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COVID-19's Impact on Bangladesh Economy

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COVID-19's Impact on
Bangladesh Economy

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Executive Summary

This BIGD study examines the impact of COVID-19 on the major economic and financial indicators of the economy of Bangladesh, including production, wages, price levels, advances, bills, investments, remittances and foreign trade, using the secondary data published by the Bangladesh Bureau of Statistics (BBS), Bangladesh Bank (BB), and the Ministry of Finance (MoF). In addition to the recent impact of the global economic meltdown, Bangladesh also experienced severe demand contraction in the local economy; this exacerbated the overall economic crisis of the country. Considering the duration and severity of COVID-19, we examine its impact on major economic and financial indicators of the Bangladesh economy and recommended policy responses for recovery, based on the analysis.

Both domestic and international demands declined due to the outbreak and subsequent lockdown, and, thus, producers responded by lowering output to minimise the loss, especially in the manufacturing sectors. Findings reveal that nominal Wage Rate Index (WRI) in the industry and service sectors fell in recent times, which now appear to be recovering. The national inflation rate has not been affected much based on point-to-point changes. Food inflation fell in May 2020 and stood at 5.09 percent, but it appears to have risen recently. Non-food inflation rates have been falling over the last six months from April-September 2020.

Advances remained unaffected during the three months of the lockdown, though the effect is evident in the bills and investments. Point-to-point estimates show that the pandemic adversely affected advances in March 2020 and started to recover marginally in April 2020 onward. Lower import demand and transport restriction contributed to the drastic reduction in bill payments and it was found negative until May 2020. However, there appears to be a surge in investments, compared to the same time last year. Despite the initial bleak outlook for remittance inflow, subsequent revisions showed positive trends. The export of goods sharply declined in FY2019-2020,. Exports have recovered in July 2020, but low demands from major buyer countries are likely to persist in the near future and thus, the sector is suffering from uncertainty. Point-to-point estimates for the exports of RMG show that it has severely been contracted in the outgoing fiscal year in the key export destinations like the USA and the EU. This demonstrates the urgent need for greater export diversification.

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 fared better than expectations, concerns regarding the sustainability of this optimistic performance remain. The two growth engines for the country—RMG and foreign remittance—are closely intertwined with the external economy, which are not under the control of the government. Prudent measures should include constant monitoring and adapting to the latest developments in major trading partners and host countries to mitigate the economic losses caused. Bank credit would play a key role in the ongoing and upcoming recovery process, as the government has opted for a credit-led stimulus package. However, as the virus is yet to be contained and an effective vaccine is yet to be made available in Bangladesh, its economic repercussions are likely to continue in the foreseeable future.

1. Background

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. COVID-19 has severely damaged the global economy in addition to taking its toll on health and human life. The world is going through a deep recession, which is expected to leave lasting scars on the economic and financial indicators. The World Bank (2020a) predicts that most countries are expected to plunge into recession in 2020 because of COVID-19. The advanced economies are expected to contract by 7 percent. The emerging and developing economies are anticipated to contract by 2.5 percent, which is the first contraction for these countries as a group in the last sixty years. In fact, the world has already experienced the fastest and steepest downward adjustments in its growth projections since the 1990s. Therefore, governments across the world are undertaking urgent actions to cushion the pandemic's immediate economic consequences and comprehensive reform programs for long-term economic recovery alongside health recovery.

Like other countries, the immediate response of the Bangladeshi government to prevent the spread of COVID-19 was to shut down the economy. The simultaneous responses of the 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.

As the economy of Bangladesh heavily relies on the global supply chains, particularly ready-made garments (RMG) and foreign remittance, the country has faced a severe impact of the global economic meltdown (Amit, 2020). More specifically, the exposed vulnerabilities of the cross-country supply chain of RMG has hard hit the economy of Bangladesh because this sector brings more than 80 percent of the export earnings. As the banks in Bangladesh heavily depend on the business brought by the RMGs, COVID-19 has also seriously affected the banking sector. Similarly, remittance sent by the Bangladeshi diaspora, around 10 million workers, is another important pillar of the country's economy. This sector has already been hit by COVID-19 and recovered smoothly. However, it is expected to be hit harder due to the second wave of the pandemic and resultant travel restrictions, economic showdowns, and curfews in host countries.

Because of the close connection of the economy of Bangladesh with the US and EU economies, the slowdown in those economies have long had ripple effects on the Bangladesh economy (Rabbi, 2020). During the global financial crisis in 2008, the correlation between the GDP growth rate of the Bangladesh economy with those of US and EU economies was evident; it mirrored the growth rate in those economies, though to a lesser extent.

In addition to the recent impact of the global economic meltdown, Bangladesh also experienced severe demand contraction in the local economy; this exacerbated the overall economic crisis of the country. Considering the duration and severity of COVID-19, we examine its impact on major economic and financial indicators of the Bangladesh economy and recommended policy responses for recovery, based on the analysis. The paper's outline is as follows. The following section provides an update on the COVID-19 situation with a contextual perspective of Bangladesh. We then provide a structure of the Bangladesh economy, followed by data, discussion and conclusion respectively.

2. The COVID-19 Situation in Bangladesh

Globally, Bangladesh ranked 18th, 31th and 41th for the number of cases, deaths, and new cases respectively and accounts for approximately 1 percent of the COVID-19 disease burden (WHO, 2020d). Figure 1 reports the prevalence of confirmed cases, recovery, and death in Bangladesh for the period of March 8 to October 30, 2020. As the pandemic continues, as of 25 October 2020, cumulative cases and deaths globally stood at 43,341,451 and 1,157,509 respectively, and the same figures for Bangladesh were 400,251 and 5,818. In per million population terms, the worldwide cumulative cases and deaths were 5,560 and 148 respectively, and in Bangladesh, these numbers were 2,430 and 35 respectively (WHO. 2020b). The deaths to cases ratio in Bangladesh was also low relative to the global status. However, Bangladesh had reported the fourth-highest number of new cases in the last seven days among the countries in South-East Asia (WHO, 2020b). As of 26 October 2020, 79.1 percent of people had recovered, 1.45 percent had deceased and 19.45 percent remained as active cases in Bangladesh.

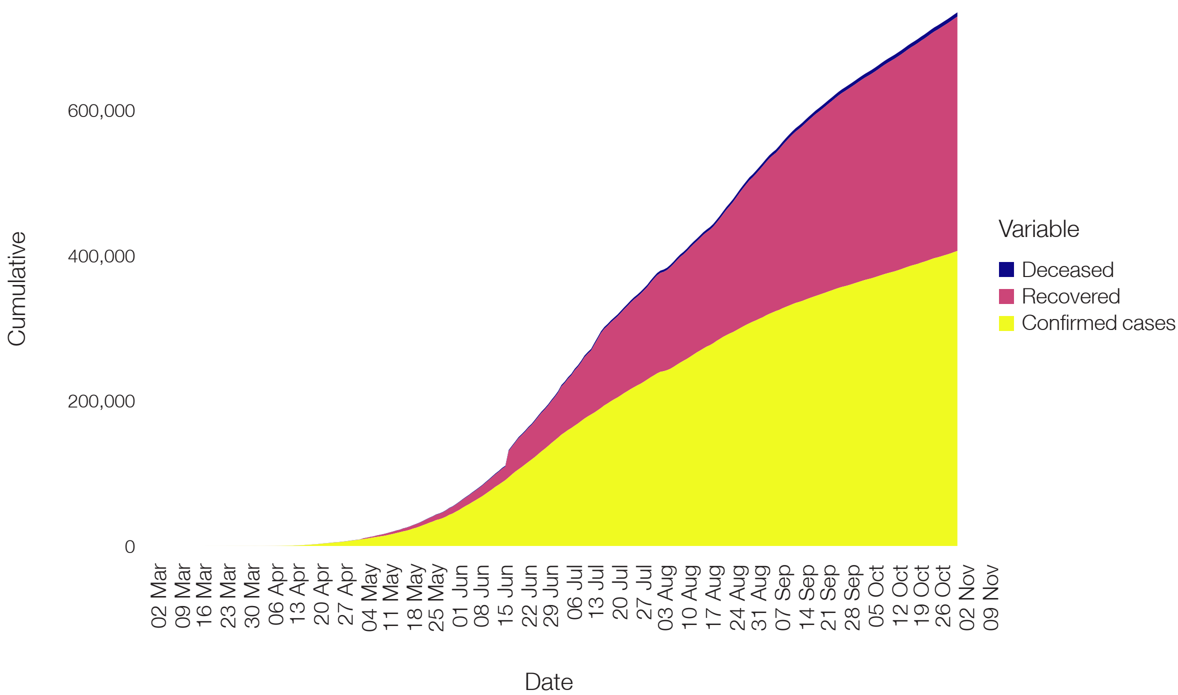

Figure 1. Stacked Area Chart of Bangladesh's COVID-19 Scenario (08 Mar'2020-30 Oct'2020)

Source: JHU CSSE COVID-19 Dataset

Around half of the confirmed cases fell in the age group of 21-40 years (46.7 percent) whereas over four-fifth of the deaths fell in the age group of 51 and above (82.9 percent). The prevalence of both confirmed cases (72 percent) and deaths (77 percent) was greater among men compared to women (WHO, 2020d).

In the spatial distribution of total cases in Figure 2, Dhaka district easily stands out as a hotspot with 120,937 cases, of which 95.5% (115,446) are concentrated in Dhaka city. Dhaka is followed by Chattogram district (21,092); the number of cases in all other districts was below or equal to 9,052 as of 31 October 2020. With the highest attack rate (AR) of 6,106 per million (for Bangladesh overall it is 2,291), Dhaka division also reported 66.3 percent of total cases and 51.0 percent of total deaths as of 26 October 2020. Dhaka city, Faridpur, Rajbari, Munshiganj, Narayanganj, and Gopalganj districts were found as the key drivers of this high AR. The Chattogram division with the second-highest AR (1,488 per million) reported 12.5 percent of total cases and 20.3 percent of total deaths over the same period (WHO, 2020d).

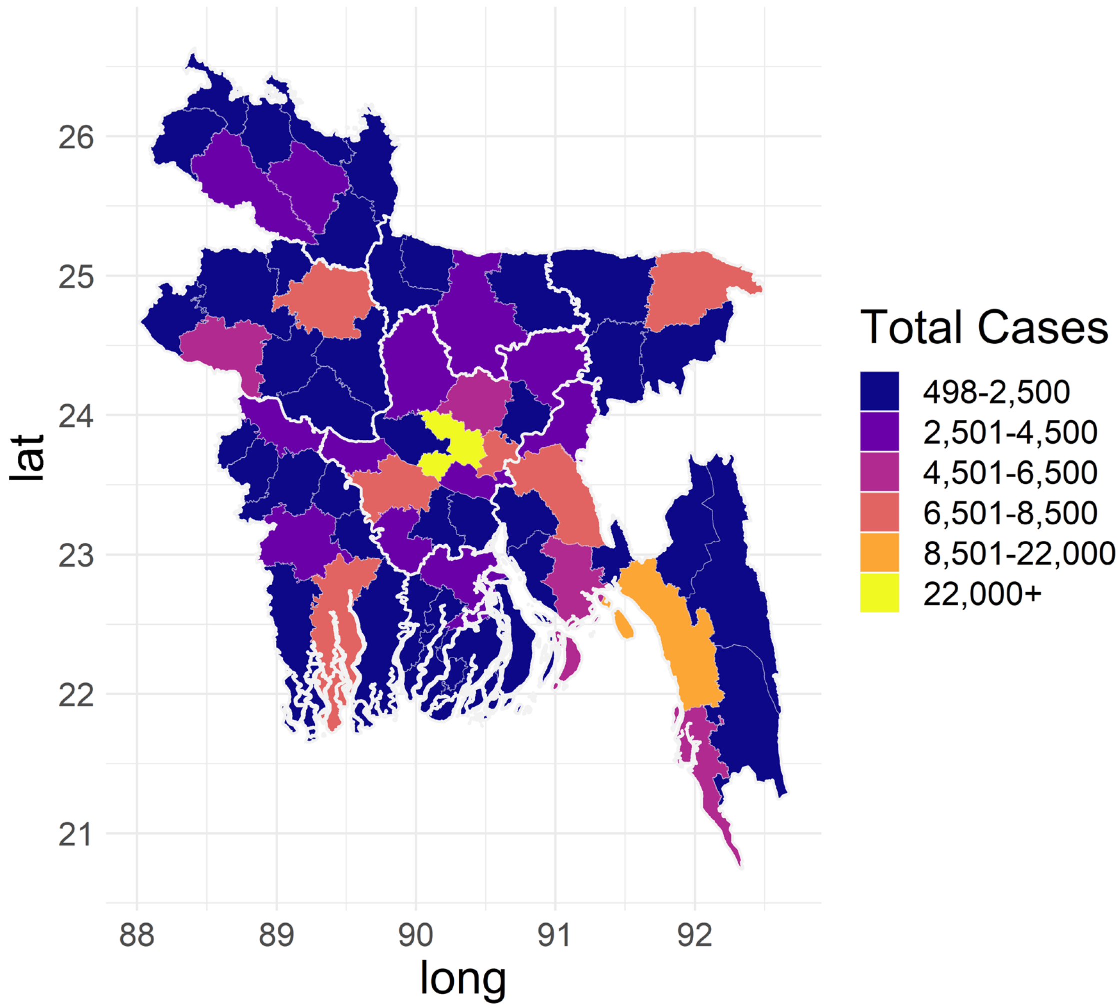

Figure 2. District-wise COVID-19 Cases in Bangladesh (As of 31 October 2020)

Source: Institute of Epidemiology, Disease Control and Research (IEDCR). Shapefiles are from GADM.

3. Bangladesh Economy: Key Indicators

Pre-COVID-19 Bangladesh had a vibrant economy that had graduated to the category of lower-middle-income countries (LMIC) in 2015 and was aiming to achieve the status of an upper-middle-income country (UMIC) by 2031. Remarkable gains in poverty reduction, educational attainment, gender equality, and other socioeconomic indicators supported this development and were expected to continue to do so. Though the agriculture sector is the largest employer in Bangladesh, the service sector, the second largest employer, contributed to more than half of the GDP (BBS, 2018; 2020). The external macroeconomic balance remained strong, courtesy of RMG exports and remittances, albeit the concentration of exports in RMG remained a cause of concern. The government target of keeping the budget deficit within 5 percent of GDP was well in place even though the tax-to-GDP ratio remained lower than desirable for an ambitious developing country. Additionally, several challenges were already on the horizon, like the Fourth Industrial Revolution (4IR), which needs to be addressed in future planning. The pandemic is not only adding to the existing challenges—it is also threatening the progress that had been made so far and the future course that the country was supposed to take. Although the extent and nature of the macroeconomic impacts cannot be predicted with certainty, which among other things depend on how the pandemic evolves and by when it can be contained, a discussion of the pre-pandemic status quo and observed effects so far is likely to prove insightful both from academic and policymaking perspectives.

In Table 1 we see that the economy grew at a much lower rate in FY2019-20 than the growth rates that had persisted in recent years. The slowdown in final consumption growth was driven by the lower growth rate of general government spending, which grew by 7.25 percent compared to 9.01 percent in the preceding year. Investment grew by a modest 6.71 percent in real terms. Export and import fell simultaneously, reflecting falls in international and domestic demand. Inflation, however, appeared to be relatively stable. Stable fiscal deficit, debt-GDP ratio, and foreign exchange reserves provide the macroeconomic soundness needed to utilize fiscal tools for economic management during and after the pandemic.

Table 1. Key Indicators of Bangladesh Economy

Indicator	Fiscal Year			
	2016-17	2017-18	2018-19	2019-20(p)
Real GDP Growth (%)	7.28	7.86	8.15	5.24
Nominal GDP Growth (%)	14.02	13.90	12.98	9.99
Growth Rate of Real Final Consumption (%)	7.45	11.36	4.33	4.23
Growth Rate of Gross Capital Formation (%)	10.15	10.50	8.44	6.71
Growth Rate of Real Exports (%)	-2.34	8.09	8.45	6.31
Growth Rate of Real Imports (%)	2.88	27.01	8.42	7.91
Inflation (%)	5.44	5.78	5.48	5.65
Fiscal Deficit (% of GDP)	-3.5	-4.7	-5.5	-5.5
Tax-GDP Ratio (%)	9.1	8.7	8.9	11.2
Debt-GDP Ratio (%)	31.0	31.9	33.2	35.7
Foreign Exchange Reserve (Million USD)	33,492.95	32,943.5	32,716.5	35,852.6

Notes: p denotes provisional. Budget data regarding fiscal deficit, tax revenue and debt in FY2019-20 are as per the revised budget. GDP ratios recalculated using the latest provisional GDP figure released by BBS for FY2019-20.

Sources: BBS (2020), BB (2020b) and MoF (2018, 2019, 2020a).

Table 2 provides details on the structure and dynamics of the economy. Service sector, the largest contributor to GDP, grew by 5.32 percent in the FY2019-20, a lower rate compared to those in the preceding three fiscal years. Within the service sector, growths in wholesale and retail trade, and financial intermediation were the slowest. However, the industrial sector had experienced the biggest fall in growth rate among the three broad sectors, reporting a single-digit growth of 6.48 percent, a stark deviation from the trend in recent years. A sharp drop in the growth of manufacturing, the major sub-sector of the industries, is the main reason for this slowdown. Surprisingly, construction, another sub-sector of industry, appeared to have been less affected. From the sectoral perspective, the agriculture sector in Bangladesh is the least affected. Overall, all three broad economic sectors had experienced lower growth rates than the preceding fiscal year (see Annexe Table A1 for details).

Table 2. Sectoral Growth Rate and Shares of Real GDP (%)

Sector	Fiscal Year			
	2016-17	2017-18	2018-19	2019-20 (p)
Agriculture	2.97 (14.74)	4.19 (14.23)	3.92 (13.65)	3.11 (13.35)
Industry	10.22 (32.42)	12.06 (33.66)	12.67 (35.00)	6.48 (35.36)
Service	6.69 (52.85)	6.39 (52.11)	6.78 (51.35)	5.32 (51.30)

Notes: p denotes provisional. Sectoral shares of real GDP in parentheses. Source: BBS (2020).

4. Data

The paper is based on various routine reports and data published by the Bangladesh Bureau of Statistics (BBS)—the official body for the publication of government statistics on various economic aspects; Bangladesh Bank (BB)—the central bank of the country; and the Ministry of Finance (MoF), Government of the People's Republic of Bangladesh (GoB). BBS publications, namely 'Gross Domestic Product of Bangladesh', 'Monthly Release of Industrial Production Statistics (IPS)', and the monthly 'Consumer Price Index (CPI), Inflation Rate and Wage Rate Index (WRI) in Bangladesh' have been used for data on Gross Domestic Product (GDP), production, inflation and wage rate index. Data on remittance have been collected from Bangladesh Bank's Statistics Department's (BOP Division) regular 'Wage Earner's Remittance' and 'Wage Earners' Remittance Inflows: Top 30 Countries Received' releases on their website. Foreign Trade Statistics were obtained from BB's 'Monthly Economic Trends', also released on their website. Any other source used has been cited appropriately wherever relevant.

5. Discussion

COVID-19 is an ongoing pandemic that is evolving rapidly. As such, its trajectories are unknown. Predicting its economic impact is difficult and predictions are likely to be unreliable. Nonetheless, we begin by taking a bird's eye view on its impact on the GDP and then identify possible transmission channels to various key macroeconomic aspects. As the pre-COVID-19 scenario has already been outlined in the Background section, we turn towards the observed impacts of the pandemic so far and discuss projected impacts. In this section, we analyse the pandemic's impact on various macroeconomic aspects. We begin by looking at the domestic sector and then move to the external sector.

5.1. Economic Growth

The impact of the pandemic is already evident on many economic indicators of the last fiscal year. As the virus is yet to be contained and an effective vaccine is yet to be made available everywhere and to everyone, its economic repercussions are likely to continue in the foreseeable future. Even after the situation is brought under control, the economic recovery may still take some time. Although the preceding fiscal year showed better performance on certain indicators than estimated by many, sustainability remains questionable as the global economy continues to suffer.

The variations in Table 3 reflect the complexities involved in economic forecasting, further amplified by the uncertainty attached with this novel virus. While government forecasts remain highly optimistic for the current fiscal year, predictions by international bodies are conservative and have been subject to several revisions as the global situation unfolds. The trajectory of the pandemic, the amount of time till a vaccine is available everywhere and to everyone, effective implementation of the announced government stimulus package (forming 3.7 percent of GDP in FY2019-20), sound macroeconomic management, and consumer and business confidence home and abroad are all factors that will play an important role in the performance of the current fiscal year.

As per MoF (2020b), the budget deficit is expected to be 6 percent of GDP, the largest in recent years. Gross investment is projected to constitute a third of the GDP (33.5 percent), mainly fuelled by private investment, and inflation is expected to remain under control. ADB (2020) estimated that the first half of the fiscal year will observe a gradual economic recovery, after which it shall rapidly pick up the pace. But the World Bank (2020c) forecasted the most frustrating outlook for the Bangladesh economy in the current fiscal year (Table 3).

Table 3. Projected Growth Rate for Bangladesh for FY2020-21

Agencies	FY2020-21 (%)
Ministry of Finance (MoF), Government of Bangladesh (GoB)	8.2
General Economic Division (GED), (GoB)	8.23
Asian Development Bank (ADB)	6.8
IMF	4.4
World Bank	1.6

Sources: MoF (2020b), GED (2020), ADB (2020), IMF (2020b) and World Bank (2020c).

5.2. Production

As both domestic and international demands have been depressed following the outbreak and subsequent lockdown, producers responded by lowering output to minimise the loss, especially those producing non-essential goods and services. However, the general holiday, implemented towards the end of March, had also imposed supply constraints. This lowered output levels further, as only emergency services were allowed to operate initially and later export-oriented industries were allowed conditionally. The general holiday was lifted at the end of May with gradual conditional reopening of the economy.

Figure 3 reflects this. During the period of January-May 2020, the General Index of the Quantum Index of Industrial Production (QIIP) fell from 418.19 in January to 276.63 in April, and then rose to 308.52 in

May, which was still lower than the pre-pandemic level. As this is a weighted index of three sub-indices, the fall was driven by the component which receives the largest weight, namely manufacturing (87.54), which fell from 445.58 in January to 282.60 in April, and stood at 315.67 in May. Thus, we focus on the manufacturing index next.

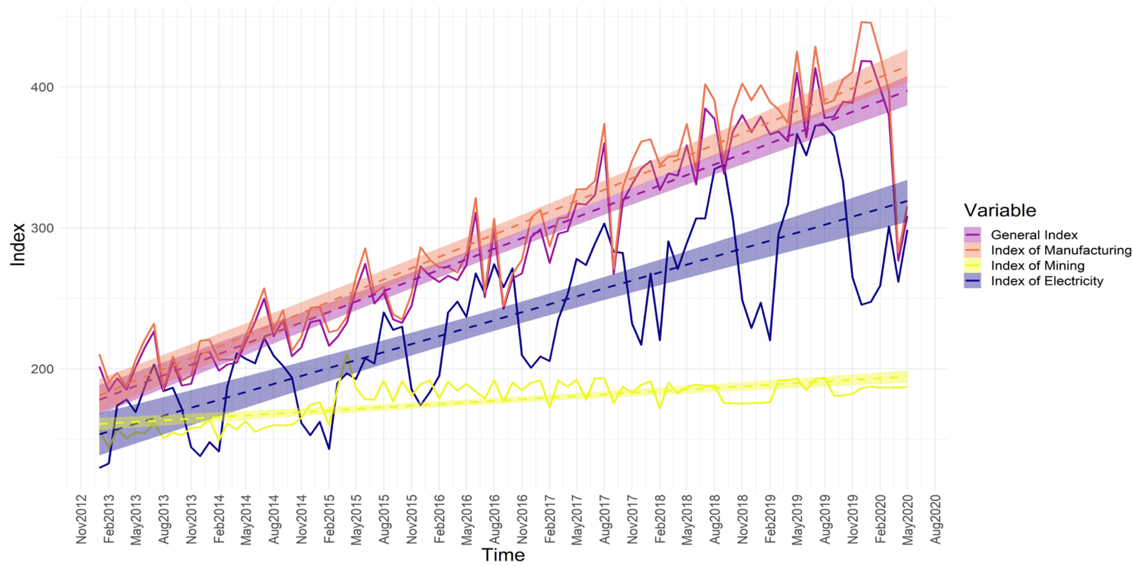

Figure 3. Time Series Plot of Quantum Index of Medium and Large-Scale Industry (Jan'2013-May'2020)

Notes: Base: 2005-06=100. Dashed lines represent linear trends with 95% confidence intervals. Source: BBS.

Figure 4 reveals a sharp drop in April 2020, when Index of Manufacturing hit 282.60, which was not only lower than the previous month (396.85) but also from the same month of the last year (374.23). In May, a modest growth of 11.70 percent (315.67) was observed month-over-month (MoM), but this was a contraction of 27.04 percent based on a year-over-year (YoY) estimate. For clarity, the index value was 432.68 in May 2019.

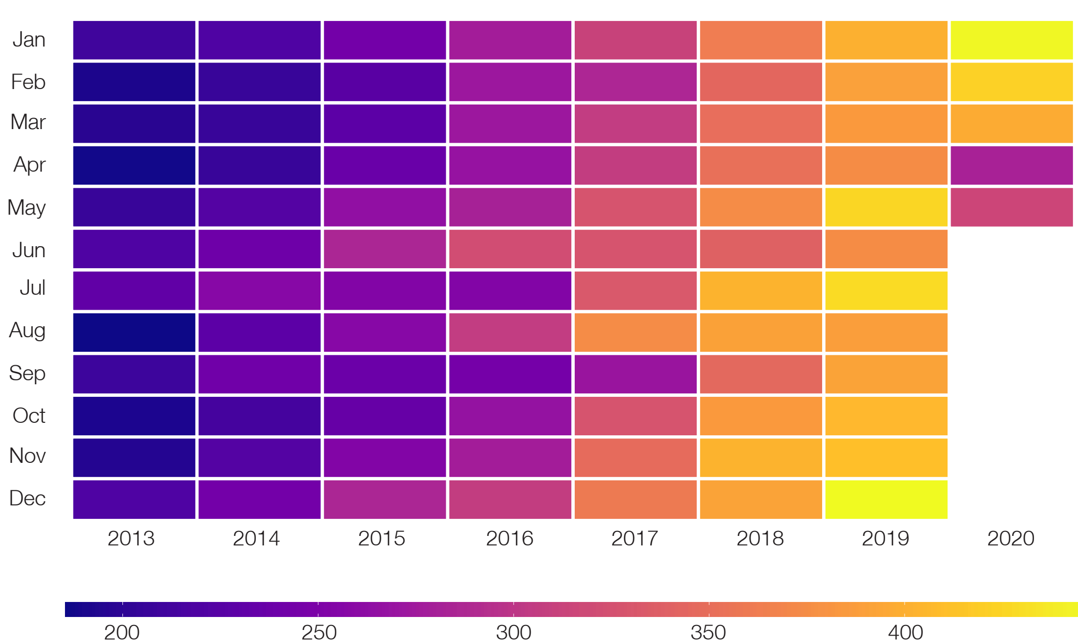

Figure 4. Quantum Index of Medium and Large-Scale Manufacturing Industry (Jan'2013-May'2020)

Note: Base: 2005-06=100. Source: BBS.

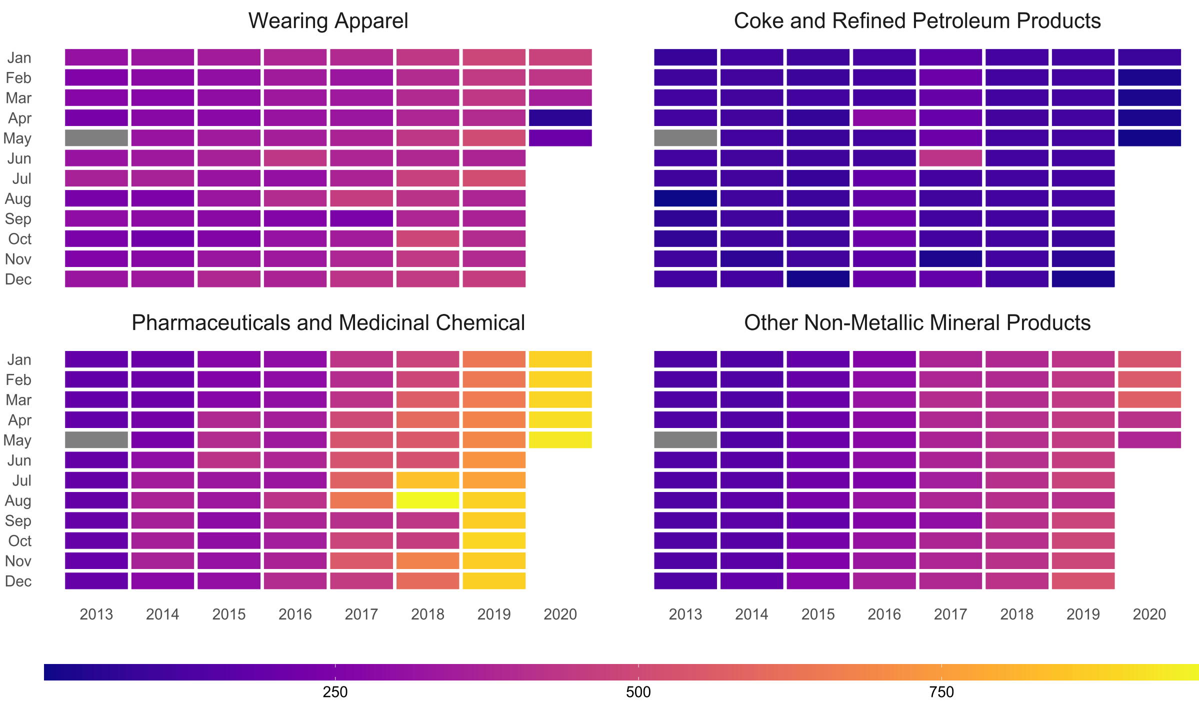

Figure 5. Quantum Index of Medium and Large-Scale Manufacturing Industry: Selected Industries

Notes: Base: 2005-06=100. Data for May 2013 was missing. Source: BBS

An examination of selected major industries in Figure 5 shows sharp drops in Wearing Apparel—which constitute of Garments and Knitwear; Coke and Refined Petroleum Products—which constitute of Petroleum Products; and Other Non-Metallic Mineral Products—which constitute of Cement.

The export-oriented wearing apparel industry has undoubtedly been adversely affected, and this will also come up in the subsection on foreign trade. The RMG factories had reopened towards the end of April; initially only those producing Personal Protective Equipment (PPE) were allowed to operate, so we saw a slight improvement in May 2020. In April 2020, Garments and Knitwear had negative growth rates of -82.79 percent and -81.89 percent respectively based on a MoM estimation technique and -84.39 percent and -85.87 percent respectively based on a YoY estimation technique. In May 2020, however, Garments and Knitwear grew by 219.80 percent and 237.77 percent respectively compared to the output levels of April 2020, but this was still lower by 69.99 percent and 61.71 percent for Garments and Knitwear respectively if they were counted using the YoY measurement principle.

This pattern of improvement in May was not true for Petroleum Products and Cement, both of which showed further deterioration in comparison to April. In May, they reported MoM negative growth rates of -91.41 percent and -17.46 percent respectively, and YoY negative growth rates of -98.48 percent and -30.76 percent respectively. Construction is another area supposedly affected by the general holiday, and the cement data might be reflective of this. On the other hand, Pharmaceuticals and Medicinal Chemical Industry, which incorporates Drugs and Pharmaceuticals, registered positive growth rates of 3 percent and 36.10 percent based on MoM and YoY estimation principles respectively.

5.3. Wages

For Bangladesh, unfortunately, high frequency employment data is not available. BBS conducts the Labour Force Survey (LFS) approximately every three years, and the latest available data is for 2016-17. Given the constraint, the best proxy to get a sense of the current labour market situation is the monthly nominal Wage Rate Index (WRI) published by the BBS, which covers only low-paid and unskilled workers who are paid on an hourly basis. Salary-earners and higher-paid contract-based earners are not considered in this calculation. Two features from Figure 6 stand out. Firstly, service wage earners have always been paid higher on average, whereas industry wage earners have been paid the lowest. Second, WRIs in the industry and service sectors fell in recent times, which now appear to be recovering. Next, we discuss the second point in detail.

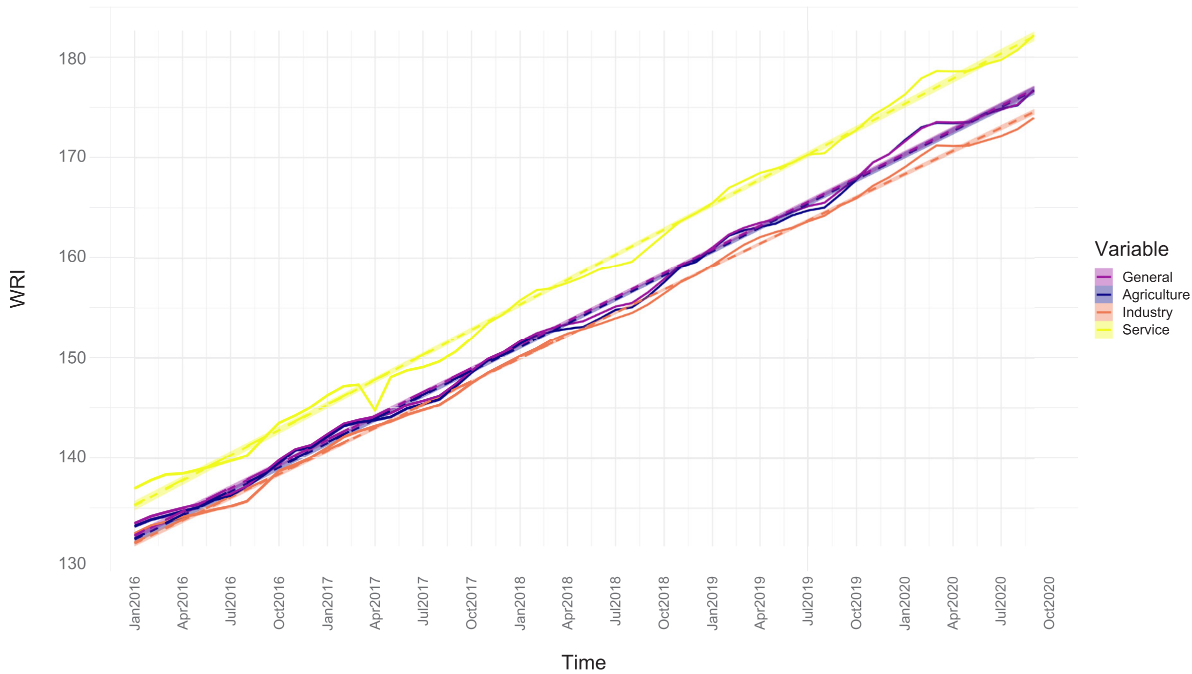

Figure 6. Time Series Plot of Wage Rate Index (Jan'2016-Sep'2020)

Notes: Base: 2010-11=100. Dashed lines represent linear trends with 95% confidence intervals. Source: BBS

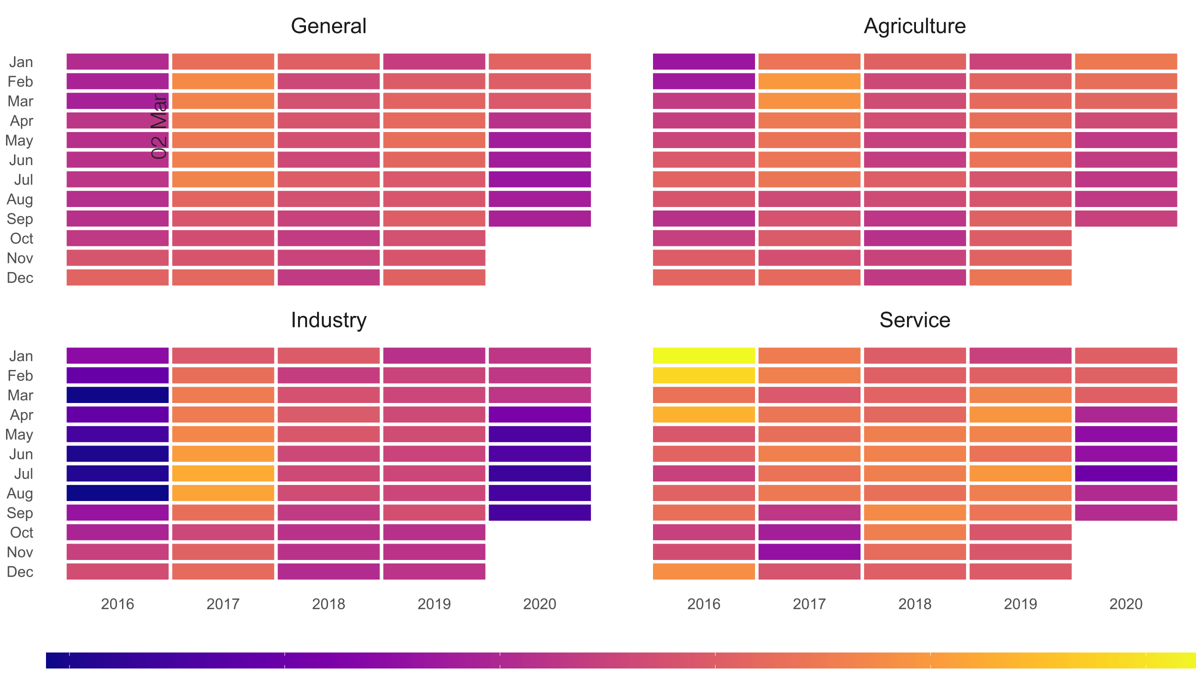

Figure 7. Growth Rate of Wage Rate Index: Point-to-Point (%)

Notes: Base: 2010-11=100. Source: BBS

Figure 7 shows that the point-to-point growth rate of General WRI had fallen, from 6.56 percent in January 2020 to 5.95 percent in September 2020 to be precise. These are point-to-point estimates, meaning that they are changes from the same month of the previous year.[1] This helps to avoid problems of seasonality. The industry sector, as already discussed in the last section, has been clearly suffering due to COVID-19. The growth rate had fallen from 6.14 percent in March 2020 to 5.18 percent in July 2020 and had risen slightly by September 2020 to 5.26 percent. The growth rates of the Construction WRI (CWRI) and the Production WRI (PWRI), which comprises of the Industry WRI (IWRI), decreased from 4.83 percent to 4.12 percent and 8.5 percent to 7.09 percent respectively over the March-July 2020 period. The higher paid service sector has also been adversely affected due to the pandemic because of its heavy reliance on personal contact as well as movement of goods and people. The growth was lowered from 6.52 percent in March 2020 to 5.52 percent in July 2020 but had started picking up, standing at 6.04 percent in September 2020, most likely due to the gradual reopening of the economy.

5.4. Price Levels

Inflation had been under control in Bangladesh in recent years. It is thus important to review if COVID-19 has had any impact on the price stability, in particular, on the price of food. Figure 8 reveals that the national inflation rate has not been affected much if we consider point-to-point changes. Food inflation fell in May 2020 and stood at 5.09 percent, but it appears to have risen recently. Non-food inflation rate has been falling over the last six months, from 6.04 percent in April 2020 to 5.12 percent in September 2020.

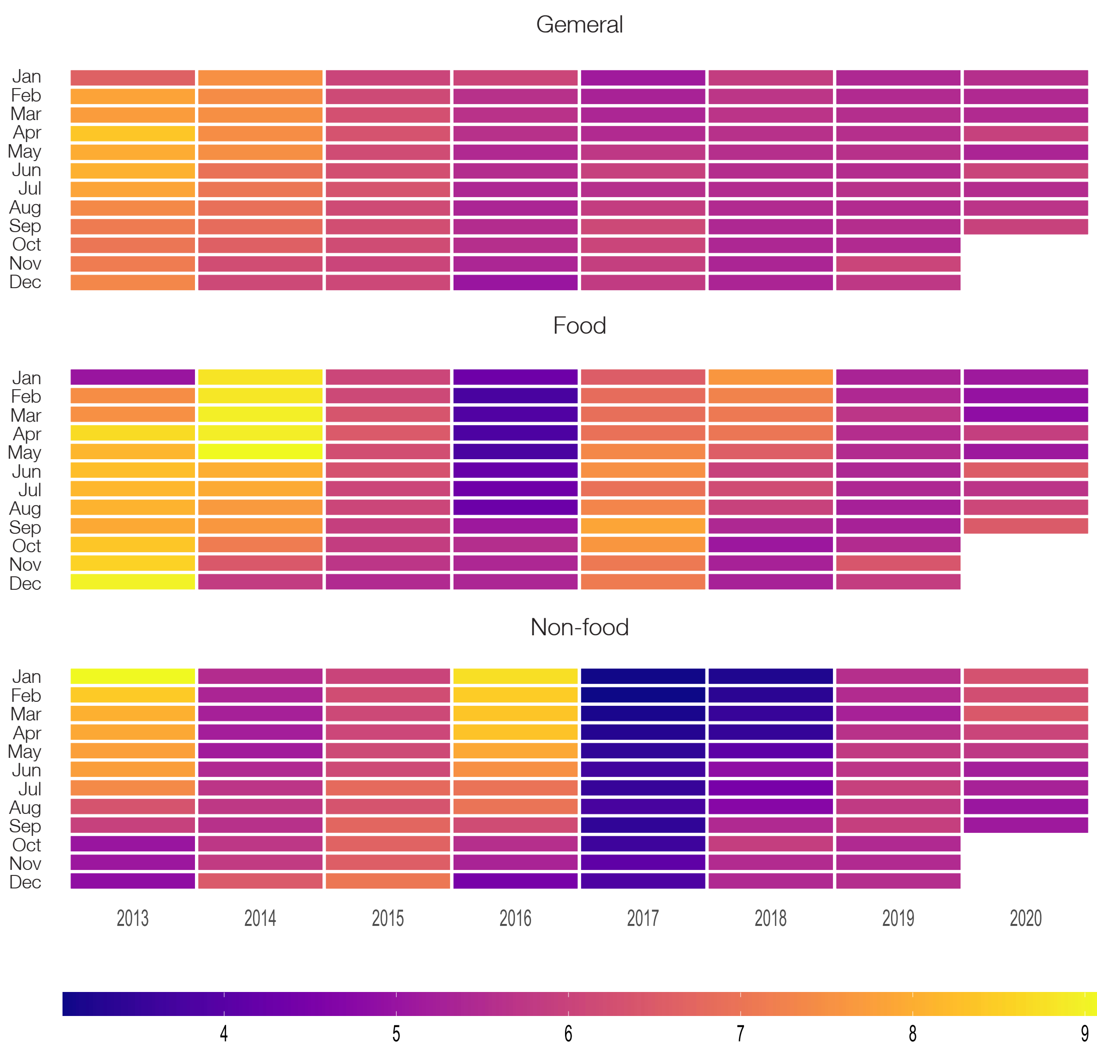

Figure 8. National Inflation Rate: Point-to-Point (%)

Notes: Base: 2005-06=100. Source: BBS

[1] Point-to-point and YOY have been used interchangeably within the discussion, to maintain consistency with BBS terminology wherever applicable.

Figure 9 also supports that price levels are still under control. Urban inflation rate had fallen in May 2020 to 4.81 percent, which was caused by the low urban food inflation rate (3.94 percent), but the latter jumped to 6.72 percent in the next month.

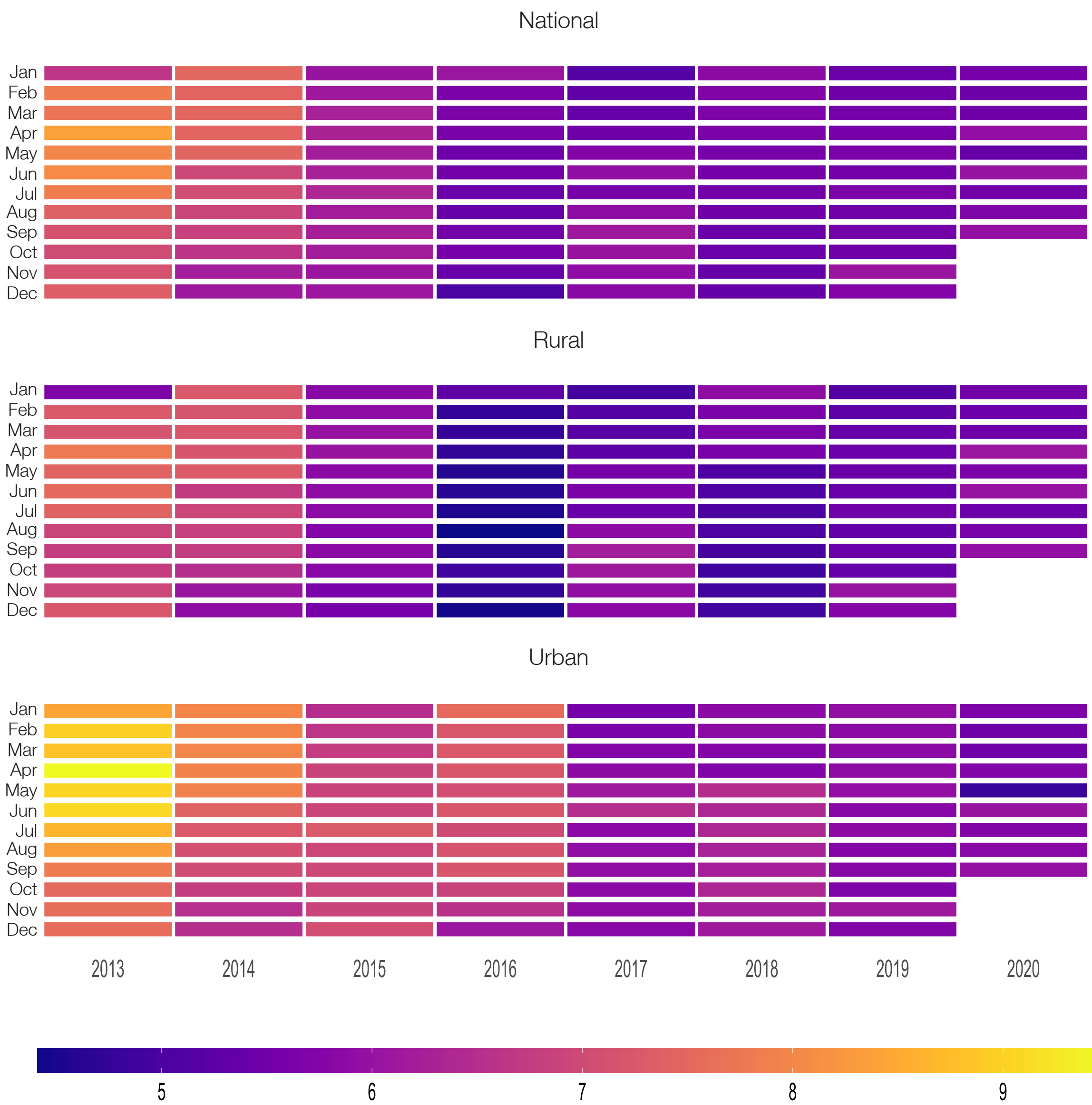

Figure 9. Inflation Rate: Point-to-Point by Location (%)

Note: Base: 2005-06=100. Source: BBS

5.5. Financial Indicators

Bank credit would be playing a key role in the ongoing and upcoming recovery process, as the government has opted for a credit-led stimulus package. Data on lending can, however, serve as a crude indicator for the business climate and economic expectations. We compare the bank credit scenarios of the three months when lockdown was in place (i.e., March, April and May 2020). For exploring the impact of the pandemic on financial indicators such as advances, bills and investments, we considered three distinct consecutive fiscal years: one business-as-usual, one pre-pandemic and another pandemic-hit. Figure 10 shows the changes in financial indicators based on a MoM basis for the three consecutive fiscal years: 2018, 2019 and 2020 respectively. Findings reveal that advances remained unaffected during the three months of the lockdown. More specifically, the estimates for the months of March, April and May 2020 were found within the range of the estimates for the same months of the business-as-usual and pre-pandemic years. However, the effect of the economic shutdown is clearly visible in the bills and investment figures in Figure 10. Findings also show that import bills get reversed in March 2020 and turns to business-as-usual scenario in April 2020 compared to the same months of the business-as-usual and pre-pandemic situation. Findings based on a MoM basis show that investments, which is comprised of Treasury Bills, Treasury Bonds, and Share & Securities with accrued interest, has undoubtedly been adversely affected in March 2020, recovered in April 2020 and started declining again. Now we look at the pandemic's impact on the same financial indicators, presented in Figure 11, based on a YoY basis. It shows that the pandemic

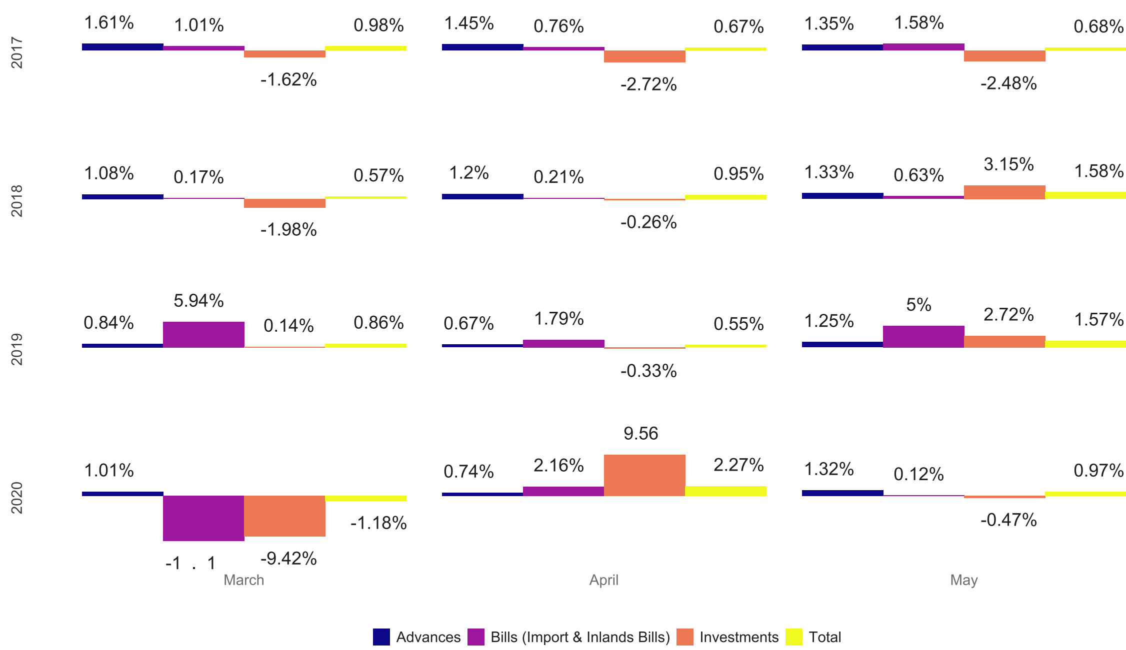

Figure 10. Change in Financial Indicators: Month-over-Month (%)

Notes: Advances include Loans & Advance, Money at Call, Balances & R. Repo with NBFI's & Accrued Interest. Investments include Treasury Bills, Treasury Bonds, and Share & Securities with accrued interest. Source: BB

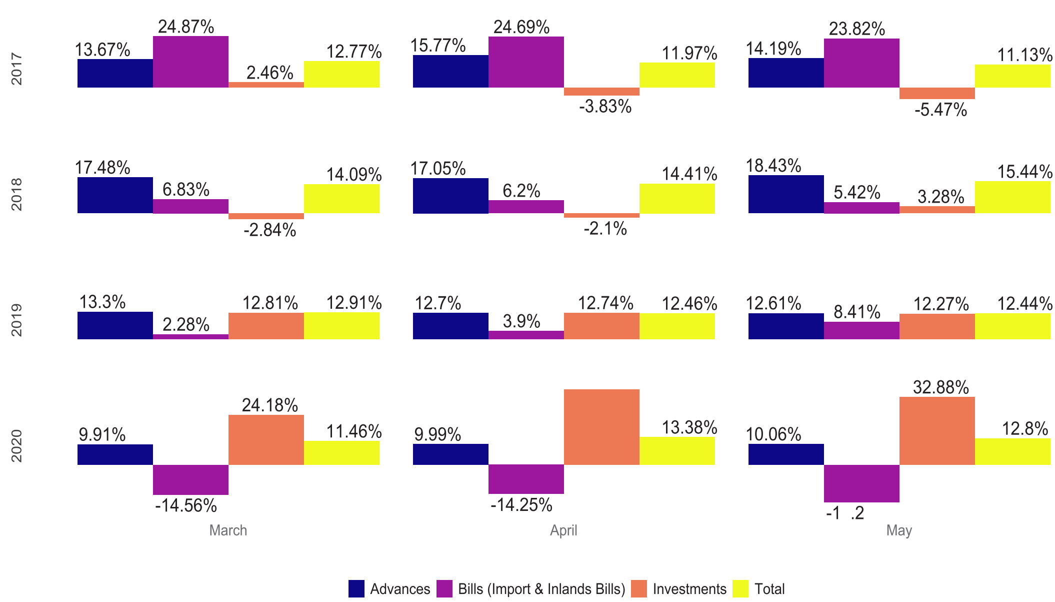

Figure 11. Change in Financial Indicators: Year-over-Year (%)

Notes: Advances include Loans & Advance, Money at Call, Balances & R. Repo with NBFI's & Accrued Interest. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest. Source: BB adversely affected advances in March 2020 and started to recover marginally in April 2020 onward. Lower import demand and transport restriction contributed to the drastic reduction in bills payment and it was found negative until May 2020. However, there appears to be a surge in investments compared to the same time last year. This is due to the nature of investments considered in our study.

5.6. Remittances

One of the major drivers of the growth of Bangladesh economy is the remittance inflow. Bangladesh was one of the top 3 recipients of remittances among South Asian nations in 2019 (Ratha et al., 2020). Naturally, the economic contraction induced by COVID-19 is having a negative impact on the remittance inflow in Bangladesh. As seen in Annexe Table A2, despite the initial bleak outlook for remittance inflow, subsequent revisions showed positive trends according to major international organisations such as World Bank (2020b) in FY2019-20. Although actual figures for FY2019-2020 was in contrast with most estimates—a total inflow of 18,205.01 million USD, the highest in a single fiscal year—there are reasons to believe that this favourable figure is not sustainable. World Bank (2020b) attributed the unexpected gains in Q3 (calendar year) to the Hajj effect, floods, and shift of remittance from informal to formal channels. The caution concerning this is that declining remittance inflows might lead to a rise in poverty levels and a reduction in access to healthcare (Ratha et al., 2020). Around 14% of rural Bangladeshi households reported to receive remittance, who may fall in poverty should their income levels fall (Takenaka et al., 2020). These concerns are explored in greater detail later in this subsection.

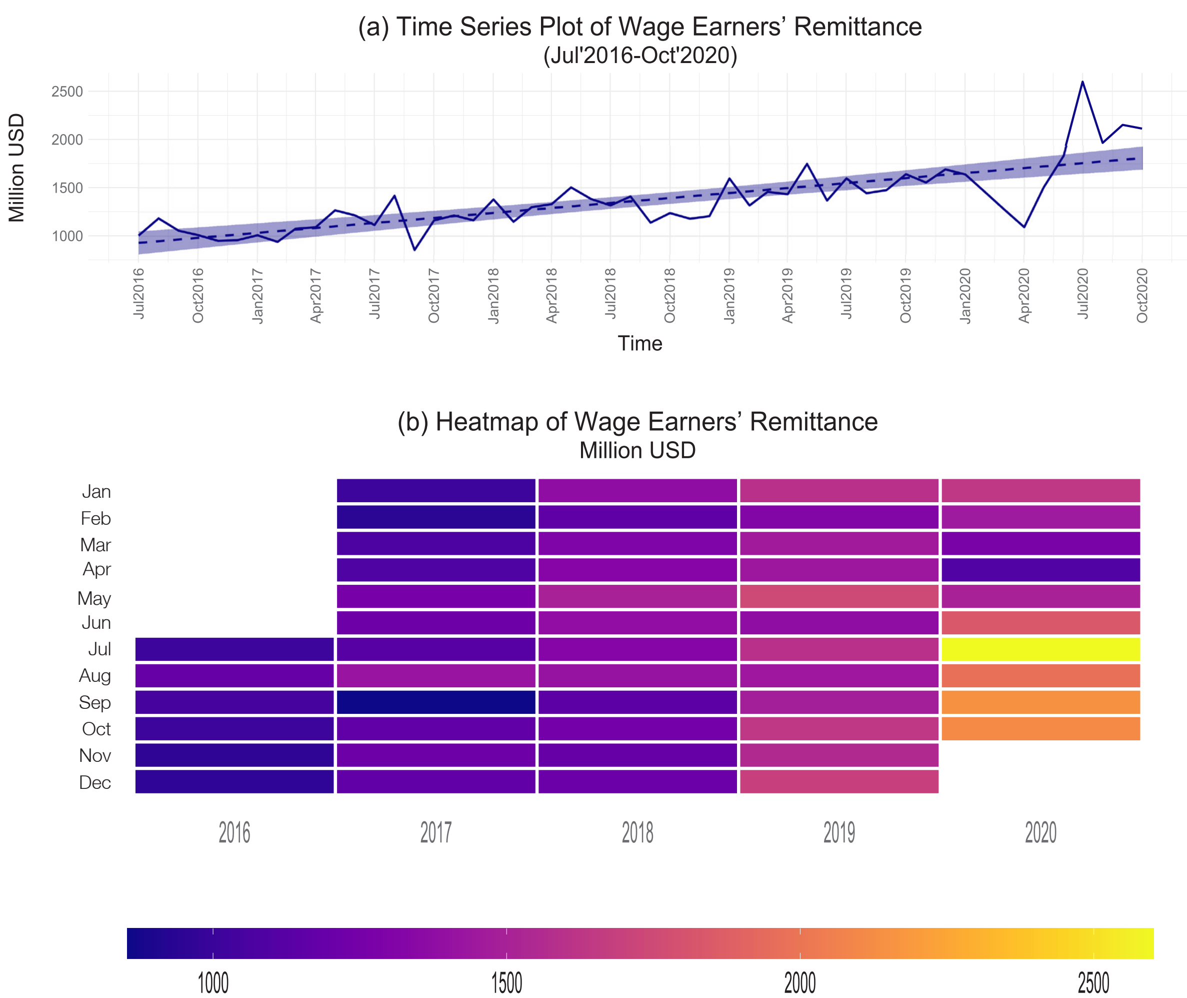

Figure 12. Time Trends of Wage Earners' Remittance (Jul'2016-Oct'2020)

Notes: Dashed line represents linear trend with 95% confidence interval. Source: BB

As Panel (a) of Figure 12 shows that although the remittance inflow had plunged to 1,092.96 million USD in April 2020 from 1,691.68 million USD in December 2019, it had an upward trend since then and hit a record monthly amount of 2,599.56 million USD in July 2020. The previous record-high of 1,832.63 million USD was recorded in the preceding month of the same year. In October 2020, the amount stood at 2,112.44 million USD. The remittance influx has been a key factor behind the foreign exchange reserve reaching a record 39,125.3 billion USD in September 2020 (BB, 2020b).

However, the sustainability of this sudden surge in remittance is questionable for five reasons. First, the government had raised the ceiling of the 2% incentive, which was introduced in the beginning of FY2019-20, from BDT 150,000 to BDT 500,000 in May 2020, with an effort to mitigate the adverse impact of COVID-19 on the remittance inflow (BB, 2020a); this has increased both the number of migrant workers using the legal channel and the amount of remittance transferred through the legal channel. Second, much of the remittance since the pandemic hit may just be the panic-induced transmission of savings back home, not income, as many workers are facing the threat of imminent unemployment; nearly 600,000 migrants have already returned, according to IMF (2020a), and many more may lose their jobs abroad as the global economic conditions and forecasts indicate (discussed below). The real magnitude of jobs lost will not be apparent until the international passenger traffic movement returns to normal. Travel restrictions limit the movement of both returnees and new migrants to host countries. Third, many expatriates possibly sent more money than usual to support their families struggling economically because of the pandemic, either by drawing on their savings or by borrowing money. Fourth, festival periods such as Eid-ul-Fitr and Eid-ul-Adha see surges in incoming remittances in general. Fifth, the global economic crisis might have caused some workers to receive pending salaries of a few months at once as countries started adjusting to the crisis and gradually resumed regular economic activities, based upon conditions and precautions. To add further evidence to the apprehensions surrounding the future trajectory of remittance inflow, we examine the global scenario struck by COVID-19, in particular, the situation of the host countries.

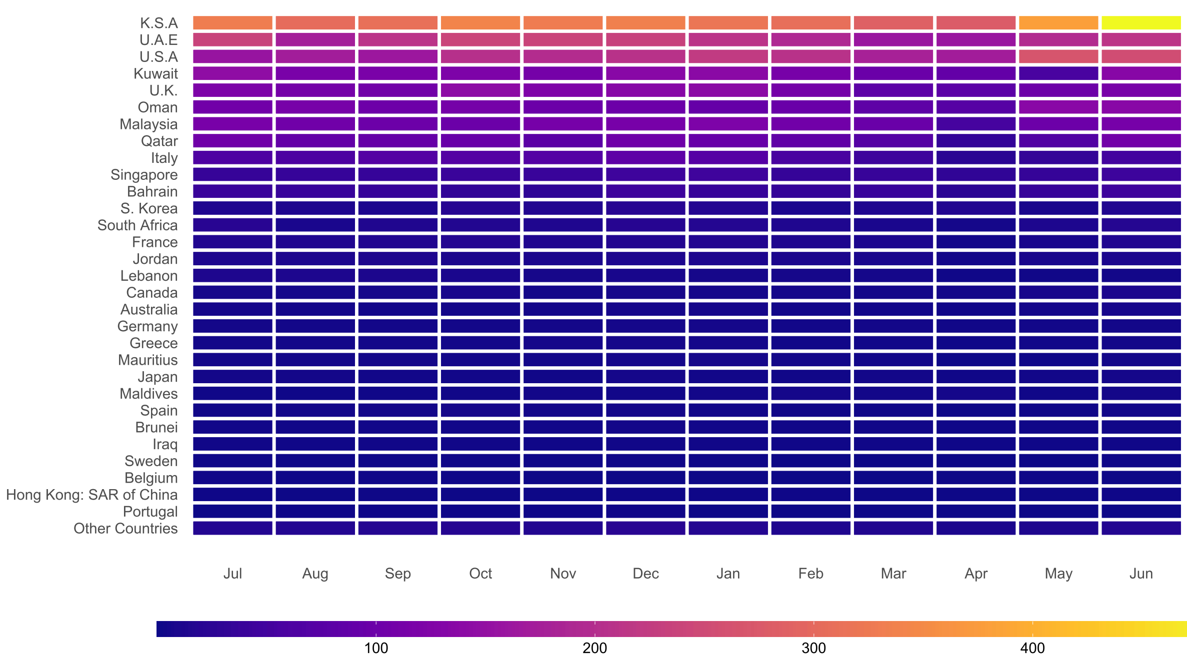

Figure 13. Wage Earners' Remittance: Top 30 Countries Received (FY 2019-20, Million USD)

Note: Ranking based on total inflows in FY2019-20. Source: BB

Figure 13 presents the top 30 sources of remittance inflow for Bangladesh, ranked by the total inflows in FY2019-20. An important takeaway from this is that K.S.A has been the top source country throughout the period, and the record influx in July 2020 was driven by this country's contribution. Since oil-exporting countries such as K.S.A. are heavily affected by falling crude oil prices and demand (Takenaka et al., 2020), this serves as an additional evidence to the concern that the high figure was panic-induced. As it appears that the top 10 source countries together are contributing the most, we take a closer look at these economies. Figure 14 suggests some shifts in the ranks among the Top 10 countries when we consider the inflow during the first three months of the new fiscal year, 2020-21, such as U.A.E., Kuwait, U.K., and Oman.

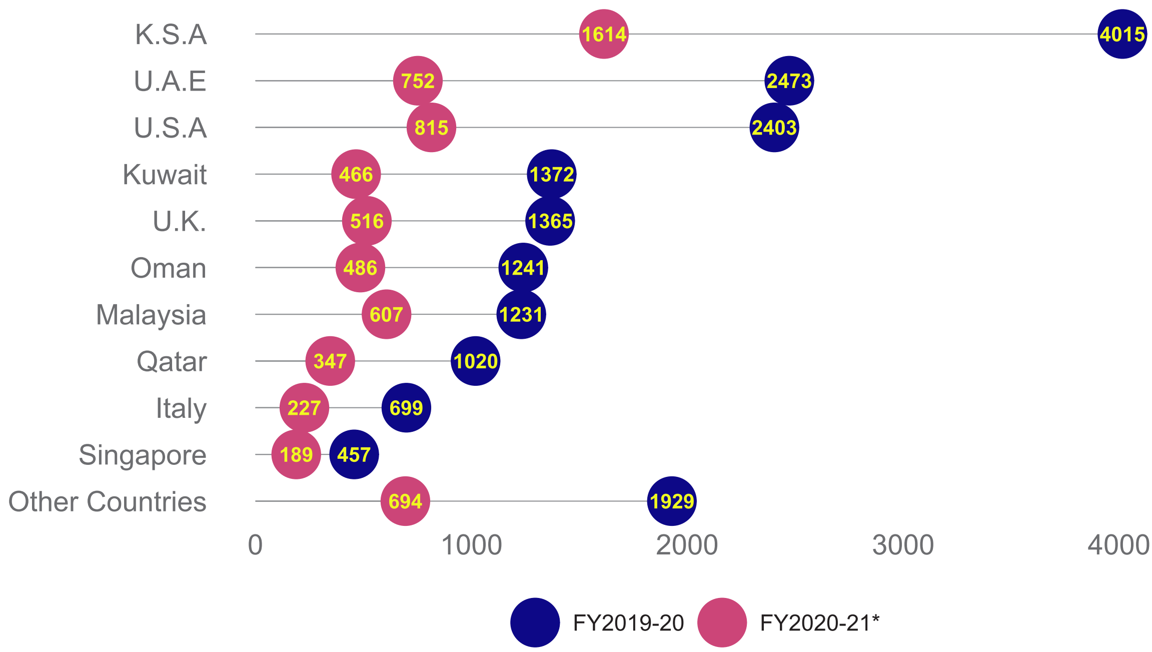

Figure 14. Wage Earners' Remittance: Top 10 Countries Received (Million USD)

Notes: *Up to Sep'2020. Ranking based on total inflows in FY2019-20. Source: BB

Table 4. Real GDP Growth Projections of Top 10 Remittance Source Economies

Country	2019	2020e	2021e
K.S.A.	0.3	-5.4	3.1
U.A.E.	1.7	-6.6	1.3
U.S.A.	2.2	-4.3	3.1
Kuwait	0.4	-8.1	0.6
U.K.	1.5	-9.8	5.9
Oman	-0.8	-10.0	-0.5
Malaysia	4.3	-6.0	7.8
Qatar	0.8	-4.5	2.5
Italy	0.3	-10.6	5.2
Singapore	0.7	-6.0	5.0

Note: e denotes estimate. Source: IMF (2020b).

All the countries mentioned in the preceding paragraph are expected to experience negative real growth rates in 2020 (Table 4). The top 10 source country composition mainly comprises of the Gulf Cooperation Council (GCC) countries, the U.S.A., members of European Union (EU), Malaysia and Singapore. Nearly 50 percent of Bangladeshi migrant workers are employed in GCC countries, and as already mentioned, lower oil prices are affecting GCC countries and Malaysia (IMF, 2020a), and the former is anticipated to contract by 4.1 percent in 2020 (World Bank, 2020a). K.S.A., the top source of remittance for Bangladesh, has allowed employers to cut wages by up to 40 percent (KPMG, 2020). In addition, workplace closures were still observed in 77 percent of countries globally as of June 2020 (Takenaka et al., 2020). Stringent measures have led to economic disruptions in the U.S.A and Europe. Many European countries like Italy heavily depend on tourism, one of the worst-hit sectors by the pandemic (World Bank, 2020a).[2] The low demand for labour and potential measures to protect the local labour markets in these countries in the coming days would ultimately lead to lower remittance outflows from here.

[2] It is worth mentioning that both the U.S.A. and the EU had experienced negative growth in the first two quarters of 2020 (BEA, 2020; Eurostat, 2020).

5.7. Foreign Trade

An important source of external financing for Bangladesh other than remittances is exports—RMG export to be precise—which is also expected to contract due to COVID-19 (IMF, 2020a). We begin with a discussion of the various export projections, to be followed by an examination of the foreign trade statistics from the balance of payments (BoP) and then focus on the merchandise trade.

Table 5. Projected Export Growth of Bangladesh

Source	FY2019-20 (%)	FY2020-21 (%)	FY2021-22 (%)
EPB	-16.93[a]		
MoF	-10.0	15.0	10.8
GED	5.00	10.15	10.30
IMF	-17.9	-0.8	16.1

Note: [a]Actual figure. Sources: EPB (2020), MoF (2020b), GED (2020) and IMF (2020a).

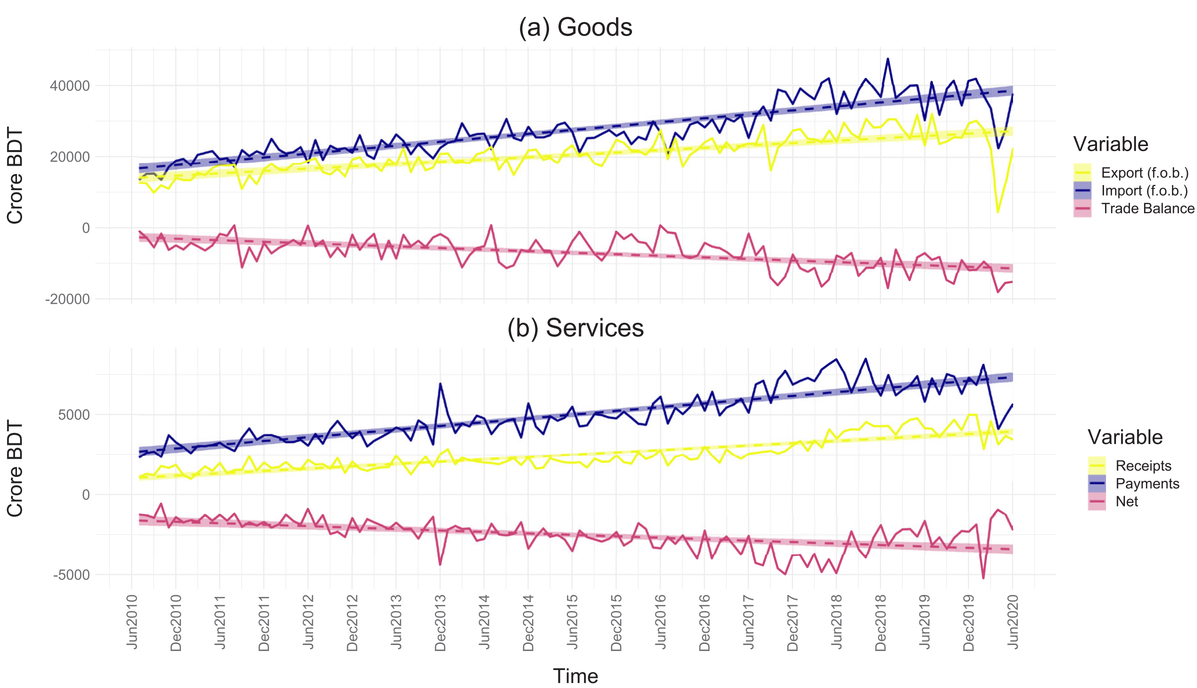

Figure 15. Time Series Plot of Foreign Trade (Jul'2010-Jun'2020)

Note: Dashed lines represent linear trends with 95% confidence intervals. Source: Balance of Payments, BB

Table 5 shows that exports of goods had fallen by 16.93 percent in FY2019-2020 from the previous fiscal year. This is a sharp decline as the previous fiscal year's growth rate was 10.55 percent and the revised budget's estimate is -10.0 percent. The target for the outgoing fiscal year was set at 45,500.00 million USD, and only 74.01 percent of that was achieved, whereas, during FY2018-19, 103.94 percent of the target of 39,000 million USD was attained (EPB, 2019; EPB, 2020).

The larger volume of foreign trade in Bangladesh is based on trade in goods, as evident in Figure 15. Both exports and imports of goods, and service payments fell sharply in April 2020 by 82.80 percent, 43.77 percent and 39.70 percent YoY respectively. This is a cumulative effect of the decline in domestic and international demands, as well as initial supply bottlenecks such as global border restrictions and domestic lockdowns, as already discussed in brief in the production subsection. Both exports and imports had started to recover since May 2020. It is worth mentioning that exports had been decreasing since February 2020—from 3,617.31 million USD in January 2020 to 520.01 million USD in April 2020—and had finally bounced back to 2,967.16 million USD in August 2020 (BB, 2020c).

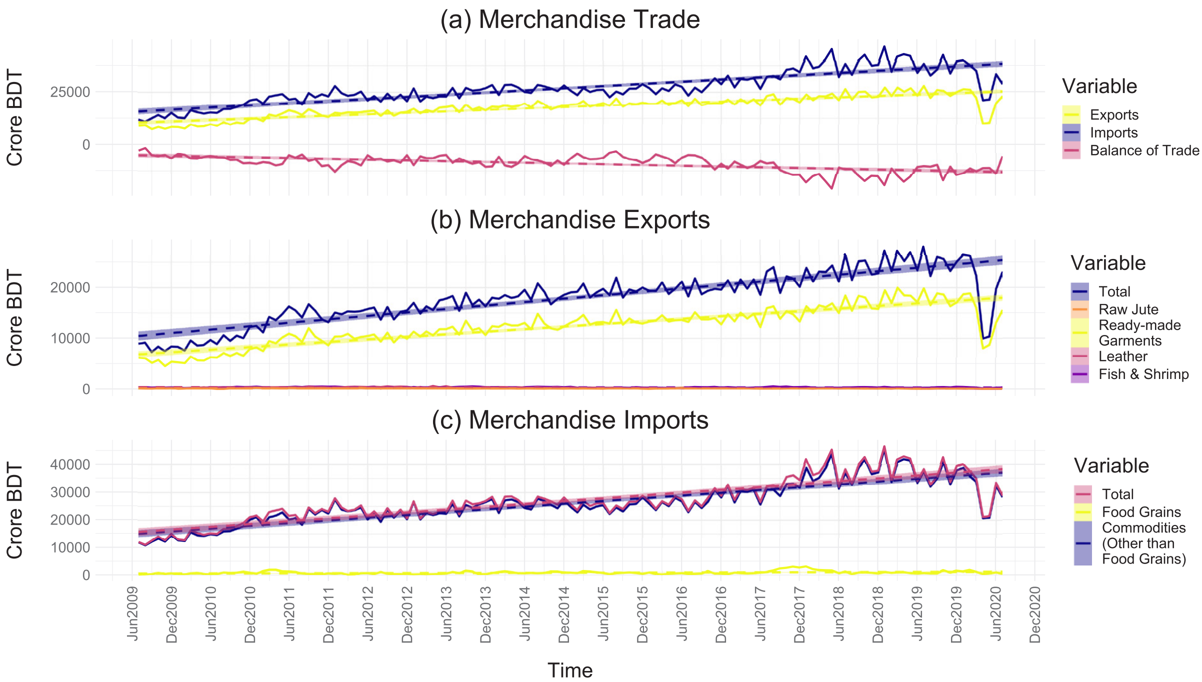

Figure 16. Time Series Plot of Merchandise Trade (Jul'2009-Jul'20)

Notes: Export data are on fob basis. Import data are on C&F/CIF basis up to June 2014 and fob basis from July 2014 & onwards. Readymade Garments includes Knit Wear & Hosiery. Dashed lines represent linear trends with 95% confidence intervals. Source: BB

It is more important to discuss trends in merchandise exports rather than the exports data recorded in the balance of payments. The key difference between the two is that international merchandise trade statistics include trade in goods, which results in additions or subtractions to a country's economic resources in the form of imports or exports, whereas the balance of payments keeps track of changes in ownership between a country's residents and non-residents (UN, 2012). Panel (b) of Figure 16 shows disaggregated data for key export sectors and demonstrates that the fall in exports was more or less driven by RMG, which is expected, as RMG contributes to over 80 percent of the value of export from Bangladesh. In panel (c), we see that the fall in imports can be attributed to commodities (other than food grains), which makes sense, as staple items such as food grains tend to have inelastic demand. Key disaggregated merchandise exports and imports are analysed next.

We focus on RMG, as it is the main driver of total exports. Figure 17 lends support to this, as there appears to be a high degree of correlation between the two. Panel (a) depicts that there is a certain degree of seasonality in RMG exports. Based on YoY and MoM estimations reported in panel (b) the fall in both total and RMG exports is apparent in April 2020. RMG exports declined by 56.44 percent, based on YoY and 49.75 percent, based on MoM in April. Exports have recovered in July 2020 but low demands from major buyer countries are likely to persist in the near future (IMF, 2020a); thus the sector is suffering from uncertainty. IMF (2020a) forecasts total and RMG exports to amount to 32,543 million USD and 27,662 million USD in FY2020-2021 respectively. With about 4 million RMG workers in Bangladesh, the sector has seen a surge in unemployment, with reported numbers ranging from 0.3 to 1 million (BILS, 2020; IMF, 2020a). Although July 2020 saw a record surge in exports, there are reports of buyers paying lower prices and shifting costs on suppliers (Antara & Syed, 2020). Additionally, with the looming threat of automation due to the 4IR, around 60 percent of RMG workers here may lose their jobs (BILS, 2020).

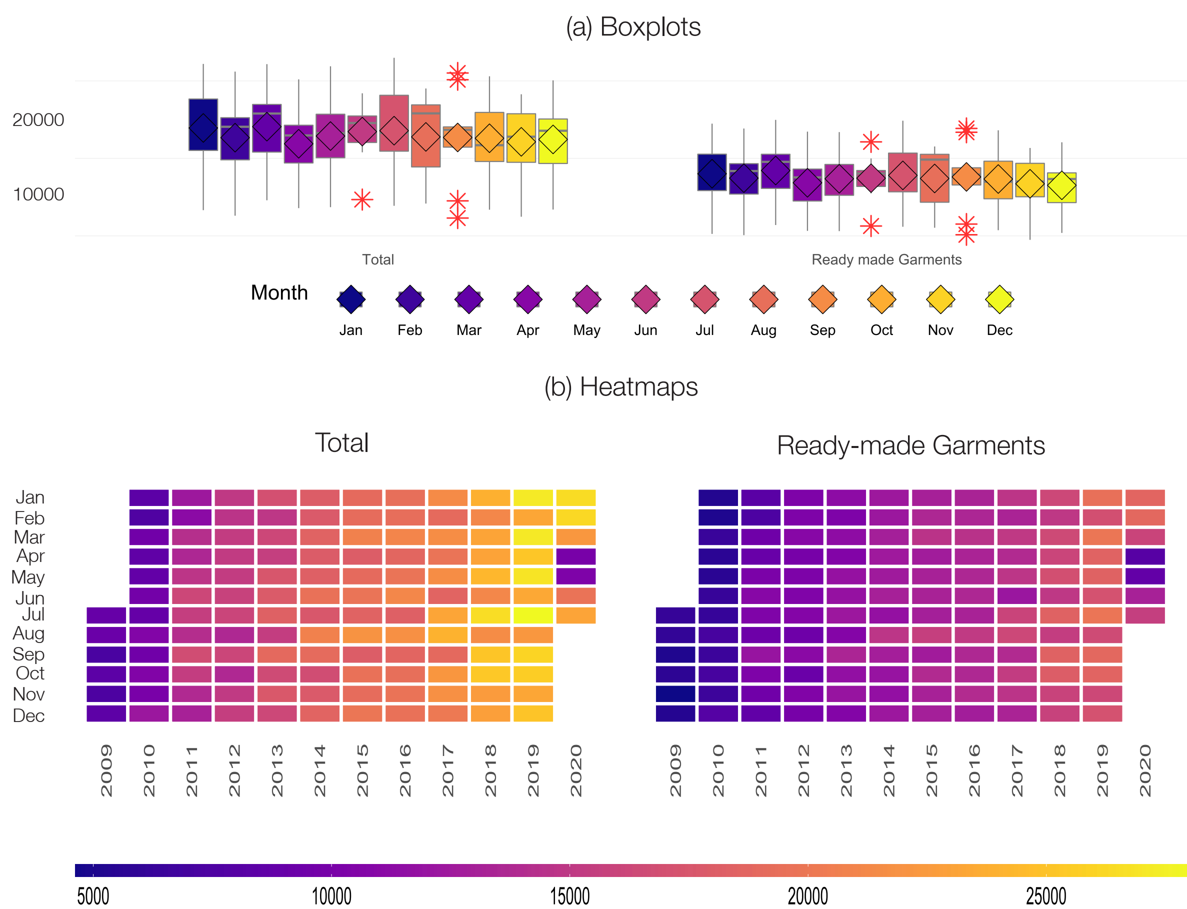

Figure 17. Merchandise Exports: Total and RMG (in Crore BDT)

Notes: Export data are on fob basis. Readymade Garments includes Knit Wear & Hosiery. Asterisks represent outliers and diamonds represent means. Source: BB

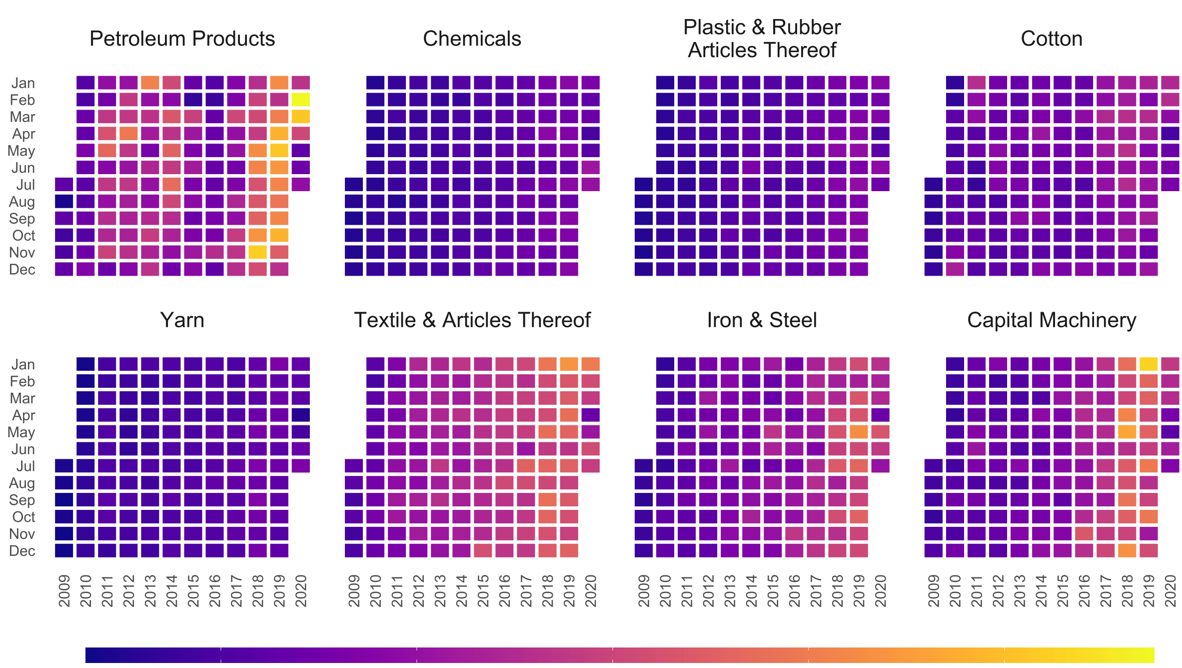

Figure 18. Merchandise Imports: Selected Commodities Other than Food Grains (in Crore BDT)

Note: Import data are on C&F/CIF basis up to June 2014 and fob basis from July 2014 & onwards. Source: BB

While exports reflect global demand, imports in Bangladesh serve as a signal for both local and international demand situations, as intermediate goods are also sourced from abroad for industrial production. The decline of import in key RMG inputs such as cotton, yarn etc. is apparent during the April to May 2020 period in Figure 18. Import of petroleum products as well as capital machinery had been depressed in the May to July 2020 period.

Major RMG buyers for Bangladesh are the U.S.A. and Europe, making up 80 percent of our sales (IMF, 2020a). Figure 19 shows that RMG far exceeds any other type of exports in major destination countries including Germany, the U.S.A., the U.K., Spain, France and Italy. YoY estimates for the exports of RMG show that it has severely been contracted in the outgoing fiscal year in all these key export destinations. This demonstrates the urgent need for greater export diversification, and the Perspective Plan 2021-41 has identified home textiles, jute and jute goods, footwear, leather goods, agro-processing, light engineering, and electronic goods as potential sectors (GED, 2020). Estimates suggest an 8 percent fall in demand, owing to the pandemic-induced recession overseas; and combined with the anticipated inverted J-shaped consumption patterns, the rise in exports might be temporary (Razzaque, 2020).

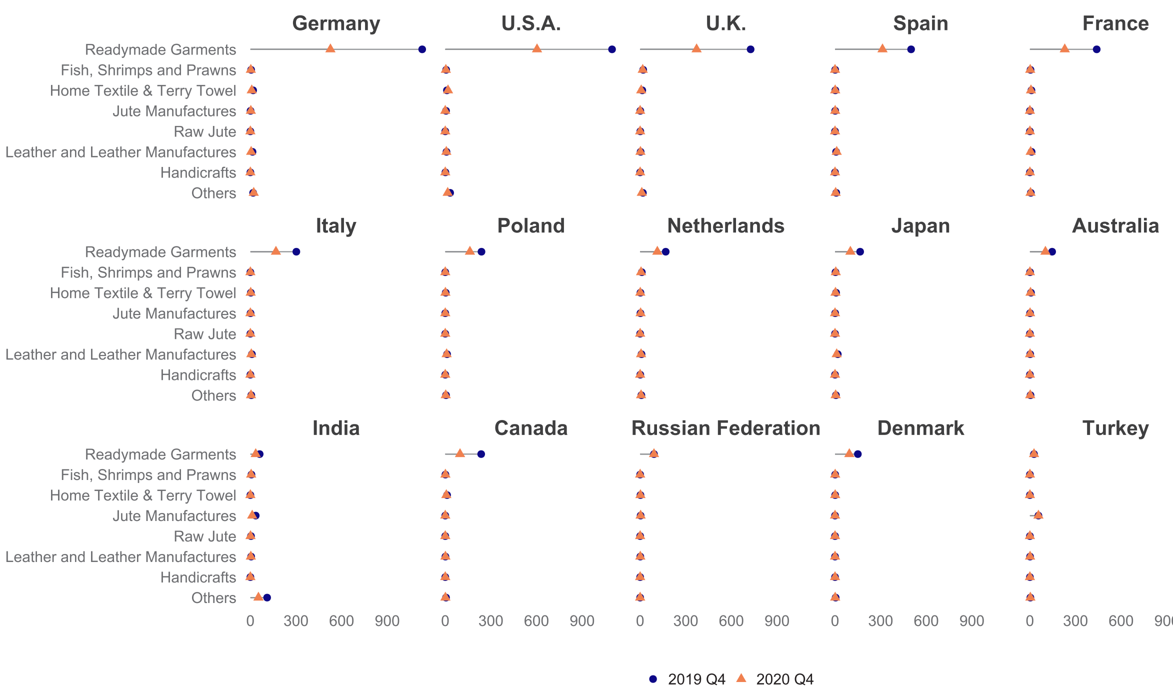

Figure 19. Export Receipts (Goods): Selected Countries (Million USD)

Note: Excluding exports of EPZ. Source: BB

6. Conclusion

This study examines COVID's impact on major economic and financial indicators of the economy of Bangladesh including production, wages, price levels, advances, bills, investments, remittances and foreign trade using the secondary data published by the Bangladesh Bureau of Statistics (BBS), Bangladesh Bank (BB), and the Ministry of Finance (MoF). Growth in the preceding fiscal year showed better performances than forecasted by many. However, the issue of sustainability of growth remains susceptible as the global economy is continuously suffering from the pandemic. Despite such facts, the Government of Bangladesh is optimistic to achieve the growth of 8.2 percent in the current fiscal year.

Both domestic and international demands declined due to the outbreak and subsequent lockdown and thus, producers responded by lowering output to minimise the loss, especially in the manufacturing sectors. More specifically, the general holiday, implemented towards the end of March in Bangladesh, had also imposed supply constraints, which lowered output levels further. However, export-oriented industries services were subsequently allowed to operate conditionally. The general holiday was lifted at the end of May with gradual conditional reopening of the economy. This impacted the output level positively. General Index of the Quantum Index of Industrial Production (QIIP) shows a sharp fall during January to April 2020, and then it rises. However, QIIP in May 2020 was found lower compared to the pre-pandemic level. This sharp fall was mainly driven by the manufacturing sector (i.e., Garments and Knitwear), Petroleum Products and Other Non-Metallic Mineral Products. Point-to-point estimates show that in April 2020, Garments and Knitwear had negative growth rates of -84.39 percent and -85.87 percent respectively. In May 2020, however, Garments and Knitwear started recovering due to an increase in international demand for RMGs. However, this pattern of improvement in May 2020 was not true for Petroleum Products and Cement, both of which showed further deterioration. Construction is affected by the general holiday, and the cement data might be reflective of this. On the other hand, Pharmaceuticals and Medicinal Chemical Industry, which incorporates Drugs and Pharmaceuticals, registered positive growth rates.

Findings reveal that nominal Wage Rate Index (WRI) in the industry and service sectors fell in recent times, which now appear to be recovering. Point-to-point growth rate of General WRI had fallen, from 6.56 percent in January 2020 to 5.95 percent in September 2020. The national inflation rate has not been affected much based on point-to-point changes. Food inflation fell in May 2020 and stood at 5.09 percent, but it appears to have risen recently. Non-food inflation rates have been falling over the last six months from April-September 2020.

Bank credit would be playing a key role in the ongoing and upcoming recovery process, as the government has opted for a credit-led stimulus package. Advances remained unaffected during the three months of lockdown, though the effect is evident in the bills and investments. Import bills get reversed in March 2020 and turns to business-as-usual scenario in April 2020. Investments, which are comprised of Treasury Bills, Treasury Bonds, and Share & Securities with accrued interest, has undoubtedly been adversely affected in March 2020, recovered in April 2020 and started declining again. Point-to-point estimates show that the pandemic adversely affected advances in March 2020 and started to recover marginally in April 2020 onward. Lower import demand and transport restriction contributed to the drastic reduction in bill payments and it was found negative until May 2020. However, there appears to be a surge in investments, compared to the same time last year. This is due to nature of investments considered in our study.

Despite the initial bleak outlook for remittance inflow, subsequent revisions showed positive trends due to the incentive declared by the government, Hajj effect, floods, and shift of remittance from informal to formal channels. The export of goods had fallen in FY2019-2020, which was a sharp decline. Both exports and imports of goods, and service payments fell sharply in April 2020. This is a cumulative effect of the decline in domestic and international demands, as well as initial supply bottlenecks such as global border restrictions and domestic lockdowns. Both exports and imports had started to recover since May 2020. It is worth mentioning that exports had been falling since February 2020 and had finally bounced back in August 2020. The fall in RMG exports is apparent in April 2020. RMG exports declined by 56.44 percent, based on point-to-point estimates. Exports have recovered in July 2020, but low demands from major buyer countries are likely to persist in the near future and thus, the sector is suffering from uncertainty. Major RMG buyers for Bangladesh are the U.S.A. and Europe. Point-to-point estimates for the exports of RMG show that it has severely been contracted in the outgoing fiscal year in the key export destinations. This demonstrates the urgent need for greater export diversification, and the Perspective Plan 2021-41 has identified home textiles, jute and jute goods, footwear, leather goods, agro-processing, light engineering, and electronic goods as potential sectors.

Bangladesh is facing an unprecedented economic challenge at present, like the rest of the world. But the pandemic has hit Bangladesh at a pivotal time when the country was making commendable progress on various economic and social indicators. As the above discussion put forth clearly, the economic recovery remains uncertain, as the true magnitude of the damage is still unknown, with the ongoing pandemic.

Although the domestic economy has fared better than expectations, concerns regarding the sustainability of this optimistic performance remain. The two growth engines for the country—RMG and foreign remittance—are closely intertwined with the external economy, which are not under the control of the government. Prudent measures should include constant monitoring and adapting to the latest developments in major trading partners and host countries to mitigate the economic losses caused. However, as the virus is yet to be contained and an effective vaccine for it is yet to be made available everywhere and to everyone, its economic repercussions are likely to continue in the foreseeable future.

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Annexe

Table A1. Sectoral Growth Rates and Shares of GDP in Real Term (%)

Sector	Fiscal Year			
	2016-17	2017-18	2018-19	2019-20 (p)
Agriculture	2.97 (14.74)	4.19 (14.23)	3.92 (13.65)	3.11 (13.35)
of which: Agriculture and Forestry	1.96 (11.12)	3.47 (10.67)	3.15 (10.15)	2.08 (9.83)
Fishing	6.23 (3.61)	6.37 (3.56)	6.21 (3.49)	6.10 (3.52)
Industry	10.22 (32.42)	12.06 (33.66)	12.67 (35.00)	6.48 (35.36)
of which: Mining and Quarrying	8.89 (1.80)	7.00 (1.78)	5.88 (1.74)	4.38 (1.72)
Manufacturing	10.97 (21.74)	13.40 (22.85)	14.20 (24.08)	5.84 (24.18)
Electricity, Gas and Water Supply	8.46 (1.52)	9.19 (1.54)	9.58 (1.55)	6.16 (1.57)
Construction	8.77 (7.36)	9.92 (7.50)	10.25 (7.63)	9.06 (7.89)
Service	6.69 (52.85)	6.39 (52.11)	6.78 (51.35)	5.32 (51.30)
of which: Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	7.37 (14.01)	7.45 (13.95)	8.14 (13.92)	5.02 (13.87)
Hotel and Restaurants	7.13 (0.75)	7.28 (0.75)	7.57 (0.74)	6.46 (0.75)
Transport, Storage and Communication	6.76 (11.26)	6.58 (11.13)	7.19 (11.01)	6.19 (11.09)
Financial Intermediations	9.12 (3.45)	7.90 (3.45)	7.38 (3.42)	4.46 (3.39)
Real Estate, Renting and Business Activities	4.80 (6.49)	4.98 (6.31)	5.23 (6.13)	4.85 (6.09)
Public Administration and Defence	9.15 (3.70)	8.47 (3.71)	6.40 (3.65)	6.02 (3.67)
Education	11.35 (2.48)	7.01 (2.46)	7.66 (2.44)	6.19 (2.46)
Health and Social Work	7.63 (1.85)	7.02 (1.83)	11.79 (1.89)	9.96 (1.97)
Community, Social and Personal Services	3.62 (8.87)	3.65 (8.52)	3.72 (8.15)	3.61 (8.01)

Notes: p denotes provisional. Sectoral shares of real GDP in parentheses. Source: BBS (2020)

Table A2. Projected Remittance Growth of Bangladesh

Source	FY2019-20 (%)	FY2020-21 (%)
BB	10.87[a]	
MoF	5.0	15.0
GED	9.00	8.40
IMF	1.4	-7.1
World Bank	8.0[b]	
ADB	-27.8[b,c]	

Notes: [a]Actual figure. [b]Projection for the year 2020. [c]From 2018 as the baseline. Sources: BB (2020d); MoF (2020b); GED (2020); IMF (2020a); World Bank (2020b); and Takenaka et al. (2020).

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