



BANGLADESH'S RECOVERY FROM COVID-19 MANAGING FISCAL RISK: MAIN CHALLENGES

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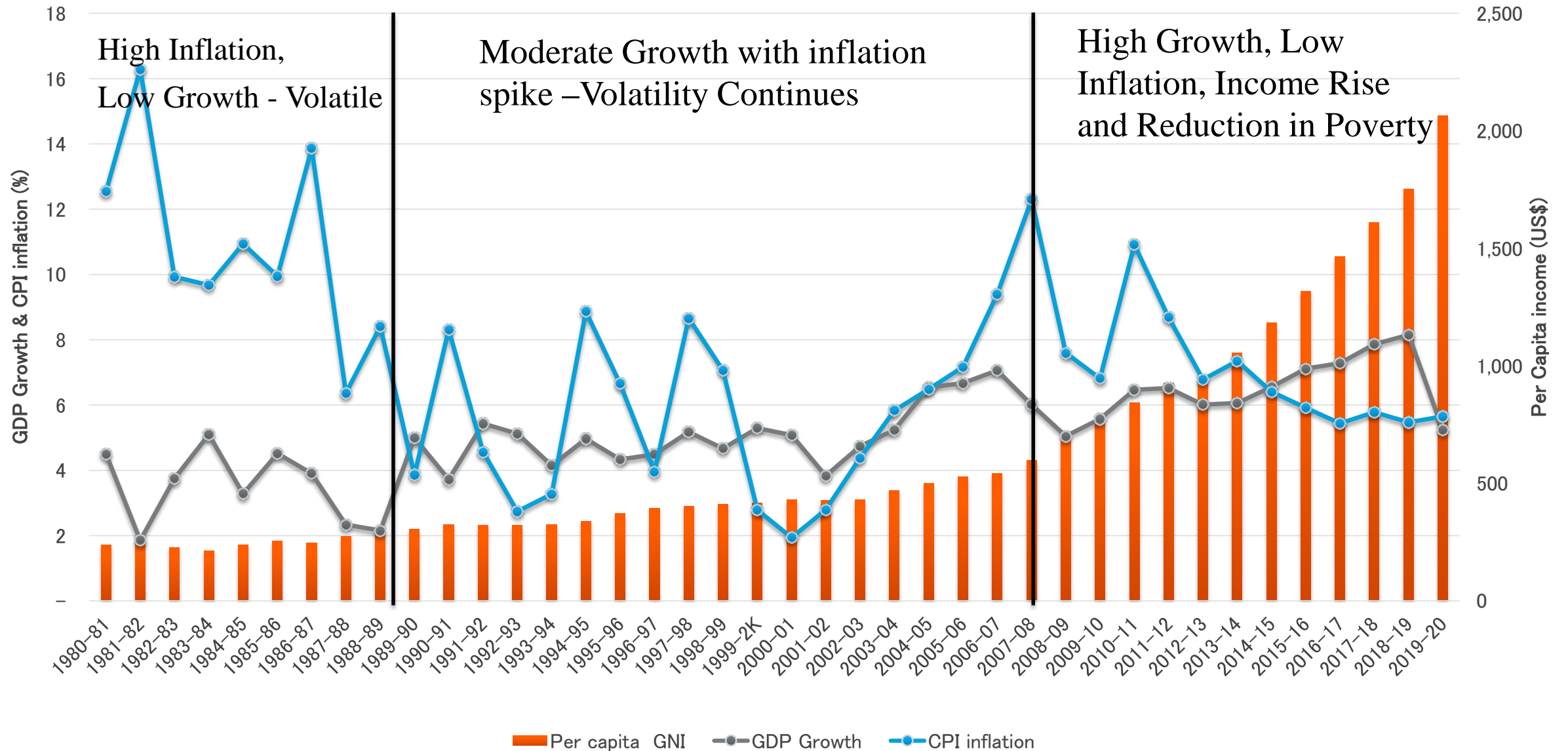
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BANGLADESH'S ECONOMIC PROGRESS IN THE LAST 40 YEARS



REMARKABLE SUCCESS IN SOCIAL SECTOR

| Index | 2005 | 2016 | 2019 |
|--------------------------------------|------|------|------|
| Poverty rate (%) | 40.0 | 24.3 | 20.5 |
| Extreme poverty rate (%) | 25.1 | 12.9 | 10.5 |
| Life expectancy (Year) | 67.9 | 71.6 | 72.6 |
| Infant mortality rate (Per Thousand) | 50.6 | 28.0 | 21.0 |
| Adult literacy rate | 46.7 | 72.3 | 74.7 |

Source: Bangladesh Bureau of Statistics (BBS)

- The poverty rate has reduced drastically on the back of stable economic growth and social protection measures.
- Investment in health and education has helped reduce the mortality rate and increase in life expectancy and literacy rate.
- Socio-economic progress has enabled the country for LDC graduation fulfilling all three criteria: per capita income, human asset index and economic vulnerability index.

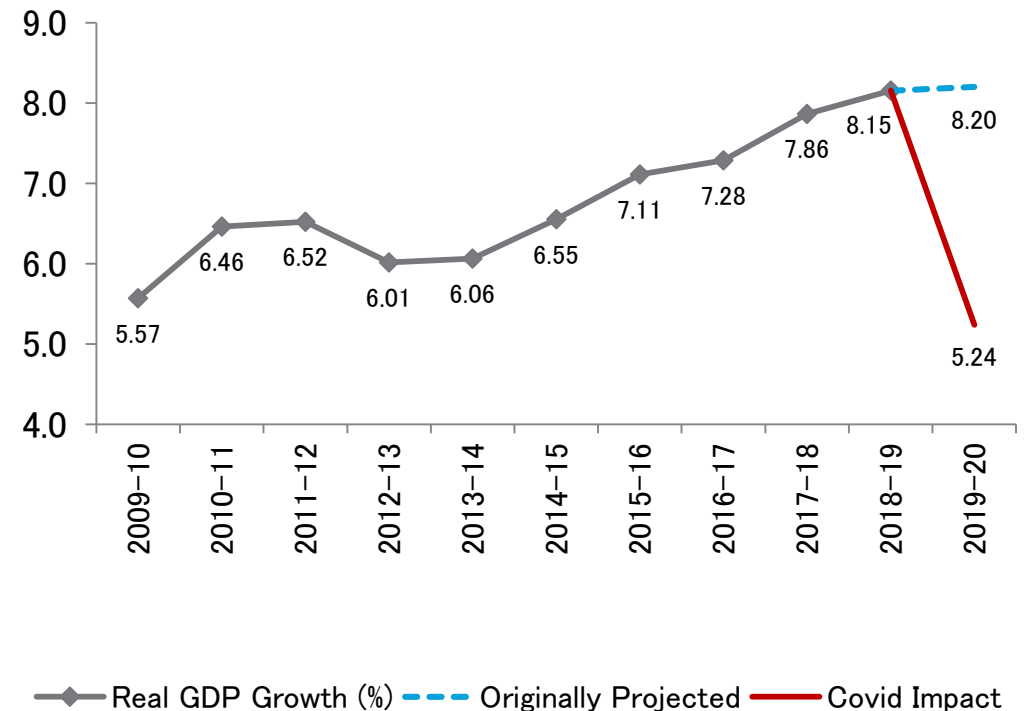
COVID-19 PANDEMIC: HEALTH ISSUES

- First infection detected on 8 March 2020
- As on 20 November 2020:
 - ✓ 443,434 confirmed Covid positive cases
 - ✓ Of which 358,431 patients have been cured
 - ✓ 6,322 deaths recorded;
- Declared nation wide general holidays for 66 days, from 26 March to 30 May 2020.

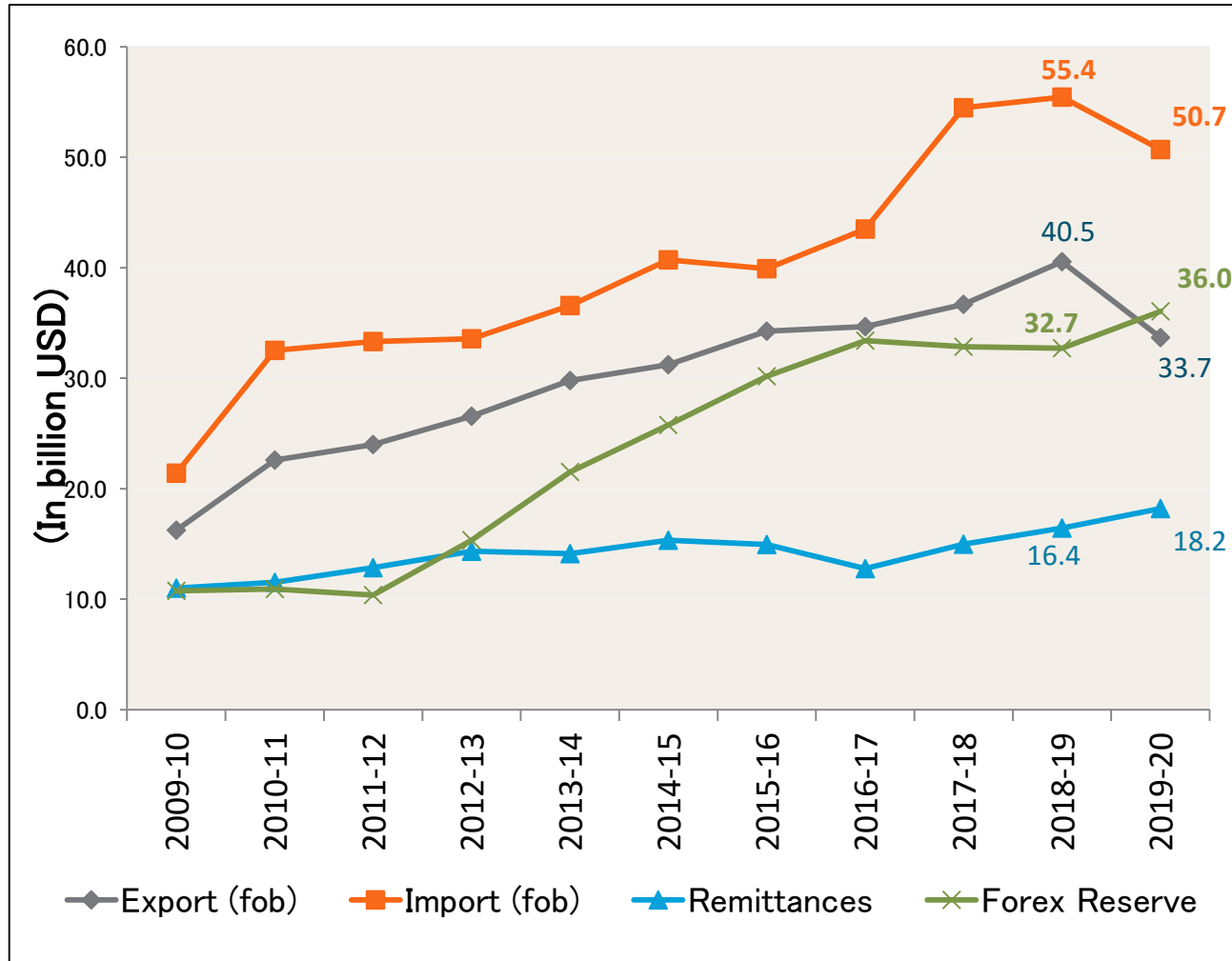
MACROECONOMIC IMPACT OF THE PANDEMIC

- Bangladesh economy has been hit hard by the COVID19 as it is linked with the global economy in terms of trade
- Despite sluggish external demand, the country has managed a moderate growth in FY20 with its domestic demand
- The provisional output growth has been estimated to 5.24% against an original target of 8.2% in FY20 (ended in Jun 2020)

GDP Growth Rate (%): Bangladesh



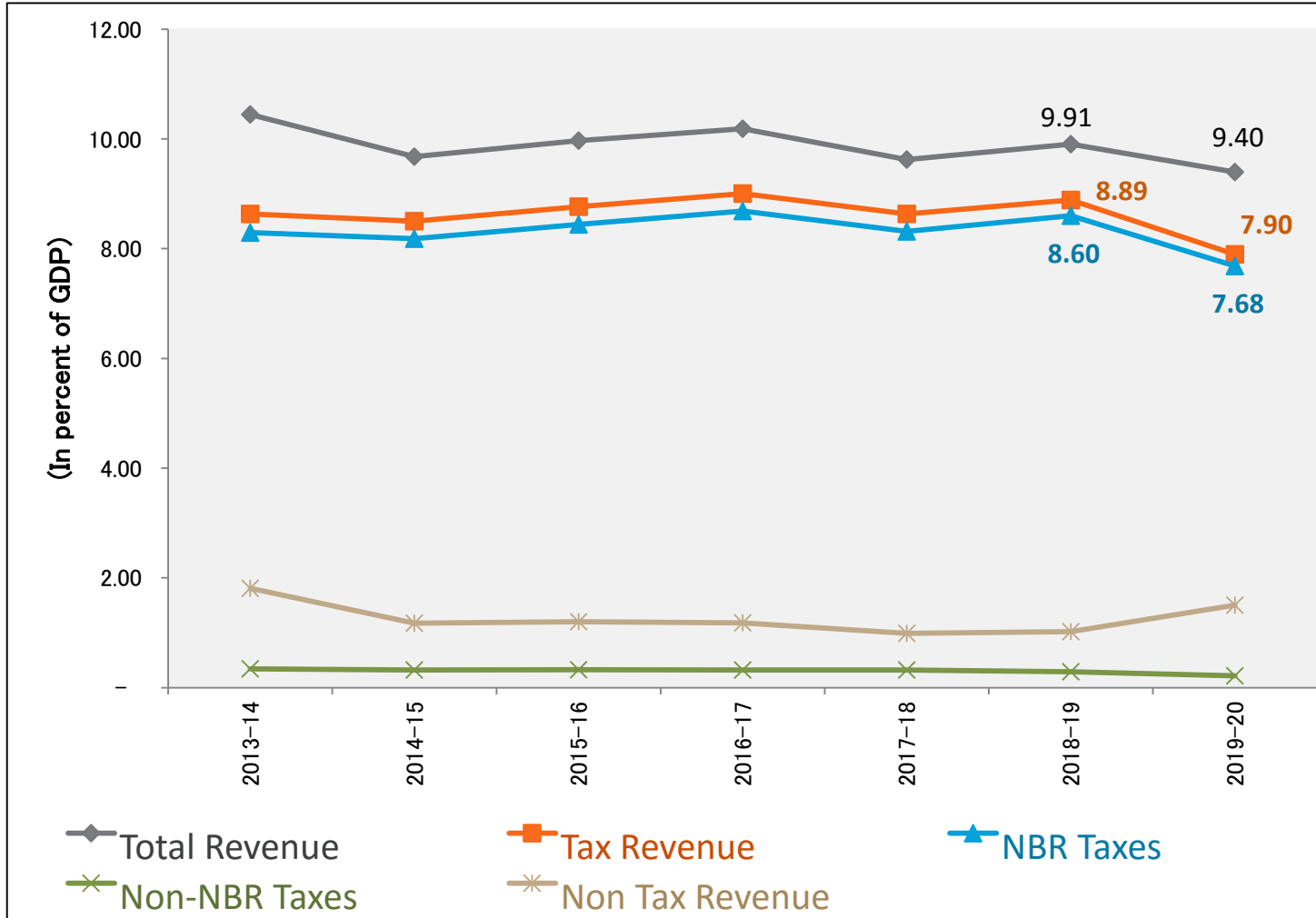
EXTERNAL SECTOR AND THE PANDEMIC



- **Export** fall by 16.9% in FY20.
- **Import** (fob) also marked 8.6% decline in FY20.
- However, **remittances** inflow grew by 10.87 percent in FY20
- Higher remittances has improve the current a/c balance and at the same time increased inflow in the financial account has resulted increased Foreign exchange **reserve** at USD 36.04 billion at the end of FY 20

Source: Bangladesh Bank

REVENUE COLLECTION AND COVID-19



- Revenue/GDP ratio that has been historically low; declined further as the economic activities slowed down due to pandemic
- It has fallen to 9.40 % in FY 20 from 9.91 percent in FY 19.
- In FY 20 NBR Taxes to GDP ratio decreased to 7.68 % from 8.60 %.

THE GOVERNMENT'S RESPONSES TO THE CRISIS

The primary goals of the Government's responses to the pandemic include:

- (1) Minimising loss of lives,
- (2) Avoiding hunger,
- (3) Retain jobs, and
- (4) Reducing loss of output in the economy.



ADDRESSING THE HEALTH CONCERNS

- **Emergency allocation** was given to the health sector to establish Covid-19 dedicated hospitals, laboratories, and service providing institutions.
- Additional 10,000 doctors, nurses and health technicians were **recruited** on an urgent basis.
- As an emergency measure, two projects have been taken:
 - **‘COVID-19 Emergency Response and Pandemic Preparedness Project’** with financial assistance from the World Bank and AIIB.
 - **‘COVID-19 Response Emergency Assistance’** with financial assistance from the Asian Development Bank.
- To fulfill emergency requirements a block allocation is kept as lump sum in the budget of FY 2020-21.

ADDRESSING THE SHOCKS

- To mitigate the shocks the government has adopted an action plan to be implemented immediately, in the short and in the long run based on the following four policy objectives:
 - a) Increase Public Expenditure
 - b) Introduce Fiscal Packages
 - c) Expand Social Safety Net Programs
 - d) Increase Money Supply
- The Government has introduced a number of fiscal incentive packages and social safety net programs consistent with the above (b) and (c) policy objectives.
- Government has so far declared 21 stimulus packages worth **Tk. 1.21 Trillion** (USD 14.28 billion) which is 4.34 percent of the GDP

COMBINATION OF FISCAL AND MONETARY POLICIES

Fiscal Policy Initiatives:

- Budget Deficit is raised to 6.0% GDP in FY21 from the threshold of 5.0% of GDP
- More tax expenditure is incurred by the Government
- Increased expenditure in social safety net, job retention, agriculture and health sector activities
- Despite the revenue constraints, Annual Investment Plan has been maintained in line with the long term plans of the country (countercyclical approach)

Monetary Policy Initiatives:

- CB slashed its key policy rate (Repo rate) 25 basis points in March, 50 basis points in April and 50 basis points in July and it stands at 4.75% now. Reverse repo was also slashed to 4% from 4.75%.
- The CRR was reduced from 5% to 3.5%
- ADR raised by 2% to facilitate credit to the private sector and improve liquidity in the banking system
- Introduced number of refinance schemes

SIGNS OF RECOVERY

| | Sector | Current situation |
|----|-------------------------|---|
| 1. | Export earnings | <ul style="list-style-type: none"> Total export earnings was \$12.84 billion during July-October of FY21 against \$12.72 billion in July-October of FY20 Export growth : 0.97% |
| 2. | Import payments | <ul style="list-style-type: none"> Total import payments was \$12.69 billion during July-September of FY21 against \$14.32 billion during July-September of FY20. Import growth: -11.43% |
| 3. | Wage Earners Remittance | <ul style="list-style-type: none"> Remittance inflow was \$8.83 billion during July-October of FY21 against \$6.16 billion during July-October of FY20. Remittance growth : 43.2% |

SIGNS OF RECOVERY

| | Sector | Current situation |
|----|--|---|
| 4. | Current Account | <ul style="list-style-type: none">Central Bank registered a surplus in the current account after several years |
| 5. | Revenue earnings | <ul style="list-style-type: none">Tax revenue has increased by 1.14% in the first quarter of FY2020-21 |
| 6. | Government expenditure (First quarter) | <ul style="list-style-type: none">Current and Capital expenditures are also increasingAt the end of first quarter it was almost same compare to last fiscal year |

SIGNS OF RECOVERY

| | Sector | Current situation |
|----|--|--|
| 7. | Public borrowings | <ul style="list-style-type: none">• Government has kept the budget deficit under control through prudent macro-fiscal management |
| 8. | Credit growth in the private sector | <ul style="list-style-type: none">• Growth 9.48% in Sep'20 from Sep'19• It was 8.61% during FY2019-20 |
| 9. | CPI Inflation (Twelve months average basis) | <ul style="list-style-type: none">• 5.77% in October, 2020 which was 5.50% in October, 2019 |

CHALLENGES FOR PUBLIC FINANCES

- Negative import and slower export growth
- Low revenue receipt than expected
- Require additional resources for health services and to implement stimulus packages
- Higher budget deficit
- Debt accumulation at a higher rate
- Higher contingent liabilities for the government
- Slower economic growth than projected at the start of Fiscal year

MITIGATING THE FISCAL RISK

- Re-prioritize of the public spending
- Suspend the implementation of for low priority projects
- Spending cut for low value added activities
- Strengthening Treasury Single Account (TSA)
- Taking surplus revenue from the state owned enterprises
- Reforms in high cost National Saving Certificate (NSC) to reduce government's interest expense
- Introducing Sukuk (Islamic bond) for deficit financing
- Closing down loss making state owned enterprises

THANK YOU