Volume 15 | Issue 7 | July 2019

IDLC MONTHLY

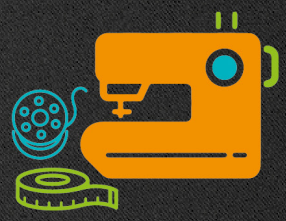
BUSINESS REVIEW

2% CASH INCENTIVE FOR INWARD REMITTANCE

To Keep the upward trend of remittance continuing, budget FY19-20 provides **2% cash incentive** for inward remittance

BOOSTING RMG

Four sectors of RMG will receive **4% cash incentive**, rest of the sectors will enjoy **1% cash incentive** in the next financial year to boost profitability of RMG sector.



THE NEW RETAINED EARNING POLICY

10% tax imposed on stock dividend if listed companies fail to maintain 50:50 cash dividend and stock dividend ratio. Listed companies would give **30 % of its net profit** as stock and cash dividend or else they will have to pay 10% tax on retained earnings and reserves.

DIGITALIZATION SLOWING DOWN

Custom Duty for imported smart-phones is increased from **10% to 25%** to support local handset assembling and manufacturing industry.

NEW VAT REGIME

Four VAT rate are introduced in Budget FY 2019-20 which includes a standard VAT rate of **15%,** reduced rates will be **5%, 7.5% and 10%** for specific goods and services.

PROTECTING SMES OF BANGLADESH

VAT exemption threshold of annual turnover increased to **BDT 50 lac from 30 lac** for SMEs

OVERVIEW OF NATIONAL BUDGET, FY2019-20

IDLC Finance Limited

financing happiness

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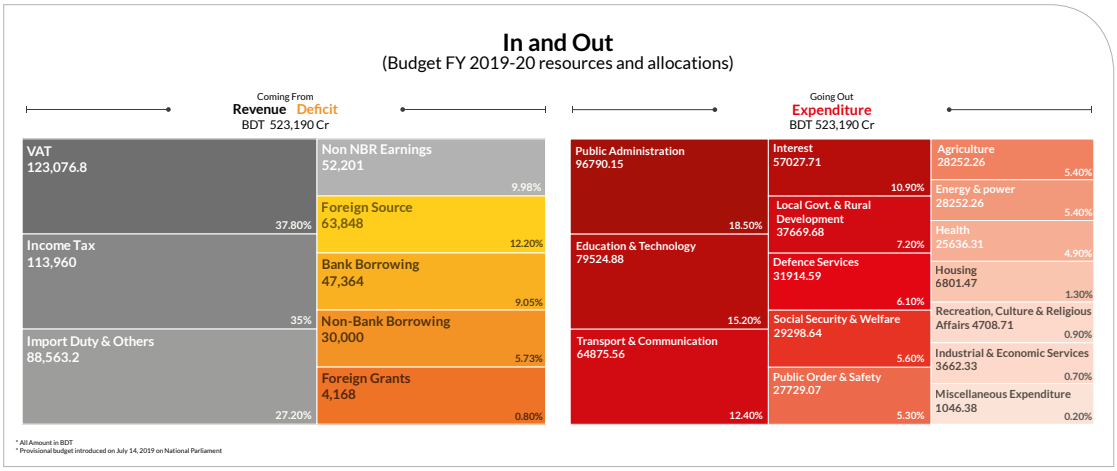
Design & Printing: nymphea I www.nymphea-bd.com

FROM THE EDITOR



Talks over budget

Following the trend of previous fiscals, this year's budget also targeted ambitious revenue amount, however, the growth is realistic. This fiscal, the new VAT regime is introduced where instead of having one universal 15% rate, there will be four (04) VAT rates i.e. 5%, 7.5%, 10% and 15%. Different VAT rate at different stage (import, production, retail, wholesale) makes the whole VAT structure difficult to apply. Readymade Garments received 1% cash incentive for the sectors who are not enjoying 4% cash incentive. Cash incentive is expected to improve the financial health of RMG units, however, it would have been a boost up for the emerging export-oriented industries if the scope of cash incentives were expanded. The taxation on reinvestment opportunities (retained earnings and stock dividend) for listed companies, is a totally new aspect of this fiscal's budget. Prudent companies which retain their earning for future expansion opportunities, will have a hard time in the wake of this decision.

For SMEs, the budget reveals a handful of useful measures such as, increasing VAT exemption threshold, VAT exemption on the rent of business showroom for women-led enterprises, increase in tax turnover limit and so forth. Construction industry will suffer due to imposed VAT on mild steel (MS) Products which will likely to increase the retail price of rod at the rate of BDT 9,000 on an average adjusting the increasing hike of recent gas price. Increase in the price of construction materials will have spillover effect on the real estate sector.

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ECONOMY AT A GLANCE

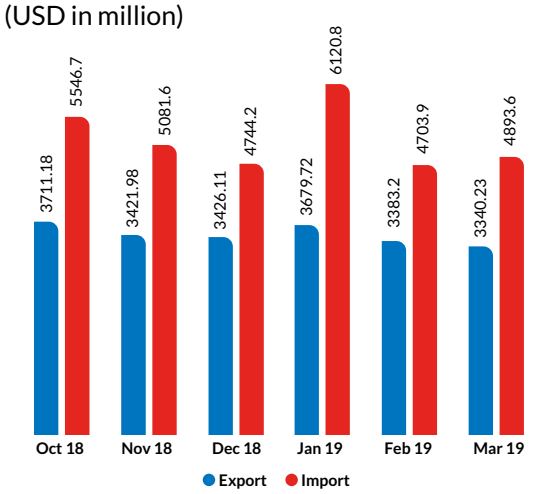
Private credit growth recorded at
12.07%
in April 2019

Remittance inflow Y-O-Y
10.03%
15.06 billion
in July-May 2019

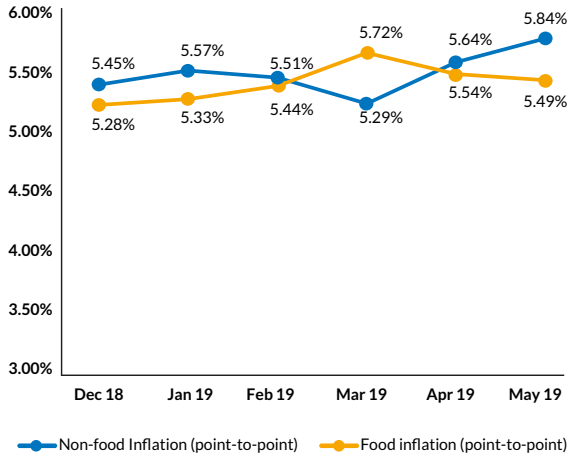
Inflation Rate
General inflation
5.48% in May 2019

EXPORT-IMPORT

(USD in million)

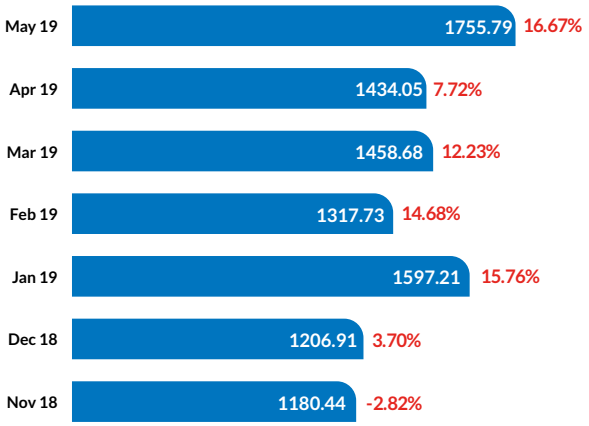


INFLATION

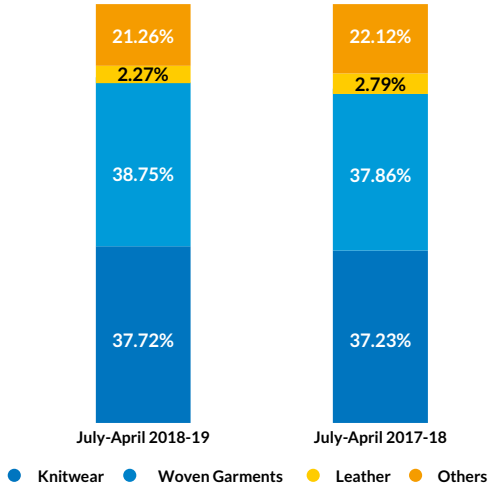


REMITTANCE

USD in million, Y-O-Y % Growth

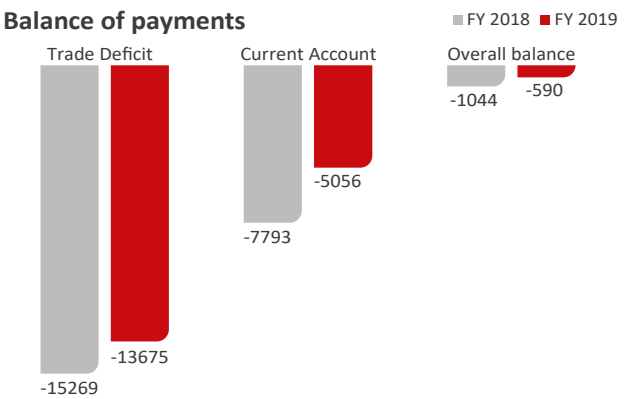


SECTOR-WISE EXPORT



MONTH IN BRIEF

● **Balance of Payment is improved in FY 2019 from the previous year FY 2018**



● **To take the economy at 8.5% growth rate** for the financial year 2019-2020, the incentives include enhanced subsidies, tax cuts and fiscal stimulus.

● **Bangladesh's exports fetched USD 3.81 billion** in May this year, which was the single-month highest in the country's history for readymade garment products.

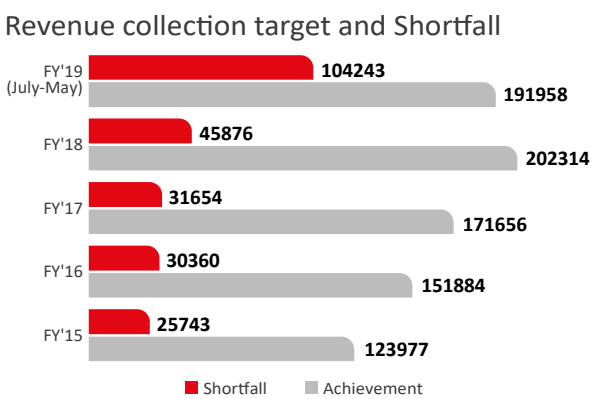
● **The government decided to separate the network business from telecom services** last year to rationalizing the number of towers in the country and giving smaller operators a fair shot.

● **The government is set to create a BDT 100 crore fund** for start-ups as it looks to alleviate youth unemployment, which is progressively becoming an albatross for the country.

● **A 2.0% incentive proposed** for expatriate Bangladeshis sending remittance back home from the upcoming fiscal year, 2019-20.

● **Remittance inflows rose to USD 15.53 billion** in 2018 from USD13.54 billion a year ago.

● **FY19's Revenue collection got a shortfall of 104,234 crore from the target**



● **Overseas employment has increased significantly** owing to successful diplomatic efforts in Malaysia and South Korea.

● **15% value-added tax imposed** on global social media giants and foreign satellite television channels operating in Bangladesh without having offices.

"THE MARKET WILL ACT POSITIVELY AFTER THE ANNOUNCEMENT IN THE PROPOSED BUDGET"

A.H.M. MUSTAFA KAMAL, Minister of Finance, Ministry of Finance of Bangladesh and a Former President of Bangladesh Cricket Broad, on how Budget FY2019-2020 to boost the capital market

"The government will set target and the manufacturers will try to achieve it. A USD 37.42 billion export target for the next fiscal is achievable"

Rubana Huq, President of BGMEA, on the export target sets by the Government in this fiscal year Budget

"The foreign firms were attracted to Bangladesh because of the country's consistent higher growth rate and foresaw immense potential of the DSE because of its relatively low market capitalization"

KAM Majedur Rahman, Managing Director of the DSE, on the growing rate of foreign investments in Bangladesh

"If the businesses get benefits and new investment comes, new employments will be generated, and consequently, poor people will be benefited"

Md Mosharraf Hossain Bhuiyan, Former Cabinet Secretary of Bangladesh, on the business – friendly proposed Budget of FY2019-2020

"IT WOULD NOT BE LOGICAL TO HIKE TAX TO SUCH AN EXTENT IN ONE GO. NEW ENTREPRENEURS WILL NOT FEEL ENCOURAGED TO INVEST IN THIS SECTOR"

Khondaker Enayet Ullah, Secretary General of Bangladesh Road Transport Owners Association (BRTOA), on transport operators to face higher tax

"SINCE THE EXPORT EARNINGS IS HIGHLY DEPENDENT ON THE APPAREL SECTOR, THE TARGET SHOULD BE ACHIEVED BY THE RMG SECTOR. IN DOING SO, BANGLADESH HAS TO ATTRACT WORK ORDERS FROM CHINA"

Ahsan H Mansur, Executive Director of Policy Research Institute, on the export sector's income in Bangladesh

WORLD ECONOMIC INDICATOR-JUNE 2019

Country	Inflation (%)	Current Account Balance (% of GDP 2019)	Gross Domestic Product (yearly % Change)	Interest Rates (%), Ten years treasury bond	Currency Units (per USD)
Frontier Market					
Sri Lanka	3.8	-3.0	3.7	7.5	176.08
Vietnam	2.2	3.0	6.7	6.3	23,249.3
Kenya	5.7	-5.2	5.6	9.0	102.45
Bangladesh	**5.6**	**-3.6**	**8.1**	**8.4**	**84.49**
Emerging Markets					
Brazil	4.7	-1.0	0.5	6.0	3.85
Egypt	14.1	-0.9	5.6	-	16.7
Saudi Arabia	-1.5	3.6	2.2	-	3.75
India	3.0	-1.8	5.8	6.9	69.2
Indonesia	3.3	-2.6	5.1	7.4	14,175
Malaysia	0.2	2.0	4.5	3.7	4.15
Phillipines	3.2	-2.0	5.6	5.1	51.5
South Africa	4.4	-3.4	-	8.1	14.3
Turkey	18.7	-0.7	-2.6	16.4	5.78
Thailand	1.1	8.3	2.8	1.8	30.7
China	2.7	0.2	6.4	3.1	6.89
Russia	5.1	6.9	0.5	7.5	63
Developed Markets					
France	0.9	-0.6	1.2	-	-2.3
Germany	1.4	8.1	0.7	-0.3	-2.3
Italy	0.8	2.0	-0.1	2.1	-2.3
Spain	0.8	0.5	2.4	0.3	-2.3
Hong Kong	2.8	4.5	0.6	1.7	0.5
Singapore	0.9	17.0	1.2	2.0	0.7
United States	1.8	-2.4	3.2	2.0	-
Denmark	0.7	6.8	2.8	-0.2	-2.6
Netherlands	2.4	10.2	1.7	-0.1	-2.3
Australia	1.3	-1.5	1.8	1.3	-5.6
Switzerland	0.6	9.6	1.7	-0.5	1.0
Britain	2.0	-4.1	1.8	0.9	-3.8

World Investment Report 2018
Investment and New Industrial Policies

RESEARCH IN FOCUS

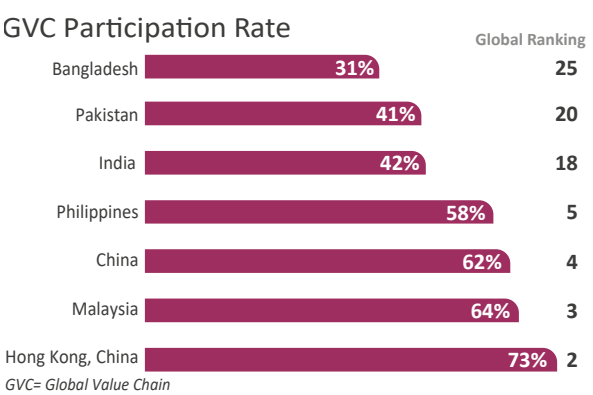
Countries all over the world develop different policies to either support or to restrict flow of fund. Mostly policies are made to support investment activities all around the world. The report from UNCTAD has the prime focus on the investments and the policy regarding the investment around the world. This report analyze global trends of investment and study if the policies of the government are positive for investment flow or not.

Measures taken to boost investment globally

An increasing number of countries have taken a more critical stance towards foreign investment. New investment restrictions or regulations in 2017 mainly reflected concerns about national security and foreign ownership of land and natural resources. Stable flow of FDI was seen over the world which is USD 671 billion. The FDI flow dropped 10% in 2016 seeing no recovery following the 10% drop in 2016. FDI flows to Africa reached USD 42 billion. FDI flows was USD 476 billion which is stable. Asia is recognized as the largest FDI receiving area of the world.

The study demonstrates that advanced modern strategies are progressively differing and complex, tending to new topics and including bunch destinations past regular mechanical improvement and basic change, for example, GVC reconciliation and redesigning.

System for investment and enterprise development



Worldwide Investment Update

- **65 countries** adopted at least **126 investment policy** measures in 2017
- Among all these national investment policies **84%** are favorable to investment
- **150 countries** have taken steps to formulate a new generation of sustainable development oriented International Investment agreements (IIAs)
- **Bangladesh is 20th** among Top 25 exporting developing economies by GVC participation rate
- GVC participation rate of Bangladesh is **31%**
- FDI flows in Bangladesh is **USD 2.2** billion which has a negative growth of **7.8%**

Bangladesh is being in 25th position in the ranking being 20th in the gross export ranking all over the world. In the report they have identified EPZ as a key economic force in the report. The report says this special economic zone will improve the FDI inflow in Bangladesh.

ABOUT THE RESEARCH

World Investment Report 2018: Investment and New Industrial Policies is a report published by The UNCTAD Investment and Enterprise Division is the focal point in the United Nations on the investment flow around the world, policy reforms to enhance FDI flow.

FACING YOUR MID - CAREER CRISIS

Middle age is one of the hardest phase of anyone life but observing surroundings there might be many people having similar hardship in life. According to the economists David Blanchflower and Andrew Oswald, self-reported life satisfaction takes the form of a gently curving U. Beginning high in youth, bottoming out in our mid-40s and as we get older it gets better. There are multiple factor regarding mid-career crisis and philosophical tools can help to learn sufferings in mid- career and indicates whether to change what you are doing and how you are doing. Several reasons behind mid-career crisis in life-

- **Regretting past decision**

  According to philosophy, people should accept what they cannot change. With the passage of time life gets hard as options become constrained, our past decisions set a limit to our life and our potentiality goes away. Whatever decision we make, we need to accept that it will prohibit other alternatives in life. Most of the people in middle age realize, they cannot lead a live they wanted to have always. For example, many wanted to pursue different types of career in different stage of their life. At that age we have got lot of experiences and might have a wide ranges of jobs but when we look back, we sometimes regret of taking those decisions or sometimes we feel relief of not doing that.

- **Mistakes**

  Every career has its wrong turns and at the midlife we often think about what might have been. Philosophy states, what you should have welcomed at the moment must be distinguished from how you should feel about it now. For example, when you think you should have been a physician, not a philosopher, and begin to regret your choice, you are ignoring the texture of your work and the countless ways in which the value of what you are doing is made vivid to you as you do it. There is no guarantee regret is always out of place. But regret that turns on the tendency to survey your life as if you were outside can be silenced by alluring attention to the people, relationships, and events you enjoy, depending on the job you have selected.

- **The Feeling hopeless in present**

  Acceptance of what we can't change is just component of the issue we face when we fall down the U curve. A first explanation turns to the concept of ameliorative value- the value of solving an issue or responding to a need, even if the need is one that you would prefer not to face. Amelioration is necessary but it brings limited satisfaction. The best we can do is to fix mistakes, meet targets or prevent things from going wrong. The alternative is to make time for activities that you feel good to do or by reviving a favorite hobby or by taking on a fresh one. The second explanation for the sense of emptiness at mid-career, that goes beyond the need for existential worth. If we look philosophically at the nature of the projects and our investment in them, we can find a structural defect.

  Anyone can be professionally unsatisfied because their work is not a good fit for someone talents, interests have changed, or the promotion prospects are poor. However, finding a new job would not always solve the problem. Everyone need to understand that attachment is a counterbalance to regret. Even everything goes perfect in life but still there is always a feeling of sadness for the lives that are not lived and the professions that we did not pursue in past as different choices of life have different values. So, if we choose one option we automatically will loss the experience we can get from other options. But we need to remember that the feeling of we missed something is the inevitable result of something good, the ability to find value in many walks of life.

ABOUT THE RESEARCH

'Facing Your Mid-Career Crisis'- is an article by Kieran Setiya published on Harvard Business Review, which describes the psychological dilemma about life and decision taken in life at the mid of their career.

DISRUPTION STARTS WITH UNHAPPY CUSTOMERS, NOT TECHNOLOGY

According to most executives, disruption in the company mainly occurs because of new technology and startup. But in reality, it is the customers who are driving the disruption. If the disruption comes from technology, it is to be fixed internally or may outsource like GM and Ford. For electric and autonomous driving technologies they have spent billions. In the case of startup, company might try to acquire it if the valuation is comparatively low and also try to compete with the startup on price. But sometime it won't work as these companies seem to have missed the most common and extensive pattern universe of disruption is driven by customers. They can reject any new product or new technology. Large companies can easily respond to the disruption by focusing on changing customer needs and wants. This can be very effective to digital disruption.

- **The Coupling Strategy**

  Disruptive start-ups do not enter markets by stealing clients from incumbents but steal few selective activities. They choose those activities that customers are not happy with from incumbents. Many of the standard ways of thinking about which new growth markets large conglomerate companies should enter revolves around the concept of "adjacencies" and "synergies," at the firm-side.

  But if clients are at the core of disruption, businesses need to know how to deliver customer side synergie. Successful development is dictated by advantages accrued to the client, not to the company. After all, they are the ones who decide whether or not to develop or acquire your new products. This is where a strategy of coupling comes into play – it is the idea of developing new goods that generate significant synergies with the initial product. Rather than using two products from different companies it makes it cheaper, easier or faster for customers to fulfill their needs.

- **Not to get lost in flow**

  The primary obstacle to achieving the coupling strategy is that this can lead your business into vastly different business that require vastly different people, abilities and capacities than those that your business has. Alibaba went from ecommerce to financial services, search instruments, logistics, equipment and software. These companies have very little synergy on the firm side.

- **Getting stuck in one**

  Many established firms ' pigeonhole ' themselves too closely in a particular sector. As a result, their field of exploration for new growth is restricted, not by their potential or capacity, but by arbitrary industry definitions. If your new products have synergies for the customer, they will likely get adopted by them. Offer something to your most loyal customers so that they will happily pay for it and that will help to grow your company. Technology will come and go but customers are constant. Uber, Airbnb, Slack, Pinterest, and Lyft – what they have is the capacity to create and produce accurately what customers want quicker and more precisely.

Customer side focus of Alibaba

- In 2011 to 2016, Alibaba's revenues grew at an average compound annual rate of **87%.**
- Alibaba's profits increased by **94%** and cash flow by **120%.**
- Alibaba's focused directly on customer-side synergies and CVC adjacencies.

- **Learnings from Alibaba**

We can take Alibaba's customer side focus as a significant example of customer focused growth. For such a big and established digital business, this fast development was quite unique. Business in this sector need to have different resource and skillful employees to compete with others. Alibaba's expansion strategy focused directly on customer-side synergies and CVC adjacencies. Alibaba did not accept synergies on the firm side instantly. Its true victory is to achieve customer side synergies.

ABOUT THE RESEARCH

Disruption Starts with Unhappy Customers, Not Technology- is an article by Thales S. Teixeira published on Harvard Business Review, which breaks the traditional concept of the firms that disruption comes with technology but in reality it is the unhappy customers

Overview of National Budget FY2019-20

Revenue - Deficit

BDT 523,190 Cr

This Fiscal Year | Previous Fiscal Year

	This Fiscal Year	Previous Fiscal Year
VAT 123,077	32.58%	30.3%
Income Tax 113,960	30.16%	30.0%
Import Duty & Others 88,563	23.44%	34.0%
Non NBR Earnings 52,201	13.82%	3.0%
Foreign Source 63,848	44.0%	43.2%
Bank Borrowing 47,364	33.0%	33.5%
Non-Bank Borrowing 30,000	21.0%	23.3%
Foreign Grants 4,168	3.0%	

Expenditure

BDT 523,190 Cr

This Fiscal Year | Previous Fiscal Year

	This Fiscal Year	Previous Fiscal Year
Public Administration 96,790	18.50%	18.40%
Education & Technology 79,525	15.20%	14.60%
Transport & Communication 64,876	12.40%	12.20%
Interest 57,028	10.90%	11.00%
Local Govt. & Rural Development 37,670	7.20%	7.00%
Defence services 31,915	6.10%	6.30%
Social Security & Welfare 29,299	5.60%	5.90%
Others 97,835	18.7%	24.5%

* All Amount in BDT
* Provisional budget introduced on July 14, 2019 on National Parliament

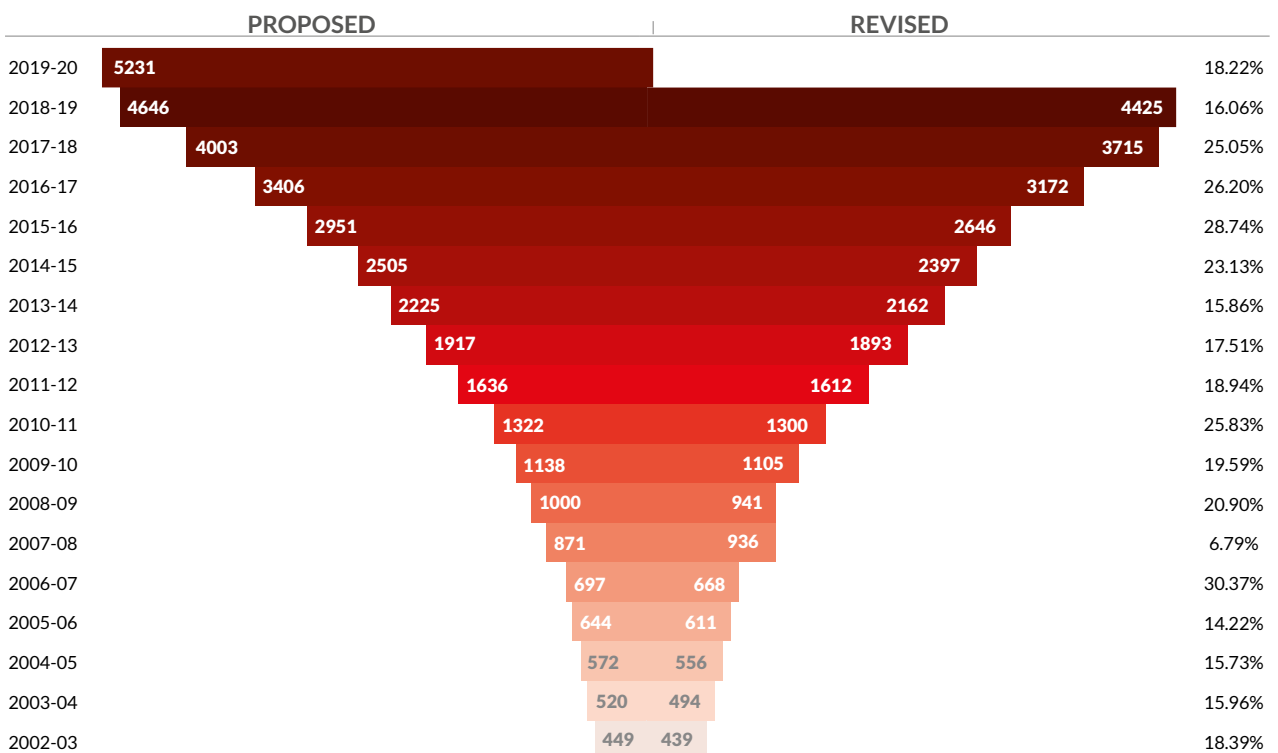
The National Budget for FY2019- 20 comes with a wide array of policy changes. Following the suit of the previous budgets, this fiscal's budget also took ambitious revenue target, however, the growth is minimal. A number of new aspects are discerned in this fiscal's budget, namely, the new VAT regime, the taxation on reinvestment opportunity of corporations (retained earnings or stock dividend), increase in tax deducted at source on interest from National Savings Certificate, cash incentives for inward remittance, introduction of crop insurance and the like. However, debates are there how some policy changes would impact certain industries and if some alternative policy would have actually addressed the key problem.

The national budget FY 2019- 2020 is worth of BDT 523,190 crore with a targeted GDP growth of 8.2% for FY 2019-20. Previous years target was 8.13%. This budget is 18.2% higher than last year's revised budget of BDT 4.42 trillion (USD 52.3bn). The government has set a revenue collection target of BDT 3.78 trillion (USD 44.7bn) leaving a budget deficit of BDT 1.45 trillion (USD 17.2bn), 5.0% of GDP.

The national budget has been brought out in the context of some cardinal economic and socio-economic events

- Next year will be the terminal year of our 7th Five Year Plan; hence its implementation will get priority in this budget.
- Structured around the spectacular achievements of our government during the last 10 years
- Regional parity, human resource development, infrastructural development and quality of expenditure have been given priority in the allocation for the annual development program.
- Implementation of the pledges made in our Election Manifesto of 2018 and achieve Sustainable Development Goals and their targets.
- Increasing the domestic demand through consumption and investment, and increasing external demand by enhancing exports.
- Double digit growth - through timely implementation of all nationally important infrastructure projects including mega projects.

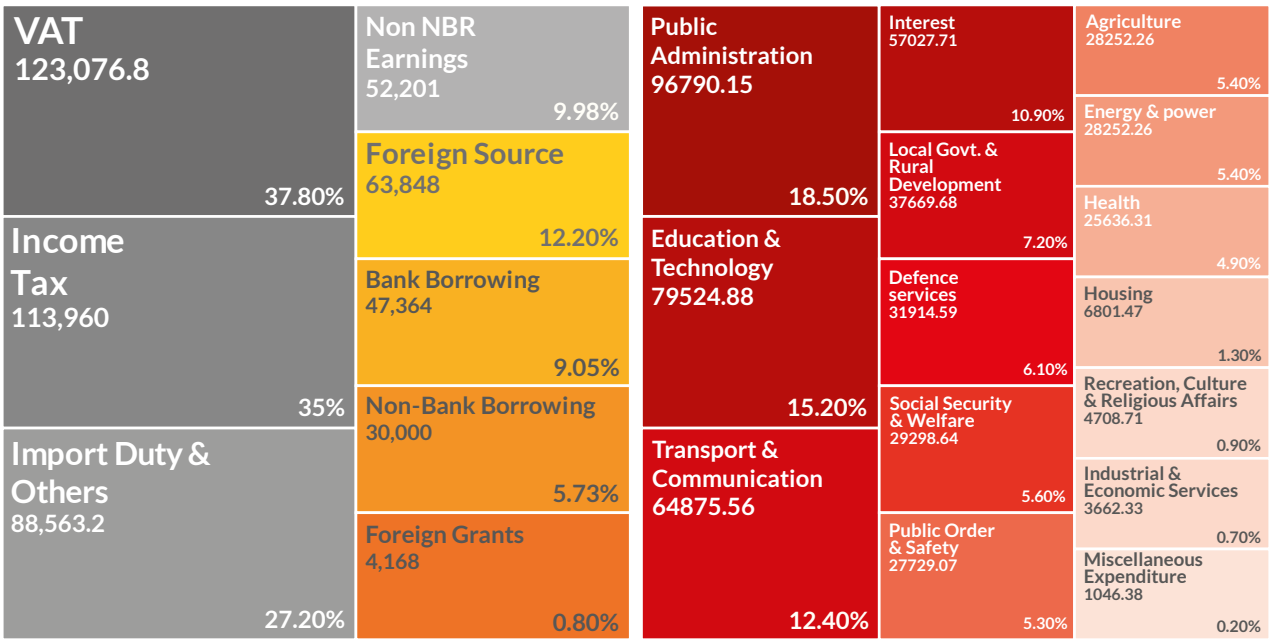
BUDGET SIZE OVER 14 YEARS



In and Out (Budget FY 2019-20 resources and allocations)

Coming From
Revenue - Deficit
BDT 523,190 Cr

Going Out
Expenditure
BDT 523,190 Cr



Education, infrastructure development and planned urbanisation of villages are the priority of the government in the budget. Overall Budget is focusing on improving infrastructure for which public administration sector has the highest budget allocation followed by Education, transportation etc. The construction of the third terminal at the Hazrat Shahjalal International Airport, mass transit project or metro rail are in progress to enhance the infrastructure. Most of the major infrastructure projects are entering the final stage of implementation. Beside these ICT sector should get more investment in this financial year. Industrial gas supplier will enjoy benefit while importing, which will enhance industrial productivity. Bank company act will be introduced to facilitate merger or acquisition of banks to enhance banking sector.

Key targets of budget FY 2019-20

Title	FY'18	FY'19*	FY'20E
GDP	7.7%	8.1%	8.2%
Average Inflation	5.8%	5.4%	5.5%
Private Investment as % of GDP	23.3%	23.4%	24.2%
Per Capita Income USD	1,752	1,905	2,173
ADP (% of total budget)	36.9%	30.5%	35.4%

How the export performance is likely to be in the wake of Budget FY 19-20?

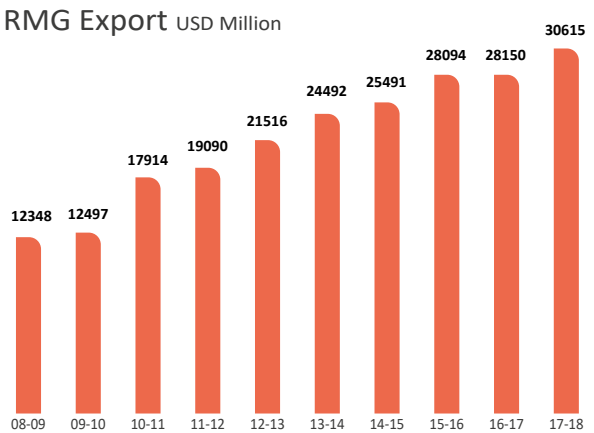
This year budget is not only providing fiscal incentives to large industrial sectors like RMG but also to other emerging and new sectors having export potential. Bangladesh is world's second-biggest apparel exporter after China. Garments account for 80% of exports revenue and other sectors including jute goods, home textile, footwear and frozen shrimps and fish. With the new proposal, the government kept an allocation of BDT4,000 crore as cash incentives for the export-oriented sector. Cash incentives are given to these export sectors in order to encourage exports in accordance with the export-led economic growth strategy of the country. Moreover, this proposal will also promote the underprivileged exports market like leather and jute that earns nearly one billion US dollar per annum.

Readymade Garments

- **1% cash incentive to RMG sector**

Currently, four sectors of ready-made garments (Alternative to duty bonds and duty drawbacks, SME apparel exporters, Exporter of new garments product

and RMG in new markets and Exporters to EU markets) enjoy cash incentive of 4% for emerging markets. An export incentive of 1% is proposed in the next fiscal year to the rest of the sectors of ready-made garments. Now, effectively, exports to traditional markets will fetch a cash incentive of 1%, and to non-traditional markets will earn an incentive of 5%. An allocation of additional BDT 2,825 crore will be made in the budget for FY2019-20 for this purpose.



Cash incentive or devaluation of currency?

However, it is debated that whether Readymade garments sector really needed a cash incentive or devaluation of BDT would have helped the industry to a greater extent. Cash incentive are provided to selected export sectors to encourage the export growth. Cash incentive are provided only for those exporters who do not avail bonded warehouse facility or the duty drawback facility. For RMG, cash incentives are applicable for emerging markets. All the countries except for Canada, the EU members and the US are considered as emerging markets. Emerging countries account for 15.2% of total RMG export. Devaluation of currency would have attracted more export for this sector, which could have more far-reaching effect on the export potential of this sector.

- **Tax Rate kept unchanged**

Currently, the tax rate for readymade garments is 12%. The rate is 10% if there is green building certification.

Leather

Leather and leather goods industry is included in the list of sectors that are eligible to enjoy tax holidays on the basis of geographical locations at different rates for different periods of time.

Jute

VAT has been exempted for Jute based products, which will help the export potential of this sector.

Pharmaceuticals

To facilitate pharmaceutical exports 20% incentives will be provided to the exporter of pharmaceutical raw materials and laboratory reagents. Incentives for exporter of API and laboratory reagent will encourage companies to initiate more exports of those products.

How the Budget FY 19-20 affected the SME sector?

The recently announced budget for FY 2019-20 provides a handful of measures for the burgeoning SME sector of Bangladesh. While there is certainly some initiatives:

- **Increase in VAT exemption threshold in annual turnover**

The national budget offered exemption of VAT to small and marginal traders with an annual turnover upto BDT 50 lacs. Previously, the threshold was BDT 30 lacs.

- **Boosting women entrepreneurship**

In a bid to bring more women into entrepreneurship landscape, VAT has been exempted on the rent of a business showroom run by women entrepreneurs.

- **Tax free turnover limit pushed up**

Tax-free turnover limit has been proposed to increase to BDT 50 lakh from BDT 36 lakh, which is a step towards encouraging the youth of Bangladesh.

- **Input tax credit for the 15% VAT slab**

Along with the standard VAT rate of 15%, the new VAT & SD Act 2012 gives out reduced rates of 5% (on 91 goods and services), 7.5% (on 12 goods and services) and 10% (on 20 goods and services). However, the input tax credit can be obtained through the VAT return only by those who pay 15% VAT. This discrimination in input tax credit may discourage the small and medium enterprises who are entitled to the new VAT rates.

- **Local textile industry to be impacted for VAT on sale of yarn**

The budget imposed 5% VAT on sale of yarn for local markets. At the same time, the export-oriented yarn producers are exempted from VAT. After the imposition

WHAT'S UP


Smartphone & Mobile Phone Services


Cigarette


Ceramics, Plastic & Aluminum products


Ice cream


Ceramics, Plastic & Aluminum products


Ovens, Broilers, Grillers

of the VAT, the yarn makers who are catering to the local markets mainly will have to face BDT 24 as VAT on sale of a kilogram of yarn in the local market. Therefore, manufacturing cost of men and women apparel items will go up. Owing to this, the yarn users will not feel encouraged to purchase local variety of yarn. As a result, the local yarn market will be dominated by foreign yarn.

Construction industry to suffer a huge blow

The budget imposed VAT on mild steel (MS) products at the rate of BDT 1,200 per tonne on those made from imported/locally re-rollable scrap and BDT 1,000 on those from billet or ingot. The MS Products made from meltable scrap and billet at the retail level will carry VAT of BDT 2,000. The retail price of MS rod will likely to witness an average price hike of BDT 9,000 per tonne, ascribing to the new VAT and tax measures and recent hike in gas price.

Benefits for local bakeries

Local bakeries will gain some advantage since the budget exempted VAT on the production and supply of bread, handmade biscuits and handmade cakes upto the value of BDT 150 per kilogram.

Motorcycle makers and assemblers to get boost

The budget provides continuation of the existing VAT and supplementary duty exemptions given to motorcycle makers and assemblers. The motorcycle market size reached approximately BDT 4,000 crore in 2018, with local manufactures catering to 40% of the total demand for motorcycles in Bangladesh. Having discerned the prospect of this sector, it is being identified as a thrust sector now.

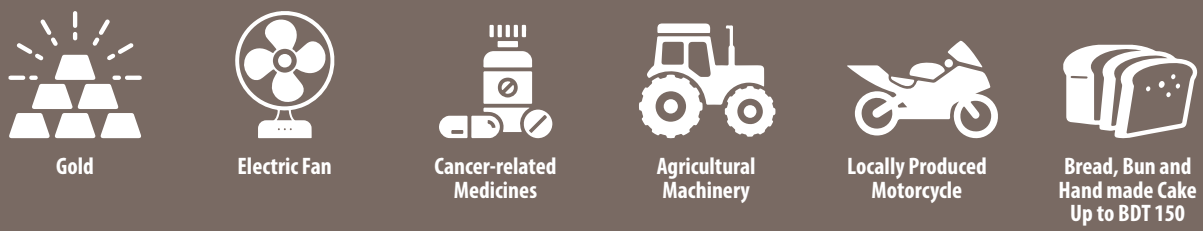
Furniture manufacturers face increase in VAT

VAT on manufacturing of furniture will rise to 7.5% from 7%, which will discourage the small and medium scaled furniture manufacturers.

IMPACT OF KEY BUDGETARY MEASURES

- **Tax deducted at source on interest from National Saving Certificate (NSC) is increased to 10% from 5% (final settlement):** *likely to slow down the dependency on NSC and more deposits are expected to directed towards traditional banking channel*
- **2% cash incentive is given to inward remittance:** *likely to increase the remittance inform via formal channels, however, BDT depreciation would have helped more to achieve higher remittance inflow. Remittance hit an all-time high of USD 16.40 billion in FY 18-19, owing primarily to currency depreciation*
- **Listed companies can reserve upto 70% of their net profit as retained earnings. 10% dividend has to be paid on the rest 30% and 10% taxation will be imposed if any listed company fails to do this. The ratio of cash dividend and stock dividend must be 50:50 for listed companies. If stock dividend exceeds cash dividend, 10% tax shall be payable on the full amount:** *the measure has been taken to boost capital market. However, listed companies rely on retained earnings for reinvestment or expansion. Also, more than 50% FDI comes from reinvested earnings*
- **1% Cash Incentive for Readymade Garments sectors, which are not enjoying the existing 4% cash incentive:** *likely to boost the financial performance of the garments. However, debate persists if currency depreciation would have benefitted RMG sector instead cash incentive*
- **The New VAT regime:** *New VAT and SD Act 2012 gives out four slabs of VAT rates (5%, 7.5%, 10% and 15%). Input tax credit is applicable for only 15% VAT payers, which may create discrimination between the other VAT payers of other brackets. Also, different VAT rate is applied at different stage (import, production, retail, wholesale), which may create confusion*

WHAT'S DOWN



Impact of Budget on Digitalization

- Increasing tax on mobile operator company from 0.75% to 2% level and proposition of further supplementary tax on any service on mobile phone to 10% to 5%.
- Increase in tax on SIM card from BDT 100 to BDT 200.
- Custom duty will on smartphone will increase to 25% and VAT & surcharge exemption has been offered on mobile manufacturing companies.
- Increase in VAT on ride sharing services from 5% to 7.5% level, income tax on rider's income.
- Adding 5% VAT on 'Virtual Business' which is popularly known as 'E-commerce Business'

While Bangladesh is heading towards a digitalization vision, additional duty on smartphone will deter the low-income group to purchase smartphone. On the other hand, VAT and Tax on e-businesses will have an adverse impact on the growth of these businesses. E-commerce is still at nascent stage of development and instead of giving them incentives, additional VAT and taxes are imposed.

How much additional costing e-platforms have to bear?

If a passenger pays BDT 100 for a ride in any ride sharing platform, this year they will be paying BDT 107.5 with the new imposition of tax (last year, they used to pay BDT 105). Ride sharing companies of Bangladesh are currently having 18 million rides each year which means because of the increase in VAT, consumers will have to pay approximately BDT 18 crore for taking ride sharing service.

Dr. Zahid Hussain served as a Lead Economist in the Macro, Trade and Investment Global Practice of the World Bank. He joined the World Bank in 1995 and prior to that, he was a member of academia, with 14 years of teaching experience in a number of universities in Bangladesh and abroad. He has worked on several flagship World Bank reports on Bangladesh.

Dr. Zahid Hussain

Economist

MBR: How is the budget of FY 19-20 different from the previous ones?

Dr. Zahid Hussain: The major difference is, this fiscal year's budget has relatively more realistic targets. Every year we see that the budget size is increasing and revenue, expenditure, deficit follow the suit. However, this time the targets of both revenue and expenditure and also to some extent, foreign finance, are not as over ambitious in terms of growth as we have seen in recent years. We have seen a 30%+ growth projected for revenue, 25%-30% growth in annual development program which was too ambitious. All the targets that are set this year are also ambitious, achieving the target will be challenging but still the magnitudes are relatively smaller.

MBR: According to you, what is the impact of Budget FY 2019-20 on basic pillars of the economy: Agriculture, Remittance, and Readymade Garments?

Dr. Zahid Hussain: Though the impact of budgetary measures depends on how it is implemented but the economic justification for the additional subsidies given to readymade garments and remittance is not clear. There is nothing new for agriculture. The budget allocation for agriculture subsidy every year is roundabout BDT 9000 Cr and we have seen the same this year. This year agriculture needed some special intervention such as cash support to the farmers who are badly affected by the low price of rice, which is not discerned in the budget.

On the other hand, 2% cash incentives are offered to inward remittances and 1% cash incentive is offered to the readymade garments sector, for those who are not getting the 4% cash subsidy. This is a year when garment export is doing very well and remittance recovered from last year's slump. Most probably Bangladesh is going to reach a new height in remittances this year. Our previous height was USD 15.3 billion in FY'15. This year I expect it to exceed USD 16 billion. My question is, these two sectors are doing well anyway, so why we need additional budgetary support for them? Then, of course, not every budgetary measure can be evaluated with economic rationale.

Then the next question is – is budgetary subsidy the best way of providing support they intend to provide? Were there better alternatives which could have avoided the pressure on the budget and at the same time help, who we intend to help? Currently, the exchange rate is overvalued. Allowing the exchange rate to adjust would have achieved the same objective not just for garments and remittance but also for other exports which are not getting these incentives and would also have protected the domestic market-based industries while avoiding the additional financial pressure on the budget. So, I do not think this is the best way of helping them and I am not at all clear about the economic justification.

MBR: Do you think that the new 4-slabbed vat structure is going to benefit the business people/ commoners? Would like to hear your opinion regarding the new VAT regime.

Dr. Zahid Hussain: I think the new VAT that we have seen so far has created a lot of confusion about what the system is likely to be when it is applied. Compared to the law that was passed in 2012, the new VAT structure is a mess because of the vagueness of how many rates there are. In the budget speech, the proposed slabs are 5%, 7.5%, 10%, and 15%. However, when you look at the finance bill, you discover other rates. Another strange feature is the application of different rates at different stages: import, production, wholesale and retail. And thirdly, one of the key

characteristics of VAT is that when you buy things you pay VAT and when you sell things you charge or collect VAT from your buyers. So, you are supposed to get back the VAT that you are paying. The budget speech says that, only those who pay 15% VAT, will be given the input tax credit. If others are not given input tax credit, it will essentially become an excise tax, it's not VAT. And as far as I understand, most of the commodities and services will not be subject to a 15% VAT rate. Most of them will fall under 5% or 7.5%. It will have a cascading effect on the taxpayer, which was the main problem with the excise tax.

MBR: The corporate sector is worried about the decision of tax imposition on reinvestment opportunities (Stock Dividend and Retained Earnings), in order to promote cash flow into the stock market. What is your take on this initiative?

Dr. Zahid Hussain: This is a very strange decision. The whole idea is to support the stock market and the development of the stock market. Now if we are looking at investor point of view meaning who buy share, they like cash dividends more than stock dividend. New policy of putting additional tax on retained earnings and stock dividend will encourage cash dividends payment. So, from the investors' point of view that is a support as they like cash dividends. Again, if you have a well-functioning stock exchange. if you want cash when you are given stock dividend, then you could easily sell the stock and convert it into cash with little transaction cost. But the fundamental problem in our share market is that it is not broad and deep enough. We do not have many good companies who are listed in the stock exchange. So, if we really want to support long term development of share market, we would need to take measures that encourage good companies to enlist. But now in Bangladesh, the option for financing is very limited particularly for long term. When a business reinvests in diversification or expansion of existing activities, they have to rely a lot on their own retained earnings as a source of finance-that is the equity finance they have. More than 50% FDI that we get every year is actually the reinvested earnings. So, if we are discouraging retention of earnings how the firms would grow and if they do not grow how the stock market is going to flourish? Though in the very short term, the buyers of shares might get cash benefits for the long term this will discourage the enlistment of good companies and the growth of existing companies will be stunted. They may suffer from liquidity problems. So, the business firms will have to find other ways for not giving dividends and at the same time keeping retain earnings within the tax-free limit. This will discourage honest accounting practices. Overall this budget is not share market friendly.

MBR: What will be the impact of additional tax burden on digitization?

Dr. Zahid Hussain: The only economic justification I see for this sort of measures is revenue. Revenue to GDP ratio is low, in our country, the vat that we have introduced earlier does not promise too much increase in revenue so the government has to find revenues from somewhere else. These smartphones, SIM cards are very easy to tax and collect. So, from that point of view, there is a revenue justification, but revenue for its own sake is not the ultimate objective. We want to increase revenue to achieve development. If revenue is increased in a way that hinders your own digitalization agenda, why would you want to do it? And smartphone is no longer a consumption good, it is now almost like a capital machinery. You can buy and sell, you can do research, even your studies, you can do official meetings while visiting different places. Although telecom sectors are heavily taxed and the government has imposed another 1.25% on their turnover and additional 5% supplementary tax. It is already paying a lot of revenue and the sector is key in industrialization and modernization agenda. Even agricultural transformation or making sure that the farmers get the right prices the mobile phone is very helpful to know what price is prevailing in which market. So, it is not only in industry, it is everywhere. From that point of view, the revenue justification is not strong enough.

MBR: Can you share some positive aspects of the Budget?

Dr. Zahid Hussain: There are several positive things. One is the overall macro framework which, as in the past, is quite prudent. The 5% deficit target we have seen this for last 10 years, we never achieve 5%, its somewhere between 3.9% to 4.5%. These are within the sustainable thresholds. We do not see any major macro-fiscal stability problem triggered by this kind of budget.

So, the budget is quite macro friendly, the targets are more reasonable, the functional allocations are pretty much consistent with the strategy the government has taken in the 7th five-year plan.

Of course, we have financial limitations because of that we are not able to allocate much money in education and health sector. And there are some new initiatives in the budget like BDT 100 Cr Taka fund for startups and the pilot for crop insurance.

MBR had the privilege to get the insight from Dr. Ahsan H. Mansur, Executive Director at the Policy Research Institute, and a former Economist of International Monetary Fund (IMF), regarding Budget, FY 2019-20.

Dr. Ahsan H. Mansur

Executive Director, Policy Research Institute

MBR: How is the budget of FY 19-20 different from the previous ones?

Dr. Ahsan H. Mansur: Qualitatively the new budget is very similar to the past budgets. It's a continuation of the Government's optimistic expectation on revenue side and thereby increasing the size of the budget through higher spending. As always, the revised estimates for FY19 budget, presented in the budget speech are highly optimistic.

The end result is that when the actual data comes, that figures for revenue are well below the base for the preceding (just ended) fiscal year and consequently the targets in the new budget become way above what could be realistically unachievable. Similar development is going to unfold in the coming year. The authorities have estimated NBR revenue collection to be Tk. 280,000 Crore in FY19, but already provisional estimates of the NBR at the end of June puts the provisional figure at Tk. 222,000 crore—pointing to about Tk. 70,000 crore shortfall in FY19. So there is a huge gap in the base of this budget and to realize the NBR revenue target for FY20 would require more than 45% growth, which Bangladesh never achieved in its history. Accordingly, this major problem which characterized every recent budget continues to undermine the Fy20 budget.

Some people say that the Government should be optimistic to achieve its visions and ambitious targets. I agree with that but undershooting the revenue targets every year by huge margins is not an acceptable good practice. So the unrealistic expansion in the budget in terms of higher spending is not going to happen. In past you have seen, Government always targeted 19% GDP as the size of the budget but when the fiscal year ended it invariably came down to 16%-17% of GDP, falling short by 2%-3% of GDP. The government could not achieve the 19% of GDP spending in any year in the last 10 years, and there should be no unrealistic expectation that it will be any different in the coming year.

The only major reform effort in FY19 budget was the introduction of the VAT Law 2012. After 7 years of delays since its enactment, in the event what we got is essentially a bit of a worse version than what we had under the old 1991 VAT Act. Under the VAT Act of 1991, there were few items which were being subjected to rates different from the standard 15% VAT rate. Similar characteristics are maintained under the new VAT Law but probably on a wider scale. VAT registered persons have been given the option to charge VAT at the 15% rate for all goods and across all levels. Additional complication this year that, the VAT registered persons would also have the option to charge 10% at manufacturing stage and at other different rates for certain products specified in Schedule 3. If VAT is levied at rates different from 15%, the enterprises would not be able to get input tax credit. So it created a parallel structure all the way. Bangladesh is the only country where you have different rates at different stages of products and different rates on different kinds of products. No country in the world has this kind of complicated VAT structure. It is completely unique but I would say very difficult and inefficient to administer.

MBR: According to you, what is the impact of Budget FY 2019-20 on basic pillars of the economy: Agriculture, Remittance, and Readymade Garments?

Dr. Ahsan H. Mansur: Budget allows some subsidy or continuation of subsidy for the agriculture inputs like all type of fertilizers and pesticides. It allows for procurement of rice up to a limit, but nothing special for rice producers. So the price would not be much high for rice farmers this year. Government procurement price at BDT 1040 per maund is high, but perhaps too high for the farmers to get that. Farmers are getting up to BDT 700 while the

rent seekers are getting the remaining 33% of the official support price. The government will provide input subsidy for mechanization by subsidizing harvesters and planters, which should help farmers in reducing their cost of production.

It is unlikely that Bangladesh is globally competitive to become a rice exporting country soon. Our production cost is very high and thus even after the collapse of rice prices our export price will be significantly above the export price of major rice exporting countries like India, Thailand and Vietnam. Bnagladesh need to improve efficiency and productivity of our farming sector to be competitive in the global rice market. Technology, mechanization, and improvement in seeds will contribute to increased productivity and reduced cost and make us competitive. So, we should think about exporting rice in future but not for now.

Coming to the Remittance – the ne Government policy of giving 2% incentive to remitters is not right. They should directly go for the devaluation of the currency and give the same or more return to the exporter as well as remitters. rather than providing export incentives to different sectors which is not an efficient way. The government policy of giving export incentives to RMG and other sectors are not efficient, instead a market based competitive exchange rate should be the way to go. We should not use taxpayers' money for maintaining the elaborate export incentive structure. This is an unnecessary expenditure and we can save it to utilize for some other purposes.

MBR: The corporate sector is worried about the decision of tax imposition on reinvestment opportunities (Stock Dividend and Retained Earnings), in order to promote cash flow into the stock market. What is your take on this initiative?

Dr. Ahsan H. Mansur: That is again a very bad policy. It only shows that we do policies without thinking about the consequences and without going through a broader stakeholder consultations and analyzing the implication of this policy. This policy is contrary to what we see internationally. Globally large firms become large by not giving cash dividends but reinvesting the profits and get bigger. Today two big companies Apple and Amazon are trillion dollar companies. They are bigger because they never gave cash dividends. This practice increased the value of these companies and their stockholders are very happy as stock values go up; they never care about cash dividend. If they want money they can sell the shares and get money. So this type of cash dividend policy goes against the spirit of making the company bigger. Secondly, it is going to be detrimental for our foreign investors as 48% FDIs are retained investment and if you tax this amount then obviously they would like to cash out and transfer the cash out of Bangladesh as dividend to foreign investors. Certainly this cannot help Bangladesh.

MBR: What will be the impact of the additional tax burden on digitization?

Dr. Ahsan H. Mansur: I always see that the government prepare tax policies without having a good understanding of the sector and the sector's impact on the overall economy. NBR prepares policies on taxation of a particular sector without proper consultation with sector specialists. What NBR is always looking is, how it can get huge fund without much effort- very simple approach. So they impose taxes on telecom, tobacco, banks and other sectors from where they can easily get money. And that is why we are seeing series of taxes impacting the telecom sector. And what is the result – the consequences is that, the telecom sector in Bangladesh is already the most heavily taxed. They are paying 45% tax on profit even if they are listed. It is the most productive sector that helps us to make our nation globally digitalized and we are penalizing it. It comes from the narrow mentality of collecting tax. Some telecom companies are not making any profit but NBR still thinks they can make money from them so they introduce a minimum tax on turnover. Even if you make loss you have to pay 2% turnover tax. If you are making loss why you need to pay tax. This is against the spirit of tax policy. The NBR is destroying industries in such a manner. The Supplementary Duties on talk time is again another one. The government wants to promote the use of internet and mobile phones, but the tax policy is in no way supporting the objectives. It will lead to reduction of investment in telecom sector and discourage new investors from coming to Bangladesh.

MBR: Can you share some positive aspect of the Budget?

Dr. Ahsan H. Mansur: The positive side is the agriculture sector, I have mentioned that subsidization of mechanized cultivation and harvesting is a timely response. Broadening the social safety net is another one that would be helpful, although in future we would like to see the social security program to be consolidated into a few major social security programs compared with more than 155 programs that we now have. These all will be helpful for the country. The size of ADP is large at BDT 200,000 crore and its efficient implementation will be test for success. The spending should be effective to ensure value for money. Infrastructural improvement has got the highest priority in the budget which is welcome, and this also makes government's budgetary policy investment friendly.

INTELLIGENT MACHINES LIMITED

Mohammad Oli Ahad was graduate from IBA of University of Dhaka. He joined BAT as Territory Officer and worked there for 10 years. Apart from the experience of managing the territory, he got exposure in advanced automation project team and served 25 countries including Australia, Singapore, Malaysia, and Hong Kong and so on. Now his mission is to disrupt the micro scale business with innovative products of Intelligent Machine Limited.

Mohammad Oli Ahad

Founder and CEO, Intelligent Machines Limited

Beginning of the Startup

Founder of Intelligent Machine Limited, Mohammad Oli Ahad was working in British American Tobacco for a long time. There he was involved in various interesting high budget million pound projects in several countries. But sometimes it created disappointment as there were no demand of these advanced projects in South Asian region. Again he found some Bangladeshi engineers working in Australia and Singapore. They were from renowned institutions of our country like BUET, Dhaka University. Later, he observed that many of his batch mates and juniors are working for some of the best organization in the world such as Google, Facebook, and Microsoft. All these indicate that the issue is not the talent in our country. People of Bangladesh has enough talent but they do not get any scope of showcasing their works. Moreover, most of the graduates migrate to abroad for better education and lifestyle. Basically there is no worthy platform for them in this country. That is why he wanted to create an intelligence studio in Bangladesh to facilitate those graduates. They can learn more and get more experience by solving local intelligence problems and they can also prepare them to go for bigger opportunities in future.

Intelligence Machine Limited started its journey in April, 2018. It works as a knowledge hub and center of excellence. They combine advance analytics and artificial intelligence and provide these as a professional service. Whether you are a financial company or manufacturing company or from any department you can take services from them. Students graduate from IBA, BUET will provide intelligence solution to our customers. There are total 25 members, 23 are in technical team and only 2 are in management team. They have the strong senior technical team. They have another volunteer team divided into two section – AI engineers and advanced analytics.

Product Portfolio

Currently Intelligent Machine Limited is serving 11 projects including BRAC for 3.5 million women garment workers. They serve them by identifying the amount of savings and amount of loans needed for individual. They are also working for another operational service company who worked for large telecom corporations like GP and Robi. These companies have many cells tower that is very hard to maintain as the towers do not have any power backup. As a result in the time of load shedding, it is very time consuming to provide generator for the towers and the transportation system is also very expensive. Intelligence machine limited saves thousands of taka of these telecom company by letting them know the time and location of load shedding so that they can take proper arrangement before this. The response of the customer base is great.

Right now they do not follow any marketing strategy as they believe there product will be their strength. They want to fully focus on engineering sector instead of spending lot in marketing. Now a days customers are more concern about services so they will find out the best. That is why, in the near future they are not thinking about to go for marketing rather than their plan is to make services more strong.

Retail AI, Inventory management solution for small business

At this moment Intelligent Machine Limited is serving bKash with its Flagship product, Retail AI. In developing economies like us, the channel through product of manufacturer transfer to customer is very fragmented. In developed countries, outlets/retail stores are very organized, centralized and synchronized. But in Bangladesh there are many centralized managed retail shops but the small retail shops beside our

residence do not think about what the customer want. They bring products that they can afford and managed by themselves. These shops do not have enough products to serve the local customers. Our current retail ecosystem is very complex and expensive for manufacturer, retailer and customers. The way super shop managing their system, small shops cannot understand or follow them. So Retail AI push them and finance them to adapt the system.

With Retail AI, shops will provide necessary data to them and open an account with retail AI. If the shoppers do not pay back the distributer, the issue will be solved by paying money from the account maintained in Retail AI. bKash is taking their merchandise AI service. Through the information getting from Retail AI you can easily assesse the credit worthiness of the retailer. In this model, retailer capture their own photo and input their information by themselves. General people can download the informations through registration with the app and they can also rate the retailer and his products and verify.

After installing the app, retailer input their current stock updates. There will be different baskets of different companies such as Unilever, Coca-Cola. They have arrangements with their distributors. Retailer will order in this digital platform and distributor will accept it. Thus retail AI can keep track on those retailer order request data of every days. They reward those retailer who provide them with the pictures of their shop, shelf, customers and other inventories data. Later, the system will give suggestion to the retailer of what to order by getting retailers' daily records and other shops responds in that area. After getting all these records, retail-AI analysis the data and give this to different manufacturer and business house.

Stumbling blocks for Machine Limited

Major two challenges that is worth highlighting:

- **Funding:** In our country, people are still learning about startups. Many investors do not supports new companies because of trust issues or they might face losses in past while supporting startups. Moreover, their approach toward risk is more suitable for traditional business model. Investors need to understand that startup funding need is different than traditional companies.

- **Resource:** It is hard to get adequate capable human resource. In our culture, everyone wants safer job. Moreover, most people want to work for MNCs. So it will take time to solve the problems.

Plans down the line

Three plans are in its prime focus-

1. Its main focus is now to complete the product design of Retail AI and launch the app in the near future. It will be a huge opportunity for them.

2. Intelligent Machine Limited is invited in Global Entrepreneur Summit and the Govt. of Netherland invite them to expand their operation in the country. So they want to utilize the opportunity to showcase the talent of our country. Besides, they are planning to provide data analytic services in France.

3. Also a key focus is to build the right team. They want to make their resource base stronger by grooming employees. They had to go through struggle to build the team because they did not had right resource for the team.

WHAT ARE THE FACTORS TO SEE WHILE PURCHASING YOUR FIRST CAR?

In today's world car has become a necessity for people. Realizing the benefits of car, every family in USA owns at least one car. It is not just a privilege anymore, it's your right to commute comfortably. So it is important to note what to know before purchasing a car and the available option of Financing. There is an obvious shift in automobile buying trend in our country. Instead of stalking through reconditioned grey imports, people are more inclined towards brand new vehicles from authorized dealers. But people need to consider some factors before getting car loans, which are.

Looking For different Schemes and Offers

Customers will find many attractive offers and deals offered by various banks and NBFI on car loans. They may also offer you customize loans according to your performance. Make sure to complete all necessary loan formalities before proceeding with a loan. The most important thing that people need to do before actually getting a car loan is to compare the rates of interest of various banks or financial institutions. This is most crucial as there are no standard rates in the market. The rate of interest varies from banks to banks and floating to flat.

Completing all necessary Documents

All the banks and NBFI follow KYC (know your customer) norms for granting loans. They need to verify plenty of papers and clients past credit record and other necessary documents with them including income proof, bank statement, valid address proof, photo id proof, income tax return statements records, NOC if in case they have recently cleared their last loan, credit card statement.

Loan Repayment Period selection

Loan repayment term is the most important part of a car loan. When you are taking a car loan make sure to consider the loan repayment period wisely. So, it is always advisable to choose repayment terms based on customer's capacity.

Calculate total Loan EMI

Most of the financial websites provide free EMI calculator. It is good to calculate EMI based on the given interest rate of different banks and NBFI to decide which one is better for you.

Key Focus

- For Bank the cap of financing is up-to 50% of the value (may include some PL portion)
- For NBFI the cap of financing is up to 70% of the value
- The increased cost of registration of vehicle should be considered
- Should verify the auction sheet prior completing purchase
- One should keep In mind that the value of car is not the only cost, post purchase maintenance cost should be considered

Processing Fee

While giving loan many companies charge certain amount of processing fees. This fee is non-refundable. So it's better to identify the total cost of different companies to make decision. Clients can also ask about such fees before applying for car loans in any companies. The processing fee includes 15% VAT.

Some other important things that needs to be considered are-

- The resale value of the car- Some car have very good resale value and some do not have. So the resale value should be considered at the time of purchase.
- Spare parts for the car is another important issue, should buy cars with available spare parts, specially hybrid cars parts are very expensive.
- Driving sedan is perfect for city, but for remote areas SUVs, micros are better option
- There are different rate for registration of car based on the CC of the vehicle
- Car should be under an insurance coverage.

Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market remained flat during the month of June, after a massive gain in May. During the month the broad index DSEX increased by 0.8%, gaining 71.0 points. Blue chip index DS30 was up by 2.8%, while Shariah index DSES advanced by 2.5%.

Among the regional peers, Pakistan and Vietnam lost 4.8% and 1.4%, respectively during the month, while Vietnam lost 1.0%. Meanwhile, MSCI Frontier Markets Index gained 1.1%. Vietnam showed the most encouraging longer term track record with a 5 years' return of 64.3%, while Bangladesh yielded 21.0% return during the same period. In the meantime MSCI Frontier Markets Index yielded -4.5% return.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, June, 2018	Return*					
		1M	3M	YTD	12M	3Y	5Y
Bangladesh							
DSEX	5,421.6	0.8%	-1.3%	0.7%	0.3%	20.3%	21.0%
DS30	1,929.1	2.8%	-1.9%	2.6%	-1.6%	8.9%	17.3%
DSES	1,244.7	2.5%	-2.4%	1.0%	-1.5%	12.0%	N/A
Peer Countries							
Pakistan (KSE 100)	33,901.6	-5.8%	-12.3%	-8.5%	-19.1%	-10.3%	14.3%
Sri Lanka (CSE - All Share)	5,372.3	1.2%	-3.3%	-11.2%	-13.3%	-14.5%	-15.8%
Vietnam (VNI)	949.9	-1.0%	-3.1%	6.4%	-1.1%	50.2%	64.3%
MSCI Frontier Markets Index	**731.2**	**1.1%**	**1.8%**	**8.5%**	**1.9%**	**17.9%**	**-4.5%**

* All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

Liquidity Condition in Equity Market of Bangladesh

During June, the total market capitalization decreased by 1.4%, while free float market capitalization increased by 1.7% as well. Meanwhile, average turnover of June 2019 was BDT 4.8 bn (USD 56.6 mn), increasing by 30.1% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market remained flat to 23.0% in June compared to 23.5% of last month. In 2018, turnover velocity of Bangladesh equity market was 37.7%, whereas it was 5.4% in India, 6.9% in Sri Lanka, 34.8% in Vietnam and 70.7% in Thailand.

Table 2: Market capitalization and turnover statistics

Particulars	30-Jun-19	31-May-19	% change
Total market capitalization (USD* mn)	47,316	46,647	1.4%
Total equity market capitalization (USD mn)	40,361	39,694	1.7%
Total free float market capitalization (USD mn)	16,401	16,131	1.7%
Daily Avg. Turnover (USD mn)	56.6	43.5	30.1%
Turnover Velocity~	23.0%	23.5%	N/A

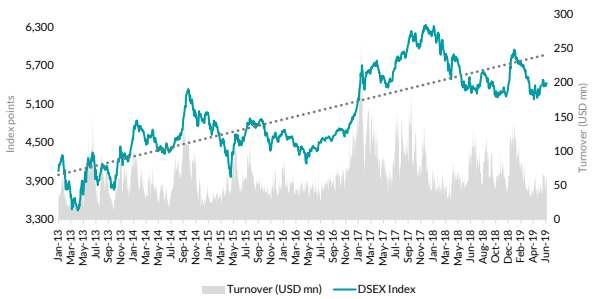
*All USD figures are converted using an exchange rate of 84.5 as of June 30, 2019 as per Bangladesh Bank website.

~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 28.3% till May, 2019. During the same period, daily average turnover of the market amounted to BDT 5.5 bn (USD 65.1 mn) (Figure 1).

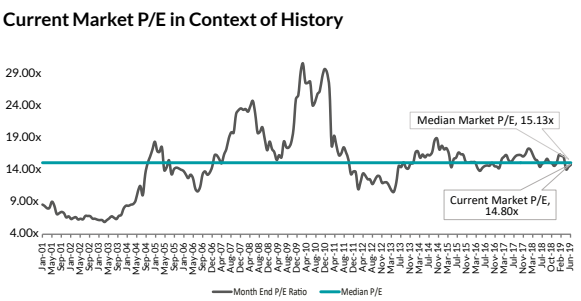
Figure 1: DSEX since inception along with market turnover



Market Valuation Level - P/E Ratio:

The market P/E increased to 14.80x in June, 2019 which is lower than 18 years' median market P/E of 15.13x (Figure 2). In terms of trailing 12 month P/E ratio equity market of Bangladesh is the cheaper than most of its regional peers. (Figure 3).

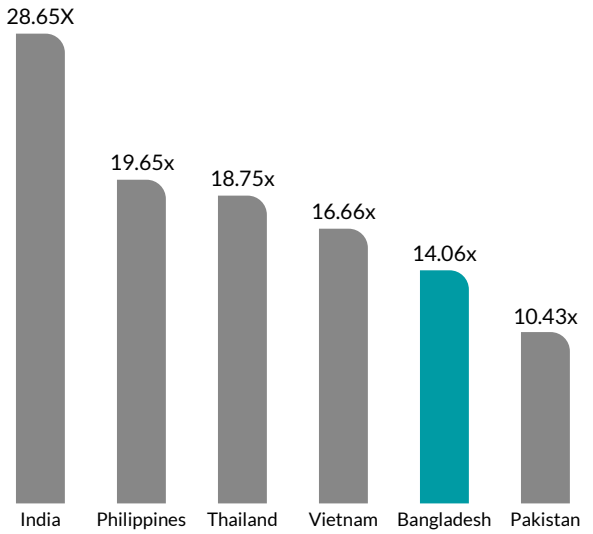
Figure 2: Historical market P/E* and it's median



*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 June 30, 2019. Source: IDLC, Bloomberg

Sector Performance

During June, majority of the sectors ended in positive territory. Among the major sectors, Pharmaceuticals and Chemicals (+4.2%) posted the highest positive return. Fuel and Power and Food and Allied followed next yielding +3.5% and +3.2% respectively. Apart from that, Telecommunication (+2.5%) and Miscellaneous (+2.2%) sectors' return was worth mentioning. On the other hand, NBFI (-3.7%) was the worst performer of the month. Life Insurance (-1.6%) and Bank (-1.6%) also faced high selling pressure.

The largest sector in terms of market capitalization, Bank is relatively undervalued in terms of P/E ratio. On the other hand, Telecommunication sector has the highest dividend yield of 7.4% 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			
Bank	7,120	4,086	-1.6%	2.8%	6.0%	9.4%	62.1%	80.3%	9.1	1.0	2.1%
Pharmaceuticals & Chemicals	6,257	3,435	4.2%	-0.8%	4.6%	2.2%	22.0%	80.2%	14.2	13.0	1.7%
Telecommunication	6,085	650	2.5%	-11.0%	3.9%	1.3%	65.2%	51.5%	17.9	2.5	7.4%
Fuel & Power	5,681	1,481	3.5%	-3.5%	10.2%	21.8%	41.1%	75.6%	13.1	1.6	3.8%
Food & Allied	3,722	1,334	3.2%	-7.3%	15.1%	17.3%	42.0%	88.6%	29.3	8.9	1.3%
Engineering	2,153	654	-3.7%	-3.9%	-2.9%	-9.9%	33.5%	27.7%	18.7	1.8	3.1%
NBFI	2,398	1,218	0.8%	-1.4%	-2.4%	-0.1%	24.6%	96.7%	15.1	1.7	0.9%
Textile	1,659	920	1.7%	-1.8%	-1.6%	15.5%	62.7%	69.2%	16.1	1.0	1.9%
Miscellaneous	1,335	384	2.2%	-13.2%	4.8%	0.8%	22.4%	113.5%	25.5	1.2	1.2%
Cement	1,071	437	-0.6%	-11.5%	-9.7%	-20.2%	-34.5%	-34.1%	30.2	2.5	2.2%
Life Insurance	597	349	0.7%	6.7%	29.3%	39.6%	92.5%	45.6%	13.1	1.1	2.7%
Non Life Insurance	312	125	-0.5%	-12.7%	-4.0%	-10.8%	3.2%	45.8%	21.0	1.8	1.5%
Ceramics	313	151	3.1%	-3.7%	-3.6%	1.5%	18.2%	41.7%	34.2	2.4	2.3%
Tannery	249	137	4.4%	1.5%	-2.1%	4.7%	31.6%	-10.9%	22.2	0.6	3.4%
Travel & Leisure	211	109	2.9%	-0.5%	0.0%	-1.7%	-8.6%	61.8%	17.4	1.0	4.1%
IT	171	56	-5.0%	-7.0%	-21.9%	0.8%	51.8%	300.5%	21.0	2.3	2.4%
Services & Real Estate	243	159	-0.2%	-0.3%	-6.3%	6.6%	76.9%	304.3%	34.4	1.6	1.2%
Paper & Printing	701	321	-1.6%	7.0%	-5.8%	23.1%	44.0%	2.7%	16.0	5.8	1.8%
Jute	47	34	3.8%	-9.7%	-15.4%	108.6%	411.8%	520.2%	70.0	14.4	0.1%
Market	**38,783**	**16,401**	**0.8%**	**-1.3%**	**0.7%**	**0.3%**	**20.3%**	**21.0%**	**14.7**	**1.8**	**3.0%**

*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 excluding companies trading at an annualized P/E greater than 80.0x.

^P/BV is calculated by dividing total market capitalization of listed companies with their 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 Cap Class (+2.7%) yielded the highest return, while Small Cap Class (-1.3%) was the worst performer. The Large Cap was the highest dividend yielding (3.4%) class.

Table 4: Performance of different market cap classes

Cap Class	Market Capitalization of Constituent Companies (USD mn)	% of Total Equity Market Capitalization	Return*						P/E (x)	P/BV (x)	Dividend Yield^
			1M	3M	YTD	12M	3Y	5Y			
Large	≥120	81.4%	2.7%	-5.9%	7.4%	8.3%	46.7%	65.3%	14.6	2.0	3.4%
Mid	36-119	11.6%	-0.6%	-0.5%	0.9%	2.9%	20.4%	44.7%	13.2	1.1	1.7%
Small	12-35	5.5%	-1.3%	-4.1%	-5.8%	5.8%	35.3%	69.3%	20.1	1.0	1.6%
Micro	<12	1.4%	0.1%	0.1%	2.3%	4.7%	45.6%	63.3%	20.3	0.9	1.7%
Market	**-**	**-**	**0.8%**	**-1.3%**	**0.7%**	**0.3%**	**20.3%**	**21.0%**	**14.7**	**1.8**	**3.0%**

* 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, UPGDCL (+9.1%) advanced the most in June. MARICO (+7.4%) and BXPHARMA (+6.9%) also posted amazing return. On the contrary, ISLAMIBANK (-4.5%) afced the highest selling pressure during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BRACBANK (+389.1%), CITYBANK (+180.0%), BERGERPBL (+175.4%), RENATA (+143.1%), BXPHARMA (+136.7%), EBL (+134.9%), and DUTCHBANGL (127.2%).

Among the scrips GP, SUMITPOWER , TITASGAS, EBL, MJLBD, MARICO and ISLAMIBANK recorded a 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	5,828	583	0.39	2.7%	-10.9%	3.2%	0.7%	66.6%	55.5%	18.5	14.7	7.7%
BATBC	Food & Allied	2,914	771	0.38	3.2%	-8.8%	17.1%	20.0%	60.1%	92.8%	(59.7)	9.0	1.2%
SQURPHARMA	Pharmaceuticals & Chemicals	2,468	1,618	1.94	3.7%	-1.0%	4.0%	-2.3%	30.9%	62.9%	13.0	3.4	1.3%
UPGDCL	Fuel & Power	2,127	213	1.88	9.1%	-8.5%	29.0%	84.6%	270.5%	N/A	12.6	6.6	2.0%
RENATA	Pharmaceuticals & Chemicals	1,142	558	0.55	2.3%	0.8%	5.0%	7.1%	36.1%	143.2%	30.3	6.0	0.7%
BRACBANK	Bank	965	537	0.52	2.3%	-2.3%	4.6%	6.8%	117.5%	389.1%	12.6	2.5	0.0%
ICB	NBFI	957	31	0.05	-2.1%	-0.7%	-0.3%	-17.9%	21.7%	2.2%	10.6	2.3	2.5%
BERGERPBL	Miscellaneous	795	40	0.15	3.1%	-18.1%	9.6%	8.0%	37.4%	175.4%	14.2	10.8	0.7%
MARICO	Pharmaceuticals & Chemicals	566	57	0.08	7.4%	6.0%	26.9%	35.9%	35.1%	76.5%	23.9	27.4	4.3%
OLYMPIC	Food & Allied	559	404	0.34	4.7%	1.8%	9.3%	7.6%	-23.1%	96.4%	26.5	7.0	2.0%
LHBL	Cement	546	193	0.24	-0.7%	-3.4%	-6.6%	-28.0%	-47.4%	-49.1%	40.0	3.1	2.5%
SUMITPOWER	Fuel & Power	527	194	0.23	3.0%	3.2%	5.8%	18.6%	42.7%	76.5%	9.9	1.1	7.2%
TITASGAS	Fuel & Power	466	116	0.30	3.1%	4.2%	9.3%	6.3%	-3.6%	-34.8%	18.8	0.6	6.3%
ISLAMIBANK	Bank	450	236	0.19	-4.5%	-5.5%	1.5%	3.2%	-9.6%	13.4%	6.4	0.7	4.2%
DUTCHBANGL	Bank	408	121	0.17	-1.0%	-19.1%	19.3%	41.9%	73.3%	127.2%	8.9	1.6	0.0%
BXPHARMA	Pharmaceuticals & Chemicals	401	348	0.64	6.9%	-0.8%	5.6%	-9.7%	3.8%	136.7%	(1.9)	1.2	1.5%
EBL	Bank	363	249	0.08	1.3%	17.9%	21.5%	29.4%	76.5%	134.9%	9.7	1.4	4.8%
MJLBD	Fuel & Power	341	97	0.14	2.2%	-5.3%	-8.3%	-1.9%	10.6%	66.5%	6.6	2.3	4.7%
CITYBANK	Bank	334	233	0.21	2.2%	11.9%	-1.1%	-11.1%	47.7%	180.2%	8.1	1.1	2.1%
POWERGRID	Fuel & Power	321	76	0.25	-0.8%	1.7%	22.5%	28.9%	10.0%	59.2%	17.9	0.5	2.9%
Market		**38,783**	**16,401**	**56.58**	**0.8%**	**-1.3%**	**0.7%**	**0.3%**	**20.3%**	**21.0%**	**14.7**	**1.8**	**3.0%**

* All returns are Holding Period Return.

^ Five years' return is not available for UPGDCL as they were not listed then.

Top Performing Mutual Funds:

The Top ten open end mutual funds based on 3 year CAGR outperformed the market during the same period. Among them VIPB Accelerated Income Unit Fund (+12.3%) and Third ICB Unit Fund (+11.2%) made significant return. However, on YTD 2019 basis, Sixth ICB Unit Fund (+5.3%) and Second ICB Unit Fund (+4.4%) yielded the highest return.

Table 6: Top ten open end funds based on 3Y return (CAGR) performance

Name	Asset Management Company	Fund Size (USD mn)	Return		
			2019 YTD*	2018	2016-2018
VIPB Accelerated Income Unit Fund~	VIPB	12.1	2.8%	-7.8%	12.3%
Third ICB Unit Fund	ICB	3.8	3.0%	-7.0%	11.2%
Seventh ICB Unit Fund	ICB	5.2	4.3%	-11.9%	10.7%
LankaBangla 1st Balanced Unit Fund	LankaBangla	5.0	1.5%	-2.0%	10.7%
Fifth ICB Unit Fund	ICB	4.2	2.8%	-7.0%	10.4%
UFS-Popular Life Unit Fund~	UFS	9.2	1.3%	-4.6%	10.2%
Sixth ICB Unit Fund	ICB	3.7	5.3%	-9.3%	9.5%
MTB Unit Fund	Alliance	9.1	0.3%	-4.2%	9.2%
Second ICB Unit Fund	ICB	1.6	4.4%	-7.1%	8.7%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.5	2.1%	-14.3%	7.7%
Market			**0.2%**	**-13.8%**	**5.2%**

*Based on published NAV and DSEX point of June 24, 2019

~ 2016-18 returns are calculated from inception date in 2016.

The top ten closed end mutual funds on the basis of 5 years (2014-2018) performance yielded positive return on YTD basis. All these funds are traded at a lucrative discount compared to their NAV. Besides, all the funds also offered higher dividend yields compared to market except for EBL1STMF. (Table 7)

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]
							2019 YTD	2018	2016-18	2014-18	
NLI1STMF	VIPB	8.9	12.5	14.9	83.7%	11.2%	3.0%	-8.0%	13.3%	14.6%	2022
SEBL1STMF	VIPB	16.4	11.3	13.9	81.1%	11.5%	3.0%	-8.3%	12.8%	13.7%	2021
GRAMEENS2	AIMS	42.2	13.3	19.6	68.0%	9.0%	5.2%	-1.6%	12.2%	12.4%	2023
1JANATAMF	RACE	37.8	4.7	11.0	42.6%	4.3%	2.0%	-4.5%	7.1%	10.3%	2020
RELIANCE1	AIMS	9.6	9.5	13.5	70.5%	11.6%	2.7%	-1.1%	12.0%	10.2%	2021
PHPMF1	RACE	36.1	4.6	10.8	42.5%	6.5%	1.9%	-4.9%	8.5%	10.2%	2020
EBL1STMF	VIPB	19.0	6.7	11.1	60.4%	3.0%	2.9%	-3.5%	9.5%	10.0%	2019
POPULAR1MF	RACE	39.1	4.6	11.1	41.6%	4.3%	1.7%	-4.4%	8.3%	10.0%	2020
PRIME1ICBA	ICB AMCL	9.9	6.1	8.4	72.7%	11.5%	4.9%	-8.6%	7.6%	9.4%	2020
ABB1STMF	RACE	32.7	4.6	11.6	39.8%	4.3%	2.5%	-5.0%	8.5%	9.2%	2022
Market						**3.0%**	**0.2%**	**-13.8%**	**5.2%**	**4.8%**	

1 Price and NAV published on June 25, 2019.

2 On last cash dividend declared.

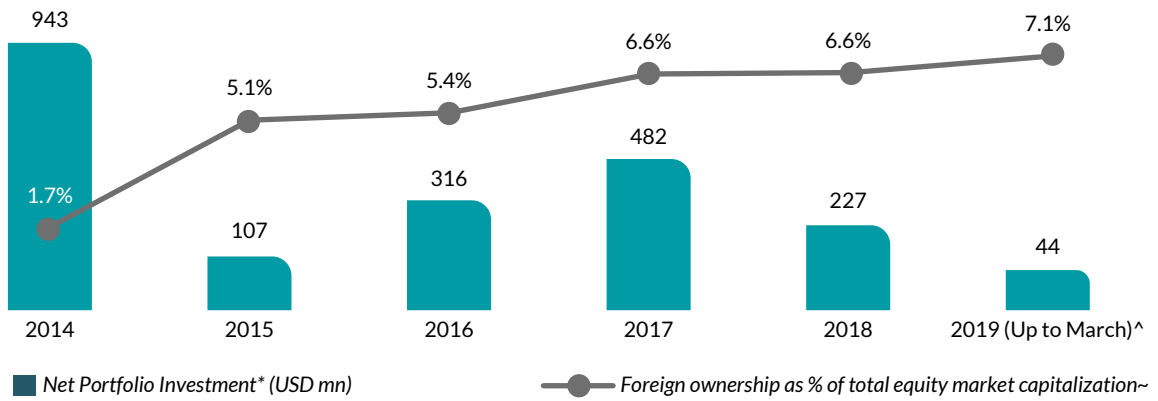
3 3CAGR computed for respected periods, except for 2018 and 2019 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4 In reference to BSEC Press Release বিএসইসি/মুখপাত্র (৩য় খন্ড)/২০১১/২৫ published on September 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, 2019 total foreign ownership stood at 7.1% of the total equity market capitalization, which was only 1.7% in 2014.

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



Source: DSE and Bangladesh Bank
^The Daily Star
*Net portfolio investment data are as of December of the respective years.
~% of foreign ownership of equity market capitalization data are as of December of the respective years except for 2019

Among all the companies with foreign ownership, DBH had the highest foreign shareholding of 42.8% as of May 2018, followed by BRACBANK with 42.4%.

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

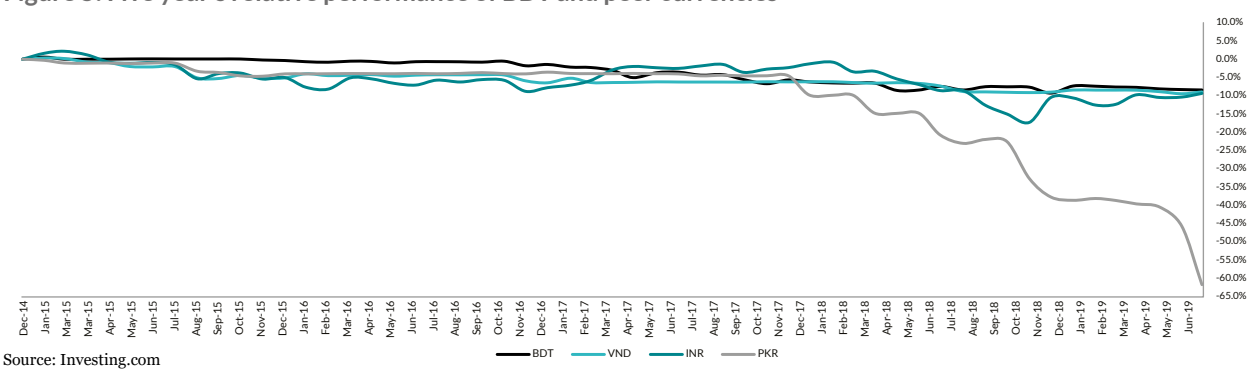
Ticker	Sector	Foreign Shareholding
DBH	NBFI	42.8%
BRACBANK	Bank	42.4%
OLYMPIC	Food & Allied	40.0%
BXPHARMA	Pharmaceuticals & Chemicals	37.8%
ISLAMIBANK	Bank	24.2%
RENATA	Pharmaceuticals & Chemicals	22.4%
MLDYEING	Textile	21.9%
SHEPHERD	Textile	20.5%
SQURPHARMA	Pharmaceuticals & Chemicals	20.3%
VFSTDL	Textile	18.3%

*Source: DSE

Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than the currencies of peer countries. While BDT depreciated by 8.4% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 9.0%, 9.4% and 61.8%, respectively.

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



Source: Investing.com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Revenue - Deficit

BDT 523,190 Cr

	This Fiscal Year	Previous Fiscal Year
VAT 123,077	23.52%	24.0%
Income Tax 113,960	21.78%	22.0%
Import Duty & Others 88,563	16.93%	18.0%
Non NBR Earnings 52,201	9.98%	9.0%
Foreign Source 63,848	12.20%	12.0%
Bank Borrowing 47,364	9.05%	9.0%
Non-Bank Borrowing 30,000	5.73%	6.0%
Foreign Grants 4,168	0.80%	

Expenditure

BDT 523,190 Cr

	This Fiscal Year	Previous Fiscal Year
Public Administration 96,790	18.50%	18.40%
Education & Technology 79,525	15.20%	14.60%
Transport & Communication 64,876	12.40%	12.20%
Interest 57,028	10.90%	11.00%
Local Govt. & Rural Development 37,670	7.20%	7.00%
Defence services 31,915	6.10%	6.30%
Social Security & Welfare 29,299	5.60%	5.90%
Others 97,835	18.7%	24.5%

* All Amount in BDT
* Provisional budget introduced on July 14, 2019 on National Parliament