

# Coronavirus and the Bangladesh Economy: *Navigating the Black Swan Event of 2020*

SAJID AMIT

*Associate Professor, ULAB School of Business*

*Director, Center for Enterprise and Society, and Director, Executive MBA Program, ULAB*

## Background

Globalization has brought great benefits to the apparel industry as international fashion companies farm out production to cost-effective centers for manufacturing, and by carefully orchestrating a supply chain that spans multiple countries, are still able to deliver products at stores, in time. COVID-19 has exposed the vulnerability of these cross-country supply chains, with negative consequences for Bangladesh. There are other global impacts that will cascade to the Bangladesh economy, and local impacts on demand and supply in-country. This white paper aims to shed light on these global and local economic impacts of COVID-19.

At the time of writing, a global recession is considered an inevitability, but the jury is still out on the likely duration. Current measures of social distancing will flatten out the ongoing curve of infections. However, there is a limited possibility that infections may return in subsequent wave(s), even if in limited quantities, which may continue to have economic impacts. There are experts however who opine that the recession will fade out by Q4 2020.

The International Monetary Fund (IMF) thinks that the recession will be worse but more short-lived than the global financial crisis of 2008.<sup>1</sup> The duration matters greatly for Bangladesh, because its economic fate is closely tied to the fate of countries that enable the two R's that drive it: ready-made garments (RMG) and remittance.

## The 2 R's: RMG & Remittance

Large Ready-made Garments (RMG) companies which buy from Bangladesh are literally closing doors all over European and American cities. Stores have closed for H&M, GAP, Zara, Marks & Spencer, Primark, which are all major buyers. Shopping has come to a standstill as people avoid discretionary spending. There is also a measure of panic regarding raw materials sourced from China. As of March 23, 264 Bangladeshi garment factories have faced cancellations.<sup>2</sup> H&M, one of the largest buyers of Bangladeshi garments, has had to “temporarily pause new orders as well as evaluate potential changes on recently placed orders.”<sup>3</sup>

At the time of writing, BGMEA President Ms. Rubana Huq suggested the total impact of order postponement/cancellations will amount to US\$1.5 billion, which is roughly 50% of our average export income in a month.<sup>4</sup> Insiders interviewed suggest that if the virus continues to impact global supply chains, buyer demand, and of course, health and safety of workers, by Q4 2020, loss in export revenues could reach US\$ 4.0 billion.

This is not surprising because slowdown in US and EU economies have had ripple effects in the Bangladesh economy (Figure 1).<sup>5</sup> This correlation is most evident for the global financial crisis in 2008, when Bangladeshi GDP growth curve mirrors those of US and EU, albeit the drop off was less severe than for the developed economies.

Figure 1: Relationship between GDP Growth Rates: BD, EU, US, and the World



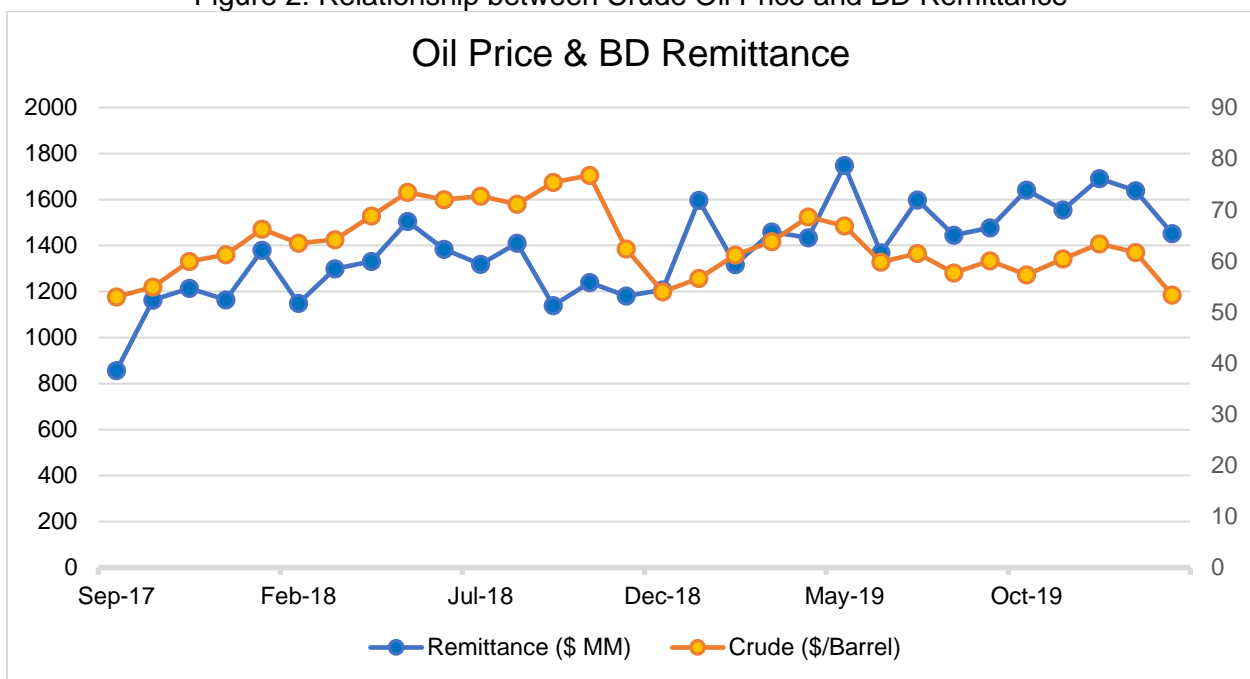
Source: World Bank, Inspira Advisory and Consulting, Ltd

However, international credit rating agency Moody's expects that the RMG sector in Bangladesh will recover by the end of the year, as demand recovers and supply chain shocks are overcome.<sup>6</sup>

Meanwhile, the other pillar of the Bangladesh economy, remittances sent by migrant workers, will also take an inevitable hit. Bangladesh has around 10.0 million workers overseas, with a majority in the Middle East and the US, UK, and Malaysia. Travel restrictions as well as economic slowdown and curfews in host countries, e.g., Saudi Arabia, UAE, Qatar, Kuwait, Malaysia, US and EU countries mean that the workers are losing out on wages. The Japan News tells us a story of a Jahirul Islam, 30, who will lose out on 2 months' pay, after being instructed by his employer, the Abu Dhabi Sports Academy, to go home.<sup>7</sup> While he decided to stay put for fear not being able to re-enter, there are news reports that an untold number of migrant workers have returned. There are also disconcerting stories of migrant workers being shepherded into “labor camps” in Qatar.<sup>8</sup>

Furthermore, oil prices have fallen precipitously, which is expected to aggravate demand for migrant workers. Oil prices are often an effective leading indicator of inward remittances (Figure 2). History shows that falling oil prices have a lagged effect on remittances into Bangladesh. At present, prices are falling because of reduced demand from sectors such as aviation and transportation sectors, as well as the Russia-Saudi Arabia price war.

Figure 2: Relationship between Crude Oil Price and BD Remittance



Source: Bangladesh Bank, IndexMundi

Overall, the drop in export revenues, RMG worker layoffs, and reduced flow of remittances will impact demand in the urban and rural consumer economy of Bangladesh.

## Impact on Consumer Demand

According to latest reports, scores of RMG factories are shutting down and workers are going back to the villages. This creates pressure on the rural economy at a time when urban-rural economic linkages have also been severely disrupted. To speak of the urban economy, malls have been closed from March 25, as per directive of the Bangladesh Shop Owners Association. Only kitchen markets, grocers' shops, shops selling daily essential commodities and pharmacies have been allowed to stay open.<sup>9</sup> In Bangladesh, footfalls will be minimal in April, which is usually a time stores do brisk business, because of Pohela Boishakh.

In one interview, a retailer with a relatively high capital investment opined she would focus more on her online sales. Our research suggests that several large retailers will look to strengthen their online operations, if effects of COVID lasts until May, which is the month of Eid, which is when retailers do most of their business. At the time of writing, Bangladesh supermarkets have had more resilient business, albeit for food items and groceries.

Of course, one of the hardest hit sectors is aviation. In interviews conducted with one of the largest travel agencies in Bangladesh, there was considerable concern about paying staff salaries at a time when customers were seeking cancellations, refunds, and holidays were clearly out of the question. Globally, travel agencies have digitized significant components of their value chain, especially booking and payments. Certain Bangladeshi travel startups have invested in this space, and as a result, may fare better than the competition in the wake of the crisis.

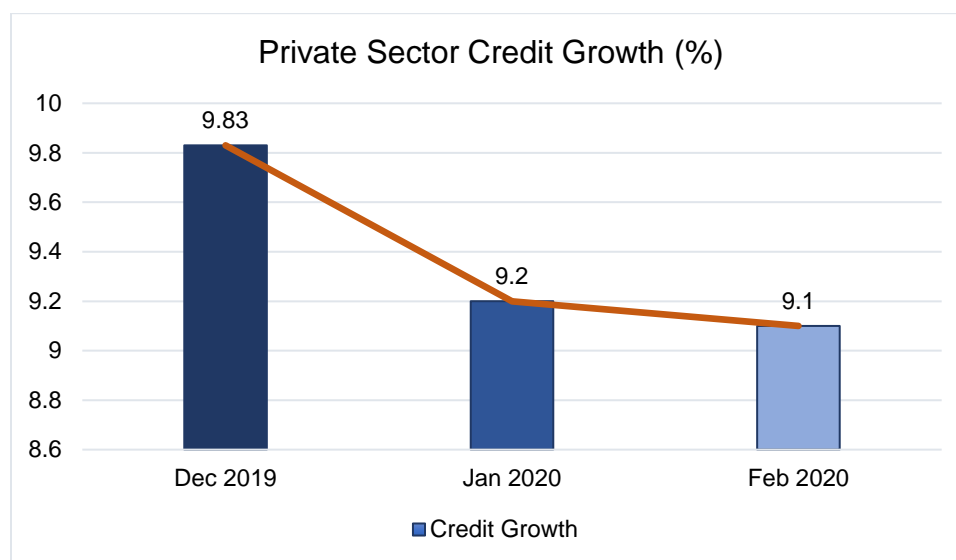
However, travel agencies constitute a fragmented sector in Bangladesh, and owing to COVID-19, many small ones are expected to close shop. Airlines and hotels have also been badly hit. As of March 1, Mr. Abdus Salam Aref, former Secretary-General of the Association of Travel Agents of Bangladesh, reported that outbound passengers had fallen by 70-80% and inbound, 35-40%.<sup>10</sup> By end of March, inbound passengers are expected to fall by 70-80% as well.

Overall, the current economic situation may seriously undermine the livelihood of the underprivileged cohort of the population. The Center for Policy Dialogue (CPD) has predicted that the effect of COVID-19 will be worst for people who are dependent on daily wages and low-income groups<sup>11</sup>. Lack of access to basic healthcare, knowledge of hygiene and social safety net has always been a challenge for this cohort and the pandemic is likely to increase these challenges, exponentially.

## Challenges for the Financial Sector

COVID-19 catches the Bangladesh financial sector at an inopportune time. Banks were trying to come to terms with the Ministry of Finance directive of 6% and 9% caps to interest rates on deposits and loans; vulnerable asset quality; moribund capital markets; and a struggling microfinance sector as access to donor funds and bank financing become more competitive. It is worth noting that in the last three months, private sector credit growth was already declining (Figure 3).

Figure 3: Growth Rate of Private Sector Credit



Source: Bangladesh Bank

A CEO of a leading private commercial bank suggests that banks were taking time to adjust to the 9% directive, as many were reluctant to lend at this rate. As effects of COVID-19 intensify, given that there have been several large-scale order cancellations for RMG clients, many loans may go into default, which is worrisome for the sector.

In the coming months, government sector bank borrowing may decline. This is because large projects such as the Padma Bridge, Padma Rail Link, Karnaphuli Road Tunnel and the Greater Dhaka Sustainable Urban Transport Project involve financial and technical input from China, both of which are expected to be adversely affected.<sup>12</sup> However, a temporary slowdown in government borrowing may assist private sector lending, through a “crowding in” effect. The significance of this remains to be seen. The Bangladesh Bank has also attempted to pump cash into the economy. It has cut both repo rate and cash reserve ratio by 25 and 50 basis points, respectively.

Moreover, the central bank is buying dollars from commercial banks, with the intention of curbing taka’s appreciation against the dollar,<sup>13</sup> has provided guidance on provisions for rescheduled loans, and instructed banks to extend tenure to realize export proceeds, while allowing importers time to make import payments. Once the






current risks of infection subside, the quantitative easing is expected to encourage banks to seek out investment opportunities. Whenever this happens, some of this liquidity may also find its way into the stock market.



Therefore, while markets are falling, and it is of course, never possible to time a market bottom, there are fundamentally strong equities trading at historically low prices at present.

### Impact on Small Businesses and Startups

At times of economic turmoil, small businesses and startups are usually the worst hit. Raising funds is difficult as it is, for small businesses and startups. When it comes to SME's, in an environment of 6% and 9%, access to finance will become more difficult as banks will be reluctant to make SME loans at 9%, since SME operations are more expensive for banks. It is hoped that the Government will offer SMEs some form of reprieve in the stimulus package that is being designed. For Bangladeshi startups, although the ecosystem is at an early stage, with a handful of startups responsible<sup>14</sup> for a lion share of funds raised, COVID has had adverse consequences (Table 1).

Table 1: Impact of COVID-19 on Startups

Sector	Impact
Mobile Payments  	Cash management is increasingly becoming challenging for bKash. The entire process of physically collecting money from agent points and depositing into bank accounts, has been compromised. To support this critical sector, policy support is required to create more opportunities to convert cash to digital money; discourage cashing-out and at the same time, encourage more merchants to accept digital money. Success of mobile payments is important to continue digitization of the financial ecosystem. bKash is responsible for majority of the funds raised by the tech startup ecosystem, which helps build a track record for future startups.
Ridesharing  	As per a BRTA directive, ridesharing by Uber and Pathao have been banned to limit the spread of COVID-19. This has been a debated move and follows India's ban on such services. This ban and its fallout will have both demand and supply-side impacts on Pathao, Uber and Shohoz. Meanwhile, Pathao has launched innovative services such as Pathao Tong, Pathao Pharma, and Pathao Parcel to help people use the platform to buy groceries, medicines and essentials.
Food & Grocery Delivery 	According to interviews, food delivery businesses have slowed down across the board. However, the platforms are still operational: Food Panda, Pathao Foods, Uber Eats, and Shohoz Foods. An exception is ChalDal, which, at the time of writing, was experiencing a sharp increase in their grocery

	<p>delivery business. However, most restaurant-based food delivery businesses have been hit by the fact that people prefer cooking at home at this time. Most of the leading food delivery startups have also launched “contactless” delivery allowing users to pay using cards or mobile payments.</p>
<p>E-Commerce and Home Services</p> 	<p>E-commerce platforms have been adversely affected. Most of them have been hit with supply-side constraints. Daraz has closed its doors for 10 days. Sheba.XYZ, which is an e-commerce platform for home services, has noticed an uptick in deep cleaning services. Sheba has also shown impressive social responsibility by launching a drive to manufacture and distribute hand sanitizers in partnership with Dhaka University Chemistry Department.</p>
<p>E-Health (Tonic)</p> 	<p>The Bangladesh e-health ecosystem has considerable potential but a limited number of startups that have strong cash runways. Tonic, owned by Digital Healthcare Solutions, formerly by Telenor Health, is experiencing a 30% uptick in telephone consultations and are expected to launch video consultations, shortly. They have also launched a symptom checker in Bangla. COVID-19 has underscored the growth potential of this space.</p>

Fundraising for startups is difficult even in a healthy economy. At the time of Corona, when public equities are being deemed risky and even gold prices have been shaky, startup investing will likely take a considerable hit in the coming months.

The silver lining to this economic scenario is that the Bangladesh Government has come out strongly and in a timely manner announcing a multisectoral stimulus package that will shore up RMG businesses, provide direct incentives to workers, buttress the banking system, ensure liquidity in the economy, enable reprieve to exporters and importers, and provide support to other impacted sectors such as tourism, aviation, and hospitality.

In the long run, COVID-19 will have exposed areas for improvement in our health care system, IT infrastructure, workplace cultures, and adaptability of our public and private sector leadership. The virus may also have the unintended consequence of enhancing our social protection and emergency response capacity. It may also push us further along the digital transformation curve. This is a curve we do not wish to flatten, but only steeper.

Given the Bangladesh government’s commitment to ensuring quarantine at a time when official figures of COVID-19 affected persons are low compared to other countries; the potential of a well-considered stimulus package; speedy monetary and fiscal interventions; and not to mention, a large informal economy; there is a possibility that the economy may show signs of reversal by Q4 2020. Of course, much depends on the capacity of RMG and manpower importing countries to recover from economic shocks.

Meanwhile, the resilience and resourcefulness of Bangladeshi people will surely be tested.

## References:

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<sup>1</sup> On March 22, the IMF, in a cautiously worded statement, suggested that COVID-19 may trigger global recession in 2020, but that the world economic output should rebound in 2021. The IMF statement is available here: <https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency>

<sup>2</sup> This number comes from a TBS report citing the actual source, the Covid-19 monitoring cell of the BGMEA. The report is available here: <https://tbsnews.net/economy/rmg-factories-operating-precautionary-measures-60022>

<sup>3</sup> For more on this topic, see: <https://qz.com/1821511/coronavirus-threatens-jobs-of-garment-workers-in-southeast-asia/>

<sup>4</sup> Ms. Rubana Huq has indicated this in a LinkedIn Post, which as of March 27, 2020, was available here: <https://bit.ly/3bsbTba>

<sup>5</sup> This comparison has been noted earlier by Inspira Advisory & Consulting in a report available here: <https://www.inspira-bd.com/thought-leadership/safeguarding-economy-during-the-corona-pandemic>

<sup>6</sup> As of March 19, 2020, Moody has confirmed Bangladesh's respectable Ba3 rating: [https://www.moody.com/research/Moodys-affirms-Bangladeshs-Ba3-rating-maintains-stable-outlook--PR\\_418344](https://www.moody.com/research/Moodys-affirms-Bangladeshs-Ba3-rating-maintains-stable-outlook--PR_418344)

<sup>7</sup> <https://the-japan-news.com/news/article/0006441366>

<sup>8</sup> Steve Cockburn, Amnesty International's Deputy Director of Global Issues, has been vocal in condemning such labor camps. Press release available here: <https://www.amnestyusa.org/press-releases/qatari-migrant-workers-in-labor-camps-at-grave-risk-amid-covid-19-crisis/>. For more, see: <https://www.newagebd.net/article/103061/bangladeshi-migrants-hit-hard-in-middle-east>

<sup>9</sup> For more, see: <https://www.newagebd.net/article/102957/shopping-malls-markets-across-bangladesh-closed-until-march-31>

<sup>10</sup> For more on struggles of the tourism sector, see: [https://bangladeshmonitor.com/front\\_page/100/BD-tourism.-aviation-take-hit-by-Coronavirus-fallout](https://bangladeshmonitor.com/front_page/100/BD-tourism.-aviation-take-hit-by-Coronavirus-fallout)

<sup>11</sup> For more, see: <https://cpd.org.bd/cpd-urges-targeted-expansionary-measures-to-tackle-corona-risks/>

<sup>12</sup> Credit growth is a point of concern for bank leadership and the government. For coverage on this issue, see here: <https://tbsnews.net/economy/banking/virus-worsens-private-credit-growth-february-60709>

<sup>13</sup> The Bangladesh Bank has been vigilant and effective in the past in managing the dollar rate so as to support the export-oriented sectors. For recent action, see here: <https://thefinancialexpress.com.bd/economy/bangladesh/bb-buys-us-dollar-from-banks-to-keep-forex-market-stable-1583813208>

<sup>14</sup> The startups that have been responsible for bulk of the investments into the ecosystem are bKash, Pathao, SureCash, ShopUp, Augmedix, Shohoz, and Chaldal. bKash has raised the maximum funds thus far, more than 50% of all FDI to startups. It is important to build up a track record of foreign investor flows to encourage future flows to BD startups.