

COVID-19 Impact on Bangladesh Economy



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Key Highlights:

- The largest two cities of Bangladesh, Dhaka and Chattogram generate 87% of the country's total output, with Dhaka housing the largest concentration (31.9%) of urban population. Such massive concentration in the top two cities for economic activities, specially manufacturing and service industry, puts the country at a very high risk of COVID-19 transmission. Hence, without effective management of the contagion, the Bangladesh growth story may take a disastrous turn.
- Global and local demand for manufactured goods, particularly in the garments sector, will affect private sector growth and government's focus in managing the COVID-19 pandemic is expected halt public sector projects. Hence, based on the economic disruptions following the pandemic, GDP growth forecast of Bangladesh by IMF, WB and ADB has been revised downward from 7.8%-8.2% to a range of 2.0% to 3.8% for FY'20. We project export to fall by 15.4%, import to slow down by 11.8% and remittance to grow at 6.0% in FY 20.
- Fiscal stimulus worth BDT 1,029.6bn and various non fiscal stimulus has been announced to tackle the economic fallout of the coronavirus pandemic. However, efficient implementation of the fiscal stimulus will be a key challenge.
- The banking sector was already struggling prior to the COVID-19 situation from skyrocketing Non-Performing loans, declining margins in a capped interest rate regime, deteriorations in various efficiency indicators, government directed restructuring of loans, declining demand for loanable funds, etc. Now, the pandemic has put the sector into further stress.
- The funds from the stimulus package will be distributed through the banking channel; while both credit and collection risk will lie with the banks. The sector being overburdened with non-performing assets need to mitigate credit risk before disbursing any fresh aids.
- It is high time for the country's banking sector to develop and implement a truly digitized financial system, which would include a secured, contactless, and converged financial platform for transactions. The post pandemic banking scenario would be unquestionably different than the present and technology would play the dominant factor in creating competitiveness.
- High cost to income ratio (78%) in the banking sector with a sudden pandemic shock made the banks ripe for cost efficiency developments. Cost rationalizations and layoffs in banking sector may come up with an endeavor to increase efficiency but if done in biased/ weak governance framework, it may leave the sector demoralized.
- The revenue stream of insurance industry is suffering badly due to COVID-19 pandemic. Due to COVID-19 fire and marine insurance are expected to take the biggest hit. These two components consist of around 77% of non-life insurance companies total premium income.
- The Covid-19 pandemic has completely derailed the textile industry from its growth trajectory. From Mar 2020 to May 2020, RMG exports fell by 54.8% to USD 3.7bn from USD 8.2bn over the same period of 2019. During this time, 1,150 factories reported order cancellation/suspension of USD 3.18bn which impacted around 2.28mn workers in the industry.

- The previous structural weaknesses coupled with pandemic shock has driven the textile industry into a corner and has created a “do or die” situation. The government stimulus gives the industry access to cheap financing which is not enough to address the demand and supply chain disruptions over the long run.
- Bangladesh has excess power generation capacity that results in growing capacity payments every year. Overall power capacity utilization in Bangladesh for 2018-19 was just 43%, while capacity payments to idle plants reached ~BDT 89.3bn in 2018-19. Now, the pandemic driven slowdown in economic activities is likely to further lower energy demand and worsen the excess capacity situation. Many of the power generation and distribution companies are likely to witness significant fall in their topline even with capacity payments, some will face business continuity risk from non-renewal of rental power agreements.
- Cement and Steel producers in Bangladesh made aggressive expansion over the past few years with the aim of supplying to the government for its megaprojects, meeting the rising consumer demand and exporting to neighboring countries. Now, with the advent of the Covid-19 pandemic all activities in the construction industry has come to a grinding halt. With the prospect a prolonged demand slump, broken cash cycle from high credit sales and high debt burden industry players are likely to find it impossible to survive without government assistance.
- The pharmaceutical industry is among the least effected by the pandemic disruption but the industry’s supply chain has been stretched dangerously thin. The industry imports over 97% of its raw materials; however, trade with importing countries has been severely restricted since the start of the pandemic. If this persists, drug producers may have to shift to expensive import destinations which will eat into their profit margins.
- The post-COVID-19 world will not be the same again. The new normal may come up with changed lifestyle, purchasing behavior and way of doing business through new interfaces. The post-pandemic solutions of unique problems that we are facing through this pandemic may lay the foundation for many business ideas and can shape the future of our e-commerce industry in the coming years.

COVID-19 Scenario in Bangladesh

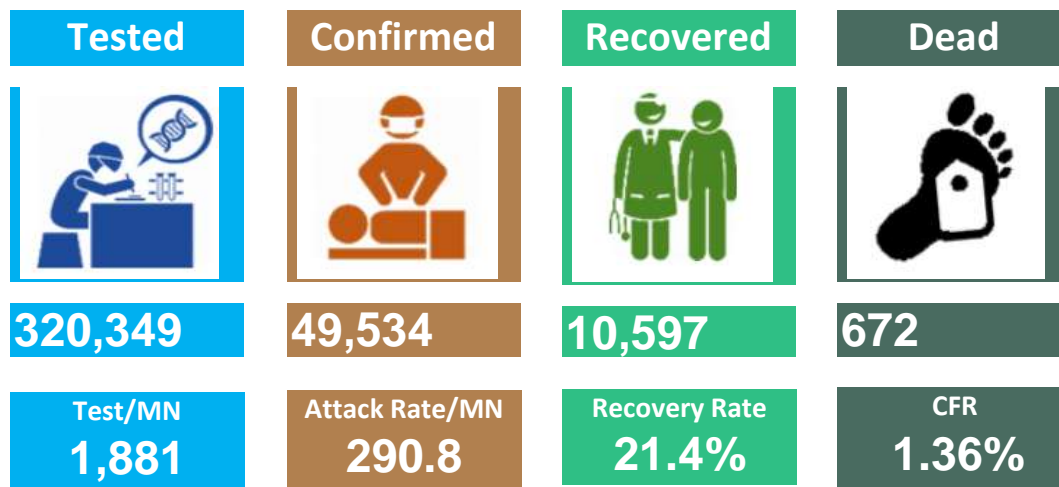
The COVID-19 pandemic has thus far spread to 188 countries and territories, infecting 6.7 million people, significantly affecting the global economy. Since the corona virus has been growing exponentially, even the developed countries have been unable to contain its spread. More than 390,000 people have died from COVID-19. With high population density, we cannot even think how deadly the highly contagious disease will turn if it spreads from a moderate to a strong category in India or Bangladesh.

As of 01 June 2020, Bangladesh 49,534 confirmed infections with 672 deaths, from the novel coronavirus outbreak.

The COVID-19 testing coverage has been gradually increasing in Bangladesh, reaching now 1880.1/MN but is still lower than Thailand (6,026/MN), India (2,873/MN) and Nepal (6,382/MN).

The institutional quarantine capacity in the country is represented by 629 centers across 64 districts, which can receive 31,991 people. Between 17 March to 01 June 2020, total 272,339 individuals were placed under home quarantine all the over the county and to date 80% have been already released. Remaining 20% (55,465 individuals) are in home quarantine now. By 01 June 2020, in total 9,259 individuals were isolated in designated health facilities all over the country, of them 35% have been released, and 6,021(65%)are presently in Isolation facilities.

June 01, 2020 Bangladesh COVID Situation Report



Source: WHO

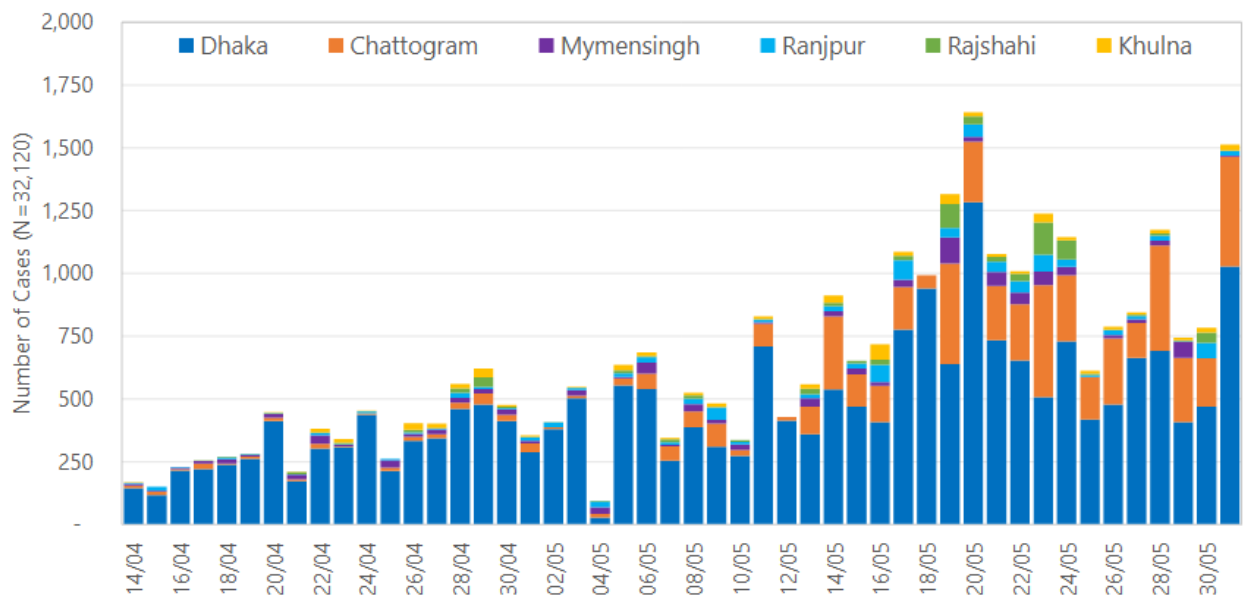
In its effort to contain the pandemic, Bangladesh government first imposed a nationwide lockdown on March 26 and has extended it six times so far and finally decided to conditionally carry out the overall activities in the country from 31 May 2020. Authorities have declared a ban on passenger travel via water, rail and on domestic air routes from March 24 while all public transport on roads are suspended from March 26 till 31 May 2020.

Only trucks, covered vans and vehicles carrying medicine, fuel and perishable items were remained out of the purview of the lockdown. Hospitals, health clinics, grocery markets, pharmacies, vegetable markets and banks (on a limited scale) remained open to offer essential services.

From 26 April 2020, apparel factories in industrial belts in Dhaka and Chattogram were allowed to resume production to cater increasing order flow from Asian markets. Industries have gone for gradual reopening of factories in phases maintaining strict compliance of COVID-19 instructions by the health department.

Concentration of Economic Activities in Two Major Cities Puts Bangladesh at Higher Risk- Economic activities in Bangladesh are very concentrated in two major cities, i.e. Dhaka & Chattogram. Currently, 31.9% of the country's total urban population lives in Dhaka, the largest city in China compared to only 3.1% of the total urban population lives in the country's largest city Shanghai and only 6.0% of the urban population lives in India's largest city. In terms of manufacturing, 87% of the country's total output is generated from these two cities; while in terms of export, the share of Dhaka and Chattogram is even higher. Such huge concentration in Dhaka & Chattogram in economic activities, especially manufacturing and service sector, puts Bangladesh at very high risk if contagion cannot be contained.

The figure below is showing the daily distribution of reported confirmed COVID-19 cases (N=32,120) per division, 14 April–01 June 2020, Bangladesh.



Source: WHO

Economic Impact of the Pandemic

Like most of the other nations, the outbreak of the COVID-19 pandemic is an unprecedented shock to the Bangladesh economy. The concern for Bangladesh is higher as the economy was already in a parlous state before COVID-19 struck. With the prolonged country-wide lockdown, global economic slump and associated disruption of demand and supply chains, Bangladesh economy is likely to face a protracted period of slowdown in activity. The magnitude of the economic impact will depend upon the duration and severity of the health crisis and the manner in which the situation unfolds on withdrawal of the lockdown.

On April 9, the chief of International Monetary Fund, Kristalina Georgieva said that the year 2020 could see the worst global economic fallout since the Great Depression in the 1930s, with over 170 countries likely to experience negative per capita GDP growth due to the raging coronavirus pandemic.

Bangladesh is no exception and projections from IMF, World Bank and ADP have been reduced drastically after pandemic.

Bangladesh GDP Growth Forecast 2020			
	IMF	World Bank	ADB
Before Pandemic	7.4%	8.2%	7.8%
After Pandemic	2.0%	2-3%	3.8%

- The decline in national and global demand for manufactured goods, particularly in the garments sector will risk creating unemployment and deepen poverty. The urban poor is expected to be hardest hit while the number of additional poor will be higher in rural areas, as the national shutdown will impact private consumption.
- At the same time, we cannot conclude on the possible damage COVID-19 may incur in medium term. It would depend largely on the infection and any development in treatment plans.

External Sector

Projected Exports, Imports and Remittances (USD mn)				
	FY'17	FY'18	FY'19	FY'20 (E)
Exports	34,019	36,668	40,535	35,086
Imports	43,491	58,865	59,915	52,845
Remittances	12,769	14,982	16,420	17,405
Projected Exports, Imports and Remittances Growth %				
	FY'17	FY'18	FY'19	FY'20 (E)
Exports	1.7%	7.8%	10.5%	-15.4%
Imports	9.5%	35.4%	1.8%	-11.8%
Remittances	-14.5%	17.3%	9.6%	6.0%

Source: EPB & LBAMC Research

- Export target for FY'20 (12% growth) will not be achievable in view of the negative (-13.09%) earnings growth over the first ten months of FY 2020 coupled with the recent disruption caused by the pandemic. The apparel export alone saw negative growth of (-84.9%) in April, while buyers have so far either cancelled or held up orders worth USD 3.0bn following the outbreak of the corona virus. With very little chance of improvement in supply chain disruptions and order flow, we expect exports earnings to fall by (-15.4%) in FY'20. This translates around USD 5.4bn loss of export proceeds.
- On the other hand, the country's imports decreased by 3.87% (YoY) in the first eight months of FY'20. Total import orders dropped by more than 12% in January alone due to supply chain disruption caused by the COVID-19 but performed almost similar to last year in February 2020. Going forward; lower domestic demand, lower raw materials demand from textile and construction sectors and falling oil prices are likely to result in negative (-11.8%) growth in total import payments in FY'20 in our estimates.
- We expect remittance to grow by 6.0% in FY'20. In the first ten months of the current fiscal year, inbound remittance registered at 11.7% growth to USD 14.9bn driven by various government benefits.

However, Remittance inflow declined by 24.7% year-on-year to USD 1.1bn in April 2020 as coronavirus pandemic left thousands of migrant Bangladeshi workers jobless across the globe. In addition, with the collapse of oil prices, the unemployment of Bangladeshi migrants is likely to increase further in the middle east which may mildly hamper 2021 remittance inflow.

Balance of Payments

	Balance of Payments			
	FY17	FY18	FY19	Jul'19 - Mar'20
Current Account Balance	(1,331)	(9,567)	(5,254)	(2648)
Capital account	400	331	233	160
Financial account	4,247	9,011	5,628	3,497
Net Errors and Omissions	(147)	(632)	(595)	(664)
Overall Balance	3,169	(857)	12	345

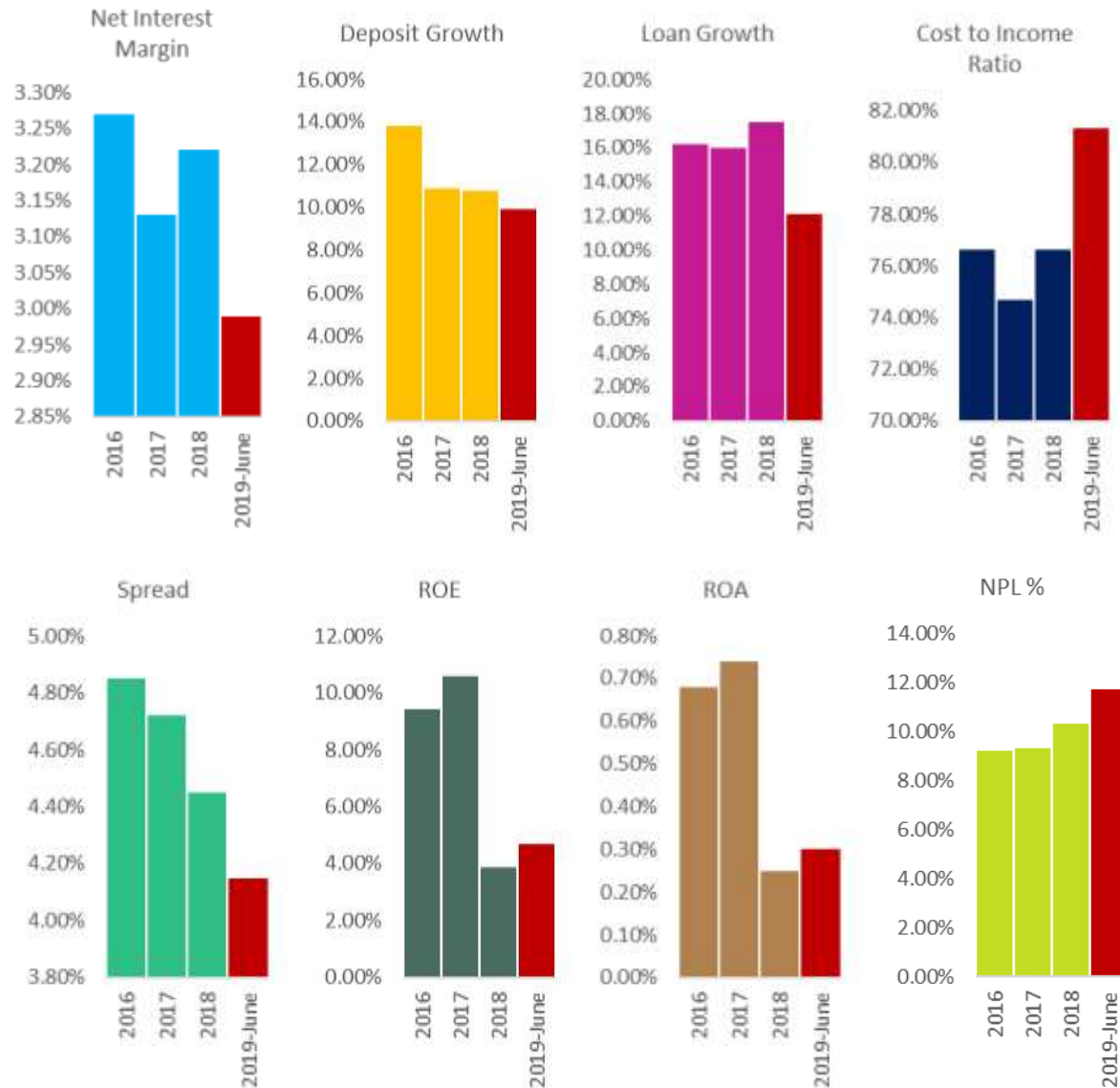
- Our current account balance has been improving since FY'18 driven by robust remittance and normalization of imports and might end FY'20 in a better position than FY'19. However, things are likely to get worse as we move onto FY'21. Even though imports are likely to fall but we expect larger fall in exports to widen trade deficit. In addition, remittance inflows remain at significant risk in post pandemic scenario.
- With slowdown in global economy and bleak domestic economic prospect, net FDI growth to remain in large negative growth territory and overall balance might slide into negative territory creating pressure in foreign reserves. To increase export competitiveness, a consideration for BDT to depreciate against the USD may be warranted.

Budget Deficit

In July-February period, the NBR collected BDT 1.44 trillion tax revenue against its target for BDT 1.89 trillion. The tax revenue collection target for the National Board of Revenue, or NBR, has been set at BDT 3.0 trillion, down from the original goal of BDT 3.25 trillion for ongoing FY. The government is considering revising further the tax collection target for the current fiscal year (FY2019-20) in view of the impact of coronavirus pandemic on the economy.

The potential negative impact on Bangladesh's economy due to COVID-19 however depends on the duration of the crisis. There is a limited possibility, following lockdowns around the world, that infections may return in subsequent waves, even if in limited quantities, which may continue to have economic impacts.

Banking Sector Stress Prior to COVID-19



The banking sector was under serious stress prior to COVID-19 arising from skyrocketing Non Performing Loans, declining margins, deteriorations in various efficiency indicators, government directed restructuring of loans and declining demand for loanable funds etc. Due to various ad hoc circulars for managing infected loan books, the actual scenarios are not properly reflected or published in reports of the banks. According to the “Global Competitiveness Report 2019”, Bangladesh scored 38.3 out of 100 and ranked 130th out 141 countries in soundness of banks.

Deposits growth in recent years declined steadily and private sector credit growth fell to 9.2% in January 2020. Massive loan rescheduling of BDT 50,000 crore under a controversial rescheduling offer helped banks to cut default loan of BDT 22,000 crore in the last three months of 2019. Net interest margin (NIM) decreased around 40 basis points in last 3 years. Profitability of the sector declined drastically.

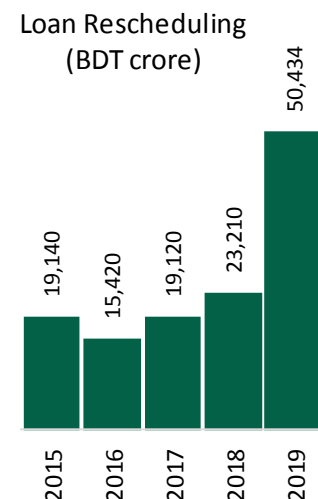
Capping interest rate is likely to worsen Net Interest Margin – Banks in Bangladesh are implementing an interest rate cap, a lending rate of 9.0% for all sectors except credit card. Capping interest rate by Bangladesh bank put banking sector in another regime of difficulty, specially in lending SMEs/MSMEs in pre-COVID 19 period.

The interest rate capping would weaken the banks by restraining their ability to fix adequate pricing of risks amid poor lending practices and a weak bad loan recovery framework in the country. This would likely lead to further acceleration in the accumulation of default loan at both state owned and private commercial banks. In our best estimates, interest rate cap would hamper SME/MSMEs lending growth; a few SME focused banks to take serious shock in books.

Capping Interest Rate: Kenyan Experience

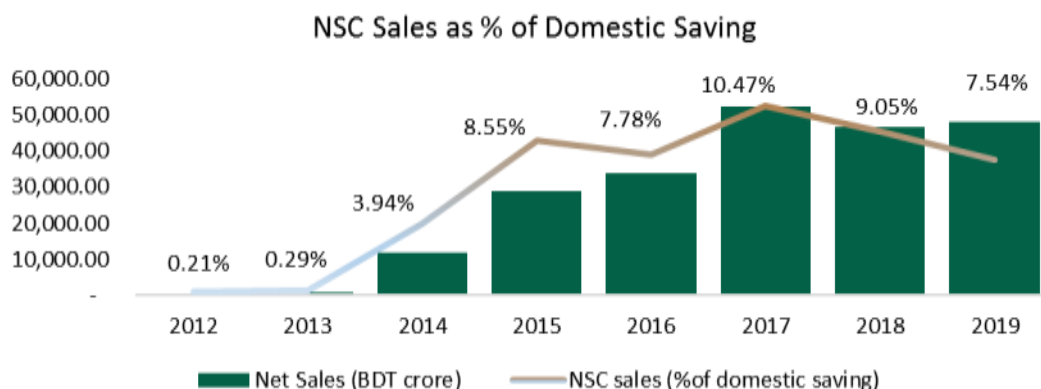
In 2016, the Kenyan Parliament passed a bill that effectively imposed a cap on interest rates charged on loans and a corresponding floor on the interest rates offered for deposit accounts by commercial banks. A ceiling for lending rates at four percentage points above a “reference rate” and a floor on deposits at 70% of the “reference rate”. The aftermath was dreadful for Kenyan government. The stock of credit to SMEs dropped by around 10% in just one year. The outstanding stock of credit of small banks declined by about 5% in the 12 months. Overall credit to the private sector grown very slowly in nominal terms while lending to the public sector increased sharply. The T-bill rate remained broadly unchanged which reduced financial intermediation. Banks profitability contracted significantly while small banks, whose profit were already below industry average, suffered most. By perceiving the unintended damaging effects on Kenyan economy, the government had to scrap its rate cut decision from November, 2019. Nairobi explicitly stated that, rate cap decision had a severe impact on credit to the private sector, damaged economic growth and weakened the effectiveness of their monetary policy

Soaring Non-Performing Loans put serious threat to the Sector - As of December 2019, BDT 94,331 crore (9.32% of Total Loan outstanding) was classified. The actual scenario of NPL is much worse. Our banking system is already burdened with a rising trend in stressed asset coupled with NPL. The stressed asset ratio (NPL plus restructured and rescheduled advances by total advances) climbed to 20.5% in 2018 from 19% in 2017 for the growing volume of non-performing assets and rescheduled advances. BB on May 16, 2019 issued a special policy on loan rescheduling and one-time exit for defaulters to reduce the high amount of defaulted loans. Loan rescheduling peaked a record high after that avenue was allowed. Banks rescheduled 50,434 crores in 2019, 117.29% higher than 2018 figures. But this rising trend of loan rescheduling has failed to stem the growth of defaulted loans in banks.



Slow adaptation of Financial Technology – The global banking system is transforming fast utilizing FINTECH in many core areas. Bangladesh banking sector has adopted quite a few technologies (e.g. ATM, Mobile Banking, Online Banking, Internet Banking, Tele-Banking) but lags behind face paced global banking system. Securing IT and data infrastructure is another area banks could hardly make adequate progress.

High NSC rates are disturbing and contributing in slow deposit mobilization– The banking system is going through a paradox- in one front we are seeing lending cap at 9% meaning 5-7% deposit rate in another front 11.28% NSC risk free rate. Deposit growth experienced a sharp fall in June last year to 9.91% Y-O-Y. On contrary, the net sales of NSC stood at BDT 47,964 crore for FY 2019. NSC sales as percentage of total domestic saving reached 7-10% in recent years, which were below 1% five years ago. Private sector credit growth is on historical low of 8.2% in march-2020. Post-pandemic credit growth will be seriously affected if liquidity remains tight. GoB may target banking sector for deficit financing in next fiscal year which will further crowd out private sector credit.



Banking Sector Challenges & Prospects in Post-COVID-19

Liquidity management could be challenging for a number of Banks – As balance sheet management remains weak in the banking sector, post-COVID episode will leave a number of banks/FIs in very large mismatch in short buckets. We estimate collection to fall significantly in short term; default loan spree to come up with a new pressure for bank treasuries. However, Bangladesh Bank took various measures to ease up liquidity in the banking sector. A separate diagram to follow in this regard in later part of the report.

Banks may act to contain its escalating cost – High cost to income ratio (78%) in banking sector with a sudden pandemic shock made banking sector ripe for cost cut. Cuts in banking sector may come up with an endeavor to increase efficiency but if done in biased framework, it may leave banking sector demoralized. Change management practices in bangladesh is also very weak. In a nutshell, we see Post-covid banking sector to take control over its swelling costs before the earning growth resumes.

Client Relationship Management will see new interfaces - Banking services in Bangladesh uses physical delivery channels. Seamless transactions from Deposit/Loan origination to execution in online platforms are not widely practiced. Banks traditional customer interfaces in Bangladesh that is being used in pandemic time too is vulnerable and wobbling customer's confidence. Most of the customers are taking banking service in physical branches and that too is putting city dwellers at risk of contagion.

In no time, banks may come up with newer interfaces for customer relationship using financial apps, online banking and customer interfaces. Banks will be spending hours in:

- *Educating and training customers over using online infrastructure to minimize physical infection risks.*
- *Personalizing advice to consumers and creating support through virtual relationship managers.*
- *Accelerating digital sales and service.*

Tech landscape within the banking industry will reshape fast- To cater the banking need as well as minimizing the infection risk, banks in many countries are adopting services like video banking, emailed queries. The COVID-19 outbreak have also raised the necessity for remote tellers or video banking activities that allow customers to virtually speak with banking employees. Our banking sector need to work through implementing a truly digitized financial system, which requires a secured, contactless, and converged financial platform. The post pandemic banking scenario would unquestionably be different than the present and technology would take the dominant charge.

Enhancing cooperation of banks with mobile operators/e-payment service providers- Though E-Commerce & mobile financial services (MFS) have gained momentum in Bangladesh, the payment landscape is yet to be popular. The urge for developing a cashless culture in the post pandemic world is an imperative now. 80% of the payments in Bangladesh are done through cash-on-delivery method, whereas only 15-20% are done through mobile payment gateways or through online banking platforms.

Bangladesh currently have 1.5 mn credit cards in circulation with an estimated penetration rate of 0.5% only. USA has a card penetration rate of 4.5%, Philippines 9% and India 0.66%. The number of credit or debit card holder in the country is also low which is withholding the development of the e-payment gateways. Banks should amp up their cooperation with MFS service providers while collaborating with more e-payment gateways to channel more payments through online.

COVID-19 led Stimulus Packages by GoB

The economic loss of COVID-19 is yet to be demarcated, but it is quite probable that our businesses are about to take a heavy toll of this pandemic. It is estimated that the lockdown has obstructed the livelihood of 85% of the country's working population. 50% of the household in the country lost at least one third of their income within the first ten days of government lockdown. The country's GDP is also probable to decline by 3-4% on account of the pandemic. To safeguard businesses from COVID-19 shock, GoB has so far announced 19 stimulus packages worth of BDT 103,117 crore (USD 12.28 bn), which is 3.7% of the GDP.

The Stimulus package to be disbursed through bank includes

Target Beneficiary	Amnt. (BDT in Cr.)	Rate of Interest		Tenure for loanee	Repayment	Scheme Period	Refinance by BB (BDT in Cr.)
Industry & Service Sector Institution	30,000	Borrower-4.5%	Govt.-4.5%	1 Year	1 Year	1 Year	15,000
Export Oriented Industry	5,000	Nil. 2% Service Charge		3 Months	2 Years Inc 6M GP	2 Years	5,000
Pre-Shipment Credit	5,000	6%		Depends on exports	4 Months	3 Years	5,000
EDF	12,750	2%		Depends on exports	6 Months	Ongoing	12,750
CMSME	20,000	Borrower-4.0%	Govt.-5%	1 Year	1 Year	3 Years	10,000
Agricultural Sector	9,500	4%		Case to Case	1.5 Years Inc 6M GP	Disburse within 30-9-2020	5,000
Low-Income professional, Farmers, Ultra-small business	3,000	Borrower-9%		1 Year (MICGA) & 2 Year (MCE)	Weekly/Monthly	Weekly/Month	3,000

Financial Stimulus

25 March, 2020	<ul style="list-style-type: none"> •BDT 50 bn working capital loan for export oriented industries
5 April, 2020	<ul style="list-style-type: none"> •BDT 300 bn for banks to provide working capital loan to the affected industries. •BDT 200 bn as working capital loan for SME. •EDF will be increased from USD 3.5 bn to USD 5bn for facilitating import of raw materials. •BDT 50 bn pre-shipment credit refinance scheme
12 April, 2020	<ul style="list-style-type: none"> •BDT 50 bn refinance scheme for marginal farmers. Maximum 4% interest for customers.
20 April, 2020	<ul style="list-style-type: none"> •BDT 30 bn refinance scheme for low income professionals, farmers and micro businessman.
27 April 2020	<ul style="list-style-type: none"> •BB instructed banks to provide loan from their own funds at 4% rate while BB will subsidize the rest 5%.
3rd May 2020	<ul style="list-style-type: none"> •BB instructed banks not to charge customers interest until further notice. •BB permitted foreign owned or controlled companies operating in Bangladesh to take working capital loan from their parent company/shareholder.
11 May, 2020	<ul style="list-style-type: none"> •Banks are barred from declaring dividend to a certain limit based on their CAR.
30th May, 2020	<ul style="list-style-type: none"> •BDT 20 bn to the banks as subsidy against the earlier suspended interest on loans.

Non – Financial Stimulus

19 March, 2020	<ul style="list-style-type: none"> •BB has issued a circular asking all scheduled banks not to classify any loan till 30 June 2020. •The central bank has relaxed foreign exchange regulations for trade transactions.
22 March, 2020	<ul style="list-style-type: none"> •BB announced to provide cash support to banks by directly purchasing treasury bonds and bills at market price.
3 April, 2020	<ul style="list-style-type: none"> •BB ordered all banks to waive the charges of credit card for delayed payment until June.
9 April, 2020	<ul style="list-style-type: none"> •BB reduced banks' CRR by 100 BP to 4% and policy rate by 50 BP to 5.25%.
12 April, 2020	<ul style="list-style-type: none"> •To improve lending capacity of Banks, ADR increased to 87% from 85%. (For islamic banking 92% from 90%).
3 May, 2020	<ul style="list-style-type: none"> •BB ordered banks to suspend taking interest on all types of loan for April and May.
19 May, 2020	<ul style="list-style-type: none"> •Monthly transaction limit doubled, merchant charges waived, cashout charges waived upto BDT 1,000.

Foreign Trade Incentives

- Extension on foreign transaction deadlines – Submission of Bill of Entry and Export Proceed Receipt has been extended by 2 months, EDF loan tenure and all Usance period has been doubled.
- Flexibility on foreign trade transaction – Export bills can be repatriated at 10% with approval of BB and bullet payment facility for all usance import under supplier's/buyer's credit.
- Relaxation of inland LC settlement– Authorized dealers can settle inland LC payments without going through BB.

Progress on government stimulus package

Large Industries (30,000 crore)	Refinance BDT 15,000 crore.
	Sonali, Rupali, Exim & IFIC have given fund to 7 companies worth of BDT 1,044.9 crore.
SME (20,000 crore)	Refinance scheme 10,000 crore.
	33 banks, NBFIs signed deal with BB to use refinance scheme
Agri business (5,000 crore)	41 banks signed deal with BB to use the fund.
Marginal farmers (3,000 crore)	24 Banks inked deal with BB
	9 Banks to follow suit

Source: the daily star

Challenges in implementing Stimulus package

Over reliance on banks to implement the stimulus package might prove inappropriate - Government has sought help of the banking channel to implement the stimulus package. The funds from the stimulus package will be distributed through the banking channel; while both credit and collection risk lies with the banks. Our banks are already overburdened with non-performing loans and poor collections. Banks need mitigate credit risk before disbursing any fresh aids which would help them to tackle the escalating NPL.

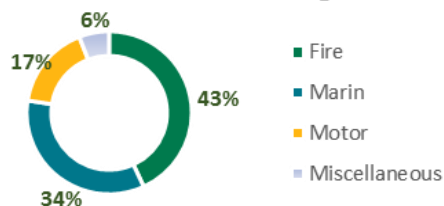
Interest subsidy to help borrowers, concern remains over habitual non-payment - The government has decided to provide the interest amounting to BDT 2,000 crores to the banks as a subsidy and it is estimated to benefit nearly 13.8 million loan recipients. But it is also probable that the habitual non-payers would likely fetch benefit from this stimulus package which would make the current package inexpedient.

COVID-19 impact on Insurance Sector

Insurance which plays a vital role in managing risks both in micro and macro level has seen lowest penetrations in Bangladesh compared to its regional peers. Surprisingly, Insurance penetration has been declining for the past several years even though the country's Per-capita GDP has been showing a stable growth over a decade now. Insurance penetration in Bangladesh stood at 0.57% in 2018, down from 1.13% in 2010. COVID-19 is impacting the insurance industry in multiple ways—from employee and business continuity issues to client service considerations and outlook.

Major segments of premium income are expected to face a downward plunge.

Chart : Premium Income Segments



Due to COVID-19, fire and marine insurance are expected to take the biggest hit. These two components consist of around 77% of non-life insurance companies total premium income.

Fire Insurance- The biggest source of premium for non-life insurance company is fire insurance, which accounts for 43.1% of total premium income for non-life insurance companies. Factories for the RMG sector are the major driver of fire insurance premium. A total of RMG factories—348 registered with BGMEA and 71 with BKMEA. According to BGMEA, some 268 factories out of 348 were closed temporarily, and the rest 80 were closed permanently.

A recent study by Human Rights Watch shows that when orders were cancelled, 72.1% of buyers refused to pay for raw materials already purchased by the supplier, and 91.3% of buyers refused to pay for the "cut-make-trim" cost - or production cost - of the supplier. As a result, 58% of factories surveyed reported having to shut down most or all their operations. This shut down of factories may strangle the fire premium growth rate.

Marine Insurance- Marine insurance that depends on import cargo accounts for 34.3% of the general insurance's total premium a year. In the financial year of 2018 marine insurance fetched BDT 6,937.30 mn premium income. Insurance companies' premium income from marine insurance is expected to go down to a new low if this global pandemic countries and world trade continues to slow down.

Bangladesh import plummeted to deepen economic crisis amid COVID-19 pandemics. Businesses did not open LCs for products, including raw materials of Bangladesh's largest exporting sector readymade garments, capital machinery, and intermediate goods. Plummeting import means lower marine insurance premium for non-life insurance companies.

Motor and Miscellaneous: Most of the motor vehicles are covered under third party insurance coverage. Since premium charged under third party insurance coverage is insignificant and has a higher rate of renewal, premium from this category will have a less impact. But we project new motor sales to decline and first party insurance premium to decline too.

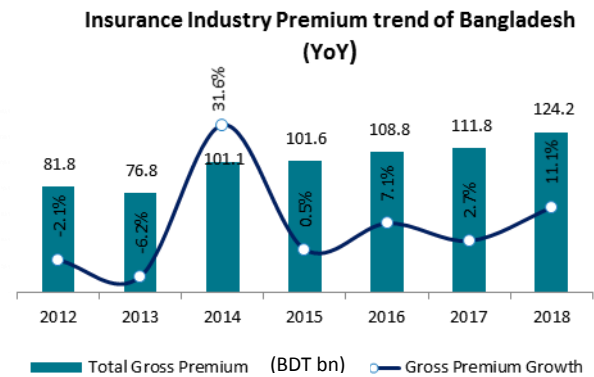
Aviation insurance is major contributor of miscellaneous segment. In this COVID-9 situation, the aviation sector may take a few years to turn around. As a result, it can be assumed that the insurance sector will face indirect losses.

Life Insurance Premium: The COVID-19 has hampered the county's economic activity at an unprecedented scale, raising the specter of job losses and salary cuts. We fear that the outbreak of the deadly disease could have a widespread impact on the job market of Bangladesh.

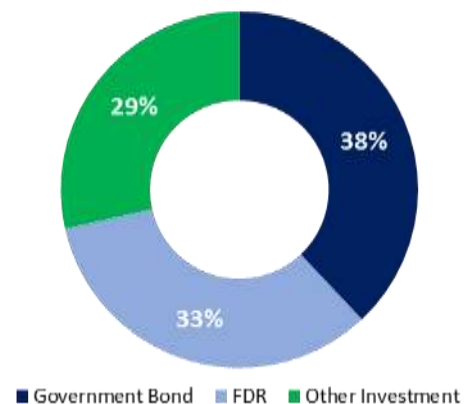
Most of the organizations would go for cost cutting and remuneration on aggregate to fall. This may include reduced health insurance benefit for employees. This could have negative impact for life insurance companies.

Investment Income: Most of the time insurance company's premium income is eaten away by claim and management expenses. History shows most of the insurance companies have a combine ratio (Direct Management expenses + Claims and Commission to net premium) above 80%. As a result, they rely on investment income for other expenses like provision, tax, and indirect management expenses.

FDR consist 33.6% of total investment and capital market investment consist 28.6% of total investment. Current 5-6% FDR rate and bearish capital market is expected to lower investment income in 2020.



Investment Portfolio Mix



Impact on Cost Centers: In 2019, non-life insurers in Bangladesh agreed not to give more than 15% commission to agents. Since these field agents are poorly paid, they now have less motivation to go out in the field and bring new business amid COVID-19 outbreak. So it's expected that agent commission expenses may go down. Some insurance companies may go for salary cut during this COVID-19 pandemic which could result in lower indirect management expenses.

Overall, it is expected that benefits of cost savings will be counterbalanced to some extent by higher level of revenue de-growth. Studies have shown that during pandemic condition, life insurance sectors claim expenses rises beyond average level.

Non-Life Insurance Company

Particular	2015	2016	2017	2018
Total Claim/GP	93%	63%	84%	85%
Management Expenses/GP	28%	28%	35%	33%

Life Insurance Company

Particular	2015	2016	2017	2018
Total Claim/GP	69%	67%	81%	81%
Management Expenses/GP	35%	36%	36%	37%

Source: LBAMC Research

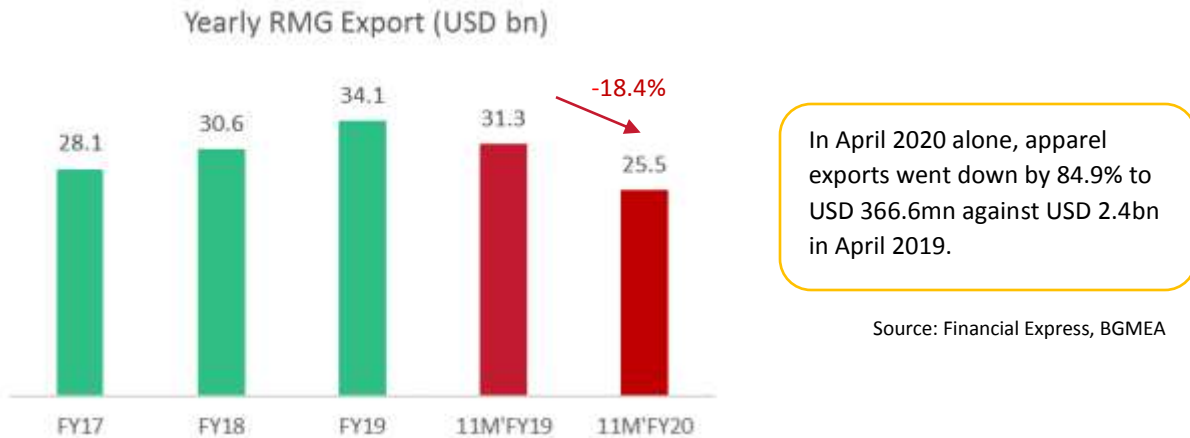
Shock in the distribution channel- Field agents are the main driver for creating new business and continuous flow of premium income. These individuals are involved in distribution of life insurance policies to customers by the way of field sales involving visiting the person's home or office. Face-to-face sales are considered the forte of insurance agents since policy terms and conditions are tougher to be explained over the phone or even online. Due to halted economic activities it will be difficult for the field agents to bring new business.

Forced repatriation of migrant workers- Mandatory Insurance for migrants was supposed to be a catalyst which will boost the premium income for life-insurance companies. Bangladesh faced a double problem due to shrinking global labor market amid the COVID-19 pandemic, posing a threat to foreign remittances and at the same time overcrowding the local labor market.

Low margin of solvency- The insurance sector of Bangladesh is not ready to pay compensation for the medical expenses and death of the patient infected with corona virus due to lack of resources and funded assets. It is learned that there are no guidelines in the conventional insurance policies as the corona virus is new.

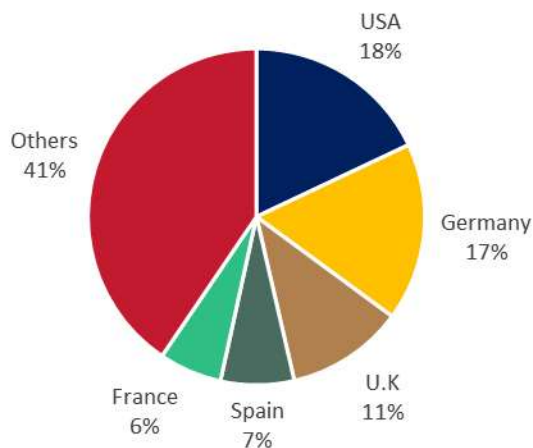
COVID-19 Impact on Textile Industry

The textile industry was already going through a rough patch before the COVID-19 disruptions. Increasing competition from peer countries, lack of technological innovation, poor infrastructure, rising utility costs, push for higher wages and inadequate port capacity had already slowed down the growth momentum of the industry. Going into the first nine months, from July 2020 – March 2020, exports fell by 7.1% to USD 24.1bn from USD 25.9bn in the same period of 2019.

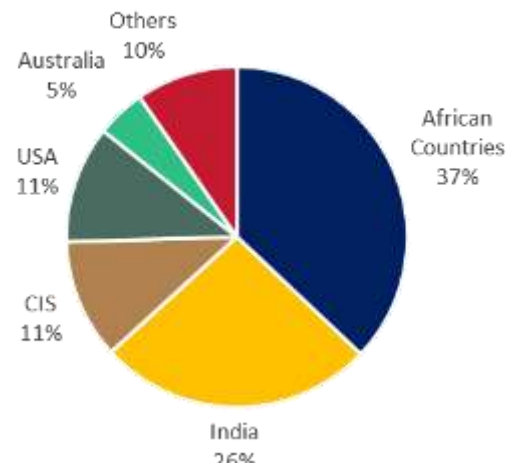


Now, the pandemic situation has created further disruptions on both the demand and supply chain of the textile industry. The country went into a complete lockdown from 26th March, where RMG factories had to be shut till 26th April until the lockdown was partially lifted. During this time, 1,150 factories reported order cancellation/suspension of USD 3.18bn which impacted around 2.28mn workers in the industry. In the last three months, from March 2020 – May 2020, RMG exports fell by 54.8% to USD 3.7bn from USD 8.2bn over the same period of 2019. In the 11 months of FY'20, the industry's export stood at USD 25.5bn against USD 31.3bn in the same period of FY'19. We expect total apparel export to reach ~USD 27.0bn in FY'20 against yearly target of USD 37.4bn. In addition, we expect exports in FY'21 to deteriorate further as we brace to go through a full year of economic disruptions.

Country Wise RMG Export (2019)



Country wise Cotton Import (2018)



Source: EPB, The Daily Star & LBAMC Research

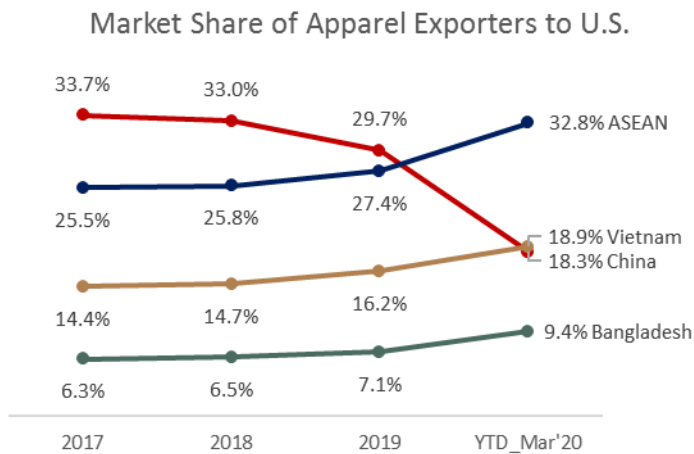
Government Stimulus for the Textile Industry- A host of financial stimulus dedicated to the export-oriented industries which mainly comprises of the textile industry.

- A stimulus package of BDT 50bn for the purpose of payment of salaries of employees engaged in export-oriented industries. This stimulus will be available in the form of loan at 0% interest and 2.0% one-time service charge for a 2-year period with 6 months' grace period.
- Bangladesh Bank's EDF has been increased by UDS 1.5bn (BDT 127.5bn) to facilitate import of raw materials under back to back LC. Under the revised rated, exporters can avail funds from EDF at 2.0% interest instead of six-month LIBOR plus 1.5%, which equates to nearly 3.0% interest rate. BB has also enhanced the loan ceiling for exporters from USD 25mn to USD 30mn.
- A new credit facility of BDT 50bn as 'Pre-shipment Credit Refinance Scheme' has been introduced by BB where exporters can avail funds at 6% interest for a 3-year period on a revolving basis.

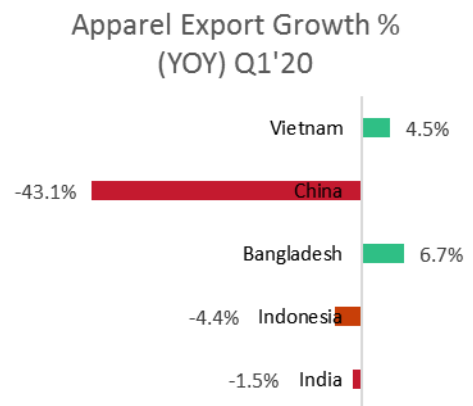
The above policies are meant to provide a temporary relief to the industry in the form of providing cheap financing to ride out the pandemic disruptions. However, if the crisis on the demand side and international trade disruption to persist beyond 2020, the stimulus packages would not be enough to support the industry.

Way Forward into the Post COVID-19 World

Bangladesh textile industry is likely to go through a number of game changing dynamics in its major export destinations, competitive strengths and supply chain model; which may result in new opportunities or permanent loss of competitive advantage of the industry if not addressed prudently.



Source: OTEXA



Source: OTEXA

Deteriorating trade relation between the U.S. and China has created new opportunities- Since 2018, president Donald Trump has been setting tariffs and other trade barriers against China with the goal of forcing it to make favorable trade agreements. As a result, market share of Chinese apparel exports to the U.S. declined from 33.0% in 2018 to 18.3% in March 2020 (YTD).

It should be noted that long before COVID-19, U.S. fashion brands and retailers have begun to reduce their exposure to sourcing from China, especially since October 2019 due to concerns about the US-China tariff war. China's lost market shares have been picked up mostly by other Asian suppliers, particularly Vietnam (18.9% YTD in 2020 vs. 16.2% in 2019) and Bangladesh (9.4% YTD in 2020 vs. 7.1% in 2019). Going forward Bangladesh has the opportunity to aggressively fill the vacuum left by China.

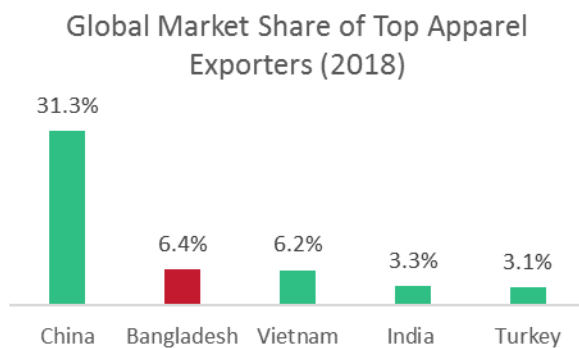
Demand slump is likely to be lower for Bangladesh relative to peers- As Bangladesh is predominantly a producer of basic low value apparel products, in medium term the demand slump for Made in Bangladesh appeals is likely to be lower. Of the total USD 34.1bn apparel exports in 2019, 73.0% of it came from basic products such as shirts, trousers, t-shirts, jackets and sweaters.

In the post COVID-19 world the demand for these products are expected to be inelastic which will deal far less of a blow to Bangladesh relative to peers producing high value apparel products. In addition, Bangladesh has been quick to move on to the production of Personal Protective Equipment (PPE) and have recently exported 6.5 million PPE products to the U.S. Going forward, Bangladesh has the opportunity scale up and cater to the growing demand of PPE products around the world.

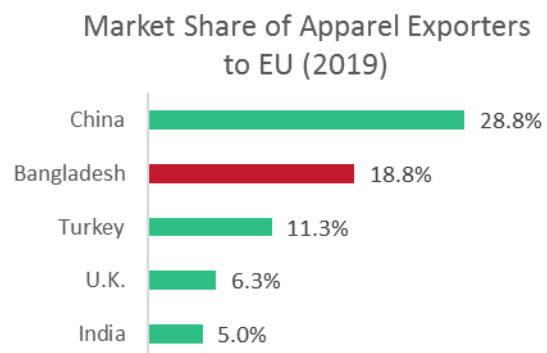
The RMG factories will have their output limited for an indefinite period- Traditionally, the RMG segment of the textile industry has been highly labor intensive where large groups of people work together in the production line. Now such working environment is not feasible due to the need of wider spacing and other health and safety requirements. As a result, factories will have to be operated at partial capacity until the pandemic situation is resolved which in the best-case scenario will take at least a year and half. In the meantime, industry players will have to figure out a way to survive with partial operations.

The industry will have to operate through a prolonged period of supply chain disruption- Worldwide shipping is expected to be limited throughout 2020 hampering raw material import from African countries. Fabric from India cannot enter the country as borders are closed due to Indian lockdown. Supply chains from China are struggling to get started; some US buyers are skeptical about using Chinese fabrics and may insist on sourcing of raw materials from other countries.

Production may get relocated to developed countries in the long term- The world has been sourcing majority of its apparel from South Asia till now due to the region's low cost of production (mainly derived from low labor cost). However, with the advent of automation and higher technological innovation, advanced countries are likely to overcome the advantage of cheap labor of South Asian countries. With the need for boosting economic activities to come out of the COVID-19 induced recession we may witness relocation of apparel facilities from South Asia to advanced economies.



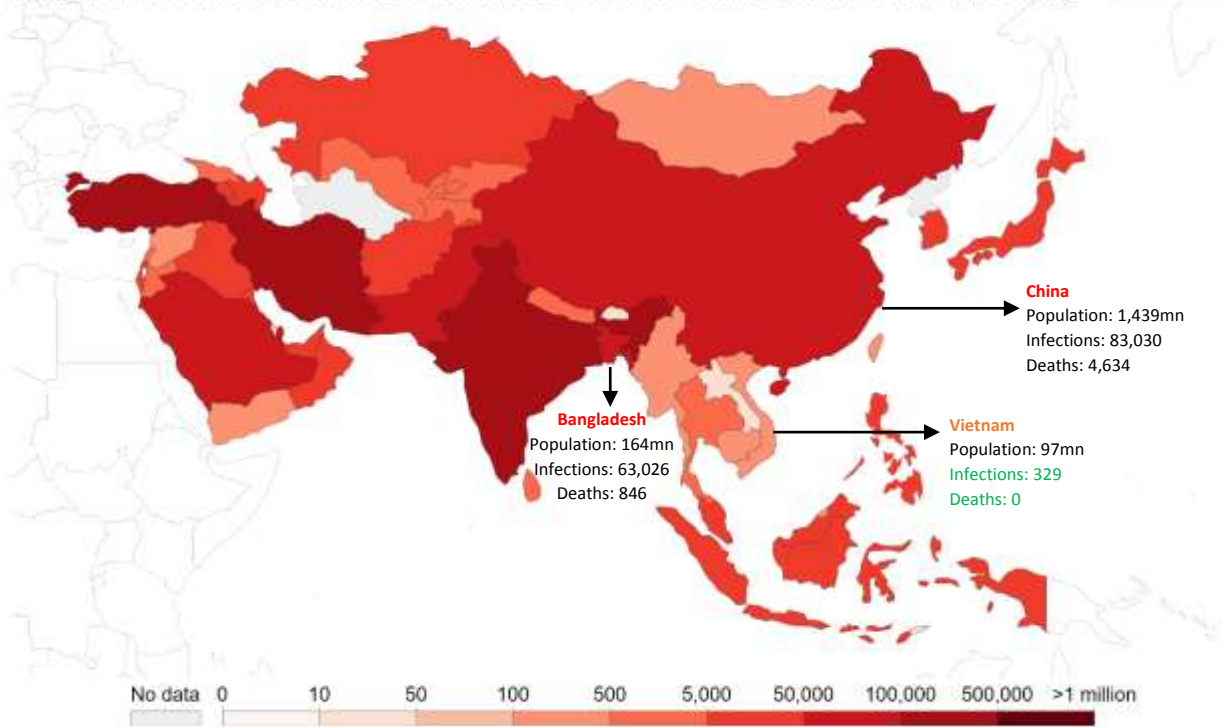
Source: WTO



Source: Eurostat

Total and daily confirmed COVID-19 cases, Jun 6, 2020

The number of confirmed cases is lower than the number of total cases. The main reason for this is limited testing.



Source: European CDC – Situation Update Worldwide – Last updated 6th June, 10:45 (London time) OurWorldInData.org/coronavirus • CC BY

Bangladesh may lose global market share- driven by faster post pandemic rebound of rival countries, particularly China and Vietnam. China being the country of origin of COVID19 has the most experience in dealing with the pandemic. It has successfully implemented large scale testing and tracing and is likely to be among the first countries to come out of the pandemic and open its economy in full swing.

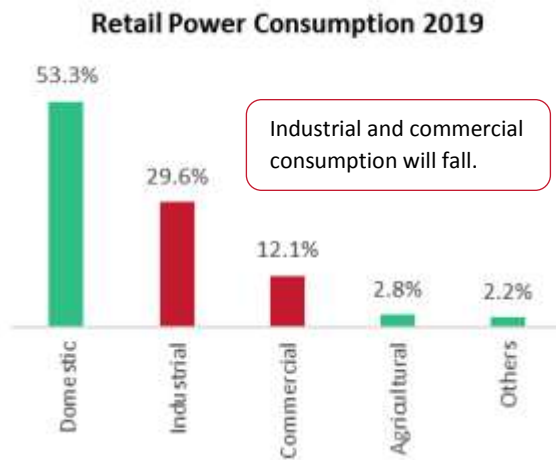
Next, Vietnam is considered to be a success story in fighting the COVID-19 pandemic with no deaths and only around 329 cases in a country of 97 million. It managed to do so by being among the earliest to recognize the severity of the pandemic and implement quick strategic testing, aggressive contact tracing and effective public awareness as early as January 2020.

In addition, Vietnam's Free Trade Agreement with the EU is likely to come into effect in 2020 paving the way for Vietnam to penetrate EU apparel market. On the other hand, due to lack of medical facilities, technological infrastructure, and inability of government to create proper awareness we have hardly any defense against fighting the ongoing pandemic. Given, the robust pandemic management system of our major competitors, we are likely to lose market share in both U.S. and EU in the event of a second major outbreak of the COVID-19 pandemic.

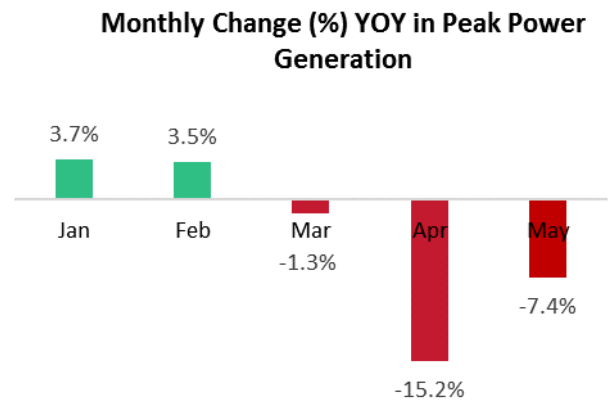
The previous structural weakness coupled with the pandemic shock has driven the textile industry into a corner and has created a "do or die" situation. The government stimulus gives the industry access to cheap financing which is not enough to address the demand and supply chain disruptions from the pandemic. The industry will have to initiate massive technological upgradation and find out ways to shorten its supply chain and that too in a span of one to two years to stay competitive in the global market.

COVID-19 Impact on Fuel & Power Industry

The Fuel & Power industry of Bangladesh is a semi-autonomous sector with fixed pricing guideline in the power generation segment and significant government control over the distribution segment. Before going into the COVID-19 situation, demand for power was expected to rise from existing ~11,000 MW to ~15,000 MW by 2021. In addition, forecasting rapid growth of demand and an attempt to move away from diesel-based power over the next few years a number of large power plants to be commissioned to take power generation capacity from existing ~20,000 MW to ~36,000 MW by 2023.



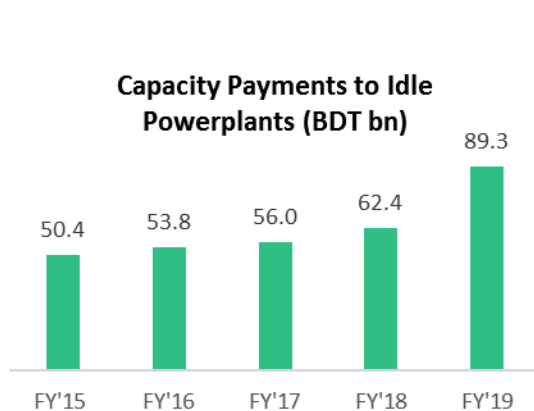
Source: BPDB



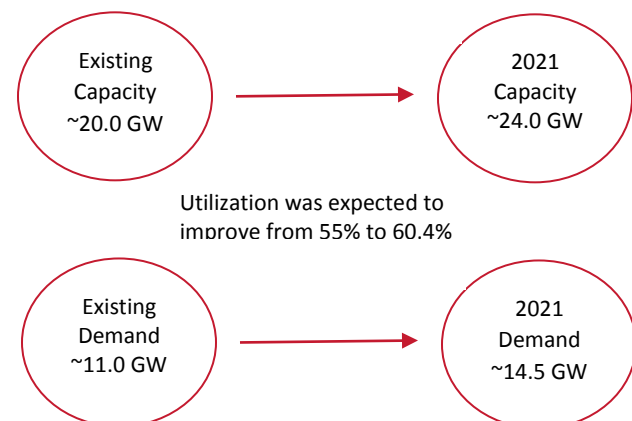
Source: BPDB

Now, with the advent of the pandemic, the economy is expected to slow down at least next 2/3 years. This will likely drive down power consumption, and demand by 2023 will be far lower than previous forecasts, making the overcapacity situation in Bangladesh worse. Even with partial reopening of the economy, demand for fuel and power will not pick up going forward as major industrial and commercial sectors as well as heavy transportation is likely to be restricted at least till late 2021.

The already struggling Bangladesh Power Development Board (BPDB) will be the affected - Bangladesh already has excess capacity that results in growing capacity payments by BPDB to plants lying idle. This payment is funded by an ever-increasing subsidy from the government as the operating income of BPDB cannot cover the cost. Overall power capacity utilization in Bangladesh for 2018-19 was just 43%, while capacity payments to idle plants reached ~BDT 89.3bn in 2018-19. This situation will get worse driven by lower power demand and increasing capacity expansion in the upcoming years.



Source: BPDB



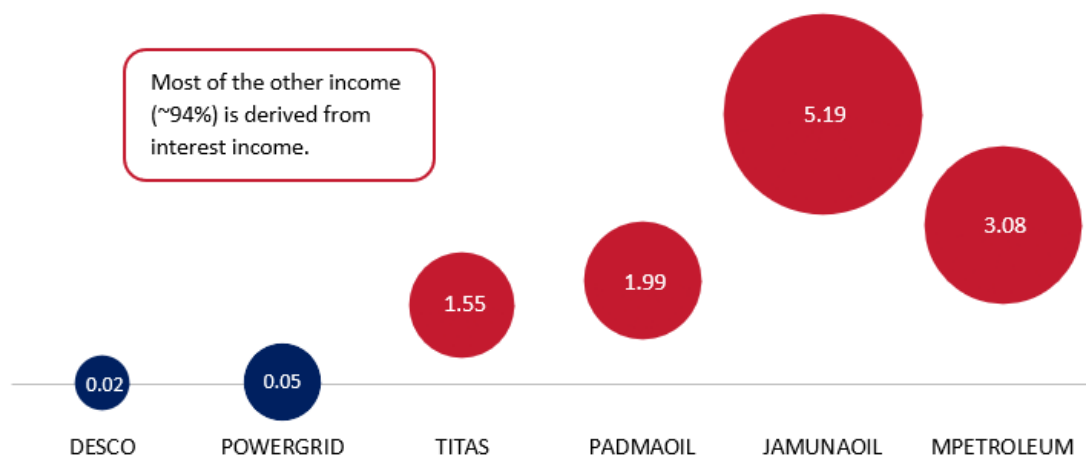
Source: BPDB

Impact on Power Generators and Distributors

Many of the power generation and distribution companies are listed in the capital market and there is a perceived sense of security among investors that these entities are not likely to suffer much from major economic shocks as these are recognized by the government as essential services. However, even these entities are likely to witness significant financial distress from the ongoing pandemic.

- **Depressed topline growth** – Even though government pays a fixed capacity payment of ~70% we expect to see significant top line de-growth at least in 2020 for power generating companies. The de-growth will be even severe for distribution companies, particularly the fuel segment due to shutdowns and limited economic activities.
- **Business continuity challenge for rental power plants** – Many of the rental power agreement of the listed companies are set to expire during 2022 – 2024. The government is unlikely to renew these agreements nor make any new ones given the pandemic led demand slump.

Other Income to Operating Profit Ratio



Source: Company Financials

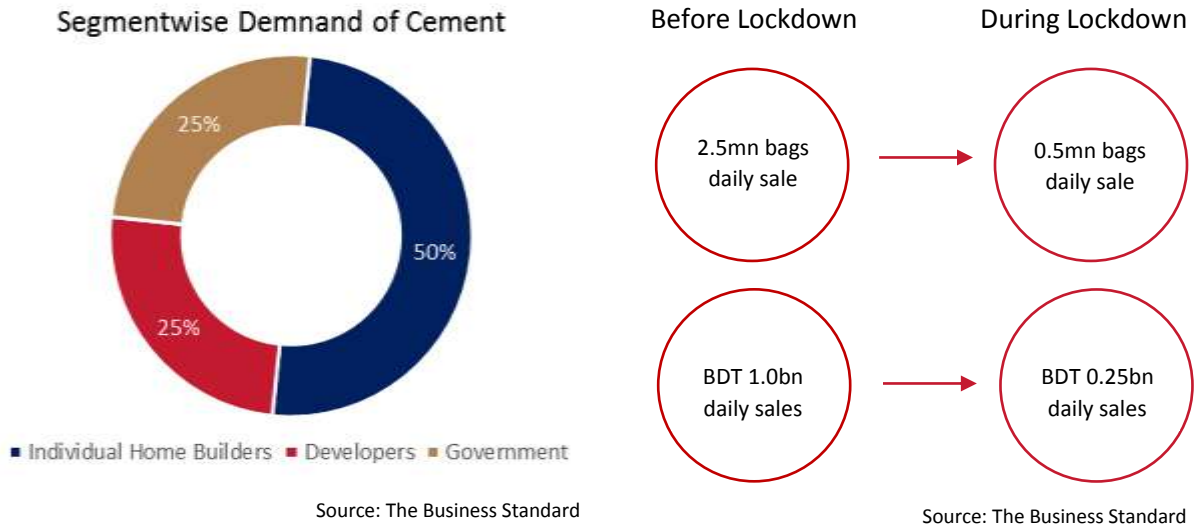
- **Likely erosion of major income source for distribution companies** – Among the listed distribution companies, particularly the gas and fuel companies, interest income is far greater than operating income. Even before the pandemic the government expressed its intention to use excess funds of state-controlled entities for fiscal expenditure. Now, amidst the pandemic shock, the revenue starved government is more likely to use these excess funds to pay for fiscal expenditures.

Way Forward into the Post COVID-19 World

If coal and LNG power plants are built as per exiting plans, Bangladesh will enter into a prolonged period of significant overcapacity leading to the need of increasing subsidies, power tariffs and capacity payments for idle plants. With power demand growth set to be muted by the coronavirus pandemic, there is now an opportunity for policy makers to revisit the nation's power development policy and move towards renewable energy (without capacity payments) along with grid investment to improve system strength. In addition to grid upgrades and modernization to reduce system losses, domestic renewable energy can also reduce overall system costs while enhancing energy security and resilience.

COVID-19 Impact on the Construction Sector

Cement sector Overcapacity & Leverage may put the industry in deep trouble- Over the past few years, the cement sector has invested massively towards capacity expansion with the aim of supplying to the government for its megaprojects, meeting the rising consumer demand and exporting to neighboring countries. However, in an effort to outdo each other, the industry players over expanded taking yearly production capacity to ~68mn tonnes against local demand of ~35mn tonnes. Hence, the industry was already struggling with over-capacity, tough competition, tax burdens, rising utility costs and volatility of raw materials prices before the advent of the novel corona pandemic.



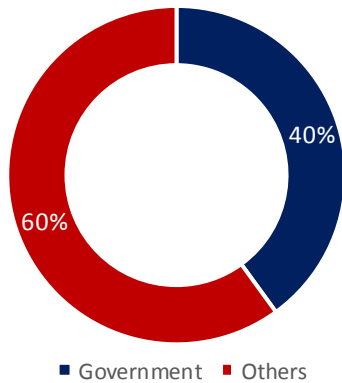
Now with the prolonged lockdown enforced to flatten the curve of Covid-19, demand for cement has declined drastically as the country-wide constructions, including that of mega projects, have almost come to a halt. According to industry insiders, the sales of individual manufacturers have dropped ranging from 50% - 80% amid the ongoing lockdown resulting in difficulties for them to pay monthly fixed expenses. If the current situation persists, which is possible, small manufacturers are likely to be driven out of business and large ones might have to scale down.

- **Prolonged demand slump** – Given the current progression of the pandemic, experts believe that optimistically it will take at least the end of 2021 for economic activity to return to 2019 level. Even if government focus on megaprojects resume by then, individual demand may still be depressed as consumer income and confidence is likely to take longer to restore.
- **Broken cash cycle** – The lockdown has deprived manufacturers from accessing around BDT 120bn of receivables. This will intensify further as demand is expected to fall throughout 2020.
- **High debt burden** – Traditionally, the industry is highly leveraged with industry debt to asset ratio of 0.63. With uncertain topline many producers are likely to face unmanageable debt burden.

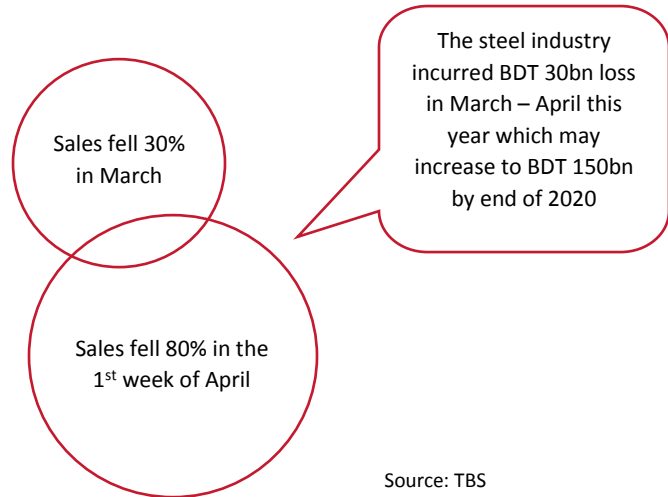
The cement industry is one of the worst victims of the ongoing pandemic. The largest component of demand comprises of individual home builders where a significant portion comes from housing demand of remittance earners. With oil price crash and global pandemic induced recession, remittance is not likely to rebound for a long time. Hence, prudent policy support is a must for the survival of the industry.

Demand for Steel may not rise as per Industry Expectation- The BDT 450 billion steel industry in Bangladesh has been enjoying decent growth over the past few years driven by increasing local consumption and increasing government demand for megaprojects. The local steel market grew at a rate of 15%-20% in last two years from 8-10% per year previously. The industry has an installed capacity of ~8.5mn MT against demand of 7.0mn MT with further 3-4mn MT capacity expansion in the pipeline over the next few years.

Segment Wise Demand for Steel



Source: TBS



Source: TBS

Now, with the advent of the Covid-19 pandemic all activities in the steel industry has come to a grinding halt. On the demand side, construction of government megaprojects as well as all private construction work has been paused due to the ongoing lockdown.

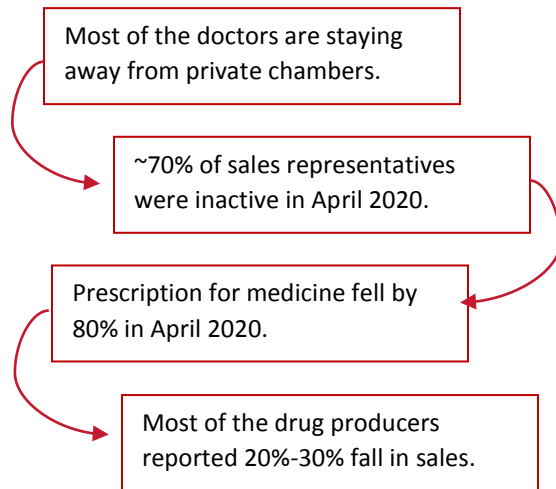
On the supply-side, trade has been disrupted with major raw material importing nations such as US, Canada, Italy, UK and Australia which counts for 90% of raw material imports. In addition, ship breaking industry which is the major supplier of local scrap has been completely shut down and is unlikely to reopen in the next few months. As the industry is highly leveraged, small manufactures are likely to be driven out of business from depressed demand and absence of any government support.

- **Prolonged demand slump** – Optimistically it is likely to take at least 2 years for demand to return back to pre-pandemic level. Figuring out a way to survive through this will be the key challenge.
- **High debt burden** – Traditionally, the industry is highly leveraged and with depressed topline many small producers may get driven out of business and larger ones may be forced to downsize.

Bangladesh Steel Manufacturers Association (BSMA) already called out for a number of policy support from the government such as lower interest for 12 years with 6 years of grace period, reduction of customs duty on raw material imports, imposition of higher tax on finished MS Rod import, reduction of corporate tax to 10% from existing 35% and withdrawal of 5% advance income tax for the next fiscal year. However, any decision from the government is yet to be made. Given, the industry dynamics and persistent nature of the ongoing crisis, most of the steel industry players might find it close to impossible to survive without any form of government support.

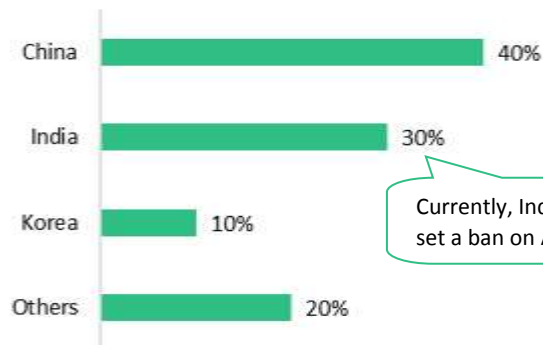
COVID-19 Impact on the Pharmaceutical and Healthcare Industry

Before going into the Covid-19 pandemic, the size of the domestic pharmaceutical industry of Bangladesh stood at ~BDT 220bn as of 2019 with a CAGR of 15.8% over the last five years. The industry was on its way towards maintaining this growth momentum to reach BDT 434.4bn (USD 5.11bn) by 2023 driven by aggressive drive from local companies to grab global market share.



Source: TBS

Major Raw Materials Import Origins



Source: TBS

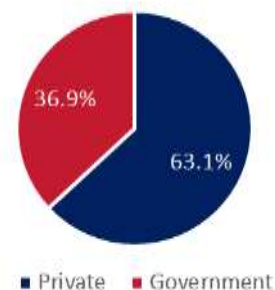
The pharmaceutical companies are among the least effected by the pandemic but the industry's supply chain has been stretched dangerously thin. The industry imports over 97% of raw materials needed for drug production. According, to industry insiders, the drug manufacturers usually keep a stock for four to five months. The pandemic has led to one of the major import destinations, India to temporarily ban API exports and trade with China is likely to be limited throughout 2020 as it is the epicenter of the virus.

On the demand side, even though there was a slump in local demand in April 2020, we expect it rebound as lockdowns are being lifted. However, the export scenario is difficult to assess as sales of traditional drugs may slow down but Covid-19 related drugs may witness significant spike in sales. Going into 2021, we expect the supply side problems to be fully resolved with the pharma industry being among the first to recover from the pandemic disruptions.

Under Utilized Healthcare Facilities

Usually, private healthcare operators provide 64% treatment in Bangladesh. However, amidst the ongoing pandemic around 75% of the beds in private hospitals are empty. According to industry insiders, patients, except those who are suffering from severe illnesses, are not willing to come to the hospitals fearing Covid-19 transmission. On the other hand, doctors and nurses in private hospitals are also unwilling to tend to patients, particularly those with respiratory problems, because of the lack of PPE and masks. We believe the government needs to collaborate with private hospitals by allocating required supplies to increase the utilization of healthcare facilities.

Hospital Bed Distribution in Bangladesh



Covid-19 Impact on Bangladesh Startups Ecosystem

There are over 1,000 startups in the ecosystem currently providing employment to an estimated 1.5 million people. Bangladeshi Startups have attracted over USD 200 million in international venture capital. The most popular startup growth sectors in Bangladesh are E-commerce, Logistics, Ridesharing, and Fintech.

According to Venture Capital and Private Equity Association of Bangladesh (VCPEAB), due to countrywide COVID-19 shutdown 300 start-ups are likely to incur revenue decline of approximately USD 53 million in sales, and export-oriented start-ups have experienced as much as 80% decrease in revenue. This will endanger jobs of 150,000 direct employees and about 700,000 associated service providers.

Mobile Financial Services, e-healthcare & telemedicine, e-grocery, on demand delivery have seen spike in demand in retail level amid pandemic but other startups are facing severe consequences.

COVID-19 has deeply wounded the startup ecosystem around the world- Since the beginning of the crisis, uncertainties are looming over the start-ups around the world economies. Most of the startups in the world have seen sharp revenue decline for last couple of months. Industry surveys by different research entities, newspapers, associations have shown a fragile picture of minimum 50%-60% startups.

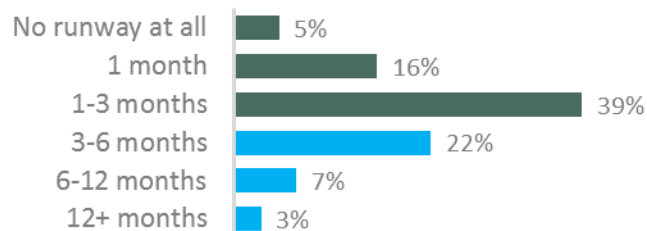
Startup survey: More than 50% of companies have less than 6 months of cash runway to survive
BY TWILIGHT ZEPHYR on May 12, 2020 at 9:12 pm

Startup Genome: 41% of global startups have less than 3 months of cash
STARTUP GENOME | BOSTON | FALL 2019 ISSUE

Startup India

70% startups may not survive after 3 months as young tech firms become major casualties of Covid
By: Sandeep Soni | Updated: May 19, 2020 2:57:42 PM

60% STARTUPS HAVE RUNWAY LESS THAN 3 MONTHS



Bangladesh Startup COVID-19 Response Group and LightCastle

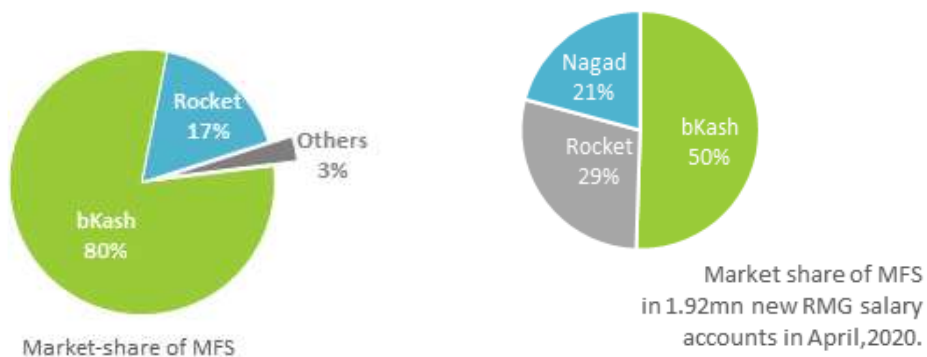
Bangladesh is no different, study by Bangladesh Startup COVID-19 Response Group and Lightcastle found 60% of ventures have less than 3-month runway. Early state Startups need high growth in revenue, a COVID-19 like pandemic can jeopardize new venture to a failed venture. In this backdrop, winning ideas may survive with fresh rounds of investments from risk investors.

During lockdown online grocery orders increased by manyfold for e-grocery leader Chaldal. As the hospitals became unoperational partially and as people could not go out, tele-medicine became like an essential service. Olwel, Doctorola, Praava Health and Digital Health have seen significant uptick in the number of telemedicine bookings.



COVID-19 impact on Digital/Mobile Financial Service providers- In 2019 the digital/mobile financial services landscape of Bangladesh evolved multifold. At the end of December 2019, the country had 971,000 MFS agents and a total of 11,320 agent banking outlets that serve 81 million registered wallets. Due to service point shutdowns the overall transaction of the industry has declined by around 35%. A significant number of MFS agents remained closed in lockdown, while the remaining agents open their shops for limited hours in a day. As a result, the entire industry transaction and volume have reduced significantly.

The contactless mobile/online payment methods were gaining acceptance already, but this COVID-19 pandemic has been a boon for this industry. Though the country wide lockdown has slashed the revenue but it expanded the MFS market overnight.



The Central bank included MFS into emergency services during lockdown to facilitate the payments. Moreover, government directed concerned authorities to disburse some BDT 4,000 crore among 4.1 million readymade garment (RMG) workers across the country. Consequently, 1.92 million MFS accounts were opened in just first two weeks of April.

The industry is waiting for launching of MFS Interoperability soon that will have a positive impact on more than 81 million registered wallets across 64 districts in Bangladesh. It will ease making and receiving payments for goods and services, especially for MSMEs and increase total transactions.

Impact on e-commerce & e-services- Amid the COVID-19 shutdown, number of online purchases using the B2C e-commerce platforms i.e., daraz.com, Shwapno.com, chaldal.com, etc. increased. Chaldal.com, shwapno.com and other e-grocery sites have considerable increase in online orders after lockdown. Online grocery stores like Chaldal, shwapno etc. are experiencing double digit growths in the number of deliveries with Chaldal's average 5000 orders-per-day jumping to 10,000 to 15,000 orders-per-day on an average.

'Daraz', specializing in electronics, home appliances, clothing etc. in Bangladesh recently announced in BDT 500-crore investment plan by 2021. Under the plan, the entity would develop its own 2,00,000-square feet warehouse and 1,50,000-square feet fully automated sorting center. Daraz also aims to reach all 64 districts in the country with more than 150 hubs by the end of this year. 'Othoba' by RFL group is another e-commerce seeing a booming increase of orders due to its Ramadan centric offers and supply of PPEs and other hygiene products, necessary products during the COVID-19 crisis.

Online purchase of medicine, safety and sanitizing kits, has increased a lot in this pandemic and panic buying added more to it. Pharmacy.com is the leading online pharmacy store who has been seeing a substantial rise in sales as they are one of the few e-commerce businesses that have brought the pharmacy to a digital storefront.

Food delivery services are struggling- Food delivery services (HungryNaki, Pathao Food, Foodpanda, ShohozFood, UBEREats etc.) have faced severe challenge in lockdowns in April and May (2020) as almost all the restaurants were closed and 30% restaurants left business following loss. Online food delivery orders fell down by 75 to 80%. On May 19th the global ride-sharing platform Uber's food delivery service Uber Eats decided to close down its operation in Bangladesh from June 2020.

Uber Eats closing down in Bangladesh

Uber Eats

Before COVID-19, Food Delivery industry at a glance



- Before pandemic, around 20,000-30,000 orders delivered per day, minimum delivery charge BDT 50.
- HungryNaki is the first food delivery startup, started in 2013. Pathao Food leads the market with 80% share.
- Chattogram and Sylhet are biggest market after Dhaka.
- In 2019, industry employment: 10k

Ridesharing still not permitted to hit the road- BRTA has banned the ridesharing services (UBER, Pathao, Shohoz etc.) during the two months-long lockdown to limit the spread of COVID-19. From June 2020 RMG factories, shopping malls, companies have started operation at limited scope. Public transportation resumed on 1st June but BRTA is yet to permit the ridesharing services to start operation. Uber and Pathao, two top ride-sharing platforms in the country, have jointly requested the Bangladesh Road Transport Authority (BRTA) to allow ride-sharing services through apps. BRTA decision in this regard may determine the future of these ventures in Bangladesh.



Logistics Startups are rolling on- Around 300 small and medium size logistics companies have been operating in Dhaka to support the booming e-commerce and f-commerce. Some logistics services have seen spike in demand. Pathao, e-Courier, Bidyut, Paperfly, SA Paribahan these logistics companies faced an unlikely surge in orders.

Health/Telemedicine can be the next promising sector- During the pandemic, the online healthcare service providers have faced a sudden spike in service requests, mostly for doctor consultation and medicines. Praava Health has introduced video consultation service already.

Doctorola, Digital Health (formerly Telenor Health), Olwel are receiving thousands of calls every day. The sudden surge of demand in this sector has attracted other startups overnight. The ride-hailing startup Pathao has launched a new service called Pathao Health in collaboration with a number of healthcare startups in Dhaka including Digital Healthcare Solutions (formerly Telenor Health), Praava Health, and Maya. Pathao and Shohoz are also coming forward to provide telemedicine solutions and on-demand medicine delivery.



The post-COVID-19 world will not be the same again. The new normal may come up with changed Lifestyle, purchasing behavior, way of doing business and interfaces. Post-pandemic solutions of unique problems we are facing in COVID-19 pandemic may lay foundation for many business ideas and can shape future of our e-commerce industry in the coming years.

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