

Policy Note: PN 2001

A Brief on the Policy Responses to Economic Fallout of the COVID-19 in Bangladesh

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**Chief Economist's Unit
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The economic growth of Bangladesh decelerated to 5.24 percent in FY20 from 8.15 percent in FY19 in the aftermath of the economic slowdown caused by a government-declared lockdown for around two months in the first half of FY20 to prevent the contagion of COVID-19 pandemic. The domestic demand, which comprised of consumption and investment, moderated to 4.23 percent and 6.71 percent respectively in FY20 from 4.33 percent and 8.44 percent respectively in FY19 but the external demand (exports) drastically contracted in FY20 as a consequence of unprecedented, negative growth of the global economy. Unfortunately, the economic growth of the European Union and the USA turned from positive in 2019 to negative in 2020 owing to severely restricted economic activities and diminished demand caused by the rampant spread of the pandemic through these regions to which Bangladesh tended to export more than 80 percent of its ready-made garments RMG (Table 1).

In the first half of 2020, global economic activities suffered a faster and deeper contraction than in the financial crisis of 2007-09 as the pandemic stalled almost all sectors of the economy because of the rapid contagion of the COVID-19 pandemic. So deep is the plunge in global output that the global economic growth is projected to contract by 4.9 percent in 2020 and revive by 5.4 percent in 2021 (IMF, WEO 2020) (Table 1). The pandemic severely weakened global trade, consumption, services, and the labor market in both developed and emerging markets. Global trade contracted by nearly 3.5 percent (year over year) in the first quarter, reflecting weak demand, collapse in cross-border tourism, supply chain disruptions, and supply dislocations triggered by shutdowns across the world.

Bangladesh's government and Bangladesh Bank (BB) undertook a range of coordinated fiscal, monetary, and macro-prudential policy actions which included stimulus packages and easy credit availability in order to cushion the Bangladesh's economy from the fallout from the pandemic. The overriding objectives of these policy measures are to minimize the negative impacts of the pandemic and to bring economic activities back to the pre-COVID-19 level. These policy measures are expected to make financing conditions easy for investors, entrepreneurs, and corporate bodies who now can access more favorable financing sources to resume their business in full swing. It is likely that the economy will recuperate from lost investment and consumption and bounce back to the economic growth momentum observed in the last decade.

The government has announced a series of stimulus packages worth of Tk. 1.03 trillion (about 3.6 percent of GDP) for increasing public spending that are expected to create job and loan facilities for the affected industries and business so that they can revive, and expanding the coverage of government's

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social safety net programs to protect the extreme poor. A summary of those stimulus packages is listed in table 2.

Considering the adverse consequences of the pandemic, the government adopted an expansionary fiscal policy for FY21 to ensure a smooth recovery of economic growth (8.2 percent for FY21), employment generation, and poverty reduction. The overall expenditure framework was revised to make sufficient allocations available to mitigate the adverse impacts of the COVID-19. Moreover, with a view to mitigate increased risks of poverty and inequality, meet the basic needs of people of the country, enhance business activities and create employment and establish an equitable and just society, fiscal policies incorporated social safety nets, cash transfers, employment generation programs under annual development programs (ADP), various types of tax exemption or tax benefit in income tax, customs and value-added tax (VAT) in the revenue management framework. The fiscal deficit is projected to increase slightly to 6 percent in FY21 from 5.5 percent in the revised budget for FY20 (Budget Speech, 2020-21, Ministry of Finance).

Table 1: Real GDP Growth Forecast by Developing Partners

	IMF			World Bank			ADB		
	2019	2020(f)	2021(f)	2019	2020(f)	2021(f)	2019	2020(f)	2021(f)
World	2.9	-4.9	5.4	2.4	-5.2	4.2	-	-	-
Advanced Economies	1.7	-8.0	4.8	1.6	-7.0	3.9	1.7	-5.8	4.1
<i>USA</i>	2.3	-8.0	4.5	2.3	-6.1	4.0	2.3	-5.3	3.8
<i>Euro Area</i>	1.3	-10.2	6.0	1.2	-9.1	4.5	1.2	-7.0	5.5
EMDE¹	3.7	-3.0	5.9	3.5	-2.5	4.6	-	-	-
<i>India</i>	4.2	-4.5	6.0	4.2	-3.2	3.1	4.2	-4.0	5.0
<i>China</i>	6.1	1.0	8.2	6.1	1.0	6.9	6.1	1.8	7.4
<i>Bangladesh</i>	5.5	1.0	8.5	8.2	1.6	1.0	8.2	4.5	7.5
<i>Sri Lanka</i>	2.3	-0.5	4.2	2.3	-3.2	0.0	2.3	-6.1	4.1

Sources: World Economic Outlook Update, June 2020; Global Economic Prospects, June 2020; Asian Development Outlook Supplement, June 2020. ¹Emerging Market and Developing Economies

Bangladesh Bank has adopted an expansionary monetary policy for FY21 with the objectives of achieving the recovery of the economy from the adversity of the COVID-19 pandemic, resumption of production capacity, restoration of the normal livelihood of the people while maintaining dual goals of price stability and sustainable economic growth. Policy measures and strategies are designed to make adequate financing supports available to all priority sectors like agriculture, cottage, micro, small and medium enterprises (CMSMEs), manufacturing industries, and the service sector with built-in options for necessary adjustment to match the demand of the specific sectors where essential (MPS 2020-21, BB). Bangladesh Bank has allocated about BDT 552.50 billion refinance scheme for large, CMSMEs, agriculture and exports sector (Table-3).

A pragmatic agricultural and rural credit policy has been adopted by relaxing terms and conditions for inclusive loan disbursement. In view of the importance of the agriculture sector in terms of

employment generation, food security, and poverty reduction in the country, the target disbursement of agricultural credit is set at BDT 262.92 billion for FY21 which is about 9 percent higher than that of FY19. To realize this goal, banks are instructed to disbursing credit to women, marginal and tenant farmers. In FY19, banks disbursed BDT 227.50 billion agricultural and rural credit to 3.07 million farmers. Out of them, about 1.51 million women farmers received loans amounting to about BDT 83.60 billion through the channel between banks and MFIs (Agricultural and Rural Credit Policy and Program for the FY21, BB).

To increase financial flow to the CMSMEs sector, a credit grantee scheme has been undertaken so that banks can disburse more credit to the sector and minimize their risks. In 2019, the total industrial loan disbursed was BDT 7578.96 billion, and out of this amount, about BDT 1679.70 billion was disbursed to 0.77 million CMSMEs which was 22.16 percent higher than that of 2018. During January-June, 2020, BDT 1659.19 billion industrial loans (including 83 percent of working capital) were disbursed. The latest SME data show that about 0.32 million CMSMEs received about BDT 658.26 billion loans during the first two quarters of 2020.

Table 2: Summary of Stimulus Packages by the government

Broad Area	Stimulus Package
Export Sector (including RMG)	The government has created a fund amounting TK 5,000 crore for the export oriented industries so that about 5 million workers can continue their livings and get salaries and allowances.
Working Capital Loan Facility for Large Industries and CMSMEs	To support affected enterprises in the industrial sector, the government has introduced a working capital loan facility of TK 30,000 crore at a subsidized interest rate for large industries. In addition, the government has created another working capital loan facility of Tk 20,000 crore at a subsidized interest rate for the Cottage, Micro, Small and Medium Enterprises (CMSMEs)
Import Sector	To facilitate the import of raw materials under the Back-to-back Letter of Credit facility, the government has increased the size of Export Development Fund (EDF) from USD 3.5 billion to USD 5 billion, at a reduced interest rate.
Pre-shipment Credit Refinance Scheme	To improve the export competitiveness, a new Pre-Shipment Credit Refinance Scheme of Tk. 5,000 crore has been initiated through Bangladesh Bank.
Healthcare Professional	The government has declared a special honorarium equal to the basic pay of two months for the doctors, nurses and other healthcare workers who are providing critical healthcare services to COVID-19 patients.
Frontline Public Servants	The government has taken special arrangements to compensate frontline public servants (officials from field administration, law enforcing agencies and armed forces and other employees of public service) who directly engaged in enforcing initiatives

	and might get infected, and in the unfortunate event of deaths, to the family members of the deceased employees.
Food Aid	A humanitarian aid including food aid has introduced by the government to support those who affected by sudden unemployment due to the coronavirus outbreak. A total of 4 lakh metric tons of rice and 1 lakh metric ton of wheat have already distributed among the poor free of cost.
Social Safety Net Programs	The government has provided direct cash transfers of Tk. 2,500 each to 50 lakh selected ultra-poor families nationwide. Alongside, the coverage of the Old Age Allowances and the Allowances for Destitute Women have been widened to include all qualified persons in the poorest 100 upazilas in the country. The total number of new beneficiaries due to expansion of the Allowances for Diasabled Persons and these two programs is 10 lakh 70 thousand. Besides, Tk. 2,130 crore has also been allocated to construct houses for the homeless population.
Agricultural Sector	In order to keep the momentum of the agricultural production, the government has increased subsidies in the agriculture sector to TK 9,500 crore. Moreover, Tk. 200 crore has been allocated as incentives for farm mechanisation. The government is going to form an agriculture refinance scheme of Tk. 5,000 crore to provide required agricultural credit to farmers. Another refinancing scheme of Tk. 3,000 crore has been announced for small income farmers and traders in the agriculture sector.
Low-interest Credit to Poor Farmers	Tk. 2,000 crore will be distributed with low interest rate to poor farmers through three specialised banks and Palli Karma Sahayak Foundation (PKSF), with each receiving Tk. 500 crore.

Source: Budget Speech, 2020-21, Ministry of Finance

Table 3: Summary of Stimulus Packages and Monetary & Exchange Rate Policy

Policy Responses	Broad Area
	Monetary , Exchange Rate and Bank Liquidity
CRR	Cash Reserve Ratio (CRR) requirement has been reduced from 5.5% to 4.0%
Repo	Repo interest rate has been also cut gradually from 6.0% to 4.75%
Reverse Repo	Reverse Repo rate has been slashed from 4.75 percent to 4.0 percent
Bank Rate	Bank rate has been reduced from 5.0 percent to 4.0 percent
Security Buy Back	BB announces to buy back government securities from the secondary market as some banks and FIs act as primary dealers of such securities to ease their liquidity.
ADR	The advance deposit ratio (ADR) has been extended from 85.0% to 87.0%. Similarly, The investment deposit ratio (IDR) has also been extended from 90.0% to 92.0%

Term repo	Long term REPO facility (360 days) to banks and non-bank FIs' from BB has been made available
LC for Export and Import	Banks permitted to extend LC usance (payment) periods for the import of raw materials, agricultural implements and chemical fertilizers (from 180 days to 360 days) and of life-saving drugs (from 90 days to 180 days).
	Banks may, without repayment guarantee, advance credit up to USD 0.5m for import of corona virus-related life-saving drugs, medical kits/equipment and other essential medical items.
EDF	The size of export development fund (EDF) has been enhanced to USD 5.0 billion. To facilitate export trade interest rates on EDF loans to ADs will be charged by BB at 1.00% pa, while ADs will charge interest to manufacturer-exporters at 2.00% pa
	ADs may seek financing facilities from Export Development Fund (EDF) for settlement of import payments against back to back LCs under supplier's/buyer's credit
	BB has decided that bullet repayment will be permissible (earlier permissible only for import of raw materials upto USD 0.5m with usance period between 6 months to 1 year) for other usance imports under supplier's/buyer's credit, usance period can be below 6 months or above 1 year.
	ADs are permitted to settle their payment against inland LCs in foreign exchange through their nostro accounts.
	Usance period has been extended for import of agricultural implements and chemical fertilizers from 180 days to 360 days
	BB is permitting foreign owned/controlled companies operating in Bangladesh to take short term working capital loans from their parent companies/shareholders for funding payments of 3-month salaries. The facility is not applicable for those companies availing loan from BDT 50bn stimulus package.
Loan of EDF	Loan limit from EDF fund has been enhanced. Now ADs may borrow maximum USD 30.0 million. Previously it was USD 25.0 million.
	Agriculture Sector
Refinance scheme	Refinance scheme of BDT 5000 crore has been created to provide working capital from BB's own source. BB will charge interest 1% from banks and banks will charge 4% interest (max). Affected customers will be able to avail up to 20% extra of the existing loan facility under the scheme. The loan will be repayable within 18 months including 6 months grace period.
Interest rate	BB instructed banks to provide agricultural loan at 4% interest from banks' own funds. Bank's can claim from BB at 5% interest rate as subsidy in the crop sector to mitigate the crisis due to the novel corona virus
	CSMEs
Working capital	Financial incentive package of BDT 20,000 crore to provide special working capital facility for CMSME sector. These loans will carry interest rate of 9%, 5% to be borne by Govt as a subsidy.

Refinance	Revolving refinance scheme of BDT 10,000 crore for CMSME sector to provide working capital facility to the entrepreneurs. Bank can borrow 50% of loan disbursed from BB at 4% interest rate.
	Large Industry and service sector
Working capital	Government to provide BDT 300billion fund for banks to provide working capital loan facilities to the affected industries. These loans will carry interest at rate of 9%, half to be borne by borrower and half by Government as a subsidy
Refinance	BB has established Revolving Refinance Scheme of BDT 150billion to ensure financing by banks. Banks can borrow 50% of loan disbursed from BB at 4% interest rate.
Loan facility of export Industry	Government announced BDT 50billion (approx. USD595m) stimulus package for export-oriented industries. This includes assistance towards salaries and funding of 2 year loans to factory owners at 2% interest (service charge).
	Sustainable Finance
Refinance	The amount of refinance scheme has been enhanced to Tk. 4 billion from Tk. 2 billion against term loan for Green Products / Initiatives / Projects.
	Low income professionals, farmers and micro businessmen
Refinance	Refinance scheme of BDT 3000 crore has been formed by BB's own fund. BB will charge 1% interest to banks, banks will charge 3.5% interest to Micro Credit Financing Institutions (MCFIs) and MCFIs will charge 9% interest to customer. Customers will repay loan within 1 to 2 years including grace period.
	Others
Cash Transfer to 5 million vulnerable families by Govt.	Government will transfer Taka 12.50 billion to 5 million vulnerable families through MFS. Each family will get Taka 2500.00
Interest suspension on loan and investment	Interest charge on loan and investment by banks has been suspended for two month (April and May, 2020). Business community will be benefited enormously.
Source: Compiled from circulars issued by Bangladesh Bank.	

In view of the analysis of policy measures and strategy highlighted above, it is clear that extraordinary easy monetary, fiscal, and financial policies have been undertaken to facilitate the rapid recovery of the economy to the pre-COVID-19 level. The speed, quality, and coordination of these policies in implementation will determine how fast and large the recovery of economic growth will be. With substantial dependence of Bangladesh economy on foreign exchange earnings from the export of RMG and manpower, the country faces risks and uncertainties of the global economy because the market for its merchandise and labor export play a critical role in the recovery of economic growth in the second half of 2020, and 2021.