

# IMPACT NOTE

## Possible scenarios and impact of COVID-19

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## Executive summary

Impinge of the novel Coronavirus (COVID-19) on human health is devastating. Sudden pause in the global economic activities to arrest the spread its outbreak has raised the level of risks for many industries. Global recession, job cuts and business failures are the most anticipated aftermaths of the Corona fallout.

For Bangladesh, disruption in supply chain and diminishing exports were two of the initial impacts led by the pandemic. The top 3 industries estimated to be most impacted in Bangladesh are Ready-made garments, Tourism and Leather industry.

In this study we have tried to gauge the potential impact of COVID-19 on important sectors under three scenarios – quick recovery, delayed recovery and prolonged recovery.

## Key Findings

	Scenario-1: Quick recovery	Scenario-2: Delayed recovery	Scenario-3: Prolonged recovery	Outlook
<b>Readymade garments and Textiles</b>	High	Very High	Very High	Deteriorating
<b>Leather and leather products</b>	High	Very High	Very High	Deteriorating
<b>Hotel and Tourism</b>	High	Very High	Very High	Deteriorating
<b>Food Processing Industry</b>	Low	Low	Moderate	Positive
<b>Banking Industry</b>	Moderate	High	High	Deteriorating

Amidst the uncertainty and challenges it is important that business leaders and policymakers takes effective decisions on-time to tackle the ongoing crisis. This note is intended to identify the potential consequences of the crisis along with some business-level and policy level recommendations.

It is inevitable to avoid the risks and financial losses led by COVID-19. However, a sound set of strategies adopted by business and government together can help the economy recover faster and keeping the business sentiments high.

## Overview

The novel Coronavirus pandemic flummox the world in an incomprehensible manner. More than 390,000 people across 196 countries and territories of the globe were infected by COVID-19 while death toll crossed 17,000-mark on March 24, 2020. China, where the outbreak was first reported, is the worst effected with highest number of confirmed cases, followed by Italy, Iran, Spain, Germany and USA. To contain the outbreak measures like declaration of emergency, lockdown, entry bans etc. were taken by the governments across the world. The growth of the outbreak is yet to be arrested.

Along with having significant impact on human life, the outbreak of the novel coronavirus caused sudden pause in global economic activities and thus posed a massive impact in the risk environment for businesses. The level of uncertainty faced by the businesses is reflected on score of the Dun & Bradstreet's Global Business Impact (GBI) Index. The GBI score for Q1 2020 was at the highest level since its inception. Previously economists and analysts were hinting about a global slowdown in 2020. COVID-19, the black swan, has played as a catalyst to expedite the recession. Global growth forecasts are now indicating a contraction thanks to the pandemic along with collapse in oil prices and shaken financial markets. According to Asian Development Bank (ADB), global GDP might decline within a range of 0.1% to 0.4% i.e. \$77 billion to \$347 billion, while it is estimated to be \$156 billion (0.2% of global GDP) for a moderate case. The International Labour Organization, on the other hand, assessed around 25 million potential job losses around the world for the economic crisis created by the outbreak.

## Impact on Bangladesh

Until the first week of March, 2020 there were no reports of coronavirus cases in Bangladesh. Although Bangladesh is still one of the least affected countries, but the count kept raising ever since the first 3 confirmed cases were reported in March 8, 2020. Experts cited that being a densely populated country, Bangladesh is at a high risk of coronavirus outbreak.

The first impact of corona virus on Bangladeshi economy was the supply-chain disruptions for slowdown in Chinese business activities back in January. Later when the virus started spreading in the western economies it indicated the increasing risk of decline in export demand. By March 24, 2020 the ready-made garments (RMG) industry of Bangladesh faced deferral and cancelation of nearly \$2.00 billion worth export orders which were mostly destined to Europe. When corona started revealing its presence in Bangladesh the immediate impact was on the informal economy and on the service sector, especially the hospitality and tourism industry. Within a week all economic activities slowed down, the potential lockdown to arrest the spread will put it at a pause for a brief time.

ADB apprehended, in a worst case scenario Bangladesh might lose 0.01% of its GDP of 2018 worth \$3.02 billion along with 894,930 job losses for corona pandemic. The trade, personal and private sector, tourism and manufacturing sectors are likely to be most affected. Dun & Bradstreet has changed the outlook of Bangladesh from stable to deteriorating as coronavirus and free trade agreement between Vietnam and European Union has increased the downside risk of the country.

## Potential impact on Bangladesh

As the outbreak evolving it is unfolding newer complexities and challenges every day. The next stages of the outbreak remains profoundly uncertain, thus it is difficult (if not impossible) to assess the quantum of its impact. In this study we have tried an approach to gauge the potential impact of COVID-19 on six important sectors considering three potential scenarios. We are thankful to the industry players, economists and advisors who have provided their valuable inputs to develop this study.

### Scenario-1: Quick recovery

In this scenario, we forecast that Bangladesh manages successful initial control of the spread by putting virtual lockdown for a brief period. The virus proves to be seasonal, counts of new cases across the world start to decline after mid-April. By mid-May, global economic and business activities becomes fully functioning.

#### Potential Impact:

- Minor slowdown in economic activities till mid-April with negligible impact on the rural economy.
- Domestic demand remains unchanged.
- Export demand falls due to slowdown in Western economies.
- Import from China revives.
- After a spat decline in April inward remittance flow revives in June, 2020.
- Service sector, including tourism and hospitality industry, comes under strain.
- Lower-income groups, informal economy and cottage-micro-small businesses gets impacted.
- No major impact on employment.

### Scenario-2: Delayed recovery

In this scenario, we assume that due to unsuccessful initial control outbreak spreads across the urbanized population of Bangladesh. This leads to stretched health system. To contain the spread the country lockdown for a brief time. New case counts keeps increasing around the world in April, then gradually starts declining as the temperature increases. From June, the economic and business activities becomes fully functioning.

### Potential Impact:

- Disruption in economic activities through-out April with some impact on the rural economy.
- Domestic demand for non-essential products falls due to cautious spending behavior of the customers.
- Large decline in export demand as customers of Western economies stay at home.
- Import from China revives but remains slow.
- Lower flow of inward remittance till July, 2020.
- Service sector, informal economy and cottage-micro-small, faces significant crisis.
- Rise in unemployment level.

### **Scenario-3: Prolonged recovery**

This is a more drastic scenario where we assume that due to weak adaptation of social distancing the outbreak spreads across Bangladesh. This leads to overwhelmed health system with exhausted hospital and healthcare capacity. To contain the spread the country remains lockdown for a longer period of time. Some countries manages to contain the spread through effective public health measures while the others keep struggling. New case counts keeps increasing around the world. The economic and business activities remains disrupted beyond June 2020.

### Potential Impact:

- Disruption in all economic activities with significant impact on the rural economy.
- Domestic demand falls as income gets effected.
- Export demand plunges sharply.
- Import from China remains slow.
- Lower flow of inward remittance in the first quarter of FY21.
- Most businesses gets impacted while many small ones fails to sustain.
- Sharp rise in unemployment level.
- People from all income classes become effected.
- Banking system as well as the economy comes under distress.

### **Sectoral Impact**

#### **Readymade garments and Textiles**

Ready-made Garments (RMG), this export-oriented industry accounted for USD 34 billion worth export in FY19, which is 84.21% of the year's total exports. FY20 was however proven not to be fascinating year for the industry. Export witnessed a declining trend from the beginning of the year because of diminishing competitiveness and prices. Furthermore, the European Union-Vietnam Free Trade Agreement raised downside risk of this sector.

Amid this scenario, coronavirus outbreak put the sector in fix. From the supply side, more than 40% of the raw materials, machineries and accessories used for this industry are based out of China. The slowdown in the delivery from China created pressure on raw material prices, stock of inventories and ultimately production of ready-made garments which may lead to delayed or missing shipment deadlines in the coming months. Woven manufacturers are most at risk as they score low points on backward integration compared to knit manufacturers. Only 35-40% of the raw materials of Woven garment industry is sourced through domestic companies, this rate is 90% the Knit manufacturers. Due to poor presence of the backward linkage industry Bangladesh woven garment factories are highly dependent on import of yarn and fabrics.

More critically on the demand-side, 80% of total exports of Bangladesh are directed towards the European Union (EU) and the US markets. Japan and China are also considered as emerging markets for this industry. Outbreak of the virus in these regions increases potential risk of decline in demand resulted in cancelation and deferral of existing orders with decline in fresh orders. Moreover, a prolonged crisis can put the financial strength of the major buyers under stress, thus having a deeper impact on the long term demand.

The RMG sector that employs more than 4.00 million people and accounts for 13% to the Gross Domestic Product (GDP) of Bangladesh is under severe stress. Deferral or cancellation \$ 2.00 billion worth export orders will not only put the future of manufacturers and workers to anguish it will affect the entire socio-economy of the country. To fight the pandemic fallout, Bangladesh Bank (BB) introduced some bailout packages like – suspending loan classification and easing the rules for foreign trade. This may give the breathing space for the industry players for the moment. Yet they still have to fight a long battle considering the underlying risks prevailing within the industry. On the brighter side, Moody's Investors Service has cited that the supply chains and demand shock is expected to be temporary that might start to recover later this year

Scenario-1: In the occasion of quick recovery, despite lower demand with the help of the current policy measures offered by Bangladesh Bank the RMG sector is expected to overcome the hurdles, although overall RMG exports are expected to decline. Risk exposure to the sector would be high with no major impact on employment.

Scenario-2: Due to disrupted supply-chain and large decline in export demand risk exposure of the sector is expected be high in the case of delayed recovery. Financial incentive and stimulus package would be required. Some small players would struggle to sustain, this might lead to a large job cut for the sector. Risk forecast for this scenario is very high.

Scenario-3: Due to disrupted supply-chain and sharp decline in export demand risk exposure of the sector is expected be very high in the case of prolonged recovery. Even after offering financial incentives and stimulus packages many industry players would struggle to sustain which might lead to higher job cut and a socio-economic tension.

### Leather and leather products

Like the RMG sector, FY20 was a rather gloomy year for country's another export oriented sector – leather and leather products. Export earnings of the leather and leather products fell by 9.04% to \$631.89 million during July-February period of FY20. The sector is still struggling to meet global compliance and to get benefit of the Central Effluent Treatment Plant (CETP), not all the factories are fully set to operate after moving their operations in Savar. All these along with increasing popularity of affordable artificial products led to the decline in export earnings.

The leather and leather products sector is expected to face similar kind of demand and supply side challenges like the RMG sector. As per the forecast of UNCTAD, for 2% reduction in Bangladesh's imports of intermediate inputs from China, the leather products sector of Bangladesh would loss \$ 15 million. On the other hand, Italy leads the global footwear market, the country act as both expert and agent. Rapid outbreak of coronavirus in Italy can possibly affect the exports to Italy as well as to other countries. Furthermore, around two-third of the total exports of finished leather is towards Hong Kong, China and Italy. These destinations are the most impacted countries due to the COVID-19 pandemic. Also, panic created due to the spread of the disease from the wet market in China has led to a decrease in demand from animal products.

Scenario-1: In case of quick recovery, export demand of the leather and leather products remains low. However, with the help of the bailout measures offered by Bangladesh Bank the sector is expected to overcome the hurdles with little bit of struggle. Risk exposure to the sector would be high with little impact on employment.

Scenario-2: As supply-chain disruption continues along with the dampened export demand risk exposure of the leather sector is forecasted to go high in the case of delayed recovery. Some small players would struggle to sustain, this might lead to 5%-10% job cut for the sector. Financial incentive and stimulus package would be required along with policy support.

Scenario-3: Due to disrupted supply-chain and sharp decline in export demand risk exposure of the sector is expected be very high in the case of prolonged recovery. Even after offering financial incentives and stimulus packages many industry players would struggle to sustain which might lead to 15%-20% job cut for the sector.

## Hotel and Tourism

The hospitality industry, unfortunately, is one of those industries to face the immediate hit of Corona. Within a week of the first confirm case was declared occupancy rate of the hotels in the capital city has dropped down to 8%-10% while all tourist destinations across the country were closed off to arrest coronavirus spread. MICE (Meetings, Incentives, Conferencing, Exhibitions) and restaurant business are also experiencing a cascading demand. In absence of new business most hotels are operating with minimum operational staffs by using leave options. The tourism and hospitality sector of Bangladesh employs around 5 Lac full-time and approximately 13 Lac part-time workers.

Scenario-1: Even in the case of quick recovery, the industry is not expected to witness significant increase in occupancy rate till May. Occupancy rate is expected to remain low although the year, so the hotels would have to work below operational capacity. Out of financial pressure the hotel companies might be forced to lay off the contractual and a portion of the casual staffs. Risk for this industry is high in case of quick recovery.

Scenario-2: A delayed recovery will only deepen the wound of this sector, the hotel industry is expected to pile up worrisome losses. In such occasion further 20%-25% job loss is expected in the sector. Risk factor for this scenario is very high.

Scenario-3: In this unfortunate scenario many small hotels might have to close their operation while large even the star-hotels will struggle to survive with massive operational loss. Job cuts may reach as high as 50%. Risk forecast remains very high for this industry under scenario-3.

## Food Processing Industry

Impact of Corona Virus outbreak for the food processing industry is expected to be lower compared to the other industries, mainly due to the nature of products of the industry. Demand of the primary processing products was supposed to remain somewhat static. However, coronavirus panic prompted stockpiling of some essential foods, resulted in sharp rise in demand. Sudden demand-supply mismatch can cause small disruption in inventory management in the coming weeks. Out of the various range of secondary processing products some might experience declining demand. Domestic market is the main focus market of the food processing industry. Considering the ongoing corona crisis around the world decline in export demand is anticipated, however that would not have much impact if domestic demand is contained. From the supply-chain-side this industry has relatively lower dependency with China with better options of alternative sourcing. The major challenge the industry could face is to keep the production, supply and distribution channel intact in an occasion of outbreak. Especially if the government goes for virtual lockdown for a loan period to arrest the outbreak there would be a chance of labor shortage.

Scenario-1: For scenario 1 risk projection for this industry is low. The small disruption in inventory management led by unusual spike in demand in the end of March, 2020 is expected to be absorbed within April. Businesses producing secondary product can witness decline in demand.

Scenario-2: For scenario 2 risk projection remains low for the overall industry. However the small players in the secondary product business and solely export oriented businesses might experience further decline in demand. Businesses producing essential products might face labor shortage during the time of lockdown.

Scenario-3: In case of prolonged recovery many small players engaged in secondary production and export might struggle to survive. Due to prolonged lockdown, labor crisis might intensify. As the rural economy is effected supply chain and distribution disruption is also expected. Risk for this scenario is projected to be moderate.

## Banking Industry

Health of the banking sector of Bangladesh is under strain as reflected by non-performing loan status, slow loan recovery and sliding trend of the private sector credit growth. Corona Virus pandemic brings no good news for this sector. The relaxed loan provisioning policy offered by Bangladesh Bank although gives the businesses a breathing

space but on the other hand it (along with the slowed down business activities) would lead to further decline in the loan recovery or more precisely lower interest income. Incomes from trade finance and trade service is also expected to decline to a large extent riding on slowdown in export, import and remittance. To tackle the corona impact the government would require additional fund, if that is sourced from the banking channel private sector credit growth might face further challenges, which indicates lower private sector investment resulted in lower employment generation.

Scenario-1: Slower realization of export proceed, sudden pause in economic activities and delayed recovery would put pressure on the domestic as well as foreign currency liquidity condition. Risk of the banking industry is expected to be moderate for scenario-1.

Scenario-2: For delayed recovery all challenges of scenario 1 would intensify. Liquidity condition would tightened further, thus banks would struggle to provide required assistance to the businesses. Risk level would go up from moderate to high.

Scenario-3: Recovery would nose dive, as the relaxation of loan classification would expire in June, NPL will skyrocket if a prolonged recovery takes place. Most banks would struggle to maintain the required provisioning with weakening health. Overall banking system will come under distress. Risk level of the banking industry will remain high.

### Recommended responses for the businesses

COVID-19 is the black swan that poses extemporaneous challenges for the overall economy, businesses and employment. The disruption is unfolding so fast that the quantum and dynamics of its implications is difficult to measure which made it difficult for the business leaders and policy makers to navigate during the crisis.

Following is a set of best practices recommended by experts and business leaders across the globe as a guideline for the crisis management that can be helpful for all kinds of businesses:

1. Ensuring employee protection, giving them sense of shared purpose
2. Forming a high power cross-functional Crisis Management Teams lead by the Managing Director or CEO that would focus on mainly (but not limited to) employees, financial stress-testing and contingency plan, supply-chain monitoring, marketing and sales and other relevant issues.
3. Running financial stress testing
  - a. Closely monitoring the business impact
  - b. Quantifying the losses effectively
4. Maintaining sufficient liquidity for the rainy days, or at least identifying the potential sources for fund
5. Preparing business contingency plan
  - a. Succession for all major executives
  - b. Documenting critical functions and processes so that in case of absence or quarantine team members can carry on the operation
  - c. Identifying the critical functions and roles
6. Supply chain stabilization
  - a. Monitoring the suppliers for potential impacts and risk assessment
  - b. Considering alternative suppliers if possible to develop a tier-2 supplier base
  - c. Look out for other alternatives before cancelling an order
7. Customer Engagement
  - a. Maintaining close relationship with customers to gauge their behaviours and financial health
  - b. In case of deferral or cancelation of order negotiate effectively to explore the other potential options and/or compensation packages
  - c. Invest in bargaining units and legal advisory
  - d. Preparing for storage
8. Preparing for transportation, communication and bureaucratic delays

9. Supporting pandemic efforts where possible
  - a. Initiating alternative product line to meet the urgent necessity
  - b. Utilize the CSR fund

### Policy Level Assistance

The thump of novel coronavirus pandemic is so intense that no economy or business sector in the world can remain immune from that. The immediate and post shock measure would determine how fast we can recover.

The service and manufacturing sector, informal economy and the cottage, micro and small businesses of Bangladesh are expected to be impacted the most as per BDRAL's assessment. The manufacturing sector, mainly the readymade garments sector and also the leather and leather product sector as well as hotel and tourism sector, would be effected the most. Financial bailout packages would be needed for these industries to continue their operation and also to pay the salary and wages to the workers of the manufacturing industries. The RMG industry plays a significant role for Bangladesh economy be it for revenue earning or employment generation. Keeping this sector operating is critical from economic, business as well as social point of view. The government may initiate persuasion at a bureaucratic level with the major export destination countries to come up with a solution to protect this sector.

Considering the dampened global demand sustaining the domestic demand would be very critical. For that an expansionary monetary policy would be highly desired. Ensuring liquidity in the banking channel can be another priority of the central bank. Fiscal and policy measures would be required to sustain the domestic demand by providing income stability and substitute employment generation.

Protecting the rural economy and the sustaining agricultural growth would be very crucial at this point. The daily wage earners and the street vendors needed to be brought under social safety net. Support programs for the CMSME businesses would also be needed. Prompt and effective assessment would be required to identify the genuine afflicted people and businesses.

An extensive economic bailout program that would address needs the effected/priority sectors as well as the sectors found opportunities from the crisis would be very beneficial for the economy in the long run.

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