

Country Report-2018
People's Republic of Bangladesh

Country Report- Bangladesh, 2018

Introduction

Bangladesh emerged as an independent and sovereign Country in 1971 following a nine month war of liberation. It is one of the largest deltas of the world with a total area of 147,570 Sq. km. with a unique communal harmony. Bangladesh has a population of about 162million, making it one the most densely populated countries of the world, belonging of different religion communities of which Muslims are the majority. Bengali is the state language and over 98% people speak in Bangla, but, English is widely spoken. The Country is covered with a network of rivers and canals forming a maze of interconnecting channels. Being an active partner, Bangladesh plays vital role in the international and regional forum particularly in the UN, Commonwealth and South Asian Association of Regional Cooperation (SAARC). Bangladesh has the highest number of armed forces working n the United Nation as peace keeping forces deployed all over the disputed land of the world.

Highlights of Economy

Over the last one and half decade Bangladesh Economy has been growing at middling rate of 6 percent plus. According to the recent revisions to the year 2017 national accounts data, output grew by 7.28% which is higher than the preliminary estimate as well as 7.1% in the year 2016 and expected to be reached to 7.4% at the end of the financial year. In the final estimate, the service sector grew more robustly than initial estimation. The downward revision to agriculture sector growth was due to the flood in 2017. Growth in private sector credit was on an upward trend and reached to 17.9% in September, 2017. The large share of the credit went into industry, construction and transport sectors.

12-month average CPI inflation continued within 5.4% to 5.6% in the year 2017. The main driver behind higher inflation was increasing food price. Annual remittance inflow increased due to preventive and punitive steps against economic abuses. Due to rebound in economic activities in the Middle Eastern Countries a record numbers of workers have gone abroad in 2017.

Highlights of the Economy

GDP size	USD 244,507.5 Million
Budget (2017-18)	USD 50,032 million
Development outlay	USD 19,166.37 Million
GNI per Capita	USD 1602
Public Debt to GDP	USD 7,544 million
External Debt to GDP	USD 6,490.55 Million
Total Export	USD 34,846.84 Million
Total Import	USD 47,005.20 Million
Trade Balance	USD (-ve) 12,158.36 Million
Inward Remittance	USD 12,769.45 Million

(1USD =BDT 80)

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National Budget

On June, 2017 the National Budget was placed in the Parliament with an aim to achieve 7.4% GDP growth with 5.5% Inflation target. Highlights of National Budget (2017-18) are as under:

Budget size	BDT 4,002,660 Million
GDP Growth	7.4%
Inflation	5.5%
Development Budget	BDT 1,533,310 Million
Non-development budget	BDT 2,469,350 million
Total Revenue earning	BDT 2,879,900 Million
NBR Earning	BDT 2,481,900 Million
Non-NBR Earning	BDT 398,000 Million 36.8%
VAT	36.8%
Income Tax	34.3%
Import duty & others	28.9%
Deficit	BDT 1,122,760 Million (5% of GDP)
Bank Borrowing	BDT 282,030 Million
Non-Bank Borrowing	BDT 321,490 Million
Foreign Source	BDT 519240Million

Public Private Partnership Programs

As a growing economy, infrastructure development has become a priority. With this end in view, a Private PublicPartnership (PPP) Office has been set up at the Prime Minister's Office. The PPP program has met with a fairdegree of success and has been entrusted with a few mega projects. The PPP has been working as anindependent entity and has attracted the attention of foreign and local partners. Some of the notable projectsundertaken by PPP is Dhaka bypass projects, Dhaka elevated expressway, Moghbazar Mawa elevated expressway etc.

Foreign Exchange Reserve

Another oft-repeated success of the economy is the rapid increase in the international reserves to over USD 33,452 Million, sufficient for 6 months import.

Export

Like many other third-world Counties, Bangladesh relies heavily on exports to fulfill the needs of tits densely populated nation. The Country's export earnings witnessed 6.22% increased in November, 2017 as compared to the same period in the previous year. Mainly driven by increased exports of tea, Jute goods, chemical Products, knitwear, frozen and live fish, agricultural products and woven garments.Total export amount stood at USD 34,835 million in FY-2016-17.

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Import

Generally in developed countries, export are greater than or closer to import payments. But, in Bangladesh Exports always fall short to import payment at a good margin, However, Import payments during the months of October, 2017 in the FY2017-18 stand higher by 29.5%. Total import amount stood at USD 47,005 million in FY-2016-17.

Inflation

The average inflation in Bangladesh remains steady at 5.55% to 5.59% in the FY-2016-17. Although Bangladesh has never been experienced a negative economic growth during the last 46 year since its independence and maintained around 6% GDP growth rate for last one and half decade, the higher rate of inflation always lessened the benefit of good GDP rate.

The Financial Sector

The financial sector of Bangladesh consists of Bangladesh Bank (The Central Bank of Bangladesh) Schedule Banks, Non-Bank Financial Institutions, various Co-operative societies, Insurance Companies, Microfinance Institutions (MFIs) and Non-government Organization (NGOs). Among 56 schedule Banks, there are four (4) state owned commercial Banks, five (5) state owned specialized Banks, nine (9) foreign Commercial Banks. Besides, thirty-three (33) Non-Bank Financial Institutions (NBFIs) are working in the Country through 250 branches. Fifty-six (56) commercial banks are operating their activities through 9,500 branches all over the Country. Total accumulated loan-lease portfolio of NBFIs is TK.582 billion as on June, 2017. Whereas, total loan-lease portfolio of Banks of the country is TK.7,316 billion as on that date. It means that NBFIs in the Country have been playing a vital role in building the indigenous economy.

Structural Reforms

Some structural reforms have moved forward. NBR is implementing a comprehensive reform program to enhance policies and modernize tax administration. Reforms seek to encourage voluntary compliance by simplifying and automating the tax payment system and by reducing the discretionary power of tax officials. To enhance the efficiency of customs administration, the Automated System for Customs Data has been introduced at all major Customs houses, aiming to have a national paperless Customs Management System operating in the near future. Now, Bangladesh is moving forward with a slogan to build Digital Bangladesh.

Recently, Bangladesh has been graduated to the list of developing Countries in the world from Least Developed Countries after fulfilling all the required three (3) criterias viz, Per Capital Income for last three years average - Bangladesh achieved USD1274 against required USD1230, Human Resources Index - Bangladesh achieved 73.2 points against required 66 Points and Economic Vulnerability index- Bangladesh achieved 32 Score against required 25.2 Score. Bangladesh is the only Country in the world who has fulfilled all the three (3) criterias at a time required for graduation to the category of developing country. Needless to mention that our GDP of last three years i.e 2015,2016 and 2017 were 6.60%, 7.1% and 7.2% respectively.

Financial Inclusion Program

A positive development is the Financial Inclusion Programs spearheaded by Bangladesh Bank. Millions of peoples have been brought into the banking network either through opening of bank accounts or with increased access to mobile banking. The measures adopted to bring the masses into the fold of banking network are likely to have far reaching positive impact for the economy of the country. Bangladesh has emerged as the fastest growing mobile banking country in the world. By now 55 million peoples of the country using mobile phone and internet facilities.

Capital Market Scenario

Bangladesh has two (2) bourses. Dhaka Stock Exchange Limited (DSE) and Chattogram Stock Exchange Limited (CSE). Dhaka Stock Exchange Limited has two (2) indices, which are known as the DSE Broad Index (DSEX) and DSE 30 Index (DS30) based on free float and S&P methodology which was introduced on January 28, 2013. DSEX is the Broad Index of the Exchange (Benchmark Index) which reflects around 97% of the total market capitalization. DS30 constructed with 30 leading companies which can be said as investable Index of the Exchange, DS30 reflects around 51% of total market capitalization. DSEX Shariah Index (DSES), introduced on January 20, 2014 which serves as a Shariah Compliant broad market benchmark in Bangladesh Capital Market.

As on 31-December-2017, the enlisted issues reached to 569. Out of total listed securities, 302 nos. are Companies and remaining balance are Mutual Funds, Debentures and Bonds. At the end of the year 2017, total market capitalization of listed securities in DSE stood at BDT 4,228,940 Million as against BDT 3,412,440 million at the end of December, 2016 which was 24% higher than the same period of previous year.

At the end of the year 2017, total market capitalization of listed securities in CSE stood at BDT 3,528,910 Million only indicating BDT 787,570 Million i.e. 28.73% higher than BDT 2,741,340 Million at the end of December, 2016. Among total listed securities in the country only, 308 securities including 270 nos. Companies were listed with CSE as on December 2017.

By now, Bangladesh is on a robust economic growth trajectory. Global Consulting Firm Price Waterhouse Coopers (PWC) estimates that at current economy size of USD 227 Bn. Bangladesh is the 31st largest economy in the world. The Consulting Firm further estimates that by 2030, GDP of Bangladesh would expand to USD 668 bn and by 2050 it will reach USD 2,263 bn. At that time, Bangladesh would be the 25th largest economy in the world. (BLFCA Year Book 2016)

Demutualization Act, 2013 with the objective of separating the bourses management from the ownership is yet to make a meaningful impact in the Capital Market. BSEC's endeavor to bring in the qualitative changes helped it achieve a higher regulatory status from the International Organization of Securities Commissions (IOSCO), the association of national securities regulatory agencies. It has been upgraded to an A-category regulatory agency which ensures the regulator's access to international cooperation on securities markets worldwide.

Industry Analysis

First leasing Company was incorporated in Bangladesh in 1981. Since its incorporation, NBFIs have been positioned themselves over the years as vibrant subsector catering to the diverse needs of the entire economy as a result of proactive role and continuous support of Bangladesh Bank. Protecting financial stability is now universally accepted as a core responsibility of Banks and Financial Institutions. There is no doubt, Non-Banking Financial Institutions (NBFIs) play a significant role in meeting the diverse financial needs of various sectors of the economy and thus contribute to the economic development of the Country as well as to the deepening of country's financial system. Starting from leasing business, NBFIs have diversified their operations into multiple business lines over the years and expanded to term lending, housing finance, merchant banking, equity financing and venture capital financing etc. NBFIs also provide personalized services to semi-urban clients and offered customize products and catering to their special needs to increase trust on NBFIs.

During last few years, NBFIs have reinvented themselves to play a pivotal role in all aspects of economy from Capital Market, Home Loan, Auto Loan, SME Loan to long term industrial investment to fill the needs of the entrepreneurs, not placing themselves parallel to Commercial Banks rather complementary to Banks. When commercial banks faced jolt from sliding interest rates and lower credit growth, NBFIs market an impressive around 15% growth in 2017. By now, NBFIs have become an alternative source of financing for many entrepreneurs and integral part of Bangladesh financial market over the years. As per BLFCA report, total loan-lease Portfolio of NBFIs stood at BDT58,200 Crore. Total Asset of all NBFIs stood at BDT82,100 Crore (approx.) as against total liability of BDT69,700 Crore (approx.) as on December, 2017. Average NPL of NBFIs is around 9% which is lower than 10% NPL of Banking industry.

But, still the industry has a long way to go since NBFIs still do not enjoy the level playing field. NBFIs find it difficult to attract deposits even after offering higher interest rates to ease their fund constraint since the depositors have traditionally developed their greater reliance on banks and Government Deposit Schemes than NBFIs to put their funds. Besides, NBFIs have only term deposit products and continued to have their dependence on Banks for their main source of funds who act as competitors to NBFIs having the advantage of low cost of funds. So, high Cost of Fund still remains the main impediment to the growth of NBFIs. 40% Corporate Tax rate is also higher compared to Commercial Banks. The Call Money rate was steady at 4.50% through out the year 2017. But, NBFIs are allowed to collect fund from the inter-bank call money market up to 30% of their equity only.

Strategic shift

Few years back NBFIs were dependent on Banks as their major source of funding which made them vulnerable to systemic risks in the financial system. But by now, NBFIs are generating fund directly from the market as short term or long term deposits like Banks. Total deposits of the NBFIs are gradually increasing. Total Deposit of the NBFIs industry stood at BDT 382,400 million up to December, 2016. Despite narrow business line comparison to Banks, NBFIs are offering some products to a greater extent than Banks.

Central Bank Monitoring

Bangladesh Bank's (The Central Bank of Bangladesh) monitoring on NBFIs remains prudent and during a year hundreds of various reports are required to be submitted to Bangladesh Bank by each NBF. As a part of better transparency, complete schedule of charges and base rate are displayed by every NBF. No charge, fees or commission in any kind other than stipulated range prescribed by Bangladesh Bank can be charged. During 2014, Bangladesh Bank emphasized on green financing to ensure sustainable development of the Country and to finance in renewable energy and eco-friendly projects. In 2014, Bangladesh Bank launched an automated system to detect the financial problems of any NBF and to protect them from devastating loss in sudden business crisis. Bangladesh Bank also monitors Anti-money Laundering activities and implementation of National Integrity Strategy of the Government in Banks and NBFs meticulously.

Bangladesh Bank Heist (Central Bank of Bangladesh)

The Bangladesh Bank robbery, also known colloquially as the **Bangladesh Bank heist**, took place in February 2016, when instructions to fraudulently withdraw US\$ 1 billion from the account of Bangladesh Bank, the central bank of Bangladesh, at the Federal Reserve Bank of New York were issued via the SWIFT network. Five transactions issued by security hackers, worth \$101 million and withdrawn from a Bangladesh Bank account at the Federal Reserve Bank of New York, succeeded, with \$20 million traced to Sri Lanka (since recovered) and \$81 million to the Philippines (about \$18 million recovered). The Federal Reserve Bank of New York blocked the remaining thirty transactions, amounting to \$850 million, at the request of Bangladesh Bank. It was identified later that Dridex malware was used for the attack.

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