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REPORT

Bangladesh

2019 Report

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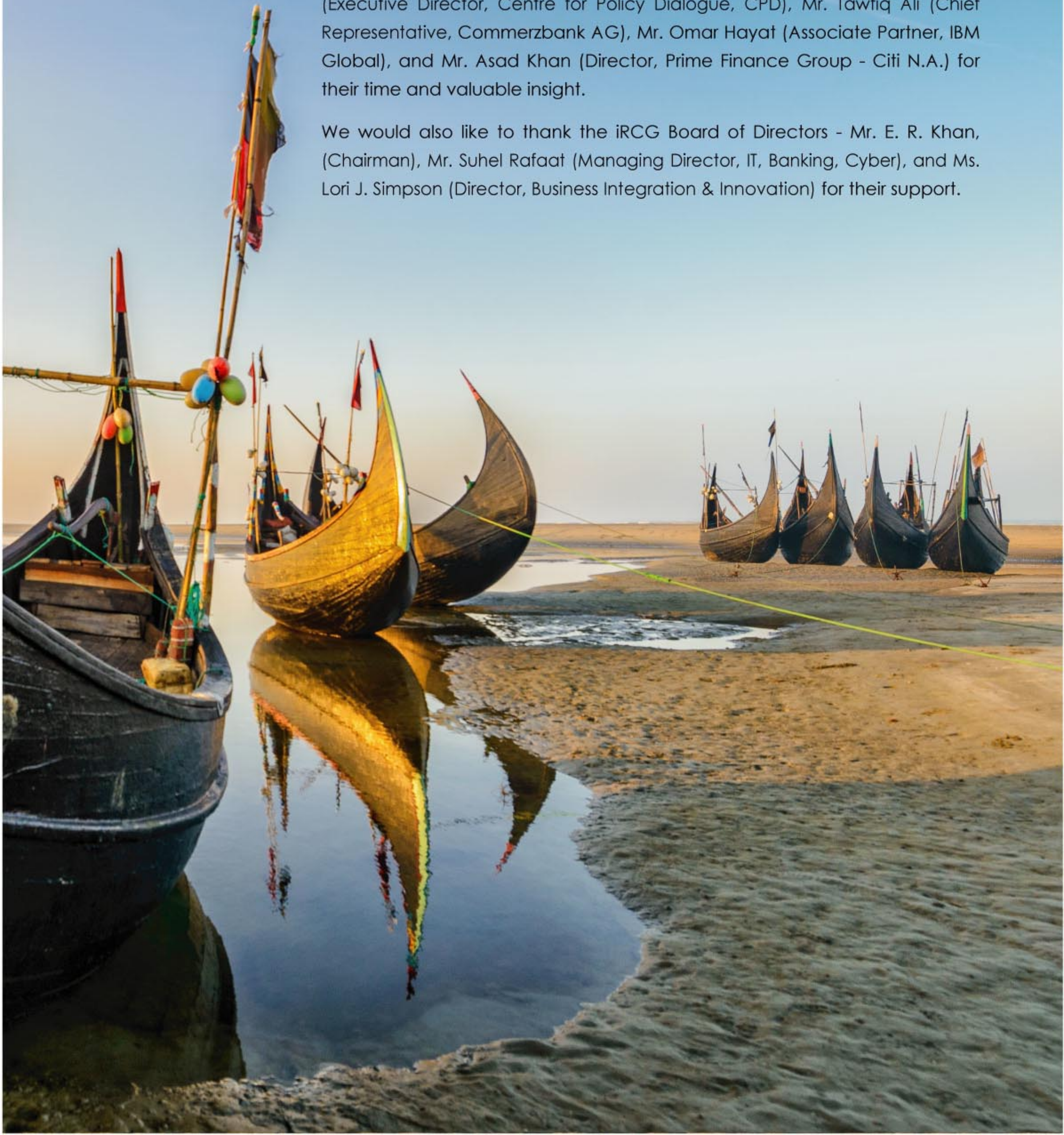
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Thank you

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Foreword

We at iRCG are proud to publish the first edition of the iRCG Bangladesh Report, the flagship publication of Integrated Risk Consulting Group (iRCG).

With more than three decades of experience within the Bangladesh market, our team of Directors have gathered local knowledge which is invaluable and essential to doing business in Bangladesh. It is not an easy task to make sense of the ever-evolving economic and risk landscape of Bangladesh. Nor is it easy to fathom how or what puts Bangladesh on the top of the economic development pyramid with +7.5% gdp growth year-on.

The team of writers together with the editor studied various reports on Bangladesh – from Moody's credit rating report, to S&P, Fitch, AM-Best, IMF, IFC, FM Global, and dozens of others in order to produce the most concise report on the country.

iRCG Bangladesh Report 2019 provides a bird's eye view into the future for those who are looking to invest in the country – whether in the manufacturing or the service sectors, whether you are wanting to buy or sell your products here, a bank, an insurance underwriter, or an investor.

iRCG specialises in 'local-knowledge'. That is all that we are selling.



M. R. Khan

Founder & Chief Executive Officer

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Executive Summary

Bangladesh economy is growing and moving fast. The latest growth figures indicate a strong 8.13% for FY19 – currently the fastest growing large country. The country has now entered a new phase of growth where it is well-poised to leverage both buoyant domestic demand and global competitiveness in a growing number of sectors.

The middle and affluent classes of Bangladesh have grown over the years from 7% in 2015 to the current 17% of 165+ million population with 46.43% being under the age of 25.

The country has shown outstanding growth despite political risks forecasts, reflecting deep underlying growth momentum underpinned by both domestic and external sources of demand. Political stability is key to the development and growth of the country. With a majority rule by the current government, iRCG expects the economy to continue to grow over the next 4 years till the run-up to the next election.

We at iRCG project the economy to sustainably grow by 7-8 percent of GDP over the medium term, opening up many opportunities in both the financial and real sectors.

Overview

Bangladesh is strategically located in South Asia, sharing borders with India in the north, east, and west; Myanmar in the south-east, and Bay of Bengal in the south. With a total land area of 147,570 km² and a current population of 165+ million, Bangladesh is one of the most densely populated countries in the world. It is the eighth most populous country in the world; and Dhaka, the capital city, is one of the three most densely populated cities in the world. Bangladesh is considered a moderate Muslim state with 90% of the population being Muslim. Secularism is one of the basic tenets of the Bangladesh Constitution. It is the third-largest Muslim majority country in the world.

After the independence of Bangladesh through the war of Liberation in 1971 (with erstwhile West Pakistan), the country had a presidential government from 1975 to 1990, followed by parliamentary democracy to date. The Bangladesh Awami League (BAL), Bangladesh Nationalist Party (BNP), and Jatiya Party (JP) have been the three major political parties of the country.

Bangladesh is the pioneer in Microcredit and Microfinance. Grameen Bank, the first modern microcredit institution founded by Nobel Laureate Dr. Mohammad Yunus in 1976, is the flagship model for microcredit lending to the poor around the world. BRAC, founded by Sir Fazle Hasan Abed in 1972, is the largest non-governmental development organization (NGO) in the world with over 100,000 employees, of which roughly 70% are women. bKash, founded by Kamal Quadir in 2011, is the largest mobile-money service provider in the world.

Bangladesh is a part of the Goldman Sachs' Next 11 countries along with countries like Philippines, South Korea, Turkey and Vietnam, which have the highest potential of becoming the biggest economies of the 21st century.

The country currently ranks 42nd in terms of nominal GDP and 31st in terms of purchasing power parity. It is considered a 'developing nation' with a growth rate of 7.86% (FY18). In 2016, Bangladesh was stated the second fastest growing economy with a rate of 7.1%, second to China. However, the latest growth figures indicate a strong 8.13% for FY19 – currently the fastest growing large country. The biggest contributor to such growth continues to be the ready-made garments (RMG) sector, which accounted for more than 6% of global apparel exports in 2017, compared to 3% back in 2007, making Bangladesh the second largest exporter after China.

The other major industries are pharmaceuticals, food & beverages, shipbuilding, leather & jute. Being the first in the world to decode the Jute genome, Bangladesh is the world's largest producer and exporter of jute – one of the most environment friendly packaging materials.

The latest export figure stands at \$41 billion (FY18), with European Union and the United States being the major export partners. Foreign reserves are at a record \$33 billion, foreign remittance being one of the major contributors to it. The labour force stood at around 109 million, mostly dominating the agricultural and service sectors. Bangladesh is the largest provider of personnel to UN's Peace Keeping Forces around the world.

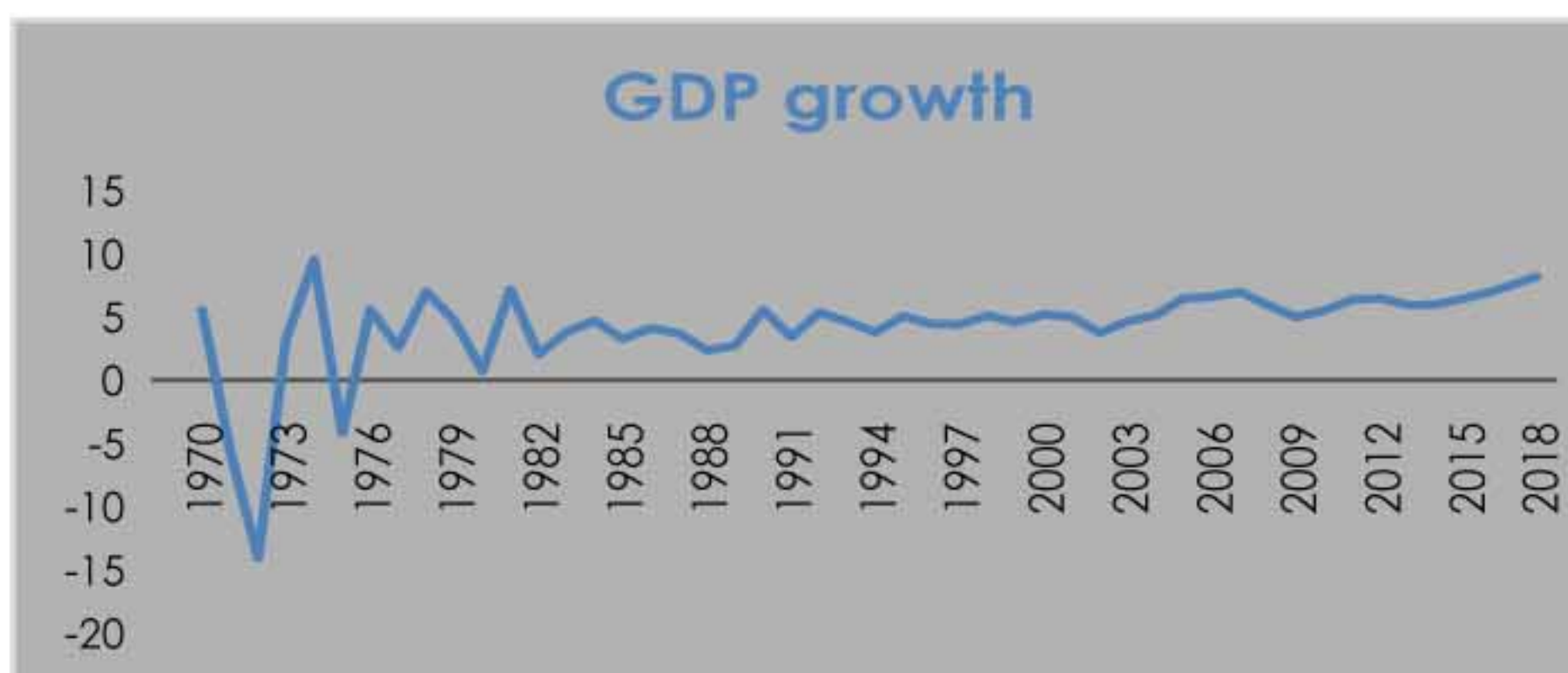
PricewaterhouseCoopers in their global economic projection estimates that, Bangladesh can become the world's 28th largest economy by 2030. Bangladesh is among the top 5 growing economies in the world as per the World Bank report of April 2019.

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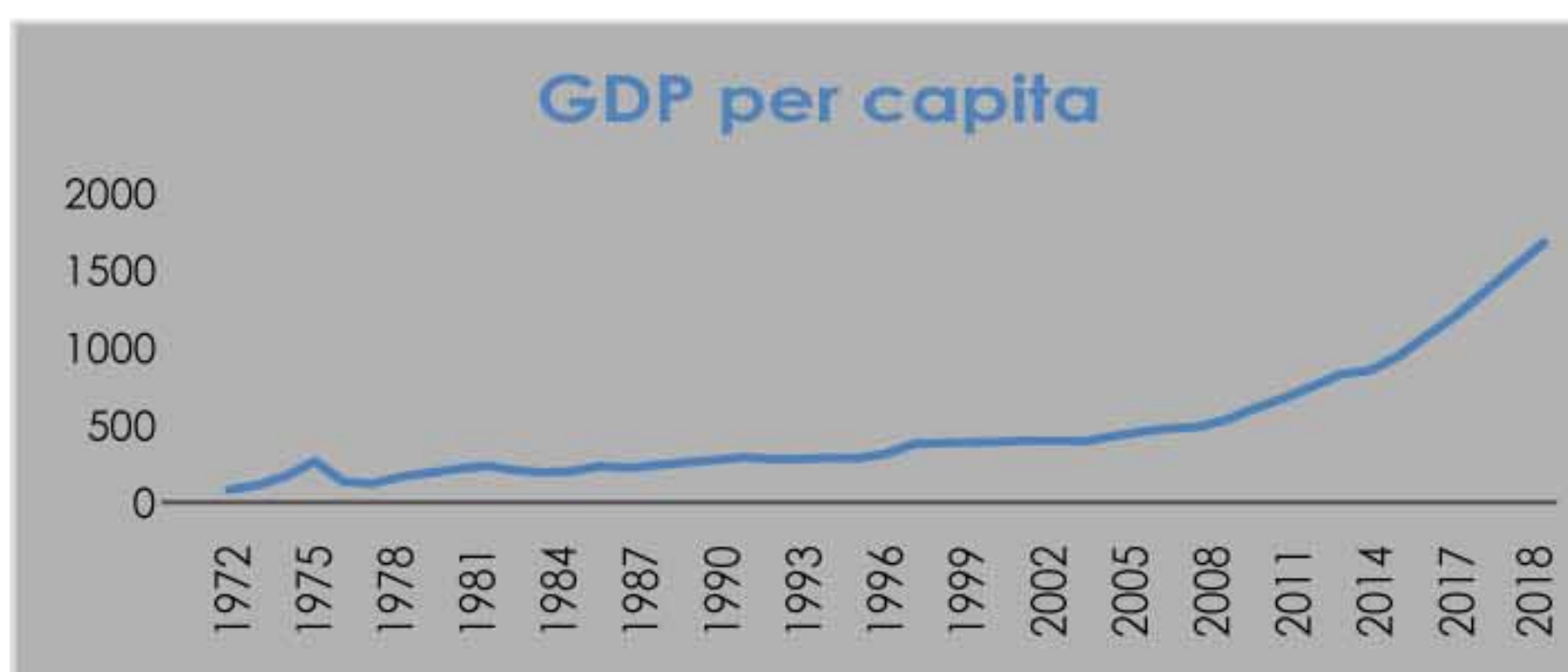
Growth Performance

Ever since 2013 (6.0%), real GDP growth has been on the rise, currently at 7.86% (2018), higher than the projected growth of around 7% for FY18 by the IMF. The nominal GDP is \$285.817 billion (42nd worldwide), while real GDP is around \$751.949 billion (31st worldwide). However, GDP per capita remains low at \$1751 nominal FY18 (145th worldwide), while real GDP per capita is at \$4561.66 (139th worldwide). The share of GDP is as follows:

| Sector | % of GDP |
|-------------|----------|
| Agriculture | 14.23 |
| Industry | 33.66 |
| Service | 52.11 |



The latest growth figures indicate a strong 8.13% for FY19 – currently the fastest growing large country.



Bangladesh is a part of the Goldman Sachs' Next 11 countries along with countries like Philippines, South Korea, Turkey and Vietnam, which have the highest potential of becoming the biggest economies of the 21st century.

Infrastructure

The infrastructure development of Bangladesh has been struggling to keep pace with the fast growing economy of the country. The two most developed cities are Dhaka and Chittagong, with Dhaka being capital and the hub for government administration. In order to continue, or rather accelerate the astounding growth rates, the government of Bangladesh plans to improve on the infrastructure, transport, and power demands of the economy. While the current total installed electricity is approximately 12,000 MW, the government has approved the creation of additional supply of power by 2021 through various Liquefied Natural Gas (LNG) based power plants, as well as the Rooppur Nuclear Power Plant and Rampal Coal Fired Power Station. The government also approved the construction of more than 13,000 bridges by 2021. The Payra Deep Sea Port, Bangabandhu Sheikh Mujib International Airport, the Dhaka Metro-Rail project, etc. are either well on their way or in the approval stages to improve the logistics and transportation sectors.

It is estimated that 34,000 MW of power is needed to sustain the economic growth of 7% of Bangladesh. 20,000 MW is set to be coming online by the year 2021.

A total length of 21,118.739 km of roads and highways are developed within the country. However, the capital city Dhaka suffers from major traffic congestion. A new World Bank analysis finds that the average traffic speed has dropped from 21 km/h to 7 km/h for Dhaka over the last 10 years.

The telecommunication sector is one of the major industries of Bangladesh. The total number of mobile phone subscribers is approximately 157 million with 4 mobile phone operators.

Total road length:
21118.79 km

Airports:
3 international
6 domestic

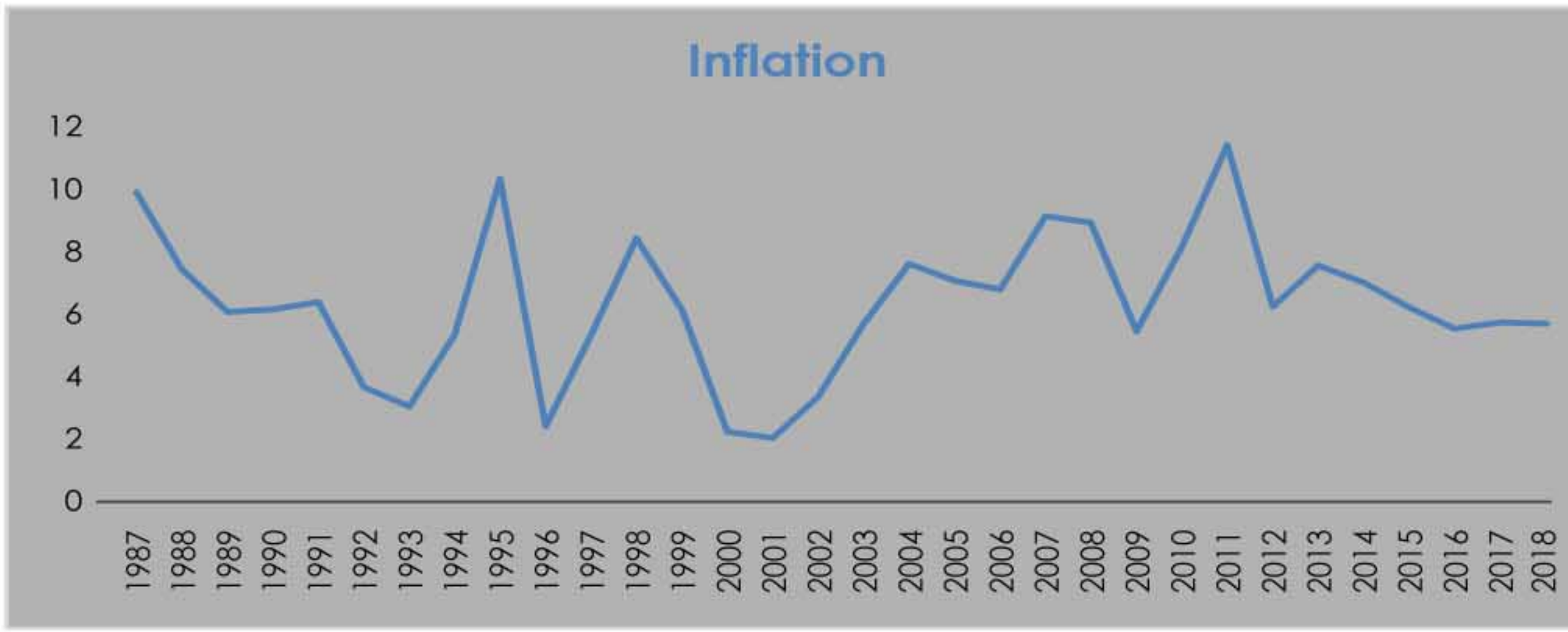
Railway:
2855 km

Internet subscribers:
81.536 million

Mobile phone subscribers:
157.544 million

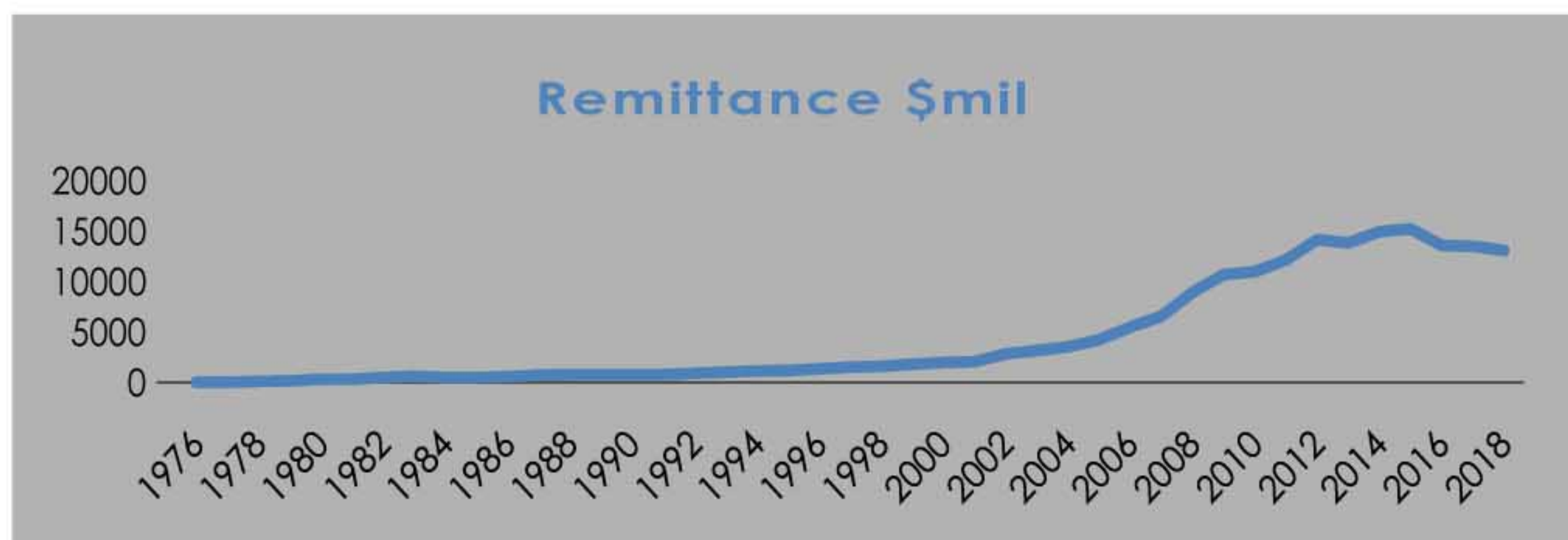
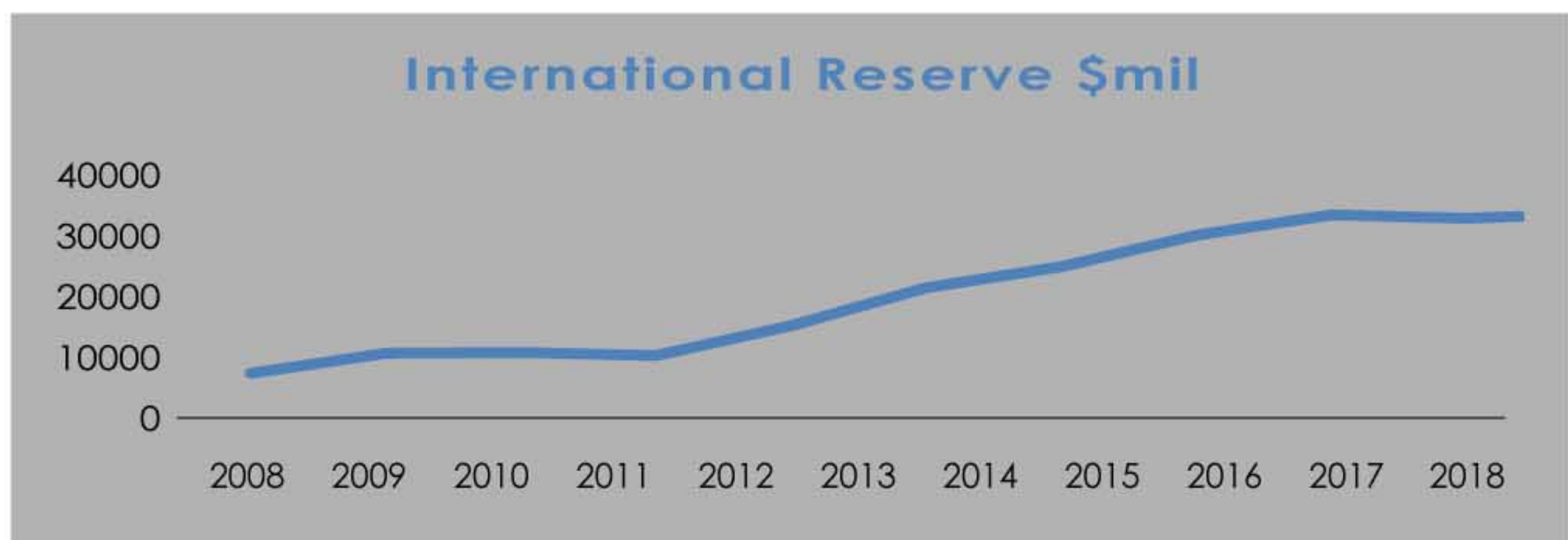
Inflation

Inflation has been on the decline since 2013, currently at 5.78% (2018), with chances of it increasing in 2019 due to higher consumer spending and global increase in oil prices, expected by London-based Economic Intelligence Unit (EIU).



External Account

The current account deficit for the fiscal year 2018 was 3.4% of nominal GDP, which was significantly higher than FY2017 (0.51%). Even though the current account balance rose by a great extent in FY18, the foreign exchange reserve for FY18 stands at \$32.9435 billion, which keeps Bangladesh in a very good position.



Banking

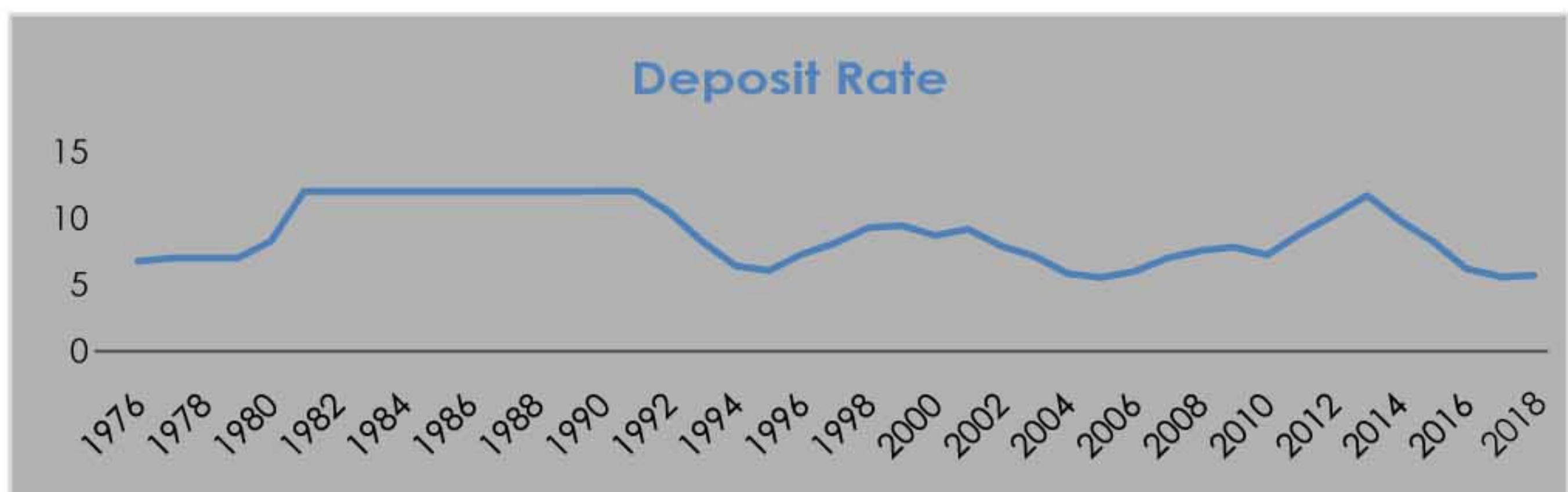
The banking sector of Bangladesh has brought vast positive changes in terms of modernization, expansion, corporate governance, technology adaptation, and improved regulatory and supervisory environment with the help of Bangladesh Bank. Of course, there is need for much more to be done; and therefore, development of the banking sector is one of the main priorities of the Bangladesh Bank.

There are 6 state owned commercial banks and 41 private commercial banks in Bangladesh. Bangladesh Bank acts as the Central Bank, having the following functions:

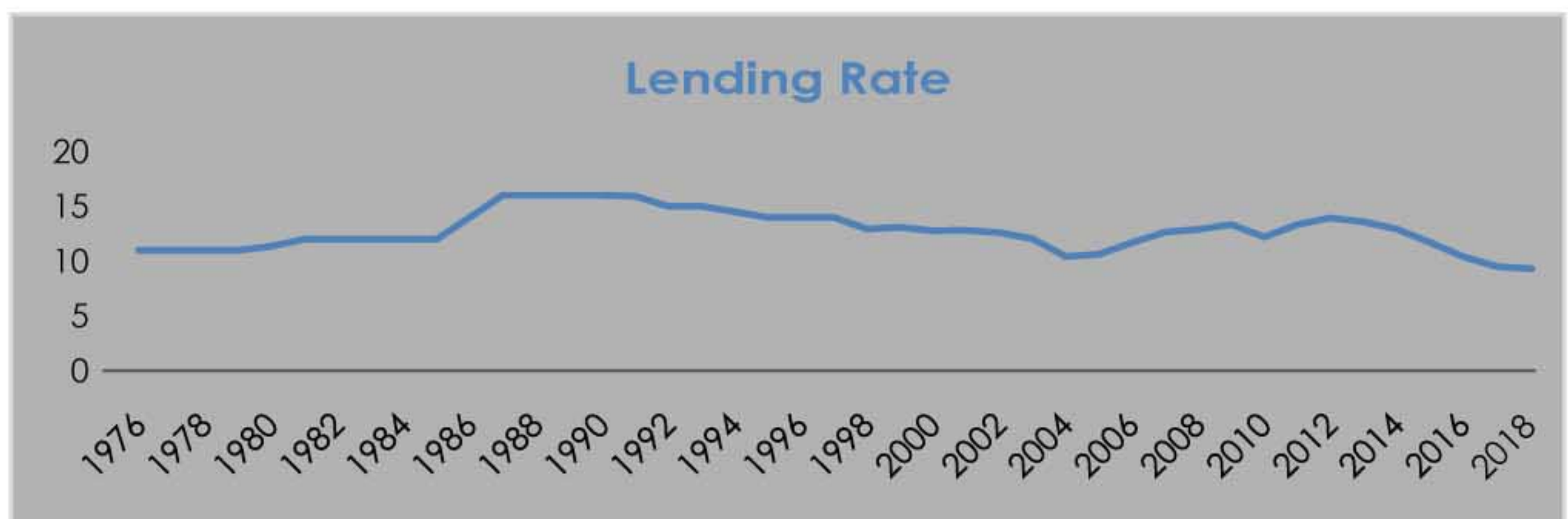
- Formulation and implementation of monetary policy
- Intervention policies in the foreign exchange market
- Hold and manage foreign exchange reserves
- Issue bank notes and regulate, promote and ensure secure and efficient payment systems
- Supervise and regulate banking companies and financial institutions (NBFI)

In recent times, the banking sector of Bangladesh underwent some difficulties as few of the local banks suffered from capital deficit and liquidity crisis. Increasing from 9.3% in 2017 to 10.3% in 2018, non-performing loans (NPL) are becoming a major concern for Bangladesh. The main contributors to the NPL are the state-owned commercial banks (26.5%) and specialized development banks (23.4%), while private commercial banks account for only 4.9%. The banking sector indicators, however, showed mixed performances during the first quarter of 2019 according to the Bangladesh Bank. The gross Non-performing loan (NPL) is at 11.5% of the total loans, while overall liquidity condition in the banking sector remained stable. The credit growth stands at 14.8%, while the deposit growth is at 9.4% for the first quarter of 2019.

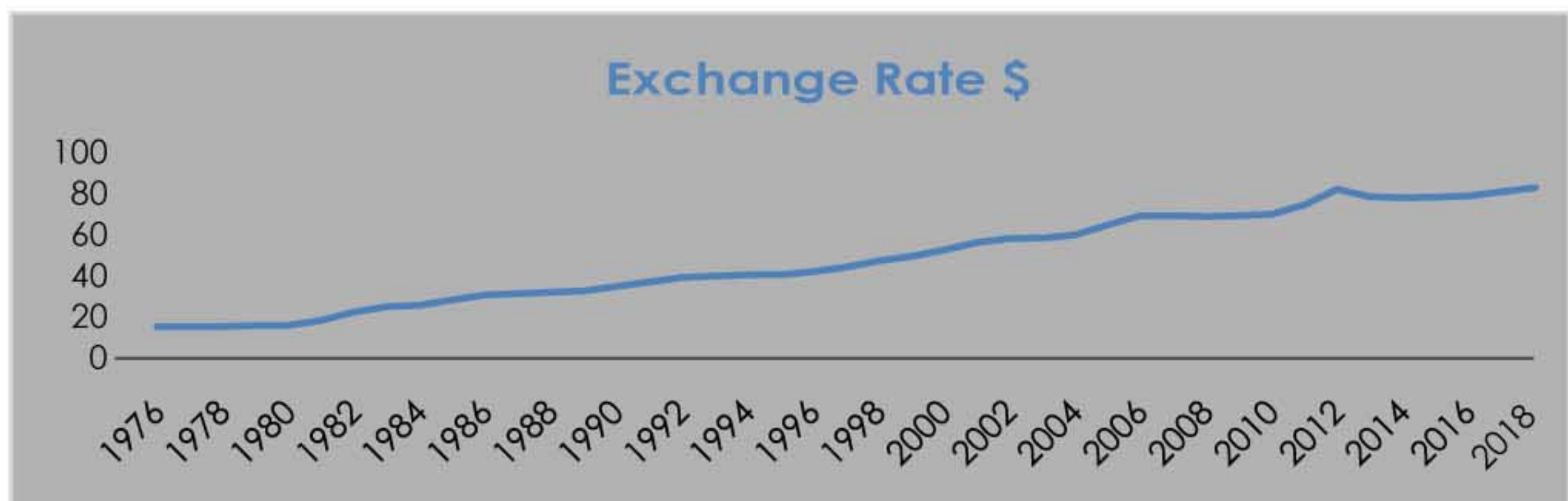
Currently there are 1 million credit card holders and 10 million debit card users, leaving open a huge opportunity for development and investment.



Interest rates on deposits recorded in January 2019 stood at an average of 5.34%, while interest rates on advances average 9.49%. The lending rates are kept under 10% in order to promote investment, in line with the decision of government back in July 2018. The exchange rates for inter-bank and customer transaction is determined by the supply-demand interaction, while Bangladesh Bank having no role in the market, plays an important role in keeping the exchange rate of the US Dollar close to the desired level by selling or buying dollars to the market. The value of taka depreciated by 0.2% during July-December 2018 due to foreign exchange market facing some pressures. In order to avoid excessive volatilities, Bangladesh Bank sold over \$1.1 billion during that time. The current exchange rate stands at around Taka 84 to the US Dollar.



Looking into the future, The Economy Forecast Agency estimates the exchange rate to increase by 1.74% a year from now, and 6.02% two years from now. Wallet Investor expects the exchange rate to increase, TK 86.436 per Dollar a year from now and TK 96.177 per Dollar 5 years from now.



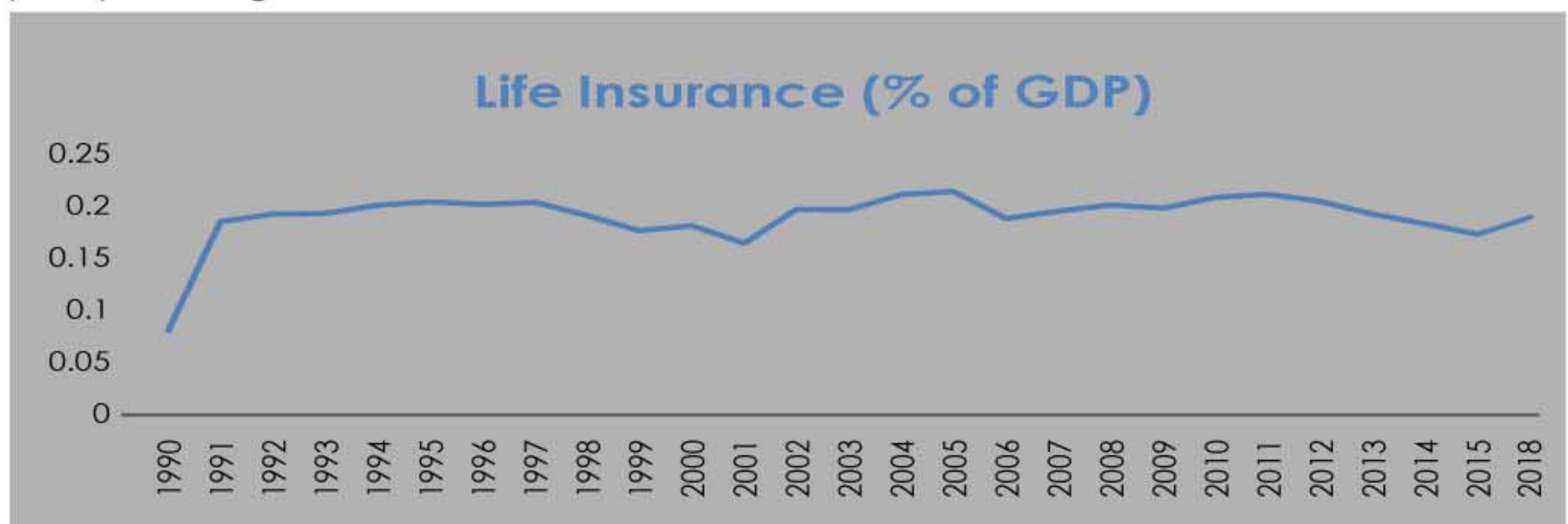
Insurance & Reinsurance

Bangladesh is a country that is exposed to a variety of natural hazards. Yet, insurance penetration is less than 1% of population. According to a recent Lloyd's report, Bangladesh is the most underinsured country in the world, having the largest insurance gap relative to GDP (2.1% of GDP). This leaves Bangladesh exposed to major potential for loss in the event of catastrophe.

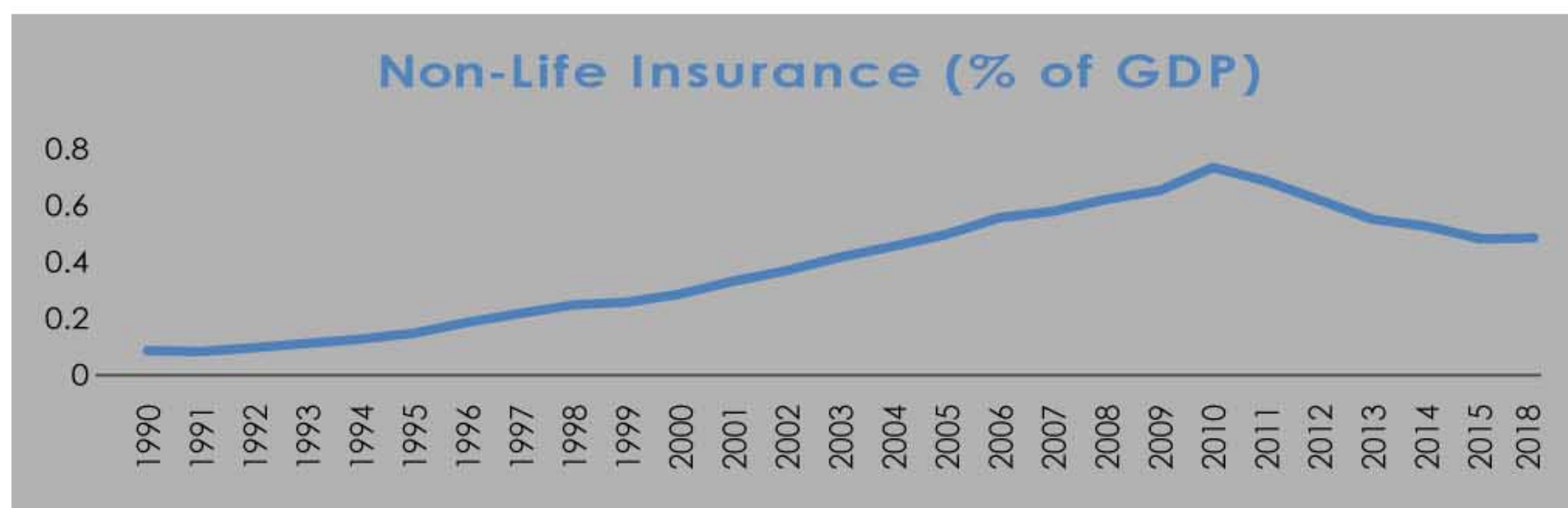
Currently, 64 insurance companies are operating under the Bangladesh Insurance Act 2010, of which 18 are Life Insurance and 46 are Non-life (General) Insurance companies. The business of insurance is regulated by the Insurance Development and Regulatory Authority, IDRA set up in 2010. The Bangladesh Insurance Sector Development Project was approved in 2017 which comprises of three components. The first is strengthening the capacity of the regulatory authority (IDRA) to supervise and regulate insurance and reinsurance markets. Second, strengthening, modernizing, and increasing the efficiency of state-owned insurance corporation's – Jiban Bima Corporation (JBC) in life insurance and Sadharan Bima Corporation (SBC) in non-life insurance. Third, developing a strong monitoring and evaluation (M&E) system to be utilized by the project implementation unit (PIU) at IDRA and other stakeholders to assess advancement on implementation.

The Bangladesh government mandated SBC to accept 100% reinsurance of private insurance company's after the establishment of Private Insurance Companies in 1985. However, the Insurance Corporation (Amendment) Act 1990 provides that 50% of a companies reinsurance must be placed with SBC, while the balance may be reinsured by SBC or any other insurer in Bangladesh or abroad.

Currently, the Non-life insurance premium revenue is approximately BDT 29 Billion, and BDT 79 Billion in life insurance - the combined market size being approximately BDT 108 Billion (US\$ 1.28 Billion) only. There is negligible local underwriting and actuarial expertise. As such, the industry is primarily dependent on foreign reinsurers for rates, terms, and policy wordings.



There are two foreign insurers licensed to operate in the Life Insurance sector. However, there are no foreign insurer, reinsurer, or brokers in the non-life segment. While the Insurance Act of 2010 has made provisions for multinational insurers, reinsurers, and brokers to operate in the market, the IDRA is yet to give out any licenses, pending Parliamentary Committee approval.



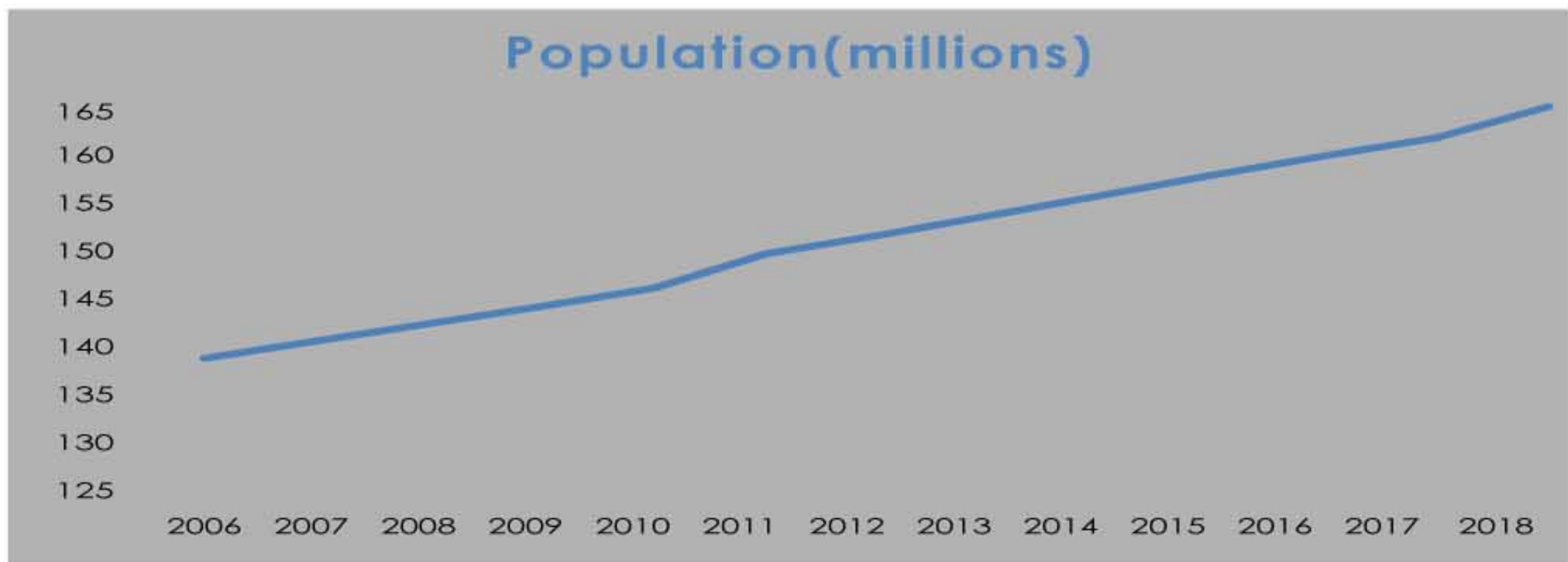
Entrepreneurship & Start-ups

With more than half of the population (+80 M) being under 25, the government of Bangladesh has taken many steps to energise young entrepreneurs and promote start-ups. The government created a fund under the iDEA project under the ICT ministry, providing financial support to entrepreneurs in the form of convertible debt, equity and/or grant. Investments are in the form of iDEA (pre seed) support, venture capital, targeted investments, strategic partnerships and co-investments. IDLC Finance, one of the largest NBFI's in the country, in conjunction with SD-Asia (Startup Dhaka) also provides support to promising start-ups. In recent times, the start-up Pathao, a local competitor to UBER, became one of the fastest growing businesses in the country. Their CEO, Hussain M Elius has been cited in Forbes' list of 30-under-30 of 2019.

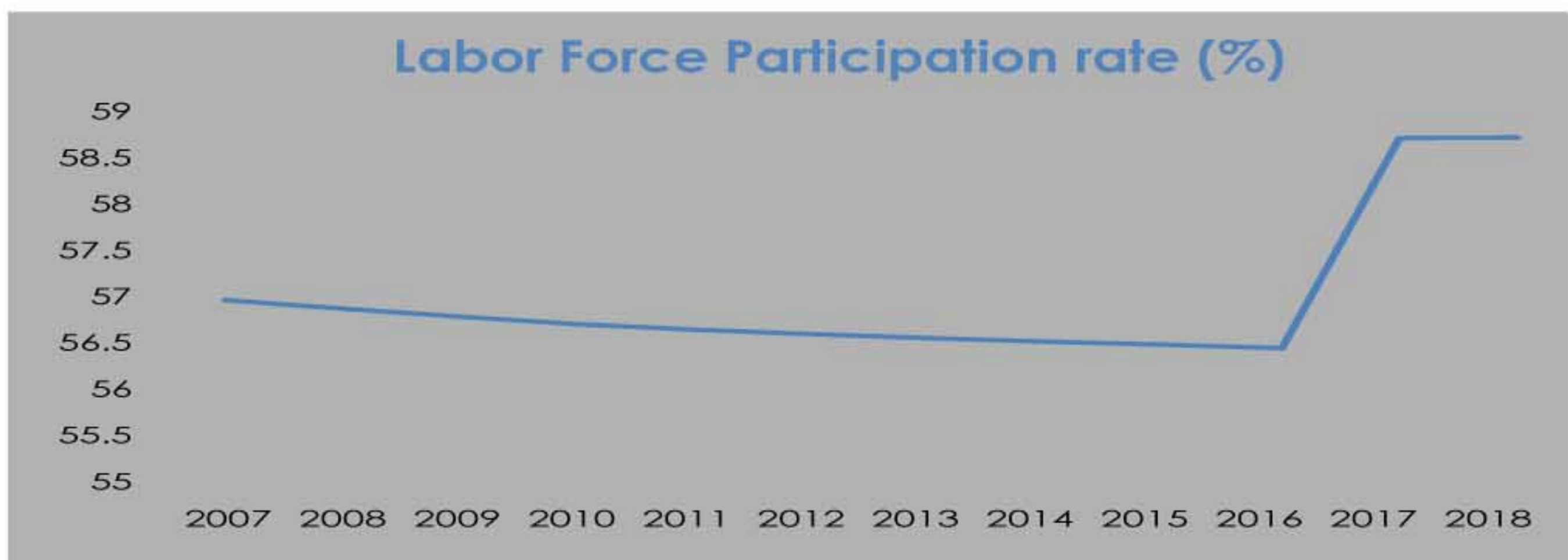
With 80M under the age of 25, the start-up scene is buzzing with incubators, accelerators, angel investors, and venture caps.

Population & Labour Force

With a current population of over 165+ million, Bangladesh is one of the most densely populated countries in the world. Mortality rates have successfully been curbed over the years, currently 32.4 per 1000 live births in 2017 compared to 143.8 in 1990 (87.4 in 2000 and 49.2 in 2010). Bangladesh received the UN Award for this remarkable achievement in meeting the Millennium Development Goals particularly in reducing child mortality. Life expectancy is also on the rise, averaging 72 years, with 46.43% of the population being under 25, 40.03% between 25 to 54, and 13.51% over 55 in 2018.



According to Bangladesh Bureau of Statistics Labour Force Survey 2016-2017, the labour force was 109.1 million, with unemployment rate at 4.2%. According to the report, the labour force increased by 2.3% compared to the previous year, with female employment increasing at 4.6% compared to 1% for male. With more than a million workers going out of the country to work in the year 2017, the amount of migrant workers from Bangladesh worldwide remains very high, which ultimately leads to high amounts of foreign remittance inflow to Bangladesh. The migrant work force primarily comprises of nurses, chauffeurs, cleaners, day labourers, as well as white collar executives at banks, insurance companies, and various other professions.



Political Climate

There are several political parties active in Bangladesh. However, the three major political parties are the Awami League (AL), the Bangladesh Nationalists Party (BNP), and the Jatiya Party (JP). The relationship between the parties has traditionally been bitter, often resulting in political unrest, strikes, and violence. However, the ruling Awami League which regained power after the general elections in December 2018 with a landslide victory over their opposition, indicates there is likely to be a period of stability of at least four years till the next elections. In the run up to the recent elections, the IMF in their Bangladesh country report had warned of wide-spread and violent protests. However, no major turmoil was observed. AM Best reports Bangladesh's political risks as "very high". The economic condition, on the other hand, remained constant before and after the elections, with the performance remaining stable and growth rate higher (7.86%) than what IMF (around 7.0%), Fitch (6.9%) and Moody's (7.0% to 7.5%) expected.

[despite forecasts of political turmoil] the economic condition remained constant before and after the elections, with the performance remaining stable with high growth rate (7.86%)

Terrorism

Bangladesh has remained relatively removed from acts of terrorism. Aside from a few incidences targeting foreign individuals, businesses have not been a target of radical extremist organizations. According to the 2018 Global Terrorism Index, Bangladesh ranks at 25th among 163 countries in the world, where UK is at 28th, USA at 20th, India at 10th, and Pakistan at 5th.

According to recent Lloyd's reports, Bangladesh is severely exposed to risks of cyber terrorism. The central bank and private sector banks remain exposed to the threat of cyber terrorism and fraud with little or no sophisticated mitigation programs in place. Overall awareness remains low.

Credit Ratings

Moody's maintained a stable outlook and rated the Government of Bangladesh's long-term issuer and senior unsecured debt as 'Ba3', while the short-term issuer ratings are affirmed at 'Not-Prime'. The positive drivers to these ratings are Bangladesh's robust growth and policy, leading to macroeconomic stability. Credible and prudent fiscal and monetary policies had helped support macroeconomic stability, which was effectively demonstrated by the stability in economic growth over the past decade for Bangladesh. Moody's expect Bangladesh's economic growth to be around 7.0-7.5% over the next couple of years, mainly due to the contribution of the globally competitive ready-made garments (RMG) sector.

On the flip side, Bangladesh's revenue generation is one of the lowest in Moody's rated universe, which is 11.7% GDP. This limits fiscal space for the government. Even though various measures are being implemented to increase the tax revenue, the shortfalls are likely to continue. Due to the narrow revenue base, debt affordability is weakened by a high cost of government debt. Apart from the weak revenue generation, human capital, infrastructure and institutional constraints limit Bangladesh's economic diversification and competitiveness. Institutional flaws due to government effectiveness, control of corruption and weak credibility in legal organizations limit the quality of infrastructure and human capital development.

The ratings will likely be upgraded if there is significant increase in the economic competitiveness and government revenue generation, which Moody's believes can be attained by effectively implementing value added tax (VAT) laws and measures to improve tax net, along with higher foreign direct investment.

Standard & Poor's rates Bangladesh's long-term foreign and local currency as 'BB-', and short-term foreign and local currency 'B'. The transfer and convertibility (T&C) assessment remains 'BB-', with outlook remaining stable. The ratings reflect Bangladesh's low economic development due to the per capita GDP of US\$1,620 for 2018. Nevertheless, real per capita GDP growth of about 5.4% over the 2012-2021 period indicates reliably strong real GDP growth, despite several structural impediments. Limited fiscal flexibility is another aspect of the rating as Bangladesh has narrow revenue base and high interest costs. S&P estimates the change in net general government debt will average 3.0% of GDP yearly over fiscal 2018-2021, which is low compared to its peers. Institutional and administrative weaknesses constrain stronger economic development, which also lead to low foreign direct investment for Bangladesh. The credit profile on the other hand benefits from low external borrowings as Bangladesh enjoys hefty remittance inflows and an internationally competitive garment export sector, resulting in current account surpluses over the past few years.

S&P views Bangladesh's external balance sheet and liquidity to be the key credit-supporting factors. The stable outlook reflects S&P's expectation that Bangladesh's stable economic growth will continue to increase average income and largely sustain Bangladesh's external profile over the next 12 months. The ratings may downgrade if fiscal slippages result in rising public debt and external donor support declines substantially. On the other hand, ratings can rise if measures targeted at growing the revenue base and boosting collection effectively improve Bangladesh's fiscal performance, resulting in foreign investments and per capita GDP rises.

Fitch ratings affirm Bangladesh's longterm foreign currency issuer default rating (IDR) at 'BB-' and maintains a stable outlook. Their ratings balance high real GDP growth and strong foreign-currency earnings against weak banking sector health, significant political risk and weak structural indicators. The stable outlook reflects that the upside and downside risks to the ratings are well balanced according to Fitch. The main factors that can lead to a positive rating are - reduction in political risk and security concerns, sustained GDP growth and higher GDP per capita, and improvement in governance, which would strengthen banking sector and business climate.

Conclusion

Bangladesh has now entered a new phase of growth where it is well-poised to leverage both buoyant domestic demand and global competitiveness in a growing number of sectors beyond the traditional RMGs. The drag on economic growth from the confrontational politics in the past has moderated in the aftermath of the recent election. That, along with the fact that all major parties prioritise the development and job creation agenda, minimises the medium-term political risks. We at iRCG project the economy to sustainably grow by 7-8 percent of GDP over the medium term, opening up many opportunities in both the financial and real sectors.

The middle and affluent classes of Bangladesh have grown over the years. Boston Consulting Group (BCG) estimates that the middle and affluent class of Bangladesh will account for around 17 percent of the entire population, compared to 7 percent in 2015. Consumer spending has increased, but lack of debt instruments has kept the consumer spending economy at low.

The country has shown outstanding growth despite political risks forecasts, reflecting deep underlying growth momentum underpinned by both domestic and external sources of demand. Political stability is key to the development and growth of the country. With a majority rule by the current government, we expect the economy to continue to grow over the next 4 years.

iRCG projects the economy to sustainably grow by 7-8 percent of GDP over the medium term, opening up many opportunities in both the financial and real sectors.

PricewaterhouseCoopers in their global economic projection estimates that, Bangladesh can become the world's 28th largest economy by 2030.

Integrated Risk Consulting Group [iRCG] is the leading source of risk management solutions, and one of the primary drivers for digital automation of the Bangladesh Insurance industry.

We at iRCG believe that our success depends on the success of our stakeholders and clients. As such, together we help put in risk management processes that promote and assure business continuity, and protect our business as well as our clients from business interruption.

Integrity is at the heart of iRCG. Upholding our reputation, as well as that of our clients, is intrinsic to everything we do.



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