

Terms of Reference on Research Project 1

Title of the Project: The Impact of fiscal stimulus on the Economy during COVID-19: Bangladesh Perspective

Context

A Fiscal Stimulus Package is *a set of actions by a government, bank, etc. that is intended to encourage activity and growth in the economy or in a particular industry or area*¹. The fiscal measures under the stimulus package or packages are supposed to reinvigorate the economy, and in cases of financial crises, mitigate the impact and ideally restore household income and expenditure to the pre-crisis levels.

Fiscal stimulus measures can relate to revenue/tax measures or expenditure measures. Expenditure measures have an immediate impact on the economy as government spending translates to increase in demand for goods and services, thus setting forth the multiplier effect. On the other hand, the revenue/tax measures such as tax rebates have a lagged impact as it takes some time for increase in net disposable incomes or savings of individuals to translate into spending. Further, the entire increase in savings may not be spent. Hence, multiplier effect of tax rebate measures is less in quantum compared to expenditure measures. However, in both cases, there is a potential impact on employment generation, which implies more net disposable income, which in turn stimulates demand.

Thus, the government intervention in the form of stimulus packages helps create a cycle that helps the economy to recover from economic crises. An often-cited example from recent past of such wide-scale use of stimulus packages is by the United States (US) in response to the Great Recession triggered by the 2007-2008 Global Financial Crisis that originated in the US. The first major federal response to the crisis was a \$168 billion program of federal spending and temporary tax rebates enacted in February 2008².

In the present pandemic situation that has led to severe adverse socio-economic fallouts, governments across the globe have implemented fiscal stimulus packages to rescue their economies and provide relief to their populace as well as businesses.

Further, empirical evidence suggests that fiscal interventions, for instance, in-kind transfer, such as food assistance or cash transfer, have been effective. Studies have shown that highly targeted government interventions that aim to lessen the financial stress of younger households, lower-

¹ <https://dictionary.cambridge.org/dictionary/english/stimulus-package>

² <https://www.cairn.info/revue-l-europe-en-formation-2010-4-page-15.htm#:~:text=The%20first%20major%20federal%20response,addressed%20the%20subprime%20mortgage%20crisis.>

income households, and households with less stable employment conditions will support the consumption levels of these groups and contribute to economic recovery.³

The Covid-19 pandemic has severely impacted Bangladesh along with the rest of the world, causing economic contractions and a slowdown of economic activities. The lives and livelihoods of the population have been affected due to the ongoing public health crisis. In this backdrop, the Government of Bangladesh (GoB) announced its first stimulus package quite early in March 2020. To address the impact of the pandemic, the GoB rolled out a total of 25 support measures (including the two recently announced cash support programs). The total value of these programs was around Tk. 1.25 trillion. The GoB allocated around Tk 773 thousand million, about 2.76 percent of GDP worth of support in the FY2020. For FY2021, another Tk 477 thousand million, amounting to about 1.71 percent of GDP, has been earmarked. Out of the twenty-five support measures announced by the GoB, twelve were cash transfers, and two were for food assistance. The remaining eleven packages involved the Government supporting bank loans at subsidized interest rates. Further, GoB provided liquidity support to the export-oriented industries, large and medium industries, service sector, and cottage, micro-small, and medium enterprises (CMSMEs), among others. The Government also allocated resources for allowance programs, construction of houses for homeless people, procurement of boro paddy and rice, farm mechanization, agricultural subsidies, and social safety net programs.

The direct fiscal support measures taken by GoB has been commendable in size, as acknowledged by relevant stakeholders and experts. Bangladesh's stimulus package, in proportion to GDP, has been much higher than those of South Asian and Southeast Asian countries.⁴

Rationale for the Study

Notwithstanding the perceived positive impact of the fiscal stimulus packages, it would be worthwhile to conduct a rigorous assessment of the impact and effectiveness of the recent fiscal stimulus packages implemented by the GoB in the context of the pandemic. The findings from the assessment will be extremely useful in the design and implementation of similar measures in the future. Documenting the lessons learned and challenges will enable recalibration of the stimulus measures and fine-tuning the delivery mechanisms. Finally, this will enable and strengthen the evidence-based policy making process.

Objective(s)

This IPF research aims to contribute to the knowledge creation and dissemination process undertaken by the Finance Division.

³ <https://www.ecb.europa.eu/pub/economic-research/resbull/2021/html/ecb.rb210527~b7370d7722.en.pdf>

⁴ <https://link.springer.com/article/10.1007/s41027-020-00253-2>

Specifically, the Study will provide an objective assessment of the impact and effectiveness of the fiscal stimulus measures. The Study will help understand the linkages between announced fiscal stimulus and recovery process from the pandemic. The Study will further analyze the challenges in the implementation process of stimulus packages and provide relevant policy and operational recommendations for improving the design and delivery of future stimulus measures.

Methodology

The Study should adopt a mix of desk review of available documentation, reports, quantitative and qualitative data, and consultation with stakeholders. Empirical analysis using requisite models should be conducted to analyze the outcomes and impact of the fiscal stimulus packages. The impact analysis should further capture the effect of the fiscal stimulus at the sector level as well as at the disaggregated level. The proposed methodology should take into account the present pandemic context and the project duration. Appropriate research methodologies such as, Key Informant Interviews (KII) along with secondary literature review may be used to attain the research objective.

Deliverables

- IPF will commission one research paper on “The impact of pandemic induced stimulus on the economic recovery: Bangladesh perspective”.
- **Word Limit:** 10,000 – 12,000 words (excluding tables, reference, annexes, graphs etc.)
- **Language:** English
- A consultation workshop is expected to be delivered to disseminate the findings of the study in collaboration with the respective focal person from MoF.

Timeline

S. No.	Report/ Deliverables	Expected date of Delivery
1	Literature review, data collection and draft report preparation	Within 12 weeks of contract signing
2	Submission of the final report	Within 16 Weeks of contract signing