



# Bangladesh: “Game On”; Tea Break

July, 2015

- ❑ Bangladesh has entered middle income status, the test will be in keeping that run rate for the coming years
- ❑ Politics has improved, in a fashion, but hints of some clouds in the horizon
- ❑ Government policies still sometimes hamstringing the country into what could possibly be headlong growth

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# Introduction

# The Bear Is Coming Out

- ❑ The EU is still too close to call, it has had other things on its plate
- ❑ China, through a combination of high debt burdens, infrastructure-fueled growth & overleveraged stock investment, is correcting
  - ❑ The commodity ripples have been felt everywhere
  - ❑ There is a risk of regional market contagion
- ❑ Oil & gas oversupply has cratered prices, adding to other commodity woes fueled by China
- ❑ Geopolitical risks like adventurism in Europe's periphery, new "Caliphates" & the specter of disease remain
- ❑ Iran may be coming out of the cold but that may leave already prickly Sunni Arab countries restive

# The Attraction of Bangladesh

- ❑ Strategic location near Asia's largest countries & commercial hubs
- ❑ 13.5% 9 year nominal GDP Compound Annual Growth Rate
- ❑ Linked to global growth through manufacturing, exports & inward remittances
- ❑ According to World Bank Data, Bangladesh:
  - ❑ Is now the world's 35<sup>th</sup> largest economy in PPP terms
  - ❑ GNI has improved to make it lower-middle income economy
- ❑ Low cost labor pool with ample room for growth
  - ❑ 50.5% of population in the workforce
  - ❑ Only 17.49% of the workforce currently in the industrial sector

*See Appendix for background on Bangladesh, macroeconomic fundamentals, policies, threats & opportunities*

# Bangladesh: From Famine to Food Basket

- ❑ The UN considers Bangladesh a bright spot in efforts to eradicate hunger by 2030, halving chronic hunger since 2000
- ❑ The country stands out for implementing:
  - ❑ A revolution in rice production, small farm mechanisation & irrigation
  - ❑ Regular economic growth
  - ❑ Human development: focus on education, health & nutrition
  - ❑ Safety net with cash transfers and other help to the poor & disadvantaged
- ❑ **Bangladesh has distinguished itself, unlike notable laggard India, in its willingness to reform and try new ideas for social improvement**

# Bangladesh Outpacing India in Human Development

India		Bangladesh
USD 1,610	GDP/Capita	USD 1,080
66 Years	Life Expectancy	71 Years
36%	Improvement in Life Expectancy	48.5%
1:190	Lifetime Risk of Maternal Death	1:250
58%	Reduction in Rate of Children Dying before 5 <sup>th</sup> birthday, 1990-2013	72%
102%	Girls as percentage of boys in elementary school, 2009-2013	106%
94%	Girls as percentage of boys in high school 2009-2013	114%
29%	Percentage of women in labor force	36%

Sources: UN, World Bank, ILO



# Bangladesh: Following Seas

- ❑ Low oil prices are a boon to commodity importing Bangladesh
  - ❑ Oil import costs are expected to reduce by more than a third
  - ❑ No government fuel subsidy in FY 2015 & none expected in FY2016 either
  - ❑ If oil stays below \$100/bbl, state-owned Bangladesh Petroleum Corporation profits, unhindered by price subsidies; could cross USD 1.5 billion this year
  - ❑ Lower fuel costs allow the government to fully use installed power generation capacity
- ❑ Food & soft commodity import costs will also improve
- ❑ Worker remittances should remain robust, as in 2008
- ❑ RMG exports should improve, absent political crises

# Outlook

Our view over the next 6-9 months

# Our Outlook

- ❑ The present government will remain in control at least until the end of the present term (ending in 2018)
- ❑ GDP growth will remain at or above trend, bolstered by lower commodity import bills & more political stability
- ❑ BDT should remain range-bound at 77.2 – 78.0 per USD, while a spike to 80-81 in 1<sup>st</sup> quarter 2016 cannot be ruled out
- ❑ BDT interest rates will continue to drop
- ❑ Capital markets will remain staid until mid-2016
  - ❑ Banks & FI's will have to unwind positions due to regulations
  - ❑ Mutual funds will remain at attractive discounts to NAV
  - ❑ Banks, FI's, mutual funds & select blue chips present good long-term value
- ❑ Infrastructure will frustratingly remain an impediment to turbocharged economic growth

# “What-if”

- ❑ GDP growth is overwhelmingly production & consumption-driven but the government actually attenuates that by tamping down external debt at the expense of infrastructure
  - ❑ Fiascos like Padma Bridge & government inability to implement already sanctioned projects do not help
  - ❑ Commercial markets remain untapped by the government
  - ❑ The Bangladesh government sticks to a “Washington consensus” on external & total public debt when it is no longer that fashionable even at the IMF
- ❑ What if the government got out of the way & allowed debt to fuel infrastructure investment, further speeding GDP growth?

# Trades

Potential Investments in the Pipeline



# How do you Trade a View on Bangladesh?

- ❑ There is no USD sovereign debt
- ❑ BDT debt requires mostly holding to maturity as there is no liquid secondary market, although local banks are becoming quite active
- ❑ We are working on creating BDT debt market with IFC
- ❑ Public equities are reasonably liquid & present some long-term value
  - ❑ Foreign investors have few limits on holding
  - ❑ The biggest export exposed industry (Ready Made Garments) is not represented
- ❑ No direct bet on remittances (FX, debt, or remittance backed debt)
- ❑ **Banking & Finance is the biggest growth engine with exposure to export growth, remittance flow & trade finance**
- ❑ **Lenient regulations (on profit expatriation, taxation, ease of foreign holdings) make Private Equity investments attractive for the medium to long term**

# Public Equities

- ❑ USD 43.5 billion market cap as of July 2015, 4.53% 5-year CAGR
- ❑ Regulatory overhang & retail investor blues will keep equities staid until mid-2016
- ❑ Banks & mutual funds should provide good long term capital gains
  - ❑ Banking stocks will be lackluster despite improving NPLs as Basel III forces Banks & FI's to unload cross-shareholdings
  - ❑ Mutual funds will remain depressed despite attractive 0.65 multiples to NAV

**Potential Overall Size: ~USD 50 —100 million**  
**Timeline: 6—9 months to build portfolio**

# Trade Finance

- ❑ Extensive import & export trade financed by credit (letters of credit, factoring, discounting, etc.)
- ❑ ~USD 72 billion transactions annually
- ❑ Highly liquid transactions lasting 90 days on average at ~4.5% annualized rates for USD transactions
- ❑ Intermediaries do not directly risk balance sheets
- ❑ Local banks have the expertise & the credit intelligence but need foreign counterparties with funds, bank lines & correspondence agreements
- ❑ Trade finance funds can profitably take up the slack

**Potential Overall Size: ~USD 50 – 500 million**  
**Timeline: 6-9 months to set up systems**

# Private Commercial Bank Debt & Equity

- ❑ All but 9 newly minted Private Commercial Banks are publicly traded & now trading close to NAV after recent market gains
- ❑ Banks are augmenting Tier I & II buffers per Basel rules
  - ❑ We are closing another ~USD 40 million Tier II funding
  - ❑ Another ~USD 52 million Tier II funding is in the pipeline
  - ❑ 4-5 more banks in the pipeline for Tier II
  - ❑ Basel III implementation means ~20-30 banks will need Tier I capital in 2-3 years
- ❑ With corporates borrowing USD 5 billion+ in FY13-14, banks actively seeking funds to grow Offshore Banking Unit (OBU) balance sheets
- ❑ Invest in select names for stock market exposure
- ❑ Some banks looking for private equity injections

**Potential Overall Size: ~USD 200-500 million**

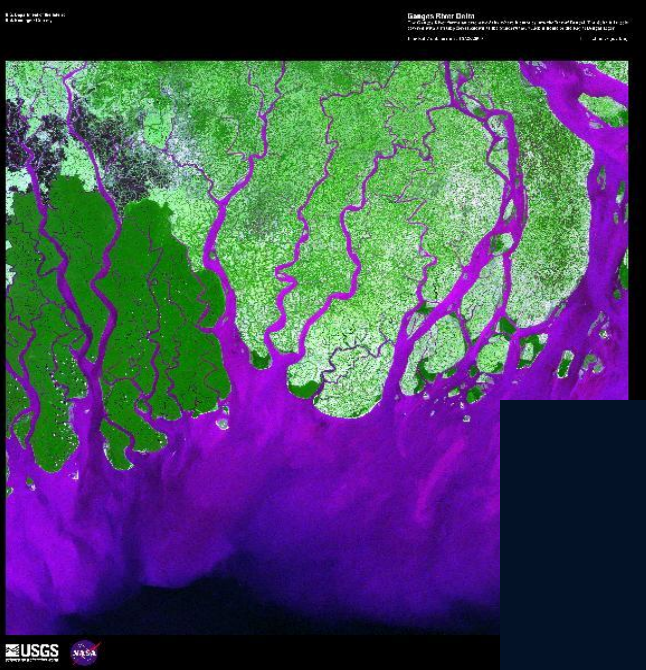
**Timeline: over next 2 to 3 years**

# Private Equity

- ❑ F&B and FMCG space remains largely unexploited
  - ❑ There is no nationwide grocery, pharmacy or F&B chain catering to the middle & lower middle income classes
- ❑ Banking & Finance
  - ❑ Private commercial banks still do not serve the majority of the country
  - ❑ bKash notwithstanding, there is no end-to-end electronic cash network allowing foreign workers to remit money home for direct purchases (BB recently issued a circular allowing this, implementation will take time)
  - ❑ NBFI, stressed for 4+ years, still make a compelling turnaround investment
- ❑ Some potential RMG consolidation
- ❑ Power
  - ❑ Was essentially fuel arbitrage, now more efficiency & productivity plays
  - ❑ Deep due diligence required

**Potential Overall Size: ~USD 200—400 million**  
**Timeline: 6 months —1 year**





# Appendix: Bangladesh



# A Brief Introduction



**Population:** 158.5 million (2014)

**Population Density:** 1,218 per sq km (2014) of land area

**Population Growth Rate:** 1.2% (2014)

**Surface Area:** 148,460 sq.km. (93rd largest in the World)

**Major Cities:** Capital: Dhaka (16.98 million), Port-city: Chittagong (5.23 million), Khulna (1.78 million) and Rajshahi (0.93 million) (2014)

**Languages:** 98% Bangla. English widely spoken.

**Labor Force:** 77.61 million (2013; 6<sup>th</sup> largest in the World)

**Unemployment:** 5% (2014 est.)

**Adult Literacy Rate:** 61.5% (2014)

**Urban Population:** 34.3% (2015)

**Nominal GDP:** USD 195 billion (2015 est.)

**Exports:** 16.03% of GDP; Top exports RMG, Leather & Footwear, Jute & Jute Products, and Frozen Food (2014)

**S&P Sovereign Rating:** BB-/Stable

**Capital Market:** 322 listed stocks & mutual funds; with USD 43.48 billion total market capitalization (July, 2015)

**Remittance:** 15.3 billion (FY 2015)

*Source: World Bank & IMF, Ministry of Finance, Bangladesh Bureau of Statistics, Bangladesh Bank, CIA Factbook*

# Fundamentals

# A Decade of Sustained Improvement

Key Parameters	FY2006	FY2015P	9 year CAGR
Nominal GDP (BDT Billion)	4,823.40	15,136.00	13.55%
Nominal GDP (USD Billion)	71.91	194.55	11.69%
Per Capita GNI (USD)	543	1,314	10.32%
Real GDP Growth (%)	6.67%	6.51%	N/A
FX Reserves (USD Billion)	3.48	25.02	24.51%
Exports (USD Billion)	10.53	31.19	12.82%
Imports (USD Billion)	14.75	40.61	11.91%
Remittances (USD Billion)	4.8	15.31	13.75%
Public Debt / GDP (%)	40.20%	28.60%	N/A
External Govt. Debt / GDP (%)	25.90%	13.60%	N/A
Domestic Govt. Debt / GDP (%)	14.30%	15.00%	N/A
Market Capitalization (USD Billion)	3.21	43.48	33.6%

Source: Ministry of Finance, Bangladesh Bureau of Statistics , Bangladesh Bank, Dhaka Stock Exchange

# Major Macroeconomic Trends

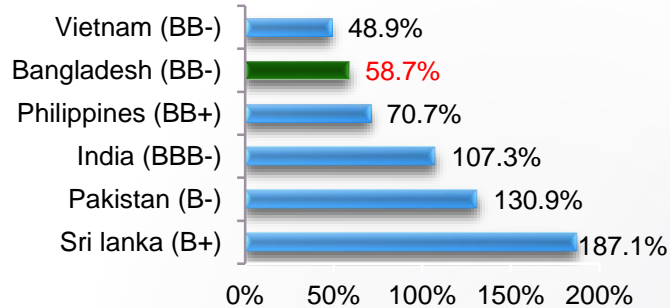
Indicator	2013R	2014R	2015P	2016F	2017F
Real GDP (%)	6.01%	6.06%	6.51%	7.0%	7.20%
CPI Inflation (%)	6.78%	7.35%	6.19%	6.20%	6.0%
Export Growth (%)	10.75%	12.04%	3.00%	12.0%	12.0%
Import Growth (%)	0.80%	8.92%	10.00%	11.5%	11.5%
Workers' Remittance Growth (%)	12.60%	-1.59%	8.50%	10.0%	11.0%
Current Account Balance (% of GDP)	1.7%	0.9%	-0.7%	-1.2%	-1.2%
Foreign Exchange Reserve (USD Billion)	15.3	21.5	25.02	26.0	26.0

Source: Ministry of Finance

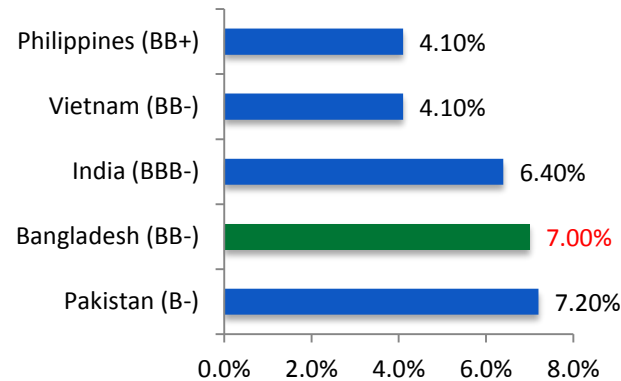


# Bangladesh: Striking the Right Balance

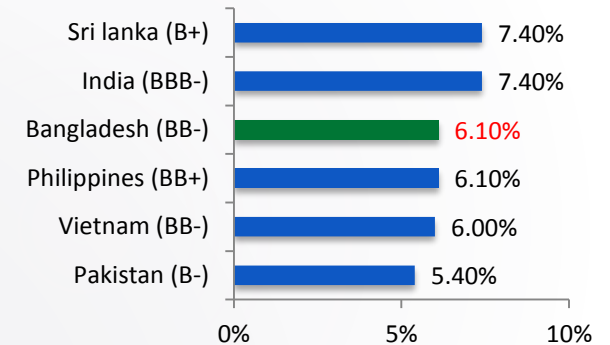
**External Debt/Current Account Receipt (%)**



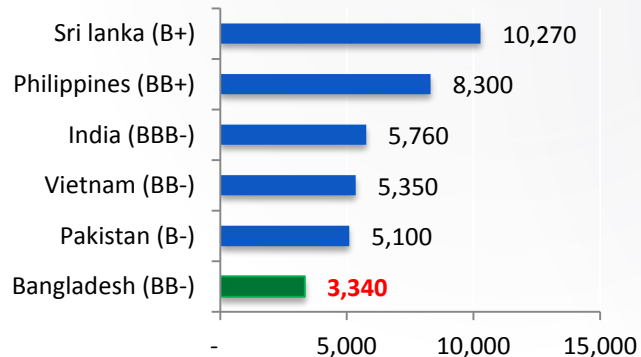
**Inflation Rate (%)**



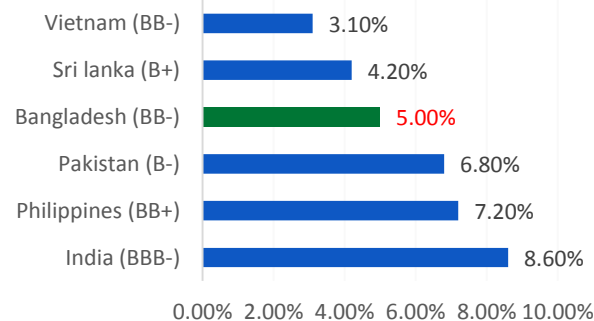
**GDP Growth (%)**



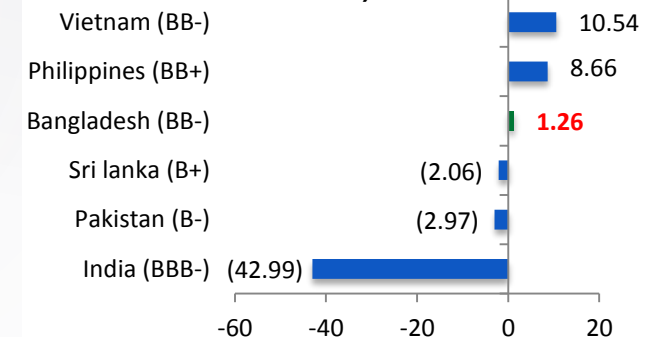
**Per Capita GNI [PPP] (USD)**



**Unemployment Rate (%)**

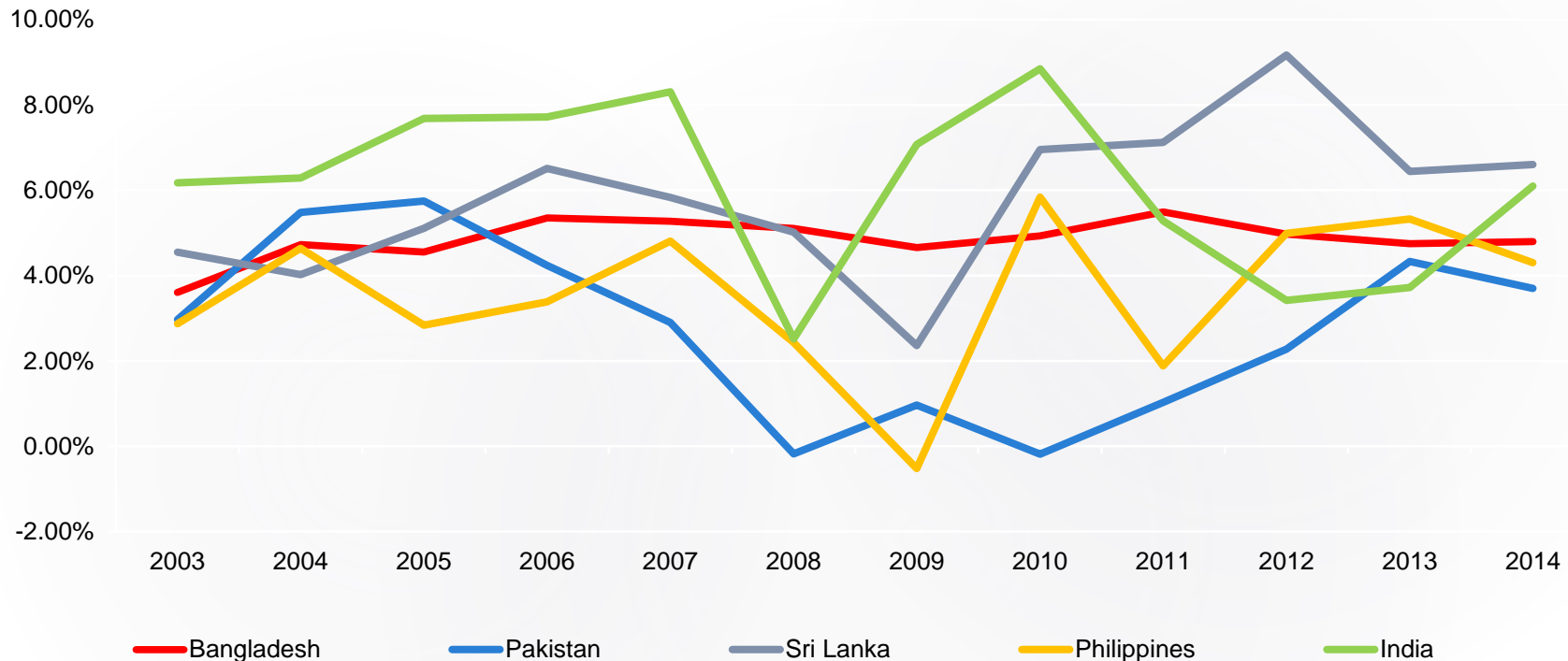


**Current Account Balance (Billion USD)**



Source: WB data & : CIA- Fact Book (FY'14)

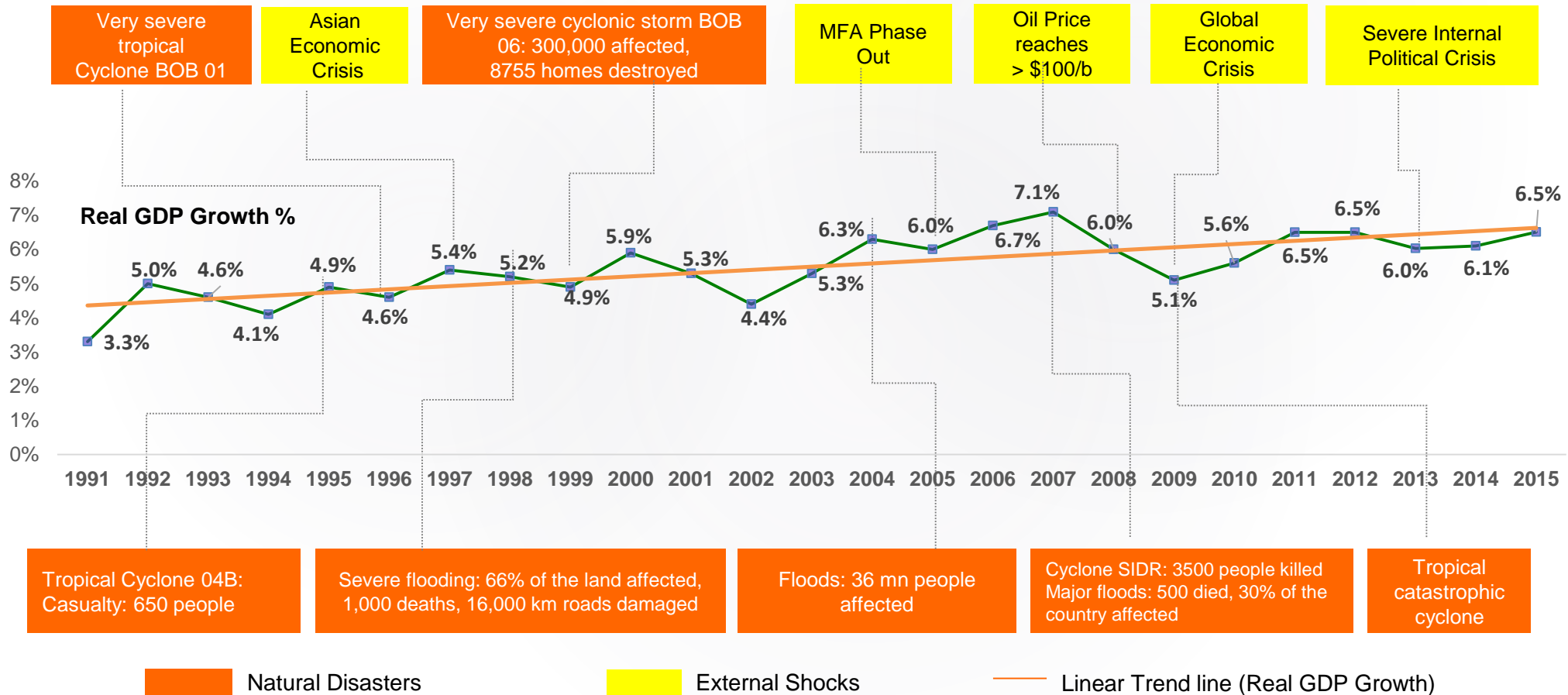
# Per Capita GDP Growth: Steady & Enviably



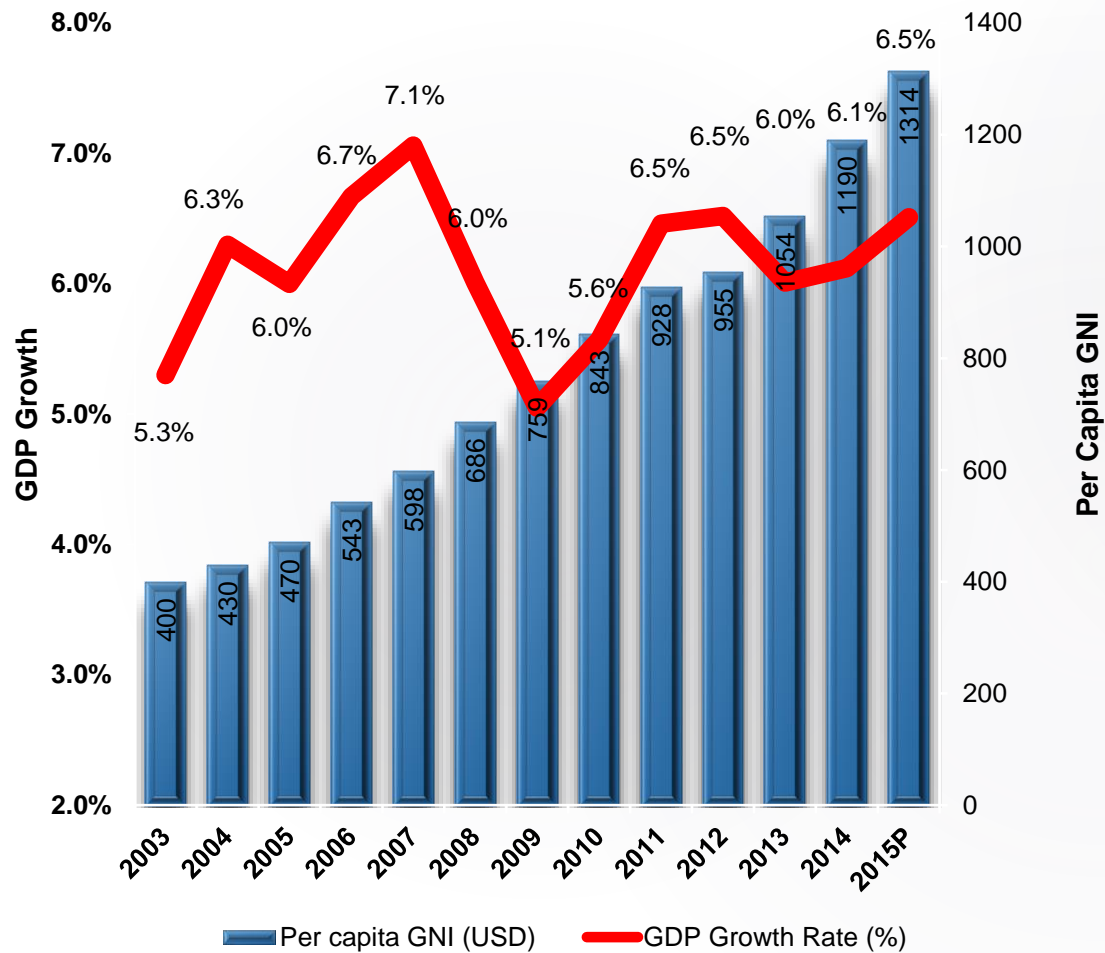
- Per Capita real GDP growth remains steady for Bangladesh
- The political crises have had some impact on growth
- More infrastructure based growth could markedly boost GDP

# GDP Growth: Remarkably Stable Despite Shocks

- 2015 Growth back on track after severe political crisis over 2013 elections
- Economic resilience underscored by upwards revisions of growth rates



# GDP Growth & Per Capita GNI



Source: Ministry of Finance, Bangladesh

- ❑ Per capita income almost tripled since 2003, entered into Lower Middle Income Country (LMIC) in 2015
- ❑ The only country recognized by UNDP for achieving Millennium Development Goals (MDG) before 2015
- ❑ USD 194.55 billion GDP, ~6.0% growth since 2004
- ❑ Some Disparity on projections:
  - ❑ Government : 7% for FY 2015-16
  - ❑ WB: 6.3% for FY 2015-16

# International Trade Data

## MERCHANDISE TRADE

	2014FY
Merchandise <i>exports</i> , f.o.b. (Million USD)	USD 30.17
Merchandise <i>imports</i> , c.i.f. (Million USD)	USD 36.57

	2013
Share in world total exports	0.15%

### Breakdown in economy's total exports

By main commodity group (ITS)

Agricultural products	5.20%
Fuels & mining products	1.10%
Manufactures	93.50%

By main destination

1. United States	17.70%
2. Germany	16.10%
3. U.K.	9.80%
4. France	6.30%

## Intra-Regional trade (SAARC)

	% of Total
Exports	1.90%
Imports	15.75%

	2013
Share in world total imports	0.19%

### Breakdown in economy's total imports

By main commodity group (ITS)

Agricultural products	28.60%
Fuels & mining products	9.40%
Manufactures	57.30%

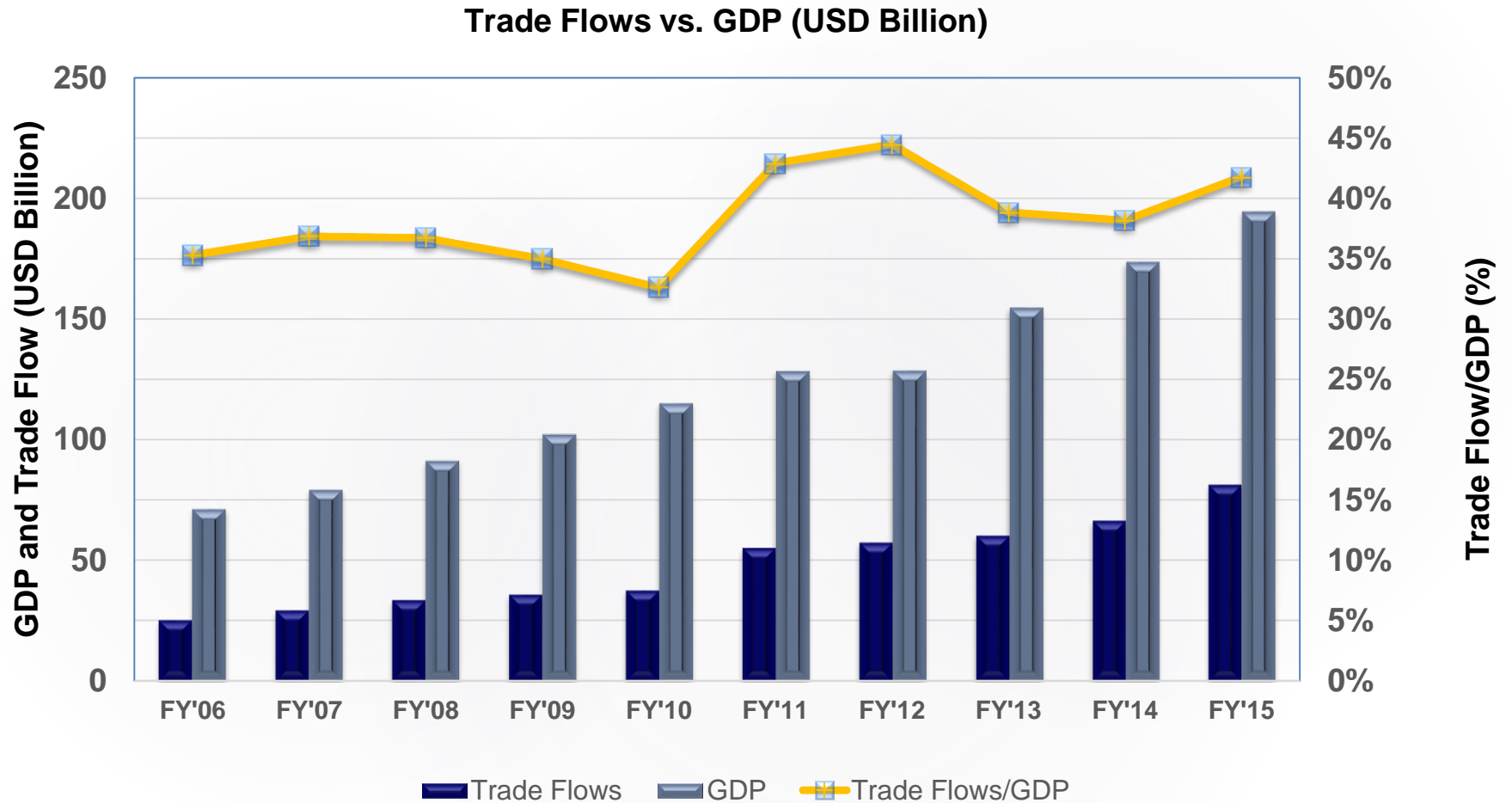
By main origin

1. China	18.50%
2. India	14.80%
3. Singapore	5.60%
4. Japan	3.20 %
5. Hong Kong	1.90%

Source: Export Promotion Bureau, Bangladesh Bank, WTO TradeMap



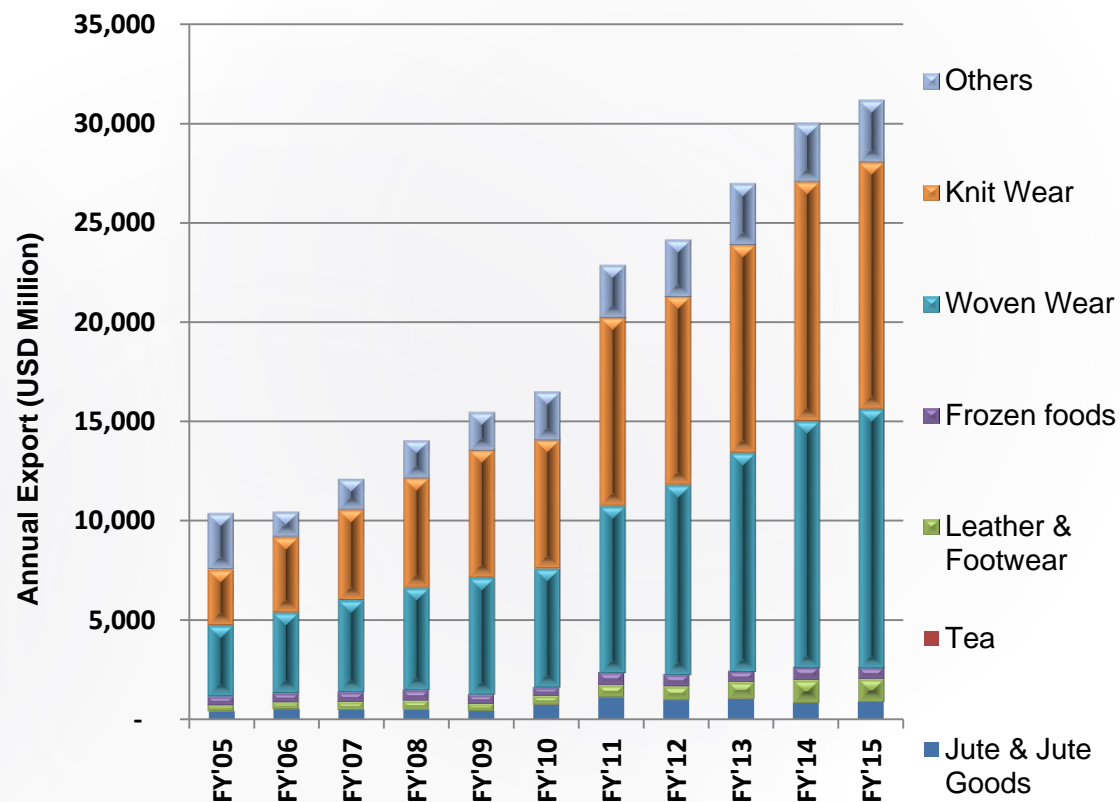
# International Trade Growth



Source: Ministry of Finance, Bangladesh Bank

# Exports: An Important Growth Pillar

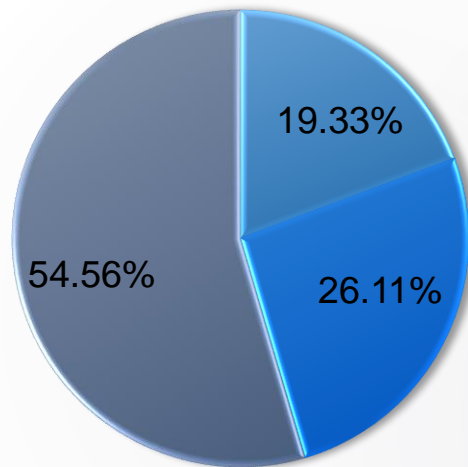
- ❑ 199% growth over 10 years
- ❑ 12.92% 10 Year CAGR for exports
- ❑ Exports dominated by Knit & Woven wear
- ❑ Leather & Footwear a distant third



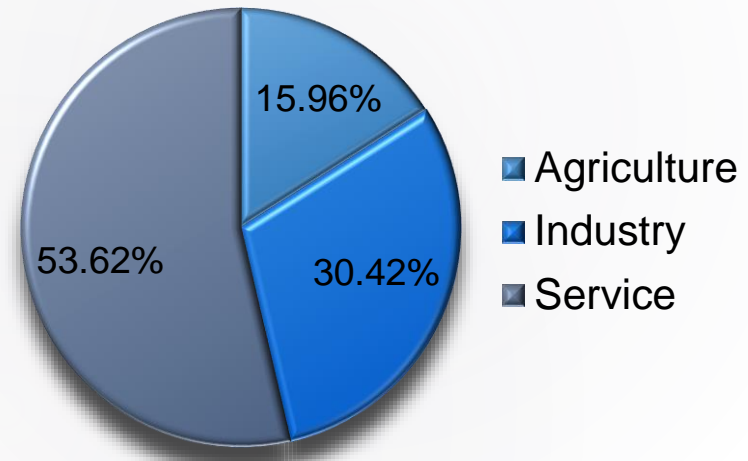
Source: Ministry of Finance

# Economy: Shifting to Higher Value-Add

**GDP Mix 2004-05**



**GDP Mix 2014-15P**



Source: Ministry of Finance

- Services & Industry Maintain Steady Growth (% Real GDP)
- Services: Banking, Insurance, Telecommunications, Consultancies, etc.

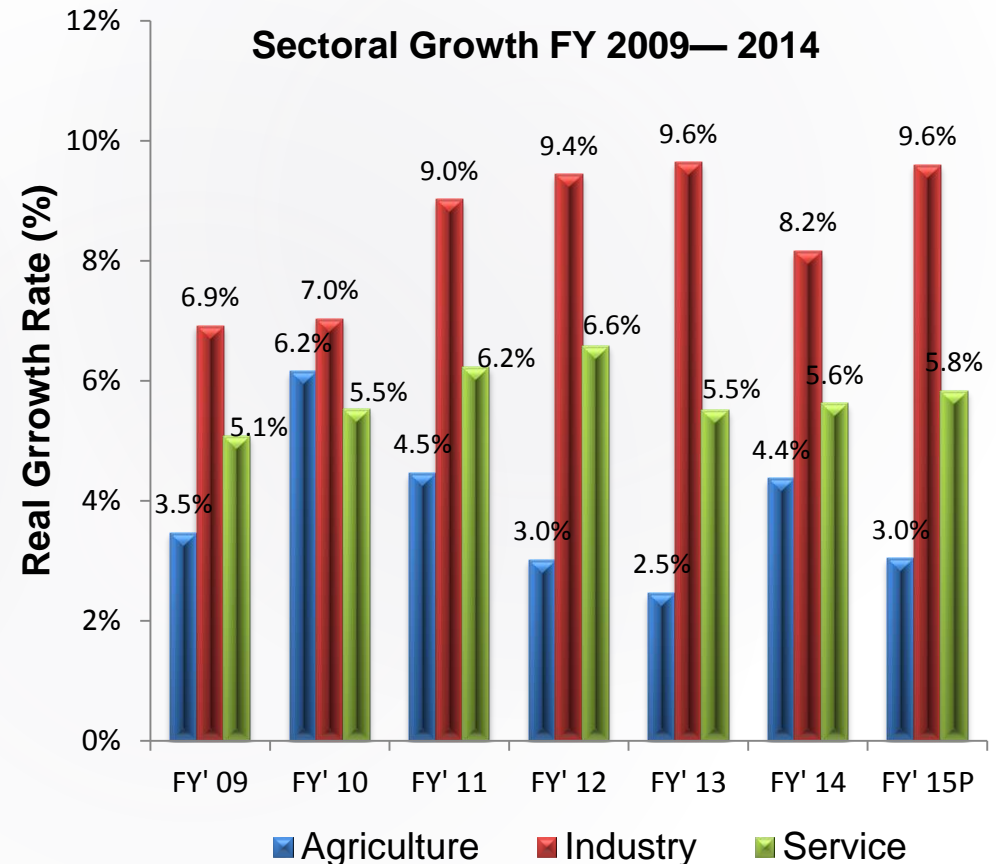
# Growth: Industry & Services Over Agriculture

## Industry

- ❑ Largest contribution to GDP growth
- ❑ 13.24% CAGR (in nominal terms) 2005 — 2015

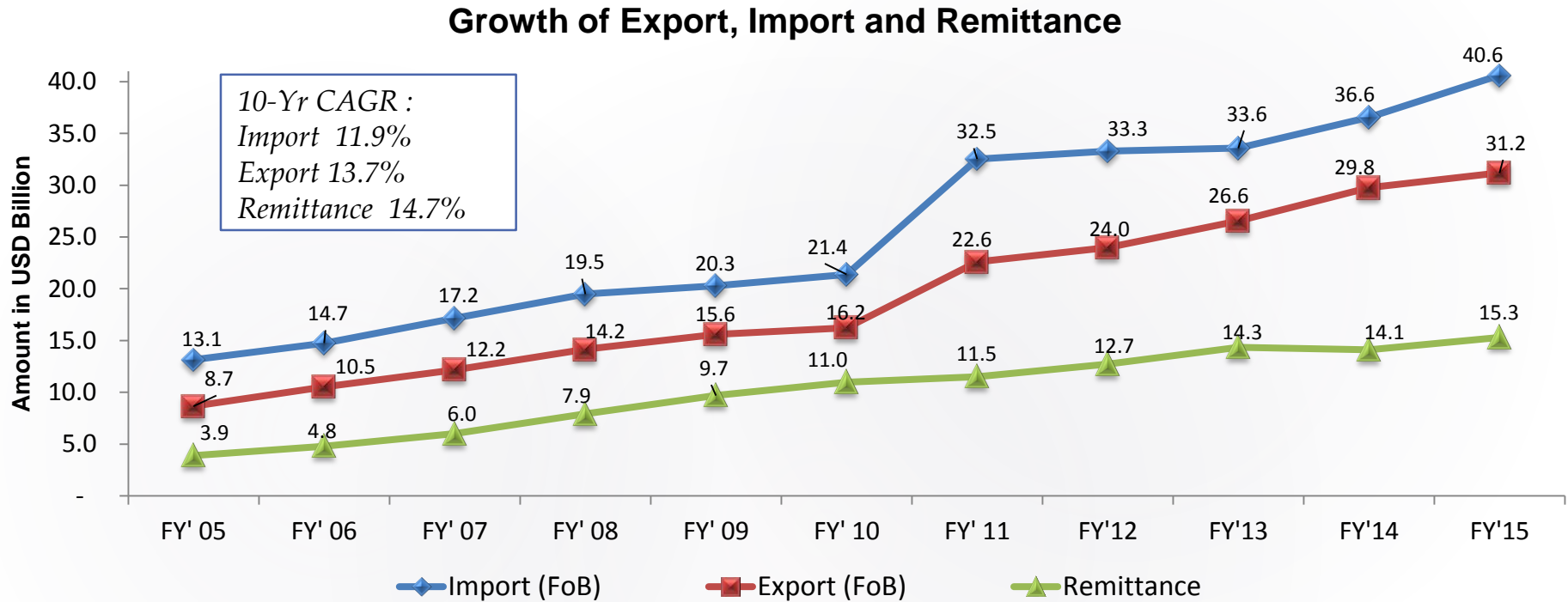
## Agriculture

- ❑ Contribution to GDP declining steadily (25.03% to 15.96%) over 15 years despite rising output
- ❑ Belies strong output & productivity growth due to policy reforms in this labor-intensive sector



Source: Ministry of Finance

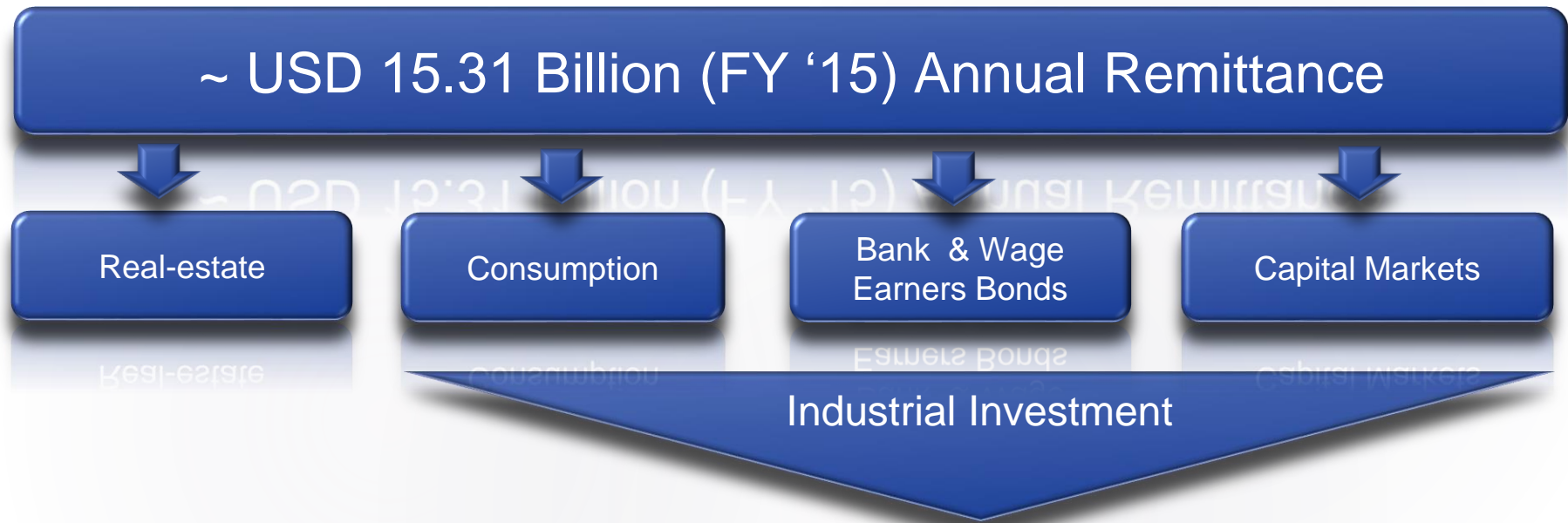
# Trade & Remittances: Steady Growth



Source: Ministry of Finance, Bangladesh Bank

- ❑ Export (13.7%), Import (11.9%) & Remittance (14.7%) CAGR growth since 2004 implies Remittance picking up the slack
- ❑ Renewed Bangladeshi employment in Saudi Arabia should bolster remittances more

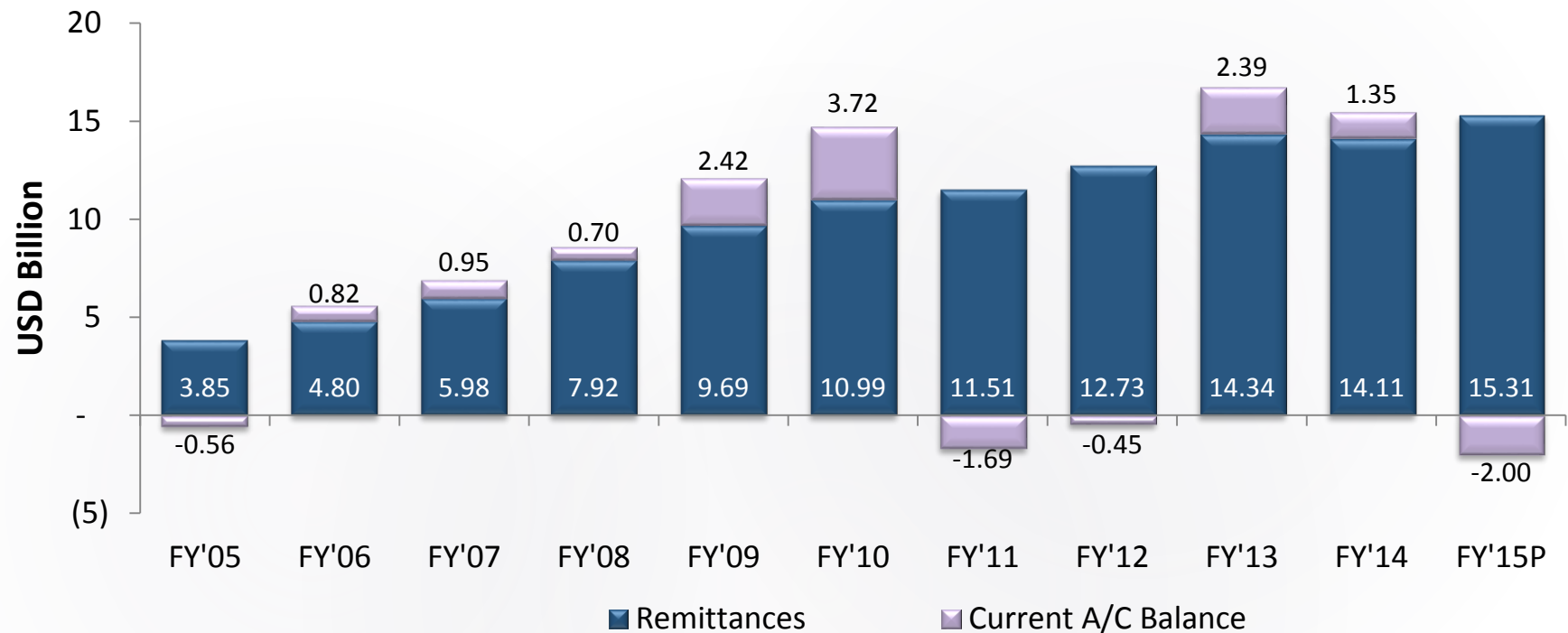
# Worker Remittances: Where They Go



- ☐ Export income
- ☐ Increased wages
- ☐ Higher Employment

Source: Bangladesh Bank

# Current Account Balance: Bolstered by Remittances



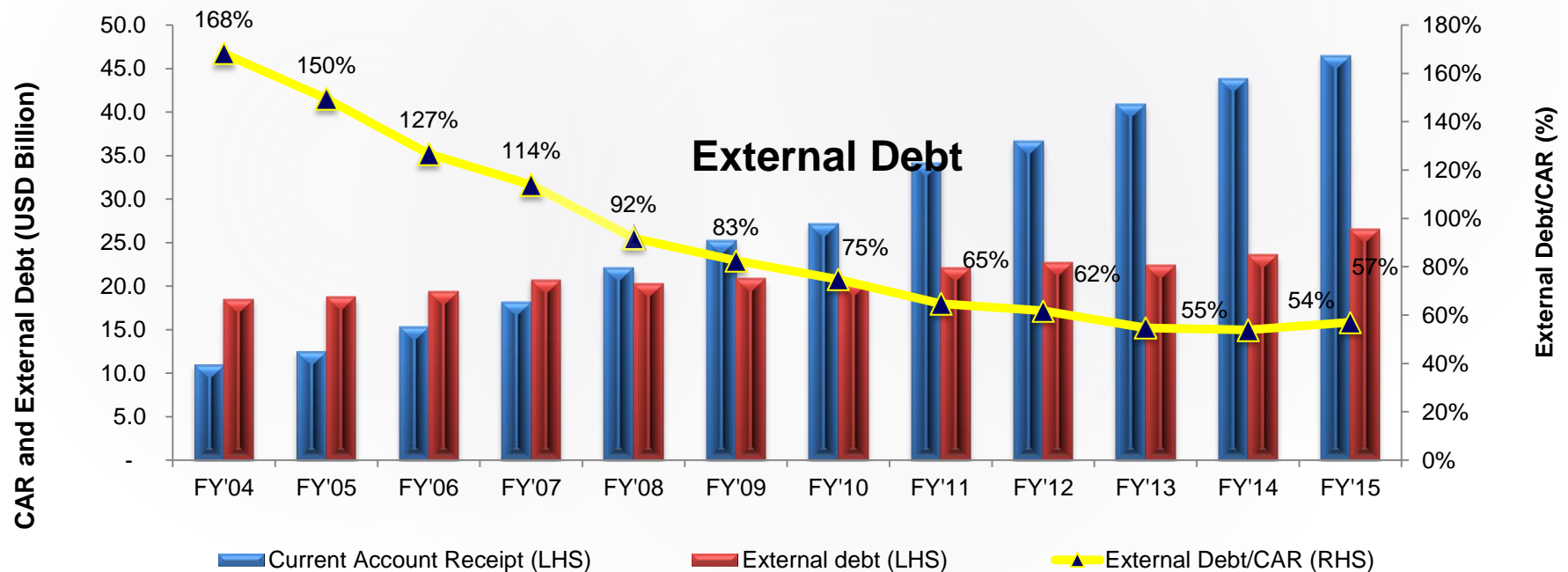
Source: Ministry of Finance, Bangladesh Bank

- ❑ Current account mostly surplus backed by high remittance growth (~298% in a decade) since 2005
- ❑ Remittances are counter-cyclical, have no associated capital outflow and goes mostly to households (some to wage earners bonds and portfolio investment)



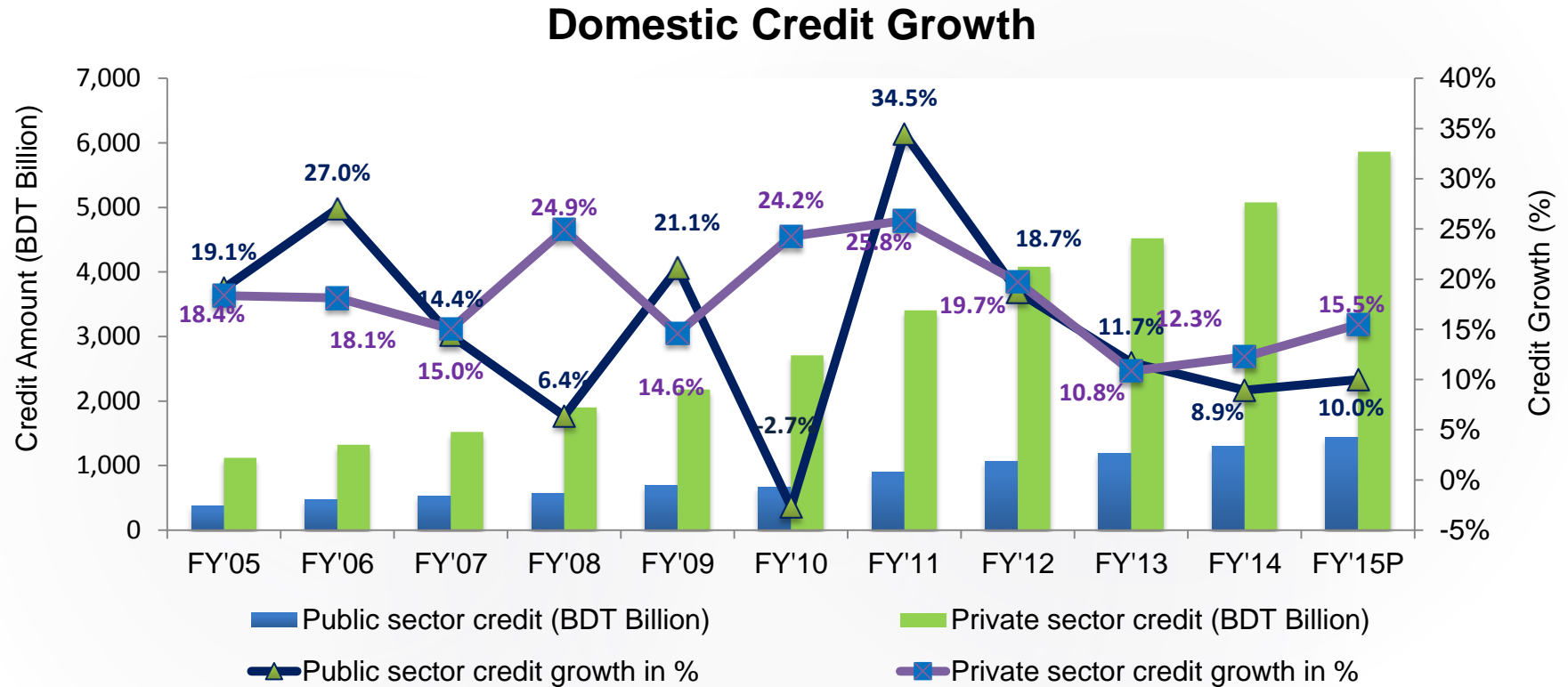
# Reserves: Rapid Accumulation Provides Buffer

- 41.2% Debt growth vs. 270% CAR growth 2005—2015P
- Huge current account receipts growth helped halve government external debt/CAR since 2005
- External debt crisis risk limited due to long-dated & concessional nature of cross-border debt



Source: Ministry of Finance, Bangladesh Bank

# Domestic Credit Growth

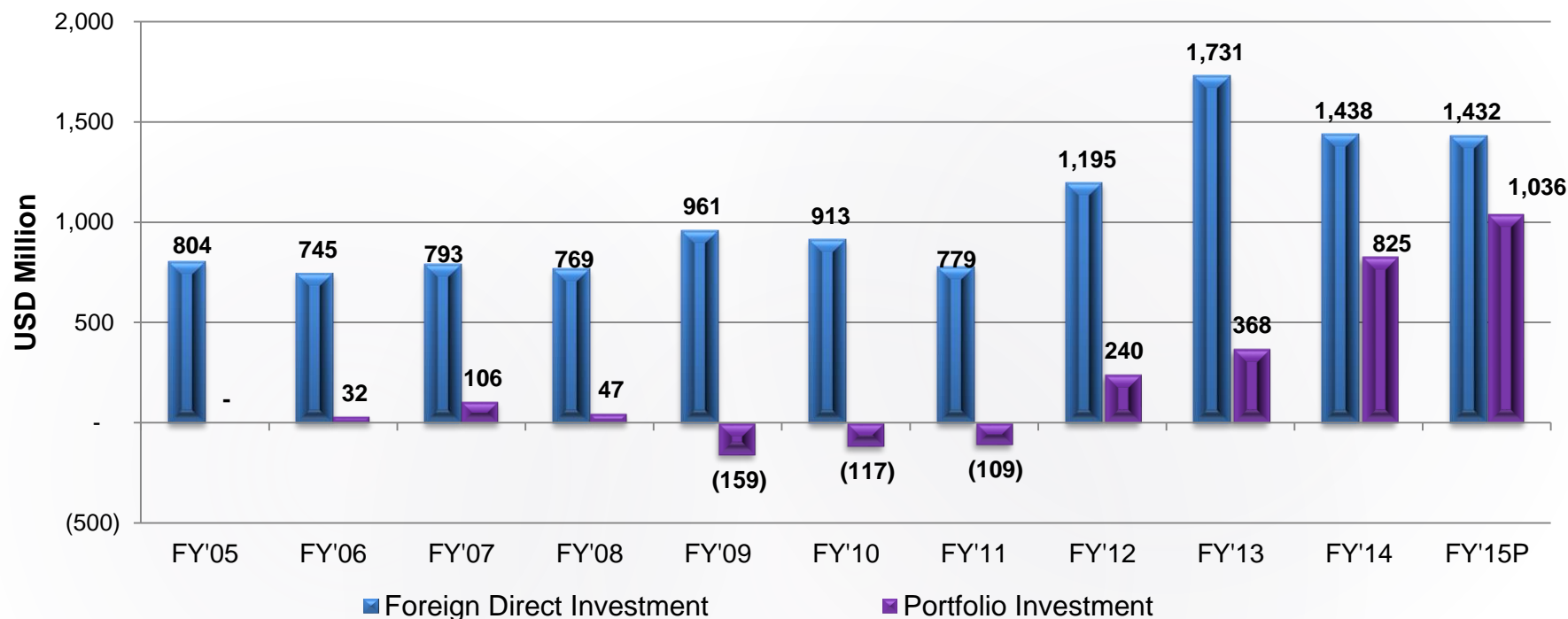


Source: Bangladesh Bank

- Fairly stable private sector credit growth over the last 11 years
- Private sector credit continues to dominate

# Markets & Investments

# Investment: Stable FDI & Spiking Portfolio Inflows



Source: Ministry of Finance

- 25.62% Y-o-Y portfolio investment growth in FY2015
- Stable FDI, outstripping more volatile portfolio inflows, reducing risk
- Manufacturing competitiveness attracting continued FDI notwithstanding the global crisis

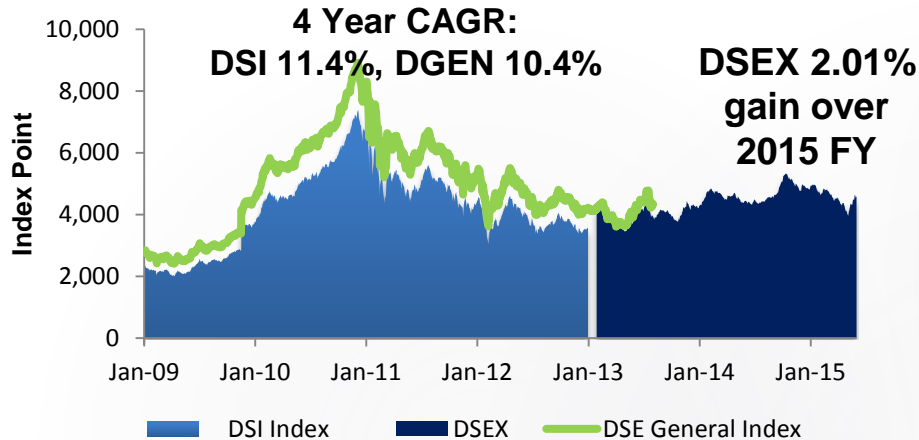
# Capital Markets: Overview

Market Statistics (as of May, 2015)	
No. of Listed Securities	553
Equities	281
Mutual Funds	41
Treasury Bonds	221
Corporate Bonds	2
Debenture	8
Sector	22
Market Parameters (as of May, 2015)	
Market Cap (BDT Billion)	3,186.45
Market Cap (USD Billion)	40.96
Last 6 Months Average Turnover (BDT Million)	3,604.99
Last 6 Months Average Turnover (USD Million)	46.51
Forward P/E	17.35x
Audited P/E	15.68x
Price/BV	2.35x

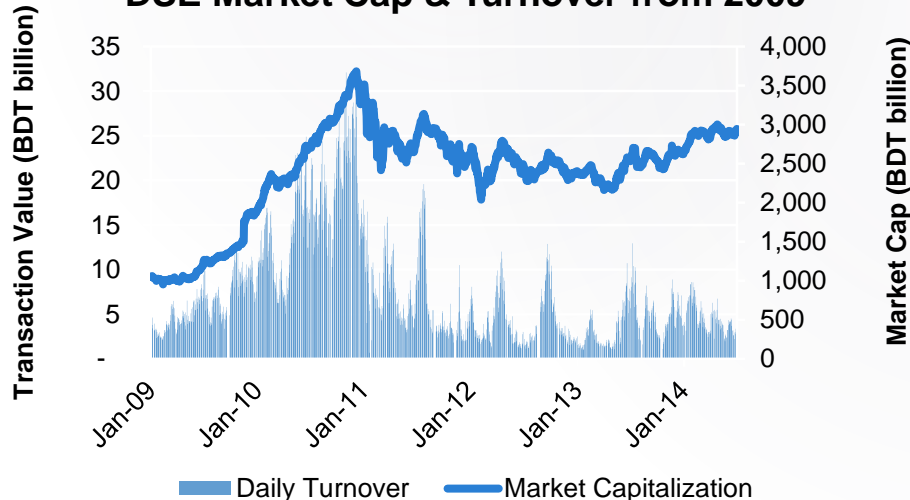
Source: Dhaka Stock Exchange

# Capital Markets: Turnover & Performance

**DSE Index Performance from 2009**



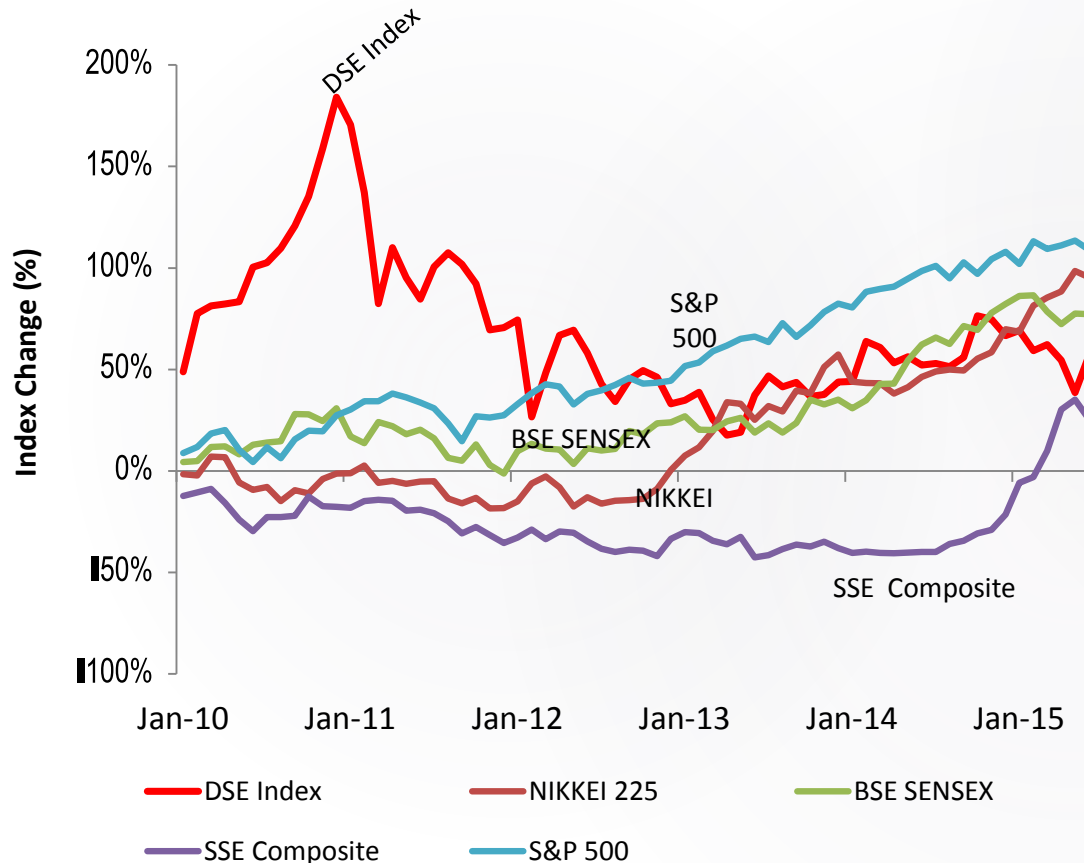
**DSE Market Cap & Turnover from 2009**



- Dhaka Stock Exchange (DSE) market capitalization grew from USD 18.04 billion (2009) to USD 41.54 billion (May, 2015), 20.60% CAGR
- DSE Index grew ~200% from 2009 to end 2010, though it has since fallen by around 53% from the peak in December 2010
- DSE average daily turnover decreased from USD 78.01 million (2009) to USD 48.04 million (May, 2015)
- After ~2.5 years of consolidation and stability market looks poised for a rise in the next fiscal year

# Market Index: Peer Comparison

## Index Peer Comparison of DSE



Index	% Change '09-June to '15 May
Bangladesh (DGEN)	55.03%
NIKKEI 225	96.29%
BSE SENSEX	78.82%
SSE Composite	18.18%
S&P 500	110.38%

- ❑ DSE benchmark index increased 55.03% over the period, but mostly stable since the correction in 2011
- ❑ DGEN positive trend during the global recession from 2007
- ❑ January 2011 correction from unusual price hike



# Capital Markets: Regulatory Overhang & Structural Issues

- ❑ Lacking pension & strong mutual funds, banks are the mainstay of the capital markets
- ❑ Bangladesh Bank pushing banks to reduce capital markets exposure by July 2016
  - ❑ New regulations restrict exposure to 25% of their equity, excluding revaluation reserves; most banks currently over the limit
  - ❑ Basel III implementation will require banks to reduce capital market exposure
- ❑ Banking stocks will be lackluster despite improving NPLs as Basel III forces Banks & FI's to unload cross-shareholdings
- ❑ Retail investors are still nursing the pain from previous losses
- ❑ Mutual funds will remain depressed despite attractive 0.65 multiples to NAV
- ❑ Public equities should thus remain staid until mid-2016 as banks and FIs unwind positions
- ❑ Banks & mutual funds should provide good capital gains in the long term

# Politics

# Politics: Executive PM's & Battling Begums

- ❑ Bangladesh has a parliamentary democratic system, with some *caveats*
  - ❑ Prime Ministers (PM) have near-executive power, usually holding the most powerful ministerial portfolios themselves
  - ❑ The figurehead president is selected by the ruling parliamentary party
  - ❑ The government appointed judiciary are vulnerable to pressure
  - ❑ The election commission may be subject to bureaucratic pressure
- ❑ Politics is dominated by the “Battling Begums”:
  - ❑ The Awami League (AL) of the independence hero Sheikh Mujibur Rahman is led by his daughter Sheikh Hasina Wajed
  - ❑ The Bangladesh Nationalist Party (BNP) is led by Begum Khaleda Zia, widow of the BNP founder (and Military leader-turned politician) Ziaur Rahman
  - ❑ Clutching mutual & dynastic animus stretching back decades, the ladies do not get along
  - ❑ In the nature of dynastic politics, their respective parties do not either
- ❑ Bangladesh Army shown a degree of public restraint during the recent political unrest

# Politics: Calm, for now

- ❑ After handing the AL an unopposed victory in the last elections, the BNP has furthered its self-immolation
  - ❑ It called a nationwide blockade from 6 January to 2 April, 2015
  - ❑ Losing the country USD 2.2 billion in GDP, as per World Bank data
  - ❑ Causing 76 deaths & 225 burnt in petrol bomb deaths over three months
  - ❑ Further losing credibility through coalition with the unloved Jamati Islami Party
- ❑ The AL is now well & truly in the driving seat
  - ❑ The Army remains barracks-bound & should likely stay there
  - ❑ The economy continues to hum along
  - ❑ Relations with India remain strong: PM Modi had a very successful visit, the border is clarified & there should be more trade/aid

# But...

- ❑ We expect the AL to remain in control but
  - ❑ There is no longer a credible democratic opposition
  - ❑ ~50% of the electorate (erstwhile BNP supporters) effectively do not have a democratic voice
  - ❑ The PM, Sheikh Hasina Wajed, is getting close to retirement age
  - ❑ Her son is being groomed for leadership but, without internal party democracy, his taking the mantle is not a sure thing
- ❑ The ruling party is increasingly getting a reputation for corruption & abuse of power
- ❑ Civil society & the press are getting restive
  - ❑ The government & its judiciary have been overzealous in the application of contempt of court rules against the press
  - ❑ Islamist hardliners are accused to have created terror through the brutal murder of a number of secular bloggers

# Policies

# Fiscal & Monetary Policy

- ❑ Public sector subsidies gradually being reduced
  - ❑ Power tariffs increased in FY13 & FY14 were not pulled back with low oil prices
  - ❑ Petroleum & fuel prices unchanged at the high levels leading to significant Petrobangla profits after years of losses
- ❑ The government repaid BDT 68.69 billion to banks in FY2014-15 (July-May) in contrast to the BDT 64.28 billion borrowed in FY 2013-14, adding liquidity to the already liquid banking industry
- ❑ Government's net borrowing from savings tools increased by 145% due to higher savings certificate interest rates
- ❑ Commercial banks suffering from excess liquidity as they reel from last year's high NPLs & lower credit demand
  - ❑ Overnight interbank rates eased to 5.25-6.00% (5.8%-8.5% over last six months)
  - ❑ Surplus liquidity mostly parked in Government bonds with steadily declining yields
- ❑ Declining local currency deposit & lending rates nearing single digits



# Fiscal & Monetary Policy

- ❑ Gross NPL's increased slightly to 9.7% in CY2014 from 8.9% in CY2013 with signs of reduction in CY15
- ❑ BDT was quite strong over FY15 due to:
  - ❑ 4.8% export growth to USD 31.20 billion
  - ❑ 8.50% remittance growth to USD 15.31 billion
  - ❑ Declining petroleum costs
  - ❑ Rising FDI into & FX loans to local private companies
- ❑ ... but remained stable against USD due to BB intervention
- ❑ Nevertheless, current account recorded ~USD 2 billion deficit due to higher cost of capital machinery imports
  - ❑ Significant portion of these imports are held in USD liability through UPAS L/Cs
- ❑ FX reserves rose to a record USD 25.02 billion by June 2015 from USD 21.32 billion a year ago

Bangladesh Bank's (BB) generally populist stance to support the dollar led to buying ~USD 3.8 billion during the fiscal year, taking its 3-year dollar buying to USD 13.4 billion

- ❑ Primarily to support the remittance recipients who would otherwise move some remittances informally
- ❑ But the exporters
  - Losing competitiveness due to regional currencies weakening against the greenback
  - Losing US market GSP (all other SAARC countries get GSP) could see further export losses in the coming year
- ❑ BDT could well have gone down to ~72 vs. USD without BB intervention
- ❑ Overall, BDT should remain range-bound at 77.2-78.0 vs. USD over the next few months
- ❑ However, BDT could well depreciate 2-4% against the dollar by first quarter next year, given the mounting current account deficit

# Interest Rate Outlook

- ❑ High liquidity in the banking sector with low credit growth has been depressing interest rates for over a year
- ❑ Foreign debt investment, especially term (5-7 years) debt, slowed in 2015
- ❑ BB seems happy to let the BDT interest rates slide, hoping for a narrowing USD-BDT interest rate differential to boost growth
  - ❑ BB suspended T-Bond auctions for 3 months and reduced T-Bill auctions to ~35%
- ❑ Central bank expressed expansionary (~16.5% credit growth target) monetary policy for July-Dec 2015, indicating further drop in interest rates
- ❑ In line with our forecast, short term rates (T-Bills) dropped ~ 176-245 bps over the last 8 months, although central bank kept the reverse repo rates unchanged at 5.25%
- ❑ Long term rates (5-20 year T-Bonds) dropped close to our forecast by 100-170 bps over the same period
- ❑ Deposit & lending rates likely to continue declining in the coming months,
- ❑ Government & BB rates likely to find support within 50-75 bps below current levels

# Threats & Opportunities

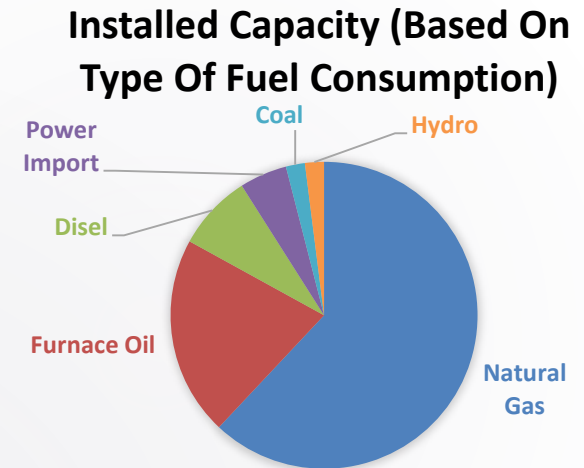
# RMG Industry: Growing Nevertheless

- ❑ RMG deliveries remained robust through the political crises
  - ❑ The Opposition BNP's three month blockade (January-April, 2015) cost an estimated USD 20 million in missed deliveries
  - ❑ There remains the worry about reputational damage due to unrest
  - ❑ ***US renewed GSP for India, Pakistan, Sri Lanka etc. but not Bangladesh***
- ❑ RMG & Textiles exports **grew 4.08% in FY2015**
  - ❑ RMG exports contributed USD 25.49 billion of USD 194.55 billion FY15 GDP
  - ❑ The majority of exports were to the EU, followed by the US, Canada and Australia
  - ❑ The industry employs ~5 million, a large number of them women (more than 70%)
  - ❑ Japan has granted GSP to Bangladesh RMG and can be a significant destination with already ~16% growth last year to USD 578 million
  - ❑ Chile has also allowed GSP for Bangladesh, albeit currently a small percentage is being exported there
  - ❑ Latin America, especially Brazil could become a big destination of Bangladeshi RMG, with incentive from the government to non-traditional markets
- ❑ Inspections mandated by the Bangladesh Accord on Fire & Building Safety and the Alliance for Bangladesh Worker Safety continue

# Threats: Infrastructure

Producer	Capacity* (MW)	Power Production (%)
Government	6,200	55.04%
Private	4,565	40.52%
Import	500	4.44%
Total	11,265	100.00%

\* Using Installed capacity

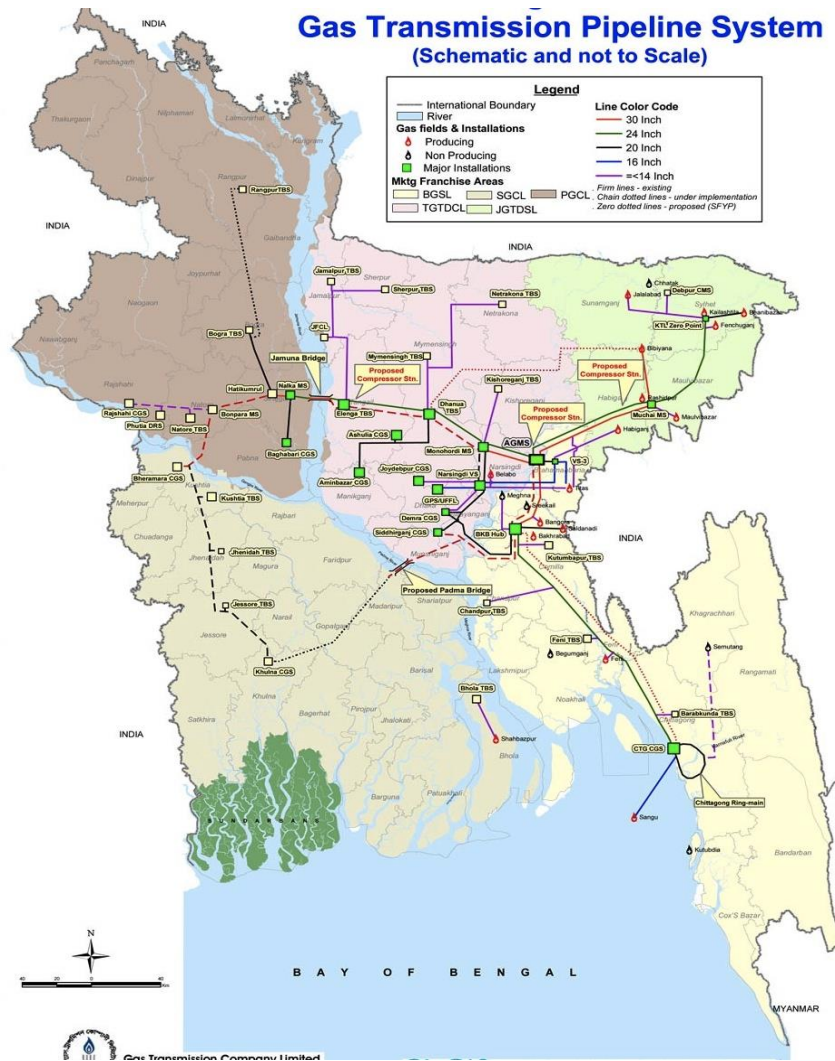


Source: Bangladesh Economic Review 2014, Ministry of Finance

- ❑ Public/private investment & Indian imports increased total generation capacity 1,116 MW July, 2014 — July, 2015
- ❑ The oil price drop has helped the government increase capacity utilization
- ❑ Reliance Power has signed an MoU to provide 3,000 MW of LNG based power
- ❑ Adani Power has signed an MoU to provide 1,600 MW of Coal based power



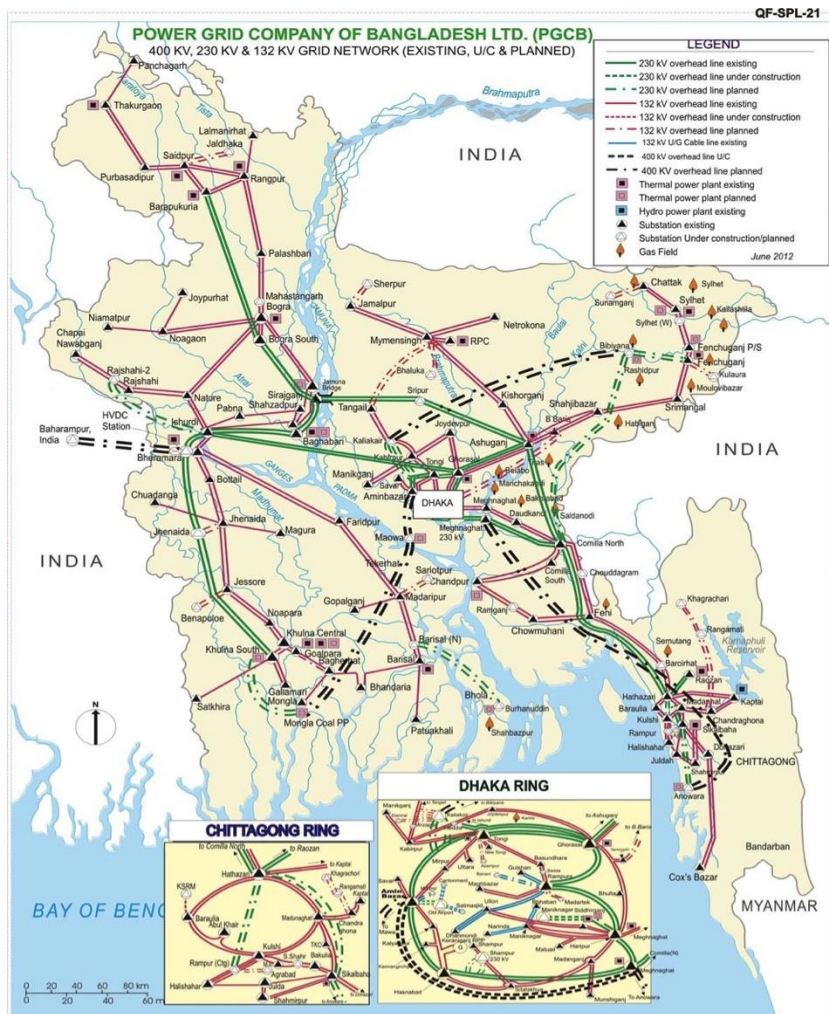
# Gas Production & Transmission: Murky Picture



- 9.73 tcf (trillion cubic feet) proven gas reserves plus 6.39 tcf probable
  - 2,287 mmcf/d (million cubic feet/day) current production
  - Supply well short of 4.88% annual demand growth
  - Exhaustion predicted by 2030 at present rates
  - USGS 2012 report on undiscovered conventional gas reserves estimates up to 32 tcf of potential gas supply
  - Required billions of dollars of investment slowly coming on stream with Chevron spending USD 500 million to increase gas supply in one field
- Gas fields are in a North-South curve, skirting the Eastern border
- Pipelines generally lead to center with the West underserved
- All this implies power stations should be — and are — clustered around the gas fields
- Which militates a better spread out high tension power distribution network...



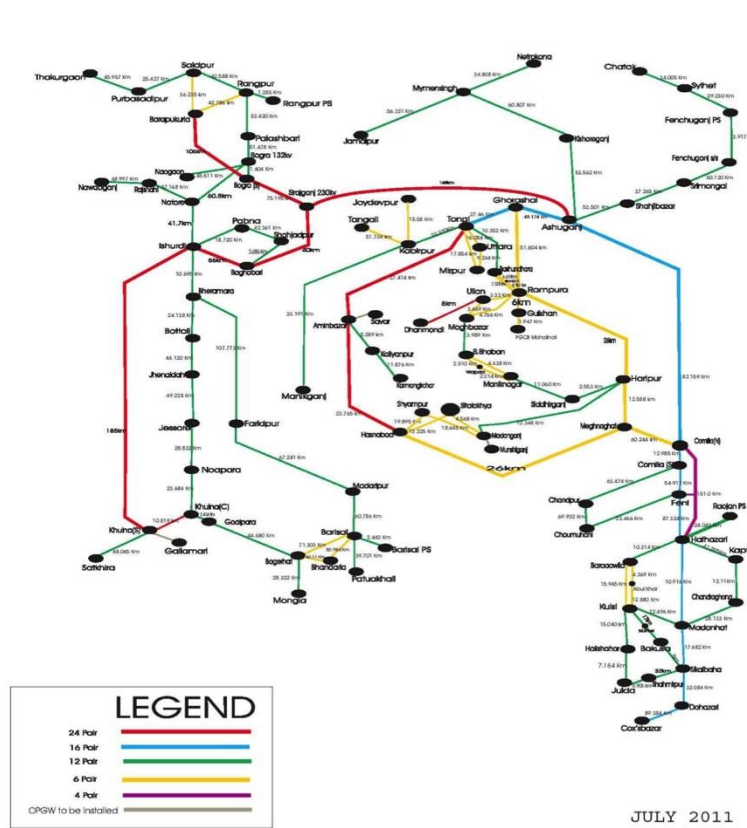
# Power Grid Network



- ❑ ... of which there is not a paucity
- ❑ Good 132 kV distribution net
- ❑ 230 kV line along the main Dhaka-Chittagong urban/industrial corridor
  - ❑ Planned extension from gas fields to rest of nation will be good for industry
  - ❑ Padma bridge (multipurpose, so would have power transmission as well) would be a boon
- ❑ Which militates for a high speed telecoms network...

# Optical Fiber Network

## OPTICAL FIBRE BACKBONE OF PGCB



- ❑ ... of which there is some overcapacity
- ❑ This is just the one along the high tension power transmission network
  - ❑ It is mostly “dark”
  - ❑ Very high capacity
  - ❑ Node on the submarine cable landing at Jhilongja/Cox’s Bazar
    - ❑ SEA-ME-WE-4 1.28 Terabit/sec capacity cable linking 16 countries
    - ❑ SMW-5 planned
- ❑ This is in addition to the 14,776 km network used by various telecom operators and providers

**The missing link remains a good road/rail network**

# Infrastructure: Still the Missing Link

- ❑ Bangladesh's already healthy growth could be turbo-charged if:
  - ❑ The government discarded a "Washington consensus" like abhorrence of external government debt to finance infrastructure
  - ❑ Barring government unwillingness to do so, infrastructure projects could be structured to be very attractive for long term investors looking for yield
- ❑ The government's Public Private Partnership scheme shows promise, under its aegis
  - ❑ Padma Bridge preliminary engineering work has already begun
  - ❑ The Dhaka Elevated Expressway has begun construction
  - ❑ Multiple projects are in the works or being started
- ❑ World Bank relationship on the mend via mutual conciliation

# Contacts

Sameer Ahmad

M: +880 17130 80125

Email: [sameer@rsacapital.com](mailto:sameer@rsacapital.com)

Shahed Aziz

M: + 41 79 651 12 52

M: +880 17555 93599

Email: [shahed@rsacapital.com](mailto:shahed@rsacapital.com)

Tarique Islam Khan

M: +880 1755574204

Email: [tarique@rsacapital.com](mailto:tarique@rsacapital.com)

Farhad Ahamed

M: +880 17555 93598

Email: [farhad@rsacapital.com](mailto:farhad@rsacapital.com)