

COVID – 19 Pandemic led lockdown and Plausible Economic Recession

Strategic Analysis Report

Analysis of 'COVID 19' Pandemic's Impacts on Bangladesh Economy & Strategic Recommendation to Facilitate Economic Safeguarding, Damage Control & Rebuilding Effort.

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1 (a) Prelude:

On Jan 01, 2020 the news broke out of Huanan Seafood Wholesale Market at Wuhan City of China shutting down amidst confirming it as the origin center of an unknown virus that have transmitted from animal to human. On January 7, WHO announced they had identified a new virus. The novel virus was named 2019-nCoV and was identified as belonging to the Coronavirus family, which includes SARS and the common cold. On January 11, China announced its first death from the virus and on January 13, WHO reported a case in Thailand, the first outside of China. On January 16, Japan confirmed a case followed by the authorities in United States, Nepal, France, Australia, Malaysia, Singapore, South Korea, Vietnam and Taiwan confirmed cases over the following days. Meanwhile, a Chinese expert on infectious diseases confirmed human-to-human transmission to state broadcaster CCTV, rising fears of a major outbreak. The global panic button was now pressed beyond all doubts and countries started to impose cross border travel bans.

On January 30, WHO declares the outbreak a global health emergency while the death toll keeps rising and crosses over 1000, on February 11, the WHO announced that the new Coronavirus would be called "COVID-19" and just one month later on March 11, the WHO declared the Coronavirus outbreak a pandemic with confirmed cases in more than 100 countries spreading like wild fire. In the meantime, on March 07, Bangladesh reports its first corona virus death. And as of April 07, 2020 the virus has caused more than 80,000 deaths and infected almost 1.45m people in around 208 countries among which Bangladesh confirmed 218 infected cases with 20 deaths according to data compiled by World Meter. The world has fallen on its knees as cities across the globe confirm lockdown for weeks to months.

1 (b) The Economic Rage of Covid 19:

The COVID-19 pandemic has already started to impose heavy toll on human, financial, economic, and social costs around the world. IMF is forecasting a global economic recession and the UN estimates that Covid 19 could cause Trillions of dollars shortfall in global income with massive unemployment across the world especially in the developing countries. It is predicted to be caused by a plausible recession as a result of global attempt to minimize the outbreak via lockdowns. Further, given the deteriorating global conditions, fiscal and foreign exchange constraints are bound to tighten further over the course of the year. The UNCTAD estimates a \$2-3 Trillion financing gap facing the developing countries over the next 2 years.

In this context, ADB in follow up to their estimate of around 1.01% GDP loss (\$3.02b) and almost 1 million job loss a month back, has re-estimated that Bangladesh may lose at least 0.2% - 0.4% of GDP in 2020. BGMEA has claimed that RMG industry which accounts for around 80% of export is already strangled by the reduction and cancellation of export orders of \$2-3bn from major buying destinations of EU, USA, UK, and Canada etc. Other key export sectors like leather, crustaceans, plastics, bicycles, light engineering all are affected by massive backward linkage disruptions due to prolonged lockdown in China and now cancellation of orders and uncertainty of future. The leather sector alone fears more than 20K job cuts. In the meantime, Bangladesh has declared nationwide lockdown from March 26 till April 14. And that is a heavy blow to nationwide internal trade and local industry with drastic fall in consumer spending.

Although governments across the world strive to lower their Debt-to-GDP ratios, but this seems not possible to achieve in 2020 as government's need to safeguard, damage control and facilitate in

rebuilding of the economy via expansionary monetary and fiscal policy. Thus far, Debt-to-GDP is set to move up across the globe and there won't be any exception for Bangladesh where it stands at around 12% at this moment. But it is not the time to fret about government debt as the cases of covid-19 soar and economic activity comes to a halt, governments are left with no options but to throw all the resources they can at efforts to limit the pandemic's human and economic costs.

In that endeavor, governments across the world have announced stimulus packages. USA have announced \$2 Trillion stimulus package which is around 10% of the GDP and Fed is purchasing unlimited amount of treasuries while the European Central Bank recently announced a €750bn (\$809bn) bond-buying scheme and \$480bn stimulus package. Neighboring country India has announced \$22bn stimulus package which is around 0.6% of the GDP. Developed European countries like Germany, France, Netherlands all have been hit hard and preparing for comprehensive economic overhauling via stimulus packages while Italy and Spain battles on for their life. The challenges are not anymore limited to backward linkage disruption due to China's lockdown but now have quadrupled with potential demand shock in developed economies that carry 60% of world supply and demand in terms of GDP, 65% of world manufacturing and 41% of manufacturing exports, as per a report of the World Trade Organization published in 2020.

Thus the situation now demands a comprehensive Economic Policy to 1) Safeguard 2) Damage minimize & 3) To rebuild the sustainability of private sector via short and long term monetary and fiscal policy. In this regard, the report aims to shed light on some of the key areas of the Covid-19's economic impact and measures needed to be taken to revamp economic normalcy.

2 (a) UN's Proposed Strategy for Developing Countries Economic Rescue

According to the new analysis from United Nations Conference on Trade and Development (UNCTAD), the UN trade and development body titled 'The COVID-19 Shock to Developing Countries: Towards a 'whatever it takes' programme for the two-thirds of the world's population being left behind', commodity-rich exporting countries will face a USD 2 trillion to USD 3 trillion drop in investments from overseas in the next two years. In response to this unprecedented crisis, advanced economies and China have put together massive government stimulus packages which, according to G20, will extend a USD 5 trillion lifeline to their economies which is predicted to be translated to a USD 1 trillion to USD 2 trillion injection of demand into the major G20 economies and a two percentage point turnaround in global output. Even then, the world economy will go into recession this year with a predicted loss of global income in trillions of dollars spelling serious trouble for developing countries.

In the face of economic sky dive, the UNCTAD called upon G20 leaders to stick to their commitment of 'a global response in the spirit of solidarity', and take commensurate action for the six billion people living outside the core G20 economies. It proposes following strategy that could begin to translate expressions of international solidarity into concrete action.

1. USD 1 trillion liquidity injection for developing countries through reallocating existing special drawing rights at the International Monetary Fund.
2. A debt jubilee for distressed economies under which another one trillion dollars of debts owed by developing countries should be cancelled this year.

3. 500 billion dollars Marshall Plan for a health recovery funded from some of the missing official development assistance (ODA) long promised but not delivered by development partners.
4. Finally, capital controls should be given their legitimate place in any policy regime to curtail the surge in capital outflows, to reduce illiquidity driven by sell-offs in developing country markets and to arrest declines in currency and asset prices.

2 (b) Insights from China's Post Outbreak Economic Release Package

The outline of the government's plan to support the economy has specifically three key directions that will lead to new opportunities for corporate in the coming months.

1. New Packages to mobilize Investment and local governments pledged New Infrastructure Projects.
 - The plan is to speed up infrastructure investment in order to stabilize the economy. That includes more spending on new infrastructure projects such as the construction of 5G network and data centers. At least 7 of 31 Chinese provinces have published long lists of investment projects in the last two months, with a combined investment of around RMB40t, including RMB3.5t to be spent in 2020 alone.
 - Local governments will be allowed to issue more bonds (Special Purpose Bonds) for infrastructure construction and the debate on temporary tax breaks will be accelerated.
 - Facilitating foreign investors in project implementation via a) Proactively support foreign businesses that have problems resuming production after the outbreak, b) Ensure the success of key foreign investment projects, and c) Expand China's financial market opening with new measures to support the financial sector to achieve its reform target in 2020.
2. Safeguard China's position via stabilizing the global supply chain where it already holds a massive advantage of not only being one of the world's largest producers but also one of its largest consumers, and it is the only country that has all industries based on the classification by the United Nations.
 - Ensuring production resumption, particularly by mobilizing workers to return to employment in major cities after the extended Lunar New Year holiday
 - Increased connectivity between upstream and downstream industries, between leading businesses with their suppliers at various levels, and between domestic businesses with their external counterparts in response to widespread repercussions in the global supply chain in result to china's hiatus in production as some businesses are considering a review of their supply structure.
3. Further impetus via supportive policy to boost the digital economy on top priority basis.
 - To revamp consumer demand via new drivers i.e. online retail platforms that has come to the rescue during the lockdown. Encourage retailers from multivariate sectors such as Fresh produce to luxury goods through low cost shared warehousing facility to strengthen online

presence via systematic upgrade and thus far reduce the cost of operation specially relating to individual physical stores.

- China's health care system will likely move up to a new stage in digital adaptation through increasing use of big data, artificial intelligence, and cloud computing for the analysis and surveillance of the current and future outbreak, treatment, and medical resources allocation.
- China's education system to adapt more online learning platforms while businesses will be encouraged to adapt remote workspace.

2 (c) Emergency Safeguarding & Damage Minimization Efforts of Bangladesh Bank for Private Sector

In an attempt to safeguard and minimize the damage of the already heavy economic blow, Bangladesh Bank has stepped up with a few much needed efforts such as –

- ❖ Relaxation of Policy on Loan Classification: Bangladesh Bank issued a circular on March 24 about loan classification announcing the relaxation of its policy to suspend adverse classification of any loan and instructed the banks to reschedule the loans payable as of January 1, 2020 to June 30.
- ❖ Relaxation of Foreign Exchange Regulation for Trade Transactions with Extended Facility: Bangladesh Bank issued a circular on March 19, with list of facilities as described below which shall be applicable till September 30, 2020. Financial institutes may allow –
 - a) Exporters to extend the tenure of realization of export proceeds up to 60 days, as additional time from specified period of 4 months from the date of shipment, for bonafide grounds. Banks shall immediately intimate Foreign Exchange Operation Department/respective area offices of Bangladesh Bank with details of extension allowed by them such as names of exporters, EXP Nos., time extended including expected date of realization of payments, reasons for extension and so on.
 - b) Importers to extend the tenure of submission of bill of entry up to 60 days, as additional time from specified period of 4 months from the date of payments, for bonafide grounds. Banks shall immediately intimate Foreign Exchange Operation Department/respective area offices of Bangladesh Bank with details of extension allowed by them such as names of importers, IMP Form Nos., time extended including expected date of submission of bill of entry, reasons for extension and so on.
 - c) Usance period of back to back LCs opened under supplier's/buyer's credit can be extended on banker-customer relationship within the admissible rate of interest up to 180 days, as additional time from permissible period of 180 days, for bonafide grounds required to settle the payments.
 - d) Bangladesh Bank will consider applications for extension of EDF loans up to 180 days from prevailing extendable tenure of 90 days, to settle the payments against such loans for bonafide grounds.
 - e) Exporters to repatriate export bills at discounted price for bonafide grounds up to 10 percent of FOB value without prior approval of Bangladesh Bank. ADs shall immediately intimate Foreign Exchange Operation Department/respective area offices of Bangladesh Bank with details of discount allowed by them such as

names of exporters, EXP Nos., amount of discount, date of realization of discounted proceeds, reasons for discount and so on. Within 15 days from repatriation of discounted export proceeds, ADs shall apply to Bangladesh Bank in accordance with paragraph 18, chapter 10 of GFET.

2 (d) Stimulus Packages Announced for Private Sector by Honorable Prime Minister

Package 1: Access to Finance as Working Capital of Badly Effected Industries: Honorable Prime Minister Sheikh Hasina announced a fund of BDT. 30,000cr (\$3.57b) allocated for working capital finance at an interest rate of 9% for industries and service sector who was badly affected due to Covid 19. From the 9% interest rate, the debtor will pay 4.5% interest and the government will pay the rest of the 4.5% interest to the relevant commercial banks.

Package 2: Access to Finance for Working Capital for SMEs: Honorable Prime Minister Sheikh Hasina announced a fund of BDT 20,000cr (\$2.38b) allocated for working capital finance at an interest rate of 9% for SMEs. From the 9% interest rate, the debtor will pay 4% interest and the government will pay the rest of the 5% interest to the relevant commercial banks.

Package 3: Additional Allocation of Export Development Fund (EDF): Honorable Prime Minister Sheikh Hasina announced that Bangladesh Bank managed 'Export Development Fund' will be increased to \$5b with additional allocation of \$1.5b from the current limit of \$3.5b. The interest rate will also be revised to 2% from the current actual of 2.73% (LIBOR + 1.5%). This is particularly done to facilitate import of raw materials for local and export based industries.

Package 4: Pre-Shipment Credit Refinance Scheme: Honorable Prime Minister Sheikh Hasina announced that Bangladesh Bank will introduce Pre-Shipment Credit Refinance Scheme with an allocated fund of BDT 5000cr (\$600m) with an interest rate of 7%.

Package 5: Workers Salary Coverage for Export Industries: Honorable Prime Minister Sheikh Hasina announced BDT. 5000 Cr Package for the export oriented industries for meeting the salary of workers in response to the export order cancellation and fall of export orders throughout the year as predicted.

2 (e) Support Measures for Private Sector from SCB and HSBC in Bangladesh

In response to Covid 19 pandemic and subsequent lockdown and predicted economic recession, SCB & HSBC in Bangladesh has announced a few support measures to facilitate access to liquidity for private sector.

Standard Chartered Bank (SCB)

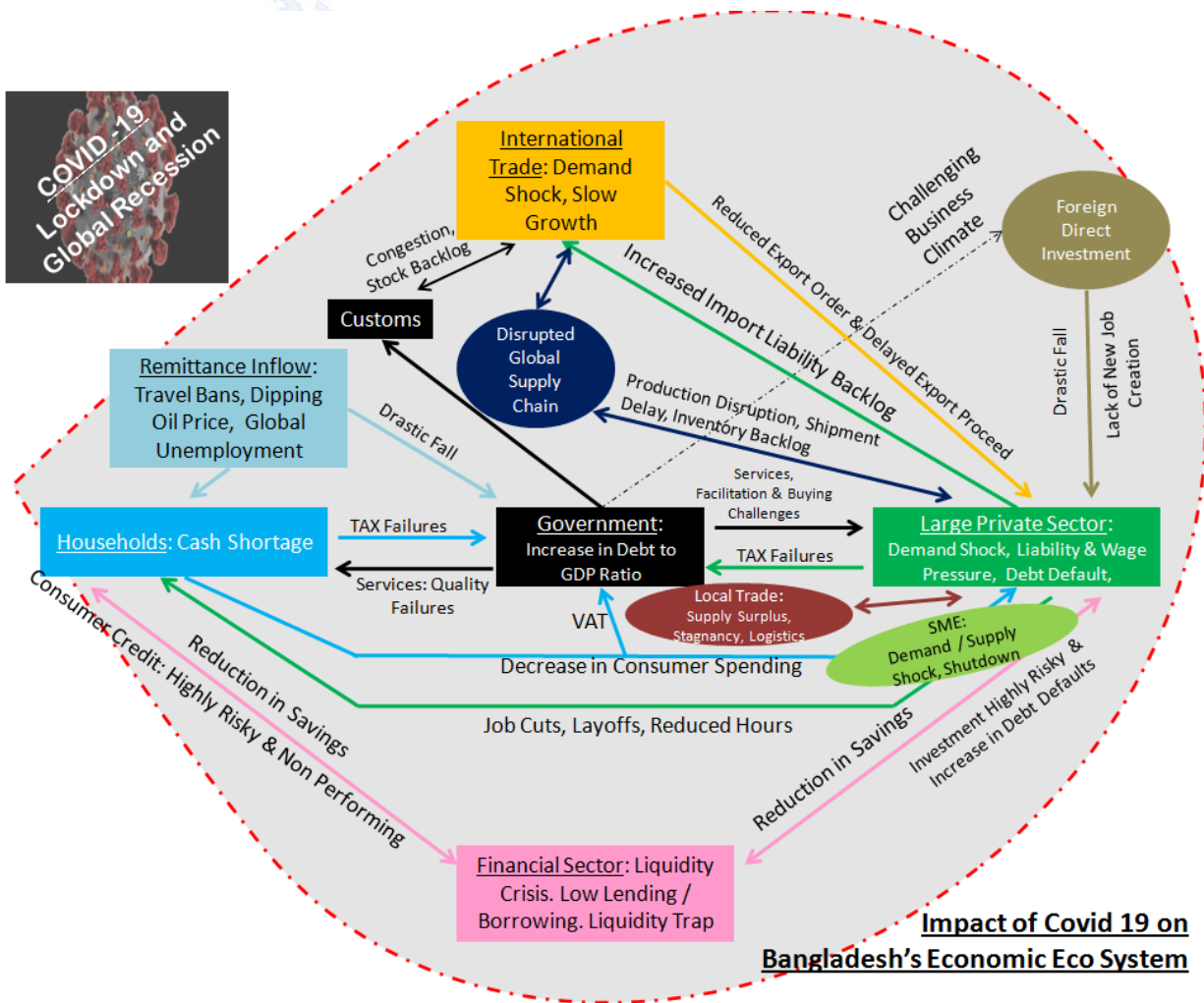
- ❖ Developing a Credit Guarantee Scheme for SME Sector working with Central Bank and Multilateral Institutions.
- ❖ SME Banking clients Three Month payment holiday for loan against Property, Finance against Property (Sadiq Customers) and Mortgage loans for Business Owners.
- ❖ Extension of Trade Facilities of 60 Days for Business Banking Working Capital Clients.
- ❖ Temporary overdraft or Incremental Short term liquidity facility for Working Capital Clients.

- ❖ Limits top up for loan against property clients of up to a portion of the original approved limits.
- ❖ Corporate clients' immediate payment holidays for 30 days which open for consideration of extension on a case by case basis.
- ❖ Waiver of Credit Card late payment fee for the entrepreneurs.

HSBC Immediate Assistance for badly hit RMG Industry

- ❖ 90 days extension of Import Liability maturing in next three months while export shipments are delayed.
- ❖ Special Short term loans up to one year with Principal Moratorium for four months which can be used for supporting workforce costs – including wages, bonus, utility and/or other overhead payments. While it will also provide three months moratorium against existing term loan.

3 (a) Plausible Impact of Covid-19 led Lockdown & Global Recession on Bangladesh's Economic Eco System



The impact of Covid 19 on Bangladesh's economic eco system is wide spread and complex. The diagram above shows the interdependency of the key components of the economy and how each of it will be affected during the lockdown and post pandemic economic recession.

Bangladesh being a private sector led export earnings dependent economy has seen a decade of GDP growth accounting for 7-8% Y-o-Y. Two of its major contributors have been Private Sector's export earning led by RMG, Crustaceans, Leather, Plastic, Light Engineering etc and Remittance inflow from labor export. And thus far its overall export earnings stand at around \$40bn per year and was all set to grow further in 2020. But, with the shock caused by pandemic the export industries have taken a major blow as there will be a negative growth in export for the first time in last couple of decades due to widespread impact of Covid 19 resulting in demand drop in major export destinations like USA, Germany, France, Netherlands and so forth. The inward remittance of manpower export is also predicted to decrease due to travel bans and lockdowns in countries where Bangladesh exported manpower to. To add to that is the national lockdown to minimize the outbreak of Covid 19 that is resulting in stagnancy in internal trade and local industries which will in turn also reduce the gross national output. While the MSMEs being one of the key component in employment generation are therefore in deep distress and it is likely that many of these MSMEs will struggle to survive the economic shock. All these combined have the possibility to cumulate in massive unemployment as experts predicted. The mass level unemployment will result in decrease in consumer spending due to shortage of cash and thus far further affecting the internal trade's sustainability. In effect to all these, the financial sector may run short of savings i.e. liquidity crisis and tempt the government to take expansionary monetary policy such as helicopter money or quantitative easing. But as the global demand may only grow slowly post the pandemic, financial institutes may struggle to find borrowers as investment will be highly risky amidst lack of demand. Thus the risk of falling into liquidity trap can't be discarded. Added to that will be the possible debt failures of export & local industries, trade and SMEs due to backlog of import liability, utility and operational cost, salary & wages and most crucially fall of demand.

Below we looked to highlight the key challenges for each component and corrective measures –

3 (b) Major Impact of Covid 19 and Measures for Private Sector Safeguarding, Damage Control and Re-grow

The private sector can be divided into three key types. One is the Export Industry (Large or SME), second is the Local Industry & Trade (Large or SME) and third is the Service Sector (Large or SME). Each of these industries is uniquely and largely affected in their own way and is facing serious challenges amidst the global and national lockdown.

Export Industry

Covid 19 pandemic has hit the export industry of Bangladesh particularly hard. The current affects so far are -

First, the Disruption in Supply Chain during Chinese Lockdown: When the lockdown first began in China from Mid January, the export industry was pegged back by disruption in supply chain as imports of intermediary goods for exports halted for indefinite period and thus production was hampered and shipments got delayed.

Second, Shock of Export Order Cancellation when Covid 19 was declared a Pandemic: By the end of February, when the virus was spreading like wildfire in major European countries which also happened to be Bangladesh's major exporting destinations the anxiety began to rise and by the time WHO declared Covid 19 as a pandemic, the export industry got shocked by the daily bad news of European and USA buyers cancelling and delaying export orders. As of now, BGMEA, the apex body of RMG exporters has claimed that around \$2.5-3bn worth of export orders have been cancelled. BPGMEA, the plastic sector's association claimed \$20m of Direct export order cancellation and \$60m of direct export order in risk as well as \$100m of deemed export from RMG sector is also cancelled and another \$200m is at risk. While LFMEAB, the leading association of leather sector, claimed that close to \$200m worth of export orders have been cancelled or halted. Just as an example, one of the largest PU leather based Non EPZ Sports Shoe Industry 'MAF Shoes' who manufactures for European giant sports shoe retailer 'Decathlon' have claimed to have lost business of \$17-20m in export value including cash incentive due to order cancellation and halt while the industry has \$12.6m Import liability due and \$6.5m projected salary and wages due for Q2 of 2020. The other smaller export sectors have also been jolted by order cancellation.

Third, forced pile up of factory stock, efficiency loss, reduced hours due to destination border closing: Midway to march, most of Bangladesh's key export destinations especially in EU have declared national lockdown and closed borders which piled up factory stock, increase the cost of inventory, forced the manufacturers to slow the production and thus far loss of efficiency and work hours.

Fourth, Enforced shutdown of production in alignment to the lockdown in Bangladesh: By the end of March, fearing the outbreak of Covid 19, Bangladesh declared nationwide lockdown and thus far industries have also been instructed to close down for unforeseen period resulting in complete stagnancy in production which will eventually lead to shipment delay and port congestion once the national and global lockdown is withdrawn.

As a result of above incidents, the industry is facing massive fund shortage to cover for 1) Backlog of Import Liability, 2) Employee Salary & Wages, 3) Local supplier/vendor payments 4) Utility and Other Operational expenditures 5) Fear of classification of loans & 6) Tax Burden. Therefore certain specific measures and support &/or stimulus package is necessary.

A. Import Liability Settlement Facilitation & Discount of EDF Charge, AIT on Export Proceed:

While in consequence to global lockdown of borders especially in major export destinations for indefinite period, the shipments can get delayed for weeks to months. This will surely result in delay of export proceeds receive. However, the import liability for this factory stock waiting for shipment and on production goods are going to mature shortly. The problem with order cancellation is that many manufacturers already have imported raw materials for that export in factory stock or port. While the manufacturers will negotiate with buyers to settle the compensation for export order cancellation, but with the growing outbreak and travel ban across the world, the negotiation and compensation settlement will take time and may get extended till end of year or beyond.

It must also be mentioned here that Import Liability or cost of raw material import accounts for around 60-70% of export manufacturing cost where as employee salary and wages accounts for 10-15%. Therefore, the financial pressure of import liability is far greater on manufacturer than employee salary and wages. And it needs no further elaboration that with growing order cancellation and post pandemic demand shock, easing off the settlement process of current import liability can be a key tool to help the export industries to survive the recession period.

Anticipating the above scenario, Bangladesh Bank has already relaxed Forex trade transaction policy with extended facility which primarily reads that financial institutes are instructed to provide additional 60 days cushion for the exporters to settle the matured import liabilities. This surely demonstrates government's intent to facilitate the export industries in such difficult time but these facilities may need to be revised to make substantial contribution to the manufacturers.

As the outbreak is still growing strongly in major export destination countries and the lockdown withdrawal, border control relaxation and restart of port activities still seem far in the horizon. Therefore, shipment and subsequently receive of export proceed will be delayed and may again fail the extended period. On top of that is the demand shock in major export destinations as ripple effect to which manufacturers will be strangled in liquidity crisis.

In the above context, we suggest following steps –

- I. Import Liability Settlement Period Extension: Reevaluate the possibility to increase the cushion period for import liability settlement from additional 60 days to additional 120 days and thus building a greater cushion for the manufacturer to survive longer and collect new orders from the post pandemic recession stricken global market.
- II. EDF Charge: 10-20% discount on the EDF charge on import liabilities for next 1-2 years to help improve manufacturers' liquidity while at least 50% discount on the EDF charge on import liabilities of the cancelled export orders.
- III. Special Case Import Liability Settlement Period Extension for Cancelled Orders: Since the negotiation for compensation of cancelled export orders may only begin after the global lockdown is withdrawn and economic activity gets normal, a special consideration for extended time allowance may be needed. The extension should be at least till receive of the compensation to settle the specific import liabilities of the manufacturers whose orders got cancelled but intermediary goods are imported for that order are already in factory stock or port.
- IV. AIT Charge on Export Proceed: A Discount on AIT charge of 0.25% via making it 0.20% on Export proceeds received till 2021 may also help the liquidity.
- V. Advance Tax (AT) on Import: Cancel the Advance Tax (AT) of 5% on Import of Raw Material for the Export Industries.

B. Employee Salary & Wages and Employment Security Stimulus Package:

While in consequence to cancellation of export order, the possibility of unemployment is massive. BGMEA has claimed that the cancellation of order may result in shutting down of more than 1000 factories with

around 1 million job cuts out of around 4.5 million employees from RMG sector alone. While LFMEAB has claimed that leather industry may get stripped off by half if not more with around 22,000 job cuts out of 35,000 employees of the sector.

In addition to that, post pandemic the export industry is predicted to go through a strong demand shock for at least 6 months to year and therefore the future orders volume and value are not expected to be same as it is experienced in regular circumstances in this time of the year. The demand shock in our export destinations will be caused by the rise in their local unemployment, stock pile up at retail during lockdown and overall change in buying behavior where the end consumers are expected to make more rationale purchases and inclined to save more. This again will affect Bangladesh export industries more than may be it should have, largely because Bangladesh's export basket severely lacks diversification and is full of lifestyle products which are likely to be considered as redundant by the end consumers in recession hit countries. So, the misery of Bangladesh's export industry may be prolonged.

To facilitate the industries during this unprecedented crisis government has already announced a stimulus package of BDT. 5000cr to cover for the employee salary & wages of the export industries as mentioned earlier in Section 2 (c). However, with continuous rise of export order cancellation reports claim and post pandemic recession caused demand shock it is rather doubtful if the stimulus package will be enough to cover for the fund shortage on employee salary & wages. In this regard we recommend following steps-

- I. Post slow down of pandemic spread after restoration of relative normalcy specially in major export destinations, investigate and fact check the cancellation of export order claims in collaboration with respective association and make a total estimate of fund requirement for salary and wages for the affected manufacturer.
- II. Appraise and consider the possibility of increasing the stimulus package of BDT. 5000cr to the level possible to cover for at least 3 months of employee salary and wages along with Eid Bonus for the affected manufacturers.
- III. Consider the possibility of also including industries that operate in the deemed export category via supplying to the export industries as eligible to apply for the loan of Wages & Salary stimulus package.

C. Operational Expenditure Reduction Measure: Utility Cost – Waiver and Discount

In consequence to national lockdown, export order cancellations/halt and the forth coming demand shock where the export orders are predicted to remain conservative over next 1-2 years, safeguarding measures need to be taken by Government to support the reduction of operational expenditure such as Utility Cost. The following steps are suggested –

- I. Waive the Total Utility Cost for the Month of April, 2020 for the affected manufacturers whose export orders were cancelled or halted.
- II. At least 30% Discount on the Total Utility Cost for the Month of May – June, 2020 and At least 15% Discount on the Total Utility Cost from July, 2020 till Dec, 2021.
- III. Consider allowing for 60-90 Days cushion for post payment of Utility bills for the rest of 2020 without any surcharge.

D. Incremental Budget Allocation for Export Promotion – Top Priority for 2020-2021

Export Industries have already started to suffer by cancellation of export orders and the sufferings will mount in post pandemic demand shock globally which will lead to slow growth in large export orders. However on the other hand, due to global supply chain disruption for last 3 months, businesses around the world are considering decreasing their dependency on Chinese manufacturers and thus there is also an opportunity to attract buyers. Therefore, special measures needs to be taken to promote Bangladeshi export items to the global market and especially in EU, Scandinavia, UK, Japan, and Australia where Bangladesh still enjoys Duty Free Quota Free (DFQF) access as well as target new markets like Russia with renewed focus.

In addition to the traditional method of export promotion i.e. via attending exhibitions and fairs, we suggest following additional steps –

- I. Develop an online platform titled 'Made in Bangladesh' similar to Made in China to showcase the export manufacturers (Verified) and their product portfolio on the platform. The platform shall work as a one stop linkage solution for interested buyers across the globe to connect directly to our local manufacturers. This will particularly help SME exporters who will struggle to generate orders amidst the demand shock. This is a vital step considering the scenario that in next couple of years there are possibilities of reduced no. of trade exhibitions happening at large scale to avoid crowding and thus the usual approach of export order generation via attending exhibitions may not be as effective. So strong presence online will be critical.
- II. Promote the online platform through advertisement in sector specific magazines of the target destination countries and airport signage branding.
- III. An incremental budget of \$12-15m to implement additional export promotion activities can be added and allocated to the Export Development Fund (EDF) for budget of 2020-2021.
- IV. Evaluate the prospect of adding incentive or discount on 10% tax of commission (under the condition that sourcing agent generated \$_____+ value of orders) to global sourcing agents in order to encourage them to generate larger value of export orders for Bangladesh.
- V. Professional lobbyist and private agencies can be deployed for export promotion by the government.

Local Industries, SMEs, Trade & Service Sector

There are mainly five kinds of local industry such as Industrial manufacturing sector, agriculture and livestock sector, telecommunication & IT sector, service sector and the commodity trading & retail sector. The local industries have had their share of shock especially after the national lock down began in March 25 and before that only the Commodity market and Industrial Manufacturing sector was under some sort of pressure due to disruption in supply chain especially Chinese lockdown from January. Almost 80% of the local industry is comprised of SMEs that accounts for almost 60-70% of employment in Bangladesh. Thus far, the national lockdown is a heavy blow in the sustainability of the SMEs and there is widespread fear of household bankruptcy caused by SMEs shutting down operations. As per BPGMEA, the association of one of the major industrial manufacturing sector i.e. plastic goods fears revenue loss of more than

\$300m in local market. The plastic sector is a highly diversified sector that not only is a key support industry for packaging of both local and international goods but also has started to bring direct export revenue via its household products. The construction industry is at complete stand still due to the lockdown and fearing massive slow down of private construction activities for the rest of the year due to liquidity crisis and possible discouragement towards providing financing facility for long term investment specially in housing.

The key impacts of lockdown to local industries are -

- 1) Disruption in Supply Chain i.e. backward linkage which led to slow down of production, in efficiency in factory etc. for Industrial Manufacturing Sector.
- 2) Drastic fall in consumer spending which will cripple the business by sharp dip in sales volume for all the sectors.
- 3) Suspension of transport services, limiting the no. of wholesale market to remain open means the access to market for commodity and other good trading are disrupted thus far creating massive inventory backlog and congestion in Inland Container Depots (ICD) across the country resulting in creating supply shortage that will push the prices of commodity to go up.
- 4) National lockdown to service sector means complete blackout of economic activities as sectors like restaurants, salon, and transport, education all are at absolute halt raising the potential for bankruptcy and debt default and hence resulting in massive unemployment.
- 5) The national lockdown and suspension of transport services and decrease in consumer spending and widespread fear of buying livestock have resulted in free fall of market price. BPICC, the apex body of Poultry sector claims that Commercial poultry farms, Breeders and Feed Mills combined will cumulate business loss of more than \$200m which may result in mass level bankruptcy among small and medium poultry farms and feed mills.

Thus far very naturally, businesses are being pushed to the brink facing massive liquidity crisis which will result in –

- a) Failure to make salary & wages payments.
- b) Failure to settle import liabilities & make supplier payments.
- c) Failure to make loan installments payments.
- d) Failure to make Utility payments.
- e) Failure to make TAX payment.

And if the national lockdown extends till end of April and global recession hits as badly as feared throughout the year, there are high chances of more than 50% of the local SMEs will fall in liability trap which will result in mass level unemployment creating social chaos.

In above context, *to facilitate Commodity Trade and Local Industries*, The President of CCCI and Trustee Board Chairman of Bangladesh Center of Excellence Mr. Mahbubul Alam has urged government to –

A. Emergency Facilitation to keep the business rolling

- I. To encourage truck owners about providing more service during the lockdown period while ensuring safety and security of drivers of trucks and lorries while they are doing their job of carrying the goods across the country.
- II. To keep all the wholesale markets across the country open for smooth trading and supply of goods.
- III. The Bangladesh Bank to keep their Bangladesh Automated Clearing House (BACH), a platform that is used to clear interbank cheques, open. It has been closed following the countrywide lockdown and general holidays. BACH should remain open as business transactions are done through banks.
- IV. NBR to allow the release all goods, not just essential commodities, emergency medicine and service-related material as the ports are running out of storage capacity, piling up of container congestion and subsequent shortage of goods in the market.
- V. To exempt all demurrage at Chattogram port, ICDs and shipping agents as due to lock down and shortage of transport vehicles, non-operation of plant quarantine and radiation test, businessman couldn't release goods and incurring additional cost through various demurrage charges including port charges and shipping agents' charges for overstay. Such demurrage at the end will increase the prices of goods.
- VI. To allow deferment of Utility bill payments for at least 3 months without any late fees as almost all private factories have been closed following the government's declaration of lockdown. Since they are not in production, the government should give factories this opportunity to pay all utility bills after three months without any late fees, as they are allowing home users to do.

In addition to the above, government may also consider following support measures for local industries –

B. Financial Assistance / Liquidity Support Facilitation:

- I. All term loan installments, as of now, rescheduled by 90 days for selected important but badly hit sectors and thus far providing cushion for industries to breathe and recover from the lockdown inflicted business loss and post withdrawal slow growth of the economy in 2020.
- II. Exempting the interest on short term working capital (as of now) for 90 days.

C. Commodity Trading Facilitation:

Due to reduced demand, closure of market operations in many places and lack of transport/logistics services the Commodity Trading sector has slowed down with increasing stock pile and thus there is possibility of liquidity issues. Therefore the import liability settlement period of Commodity Traders should be extended to 180 days with additional 60 days from current 120 days.

D. Tax Benefits for Local Industries

- I. Revising Sales Tax of 15% to 12% across the local sector for the fiscal year of 2020-2021 to cover for the possible reduction in consumer spending.
- II. Reducing Advance Income Tax (AIT) by at least 5% across the sector for the fiscal year of 2020-2021 and provide Corporate tax exemption for 3-6 Months for selected important local sectors such as Construction materials: Cement/Rod/Steel, Plastic, and Livestock: Poultry & Feed, Automobile parts, Electronics and Home Appliances etc.
- III. Offering additional Tax incentive of 5% to Local Industries for achieving Zero Layoff/Job Cuts in employment for the next two years.
- IV. Cancel the Advance Tax (AT) of 5% on Import of Raw Materials for Local Industries.

E. Special Support Measures for SMEs and also Service Sector

- I. Issuing circular across the country with 50% Exemption of Property lease or rent for service sectors like Restaurants/Cafes, Salon & Parlors, Educational Institutes, Retail Outlets, Event Management etc. for the Month of April, 2020 followed by 30% exemption for May and 20% exemption for June and 10% exemption for the rest of year to cover for the lockdown impact loss and allowing the SMEs to cope with the plausible reduction in consumer spending.
- II. Waiving the Utility bill for the sectors like Restaurants/Cafes, Salon & Parlors, Educational Institutes, Retail Outlets etc. for the Month of April and to allow deferment of Utility bill payments for at least 2 months without any late fees as almost all service sector operations have been closed following the government's declaration of lockdown.
- III. Government announced a stimulus package of BDT. 20,000cr for working capital finance of SMEs at 9% where 5% and 4% to be paid by Government and the SME borrower respectively to the bank. But it is important to note that, in Bangladesh one of the biggest challenge in SME financing is the lack of credit worthiness of SMEs due to very weak financial governance in their business. A high percentage of local SMEs don't maintain balance sheet and financial audit regularly. Therefore, it is likely that the benefit of the stimulus package will not reach to a large no. of SMEs. On that note, we suggest following –
 - ◆ Encourage banks to lend more on 'Work order financing' and 'Bill Factoring' to local SMEs who work in the value chain of large local or export based industries. This can be given from the allocated stimulus package of BDT. 20,000cr as working capital finance for SMEs. This way, the benefits may reach to larger segment of SMES and banks can also reduce the risk of credit as the credit will be actually borne by the large industries or buyers who have proper financial governance and credit worthiness.

3 (c) Major Impact and Measures for Household Solvency Safeguarding

Unlike western world, most people in Bangladesh have been brought up in joint families and learnt to value the importance of regular socializing and therefore to this densely populated nation the idea of social distancing is absolutely alien and brain freezing. While due to widespread lack of education, the

initial understanding of the Covid 19's impact, symptoms and safety measures were few and far between. However, with the power of social media and government's effort it has been communicated to some extent and that alone was enough to push the bar of anxiety and stress at Household level to an unprecedented height. The worry for one's own and close one's health is fearful in true sense. And the need for social distancing and staying in quarantine for weeks is proving to be an extremely daunting task. The initial reaction post Covid 19's first case detection in Bangladesh was panic buying of safety gears and food stocks. And as we speak, now that the national lockdown of 10 days is half way, the announcement of further extension has begun to induce the real worries.

- What if I get infected and die of Covid 19, how will my family survive?
- Do we have enough cash in hand to support our basics if the lockdown is prolonged?
- Will I be paid the salary of the month (on time) during the lockdown period to cover for my essential expenses?
- Do we have enough liquid cash savings in case I lose my job to support my family expense?
- Do we have any other alternative income source that can support my family to stay afloat in this situation?

All the above worries are relevant to the situation that has unfolded and it needs massive social commitment from government and private sector to minimize the damage. The very plausible impact is Shortage of Cash in households especially in lower socio economic class therefore special measures needs to be taken –

Special Measure for Household Solvency and Mid - Low Income Segment

- I. Ensuring food security via regular supply of essential commodities and developing a discounted Ration package especially for the lower income segment using the government inventory.
- II. Around 2-5% Reduction on Personal Income Tax as proportionate to the annual income slabs of the current tax rate to improve the household disposable income for the fiscal year of 2020-2021.
- III. Issuing circular across the major cities with 20% Exemption of house rent for the rest of year which can be adjusted by exemption from income tax on earnings from house rent to reduce the cost of living hence reduce cash shortage.
- IV. Allocating funds for social welfare specially to cover for the child care, education and food security of the deceased's (Covid 19) family.
- V. Encourage Mobile Financial Services to offer regular incentives and promotions.

3 (d) Major Impact and Measures for Manpower Export Earning – Safeguarding & Regenerating

The biggest blow for Bangladesh will come from soaring fall of foreign remittance inflow in 2020. It will certainly hurt the country's foreign currency reserve and further complicate government's effort to stabilize the economy post the global withdrawn of lockdown. Bangladesh earned more than \$18b of foreign remittance last year from about 10m workers working all over the world. The Kingdom of Saudi Arabia (KSA) has long been the largest source of remittances, followed by the UAE, Qatar, Oman, Bahrain, Kuwait, Libya, Iraq, Singapore, Malaysia, the US and the UK. So the potential impacts are -

- Most of these countries are now witnessing economic stagnancy due to lockdown, causing difficulty for wage earners specially Bangladeshis via loss of current jobs and scarcity of new jobs amid the impending economic meltdown.
- The wage earners, who returned home in the face of outbreak, may not be able to return on time due to travel ban and plausible outbreak in Bangladesh even though their employer countries reach some sort of normalcy.
- Small business holder expatriates staying in different countries have also been hit hard due to shutdown of business operation amid the lockdown and those who regularly send money will also find it hard to send money to their families due to the lockdown impact.
- The regular new batch of around 50,000 manpower export per month is also disrupted due to travel bans for last two months and the situation may not allow them to travel in next few months.

If the above assumptions translate to reality, the unemployment problem in Bangladesh will compound further. Though there isn't much Bangladesh government can do in improving the global scenario but the government needs to make strong diplomatic effort with the employer countries so that Bangladeshi workers can join their jobs. Here we suggest a few steps to improve the preparedness for the future -

Preparedness and New Opportunities

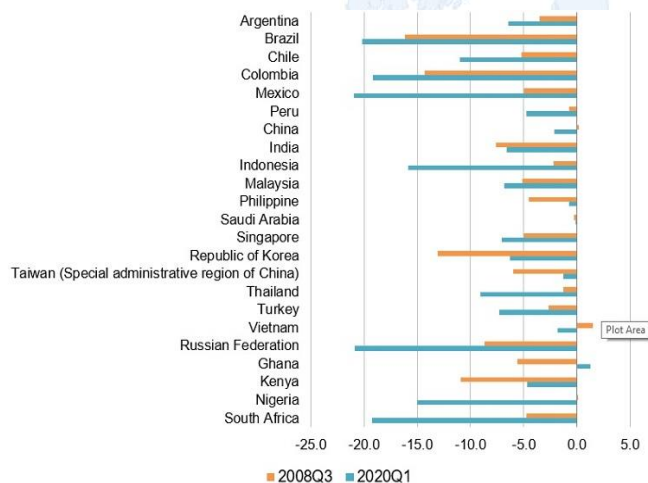
- I. Prepare to meet the potential increase in demand for Health Care Professionals: The Covid 19 outbreak has put every countries health care system under acid test and forced even some of the most developed countries to relook at their capacity of health care management. This will lead to most countries allocating higher budgets and making significant investment for health care management & improved hygiene practice for next decade or so. And that will open up new opportunities for highly populated countries like Bangladesh to export health care workers. Thus following measures are recommended -
 - The types of skills that will be in high demand are Patient Care, Cleaners & Field Health Officers alongside Doctors and Nurses. Bangladesh can particularly focus on Patient Care and Cleaners as well as Nurses to tap this upcoming opportunity.
 - Government can launch an initiative in collaboration with WHO & ILO to provide short 1-3 months training (Special focus on target countries language training) for people on basic health care management and community hygiene practices both for local and global market.
- II. Include Coronavirus Test in Medical Checkup of Outgoing Workers: Even after the withdrawn of travel ban and opening of borders, countries are expected to remain vigilant about the incomers and it won't be too far-fetched to assume that countries will give higher importance on stricter and wider health checks and medical certificates of the incomers. In this regard, government needs to improve the health check plan of the outgoing manpower by including mandatory Coronavirus family test.

3 (e) Impact on Global Investment and Emerging & Developing Country's Currency & Measure for FDI Attraction

A new UNCTAD analysis of how the coronavirus pandemic will affect global foreign direct investment (FDI) prospects shows that the negative impact will be worse than previously thought of. Updated estimates of COVID-19's economic impact and revisions of earnings of the largest multinational enterprises (MNEs) now suggest that the downward pressure on FDI flows could range from -30% to -40% during 2020-2021, much more than previous projections of -5% to -15%. Since then, 61% of the top 100 MNEs that UNCTAD tracks have issued earnings revisions that confirm the rapid deterioration of global prospects. And 57% have warned of the global demand shock's impact on sales, showing that COVID-19 is causing problems beyond supply chain disruptions after a production slowdown in parts of China. In addition, the top 5,000 MNEs, which account for a significant share of global FDI, have now seen downward revisions of 30% on average for 2020 earnings estimates. And the trend is likely to continue. The hardest-hit sectors are the energy and basic materials industries (-208% for energy, with the additional shock caused by the recent drop in oil prices), airlines (-116%) and the automotive industry (-47%).

The report shows that in the two months since the virus began spreading beyond China, developing countries have taken an enormous hit in terms of capital outflows, growing bond spreads, currency depreciations and lost export earnings, including from falling commodity prices and declining tourist revenues.

Portfolio outflows from main emerging economies surged to \$59 billion in a month between February and March, calculations show. This is more than double the outflows experienced by the same countries in the immediate aftermath of the global financial crisis (\$26.7 billion). The values of their currencies against the dollar have fallen between 5% and 25% since the beginning of this year – faster than the early months of the global financial crisis (see the chart below).



The situation as seen above seems grave for the developing countries for next 2 years. Thus Bangladesh government's effort to attract FDI for investment in the 100 economic zones with the support of massive infrastructural development projects in progress will face massive road blocks in next 2 years. With the plausible economic shock that waits can lead to mass unemployment, leaves the government with no option but to make desperate attempt at securing FDI in such difficult time. Well, unprecedented crisis demands unprecedented measures.

3 (f) Potential Global Manufacturing Base Diversification / Shift from China

The COVID 19 outbreak in its early days, gave an old lesson back to the global economy that it is never wise to put all your eggs in the same basket. Once China got locked down, the global supply chain got disrupted. And now that the outbreak has turned into global pandemic the situation has worsened. On

this note, many countries that have major supply dependency on China has started to relook at the possibility of shifting their manufacturing base or at least diversifying their manufacturing or supply chain source. In that endeavor, on April 7, Japan government's cabinet approved a stimulus package of \$2.2b to help its manufacturers to shift production out of china. This though fits right in with Japan's China+1 strategy. And there are chances that other major western countries may also look for similar solutions which will open new opportunities to attract foreign investment for countries like Bangladesh. However, it must also be mentioned that albeit the strategy, the implementation of such won't be as easy as it sounds on paper. China will make their best effort to safeguard their position in the global supply chain and with the technical know-how, a huge local consumer base and good control over many ports, shipment and logistics; they already hold massive comparative advantage.

3 (g) Measures for FDI Attraction

- I. Create attractive tax benefit package for investment in Bangladesh in selected sectors.
- II. Pursue specifically China and Japan for investment in the backward linkage industry of intermediary goods for local and export based industries and diversification of export portfolio.
- III. Promote struggling export based industries from RMG, Leather, Plastic and Light Engineering sectors for possible mergers and acquisitions to foreign investors.
- IV. Investment in Health Sector (Hospitals, Training Academy, Equipments etc.) to be in top priority focus with lucrative tax benefits.

4. Other Government Services: Port/Customs & NBR: Emergency Measures

- I. During the lock down period Customs/Port is charging double, considering it under the government holiday, the charge must be reduced to regular rate and all the charges that are taken so far should be reimbursed or considered as additional account balance.
- II. No random account freezing of firms and no audit to revisit tax file and demand additional tax on firms. Additionally, no charges of any tax delays and no demurrage charge on import needs to be given to businesses across the local industry.

5. Health Sector: One Key Long term Measure

The Covid 19 has put the global health system under acid test. Even the strongest country with strong health system is struggling to manage the sudden demand of epidemic service management alongside keeping the regular health services in place. For Bangladesh, the challenges have compounded in many folds. Among many, one of major reasons for this has been lack of information on health service professionals due to lack of National Health Service Network. In this context, we broadly suggest following –

Establishing/Strengthening National Health Service Network: Government should immediately start the process of developing/strengthening a National Health Service Network by 2021 on digital platform through engaging with private sector (BASIS) and donor agencies. The network should cover and update profiles (geographic information) of Health Service professionals (doctors, nurses, patient care, cleaners etc.) from both public, private and NGO sector who are currently active &/or retired.

6. Key Monetary & Fiscal Policy Measures for Economic Rescue Mission

With the potential of massive decrease in income from all ends, the economy is set to dip and thus the government is left with just one option of giving an all out effort in offering combination of expansionary monetary and fiscal policy even with the risk of liquidity trap creation.

Monetary Policies	Fiscal Measures
I. Loan & Import Liability payment rescheduling, Low Interest Working capital fund with Immediate Effect.	i. For Q2 & Q3 Salary & Wage coverage stimulus package, Tax and Utility Exemptions and Discounts, Loan Rescheduling, Reducing Property Rental costs etc.
II. Quantitative Easing for Q2 through Special 'COVID 19' bonds scheme of 3-5 Years.	ii. Reallocation of fund from infrastructural project to local &/or export industrial facilitation.
III. Currency Devaluation, if required from Q3 in response to possible reduction in foreign reserve due to reduced inflow of foreign remittance.	iii. Local buying festivals to accelerate cash flow.
IV. Helicopter Money i.e. Irreversible Liquidity Injection in Q4 in case situation doesn't turn or worsen in Q2 & Q3.	

7. Measure to ensure Strong International Diplomacy & Economic Relation

Allocate the best government resources and engage economist and private sector leaders to form a special task force and also engage experienced Ex-UN trade diplomats, advocacy / lobby firms to pursue the case if needed. And strive for following –

- I. Negotiate to renew Export Orders and maximize the compensation for order cancellation.
- II. To generate Economic Emergency Aid especially from China, UN, USA, EU & Middle East.
- III. Achieve higher allocation in drawing right at IMF for the proposed \$1t liquidity injection.
- IV. Negotiate with employer countries to regenerate recruitment of Bangladeshis.

8. Critical Way Forward: Focus on Each Sector Separately

The strategic analysis and the measures suggested are just a preliminary glimpse on the kind of monetary and fiscal measures government can undertake in general to facilitate the private sector. However, it is important to realize that each sector be at export or local industry, trading or SME is unique in its own way and Covid 19 will leave a mark on each of these sectors. And it may not be effective to ensure the revival of the economy if the government's efforts are only made on a macro level. It is important to address each sector separately and develop an understanding of the impact of Covid 19 on each sector and thus far design support measures to match that. It is only then the

measures will be effective and as we all understand the security of employment doesn't depend on emergency stimulus package rather long term sustainability of the specific sectors people are employed in. Therefore we suggest following critical steps –

- I. Develop Sector Specific Task Force with representation from the relevant ministries, chambers and sector specific associations within one week after the lockdown is withdrawn.
- II. The objective of the task force should be to a) Evaluate the impact of Covid 19. b) Suggest specific support measures / interventions to minimize the damage and regenerate growth in the sector & c) Design a 2-3 Years Revival Road Map for the Sector.

In this connection, Bangladesh Center of Excellence (BCE) – An Initiative of CCCI has already formed a unit titled "Economic & Business Impact Reporting Unit". It is a specialized unit formed in response to Covid 19 led economic emergency. It is designed to conduct strategic analysis & recommend support measures via engagement with specific sectors.

The objective of the unit is –

- To collect sector specific business impact information and requested support measures to the government from sector specific associations.
- To strategically analyze the sector's impact on a macro-economic context.
- To assist sectors in developing comprehensive 'Sector Specific Strategic Support Measure Paper'.
- To facilitate the sector in their effort of advocacy to the government.

Therefore, BCE will be a right fit to facilitate government in this effort of engaging with sector developing the sector specific support measure suggestions and designing a 2-3 years revival road map.

9. Conclusion

Covid 19 is a potent virus that changes its form and has all the potential to transmit from health to economy and cause an economic great depression much worse than last century. This generation has never seen a global challenge of this magnitude and therefore lack heavily in preparedness of the aftershock. Our beloved motherland Bangladesh is not yet 50 and we are forced into a battle with such unforeseen enemy that has brought the entire world and it's strongest to their knees. In a situation like this government also needs moral support from people at large and therefore we urge people to stay positive, hopeful and believe in our nation's innate ability to stay resilient in face of adversity. We wish scientists around the world best of luck in their effort to develop a vaccine for this deadly virus and hope the nightmare will be over soon. In memory of all the victims of Covid 19, we believe the world as a whole shall overcome and we Bangladesh with the spirit of our father of the nation Bangabondhu Sheikh Mujibur Rahman will keep on marching towards our vision of becoming a developed country by 2041 under the astute leadership of our Honorable Prime Minister Sheikh Hasina. Joy Bangla!