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Feature

South Asia Economic Focus: Exports wanted

The growth outlook for South Asia assumes that the recent acceleration of export growth continues and that import growth slows so that imports and exports grow at similar rates going forward. Under these conditions, GDP growth is expected to accelerate slightly to 7.0 percent this year and to 7.1 percent in 2020 and 2021. GDP growth is forecast to slightly accelerate in Afghanistan, India, and Sri Lanka, but to moderate in Bangladesh, Bhutan,Maldives, Nepal, and Pakistan. The further acceleration of export growth will be challenging given global trade weakening. Other downside risks to the forecasts include a re-escalation of political turbulence, fiscal slippages, and deteriorated balance sheets of both banks and corporates. For high GDP growth to be sustained in the long run, the large infrastructure gaps have to be narrowed, and the still weak business climate has to be improved to increase investments from both domestic and foreign sources.

Robust growth forecast

Moderating global activity and heightened risks mean that global economic prospects are less benign than six months ago. International trade and investment have softened, trade tensions remain elevated, and some large emerging market and developing economies have experienced substantial financial market pressures recently. Downside risks have become more acute and disorderly financial market developments could disrupt activity in the affected economies and lead to contagion effects. Global growth is projected to moderate from 2.9 percent in 2018 to 2.6 percent in 2019 and is expected to stabilize at 2.8 percent in the following two years. The softening of global trade and the further tightening of financing conditions is expected to result in a more challenging external environment for EMDEs, whose growth is expected to stall in 2019.

The growth outlook for South Asia has been slightly revised down but remains strong

GDP growth is expected to accelerate slightly to 7.0 percent this year and to increase further to 7.1 percent in 2020 and 2021 (Figure 20). For this year, this is 0.1 percent- age point below the expectation in January due to a small downward revision for India and a larger one for Pakistan. For India, growth for fiscal year 2018-19 has been revised downward to 7.2 percent to align it more with the recent downward revision by the Central Statistical Office to 7.0 percent.

Table 3: Growth is expected to moderate in most countries in the region.

	2018	2019 (e)	2020 (f)	2021 (f)
Afghanistan (CY)	1.0	2.5	3.2	3.5
Bangladesh (FY)	7.9	7.3	7.4	7.3
Bhutan (FY)	5.7	5.4	5.4	5.2
India (FY)	7.2	7.5	7.5	7.5
Maldives (CY)	7.9	5.7	5.2	5.3
Nepal (FY)	6.3	6.0	6.1	6.2
Pakistan (FY, factor prices)	5.8	3.4	2.7	4.0
Sri Lanka (CY)	3.2	3.5	3.6	3.7

Growth estimates in India are susceptible to revisions and further revisions are likely upcoming in May. East Asia and Pacific is expected to grow at 6.0 percent this year and next, before it is expected to decelerate to5.8 percent. South Asia is hence very likely to extend its lead as the fastest growing region in the world. In 2021, South Asia is projected to account for 4.8 per- cent of the world economy, up from 4.5 percent last year and its contribution to world growth will reach 0.33 percentage points. In 2021, over ten percent of the world's GDP growth is projected to originate in South Asia.

Growth will continue to be driven by domestic demand

Domestic demand is expected to remain strong with support from monetary and fiscal policies. The contribution of government consumption is expected to decline from 1.1 percentage points last year to 0.8 percentage point this year and the following (Figure 21). The contributions of private consumption and investment are expected to soften very little, to 4.0 percentage points and 2.8 percent- age points in 2020 respectively. The largest change is expected from net exports. The net contribution of trade is expected to improve from minus 2.1 percent- age points last year to minus 1 percentage point this and the following year. In Bangladesh, GDP is projected to average 7.3 per- cent over the forecast horizon. Activity will be underpinned by strong infrastructure spending and robust investment with expanding credit growth. However, a slowdown in economic activity of trading partners could restrain the contribution of net exports to growth next year.

Lower import growth and higher export growth

In a major shift from the last years, imports and exports are expected to grow at very similar rates this year and the following. In the last two years, imports grew much stronger than exports. In 2017, exports grew only 4.6 percent whereas imports grew by 14.9 percent. Last year, exports grew by 9.7 percent and imports by 15.6 percent. In both years net exports were negative and hence dragged growth. This year, however, import growth is expected to come down to 11.8 percent and export growth to improve to 11.1 percent. In the following years, both are expected to grow around 11 percent. As a result, the negative net contribution from exports is projected to weaken over time.

The projected decline in regional import growth is consistent with the projected GDP growth composition going forward. To assess whether the projected import growth is consistent with developments in the past, we use three simple error correction models. For the first prediction we regress import growth on the growth rate of the sum of domestic demand minus imports and exports. The advantage of this specification is that we need to estimate few coefficients. For the second prediction, we consider exports and the three components of domestic demand private consumption, government consumption, and investments separately, and for the third we include oil prices. All models have a reasonably good in sample fit. That said, the models fit the data better the more information we include. Especially the first model but also the second one under predicts import growth in 2016 and 2017, but the model with oil prices is very close. For last year, imports grew exactly as much as the second and third prediction model suggest.

But will export growth pick up?

For this year and the next two, the projected ratio of export growth to GDP growth is 1.6. While this is very much in line with the long-run average from 2000 to 2018, it is twice as high as the ratio over the last three years, when it only averaged 0.8. It is especially high if one considers the fact that global trade growth is projected to slow this year and the following and that the export growth in South Asia is strongly correlated with world trade growth (a correlation coefficient of 0.8 since 2000). In Bhutan, exports will increase due to the operationalization of new hydropower plants. Similarly, the Upper Tamakoshi Hydropower Project will increase Nepal's exports. But while the depreciation of South Asian currencies may have a positive impact in the medium run, countries may struggle to increase exports further this year and then even more the next two years. It remains to be seen whether they will indeed manage to improve their export performance as much as projected. In the past, our trade projections have been too upbeat and we over predicted export growth and under predicted import growth (see last edition of this report). If the net contribution of exports does not shrink but instead stays at last year's level, growth in 2021 would ceteris paribus only be 6.0 percent rather than the projected 7.1 percent.

Downside risks to the outlook

Downside risks to the forecasts are strong. In addition to uncertainty about the projected pick up in export growth, there are additional downside risks to the outlook. The main domestic risks include a reescalation of political turbulence amid an election cycle in some countries, fiscal slippages with expanding public spending, and a resurgence of non-bank financial sector funding issues. The elevated tension between India and Pakistan in mid-February did not have a major immediate effect on markets, however a re-escalation could deteriorate confidence and weigh on investment in the region. External risks stem from weakening global growth and rising policy uncertainty. A sharper than expected deceleration in major economies or a recurring escalation of trade-related tensions among them could result in unfavorable spillovers to the region. High external debt and low international reserves limit the maneuverability against external shocks in some countries in the region. The new GST regime in India is still stabilizing, though GST tax collection has been improving in February, and fiscal deficits exceed official targets in some countries, posing a risk for the public finance outlook.

And structural bottlenecks persist. Deteriorated balance sheets of banks and corporates, and supply bottlenecks such as infrastructure gaps and relatively weak business climates continue to depress domes- tic and foreign investment potential in South Asia. A setback in reforms to address these issues could weigh on activity. In addition, South Asia is vulnerable to natural disasters, and the frequent occurrence of these events poses a challenge for its economic development.

[Source:http://www.worldbank.org/en/news/press-release/2019/04/07/south-asia-needs-more-exports-to-maintain-growth]

Business News

Bangladesh self-sufficient in billet production

Bangladesh has become self-sufficient in billet manufacturing on the back of huge investment made by large steel mills, which bumped up their production capacity for the key raw material of steel products. Five years ago, steel mills had to import half the total requirement for billet to make steel to feed the domestic market, said Md Shahidullah, secretary general of Bangladesh Steel Manufacturers Association (BSMA).

At present, import of per tonne of billet is subject to Tk 800 of advance income tax along with 4 percent advance trade VAT, 15 percent VAT and 20 percent regulatory duty. Shahidullah urged the government to continue providing the regulatory support to help the sector grow so that its contribution to the economy rises further. Bangladesh is one of the emerging steel markets and has a growing need for raw materials and semi-finished materials, according to Steelmint, an India-based information services provider.

VAT waiver for pharma raw materials till 2025

The National Board of Revenue has granted VAT exemption to the imports of raw materials of active pharmaceutical ingredients (API) and reagents for six years till 2025 in a boost for the sector. The revenue administration has published a notification to this effect recently. The benefit comes as a number of drugmakers are producing APIs to make medicines to cater for both domestic and export markets.

The members of BAPI represent nearly 200 drugmarkers and meet 98 percent of the annual demand of the local market amounting to more than $2 billion. Bangladesh's pharmaceuticals sector is expected to grow 15 percent year-on-year to reach $5.11 billion by 2023, propelled by investment by local companies as they seek to grab a bigger share of the global market, according to an estimate.The sector crossed the $100-million export mark for the first time in 2017-18, according to data from the Export Promotion Bureau.

Also, API producers will have to spend at least 1 percent of their annual turnover on research and development to avail the benefit, according to the notice. The minimum value-addition should be 60 percent. The privilege will be cancelled in case of non-compliance with VAT laws and the conditions related to the import of API without VAT.

Bangladesh a lucrative destination for investors: Japan Tobacco's regional chief talks to The Daily Star

The entry of Japan Tobacco International (JTI) into Bangladesh through its $1.47 billion acquisition of Akij Group's tobacco business would attract more international investors to the country, said a top official of JTI. "The acquisition should give a strong signal to international investors that Bangladesh is a place to do business and make investment," said Jorge Da Motta, regional president of JTI for the Asia-Pacific. In November last year, Japan Tobacco, the third largest publicly traded tobacco company in the world, completed the acquisition, which is the biggest-ever single foreign direct investment in Bangladesh.

Bangladesh has been referred

to lately as a new Asian tiger, as the economy is growing consistently at a pretty high rate, said Da Motta. Long before the acquisition took place, the JTI Foundation was already involved in Bangladesh in a few projects such as improving sanitation in Dhaka and positively impacting the livelihoods of 3,600 families – or around 16,200 individuals – living in the Bhashantek's low-income community. It is also undertaking other projects which focus on improving disaster resilience in disadvantaged communities in four urban slums in Dhaka and Khulna, which includes 5,250 households comprising about 26,000 people.Another project under implementation is to improve sanitation for low-income communities in Dhaka and Chittagong, where an estimated 21,000 inhabitants will benefit from the project upon completion."It is a good thing for us to invest and to make a positive impact in societies in which we operate. And Bangladesh is no exception," Da Motta said. "We are reviewing the community investment portfolio and will be looking at some other needs around us that make sense to get involved in."JTI, a member of the Japan Tobacco Group of Companies, is recognised as a top employer in more than 50 countries and employs close to 45,000 people.

Speaking about further investment plans in Bangladesh, Da Motta said it is constant. "We will invest in our people and quality and that can be a significant investment."There are many challenges in the market. Illegal trading of cigarettes is a big challenge for the sector because of which the government losses a lot of revenue.

Telenor, Axiata talk merger

Norway's Telenor and Malaysia's Axiata, the parent companies of Bangladesh's top two mobile operators, announced that they were in talks to combine their Asian operations.If the merger becomes successful, they will create a company with 300 million customers in nine countries, sales of about $13 billion and earnings of about $5.5 billion."Telenor and Axiata are in discussions on joining forces in Asia, one of the most dynamic and innovative regions in the world. Together, we aim to create a leading and well-diversified pan-Asian telecom and infrastructure company with substantial synergy potential and strong regional operations," Gunn Waersted, chair of Telenor Group, said in a statement.Anticipating resistance from the telecom watchdog, Robi, Axiata's subsidiary in Bangladesh that it co-owns with Bharti Airtel and NTT Docomo, was not offered as part of the deal. Both Grameenphone and Robi will continue their business in Bangladesh separately.Mobile infrastructure provider edotco Bangladesh, in which Axiata Group has 70 percent stakes, is part of the arrangement though, meaning there can be potential gains for Grameenphone, which is 55.8 percent owned by Telenor at present.In the merged company, Telenor will hold 56.5 percent stakes and Axiata the remaining 43.5 percent.But Axiata is unlikely to take a seat on the Grameenphone board, a person familiar with the negotiations told The Daily Star upon condition of anonymity.

A deal is expected by the third quarter, but the companies said that there is no certainty that the discussions will result in an agreement.Mahtab Uddin Ahmed, chief executive officer and managing director of Robi, met with Bangladesh Telecommunication Regulatory Commission Chairman Md Jahurul Haque yesterday to brief him on the developments."Right now we have no information about the negotiations, so we cannot comment on the matter," Haque said.

Grameenphone, which is listed on the Dhaka Stock Exchange, closed 4.96 percent lower at Tk 359.40 onMay 07, 2019. The operator is the clear leader in Bangladesh, followed by Robi, Banglalink and Teletalk.

Apparel export to US thrives on trade war

Apparel exports to the US, Bangladesh's single largest export destination, jumped 15.57 percent to $1.63 billion in the first three months of the year, which the exporters and experts attributed to the ongoing trade war between the US and China. Apparel was not in the list of the items subjected to US President Donald Trump's retaliatory 25 percent duty last year, but in the updated list that came out recently garment was included."The company has come to us not only to source garment items but also fabrics from our mills. The company also agreed to pay better prices," Jabbar said. The entrepreneur is hopeful of nurturing a longstanding relationship with his new American buyer. Echoing Jabbar, Ahsan H Mansur, executive director of the Policy Research Institute (PRI), said no retailer wants to do business in uncertainty. "The rising export to the US means we have started to get the benefits of the trade war between the US and China."

However, the shifting of work orders from China to other destinations is not a source of major concern for the country as it is hankering to shift its manufacturing base from apparel to technological items.Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), acknowledged the recent spike in work orders.

Grameenphone hits 1cr 4G internet users' milestone

Bangladesh's dominating mobile network operator Grameenphone has become the first operator to touch 1 crore 4G mobile internet users.The achievement has come within 14 months of introducing 4G service, Grameenphone said in a press release floated to the media today.

"Bangladesh is one of the fastest growing 4G market in Asia," said Yasir Azman, deputy chief executive officer (CEO) of Grameenphone."This shows how fast the country is moving towards digitalisation through mobile broadband and creating the opportunities to unleash potentials," said Azman.

Grameenphone is the first operator in Bangladesh to introduce mobile internet and take it across the country, giving people access to the world of information. Currently, it has over 3.7 crore connections on its network.Grameenphone, part of the Telenor Group, has more than 7.2 crore active connections.However, recent reports of the state's telecom regulator say that none of the mobile operators can ensure the mandated speed for 4G service.

India wants to invest in LNG, power sectors: Indian envoy calls on finance minister

India has shown interest to invest in the liquefied natural gas (LNG), power and other potential sectors in Bangladesh. Indian High Commissioner in Dhaka Riva Ganguly Das expressed the interest at a meeting with Finance Minister AHM Mustafa Kamal at his office at Sher-e-Bangla Nagar in the city on Monday, said a press release.

Ms Das also suggested that Bangladesh can build smart cities like the ones in India. In response, the finance minister said Bangladesh has the potential and adequate places to build smart cities. If India agrees to cooperate, Bangladesh can work together to develop smart cities, he added.Due to its geographical location, Bangladesh has turned into a centre of regional communications, foreign investment and global outsourcing, Mr Kamal said.He informed the envoy that the Bangladesh government has been setting up 100 economic zones across the country to attract foreign investments and promote local businesses as well. He also invited increased Indian investments to Bangladesh.

Tax holiday creates 29,000 jobs in 46 years: BUILD study reveals

The existing tax holiday facility is inadequate to attract investments and generate employment optimally, speakers said on May 20, 2019.They said restrictions on the sector selection, complex procedures and mistrust between policy makers and investors are the major reasons behind this.Non-traditional sectors such as leather, plastic, and light engineering are not availing this facility yet.The concerns came at a pre-budget dialogue on 'Revisiting tax holiday policy of Bangladesh for supporting new export sectors,' organised jointly by Bangladesh Investment Development Authority (BIDA) and Business Initiative Leading Development (BUILD) in Dhaka.

BIDA executive chairman Kazi M Aminul Islam was the chief guest at the programme. Former president of the Dhaka Chamber of Commerce and Industry (DCCI) Abul Kasem Khan was the session chair.Former DCCI senior vice president Humayun Rashid delivered an introductory speech.According to the BUILD study, over 400 industries from 22 industrial sectors availed the tax holiday facility until fiscal year 2017-18. The facility was introduced back in FY 1973.

Responding to the recommendations, NBR member Kanon Kumar Roy said many of the factors are related to the investment promotion beyond this facility."We should come from the tax exemption culture considering the necessity of the internal revenue mobilisation," he said.He said it is too late to place such pre-budget proposals for the upcoming fiscal.The National Board of Revenue (NBR) member (income tax policy) Kanon Kumar Roy and Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) taxation working committee convener Mohammad Humayun Kabir also spoke at the programme.

Ship gets stuck at Chittagong port, affects vessel movement

A container ship got stuck on one side of the Chittagong port's channel amid dense fog yesterday morning, disrupting vessel movement.The Malta-flagged MV Tzini was moving from the outer anchorage to a port jetty to berth, said Chittagong Port Authority (CPA) Chief Personal Officer Md Nasir Uddin.The ship got stuck trying to avoid a collision with a fishing trawler which had suddenly come out of dense fog, said Shyama Prashad Chowdhury, manager (feeder operation) of the ship's local agent GP Shipping Lines Limited, quoting the vessel's master.He said they would try to move the vessel in the evening high tide.Vessels usually cross the channel twice a day during the morning and evening high tide. Nasir said the channel was safe for vessel movement since the vessel was stuck on one side.

GP faces fresh restrictions: Minimum call rate to rise 5 paisa from June

The telecom regulator has decided to increase the floor price of Grameenphone's call rate by 5 paisa to Tk 0.50 a minute from June as part of the restrictions of being declared a significant market power (SMP) player.Currently, the minimum call rate is Tk 0.45 a minute and after adding the value-added tax and other duties it goes up to Tk 0.54 to any operator. But for Grameenphone it will be about Tk 0.61 a minute. However, the hike in minimum call rate is unlikely to impact the existing Grameenphone users as the operator is already charging much higher than the floor price, said Md Jahurul Haque, chairman of the telecom watchdog.Grameenphone's average call rate is now Tk 0.70 a minute, according to their financial statement.The higher floor price is one of the four restrictions that the Bangladesh Telecommunication Regulatory Commission has come up with for the country's leading mobile operator.

The telecom regulator yesterday sent a letter to Grameenphone informing the impending four restrictions and sought the operator's feedback on them."We have given them 15 days' time. After that we will impose our decisions from the start of June," Haque said.

Currently, operators can rollout packages just by informing the telecom regulator.Md Hasan, a deputy general manager of Grameenphone, acknowledged receiving the letter from the BTRC and the operator will respond after assessing the contents of the letter.Earlier on February 11, the BTRC declared Grameenphone as the country's first SMP operator seeing that its revenue share is more than 50 percent and customer share about 47 percent.On February 18, the operator was slapped with four restrictions that the operator challenged in court and prevailed.

'ROI in Bangladesh higher than neighbours': Momen tells Chinese cos

Return on investment (ROI) in Bangladesh is much higher than its neighbouring countries, Foreign Minister Dr A K Abdul Momen told a delegation of the Hong Kong-based Chinese Manufacturers' Association (CMA)."We guarantee you that our government is committed to take all necessary steps to protect your investment," Dr Momen told the delegation, led by CMA President Dr Dennis W P NG. The government is providing required infrastructure to encourage foreign direct investment (FDI) in the country, he added.The minister assured the team that Bangladesh has an ideal investment climate along with conducive trade and investment policies."I can guarantee that your investment in the country will be a win-win situation for both Bangladesh and China."Dr Momen also informed them about Bangladesh's recent advancement in IT and software sector, and said the country has one of the fastest growing pools of software freelancers in the world.He mentioned that the government aims at raising software export of the country to US$ 5.0 billion by 2020.

Top officials of the Bangladesh Investment Development Authority, the Bangladesh Export Processing Zones Authority, and the Bangladesh Economic Zones Authority were also present in the meeting. They made presentations on the activities of their respective organisations.Later, the minister told newsmen that red-tapism and corruption are common impediments to investment everywhere across the world.Despite various hurdles, Bangladesh managed to maintain a growth in FDI last year, whereas many countries experienced fall in this regard.

Market & Financial News

Interest rate spread slightly low in April

The overall interest rate spread in the country's banking sector narrowed down slightly as commercial banks increased deposit rates while lending rates fell, officials said.The weighted average spread between lending and deposit rates offered by the commercial banks came down to 4.04 per cent in April 2019 from 4.15 per cent of the previous month, according to the central bank's latest statistics. Actually, the spread fell slightly in the month of April after it remained unchanged at 4.15 in three consecutive months from January to March this calendar year.

The weighted average rate on deposits rose to 5.42 per cent in April from 5.35 per cent a month before while interest rates on lending came down to 9.46 per cent from 9.50 per cent.Senior bankers, however, predicated that the upward trend in interest rates on deposits may continue this month ahead of the Eid-ul-Fitr festival.Complying with the policy on offshore banking operation will also put pressure on liquidity in the near future, they added.As per the policy, issued by the central bank on February 25 last, the banks will have to keep a deposit an amount equivalent to 13 per cent of their total liabilities with the BB as statutory liquidity ratio (SLR) and 5.50 per cent as cash reserve requirement (CRR) from July. Impact on the government's recent directive relating to interest rates on lending and deposit will depend on its implementation, according to the senior bankers.

The spread, being maintained by 12 commercial banks, out of 57, still remains high. It ranges between over 5.0 per cent and 8.31 per cent.Average spread with the state-owned commercial banks (SoCBs) was 2.26 per cent in April 2019. The figure was 4.21 per cent for the PCBs.It was 6.68 per cent with the foreign commercial banks (FCBs), and 1.89 per cent with the specialised banks (SBs), the BB data showed.Excluding consumer finance and credit card, the interest spread of all banks also came down to 3.95 per cent in April from 4.06 per cent a month back.

Tax benefits for car industry

In the latest in its series of pre-budget meetings, the National Board of Revenue (NBR) informed that the government was considering giving tax benefits for car manufacturing in the country. Since the government wants factories to grow up for the manufacture of cars locally, it has in mind extending required support to the industry including tax incentives. At the same time the government wants investors to utilise the offered benefits. Although the budget for the FY2019-20 is not yet out, NBR meetings with various business groups and discussions there are likely to have a substantial effect on the overall government fiscal statement next June 30. Therefore, the government's latest words of hope for the domestic car industry must be a welcome idea. This must be seen in the light of the government's previous budget efforts that included incentives to electric cars.

That Pargati has not been sufficient is proven by the fact that imported cars and jeeps dominate the local market overwhelmingly. If the government can encourage foreign and domestic investors with incentives to establish factories locally, as the NBR indicated, there can hardly be a better option. Apart from the jobs that will be created in the factories, every new vehicle will come up with the requirement of a new driver since it is not mostly the culture here that the owner drives the car.

Industrialization without care to the environment is self-destructive. Proposed electric cars will add to the efforts taken to improve air quality, besides doing other good things to the economy like cutting on fuel costs and bringing in virtual energy independence, for the electric car-owners at least. As new cars and vehicles join the ever-increasing flow, traffic management must take precedence along with environment. New vehicles are cursed for adding to the incalculable wastage of man-hours irreparably. As such traffic supervision and road quality must improve to take advantage of the proposed incentive to local car industry through the tax benefits, at the same time keeping in mind the very important issue of environment-protection.

Net foreign investment in DSE dips in April: April net investment negative

Net foreign investment in the Dhaka Stock Exchange (DSE) remained negative for the two straight months in April as overseas investors continued their selling binge. Foreign investors collected shares worth Tk 2.57 billion but sold Tk 4.11 billion worth of shares last month, resulting in their net position of a negative Tk 1.54 billion, according to statistics available with the DSE.

Protfolio transaction on DSE in 2019

Month	Buy shares	Sell shares	Net position
Jan, 2019	Tk 6.11 b	Tk 4.25 b	Tk 1.86 b
Feb, 2019	Tk 4.35 b	Tk 1.97 b	Tk 2.38 b
Mar, 2019	Tk 3.75 b	Tk 4.98 b	Tk (1.23 b)
Aprl, 2019	Tk 2.57 b	Tk 4.11 b	Tk (1.54 b)

Source: DSE

In March, the overseas investors' net position was also negative Tk 1.23 billion, as they purchased shares worth Tk 3.75 billion and sold shares worth Tk 4.98 billion, the DSE data shows. Market analysts said the foreign investors sold shares in line with the local investors amid lack of confidence and dearth of quality stocks. Foreign investors look for companies that performed well, maintain good governance and have growth potential. "But we were not provide to them with a long list of such companies," said a merchant banker, preferring anonymity. He noted that researchers can recommend names of only 30 to 35 companies, out of more than 300 listed, to meet foreign investors' criteria. AB Mirza Azizul Islam, former finance adviser to the caretaker government suggested to bring quality stocks to attract foreign investors as well as increased depth of the market.

Banks and financial institutions shares were the top choice of foreign investors, who also seemed interested in power and energy, telecom, pharmaceuticals, multinational companies and IT companies. Delta Brac Housing Finance has the highest foreign investors' stake with - 42.86 per cent, followed by Brac Bank 42.70 per cent and Olympic Industries 39.84 per cent as of March 31, 2019, the DSE data shows. Also known as portfolio investment, foreign investment accounts for less than 2.0 per cent of the premier bourse's total market capitalisation, which stood at Tk 4,132 billion.

Country's overall import payments grew by 7.32 per cent or $2.81 billion in the first nine months of the current fiscal year 2018-19 despite fall in import of capital machinery. According to Bangladesh Bank's latest data, settlement of letters of credit, considered as actual import, increased to $41.22 billion during the July-March period of FY19 from $38.41 billion in the same period of the previous fiscal.

Although the country's import growth was significant, the import of capital machinery has been falling for last several months. Capital machinery are considered as the driving force for the industrial sector of countries like Bangladesh. Import of capital machinery dropped by 9.45 per cent to $3.61 billion in July-March of FY19 from $3.99 billion in the same period of last fiscal year. Growth in capital machinery import was 6.24 per cent in the entire FY18. Besides, growth in import of industrial raw materials slowed down in first nine months of FY19 along with sluggish private sector credit growth that hit 54-month low in March this year. Import of industrial raw materials grew by 9.74 per cent to $14.73 billion in July-March period against import of $13.43 billion in the same period of previous fiscal.Growth in industrial raw materials import was 10.08 per cent in the first nine months last year and 12.36 per cent in the entire fiscal. Higher import payment for fuel oils also increased up the overall import expenses during the period, officials of Bangladesh Bank said. With 25.43 per cent growth in petroleum import payment in first nine months of FY19, the total cost for this purposes increased to $2.81 billion from $2.24 billion during same period last fiscal. On the other hand, import of food grains, particularly rice and wheat, dropped by 56.88 per cent to $1.06 billion from $2.47 billion.

BB officials, however, said that the cost for food grains import might increase in the coming months as the cyclone Fani that crossed the country on May 5 damaged crops of vast area. As per a statement of agriculture minister Abdur Razzak, Fani damaged crops of over some 63.06 hectares of land in 209 upazilas and 35 districts.

Tax Receipts in 9 Months: Tk 50,500cr short of target

Revenue collection is poised to fall short of target by a big margin this fiscal year, with receipts growing the lowest in five years in the first nine months due to sluggish collection of customs tariff and value-added tax. Between July last year and March this year, the National Board of Revenue managed about Tk 153,419 crore in collections, up 7 percent from a year earlier, as per its provisional data.

The amount missed the periodic target by nearly Tk 50,500 crore. The government has assigned the NBR to collect a total of Tk 296,201 crore in 2018-19 and the revenue authorities will have to collect more than Tk 142,000 crore in the remaining three months to meet the target -- an unfeasible option

"The revenue mobilisation scenario in 2018-19 appears to be even more dismal," said the think-tank.Officials blamed the VAT waiver on various goods and services including the exemption of VAT, supplementary duty and advance trade VAT on the import of liquefied natural gas and the reduction of the indirect tax on internet usage for the low collections.As per NBR estimates, the two sources would cause a revenue loss of Tk 12,000 crore. During the nine-month period, revenue collectors logged in Tk 56,438 crore as VAT, up 6.52 percent year-on-year.

An official of the NBR said the results of various tax measures that were taken in the budget are yet to come through in full.

The interest on bank deposits is one of the main sources of tax. But the low growth in deposits has affected collection from this area too, he added.

Defaulters have the last laugh: BB not learning from its experiences and other countries' models to tackle NPLs

Insanity is doing the same thing over and over again and expecting different results, the influential physicist Albert Einstein once said. And this quote comes to mind when one glances through the Bangladesh Bank's latest policy for defaulters. Issued on May 16, the notice is an extended version of the generosity it had handed out to large loan defaulters in 2015 which yielded no results.Eleven large business groups got their loans of nearly Tk 15,000 crore restructured then at discounted interest rates (cost of fund plus one percent) and longer repayment period. For loans amounting to more than Tk 1,000 crore, the down payment was just 1 percent.After a year's grace period the loans were due in September 2016. But most of them failed to pay even their first instalment and half of them even applied to get their loans restructured again.In the absence of any repayment, the restructured loans under the policy have now ballooned to Tk 17,103 crore, according to the central bank's latest policy. Despite this experience, the BB came up with bigger and better offers for defaulters.Until August 16, defaulters have the opportunity to reschedule their loans by giving only 2 percent down payment of their outstanding amount -- down from 10 percent to 50 percent in the existing policy.

They will get 10 years to pay back their loans, including a year's grace period.The interest rate would be the bank's cost of fund plus 3 percent but in no way can it exceed 9 percent. What is more incredulous is that banks can waive the interest accrued on defaulted loans -- as if the defaulters' transgressions have no consequence.

Errant banks to be denied ADP funds

Banks and financial institutions who failed to lower their interest rates to 9 per cent will not get government's annual development programme fund. They will also not be able to receive savings or funds from autonomous and semi-autonomous government institutions, said a directive published.

The directive, issued by Financial Institutions Division yesterday, was signed by Deputy Secretary Md Jehad Uddin of the Ministry of Finance. The move comes as a strong measure to compel banks to lower down interest rates to 9 per cent, as committed to the government. Businesses have long been complaining of double digit interest rates, what has been seen as one of the key reasons behind lagging private sector investment.

Article

Ensuring effectiveness of industrial cluster development

Md Joynal Abdin

Over the past couple of decades, the economy of Bangladesh has been transitioning from agricultural economy to industrial economy. Contribution of agriculture to the gross domestic product (GDP) is reducing day-by-day while at the same time contribution of industries is increasing. It does not mean that, agricultural production is declining. It is because GDP size is increasing rapidly than that of the increasing trend of agriculture sector.

Agricultural production has the highest threshold against each acres of land. Therefore value addition in agricultural products or agro processing is important to transform agri-products into industrial goods. Most of the consumer items and essential commodities are mainly primary or secondary products of agriculture. Industrial movement started with agro processing sectors in almost every developing economy. Of course, there are some exceptions where some economies started off with service sector, infrastructural or geopolitical advantages.

Industries sector needs utilities and logistics support to grow. Ensuring industrial logistics and utilities from one corner of a country to the other is not possible for any new economy like post-liberation war Bangladesh. A dedicated government agency is required to facilitate industrial utilities and logistics for existing and upcoming entrepreneurs of the country. To facilitate industrialisation in the then-East Pakistan, Small and Cottage Industries Corporation Act, 1957 was enacted by the Minister for Labour, Commerce and Industry Bangabandhu Sheikh Mujibur Rahman. He established East Pakistan Small and Cottage Industries Corporation (PSCIC). Following independence, this institute was transformed into Bangladesh Small and Cottage Industries Corporation (BSCIC). Since then, the BSCIC has played a pivotal role in the development of industrial estate in the country. Notable activities of BSCIC are entrepreneurship development through counselling and training; providing infrastructural facilities by establishing industrial estates; extending credit facilities to the entrepreneurs from its own funds and also through banks and financial institutions; preparation of project profile and project appraisal proposal; providing technical and consultancy services for establishing new industrial units and quality improvement of small cottage industry products; registration of small and cottage industrial unit and recommending exemption of duties and taxes for the small industrial raw materials and product etc. Till date, BSCIC has developed around 94 industrial estates around the country. BSCIC industrial estates are the first official forms of industrial clusters in Bangladesh.

Bangladesh Export Processing Zones Authority (BEPZA) Act, 1980 was passed in the Parliament and established BEPZA for creation, development, operation and management of Export Processing Zones (EPZ). BEPZA is engaged in attracting and facilitating foreign and local investment in the EPZs of Bangladesh. BEPZA established its first EPZ in Chattogram in 1983. Later on, it established EPZs in Dhaka, Mongla, Cumilla, Ishwardi, Uttara (Nilphamari), Adamjee and Karnaphuli. EPZs are also a type of industrial estate or cluster. EPZ played a significant role in boosting up exports and attracting foreign investment.

The Small & Medium Enterprise Foundation, widely known as SME Foundation, was created by the Ministry of Industries in November 2006 as a company limited by guarantee and licensed by the Ministry of Commerce as a not for profit organization and registered under the Companies Act (Act XXVIII) of 1994. It is running under the guideline as stated in the Memorandum and Articles of Association. Government provided an endowment fund to it so that it can cater towards the development needs of the small and medium enterprises of the country. One of the flagship activities of SME Foundation is to identify, map and implement development initiatives of 177 naturally grown SME clusters throughout the country. SME clusters are naturally grown industrial clusters comprising of at least 50 homogeneous manufacturing or service units of micro, small and medium enterprises.

Bangladesh Economic Zones Authority (BEZA) came along through the Bangladesh Economic Zones Act, 2010. BEZA was officially instituted by the government on November 09, 2010. BEZA aims to establish economic zones in all potential areas in Bangladesh including backward and underdeveloped regions with a view to encouraging rapid economic development through increase and diversification of industry, employment, production and export'. Around this time, the Prime Minister Sheikh Hasina announced a target of developing 100 Special Economic Zones by 2030. BEZA has already identified locations for establishing 88 SEZ including 29 private economic zones. These economic zones are a different form of industrial cluster.

Industries sector experts and economists are of the opinion that Bangladesh has the opportunity to exploit untapped potential that can open up through the development of economic corridor. Better utilisation of the country's strategic geopolitical location could be possible through economic corridor development/establishment. The government can consider the establishment of another agency named 'Bangladesh Economic Corridor Development Authority (BECDA)', similar to BEPZA & BEZA.

From the history of industrial cluster development in the country, it is very clear that the government is willing to develop industrial areas, estates, processing zones, economic zones and more, to boost industrialisation in Bangladesh. All of the agencies like BSCIC, BEPZA, SME Foundation and BEZA are working hard for the development of industrial clusters. Slight differentiation can be identified based on nature of job or reporting authority of these institutions. But the ultimate target is industrial cluster development for promoting investment, export earnings, entrepreneurship development etc.

All the agencies could be merged into a single platform called Bangladesh Cluster Development Authority (BCDA). Currently, more resources are being deployed from these different platforms to achieve one goal. Under a single platform, the number of resources will not be wasted. Also, there will be a stronger focus.

In such a way, uniform cluster development approach should be considered and implemented to ensure greater return by investing limited amount of resources.

[Contributor: Md Joynal Abdin is Executive Director, DCCI Business Institute (DBI)]

News from Member Companies

10 years of making waves through Probaho

Contaminated water creates widespread problems that are jeopardizing the health and living standards of billions of people. Especially in Bangladesh, thousands are still struggling to survive due to a lack of clean and safe drinking water. The ideal arsenic upper limit proposed by WHO is 0.01 mg/l but the actual content is 1-2 mg/l.

United Nations Sustainable Development Goal no. 6 (Clean Water and Sanitation) aims to address this concern. The objective is to ensure availability and sustainable management of water for all by 2030. Probaho, a BAT Bangladesh CSR Project initiated in 2009, also addresses the same – provision of safe drinking water, which is a basic human right.

Probaho recognizes the necessity of water and sanitation, specifically in the context of SDGs. Through Probaho, clean and safe drinking water is provided to arsenic prone rural communities in 13 locations including Greater Kushtia, Rangpur and Manikganj areas. Every day, more than 200,000 beneficiaries lives' are touched with 400,000 litres of water through 78 filtration plants. This project believes in making a proactive impact. Just as every ripple has its consequences, likewise, each litre of clean water contributes towards making a bigger impact on people.

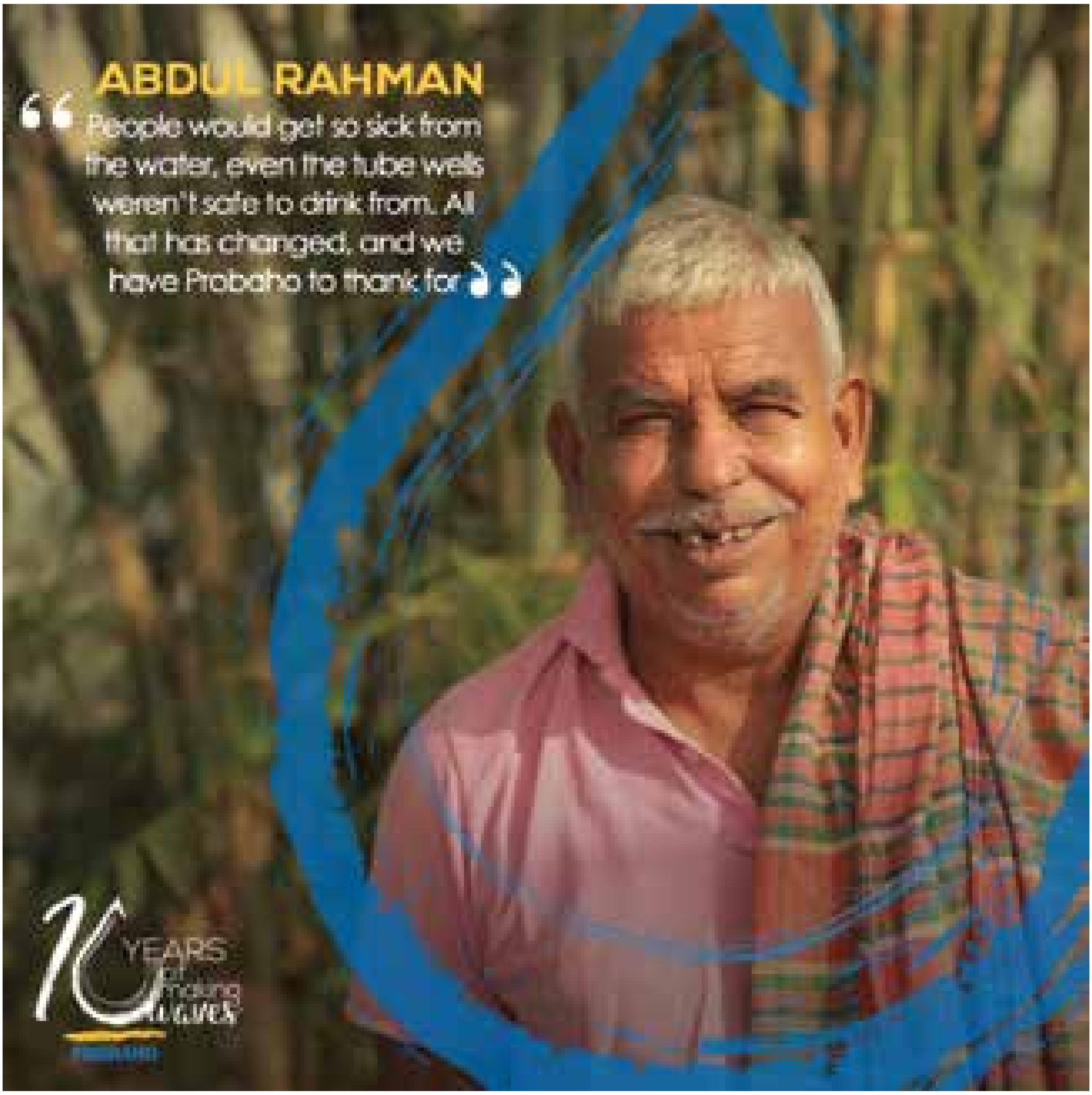
2019 marks the 10th year of Probaho – for which an integrated campaign has been driven in accordance with 2019's World Water Day Theme: Leaving no one behind. Since the last 10 years, Probaho has been proactively working as a self-sustainable model to minimize the risks of water contamination. Statistics indicate that more than 55% people in rural communities suffered from water-borne diseases before the Probaho program was launched. Today, as many as 70% of the communities believe that water-borne diseases have declined after the launch of Probaho. Not just that, 97% of the beneficiaries have also saved time for other tasks as they spend less time collecting water*.

On account of World Water Day and Probaho's 10th year completion, beneficiaries' shared their thoughts on how they have been benefitted from Probaho. Such opportunities help in sharing and learning more about water related issues, further inspiring the world to take strong actions towards making a difference.

Probaho won the 'Asia Responsible Entrepreneurship Award (AREA) 2015' as the best CSR Project as well as the Bangladesh Innovation Awards organized by Bangladesh Brand Forum in 2018.

Waves are powerful, but they start small. Probaho has been making a difference in its beneficiaries lives and will continue to do so going forward.

***Responsible Business for a Sustainable Future: A CSR Impact Study**



Activities of the Chamber

May 06: The 17th Executive Committee (2017-19) meeting of the Chamber was held on the day at the FICCI conference room. The meeting was chaired by the FICCI President, Mr. Shehzad Munim.

The 17th EC Meeting

May 13: A meeting of the Chamber's Banking and Financial Service Subcommittee was held on the day at the HSBC Gulshan Office. The meeting was chaired by its convener Mr. Francois de Maricourt.

May 22: A meeting of the Chamber's Magazine Subcommittee was held on the day at the FICCI conference room. The meeting was chaired by its convener Dr. Mahmudul Karim.

Magazine Subcommittee Meeting

May 28: FICCI's Banking and Financial Service Subcommittee attended the meeting with Bangladesh Bank Governor Mr. Fazle Kabir, about new OBU guildlines-issues for the foreign bank operating in Bangladesh on the day at the Bangladesh Bank Conference room. The meeting was chaired by the Bangladesh Bank Governor Mr. Fazle Kabir. Mr. Francois de Maricourt CEO of HSBC and convener of FICCI's Banking and Financial Service Subcommittee, Mr. Jamil Osman Executive Director of FICCI, Mr. Abdul Kader Joaddar CFO of Standard Chartered Bank, Mr. N.Rajashekaran Managing Director of Citibank N.A., Mr. S.A.A. Masrur Country Head of Bank Alfalah Ltd, Mr. Syed Hammadul Karim GM of Metlife Alico, Mr. Erslaan Ahmed Regional General Manager of Habib Bank, Dr. Prakash Chand Saboo Country Head of State Bank of India and Mr. Farhanul Chowdhury CFO of HSBC were present in the meeting.

Banking and Financial Service Subcommittee meeting with Bangladesh Bank Governor Mr. Fazle Kabir

Key Economic Indicators

Consumer Price Index & Inflation Rate

CPI Classification	2015-16	2016-17	2017-18	2017-18			2018-19		
				Janu'18	Feb'18	Mar'18	Janu'19	Feb'19	Mar'19
1	2	3	4	5	6	7	8	9	10
NATIONAL									
General index	219.86	231.82	245.22	248.13	247.81	248.65	261.58	261.36	262.45
Inflation	5.92	5.44	5.78	5.88	5.72	5.68	5.42	5.47	5.55
Food index	234.77	248.90	266.64	271.05	270.25	271.27	285.50	284.96	286.78
Inflation	4.90	6.02	7.13	7.62	7.27	7.09	5.33	5.44	5.72
Non-food index	200.66	209.92	217.76	218.73	219.04	219.64	230.91	231.10	231.25
Inflation	7.43	4.61	3.74	3.23	3.36	3.52	5.57	5.51	5.29
RURAL									
General index	220.10	231.02	244.17	247.49	246.93	247.76	260.22	259.93	261.10
Inflation	5.26	4.96	5.69	5.90	5.64	5.63	5.14	5.26	5.38
Food index	230.31	243.08	259.86	264.64	263.56	264.50	278.61	278.00	279.85
Inflation	4.20	5.54	6.90	7.40	6.94	6.77	5.28	5.48	5.80
Non-food index	203.86	211.83	219.21	220.20	220.47	221.14	230.96	231.18	231.26
Inflation	7.22	3.91	3.48	3.13	3.25	3.52	4.89	4.86	4.58
URBAN									
General index	219.31	233.29	247.17	249.31	249.42	250.28	264.09	264.01	264.94
Inflation	7.11	6.37	5.95	5.86	5.87	5.76	5.93	5.85	5.86
Food index	245.66	263.09	283.19	286.72	286.55	287.79	302.30	301.96	303.69
Inflation	6.55	7.10	7.63	8.13	8.02	7.80	5.43	5.38	5.52
Non-food index	196.39	207.38	215.83	216.77	217.12	217.65	230.85	231.00	231.24
Inflation	7.72	5.60	4.08	3.37	3.50	3.51	6.50	6.39	6.24

Source: Bangladesh Bureau of Statistics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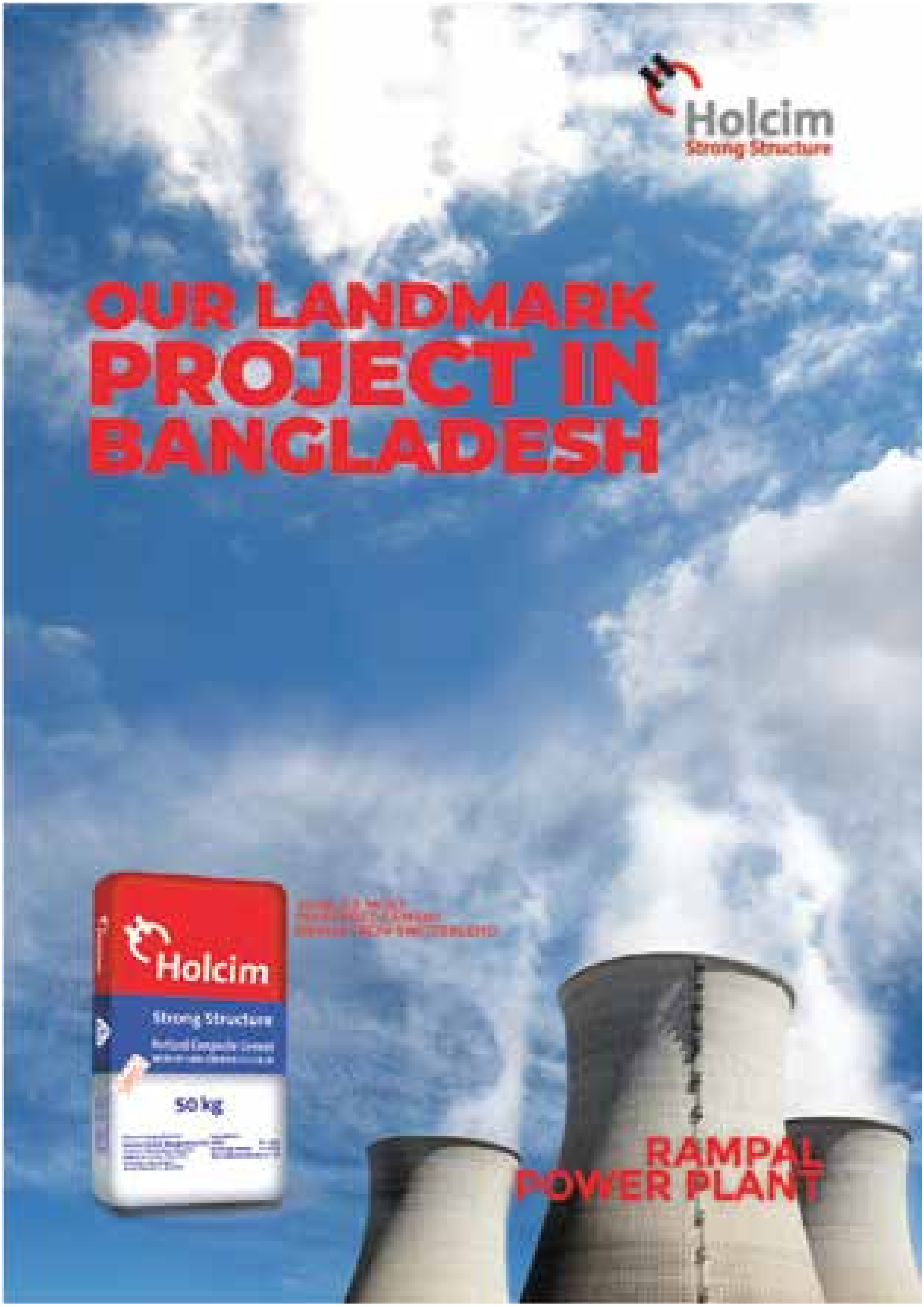

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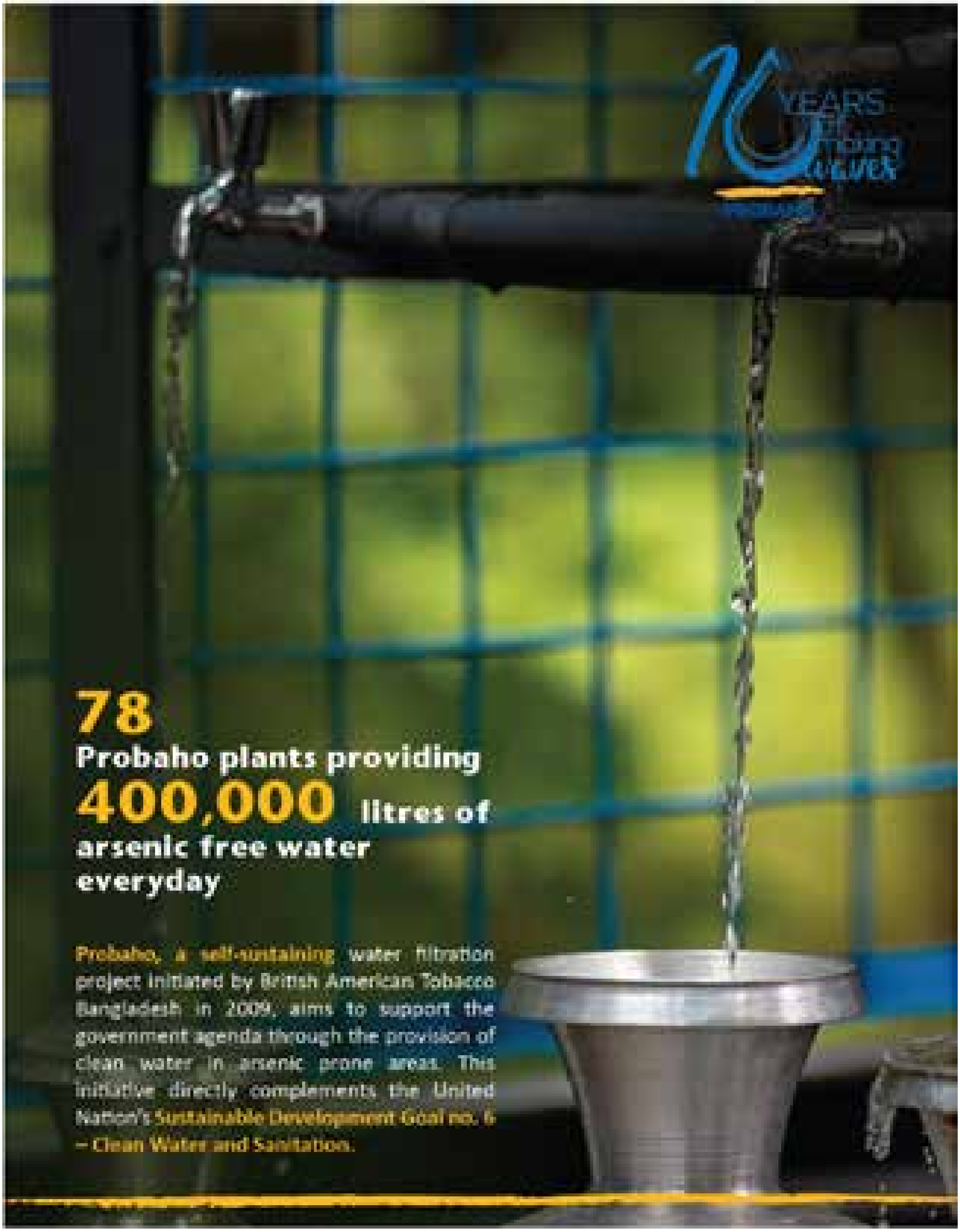
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Probaho plants providing
400,000 litres of
arsenic free water
everyday
Probaho, a self-sustaining water filtration project initiated by British American Tobacco Bangladesh in 2009, aims to support the government agenda through the provision of clean water in arsenic prone areas. This initiative directly complements the United Nation's Sustainable Development Goal no. 6 – Clean Water and Sanitation.