Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2021-22

First Reading

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CENTRE FOR POLICY DIALOGUE

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

Independent Review of Bangladesh's Development

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1. Introduction

Introduction

- The present report is the first reading of the State of the Bangladesh Economy in FY2022. This report has been prepared under Independent Review of Bangladesh's Development (IRBD), the flagship programme of the Centre for Policy Dialogue (CPD).
- As the country navigates through a critical phase of the COVID-19 pandemic and seeks a trajectory of sustainable recovery, the report provides an assessment of the performance of the key sectors of the Bangladesh economy and traces the trends in critical macroeconomic correlates during the early months of FY2022.
- The report makes use of the latest available data and information from domestic and international sources. Insights from key informants are also taken into cognisance to strengthen the analyses further.

2. Macroeconomic Management

❑ ***Despite exhibiting improved performance of NBR revenue collection compared to the previous fiscal year, the annual revenue mobilisation target remains challenging!***

- During the Jul-Oct FY22, NBR revenue mobilisation rose by 16.6% – however, growth is much lower than the annual target set by the national budget.
  - ✓ Need to grow by 30.7% for the remainder of the fiscal year to attain the annual growth target of 27.0% – which is a highly daunting task!

NBR Revenue Collection during Jul-Oct FY22

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

Macroeconomic Management

- **Indirect tax collection at the import and export level** was impressive – rising import demand and increased commodity prices at the global level helped in the attainment of this improved growth
- **Indirect tax collection at the domestic level** needs to increase by about 38.4% against the annual target of 32.2% during the remaining months of the fiscal year
- **Income tax collection** needs to grow by 26.9% against the annual target of 23.8% during the remaining months of the fiscal year
- Revenue mobilisation performance of the NBR in FY21 was compensated by the non-tax revenue component with the withdrawal by the government of funds of state-owned enterprises which had accumulated surplus
  - In FY22, the scope for a similar step is rather limited – **the overall revenue mobilisation, and hence, the execution of the programmed budget, will continue to remain challenging in FY22!**

❑ *ADP expenditure continued to remain business-as-usual*

- The share of allocation spent over Jul-Nov FY22 (18.6%) is better than the previous pandemic afflicted year - however, it was lower than the preceding years
- While 20.2% of allocated local resources (Taka component) was spent, project aid utilisation was only 16.2%
- Regrettably, the **Health Services Division**, could spend only 6.4% – this is by any account a disturbing feature in a time of a pandemic crisis

ADP Implementation Rate (%, Jul-Nov FY22 over original ADP)

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

- ***Budget deficit was lower during the first quarter of FY22, according to the central bank data***
    - **Thanks to foreign aid inflow** for COVID-19 financing (including for the purchase of vaccines), about 46.7% of the budget deficit was financed by net foreign financing despite the below-par performance of project aid in ADP financing
- Net sale of NSD certificates was (-) 26.3% lower due to the recent lowering of purchase limit and interest rates and use of technology to ensure that the purchase limit set for an individual is not breached
    - This would also mean that if there is any future rise of government borrowing, it is more likely to be serviced by higher bank borrowing by the government which remains within the limit

Macroeconomic Management

❑ *Higher prices of essentials caused anxiety*

- In the backdrop of the negative impact of COVID-19 on income and employment, the rising prices of essential commodities have caused serious anxiety, undermining the adjustment and recovery efforts
- Increased prices in the international market, the falling value of BDT against major currencies of importing sources, and lack of good governance contributed to rising prices of essentials
- The rate of inflation in October 2021 was only 5.4%, while food inflation was 5.3%
  - The inflation data for November 2021 is yet not available!

- **Indeed, controlling prices of essentials should receive topmost priority from the vantage point of macroeconomic management as the country seeks to generate a faster recovery from the pandemic afflicted benchmark**

Macroeconomic Management

❑ *Private sector credit growth marginally improved*

- Growth of credit to the private sector somewhat improved to 9.4% in October 2021, which was 8.3% at the end of FY21
- The demand for private sector credit has perhaps improved thanks to higher demand for import and export - however, it may be challenging to attain the end-fiscal (June 2022) target of 14.8%
- Disbursement of agricultural credit increased by 12.6% during Jul-Oct FY21, while disbursement of non-farm rural credit increased by 50.7% – however, in both cases, the recovery of disbursed credit was lower than the preceding year
- Indeed, in the second half of FY22, loan recovery, including those disbursed under the stimulus packages, will be a critical challenge facing the country's financial sector, and consequently for macroeconomic management

Macroeconomic Management

- ***Negative balance of payment put pressure on the exchange rate despite robust export growth***
  - Current account recorded a significant negative balance to the tune of USD (-) 4.8 billion for the Jul-Oct period of FY22, largely due to the rise in trade deficit which was as high as USD (-) 9.1 billion
    - On a positive note, export earnings bounced back and attained a growth rate of 24.3% during the first five months of FY22
  - Import payments growth was even higher, to the tune of 51.4% in Jul-October FY22 - attributed to higher demand for commodities, including intermediate goods to service export orders, and increased prices
  - Capital machinery import also recovered to pre-COVID trend
  - Remittances inflow declined by (-) 21.0% during Jul-Nov FY22
  - Despite a large surplus in the financial account balance (USD 3.8 billion), the overall balance figure was negative to the tune of (-) USD 1.3 billion and put pressure on foreign exchange reserve and exchange rate

Macroeconomic Management

- ***The policy package for supporting recovery needs to take cognisance of the new realities***
  - Many of key macroeconomic correlates are in the recovery trajectory, led by the export oriented sectors
  - Regrettably, macroeconomic stability is no longer in a comfortable state -
    - Rising commodity prices fuelled by international prices and unfavourable government policy in the form of the upward revision of administered prices of diesel and kerosene
    - A significant deficit in the overall balance of payments leading to reduced foreign exchange reserve and volatile exchange rate
    - Fiscal space is also shrinking, as is indicated by the government's decision in view of the upward revision of diesel and kerosene prices

Macroeconomic Management

- Perhaps the government may need to make decisions as regards gradually pulling out some of the support measures in place while keeping a sharp eye on the evolving pandemic scenario, and also prepare for possible fallouts. For example -
  - The moratorium on bank loan recovery and classification will need closure at a time of rising non-performing loans (NPL)
  - During the pandemic period, several tax incentives were put in place, some of which should be time-bound.
- No doubt, the economy will need a recovery package 2.0, with distributive justice which will support the marginalised people at a time of rising prices of daily essentials and by taking into consideration their struggle during the pandemic with consequent loss of income and savings and increased debt
- This new recovery package should also consider the increased cost of investment due to rising commodity prices (including for capital goods) which have also put upward pressure on wages.

Macroeconomic Management

- To this end –
  - Implement unfinished support agendas such as loans to smaller entrepreneurs and fuller implementation of programmed social protection programmes (including cash transfer) must be ensured
  - A focused and targeted expansionary fiscal policy reinforced by accommodative monetary policy should be pursued by the government
  - Policymakers should acknowledge that a targeted flow of fiscal resources to the more vulnerable households as well as to relatively small (and informal) enterprises will have more 'aggregate domestic demand augmenting' effect and provide protection to the marginalised groups
  - Mobilisation of domestic resources for underwriting the targeted expansionary fiscal policy by curbing tax evasion will be helpful, however, it may not be the most critical binding constraint
    - ✓ The experience of the COVID-19 period shows that the ability to effectively implement expanded public expenditure programmes, including any additional stimulus packages, in quantitative and qualitative terms, is possibly the foremost binding constraint
  - Real time and updated data on poverty, employment, inequality and budget execution are essential for the effective design of the needed policy package
  - The government will need to revitalise the lost reform and good governance agendas to address the newly emerging challenges

Macroeconomic Management

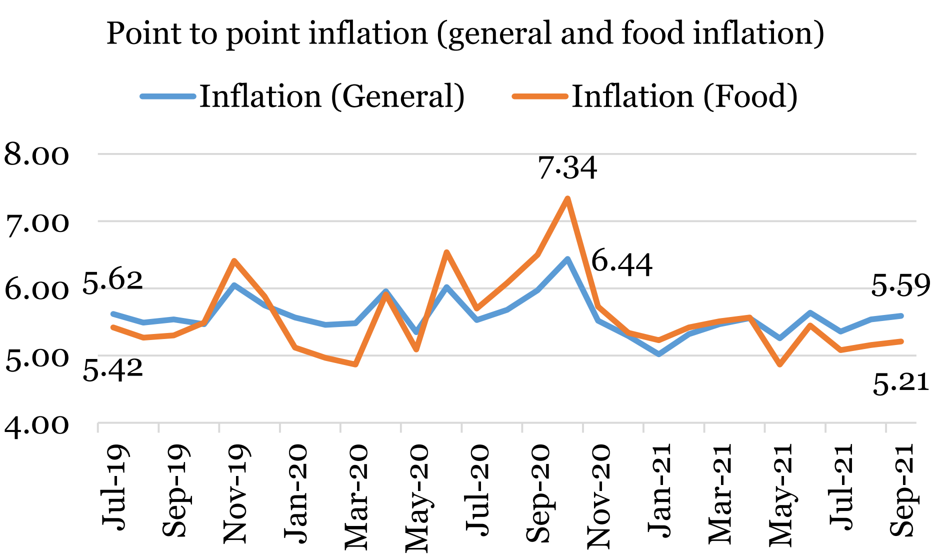
- **Implement unfinished support agendas** such as loans to smaller entrepreneurs and fuller implementation of programmed social protection programmes (including cash transfer) must be ensured
- **Pursue a focused and targeted expansionary fiscal policy** reinforced by **accommodative monetary policy** - *a targeted flow of fiscal resources to the more vulnerable households as well as to relatively small (and informal) enterprises will have more 'aggregate domestic demand augmenting' effect and provide protection to the marginalised groups*
- **Curb tax evasion** for underwriting the targeted expansionary fiscal policy
- Ability to **effectively implement expanded public expenditure programmes**, including any additional stimulus packages, in quantitative and qualitative terms, is possibly the foremost binding constraint
- Real time and **updated data** on poverty, employment, inequality and budget execution are essential for the effective design of the needed policy package
- **Revitalise the lost reform and good governance agendas** the newly emerging challenges

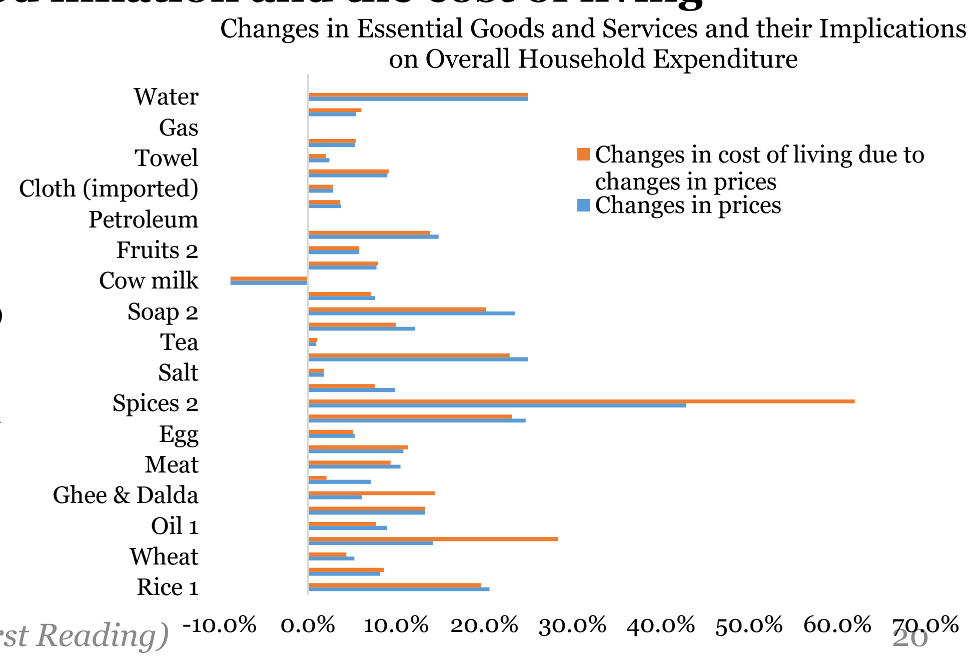
3. Food Inflation during the Pandemic Period: How to Explain It?

1. Introduction

- Bangladesh has experienced inflationary pressure since the early phase of the pandemic (June 2020) that has continued in the later phase of the pandemic (2021).
  - Such inflation caused a significant adverse impact on consumers and, particularly, low-income households (The World Bank, 2021).
  - It would further push nutritional deficiency particularly of children of low-income households and even rise in poverty.
  - It has led to erosion of purchasing power and the consequent higher level of burden on household expenditure (CAB).
- This section examines the nature and extent of recent inflation and factors responsible for this inflationary pressure.

Figure: General inflation & food inflation and the cost of living

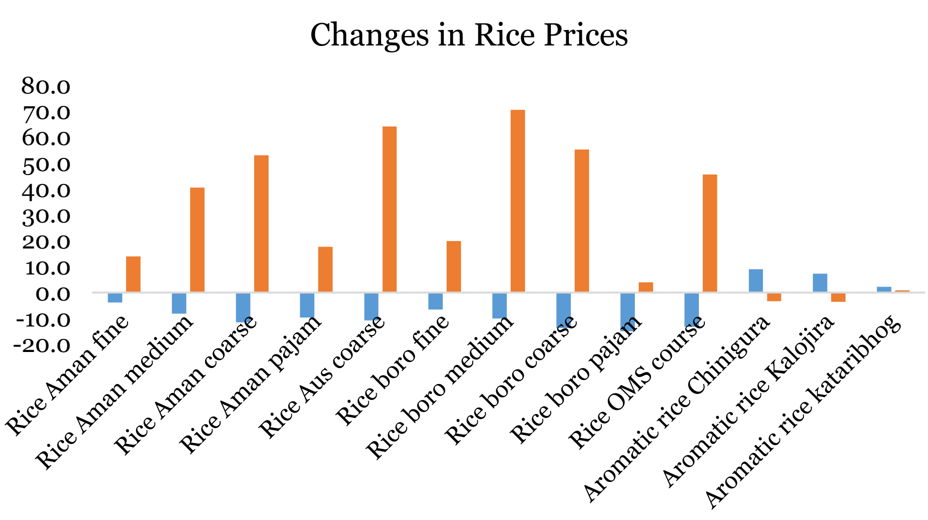


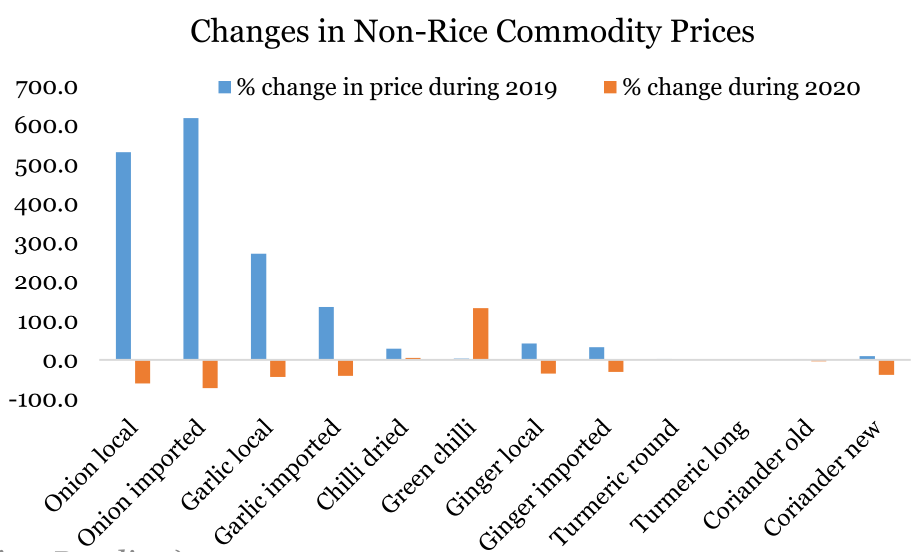


2. Detailed Discussion on Commodity Wise Changes in Prices during the Pandemic Period

- During the pandemic period, the price of different types of rice has started to rise till March, 2021 and has stabilized at that level afterward.
  - Meanwhile the price of all varieties of rice has declined during the pre-pandemic period, a substantial rise in rice prices has taken place during the pandemic period, mainly in case of medium and coarse rice consumed by low-income households.
- The retail price of vegetables declined in 2020 against the sharp rise in prices in 2019- mainly in case of onion (local & imported), garlic (local & imported), and ginger (local & imported).
- On the other hand, the retail price of different types of meat experienced a mixed price rise in 2019 compared to that in 2020.
- volatility was higher in early phase of pandemic both in wholesale and retail markets, including for vegetables and spices.

Figure: Scenario of rice and spice price market and overall food price index





2.1 Changes in prices in the Supply Chain of Rice: Farmgate, Wholesale and Retail Markets

Domestic production, consumption and deficit:

- Domestic supply chain of rice is operating primarily on the basis of domestic production and supply.
- It is important to note that domestic production of rice has maintained considerable growth over the last several years.
  - On the other hand, domestic consumption also maintained consistent growth (1% per year) over the years.
- Despite having the good harvest of rice, this is found to be inadequate to meet domestic demand. As a result, there was a deficit in rice supply from the local market.
  - Moreover, the deficit in the local market, unless properly managed, would create scopes for market manipulation by different concerned actors.

Table: Domestic Production and Consumption of Rice (in '000 metric tons)

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

2.1 Changes in prices in the Supply Chain of Rice: Farmgate, Wholesale and Retail Markets

Distribution of margin in the supply chain:

- The margin received by agents working at farmgate level, including those by the rice millers, is higher in case of fine rice (e.g. fine aman and fine boro) than is the case for coarse rice (e.g. coarse aman and coarse boro).
- The margin level was very high in early and mid-2020s compared to that in late 2020s.
- However, the margin received by agents working in wholesale and retail markets fluctuated, at moderated level, though their margin was higher in the case of fine rice.
- Fluctuation of margin is rather high at rice millers' end compared to that at wholesalers' and retailers' end.
- In other words, some market agents, particularly rice millers, are likely to play the role as 'dominant market agents' and influencing the market price and receiving higher margins.

Public Food Stock, PFDS and Their Impact on Rice Price:

- Rice market price is found to be influenced by the level of availability of public food stock, particularly rice.
  - During 2021 (as of September, 2021) the average stock was lower at 944 m tons however, the stock situation has improved in the last three months due to higher procurement and import.
  - Higher food stock has helped to stabilize the market price in recent months though it has yet to have any positive impact on market price.
  - This is perhaps because of a lack of consistent and available supply of bulk scale rice stock in public warehouses which could transmit a positive market signal.

2.1 Changes in prices in the Supply Chain of Rice: Farmgate, Wholesale and Retail Markets

- Public procurement from domestic market has been consistently lower than the target over the past several months which led the government to go for a considerable amount of import.
  - During this period import of rice by the private sector has continued at a moderate level.
  - Public and private sectors together will need to ensure that adequate amount of rice is available in the market and in the form of foodstock. Good harvest is not enough to ensure this.
- Domestic demand for rice is difficult to meet through domestic production given the rise in demand for rice by low-income consumers as also other consumption needs outside the households.

Table: Public foodgrains (rice) procurement, food stock, and food distribution

	Procurement of Rice			Food Stock (Rice)			Food Distribution (Rice)		
Month	2019	2020	2021	2019	2020	2021	2019	2020	2021
January	287.5	340.7	34.3	1291.3	1260	459	46.0	69.1	65.9
February	223.8	321.2	21.5	1391.5	1492	470	122.0	88.4	71.8
March	24.9	76.7	5.4	1182.5	1305	334	233.0	262.2	245.6
April	0	0	0.1	975.7	1009	207	220.0	293.4	224.6
May	320.9	51.5	311	1048.6	753	553	247.0	305.7	89.8
June	414.7	282	0	1255.8	838	1056	206.0	195.9	28.13*
July	312.9	286	228	1491	963	1199	76.6	159.2	180.1
August	276.1	174.8	364	1620	1071	1557	144.6	65.8	131.7
September	85.3	116.4		1437	963	1360	265.9	223.0	270.0
October		0		1211	719		224.7	242.3	
November	0.2	0.2		999	494		211.3	224.2	
December	59.4	21.9		990	461		68.2	58.7	
Average/Total	2005.7	1671.4	964.3	1241	944	799	2065.3	2187.9	1279.5

2.2 Changes in Prices in the Supply Chain of Imported Non-Rice Products: Importers, Wholesalers and Retailers Levels

Changes in Prices of Non-Rice Food Products:

- Imported commodities such as sugar, soybean, palm, lentils, and wheat have experienced different levels of rise in prices at import, wholesale and retail stages.
  - A key point to note is that changes in international market price for selected products do not necessarily influence the local market prices to the same tune for all such imported products.
- Market price along the local supply chain tends to be influenced by the role played by the key agents including importers, wholesalers and retailers.
- The nature of market-based performance can be examined by analyzing the distribution of margin in the supply chain.
  - The margins received by importers are considerably high compared to wholesalers and retailers, which is usually not the case in a competitive market structure.
  - It appears that the importers have been taking advantage of their 'dominant market player' role in the supply chain, thereby influencing the price and reaping higher margin.
  - Consequently, importers' price does not necessarily correlate with the international market price.

3. External Factors Having Probable Impact on Price Changes in the Commodity Market

- During the period under discussion, a number of external factors are likely to have contributed to inflation in the domestic market. These factors include:
- **Rise in REER of BDT against US$:** REER has posted a general rise over the recent past indicating that BDT is overvalued, and exports were becoming less competitive.
  - The central bank has attempted to stall the depreciation of taka, however, taka has already depreciated, thus, high global commodity prices have raised imported commodity prices.
- **Money led inflation due to diversion of subsidized credit in non-productive activities:** A higher level of broad money supply through disbursement of private sector credit during the pandemic, was likely to contribute to inflation to some extent.
  - Banks invested in the stock market during the uncertain period of the capital market in 2020 and 2021.
  - Hence, the bubble created in the capital market would partly contribute by such investments and other bank borrowers which may cause money inflation to some extent.
- **Upward adjustment of petroleum price in the domestic market:** The MoPEMR has increased the diesel price by 23 per cent from Tk.65 to Tk.80.
  - Given the widespread use of petroleum in agricultural production, transportation and milling of rice, the production and marketing costs of rice are likely to be pushed upward as a consequence.
  - Hence, cost-driven rise in harvest price of upcoming crops including Boro rice would further create inflationary pressure in the coming months.

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4. Conclusion

- The high food inflation in the domestic market during the pandemic period, particularly during the later phase of the pandemic (in 2021), is likely to be influenced by structural weaknesses in the rice value chain.
- The local market is influenced by the global market's price trend trend to a certain degree primarily for the imported commodities.
  - However, this cannot fully explain the internal market dynamics and its implications on the prices of essential commodities.
- It is suggested that the government should take necessary steps as regards the following issues:
  - A proper re-estimation of rice demand is urgently required given the rising demand for rice.
    - The existing base of rice demand could not provide proper market signal and has given rise to a number of challenges in ensuring rice price stability in the market.
  - The role of the dominant market players in rice and non-rice imported products, particularly rice millers and importers, needs to be revisited.
    - It appears that these market players have been influencing the market and taking undue advantage of the market through higher margin.

4. Conclusion

- The government should take necessary steps on the following issues:
  - The role of the competition commission needs to be strengthened particularly with respect to market for essential consumer goods.
    - The Commission should develop a database, regularly monitor the dominant market players' operations, investigate exercise of market controlling and manipulating behaviour (if any), and take proper measures in this connection.
  - Given the rise in poverty and changing consumption patterns, particularly of urban employed people and their families, timely import of rice should be given importance in the short and medium term policies.
  - Targeted public investment is needed to enhance productivity particularly in rice production and lowering the production costs through mechanization and other means.
  - Lower adjustment of diesel price will be required to reduce tillage, irrigation and transportation costs which will help reduce production cost, particularly for boro production and other diesel-used agro-products.

4. Analysis of External Sector Performance

Analysis of External Sector Performance

Growth of export earnings is well above the strategic annual target but conceals disquieting trends

- Export earnings have registered an impressive growth of 24.3% during the first five months of FY22
  - While the base effect of low growth in FY20 is an issue, the export performance is no doubt encouraging
  - Growth of export earnings during Jul-Nov FY22 surpassed the strategic annual target of 12.2% set out for FY22
- For most part, this growth has been anchored in the high growth of export earnings from the RMG, at 23.0%
- Growth of non-RMG export earnings was also an impressive 30% during this period
- More than three-fourths of the incremental export earnings was generated on account of the RMG sector, signalling the continuation of predominance of the item in the country's export basket and the rising export concentration in recent years

Analysis of External Sector Performance

- It is to be noted that the growth rate of knit-RMG (with its relatively higher domestic value addition) has been higher (25.9%) in the first five months of FY22 compared to the woven-RMG (19.3%)
  - This would mean higher growth of net export earnings from RMG as against the growth of gross RMG exports on account of higher domestic value retention
- However, robust RMG growth rates conceal a disquieting message!
- It needs to be taken into cognisance that the growth of RMG in terms of export earnings is the combined result of *price effect* and *volume effect*
  - In this connection, it is pertinent to recall that the price of cotton in the global market has increased considerably in recent times
  - Average price of cotton during the Jul-Oct 2021 period was 47.9% higher compared to the corresponding period of 2020, which had a had a knock-on effect on prices of both yarn and fabrics

Analysis of External Sector Performance

- In the US market, the 23.8% growth in export earnings during Jul-Oct 2021 was mostly driven of volume, which rose by 19.8%; in contrast, the rise in price per dozen was a mere 3.3%
  - In case of the woven-RMG, the predominant export to the US market, average prices rose by only 1.9%. The rise in export value of 13.2% was mostly driven by growth in volume of 11.1%
  - In case of knit-RMG the situation was somewhat different – export earnings rose by 44.6%, with average prices increasing by 14.3% while the export volume rose by 26.5%

Table: Bangladesh's RMG exports to US: Value, price & volume effects

HS Code	Percentage increase (Jul-Oct 21 over Jul-Oct 20)		
	Value	Volume	Per dozen price
61 (Knit)	44.6%	26.5%	14.3%
62 (Woven)	13.2%	11.1%	1.9%
Overall	23.8%	19.8%	3.3%

Source: Authors' calculation based on USITC data

Analysis of External Sector Performance

- This scenario as regards the drivers of the rise in export earnings is also corroborated in case of the EU market, with average growth of export earnings mostly accounted for by the rise in volume rather than that of price
  - Export earnings rose by 8.9% in the backdrop of the rise in volume of 7.9% as against the rise in price of an insignificant 0.9%

Table: Bangladesh's RMG exports to EU: Value, price & volume effects

HS Code	Percentage increase (Jul-Oct 21 over Jul-Oct 20)		
	Value	Volume	Per Kg price
61 (Knit)	13.6%	10.3%	3.0%
62 (Woven)	0.8%	3.0%	(-) 2.2%
Overall	8.9%	7.9%	0.9%

Source: Authors' calculation based on Eurostat data

Analysis of External Sector Performance

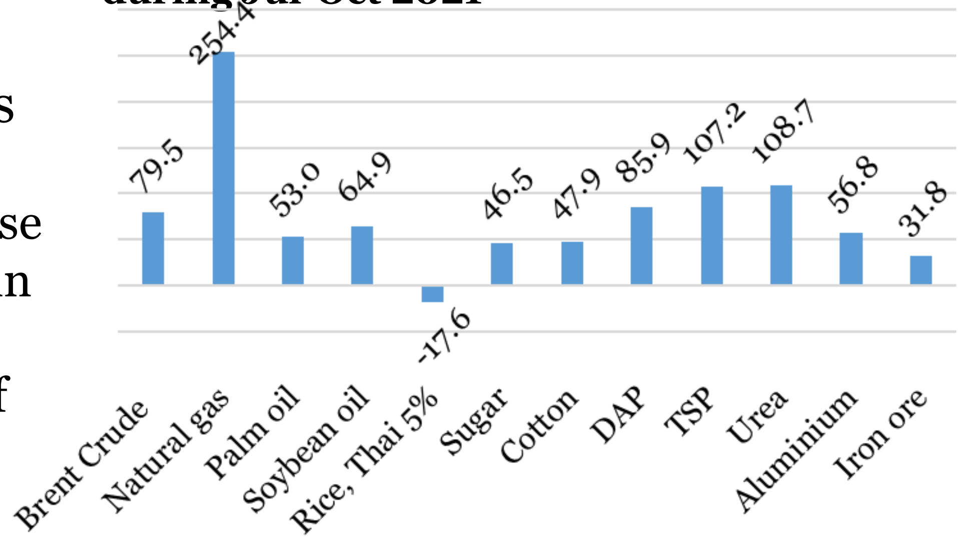
- The previous two slides show that the trend of volume-driven growth is more prominent for woven-RMG compared to Knit-RMG
  - It will be appropriate to draw the conclusion that where domestic value addition is higher (e.g., knit-RMG), competitive strength and bargaining power of exporters are, to that extent, stronger
- The aforementioned results indicate that brands and buyers had only marginally absorbed the rise in the costs of apparels production
  - The burden of increased production costs had to be borne primarily, and almost exclusively, by Bangladesh's RMG entrepreneurs
- The volume-driven export growth had important consequences for the bottom line of the entrepreneurs and their (falling) profit margins
- This is also likely having implications for workers who are possibly having to meet higher production targets
- The rise in productivity is not being realised through higher prices, although it is helping Bangladesh's apparels to remain competitive. This also has important implications for wages

Analysis of External Sector Performance

Growth of import payments has been phenomenal

- The growth of import payments has exhibited a phenomenal jump of 51.4% during Jul-Oct FY22
  - Import payments growth was substantially high for foodgrains, consumer goods, intermediate goods and capital goods - an indicator of some rebound of COVID-induced subdued economic activities in the preceding year
    - However, the effect of low base of the previous year should be kept in mind in this regard
- A large part of the significant rise in import payments is attributable to the rise in global commodity prices
  - Except rice (negative growth), most other commodities saw significant rise in prices. This has, in turn, resulted in an increase in prices of many other commodities which hinge on price of fuels in the international markets

Figure: Change in global commodity prices during Jul-Oct 2021



While outward migration resumes, remittance inflow posts negative growth

- During the Jul-Nov of FY22, a total of 242,086 Bangladeshi citizens had joined overseas job markets
  - A welcome recovery from the dismal figure of the corresponding period of FY21
  - The number, however, is still somewhat below the corresponding number of the pre-pandemic FY20
- Bangladesh received the highest ever inflow of remittance in FY21 (USD 24.8 billion) at the height of the pandemic (a 35.0% rise)
- However, the scenario has undergone significant changes during the first five months of FY22 when remittance inflow suffered a (-) 21.0% decline
  - This amount is, however, 11.6% higher than that of the corresponding period of FY20 (i.e., pre-pandemic period)

Analysis of External Sector Performance

Balance of Payments slides into an uncomfortable position

- Despite the robust export growth, trade deficit posted a significant rise and rose from USD (-) 3.49 billion to USD (-) 9.09 billion in the first four months, in the backdrop of higher import growth
- In view of negative growth of remittances, the current account balance also weakened further and got into the negative terrain
- The substantial increase in the financial account provided some cushion and comfort thanks to the higher net aid flows and MLT loans
- For Jul-Oct FY22, the overall balance stood at a negative USD (-) 1.3 billion whereas the corresponding figure for FY21 was USD (+) 4.1 billion
- The fall in overall balance is also reflected in the forex reserve scenario. At the end of FY21, Bangladesh had a reserve worth about USD 46.4 billion which came down to USD 44.9 billion in November 2021
    - In this connection it needs to be recalled that the IMF has raised question as regards the accuracy of accounting practices associated with estimation of foreign exchange reserve

Exchange rate movement could soon emerge as a source of stress

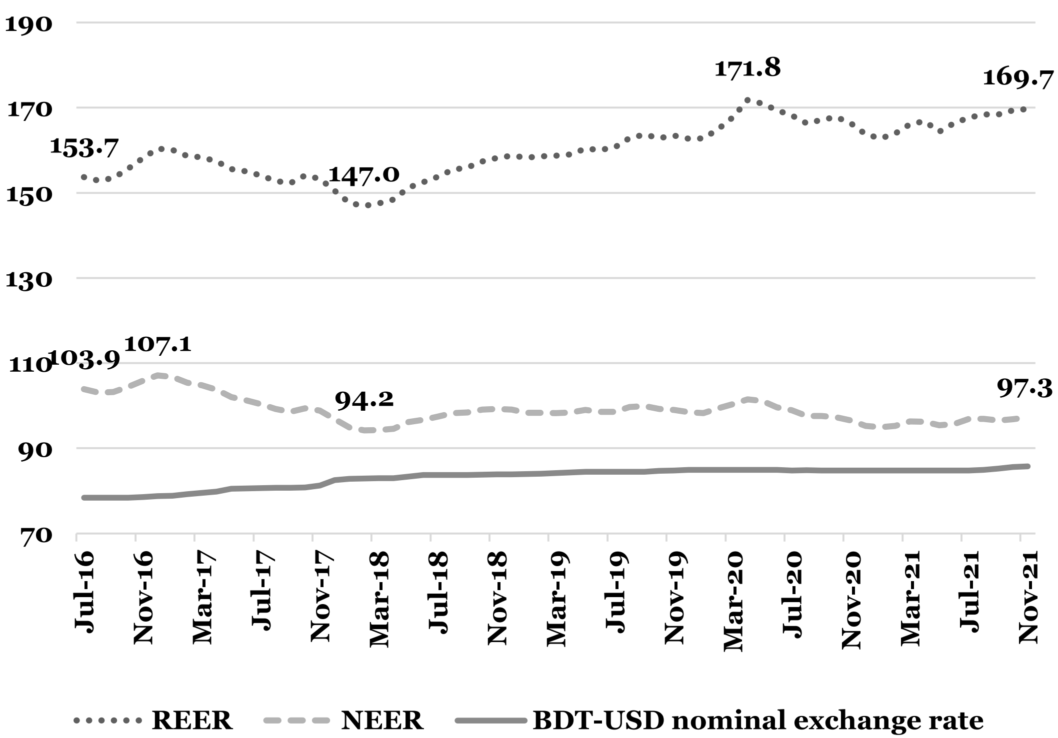
- In the backdrop of rising demand on account of import, resumption of travel abroad and tourism, as also falling remittance flows, BDT exchange rate came under some pressure in the early months of FY22
- During Jul-Nov of FY22, exchange rate of BDT against USD experienced a depreciating trend
  - Interestingly, over the same time frame, the BDT has shown a generally appreciating trend against the Euro and the UK Pound Sterling (GBP). While the exchange rate of BDT against Indian Rupee (INR) has been volatile, it has been depreciating against the Chinese Yuan (CNY)
- Besides nominal exchange rate, movements in the real effective exchange rate (REER) are generally taken into consideration while formulating exchange rate policies

Analysis of External Sector Performance

- The REER has been on a secular rise between 2016 and 2021. However, the nominal effective exchange rate (NEER) has exhibited the opposite trend with subtle increases in the most recent months

  - The REER of BDT appears to be overvalued and would have experienced some depreciation had Bangladesh pursued a pure floating exchange rate regime
  - In recent times Bangladesh Bank (BB) has been actively intervening in the forex market, by selling USD, to limit any significant slide of the BDT

Figure: REER, NEER and USD-BDT exchange rate trends



Analysis of External Sector Performance

- The strategy being pursued by BB with a view to arresting the depreciation of the BDT is a logical step in the present context
  - While gradual depreciation of BDT, in view of aggressive depreciation policy pursued by its competitors, is a desirable medium-term strategy, given the current context of high global commodity prices and the likelihood of imported inflation, BB will need to exercise caution as to what extent this should be allowed
- The forex reserves are (still) at comfortable level (about 6 months' equivalent of imports even if the current import growth persists)
  - The Bangladesh Bank thus has some leveraging power to exercise
- However, by selling dollars BB is also mopping up money from the market
  - The credit uptake growth is still below the monetary target of 14.8% (at present private sector credit growth is less than 10%) and the central bank should not be seen as crowding out the private sector from the credit market

5. Redesigning Support Measures

The need for redesign

- As part of its overarching countercyclical policy to deal with the economic slowdown, the government has pushed out multiple liquidity assistance and fiscal stimulus measures in its immediate reaction to the COVID-19 pandemic.
- Banks are expected to play a key role in the recovery of the pandemic-affected economy, since **86.72 per cent of the government's COVID-19 response funding is in the form of liquidity support**.
- The form and architecture of Bangladesh's COVID-19 relief funds gave **plenty of space for financial malfeasance**.
- Some of the government's **liquidity assistance packages are now available to banks that are weak and mismanaged**
- Furthermore, loan defaulters were given access to these packages.

The need for redesign

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

The need for redesign

- On the other hand, the **13.28 per cent of the government's COVID response funds that were in the form of fiscal stimulus** could not find much success either.
- The geographical distribution of the government's COVID-19 relief was not appropriately linked with the country's socio-economic circumstances, as regions with greater poverty rates got less rice and cash help than districts with lower poverty rates.
- **Those who were tasked with managing relief activities have been involved with stealing, storing and illegally selling rice, soyabean oil, sugar and other essential food items that were meant for distribution among the poor through safety net programmes such as Vulnerable Group Feeding or Open Market Sales.**
- Thus, it appears that the time has come to redesign the government's economic response to the COVID-19 pandemic.

Status of COVID-19 support measures and relief funds

- Bangladesh's **fiscal stimulus package** is a meagre 13.28 per cent of its total COVID-19 relief funds or **only 0.9301 per cent of its GDP**, and **falls far short of the 11 per cent of GDP that is estimated to be required to mitigate the socioeconomic impacts of COVID-19**
- Ironically, the largest industries which are relatively more capable of dealing with shocks got the greatest support from COVID-19 relief funds.
- Although the COVID-19 pandemic is fundamentally a public health crisis, **less than 1 per cent of the total funds were allocated for purposes related to healthcare**.
- Computable general equilibrium model simulations have estimated that **2.5 per cent of GDP would be needed to strengthen the public health infrastructure in Bangladesh so that it can deal with the COVID-19 crisis**
- There was no allocation for subsidising the treatment of patients at private hospitals or building new hospitals; no health funding was allocated for research

Status of COVID-19 support measures and relief funds

- Although the liquidity support and fiscal stimulus packages for COVID-19 began to be announced from 25 March 2020 onwards, **even after more than 20 months, the overall pace of fund disbursement appears to be slow**
- **Even more disconcerting is the fact that the pace of disbursement of packages in which the beneficiaries are likely to be crony capitalists and powerful elites has been faster than the pace of disbursement of packages which are meant for the poor and vulnerable.**
- The potential of a K-shaped recovery is being explored widely throughout the world.
    - This means that stimulus packages and liquidity assistance will aid large industries and government organizations in recovering more quickly, while small and medium enterprises (SMEs) would lag behind
- As a result, authorities must map out the route to recovery in a way that does not overlook the economy's weaker but crucial sectors.

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Status of COVID-19 support measures and relief funds

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

Requirements of the poor

- In recognition of the increase in the national poverty rate and the large number of people who became poor during the pandemic, the government, on several instances, mentioned that **direct cash transfers of BDT 2,500 would be provided per family for selected poor families nationwide.**
- In general, our findings indicate that the **BDT 2,500 is insufficient to sustain one household for even one month, even when considering only the cost of food.**

Minimum cost of essential food items for one household of four persons for one month

Item	Unit	Minimum price per unit in BDT (as of 20 Dec 2021)	Average per capita per day intake	Minimum total cost (in BDT)
Rice (coarse)	kilogram	50	0.3672	2,203
Soyabean oil (loose)	litre	140	0.0252	423
Lentils (local)	kilogram	95	0.0157	179
Potato	kilogram	24	0.0648	187
Onions (local)	kilogram	40	0.0311	149
Garlic (local)	kilogram	50	0.0301	181
Chili (powder)	kilogram	260	0.0129	402
Turmeric (local)	kilogram	200	0.0301	722
Ginger (local)	kilogram	80	0.0301	289
Sugar	kilogram	75	0.0064	58
Salt	kilogram	30	0.0307	28
Eggs (farm)	20 eggs (approximately 1 kilogram)	165	0.0136	269
Fish (Rui)	kilogram	250	0.0626	1,878
Chicken (broiler)	kilogram	160	0.0171	328
Total minimum cost per household of 4 individuals per month				**7,297**

Funding requirement for the total poor for one month (as percentage of GDP)

Assumptions	For 75.7 million people for 1 month (CPD, 2020)	For 70 million people for 1 month (BIGD-PPRC, 2020) (BBS, 2019)	For 69.4 million people for 1 month (Ali, Ahmed, Maîtrot, Devine, & Wood, 2021) (BBS, 2019)
Assuming each individual gets BDT 38.2 per day, which is required for a nutrient adequate diet (Nowar, Islam, Amin, Bhattacharjee, & Shaheen, 2021)	0.32	0.29	0.29
Assuming per capita per month support required for rural 'new poor' is BDT 1,450 (Rahman, et al., 2020)	0.40	0.37	0.37
Assuming per capita per month support required for urban 'new poor' is BDT 1,745 (Rahman, et al., 2020)	0.48	0.45	0.44
Assuming each households gets BDT 7,297 per month which is the minimum cost of essential food items for one household for one month	0.50	0.47	0.46
Assuming each households gets BDT 8,000 per month which is close to the lower poverty line for a family of 4 members in 2020 prices (CPD, 2020)	0.55	0.51	0.51
Assuming each individual gets BDT 163 per day or USD 1.9 per day	1.35	1.25	1.24

Redesigning support measures

- The **transparency** and **accountability** of Bangladesh's COVID-19 stimulus plan will be the key to its successful operationalization and implementation.
- **Hence it is critical to make sure that the beneficiaries are selected based on clear, objective and quantitative criteria and vested interests are not allowed to intervene.**
- Beneficiary targeting, or to bring in the right group of people, has been a major weakness of SSNPs in Bangladesh.
- Reducing leakages and proper targeting can help release significant amount of resources that can serve the more vulnerable and deserving groups more effectively.
- The general problems of errors in the listing of poor who need relief will deprive several poor including women.
- **Without connections with the local powerful people, it has been proved to be difficult to get included on the list of beneficiaries.**
- Such malpractices have been reported in the media even during COVID-19 crisis.

Redesigning support measures

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

The need for universal child benefits

- In Bangladesh, school closures to prevent the spread of COVID-19 have left **40 million students out of school for more than 6 months**, as of September 2020
- School closures due to **COVID-19 have deprived 2.96 million children in Bangladesh from school meals**, which has adversely affected their health and made them more susceptible to disease.
- Only 29.4 per cent of children in Bangladesh were covered by social protection benefits in 2017
- **Cost of providing cash benefits equal to 25 per cent of the national poverty line to all children less than 5 years old would be only 1.04 per cent of GDP**

Cost of child benefits (as a percentage of GDP)

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

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The need for universal maternity benefits

- In Bangladesh **49 per cent of women and girls reported feeling safety and security risks** since the imposition of lockdowns and general holidays
- In Bangladesh, **55 per cent of women reported an increase in the time spent to do unpaid domestic work** while 58 per cent of women reported an increase in the time spent to do unpaid care work since the start of the pandemic
- **In Bangladesh the share of women with new-borns receiving maternity benefits was only 20.9 per cent in 2017**
- The cost of providing maternity cash benefits equal to 100 per cent of the national poverty line to all mothers during four months around childbirth would be only 0.30 per cent of GDP
- **It can be shown that increasing the maternity cash benefits to be equal to USD 1 at PPP per day to all mothers during four months around childbirth would cost only 0.09 per cent of GDP in Bangladesh**

The need for universal disability benefits

- More than **70 per cent of persons with disabilities** in Bangladesh participating in some form of economic activity prior to the pandemic **lost their livelihoods during the lockdown**
- Persons with disabilities have mentioned that they have been disproportionately neglected from the government's COVID-19 assistance
- Unfortunately, in Bangladesh **only 18.5 per cent of people with disabilities, were protected with benefits in 2017**
- The cost of providing cash benefits equal to 100 per cent of the national poverty line to all persons with severe disabilities would be only 0.93 per cent of GDP
- **Providing USD 2 per day PPP to all persons with severe disabilities in Bangladesh would cost 0.55 per cent of GDP**

Cost of universal social benefits (as a percentage of GDP)

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

The need for universal elderly benefits

- The risk of severe COVID-19 if an individual becomes infected is known to be higher in older individuals
- Although pensions for the elderly are the most commonly provided form of social protection in the world, **66 per cent of the elderly population in Bangladesh, were still not covered with any social protection benefits in 2017**
- Bangladesh also has some of the most stringent legal requirements for obtaining old-age pensions in South Asia
- **The cost of providing cash benefits equal to 100 per cent of the national poverty line to all persons aged 65 years and above would be 2.18 per cent of GDP**
- Providing USD 2 per day PPP to all persons aged 65 years and above in Bangladesh would cost 1.30 per cent of GDP

Cost of pensions (as a percentage of GDP)

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

Conclusions

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

Conclusions

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

Recommendations

- **New phases of liquidity support packages should not be initiated until the disbursement in the old phases are complete**
- Fiscal stimulus packages and COVID-19 relief support should be gradually be shifted away from targeted approaches to a **universal approach**, in order to prevent errors in selection of beneficiaries
- **Loan defaulters** should not be allowed to access any of the COVID-19 related liquidity support packages.
- **Weak and poorly governed banks** should be barred from participating in the COVID-19 related liquidity support packages. Banks which are not fully compliant with BASEL III or the Banking Company Act should be not be allowed to participate in the COVID-19 related liquidity support packages.
- **Clear, objective and quantitative criteria** should be declared to properly identify "affected" businesses and individuals.

Recommendations

- **Transparency and accountability mechanisms** should be built into all COVID-19 related liquidity support packages, and more disaggregated data on the implementation status of all liquidity support packages should be published on a monthly basis.
- **Disbursement of the government's COVID-19 liquidity support for small businesses**, farmers, and low-income professionals should be expedited immediately.
- The government must acknowledge the actual scale of the COVID-19 crisis and then formulate a specific and target-oriented post-COVID recovery plan that aims to build back better.
    - **A thorough needs assessment should be conducted to understand the extent of damage done by COVID-19, the amount of support required, and the people who need the support the most.**
- Public awareness about the liquidity support and fiscal stimulus packages should be raised through nation-wide campaigns so that the general population can clearly understand what kinds of support are being provided by the government, who are eligible for such support, and how to obtain that.

Recommendations

- **Liquidity support is inappropriate for small borrowers** and new borrowers, as well as those who are the poorest and most vulnerable. Therefore, direct cash support should be provided by the government so that these groups can adjust to the shocks of COVID-19.
- **Corruption in targeting and selection of beneficiaries** of cash transfer programmes must be addressed immediately.
- **A multi-stakeholder taskforce with representatives from various ministries, central bank, commercial banks, trade bodies, civil society, non-government organisations (NGOs). And academia should be formed for monitoring the delivery of the COVID-19 liquidity support and fiscal stimulus packages and assessing their effectiveness.**

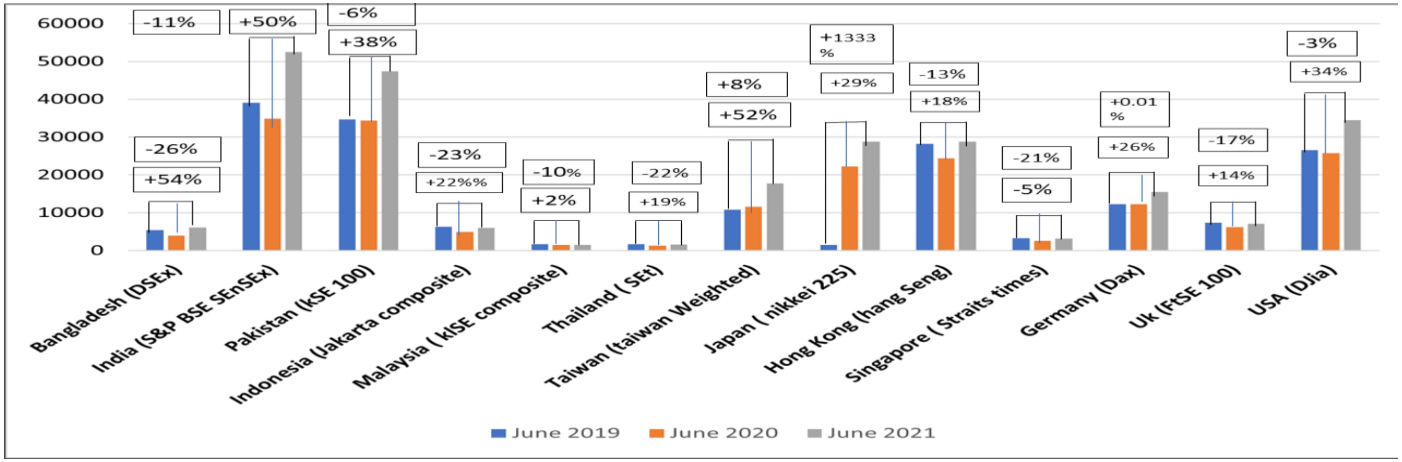
Independent Review of IRBD Bangladesh's Development

6. Rise of the Capital Market during the Pandemic: How to Explain It?

IRBD Independent Review of Bangladesh's Development

Global Stock Market During the Pandemic

- ❑The global capital market has confronted major setbacks during the covid pandemic period - an unparalleled degree of economic uncertainty and risk, leading investors to incur substantial losses within a relatively short period
- ❑Most of the market initially faced a dip in the market returns while some were seen getting back on their feet with proper policy measures and institutional interventions.



➢ There is a mixed trend observed in the changes in market indices of developed countries. The share prices in Bangladesh have bounced back in the later phase of the pandemic after a decline in 2020 (54 percent rise), a big jump.

Overview of the Performance of the Capital Market

- The trends in market indices in the DSE have maintained three different patterns during the pre, early phase, and later phase of the covid pandemic.
  - The market indices declined during the early phase of pandemic including a period of 66 days when the market was closed.
  - After a period of slow rise, the market indices have further accelerated during the later phase of the pandemic

- Market value and market volume have both significantly increased – most importantly, both the indicators have passed the pre-pandemic level

Figure: Market Index

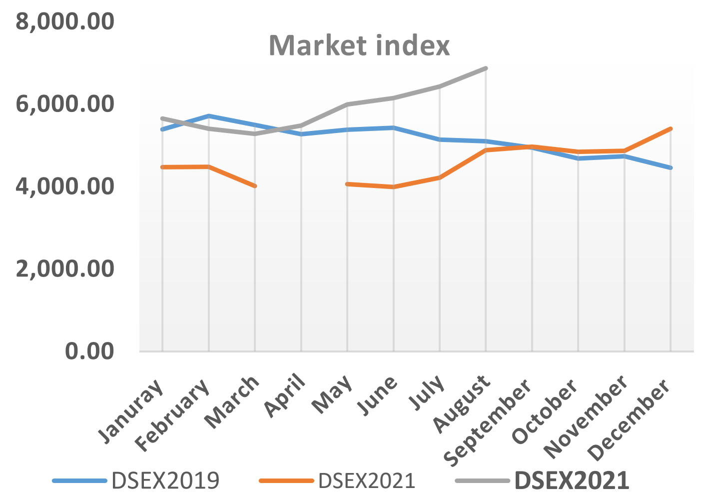
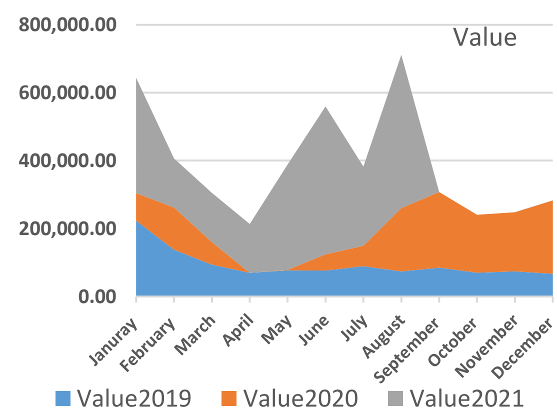


Figure: Market Value of the shares



Overview of the Performance of the Capital Market

- Major share (bank, pharma) maintained leading positions in terms of market capitalisation during the pandemic period as like those in the pre-pandemic period
  - However, their positions have changes during the later phase of the pandemic period where market capitalisation of telecommunications has surpassed the other two stocks (banks and pharma)
- The number of newly listed companies remains at weak state during the pandemic period as observed in the pre-Pandemic period(6 in 2019 to 5 in 2020 and 9 in 2021)

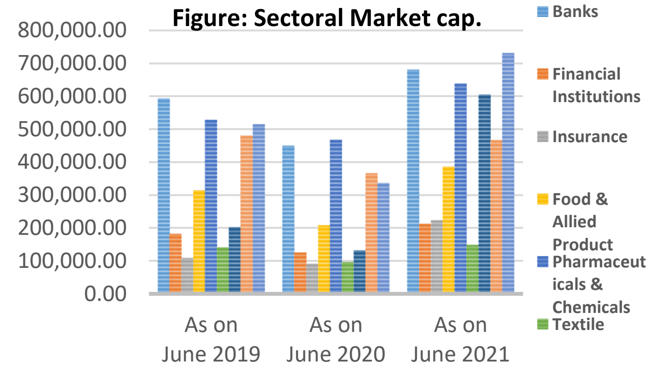


Figure: Portfolio Investment

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

The introduction of ***'Sukuk Bond'*** is Bangladesh's first attempt at introducing an Islamic financial instrument. The bond was launched initially by the government of Bangladesh to finance the safe water supply project for Bangladesh with a Tk 4,000 crore. Beximco is the first private company to receive a green signal from the Bangladesh Securities and Exchange Commission (BSEC) to issue Tk 3000 crore worth green Sukuk. This collected amount will be used to fund two solar projects with the power division

Independent Review of Bangladesh's Development (IRBD)

Key attributes of the Capital Market

- ***Stimulus Packages for the SEC:***
  - **1)** a package for banks that would allow them to borrow money for six months at 6 percent interest to invest in equities to bolstering the capital market **2)** a stabilization fund of Tk.200 crore to invest in the capital market with the **3)**BDT 8.5 billion revolving fund for five years to invest it in the capital market and utilise it during any crisis to keep the market stable
- ***National Budget on stock market:***
  - The provision of allowing investment of undisclosed black money in the capital market is a specific initiative made in the national budget for FY2022.
- ***Market Operations during the Pandemic Period:***
  - The stock market was closed for a consecutive 66 days during the country's first wave of covid pandemic causing a detrimental effect in overall market performance
- ***Foreign Investment Concerns and Road Shows:***
  - Foreign investors took away their investment from the stock markets during 2019-2021 owing to a number of reasons other than the pandemic even the roadshows failed to create enthusiasm
- ***Less Use BO account:***
  - Compared to the pre-pandemic period Z(January, 2019), use of BO accounts has declined by 27.8 per cent at the later phase of pandemic (December, 2021).

❑ *Major Initiatives undertaken by BSEC under the New Leadership*

- the new leadership has taken charge at the BSEC (17 May 2020), a number of initiatives have been undertaken. Major BSEC initiatives include *(a)*setting floor price for all stocks which has been lifted later (June, 2021); (b) allowing perpetual bonds of BDT 4.0; (c) launching an integrated online data-gathering, information submission and dissemination platform; (d) revised its recently amended public offer rules; (e) routine inspections of brokerage houses; (f) asked 61 directors of 22 listed companies to ensure holding of minimum 2% shares in their respective firms in 45 days; (g) planned to make Bangladesh Electronic Funds Transfer Network (BEFTN) mandatory for the listed companies; (h) replaced the lottery system with the pro-rata system; (i) formulated draft rules on forming and executing capital market stabilization fund with the unclaimed or unpaid cash or stock dividend; and (j) issued revised public issue rules, setting new IPO (initial public offering) quotas for general and other eligible investors (EIs).

Figure: Enforcement Action undertaken by BSEC commission for non-compliance

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

Governance of the Capital Market

❑ *Addressing the Market related Malpractices*

- Market related malpractices have been exposed during the pandemic period in number of ways including (a) offloading of IPOs; (b) transactions in the secondary market; (c) targeted collusive practices in low value chares; (d) involvement of institutional investors; (e) involvement of big investors and (f) use of social media for manipulation.
- BSEC took various initiatives to stop these manipulations which includes (a) development of database, (b) forming of special bodies (c) separate intelligence wing (d) preventing social media manipulation

❑ *Coordination between BSEC and BB*

- Since the initial period of pandemic, BB and the BSEC undertook a set of decisions considering the operation of the market including strengthening of their mutual coordination, disbursement of cash dividend, inspire the banks to accelerate the formation of the special funds worth BDT 2.0 billion
- During the later phase of pandemic, disagreement between BB and BSEC became visible in the context of some recent stock market related decisions making that deepen further following a recent stock market regulator move that curtails banks' power to cancel payments to bondholders.

Factors responsible for market trend

- ***Market Stabilisation Fund***
  - During July 2021, the BSEC sent a letter to listed businesses instructing them to transfer all qualifying cash and share assets to the fund by the end of the month,
    - which did not provide the companies the required 30 days to comply with the BSEC Market Stabilisation Fund Rules 2021.
  - The regulator disclosed Tk21,000 crore of undistributed and unclaimed dividends by the listed companies, which it now plans to safeguard the capital market and its general investors.
- ***Stimulus funds***
  - On September 22, the central bank unveiled a package for banks that would allow them to borrow money for six months at 6% interest to invest in equities to bolstering the capital market
- ***Floor Price***
  - The BSEC implemented a floor pricing mechanism on March 19, 2020, to prevent listed company share prices from dropping below a specific threshold during the COVID-19 epidemic with majority of the equity failing it was removed in June 2021

Factors responsible for market trend

❑ *Margin Loan Correction*

- during the pandemic with a view to increase flow of fund. BSEC revised the margin loan ratio in September at a 1:1 ratio if the broad index exists up to the 4,000 thresholds
- There were further adjustments and changes in November, 2021.

❑ *Deposit rate*

- Low deposit rate has contributed to the high trading volume in the country's stock market. During the pandemic, the low return on bank deposits drove people away from the banking sector towards the capital market.

❑ *Low Credit Demand and High Liquidity*

- Lack of credit demand and high banks' liquidity came up as a key factor for stock market bubble during the pandemic.
- the banking surplus liquidity stood at Tk 204,070 crore as of January 2021, a year-on-year surge of 97 percent.
- The contribution of investment income rose to a higher extent in 2020 because of banks' high investment in treasury bills, bonds, and the stock market. Banks' investment in bonds and other securities rose 8.84 percent to Tk 314,747 crore in the second quarter of last year. Investment income surged Tk 842 crore, or 49 percent, to Tk 2,546 crore in the quarter.

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Factors responsible for market trend

❑ ***Market manipulating practices***

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

❑ ***New leadership in the SEC***

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

Conclusion and Recommendation

- The bubble-like behaviour of the market is being contributed by a number of artificial short-term stabilising measures risking the sustainability of the market Such measures would hardly ensure long term stability in the market and thereby would hardly develop confidence among the market players. The new leadership in the SEC made some visible measures to influence the market
  - the quality of stocks rather than indices should the major concern which would ensure that the product base is more diversified, and the people have more options to choose from;
  - The BSEC and Bangladesh Bank should not encourage banks to invest in the market for short term market gain
  - Banks and institutional investors should follow the corporate governance principles in taking decisions with regard to their investment in the capital market;
  - BSEC should monitor and review whether institutional investors follow the corporate governance code/guidelines and provide necessary directives in these regards;
  - Ensuring corporate governance is a must for the listed companies are controlled by family owners, Transparency of the BO accounts needs to be ensured to properly monitor, track, and trace transaction practices and transaction behavior of the investors.

Conclusion and Recommendation

- SEC should make it mandatory to tag TIN number and bank account numbers with all BO accounts
- Market related manipulation needs to be addressed by the SEC immediately
- SEC should work with the law enforcement agencies who regularly monitor social media
- DSE should be made accountable with regard to its due diligence in case of assessing the quality of IPOs and other stocks and shares;
- The financial reporting commission needs to play strong role in reducing the anomaly in financial reports of the listed companies;
- SEC's initiative to regular monitoring of the brokerage houses is an important initiative. It should regularly make it public the outcome of the monitoring of the brokerage houses;
- More reforms in the capital market listing should be ensured, particularly more big corporates and SMEs need to be brought to the market. However, ensuring proper governance or management of enterprises mainly SMEs is a critical issue to address;
- The BSEC should be more cautious regarding the trading of the Sukuk bond trading.

7. Concluding Remarks

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Concluding Remarks

The trends of key macroeconomic correlates during the early months of FY22 evince that many of these are in a recovery trajectory, led by export-oriented sectors. However, macroeconomic stability is not in a comfortable state anymore. Uncertainty is looming large at the global level as well

Consequently, policy space for tackling the prevailing and emerging challenges has become comparatively limited. In this backdrop, trends in recovery, emergent risks and the available policy space should receive due cognisance while designing and implementing policy responses

- The government needs to opt for a focused and targeted expansionary fiscal policy reinforced by accommodative monetary policy
  - Given the current context, a targeted flow of fiscal resources towards the more vulnerable households alongside the relatively small (and informal) enterprises will generate more 'aggregate domestic demand augmenting' effect and offer some protection to the marginalised groups
  - This becomes even more important given the upward creeping inflation scenario
- One of the critical measures to be pursued by the government should be downward adjustment of diesel price in order to decrease tillage, irrigation and transportation costs so that production cost is reduced

Concluding Remarks

- If the policies within the external sector are primarily focused on holding the exchange rate steady at around the current level, energetic steps to reduce cost of doing business and proper incentivisation of exports will be necessary
- The two per cent cash incentive on inward remittance should be continued and investment in wage earners' bonds should be encouraged to dissuade transfer of money through informal channels given the widening gap between official exchange rate and curb market rate
- The government may need to gradually discontinue some of the prevailing support measures while carefully observing the evolving pandemic scenario. Since the pandemic is still not over and the resultant fallouts are still vivid, the Bangladesh economy will require a recovery package 2.0
    - The new package will have to be based on distributive justice which will support the marginalised and the vulnerable people at a time of rising prices of daily necessities and by taking into account their hardships during the pandemic
    - The increased cost of investment induced by rising inflation needs to be accounted for in this new recovery package

Concluding Remarks

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

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