# COVID-19 AND BANGLADESH

## MACROECONOMIC IMPACT AND POLICY CHOICES


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Towfiqul Islam Khan
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**Centre for Policy Dialogue (CPD)**

House 40/C, Road 11 (New)
Dhanmondi, Dhaka 1219, Bangladesh
Telephone: (+88 02) 48118090, 55001185, 58156979
Fax: (+88 02) 48110414
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd



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Arka

# Foreword

The COVID-19 pandemic has caused a profound economic impact alongside a dramatic loss of human life worldwide. Several independent studies indicate the economic fallouts in Bangladesh, including a significant rise in the poverty rate, income inequality, and unemployment. Indeed, the marginalised communities are found to be more susceptible to the impact of the pandemic.

Over the last year and a half, the government of Bangladesh extended relief programmes, liquidity support and fiscal stimuli to address the pandemic induced vulnerabilities. However, there is no denying that the policymakers are facing considerable challenges in addressing the pandemic.

The present study provides an overview of the trends of key macroeconomic correlates and traces out the impact of the COVID-19 pandemic on Bangladesh economy. As it reviews the policy measures pursued in Bangladesh, the study strongly advocates for targeted counter-cyclical fiscal policy actions, i.e. higher public expenditure to counter the demand deceleration, particularly of the marginalised population in the country. The distinct feature of the study is that it presents ex-ante analyses on the economy-wide impact of two expansionary fiscal policy choices – doubling government transfers to five selected household categories and a 50 per cent increase in government expenditure for health and education. Such analysis is likely to help policymakers choose more appropriate policy interventions in view of the desired outcome. The paper rightly points out the limited institutional capacity of the government agencies to deliver the programmed national budget as a binding constraint.

The pandemic is yet to be over. The recovery of the economy is also to be supported with appropriate policies. The studies on the impact of the COVID-19 pandemic and implications of probable policies will arm the policymakers to find an appropriate policy mix. Since the outbreak of the pandemic CPD researchers have been engaged in working on various dimensions of the pandemic including its implications on the economy and how to deal with the pandemic-induced challenges. This study is an addition to CPD's pandemic related research. I compliment the research team led by Dr Debapriya Bhattacharya and thank other CPD colleagues who were involved in this endeavour.

**Fahmida Khatun, PhD**

*Executive Director*

*Centre for Policy Dialogue (CPD)*

# Executive Summary

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

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

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

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

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

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# About the Authors

***Dr Debapriya Bhattacharya***, a macroeconomist and public policy analyst, is a Distinguished Fellow at the Centre for Policy Dialogue (CPD)—a globally reputed think-tank in Bangladesh—where he had been earlier its first Executive Director. He is a member of the United Nations Committee for Development Policy (CDP) and also the Chair of two global initiatives, viz. LDC Monitor and Southern Voice. He was the Ambassador and Permanent Representative of Bangladesh to the World Trade Organisation (WTO), UN Office, and other international organisations in Geneva and Vienna.

Dr Debapriya is engaged in high-level policy designing and advising for the national government and various bilateral and international development agencies at home and abroad. He has published extensively on trade, investment, and finance-related issues of the least developed countries (LDCs) and Sustainable Development Goals (SDGs). He serves in the boards and working groups of a number of national, regional and international development organisations and networks, and in the editorial board of reputed journals.

Dr Debapriya holds a PhD in Economics from Plekhanov National Planning Institute, Moscow, and had been a Post-Doctoral Fellow at Queen Elizabeth House, Oxford. He held a number of visiting positions, including Senior Fulbright Fellow at the Centre for Global Development (CGD), Washington DC.

***Mr Towfiqul Islam Khan*** is an economist and currently a Senior Research Fellow at the CPD. He has undertaken various research and published in a number of areas including macroeconomic policies, fiscal policy and fiscal transparency, governance, financing for development, inclusive development, and SDGs.

Khan is a member of the 'SDG Working Team' constituted under the Prime Minister's Office, Government of Bangladesh. He is also a member of the 'SDGs NGO Sub-Committee' constituted under the NGO Affairs Bureau of Bangladesh. Khan received the Australian Leadership Award (ALA) in 2008 to carry out his post-graduation academic degree at the University of Melbourne, Australia. Khan also obtained his Masters and Bachelors in the area of Economics from Jahangirnagar University, Bangladesh.

***Mr Md Mursalin Hossain Rabbi,*** former Research Associate (Project) in CPD, is currently pursuing Masters of Arts in Quantitative Economics from the University of Tartu, Estonia.

# Table of Contents

# List of Figures



# List of Tables

# 1. Introduction

## 1.1 The country context

While Bangladesh is still tackling the serial effect on its macroeconomic and socio-economic indicators from the first wave of the pandemic[1], the second wave has arrived with a greater impact on health[2]. Within the South Asia region, Bangladesh is experiencing the third-highest cases of infections and deaths, placed below India and Pakistan. The health impact of COVID-19 in Bangladesh is moderately high compared to other least developed countries (LDCs). However, the country has shown some resilience compared to its neighbouring and LDC counterparts (Bhattacharya & Islam, 2020).

Like other nations, Bangladesh went for measures related to restricted mobility to tackle the spread of the virus. As a result, the pandemic has been exerting pressure on the economy through both global and domestic shocks leading to an economic slowdown.

In the fiscal year July 2019–June 2020 (FY2020), Bangladesh experienced a diminished but positive GDP growth rate along with an initial fall in the export revenue, FDI and remittance inflow, particularly from the month of March to May 2020 (Bangladesh Bank, 2021a; World Bank, 2021a; World Bank and KNOMAD, 2020a). At the same time, the economy generated lower tax revenues. This explains why the fiscal deficit increased even though the implementation of the public expenditure programme slowed down.

The pandemic shocks seriously halted Bangladesh's decade-long socio-economic progress as well as dented the achievement in the area of SDGs. As a result, fragile progress was achieved in the areas of extreme poverty, health and education, and the gender gap was undermined. At the same time, income inequality and youth unemployment, which were already in a negative trend, were exacerbated (CPD, 2020b.

Studies further indicate that the economic impacts have disproportionately affected the traditionally disadvantaged "left-behind" communities and created a sizable population of "new poor" ("pushed behind"). It also contends that the economic impacts would stay longer than the health impacts.

To the credit of the Government of Bangladesh, it rolled out several support packages in the two weeks of detection of the first case of the virus. The packages were a combination of expanded pre-existing programmes and new measures. The four types of economic measures include (i) increase in public expenditure, (ii) fiscal and financial incentives for the private sector, (iii) infusion of more liquidity in the market and (iv)

1) The first case of COVID-19 was detected in Bangladesh on 8 March 2020.

2) From the third week of March 2021, the number of infections and deaths has started to spike again. This can be considered the starting point of the 2nd wave of the pandemic.

expansion of social safety net programme[3] (CPD, 2020; IMF, 2021). Even though Bangladesh's early move in launching the support packages is in the right direction, it is inadequate (New Age, 2020). Moreover, the preponderance of monetary measures and fiscal measures have also been a rule of contention.

Meanwhile, the country's economic recovery pattern has been considered uneven between the two waves. It is reckoned that the support measures favoured the large export-oriented industries and service sector while leaving out the cottage, micro, small and medium enterprises (CMSMEs) and marginalised groups at bay. As a result, a few sectors have recovered faster than the others. This has subsequently indicated a K-shaped[4] recovery for Bangladesh (CPD, 2021c). The rapid recovery can be seen through the turnaround of export and surge of remittance inflow even though the FDI inflow is relatively stagnant. On the other hand, employment restoration is happening but with low income, under-employment, and distress in CMSMEs. This, in turn, has resulted in further informalisation of the economy.

It is widely agreed that the unprecedented health and economic crisis created by the pandemic needs to be addressed through a counter-cyclical expansionary fiscal policy (Bhattacharya, 2020). This would entail both creating investible surplus by providing tax and tariff rebates on exemptions and enhancing public expenditures (partially direct cash transfer) to support consumption and expenditure at the household level' (Citizen's Platform for SDGs, Bangladesh, 2021). However, the ability to implement a substantive fiscal measure is contingent on the availability of fiscal space in the country's budgetary framework. Bangladesh faces a narrow fiscal space as it confronts the fallout of the pandemic. Needless to say, for building back better, the authority needs to accelerate spending in the area of saving lives and supporting livelihoods. This ability, in its own turn, defines the prospects of human capital formation and social protection as well as economic growth. In this context, exploring the fiscal limits in pursuing pandemic-mitigating policies as well as their economic outcomes became a matter of important policy question.

## 1.2 Design of the paper

In view of the above, the paper strives to appraise the policy options available for Bangladesh to design a recovery strategy for "building back better" by assessing the impacts of the pandemic in its first phase. Thus, the four primary objectives of this paper are the following.

I. Assessing the impact of the pandemic on macroeconomic variables;
ii. Examining the magnitude and nature of public policy responses so far;
iii. Capturing the macroeconomic outcomes under possible scenarios of expanded fiscal space;
iv. Assessing implications of macroeconomic outcomes for specific disadvantaged communities.

3) Details of the stimulus packages are classified in later sections.

4) A K-shaped recovery is a post-recession scenario in which one segment of the economy begins to climb back upward while another segment continues to suffer (Aldrich, 2020).

## *Methodology and data*

To realise the stated objectives, this paper undertook the following three methodological approaches.

*(i) Narrative Study:* The narrative study is based on the review of the existing literature and results of the post-pandemic household survey (HH survey)[5]. The key findings of these studies have been used to visualise the impacts of COVID-19 on macroeconomic variables as well as implications of the pandemic at a disaggregated level.

*(ii) Trend Analysis:* Upon examination of secondary data from both national and international sources, trend analysis is conducted to assess the probable shock on macroeconomic variables of the economy. Moreover, the policies that have been introduced by the government and the central bank of Bangladesh (Bangladesh Bank) to relieve the economic shock have been critically evaluated.

*(iii) Simulation:* To understand the policy impacts on different macroeconomic variables, a Computable General Equilibrium (CGE) model has been used under two specific scenarios. The first scenario relates to the doubling of government transfers to five selected household categories, and the second scenario relates to a 50 per cent increase in government expenditure for health and education in the next fiscal year.

The study also uses secondary data extracted from various official sources (domestic and international) as well as several recent independent studies on post-pandemic impacts at the household level.

## *Structure of the paper*

The study comprises five sections. Following the present introductory section (Section 1), Section 2 analyses the macroeconomic trends during and after COVID-19. Section 3 reviews the government policy responses and details of the stimulus packages deployed, their taxonomy, and implications. Section 4 presents the results of the quantitative exercise using a simulation model under two policy scenarios. Section 5 describes the social and environmental implications based on the surveys' outcome. The final section (Section 6) puts forward policy recommendations for an inclusive recovery strategy for Bangladesh.

5) Citizen's Platform for SDGs, Bangladesh was formed with a view to contributing to the delivery of the SDGs and enhancing accountability in its implementation process. The Platform conducted a study based on the information collected through face-to-face surveys of about 1,600 households from ten marginalised and vulnerable groups across Bangladesh(Bhattacharya D, Khan, Bari, Chowdhury, & Khan, 2021).

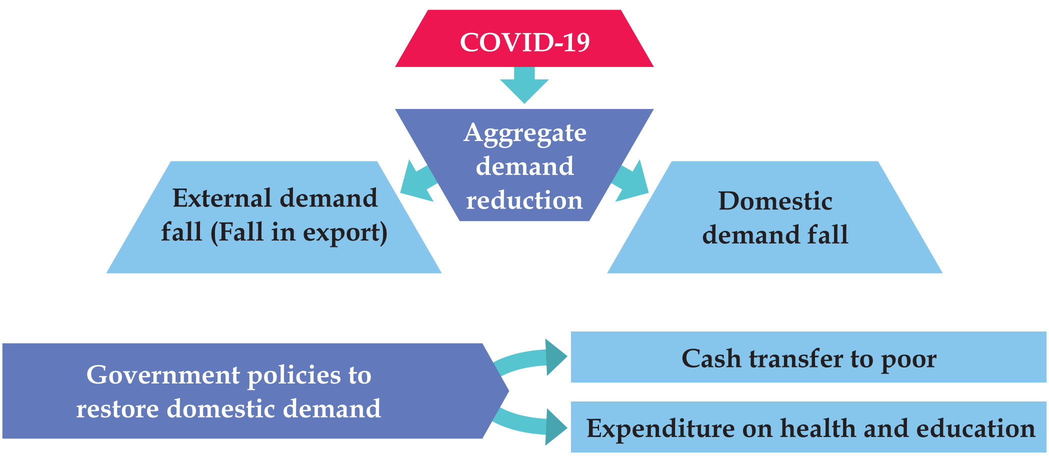
# 2. Capturing the macroeconomic impacts of COVID-19: An analytical framework

The analytical framework of the study builds around the concept of availability of fiscal space and implications of enhanced public expenditure in response to the COVID-19 shocks.[6] As a countercyclical measure, the government will have to spend more on support interventions for which it will need more expandable resources. The government will also need to explore what kind of resources it will need, what are the challenges involved and what it means for macroeconomic and other socio-economic indicators.

## 2.1 COVID-19 shock and the importance of fiscal space for policy response

In the context of Bangladesh, limited mobility, economic activity slowdown, and fall in the global demand have channelled shocks to the economy by reducing the merchandise trade and external finance flow (e.g. FDI). Figure 2.1 illustrates the reduction in aggregate demand due to a fall in external demand. When the external demand worsens, the government needs to augment the domestic demand using a fiscal multiplier in order to restore aggregate demand. In that regard, the government

**Figure 2.1** Transmission channels of COVID-19




*Source: Authors' illustration*

6) The analytical framework of this paper is informed by methodological approach proposed by Keane et. al. (2021) which takes cognisance of fiscal policy, monetary and financial policy, and trade and production policy in a country.

needs to provide cash transfers to people who have a high marginal propensity to consume and a high marginal propensity to invest. Moreover, given the context of the pandemic, additional public expenditure on health and education is also needed.

Under these circumstances, it is important to enhance the fiscal space to pursue a countercyclical measure. This entails increasing the public expenditure and providing tax and tariff rebates at the same time. Fiscal space means the room for additional resources in the government's budget, which allows the government to allocate the resources to the desired and required sector without risking the stability of the economy (Bhattacharya, 2020; Heller, 2006)

According to the British economist John Meynard Keynes, if an economy faces any negative shock, the economic downturn will persist for a longer period with low private investment and high unemployment. Therefore, the government should adopt deficit spending to revive consumer spending and investment scenarios. Moreover, in the current crisis, a large amount of public spending is recommended for a better economic recovery (World Bank, 2021b).

## 2.2 Socio-economic implications

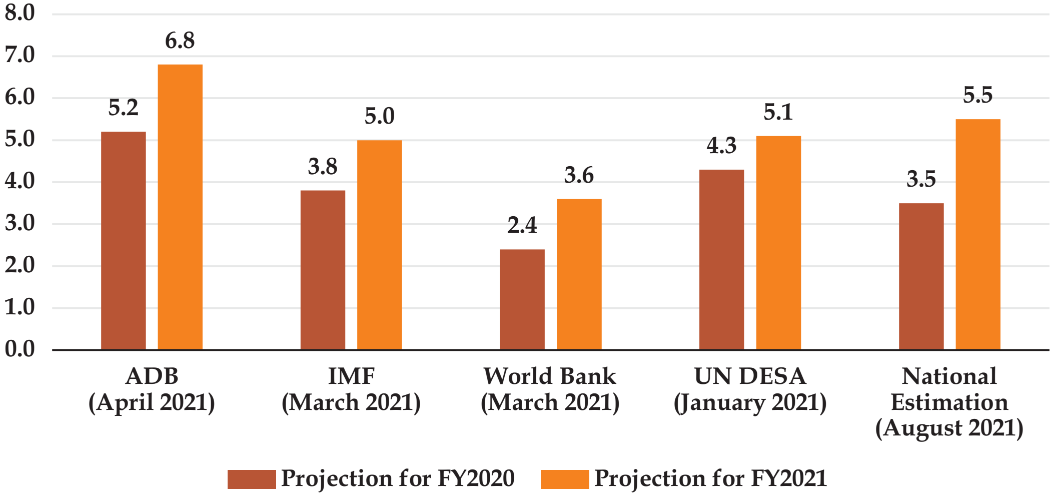
Despite Bangladesh showing some recovery after absorbing the pandemic-induced shock in the macroeconomic sector, the country's socio-economic shock may stay longer. The negative impacts of the pandemic have undermined the country's decade-long progress and its five years of achievement of SDGs. Indeed, some progress is moving towards a reverse direction(World Bank, 2021b).

### *Economic Growth*

Bangladesh experienced a diminished but positive GDP growth rate in FY2020. All projections indicate an improvement in FY2021 compared to FY2020 (World Bank, 2021a). Export recovery, strong remittance rebound in the third quarter of 2020, and stable inflation rate are the key reasons for improved projection for FY2021 (ADB, 2020). The country's GDP plunged to 0.5 per cent in 2020 from 8.4 per cent in 2019 (UN DESA, 2021). However, a projection incorporating the impact of the second wave of the pandemic is required. In June 2020, the national target was set to an 8.2 per cent GDP growth rate for FY2021 (Ministry of Finance, 2020). In December 2020, the central bank projected it to be about 7.4 per cent (Bangladesh Bank, 2020c). In August 2021, the national statistical office in Bangladesh released the final official estimates of GDP growth rate for FY2020 being 3.5 per cent and provisional estimates for FY2021 being 5.5 per cent (Figure 2.2). Indeed, at a time when economic growth rates in many countries around the world slipped to negative terrain, the economic growth rates in Bangladesh remained relatively stronger. The government has set a GDP growth rate target of 7.2 per cent for FY2022.

Although the government expressed optimism about recovery of the GDP growth rate, the socio-economic fallout has been channelled through unemployment, income loss, increasing poverty, declining health service and education attainment, increasing gender gap and vulnerability to natural disasters.

**Figure 2.2** GDP growth rate projection (%) of Bangladesh




*Source: Authors' compilation*

## *Employment*

The pandemic has affected employment negatively through restricted mobility, supply chain disruption, demand reduction, closure of tourism and business entities, etc. Around 13 million vulnerable individuals are at risk of losing their employment during the first wave (Citizen's Platform for SDGs, Bangladesh, 2020). Around 2.25 million workers were affected due to order cancellations in the RMG sector (Dhaka Tribune, 2020b).

The workers in the informal sector were more severely affected since they had no opportunity to work remotely or had to stay home (ILO, 2020b). During the first lockdown period, the informal sector of Bangladesh might have faced a colossal job loss, amounting to around 12.37 million (UN ESCAP, 2020). The informal sector workers comprise 85.1 per cent of the total labour force, and women's participation in the informal sector is relatively higher (BBS, 2019b).

From February 2020 to February 2021, on average, 4 per cent of weekly working hours declined, mostly in the agriculture sector (Rahman, et al.,2020). Although the recovery of employment started after absorbing the initial shock, the recovery came with the cost of income cuts as job seekers have moved to agriculture and informal sectors with lower wages indicating a reverse transformation of the economy (Rahman, et al.,2020). Meanwhile, in the case of youths, around 1.1 to 1.7 million youths in Bangladesh might have lost jobs in 2020 due to the COVID-19 (ADB & ILO, 2020).

To protect employment, the government may provide support to the firms. However, this may not always restore employment. So, as an alternative, investment in public employment generation programme can be undertaken, which will directly generate employment (Rahman, et al.,2020).

### *Poverty*

The employment loss as well as the income shock during the lockdown pushed 77 per cent of vulnerable non-poor[7] below the poverty line in April 2020 (PPRC-BIGD, 2020a). It is expected that after the restart of the economy, these people may get over from the vulnerability of becoming new poor. However, after the lifting of general public holidays, a very meagre share of the population has escaped from the vulnerability of becoming new poor (PPRC-BIGD, 2021). The new poor[8] have been created due to income reduction and unemployment, which, in turn, pushed the poverty rate upwards. Before the second wave emerged, the pandemic had already pushed 14.7 per cent of the country's population (24.5 million) below the poverty line.

It is therefore evident that the pandemic has undermined Bangladesh's progress in poverty reduction. As a matter of fact, the poverty rate is projected to increase from 24.3 per cent (2016) to 35.0 per cent (2020) (CPD, 2020b). Moreover, the extreme poverty[9] rate was projected to increase more than three times in 2020 compared to what it was in 2018 (SANEM, 2021a). Another projection shows that the extreme poverty rate would rise from 11.9 per cent to 18.9 per cent in 2020 and slightly decline to 17.9 per cent in 2021 (World Bank, 2021b). However, the projection did not incorporate the second wave and subsequent second lockdown.

So, the marginalised groups (both poor and new poor) need income support. Particularly, a cash transfer is a suitable expansionary fiscal policy. Indeed, several developing and developed countries have persuaded such policies in view of the pandemic.

### *Health and Nutrition*

During the pandemic, it is very likely that health services other than the COVID-related ones have been overlooked in Bangladesh, particularly at the beginning of the first wave of COVID-19. Essential health services for mother and neonatal and medicine supply chain for non-infectious diseases such as hypertension, diabetes, mental health, other chronic diseases, and cancers have been disrupted significantly (WHO, 2020).

On the other hand, many households from disadvantaged groups were forced to cut down food expenditure and brought changes to their consumption pattern in order to adjust with the income reduction. During the first wave of COVID, 80.6 per cent of families from the marginalised groups adjusted their food expenditure by reducing the number of protein items and the number of food items in a meal (Bhattacharya, Khan, Bari, Chowdhury & Khan, 2021). The per capita food expenditure also dropped

7) Vulnerable non-poor refers to people whose income level is above the upper poverty line and below the median income.

8) The new poor are defined as those who were expected to be non-poor prior to the COVID-19 outbreak but are now expected to be poor after the COVID outbreak (World Bank, 2020).

9) Extreme poverty indicates income below $1.9 a day in purchasing power parity.

drastically in the urban slum areas during the first phase of COVID-19 (till June 2020) and never got back to the pre-pandemic levels before the emergence of the second wave (PPRC-BIGD, 2021).

In the context of the pandemic, the government needs to increase the expenditure on health, including ensuring mass COVID vaccination, COVID infection surveillance, isolation and treatment. Besides, other health services also need to be ensured.

### *Education*

Bangladesh went for closure of educational institutions from 18 March 2020 till date, affecting 42 million children (Chowdhury, 2020). Unfortunately, access to remote learning is not available for every student in Bangladesh. Only 37.6 per cent of the households have access to the internet, with severe inaccessibility in the rural area (BBS, 2019c). Therefore, the dropout rate may increase in rural areas where female students are more vulnerable (SANEM, 2021b).

As an expansionary fiscal policy measure, the government has to allocate more in remote learning and stipend programmes to ensure educational attainment. Moreover, direct cash support to poor households may prevent students from leaving education in search of income (Bhattacharya , Khan, Altaf, & Tabassum, 2021).

### *Gender Disparity*

COVID-19 may widen the gender inequality in Bangladesh, even though the country has been gradually progressing in reducing the gap (UNDP, 2020b). The inequality is widening through loss of income, a higher burden of household work and loss of education (Khatun, Saadat, & Islam, 2021). The inequality is also visible in terms of the pre-existing labour force participation rate. In 2017, the women labour force participation was 33.0 per cent compared to 79.8 per cent of the male labour participation rate (ILO, 2017). Bangladesh's women are disproportionally involved in caregiving, social work, and unpaid household work, which can limit their opportunities for paid work (BBS, 2019a). In the informal sector, women's working hours are three times more than that of their male counterparts. Hence, the women are naturally more affected. For example, more than 57 per cent of domestic workers (around 0.3 million) who were predominantly female lost their jobs between March 2020 and July 2020.[10] Indeed, women experienced employment loss and income decline compared to men (World Bank, 2020a).

Around 29 per cent of women in Bangladesh are involved in unpaid domestic works (BBS, 2021b). Moreover, the limited mobility measures put an extra burden on women as they are now spending more time on unpaid domestic work and caregiving work than men because children are spending more time at home, and access to childcare centres has become limited (Bidisha & Faruk, 2020; Alon, Doepke, Olmstead-Rumsey, & Tertilt, 2020). Because of the additional unpaid work burden along with being overly involved in the much-affected informal sector, employment as well as income recovery was weaker for women (Tabassum, 2021).

10) 90 per cent domestic workers are women in Bangladesh (Yesmin, 2020).

The pandemic has likely increased gender-based violence, child marriage, and unintended pregnancy through family planning service disruption (UNFPA, 2021). In terms of getting medical care, women in Bangladesh wait a longer time. Indeed, a very high Percentage of women in the country do not have access to medical services. Also, the lowest Percentage of women in Bangladesh has access to COVID-related information in the Asia-Pacific region, which is only 43 per cent (UNDP, 2020a). Therefore, the government support programmes need to include a set of benefits for women to reduce the gender gap.

### *Environment and Climate*

Bangladesh is vulnerable to climate risks such as cyclones, floods and droughts. Due to global climate change, these natural calamities hit the country more frequently. Since Bangladesh is already vulnerable to climate change in terms of food security, lives lost, and the aftermath of disasters, the pandemic period is only expected to increase the country's vulnerability.

To add to Bangladesh's woes, during the pandemic, Bangladesh was hit by the cyclone "Amphan" in May 2020 and two phases of monsoon floods from the last week of June 2020 to July 2020, which was at the earlier stage of COVID-19 in Bangladesh. The cyclone and monsoon floods took away lives, damaged thousands of houses, agricultural lands, fish farms, poultry, infrastructure, and embankments. Cyclone Amphan alone caused losses of around BDT 11 billion, while the monsoon floods caused losses of more than BDT 59.72 billion (IFRC, 2020; Ministry of Disaster Management and Relief, 2020). As a result, these natural disasters hit areas are suffering from multiple shocks, including COVID. People in char, haor, and coastal areas have experienced multiple shocks besides the COVID in particular. A high Percentage of households (more than 80 per cent) in char and haor areas have suffered from floods while more than 60 per cent of households in coastal areas have suffered from the cyclone (Bhattacharya, Khan, Bari, Chowdhury, & Khan, 2021). So, COVID in the pre and post-disaster period added more suffering.

Hence, the expansionary fiscal policy should be designed in such a way that it can bring down poverty, restore employment, ensure health services and education attainment, reduce the gender gap, and reduce climate risks.

## 2.3 Methods for enhancing fiscal space

Theoretically, a government can create fiscal space through mobilisation of additional domestic resources, reprioritisation of public expenditure structure, review of subsidy allocations, domestic borrowings from the bank and other sources, the printing of new currency, i.e. seigniorage, and through external finances such as grants and loans (Bhattacharya, 2020; Hellen, 2006).

*Revenue mobilisation:* The government can increase the fiscal space by improving and strengthening tax administration, tax collection, and tax policies. It is unrealistic to increase the tax-GDP ratio during the pandemic; rather, the government has to provide some tax relief to the private sector to increase their investible surplus.

However, the tax-GDP ratio in Bangladesh has always been below 10 per cent, which is below the developing countries' average.

*Reprioritising public allocation:* The government can create fiscal space through reprioritisation of the public allocation in different sectors. Reducing the allocation for the lower priority sectors will enable allocation to the sectors that require it more.

*Reformation of subsidy:* The government can plan the reformation similar to the reprioritisation of public allocation to different sectors. It can replace or reduce subsidies from the expensive sectors (e.g. energy) or programmes and provide subsidies to sectors (e.g. health, social safety net) that have been affected more by the pandemic.

However, in FY2020 budgetary allocation for the health sector was not prioritised. Rather, physical infrastructure development was one of the key priorities in terms of budgetary allocations (CPD, 2020a).

*Borrowings from domestic sources (bank and other sources):* The borrowing can be done through both channels; domestic bank borrowing and non-bank borrowing. Excessive public domestic bank borrowing may create a liquidity shortage in banks and generate a crowding-out effect[11]. It should be noted that borrowing from both sources is subject to future repayment. In FY2020, the government-financed 72.20 per cent of the budget deficit through domestic borrowing. Of the total domestic borrowing, 73.36 per cent was from domestic bank borrowing and the rest from non-bank borrowing.

*External borrowing (grants and loans):* Besides borrowing, foreign grants and concessional loans, and other external assistance can create fiscal space. It must be taken into account that the external assistance may be a one-time payment. However, some sectors may need multiple-period support. Therefore, external assistance through multiple periods is required for a sustainable fiscal space. In FY2020, the government accumulated 27.80 per cent of the total budget deficit through net foreign borrowing.[12]

*Printing new currency i.e. seigniorage:* By printing new currency or seigniorage, the government can create extra liquidity as well as fiscal space.

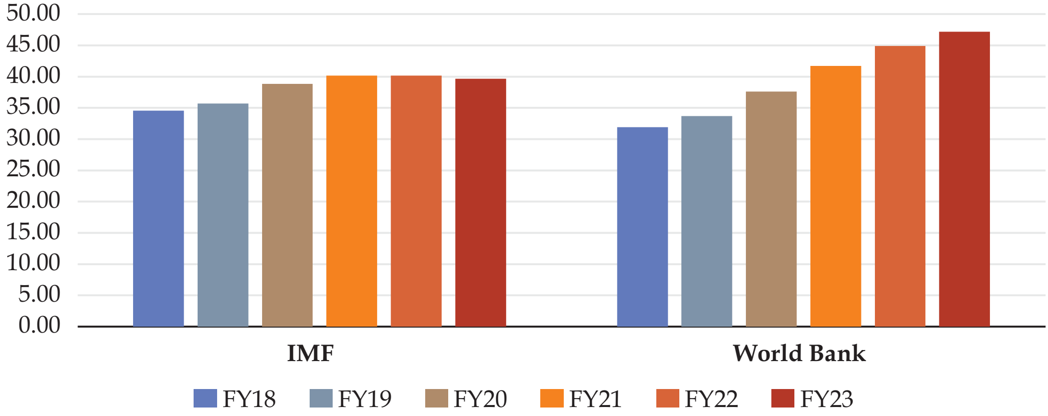
## 2.4 Opportunities and challenges for expanding fiscal deficit

In the context of Bangladesh, there are some opportunities in adopting countercyclical expansionary fiscal policies with a higher fiscal deficit. Besides the opportunities, there are also some challenges associated with increased budget deficits.

11) Crowding out effect indicates that the public sector spending drives out the private sector spending. The situation may arise due to excessive domestic borrowing by the government. As a result, the banks may face liquidity shortfall and interest rate may be pushed upward. This, in turn, demotivates the private firms to borrow from the banks.

12) Net foreign borrowing is the summation of foreign borrowing and debt repayment.

**Figure 2.3** **Public debt (% of GDP)**




*Source: IMF, 2021a; World Bank, 2021b*

The opportunities are the following:

***(i) External borrowing, including public debt, has been good***

According to the World Bank and the International Monetary Fund (IMF), the public debt is projected to be over 40 per cent of GDP in FY2021. The gross public debt is suggested to be kept below 40 per cent of GDP (IMF, 2010). Figure 2.3 shows that the IMF portrayed an optimistic scenario by projecting the public debt to decline from FY2022 (IMF, 2021a). The World Bank's projection is rather harsh. It shows that there would be a gradual rise in public debt (World Bank, 2021b).

***(ii) Positive current account balance***

Currently, Bangladesh exhibits a healthy foreign exchange reserve. It includes an import payment coverage for more than eight months followed by the positive balance of payment (BOP) and current account surplus since July 2020. Even though the FDI has faced a negative blow, the positive scenario of the forex can be attributed to the export recovery, drop in import, and surge in remittance inflow.

From April 2020 to May 2020, as per figure 2.4 (panel A and B), merchandise export suddenly dropped due to the cancellation of export orders for apparel. However, the export performance started to quickly improve from June 2020 with a faltering recovery path. Meanwhile, the import remains lower than usual, which, in turn, provides an improved balance of trade scenario since July 2020 and thus a positive current account.

According to figure 2.4 (panel D), there was an initial fall in the remittance inflow during April and May 2020. However, it shows an extraordinary surge because of the diversion of flow from the informal channels to formal channels. This can be attributed to the global travel restrictions and a 2 per cent incentive imposed for transferring money through the formal channel by the government (World Bank & KNOMAD, 2020).

Although the FDI inflow in Bangladesh experienced an overall 40 per cent negative growth in FY2020, it fell by 43.8 per cent during the third quarter of FY2020, which marks the beginning period of the pandemic (Figure 2.4, panel C). The greenfield[13] FDI inflow of the country observed a colossal fall in 2020 (ILO, 2020a; The Financial Express, 2020). Unfortunately, the global FDI inflow may continue to present a weak scenario in 2021 (UNCTAD, 2021b). However, the improved balance of trade and remittance surge posed a positive balance of payment as of April 2021.

***(iii) High forex reserve***

Even though the FDI has faced a negative blow, the positive scenario of the forex can be attributed to the export recovery, drop in import and surge in remittance inflow. The reserve first time crossed the USD 45 billion mark on 3 May 2021.

***(iv) Low inflation rate***

Bangladesh has managed to control the inflation rate during the pandemic. The 12-month average inflation rate remained 5.5 to 6 per cent while the point-to-point inflation only went over 6 per cent twice in past one year (Bangladesh Bank, 2021a).

***(v) Stable exchange rate***

The exchange rate of the country is relatively stable during the pandemic. The rate is hovering around BDT 84.8 to 84.9 per USD in the past year (Bangladesh Bank, 2021a).

***(vi) Fiscal deficit still modest***

Initially, the projected budget deficit was 6 per cent of the GDP. However, a fall in public expenditure, negative growth in tax collection, and low utilisation of foreign aid would poise the budget deficit around 5.5 per cent (Citizen's Platform for SDGs, Bangladesh, 2021a).

Yet the challenges are there with respect to the improvement of the fiscal space.

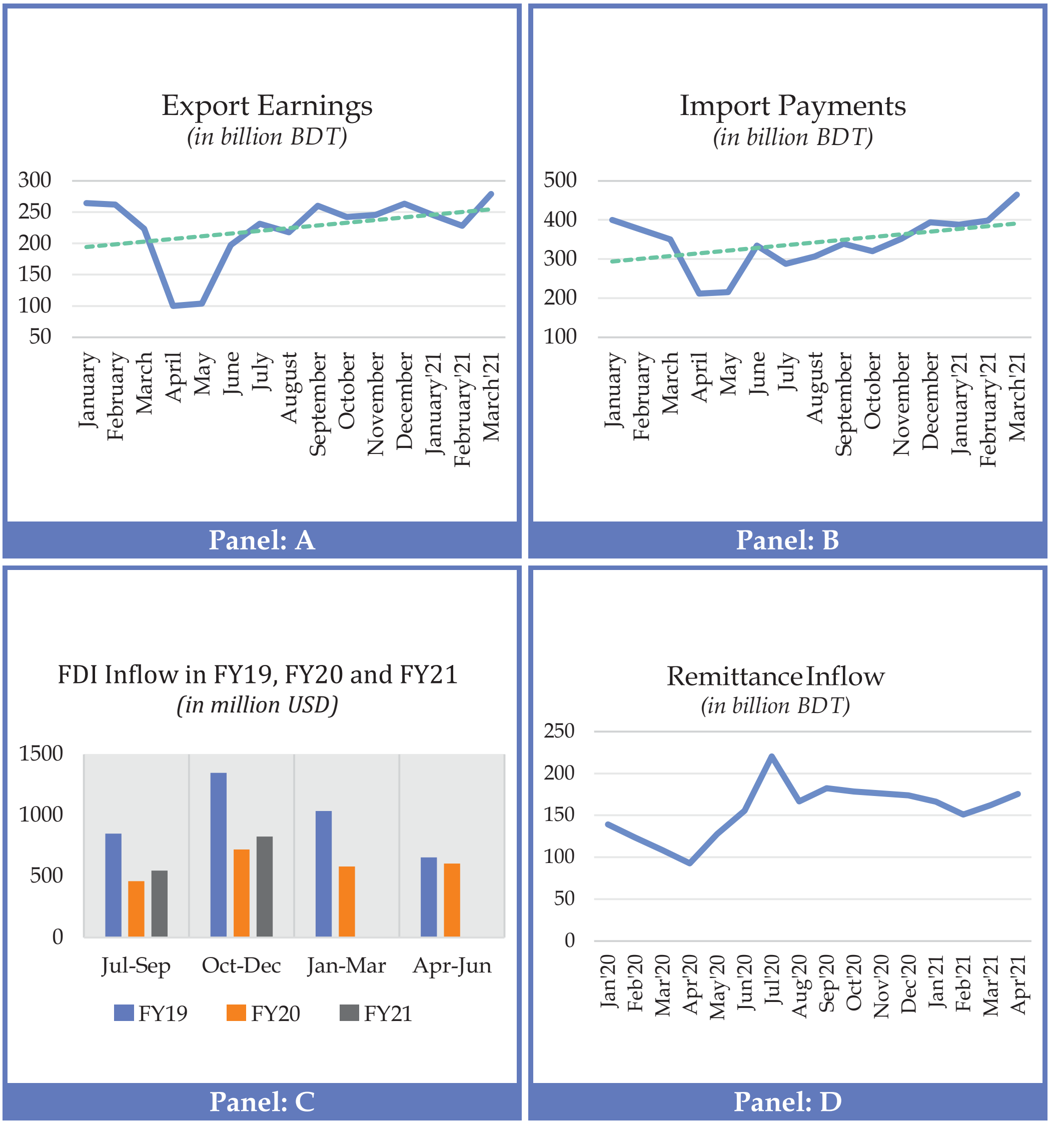
***(i) Stagnating (if not falling) tax-GDP ratio***

Although Bangladesh has achieved relatively higher economic growth among the South Asian countries, the country portrays a sorry figure in terms of tax-GDP ratio. The tax revenue collected by the National Board of Revenue (NBR)[14] in FY2020 was 7.81 per cent of the GDP. This fell by 2.26 per cent points compared to the figure in FY2019 and is only 72.68 per cent of the target. Till March 2021, the NBR collected only 54 per cent of its targeted revenue, which is an increase of 7.31 per cent from the actual

13) By definition, greenfield FDI refers to "investment projects that entail the establishment of new entities and the setting up of offices, buildings, plants and factories from scratch. It is a kind of working capital. The direct investment enterprise established through greenfield FDI can be a branch, an unincorporated enterprise or an incorporated enterprise (that is, a separate unit maintaining its own accounting books)" (UNCTAD, 2009).

14) The NBR is the tax administration authority of Bangladesh, which collects a lion's share of national revenue as well as tax revenue. In FY21, 87.30 per cent of the total revenue or 95.65 per cent of the targeted total tax revenue is collected by NBR (Ministry of Finance, 2020).

**Figure 2.4** **External economy during the first wave of COVID**




*Source: Bangladesh Bank, 2020c*

revenue collection in FY2020 (till March). The figure is lower than the nominal GDP growth, which indicates further stagnancy or reduction in the tax-GDP ratio (NBR, 2020; NBR, 2021).

***(ii) Low absorption of foreign assistance***

The utilisation of foreign assistance has remained low. Till April 2021, Bangladesh has signed contracts for receiving around 48 per cent of the total committed COVID-related assistance from three multilateral sources, namely the World Bank, the Asian Development Bank (ADB), and the Asian Infrastructure Investment Bank (AIIB)

(Kashem & Islam, 2021). However, below 20 per cent of the assistance was disbursed. Despite a high dependency on domestic bank borrowing and non-bank borrowing with greater interest payment, the budget deficit financing is experiencing low use of foreign assistance.

***(iii) Inability to deliver public expenditure programme***

In FY2021, the public and development expenditure as of April 2021 shows an eery figure. The revised ADP[15] allocation was BDT 2092.72 billion (approx. USD 24.64 billion). This is only 6.78 per cent of the GDP, where the revised ADP allocation was 7.17 per cent of GPP in FY2020. Moreover, most of ADP in FY2021 contributes to transport and infrastructure. Moreover, in the first 10 months of FY2021, less than half of the allocation has been implemented (IMED, 2021; CPD, 2020a).

***(iv) Low quality of public expenditure***

Strangely, the ADP allocation for the FY2021 represents a more typical framework rather than taking the pandemic into concern. It is evident in the fact that spending on megaprojects is intended to cover 20.2 per cent of total ADP while also showing a low implementation rate. Contrastingly, the health sector was allocated only 5.72 per cent of the total allocation.

This discussion brings out the need for further deployment of the expansionary fiscal measures by (i) enhancing social protection in the form of cash transfer and public support programmes to provide direct employment to the marginalised groups in order to address poverty reduction, employment generation and consumption protection and (ii) enhancing public expenditure in the area of education and health to address educational attainment and ensuring COVID-related and other health services. Indirectly, it will also support economic growth and employment.

15) The ADP consists of government development policies and investment plans. This comprises a major share of development investment.

# 3. Review of the support packages in the first year of the pandemic

This section will provide a brief idea about the economic policies adopted to tackle the negative impacts of the pandemic. More precisely, it will discuss the support packages in the past year (from March 2020 to April 2021). The section will also bring forward the issues that can reduce the effectiveness of the stimulus packages.

The government has approved economic incentives such as tax incentives, financial incentives, subsidies, and tax rebates using fiscal, monetary, and hybrid tools. In addition, till April 2021, the government announced 25 COVID-related support interventions amounting to about BDT 1250 billion (approx. USD 14.7 billion).

Comparing stimulus packages across the countries is not an easy task. However, according to the ADB, Bangladesh's stimuli size is the third largest in South Asia (less than India and Pakistan), and the country is positioned in fifth place (behind Bhutan, India, Pakistan, and Nepal) in terms of share of GDP (2019). Sri Lanka has the lowest amount of stimulus support in terms of the share of GDP in South Asia.

## 3.1 History of the support interventions

Table 3.1 shows that the first declaration of the stimulus package came with the announcement of BDT 50 billion (approx. USD 588.93 million) as salaries to export-oriented industries on 25 March 2020 (The Daily Star, 2020). Later, on 5 April 2020, the Prime Minister of Bangladesh announced a complete set of stimulus packages worth BDT 727.50 billion (approx. USD 858.90 million), which is 2.59 per cent of the GDP. Out of the total amount, BDT 300.00 billion was announced to be provided as working capital loan to the service sector and large industries and BDT 200.00 billion was to be provided as working capital loan to the CMSMEs with a subsidised interest rate.

In June 2020, the government announced a total of 19 stimulus packages worth BDT 1031.17 billion (approx. USD 12.15 billion). (Ministry of Finance, 2020). Later on, the government added two more stimulus packages and expanded the coverage of some packages that led to a total of 21 stimulus packages worth BDT 1213.53 billion (approx. USD 14.28 billion) (Finance Division, Bangladesh, 2020).

The announcement of another two additional stimulus packages was made simultaneously in January 2021 by the government, summing up the number of total stimulus packages to 23 and the cost of packages to BDT 1240.53 billion (approx. USD 14.6 billion). Between the two packages, one package will disburse BDT 15.00 billion to the rural people and CMSMEs. Another stimulus package is an expansion of the social safety net that will cover the elderly, widows, and deserted wives in 150 upazilas starting from July 2021 (The Business Standard, 2021).

In response to the spiralling cases of COVID infections, the government went for a second lockdown from April 5, 2021. To protect the low-income families and disaster-affected farmers who have been more severely affected due to the lockdown, the government announced two more fiscal support summing to BDT 9.41 billion (The Daily Star, 2021b; The Daily Star, 2021a).

Out of the total allocations for support interventions, around BDT 772.78 billion (approx. USD 9.1 billion and 2.76 per cent of GDP) was intended for the FY2020, while the other BDT 477.15 billion (approx. USD 5.6 billion and 1.55 per cent of GDP) was intended for FY2021.

During the announcement of COVID-related support incentives, the government and the central bank initiated additional policies. These included an increase in liquidity, deferral of utility bill payments, incentives on remittance inflow, restructured income tax, reduction of VAT on the usage of locally produced agricultural products, etc.

**Table 3.1 Timeline of public policy response**

| Date | Policies |
|---|---|
| 19 March 2020 | Bangladesh Bank announced a moratorium on loan payments until 31 December 2020 |
| 23 March 2020 | Reduction in repo interest rate from 6% to 5.75% |
| 31 March 2020 | The first package worth BDT 50.00 billion for salary support was announced |
| 1 April 2020 | Cash Reserve Requirement (CRR) of the banks reduced from 5.5% to 5% on a bi-weekly average basis and 5% to 4% on a daily basis. CRR was further reduced to 4% on a bi-weekly average basis and 3.5% on daily basis effective from 15 April |
| 5 April 2020 | With salary support, another four packages were announced totalling 5 stimulus packages summing BDT 727.50 billion (2.52% of GDP) |
| 13 April 2020 | Refinance scheme announcement for the agriculture sector |
| 12 May 2020 | Remittance incentives imposed |
| 14 May 2020 | Launching disbursement of cash assistance worth BDT 2,500 per month to 5.00 million families |
| 10 June 2020 | Announcement of 19 stimulus packages worth BDT 1031.017 billion (approx. USD 12.15 billion) (3.7% of GDP) |
| December 2020 | Expansion of allocated amount for some stimulus packages and addition of two packages, totalling 21 stimulus packages worth of BDT 1213.53 billion |
| 17 January 2021 | Announcement of two more stimulus packages which sums up total 23 stimulus packages worth BDT 1240.53 billion |
| 18 April 2021 | Announcement of BDT 9.30 billion cash support to 3.50 million poor families and 0.10 million disaster-affected farmers |
| 21 April 2021 | Announcement of BDT 0.11 billion cash support to the 2nd and 3rd lockdown affected poor and insolvent people |

*Source: Collation from various publicly available sources.*

## 3.2 Taxonomy of the interventions

The government rolled out stimulus packages by extending existing support measures and introducing new ones. Till May 2021, the government announced a total of 18 new stimulus packages and seven extensions of pre-existing programmes combined to a total of 25 stimulus packages adopting fiscal (cash and food support) and hybrid (loans at subsidised or low interest rates) measures. Most of the extensions are relevant for the agriculture sector, and social safety programmes, whilst the new packages are mostly loans at low and subsidised interest rates. A larger portion of the stimulus packages is disbursed as hybrid support, which is more than 79.5 per cent of the total support, amounting to BDT 994.50 billion (approx. USD 11.71 billion), while the rest is disbursed as fiscal support, which is around BDT 255.43 billion (approx. USD 3.00 billion). Besides, supporting fiscal and monetary policies have also been adopted.

*I) Fiscal policies:* Till May 2021, the government has announced 14 fiscal support interventions. These include cash support, food support, cash incentives for frontline workers, house construction support, agriculture subsidy, and expansion of beneficiaries under social safety programmes.

Table 3.2 shows that the government initiated one cash support and two food support measures covering only 4.23 per cent and 1.63 per cent, respectively, of the allocation for FY2020. In FY2021, the fiscal support measures have improved to 44.04 per cent of the FY2021's total allocation. The fiscal support measures include cash support to poor households (announced in the third week of April 2021), expansion of agricultural and social safety programmes, cash incentives to health workers, health insurance for the government frontline employees, safety net programmes for distressed workers in the export-oriented industries (RMG, leather goods, and footwear) and construction of homes. Moreover, no new or enhanced food support was initiated in FY2021.

**Table 3.2 Structure of fiscal support**

| Type | FY2020 | | FY2021 | |
|---|---|---|---|---|
| | Share of GDP (%) | Share of respective FY's allocation (%) | Share of GDP (%) | Share of respective FY's allocation (%) |
| Cash transfer to targeted households | 0.04 | 1.63 | 0.08 | 5.11 |
| Food support | 0.12 | 4.23 | No food support yet | |
| Honorarium and health insurance | n/a | | 0.03 | 1.78 |
| Expansion of social safety net programmes (two tranches) | n/a | | 0.07 | 4.22 |
| Agriculture | n/a | | 0.44 | 28.46 |
| Construction of homes | n/a | | 0.07 | 4.46 |
| Total (share of GDP) | 0.16 | | 0.69 | |

*Source: Bangladesh Bank, 2021b; Finance Division, Bangladesh, 2020*

Apart from that, the implementation procedure of these fiscal support measures is lengthy, and for some packages, the process is still at the primary level.

Additionally, the government has adopted supporting fiscal policies as well. For example, it reformed the income tax structure—raised tax payable income threshold from BDT 0.25 million to BDT 0.30 million and raised it from BDT 0.30 million to BDT 0.35 million for female taxpayers and elderly taxpayers. Furthermore, VAT has been exempted at the manufacturing, import, and trading stage for 17 types of medical equipment. These include soapy alcohol, COVID-19 testing kits, personal protective equipment.[16] VAT is also exempted for agro-based industries, which manufacture using locally made products and agricultural machinery.

*ii) Monetary policies:* Stimulus packages announced by the government required additional liquidity and thus easing control of the money supply. Therefore, in order to increase the liquidity flow, Bangladesh Bank cut down the repo rate from 6 per cent to 5.25 per cent and further to 4.75 per cent and introduced a 360 days repo facility as a monetary tool. The reverse repo rate was cut down from 4.75 per cent to 4.00 per cent. Moreover, the Cash Reserve Ratio (CRR) was cut down from 5.00 per cent to 3.50 per cent on a daily basis and 5.00 per cent to 4.00 per cent on a bi-weekly basis to improve liquidity. As a part of expansionary monetary policy, Bangladesh Bank purchased government securities from banks and financial institutions. It also undertook the move to defer non-performing loans; relax loan rescheduling policies for non-bank financial institutions (NBFIs), credit card fees, interest payments, and credit risk rating rules for banks; extend trade instrument tenures; lower farm loan interest rates; and ensure access to financial services (IMF, 2021b; Bangladesh Bank, 2020d).

Meanwhile, the lending capacity of the bank may be reduced as the return from the borrowers may possibly decline due to the pandemic (Alo & Hossain, 2020). In response to this, Bangladesh Bank took the initiative to create BDT 707.94 billion worth of currency through refinancing schemes and by relieving regulatory requirements.

*iii) Hybrid policies:* The lion's share of the announced stimulus packages comprises hybrid support—mixing fiscal and monetary tools. The hybrid policies include working capital loans with subsidised interest rates, loans with low interest[17], refinance schemes, and credit risk-sharing schemes. Under the policies, there are three key stimulus packages:

*Salary support to export-oriented manufacturing industry workers:* The first stimulus packages were salary support worth BDT 50.00 billion to export-oriented manufacturing industry[18] workers (Bangladesh Bank, 2020a). Even after the

16) Medical equipment includes 3-ply surgical masks, protective spectacles, goggles, raw materials for hand sanitizers, surgical masks, and disinfectants.

17) Low interest loan was intended to be provided as salary support to rural poor farmers, expatriate migrant workers, and trained and unemployed youths.

18) The firms that export at least 80 per cent of their total production are considered as export-oriented firms (Bangladesh Bank, 2020a).

announcement of the package, the RMG workers got 60 per cent salary in the first 25 days of April 2020 due to the closure of factories (The Business Standard, 2020).

*Working capital loans to the service sector and affected industries:* BDT 400 billion working capital loan was announced for the affected large industries and service sector. Initially, the size of the packages was BDT 300 billion. A total of 51 commercial banks have participated in disbursing the loan at a nine per cent interest rate where the recipients will pay 4.5 per cent the remaining 4.5 per cent will be paid by the government as subsidy with the highest 1-year maturity period (Bangladesh Bank, 2020b; Finance Division, Bangladesh, 2020).

*Working capital loan to CMSMEs:* To protect the CMSMEs, BDT 200 billion working capital loan was announced. The entrepreneurs of CMSMEs can apply for loans to scheduled banks and financial institutions. The manufacturing sector would get 50 per cent of the total allocation of the loan, where service and trade-based enterprises would get the rest 50 per cent (services 30 per cent and trade-based 20 per cent). At least 15 per cent of the firms with rural origin would be able to avail this package. As high as 70 per cent allocation of the loan was intended for the cottage, micro, and small enterprises while 30 per cent for the medium enterprises. There is also at least 5 per cent quota for women entrepreneurs (The Daily Star, 2020b).

## 3.3 Sectoral orientation

During the pandemic, stimulus packages should be able to create a balance in the health sector and the economy. However, the most prioritised sectors are the large industries and services sector along with export-oriented firms. Around 33 per cent of the total stimulus packages have been allocated for large industries. Even from the perspective of implementation, the package for the large industries is one of the most successful ones. The allocated working capital has helped to achieve the production rate at pre-COVID level for many large firms.

Meanwhile, salary support has also been provided for the workers at the export-oriented firms. In order to get the support, a firm has to export 80 per cent of its total production. It is also likely that the RMG sector will get the lion's share of the salary support. The other export sectors (e.g. leather and plastic) may be ignored as the fund itself is insufficient to cover all export-oriented sectors and firms. Moreover, many workers in the RMG sector did not receive the full salary in April 2020. Bangladesh Bank, in its circular, did not mention the eligibility of "buying houses"[19] to avail any of these packages; however, buying houses play an important role in the export sector by contributing to the value chain and offering employment to 0.4 million people directly and indirectly (CPD, 2020d).

On the other hand, the CMSMEs are key players in the Bangladeshi economy. The country is harbouring 6.8 million cottage enterprises and 0.9 million small and medium enterprises and generates more than 30 per cent of the total employment (The

19) Buying houses are the trading partner between buyers and sellers in the apparel sector (Uddin M. M., 2017)

Daily Star, 2019). This sector has provided livelihood to 31.2 million individuals (Bangladesh Bureau of Statistics, 2019). Moreover, the CMSMEs have contributed to one-fourth of the GDP share. However, 52 per cent of the SMEs have completely cut down their production during the lockdown (LightCastle Partners, 2020). The government has announced working capital loan facilities for the sector equivalent to half of the amount announced for the large industries. So, the announced allocation for the sector is insufficient. Despite the credit guarantee scheme for ensuring the disbursement of the allocated fund to CMSMEs, the disbursement rate is relatively low. Thus, the imbalance of sectoral distribution and implementation of stimulus packages pushes Bangladesh further towards the K-shaped recovery.

In order to disburse stimulus packages for the CMSMEs sector faster, the government announced another BDT 15.00 billion support package in January 2021. This is intended to channel through CMSMEs-related organisations, including SME Foundation, Social Development Foundation, Rural Poverty Alleviation Foundation, and Bangladesh Rural Development Board (The Business Standard, 2021). However, the SME Foundation will disburse the loan through 11 banks and non-bank financial institutions (Dhaka Tribune, 2021c).

Reluctance in disbursing of loans is also an issue for the agriculture sector. Moderate disbursement rates can be observed for refinancing schemes for low-income earning professionals, farmers, and small traders. Besides liquidity support, three direct fiscal stimulus packages have been announced for the agriculture sector. These include the procurement of paddy and rice, subsidies for farm mechanisation, and agriculture. Implementation of those packages is also not fully successful (i.e. paddy procurement was only 27.5 per cent of the target). The lack of administrative transparency, corruption, and dispute on procurement prices disrupted the procurement process. Moreover, the implementation rates for some packages have not even been disclosed yet.

According to Table 3.3, the large industries get more than 50 per cent of total support interventions in terms of allocation, the CMSMEs got close to 19 per cent, and the agriculture sector received more than 17 per cent.

**Table 3.3 Sectoral allocation of the stimulus packages**

| Sector | Allocation (in billion BDT) | Allocation (in billion USD) | Percentage of total allocation (%) |
|---|---|---|---|
| Export-oriented and large industries[1] | 627.50 | 7.45 | 0.20 |
| CMSME[2] | 235.00 | 2.81 | 8.80 |
| Agriculture sector[3] | 215.80 | 2.51 | 7.26 |
| Others | 171.64 | 2.01 | 3.73 |

*Source: Calculation based on Bangladesh Bank, 2021b; Finance Division, Bangladesh, 2020*

Note: 1 = including salary support, 2 = including credit risk-sharing scheme, 3 = including refinancing scheme for the professional farmers and small traders

## 3.4 Community orientation

In FY2020, the government initiated cash and food support programmes for disadvantaged groups. These programmes will provide cash support worth BDT 2,500 to 5 million families and sell rice at BDT 10 per kg under Open Market Sale (OMS) to the low-income people, including extremely poor people, and food support (rice and wheat) to poor people who have become unemployed. The disbursement of these support measures portrays a sorry figure. The government provided cash aid to around 3.5 million households after the failure of multiple time listing. The OMS was implemented fully while only 42.68 per cent of the food aid's total allocation was disbursed. The absence of specific cash assistance or quota in the adopted programme for the indigenous, Dalit, transgender community, disabled persons, and remotely located households have been identified.

Some packages have quotas for women individuals or women-led organisations. For example, there is a 5 per cent quota for CMSMEs in the stimulus packages worth BDT 200.00 billion. It means that an amount of BDT 1.00 billion is available as a stimulus package for the women entrepreneurs in CMSMEs. In a country where 92 per cent women are largely involved in the informal sector, and 7.2 per cent of total CMSMES were led by women according to data from 2013, whether the allocation itself is sufficient or not is a subject of discussion (BBS, 2019b; BBS, 2013) (Table 3.3).

**Table 3.4 Stimulus packages addressing women**

| Package | Allocation (in billion BDT) | Implementation rate (%) | Beneficiaries (number of households/ individuals/ organisations) | Percentage of women |
|---|---|---|---|---|
| Salary support to export-oriented industries | 50 | 100% | 3,800,000 | 53.00 |
| Working capital loan for CMSMEs | 200 | | 95,407 | 5.46 |
| Health insurance and life insurance | 7.50 | 2.17 | 42 | 2.38 |
| Distribution of free food items | 25.00 | 42.68 | 25,400,000 | 36 |
| Distribution of cash among the targeted population | 12.58 | 69.92 | 3,497,353 | 25 |
| Construction of houses for homeless people | 21.30 | n/a | 9,039 | 38 |

*Source: Calculation based on Bangladesh Bank, 2021b; Finance Division, Bangladesh, 2020*

Bangladesh's demographic dividend has moved towards the youth population. Therefore, one of the key priorities should be employment generation for the youths and the creation of opportunities for the youth entrepreneurs. A lack of concern has been demonstrated in this area. In fact, it is evident in the fact that the only package including youth, which is credit support to youth, low-skilled, unemployed, and returned migrants, has a relatively low implementation rate.

Besides, the pandemic has caused many migrants to return to Bangladesh. Around 70 per cent of the migrants, who returned from abroad between February and June 2020, remained unemployed in August 2020 (IOM, 2020). Meanwhile, around 0.4 million migrant workers returned in 2020 (from April 2020 to December 2020) (Ahamad, 2021). Even in the case of cash incentives for the health workers, it was still in a beneficiary listing process till November 2020.

**Table 3.5** Community-wise allocation of stimulus packages

| Community | Allocation (in billion BDT) | Allocation (in billion USD) | Percentage of total allocation |
|---|---|---|---|
| Doctors, nurses, and frontline workers | 8.50 | 0.10 | 0.69 |
| Poor and low-income food households including cash, and home support | 101.73 | 1.20 | 8.20 |
| Rural poor farmers, expatriate migrant workers, trained youths, and unemployed youths | 32 | 0.38 | 2.58 |

*Source: Calculation based on Bangladesh Bank, 2021b; Finance Division, Bangladesh, 2020*

In the case of social support programmes, the expansion of previous support measures for elderly people, widows, female divorcees, and persons with disability have been adopted by adding more than 1.11 million beneficiaries (Table 3.6).

**Table 3.6** The added beneficiaries in different programmes

| Programmes | Additional Beneficiaries (in million) |
|---|---|
| Old-age allowance | 0.50 |
| Allowances for widows, female divorcees, and distressed women | 0.35 |
| Disability allowance | 0.26 |
| **Total** | **11.11** |

*Source: Finance Division, Bangladesh, 2020*

From January to March 2021, the newly added beneficiaries are supposed to get the allowances. So, till December 2020, these additional beneficiaries did not get the allowances under the programmes. Additionally, the allowance rate has remained constant. However, the budget, for both old beneficiaries and new beneficiaries is spent (Ministry of Finance, 2021). As of April 2021, the government did not announce any incentive measures for teachers. However, support measures for non-MPO teachers and staff were announced in May 2021.

## 3.5 Effectiveness of the packages

While the stimulus packages have proven to be effective for some sectors that are capable of taking loans, it has been ineffective for the marginalised sectors that are unwilling to take loans as loans are subject to repayment due to the complex bank system, lengthy disbursement procedure, lack of knowledge and awareness about eligibility. Moreover, the marginalised communities suffer from delivery, monitoring and accountability issues.[20] These are bringing down the effectiveness of the packages.

Broadly, the issues threatening the effectiveness of the packages are categorised into four parts. These include problems in designing, delivery, monitoring and accountability, and improvement for the second wave. Based on these categories, the issues are discussed below.

***Heavily liquidity-induced***

The support interventions are dominated by hybrid measures where COVID-19 has deepened income vulnerability for the informal sector workers and marginalised people. These sectors are not properly addressed in the stimulus packages. Small businesses under the informal sector mostly are unable to apply for working capital loans and could not avail any stimulus packages either. The refinance scheme may generate further debt burden for the CMSMEs and the agriculture sector. There was only one free food distribution and cash transfer measure until March 2021.

***Inadequate fiscal support compared to credit support***

The fiscal support is almost four times less than the hybrid support. The hybrid support cannot focus on the vulnerable groups properly. On the other hand, fiscal support itself is also recognised as inefficient in most cases. Inadequacy, lack of transparency, institutional ineffectiveness, and corruption are the key barriers to the success of fiscal stimulus packages.

***Fiscal support results from the expansion of existing programmes***

A big chunk of fiscal support in FY2021 comes from the extension of support programmes on agriculture, social safety, and home construction for the celebration of the birth centenary of the father of the nation.

20) Such marginalised communities include communities living in disaster-prone area, indigenous population, female entrepreneurs and female-headed households, returnee migrants, and the poor.

While the expansion of agriculture subsidy and social safety is part of every year's budget and it is necessary, these support measures do not adequately address the vulnerable and marginalised groups that have been particularly affected by the pandemic. Excluding the support on the agriculture sector and construction of house programmes, the support measures constitute only 11.12 per cent of the FY2021's allocation.

*Inefficiency in resource utilisation*

Due to the lack of information and transparency, the implementation of safety net programme for the distressed workers of the export-oriented industries (RMG, leather goods and footwear industries) package also raises a question. The support programme is jointly funded by the EU and Germany, as the EU estimated that around 1 million workers need assistance. However, only around 16.6 thousand workers were enlisted until December 2020 (Uddin, 2020). Meanwhile, the number of retrenched workers massively underestimates the actual scenario (CPD-MiB Study, 2021), which means that despite having the availability of the resources, the government failed to utilise them.

*Low implementation (disbursement) rates*

The disbursement of stimulus packages has remained low for the most disadvantaged group of people. The data of all disbursement is not available; however, from the available data, roughly 63.17 per cent fiscal support and 68.53 per cent hybrid support have been disbursed. For example, the disbursement rate for the CMSMEs, till 11 March 2021, was 64 per cent after multiple extensions of the disbursement deadlines (Hossain, 2021).

*Lengthy disbursement procedures (particularly for new and small entrepreneurs)*

To avail the credit support (loans at low or subsided interest), firms and individuals have to go through lengthy and complex banking procedures. There are requirements for proper applications, necessary documents, and guarantors. This discourages the new and smaller entrepreneurs particularly to involve in the banking procedures.

*Limited access to stimulus packages*

Sometimes, the eligibility criteria for a particular support measure remained confusing. Bangladesh Bank kept changing its circular multiple times. As a result, many eligible candidates were not aware of their eligibility.

*Commercial banks are the major risk-takers*

Except for export development funds, most of the hybrid support has been disbursed by private entities such as commercial banks, NGOs, and specialised banks. Commercial banks are the sole risk-takers for the disbursement of many stimulus packages, which create extra cautiousness in choosing consumers. Banks are reluctant to invest in small businesses as it generates low profits for the banks. As a result, the loan disbursement rate tends to be lower for the CMSMEs.

*Typical banking behaviour towards women entrepreneurs*

The social scenario of Bangladesh discourages women to be involved in complex bank procedures. Since women apply for loans with small loan sizes, banks do not find it lucrative to provide such loans as it increases their operational costs. Moreover, women entrepreneurs find it challenging to get bank loans due to the absence of guarantors. Moreover, lack of access to information in rural and sub-urban areas creates unawareness about the packages for women. Many women entrepreneurs even do not know about their eligibility to assigned stimulus packages, while some are unwilling to take support as it is in the form of loans (not grants), and they have to pay back per month (Khatun, 2020).

*Lack of transparency and poor governance*

Lack of information and coordination failure also hampered the delivery of the support measures. For example, even after multiple attempts in the listing of eligible households for the cash incentive programme, the government was unable to find 5 million poor households in a country like Bangladesh during a global pandemic. Moreover, some packages are at the very primary level (beneficiary selection process) of implementation.

*Summary*

Overall, the adopted policies highlight an increase in public expenditure, including support to the private sector, injection of additional liquidity and expansion of social protection. Through these policies, a comprehensive set of stimulus packages were deployed. However, the fiscal support was inadequate, while the hybrid support is not appropriate for the marginalised sector. It is undeniable that the government adopted easing monetary tools and successfully increased liquidity. However, the usage of fiscal space was inadequate. Therefore, a further increase in public expenditure in social protection, health, and education is suggested.

# 4. Economy-wide impacts of expansionary fiscal policies

There is a growing consensus on pursuing an expansionary fiscal policy to address the challenges of the pandemic in Bangladesh (CPD, 2021). This is perhaps a consensus at the global level. The pandemic, which started as a health emergency, has negatively affected the employment and income of a large number of people, particularly the marginalised community in the country (Bhattacharya et al. 2021). There have also been learning losses for disadvantaged children over the medium term. To this end, undertaking government expenditure to protect the consumption of low-income households by providing cash transfers and enhancing health and education expenditure in the public sector can be powerful policy tools. However, the economy-wide impacts of these policy choices should also be assessed. CGE modelling is useful for an economy-wide evaluation of the aforesaid policies. The model helps to understand the impact of public policies in an economic environment as well as how the economic agents may behave in response to those policies.

## 4.1 The CGE model

The present paper has used a CGE model, which provides a macroeconomic data framework for policy modelling by establishing a sequence of interactions between agents and accounts. The paper uses the framework of a standard CGE model following Lofgren et al. (2002). To this end, a modified version of the Social Accounting Matrix (SAM) of 2012 for Bangladesh is used. The SAM includes the economic relations considering four types of accounts. These are: (i) production activity and commodity accounts for sectors and commodities (ii) four factors of productions including two types of labour (skilled and unskilled), land and capital (iii) current account transactions among the four institutional agents including households divided into six categories from rural areas (landless farmer, marginal farmer, small farmer, large farmer, rural non-farm poor, rural non-farm non-poor) and two from urban areas (low education and high education), corporation, government and the rest of the world and (iv) two consolidated capital accounts distinguished by public and private origins to capture the flows of savings and investment.

The present paper seeks to understand the economic implications of an increase in government expenditure on health and social protection, considering other things remaining unchanged. To this end, economy-wide impacts of two policies are examined: (i) doubling government's transfers to five selected household categories, viz. landless farmer, marginal farmer, small farmer, rural non-farm poor, low education (hereafter referred to as Scenario 1) and (ii) a 50 per cent increase in government expenditure for health and education (hereafter referred to as Scenario 2).

The model assumes that government savings, i.e. the budget deficit is flexible, and there are no changes in the tax rates. It is also assumed that in this economy, investment is driven by savings. The exchange rate is also considered to be fixed. Among the factors of production, capital and land are assumed to be fully employed but mobile, while labour can be unemployed and mobile. The model is useful to understand the economy-wide implications of public policy choices. However, the present CGE model does not allow going beyond a disaggregation level outside the SAM 2012 of Bangladesh developed by the Planning Commission of the country. Hence, certain useful disaggregated analyses concerning gender dimensions, youth and environmental impacts could not be inferred.

## 4.2 Results of CGE model

The impacts of the two aforesaid policies (Scenario 1 and 2) are presented in three categories: (i) changes in macroeconomic variables such as real GDP, fixed investment, export, import, revenue mobilisation, government expenditure, and budget deficit (ii) changes in factor income viz. unskilled labour, skilled labour, capital and land and (iii) changes in real consumption of the household groups.

In Table 4.1, the simulation results show that doubling the government's transfers to five selected household categories (Scenario 1) leads to a 17.5 per cent increase in government expenditure and a 0.5 per cent decline in government income. As a result, the budget deficit increases by 1.4 percentage points from its base value. Export increases by 3.7 per cent while import declines by 0.9 per cent. Fixed investment as a percentage of GDP declines by 1.9 percentage points. Overall, the real GDP increases by 0.1 per cent.

**Table 4.1** Impacts on macroeconomic variables for doubling government's transfers to five selected household categories (Scenario 1)

| Variables | Impact of doubling government's transfers to five selected household categories |
|---|---|
| Real GDP (% change) | 0.1 |
| Export (% change) | 3.7 |
| Import (% change) | -0.9 |
| Government income (% change) | -0.5 |
| Government expenditure (% change) | 17.5 |
| Budget deficit (% of GDP) (percentage points) | 1.4 |
| Fixed investment (% of GDP) (percentage points) | -1.9 |

*Source: Authors' estimation*

The simulation results also show that for doubling government's transfers to five selected household categories, incomes for skilled labour and land increase by 0.5 per cent and 2.1 per cent, respectively (Table 4.2). The income of capital declines by 0.4 per cent, while the income of unskilled labour remains unchanged.

Meanwhile, the government's cash transfers increase real household consumption. As portrayed in Table 4.3, among the household groups to which the cash transfers are

**Table 4.2** **Changes in factor income (%) for doubling government's transfers to five selected household categories (Scenario 1)**

| Variables | Impact of doubling government's transfers to five selected household categories |
|---|---|
| Unskilled labour | 0.0 |
| Skilled labour | 0.5 |
| Capital | -0.4 |
| Land | 2.1 |

*Source: Authors' estimation*

doubled, landless farmers and marginal farmers followed by rural non-farm poor and small farmers and low education households are expected to see the highest increase in real consumption. Real consumption of high education households also increases marginally. However, rural non-farm non-poor households experience a marginal decline in real consumption. Overall, the real consumption of all households on average increases by 1.7 per cent. More importantly, the increases in real consumption of landless farmers are much higher than the rest. This is mainly because the transfers from the government directly boost their consumption.

**Table 4.3** **Changes in real household consumption (%) for doubling government's transfers to five selected household categories (Scenario 1)**

| Household | Impact of doubling government's transfers to five selected household categories |
|---|---|
| Landless farmer | 5.2 |
| Marginal farmer | 4.1 |
| Small farmer | 2.8 |
| Large farmer | 0.5 |
| Rural non-farm poor | 3.0 |
| Rural non-farm non-poor | -0.2 |
| Low education | 2.5 |
| High education | 0.2 |
| All households | 1.7 |

*Source: Authors' estimation*

The simulation results show that with a 50 per cent increase in the government expenditure on health and education (Scenario 2), government expenditure increases by 10.9 per cent while government income declines by 0.1 per cent (Table 4.4). The overall budget deficit, as a percentage of GDP, increases by 0.9 percentage points. The fixed investment as a percentage of GDP also declines by 1.0 percentage points. Meanwhile, export increases by 0.5 per cent while import declines by 0.6 per cent. The real GDP growth increases by 0.5 per cent.

**Table 4.4** **Impact on macroeconomic variables due to a 50% increase in government expenditure for health and education (Scenario 2)**

| Variables | Impact of 50% increase in government expenditure for health and education |
|---|---|
| Real GDP (% change) | 0.5 |
| Export (% change) | 0.5 |
| Import (% change) | -0.6 |
| Government income (% change) | -0.1 |
| Government expenditure (% change) | 10.9 |
| Budget deficit (% of GDP) (percentage points) | 0.9 |
| Fixed investment (% of GDP) (percentage points) | -1.0 |

*Source: Authors' estimation*

Moreover, a 50 per cent increase in government expenditure for health and education results in an increase in the income of skilled labour by 2.0 per cent and an increase in the income of land by 0.4 per cent (Table 4.5). The income of unskilled labour also experiences a marginal increase of 0.1 per cent. In contrast, the income of capital declines only marginally by 0.1 per cent.

**Table 4.5** **Changes in factor income (%) due to a 50% increase in the government expenditure for health and education (Scenario 2)**

| Variables | Impact of 50% increase in government expenditure for health and education |
|---|---|
| Unskilled labour | 0.1 |
| Skilled labour | 2.0 |
| Capital | -0.1 |
| Land | 0.4 |

*Source: Authors' estimation*

According to Table 4.6, 50 per cent increase in government expenditure for health and education also has a positive impact on real household consumption. Overall, average real household consumption increases by 0.4 per cent. Low education households in the urban areas and all rural households except rural non-farm non-poor households experience an increase in real consumption between 0.4 and 0.5 per cent. Real consumption of rural non-farm non-poor households also increases but only marginally by 0.2 per cent. High education households in the urban areas experience the highest increase in real consumption by 1.0 per cent.

**Table 4.6** **Changes in real household consumption (%) due to a 50% increase in the government expenditure for health and education (Scenario 2)**

| Household | Impact of 50% increase in government expenditure for health and education |
|---|---|
| Landless farmer | 0.5 |
| Marginal farmer | 0.4 |
| Small farmer | 0.4 |
| Large farmer | 0.4 |
| Rural non-farm poor | 0.5 |
| Rural non-farm non-poor | 0.2 |
| Low education | 0.4 |
| High education | 1.0 |
| All households | 0.4 |

*Source: Authors' estimation*

## 4.3 Interpretation

The two selected policy interventions (Scenario 1 and 2) are likely to have different implications. Between the two expansionary fiscal policies, a 50 per cent increase in government expenditure (Scenario 2) for health and education has a larger positive impact on real GDP growth and export. However, doubling public transfers to five selected household categories (Scenario 1) despite requiring a higher budget deficit has a much larger positive impact on the real consumption of poorer households. It is, however, to be noted that in both cases, the impacts on GDP, export and factor income except on capital are positive. Hence, during the pandemic, the two aforementioned expansionary fiscal policies, which would require higher public spending, in general, are expected to bring positive results for the economy. Between the two scenarios, doubling the social protection expenditure of the government to five selected household categories would result in a higher and direct impact at the household level.

As can be seen from the results, in both cases, the budget deficit is expected to increase. However, if the prevailing budget deficit level in the country is taken into cognisance, the overall budget deficit would not exceed 7 per cent of GDP under both scenarios. Indeed, pursuing both policy measures at the same time may require a budget deficit as high as 8 per cent of GDP. In view of the existing low debt-GDP condition, Bangladesh can afford to go for an expansionary fiscal policy in the forms of higher public spending in the areas of social protection, health and education during the pandemic times.

# 5. Social and environmental implications

The pandemic has made deep impacts on various economic, social and environmental implications in many ways. The impacts of the pandemic can surely be traced beyond traditional economic correlates and can be found in socio-economic and environmental domains. Several studies in relating to the ongoing pandemic have presented some important implications in this regard using household survey information. These areas and related policy implications concerning the two policy measures discussed in the preceding section are discussed below.

## 5.1 Loss of income and employment went beyond urban areas

During the first wave of the pandemic in April and May 2020, job loss was significantly high. According to Rahman et al. (2021), about 62 per cent of the employed people in the pre-COVID period lost their employment at some point. While most of them could find some jobs during February 2021, when the infection was more controlled before the second wave, the average income was still about 12 per cent lower. Although the loss in income in urban areas is higher, the loss in income in rural areas is not lagging much behind. Indeed, in rural areas, agriculture, wholesale retail and the transport sector were the hardest hit even before the emergence of the second wave. Along with these three categories in the urban areas, the construction, accommodation, and food services activities also suffered the most brutal blow (Rahman et al. 2021).

For many households, current income does not sufficiently cover current expenditure. Therefore, the households have to deal with this financial hardship by reducing expenditure, particularly on health and education; withdrawing savings; adjusting consumption patterns, particularly through food consumption, borrowing, and selling property; and involving themselves in jobs that require lower skills and lower wages (Bhattacharya et al. 2021).

In this backdrop, the simulation results suggest that household consumption will largely be improved by doubling the specific household transfer. More precisely, poor rural households and low education households in urban areas will benefit the most. The household-level surveys have also shown that these households need policy support.

## 5.2 Indications of reverse structural transformation—from modern to primary sector and from high skill to low skill employment

During the first year of the pandemic, there has been a significant shift of employment from the services sector to the agriculture sector, implying both a reverse migration from urban to rural and from modern economic sectors to primary economic sectors (Rahman et al. 2021). The employments in the pandemic era are leaning towards the low-paying informal sector with a trend of growing hidden unemployment.

In the context where both reverse migration and reverse structural transformation have been accelerating from even before the beginning of the second wave of the pandemic, the expenditure on health and education must be improved besides doubling the transfer on the specific households. An increase in expenditure on health and education by 50 per cent will improve the wage scenario, particularly for skilled labour. This is important to prevent the reverse structural transformation and migration created amid the pandemic. However, in both the policies, the wage scenario improvement is not identified adequately for the low-skilled labour.

## 5.3 Higher informalisation and higher income loss of women labour than that of men

The household survey results conducted by Bhattacharya et al. (2021) found that the female-headed households, mostly dependent on informal sector employment and overseas remittances, in Bangladesh faced an 18 per cent reduction in income,[21] where 76 per cent of female-headed households were facing trouble meeting their regular expenditure with the income during the pandemic. According to Rahman et al. (2021), the average monthly income has fallen in greater magnitude for women in the first year of the pandemic, between February 2020 and February 2021. The situation is more acute in the rural areas, where more women have joined the labour market to support the declining household income and have created downward wage pressure. Women aged between 30 and 64 years are suffering the most compared to women from other age groups and men of the same age group. On the other hand, the incremental share of self-employment and contributing family members for women is also higher than men (Rahman et al. 2021). This indicates greater informalisation for females compared to males. Although the simulation could not generate a female disaggregated outcome, the improvement in household consumption and factor return will also promote female labours and female-headed households. The wage increase will work for both male and female labour. Moreover, improvement of overall household income and consumption will passively benefit female education attainment, skill improvement as well as female labour force participation rate.

## 5.4 Youth freshly entering the labour market are facing higher challenges to find a proper job

In a demographic context, youth labours have been facing severe challenges. The pandemic has had its negative impacts on the youths' education, training and recruitment. It has become harder for the youths to find employment matching their skills and wage demand (Bhattacharya et al. 2021). To cope with the household income reduction, youths have to enter the labour market with premature skills and education. The surge in the labour force participation of youths aged between 15 and 29 is the highest compared to other groups (age group 30-64 and age group 65 and above) as is found by Rahman et al. (2021). Moreover, the surge is more significant for the rural male labour force.

21) Average income reduction was reported to be about 15.8 per cent.

With the surge in labour force participation, the monthly income has declined for the youth. In rural areas, youths aged between 15 and 29 faced a 10.29 per cent negative growth in their average monthly income and in urban areas, the figure is 9.61 per cent (Rahman et al. 2021). This indicates that the rural youth labour force is suffering more. Indeed, it is also critical to provide more public funding to education to retain the young people in the education system. The proposed policy simulations will be helpful to this end.

## 5.5 Climate vulnerable households are more susceptible to the COVID-19 impacts

During the pandemic in Bangladesh, successive climate disasters created more difficulties for households located in climate-vulnerable geographic regions such as chars, haors, and coastal areas. Most of the households in these areas have faced dual shocks or triple shocks (Bhattacharya et al. 2021). This is mainly because a significant share of households in chars and haors and a moderate share of households in the coastal areas have been hit by successive floods. Before that, many char and coastal households also faced cyclone 'Amphan'. While the cash support addressing these natural disasters was minimal, the COVID-related support from the government was also very limited (Bhattacharya et al. 2021). During the pandemic's initial phase, the loss of employment was significantly higher in the coastal areas, while the prolonged income plunge was more severe in the char areas. On the other hand, these multiple shock areas did only receive pre-set Gratuitous Relief (GR), which was adopted during the flood of 1998 to respond to the flood (GED, 2015).

Moreover, the char area is the poorest region among the surveyed communities. The average monthly income in char households is BDT 12,207 (approx. USD 143.78), while the national average is BDT 20,185 (approx. USD 237.75). The other two areas, coastal and haor, have average household income near the national average. On the other hand, char areas also faced the highest percentage drop in household income while 75 per cent of households in coastal areas were victims of employment loss. Therefore, evidence suggests that the COVID vulnerability has just added an extra layer of suffering to the climate-vulnerable households. These households require direct cash support more than any other households in the country.

# 6. The policy outlook

Bangladesh remains one of the moderately affected countries in the COVID-19 pandemic. At a very early stage of the scourge, the country did roll out a number of public policy interventions to mitigate its negative fallouts. However, these assistance packages were inadequate in comparison to the demand as well as compositionally unsuitable given the needs of the affected population. Some sections of the population were more affected than others. A further debilitating impact of the pandemic will continue to affect them even if the health exigency ceases to exist.

The present study contends that, like most of the COVID-affected countries in the world, Bangladesh needs to pursue a countercyclical policy stance where fiscal interventions would play a greater role than the monetary instruments. The fiscal interventions, in their own turn, have to move in the form of direct cash transfer (and food support) in comparison to a general increase in public expenditures. However, it is also maintained that enhanced public expenditures in health and education sectors may have the desired economic outcome.

The policy perspectives advocating enhanced fiscal measures – through direct cash transfer to the disadvantaged groups is dictated by the premise that, to have a heightened fiscal multiplier effect, greater fiscal resources have to be put in the hands of the people, households, and enterprises having higher propensity to consume as well as higher propensity to invest over the immediate term. Accordingly, the targeted flow of fiscal resources to the more vulnerable households as well as to relatively smaller (and informal) enterprises would have more 'aggregate demand augmenting' effect at the margin and will compensate for the fall in external demand.

While the constraining factor for realising such a policy dispensation relates to the availability of the required fiscal space in the concerned country, the present paper has argued that the current level of fiscal deficit in Bangladesh remains modest (below 6 per cent of GDP) and another additional one to two percentage points increase of the budget deficit will be quite manageable. This is particularly so because the country is currently enjoying a relatively lower level of inflation, a comfortable foreign exchange reserve, a stable exchange rate against USD, large excess liquidity in the banking system, and a low public debt-GDP ratio.

However, given the quite depressing tax-GDP ratio in the country (around 10 per cent of GDP), it is maintained that incremental budget deficit will be covered by a greater drawdown of external concessional finance in the pipeline and/or through enhanced borrowing from domestic (banking and non-banking) sources.

Given the circumstances, the present study undertook a simulation exercise to check out the macro-economic outcomes under two scenarios. The first scenario contends doubling of government transfers to five selected categories, while the second scenario presumes a 50 per cent increase of government expenditure for health and education. The results of the simulation exercise suggest that the first scenario (doubling of transfer), despite requiring a larger budget deficit, has a larger impact on the real consumption of poorer households. The second scenario (50 per cent increase of government expenditure for health and education) has a larger impact on real GDP and export.

Taking note of the disaggregate impact of the pandemic at the household level (rural and urban, poor and non-poor) and at specific population groups (women, youth, indigenous people etc.), the authors express their preference for the earlier mentioned first scenario, while a combined deployment of both the expansionary fiscal approaches is considered desirable. Such a dual approach needs to be aligned with the prospect of green recovery of the Bangladesh economy.

In view of the macro-economic performance of the Bangladesh economy over the last decade, it needs to be pointed out that it is not the lack of resources for underwriting the incremental budget deficit that has constrained the government's flexibility to undertake expansionary fiscal measures. It is rather the inability of the government to deliver its own public expenditure programme, which has kept its budget deficit relatively low. Accordingly, while accelerating the domestic resource mobilisation is the fundamental prerequisite for the sustainability of the expanded fiscal programmes, the limited capacity of the Government of Bangladesh to scale-up impactful public expenditures has emerged as a binding constraint.

Indeed, a number of complementary reform initiatives have to be pursued for the population disadvantaged by the pandemic to derive the fuller benefits of the expansionary fiscal policies. In the meantime, the government may consider the policy approach espoused in this paper as it mulls designing the assistance packages to deal with the consequences of the second wave of the COVID-19 in Bangladesh.

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Bangladesh, like most of the countries in the world, had to restrict mobility and economic activities to tackle the spread of the COVID-19 virus. Indeed, the pandemic has been exerting pressure on the economy through both global and domestic shocks leading to a detrimental impact on major macroeconomic correlates of the country. The present study urges that Bangladesh will need to pursue a counter-cyclical fiscal policy stance in the face of deceleration in aggregate demand. The study further maintains that greater fiscal resources should be directed towards those people, households and enterprises having a higher propensity to consume and invest. From this perspective, the study strongly advocates for direct cash transfers, food support, and enhanced public expenditures in health and education rather than a general increase in public expenditures and subsidised credit flow.

Using Computable General Equilibrium (CGE) model, the study presents ex-ante economic-wide impact analyses of two expansionary fiscal policy interventions. Doubling government transfers to low-income household categories is expected to have a greater impact on the real consumption of poorer households. In contrast, a 50 per cent increase in government expenditure for health and education will have a greater positive impact on real GDP and export. In view of the trends of the last decade, the study concludes that it is not the lack of resources, rather the limited capacity of the government agencies which poses the major challenge in pursuing an expansionary fiscal policy in the country.

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