

# Economic Impact of COVID-19 on Different Groups of Peoples in South Asia: Evidence from Bangladesh

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**Abstract:** Within a couple of months, COVID-19 has evolved as an economic catastrophe beyond health cataclysm that was initially thought. It is already forewarned as to the deepest global recession since World War II. Bangladesh that represents the emerging market and developing economies (EMDEs) has suddenly fallen into a deep economic hole although unprecedented challenges resulting from the COVID-19 pandemic related to health, macroeconomic and social effects are on equal focus. World Bank, in its June 2020 estimation, has revised Bangladesh's growth downward to 1.6 percent in FY2020 whilst Bangladesh achieved average GDP growth of 6.5% since 2004 and generally, the labor-oriented service sector contributes about 50% to this growth. It is estimated that the national (upper) poverty rate from 24.3 percent in 2016 already increased to 35 percent in 2020. Declining demands, as well as supply disruptions, have weighed significantly on exports, especially exports of textiles and clothing products. Banking sectors are in potential risk due to the increase of Non-Performing Loan (NPL) which are mostly associated with the RMG industry and its backward linkage industries. On the other hand, the RMG sector has started to suffer from both cancellations of order and supply chain interruption alongside hamper in production due to lockdown. Slower loan recovery rate is also a cause of greater headache of the banking sector in this pandemic period. 85% of the total employment of the country belongs to informal sectors. A sharp fall in overall consumption led to decline in overall trade as well decline in production except for foods and medical items. SMEs have seen revenue drop by at least 50%, while 52% of SMEs have locks hung over their businesses generating no revenue at all. These all will create a large spillover effect on the state economy. To build quick resilience, some fiscal measures have been taken by the government of Bangladesh. IMF, ADB, and World Bank promised to support US\$730 million, US\$ 600 million, and US\$100 million respectively to increase social safety net. To build more and sustainable resilience, a number of interventions to be considered such as immediate access to capital and technology by small, medium, and regional clustered enterprises; proper guideline and financial support to forced migrant laborers, utmost attempt to collect the demographic dividend and more. The study stands for composition analyses of secondary data proceedings and literature on the previous pandemic.

**Keywords:** Economic Impacts, Social Groups, COVID-19, South Asia, Bangladesh

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## 1. Introduction

World Health Organization declared that the world economy is very strong, but is experiencing a very uneven recovery. Global growth is projected to reach 5.6% in 2021, the strongest post-recession pace in 80 years, partially supporting steady but highly unequal access to vaccines [1]

suggesting further downward revisions. These long-term implications could be more pronounced in the major G20 economies. The economic slowdown in Europe and North America is of particular concern to Bangladesh as it is the main market for ready-made garment, Bangladesh's main export product. Both of these regions are expected to slow for at least the next six months, affecting 4 million RMG industrial workers in Bangladesh. Bangladesh has been

severely impacted. The world economy is very strong, but is experiencing a very uneven recovery. Global growth is projected to reach 5.6% in 2021, the strongest post-recession pace in 80 years, partially supporting steady but highly unequal access to vaccines suggesting further downward revisions. These long-term implications could be more pronounced in the major G20 economies. The economic slowdown in Europe and North America is of particular concern to Bangladesh as it is the main market for ready-made garment (RMG), Bangladesh's main export product. Both of these regions are expected to slow for at least the next six months, affecting 4 million RMG industrial workers in Bangladesh [2]. Bangladesh, one of the most densely populated countries in the world, is an example of the triple blow that many emerging economies are suffering from COVID-19. A sharp decline in exports and remittances, especially in the ready-made sector. The once strong economy has slowed dramatically in recent months. Until the crisis, the economy has grown by an average of nearly 7% a year over the last decade, but 20% of the population earns less than \$5 a day and 9.2% of the country's workforce earns less than \$90 a day. Only 15 percent of Bangladeshi workers earn more than \$6.00 a day [3]. Now the situation is getting worse, by 2022, global production remains about 2% below pre-pandemic projections, with per capita income losses incurred over the past year at about two-thirds of emerging and developing countries. The study shows that saving of rural people decreased during pandemic and respondent who had saving habit even before pandemic were more likely to save during pandemic than those who had no saving habit [4].

The COVID-19 pandemic is spreading rapidly in Bangladesh. As of June 14, 2020, Bangladesh recorded a total of 84,379 infections and 1,139 deaths. This is the highest number of all 47 LDCs. The country is struggling to deal with the so-called dilemma between saving lives and securing livelihoods. The negative effects of a pandemic have traditionally disproportionately hit "left-behind" citizens and delay the achievement of the Sustainable Development Goals (SDGs). The clothing sector, which accounts for about 85% of Bangladesh's total export revenues, faces an existential threat, with 4.1 million workers, primarily women, facing an uncertain and dark future. Bangladesh's economic growth has been shown to be sluggish in 2020, with many export orders canceled or suspended. Losing a lot of work abroad poses two major challenges to the economy. It is the poor flow of remittances and the return of millions of migrant workers [5]. It is very important to know the sector level of damage and the measures to deal with the crisis. There are several potential risks due to COVID-19 pandemic faced by different groups of peoples and sectors, and the study out of the corporate responses and policy actions it is taking to address the threats and develop resilience.

## 2. Methodology

It is based on Information that has been provided by various individuals both public and private on the COVID-19

pandemic that is occurring. Some of this information is translations of publicly available information that can be used to share the knowledge, information and experiences regarding COVID-19. When this paper was written, all of the information and material contained were accurate.

## 3. Result and Discussion

### 3.1. Impact of COVID-19

The COVID-19 pandemic has a major economic impact in managing the economic crisis and containing the virus while maintaining the economy. It is clear that the economy has suffered a serious recession, which is reflected in the loss of employment, income and savings. Growth prospects for the next few years will depend heavily on the state of the global economy in a severe recession. According to the Bangladesh Statistics Bureau 20.5% of the population lives below the poverty line, this is about 34 million. 85.1 percent of the workforce is employed in the informal sector, which is about 50 million. Most of the workers in these informal sectors are also underemployed. Today, pandemics are further exacerbating their work outlook. It is now estimated that 80% of workers in the informal sector are unemployed due to the pandemic. Only 6 million people are employed in the formal sector, primarily in the manufacturing industry. Our economy damage due to RMG industry in Bangladesh gained attention after nearly \$3 billion worth of work-orders were canceled. Around 2 million workers are employed in these industries, while around 4 million people are directly employed in these sector e. g. industries with backward links, accessory and packaging factories, and the transportation sector [6]. Turning our gaze to the industrial sector which is also afflicted with the fatal contagious disease. We all know that diversification of exports is essential for long-term growth in foreign currency earnings, yet we are still largely reliant on the RMG sector. The RMG sector, according to this sector, accounts for 85 percent of the country's export revenues. Although the response to the epidemic and its impact on the industrial sector has been commendable thus far, the pandemic poses an economic and humanitarian dilemma. RMG also generates close to \$30 billion in exports, accounting for over a quarter of all exports and 14% of GDP. Exports have plummeted as a result of the cancellation of purchase orders from Europe and North America, and the industry is now in serious trouble. According to the Financial Express of May 9, in May of this year, merchandise exports fell by 61.57 percent to \$1.46 billion, compared to the same month last year (2019). In 2018, remittances from Bangladeshi workers contributed \$15.5 billion to the country's GDP. Now, host nations in Europe and the Middle East are experiencing economic slowdowns, resulting in large-scale migrant labor layoffs. The majority of them are now returning to Bangladesh, where they will return to their rural villages, worsening the health situation. Importantly, foreign exchange earnings of

the country are expected to drop by about 25 per cent which in monetary terms is estimated at more than \$4 billion. We anticipate that all the crisis-related borrowing will raise the public debt-to-GDP ratio to about 41 percent of GDP over the coming years, from 36 percent at the end of 2019. The banking sector will face liquidity pressures as deposits grow and loans recover slowly. Private sector credit growth could slow from March 2020 to June 2020. If the cash reserve requirement (CRR) is reduced by 1%, additional Tk will be injected. Liquidity in the banking sector is \$ 130 billion. Apart from that, the Bank of Bangladesh (BB) has Buyer's Credit, a 30 billion taka refinancing program for low-income earners, farmers and micro-entrepreneurs, postponement of interest claims on loans, restrictions on bank dividend payments, etc. Taken some healthy initiatives prohibits worker dismissals, maximum margin limits on baby food imports, relaxation of meetings and regulatory reporting. In addition, Bangladesh Bank has relaxed the Advance Deposit Ratio (ADR) benchmark from 83.50% to 87%. The financial markets, especially the banking sector, were hit hard long before this pandemic due to the regulated interest rate caps on deposits and prepayments. Falling oil prices will also bring about a sharp reversal of growth in the Middle East and North Africa. The Middle East and North Africa are also home to the large Bangladeshi diaspora, which sends back nearly \$ 20 billion annually. There is no doubt that remittances will decrease in the coming months. Also, in the countryside of Bangladesh, where families rely heavily on remittances to survive, this second impact will be felt in the country as well. Nearly 10 million Bangladeshi people work abroad, mainly in the Gulf countries. Falling oil prices now affecting Gulf countries and blockades imposed in Europe since April have already caused severe economic slowdowns in these countries, adversely affecting Bangladesh's expatriates.

The results of various studies show that the pandemic crisis has increased violence against women by about 30% and has significantly increased child abuse. Older people face the challenge of living because caregivers do not have the money to take care of them. It is a humanitarian crisis for the lower middle class, lower class and the poor elderly who are defending the survival of other families and relatives. About 20% of the vulnerable population left behind by society left the town for financial difficulties and headed for the village. They have no work and do not have enough money to pay for basic needs such as food, housing and medical care etc.

### **3.2. Initiative to Build the Resilience**

The situation can be exacerbated unless there are new investments in policies, practices and programs that support workers and their families while promoting a more resilient business model. Cooperation between Bangladesh and the world's major public and private sector stakeholders is essential to assist workers and their families in the world's second largest RMG sector in surviving the COVID-19 crisis [7]. According to various studies, lack of working capital is a

major obstacle to the continuation or resumption of business activities, reluctant to lend from financial institutions, and instead prefer financial support measures such as tax cuts and cash transfers [8].

The government has correctly recognized this as a challenge and has announced \$8.5 billion emergency package (equivalent to 2.5% of GDP) to provide funding to bridge working capital through Bangladesh's existing social security program. It accounts for only 15% of Bangladesh. The study shows that saving of rural people decreased during pandemic but respondent who had saving habit even before pandemic were more likely to save during pandemic than those who had no saving habit [9]. The population earns more than \$6a day and more than 90 percent of the workforce belongs to the informal sector. The government of Bangladesh has low tax rates on GDP, so there is not enough financial room to undertake large-scale stimulus measures, so the only viable option is finance already deployed by most developed countries. It is an expansion. The spatial dependence is varying across divisions and regions in Bangladesh [10] and the border district should pay particular concentration to policies in adjacent districts [11]. Ready-made workers have a wage support package of about \$600 million, which is offered in the form of a subsidized loan to the enterprise and can be paid for three months.

This is very important because the ready-made garment sector is responsible for many of the recent advances in women's participation in formal economic activities. In addition, about 5 million families evacuated by the pandemic will receive a total of about \$ 150 million in cash assistance. There are also measures to protect the homeless and distribute food. Cash benefits for the elderly, widows and people with disabilities are also expanding. Other favorable government interventions include tax cuts and cash transfers. These guidelines are essential in the short and medium term to support a company's cash flow so that it can continue to operate.

## **4. Conclusion**

In the Corona War, politicians are now working around the world to limit the damage caused by economic loss and are preparing to deal with the imminent economic crisis. Now is the time for both governments and businesses to assess the situation and implement long-term mitigation plans. The government's main task is to remove unwanted obstacles and create opportunities for the economy to face catastrophic situations through sound and clear policies such as monetary, fiscal and tax systems. Special attention should be paid to the elderly, women and children. The long-term impact of COVID-19 will become even more apparent in the coming months and years as developing countries need to be more vigilant in their plans to eliminate the impact of the outbreak of COVID-19. But in the short to medium term, various sectors need help to survive the current crisis, prepare for socio-economic development, and reduce growing inequality by maximizing the country's demographic dividend.

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