

Issue
#27

Business News Flash: *A Fortnightly Update*

13 May 2021

Research & Strategy Division

 **Bank Asia**

Bank's
Internal

Summary of Bangladesh Economy



In FY 20-21 between the period of July to December, **import of capital machinery stood at \$2.65 billion, dropped by 36.62% on YoY basis and import of capital goods increased by 10%** during the same period.

In April to June 2021, **business confidence index dropped to 41.4** which was 57.9 in the last quarter



Overall export **increased by 8.74% to \$32.07 billion** on YoY basis in first ten months of current FY

Remittance **inflow surpassed \$20-billion mark** in the first 10 months of FY



Proposed Budget FY 21-22

Budget Size

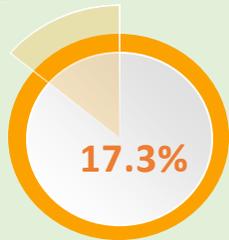
6.03 trillion

Budget Size for FY 21-22

5.68 trillion

Budget Size for FY 20-21

Budget Size as % of GDP



Target, Collection & Deficit

3.3 trillion

Collection target from NBR, non-NBR and non-tax revenue

0.355 trillion

Collection target from external sources including grants

768 billion

Bank debt target

2.12 trillion

Budget deficit

GDP Growth Target



Average Inflation Target



Budget Allocation

549 billion

Operating & Other Expenditures

2.24 trillion

ADP

90 billion

Power Sector

65 billion

Food Sector

135 billion

Stimulus packages and LNG import

95.0 billion

Agricultural Subsidies

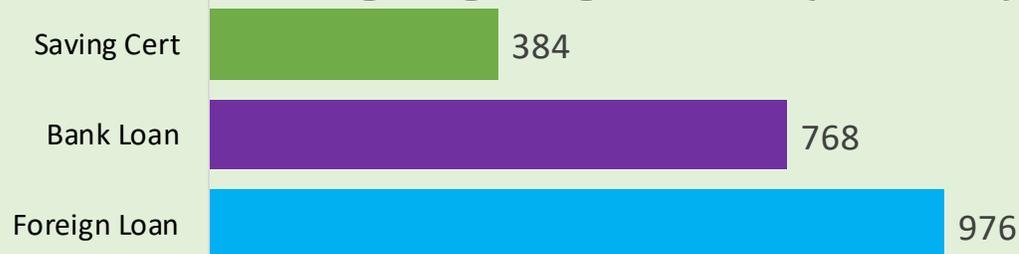
40 billion

To fight Covid-19

173 billion

Health Sector

Source of Mitigating Budget Deficit (in Billion)



Note: All Figures in BDT



- Highest ADP allocation proposed for transport and communication followed by health sector
- In the new budget, government may increase its finance dependency on foreign sources, slashing the bank borrowing target

Summary of Local Banking Sector



State companies must earn in foreign currency to get loans from the forex reserves. Country's foreign exchange reserves hit a new record of **\$45.1 billion in Apr'21**

MFS have gained immense popularity in Bangladesh among lower income groups. MFS transaction stood at **TK 55,059 crore in Feb 2021**.

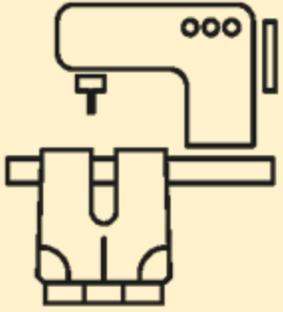


Online sales started to increase in the middle of 2020 which reached to **Tk 663 crore in Feb 2021**.

Total deposits of school banking accounts reached around **Tk 2,000 crore in 2020**



Local Industry/Sector



In first 10 months of FY 20-21, garment shipment up by **6.24% on YoY basis to \$26 billion**. **\$13.99 billion** came from the shipment of **knitwear items**, which registered **15.34% YoY growth**. Earnings from the woven shipment fell by **2.71% to \$12 billion**.

Ceramic makers seeking **loan at 2% interest** for the next 4 months. The industry meets **90% of the local demand** and it is growing at **20% per annum**.



In pre-pandemic era, atar and prayer caps worth **Tk 250 crore** but its sales decreased by around **90%** after the pandemic

Traders of Keraniganj RMG Hub **nearly 70%-80%** of their usual **Eid-al-Fitr sales**. Sector's lost profit reaching around **Tk3,000 crore** this year



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- Atar-tupi Market Fights for Survival
- Keraniganj RMG Hub's Eid Sales Take another Blow

What's Inside





Bangladesh Economy

Capital Machinery Import Yet to Get Momentum

- Import of capital machinery, industrial raw materials and intermediate goods is yet to get momentum
- In FY 20-21 between the period of July to December, import of capital machinery stood at \$2.65 billion, dropped to 36.62% on YoY basis.
- Import of capital goods increased by 10% during the period.

<https://www.thedailystar.net/business/news/capital-machinery-import-yet-get-momentum-2060241>

Second Wave Cuts Deep into Business Confidence

- Healing economy and business sectors now facing a sharp decline in business confidence due to unexpected resurgence of coronavirus pandemic in March 2021.
- In April to July 2021, business index confidence dropped to 41.4 which was 57.9 in the last quarter
- After current upsurge, 67% are expecting weak recovery which 14% before upsurge
- Below table represents segment wise recovery expectation

	Micro & Small Enterprise			Medium Enterprise			Large Enterprise		
	Strong recovery	Moderate recovery	Weak recovery	Strong recovery	Moderate recovery	Weak recovery	Strong recovery	Moderate recovery	Weak recovery
Before upsurge	19%	52%	29%	2%	48%	50%	7%	54%	39%
After upsurge	73%	26%	1%	72%	26%	2%	54%	43%	3%

- Only 22% of the surveyed firms received low-cost loans under the government stimulus packages
- Receivers were mainly concentrated in large, structured sectors, including apparel and textile, leather, food, financial, and pharmaceuticals.

<https://www.tbsnews.net/economy/second-wave-cuts-deep-business-confidence-240496>

Exports Fetch \$3.13b in April

- Overall exports grew by 8.74% on YoY basis to \$32.07 billion between July and April
- Earnings from merchandise exports surged as much as six times year-on-year to \$3.13 billion in April
- Rebound in apparel shipment buoyed by the reopening of the economies in the US and Europe.
- In first 10 months of FY 20-21, garment shipment up by 6.24% on YoY basis to \$26 billion. \$13.99 billion came from the shipment of knitwear items, which registered 15.34% YoY growth. Earnings from the woven shipment fell 2.71 per cent to \$12 billion.
- Exports of agricultural products increased by 9.1% to \$824.59 million.
- Leather and leather goods shipment increased by 8.56% to \$760.92 on YoY basis.

<https://www.thedailystar.net/business/news/exports-fetch-313b-april-2087361>

Remittances Past \$20b in 10 Months

- Remittance inflow surpassed \$20-billion mark in the first 10 months of FY-21
- Remittance inflow Increased by 89% to 2.06 billion on YoY Basis in April as the migrant workers sent a whopping amount of funds ahead of Eid-ul-Fitr.
- Government will have to lay great emphasis on exporting manpower abroad in order to keep remittance inflow stable in the future.
- Country's foreign exchange reserves hit a new record of \$45.1 billion due to the upward trend of remittance and lower import payments.
- A strong inflow of remittance has largely helped the country to build up the foreign exchange reserve.

<https://www.thedailystar.net/business/news/remittances-past-20b-10-months-2087357>

<https://www.thedailystar.net/business/news/forex-reserve-hits-record-451b-2087877>



Highlights of the Proposed Budget FY 21-22

Budget Size

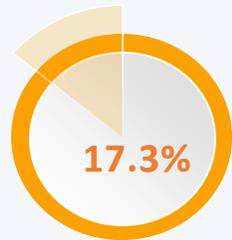
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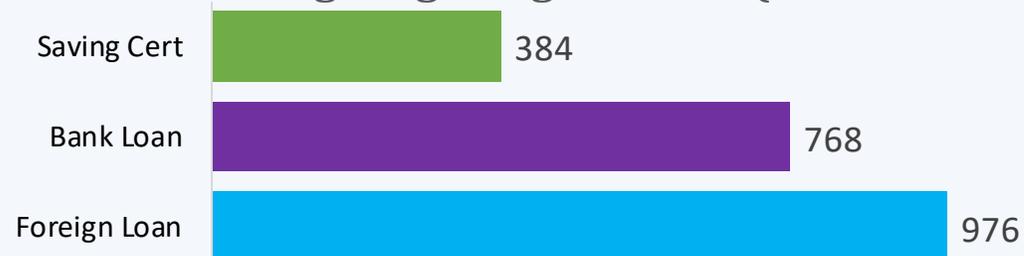
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Looking away from Banks, Towards Foreign Source

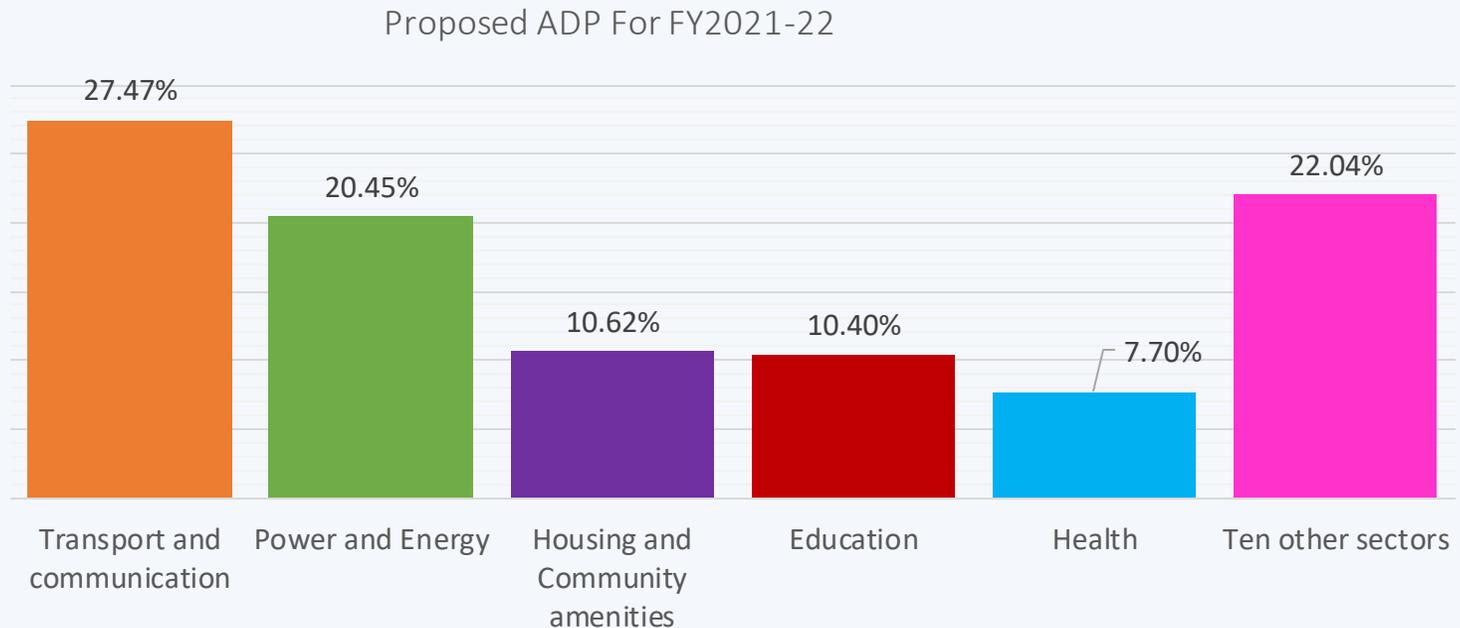
- High foreign loan inflow during the pandemic year has led to the change in the policy, prompting the government to set a high borrowing target from foreign sources
- When the banking sector remains awash with excess liquidity, low borrowing target from the banking system may ultimately benefit private sector borrowers helping them get loans at a lower cost.
- Small savers might be affected by dwindling deposit rates.
- In the new budget, government will increase its finance dependency on foreign sources, slashing the bank borrowing target, which was the opposite in the current budget.
- Foreign financing will meet up to 2.8% of the budget deficit for the upcoming budget.
- Excess liquidity in the banking sector stood at Tk1.98 lakh crore in March as private sector credit growth remained sluggish at 8.79% in March.
- Total budget deficit for the new budget has been projected to be Tk 2.12 lakh crore which is 13.5% higher than the revised deficit of the current budget.

<https://www.tbsnews.net/economy/budget/looking-away-banks-towards-foreign-source-241534>

Highest ADP Allocation Proposed for Transport, Communication

- Allocation may be increased to doubled for the education sector to conduct educational activities online.
- Second highest allocation has been proposed for the Power and Energy sector which is 20.45% of the total ADP but according to experts' second highest priority should be given to the social protection sector.
- Agriculture sector is 3.4% of the total ADP.
- ADP amounting to Tk 224,324.14 crore for the next financial year.
- Tk 39,024 crore is allocated for seven fast-track projects under the ADP.

<https://www.tbsnews.net/bangladesh/infrastructure/highest-adp-allocation-proposed-transport-communication-240988>





Budget Must Focus on Bolstering Health System

- Monumental challenge of balancing between the public health and economic health of Bangladesh awaits the upcoming national budget.
- Infection rate will fluctuate owing to the preventive measures as the virus is not going away soon. People will have to wear face masks and follow virus safety guidelines to tackle the brutal resurgence in infection.
- One is mechanical prevention – wearing masks and maintaining social distancing. The second one is biological prevention through mass inoculation
- There should be allocations in the next budget for building oxygen plants in major hospitals. It is not only will help in the pandemic, but also will remain as an asset later
- Budget should allocate for the development of government institutes producing vaccines.

<https://www.tbsnews.net/economy/budget/budget-must-focus-bolstering-health-system-238801>

Health Security Merits Highest Attention in Next Budget

- Government has suspended the dosing of the first shot with the Oxford-AstraZeneca vaccine supply from India remaining stopped.
- As a result, economy, which was running on the recovery track, again hit a stumbling block.
- Enhancing allocation in the health sector and involving the private sector to mitigate crises in the healthcare system are proposed by the experts’
- Allocations should be made and projects should be taken to generate employment to keep the small and rural economy strong.
- Budget must have an allocation to increase the testing capacity. There should be a plan for vaccination and from which countries vaccines will be imported and when they can be produced in the country.
- According to experts, if there is a lockdown, the management of food for the poor and quarantine expenses should be kept in the budget.

<https://www.tbsnews.net/economy/budget/health-security-merits-highest-attention-next-budget-241504>

Next Budget Targets Higher Spending without Raising Taxes

- Focus of the new budget to be recovering economy without raising taxes as well as increasing public expenditure through borrowing
- Revenue target of the National Board of Revenue (NBR) will not increase in the new budget as compared to the original budget.
- Revenue board will not need to levy new taxes on trade and commerce in the next budget.
- Around Tk 23,500 crore is expected to come as budget support from development partners.
- Production index of medium and large industries increased by 6.82%.

<https://www.tbsnews.net/economy/budget/next-budget-targets-higher-spending-without-raising-taxes-237214>

Incentive Spending on Remittance May Go Up

- Government will increase allocation for incentive expenses for remittance in the next FY
- It had earmarked Tk 3,060 crore in the original budget of FY2020-21 to pay incentives to the beneficiaries of remittance which is 47.06% higher than the revised budget.
- In the period of July and April, Bangladeshi received \$20.66 billion remittance, which is 39% higher on YoY basis.
- According to Finance department, remittance inflow might swell by 20% in FY22.
- Export earnings is expected to grow by 15% in the next FY.
- Incentive spending for jute goods has been proposed at Tk 800 crore for FY22
- As the government earlier took foreign exchange reserve for infrastructure development projects which is Tk 5,417 crore to dredge a channel for Payra port.

<https://www.thedailystar.net/business/news/incentive-spending-remittance-may-go-2087897>





BANK

Local Banking Industry

BB Just Made the Debate on Using Forex Reserves More Polemic

- Government -owned companies will be eligible to take loans from the central bank reserves against the sovereign guarantee
- State companies must earn in foreign currency to get loans from the forex reserves, which are held and managed by the central bank.
- Draft policy has been prepared by reviewing how the foreign currency reserves are used in different countries.
- According to BB officials private companies would not be eligible for loans from the reserve.

<https://www.dhakatribune.com/business/economy/2021/03/14/bb-just-made-the-debate-on-using-forex-reserves-more-polemic>

Bangladesh Bank Bars NBL from Disbursing Loans

- National Bank Limited (NBL) not to disburse any fresh loans before bringing down its advance deposit ratio (ADR) to 87% and improving its financial condition to protect the interests of its depositors.
- As per the central bank regulations, the ADR for conventional banks is 87% and for Islamic banks 92%.
- According to central bank, total loan and advances' growth cannot exceed 10% per annum.
- As of December 31st 2020, NBL's ADR stood at 91.57%, higher than the requisite.

<https://www.dhakatribune.com/business/banks/2021/05/05/bangladesh-bank-bars-nbl-from-disbursing-loans>





Bangladesh Bank Issues Guideline on MFS Trust Fund

- As per BB, the money received by MFS, PSP, PSO, or any other non-bank entity from its customers or participants for issuing e-money, payment instruments, settlement of transactions, sales proceeds, or any other fund directed by Bangladesh Bank shall be held in the trust fund which shall be opened with scheduled commercial banks in Bangladesh
- Central bank barred cash transactions between courier service providers and sellers of online platforms against delivery of products on cash-on-delivery terms.
- According to BB, financial transactions between the sellers and courier service providers should take place through a formal banking channel.

<https://www.dhakatribune.com/business/banks/2021/05/08/bangladesh-bank-issues-guideline-on-mfs-trust-fund>

Prime Bank Brings Instant Payment of VAT, Excise, And Import Duty

- Prime Bank has introduced instant payment of VAT, excise and import duty through Prime Pay, an Omni digital platform for its corporate customers.
- Banks corporate clients can make the payment online 24/7 and receive payment confirmation via SMS and Email.
- With PrimePay, clients of Prime Bank can initiate all local payment instructions from anywhere anytime.
- Digital platform facilitates account to account fund transfer within Prime Bank
- Online 3RD bank payment through RTGS, BEFTN, corporate cheque and pay order issue, real-time payment under Distributor Financing Program.

<https://www.tbsnews.net/economy/banking/prime-bank-brings-instant-payment-vat-excise-import-duty-215899>

MFS Industry Swells Riding on Low-Income Groups

- Mobile financial services have gained immense popularity in Bangladesh among lower income groups but the charge to withdraw funds remain constant since 2011.
- Clients count TK 14 instead of TK 18.5 to withdraw Tk 1000.
- Transaction through MFS stood at TK 55,059 crore in Feb of this year.
- MFS accounts were 10.24 crore in Feb 2021.

<https://www.thedailystar.net/business/news/mfs-industry-swells-riding-low-income-groups-2087905>

E-Commerce Gathering Pace through Offers for Online Payment

- According to central Bank, online sales starts to increase in the middle of 2020 despite the first wave of the pandemic.
- E-commerce sites and brands have been offering discounts for digital payments which leads to high respond by the customers
- July 2020 logged Tk 640 crore in transactions in e-commerce which dropped to Tk 406 crore in September 2020, which again increased to Tk 663 crore in February 2021.
- Many new entrepreneurs have joined and learnt how to do business online which helped expanding the e-commerce business.
- Transactions for online shopping increased as the customers are paying through online.
- Mobile financial services, such as bKash, Rocket and Nagad are playing a vital role in digital payments.

<https://www.tbsnews.net/economy/industry/e-commerce-gathering-pace-through-offers-online-payment-241021>





SME Foundation Loans: Entrepreneurs Worry Over Banks' Collateral Requirement

- Some entrepreneurs are concerned over the collateral requirement.
- An incentive package of Tk20,000 crore for small and medium entrepreneurs in 2020.
- A new package of Tk 1,500 crore in Jan 2021 for small traders, entrepreneurs and farmers.
- SME Foundation is getting Tk300 crore under the package.
- Of the money, the foundation will disburse Tk100 crore to cottage, micro, small, and medium enterprises across the country within the next month.
- Selected applicants will receive a loan of Tk1 lakh to TK75 lakh with a 4% interest rate
- At least Tk50 lakh from the incentive package should be collateral-free loans but some entrepreneurs are concerned over the collateral requirement and reached out to the SME Foundation with fears that they will not get any loans without collateral.

<https://www.tbsnews.net/economy/sme-foundation-loans-entrepreneurs-worry-over-banks-collateral-requirement-242113>

School Banking Getting Popular

- Central bank introduced school banking in 2010 to widen financial inclusion and make students financially literate.
- School banking is gaining huge popularity among students day by day
- Total deposits in accounts reached around Tk 2,000 crore in 2020 despite of pandemic –induced economic hardship.
- Students deposited Tk 1,950 crore in the accounts which is 20% from a year ago and 7% from 3 months earlier.
- Number of accounts under school banking increased by 10% to 26.90 lakh in 2020.
- 55 banks have rolled out school banking operations, allowing students aged 11 years to 17 years to open accounts.
- Account come with a various advantages, such as waivers on fees and charges, free internet banking, lower minimum balance requirement and debit card availability at lower costs.

<https://www.thedailystar.net/business/news/school-banking-getting-popular-2091709>





Local Industry/Sector



Red-Hot US Recovery Boosts RMG Hope

- Ongoing rapid vaccination holds promises for the recovery of Bangladesh's garment shipment.
- US economic growth accelerated in the first quarter as the government gave money to mostly lower-income households.
- GDP increased at a 6.4% annualized rate in the January to March of 2021.
- Garment suppliers in Bangladesh are receiving a higher number of queries for US-bound work orders.
- Demand for casual wear is higher than formal clothing and high-end value-added suits as people spend more time indoors because of the pandemic.
- Bangladesh exported textile and garment worth \$1.04 billion between January and February of 2021, dropped 11.80% on YoY basis.
- In first 10 months of FY 20-21, garment shipment up by 6.24% on YoY basis to \$26 billion. \$13.99 billion came from the shipment of knitwear items, which registered 15.34% YoY growth. Earnings from the woven shipment fell 2.71 per cent to \$12 billion.

<https://www.thedailystar.net/business/news/red-hot-us-recovery-boosts-rmg-hope-2087893>

Ceramic Makers Seek Low-cost Funds

- Country's ceramic manufacturers have demanded low-cost funds on easy terms for payment of their workers' salaries, allowances and Eid bonuses.
- Businesses have invested Tk 9,000 crore in the sector, which directly employs 50,000 workers and indirectly over 500,000.
- This industry meets 90% of local demand and Bangladesh meets 0.14% of global demand.
- Demand for ceramics rises 20% a year.
- Government should ensure bank loans for the ceramic makers at 2% interest for the next 4 months.

<https://www.thedailystar.net/business/news/ceramic-makers-seek-low-cost-funds-2087885>

Atar-tupi Market Fights for Survival

- Before coronavirus entered Bangladesh, atar and prayer caps market size worth Tk 250 crore
- Comparing to the time before the pandemic, sales of the two products of Muslim devotees during Eid festival have decreased by around 90%.
- Wholesale sales halved after corona's arrival

<https://www.tbsnews.net/economy/industry/atar-tupi-market-fights-survival-244123>

Keraniganj RMG Hub's Eid Sales Take another Blow

- Traders lost nearly 70%-80% of their usual Eid-al-Fitr sales.
- Cloth makers in Keraniganj supply 70%-80% of the local garments sold around the country
- Traders here make 70% of their sales during the Eid-al-Fitr, and the peak season begins from Shab-e-Barat to mid-Ramadan.
- Sector's lost profit reaching around Tk3,000 crore this year

<https://www.tbsnews.net/economy/rmg/keraniganj-rmg-hubs-eid-sales-take-another-blow-244102>



*“There is nothing so terrible as activity without insight.”
- Johann Wolfgang von Goethe*



Corporate Office
Bank Asia Tower,
32, Kazi Nazrul Islam Avenue
Karwan Bazar, Dhaka
www.bankasia-bd.com

 **Bank Asia**