COVID-19 and Bangladesh:
Macroeconomic Impacts and Policy Choices

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Bangladesh remains one of the moderately COVID-19 affected countries in the world. The country rolled out, quite expeditiously, several public policy interventions to mitigate the negative fallouts of the scourge. However, these assistance packages were inadequate in both size and composition, and often suffered from delivery deficit. This is particularly true given the disproportionate adverse impact of the pandemic on the "left behind" and "pushed behind" citizens and communities of the country.

The present study contends that in the face of demand deceleration - both internal and external, and supply chain disruption, most countries including Bangladesh will need to pursue a counter-cyclical policy stance. In this connection, it is maintained that fiscal interventions - more on the public expenditure side - play a more effective role than deployment of monetary instruments. Within these fiscal interventions, direct cash transfers and food support are considered more resultative than a general increase in public expenditures. The study maintains that enhanced public expenditures in health and education may also have positive outcomes in the context of the pandemic.

The study further maintains that, in order to enhance the fiscal multiplier effect, greater fiscal resources have to be directed towards people, households and enterprises with higher propensity to consume and invest. Accordingly, targeted flow of funds to vulnerable households and smaller (and informal) enterprises would raise aggregate demand at the margin, compensating for the fall in external and internal demand. This, however, is constrained by a country's fiscal space. The present paper argues that if Bangladesh's budget deficit were to increase by 1 or 2 percentage points, this would still be manageable given the country's record of fiscal deficit and public debt stock. In view of the nation's very low tax-GDP ratio, the increment in budget deficit is expected to be covered by increased external concessional financing and domestic borrowing.

Given these circumstances, the present study uses a CGE model to undertake a simulation exercise to assess the macro-economic outcomes under two scenarios. The *first scenario* includes doubling government transfers to five selected household categories. The *second scenario* presumes a 50 per cent increase in government expenditure for health and education. The obtained results suggest that the first scenario, despite requiring a larger budget deficit, has a greater impact on real consumption of poorer households. The second scenario has a greater impact on real GDP and export. Considering the disaggregated impact of the pandemic at the household level (rural and urban, poor and non-poor) and on specific groups (women, youth, indigenous people etc.), the study findings indicate preference for the first scenario (i.e., doubling of fiscal transfers). However, a combined deployment of both the expansionary fiscal approaches is considered desirable and viable. This integrated approach may be aligned with the prospect of post-pandemic green recovery in Bangladesh.

Given the country's macroeconomic performance in the last decade, the study concludes that it is not the lack of resources or potential fiscal space restricting the appropriate expansion of pandemic-related fiscal interventions in Bangladesh. Rather, it is the inability of the government to deliver its own public expenditure programme that has kept its budget deficit relatively low by default. While domestic resource mobilisation is a prerequisite for sustainable, expansionary fiscal programmes, the limited institutional capacity of the government to deliver in this area has emerged as a binding constraint. Alongside this, complementary structural reforms need to be pursued to derive the fuller benefits of the expansionary fiscal policies, for post-COVID-19 recovery.