Bangladesh: TAKE OFF IMMINENT

June, 2017

Executive Summary

Politics will remain stable; at the very least leading to elections by end 2018/early 2019

The ruling Awami League continues to maintain strong foothold and is expected to continue

Capital Markets might pick up somewhat but we remain unimpressed

BDT will now trade vs. USD at a new range of 81-86, with good implications for trade

Commercial short term rates will range 5-9% & term rates in low double-digits, expect 2-4% deposit rates

Recent declines in remittances are a source of concern; a rebound is much needed for the current account to return to positive territory again; continued deficit will see BDT depreciated further resulting in inflationary pressure

Islamist terror in Bangladesh is not an existential but nevertheless grave threat

The government is doing the right things but expect change to be slow

Either way, expect the economy to continue shouldering aside most shocks

We continue to hold steady on our trades from a year ago

Their underlying fundamentals still hold true; also because they are longer term trades that take time to mature

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How Our Views Fared a Year On

Macro

- We consider ~7%+ GDP growth at or near Bangladesh's potential
  - Political stability will continue to deliver healthy GDP growth
  - Lower commodity import bills will help but the government will start passing on some savings

Assessment

- Growth delivered
- Political stability helped & remains critical for sustained growth
- Lower commodity bills were only partly passed on to consumers
  - Conversely helping the government-owned BPC erase decades of losses
  - Also cushioning the exchequer from the inevitable price rises

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How Our Views Fared a Year On

Business

- BDT should remain range-bound at BDT 78–79.5/USD
- Interest rates may bottom out by year-end
- Capital markets might pick up after the rollback of regulations but we remain unimpressed by the shallow markets

Assessment

- BDT remained largely within our forecast range, peeking above BDT 80 briefly towards year-end before quickly correcting below
  - Markets broke decisively February 2017 rising sharply above BDT 80/USD
  - Central bank intervened to sell USD, albeit in small quantities
  - Above BDT 85/USD in late April before central bank again intervened with policy statements & USD selling to quell the rise, for now
- Interest rates continued to slide with some blue-chips borrowing short-term at 3.5-4%
- Capital markets picked up significantly in the new year due to government pump-priming, increased liquidity & ultra-low deposit rates

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How Our Views Fared a Year On

Other

- Infrastructure will remain frustrating
- Bangladesh now needs more help with technology & productivity
- More active investors could play the Bangladesh growth story

Assessment

- Implementation delay of ports & road projects are hindering faster growth
- Foreign portfolio investment in public equities grew 96% YoY (albeit from an abysmally low base) to USD 243 million in the first 8 months (Jul-Feb) of FY '17
- Technology & productivity help still too slow to materialize

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Introduction

Global Macro Highlights

- The IMF predicts ~3.4% global GDP growth for 2017
- Political risk is the watchword for investors everywhere
  - Though now it is more about Trump, Putin, Kim *et al.*
  - But when "elephants fight…"
- Nationalism, anti-globalization & anti-free trade are a boon for political hacks & opportunists, less so for economies or investors
- Crude Oil generally stayed in the USD 45-55/bbl band but there is some risk of a bump up, perhaps all the way to USD 70-75/bbl[1]
- Wars — trade, "cold" or "hot" — remain the biggest wild cards

[1] In-house view based on technical charts and possible geopolitical crisis

Terror Came to Bangladesh

We said last year:

- "There now remains no credible parliamentary opposition
  - The BNP has no representatives in parliament…
  - The Islamist Jamaat-e-Islami party has had its leadership excised …
  - The Islamist parties are in disarray or in hiding
  - *Potentially radicals may try and insert themselves to fill the vacuum*"
- Though telegraphed by the murders of expatriates & secular bloggers, the Holey Bakery attack on July 1, 2016 was a shock
- The bewilderment was almost at a psychic level, at an attack so unprecedented in a Muslim but non-Islamist country

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Bangladesh's "9/11", With Some Differences

- The public reaction, after the initial shock, was a quest for answers
- The political response was defiance
- The public order response was considerably more nuanced
  - Found wanting predicting & preventing such an atrocity
  - Agencies responded vigorously, with some over reach; also with considerable successes
- Economically, the country has recovered well
- ISIS joiners from Bangladesh, although a very small number, likely to return once ISIS is defeated in Iraq and Syria, required to be closely monitored
- The challenge is to continue growing & get the balance between security & freedom right

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The Attractions of Bangladesh

- ~7% expected GDP growth for FY2017 and FY2018
- 13.29% 10 year Compound Annual Growth Rate for nominal GDP which is phenomenal
- Large population base of which a high percentage are young resulting in a high consumer base as well as bigger working force
- Relatively low cost labour force in comparison to India, China and even Vietnam

- Bangladesh succeeds in continuous development & growth
  - Grown to lower-middle income economy by Gross National Income (GNI)
  - Succeeded in halving chronic hunger since 2000
- 51% workforce participation but still only 20.8% in industry

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

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Bangladesh Outpacing India in Human Development

India		Bangladesh
USD 1,581	GDP/Capita (2014)	USD 1,086
68 Years	Life Expectancy (2014)	71 Years
36%	Improvement in Life Expectancy (1990-2013)	48.5%
1:220	Lifetime Risk of Maternal Death (2015)	1:240
62%	Reduction in Rate of Children Dying before 5 (1990-2015)	74%
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 above 15 in labor force (2014)	36%

Sources: UN, World Bank, ILO

An Opportunity

- China’s reputation for low-cost manufacturing is under attack
  - The government is increasingly more successful enforcing always numerous regulations, taxes & fees
  - Chinese labour cost advantages disappear once high land & energy costs are factored in
  - The World Bank estimates China’s total tax rate is 68% of profits, ~two-thirds higher than more high income countries
- The Chinese government is also fostering a move to domestic consumption-led growth
- Add to that end-buyers’ “China+” strategy, & there is an opportunity for countries like Bangladesh

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And Some Challenges

But there remain significant obstacles for Bangladesh:

- Cheap labor arbitrage is an insufficient competitive advantage when customers demand quality, speed & efficiency
- Low productivity — even the RMG sector has ~41% less productivity than Vietnam's & ~50% less than China's
- Owners and management have to modernize (technology and training) and increase efficiency further to maintain sustainable margins

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Trades

Potential Investments in the Pipeline

Assess Previous Trades

Trade Finance

- Steady trade growth, mostly driven by imports
- Trade finance delivered ~4.5% annualized for USD, some downward pressure

Bank Debt & Equity

- Market raised ~USD 300 million Tier II capital in that period
- RSA raised ~USD 144 million local Bank Tier II & Corporate debt

Public Equities

- Market has rallied since late 2016, gradually stabilizing
- The mutual fund trade yielded money early this year with further potential

Private Equity

- Selective transactions are in play; however, owner valuation expectations still require rationalization

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Trade Finance — Still a Worthwhile Play

- Extensive import & export trade financed by credit (letters of credit, factoring, discounting, etc.)
- ~USD 80 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
- Trade finance funds can profitably take up the slack

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

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Private Commercial Bank Debt & Equity

- Banks still augmenting Tier I & II buffers per Basel rules
  - We closed ~USD 100 million Tier II funding in 2017
  - Currently mandated to arrange ~USD 140 million Tier II funding
- Basel III implementation means banks need Tier I capital
  - ~5-6 banks looking for PE injections
  - 2-3 years until Basel III deadline, some banks may miss that deadline
- Some banks may have to merge to meet Tier I regulations
  - Getting boards to see that will take longer, looming deadlines may help
  - The regulator may actually welcome a reduction in the number of banks
  - It is a losing battle against ever more banks being granted licenses

Potential Overall Size: ~USD 100 – 300 million
Timeline: over next 18-36 months

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The Frustration of Public Equities

- A USD 47.01 billion public equities market in a USD 200 billion economy is insufficient, to say the least
- Bangladesh has no liquid Fixed Income (FI) market
  - Investors lack fixed income to provide risk diversification
  - Entrepreneurs tend to finance growth via bank debt
  - These same entrepreneurs tend not to share success via IPO’s, especially not in these depressed markets
- Shallow equities & FI markets keep professional investors out, leaving the field to punters

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Roll-ups to New Conglomerates

Investors with capital & commitment could look for greenfield investments or “roll-ups”:

- Targets in similar industries, benefit from shared overheads
- Integrate with new technology, management & processes
- Bring financial discipline along with cheaper capital
- Leverage cheap labor with higher productivity

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Rollup Targets: RMG & Textiles

- RMG consolidators can bring in modern technology & management
  - Many stressed or distressed operators on bank balance sheets
  - Low entry barriers, scattered sites & incompatible systems will challenge integration efforts
- A few stressed textiles, with not a lot of growth
  - Mismanagement of capital & resources implies room for improvement
  - Competitive pressure from cheaper & better imported materials
  - Need relatively higher CAPEX & much larger sites than RMG
- There has been some interest but valuations are unrealistically high, suffering from either “founder’s valuation” or “EM premium”

Consolidator brings: Funds, management, expertise, technology
Deal size: USD 10-30 million, each

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Rollup Targets: F&B and FMCG

Grocery & Food Chains

- Some well-financed local operators but they are overwhelmingly high-end focused & mostly in the capital
- Unmet middle class demand (most of the capital's ~17 million) in Dhaka alone implies huge potential
- High real estate prices make large stores difficult
- Smaller, more distributed stores are a supply chain nightmare
- Nationwide ambitions are thwarted by
  - Near non-existent cold chains
  - Infrastructure shortcomings are another supply chain nightmare
- A number of grocery chains are mulling disposals or mergers
- A new, well-financed, e-grocery outfit is making waves in the high & middle range markets

Integrator brings: Integration, management, logistics
Deal size: USD 30-50 million, to start

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Rollup Targets: Power

- China General Nuclear (CGN) Power Corporation bought effective control of 920 MW power (formerly AES) assets worth ~USD 750 million for USD 481 Million
- We estimate ~500 MW stressed power assets available
  - Short/long term contracts, some with infeasible rates & business models
  - Some with obsolete technology (no cogeneration, diesel or heavy fuel oil)
  - Some politically exposed
- Some of the larger local power generation companies are now looking at flotations, offloads or mergers with foreign partners

Integrator brings: Funds, management, technology, integration
Deal size: ~USD 500 million+

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Rollup Targets: “New Agriculture”

- Bangladesh self sufficient in food but logistical problems cause
  - Massive seasonal price fluctuations & spoilage
  - No effective national market, all markets are local
  - Lack of crop balancing leads literally to “feast & famine” for small farmers
- Use poultry farming model (supply chicks, buy back fully grown poultry)
  - Supply seeds, fertilizer, expertise & funding to smallholders
  - Buy output at agreed prices, potentially using Fairtrade practices
- Solve the logistics problem: that alone would be a quantum change in Bangladesh’s economic development

Integrator brings: Funds, management, technology
Deal size: ~USD 50 million+

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Outlook

Our view over the next 6-9 months

Our Outlook

- The AL will remain well-ensconced until the elections
    - There is still no credible opposition but, perhaps recognizing the risks of further conflict, the government is shifting rightwards, compromising on some issues as a pressure relief valve
    - The PM will continue to push infrastructure growth, especially in the run-up to the elections
    - Islamist terror remain the wild card
- ~7%+ GDP growth is at or near Bangladesh's potential, until infrastructure investments kick in
- Rising global interest rates might cause further declines in already anemic foreign portfolio investments in Bangladesh

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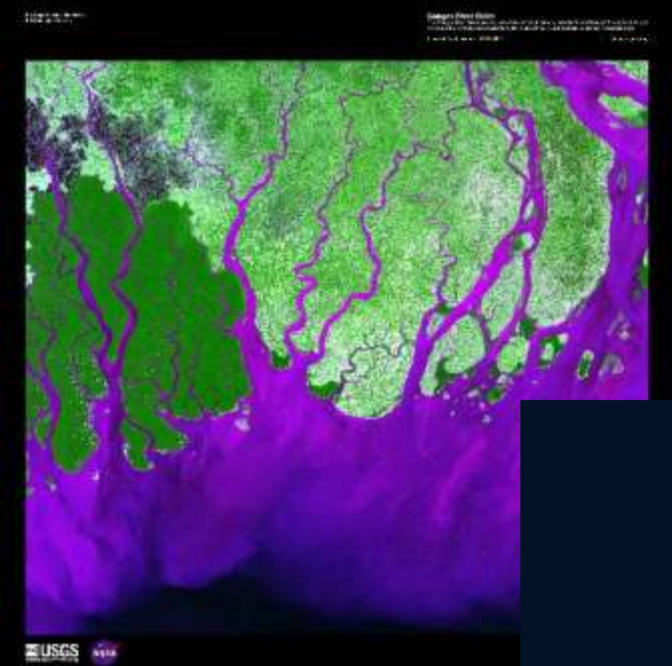
Our Outlook

- Capital markets might pick up more, especially with government pump-priming, but we remain unimpressed by shallow markets
- BDT should trade in a new range of 81-86 vs. USD
- Interest rates may tick up by 1Q2018, until then:
    - Commercial short-term rates will be in the 5-9% range
    - Term (5-7 year) rates will stay in the low double-digits
    - Retail rates will continue to slide to single digits
    - Home mortgage rates to remain at single digits for 12-18 months
    - Deposit rates will remain in the 3-5% range



Appendix: Bangladesh

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A Brief Introduction

Population: 162 million (June 2017 est.)

Population Density: 1,098 per sq km (2017 est.) of land area

Population Growth Rate: 1.37% (2015)

Surface Area: 147,570 sq.km. (93rd largest in the World)

Major Cities: Capital: Dhaka (17.60 million), Port city: Chittagong (4.54 million), Khulna (1.02 million) and Rajshahi (0.84 million) (2015)

Languages: 98% Bangla, English widely spoken

Labor Force: 83.59 million (2016 est.; 7th largest in the World)

Unemployment: 4.9% (2016 est.)

Adult Literacy Rate: 61.5% (2015 est.)

Urban Population: 34.3% (2015 est.)

Nominal GDP: USD 221 billion (FY 2016; Bangladesh Bank)

Exports: 15.50% of GDP; Top exports RMG, Leather & Footwear, Jute & Jute Products, and Frozen Food (FY 2016)

S&P Sovereign Rating: BB-/Stable

Capital Market: 331 listed stocks & mutual funds; with USD 47.10 billion total market capitalization (Feb, 2017)

Remittance: 14.93 billion (FY 2016)

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

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Fundamentals

A Decade of Sustained Improvement

	FY2006	FY2016	FY 2017 Projected	10 year CAGR (FY2006-16)
Nominal GDP (BDT Billion)	4,823	17,328	19,494	15.27%
Nominal GDP (USD Billion)	71	221	249	13.29%
Per Capita GNI (USD)	543	1,465	1,612	11.66%
Real GDP Growth (%)	6.67%	7.11%	7.0%	N/A
FX Reserves (USD Billion)	3.48	30.14	33.00	27.11%
Exports (USD Billion)	10.53	34.24	37.00	14.00%
Imports (USD Billion)	14.75	40.03	42.57	11.73%
Remittances (USD Billion)	4.8	14.93	12.0	13.44%
Public Debt / GDP (%)	40.20%	27.30%	28.00%	N/A
External Govt. Debt / GDP (%)	25.90%	11.75%	12.00%	N/A
Domestic Govt. Debt / GDP (%)	14.30%	15.55%	16.00%	N/A
Market Capitalization (USD Billion)	3.21	47.1	48.00	34.78%

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

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Major Macroeconomic Trends

	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Real GDP (%)	6.01%	6.06%	6.55%	7.11%	7%	6.6%
CPI Inflation (%)	6.78%	7.35%	6.25%	5.92%	5.5%	7%
Export Growth (%)	10.75%	12.08%	3.33%	9.72%	4%	10%
Import Growth (%)	0.80%	8.92%	11.24%	-1.35%	10%	12%
Workers' Remittance Growth (%)	12.6%	-1.67%	7.71%	-2.5%	5%	7%
Current Account Balance (% of GDP)	1.7%	0.90%	-0.85%	1.68%	0.60%	0.01%
Foreign Exchange Reserve (USD Billion)	15.3	21.5	25.0	30.1	33.4	31.0

Source: RSA Capital Internal Research

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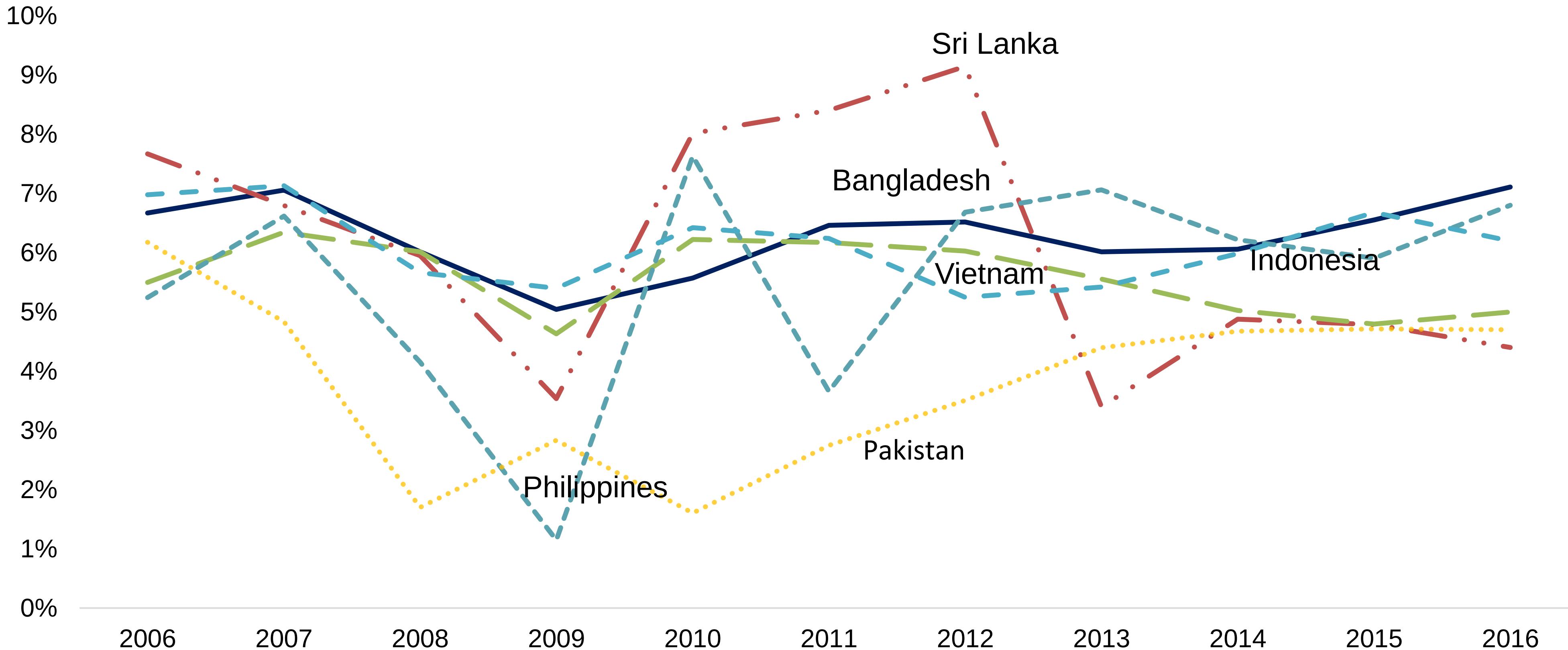
Real GDP Growth: Upwards & Enviable

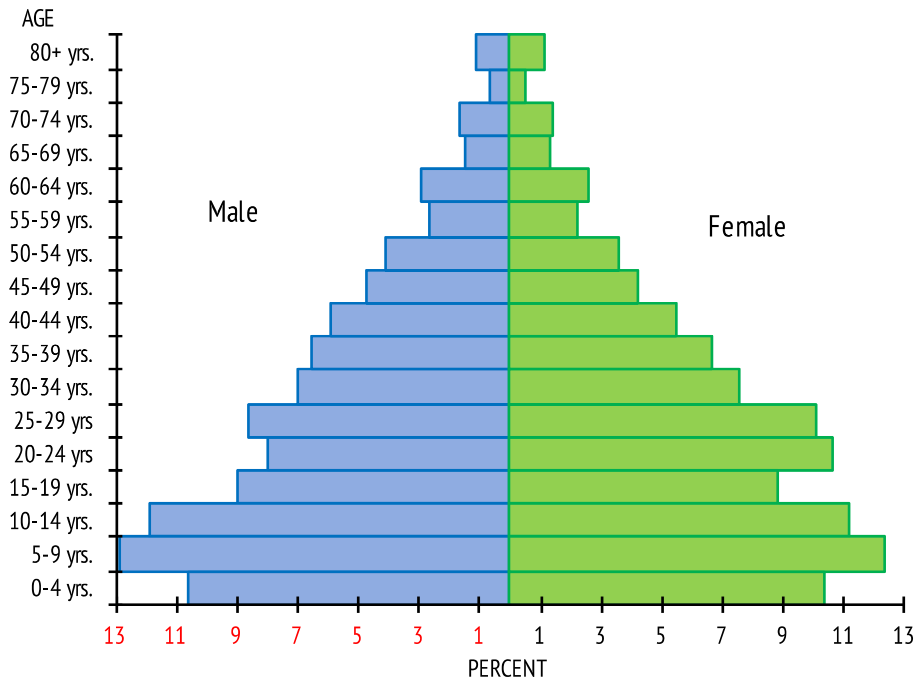


- Real GDP growth on an upward trend & beating regional peers
- Primarily consumption rather than infrastructure fueled growth

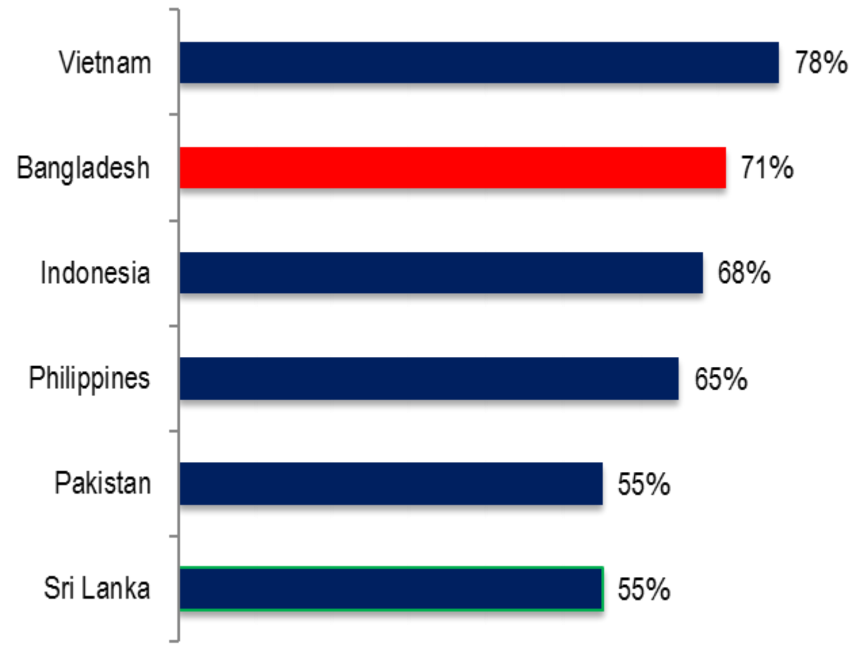
Source: World Bank

Demographic Dividend

Bangladesh Population Pyramid (2012 Census)



Labor Force (15+) Participation Rate



- Majority of population (5-35 year brackets) is young & potentially economically active
- 0-14 year brackets provide growth stock, with growth rate less than India & Pakistan
- Significant female participation at 40% of the labor force

Source: World Bank 2014

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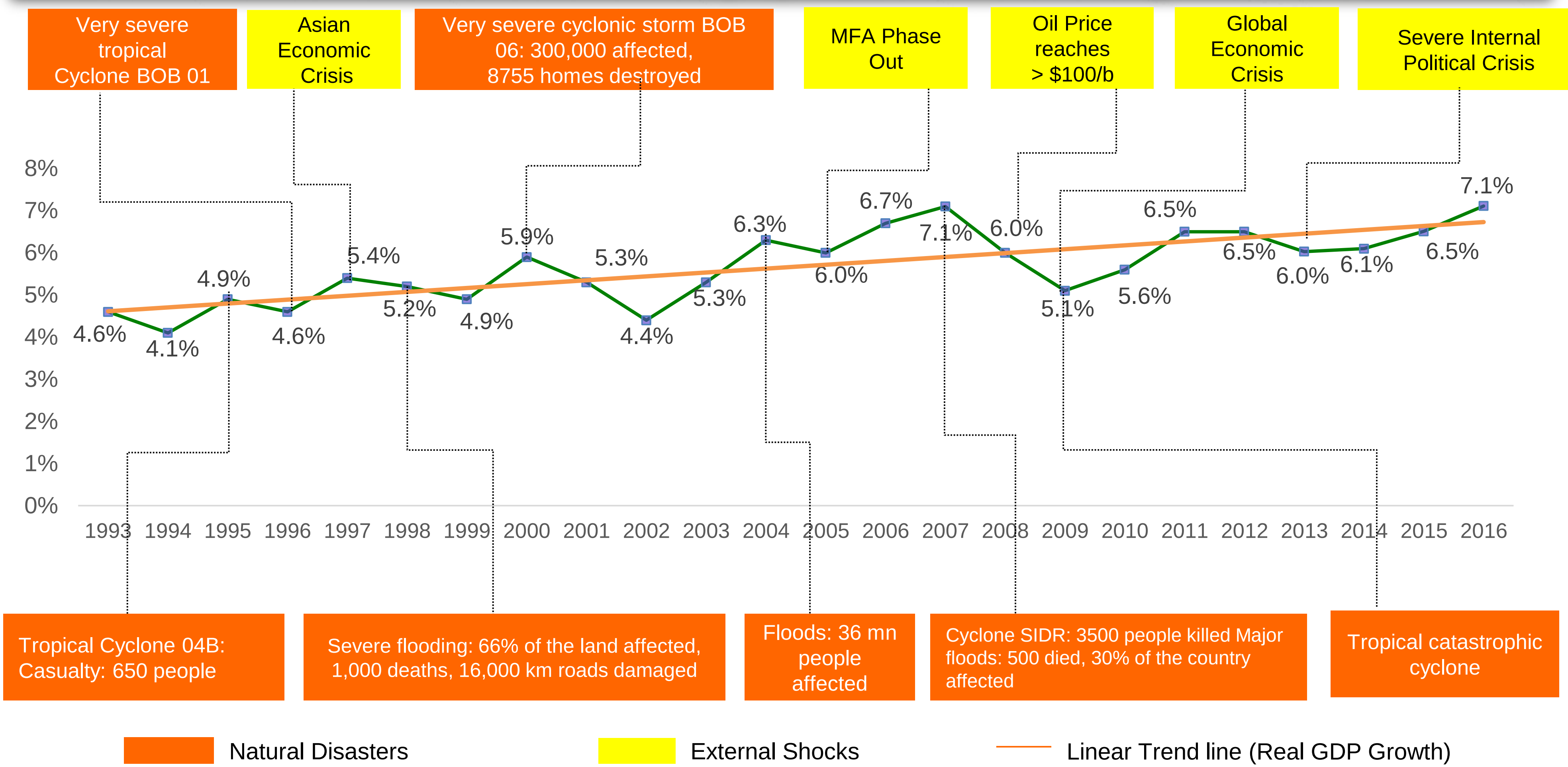
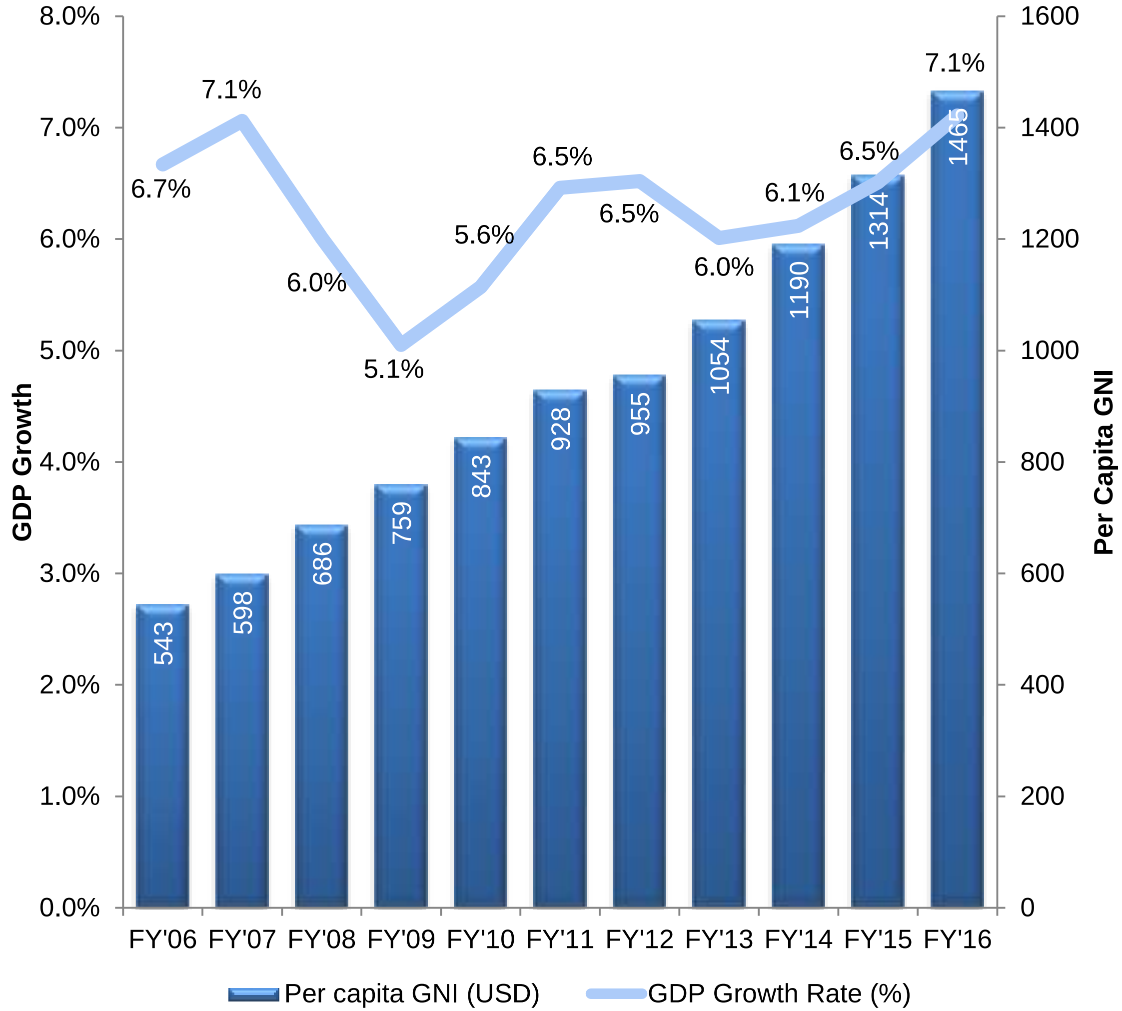
GDP Growth: Remarkably Stable Despite Shocks

- Growth should remain stable up to 2019 elections
- Economic resilience underscored by upwards revisions of growth rates



GDP Growth & Per Capita GNI



Source: Ministry of Finance, Bangladesh

- ❑ Per capita income in Lower Middle Income Country (LMIC) range
- ❑ Pursuing UN's 2030 Agenda for Sustainable Development Goals (SDG)
  - No poverty and hunger
  - Good health & wellbeing
  - Quality education
  - Gender equality
  - Affordable & clean energy
- ❑ Will join USD 300 billion GDP club by FY2019, ~6.0% growth over the last 15 years

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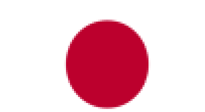
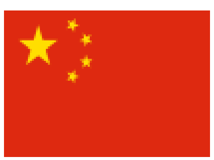
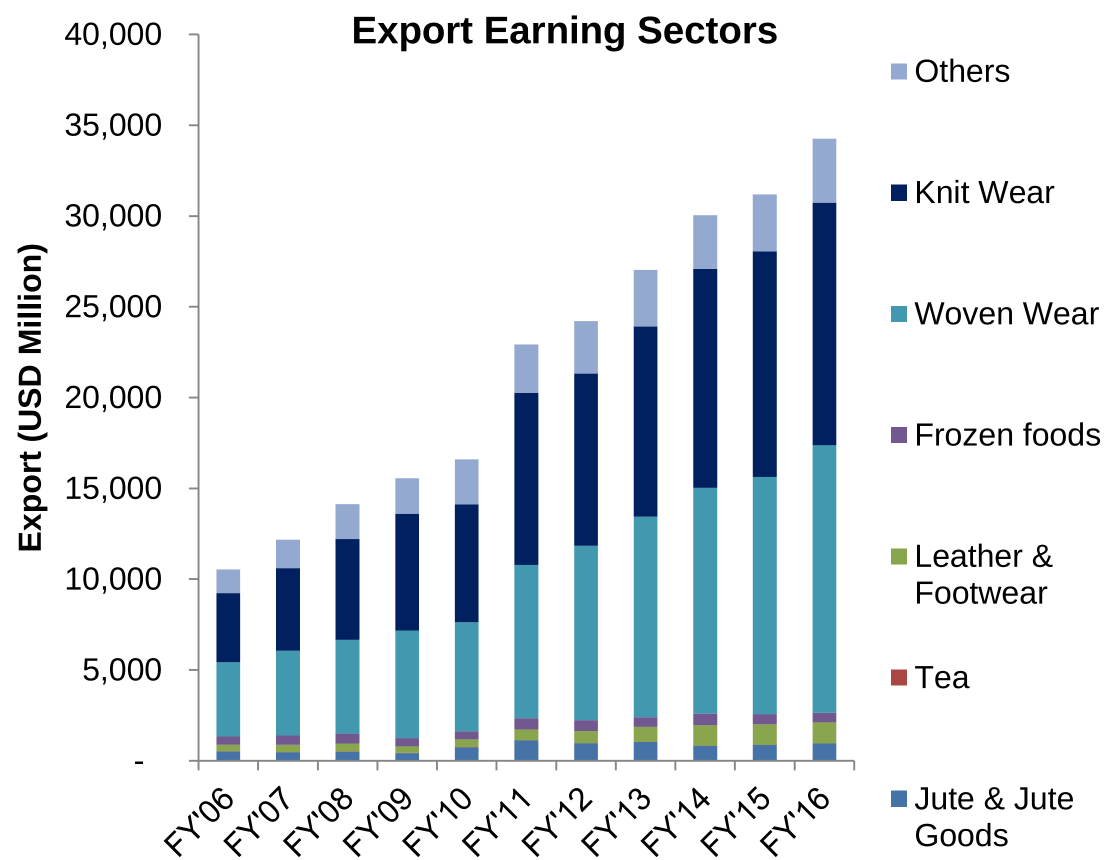
Exports: A Critical Growth Pillar

Export Destination Breakdown (2015-16)

EU		54.8%
United States		18.2%
Canada		3.3%
Japan		3.1%
China		2.4%



Source: Ministry of Finance, Bangladesh

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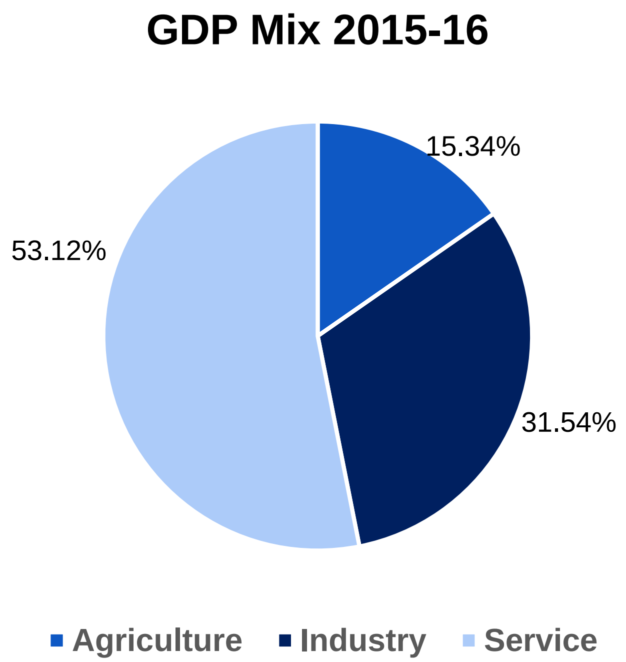
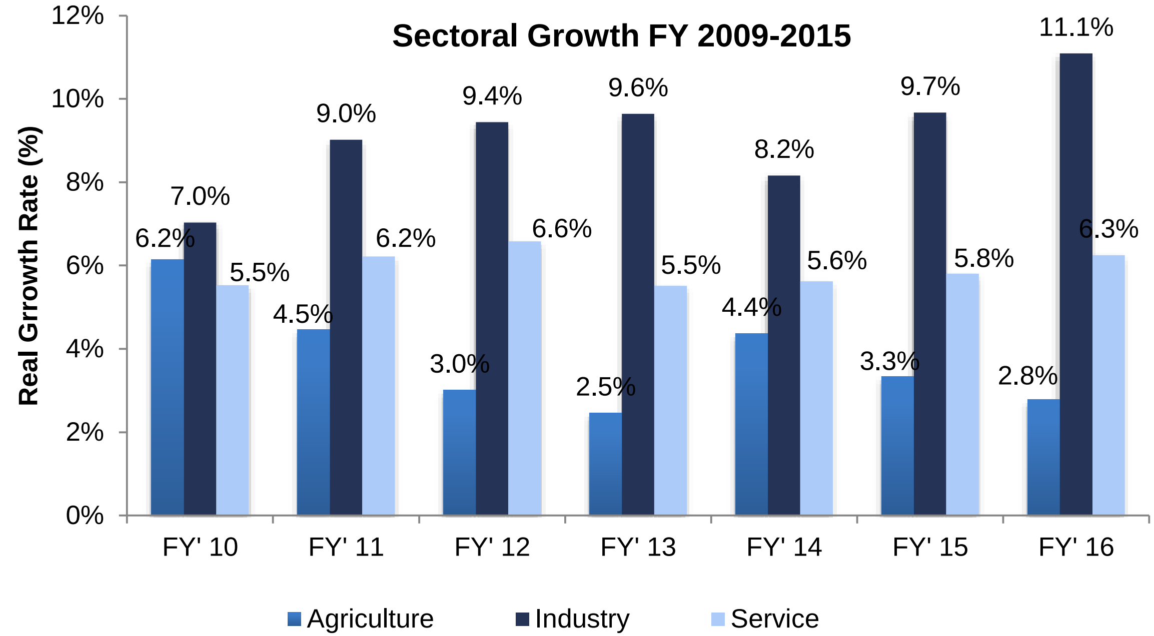
Economy: Shifting to Higher Value-Add





- Industry gaining higher share while services maintain steady growth
- Share of agriculture declining despite rising output
- Services: trade, transportation & communication, real estate, community & social services, banking & insurance, etc.

Source: Ministry of Finance

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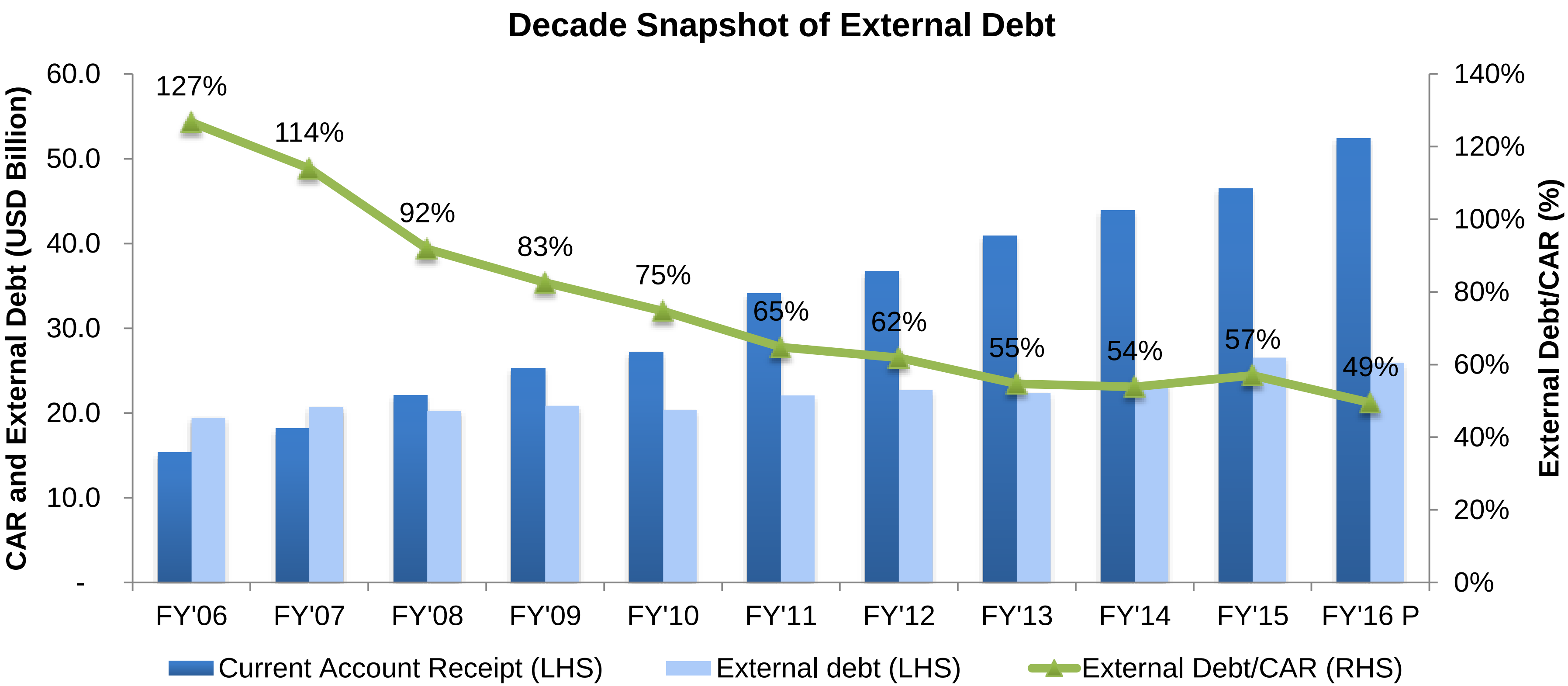
Reserves: Rapid Accumulation Provides Buffer



- 36% External Debt vs. 242% Current Account Receipt (CAR) growth during 2006-2016
- Huge current account receipt growth helped reduce government external debt/CAR since 2006
- External debt crisis risk limited due to long-dated & concessional nature of cross-border debt

Source: Ministry of Finance, Bangladesh Bank

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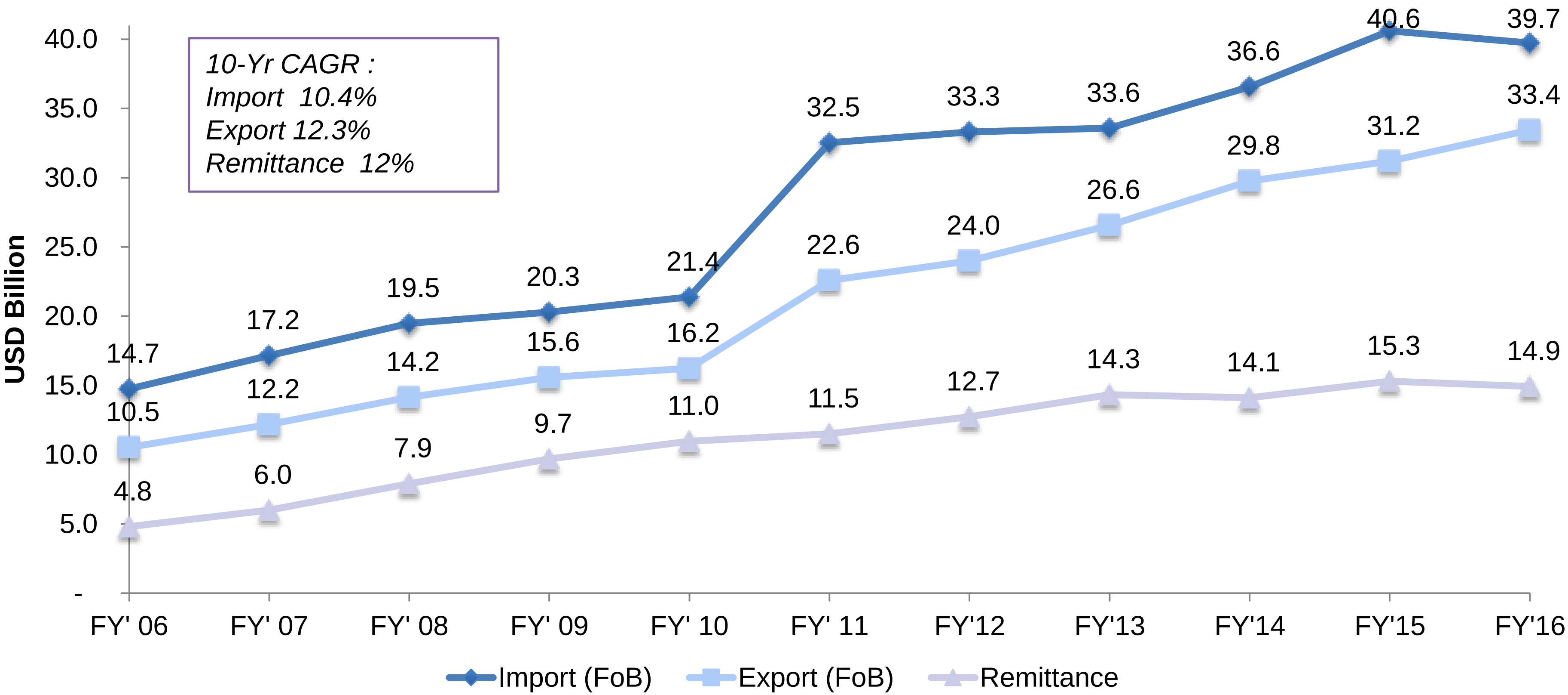
Trade & Remittances



- Arabian Gulf remittances have slowed in recent years
- Upsurge from Western countries steadied overall remittance flows

Source: Bangladesh Bank

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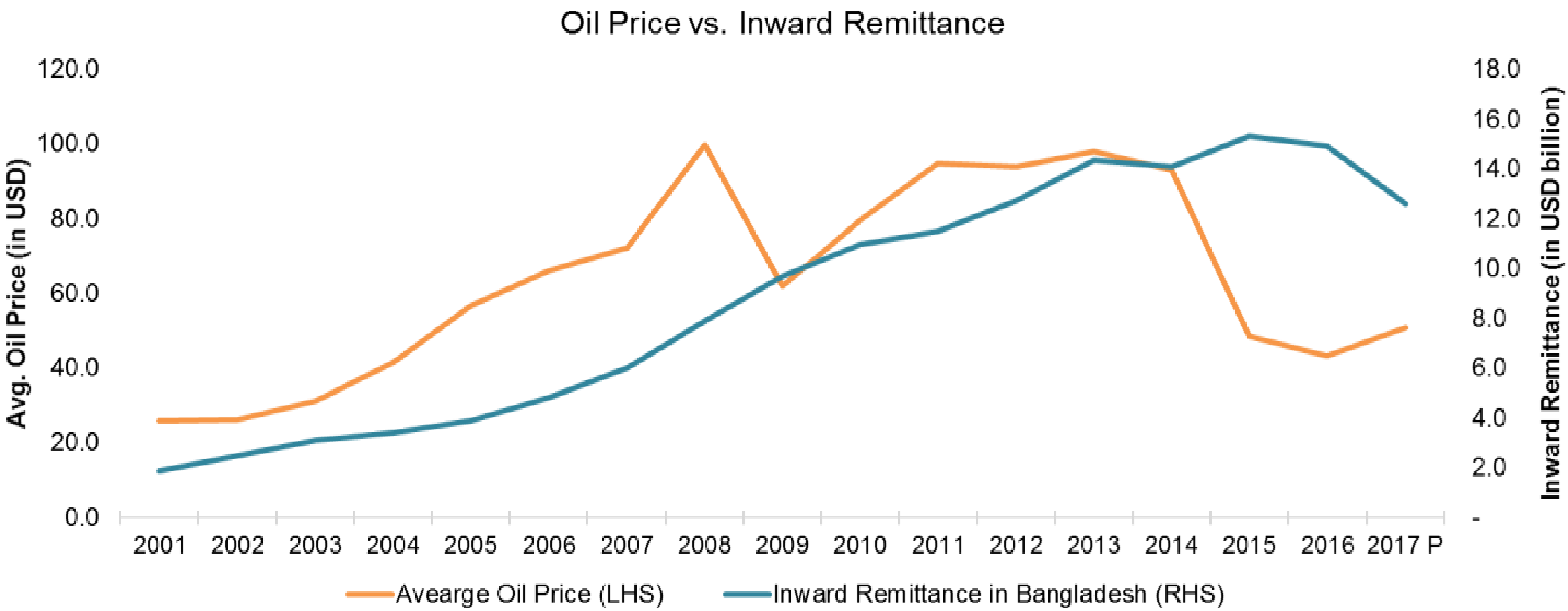
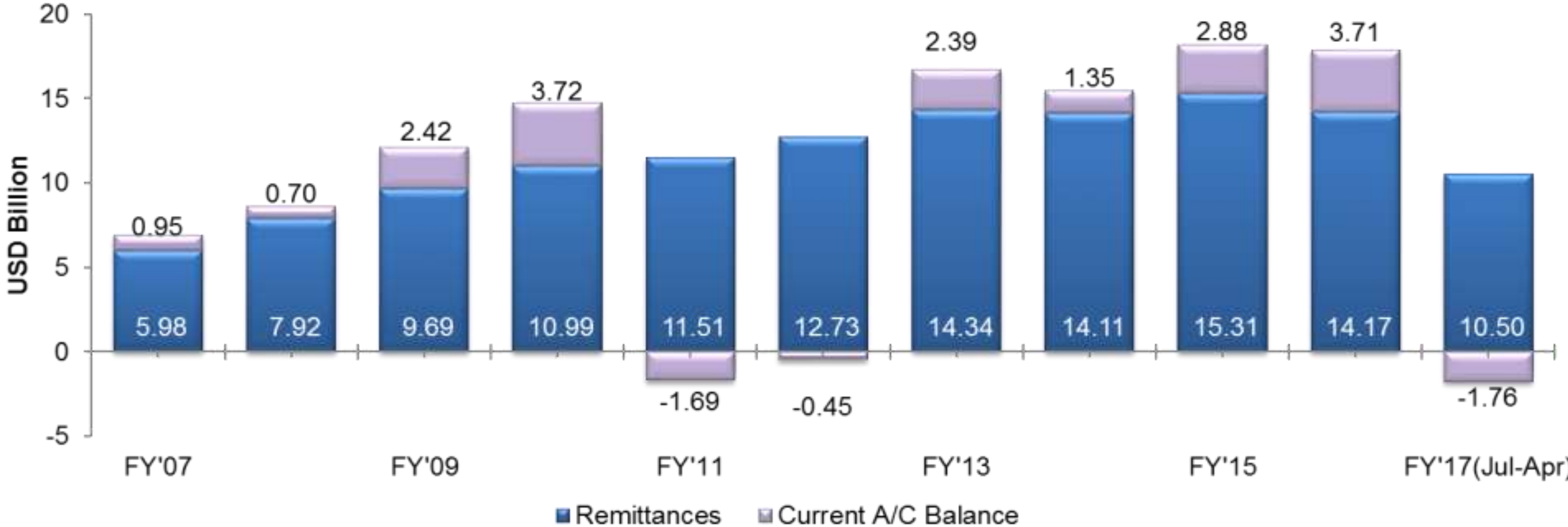
Remittances: Oil Price Impact



- Remittances are primarily from Arabian Gulf area (workers in Saudi Arabia, UAE, Oman & Qatar)
- Remittances dropped in FY 2016
  - There is some correlation to the oil price & migrants' real incomes are waning in the GCC countries
  - The informal market exchange rate has increased
  - Some depreciation of the GBP & MYR vs. USD as well as immigrant sentiment after US election result

Source: Bangladesh Bank, US EIA

Current Account Balance: Bolstered by Remittances



- Current account mostly backed by remittance growth (~195% in a decade) since 2006
- Remittances need no capital outflow & mostly go to households (some to wage earner bonds & portfolio investment)
- Recent declines in remittances are a source of concern; a rebound is much needed for the current account to return to positive territory again
  - Continued deficit will see BDT depreciated further resulting in inflationary pressure

Source: Ministry of Finance, Bangladesh Bank

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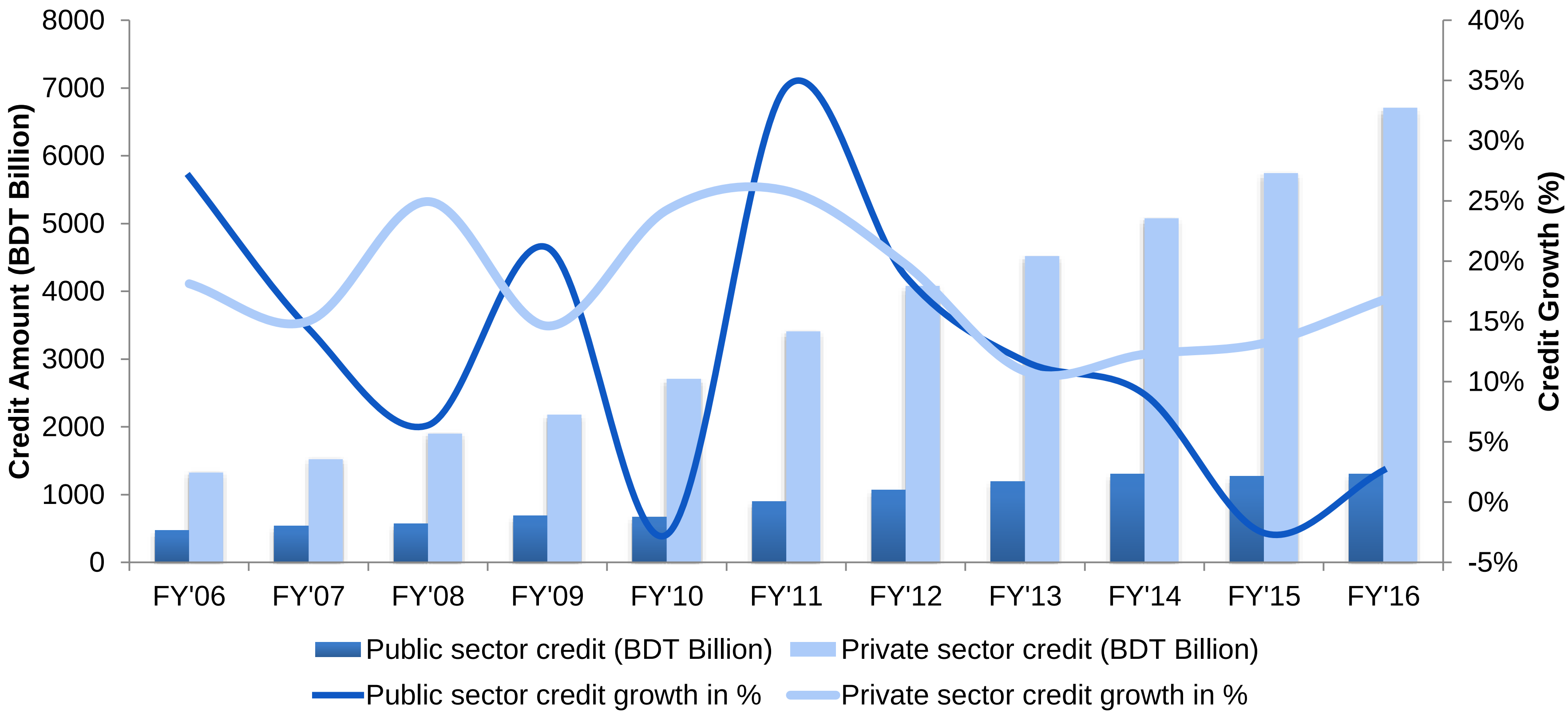
Domestic Credit Growth



- Private sector credit dominates domestic credit growth, recovering somewhat from the 2015 political crisis
- Lower interest rates reinforcing the growth
- Lower commodity price subsidies have led to lower government borrowing & lower public sector credit growth

Source: Bangladesh Bank

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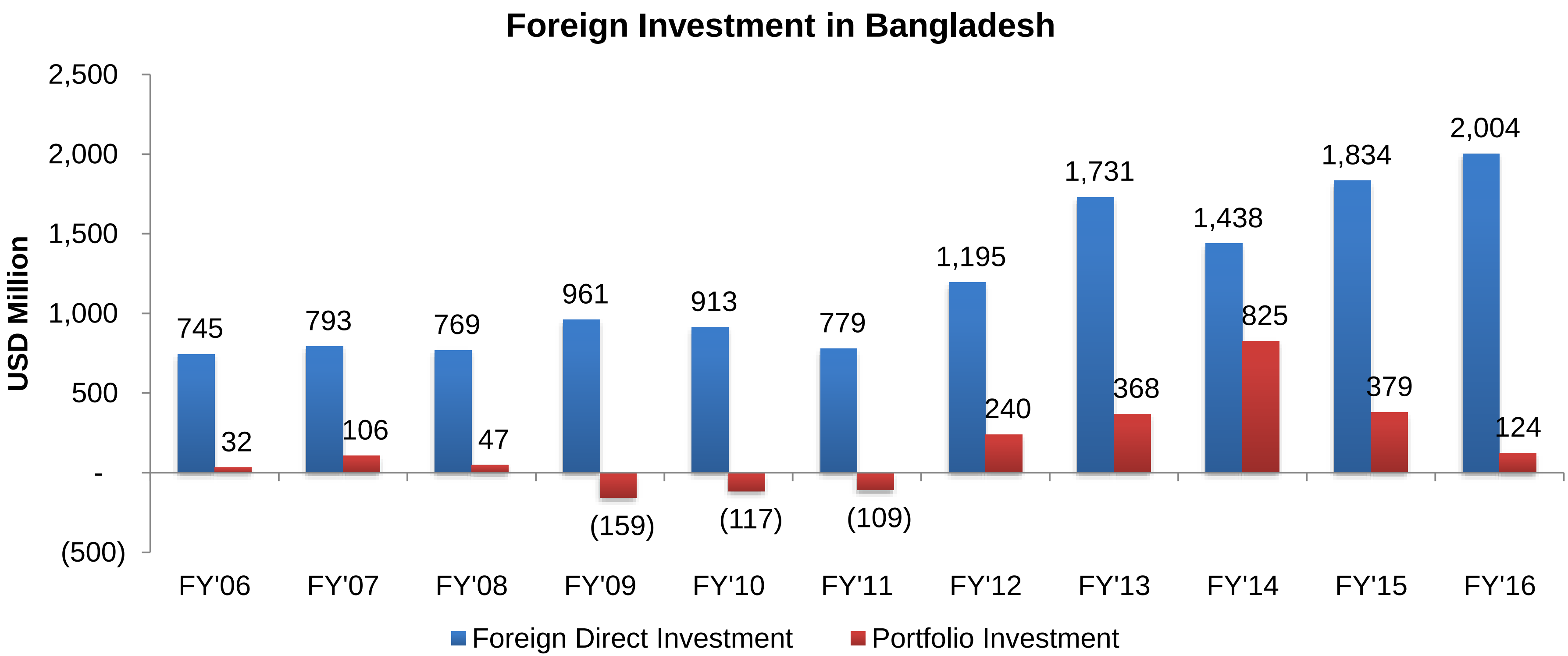
Markets & Investments

Investment: Stable FDI & Spiking Portfolio Inflows



- Numbers actually flattered by multinationals' retained earnings being included in FDI numbers
- FDI still low compared to peers due to infrastructural drawbacks
- Rising global interest rates might cause further declines in portfolio investment

Source: Bangladesh Bank

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Capital Markets: Overview

Market Statistics (as of 28 February 2017)	
Number of Listed Securities	562
Equities	296
Mutual Fund	35
Corporate Bonds	2
Debentures	8
Sector	22

Market Statistics (as of 28 February 2017)	
Market Cap. (BDT Billion)	3,737
Market Cap. (USD Billion)	45.3
Last 6 month Avg. Daily Turnover (BDT Million)	9,872
Forward P/E	17.17
Audited P/E	16.76
Price/BV	2.3

Source: Dhaka Stock Exchange; as of 27 April, 2017

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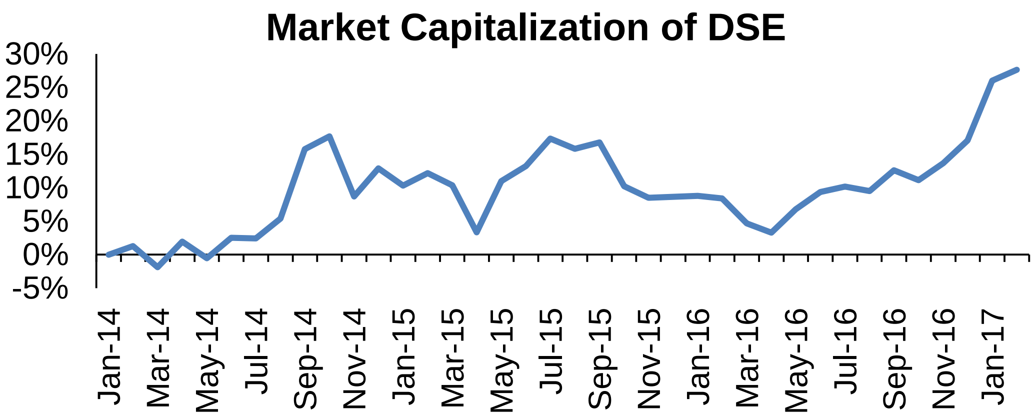
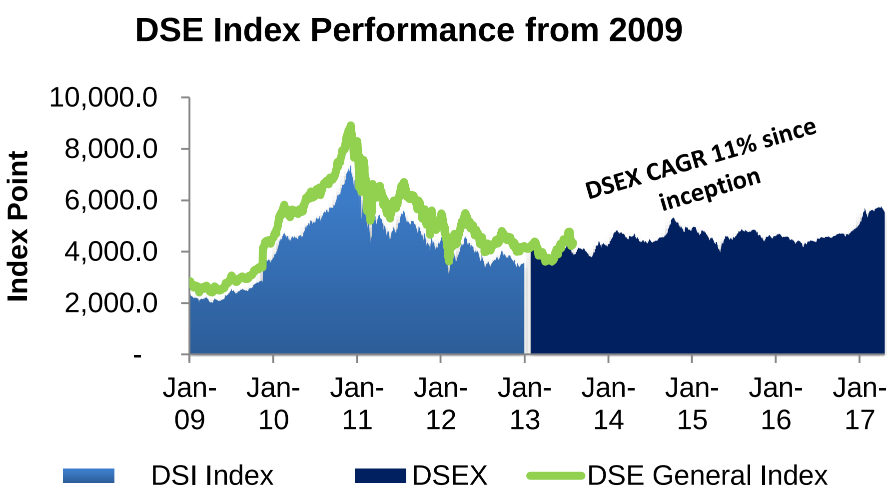
Capital Markets: Turnover & Performance





- There is no reason an economy this size should have a stock market this small, but it is likely to remain so until
  - Entrepreneurs are tempted to unlock value through IPO's
  - There is a liquid Fixed Income market
- DSE average daily turnover decreased from USD 84 million (in 2011) to USD 47 million (in 2015) and recently recovered to USD 137 million in 2017 (Jan-Apr)
- The index recovered ~56% in 1Q2017 since the low of 3,458 in April of 2013

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Capital Markets: Regulatory Overhang & Structural Issues

- Absent pension & strong mutual funds, banks are the mainstay
- Regulators pushing banks to reduce capital markets exposure
  - Exposure restricted to 25% of equity excluding revaluation reserves
  - Finance Minister kept to the July 2016 deadline but allowed 10-12 banks special extensions by changing definitions
    - Equity investments in Merchant Banks & Brokerages were exempted from capital markets exposure definitions
    - Subsidiary loans to Merchant Banks & Brokerages were converted to equity in some special cases
- There remains a fundamental lack of depth in equities markets:
  - Very small list of blue chips with relatively low free floats
  - Shareholders have little sway over management & majority shareholders

Politics

The Awami League Remains in Charge

- The Awami League (AL) will remain in power until 2018
- There is no credible parliamentary opposition
  - The BNP is trying a comeback & won a recent municipal election
  - The Islamist Jamaat-e-Islami party remains in the wilderness
- The AL, perhaps recognizing the risks of all-out conflict, seems to have compromised on a few issues with the Islamist Hefajat-e-Islam as a pressure relief valve
- The economy is reacting positively
  - Reinstated stability has helped no end
  - Sheikh Hasina, with an eye to her legacy, is pushing through as many infrastructure projects as she can

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Special Analyses: The Bangladeshi Job

"The Bangladeshi Job"*

35 instructions for USD 951 million from Bangladesh Bank via SWIFT messaging system

30 orders for USD 850 million
Blocked by US Fed

5 orders for USD 101 million executed by US Fed

USD 81 million transferred to Rizal Commercial Bank
the Philippines

USD 20 million transferred to Pan Asia Bank
Sri Lanka

Further transfer instruction to NGO
Terminated due to misspelt name

Deposited to businessman's account

USD converted to PHP via remittance company

PHP used to buy casino chips

Casino owner & exchange house wish to give some back

Lion's share untraceable, possibly to China/Hong Kong

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**Hat Tip: The Financial Times*

"The Bangladeshi Job" With Global Implications

- Leaks suggest the NSA hacked into EastNets
  - A Dubai-firm overseeing payments in the SWIFT system for client banks & other firms, particularly in the Middle East
  - It is one of 120 "service bureaus" that form a portion of the SWIFT network & transact on behalf of customers, equivalent of hacking all the banks in the region without having to hack them individually
- Targets included the Qatar First Investment Bank, Arab Petroleum Investments Corporation Bahrain, Dubai Gold and Commodities Exchange, Tadhamon International Islamic Bank, Noor Islamic Bank, Kuwait Petroleum Company, Qatar Telecom
- The Bangladesh Bank hack has now been linked to IP addresses in North Korea

- The Bangladeshi Job was not just an issue with a 3rd world country being lax about its cyber-security
- It is part of a much bigger global risk that is at play and international bankers are increasing getting worried

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Policies

Fiscal & Monetary Policy

- Low oil prices gave Bangladesh a windfall:
  - The Bangladesh Petroleum Corporation (BPC) made USD 1.4 billion profits in the last two fiscal years after decades of losses
  - Power tariffs were raised further in FY16 reducing subsidy
- Only 24% of the annual budget target borrowed in the first 5 months
- Savings instrument yields much higher than bank deposit rates keep sucking up Government borrowing
- Local currency deposit & lending rates declining to single digits

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Fiscal & Monetary Policy

- Commercial banks have excess liquidity because of lower credit demand
  - Overnight interbank rates mostly flat at 3.5~4.0% in the last couple of years
  - Surplus liquidity mostly parked in Government bonds with steadily lower yields
- NPL's increased marginally to 9.2% in December 2016 from 8.8% in December 2015
  - Central bank data suggest it will continue to creep higher before a much needed reversal is seen
- BDT depreciated ~4% since late 2016 after years of strong performance:
  - -16.8% remittance growth YoY
  - 3.3% export growth *vis-à-vis* 10.2% import growth
- USD 1.1 billion current account deficit (July 2015 to February 2017), dropping from last year's USD 3.7 billion surplus
  - Sharply falling remittance inflow is the main reason of this drop
- FX reserves were USD 32.3 billion as of April 2017

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Fiscal Policy: 2017-18 FY Budget

- Although seen as a bit ambitious by many economists, 26% budget growth is reasonably consistent with recent years' trends
- Targeted GDP growth is 7.4% while the government plans to bring down inflation to 5%
- Budget deficit likely to increase by14% to stay at ~5% of GDP
  - Fresh external public debt is projected to almost double from previous fiscal year
  - Targeted domestic public borrowing is lower to help continue low and stable interest rate
- More focus on infrastructure development
  - Budget allocation in power and energy sector is planned at 5.3% compared to 4.6% in previous year
  - Besides, 11.0% of the budgeted ADP is allocated in roads and transport sector which was 8.5% in FY 2017

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FX Outlook

- BDT largely within forecast with a couple of peeks above BDT 80/USD until Feb ’17
    - All while pressure grew on the trade & (negative) current account deficits
    - Feb to Apr: USD moved steadily higher, reaching BDT 85 before the central bank sold USD & intervened with policy statements
    - Central bank move quickly brought the USD lower to~ BDT 82
- Pressure on BDT will continue
- USD-BDT will now trade in a new range of BDT 81-86 over the next year
    - Necessary given the rising USD against neighboring currencies
    - For Bangladesh to maintain some export competitiveness
- Imports will continue to grow in double digits, backed by low interest rates & continued power supply improvements
- Exports should bounce back to 8-11% growth based on US economic rebound
- Inward remittances should arrest the slide & maybe see some marginal positive growth

Interest Rate Outlook

- High liquidity continues to burden banks despite healthy (~14%) credit growth, due to:
  - Reduced govt. borrowing from the banking sector, caused by high (3x target) Savings Certificate subscriptions by retail savers
  - T-Bill & T-Bond issuances dropping by more than 22%
- Interest rates continued to mostly slide further by small amounts: T-Bills dropped 20-100 bps; 5 & 10-year T-Bonds shed 44-50 bps; only 15 & 20-year T-Bonds rose 15-20 bps
- Foreign debt investment dropped ~25% in 2016 & will continue to slide due to:
  - Decreased local borrowing costs & BDT depreciation vs. USD
  - Rising LIBOR & reduced BDT-USD interest rate differentials
- BB continued expansionary policy for Jan-June 2017 with a 16.5% credit growth target
- Commercial short term borrowing rates likely to range from 5% to 9%, while term (5-7 year) rates will remain in low double digits
- Retail rates will continue to slide to single digits while home mortgage rates that dropped to single digits are likely to remain there for the next 12 months
- Deposit rates will continue to be in the low 3-5% range
- Interest rates might show signs of rising by first quarter 2018

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Threats & Opportunities

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RMG Industry: The Benefits of Stability

- Political & labor market stability has boosted exports
  - RMG & Textiles exports grew 2.4% over July-March 2017
  - RMG exports expected to contribute USD 30.37 billion to GDP in FY2017
  - While chances of restored US GSP facility is low, the EBA facility in the EU is likely to continue until Bangladesh graduates from LDC status in 2024
  - The Holey Artisan terrorist attack in July last year posed some threats to the RMG industry initially but Bangladesh continues to be a major RMG sourcing country
- There are still too many RMG & Textiles companies
- Overall productive efficiency remains inadequate compared to benchmark China & to Vietnam

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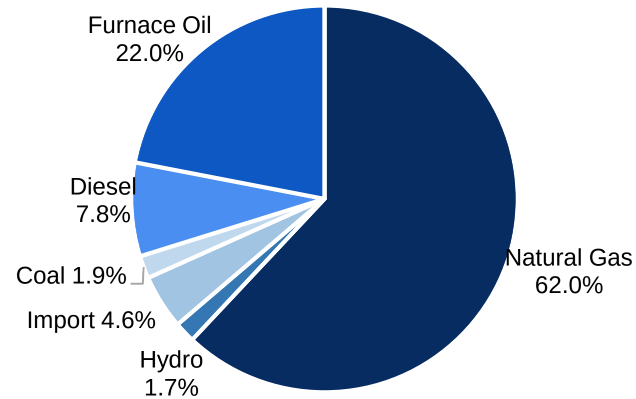
Threats: Infrastructure

Producer	Capacity* (MW)	Share (%)
Government	7,054	54%
Private	5,525	42%
Import	600	5%
Total	**13,179**	**100%**

** Using Installed capacity (as of Feb 2017)*

Generation Capacity (Fuel Based)



- Total generation capacity upped by 831 MW in 2015-2016
- The oil price drop has helped the government increase capacity utilization
- Summit Group, a local conglomerate, will build a 600 MW LNG based power plant
- Government emphasis on coal based power plants but no new coal based powerplant implemented

Source: Power Development Board

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Gas Production & Transmission: Murky Picture

- 14.32 trillion cubic feet (tcf) proven & probable gas reserves
  - 2,700 million cf current production
  - 500 million cf shortage/day; roughly 15% of total demand
  - Exhaustion predicted by 2030 at present rates
  - USGS 2012 report on undiscovered conventional gas reserves estimates up to 32 tcf of potential gas supply
  - Requires billions of dollars of investment
- Gas fields are on 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

Power Grid Network

- 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

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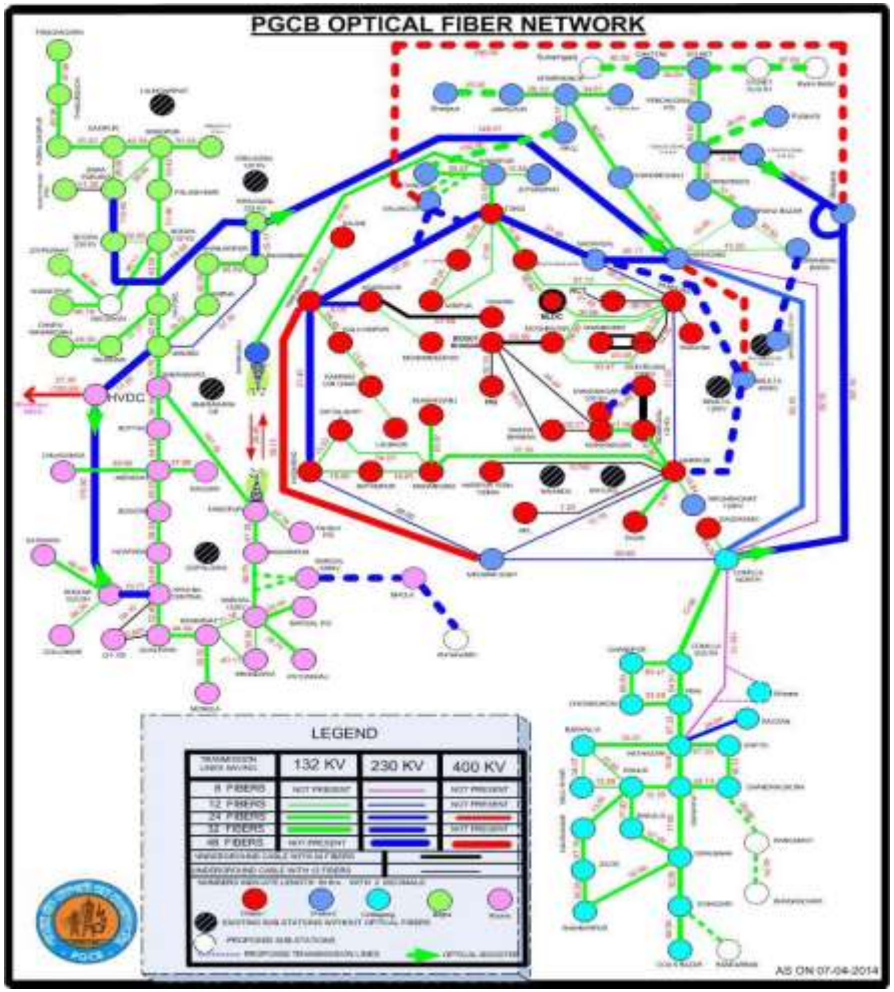
Optical Fiber Network



- 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

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Infrastructure: Getting Better, Albeit Glacially

- With more political stability, the Government has been more aggressive
  - 40% construction work of the Padma Bridge has been completed
  - 9 Special Economic Zones proceeding under the PPP program
  - The main Dhaka-Chittagong highway expansion to 4 lanes almost completed
  - Dhaka-Serajgonj (to Jamuna bridge) highway expansion to 4 lanes to be started
  - Tangail (the main industrial belt) to Chittagong road bypass under PPP to begin
  - USD 1.9 billion project to expand Eastern Refinery Limited (the main refiner) in preliminary stages
- China has promised USD 20 billion for infrastructure over the next five years
- The ADB will disburse a USD 1.5 billion fund to build the Trans-Asia Railway network from Dohazari in Chittagong to Cox's Bazar
- IFC will invest USD 1 billion over the next two years

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