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## At a complicated crossroads

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Will things get better?

How can we formulate government policy at a time of such uncertainty?

The world has not experienced what it is experiencing now in any episode of its recorded history. A global pandemic of this intensity and pace that has reached every corner of the world was never

possible before, because mankind has never been this interconnected and inter-dependent as it is now.

And while we might be better prepared than our ancestors who faced the Spanish Flu a century ago or the Bubonic Plague in the 14th century, which killed approximate 80 to 200 million people -- the present pandemic has a much wider geographic spread, touching nearly every sovereign state in the world and infecting more than 3 million people, while claiming more than two hundred thousand lives.

The epicentre for the virus was initially China, but has now moved to Europe and the United States with all its might. The state of New York itself now has more cases than any single country in the world. Thus, the world is collectively navigating a new storm, something that it did not experience in the recent past.

Bangladesh, as a member of the global community, is also seeing the early signs of a possible exponential outbreak, which has compelled the government to impose a quasi-lockdown till the May 16, which may be extended as the crisis unfolds. These measures, nonetheless, are associated with profound economic consequences -- as it has nearly halted most everyday economic activities, while the situation in Europe and the United States means that our exports will remain very low for the next few months.

These economic prospects demand a classic Keynesian economic response, which should follow three basic principles:

(i) The families with low incomes must receive income support, so that their abilities to maintain basic livelihoods are not jeopardized. In such context, the inability to maintain their basic livelihood would also lower their incentives to follow the quasi-lockdown prescriptions -- resulting in low compliance of the government's instructions

(ii) The government cannot allow businesses to go bankrupt in such circumstances, as it can turn an economic slowdown into a recession or a recession into a depression. Hence, cheap loans must reach entrepreneurs in the manufacturing and service sectors within the next two months, so that they do not lose their capital to unproductive expenses

(iii) Banks should not face closures as the entrepreneurs increasingly fail to service their debts -- which necessitates that the government subsidize failed interest payments or finance/channel cheap loans to the private sector by buying Treasury Bills sitting within the banking sector

Given Bangladesh is likely to experience both underutilized production capacities and a possible downward inflationary pressure due to wage cuts and unemployment -- the fundamental aim of a policy response should be to rejuvenate aggregate demand in the economy as much as possible.

Moreover, as Keynesian macroeconomic insight vividly demonstrates, government interventions are fundamental for ensuring output expansions, so that the economy is pushed out of a “low output” equilibrium to a “high output” equilibrium, culminating in more employment and higher standards of living.

Bangladesh, which has maintained one of the highest growth rates in the world over the last decade, is likely to take a considerable hit due to this current pandemic. World Bank has already downsized the growth forecast for the South Asian region from 6.3% to 2.8% -- and it predicts that countries like Maldives, Pakistan, Sri Lanka, and Afghanistan are likely to experience modest to high economic contraction. Bangladesh and India, on the other hand, will experience a growth deceleration as growth is expected to fall to 3% and 2.8% respectively -- as predicted by the World Bank. Globally, IMF predicts that World growth is expected to fall to (-)3%.

This, in some sense, throws policy-makers in Bangladesh in a complicated crossroad -- and they face some fundamental challenges.

### **How do you design policies when so much is unknown?**

For instance, will this virus be a recurring phenomenon till a vaccination is invented? And if yes, will the resurgence be as rapid as its initial outbreak or will the population at large enjoy some degree of herd immunity? There is no doubt that our collective understanding of this virus is still in its embryonic form, which makes it difficult to contain it. If the virus becomes a recurring phenomenon, then how do we design a response framework that does not depend on total lockdown?

Will Europe and the United States experience a “v-shaped recovery” (generally characterized by a strong economic contraction followed by a quick rebound) or will it take years before demand and employment in Europe and the US reaches pre-Covid-19 levels?

If we look back at the recovery from the global financial crisis in 2008, it took advanced economies approximately seven years to reach pre-crisis employment levels. Hence, the global scenario will very much determine how we navigate this economic storm, because Bangladesh critically depends on exports and remittances to ensure stability in its balance of payments.

Now, the economic stimulus recently declared by the government of Bangladesh remains (broadly) a good economic response as it is quite comprehensive in nature -- given it aims to re-energize and inject much needed cash into all the critical sectors in the economy. In particular, the policy-makers have planned to implement a combination of fiscal and monetary stimulus -- collectively amounting to more than Tk100,000 crore -- or 3.7% of our GDP -- and it aims to ensure that the workers in the manufacturing and service sectors receive their salaries, and low income families receive basic income or food support to maintain their most essential consumptions.

**This stimulus package, in essence, has six key components:**

**First:** It involves Tk5,000 crore worth of cheap working capital loans at interest rates of 2%, so that the RMG owners can pay the salaries of their workers. This is meant to ensure that the 4 million low-wage earners involved with the RMG sector do not suffer an income shock over the next month -- caused by a loss of orders

**Second:** The government is also offering Tk30,000 crore in working capital loans to entrepreneurs in the manufacturing and service sectors at interest rates of 4.5% -- where the government is expected to pay the remaining 4.5% of the interest to the banks. This is also done to ensure that the workers involved with large industries in the manufacturing and service sectors do not face corona-induced unemployment

**Third:** The government is also offering Tk20,000 crore in working capital loans to entrepreneurs in the SME sector at interest rates of 4% -- where the government is expected to pay the remaining 5% of the interest to the banks. If implemented effectively, it is likely to help the small entrepreneurs survive the economic downturn by offering them access to cheap working capital that can help them maintain their everyday expenses

**Fourth:** The government is expected to increase its expenditure through different instruments of social safety/security/welfare, which will work as a cushion for the people who depend on everyday wages -- and assist their socio-economic survival during these trying times. Notable programs include distributing rice at Tk10 per kg, cash amongst the targeted communities, widening the coverage of the old-age allowance, widow allowance, and allowance for the women oppressed by husbands in 100 most poverty-prone upazilas of the country

**Fifth:** The stimulus also involves a Tk9,000 crore working capital loans at 4% interest rate for the agricultural sector, which is expected to face lower disruptions in comparison to economic agents in the manufacturing and service sector

**Sixth:** The government is preparing food assistance for more than 10 million people living under the poverty line with the help of ration cards and is also planning to provide Tk2,000 each to 5 million urban poor in the month of May

Collectively, the overall stimulus is pro-poor in design, and it aims to protect workers who are most vulnerable to the economic shock; and it is also coherent with the key principles of a classic Keynesian response. Yet, going forward, the government can add more instruments to this stimulus to make the economic recovery inclusive.

### **Some issues that policy-makers can take under consideration:**

**First:** The government should provide -- metaphorically speaking -- a blank cheque to the health sector to contain the crisis as much as possible. Given the health crisis is intimately intertwined with the economic crisis, keeping the pandemic under control will be fundamental to reopening the economy. In this context, the government must make the health sector its priority sector for the next three years, followed by food security. And there is no harm in it, because adapting to the needs of the time is central to being a responsive government

In 2009, when the government inherited an acute energy crisis -- it made investments in the energy sector the most priority sector over the last decade. That is why it is not surprising that load shedding and electricity outages has now become a thing of the past. Hence, the post-Covid 19 world would now require a rearrangement of economic priorities in Bangladesh as we are dealing with a new threat -- and greater investments and comprehensive reforms in health care will not only make us more resilient to such threats, but such human capital investments can deliver long-run dividends for the country. In particular, why not make the provision of Universal Health Care a key agenda for Vision 2041?

It is also essential that the government accept the use of anti-body testing kit to complement the more complex PCR testing. This is a strategy that has proven successful in Germany and is now embraced by the UK, mostly because such cheap anti-body testing is the only mechanism through which factories can keep a basic health surveillance over their workers to ensure safety in the production process. This, nonetheless, requires a law that should compel all entrepreneurs to at least undertake one or two rounds of anti-body testing every month for all their staff.

**Second:** The government should seek at least \$5 billion of financing from the World Bank, IMF, ADB, and JICA to ensure that its stimulus does not create a high domestic debt burden which is usually more expensive than foreign loans. At present, it is currently negotiating a support of nearly \$700m from the IMF, which I feel is a good start. Bangladesh also faces a low public debt in proportion to its GDP, which gives it some cushion to devise a stronger stimulus. The challenge here is that we need to create a scope for short-term capital injection by creating long-term sustainable debt -- which requires careful fiscal and monetary manoeuvring.

**Third:** The government can consider turning interest payments from the previous loans -- for the period between March to August -- into long-term liabilities with manageable interest rates -- perhaps at 6.5%. This would require consultations with the economic stakeholders in the private sector, so that the private entrepreneurs do not face bankruptcy. This also might require some subsidization for the banks -- as they are increasingly under the pressure to service short-term deposits with long-term loans.

**Fourth:** The government should immediately involve private hospitals and NGOs in its current response framework, so that their capacities can be used to deal with the patients. The government should also involve the NGOs to identify the poorest families, so that a better framework of targeting guides its distribution of relief and aid. BRAC, in this context, has a long history in both devising support for the poor and undertaking public health programs.

**Fifth:** The government should develop a medical and economic response framework for the medium term to address the possibility that this pandemic might keep reoccurring and a vaccination is not developed in the next few years. In such circumstances, the government must internalize the lessons from South Korea, Vietnam, and Taiwan to understand their experiences and approaches, which were extremely effective in containing the virus in their respective countries. Such lesson-drawing initiatives will help the government develop a flexible response framework, which does not necessarily depend on imposing nation-wide lockdowns every time the virus reappears.

**Sixth:** The government must seriously consider direct income transfer to 10 million poor through digital financial services for two months -- perhaps Tk5,000 to each family per month for the month of June and July -- when economic activities are expected to remain lukewarm due to the after-effects of the lockdown. This will only cost the government Tk10,000 crore, which is a small sum relative to the resource base it enjoys in the present economic scenario.

On the whole, Bangladesh is currently experiencing an economic storm that it has never seen, and it has so far prepared a sound pro-poor economic stimulus to support a gradual economic recovery. The challenge ultimately lies in its effective implementation over the next few months and how well it handles the health crisis, so that we can successfully mitigate the harsh economic consequences of this pandemic.

But what exact attitude can improve the likelihood of an effective implementation? I guess, at the heart of it, there needs to be an appreciation for a wide consultative process, so that the good ideas find reception and appropriate measures are effectively scrutinized and executed to tame this once in a lifetime crisis.

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