

**KEY ECONOMIC INDICATORS**

Bangladesh currently stands as the 8<sup>th</sup> largest remittance earner, comprising of 6.6% of the country's GDP in 2020, as inflow remained strong despite the pandemic as informal channels remained closed and migrants sent more funds home to help them cope with the virus. The country's per capita income rose by 9% and reached USD 2,227 in FY21 compared to USD 2,064 a year back. Meanwhile, the opening rate of industrial equipment LCs for imports declined by -24.33% between Jul-Feb of the current FY as demand continues to remain sluggish. The government has decided to borrow an additional BDT 55 bn from the banking system for May to make up for the budget deficit and is also planning to increase foreign funding by 35.4% YoY to meet the forecasted deficit for FY22. Oil prices showed volatility in price throughout the week due to fears that Iran was nearing a nuclear deal which could remove U.S sanctions, possibly adding 2 mn barrels per day of crude to the market.

	This Week	Last Week	Weekly Change	YTD Change
<b>Foreign Exchange Reserve (USD bn)</b>	43.58	44.83	-2.78%	0.94%
<b>Call Money Rate (Weighted Average)</b>	2.13%	2.06%	7 bps	1 bps
<b>Exchange Rate (BDT-USD)</b>	84.80	84.80	0.00%	0.00%
<b>Oil Price (USD per barrel of WTI)</b>	61.94	63.82	-2.95%	27.98%
		<b>FY 2020-21</b>	<b>FY 2019-20</b>	<b>% Change</b>
<b>Export (USD mn) (Jul-Apr)</b>		32,073	29,494	8.74%
<b>Remittances (USD mn) (Jul-Apr)</b>		20,666	14,868	39.00%
<b>Import (USD mn) (Jul-Feb)</b>		40,069	39,308	1.94%
<b>Current Account Balance (USD mn) (Jul-Feb)</b>		1,557	-2,108	N/A
<b>Credit to the Private Sector (BDT bn) (Mar)</b>		11,604	10,666	8.79%
<b>Point-to-point Inflation (Mar)</b>		5.47%	5.48%	-5 bps
<b>Tax Revenue (NBR) (USD mn) (Jul-Feb)</b>		18,055	17,168	5.16%

Source: Bangladesh Bank and Investing.com

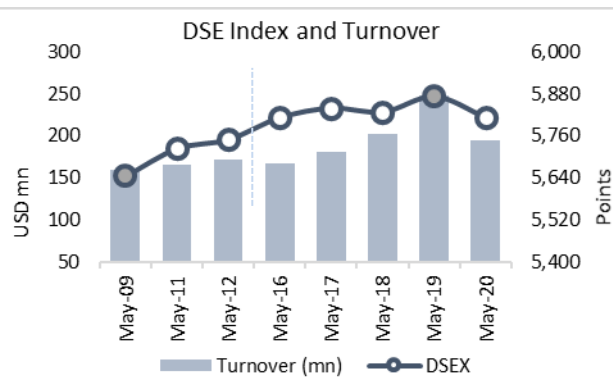
\*All data except oil has been kept unchanged from last week as BB has not provided updated data.

**ECONOMIC RISKS**

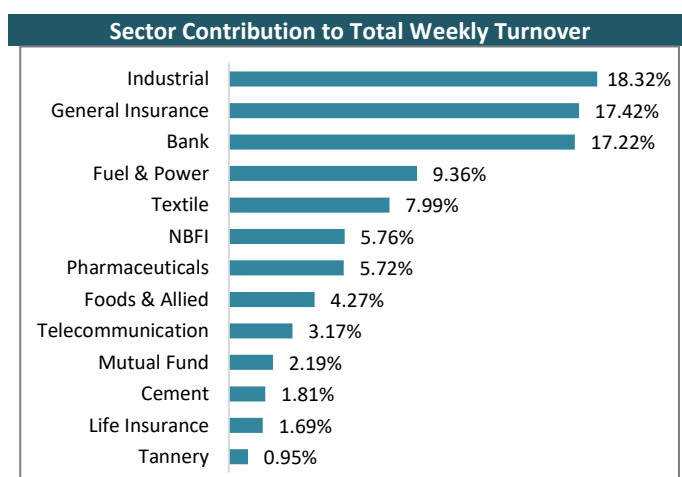
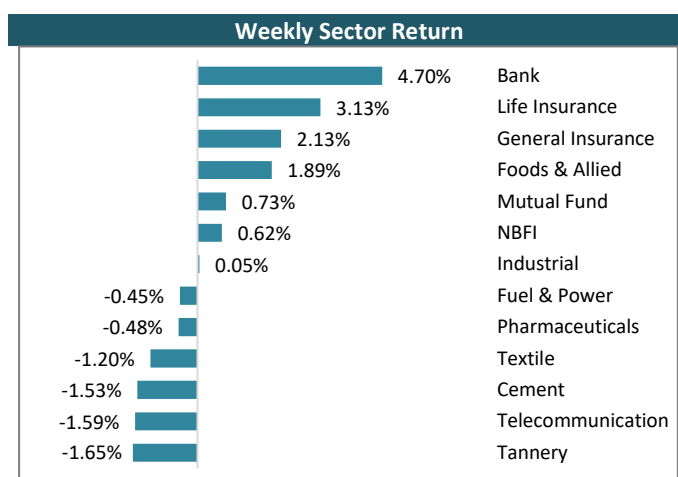
Risk factor	Risk Level	Impact
<b>Subdued tax revenue collection</b>	High	Tax collection registered a negative growth of -2.63% in FY20 for the first time since the country's independence due to the effects of the virus. However, revenue collection has increased by 5.16% in the Jul-Feb period of FY21 as businesses and economic activities are slowly reviving. But actual tax collection continues to remain below the target. According to ADB's forecast, Bangladesh may incur a tax revenue loss equivalent to 2% of GDP due to the pandemic.
<b>Soaring default loan in financial sector</b>	High	The banking sector has been burdened with a high NPL ratio of 7.66% and a CAR of 11.63% that is the lowest in South Asia. Although banks are sitting with excess liquidity, their implementation of the stimulus package remains slow. The loan moratorium period ran between Jan-Dec 2020. Going forward, a sharp rise in default loans is being anticipated which is likely to undermine the sector further in the long term. The central bank has instructed banks to keep 1% extra provision against all loans that enjoyed deferral or time extension facilities. In addition, banks and NBFIs have been permitted to declare dividends depending on the strength of their capital base.
<b>Remittance shock</b>	Medium	Inward remittances made an exceptional recovery in the Jul-Mar period amid the pandemic with a 39% jump YoY. This increase has defied World Bank's projection of a -22% decline for 2020. The reason behind this increase can be attributed to the usage of formal channels amid the pandemic, the attractive 2% cash incentive and near-zero interest rates abroad. The current level of remittance inflow may sustain due to these factors coupled with gradual manpower export, though the growth rate is unlikely to be as high as 2020.
<b>Demand contraction</b>	Medium	Economic activities have been gradually picking up on the backdrop of the pandemic as both businesses and individuals are learning to live with the virus after the lockdown ended in May. This has allowed demand in the economy to slowly recover. While consumer confidence is likely to strengthen as the percentage of vaccinated population continues to increase, the recent spike in virus cases and new lockdown is concerning.
<b>Export slump</b>	Medium	It has been projected that global merchandise trade might plummet by ~13% due to the pandemic. While reinstatement of cancelled orders initially helped RMG exports rebound, the impact of the second wave has dragged RMG export growth to the negative zone once again. Although vaccine rollout at major export destinations have commenced, the resurgence of virus cases is likely to delay recovery. Moreover, unless export diversification is implemented and global economic activities pick up, Bangladesh will continue to be subjected to the concentrated risks of the RMG sector (that accounts for ~80% of export earnings).
<b>Volatile capital market</b>	Low	The securities regulator has been engaged in taking various initiatives to reform the market. It has also taken up a strong stance against any non-compliance to rein in market manipulation. This has forged a positive sentiment in the market and pushed up market liquidity significantly in recent times. Going forward, the performance of the market will depend on whether the regulators continue to focus on taking steps that are in the best interest of investors and how the recent spike in virus cases play out.

**CAPITAL MARKET UPDATE**

The DSEX inched up by 63 points (1.09%) during the week as its gaining momentum persisted as investors continued to binge buy financial stocks for another week and showed optimism regarding the upcoming budget. The unexpected positive corporate declarations by the financial sector and decline in infection and death rates of COVID-19 played a key role in keeping the market buoyant during the week. Apart from this, investors have also been injecting fresh money into the market as they have their hopes high with the FY22 budget that will be unveiled early next month while news that corporate tax may be slashed by 250 bps for both listed and listed companies also caught investors' attention. This continuous increase in market turnover has also been adding to investors' confidence. Hence, the average daily turnover shot up by 20.09% compared to the previous week. However, the market experienced some selling pressure and ended in red in two of out the five trading days during the week due to investors' move to book gains made from the recent stock price appreciation. During the week, the regulator decided to make health insurance mandatory for capital market employees and provided approval for the issuance of TREC to 30 new brokerages while another 21 companies are awaiting approval.



Market Statistics				
	This Week	Last Week	Weekly Change	YTD Change
DSEX	5,813	5,750	1.09%	7.61%
DS30	2,178	2,187	-0.38%	10.92%
Market Cap (\$ mn)	57,951	57,674	0.48%	9.83%
Total Turnover (\$ mn)	992	495	100.16%	16.13%
Avg. Daily Turn. (\$ mn)	198	165	20.09%	16.13%
S&P 500	4,156	4,174	-0.43%	10.64%
DJIA	34,208	34,382	-0.51%	11.77%
FTSE 100	7,018	7,044	-0.36%	8.63%
NIKKEI 225	28,318	28,084	0.83%	3.18%


**NOTABLE QUARTERLY EARNINGS ANNOUNCEMENTS DURING THE WEEK**

Higher demand for drugs throughout the pandemic helped BEACONPHAR enjoy an increase of 704% for Q3 of 2021. Strong demand for its widely used medicine "Remedesivir" in both domestic and international market, coupled with 50% increase in revenues and comparatively lower increase in operational expenses are reasons behind this for the massive increase. On the other hand, higher energy purchase and operating expenses, administrative expenses caused DESCO's earnings to plummet during the quarter.

TICKER	COMPANY NAME	SECTOR	EPS 2021 (Jan-Mar)	EPS 2020 (Jan-Mar)	CHANGE
BEACONPHAR	Beacon Pharmaceuticals Limited	Pharmaceuticals & Chemicals	2.01	0.25	704.00%
DESCO	Dhaka Electric Supply Company Ltd.	Fuel & Power	0.12	0.23	-47.83%

TICKER	COMPANY NAME	SECTOR	EPS 2020	EPS 2019	CHANGE	Dividend
BGIC	Bangladesh General Insurance Company Ltd.	Insurance	1.25	1.28	-2.34%	12% cash

Source: DSEX, Investing.com, LR Global Research

**QUARTERLY EARNINGS UPDATE**

During the Jan-Mar'21 quarter, the cement sector experienced a significant growth of 182.7%, based on the earnings disclosed so far, owing to a revival in demand in the sector. The tannery sector managed to make a turnaround this quarter as it was able to recover some losses after remaining in the negative growth territory in the prior quarters. In the previous quarter (Oct-Dec'20), the industrial sector bounced back and recorded the second highest earnings growth after declining continuously for more than a year. The gradual revival of economic activities has had a large part to play in this as virus cases slowly subsided during that period. The NBF sector recorded the second highest earnings growth during the quarter followed by bank, pharmaceuticals, and ceramic. Banks and NBFs continued its profit growth trend from the previous quarter. In the Jul-Sep'20 quarter, a good number of NBFs logged in higher earnings due to lower provisioning and reduced deposit rates, allowing the sector to register the highest growth in that quarter. Banks too experienced a significant boost in earnings due to similar reasons during that period. At this time, it is slightly concerning that the tannery sector is still continuing to post negative growth in earnings due to the discretionary nature of the products. Earlier in Apr-Jun'20 quarter, only the NBF and food & allied sector managed to report a positive growth mainly due to a significant boost in ICB's earnings and BATBC's resilient growth in stick sales, respectively.

Sector	2019				2020				2021
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Bank	13,988	21,244	13,891	22,880	18,311	13,382	20,078	16,705	13,506
Cement	872	958	582	250	803	173	930	1,558	1,677
Ceramic	230	59	261	287	167	-278	142	355	220
Food & Allied	2,428	1,817	3,474	3,619	3,200	2,638	3,101	272	370
Fuel & Power	9,076	11,399	10,862	8,961	7,336	5,705	9,939	9,130	8,030
Industrial	4,733	4,834	3,870	3,165	2,929	-665	3,439	5,829	2,271
NBFI	1,716	-243	-743	981	2,000	1,728	2,272	2,132	1,612
Pharmaceuticals	6,210	6,820	7,362	6,926	6,598	4,446	8,735	8,659	8,388
Telecommunication	8,926	9,553	7,269	8,766	10,694	7,265	8,898	10,330	8,912
Textile	1,474	-5,658	1,223	1,268	457	-3,852	473	885	935
Tannery	270	101	371	144	-27	-869	-455	69	86

QoQ Growth (Sectorwise)	2019				2020				2021
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Bank	20.2%	20.4%	-0.3%	-14.1%	30.9%	-37.0%	44.5%	-10.6%	11.0%
Cement	-4.6%	-0.4%	93.8%	-72.4%	-7.9%	-81.9%	59.7%	-	182.7%
Ceramic	-20.3%	-71.3%	-22.7%	-35.6%	-27.5%	-567.8%	-45.7%	23.7%	54.4%
Food & Allied	-24.0%	-74.1%	75.2%	92.7%	31.8%	45.2%	-10.7%	-67.8%	4.2%
Fuel & Power	22.5%	9.4%	-1.1%	-7.3%	-19.2%	-50.0%	-8.5%	6.4%	34.2%
Industrial	-2.3%	-65.2%	-12.0%	-30.8%	-38.1%	-113.8%	-11.1%	96.7%	-
NBFI	-34.7%	-111.6%	-141.0%	-80.1%	16.5%	810.3%	405.8%	103.9%	-11.5%
Pharmaceuticals	8.0%	4.7%	10.7%	2.5%	6.2%	-34.8%	18.6%	25.1%	25.6%
Telecommunication	39.6%	-11.6%	-18.3%	-3.3%	19.8%	-24.0%	22.4%	17.8%	-16.7%
Textile	-13.4%	-440.5%	-40.7%	-25.5%	-69.0%	31.9%	-61.4%	-28.7%	-
Tannery	-34.1%	-63.8%	-38.8%	-55.0%	-109.9%	-962.9%	-222.6%	-27.5%	-

Note: Sector represents more than 70% of the companies (according to large market capital),

Source: DSEX, LR Global Research

\* Oct-Dec'20 & Jan-Mar'21 earnings growth have been calculated based on the earnings of 197 and 120 companies, respectively, that have been declared so far out of the 261 tracked.

**MAJOR EVENTS DURING THE WEEK**
**COVID-19 positivity rate declined to 7.7% this week in Bangladesh: COVID-19 Update**

The weekly new COVID-19 cases increased by 3.40% while the total tests conducted increased by 16.78% compared to the previous week. During the week, 7,930 new positive cases and 224 more deaths were reported in Bangladesh, taking the total number of cases to 787,726 as of 23<sup>rd</sup> May, according to official tallies. The positivity rate has declined to 7.7%. The Finance Ministry of Bangladesh approved the purchase of the Sinopharm's COVID vaccine, produced by a Chinese state-owned enterprise Sinopharm, through a direct procurement method to tackle current COVID situation. Globally, the total number of cases has crossed 166 mn and the death count has also crossed 3.45 mn.

**Government to reduce corporate tax by 250 bps**

Both the listed and non-listed companies will be able to enjoy a reduced tax rate of 250 basis points, which will bring some relief to the companies still grappling from the virus. Finance ministry sources said that the new tax rate for production-oriented companies will be 30% from existing 32.5% for non-listed companies and will be 22.5% from existing 25% for listed companies for the fiscal year F22 as a gift of "Mujib Year" and tax rate for other sectors will remain as per the previous budget.

**Bangladesh Bank urge government to raise interest rates on NSCs**

The banking sector is facing excess liquidity due to relaxed policy and injection of fresh money into the banking system. Banks' deposit rates are 3% to 4% at present while the NSCs are offering 11.5% due to this excess liquidity. Higher inflow of remittances is further fueling the liquidity problem as BB needs to purchase dollars from banks. Hence the central bank is urging the government to increase NSC rates so that funds are diverted from the banking sector to NSCs.