

Covid-19 and Economy of Bangladesh

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Abstract

The most severe threat that the Covid-19 pandemic poses to the global economy is the need to choose between human lives and livelihoods. Bangladesh must assess the implications of such impacts on Bangladesh's macro-financial scenario to maintain the economy's current high growth trajectory. The paper outlines the major Covid-19 shock wave transmission channels to the four major sectors of the Bangladesh economy. Authorities around the world have taken every precaution possible to halt the spread of the pandemic. An aggregate transmission framework that includes these four sectors is required to contain the impact of Covid-19 can propagate through these sectors and eventually impact macro-financial stability.

KEYWORDS: Covid-19, Economy, Bangladesh

Introduction

The outbreak of Covid-19 forced the world to witness unparalleled economic emergencies, social constraints, financial crisis, and loss of lives. The wave of coronavirus creates a threat to the global and domestic economic and financial stability worldwide. Developing and emerging economies worldwide are turning quickly to the right path after the devastation done by the crisis. It is due to the reason of prompt actions and policy responses of the countries. The cumulative death of the countries reaches 3.3 million, and the global economy faced a loss of around \$400 billion. This pandemic showed vulnerability in the health care system and has caused irreversible destruction to the psychological health of all economic actors and sectors. (Cutler, 2020). Almost all the world countries were forced to order lockdown to contain the spread of this pandemic and enforced social distancing. Many countries closed the border to stop the virus from traveling internationally. All these measures converted into a severe challenge to the middle- and low-income people. The standard market system collapsed, and economic equilibrium changed.

Global Economy

The global supply chain faced a huge shock due to shortage and price hikes in many areas and volatility in the markets. There has been a slowdown in investments and decreasing remittance which affecting the economic growth negatively. The declining demand for oil and international travel post the oil price to decrease, and the traveling industry face a massive crisis. The labor-intensive countries face the most crisis as a substantial number of populations live under the poverty line. There have been significant job losses in the production, manufacturing, and service industries. The breakdown in the supply chain also created a health crisis an upsurge in the public debt burden. The world economy has taken a blow, and nearly all countries have felt the adverse effects of Covid-19. Global economic development has been badly harmed in the first half of 2020, with a global economic growth forecast of -4.9 percent in 2020. With the vaccine, the global economy will rebound sooner than predicted, but it will also face problems soon.

Impact in Bangladesh

In Bangladesh, the first case of covid was detected on March 8th, 2020. After the first detection, the number of infections increased every day. At the beginning of April, the number of cases

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started to soar at least an alarming level. The government initiated a lockdown tour of the country to contain the disease. After the resumption of normal economic activities again the number of cases in depth or spike. Most of the cases were concentrated in the big cities like Dhaka, Chittagong, etc. the economic growth of Bangladesh is experiencing robust growth throughout the last decade. The financial systems of Bangladesh were impacted as the majority of the people were forced to stay home in the lockdown. The export sector took a heavy hit due to the lockdown in the developed countries. Sectors like ready-made garments, manufacturing industries, education, and transportation have recorded a sharp decline for some time. A lot of people lost their jobs unemployed at this time. The private sectors faced a financial and operational crisis. Industries like agriculture, pharmaceuticals, industries, and food producing organizations continued their operation and supported the country. The government and the country's Central Bank immediately responded to contain the crisis and declared several financial and fiscal stimulus packages. It tried to ensure a smooth supply of credit-affected sectors of the economy while preserving financial stability. All these things were very much helpful to keep the economy vibrant and maintain financial stability. The policies were very much effective at that time, to meet the private sector's needs continuous support from the government and Bangladesh Bank.

The nature and magnitude of impact covid, length of stress period, and recovery phases affect the real, fiscal, external, monetary and financial sectors differently. Each of the sectors needs a different kind of policies to continue normal operations. To resume the operations of different sectors in the economy, effective policy measures are required. It also considers financial measures of the four broad sectors that have impacted the macro-financial system in the country. The government should also focus on the agricultural production industry and service sectors to enhance the output in the real economy. The magnitude of revenue shock due to covid is crucial to analyze effective fiscal and debt sustainability policy. Government should investigate the impact of the external sector and the spillover effects on other sectors Bangladesh's economy. The Central Bank of Bangladesh asset quality, liquidity capital adequacy of all the financial institutions' banks to identify actual financial stance of the country.

Empirical Studies

Economic stability has been defined in various ways by economists and researchers, international organizations, and central banks/monetary authorities worldwide. Some have described it as financial stability, while others have defined it as economic instability. Mishkin (1999), and Davis (2001) defined "financial instability" as the economic system's inability to perform its essential functions of allocating funds to productive sectors of the real economy. Mishkin (1999) identified information asymmetry as a major cause of financial instability, whereas Davis (2001) emphasized the importance of addressing systemic risk to prevent financial instability and emphasized the importance of payment services in addition to credit intermediation. Ferguson (2003) defined economic instability as a sharp divergence of asset prices from their fundamentals and a significant distortion of market functioning both domestically and internationally. Fiscal fragility is a substantial source of financial instability because the government's debt-servicing capacity (i.e., the sovereign debt crisis) may make major debt holders insolvent due to a lack of capital to cover losses.

The majority of central banks and monetary authorities around the world described financial stability rather than financial instability. The Bank of Japan considers confidence in the financial system to be an essential criterion of financial stability. Economic stability has been established by the European Central Bank, the Bank of England, the Deutsche Bundesbank, and the Federal Reserve System. The Reserve Bank of Australia, the Bank of Korea, the Bank of Japan, and the

Reserve Banks of India are central banks. Financial market turbulence or the collapse of a single or a group of financial institutions may not be considered threats to financial stability. Various types of crises, such as banking crises, may pose a threat to financial stability. The stability of four major economic sectors can be used to measure financial stability. The real sector, the external sector, the fiscal sector, and the financial and monetary sector are among them.

There is concern that Covid-19 will continue to have a long-term adverse effect on Bangladesh's economy. Bangladesh's government proclaimed a public holiday for more than two months and implemented various containment measures to protect lives. Identification of the transmission channels and their interconnections by which shocks are mediated from the real economy to the financial sector's balance sheet is critical. The real sector is a significant risk transmitter to the financial system due to the Covid-19 shock. Businesses and households are two of the most potent economic agents. Severe economic stress has been placed on all economic operations, businesses, and households.

Covid-19 affected household income, firm efficiency, and consumer spending. Due to public holidays, supply-chain disruptions caused by a ban on local and international transportation, and various other containment measures. Factory and office closures can result in low labor participation. Job cuts, layoffs, and temporary unemployment are expected due to lower output and lower operating cash flows. Covid-19 could result in a drop in aggregate demand, triggering a vicious cycle in the real economy (Ahamed, 2021). Earnings have fallen for both businesses and individuals. Investors' diminished confidence and penchant for precautionary cash hoarding during a pandemic could impact the capital market. Credit institutions, such as banks and NBFIs, are particularly vulnerable to credit risk, as the poor are excluded. (Disemadi, & Shaleh, 2020).

Policy Responses and Recovery

The government and the Bangladesh Bank should collaborate to combat the country's economic shock. The banking system can be a valuable channel for mobilizing funds for households and businesses. The government should take extensive fiscal measures to support the economy while minimizing the long-term impact. Cash transfers to households and businesses, interest payment subsidies, and various tax breaks help revitalize the economy quickly. A significant increase in budgetary allocations for healthcare and education is required to combat future crises. A substantial increase in budgetary allocations for healthcare and education is necessary to combat future situations. The unexpected drop in global oil prices provides an opportunity for the government to combat inflation and boost economic growth.

Because banks and other financial institutions are heavily involved in trade financing, and insurance, any disruption in these activities would presumably directly impact bank balance sheets. Foreign border restrictions may cause exports into the global market to be disrupted. Lesser exports are also expected to emerge because of weaker global demand. Lower local demand for already imported goods and slow external demand for exported goods may limit entrepreneurs' ability to repay (Gupta et. al, 2020). The inflows of remittances into a country may also be impacted by the temporary or permanent layoff of migrant workers. The sum of exports, imports, and remittances would have an impact on the current account balance.

Foreign investment and external debts can impact a country's economic balance sheet via the Capital Flow Channel. Global investors may shift their investments to safer markets, which may harm emerging economies' external balance sheets. The combined effect of exports, imports, remittances, and capital flow would affect the foreign exchange reserve. (Dev & Sengupta, 2020). Covid is an abbreviation for the acronym Covid. The financial sector may bear the brunt of the Covid shocks through increased spending on public health safety measures, disease control, and transfer payments to affected firms and households. A fiscal plan necessitates an

immediate rebalancing of resource allocations to contain the crisis. This looming revenue-to-expenditure mismatch may result in slower investment in development projects and another spending, as well as increased debt from domestic or external sources, to close the fiscal gap.

The government should provide tax breaks and increases in spending for both households and businesses to increase consumption. The growing budget deficit may impact the country's sovereign country rating and indicate an uncertain economic outlook. Expansionary monetary policy can make it easier for businesses to access liquidity and reduce the costs of an economic downturn. A positive monetary shock directs more resources to the economy and stimulates economic activity. The central bank should extend the grace period and give the existing credit lines more time to be repaid. Banks and non-bank financial institutions may face a capital shortage as non-performing loans rise and the central bank requests forbearance. Injecting liquidity into the financial system will relieve balance-sheet stress in the banking system.

Conclusion

Monetary, structural, and financial strategies face significant difficulties in stabilizing the macroeconomic and economic climate. Since the shock in the informal sectors is difficult to comprehend, a combined macroeconomic system infrastructure is critical for the economy. Policymakers should be mindful of the situation and make a decisive pass. There seems to be some governing space available for consideration by respective regulators and policymakers. The following policy choices should be implemented to make Father of the Nation's dream a reality. The author also proposes implementing a comprehensive action plan to enable jobless workers in the informal sector to invest in public works projects.

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