



# Anatomy of the Stimulus Package in Bangladesh

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The economic crisis, caused by COVID-19, is deepening in Bangladesh over time. The crisis is unprecedented at both the national and global levels. It is now inevitable that the global economy will fall into a deep recession. If the economic crisis in Bangladesh is prolonged, there is also a high risk of social crisis. The health crisis in Bangladesh is high as the country is already observing worrisome health-related impacts of COVID-19. The number of coronavirus infected people is increasing at an alarming rate, and, at the same time, the number of deaths is also on the rise.

Forecasts by different international organisations suggest that the crisis is likely to drastically reduce the Gross Domestic Product (GDP) growth rate of Bangladesh. Since the onset of the crisis in March 2020, all major economic activities in the country have been severely affected. With the global economy going into a deep recession, exports from Bangladesh have fallen in an unprecedented manner. The remittances, despite some temporary surges, are also feared to be badly hit in the coming days. On the social front, poverty and employment situation in the country has become grave. The crisis is likely to lead to a big jump in the poverty rate in Bangladesh. The success of reduction in poverty so far is feared to be undermined due to this crisis. The crisis is going to have a long-lasting dent on the development trajectory of the country.

To combat the economic and social crisis and to ensure recovery of the economy, the government announced 19 stimulus packages accounting for around 3.7% of the GDP of the country. The stimulus measures, taken so far, are as follows: (1) BDT 50 billion for export-oriented industries to pay the wage bill for three months. This stimulus package comes as 2-year loans to factory owners at 2% interest. (2) BDT 300 billion for banks to provide working capital loan facilities to the affected industries. Loans, under this stimulus package, are at an interest rate of 9%. While half of the 9% is to be borne by the borrower, the other half will be borne by the government as a subsidy. (3) BDT 200 billion for banks to provide working capital loan facilities to small (cottage industries) and medium

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enterprises. However, these loans are at an interest rate of 9%, 4% to be borne by the borrower, and 5% by the government as a subsidy. (4) A refinance scheme of BDT 50 billion for the agriculture sector. The Bangladesh Bank will charge interest of 1% from banks, and banks will charge 4% from customers. The loan will be repayable within 18 months including the six month grace period. (5) Under the Back-to-Back LC arrangement, the Export Development Fund of the Bangladesh Bank is increased from USD 3.5 billion to USD 5 billion to facilitate further import of raw materials. The interest rate is 2%. (6) BDT 50 billion pre-shipment credit refinance scheme by the Bangladesh Bank for local products and the export sector, under which the Bangladesh Bank will charge interest of 3% from banks and banks will charge 6% from customers. Also, there have been some policy measures by the Bangladesh Bank to increase cash flow in the economy. Further, the budget 2020–2021 provides some support measures for returnee migrants. There have been some social safety net programmes to address the growing poverty and vulnerability of the population as well.

There have been some guidelines in place concerning the aforementioned stimulus packages. In particular, the guideline for the disbursement of the BDT 50 billion stimulus package for the export-oriented industries, primarily the Ready Made Garments (RMG), mentions that businesses can avail of funds from the stimulus package at 2% interest to pay their workers' salaries for up to three months. The salaries must be paid through either a bank or a mobile financial service account. Management of export-oriented companies or factories must provide salary sheets, workers' lists, and their mobile banking accounts to banks so that salaries of workers can be directly disbursed. The banks, afterwards, will forward the same documents to Bangladesh Bank for reimbursement. The borrowers will get a six month grace period, implying that they will start paying back the borrowed money in instalments to the government from the seventh month of receiving the money.

The Bangladesh Bank also issued a guideline setting conditions for loan disbursement under the BDT 300 billion stimulus package. The conditions included maintaining a single borrower exposure limit, loan classification and provisioning rules, and the highest loan limits for both banks and clients. The Bangladesh Bank, in a circular, also asked banks to verify entities so that they can get authentication certificates from the Federation of Bangladesh Chambers of Commerce and Industries.

Bangladesh's stimulus package, in proportion to GDP, has been much higher than those of South Asian and Southeast Asian countries. However, it should be kept in mind that large stimulus packages are likely to be ineffective if they are associated with poor execution, unplanned allocation of funds, and weak accountability. All these three issues are extremely important for the effective implementation of the stimulus packages in Bangladesh.

The financing of large stimulus packages in Bangladesh may appear to be a big challenge. The major part of the stimulus package in Bangladesh is credit-based where the government is providing interest rate subsidy. A rough calculation suggests that the amount of this interest rate subsidy will be in the range of 0.2–0.4% of the GDP. Therefore, the burden of the government in financing the stimulus package is expected to be much lower than the total face value (3.7% of GDP) of the stimulus package.

Proper management of the stimulus package is critical. It is important to note that Bangladesh does not have any experience of implementing such a large amount of stimulus packages. The crisis induced by COVID-19 is very different from the crisis such as cyclones or floods, and Bangladesh usually faces and handles much more effectively. Therefore, during this crisis, when such a huge amount of money is being injected into the economy, the success of the stimulus package will depend largely on the management of this package by the government. There are two aspects to the stimulus package. One is to assist the affected industries, and the other is to address the food security problem of the poor and vulnerable people. In both cases, there is a need for efficient supervision—who will get the money and assistance and how. For the affected firms, the operationalisation of the stimulus package seems to remain a big problem. The operationalisation procedure involves the identification and selection of the affected firms, disbursing of credit through the banking channel, and monitoring of the overall process. All these steps, no doubt, suffer from critical institutional challenges in Bangladesh.

Identification and selection of the affected firms have been problematic in Bangladesh. While firms are self-selecting themselves for seeking the benefit of the stimulus package, there has been no formal or systematic process through which any rapid assessment can be done on the needs of the affected firms. In the absence of any kind of assessment process, many eligible firms may be denied the support. In contrast, powerful firms, with strong lobbying and useful political links, despite that many of them may not need the stimulus package, may dominate the scenario. In this case, the whole objective of the stimulus package will be at stake.

The next challenge is the disbursement of the credit to the selected firms through the banking channel in the form of subsidised loans. The banking sector is already under tremendous pressure due to the high non-performing loans and poor governance. The formal procedural issues in the banking sector may also discourage many eligible firms to avail the benefit. This is true for the firms from the non-RMG sectors, and, in particular, for the Micro, Small, and Medium Enterprises (MSMEs). MSMEs are facing numerous challenges in accessing the stimulus package. There is a need for a dedicated window of facilities for the MSMEs sector.

Experiences so far indicate that while many RMG firms have been successful in availing the benefits of the stimulus package, many non-RMG firms have not been. That is why disbursing the BDT 300 billion stimulus package to affected industries, apart from the RMG, and BDT 200 billion for MSMEs has been very slow. With the exhaustion of the BDT 50 billion stimulus package allocated for them, the RMG lobby has also been successful in convincing the policymakers to allocate more funds for them from the BDT 300 billion stimulus package (whereas this package is for the non-export sectors). This lobbying pressure is likely to escalate in the future as progress in the disbursement of funds for other affected industries and MSMEs continues to be limited. This scenario reflects the RMG-bias in the policymaking process. There is a need for a reorientation of the policies to take into account the challenges faced by other sectors in the economy.

It is important to note that there are many deficiencies of the bureaucracy while implementing a big stimulus package as mentioned above. In particular, the lack of capacity and efficiency of the public management system will remain a big

challenge, which harbours corruption. In this context, when there is a question of disbursement of a large amount of money through the stimulus packages, there will always be people (within and outside the public management system) to take unfair advantages of it. Already some of these corrupt practices have become visible. Therefore, transparency and accountability should be ensured in the implementation of the stimulus package. Without proper monitoring of the use and management of stimulus package funds, its purpose will remain elusive. Thus, there is a need for the immediate formation of a national monitoring committee comprising representatives from government agencies, NGOs, civil society, the business community, and labour organizations.

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