

STOCKS		COMMODITIES		ASIAN MARKETS				CURRENCIES			
DSEX	CSCX			MUMBAI	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	CNY
▲ 0.1%	▲ 0.11%	Gold ▲	Oil ▼	▲ 0.71%	▼ 0.58%	▲ 0.69%	▼ 0.24%	BUY TK	83.95	95.99	105.82
4,080.93	7,044.64	\$1,868.60	\$44.10	38,140.47	22,751.61	2,612.35	3,325.11	SELL TK	84.95	99.79	109.62
		(per ounce)						STANDARD CHARTERED BANK			



BUSINESS

DHAKA FRIDAY JULY 24, 2020, SRABAN 9, 1427 BS ● starbusiness@thedailystar.net

Budget deficit to go through the roof

REJAUL KARIM BYRON

Bangladesh's budget deficit may shoot to as high as 10 per cent of the GDP in the current fiscal year as the government would have to keep spending more to tackle the brunt of the coronavirus pandemic amid a drastic fall in revenue generation, the World Bank said.

The Washington-based multilateral lender has projected the fiscal deficit to increase to 7.9 per cent of the country's gross domestic product in fiscal 2019-20 and 10 per cent in fiscal 2020-21 for pandemic-related expenditure.

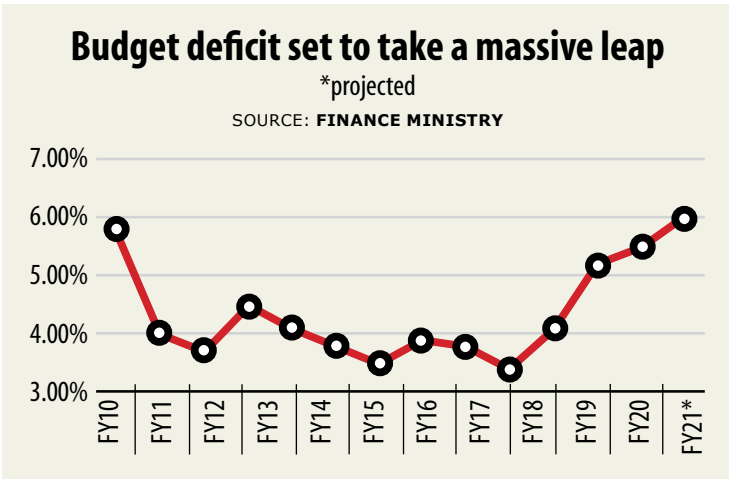
The government, however, says the budget deficit would be 5.5

per cent in fiscal 2018-19 and 6 per cent in fiscal 2019-20, from the historically comfortable level of 5 per cent maintained by the government.

The overall budget deficit will be Tk 190,000 crore in fiscal 2020-21, up from Tk 153,508 crore in fiscal 2019-20, according to official documents.

Recurrent expenditure is projected to rise sharply, as the government seeks to mitigate the fallout of coronavirus through interest rate subsidies, social protection and food aid schemes and fertiliser subsidies.

Low revenue mobilisation and higher spending on the coronavirus response is creating



the budgetary pressure for the country.

The government has unveiled various stimulus packages amounting to Tk 103,117 crore, which is 3.7 per cent of the country's GDP, to help people, businesses, entrepreneurs, farmers, industrialists and exporters counter the impact of the pandemic.

The stimulus packages are the second-highest among the peer

countries in Asia and the highest in South Asia.

Revenue collection dropped 2.26 per cent to Tk 218,406 crore in the just-concluded fiscal year against the revised target of Tk 300,500 crore.

This was the first-ever negative growth in Bangladesh's history.

Revenues underperformed owing to lower import tax collections, complex new VAT legislation and stagnating tax

administration reforms.

Bangladesh's revenue-to-GDP ratio is one of the lowest among comparator countries.

Efforts to increase low tax revenue collection, including the launch of the modernised VAT in fiscal 2019-20, have so far not been successful with lower preferential rates of the indirect tax applied to many items.

In fiscal 2019-20, the situation became more challenging even before the outbreak of coronavirus. Between July last year and January this year, revenue increased only about 2 per cent.

Expenditure dropped along with earnings, helping the government keep the deficit at 5.5 per cent.

For example, the government managed to spend Tk 161,000 crore of the annual development programme against the revised target of Tk 192,921 crore in fiscal 2019-20.

The figure may even go down further when the Office of Comptroller and Auditor General releases the final calculations.

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BATBC stands tall when most make steep fall

AHSAN HABIB

British American Tobacco's profit grew a whopping 69 per cent in the second quarter of 2020 on the back of lower operating costs whereas most companies bled because of the coronavirus pandemic.

Operating expenses were Tk 35.8 crore in the April-June quarter, down 84.2 per cent from a year earlier.

Subsequently, earnings per share of the multinational company rose to Tk 16.48 from Tk 9.73 during the same three-month period a year earlier.

In the first half, the EPS had risen to Tk 33.35 from Tk 21.17 during the same period of in 2019.

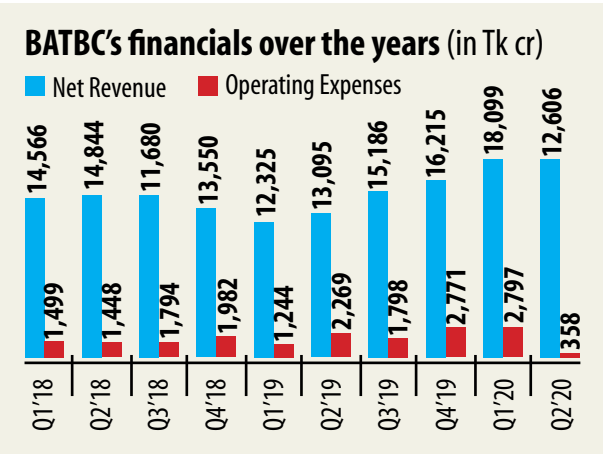
"Many of our operations were shut in the second quarter due to the pandemic, which brought down the operating costs," Md Azizur Rahman, company secretary of BATBC, told The Daily Star yesterday.

"But we will have to spend money in the next quarters, so our operating costs will not be too low come the end of the year."

The company's profit rose sharply at a time when most of the companies in Bangladesh had been in the red because of the pandemic.

For example, most banks' operating profits declined 20 to 30 per cent in the first half because of the depressed economy.

The cigarette maker's operating expenses came in at Tk 279.7 crore in the first quarter. So, the total half-yearly operating expenses were supposed to be Tk 315.5 crore. However, the half-yearly report showed it to be Tk 260.5 crore.



In the first quarter, some costs had been mistakenly shown under the operating cost head, which should have been shown under the cost of goods sold segment, Rahman said.

"It has been adjusted in the second quarter. However, it did not affect the profits," he said, adding that the adjustment is legal under accounting standards.

Despite the higher profit, stock investors were not excited about the shares of British American Tobacco yesterday. Its stocks were unchanged at Tk 907.6 on the Dhaka Stock Exchange (DSE).

The higher EPS was driven by higher sales volume and deferral of major initiatives to the second half due to the pandemic along with lower interest expenses, the company said in a posting on the DSE.

The company's net interest expense more than halved to Tk 8.10 crore in the first half from a year earlier.

The EPS, however, slid in the last two years as it provided stock dividends, which squeezed its capacity to pay reward the investors, said a top official of an asset management company.

In 2017, it was Tk 130, according to the DSE. It announced a 200 per cent stock dividend for 2018. The EPS dropped to Tk 51.37 in 2019 because of the increase in the number of shares.

It announced a 400 per cent cash dividend in 2019, 500 per cent in 2018 and 600 per cent in 2017.

Still, the stock has fallen more than 80 per cent in the last two years. This is because the government imposed a higher tax on the lower segments of cigarettes in fiscal 2019-20 that hit its profits, the asset manager said.

The sales growth was as usual in the first quarter that contributed to the higher revenue in the first half. Sales in the second quarter were lower because of the interruption caused by the pandemic to the supply chain, said an official of the company.

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Exporters get yet another shot in the arm from govt

BB sanctions low-cost fund for paying July's wages

AKM ZAMIR UDDIN and REFAYET ULLAH MIRDHA

The government yesterday gave yet another stimulus package worth Tk 3,000 crore for the export-oriented industries to help them provide wages and salaries to their workers for July.

This is the third stimulus package for the export-oriented industries, which are now actively running their units, since March.

The development comes after the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), whose members generate most of the export receipts, jointly wrote to Finance Minister AHM Mustafa Kamal on June 22 seeking

continuation of low-cost loans for three more months to September.

Garment factory owners are in deep worry about carrying out various activities, the future of the industry and how to pay wages to the workers, said the joint letter, which was also sent to the prime minister's principal secretary.

"As a result, it would not be possible for most garment factory owners to pay wages to workers for July, August and September," the letter said, adding that the initial stimulus package had helped the garment sector withstand the crisis brought on by the global coronavirus pandemic.

Garment factories in Bangladesh faced order cancellations or suspensions worth more than \$3 billion since the pandemic

took form. Subsequently, earnings from apparel shipments in the immediate past fiscal year fell to its lowest in a decade of \$27.83 billion. The amount is 18.45 per cent lower than in fiscal 2018-19.

It may take up to eight months to get the payment for the shipments already made. But the workers have to be paid to keep factories up and running to execute the current shipments and make the delivery for the orders coming in, the two trade bodies said.

Subsequently, the finance ministry on Wednesday asked the central bank to provide the additional fund to the export-oriented industries, which are dominated by garment factories.

Accordingly, the central bank yesterday

sent a letter to 47 banks to release the fund from the stimulus package for the large borrowers in the industrial and service sectors. The package's allocation was raised to Tk 33,000 crore from Tk 30,000 crore for this end.

Borrowers will have to pay 4.50 per cent interest rate to avail the fund while banks will get 9 per cent interest as the government will give the rest as subsidy.

Banks will be permitted to take up 50 per cent fund from the central bank's refinace scheme to provide the credit to the export-oriented industries smoothly.

Borrowers will have to pay the loans within two years including a grace period of six months.

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BB announces credit guarantee scheme for small enterprises

Gives vital lifeline to micro, small entrepreneurs struggling to get financing amid banks' reluctance

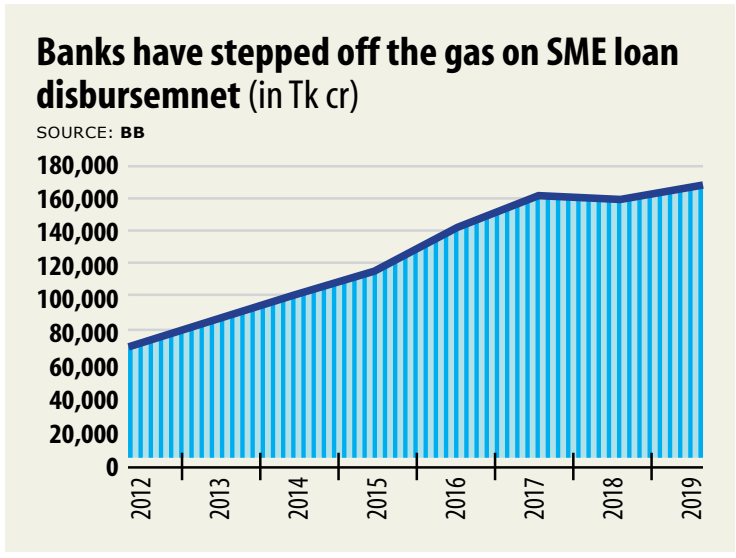
AKM ZAMIR UDDIN

The central bank yesterday decided to introduce a credit guarantee scheme for the micro and small enterprises, the first of its kind in the country, giving a much-needed lifeline to the SME sector struggling to stay afloat.

The board of the Bangladesh Bank approved the scheme worth Tk 2,000 crore for the entrepreneurs in the cottage, micro and small (CMS) sector to help them tackle the ongoing crisis brought on by the coronavirus pandemic.

The scheme will initially give coverage to the fund, which is being disbursed from the stimulus package of Tk 20,000 crore for the SME sector.

"The credit guarantee will certainly give a boost to the overall



SME sector," said Abu Farah Md Naser, an executive director of the central bank.

A credit guarantee scheme provides a third-party credit risk mitigation to lenders through

the absorption of a portion of the lender's losses on the loans made to SMEs in case of default, typically in return for a fee.

Banks will get 80 per cent coverage of a credit given to an individual or a company. This means banks will avail the fund from the scheme if loans go sour.

The scheme will help make the stimulus package for the SME sector vibrant, said a central bank official said.

Under the package, funds will be given at 9 per cent interest rate to borrowers. Of the interest rate, 4 per cent will be borne by the borrowers and 5 per cent by the government in subsidies.

Also, the central bank will provide half of the Tk 20,000 crore stimulus package to cash-strapped banks so that they could give out the loans smoothly.

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Eid-ul-Azha primed to flood the country with rawhide

REFAYET ULLAH MIRDHA

Risk looms large of a recurrence of last year's discarding of rawhides en masse during Eid-ul-Azha in Bangladesh this year for a low injection of funds in the sector and a lack of preparedness of both the government and traders.

In a countermeasure, the government plans to allow export of wet blue or leather that is halfway through processing.

Last year, nearly one crore pieces of rawhide worth Tk 100 crore were thrown away by citizens who sacrificed animals alongside small seasonal traders as they deemed the prices to be too low.

The other factors such as hot and humid weather conditions and the ongoing pandemic will also affect rawhide business during this Eid, scheduled to be celebrated on August 1.

Of the rawhide annually produced in Bangladesh, half comes during Eid-ul-Azha.

Moreover, old stocks of unsold leather, a fall in demand from international retailers and a yet-to-function central effluent treatment plant (CETP) in Savar Tannery Industrial Estate (STIE) will cause severe detrimental effects, said exporters, experts, traders and tanners.

Bangladeshi tanners and exporters have to make do with prices 40 per cent below the international rate as the country's tanneries do not have a much-needed international certification of Leather Working Group (LWG).

As a result, most of the non-compliant tanneries at the STIE have had to make China their major export destination.

Demand from China also fell drastically because of its trade war with the US, the effects of which also fell on Bangladeshi leather businesses.

Usually, Chinese companies import Bangladeshi leather to process it in their factories and then export to European and American markets.

Experts suggested that the government allow the export of wet blue to create demand at the field level so that citizens can get proper prices.

Usually, seasonal middlemen collect the rawhide at very low prices from ordinary citizens who sacrifice animals and sell those to merchants, who then sell to tanners.

The traditional and seasonal rawhide businesses in Bangladesh are highly monopolised by syndicates of seasonal traders, merchants and tanners. As a result, citizens

who sacrifice the animals have been deprived of proper prices for over decades.

"This year, we are fearing more trouble than last year as we did not get any fund from the



MD QUAMRUL ISLAM RUBAIYAT

Only a week is left for the upcoming Eid-ul-Azha, but cattle traders in Thakurgaon and Panchagarh are still struggling to get customers for the animals they put up for sale. The photo was taken in Thakurgaon on Wednesday.

The century-old platform of rawhide traders is based in Dhaka's Posta, Bangladesh's biggest trading hub of rawhide that has been treated with salt. The other large hubs are situated in Chattogram, Natore, Palashbari, Tangail, Mymensingh and Jashore.

The merchants have traditionally supplied rawhide to tanners on credit. The tanners pay a significant amount of the arrears ahead of Eid.

The merchants lend money to regionally functioning traders, who provide the same to seasonal traders for the collection of rawhide from citizens around the country.

So the fund has a trickle-down effect, meaning if tanners do not have funds in their hands, the whole business does not take place, which was evidenced last Eid, said Ali Hossain.

Since 1990, merchants are owed as much as Tk 500 crore by the tanners.

Over the years, many small and medium merchants passed away and their businesses collapsed due to mismanagement in this business.

"Many merchants became bank defaulters as the tanners did not pay the arrears," the third-generation rawhide trader of Posta told The Daily Star.

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