“Covid-19 Pandemic in Bangladesh: Policy Responses and its Impact”

Special Publication, July, 2021

Prepared by: SAARCFINANCE Cell
Research Department
Bangladesh Bank

Team Members:
1. Dr. Sayera Younus General Manager Research Department Bangladesh Bank
2. Mr. Md. Abdul Karim Deputy General Manager SAARCFINANCE Cell Research Department, Bangladesh Bank
3. Mr. Tarek Aziz Joint Director Research Department Bangladesh Bank
4. Ms. Saila Sarmin Rapti Deputy Director SAARCFINANCE Cell Research Department, Bangladesh Bank
5. Ms. Rifat Ara Bindu Assistant Director SAARCFINANCE Cell Research Department, Bangladesh Bank
6. Mr. Md. Sajjad Hossain Assistant Director SAARCFINANCE Cell Research Department, Bangladesh Bank

Table of Contents

Executive Summary

1.1 The Covid-19 pandemic and the induced global lockdown are truly historic events. This is not any normal recession, but one that results from explicit policy choices to avoid a large-scale macroeconomic as well as a financial disaster. The situation brought central banks to the forefront as they can mobilize financial resources faster than any other authority. Since the sudden shock called for a speedy and massive policy response, the actions of central banks have highlighted their central role in crisis management as they swiftly cut policy interest rates and launched large-scale balance sheet measures along with the governments' fiscal responses around the world.

1.2 The pandemic disproportionately affected various sectors of the Bangladesh economy. Among the three broad sectors, manufacturing sector was hard hit followed by service sector while agriculture sector remained relatively insulated from the shock waves of the pandemic. Particularly, the readymade garments, real estate, tourism, health, education, airlines, transport and SME sector have been largely affected. Bangladesh Bank (BB) and other financial sector regulators have made coordinated efforts with the Government in various fronts by combining fiscal and monetary stimulus, regulatory and supervisory measures and financial policy innovations to overcome the adverse impacts of the pandemic on our economy. The Government of Bangladesh with the collaboration of the Bangladesh Bank has announced a series of stimulus packages and refinance schemes equivalent to BDT 1284.4 billion which is 4.59 percent of GDP to recover from the Covid-19 related economic losses.

1.3 With the aim to stimulate economic activities fighting with the pandemic-stricken economy and to achieve desired growth, maintain moderate inflation and boost up investment, the total size of the budget for FY22 is set at BDT 6036.81 billion, which is 17.5 percent of the GDP and 12.0 percent higher than that of revised budget for FY21. The proposed budget aims to achieve 7.2 percent growth in FY22. The GDP growth for FY21 has been revised at 6.1 percent which was initially set at 8.2 percent. It is worth to mention that the GDP growth rate in FY20 was 5.2 percent which was the highest in Asia during the pandemic situation. The targeted rate of inflation has been set at 5.3 percent for FY22 which is targeted at 5.4 percent for FY21. In the FY2020-21 the per capita income has increased to USD 2,227(revised) and it is expected that in the forthcoming fiscal year it will be USD 2,462.

1.4 Bangladesh Bank, being the monetary authority of the country, has quickly responded to this call by introducing voluminous refinance schemes, monetary easing and reviewing the key policy rates to ensure adequate liquidity and fund flows into the financial system to facilitate the faster recovery process of the real economy. In particular, BB has reduced CRR, Repo rate and Bank Rate, enhanced the advance-to-deposit ratio (ADR), relaxed loan classification policy, introduced credit refinancing scheme, lowered interest rates and enhanced the size of Export Development Fund to support manufacturer-exporters of the country. On the humanitarian front, BB has instructed the banks to extend their CSR funds to health sectors and provided foreign exchange related policy support to facilitate urgent imports of life-saving drugs, medical kits or equipment and other essential medical items used for treatment of corona virus. Fintech channels have also been beefed up for smooth transactions through ATM, POS and MFS for payment of both business obligations and wages and allowances of export-oriented industry workers.

1.5 These initiatives have reinforced the financial system and cushioned it against any major adverse shock. The external sector recovered early due to high growth of remittance inflows, sustained export growth and low-cost of import leading to Current Account Balance into positive territory. Foreign reserves recorded a new high of USD 45.18 billion on June 7, 2021. Given the positive outlook in advanced economies in 2021 and rapid vaccination at home as well as by the counter-part countries, Bangladesh economy is prepared to reap the dividend of rising optimism. Hence the external sector indicators might further boost up in 2021.

1.6 Banking sector withstood the shocks with notable resilience which is reflected in its positive outlook in terms of capital adequacy, asset quality, profitability and liquidity. Financial institutions are expected to experience gradual recovery while the stock market has rebounded and remains vibrant. In the medium term, BBs strategy should be to give emphasis on redesigning supply chains, facilitating reallocation of workers to less vulnerable but growing sectors, adaptability with modern workplace and technology, exploring possible diversification in exports, facilitating attractive investment environment, reappraising the conventional business models, improving vigilance over the asset quality and strengthening governance of financial sector stakeholders in preserving the financial stability and attaining the confidence of all economic entities.

1.7 Covid-19 shocked the country's capital market at the onset of the pandemic in March'20 when DSE Broad Index (DSEX) fell precipitously. However, the impact appears to be short-lived, and the market regained its confidence and started to rebound following Government's declaration of sizeable stimulus packages, BB's expansionary monetary policy, robust growth of wage earners' remittance and resumption of major economic activities. The market capitalization of top ten sectors of DSE, which usually comprises more than 90 percent of total DSE market capitalization, also depict continuous uptrend since July'20.

1.8 Post Covid-19 period could be more challenging for Bangladesh. Special attention needs to be given to the SMEs for sustaining their significant role in large-scale employment generation and fostering inclusive growth. Facilitating a conducive environment for the micro, small, and medium enterprises (MSMEs) would also be vital in supporting the livelihoods of the poor and vulnerable population. Asset quality, solvency, liquidity position of banks and FIs should be managed prudently when BB would unwind the ongoing policy relaxations and other incentives. Therefore, efficient distribution of stimulus funds in various economic sectors and concomitant close monitoring of the end-use of those funds is crucial. To this end, BB would urge the banks and FIs to place contingency measures to their respective boards well ahead taking into account the future challenges.

1.9 In tandem with measures taken by the Government and Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC), Insurance Development and Regulatory Authority (IDRA) and Microcredit Regulatory Authority (MRA) have also taken various containment measures and extended policy support for restoring normalcy of their respective regulated institutions/entities. However, there still seems to have some policy space that may be considered by respective regulators and policymakers. In particular, the following policy options may be adopted to materialize the dream of Father of the Nation and to regain the high growth trajectory of the economy: (i) Rationalization of Banks' Dividend Payouts; (ii) Introduction of Bangabandhu Centenary Bond (BCB); (iii) Introduction of Covid-19 Pro-poor Bond (PPB) for offering Informal Sector Job Losing Workers to participate in Public-Works Projects; and (iv) Temporary Tax Rationalization for SMEs.

1.10 It is of critical importance to consider how these stimulus packages are being utilized and making an impact on the economy. These have demonstrated better performance and as well as improved results when management and monitoring of the policies will be well managed. Amidst the ongoing crisis, the government should be ready to deliver further policy support to the economy. Moreover, with the previous experiences, regulators should identify their loopholes and be prepared to take timely measures with short term, medium-term and long-term plans to mitigate the impact of Covid-19. Short-term recommendations for regulators could be assessing and modifying business continuity plan to maintain operational resilience. Medium-term recommendations are, to make continuous monitoring modules for the government's incentive policy and programs, using an automated risk assessment tool, and evaluate the effectiveness of programs. Long-term recommendations are to re-assess the effectiveness of programs for future crises and innovate the post-crisis strategies.

“Covid-19 Pandemic in Bangladesh: Policy Responses and its Impact”

Section 1: Introduction

The Covid-19 pandemic and the induced global lockdown are truly historic events. Never before has the global economy been deliberately put into such a severe crisis. This is not any normal recession, but one that results from explicit policy choices to avoid a large-scale macroeconomic as well as a financial disaster. The situation brought central banks to the forefront as they can mobilize financial resources faster than any other authority. Since the sudden shock called for a speedy and massive policy response, the actions of central banks have highlighted their central role in crisis management as they swiftly cut policy interest rates and launched large-scale balance sheet measures along with the governments’ fiscal responses around the world. Under these circumstances, the prospects for the economy will also be influenced by the fiscal and monetary policy interventions of governments and central banks around the world.

The Covid-19 pandemic has direct impacts on economic activities in Bangladesh when the country was achieving commendable progress on various economic and social indicators. The Bangladesh economy had to bear substantial economic losses resulting in significantly lower real GDP growth of 5.24 percent for FY2019-20 (FY20) than the target as well as actual growth (8.15 percent) recorded in FY2018-19 (FY19). However, the growth rate is revised downward from 7.40 to 6.10 percent for FY2020-21 (FY21)[1]. Twelve-month average general rate stood at 5.60 percent and point-to-point general inflation rate stood at 5.56 percent in April 2021 while the inflation rate is projected to be 5.4 percent for FY21.

To overcome the adverse effects, Bangladesh Authorities have taken massive policy support measures to help out affected businesses and weaker population segments are facing the loss of employment opportunities for their livelihood. So far, more than BDT 1284.4 billion of stimulus packages which are 4.59 percent of GDP has been announced by Government of Bangladesh (GoB) to fight against coronavirus pandemic and to bring the economy back on track. Bangladesh Bank (BB) is also aggressively supporting with its various policy relaxations and low cost refinances lines of credit. BB’s monetary policy stance and monetary programs for FY21 are essentially expansionary and accommodative for all growth support needs without impairing attainment of the targeted inflation containment.

Bangladesh Bank has been responding with an array of policy tools and coordinating its interventions within and among different financial institutions. This study will present how BB

[1] Finance Division, Ministry of Finance, GoB

has adapted its policy toolkits to respond to today's unprecedented challenges and examine the impact of policies to recover overall economic development in Bangladesh.

The paper is organized in a structured manner. In Section 2, the latest Covid-19 scenario in Bangladesh is discussed. Section 3 analyzes important policies and measures taken by Bangladesh Bank along with Government of Bangladesh. Section 4 describes an analysis of the impact of policies taken by the Bangladesh Bank on major economic and financial indicators of Bangladesh. Section 5 illustrates challenges to the implementation of the policies and Section 6 concludes the paper.

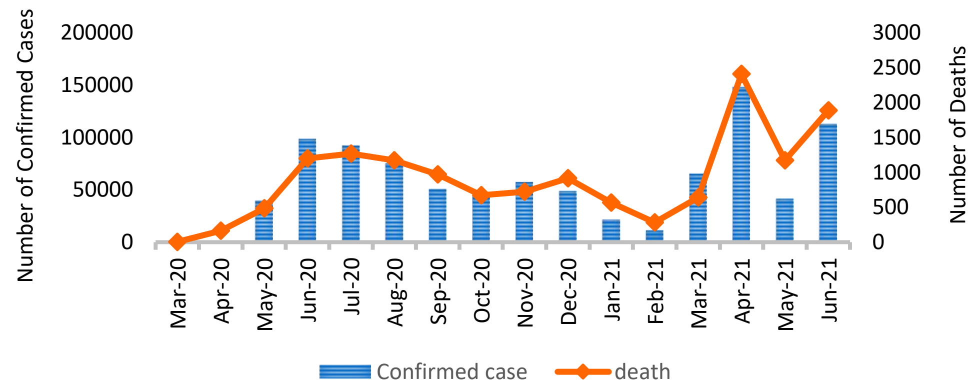
Section 2: Covid-19 Scenario in Bangladesh

As the pandemic continues, as of July 05, 2021, in Bangladesh, there have been 0.95 million confirmed cases of Covid-19 with 15,229 deaths, reported to WHO (World Health Organization). Globally, as of July 05, 2021, there have been 183.56 million confirmed cases of Covid-19, including 3.98 million deaths (WHO).

Figure 2.1 shows, the impact of Covid-19 considering the confirmed case and death number in Bangladesh. The first case of Covid-19 was identified in Bangladesh on March 8, 2020, and the first death from the virus was recorded on March 18. By the end of March 2020, Bangladesh reported 51 confirmed cases and five deaths.

To restrict the infection rate, the government took several policy measures. Government imposed a "General Holiday" (i.e. general lock-down) which came into effect on March 26, 2020, it was announced on March 23, 2020, and initially stated to be in place until April 4, 2020. The "General holiday" (lockdown) was extended several times throughout April and May, until officially ceasing on 30 May 2020. In March 2020, the number of total confirmed case was 51 and the number of people died was 5. In June 2020, the total confirmed case was 98330 and the number of people who died was 1197 which was the highest rate in 2020.

Figure 2.1: Number of Confirmed Cases and Death on Monthly Basis



Source: Ministry of Health and Family Welfare, GoB

In response to the government initiative, the confirmed case was slowing down in February 2021. However, Bangladesh government stated its second lockdown on April 05, 2021, and it extended to June 16, 2021 due to the increased rate of confirmed cases and deaths.

Bangladesh started its first vaccine program on 27 January 2021. Till May 24, 2021, 5.8 million people got 1st dose vaccine of which 62 percent was male and 38 percent was female. Bangladesh started its 2nd dose of vaccine on 08 April 2021. From the beginning of the 2nd dose, it followed an increasing trend till 18 April. On 19 April it decreases sharply. Till May 25, 2021, 4.1 million people got 2nd dose vaccine in Bangladesh of which 64 percent was male and 36 percent was female.

Section 3: Important Policies taken by the Government of Bangladesh and Bangladesh Bank

Bangladesh Government and Bangladesh Bank have taken several steps to maintain the growth momentum of the economy amid the pandemic. Government has declared various stimulus packages, as well as Bangladesh Bank, has taken initiatives to ease monetary policy. The Government of Bangladesh with the collaboration of the Bangladesh Bank has announced a series of stimulus packages and refinance schemes equivalent to BDT 1284.4 billion which is 4.59 percent of GDP (Annex-I) to recover from the Covid-19 related economic losses. The major steps taken by the Government and the Bangladesh Bank are given below:

Stimulus Packages

- **External Sector**
    - Support of BDT 50 billion for export-oriented industries to pay the salaries and allowances of workers and staff.
    - Increase in Export Development Fund (EDF) from USD 3.5 billion to USD 5.5 billion to tackle the slowdown in export and resurgence of the Covid-19 affecting export productivity.
- **CMSMEs and Large Industry**
    - Support of BDT 600 billion as working capital loan facility for large industries and CMSMEs.
- **Refinance Scheme for Pre-shipment Credit, Subsidies and Incentives and Agriculture**
    - Initiation of BDT 50 billion as pre-shipment credits refinance scheme to export-oriented industries;
    - Support of BDT 95 billion as subsidies and incentives and

- BDT 50 billion as refinance scheme for the agriculture sector.

- **Humanitarian aid and social safety net programs**
  - Distribution of 0.4 million metric tons of rice and 0.1 million metric tons of wheat for humanitarian food aid;
  - Initiation of social safety net programs like direct cash incentive of BDT 12.0 billion, pay allowances among 0.7 million beneficiaries, and allocated BDT 21.30 billion for homeless people;
  - Distribution of BDT 32 billion as low-interest credit for the poor farmers, migrant workers and trained youth and unemployed youth.

Bangladesh Bank's Key Initiatives

- **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 cut gradually from 6.0% to 4.75%.
  - *Reverse Repo*: Reverse Repo rate has been reduced from 4.75% to 4.0%.
  - *Bank Rate*: Bank rate has been reduced from 5.0% to 4.0%.
  - *ADR*: The advance deposit ratio (ADR) has been extended from 85.0% to 87.0%.
  - *IDR*: The investment deposit ratio (IDR) has 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.

- **Introduction of Credit Guarantee Scheme and Foreign Exchange policy**
  - To provide credit guarantee facilities for Cottage, Micro and Small (CMS) Entrepreneurs, BB started a Credit Guarantee Scheme (CGS) policy along with a fund of BDT 20 billion.
  - *Extension of payment period:* Banks permitted to extend LC usance (payment) periods for the import of raw materials, agricultural implements and chemical fertilizers.
  - *Credit facilities for import of corona-related items*: Banks may, without repayment guarantee, advance credit up to USD 0.5 million for import of corona virus-related life-saving drugs, medical kits/equipment, and other essential medical items.
  - *Permitting foreign entities to take short term loans*: 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.
  - *Enhanced the Loan limit from EDF fund*: Now ADs may borrow maximum of USD 30.0 million increased from USD 25.0 million.

- **Sustainable Finance**
  - *Refinance*: The amount of refinancing scheme has been enhanced to BDT 4 billion from BDT 2 billion against term loan for Green Products / Initiatives / Projects.

- **Low income professionals, farmers and micro businessman**
    - *Refinance:* Refinance scheme of BDT30 billion has been formed by BB's own fund. BB charged 1% interest to banks, banks charged 3.5% interest to Micro Credit Financing Institutions (MCFIs) and MCFIs charged 9% interest to customers. Customers would repay loan within 1 to 2 years including grace period.

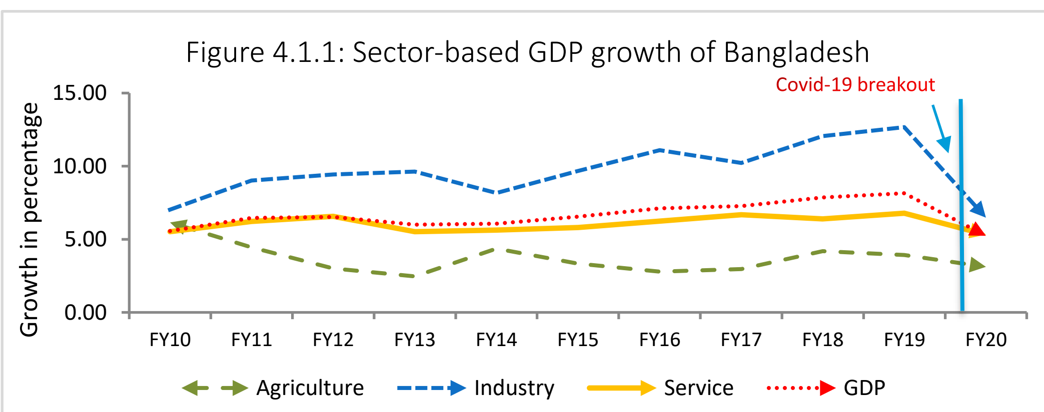
- **Interest suspension on loan and investment**
    - Interest charge on loan and investment by banks has been suspended for two months (April and May, 2020). Business community has benefited enormously.

Section 4: Impact of Policy Intervention on Bangladesh Economy

The economic damage, done by the pandemic shock, has adverse consequences for the economy. In case of a temporary disruption to supply chains or a mild demand-side shock resulting in a delayed consumption, financial intermediaries could serve as a support for struggling industries, especially in Bangladesh where the banking and financial system are closely related to the sustainability of the country's economy.

4.1. GDP Growth

Bangladesh has been doing progressively well in terms of macroeconomic performance in the last decades. Macroeconomic stability has been one of its founding cornerstones and that has helped the growth process to be sustained, and it also maintains exchange rate stability compared to the other developing countries. Bangladesh's macroeconomic performance is also a reflection of its very prudent fiscal management.

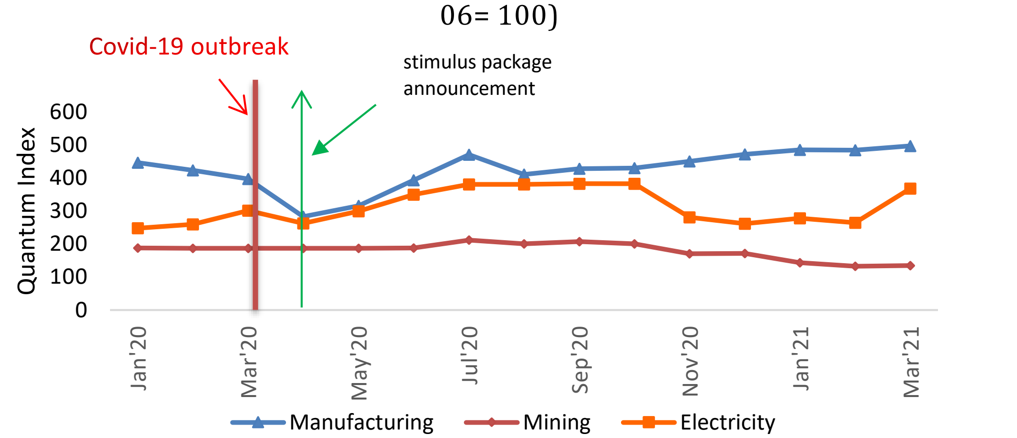


Source: Bangladesh Bureau of Statistics

Figure 4.1.1 depicts the GDP growth of Bangladesh from FY10 to the FY20. Due to the pandemic shock Bangladesh's GDP growth is appeared to be at 5.24 percent in FY20 compared to the GDP growth of 8.15 percent in the previous fiscal year. Bangladesh's economy has so far managed the challenges brought by the global Covid-19 outbreak well.

Figure 4.1.2 reflects, the quantum index of medium and large-scale manufacturing industries, mining and electricity sectors in the pre-pandemic and post-pandemic period. The quantum index of manufacturing, mining and electricity sector, which are very good macroeconomic indicators of our output performance, are gradually increasing from covid-19 breakout. And the recovery of all these sectors after the implementation of various stimulus packages are resulted into a satisfactory growth of 6.1% for the current fiscal year. Due to the Covid-19 outbreak, the quantum index of manufacturing industries fell from 445.58 in January 2020 to 282.6 in April 2020, and then rose to 496.73 in March 2021. Quantum index of electricity fell from 301.03 in March 2020 to 261.77 in April and stood at 368.09 in March 2021. Quantum index of mining fell from 187.33 in January 2020 to 134.11 in March 2021. Industry and service sector activities are recovering aided by the government and BB's continued supportive policy measures to boost the sectoral performances.

Figure 4.1.2: Quantum Index of Medium and Large-scale Manufacturing Industries, Mining and Electricity (Base: 2005-06= 100)

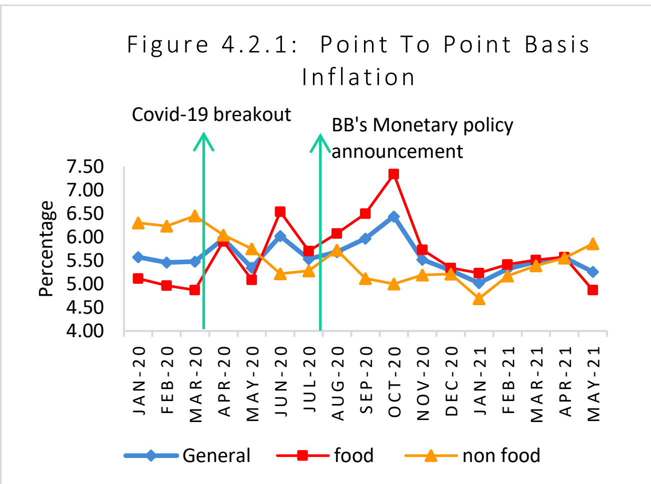


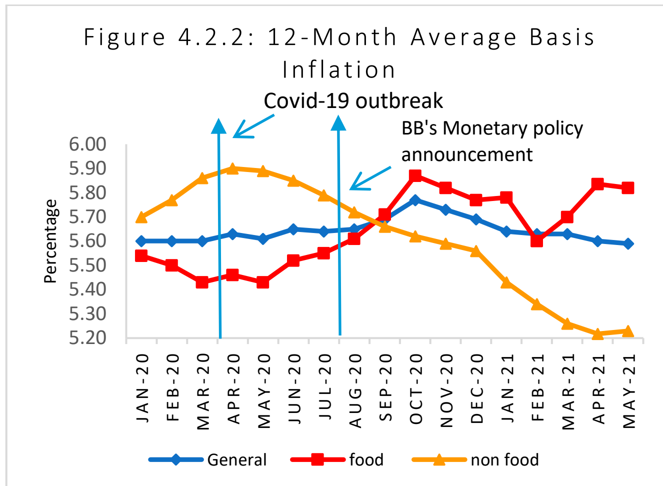
Source: Bangladesh Bureau of Statistics (BBS)

4.2. Inflation

Inflation had been under control in Bangladesh in recent years. It is thus important to review if Covid-19 has any impact on the price stability, in particular, on the price of food.

Figure 4.2.1 shows the point-to-point inflation rate during pre-Covid and post-Covid period. Food inflation increased in June 2020 and stood at 6.54 percent and further to 7.34 percent in October 2020. The general inflation rate was at its peak in October 2020 which was 6.44 percent and was mostly driven by food inflation as non-food inflation declined during this period. Recently, the general inflation rate and food inflation rate are both considered in a stable situation. In April 2021, general inflation rate and food inflation rate stood at 5.56 percent and 5.57 percent respectively. The non-food inflation rate has been falling from 6.04 percent in April 2020 to 5.55 percent in April 2021.





Source: Bangladesh Bureau of Statistics

Figure 4.2.2 shows the general inflation (12-month average) rate during pre-Covid and post-Covid situations. In March 2020, the general inflation rate was 5.60 percent and it increased in April 2020 and stood at 5.63 percent which later recorded 5.59 percent in May 2021. Food inflation rate was 5.43 percent in March 2020 which increased to 5.46 percent in April 2020 and stood at 5.82 percent in May 2021. The non-food inflation rate was 5.86 percent in March 2020 which increased to 5.90 percent in April 2020 and recorded 5.23 percent in May 2021. Due to the loss of food production during Covid-19 pandemic, food prices increased. Mainly due to the rise in food inflation, general inflation increased during the pandemic. However, non-food inflation increased at initial phase of pandemic it gradually reduced.

Although BB's monetary policy stance and monetary programs for FY21 are essentially expansionary and accommodative for all growth support needs, the inflation rate seems to be around the target value set for this fiscal year.

4.3. Wage Rate Index

The best proxy to get a sense of the current labor market situation is the monthly nominal Wage Rate Index (WRI) published by the Bangladesh Bureau of Statistics (BBS). It covers only low-paid and unskilled workers who are paid on an hourly basis.

Figure 4.3.1 shows the sector-wise wage rate index of Bangladesh during the pre-pandemic and post-pandemic period, intended to measure the movement of wages of low-paid skilled and unskilled labor over time in main sectors of the economy such as agriculture, industry and service.

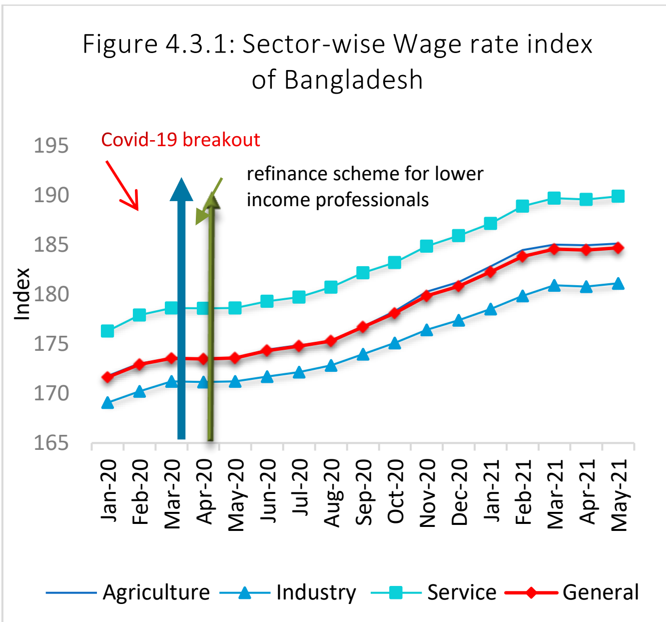


Figure 4.3.1: Sector-wise Wage rate index of Bangladesh

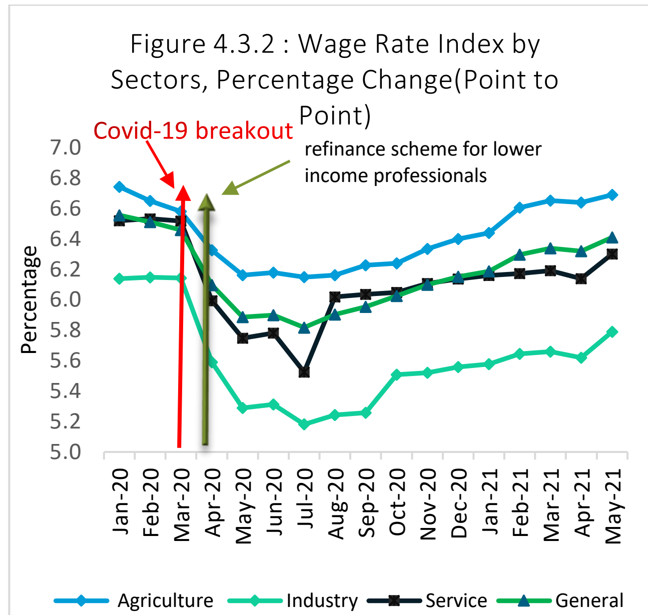


Figure 4.3.2 : Wage Rate Index by Sectors, Percentage Change(Point to Point)

Source: Bangladesh Bureau of Statistics

Amidst Covid-19, the workers are experiencing declining real wage that puts them into a vulnerable position socio-economically. Millions of jobs and working hours were lost due to policy tools such as the lockdown/shutdown of economic activities. However, due to the timely policy support measures, the wage rate index has not suffered that much as it was expected to be. The general wage rate index declines from 173.54 in March 2020 which is the month of first Covid-19 outbreak in Bangladesh, to 173.49 in April 2020. Similarly, WRI for the agriculture sector had fallen slightly from 173.47 in March 2020 to 173.43 in April 2020 and WRI for the industry sector had declined slightly from 171.22 in March 2020 to 171.15 in April 2020. In addition, WRI for the service sector had reduced slightly from 178.62 in March 2020 to 178.58 in April 2020. The general WRI increased gradually to 184.68 in May 2021 afterward which reflects the same increasing trend in WRI for agriculture, industry, and service sector and they stood at 185.11, 181.11 and 189.87 respectively in May 2021. Most likely, refinance scheme for lower-income earning professionals, farmers, and small traders and facilitating low-interest loans to rural poor farmers, expatriate migrant workers and trained youth and unemployed youth announced by the government in April 2020 improved the situation slightly.

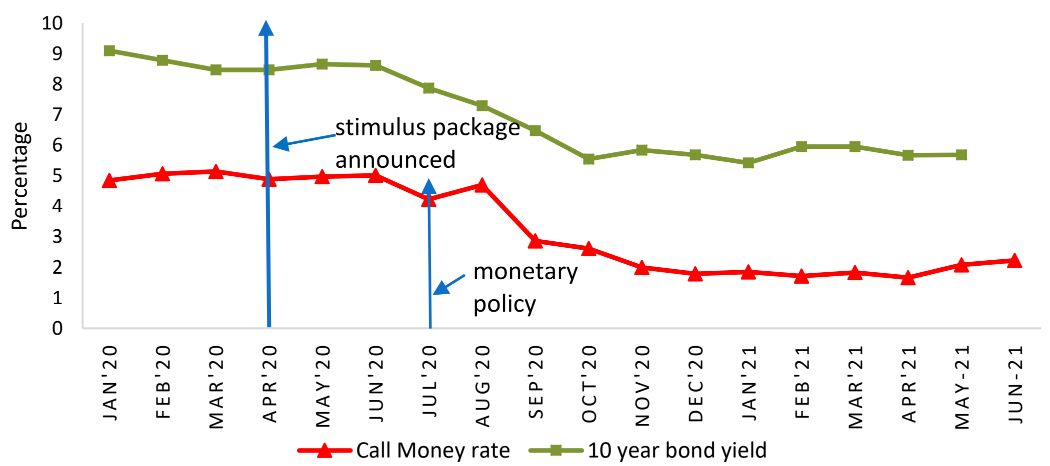
Figure 4.3.2 shows that the WRI growth had fallen from 6.46 percent in March 2020 to 6.34 percent in March 2021 with slight fluctuation. These are point-to-point estimates, meaning that there are changes from the same month of the previous year. Among the sub-sectors of the general wage index, the industry sector has been suffering due to Covid-19. The WRI growth rate of industry sector had fallen from 6.14 percent in March 2020 to 5.18 percent in July 2020 and had risen slightly to 5.79 percent by May 2021 due to the implications of various policy directives.

The growth in WRI of the agriculture sector declined from 6.58 percent in March 2020 to 6.15 percent in July 2020 and started picking up gradually and increased to 6.69 percent in May 2021. The growth in WRI of the service sector fallen from 6.52 percent in March 2020 to 5.99 percent in April 2020, since this sector has also been adversely affected due to the restrictive measures on people's movement resulting in a fall in economic activities. Due to the implications of policy measures and opening up of the economy, it gradually increased to 6.30 percent in May 2021. The growth rate of WRI for agriculture, industry and service sector stood at 6.64, 5.62 and 6.14 percent in April 2021 accordingly.

4.4. Money Market Rate

Bangladesh Bank's recent downward revision of policy rates, particularly the reduction of cash reserve ratio (CRR) revised to 4.0 percent from 5.0 percent effective from April 15, 2020, led to a significant rise in liquidity in the banking system.

Figure 4.4 : Movement in Money Market Rates



Source: Monetary Policy Department, Debt Management Department, Bangladesh Bank

Earlier, CRR was reduced to 5.0 percent from 5.5 percent effective since March 23, 2020. As CRR was reduced, ADR limit was increased, Repo rate was declined, and there is the availability of loanable funds in the banking system. Besides, BB's large amount of refinancing scheme and term repo facility provided banks with adequate liquidity during the Covid-19 period.

The government's effort of implementing stimulus packages to revive the economy from the Covid-19 fallout is critical, Bangladesh Bank has taken expansionary monetary policy by cutting the Repo rate and Reverse Repo rate to inject liquid cash into the economy in response to the Covid-19 pandemic. Figure: 4.4 shows the movement in policy rate and money market rates during the pre-pandemic and post-pandemic periods.

Before the Covid-19 pandemic, the repo and reverse repo rates were 6.00 and 4.75 percent respectively. Considering the Covid-19 incidents BB cut the repo rate by 25 basis points and re-fixed at 5.75 percent from 6.00 percent to make funds available to banks at a cheaper price effective from 24 March 2020. BB again reduced its repo rate to 5.25 percent effective from April 12, 2020. Lastly, on July 30, 2020, it further reduced to 4.75 percent and till now it has been maintained. Accordingly, the reverse repo rate was reduced to 4 percent on July 30, 2020, from the previous rate of 4.75 percent.

Consequently, the weighted average call money rates in the inter-bank money market decreased from 5.14 percent in March 2020 to 4.89 percent in April 2020. In June 2021, interest rates in the call money market gradually decreased and stood at 2.23 percent. The weighted average yields on 10-Year BGTB decreased to 5.68 percent in May 2021 which was 8.47 percent in March 2020. Due to the adequate liquidity in the money market from BB's policy relaxation, the call money rates have fallen.

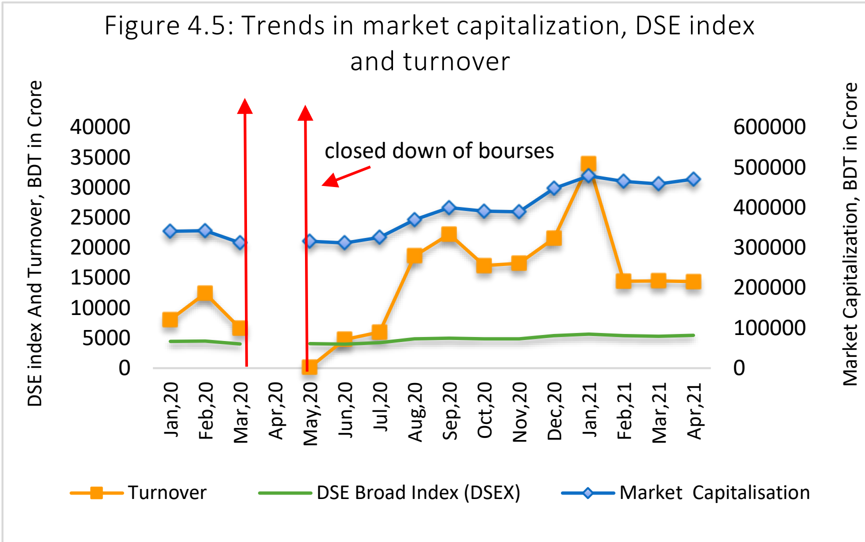
On the other hand, the Government of Bangladesh collects sufficient funds from public sector through savings instruments. Thus, the government has relatively fewer interests to sell long-term government bonds, resulting in the fall of interest rates of 10-year bond yield. The large inflow of remittance after Covid-19 outbreak influenced the increase in the sale of savings instruments.

4.5. Capital Market

Figure 4.5 shows the closer view of the impact of Covid-19 on the month-wise index of Dhaka Stock Exchange (DSE), Dhaka Stock Exchange's monthly turnover and month-wise market capitalization of DSE.

Since the government announced general vacations to control pandemics, the market remained closed from 25 March 2020 to 30 May 2020. However, after a government declaration of sizeable stimulus packages, BB's expansionary monetary policy, strong wage-earner growths, and the resumption of major economic activities, the market recovered its confidence and began to bounce back.

Month-wise index of Dhaka Stock Exchange increased gradually to 5479.62 in April 2021 from 4008.29 in March 2020.



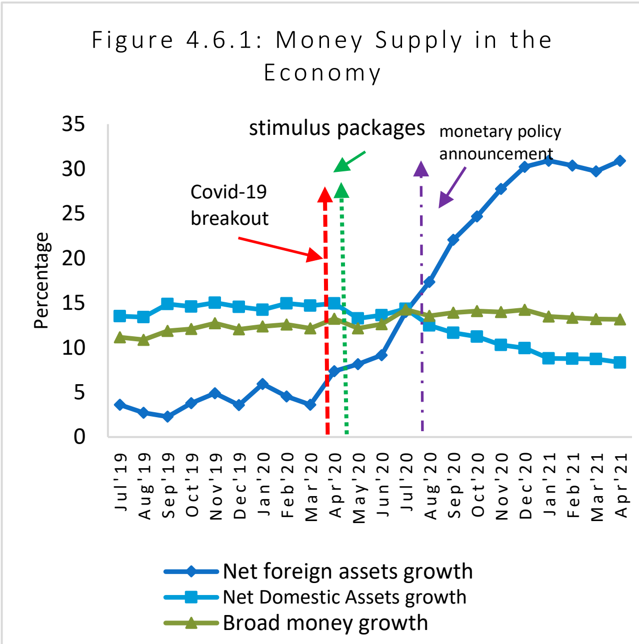
Source: Dhaka Stock Exchange, Bangladesh

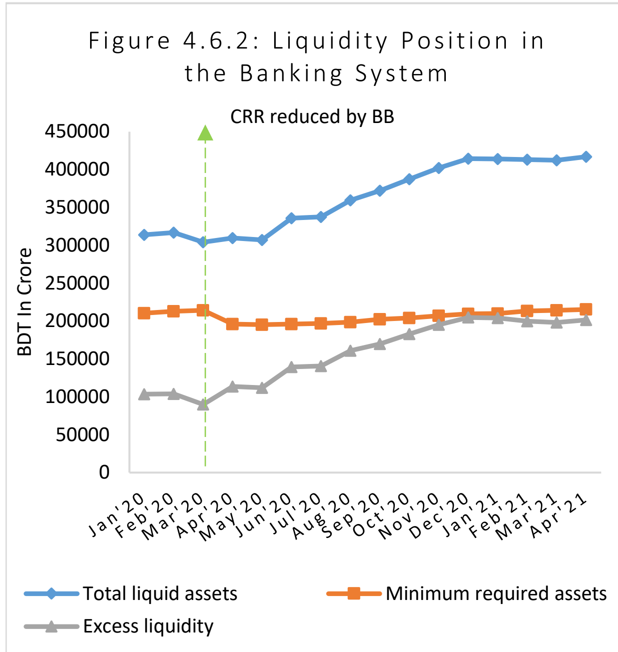
A growing trend is observed from May 2020 and the monthly turnover peaked at BDT 33958.76 crore in January 2021. Later, it stood at BDT 14377.27 crore in April 2021. Therefore, there has been a growing trend from May 2020 in terms of month-wise Market Capitalization of DSE, and its value stood at BDT 470712.8 crore in April 2021. To improve the liquidity condition in the capital market, the BB and related regulatory bodies took several initiatives such as: (i) the BB has asked all scheduled banks to create a special investment fund of BDT 2.0 billion for investment in the stock market in addition to banks' stock market exposure limit; (ii) banks can avail financial support from BB through long term repo (iii) the BSEC approved Investment Corporation of Bangladesh's (ICB) BDT 20.0 billion fund for capital market investment.

4.6. Money Supply and Liquidity

A record high wage earners' remittance influx along with substantial inflows of foreign loans and grants since March 2020, improved the foreign exchange market stability during a pandemic when the export condition was weak. BB also participated in the foreign exchange market and purchased foreign currencies to keep the nominal exchange value of BDT competitive. As a result, steady growth in net foreign assets was observed throughout 2020 (figure: 4.6.1). Net domestic assets of the banking system of Bangladesh also grew largely due to government borrowing from the banking system to finance various large projects and stimulus packages in the stated period.

In March 2020, growth of net foreign assets and net domestic assets were 3.6 and 14.7 percent which increased to 7.4 and 15.0 percent respectively in April 2020. Broad money (M2) growth recorded an increase of 13.1 percent in April 2021 against April 2020. Of the sources of broad money, the growth of net domestic assets increased by 8.3 percent, and net foreign assets increased by 30.9 percent at the end of April 2021 as compared to the same month of the previous year.



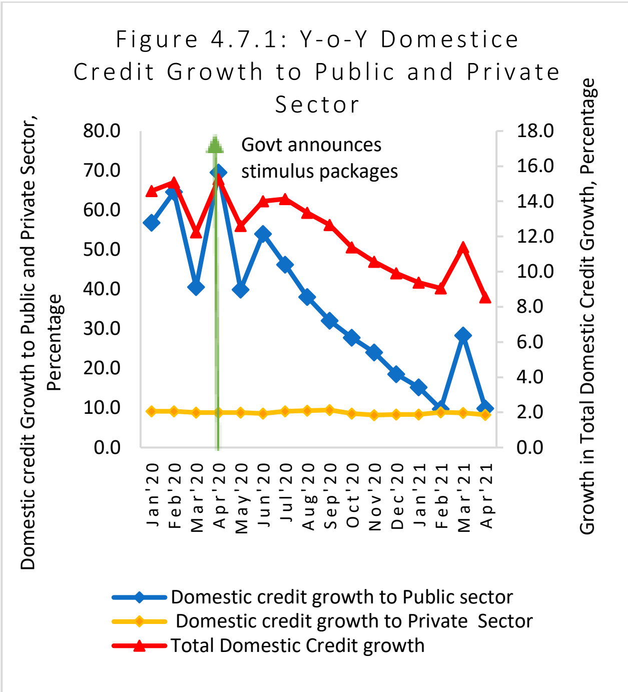


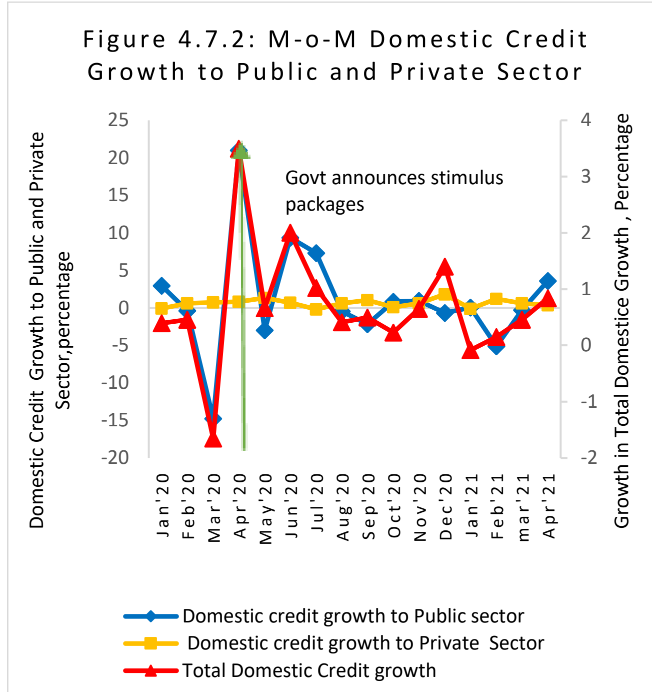
Source: Statistics Department, Bangladesh Bank

To boost up liquidity in the money market, BB proactively reduced CRR in March 2020, which helped banks to ease up the liquidity condition, as shown in the figure: 4.6.2. Moreover, BB also adopted an expansionary and accommodative monetary policy for FY21. The minimum required liquid assets of the scheduled banks reduced to BDT 195900.48 crore in April 2020 from BDT 214227.94 crore in March 2020 and stood at BDT 215316.13 crore in April 2021. Total liquid assets of the scheduled banks increased to BDT 309708.2 crore at the end of April 2020 from BDT 304136.55 crore as of the end of March 2020 and gradually increased to BDT 416994.06 crore. The excess liquidity in the market shows an increasing trend right after the policy rate cut by Bangladesh Bank and the excess liquidity increased to BDT 201677.93 crore in April 2021 against BDT 113807.71 crore in April 2020.

4.7. Domestic Credit

In the case of domestic credit growth of the public and private sectors, figure 4.7.1 shows a scenario before and after the pandemic. Domestic credit growth of both public and private sectors stood at 40.6 percent and 12.2 percent respectively in March 2020. However, in April 2020 credit flow is in a rising trend since the banks have begun to disburse loans from the government's stimulus packages.





Source: Statistics Department, Bangladesh Bank

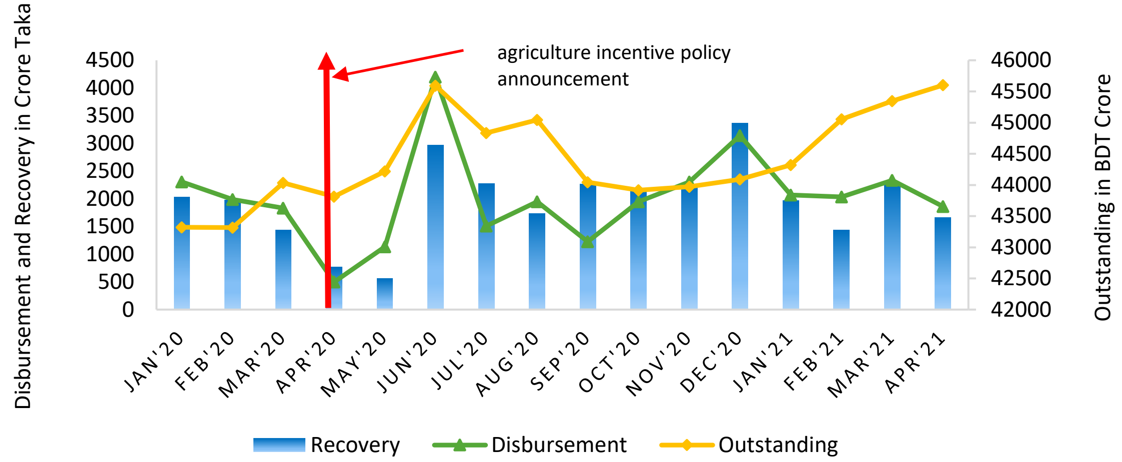
However, the pandemic disrupts business confidence by many phases. As a result, credit growth in private and public sectors faced a trough. From the very beginning of FY21, domestic credit growth has been reducing gradually. However, domestic credit growth of the public sector and private sector increased by 9.9 percent and 8.3 percent in April 2021 respectively compared to the same month of the previous year.

Now, if we look over the month-over-month change (figure: 4.7.2), total domestic credit growth increased by 0.84 percent in April 2021 from April 2020. Domestic credit to the public sector growth increased by 3.58 percent in April 2021 compared to the same month of the previous year. Similarly, credit to the private sector recorded a growth of 0.34 percent in April 2021 against April 2020.

4.8. Agriculture Credit

The total share of agriculture as a percentage of GDP is 13.3 percent in FY20 (Annual Report, BB). Agriculture credit disbursement and outstanding by the scheduled banks before and after the Covid-19 pandemic are shown in the figure: 4.8. Government of Bangladesh has announced a fund of BDT 5000 crore for the agriculture sector to boost crop production to overcome the possible coronavirus impact. This announcement creates an immediate impact on the disbursement and outstanding amount which are shown by the positive trend in figure 4.8. After reaching the peak of the trend cycle in June 2020, it has shown a sharp fall in July 2020. This fall may be caused by the lack of market confidence and structural bottleneck in the agriculture sector. However, from September 2020 agricultural credit disbursement has been following an increasing trend till December 2020. Again, in January 2021, it falls sharply. In case of outstanding, after a sharp fall in September 2020, it has illustrated a gradually increasing trend. The policy announcement made significant improvements in agricultural credit performance.

Figure 4.8: Agriculture Credit Performance by Scheduled Banks



Source: Agriculture Credit Department, Bangladesh Bank

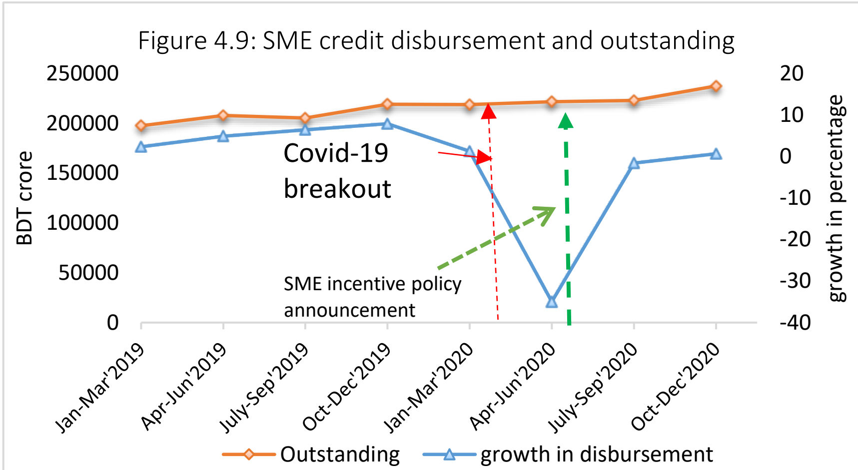
Lastly, the volume of disbursement, recovery and outstanding stood at BDT 1859.43, BDT 1661.65 and BDT 45600.85 crore respectively at the end of April 2021.

4.9. SME Credit Situation

The first wave has considerably affected both the demand and supply sides of the real economy. The large and medium industry contributes 20.2 percent of GDP and the small industry contributes 4.0 percent of GDP (Annual report, BB). The hardest punch received by the SMEs as the sectors are largely affected due to the supply chain disruption and loss of sales.

SME credit disbursement growth was following an increasing trend in the pre-Covid period (Figure: 4.9). But Covid-19 disrupt this upward trend in March 2020 and that caused a sharp decline from 1.27 percent positive growth to 34.96 percent negative growth in June 2020. Several policy measures have been taken by BB and that improved the condition. Thus, an upward trend is being noticed from July 2020 to the end of the year 2020 which was caused by the accommodative monetary policy announcement of BB.

In the case of the outstanding amount of SME credit, BDT 218972 crore in January-March 2020 increased to BDT 221695 crore in April-June, 2020. Even if at the time of the Covid-19 pandemic it has maintained the positive trend till December 2020 due to several stimulus packages announced by the government such as an agriculture refinance scheme of BDT 50 billion, subsidy for agriculture (on fertilizer) of BDT 95 billion.



Source: SME & Special Programmes Department , Bangladesh Bank

4.10. Usage of ATM, Credit and Debit Card

During the Covid-19 lockdowns, digital financial services provided an enabling government to provide quick and secure financial support to "hard-to-reach" people and businesses. As part of the immediate response to Covid-19, the digital finance industry has been playing a key role in developing and providing services amidst the crisis and acting as an alternate channel for banking services which faced disruptions during pandemic on multiple aspects of people's lives and financial sector.

Before the incident of Covid-19, a vast amount of transactions has taken place through debit cards, credit cards, and ATMs. The credit card transactions were fewer compared to debit cards and ATMs. Figure 4.10 shows that debit cards, credit cards, and ATMs have shown a consistent upward trend till the incident of Covid-19. A sharp fall in transaction numbers in all mediums in April 2020 has occurred. This drastic fall is supported by the announcement of the lockdown that started on March 26, 2020. However, BB has taken several policy measures to remove this sluggish nature of the economy which have created a positive impact on the mentioned mediums of transaction.

To ensure adequate liquidity supply in the market, BB issued directives for keeping an adequate amount of cash at bank branches and ATMs. BB issued a directive on 4 April 2020 stating that banks will not charge any late payment fee/charge/penal interest/additional revenue or any other fee/charge due to delayed credit card bill payment from 15 March 2020 to 31 May 2020. Transaction through the debit card and ATM increased rapidly till August 2020. After showing a downward trend in August 2020 it sparks in September 2020, because government removes all restrictions on public movement from 1 September 2020. Transactions using credit cards also increased gradually at the same time.

ATM transactions' number increased from 17.62 million in March 2020 to 20.30 million in March 2021 and stood at 17.94 million in April 2021. Number of transactions using credit card increased from 2.19 million in March 2020 to 2.87 million in March 2021 and stood at 17.94 million in April 2021.

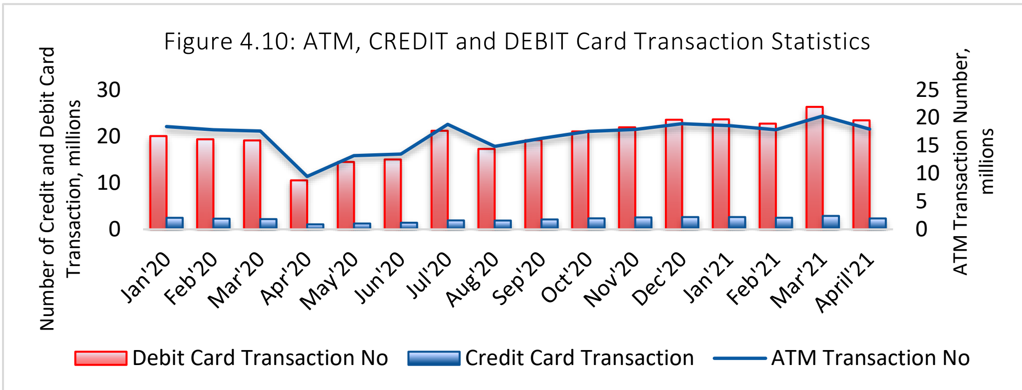


Figure 4.10: ATM, CREDIT and DEBIT Card Transaction Statistics

Source: Statistics Department, Bangladesh Bank

Transactions using debit card increased from 19.11 million in March 2020 to 26.33 million in March 2021 and stood at 23.43 million in April 2021.

4.11. Internet Banking

Figure 4.11 shows the evidence of digitalization in the banking sector. Internet banking getting popular day by day as the number of internet banking customers and the number of transactions through internet banking is increasing consistently.

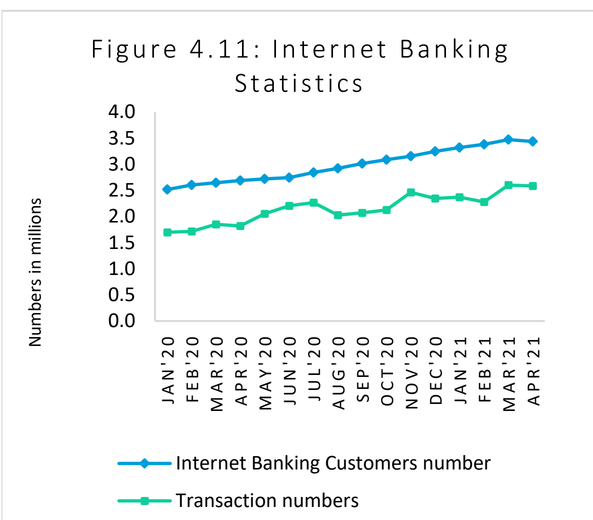


Figure 4.11: Internet Banking Statistics

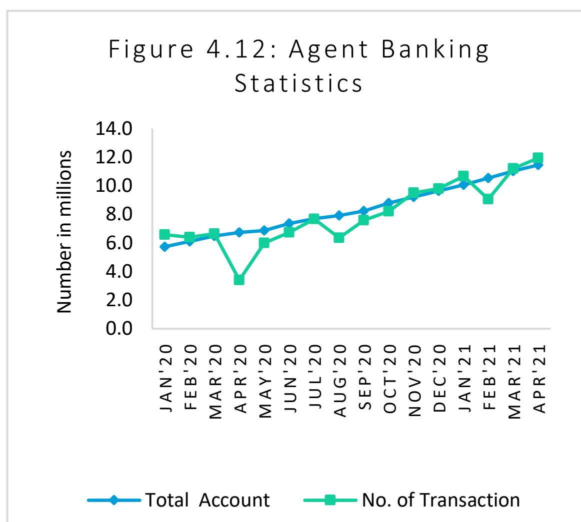


Figure 4.12: Agent Banking Statistics

Source: Statistics Department, Bangladesh Bank

The Covid-19 pandemic accelerates the number of internet banking customers because it is more convenient rather than general banking due to the disruptions in public movement. In the case of transaction numbers, a similar increasing trend is observed from the pre-Covid to post-Covid period. Total customers' number increased from 2.65 million in March 2020 to 3.47 million in March 2021 and stood at 3.44 million in April 2021. The Number of transactions increased from 1.85 million in March 2020 to 2.60 million in March 2021 and stood at 2.59 million in April 2021.

This phenomenon may have resulted from the initial impact of the removal of lockdown. Therefore, in the case of internet banking customers and transaction numbers, there is no considerable negative impact of Covid-19.

4.12. Agent Banking

Launched in 2013 in Bangladesh, the purpose of agent banking is to provide a safe and secure alternative delivery channel of banking services to the underprivileged and under-served population, located in geographically remote locations and beyond the reach of the traditional banking network. The total accounts opened at agent outlets increased from 6.1 million in February 2020 to 10.5 million at the end of February 2021 as banks expand their agent banking activities significantly.
Agent Banking has been an important catalyst in financial inclusion in Bangladesh. It has made tremendous progress in recent years. It included the rural marginal people to the mainstream banking activities who were previously deprived of such financial services. Figure 4.12 shows a growing trend that took place from the pre-Covid to post-Covid period. During the pandemic, the mainstream banking operations were limited but agent banking was free to run their activities. At the beginning of Covid-19, it faced a drastic fall in transaction numbers to 3.4 millions in April 2020 from 6.6 millions in March 2020 due to strict lockdown. Then, the total transaction number jumps to around 6.0 millions in May 2020 and since then it maintains its increasing trend. The total transaction number stood at 11.9 millions and total number of accounts recorded at 11.5 millions in April 2021.

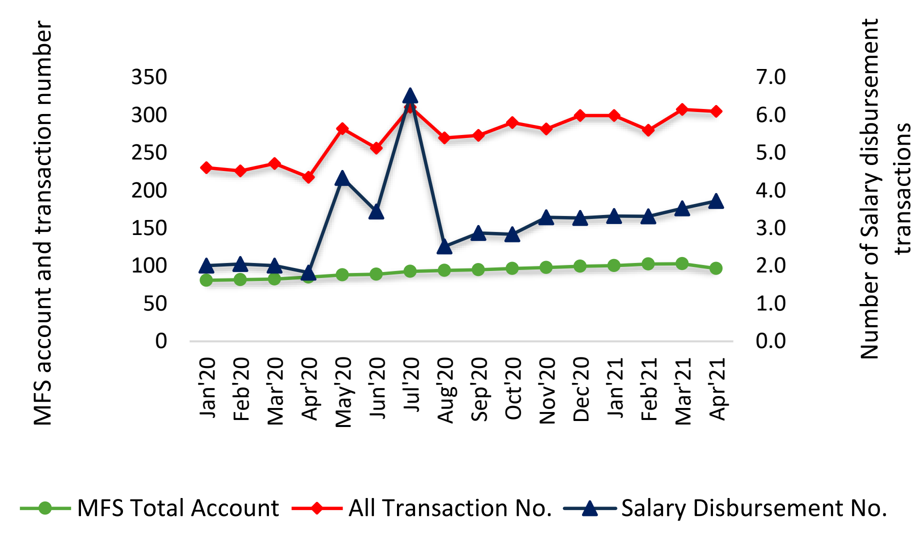
4.13. Mobile Financial Services

Since Covid-19 emerged, MFS providers witnessed a tremendous surge in the number of customers along with number of transactions.

The share of MFS in the banking sector has been increasing in considerable amounts. Figure 4.13 shows a consistent upward trend without any interruption in the MFS account numbers. A similar trend is also followed by the number of transactions by MFS.

Thus, for both the MFS account and transaction, a very positive phenomenon is noticed regarding the Covid-19 incident. The number of transaction through MFS has risen after the incident of Covid-19 compared to the pre-Covid situation and it stood at 307.3 millions in March 2021. The number of account has also increased to 307.3 millions in March 2021. However, salary disbursement by MFS is a little bit different. Before Covid-19, MFS was not considered to disburse salary. However, from the very beginning of Covid-19, MFS has been used rapidly.

Figure 4.13: Mobile Banking Statistics



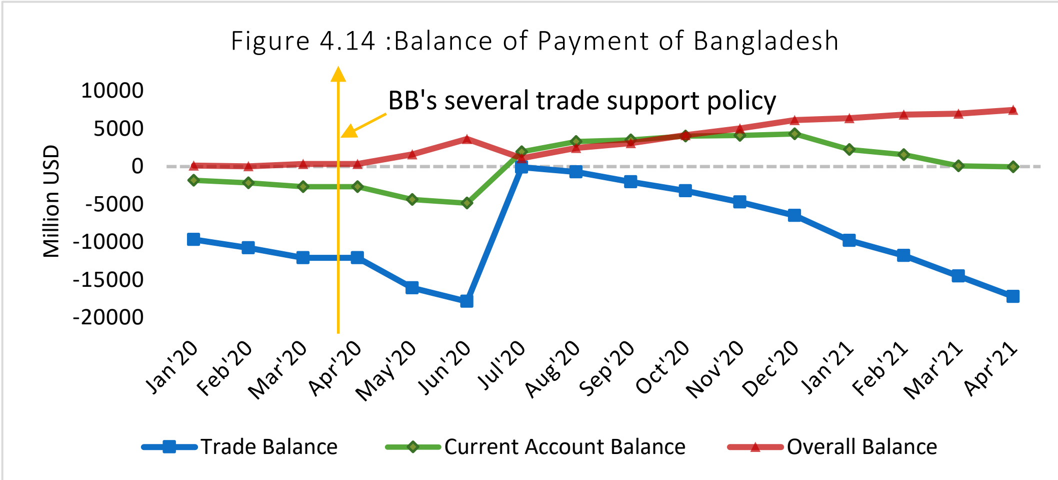
Source: Statistics Department, Bangladesh Bank

In the graph 4.13, we show a high jump in July 2020 in the case of the salary disbursement number. After that, it has shown a sharp decrease due to the withdrawal of lockdown. Lastly, till the recent time, the number of salary disbursement by MFS is following an increasing trend and it stood at 3.7 million in April 2021. Therefore, this mentioned picture shows that the importance of MFS is increased in response to the Covid-19. Similarly, this improved condition in MFS is mostly backed by several policy measures and instructions of BB.

4.14. Balance of Payment

The key areas of the external sector of an economy, that is likely to be substantially impacted by the Covid-19, are export, import, remittance and external debt. The consequential impact on these factors would lead to the changes in the Balance of Payment (BoP) which subsequently would affect the exchange rate as well as the foreign exchange reserve position of the country. Foreign exchange reserve is a crucial component for a country’s financial stability as it provides resilience against any unforeseen external shocks. Following the Covid-19 pandemic, export receipts experienced a sharp decline by 10.6 percent in FY20 compared to the FY19 due to weaker demand for goods and services, reduction in cross-border tourism, and supply dislocations related to shutdowns (exacerbated in some cases by trade restrictions).

Figure 4.14 shows the trade balance, current account balance, and overall balance scenario during the pre-pandemic and post-pandemic periods.



Source: Statistics Department, Bangladesh Bank

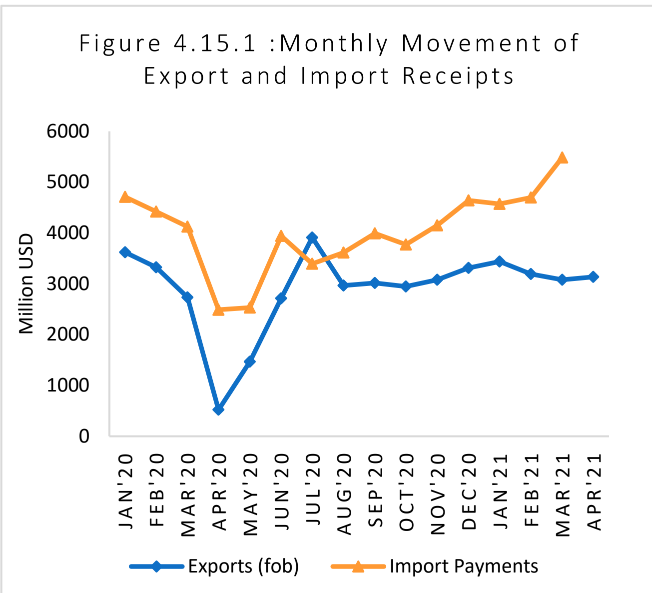
Before Covid-19, the deficit in the trade balance was USD 9642 million in January 2020 and the deficit increased to USD 12078 million in March 2020. After the Covid-19 outbreak, the deficit in trade balance narrowed to USD 86 million in July 2020 which is the lowest during the pandemic. The trade deficit narrowed due to negative import growth, which indicates stagnated economic activities and weak domestic demand. Bangladesh has witnessed decreased export of goods and services amid the outbreak of Covid-19. As the growth in imports significantly outpaced exports which took the heaviest hit by the Covid-19 pandemic, Bangladesh's trade deficit soared greatly from the beginning of FY21. In April 2021, the deficit in the trade balance of Bangladesh was USD 17227 million.

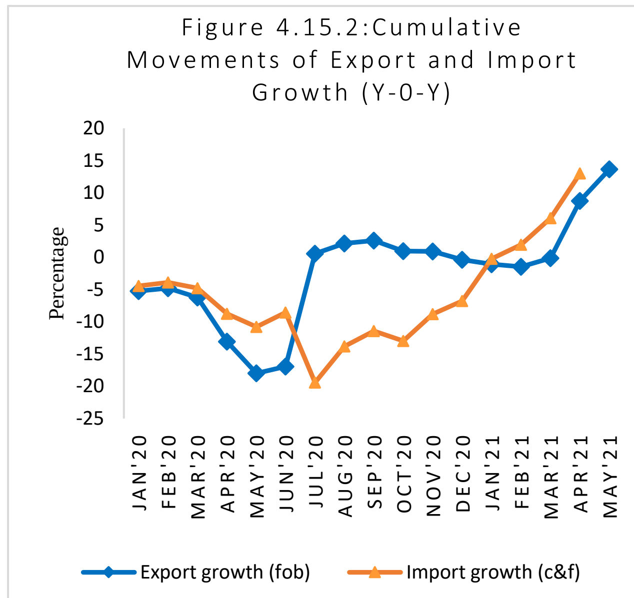
The Current Account Balance (CAB) of Bangladesh was also in deficit since June 2020. At the beginning of the Covid-19 pandemic, the deficit in CAB widened from USD 2,648 million in April 2020 to USD 4849 million in June 2020. Later, as the exports and remittances rose swiftly even as the imports slowed down a bit, the surplus in CAB recorded USD 1965 million in July 2020 and further increased to 4322 million in December 2020. However, with the growing trend in import bills in a later period, the CAB started to decline, and the deficit in CAB stood at USD 47 million in April 2021.

Before the Covid-19 outbreak, the overall balance was USD 132 million in January 2020 and it stood at USD 345 million in March 2020. The immediate effect of the Covid-19 outbreak on the overall balance can be seen in May 2020 which stood at USD 1632 million and increased to USD 3655 million in June 2020. However, overall BoP declined to USD 1127 million in July 2020, got a quick recovery, and reached USD 7498 million in April 2021. The overall balance is experiencing a surplus due to the slow pace of imports and higher remittance and external fund inflows during Covid-19.

4.15. Export and Import

Figure 4.15.1 shows the monthly export and import movement before and after the pandemic. It is evident that exports and imports of Bangladesh have been affected immediately as the Covid-19 started to spread in March 2020. Fall in demand inside the global marketplace has adversely affected the supply-side which has been deteriorated further as a result of the disruptions in global transportations and ban on cross-border movements. As a result, exports dropped sharply from USD 2732.0 million in March 2020 to 520.0 million in April 2020.





Source: Export Promotion Bureau (EPB), GoB and Statistics Department, Bangladesh Bank,

However, exports got a quick 'V-shaped' recovery in May 2020 and reached USD 3910.9 million in July 2020 attributable to the gradual open-ups of the global markets and the government's stance to revive the export-oriented industries. Since August 2020, the exports rose moderately to USD 3436.8 million in January 2021, and with a little fluctuation, the exports stood at USD 3134.4 million in April 2021.

Notable reductions in firms' and households' incomes and disruptions in the global supply chain have resulted in a rapid decline in import payments from USD 4121.2 million in March 2020 to USD 2489.8 million in April 2020. Total import payment increased to USD 3940.99 million in May 2020 and it continued to increase to USD 5483.45 million in March 2021. Import has been regaining the momentum at a slower pace to reach the pre-Covid level.

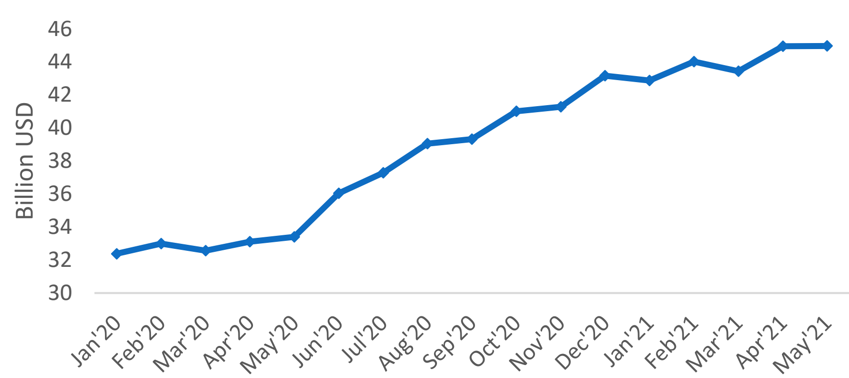
Figure 4.15.2 shows the cumulative movements of export and import growth compared between FY20 and FY21. Total merchandise commodity export during July-March, FY20 fell by 6.24 percent compared to July-March, FY19. Cumulative export growth started to increase by 0.59 percent in July, FY21 from July, FY20. The export growth kept growing at a positive rate till July-November, FY21 and stood at 0.93 percent. Total merchandise commodity of export dropped by 0.36 percent during July-December, FY21. However, cumulative export growth increased by 13.64 percent during July-May, FY21 compared to the same period of the previous fiscal year.

Custom-based import during July-March, FY20 fell by 4.81 percent against July- March FY19. Import growth during July-April, FY20 fell by 8.77 percent against July- April FY 19 due to the pandemic. Custom-based import growth kept on being in negative terrain till July-February 2021, which stood at 1.94 percent. The cumulative growth in import payments increased by 12.99 percent during July-April, FY21 compared to the same period of the previous fiscal year.

4.16. Foreign Exchange Reserves

The effect on each component of current and financial accounts of BoP has ultimately impact on the foreign exchange reserves. As figure 4.16 shows, the Foreign Exchange Reserve (USD in millions) surged in 2020 despite the Covid-19 pandemic, primarily attributed to the higher growth of remittance and external debt, lower import payments, and moderate recovery of exports. The foreign exchange reserves, which were hovering around USD 32381.47 million since January 2020, eventually got the momentum in October 2020 and piled up to USD 41005.79 million. With an increasing trend, it piled up to a record-high amount of USD 45586.07 million on June 23, 2021.

Figure: 4.16: Foreign Exchange Reserve



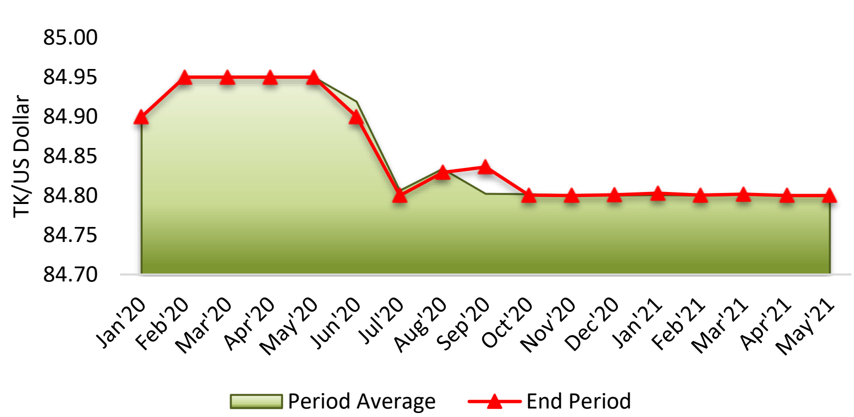
Source: Accounts and Budgeting Department, Bangladesh Bank

The foreign exchange reserves is sufficient to pay import liability of 8.52 months according to the latest data on April 2021 while it was sufficient to pay import liability of 6.75 months in April 2020. Strong growth in remittance inflow and export along with large financial assistance helped to increase foreign reserves.

4.17. Exchange Rate Movements

In the first seven months of the Covid-19 outbreak, the exchange rate of BDT against USD was stable at an average of 84.9 per USD. An appreciation has occurred during the Covid-19 outbreak at the beginning of the fiscal year, in July 2020 due to a huge amount of remittance inflows. To tackle the appreciation pressure, BB has participated in open market operations to keep the exchange rate stable.

Figure 4.17: Weighted Average Exchange Rate Movement



Source: Foreign Exchange Policy Department, Bangladesh Bank

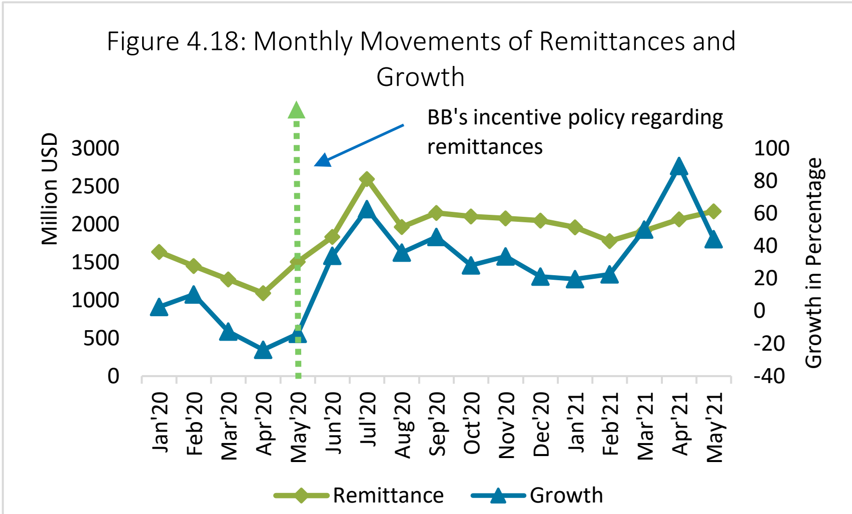
Figure 4.17 shows the scenario of the weighted average exchange rate of Bangladeshi Taka against the US dollar before and after the pandemic in Bangladesh. The average exchange rate of BDT was 84.90 per USD in January 2020. After the Covid-19 breakout, the average exchange rate depreciated to 84.95 per USD in March 2020. Later, a significant appreciating trend was notified, the average exchange rate of BDT stood at 84.80 per USD in April 2021

BB has purchased US dollars from commercial banks to stabilize the exchange rate in Bangladesh. The dollar purchase was part of the Bangladesh Bank's intervention in the foreign exchange market to keep the dollar rate stable. The implementation of the stimulus package led to the injection of reserve money into the economy in the form of BB's liquidity support. BB intervenes in the foreign exchange market to keep the exchange rate of the dollar against taka stable by preventing a weighty appreciation of the taka in the market.

4.18. Remittance

Remittance inflows are assumed to be largely affected as the economies of the source countries, especially, the oil-exporting countries witnessed a slow-down in the economy since the onset of

Covid-19. As an immediate effect, remittance inflows in Bangladesh declined throughout January 2020 to April 2020 while it recovered quite rapidly thereafter and even surpassed the pre-Covid-19 period (i.e., the year 2019) by some notable margins on a point-to-point basis.



Source: Foreign Exchange Policy Department, Bangladesh Bank

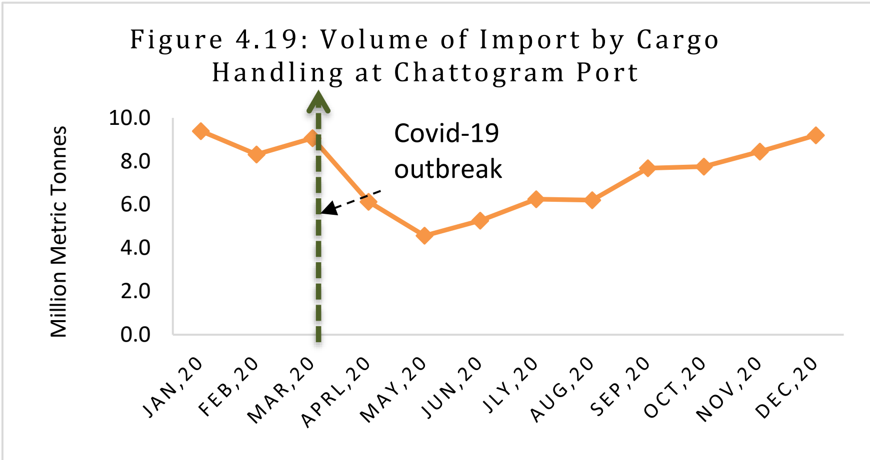
As shown in figure 4.18, remittance inflows declined from USD 1276.26 million in March 2020 to USD 1092.96 million in April 2020, which increased thereafter and peaked up to USD 1504.6 million in May 2020. It continued to increase and in July 2020, it stood at USD 2598.21 million. In May 2021, total remittance inflows recorded to USD 2171.11 million.

The increase is due mainly to three plausible reasons: the transfer of higher savings by the wage-earners because of the threats of their job losses and likelihood to come back home, more use of formal channels instead of informal channels to remit the money, and the Government's incentive on inward remittances. BB's policy on relaxing the outward remittance rules for foreigners working in the country's economic zones (EZs), export processing zones (EPZs) and hi-tech parks (HTPs), circular on providing 2% cash incentive for money to be remitted through banking channel into the country might have played the significant role in remittance earnings improvement.

4.19. Import by Cargo Handling at Chattogram port

Import by cargo handling at chattogram port had started experiencing a declining trend since January 2020 after the coronavirus disease was reported in China. It slightly improved in May 2020 after the economy being reopened.

Rising demand for raw materials and commodities to increased business activities after the reopening of the local economy enhanced the cargo handling. BB's policies such as banks permit to extend LC usance (payment) periods for import of raw materials, agricultural supplements and chemical fertilizers and life-saving drugs, etc. led to an increase in the volume of trade in the port. Imports through cargoes stood at 9.19 million metric tonnes in December 2020, which is the highest since April 2020 (figure: 4.19).



Source: Chittagong Port Authority, Bangladesh

4.20. Settlement of Import LCs

Settlement of import LCs during July-January of FY21 decreased to 8.54 percent and stood at USD 29825.38 million against USD 32609.80 million during July-January of FY20. This decline was driven by capital machinery (-36.81%), intermediate goods (-14.05%), petroleum & petro products (-7.50%), machinery for other industries (-5.55) and industrial raw materials (-2.81).

On the other hand, the Fresh opening of import LCs during July-January of FY21 increased by 1.32 percent and stood at USD 35092.02 million against USD 34635.45 million of July-January of FY20 (Annex-II).

4.21. Revenue Collection

In the post Covid-19 scenario, revenue collection has lost its growth momentum since the decline in local and international trade as well as household and corporate income.

Figure 4.21.1 shows that National Revenue Bureau (NBR) tax revenue collection from custom duties, VAT, income tax was BDT 2122.7, BDT 6633.5, BDT 8171.8 crore in March 2020 which decreased to BDT 979.6, BDT 4161.5, BDT 2264.6 crore in April 2020 accordingly. However, the tax authority’s relentless efforts and the NBR's timely steps helped to increase the revenue collection despite the Covid-induced economic situation. Consequently, in May 2020, revenue collection from custom duties, VAT, income tax increased to BDT 1790.46, 5885.95, 2669.87 crores respectively. The revenue collection from VAT and income tax increased significantly to BDT 10172.06 and BDT 15200.62 crore respectively in June 2020. A major upsurge in VAT collection from domestic sources aggravated the shortfall in revenue collection. Total NBR tax revenue collection in January 2021 stood at BDT 21631.9 crore.

Figure 4.21.2 shows the trend of NBR tax and non-NBR tax revenue. The NBR tax revenue rapidly falls to BDT 8940.71 crore in April 2020 from BDT 20534.12 crore in March 2020. The non-NBR tax revenue drastically falls to BDT 15.53 crore in April 2020 from BDT 285.34 crore in March 2020. The non-NBR tax revenue stood at BDT 309.71 crore in November 2020.

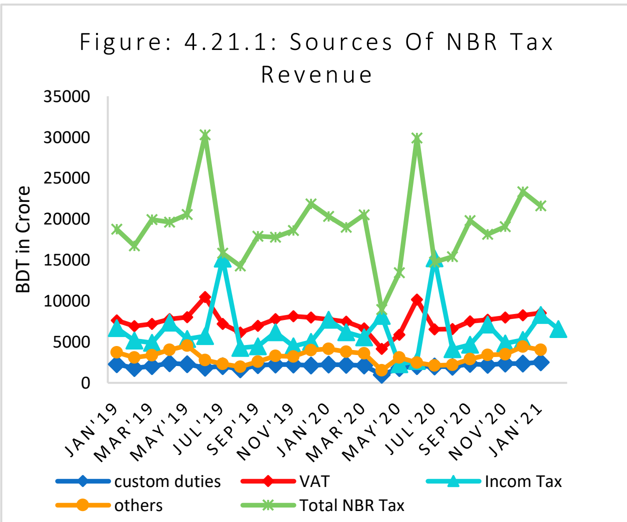


Figure: 4.21.1: Sources Of NBR Tax Revenue

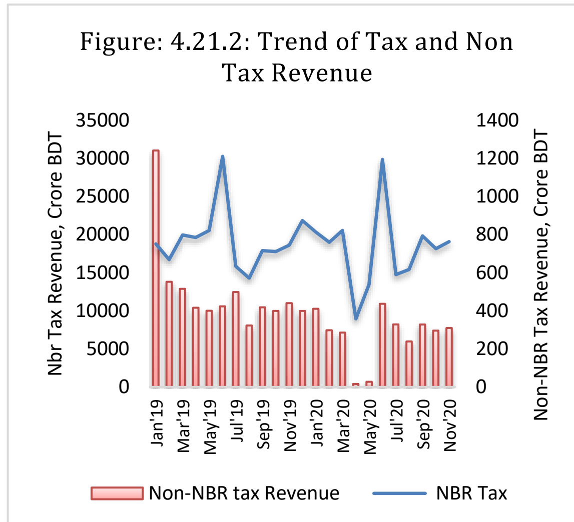


Figure: 4.21.2: Trend of Tax and Non Tax Revenue

Source: National Board of Revenue, GoB

NBR tax revenue during July-March of FY21 stood at BDT 176808.37 crore which increased by 6.43 percent against the collection of BDT 166121.37 crore during July-March of FY20. The target for NBR tax revenue collection has been set at BDT 3,89,000 crore for FY21 which is 11.3 percent of GDP(Ministry of Finance, GoB).

Total tax revenue (NBR & non-NBR) during July-November of FY21 stood at BDT 88700.49 crore which was higher by BDT 2219.36 crore or 2.57 percent against the collection of BDT 86481.13 crore during July-November of FY20 (Annex-III).

4.22. Budget Deficit Financing

The total budget deficit financing of the government was BDT 53452.65 crore during July-February of FY21 against BDT 85378.12 crore during July-February of FY20. Of this, financing from the domestic sources (including banking and non-banking system) was BDT 29393.03 crore during July-February of FY21 as compared to that of BDT 62520.46 crore during July-February of FY20. Foreign financing was BDT 24059.62 crore during July-February of FY21 against BDT 22857.66 crore during July-January of FY20 (Annex-IV).

Section 5: Challenges of Implementation of the Policies in Bangladesh

The evolving nature of the pandemic and the relevant economic uncertainty pose new challenges for policymakers. Sometimes, authorities had to design and implement support schemes, face unique operational conditions and under extreme uncertainty when they try to implement a new policy. While the effectiveness of any given measure depends on the specific circumstances, however implementing any policy requires several general factors which should be taken into account.

a) **Management:** Although it would seem easy to policy announcing but there are practical limits as to proper management of the stimulus package. This may need to be taken into account that Bangladesh does not have any experience of implementing such a large amount of stimulus packages. The crisis induced by Covid-19 is very different from the usual or common crisis people used to know. Therefore, when a huge amount of money is being injected into the economy, the outcome will be largely dependent on the management of the packages.
b) **Selection of the suitable candidate:** Identification and selection of the affected firms have been difficult in Bangladesh. Firms may select themselves for ripping the benefit of the stimulus package, however, it is necessary to have a formal or systematic process through which any kind of assessment can be done on the needs of the affected firms. In the absence of any kind of assessment process, many suitable firms may be deprived of benefits.
c) **Time-consuming and complicated administrative procedure:** The formal procedural issues, in most cases are obsolete and time-consuming in the banking sector which may also discourage many eligible firms to avail of the benefit. This is true for the firms from the non-industrial sectors, and small businesses. Small businesses are facing numerous challenges in accessing the stimulus package. There is a need for a dedicated window of facilities for the vulnerable group.
d) **Monitoring performance to evaluate the effectiveness of measures:** Central Bank needs to monitor the performance of credit flow and other important factors such as the number of recipients benefiting from the measure, the overall amount of supporting the programs, disbursement and recovery status in order to monitor the performance of the programs.
e) **Clear explanation of policy measures:** Most of the policies are for the poor, needy and deprived people of the society. Clear communication about the intention of policy measures can support effectiveness. Authority should provide user-friendly version of guidelines and other measures to reach the suitable client.
f) **Fiscal constraints:** All crisis-period support measures must be temporary to avoid fiscal burden on the government in the long run. In the long run, no government can aid its people in that way, they must find other ways out. For example, the growth of revenue collection was positive amid the Covid-19. However, this growth could have been more in the absence of economic fallout due to Covid-19. NBR may introduce everyone to a digital platform to facilitate easy process of paying taxes, VATs, and tariffs amidst the pandemic. Other liaison institutions may help NBR to derive perfect policies.

g) **Technological and infrastructure development:** The Covid-19 pandemic has highlighted the many significant technological challenges our government faces. Most of the people are still out of any technical support and knowledge in this country. To implement the policy like the distribution of relief or incentives to low-income or poor people, a digital financial system may remove the barriers or financial and operational limits imposed by the lockdown. Not every institution is fully capable to run efficiently in this new environment.

h) **Preparation for the Post-Covid World:** After post Covid situation, regulators must adapt to and be prepared for the new environment. Regulators should have post Covid world policies and regulations in hand.

Section 6: Conclusion and Way Forward

The starting point of the research paper is to study the policy responses by the Central Bank and its impact on major economic and financial indicators of the economy of Bangladesh amidst Covid-19. Covid-19 is proving to be a massive challenge for societies and economies across the globe. This is cumbersome and non-trivial, especially for policymakers who have been responding with a set of policy tools and coordinating their interventions within and among different institutions. With the first case of Covid-19 being identified in Bangladesh in March 2020, the immediate response of the government to prevent the spread was to shut down the economy. The simultaneous responses of governments across the world resulted in a partial shutdown of the global economy, which brought this unprecedented global recession. Recent global economic trends indicate a fragile and uneven recovery from the impact of the pandemic. The pandemic has hit Bangladesh at a pivotal time when the country was making commendable progress on various economic and social indicators. Although the domestic economy has performed better than expectations, concerns regarding the sustainability of this performance in the long run. From the economic side of things, the government has already taken steps to counter the backward slide. It has started 23 stimulus packages—accounting for 4.59 percent of GDP—that are designed to help export-oriented industries, shipment credit, the agricultural sector and low-income groups, including farmers and micro and small enterprises. Therefore it is of critical importance to consider how these stimulus packages are being utilized and making an impact on the economy. These have demonstrated better performance and as well as improved results when management and monitoring of the policies will be well managed. Amidst the ongoing crisis, the government should be ready to deliver further policy support to the economy. Moreover, with the previous experiences, regulators should identify their loopholes and be prepared to take timely measures with short term, medium-term and long term plans to mitigate the impact of Covid-19. Short-term recommendations for regulators could be assessing and modifying business continuity plan to maintain operational resilience. Medium-term recommendations are to make continuous monitoring modules for the government’s incentive policy and programs, using an automated risk assessment tool, and evaluate the effectiveness of programs. Long-term recommendations are to re-assess the effectiveness of programs for future crises and innovate the post-crisis strategies.

APPENDIX

ANNEX-I

Table 3.1: Stimulus Packages by the Government of Bangladesh and Bangladesh Bank

SN	**Stimulus Packages**	**Size of the Packages (in Billion BDT)**
1.	Special fund for salary support to export-oriented manufacturing industry workers	50
2.	Working capital loans to affected industries and service sector	400
3.	Working capital loans provided to SMEs, cottage industries	200
4.	Expansion of Export Development Fund (EDF)	170.00
5.	Pre-Shipment Credit Refinance Scheme	50
6.	Special honorarium for doctors, nurses, medical workers	1
7.	Health insurance and life insurance	7.5
8.	Free food distribution	25
9.	OMS at BDT 10 per KG	7.7
10.	A cash transfer to targeted poor people	13.26
11.	Expansion of allowance programs for the poor	8.15
12.	Subsidy for the construction of homes for homeless people	21.30
13.	Support for agricultural farm mechanization	32.20
14.	Subsidy for agriculture (on fertilizer)	95
15.	Agriculture refinance scheme	50
16.	Refinance scheme for low income professionals, farmers, and small traders	30
17.	Employment generation activities (through Palli Sanchay Bank, Karmasangsthan Bank, Probashi Kalyan Bank, Ansar and VDP Bank and PKSF)	32
18.	Government subsidy on partial interest waiver on loans by commercial banks in April-May/2020	20
19.	Credit Guarantee scheme for SME sector	20
20.	Support for destitute export-oriented RMG and leather sector	15
21.	Revitalizing the rural economy & job creation in rural area through 8 publicly owned specialized development organizations	15
22.	Expansion of the coverage of 2 social protection programs to further 150 poverty-stricken upazilas	12
23.	2nd tranche of the cash transfer to targeted population	9.3
Total		**1284.4**
As % of GDP		**4.59**

Source: Ministry of Finance and Bangladesh Bank

ANNEX-II

Table: Break up of fresh opening and settlement of import LCs

(USD Million)

Items	**July-January, FY21**			**July-January, FY20**			Percentage changes in July-January, FY21 over July-January, FY20	
	Fresh opening of import LCs	Settlement of import LCs	Outstanding LCs at the end period	Fresh opening of import LCs	Settlement of import LCs	Outstanding LCs at the end period	Fresh opening of import LCs	Settlement of import LCs
A. Consumer goods	4267.70	3461.58	1387.86	3755.64	3201.59	171.06	13.63	8.12
B. Intermediate goods	3081.74	2547.30	749.46	3034.74	2963.60	136.41	1.55	-14.05
C. Industrial raw materials	12774.21	10888.99	4613.30	12124.16	11203.49	775.46	5.36	-2.81
D. Capital machinery	2596.34	1946.11	1433.63	3418.92	3079.80	1199.63	-24.06	-36.81
E. Machinery for misc. inds.	2112.71	1759.17	621.62	1867.55	1862.61	212.50	13.13	-5.55
F. Petroleum & petro.prodts.	2143.37	2132.40	271.08	2838.36	2305.39	152.66	-24.49	-7.50
G. Others	8115.96	7089.82	11291.42	7596.09	7993.33	9990.15	6.84	-11.30
Total	**35092.02**	**29825.38**	**20368.37**	**34635.45**	**32609.80**	**12637.88**	**1.32**	**-8.54**

ANNEX-III

Table: Sources of Government Revenue Collections in Bangladesh (BDT in crore)														
	NBR Tax Revenue					Non-NBR Tax Revenue[17]	Total Tax Revenue Collections	**NBR Tax Revenue**					Non-NBR Tax Revenue[17]	Total Tax Revenue Collections
	Customs duties	VAT	Income Tax	others*	Total			Customs duties	VAT	Income Tax	others*	Total		
	FY21[P]							**FY20**						
July	1987.76	6542.80	4116.05	2108.06	14754.67	328.31	15082.98	2058.86	7190.04	4257.07	2320.41	15826.38	498.42	16324.80
August	1979.39	6557.52	4662.82	2206.44	15406.17	238.93	15645.10	1667.65	6158.57	4480.69	1978.54	14285.45	322.70	14608.15
September	2316.65	7519.43	7103.89	2890.52	19830.49	327.88	20158.37	2163.60	6960.87	6174.76	2604.64	17903.87	418.13	18322.00
October	2207.19	7699.80	4809.97	3427.07	18144.03	295.73	18439.76	2254.20	7768.53	4479.81	3288.34	17790.88	399.15	18190.03
November	2336.53	7987.24	5265.30	3475.50	19064.57	309.71	19374.28	2232.29	8139.64	5028.80	3195.24	18595.97	440.17	19036.14
July - Novembe	10827.52	36306.79	25958.03	14107.59	**87199.93**	**1500.56**	**88700.49**	10376.60	36217.65	24421.13	13387.17	**84402.55**	**2078.58**	**86481.13**
December	2349.64	8256.22	8260.45	4440.02	23306.33	--	--	2124.11	7996.55	7717.43	3999.77	21837.86	399.14	22237.00
January	2523.43	8518.71	6563.77	4025.97	21631.88	--	21631.88	2250.61	7747.63	6188.54	4150.81	20337.59	410.33	20747.92
February	2617.89	8362.57	5882.03	4076.28	20938.77	--	20938.77	2183.33	7477.44	5545.81	3802.67	19009.25	297.76	19307.01
March	7762.16	7018.10	8907.38	43.82	23731.46	--	23731.46	2122.73	6633.54	8171.75	3606.10	20534.12	285.34	20819.46
July-March	26080.64	68462.39	55571.66	26693.68	**176808.37**			19057.38	66072.81	52044.66	28946.52	**166121.37**	**3471.15**	**169592.52**

ANNEX-IV

Table 4.4.1: Sources of Government Borrowings in Bangladesh (BDT in Crore)

Sources	July-February, FY20	July-February, FY21
Banking system	47889.30	-2171.80
Non-Bank	14631.16	31564.83
Total domestic financing	62520.46	29393.03
Foreign financing	22857.66	24059.62
Total financing	85378.12	53452.65