Management's Discussion and Analysis

On behalf of the Management, It is indeed a great privilege for me to present to you the discussion and analysis for the year ended June 30, 2020.

The Management and Analysis have been prepared in compliance with Code no. 5 (XXV) of BSEC's Corporate Governance Code.

World Economy

The COVID-19 pandemic has paralyzed large parts of the global economy, sharply restricting economic activities, increasing uncertainties and unleashing a recession unseen since the Great Depression. Global gross domestic product (GDP) is forecasted to shrink by 3.2 percent in 2020, with only a gradual recovery of lost output projected for 2021. Cumulatively, the world economy is expected to lose nearly $8.5 trillion in output in 2020 and 2021, nearly wiping out the cumulative output gains of the previous four years.

The pandemic has spread to nearly every country in less than three months, nearly 90 percent of the world economy came under some form of lockdown measures by mid-April 2020. As many as 100 countries have closed national borders—the most severe restrictions on movements of people and goods in recorded history disrupting supply and slashing global demand for goods and services. The demand for oil and other commodities has fallen sharply, as transportation, air travel, and manufacturing have come to a virtual standstill in many economies. While the pandemic spread rapidly in East Asia, Europe, and the United States of America, shutting down economic activities, many developing countries, though not directly hit by the pandemic, are also suffering severe economic pains.

Financial markets in developed countries experienced extreme volatility, as uncertainties persisted and early efforts to contain the pandemic fell short of market expectations. Central banks in developed countries responded with interest rate cuts and asset purchases to inject liquidity, sustain credit flows, and stabilize equity and bond prices. Increased risk aversion among investors triggered large capital outflows from many large developing economies, leading to large currency depreciation and tighter credit conditions.

The unprecedented and simultaneous shock to global demand and supply have rendered millions unemployed in the span of just a few weeks. Millions in both developed and developing countries face the ominous prospect of falling back into poverty. Declining growth and rising poverty during the crisis and recovery period will likely increase income and wealth inequality, undermine social cohesion, and breed further discontent and instability around the world.

Lockdowns have significantly curbed manufacturing output in the major hubs of world trade, including in China, Germany, and the United States, which collectively account for around 34 percent of global manufacturing exports. Disruptions in major manufacturing hubs have weakened demand for intermediate inputs, base metals, and minerals, leading to sharp declines in their price. Smaller manufacturing economies—Bangladesh or Cambodia are facing a sharp decline in exports amid falling demand in developed economies. In the baseline scenario, world trade in goods and services is forecast to contract by nearly 15 percent in real terms in 2020. International tourist arrivals are expected to decline by 20 to 30 percent in 2020. Small and medium-sized enterprises, which make up 80 percent of the global tourism sector, will face the brunt of the crisis.

The pandemic has hit the world economy at a particularly difficult time. The global economy grew at an average of 2 percent during the past 10 years, compared to an average growth rate of 4 percent during the decade before the global financial crisis. As robust economic recovery remained elusive during the past decade, most governments accumulated fiscal deficits and higher levels of debt to stimulate economic growth. While developed countries face domestic financing challenges, the crisis exposes the deepening external vulnerability of many developing and emerging economies that rely on external flows—trade revenues, remittances and borrowing to finance their fiscal deficits.

The sharp decline in revenues from commodities and tourism has severely increased the likelihood of debt distress in Africa, Latin America and the Caribbean, and Western Asia. Unlike in developed economies, domestic capital markets are shal¬low in most developing countries, making it harder for governments to borrow without crowding out private borrowing. Excessive government borrowing from domestic banking sectors, coupled with the monetization of debt, will increase inflationary pressure and depress growth. Economic growth may suffer further setbacks if global demand and external flows remain weak. A prolonged period of weak growth will exacerbate the debt burden of many developing countries.

Bangladesh Economy

The average annual real GDP growth of the Bangladesh economy during the last six years was over 6%, aided by conducive macroeconomic policies, strong export growth and favorable weather. GDP growth was broad-based with agriculture, industry and service sectors performing well. During H1FY20, the pace of economic activities continued its normal trend due to strong domestic demand in Q1 and Q2 of FY20. Strong remittance inflows (35.3 percent growth) and higher government investment supported domestic demand during Q2FY20. Economic activities portrayed a mixed picture in Q3FY20, amid global supply disruptions and looming economic recession originating from the global outbreak of the COVID-19.

After remaining buoyant in the first three quarters of FY20, economic activities drastically shattered, in the fourth quarter, particularly in the industry and service sectors, disrupted by unprecedented lockdown measures to limit the outbreak of COVID-19 pandemic. During this period, industrial production dropped significantly, driven mostly by a precipitous fall in manufacturing output, while the service sector activities stalled by the partial and often complete shutdown of transportation, trade, and hospitality industries. But the agriculture sector maintained firm growth during this period, aided by supportive government initiatives.

Nonetheless, the preliminary estimates by the Bangladesh Bureau of Statistics (BBS) suggest that real GDP growth slipped to 5.24 percent in FY20 from 8.15 percent in FY19. The inflation increased to 6.02 percent in Q4FY20 from 5.48 percent in Q3FY20 amid some volatility, driven by a rise in food prices that emanated mostly from pandemic-induced global and domestic supply chain disruptions. The current account deficit widened to an eight-quarter high of USD 2439 million in Q4FY20, resulted from a sharper fall of exports than imports triggered by the pandemic. Nevertheless, the overall balance of payment witnessed a surplus of USD 3310 million during this period bolstered by record-high quarterly financial inflows (USD 5216 million). On the fiscal side, the budget deficit rose significantly in Q4FY20 and about 70 percent of deficit financing was met from domestic sources (banks and non-bank) during the last quarter of 2019-2020.

The pandemic severely weakened global trade, consumption, services, and the labor market in both developed and emerging markets. Global trade contracted by nearly 3.5 percent (year over year) in the first quarter, reflecting weak demand, collapse in cross-border tourism, supply chain disruptions, and supply dislocations triggered by shutdowns across the world.

Several policy measures taken by the government will help the economy to recuperate from lost investment and consumption and bounce back to the economic growth momentum observed in the last decade. A pragmatic agricultural and rural credit policy has been adopted by relaxing terms and conditions for inclusive loan disbursement. Because of the importance of the agriculture sector in terms of employment generation, food security, and poverty reduction in the country, the target disbursement of agricultural credit is set at BDT 262.92 billion for FY21 which is about 9 percent higher than that of FY19. It is expected that policy measures and strate giesare taken by the government such as easy monetary, fiscal, and financial policies that shall facilitate the rapid recovery of the economy to the pre-COVID-19 level.

IT Industry

The future of the world is the digital economy. The digital economy accounts for $12 trillion industry across the globe. In China, digital economy was worth $5 trillion until last year. Digital economy is an idea that you can do everything digitally. Like, we use so many apps for so many services and the combined value of these products and services makes digital economy. Bangladesh has huge potential as the country has a demographic dividend. The digital economy is relatively small in the country and has a lot of scope of penetration. Digital Bangladesh is now not a dream but a reality. People are taking 150 types of services from digital centers around the country. Some 10,500 entrepreneurs provide over 6.4 million services every month while 36 million beneficiaries are availing of e-services. The government has been working to bring the country's people under internet coverage. At the early stage of the journey of Digital Bangladesh, only 0.3 percent of people had an internet connection. Now, 60 percent of people are enjoying internet facilities. The government also emphasizing providing high-speed internet facilities besides bringing all people under internet facilities.

The rise of the platform economy, digitalization, automation, robotics have been reshaping the globe. The rapid technological transformation will be a key feature of the economy well into the future. At the national, regional, and global level, frontier technologies are offering promising new opportunities, but are also introducing new policy challenges. The march of technological innovation has long boosted economic performance, improved efficiency, accelerated the pace of globalization, and transformed human society in the process. The digital revolution demands renewed policy cooperation at all levels of governance. After all, the latest wave of technological change is especially broad, and it is coming fast. It is fundamentally altering how goods, services, and ideas are exchanged. And as rapidly declining costs make digital technologies even more affordable and accessible, they will continue to transform people's lives and livelihoods.

Software and computing technology is transforming businesses in every industry around the world profoundly and fundamentally. The continued reduction in the unit cost of hardware, the explosion of network bandwidth, advanced software technologies and technology-enabled services are fuelling the rapid digitization of business processes and information. The digital revolution is cascading across industries, redefining customer expectations, automating core processes and enabling software-based disruptive market offerings and business models. This disruption is characterized by personalized user experiences, innovative products and services, increased business agility, extreme cost performance and disintermediation of the supply chain. Leveraging technologies and models of the digital era to both extend the value of existing investments and, in parallel, transform and future-proof businesses, is increasingly becoming a top strategic imperative for business leaders.

From an IT perspective, the renewal translates to re-imagining human-machine interfaces, extracting value out of digitized data, building next-generation software applications and platforms, harnessing the efficiency of distributed cloud computing, modernizing legacy technology landscapes and strengthening information security and data privacy controls. The fast pace of technology change and the need for technology professionals who are highly skilled in both traditional and digital technology areas are driving businesses to rely on third parties to realize their business transformation. Several new technology solution and service providers have emerged over the years, offering different models for clients to consume their solution and service offerings such as data analytics companies, software-as-a-service businesses, digital design boutiques, and specialty business process management firms.

While these developments present strong market opportunities for the IT industry, there is also an imperative need for IT services and solutions companies to transition from fast-commoditizing traditional service offerings, to attract and retain quality talent, to reimagine cost structures and leverage automation for increased productivity.

The COVID-19 pandemic has disrupted demand and supply chains across industries, negatively impacting the business of companies and driving the global economy towards a recession. Governments in several countries have imposed stringent lockdown in a bid to contain the spread of the disease. This in turn has forced companies to reconfigure how their employees work and how their core business processes are supported and delivered. These events could cause companies to pause and reprioritize their spending on technology and business process outsourcing. However, it is becoming evident that companies that have previously digitized their operations have been more resilient. Consequently, in the medium to long term, businesses will likely continue to spend on technology-related initiatives with a greater focus on automation, remote working, cloud-based applications, optimization of legacy technology costs, etc. Several sectors are also seeking technology-based solutions immediately to tackle the health and economic crises – notably in healthcare, life sciences, banking, telecommunications and essential retail.

The COVID-19 impact possesses a unique challenge for the IT industry as it is only in its growth stage in Bangladesh. Industry insiders expect the overall revenue for the 2020 year to decrease by 20-25 percent due to the pandemic. The COVID-19 stands to wipe out 1.1 percent of Bangladesh's gross domestic product, resulting in 894,930 jobs being lost as per a projection of the Asian Development Bank. It is highly likely that the IT and digital industry will fall into this crunch along with the RMG industry. Undeniably, it'll be impossible to not feel the impact of the pandemic in any industry but precautionary and supportive policies will ensure the tech and digital industry will not be crippled during and post COVID-19 economy. With the challenges now apparent for the IT and digital sector, it's crucial that the government pays significant attention to its third-engine during and post COVID Bangladesh.

Bangladesh is one of the top four countries in terms of 'improvement and remarkable growth' in digital economy in the last four years.Bangladesh currently consumes about 1,600 Gbps bandwidth, up from 970 Gbps a year ago and 300 Gbps in 2016. Internet usage during COVID had shot up 15 per cent in Bangladesh as people were increasingly relying on digital life for communication, work and entertainment to escape the doom and gloom brought on by the novel virus. Like other parts of the world, more aspects of the daily lives of the people in Bangladesh have moved online. More and more people were and are working from home as a result of the pandemic.People are using more and more internet-based services, watching movies, playing video games and browsing YouTube, pushing up overall internet bandwidth consumption. Many offices also switched to virtual alternatives to ensure the safety of their staff as well as keep their operations float.With these developments, the bandwidth use by corporate houses has declined but home consumption has surged more than 30 per cent.

Industry outlook

The COVID-19 pandemic will result in ICT spending in 2020 being flat compared to 2019 and kept afloat by growth in new technologies. In 2021 through 2023, overall ICT spending will grow by at least 5% annually due to continued expansion in new technologies while traditional ICT will continue to see the growth that tracks GDP. Growth in traditional hardware, software and services will be driven by cloud and mobile and will maintain a stable share of the overall business and consumer spending.While some categories are declining, businesses continue to leverage traditional technologies as major components of digital strategies.

Traditional hardware was one of the hardest-hit segments of the ICT market by COVID-19. Traditional software continues to represent a major contribution to productivity and drives much of the economic benefit of ICT spending, while investments in mobile and cloud hardware have created new platforms that will enable the rapid deployment of new software tools and applications. There will continue to be some cannibalization of traditional IT services (outsourcing, in particular), but cloud and mobile also create opportunities for IT and business services firms as organizations seek help with their migration to new platforms and the integration of new digital strategies with existing operations and metrics. Digital transformation is set to drive a large proportion of growth in the next 5-10 years, which will continue to ensure a steady demand for professional services.

Information and communications technology (ICT) has been the driving force behind game-changing innovations and socioeconomic transformations, which are shaping our economy and society at multiple levels. New technological advancements, such as artificial intelligence, have been transforming the manufacturing and service sectors, and have ushered a plethora of innovations, which are changing the way people interact, work and live. ICT-enabled financial infrastructure, smart grids, disaster risk management, intelligent transport system and trade facilitation are just some of the examples that have become the critical backbone of our economy and society, built on the extensive, ubiquitous and seamless broadband connectivity. At another level, ICT plays a catalytic role in modernizing government services, and enhancing the quality of interactions with businesses and citizens, while enabling a whole range of socioeconomic applications and services. In this context, ICT has been increasingly recognized as an indispensable development enabler that contributes to and accelerates the achievement of the Sustainable Development Goals (SDGs).

In February 2018, the nation joined the 4G period but just 10 percent of mobile network users accepted the network up to 2019. Bangladesh Telecommunication Regulatory Commission (BTRC) has already confirmed plans for the country to introduce 5G in 2021 and will make it available in all districts by 2023. According to the GSMA, at the end of 2019 about 54 per cent of people in Bangladesh were using mobile phones, of which 25 percent had internet access. Only 6 per cent of Bangladesh's internet users will use 5G in 2025, while 4G will dominate the market with 46 percent of the total mobile users. 3G users will be 30 percent by the time and 18 per cent will only be wired to 2G.

Bangladesh currently consumes about 1,600 Gbps bandwidth, up from 970 Gbps a year ago and 300 Gbps in 2016. Of the total, BSCCL alone is supplying about 970 Gbps through its two undersea connections, while six international terrestrial cable operators are importing the rest from India.It should be noted that in most markets, especially in the emerging markets and smaller economies, retail service providers (RSPs), except incumbents, may not have the critical mass to purchase the lowest possible capacity link from transit providers. This, in turn, creates a cost imbalance between the incumbent and smaller RSPs. Reductions in infrastructure costs due to technological advances, as well as the development of broadband markets, pave the way for telecommunications market liberalization in many countries. The liberalization of international gateways is perceived as a way to enhance the quality of services while stimulating greater market efficiencies.

To support the generational shift and drive consumer engagement in the digital era, mobile operators will require hefty investin their networks between 2020 and 2025 for 5G deployments. In Bangladesh, the 5G opportunity is longer term, largely because there is still a lot of room to grow for 4G (which is thedominant mobile technologyacross the country and will remain so for the foreseeable future). It is unclear whether consumers will pay more for a 5G service, particularly when 4G will meet their needs in the majority of cases. The focus for the markets is on getting 4G right and pushingadvancements in areas such as identity, digital commerce and payments, and crosseco system collaboration to ensure 5G islaunched at the right time under the rightconditions to promote a sustainable and competitive industry, which is the foundation for an inclusive digital society.