Sweden didn't lock down, but economy to plunge anyway

AFP, *Stockholm*

Unlike most countries, Sweden never locked down during the coronavirus pandemic, largely keeping businesses operating, but the economy appears to be taking a hard hit nonetheless.

Under the Scandinavian country's controversial approach to the virus, cafes, bars, restaurants and most businesses remained open, as did schools for under-16s, with people urged to follow social distancing and hygiene guidelines.

Whatever hope there may have been that this policy would soften the economic blow now seems dashed.

"As in most of the world, there will be a record decline for the Swedish economy in Q2," SEB bank economist Olle Holmgren said. A rebound was likely in the latter part of the year, but "we expect it to take a long time before the situation normalises," he told AFP.

To be fair, Swedish officials insist their strategy was always aimed at public health, and never specifically at saving the economy.

The idea was to make sure hospitals could keep pace with the outbreak and protect the elderly and at-risk groups.

Sweden has succeeded at the former, but admitted failure at the latter, with more than three-quarters of virus deaths occurring among nursing home residents and those receiving care at home.

"When we have decided what measures to take to stop the virus from spreading, we have not had any economic considerations. We have followed the advice of our (public health) experts on this issue," Finance Minister Magdalena Andersson told reporters in late May.

AFP

Cafes, bars, restaurants and most businesses remained open in Sweden under the Scandinavian country's controversial approach to the Coronavirus outbreak.

Still, authorities acknowledge that keeping businesses open was also part of a broader public health consideration, as high unemployment and a weak economy typically lead to poorer public health.

Sweden, a country of 10.3 million, had reported 4,639 COVID-19 deaths as of Friday. That gives it one of the world's highest virus mortality rates, with 459.3 deaths per million inhabitants -- four times more than neighbouring Denmark and 10 times more than Norway, which both imposed stricter confinement measures.

At first Sweden's export-heavy economy seemed to be doing okay, with GDP actually growing by 0.1 percent in the first quarter.

But now the country is expected to follow the same path as most of Europe, with its economy shrinking for the full-year 2020 and unemployment soaring.

In April, the government predicted GDP would contract by four percent in 2020, compared to its January forecast of 1.1 percent growth.

While the European Commission has forecast a Swedish contraction of 6.1 percent (compared to -6.5 percent for Germany and -7.7 percent for the eurozone), the outlook presented by the Swedish central bank is even more dire -- it anticipates a GDP decline of up to 10 percent.

Some economists see Swedish growth rebounding as early as the second half of 2020, but the finance minister has warned things could get worse before they get better. Before the crisis, Sweden's labour market was in good shape, with strong job creation and a declining unemployment rate.

Now, the government expects a jobless rate of nine percent for 2020 and 2021, compared to 6.8 percent in 2019.

It sees growth of 3.5 percent in 2021.

Sweden's sharp downturn is largely explained by its dependence on exports, which account for around 50 percent of GDP. "70 percent of Swedish exports go to the EU. Shutdowns in Germany, the UK and so on are expected to hit Swedish exports considerably," the government said.

In March, some of the country's biggest companies, such as automaker Volvo Cars and truckmaker Scania, halted production in Sweden. This was not because of local restrictions, but because of problems with supply chains in Europe and the rest of the world. Their activities have since resumed.

Meanwhile, consumption plunged by 24.8 percent between March 11 and April 5, according to a study conducted by four University of Copenhagen economists.

"Sweden is paying the same price (as Denmark) for the coronavirus pandemic. The explanation is that when you are in a galloping crisis, consumers pull the emergency brake, whether restaurants are closed or not," Niels Johannesen, one of the four economists, told Swedish daily Helsingborgs Dagblad.

Malaysia to reopen most economic activity with virus outbreak 'under control'

REUTERS, *Kuala Lumpur*

Malaysia on Sunday said it would reopen nearly all economic activity and allow interstate travel starting June 10, lifting coronavirus restrictions imposed nearly three months ago as it moves to revive an economy battered by the pandemic.

Prime Minister Muhyiddin Yassin announced in a televised address the novel coranvirus outbreak was "successfully" under control and Malaysia would begin a new recovery phase until Aug. 31.

"I am aware the government cannot control your lives forever to control the virus," Yassin said.

The government will ease restrictions on social, education and religious activities in phases with health guidelines in place, and businesses will be allowed to return to normal operating hours.

Yassin encouraged domestic holidays as travel between states will be allowed, but said international borders will remain closed. Entertainment centres such as theme parks and night clubs, sports that involve close contacts and events involving a large gathering of people will also not be allowed.

Malaysia had gradually reopened businesses over the past month with social distancing protocols, after shuttering all non-essential businesses and schools, banning public gatherings and restricting travel on March 18.

Money whitening may get full amnesty

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The revised collection target of Tk 300,500 crore would be impossible to achieve this fiscal year as the effect of the coronavirus-induced lockdown on domestic and external demand, businesses and incomes prolonged, Muneem has said.

The projection comes at a time when the NBR posted just a little over 1 per cent growth in tax collection at Tk 175,000 crore in the first ten months of the fiscal year.

And the slowing collection was the result of negative growth in April, the first month of the shutdown and stay-at-home order enforced by the government to flatten the curve on the deadly virus.

Revenue collection crashed more than 55 per cent in April, revealing the massive hit the Bangladesh economy has taken from the coronavirus outbreak in the country.

"Realistic revenue mobilisation targets will be crucial for overall fiscal management," said the Centre for Policy Dialogue (CPD) in a press briefing yesterday.

The economic slowdown originating from the nationwide lockdown and the adverse impacts of the pandemic on international trade are expected to further exacerbate the situation during the rest of the fiscal year.

"There is no beacon of hope in terms of revenue mobilisation in fiscal 2019-20. The revenue shortfall is expected to shoot up," the CPD said in its review on the economy.

The think-tank revised upward its forecast on overall tax and non-tax revenue shortfall to Tk 125,000 crore for this fiscal year, up from Tk 100,000 crore earlier.

"This implies, the revenue earnings in fiscal 2019-20 are likely to record a minuscule growth of 0.4 per cent," it said.

As a result, the revenue-GDP ratio may see a decline in fiscal 2019-20, from 9.9 per cent in fiscal 2018-19.

If the revenue mobilisation targets are not set realistically and do not reflect the reality of the situation, it will put undue pressure on the revenue collection authorities, stress the fiscal framework beyond a tolerable limit and undermine the efficacy of other relevant policy instruments, the CPD said.

"This will weaken the fiscal framework, result in misinterpretation of fiscal deficit and consequently put into question the veracity of financing of the fiscal deficit."

The budget for fiscal 2020-21 must provide a detailed explanation as to how the programmed revenue mobilisation targets will be achieved through the proposed fiscal measures, the CPD said.

A minimum revenue loss of 2 per cent of GDP, or $6.7 billion, is projected by the government this fiscal year.

"Even if the situation improves, there will be a negative effect on revenue collection owing to the long-term effect on the economy," Muneem said.

Bangladesh can grab more attention as world shifts focus from China

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"If Bangladesh's banking sector crumbles, international buyers and suppliers will not continue trade with the country while opening letters of credit will be difficult."

Any new policies the government may adopt should ensure that neither the financial sector nor the country's dollar supply is disrupted, Chowdhury said.

Over the years, Bangladesh's economy has emerged relatively unscathed from numerous natural calamities such as cyclones and floods due to a resilient domestic market.

"People are now more eager than ever to continue working and this is a positive sign for any economy," he said, adding that another positive indicator is that the country has a robust agriculture sector.

"So there is no reason to drown our local market in lockdowns in fear of contagion."

With most manufacturers unable to maintain their operating expenses during the recently concluded two-month lockdown due to a lack of sales, many people lost their jobs while others had to accept partial salaries.

"All the losses made over the past two months can be blamed on the lockdown. But now that it has been lifted, I hope domestic trade will recover soon," Chowdhury said.

If private companies ensure full salaries for their staff, consumption will hold steady and benefit the economy.

"I urge all the companies to, if needed, compromise on their profits and luxuries to pay their workers' wages," he said.

For paying staff salaries, companies could also use their retained earnings, which are emergency funds collected from profits and not distributed to shareholders.

Strategic Finance and Investments gets NBFI licence from BB

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At the end of September last year, the total default loans in NBFIs amounted to Tk 6,838 crore, up 25.23 per cent from six months earlier, according to data from the central bank.

The amount would have been much larger had the default loans of People's Leasing and Financial Services been added to the list. Default loans of People's Leasing are now more than Tk 500 crore.

In July last year, the BB was forced to start the process of liquidating People's Leasing and Financial Services as the NBFI failed to repay depositors' money despite the maturity of funds.

Banks not disbursing bailout packages promptly, allege businesses

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Foreign Minister AK Abdul Momen called upon private sector investors to use their channels to attract FDI alongside government efforts.

Paban Chowdhury, executive chairman of Bangladesh Economic Zones Authority, said Vietnam has signed a free trade agreement (FTA) with the EU.

As a result, both investment and export from Vietnam have increased. Bangladesh should also think about engaging in similar kinds of FTAs with important trading nations, he said.

Bangladesh should improve the business and investment climate for attracting both domestic and FDI. The BIDA should perform better for more investment, said Salehuddin Ahmed, former Bangladesh Bank governor.

"The government should launch an employment scheme to protect the jobs of people," said Masrur Reaz, chairman of Policy Exchange, a private think-tank.

Fahmida Khatun, executive director of the Centre for Policy Dialogue, highlighted reducing bureaucratic tangles, offering skills development, making available uninterrupted power and energy supply and political stability for more investment.

Mercy Miyang Tembon, World Bank's country director for Bangladesh, stated: "It is crucial to enhance the use of technology to facilitate supply chain finance. Additionally, the stimulus package transition should be transparent and it is crucial to keep trade open."

Shafiul Islam Mohiuddin, another former FBCCI president, said the reduction of taxes does not reduce the collection of revenue. Rather, revenue collection increases because of the widening of tax nets, he said.

Muhammad Imam Hossain, a senior official of the IMF, suggested for improving the tax-GDP ratio and GDP-FDI ratio as these were too low in Bangladesh.

Industries Minister Nurul Majid Mahmud Humayun and Serazul Islam, executive chairman of the BIDA, also spoke.

Income inequality to balloon like never before

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The pandemic would trigger a record revenue shortfall of Tk 125,000 crore, it said, adding that revenue earnings in fiscal 2019-20 are likely to record a minuscule growth of 0.4 per cent.

"There is no beacon of hope in terms of revenue mobilisation in fiscal 2019-20," the paper said.

Subsequently, it has become critically important to identify the sources of fiscal space to underpin the government's intended fiscal policy stance.

"Realistic revenue mobilisation targets will be crucial for overall fiscal management."

The CPD proposed the government to raise the tax-free income threshold levels from Tk 250,000 to Tk 350,000.

The first three slabs of income tax from 10 per cent, 15 per cent, and 20 per cent may be restructured to 5 per cent, 10 per cent, and 15 per cent respectively, at least for the next two years.

To ensure the food security of low-income people, the reduction of import-related tariffs on essential food items should be considered.

It is to be anticipated that demands for incentives will rise given the pandemic. "The primary objective of all tax incentives should be to directly support the marginalised groups."

It is time to lose the 'fat' in the non-development public expenditure and this will be important to address the adverse impacts of the pandemic with suitable fiscal measures, the CPD said.

The annual development programme (ADP) for fiscal 2020-21 needs to ensure that the required allocative priorities are followed and inclusivity is maintained.

Better utilisation of project aid in the upcoming fiscal years will determine the overall pace of implementation and this is also important because of reducing the debt-servicing liability.

The higher budget deficit is understandable but financing-mix remains a key concern, the CPD said.

In the backdrop of subdued revenue mobilisation, the possibility of pushing the budget deficit beyond the traditional cap of 5 per cent of GDP may be a necessity given the upcoming fiscal year.

"However, this increased budget deficit should be managed through the appropriate diversion of available resources, proper sourcing and prudent use of resources."

The Financial Institutions Division has a plan to make it mandatory for insurance companies to invest a certain part of their investible funds in government securities and allow investment of undisclosed income in the capital market, the CPD said.

However, such black money whitening facility through voluntary disclosure of undisclosed income and investment in capital market discourages honest taxpayers while tax evaders are encouraged."

"It has also failed to register any notable response. This provision should not be continued from the next fiscal year."

With limited scope to further incentivise export and remittances, the central bank should consider gradual depreciation of the taka.

The government has come up with several policy interventions over the past few months in the form of several stimulus packages and monetary easing, and by providing reliefs.

"Regrettably, the policy response has not been adequate. The government has relied primarily on monetary policy tools (instead of fiscal stimulus as generally practised) as is manifested by the design of the stimulus packages."

The weakness of administrative capacity and lack of good governance have further limited the effectiveness of the government efforts, the paper added.

The next budget should be a cost-efficient one so that the government can implement it by spending less, said Khondaker Golam Moazzem, research director of the CPD.

There is scope to divert resources from sectors such as the power sector to the important projects and areas.

The CPD said the economic policies in response to the pandemic over the last couple of months were influenced by the false dichotomy between life and livelihood.

Putting the so-called 'life versus livelihood' debate on the table has misguided the policy discourse.

The decision to open up economic activities without taking proper precaution, plan and preparation is having a significant cost in terms of lives and sufferings of the citizens and sustainable recovery of the economy.

It is critically important to review the current state of the pandemic spread and take a planned phased approach to allow movements and economic activities.

"Saving people from loss of lives and sufferings ought to be the highest priority. The economic recovery should be measured and monitored in terms of poverty, inequality and employment," the CPD said.

Subsidy cuts on fertiliser imports on the horizon

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The government had allocated Tk 9,000 crore as subsidy for Bangladesh's agriculture sector in the outgoing fiscal year. The same amount is expected to be earmarked for fiscal 2020-21 to help the country meet its 51 lakh-tonne demand for fertilisers.

The projection for next year's fertiliser requirement is 16 per cent higher than the provisional estimate, which was 44 lakh tonnes during the outgoing fiscal year, the official said.

However, since the use of fertilisers is likely to increase, subsidies on the product might not decrease despite the fall in prices in the global market, he added.

The World Bank (WB) Commodities Prices data in June showed that the average price for DAP, TSP and urea slumped in the first quarter of 2020.

Except for TSP, the prices for all the products dropped in May, according to the WB data.

For example, the global market price for DAP decreased from $358 tonne per tonne in March to $263 per tonne in May.

Earlier this month, the Agricultural Market Information System (AMIS) said that although fertiliser production has resumed in many parts of the world as restrictions are now being lifted, most fertiliser prices showed downward trends due to a global downturn in demand and uncertainty around interruptions in the food supply chain worldwide.

AIMS, an inter-agency platform composed of G20 members, Spain and several major exporting and importing countries of agricultural commodities, was formed following the global food price hikes in 2007-08 and 2010.

"We also get $10-$15 benefits for freight transport now," said Md Sayedul Islam, chairman of the state-run Bangladesh Agricultural Development Corporation (BADC), a key importer of non-urea fertilizer for the government.

"It gives a lot of hope," he added.

The BADC already imported more than 12 lakh tonnes of TSP, MOP and DAP in fiscal 2019-20 while the BFA imported 10 lakh tonnes of non-urea fertilisers during the same period.

Private importers will account for six lakh tonnes of DAP and two lakh tonnes of MOP in the next fiscal year, said BFA Chairman Kamrul Ashraf Khan Poton.

However, the government have yet to fix the amount of non-urea fertilisers to be imported by BADC next fiscal year, he added.

While the BADC and private importers import non-urea fertilisers, the state-owned Bangladesh Chemical Industries Corporation imports urea as domestic production for the product falls short of the country's annual requirement.

Light engineering industry seeks waiver of AIT on raw material imports

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About 6,000 engineering workshops situated in different parts of Dhaka city are also facing the same problem, he said.

"So, the government should waive the 5 per cent AIT for us to recover the losses. If the workers and mechanics do not survive, how can we run our factories or workshops?"

More than 2,000 engineering workshops in Jashore had faced losses due to the prolonged shutdown of the factories, said Md Asraful Islam Babu, who owns Repon Engineering and Repon Metal in the district.

Upwards of 30,000 technicians who work in different workshops in Jashore now fear losing their jobs, as there was no work since coronavirus took over the national discourse, he said.

"Moreover, most of the entrepreneurs in the district are not capable of making imports directly as the amount of their investment is very low. They have to collect products from the importers."

Such small businesses should be exempted from the minimum AIT, so that they do not feel any pressure to go for making additional investments, he said.

Babu has been exporting water pumps, brick and stone crunching machine to India for the last five years and every month he used to receive orders from importers.

"Now there is no local and export order in my hand. Even domestic demand for my products has declined by almost 95 per cent."

Babu has about 200 technicians and he thinks he may have to go for lay-offs due to falling work orders and income.

There are more than 200 light engineering product manufacturers in Nilphamari, who are now fighting for their survival also, said Ershad Hossen Pappu, president of the BEIOA for the district.