



Developing Long-term Finance Markets to Support New Growth Opportunities

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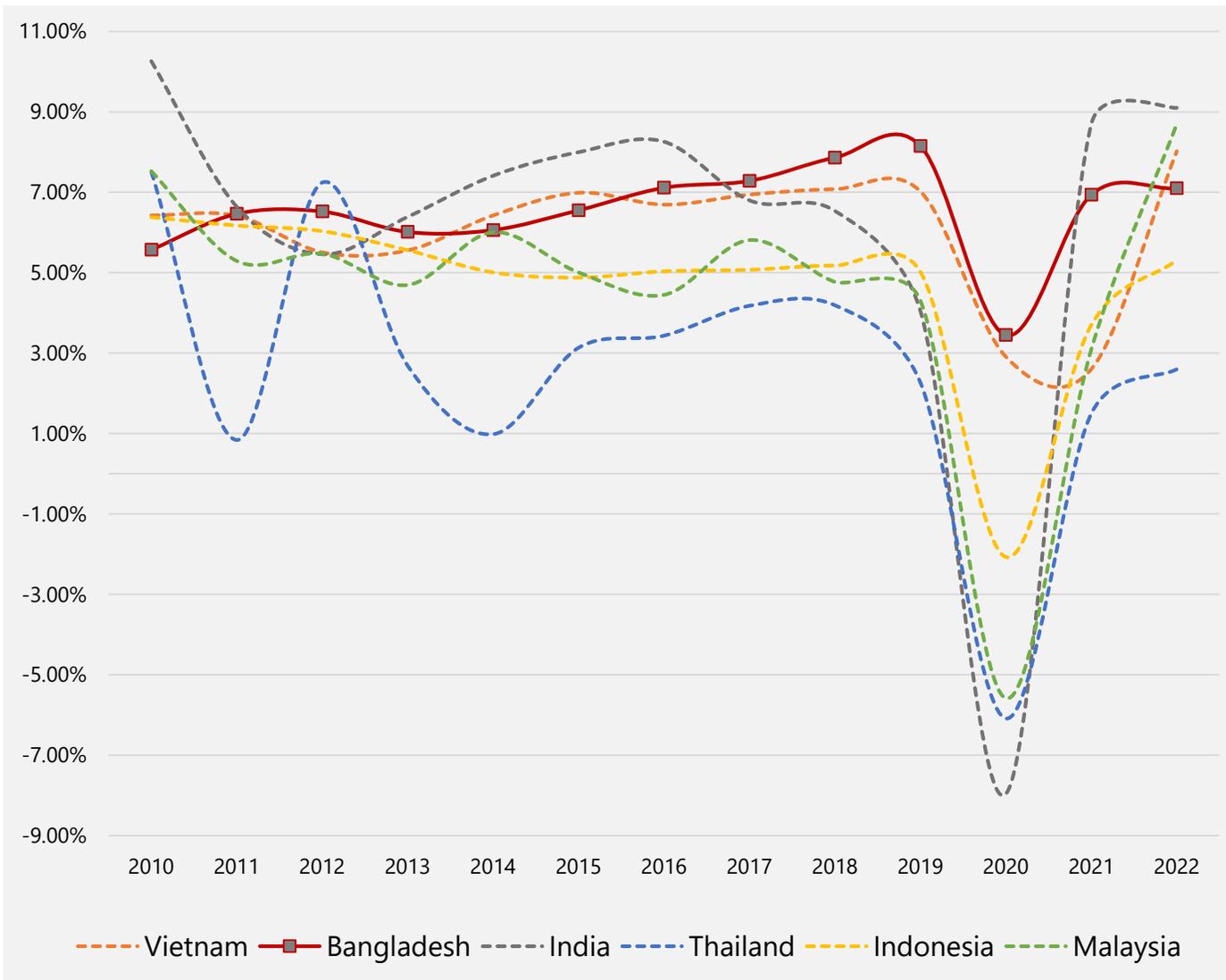
Shanta Asset Management Ltd.

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Bangladesh Story



Bangladesh historically maintained a stable high-growth trajectory



- During the last decade (2010-2022), a CAGR of 6.5% in real GDP growth with standard deviation of only 1.2%
- In 2022, GDP growth was 7.1%

All the forecasts are in favor of an optimistic future



Bangladesh's economy to be **20th largest** by 2037



Bangladesh is projected to be the **23rd largest** by 2050



Bangladesh to become **9th largest** consumer market by 2030

A rising consumer class (MAC) will continue the growth momentum



Bangladesh



Vietnam



Thailand



Philippines



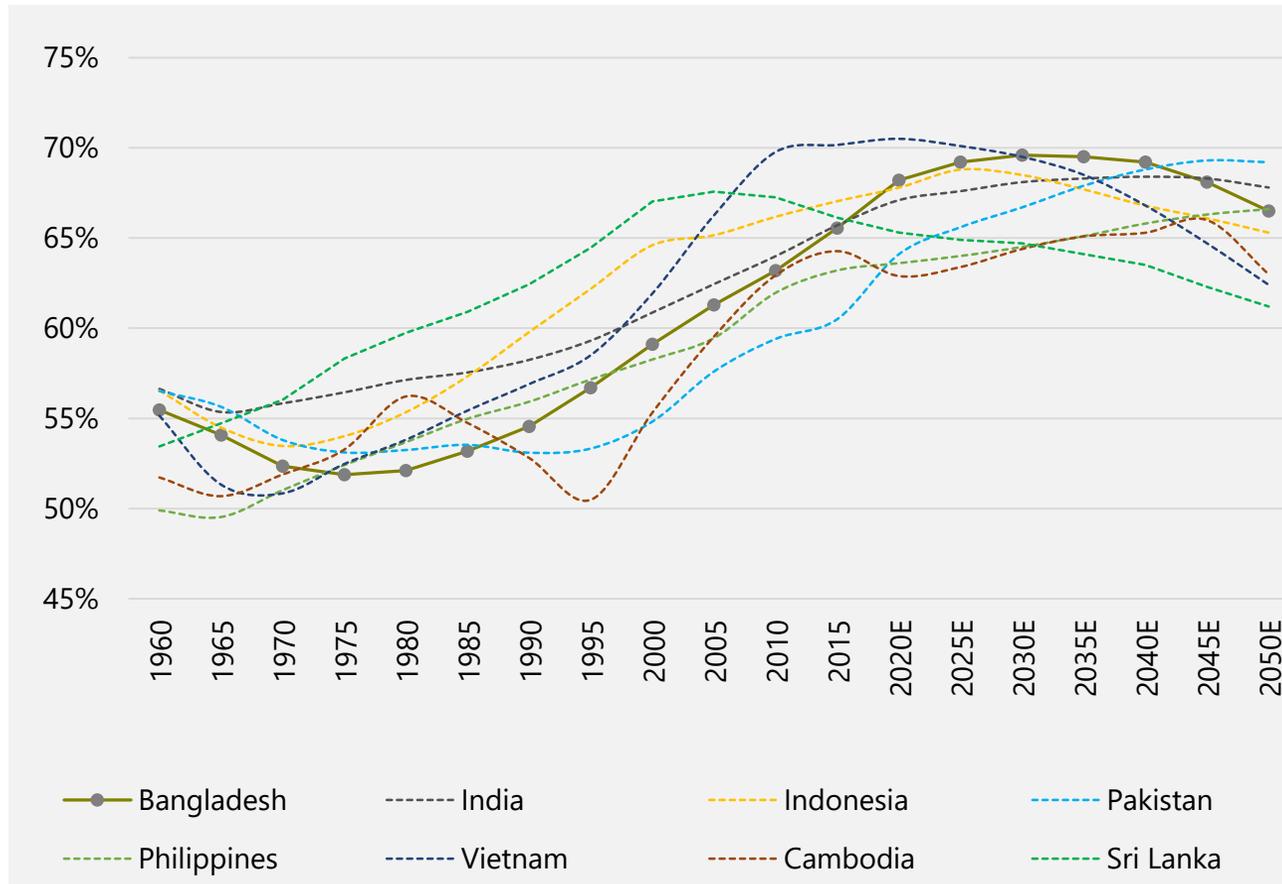
Indonesia



India

Source: BCG Consultant

Bangladesh to get the benefits of demographic dividend till 2035



- Median age of 27.6 years
- 65% population ages from 15 to 64.
- The rise in working age population ratio is likely to sustain till 2035, thus continuing the demographic dividend till that period.

Source: World Bank, BBS

Completion of the mega infrastructure projects is likely to scale up the economy



Rooppur Nuclear Power Plant
Total Cost USD 12.65 Billion
Commencement 2017
Estimated Completion 2025



Matarbari Power Plant
Total Cost USD 4.40 Billion
Commencement 2014
Estimated Completion 2024



Padma Multipurpose Bridge
Total Cost USD 3.65 Billion
Commencement 2009
Completed in 2022



Padma Rail Link
Total Cost USD 4.63 Billion
Commencement 2017
Estimated Completion 2024



Dhaka Metro Rail
Total Cost USD 2.82 Billion
Commencement 2012
Estimated Completion 2025



Chattogram-Cox's Bazar Railway
Total Cost USD 2.13 Billion
Commencement 2018
Estimated Completion 2024



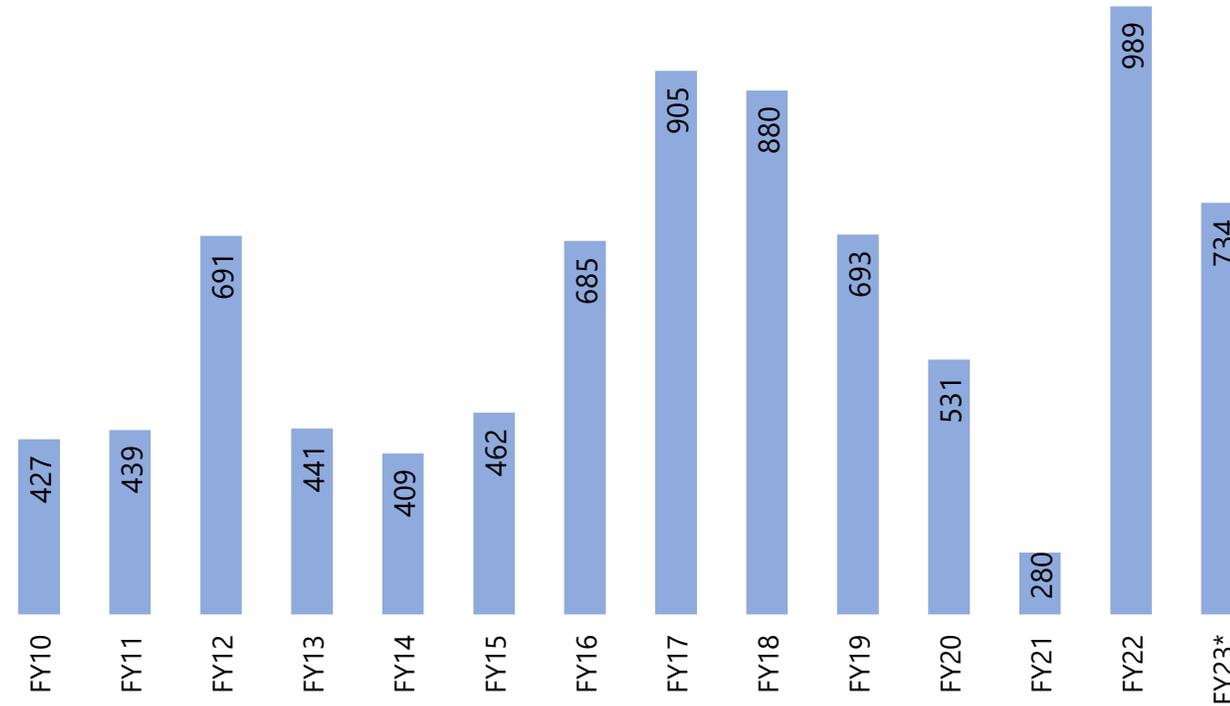
Karnaphuli Underwater Tunnel
Total Cost USD 2.49 Billion
Commencement 2017
Estimated Completion 2023



Dhaka Airport Third Terminal
Total Cost USD 2.30 Billion
Commencement 2019
Estimated Completion 2023

Most of the mega projects are likely to be completed **by 2024**

Remittance to surge as the number of expatriates has been on higher trajectory for the last 2 years



Number in '000

Source: BMET
*data till Feb 2023

- Close to 100,000 people have been leaving abroad every month since last year as countries like Malaysia reopened their labor market for Bangladesh.
- More than 213 thousand people went abroad during the Jan-Feb' 2023 period.

Recent Challenges in Bangladesh Economy



Negative BoP



Forex Reserve Fall below 3-month import payment



Further BDT Depreciation



Tackle high commodity price

Measures taken by the Government to tackle short term challenges



Curtailing Import

- Luxury import discouraged
- LC opening down 22.5% (YoY) in the H1'FY23 period



Increase of Fertilizer import

- Govt. decided to by 180 thousand MT fertilizer to avoid any food shortage



Negotiation with different countries

- Deal with KSA to establish fertilizer manufacturing company in KSA
- Negotiation with Brunei on LNG supply and air service
- Petroleum import from IndianOil Corporation



Negotiation with multilateral organizations

- IMF started disbursement of USD 4.7bn loan
- USD 4-bn loan from Korea is in pipeline
- Talk begins with WB for USD 2.0 bn loan

IMF approved **USD 4.7bn** credit facility for Bangladesh



The 42-month credit program will be implemented in two ways

Extended Credit Facility (ECF)

**USD
3.3 bn**

**Resilience and Sustainability
Facility (RSF)**

**USD
1.4 bn**

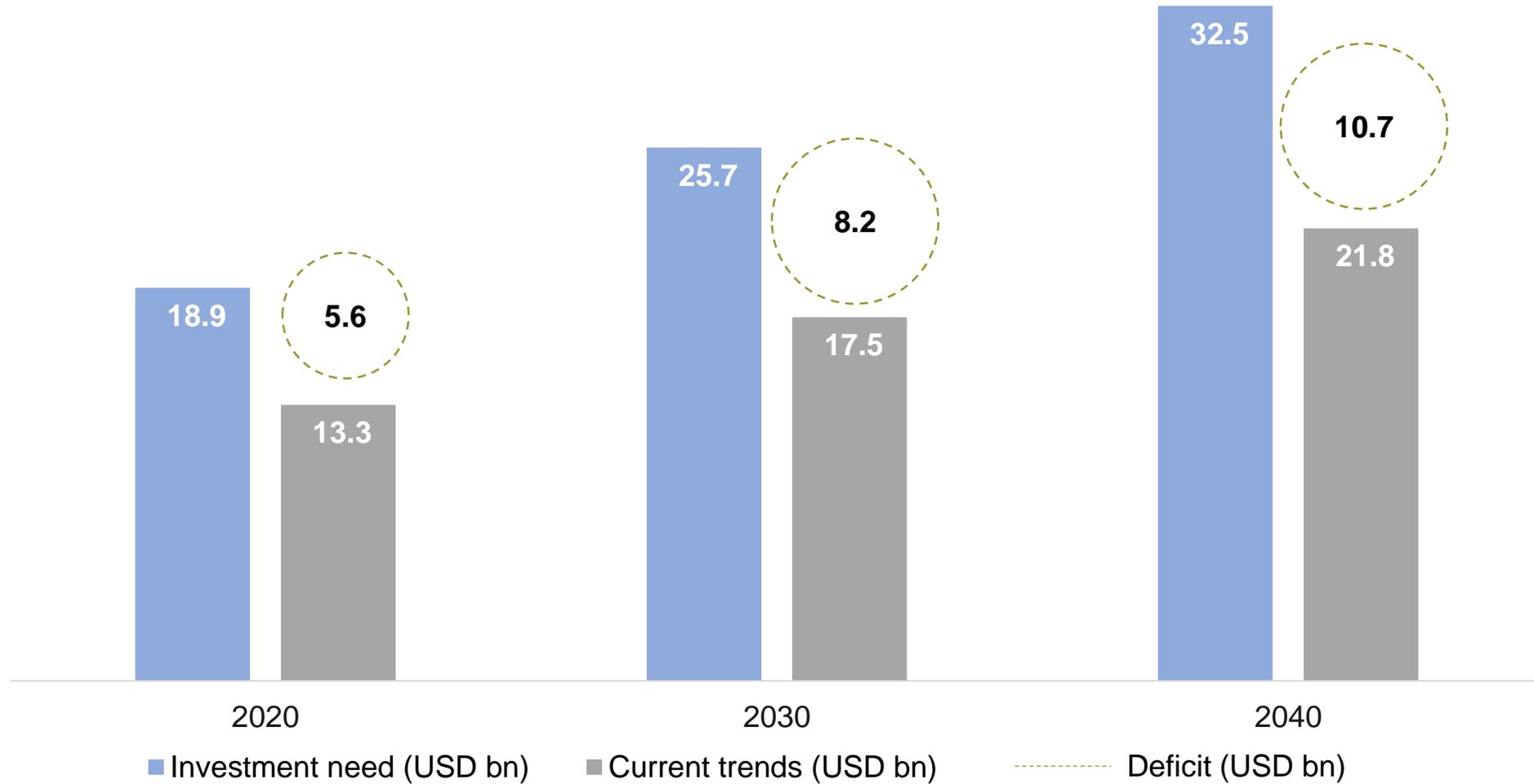
- Bangladesh received 1st installment of USD 476 mn on Feb 02, 2023
- Remaining amount will be disbursed in six (6) equal installments of USD 704 mn each.
- Bangladesh is the first Asian country to access the RSF



Sources of Long-term Finance

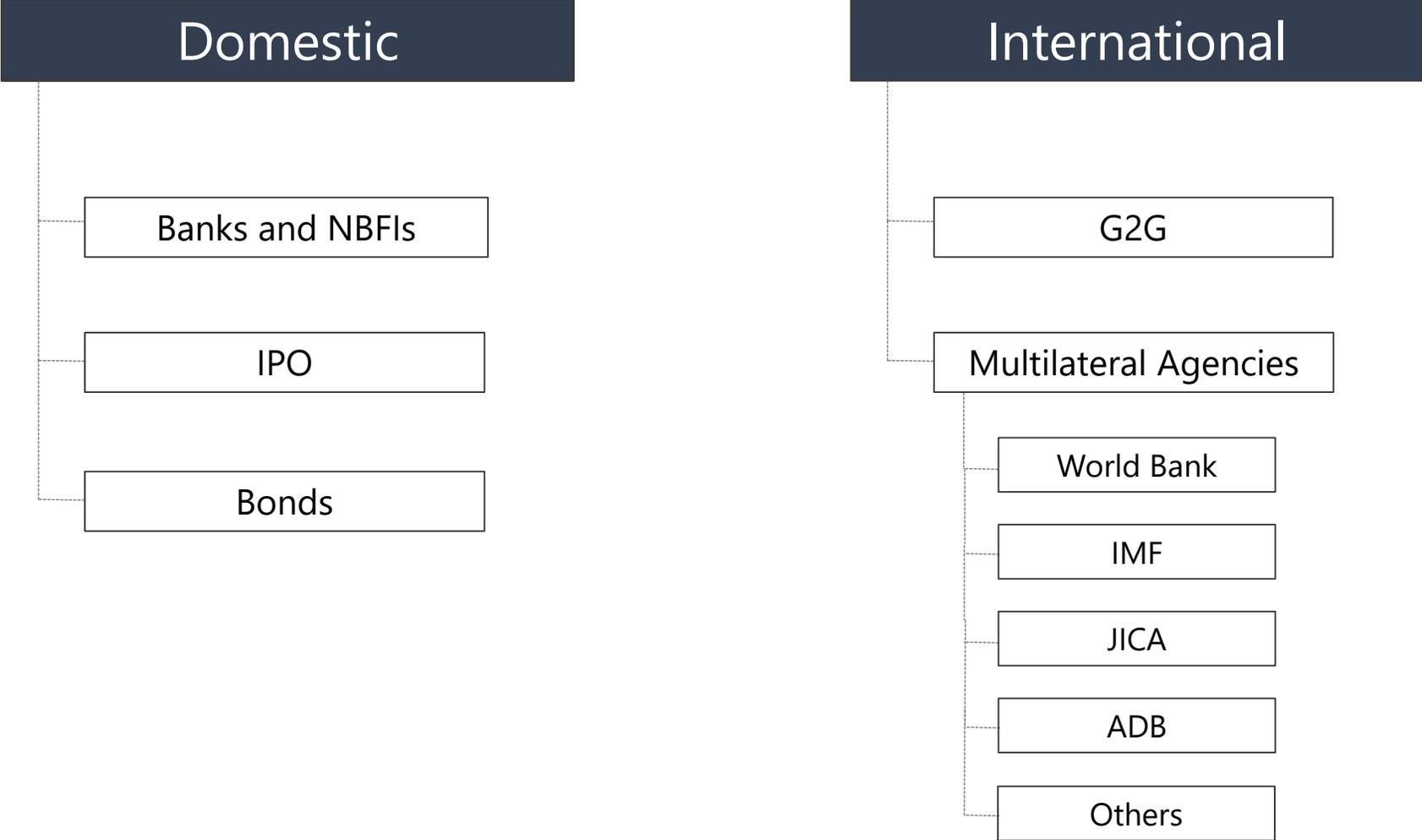


To continue the growth momentum, Bangladesh needs \$480bn investment until 2040 to become a developed nation

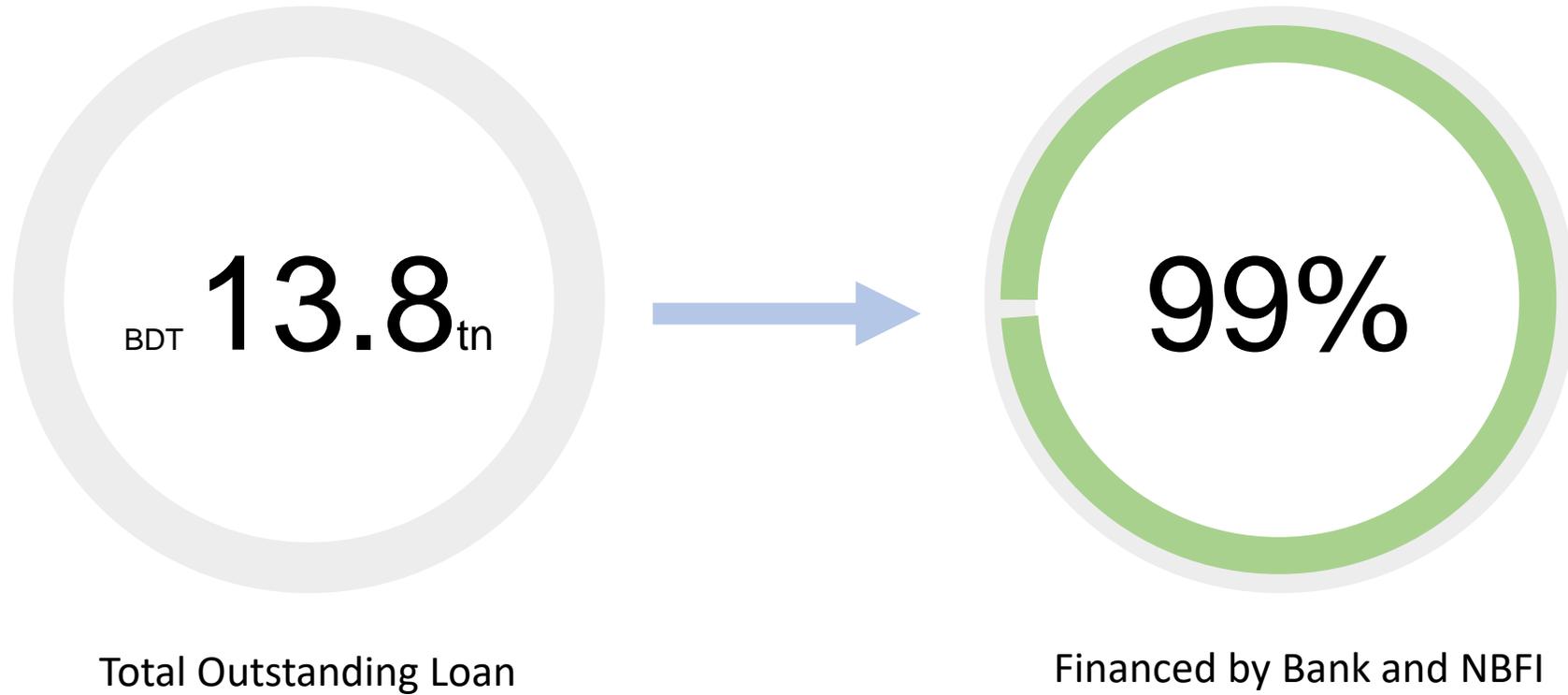


Source: Global Infrastructure Outlook

At present, we avail financing from both domestic & international sources; however, major funding comes from domestic sources



On domestic front, it is bank loans which provides c99% financing



*Source: Bangladesh Bank, The Daily Star & SAML Research
Data as of September 2022*

Only c1% financing comes from capital market

Yearly Bank Loan Disbursement

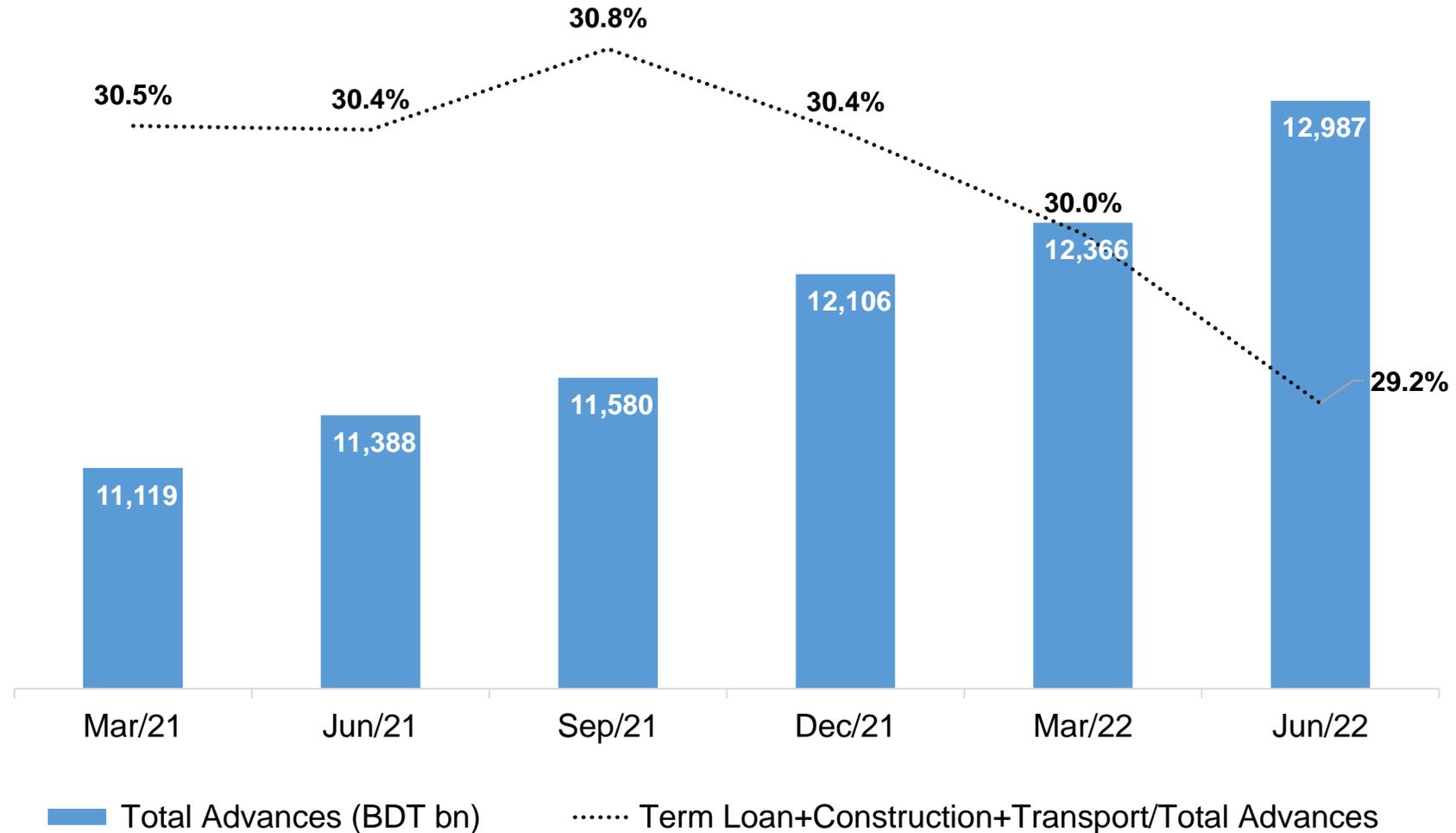


Raising from Capital Market (yearly)



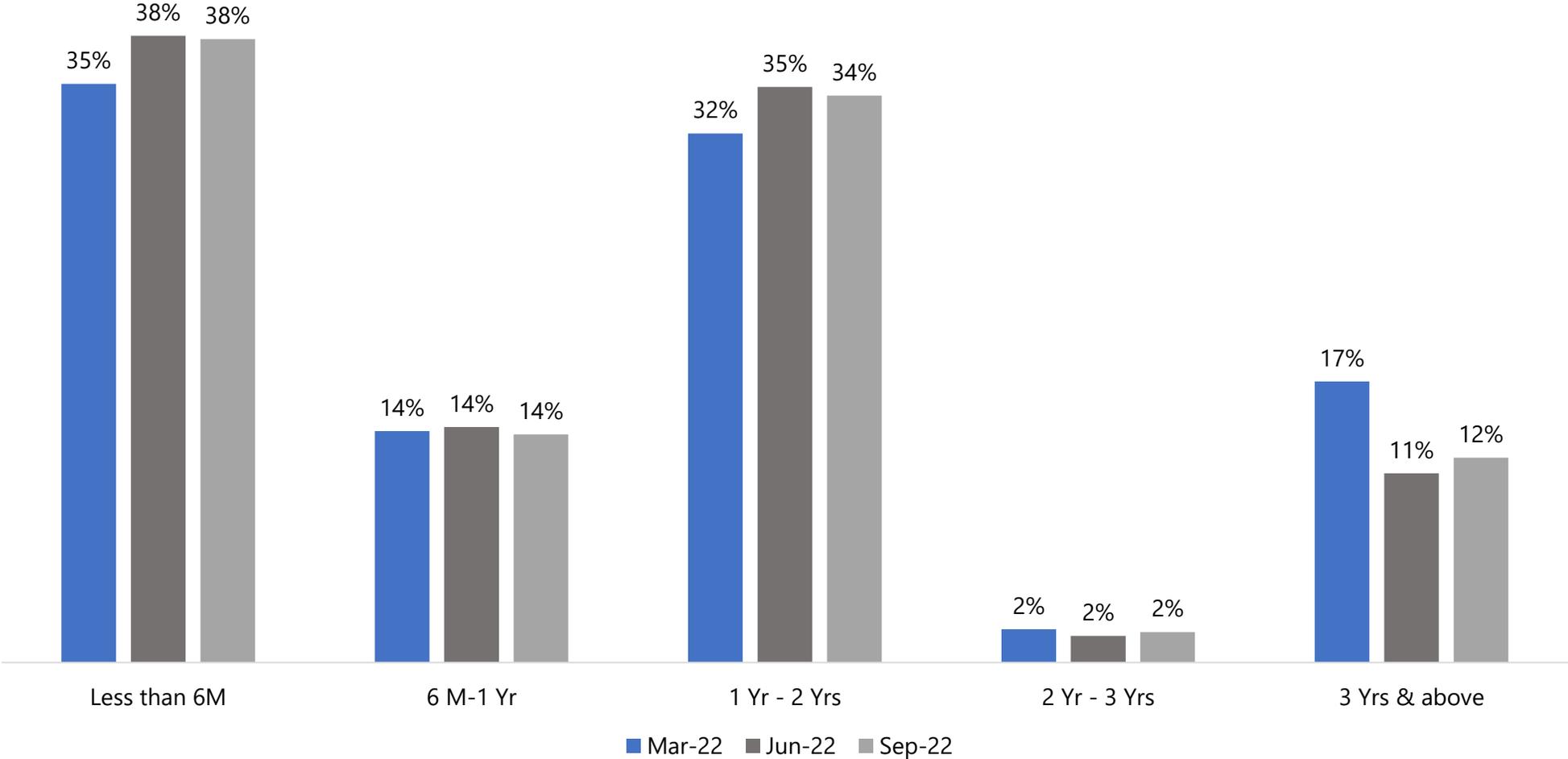
Source: BB, BSEC, and SAML Research
Data calculated using the last 5-year avg.

However, Only ~30% of the banks' advances provided are longer tenured...



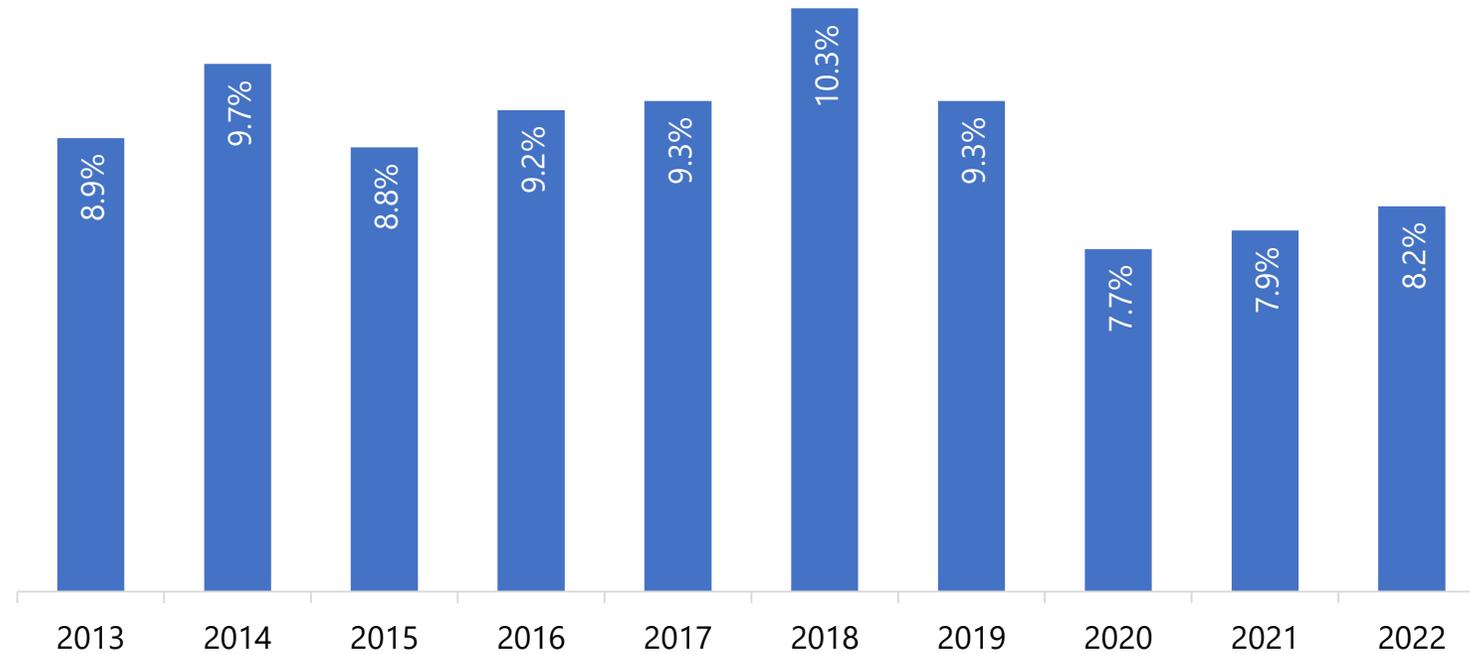
Source: BB & SAML Research

Banks' deposits are mainly for short-term tenure which results severe asset liability mismatch



Source: BB & SAML Research

Besides high NPL has been a concern for the Banking Sector



Source: BB
Amount in BDT bn

Capital raising through equity and bond issuance can cushion the banking sector

Concerns for banking industry



Asset Liability mismatch



Deteriorating asset quality

Possible Solution



Capital Market

Why raising of funds through Equity issuance is smaller?

- **Fair Value Determination:** At present, the bidding price under the book building method is determined using 1) Net Asset Method, 2) Yield Method, and 3) Fair Value Method. Many large companies are reluctant to go public following these prescribed methods.
- **Compliance-related challenges:** Compliance-related documents such as audit, tax & VAT-related documents are not kept updated by the companies.
- **Easy access to bank finance:** It takes 15-30 days to get bank loans as the number of external parties involved is limited.
- **Unwillingness to go public:** Due to transparency and accountability, both local and MNC companies operating in Bangladesh are unwilling to go public. Even MNC companies that are listed in neighboring countries (such as India, and Sri Lanka) are not listed in Bangladesh.
- **Lengthy timeline:** In general, equity issuance under book building method generally takes 6-7 months from the date of application to BSEC as there are a number of external parties are involved in the process.

Why bond issuance is not getting pace?

- **Easy access to bank finance:** It takes 15-30 days to get bank loans as the number of external parties involved is limited.
- **Difficulty in yield determination:** As bond issuance is in general time consuming, the interest rate of bonds often changes in the meantime due to changes in macro-economic dynamics. Besides, we don't have active secondary bond market thus less information on yield curve.
- **Difficulty in finding SPV:** The creation & operation procedure for SPV is not well developed. At present, there is only one functional SPV. Generally, investors like bank and financial institution feel comfortable to invest in bond through SPV.
- **Registration of Trustee:** A trustee needs to submit a separate registration application to the BSEC every time it decides to manage debt security.
- **Exposure Limit of the trustee:** Only a few players are active as bond trustees. Besides, the exposure limit (number of debt securities, total exposure to trusteeship of debt securities) of a trustee is capped.
- **Lengthy timeline:** In general, bond issuance takes 4-5 months time as there are a number of external parties are involved in the process.

Looking at the Indian Market



Bangladesh Indian Capital Market Comparison



Total Market Cap (USD bn)	71	3,100
Listed Companies	354	3,959
Market cap/GDP*	19%	95%
Companies with more than \$5 bn market cap	-	122
Companies with more than \$1bn - \$5 bn market cap	7	164
Composition of top 10 Companies' equity market cap	42%	35%

*Dec 2022

Indian IPO Valuation Methodology

- Free-market mechanism that is not restricted by any preset model
- Upper and lower price band set in consultation with the merchant banker at the time of IPO
- Parameters (EPS, PE multiple, return on net worth and comparison with peer groups) are considered to set the price

Developments in the Indian Bond Market

Indian corporate bond market size is **targeted to be doubled by 2025**.

In this connection SEBI has taken the following initiatives:

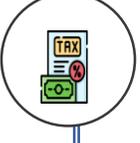
- Large Corporates (Listed companies) shall raise not less than **25% of its incremental borrowings**, during the financial year. If there is any deficiency in the requisite bond borrowing, a monetary penalty of **0.2%** of the shortfall will be levied. CFO and Company Secretary need to certify the capital raising details in the annual reports.
- Rationalization of disclosure requirement
- Enhance responsibilities of merchant banks in regards to due diligence and certification

Way Forward

Monetary Measures

-  Rationalization of interest rate
-  Market-driven exchange rate
-  Controlled Central bank funding of government debt

Fiscal Measures

-  Reform in Tax Administration
-  Increase Tax revenue
-  Market pricing of energy and other essentials
-  Curb the luxury import

Capital Market Measures

-  Rationalization of disclosures requirements
-  Enhanced responsibilities of merchant banks
-  Rationalization of price discovery
-  No prior Approval for repeat issuance of debt securities

Thank You