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BUSINESS REVIEW

ISLAMIC FINANCE IN BANGLADESH: EN ROUTE TO NEW HORIZONS

IDLC Finance Limited

financing happiness

contents

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FROM THE

EDITOR

Islamic Finance in Bangladesh: En Route to New Horizons

Islamic finance, which adheres to Shariah principles, is one of the thriving segments of the global financial system. A recent report published by Refinitiv, one of the world's largest providers of financial market data and infrastructure, postulates that the size of the Islamic finance industry is expected to grow from USD 3.37 trillion in 2020 to USD 4.94 trillion in 2025, representing an annual growth rate of 8% on average over the course of the next five years.

Bangladesh is one of the fastest-growing economies in the world. In line with other economic activities, Islamic finance in Bangladesh has also been witnessing robust growth. The country is among the top ten economies holding the highest Islamic financial assets and is growing above the global average growth rate.

Out of the USD 50 billion Islamic finance market, Islamic banking alone possesses a market cap of USD 48 billion, which indicates that the Islamic capital market, the Islamic insurance (Takaful) market and other areas of Islamic finance have not flourished to the extent of Islamic banking expansion in Bangladesh. Nonetheless, the recent issuance of Sukuk (Islamic bond) by both the public and private sectors, the gradual development of the Takaful market (Islamic Insurance), the penetration of Islamic microfinance to the doorsteps of marginalised people, and the advent of Islamic FinTechs indicate that other areas of Islamic finance have a bright future.

Considering the high market demand and growth potential of Islamic finance in Bangladesh, different financial institutions are trying to offer innovative Islamic financial products and services to their clients. Undoubtedly, this growth momentum of Islamic finance indicates that our financial ecosystem is en route to new horizons.

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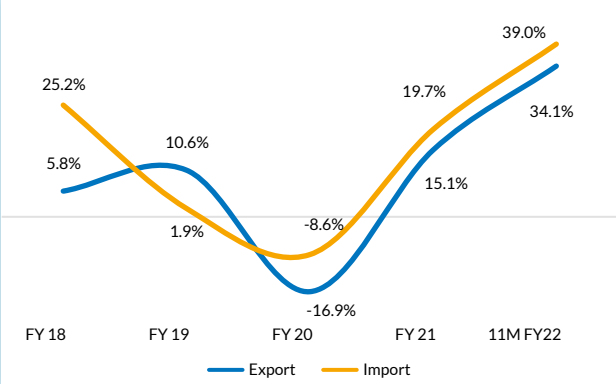
ECONOMY AT A GLANCE

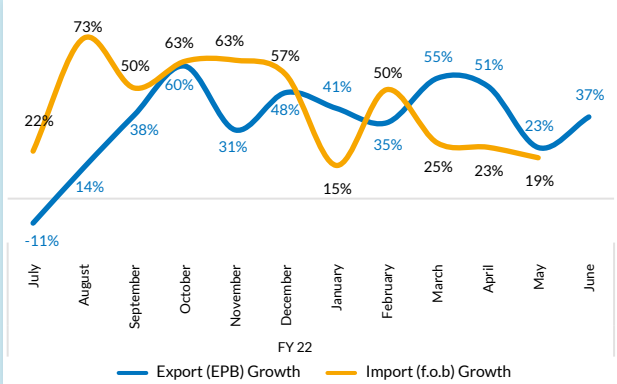
Prepared by IDLCSL Research Team

EXPORT-IMPORT

Growth in Export Imort Trade (Last 5 Years)

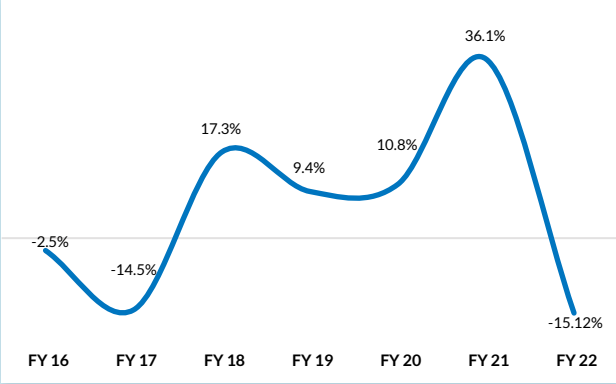


Export and Import Growth (Last 12 Months)

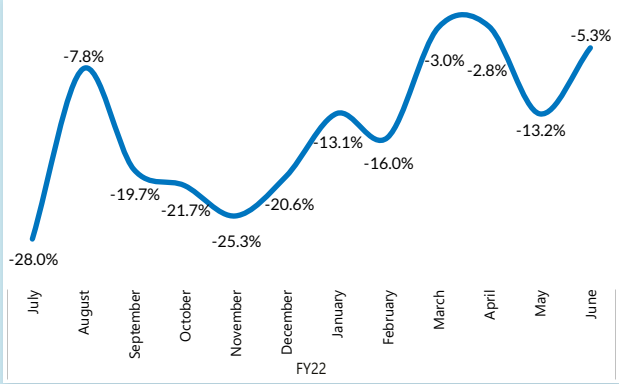


REMITTANCE

Remittance Growth (Last 7 Years)

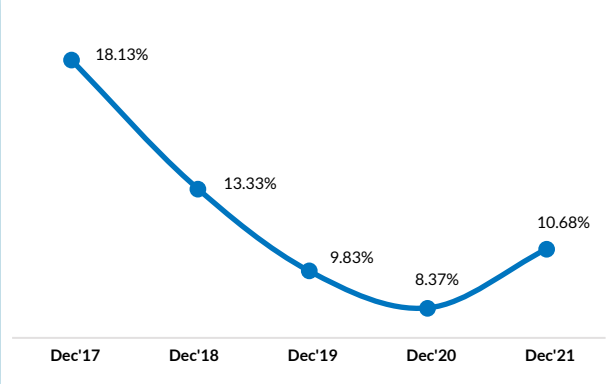


Remittance Growth (Last 12 Months)

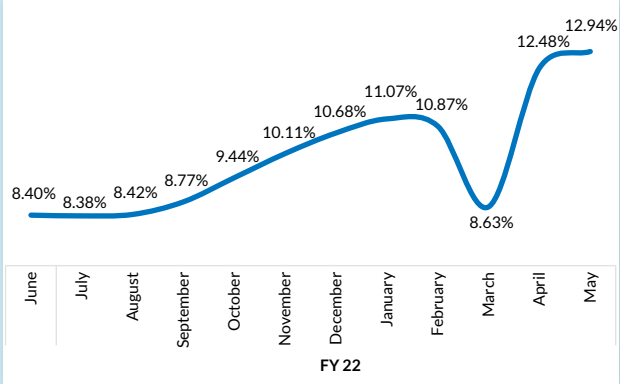


PRIVATE SECTOR CREDIT GROWTH

Private Sector Credit Growth (Last 5 Years)



Private Sector Credit Growth (Last 12 Months)



MONTH IN BRIEF

- **The long-awaited superstructure of the 6.15 km long multipurpose bridge, the Padma Bridge, was finally inaugurated on June 25, 2022.** The country is celebrating the historical event of the bridge's opening as the bridge holds extra significance for being implemented with domestic funding, showing the country's capability, enthusiasm, and glory to the world.

- On June 30, 2022, the Bangladesh Bank (BB) announced the monetary policy statement for the fiscal year 2022–23. The central bank raised the REPO under the new MPS from **5% to 5.5%. This move was made to combat demand-induced inflation and provide sufficient liquidity for employment and investment.**

- **In May 2022, Bangladesh's private sector credit growth rose to 12.94%.** Since January 2019, when it was 13.20%, this growth has been the highest.

- The amount of money transacted through the mobile banking service reached a record high of **BDT 930.33 billion in April, mostly owing to Eid-ul-Fitr-related purchases and money transfers. The transaction in April was 20.35% higher MoM and 55.98% higher YoY.**

- **Due to a massive rise in import payments during a worldwide price spiral and the restart of COVID-centric delayed payments, Bangladesh's trade deficit hit a new record high of USD 27.57 billion** in the period of July through April of the current fiscal year 2021–2022. Moreover, the current account deficit increased to a new high of USD 15.32 billion.

- The country's banks borrowed money from one another on June 20, 2022, at an overnight rate of **5.03%, continuing the trend of rising interbank call money rates.**

- The rise in food costs in Bangladesh in **May caused inflation to climb to 7.42%, an eight-year high.**

- The overall interest rate margin of banks decreased from 3.1 percentage points in **March 2022 to 3.07 percentage points in April 2022.**

- **According to the Bangladesh Bank, the country received USD 1.89 billion in May and USD 1.84 billion** in June from expatriates, indicating that remittance inflows had decreased since April when remittances surpassed USD 2 billion.

- According to the Export Promotion Bureau (EPB), the country earned USD 52.08 billion from exporting goods and services in the last fiscal **year 2021–22, resulting in a 38% increase compared to the fiscal year 2020–21**.

THE INFLATION DATA REFLECTED THE CONSEQUENCE OF THE DEVALUATION OF THE TAKA AGAINST THE DOLLAR, INFLATION IN THE INTERNATIONAL MARKET, QUANTITY AND COST OF MATERIALS LOCALLY AND TRANSPORTATION COSTS. THE DATA DID NOT REFLECT THE REAL COST OF LIVING FOR THE POOR AND LOWER MIDDLE CLASS. IF WE CALCULATE THE COST OF THEIR DAILY COMMODITIES, INFLATION WILL BE EVEN HIGHER.

Professor Mustafizur Rahman, A Distinguished Fellow of Centre for Policy Dialogue, on Inflation Hitting 8-year High in May (June 20, 2022. The Business Standard).

Not only the foreign currency market but also the local currency market has come under stress in recent months. The borrowing of the private sector as well as the government has increased significantly. Besides, banks had to pay local currency equivalent to around USD 6 billion against their purchase of dollars from banks.

Syed Mahbubur Rahman, Managing Director and Chief Executive Officer of Mutual Trust Bank, on Drop of Banks' Excess Liquidity amid Currency Market Woes (June 07, 2022. New Age).

The global and domestic supply chains are being disrupted, and floods engulfed a part of the country. So, the inflation may be rising in the coming months, too. Meanwhile, the government has given an expansionary national budget with huge fund deficit. This will add another round of inflationary pressure in the coming days.

Dr. Zahid Hussain, Former World Bank Lead Economist, on Price Rises Pushing Inflation to 8-yr High at 7.42pc (June 20, 2022. The Financial Express).

The dollar gap between formal and informal market must be minimised. Besides, the current 2.50% incentive on remittances needs to be raised to 3.50% so that Bangladeshi nationals abroad receive the kerb market-like lucrative gains in formal banking channels.

Khondaker Golam Moazzem, Research Director of Centre for Policy Dialogue, on May Remittances Falling 13% (June 01, 2022. The Business Standard).

The war in Ukraine, lockdowns in China, supply-chain disruptions, and the risk of stagflation are hammering growth. For many countries, recession will be hard to avoid. Markets look forward, so it is urgent to encourage production and avoid trade restrictions. Changes in fiscal, monetary, climate and debt policy are needed to counter capital misallocation and inequality.

David Malpass, President of World Bank, on Bangladesh's Growth Being Projected to Pick Up to 6.7% in FY23 by World Bank (June 08, 2022. The Business Standard).

In most countries like Bangladesh, where cryptocurrency trading is not allowed, the central banks are wary of losing control. But in the digital age, one cannot keep one's eyes and ears shut and not adopt new tech. Blockchain based cryptocurrency will become more and more popular, whether the government wants it or not. Therefore, I have been advocating for keeping an open mind and have been urging Bangladesh Bank to start researching on the matter. If BB can introduce its own cryptocurrency as China has recently done, it can keep some control over it.

Syed Almas Kabir, Former President of Bangladesh Association of Software and Information Services (BASIS), on Government Mulling Over Digital Currency (June 17, 2022. The Business Standard).

Money supply needs to be curbed to cope with inflationary pressure as a free flow of money will lead to a rise in prices of goods and services following a surge in demand. Moreover, if demand goes up, so will imports, putting forex reserves under stress. There is no alternative to increasing money supply to meet capital demand for boosting economic growth. But keeping people's purchasing power intact by reining in commodity price hikes is now more important than growth.

Dr. Ahsan H. Mansur, Executive Director of Policy Research Institute, on Government Wanting to Raise Money Supply by Over 15% Even amid Soaring Inflation (June 08, 2022. The Business Standard).

WORLD ECONOMIC INDICATOR

PREPARED BY IDLCSL RESEARCH TEAM

Country	Nominal GDP: 2021 (USD in Billion)	Real GDP Growth: 2021 (Yearly % Change)	Inflation Point to Point (%)		Current Account Balance: (% of GDP)	Interest Rates (%), Ten Years Treasury Bond	Currency Units (Per USD)
Frontier Market							
Sri Lanka	82.47	3.58	54.60	June-22	-4.28	22.46	347.52
Vietnam	366.20	2.58	3.37	June-22	-0.48	3.31	23,388.00
Kenya	109.80	7.23	7.90	June-22	-5.41	14.07	118.10
Nigeria	441.54	3.65	17.71	May-22	-0.84	11.25	425.50
Bangladesh	465.00	7.25	7.42	May-22	-3.71	8.10	93.95
Emerging Markets							
Brazil	1,608.08	4.62	11.89	June-22	-1.74	13.35	5.44
Saudi Arabia	833.54	3.24	2.20	May-22	6.56	N/A	3.75
India	3,177.92	8.95	7.01	June-22	-1.55	7.34	79.58
Indonesia	1,186.07	3.69	4.35	June-22	0.28	7.36	14,985.00
Malaysia	372.75	3.13	2.80	May-22	3.46	4.08	4.43
Philippines	393.61	5.60	6.10	June-22	-1.76	6.96	56.20
Turkey	806.80	10.99	78.62	June-22	-1.85	19.03	17.44
Thailand	513.17	1.57	7.66	June-22	-2.12	2.74	36.14
China	17,458.04	8.08	2.50	June-22	1.82	2.83	6.72
Russia	1,775.55	4.70	15.90	June-22	6.87	9.31	58.60
Developed Markets							
France	2,935.49	6.98	5.80	June-22	-0.93	1.67	1.00
Germany	4,225.92	2.79	7.60	June-22	7.43	1.15	1.00
Italy	2,101.28	6.64	8.00	June-22	3.29	3.23	1.00
Spain	1,426.22	5.13	10.20	June-22	0.94	2.25	1.00
Hong Kong	368.14	6.42	1.20	May-22	11.20	3.02	7.85
Singapore	396.99	7.61	5.60	May-22	18.12	2.84	1.41
United States	22,997.50	5.68	8.60	May-22	-3.51	2.96	1.00
Denmark	395.71	4.13	8.20	June-22	8.37	N/A	7.41
Netherlands	1,018.68	5.04	8.60	June-22	9.45	1.45	1.00
Australia	1,633.29	4.69	5.10	March-22	3.54	3.43	1.47
Switzerland	812.55	3.72	3.40	June-22	9.30	0.71	0.98
United Kingdom	3,187.63	7.44	9.10	May-22	-2.59	2.10	0.84

Bangladesh Data: The new GDP size (FY22 provisional estimate) and real GDP growth (FY22) are as per new base year. Calculation Method of CA Balance (%of GDP): CA Balance for 11 Month FY2021-22 /Provisional GDP of FY22.

Interest rate (%) 10 years TB as per June 2022, Inflation as per May 2022 and Currency Unit (per USD) as per 14th July are sourced from Bangladesh Bank.

Nominal GDP: Data of all countries apart from Bangladesh is sourced from IMF estimates of 2021 data (April, 2022 Outlook).

Real GDP Growth and Current Account Balance: Data of all countries apart from Bangladesh is sourced from IMF estimates of April, 2022 data (World Economic Outlook, April 2022).

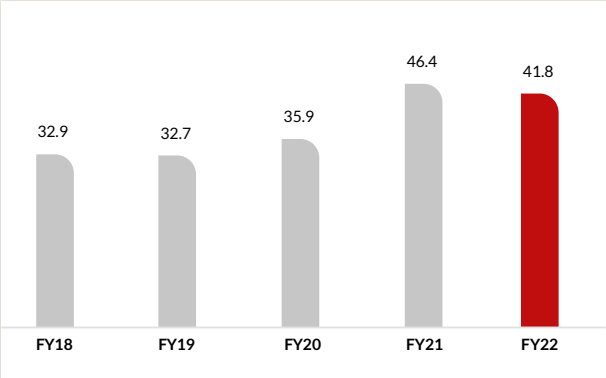
Inflation: Data of all countries apart from Bangladesh is sourced from tradingeconomics.com

Interest Rates 10 Years TB and Currency Unit: Data of all countries apart from Bangladesh is sourced from investing.com

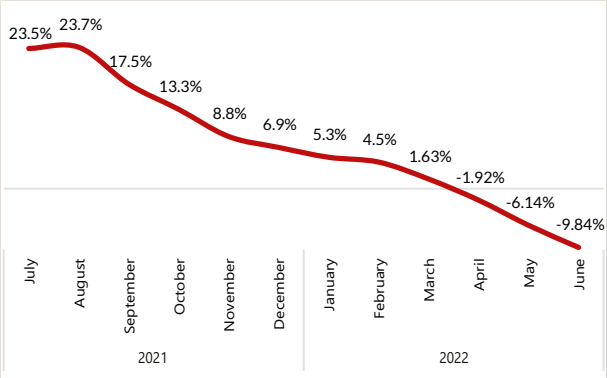
BANKING DATA CORNER

Prepared by IDLCSL Research Team

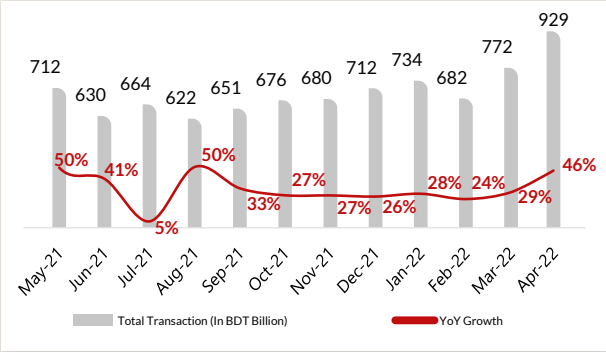
Foreign Exchange Reserve
(In USD Billion, Last 5 Years)



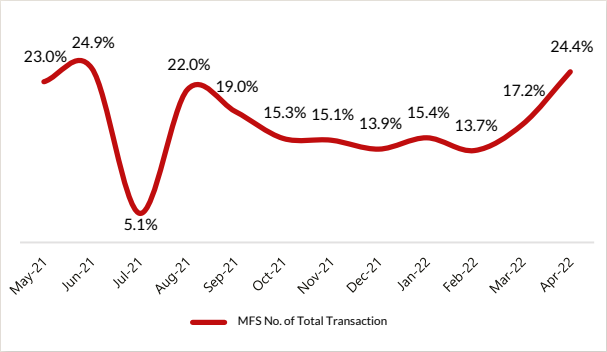
Foreign Exchange Reserve
(YoY Growth)



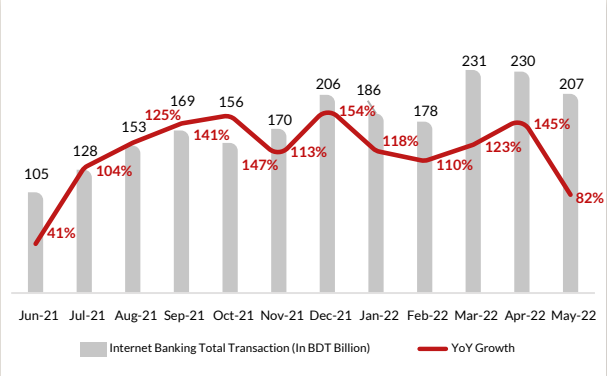
MFS Monthly Transaction
(BDT Billion and YoY Growth)



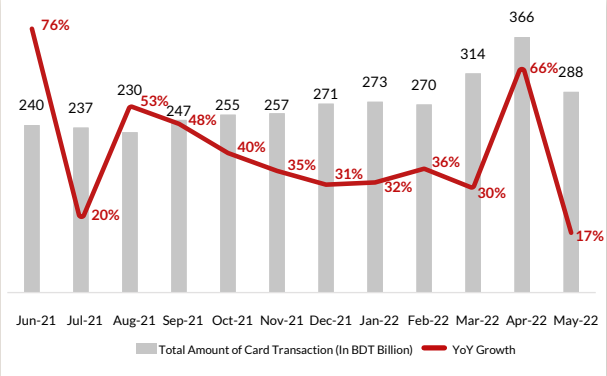
Total Number of MFS Transaction
(YoY Growth)



Total Amount of Internet Banking Transaction
(BDT Billion and YoY Growth)



Total Amount of Card Transaction
(BDT Billion and YoY Growth)



Source: Bangladesh Bank

SupplyLine

Irfan Rafique
Co-Founder and CEO, SupplyLine

Interviewed by
Akhlaqur Rahman Sachee, Team MBR

SupplyLine is a distribution tech company through which suppliers and institutional lenders are connected with mom-and-pop retail stores, which are commonly known as "Mudir Dokan" locally. 90% of the sales of FMCG products in Bangladesh take place through a wide network of 1.4 million such neighbourhood retail stores. Through the SupplyLine smartphone app, these retailers can check the prices of the products from all the suppliers to grab the best deal. It also provides invoice financing facilities to eligible retailers. Team MBR was in a conversation with Irfan Rafique, Co-Founder and CEO, SupplyLine, to learn about the inspirations and vision behind SupplyLine.

Akhlaqur Rahman Sachee: SupplyLine is providing a digital B2B solution through which retailers are able to procure inventory from a single platform and suppliers are able to meet the demands of the retailers more efficiently with the help of real-time market insights. What is the story behind this innovative idea?

Irfan Rafique: I started my career in trade marketing and distribution at one of the largest multinational FMCG companies. I served in different markets, which gave me a hands-on opportunity to work closely with retailers.

Procurement is a serious challenge for retailers. In the case of procuring products from big brands, they have to wait for 7 to 10 days for a sales representative to visit and receive the order. In addition to that, they have to carry 14 days' additional stock of critical SKUs to ensure proper stocking. For commodity and niche categories, they have to pay frequent visits to the nearest wholesale hubs to procure products, and they have to take the products by public transport to the store themselves.

For retailers using SupplyLine, we are providing them with a one-stop solution to these procurement problems, which makes life easier for retailers so that they can concentrate on selling instead of buying.

Akhlaqur Rahman Sachee: How are the retailers responding to your innovative model? What are the motivations for them

to pick your solution over the traditional distribution model?

Irfan Rafique: Our services are being well received by retailers. Over 40% of the users are placing orders weekly, and we have been expanding on an exponential scale since launch. Traction-wise, we have already started observing the early signs of product-market fit.

As retailers are getting products on-demand at their doorsteps, this hassle-free service is their biggest motivation to join our network. At the end of the day, users love solutions that make their lives easier and save time and money. And, we are concentrating our efforts on ensuring just that!

Akhlaqur Rahman Sachee: SupplyLine provides retailers with the facility to avail of collateral-free invoice financing. Would you kindly share with us how the retailers are being financed? How are the associated risks with financing being mitigated?

Irfan Rafique: Any financier's most valuable assets are transaction data and retailer social equity. We are enabling our banking partners to leverage this through our systems.

As we all know, Bangladesh is home to many prominent micro-finance institutions, and they have a time-tested process of risk mitigation. The comparison between the industry NPL ratios of MFIs and banks/NBFIs speaks for itself. We take lots of inspiration and borrow the best practices from BRAC micro-finance operations. Moreover, our additional risk mitigation tools provide our institutional lending partners further comfort.

Akhlaqur Rahman Sachee: Do you think that SupplyLine will be able to take the place of a field-level sales force someday? How is SupplyLine helping the suppliers cut costs?

Irfan Rafique: I do not think so. Machines or automation will not outperform the selling and salesmanship skills of human beings anytime soon. The field-level sales force is always the best choice when it comes to driving product development, placement, and business growth.

Through SupplyLine, we are automating the part of buying that involves fulfilling orders often, and we want to keep doing that. Through our systems, our suppliers are currently selling more than the conventional operations process without increasing their overheads. Additional sales generated by SupplyLine assist them in accelerating stock turnover and directly increasing profitability.

Akhlaqur Rahman Sachee: What are the revenue streams of SupplyLine? How does SupplyLine make money out of the service it provides?

Irfan Rafique: We charge a fixed rate to the suppliers, and our institutional lending partners share a portion of the revenues earned from invoice financing. Overall, we have multiple revenue streams from various services and category verticals. And we are consistently expanding on this end.

Akhlaqur Rahman Sachee: SupplyLine has already onboarded more than 5,000 retailers. What is its current geographical area of operations? How is it planning to expand in the upcoming days?

Irfan Rafique: Since our inception, we have been gradually expanding our footprints. As a result, more than 5,000 retailers are already enjoying our services. Currently, we are piloting within Dhaka City Corporation and its nearby outskirts. Within the next 12 months, we plan to expand our operations to all divisional headquarters.

Akhlaqur Rahman Sachee: What are the challenges SupplyLine is facing these days in its way of smooth operations? How are you planning to overcome them?

Irfan Rafique: Supplier-side adoption and on-time fulfilment from third parties are the key challenges for us right now. We are developing inclusive joint business plans and operational modalities for our suppliers to improve on that. In addition to that, we are developing our technological and operational capabilities in order to make massive strides in terms of visibility and to improve logistic efficiency. Starting from introducing automated route and fulfilment planning through our in-house solutions, we aim to reduce many of the existing inefficiencies in the distribution game.

ISLAMIC FINANCE IN BANGLADESH:
EN ROUTE TO NEW HORIZONS

Written by
Mohammad Abdul Hannan
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IDLC Finance Limited

In recent times, non-interest banking and finance, universally known as Islamic finance, has grown at an unprecedented rate. It is expected that Islamic finance will continue to grow in countries with large Muslim populations, where it has already been dominant in several jurisdictions.

Islamic finance refers to financial activity that adheres to shariah (Islamic law) and its practical implementation through the development of Islamic sustainable economics. That means Islamic finance is based on Shariah principles on sociopolitical and economic matters. And the ultimate goal of Shariah-based Islamic finance is to create economic freedom that is fair and balanced for everyone.

Bangladesh is home to the fourth-largest Muslim population in the world. In recent years, Bangladesh has been opening itself to Islamic finance with the hope of establishing a sustainable economy.

According to the Refinitiv Islamic Finance Development Indicator (IFDI) 2021, a composite weighted index that measures the overall development and health of the Islamic finance industry, Bangladesh positioned itself in 14th place out of 135 countries around the world. Also, the Islamic Finance Development Report 2021 demonstrates that Bangladesh is among the top ten countries holding the highest Islamic finance assets. Up to 2020, the Islamic financial assets of Bangladesh stood at USD 50 billion, which is 10.75% of the current gross domestic product (GDP) of Bangladesh.

The Emergence of Islamic Finance

The Islamic financial system was founded around 1,400 years ago and is comprised of a comprehensive framework that is clearly specified. The spread of Islam has resulted in stronger economic ties between Asia, Africa, and Europe. Muslims pioneered essential financial concepts such as transactional accounts. In business and commerce throughout mediaeval times, the Islamic methods of partnership financing known as Mudarabah and Musharakah were predominant. But as time went on, industrialisation and formalised commercial banking spread to Muslim communities, making it impossible for Muslims at the time to reject the conventional financial system since there was no practical alternative available.

In the 19th century, the Muslim world began to realise that the existing system of banking and finance was founded on elements that are forbidden in Islam (Riba/interest, Gharar/uncertainty and Qimar/speculative transactions) and that there should be an ethical alternative that is in accordance with Shariah principles. This realisation led to the creation of the modern Islamic financial system that is in accordance with the Shariah principles. Basically, Islamic finance came back into the modern world in the 1960s, and since 1975, several new interest-free banks have been established. Although most of these financial institutions were established in Muslim nations, Islamic finance began to form in Western Europe in the early 1980s.

Table 01: Evolution of the Modern Islamic Finance Industry

1950s-1960s	Pakistan and the Indian subcontinent had the first interest-free Islamic banks. In the 1960s, Egypt and Malaysia were pioneers.
1975	Dubai Islamic Bank is the first commercial Islamic bank. The Islamic Development Bank (IDB) began its inception in Jeddah, Saudi Arabia, in October 1975.
1979	Pakistan "Islamises" state-level financial procedures. It continued until 1985.
1983	Malaysia launched its first official sharia-compliant bank, Bank Islam Malaysia. The government instituted sharia law, reforming Sudan's financial sector on Islamic principles.
1984	Iran passed a 1983 Islamic Banking legislation that had been promised in the 1979 Islamic revolution.
1990	In association with several Islamic organisations, the Islamic Development Bank (IDB) founded an international Islamic accounting standards organisation, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), in Bahrain.

1991	Bank Muamalat, Indonesia's first officially-sponsored Islamic bank, was founded.
2002	The Islamic Financial Services Board (IFSB) was formed in Kuala Lumpur, Malaysia.
2004	London's first sharia-compliant bank, the Islamic Bank of Britain, was established.
2006	Dubai's main stock exchange, through restructuring itself, became the world's first Islamic bourse.
2009	Singapore's first Islamic bond scheme was launched. Indonesia offered the first retail sharia-compliant bonds (Sukuk).

Source: Reuters

Global Islamic Finance Industry Landscape

Despite the worldwide pandemic, the global Islamic financial services industry (IFSI) continued to rise in 2020 and was estimated to be valued at USD 2.70 trillion in that year, marking a growth of 10.7% year-on-year in assets in USD terms [2019: USD 2.44 trillion], according to the Islamic Financial Services Industry Stability Report 2021. In addition, the report indicates that the Islamic banking and Islamic capital markets sectors contributed to the growth in the worldwide IFSI's overall value, but Takaful (Islamic insurance) contributions suffered a minor decrease. Even though the COVID-19 pandemic caused lockdowns and more uncertainty, which hurt economies in many places, the IFSI grew overall in 2020.

It was depicted in the Islamic Financial Services Industry Stability Report 2021 that in 2020, the members of the Gulf Cooperation Council (GCC) continued to be the leading domicile for assets related to Islamic finance. The market share of Islamic finance in the area increased from 45.9% in 2019 to 48.9% in 2020. With a 24.9% share of all IFSI assets worldwide, the Middle East and South Asia (MESA) region came in second, maintaining its position from the previous year. The South-East Asia (SEA) region's share decreased slightly from 23.8% in 2019 to 20.3% in 2020, while the Africa region's participation remained low at 1.7%. The remaining 4.3% of all IFSI assets were in other regions, which included Turkey, the United Kingdom, and Commonwealth of Independent States (CIS) countries.

Table 02: Breakdown of the Global IFSI by Sector and Region (USD Billion) (2020*)

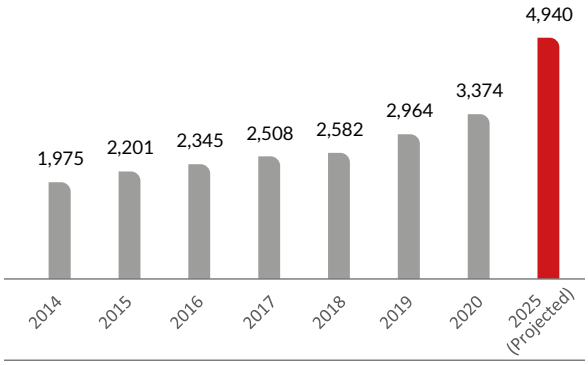
Region	Islamic Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Takaful Contributions	Total	Share (%)
GCC	979.7	280.4	46.3	12.3	1,318.7	48.87%
South-East Asia (SEA)	258.2	366.4	41.9	4.1	670.6	24.85%
Middle East and South Asia (MESA)	499.0	18.9	22.8	5.5	546.2	20.24%
Africa	43.1	1.7	1.5	0.6	46.9	1.74%
Others	61.8	22.1	31.3	0.6	115.8	4.29%
Total	1,841.8	689.5	143.8	23.1	2,698.2	100.00%
Share (%)	68.26%	25.55%	5.33%	0.86%	100.00%	

Source: IFSB Secretariat Workings

** Sukuk outstanding and Islamic funds data are for full-year 2020; Islamic banking data are as of 3Q20, and Takaful data are as of end-2019.*

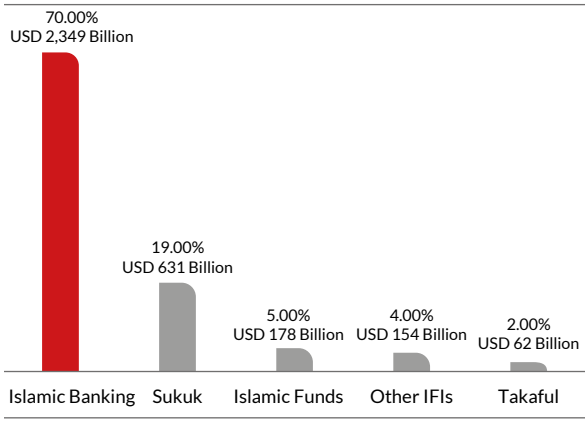
The Refinitiv Islamic Finance Development Report 2021 postulates that the size of the Islamic finance industry is expected to grow from USD 3.37 trillion in 2020 to USD 4.94 trillion in 2025, representing an annual growth rate of 8% on average over the course of the next five years. The report shows the composition of Islamic finance asset distribution in 2020 was as follows: Islamic banking has the most assets, worth USD 2,349 billion, followed by Sukuk, Islamic funds, other Islamic finance investments, and Takaful, with USD 631 billion, USD 178 billion, USD 4 billion, and USD 62 billion, respectively.

Figure 01: Islamic Finance Assets Growth (2014 -2020, USD Billion)



Source: Islamic Finance Development Report 2021

Figure 02: Islamic Finance Assets Distribution (2020, USD Billion)



Source: Islamic Finance Development Report 2021

Islamic Finance in Bangladesh

Bangladesh is one of the fastest-growing economies in the world. In line with other economic activities, Islamic finance in Bangladesh has also been witnessing robust growth.

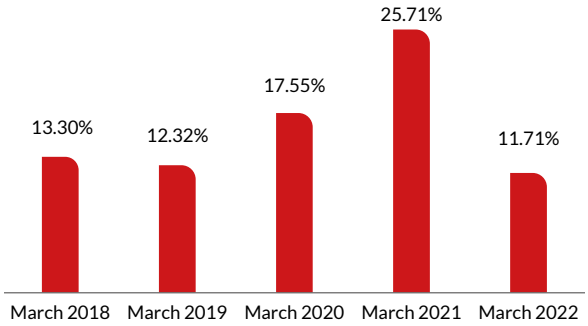
According to a report issued by Fitch Ratings, a worldwide credit rating agency, the Islamic finance industry has the potential for considerable expansion in the medium term, owing to strong bottom-up public demand for Islamic products and the country's good economic prospects. However, according to the same research, Bangladesh's Islamic financial industry has been facing challenges due to long-standing restrictions.

Islamic Banking

In Bangladesh, Islamic finance started its inception through banking. The first Islamic bank in Bangladesh was established in the year 1983. According to January to March 2022 quarter data of Bangladesh Bank (BB), currently, 10 full-fledged Islamic banks have 1,679 branches out of 10,942 branches in the banking system. Furthermore, in Bangladesh, 41 Islamic banking branches of 9 conventional commercial banks and 434 Islamic banking windows of 13 conventional commercial banks provide Islamic financial services.

Total deposits of the Islamic banking sector were BDT 3,996.79 billion at the end of March 2022, which was 28.21% of the total deposits of the entire banking sector at that time. In comparison to March 2021, the deposits in Islamic banks grew by 11.71%. During the period from March 2017 to March 2022, the compound annual growth rate was 16% which was 10.75% in the entire banking sector.

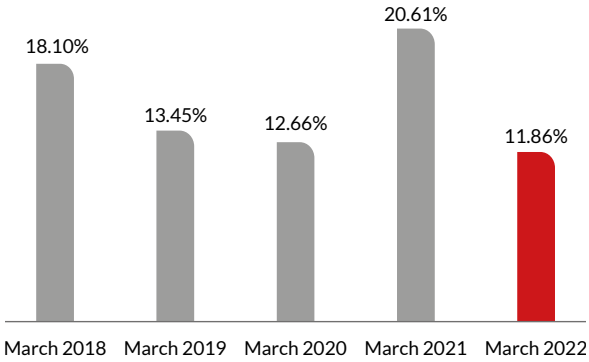
Figure 03: YoY Growth in Deposits in Islamic Banks



Source: Bangladesh Bank

On the other hand, total investments in the Islamic banking sector were found to be BDT 3,606.49 billion at the end of March 2022, which was 27.78% of the total loans and advances of the banking sector as a whole. It grew by 11.86% from the level of March 2021, and the compound annual growth rate was 15.29% during the period March 2017 to March 2022.

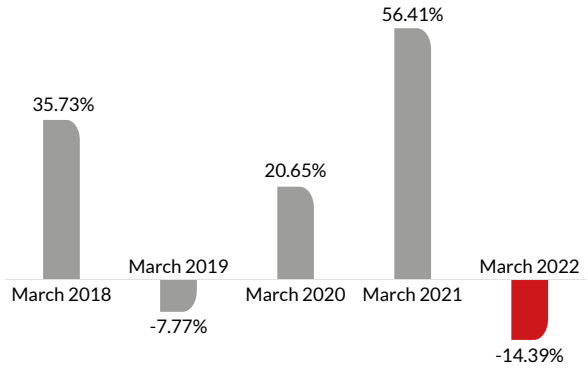
Figure 04: YoY Growth in Investments by Islamic Banks



Source: Bangladesh Bank

In the case of remittance mobilisation, the Islamic banking sector accounted for 30.96% of the total remittances mobilised in the entire banking sector in the January-March 2022 quarter, which amounted to BDT 134.70 billion. Though the figure dropped by 14.39% from the January 2021-March 2021 quarter, the compound annual growth rate was 15.13% during the period March 2017 to March 2022.

Figure 05: YoY Growth in Remittances Mobilised by Islamic Banks



Source: Bangladesh Bank

Besides banks, 3 full-pledged non-bank financial institutions (NBFIs) are providing Islamic financial services in Bangladesh. Several other conventional NBFIs are showing an interest in providing Islamic financial products and services to their clients.

Islamic Capital Markets (ICM)

The Islamic capital market is an essential component of the Islamic financial system, and one of its primary functions is to provide individuals and businesses with access to various avenues for obtaining finance and opportunities for investment. The products that are traded in the Islamic capital market are Sukuk and Islamic equity.

Sukuk (Islamic Bond)

Bangladesh's Islamic capital market is not as dynamic as its other Asian counterparts like Pakistan, Malaysia, and Indonesia. Despite this, the issue of Sukuk by the Bangladesh Bank in December 2020 is unquestionably a move in the right direction. To generate BDT 80 billion for the execution of a clean water supply scheme throughout the country, Bangladesh Bank, acting on behalf of the government, issued the country's first sovereign investment Sukuk. Bangladesh Bank issued a second sovereign Sukuk (the third Sukuk auction) on behalf of the government to raise BDT 50 billion on December 29, 2021, for the implementation of the "Need-Based Infrastructure Development of Government Primary Schools Project (1st Phase).

The Bangladesh Securities and Exchange Commission (BSEC) granted Bangladesh Export-Import Company (Beximco) authority to issue the BDT 30 billion Beximco Green Sukuk Bond on July 8, 2021. The first Sukuk was traded on the country's capital market on January 13, 2022, with the introduction of Beximco Green Sukuk Al Istisna'a.

Islamic Funds

An Islamic mutual fund operates similarly to a conventional fund, with the exception that the Islamic mutual fund only invests in Shariah-compliant investments. Shariah-compliant investments adhere to Islamic rules, meaning they are free of Gharar (speculation) and Riba (interest).

An increasing number of conventional businesses are also going into the Shariah arena, even though there are already a number of full-fledged Islamic fund managers operating in the market.

Table 03: List of Shariah-compliant Closed-end Funds

Sl.	Fund Name	Ticker	Asset Manager	Redemption Date	Number of Units (BDT Million)	Paid-Up Capital (BDT Million)
1.	CAPM IBBL Islamic Mutual Fund	CAPMIBBLMF	CAPM	2028	66.9	668.5
2.	SEML IBBL Shariah Fund.	SEMLIBBLSF	SEML	2027	100	1000
3.	AIBL 1st Islamic Mutual Fund	AIBL1STIMF	LR Global	2021	100	1000
4.	IFIL Islamic Mutual Fund -1	IFILISLMF1	ICB AMCL	2020	100	1000

Source: Company Financial Statements

Besides the aforementioned shariah-compliant closed-end funds, there are currently 11 shariah-compliant open-end funds with a total paid-up capital of BDT 4115.6 million operating in Bangladesh.

Takaful (Islamic Insurance)

Takaful was initiated in Bangladesh in December, 1999. The first full-fledged Islamic insurance company in Bangladesh is Islami Insurance Bangladesh Ltd. At present, in Bangladesh, there are a total of 15 fully operational Islamic insurance companies (11 life and 4 non-life). According to the Islamic Financial Services Industry Stability Report 2021, the Takaful industry of Bangladesh represents a market share of 14.1% of the total insurance industry in 2019. In terms of market share, it is currently a small sector, but it has the potential to expand the national takaful market.

Table 04: List of Full-Fledged Islamic Insurance Companies in Bangladesh

Category	Name of Takaful Company	Assets (BDT Million)	Investment (BDT Million)	Gross Premium (BDT Million)
Life	1. Akij Takaful Life Insurance PLC.	*	*	*
	2. Alpha Islami Life Insurance Ltd.	*	*	*
	3. Bengal Islami Life Insurance Ltd.	*	*	*
	4. Fareast Islami Life Ins. Co. Ltd.	42306	26365	9739
	5. Mercantile Islami Life Insurance Ltd.	*	*	*
	6. NRB Islami Life Insurance Co. Ltd.	*	*	*
	7. Prime Islami Life Insurance Ltd.	9657.2	3852.7	4144.5
	8. Padma Islami Life Insurance Ltd.	2246.3	1422.7	488.6
	9. Protective Islami Life Ins. Co. Ltd.	*	*	*
	10. Trust Islami Life Insurance Ltd.	342.7	235.1	280.4
	11. Zenith Islami Life Insurance Ltd.	*	*	*
Non-Life	1. Islami Insurance Bangladesh Ltd.	1378.6	729.7	664.7
	2. Islami Commercial Ins. Co. Ltd.	*	*	*
	3. Northern Islami Insurance Ltd.	**	**	**
	4. Takaful Islami Insurance Ltd.	1119.2	818.7	576.1

Source: Company Financial Statements, 2020

**Private limited company, data is not publicly available. **Could not retrieve data.*

Prospects of Islamic Finance in Bangladesh

Bangladesh's future in Islamic banking and finance is promising, considering the country's robust economic growth and favourable demographics. Some of the contributing factors have been discussed below.

Bangladesh is one of the largest Muslim-majority countries in the world, with 90.40% of its population followers of Islam. The growing preference for financial services designed in accordance with their belief system will undoubtedly boost the growth of Islamic financial products and services in Bangladesh.

Research published in the Indian Journal of Finance and Banking in the year 2022 has proven that Islamic banks in Bangladesh are performing better than conventional banks in terms of profitability, capital adequacy, asset quality, and management efficiency. This will give investors more confidence in the Islamic finance sector, and there will be more capital injection and transformation into shariah-compliant financial institutions as a result. In turn, it will help the Islamic finance sector flourish.

In recent times, we have observed that the Sukuk market is flourishing. Through restructuring our bond market, we will be able to attract international Sukuk investors to strengthen our position in foreign direct investment (FDI). Also, through the issuance of Sukuk, the country has the immense opportunity to finance different mega-projects in the public and private sectors.

Bangladesh is a country where yet a vast majority of the population needs to be brought under the umbrella of financial inclusion. In this particular aspect, mass penetration of Islamic microfinance can be a game-changing phenomenon. Moreover, Islamic FinTechs have enormous business opportunities here as the median age of the population is 27.9 years, and they are highly adaptive to technology.

Challenges

Although the Islamic finance industry in Bangladesh represents remarkable growth and performance, it has some challenges to be solved. Some of the critical challenges the industry is currently facing have been discussed below.

Trust issues and misconceptions regarding Islamic financial products and services pose major challenges for Islamic financial institutions. Mass awareness programmes need to be conducted to eliminate the knowledge and communication gaps.

Out of the USD 50 billion Islamic finance market, Islamic banking alone possesses a market cap of USD 48 billion, which indicates that the Islamic capital market, the Islamic insurance (Takaful) market and other areas of Islamic finance have not flourished to the extent that Islamic banking products and services have flourished.

Excess liquidity in the Islamic banking sector stood at BDT 299.99 billion by the end of March 2022. As Islamic banks cannot invest in conventional investment vehicles and there is a minimal number of shariah-compliant instruments, excess liquidity has become a common scenario in this sector. The development of a functional Islamic capital market and the initiation of more Sukuk-based finance projects in public and private sectors can help the Islamic banks control their excess liquidity.

In Bangladesh, Islamic banking products are skewed more toward asset-based financing or debt financing, i.e., Murabahah, Ijarah, and Salam modes of financing. But the true spirit of Islamic finance is inherent in equity-based instruments like Mudharabah and Musharakah. So, to ensure greater compliance with shariah, Islamic banks need to focus more on profit/loss sharing modes of investments than mark-up modes of investments.

There is a shortage of quality certificate courses, academic programs, professional development programmes, etc., in the field of Islamic finance in Bangladesh. Inconsistencies are often observed in the opinions of different scholars. So, there is an urgent need for proper standardisation.

Finally, to reap the utmost benefit from any particular industry, a proper regulatory and legal framework is a must. Some aspects of Islamic finance still have a need for central guidelines and standards.

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Md. Fariduddin Ahmed

Former Managing Director and CEO, Islami Bank Bangladesh Limited and EXIM Bank Limited

Interviewed by
Akhlaqur Rahman Sachee, Team MBR

In this edition of the IDLC Monthly Business Review on Islamic Finance in Bangladesh: En Route to New Horizons, the MBR team had the privilege of talking to the industry expert, Md. Fariduddin Ahmed. Mr. Ahmed was Managing Director and CEO of Islami Bank Bangladesh Limited (2007–2010) and EXIM Bank Limited (2011–2012). He started his career as a probationary officer at Sonali Bank Limited in the year 1977. He has been playing various important roles in numerous advisory committees, forums, and boards working on Islamic banking for years. He is currently serving as one of the Independent Directors of ICB Islamic Bank Limited.

Akhlaqur Rahman Sachee: Islamic finance in Bangladesh accounts for around 30% of the total market for financial services, and the sector is expanding at a faster rate than average. What are the factors do you think fueling the growth of this sustainable finance market?

Md. Fariduddin Ahmed: The country's first Islamic bank, Islami Bank Bangladesh Limited (IBBL), keeping in view the goals and objectives of Islamic Shariah (the Maqasid Al Shariah), at its initial state in the year 1983, designed and introduced a retail banking model. This model paved the way for the lower strata and all sections of the masses to flock to this bank to open deposit accounts with a paltry sum of one hundred taka and also avail of a small amount of investment. This strategy, combined with other innovative dissemination programmes like organising local seminars before the opening of the branches and personal contact with the people associated with the social and educational institutions, in addition to the publicity through the national media, arouses immense interest in Islamic banking. IBBL, the pioneer in the establishment of Islamic banking in the country, realised the importance of expatriate remittances at the right time and deployed representatives in the overseas centres to remit through banking channels. This resulted in a huge accumulation of deposits in millions of accounts over a short period of time. Needless to say, IBBL still occupies the top position in securing wage earners' remittances. IBBL has designed and redesigned its business models many times over the years to meet the needs of the economy and the demands and requirements of its clients. The micro-investment scheme of IBBL, known as the Rural Development Scheme (RDS), accommodates millions of clients.

The distinguishing characteristics, benefits, and curses of Riba (interest) in religious and economic contexts were clearly explained to people of all religions. This strategy attracted people of all castes and creeds to accept the new concept of banking with intense zeal. The above background, combined with the dedicated services of the employees, upholding ethical standards, proper regulatory compliance, and good corporate

governance practices, better return on investment of funds than their conventional counterparts, lower cost of doing business with Islamic banks, support and good wishes of the regulatory authorities and all other stakeholders, and quick expansion of operating units, is attributable to the faster growth of Islamic banking in Bangladesh. Undoubtedly, the immense success of IBBL paved the way for other full-fledged Islamic banks and branch or window-based Islamic banking units to start their operations.

Akhlaqur Rahman Sachee: Islamic banking possesses more than one-fourth of the banking assets and liabilities in Bangladesh. However, the Islamic capital market and the Islamic insurance (Takaful) market have not flourished to the extent that Islamic banking products have flourished. What are the underlying reasons, you think, responsible for the scenario?

Md. Fariduddin Ahmed: When it comes to the overall financial and economic systems of Bangladesh, insurance and capital markets lag behind the country's banking expansion, and the same is true for Islamic finance. Actually, it takes time for anything to fully blossom. And this is happening in the development of other areas of Islamic finance in Bangladesh as well. Islamic banking already possesses a significant portion of the total banking market share. At the same time, we are observing that other segments of Islamic finance, like Islamic capital markets, Islamic insurance, Islamic microfinance, etc., are growing gradually. In recent years, we have observed the amazing advancement of the Islamic capital market in Bangladesh with the trading of Islamic equity and Sukuk. Two Islamic indices to serve as the Shariah compliant free float-adjusted broad market benchmarks have been launched on the country's two stock exchanges. However, Shariah-compliant stocks are limited. Most companies obtaining finance from Islamic banks and IFIs are not listed on the stock exchanges. Moreover, banks cannot make an unlimited amount of investment in the capital market. They have to follow the regulations of the Bangladesh Bank and the Bangladesh Securities and Exchange Commission in this respect. Takaful companies also have to follow the rules set by their regulators.

Akhlaqur Rahman Sachee: In Bangladesh, Islamic banking products are skewed more toward asset-based financing or debt financing, i.e., Murabahah, Ijarah, and Salam modes of financing. But we all know that the true spirit of Islamic finance is inherent in equity-based instruments like Mudharabah and Musharakah. What can be done to increase equity-based investments in the Islamic banking sector?

Md. Fariduddin Ahmed: Mudaraba deposits from Islamic banks and IFIs account for roughly 90% of total deposits. And in this process, if any loss is incurred, that has to be borne by the Mudaraba depositors. Therefore, to safeguard the stake of the deposit holders, the IBs and IFIs have to pursue prudent fund management policies. Risk management is the sine qua non in investment operations. Theoretically, investment under the Mudaraba and Musharaka modes is riskier than that of other secured modes. However, during the last four decades, the so-called secured modes of investment could not effectively thwart the creation of non-performing investments. Asset quality could have been better if Mudaraba and Musharaka modes were introduced with due precautions. For better risk management, IBs and IFIs should prepare investment plans by sector, security, geographical area, and modes of investment wise vis-à-vis their fund composition. Equity financing cannot in any way be mixed up with financing under Mudaraha and Musharaka modes.

Akhlaqur Rahman Sachee: Trust issues and misconceptions regarding Islamic financial products and services pose major challenges for Islamic financial institutions. How can Islamic financial institutions overcome the issues?

Md. Fariduddin Ahmed: Proper Shariah compliance is the solution. The first and foremost requirement is the commitment of the management. The second is preparing Standard Operating Procedures (SOP) and Product Program Guidelines (PPG). The third is knowledge and skill development of the employees, duly assessing their needs. Fourth, enhance the commitment level of the workforce through continuous motivation and incentives. Fifth, becoming a member of the national and international

standard-setting organisations like the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). Last but not least, well-thought-out programmes to educate customers about Islamic finance.

Akhlaqur Rahman Sachee: A vast majority of the population needs to be brought under the umbrella of financial inclusion. Would you please tell us how Islamic financial institutions can reach out to more unbanked people?

Md. Fariduddin Ahmed: Islamic banks in Bangladesh formulated visionary policies from the very inception. Inclusivity was the main issue of their business and expansion plans from the very beginning. Still, they are pursuing that goal. We have already talked about the issues of how Islamic banking was first introduced in Bangladesh. Fortunately, modern technologies have made it easy and congenial not only for banks but also for all developmental agencies.

Akhlaqur Rahman Sachee: In recent times, we have observed that the Sukuk (Islamic Bond) market is flourishing. What can be done to attract international Sukuk investors to strengthen our position in foreign direct investment (FDI)?

Md. Fariduddin Ahmed: The commencement of Sukuk as part of the diversified bond and capital market instruments was a phenomenon. Both public and private sectors have come forward in this regard. In fact, in a recent large Sukuk issue, overseas investors participated in the equity of the concerned mother company. Anyway, by bringing innovation and restructuring to Sukuk markets like Malaysia and Indonesia, we may attract more FDI.

Akhlaqur Rahman Sachee: A legal, regulatory framework is conducive to the development and sustainability of any industry. Do you think that the current regulatory framework is adequate for the Islamic banking and finance industry?

Md. Fariduddin Ahmed: Amendments/additions/modifications in several clauses of the Banking Companies Act, 1991 have filled up the vacuum in this respect. Bangladesh Bank Guidelines-2009 on Islamic Banking has further strengthened it. These guidelines are under the process of revision and standardisation. A separate chapter has also been incorporated into the ICCD Guidelines for Shariah Audit. Besides, Bangladesh Bank has introduced the following money market instruments/refinance arrangements: 1) Bangladesh Government Islamic Investment Bond (BGIIB), 2) Islamic Inter-Bank Fund Market (IIFM), 3) Islamic Refinance Fund Account, and 4) Bangladesh Government Investment Sukuk (BGIS). However, a separate Islamic Banking Act containing standard concepts, meaning, definition, and interpretation of the Islamic finance terms and terminologies will bring uniformity in the implementations and operations, proper governance by the regulators, and smooth handling of lawsuits, particularly recovery of stuck up investments.

NATIONAL BUDGET 2022-23:

AIMING TO RETURN TO A HIGH GROWTH TRAJECTORY

Written by
Akhlaqur Rahman Sachee and
Susmita Bhatta

Finance Minister AHM Mustafa Kamal unveiled the country's 51st national budget for the financial year 2022–23 on 9th June at Jatiya Sangsad with a special focus on economic recovery from uncertainties caused by the COVID-19 pandemic and the Russia-Ukraine war. It also acknowledges the pressure on people to pay for the skyrocketing living costs when they have just stood up to resume normal lives following a pandemic. So, several plans have been addressed in the proposed budget for FY2022-23 that take into account these factors, such as setting the target inflation to 5.6% on an average by addressing supply and demand imbalances; diversifying export-oriented industries, increasing remittance income; addressing the issue of the devaluation of the Taka against the US dollar; improving necessary infrastructure to attract local and foreign investment, stimulus package to backwards-linkage industries; expediting revenue collection through automation process; prioritising employment generation, making business easier by reducing corporate tax; and so on. These proposals portray that the national budget for this fiscal year highly favours the interests of business entities so that the country's economic growth can be accelerated.

The national budget for the ongoing fiscal year 2022-23, is worth BDT 6.78 trillion, with a target GDP growth rate of 7.5%. The target for the previous year was 7.20%. The revised budget for the previous year, BDT 5.93 trillion, is 14.25% lower than this year's budget. The government has set a target for revenue collection of BDT 4.33 trillion with a budget deficit of BDT 2.42 trillion, including grants, which is 5.40% of GDP.

Overview of National Budget FY2022-23

Table 01: Revenues, Foreign Grants and Financings in BDT Crore (BDT 678,064 Crore)

Particulars	FY2022-23	FY2021-22 (Revised)	Change (%)
Tax Revenue (NBR)	370,000	330,000	12.12%
Non-NBR Tax Revenue	18,000	16,000	12.50%
Non-Tax Revenue	45,000	43,000	4.65%
Domestic Loan	146,335	124,288	17.74%
Foreign Loan	95,458	77,020	23.94%
Foreign Grants	3,271	3,192	2.47%

Source: Ministry of Finance

Table 02: Expenditures in BDT Crore (BDT 678,064 Crore)

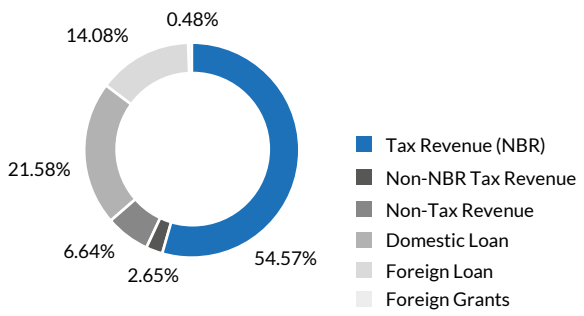
Particulars	FY2022-23	FY2021-22 (Revised)	Change (%)
Public Service	221,149	186,274	18.72%
Education and Technology	99,977	87,742	13.94%
Transport and Communication	81,510	65,874	23.74%
Agriculture	42,110	34,971	20.41%
Housing	6,821	6,843	-0.32%
Fuel and Energy	26,066	24,519	6.31%
Health	36,864	32,274	14.22%
Industrial and Economic Services	4,041	4,504	-10.28%
LGRD	44,690	42,527	5.09%

Particulars	FY2022-23	FY2021-22 (Revised)	Change (%)
Defence Services	40,405	37,581	7.51%
Recreation, Culture and Religious Affairs	5,364	5,420	-1.03%
Public Order and Safety	31,153	29,146	6.89%
Social Security and welfare	37,914	35,825	5.83%

Source: Ministry of Finance

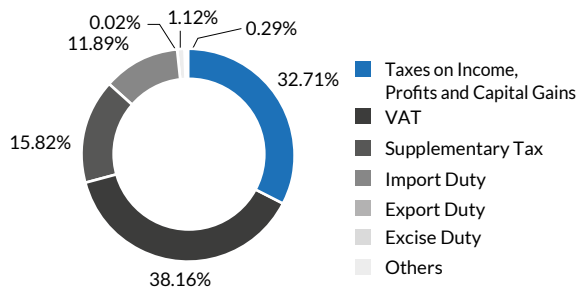
Revenue Mobilisation

Figure 01: Revenues, Foreign Grants and Financings in National Budget FY2022-23



Source: Ministry of Finance

Figure 02: Sources of Tax Revenues from NBR worth BDT 3.70 Trillion (54.57%)



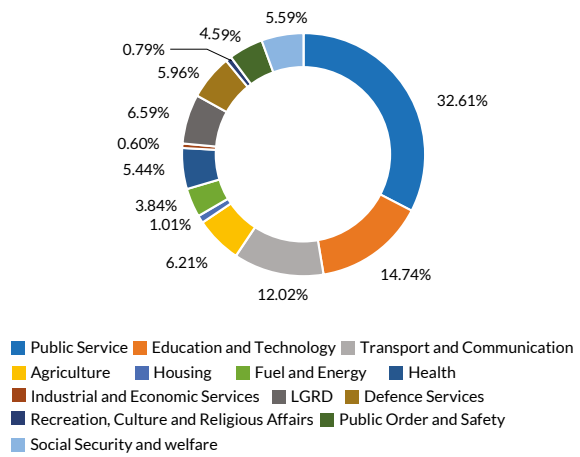
Source: Ministry of Finance

An additional BDT 44,079 crore in revenues and foreign grants has been targeted in FY2022–23, representing an 11.24% increase from the FY2021–22 revised budget. The total revenues and foreign grant mobilisation target is BDT 436,271 crore, of which tax revenues make up 89.61% of total revenues (excluding foreign grants) of BDT 433,000 crore and non-tax revenues make up 10.39%. BDT 3.70 trillion in tax revenues from NBR, or 54.57% of the total budget, has been projected for FY2022–23. This increased 12.12% from the previous fiscal year's revised budget. Only 2.65% of the proposed budget for FY2022–23, 12.50% more than FY2021–22, will come from non-NBR tax revenues. 21.58% of the total budget will come from domestic borrowings, a 17.74% rise from the previous financial year. With an increase of only 2.47%, the target for foreign grants in FY2022-23 is only BDT 3,271 crore. Around BDT 95,458 crore or 14.08% of the total budget will be borrowed from abroad, which is nearly 23.94% more than the revised budget of the previous fiscal year.

Value Added Tax (VAT) will constitute the largest share of tax revenues from NBR, which is around 38.16%. Following that, income tax will contribute 32.71%, the second largest chunk of the NBR's overall target for tax revenues. Supplementary and import duties will each contribute 15.82% and 11.89% of the NBR taxes collected, respectively.

Expenditures Framework

Figure 03: Allocation of Expenditures in National Budget FY2022-23



Source: Ministry of Finance

The proposed budget for FY2022-23 sets the total expenditures of BDT 6.78 trillion, a 14.25% increase from the revised budget for the prior fiscal year. According to the aforementioned graph, public service, education and technology, and transport and communication will make up the highest total expenditures, at 32.61%, 14.74%, and 12.02%, respectively. The allocation has increased by 18.72%, 13.94%, and 23.74% in respective sectors compared to the budget of the prior fiscal year. In addition, 6.21% has been allotted for the agriculture sector, which has seen a 20.41% increase, and 11.85% has been allocated for interest payment, which has experienced a 12.82% increase in comparison to FY2021-22. The allocation of 5.44% of expenditures to the health sector has increased by 14.22%. The lowest allocation of 0.60% is for industrial and economic services, and there is a massive decrease of 10.28% in comparison to the previous fiscal year.

Table 03: Allocation of Development Expenditures, FY2022-23

Sectors	Allocation of Development Expenditures, FY2022-23 (%)
Transportation and Communication	27.0%
Local Government and Rural Development	14.5%
Education and Technology	18.6%
Energy and Power	10.0%
Health	7.2%
Foreign Grants	2.47%

Source: Ministry of Finance

From a different perspective, BDT 4.18 trillion, or 61.71% of total expenditures, is earmarked for operating expenditures, and another BDT 2.60 trillion, or 38.29%, has been set for the development expenditures, which is 5.83% of GDP. This proposed development expenditure is 16.97% higher than the revised budget for FY2021-22. The five sectors mentioned above have been allocated 77.30% of the total development expenditures allocation. Among them, the transportation and communication sectors have been assigned the highest allocation of 27.0% of total development expenditures. Moreover, education and technology received 18.6% of ADP in FY2022-23, which was 19.7% in FY2021-22, and health received 7.2% of ADP in FY2022-23, up slightly from 6.6% in FY2021-22.

Key Growth-Oriented Budgetary Measures

Some of the key measures to accelerate growth in the pandemic stricken economy have been stated below.

- To accelerate the recovery process to bring back the economy to the pre-pandemic level, stimulus programs will be continued in FY2022-23.
- To support the growth of domestic industries, raw material import duties have been eliminated for refrigerator makers until 2025. LPG producers will also continue to pay a VAT of 5%.
- Since the COVID-19 outbreak severely impacted Bangladesh's tourism industry, the industry will get BDT 1,000 crore as an incentive.
- Until 2025, textile millers will pay a 15% corporate tax rate, enhancing their ability to compete globally. Additionally, this proposal has been included to promote backward linkages in the apparel industry, which is export-oriented.
- Any business enterprise in the SME sector owned by a female entrepreneur with an annual turnover of up to BDT 70 lakhs is now tax-free.
- A 10-year tax break has been offered for business owners and startups engaged in producing baby food, agricultural machinery, dairy and dairy products, fruits, and vegetables.
- The corporate tax rate decreased for listed firms from 22.5% to 20%, non-listed corporations from 30% to 27.5%, and one-person businesses from 25% to 22.5%. Reducing the tax, one of the major costs of doing business, will promote investment and increase the number of job possibilities.
- To encourage export diversification, all export-oriented industries will benefit from a lower tax rate, much like RMG industries. Therefore, the tax rate will be 12% for all other general sectors exporting products and services and 10% for all other green industries.
- To reduce the tax burden on businesspeople and foster a business-friendly environment, the source tax on raw materials has been reduced from 7% to 4%.

- A tax of 5% has been imposed on both the AC and non-AC restaurant sectors, as opposed to 10% for AC restaurants and 5% for non-AC.
- To encourage service exports as a possible source of foreign currency for Bangladesh, foreign exchange earnings from ocean-going vessels flying the Bangladeshi flag will not be taxed until 2030, if they are brought into Bangladesh through banking channels.
- Startups will enjoy the new planned budget to carry over nine years of consecutive losses. The turnover tax rate, previously only 0.6%, has now been further reduced to 0.1%, enabling new business owners to explore and discover their potential.
- Sugar, puffed rice, steel, pet chips, active medicinal components made locally, imports of raw materials for polypropylene staple fibre, and power tiller production, and manufacture of power tillers are exempted from tax.
- 15% VAT on laptops and computers means a 31% overall tax burden on the imported products. To achieve the goal of exporting digital devices, the concession on the import of printers and toner cartridges was removed.

The Remaining Issues and Challenges

There are several issues and challenges with the proposed national budget for FY2022-23.

The first issue is the inflation that occurred by global supply chain disruptions due to post-pandemic complications and the war between Russia and Ukraine. It has become harder to transact since SWIFT was shut down in Russia. Additionally, it has become more difficult to import goods (oil, gas, energy, wheat, fertilizer) from Russia and Ukraine because shipping to Bangladesh has also halted. The price is rising as a result, and it is anticipated to increase much further.

Secondly, maintaining stability in the exchange rate of the taka and keeping foreign exchange reserves at a comfortable level is a challenge in the next fiscal year's budget management since a global price hike caused by the Russia-Ukraine war has disrupted trade. Businesses now need more taka to purchase US dollars for importing goods.

Thirdly, Russia provides 90% of the estimated cost as loan assistance to Bangladesh for constructing the mega project of the Rooppur Nuclear Power Plant. If the war continues and Russia stops providing financial aid to Bangladesh due to the closure of the SWIFT network, there will be a deficit in the foreign loan that will impact the total proposed revenue target. Thus, it can be an issue when income is not increasing at the rate of expenditures. So, Bangladesh has to look for an alternative payment network, which could be a challenge for the fiscal year. Moreover, Europe is Bangladesh's main export region for export earnings, as Bangladesh makes 54% of its total exports to Europe. The RMG industry, along with other sectors, will be deprived of a massive portion of export earnings if the war spreads all over Europe. As a result, target tax revenues will not be achieved. So, it is another issue, as the government has eyes heavily on developing local export-oriented industries to incur tax revenue from export earnings and offset the economic damage caused by the pandemic.

Fourthly, Sylhet and Sunamganj were hit by one of the worst floods in the history of Bangladesh in June, 2022. Millions of people were affected by this flood. To tackle the situation, the prime minister allocated BDT 1.20 crore to a special fund. The country experienced a devastating flood right at the moment of the announcement of the national budget. Due to the flood, around 75,000 hectares of paddy have been damaged. Bangladesh is prone to these kinds of natural disasters, which can slow growth and make it hard to stick to the budget.

Challenges will always be there in the way of the implementation of such a growth-oriented budget. It becomes more difficult when the economy is already pandemic-stricken, and the entire world is going through one of the most challenging times in the history of mankind. However, business-friendly budgetary measures, high ambition for growth, measures to control inflation and exchange rates, and initiatives to protect local industries and boost exports will surely help the economy recover from the shocks caused by the pandemic and the ongoing global challenges.

Dr. Ahsan H. Mansur
Executive Director,
Policy Research Institute

Interviewed by
Akhlaqur Rahman Sachee, Team MBR

Dr. Ahsan H. Mansur started his career as a lecturer in the Department of Economics at the University of Dhaka in 1976. He joined the International Monetary Fund under its Economist Program in 1981 and thereafter completed his PhD in Economics (on general equilibrium analysis) from the University of Western Ontario in 1982. He also served as the Fiscal Advisor to the Minister of Finance, Government of Bangladesh (1989–91), and was involved with the successful introduction of Value Added Tax in Bangladesh in 1991. Team MBR was in a conversation with Dr. Mansur and was fortunate enough to receive his take on the national budget 2022–23.

Akhlaqur Rahman Sachee: What are the aspects in which you think the national budget 2022-23 is different from the national budget 2021-22?

Dr. Ahsan H. Mansur: In comparison to past fiscal years, the size of the national budget 2022–23 relative to the estimated GDP is comparatively small. It is around 15.20% of the estimated GDP, which may ultimately stand at around 13% by the end of the financial year, whereas the budget size used to be mostly in the range of 17% to 18% in the last ten years. The budget deficit has been projected to be 5.50%, which has been overestimated to some extent, in my opinion. By the end of the financial year, it may stand at 5%, which is quite okay for an economy like ours. Overall, this budget cannot be called an expansionary budget, and this is also not the right time to propose an expansionary budget. As we know, the government intends to control inflation, and it has declared the target inflation to be 5.60%. Also, the government aims to ensure macroeconomic stability through the proposed budget. From that perspective, a relatively small budget like the one that has been proposed will be helpful in achieving the macroeconomic stabilization objectives. However, the government seems to be very ambitious about the GDP growth rate, as the target GDP growth rate has been declared to be 7.50%. In my opinion, high GDP growth rate should not be an objective this year. It is macroeconomic stability that should be given the utmost priority. As a part of that, efforts should be made to control inflation, stabilize the exchange rate, and reduce the sizable imbalance in the balance of payments. The government has already taken some initiatives to reduce budgetary expenditures by BDT 40 billion. The effort must be carried on, and measures need to be taken to reduce the expenditures further.

Akhlaqur Rahman Sachee: The national budget for FY 2022–23 has been approved right at the moment when the economy is experiencing severe inflationary pressure. How helpful will the budget propositions be in curbing inflation?

Dr. Ahsan H. Mansur: Budget is one of the most significant tools for macroeconomic management. To control inflation, demand needs to be suppressed, and a relatively small budget helps to achieve that purpose. As I mentioned earlier, this financial year's budget is relatively small. The proposed budget is in line with the government's objective of controlling inflation. But, there is much more to be done in this regard to reduce the demand pressures in the economy. The budget deficit should be brought down to 4.50% to 5%. Also, the dependence on bank borrowing must be cut down. It should also be kept in mind that the budget alone cannot control inflation. Monetary policy support is required simultaneously. External sectors must be kept under observation as well. It has been observed that there is not adequate monetary policy support. As the government has already set the floor (6% for deposit rates) and the ceiling (9% for lending rates) of interest rates, Bangladesh Bank (BB) has been left with no policy tool to formulate an effective monetary policy. The interest rate is the most effective instrument of monetary policy that can be tweaked to control demand and thereby inflation. The interest rate cap will act as a barrier on the way to achieving the target inflation rate of the proposed budget. The newly announced monetary policy does not contain any statement regarding the increase in interest rates, which is a problem in coordinating the fiscal policy and the monetary policy. An increase in the interest rate structure is required to achieve the targeted inflation rate and stabilize the exchange rate. Also, it must be ensured that fiscal and monetary policies are perfectly aligned.

Akhlaqur Rahman Sachee: Corporate taxes have been reduced further in the national budget for FY 2022–23. Do you think that this tax cut will encourage investment and create more job opportunities?

Dr. Ahsan H. Mansur: Measures to reduce corporate taxes deserve appreciation. Our corporate taxes are a bit higher compared to other countries, and the government is trying to reduce the gap gradually. However, the applicability of the reduced corporate tax structure is subject to the fulfilment of some conditions, which will be challenging to comply with for more than 90% of businesses. At the time of budget announcement, corporations were allowed to limit cash transactions to below BDT 12 lakhs to remain eligible for the reduced tax structure. Under pressures from the business community, this limit was increased to BDT 36 lakhs, which is still only BDT 3 lakhs per month. This is going to be very difficult to comply with for any large corporation. It would have been better if it had been increased to BDT 50 lakhs at least. The government could have reduced the limit later on gradually. Only then will the policy be more beneficial to corporations.

Akhlaqur Rahman Sachee: The launch of digital currency has been addressed in the national budget speech. Would you kindly share with us your thoughts regarding the prospects of digital currency in Bangladesh?

Dr. Ahsan H. Mansur: Possession or trading of cryptocurrency is still restricted by the Bangladesh Bank. If we take a look into the developed countries, the popular cryptocurrencies are mostly operated by private companies. They are not backed by any sovereign central bank. There are lots of other issues associated with them, especially their extreme volatility. From an investor's perspective, they are simply some instruments for speculation. In my opinion, cryptocurrencies should remain restricted. However, initiatives to transform the central bank-backed currency into electronic currency can be appreciated. It is still not being practised at the retail level globally. European central banks have introduced the practice at the wholesale market, and China has made significant progress in the retail market. But, in the context of Bangladesh, this is just at the announcement phase right now. It will take decades to formulate an effective policy to introduce a central bank-backed e-currency. The scenario is almost the same in our neighbouring country, India. Before the introduction of such a currency, there must be robust technology platform in place to ensure the security and integrity of the system, and the currency must be highly regulated by the central bank. Also, only the central bank should have the sole authority to introduce such a currency. We cannot just rely on any currency brought into the market by any private initiative.

Akhlaqur Rahman Sachee: In your opinion, how impactful is the national budget for FY 2022–23 going to be in making our startup ecosystem flourish?

Dr. Ahsan H. Mansur: Most startups do not make a profit, so the tax which is most applicable to them is the turnover tax. The government has proposed a reduced turnover tax of 0.10% and waived all other filings except the submission of income tax returns, which is subject to fulfilment of some conditions. Indeed, the initiatives are to be appreciated. But, there are lots of other things that can be offered, such as incubator facilities, angel funds/grants, soft loans, guidance to secure foreign funding, etc. Initiatives should also be taken to develop the venture capital market. The startup sector is a growing sector, and the government should provide all the facilities required to make the growth sustainable. It is not unknown that most of our large local corporations rely mostly on India for tech support. However, there are lots of local IT startups being run by talented tech experts that can meet this market gap. These startups should receive proper nursing and support from the government.

Akhlaqur Rahman Sachee: What measures of the national budget for FY 2022–23 do you think will be helpful for the local manufacturing industries to be protected? What else can be done in the future, in your opinion?

Dr. Ahsan H. Mansur: To be frank, our domestic industries are already well protected, and they do not need any further protection. Rather, they should be encouraged to face the competition of the open market. Our level of protection, in fact, is higher than most countries. The average effective protection rate was more than 27% in the last financial year, whereas it was 9% in India, 7% in China, and 4.70% in the ASEAN countries. Some initiatives to reduce the gap in the balance of payment have helped the domestic industries to be protected further in turn. As a result, the average effective protection rate may have reached 29%, which is undesirable. Domestic industries will be uncompetitive unless we reduce protection. If they remain insulated like they are now, they will eventually become inefficient. On the other hand, Bangladesh is graduating from the LDC bloc. To get into preferential trade agreements, let alone free trade agreements, with other countries, the level of protection needs to be reduced further. So, the government should gradually take away the protective measures and get the domestic industries ready to face the challenges of the open market in the coming days.

Akhlaqur Rahman Sachee: Like other economies, Bangladesh's economy is still COVID-scarred. Do you believe the national budget proposals for FY 2022–23 will help the economy return to pre-pandemic levels?

Dr. Ahsan H. Mansur: If we take a look at the current GDP size and the current per capita income, the figures have already surpassed the pre-pandemic levels. Our current per capita income is more than USD 2800, which is greater than that of the pre-pandemic level. The issue is not about surpassing the pre-pandemic level of economic activity. Rather, it is about facing the concurrent hostile global economic environment. Lots of countries around the world are now going for massive petroleum and gas price increases or rationing of supplies. We may need to walk along the same path. We may need to shut down some of our inefficient power plants using excessive amounts of natural gas to generate the same amount of electricity temporarily. The situation will certainly not be as horrific as in Sri Lanka. But, barriers like the aforementioned ones will be in our way in the upcoming days, and facing them ahead of time will be the biggest challenge this year. The cost of imports has risen significantly, which should be controlled without any further delay. A smooth supply of energy and necessities must be ensured, even if it is at the cost of higher prices and shaving some growth in income. Foreign exchange reserves must be kept under strict observation as well. Post-pandemic supply chain disruptions have affected our economy badly. The war between Russia and Ukraine has made the situation even worse. To face all these challenges and their aftermaths, we need to be extremely cautious about our every move. If we can successfully overcome this challenging situation, our economy will again reach new heights as it always did.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Sustainability Rating 2020
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ENGAZE.AI

Tanmoy Basak Anjan
Co-Founder and CTO, engaze.ai

Pranta Biswas
Co-Founder and VP Engineering, engaze.ai

Golam Sakline Ratul
Co-Founder and CEO, engaze.ai

Nazrul Islam Anik
Co-Founder and COO, engaze.ai
(From Left to Right)

Interviewed by
Susmita Bhatta, Team MBR

engaze.ai enables local online businesses to create mini-apps inside social media super apps like Facebook, Messenger, WhatsApp, and Instagram and to generate websites without any coding skills. It not only assists them in generating direct sales from multiple channels but also backs them with logistics support from pandago, REDX, Paperfly, and Delivery Tiger, online payment gateway integration, and data-driven marketing solutions. Team MBR was in a conversation with Team engaze.ai to learn about the inspirations and the vision behind engaze.ai.

Susmita Bhatta: engaze.ai, an artificial intelligence-driven system, assists f-commerce businesses in Bangladesh in automating their customer relationship management and ordering process. Would you please share with us how you came up with this innovative idea?

Team engaze.ai: Back in the middle of 2019, we began our adventure as a software development business with a keen interest in NLP and computer vision. Due to our skill in creating chatbots, we frequently receive requests from local restaurants to create one for them. Additionally, they were interested in developing a website or app for their eateries. However, the majority of them were unwilling to pay the high development costs for a flawless website or mobile application. In order to benefit them, combining chatbot and online order-taking functionalities, we sought to create a generic platform. We also gained several beta testers. The epidemic then broke out. Online sales significantly increased, and f-commerce

was a triumph. We discovered that our built platform could benefit not only the restaurant industry, but also the entire f-commerce and e-commerce space. Hence, engaze.ai was born. During the epidemic, we worked on engaze.ai, which we released the beta version in June of 2021. We now collaborate with more than 450 online businesses.

Susmita Bhatta: You are using a chatbot to answer the queries of numerous questions. Considering the uniqueness of the queries, how effective and efficient is your chatbot?

Team engaze.ai: We found it the most challenging part. It is simple to get answers to both important and basic questions. This area accounts for 70% of the whole query domain. engaze.ai performs very well in this domain with a 92% accuracy rate. Many customers still require the management's or owner's personal attention. Various complaints and questions about the characteristics of a certain product are the most challenging queries. Millions of items come in a variety of billions of specs. We are also attempting to automate that.

Susmita Bhatta: For many online businesses, logistics support is a crucial issue. How is engaze.ai supporting the online businesses in its portfolio in this regard?

Team engaze.ai: There are two distinct marching bands.

1. Delivering non-perishable goods to customers, i.e., online store owners.

2. Delivering perishable goods, i.e., restaurant and grocery store owners.

For our merchants, we must find solutions to both types of logistical issues. Therefore, to transport perishable goods, we collaborated with pandago from foodpanda.

For the delivery of non-perishable goods, we have teamed up with REDX, Paperfly, and Delivery Tiger. The merchants choose which delivery system they will use.

The procedure of integrating delivery partners has been greatly simplified. Merchants can now simply and effectively manage orders, payments, and deliveries by utilizing a single dashboard provided by engaze.ai. Our merchants deliver hundreds of items every day using these delivery partners. In recent days, we have been able to offer clients the fastest possible logistics solution with just one click.

Susmita Bhatta: engaze.ai has onboarded a good number of restaurants already. How does engaze.ai differentiate itself from conventional food delivery apps?

Team engaze.ai: Well, we face this question a lot. The thing is, engaze.ai is neither a marketplace similar to foodpanda or Daraz nor a substitute for these marketplaces. It is a tool to strengthen a business's D2C presence online. The key value-adding feature of engaze.ai is that it helps entrepreneurs build a viable operational plan for their businesses by making order management, payment, and deliveries easier and developing a strong brand identity.

Susmita Bhatta: Due to the nature of business, engaze.ai has an enormous opportunity to expand beyond the country's border. How is engaze.ai planning to grow in the upcoming days?

Team engaze.ai: We already have a few clients from abroad. Actually, every single one of them is Bangladeshi and is a member of our family and friends. We are doing tests within their companies. If there is no legal concern, we can extend our business to any part of the world within a month because of the modularity of our business model. The local market has a large and untapped opportunity, and for the year

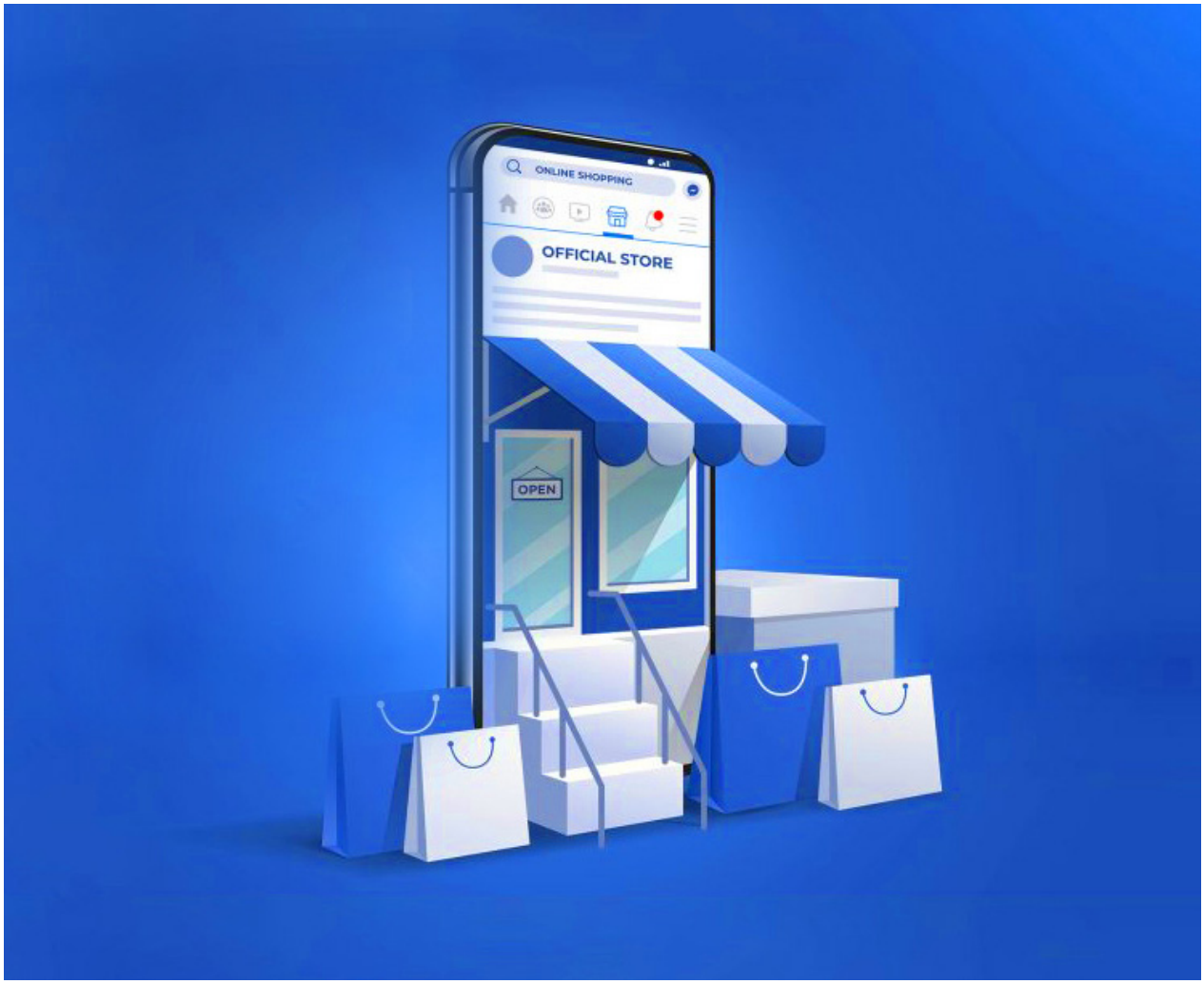
2022, we want to grow with the local market only. In the second quarter of 2023, we will begin to focus on the international market.

Susmita Bhatta: The COVID-19 pandemic boosted the growth of e-commerce and f-commerce businesses significantly. How did it impact the growth of engaze.ai in turn?

Team engaze.ai: Actually, engaze.ai was born from observing this growth. The pandemic has taught business owners to go completely online. We launched engaze.ai in June 2021. There was a lockdown after that too. We had a huge growth curve then. And, after the pandemic, the growth is good as well. Entrepreneurs are well aware now.

Susmita Bhatta: engaze.ai is mostly working with restaurants or businesses that deal with products. However, it has the capability to break into the service industry to provide online customer care service from the Facebook pages of service businesses. Does engaze.ai have any plans to explore the service industry in the near future?

Team engaze.ai: We do, in fact, have plans for this. We were asked by a car rental firm if they could rent cars using engaze.ai. We have given that business the ability to do so with a few changes. Another time, a charity asked us whether they might use engaze.ai to collect donations. They can do it, of course. Soon, we will perfectly enable service providers to make use of engaze.ai.



Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market closed the month of June in negative territory. During the month, the broad index DSEX went down by 0.2%. Blue chip index DS30 and Shariah index DSES declined by 2.3% and 1.2%, respectively in the month of June.

Among the regional peers, Sri Lanka reported the highest negative return of 9.4% followed by Vietnam (-7.4%) and Pakistan (-3.6%). MSCI Frontier Markets Index performance was negative by 4.4% in June. Over 5-year horizon, Vietnam (+54.2%) posted the most encouraging return.

Table 1: Equity market performance of Bangladesh and peer countries

Indices	Index Points, June 2022	Return*					
		1M	3M	YTD	12M	3Y	5Y
Bangladesh							
DSEX	6,376.9	-0.2%	-5.6%	-5.6%	3.7%	17.6%	12.7%
DS30	2,295.6	-2.3%	-7.2%	-9.4%	3.9%	19.0%	10.2%
DSES	1,386.8	-1.2%	-5.5%	-3.1%	5.5%	11.4%	N/A
Peer Countries							
Pakistan (KSE 100)	41,540.8	-3.6%	-7.5%	-6.9%	-12.3%	22.5%	-10.8%
Sri Lanka (CSE - All Share)	7,342.3	-9.4%	-17.5%	-39.9%	-6.3%	36.7%	8.8%
Vietnam (VNI)	1,197.6	-7.4%	-19.7%	-20.1%	-15.0%	26.1%	54.2%
MSCI Frontier Markets Index	**722.6**	**-4.4%**	**-12.3%**	**-18.8%**	**-15.0%**	**-1.2%**	**0.2%**

*All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

Liquidity Condition in Equity Market of Bangladesh

During June, the total market capitalization increased by 0.2%. The daily average turnover of June was BDT 8.2 bn (USD 87.3 mn), increasing by 1.5% from that of the last month. Turnover velocity which represents overall liquidity of the market stood at 41.6% in June compared to 33.6% of last month. In 2021, turnover velocity of Bangladesh equity market was 65.3%, in comparison to 30.1% in 2020.

Table 2: Market capitalization and turnover statistics

Particulars	30-Jun-22	31-May-22	% change
Total market capitalization (USD* mn)	55,407	55,299	0.2%
Total equity market capitalization (USD mn)	48,169	48,129	0.1%
Total free float market capitalization (USD mn)	18,535	18,521	0.1%
Daily Avg. Turnover (USD mn)	87.3	86.0	1.5%
Turnover Velocity~	41.6%	33.6%	N/A

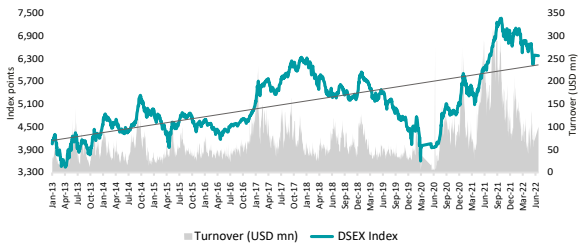
*All USD figures are converted using an exchange rate of 93.5 as of July 05, 2022 as per Bangladesh Bank website.

~Turnover velocity is calculated by dividing monthly total turnover with month-end market capitalization. The figures are annualized.

Historical Index Points and Market Participation Data

Since its inception on January 27, 2013, DSEX yielded a holding period return of 57.2% till June, 2022. During the same period, daily average turnover of the market amounted to BDT 6.7 bn (USD 71.7 mn) (Figure 1).

Figure 1: DSEX since inception along with market turnover

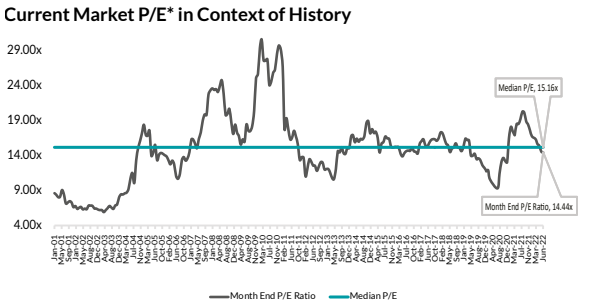


Source: DSE

Market Valuation Level - P/E Ratio

The market P/E decreased to 14.44x in June compared to last month's 14.55x. It is slightly lower than the 21 years' median market P/E of 15.16x (Figure 2). In terms of trailing 12 month P/E ratio, the equity market of Bangladesh is the cheapest among its regional peers after Vietnam (Figure 3).

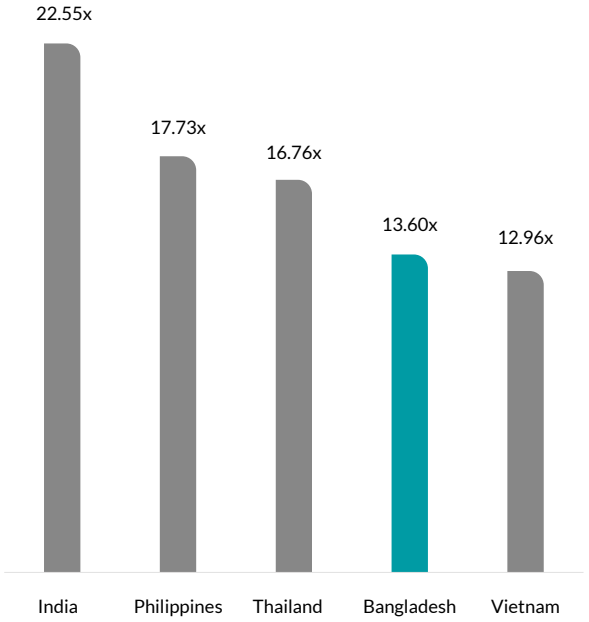
Figure 2: Historical market P/E* and it's median



*Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their total audited annual earnings.

Source: CEIC, DSE

Figure 3: Current market P/E* of Bangladesh and peer countries



*Trailing 12 month P/E as of July 05, 2022. Source: IDLC, Bloomberg

Sector Performance

Majority of the large cap sectors faced selling pressure in June 2022. Telecommunication posted the highest negative return of 3.1% followed by Miscellaneous (-1.6%), Food & Allied (-0.8%), Pharmaceuticals & Chemicals (-0.7%) and Bank (-0.2%). On the other hand, Fuel & Power posted the highest positive return of 2.7% followed by Textile (+2.6%) and Engineering (+1.9%).

Telecommunication sector has the highest dividend yield of 6.0% among all sectors.

Table 3: Sector performance snapshot

Sector	Market Capitalization (USD mn)		Return*						P/E (x)**	P/BV (x)^	Dividend Yield~
	Total	Free Float	1M	3M	YTD	12M	3Y	5Y			
Pharmaceuticals & Chemicals	7,603	4,096	-0.7%	-2.1%	-0.6%	12.9%	43.6%	54.4%	16.4	3.2	2.0%
Bank	7,366	3,982	-0.2%	-1.7%	-3.3%	1.4%	19.5%	30.6%	7.4	0.7	3.8%
Telecommunication	6,323	695	-3.1%	-10.1%	-12.3%	-13.2%	8.5%	25.8%	15.5	6.2	6.0%
Engineering	5,910	1,279	1.9%	-0.2%	-1.9%	-7.9%	54.0%	39.1%	19.3	2.6	2.5%
Fuel & Power	5,080	1,454	2.7%	-1.2%	2.7%	8.7%	4.7%	28.8%	11.9	1.5	5.6%
Food & Allied	4,244	1,325	-0.8%	-6.7%	-10.0%	4.6%	37.8%	88.0%	20.0	8.9	4.2%
Miscellaneous	2,615	1,133	-1.6%	-9.3%	-7.8%	18.5%	106.7%	138.2%	10.8	2.6	2.3%
NBFI	2,117	675	0.3%	-2.0%	-12.8%	-5.5%	9.7%	-7.6%	20.6	2.1	1.9%
Textile	1,845	1,042	2.6%	-1.4%	5.4%	16.0%	7.4%	9.8%	15.4	1.1	2.4%
Cement	1,272	496	-8.1%	-13.4%	-7.3%	-3.1%	30.2%	-7.3%	21.5	3.1	3.2%
Non-life Insurance	1,090	624	1.2%	-16.5%	-27.6%	-33.1%	91.0%	154.4%	16.2	2.0	3.0%
Life Insurance	694	411	1.1%	-12.3%	-15.3%	-18.0%	5.7%	38.0%	34.7	6.9	1.9%
Tannery	376	206	-3.3%	-15.2%	1.9%	57.9%	24.4%	24.6%	37.2	3.1	0.9%
IT	351	217	-1.0%	-15.9%	-12.4%	4.2%	16.0%	-8.0%	23.6	2.6	1.3%
Ceramics	386	153	14.7%	16.1%	19.1%	40.3%	52.6%	46.3%	31.2	2.3	1.8%
Travel & Leisure	299	156	0.9%	0.3%	12.8%	43.9%	26.5%	26.6%	18.4	1.0	1.5%
Paper & Printing	294	103	5.5%	-2.1%	20.8%	11.8%	-17.9%	-45.4%	32.1	1.9	1.0%
Services & Real Estate	279	147	1.3%	-3.6%	4.2%	21.0%	45.2%	3.7%	18.9	1.5	2.9%
Jute	21	13	4.9%	-6.4%	-4.3%	-0.9%	-51.5%	26.3%	110.7	5.8	0.2%
Market	**48,879**	**18,521**	**-0.2%**	**-5.6%**	**-5.6%**	**3.7%**	**17.6%**	**12.7%**	**13.6**	**1.9**	**3.6%**

*All returns are Holding Period Return.

**Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their annualized earnings.

^P/BV is calculated by dividing total market capitalization of listed companies with their respective total book values, excluding companies with negative book values.

~Dividend yield is calculated by dividing last year's declared cash dividend with market capitalization.

Cap Class Performance

During the month of June, Large and Mid-classes remained negative whereas Small and Micro classes rebounded in the month of June. Large Cap was the highest dividend yielding (3.9%) class.

Table 4: Performance of different market cap classes

Cap Class	Definition based on market capitalization (USD mn)	% of total equity Mcap	Return*						P/E (x)	P/BV (x)	Dividend Yield
			1M	3M	YTD	12M	3Y	5Y			
Large	≥108	78.6%	-0.9%	-4.7%	-5.4%	3.6%	20.5%	79.8%	18.1	1.9	3.9%
Mid	33-107	11.3%	-0.4%	-6.2%	-8.1%	-3.2%	14.1%	-40.5%	32.1	1.6	2.2%
Small	11-32	7.5%	2.4%	-8.3%	-4.2%	3.1%	24.0%	59.0%	86.7	1.1	2.8%
Micro	<11	2.5%	10.8%	5.2%	20.5%	38.5%	38.0%	-84.0%	168.0	0.8	2.3%
Market	**-**	**-**	**-0.2%**	**-5.6%**	**-5.6%**	**3.7%**	**17.6%**	**12.7%**	**13.6**	**1.9**	**3.6%**

*All returns are Holding Period Return

Performance of 20 Largest Listed Companies in Bangladesh

Among the 20 largest listed companies in terms of market capitalization, TITASGAS (+12.3%) advanced the most, followed by MARICO (+3.2%). On the other hand, BEACONPHAR (-10.2%) faced the highest correction.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BEACONPHAR (+1117.0%), BEXIMCO (+400.0%), MARICO (+193.2%), DUTCHBANGL (+145.1%), UPGDCL (+134.8%) and RENATA (+113.8%).

Among the scripts, SUMITPOWER, GP, UPGDCL, TITASGAS, BATBC, and LHBL recorded higher dividend yield compared to that of market.

Table 5: Snapshot of 20 largest companies in terms of market capitalization

DSE Code	Sector	Market Capitalization (USD mn)		Daily Avg. Turnover (USD mn)	Return*						P/E (x)	P/ BV (X)	Dividend Yield
		Total	Free Float		1M	3M	YTD	12M	3Y	5Y			
GP	Telecommunication	4,250	425	0.44	-4.2%	-10.6%	-12.8%	-9.7%	-5.1%	10.1%	11.6	13.7	8.5%
WALTONHIL^	Engineering	3,546	34	0.07	1.7%	1.7%	-4.8%	-18.4%	N/A	N/A	30.3	4.2	2.3%
BATBC	Food & Allied	3,141	831	0.70	-1.3%	-7.0%	-10.5%	5.5%	36.3%	103.2%	17.6	8.9	5.1%
SQURPHARMA	Pharmaceuticals & Chemicals	2,056	1,343	0.94	0.3%	-1.2%	1.1%	3.3%	-1.4%	5.9%	10.1	2.7	2.8%
ROBI^	Telecommunication	1,687	169	0.25	2.4%	-10.4%	-12.8%	-31.6%	N/A	N/A	94.1	2.6	0.7%
RENATA	Pharmaceuticals & Chemicals	1,543	752	0.85	0.8%	-0.6%	2.6%	13.3%	53.8%	113.8%	26.3	7.3	1.0%
UPGDCL	Fuel & Power	1,542	154	0.07	0.3%	-2.1%	1.8%	-3.9%	-18.3%	134.8%	10.8	5.4	6.8%
BEXIMCO	Miscellaneous	1,217	804	4.81	-3.8%	-15.2%	-12.5%	47.9%	523.9%	400.0%	7.4	1.9	2.7%
ICB	NBFI	876	31	0.04	0.5%	-3.7%	-18.0%	-12.6%	2.7%	-21.7%	37.9	8.6	1.1%
BERGERPBL	Miscellaneous	861	43	0.06	0.4%	-1.1%	-0.1%	2.4%	27.2%	79.7%	27.7	11.1	2.3%
LHBL	Cement	850	300	1.10	-5.4%	-8.8%	-0.5%	19.2%	86.7%	21.7%	21.1	5.1	3.7%
MARICO	Pharmaceuticals & Chemicals	816	82	0.13	3.2%	3.7%	6.1%	9.5%	77.9%	193.2%		41.4	3.3%
BXPHARMA	Pharmaceuticals & Chemicals	738	516	0.53	-6.5%	-12.3%	-19.8%	-11.4%	111.5%	60.7%	12.1	2.2	2.3%
BRACBANK	Bank	665	357	1.00	1.0%	-8.9%	-18.1%	-8.5%	-19.2%	-4.9%	13.5	1.6	1.7%
BEACONPHAR	Pharmaceuticals & Chemicals	638	447	0.23	-10.2%	3.3%	6.1%	109.0%	1219.3%	1117.0%	49.9	20.2	0.6%
ISLAMIBANK	Bank	567	269	0.16	1.9%	0.3%	2.8%	10.8%	52.1%	21.0%	9.2	0.9	3.0%
DUTCHBANGL	Bank	487	73	0.20	-0.3%	-3.4%	-5.8%	-17.8%	41.5%	145.1%	8.2	1.7	2.4%
TITASGAS	Fuel & Power	453	113	0.45	12.3%	5.7%	17.9%	26.6%	32.2%	16.6%	14.9	0.6	5.1%
POWERGRID	Fuel & Power	434	108	0.46	0.9%	-10.4%	-4.5%	31.4%	9.3%	31.2%	16.0	0.8	3.5%
SUMITPOWER	Fuel & Power	429	158	0.09	-0.5%	-3.8%	-3.6%	-7.9%	10.3%	30.8%	9.9	1.2	9.3%
Market		**48,879**	**18,521**	**87.26**	**-0.2%**	**-5.6%**	**-5.6%**	**3.7%**	**17.6%**	**12.7%**	**13.6**	**1.9**	**3.6%**

*All returns are Holding Period Return.

^WALTONHIL got listed on September 23, 2020. ROBI got listed on February 24, 2020.

Top Performing Mutual Funds

The top ten open end mutual funds based on 5Y year CAGR outperformed the market, during the same period. Among them, CAPM unit Fund (+14.8%) yielded the highest return. On YTD basis, all these funds outperformed compared to market except UFS-Pragati Life Unit Fund, Peninsula AMCL BDBL Unit Fund One and Fourth ICB Unit Fund.

Table 6: Top ten open end funds based on 5Y return (CAGR) performance

Name	Asset Management Company	Fund Size (USD mn)	NAV Return		
			2022 YTD*	2021	2017-2021
CAPM Unit Fund	CAPM	1.2	3.3%	29.6%	14.8%
Seventh ICB Unit Fund	ICB	4.4	-5.5%	34.2%	14.3%
Second ICB Unit Fund	ICB	2.1	-2.6%	41.5%	14.2%
UFS-Pragati Life Unit Fund	UFS	1.3	-8.3%	27.3%	13.3%
Peninsula AMCL BDBL Unit Fund One	IDLC	2.7	-7.3%	25.7%	11.8%
Sixth ICB Unit Fund	ICB	3.0	-3.2%	29.6%	11.6%
Third ICB Unit Fund	VIPB	3.6	-3.1%	26.0%	11.6%
Fourth ICB Unit Fund	ICB	2.3	-6.3%	36.1%	11.4%
LankaBangla 1st Balanced Unit Fund	ATC	4.8	-3.0%	21.9%	11.2%
ICB AMCL Pension Holders' Unit Fund	ICB	4.4	2.2%	27.5%	10.7%
Market (Broad Index) Return (%)			**-5.6%**	**25.1%**	**6.1%**

*Based on published NAV and DSEX point of June 30, 2022

All the top ten closed end mutual funds on the basis of 5 years (2017-2021) outperformed the market during the same horizon. Among them PRIME1ICBA (+12.4%) posted the highest return. On the YTD basis, CAPMBDBLMF (+3.3%) and ICBEPMF1S1 (+3.1%) were the top performers.

Table 7: Top ten close end funds based on 5Y return (CAGR) performance

DSE Code	Fund Manager	Fund Size (USD mn)	Price[1] (BDT)	NAV[1] (BDT)	Price/ NAV	Dividend Yield[2] (%)	NAV Return[3]				Redemption Year[4]
							2022 YTD	2021	2019-2021	2017-21	
PRIME1ICBA	1,039.0	11.1	7.6	10.4	73.1%	9.9%	-0.1%	35.8%	17.3%	12.4%	2030
1STPRIMFMF	289.4	3.1	17.9	14.5	123.7%	5.6%	2.5%	38.5%	17.3%	12.0%	2029
ICBSONALI1	1,055.0	11.3	7.9	10.6	74.9%	8.9%	0.7%	26.6%	13.7%	10.9%	2023
PF1STMF	600.0	6.4	10.6	10.0	106.0%	5.7%	-1.2%	39.6%	16.9%	10.9%	2030
ICBEPMF1S1	748.5	8.0	7.2	10.0	72.1%	8.3%	3.1%	38.2%	17.7%	10.6%	2030
ICBAMCL2ND	546.0	5.8	9.0	10.9	82.4%	8.9%	1.7%	36.2%	16.1%	10.5%	2029
ICB3RDNRB	977.0	10.5	6.9	9.8	70.6%	10.1%	2.1%	36.2%	16.8%	10.4%	2030
GRAMEENS2	3,739.2	40.0	15.9	20.5	77.6%	8.2%	-1.5%	18.2%	9.2%	9.8%	2028
CAPMBDBLMF	637.2	6.8	10.7	12.7	84.2%	12.1%	3.3%	29.9%	12.4%	9.3%	2027
RELIANCE1	872.4	9.3	11.1	14.4	77.0%	9.5%	-0.1%	19.2%	8.7%	9.0%	2031
Market							**-5.6%**	**25.1%**	**7.9%**	**6.1%**	

1 Price as on July 03, 2022 and index value as on June 30, 2022.

2 On last cash dividend declared.

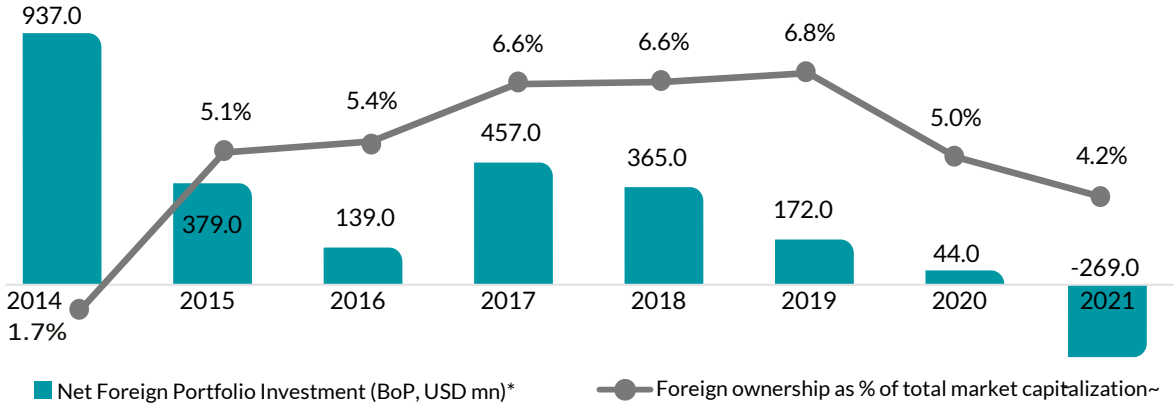
3 CAGR computed for respected periods, except for 2021 and 2022 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4 In reference to BSEC Press Release বিএসইবস/মুখপাত্র (৩য় খন্ড)/২০১১/২৫ published on March 16, 2018, tenure of existing listed closed end mutual funds can be extended by another tenure equal to maximum 10 years, provided that the full tenure of the subject fund does not exceed 20 years in total. However, the mutual funds those are not willing to extend their tenure will still have the option to convert or wind up as per rules and regulations.

Foreign Participation in Equity Market of Bangladesh

Over last 5 years, Bangladesh equity market has seen a surge of foreign investment. As of May 2022, total foreign ownership stood at 3.9% of the total equity market capitalization, which was only 1.7% in December 2014.

Figure 4: Net foreign portfolio investment and foreign ownership as % of total equity market capitalization



Source: DSE and Bangladesh Bank
~% of foreign ownership of equity market capitalization data are as of December of the respective years

Among all the companies with foreign ownership, BRACBANK had the highest foreign shareholding of 37.2% as of May 2022, followed by BXPHARMA with 28.8%.

Table 8: Top ten companies with highest foreign shareholding as of May 2022

Ticker	Sector	Foreign Shareholding*
BRACBANK	Bank	37.2%
BXPHARMA	Pharmaceuticals & Chemicals	28.8%
OLYMPIC	Food & Allied	25.8%
RENATA	Pharmaceuticals & Chemicals	22.9%
ISLAMIBANK	Bank	20.5%
DBH	NBFI	19.3%
BSRMLTD	Engineering	17.5%
SQURPHARMA	Pharmaceuticals & Chemicals	14.0%
SHEPHERD	Textile	12.1%
BATBC	Food & Allied	7.8%

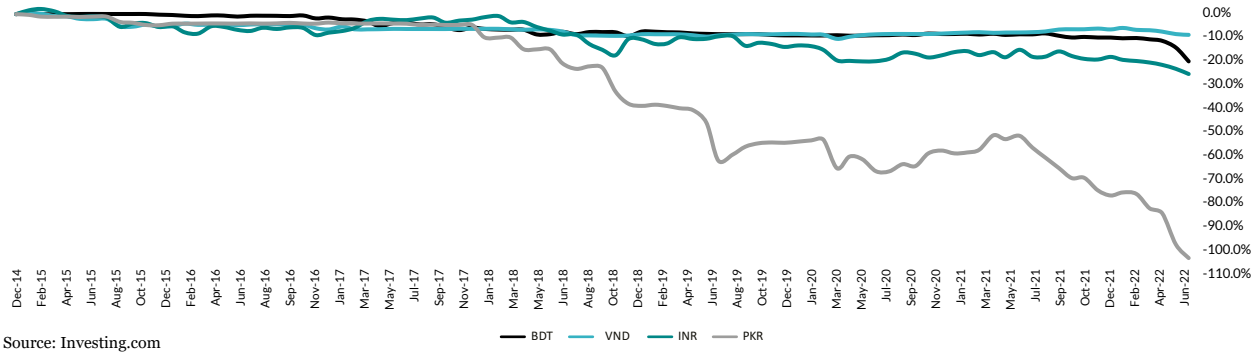
Source: DSE

*Latest data for foreign shareholding available on DSE are as of May, 2022.

Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than majority of the currencies of peer countries. While BDT depreciated by 19.9% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.7%, 25.2% and 102.9%, respectively.

Figure 5: Five year's relative performance of BDT and peer currencies



Source: Investing.com