

COVID – 19 Pandemic led lockdown and Plausible Economic Recession

CAUSE – EFFECT - MEASURES

Strategic Recommendation to Facilitate Economic Safeguarding, Damage Control & Rebuilding Effort.

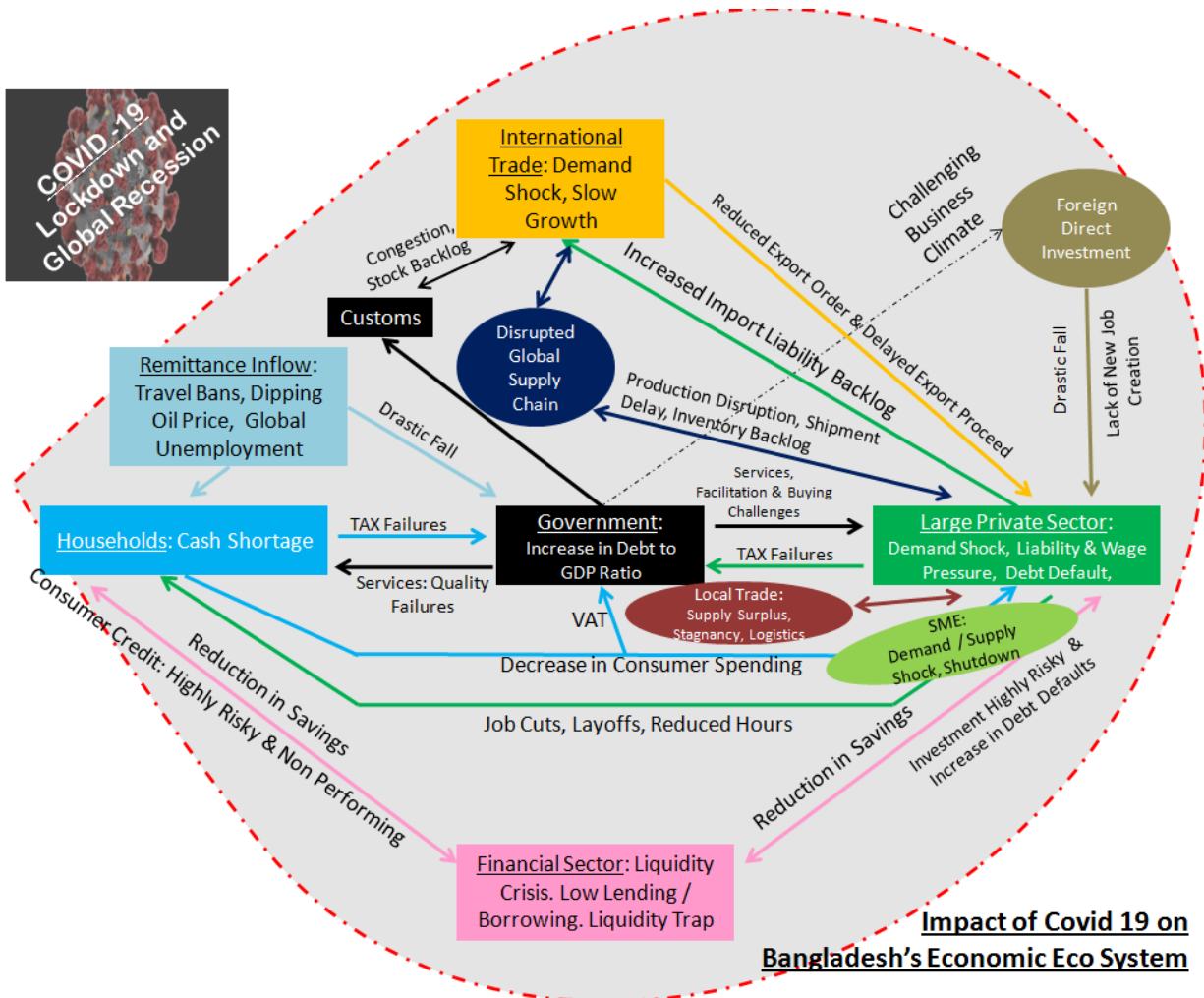
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Plausible Impact of Covid-19 led Lockdown & Global Recession on Bangladesh's Economic Eco System



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 –

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

Export Industry

Causes	Effect
<p>First, The Disruption in Supply Chain during Chinese Lockdown.</p> <p>Second, Shock of Export Order Cancellation when Covid 19 was declared a Pandemic.</p> <p>Third, Forced pile up of factory stock, efficiency loss, reduced hours due to destination border closing.</p> <p>Fourth, Enforced shutdown of production in alignment to the lockdown in Bangladesh</p>	<p>Fund shortage to cover -</p> <ol style="list-style-type: none"> 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.
RECOMMENDED MEASURES	
<p><u>A. Import Liability Settlement Facilitation & Discount of EDF Charge, AIT on Export Proceed</u></p> <ol style="list-style-type: none"> I. <u>Import Liability Settlement Period Extension</u>: 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. <u>EDF Charge</u>: 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. <u>Special Case Import Liability Settlement Period Extension for Cancelled Orders</u>: 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 at least till 	

receive of the compensation to settle the specific import liabilities of the manufacturers whose orders got cancelled but imported intermediary goods for that order are already in factory stock or port.

- IV. AIT on Export Proceed: A Discount on AIT charge (0.25%) on Export proceeds received may also help the liquidity.
- V. AT on Import: Cancel the Advance Tax (AT) of 5% on Import of Raw Materials for Export Industries

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

- 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

- I. Waive the Total Utility Cost for the Month of April, 2020 especially 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. Allow 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

- 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

Causes	Effect
<p>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.</p> <p>2) Drastic fall in consumer spending which will cripple the business by sharp dip in sales volume for all the sectors.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Businesses are being pushed to the brink facing massive liquidity crisis which will result in –</p> <p>a) Failure to make salary & wages payments.</p> <p>b) Failure to settle import liabilities & make supplier payments.</p> <p>c) Failure to make loan installments payments.</p> <p>d) Failure to make Utility payments.</p> <p>e) Failure to make TAX payment.</p> <p>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.</p>
RECOMMENDED MEASURES	
<p><i>A. Emergency Facilitation to keep the business rolling</i></p> <p>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.</p> <p>II. To keep all the wholesale markets across the country open for smooth trading and supply of goods.</p> <p>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.</p> <p>IV. NBR to allow the release all goods, not just essential commodities, emergency medicine and service-related material as the ports is running out of storage capacity, piling up of container congestion and subsequent shortage of goods in the market.</p> <p>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.</p> <p>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</p>	

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.

B. Financial Assistance / Liquidity Support Facilitation for Local Industry & Commodity Trading:

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 Trade 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) on Import of Raw Materials for Local Industries

E. Special Support Measures for Service Sector specially SMEs

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. 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.

Household Solvency Safeguarding

Causes	Concerns
<p>I. Insecurity about Employment and/or Sustainability of Business.</p> <p>II. Fear of Shortage of Cash</p>	<ul style="list-style-type: none"> • 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?
RECOMMENDED MEASURES	
<p><i>Special Measure for Household Solvency and Mid - Low Income Segment</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>IV. Allocating funds for social welfare specially to cover for the child care, education and food security of the deceased's (Covid 19) family.</p> <p>V. Encourage Mobile Financial Services to offer regular incentives and promotions.</p>	

Manpower Export Earning – Safeguarding & Regenerating

Causes	Impact
<p>1) 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.</p> <p>2) 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.</p> <p>3) 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.</p> <p>4) 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.</p>	<p>1) Soaring drop in Foreign Remittance Earning that will severely hurt Foreign Reserve.</p> <p>2) The unemployment problem in Bangladesh will compound further.</p>
RECOMMENDED MEASURES	
<p><u>Special Measures:</u> 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 (especially in Middle East) so that Bangladeshi workers can join their jobs.</p> <p>I. <u>Prepare to meet the potential increase in demand for Health Care Professionals:</u> 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 -</p> <ul style="list-style-type: none"> • 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. <p>II. <u>Include Coronavirus Test in Medical Checkup of Outgoing Workers:</u> 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.</p>	

Global Investment & FDI Attraction

Causes	Impact
<p>1) 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%.</p> <p>2) 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%).</p> <p>3) COVID-19 caused global supply chain disruption.</p>	<p>1) 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.</p> <p>2) 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.</p> <p>3) Japan announced stimulus package of \$2.2b to its manufacturers to shift base from China.</p> <p>4) Bangladesh'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.</p>
RECOMMENDED MEASURES	
<p>As unprecedented crisis demands unprecedented measures thus Bangladesh is left with no option but to desperately seek new FDI's -</p> <p><u>Measures for FDI Attraction</u></p> <p>I. Create attractive tax benefit package for investment in Bangladesh in selected export oriented sectors.</p> <p>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.</p> <p>III. Promote struggling export based industries from RMG, Leather, Plastic and Light Engineering sectors for possible mergers and acquisitions to foreign investors.</p> <p>IV. Investment in Health Sector (Hospitals, Training Academy, Equipments etc.) to be in top priority focus with lucrative tax benefits.</p>	

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.

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.

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

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 get FDIs, renew Export Orders and maximize the compensation for order cancellation.
- II. 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.

Critical Way Forward: Focus on Each Sector Separately

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. 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.

Conclusion

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!