

## MACROECONOMIC OVERVIEW

Retaining the focus on the 8<sup>th</sup> five-year plan, the budget for the fiscal year 2021-22 has been proposed when we are experiencing an aggravated Covid-19 second wave. Both the death toll & positivity rate hit a new peak in the second quarter.

Due to the rising oil price in the international market & swelled up money supply, the economy is undergoing an inevitable inflationary pressure. Decreasing affordability of general people is more evident than ever with the soaring price of everyday transportation, food & essential products. Along with massive unemployment, this unaffordability pushed 30% of the people under the poverty line from 21% in 2019.

### Expansionary fiscal policy to counter pandemic situation

Keeping the focus on VISION 41 to make Bangladesh a developed country by 2041, the government facilitated local enterprises with reduced tax (2.5% across listed & non listed except, financial institutions, telco, & tobacco) to create more jobs & raise economic activities.

The budget size is BDT 6 Lakh Crore (12% up from last year), which is 17.5% of the GDP.

Moreover, the budget deficit of BDT 2 lakh crore is to be financed by Bank Borrowing (35.6%), Non-Bank Borrowing (17.2%) & External Sources (47.2%). The GDP growth rate for 2020-21 is revised at 6.1% while the target growth rate for the upcoming fiscal year is set at 7.2%.

The top 3 sectors to get the most allocation of the expenditure are Human resources (26%), General Service (24%) & Agriculture (12%). ADP Expenditure is set at BDT 2.25 Lakh Crore (9.8% up from last year), which is 37.5% of the budget. Health, Education & Technology, Transport and Communication, Fuel and Energy, and Agriculture are some of the divisions with the highest allocation of ADP funds of the budget.

### Liquidity glut results in further interest spread & inflationary pressure for the economy

The weighted average interest spread continues to increase with burgeoning money supply. It is lowering deposit rate with comparatively flat lending rate: (3.26% in May vs 3.04% in April). Excess liquidity in the economy stood at BDT 2.02 lakh crore and continuing to flood in.

Apparently, private sector credit demand is low due to the second wave of the pandemic. Moreover, with the incoming stream of remittance, this excess liquidity has driven the inflationary pressure (from 5.26% to 5.64%) to be more perennial than ever.

P2P food inflation (from 4.87% to 5.45%) & non-food inflation (from 5.86%-5.94%) both have risen alarmingly from May to June.

### **Overreliance on consumer tax widens the real income gap**

Reluctance to submit tax on personal income & overreliance on consumption-based taxes (VAT, SD & Tariffs) have resulted in a higher Gini-coefficient; a measure of income inequality for the country. From 0.46 in 2010 to going 0.48 in 2016, it is now 0.52 (where 0.4-0.5 indicates big income gap & >0.5 indicates severe income gap).

This shows despite the increasing per capita income (USD 2,227), the gap between rich & poor is wider than before.

### **Expansionary monetary policy with the focus of reviving the economy**

Expansionary monetary policy of Bangladesh Bank, continuous declining deposit rate, government's stimulus package & greater remittance inflow have resulted in the highest ever money supply in the economy BDT 15.3 Lakh Crore (12.9% YoY increase).

BB is focused on continuing this expansionary policy to keep facilitating the pandemic-hit economy, especially since the YoY private sector credit growth is on a declining trend (7.6% in May vs 8.3% in April). The private sector's reluctance to borrow has been one of the biggest challenges for the GoB's endeavor to revive the economy, hence the growth is 7.2% lower than the government's second half-yearly target of 14.8%.

But this expansionary policy is fuelling the NPL situation in the economy. Despite extending the moratorium period, the volume of NPL grew by 9% to BDT 95,085 Crore (Jan-Mar) which is 8.07% of the total outstanding loan.

### **Forex reserve continues to increase backed by the staggering spurt in remittance**

Despite deepening trade deficit (increase 23.5% YoY), the country's current account deficit has been reduced by 58% YoY (July- May) from negative 4.4 Billion USD to negative 1.8 billion USD. With every other account being somewhat consistent with the previous year, the major difference was due to the surge in private transfers, precisely foreign remittance.

With 2% cash incentive, ease in money transfer facility & disruption of hundi channel, the remittance flow has increased by 36% YoY & resulted in an all-time high Forex reserve of USD 46.4 billion as of June 2021. Government plans to continue this 2% cash incentive in the next fiscal year as well.

## **Commendable performance in export over the last year**

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With lockdown being lifted in the west, our export has increased by 15.1% YoY & 1.2% QoQ, with the RMG sector's growth of 12.6% YoY. This increase is backed by the government's supportive activities such as: increasing the EDF Fund (Export Development Fund) from BDT 350 Crore to BDT 550 Crore, 1% incentive to textile & garment's sector & allocation of BDT 5,000 crore loan fund for the payment of workers & employees in the export-oriented industries. Government plans to continue this 1% incentive into the next fiscal year as well. Meanwhile, import has also increased by 17.28% YoY by the end of May 2021.

## **CAPITAL MARKET OVERVIEW**

### **Market hits the 6000 ballpark index value**

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In this quarter, the capital market revived quite nicely. The quarter started with a DSEX index of 5,270.5 points & ended with a staggering 6,150.5 points (up 16.7%). Daily ADTV (Average Daily Trade Volume) was BDT 451 Crore at the beginning against BDT 1,408 Crore at the end of the quarter.

### **Well performing IPOs**

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One of the most hyped IPO NRBC Bank, which came at the end of March, showed an overwhelming upside of 3 times by the end of the quarter (BDT 32.10). Desh General Insurance (DGIC) ended the quarter at BDT 48.2 (up by 482%). SONALILIFE came to the market at the end of this quarter attaining a staggering 7 times return by July. Meanwhile, South Bangla Agriculture & Commerce Bank has also come to the market through the fixed-price method to raise BDT 100 Crore.

Nialco Alloys (NIALCO) is the 1<sup>st</sup> ever IPO to come to the SME board this quarter, which is the start of something optimistic for the capital market. NIALCO is currently priced at 21.20 (up by 212%). Four more IPOs: Mostafa Metal Industries Limited (BDT 11 Crore), Oryza Agro Industries Limited (BDT 10 Crore), Subra Systems Limited (BDT 12 Crore), and Master Feed Agrotec Limited (BDT 10 Crore) are also coming to the market in the near future.

### **Capital market outlook**

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With this all-time high money supply & the inflationary pressure that comes with it, people are more eager than ever to invest to prevent the devaluation of their money. In this regard, the National Savings Certificate (NSC) & Real Estate are the most preferable choice apart from the capital market.

Fresh money is coming to the market & currently, the market resides at 6,400 points. This growth was fuelled mainly by the insertion of black money to the capital market. With more fresh money coming, the market's next resistance at 6,700 points is highly likely to be achieved with good support at the 5,900 level. But sustainability of higher market level remains questionable as major macroeconomic risks are hidden in the economy particularly bad NPL, high unemployment and after math of the pandemic.

Despite the reduction in economic calls, soaring data usage among subscribers ensures future telecommunication industry upside. With the increase in overall market size, the Pharmaceutical industry is to withstand a steady growth.

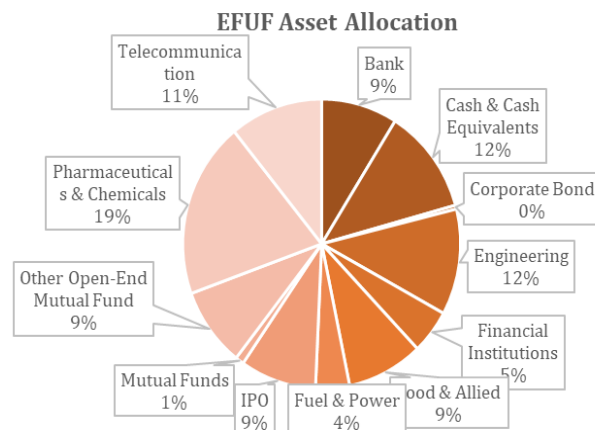
### OUR INVESTMENT STRATEGY: LONG TERM AND WELL DIVERSIFIED

Our managed fund provided a 49.10% return since its inception, 18 March, 2020 including 8% cash dividend disbursed for the year 2020.

In our continuous effort to provide the best wealth management service, we choose stocks with good fundamentals & proper corporate governance. Our allocation is highest in equity (80%) representing our bullish view on the equity market in long term.

Here's our top 5 stocks:

Sl	Company	Weight
01	GP	11%
02	BATBC	11%
03	BRACBANK	10%
04	MARICO	10%
05	RENATA	8%



The portfolio is well-diversified among 13 stocks and 9 sectors which we view will do well in the future.

We are always observing the market situation & looking for attractive opportunities to buy fundamentally good stocks at a favourable price, to provide maximum return in the long run.

Please visit our website to know more details: <https://ekushwml.com/> and email us if you have any queries at [info@ekushwml.com](mailto:info@ekushwml.com).

**Stay Safe & Thank you.**