educational institutions across the country. Finally, the implementation of ongoing fiscal and administrative reforms should be continued alongside the efforts towards addressing the fallouts of the pandemic.

2.3 RECOMMENDATIONS IN VIEW OF REVENUE MOBILISATION

Despite reeling from the shocks of the COVID-19 pandemic, total revenue collection posted a respectable growth of 8.6 per cent during the July–December period of FY2020–21, thanks to a whopping 40.2 per cent growth in non-tax revenue earnings (Table 2.1). The total revenue growth for

Table 2.1

Revenue Mobilisation Growth Scenario up to December FY2020–21

(in percentage point)

Particulars	Target FY20	Actual FY20	Target FY21	Actual Jul–Dec FY20	Actual Jul–Dec FY21	Required Jan–Jun FY21
Tax Revenue (a+b)	50.5	-2.3	56.3	5.7	4.0	105.3
a. NBR Tax	48.9	-1.7	53.6	6.0	4.8	98.7
a.1 Income Tax	69.3	12.0	38.0	29.6	-5.2	80.4
a.2 VAT	44.8	-6.0	56.6	-2.7	15.0	93.1
a.3 Import Duty	50.3	-2.3	59.4	7.7	6.6	115.8
a.4 Export Duty	-53.3	-32.5	-28.3	-99.1	-100.0	-27.4
a.5 Excise Duty	-4.2	-1.8	60.5	10.1	-52.8	97.7

(Table 2.1 contd.)

(Table 2.1 contd.)

Particulars	Target FY20	Actual FY20	Target FY21	Actual Jul–Dec FY20	Actual Jul–Dec FY21	Required Jan–Jun FY21
a.6 Supplementary Duty	25.3	-2.1	-31.0	-14.8	8.0	137.7
a.7 Other Taxes	45.8	-18.3	62.8	13.9	-74.7	275.9
b. Non-NBR Tax	97.5	-19.0	152.4	-1.5	-18.7	425.2
b.1 Narcotics and Liquor	42.9	-3.5	62.6	4.7	-12.5	152.1
b.2 Vehicles	-14.6	-6.5	-49.2	8.9	-15.9	-99.5
b.3 Land Revenue	110.5	0.2	150.3	32.7	16.1	327.2
b.4 Stamp Duty	163.0	-28.3	293.5	-9.0	-28.7	940.0
b.5 Surcharge	-29.2	-13.8	-9.7	-9.4	-3.8	-14.4
c. Non-tax Revenue	45.5	63.1	-21.9	9.9	40.2	-58.6
c.1 Dividend and Profit	31.8	30.8	-49.7	-36.5	10.5	-65.6
c.2 IFT and others	47.0	66.8	-19.5	14.0	41.7	-57.8
Total Revenue (a+b+c)	50.0	4.4	43.7	6.2	8.6	74.2

Source: Authors' calculations based on the data from the MoF.
Note: NBR: National Board of Revenue.

the corresponding period of FY2019–20 (pre-COVID-19 months) was only 6.2 per cent. Although some improvement is visible in terms of growth of revenue mobilisation, it is still inadequate to attain the highly ambitious targets set in the budget for FY2020–21. Indeed, a staggering 74.2 per cent growth is required for the remaining period of FY2020–21 in order to achieve the total revenue mobilisation target. Collection of tax revenue will need to grow by 105.3 per cent during the remainder of FY2020–21, an impossible task.

In view of the recent spike in COVID-19 cases, both in Bangladesh and overseas, the fiscal framework for FY2021–22 will need to take cognisance of the pandemic's short-term impacts as also the medium-term repercussions. Growth of export earnings is in the negative terrain while the growth of import payments is rather subdued. Indeed, further slowdown of economic activities is apprehended due to the recently imposed nationwide 'strict lockdown'. All these will put even the current slow pace of recovery likely under risk. Consequently, any significant uptake in revenue mobilisation is also highly unlikely.

The MoF needs to be prudent and take into account the medium-term impacts and outcomes of policy measures while introducing or adjusting fiscal measures and allocating budgets to specific sectors. In view of the above, the revenue mobilisation strategy for the FY2021–22 budget should be designed considering the following four approaches:

i) Instead of setting ambitious targets which may miss the annual target by a significant margin by the end of the fiscal year, the targets for revenue mobilisation should be set in a realistic manner taking cognisance of the potential shortfall in FY2020–21.
ii) Immediate term readjustments in tax provisions should be made considering the urgency of both addressing the risks and mitigation of the vulnerabilities. In order to extend support to economic recovery over the medium term, persuasion of fiscal policy should be made in a judicious manner. There must be a clear demarcation between short-term and medium-term measures.
iii) As introducing new taxes or raising tax rates may be difficult, more emphasis should be given to the enforcement of tax measures and curbing tax evasion.
iv) Implementation of medium-term reform plans should receive high priority on the part of policymakers.

In light of the aforementioned strategies, the following recommendations may be considered while formulating the budget for FY2021–22:

a) In the budget for FY2020–21 personal income tax (PIT) rates were reduced. Providing benefits to monthly income earners of Tk 4 lakh and above clearly went against the cause of promoting tax justice at a time when the resource was scarce. The budget for FY2021–22 should correct this by reinstating the highest tax rate to 30 per cent.
b) Reduction of the corporate income tax rate from 35 per cent to 32.5 per cent for non-publicly traded companies and reduction of withholding tax from 1.0 per cent to 0.5 per cent on all types of export proceeds, including those of the RMG enterprises, introduced in the budget for FY2020–21, are two provisions which may be continued in FY2021–22. Also, given the crisis inflicted by the COVID-19 pandemic, tax holiday facilities for the seven newly emerging manufacturing sectors earmarked in the FY2020–21 budget, alongside the existing 26 sectors, should not be discontinued in the upcoming budget.
c) In view of the ongoing second wave of the pandemic, exemption of import duties and taxes related to health services which were introduced in the FY2020–21 budget should be continued in FY2021–22. Medicines for COVID-19 treatments which have to be imported should also be tax-free, considering these as life-saving drugs.
d) With the food grain stock being the lowest in recent years, the government needs to put particular focus on ensuring food security for the low-income people. The government has already taken the decision to distribute cash support, instead of food, under the various existing safety net programmes (The Financial Express, 2021). For the FY2021–22 budget, reduction of import-related tariffs (such as advance income tax and VAT) on essential food items (such as onion, lentil, garlic, ginger and soybean oil, etc.) should be considered.
e) For education and business purposes the necessity and usage of mobile internet-based services have increased substantially in the backdrop of the pandemic for students and those undertaking various business activities using digital platforms. In view of this, the government should withdraw the existing 15 per cent supplementary duty (SD), and the 1 per cent surcharge levied on mobile internet while keeping the prevailing rate of VAT at 5 per cent unchanged. This will provide some respite to the low-income consumers and make mobile internet more accessible and affordable for education and business purposes.
f) Nevertheless, a medium-term plan should be formulated as regards phasing out the various tax exemptions provided during the pandemic. Stakeholder consultations should be an integral part of formulating this plan. Such a plan will provide the business community as well as the revenue mobilisation entities some predictability amidst uncertain times.
g) A viable completion timeline should be introduced, or at the least chalked out, for reforms that are under consideration, such as the Customs Act and Direct Tax Act, in the budget for FY2021–22. Doing so will enable the implementation process to start early.
h) In view of Bangladesh's graduation from the least developed countries (LDC) category in 2026, obligations and compliance requirements as a developing country should be identified, and gradually reforms in the taxation system should be put in place.
i) Digitalisation of the revenue mobilisation process can be improved through an e-TDS (tax deducted at source) system for which CPD has been advocating for a number of years. The introduction of the e-TDS system will enable NBR to issue tax certificates against an e-TIN (taxpayer identification number) linked to the TDS collection system, thus making the evasion of TDS difficult.
j) The present system of mere submission of TIN number for license/registration etc. should be replaced (at least in selective cases) by the requirement of submission of tax token for the most recent years.
k) CPD would like to reiterate its earlier proposals urging the NBR to initiate wealth and property tax in Bangladesh. Introduction of an inheritance tax, informed by global best practices, may

also be taken into account as such initiatives do not only mobilise additional revenue but also pave the way towards building a more equitable society.

l) CPD would like to recommend that NBR introduces taxes for proxies for pollution, by tax region, in alignment with what was mentioned in the "Public Financial Management (PFM) Action Plan 2018–2023 to implement The PFM Reform Strategy 2016–2021". This may be viewed as a new and desirable source of tax revenue.

m) The provision of whitening of black/undisclosed money facility through voluntary disclosure of undisclosed income should be discontinued in the budget for FY2021–22. Despite the fact that this has led to infusion of some additional revenue to the national coffer, such practices discourage honest taxpayers and incentivise tax evasion in the medium to long run. Instead, a Benami Property Bill may be introduced as was suggested earlier by CPD.

n) A mechanism should be put in place to contact relevant entities who are registered in the system but do not submit tax returns and also those who are registered and submit returns but do not actually pay any taxes. Phone calls, SMSs and emails may be helpful in this regard for the NBR to increase the number of effective taxpayers. Such a mechanism can be set up easily using the e-TIN database.

o) As envisaged in the PFM Action Plan 2018–2023, NBR should launch a comprehensive on-line payment system for VAT, income tax and customs together with an interface with iBAS++. Also, harmonisation and taxpayer data sharing across various wings of the NBR should be ensured at the earliest.

p) As per data from international sources, the major part of Bangladesh's illicit financial outflows is on account of trade mispricing. Transfer Pricing Cell (TPC) of NBR, Bangladesh Financial Intelligence Unit (BFIU) and Customs Intelligence and Investigation Directorate (CIID) should work closely to deal with trade-based money laundering. For effective implementation of the responsibility of the TPC, the national budget for FY2021–22 should ensure adequate allocation for technical and human resources and forensic investigation capacities.

2.4 DEFICIT FINANCING

At a time when the government should opt for increasing public expenditure to accelerate economic recovery, it appears to have taken measures that are not commensurate with the needs of the time. As of December FY2020–21, the overall budget deficit excluding grants stood at Tk 8,408 crore, which was significantly lower than the deficit that prevailed in the corresponding period of FY2019–20 (Table 2.2). Although the revenue mobilisation scenario had marginally improved during the July–December period of FY2020–21 compared to the same period for FY2019–20, total public expenditure had actually declined. Both ADP expenditure and non-ADP expenditure have seen downward trends for the period of July–December in the current fiscal year. The budget deficit was financed mainly by domestic borrowing, although foreign borrowing also exhibited a considerable increase during July–December of FY2020–21. Within domestic borrowing, both bank and non-bank sources experienced downward trends. Compared to the corresponding period of FY2019–20, sales of Department of National Savings (NSD) certificates have shown a growth of 256.9 per cent during the first half of FY2020–21.

As the second wave of the pandemic has forced the government to opt for a nationwide lockdown, there is a need for increased public expenditure to support the affected marginalised people in the country. Indeed, this is a high time when public expenditure should dictate the fiscal framework. The budget deficit may be financed with higher borrowing. With the lower outstanding public debt, Bangladesh can certainly afford a higher budget deficit if the budgetary allocations are made where they are needed the most. In view of the above discussion, the following proposals may be considered for the upcoming FY2021–22 budget:

Table 2.2

Budget Deficit and Financing up to December FY2020–21

(in crore Tk)

Description	**BFY20**	**AFY20**	**BFY21**	**Up to Dec FY20**	**Up to Dec FY21**
Revenue Collection	377,811	263,062	378,002	122,509	133,106
Total - Expenditure	523,191	415,523	567,999	158,260	141,514
ADP	202,721	154,238	205,145	44,184	33,300
Non-ADP	320,470	261,285	362,854	114,076	108,214
Overall Deficit (Excluding Grants)	-145,380	-152,461	-189,997	-35,751	-8,408
Financing					
Foreign Grants	4,168	1,957	4,013	1	26
Foreign Borrowing-Net	63,848	45,116	76,004	-327	3,022
Foreign Loan	75,390	57,085	88,824	5,900	6,228
Amortisation	-11,542	-11,968	-12,820	-6,226	-3,206
Domestic Borrowing	77,363	105,083	109,983	36,073	5,388
Bank Borrowing (Net)	47,364	81,718	84,980	48,182	24,164
Non-Bank Borrowing (Net)	30,000	23,365	25,003	-12,109	-18,776
NSD Certificates (Net)	27,000	15,089	20,000	5,972	21,313
Others	3,000	8,276	5,003	-18,081	-40,089
Total Financing	**145,379**	**152,156**	**190,000**	**35,747**	**8,436**

Source: Authors' calculations based on the data from the MoF.

a) Although Bangladesh has already received significant commitment as regards external funding support from different multilateral and bilateral sources, disbursement of the funds has been lagging behind. The World Bank, International Monetary Fund (IMF), the Asian Infrastructure Investment Bank (AIIB) and Asian Development Bank (ADB) are four external sources that have promised a sizeable amount of USD 6.03 billion in loans. However, disbursement stood at only USD 1.79 billion as of March 2021, which amounts to only 29.78 per cent of the commitment (The Business Standard, 2021). It is important for the government to pay special attention to ensure speedier disbursement of this pledged fund. To this end, the government should ensure a fast pace in preparing project proposals, receiving the Executive Committee of the National Economic Council's (ECNEC) approval and conducting final negotiations. In the upcoming budget, the government needs to look deeper into the process of fund disbursement from external sources.

b) In particular, supports received for emergency assistance for health sector projects need to be implemented on an emergency basis, in the backdrop of the second wave of the pandemic. Thus, the government in the budget for FY2021–22 needs to give equal importance to receiving funding opportunities and ensuring proper use of the funds.

c) For financing the budget deficit in FY2020–21, the government had set the target of collecting Tk 109,983 crore from domestic sources, of which Tk 20,000 crore is expected to come from the sale of NSD certificates. As of now, the collection from this particular source has already exceeded its budgetary target. In view of the experience, the government may need to increase the budgetary target set for sales of NSD certificates for financing the deficit in the budget for FY2021–22. However, existing regulations related to the sale of NSD certificates (e.g., purchasing limit, the requirement of e-TIN and national identity card (NID) while purchasing, interest rate etc.) should be kept unchanged and properly enforced.

d) Bank borrowing should provide the residual amount required for budget deficit financing. As the banking system currently has a substantial amount of excess liquidity, commercial banks should be able to serve the required borrowing; stepping in by the central bank is unlikely to be required. Hence, the risk of inflationary pressure will also be low.

2.5 PUBLIC EXPENDITURE

During the period of the COVID-19 pandemic, public expenditure under the national budget for 2021–22 should highlight four areas. These include: (a) ensuring better health facilities for COVID patients; (b) enhancing social safety net programmes for poor, new poor and marginalised people; (c) raising allocation for employment-enhancing infrastructure development projects; and (d) supporting agriculture, small and medium-sized enterprises (SMEs) and export-oriented industries for their recovery and thereby keeping the existing jobs. Since the pandemic is likely to be a prolonged one, it is expected that policymakers will take into account the importance of three 'R's while preparing the budget for the next year: (a) readjustment; (b) recovery; and (c) reforms.

2.5.1 Proposals for the Health Sector: Ensuring Better Health Facilities for Covid Patients

During the current fiscal year (FY2020–21), the government has raised the allocation for the health sector. Unfortunately, the Ministry of Health and Family Planning (MoHFP), particularly the Health Services Division (HSD) were unable to spend the allocated budget. Till March 2021, the HSD spent only 21 per cent of its allocated budget, which was much lower than even the average national ADP expenditure (41.92 per cent).[1] It is one of the poorest performers in terms of implementation of ADP during this period (seventh from the bottom out of 57 ministries/divisions). Indeed, over the last 10 years (FY2011–2020), its annual spending never crossed the level of 83 per cent of total budget allocation. Failure to spend the allocated budget has been a major obstacle to ensuring better treatment facilities for covid patients across the country. Against this backdrop, the national budget for FY2021–22 should take two-pronged approaches—(a) faster implementation of the ADP projects by maintaining quality and standard and (b) Enhancing the ability to spend more to implement important projects. Despite the announcement last year, most of the frontline health professionals and workers have yet to receive the incentives—only 7.7 per cent of the total 23,285 public sector frontline health professionals and workers have received the incentives so far.[2] Such weak enforcement of the commitment is rather disappointing given the importance of the job being carried out by health professionals and workers tirelessly during the pandemic.

In view of these, the government may consider the followings:

a. The budget allocation for the HSD should be increased with the expectation that the division will be able to spend the amount by addressing its internal weaknesses and challenges as regards the slow pace of utilisation of funds. The additional allocation needs to be utilised for expanding treatment facilities for covid patients across the country (i.e., setting up isolation units with necessary treatment facilities, oxygen supply, increasing the number of ICU beds and required facilities). Given the allegation of corruption in public procurement (TIB, 2020), the overall tendering process in the health sector needs to be made more transparent, competitive and

[1]The HSD has spent only Tk 25.15 billion out of Tk 119.79 billion allocated under the RADP (Revised Annual Development Programme) FY2020–21.

[2]It was announced last year that doctors, nurses and other healthcare staff working public hospitals in Dhaka will receive Tk 2,000, Tk 1,200 and Tk 800, respectively, as daily allowances for the period during which they will stay in quarantine. At the same time, doctors, nurses and other healthcare staff working outside of Dhaka will receive Tk 1,800, Tk 1,000 and Tk 650, respectively.

efficient.[3] The MoHFP should set a specific timeline for each project for completion of procurement related activities.

b. Government should have the necessary funds ready to procure vaccines from different sources at the earliest. Discussion with different sources of vaccines [The Global Alliance for Vaccines and Immunization (GAVI), Russia, China, India, England and the United States of America (USA)] need to be carried out. Given the shortages of vaccine doses in the country (available vaccine doses will be finished by the first week of May 2021)[4], timely procurement of vaccines from these possible sources is urgently required.
c. Considering the limited success against new strain of virus, necessary preparation for domestic supply should be made for the next two/three years. The ongoing discussion as regards local production of vaccines, in collaboration with foreign companies (e.g., producers in Russia), and creating storage facilities of vaccines under the six-country South Asia cooperation led by China, for use locally and within the regional countries, need to be finalised. Besides, public procurement from other sources (e.g., GAVI) needs to be handled with equal importance.
d. The fund (Tk1.4 billion) earmarked for providing incentives to health workers and professionals engaged in treating covid patients should be released immediately for the overwhelming majority of health professionals and workers (92.3 per cent of total eligible health professionals and workers) who are yet to receive the incentives.
e. Given the long-term nature of covid related health hazards, the government should allocate necessary funds for FY2021–22 for health professionals and workers serving in public health facilities who are engaged in COVID-19 treatment. The government may consider similar incentives for health professionals and workers who are providing treatment facilities in private clinics and hospitals through direct payment to respective personal accounts.
f. To promote COVID-19 treatment facilities in the private sector, subsidised credit may be extended for setting up necessary infrastructural facilities such as oxygen supply, increasing the number of intensive care unit (ICU) beds and setting up ICU units in different private hospitals/clinics across the country.
g. The necessary allocation should be made in HSD's revenue budget to recruit nurses, healthcare staff, doctors and volunteers for different public hospitals both within and outside major cities in order to treat covid related patients.[5]

2.5.2 Proposals on Social Safety Net: Enhanced Social Safety Net Programmes for Poor, New Poor and Marginalised People

Social safety net programmes (SSNPs) targeting the poor, new poor, marginalised people and people with limited income which were implemented during the first lockdown in March–May, 2020 and the following periods, have played an important role in mitigating the sufferings of people. Under the stimulus package announced during 2020, the government has allocated Tk 10,683 crore for the social safety net related activities which was 8.6 per cent of the total stimulus package. Despite the urgency on the part of the poor and marginal people to receive support, most of the funds were not disbursed immediately. Till November 2020, disbursement/implementation of the SSNPs was less than satisfactory in terms of the funds distributed: (a) distribution of free food (43 per cent); (b) distribution of rice (100 per cent); (c) distribution of cash among the targeted population (70 per cent); (d) increase coverage of allowance programmes (3 per cent); (e) construction of houses for homeless people (n/a); and (f) support for unemployed and poor workers of export-oriented sectors

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[3]https://thefinancialexpress.com.bd/health/tib-finds-corruption-irregularities-in-heath-sector-1605008657

[4]Indeed, the programme of vaccination for the first timers has been stopped as of 26 April, 20211 in view of shortage of vaccine doses.

[5]The recruitment of the doctors, nurses and health practitioners will be required to fill up the posts vacant in public hospitals and clinics as well as those in newly established hospitals being establsihed under the ADP 2021.

(n/a). The government later announced a second stimulus package of Tk 1200 crore allowance for old age, widow, divorcee, and vulnerable people. In the backdrop of limited employment and income opportunities, slow implementation of SSNPs has meant that the poor and the marginal people are not getting the required support in due time.

A number of reasons have been reported in various reports as being the causes of the slow progress in SSNP activities during the pandemic period. These include: (a) inadequate list of beneficiaries which forced the government to slow down the distribution of cash support; (b) important target groups were missing such as informal workers, vulnerable people of coastal areas and returnee migrants; (c) 'inclusion-exclusion' bias without having a proper database of the poor, new poor and marginal people; (d) over-reliance on government-based system in the beneficiary selection process without giving enough importance to the information/database available to local level organisations such as CSOs/NGOs/CBOs (CSO=Civil society organisation; NGO=Non-government organisation; CBO=Community-based organisation); and (e) selection process was to varying extent politically-biased; recommendations of politically powerful local, for inclusion in the list of beneficiaries, were not adequately scrutinised.[6]

During the second lockdown, the sufferings of the poor and marginal people have further accentuated. Considering the livelihood challenges of poor and marginal people due to the lockdown, the government has planned to extend cash and kind support to different categories of people and households. These include—(a) 'food support' to 1.25 crore families; (b) Tk 2500 to each of 35 lakh families for one-time cash support; (c) gratuitous relief (GR) cash support (Tk150 crore); (d) special support to 12 lakh families by the Ministry of Women and Children Affairs (MoWCA); (e) support of 30 kg rice to 50 lakh families; (f) Tk 10 crore to 64 district commissioners who are left out from other support facilities; (g) Tk 20–50 lakh to each city corporations to support slum dwellers; (g) union-wise cash support of Tk 25 lakh; and (h) open market sale (OMS) operations throughout the country. However, most of these cash and kind supports will be extended to those who have been enlisted in official databases, including the database prepared by the DCs last year immediately after the pandemic. Overall, the government should put emphasis on expanding public works programmes under different ministries in order to create employment opportunities for the poor and marginalised people across the country.

In view of these, the following points should inform the work to be done:

a. A comprehensive listing of all beneficiaries will be required in order to understand who received these benefits and by how much, who are left out despite being eligible, which areas are being covered more and which are being left out etc. A weekly reporting of the distribution of support needs to be published with the information of disbursement in terms of locations, amount, types of beneficiaries etc. The list of the beneficiaries needs to be published and disseminated at the local government offices for public consumption as well as to ensure transparency in the distribution process.
b. It is reckoned that the programmes may not be able to cover all the target areas and all target people. For example, only 150 upazilas will be covered under the vulnerable group development (VGD) programme, which is only 30 per cent of the total number of upazilas in the country. It is apprehended that the support will be availed by most people only once. Since the people need the support for a longer period of time, the government should gradually increase the allocations

[6]https://www.tbsnews.net/economy/tk101cr-cash-aid-poor-returning-govt-212188
https://en.prothomalo.com/bangladesh/government/rich-grab-cash-assistance-meant-for-the-poor
Damaged By Cyclones, Tidal Surges: Fragile embankments put lives at risk | The Daily Star
https://cpd.org.bd/covid-19-stimulus-packages-and-performance-of-the-countrys-banking-sector/
https://www.thedailystar.net/frontpage/news/covid-19-stimulus-package-disparity-disbursement-1969109

under the various SSNPs and distribute those in a phased manner across the country. The poor, new poor and the marginalised people must get the priority in this connection.

c. A significant number of people belonging to the groups of extreme poor, new poor, marginalised people and people with needs remain outside of the official list of beneficiaries of social support programmes. These include urban-based petty traders, hawkers, self-employed, transport workers, floating people, LGBTQ (the lesbian, gay, bisexual, transgendered and questioning) people, ethnic minorities, char people and other marginalised communities and groups. Above four lakhs returnee migrants who are by and large non-poor but are in need of support should also be brought under the ambit of assistance programmes. They have got stuck in Bangladesh and will hardly be able to join their jobs abroad.[7] Recent studies have found that a considerable number of new poor (14.75 per cent of the total national population according to PPRC-BIGD study, 2021) are likely to remain outside the SSNPs. Unlisted poor, new poor, vulnerable, needy and marginalised people need to be included in the official database that was prepared last year. Adequate cash and in-kind support must be provided to these people. Local level organisations, including NGOs, CBOs and CSOs need to be effectively involved in identifying, selecting and distributing support among these people. Accordingly, necessary funds must be allocated through various SSNPs in their support.

d. Given the spread of the pandemic with multiple waves and likely adverse impact on economic activities, poor and marginal people may be expected to remain vulnerable for a prolonged period. Hence, a two-year targeted SSNP needs to be developed for the poor, new poor, marginal and people with special needs. As part of the programme, support needs to be extended several times a year through mobile financial service (MFS)/banking and other means. A database of these people with necessary information as regards their identification (NID, voter etc.), access to banking and MFS etc. need to be created immediately. The new information about those requiring support may be built on the existing database, and it should be an ongoing process through regular updating.

e. The national budget for FY2021-22 should consider introducing unemployment benefit and unemployment insurance schemes for the various categories of vulnerable people. Development partners, international financial institutions (IFIs) and international commercial banks may be approached to underwrite such programmes (fully or partially) to make the schemes operational.[8] In this connection, the European Union's (EU) contribution to the unemployment insurance scheme, recently launched by the government, is a good example.[9] Under this programme, the government may consider introducing 'health risk allowance (HRA)' for the emergency service providers such as health workers and other frontline workers and professionals. The government may consider introducing innovative SSNPs as introduced in other countries. For example, Zimbabwe has introduced 'harmonised social cash transfer (HSCT)' for ultra-poor people. The scheme will cover health insurance, food support, and education waivers for those eligible under the SSNPs.

f. Research indicates that several positive impacts of investments in quality early childhood programmes, including preventing the achievement gap, improving health outcomes, boosting

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[7]According to a study by CPD-BILS on 'Impact of COVID-19 on the Labour Market Policy Proposals for Trade Union on Employment, Gender and Social Security for Sustainable Recovery'.

[8]Hong Kong government has introduced rehabilitation programme by providing loan at 1 per cent rate of interest loan for unemployed workers.

[9]As part of the EU's contribution, the EU has extended a grant of €113 million to pay three months of wages to one million workers laid off by RMG factories. This grant is used to initiate the unemployment insurance scheme for workers working in export-oriented industries. Besides, the EU has extended support of €334 million to help fight the pandemic of which €263 million will be used for mitigating the economic and social impacts of the pandemic and €93 million will help to provide cash assistance to workers in the export-oriented industries.

earnings and rate of return. At the same time, children's welfare call for addressing attendant challenges from multidimensional perspectives. Regrettably, the child budget has not been mentioned as a separate item in FY2020–21 budget. As a percentage of the total budget, the share of the child budget has remained almost the same between FY2016–17 and FY2019–20. Allocations for SSNPs, which are designed for child development, has remained the same in FY2019–20 and FY2020–21. CPD has earlier tracked 19 SSNPs that were designed for child development. Of these 15 child-centric SSNPs, allocations increased for six programmes, decreased for four and remained unchanged for five. A report prepared in 2018 by the MoF entitled "Blooming Children: Prosperous Bangladesh" argued that if the child budget report comes out along with the national budget, the rights and requirements of children will receive due importance from all concerned stakeholders". CPD urges MoF to publish Child Budget along with the budget for FY2021–22.

2.5.3 Support for Agriculture, CMSMEs and Export-oriented Industries

Proposals for agriculture sector

Unlike the first wave of the covid pandemic, the second wave has brought a number of new challenges for the agriculture sector. These include damage to paddy production due to blast disease and heatwave in a number of districts, the lowest amount of public food stock in last 13 years, volatility in domestic rice supply and its adverse impact on retail market price, volatility in the supply of vegetables and other crops due to lock down and delayed import of onion and their consequent adverse impact on market price etc. At present, public food stock is only 4.62 lac MT. This amount is very low to meet the extended social safety net based food distribution programme which is targeted to be implemented in FY2020–21. The lockdown is having an adverse impact on the poultry and dairy sectors as well, due to a lack of marketing facilities. The volatility in the agriculture product market has caused inflationary pressure in recent months. Overall, Bangladesh's food security in Bangladesh is yet to reach the pre-pandemic level (IFPRI & Cornell University, 2021).

The disbursement of stimulus package for the agriculture sector (Tk 23,920 crore) was not up to the mark. Disbursement of agriculture refinancing scheme (Tk 5,000 crore) was to the tune of only 45 per cent, the corresponding figures for refinancing scheme for low-income farmers and small traders (Tk 3000 crore) was only 22 per cent. Procurement of boro paddy/rice in FY2019–20 (additional 0.2 million MT) was rather poor, and amount of agriculture subsidies (Tk 9500 crore) that was disbursed was only 76 per cent. The remaining amount of fund needs to be disbursed in the coming months.

In view of these, the government may consider the following:

a. Considering the loss of crop (approximately 1 lakh ton) due to heat shock, the government has allocated Tk 42 crore for the affected farmers. The ministry of agriculture should identify the 'actual' farmers who lost the crops and take steps to disburse the fund properly. However, the amount of support is very low (Tk 4.2 per kg of paddy) considering the market price of paddy Tk 32-34 per kg). The support will thus not be adequate to compensate for the loss of crops. In order to meet the loss suffered by the farmers (about Tk 330 crore), the MoA should discuss with the MoF to further raise the allocation.
b. Given the volatility in farm income over the last one year, the repayment period of agriculture loans (both working capital and term loan), distributed under the stimulus package, should be

extended to three years.[10] In this context, the reduction of the maximum ceiling on farm loan to 8 per cent is a welcome initiative undertaken by the Bangladesh Bank.[11]

c. Given the poor performance of procurement of boro in FY2020–21 (0.9 million tonnes as against the target of 1.9 million tonnes), necessary funds need to be allocated to incentivise procurement price and stimulate procurement (through hats and bazars) in order to encourage farmers to sell to the government.
d. With a view to reducing the production cost of crop, non-crop, fisheries and livestock sub-sectors, import of the different raw materials should be waived from advance income tax (AIT). These include different agro-processing sectors such as production of poultry feed, fish feed, dairy, and dairy products.
e. Government should make the necessary allocation for timely implementation of two irrigation projects based on solar power (project completion years: 2022 and 2023). Ministry of Agriculture (MoA) should seek funds for taking more projects to popularise solar power-based irrigation facilities across the country.
f. Given the significantly large number of unemployed people, MoA should design and seek funds for implementing a special project for creating employment opportunities. This can be done by providing training, low-interest credit and marketing support facilities for different types of agriculture products, agro-processing and other support services.
g. Government should continue allocating funds for extending farm mechanisation during the pandemic period. This will hopefully contribute to a reduction of production cost and also take care of the limited availability of farmworkers. It is to be noted that MoA is currently implementing a farm mechanisation project for disaster-prone areas with the support of the Asian Development Bank (ADB), which will end in 2024.

Proposals for SMEs

Small and medium enterprises have been most affected during the first wave of Covid-19 and also afterwards; their challenges continue as Bangladesh suffers from the ongoing second wave of the pandemic. Indeed, the second wave is making their situation even more vulnerable by accentuating the current difficulties. Considering the vulnerabilities suffered by the SMEs, the government had allocated Tk 22,000 crore under the first stimulus package; however, the rate of disbursement was slow compared to other stimulus packages. As of April 11, 2021, about 68 per cent of the dedicated fund has been disbursed. Gender-wise disaggregation shows that 94 per cent of the beneficiaries of loans under this package were male, and only 6.0 per cent were female (CPD, 2021). However, the allocation for female entrepreneurs was above the minimum targeted amount (5.7 per cent of total allocation of funds against the target level of 5 per cent). Apart from this, the government has rolled out a fresh stimulus package of Tk 2700 crore to boost cottage industries and SMEs. In March 2021, Bangladesh Bank released a policy in support of the start-ups under the special funding facility of Tk 500 crore. Besides, the banks could set up their own start-up funds with 1 per cent of their operating profit. Out of this fund, 10 per cent of this fund should be allocated among women entrepreneurs. A Tk 10,000 crore stimulus fund for micro-enterprises is currently at processing stage; the Central Bank would provide the funds to microfinance institutions which would disburse the fund through on-lending at an interest rate of 8 per cent p.a. The microfinance institutions (MFIs) could disburse the credit to micro-enterprises which are not covered under any support programmes. Besides, the SME foundation will provide Tk 100 crore loan to selected SMEs.

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[10]According to the circular of the Bangladesh Bank, the tenure for the loans under the stimulus package was set at 18 months, including a grace period of six months. Till December 2020, a total of 1,43,747 farmers have received credit under the package.

[11]Earlier Bangladesh Bank had fixed the rate of interest on farm loan at 9 per cent p.a.

a. It is important to ensure speedy disbursement of the subsidised credit among eligible SMEs. Banks specialised on SME financing should be allocated more funds to disburse credit not only to their existing clients but also to new borrowers. Banks should explore innovative approaches to disburse credit for SMEs—these could be done through the selection of new borrowers with recommendations of business associations, local business samities/trade bodies and MFIs. Banks could also consider disbursing a part of their credit to SMEs through MFIs as well.
b. A database of all categories of enterprises, including MSMEs needs to be prepared on an urgent basis. This database should include information on the registration of businesses, location of the business, number of employees, types of products produced, yearly turnover and payment of official fees and taxes (including VAT) etc. Initially, this database could be prepared based on the datasets available with the various public and private organisations. Such a database would help the identify enterprises that have not received any support as yet and also sectors that has traditionally received less attention in the package etc. Based on the database, fiscal and monetary policy support could be directly extended to the enterprises; this will also help better monitor the results.
c. Given the level of vulnerability of SMEs, the loan repayment period for SME loans, under the stimulus package, needs to be extended to three years. This is similar to what is allowed to the export-oriented sectors.
d. Since the pandemic has disproportionately affected women entrepreneurs, a separate stimulus package needs to be introduced in support of women entrepreneurs (CPD, 2021).[12] In this backdrop, the package should provide fiscal and monetary policy support, including waiver from paying registration fees, VAT, electricity bills for a limited period of time. Enterprises located across the country should also be eligible for subsidised credit.

Proposals for export-oriented industries

Export-oriented industries had started to limp back to pre-COVID situation following the first blow of the covid pandemic. Thanks to the first stimulus package, including an incentive package of Tk 10,500 crore for export-oriented industries, the industries were able to pay workers' wages for four months. This helped the recovery of a large number of enterprises. It is to be noted that the pace of recovery is different for different categories of enterprises (e.g., RMG enterprises, as mentioned in Moazzem et al., (2021).[13] Amid the second phase of the country-wide lockdown, the GoB has decided to keep the industries functioning. In this time of crisis, countercyclical fiscal measures are usually considered to be effective. However, as the industries have started to recover, such measures are likely to be no longer required. Export-oriented industries need to target new business opportunities which are emerging in view of covid.

a. Given the significant size of the global market for non-cotton based apparel products, the MoC should propose that the MoF introduced a fresh 10 per cent cash incentive for enterprises. Enterprises which will produce 100 per cent non-cotton based apparels will be eligible for this support. These fiscal incentives may be put in place for the next seven years. The required fiscal expenditure could be accommodated by withdrawing the 1 per cent cash incentive for export of

[12]Due to the pandemic nearly half of women SMEs to shut down for failing to pay rents. Though the government allocated funds for women entrepreneurs under stimulus packages meant for the cottage, micro, small and medium enterprises (CMSMEs), 58 per cent of them have not heard about it and 93 per cent women enterprises have not applied for any loan under the government support scheme (CPD, 2021). Amid this crisis situation improvement in the access to loans and training of the women entrepreneurs are crying need.
[13]According to the resilience index, estimated for 600 RMG enterprises (Moazzem, et al., 2021), while the overall score was 43.4 (out of 100), the values for small, medium and large-scale enterprises were 37.8, 49.2 and 54.2 respectively.

apparels to all markets which is currently in operation. It is important to note that the proposed cash incentive facility will be over and above the tax holiday facility currently in place for non-cotton based apparels exporting enterprises.

b. Export-oriented industries need to be incentivised in order to promote the use of renewable energy-based power in factories. Sustainable and Renewable Energy Development Authority (SREDA), through the Ministry of Power, Energy and Mineral Resources (MoPEMR), will request the MoF to provide a 5 per cent tax break for factories that generate at least 20 per cent of its total energy requirement by renewable energy (e.g. solar energy).
c. Government should undertake a new project with a view to setting up a new leather industrial park exclusively for export-oriented enterprises. All needed facilities as per international standard should be there. Technical support of the Leather Working Group should be sought in this connection.
d. Government should implement a Carbon tax (7 per cent of gross energy expenses) for industries in a phased manner. This will contribute to reducing carbon emission. Companies should be encouraged to set their own roadmap for reducing their carbon footprint by 2030 in light of the Sustainable Development Goals (SDGs).

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Chapter 3

State of the Bangladesh Economy in FY2020–21 *(First Reading)*

3.1 INTRODUCTION

Halfway through FY2020–21, the Bangladesh economy is still reeling from the adverse consequences of the ongoing COVID-19 pandemic as manifested by key macroeconomic and sectoral performance indicators. Although in terms of gross domestic product (GDP), Bangladesh was an outlier as one of the countries that had positive growth rates in 2020, there are reasons for concern as one examines the underlying factors that informed economic performance as the country moves towards the end of FY2020–21. The key question here is whether the economy has been able to overcome the initial stress, make a turnaround and is set on the course for recovery.

The objectives of the present review carried out under the flagship programme of the Centre for Policy Dialogue (CPD), titled Independent Review of Bangladesh's Development (IRBD), are threefold:

- Firstly, to have a conceptual understanding about how to define economic recovery in the backdrop of adverse impacts on an economy.
- Secondly, to take cue from the above and analyse the performance of Bangladesh economy as it crosses the midway mark of FY2020–21; to assess to what extent macro and key sectoral performance indicators have fared from the vantage point of turnaround, rebound and sustainable recovery.
- Thirdly, to offer suggestions to address some of the important attendant concerns associated with the selected areas of analysis.

In view of the above, the Introduction is followed by Section 3.2 which attempts to arrive at an analytical framework to assess the state of rebound and recovery of the Bangladesh economy in the backdrop of the ongoing pandemic. Section 3.3 examines the movements of major macroeconomic correlates to assess trends and anticipate prospects of resilient recovery. Section 3.4 reviews performance of the agriculture sector taking into account the dual impacts of the pandemic and natural disasters. Section 3.5 provides an analysis of the performance of the industrial sector and perceptions of key stakeholders regarding near-term recovery. Section 3.6 undertakes an analysis of the key performance indicators concerning the banking sector, particularly in view of the stimulus packages disbursed through the banking sector, to assess the prospects of rebound and recovery. Section 3.7 reviews trends in the external sector to assess the state of play of major correlates in the pre-COVID context. This section concludes with some final observations.

3.2 ANALYTICAL FRAMEWORK

3.2.1 Context

The global economy has been gravely affected by the pandemic. Nearly a year after Coronavirus Disease 2019 (COVID-19) first appeared, the global economy is perhaps showing some signs of economic recovery. Global economic output is projected to increase by 4 per cent in 2021 despite the growth rate being 5 per cent below pre-pandemic estimates (World Bank, 2021). However, the recovery is expected to be uneven across the world as some economies will regain output faster than others depending on the extent of their loss and capacity to recover. Developed countries (3.1 per cent) are expected to experience a slower pace of recovery compared to developing countries (5.7 per cent) (UNCTAD, 2020). This has significant implications for many economies including Bangladesh. The growth outcomes in China, the European Union (EU) and the United States of America (USA) directly affect the South Asian countries through impacts on export demand, remittances and access to foreign financing (World Bank, 2016). For example, nearly 62 per cent of the readymade garments (RMG) exports from Bangladesh go to the European markets (BGMEA, 2020). Consequently, recovery of any particular country is not only dependent on the strength of its domestic economy but also on the recovery of other economies.

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

3.2.2 Shapes of Economic Recovery from Recessions

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

a. K-shaped recovery occurs when a segment of the economy pulls out of a recession, while others stagnate (Aldrich, 2020).
b. L-shaped crisis represents a permanent loss of output (Sharma et al., 2021).
c. U-shaped recovery refers to an initial drop, followed by sluggish recovery in output (Hong & Tornell, 2005).
d. V-shaped recovery is when an initial drop is followed by a sharp increase in the growth rate (Hong & Tornell, 2005).
e. W-shaped or double-dip recession is defined as "a second decline of real GDP after a trough of the economic cycle but prior to the reversion point or the previous peak level of real GDP" (Kyer & Maggs, 2019).
f. In case of a "swoosh" shaped recovery, the output experiences a rapid drop followed by an excruciatingly slow recovery (Sharma et al., 2021).

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

Martin and Sunley (2015) suggested that "recovery could mean a return to the peak level of employment, a return to the original growth path, a return to the original growth rate, or the adoption of a new, favourable growth path." Instead of defining recovery as a certain level of employment to be achieved or a return back to a pre-shock trend, Han and Goetz (2015) identified recovery as the rate of employment changes in the six months following the trough of a region. For assessing the resilience of various counties in the USA during and after the global financial crisis (GFC), Ringwood, Watson and Lewin (2019) tracked the total employment behaviour from a county's local peak, associated with the beginning of the shock response to six months after the trough, in order to include both the beginning of recovery and the magnitude of the impact of the recession locally.

3.2.3 Indicators for Assessing Economic Recovery: Beyond GDP and Employment

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

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

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

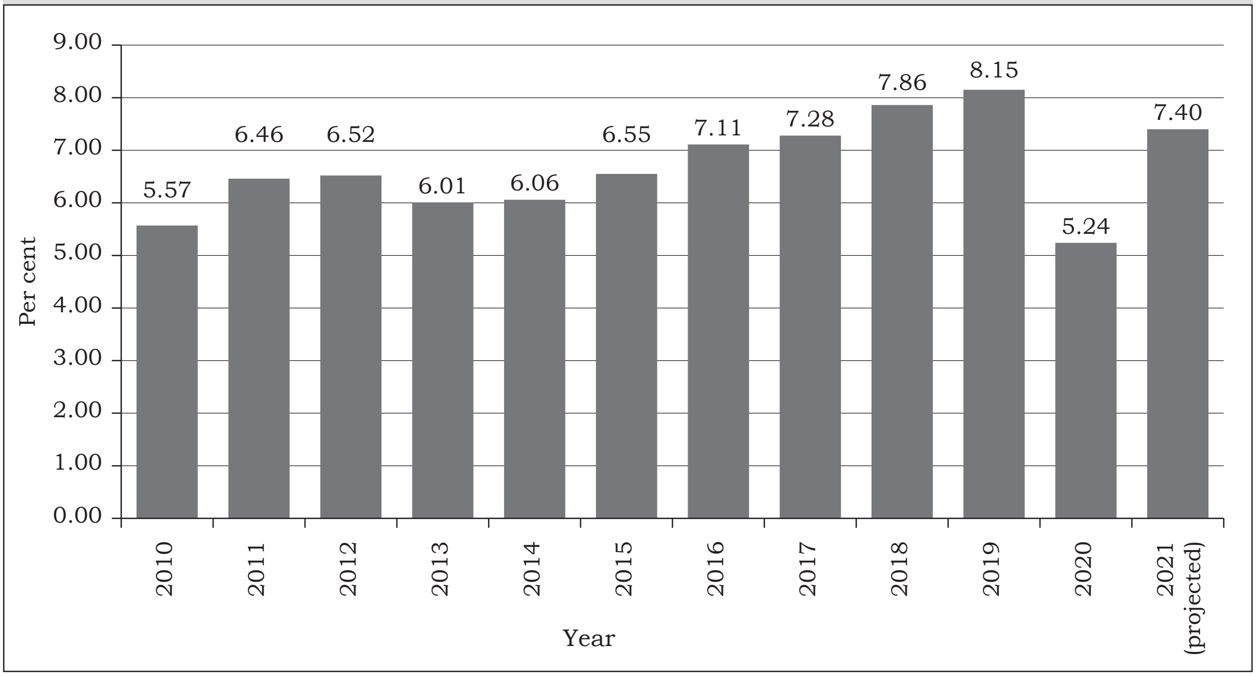
3.2.4 How to Chart Out Bangladesh's Economic Recovery Path

According to the official estimates of the Government of Bangladesh (GoB), Bangladesh's GDP growth in FY2019–20 was 5.2 per cent. Though this is lower than the projected 8.2 per cent for FY2019–20 and lowest in the last decade (Figure 3.1), Bangladesh's growth during the pandemic is way above all other countries. The economy remained resilient thanks to its domestic strength. High agriculture production, remittances, and exports particularly from RMG sector, have played a crucial role in achieving the growth.

In the current FY2020–21, the government has projected a growth rate of 7.4 per cent. This is very promising and, if achieved, Bangladesh will be an outlier in terms of the pace of recovery of economy as it will be much faster than other countries. However, official estimates of GDP provided by the GoB have created debates in Bangladesh due to its disjuncture with fundamental macroeconomic variables including private sector credit, revenue mobilisation, import payments for capital machineries, energy consumption, export receipts, and employment generation (CPD, 2020). In fact, the GDP estimates for FY2019–20 have also come under scrutiny mainly due to the significant discrepancy between the GoB numbers and the estimates provided by a number of international organisations including the World Bank and International Monetary Fund (IMF). Indeed, the provisional growth figures may as well be revised when the final numbers come out.

Figure 3.1

GDP Growth Rate Over the Years



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

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

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

3.3 MACROECONOMIC MANAGEMENT

The pandemic-hit economy closed FY2019–20 with major departures from annual targets

Economic performance of Bangladesh in FY2019–20 ought to be assessed from the vantage point of an extraordinary year when a once-in–a-lifetime global crisis of our time had unfolded in the form of the COVID-19 pandemic. Note that even before the outbreak, the Bangladesh economy was facing significant challenges in a number of areas including domestic resource mobilisation, governance in the banking sector and export earnings. Macroeconomic challenges were further exacerbated by the pandemic and were accentuated by multiple natural disasters that struck Bangladesh in 2020 (e.g. cyclone and floods). The impact of COVID-19 was particularly evident during the last quarter of FY2019–20 (April–June) when the economic activities were severely disrupted in the backdrop of the 'general holidays' (i.e. lockdown) declared by the government. Indeed, FY2019–20 ended with a fall in economic growth[1], a large shortfall in revenue mobilisation, disruption in the pace of implementation of public investment projects, escalation of budget deficit and bank borrowing, slowdown of private sector credit growth and sharp fall in trade. As can be seen from Table 3.1, all major economic correlates experienced major departures from their respective annual targets in FY2019–20.

Table 3.1

Major Macroeconomic Indicators in FY2019–20: Target Versus Achievement

(in Per cent)

Indicators	Target FY20	Actual FY20
GDP Growth	8.2	5.2
Investment (of GDP)	34.4	31.8
Private Investment (of GDP)	26.6	23.6
Public Investment (of GDP)	7.8	8.1
Total Revenue (of GDP)	13.2	9.4
Tax revenue (of GDP)	11.8	7.8
NBR Tax Revenue (of GDP)	11.3	7.6
Total Expenditure (of GDP)	18.1	14.9
ADP (of GDP)	7.0	5.5
Budget Deficit (excluding grants) (of GDP)	5.0	5.5
Inflation	5.5	5.7
Private Sector Credit Growth	14.8	8.6
Money Supply Growth	12.5	12.6
Export Growth	12.2	-16.9
Import Growth	10.0	-8.6
Remittance Growth	13.0	10.9

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

Revenue mobilisation registered a positive growth rate with disquieting underlying trends

In the run up to the national budget for FY2020–21, CPD (2020) had flagged concern that the lack of fiscal space could constrain the government's response to the COVID-19 pandemic (CPD, 2020). Regrettably, the fiscal framework underpinning the budget apparently did not consider the pandemic. As the MoF data reveal, FY2019–20 ended with a subdued revenue mobilisation growth of 4.4 per cent. This meant that the target for FY2019–21 was 43.7 per cent higher than the actual collection in FY2019–20 (Table 3.2).

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

Table 3.2

Revenue Mobilisation Growth Scenario

(in Per cent)

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

Source: Authors' calculations based on the data from the MoF.
Note: NBR = National Board of Revenue.
VAT = Value Added Tax.

During the July–October period of FY2019–21, total revenue mobilisation rose by 8.0 per cent compared to the corresponding period of FY2019–20. However, this was underwritten by the phenomenal growth of 38.8 per cent from collection on revenue from interest, fees and tolls and others (invitation for tender (IFT) and others). It is to be noted that the growth, thanks to IFT and others, may not sustain over the coming months due to its nature of being a one-time payment. NBR tax collection increased by 3.4 per cent during the July–October period of FY2019–21 over the comparable period of FY2019–20, thus requiring a growth of 76 per cent (!) during the remainder of the fiscal year.[2] The growth in revenue mobilisation during the aforementioned period was primarily driven by a better collection of VAT (17.3 per cent). However, income tax collection exhibited a negative growth of 10.1 per cent during the July–October period of FY2020–21. This can perhaps be attributed to the various tax exemptions provided in view of the pandemic. Therefore, the total revenue collection would have to grow by a whopping 59.7 per cent during the remainder of FY2020–21 for the target to be achieved.

Public investment was restrained

According to the Implementation Monitoring & Evaluation Division (IMED) data, only 76.8 per cent of the original Annual Development Programme (ADP) allocation could be spent in FY2019–20. In the first two quarters of FY2020–21, the implementation rate of the ADP allocation has been less than that of the same period of FY2019–20. In total, only 24.3 per cent of the total ADP allocation was spent during July–December of FY2020–21. The implementation rate of the 'Taka component' was 24.0 per cent, while that of 'Project Aid' was 24.9 per cent.

[2] According to the NBR data, tax collected by the NBR posted a growth of 3.5 per cent during the July–October period of FY2020–21. This implies that the required growth for November–June of FY2020–21 would be 71.6 per cent. As per the same source, tax collection growth during July–December of FY202–21 was 3.9 per cent which takes the required growth rate for the remainder of FY2020–21 to 95.7 per cent.

Total expenditure for the top ten ministries during the July–December period has fallen compared to FY2019–20. In terms of allocation, ironically, the implementation has been the lowest in the Health Services Division (HSD) amongst the top 10 ministries/divisions. While on the contrary, in an ideal situation, the spending by HSD should have led the way taking into account the current pandemic. Only 14.6 per cent of the initially allocated amount by the HSD has been spent. Even in the pre-COVID situation, the ADP implementation rate of this sector was higher than this—16.5 per cent for FY2019–20's first two quarters. The failure of implementing the allocation earmarked for the HSD is a reminder that Bangladesh has not been able to address many of the problems afflicting the country's healthcare system. Implementation status of eight mega-projects[3] during the first half of FY2020–21 indicates that only 17.4 per cent of allocations have been spent. This is far below the average implementation rate for the total ADP.

Expansionary fiscal policy was not in place

According to the MoF data, total expenditure accounted for 14.9 per cent of the GDP in FY2019–20, which is less than FY2018–19 share of 15.4 per cent of the GDP. In FY2019–20, operating expenditure had a growth rate of 5.6 per cent while development expenditure increased by 6.4 per cent. Overall, there has been a growth of 6.1 per cent in total expenditure in FY2019–20.

Contrary to the needs triggered by the pandemic and as advocated by CPD (2020), the government was not able to pursue an expansionary fiscal policy. Public expenditure fell by a large amount during the first four months of FY2020–21 compared to the pre-COVID situation. A substantial fall is noticed in development expenditure, with a 35.1 per cent decline in ADP expenditure compared to the corresponding period of FY2019–20 (Table 3.3). Operating expenditure was also lower. In fine, public expenditure has been largely subdued.

Table 3.3

Government Expenditure Scenario (FY2020–21 Amount over FY2019–20 Amount)

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

Source: Authors' calculations based on the data from the MoF.

With a view to saving about BDT 33,661 crore from the ADP in FY2020–21, the Finance Division has allowed ministries and agencies to spend only 75 per cent of the fund allocated by the government for ADP in FY2020–21. The remaining 25 per cent cannot be spent for operation under any circumstances. It has been put under hold since the Finance Division suspects that the revenue target will be difficult to achieve during the pandemic.[4] Funding for low-priority projects was also suspended to make Tk 52,000 crore (about one-fourth of the ADP budget) available for spending measures related to tackling the impact of the pandemic. High-priority projects have been allocated 40 per cent of the overall ADP allocation (New Age, 2020). The Hon'ble Prime Minister had stated back in April 2020 that unutilised funds from the ADP allocation would be redirected towards tackling the COVID-19 pandemic (The

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

[4]However, projects receiving foreign funds have been allowed to go for full expenditure (invalid source specified).

Business Standard, 2020a & 2020b). Curiously, the created fiscal space (by reducing the scope of ADP expenditure) was not diverted to expenditure for other priority purposes. This has perhaps made Bangladesh an exception in the global map as the country had apparently gone for austerity during the time of a crisis.

Budget surplus at a time of crisis

FY2019–20 ended with a budget deficit of 5.5 per cent of GDP, which was well within the revised target of 6 per cent. As of October FY2020–21, there was in fact a surplus in the fiscal balance (Table 3.4). Although revenue mobilisation was somewhat subdued, a higher fall in public expenditure, particularly ADP expenditure, has primarily contributed to this situation.

Table 3.4

Fiscal Balance and Government Borrowing

(in crore BDT)

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

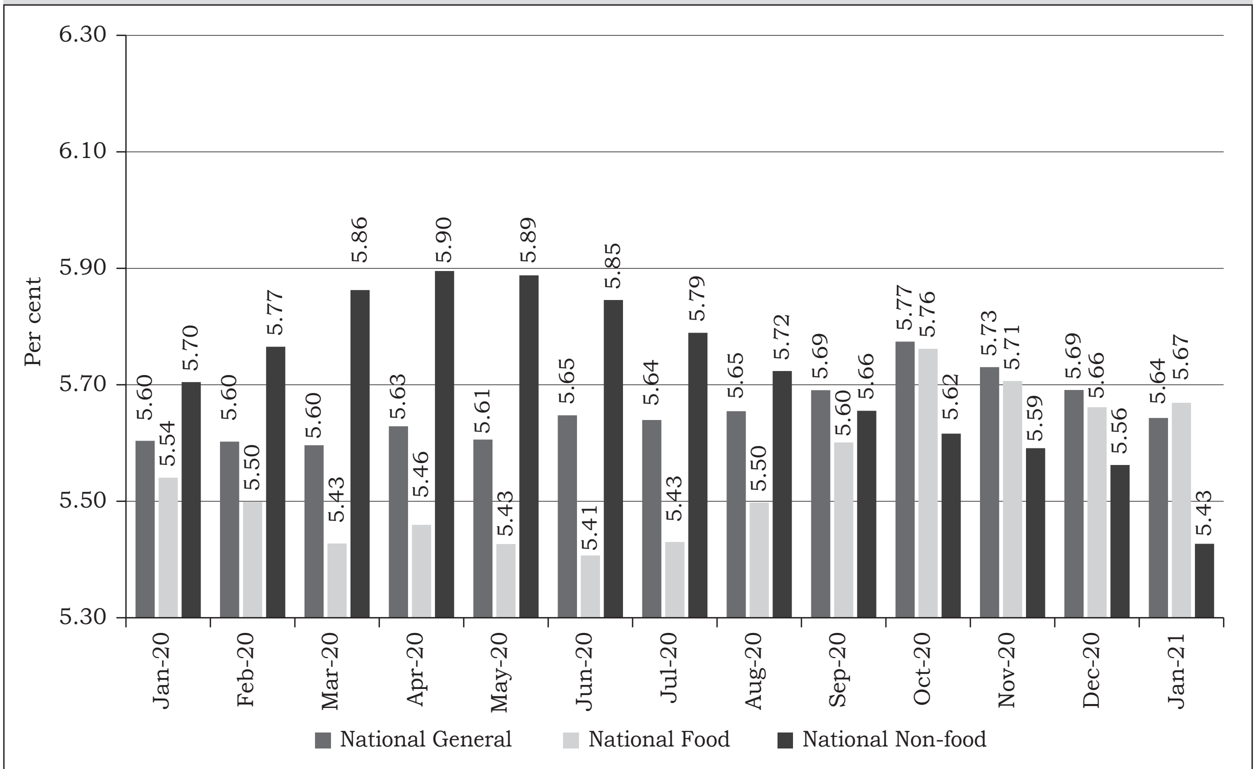
Source: Authors' calculations based on the data from the MoF.

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

Stable inflationary trends despite volatility in prices of essentials

FY2020–21 started with an inflation rate (moving average) of 5.64 per cent, which reached its highest level at 5.77 per cent in October 2020 but managed to come down to the initial level of 5.64 per cent

Figure 3.2
Inflation Rate (12-Month Moving Average)



Source: Authors' calculations based on the data from BBS.

by January 2021 (Figure 3.2). Food inflation has been exhibiting a generally increasing trend while non-food inflation has been coming down. The fiscal year started with a comparatively high non-food inflation rate of 5.79 per cent, which stood at 5.43 per cent by January. Curiously, an increase can be observed in the inflation rate for medical care and health expenses, which started with 7.47 per cent in July 2020 and stood at 8.72 per cent in January 2021.[5] However, the highlight of the inflationary trend since the outbreak of the pandemic was the instability seen in the prices of several essential items including rice, onion, potato, sugar, edible oil, vegetables, etc. The official food inflation data do not reflect the anxiety of low-income people of the country who are struggling to keep their purchasing power intact in the backdrop of rising prices of the essentials.

Turn-Around in Industrial Production Despite Volatile Export

FY2020 ended with a slump in the export scene as export earnings declined by 16.9 per cent and missed the growth target of 12.2 per cent by a large margin. In FY2020–21, the volatility in export earnings had continued. During the July–January period of FY2020–21, total export earnings decreased by 1.1 per cent. This implies that the total export earnings will need to grow by 70.4 per cent during the remainder of FY2020–21 if the annual growth target of 21.8 per cent is to be reached, an impossibility given the current situation, both nationally and globally, and the global trade forecasts. On a positive note, industrial production for large and medium industries increased by 7.7 per cent during the July–October FY2020–21 period while the corresponding figure for FY2019–20 was 5.4

[5] This is perhaps indicative of the added demand for healthcare and medical supplies in view of the pandemic.

per cent according to the BBS data.[6] It is to be noted that the data portray extraordinarily high growth figures for several industries. For example, the production of leather and associated products increased by 58 per cent, although the associated exports of leather and leather goods had declined by 10.6 per cent during the same time frame. Increase in electricity production was 4.6 per cent. However, intermediate goods import declined by 8.8 per cent during the first six months of FY2020–21. Nevertheless, it is apparent that domestic market-oriented industries primarily contributed to enhanced industrial production growth.

Significant surplus in balance of payments piled up foreign exchange reserve

The overall balance of payments (BOP) registered a buoyant surplus of about USD 6.2 billion during the first six months of FY2020–21 providing a big boost to foreign exchange reserves. This also helped maintain a stable exchange rate of BDT against the USD.[7] The trade deficit narrowed further riding on reduced import payments. Import payments for the first six months of FY2020–21 fell by 6.8 per cent. This is faster than that of the export earnings despite a whopping 50.4 per cent growth in payments against food grain imports.[8] Thanks to the extraordinary remittance inflow, the current account balance posted a surplus of USD 4.3 billion as of December, 2020. This has created a large flow of net foreign assets for the commercial banks.

Expansionary monetary policy provided some boost for private sector credit

The government response to the pandemic was primarily driven by monetary (or 'hybrid') policy instruments, i.e., cheaper credits under the stimulus packages along with monetary easing. However, private sector credit growth as of December 2020 fell to 8.4 per cent as against monetary policy target of 11.5 per cent. This is pointer towards the depressed investment scenario in view of the pandemic. Indeed, capital goods import has also decreased by 16.7 per cent while the import of capital machinery experienced a decline of 29.2 per cent. Net foreign direct investment (FDI) inflow also registered a negative growth of 22 per cent during the July–December period of FY2020–21. Hence, it may be inferred that while the economy, to some extent, may have turned around in terms of using its existing capacities, private investment may need more time to recover. In the meantime, the monetary system is flooded with excess liquidity and low interest rates for both deposit and lending in the backdrop of depressed demand for new investment.

Six emergent trends in the economy in FY2020–21

The review of major macroeconomic correlates over the first half of FY2020–21 is indicative of the following. First, many critically important macroeconomic indicators evince signs of a turnaround. Production of manufacturing industries and electricity has posted a rise and VAT collection has registered a positive growth rate. Second, one also needs to be mindful that the pace and turnaround have not been even for all indicators or sectors. For example, the RMG export, knitwear posted a positive growth (3.8 per cent), while woven wear had experienced a sharp decline (10.9 per cent). Third, recovery in production was better, showing signs of consolidation as regards the use of the existing capacities in the economy. On the contrary, both private and public investment-related indicators had remained subdued. Indeed, the economy may need more time to recover fully. Fourth, the global recovery is likely to be slow, uneven and uncertain. On a comparative scale, recovery in the domestic demand has shown much stronger resilience. Fifth, macroeconomic stability has been maintained

[6] During FY2019–20, the production by large and medium manufacturing industries increased by a meagre 1 per cent.
[7] Foreign exchange reserve has recently crossed the USD 43 billion mark.
[8] However, individual month wise analysis shows that import has increased during the months of November and December in 2020.

as reflected in surplus budget, declining aggregate inflation, overall surplus balance of payment, and stable exchange rate of BDT against USD. Sixth, the objectives of the macroeconomic policy interventions pursued to address the adverse impacts of the pandemic were not fully achieved. The constrained fiscal space was already a major concern in the pre-pandemic months, which perhaps constrained the government to pursue a larger fiscal stimulus programme as has been done in many other countries. As is known, most of the stimulus packages primarily hinged on subsidised credit. Regrettably, even the available fiscal space was not utilised fully. The weak budgetary programming had resulted in a surplus budget for the first four months of FY2020–21. Monetary policy was the primary policy block for the government. Several policy steps were taken which may have contributed to the turnaround. However, the benefits of such policies were not well distributed. Export-oriented industries were far better positioned to take the early benefits compared to the domestic market-oriented industries. Similarly, large and medium industries were able to reap the benefits to a larger extent compared to the small industries and agriculture sector.

The need for a recrafted policy approach

The national budget for FY2020–21 needs to be revised at the earliest. The economy needs to come out of a possible second round of flawed programming when the budget is revised. Money should be directly injected where it is needed the most. It will take more time for the global economy to recover. Hence, the immediate focus should be on the domestic economy where stimulating domestic demand ought to be prioritised. The economy requires continued policy support over the medium term to be able to recover fully. To this end, the experience of implementing the stimulus packages will need to inform policy choices. Indeed, the next round of stimulus package will require revisiting and reformulating. Relaunching the same packages with time extension will not produce the intended results. An innovative approach to absorb the needs of the small and micro enterprises, agriculture and young and new entrepreneurs should be considered to this end. In the run up to the next national budget for FY2021–22, the policy package must lay out the plan to phase out the tax exemptions and subsidised credit schemes. The recovery of the economy needs to be carefully monitored by generating credible and timely data. At present, the country does not have any credible data on the overall employment situation, livelihood conditions of the marginalised communities and of those who tend to be left behind. Indeed, tracking traditional macroeconomic correlates is inadequate to understand the recovery status of the economy as new indicators of economic performance are emerging in the backdrop of the pandemic. This also underscores the demand for a renewed effort to generate the needed data.

3.4 RECOVERY OF AGRICULTURE AND AGRO-BASED INDUSTRIES DURING THE PANDEMIC PERIOD: HOW THIS FARES AGAINST THE PRE-PANDEMIC LEVEL

3.4.1 Introduction

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

3.4.2 Methodology

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

All surveyed questions were close-ended where participants were instructed to choose between three possible answers[12] based on their respective performance in agriculture and agro-based economic activities. The index value was calculated by putting weighted proportions of respondents responding higher, same, and lower.[13] Therefore, the resulting index values are bounded between 0 and 100.[14]

Data on agriculture production, export and credit during FY2018–19, FY2019–20 and several months of FY2020–21 have been compiled to compare the performance of agriculture and agro-based activities between pre-COVID and COVID period with a view to appreciate the level of recovery.

3.4.3 Performance of Agriculture Production and Agro-based Industrial outputs

Agriculture production and export

Agriculture sector of Bangladesh was impacted by the pandemic during the second half of FY2019–20 and the first half of FY2020–21. Available official data mainly provides information on agriculture production for the second half of FY2019–20. According to the data, agriculture production especially that of rice and wheat during FY2019–20 was higher compared to that in the previous year (Figure 3.3). However, the production of rice, particularly aus and aman rice during FY2020–21 was adversely affected due to the consecutive floods which affected about one-third of the districts in the country. Approximately 2.57 million hectares of paddy fields were inundated which affected about 1.27 million farmers in 37 districts. An early estimate indicates that aman rice, which accounts for 36 per cent of the total rice produced in the country, was 10 lakh metric ton (MT) less than the targeted amount. As a result, domestic stock of rice, particularly of public food stock because of low procurement, was significantly less at the end of December 2020 (7.63 lac MT as on 14 January 2021 which was 15.70

[9]PMI is an economic indicator which is applied to compare the performance of businesses in a particular period against another period. The weights assigned for different components are same as is applied in the HIS Markit method where weight is 30 per cent for 'new order', 25 per cent for 'output', 20 per cent for 'employment', 15 per cent for suppliers' delivery times and 10 per cent for 'stocks of purchases'.

[10]A total of 18 entrepreneurs from different agro-based industries have been surveyed.

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

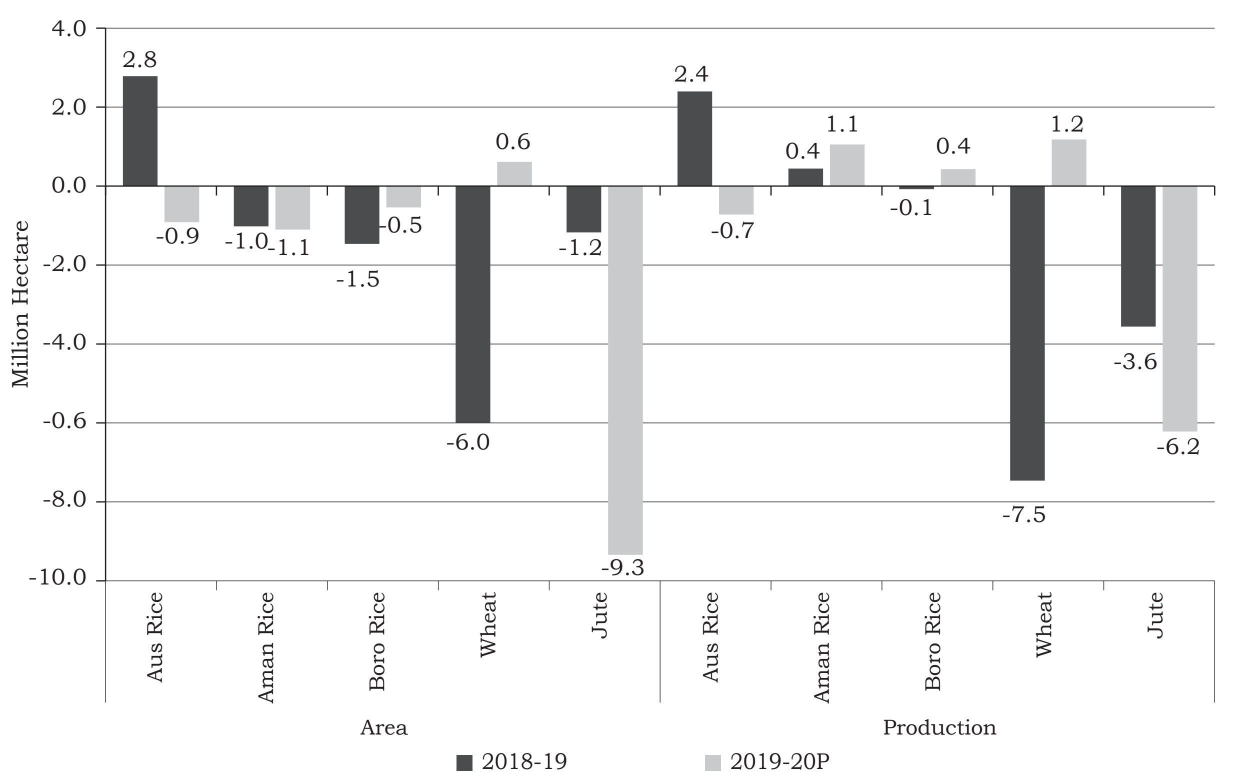
[12]These include a) same (if their business for the given indicator remained same compared to previous period); b) lower (if their business for the given indicator deteriorated compared to previous period), c) higher (if their business for the given indicator improved compared to previous period)

[13]Value 1 was multiplied with the percentage number of answers that reported an improvement; 0.5 was multiplied with the percentage number of answers that reported no change; and 0 was multiplied with the percentage number of answers that reported deterioration. Generalised equation of the index is as follows: $PMI = (P1\times1) + (P2\times0.5) + (P3\times0)$ where, P1 = percentage of answers reporting improvement; P2 = percentage of answers reporting no change; and P3 = percentage of answers reporting deterioration.

[14]Thus, if 100 per cent of the panel reported an improvement, the index would be 100. If 100 per cent reported deterioration, the index would be 0. If 100 per cent of the panel saw no change, the index would be 50.

Figure 3.3

Growth in Area and Production of Agriculture Goods, FY2019–20 Over FY2018–19



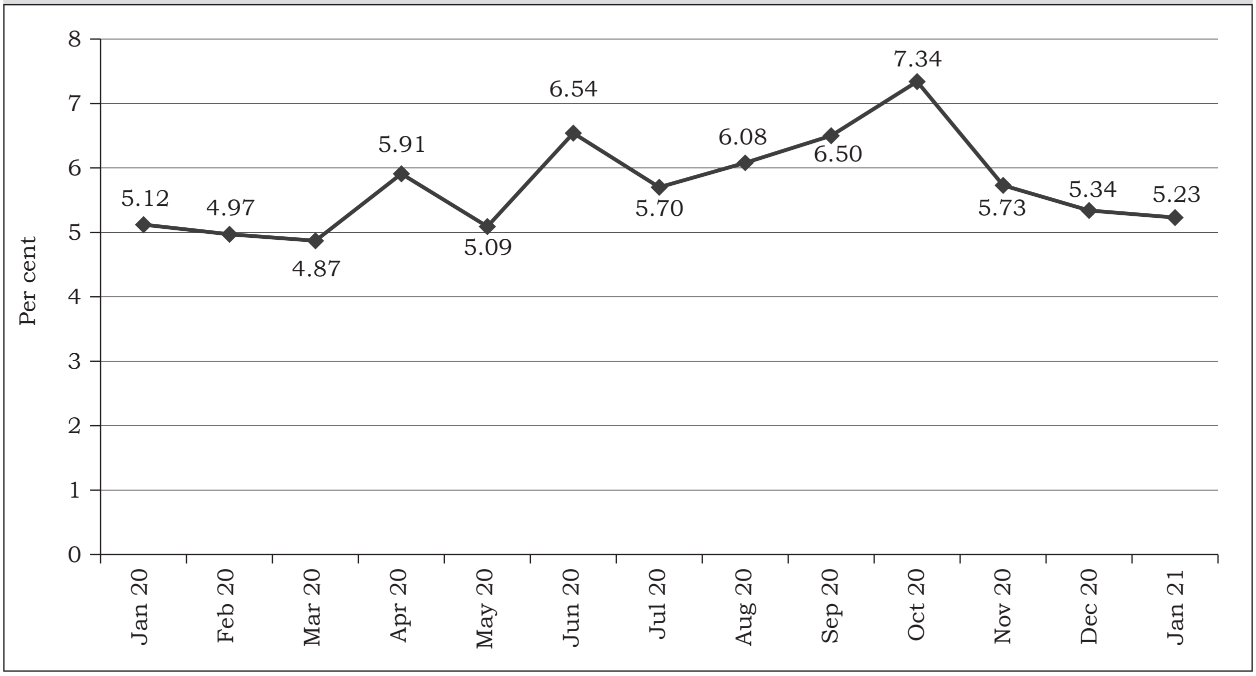
Source: Prepared based on the BBS data.
Note: P = provisional.

lakh m ton as on 16 January, 2020—about 51.4 per cent less compared to the year before). Similarly, production of jute was adversely affected due to flood. Jute production was 6.2 per cent less compared to that in the previous year. Domestic market prices of rice and jute posted a significant rise because of low production and delay in import (particularly rice). Food inflation, although declining, was still higher than the pre-COVID period (January–February 2020) (Figure 3.4).

Indeed, the agriculture sector of Bangladesh has witnessed a contrasting performance during the COVID period, an early resilience during initial phase of the pandemic and weak performance in the following periods. Loss of production of rice and other agricultural crops mainly occurred due to flood and had no relationship with COVID-19. Overall, the weak performance of agriculture sector at the end of 2020 portrays that the sector is yet to recover although this did not have any direct interface with the pandemic.

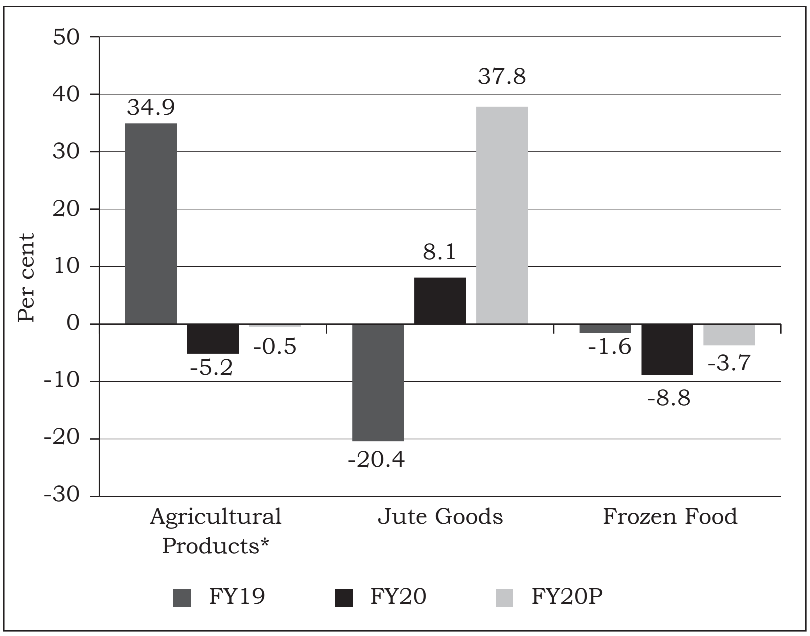
Export of agricultural products has somewhat improved in the first five months of FY2020–21 (July–December 2020) after the poor performance in FY2019–20 (Figure 3.5). In other words, the export of agricultural products has yet to recover after the setback during the initial phase of the pandemic. During January–March 2020 and April–June 2020, export growth of agricultural products was -3.4 per cent and -24.8 per cent respectively. This was mainly due to fall in the global demand and restriction of movement of goods by air and water transfer by major countries due to the pandemic. In the subsequent period, while the cross-border movement of goods started, export earnings from agricultural products posted a rise—mainly from export of jute and jute goods (37.8 per cent) during

Figure 3.4
Food Inflation



Source: BBS, 2021.

Figure 3.5
Growth in Export of Agriculture Goods



Source: Prepared based on the data of the Bangladesh Bank and Export Promotion Bureau (EPB).
Note: * Includes tea, vegetables, tobacco, cut flower and foliage, fruits, spices, dry food & others;
P (provisional) = till December, 2020.

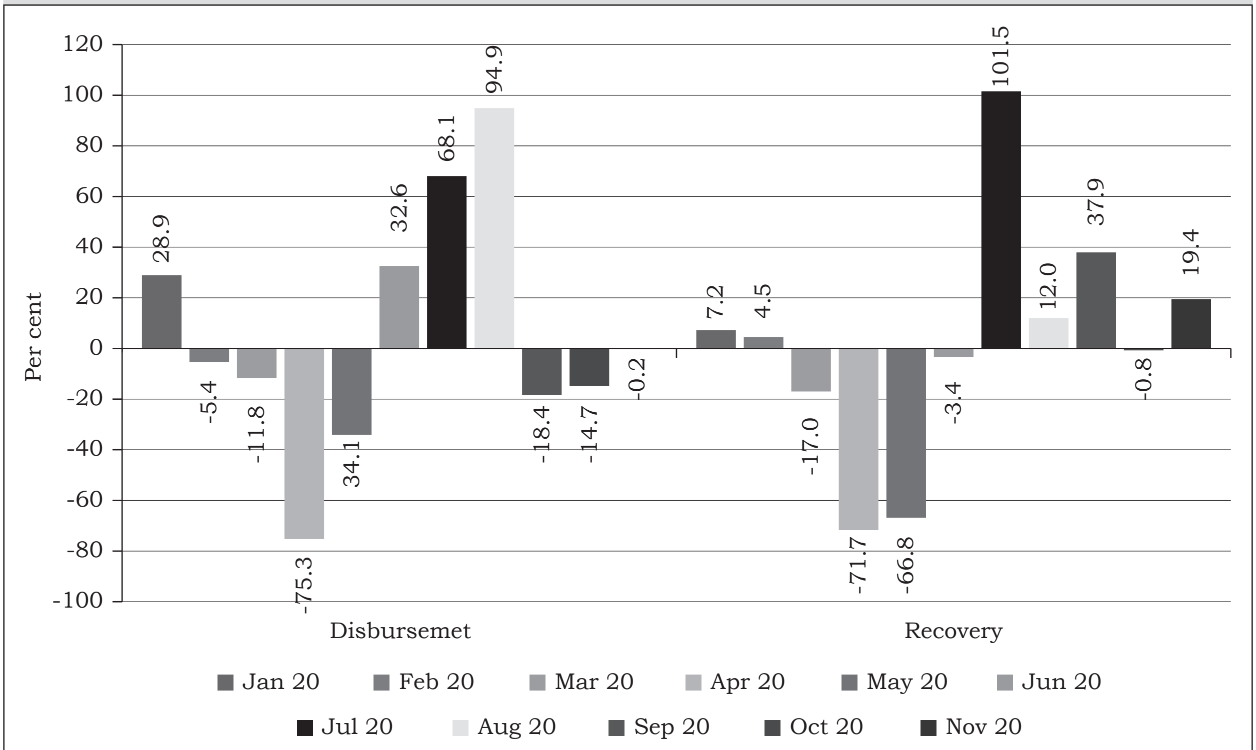
July–December of FY2019–20 compared to the same period of the previous year. Although, earnings from frozen and live fish and other agricultural products was negative (3.7 per cent and 0.5 per cent respectively), it had improved compared to the corresponding figures in in FY2019–20 which were also negative (8.8 per cent and 5.2 per cent respectively). Overall, export performance during July–December in FY2019–20 reflects a modest level of recovery. Since, the export of agricultural products comprises a negligible share of the total agriculture production, the sector's performance will need to be assessed in view of the domestic market situation.

Growth in credit

Disbursement pattern of agricultural credit reflects the nature of investment in agriculture production. Since January 2020, the growth of agriculture credit had gradually declined with a dip in April and May 2020. Over the following months, disbursement of credit has started to rise and reached a high level in August 2020, following which the credit growth has declined (Figure 3.6). The changes in credit are mainly on account of decreased demand in large part of the country due to consecutive floods. Overall, disbursement of agricultural credit reflects a slow recovery in the agriculture sector. Given the sluggish trend in the disbursement of farm loans, Bangladesh Bank has slashed the disbursement target for the current fiscal year. According to the central bank's '2020–21 Agriculture and Rural Credit Policy and Programme', target for growth of agricultural credit has been reduced to 9 per cent from the 10.7 per cent set for the previous year.

Figure 3.6

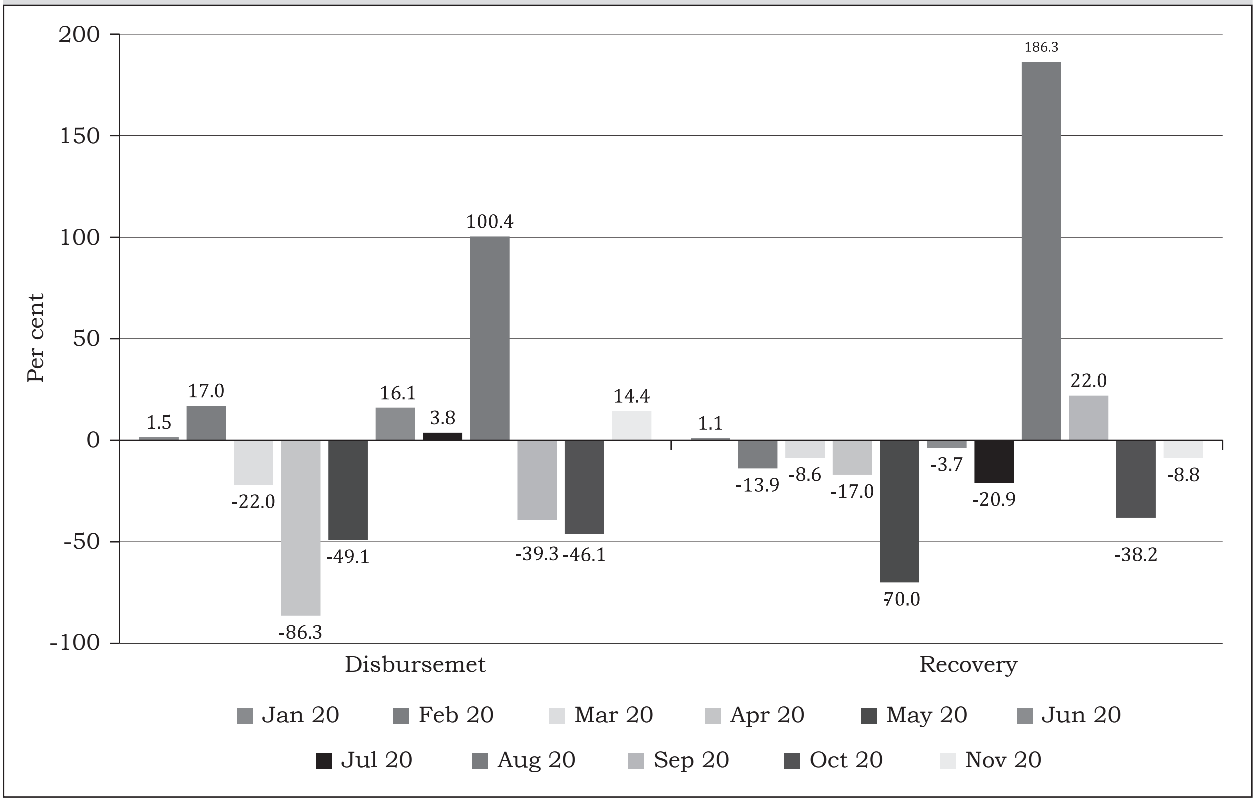
Changes in Farm Credit Disbursement



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

Figure 3.7

Changes in Non-Farm Rural Credit Disbursement



Source: Authors' illustration based on the data from Bangladesh Bank, 2021.

Disbursement of credit in the non-farm sector reflects the same trend during January–November, 2020 (Figure 3.7). After the fall in the demand for credit during the initial period of the pandemic, it had started to rise in the following months. However, this was stalled after August 2020. During July–November 2021, non-farm rural credit plummeted by 6.25 per cent compared to that in the previous year.

3.4.4 Agri-Businesses Entrepreneurs Views as Regards Recovery: Perception Survey

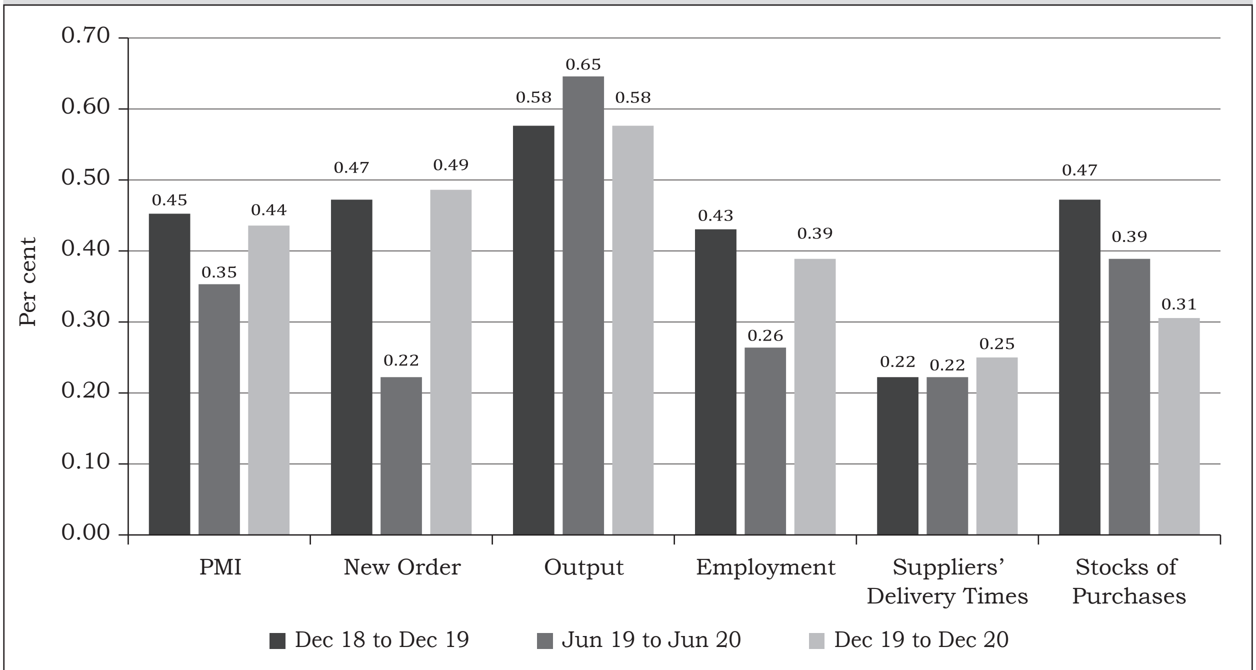
Agri-business entrepreneurs' views regarding business recovery has been analysed based on a sample perception survey conducted in early February 2021. The respondents replied to a set of structured questions prepared to calculate a composite index of recovery. Detail of the methodology has been discussed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

Recovery situation concerning different components

According to the composite index, the state of agri-businesses is almost at par with the pre-COVID situation (Figure 3.8). Majority of components have experienced deterioration during the early phase of the pandemic (June 2020). A significant drop in new orders was observed during June 2020 due to the nationwide lockdown and limited-scale economic activities. However, the situation of new orders has quickly recovered and reached pre-COVID level. Similarly, the output level has reached pre-COVID period during December 2020. Meanwhile, although the employment level in agro-based enterprises has recovered well, it is still behind since June 2020. Better performance is observed in the case of suppliers' delivery time. Overall, agro-based enterprises have reached the pre-COVID level

Figure 3.8

Recovery Indices of Agro-Based Businesses and Enterprises



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

at the end of December 2020—this is mainly attributed to changes in output, employment, orders and suppliers' delivery time.

Recovery of different categories of enterprises

Recovery performance is not the same across different agro-based businesses and enterprises (Table 3.5). The highest level of recovery was observed in businesses of vegetable production and poultry sub-sectors, both of which reached the pre-COVID level (during December 2020 vis-à-vis December 2019). A moderately better recovery was observed in case of dairy farming; however, it has yet to reach the pre-COVID level. Crop production and businesses were hit at a moderate level but was still behind the of pre-COVID benchmark level. Fisheries sub-sector's recovery was at the slowest pace; over production and lack of rise in demand for fishes are the main reasons behind this. Fisheries sector has faced significant losses due to the supply shortages of feed during the pandemic period

Table 3.5

Composite Index Scores for Various Agro-based Businesses and Enterprises during Three Periods

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

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

and consequent rise in prices of fish meals or feeds. Besides, the 'Amphan' storm damaged about 149 thousand hectares of agricultural land and fish farms in 26 districts, including nine districts under the Khulna and Barisal divisions.

3.4.5 Factors Responsible for the Changing Recovery Situation Concerning Agro-based Enterprises

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

Various stimulus packages announced by the government were not able to ensure the expected benefits for the farmers (Table 3.6). Allocation for additional procurement of rice was not realised due to poor procurement response from farmers and rice millers. Allocation for farm mechanisation is in the process of implementation. Allocation for agriculture refinance scheme (BDT 5,000 crore) and for professional farmers and small traders (BDT 3,000) was yet to reach the target—respectively only 69 per cent and 47 per cent have so far been implemented (Table 3.7). Lack of interest of banks as regards disbursement of credit is a major constraining factor which hindered timely disbursement of credit. Due to slow progress, the central bank has extended the timeline for disbursement of loans twice and had rescheduled the target date for 31 March 2021. Out of 43 banks which had signed an agreement with the central bank for disbursement of funds for the agriculture sector, 16 banks have disbursed less than 30 per cent of the targeted amount. Even if this is fully realised, the allocation of the fund could cover only less than 2 per cent of total farm households of the country.[15] Due to procedural difficulties and other complexities, farmers and small traders are not being able to access loans through formal banking channels.

Table 3.6

Stimulus Packages for Agriculture Sector Announced in April 2020

Name of the stimulus package in the agriculture sector	Allocated amount (in crore BDT)
Additional procurement of paddy/rice (2.0 lac ton)	860
Support for farm mechanisation	200
Subsidy for agriculture	9,500
Agriculture refinance scheme	5,000
Refinance scheme for the professional farmers and small traders	3,000
Total	**18,560**

Source: MoF and Bangladesh Bank.

[15] Assuming that an amount of BDT 2 lakh will be allocated to each farm household, the allocation of BDT 8,000 crore could cover only 2.42 per cent of total 16.5 million farm households.

Table 3.7
Disbursement of Loan from the Stimulus Package

Period	Agriculture Refinance Scheme			Refinance Scheme for the Professional Farmers and Small Traders		
	Disbursement*	Implementation rate	No of borrowers	Disbursement*	Implementation rate	No of borrowers
Aug-20	1,095	21.9	46,804	286	9.5	
Sep-20	1,892	37.8	78,526	564	18.8	57,977
Oct-20	2,256	45.1	89,517	648	21.6	1,00,227
Jan-21	3,450	69	1,44,903	1410	47	

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

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

3.5 RECOVERY OF MANUFACTURING AND SERVICES INDUSTRIES DURING THE PANDEMIC PERIOD: HOW THIS FARES AGAINST THE PRE-PANDEMIC LEVEL

3.5.1 Introduction

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

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

3.5.2 Methodology

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

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

All surveyed questions were closed-ended where participants were instructed to choose among three possible answers[17] based on their respective business performances. The index value was calculated by putting weighted proportions of companies responding higher, same, and lower.[18] Thus, the resulting index values are bounded between 0 and 100.[19] The weights for different sectors are different.[20]

3.5.3 Performance Analysis of Different Manufacturing and Service-Related Industries

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

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

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

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

[19]Thus, if 100 per cent of the panel reported an improvement, the index would be 100. If 100 per cent reported deterioration, the index would be 0. If 100 per cent of the panel saw no change, the index would be 50.

[20]In case of overall and manufacturing sectors, the weight for different indicators varied—New Order: 30 per cent weight; Output: 25 per cent weight; Employment: 20 per cent weight, Suppliers' Delivery Times: 15 per cent; and Stocks of Purchases: 10 per cent. The generalised equation of the index was as follows: $PMI = (P1\times1) + (P2\times0.5) + (P3\times0)$ where, P1 = percentage of answers reporting improvement; P2 = percentage of answers reporting no change; and P3 = percentage of answers reporting deterioration.

Performance of production

Manufacturing sector's performance evinces an indication of recovery in terms of production. From the dip in April 2020 when the growth of Qualified Institutional Placement (QIP) was 23.5 per cent the QIP experienced a growth of 18.3 per cent in June 2020 meaning that the manufacturing production has gradually improved over the following months (Figure 3.9A). However, in the following months, the production growth has slowed down and somewhat stagnated below the 10 per cent level. The latest available monthly data (September 2020) portrayed positive growth (9.4 per cent); however, the level of growth was much lower compared to the pre-COVID months (January–February 2020) when it was about 22 per cent. This is largely attributed to the sluggish growth of export-oriented RMG and non-RMG industries as well as domestic market-oriented food products and non-metallic products (Figures 3.9A and 3.9B). However, the pharmaceutical sector has performed exceptionally well during the pandemic, thanks to the rise in the demand for medicine and other medical equipment.[21] A slow rise in consumer demand, both at local and global markets, meant that the concerned industries did not get enough new orders and the prices offered were also not attractive. Consequently, manufacturing production suffered (CPD, 2021).

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

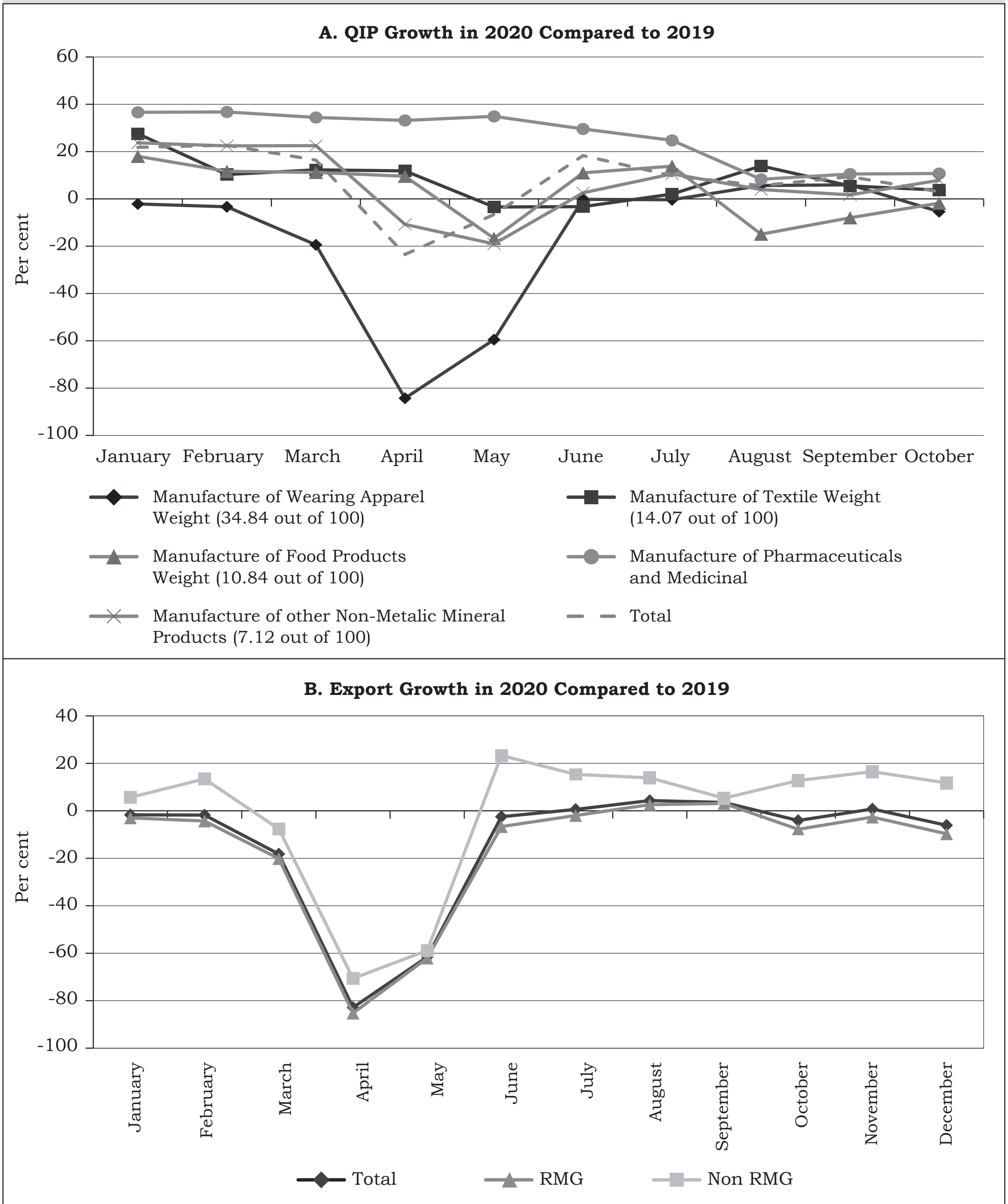
It is to be noted that the pace of recovery is different for different categories of enterprises (Figure 3.10). In case of the RMG industry, capacity utilisation for all types of enterprises has increased during April-September 2020 period. However, the pace of growth has varied widely between small scale enterprises vis-à-vis medium and large scale enterprises. Indeed, this gap has been widening over recent months. In other words, small scale enterprises are lagging behind in terms of recovery in capacity utilisation compared to medium and large-scale enterprises (CPD & MiB, 2021). According to the resilience index, estimated for 600 RMG enterprises (CPD, 2021), the index values for small, medium and large-scale enterprises were 37.8, 49.2 and 54.2 respectively while the overall score was 43.4 (out of 100). The RMG industry, in general, is lagging behind in terms of resilience. Meanwhile within the RMG, smaller enterprises are in a more disadvantageous situation.

Electricity use across economic activities

Electricity use is a good proxy indicator to understand the state of economic activities, particularly in manufacturing and service-oriented industries. This usage could therefore serve as an indicator of economic recovery. Electricity generation has maintained a positive growth during January–August, 2020 period compared to that of the previous year (Figure 3.11). However, growth has slowed down and since September 2020, it has gone negative (except during October 2020). In other words, sluggish

[21]The industry grew by 6.5 per cent in the third quarter of 2020 whereas its annual growth was 10–12 per cent (The Financial Express, 2021).

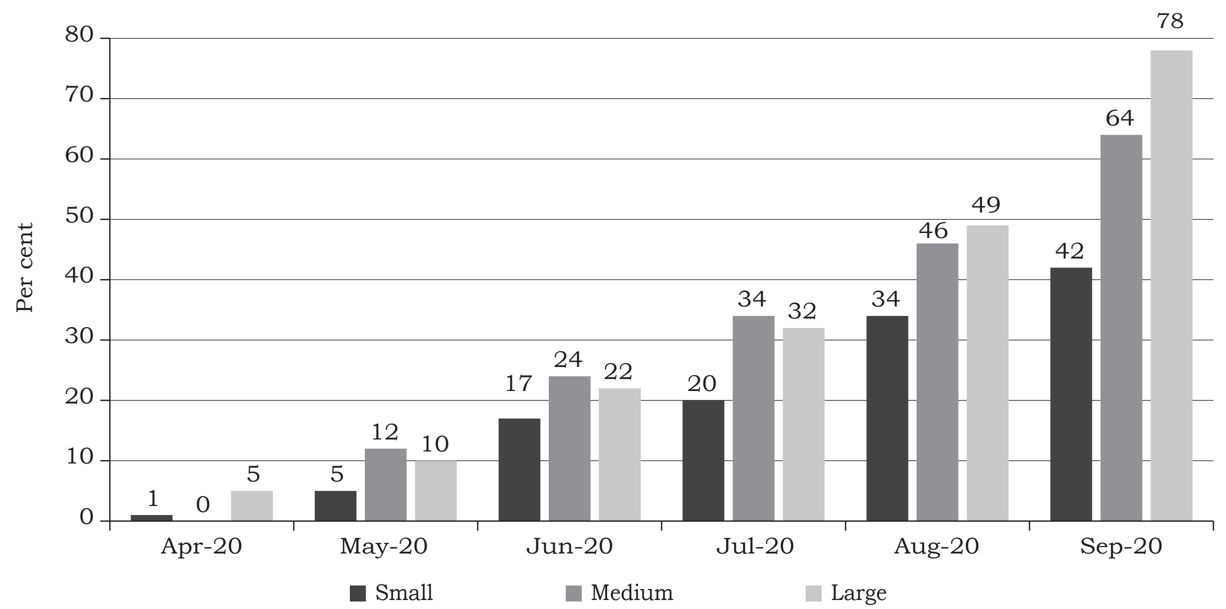
Figure 3.9
Performance of Production



Source: BBS (2020).

Figure 3.10

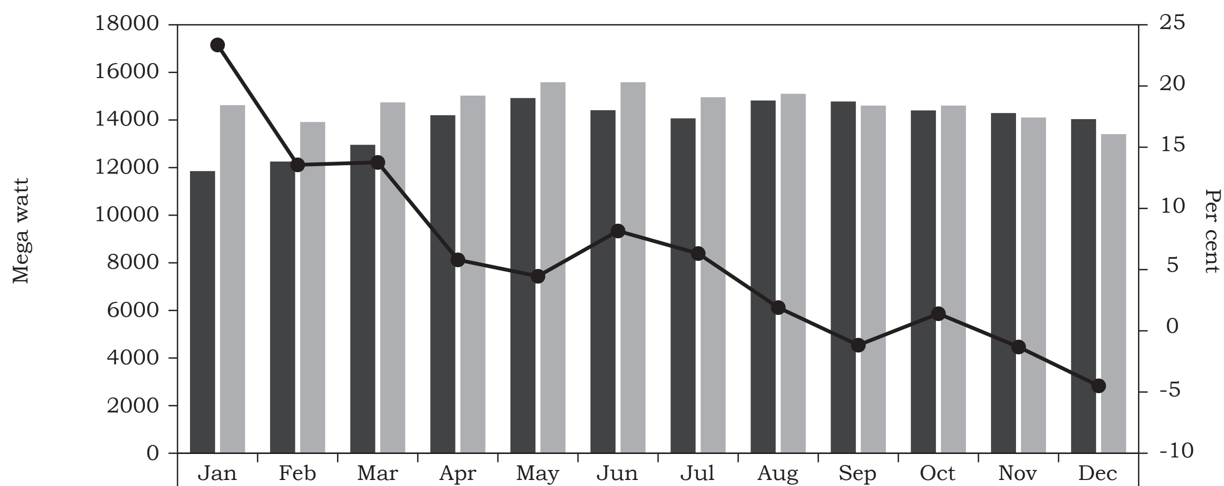
Rate of Capacity Utilisation (70 Per cent and Above)



Source: CPD and Mapped in Bangladesh (MiB) (2021).

Figure 3.11

Electricity Max Generation Growth in 2020 Compared to 2019 (Second Sunday of Every Month)



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	11855	12255	12957	14200	14921	14411	14068	14819	14777	14403	14292	14038
2020	14624	13917	14740	15024	15587	15587	14957	15100	14604	14604	14103	13407
% Change	23.36	13.56	13.76	5.8	4.46	8.16	6.32	1.9	-1.17	1.4	-1.32	-4.49

2019 2020 % Change

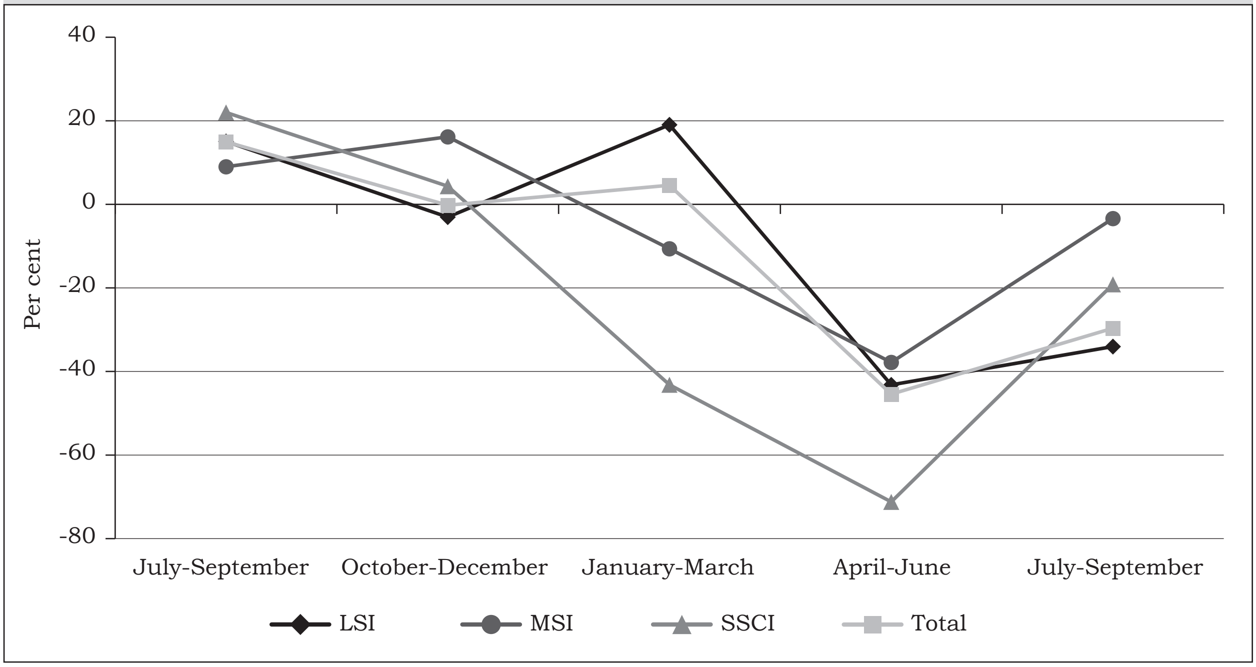
Source: BPDB (2021).

rise in electricity demand commensurate with slow recovery did not continue since September, 2020.[22] Overall, the manufacturing and service-oriented industries are yet to create adequate demand for electricity due to the slow rise in the activities.

Investment performance

Uncertainties caused by economic disruptions owing to the pandemic tend to have a serious adverse impact on private investment. Industrial term loan, which indicates long term investment in manufacturing and service–oriented activities, has experienced a significant fall during the early period of the pandemic (April–June 2020) (Figure 3.12). However, small scale industries were more severely affected (-71.2 per cent) compared to the medium and large-scale ones (-37.8 per cent and

Figure 3.12
Industrial Term Loan Disbursement Growth



Source: Bangladesh Bank (2021).

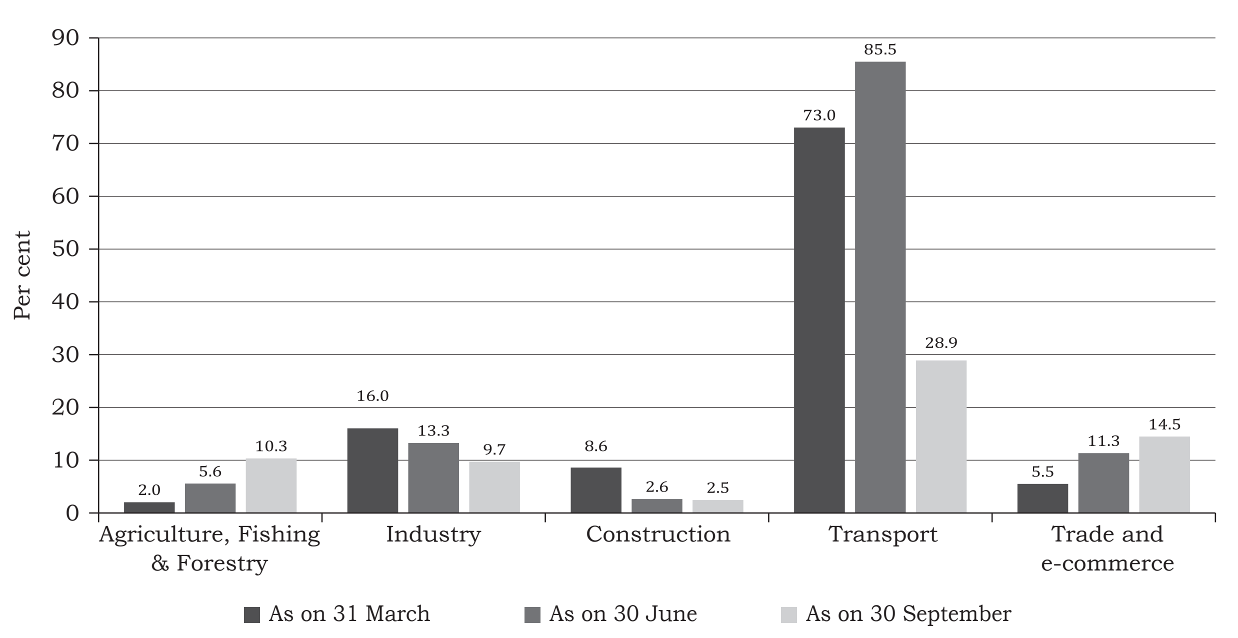
-43.2 per cent respectively). There was no sign of recovery in the first quarter of FY2021 (July–September 2020) since the negative growth has continued. However, it has shown some sign of improvement (-29.65 per cent) in July-September 2020. Indeed, the decline in investment by large scale enterprises (34.03 per cent), which accounted for 76 per cent of total industrial term loans, portrays a medium-term recovery challenge for the manufacturing and service-oriented industries.

As Figure 3.13 shows, quarterly growth in advances made to different sectors has tended to vary across sectors during the first three quarters of 2020 (end of March, June and September, respectively). Stagnation of the manufacturing industry in the post COVID recovery phase could be observed in case of the performance concerning advances as well. The growth of advances for the industry sector was declining in 2020 when compared to that in 2019. On the other hand, the

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

Figure 3.13

Advances Growth Rate in 2020 Compared to 2019



Source: Bangladesh Bank (2021).

advances growth of construction sector was also stalling. However, a different scenario may be observed in case of trade, e-commerce and the transport sector. The pandemic came as a blessing for the e-commerce industry which took off at a very fast pace as consumers started to make greater use of it. This is reflected in the high and consistent growth rate in advances. Advances to transport sector picked up in the early months, till June 2020 but fell significantly in the third quarter of 2020.

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

The ratio of opening and settlement reflects the rate of settlement against the opening of import LCs during a specific time period. A ratio value closer to 1.0 reflects that businesses respond quickly in terms of settling their import payment given the demand for the imported goods. The analysis of opening-settlement ratio depicts that the ratio has been gradually declining in case of industrial raw materials, intermediate goods and capital machineries (Table 3.8). However, the ratio fell to a lower level for industrial raw materials compared to intermediate and capital machinery. In other words, given the uncertainties in future demand for goods and services, importers are not quickly responding to settling the LCs particularly in case of capital machineries. This may be an indication that businesses in manufacturing and services sectors are struggling more to ensure their existing capacities. As a result, these businesses are responding slowly to settlement of LCs, particularly for capital machineries, as it would further raise the capacity.

Table 3.8

Item-Wise Fresh Opening and Settlement of Import LCs

Period	Intermediate Goods			Industrial Raw Materials			Capital Machinery		
	Opening	Settled	Ratio	Opening	Settled	Ratio	Opening	Settled	Ratio
FY20	4795.83	4812.56	1.00	19099.59	17658.81	0.92	4737.47	4374.02	0.92
July (FY21)	329.34	313.04	0.95	1619.21	1534.52	0.95	377.4	251.64	0.67
July–August (FY21)	-	-	-	-	-	-	-	-	-
July–September (FY21)	1040.55	871.22	0.84	4637.09	4320.02	0.93	1195.19	822.9	0.69
July–October (FY21)	1483.67	1200.99	0.81	6324.05	5721.97	0.90	1639.26	1072.3	0.65

Source: Bangladesh Bank (2021).

3.5.4 Opinion of Entrepreneurs as Regards Business Recovery Prospects: Results from Perception Survey

During 1–4 February 2021, a small sample survey was undertaken to capture entrepreneurs' perception as regards the prospects of business recovery. Following the PMI method to assess the level of business recovery, a similar index for manufacturing and service industries was developed for this purpose. Following sections highlight the key findings of the survey.

Entrepreneurs felt that the industrial enterprises, in general, are in the process of recovery from the COVID-19 induced crisis. However, the process of recovery is slow, and enterprises are lagging far behind when compared to the pre-COVID situation. Table 3.9 portrays the overall status of recovery of the sample manufacturing and services enterprises. The index values reveal that enterprises were hit hard by the pandemic but had rebound rather quickly. The overall index value for industries was 65 out of 100 in December 2019 compared to that in December 2018.[23] However, the level declined to almost half in June 2020 compared to what they were in December 2019 (32 in June 2020 vis-à-vis 65 in December 2019). Since June 2020, the enterprises have shown signs of rebound, and after six months (December 2020) the level reached 43, which was 34.4 per cent higher than the level in June 2020. Despite the pace of recovery appears to be slow, the overall level is 57 per cent lower than what this was in December 2019.

Table 3.9

Overall Recovery Situation of Manufacturing and Service Enterprises

	In December 2019 Compared to December 2018	In June 2020 Compared to June 2019	In December 2020 Compared to December 2019
Index value overall	65	32	43
Manufacturing enterprises	69	28	37
Service enterprises	63	39	53

Source: Based on Authors' calculation.

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

The pace of recovery is found to be different for manufacturing and services enterprises. A drastic fall is seen in case of manufacturing enterprises during the lockdown phase (69 in December 2019 vis-à-vis 28 in June 2020). The state of service sector enterprises was to some extent better in comparison (from 63 in December 2019 to 39 in June 2020). A somewhat faster recovery is also seen in case of service sector enterprises compared to that of the manufacturing ones. The PMI was 37 in December 2020 for manufacturing enterprises whereas it was 53 for service sector enterprises. Thus, the state of service sector is perceived to be better, albeit only marginally, than that of manufacturing sectors although both are still lagging behind their respective performance levels in 2019.

Recovery situation of different components

The index was calculated based on five headline sub-indexes/components: new orders, output/business activities, employment, backlog of works and stocks of purchases. Each of the components is separately showing signs of recovery from the COVID-19 shock (Table 3.10). Immediately after the pandemic-induced crisis, the component 'new order' fell drastically. Major manufacturing and service sectors have experienced a significant decline in new orders. In case of the RMG sector, a part of existing orders was either cancelled or postponed/deferred. However, between December 2019 and June 2020, the fall was rather moderate in case of output/business activities, employment, backlog of works and stock of purchases. Towards the end of 2020, enterprises started recovering, as is seen from movements in the index values. Nevertheless, the pace of recovery is still very low in case of new orders. While the output/business activities, employment and stocks of purchases have made a moderate level of progress, the other components such as backlog of works are almost stagnant.[24] In case of some components such as employment and backlog of workers, service-oriented enterprises have almost reached the pre-COVID level. However, manufacturing sector enterprises are way behind in most of the components except backlog of works.

Table 3.10

PMI Index Categorised by Components

	In December 2019 Compared to December 2018	In June 2020 Compared to June 2019	In December 2020 Compared to December 2019
New orders/new business	70	13	29
Output/business activities	71	35	49
Employment	74	36	47
Backlogs of work (suppliers' delivery times)	48	46	46
Stocks of purchases	38	42	52

Source: Based on Authors' calculation.

Recovery of different categories of enterprises

In general, it is found that the recovery from the COVID-19 crisis is not of the same type for all categories of enterprises (Table 3.11). Compared to other categories of enterprises, the medium-sized enterprises suffered the most during the pandemic; on the other hand, there are the enterprises which are at the forefront in view of the recovery process. However, micro and small enterprises are facing formidable problems and difficulties in getting into the recovery phase. According to the PMI index, no

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

Table 3.11
PMI Index Categorised by Company Size

(Overall)

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

Source: Based on Authors' calculation.

sign of recovery of micro and small-scale enterprises is discernible even after almost one year since the pandemic had first struck Bangladesh.

3.5.5 Factors Responsible for Changing Recovery Situation in Manufacturing and Services Enterprises

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

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

Second, the stimulus package in the form of a waiver of VAT payment, allowing delayed payment of utility bills and bank loans etc. had helped enterprises cope with the immediate adverse effects. However, the stimulus package mainly in the form of subsidised credit support was likely to have a limited role in ensuring a robust recovery in the manufacturing and services sectors. As is known, the government has announced 21 stimulus packages for different sectors, including the manufacturing and service industries, focused towards mitigating the negative impacts and facilitating recovery of the economy (Table 3.12). The stimulus package of BDT 10,500 crore for the export-oriented industry could be considered the most successful in this connection. The repayment of credit could prove to be challenging for small-scale enterprises, particularly because reaching the pre-COVID level of production and employment is likely to take more time for these enterprises, as our preceding analysis reveals.

In terms of disbursement, the stimulus package of BDT 20,000 crore announced for CMSMEs may be considered to be the least effective support. The cottage, micro, small and medium enterprises (CMSMEs) have been one of the most affected sectors due to the pandemic, yet the allocation of the package for

Table 3.12
Disbursement Status of Stimulus Packages

Name	Initial allocation	Final allocation	Rate of application acceptance	Number of beneficiaries	Disbursement status
Working capital loans provided to affected industries and service sector	BDT 30,000 crore	BDT 40,000 crore	100 per cent[a]	2549[a]	92 per cent[b]
Working capital loans provided to Cottage, Micro, Small and Medium Enterprises (CMSMEs)	BDT 20,000 crore		88.24 per cent[a]	41069[a]	58 per cent[b]
Special fund for salary support to export-oriented manufacturing industry workers	BDT 5,000 crore	BDT 10,500 crore	100 per cent[a]	1992[a]	100per cent[b]
Expansion of facility provided through the Export Development Fund (EDF) by Bangladesh Bank	BDT 12,750 crore		100 per cent[a]	2379[a]	91.80 per cent[b]

Source: Bangladesh Bank (2021), MoF (2020).
Note: a = As of October 2020, b = As of January 2021.

this huge sector of critical importance in the economy was significantly low. On top of that, almost after one year of the announcement of the package, as of January 2021, only 58 per cent of the funds could be disbursed. The second stimulus package targeting CMSMEs announced by the government in January 2021, which is to be disbursed through alternate channels other than the banks, needs to be implemented by drawing needed lessons from the experience of the first package. In this context, procedural complexities associated with selection of enterprises, collaterals, repayment schedule, and risk mitigation, etc. should be addressed in a way that caters to the needs of the CMSMEs and also safeguards the interest of disbursing entities. Recovery of the economy will hinge, to a large extent, on such second generation of support measures.

3.6 PERFORMANCE OF THE BANKING SECTOR

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

3.6.1 Implementation of Liquidity Support Packages: Driving a "k" Shaped Recovery

Bangladesh's economic recovery is expected to be driven by a fiscal stimulus package which is a meagre 19.29 per cent of the country's total COVID-19 relief funds or only 0.83 per cent of its GDP (Table 3.13). It falls far short of the estimate of 11 per cent of GDP required to mitigate the socioeconomic impacts of COVID-19. Ironically, the largest industries which are relatively more capable of dealing with shocks received the greatest support from the COVID-19 relief funds. Moreover, the varying speed of implementation of the various liquidity support packages has created an unequal turnaround as

Table 3.13

COVID-19 Funds Announced by the Government

Name of the Package	Type	Allocation			Disbursement	
		In crore BDT[i]	As share of total COVID funding	As share of GDP[ii]	Share of funds disbursed	Number of recipients
Special fund for salary support to export-oriented manufacturing industry workers	Liquidity support	5,000	4.120	0.178	100	3,500,000 persons
Providing working capital facilities for the affected large industries and service sector organisations	Liquidity support	40,000	32.962	1.426	71[iii]	2,549[iii] entities
Providing working capital facilities to small (including cottage industries) and medium enterprises	Liquidity support	20,000	16.481	0.713	32[iii]	41,069[iii] persons (94% male; 6% female)
To increase the facilities of EDF introduced by Bangladesh Bank	Liquidity support	12,750	10.507	0.454	81[iii]	2,379[iii] entities
Pre-shipment credit refinance scheme	Liquidity support	5,000	4.120	0.178	1	N/A
Agricultural refinancing scheme	Liquidity support	5,000	4.120	0.178	45[iii]	89,934[iii] persons
Refinancing scheme for low-income farmers and small traders	Liquidity support	3,000	2.472	0.107	22[iii]	1,00,227[iii] persons (6% male; 94% female)
Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and Palli Karma Sahayak Foundation)	Liquidity support	3,200	2.637	0.114	31[iv]	N/A
Government subsidy for interest waiver of deferred bank loans for the month of April-May/2020	Liquidity support	2,000	1.648	0.071	N/A	N/A

(Table 3.13 contd.)

(Table 3.13 contd.)

Name of the Package	Type	Allocation			Disbursement	
		In crore BDT[i]	As share of total COVID funding	As share of GDP[ii]	Share of funds disbursed	Number of recipients
Credit guarantee scheme for small and medium enterprises sector	Liquidity support	2,000	1.648	0.071	N/A	N/A
Total liquidity support		97,950	80.715	3.491		
Distribution of free food items	Fiscal stimulus	2,500	2.060	0.089	43[vi]	2,34.00,000[vi] households (70% male-headed; 30% female-headed)
Distribution of rice at the rate of BDT 10 per kilogram	Fiscal stimulus	770	0.635	0.027	100	N/A
Distribution of cash among the targeted population	Fiscal stimulus	1,258	1.037	0.045	70[vii]	34,97,353[vii] households (75% male-headed; 25% female-headed)
Increase the coverage of the allowance programmes	Fiscal stimulus	815	0.672	0.029	3[viii]	156,218[viii] persons
Construction of houses for homeless people	Fiscal stimulus	2,130	1.755	0.076	N/A	9,039 households (62% male-headed; 38% female-headed)
Procurement of Boro Paddy/Rice (Additional 0.2 million metric tonnes)	Fiscal stimulus	860	0.709	0.031	N/A	N/A
Support for farm mechanisation	Fiscal stimulus	3,220	2.653	0.115	5	N/A
Agricultural subsidies	Fiscal stimulus	9,500	7.828	0.339	76[vii]	N/A
Social safety net programme for unemployed and poor workers of export-oriented RMG, leather and footwear sectors	Fiscal stimulus	1,500	1.236	0.053	N/A	N/A
Total fiscal stimulus		23,403	19.285	0.834		
Total COVID-19 funding		121,353	100	4.325		

Source: Authors' compilation based on the data from the MoF, Government of Bangladesh (MoF, 2020)
Note: i) Assuming an exchange rate of USD 1 equal to BDT 84, as per national budget documents of FY2021; ii) Assuming that GDP is equal to USD 334,000 million, as per the GDP for FY2019–20 in the national budget documents of FY2020–21; iii) Till 31 October 2020; iv) Till 7 August 2020; v) Till 4 November 2020; vi) Till 30 September 2020; vii) Till October 2020; viii) Till June 2020; xi) N/A implies no data was available at the time of writing.

bigger firms have rebounded more strongly, owing to quick access to liquidity packages, while smaller firms have been left behind.

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

Package for export-oriented industries

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

Working capital stimulus package for affected large industries and services

As of 31 October 2020, around 71 per cent of the total funds allocated under this package were disbursed to 2,549 large industries and service sector business enterprises through 51 commercial banks (MoF, 2020). Out of the total USD 4,762 million, an amount of USD 654 million was earmarked for the payment of wages and salaries of 1.5 million persons working in large industries and services sector for the months of June 2020 and July 2020 (MoF, 2020). Due to the liquidity support offered by the government under this package, 2,549 large industries and service sector business enterprises could keep their businesses afloat during the pandemic. This liquidity support package also protected the jobs of 1.5 million employees and workers who were working in large industries and service sector enterprises and prevented their families from falling into financial hardship during the pandemic.

Special working capital facility for the CMSME sector

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

Status of other packages

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

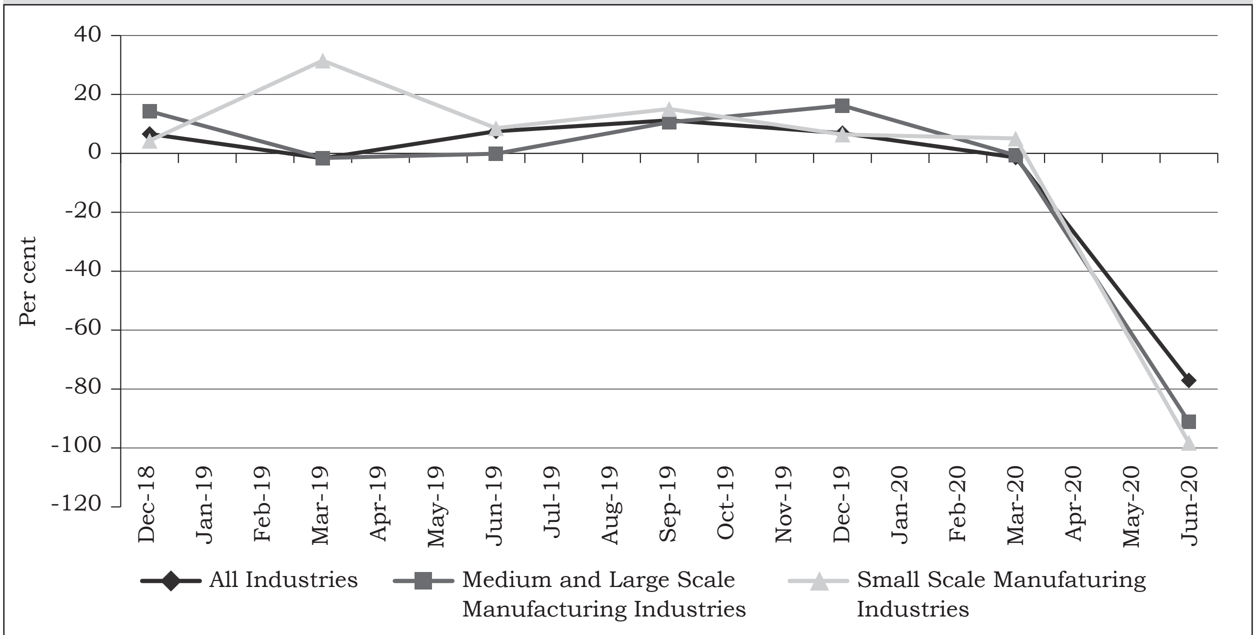
Pre-shipment Credit Refinancing Scheme: As of 21 October 2020, only 1 per cent of the total funds allocated under this package were disbursed to 9 applicants through 31 commercial banks (MoF, 2020).

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

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

Although the liquidity support and fiscal stimulus packages for COVID-19 began to be announced from 25 March 2020 onwards, even after more than six months, the pace of fund disbursement appears to be slow. As of 31 October 2020, only 32 per cent funds of the USD 2,381 million liquidity support package for the SMEs was disbursed to 41,069 recipients (Figure 3.14). On the other hand,

Figure 3.14
Change in QIIP



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

as of 31 October 2020, only 31 per cent funds were disbursed under the package designed for the creation of jobs through loans. Under the liquidity support package named refinancing scheme for low-income farmers and small traders, only 22 per cent of the funds were disbursed till 31 October 2020 (Figure 3.14).

Paving the way for a "k" shaped recovery

Data from BBS shows that the quantum index of industrial production (QIIP) fell more for small industries, compared to medium and large industries, after the start of the COVID-19 pandemic. For example, in June 2020, the QIIP for small industries fell by 98 units compared to a fall of 91 units for medium and large industries (BBS, 2020) (Figure 3.14).

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

3.6.2 Excess Liquidity in the Banking Sector

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

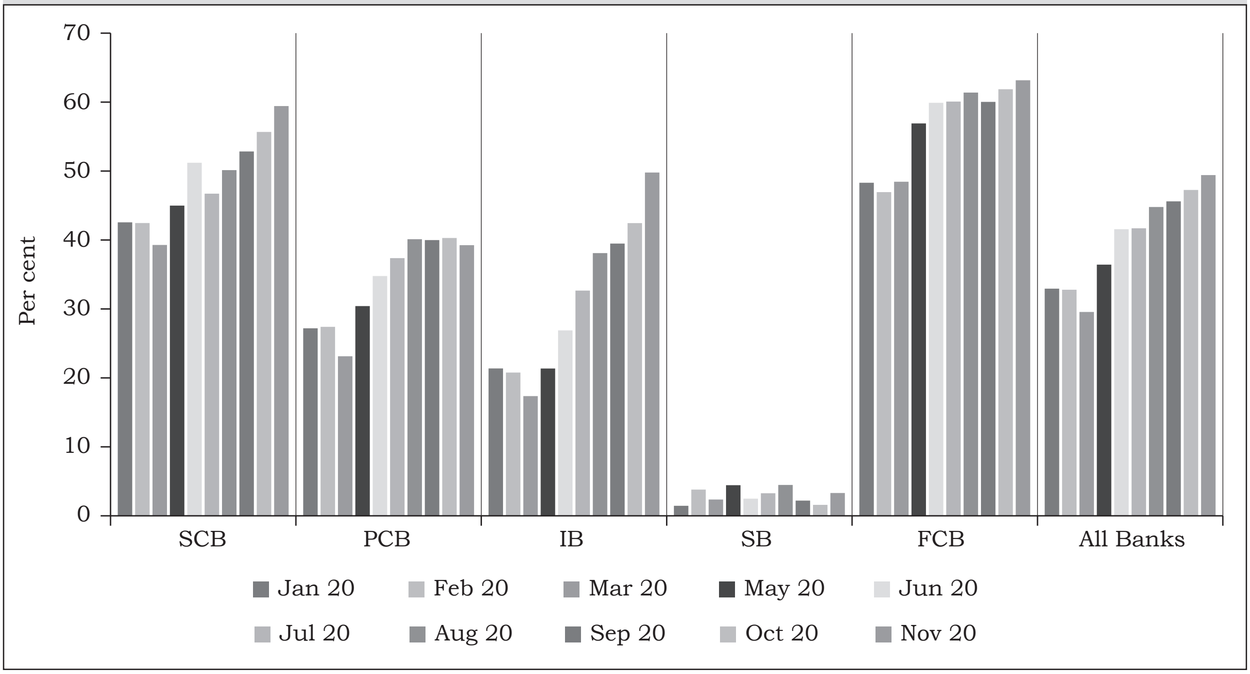
Data from Bangladesh Bank shows that excess liquidity in the banking sector has nearly doubled from BDT 103 thousand crore in January 2020 to BDT 205 thousand crore in December 2020 (Bangladesh Bank, 2021a). During the same period, excess liquidity has more than doubled in SCBs and more than tripled in IBs. Excess liquid assets comprised of 49 per cent of the total liquid assets of the banking sector in December 2020 (Figure 3.15).

Signs of excess liquidity were also manifested in the call money market, as the monthly average call money market borrowing and lending rates both tumbled down from June 2020 onwards (Figure 3.16A and 3.16B). The low cost of funds in the call money market indicates that there was hardly any demand for funds, since the majority of banks most likely had excess liquidity.

Excess liquidity in the banking system led to a fall in the interest rates, which were already quite low even prior to 2020. The real deposit rate, calculated as the weighted average of the monthly deposit rate of all scheduled banks adjusted with the point-to-point monthly consumer price index inflation, fell from 0.12 per cent in January 2020 to -0.88 per cent in November 2020 (Bangladesh Bank, 2021b) (Figure 3.17). The negative real interest rate on bank deposits means that the value of savings of

Figure 3.15

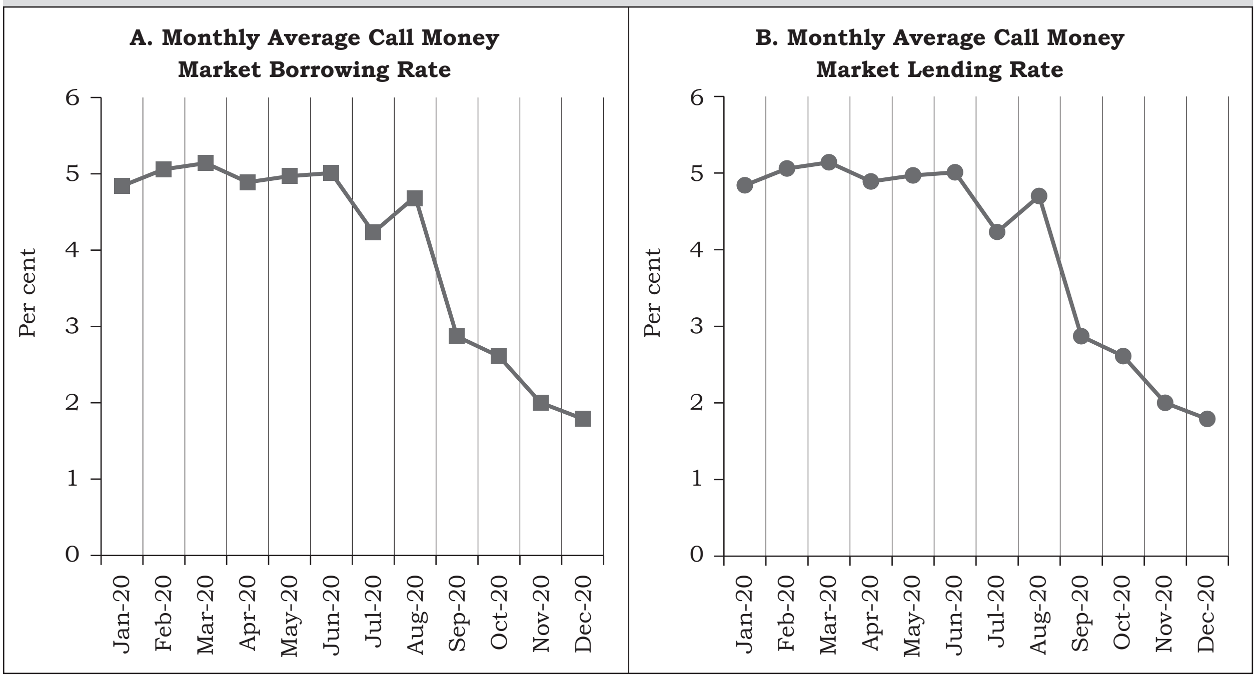
Excess Liquid Assets as a Percentage of Total Liquid Assets



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

Figure 3.16

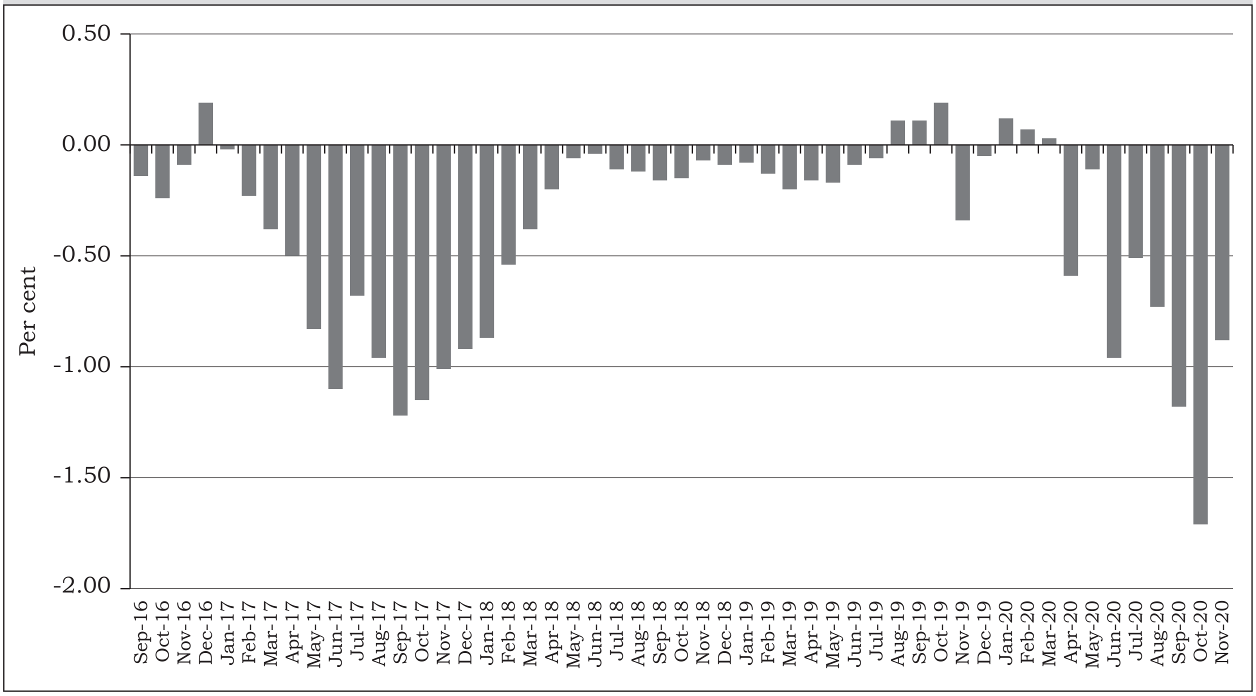
Monthly Average Call Money Market Interest Rate



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

Figure 3.17

Real Deposit Rate in Banks



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

ordinary people was being depleted away during the pandemic—a time when they needed to utilise their savings the most.

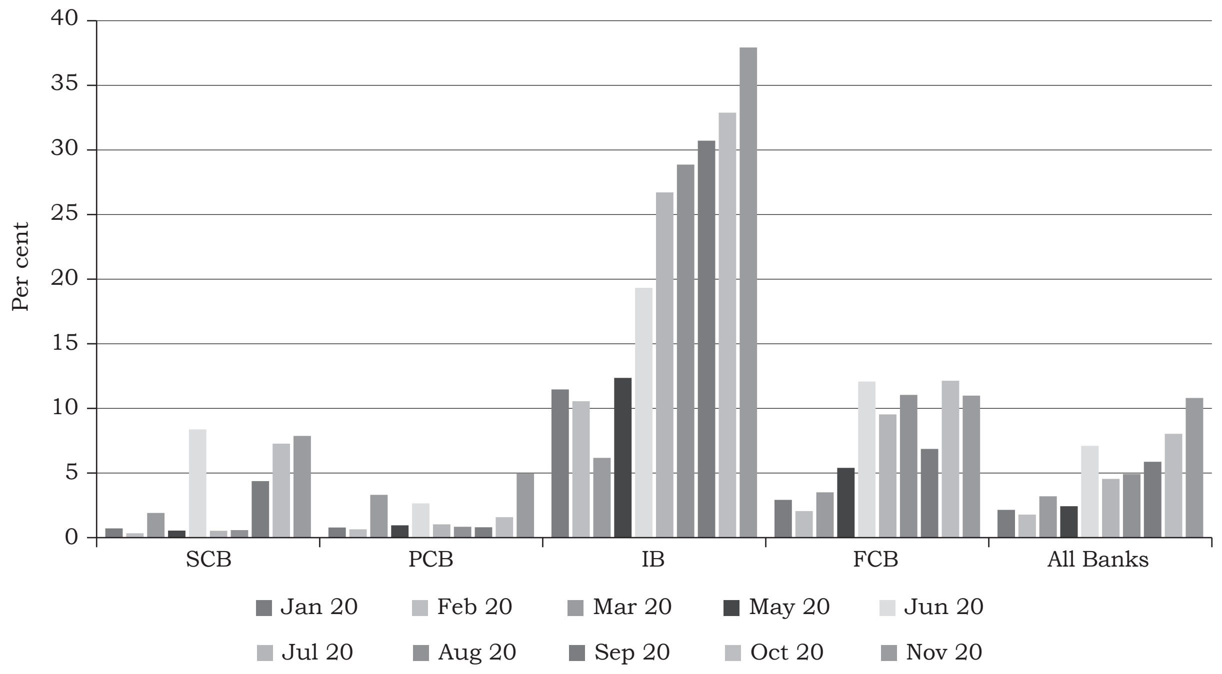
Generally, banks want to hold enough liquidity to make payments and convert excess liquidity into assets that provide returns. Excess liquidity in the banking system may induce commercial banks to behave in ways which may jeopardise the stability of the financial system and make it difficult for the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

Data from Bangladesh Bank shows that in 2020, excess reserves of all banks increased from BDT 6.74 thousand crore, or 2.15 per cent of total liquid assets, in January 2020, to BDT 44.78 thousand crore, or 10.81 per cent of total liquid assets, in December 2020 (Bangladesh Bank, 2021a) (Figure 3.18). Since excess reserves represent uninvested cash, holding excess reserves is costly for banks.

However, during the same period, banks have also increased their holdings of unencumbered approved securities, which are zero risk rated assets issued or guaranteed by the government. Excess liquidity held as unencumbered approved securities brings returns to banks, since such securities are earning assets. Data from Bangladesh Bank shows that in 2020, holdings of unencumbered approved securities of all banks increased from BDT 211 thousand crore, or 67.15 per cent of total

Figure 3.18

Excess Reserves (Uninvested Cash) as a Share of Total Liquid Assets



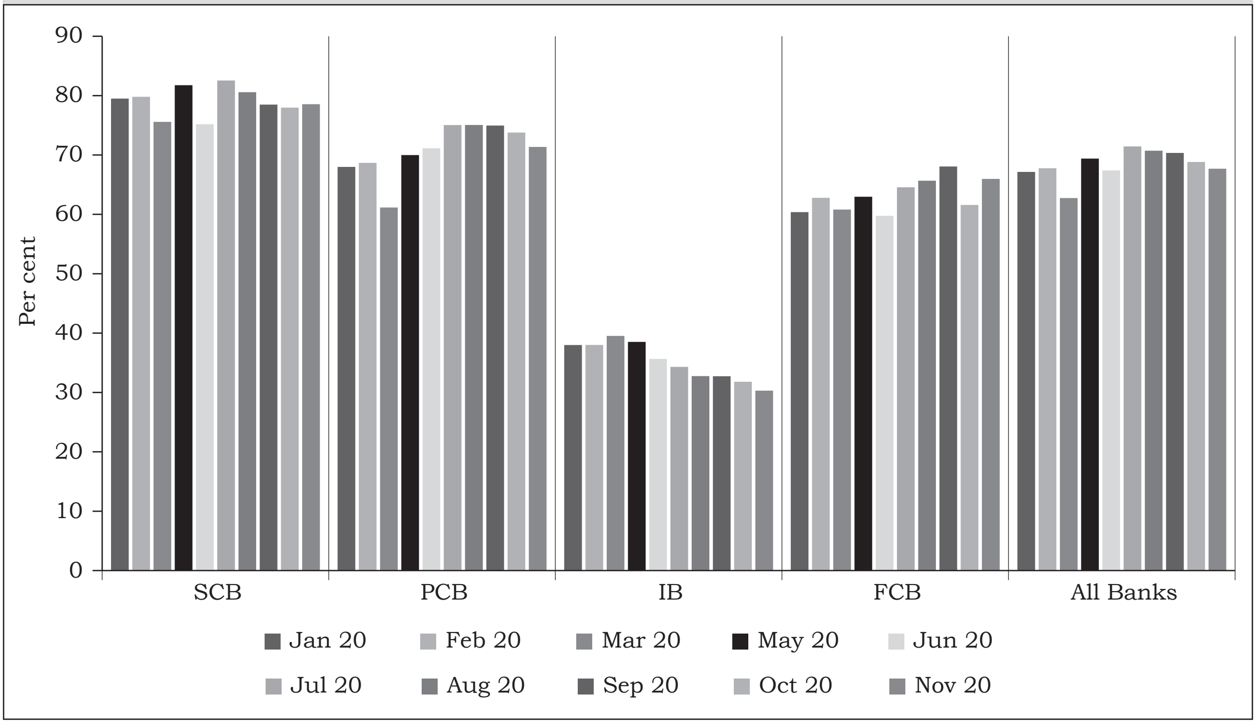
Source: CPD illustration based on the data from Bangladesh Bank (Bangladesh Bank, 2021a).

liquid assets in January 2020, to BDT 280 thousand crore, or 67.69 per cent of total liquid assets in December 2020 (Bangladesh Bank, 2021a) (Figure 3.19). The decision of commercial banks to hold excess liquidity in the form of unencumbered approved securities instead of funds for lending shows that commercial banks perceive that the yields on risk free unencumbered approved securities are better than the risk adjusted returns on interest-bearing loans that come with default risk. This implies that commercial banks are hesitant to lend, as they probably believe that economic activity is yet to pick up and so their loans may have a high probability of turning bad.

Alternatively, excess liquidity is also a sign that the demand for loans is low, which is likely since the real economy is still experiencing the repercussions of the COVID-19 shock. The ADR of all banks fell to a three-year low of 0.81 in November 2020 (Bangladesh Bank, 2021b) (Figure 3.20).

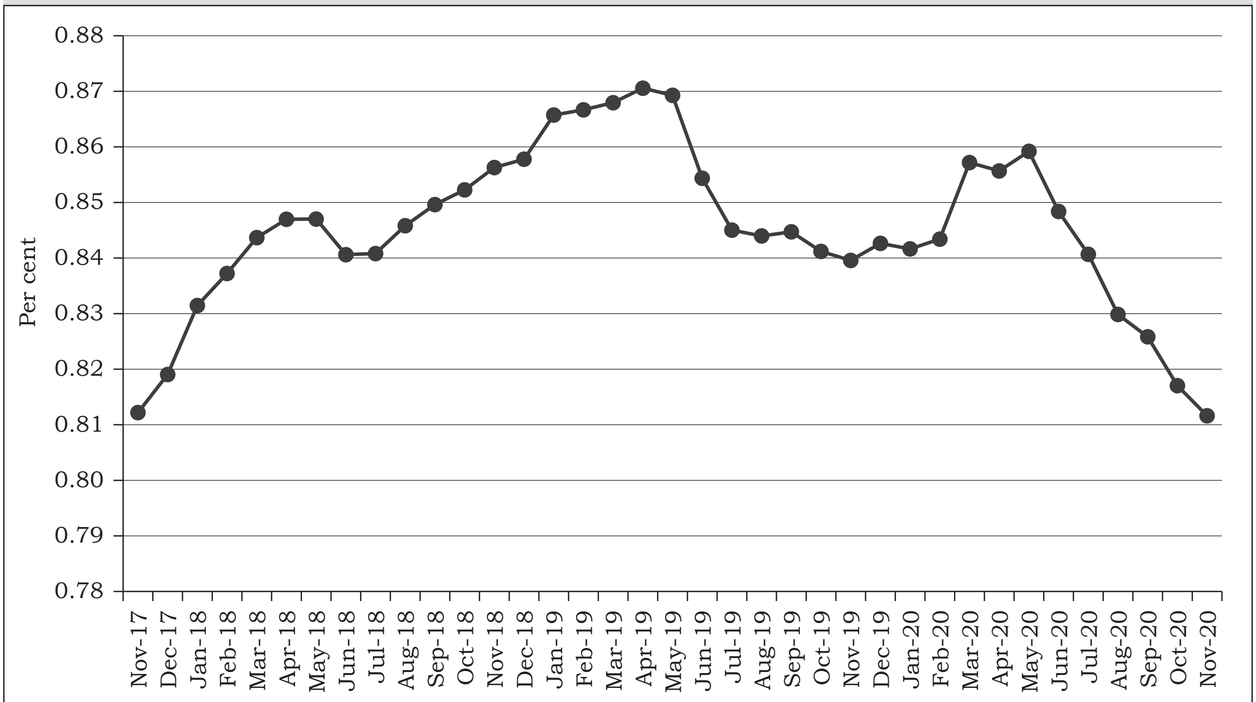
The plummeting advance-deposit ratio points to the fact that economic activity is yet to pick up. This is also manifested in other economic indicators, such as proxy indicators of investment. Import of capital machinery, which is often used as a proxy indicator for investment, fell from BDT 2,788 crore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

Figure 3.19
Unencumbered Approved Securities as a Share of Total Liquid Assets



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

Figure 3.20
Advance-Deposit Ratio (ADR)



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

3.6.3 NPLs May Be Underreported

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

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

Conclusions and recommendations

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

- Loan defaulters should not be allowed to access any of the COVID-19 related liquidity support packages.
- Weak and poorly governed banks should not be allowed to participate in the COVID-19 related liquidity support packages. Banks which are not fully compliant with BASEL III (third Basel accord) or the Banking Company Act should be not be allowed to participate in the COVID-19 related liquidity support packages.
- Clear, objective and quantitative criteria should be declared to properly identify "affected" businesses and individuals.
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis.
- Disbursement of the government's COVID-19 liquidity support for small businesses, farmers and low-income professionals should be expedited immediately.
- Working capital support for the affected businesses and industries should be converted to term loans and loan repayment to banks should start in order to have a healthy banking sector.
- A multi-stakeholder taskforce consisting of representatives from the various ministries, central bank, commercial banks, trade bodies, civil society, non-government organisations and academia should be formed for monitoring the delivery of the COVID-19 liquidity support packages and evaluating their effectiveness.

3.7 EXTERNAL SECTOR PERFORMANCE: A TALE OF MULTIPLE NARRATIVES

From the perspectives of turnaround, rebound and recovery the Bangladesh external sector performance evinces a mixed picture as one traces the developments from the vantage point of February 2021. One recalls that both exports and imports were under pressure even before the COVID-induced public holidays were announced by the government towards the end of March 2020. A key reason driving the state of the external sector at that point was that economies of Bangladesh's major trade partners in the developed world—in the EU and North America—as also other key trading partners such as China, had already by this time been afflicted by the adverse impacts of the pandemic. This resulted in demand depression for Bangladesh's exports and supply-chain disruptions for the country's imports. The global market-driven scenario was further impacted by the supply-side disruptions in the fourth quarter of FY2019–20 consequent to the dual pressure of health-related uncertainties arising from the COVID pandemic and the shutdown of economic activities following the public holidays.

The reflection of the above was felt on the trade balance which was further weakened as the state of external balance of payment at the end of FY2019–20 indicates. Further deterioration of the trade balance was, however, arrested in the backdrop of sluggish import sector performance. The robust performance of remittance, on the other hand, kept the current account balance comfortable. The twin forces of the turnaround in the global demand and supply-side response supported by the government stimulus packages resulted in the arrest of the fast-falling export, which, however, is yet to enter positive terrain at the end of the first seven months of FY2020–21. Imports registered a higher pace of decline with the result that there was some improvement in the trade balance at the end of December 2020. Thanks to continued robust flow of remittances, BOP position at the end of first six months of FY2020–21 (December 2020) as against the corresponding period of the previous FY2019–20 shows a significant improvement as evidenced by Table 3.14. However, the overall picture conceals a diverse range of undercurrents and multiple narratives, with the level of export earnings flattening, continued sluggish performance in case of imports payments and in the backdrop of continued robust performance of remittances.

Table 3.14
BOP Scenario

(in USD Million)

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

Source: Bangladesh Bank.

Table 3.14 testifies that overall balance position has continued to improve significantly in the recent past, from USD 179.0 at the end of FY2018–19, to USD 3,655.0 million at the end of FY2019–20. The BOP position further strengthened at the end of December 2020 (Q2 of FY2020–21) when the balance stood at USD 6,155.0 million. This has led to increasingly robust replenishment of the forex reserves which stood at USD 43.2 billion as of 10 February 2021.

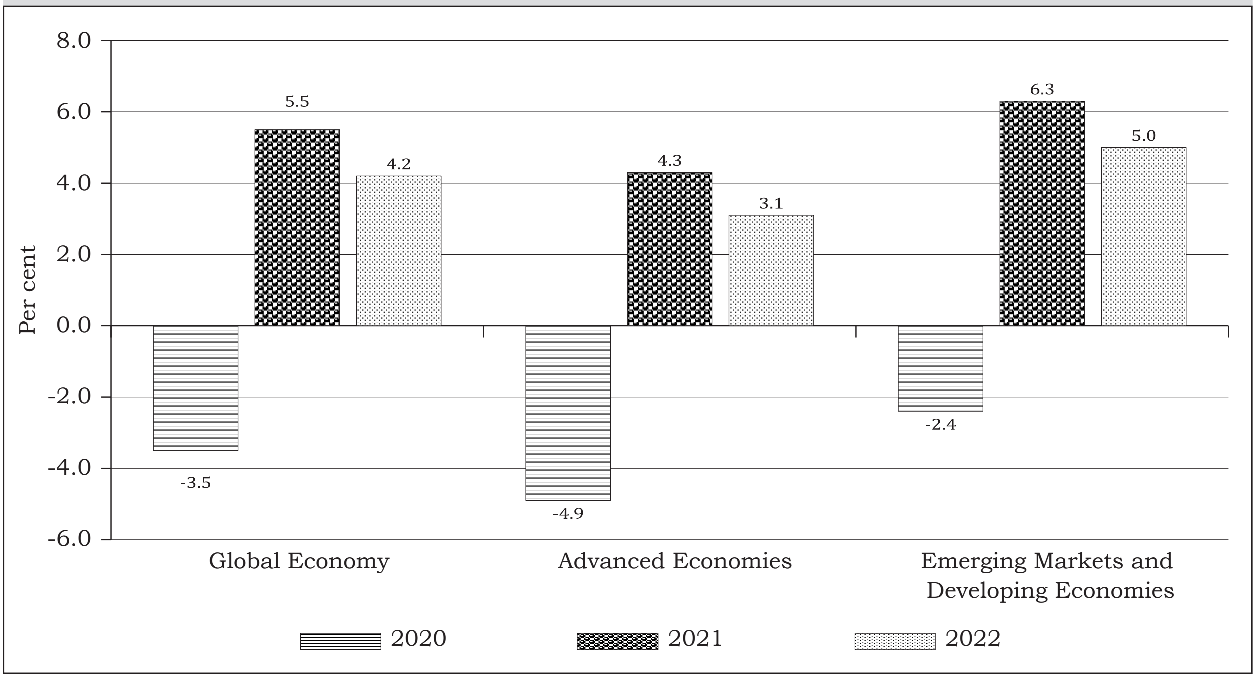
3.7.1 Prospects of Recovery in the Backdrop of the Emerging Global Scenario

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

As was pointed out earlier, performance of the external sector, particularly of export sector, was significantly impacted when economic growth in Bangladesh's major export destination countries first slowed down, and then contracted in 2019 and over the early months of 2020. Some major economic partners of Bangladesh such as the UK, USA and Germany experienced economic recession. In 2020 world economy shrank by 3.5 per cent, about two times more than during the global financial crisis of 2009. The modest growth recovery of 4.3 per cent in the 2021 (Figure 3.21) would barely offset the losses of 2020. The projected cumulative output losses during 2020 and 2021, estimated to be of about USD 8.5 trillion, would wipe out nearly all output gains of previous four years. All these had consequent adverse impact on Bangladesh's export sector in FY2019–20 when export earnings dropped by about 17.0 per cent. There was some optimism that developed economies would be able to get into recovery phase and would post high GDP growth in 2021 and 2022. However, in view of the second wave of the pandemic and the consequent impact on economic recovery, earlier growth projections were revised downward by both the IMF and the World Bank.

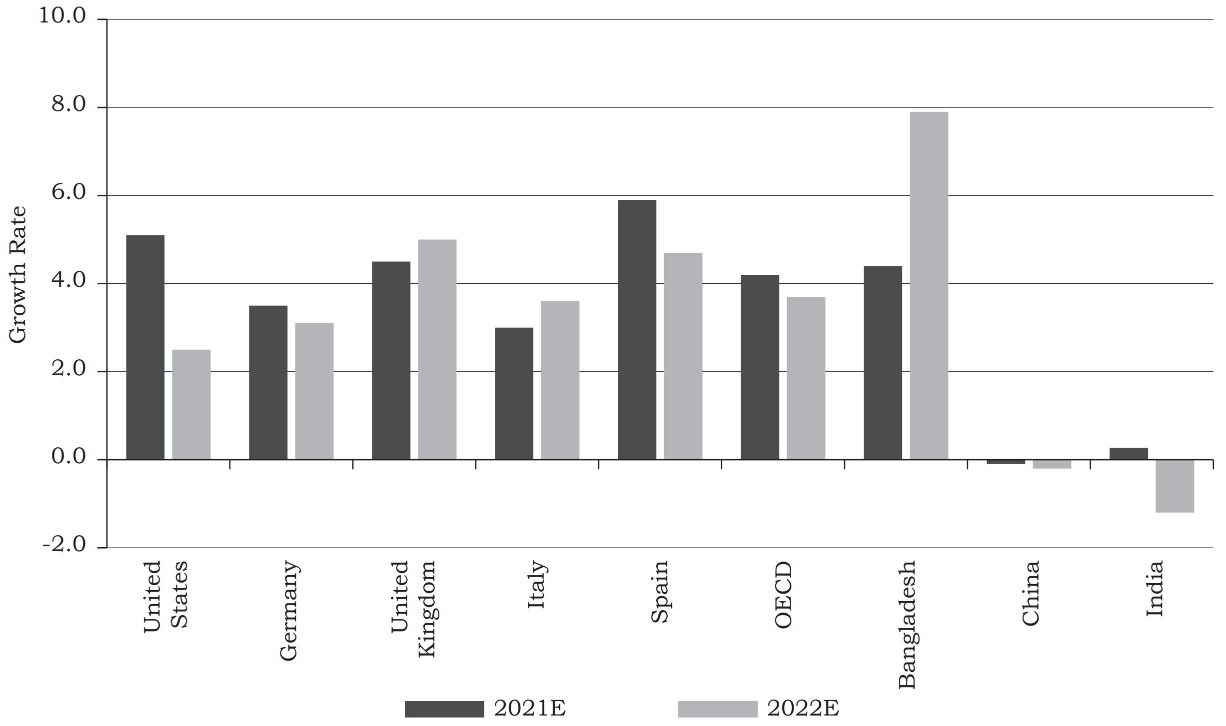
Figure 3.21

Global Economic Outlook



Source: IMF Growth Projections.

Figure 3.22
IMF Projections for 2021 and 2022



Source: IMF Projections.

Figure 3.21 and Figure 3.22 present projections made by the IMF for 2021 and 2022. For OECD (Organisation for Economic Co-operation and Development) countries as a group, including key export destinations of Bangladesh such as the USA and Germany, the growth projections for the next two years, while positive, have been revised downward compared to the earlier projections. For 2022, the anticipated growth rates are lower than those of 2021. In all likelihood, it will be a 'difficult ascent' particularly for the developed countries which are Bangladesh's major markets. Also, as per World Trade Organization (WTO) projections, protectionist policies pursued by many developed countries could linger in the coming months in view of the less than robust recovery.

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

Export performance and prospects of recovery

In FY2019–20, exports were hit by three-pronged pressure of demand-side shrinkages, global supply chain disruptions associated with COVID-impacted global market and low supply-side capacity utilisation in view of the impact of the COVID on the domestic economy of Bangladesh.

As can be seen from the Table 3.15, export earnings were 16.9 per cent lower in FY2019–20 compared to that of FY2018–19. While the sharp fall has now been arrested, rebound and recovery are still not there. Export value over the first seven months of FY2020–21 (July–January) was lower than that of

Table 3.15
Export Performance: FY2018–19 to Latest

(million USD)

Items	FY19	FY20	July-January	
			FY20	FY21
RMG	34133.3	27949.2	19063.2	18407.7
– Knitwear	16888.5	13908.0	9620.0	9989.1
– Woven wear	17244.7	14041.2	9443.2	8418.6
Home Textiles	851.7	758.9	442.7	638.9
Leather and Leather Products	1019.8	797.6	558.9	526.6
Frozen Fish	500.0	456.2	337.3	308.3
Jute and Jute Goods	816.3	882.4	602.5	765.6
Others	3213.9	2829.8	1914.9	2023.1
Total	40535.0	33674.1	22919.5	22670.2
Growth Rate	-	(-) 16.9	-	(-) 1.1.

Source: Based on EPB data.

the corresponding period of FY2019–20, by about 1.1. per cent. It is already evident that the target growth rate of 21 per cent set for FY2020–21, which would have taken the export earnings (projected to be USD 41.0 billion) to the pre-COVID level (40.5 billion), is not going to be achieved. Indeed, at this pace of growth, export earnings in FY2020–21 will likely be about 6.0–7.0 billion lower than the pre-COVID figure.

As would be anticipated, the low performance of export sector during the July–January period of FY2020–21 was primarily underpinned by negative growth of the RMG sector (-3.4 per cent), although knitwear exports (3.7 per cent) had performed better than the woven wear exports (-10.9 per cent). Interestingly, jute and jute goods (27.1 per cent) and home textiles (44.3 per cent) have continued their impressive performance contrary to the overall export trends.

An analysis of export performance reveals a number of underlying factors which had impacted on the trends. First, the high domestic-content driven knitwear sector has performed better than the import-intensive woven wear sector. Second, export structure points to home textile and jute products as items with high export potentials. Third, export performance was impacted by both value and volume. For example, prices of Bangladesh's exports of key apparels items have seen decline in average prices, for most items, at a higher pace compared to that of Vietnam, both in the EU and US markets. This is revealed by Table 3.16 and Table 3.17. Fourth, in view of the shifts in the demand structure in the global market, more emphasis will need to be put on, for example, man-made fibre items in export of woven wear and synthetic items in export of leather goods. Fifth, in view of the anticipated slow uptake of developed country economies in 2021 and 2022, and in the context of the anticipated high growth of Asian economies (China, India and the ASEAN), a renewed effort will be needed towards market diversification as a strategy to mitigate market risks and exploit potential export market opportunities that the resurgent Asian markets could offer. Sixth, and this had been underscored in successive earlier IRBDs, a strategic exchange rate management will be crucial to maintaining export competitiveness of Bangladesh. CPD analysis had shown, in recent years Bangladesh's competitors have been pursuing aggressive exchange rate (depreciation) policy with a view to enhancing export competitiveness. This has resulted in relative appreciation of BDT against currencies of key competitors resulting in Bangladesh's weak competitive strength vis-a-vis major market rivals such as Vietnam, Cambodia, and India. Seventh, and not the least, the support to the export sector through targeted policies and incentives, will need to be sustained to help export-oriented industries navigate the

Table 3.16

Price Dynamics of Apparels in EU Market: Bangladesh Vs. Vietnam

(in Euro)

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

Source: Authors' calculations based on Eurostat data.

Table 3.17

Price Dynamics of Apparels in US Market: Bangladesh Vs. Vietnam

(in USD)

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

Source: Authors' calculations based on US data.

Note: USITC = United States International Trade Commission.

current difficult times. However, the incentives will need to be recalibrated to incentivise access to regional markets, export of non-traditional items that are demonstrating robust growth (such as home textiles and jute goods) and to promote the cause of intra-RMG diversification.

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

3.7.2 Robust Remittance Earnings: Mainstay of Improved BOP Position

Contrary to projections by global institutions such as the World Bank and the IMF remittance flows to Bangladesh have been quite robust over the past months. The earlier projections made by the Bank for 2020 anticipated that remittance flows to South Asia would post a negative growth of (-) 22.1 per cent. However, actual remittance flows to Bangladesh had turned out to be about USD 18.36 billion in 2020, which was 18.4 per cent higher than that of 2019. To compare from Table 3.18, in 2020 remittance flows to India came down by 32.3 per cent compared to 2019. Indeed, during July–December period of FY2020–21, remittances were 38 per cent higher than the corresponding period of FY2020 (Figure 3.23), demonstrating an acceleration in the flows towards the end of 2020. However, no discernible shift in the sources of the flows is visible with Saudi Arabia, USA and UAE holding the top three positions. Briefing Note published by the Citizen's Platform for SDGs, Bangladesh identifies seven reasons driving the high flows: (a) additional demand for support on the part of cash-strapped remittance-receiving households; (b) greater use of formal channels in view of disruption of informal (*hundi/hawla*) channels; (c) 2 per cent cash incentives put in place by the GoB in July 2019 on the remitted amount; (d) additional 1 per cent incentive by mobile platforms such as bKash; (e) relaxation of ceilings for remitted money sent without documentation (raised to USD 5000 from the earlier USD 1500); (f) transfer of money saved on account of *Hajj* not being performed in 2020; (g) sending of savings back home in view of job uncertainties in host countries and apprehensions about forced-return of Bangladeshi migrant workers.

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

While high remittance flows have been a welcome development, a cautionary statement is perhaps called for at this stage. The first concerns the issue of sustainability of of high flows. Some of the

Table 3.18

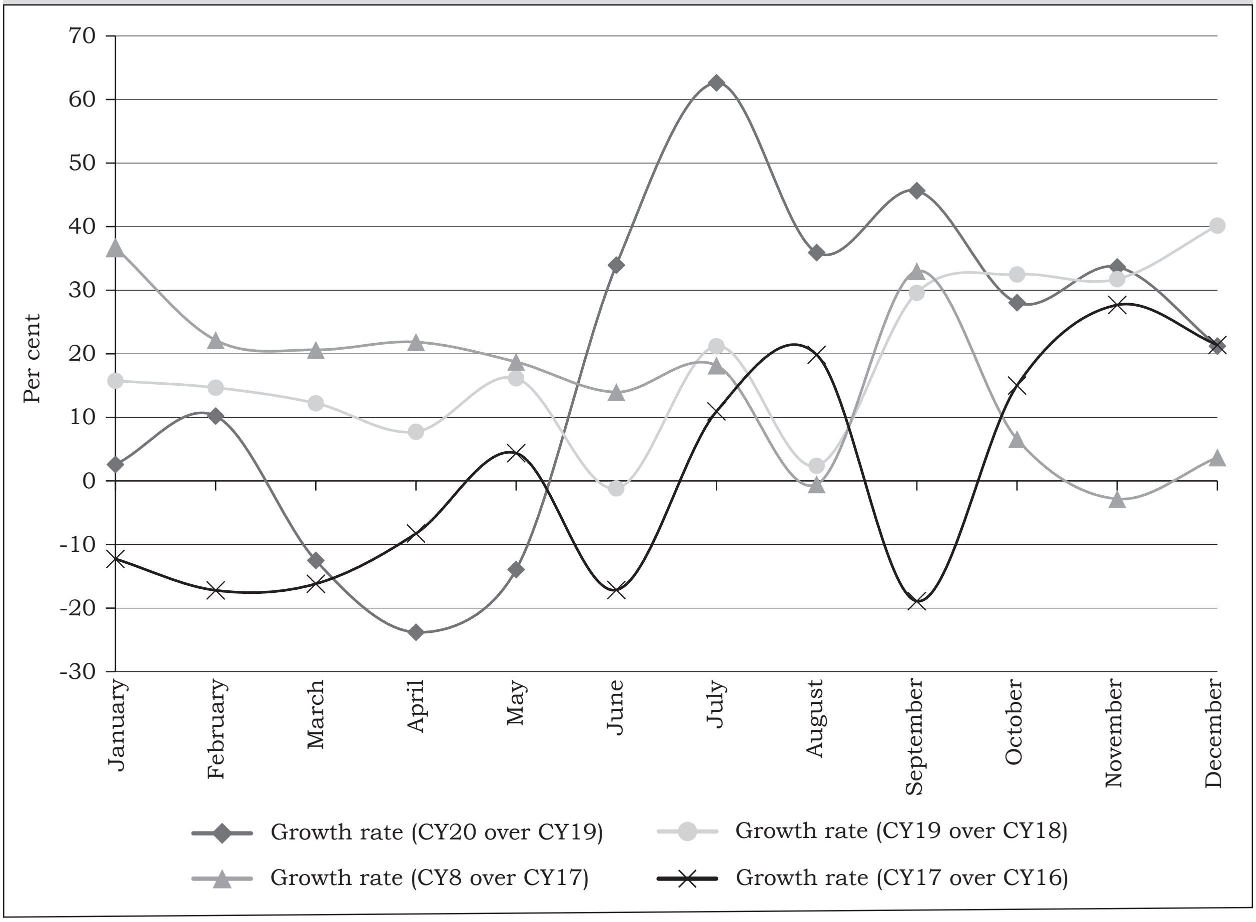
Remittance Flows to Selected Countries in 2020

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

Source: Latest data from respective central banks.

Figure 3.23

Month on Month Growth of Remittance Flows to Bangladesh: CY 2016 to CY 2020



Source: Bangladesh Bank.
Note: CY = Closing year.

underlying reasons driving this are COVID-related, to (as was noted earlier, high demand of households, disruption of informal transfer channels, dis-savings, job uncertainties in host countries), these may have induced a one-time rise in remittance flows which may not be sustained over time. Second, the number of migrant workers leaving for overseas jobs had come down sharply in FY2020–21 (if during the Seventh Five Year Plan (7FYP) about 7.4 lac workers had left the country every year, on average, number of those in FY2020–21 (July–November 2020) was only 7670. While this is expected to go up as countries relax travel restrictions and host country economies open up, the figures are unlikely to reach the high mark of pre-COVID level. This is likely to have adverse impact on future remittance flows, from medium-term perspective. Thirdly, recent BBS figures testify to the high cost of migration in Bangladesh (about USD 5.0 thousand per migrant worker which was higher than any comparator country and was equivalent to about 17 months of average earnings of a migrant worker). Estimates show that about USD 3.7 billion was spent, on average, for this purpose annually during the 7FYP period. This amount was equivalent to about 24 per cent of remitted amount to Bangladesh in an average year. Renewed effort must be put to bring down cost of migration, promote host market diversification and to send more migrant workers through G to G channels.

3.7.3 Import Sector Performance: A Reflection of the Sluggish Investment Scenario

In the backdrop of the COVID-induced slowdown of the economy, global supply-chain disruptions, lower demands by both export-oriented and domestic-market focused enterprises and imports posted a negative growth of 8.6 per cent in FY2019–20 over FY2018–19 (Table 3.19). The sluggish trends have continued in FY2020–21: over the first six months (July–December, 2020) imports came down by (-) 6.8 percent compared to the corresponding period of FY2019–20. A decomposition of the structure of import indicates that a larger part of the fall is accounted for by fall in imports of intermediate goods (-8.8 per cent), and more so, of capital goods (-16.7 per cent). Decline in import payments for raw cotton (-19.9 per cent), textile articles (-15.7 per cent) and only an insignificant rise in import of yarn (+2.1 per cent), indicate depressed demand by the export-oriented RMG sector. Similarly, the significant fall in import payments for capital machineries (-29.2 per cent) indicate lack of investment demand in the domestic market.

Table 3.19
Major Import Items of Bangladesh

(in million USD)

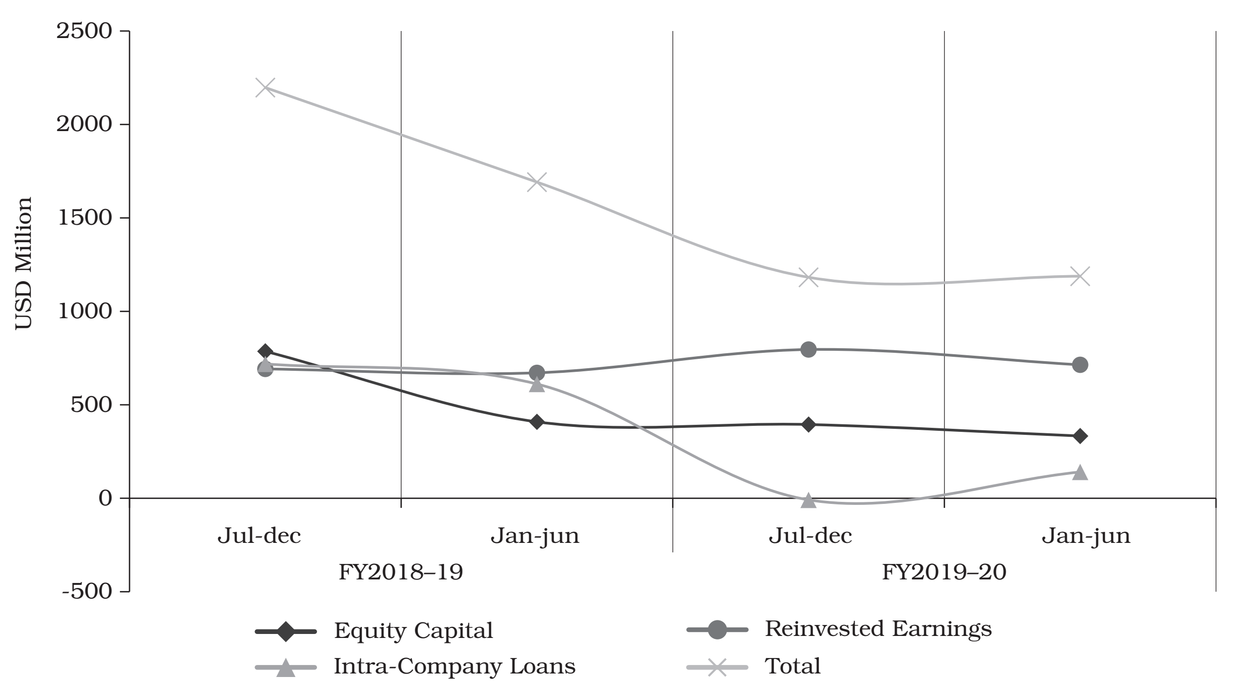
Items	FY19	FY20	July–December	
			FY20	FY21
Primary goods	5,067.8	5,377.2	2,286.5	2,815.6
Intermediate goods	33,608.4	31,912.6	16,811.1	15,332.1
Capital goods	14,601.9	11,108.9	6,670.3	5,557.7
Of which, capital machinery	5,412.6	3,581.3	2,154.1	1,525.8
Others	6,636.6	6,386.0	3,482.0	3,563.8
Total (Growth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

Source: Authors' calculations based on the data of Bangladesh Bank.

The above import scenario is indeed corroborated by the sluggish domestic demand for investment (as borne out by slow growth of private sector investment demand and low growth of private sector credit uptake) and also by significant fall in the FDI flows. Indeed, as Figure 3.24 indicates, there has been significant fall in FDI flows in recent months. Indeed, FDI flows in FY 2020 was 39.0 per cent lower than that of FY2018–19.

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

Figure 3.24
FDI Flows in FY2018–19 and FY2019–20



Source: Authors' calculations based on the data of Bangladesh Bank.

3.7.4 Concluding Remarks

Bangladesh's external sector performance in the backdrop of the COVID pandemic transmits a diverse range of signals as regards to turnaround, rebound and recovery of the economy. Strengthened balance of payments position augurs well for the economy, from the point of view of maintaining healthy reserves, ensuring exchange rate stability, robust import payment ability and comfortable debt servicing capacity. On the other hand, these also underpin disquieting developments in the economy. Export growth has remained negative over the first seven months of FY2020–21; actual earnings in FY2020–21 will remain far off the target. Indeed, it may take some years for the exports to get back to the pre-COVID level. Balance of trade shows robust improvement only because the pace of fall in import payments have exceeded that of export earnings. True, current account balance position has improved significantly because of the robust growth of remittances. However, the high remittance flows seen in recent past are unlikely to continue over the coming months (high growth on such high growth is unlikely to sustain). Imports, both of intermediate imports, including those by export-oriented enterprises and capital goods, including capital machineries, have experienced a significant dip, indicating sluggish domestic demand for production and new investment. There is, thus, a need for sustained efforts at maintaining robust flows of remittance, raising export competitiveness and export earnings and stimulating domestic demand and investment for the external sector performance to contribute towards sustainable recovery of the Bangladesh economy.

3.8 CONCLUSION

The previous fiscal year, FY2019–20, concluded with significant divergences from the relevant annual targets set for most key macroeconomic correlates. The already existing pre-COVID stress points in the economy were exacerbated as a consequence of the COVID-19 pandemic compounded by repeated natural disasters. These multiple shocks, alongside the longstanding reform and policy related challenges, underpinned a shaky foundation as the economy embarked on its FY2020–21 journey.

Since the beginning of FY2020–21, a large of the discussions and debates in the national policy discourse have centred around the shape of economic recovery—whether K, L, U, V, W or “swoosh” shaped. Also, there were debates as regards whether the economy has entered into a recovery phase or is only exhibiting early signs of rebound or just a mere turnaround. As the analyses in the preceding chapters show, there are mixed signals as far as rebound and recovery was concerned if the first half of FY2020–21 is taken as the reference point.

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

In general, indicators pertaining to production have exhibited better performance in terms of recovery compared to the investment related indicators. This is perhaps indicative of the consolidation as regards use of prevailing capacities in the economy. However, both public and private investment correlates remained subdued throughout the first half of FY2020–21 as can be discerned from the dynamics of, inter alia, ADP utilisation, private sector credit offtake, FDI, industrial term loans, and import of capital machineries. The restrained state of investment, in all likelihood, is indicative of the uncertainties triggered by the pandemic.

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

The asymmetry of recovery is a recurring phenomenon from within and across sectors perspectives. For example, within the RMG sector, knitwear and woven items exhibited different recovery trends during the first half of FY2020–21. Of the agricultural enterprises, the highest level of recovery was observed in case of vegetable production and poultry sub-sectors while recovery of fisheries was the slowest. Service sector enterprises recovered faster compared to their manufacturing counterparts. This type of evidence reinforces the possibility of recovery similar to being a ‘K-shaped’ one and calls for a much granular approach while designing government support measures.

The stimulus packages announced by the government had attempted to facilitate the economic recovery process by offering cheaper credits alongside monetary easing. The reliance on monetary instruments (or the so-called ‘hybrid’) rather than fiscal ones is perhaps a recognition of the restrained fiscal space which was already evident prior to the inception of FY2020–21. The banking channel was considered to be the key conduit for delivering the stimulus packages despite the fragile health of the sector. Asymmetry is also observed in terms of access to and implementation of the aforementioned stimulus packages. As available evidence suggests, large industries were more successful in accessing and attaining the benefits of the packages compared to their smaller counterparts. There is no doubt that the economy will require a second round of stimulus packages for the attainment of a sustainable recovery. Taking the experience of the first stimulus package into cognisance, the next round of packages will require serious revisiting to formulate and design new support measures. These packages should be SME prioritised and employment focused. Continuation of the same packages with an extended timeline will not produce the intended results and outcomes. It will be critically important to monitor the recovery of the loans disbursed under the stimulus packages. Commercial banks may like to convert these working capital loans into term loans, to be repaid over medium-term. A policy guideline may be required to this end after proper assessment.

Progress as regards the implementation of the medium-term reform agenda has been less than satisfactory. Successive IRBDs have pointed this out. Weak budgetary programming has resulted in a budget surplus even in the backdrop of the pandemic during the early months of FY2020–21. To this end, the budget for FY2020–21 should be revised at the earliest for mid-course correction. Also, the national budget for FY2021–22 should come up with a medium-term strategy to phase out tax exemptions and subsidised credit schemes. At the same time, public expenditure priorities should be revisited and adjusted accordingly to meet the attendant needs in view of the pandemic. Indeed, more public money needs to be injected for rural infrastructure and employment related social protection programmes. Given that the banking sector has been entasked with the key responsibility of delivering the stimulus packages, weak and poorly governed commercial banks should not be allowed to provide COVID-19 related support packages. Transparency and accountability mechanisms should be built into all such packages including timely dissemination of relevant information and data. The MFIs should be more actively engaged in the implementation process of the next stimulus packages in order to reach the grassroot levels and the marginalised population groups. The stimulus packages, however, should not be considered as the panacea for economic recovery. Longstanding issues such as improving the ease of doing business should be given the highest priority. This pandemic has revealed the potential opportunities of the digital economy. Possibility of tapping the benefits of the digital economy by providing support to start-ups and entrepreneurs should be explored with due urgency. Given Bangladesh's transition from a low income to lower-middle-income economy and upcoming graduation from the least developed country category, enhancement of negotiating skills to go for CEPA type of arrangements should be a key policy priority. This will be particularly pertinent in the backdrop of the depressed global trade scenario as projected by several multilateral agencies. The government should think of setting up a Negotiating Cell in the MoC.

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

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