

Report on the 4th Bangladesh Business Confidence Survey

Bangladesh, one of the fastest-growing economies in the world in 2019, emerging as the Asian Tiger or the Next Eleven, is preparing to graduate from the Least Developed Country (LDC) category by 2024¹. Bangladesh experienced a structural transformation from agrarian economy to growing dominance of industrial and service sectors with an average GDP growth of over six per cent for more than a decade, finally achieved GDP growth rate of 8.13 per cent at constant price in 2019, experiencing the fourth Industrial Revolution (4IR) accompanied by rapid increase in digitalization, technological up gradation, flourishing IT sector, an increasing availability of wider range of products, domestic consumption expenditure, government spending, remittances and exports revenue².

Bangladesh Business Confidence Survey

The Business Confidence Survey (BCS) is designed to capture the pulse of the private sector's perceptions regarding the state of their operating environment. The results of such surveys are used globally by governments and policymakers to understand how businesses feel, to identify what has been helping business, and to determine what needs to be improved.

The purposes of BCS are:

- 1) Providing necessary guidance in developing macro and micro-economic policies;
- 2) Working as a reference point for potential investors;
- 3) Developing private sector friendly investment policies;
- 4) Evaluating the effectiveness of the initiatives undertaken by the government;
- 5) Determining the challenges faced by entrepreneurs;

¹Asian Development Bank, 2019; World Economic Forum (2019).

²Bangladesh Economic Review (2019).

As the voice of business in Bangladesh, Business Initiative Leading Development (BUILD) is proud to take on this responsibility to help the Government of Bangladesh to understand what businesses in the country experience. BUILD has been doing the job since 2013 and conducted, 1st, 2nd and 3rd BCS during 2013, 2014 and 2015 respectively.

The 4th Business Confidence Survey (BCS) 2019

The 4th BCS was conducted between March and August, 2019 covering 250 businesses across the country. The 4th business confidence survey is carried out to understand the perception of business enterprises in Bangladesh about the existing state of business environment for the period July to December 2019 and what will excite business in next period of January to June 2020. The 4th BCS has taken the period of July to December 2018 as a baseline. The data was supposed to be collected for the period of January to June 2019, but because of some preparatory arrangement, the survey could not start right in January, 2019.

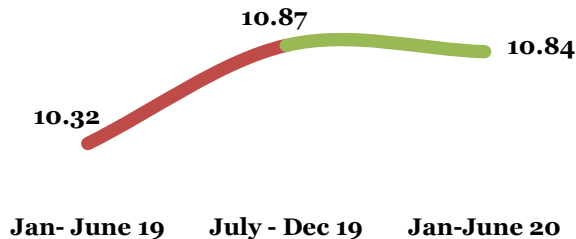
THE BUSINESS CONFIDENCE TAKES A POSITIVE HIT BUT FEARS TO FALL

Compared to the period July to December 2018, the confidence in enterprises has boosted through July to December 2019. The overall Business Confidence Index (BCI) is perceived to reach 10.87 during the period of July to December 2019. Improvement in employment scenario, growth in service sector, development in telecommunication and IT sector, rapid growth of electricity generation, increasing trend of private consumption and access to finance are working as a catalyst to boost the confidence amongst the enterprises.

However, a volatile exchange rate, high inflationary expectation, demand hike in wage rate, unreliable banking sector with a high bank interest rate, increasing cost in transport and petroleum fuel price, corruption, unofficial cost, syndicate and policy

uncertainty might led to fall the BCI to 0.03 points in the period January to June 2020.

Business Confidence Index



THE RISE AND FALL

The BCI takes a hit in July to December 2019 period and expectation to fall in January to June 2020 period. The rise and dip in business confidence can be explained by analyzing the seven constituent sub-indices which are instrumental in influencing this confidence index. The boxes below show the specific factors affecting business confidence positively and negatively in 2019 as per the survey.

What's working?

Which sub-indices are viewed most positively by businesses in 2019?

- Employment Scenario
- Other sources of finance (SME, Microfinance, NBFIS, etc.)
- License and Permit
- Turn Over Tax
- Telecommunication
- Internet Connection
- Electricity Supply

What's not working?

Which sub-indices are viewed most negatively by businesses in 2019?

- Bank Interest rate
- Unofficial Payments
- Transportation Situation
- Transport Cost
- Gas Price
- Raw Materials
- Corruption
- Policy Uncertainty

Economic Condition

It is perceived that economic condition will reach 10.84 during July to December 19 mainly due to

positive responses on employment scenario. However, economic condition constituting four sub-indices: inflation, wage rate, exchange rate and employment scenario may fall in January to June 2020.

It is found in the survey that businesses have high inflationary expectation for next year. According to BBS, the core inflations has been trending upward already; the general point-to-point inflation rate reached 5.54 per cent in September last from 5.49 per cent in previous month; and point-to-point national wage index reached 6.51 per cent in September against 6.43 per cent in August³. Recent wage hike demand in RMG sector is creating negative network externality impact in other sectors, pushing the national wage index upward. There are several reports of closing textiles factories because of decreasing profit margin and labour unrest⁴.

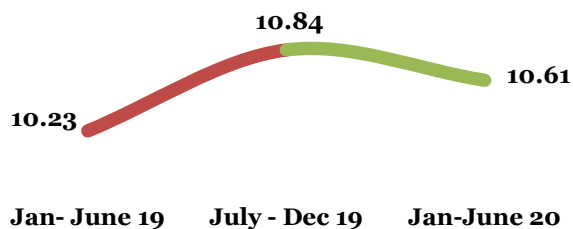
The perception of businesses on exchange rate is negative for the coming year, mostly from the exporters. Since 2016, the BDT has remained relatively stable against the USD compared to regional peers, losing cost advantage due to their currency depreciation. In recent times, BDT experienced modest depreciation hitting an all-time high of 84.5 in September 2019. Given the recent volatility movements in Taka against US Dollar and the shifts in major currencies, nominal effective exchange rate (NEER) and the real Effective exchange rate (REER) indices appreciated by 2.60 per cent and 5.07 per cent at the end of June 2019 compared to June 2018,

³BBS (2019).

⁴<https://www.thedailystar.net/opinion/economics/news/trying-g-times-our-rmg-sector-1802863>,
<https://www.textiletoday.com.bd/rmg-factory-closure-needs-explore-new-market-diversified-product/>,
<http://www.newagebd.net/article/83644/two-rmg-factories-closed-down-at-ashulia>,
<https://www.textiletoday.com.bd/20-ready-made-garment-factories-have-closed/>,
<https://www.bdapparelnews.com/https://www.bdapparelnews.com/At-least-24-apparel-factories-shuttered-in-Bangladesh-for-losses/455/455>

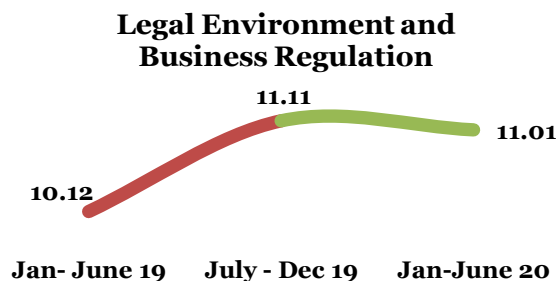
indicating a fall in country's export competitiveness⁵. For the first time, in the last ten years, the export performance of the goods is short by 11.05% over the strategic target for July-Sep 2019-20 and export performance of goods fall by 2.94% in July-Sep 2019-20 over July-Sep 2018-19⁶.

Economic Condition



Legal Environment and Business Regulation

One of the significant optimism demonstrated by firms is around the legal environment and business regulation. Driven by optimism about license and permit insurance, business process automation, and ease of dealing with NBR and ACC, firms seem to have experienced an improvement in this index. However, unofficial payment and difficulties in dealing of Govt. regulatory agencies are perceived to have negative implications forcing the legal environment and business regulation index to fall by 0.10 points in the period January to June 2020.



Tax Environment and Custom

The perception on tax and customs has the highest rising slope through July to December 2019; however, it is expected to have a sharp fall of 0.37 points in the period January to June 2020. The tax on profit, VAT and Turnover tax rate are expected to create negative impact on the index. The proposed reforms on VAT and SD Act, income tax and customs in the national budget 2019-20 are working as catalyst for this sharp fall.

Proposed tax on retained earnings in excess of 50 per cent of paid-up capital and imposition of tax on equity may discourage capital creation and re-investment in the next period. The income tax threshold has not seen any change since last four years, whereas inflation has been around 5%, purchasing power of lower middle class people has been reduced. Besides, tax has been proposed on direct materials, which will be detrimental to industrial growth.

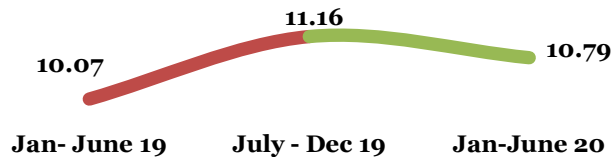
According to the new act, twenty goods and services are brought under 10% VAT slab, twelve goods and services would be under the 7.5% slab and 93 products are payable 5% VAT. The cascading effect would push the price of these selected 125 items as there is no scope of VAT credit over the whole value chain from production to distribution to the ultimate consumer.

The VAT exemption limit has been increased to BDT 50 lakh from 30 lakh, turnover tax threshold has been enhanced from 80 lakh to three crore at 4% which was 3% last year. SME items would be costlier as their tax incidence is exactly equal to the turnover tax rate defined by NBR. Whereas the VAT incidence is less than two percent of comparatively large industries as they would enjoy VAT credit facility.

⁵ Bangladesh Bank (2019).

⁶ EPB Export Performance (Goods) for FY 2019-20 (July-Sep).

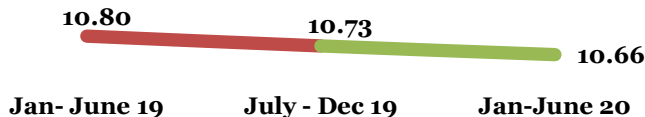
Tax Environment and Custom



Business Environment

Business environment is the most negatively perceived index amongst seven indicators. Compared to the base period July to December 2018, the index has a sharp fall all through the period July to December 2019 and perceived to reach as low as 10.66 in the period January to June 2020. Smuggling, corruption, syndicate, policy uncertainty are the main causes of this significant fall. None of the sub-indicators are perceived to have positive impact on business environment as per respondents.

Business Environment



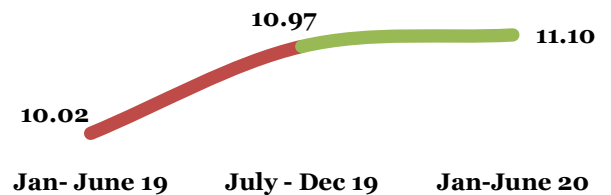
BUT IT IS NOT ALL BAD NEWS...

Access to Finance

Trajectory optimism is perceived in the case of access to finance. Perceived improvements in the other sources of finance (SME, Microfinance, NBFIs etc.) and Letter of Credit Settlement have driven this optimism primarily. By Mid-2020, access to finance is expected to be the best performing index of business confidence. Enabling environments for SME sector, favorable policies and initiatives by Bangladesh Bank have boosted the confidence of businesses. The master circular on 'access to finance for CMSME', SMESPD circular no.2, published on September 05, 2019 by Bangladesh Bank is a timely initiative to flourish the business environment for CMSME.

However, the businesses worry about the high interest rate of bank loans which may hamper the growth of SME sector in long run. Interest rates in the interbank money market, yields on various government securities, interest rate on both deposit and lending rates are showing upward trend.

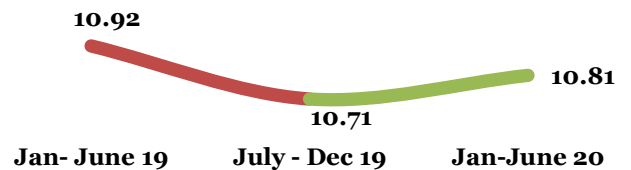
Access to Finance



Input and Infrastructure for Business

The analysis of the indicators reveals that input and infrastructure for business has a sharp fall by the end of 2019 primarily due to concerns over transportation situation, electricity price; transport cost, raw materials and gas price. It is perceived that the continuity in the accessibility in the telecommunication sector, internet connection and electricity supply will excite business in the period of January to June 2020. Growth in electricity generation appears to have been a critical factor in sustaining the industrial expansion.

Input and Infrastructure for Business

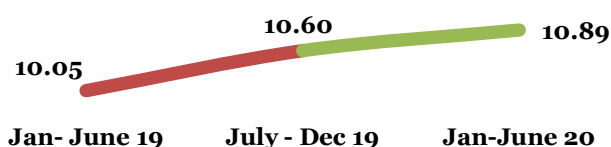


International Business

International Business is one of the most positively perceived indicators amongst seven other indicators. None of the sub-indicators of International Business are either positively or negatively affecting businesses in Bangladesh. High score towards no impact has led the curve upward slope. It is perceived that trade

agreements (WTOs, SAFTA, FTAs, bilateral relationship, tariff, non-tariff regulation) have no direct impacts on local businesses. Businesses perceive that the sluggish global growth and Brexit related uncertainty may not have serious impact on Bangladesh at the moment. It is also perceived by the businesses that the ongoing trade war will benefit Bangladesh if utilized wisely.

International Business



WHAT ARE THE IMPLICATIONS

The businesses are more optimistic in the second half of 2019 than the first half of 2020. This optimism is tempted by improvements in access to finance, economic condition, and legal environment in business regulation and improvement in electricity generation. It is possible to boost the confidence further in the first half of 2020 with proper policy instruments to flourish private investment.

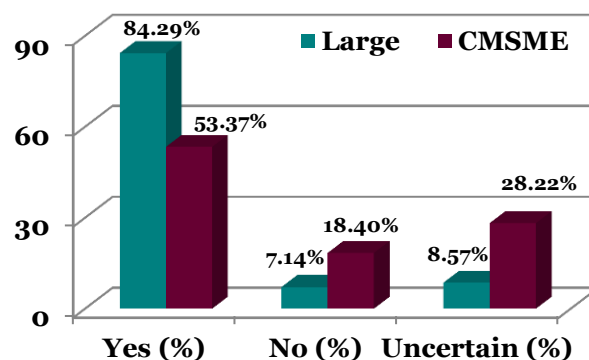
Indicator	Target in 7 th FYP (for FY 2019)	Performance (FY 2019)	Observation
Investment (% of GDP)	32.7	31.6	Not Achieved
Private Investment (% of GDP)	25.1	23.4	Not Achieved
Public Investment (% of GDP)	7.6	8.17	Achieved

Source: 7th Five Year Plan (FYP), page 97; BD Economic Review 2019, Ch:14

After analyzing the recent investment scenario of Bangladesh, it is observed that the percentage of total investment to GDP is stagnated at around 31 per cent for the last three years⁷. The target set for the percentage of the total investment to GDP and the share of private investment to GDP for FY 2019 in the 7th Five Year Plan was unachieved by the end of FY 2019. However, the share of public investment to GDP has reached to 8.17 per cent and been achieved for the FY 2019 (Table 1). It has become very crucial to intervene with right policy instruments to overcome this stagnated investment situation and to boost confidence of businesses.

During the 4th BCS survey, it was asked to the respondents whether they have planned to invest [expansion] business between July to December 2019. Businesses were considerably optimistic towards the second half of 2019. Responses regarding investment in later half of 2019 reveal that the business confidence translated into widespread investment plan, primarily among large firms. Based on the survey, it was found that around 84.29 per cent of the interviewed firms falling in the category 'Large' have plan to invest further during July to December 2019. However, a large portion of Cottage, Micro, Small and Medium (CMSME) expresses their uncertainty to invest further.

Investment decision according the size of the firms during July to December 2019

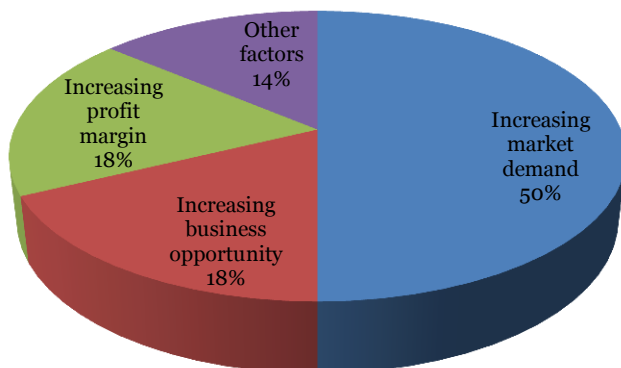


⁷ Bangladesh Economic Review, 2019

So the predicted fall in business confidence in the first half of 2020 may have adverse impact on investment especially small businesses in particular. As the drivers of growth and job creation, CMSME must invest in expansion of their businesses. Also new entrepreneurship should be encouraged amongst the young crowd of the population. In this context, addressing issues relating to development of CMSME must be a key priority of the Government.

However, demand side factor is more dominant than policy enabling environment for investment decision. The demand side factor (increasing market demand, increasing business opportunity, increasing profit margin) consist share of the three fourth of the investment decision where else other factors (availability of external funds, availability of internal funds, cost of raw materials and intermediate goods, utilities supplies, energy, import policy, fiscal incentives, etc.).

Factors driving investment in July to December 2019



LOOKING FORWARD: WHAT NEED TO BE DONE?

The business confidence survey is intended to capture the essence of how business feels about the state of their operating environment for a given period. As such, businesses are much more optimistic about the state of affairs in the second half of 2019 which is expected to decrease by 0.03 points in the first half of 2020.

As part of this survey, firms were asked to look forward to the first half of 2020 and say what factors were most optimistic. The results are summarized in the box below. Businesses are optimistic about the employment scenario. The availability of skilled labour drives this positive attitude. The recent improvements in IT sector, rapid growth in digitalization, and increasing services in telecommunication and internet connections are viewed positively. Businesses have expressed feeling of contentment regarding the process of getting license and permit. They look forward for more simplification of this process. Businesses also are optimistic regarding the electricity and gas supply for the first half of 2020.

What will excite business?

Which sub-indicators are viewed most positively by businesses in 2020?

- Employment Scenario
- License and Permit
- Other Sources of Finance (SME, Microfinance, NBFIs etc.)
- Telecommunication
- Electricity Supply
- Internet Connection
- Gas Supply

The respondents were also asked which factors they thought would deteriorate in the first half of 2020. Businesses are mostly concern about how the macroeconomic situation will have impact on businesses and how to overcome the situation. Businesses are concern regarding high interest rate and vulnerable banking situation. Transport cost and transport situation have not improved much since last BCS. Corruptions, unofficial payments, dealing with Govt. Regulatory Agencies, policy uncertainly are viewed negatively.

Which sub-indicators are viewed most negatively by businesses in 2020?

- Inflation
- Exchange Rate
- Wage Rate
- Bank Interest rate
- Availability of Banking Credit (working capital)
- Availability of Banking Credit (Investment Capital)
- Tax on profit
- VAT
- Turnover Tax rate
- Transportation Situation
- Transport Cost
- Petroleum Oil Price
- Corruption
- Syndicate
- Unofficial Payments
- Dealing with Govt. Regulatory Agencies
- Policy Uncertainty

What will worry Business?

business enabling scenario in 2020. It is possible to sustain the confidence amongst business and increase private sector investment growth. To continue the optimistic environment for boosting businesses, the Government must focus on:

- 1) Establish effective and beneficial exchange rate policy for exporters and importers.
- 2) Establish effective microeconomic policy to tackle inflation and wage hike.
- 3) Give emphasis on availability of banking credit.
- 4) Eradicate the existing uncertainty in banking sector due to Non-performing loans (NPL).
- 5) Friendly banking service and technical support at the regional level.
- 6) Control corruption and syndicate; and address informal cost of the transportation sector.
- 7) Tackle undocumented cost through policy certainty.

- 8) Technology and technical assistance for SMEs.
- 9) Policy support to SMEs in settling Letter of Credits quickly with banks and customs handling.
- 10) Policy support for flourishing SMEs and deemed exporters.
- 11) Policy support to deemed exporter who are supporting RMG sector by working as sub-contractor.
- 12) Inclusive and continuous dialogue with the private sector.

Methodology

Business Confidence Survey (BCS) gathers perception of enterprises through qualitative questions relating to the seven indices. The purpose of BCS is to find the Business Confidence Index (BCI) which will indicate the score of the overall business confidence of businesses. 250 enterprises from eight major cities of the country participated in the survey during March 15, 2019 to September 15, 2019. The survey has been conducted using structured questionnaire through online survey and over the phone screening. BCI methodology involves converting qualitative responses into quantitative data assigning points to each of them and applying two stages calculations.

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