Banking and Financial Sector Implications of Covid-19:

Preparedness of Banks in Bangladesh

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Message from the Director General

Bangladesh Institute of Bank Management (BIBM) has introduced a number of research-based discussions/workshops on contemporary financial and banking issues from 2010. In these discussions and workshops, a keynote paper is usually prepared highlighting issues which called for discussion with a mature audience of banking professionals, and then the paper is finalized based on the inputs of the discussion before wider dissemination.

This publication titled 'Banking and Financial Sector Implications of Covid-19: Preparedness of Banks in Bangladesh' is however a special effort of BIBM in response to the unprecedented economic, monetary and financial sector development in the country due to Covid-19 outbreak. Before finalizing this publication, the draft paper was presented in a Live Discussion Session on May 16, 2020 to draw inputs on relevant issues. I pay thankfulness to the designated speakers of the session and the audiences for their valuable comments and contributions. I also appreciate the efforts of the author and his support team for materializing their action plan.

This online publication, the first of its kind, I hope, would attract attention of bankers, academicians, researchers, and policy makers. BIBM would also welcome comments, critiques, and suggestions on the themes and issues contained in this publication.

Dr. Md Akhtaruzzaman

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Segment-1: Bank Preparedness is a Necessity to Recover from Financial Catastrophe

The entire world is now in the corona warfront. Covid-19 contamination risk is wide spread and there are clear sense of uncertainties all around. As of today (May 20, 2020), there are around 50 lakh reported cases and about 3.25 lakh confirmed death in 212 countries and territories.[1] It is well understood that the actual number of cases must be much higher. Global economies are fighting coronavirus at a significant economic cost. Though, some policymakers are still searching for right kind of responses for containing the virus, social distancing and reduced mobility came up as the most effective ways till date. And policymakers are also supporting vulnerable households and businesses to mitigate the impact of this severe shock. The strategies caused slowing down or halting of economic activities resulting in huge costs.

While the outcome of the global efforts and the potential timeline for handling the situation are unclear, there are clear indications that the resulting economic devastation might even bring greater havoc. Economic activities are already severely disrupted in many countries, and others are getting ready for facing the disruption. Monetary targets have proven far from accurate with the sudden economic and financial disturbances; and the situation started causing huge challenges for the banking and financial industry. Published recently in the Harvard Business Review, an article placed the existing and upcoming situation under the broad areas of Real Recession; Policy Recession and Financial Crisis (Carlsson-Szlezak et. al, 2020).

Economic and business disruptions and instability have notable implications for the banking industry. Widespread evidences and crisis literature indicate to the fact that an economic shock transforms into banking crisis. The current environment featured by acute business and financial interruptions; disruption in the transportation, communication and other services; uncertainties with future business conditions; fears and lack of confidence amongst entrepreneurs and clients; and skepticisms with legal labilities has all elements to create extremely risky atmosphere for the banks and financial institutions.

In response to the development, global economies are engaged in responding with various fiscal and monetary measures. It is obvious that ‘saving lives of common people and handling contamination risk’ is the priority to the policy makers at this moment, while banking industries are supporting, responding and accommodating accordingly. However, as an essential service industry and a critical enabler of economic recovery in the post covid-19 situation, banking industry needs preparatory work and strategic approach. This is particularly true for the bank-based financial system like Bangladesh where banking sector has been the sources of almost all types of financing for business and economic activities. The objective of the keynote is to propose a ‘Contingency Preparatory Framework and Strategic Approach’ for the banking industry of Bangladesh in the context of the corona crisis.

[1] Worldomer.info

Segment-2: Available Published Literature and Crisis Knowledges Institute the Context for the Preparedness Framework of Banks

Existing and potential economic, monetary and financial implications of covid-19 are the information that are required to craft foundation for identifying right approach and elements of preparedness for the banking community at this moment. A number of intergovernmental, international and national organizations and entities are coming up with verities of information, forecasting, policy responses and preparedness ideas since the origin of the virus in China, however, their efforts received real impetus following the declaration of the corona outbreak as 'Pandemic' by the WHO.[2]

The available published data and forecasting on economic, monetary and financial sector developments by the institutions and research organizations are having a logical challenge of precision when there are obvious limitations of gathering accurate information and noticeable uncertainties on the extent of economic damages. The lack of precisions and uncertainties are reflected in the data deviations published by different agencies. However, these scenario analyses and economic data on pessimistic and optimistic forecasting are crucial for the business entities including banks to form a credible basis for planning, strategizing, and preparing.

Scenario analyses, policy suggestions and forecasting by UN organizations, The World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB), Bank for International Settlement (BIS), World Tarde Organization (WTO), World Economic Forum, Financial Stability Board (FSB) and several scholarly articles published following early March, 2020 are important sources for understanding the existing scenario and for perceiving the future by the businesses and banking institutions; and this keynote heavily draws on these sources to demonstrate the implications of Covid-19 on economic, monetary and financial fronts to form the context of banks' preparedness. Analytical articles on previous crisis situations were also used to draw certain inferences relevant for this keynote. Bangladesh Banks (BB)'s circulars and announcements issued in the context of Covid-19; and research publication and newspaper articles on Bangladesh situation disseminated since early March, 2020 were used as vital inputs for the paper.

The macro discussions and broad policy concerns in the keynote is practically the background literature that is narrowed down to propose a 'Preparatory Framework and Strategic Approach' to handle current scenario and as a recovery initiative to offer due support to the economy for quick retrieval in the post Covid-19 situation. The paper offers proposal that has been finalized by accommodating the comments and opinions of the live discussion session. Initiating the background and methodological issues in the segment-1 and 2; the following segments dealt with uniqueness of the crisis; preparedness issues; economic, monetary and financial sector implications in the global and Bangladesh context before putting forward banking concerns (segment-8), certain questions and issues related to the banking industry (segment-9) and a proposal on contingency preparatory framework and strategic approach for banks (segment-10).

[2] A Nobel corona virus was identified in December 31, 2019 and WHO started actively acting from the very next day, January 01, 2020 by forming Incident Management Support Team; on January 30, WHO declared the outbreak a public health emergency of international concern and on March 11 WHO Director General characterized Covid-19 as a 'Pandemic' (who.int/news-room).

Segment-3: Corona Brought Sudden Devastation and Exposed the World's Poor Pandemic Preparedness

In several literature and articles the current crisis is being compared with the great depression of 1930. This is because, economic activities in all global economies is currently facing a halt, prompting fears to move towards a similar or even worse situation to that of the great depression. While there must be similarities, notable differences and solace may also be observed. In a recent Wisconsin Policy Forum statement, it has been noted that these two crises certainly have a similar amount of severity, however, in case of the Great Recession there was something really fundamentally wrong with the economies, where as this economic crisis hit all the economies that were performing fairly well.[3] IMF (2020b) termed crisis like no other, where there is substantial uncertainty about its impact on people's lives and livelihoods, and practically it is a combination of multiple crises- a health crisis, a financial crisis, and a collapse in commodity prices.

Every crisis carries its own signature, timing, impact and, recovery. With a negative note, Elizabeth (2020) states, the economic signature of this crisis is a prolonged interruption of income, whether it comes from employment, business or remittances; and for many people, income may not return to pre-crisis levels for months which would lead to the rapid depletion of reserves and savings. The speed of destruction for the corona outbreak is remarkable. In case of great depression, stock markets collapsed, credit markets froze up, unemployment rates soared and GDP contracted taking 1-3 year-time, in the current crisis, similar terrible macroeconomic and financial outcomes have materialized in three weeks (World Economic Forum, 2020). It is so sudden that the Covid-19 crisis has been termed as a severe natural disaster like earthquake by many that damaged assets and resources abruptly. Analyzing ongoing trends, Yeung (2020) opines, the possibility of an even bigger 'Great Depression' cannot be ruled out if the epidemic continues to run out of control, and the deterioration of the real economy is compounded by an eruption of financial risks.

In spite of several indications of pessimism, there are optimistic views that the economic severity this time might be short lived. Though the global GDP is hard hit since the 1930s as results of the shutdowns, the symptoms suggesting that a long and drawn-out global downturn is not inevitable; and basically, it is a disruption to normal activity caused by the need to stay at home and growth could rebound quickly once the virus is under control (Taurian, 2020). Identifying the positive fronts Elisabeth (2020) adds, unlike many other natural disasters, the crisis might not damage the premises and tools that people need to carry out their work; farmland would still be as fertile as ever; inventory may be preserved, which means business can restart immediately after the lockdown.

However, it has to be admitted that nothing is very clear. If the duration of the crisis extends, some of the positives might wither away. If it goes very long, it might be difficult for many low-income and developing countries to offer due food support to their people, and thus some people may lose physical assets to buy foods. Even after that people have another key asset which would be available to build upon: their business and social relationships, many of which will remain in place and become central to the recovery; people retain their know-how, lenders can bank on this human capital (Elisabeth, 2020).

[3] https://urbanmilwaukee.com/jason-stein-named-wisconsin-policy-forum-research-director/

There are evidences that the cost estimations on epidemics and pandemics were highly underestimated, and policymakers had not been serious on the preparedness initiatives. Earlier post-crises research publications rightly identified that epidemics and pandemics can impact financial systems and may result enormous economic costs, but upto what extent! Several studies were undertaken over the years covering the then ongoing or post cost of pandemics[4] or estimation of the cost of future pandemics. In regard to the cost anticipation of the potential future pandemics and epidemics, Bloom and Sevilla (2018) identified economic concerns that include: costs to the health system; the strain to health systems of being unable to deal with routine health issues; loss to employment productivity; social distancing disrupting economic activity; impact of tourism; impact on foreign direct investment etc. In a similar fashion, Fan et.al (2018) revealed concerns on the potential epidemics and pandemics and estimated the expected annual losses from pandemic to be annually approximately USD500 billion which was equivalent to 0.6% of global income at that time. In light of the cost estimations of the ongoing COVID-19, it is now obvious that the previous assessments were greatly underestimated. It indicates that the current Covid-19 situation was generally much beyond the level of expectation of the researchers and analysts in terms of economic costs that a pandemic might result.

A common feature of almost all of the related studies is the expression of the concerns over the unmet necessity for greater investment in preparedness against major epidemics and pandemics (Goodell, 2020). In a relatively recent studies, Thomas (2018) examined the lethal outbreak of the highly contagious respiratory disease 'Nipah' and expressed great concerns over the lack of preparedness amongst global economics on the potential pandemics. 'A World at Risk', the annual report on preparedness for heath emergencies (published in September 2019 by the Global Preparedness Monitoring Board of the WHO), tracked 1,483 epidemic events in 172 countries during 2011-2018; and the report cautioned *'the world is in imminent danger of a global pandemic and yet little or no preparation is being undertaken'*. The report recommended for seven actions to prepare for health threats at national and global levels (Global Preparedness Monitoring Board, 2019). This is obvious that policy makers at national and global levels were not prepared to respond adequately to the crisis of such a huge stature. However, there are also questions/confusions: was there any strong logical basis to expect such a huge global challenge? It is a globally impacting phenomenon, whether events of the magnitude of COVID-19 are insurable!

In the context of preparedness initiatives, Fatih and Guven (2020) put forward two options *one*, to wait for the completion of the event as if in an earthquake and then afterwards focus on the revitalization of economic life; *two,* keeping in mind of the ongoing global pandemic, compensate the possible economic consequences in a timely fashion, and ensure that businesses operate during this process. Waiting for the outbreak to end may cause delay and difficultly to repair, rather a solution based and preparatory approach might be fruitful (Fatih and Guvan, 2020).

[4] For example, Haacker (2004) examines the economic costs of the HIV/AIDS pandemic; while the impact of the HIV/AIDS pandemic on development was discussed in Santaeulalia-Liopis (2008).

Segment-4: Covid-19 has Similar Implications for Developed and Developing Economies with Sectoral Differentials

Economists and analysts are forecasting severe contraction of GDP of the global economy in the upcoming months. There are predictions that the global economy is proceeding to a much more severe shock compared to the last financial crisis during 2006-08. International organizations (IMF, The World Bank, UNCTAD, OECD, ADB etc.) have projected downward GDP growth.[5] Some countries even expected to attain negative growth in 2020. In spite of differences in the projections by different organizations (UNCTAD, OECD, ADB, IMF), there are agreements that there would be notable loss of global GDP and global trade due to corona outbreaks.[6] According to Gopinath (2020), the chief economist of IMF, if the pandemic continues in 2021, it may cause a fall of an additional 8% GDP compared to IMF's baseline scenario. In the real economy of the globe, the corona outbreak is likely to produce a prolonged and deep recession and sharp economic volatility (Furman, 2020); supply-chain severally disrupted everywhere and income per capita is projected to shrink for over 170 countries (IMF, 2020a). In developing countries, the vulnerability to the pandemic is even higher and in addition to the direct effects, corona outbreak brings a sharp external demand shock for some developing countries in the form of lowering consumption demand of certain goods (like RMG) and services (like tourism), and dependence on remittances from developed countries (The Economist 2020; Housmann, 2020). The situation is also expected to increase poverty in the global economy.[7]

International trade and trade facilitation are greatly affected by the Covid-19. According to a WTO (2020) estimation, world merchandise trade is set to fall by between 13%-32% in 2020; and nearly all regions would suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest. WTO adds, the recovery in 2021 is also unclear and dependent on the duration of the outbreak and the effectiveness of the policy responses. A closely related sector, global shipping activities are sharply affected with the cancellation of sailings and upended logistics and are causing immense harm to the trade facilitation as shipping is responsible for nine-tenth of the global trading activities (Habib, 2020).[8] Practically, trade disruption initiated from the very beginning as the virus start spreading from China, and it is well recognized that China's rising importance in the global economy is not only related to its status as a manufacturer and exporter of consumer products, it become the main supplier of intermediate inputs.[9] By the time all major trading partners are heavily within the grip of Covid-19.

All sector of the global economies however does not seem equally affected, rather for some sectors it might be rewarding. Rostogi (2020) identifies apparel and textile, auto, aviation, tourism, shipping, non-food retail, building and construction businesses are the most affected sectors, where as sectors with a possible uptick may include digital and internet companies, technology and online education, online groceries, food-based retail chains, and companies, chemical companies and pharmaceutical

[5] For example, IMF projected global economic growth to rise from 3% in 2019 to 3.3%in 2020 and 3.4 % in 2021 that are lowered by 0.1% point for 2019, 1.7% points for 2020 and 0.2 % points for 2021 (IMF, 2020a).

[6] GDP loss estimated by the UNCTAD, OECD, ADB and IMF were 1.7%, 2.4%, 0.2% and 1.6% respectively; and Tarde loss by the UNCTAD, OECD, ADB and IMF were 0.6%, 1.0%, 0.4%, 0.3% of GDP respectively (UNCTAD, 2020; OECD, 2020; ADB, 2020; IMF, 2020a).

[7] The worsening economic outlook following the emergence of COVID-19 entails an increase of over 3% in LDC poverty headcount, with more than 33 million additional people living in extreme poverty (Akiwumi and Giovanni, 2020 for UNCTAD).

[8] https://thefinancialexpress.com.bd/views/views/safeguarding-trade-and-trade-finance-operations-in-the-covid 19-regime (Financial Express, April 15, 2020).

[9] About 20% of global trade in manufacturing intermediate products originates in China that increased from 4% in 2002 (UNCTAD, 2020).

firms. Business Insider Intelligence and e Marketer analysts (2020)[10] forecast that the pandemic is set to have positive impact on telecoms and technology, digital media, payments and commerce, fintech, banking (that rely on digital channel), and healthcare. Analyzing global data on business implications of Covid-19, Hadi and Supardi (2020) ranked business sectors as potential winners and potential losers (Box-5.1). The situation however may vary significantly from country to country because of many other associated factors.

Box 4.1: Potential Winners and Losers of Covid-19		
Potential Losers	**Potential Gainers**	**Gainers or Losers**
• Tourism& Leisure • Aviation & Maritime • Automotive • Construction & Real estate Manufacturing (non-essential)	• Medical Supply & Services • Personal & Healthcare • Food Processing& Retail • ICT • E-Commerce	• Education • Oil & Gas • Agriculture • Financial Services
Note: Authors' categorization based on Hadi and Supardi, 2020.		

Impacts of the ongoing situation however varied for different sizes of enterprises. Generally small businesses are already severely affected both in developed and developing countries. A very recent survey by NBER (2020) found that even in USA 43% small businesses that employ almost 50% of American workers, were temporarily closed and the employment fallen by 40%. As of end march 2020, a good number of businesses viewed it as unlikely or only somewhat likely that they would be open as of end 2020 (Bartik et. al, 2020). The situation in developing countries are even worse.

The overall economic situation seems to infect the global economy by creating clear uncertainty and hitting investors' and consumers' confidence i.e. demand shock and supply disruption i.e. supply shock simultaneously within a very exceptionally short period of time.

[10] https://www.emarketer.com/content/the-biggest-business-impacts-of-the-coronavirus-pandemic-according-to-business-insider-intelligence

Segment-5: Monetary and Financial Sector Implications Hurting Credit Market and May Result Banking Sector Instability

The COVID-19 pandemic led to a major re-pricing and re-positioning in global financial markets featured by continued downward revisions of economic growth expectations; extreme volatility in equity and other markets for risky assets; capital outflows from emerging and developing economies; and sharp moves in foreign exchange rates (FSB, 2020). Liquidity challenge and cash crunch became strongly visible throughout the globe immediately after the spread of the Covid-19 as market liquidity deteriorated considerably including in markets traditionally seen as very deep (IMF, 2020a). As the pandemic continues, non-financial corporates face increasing funding shortfalls as cash flows from operations diminish or dry up (FSB, 2020). A reasonable explanation for the market reaction is that although theoretically banks should be willing to lend to profitable firms that practically do not happen in such a scenario, and all the previous crises show that if policymakers do not intervene swiftly, even temporary shocks could lead to a liquidity crisis with long-lasting damage (De and Horen, 2013). In a recent paper, Antonio and Juan (2020) examines how the COVID-19 health crisis could affect the liquidity risk of listed firms, and based on data of 14,245 listed firms across 26 countries and using three financial ratios related to short-term and long-term liquidity risks they concludes: in the most adverse scenario, their current liabilities would increase, suggesting that the average firm would have to resort to the debt market to prevent a liquidity crunch.

The coronavirus pandemic presents a historic challenge in credit markets as spreads skyrocketed, especially in risky segments, and a number of factors amplified asset price moves, contributing to a sharp tightening of financial conditions at unprecedented speed (IMF, 2020a). In April, it took just 15 days for the USA and some other big stock markets to drop into bear territory that squeezed up credit markets significantly (World Economic Forum, 2020). According to Ozili and Thankom (2020), the outcome of the ongoing crisis on financial markets was highlighted when global stock markets lost USD 6 trillion in value over six days from 23 to 28 February (S&P Dow Jones Indices); and between February 20 and March 19, the S&P 500 index fell by 28%, the FTSE 250 index fell by 41.3%, and the Nikkei fell by 29%. At the same time, large international banks witnessed a dive in their share prices.[11]

Alongside equity market, corona situation is affecting currency exchange rate. In a recent study in the context of Malaysia, it has been seen that the outbreak creates uncomfortable feeling among investors in equity and foreign exchange market that resulted KLSE decrement of index value and the currency exchange rate (Nashirah and Sofian, 2020). Foreign exchange rates of a number of other developing and emerging countries have been hit hard but for the major floating currencies, this could also provide a path to recovery: such as, South African rand closed down 32% against the USD over the past three months, while the Mexican peso was down 24% and the Brazilian real was 23% lower (Smith, 2020). And Smith observes, many emerging market economies are heavily reliant on oil and commodity exports; and though oil prices stabilized after OPEC and its allies reached an agreement on production cuts, but currencies still face unprecedented pressure. Due to uncertainties and market pressure, USD funding costs in foreign exchange markets have risen sharply, reflecting both demand and supply factors, and though these costs have narrowed after central banks' interventions but future remained uncertain (Stefan et. al.,2020). IMF (2020a) suggests to manage these pressures through exchange rate flexibility, where feasible. And adds, for countries with adequate reserves, exchange rate intervention can lean against market illiquidity and thus play a role in muting excessive volatility.

[11] For example, Citigroup's share price fell by 49%; JP Morgan Chase's share price fell by 38%; and Barclays' share price fell by 52% (Ozili and Thankom, 2020).

The crisis situation may affect equilibrium interest rates downward, as perceived by most analysts. The lockdown creates conditions in which private sector demand may fall unboundedly, and looking ahead, the accommodative monetary policy, and the recently extended central bank asset purchases in particular, might keep both short and long-term interest rates low for the coming years (Goy, 2020). If lockdowns continue for longer, the marginal propensity to consume may fall as higher unemployment risk may further increase preferences for precautionary savings, which is considered as a typical feature of pandemic periods (Jorda et. al., 2020). This would further depress the equilibrium interest rate.
As covid-19 shutters businesses, some economists fear that the pandemic could lead to inflation, however, though the future is uncertain than ever, inflation seems unlikely (The Economist, 2020). By the time the crisis caused unemployment throughout the world, and rather the next big worry may be deflation i.e. a general fall of prices (The Washington Post, April 2020).

The economic slowdown led to a rise in nonperforming loans (NPL) in the banking sector and private sector banks are having the highest exposure to credit risk during the outbreak, especially NPL arose from loans issued to SMEs, airlines, hotels, tour operators, restaurants, retail, construction and real estate businesses (Ozili and Thankom, 2020). According to Goodell (2020), COVID-19 may permanently change firm financing, as there is huge likelihood that the event will have tremendous negative impacts on global domestic demand and firms' cost of capital. Though, demand for certain online banking increases, contraction of banking services, and lower fee collections causing further fall in banks' income. As the consequences, the demands on the financial systems' capital and liquidity have risen (FSB, 2020). There is no doubt that today banks are better positioned with higher capital and liquidity than in the past in response to the stringent compliance requirements of the central banks. However, the resilience of banks, may be tested in some countries in the face of large market and credit losses, and this may cause them to cut back their lending to the economy, amplifying the slowdown in activity which necessitates a forceful policy response (IMF, 2020a). In regard to certain policy interventions to address this emergency situation, changes and flexibility on capital treatment have duly been recognized recently by the Basel Committee on Banking Supervision (BCBS).[12] Regarding policy interventions by the banking industry, World Bank finds a positive role of the South Asian public sector banks. Having notable market share of these banks in South Asia, the public sector banks are more likely than private banks to respond in line with government directives, though on the negative side these banks suffer from inefficiency and face agency problems (World Bank, 2020b).

[12] In April 2020, BCBS agrees on certain flexibility in regard to capital treatment of loans subject to payment moratoriums; guidance on non-performing loans and expected credit loss accounting (BIS, 2020).

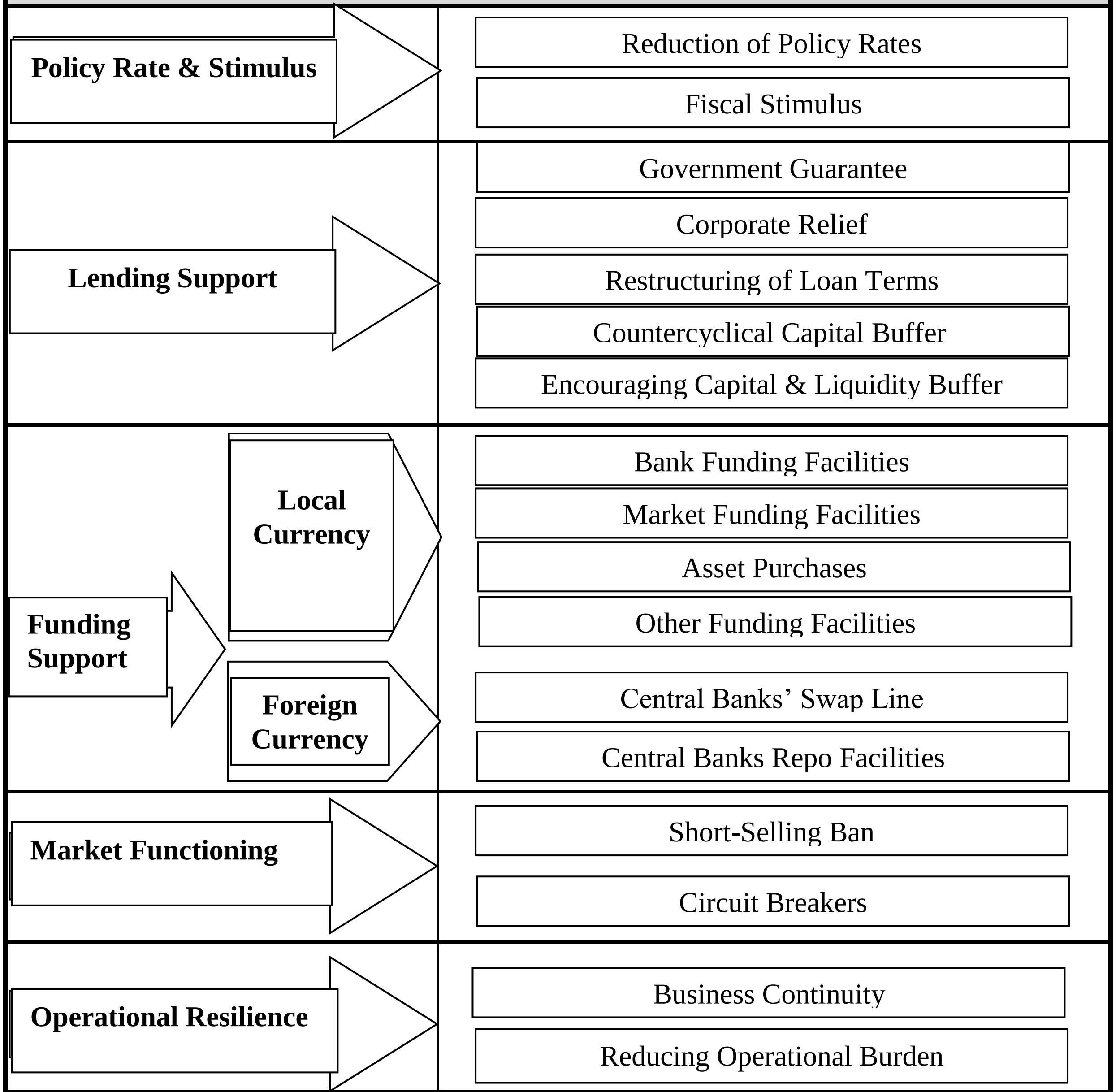
Segment-6: Most Global Policymakers Responded Fast with Interventions and Stimulus Packages

In response to the wide spread virus contamination and economic, monetary and financial sector implications, the policymakers are providing unprecedented support to households, firms, and financial markets around the globe. These measures introduced by the policy makers may be categorized into: public health measures; human control measures; fiscal measures, and monetary measures (Ozili and Thnakom, 2020). Public health measures mainly include public quarantine, border restrictions, stay at home or social distancing directions that are accepted almost universally to address corona contamination risks to save life. As part of human control measures, government of a number of economies introduced travel bans, shutdown or border restrictions, suspension of visa, shutdown of schools, releasing overcrowded prisoners etc. To save economic distresses, government in different countries approved large stimulus packages to support economic and industries; income for individuals and households; social welfare payment. Measures are undertaken as part of monetary intervention and financial stability measures mainly include: principal or interest moratorium to debtors; regulatory forbearance to banks; central banks' provisions to liquidity by purchasing of bonds or securities; lowering refinancing rates and statutory measures; and sustained flow of credit to micro and SMEs, essential businesses, and other affected sectors.

Many of these policy interventions are directly and indirectly associated with financial sector stability- more specifically, soundness of the banking industry. Financial institutions and banks are also engaged in the supportive approach from their own perspectives. FSB (2020) perceives the arrangement into three levels: System Level; Supervisory Level; and Firm Level. At the system-wide level, central banks are engaged in maintaining stability in the financial and banking system by using policy tools and by ensuring due support from the fiscal policy authority. The central bank and the relevant authorities are monitoring and reviewing banks' pandemic plans, delaying certain activities (reduced or postponed supervisory reporting, stress tests, onsite visits); scrutinizing existing services and observing weaknesses and threats etc. At the individual firm or bank level, the measures targets to strengthen operational readiness and contingency planning; protecting the health and safety of staff and customers; and maintaining the continuity of financial services and critical financial market infrastructures (FSB, 2020). The range of measures to sustain the supply of credit to the real economy, support financial intermediation, and preserve the resilience of the financial system may be categories as follows (Box-6.1).

Over last two months, several monitoring and review bodies are analyzing information and a good number of policy measures are being suggested. For example, a BIS publication (Claudio and Fernando, 2020) recommends banks to make full use of capital and liquidity buffers with restrictions on dividends and bonuses to rebuild the process. The IMF's latest Financial Stability Report (2020) suggests, in cases where the bank capital adequacy is affected, supervisors should take targeted actions, including asking banks to submit credible capital restoration plans; and authorities may even need to step in with fiscal support-either direct subsidies or tax relief-to help borrowers to repay their loans and finance their operations, or provide credit guarantees to banks. Fiscal Monitor (2020a and 2020b) of IMF came up with several recommendations some of which are already implemented in different countries.

Box 6.1: Measures to Sustain Financial Intermediation and Resilience



Note: The categorizations are not mutually exclusive; authors' compilation based on FSB, 2020.

There are recommendations for incorporating green strategy in the post Covid-19 situation by the World Bank and EU. Claudio and Fernando (2020, a BIS publication) suggests, regulatory policy responses to support economic activity should go on while preserving the financial systems' soundness and ensuring transparency; and also suggest that flexibility in loan classification criteria for prudential and accounting purposes should be complemented with sufficient disclosure on the criteria banks use to assess creditworthiness. As a post Covid-19 strategy, 'marger of banks for enhancing revenue and reducing cost' is another common suggession. Practically, reduction of number of banks and merger for post-crisis banking consilidation has been a common trend. Voluntary mergers have been the main reason of the reduction of number of banks following 2007-09 global recession that has contruibuted in imporving revenue and efficieny as well (Kowalik et. al., 2015).

Segment-7: Bangladesh is a Fast Responder to the Covid-19 Economic, Monetary and Financial Sector Challenges

Regional economic growth in developing Asia is projected to decline sharply in 2020 by the IMF. In IMF's recent projection (May 2020), it has been said that after slumping to only 2% growth (was projected 7.4 growth for the country in October 2019) this year, Bangladesh's economy will see a big jump next year with a record growth of 9.5%, provided the pandemic fades in the second half of this year and economic activities return to normal.[13] According to the World Bank South Asia Economic Focus estimation (April 2020), regional growth would fall to a range between 1.8 and 2.8% in 2020.[14] In its latest report, World Bank projected 2 to 3% growth for Bangladesh in the current fiscal; 1.2 to 2.9% in the next fiscal; and 2.8 to 3.9% in the 2021-22 fiscal year. World Bank perceived that Bangladesh would face a longer recession, whereas the IMF projected rapid recovery for the economy. The estimations are different because of difference assumptions. In spite of skepticism, it is good to see that Bangladesh might experience 9.5% growth in 2021, the highest ever for the country, as per the IMF's estimation.

Certain economic sectors like export, import, remittance and foreign direct investment are said to have greater risk exposures, and certain areas like healthcare and supply chain management need special attention in this corona situation.[15] In the context of the vulnerability of external sector, domestic production of certain export destinations of the country are concerning. According to the IMF's recent projection (May 2020), USA, the largest destination for Bangladesh's export products, will face 5.9% negative growth this year, while Germany, the second largest destination of Bangladesh's garment products, will face 7% decline in GDP. An estimation by Lu (March 2020) shows that the demand for apparel consumption in the EU and USA, the world's top two apparel consumption markets, is expected to drop sharply;[16] and China could be hit the hardest followed by Bangladesh. With the 5-10% decline in GDP in USA and EU, Bangladesh's exports could decline by 6-17% to USA and 4-12% to EU; and the resultant job cut might be by 4-9% in the RMG factories. According to a recent technical note by UNCTAD (April, 2020), a 2% reduction of Chinese exports in intermediary inputs may cause USD 17 million trade loss to Bangladesh.[17] This is concerning when leather, RMG, wood products and furniture have considerable dependence on Chinese intermediary goods.

The ongoing trend and symptom indicate to decrease in export earnings and remittances of Bangladesh. It can be observed that some of the countries most affected by the coronavirus are those where many Bangladeshi citizens live and work; and thus the pandemic is likely to have a dampening impact on the robust remittance flows of the past few months. Furthermore, oil prices have fallen hastily and substantially that is expected to have a lagged effect on remittances into Bangladesh.

A number of domestic economic sectors are getting punch and might be severely affected if the outbreak goes long. In line with the global trends, tourism sector, airlines, retail sector, and some of

[13] https://tbsnews.net/economy/imf-too-projects-2pc-gdp-growth-bangladesh-69421
[14] https://www.worldbank.org/en/region/sar/overview
[15] The sectors to be directly affected are export, import, remittance and foreign direct investment; and it suggested for addressing healthcare, trade, and supply chain management through public expenditure and monetary policy interventions (CPD, 2020).
[16] Every 1% decline in the US and EU GDP in 2020 could lead to 2-3% drop in apparel imports (Lu, 2020).
[17] https://tbsnews.net/economy/bangladesh

the manufacturing might be hard hit. Automotive production might be affected, however, e-commerce may boost. In spite of supply chain challenges, telecom, technology and pharmaceuticals are likely to get lift. Size matters in the short run, and MSMEs[18] are facing cash crunch. Especially, micro and small businesses of the non-essential items are in trouble. However, comprehensive impact on these enterprises obviously would depends upon the duration and the severity of the outbreak in the coming weeks/months. Agriculture and farm sector, the food suppliers, have some temporary challenges that necessitates fund injection and reconstructing the supply chain.

Small and daily wage earners are confronting difficulty in response to the lockdown and business depression. Worker or employee layoffs (at least temporarily), and reduced flow of remittances are adding to the challenge of these small earners that have dampening impact on consumption demand both in rural and urban areas. In spite of some remarkable positive changes over the years, some of these low income people had already been struggling (as in other South Asian Countries in general)[19] with the access to basic healthcare, hygiene and social safety net, are now facing even greater challenge.

In connection with monetary indicators, liquidity crunch became visible among export-oriented industries and the backward-linkage local business houses when trade disruption commenced from the early phases of corona regime. By that time, it became essential to address liquidity shortage among certain big, and almost all cottage, micro and small enterprises and businesses. There is general fear and skepticism of rising prices of necessary goods, however, consumer price level remained under control till date. ADB's projections in April (2020) point towards slight downward trend in inflation (annual inflation of 5.6% and 5.5% in 2020 and 2021 respectively) in the country. There were however price spirals of certain goods in rural and urban areas due to domestic supply chains disruption at the early stage of lockdown. In some instances disruption was also evident in the rural farm level where people were not getting fair prices of their produce.[20] Things are getting normal.

There is visible demand-supply mismatch in the credit market, a logical outcome that the policymakers are trying to address at guided interest rates, not different from most of the other parts of the globe. Foreign exchange market of the country is yet to get any notable pressure, rather foreign exchange reserve increased to USD 33 billion in April from USD 31.3 in January, 2020. There is anticipation of supply pressure of USD in the upcoming months that may require BB's market interventions. It is logically expected that the fiscal authority is having pressure to obtain adequate resources to bolster the efforts to manage the impact of the novel coronavirus pandemic on the country's economy and the public health. Alongside domestic sources, the government is in the process of drawing soft loans from donor sources. In such a critical situation, budget reallocation by the fiscal authority and monetary policy adjustment are rational expectations in all global economies including Bangladesh. In spite of several macro challenges, it is inspiring that The Economist, a leading source of analyses on international business and world affairs, has listed Bangladesh as the 9th strongest economy in its report on the financial strength of 66 emerging economies in the wake of

[18] MSMEs are the lifeline of the economy of Bangladesh with 99% of the non-farm enterprises in Bangladesh; most of these are informal micro and small enterprises, and the majority of these are providing service to the domestic markets and involved in trading activities (World Bank Report on Bangladesh, 2019).

[19] South Asia has some of the highest population densities in the world, particularly in urban areas, which makes contagion easier, especially among the most vulnerable people: slum dwellers and domestic migrant workers; these poor people also have lower access to health services or even to water and soap (World Bank, 2020).

[20] For example, during initial phase of lockdown 12-15 million liters of milk remained unsold when farmers were forced to sell milk at the price of BDT 10-15 per liters in some rural areas (Begum et al, 2020).

the Covid-19 fallout considering the status of public debt, foreign debt, cost of borrowings, and reserve coverage.[21]

In line with global trends, stocks crashed at Dhaka Stock Exchange as investors went into massive panic sales after the detection of 3 coronavirus-infected people in the country in early March, 2020, and on March 9 the index almost touched the six-year low[22]. As expected, the suspension of share trading on the stock exchanges and the possible economic fallout due to the coronavirus outbreak continue to cause difficulty to the brokerage houses. Banking industry, the core component of the financial sector, is in a difficult business environment and uncertainty like in other developed and developing economies. And currently the industry has adverse environment with all the elements that may result significant risks of different types in banking operation. All associated parties of the banking operations and services are also not certain about their future legal liabilities in the post covid-19 environment.

Contraction of banking activities and underperformance are clearly visible. Banks are on the war-front to support with certain essential payment and financing services, however, in many cases they can only serve a few customers to enforce social distancing rules. Currently banks are not in a position to maintain their regular deposit growth, rather withdrawal of deposits and tendency of holding cash might cause additional liquidity pressures in the upcoming months. In-person banking is severally affected, the traditional habit of the banking industry in most of the developing countries including Bangladesh. Banks are underperforming in their customer services, and there are fears of the erosion of customers' confidence.

There are claims that with the reduction of cash flows, business firms are struggling to pay their suppliers, their employees, and ultimately their bankers. A large number of these firms have got capabilities to come back as the situations get normal in the coming months. But, at this moment, smaller firms are already facing solvency challenges, and bigger corporates may also face the challenge of insolvency once their inventories and cash reserves are depleted. If the situation lasts longer, this could pose a challenge for the banks of the country.

In the context of international trade services, payment related risks became a matter of concern. In Bangladesh, banks have significant involvement in trade transactions and may even face greater liabilities as a result of international trade disruptions. There are claims that some banks in different countries are identifying spurious discrepancies in the LCs to escape payment liabilities which might be the source of fraud and reputational risks for banks. If not handled properly, back-to-back LC might be a source of challenge for the country's banks in the coming months. Exporters have uncertainties about making shipment and receiving payments against exportable, and importers are also facing challenges of receiving and selling importable and thus are confronting cash crunch to pay back repayment liabilities to the creditor banks.

As a whole the situation points toward notable contraction of both interest and non-interest incomes of banks and financial institutions. If the unfavorable business environments and the longer corona war result in rise in non-performing loans to a reasonably high extent, banks may confront with the capital adequacy and solvency challenges- very critical indicators of financial stability.

[21]www.thedailystar.net/business/coronavirus-fallout-bangladesh-9th-strongest-among-66-emerging economies
[22] https://www.newagebd.net/article/101781/dhaka-stocks-crash-hit-6-year-low

Government of Bangladesh initiated preventive measures actively from early February, 2020[23] i.e. even before identifying any conformed Covid-19 case.[24] Responding quickly, the government of the country closed education institutions (from March 17), discontinued public and private offices from March 26 (other than offices engaged in offering essential services) and encouraged all non-essential businesses to shift their activities online. In remarkable ventures, the Honorable Prime Minister of the People's Republic Bangladesh came up with economic stimulus packages initially in two declarations on March 25 and April 05, 2020; and by the time (May 15), a total number of 18 stimulus packages (Box 7.1) worth BDT 101117 (3.6% of the country's GDP) crore have been announced.[25] Bangladesh Bank initiated several market intervention measures and refinancing schemes to complement the government's initiatives (Summarized in Box 7.2 and detailed in Appendix Table). Trading, settlement and trading activities of the Bangladesh's two stock exchanges were also suspended.[26]

BB has been actively working to respond to the increasingly challenging circumstances. Promotion of payment, especially online, has been rightly encouraged from the initial stages of response by the BB by raising monthly and daily transaction limits, and also by waiving of charges in certain online payments. [27] As the monetary policy authority of the country, BB responded to the market needs with several efforts of liquidity injection that includes buying-back of government securities; reduction in repo interest rate; and very importantly, reduction of Cash Reserve Requirement (CRR) and increasing Advance-Deposit Ratio (ADR)/Investment-Deposit Ratio (IDR) of banks.[28]

The economic stimulus package declared by the government are being primarily channeled and enforced by the banking industry to support the core economic sectors affected by Covid-19. To that end, BB is engaged in facilitating the process by issuing complementary guidelines, directives, and incentives. As an initial response to support affected businesses, BB announced on March 19 moratorium on loan payments until 30 June 2020, which is also benefiting bankers by relieving them in meeting loan classification and provisioning requirements at least temporarily. In another circular, the central bank relaxed foreign exchange regulations for trade transactions and unveiled a number of policy support for the country's exporters and importers amid a slowdown in external trade in the awake of the coronavirus pandemic. In a notable initiative, the EDF facilities were allowed to meet back-to-back obligations. The central bank offered extended time for realizing export proceeds,

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[23] In early February, the government evacuated around 300 Bangladeshi citizens from China; the government installed screening devices across its international airports and land-ports for screening (www.weforum.org/agendacovid-19-coronavirus-bangladesh/).

[24]According to the media reports, the first 3 known cases were reported on March 7, 2020 by the country's epidemiology institute IEDCR, experiencing a steep rise in April and early May; as of May 7, 2020 there are 12500 reported cases and 200 death (https://www.worldometers.info/coronavirus/).

[25] https://tbsnews.net/economy/pm-announces-total-18-stimulus-packages-worth-tk-101117cr-81433

[26] In March 18, BSEC had to cut trading hours by one hour to address the free-fall of stocks prices; a day later, the BSEC implemented a new circuit-breaker rule and set a floor price for every stock.

[27]Monthly transition limit in mobile payment services increased from approximately USD 900 to 2,300 and charges waived on cashing out (withdrawal) of up to USD 12 per day; daily transaction limit increased from approximately USD 35 to USD 60 contactless debit and credit cards; waiver of charges to merchants when accepting debit and credit card payments for medicine and other essentials, subject to approximately limit of USD 180 per day and USD 1,200 per month on March 20 (KPMG Web: https://home.kpmg/xx/en).

[28] BB announces to buy back government securities from secondary market on March 22; BB's Repo interest rate reduced from 6% to 5.75% on March 23; the repo rate is further reduced to 5.25% effective from 12 April; CRR of the banks reduced from 5.5% to 5% on bi-weekly average basis and 5% to 4% on a daily basis on April 01; CRR is further reduced to 4% on bi-weekly average basis and 3.5% on daily basis effective from 15 April; ADR rate increased to maximum 87% from 85% and IDR for Islamic banking increased to 92% from existing 90% on April 12 (BB BRPD Circulars: https://www.bb.org.bd/mediaroom/circulars/circulars.php).

submission of import bills of entry, back-to-back letter of credits and payment of export development fund loans, and repatriation of export bills. Several complementary circulars were issued to support banks and their clients for easy availing of economic stimulus packages targeted to MSME and agricultural sectors. In a relatively recent move in May, BB instructed banks not to charge customers interest (on loans disbursed before 1 April 2020) during May-June, 2020; permitted foreign owned/controlled companies operating in Bangladesh to avail short term working capital loans subject to certain terms; and disclosed dividend policies for banks for the year 2019. The central bank is expected to come up with more responses with the changing circumstances and developments. [29]

Box 7.1: Economic Stimulus Packages Declared by the Government of Bangladesh

Sl.	Name of the Packages
1	Financial Stimulus Package for Export Oriented Industries (BDT 5000 crore)
2	Working Capital Financial Stimulus Package for COVID-19 affected Industry and Service Sector (BDT 30000 crore)
3	Financial Stimulus Package for COVID-19 affected CMSMEs (BDT 20000 crore)
4	Enhancement of Export Development Fund (BDT 12,750 crore)
5	Pre-shipment Credit Refinance Scheme (BDT 5000 crore)
6	Special Incentive Refinance Scheme for Agriculture Sector (BDT 5000 crore)
7	Refinance Scheme for Low-income people, Farmers and Micro/Marginal Businesses (BDT 3000 crore)
8	Generating Employments through Palli Sanchay Bank, Karmasangsthan Bank, Probashi Kalyan Bank and PKSF (BDT 2000 crore)
9-18	Special allowance to the Doctors, Nurses, and Health Workers; Health and Life Insurance Support; Free Food Distribution; Distribution of Rice Program at BDT 10; Cash Distribution Program to the Targeted Group; Expansion of Monthly Allowance Program; Housing Support for Homeless; Expansion of Rice Procurement Program; Mechanization of Agriculture; and Agricultural Subsidy Program.

[29] The paragraph is based on a number of BRPD, DFIM, MPD, FE, SMESPD, ACD, DMD, FID and DOS circulars of BB issued during March, April and May, 2020 in response to handle the Covid-19 situation (https://www.bb.org.bd/mediaroom/circulars/circulars.php)

Box 7.2: Summary of the Bangladesh Bank's Initiatives and Refinance Schemes in Response to the Declaration of the Economic Stimulus Packages	
Sl	Name of Packages/Initiatives/Refinance Schemes
1	Financial Stimulus Package for Export Oriented Industries for Workers' Wage (BDT 5,000)
2	Financial Stimulus Package for COVID-19 affected Industry and Service Sector for Working Capital Finance (BDT 30000 crore)
3	Refinance Scheme for Working Capital Finance in Large Industries and Service Sector (BDT 15000 crore)
4	Financial Stimulus Package for COVID-19 affected CMSMEs (BDT 20000 crore)
5	Refinance Scheme for Working Capital Finance in CMSMEs (BDT 10000 crore)
6	Special Incentive Refinance Scheme for Agriculture Sector (BDT 5000 crore)
7	Enhancement of Export Development Fund (BDT 12750 crore)
8	Agricultural Credit Scheme at 4% Subsidized Interest Rate for Crops and Grains
9	Pre-Shipment Credit Refinance Scheme (BDT 5000 crore)
10	Refinance Scheme for Low-income people, Farmers and Micro/Marginal Businesses (BDT 3000 crore)
11	Enhancement of Refinance Scheme for Small Enterprises (BDT 1500 crore)
12	Enhancement of Refinance Scheme for Setting up Agro Based Industries in Semi-Urban and Rural Areas (BDT 1400 crore)
13	Enhancement of Refinance Scheme for New Entrepreneurs in CMSE Sector (BDT 100 crore)

Economic stimulus packages are basically working capital support to the affected industries, traders, enterprises, and individuals. Banks and NBFIs are to disburse or facilitate the loans based on bank-customer relationship, which means banks are to bear the credit risk. From banks perspectives, alongside contributing to economic turnaround, the packages are expected to contribute to regain economic and financial strength of the banks' customers.

Segment-8: Banks Have Great Roles for Supporting the Economy and Fortifying the Strength for Quick Recovery

As crucial economic agents of an economy, banks have great roles to play in this unprecedented situation. It is not only about supporting banks' clients and employees, it also about supporting policymakers and the society. A bank has also to work to save itself. Wyman (2020) perceives three key areas of focus to serve on the part of banks: *one,* serving customers i.e. ensuring access to critical services in affordable and comfortable terms; *two,* helping society i.e. supporting affected customers and communities; and *three*, responding to financial difficulty i.e. scenario planning, launching a special credit strategy, and operationalizing restructuring capabilities. PwC (2020) put forward similar opinion regarding banks' responses to the situation that include certain steps related to supporting communities and customers, and balancing medium to long term positioning of the institution: concentrating on business continuity planning for survival; showing empathy to customers while making sound business decisions; rethinking balance sheet challenges while managing loan stress and customer sensitivity; finding ways to trim costs; resetting revenue outlook; and formulating the post-COVID-19 strategy. There is no doubt that the ongoing working condition of a bank is tough and challenging to adjust with the situation, however, probably the more essential elements of banks' responses is how the crisis impacts their own clients and, as a result, their ability to generate revenue (Euromoney, 2020).[30] A recently published editorial, The Banker (2020) considered the situation as a real opportunity to support customers, employees and societies and suggested banks to respond positively. According to the editorial, banks must start by ending all bonuses and cancelling dividends so that the resources of the bank can be focused on helping both retail and business customers with mortgage and loan holidays; banking associations should also step up by coordinating measures where they do not fall foul of competition rules and by putting out an industry message about what is being done (Banker, 2020).

It is not easy for a bank to set priorities and extent of their activities in such a critical and uncertain situation. Vater et.al. (2020) are in favour of focusing more on banks' resilience and opine that banks should first protect their employees and service providers through safety measures in branches and essential offices; and for their affected customers and small businesses they should offer payment extensions or other programs but only so far as their balance sheets allow. And added, to make the balance sheet more resilient, banks will have to better understand liquidity shifts day to day, review the loan portfolio and tailor measures for each loan category. In connection with operational resilience, a BIS study (Coelho and Jermy, 2020) points out two challenges that strongly came up in front of the banking industry since the very beginning of the corona crisis: the first challenge is financial i.e. how to address and mitigate the sharp drop in the value of financial assets or loss of liquidity; and the second challenge is operational i.e. how to address the risk of failure of resources (people, processes, technology, facilities and information) to deliver business services. Policy makers in different countries attempted to help financial institutions address these challenges by issuing some forms of business continuity guidelines[31] and operational resilience expectations[32]. However, to

[30] https://www.euromoney.com/article/b1l62tdlhxkj13/asian-banking-in-the-time-of-coronavirus

[31] Business continuity guidance commonly consist of ensuring customer and staff safety; reviewing the appropriateness of contingency plans to address a pandemic scenario; assessing telecommuting capabilities and increasing cyber resilience; identifying critical financial workers; coordinating with critical third-party service providers; and maintaining clear communication with internal and external parties (Coelho and Jermy, 2020).

[32] The Bank of England is the first national authority to issue a consultation on its operational resilience expectations; elements commonly consist: Critical/essential employees; IT infrastructure; Third-party service providers; and Cyber resilience (Coelho and Jermy, 2020).

ensure effective contribution of the banking institutions, and for handing the upcoming challenges, banks' governance level or directors have a great role to play (Box 8.1).

Box 8.1: Recommended Ten Issues Concerning the Directors of Commercial Banks	
Business Operations	• Is business interrupted by the outbreak? What measures have the banks taken to ensure business continuity? • Are business growth indicators affected? What measures have the banks taken to achieve the annual budget targets and is it necessary to adjust them?
Risk Management	• In terms of credit risk, which industries and regions have their loan quality affected? What countermeasures have the banks taken to prevent and control corresponding credit risks? • Have the banks received any negative public opinion related to their response to the outbreak? In terms of reputational risks, what measures have the banks taken to control them during the outbreak? • In terms of compliance risks, regulators have issued a series of regulatory policies in response to the outbreak. Have the banks taken relevant measures in response to regulatory policies?
Social Responsibility	• What measures have the banks taken in fighting the outbreak and fulfilling their social responsibilities? How is the plan disclosed in the social responsibility report?
Financial Support	• How does the outbreak affect the 2019 financial report? Will the impact be adjusted or not in the annual report? Will the adjustment be disclosed in the annual report, and if so, to what extent? • How do the banks consider the impact of the outbreak in calculating the expected credit loss (ECL), including the impact on the financial report for 2019 and the first quarterly report for 2020? • Has the preparation and audit of the 2019 financial report been affected? Is it necessary to apply to the relevant exchange or regulatory agency for an extension of disclosure of the annual report?
Development Strategy	• The outbreak reflects the importance of digital transformation of banks. Is it necessary to re-examine the bank's current development strategy?
Source: based on Ernst and Young, 2020.	

Since the corona outbreak, a number of commercial banks[33] have assumed social responsibility and are engaged in supporting the fight against the outbreak and have resumed normal operation, such as providing preferential credit support and reducing business fees for affected customers, opening green channels, enhancing online financial services, and donating funds and supplies (Ernst and Young, 2020). By the time, globally many banks have also triggered their business continuity plans and are tackling with the immediate impact of the pandemic and innovative ways of working and preparedness for handling post covid-19 business situation (Wyman, 2020).

[33] For example, HSBC introduced a range of special measures to support individuals, businesses and communities, like in UK GBP 8 billion has been allocated to support British firms trading internationally (https://www.hsbc.com). HSBC Bangladesh adopted a wide range of measures to provide assistance to its garments customers affected with the Covid-19; and also providing additional funds for facilitating the purchase of critical medical gear, emergency food and hygiene materials for vulnerable families. (https://tbsnews.net)

Standard Chartered Group announced a set of measures to serve its clients, communities and employees that include USD1 billion financing commitment for companies; USD50 million global fund to help communities across its global footprint etc. (https://thefinancialexpress.com.bd). In Bangladesh, SCB offered a three-month payment holiday for the general clients to repay their loans while it is 30 days for the corporate clients; the bank has also announced to waive penal interest and late payment charges (https://tbsnews.net).

A number of banks of Bangladesh have donated to the Prime Minister's Relief Fund to fight coronavirus. Banks of the country have undertaken several measures to handle contamination risks and to support affected people and clients, for example, UCB and Japan Bangladesh Friendship Hospital (JBFH) have jointly organized free telemedicine services (https://thefinancialexpress.com.bd)

Segment-9: Finding Answers of Some Instantaneous Questions and Necessity for a Contingency and Preparedness Framework

Bangladesh is a bank based financial system. Banks are the formal sources of almost all types of financial services essential for facilitating economic growth and development. Practically, banks of the country have been playing the roles of non-bank financial institutions and market component of the financial sector. In such a situation, vulnerability of the banking industry may make the current scenario worse and thus may delay economic recovery. In this crisis environment, bank managements need to install organized strategy to offer optimum support to the policy makers, and to be ready to face the upcoming banking challenges for their own and economic sustainability. Some queries or questions might offer food for thoughts to identify right strategic stand on the part of a bank.

Banks are in the corona warfront. Bank executives engaged in the front-office to offer essential services are confronting contamination risk-the most serious concern at this moment. Does the bank have sufficient arrangement to minimize the risk? The clients visiting bank branches in person may face similar risk or may be the carrier. Have the banks installed system to handle that risk? Are the banks ready to face the longer term challenges associated with corona contamination risk? Did the banks estimate additional resources needed to address the scenario for three months; six months; one-year or beyond? Are banks' board and top management informed and aware about these potential scenario analyses in regard to the contamination risk?

Covid-19 is accelerating remarkable workplace transformations. How are the Human Resource Department (HR) managing the people working in the office and working from home? Are the banks doing enough to use technology to facilitate work-from-home? It is probably time to estimate how this massive transformation will impact the employees and organization as a whole. Are employees confronting the fear of job-cut, and do the bank have the strategy to address their fear? What are the banks doing at this moment to inspire the employees for better utilization of time? Capacity development initiatives receive a pause with this sudden development. Should HR and Training think of arranging some online capacity development programs integrating corona concerns? Should HR think about the outlook of employee development programs in the post Covid-19 situation?

Maintaining deposit growth is a challenge in the current scenario. What is the status of the bank's deposit growth at this moment? Do the depositors have similar level of confidence and trust that they were having before the crisis? Potential impact of business disruption on credit or investment portfolios is expected to be a key concern to the commercial banks. Are the management clearly aware of the credit or investment portfolios that are already affected and might be severally affected in the post Covid-19 situation? Do the banks' clients need some support on banking concerns? Did management redefine relationship managers' roles for maintaining due connectivity with the clients?

Ongoing trade disruption might affect trade payments and financing activities terribly. Did the bank management check the potential payment obligation because of the failure of some of the local businesses? How the bank might be affected from back-to-back LC liability and cancellation of orders, if any? Are the bank's trade service clients in contact with the concerned bank officials? Are the traders maintaining contact with the counterparts to address certain trade related risks that might be borne by bank? Are trade service providers aware of ICC stand and legal liabilities in the post Covid-19 situation?

Treasury of banks might be in disarray on the current and forthcoming cash flows and liquidity concerns. Is the bank ready for the potential liquidity crunch in the industry, if any? How will the treasury ensure the right balance? Did the bank estimate potential needs of foreign currency in coming months? Is the treasury ready for changing exchange rate of USD, if any? Does the management need to change the role of executives engaged in risk management department/activities? How will the credit quality fall, if any, affect bank's risk weighted assets? Does the bank have liquidity and capital buffer to address any forthcoming challenge of liquidity and solvency risks?

Certain sustainable banking ventures related to financial inclusion, small and micro enterprise financing, agricultural financing, green financing might be in newer type of struggles! What should be the strategy of the banks at this moment? Should Covid-19 bring any strategic change once the situation gets better? Should banks reallocate their CSR funds to handle the existing risky situation?

In spite of several challenges, people may have savings capabilities and may have interests to transact with banks. Should banks attempt to reach to the doorstep of the people who are generally out of the financial access of the banks? How banks may redesign access tools to reach these people to draw deposits for the banks?

IT and fin-tech received renewed focus during this Covid-19 situation. How are IT and Fin-tech teams supporting the bank in this critical time? Are the service platforms and processes under extensive monitoring to handle any cyber risk and related operational challenges? Is there any scope to adopt newer technology shortly to strengthen the necessary online service facilitation? What might be the future business strategy in the area of IT and Fin-tech business adaptation?

Crimes and fraudulent activities may pop-up in a crisis situation in banks especially when the internal control system is not in full swing. Should ICC be given special and redefined responsibility to detect mistakes and non-compliances? Are the reporting team gathering data and related information to meet regulatory expectation or reporting requirements now or immediately after post Covid-19 situation?

Are branch heads/managers/regional heads are integrated in the ongoing risk management process of the banks? Are they allocated with the responsibilities of capturing organized information on local or regional level developments in response to the Covid-19 situation? How might the branches be affected by the ongoing crisis? Are they maintaining required communications with the local clients?

It is recognized that the concept of banking revolves around TRUST and within banking functionality, banks safeguard the interests of their clients who entrust them with their money and use their services to undertake financial transactions. Are the banks acting rightly to maintain and improve 'TRUST' of the clients on their products, systems and processes?

Certain considerations and questions might also be very relevant for the policy makers. It is important to adequately guide and monitor the banks of the country to ensure effective enforcement of the corona risk minimization efforts by the banks. Are bank employees adequately incentivized by their managements to support the banking operation and the economy? Yes, the market has adequate liquidity at this moment, and the policy makers have undertaken some remarkable measures to ensure that. However, distribution of the surplus liquidity may vary from bank to bank. Do all banks have adequate liquidity to offer due support to the policy makers? Are banks doing enough to implement stimulus and refinancing schemes to attain the macroeconomic goals? Are banks adequately motivated to engage proactively in implementing stimulus packages? If not, how to accelerate their moves? Do all public sector banks, private commercial banks, and foreign commercial banks have equal internal capacities and incentives to offer due support to the policymakers? What are the current challenges and potential risks that the banks are confronting or might be facing? Is there any need to share certain risks of the banking industry for better attainment of the national goals at this critical moment?

Now the big question! Whether is it necessary to address any query related to preparedness issues at this corona crisis situation? Yes, it should be. Even macro projections might be misleading, and banks need their own customized analyses and forecasting. Carlsson-Szlezak et al. (2020) warn, it may not be wise to depend solely on projections as financial markets are currently reflecting great uncertainty and impact would not be uniform; it is important to consider how an entity would address the post-crisis world, and how an organization be part of faster adoption of new technologies and processes to rebound strongly. In this connection, reiteration of the options by Fatih and Guven (2020), noted in segment-3, offer choices i.e. 'wait for the completion of the crisis" or "face and get ready for the future'. Probably it may not be wise to wait for the completion. Alongside facing the situation, a customized projection-based preparatory approach might be fruitful. There is no doubt that most banks are more or less engaged in addressing these issues in their own ways. The following segment is an attempt to offer an indicative 'Contingency and Preparedness Framework' for banks in an Enterprise Risk Management (ERM)[34] format which is a recognized approach to address systemic risk of both financial and nonfinancial nature of banks.[35]

[34] …..is a structured approach that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces; it is a forward looking approach to manage all key business risks and opportunities (Deloach, 2000).

[35] In spite of the importance of ERM that received renewed focus following the 2006-08 global financial crisis, it did not receive due impetus with its integrated and preparedness approach in banks; Global Risk Report 2019 explained why ERM should be the future of banks! (World Economic Forum, 2019).

Segment-10: A Proposed Framework for Handling Existing Risks and Preparedness for Quick Banking Recovery

As measure and approach for existing risk management and preparation for quick recovery, the banking industry should bank on the integrated approach i.e. Enterprise Risk Management (ERM) where board and top management have critical role to play to lead risk management efforts and crisis preparedness. Ideally, preparedness and contingency measures should have been automatically active with the upsurge of the crisis in the presence of ERM practices which is not practiced in its due shape in general. Three strategic goals to be attained as part of the framework are:

Strategic Goal 1: Addressing Contamination Risk as the Priority: Addressing contamination risk of Covid-19 must be at the top in line with national priority.

Strategic Goal 2: Supporting National and Monetary Policy Targets: Supporting policy makers by facilitating essential financial services and injecting required liquidity for revitalizing the economy.

Strategic Goal 3: Business to Continue Incorporating Recovery Strategy: Existing business to be continued under strict surveillance integrating preparedness as part of ongoing business strategy.

Bank management to form Contingency Team/Teams with specific tasks to attain the strategic goals. There might be either separate Contingency Teams having an arrangement of strong coordination or a single Contingency Team with clearly allocated jobs to strategize and to implement action plans. There should be coordinated arrangement amongst selected focal points/key personnel from major operational departments/units and regions/branches of the bank. Following tasks and actions might be contributory to form a set of action plans by a bank in line with the above discussions and strategic goals:

Action Plan 1: Measures for Addressing Contamination Risk

Bank management must ensure face guards, physical distancing and health screening before entry to the branches/head offices. Both employees and clients must be part of safeguard measures. It is time to support employees with generous and flexible sick leave, and encourage work-from-home where possible using the support of technology infrastructure. Alongside special allowance, bank employees working in person from the branches/head offices might be incentivized with free treatment if affected, and compensate in case of death due to corona contamination. Bank management and board should be ready to face longer term challenges associated with corona contamination risk, and accordingly estimate and make arrangement for the additional resources needed to address the forthcoming scenario.

Action Plan 2: Preparatory Work for Probable Infrastructural Changes

Considering the uncertainty and for ensuring business continuity, a bank might think of tentative plan for alternative or changed infrastructure in head offices and branches, and should also assess transformation impact the workplace, employees and the bank may have. Technology adoption would be necessary for such transformation. Banks might resort to online-based education and training platforms to continue with the capacity development programs. Enforcement of these might have notable cost implications.

Action Plan 3: Reviewing Credit Portfolios and Payment Services to Assess Existing and Potential Risks

All economic sectors are not equally affected due to corona situation, and credit or investment exposures of banks vary. Thus, status of banks would be different in terms of existing and potential impacts. In case of international trade services, payment obligation might be cause of concern. It is true that comprehensive impact assessment on different sectors cannot be conclusive at this moment, however, these review and assessment exercises would offer indications and hints for future trends and inclinations- important information for business strategy.

Action Plan 4: Reviewing and Approximating Current and Forthcoming Liquidity, Capital and Solvency Status

Contingency team should capture data and monitor the changing trends of the banks' liquidity, capital and solvency status for preparatory actions. All banks may not have liquidity and capital buffer to absorb the potential risk in case they confront liquidity crunch and in view of worsening credit quality in the upcoming months. A preparatory work by the bank leadership network (board and the top management) would be crucial in these fronts.

Action Plan 5: Optimum Utilization of the Economic Stimulus Package

Economic stimulus packages are targeted mainly for the affected clients of banks. A bank must have internal strategy for approaching for these packages so that its clients and the bank itself might optimally benefit out of these. Clients having financial strength and who are unaffected should not be facilitated with these scarce packages for the sake of the quick economic recovery of the country.

Action Plan 6: Financing for Liquidity Injection into the Economy

As a crisis response strategy, policy makers around the globe are following almost common approach of injecting money in the economy by ensuring greater liquidity with the banks. However, if banks do not respond with proactive approaches and finance the economic agents, national policy goals cannot be attained. Banks must work on strategizing financing to support the policy makers in this critical moment and minimize their risks at the same time.

Action Plan 7: Maintaining Transparency with the Regulator

Banks must be very transparent with the regulator in this critical situation. Regulators must be well informed about the challenges that a bank is or banks are confronting. At this current scenario, these banking challenges may not get priority over 'contamination risk' and 'economic recovery' concerns, however, would help getting recovery support from the regulator in due time.

Action Plan 8: Taking Care of the Reputational Risk and Country Risk

Covid-19 is offering opportunity to support clients and affected communities, thus improve reputation and image of a bank. Meeting commitment and liabilities by banks are crucial for reputation. Especially, international payment liabilities must be met for long term benefits and reputation. Trade service providers must not resort to unethical acts for the short-term gain of the bank. It is important to take care of the reputational risk and country risk for sustainable operation by banks in the post Covid-19 situation.

Action Plan 9: Strategic Communications for Ensuring Soundness

Strategic communications are critical for addressing moral hazard problems that might cost credit quality of banks. Goal oriented communication, support and knock might work as fruitful incentive tools for the exiting borrowers to handle moral hazard. This is also critical for retention of clients as well. Since people are forced to be isolated under social distancing rules, they are consuming more digital marketing and are also observing how businesses are reacting to the current environment. Thus it might be a great time to continue with digital marketing by a bank and stay ahead of the competitors.

Action Plan 10: Work for Trust and Confidence Building

A crucial area of response for the banking institutions in any crisis situation like the ongoing Covid-19 is to respond adequately for avoiding a surging loss of trust and confidence with their customers. At this moment, banks are required to act in accordance with the fact that clients are more inclined to stay with a bank they trust when changes in the market occur, and trust of clients are constructed through effective and regular communication to make them well-informed. Business recovery would really be difficult for banking institutions in the presence of the erosion of trust and confidence during the Covid-19 crisis period.

Alongside supporting business continuity, an organized contingency and preparatory framework as part of ERM, would help bank management prepare a comprehensive scenario analysis based on concrete facts, and then, share with the bank's leadership for the required policy and strategic decisions in the post Covid-19 situation. The exercise may also offer valuable and realistic inputs for future business and portfolio diversification plan of a bank. For optimizing benefits, a Contingency Team on the part of the central bank could probably be an effective way (or any other possible effective alternative) for monitoring, and for maintaining communication and correspondence with the banks' Contingency Teams.

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Appendix Table							
Summary of the Bangladesh Bank's Initiatives and Refinance Schemes in Response to the Declaration of the Stimulus Packages by the Honorable Prime Minister of the People's Republic of Bangladesh							
Sl.	**Stimulus/ Refinance/ Interest Subsidy Scheme**	**Targeted Beneficiary/ Purpose & Type of Facility**	**Interest Rate for Banks**	**Interest Rate/ Service Charge for Beneficiary**	**Source of Fund**	**Facility Duration**	**Brief Modality**
1.	Financial Stimulus Package for Export Oriented Industries (BDT 5000 crore)[36]	Loan for Payment of Workers' Wages for 3 months (max.)	-	2% (Service Charge)	Fiscal Budget	2 years	Banks will apply for stimulus to BB. After availing the facility, they will disburse loan to the industries.
2.	Financial Stimulus Package for COVID-19 affected Industry and Service Sector (BDT 30000 crore)[37]	Working Capital Finance to the Affected businesses (Except CMSME) of Industry and Service Sector	4.5% Interest Subsidy from Govt.	4.5%	Own Source of Bank	01 year (max)	Banks and FIs will finance based upon own due diligence and the BB policy. Banks and FIs will be entitled to interest subsidy on repaid loans.
3.	Refinance Scheme for Working Capital Finance in Large Industries and Service Sector (BDT 15000 crore)[38]	Working Capital Finance to the Affected businesses (Except CMSME) of Industry and Service Sector	4%	4.5%	BB	01 year (max)	Banks and FIs will get refinance upto 50% of their finances under the Financial Stimulus Package in Sl. 2 of this table.
4.	Financial Stimulus Package for COVID-19 affected CMSMEs (BDT 20000 crore)[39]	Working Capital Finance to the Affected CMSMEs for COVID-19	5% Interest Subsidy from Govt.	4%	Own Source of Bank	01 year (max)	Banks and FIs will finance based upon own due diligence and the BB policy. Banks and FIs will be entitled to interest subsidy on repaid loans.
5.	Refinance Scheme for Working Capital Finance in CMSMEs (BDT 10000 crore)[40]	Working Capital Finance to the Affected CMSMEs of Industry and Service Sector	4%	4%	BB	01 year (max)	Banks and FIs will get refinance upto 50% of their finances under the Financial Stimulus Package in Sl. 4 of this table.
6.	Special Incentive Refinance Scheme for Agriculture Sector(BDT 5000 crore)[41]	Working Capital Finance to All working capital based Agriculture Sectors except crop and grains	1%	4%	BB	18 months	Banks will get refinance against their finance based upon own due diligence and the BB policy.
7.	*Enhancement of* Export Development Fund (from USD 3.5 billion to USD 5 billion)[42]	Financing against export LC/firm export contract/ inland back to back LC to the Export Oriented Industries	1%	2%	BB	180-270 days	Banks will get refinance against their finance based upon own due diligence and the BB policy.

[36] https://www.bb.org.bd/mediaroom/circulars/brpd/apr022020brpd07.pdf; https://www.bb.org.bd/mediaroom/circulars/brpd/apr082020brpdl14.pdf; https://www.bb.org.bd/mediaroom/circulars/brpd/apr152020brpdl19.pdf
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Sl.	Stimulus/ Refinance/ Interest Subsidy Scheme	Targeted Beneficiary/ Purpose & Type of Facility	Interest Rate for Banks	Interest Rate/ Service Charge for Beneficiary	Source of Fund	Facility Duration	Brief Modality
8.	Agricultural Credit Scheme at 4% Subsidized Interest Rate for Crops and Grains[43]	Agricultural Credit for crop and grain production (All types of crops and grains production including rice, wheat, cash crop, tuber crop according to annual agricultural credit policy of BB)	5% interest subsidy for banks	4%	BB	In line with annual agricultural credit policy of BB.	Banks and FIs will disburse credit for all types of crops and grains production including rice, wheat, cash crop, tuber crop according to annual agricultural credit policy of BB. They will be reimbursed with 5% interest subsidy from BB
9.	Pre-Shipment Credit Refinance Scheme (BDT 5000 crore)[44]	Pre-shipment credit to the Export oriented industries	3%	6%	BB	4 months	Banks will get refinance against their finance based upon own due diligence and the BB policy.
10.	Refinance Scheme-2020 for Low-income people, Farmers and Micro/Marginal Businesses (BDT 3000 crore)[45]	Micro finance to the Low-income people, Farmers and Micro/Marginal Businesses Ultra-poor and under privileged people	1%	9% (max.) [3.5% for intermediary MFIs]	BB	01 year (max.) for micro finance 02 years (max.) for micro business	Banks will get refinance against their finance based upon own due diligence and the BB policy through MFIs.
11.	*Enhancement of* Refinance Scheme for Small Enterprises (BDT 1500 crore)[46]	Working Capital Finance and Term Loan to the Cottage, Micro and Small Industry and Service	3%	7%	BB	-	Banks will get refinance against their finance based upon own due diligence and the BB policy.
12.	*Enhancement of* Refinance Scheme for Setting up Agro Based Industries in Semi-Urban and Rural Areas (BDT 1400 crore)[47]	Working Capital Finance and Term Loan for CMSME Agro-based Industries	-Do-	-Do-	BB	-	Banks will get refinance against their finance based upon own due diligence and the BB policy.
13.	*Enhancement of* Refinance Scheme for New Entrepreneurs in CMSE Sector (BDT 100 crore)[48]	Term Loan for New Entrepreneur in CMSE Sector	-Do-	-Do-	BB	-	Banks will get refinance against their finance based upon own due diligence and the BB policy.

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[43] https://www.bb.org.bd/mediaroom/circulars/acd/apr272020acd02.pdf
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