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Assessment of Stimulus Packages on COVID-19: Bankers' Perspective

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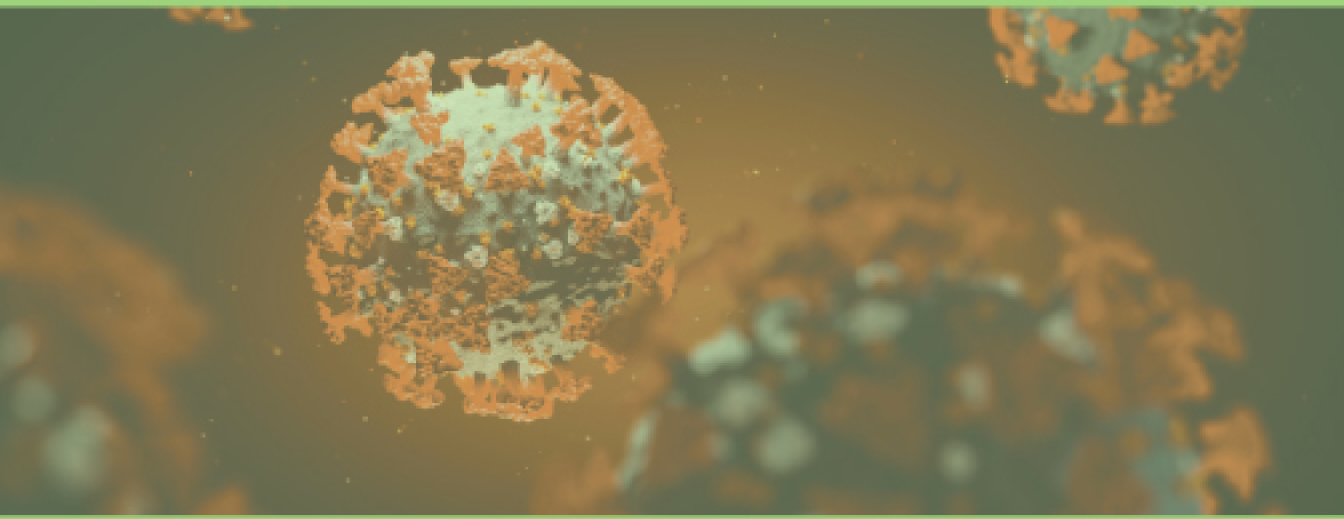

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Foreword

As part of the ongoing dissemination of BIBM research outputs, this roundtable discussion paper contains the findings of the research topic: "Assessment of Stimulus Packages on COVID-19". The paper was presented in an online program held on November 9, 2021, through the Zoom platform.

COVID-19 has severely affected the economy of Bangladesh. Amid the pandemic, the government took several policy measures to contain the spread of the pandemic and overcome the adverse economic effect. Likewise, Bangladesh Bank played a remarkable role. The Government and Bangladesh Bank have taken several stimulus packages to combat the economic and social crisis by revitalizing the economic activity, protecting the job for the workers, keeping the continuity of the production and maintaining the competitiveness of the entrepreneurs. So far, 28 stimulus packages amounting to 1,91,919 crore taka have been announced accounting for around 6.86% of the GDP of the country. Bangladesh Bank is directly involved with 10 packages amounting to 1,60,250 crore taka out of the government-declared 28 incentive packages.

It gives me immense pleasure to offer this important resource of academic inputs to the practitioners of the banks and financial institutions, regulatory agencies, policymakers as well as to the academics and common readers. I hope, this roundtable paper will be a valuable resource, especially for the policymakers to understand how the stimulus packages are being implemented as well as how to make the best use of the packages to overcome the adversity caused by the pandemic.

Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

Acknowledgement

This roundtable discussion paper titled "Assessment of Stimulus Packages on COVID-19" has been completed with immense support from numerous individuals and organizations.

We would like to express our gratitude to the Director General, BIBM, Dr. Md. Akhtaruzzaman for his encouragement and guidance. We are grateful to Professor Dr. Barkat-e-Khuda, Dr. Muzaffer Ahmad Chair Professor, BIBM, for his valuable comments in finalizing the paper. We are thankful to all the respondents of different banks and participants of the round table for their insightful comments.

We are also thankful to our faculty colleagues for their constructive suggestions for improving the paper.

Finally, we would like to extend our appreciation to those who have assisted in this regard.

Mohammad Mohiuddin Siddique
Md. Shahid Ullah, Ph.D.
Md. Nurul Alam

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Abbreviations

BB	Bangladesh Bank
BDT	Bangladeshi Taka
BIBM	Bangladesh Institute of Bank Management
CEO	Chief Executive Officer
CGS	Credit Guarantee Scheme
CMS	Cottage, Micro and Small
CMSME	Cottage, Micro, Small and Medium Enterprise
CRR	Cash Reserve Ratio
EDF	Export Development Fund
FY	Fiscal Year
GDP	Gross Domestic Product
ICRRS	Internal Credit Risk Rating System
MSME	Micro, Small and Medium Enterprise
PPG	Product Program Guideline
RBI	Reserve Bank of India
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SOP	Standard Operating Procedure
SP	Stimulus Packages

Executive Summary

COVID-19 has severely affected the economy of Bangladesh, like in other countries. The country-wide shut down in containing the spread of the virus resulted in a severe contraction in the production and distribution in almost all sectors. The manufacturing activities came to a standstill at the beginning of the pandemic due to maintaining physical distance and a stay-home policy throughout the country. The service sector was also severely disrupted. Country-wide stagnation in the real sector put tremendous pressure on the financial sector, as the bank-financed entrepreneurs had to pass through the last one and half years with no production or production at a suboptimal level during the pandemic.

The Government and Bangladesh Bank have taken several stimulus packages to revitalize the economy. So far, 28 stimulus packages amounting to 1,91,919 crore taka have been announced accounting for around 6.86 per cent of the GDP of the country. Bangladesh Bank is directly involved with 10 packages amounting to 1,60,250 crore taka out of the government-declared 28 incentive packages. BB has also introduced 6 refinancing schemes with an amount of 62,250 crore taka to ensure the implementation of the packages and liquidity available for the participating commercial banks.

The objectives of the study were to examine the implementation status of the stimulus packages and find out if there is an opportunity to improve the implementation process. Both primary and secondary data were used. Considering the issues of interest, an open-ended questionnaire was sent to all the scheduled banks and responses were received from 36 banks. Some of the key findings and recommended policy measures are as follows:

Banks are facing an ambivalence situation and are most reluctant in financing businesses because the stimulus packages require banks to finance the severely affected businesses. Banks should extend credit under the SPs to the firms, based on the nature and magnitude of business losses incurred. The credit needs of the affected businesses should also be assessed considering the recoverability of business loss and the banker-customer relationship. The appropriate use of the fund should also be ensured. Lending to the existing borrowers is preferred because of their known track record, having some security arrangements, and helping them survive to recover the existing loans. Despite having difficulties in assessing the new loan applicants who are affected by the pandemic, banks should try to finance them for the sake of their own interest (the business prospect of banks) as well as their ethical responsibility.

Loans under SPs are being given at preferential rates and without additional collateral to meet the dying needs of firms and restore the economy as a priority of the government. As such, the loans under the SPs may also be considered grants/safety net programs, and the borrowers may think that they will not face any severe legal action in case of non-repayment. Under these circumstances, banks should strengthen their relationships with the clients, and enhance the loan review and monitoring system to minimise moral hazards. Banks should also make the borrowers ready to go back to the regular terms and conditions from the preferential terms and conditions.

Credit Guarantee Scheme (CGS) has been introduced to facilitate collateral-free financing for cottage, micro and small enterprises, considering the adverse impact on them during the pandemic. However, the CGS is yet to be adopted by many banks and financial intuitions due to a lack of awareness and stringent conditions. It is imperative to raise awareness among the banks and have their feedback to understand if they are facing any difficulties in participating in the scheme.

The banking sector of Bangladesh has gained invaluable experience during the pandemic. This invaluable learning should be documented, incorporated into the credit policy, and disseminated among the bank employees involved with the credit operations.

Assessment of Stimulus Packages on COVID-19: Bankers' Perspective

I: Introduction

COVID-19 has severely affected the economy of Bangladesh, like in other countries. The first wave of the pandemic starting in April 2020 reached its peak in early July 2020. A country-wide shut down in containing the spread of the virus resulted in a severe contraction in production in almost all sectors. This shrinkage, coupled with the COVID related reduction in demand, inevitably produced a sharp decline in GDP growth. After experiencing a steady and moderate growth rate of 7 per cent to 8 per cent for a considerable period, the economy of Bangladesh experienced a significantly lower GDP growth rate of 3.51% in FY 2020, which was 8.15% in the preceding year (FY2019). However, the economy started to recover and achieved a higher level of growth of 5.47% in FY 2021 (Bangladesh Bank, 2021a). Despite the economic slowdown, the growth rate of Bangladesh remains positive during the pandemic, whereas many countries experienced negative growth in the same period. The actual growth rate turned out to be higher than the projected rate by the IMF, and World Bank in the early stage of COVID-19.

The manufacturing activities came to a standstill at the beginning of the pandemic due to maintaining physical distance and a stay-home policy throughout the country. The service sector was also severely disrupted. Only the agriculture sector kept on preventing the economy from facing an even more disastrous situation, as the sector remained relatively shielded from the shock of the pandemic (BB, 2021b). Country-wide stagnation in the real sector put tremendous pressure on the financial sector as the bank-financed entrepreneurs had to pass through the last one and half years with no production or production at a suboptimal level during the pandemic. Especially the readymade garments, real estate, manpower export, transport, tourism and SME sector have been largely affected (BB, 2021b). Amid the pandemic, the government took several policy measures to contain the spread of the pandemic and overcome the adverse effects on the economy. Likewise, Bangladesh Bank played a remarkable role as a lender of the last resort – to the whole banking industry to keep the credit flow, business, and banking running as smoothly as possible. Bangladesh Bank and the Government of Bangladesh have taken several stimulus packages (SPs) to combat the economic and social crisis by revitalizing economic activity, protecting jobs for the workers, keeping continuity of the production process and maintaining the competitiveness of the entrepreneurs. So far, 28 stimulus packages amounting to 1,91,919 crore taka have been announced accounting for around 6.86 per cent of the GDP of the country. Bangladesh Bank is directly involved with 10 packages amounting to 1,60,250 crore taka. BB has also introduced 6 refinancing schemes with an amount of 62,250 crore taka to ensure the implementation of the packages and liquidity available for the participating commercial banks. In addition to the stimulus packages, Bangladesh Bank has implemented various policy supports for the external sector, financial sector by easing the liquidity requirement, and relaxing the loan classification requirement. The smooth functioning of payment infrastructures has been ensured through some policy directives. Some social safety net programs were put in place to mitigate the growing poverty and vulnerability in the population as well (Raihan, 2020).

Affected by COVID-19, all the South Asian Economies have taken a wide range of policy measures to protect the economy and lessen the impact of the pandemic on the livelihood of the people. The Government of India and the Reserve Bank of India (RBI) undertook monetary policy measures, such as increasing liquidity, providing refinance and playing the role of the lender of the last resort to the financial institutions. The total packages implemented by the RBI was 15.7 per cent of GDP during 2020-21 (BB, 2021). The policy responses of Nepal to address the challenges posed by COVID-19 includes, among others, a set of monetary policy measures, such as reduction of CRR, bank rate, and lending rate for the borrowers. A major relaxation was made in loan restructuring and loan rescheduling along with the enhancement of refinance facilities. The amount of relief package declared by the Pakistan Government was 1.2 trillion Pakistani rupees equaling 2.9 per cent of GDP (BB, 2021). Monetary and fiscal policy measures adopted by Sri Lanka in response to COVID-19 were in the form of reduction in SLR, bank rate, financial assistance, and refinancing schemes for the MSME borrowers. Malaysia set up an RM50 billion fund for working capital loan guarantees for COVID-19 affected businesses. The authorities announced stimulus packages of RM 10 billion including grants for micro SMEs, scaled-up wage subsidies. In response to the crisis, Bank Negara Malaysia (BNM) lowered the Overnight Policy Rate by a cumulative 125 basis points to 1.75 per cent and the statutory reserve requirement ratio by 100 basis points to 2 per cent. The policy rate in Thailand was reduced by 75 basis points from 1.25 to 0.50 per cent in 2020 and the contribution from financial institutions to the Financial Institutions Development Fund (FIDF) was reduced from 0.46 per cent to 0.23 per cent of the deposit base to provide space for future decreases in lending rates. The Bank of Thailand (BOT) has provided up to THB 500 billion to financial institutions by the end of 2021 for on-lending to SMEs, particularly in tourism and tourism-related sectors at 2 per cent per year. The BOT relaxed some regulations from January 1, 2020 (retroactively) to December 31, 2021, regarding the classification of borrowers and levels of loan loss provision so that financial institutions could accelerate debt restructuring[1].

BIBM arranged two virtual roundtable discussions from July-August, 2020 to examine the probable effects of COVID-19 on the economy of Bangladesh, Liquidity, Credit Operations, Trade Services, CMSME Sector, Agriculture Financing, Supply Chain Financing, IT Operations, and Human Resource Management and Continuity of Business. The potential role of stimulus packages in the economy and the issues in managing those policy supports, such as identification and selection of the affected firms, operation procedure, and maintaining transparency and accountability in the context of Bangladesh were pointed out by Raihan (2020). Bangladesh Bank, with its leading role in instituting various policy supports for the banking sector, published different reports relating to the stimulus packages to look at the

[1] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#B

impact of the policy measures on the real sector, financial stability, money market, capital market, and payment system (BB, 2021b; 2021 c; 2021d).

The stimulus packages remain operative through a tripartite relationship between the Bangladesh Bank, commercial banks, and the borrowers. Facing the unavoidable business loss, borrowers get benefited from the lower interest rates. Increased banks' liquidity due to decreased CRR and other policy rates and availability of refinance schemes also increase the probability of getting a loan in a distressing situation. The lending institutions are also the beneficiary of the SPs as they can continue their business with the affected borrowers. As Bangladesh Bank is entrusted with the responsibility of ensuring financial stability, the implementation of SPs that help the banks to remain on a smooth path of their operations brings comfort to some extent to the regulator. The rationale behind the implementation of large-scale SPs as a public policy measure can be formed on the ground that the social benefit of SPs is expected to be much higher than the social cost (including moral hazard), especially in the type of devastating pandemic like the one we have been observing since March 2020. However, the effective utilization of the packages significantly depends on how banks are managing these packages in terms of selection of the borrowers, assessment of business loss due to pandemic, and prudent relaxation of the terms and conditions in a distress situation. The banking sector of Bangladesh has gained a lot of experience and learning in the area of credit operations and the implementation of credit-centred stimulus packages during the COVID period. So, it is imperative to accumulate hands-on experiences and understanding of various aspects of SP in the banking sector, so that those can be better managed in the coming days.

The objectives of the study were to examine the implementation status of the stimulus packages and find out if there is an opportunity to improve the implementation process. The paper was prepared, based on data collected from both primary and secondary sources. A detailed understanding of the stimulus packages and their operations have been developed from the related circulars of BB, and discussion with the BB officials. The publications of the Bangladesh Bank on stimulus packages and BIBM publications were also useful in preparing the paper. Considering the issues of interest, an open-ended questionnaire was sent to all the scheduled banks and responses were received from 36 banks (Appendix). The findings have been summarized and presented, using tables and graphs. It may be mentioned that the study focused on the management of stimulus packages from the banks' point of view. So, the perceptions of the borrowers and the impact of the policy measures on business and the economy as a whole have remained outside the purview of the study. The paper has been finalized by incorporating the insights derived from the round table discussions.

2. Implementation status of stimulus packages

To mitigate the adverse impact of the pandemic on output, employment, and export earnings, Bangladesh Bank has undertaken several policy measures, including the supply of funds under the government declared stimulus packages and refinance schemes. The implementation status of the stimulus packages implemented through BB is summarized in Table 1.

The stimulus package 'Working capital loans for adversely affected industry and service sector' has been declared to ease the working capital pressure of the industry and service sectors and to lessen their interest burden. A total of BDT 73, 000 crore has been allocated to the fund (as of 09/10/2021). A total of 3,690 industrial firms have received loans under this package. For financing under this package, banks get 9 per cent interest/profit where 4.50 per cent will be paid by the borrowers and 4.50% will be paid by the government as interest subsidy. The implementation rate of the package was 81.76% during the first phase (04/05/2020-30/06/2021) and 13.75% during the second phase (01/07/2021- 9/10/2021).

The stimulus package 'Special Working Capital Facility for CMSMEs Sector' has been declared to ease the working capital pressure of the CMSMEs and lessen their interest burden. A total of BDT40,000 crore has been allocated to the fund (as of 21/10/2021). A total of 110,854 firms have received loans under this package. For financing under this package, banks get 9 per cent interest/profit where 4 per cent will be paid by the borrowers and 5 per cent will be paid by the government as interest subsidy. The implementation rate of the package was 76.93 per cent during the first phase (04/05/2020-30/06/2021) and 8.43 per cent during the second phase (01/07/2021- 21/10/2021).

The stimulus package ‘Pre-shipment credit refinancing scheme’ has been declared to ease the working capital pressure of the export-oriented industries and to lessen their interest burden. A total of BDT5,000 crore has been allocated to the fund (as of 21/10/2021). A total of only 66 industrial firms have received loans under this package. For financing under this package, banks will 5 per cent interest/profit from the borrower whereas the interest rate from the Bangladesh Bank to Banks is 2 per cent. The implementation rate of the package was only 8.56 per cent up to 21/10/2021.

Other SPs implemented by Bangladesh Bank are refinance schemes for low-income earning professionals/ farmers/ small businessmen; Export Development Fund (EDF); Credit Guarantee Scheme (CGS) for CMSMEs; working capital finance to pay salary and allowances to the workers of the tourism industry (hotel, motel, theme park); payment of salary and allowances to the workers-staffs of the active export-oriented industries; subsidy for commercial banks’ suspended interest during April-May 2020; and agricultural refinance scheme (Table-1).

It is important to know how the loans under different SPs are being given in different areas of the country in terms of loans sanction and utilization. The division-wise disbursements of loans under the stimulus packages, namely working capital loans for adversely affected industry and service sectors; working capital loans for CMSMEs; Refinance scheme for low-income earning professionals/farmers/small businessmen; Credit Guarantee Scheme (CGS) for CMSMEs; Payment of salary and allowances to the workers-staffs of the active export-oriented industries; Subsidy for commercial banks’ suspended interest during April-May 2020; Agricultural refinance scheme; Pre-shipment credit refinancing scheme; Export Development Fund (EDF), show that majority of the loans was disbursed in Dhaka and Chattagram divisions (Tables-2-8 and Figures-1-2).

Table 1: Amount, implementation status, number of beneficiaries and interest rates of different stimulus packages (As of 1 November 2021)

Sl. No.	Stimulus Packages	Amount (BDT Cr)	Implementation	No. of Beneficiaries	Interest rates	
					Borrower	Subsidy
1	Working capital loans for adversely affected industry and service sector	40,000 33,000 73,000	81.76% 13.75%	3,306 industrial firms, 384 industrial firms	4.50%	4.50%
2	Working capital loans for CMSMEs	20,000 20,000 40,000	76.93% 8.43%	97,814 firms 13040 firms	4.00%	5.00%
3	Pre-shipment credit refinancing scheme	5,000	8.56%	66 industrial firms [Interest rate for borrowers 5.00%; BB to Bank @2%]		
4	Refinance scheme for low-income earning professionals/farmers/small businessmen	3,000	77.25%	4,28,634 farmers and small traders	9.00% (BB to Bank 1.00%) (Bank to MFI 3.50%)	
5	Export Development Fund (EDF)	21,250	100.00%	9,262 borrowers	2.00%	-
6	Credit Guarantee Scheme (CGS) for CMSMEs [As of November 1, 2021]	2,000	BDT 29.23 Cr (1.46%), No. of beneficiaries = 276.		NA	NA
7	Working capital finance to pay salary and allowances to the workers of the tourism industry (hotel, motel, theme park)	1,000	Letters sent to banks with their limit	-	4.00%	4.00%
8	Payment of salary and allowances to the workers-staffs of the active export-oriented industries	5,000	100.00%	37,78,969 workers including 20,15,640 female workers [One-time service charge 2.00%, repayable in 18 EMIs in 2 years with 6 months grace period]		
9	Subsidy for commercial banks' suspended interest during April-May 2020	2,000	100.00%	72,82,253 borrowers	-	-

10	Agricultural refinance scheme	5,000 3,000	85.90% -	1.83,070 farms/farmers	4.00%	

Source: Bangladesh Bank

Table 2: Disbursement of Working capital loans for adversely affected Industry and Service Sectors, and CMSMEs (Division-wise -Up to November 1, 2021)

	Industry and Service Sectors		**Working capital loans for CMSMEs**	
Division	**Amount (BDT Core)**	**Disbursement %**	**Amount (BDT Core)**	**Disbursement %**
Dhaka	28552.96	76.09	7746	50.34
Chattagram	6378.63	17.00	2529	16.44
Rajshahi	554.03	1.48	1575	10.24
Khulna	1292.93	3.45	1410	9.16
Barisal	37.16	0.10	334	2.17
Sylhet	83.31	0.22	391	2.54
Rangpur	124.38	0.33	923	6.00
Mymensing	503.59	1.34	479	3.11
Total	37526.99	100.00	15387	100.00

Source: Bangladesh Bank

Table-2 shows the division-wise disbursement status of working capital loans for adversely affected industry and service sectors, and CMSMEs up to 1 November 2021. About 76 per cent of the fund was disbursed in Dhaka, followed by Chattagram (17 per cent). The highest amount of the fund was disbursed in Dhaka (50.3 per cent) followed by Chattagram (16.4 per cent) and Rajshahi (10.2 per cent). Table 3 shows the division-wise disbursement status of the refinance scheme for low-income earning professionals /farmers /small businessmen. About 27 per cent of the fund was disbursed in Dhaka, followed by Chattagram (19.8 per cent), Rajshahi (16. 4 per cent), Khulna (14.1 per cent) and Rangpur (10.1 per cent). The division-wise disbursement under Credit Guarantee Scheme (CGS) for CMSMEs has been shown in Table 4. The highest amount of the fund was disbursed in

Dhaka (48.5 per cent) followed by Khulna (28.7 per cent), Barisal (13.99 per cent), Chattagram (4.4 per cent) and Rangpur (2.8 per cent).

Table 3: Disbursement of Refinance scheme for low-income earning professionals /farmers /small businessmen (Division-wise Up to November 1, 2021)

Division	Amount (BDT in Core)	Disbursement %
Dhaka	510	27.13
Chattagram	373	19.84
Rajshahi	308	16.38
Khulna	265	14.10
Barisal	137	7.29
Sylhet	22	1.17
Rangpur	190	10.11
Mymensing	75	3.99
Total	1880	100.00

Source: Bangladesh Bank

Table 4: Disbursement under Credit Guarantee Scheme (CGS) for CMSMEs (Division-wise Up to November 1, 2021)

Division	Amount (BDT in Core)	Disbursement %
Dhaka	14.18	48.51
Chattagram	1.29	4.41
Rajshahi	0	0.00
Khulna	8.4	28.74
Barisal	4.09	13.99
Sylhet	0.06	0.21
Rangpur	0.83	2.84
Mymensing	0.38	1.30
Total	29.23	100.00

Source: Bangladesh Bank

Table-5 shows the division wise disbursement status of the payment of salary and allowances to the workers/staff of the active export-oriented industries. About 88 per cent of the fund was disbursed in Dhaka, followed by Chattagram (8.2 per cent) and Mymensingh (3.0 per cent). Table 6 shows the division-wise disbursement status of the subsidy for commercial banks' suspended interest from April-May 2020 up to 1 November 2021. About 56.7 per cent of the fund was disbursed in Dhaka, followed by Chattagram (18.6 per cent), Rajshahi (6.7 per cent), Khulna (6.0 per cent, Rangpur (4.3 per cent), and Mymensingh (3.0 per cent). Table-7 shows the division-wise disbursement status of the Agricultural refinance scheme up to 1 November 2021. About 24 per cent of the fund was disbursed in Dhaka, followed by Khulna (17.7 per cent), Rajshahi (16.5 per cent), Chattagram (14.9 per cent), Mymensingh (9.7 per cent) and Rangpur (8.1 per cent).

Table 5: Disbursement of Payment of salary and allowances to the workers-staffs of the active export-oriented industries [Division-wise (%) - Up to November 1, 2021]

Division	**Amount (BDT in Core)**	**Disbursement %**
Dhaka	8538	88.25
Chattagram	796	8.23
Rajshahi	4	0.04
Khulna	36	0.37
Barisal	9.11	0.09
Sylhet	0	0.00
Rangpur	0	0.00
Mymensing	292	3.02
Total	9675.11	100.00

Source: Bangladesh Bank

Table 6: Disbursement of Subsidy for commercial banks' suspended interest during April-May 2020 (Division-wise - up to November 1, 2021)

Division	Amount (BDT in Core)	Disbursement %
Dhaka	685.66	56.70
Chattagram	224.5	18.57
Rajshahi	80.85	6.69
Khulna	72.98	6.04
Barisal	32.14	2.66
Sylhet	25.11	2.08
Rangpur	51.35	4.25
Mymensing	36.64	3.03
Total	1209.23	100.00

Source: Bangladesh Bank

Table 7: Disbursement of Agricultural refinance scheme (Division-wise - Up to November 1, 2021)

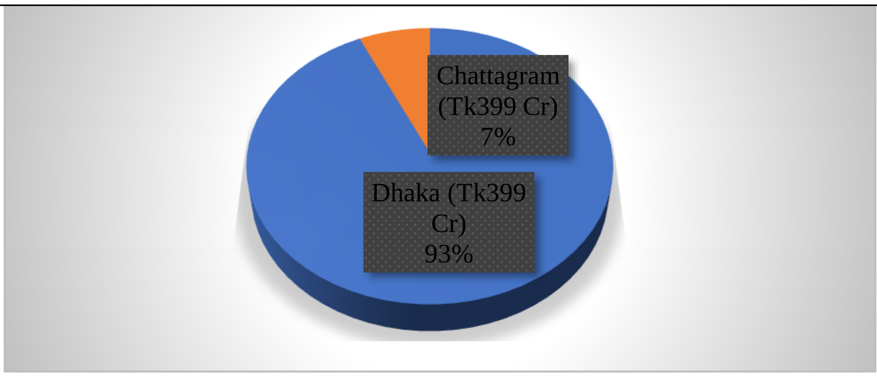
Division	Amount (BDT in Core)	Disbursement %
Dhaka	1018	24.05
Chattagram	633	14.95
Rajshahi	698	16.49
Khulna	748	17.67
Barisal	237	5.60
Sylhet	145	3.43
Rangpur	342	8.08
Mymensing	412	9.73
Total	4233	100.00

Source: Bangladesh Bank

The division-wise disbursement status of the Pre-shipment credit refinancing scheme and the Export Development Fund (EDF) are shown in

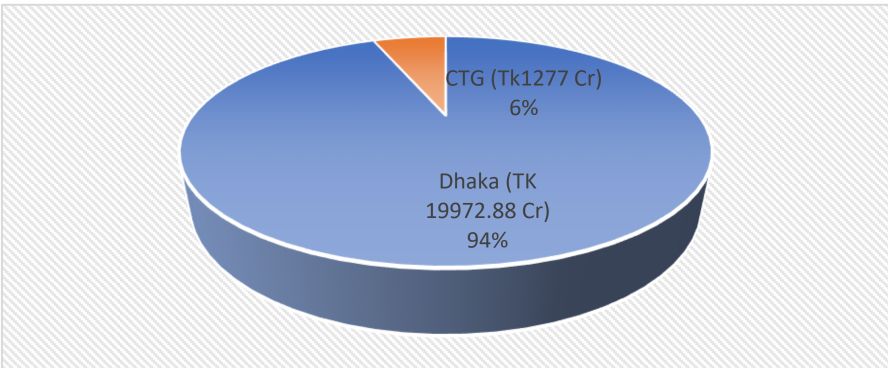
Figures-1 and 2, respectively. The Pre-shipment credit refinancing scheme has been disbursed only in Dhaka (93 per cent) and Chattagram (7 per cent). Likewise, credit from the Export Development Fund (EDF) has been disbursed only in Dhaka (94 per cent) and Chattagram (6 per cent).

Figure 1: Disbursement of Pre-shipment credit refinancing scheme (Division-wise - Up to November 1, 2021)



Source: Bangladesh Bank

Figure 2: Disbursement of Export Development Fund (EDF) (Division-wise - Up to November 1, 2021)



Source: Bangladesh Bank

3: Survey Findings

This section briefly discusses the findings based on the questionnaire survey. The preparedness on the part of the banks for implementing stimulus packages (SPs); changes made in the covenants and standard operating procedures (SOP) for financing under SPs; factors considered in identifying eligible borrowers affected by the pandemic, benefits of SPs for the banks, risks of loans given under the SPs, difficulties faced by banks in financing under the SPs; loans given to existing borrowers, new borrowers, loan applications received, sanctioned and declined; reasons for differences in disbursements of loans under different SPs; adequacy of the stimulus packages; and measures recommended by the banks for making the stimulus packages more functional and effective are.

Table 8 shows that only 26 banks took some forms of in-house initiatives for implementing SPs, including informing employees through circulars, virtual meetings/webinars, and personal communication; arranging training workshops for concerned credit officers; setting up special cell/focal points under the CEOs for monitoring; advertisement/mass communication about the reduced rate of interest (hoisting banners in front of every branch, miking, open loan disbursement program); dedicated help desk for loans under SPs; forming special credit approval committee to speed up credit decision; meeting with clients; preparing special product program guidelines (PPG) under SPs, and developing IT-based module for monitoring. Nine banks made some changes in the covenants and standard operating procedures (SOP) for financing under SPs, including being liberal on security arrangements, and terms and conditions (e.g. granting additional loans without additional collateral); simplifying the credit appraisal process (e.g. ICRRS made non-mandatory); quick disbursement; no processing fee or charge; and no penal interest in case of late payment (Table-9).

Table 8: Initiatives/preparedness in banks for implementing stimulus packages (SPs) (n=35)

Sl.	Initiatives/preparedness in banks	Frequency (F)
1	Informing employees through circulars, virtual Meetings/Webinars, and personal communication	12
2	Arranging training workshops for concerned credit officers	12
3	Setting up Special cell/ Focal points under the CEOs for monitoring	5
4	Advertisement/Mass communication about the reduced rate of interest (hoisting Banners in front of every Branch, milking, open loan disbursement program)	2
5	Dedicated Help Desk for loans under SPs	1

Sl.	Initiatives/preparedness in banks	Frequency (F)
6	Forming Special Credit Approval Committee to speed up credit decision	2
7	Meeting with clients	1
8	Preparing special product program guidelines (PPG) under SPs	1
9	Developing IT-based module for monitoring	1
	Yes No	26 9

Table 9: Changes (in the covenants/SOP) for financing under SPs (n= 36)

Sl.	Changes made	F
1	Liberal on security arrangement, and terms and conditions [e.g. Granting additional loan without additional collateral]	5
2	Simplification of Credit appraisal process [e.g. ICRRS made non-mandatory]	2
3	Quick disbursement	1
4	No processing fee or charge	1
5	No penal interest in case of late payment	1
	Yes No	9 27

The respondents were asked to identify the factors that they considered in identifying eligible borrowers affected by the pandemic. Table 10 lists such factors which included prioritizing existing clients having proven track record; physical inspection and frequent communication; reduction in sales compared to last year; stuck up of accounts receivable and inventories; inability to meet up operating expenses/short term obligations; businesses compelled to remain closed/cancellation of existing order/ no new order; based on client approach/urgency; determining loss using a prescribed format; and certificate issued by local authorities.

Table 10: Factors considered in identifying eligible borrowers affected by the pandemic (n=36)

Sl.	Factors	F
1	Prioritizing existing clients having proven track record	14
2	Physical inspection and frequent communication	11
3	Reduction in sales compared to last year	11
4	Stuck up of accounts receivable and inventories	10
5	Inability to meet up operating expenses/short term obligations	8
6	Businesses compelled to remain closed/cancellation of order/no new order	8
7	Based on client approach/urgency	5
8	Determining loss using a prescribed format	3
9	Certificate issued by local authorities	2

The benefits and incentives of the banks included protecting existing borrowers from economic fallout/ revitalization and continuity of businesses affected by the pandemic; increased credit flows to existing clients as well as new clients/priority sectors/diversification of credit portfolio at preferential rates; an enhanced loanable fund with refinancing at lower rates; keeping existing loans performing/loan quality/ better recovery; the certainty of interest payment to some extent/ increased income; and use of idle liquidity during COVID-19 (Table 11).

Table 11: Benefits of Stimulus Packages for the banks

Sl.	Benefits	F
1	Protecting existing borrowers from economic fallout/ Revitalization and continuity of businesses affected by the pandemic	20
2	Increased Credit flows to existing clients as well as new clients/priority sectors/Diversification of credit portfolio at preferential rates	19
	Enhanced Loanable fund with refinancing at lower rates	17
3	Keeping existing loans performing/Loan quality/ better Recovery	12
4	Certainty of Interest payment to some extent/ increased income	5
5	Use of idle liquidity during COVID 19	3
	n	36

Banks were asked if the loans given under the SPs are risker than the regular loans. Some 24 respondents said ‘yes’ and 7 respondents said ‘No’, and 5 respondents are ‘uncertain’ (Table 12). The arguments for considering loans given under the SPs are risker than regular loans are that loans under SPs are considered as grants/subsidies/bailouts by many borrowers that may cause non-repayment of the loan; unknown length of the pandemic/uncertain future; known risk (inherent risk) - loans to adversely affected clients/financing based on loss rather than against profit; closure/irreparable business losses, despite having loans under SPs/unable to repay within the stipulated time; and misconception about the interest subsidy and repayment period. The arguments for not considering loans given under the SPs risker are reduced interest burden due to lower interest rates and financing only existing good clients.

Table 12: Risks of Loans Given under the Stimulus Packages (n = 31)

			Reasons/Arguments	**F**
Yes (24)		1	Lack of collateral against additional loans	13
		2	Loans under SPs are considered as grants/subsidies/bailouts by many borrowers that may cause non-repayment of the loan	10
		3	Unknown length of the pandemic / uncertain future	5
		4	Known risk (Inherent risk) - loans to adversely affected clients/financing based on loss rather than against profit	5
		5	Closure/irreparable business losses, despite having loans under SPs/ unable to repay within the stipulated time	4
		6	Misconception about the interest subsidy and repayment period	3
No (7)			Reduced interest burden due to lower interest rates	2
			Financing only existing good clients	1

The most-reported difficulties the respondents faced in giving loans given under the SPs are the determination of losses/amount of loan required; lack of adequate reports/documents/records/information/ difficulty in physical verification largely due to closure; increased risk of non-repayment due to

COVID and over financing/loans and interest subsidy for one year only, and affected borrowers (CMS) expected rants/uncertainty due to recurrent nature of Covid-19 may refrain businesses to invest further (Table-12).

Table 13: Difficulties Faced by Banks in Implementing SPs (n=36)

Sl.	Difficulties	F
1	Determination of losses/amount of loan required	17
2	Lack of adequate reports/documents/records/information/ difficulty in physical verification largely due to closure	9
3	Increased risk of non-repayment due to COVID and over financing/Loans and interest subsidy is for one year only	9
4	Affected borrowers (CMS) expected Grants/Uncertainty due to recurrent nature of COVID-19 may refrain businesses to invest further [watch and see]	7
5	Shortage of collateral security	4
6	Limited manpower/skilled manpower	4
7	Delay in getting interest subsidy/ interest subsidy is yet to be received	4
8	Delay in receiving consent/approval from BB	4
9	Limited work hour	3
10	Mismatch between regulatory limits and clients' need	1
11	Finding out of the fresh affected eligible borrowers	1
12	Refinance of the packages are not received timely	1
13	Format, contents. frequency of reporting of the loan under SPs are very troublesome and time-consuming	1

Table-13 shows the difficulties faced by banks in implementing SPs, while Table-14 shows the loans given to existing borrowers, new borrowers, loan applications received, sanctioned and declined by the sample banks. Banks preferred to give more loans to their existing clients and were reluctant to extend credit to new ones.

Table 14: Loans given to existing borrowers, new borrowers, Loan applications received, sanctioned and declined

Name of packages	No. of Existing Borrowers	No. of New Borrowers	No. of Loan Application Received	No. of Loan Application Sanctioned	No. of Loan Application Declined
Working capital loans for adversely affected large industries and the service sector (30)	1780	8	1942	1788	154 [7.93%]
Working capital loans for CMSMEs (n=26)	53,575	10,835	66,937	64,555	2,382 [3.59%]

Table-15 shows that the differences in disbursements of loans under different SPs included differences in the effect of the pandemic on different sectors; banks' preference to finance more in their preferred industries/cost-benefit analysis-CMSMES need more man-hour and lack collaterals, and differences in financing requirement of businesses. 26 banks out of the 36 banks which responded to the questionnaire said that they could lend more if the size of SPs would be larger (Table 16). The SPs where banks could lend more included lending more under the CMSME package; lending more to the large industries and service sectors; Hotel & Tourism, and Garments sectors. One of the respondents also said that they could lend more, if there was no restriction of 30% of existing working capital.

Table 15: Reasons for differences in disbursements of loans under different SPs

Sl.	Reasons	F
1	Differences in the effect of the pandemic on different sectors	5
2	Banks try to finance more in their preferred industries/Cost-benefit Analysis- CMSMEs need more man-hours and lack collateral	2
3	Differences in financing requirements of businesses	2

Table 16: Size of SPs- Could you lend more if the size of SPs would be larger? (n=34)

Sl.	Responses	F
1	Lending more under CMSME package	9
2	Lending more to large industries and service sectors	8
3	Hotel & Tourism, and Garments sectors	2
4	More lending if there was no restriction of 30% of existing working capital	1
	Yes	26
	No	8

Finally, the respondents recommended some measures for making the stimulus packages more effective (Table-17). Notable recommended measures include extended repayment period; interest subsidy should be released in time/without any delay; extended interest subsidy period; more publicity and campaigns; refinance from BB should be given in time; quick approval/consent from Bangladesh Bank; disbursement of agricultural and CMS loans under SPs through MFIs; simplification of reporting format, contents and frequency; extending the eligible limit of stimulus loan over 30% of existing exposure, and banks need to make the recipients aware of the expiry/exit plan.

Table 17: Measures Recommended for Making the Stimulus Packages more Effective (n=36)

Sl.	Measures	F
1	Extended repayment period	8
2	Interest subsidy should be released in time/without any delay	8
3	Extended interest subsidy period	4
4	More publicity and campaigns	4
5	Refinance from BB should be given in time	4
6	Quick approval/consent from BB	4
7	Disbursement of Agricultural and CMS loans under SPs through MFIs.	3
8	Simplification of Reporting format, contents and frequency	3
9	Extending the eligible limit of stimulus loan over 30% of existing exposure	3
10	Banks need to make the recipients aware of the expiry/exit plan	2
11	Allowing factoring facilities against receivables	1

4: Summary findings and recommendations

Based on the questionnaire survey, discussions in the roundtable, the findings are summarized and some policy measures are recommended below.

4.1 The key purpose of the stimulus packages (SPs) was to support the businesses affected by the pandemic. In these circumstances, four different scenarios can be thought of: 1) affected firms received loans under the SPs; 2) affected firms have not received any loans; 3) affected firms received loans, but were unable to utilise the same due to low level of economic activity/closure, and 4) firms not severely affected, but received loans under the SPs, but using the fund for some other purposes. Banks are facing an ambivalence situation and were most reluctant in financing businesses because the stimulus packages require banks to finance the severely affected businesses. Banks are expected to extend credit under the SPs to the firms, based on the nature and magnitude of business losses incurred. Assessment of the nature and magnitude of business loss is critical for banks to enable them to take credit decisions, but it is very difficult in the pandemic situation. The credit needs of the affected businesses should also be assessed, considering the recoverability of business loss and the banker-customer relationship. The appropriate use of the fund should also be ensured.

4.2 Lending to the existing borrowers is preferred because of their known track record, having some security arrangements, and helping them survive to recover the existing loans. On the other hand, banks seem to be reluctant to finance the new loan applicants due to their unknown records, lack of collateral and added uncertainty to the banks' credit portfolio. Despite having difficulties in assessing the new loan applicants who are affected by the pandemic, banks should try to finance them for the sake of their own interest (the business prospect of banks) besides their ethical responsibility.

4.3 Loans under SPs are being given at preferential rates and without additional collateral to meet the dying needs of firms and restore the economy as a priority of the government. Borrowers are becoming used to getting loans at low rates (2.0 – 5.0%), and there might be rising expectations among them to have more loans as well as continue the existing loan under SPs as long as possible. Besides, there are many instances of regulatory forbearance such as repeated increases in moratorium period, loan classification and provisioning requirements for loans given under quite normal time before the pandemic. Besides various social safety net programs, the government has offered subsidies against the bank loan interest whose payment was postponed during the April-May period for BDT 2,000 crore. As such, the loans under stimulus packages may also be considered grants/safety net programs, and it may be thought that borrowers will not face any severe legal action in case of non-repayment. Moreover, there are some reported concerns about the repayment of the loans under the SPs, though the one-year expiry for many loans is yet to come. Under these circumstances, banks should strengthen their relationships with the clients, and enhance the loan review and monitoring system to minimise moral hazards. Banks should also make the borrowers ready to go back to the regular terms and conditions from the preferential terms and conditions.

4.4 Credit Guarantee Scheme (CGS) has been introduced to facilitate collateral-free financing for the cottage, micro and small (CMS) enterprises considering the severe adverse impact on them during the pandemic. This is a praiseworthy initiative. However, the CGS is yet to be adopted by many banks and financial intuitions due to a lack of awareness and stringent conditions. It is expected that this kind of guarantee scheme will have tough conditions to avoid moral hazards. It is imperative to raise awareness among the banks and have their feedback to understand if they are facing any difficulties.

4.5 Banks have learnt how to handle otherwise eligible borrowers with different sets of terms and conditions in a distress situation. This learning will have far-reaching implications in dealing with the borrowers even after the pandemic because banks will always find genuine borrowers affected by some adversities. Individual banks will have a different experience, and therefore, such a learning process could be documented for the banking sector as a whole by a research organization such as BIBM. This invaluable learning should be documented, incorporated into the credit policy, and disseminated among bank employees involved with the credit operations.

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Appendices

Appendix 1: Questionnaire

Please respond to the following questions:

1. Are there any changes in your credit policy to finance under stimulus packages? Please mention.
2. Do you think the SPs are beneficial to your bank? Please explain.
3. Were there any changes in the loan terms and conditions for lending under stimulus packages, except interest rate? Please mention.
4. Is there any worth-mentioning initiative/preparedness in your bank for the implementation of the stimulus packages?
5. The total amount of Loans and Advances including loans given under Stimulus Packages as of June 30, 2021 [Taka in Crore]
6. Do you think that your bank would be able to lend more if the fund size would be more?
   If yes, for which package?
7. Why are there differences in the disbursements of different stimulus packages?
8. The stimulus packages are offered to lessen the difficulties faced by the affected businesses. So, it is expected that only the affected businesses will get loans from the stimulus packages. How are you identifying the potential eligible borrowers affected by the pandemic?
9. What difficulties are you facing in financing under stimulus packages?
10. Do you think that loans given under the stimulus packages are riskier than other loans? Please mention the reasons.
11. Please suggest some measures to make the stimulus packages more effective**.**

Appendix 2: List of sample banks which responded to the Survey Questionnaire

1.	Sonali Bank Limited
2.	Agrani Bank Limited
3.	Rupali Bank Limited
4.	Bangladesh Development Bank Limited
5.	BASIC Bank Limited
6.	Bangladesh Krishi Bank
7.	Rajshahi Krishi Unnayan Bank
8.	Uttara Bank Limited
9.	AB Bank Limited
10.	Eastern Bank Limited
11.	United Commercial Bank Limited
12.	Islami Bank Bangladesh Limited
13.	Mercantile Bank Limited
14.	One Bank Limited
15.	Al-Arafah Islami Bank Limited
16.	National Credit and Commerce Bank Limited
17.	Trust Bank Limited
18.	Southeast Bank Limited
19.	Social Islami Bank Limited
20.	Standard Bank Limited
21.	Mutual Trust Bank Limited
22.	Jamuna Bank Limited
23.	Bank Asia Limited
24.	First Security Islami Bank Limited
25.	South Bangla Agriculture and Commerce Bank
26.	Union Bank Limited
27.	NRB Bank Limited
28.	Prime Bank Limited
29.	Dhaka Bank Limited
30.	Bangladesh Commerce Bank Limited
31.	The Premier Bank Limited
32.	Shahjalal Islami Bank Limited
33.	Global Islami Bank Limited
34.	Habib Bank Limited
35.	Bank Alfalah Limited
36.	Woori Bank

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