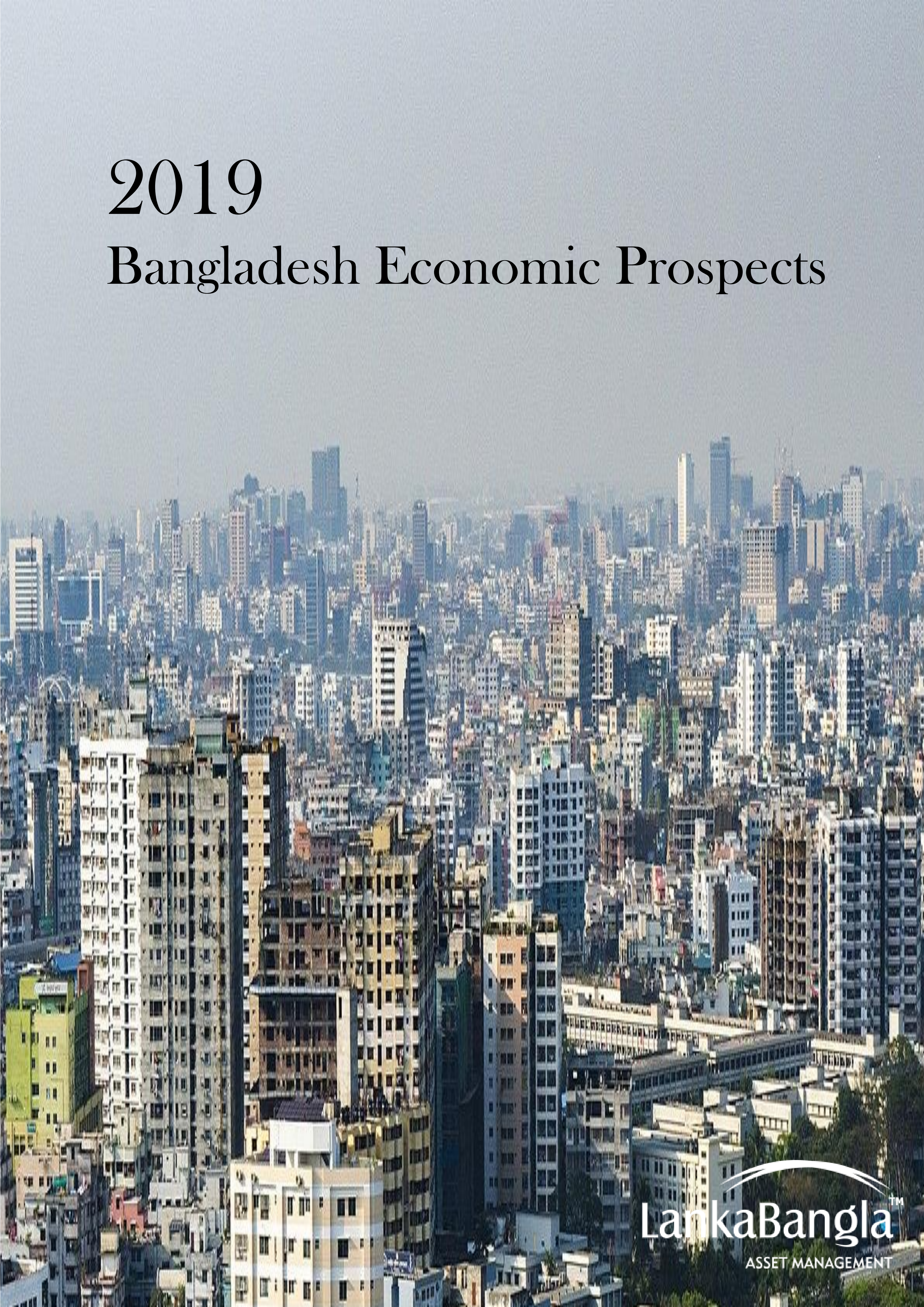
2019

Bangladesh Economic Prospects



LankaBangla

ASSET MANAGEMENT

Economy at a Glance (FY18)

National Income	
GDP growth (%)	7.86
Nominal GDP (USD bn)	274.1
Per Capita GDP (USD)	1,675
Per Capita GNI (USD)	1,751

Budget Detail	
Revenue (BDT bn)	2,595
Expenditure (BDT bn)	3,715
Fiscal Deficit (% of GDP)	4.8
Tax Collection (% of GDP)	10

GDP Growth Drivers	
Agriculture growth	1.52%
Industry growth	17.13%
Manufacturing growth	18.23%
Services growth	12.80%

* Growth figures are in nominal terms

Sovereign Rating	
Moody's	Ba3 (Stable)
S&P	BB- (Stable)
Fitch	BB- (Stable)

Foreign Flows	
Net Foreign Direct Inv. (USD mn)	1,583
Foreign Portfolio Inv. (USD mn)	365
Foreign Exchange Reserves (USD bn)	32.94
Exchange Rate (BDT per 1 USD)	83.73

Debt Profile	
Total Public Debt (% of GDP)	34
Domestic Debt (% of GDP)	19.8
External Debt (% of GDP)	14.2

Inflation and Monetary Aggregates	
General Inflation (12-month average) (%)	5.78
M2 growth (%)	9.2
Private sector credit growth (%)	16.94
T. Domestic credit growth (%)	14.71

External Sector	
Total Exports (USD bn)	36.21
Total Imports (USD bn)	54.46
Total Remittance (USD bn)	14.98
Current Account Balance (% of GDP)	-3.6

Major Exports	USD mn
Ready-made Garments	22,578
Jute and Jute Products	906
Leather and Leather Products	709
Fish, Shrimp and Prawns	499

Major Imports	USD mn
Industrial raw materials	25,583
Capital machinery & goods	14,556
Food grains & other food items	6,913
Petroleum and fuel	4,017

Social Indicators	
Literacy Rate (%)	72.76
Poverty Rate (%)	24.3
Education Expenditure (% of GDP)	2.09
Health Expenditure (% of GDP)	0.92

Demographics	
Total Population (mn)	163.65
Population growth rate (%)	1.17
Total Labour force (mn)	63.5
Unemployment Rate (%)	4.2

Summary

Contributors

M A Faisal Mahmud
Chief Investment Officer
faisal@lankabangla.com

Saad M Niamatullah
Investment Analyst
saad.niamatullah@lankabangla.com

- The incumbent Awami League won 11th parliamentary elections held on 30 December 2018 and formed government for another five-year term. New Finance Minister AHM Mustafa Kamal is expecting 8.25% GDP growth in FY19. We expect revenue collection to accelerate under his tenure while private sector investment to increase after years of stagnation. He opts for going tough on loan defaults. We foresee reforms in banking sector to continue and overall economy to gain momentum in the first year of new political regime.
- GDP growth target has been set at 7.80% in the FY19 budget. Continued political stability and increased business optimism is expected to lead to accelerated growth in domestic consumption and gross fixed investment. Infrastructure projects undertaken by government shall start to pay off, enabling the economy to embark on the next stage of economic growth. For FY 2019, we forecast country's growth to approach 8.0%.
- Food inflation is expected to remain muted due to adequate harvests and low inflation in neighbouring India, while non-food inflation faces upside risks due to the potential for domestic fuel price hike and exchange rate depreciation. We forecast 12-month average inflation to remain in the 5.5%-6.0% range in FY19.
- Exports are expected to see robust growth of around 16% in 2019 owing to the trade war between the US and China boosting exports to the US along with depreciation of the BDT. Completion of RMG factory remediation works are also likely to ensure maximum capacity utilization in the RMG sector further contributing to export growth.
- Import growth is set to plummet from the 31.75% growth seen in FY18 to around 15% in FY19. Part of the massive growth in imports in FY18 was due to both pre-election year spending by the government and also the emergency imports of food grains in order to make up for flood-related losses of the main rice crop. Those two factors are not expected to repeat in 2019. The sudden unexpected fall in the price of oil to around USD 50/bbl in December 2018 will also lower import bills for fuel oil import.
- Remittance is expected to rise in FY19 by around 15% due to a lagged effect of larger number of workers going abroad in recent years, along with the depreciation of the BDT encouraging the usage of official channels to send back remittance. However, the sudden fall in oil price poses a risk to remittance growth beyond 2019.
- The current account deficit is expected to be smaller in FY19 compared to FY18 due to higher exports and remittance combined with reduced import growth. The financial account saw record inflows of USD 9.076 bn in FY18 due to foreign investment and aid inflows, a major factor in which was the Rohingya crisis. The aid-related inflows may not repeat in FY19, which creates a risk that the financial account may not be able to balance out the current account deficit. Therefore, there is a risk that overall balance of payments may record a deficit in FY19, increasing the pressure on the exchange rate.
- Domestic liquidity conditions are expected to remain tight in FY19. The central bank is expected to continue on a contractionary stance to address the expected increase in inflation, the lack of growth in net foreign assets while the reduction of excess liquidity in the banking system will constrain supply of capital. On the demand side, private sector credit growth is expected to increase as companies go for fresh investment after the elections and the government borrowing from banking sector to increase once NSC rates are revised downward. We expect a rise in interest rates of 100 to 300 bps in 2019.

Global Growth to remain steady in 2019: *Geopolitical risks intensifying amid trade storm*

2018 was marked by a sharp increase in trade tensions stimulated by the US protectionist measures against its major trading partners: EU, China, Canada and Mexico. These tensions have only been heightened with time by each other's round of retaliatory trade restrictions. Events and circumstances like Brexit, increasing debt in Chinese economy, Financial sector weakness in India, volatility in oil markets amid imbalances in supply and demand, spill overs from regional conflicts intensifying risks.

Defying risks, the International Monetary Fund (IMF) projects, 2019 world output to continue to grow at a healthy pace of 3.7%.

The trade war brewing between the US and China has important implications for Bangladesh.

The robust growth in the US economy will drive demand for goods and services, acting as a boost for the global economy as a whole. We expect Bangladesh to capture its pie through higher export to US. Bangladeshi exports to the US registered annual growth of 21.49% in the July-November period of FY19, driven by economic growth in the US as well as tariffs imposed on China, a competing country. The US Democratic party, which captured the lower house of Congress in the recent midterms is unlikely to push for a rollback of tariffs imposed on China since their views on the matter are similar to that of the US President. Therefore, it looks likely that the tariff situation will continue to present opportunities to Bangladeshi exporters until 2020 at the earliest.

The trade war should direct Chinese entrepreneurs to set up factories in Bangladesh in order to bypass US tariffs. Thus we expect a higher FDI inflows due to relocation of "sunset industries" from China.

The UK is scheduled to leave the EU in March 2019, although no deal has been agreed. In the worst, "no-deal" scenario, the UK economy is set to suffer huge disruption as customs and border controls are abruptly re-established with Europe. In the EU, growth was below expectations as Germany grew by a meagre 0.2% in the 3rd quarter of 2018. Amid mounting political risks, the EU is forecast to grow by 1.9% in 2019. Even though weaker EU should pose significant risk to our exports, however, our fast fashion RMG exports historically shown resilience even in economic turndowns.

Regional Growth Outlook

WB estimates a 7.3% growth rate for India in FY19 as against 6.66% in FY18, as the effects of demonetization and introduction of GSP finally dissipate and government boosts spending before election scheduled for 2019. Financial sector weakness remains the biggest risk for the economy.

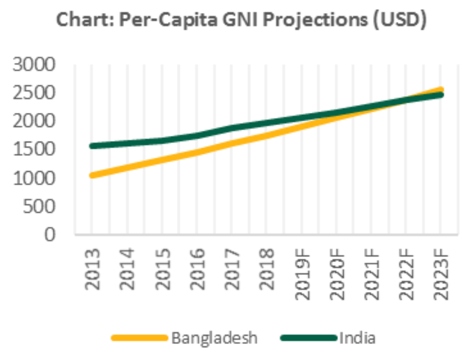
Pakistan's growth forecast is 4.8% for FY19. The largest risk to the economy is the current account deficit (5.7% of GDP) and dwindling foreign exchange reserves (equivalent to 3.8 months of imports), both which have already led to a sharp depreciation of the Pakistan Rupee.

WB forecasts 4% growth rate for Sri Lanka in FY19. High public debt (77.3% of GDP), including external debt (59% of GDP) poses risk to the Sri Lanka economy. The upcoming election pending next year elevates political uncertainty that could adversely affect the ongoing reforms and economic activity.

Bangladesh Economy: ***Growth set to approach 8% as new government assumes power***

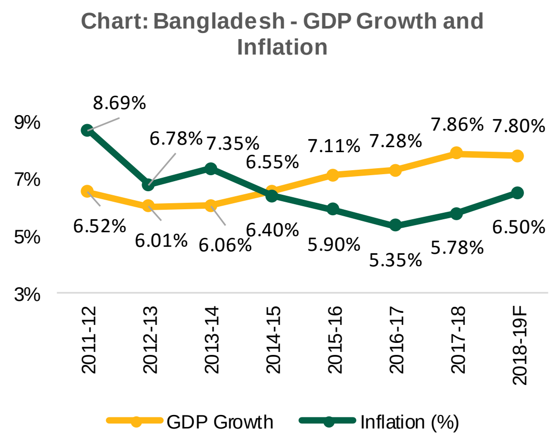
The Bangladesh economy recorded 7.86% growth in FY18, exceeding the FY18 budgetary target of 7.40%. GDP growth target for FY19 has been set at 7.80%. Growth in FY18 was the highest GDP growth recorded by the Bangladesh economy in recent times, and caps a 5-year run of continuous increases in the GDP growth rate. Bangladesh had the highest GDP growth rate in the South Asia region in FY18, beating India, whose GDP grew 6.7% for the same period. GDP growth is forecast to approach the 8% level in FY19 and beyond.

In USD terms, the size of economy reached USD 274 billion in FY18. The per-capita GDP now stands at USD 1,675 and the per-capita income stands at USD 1,751, a 8.76% growth over the previous fiscal year. At current growth rates, Bangladesh is set to overtake India in per-capita GNI by 2022.

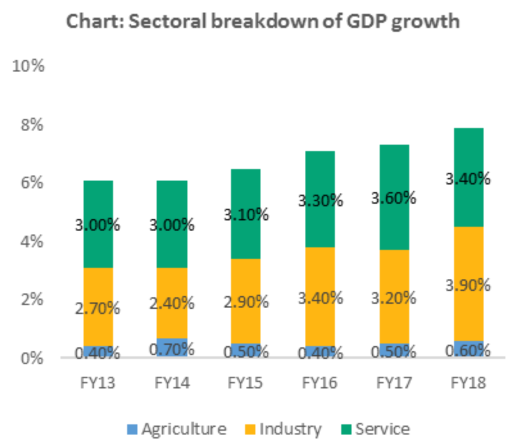


A stable political and macroeconomic environment in FY18 contributed to a broad-based pick-up in economic activity. No major political or security-related disruptions occurred in FY18, suggesting that the country has gradually moved into a new regime that will be marked by greater political stability and consequently higher growth rates. The unemployment rate currently stands at 4.2%, although maintaining low levels of unemployment has emerged as a major challenge for the government, with more than 2.2 million people joining the workforce annually, according to the World Bank.

The incumbent ruling party won the general elections held on 30 December 2018. This is expected to lead to continued political stability for the next 5 years, setting the stage for uninterrupted progress on the many public sector projects undertaken by the government in its previous term.



The relatively peaceful transfer of power is also expected to increase business optimism, consequently leading to growth in private sector investments. Growth is expected to continue full swing from second half of FY19 after the new government is formed. We expect GDP growth to approach the 8% level in FY19 and beyond, driven by strong domestic demand and gross fixed investment.



The Industry sector is expected to continue to play an important role, with both manufacturing and construction sectors taking the lead as the country undergoes a process of industrialization and urbanization. Massive investment in power and infrastructure projects are expected to start to pay off in the near future, further boosting manufacturing and exports.

Real Economy: *Industry will drive GDP growth for foreseeable future*

Growth in FY19 and beyond will be driven by industry. The industry sector grew 17.13% in FY18. The industry sector's contribution to GDP has grown from 26.15% in FY10 to 30.17% in FY18. In contrast, the agriculture sector has seen its share of GDP shrink from 17.80% in FY10 to 13.82% in FY18. The service sector has seen its share of GDP stay constant at around 56% of GDP.

Industrial growth has been driven mainly by the manufacturing sector, which increased its share of GDP from 16.89% to 18.99% between FY10 and FY18, and grew by 18.23% in FY18. This underlines the steady process of industrialization of the Bangladesh economy. As public sector projects in power and transport infrastructure start to come online, we expect them to facilitate increased private sector investments in the manufacturing sector, leading to continued growth in the future. Consequently, manufacturing is set to continue to drive GDP growth going forward. Construction has also seen stellar growth, taking its share of GDP from 6.50% in FY10 to 7.98% in FY18. The construction sector grew by 16.25% in FY18 and is similarly expected to show robust growth in coming years driven by increasing private sector investments, remittance and per-capita incomes.

Agriculture has seen its share of GDP shrink steadily throughout the years, declining from 17.80% of GDP in FY10 to 13.82% in FY18. While agriculture grew at 11.02% in FY18, its contribution to GDP is expected to continue to shrink as growth rate is overtaken by the industry and service sectors as a consequence of an industrializing economy.

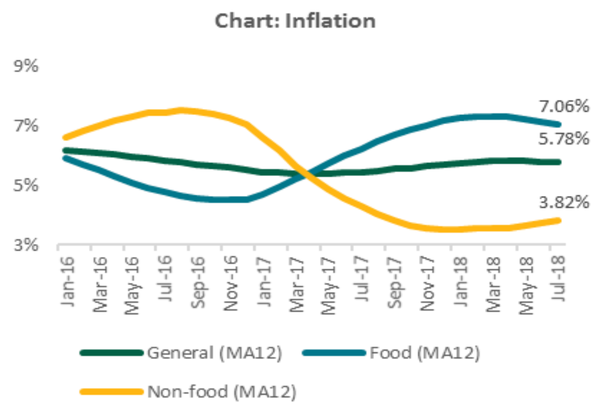
The service sector has grown at the same rate of the overall economy. Its share of GDP has changed slightly from 56.04% in FY10 to 56.00% in FY18. Public Administration increased its share of GDP from 3.34% to 4.24% between FY10 and FY18, and grew 15.3% in FY18. Due to the stable political environment, public administration is set to continue growing at high rates for the future. Likewise, Education has increased its share of GDP from 2.4% to 3.03% in the FY10-FY18 period. Education grew at 13.41% in FY18 and is set to continue to grow at high rates due to demographic factors and higher per-capita incomes. Real Estate and Financial Intermediation are also expected to grow at high rates due to urbanization and rising per-capita incomes.

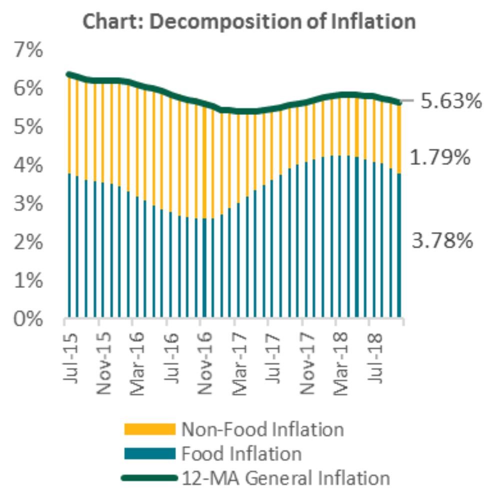
Table: Sectoral Share of GDP and Growth Rate

Sector	Sectoral Contribution		Sectoral Growth
	FY10	FY18	FY18
Agriculture	17.80%	13.82%	11.02%
Industry	26.15%	30.17%	17.13%
o/w Manufacturing	16.89%	18.99%	18.23%
Electricity, Water and Gas Supply	1.10%	1.38%	11.78%
Construction	6.50%	7.98%	16.25%
Service	56.04%	56.00%	12.80%
o/w Trade	14.00%	13.15%	14.70%
Transport	10.57%	9.61%	9.38%
Financial Intermediation	3.08%	3.93%	14.38%
Real Estate	7.15%	7.82%	15.14%
Public Administration	3.34%	4.24%	15.03%
Education	2.40%	3.03%	13.41%
Community Services	12.57%	11.11%	10.35%
Total	100%	100%	

Inflation Outlook 2019: *In-Depth Study on factors affecting CPI inflation in Bangladesh*

An in-depth analysis was conducted to identify the factors which affect CPI inflation in Bangladesh. Among the factors studied were broad money (M2) growth, lagged effect of Indian CPI inflation, exchange rate depreciation and domestic fuel prices. The analysis suggests that inflation is likely to rise from the 12-month average inflation level of 5.78% in FY18. Food inflation is expected to remain muted due to adequate harvests and low inflation in neighbouring India, while non-food inflation faces upside risks due to the potential for domestic fuel price hike and exchange rate depreciation. We forecast 12-month average inflation to remain in the 5.50%-6.00% range in FY19.



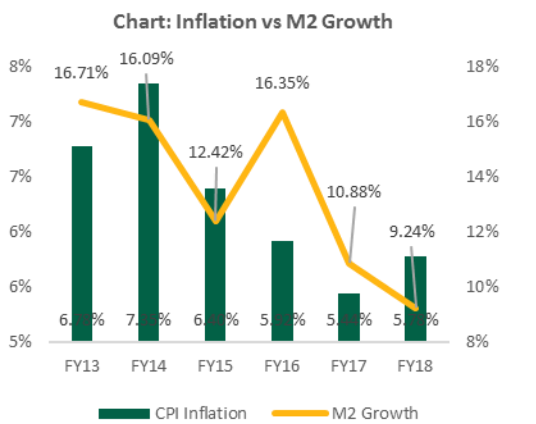


Inflation reduced to a low of 5.44% in the 2016-17 fiscal year, supported by prudent central bank policy, decrease in oil prices in the international market and a stable exchange rate. But the trend has since reversed, as inflation spiked up in FY18 because massive floods during early 2017 destroyed the main Boro rice crop of the country. Government rice reserves did not have sufficient stocks to cover the shortage, and as a result of the supply shock food inflation spiked sharply up, causing general inflation to rise to 5.78% for the 2017-18 fiscal year.

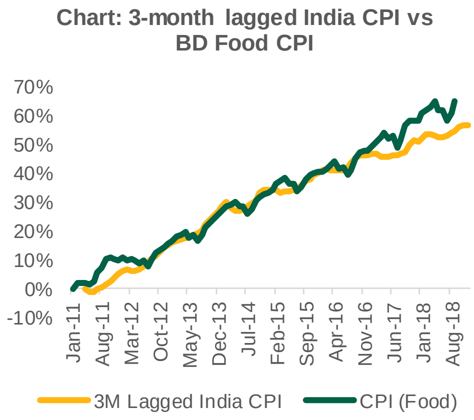
Since then, greatly increased food grain imports along with bumper rice harvests have brought food inflation back down, although non-food inflation has recently started to rise. General inflation stood at 5.55% in December 2018.

The price of rice is the largest factor affecting inflation as a whole, with a 1% increase in price of rice increasing general inflation by 0.52%. Price of fuel is the second most important determinant of inflation rates (a 1% increase in fuel price increases general inflation by 0.16%), followed by prices of clothing, vegetables, medical and educational services.

Bangladesh has seen a general decline in annual inflation rates since FY14, when 12-month average inflation reached a high of 7.35%. The prime reason for the decline was a more contractionary stance by Bangladesh Bank, which has steadily reduced its broad money (M2) growth target over the years. The monetary policy statement (MPS) for the first half of FY19 continued this trend, reducing M2 growth target from 13.30% to 12.0%.

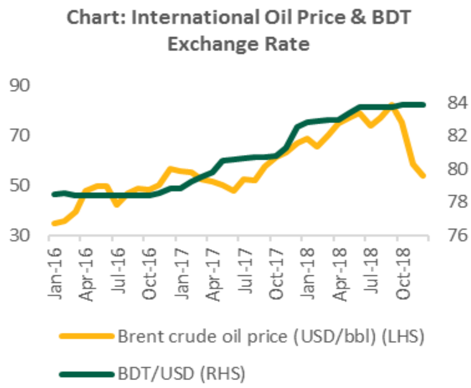


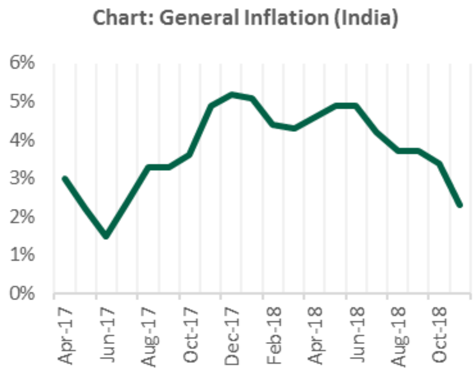
Bangladesh imports a significant amount of agricultural products from India. Therefore, the price level of agricultural commodities in India affect prices of agricultural commodities in Bangladesh as well, which influences food inflation in Bangladesh. A statistically significant relationship has been found for the 3-month lagged CPI in India and the current food inflation in Bangladesh. The inflation rate in India stood at 2.33% as of November 2018, down from 4.9% in June 2018. Although inflation had been on a rising trend in India from November 2017 to July 2018 due to rising oil prices and a depreciating rupee, the sudden fall in oil prices and a rally in the value of the INR against the USD has led to inflation falling down below the 3% mark.



Bangladesh food inflation has been declining since April 2018, due to adequate stocks of food grains. Any acceleration in inflation in India, for example, due to pre-election spending, could threaten this continued decline. Otherwise, both rice production and storage is enough to keep food inflation under control for the foreseeable future.

While food inflation is expected to remain restrained in 2019, non-food inflation faces some upside risks. The largest determinant of non-food inflation in Bangladesh is domestic price of fuel, followed by the exchange rate of the BDT against the USD. Oil prices have been on a continuous rising trend since 2016, with Brent crude oil rising from the USD 40 level in 2016 to above USD 80 in September 2018 in anticipation of US sanctions on Iran. However, surprise waivers granted to some of Iran's top export partners led to a sudden oversupply and crude prices plummeted starting from September 2018, with Brent crude falling to USD 53.8/bbl in December 2018. The fall in oil prices is likely to blunt the magnitude of fuel price hike. On the other hand, the introduction of imported LNG to the national gas supply network is likely to lead to an increase in price of natural gas, which will edge up non-food inflation.





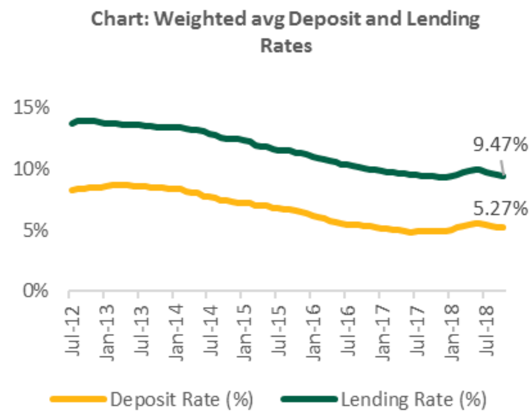
Increasing interest rates in the US amid strong economic growth, coupled with a record high current account deficit has caused the BDT to depreciate against the USD, from a level of 78.4 in October 2016 to a level of 83.90 in December 2018. The overall balance of payments deficit stood at USD 837 mn in the July-November period of FY19. If the deficit does not reverse, the BDT is likely to depreciate. This will drive up prices of imported goods, which are also expected to edge up non-food inflation, and general CPI inflation as a result.

The central bank has been very active in FY18 in keeping the exchange rate of the BD stable versus the US dollar, selling USD 2.31 billion in the inter-bank market in the 2017-18 fiscal year. The US dollar sales have continued in the 2018-19 fiscal year as well, with the central bank injecting USD 200 million in the first four months of the fiscal year. As a result, foreign exchange reserves have come down to USD 32.9 billion in June 2018, down from USD 33.5 billion in June 2017. Since a new government has been elected, it is likely that central bank will reduce its sales of the USD in order to preserve the nation's foreign exchange reserves from further erosion.

With a new government securely in power, domestic energy prices are likely to be hiked in 2019, while the BDT has an outside chance of depreciation. These moves are likely to cause non-food inflation to spike up, leading to general inflation rising as well.

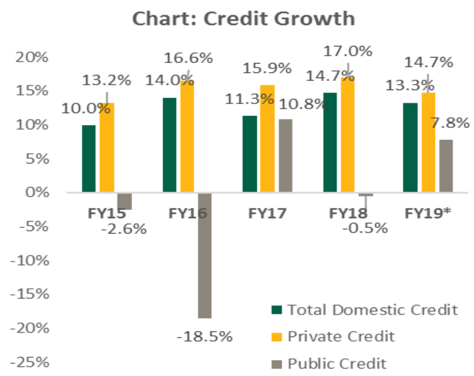
Interest Rate Outlook: *Increased investment and higher borrowing from banking system likely to edge up rates*

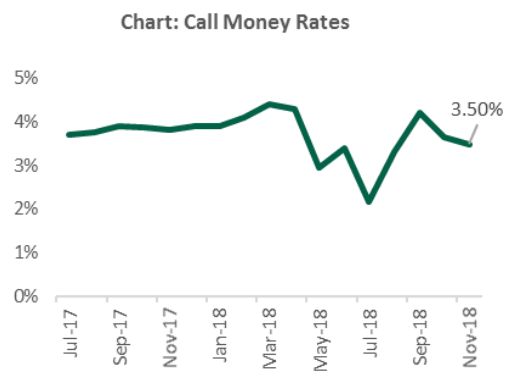
Interest rates are likely to increase in 2019 on back of increased public and private sector credit from banking system. Bank interest rates has been on a declining trend for the past 6 years, with lending rates coming down from 13.75% in June 2012 to 9.47% in October 2018. The decline can be attributed to two main factors. Inflation rates have been tamed over the past five years due to tighter monetary targets adopted by the central bank, resulting in lower nominal interest rates. A poor private investment environment due to lack of infrastructure also caused a huge amount of excess liquidity to build up in the banking sector. Competition between banks forced the interest rates to come down as a result and the spread has also steadily come down, reaching 4.22% in October 2018.



Deposit growth has been on a downtrend from the start of 2017, reaching a low of 5.40% in March 2018 before starting to rise again due to increased interest rates on deposits. Should the NSC rate be revised downward in 2019, we forecast that deposit growth rates are likely to rise to the 12% level and above.

Improvement in infrastructure and low interest rates caused the investment situation to improve, and private sector credit growth started to spike up, reaching 19.06% in November 2017, which exceeded the monetary policy target of 16.3%. This spurred the central bank to reduce the advance to deposit ratio of banks from 85.0% to 83.50%. Along with diminished excess liquidity and reduced NFA growth due to the current account deficit, this caused some tightening in the domestic liquidity condition, leading the central bank to cut the cash reserve ratio (CRR) from 6.50% to 5.50%, lower the repo rate from 6.75% to 6.00% and increase the limit of government deposits in private banks from 25% to 50%. These moves addressed the liquidity shortage with the call money rate came down from 4.0% in March 2018 to 2.96% in May 2018. The private sector credit growth was brought down to 16.94% for FY18, slightly over the central bank target of 16.80%.



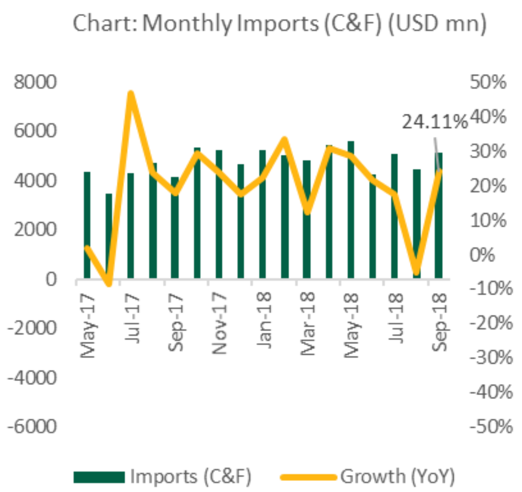


Public sector credit growth has declined throughout FY18, but is expected to rise in 2019. Government borrowing will reach BDT 94.65 bn by December 2018 due to election-related expenditures. This is expected to take year-on-year public sector credit growth to 17.51% in December 2018. If the government takes action to reduce NSC rates in 2019, public sector credit growth will be further boosted, and public sector credit growth is likely to end up above the monetary policy target of 8.50% by June 2019.

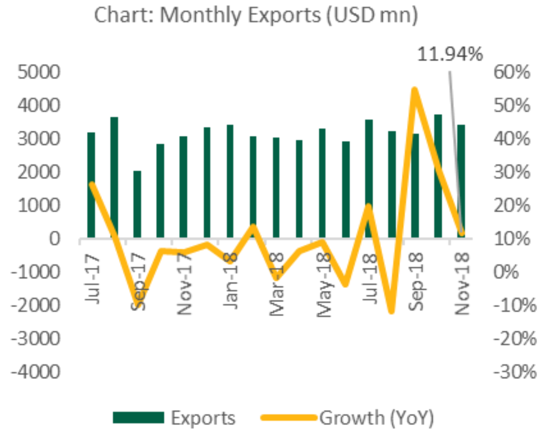
All of the factors point towards a greater likelihood of demand for investable funds outpacing supply, leading to our forecast of a 100-300 bps rise in interest rates in 2019.

External Sector Outlook: *Exports and Remittance to rebound while import growth to moderate*

Exports are likely to rebound and grow around 16% in FY19. Exports witnessed meagre growth of only 5.81% in FY18. A number of factors were responsible for this, including disruption in RMG factories due to remediation works, relocation of leather industries to a new leather estate in Savar, and relatively greater depreciation of currencies of countries competing for exports. The scenario changed with the imposition of tariffs on Chinese exports by the Trump Administration, which made Chinese-made goods more expensive in comparison to Bangladeshi goods in the US. At the same time, increasing interest rates in the US combined with a current account deficit in Bangladesh has led to the BDT depreciating by 4.02% between July 2017 and November 2018. The exchange rate stood at BDT 83.90/USD as of November 2018. Factory remediation works were also completed by 2018. As a result of these factors, exports increased by 17.24% in the July-November period of FY19.

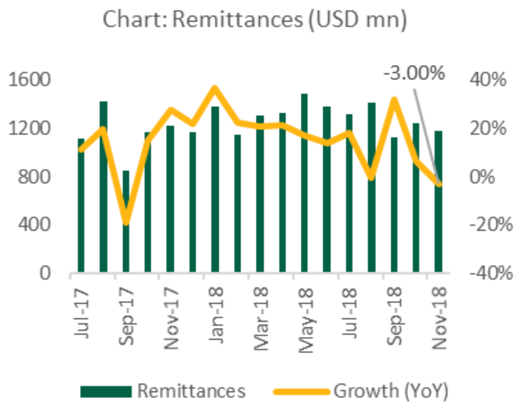


Remittances are expected to rise around 15% in FY19. A record number of workers left abroad in FY17 and FY18 (905.32 and 880.38 thousand respectively) and this is expected to cause a lagged effect as they start sending remittance back to the country. Depreciation of the BDT will also encourage the use of official channels to send back remittances which were previously sent through informal channels (hundi). However, long-term risks are evident which will limit the growth of remittances in the medium to long term. The Gulf countries, especially Saudi Arabia, the single largest source of remittances to Bangladesh, are increasingly cracking down on foreign workers to curb unemployment among their citizens.



If this trend persists, then the long-term viability of remittances from the Gulf region will be limited and main remittance sources would shift to high skilled foreign workers in the US and Europe.

Imports registered 31.75% growth in FY18, driven by increased public investment in megaprojects and massive food imports to make up for a shortfall in rice production. That has caused the current account deficit to balloon to a record USD 9.78 bn in FY18. We forecast the government to scale back on its investments in new megaprojects and focus on finishing the ones under construction. We also forecast that rice imports will be greatly diminished in FY19 due to adequate stocks of food grains in the country. LNG imports have started from 2018 and will add to the fuel import bill.



The price of oil in international markets has seen a sudden fall from USD 86/bbl at the start of October to the USD 50/bbl level by December 20. The sudden moderation of oil prices will be countered by an expected depreciation of the BDT. As a result of these factors, we forecast import growth to be 15% in FY19.

Balance of Payments: *Ballooning CA deficit may ease down in 2019*

Current Account Deficit is expected to decline in FY19 compared to the USD 9.78bn recorded in FY18. Current Account deficit was driven mainly by the trade deficit of 18.25 bn. Imports grew by 25.23% in FY18, while export growth lagged behind, registering a meagre 5.81% growth.

Bangladesh has experienced healthy balance of payments surpluses over the years, as exports and remittance have compensated for the trade deficit to keep the current account in surplus. The financial account also recorded surpluses owing to foreign direct and portfolio investments and loans. The result has been positive overall balance surpluses leading to a steady build-up of foreign exchange reserves, which hit a record high of USD 33.5 billion in June 2017.

The government subsequently undertook a number of massive infrastructure projects to build up desperately needed power and transport infrastructure around the country. These projects were financed in part by foreign partners like China and Japan. This has resulted in the current account balance steadily deteriorating due to imports of capital machinery and construction materials, sending the current account balance into deficit. In addition, widespread floods at the start of 2017 forced the government to import huge quantities of rice from the international market which further deteriorated the current account balance, which hit a record deficit of USD 9.78 billion in FY18. Unlike previous years, the financial account surplus of USD 9.08 billion was not enough to overcome the deficit, and overall balance recorded a deficit of USD 885 million. Medium and Long Term (MLT) loans recorded a large rise, reflecting the financing of investments with foreign funds.

Looking forward, we expect robust growth in remittance and exports, while food grain imports are expected to remain muted due to good harvests. As a result, we expect that the current account deficit shall moderate in FY19. The extent to which financial account inflows are able to make up for the current account deficit shall depend on the ability to attract foreign fund flows. Consequently there is a risk that the overall balance of payments may record a deficit in FY19.

Balance of Payments (USD mn)

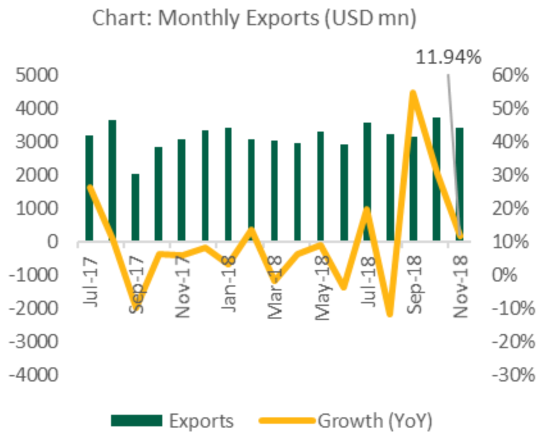
	FY13	FY14	FY15	FY16	FY17	FY18
Current Account Balance	**2,388**	**1,409**	**2,875**	**3,706**	**-1,331**	**-9,780**
o/w Trade Balance	-7,009	-6,794	-5,879	-6,274	-9,472	-18,258
Growth	*-24.80%*	*-3.07%*	*-13.47%*	*6.72%*	*50.97%*	*92.76%*
Services	-3,162	-4,096	-3,186	-2,793	-3,288	-4,574
Income	-2,369	-2,635	-2,869	-2,582	-1,870	-2,392
Remittances	14,338	14,116	15,170	14,717	12,769	14,982
Growth	*12.60%*	*-1.55%*	*7.47%*	*-2.99%*	*-13.24%*	*17.33%*
Capital Account	**629**	**598**	**496**	**478**	**400**	**292**
Financial Account	**2,863**	**2,813**	**1,925**	**1,610**	**4,247**	**9,076**
o/w Foreign Direct Investment	1,726	1,432	1,830	2,001	3,038	2,798
Growth	*44.92%*	*-17.03%*	*27.79%*	*9.34%*	*51.82%*	*-7.90%*
MLT loans	2,085	2,404	2,472	2,904	3,218	5,785
Errors & Omissions	-752	663	-923	-758	-147	-473
Overall Balance	**5,128**	**5,483**	**4,373**	**5,036**	**3,169**	**-885**

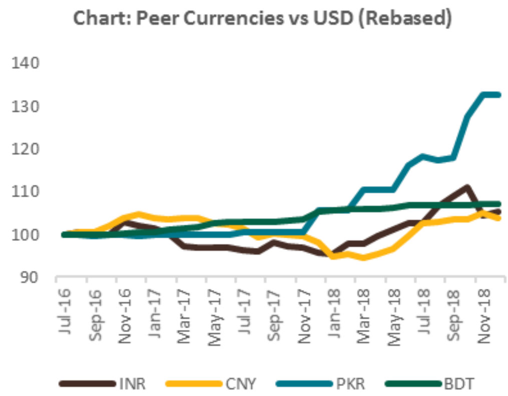
Exchange Rate Outlook: *BDT has an outside chance of depreciating in 2019*

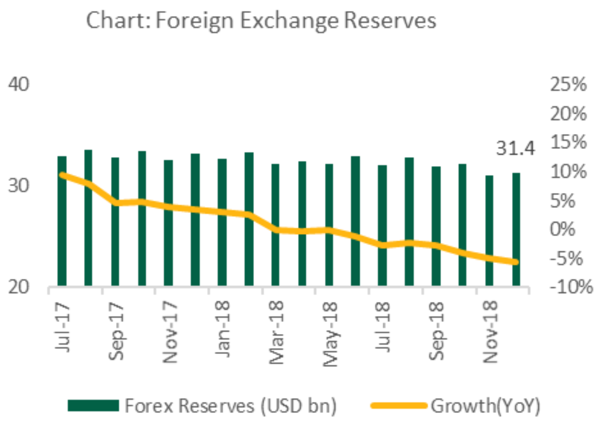
The BDT faces risk of depreciation in 2019 owing to the overall balance of payments deficit. The BDT has remained relatively stable against the USD compared to regional peers. Both the INR and the PKR have seen their currencies depreciate further (11% and 17% respectively) compared to the BDT (7%) since 2016. The Chinese Yuan on the other hand, has depreciated the least. This is expected to lead to competition for exports from India and especially Pakistan as they gain a cost advantage due to their currency depreciation.

The central bank has injected USD 2.3 bn in FY18 in order to prevent the depreciation of the BDT. The central bank has indicated its willingness to allow greater exchange rate flexibility in its monetary policy statement for the first half of FY19. On the other hand, the current account deficit stood at USD 2.56 bn in the Jul-Nov period of FY19. A concurrent fall in financial account inflows resulted in an overall balance of payments deficit of USD 837 mn in the Jul-Nov period of FY19.

The overall balance of payments deficit was USD 885 mn in all of FY18. The balance of payments deficit in conjunction with the central bank's stance of desiring greater exchange rate flexibility increases the chances that the BDT will depreciate against the USD in 2019.





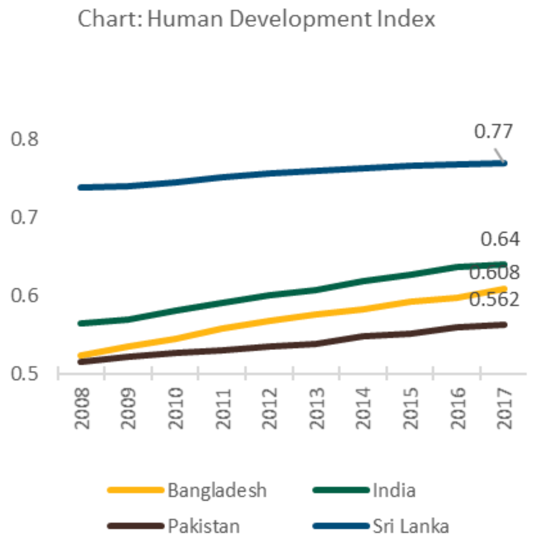


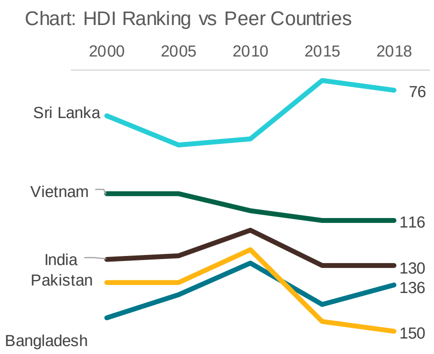
Foreign exchange reserves have stayed largely stable in FY18 at the USD 32 bn level, equivalent to 5.9 months of import payments. However, the growth of foreign exchange reserves experienced in FY15 to FY17 has largely come to a standstill due to the balance of payments. Although we may witness large outflows of foreign exchange due to the large number of infrastructure projects being implemented by the government, reserves are expected to stay at a comfortable level in 2019 adequate for 4.5-5 months of import payments.

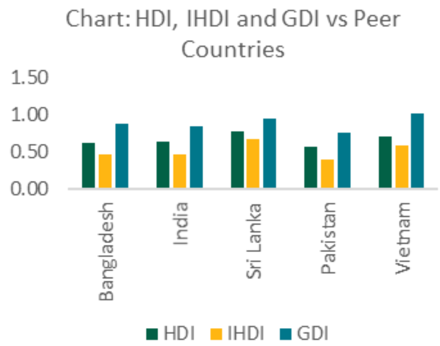
In-Depth Look: *Bangladesh moves up 3 notches in HDI rankings*

The 2018 Statistical Update to the Human Development Indices and Indicators was published by the United Nations Development Programme in September 2018. The Human Development Index is a development indicator which combines three different statistics: average life expectancy, expected and mean years of education, and per-capita income to arrive at a composite measure of human well-being.

Bangladesh's HDI was calculated to be 0.608, which ranked 136th in the world. This represented an improvement of 3 places from the 139th place it achieved in 2015. Bangladesh would have climbed up 4 places had it not been for the inclusion of the Marshall Islands in the ranking for the first time. Bangladesh's life expectancy at birth stood at 72.8 years, expected years of schooling stood at 11.4 years and per-capita income stood at 3,677 PPP-adjusted dollars.







During the past five years, Bangladesh has moved up seven places in the world rankings, with its HDI growing by 7%. This represents a great achievement for Bangladesh, however it should be seen in appropriate context. The average HDI for the South Asian region stood at 0.638 in 2017, meaning that Bangladesh, despite its remarkable progress, is still behind the South Asian average.

The report included also adjusted HDI for inequality to capture the effects of inequality in society. Bangladesh's

HDI score dropped by 24.1% when adjusted for inequality, compared to 26.8% for India, 31.0% for Pakistan and 13.8% for Sri Lanka. When adjusted for inequality, Bangladesh's HDI ranking drops by 1 place to 137, compared to 0 places for Sri Lanka. The HDI rankings of India and Pakistan also drop by 1 place when adjusted for inequality.

Bangladesh also scores better than its peers in South Asia when it comes to gender parity. The Female HDI is 88.1% that of the male HDI, as against 84.1% in India and 75% in Pakistan. In Sri Lanka, female HDI is 93.5% that of male HDI.

Overall, Sri Lanka scores far above the rest of South Asia when it comes to human development. Bangladesh scores better than India and Pakistan when it comes to measures of education, child mortality, inequality and gender parity. However, Bangladesh lags behind in the per-capita income component of HDI, which is responsible to a large degree for its low overall HDI score. This indicates that Bangladesh has been more successful than its peers in utilizing limited income in improving human indicators. The task of the government in the future will be to translate the developments in health and education into shared economic growth.

Disclaimer

This document ("the Report") is published by LankaBangla Asset Management Company Ltd ("LBAMCL") for information of its clients only. All information and analysis in this Report have been compiled from and analyzed on the basis of LBAMCL's own research of publicly available documentation and information. LBAMCL has prepared the Report solely for informational purposes and consistent with Rules and regulations of SEC. The information provided in the Report is not intended to, and does not encompass all the factors to be considered in a best execution analysis and related order routing determinations. LBAMCL does not represent, warrant, or guarantee that the Report is accurate. LBAMCL disclaims liability for any direct, indirect, punitive, special, consequential, or incidental damages related to the Reports or the use of the Report. The information and analysis provided in the Report may be impacted by market data system outages or errors, both internal and external, and affected by frequent movement of market and events. Certain assumptions have been made in preparing the Report, and changes to the assumptions may have a material impact on results. The Report does not endorse or recommend any particular security or market participant. LBAMCL, its analysts and officers confirm that they have not received and will not receive any direct or indirect compensation in exchange for expressing any specific recommendation, opinion or views in its Report. The information and data provided herein is the exclusive property of LBAMCL and cannot be redistributed in any form or manner without the prior written consent of LBAMCL. This disclaimer applies to the Report in their entirety, irrespective of whether the Report is used or viewed in whole or in part.

LBAMCL Research

M A Faisal Mahmud	Chief Investment Officer	faisal@lankabangla.com
Simon Ibn Muzib	Fund Manager	simon.muzib@lankabangla.com
Azmal Hossain Rafi	Research Analyst	azmal.hossain@lankabangla.com
Mostafa Noman	Research Analyst	mostafa.noman@lankabangla.com
Abdullah Al Shaekh	Research Analyst	abdullah.shaekh@lankabangla.com
Bilkish Barkat Ali	Research Analyst	bilkish.ali@lankabangla.com
Md Rakibuzzaman	Alternative Investment Analyst	rakib.zaman@lankabangla.com
Saad Niamatullah	Alternative Investment Analyst	saad.niamatullah@lankabangla.com

LankaBangla Asset Management Company Limited
Corporate Office
Praasad Trade Center (4th Floor)
6 Kemal Ataturk Avenue
Banani C/A, Dhaka-1213
Phone: +880-2-9820219-21
Fax: +880-2-9822159
Email: amcl@lankabangla.com
Website: www.lbamcl.com

LBAMCL's research reports are also available on

http://www.lbamcl.com