Bangladesh Coronavirus Update:

# Unprecedented Macro Challenges Require Unconventional Policy Measures

## Key Highlights

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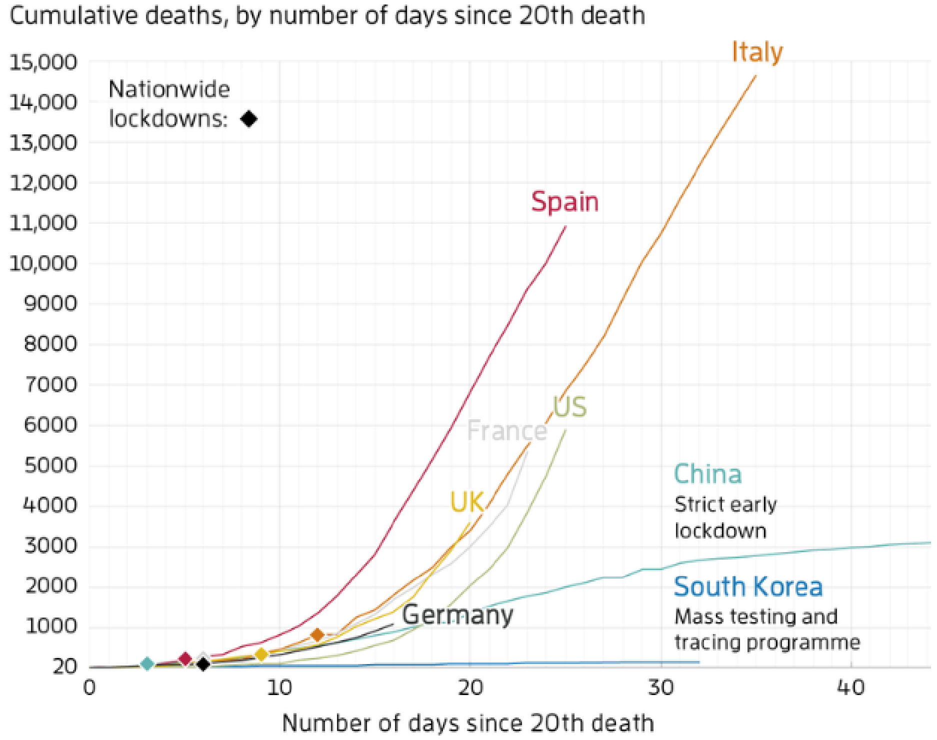
- *The Coronavirus pandemic and accompanying lockdowns in key export markets and have created the "Perfect Storm" for the Bangladesh economy.*
- *Our central forecast is for GDP growth for 2020 to slow to 2% from more than 8% in 2019. Exports are likely to fall by 25 % (USD 10 bn or 3% of GDP), remittances USD 5 bn (or 1.5% of GDP) and domestic demand 3% of GDP. Foreign Aid inflows will rise USD 3bn, a small offset. But the risks of recession and negative growth are growing in the absence of aggressive policy measures.*
- *The BDT 727.5 bn (USD 8.6 bn) fiscal package announced by PM Hasina on Apr 5, while welcome, will likely prove insufficient to stabilize the economy and prevent a further slump in economic activity.*
- *Subsidized loans are an ineffective stimulus instrument given the unprecedented collapse in demand in export markets and the domestic economy.*
- *We recommend a further BDT 1 trillion (USD 12 bn) to establish an Emergency Coronacrisis Fund. The Coronacrisis bonds can purchased by Bangladesh Bank as well as multilateral institutions such as the IMF, World Bank, ADB and the newly established AIIB.*
- *Debt Monetization is justified by these exceptional times and poses manageable macro risks.*
- *On Monetary Policy, we recommend an immediate reduction by Bangladesh bank of interest rates to 3% from 5.75%. This should be combined by Quantitative easing measures with BDT 300 bn (USD 3.5 bn) purchase by Bangladesh Bank of government bonds, which is just under 20% of the existing stock, which will inject important liquidity into the financial system.*
- *The Coronacrisis fund should fund direct grants to pay 80% of worker wages. It is not reasonable to expect Factory owners who may see 3 months plus of limited revenues to take on more debt to sustain employment. The risk is they will just shutter their factories.*
- *This initiative needs to be extended to all other export sectors as well as any domestic companies who are badly affected. The key is to avoid mass layoffs that would cause a collapse in economic activity.*
- *The Government can also use the fund to create a broader temporary social safety net for day labourers and others unable to work due to the crisis.*
- *This will also alleviate the humanitarian crisis and potential social instability to avoid starvation and extreme poverty where people who cannot work due to social distancing initiatives at least can feed themselves.*
- *We also believe, as we have seen in the UK, interest and mortgage payments should be frozen for both the corporate and household sectors. This should be extended to rent holidays during the period of Coronacrisis dislocation.*
- *The failure to adopt such unconventional and aggressive policy measures risks not only further economic collapse but the potentially destabilizing scenario where lockdowns are prematurely relaxed due to economic necessity only to see virus cases and deaths accelerate exponentially again.*
- *Finally, a portion of the Coronacrisis fund needs to be targeted towards expanding testing for the virus and increasing hospital COVID-19 treatment capacity with a particular focus on ICU and ventilators.*

# Bangladesh Coronavirus Update: Unprecedented Macro Challenges Require Unconventional Policy Measures

## Introduction

The Coronavirus Crisis (Coronacrisis) is unprecedented in its scale and breadth and is the biggest challenge for the global economy since WWII. While developed countries have responded with aggressive monetary and fiscal measures, developing countries have taken more cautious policy measures. The extremely contagious nature of COVID-19 is one of the major challenges that policymakers face. The aggressive shutdown measures to impose social distancing and slow the growth of infected cases in many countries despite the massive economic costs it imposes reflect the urgency with which Governments recognise the need to contain the pandemic. However, while the situation in developed countries presents massive challenges and shocks to their economies, the policy dilemma developing countries face in balancing health risks with economic ones is even more acute. The lack of a Social Safety net combined with the millions of day labourers who rely on their day-to-day wages for their survival present the biggest policy dilemma for developing countries in balancing the importance of controlling virus spread through lockdown versus the economic costs imposed. As Harvard Economist Ricardo Hausmann has noted in a recent article for Project Syndicate: "Even if developing countries want to flatten the curve, they will lack the capacity to do so. If people must choose between a 10% chance of dying if they go to work, and assured starvation if they stay at home, they are bound to choose work." Developed countries are adopting massive fiscal packages (more than USD 5 trillion for the G7 as a whole). Their main focus is to offset the collapse in demand and lost revenues for companies and income for households and make social distancing and lockdowns economically tolerable. Notable schemes include the 80% salary provision for furloughed or forcibly side-lined workers in the UK and generous social security benefits for the unemployed. This is accompanied by tax and financial/loan arrangements for companies facing a cash crisis. But the ability of governments to finance such initiatives is what is known by economists as "Fiscal Space". Developing countries such as Bangladesh which has a revenue-to-GDP ratio of 9.3% - one of the lowest in the world - have less fiscal space than developed countries like the US or Germany.
This note outlines why we believe that this is the time for bold and unconventional economic thinking and policy measures as well as urgent need for massive mobilization of support by developed countries to avoid a Health and Economic pandemic becoming a humanitarian crisis on an unimaginable scale.

**Figure 1: Coronavirus Death As of April 3, 2020**




Note: Only selected countries are shown
Source: New Scientist analysis of Johns Hopkins University, CSSE; Worldometers

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We believe that the UN proposal for a USD 2.5 trillion Coronavirus crisis package is justified and should be adopted quickly. The UN package is composed of USD 1 trillion of expanded special drawing rights; USD 1 trillion of debt forgiveness; a further USD 500 bn to fund a Marshall plan for health recovery and dispersed as grants.

Bangladesh needs to adopt aggressive quantitative easing as a means of increasing the resources available to fight the virus by increasing what economists call fiscal space, in order to avoid a rapid growth in poverty and even starvation undermining the attempts to mitigate virus spread through social distancing via lockdowns.

## BDT 727.5 bn Fiscal Stimulus Package Not Enough to Counterbalance Recession Risks

As we discuss in more detail in the next section, Bangladesh faces the risks of a its first annualized negative growth rate in recent recorded history. With an initial lockdown in place from March 25 coupled with collapsing export demand for RMG, the Government has been under pressure to respond. The initial Bangladesh on monetary policy response has been 25 bp cut in the repo rate by Bangladesh Bank. On fiscal policy the government announced a BDT 50 bn (USD 600 mn) 2% loan facility for the RMG sector for 3 years on March 25th for companies to pay worker salaries. In addition, it has made a large scale allocation of rice and other essential foodstuffs to be distributed to the unemployed and mass poor.

On April 5, Prime Minister Sheikh Hasina announced additional financial stimulus packages of BDT 727.5 bn (USD 8.6 bn) to be implemented in "immediate, short and long" phases. The programmes are: increasing public expenditure, formulating a stimulus package, widening social safety net coverage and increasing monetary supply. She also unveiled a plan of government action to overcome the potential COVID-19 impact on the country's economy. Earlier the PM announced a BDT 50 bn (USD 588 mn) package to pay the salaries of the employees and workers of export-oriented sectors (minimum 80% of production must be exported). The fund will be loaned to the companies by the commercial banks at 2% simple interest rate. The fund will be distributed through Mobile Financial Services such as bKash, Rocket etc. The loan must be paid within 2 years with 6 months grace period. In addition, it has made a large-scale allocation of rice and other essential foodstuffs to be distributed to the unemployed and mass poor. The total allocation of BDT 727.5 bn is around 2.5% of GDP, much smaller than the fiscal stimulus packages in developed economies which range from 10-20% of GDP.

While the headline numbers seem dramatic, in our view, the measures will only have a limited impact in preventing a collapse in demand and economic growth. Firstly, 2.5% of GDP is far smaller than the fiscal stimulus packages seen in developed countries. But more importantly, most of the fiscal stimulus package are subsidized loans @ 4.5% for larger enterprises and @4% for SMEs.

**Table 1: The Main Components of The Apr 5, 2020 Fiscal Stimulus Package**

| Pkg No | (BDT) | Beneficiary | Fund sourcing | Cost of fund |
|---|---|---|---|---|
| 01 | 300 bn | To be provided to affected industries and service sector organizations as working capital through banks | The commercial banks would provide the amount as loans from their own funds | 9% [4.5% by the beneficiary] [4.5% by the government as subsidy to the bank] |
| 02 | 200 bn | As working capital to SME including cottage industries | The commercial banks would provide the amount as loans from their own funds | 9% [4.0% by the beneficiary] [5.0% by the government as subsidy to the bank] |
| 03 | 127.5 bn | To facilitate raw materials imports under back-to-back LC | BB Export Development Fund (EDF) [Enhanced from BDT 3.5bn to BDT 5.0 bn] | 2% [existing EDF int rate = 2.73% = LIBOR+1.5%] |
| 04 | 50 bn | Pre-shipment Credit Refinance Scheme for local products alongside the export sector | BB | 7% |
| 05 | 50 bn | To pay salaries and wages for employees of export-oriented industries. Announced 25th March | BB | 2% |

*Source: The Business Standard and ATC Research*

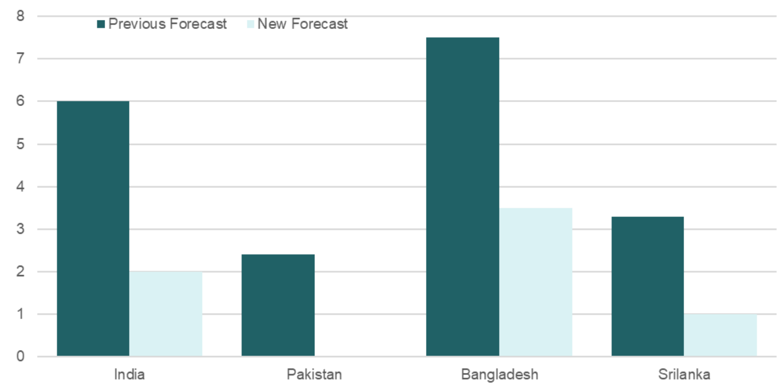
But it is far from clear how many companies will be motivated to take additional debt given the unprecedented collapse in revenues combined with the lack of certainty when the lockdown measures will be lifted in target export markets in developed countries. Indeed, uncertainty on the trajectory of the virus within Bangladesh along how many social distancing measures will need to be implemented and for how long is likely to make companies extremely cautious. One can imagine a scenario where the current lockdown is lifted due to the economic costs imposed but any renewed acceleration in the virus spread as social distancing measures are relaxed force further lockdowns in the future.

We believe the subsidized loans must be supplemented with more aggressive direct demand injection. The Bangladesh Government should issue a further BDT 1 trillion (around USD 12 Bn or 3% of GDP) of bonds to establish an Emergency Coronacrisis Fund. The Coronacrisis bonds can purchased by Bangladesh Bank as well as multilateral institutions such as the IMF, World Bank, ADB and the newly established AIIB. On Monetary Policy, we recommend an immediate reduction by Bangladesh bank of interest rates to 3% from 5.75%. This should be combined by immediate quantitative easing measures with BDT 300 Bn (USD 3.5 Bn) purchase by Bangladesh Bank of Government Bonds, which is just under 20% of the existing stock, which will inject important liquidity into the financial system We believe this is the right risk-return strategy for BD policymakers given the significant risks of economic recession as well as the urgent need to expand the social safety net given the uncertainties how long the collapse in exports, remittances and the domestic economy might persist with the latter influenced by extended potential lockdowns that may need to be in place. We discuss the macro case for these policy measures, the modalities of how this can be done and how the fund should be allocated/ targeted. Our purpose is not to criticize Bangladesh policymakers and we recognize the extremely difficult policy choices and balancing act they are faced with in the face of massive health challenges and economic shocks as well as the ongoing uncertainty of the coronavirus pandemic growth trajectory in Bangladesh and indeed globally. However, we would like to encourage the Government to move away from economic policy orthodoxy in these unprecedented times.

## The Perfect Storm: Bangladesh Recession Risks Grow

As lockdown continues and more data emerges, both on the economy as well as the coronavirus spread itself, is becoming clear that the impact of the Coronacrisis on the economy will be far more severe than the ADB forecast of a 1.1% GDP decline which the Finance Minister mentioned in his March 23 press conference. A more realistic estimate has come from the Economist Intelligence Unit which cut its 2020 GDP forecasts for Bangladesh to 3.5% from 7.7% previously, in line with similar revisions for India, Pakistan and Sri Lanka. But even a 3.3% GDP growth forecast is over optimistic in our view as the Coronacrisis leads to a " Perfect Storm" of economic shocks that undermines all the main pillars of the Bangladesh economy. Our central expectation is that GDP growth is 2% for the 2020 with a significant contraction in Q2. Exports are likely to fall by 25 % (USD 10 bn or 3% of GDP) or, remittances USD 5bn (or 1.5% of GDP) and domestic demand (3% of GDP). Foreign Aid inflows will rise USD 3bn, a small offset. But there is clearly a growing risk scenario where Bangladesh slumps to negative growth in 2020 from a record 8.15% GDP growth in FY 2019 if the Pandemic spread is more significant and sustained than the current limited official case numbers and deaths suggest (which are based on an extremely small number of tests).

**Figure 2: Real GDP Growth Forecast, 2020 (% Change)**




*Source: The Economist Intelligence Unit, March 2020*

We discuss the Coronavirus health strategy and different risk scenarios in more detail in a separate section later in this article. But a leaked WHO report of 1 to 2 mn potential deaths with no mitigating actions underlines the challenges for one of the most densely populated countries in the world with relatively limited health care resources compared to more developed countries. This is in stark contrast to the performance of Bangladesh during the 2008 Global Financial Crisis where it proved to be the most resilient economies in the world with GDP growth only declining from 6.1% in 2007 to 5.8 % in 2008. The source of this resilience, the so-called "Walmart Effect" was the focus on Bangladesh Garment exports at lower price segments which were boosted by consumers trying to economize. But this time is very different with the lockdown in the main export markets in the EU and USA remaining effectively shut during the lockdown facing twin supply shocks with retail shops closed and demand shocks from collapsed incomes and massive unemployment.

The RMG sector, which accounts for more than 80% of exports, has reported around USD 4 bn worth of cancelled orders by the end of March. This is likely to deteriorate further as the lockdowns in developed countries continue and economic contraction and job losses accelerate. There is no reason to believe that other export such as frozen food, footwear, jute, will not also be similarly affected. Our central assumption is that overall exports declines by 25% or USD 10 bn or 3% of GDP.

The second pillar of the Bangladesh economy - remittances - declined by 15% in March 2020 to USD 1.29 Bn, but this is likely to fall much further under the twin impact of the more than 50% fall in oil prices affecting remittances from the Middle East along with the economic slump in countries with large non-Resident Bangladesh (NRB) populations such as Italy (300,000) and the UK (500,000). Moreover, more than 666,000 of the 10 mn Bangladeshis working overseas returned home in the January to March period before travel restrictions were in place. Our central assumption is that remittances fall by USD 5bn, or approximately 1.5% of GDP in 2020.

A third pillar of growth - mega infrastructure projects - is also likely to slow down given travel bans for foreign workers and pressure on government finances. But perhaps the biggest shock will come in domestic demand in the face of the semi-shutdown that has been in place since March 25 when the government announced public holidays with most shopping malls closed. Only pharmacies, food shops and kitchen markets have been allowed to stay open and footfalls have collapsed with little prospect for recovery in April for the key Pohela Boishaikh (Bangladesh New year) which, along with Eid, normally sees the largest retail spending. Travel and hotels/hospitality industry has been particularly hit. With the impact on Rickshaw and CNG drivers who survive on day-to-day incomes particularly acute with anecdotal evidence suggesting an 80-90 percent drop in Rickshaw driver earnings.

Google's analysis of mobile phone location data showed a collapse between Feb 16 and March 29 of 68% in visits to retail and recreational places, including restaurants and movie theatres, a 46% decline in visits to groceries and pharmacies and a 26% decline in visits to parks. Traffic through transit stations and hubs fell 66%, workplace mobility down 60 percent. However, mobiles located in residential locations increased 24% as an increasing number of people stayed at home during the lockdown.

One counter-balancing factor is that the Agriculture sector which accounts for 45% of employment is likely less affected by the Coronacrisis. Indeed, as we have seen in other countries, there was panic buying and hoarding of food items which saw groceries sales rise sharply. But even segments of the food sector have been hit with poultry and egg sales slumping with chicken prices falling by 75% as consumers avoid those items. The Bangladesh Poultry Industries Association estimated losses of BDT 1.2 Bn (USD 140 mn) during the lockdown period from March 25 to April 9. They forecast BDT 5,000 mn (USD 60 mn) additional losses per extra week of lockdown. The digital economy has benefitted but accounts for less than 1% of retail sales and hence cannot see the kind of growth we have seen Amazon and Alibaba enjoy in the US, Europe and China.

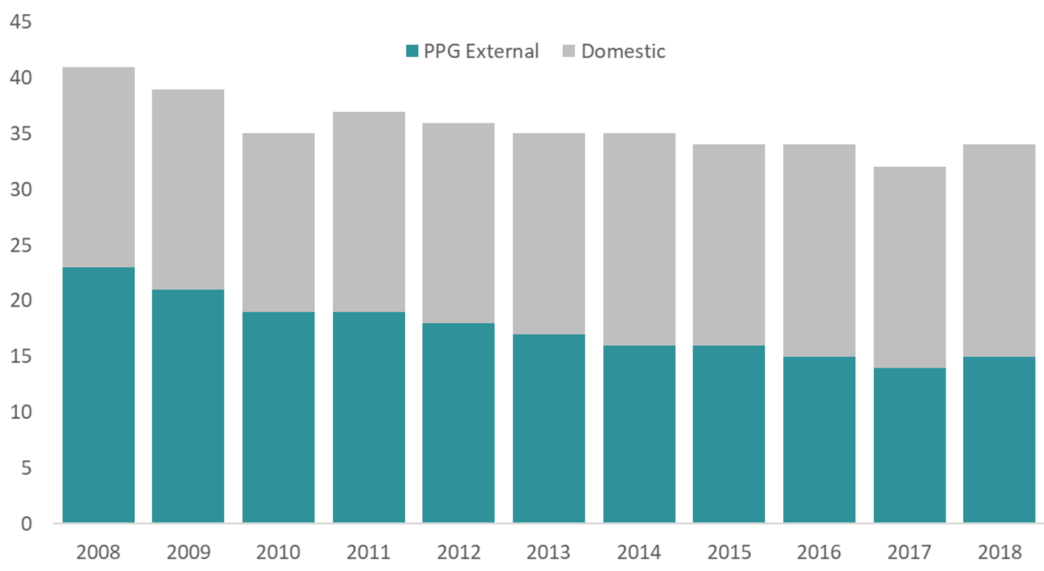
Another major risk for the economy is a deterioration in the health of the banking sector which already was struggling with a rapid increase in NPLs even before the Coronacrisis hit. Although BB has already restricting banks from classifying loans the underlying NPL position must surely worsen dramatically given the pressures on the RMG sector and remittances, which by some measures together account for 80% of the profits of banks. NPLs are also likely to increase sharply in the SME sector as well as for institutions and individuals with exposure to the capital markets.

Our central assumption is that sharply lower domestic demand will subtract 3% from GDP growth in 2020.

# Financing Fiscal Stimulus Through Unconventional policy: QE and Debt Monetization

In this section, we come back to the issue of whether Bangladesh has enough "fiscal space", or the resources to finance a BDT 1 trillion (USD 12 Bn). Bangladesh's revenue-to-GDP ratio of 9.3% is one of the lowest in the world. Moreover, the National Board of Revenue (NBR) missed its revenue targets and managed to collect only BDT 83.7 Bn in the July-November period of FY 2020 versus a target of BDT 1,105 Bn. So conventional fiscal space is limited. However, unprecedented economic shocks in the time of Coronavirus require exceptional measures. Hence, we would recommend that the Finance ministry issue BDT 1 trillion (USD 12 bn, or 3% of GDP) of Coronavirus bonds. These can be financed directly by Bangladesh Bank, which will increase money supply by that amount as new liabilities on their balance sheet and hold the Coronavirus bonds as assets. Economists call this debt monetization and this is normally a risky policy and not consistent with macroeconomic prudence. The reason is that in normal circumstances, such a policy will lead to excess money supply that risks causing both hyperinflation and potential capital flight and exchange rate depreciation. However, these are clearly not normal times. Firstly, with the exception of certain essential foodstuffs, the collapse in demand and massive rise in unemployment and collapsing consumer and corporate earnings will lead to deflationary risks in the economy, not inflation. The Bangladesh taka (BDT) has actually appreciated in the past few weeks as import demand has collapsed faster than export demand. Moreover, Bangladesh's Public Debt/GDP ratio is a relatively modest 34% and External Debt/GDP is relatively low at 18% of GDP. Bangladesh also has FX reserves which are around 9 months of import cover. So, taking on an extra 3% of debt to tackle the Coronavirus is not unreasonable.

**Figure 3: Total Public & Publicly Guaranteed Debt (in % of GDP)**




*Source: Joint World Bank-IMF Debt Sustainability Analysis, 2019*

Moreover, the Bangladesh government can supplement this BB financed debt package with external financing from multilateral institutions and other donor agencies. So far Coronavirus commitments include: IMF USD 750 mn; ADB USD 500 mn; WB USD 100 mn; and IDB USD 50 mn. But this is likely to expanded further as evidenced by the UNDP call for a USD 2500 trillion fiscal package for developing countries.

# The Coronacrisis Fiscal Package

So, what fiscal stimulus package makes sense for Bangladesh? In a majority of developed countries, they have focused on a combination of loan guarantees for business to ensure they get financing, coupled with commitments to pay 80%+ of worker salaries when they become furloughed or temporarily unable to work such as in the airline industry or hotels, due to the Coronacrisis. The table below summarises the range of fiscal measures undertaken. However, a developing country like Bangladesh with a relatively limited social security safety net and more limited tax base faces greater challenges not only to mobilize fiscal stimulus measures, but also to find an effective and efficient means of targeting ad distributing resources. We outline some potential components of the Bangladesh government Coronacrisis fiscal package:

1. The Government needs to avoid mass layoffs for both export and domestic industries affected by the Coronacrisis. The BDT 50 bn (USD 600 mn) proposal for RMG factories to help with worker wages is a positive step but should be a direct grant and not a low interest loan. It is not reasonable to expect factory owners who may see 3 months plus of limited revenues to take on more debt to sustain employment. The risk is they will just shutter their factories. This initiative needs to be extended to all other export sectors as well as any domestic companies who are badly affected. The key is to avoid mass layoffs that would cause a collapse in economic activity.

2. The decision to prevent banks classifying companies who can't pay their loans is a good initiative. But this needs to be expanded to ensure companies have enough liquidity with zero interest loans with a 1 year grace period to ensure businesses have enough cashflow.

3. There should be targeted resources allocated to SMEs in the form of both grants for worker wages and zero interest loans and the government can work with both leading SME Banks and NGOs to ensure the resources are well targeted.

4. The government of Bangladesh also needs to allocate substantial resources for direct grants to day labourers such as rickshaw drivers or construction workers whose income has been badly affected by lockdowns and social distancing initiatives.

5. Clearly there needs to be an urgent substantial increase in the health system to cope with the prospective surge in Coronavirus cases including a large expansion in hospital capacity with a particular focus on testing facilities/kits, ICU beds and ventilators.

6. Interest payments on corporate and consumer debt should be frozen for 3 months with the banks benefitting from the BDT 300 bn QE based liquidity injection.

7. Rent payments on both commercial and residential properties as well as utility bill payments should also be frozen for 3 months with landlords able to apply for rent payments directly from the Government's Coronavirus Fund.

8. Industries need to refocus their productive capacity to meet new demands in the Coronavirus economy. The initiative by BGMEA to significantly ramp up Personal Protective Equipment (PPE) production to meet domestic demand is welcome. As is the focus on getting necessary international certifications to allow for PPE exports.

9. Another area where the government needs to expand investment is in the Digital economy which is clearly set to receive a boost from the Coronacrisis. There are more than half a million drop-shipping marketers who sell goods online in international markets and the government can invest in more training and payments infrastructure to boost the growth of this sector. E-Commerce is also likely to be boosted over the longer term by uncertainty about more frequent pandemic outbreaks and we should also help develop greater media content creation and other segments that can home work.

**Table 2: Social Protection and Other Income Support Measures in Announced Fiscal Stimulus Package**

| Types of measures | Concrete actions |
|---|---|
| Measures to support businesses, with a focus on Small and Medium Enterprises (SMEs) | Sourcing worker's jobs and incomes by introducing or expanding support to laid-off workers or those whose wages are cut; training programmes. |
| Measures to protect individuals and households | Expanding economic support to sick workers and other families; extending or easing access to unemployment benefits, supporting workers who cannot work from home, including through offering care options; easing access to targeted benefits or providing a one-off universal income transfer. |
| Measures to strengthen public health systems | Increasing health spending |

*Source: UNDP*

## The Global Backdrop

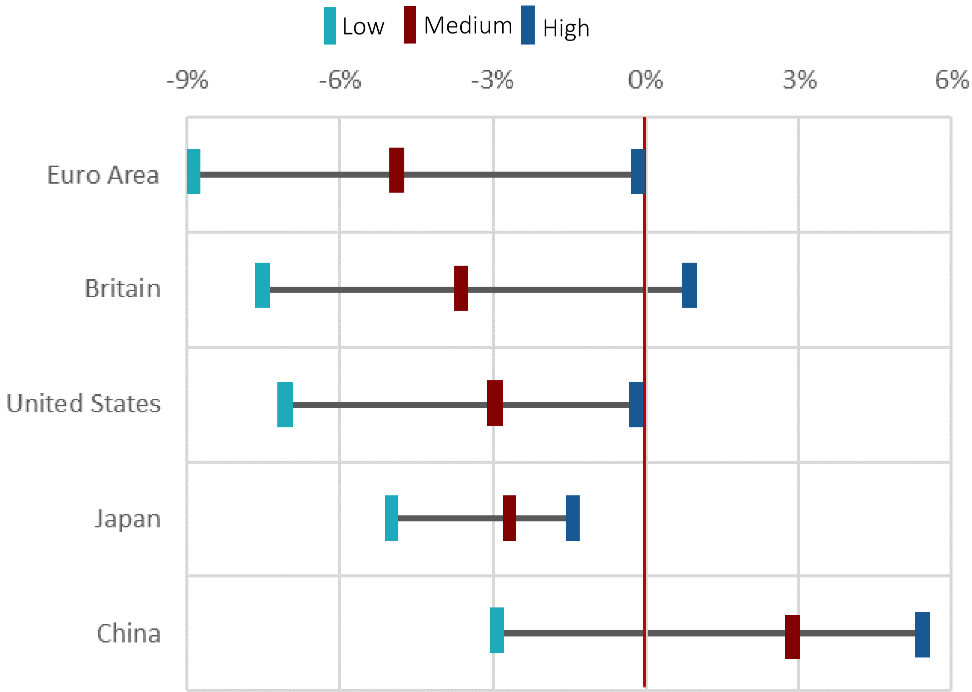
Since the Coronacrisis began in Wuhan, China in December 2019, the virus has spread rapidly to Europe, most notably Italy and Spain with the US now the new global epicentre. At the time of writing (Apr 03) the number of recorded cases globally has crossed 1 mn with over 50,000 deaths. In addition to increased testing and travel restrictions, countries around the world have tried to adopt aggressive countermeasures including various forms of lockdowns to impose social distancing to reduce the spread of the virus. As a result, the initial health pandemic has triggered an economic and financial system pandemic with large parts of the economy at a virtual standstill.

Output is collapsing due to both supply and demand shocks. Supply shocks because even if people have money to spend, with hotels, airlines and most shops closed, and travel restrictions all fundamentally limit the ability to spend. The collapse in corporate revenues and massive unemployment imposes an additional demand shock. The IMF has forecast the global economy to contract by 1.5% in 2020. The US Investment bank AT Capital predicts the US economy will contract by more than 30% in Q2 on an annualized basis with GDP growth of -6.5% for 2020 as a whole before a recovery in 2021. This is despite USD 2.2 trillion of fiscal stimulus measures passed by the US Congress (around 10% of GDP) and the US Federal cutting interest rates to zero. More significantly, they have announced the most aggressive Quantitative Easing measures ever with a commitment to purchase up to USD 2 trillion of bonds.

Despite this, initial jobless claims have surged by a record 9.5 mn in the past 2 weeks and non-farm payrolls fell by 701,000 with more to come as mass layoffs have occurred as large sections of the US economy have faced a dramatic slump as the lockdown imposes a deep freeze and virtual stop in the economy in a way that has not been seen before. Europe has faced a similar dramatic slump in economic activity and the ECB has responded with similar aggressive QE. If anything, the fiscal stimulus measures have been even larger than the US amounting to potentially 20% of GDP for Germany. China's initial monetary and fiscal policy stimulus measures have been more modest but they are likely to have to do more with the IMF forecasting China GDP growth falling to 2.3 % for 2020 from 5.8 % in 2019. But even this forecast is highly uncertain and subject to risks from a more prolonged recession in key exports markets of Europe and the US as well as risks that Coronavirus cases surge again later this year.

For India, Capital Economics forecasts GDP growth of just 1% for 2020, the lowest level for the past 40 years. PM Modi abrupt announcement of a lockdown with just 4 hours' notice gave households little time to buy essential goods and more tragically saw tens of millions of migrant workers forced to walk hundreds of miles home with no jobs or money in the absence of both work and public transport links.

Figure 4: Doom & Gloom- Economists' Forecast for GDP 2020 (Made in March 2020)




*Source: The Economist*

## The Coronavirus outlook and Bangladesh's Health Strategy

One area of absolute consensus is that the duration and severity of the economic slump in every country is a function of the spread and longevity of the Coronavirus pandemic itself. Projections and modelling around the world are subject to a huge range of uncertainty not least because much of these forecasts are subject to how many interventions such as social distancing and quarantining are effectively followed. But the picture in Bangladesh is particularly puzzling. As the table below illustrates, in stark contrast to a global total 1,200,000 cases and almost 60,000 deaths as of April 2nd, there were only 70 cases in Bangladesh and 8 deaths. In a country of 170 mn people this seems unusually low. Some have argued that high heat and humidity in Bangladesh may suppress the virus. There is some evidence of previous virus epidemics having seasonal patterns. In addition, Bangladesh has one of the youngest populations in Asia and there is clear evidence that the over-60 age bracket is far more susceptible to the Coronavirus. But counter-balancing this is the fact that Bangladesh is one of the most densely populated countries in the world along with high levels of air pollution causes increased respiratory vulnerability.

One factor is the low number of tests. As the chart below illustrates, Bangladesh has so far conducted one of the lowest levels of testing in the world – a total of less than 1700 in a country of 170 mn. Another reason to avoid complacency is that pandemics by their very nature can exhibit exponential growth. We have seen this in Italy and Spain in Europe. But the current experience of the US with an explosion to 300,000 cases from a very low base a few weeks ago is the starkest example of this. In the United States, there were only 7 COVID-19 deaths on March 13th, and just over two weeks later, on April 2nd, there were 4,513 deaths. Indeed, President Trump is now saying that "Keeping the US COVID-19 deaths [under] 100,000 would be a very good job."

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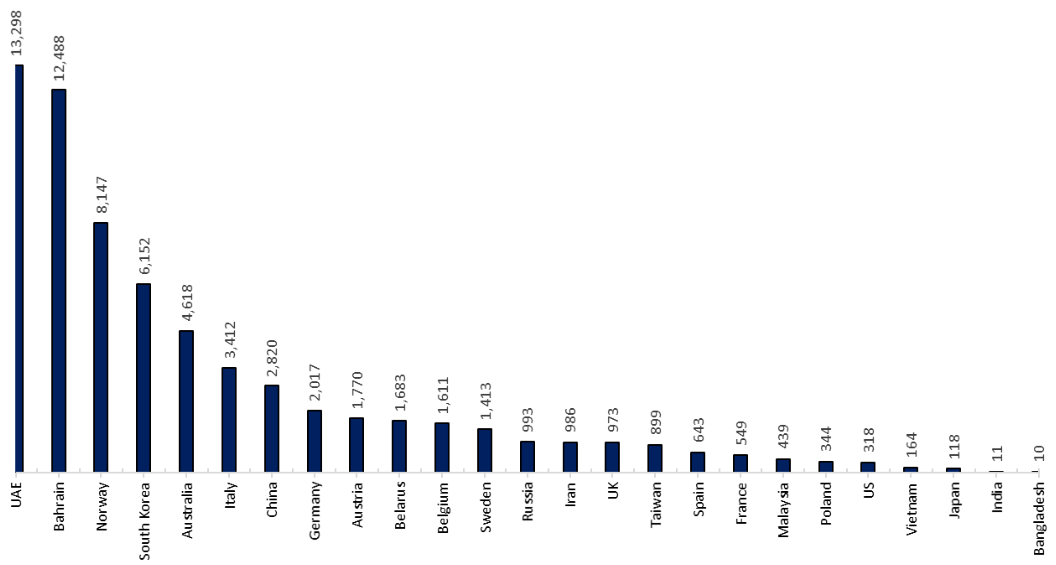
## Table 3: Total Cases As of April 5, 2020

| Country | Total Cases | New Cases | Total Deaths | New Deaths | Total Recov-ered | Active Cas-es | Serious Critical | Total Cases/ 1M pop | Deaths/ 1M pop | Total Tests | Tests/ 1M pop |
|---|---|---|---|---|---|---|---|---|---|---|---|
| USA | 311,637 | 280 | 8,454 | 2 | 14,828 | 288,355 | 8,206 | 941 | 26 | 1,656,897 | 5,006 |
| Spain | 126,168 | - | 11,947 | - | 34,219 | 80,002 | 6,532 | 2,699 | 256 | 355,000 | 7,593 |
| Italy | 124,632 | - | 15,362 | - | 20,996 | 88,274 | 3,994 | 2,061 | 254 | 657,224 | 10,870 |
| Germany | 96,092 | - | 1,444 | - | 26,400 | 68,248 | 3,936 | 1,147 | 17 | 918,460 | 10,962 |
| France | 89,953 | - | 7,560 | - | 15,438 | 66,955 | 6,838 | 1,378 | 116 | 224,254 | 3,436 |
| China | 81,669 | 30 | 3,329 | 3 | 76,964 | 1,376 | 295 | 57 | 2 | - | - |
| Iran | 55,743 | - | 3,452 | - | 19,736 | 32,555 | 4,103 | 664 | 41 | 186,000 | 2,214 |
| UK | 41,903 | - | 4,313 | - | 135 | 37,455 | 1,559 | 617 | 64 | 183,190 | 2,698 |
| Turkey | 23,934 | - | 501 | - | 786 | 22,647 | 1,311 | 284 | 6 | 161,380 | 1,913 |
| Switzerland | 20,505 | - | 666 | - | 6,415 | 13,424 | 391 | 2,369 | 77 | 153,440 | 17,729 |
| Belgium | 18,431 | - | 1,283 | - | 3,247 | 13,901 | 1,245 | 1,590 | 111 | 70,000 | 6,040 |
| Netherlands | 16,627 | - | 1,651 | - | 250 | 14,726 | 1,360 | 970 | 96 | 75,415 | 4,401 |
| Canada | 14,018 | 106 | 233 | 2 | 2,603 | 11,182 | 426 | 371 | 6 | 317,972 | 8,425 |
| Austria | 11,821 | 40 | 204 | 18 | 2,998 | 8,619 | 244 | 1,313 | 23 | 108,416 | 12,038 |
| Portugal | 10,524 | - | 266 | - | 75 | 10,183 | 251 | 1,032 | 26 | 81,087 | 7,952 |
| India | 3,588 | - | 99 | - | 229 | 3,260 | - | 3 | 0 | 128,320 | 93 |
| Pakistan | 2,880 | 62 | 45 | 4 | 170 | 2,665 | 18 | 13 | 0 | 34,885 | 158 |
| Bangladesh | 88 | 18 | 9 | 1 | 30 | 49 | 1 | 1 | 0 | 2,086 | 13 |

*Source: Worldometers*

## Figure 5: COVID19 Test/ Million (As at April 5, 2020)



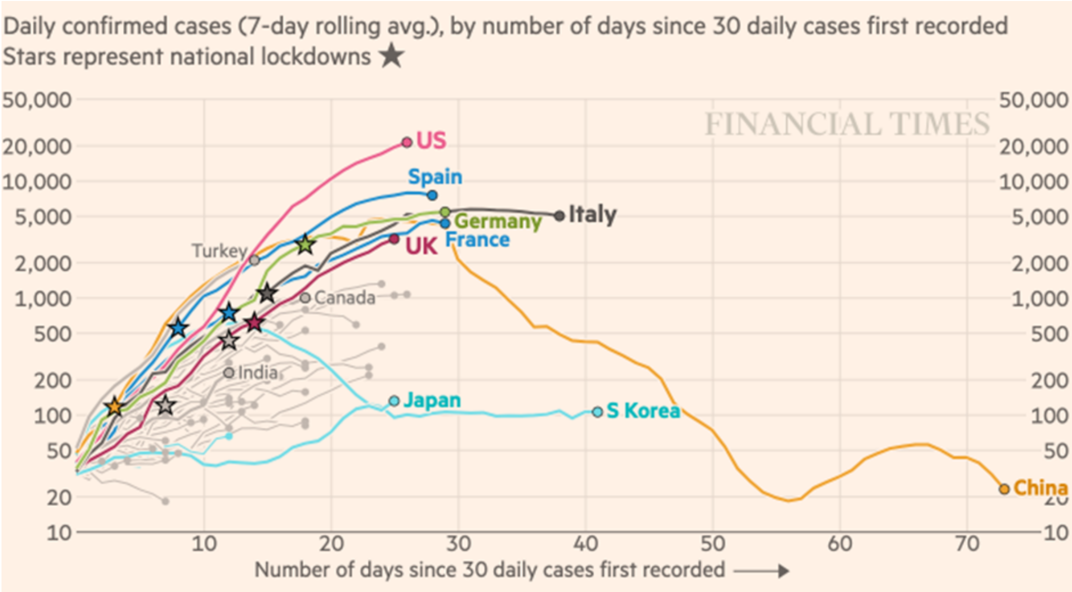

*Source: Worldometers*

A WHO inter-agency document forecast a potential 1-2 million deaths in Bangladesh if there were no interventions. However, the Government have instituted urgent semi-lockdown measures to enforce social distancing. However, those measures themselves saw mass migration of tens of millions of people back to their villages on March 25th. We saw hundreds of thousands of RMG workers again travel back to Dhaka and the RMG production belts of Savar and Gazipur on April 3rd in anticipation of RMG factories opening Apr 5th (in fact BGMEA announced they would remain shut until Apr 14th). As the chart below illustrates, there are early signs from Italy and Spain that social distancing via lockdowns is slowing the rate of growth of cases with some signs we are close to a peak. This validates the Bangladesh government's strategy though the economic damage of extended lockdowns, especially in a country with limited social safety net makes this an unsustainable strategy for Bangladesh.

The situation is especially acute given that Bangladesh has only 0.7 ICU beds per 100,000 people, 1/3rd of India's number and compares to 34.7 in the US which is suffering acute ICU and ventilator shortages.

The Bangladesh Government is attempting to increase testing but is facing the same challenges as most other countries where every government globally attempting to increase testing has seen a shortage of testing kits and reagents. We will need to wait until testing has been expanded further in Bangladesh and to get a more accurate idea of the Coronavirus spread in Bangladesh. The next 4-8 weeks will be critical.

Figure 6: Italy has turned the corner, with numbers of new cases now in decline, following China's footsteps




Source: Financial Times

Table 4: Number of ICU Beds per 100,000 people

| Country | Number of ICU beds |
|---|---|
| USA | 34.7 |
| Germanny | 29.2 |
| Italy | 12.5 |
| France | 11.6 |
| South Korea | 10.6 |
| India | 2.3 |
| Pakistan | 1.5 |
| Sri Lanka | 2.3 |
| Nepal | 2.8 |
| Myanmar | 1.1 |
| Bangladesh | 0.7 |

Source: Daily Newspaper and ATC Research

# Appendix

### Bangladesh Bank Policy Measures

- The central bank reduced the CRR Requirement by 50bps and Policy Rate by 25bps.
- No bank or NBFI loan could be downgraded to defaulted one until June 30 if borrowers fail to repay instalment.
- The banks which have rescheduled loans according to the new rescheduling policy will be allowed to keep 50% of the provision required.
- The monthly transition limit using mobile financial services (MFS) has been increased to BDT 200,000 from BDT 75,000 and no charge will be applied for P2P transfer. Clients will not fork out any charge for cashing out BDT 1,000 per day. Merchants will not be charged for settling transactions of BDT 15,000 daily and BDT 100,000 monthly while selling medicines and other essential goods if clients use debit or credit cards for payment. Transaction limit using contactless debit and credit cards rose to BDT 5,000 per day from BDT 3,000 previously.
- The central bank instructed banks to extend the tenure of realizing export proceeds from four months to six months. Similarly, Bangladeshi importers have been given more time to make import payments. The tenure was extended to six months from existing four months. The BB also increased the repayment tenure of loans, which were given out from the central bank's Export Development Fund, to six months from three months now. The period of back to back letters of credit opened under suppliers and buyers' credit has been extended up to a year from six months currently.
- The central bank will inject fresh fund through purchasing government securities directly from the banks to avert any unwanted liquidity satiation stemming from the coronavirus pandemic. As per the latest decision of the Bangladesh Bank (BB), interested commercial banks, as well as non-banking financial institutions (NBFIs) may sell their excess securities after complying with the statutory liquidity ratio (SLR).
- Banks can accept advance payments of up to USD 500,000 from (usually it’s USD 10,000) businesses seeking to import COVID-19-related life-saving drugs and essential medical items, including kits and equipment.
- The usance period for industrial raw materials can be increased up to 360 days from 180 days and the usance period for live saving drugs can be increased up to 180 days from 90 days.
- Foreign nationals can now remit 75% of their bonus at one-go. Previously the bonus amount needed to be spread over 12 months.

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