Endeavour Education Excellence

# FINANCIAL MARKET REVIEW

December 2022

## Contents




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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.

> "The country is trying to fight back the world economic depression by taking different monetary and fiscal policies the outcome of which is controlling inflation, increasing remittance and increasing export for what ultimately, the reserve of the country is going up."

## Economy of Bangladesh

### Key indicators at a glance

| Countries | Nominal GDP (as of Apr, '22) (USD in billion) | Real GDP Growth (as of Apr, '22) (yearly % Change) | Inflation Point to point (as of Oct, '22) | Currency Appreciation/Depreciation against USD | Reserve (Billion US$) | Currency Exchange Rates (per USD) |
|---|---|---|---|---|---|---|
| Bangladesh | 396.543 | 6.415 | 8.91% | -1.03 | 41 | 102.45 |
| **Emerging Economies** | | | | | | |
| India | 3,534.74 | 8.153 | 6.77% | -1.02 | 532.838 | 81.42 |
| China | 19,911.59 | 4.373 | 2.10% | -0.93 | 3052 | 7.02 |
| **Developed Economies** | | | | | | |
| USA | 25,346.81 | 3.708 | 7.75% | 0 | 233 | 1.00 |
| UK | 3,376.00 | 3.749 | 11.05% | 6.64 | 113.8 | 0.81 |

### Appreciation/Depreciation of Currencies against USD

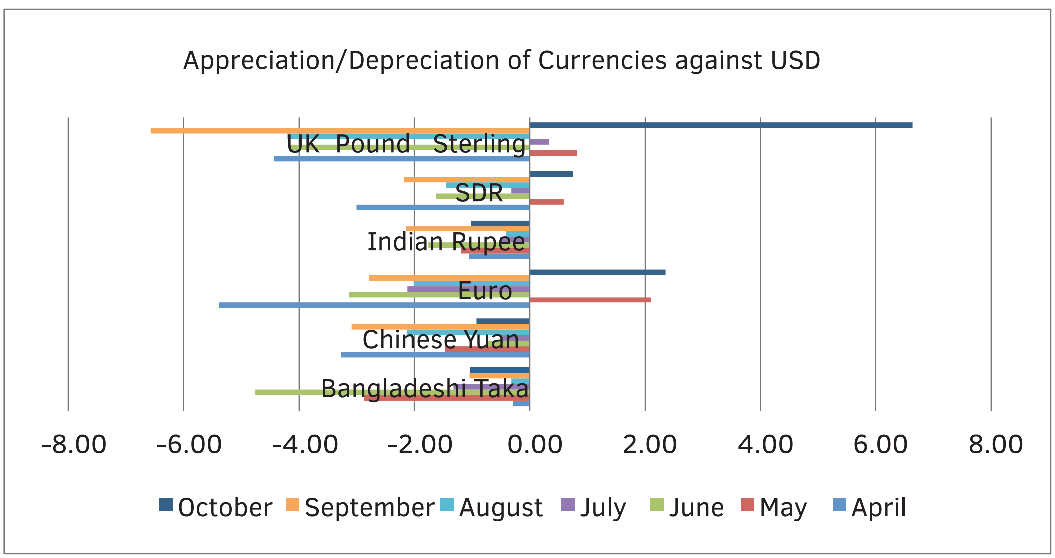



Figure 1: Appreciation or Depreciation of Different Currencies against USD

## A visual tour of the key statistics

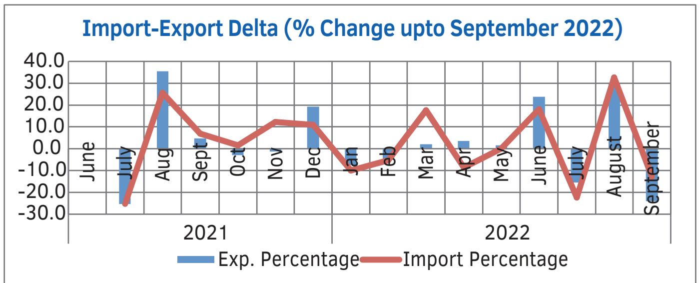



Figure 2: Import-Export Delta (Percentage Change up to September 2022)

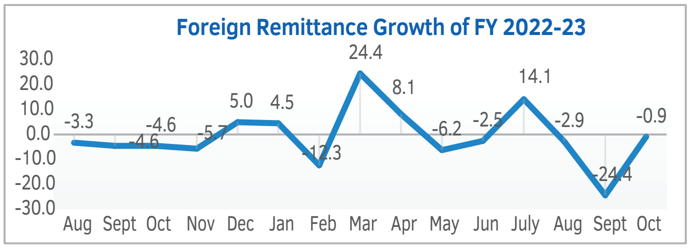



Figure 3: Foreign Remittance Growth of FY 2022-23

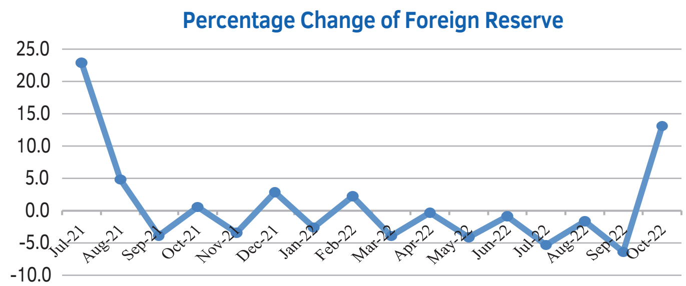



Figure 4: Percentage Change of Foreign Reserve

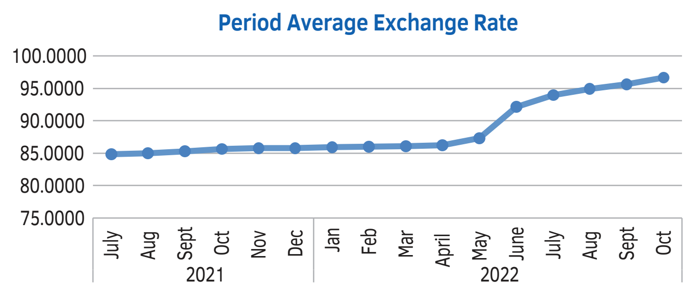



Figure 5: Period Average Exchange Rate

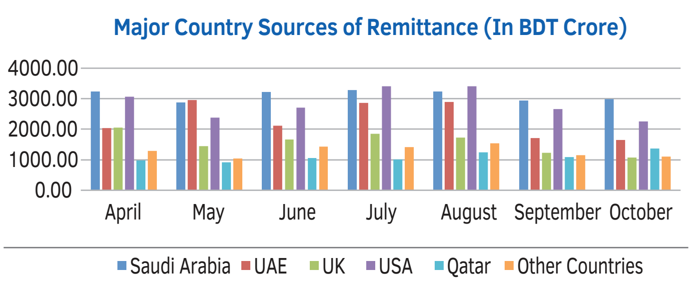



Figure 6: Major Country Sources of Remittance (In BDT Crore)

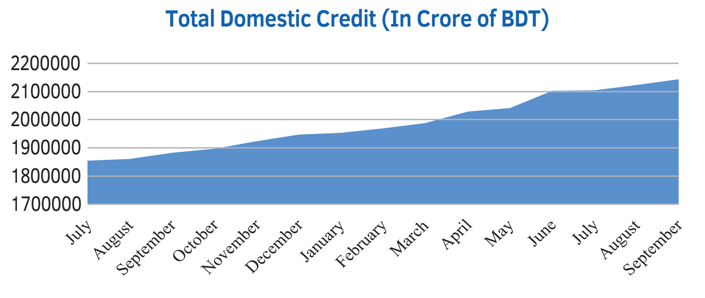



Figure 7: Total Domestic Credit (In Crore of BDT)

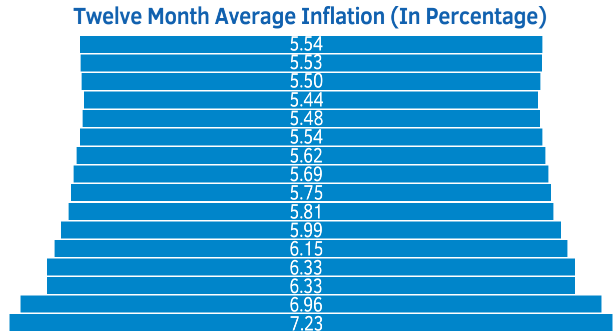



Figure 8: 12- Month Average Inflation (In Percentage)

### Numbers to Note

1. In comparison to the UK pound sterling, Russian ruble, and Euro, the Bangladeshi taka was relatively resistant to the USD's sensitivity to change.
2. Both exports and imports decreased in October 2022. But the export decreased lower than import comparing to previous month.
3. Foreign remittance growth fell by 0.9% in October 2022, following a significant drop in September 2022.
4. The reserve is now at 41 billion USD, up 13.1% from the previous month.
5. The average monthly exchange rate is now 96.65 BDT per USD.
6. The Debt to GDP percentage in 2021 is 21.8% that was19.5% in previous year.
7. The 12-month average inflation is 7.23%, up from 6.96% in the previous month.
8. Bangladesh gets her highest remittances from Saudi Arabia, the USA, and the UAE.

### Economic Challenges Ahead

1. The Russia-Ukraine War continues to impact the oil price and thus, the cost of products manufactured and imported continues to rise.
2. The USD crisis in the global market may imbalance the Balance of Trade of Bangladesh because the trade deficit is now 22,451 crore Taka in October 2022.
3. The money market crisis is trying to be coped up reducing NPL and enhancing ESG but these two major issues are yet to be corrected fully.
4. The reserve is increasing again; that is a very good sign, but the exports should also rise; they are not moving in an aligned manner.
5. The rising inflation and increasing cost of commodities may turn the switch of the economic depression in Bangladesh unless tackled properly.

# Capital Market Experienced Downturn Losing 116 Points in November

Capital Market

**In November 2022, the market demonstrated a 1.84% decrease in the DSEX index compared to the previous month of October. The prices of the majority of issues were on the floor.**

It is apparent by analyzing the capital market snapshot of November 2022 that the DSE market indices demonstrated a downward movement with a minor hike in the first week of the month. The prices of the majority of issues were unchanged due to the restriction on check settlement. Other indices have also decreased compared to those of September. During October, 48 issues were advanced, 59 issues were declined, and the remaining 225 issues were unchanged.

### DSE Market Indices

| Index Name | 1-Nov-22 | 30-Nov-22 | Change | % Change |
|---|---|---|---|---|
| DSEX | 6,352.90 | 6,235.95 | -116.95 | -1.84% |
| DSES | 1389.7 | 1,370.18 | -19.52 | -1.40% |
| DS30 | 2,235.77 | 2,214.33 | -21.44 | -0.96% |
| CDSET | 1223.83 | 1,223.16 | -0.67 | -0.05% |
| DSMEX | 1385.93 | 1,373.97 | -11.96 | -0.86% |

Figure 9: DSE Market Indices

### Market Aggregates

| | 30 Nov 2022 | 30 Oct 2022 | Change | % Change |
|---|---|---|---|---|
| Average Market Capital (TK Million) | 7,675,876.12 | 7,202,126.49 | 473,749.63 | 6.58% |
| Average Traded Value (TK Million) | 7,421.38 | 10,545.86 | -3,124.49 | -29.63% |
| Average Number of Trades | 144,530.23 | 180,151.10 | -35,620.87 | -19.77% |
| Average Trade Volume | 112,035,437.18 | 160,546,450.45 | -48,511,013.27 | -30.22% |

Figure 10: Market Aggregates

### Sector-wise Contribution

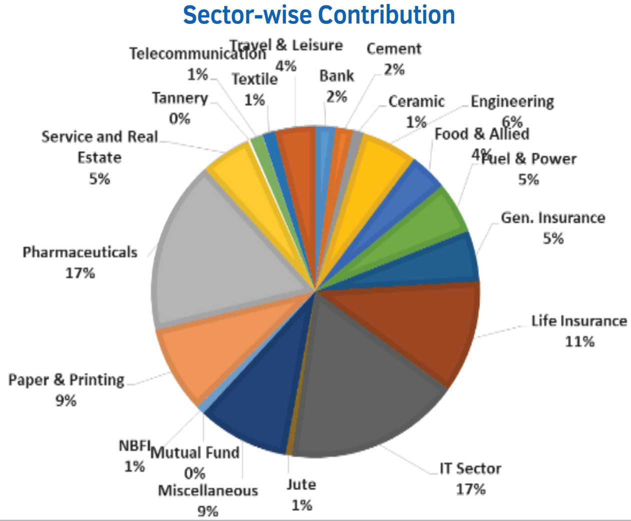



Figure 11: Sector-wise Contribution

### AD Ratio

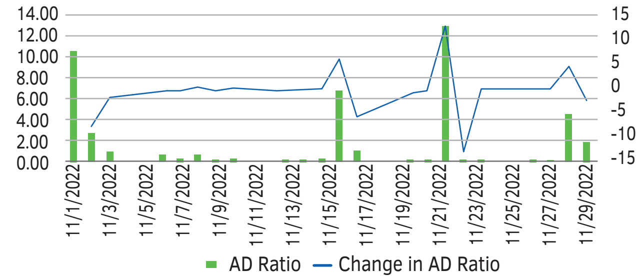
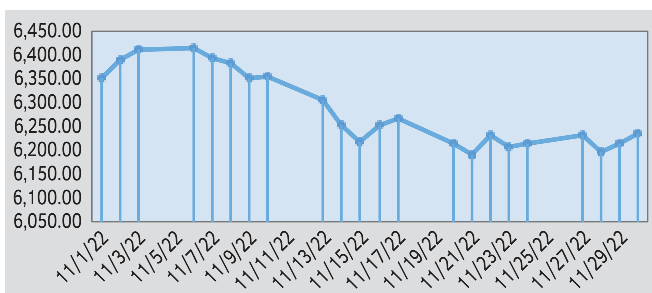



Figure 11: AD Ratio

The market lost points on most of the trading days of the month. Investment in the market decreased due to the panic among investors about the recession. The country's higher inflation rate and decreasing foreign reserves exacerbated the panic. Investment in the market fell as a result of investors' aversion to investing in stocks for fear of having their money stuck for an extended period of time. Institutional and qualified investors limited their exposure, causing many stocks to trade at the floor price.

### DSEX




### DSES

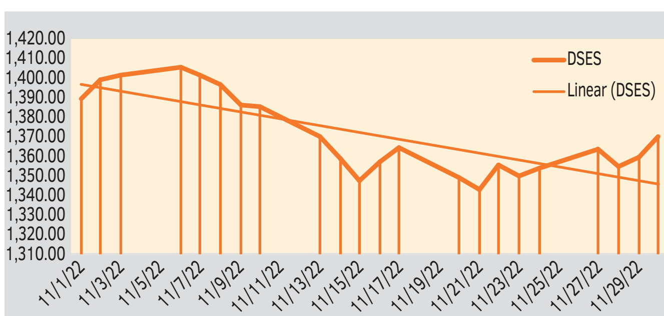



Figure 12: DSEX and DSES

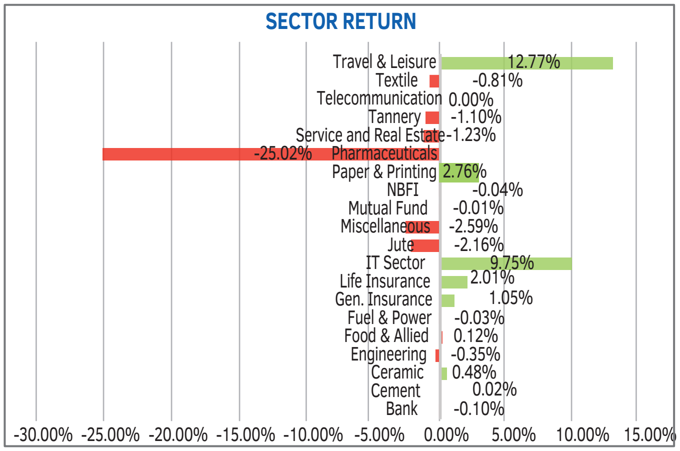



Figure 13: Sector Return

The decrease in the flows of foreign remittances and the widening trade deficit, along with the free fall in foreign exchange reserves to $35 billion, have created a panic among investors to return to the capital market. Overall, 11 IPOs are in the pipeline to penetrate the market, while two of them have already secured approval from the BSEC.

### Upcoming Approved IPO

| Company Name | Asset Class | Listing Method | Subscription Open | Subscription Close | Offer Price |
|---|---|---|---|---|---|
| Midland Bank Limited | Equity | Fixed Price | ---- | ----- | 10 |
| Asiatic Laboratories Limited | Equity | Book Building | ---- | ---- | -- |

Figure 15: Upcoming Approved IPO

Analyzing the returns of the world's major indices, it is apparent that the USA, China, India, Japan, and the UK all gained positive returns in November.

### World's Index PE Ratio

| Country | Index Name | Return |
|---|---|---|
| China | SSEC | 6.61% |
| India | NIFTY 500 | 3.75% |
| USA | S&P500 | 5.81% |
| Japan | Nikkei 500 | 1.60% |
| UK | FTSE 100 | 5.56% |
| Bangladesh | DSEX | -0.19% |

Figure 16: World's Index PE Ratio

The market PE ratio of the DSEX this month was 15.73. BEXIMCO was in the top position based on turnover; CLICL was the top gainer, whereas ANWARGALV was the top loser. Cumulatively, the average trade volume and the average trade value increased by 30% and 29%, respectively, along with a 6.58% increase in the average market capitalization compared to the previous month. A piece of positive news this month for the economy of Bangladesh is that export earnings hit 5 billion US dollars, which is an all-time high.

### Sectoral PE Ratio

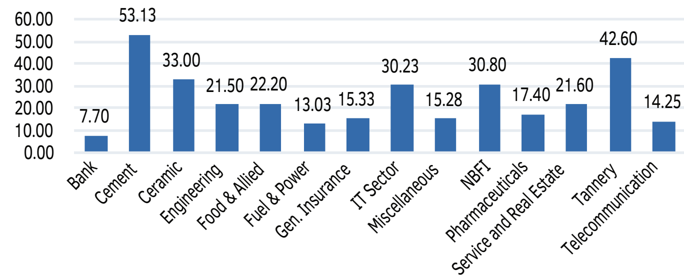



Figure 17: Sectoral PE Ratio

The market PE ratio of the DSEX this month was 14.25. ORIONPHARMA was in the top position based on turnover; NAVANAPHARMA was the top gainer, whereas BDCOM was the top loser. Cumulatively, the average trade volume and the average trade value increased by 45% and 38%, respectively, along with a 38.27% increase in the average market capitalization compared to the previous month. A positive development this month for the capital market of Bangladesh is that FDI increased by 37% compared to the previous month.

### Top Gainer and Loser

| Turnover | | | | Gainer | | | Loser | | |
|---|---|---|---|---|---|---|---|---|---|
| Sl | Stock | Turnover | Total (%) | Sl | Stock | Return(%) | Sl | Stock | Return(%) |
| 1 | BEXIMCO | 1988.62 | -6.00% | 1 | CLICL | 414.29% | 1 | ANWARGALV | -57.10% |
| 2 | GENEXIL | 1247.95 | 34.10% | 2 | PRAGATILIF | 77.34% | 2 | ORIONINFU | -45.10% |
| 3 | ORIONPHARM | 901.94 | -29.50% | 3 | JUTESPINN | 32.97% | 3 | JMISMDL | -32.39% |
| 4 | EHL | 656.67 | -30.40% | 4 | APEXFOODS | 30.87% | 4 | EHL | -30.63% |
| 5 | BPML | 630.71 | 9.20% | 5 | AAMRANET | 27.12% | 5 | JHRML | -25.90% |

Figure 18: Top Gainer and Loser

Though this month was not kind to investors, it can be said that the positive steps taken by Bangladesh's policymakers, as well as the increased participation of institutional investors, will usher in a new era for the country's capital market.

## Mobile Financial Services have made payments simpler and expanded access to financial services throughout the nation

**Money Market**

Total deposits increased by roughly 7.74% Year on Year (YoY) as of September 2022, with demand deposits growing by 13.66% and time deposits growing by 6.98%. Demand deposits and time deposits each contributed 1.09% and 0.93% to the growth in total deposits over the previous month, which was a 0.95% increase [Table 01].

Bills (both import and inland) and advances increased by 14.63% and 11.09% YoY, respectively. On the other side, if we examine the monthly growth from September to August 2022, we observe growth of 1.09% and -1.92%, respectively. Bank investments increased by 2.15% YoY. But compared to the preceding month, it grew negatively by 1.28% [Table-01].

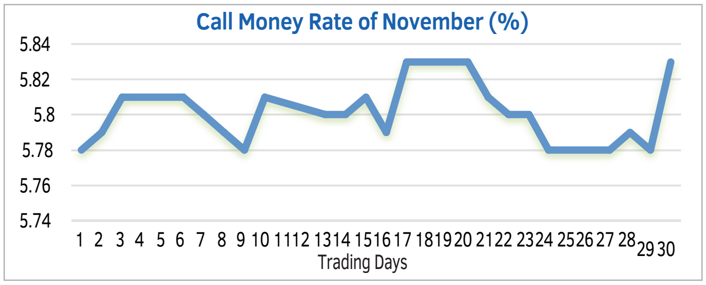
**Table 1: Scheduled Bank Deposits and Credit**

| Deposits held in DMBs (Tk in Million) | | | | | |
|---|---|---|---|---|---|
| Items | Sep 2022 | Aug 2022 | Sep 2021 | Percentage Changes | |
| | | | | Sep 2022 over Aug 2022 | Sep 2022 over Sep 2021 |
| Demand Deposits | 1,777,983 | 1,758,888 | 1,564,273 | 1.09 | 13.66 |
| Time Deposits | 13,043,787 | 12,924,055 | 12,192,501 | 0.93 | 6.98 |
| Total | 14,821,770 | 14,682,943 | 13,756,774 | 0.95 | 7.74 |

| Bank Credit (Taka in Million) | | | | | |
|---|---|---|---|---|---|
| Items | Sep 2022 | Aug 2022 | Sep 2021 | Percentage Changes | |
| | | | | Sep 2022 over Aug 2022 | Sep 2022 over Sep 2021 |
| Advances | 13,567,988 | 13,408,963 | 11,836,026 | 1.09 | 14.63 |
| Bills (Import &Inlands Bills) | 323,810 | 330,153 | 291,482 | -1.92 | 11.09 |
| Investments | 3,451,332 | 3,495,914 | 3,378,553 | -1.28 | 2.15 |
| Total | 17,343,130 | 17,235,030 | 15,506,061 | 0.63 | 11.85 |

Notes: 1. Deposits exclude Interbank Deposits and Government Deposits, 2. Advances include Loans &Advance, Money at Call, Balances & R. Repo with NBFI's & Accrued Interest, 3. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

In November, interbank call money rates reached a high of 5.83%, with an average of 5.80% [Figure 19]. The nominal loan rate and deposit rate, which average out to 7.12 percent and 4.02 percent, respectively, have stayed stable throughout time [Figure 19].



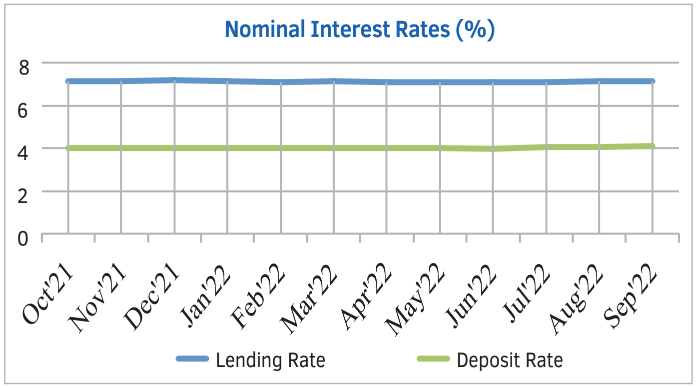
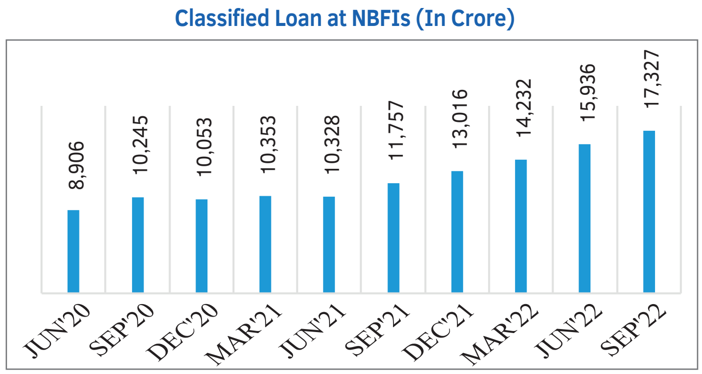




Figure 19: Call Money Rate and Nominal Interest Rates

Classified loans at Non-Bank Financial Institutions (NBFIs) skyrocketed to 17,327 crores as of September 2022, with a YoY rise of 47% [Figure 20]. Government net borrowing from the banking system totaled Tk.18,323 crore in July-October of FY23 [Figure 20].



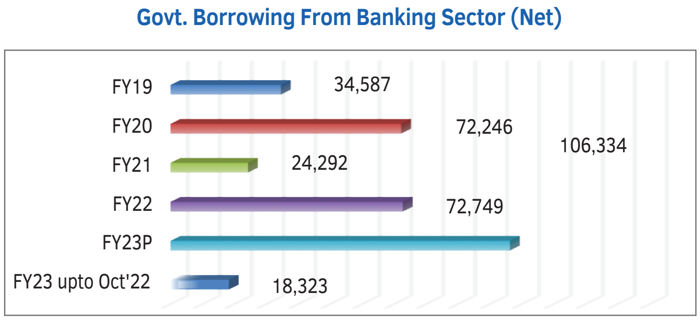
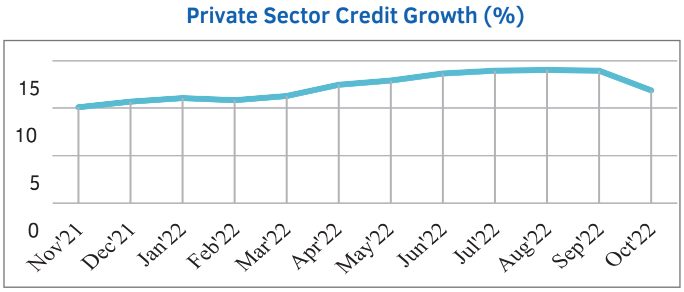




Figure 20: Classified Loan at NBFIs and Govt. Domestic Borrowing

After a continuous rise in the previous months, private sector credit growth steps downward to 11.91% as of October 2022 [Figure 21]. The foreign currency reserve has been experiencing a persistent decline, with a value of 33.86 billion USD as of November 2022 [Figure 21].



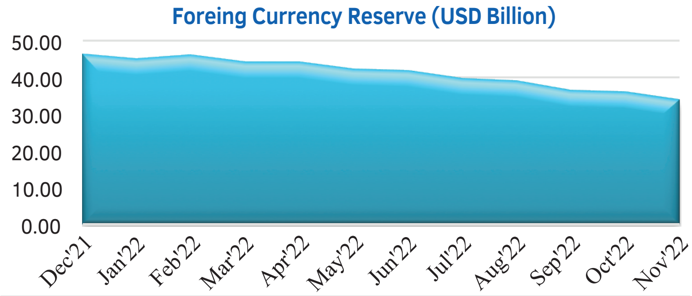




Figure 21: Private Sector Credit Growth and Foreign Exchange Reserve

Both T-Bill and T-Bond yields have dramatically surged compared to last year. Yields on T-Bills for 91, 181 and 364 day have risen to 6.45%, 6.71% and 7.09%, respectively, as of November, 2022 [Figure 22]. Following the same trend, the 2, 5, 10, 15 and 20 year T-Bonds' yields reached 7.50%, 7.85%, 8.25%, 8.70% and 8.90%, respectively, as of November [Figure 22].

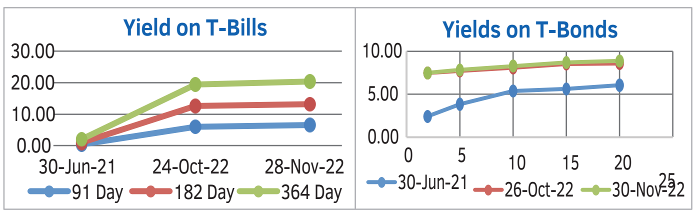



Figure 22: Yields on T-Bills and T-Bonds

## Trends in Financial Inclusion and Digital Finance Statistics

The increase in internet banking customers is a clear indication of the adoption of digitization in financial operations, representing a 3.02% growth in September, compared to previous month [Figure 23]. As of September, the total number of Mobile Financial Service (MFS) accounts was 185.25 million, whereas the month witnessed around 408.38 million transactions [Figure 23].

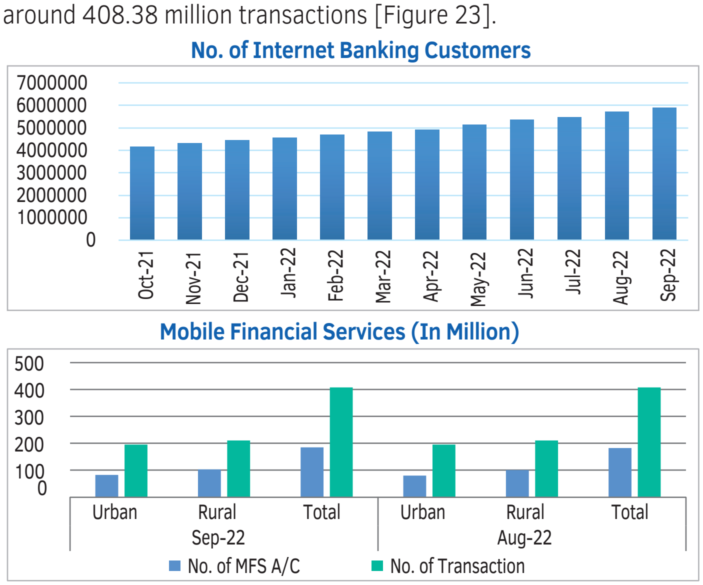



Figure 23: Number of Internet Banking Customers and MFS Users

We plotted the month-by-month growth of four gateways, namely Automated Teller Machine (ATM), Point of Sale (POS), Cash Recycling Machine (CRM), and E-Commerce, to recognize the interaction with e-banking and e-commerce. Over the years, these four gateways, on average, rose by 35.29%, 30.29%, 123.15%, and 38.72% [Figure 24]. We saw that rural people outperformed urban people in every parameter when we looked at the ratio of rural to urban customers using agent banking services [Figure 24].

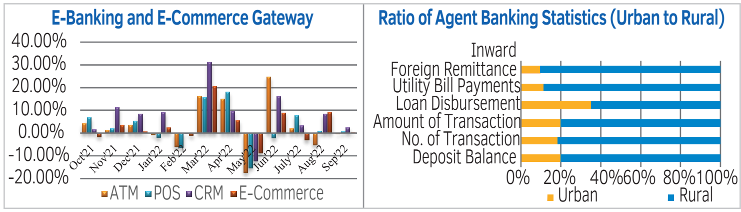



Figure 24: E-Banking and E-Commerce Gateways and Ratio of Agent Banking

## Key Takeaways

- Compared to last year, total deposits grew by 7.74%, whereas the growth was double digits in the previous fiscal year. With rising inflation, people are spending more, and it has affected their savings in banks.
- The call money rate has been strong, soaring around 5.80% in November while the repo rate is around 5.75%. This indicates the persistent high demand for liquidity in the money market.
- The lending and deposit interest rates are both in a stable position due to the regulated band of interest rates.
- The continuous rising trend of non-performing loans calls for alerts to NBFIs. Experts opined that scams and irregularities in issuing loans were the major reasons for the high NPL in most of the NBFIs.
- Government net borrowing from the banking sector totaled BDT 18,323 crore from July to October, which is around 17.23% of the fiscal target. According to experts, such high borrowing from the banking sector will increase pressure on the liquidity condition of banks.
- After a continuous rise from March to August, credit growth slows further as banks curtailed the loan disbursements amid a liquidity crunch.
- Despite the various measures to curb imports, foreign exchange reserves fell to around 33.86 billion USD. The number of new LCs has decreased, but the obligations of LCs that have already been opened are now payable in terms of late or deferred payments. This is contributing to the worsening of the dollar issue.
- As a result of the tight liquidity, government borrowing through the banking sector became more expensive, and thus the yield on both treasury bills and bonds grew significantly.
- A large number of people, particularly the younger generation, use the online platform to conduct banking activities. As a result, there have been a lot more people using internet banking recently.
- Mobile Financial Services have made payments simpler and expanded access to financial services throughout the nation. As a result, both rural and urban areas participated more actively in using their services, as reflected in the numbers.
- Consumers in every gateway (ATM, POS, CRM and E-commerce) showed positive trends on average. However, the wide acceptability of CRM is well noticed, with an average growth of 7.37% throughout the year.
- The popularity of agent banking has already grown, especially among rural residents. It has also mobilized the foreign remittance payment, which has skyrocketed to one lakh crore as of September 2022.

Source: Bangladesh Bank Website

Farhan Hasan

# Real Estate Investment Trusts (REITs)

## A New Horizon into the World of Real Estate Investing

Insights

Real Estate Investment Trusts, or REITs as they are commonly known, are a relatively new concept in the Bangladesh capital market. In an attempt to bring about diversification in investment products and introduce dynamic asset classes for the development of the financial market, especially the capital market, the Bangladesh Securities and Exchange Commission (BSEC) has taken initiatives to drafts rules for formulating all necessary policies regarding REITs which will be published soon.

### What are REITs?

REITs are companies that own, operate, or finance real estate properties. These companies can either own and operate real estate or finance real estate properties through mortgages. REITs, like mutual funds, pool funds from a variety of investors, small and large, and invest them in the purchase of real estate properties. REITs can be of various types, and depending on their structure, they can be traded on security exchanges.

REITS typically have a myriad of assets in their portfolio, which may include apartments, hotels, office buildings, data centers, cell towers, healthcare facilities, warehouses, etc. Investors can trade publicly listed REITs just like they trade stocks and other assets in the securities exchanges.

### Features and Classification of REITs

Globally, companies that qualify as REITs typically have some common features. The fundamental ones include the following,

1. Investing at least three-quarters of total assets in real estate, cash, or treasury securities.
2. Deriving at least 75% of gross income from rents, interests from mortgages or sales of real estate.
3. Paying a minimum of 90% of its taxable income in the form of dividends to its shareholders each year.

REITs can be classified based on (i) business revenue and (ii) ownership structure and listing. On the basis of business revenue, REITs can be classified as,

1. **Equity REITs:** Most REITs are equity REITs, which own, operate and manage real estate properties and receive rents as revenue. The primary revenue source for Equity REITs is rent, not the resale of real estate properties.
2. **Mortgage REITs:** Otherwise known as mREITs, these types of REITs specialize in providing financing to real estate owners and operators either through originating mortgages or buying mortgages and mortgage backed securities. The primary revenue source for mREITs is interest from the provision of mortgage financing.
3. **Hybrid REITs:** Hybrid REITs generate income from both rents and interest from mortgages.

On the basis of ownership structure and listing, REITs can be classified as –

1. **Publicly Traded REITs:** The shares of these types of REITs are listed on recognized securities exchanges and are traded daily by investors.
2. **Publicly Non-Traded REITs:** The shares of these types of REITs are not listed on securities exchanges and therefore offer less liquidity than publicly traded REITs.
3. **Private REITs:** The shares of these types of REITs are not traded on exchanges and are not registered with the regulatory authority of the securities exchange. Generally, private REITs are bought and sold between institutional investors.

### History of REITs

REITs first appeared in 1960, when then-US Congress President Dwight D. Eisenhower signed legislation establishing such a method of investing in real estate. Back then, real estate properties were only owned and dealt with by large financial intermediaries and wealthy individuals. Through this legislation, regular Americans were able to avail themselves of the benefits of investing in real estate. The process of investing was also simplified as the enacted law sought to treat real estate holdings in the same light as liquid securities.

After REITs were authorized, numerous types of properties came under the purview of REITs. The properties ranged from shopping malls, resorts, warehouses, office buildings, factories, automobile dealerships, etc. in the period of 1960 to 2000, to gasoline stations, bank branches, data centers, telecommunication fiber lines, refrigerated storage, post offices, pipelines, etc. in the period of 2001 to 2019.

### The Necessity of REITs

Investments in REITs offer general investors the ability to invest in real estate properties without the hassle of going through the process of owning a real estate property themselves. The particulars of the process will be handled by the professionals of the REITs and the investors can sim buy shares of REITs through their broker. Besides the simplicity of investing, REITs offer numerous advantages.

1. **Liquidity:** Shares of REITs can be bought and sold on the exchanges quite easily. Buying and selling real estate properties, on the other hand, takes a significant amount of time.
2. **Diversification:** As REITs involve investments in real estate, which have a comparatively low correlation with other asset classes, they are an optimum choice for any investment portfolio they provide sound portfolio diversification.
3. **High Dividends:** Globally, REITs provide a minimum of 90% of their taxable income as dividends to their shareholders. As a result, REITs are a good option for those investors who prefer a consistent and stable dividend income.
4. **Competitive Long Term Performance:** Historically, REITs have provided competitive long term returns similar to those of value stocks.
5. **Inflation Hedging**: As REITs derive value from real estate prices and rental incomes, during high inflationary times, REITs can be a great hedging tool.
6. **Transparency:** Listed REITs are required to disclose financial information and any material business developments and underlying risks. Furthermore, as they tend to have low retained earnings due to high dividend payouts, they constantly seek funds from the capital markets for further investments, which in turn results in further disclosures.

## The Workings of REITs

REITs can be formed by a company, subject to meeting preliminary requirements and having specific features. After registering with the regulatory authority of securities exchange and fulfilling necessary requirements, REITs can go for an Initial Public Offering (IPO) to raise funds and issue shares to the public. After raising capital, REITs can go for investments according to their proposed plan, which will include buying real estate properties or mortgages. After the end of the financial year, they will distribute dividends accordingly, stemming from rental and interest income.

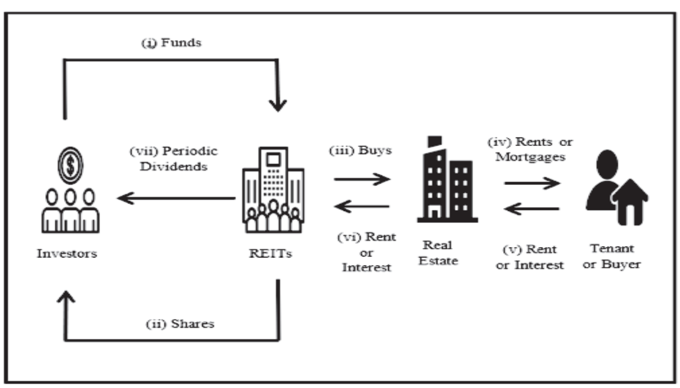



Figure 25: Mechanism of REITs, Source: Developed by Author, Icons from flaticon.com

## Global Scenario of REITs

There were 865 listed REITs with a combinet capitalization of $ 2.5 trillion as of December 2021. From 1990 to 2021, the number of listed REITs has increased from 120 to 865. Furthermore, the 120 listed REITs in 1990 were operational in only two countries in North America, whereas at the end of 2021, the 865 listed REITs were operational in more than 40 countries and regions. The growth of REITs in Asia was remarkable, as listed REITs grew from 31 in 2005, spread across 6 countries and regions, to 216 in 2021, spread across 11 countries and regions.

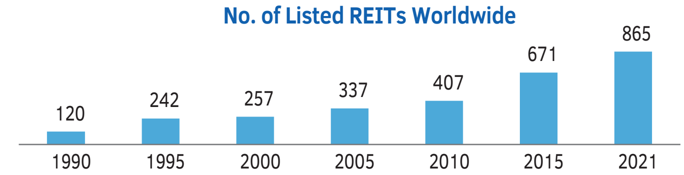



Figure 26: No. of Listed REITs World
Source: National Association of Real Estate Investment Trusts (Nareit)

Furthermore, current countries and regions with REITs represent 85% of Global GDP of 2020 amounting to about $ 72 trillion which further demonstrates the vital impact of REITs. Considering US markets, capital raised via. REITs in 2022 have reached $ 39.8 billion as of October 2022.

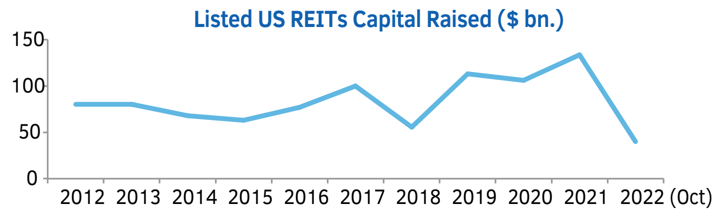



Figure 27: Listed US REITs Capital Raised ($ bn.)
Source: National Association of Real Estate Investment Trusts (Nareit)

Among the South Asian countries, Pakistan was the first to adopt the rules of REITs in 2008, followed by India in 2014, and Sri Lanka in 2020. Bangladesh will also join the list soon.

## Policy Decisions Taken so far in Bangladesh

Policy discussions about REITs first came about in April 2022, when a concept paper was presented at an event organized at the Dhaka Stock Exchange. Through the presentation and published news articles, it was revealed that Bangladesh has a ready market to build REITs worth around BDT 5,000 crore. BSEC initiated drafting regulations regarding REITs through the formation of three committees – steering, consultative, and working committee. The chairman of the steering committee emphasized on the transparency of REITs so that the valuation of real estate assets is justified, and no related party transaction can hurt the investors. Furthermore, only big, reputed and reliable real estate players would be allowed to float REITs to maintain performance and consistency and no public offer would take place smaller than BDT 100 crore. The committee chairman also hinted that investor can invest as low as BDT 5,000 in REITs. BSEC will finalize the draft rules for REITs soon and will seek public opinions accordingly.

## Concluding Remarks

REITs have a history of providing good returns that are commensurate with those of value stocks and greater than those of fixed-income securities.With the introduction of REITs, the capital market of Bangladesh will have another asset class in its arsenal after treasury bonds to offer investors attractive and diverse investment opportunities.

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