CPD Working Paper 143

Fiscal Constraints towards Achieving Sustainable Recovery from COVID-Induced Challenges in 2022

CENTRE FOR POLICY DIALOGUE

FISCAL CONSTRAINTS TOWARDS ACHIEVING SUSTAINABLE RECOVERY FROM COVID-INDUCED CHALLENGES IN 2022

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The present paper titled ***Fiscal Constraints towards Achieving Sustainable Recovery from COVID-Induced Challenges in 2022*** has been prepared by the CPD IRBD 2022 Team. For any queries related to the paper, please contact: info@cpd.org.bd

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

Abstract

This report, prepared under the Centre for Policy Dialogue's (CPD) flagship programme titled *Independent Review of Bangladesh's Development (IRBD)*, offers an analysis of the economy that started off on a normal course at the beginning of the fiscal year and then entered into an unforeseen terrain and uncharted waters soon after the first quarter. The trends of key macroeconomic correlates during the early months of FY2021–22 evince that many of these are in a recovery trajectory, led by export-oriented sectors. However, macroeconomic stability is not in a comfortable state anymore. The policy space for tackling prevailing and emerging challenges has become comparatively limited. In this backdrop, trends in recovery, emergent risks and the available policy space should receive due cognisance while designing and implementing policy responses. As the country navigates through a critical phase of the COVID-19 pandemic and seeks a trajectory of sustainable recovery, the report provides an assessment of the performance of the key sectors of the Bangladesh economy and traces the trends in critical macroeconomic correlates during the early months of FY2021–22. The report makes use of the latest available data and information from domestic and international sources. Insights from key informants are also taken into cognisance to strengthen the analyses further.

Contents

Acronyms

ADP	Annual Development Programme
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BEFTN	Bangladesh Electronic Funds Transfer Network
BIDS	Bangladesh Institute of Development Studies
BO	Beneficiary Owner
BOP	Balance of Payment
BPC	Bangladesh Petroleum Corporation
BSEC	Bangladesh Securities and Exchange Commission
CAB	Consumers Association of Bangladesh
CDBL	Central Depository Bangladesh Limited
CNY	Chinese Yuan
CPD	Centre for Policy Dialogue
DAM	Department of Agricultural Marketing
DSE	Dhaka Stock Exchange
EU	European Union
FAO	Food and Agriculture Organization
FPMU	Food Planning and Monitoring Unit
FRED	Federal Reserve Economic Data
GBP	Pound Sterling
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
IMED	Implementation Monitoring and Evaluation Division
INR	Indian Rupee
IPO	Initial Public Offering
IRBD	Independent Review of Bangladesh's Development
KII	Key Informant Interview
MLT	Medium and Long-Term
MNC	Multinational Company
MoPEMR	Ministry of Power Energy and Mineral Resources
MPS	Monetary Policy Statement
NBR	National Board of Revenue
NEER	Nominal Effective Exchange Rate
NPL	Non-Performing Loan
NSD	National Savings Directorate

OMS	Open Market Sale
OPEC	Organization of the Petroleum Exporting Countries
REER	Real Effective Exchange Rate
PFDS	Public Foodgrain Distribution System
PKSF	Palli Karma-Sahayak Foundation
PPP	Purchasing Power Parity
RMG	Readymade Garment
SME	Small And Medium Enterprise
SPFMSP	Strengthening Public Financial Management for Social Protection Project
SPV	Special Purpose Vehicle
SSNP	Social Safety Net Programme
STW	Shallow Tubewell
TCB	Trading Corporation of Bangladesh
TIN	Tax Identification Number
USA	United States of America
USD	United States Dollar
USITC	United States International Trade Commission
VGF	Vulnerable Group Feeding

1. INTRODUCTION

The present report is the first reading of the State of the Bangladesh Economy in FY2021–22. This report has been prepared under Independent Review of Bangladesh's Development (IRBD), the flagship programme of the Centre for Policy Dialogue (CPD). As the country navigates through a critical phase of the COVID-19 pandemic and seeks a trajectory of sustainable recovery, the report provides an assessment of the performance of the key sectors of the Bangladesh economy and traces the trends in critical macroeconomic correlates during the early months of FY2021–22. The report makes use of the latest available data and information from domestic and international sources. Insights from key informants are also taken into cognisance to strengthen the analyses further.

Following this introduction, Section 2 reviews the performance of key macroeconomic variables for the early months of the ongoing fiscal year. Section 3 examines the nature and underlying factors of recent inflationary pressure. Performance of the external sector, which is at the same time an important source of the current nature of economic recovery and a pressure point from the perspective of macroeconomic stability, is analysed in Section 4. An assessment of the performance of the country's capital market during the pandemic period is presented in Section 5. The penultimate section (Section 6) revisits the implementation status of the stimulus packages with a view to recommending the design of the forthcoming support measures towards the economic recovery. Finally, the report closes with some concluding remarks and key outlook points for the remainder of FY2021–22.

2. MACROECONOMIC MANAGEMENT

Over the past several months, Bangladesh's macroeconomic management has experienced a testing time in the face of the COVID-19 pandemic. The negative impact of the pandemic was manifested in the majority of the key macroeconomic correlates. In a good sign, several indicators have shown signs of recovery in the early months of FY2021–22. However, macroeconomic management is expected to remain no less challenging. The policymakers will need to duel with the fact that the economy will call for continued support for the desired recovery at a time when macroeconomic stability is under pressure. The present section reviews the trends of major macroeconomic variables to highlight the nature of recovery and the underlying challenges.

2.1 NBR Revenue Collection Recorded Improved Performance Compared to the Previous Fiscal Year

According to the data available from the National Board of Revenue (NBR), during the July–October period of FY2021–22, revenue mobilised by the NBR rose by 16.6 per cent compared to the corresponding period of FY2021–21. However, this growth is much lower than the annual target set by the national budget. In order to attain the annual growth target of 27 per cent, NBR revenue will have to increase at a rate of 30.7 per cent for the remainder of the fiscal year—which is a highly daunting task, to say the least (Table 1). Indirect tax collection at the import and export level was more impressive, which recorded a growth rate of 21.3 per cent. Both rising import demand and increased commodity prices at the global level have helped in the attainment of this improved growth. In contrast, indirect tax collection at the domestic level increased by only 14.7 per cent during the aforesaid period, thus requiring to post about 38.4 per cent growth for the remainder of the fiscal year. Similarly, the growth of income tax collection was only 14.1 per cent and would

Table 1: NBR Revenue Collection Growth (%, Jul–Oct FY2021–22)

Particulars	Target FY22 over actual FY21	Jul-Oct FY21	Jul-Oct FY22	Required growth Nov-Jun FY22
Indirect taxes at import and export level	24.0	5.4	21.3	25.0
Indirect taxes at local level	32.2	0.9	14.7	38.4
Income and travel tax	23.8	5.0	14.1	26.9
Total	27.0	3.5	16.6	30.7

Source: Estimated from NBR Data.

require a 26.9 per cent growth during the remaining months of the fiscal year. The aforesaid revenue mobilisation performance of NBR could be termed a somewhat improved performance compared to the corresponding period of the previous fiscal year when only 3.5 per cent growth could be achieved. However, this low benchmark was primarily COVID-induced. It is also to be noted that subdued revenue mobilisation performance of the NBR in FY2021–21 was compensated by the non-tax revenue component with the withdrawal by the government of funds of state-owned enterprises, which had accumulated surplus. In the current fiscal year, the scope for a similar step is rather limited. As a result, overall revenue mobilisation, and hence, the execution of the programmed budget, will continue to remain a challenge in FY2021–22.

2.2 ADP Expenditure Continued to Remain Business-As-Usual

According to the data Implementation Monitoring and Evaluation Division (IMED), expenditure for the Annual Development Programme (ADP) continued to remain less than satisfactory during the first five months of FY2021–22. The share of allocation spent over the first five-month period in FY2021–22 is better than the previous pandemic-afflicted year; however, it was lower than the preceding years. Data for July–November of FY2021–22 indicates that actual spending under ADP was 18.6 per cent of the originally planned allocation (Table 2). While only 20.2 per cent of allocated local resources (Taka component) was spent, project aid utilisation was only 16.2 per cent. ADP expenditure rate of the top 10 Ministries/Divisions, which account for 75.9 per cent of the total ADP allocation in FY2021–22, was very similar (18.8 per cent) to the overall performance. Regrettably, the Health Services Division, with a 5.8 per cent share of total ADP allocation, could spend only 6.4 per cent of its annual programmed allocation during the first five months. This is by any account a disturbing feature in a time of a pandemic crisis. Local Government Division and Road Transport and Highways Division were better performers with expenditure rates of 22.8 per cent and 22.3 per cent, respectively.

Table 2: ADP Implementation Rate (%, Jul–Nov FY2021–22 over original ADP)

	Jul–Nov FY13	Jul–Nov FY14	Jul–Nov FY15	Jul–Nov FY16	Jul–Nov FY17	Jul–Nov FY18	Jul–Nov FY19	Jul–Nov FY20	Jul–Nov FY21	Jul–Nov FY22
Taka	27.2	21.7	19.3	18.6	20.9	18.5	18.8	22.3	19.1	20.2
P.A.	20.8	17.0	20.7	13.6	16.7	22.6	21.6	15.4	16.6	16.2
Total	24.7	20.0	19.8	16.8	19.3	20.1	19.8	19.9	18.2	18.6

Source: Estimated from IMED Data.

2.3 Budget Deficit Was Lower during the First Quarter of FY2021–22, According to the Central Bank Data

During the first quarter of FY2021–22, the budget deficit (to the tune of Tk 27,571 crore) remained lower than the corresponding figure of the same period of FY2020–21 (Tk 31,999 crore). On a positive note, thanks to foreign aid inflow for COVID-19 financing (including for the purchase of vaccines), about 46.7 per cent of the budget deficit was financed by net foreign financing despite the below-par performance of project aid in ADP financing. During the same period of FY2020–21, only 29 per cent of the budget deficit was financed by net foreign borrowing. Indeed, during the first quarter of FY2021–22, the net sale of National Savings Directorate (NSD) certificates was (-) 26.3 per cent lower due to the recent lowering of purchase limit and interest rates and use of technology to ensure that the purchase limit set for an individual is not breached. This would also mean that, if there is any future rise of government borrowing, it is more likely to be serviced by higher bank borrowing by the government, which remains within the limit.

2.4 Higher Prices of Essentials Caused Anxiety

Given that a large section of citizens of the country having to confront the negative impact of the COVID-19 on income and employment, the rising prices of essential commodities have caused serious anxiety, undermining the adjustment and recovery efforts. Increased prices in the international market, the falling value of BDT against major currencies of importing sources, and lack of good governance contributed to rising prices of essentials. The headline inflation rate does not fully capture the reality (please see Section 3 for a detailed discussion). The rate of inflation in October 2021 was only 5.4 per cent, while food inflation was 5.3 per cent. Also, the inflation data for November 2021 is not available yet. Indeed, controlling prices of essentials should receive the topmost priority from the vantage point of macroeconomic management as the country seeks to generate a faster recovery from the pandemic afflicted benchmark.

2.5 Private Sector Credit Growth Marginally Improved

The monetary aggregates remained at a subdued level during the four months of FY2020–21 against the respective half-yearly targets. The growth of broad money (M2) at the end of October 2021 was 10.7 per cent against the Monetary Policy Statement (MPS) target of 13.8 per cent for December 2021 (Table 3). Growth of credit to the private sector somewhat improved to 9.4 per cent in October

Table 3: Growth of Monetary Indicators

Indicators	Jun 21 (Actual)	Jun 21 (Jul 20 MPS target)	Oct 21 (Actual)	Dec 21 (Jul 21 MPS target)	Jun 22 (Jul 21 MPS target)
Net foreign assets	27.1	5.8	11.9	13.0	10.4
Net domestic assets	9.8	18.3	10.4	14.1	16.5
Domestic credit	10.1	19.3	10.9	14.1	17.8
Credit to the public sector (including government)	19.0	44.4	18.5	30.6	32.6
Credit to the private sector	8.3	14.8	9.4	11.0	14.8
Broad money	13.6	15.6	10.7	13.8	15.0
Reserve money	22.4	13.5	10.6	14.0	10.0

Source: Compiled from Bangladesh Bank Data.

2021, which was 8.3 per cent at the end of FY2020–21. The demand for private sector credit has perhaps improved thanks to higher demand for import and export as well as overall improvement of economic activities. However, it may be challenging to attain the end-fiscal (June 2022) target of 14.8 per cent. It is to be noted that disbursement of agricultural credit also increased by 12.6 per cent during July–October FY2020–21, while disbursement of non-farm rural credit increased by 50.7 per cent. However, in both cases, the recovery of disbursed credit was lower than the preceding year. Indeed, in the second half of FY2021–22, loan recovery, including those disbursed under the stimulus packages, will be a critical challenge facing the country's financial sector and consequently for macroeconomic management.

2.6 Negative Balance of Payment Put Pressure on the Exchange Rate despite Robust Export Growth

Current account recorded a significant negative balance to the tune of USD (-) 4.8 billion for the July–October period of FY2021–22, largely due to the rise in trade deficit which was as high as USD (-) 9.1 billion. On a positive note, export earnings bounced back and attained a growth rate of 24.3 per cent during the first five months of FY2021–22. The growth of import payments was even higher, to the tune of 51.4 per cent in July–October FY2021–22. The significantly increased import payments was attributed to higher demand for commodities, including intermediate goods to service export orders, and increased commodity prices. Capital machinery import also recovered to pre-COVID trend with a growth of 38.6 per cent, which was (-) 30.7 per cent during the corresponding period of the previous fiscal year. The inflow of remittances declined by (-) 21.0 per cent during July–November FY2021–22. As a result, despite a large surplus in the financial account balance (USD 3.8 billion), thanks to improved net aid flows and medium and long-term (MLT) loans, the overall balance figure was negative to the tune of (-) USD 1.3 billion. It may be recalled that overall balance posted a surplus of USD 4.1 billion during the same period of FY2020–21. This has depleted foreign exchange reserve and put significant pressure on exchange rate (please see Section 4 for details).

2.7 The Policy Package for Supporting Recovery Needs to Take Cognisance of the New Realities

The review of trends of key macroeconomic correlates evinces that many of these are in the recovery trajectory, led by the export-oriented sectors. Overall manufacturing sector output, however, posted a restrained growth to the tune of 8.1 per cent during the first two months of FY2021–22, according to the latest available data from Bangladesh Bureau of Statistics (BBS). To maintain this trajectory, favourable macroeconomic policy support will be critically important. Regrettably, macroeconomic stability is no longer in a comfortable state. This is manifested in the rise of commodity prices fuelled by international prices and unfavourable government policy in the form of the upward revision of administered prices of diesel and kerosene (please see Section 3 for more details), a significant deficit in the overall balance of payments (BOP) leading to reduced foreign exchange reserve and volatile exchange rate (please see Section 4). Apparently, fiscal space is also shrinking, as is indicated by the government's decision in view of the upward revision of diesel and kerosene prices. Unfortunately, the absence of updated data for budget execution constrained a more rigorous assessment to this end. The global environment also remains uncertain and volatile. Fragmented economic recovery and demand in the large economies (which are also major export destinations of the country), the drastic rise of commodity prices, and the emergence of new (omicron) COVID-19 variant will pose a persistent risk to the recovery of Bangladesh economy on the external front.

Indeed, the policy response needs to take cognisance of the trends in recovery, emergent risks, and the available policy space. Perhaps the government may need to make decisions as regards gradually pulling out some of the support measures in place while keeping a sharp eye on the evolving pandemic scenario, and also prepare for possible fallouts. For example, the moratorium on bank loan recovery and classification will need closure at a time of rising non-performing loans (NPL). The commercial banks will also make the best effort towards recovering the disbursed loans under stimulus packages. During the pandemic period, several tax incentives were put in place, some of which should be time-bound.

No doubt, the economy will need a recovery package 2.0, with distributive justice, which will support the marginalised people at a time of rising prices of daily essentials and by taking into consideration their struggle during the pandemic with consequent loss of income and savings and increased debt (please see Section 5 for details). This new recovery package should also consider the increased cost of investment due to rising commodity prices (including capital goods) which have also put upward pressure on wages. To this end, unfinished support agendas such as loans to smaller entrepreneurs and fuller implementation of programmed social protection programmes (including cash transfer) must be ensured. Since the policy space is limited, the challenges of policymaking will become more acute. Powerful stakeholders will fight for the limited policy space, while the marginalised stakeholders will need more policy support.

In view of the current context, the government will be well advised to pursue a focused and targeted expansionary fiscal policy reinforced by accommodative monetary policy. Policymakers should acknowledge that a targeted flow of fiscal resources to the more vulnerable households as well as to relatively small (and informal) enterprises will have more 'aggregate domestic demand augmenting' effect and provide protection to the marginalised groups. Mobilisation of domestic resources for underwriting the targeted expansionary fiscal policy by curbing tax evasion will be helpful. However, it may not be the most critical binding constraint. The experience of the COVID-19 period shows that the ability to effectively implement expanded public expenditure programmes, including any additional stimulus packages, in quantitative and qualitative terms, is possibly the foremost binding constraint.

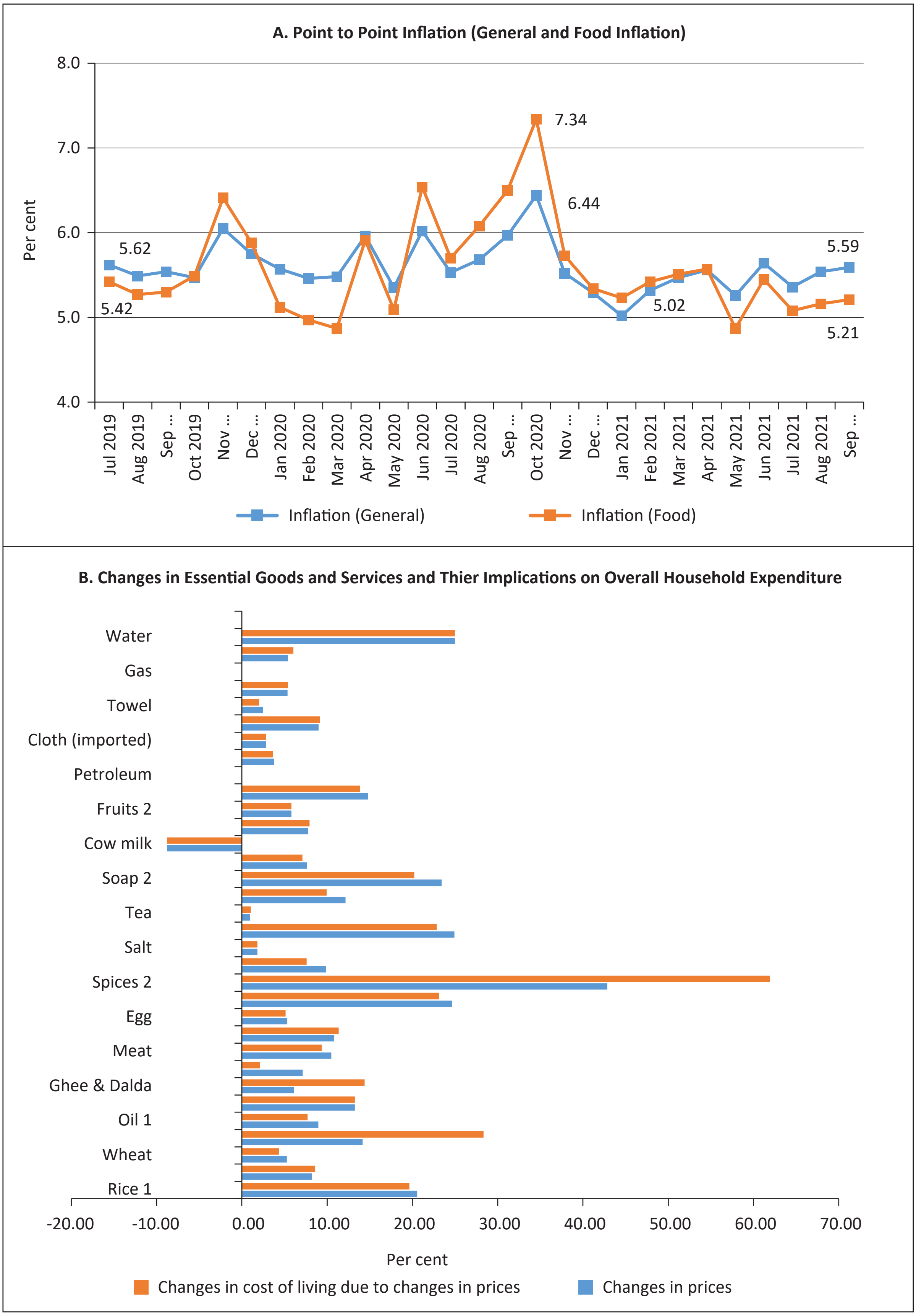
Lack of real-time and updated data on poverty, employment, inequality and budget execution continue to disrupt the design of the needed policy package. It is apprehended that in the absence of reliable data on these critically important indicators, policies will continue to focus on the areas where data is available (e.g., gross domestic product (GDP), per capita income, etc.). Also, in order to address the newly emerging challenges, the government will need to revitalise the lost reform and good governance agendas.

3. FOOD INFLATION DURING THE PANDEMIC PERIOD: HOW TO EXPLAIN IT

3.1. Introduction

Bangladesh has experienced inflationary pressure since the early phase of the pandemic (June 2020) that has continued in the later phase of the pandemic in 2021. Such inflation caused a significant adverse impact on consumers and, particularly, low-income households (World Bank, 2021). It is to be noted that a high inflationary trend has been observed in many developed and developing countries following the re-opening of economies after the second wave of the pandemic. Figure 1A

Figure 1: General Inflation and Food Inflation and the Cost of Living



Source: Author's Analysis Based on Data from Bangladesh Bank and Consumers Association of Bangladesh (CAB) (n.d.).

presents the trends in inflation during the pre-pandemic and the pandemic period. Food inflation, which accounts for the major share of Bangladesh's inflation, reached its peak in October 2020 and decelerated until January 2021 and then started to rise, which persisted until September 2021. Given the rise in the level of poverty, slow rise in employment opportunities, and uncertainty in income opportunities, a large section of low-income households has faced increasing challenges in the face of rising inflation, particularly food inflation. According to the Consumers Association of Bangladesh (CAB), the rise in the price of essential consumer goods has led to erosion of purchasing power and the consequent higher level of burden on household expenditure (Figure 1B). For example, the rise in the price of rice caused a 19.7 per cent rise in household expenditure for this item during 2020; the expenditure increased by 62 per cent for spice related consumption purposes.

Overall, a persistent inflationary pressure has become a major challenge in maintaining a minimum living standard for low-income households. This is likely to further push nutritional deficiency, particularly of children of low-income households. Inflation also has a detrimental impact on poverty levels. This section examines the nature and extent of recent inflation and factors responsible for the inflationary pressure. More specifically, the section investigates whether inflationary trends in Bangladesh and the underlying reasons are similar to the experiences of other developing countries.

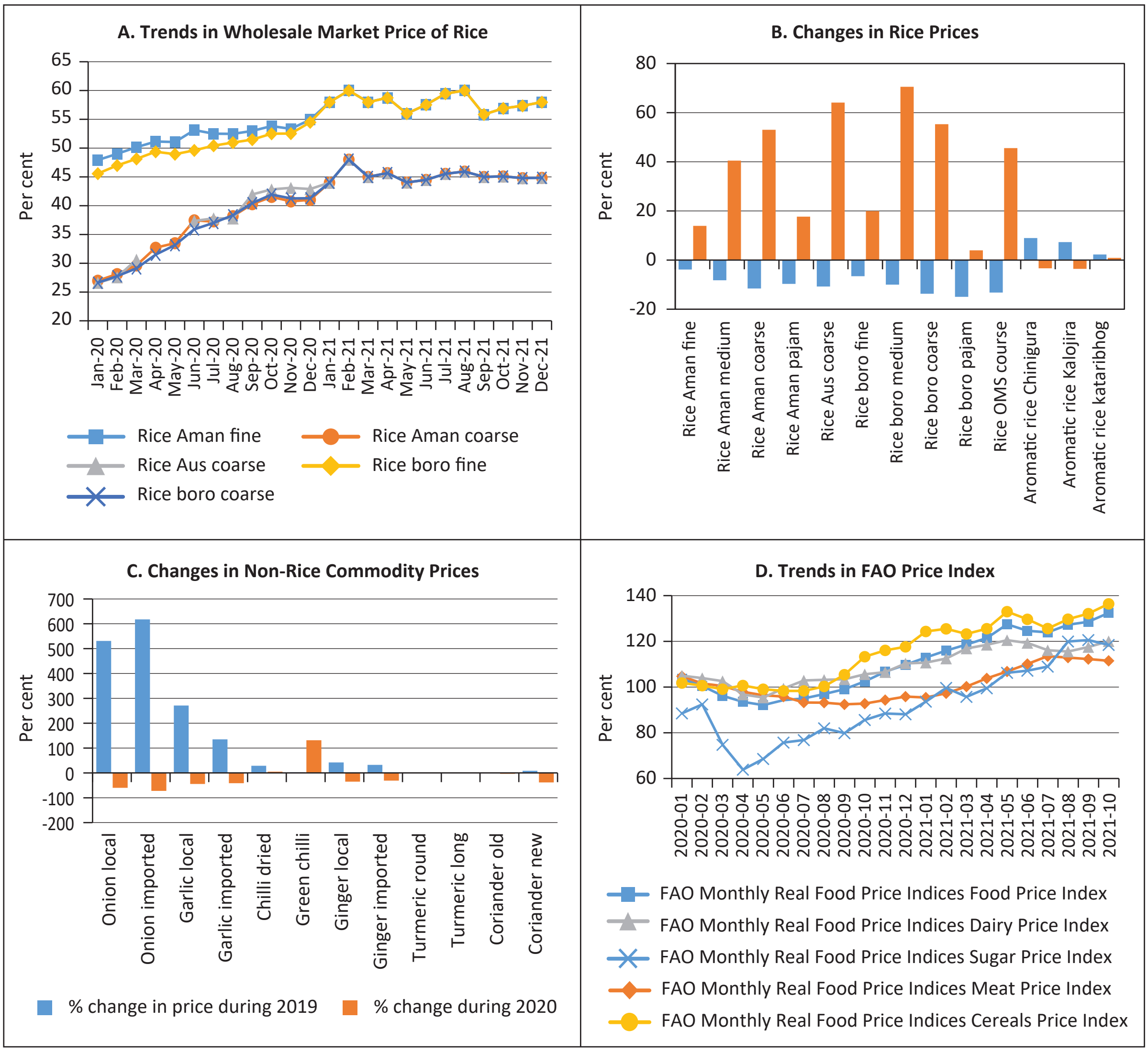
3.2 Discussion on Commodity-wise Changes in Prices during the Pandemic Period

During the last three years, changes in food prices were not similar for all commodities. The rise in commodity prices is examined for two periods: (a) changes in prices during the pre-pandemic period (January 2019 to December 2019), and (b) changes in prices during the pandemic period (January 2020 to December 2020 and beyond). Figure 1A presents trends in prices of different food products, including rice and vegetables, at the national and international markets. During the pandemic period, the price of different types of rice has started to rise, which continued till March 2021 and has stabilised at this level afterwards. Both fine and coarse rice have experienced similar trends in price. According to Figure 2, while the price of all varieties of rice has declined during the pre-pandemic period, a substantial rise in the price of rice has taken place during the pandemic period, mainly in case of medium and coarse rice consumed by low-income households.

The trend in prices of vegetables and spices is found to be somewhat different during pre-pandemic and pandemic periods. The retail price of vegetables declined in 2020 against the sharp rise in prices in 2019—mainly in case of onion (local and imported), garlic (local and imported), and ginger (local and imported). On the other hand, the retail price of different types of meat experienced a mixed price rise in 2019 compared to that in 2020. The low level of rising in prices of vegetables, meat, and spices during the early phase of the pandemic is likely to be influenced by a number of factors, including: (a) restrictions of movement of goods in both domestic and international markets owing to the COVID-19; and (b) uncertainty in consumer earning which forced them to spend less on pricier essential commodities. According to Figure 3, price volatility during the early phase and later phase of the pandemic has been different. In most cases, volatility was higher in the early phase of pandemic both in wholesale and retail markets, including for vegetables and spices. However, the volatility is rather high both in the early and later phases of the pandemic for items like soybean oil, palm oil, and ginger, which are primarily imported commodities. The price movement of these commodities is likely to be influenced by price movement in the international market.

The movement of prices in Bangladesh is rather different compared to that in the international market. The rise in prices in the international market is seen following the first wave, since July 2020

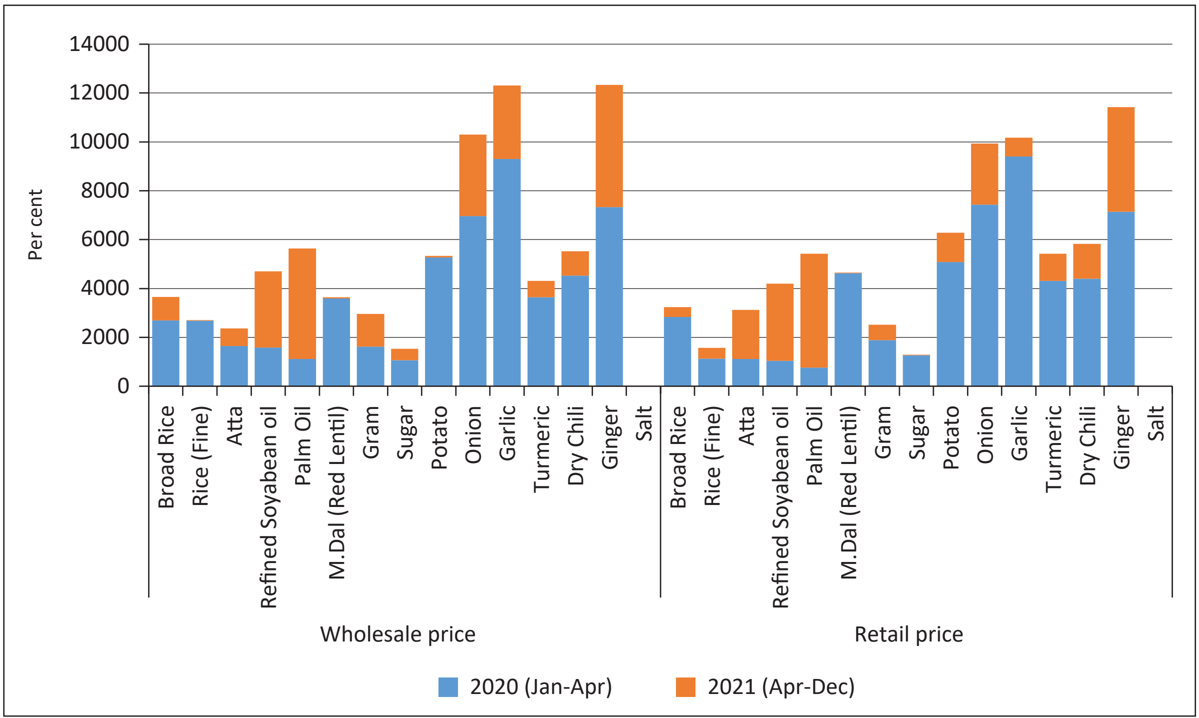
Figure 2: Scenario of Rice and Spice Price Market and Overall Food Price Index



Source: Author's analysis based on BBS (2020), and FAO (2021).

and has continued during 2021 (till October 2021). In this period, the global economy` started to resume, and rise was mostly demand-induced and on account of pressure in the supply chain and consequent rise in prices of raw materials, transportation, and other necessary services. Indeed, all categories of products have experienced a rise in prices in the global market according to the Food and Agriculture Organization (FAO) price index (Figure 2). For some items, a rise in prices in the local market was visible in the pre-pandemic period. The prices of some of the products continued to rise in the early and later phases of the pandemic, while some have experienced a decline in prices. Hence, the trends in prices of food products in the local market are not necessarily similar to what is experienced in the global market. The reasons underpinning the price movement in the local market are likely to be different.

Figure 3: Price Volatility during Pre-Pandemic and Pandemic Period



Source: Author's analysis based on the data from TCB (Trading Corporation of Bangladesh) Website.
Note: For 2020, data was available for 80 transaction days, whereas for 2021, data was available for 204 days.

3.2.1 Changes in prices in the supply chain of rice: Farmgate, wholesale and retail markets

Domestic production, consumption, and deficit: Domestic supply chain of rice operates primarily on the basis of domestic production and supply. Table 4 presents the domestic production, consumption, and deficit/surplus situation during 2015–2021. It is important to note that the domestic production of rice has maintained considerable growth over the last several years. On the other hand, domestic consumption also maintained consistent growth over the years, particularly during 2020 and 2021, when it increased by over 1 per cent per year. Despite having a good harvest of rice, this is found to be inadequate to meet domestic demand. As a result, there was a deficit in rice supply from the local market. Since rice is the most essential staple food, this was quickly reflected in the retail market

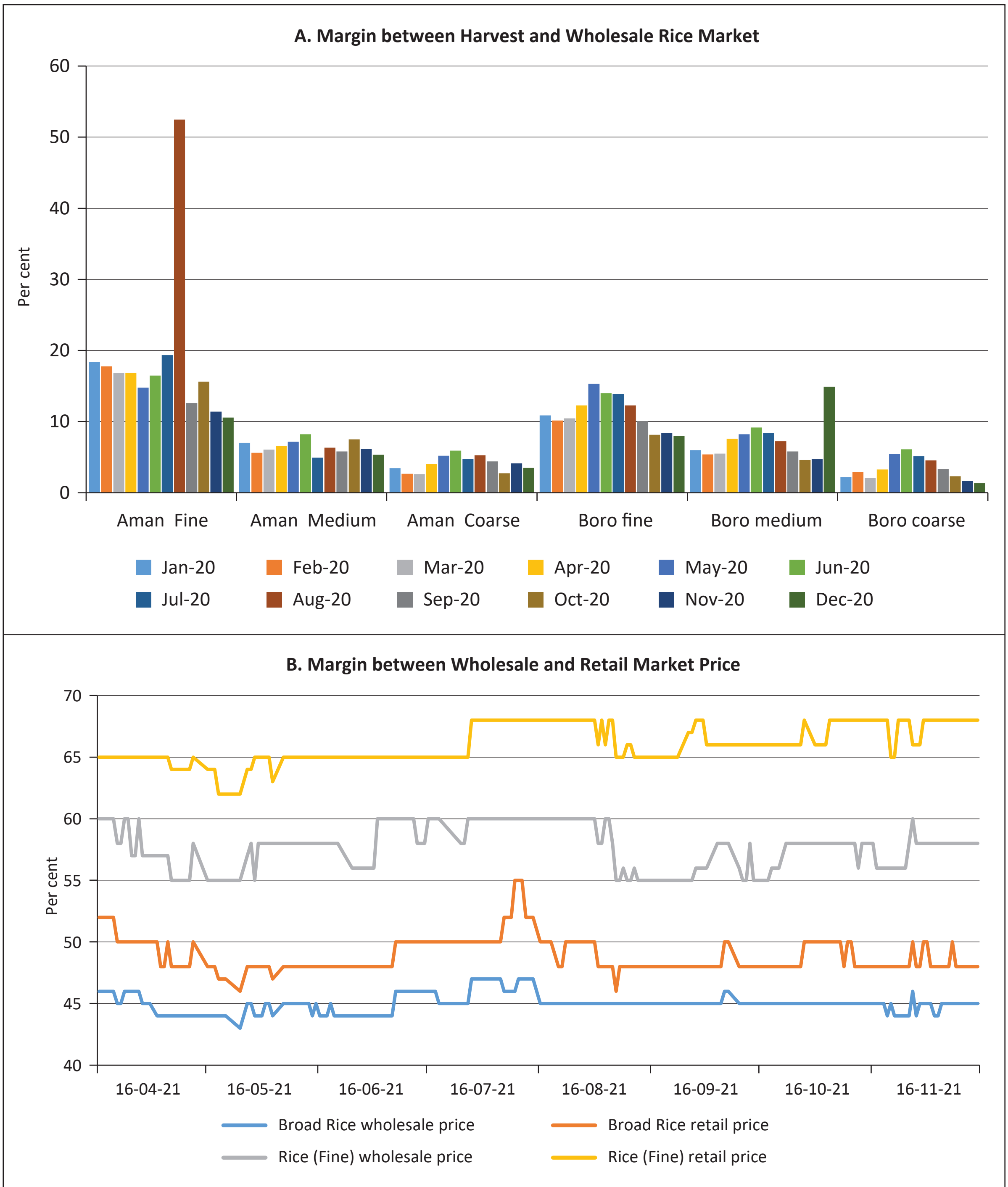
Table 4: Domestic Production and Consumption of Rice

(in '000 m. tons)

Year	Domestic Production		Domestic Consumption		Surplus/Deficit
	Production	Growth Rate	Domestic Consumption	Growth Rate	
2015	34500	0.00%	35100	0.00%	-600
2016	34578	0.23%	35000	-0.28%	-422
2017	32650	-5.58%	35200	0.57%	-2550
2018	34909	6.92%	35400	0.57%	-491
2019	35850	2.70%	35700	0.85%	150
2020	34600	-3.49%	36100	1.12%	-1500
2021	36250	4.77%	36700	1.66%	-450

Source: Author's compilation from Index Mundi.

Figure 4: Gross Margin at Farmgate, Wholesalers and Retailer's Ends



Source: Author's analysis based on BBS (2020) and TCB (n.d.).

price. Moreover, the deficit in the local market, unless properly managed, would create scopes for market manipulation by different concerned actors.

Distribution of margin in the supply chain: The supply chain of rice is mainly operated by farmers, aratders, pikars, bepari, millers, wholesalers and retailers. In a well-organised and well-managed competitive supply chain, the level of margin for different market agents of rice is expected to follow the general marketing principle—the higher the volume of products to be transacted, the lower the level of the agent's margin. Figure 4 presents the margin distribution at different levels—farmgate, wholesale and retail markets during pre-pandemic and pandemic periods. The margin received by agents working at the farmgate level, including those by the rice millers, is higher in the case of fine rice (e.g. fine aman and fine boro) than is the case for coarse rice (e.g. coarse aman and coarse boro). It is important to note that the margin level was very high in the early and mid-2020s compared to that in the late 2020s. However, the margin received by agents working in wholesale and retail markets fluctuated, at moderated level, though their margin was higher in the case of fine rice. Fluctuation of margin is rather high at rice millers' end compared to that at wholesalers' and retailers' end. Such a pattern of distribution of the margin in the supply chain is difficult to explain in a competitive market structure. In other words, some market agents, particularly rice millers, are likely to play the role of 'dominant market agents' and influence the market price and receive higher margins.

Public food stock, PFDS and their impact on rice price: Rice market price is found to be influenced by the level of availability of public food stock, particularly rice. Usually, an inverse relationship is observed whereby higher rice stock transmits the market signal of an adequate supply of foodgrains that signals market price stability and vice-versa. Table 5 presents the food stock, food procurement, and food distribution during 2019–2021. The stock of rice was relatively high during 2019 (on average 1241 thousand metric ton), which, however, gradually declined in the following years. During 2021 (as of September 2021), the average stock was lower at 944 thousand metric tons; however, the stock situation has improved in the last three months due to higher procurement and import. Higher food stock has helped stabilise the market price in recent months though it has yet to have any positive impact on market price. This is perhaps because of a lack of consistent and available supply of bulk scale rice stock in public warehouses, which could transmit a positive market signal. It is to be noted that a considerable level of use of public food stock for distributing food among the low-earned people under the safety net programmes, including open market sales across the country, would require a consistently high stock of rice in the warehouses. This has been found to be rather difficult to maintain.

Table 5: Public Foodgrains (Rice) Procurement, Food Stock, and Food Distribution

(in thousand metric ton)

Month	Procurement of Rice			Food Stock (Rice)			Food Distribution (Rice)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
January	287.5	340.7	34.3	1291.3	1260	459	46.0	69.1	65.9
February	223.8	321.2	21.5	1391.5	1492	470	122.0	88.4	71.8
March	24.9	76.7	5.4	1182.5	1305	334	233.0	262.2	245.6
April	0.0	0.0	0.1	975.7	1009	207	220.0	293.4	224.6
May	320.9	51.5	311	1048.6	753	553	247.0	305.7	89.8
June	414.7	282	0.0	1255.8	838	1056	206.0	195.9	28.13*
July	312.9	286	228	1491	963	1199	76.6	159.2	180.1
August	276.1	174.8	364	1620	1071	1557	144.6	65.8	131.7
September	85.3	116.4		1437	963	1360	265.9	223.0	270.0
October		0.0		1211	719		224.7	242.3	
November	0.2	0.2		999	494		211.3	224.2	
December	59.4	21.9		990	461		68.2	58.7	
Average/ Total	**2005.7**	**1671.4**	**964.3**	**1241**	**944**	**799**	**2065.3**	**2187.9**	**1279.5**

Source: Food Planning and Monitoring Unit or FPMU (n.d.).

Table 6: Rice Import by Government and Private Sector

(in thousand metric ton)

Month	Public Import (rice)			Private Import (rice)		
	2019	2020	2021	2019	2020	2021
January	6.6	0	30.2	7	0	45
February		0	61.6	18	0	176
March		0	105.1	31	0	279
April	14.4	0	98.4	9	0	258
May		0	152.6	10	0	10
June		0		1	0	17
July	0	0	95.6	4	0	0
August	0	0	128.7	0	0	0
September	0	0	75.1	0	0	123
October	0	0		0	0	
November	0	0		0	0	
December	0	4.1		0	0	
Total	0	4.1	747.2			

Source: FPMU (n.d.).

During July–September 2021, a considerable amount of rice has been distributed with a view to addressing the need of the low-income people during covid and post-covid period, which is likely to be continued in the upcoming months. Accordingly, public food stock is expected to be under consistent downward pressure. There will be a need for on a continuous basis procurement to maintain the required amount of food stock. Public procurement from the domestic market has been consistently lower than the target over the past several months, which led the government to go for a considerable amount of import (Table 6). During this period, import of rice by the private sector has continued to be carried out at a moderate level. Together, public and private sectors will need to ensure that adequate rice is available in the market and the stock. A good harvest may not be enough to ensure this.

Domestic demand for rice is difficult to meet through domestic production given the rise in demand for rice by low-income consumers as also other consumption needs outside the households. Besides, government's public foodgrain distribution system (PFDS) requires adequate rice stock, along with adequate domestic availability. A revised estimate of domestic demand for rice under the changing consumption structure is needed. There is a need to put emphasis on the timely import of rice on the part of public and private sectors in short and medium terms. Emphasis should also be put on raising the productivity of rice production and lowering of the production cost through mechanisation and technological upgradation of agricultural products and agricultural land.

3.2.2 Change in prices in the supply chain of imported non-rice products: Importers, wholesalers and retailers levels

Changes in Prices of Non-Rice Food Products: Imported commodities such as sugar, soybean, palm, lentils and wheat have experienced different levels of rise in prices at different stages—import, wholesale and retail stages (Table 7). During FY2020–21, a higher level of rise in import price was observed for soybean oil, palm and lentils, while a lower level of rise in import price was observed for sugar and wheat. The price response in the wholesale and retail markets was largely in alignment

Table 7: Prices of Imported Commodities at Different Stages (Tk/Kg)

Year	Commodity	Changes in prices (y/y)				Price (Tk/Kg)			
		International market	Local importer's end	Wholesaler's end	Retailer's end	International market	Local importer's end	Wholesaler's end	Retailer's end
2020-21	Sugar	32.5	47	58	63	43.7	4.2	3.5	0.0
	Soybean Oil**	84.0	90	99	113	31.0	24.5	21.9	27.0
	Palm**	73.8	82	88	90	32.4	34.8	31.8	11.1
	Lentils		50	64	73		21.3	1.4	7.4
	Wheat**	18.7	22	26	38	9.9	6.3	-0.6	35.7
2019-20	Sugar	22.6	46	56	63	-5.2	15.1	17.2	23.5
	Soybean Oil	64.2	73	82	89	2.9	7.3	3.1	4.7
	Palm	55.7	61	67	81	20.3	10.3	7.8	17.4
	Lentils		41	63	68		17.3	29.7	17.2
	Wheat	17.0	21	26	28	-8.8	-5.5	4.3	-9.7

Source: Retail Price collected from Department of Agricultural Marketing (DAM) website (DAM, n.d.), Wholesale price collected from BBS (2020).

Note: **Global import price of Soyabean, palm oil, and wheat for FY2020–21 has been collected from Federal Reserve Economic Data (FRED) (n.d.) where International Monetary Fund (IMF) was mentioned as source.

with the import prices of concerned commodities. The retail markets for wheat and palm, on the other hand, behaved differently. This market feature was observed both in 2020 and 2021. During the same period, the global market price for similar products experienced contrasting nature of change. During FY2020–21, the most significant changes in international price were observed in case of sugar, soybean oil, and palm.

A key point to note is that changes in the international market prices for selected products do not necessarily influence the local market prices to the same tune for all such imported products. Likewise-, from the pairwise correlation test[1], it has been found that the local importer-, wholesaler-, and retailer-level prices of imported goods like soybean and palm oil are highly positively correlated with the international market price. Meanwhile, sugar prices at the domestic market are less correlated (especially the retailer price) to the international market price except for a very high positive correlation between wholesalers and local importers. On the other hand, in terms of wheat, the pairwise correlations between wholesalers and the international market and between wholesalers and local importers prices are both found to be negatively correlated.

Market price along the local supply chain tends to be influenced by the role played by the key agents, including importers, wholesalers and retailers. The nature of market-based performance can be examined by analysing the distribution of margin in the supply chain. Hence, it is important to examine how much margin is received by different market agents at different stages of the value chain. This has been done in the case of selected imported products. According to the theory of marketing, market agents transacting higher volume are likely to receive lower margins per unit of sales. However, the following table highly contradicts the general theory of marketing since it is found that the margin

[1]The pairwise positive correlation indicates that the prices of the two products go in tandem (i.e., if one increases then another also moves upward) whereas a negative correlation means the prices of the two products move in the opposite direction.

Table 8: Margin of Imported Commodities at Different Stages (Tk/Kg)

Year	Commodity	Importer's Margin	Wholesaler's Margin	Retailer's Margin
2020-21	Sugar	14.5	10.7	4.8
	Soybean Oil	6.0	9.0	13.6
	Palm	8.2	5.7	2.2
	Lentils		14.1	8.8
	Wheat	3.3	4.1	11.9
2019-20	Sugar	23.4	10.7	6.8
	Soybean Oil	8.0	9.0	7.4
	Palm	5.3	5.7	14.4
	Lentils		22.0	4.7
	Wheat	4.0	5.5	1.8
2018-19	Sugar	16.0	8.4	3.0
	Soybean Oil	5.0	11.4	5.9
	Palm	9.0	6.5	7.2
	Lentils		13.6	9.2
	Wheat	3.0	3.3	5.8

Source: Author's analysis based on Table 7.

taken by the wholesalers is higher than that of the retailers. Table 8 presents the margin in value chains of the selected products. The margins received by importers are considerably high compared to wholesalers and retailers, which is usually not the case in a competitive market structure. It appears that the importers have been taking advantage of their 'dominant market player' role in the supply chain, thereby influencing the price and reaping higher margins. Consequently, importers' price does not necessarily correlate with the international market price.

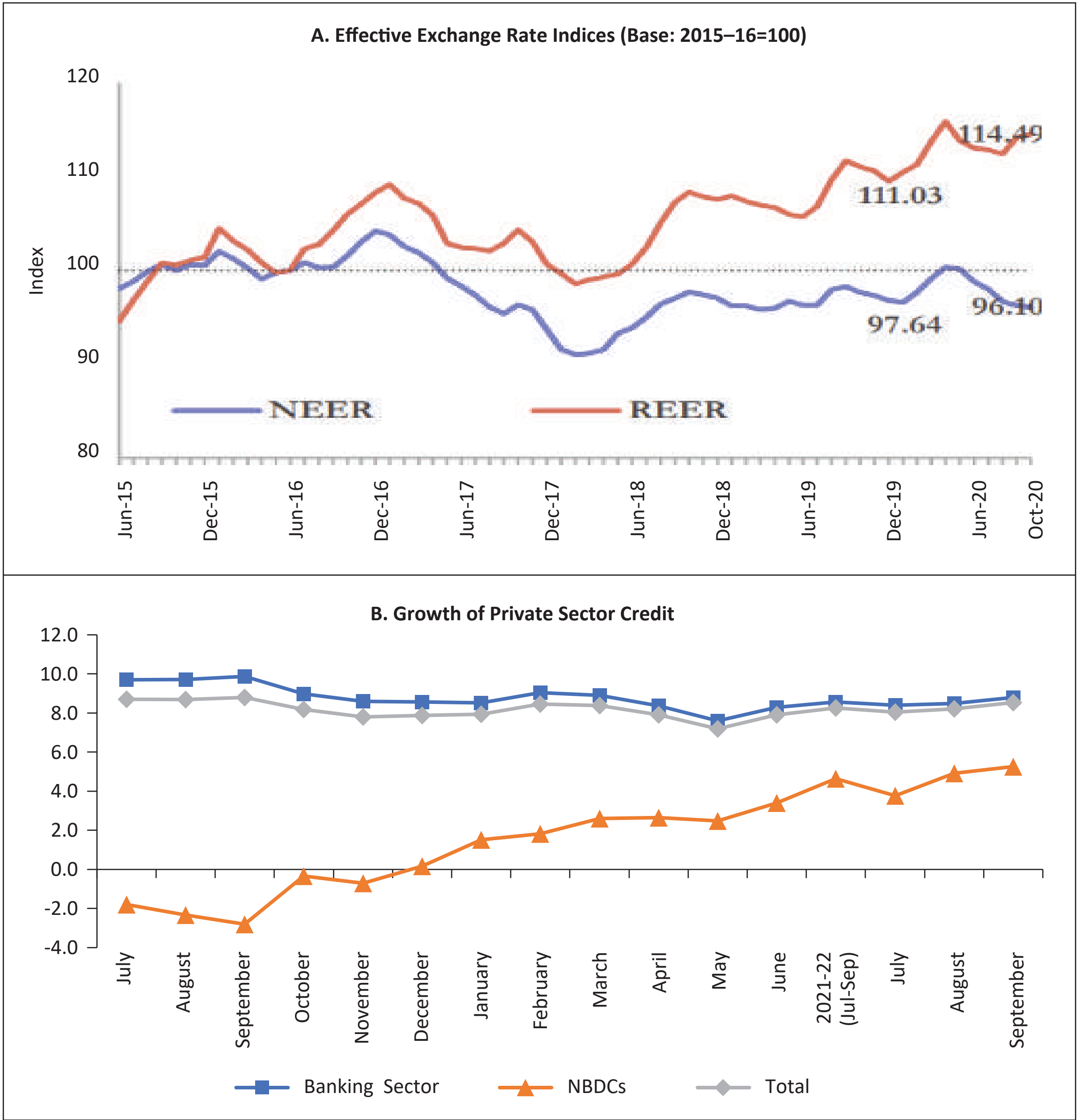
3.3. External Factors Likely to Impact Price Changes in the Commodity Market

During the period under discussion, a number of external factors are likely to have contributed to the inflation in domestic market. These include: (a) rise in real effective exchange rate (REER) of BDT against USD; (b) money-led inflation due to diversion of subsidised credit in non-productive activities; and (c) upward adjustment of petroleum price in the domestic market.

3.3.1 Rise in REER of BDT against USD

While REER has posted a general rise over the recent past, indicating that BDT is overvalued, and exports were becoming less competitive. The central bank has attempted to ease the pressure by selling dollars in the market. This has resulted in stalling the further depreciation of taka, but the fact is that taka has already depreciated by about 0.85 points after remaining stable for long period of time (Figure 5). At a time, high global commodity prices have resulted in a further rise in prices of imported commodities.

Figure 5: Implication of REER and Credit Growth in the Private Sector



Source: Bangladesh Bank, 2021b.

3.3.2 Private sector credit growth

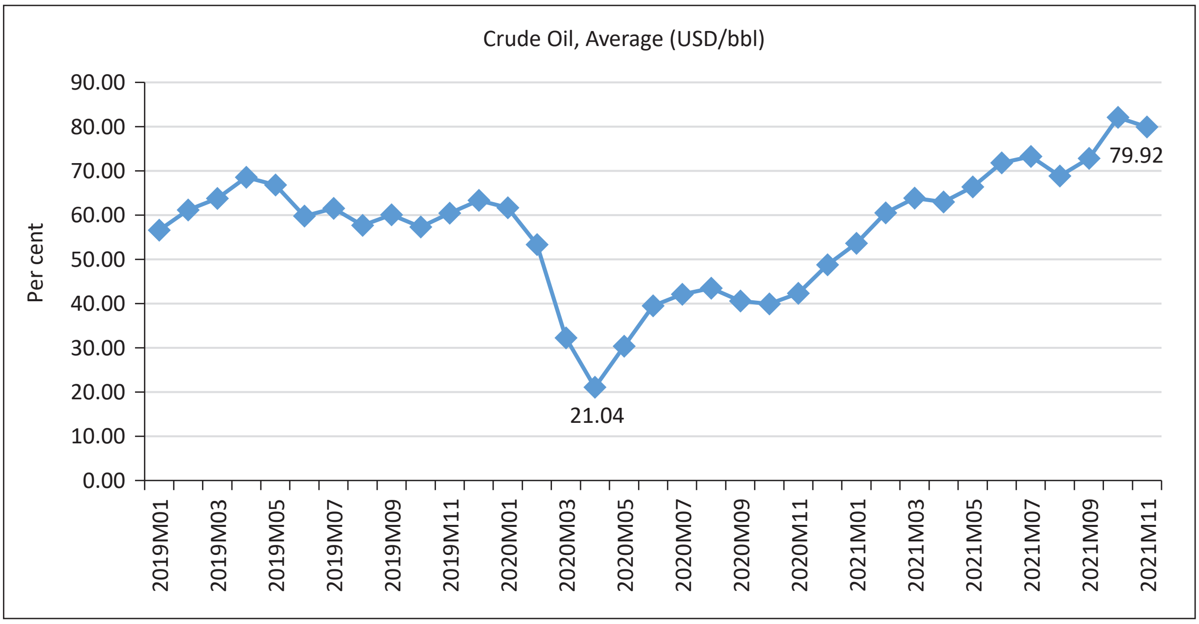
It is apprehended that a higher level of broad money supply, particularly through the disbursement of private sector credit during the pandemic, was likely to contribute to inflation to some extent. Private sector credit growth has maintained a consistent trend during 2021. Around 8 to 9 per cent level of growth has been maintained during 2021, which is lower with the MPS targets for private sector credit growth (14.8 per cent) during the last and current fiscal years. However, the credit disbursed by the specialised banks such as Karma Sangsthan Bank and Prabashi Kalyan Bank has increased sharply from a mere 1.5 per cent in January 2021 to 5.3 per cent in September 2021. In fact, the credit growth was negative over a large part of 2020. It is reported by various media that banks invested in the stock market during the uncertain period of the capital market in 2020 and 2021.

The banking surplus liquidity stood at Tk 204,070 crore as of January 2021, a year-on-year surge of 97 per cent. The amount stood at Tk 103,358 crore in the same month a year ago. The contribution of investment income rose to a higher extent in 2020 because of banks' increased investment in treasury bills, bonds, and the stock market. Banks' investment in bonds and other securities rose 8.84 per cent to Tk 314,747 crore in the second quarter of the last year. Hence, the bubble created in the capital market would partly contribute to such investments and other bank borrowers that may have contributed to inflation to some extents.

3.3.3 Upward adjustment of petroleum price

The Ministry of Power, Energy and Mineral Resources (MoPEMR) has recently made an upward adjustment of petroleum products, particularly diesel and kerosine, taking into account the loss incurred by the Bangladesh Petroleum Corporation (BPC) arising from higher due to rise in import price—from as low as USD 21 per barrel in May 2020 to USD 79.9 per barrel in November 2021 (Figure 6). The MoPEMR has increased the diesel price by 23 per cent from Tk 65 to Tk 80. Given the widespread use of petroleum in agricultural production, transportation and milling of rice, the production and marketing costs of rice are likely to be pushed upward as a consequence. According to a newspaper report, 69 per cent of boro cultivation is based on diesel-based shallow tubewell (STW) irrigation. The rise in diesel price could raise the cost of boro production by around 25 per cent.[2] A similar impact may be observed in the cultivation of other crops and vegetables, albeit perhaps at a lower level. Hence, a cost-driven rise in harvest price of upcoming crops, including Boro rice, would further create inflationary pressure in the coming months.

Figure 6: Crude Oil Price Hike in the International Market



Source: World Bank (n.d.).

[2]The Bonik Barta report, published on 27 November 2021.

3.4 Conclusion

The high food inflation in the domestic market during the pandemic period, particularly during the later phase of the pandemic (in 2021), is likely to be influenced by structural weaknesses in the rice value chain. The local market is influenced by the global market's price trend to a certain degree, primarily for the imported commodities. However, this cannot fully explain the internal market dynamics and its implications for the prices of essential commodities. It is suggested that the government should take necessary steps regarding following issues:

a) A proper re-estimation of rice demand is urgently required given the increasing demand for rice. The existing base of rice demand could not provide a proper market signal and has given rise to a number of challenges in ensuring rice price stability in the market.
b) The role of the dominant market players in rice and non-rice imported products, particularly rice millers and importers, needs to be revisited. It appears that these players have been influencing the market and taking undue advantage of the market through higher margin.
c) The role of the Competition Commission needs to be strengthened, particularly with respect to the market for essential consumer goods. The Commission should develop a database, regularly monitor the dominant market players' operations, investigate the exercise of market controlling and manipulating behaviour (if any), and take proper measures in this connection.
d) Given the rise in poverty and changing consumption patterns, particularly of urban employed people and their families, timely import of rice should be given importance in the short- and medium-term policies.
e) Targeted public investment is needed to enhance productivity particularly in rice production, and to lower the production costs through mechanisation and other means.
f) Lower adjustment of diesel price will be required to reduce tillage, irrigation and transportation costs which will help reduce the production cost, particularly for boro production and other diesel-used agro-products.

4. ANALYSIS OF EXTERNAL SECTOR PERFORMANCE

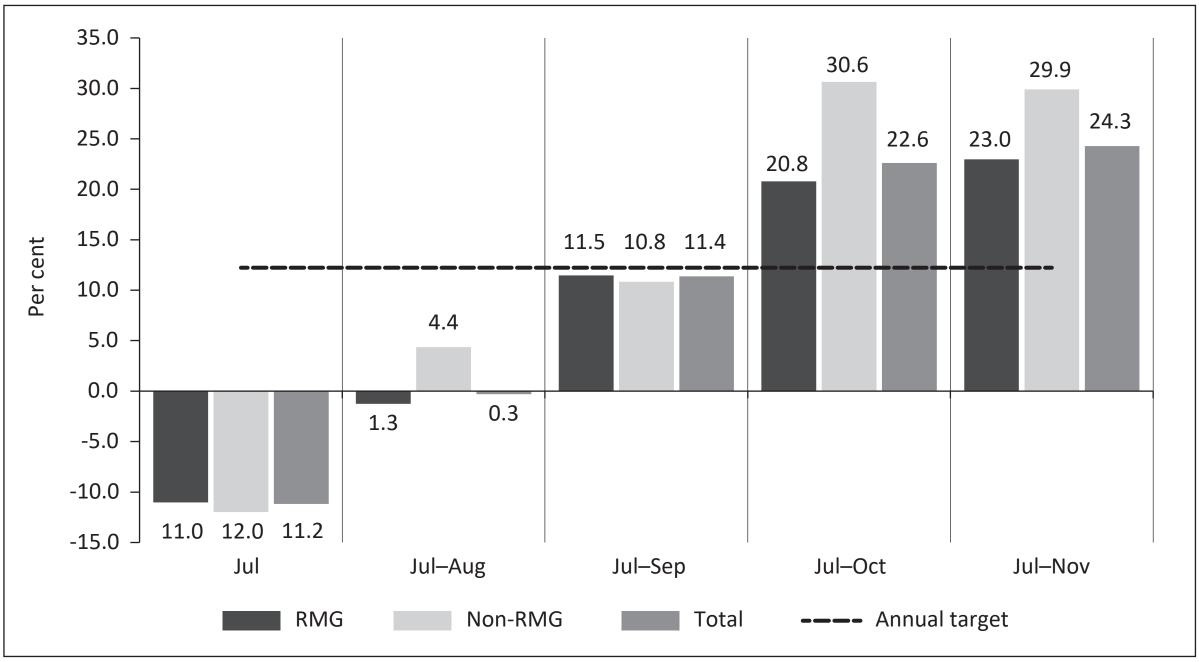
As the year 2021 draws to a close, two distinctive trends can be discerned as far as the external sector performance of Bangladesh is concerned. On the one hand, and on a positive note, both export earnings and import payments have posted robust growth rates in the first five months of the current FY2021–22, as against the corresponding period of FY2020–21. Also, migrant workers are once again joining the overseas jobs market in large numbers, following the almost near-zero movement at the height of the pandemic. Through multiplier effects, these are expected to have positive impacts on production investment, export, labour market and earnings opportunities of people. On the other hand, on a challenging note, as of October 2021, the deficit in the country's trade balance has registered a significant rise, and the current account balance has entered into negative terrain from the previous surplus of the corresponding period of FY2020–21. With import payments rising at 50 per cent (during the first four months of FY2021–22 in the backdrop of relatively lower levels of export growth and negative growth of remittance flows), the demand for dollars has been on the rise with a consequent appreciation of the USD. To stall further depreciation of the BDT against the dollar, in a reversal of its earlier stance, Bangladesh Bank has to sell dollars in the market. The likelihood of imported inflation on account of the depreciating taka has been accentuated by the rise in commodity prices in the global market. As a result, inflation management and exchange rate management have emerged as new challenges which will define the efficacy of macroeconomic management as the economy gets ready for the new year 2022.

Following sub-sections elaborate on some of the key external sector trends, disquieting developments and emerging challenges, as is evidenced from the performance of the sector during the first half of FY2021–22.

4.1 Growth of Export Earnings Is Well above the Strategic Annual Target but Conceals Disquieting Trends

On an encouraging note, export earnings have registered an impressive growth during the first five months (July–November 2021) of FY2021–22, with a growth of 24.3 per cent compared to the corresponding period of FY2020–21 (export growth in FY2020–21 over the matched period of FY2019–20 was only 0.9 per cent). While the base effect of low growth in FY2020 is an issue, the export performance is no doubt encouraging. As can be seen from Figure 7, exports have picked up

Figure 7: Targeted and Achieved Growth of Export Earnings



Source: Authors' Calculation from EPB Data.

particularly during the September–November 2021 period. Growth of export earnings in the first five months had indeed surpassed the strategic annual target of 12.2 per cent set out for FY2021–22. As would be expected, for the most part, this growth has been anchored in the high growth of export earnings from the readymade garments (RMG), at 23 per cent, compared to the July–November period of FY2020–21. To be noted, the growth of non-RMG export earnings was also an impressive 30 per cent during this period.

In line with the trends, more than three-fourths of the incremental export earnings was generated on account of the RMG sector, signalling the continuation of the predominance of the item in the country's export basket and the rising export concentration in recent years (Table 9). Share of RMG in total exports stood at 80.1 per cent during the July-November period of FY2021–22 (the corresponding share in FY2020–21 was 81.2 per cent).

Table 9: Incremental Share of Exports during July-November FY2021–22

(in per cent)

RMG			Non-RMG							All products
Knit	**Woven**	**Total**	**Raw jute**	**Leather**	Home textiles	Frozen & live fish	Pharmaceuticals	Other non-RMG	Total	
47.8	28.8	76.6	0.6	0.3	2.9	1.4	0.5	17.6	23.4	100.0

Source: Authors' calculation from EPB data.

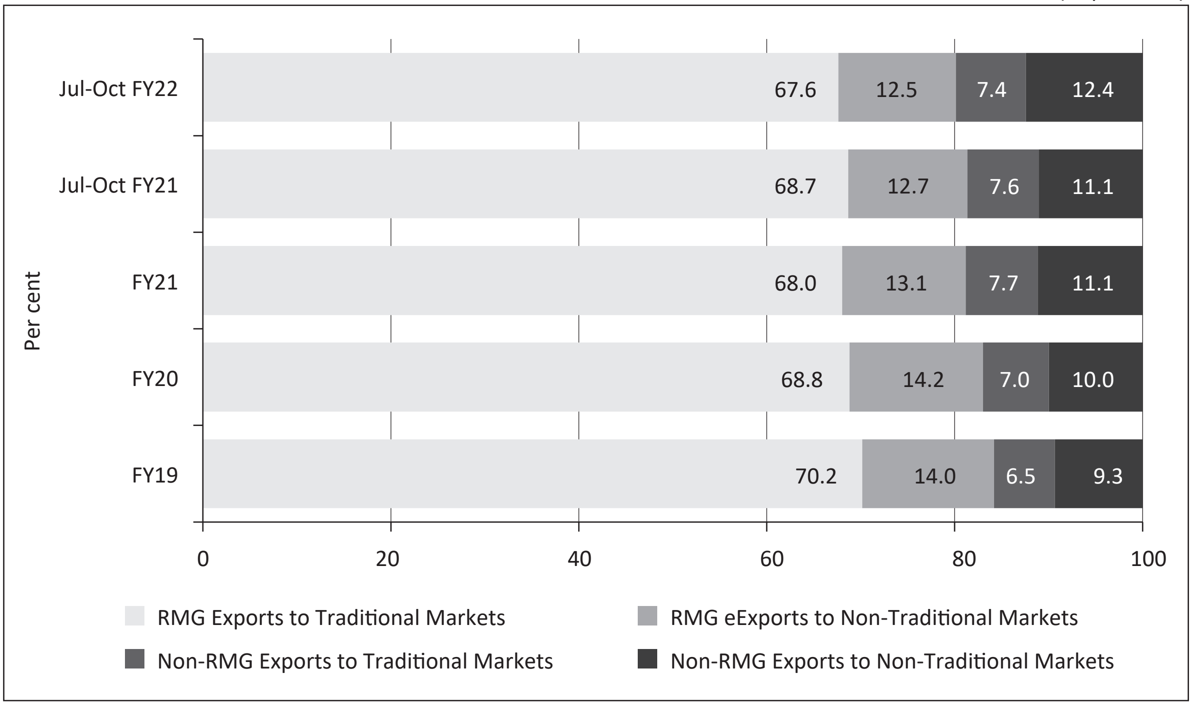
Figure 8 shows market and product concentration, indicating the persisting trend of market concentration in traditional markets including the European Union (EU), United States of America (USA), and Canada. Despite repeated efforts towards export and market diversification, export concentration, on both counts, has remained the dominant feature in Bangladesh's export structure. However, non-RMG market share in non-traditional markets has been showing some positive trends, with the share in the total export increasing by about a third (Figure 8).

It is to be noted that the growth rate of knit-RMG (with its relatively higher domestic value addition) has been higher (25.9 per cent) in the first five months of FY2021–22 compared to the woven-RMG (19.3 per cent). This would mean higher growth of net export earnings from RMG as against the growth of gross RMG exports on account of higher domestic value retention.

However, robust RMG growth rates conceal a disquieting message. One will need to take cognisance of the fact that the growth of RMG in terms of export earnings is the combined result of price effect

Figure 8: Market and Product Composition of Bangladesh Exports

(in per cent)



Source: Authors' Calculation from EPB Data.

and volume effect. In this connection, it is pertinent to recall that the price of cotton in the global market has increased considerably in recent times. This was, on average, USD 2.3 (per kg) in July–October 2021 compared to USD 1.6 (per kg), on average, over the corresponding period of 2020. This sharp rise of 47.9 per cent in cotton prices had a knock-on effect on prices of both yarn and fabrics, as would be expected.

Analysis carried out by the authors indicates that, in the US market, the growth in export earnings, by 23.8 per cent (during July–October 2021 period), was mostly driven by volume, which rose by 19.8 per cent; in contrast, the rise in price per dozen was a mere 3.3 per cent (Table 10). In case of woven-RMG, the predominant export to the US market, average prices rose by only 1.9 per cent. The rise in export value of 13.2 per cent was mostly driven by growth in volume of 11.1 per cent. In the case of knit-RMG, the situation was somewhat different—export earnings rose by 44.6 per cent, with average prices (per dozen) increasing by 14.3 per cent, while the export volume rose by 26.5 per cent (Table 10).

Table 10: Bangladesh's RMG Exports to US: Value, Price and Volume Effects

HS Code	2020 (Jul-Oct)			2021 (Jul-Oct)			Percentage increase		
	Volume (in million dozen)	Value (in USD million)	Per dozen price (in USD)	Volume (in million dozen)	Value (in USD million)	Per dozen price (in USD)	Value	Volume	Per dozen price
61 (Knit)	26.61	680.12	25.6	33.67	983.67	29.20	44.6%	26.5%	14.3%
62 (Woven)	20.35	1337.86	65.7	22.60	1513.81	67.00	13.2%	11.1%	1.9%
Overall	46.96	2017.98	42.97	56.27	2497.48	44.38	23.8%	19.8%	3.3%

Source: Authors' calculation based on United States International Trade Commission (USITC) data.

This scenario as regards the drivers of the rise in export earnings is also corroborated in case of the EU market, with average growth of export earnings mostly accounted for by the rise in volume rather than that of price (Table 11). Export earnings rose by 8.9 per cent in the backdrop of the rise in volume of 7.9 per cent as against the rise in price of an insignificant 0.9 per cent (per kg).

Table 11: Bangladesh's RMG Exports to the EU: Value, Price and Volume Effects

HS Code	2020 (Jul-Oct)			2021 (Jul-Oct)			Percentage Change		
	Volume (in million Kg)	Value (in million euros)	Per Kg price (in euros)	Volume (in million Kg)	Value (in million euros)	Per Kg price (in euros)	Value	Volume	Per Kg price
61 (Knit)	237.9	2,920.7	12.3	262.3	3,317.5	12.6	13.6%	10.3%	3.0%
62 (Woven)	113.5	1,668.6	14.7	116.9	1,681.4	14.4	0.8%	3.0%	(-) 2.2%
Overall	351.4	4,589.3	13.1	379.2	4,998.9	13.2	8.9%	7.9%	0.9%

Source: Authors' calculation based on Eurostat data.

A comparison of the estimated data presented in Tables 10 and 11 shows that the trend of volume-driven growth is more prominent for woven-RMG compared to what was the case for knit-RMG. It will be appropriate to draw the conclusion that, where domestic value addition is higher (as in case of the knit-RMG), the competitive strength and bargaining power of exporters are, to that extent, stronger.

To note, these two markets (the USA and the EU) account for 70.3 per cent of total RMG exports of Bangladesh.

The above results indicate that brands and buyers had only marginally absorbed the rise in the costs of apparels production (on account of rise in price of cotton, the key input, as also yarn and fabrics). The burden of the increase in production costs had to be borne primarily, and almost exclusively, by Bangladesh's RMG entrepreneurs. To what extent this reflects the weak bargaining capacity of Bangladesh's exporters of apparels and/or to what extent this originated from prices having been negotiated earlier with the brands and buyers (prior to the hike in prices of key inputs) needs to be investigated further. However, the fact remains that export growth was primarily volume-driven and this had a number of implications. It had important consequences for the bottom line of the entrepreneurs and their (falling) profit margins. Profit is being made primarily on scale and volume, and not in prices. This is also likely having implications for workers who are possibly having to meet higher production targets. The rise in productivity is not being realised through higher prices, although it is helping Bangladesh's apparels to remain competitive. This also has important implications for wages.

The analysis once again reveals the predominant power of brands and buyers, in terms of price setting, in the buyer-driven value chain in the global market for apparels. In view of this, it is reckoned that Bangladesh's entrepreneurs need to strategically plan to get into the forward segment of the apparels value chain, through development of their own brands and investing in retail business in major export markets. This will help get better prices, enhance competitive strength, increase profit margins, enhance capacity to pay better wages and also raise domestic value retention component in the gross earnings from export of apparels.

4.2 Growth of Import Payments Has Been Phenomenal

The growth of import payments has exhibited a phenomenal jump of 51.4 per cent when performances of July–October period of FY2021–22 is compared with the corresponding period of FY2020–21. Further product level analysis reveals that import payments for foodgrains increased by 57.7 per cent, owing primarily to the rise in import of rice (an increase of 46.5 times!). Import payments of consumer goods increased by 54.2 per cent over this period, in the backdrop of the rise of import payments for edible oil (83 per cent growth).

Intermediate goods imports also experienced an accelerated growth rate. During July–October FY2021–22, growth of import payments for these times was 58.2 per cent over the corresponding period of FY2020–21 when the comparable growth was a negative (-) 12.0 per cent. Import bills for crude petroleum and petroleum-based products (POL) increased by 65.8 and 16.0 per cent, respectively. Furthermore, significant growth was observed in cases of pharmaceutical products (202 per cent), fertilisers (267.2 per cent), raw cotton (60 per cent), yarn (149.4 per cent), textile and articles thereof (50.3 per cent) and iron, steel and other base metals (74.1 per cent). To note, more than 30 per cent of the incremental import payments was on account of RMG related goods.

Growth of import payments of capital goods was 39.3 per cent in July–October FY2021–22; in FY2020–21 the growth was negative (-22.3 per cent) compared to the corresponding period of FY2019–20. Import payments for capital machineries increased by 38.6 per cent during the period under consideration, in contrast to the low (-) 30.7 per cent growth in FY2020–21 (over the corresponding period of FY2019–20).

Surge in imports of production related items, raw materials, intermediates and capital goods augurs well for the economy and is an indicator of some rebound of COVID-induced subdued economic activities in the preceding year. However, the effect of low base of the previous year should be kept in mind in this connection.

It also needs to be noted that a large part of the significant rise in import payments is attributable to the rise in global commodity prices. Both supply-side factors (e.g., OPEC (The Organization of the Petroleum Exporting Countries) policy-induced oil price rise) and demand-side factors (in the backdrop of the resurgence of economic activities in developed countries), as also spike in shipping and container costs (of 300–450 per cent) have led to the rise in global commodity prices. As the data in Table 12 shows, except for rice (negative growth), most other commodities saw a significant rise in prices. This has, in turn, resulted in an increase in prices of many other commodities, which hinge on prices of fuels in the international markets. All these had a cumulative effect in the form of a rise in import payments and, consequently, high import growth.

Table 12: Change in Global Commodity Prices during July–October 2021

Commodities	Unit	Average price		Change (in per cent)
		Jul–Oct 2020	Jul–Oct 2021	
Crude oil, Brent	USD/barrel	42.2	75.7	79.5
Natural gas	Index (2010=100)	45.4	160.9	254.4
Palm oil	USD/mt	767.5	1174.1	53.0
Soybean oil	USD/mt	877.2	1446.1	64.9
Rice, Thai 5 per cent	USD/mt	490.8	404.5	-17.6
Sugar	USD/kg	0.3	0.4	46.5
Cotton (index)	USD/kg	1.6	2.3	47.9
DAP	USD/mt	340.6	633.2	85.9
TSP	USD/mt	277.7	575.4	107.2
Urea	USD/mt	239.9	500.5	108.7
Aluminium	USD/mt	1732.7	2717.4	56.8
Iron ore	USD/dmtu	118.3	155.9	31.8

Source: Authors' calculation from World Bank (n.d.).

4.3 While Outward Migration Resumes, Remittance Inflow Posts Negative Growth

During the first five months of FY2021–22, a total of 242,086 Bangladeshi citizens had joined overseas job markets. This is indeed a welcome recovery from the dismal figure of the corresponding period of FY2020–21 (8,053). The number, while large, however, is still somewhat below the corresponding number of the pre-pandemic FY2019–20. The rise in outward migration can be attributed to the reopening of borders and the resumption of economic activities in major destination countries. To note, the majority of workers, almost three-fourths of the total (about 74.6 per cent), went to Saudi Arabia, which accounted for 24 per cent of total remittance flow in the first five months of FY2021–22.

During the ongoing pandemic, period remittance inflow to Bangladesh showed an interesting trend. Bangladesh received the highest ever inflow of remittance in FY2020–21 (USD 24.8 billion) at the height of the pandemic (a 35 per cent rise compared to FY2019–20). This may be attributable to the shift of remittances from informal to formal channels, 2 per cent cash incentive on remitted money, sending additional funds to support families afflicted by COVID as also by the floods in July 2020, the so-called Hajj effect, and accumulated savings having sent back home by returnee migrants in the face of uncertainties (World Bank, 2021). However, the scenario has undergone significant changes during the first five months of FY2021–22 when remittance inflow suffered a (-) 21.0 per cent decline over the comparable period of FY2020–21. This amount is, however, 11.6 per cent higher than that of the corresponding period of FY2019–20 (i.e., pre-pandemic period). The recent fall in remittance flows could be attributed to several reasons, including reverting back of part of remittance to informal channel with the resumption of trade, travel and tourism, and the rising gap between the official exchange rate (plus the 2 per cent incentive) and the curb market rate (resulting in a spread of 3-4 taka).

4.4 BOP Slides into an Uncomfortable Position

In spite of the robust export growth, trade deficit posted a significant rise and rose from USD (-) 3.49 billion to USD (-) 9.09 billion in the first four months, in the backdrop of higher import growth. In view of negative growth of remittances, the current account balance also weakened further and got into the negative terrain, to USD (-) 4.77 billion, over the first four months of the ongoing fiscal year compared to the USD (+) 3.63 billion in FY2020–21. The substantial increase in the financial account, from USD 0.65 billion to USD 3.78 billion, provided some cushion and comfort thanks to the higher net aid flows and medium to long term loans. For July–October FY2021–22, the overall balance stood at a negative USD (-) 1.3 billion, whereas the corresponding figure for FY2020–21 was USD (+) 4.1 billion.

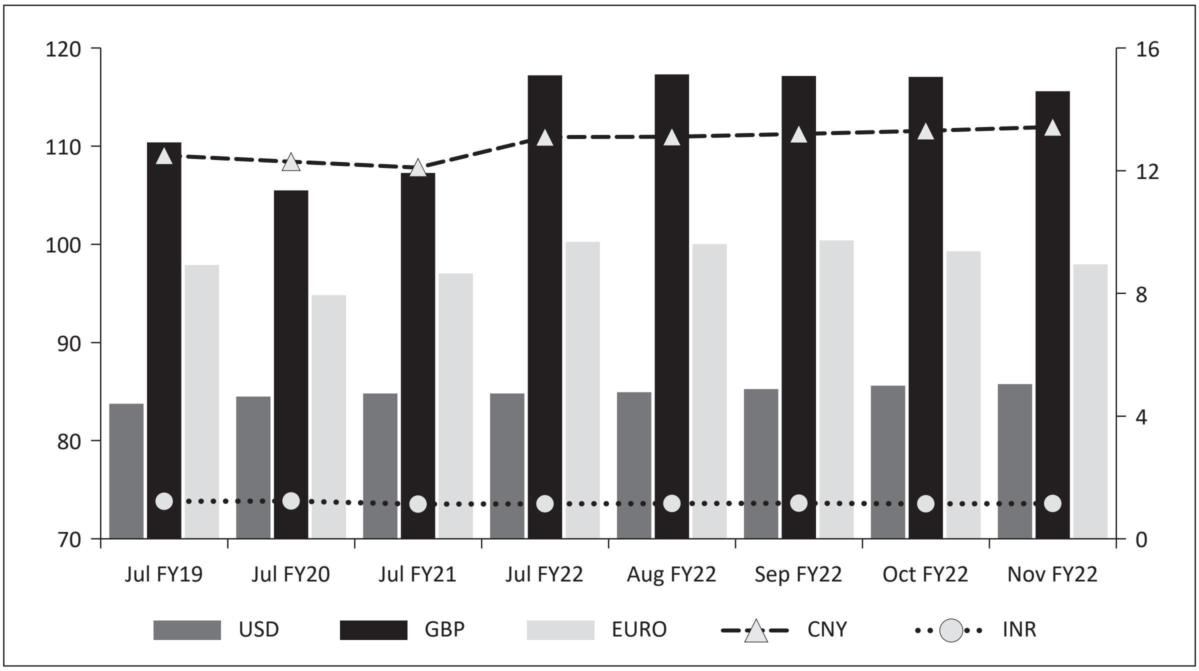
The fall in overall balance is also reflected in the foreign exchange reserve scenario. At the end of FY2020–21, Bangladesh had a reserve worth about USD 46.4 billion, which came down to USD 44.9 billion in November 2021. In this connection, it needs to be recalled that the IMF has raised question as regards the accuracy of accounting practices associated with the estimation of foreign exchange reserves. Indeed, several media outlets, citing a draft IMF report, mentioned that the foreign exchange reserve at the end of FY2020–21 was overstated to the tune of about USD 7.2 billion (15 per cent of the total). The major part—more than four-fifths of the overstated reserves—was on account of foreign currency loans to local banks, other parts being in irredeemable claims in non-convertible foreign currencies. Bangladesh Bank may like to revisit the reserves estimation methodology and correct the anomalies, if any, to arrive at a reliable estimate of unencumbered foreign reserves.

4.5 Exchange Rate Movement Could Soon Emerge as a Source of Stress

In the backdrop of rising demand on account of import, resumption of travel abroad (for health, studies purposes) and tourism, as also falling remittance flows, the exchange rate came under some pressure in the early months of FY2021–22. During July-November of FY2021–22, exchange rate of Bangladeshi Taka (BDT) against USD experienced a depreciating trend (Figure 9). Interestingly, over the same time frame, the BDT has shown a generally appreciating trend against the Euro and the UK Pound Sterling (GBP). While the exchange rate of BDT against the Indian Rupee (INR) has been volatile, it has been depreciating against the Chinese Yuan (CNY).

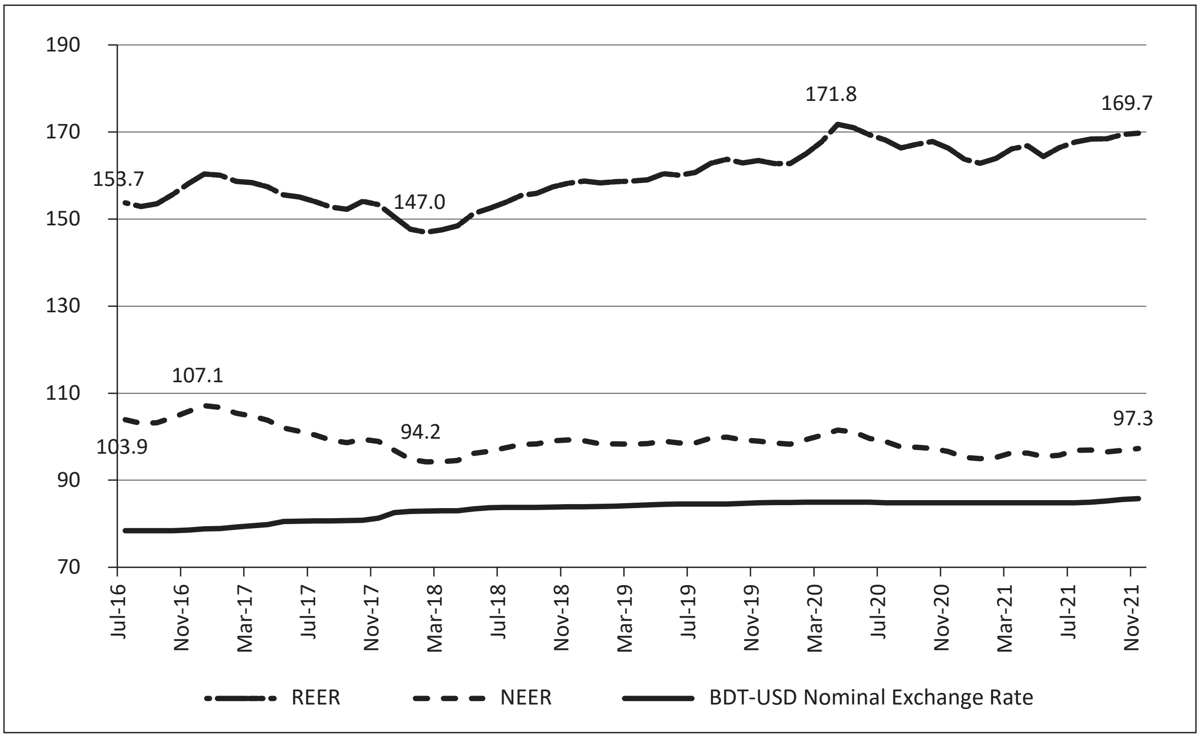
As is known, movements in the REER is generally taken into consideration while formulating exchange rate policies. According to CPD (2016), fluctuations in REER could explain a significant part of the movement of the balance of trade in Bangladesh. As Figure 10 shows, the REER has been on a secular

Figure 9: Exchange Rate of BDT against Selected Currencies



Source: Compiled from Bangladesh Bank data.
Note: Indian Rupee and Chinese Yuan are Shown in the Secondary Axis.

Figure 10: REER, NEER and USD-BDT Exchange Rate Trends



Source: For BDT-USD Nominal Exchange Rate, Data from Bangladesh Bank was Used. For REER and NEER, Data from Darvas (2012), Updated on 5 December 2021, was used.

rise between 2016 and 2021. However, the nominal effective exchange rate (NEER) has exhibited the opposite trend with subtle increases in the most recent months. The rise in the REER would imply that the exports of the country has become more expensive than its competitors (while imports have become cheaper). As the figures indicate, the REER of BDT appears to be overvalued and would have experienced some depreciation had Bangladesh pursued a pure floating exchange rate regime instead of the current practice of managed float. As is the case, in recent times, the central bank has been actively intervening in the foreign exchange market by selling USD to limit any significant slide of the BDT. As can be seen from Figure 10, the BDT has experienced some depreciation during the first five months of FY2021–22 after a prolonged period of stability. If further adjustments are made taking cognisance of the REER movement, it should depreciate further in the foreseeable future. However, it is difficult to predict to what extent this will happen, and that will also hinge on the central bank policy concerning direction and depth of market intervention.

Currently, Bangladesh Bank has been selling USD to ease the pressure and stall further depreciation of the BDT (the currency depreciated by about Tk 0.85 against the USD over the July–October 2021 period). About USD 2.0 billion has been sold by the Bangladesh Bank over the last few months. This is in contrast to FY2020–21 when the central bank was mopping up USD, by buying a record USD 8.0 billion to prevent the BDT from appreciating further.

The strategy being pursued by Bangladesh Bank with a view to arresting the depreciation of the BDT, by making more dollars available in the market, is a logical step in the present context. While gradual depreciation of BDT, in view of aggressive depreciation policy pursued by its competitors, is a desirable medium-term strategy, given the current context of high global commodity prices and the likelihood of imported inflation, the central bank will need to exercise caution as to what extent this should be allowed. The forex reserves are (still) at a comfortable level (about six months' equivalent of imports even if the current import growth persists). Bangladesh Bank, thus, has some leveraging power to exercise in the form of injecting USD in the economy as it is doing now. One word of caution though: by selling USD the Central Bank is also mopping up money from the market. The credit uptake growth is still below the monetary target of 14.8 per cent (at present private sector credit growth is less than 10 per cent), and the central bank should not be seen crowding out the private sector from the credit market.

4.6 Concluding Observations

As the year 2021 comes to an end, at the halfway mark of FY2021–22, there are clear signs of recovery of the external sector as depicted in robust export and import growth rates and in the rising numbers of workers going abroad. Remittance earnings, which, while depicting negative growth in comparison to the very high benchmark of the preceding year, are higher than the corresponding period of the pre-pandemic year. At the same time, there are a number of disquieting signals, as manifested in the volume-driven nature of export growth, the weakening of the BOP position and further weakening of the taka at a time of rising commodity prices. From a macroeconomic management perspective, the challenge will be for the central bank to be able to keep the rate of inflation at a manageable level. Energetic steps to reduce the cost of doing business and proper incentivisation of exports will be needed if the policy primarily focuses on keeping the exchange rate stable at around the current level. The cash incentives against remittances should be continued, and investment in wage earners' bonds should be encouraged to discourage the transfer of money through informal channels in the face of the rising gap between the official exchange rate and curb market rate.

5. REDESIGNING SUPPORT MEASURES

As part of its overarching countercyclical policy to deal with the economic slowdown, the government has pushed out multiple liquidity assistance and fiscal stimulus measures in its immediate reaction to the COVID-19 pandemic. Banks are expected to play a key role in the recovery of pandemic-affected economy since 86.72 per cent of the government's COVID-19 response funding is in the form of liquidity support. Even before the start of the pandemic, the banking industry was recognised to be particularly vulnerable. As a result, when the banking sector was charged with providing the greatest ever liquidity assistance and fiscal stimulus packages, it was unclear if the industry would be able to fulfil its obligations. It was emphasised that the form and architecture of Bangladesh's COVID-19 relief funds gave plenty of space for financial malfeasance.

CPD has earlier stated that the banking sector's long-standing issues might become much more acute as a result of the pandemic's extra hurdles. Despite releasing over 100 circulars on liquidity support packages over the last year, the central bank has been unable to close regulatory loopholes. As a result, some of the government's liquidity assistance packages are now available to banks that are weak and mismanaged. Furthermore, loan defaulters were given access to these packages. Regrettably, publicly available data on the status of the liquidity packages' implementation from official sources has been difficult to come by, so it is unclear which banks have received the government's COVID-19 liquidity support packages, how much liquidity they have received, and how much money they have given out.

Since big companies have received the majority of COVID-19-related liquidity support, it is apprehended that crony capitalists may utilise their significant political clout to exploit banks to collect more than their fair share of funding. Considering that the central bank has not specified any clear, objective, or quantitative criteria for defining the word "affected," commercial banks must use their own judgment to determine whether prospective loan applicants have been "affected" by COVID-19. It's unclear how commercial banks determined which firms were "affected" by COVID-19 and on what basis they issued loans from the government's COVID-19 liquidity assistance programmes. As a result, there are reasons to be concerned about the banking sector's condition during the current pandemic.

On the other hand, 13.28 per cent of the government's COVID response funds that were in the form of fiscal stimulus could not find much success either. The geographical distribution of the government's COVID-19 relief was not appropriately linked with the country's socio-economic circumstances, as regions with greater poverty rates got less rice and cash help than districts with lower poverty rates (Khatun & Saadat, 2021). Members of the ruling party who were assigned with managing relief activities have been involved with stealing, storing and illegally selling rice, soybean oil, sugar and other essential food items that were meant for distribution among the poor through safety net programmes such as Vulnerable Group Feeding (VGF) or Open Market Sales (OMS).

Thus, it appears that the time has come to redesign the government's economic response to the COVID-19 pandemic. This report discusses some of the pressing issues concerning the government's COVID-19 response funding, based on the limited data which was available at the time of writing. A brief overview of the status of the government's COVID-19 support measures and relief funds has been provided. The approximate needs of the poor have been estimated using a number of different methods. Finally, proposals have been put forward for redesigning the government's economic response to the COVID-19 pandemic.

5.1 Status of COVID-19 Support Measures and Relief Funds

A summary of COVID-19 relief packages announced by the government are outlined in Table 13. Bangladesh's fiscal stimulus package is a meagre 13.28 per cent of its total COVID-19 relief funds or only 0.9301 per cent of its GDP (Table 13), 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. Although COVID-19 is fundamentally a public health crisis, less than 1 per cent of the total funds were allocated for purposes related to healthcare. Computable general equilibrium model simulations have estimated that 2.5 per cent of GDP would be needed to strengthen the public health infrastructure in Bangladesh so that it can deal with the COVID-19 crisis (UNESCAP, 2020). Most notably, there was no allocation for subsidising the treatment of patients at private hospitals or building new hospitals. No health funding was allocated for research, presumably on the premise that efforts towards making a vaccine for the disease are best left to more advanced countries. Finally, there was no dedicated liquidity support or fiscal stimulus package specifically for women and so the general liquidity support and fiscal stimulus packages have failed to address the special needs of women.

Although the liquidity support and fiscal stimulus packages for COVID-19 began to be announced from 25 March 2020 onwards, even after more than 20 months, the overall pace of fund disbursement appears to be slow. Even more disconcerting is the fact that the pace of disbursement of packages—in which the beneficiaries are likely to be crony capitalists and powerful elites—has been faster than the pace of disbursement of packages that are meant for the poor and vulnerable.

The potential of a K-shaped recovery is being explored widely throughout the world. This means that stimulus packages and liquidity assistance will aid large industries and government organisations in recovering more quickly, while small and medium enterprises (SMEs) would lag behind. Bangladesh's recovery from COVID-19 is expected to take a K-shaped pattern, as smaller businesses would continue to struggle while larger companies would bounce back rapidly. People from low-income families and the poor in general have been disproportionately affected by the pandemic and have not been able to obtain appropriate government assistance. Given the importance of SMEs as sources of employment, the sluggish recovery of this sector may result in an increase in inequality. This might jeopardise the recovery's long-term viability. As a result, authorities must map out the route to recovery in a way that does not overlook the economy's weaker but crucial sectors.

Ironically, second phase allocations have been provided to four existing liquidity support packages which have failed to completely disburse the funds that were allocated to them during the first phase. This tendency of starting afresh without completing the unfinished is prevalent in the government's national plans, such as Five Years Plans, as well as in various projects commissioned by the government every year. Now that this "start new first, finish old later" tendency has permeated into the government's COVID-19 funds, there is a possibility that the government's economic response to the pandemic will face an impasse in the coming days.

Table 13: COVID-19 Support Measures and Relief Funds Announced by the Government of Bangladesh

Name of the package	Allocation				Disbursement		
	In million USD	In crore BDT	As share of total COVID funding	As share of GDPii	Share of funds disbursed (in %)	Number of recipients	As of date
Liquidity support packages							
1. Special fund for salary support to export oriented manufacturing industry workers	582.75	5,000	2.61	0.1825	100	3,778,969 persons (Female-54%)	Nov'21
2A. Providing working capital facilities for the affected large industries and service sector organisations (Phase 1)	4662.00	40,000	20.84	1.4602	81.76	3306iii entities	Nov'21
2B. Providing working capital facilities for the affected large industries and service sector organisations (Phase 2)	3846.15	33,000	17.19	1.2047	14.61	418	Nov'21
3A. Providing working capital facilities to small (including cottage industries) and medium enterprises (Phase 1)	2331.00	20,000	10.42	0.7301	76.93	97,814	Nov'21
3B. Providing working capital facilities to small (including cottage industries) and medium enterprises (Phase 2)	2331.00	20,000	10.42	0.7301	9.07	14,657	Nov'21
4. To increase the facilities of Export Development Fund introduced by Bangladesh Bank	2476.69	21,250	11.07	0.7757	100	9,791 entities	Nov'21
5. Pre-shipment Credit Refinance Scheme	582.75	5,000	2.61	0.1825	8.57	67 entities	Nov'21
6A. Agricultural Refinancing Scheme (Phase 1)	582.75	5,000	2.61	0.1825	79.92	1,85,336 persons	Nov'21
6B. Agricultural Refinancing Scheme (Phase 2)	349.65	3,000	1.56	0.1095	N/A	N/A	Nov'21
7. Refinancing scheme for low-income farmers and small traders	349.65	3,000	1.56	0.1095	77.44	4,31,418 persons	Nov'21
8. Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and PKSF) (Phase 1)	372.96	3,200	1.67	0.1168	21.4	N/A	Jun 21
9. Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and PKSF) (Phase 2)	174.83	1,500	0.78	0.0548	N/A	N/A	N/A
10. Government subsidy for interest waiver of deferred bank loans for the month of April-May/2020	233.10	2,000	1.04	0.0730	100	7,282,253 persons	Nov'21

(Table 13 contd.)

(Table 13 contd.)

Name of the package	Allocation				Disbursement		
	In million USD	In crore BDT	As share of total COVID funding	As share of GDPii	Share of funds disbursed (in %)	Number of recipients	As of date
11. Credit guarantee scheme for small and medium enterprises sector	233.10	2,000	1.04	0.0730	1.45	N/A	June'21
12. Stimulus package for small businesses and entrepreneurs, delivered through various associations and foundations (2021)	174.83	1,500	0.78	0.0548	N/A	N/A	N/A
13. Working capital credit facility for hotel/motel/theme parks.	116.55	1,000	0.52	0.0365	N/A	N/A	Nov'21
Total liquidity support	19399.77	166,450	86.72	6.0763			
Fiscal stimulus packages							
14. Special honorarium to doctors, nurses and health workers	16.08	138	0.07	0.0050	0	N/A	June 21
15. Health insurance and life insurance	87.41	750	0.39				
	0.0274	3.4	42v persons				
(41 male;							
1 female)	June 21						
16. Distribution of free food items	291.38	2,500	1.30	0.0913	43vi	2,34.00,000vi households (70% male-headed; 30% female-headed)	N/A
17. Distribution of rice at the rate of BDT 10 per kilogram	89.74	770	0.40	0.0281	100	N/A	N/A
18. Special OMS at the city area	17.48	150	0.08	0.0055	N/A	N/A	Sept'21
19. Food support through DCs (Calling @ 333)	11.66	100	0.05	0.0037	N/A	N/A	Sept'21

(Table 13 contd.)

(Table 13 contd.)

Name of the package	Allocation				Disbursement		
	In million USD	In crore BDT	As share of total COVID funding	As share of GDPii	Share of funds disbursed (in %)	Number of recipients	As of date
20. Distribution of cash among the targeted population	154.55	1,326	0.69	0.0484	70vii	34,97,353vii households (75% male-headed; 25% female-headed)	Sept'21
21. Increase the coverage of the allowance programmes	94.99	815	0.42	0.0298	3viii	156,218viii persons	May 21
22. Expansion of Cash Allowance Program	139.86	1,200	0.63	0.0438	N/A	N/A	Sept'21
23. Cash disbursement among pandemic-hit people (2nd tranche)	108.39	930	0.48	0.0339	N/A	BDT 2,500 each for 3,600,000 families	Sept'21
24. Cash transfer to the targeted poor people	52.45	450	0.23	0.0164	N/A	N/A	Sept'21
25. Construction of houses for homeless people	248.25	2,130	1.11	0.0778	N/A	9,039 households (62% male-headed; 38% female-headed)	May'21
27. Support for farm mechanisation	375.29	3,220	1.68	0.1175	84.1	N/A	June'21
28. Agricultural subsidies	1107.23	9,500	4.95	0.3468	76vii	N/A	June'21
29. SSNP for unemployed and poor workers of export-oriented RMG, leather and footwear sectors	174.83	1,500	0.78	0.0548	0.1	N/A	June'21
Total fiscal stimulus	2969.58	25,479	13.28	0.9301			
Total COVID-19 funding	22369.35	191,929	100.00	7.0064			

Source: Authors' compilation based on data from MoF (2021); Bangladesh Bank (2021c); Bangladesh Bank (2021d).

Note: i) Assuming an exchange rate of USD 1 equal to BDT 85.80, as per Bangladesh Bank exchange rate of 22 December 2021; ii) Assuming that GDP is equal to BDT 2,739,332.4 crore, as per the final GDP estimate for FY2019–20 by BBS; iii) N/A implies no data was available at the time of writing; iv) PKSF = Palli Karma-Sahayak Foundation; v) SSNP = Social safety net programme.

5.2 Requirements of the Poor

Since the start of the pandemic, a number of research studies by various organisations, including CPD, have attempted to estimate the number of people who have slid into poverty due to the pandemic. As a result, the term “new poor” was coined to identify such people.

Table 14 shows some of the estimates of the number of new poor in Bangladesh. It can be seen that the number of new poor during the peaks of the coronavirus outbreaks were around 35 million (Z. Ali et al., 2021) to 36 million (Rahman et al., 2020) in 2020. However, in 2021, as the infection rates subsided, vaccinations increased, and the economy gradually recovered, the number of new poor dropped to around 24 million (Rahman & Matin, 2021). However, since the number of old poor, or the number of poor people in the pre-COVID period, were already more than 33 million (BBS, 2019), the total number of poor people in the country was still alarming highly in post-COVID period.

Table 14: Estimated Number of New Poor and Total Poor

(in per cent)

Study and time of estimation	Number of new poor	Number of old poor	Number of total poori	Total poor as share of total population (%)	New poor as a share of the total population (%)
BBS (2019) (pre-COVID period)	-	33,937,750	33,937,750	20.5	-
CPD (2020)	-	-	75,700,000	-	-
BIDS and University of Bath (2020)	35,500,000	-	-	25.9	19.7
BIGD-PPRC (April 2020)	36,944,858	-	70,022,846	43.4	22.9
BIGD-PPRC (March 2021)	24,500,000	-	-	-	14.75
SANEM (2020)	-	-	-	42.0	20.4

Source: Authors’ calculations based on data from Rahman et al. (2020); Rahman & Matin (2021b); Raihan et al. (2021); Z. Ali et al. (2021); BBS (2019); CPD (2020a).

Note: i) Number of total poor calculated assuming that the number of old poor was equal to 33,937,750 BBS, 2019 except for CPD (2020).

Concerning the increase in the national poverty rate and the large number of people who became poor during the pandemic, the government in several instances mentioned that direct cash transfers of BDT 2,500 would be provided per family for selected poor families nationwide. While theoretically, this was clearly a step in the right direction, in practice, the government’s attempts to provide direct cash transfers to the poor were too little, too late, and too unaccountable (T. O. Ali et al., 2021). For instance, Table 15 shows that the minimum cost of a small basket of essential food items for one household of four persons for one month based on prices in Dhaka city as of 20 December 2021

Table 15: Minimum Cost of Essential Food Items for One Household of Four Persons for One Month

Item	Unit	Minimum price per unit in BDT (as of 20 Dec 2021)	Average per capita per day intake	Minimum total cost (in BDT)
Rice (coarse)	kilogram	50	0.3672	2,203
Soyabean oil (loose)	litre	140	0.0252	423
Lentils (local)	kilogram	95	0.0157	179
Potato	kilogram	24	0.0648	187
Onions (local)	kilogram	40	0.0311	149

(Table 15 contd.)

(Table 15 contd.)

Item	Unit	Minimum price per unit in BDT (as of 20 Dec 2021)	Average per capita per day intake	Minimum total cost (in BDT)
Garlic (local)	kilogram	50	0.0301	181
Chili (powder)	kilogram	260	0.0129	402
Turmeric (local)	kilogram	200	0.0301	722
Ginger (local)	kilogram	80	0.0301	289
Sugar	kilogram	75	0.0064	58
Salt	kilogram	30	0.0307	28
Eggs (farm)	20 eggs (approximately 1 kilogram)	165	0.0136	269
Fish (Rui)	kilogram	250	0.0626	1,878
Chicken (broiler)	kilogram	160	0.0171	328
Total minimum cost per household of 4 individuals per month				**7,297**

Source: Authors' calculation based on data from TCB (2021) and BBS (2019).
Note: i) Minimum price per unit refers to minimum retail price in Dhaka; ii) Minimum cost is calculated assuming that each person consumes the national average amount of each item, a single household consists of four individuals and one month has 30 days.

would be BDT 7,297 per month, assuming that each person consumed the national average amount of food per day, as per the Household Income and Expenditure Survey 2016 (BBS, 2019).

Juxtaposing the estimates of the new poor with various assumptions of basic subsistence, we find that the funding required to support the new poor for one month varies from 0.15 per cent of GDP to 0.66 per cent of GDP (Table 16).

Table 16: Funding Requirement for the New Poor for One Month (as Percentage of GDP)

Assumptions	For 35.5 million people for 1 month*	For 36.9 million people for 1 month**
Assuming each individual gets BDT 38.2 per day, which is required for a nutrient adequate diet	0.15	0.15
Assuming per capita per month support required for rural 'new poor' is BDT 1,450	0.20	0.19
Assuming per capita per month support required for urban 'new poor' is BDT 1,745	0.24	0.23
Assuming each households gets BDT 7,297 per month which is the minimum cost of essential food items for one household for one month	0.25	0.24
Assuming each households gets BDT 8,000 per month which is close to the lower poverty line for a family of 4 members in 2020 prices	0.27	0.26
Assuming each individual gets BDT 163 per day or USD 1.9 per day	0.66	0.63

Source: Authors' calculations based on data from Nowar et al. (2021); Rahman et al. (2020); Rahman & Matin (2021); Raihan et al. (2021); Z. Ali et al. (2021); BBS (2019); CPD (2020a).
Note: *Z. Ali et al. (2021); **Rahman et al. (2020).
i) Number of total poor calculated assuming that the number of old poor was equal to 33,937,750 (BBS, 2019); ii) Assuming USD 1 = BDT 85.80.

Table 17: Funding Requirement for the Total Poor for One Month (as Percentage of GDP)

Assumptions	**For 75.7 million people for 1 month***	**For 70 million people for 1 month****	**For 69.4 million people for 1 month*****
Assuming each individual gets BDT 38.2 per day, which is required for a nutrient adequate diet	0.32	0.29	0.29
Assuming per capita per month support required for rural 'new poor' is BDT 1,450	0.40	0.37	0.37
Assuming per capita per month support required for urban 'new poor' is BDT 1,745	0.48	0.45	0.44
Assuming each households gets BDT 7,297 per month which is the minimum cost of essential food items for one household for one month	0.50	0.47	0.46
Assuming each households gets BDT 8,000 per month which is close to the lower poverty line for a family of 4 members in 2020 prices	0.55	0.51	0.51
Assuming each individual gets BDT 163 per day or USD 1.9 per day	1.35	1.25	1.24

Source: Authors' calculations based on data from Nowar et al. (2021); Rahman et al. (2020); Rahman & Matin (2021); Raihan et al. (2021); Z. Ali et al. (2021); BBS (2019); CPD (2020a).

Note: *CPD (2020a); **BIGD-PPRC (2020); BBS (2019); ***Z. Ali et al. (2021); BBS (2019).

i) Number of total poor calculated assuming that the number of old poor was equal to 33,937,750 (BBS, 2019); ii) Assuming USD 1 = BDT 85.80.

Similarly, juxtaposing the estimates of the total with the various assumptions of basic subsistence, we find that the funding required to support the total poor for one month varies from 0.29 per cent of GDP to 1.35 per cent of GDP (Table 17).

In general, our findings indicate that the BDT 2,500 is insufficient to sustain one household for even one month, even when considering only the cost of food.

5.3 Redesigning Support Measures

The government has attempted to extend SSNPs that give basic help to disadvantaged populations in order to deal with the emerging COVID-19 situation. Since the government has pledged to expand its social safety net coverage, it is necessary to compile a list of the households covered by the government's social safety net. The disadvantaged group in both rural and urban areas must be included in this list of recipients. Although a list for the rural poor is already available through various SSNPs there is no such list for the urban poor. A significant commitment from non-government organisations (NGOs) and local entities (upazilla and union leaders) is also necessary to make the selection and delivery of assistance measures for the beneficiaries of the SSNPs more efficient.

The transparency and accountability of Bangladesh's COVID-19 stimulus plan will be the 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. Beneficiary targeting, or bringing in the right group of people, has been a major weakness of SSNPs in Bangladesh. Reducing leakages and proper targeting can help release significant resources that can serve the more vulnerable and deserving groups more effectively. The general problems of errors in listing poor who need relief will deprive several poor, including women. Without connections with the powerful local people, it has been proved to be difficult to get included in the list of beneficiaries. Such malpractices have been reported in the media even during the COVID-19 crisis.

In order to ensure that social protection does not transform into political protection, it is necessary to transcend from the humanitarian approach of targeted safety nets to the right-based approach of universal social protection. It is easy to be deceived into thinking that providing non-contributory universal social protection floors in developing countries with large numbers of vulnerable people is prohibitively expensive. However, previous research has shown that it may not be the case for Bangladesh (Khatun & Saadat, 2020).

5.3.1 Preliminary estimation of the cost of providing universal social protection floors in Bangladesh

School suspensions to control COVID-19 transmission has impacted the overwhelming majority of the student population globally, decreasing learning opportunities and driving a wedge between prevailing educational inequalities. In Bangladesh, school closures to prevent the spread of COVID-19 have left 40 million students out of school for more than 6 months, as of September 2020 (Kamal, 2020). Since only 5.6 per cent of households in Bangladesh had a computer in 2019 (BBS & UNICEF, 2019), an estimated 37.76 million students would not have access to online learning opportunities during the pandemic. Since school closures in March, only 25 per cent of children in rural Bangladesh have watched TV classes, while only 2 per cent of children in rural Bangladesh have watched online educational programmes (Asadullah et al., 2020). School closures due to COVID-19 have deprived 2.96 million children in Bangladesh (WFP, 2020) and 379 million children worldwide (UN, 2020) from school meals, which has adversely affected their health and made them more susceptible to disease.

Table 18: Cost of Child Benefits (as Percentage of GDP)

(in per cent)

Type of programme	Universal				Directed to the poor (National Poverty Line)			
Age groups (in years)	**0–4**	**5–9**	**10–14**	**0–14**	**0–4**	**5–9**	**10–14**	**0–14**
Benefit level								
100 of national poverty line	4.17	4.26	4.46	12.90	3.48	3.56	3.73	10.79
75 of national poverty line	3.13	3.19	3.35	9.68	2.61	2.67	2.80	8.09
50 of national poverty line	2.08	2.13	2.23	6.45	1.74	1.78	1.86	5.40
25 of national poverty line	1.04	1.06	1.12	3.23	0.87	0.89	0.93	2.70
100 of minimum salary	7.98	8.15	8.54	24.70	6.67	6.81	7.14	20.65
75 of minimum salary	5.98	6.11	6.40	18.52	5.00	5.11	5.35	15.49
50 of minimum salary	3.99	4.08	4.27	12.35	3.33	3.41	3.57	10.33
25 of minimum salary	1.99	2.04	2.13	6.17	1.67	1.70	1.78	5.16
USD 2 PPP per day	2.48	2.53	2.65	7.67	2.07	2.12	2.65	6.41
USD 1 PPP per day	1.24	1.27	1.33	3.83	1.04	1.06	1.11	3.21

Source: Authors' compilation based on calculations by Khatun & Saadat (2020).
Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population; it does not include social insurance; ii) Social insurance is financed by employers and workers contributions, and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and percentage of fertile age women is 2.1 per cent.

Only 35 per cent of children worldwide, 28 per cent of children in Asia, and 29.4 per cent of children in Bangladesh were covered by social protection benefits in 2017 (ILO, 2017). Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing cash benefits equal to 25 per cent of the national poverty line to all children less than five years old would be only 1.04 per cent of GDP (Khatun & Saadat, 2020) (Table 18). On the other hand, considering USD 1 per day at purchasing power parity (PPP) to all children less than five years old in Bangladesh would cost 1.24 per cent of GDP (Khatun & Saadat, 2020).

Women and girls are being disproportionately affected by the COVID-19 pandemic due to a surge in domestic violence, additional care work owing to the closure of schools and day-care centres and exposure on the front lines in fighting the virus. Lockdowns imposed to curtail the spread of COVID-19 have compelled many women to remain in close proximity with their partners for prolonged periods, which has often made them victims of domestic violence. In South Asia, 37 per cent of women reported suffering from domestic violence and in Bangladesh, 49 per cent of women and girls reported feeling threat to their safety and security since the start of lockdowns and general holidays (UNESCAP, 2020). In Bangladesh, 55 per cent of women and 44 per cent men reported an increase in the time spent for unpaid domestic work, while 58 per cent of women and 56 per cent of men reported an increase in the time spent for unpaid care work since the start of the pandemic (UN Women, 2020).

Research has shown that the increase in job-protected paid maternity leave was associated with a significant decrease in infant mortality, although unpaid maternity leave was not (Human Rights Watch, 2011). Regrettably, worldwide 41 per cent of women with newborns received maternity benefits in 2017, while in Bangladesh, the share of women with newborns receiving maternity benefits was only 20.9 per cent in 2017 (ILO, 2017). Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing maternity cash benefits equal to 100 per cent of the national poverty line to all mothers during four months around childbirth would only be 0.30 per cent of GDP (Khatun & Saadat, 2020) (Table 19).

The Maternity Allowance Programme in Bangladesh provides a one-time-only payment of BDT 500 per month (approximately USD 6 per month or USD 0.20 per day) for a two-year period to women above the age of 20 years old living in specifically targeted rural areas whose household income is less than BDT 1,500 per month and who were pregnant with their first or second child during the month of July [Strengthening Public Financial Management for Social Protection (SPFMSP) Project, 2017]. The Lactating Mother Allowance Programme in Bangladesh also provides a one-time-only payment of BDT 500 per month (approximately USD 6 per month or USD 0.20 per day) for a two-year period to women above the age of 20 years old whose household income is less than BDT 8,000 per month (in case of formal employment) or less than BDT 5000 per month (in case of informal employment) and who were pregnant with their first or second child during the month of July (SPFMSP Project, 2017). It can be shown that increasing the maternity cash benefits to be equal to USD 1 at PPP per day to all mothers during four months around childbirth would cost only 0.09 per cent of GDP in Bangladesh (Khatun & Saadat, 2020) (Table 19).

People with physical disabilities face are the bigger victims of lockdowns and social distancing interventions since they have to depend largely on others for their everyday activities (ADD International, 2020). More than 70 per cent of persons with disabilities in Bangladesh participating in some forms of economic activity prior to the pandemic lost their livelihoods during the lockdown (Innovision, 2020). Persons with disabilities have mentioned that they have been disproportionately

Table 19: Cost of Universal Social Benefits (as a Percentage of GDP)

Type of benefit	Disability	Maternity	Orphans
Benefit level			
100% of national poverty line	0.93	0.30	0.01
75% of national poverty line	0.70	0.23	0.01
50% of national poverty line	0.47	0.15	0.00
25% of national poverty line	0.23	0.08	0.00
100% of minimum salary	1.78	0.58	0.01
75% of minimum salary	1.34	0.44	0.01
50% of minimum salary	0.89	0.29	0.01
25% of minimum salary	0.45	0.08	0.00
USD 2 PPP per day	0.55	0.18	0.00
USD 1 PPP per day	0.28	0.09	0.00

Source: Authors' compilation based on calculations by Khatun & Saadat (2020).
Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population; it does not include social insurance; ii) Social insurance is financed by employers and workers contributions, and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and percentage of fertile age women is 2.1 per cent.

neglected by the government's COVID-19 assistance (ADD International, 2020). Unfortunately, in Bangladesh, only 18.5 per cent of people with disabilities were protected with benefits in 2017 (ILO, 2017). Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing cash benefits equal to 100 per cent of the national poverty line to all persons with severe disabilities would be only 0.93 per cent of GDP. On the other hand, providing USD 2 per day PPP to all persons with severe disabilities in Bangladesh would cost 0.55 per cent of GDP (Khatun & Saadat, 2020) (Table 19).

The risk of severe COVID-19 is known to be higher in older individuals (Clark et al., 2020). Although pensions for the elderly are the most commonly provided form of social protection in the world, 66 per cent of the elderly population in Bangladesh are still not covered with any social protection benefits (ILO, 2017). Bangladesh also has some of the most stringent legal requirements for obtaining old-age pensions in South Asia. Calculations for Bangladesh, using ILO's Social Protection Floors Cost Calculator, show that the cost of providing cash benefits equal to 100 per cent of the national poverty line to all persons aged 65 years and above would be 2.18 per cent of GDP. On the other hand, providing USD 2 per day PPP to all persons aged 65 years and above in Bangladesh would cost 1.30 per cent of GDP (Khatun & Saadat, 2020) (Table 20).

COVID-19 has established a new normal of working from home. However, while white-collar workers continued their work from home during the pandemic, blue-collar workers were unable to do so (Lewandowski, 2020). Around 1.6 billion informal sector workers worldwide faced a 60 to 81 per cent drop in their incomes in the first month of the COVID-19 pandemic in their region (UN, 2020). CPD's research has shown that negative shocks on household consumption due to COVID-19 in the range of 9–25 per cent may lead to an increase in Gini coefficient of income inequality in Bangladesh

Table 20: Cost of Pensions (as a Percentage of GDP)

Type of programme	Universal	Directed to the poor (National Poverty Line)
Benefit level		
100% of national poverty line	2.18	1.69
75% of national poverty line	1.64	1.27
50% of national poverty line	1.09	0.85
25% of national poverty line	0.55	0.55
100% of minimum salary	4.17	3.24
75% of minimum salary	3.13	2.43
50% of minimum salary	2.09	1.62
25% of minimum salary	1.04	0.81
USD 2 per day at PPP	1.30	1.01
USD 1 per day at PPP	0.65	0.50

Source: Authors' compilation based on Khatun & Saadat (2020).
Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population; it does not include social insurance; ii) Social insurance is financed by employers and workers contributions, and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and percentage of fertile age women is 2.1 per cent.

from 0.48 in 2016 to 0.52 in 2020 (CPD, 2020). Rapid response telephonic surveys have shown that between February and April 2020, households below the national lower poverty line experienced a 73 per cent fall in income, households below the national upper poverty line experienced a 75 per cent fall in income, and vulnerable non-poor households experienced a 66 per cent fall in income (Rahman & Matin, 2020a). It must be kept in mind that even in pre-COVID period, 55 per cent of the total population of Bangladesh belonged to the vulnerable category with an income of USD 1.9 to USD 3.8 per capita per day (Hill & Genoni, 2019). Eight out of 10 Bangladeshis were poor or vulnerable to falling into poverty prior to the COVID-19 crisis (Genoni et al., 2020).

Using ILO's Social Protection Floors Cost Calculator, it can be shown that the cost of providing unemployment support, such as the 100-day Employment Generation Programme, is equal to 100 per cent of the national poverty line for 100 days per year for one person at working age per vulnerable household would be 2.14 per cent of GDP (Table 21). On the other hand, providing USD 2 per day PPP for 100 days per year for one person at working age per vulnerable household would cost 1.27 per cent of GDP (Khatun & Saadat, 2020).

Table 21: Cost of Unemployment Support (as a Percentage of GDP)

Benefit duration	100 days	200 days	300 days	365 days
Benefit level				
100% of national poverty line	2.14	4.28	6.41	7.80
75% of national poverty line	1.60	3.21	4.81	5.85
50% of national poverty line	1.07	2.14	3.21	3.90
25% of national poverty line	0.53	1.07	1.60	1.95
100% of minimum salary	4.09	8.18	12.27	14.93

(Table 21 contd.)

(Table 21 contd.)

Benefit duration	100 days	200 days	300 days	365 days
75% of minimum salary	3.07	6.14	9.21	11.20
50% of minimum salary	2.05	4.09	6.14	7.47
25% of minimum salary	1.02	2.05	3.07	3.73
USD 2 per day at PPP	1.27	2.54	3.81	4.64
USD 1 per day at PPP	0.64	1.27	1.91	2.32

Source: Authors' compilation based on calculations by Khatun & Saadat, 2020.
Note: i) Calculations include only the cost of non-contributory social assistance benefits for the specified population - it does not include social insurance; ii) Social insurance is financed by employers and workers contributions and delivers higher benefits; iii) Child benefit consists of a cash transfer to families with children of the selected age groups; iv) Administration costs are included for all benefits and 3 per cent administrative costs are assumed for all universal benefits; v) Assuming that total population is 158,512,570, GDP per capita is BDT 78,065, National Poverty Line is BDT 33,230, Minimum salary is BDT 63,600, percentage of children in the population is 29.4 per cent, percentage of orphans among children is 0.0 per cent (rounded to first decimal place), percentage of older persons in the population is 5 per cent, rate of disability is 3.24 per cent, total fertility rate is 2.4, and the percentage of women of reproductive age is 2.1 per cent.

5.4 Conclusions and Recommendations

The banking sector's fundamental flaws will make it difficult for the government to deliver on the considerable amount of liquidity support it has pledged in response to COVID-19. Furthermore, the delivery of stimulus packages through the banking system has opened up new opportunities for corruption and fraud. In the coming days, repayment of loans supplied through stimulus packages may become a matter of concern. As a result, the long-standing issue of weak banking governance is expected to worsen.

Without an evaluation of the ground realities, liquidity support and fiscal stimulus packages may not be able to meet the requirements of society's most vulnerable individuals. Providing loans to vulnerable persons and small enterprises, in particular, may not provide the desired effects. As a result, the government must reassess liquidity support as the key economic response to COVID-19 and increase fiscal stimulus and direct cash transfers to the needy. Unfortunately, experience with social safety nets has shown that without competent administration, social protection programmes can only be limited in their effectiveness. Exclusion, inclusion, targeting, efficient delivery, and resolution of grievances, among other issues, must be taken seriously.

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

- New phases of liquidity support packages should not be initiated until the disbursement in the old phases are complete;
- Fiscal stimulus packages and COVID-19 relief support should be gradually be shifted away from targeted approaches to a universal approach, in order to prevent errors in the selection of beneficiaries;
- 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 that 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;

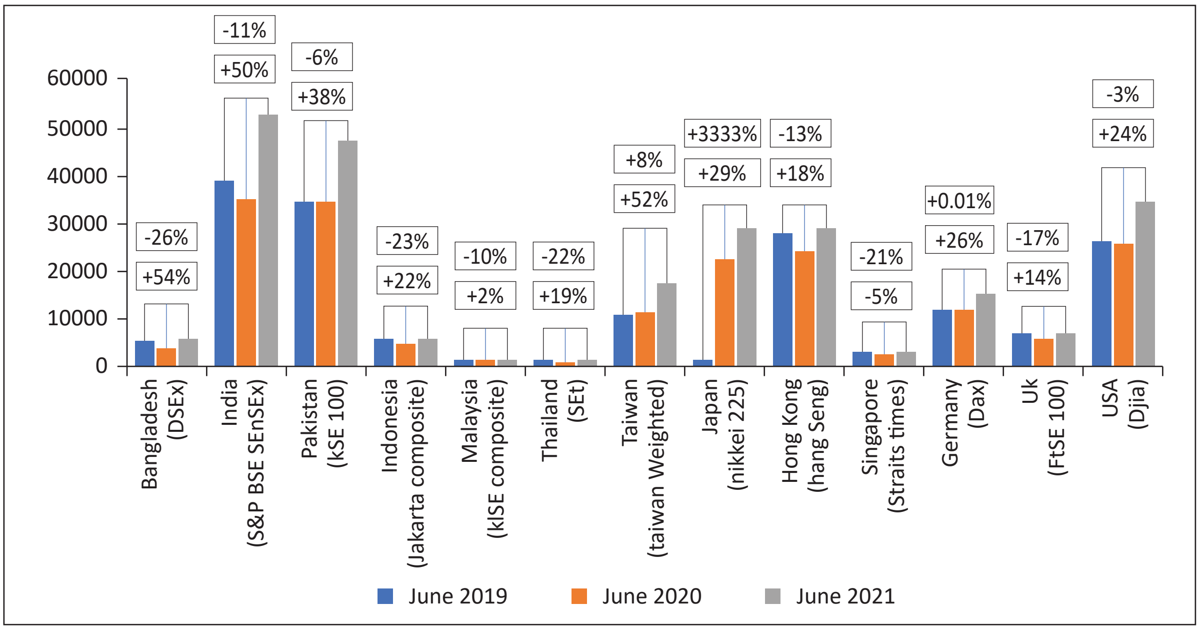
- Clear, objective and quantitative criteria should be declared to properly identify "affected" businesses and individuals;
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all 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 nationwide 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, the central bank, commercial banks, trade bodies, civil society, NGOs, and academia should be formed for monitoring the delivery of the COVID-19 liquidity support and fiscal stimulus packages and assessing their effectiveness.

6. RISE OF THE CAPITAL MARKET DURING THE PANDEMIC: HOW TO EXPLAIN IT

6.1 Introduction

The global capital market has confronted major setbacks during the pandemic period—an unparalleled degree of economic uncertainty and risk, leading investors to incur substantial losses within a relatively short period. Unlike the earlier crises in 1997 and 2007-8 when the global or regional stock markets collapsed due to structural weaknesses, the dip in the stock market during the COVID-19 pandemic is more related to non-market factors including the level of virus contamination, the level of vaccination, and the level of opening up of economic activities. Most of the markets initially faced a dip, but they got back on their feet with support from appropriate policy measures and institutional interventions. Figure 11 presents the changes in market indices in selected major markets from the pre-pandemic (June 2019) to the pandemic period (June 2021). There is a mixed trend observed in the changes in market indices—markets in developed countries such as Japan, USA and Germany, and developing countries such as India, Pakistan, and Taiwan experienced positive changes and crossed the pre-pandemic period. On the other hand, many countries have experienced negative changes, including Malaysia, Thailand, Singapore, and the UK. The share prices in Bangladesh have bounced back in the later phase of the pandemic after a decline in 2020 (54 per cent rise), a big jump. Given the persistent structural weaknesses of Bangladesh's capital market even during the pre-pandemic period, bouncing back from the market requires a necessary explanation. This section examines the structure and composition of changes in the capital market during the pandemic period based on the information and data collected from primary and secondary sources, including Bangladesh Securities

Figure 11: Percentage Change in Global Stock Market Indices (between June 2019 and June 2021)



Source: Authors' analysis from web-based data.

and Exchange Commission (BSEC), Dhaka Stock Exchange (DSE), Central Depository Bangladesh Limited (CDBL) and key informant interviews (KIIs) with officials from BSEC, DSE, and academia.

6.2 Overview of the Performance of the Capital Market

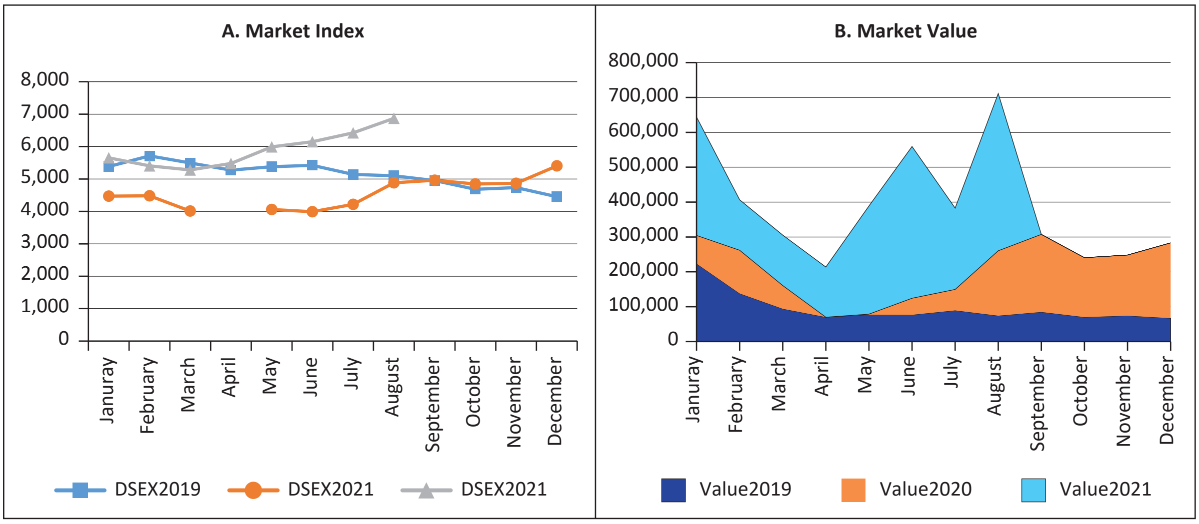
The performance of the stock market can be reviewed in terms of the trend in market indices, trade volume, market capitalisation, and enlistment of Initial public offerings (IPOs) and other securities. Most of the indicators have performed well in the later phase of the pandemic (in 2021) after a weak performance in the early phase of the pandemic (in 2020). The following sub-sections discuss these in detail.

6.2.1 Trends in DSE indices

The trends in market indices in the DSE have maintained three different patterns during the pre, early phase, and later phase of the covid pandemic. In fact, the market indices fell consistently even during the pre-pandemic period owing to various weaknesses of the market. According to CPD (2020b), five specific types of weaknesses were observed in the capital market during the pre-pandemic period—(a) poor quality of IPOs; (b) anomalies in financial reporting; (c) lack of transparency in Beneficiary Owner (BO) accounts; (d) suspicious trading in secondary market; (e) questionable role of institutional investors. The market faced the pandemic with these structural weaknesses – market indices further declined during the early phase of the pandemic, including a period of 66 days when the market was closed down. After a period of slow rise, the market indices have further accelerated during the later phase of the pandemic (till August 2021). Figure 12 presents the trends in market indices at the DSE.

Both market value and market volume have significantly increased; most importantly, both the indicators have passed the pre-pandemic level (Figure 12 and 13). Given the structural weaknesses observed during the pre-pandemic level, this rise in market volume and market value of stocks

Figure 12: Market Indices and Market Value

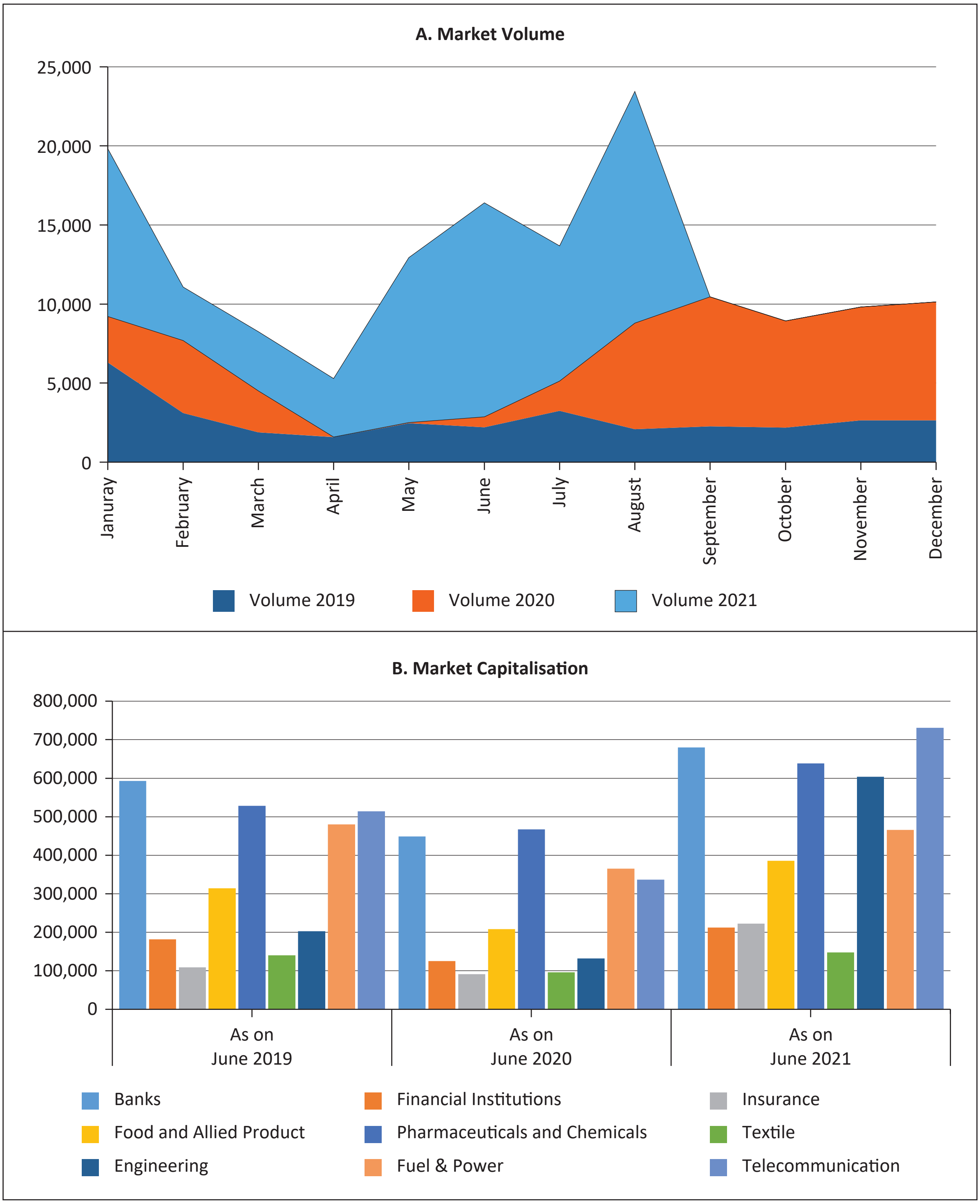


Source: Illustrated based on DSE data.

rather raised the questions of the rationale behind these positive changes during the early and later phase of pandemic periods. Market capitalisation of all categories of stocks increased significantly in the pandemic period compared to that in the pre-pandemic period. Figure 13 presents the market capitalisation under different categories of stocks during 2019, 2020 and 2021. Major share maintained leading positions in terms of market capitalisation during the pandemic period as like those in the pre-pandemic period—banks, pharmaceutical, and telecommunications. However, their positions have changed during the later phase of the pandemic period, where market capitalisation of telecommunications has surpassed the other two leading sectors (banking and pharmaceutical). Interestingly, the market capitalisations of 'engineering' categories of companies have significantly increased; similar is the case of 'food and allied products' categories of companies. During the period of the pandemic with a limited rise in demand for specific categories of products and services, such an increase in market capitalisation of engineering and food-related companies needs close examination.

The number of newly listed companies remains at a weak state during the pandemic, as observed in the pre-pandemic period (Table 22). The newly listed companies have marginally changed—from 6 in 2019 to 5 in 2020 and 9 in 2021. The total capital generated by these companies portrayed that most of the companies are low-value companies. The average market capitalisation per company was only Tk 57.5 crore in 2019 and Tk 82.7 crore in 2021. However, if the Robi Axiata, a multinational company, was excluded from the list of IPOs in 2021, the average market capitalisation per company was only Tk 27.6 crore. Thus, a large section of companies listed in the market is of SME categories—out of 21 newly listed companies, 14 companies are categorised as SMEs. This indicates increased interest of SMEs to raise capital from the equity market instead of depending only on the debt market. These companies include three banks, five textiles, four insurance, five pharmaceutical and chemicals, one Information and Communication Technology (ICT) and two food and allied companies (Annex Table 1). The inclusion of one MNC (multinational company) telecom company in the market is one of the positive developments of the IPO market. In the backdrop of huge surplus funds available in banks and the weak state of insurance companies, such a large number of financial institutions in the capital market for raising capital raises doubt about the future use of capital. On the contrary, despite having demand for pharmaceutical and ICT services in the country, offloading shares of those

Figure 13: Market Volume and Market Capitalisation



Source: Author's illustration.

Table 22: Newly Listed Companies in Different Years

Year	Number of company	Amount (BDT Crore)	Per company capital (BDT Crore)
2018	10	266	26.6
2019	6	345	57.5
2020	5	730.87	146.2
2021	9	744.36	82.7
2021 (without MNC)	8	220.57	27.6

Source: Illustrated based on DSE data.

companies are rather low. Besides, it is important to examine whether these companies have genuine interests in expanding their businesses by raising capital from the capital market, which requires proper strategies, time plans, and development of corporate governance. In the absence of those, the companies may be used as instruments for market manipulation.

The introduction of 'Sukuk Bond' isan appreciable move during the pandemic period. Sukuk is Bangladesh's first attempt at introducing an Islamic financial instrument.[3] The bond was launched initially by the Government of Bangladesh to finance the safe water supply project for Bangladesh. Banks and individuals placed 39 bids worth Tk 15,153 crore, which is eight times more than the targeted amount of Tk 4,000 crore. The overbidding clearly indicated people's interest in this Shariah-compliant bond. This bond has been picking up the stream for a few reasons.[4] The popularity of Sukuk can also be linked to the excess liquidity in the Islamic bank.[5] Issuance of instruments like Sukuk would help the Government of Bangladesh understand the financing prospects of such Shariah-compliant projects.

Sukuk being the first sovereign instrument in Bangladesh, has allowed the private sector to contribute to this newly introduced instrument. Beximco is the first private company to receive a green signal from the BSEC to issue Tk 3000 crore worth green Sukuk. This collected amount will be used to fund two solar projects with the power division to support the renewable energy sector of Bangladesh. Beximco will also be using this capital to develop its textile division in aid of environmental sustainability.[6] The base rate for this was set as 9 per cent, which means that the investors would be getting a 9 per cent secured annual return.[7] In order to encourage commercial banks to invest in this private-sector issued Sukuk, Bangladesh Bank has asked these banks to set up a stock investment fund of Tk 200 crore.[8] It is important to examine whether the issuance of the Sukuk bond follows due process or whether such issuance has taken undue benefit in the issuance process.

[3]The difference of Sukuk with other regular bond is that it prohibits interest (known as "riba" in Arabic) and this bond generates income in the form of shared profit. Unlike the other bonds Sukuk uses a third party to connect the investor to the borrower. In this case, the borrower or also known as the originator of the project is the Government of Bangladesh. Bangladesh Bank as appointed by the Ministry of Finance (MoF) works as the Special Purpose Vehicle (SPV) to promote the development of country's' financial sector.

[4]Firstly, this bond offers a higher return as compared to the conventional bond especially during the pandemic period. Secondly, Sukuk yields a lower risk than the conventional bond; and thirdly, although investors experienced substantial losses due to significant market, and volatility during this pandemic period this bond was least affected.

[5]As per the Shariah rule, Islamic banks cannot invest in the interest bearing government securities. Thus, this can be a great medium to mop out the excess liquidity from Islamic banks and help the government with the resource mobilisation.

[6]Investment Corporation of Bangladesh is the trustee of this Sukuk, while City Bank Capital Resources Ltd and Agrani Equity and Investment Ltd are jointly the issue managers. This will be the largest private sukuk of Bangladesh.

[7]The government aims to popularise Sukuk bonds. The VATs or value added tax (ranging from 7.5 per cent to 15 per cent in diferent time periods) have been waived. It has also waived gain tax at the rate of 40 per cent on transfer of asset to the SPV.

[8]Private companies like the RFL doors and Deshbandhu polymer have shown keen interest on investing in Sukuk.

It was observed that the general investors had shown more trust in the government's initiated Sukuk as compared to the privately-owned ones. One reason behind this could be the uncertainty of the private initiatives and the certainty of the public initiatives. This should be taken into consideration given the potential of this treasury bond for the growth and diversification of the capital market.

6.3 Key Attributes of the Capital Market Performance

The rise of the capital market during an uncertain pandemic period raises a number of questions about the key attributes of the capital market. Based on the scanning of newspaper reports as well as experts' opinion, a number of issues are found to be linked with recent trends in the capital markets. These include: (a) influence of stimulus package targeting the capital market; (b) market operations during the pandemic period; (c) major investments made by the institutional investors including those of banks and other investors; (d) portfolio investment of the foreign companies; (e) weaknesses of IPOs and their issuance process; (f) transaction of junk shares including z category shares; (g) transparency of BO accounts; (h) MPS announced during FY2020–21; (i) key issues announced in the national budget for FY2020–21 and FY2021–22; and (j) roadshows for attracting investment.

6.3.1 Stimulus packages for the SEC

The capital market is specifically supported through several stimulus packages and policy actions. These include—(a) a package for banks that would allow them to borrow money for six months at 6 per cent interest to invest in equities to bolster the capital market[9]; (b) each bank is directed to develop a stabilisation fund of Tk 200 crore to invest in the capital market and draft rules on the formation and execution of capital market stabilisation fund has been prepared[10]; and (c) it is planned to create a BDT 8.5 billion revolving fund for five years to invest it in the capital market and utilise it during any crisis to keep the market stable. The stabilisation fund is developed as per the directives of the central banks under the MPS for FY2020–21, under which 16 banks have invested about Tk 2.64 billion. Hence, the fund has a limited short-term positive impact on market capitalisation and market indices. Since the other two initiatives are still at the preparatory stage, the impact till date on the market is rather negligible.

6.3.2 National budget on stock market

The provision of allowing investment of undisclosed black money in the capital market is a specific initiative made in the national budget for FY2021–22. Such a provision was last allowed in 1998 for two years. Allowing the undisclosed black is partly responsible for the rise in the market indices. While such initiatives have short-term impacts in increasing the market indices but have limited capacity to stabilise the market and thereby create confidence among general and institutional investors.

6.3.3 Market operations during the pandemic period

The stock market was closed for a consecutive 66 days during the country's first wave of COVID-19 pandemic. Since most of the economic activities were closed or operated at a limited scale,

[9] https://www.tbsnews.net/economy/banking/redesigned-2nd-round-stimulus-package-addressing-demand-and-new-employment-creation

[10] According to the directive, any amount of cash or stock dividend remained as unpaid or unclaimed or unsettled, including accrued interest income thereon, within three years from the date of declaration or approval must be transferred to the Capital Market Stabilisation Fund.

continuation of operation of the secondary market might cause a detrimental effect on overall market performance, which the SEC considers to shut down the market temporarily. However, another group criticised the decision that shutting down the operation caused negative perceptions among market players, which adversely affected the market.

6.3.4 Foreign investment concerns and road shows

Foreign investors took away their investment from the stock markets during 2019–2021 (Table 23). This clearly indicates the role of domestic factors to pull market indices during 2020–21. Such a trend in portfolio investment contradicts with the huge investment made by local investors in the secondary market, particularly during the early phase of the pandemic and later phase of the pandemic. Other than the issues concerning the pandemic, foreign investors were not in favour of introducing floor price at a time of crisis as this is likely to hinder reflection of the actual market price of the stocks, particularly those of the low-value poor-quality stocks. Later, the floor price was lifted by the SEC. It is important to explore how the foreign investors would respond to invest in the later phase of pandemic and the post-pandemic periods as and when the economy would start to rebound and recover. In this connection, it is worth mentioning that BSEC undertook efforts to attract foreign investments by organising road shows in different cities during the period (Table 24). Unfortunately, those roadshows did not generate much enthusiasm among foreign investors, although a significant amount of resources have been utilised. In the absence of strong market monitoring and governance, attracting foreign investors at a large scale would be difficult.

Table 23: Portfolio Investment in Bangladesh

Year	Portfolio Investment
2018-2019	1609.2
2019-2020	-124.9
2020-2021	-167.0
2021-2022 (Oct)	-76.0

Source: Based on Bangladesh Bank (2021a).

Table 24: Roadshows Organised to Attract Foreign Investment in the Capital Market

Year	Events	Venue
9–12 February 2021	The Rise of Bengal Tiger: Potentials of Bangladesh Capital Market	Dubai
26 July 2021	Investor Summit: Bangladesh Capital Market	New York
28 July 2021	The Rise of Bengal Tiger: Potentials of Bangladesh Capital Market, Stakeholder's meeting	Washington, DC
30 July 2021	Investor Summit: Bangladesh Capital Market	Los Angeles, CA
2 August 2021	US-Bangladesh Tech Investment summit	Silicon Valley, Santa Clara
22 September 2021	Investor Summit: Bangladesh Capital Market	Geneva, Switzerland
20 September 2021	Investor Summit: Bangladesh Capital Market	Zurich, Switzerland

Source: Authors' compilation.

6.3.5 Less use of BO accounts

The total number of BO accounts that were in operation during the period of pandemic experienced noticeable changes (Table 25). Compared to the pre-pandemic period (January 2019), the use of

Table 25: BO Accounts

Year	Month	BO account set up	BO account operable
2019	Jan-30	6,948,535	2,817,041
	Dec-31	7,062,437	2,578,301
2020	Jan-30	7,066,390	2,578,503
	Dec-31	7,420,355	2,552,168
2021	Jan -30	7,420,355	2,552,168
	Dec-20	7,672,712	2,033,022

Source: Illustrated from CDBL data.

BO accounts has declined by 27.8 per cent at the later phase of the pandemic (December 2021). The total number of BO accounts operable was 20.33 lac during 20 December 2021. However, the number of BO accounts has further increased since the pre-pandemic period, the number of BO accounts set-up has increased by 10.4 per cent. Total number of such accounts on 20 December 2021 was 76.72 lac. In other words, only 26.5 per cent of setting up BO accounts are in operation. This raises questions about a huge number of BO accounts to be 'dormant', which is about three-fourths of the total accounts. In other words, the transparency of these accounts needs to be taken into account. Given the decision taken by the SEC to distribute the shares of IPOs on a pro-rata basis, the setting up of BO accounts may change in the coming years. In this connection, the CDBL, the responsible agency for managing BO accounts, needs to be reviewed in the context of its overall operation and accountability.

6.4 Governance of the Capital Market

6.4.1 Major initiatives undertaken by BSEC under the new leadership

Since the new leadership has taken charge at the BSEC (17 May 2020), a number of initiatives have been undertaken. Major BSEC initiatives include: (a) setting floor price for all stocks which has been lifted later (June 2021); (b) allowing two banks to issue perpetual bonds of BDT 4.0; (c) directed the stock exchanges to immediately launch an integrated online data-gathering, information submission and dissemination platform; (d) revised its recently amended public offer rules to set the minimum share offloading at 10 per cent of the company's total shares; (e) decided to start routine inspections of brokerage houses; (f) asked 61 directors of 22 listed companies to ensure holding of minimum 2 per cent shares in their respective firms in 45 days; (g) planned to make Bangladesh Electronic Funds Transfer Network (BEFTN) mandatory for the listed companies; (h) replaced the lottery system with the pro-rata system for general investors in initial public offering; (i) formulated draft rules on forming and executing capital market stabilisation fund with the unclaimed or unpaid cash or stock dividend; and (j) issued revised public issue rules, setting new IPO quotas for general and other eligible investors (EIs). The majority of these initiatives are targeted to smoothen the daily operation of the stock market and maintain compliances. Given the weaknesses in the primary and secondary markets as discussed earlier, the SEC needs to focus on some issue including ensuring the quality of IPOs, controlling the transactions of Z category shares, transparency of BO accounts, and financial transparency of listed companies.

As part of regulatory responsibilities, the BSEC has increased its monitoring and enforcement of rules and regulations. This is reflected in the regulatory actions taken by the BSEC (Table 26), which has increased in 2021. However, in most cases, the actions are mostly non-compliance warnings. However, BSEC needs to be more proactive in taking measures in order to build confidence among the concerned stakeholders.

Table 26: Enforcement Action Undertaken by BSEC

	January	February	March	April	May	June	July	August	September	October	November	December
2020	4	5	17			3	30	30	49	22	150	151
2021	20	21	50	13	15	4	11	10	47	65		

Source: Authors' illustration based on SEC data.
Note: Shaded box indicates the month when the new SEC leadership took charge.

6.4.2 Addressing the market related malpractices

Market related malpractices have been exposed during the pandemic period in a number of ways. These are related with—(a) offloading of IPOs; (b) transactions in the secondary market; (c) targeted collusive practices in low-value chares; (d) involvement of institutional investors; (e) involvement of big investors and (f) use of social media for manipulation. The anomalies include embezzlement of placement shares, possible engagement of the brokerage houses in market manipulation, using the BSEC logo on social media to spread wrong and wilful information, inflated price bids in the book-building system using the underwriter and creating fabricated demand of targeted shares, insider trading and distribution of margin loan against junk shares (P/E ratio higher than 40).

A number of measures have been undertaken by BSEC. These include—(a) developing a database of top officials, sponsor directors and auditors of the listed companies; (b) forming a body to stop the manipulation of stocks of small firms; (c) declaring a plan to create a separate intelligence wing at BSEC[11]; (d) directing all concerned to refrain from spreading any prediction or price forecasting or undisclosed information in any form including social media; otherwise, the BSEC will take legal actions as per securities laws and digital security act 2018.[12]

6.4.3 Coordination between BSEC and Bangladesh Bank

Since the initial period of the pandemic, Bangladesh Bank and the BSEC undertook a set of decisions considering the operation of the market. These include: (a) strengthening their mutual coordination for further development of both the money market and the capital market; (b) disbursement of the listed banks' cash dividends only among small investors, considering their woes during the ongoing lockdown[13]; (c) the central bank agreed to inspire banks to accelerate the formation of the special funds worth BDT 2.0 billion, announced earlier to support the ailing capital market.[14] The central bank

[11] Including accrued interest income thereon, within three years from the date of declaration or approval must be transferred to the Capital Market Stabilisation Fund of the BSEC. Each bank is directed to develop a fund of Tk 200 crore to invest in the capital market.
[12] porate/bsec-for-taking-actions-against-rumour-mongers-under-digital-security-act-1599061607
[13] As per the meeting's decision of Bangladesh Bank and BSEC, the banks' cash dividends, payment of which was restricted until September, will be disbursed only among small investors.
[14] The Bangladesh Bank issued a circular in February 2020, allowing all the scheduled banks to create BDT 2.0 billion special fund each for a period of five years for investment in the market [The Daily Star, 2020].

has recommended the MoF not to impose the proposed source tax on government securities, whose trading is set to start in the stock market within a couple of months.[15]

During the later phase of the pandemic, disagreement between Bangladesh Bank and BSEC became visible in the context of some recent stock market related decisions making that deepened further following a recent stock market regulator move that curtails banks' power to cancel payments to bondholders. The central bank has written to several banks after finding out that the BSEC's condition on approving the issuance of perpetual bonds contradicts a Bangladesh Bank guideline.[16] Though Bangladesh Bank and BSEC have discussed the issue; however, the difference in opinion still prevails.

6.5 Factors Responsible for Market Trend

The capital market has experienced an unexpected rise during the pandemic apart from the decline at the beginning of the pandemic. This bubble-like change in the stock price index is influenced by a number of institutional, operational and non-compliance factors.

6.5.1 Market stabilisation fund

The introduction of the Capital Market Stabilisation Fund contributed to building confidence among market players during a period of uncertainty. During July 2021, BSEC sent a letter to listed businesses instructing them to transfer all qualifying cash and share assets to the fund by the end of the month, which did not provide the companies the required 30 days to comply with the BSEC Market Stabilisation Fund Rules 2021. The regulator disclosed Tk 21,000 crore of undistributed and unclaimed dividends by the listed companies, which it now plans to safeguard the capital market and its general investors. The fund is governed by the 10-member board of governors headed by the chairman for a three-year tenure.

6.5.2 Stimulus funds

Stimulus funds appear to be the key influencing factors. The stimulus package initiative can be seen from two perspectives. One is the incentive that was directly for improving the stock market. The other is the indirect influence of the stimulus packages which was given for helping the financial recovery of different sectors. In September 2021, the central bank unveiled a package for banks that would allow them to borrow money for six months at 6 per cent interest to invest in equities to bolster the capital market.[17]

6.5.3 Floor price

The BSEC introduced a floor pricing mechanism on 19 March 2020, to prevent listed company share prices from dropping below a specific threshold during the COVID-19 epidemic.[18] However, the majority of the equities failed to find buyers once the floor price was set. The shutdown also means

[15] In its Finance Bill 2020, the government has announced imposing a 5.0 per cent source tax on profit of investment in the government securities, covering both treasury bills (T-bills) and bonds, from the upcoming FY2020–21 [The Financial Express, 2020].
[16] https://www.thedailystar.net/business/economy/stock/news/bb-bsec-tussle-takes-new-twist-2917871
[17]https://www.tbsnews.net/economy/banking/redesigned-2nd-round-stimulus-package-addressing-demand-and-new-employment-creation
[18] To avoid a drop-in stock prices before the closure, the stock market regulator set a floor price for all equities by calculating average prices preceding five days.

that no one can sell the stock, even if they desperately need to. Because of non-market measures with criticism from different stakeholders, including foreign investors, the BSEC lifted the floor price system in June 2021.

6.5.4 Margin loan correction

The market came across several margin loan corrections attempts during the pandemic considering an increasing flow of funds. BSEC revised the margin loan ratio in September at a 1:1 ratio if the broad index exists up to the 4,000 thresholds. If the DSE broad index is between 4,001 and 5,000 points- the margin borrowing ratio fixed at 1:0.75; index between 5,001 and 6,000 points- the ratio to be 1:0.50; and if the index rises beyond 6,000 points, the ratio determined at 1:0.25. There were further adjustments and changes in November 2021.

6.5.5 Deposit rate

The low deposit rate has contributed to the high trading volume in the country's stock market. During the pandemic, the low return on bank deposits drove people away from the banking sector towards the capital market. With an already prevailing uncertain market condition investing in the stock market was a feasible and profitable option for ordinary people.

6.5.6 Low credit demand and high liquidity

Lack of credit demand and high banks' liquidity came up as a key factor for the stock market bubble during the pandemic. Such logic is irrational as both money and capital market are supposed to be influenced by similar sets of real economy related factors. It is found that the banking surplus liquidity stood at Tk 204,070 crore as of January 2021, a year-on-year surge of 97 per cent. The amount stood at Tk 103,358 crore in the same month a year ago. The contribution of investment income rose to a greater extent in 2020 because of banks' high investment in treasury bills, bonds, and the stock market. Banks' investment in bonds and other securities rose 8.84 per cent to Tk 314,747 crore in the second quarter of last year. Investment income surged Tk 842 crore, or 49 per cent, to Tk 2,546 crore in the quarter.[19]

Some banks exceeded the regulatory limit of investing in stock exchanges and were fined during the bubble period of the stock indices. There was also apparent evidence of using scarce stimulus funds to buy stocks by the beneficiaries/borrowers of the stimulus packages which was clearly undesirable. Bangladesh Bank also expressed concerns regarding the issue. In July 2021, Bangladesh Bank directed the country's lenders to monitor how loans from the stimulus packages were being used as it found some cheap funds being channelled into undesirable sectors.[20]

6.5.7 Market manipulating practices

As discussed earlier, a number of market manipulating practices or non-compliant business practices during the pandemic period have influenced rising share prices. In the backdrop of a weak monitoring system, such practices have been continuing and created an artificial rise of the market price.

[19] https://www.thedailystar.net/business/news/another-tk-1863cr-bank-fund-stock-market-2060745
[20] https://www.tbsnews.net/economy/bb-sees-risk-stimulus-loans-diverting-stocks-278554 [25 July 2021]

6.5.8 New leadership in the SEC

The role of the new leadership has been positively acknowledged by the stock market experts. The new team has undertaken a number of visible measures which partly built confidence among the market players. While a number of measures are taken by the new SEC team related to operational strengthening, the market is still suffering in weaknesses in ensuring corporate governance, transparency and accountability of major stakeholders and controlling market manipulating behaviour and safeguarding the interests of small shareholders.

6.6 Conclusions and Recommendations

The sudden rise in the capital market indices during the period of uncertainty and risks in the real economy raises doubt about the sustainability of the stock market. Given the inherent weaknesses in the market, such a rise in the stock prices needs close examination. This subsection attempts to contribute to this end. Overall, the bubble-like behaviour of the market is being contributed by a number of artificial short-term stabilising measures. However, such measures would hardly ensure long term stability in the market and thereby would hardly develop confidence among the market players. The new leadership in the SEC has taken some visible measures to influence the market; however, those are still found to be less effective in creating an enabling market environment.

(a) The market regulatory bodies should reflect more concern about the quality of stocks rather than indices. This is crucial for the sustainability of the market. The quality stock would ensure that the product base is more diversified, and the people have more options to choose from;
(b) BSEC and Bangladesh Bank should not encourage banks to invest in the market for short term market gain, which would cause long-term damage for the investors, particularly to the general investors;
(c) Banks and institutional investors should follow the corporate governance principles in taking decisions with regard to their investment in the capital market;
(d) BSEC should monitor and review whether institutional investors follow the corporate governance code/guidelines and provide necessary directives in this regard;
(e) Ensuring corporate governance is a must which is connected with ensuring accountability. In many cases, the listed companies are controlled by family owners, and they tend to exploit the market for their benefits, so the improvement of the board formation could bring about a change. They should be bought under enhanced accountability.
(f) Transparency of the BO accounts needs to be ensured in order to properly monitor, track and trace transaction practices and transaction behaviour of the investors.
(g) SEC should make it mandatory to tag tax identification number (TIN number) and bank account numbers with all BO accounts (existing and new) with a view to ensuring transparency in the financial transactions in the capital market and their reporting with income tax statements;
(h) Market related manipulation needs to be addressed by the SEC immediately with proper and visible punitive actions to provide signals to the market players;
(i) SEC should work with the law enforcement agencies who regularly monitor social media with a view to reducing the rumours on the market using the social media;
(j) DSE should be made accountable for its due diligence in case of assessing the quality of IPOs and other stocks and shares;

(k) The financial reporting commission needs to play a strong role in reducing the anomaly in financial reports of the listed companies;
(l) SEC's initiative to regular monitoring of the brokerage houses is an important initiative. It should regularly make public the outcome of the monitoring of the brokerage houses;
(m) To attract big companies and more foreign investment, it is more important to strengthen the monitoring and inspection mechanism of the SEC and transparency and accountability of the market players include DSE, CSE, CDBL, institutional investors and other agents; and
(n) More reforms in the capital market listing should be ensured, particularly more big corporates and SMEs need to be brought to the market. However, ensuring proper governance or management of enterprises, mainly SMEs, is a critical issue to address.

7. CONCLUDING REMARKS

The trends of key macroeconomic correlates during the early months of FY2021–22 evince that many of these are in a recovery trajectory, led by export-oriented sectors. However, as has been discussed, macroeconomic stability is not in a comfortable state anymore. Uncertainty is looming large at the global level as well. Consequently, the policy space for tackling the prevailing and emerging challenges has become comparatively limited.

In this backdrop, trends in recovery, emergent risks and the available policy space should receive due cognisance while designing and implementing policy responses. The government needs to opt for a focused and targeted expansionary fiscal policy reinforced by accommodative monetary policy. Given the current context, a targeted flow of fiscal resources towards the more vulnerable households alongside the relatively small (and informal) enterprises will generate more 'aggregate domestic demand augmenting' effect and offer some protection to the marginalised groups. This becomes even more important given the upward creeping inflation induced by both domestic and external factors. One of the critical measures to be pursued by the government should be a downward adjustment of diesel price in order to decrease tillage, irrigation and transportation costs so that production cost is reduced.

Within the external sector, robust growth in export earnings and import payments, as well as the rise in overseas migration, depict clear signs of recovery. Although remittance inflow is exhibiting negative growth in comparison to the very high benchmark of the preceding year, it is still higher than the corresponding period of the pre-pandemic year. However, a number of disquieting trends can be simultaneously observed within the external sector. These are manifested in the volume-driven nature of export growth, the weakening of the BOP position and further weakening of taka at a time of rising commodity prices. If the policy primarily focuses on holding the exchange rate steady at around the current level, energetic steps to reduce the cost of doing business and proper incentivisation of exports will be necessary. The 2 per cent cash incentive on inward remittance should be continued, and investment in wage earners' bonds should be encouraged to dissuade the transfer of money through informal channels given the widening gap between official exchange rate and curb market rate.

The government may need to gradually discontinue some of the prevailing support measures while carefully observing the evolving pandemic scenario. Since the pandemic is still not over and the resultant fallouts are still vivid, the Bangladesh economy will require a recovery package 2.0. Taking cognisance of the limitations of the current packages, the new one will have to be based on distributive justice, which will support the marginalised and the vulnerable people at a time of rising prices of daily necessities and by taking into account their hardships during the pandemic with consequent loss of income and savings, and increased debt. The increased cost of investment induced by rising inflation needs to be accounted for in this new recovery package. Execution of unfinished support agendas such as loans to smaller entrepreneurs and fuller implementation of programmed social protection programmes (including cash transfer) must be ensured by the government.

The experience during the pandemic times spotlight that perhaps the ability to effectively and efficiently carry out expanded public expenditure programmes, including any additional stimulus packages in quantitative and qualitative terms, is the foremost binding constraint. Moreover, effective design, implementation and monitoring of the required policy packages demand real-time and updated data on key macro-fiscal indicators such as poverty, employment, inequality, and budget execution. Last but not least, the lost reform and good governance agendas must be revitalised in order to address the newly emerging challenges.

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ANNEX

Annex Table 1: Companies Listed in 2020 and 2021

Name of the Company	Sub. Open Date	Amount (BDT Crore)
BD Thai Food and Beverage Ltd.	23 Dec 2021	15
eGeneration Limited	12 Jan 2021	15
Associated Oxygen Limited	10 Sep 2020	15
SEA Pearl Beach Resort & SPA Ltd	22 Apr 2019	15
Sena Kalyan Insurance Company Ltd.	3 Oct 2021	16
Desh General Insurance Company Limited	14 Feb 2021	16
Crystal Insurance Company Limited	10 Nov 2020	16
Union Insurance Co. Ltd.	15 Dec 2021	19
Coppertech Industries Ltd.	31 Mar 2019	20
Express Insurance Limited	13 Apr 2020	26
ACME Pesticide Limited	12 Oct 2021	30
Taufika Foods and Agro Industries Limited	3 Jan 2021	30
Silco Pharmaceuticals Limited	7 Mar 2019	30
New Line Clothings Limited	18 Feb 2019	30
South Bangla Agriculture & Commerce Bank Ltd	5 Jul 2021	100
Ashuganj Power Station Company Ltd.	23 Sep 2019	100
NRB Commercial Bank Limited	3 Feb 2021	120
Energypac Power Generation Limited	7 Dec 2020	150
Ring Shine Textiles Ltd.	25 Aug 2019	150
Union Bank Ltd.	26 Dec 2021	428
Robi Axiata Limited	17 Nov 2020	524

Source: Authors' calculation based on DEC data.

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