Independent Review of
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Bangladesh's Development
বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2021

Third Reading

(Draft)

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

State of the Bangladesh Economy in FY2021

Third Reading

SECTION 1: INTRODUCTION

This report has been prepared in the context of the unprecedented impact of the ongoing COVID-19 pandemic on the economy of Bangladesh since March 2020. Though many had expected the wrath of the pandemic to fade away towards the first quarter of FY2021, it has resurfaced in the third and fourth quarters of FY2021. This has reiterated the need for designing the upcoming national budget for FY2022 to be presented by the Finance Minister on 3 June 2021, keeping in mind the new challenges that have emerged and are apprehended to emerge.

The Centre for Policy Dialogue (CPD) has been emphasising right from the beginning for medium-term policy measures to address both the immediate and medium-term challenges faced by the economy due to the pandemic. Since March 2020, CPD has undertaken several empirical and survey-based research on the impact of the pandemic, various aspects of the government support measures to tackle the pandemic and made evidence-based sector-wise specific policy recommendations. CPD has also made concrete suggestions to the Finance Ministry as well as to the National Board of Revenue prior to the national budget for both FY2021 and FY2022.

This review of the current FY2021, prepared under CPD's flagship *Independent Review of Bangladesh's Development (IRBD)* programme, offers an analysis of the economy that experienced an unusual state of affairs due to the COVID-19 pandemic throughout the fiscal year. The current IRBD report reviews the macroeconomic management (Section 2) of the government during the pandemic. Besides, the report presents an analysis of food prices volatility (Section 3) and banking sector challenges (Section 4). While discussing these aspects, the report has critically analysed the impacts of the pandemic on the economy and policy measures taken by the government of Bangladesh to address the challenges of the pandemic. The report also makes a set of important recommendations (Section 5) in the context of the upcoming budget and the ongoing pandemic.

SECTION 2: MACROECONOMIC MANAGEMENT

2.1 Public finance

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

Latest data on budget implementation published by the Ministry of Finance (MoF) reveals that there is a turnaround in tax collection, in recent months, it registered a growth of 10.5 per cent during the July-April period of FY2021 as opposed to the negative growth of (-) 9.3 per cent for the corresponding period of FY2020[1] (Table 2.1). As against this, revenue mobilised from non-tax sources posted an impressive growth of 29.9 per cent. In aggregate, total revenue mobilisation recorded 13.4 per cent growth during the first ten months of FY2021 against the annual target of 43.7 per cent. This implies that total revenue collection will need to grow by an astounding 122.8 per cent in the remaining two months of FY2021 if the highly ambitious targets set in the budget for FY2021 were to be achieved. Foreign grants registered a negative growth (-69.7 per cent) during the July-April period of FY2021.

Table 2.1: Revenue mobilisation scenario during Jul-Apr FY2021

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

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

Weak implementation of public expenditure continues

Up to April FY2021, implementation rate of total public expenditure stood at 42.0 per cent, which is marginally lower than the implementation rate for the corresponding period of FY2020 (43.9 per cent) (Table 2.2). Operating activity registered an implementation rate of 50.2 per cent, while, for development activities, the corresponding figure was 29.0 per cent. Such low levels of budget implementation when the economy is ravaged by the adverse impacts of the pandemic, and is experiencing a second wave, is a matter of grave concern. Indeed, it reflects both weak programming of the budget as well as weak administrative capacities in the area of budget execution.

Table 2.2: Implementation status of public expenditure

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

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

[1] The latest data available from MoF does not provide disaggregated data on sources of revenue mobilisation. However, according to the National Board of Revenue (NBR) data, tax collected by NBR exhibited a growth of 7.3 per cent during the July-March period of FY2021. This implies that required growth for the last quarter of FY2021 is an impossible 190.2 per cent!

ADP expenditure remains sluggish

As per Implementation Monitoring and Evaluation Division (IMED) data, only 48.7 per cent of the original annual development programme (ADP) allocation was utilised during the July-April period of FY2021[2]. During the aforementioned period, the implementation rate of the 'Taka component' of ADP was 49.4 per cent, while that of 'Project Aid' amounted was 47.5 per cent. Regrettably, pace of implementation remains the lowest in the Health Services Division among the top ten ministries/divisions, with only a rate of 31.3 per cent during the July-April period. Given the increased pressure on the public health service sector in view of the COVID-19 pandemic, the current scenario is in stark contrast to the citizen's expectations and the realities of the demands on the ground.

Budget deficit is likely to be within the programmed limit

During July-April FY2021, the overall deficit (including grants) was Tk. 22,814 crore, as per the latest MoF data on 'budget execution. This is about 42 per cent lower than the corresponding figure for the July-April period of FY2020. As has been mentioned above, while the revenue collection during the July-April period of FY2021 recorded a double-digit positive growth rate, the public expenditure did not increase in a corresponding manner. As a result, the overall deficit (including grants) remained (-) 42.2 per cent lower than the previous year. High net sales of NSD certificates had largely financed the major part of the budget deficit till April 2021, which exhibited a 69.2 per cent growth during July-April of FY2021. Use of net foreign financing also improved as a source of deficit financing in FY2021. According to MoF (2021), the debt-GDP ratio of Bangladesh (including both domestic and external) was 35.9 per cent at the end of FY2020. As per the same report, the overall risk of debt distress for the country is low. As such, there should be ample scope for the policymakers to pursue an expansionary fiscal policy in view of the pandemic.

2.2 Industrial production

Growth in industrial production was subdued, especially for small industries

During the July-December period of FY2021, the growth rate of Quantum Index of Industrial production (QIIP) for large and medium industries was 5.7 per cent, while the corresponding figure for the same period of FY2020 was 14.3 per cent. A substantial fall can also be observed in the growth rate of QIIP for small scale industries for the same period of FY2021. The recorded growth rate was only 1.8 per cent which was 10.6 per cent over the corresponding period of FY2020. This is indicative of the slow pace of recovery in manufacturing and industrial production. A drastic difference is discernible in the rate of recovery across the sectors. Production of textile and apparels, two of the largest manufacturing industries, registered negative growth rates of (-) 5.2 per cent and (-) 7.2 per cent, respectively, during the first half of FY2021, according to QIIP data for large and medium industries. In contrast, production of leather and associated products registered an extraordinary growth rate of 32.6 per cent despite the negative growth of export earnings to the tune of (-) 6.2 per cent for these products during the corresponding period.

2.3 Inflation

Food inflation is creeping up

General inflation at the national level, as per data from the Bangladesh Bureau of Statistics (BBS), remained somewhat stable during the first ten months of FY2021. However, the inflationary

[2] No comparative analysis can be drawn as data from IMED is not available for the July-April period of FY2020. It is also to be noted that IMED data is not congruent with the figures presented in Table 2.2 under the row titled 'Development activity'. However, discrepancy in data reported by IMED and MoF has been repeatedly spotlighted in previous analyses under CPD's IRBD successive reports.

trends of the constituting elements did not move in tandem. FY2021 started with food inflation of 5.43 per cent at the national level, which gradually crept up to 5.73 per cent in April FY2021.[3] In contrast, non-food inflation at the national level decreased to 5.22 per cent in April FY2021 from 5.79 per cent in July FY2021. However, within non-food items, inflation related to medical care and health expenses increased to 8.64 per cent in April FY2021 from 7.47 per cent in July FY2021. The rising trends in food inflation and that related to healthcare is worrisome, particularly in view of the ongoing COVID-19 pandemic, as these are expected to adversely impact the low-income population disproportionately.

2.4 Monetary aggregates

Private sector credit did not pick up despite stimulus packages

Data from Bangladesh Bank evince that as of March 2021, growth of net foreign assets stood at 29.7 per cent, exceeding both the half-yearly and annual targets. This was primarily thanks to the large inflow of remittances (Table 2.3). Regrettably, the growth of domestic credit (11.4 per cent as of March 2021) lagged behind both its half-yearly and annual targets. This subdued state is attributable to the lack of credit obtained by the private sector and the lower than the programmed requirement of credit to the public sector. Indeed, despite several stimulus packages in the form of subsidised interest rates, private sector credit did not pick up. Disbursement of industrial term loan was (-) 30.8 per cent lower during the first half of FY2021. Loans to SMEs was also almost the same as last year's and recorded a growth rate of (-) 0.3 per cent during the same period. Growth rate of agricultural credit was on a decline throughout the fiscal year and recorded a 9.6 per cent growth during July-February of FY2021. Non-farm rural credit disbursement also recorded a fall of (-) 2.2 per cent over the corresponding period. Indeed, despite average interest rate on lending being at a historical low point (7.5 per cent), private investment did not pick up, indicating that other factors had been at play.

Table 2.3: Growth of monetary aggregates (in per cent)

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

Source: Author's calculations based on the data from Bangladesh Bank (BB).

2.5 External sector

A limited scale rebound is observed in export earnings

According to Export Promotion Bureau (EPB) data, total export earnings increased by 8.7 per cent during the July-April period of FY2021 against the annual growth target of 21.8 per cent (Figure 2.1a). Thus, total export in FY2021 is likely to remain significantly below the pre-pandemic level of about USD 40.5 billion. Export growth of RMG products (6.2 per cent) was below the annual target (20.9 per cent). Knit RMG items attained 15.3 per cent growth during July-April of FY2021 against the annual target of 20.1 per cent. In contrast, woven RMG items recorded a negative (-) 2.7 per cent growth as opposed to the target of 21.7 per cent. It is to be noted that a higher growth

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

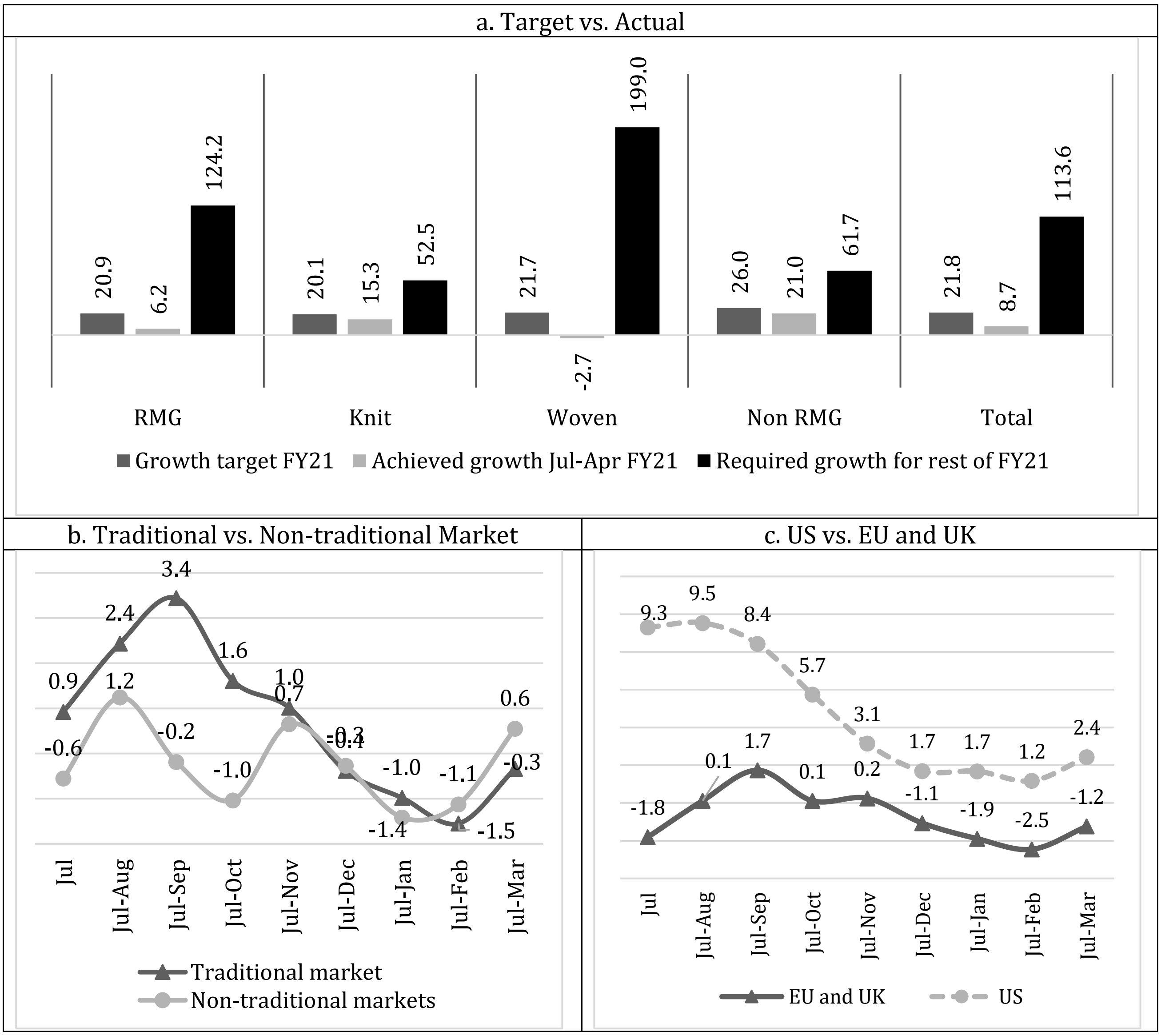
rate of knit RMG export implies better value addition and hence, higher net export. On the contrary, non-RMG products registered a 21.0 per cent growth against the annual target of 26.0 per cent. Here also the proportion of net exports is higher. Estimates carried out by the CPD indicates that the share of Knit-RMG export in total export has been on the rise, which is a positive structural change in terms of domestic value addition component of Bangladesh's export (Table 2.4).

Table 2.4: Share of Export of Bangladesh by Major Items: Gross and Net Exports (In percentages)

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

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

Figure 2.1: Current scenario of export (July-March/April of FY2021)



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

Export growth in the non-traditional markets (0.6 per cent) surpassed that of traditional markets (-0.3 per cent) during the July-March period of FY2021 (Figure 2.1b). The boost in non-traditional markets was mostly attained by way of impressive performance of RMG products in Australia, Russia and South Africa. Non-RMG products attained considerable growth in non-traditional markets such as Australia, Brazil, China, South Korea, Russia and Turkey.

Export growth performance in the US market has remained in the positive terrain throughout FY2021 (Figure 2.1c). Both knit and non-RMG exports to the US market have registered substantial growth during the July-March period of FY2021. Performance in the EU and UK was rather subdued during the first nine months of FY2021. This is particularly so in the case of woven exports. As demand picks up in developed country markets, competition among exporting countries is intensifying. Vietnam in the USA and Cambodia, India, Turkey in the EU are trying their best to fill in the gap left by the general trend of a declining share of China. Bangladesh should try to raise its market share in these countries by raising its competitive strengths.

Some turnaround is noticed in the import payments scenario

Growth of import payments reached 6.1 per cent during July-March FY2021, the highest so far in the ongoing fiscal year. The corresponding figure for the previous fiscal year was negative (-) 4.8 per cent. The boost in import payments was primarily driven by intermediate goods. More than 77 per cent of the incremental payments were made against imports of intermediate goods, thanks to crude petroleum and petroleum products (POL), which contributed almost entirely to the incremental growth of total imports. Given the declining food stock situation in Bangladesh, payments for food grains import increased by 20.9 per cent during the July-March period of FY2021, mainly due to a whopping 3059 per cent growth in rice import. However, import payments for capital machineries declined by (-) 12.8 per cent. It is to be noted that, during the same period of the previous fiscal year, capital machinery declined by (-) 30.6 per cent. This, once again, points towards the depressed investment scenario prevailing in the backdrop of the pandemic.

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

Bangladesh's trade deficit stands at USD 14.5 billion as of March FY2021, which is higher than the deficit of USD 12.1 billion for the corresponding period of FY2020 (Table 2.5). The current account had a surplus of USD 0.1 billion during the aforementioned period, largely thanks to a 35.1 per cent increase in remittance inflow. Regrettably, net FDI inflow has fallen by (-) 8.0 per cent during the July-March period of FY2021 compared to the corresponding period of FY2020. During July-March FY2021, overall balance recorded a surplus of nearly USD 7.0 billion, which was only USD 0.6 billion for the corresponding period of FY2020. Thanks to a healthy surplus in overall balance, the foreign exchange reserves reached USD 45.0 billion in April 2021. However, the exchange rate of BDT against USD remained stable throughout the July-April period of FY2021 thanks to periodic interventions by the Central Bank.

Table 2.5: Balance of Payments scenario (in USD million)

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

Source: Bangladesh Bank.

2.6 Policy Recommendations

The economic downturn and uncertainty induced by the COVID-19 pandemic continued in FY2021, although at a lower intensity than was initially perceived. During the first half of the ongoing fiscal year, much of the discussions and debates in the national policy discourse had centred around economic recovery and its shape, in view of the worst effects of the pandemic receding. However, as the second wave of the pandemic started to unfold, the overarching focus once again shifted to the protection of lives and livelihood.

The trends of macroeconomic correlates in FY2021, as have been presented above, unveil a number of contrasting developments. *First*, although growth in revenue mobilisation started to pick up, pace of public expenditure in FY2021 failed to do so. This slow pace of public expenditure can be attributable to a number of attendant factors, viz. design, execution and quality. The public expenditure framework for FY2021 was designed in a very formulaic manner, and a number of constraints were introduced in cases of public expenditure, including for ADP allocations after the budget was announced.[4] The limited administrative capacity to implement the budget has also restrained the pace of public expenditure. Failures to fully operationalise the targeted cash transfer programme (Tk. 2,500 each to five million poor households) and special honorarium to healthcare providers are glaring examples to this end. Quality of public expenditure has also come under scrutiny, particularly in view of irregularities in health sector-related public procurements. *Second*, in terms of growth in industrial production and manufacturing, small industries were lagging behind their large and medium counterparts. *Third*, food inflation was on the rise, while the opposite was true for non-food items. *Fourth*, although positive developments were observed in cases of export earnings, remittance inflow and foreign exchange reserves, disquieting trends were evident as regards overseas migration, import of capital goods and FDI inflow.

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

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

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

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

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

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

Formulate a medium-term recovery plan

One of the major criticisms of the FY2021 budget was that instead of designing a COVID-specific budget, the government largely opted for a business-as-usual one. The budget for FY2021 was apparently designed under the assumption that managing the fallout from COVID-19 will be easy, and the economy will bounce back within a short period in FY2021. Given the current dynamics of the pandemic, it can be said that recovery from the entire fallout will take much longer than expected by the MoF a year ago. Over the next few years, all recoveries are susceptible to changes in the nature of COVID-19 and the availability and effectiveness of vaccines. Taking these into cognisance, the government needs to formulate a medium-term recovery plan to consolidate its position, contain the virus and progress towards sustainable recovery.

Focus on equity and redistribution, not economic growth

The national budget for FY2022 should focus more on equity, redistributive justice, protecting jobs and saving lives, and less on economic growth. Attaining a high GDP growth should not be what the budget for FY2022 should set its target on. Rather, the budget should be one of redistribution, particularly addressing the underlying factors driving rising inequality. Although the BBS has not yet released the final GDP growth data for FY2020 and provisional estimates for FY2021, it is likely to be lower than the target despite positive growth in the per capita income. For a change, the budget should set targets as regards employment and growth in income at the household level rather than GDP growth or per capita income.

Pursue an expansionary fiscal policy in FY2022

CPD has urged in favour of an expansionary fiscal policy since the onset of the pandemic in Bangladesh. An expansionary fiscal policy for macro-level recovery should be informed by the needs of public expenditure rather than worries about the budget deficit. Public expenditure-GDP ratio should increase in FY2022 not only at the programmed level but also at the execution level. In order to pursue the proposed expansionary fiscal policy, the following six issues should be considered:

First, revenue collection should be raised in FY2022 by not introducing new taxes but by curbing tax evasion, black money and illicit financial flows. More equitable fiscal measures are expected in the national budget for FY2022. Strategic support measures should be extended to domestic market-oriented industries with a view to diversifying the economy.

Second, the sectoral prioritisation for public expenditure is critical in the budget for FY2022. As discussed earlier, four sectors, viz. health, social protection, agriculture, and small and medium businesses, should receive priority in budgetary allocation. In addition to these, sectors related to education and employment-generating public work programmes should also receive due attention.

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

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

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

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

Put supportive macroeconomic and sectoral policy measures in place

In the budget for FY2022, a number of supportive macroeconomic and sectoral policy measures should receive attention. Redesigning the stimulus packages, taking cognisance of their weaknesses and past implementation experiences should be one of the priorities. Continuation of the tax-exemption facilities in view of the pandemic, such as on PPE and medicines, should also continue in FY2022. The government should continue the two per cent incentive on remittances as it has contributed significantly to the increase in remittance flows, replenished foreign exchange reserves and reinforced exchange rate stability, which is essential to maintain in such unpredictable global market conditions. Price volatility of essential commodities must be controlled. As part of sectoral policy measures, promotion of agricultural diversity should receive continued and expanded support. As there are rising concerns as regards the food-stock situation, adequate food-stock must be maintained through imports considering the amount procured through domestic procurement.

Enhance institutional capacity and collaborative efforts

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

Do not undermine medium-term reform agenda

Without addressing the reform agenda, the underlying weaknesses in the fiscal framework and implementation of the budget will not be feasible. CPD has been drawing attention to this in successive IRBD reports. A viable completion timeline should be chalked out in the FY2022 budget for reforms that are under consideration – Customs Act, Direct Tax Act and others. At the same time, efforts towards raising the ease of doing business and improving the investment climate should be put into high gear. The pandemic should be no excuse in this connection; rather, these steps are essential for building back better.

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SECTION 3: FOOD PRICE VOLATILITY DURING COVID PANDEMIC PERIOD: NEED 'BEYOND BUSINESS AS USUAL' PUBLIC POLICY INTERVENTIONS

3.1 Introduction

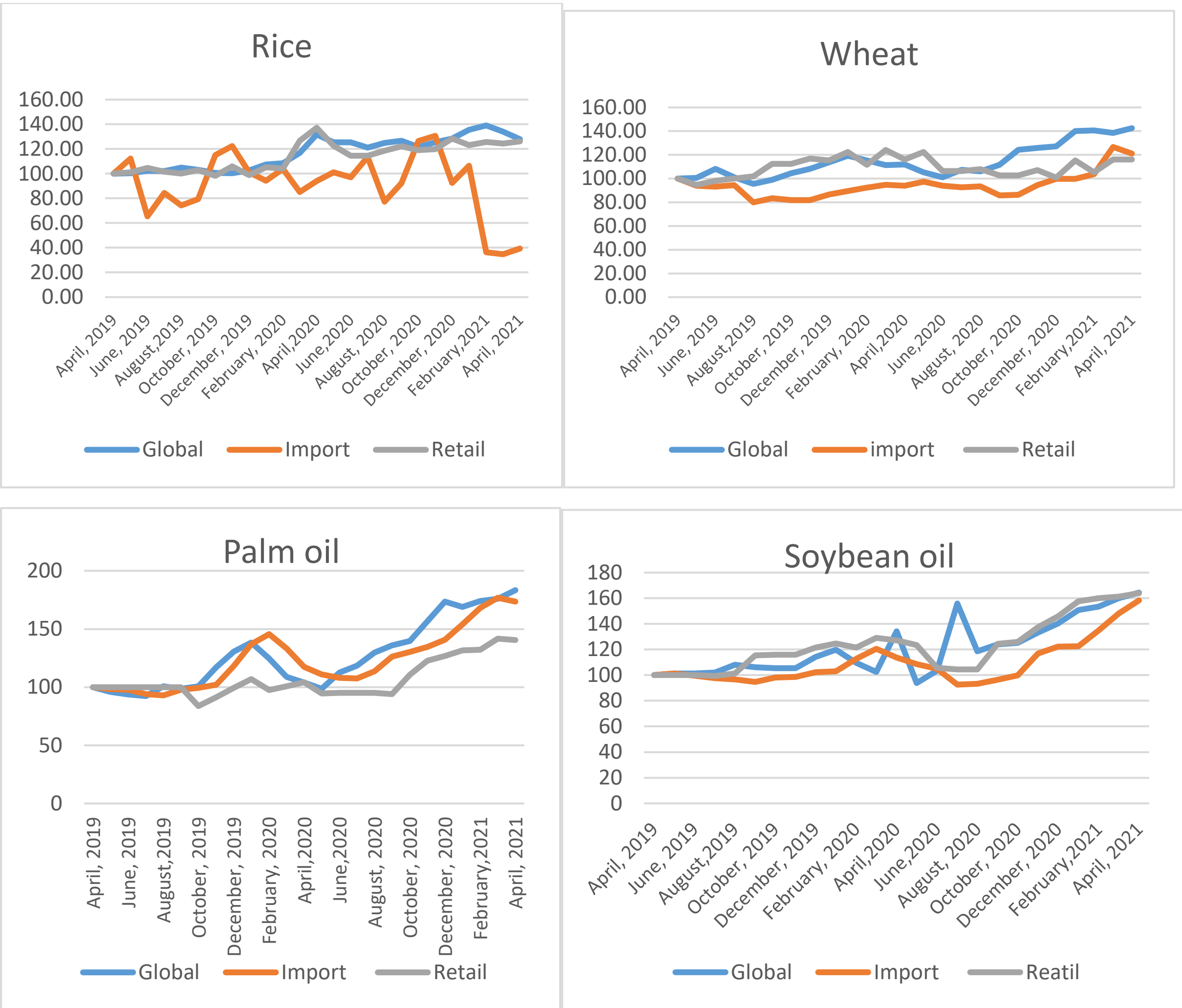
In view of the ongoing covid-pandemic, food price volatility has emerged as a major concern in Bangladesh. The impact of global food price fluctuations owing to higher cost of production and fluctuations in production, and the import scenario, had cumulative adverse effect on food availability and price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

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

3.2 Trends in prices of consumer goods in domestic and international markets during pre-covid and covid period

The analysis takes into consideration the prices in the global market, the price at which the goods are imported and the retail market price at the domestic level. An overall increase in the price of all consumer goods is discernible in international and local markets during the covid period (Figure 3.1). Since August, 2020 when the global economy started to bounce back following the first wave of covid pandemic, the demand for food products at the global level (along with the rising shipment cost for higher petroleum prices) also started to rise in tandem. Data shows that, between pre-covid and covid period, global price for rice, wheat, palm oil, soybean oil and sugar had increased by 27 per cent, 42 per cent, 83 per cent, 64 per cent and 26 per cent respectively. Domestic retail market has experienced similar volatility in prices. The retail prices of rice, wheat, palm oil, soybean oil and sugar have increased by 26 per cent, 16 per cent, 40 per cent, 63 per cent and 25 per cent respectively during this corresponding period. Overall, global and local retail markets have experienced rising trend in retail prices during the COVID period. The rise in prices had adverse effect on consumers' purchasing capacity, definitely that of the marginal groups. In the backdrop of fall in income of the consumers during the pandemic period, the rising food prices had led to an erosion of purchasing power with consequent deterioration in nutritional intake of the poor, marginalised and low-income households.

Figure 3.1: Trends in food prices during pre-covid and covid periods



Source: Authors' estimation based on data collected from TCB and other sources

3.3 Price Volatility of Food Products in World and Domestic Markets

Despite the general trends in price movement at domestic retail and global markets, which tended to be similar, the level of volatility in prices of different products were not the same. As part of the study, price volatility was measured by using the variance in monthly prices during pre-covid period (April, 2019-March, 2020) and covid period (April, 2020-March, 2021) (Table 3.1). It is to be noted that price fluctuations were rather high during the covid year compared to that of the pre-covid year concerning the selected products, both in global and local markets. Significant price volatility was observed in case of rice in the domestic retail market and palm oil, and soybean oil in the global market.

Table 3.1: Volatility index of market prices of selected food products

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

Source: Estimated by authors.

Domestic retail prices are to a large extent impacted by the level and price of import of food concerned item. The study analyses the import dependency ratio of major food products of Bangladesh (Table 3.2). According to the estimates, none of the selected products has a level of dependence of even 1 per cent. The highest level of import dependence is observed in case of wheat (0.99) followed by rice (0.83 in 2020) and lentil (0.67 in 2020). The level of dependence has varied depending on the level of domestic production in a particular year. Given the very low level of dependence on imported products, volatility in domestic retail price is likely to be explained more by internal factors as against the external factors (particularly the fluctuations in the global market price).

Table 3.2: Import dependency ratio of selected agricultural products

	Rice	Wheat	Lentil	Onion	Garlic
2019	0.0	0.99	0.55	0.15	0.52
2020	0.83	0.99	0.67	0.06	0.47

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

Retail market price variation may be estimated in terms of daily, weekly and monthly levels (Table 3.3). It is to be noted that majority of essential food products are outside of the purview of the structure of maximum retail price (MRP). In case of stable supply of foods in the domestic market, price variations between daily, weekly and monthly levels was within a tolerable limit. The study has analysed the retail prices of two important food products – rice and wheat (atta) in Dhaka retail market during July-December, 2020. In case of rice, the monthly price fluctuation was found to be higher than daily and weekly ones. On the other hand, in case of wheat, the daily price fluctuation is higher which is followed by weekly and monthly price fluctuation. Such inconsistent pattern of market price movements indicate that domestic market supply and market price were influenced by non-market factors.

Table 3.3: Variance in Dhaka retail prices of rice and wheat at daily, weekly and monthly levels (July-December, 2020)

	Daily	Weekly	Monthly
Rice	1.30	0.73	3.04
Wheat	1.95	0.84	0.76

Source: Authors calculation based on TCB data.

When marketing channels of food products work smoothly across the country, variation in retail prices in different markets are expected to be within certain limits. This section analyses the spatial variation of retail prices of rice and wheat in six major markets in the country – Dhaka, Khulna, Chittagong, Rajshahi, Barisal, Rangpur and Sylhet. The price levels vary widely between different markets within the country (Table 3.4). The highest level of variance in rice price was observed in Sylhet followed by Chittagong and Rangpur. On the other hand, the highest variance in wheat price is observed in Rangpur followed by Dhaka and Barishal. Hence, the price movement within the country are not same and different retail markets behaves differently in terms of market price levels. This is partly due to variance in timely availability of supply in the market, but there are also other factors at play which need to be examined.

Table 3.4: Variance in retail prices of rice and wheat at selected markets in the country (July-December, 2020)

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

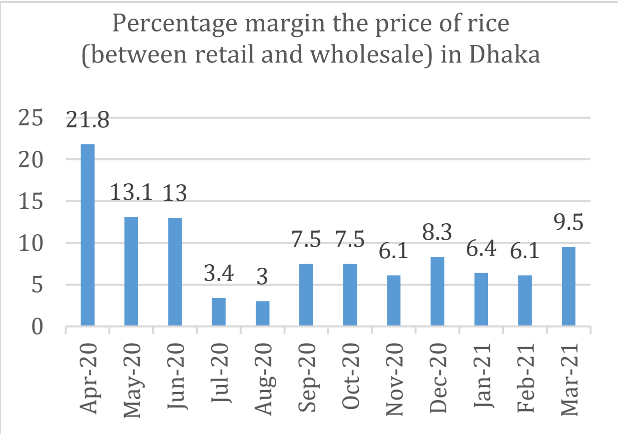
Source: Authors calculation based on DAM data.

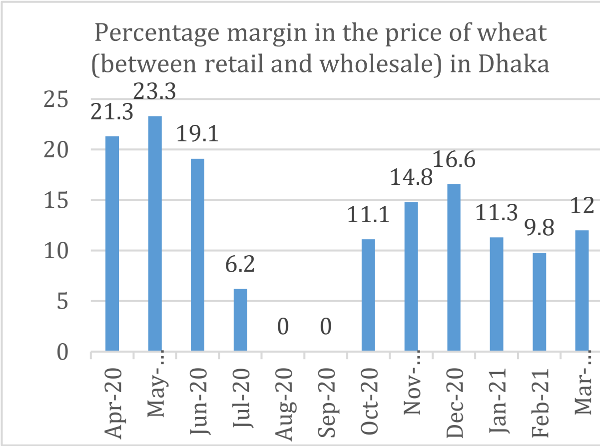
3.4. Factors Driving Volatility of Retail Market Prices

3.4.1 Distribution of margins in the value chain

The retail market price is influenced by the margin enjoyed by the intermediate market agents particularly at wholesale and retail levels (Figure 3.2). Based on the analysis carried out by the Food Policy Monitoring Unit (FPMU), the margin in rice and wheat prices in Dhaka retail market during the covid period was found to vary widely. In case of rice, the rate of margin was as low as 3% during August, 2020 to as high as 21.8% in April, 2020. On the other hand, the rate of margin in wheat (atta) varied between as low as 0 per cent in August and September, 2020 to as high as 23.3 per cent in May, 2020. The margin in March 2021 (during the second wave) has started to rise both in rice and wheat. Uncertainties in domestic supply related to production, import and stock due to the covid pandemic were to some extent responsible for the aforesaid trends.

Figure 3.2: Percentage of Margin in the Prices of Rice and Wheat in Dhaka





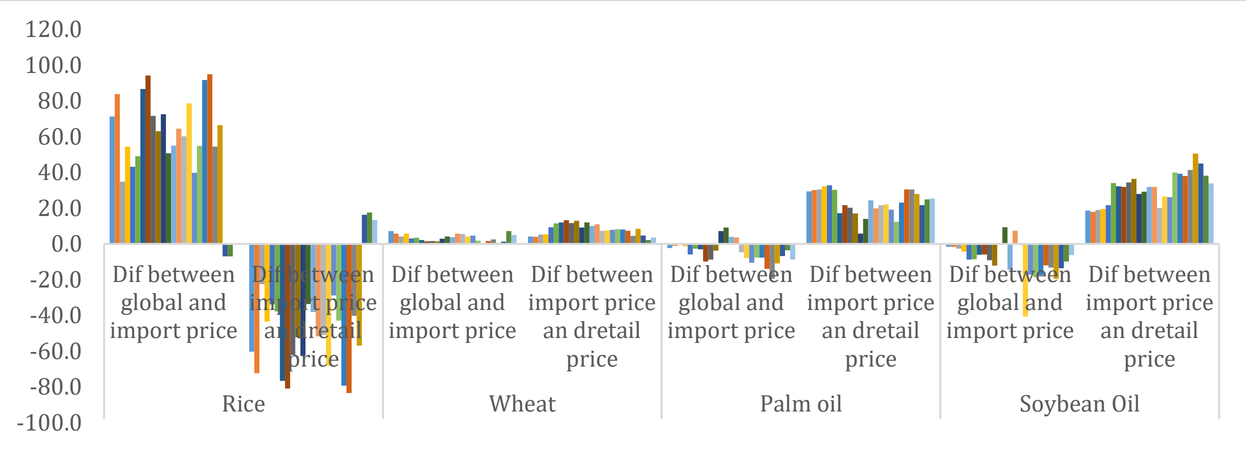
Source: FPMU, 2021.

3.5 Influence of Variation of Import Prices

Import of different food products as per requirement, and delivery on time, are highly important for ensuring stable market price. The study has carried out an analysis of import of selected food products through Chittagong seaport during April, 2019 to April, 2020. The products included rice, wheat, palm oil, soybean oil and sugar. It is to be noted that a major part of rice is imported through land port from India and hence the data analysed in this section will keep this out of the purview of the analysis. It is generally expected that import price should reflect the price associated with global export price, shipment cost, import duties and charges, and importers' margin. Figure 3 shows that the gap between global market price and import price is found to be very high. More importantly, import prices of rice (Tk. per kg), both during pre-covid and covid periods, shows extremely high figures (Tk.99.9 and Tk.94.9 respectively). A possible explanation of the high market price of rice at the domestic level relates to the import of high-quality rice which is usually consumed at a limited scale by a section of high-end consumers. The huge volume of import of rice at higher prices through the Chittagong port indicates that this is not high-quality rice only. In other words, a part of high import cost is likely to be over invoiced by the importers. However, such anomalous activities cannot be strongly explained from import price of other imported products. The particular case of rice needs to be investigated.

Import price of food products is likely to be reflected in the domestic market prices – where the latter is supposed to reflect import cost, loading/unloading charges at ports, transportation cost, wholesale price and retailers' margin at the retail level. It appears that the differences between import price and retail price is inexplicably high in case of palm oil and soybean oil (Figure 3.3). The price gap both at the import end as well as retail end of the value chain cannot be explained by general economic logic. In other words, domestic retail market is likely to be influenced by non-market practices by importers, wholesalers and retailers; this has also been painted out in a government report.

Figure 3.3: Difference between Global and Import Price and Difference between Retail and Import Price of Selected Food Products (April, 2019-April, 2021)



Source: Authors' estimates based on collected data

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

Domestic supply of food grains in a particular year is largely influenced by changes in domestic production and net import. This section analyses the changes in domestic production as also of import during pre-covid and covid periods. Table 3.5 shows that major food products have experienced a rise in production, except that of wheat, in FY2021. On the other hand, import of rice, soybean and onion through the Chittagong port has declined during covid period. It is to be noted that changes in import of rice and onion presented in this section provide only a partial picture as it did not capture import through land port from India. As is known, the rising prices and demand for additional food support for low-income people, import of rice, onion and soybean oil both by the public and private sector have been encouraged by the government. In this connection, a number of policy support measures were announced including reduction of import tariff on rice and onion and setting higher targets for domestic procurement of rice and encouraging production of onion etc. In case of import and level of procurement of rice, the impacts were not notable. Import of onion has increased though only in recent times, and acreage of onion production has increased. In the backdrop of high price of soybean oil, reduction of import in the covid period has further led to the increase of the prices of soybean oil at the retail market.

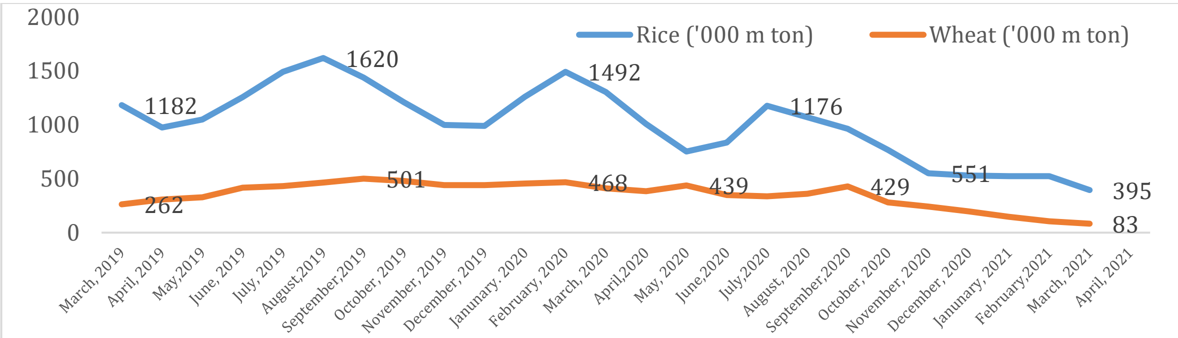
Table 3. 5: Changes in Domestic Production and Import of Selected Food

	Rice	Wheat	Lentil	Soybean	Onion
Production (percentage change)					
FY 2017-2018 - FY 2018-2019	0.71	4.46	5.88	19.33	0.04
FY 2018-2019 - FY 2019-2020	0.18	-10.37	3.17	3.52	9.82
FY 2019-2020 - FY 2020-2021(target)	8.41	26.24	2.31	3.40	15.43
Import (percentage change)					
FY 2019 -2020	-24.14			51.71	-5.48
FY 2020 – 2021 (upto April, 21)	-94.89			-89.6	-86.76

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

Domestic retail prices of rice and wheat are partly influenced by the availability of public food stock of rice and wheat. Stocks of both rice and wheat were at their lowest level at the end of April, 2021 (Figure 3.4). This is because of the failure to attain the targeted amount of procurement of rice and wheat against the increased targets set for procurement and public food distribution under the various social support programmes. The procurement of boro and aman rice during 2021 was not achieved. Against the target of 1.3 million m ton of rice and 0.10 mmt of wheat for FY2021, only 0.66 mmt of rice could be procured up to March, 2021. In other words, the procurement was only half of the total targeted amount. It is alleged that the low procurement price set in Aman season discouraged farmers and millers to sell to the government. Although procurement price of boro was increased, because of higher market price the collection till now has not been satisfactory. On the other hand, import duty on rice has been brought down by the NBR, till April, 2021, with a view to encourage import of rice by the private sector. However, private sector has showed only a meek interest in importing rice from the global market and the amount was rather low. Against the huge shortage in public food stock and high local market price, import of rice during FY2021 (upto 22 April) was a significant 923.1 thousand m ton – of which 265.8 thousand m ton was imported by the government and the 657.3 thousand m ton was imported by the private sector. However, import of rice had only a modest effect on the market and the retail price of rice. Market tends to be highly influenced by the harvest of boro rice. Due to low level of procurement, government has revised downward the target for distribution of rice and wheat under social support programmes. This will adversely affect the low-income people in terms of ensuring minimum level of food security during the ongoing pandemic period.

Figure 3.4: Trends in Public Food Stock during Pre-Covid and Covid Period



Source: FPMU, 2021.

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

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

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

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

Based on the analysis, following results can be drawn (Table 3.6):

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

Table 3.6: Cointegrating coefficients of variables with p values for selected commodities

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

Sources: Authors' estimates.

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

3.8.1 Policy Measures Undertaken at the National Level

Ensuring availability of essential food products and price stability are major responsibilities of the government and concerned public entities such as Ministry of Commerce (MoC), Ministry of Agriculture (MoA), Ministry of Food (MoF), National Board of Revenue (NBR), Bangladesh Tariff Commission and a number of other ministries and departments. During the COVID pandemic period, various measures have been undertaken by concerned ministries and departments in addressing the supply of food products in the market (Table 3.7).

Rice: In case of rice, initiatives are mainly targeted at enhancing the supply of rice in the market. This has been carried out by encouraging the private sector to import more rice, by reducing the import duties and by putting emphasis on procurement of rice directly from growers in order to replenish the public food stock. These initiatives had limited positive impact because of the overwhelming dominance of rice millers in the domestic market and large-scale importers at the import stage. The influence of dominant market players in the rice value chain needs to be properly investigated and to be addressed under the jurisdiction of the Competition Commission.[5] Domestic procurement policy needs major revisions where procurement from growers need to be expedited through new measures and setting procurement price of paddy and rice at a competitive level. In case of import, decisions on changes in import duties need to be timely and specific to the needs of the market in order to avoid adverse consequences on rice growers and consumers.

Table 3.7: Major Food Items-Related Decisions Taken by the Public Authorities

Products	Key news and decisions taken by different public authorities	Sources
Rice	• The food ministry announced to buy paddy from growers by the end of October with the objective to push up prices of the grain and help growers recoup losses, reducing its focus to buy the grain only from millers • The NBR might reduce duty on rice import by issuing a Statutory Regulatory Order (SRO). The review comes in response to separate proposals made by the ministries of food and commerce and trade bodies concerned. Currently the import duty on rice is 62.5 per cent. There has been a surge in the prices of the staple in the recent months. • Government has identified three main reasons behind the rise in rice price – (a) inadequate production against the local demand; (b) increasing price and (c) the lower government stock of rice. Considering the overall situation, the government have allowed the private sector to import rice. NBR have reduced the import duty on rice from 62.5% to 25% which was valid till April 30th.	• Daily Star, March 11 2020 • Financial Express, 26th May 2021 • The Prothom Alo, 22nd May 2021
Onion	• India lifted ban on onion export • The decision would have adverse effect on local onion farmers • Ministry of Agriculture, GoB discouraged importers to import onion from India • MoA suggested MoC to impose higher import duties on onion • The government took steps to withdraw the 5 percent import duty on onions up to March 2021. • The Ministry of Commerce and the Directorate of National Consumers' Right Protection have intensified monitoring of the overall situation. • To keep the price and supply of onion normal in the country, Trading Corporation of Bangladesh (TCB), under the Ministry of Commerce, started selling onions in the open market at a price of Tk 30 per kg from September 13, 2020 at important places of Dhaka city. • TCBo decided to import onions from other sources and use e-commerce platform to sell, mainly imported from Myanmar and Turkey. • NBR to review duty on rice, onion for addressing price volatility. It is likely to reinstate 5.0 per cent duty and levy a new regulatory duty (RD) onion to discourage the import of the item to help the onion growers in getting better price.	• Daily Star, 1st March 2020 • Daily Star, 17th September 2020 • Financial Express, 26th May 2021

[5] See also Nazneen et al. (2020)

Products	Key news and decisions taken by different public authorities	Sources
Essential products	• The minister of commerce under the supervision of the prime minister of Bangladesh was seen to form a committee with the trading corporation of Bangladesh to maintain a stable price of essential goods during the first phase of the lockdown	Daily Star, March 29th 2020
Edible oil	• Edible oil manufacturers are causing problems in the product's supply chain to local markets as they have issued advance sales orders (SO-Sleep Order) more than their production capacity. • Thus when the price in the international market increase the local marketers reduces the supply of the products owing to the advance SO's. • A decision has been taken by the MoC to sell all brands of loose edible oil in consumer packs or bottles to help easily identify brand names and prevent adulteration of edible oil in the market • **Refiners cut edible oil prices by Tk 3 per litre**: Vanaspati Manufacturers Association, the association of edible oil importers and manufacturers, sent a letter to the Bangladesh Trade and Tariff Commission to inform them of their decision to raise edible oil prices. • **Commerce ministry seeks VAT, duty cuts on edible oil, sugar:** The National Board of Revenue (NBR) levied 15 percent VAT on all three stages -- import, production, and distribution -- of soybean and palm oil from this fiscal year, ending the previous rule of collecting the indirect tax at the import stage only, which have resulted in the sky soaring prices. • According to the Ministry of Commerce, the country imports 2.2-2.6 million tonnes of crude soybean oil and palm oil annually against the domestic demand of 2.2 million tonnes. • Of the total import, soybean accounts for 0.7-0.8 million tonnes and palm oil 1.4-1.6 million tonnes, while the remaining are mustard, sunflower, rice bran and other edible oils. • The tariff commission recently sent letters to all deputy commissioners in the country asking them to form committees in their districts under their chair to monitor the supply chain. • After analysing the international market – during a meeting with traders in the last week of January, 2021 – the Ministry of Commerce directed that soybean oil be sold at a maximum of Tk124 per litre. • However, the traders have raised the price several times since then	• 25th January 2021 • Daily Star 3rd May 2021 • Daily Star, 10th January 2020 • The business Standard, February 9th February 2021 • The Business Standard, 31st January 2021
Sugar	• **The rise in the price of refined sugar**: The specific duty on raw sugar rose 50 percent year-on-year to Tk 3,000 per tonne in fiscal 2019-20, the commerce ministry said in another letter to the NBR. • The letter also mentioned refiners who import raw sugar also saw the imposition of 5 percent AT and 5 percent AIT apart from the highest rate of VAT • **The national revenue board has declined to reduce the import duty and taxes on sugar and edible oil on the upcoming Ramadan.** It said any cut in duty and taxes would not benefit the consumers as prices did not increase significantly because of fiscal measures	• Daily Star, 10th January 2020 • The Financial Express, March 25th 2020

Source: Compiled from different newspapers.

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

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

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

Overall, various policy measures undertaken by the government to ensure stable market supply and prices of food products during the covid pandemic period had only limited positive effect on the market and particularly in view of interests of the consumers. The policy measures have indirectly benefitted the importers, wholesalers and retailers and partly growers, to varying degrees. The poor, marginalized and low-income people, who are the consumers are, however, deprived from getting the advantage of low market price of essential consumer goods. It is important to review entire process, identify the major weakness in policy measures and to identify innovative measures to ensure stability in market supply and market price and give the benefits to the consumers.

3.8.2 Policy Measures Followed in Other Countries

Given the sensitivity of market prices of food products, it is the general practice in developed and developing countries to take targeted measures through specific institutions (Table 3.8). The study has analysed the policies, institutions and measures practiced in different countries including in India, Pakistan, Sri Lanka, Thailand, Vietnam and USA. Majority of countries vest the responsibility of price stabilization with a particular institution. For example, India assigns these tasks to Commission for Agricultural Costs and Prices, Pakistan delegates this to National Food Security and Research and Thailand delegates the responsibility to Central Committee on the Price of Goods and Services etc. Three countries applied a host of measures to address the issue of the price volatility. For example, Price Stabilization Fund (PSF) and minimum support price have been put in place in India, market price support policy is being implemented in Vietnam, Pakistan has intensified crackdown on profiteers and hoarders across different provinces, and price department monitors and ensures price stabilization in USA etc.

Table 3.8: Relevant Institutions, and Measures Undertaken in Different Countries

Name of the department	Measures taken for stability in market prices
Bangladesh: Ministry of Agriculture	• Keeping the prices of the essentials within the purchasing power of the consumers. • Selling essential commodities such as rice, pulse in open market through the trading corporation of Bangladesh at fair prices.
India: Commission for Agricultural costs and prices (Ministry of Agriculture and farmers welfare)	• The CACP provides a "Price Policy Report" along with different state governments and national organizations and ministries. • A Plan Scheme titled Price Stabilization Fund (PSF) is being implemented to regulate price volatility of agricultural commodities. • Advisory was issued to state governments to take strict action against hoarding and black marketing and effectively enforcing the Essential

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

Sources: Compiled from different websites.

3.9 Conclusion

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

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

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

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SECTION 4: BANKING SECTOR—UNCLEAR PRESENT AND UNCERTAIN FUTURE

4.1 Introduction

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

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

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

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

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

4.2 Government's COVID-19 response

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

A summary of the COVID-19 relief packages announced by the government are outlined in Table 4.1. Bangladesh's fiscal stimulus package is a meagre 20.41 per cent of its total COVID-19 relief funds or only 0.91 per cent of its GDP (Table 4.1), 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, 2020a). Ironically, the largest industries which are relatively more capable of dealing with shocks got the greatest support from COVID-19 relief funds (Annex Table 4.1). Moreover, the varying speed of implementation of the various liquidity support packages has created an unequal turnaround as bigger firms have rebounded more strongly, owing to quick access to liquidity packages, while smaller firms have been largely left behind. From the outset of the announcement of the COVID-19 liquidity support packages by the government, banks have been more willing to lend to large borrowers, but were hesitant to lend to small borrowers. In a "k" shaped economic recovery curve, the COVID-19 recovery path splits in two directions: large firms and public-sector institutions with direct access to government and central bank stimulus packages will make some areas of the economy recover fast but leave behind small and medium-sized enterprises (SMEs), blue-collar workers, and the under-pressure middle class. The design of the stimulus packages and their distribution services a mostly "k" shaped economic recovery path in Bangladesh.

Table 4.1: Summary of COVID-19 response funding by the government

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

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

Note: i) Assuming an exchange rate of USD 1 equal to BDT 84, as per national budget documents of FY2021; ii) Assuming that GDP is equal to USD 334,000 million, as per the GDP for FY2020 in the national budget documents of FY2021.

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

Although the government declared the liquidity support packages in view of the crisis caused by the pandemic, ultimately liquidity support cannot be treated as philanthropy and so banks cannot provide loans to anyone on humanitarian grounds. Any bank must follow its due diligence whilst providing loans, meaning that banks are generally more inclined to provide loans to their old borrowers who are familiar to them rather than new borrowers who are unfamiliar with them.

As a result, new borrowers with no credit history and limited records of business-related bank transactions found it difficult to obtain loans from any bank under any liquidity support package regardless of how badly affected they were due to the pandemic.

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

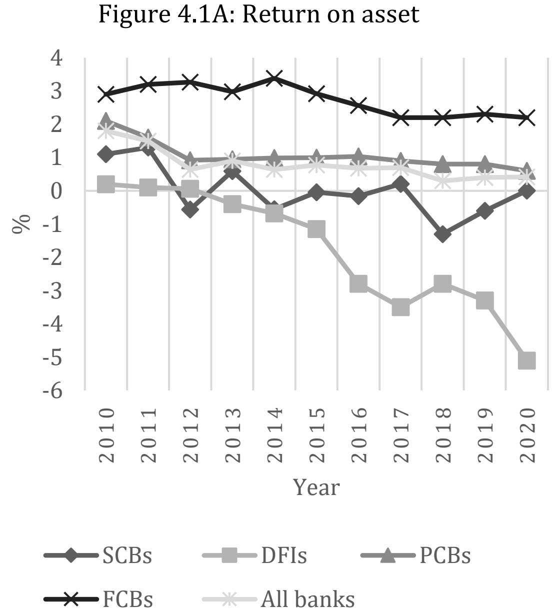
There is a lack of awareness among women, and the general public at large, regarding the government's liquidity support and stimulus packages. Public awareness on the liquidity support and fiscal stimulus packages should be increased through nation-wide campaigns so that the general population can clearly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

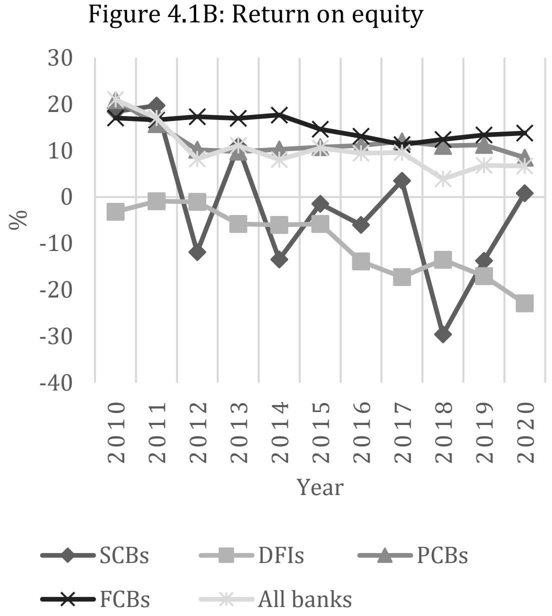
A large portion of people, who are actually poor and in dire need, did not receive any form of support from the government—whether in the form of relief items, liquidity support or fiscal stimulus. It appears that most of the liquidity support and fiscal stimulus packages were designed arbitrarily without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

4.3 State of the banking sector during the pandemic

The pandemic has taken its toll on the profitability of banks. Private commercial banks (PCBs) experienced a decline in profitability, as their return on asset fell from 0.80 per cent in 2019 to 0.60 per cent in 2020, and their return on equity fell from 11.2 per cent in 2019 to 8.5 per cent in 2020 (Bangladesh Bank, 2021a). Development finance institutions (DFIs) dug themselves into a deeper hole after the pandemic, as their return on asset and return on equity plummeted in 2020. However, foreign commercial banks (FCBs) were largely unaffected by the pandemic, whereas state owned commercial banks (SCBs) actually managed to improve their profitability in 2020 (Figure 4.1).

Figure 4.1: Profitability of the banks

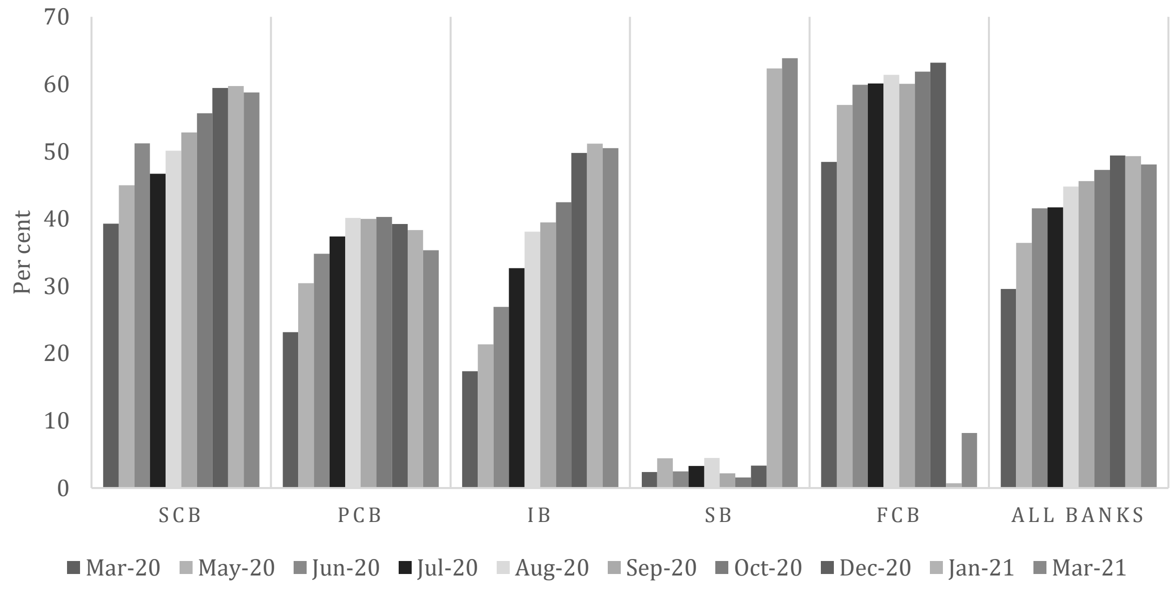




Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2021a)

In the early months of the pandemic, Bangladesh Bank undertook a number of measures to ensure adequate liquidity in the financial system to support the operations of financial institutions. However, in the backdrop of stagnant aggregate demand such injections of funds have resulted in excess liquidity. Data from Bangladesh Bank shows that excess liquidity in the banking sector has nearly doubled from BDT 103 thousand crore in January 2020 to BDT 205 thousand crore in December 2020 (Bangladesh Bank 2021b). During the same period, excess liquidity has more than doubled in SCBs and more than tripled in Islamic banks (IBs). Excess liquid assets comprised of 48 per cent of the total liquid assets of the banking sector in March 2021. (Figure 4.2).

Figure 4.2: Excess liquid assets as a percentage of total liquid assets



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

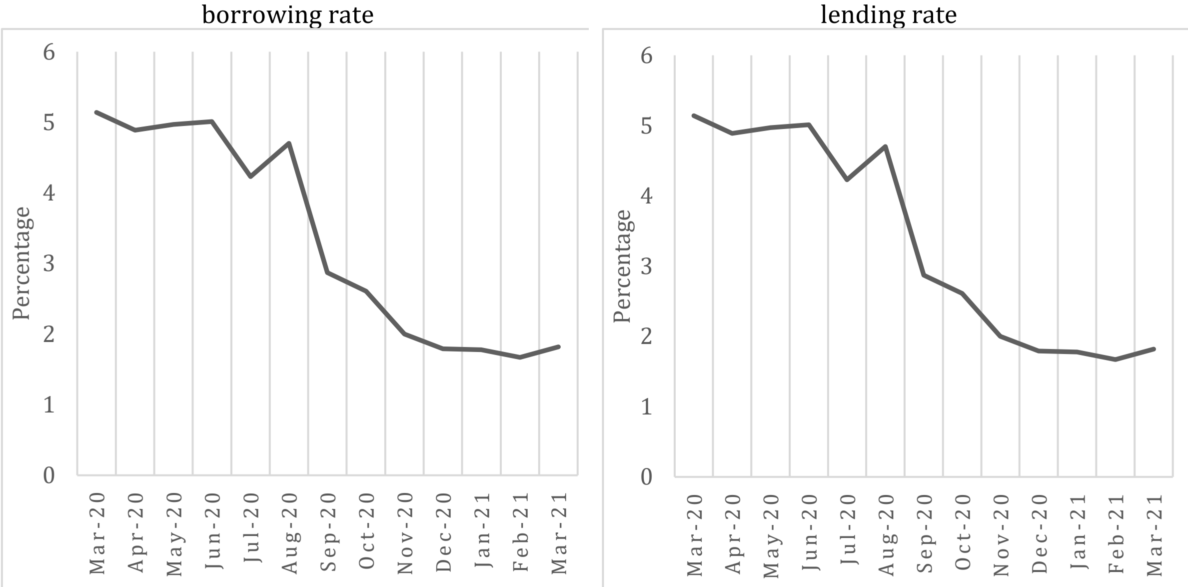
Signs of excess liquidity were also manifested in the call money market, as the monthly average call money market borrowing and lending rates both tumbled down from June 2020 onwards

(Figure 4.3A and 4.3B). The low cost of funds in the call money market indicates that there was hardly any demand for funds, since the majority of banks most likely had excess liquidity. However, the monthly average call money market borrowing and lending rates have both somewhat increased from February 2021 to March 2021, indicating that the situation may be changing gradually.

Figure 4.3: Monthly average call money market interest rate

Figure 4.3A: Monthly average call money market borrowing rate

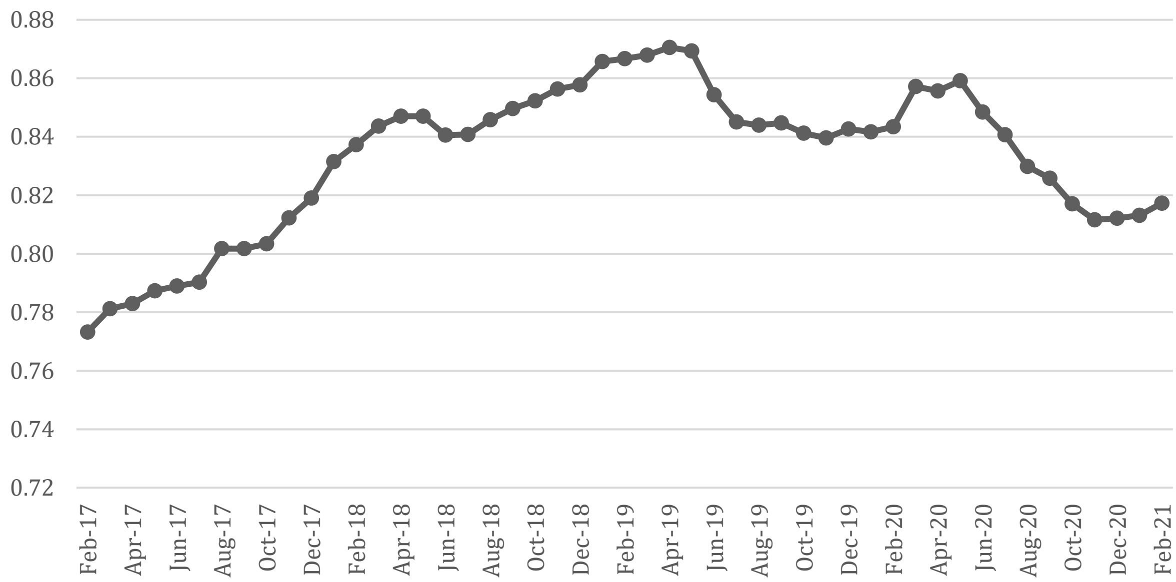
Figure 4.3B: Monthly average call money market lending rate



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

Alternatively, excess liquidity is also a sign that the demand for loans is low, which is likely since the real economy is still experiencing the repercussions of the COVID-19 shock. The advance-deposit ratio of all banks fell to a three-year low of 0.81 in November 2020 (Bangladesh Bank 2021c). However, in the early months of 2021, the advance-deposit ratio increased slightly, indicating that economic activity may be slowly picking up (Figure 4.4).

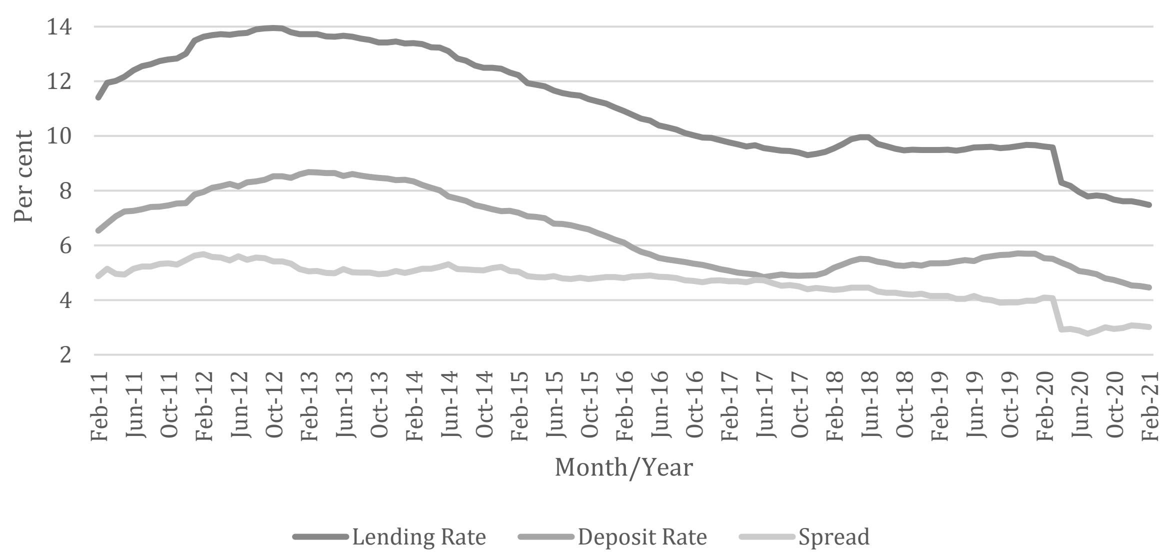
Figure 4.4: Advance-deposit ratio



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

Excess liquidity in the banking system has led to a fall in the interest rates, which were already quite low even prior to 2020. During the pandemic, the weighted average lending rate in all scheduled banks has come down sharply and the weighted average borrowing rate in all scheduled banks has also declined. As a result, the interest rate spread has come down, adding to the woes of the commercial banks (Figure 4.5).

Figure 4.5: Interest rate spread



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

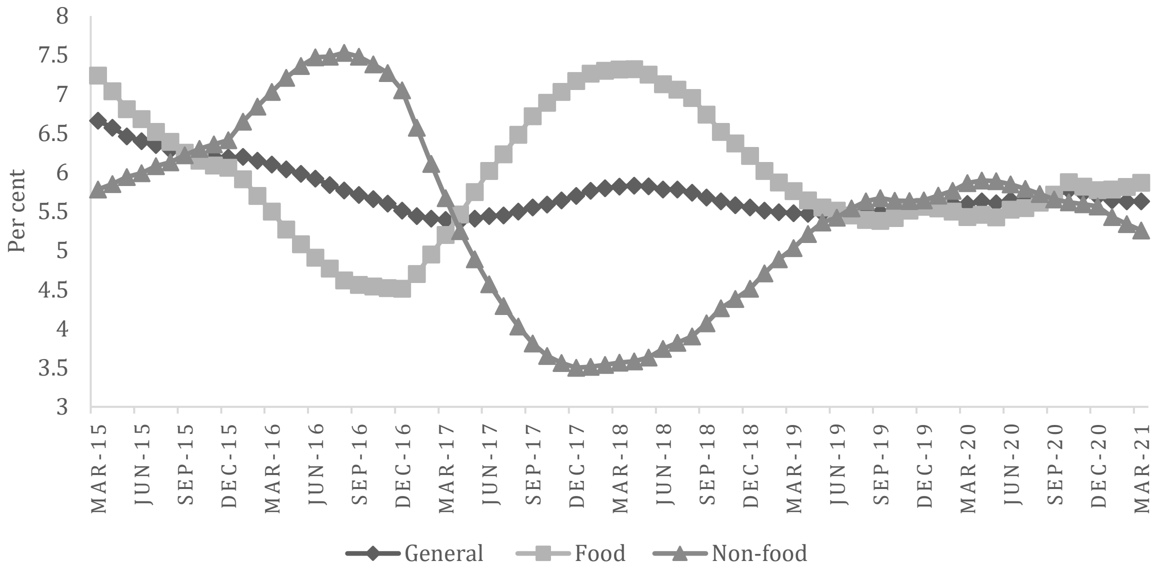
4.4 Monetary policy and inflation

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

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

Over the years, the central bank has set various targets for inflation and seemingly achieved or come close to achieving them. However, it appears that the inflation rate has lost its relevance to the real world as even the middle class are increasingly finding it difficult to make ends meet in the face of income erosion. The data shows that the 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past several years. Increases in food inflation were generally accompanied by decreases in non-food inflation, so the overall general inflation rate has remained largely stable in the short-term. In the long-term, the overall general inflation rate has experienced a slight decline (Figure 4.6).

Figure 4.6: 12-month average inflation rate



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

Engel's law states that as income increases, people spend a smaller proportion of their total income on food (Norton, Alwang, & Masters, 2014). In Bangladesh, nominal household income increased by 7.86 per cent per year on average and real household income increased by 0.16 per cent per year on average between 2010 and 2016 (BBS, 2019). Food expenditure as a share of income decreased from 53 per cent in 2010 to 46 per cent in 2016, whereas food expenditure as a share of total consumption expenditure decreased from 55 per cent in 2010 to 48 per cent in 2016 (BBS, 2019). However, the weights used for food in the calculation of the consumer price index (CPI) are significantly higher than share of food expenditure in either income or consumption expenditure. As it is, the consumption basket used for calculating overall general inflation was created in 2005 and does not reflect the current consumption pattern of consumers or the actual prices in the market (Table 4.2).

Table 4.2: Consumption basket versus consumption pattern

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

Source: CPD based on data from Bangladesh Bureau of Statistics (BBS, 2019) (BBS, 2011)

Crowd-sourced data of prices of 5,621 items contributed by 449 respondents during November 2019 to November 2020 show that: i) share of non-food items in actual consumption expenditure was 16 per cent higher than the weight in CPI;; ii) share of rent in actual consumption expenditure was 2 per cent higher than the weight in CPI; and iii) share of transport in actual consumption expenditure was 15 per cent higher than the weight in CPI. Thus, the consumption basket used for calculating non-food inflation does not accurately portray the behaviour of the consumers at present or the market prices prevailing at the moment (Table 4.3).

Table 4.3: Weights used for calculating CPI versus actual distribution of consumption expenditure

	Weights used for non-food items in calculating CPI (base year 2005)	Distribution of consumption expenditure based on crowd-sourced data
Non food	44	60
Clothing	7	3
Rent	15	17
Transport	6	21
Recreation	4	7

Source: CPD based on data from Bangladesh Bureau of Statistics and Numbeo (Numbeo, 2020)

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

4.5 Conclusions and recommendations

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

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

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

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

- Loan defaulters should not be allowed to access any of the COVID-19 related liquidity support packages.
- Weak and poorly governed banks should be barred from participating in the COVID-19 related liquidity support packages. Banks which are not fully compliant with BASEL III or

the Banking Company Act should be not be allowed to participate in the COVID-19 related liquidity support packages.

- Clear, objective, and quantitative criteria should be declared to properly identify "affected" businesses and individuals.
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis.
- Disbursement of the government's COVID-19 liquidity support for small businesses, farmers, and low-income professionals should be expedited immediately.
- The government must acknowledge the actual scale of the COVID-19 crisis and then formulate a specific and target-oriented post-COVID recovery plan that aims to build back better. A thorough needs assessment should be conducted to understand the extent of damage done by COVID-19, the amount of support required, and the people who need the support the most.
- Public awareness about the liquidity support and fiscal stimulus packages should be raised through nation-wide campaigns so that the general population can clearly understand what kinds of support are being provided by the government, who are eligible for such support, and how to obtain the support.
- 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 the targeting and selection of beneficiaries of cash transfer programmes must be addressed immediately.
- A multi-stakeholder taskforce with representatives from the various ministries, central bank, commercial banks, trade bodies, civil society, non-government organisations. and academia should be formed for monitoring the delivery of the COVID-19 liquidity support and fiscal stimulus packages and assessing their effectiveness.
- Banks with excess liquidity should be discouraged by the central bank from taking unnecessary risks.
- A goal-specific, time-bound, inclusive, transparent, unbiased and independent Citizen's Commission on Banking should be set up in order to bring transparency in the prevailing situation, identify the root causes of the manifest problems, and suggest credible measures for improving the situation sustainably.
- A new consumption basket should be formulated for calculating CPI inflation, based on rigorous research as regards consumer behaviour and expenditure patterns. All targets, projections, and plans in the monetary policy and the 8th Five Year Plan should be revised in accordance with this new consumption basket for CPI and new base year for inflation.

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Annex

Annex Table 4.1: COVID-19 response funding by the Government of Bangladesh

Name of the Package	Type	Allocation				Disbursement	
		In million USD	In crore BDT	As share of total COVID funding	As share of GDP[ii]	Share of funds disbursed (in %)	Number of recipients
1. Special fund for salary support to export oriented manufacturing industry workers	Liquidity support	595	5,000	4.00	0.18	100	3,500,000 persons
2. Providing working capital facilities for the affected large industries and service sector organizations	Liquidity support	4,762	40,000	32.01	1.43	71[iii]	2,549[iii] entities
3. Providing working capital facilities to small (including cottage industries) and medium enterprises	Liquidity support	2,381	20,000	16.01	0.71	32[iii]	41,069[iii] persons (94% male; 6% female)
4. To increase the facilities of Export Development Fund introduced by Bangladesh Bank	Liquidity support	1,518	12,750	0.00	0.00	81[iii]	2,379[iii] entities
5. Pre-shipment Credit Refinance Scheme	Liquidity support	595	5,000	10.20	0.45	1	N/A
6. Agricultural Refinancing Scheme	Liquidity support	595	5,000	4.00	0.18	45[iii]	89,934[iii] persons
7. Refinancing scheme for low-income farmers and small traders	Liquidity support	357	3,000	4.00	0.18	22[iii]	1,00,227[iii] persons (6% male; 94% female)
8. Creation of jobs through loans (through Village Savings Bank, Employment Bank, Expatriates' Welfare Bank and Palli Karma Sahayak Foundation)	Liquidity support	381	3,200	2.40	0.11	31[iv]	N/A
9. Government subsidy for interest waiver of deferred bank loans for the month of April-May/2020	Liquidity support	238	2,000	0.00	0.00	N/A	N/A
10. Credit guarantee scheme for small and medium enterprises sector	Liquidity support	238	2,000	0.00	0.00	N/A	N/A
11. Stimulus package for small businesses and entrepreneurs, delivered through various associations and foundations (2021)	Liquidity support	178.57	1,500	1.20	0.05	N/A	N/A
Total liquidity support		11,839	99,450	79.59	3.54		
12. Special honorarium to doctors, nurses and health workers	Fiscal stimulus	12	100	0.08	0.00	N/A	N/A
13. Health insurance and life insurance	Fiscal stimulus	89	750	0.60	0.03	2[v]	42[v] persons (41 male; 1 female)

Name of the Package	Type	Allocation				Disbursement	
		In million USD	In crore BDT	As share of total COVID funding	As share of GDP[ii]	Share of funds disbursed (in %)	Number of recipients
14. Distribution of free food items	Fiscal stimulus	298	2,500	2.00	0.09	43[vi]	2,34.00,000[vi] households (70% male-headed; 30% female-headed)
15. Distribution of rice at the rate of BDT 10 per kilogram	Fiscal stimulus	92	770	0.62	0.03	100	N/A
16. Distribution of cash among the targeted population	Fiscal stimulus	150	1,258	1.01	0.04	70[vii]	34,97,353[vii] households (75% male-headed; 25% female-headed)
17. Increase the coverage of the allowance programmes	Fiscal stimulus	97	815	0.65	0.03	3[viii]	156,218[viii] persons
18. Construction of houses for homeless people	Fiscal stimulus	254	2,130	1.70	0.08	N/A	9,039 households (62% male-headed; 38% female-headed)
19. Procurement of Boro Paddy/Rice (Additional 0.2 million metric tonnes)	Fiscal stimulus	102	860	0.69	0.03	N/A	N/A
20. Support for farm mechanization	Fiscal stimulus	383	3,220	2.58	0.11	5	N/A
21. Agricultural subsidies	Fiscal stimulus	1,131	9,500	7.60	0.34	76[vii]	N/A
22. Social safety net programme for unemployed and poor workers of export-oriented ready-made garments, leather and footwear sectors	Fiscal stimulus	179	1,500	1.20	0.05	N/A	N/A
23. Stimulus package for social safety nets (2021)	Fiscal stimulus	142.86	1,200	0.96	0.04	N/A	N/A
24. Cash disbursement among pandemic-hit people	Fiscal stimulus	107.14	900	0.72	0.03	N/A	BDT 2,500 each for 3,600,000 families;
Total fiscal stimulus		3,037	25,503	20.41	0.91		
Total COVID-19 funding		14,876	1,24,953	100.00	4.45		

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

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

SECTION 5: CONCLUDING REMARKS

The state of the Bangladesh economy, at a time when it is posed for the announcement of the FY2022 Budget, transmits some worrying signals. While the government did come up with a number of initiatives to mitigate the sufferings of the people and overcome the adverse effects on the economy in view of the pandemic, the much-expected turnaround is still not there. One conclusion that can be drawn from the analysis presented in the proceeding sections is that addressing embedded institutional weaknesses and resilient recovery have become entwined. Inherent weaknesses in the banking sector are undermining the government's efforts to trigger economic recovery through bank-dependent stimulus packages. Attempts to trigger private sector investment through subsidies, incentives and working capital support are not being able to compensate for the inherent challenges that continue to undermine the competitiveness of the private enterprises. Reaching the marginal groups and those who are left behind are proving to be difficult in the absence of effective local-level institutions and access to real-time data. Generating domestic resources to underwrite the needed resources have been weakened in the absence of the much needed fiscal reforms.

The net outcome of the above has been that private sector investment has been below the targets set out in the plans and budget and as manifested in the negative growth of capital goods and term loan uptake and that of FDI. Revenue generation figures remain way below the targets, and redistributive functions of fiscal policies can not be excluded because of the enforcement capacities and failure to implement long-awaited fiscal reforms. FY2021 targets for export growth remain way below targets. Even during the pandemic, the much needed expansionary fiscal-budgetary policies could not be implemented because of continuing and endemic weaknesses of implementing agencies and line Ministries. No tangible change could be brought in terms of the capacity to both earn and to spend.

In view of the above, a number of recommendations have been put forward in the preceding sections that cover both short-term urgent measures and medium-term macroeconomic management, institutional capacity building and reform measures. As was emphasised above, both these tasks have emerged as independent and mutually enforcing. These have covered three areas. From the approach to the design of budget for FY2022, stress has been given to pursuance of expansionary fiscal policy, and, focusing on redistribution rather than economic growth. From the public expenditure side, priority has been urged for social safety net expenditure, health and education and CSME-oriented investment-augmenting measures. Adequately, affordability and price stability has been prioritised in the discussion as regards food items. Towards this, fiscal measures, timely import, and food stock management has been stressed. In terms of reform measures setting up of Banking Commission, Agriculture Price, Competition Commission, and fiscal reforms have been emphasised to create the foundations of a good-governed and well-functioning economy that will help to recover from the pandemic and build back better.