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Economic Challenges of Bangladesh During COVID -19 in 2020

Abstract

The COVID-19 pandemic, which began in early 2020, resulted in an unprecedented global crisis, severely affecting the economies of both developed and developing nations.

Bangladesh, a lower-middle-income country with a rapidly growing economy, was no exception. The country faced multiple economic challenges due to the pandemic, including a sharp decline in GDP growth, widespread unemployment, disruptions in trade, and a rise in poverty levels. This research paper investigates the economic challenges faced by Bangladesh during the COVID-19 crisis, analyzes the government's response, and suggests recommendations for mitigating future economic shocks. The findings indicate that while Bangladesh's economy was significantly affected by the pandemic, government interventions played a key role in mitigating some of the adverse impacts.

Introduction

The year 2020 marked a defining moment for the global economy due to the outbreak of the COVID-19 pandemic. Countries across the world faced unprecedented health and economic challenges, and Bangladesh, a nation of over 160 million people, was severely impacted by the pandemic. With a significant reliance on sectors such as **garments**, **agriculture**, and **remittances**, the economic slowdown had widespread effects on the nation's development trajectory. This paper aims to explore the various economic challenges Bangladesh faced during the pandemic, with a focus on GDP contraction, job losses, trade disruptions, and government policy responses.

Literature Review

Several studies have been conducted on the economic impact of the COVID-19 pandemic in developing nations, including Bangladesh. According to **Hossain (2020)**, the pandemic exposed Bangladesh's vulnerabilities in terms of labor market dependency, reliance on remittances, and trade disruption. Other studies, such as those by **Rahman et al. (2020)** and **Ahsan (2020)**, have explored the effects of COVID-19 on different sectors like agriculture and the garment industry. While these studies highlight the immediate economic challenges, there is limited research on the long-term policy responses and structural changes necessary for future resilience.

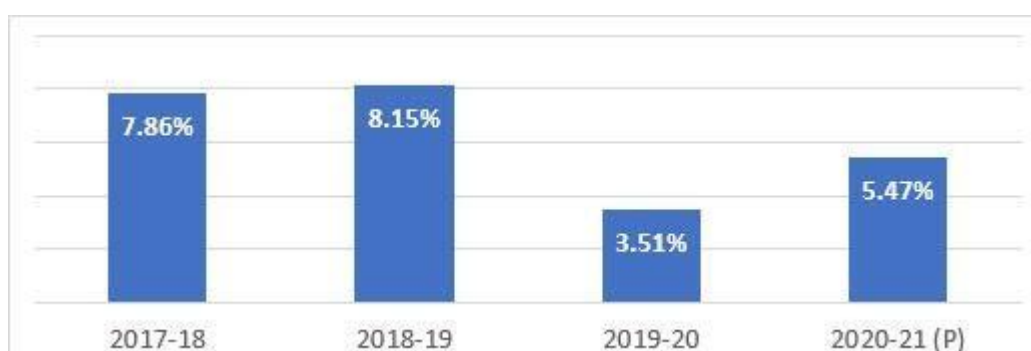
Methodology

This research adopts a **qualitative approach**, utilizing secondary data sources, including reports from the **Bangladesh Bureau of Statistics (BBS)**, **World Bank**, **International Monetary Fund (IMF)**, and **UNDP**, to examine the economic impact of COVID-19 on Bangladesh. The study analyzes key macroeconomic indicators such as GDP growth, unemployment rates, trade volumes, and poverty levels. Additionally, the paper explores government responses, including fiscal stimulus packages and social protection measures.

Here's a table outlining key economic factors during COVID-19 in Bangladesh (2020);

Economic Factor	Impact/Observation

GDP Growth Rate	Declined from 8.2%(2019) to 3.5% (2020,estimated by ADB).
Unemployment	Significant rise due to job losses in manufacturing and services.
Export Sector	Garment exports fell by approximately 18% in 2020.
Poverty rate	Increased pushing millions below the poverty line.



Actual and forecasted growth of GDP Per Capital (CURRENT USD)

4. Key Economic Challenges Faced by Bangladesh During COVID-19

4.1. Economic Contraction

One of the most significant challenges Bangladesh faced during the pandemic was the **sharp contraction of GDP growth**. Prior to the pandemic, Bangladesh had enjoyed robust economic growth, with GDP expanding at an average annual rate of 7-8%. However, in 2020, the country's economy contracted by approximately **3.5%**, a drastic reversal of its growth trajectory.

Reasons for Economic Contraction:

- **Lockdown and Social Distancing Measures:** The government imposed lockdowns from March to June 2020, affecting industrial production, retail, transportation, and other sectors. The restrictions significantly reduced economic activity, particularly in urban areas where the majority of industrial output is concentrated.
- **Reduced Global Demand:** The decline in global demand for goods, particularly for Bangladesh's **garment exports**, led to a decrease in foreign earnings. The garment

sector alone, which contributes more than 80% of Bangladesh's total exports, experienced a drastic reduction in orders from major buyers in Europe and the U.S.

Impact: The contraction of the economy resulted in a decline in national income, making it more difficult for the government to meet development targets and exacerbating poverty levels.

4.2. Unemployment and Loss of Livelihoods

The pandemic led to **widespread job losses** across several sectors of the economy. The most affected were industries relying on physical labor, such as the **garment sector**, **construction**, and the **informal economy**.

Reasons for Job Losses:

- **Factory Closures:** Bangladesh's garment industry, a critical sector for employment and export revenue, faced a massive decline in orders, leading to temporary or permanent factory closures. This directly impacted millions of workers, particularly women, who make up the majority of the workforce in the garment sector.
- **Informal Sector Vulnerabilities:** A significant portion of Bangladesh's workforce is employed in the informal economy, including day laborers, street vendors, and domestic workers. With the shutdown of businesses and industries, informal workers lost their primary source of income.

Impact: The **International Labour Organization (ILO)** estimated that over **2 million** workers lost their jobs in 2020, while **Bangladesh Bank** projected that unemployment in the formal and informal sectors would increase significantly. This resulted in increased poverty levels, particularly in urban slums and rural areas.

4.3. Trade Disruptions

Trade, which constitutes a large portion of Bangladesh's economy, was severely disrupted by the pandemic. The global slowdown in demand for goods and services had a direct impact on the country's export performance.

Reasons for Trade Disruptions:

- **Disruption of Supply Chains:** The pandemic led to **global supply chain disruptions**, which affected Bangladesh's ability to import raw materials and export finished goods. Ports faced operational delays, and transportation networks were interrupted due to restrictions on mobility.

- **Decline in Export Earnings:** The country's major exports, including **garments, jute products, and seafood**, saw a sharp decline in demand. The **garment industry** alone experienced a reduction of over 18% in export earnings during 2020.

Impact: Bangladesh's **foreign exchange reserves** were negatively affected, and the overall trade balance saw a significant deterioration, which placed pressure on the country's external debt management and balance of payments.

4.4. Remittances and Migration Challenges

Remittances are an essential source of income for Bangladesh, accounting for nearly 6% of the GDP. However, the pandemic led to a **decline in remittance inflows** due to **job losses** and **reverse migration** of Bangladeshi workers.

Reasons for Remittance Challenges:

- **Global Recession and Job Losses:** Many Bangladeshi migrant workers, especially in the **Middle East** and **Southeast Asia**, lost their jobs due to economic slowdowns in host countries. This led to a significant reduction in remittances sent back to Bangladesh.
- **Reverse Migration:** The pandemic also led to a large number of migrant workers returning to Bangladesh due to lack of employment opportunities abroad, which further strained the local labor market.

Impact: Although remittances showed some resilience later in the year due to efforts like **digital remittances** and **government incentives**, the overall decline still negatively impacted the country's foreign reserves and the income of many households dependent on these funds.



Figure 1

Government Response to Economic Challenges

In response to the economic challenges posed by the pandemic, the Bangladesh government introduced several policy measures to mitigate the adverse effects.

Key Measures:

- **Stimulus Packages:** The government announced stimulus packages amounting to **\$14 billion (around 4% of GDP)** to support businesses, especially the export-oriented garment sector, small and medium enterprises (SMEs), and vulnerable households.
- **Social Protection Programs:** Cash transfer programs and food distribution schemes were launched to support low-income families and informal sector workers. The government also increased allocations for **healthcare** and **medical supplies** to address the crisis.
- **Monetary Policy Adjustments:** Bangladesh Bank, the central bank, introduced **low-interest loans** and **debt moratoriums** for businesses to ensure liquidity and financial stability.

Challenges in Implementation: Despite these efforts, the **implementation of these measures faced challenges** such as delays in fund disbursement, difficulties in reaching the informal sector, and bureaucratic inefficiencies.

6. Socioeconomic Impact: Poverty and Inequality

The COVID-19 pandemic exacerbated **poverty and inequality** in Bangladesh, as the most vulnerable sections of society were disproportionately affected by the economic disruptions.

Key Issues:

- **Increase in Poverty Levels:** According to the **World Bank**, the pandemic pushed over **12 million people** into poverty, reversing the gains made in poverty reduction over the past decade.
 - **Worsening Inequality:** Income inequality worsened, with the wealthy facing fewer economic challenges compared to low-income workers, who saw their incomes reduced or lost entirely.
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7. Recommendations

The COVID-19 pandemic posed significant challenges to Bangladesh's economy, resulting in a **sharp decline in GDP**, widespread **job losses**, and **disruptions to trade and remittances**. While the government's response, including stimulus packages and social protection measures, helped mitigate some of the immediate effects, the long-term impact on poverty and inequality remains a pressing concern.

Recommendations:

1. **Diversification of the Economy:** Bangladesh should diversify its economy beyond the garment sector, focusing on sectors like **information technology**, **renewable energy**, and **pharmaceuticals**.
2. **Strengthening the Informal Sector:** Support for informal sector workers, including social safety nets and access to healthcare, should be prioritized in future policies.
3. **Improved Healthcare Infrastructure:** Investing in healthcare infrastructure is crucial to prepare for future pandemics and ensure long-term economic resilience.
4. **Digital Transformation:** Encouraging **digitalization** across industries and government services will help Bangladesh become more resilient to future global disruptions.

Conclusion

The COVID-19 pandemic in Bangladesh in 2020 highlighted both the vulnerabilities and strengths of the country. While the economy faced significant setbacks, the resilience of key sectors like agriculture and remittances, along with the government's efforts to support the population, helped minimize the overall damage. However, the pandemic exposed critical gaps in healthcare and exacerbated socio-economic inequalities, indicating areas that need long-term investment and reform. The road to recovery was challenging, but Bangladesh's ability to maintain a positive GDP growth amidst the global downturn was a testament to the country's resilience and capacity for adaptation in times of crisis.

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