February 2019 Monthly Magazine

FICCI

FOREIGN INVESTORS' CHAMBER OF COMMERCE & INDUSTRY

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Feature

Darkening Prospects: Global Economy to Slow to 2.9% in 2019 as Trade, Investment Weaken

Global economic growth is projected to soften from a downwardly revised 3 percent in 2018 to 2.9 percent in 2019 amid rising downside risks to the outlook, the World Bank said on Tuesday. International trade and manufacturing activity have softened, trade tensions remain elevated, and some large emerging markets have experienced substantial financial market pressures.

Growth among advanced economies is forecast to drop to 2 percent this year, the January 2019 *Global Economic Prospects* says. Slowing external demand, rising borrowing costs, and persistent policy uncertainties are expected to weigh on the outlook for emerging market and developing economies. Growth for this group is anticipated to hold steady at a weaker-than-expected 4.2 percent this year.

"At the beginning of 2018 the global economy was firing on all cylinders, but it lost speed during the year and the ride could get even bumpier in the year ahead", said World Bank Chief Executive Officer Kristalina Georgieva. "As economic and financial headwinds intensify for emerging and developing countries, the world's progress in reducing extreme poverty could be jeopardized. To keep the momentum, countries need to invest in people, foster inclusive growth, and build resilient societies."

The upswing in commodity exporters has stagnated, while activity in commodity importers is decelerating. Per capita growth will be insufficient to narrow the income gap with advanced economies in about 35 percent of emerging market and developing economies in 2019, with the share increasing to 60 percent in countries affected by fragility, conflict, and violence.

A number of developments could act as a further brake on activity. A sharper tightening in borrowing costs could depress capital inflows and lead to slower growth in many emerging market and developing economies. Past increases in public and private debt could heighten vulnerability to swings in financing conditions and market sentiment. Intensifying trade tensions could result in weaker global growth and disrupt globally interconnected value chains.

"Robust economic growth is essential to reducing poverty and boosting shared prosperity," said World Bank Group Vice President for Equitable Growth, Finance and Institutions, Ceyla Pazarbasioglu. "As the outlook for the global economy has darkened, strengthening contingency planning, facilitating trade, and improving access to finance will be crucial to navigate current uncertainties and invigorate growth."

Regional Outlooks:

East Asia and Pacific: East Asia and Pacific remains one of the world's fastest-growing developing regions. Regional growth is expected to moderate to 6 percent in 2019, assuming broadly stable commodity prices, a moderation in global demand and trade, and a gradual tightening of global financial conditions. Growth in China is expected to slow to 6.2 percent this year as domestic and external rebalancing continue. The rest of the region is expected to grow at 5.2 percent in 2019 as resilient demand offsets the negative impact of slowing exports. Indonesia's growth is expected to hold steady at 5.2 percent. The expansion of the Thai economy is expected to slow in 2019 to 3.8 percent.

Europe and Central Asia: The lingering effects of financial stress in Turkey are anticipated to weigh on regional growth this year, slowing it to 2.3 percent in 2019. Turkey is forecast to experience weak activity and slow to a 1.6 percent pace due to high inflation, high interest rates, and low confidence, dampening consumption and investment. Growth in the western part of the region, excluding Turkey, is projected to slow. Poland is anticipated to slow to 4 percent as Euro Area growth slows. Growth in the eastern part of the region is also anticipated to slow as large economies including Russia, Kazakhstan, and Ukraine decelerate.

Latin America and the Caribbean: Regional growth is projected to advance to a 1.7 percent pace this year, supported mainly by a pickup in private consumption. Brazil is forecast to expand 2.2 percent, assuming fiscal reforms are quickly put in place, and that a recovery of consumption and investment will outweigh cutbacks to government spending. In Mexico, policy uncertainty and the prospect of still subdued investment is expected to keep growth at a moderate 2 percent, despite the fall in trade-related uncertainty following the announcement of the U.S.-Mexico-Canada Agreement. Argentina is forecast to contract by 1.7 percent as deep fiscal consolidation leads to a loss of employment and reduced consumption and investment.

Middle East and North Africa: Regional growth is projected to rise to 1.9 percent in 2019. Despite slower global trade growth and tighter external financing conditions, domestic factors, particularly policy reforms, are anticipated to bolster growth in the region. Growth among oil exporters is expected to pick up slightly this year, as GCC countries as a group accelerate to a 2.6 percent rate from 2 percent in 2018. Iran is forecast to contract by 3.6 percent in 2019 as sanctions bite. Algeria is forecast to ease to 2.3 percent after a rise in government spending last year tapers off. Egypt is forecast to accelerate to 5.6 percent growth this fiscal year as investment is supported by reforms that strengthen the business climate and as private consumption picks up.

South Asia: Regional growth is expected to accelerate to 7.1 percent in 2019, underpinned by strengthening investment and robust consumption. India is forecast to accelerate to 7.3 percent in FY 2018/19 as consumption remains robust and investment growth continues, Bangladesh is expected to slow to 7 percent in FY2018/19 as activity is supported by strong private consumption and infrastructure spending. Pakistan's growth is projected to decelerate to 3.7 percent in FY2018/19, with financial conditions tightening to help counter rising inflation and external vulnerabilities. Sri Lanka is anticipated to speed up slightly to 4 percent in 2019, supported by robust domestic demand and investment boosted by infrastructure projects. Nepal's post-earthquake momentum is forecast to moderate, and growth should slow to 5.9 percent in FY2018/19.

Sub-Saharan Africa: Regional growth is expected to accelerate to 3.4 percent in 2019, predicated on diminished policy uncertainty and improved investment in large economies together with continued robust growth in non-resource intensive countries. Growth in Nigeria is expected to rise to 2.2 percent in 2019, assuming that oil production will recover and a slow improvement in private demand will constrain growth in the non-oil industrial sector. Angola is forecast to grow 2.9 percent in 2019 as the oil sector recovers as new oil fields come on stream and as reforms bolster the business environment. South Africa is projected to accelerate modestly to a 1.3 percent pace, amid constraints on domestic demand and limited government spending.

[Source: http://www.worldbank.org/en/news/press-release/2019/01/08/darkening-prospects-global-economy-to-slow-to-29-percent-in-2019-as-trade-investment-weaken]

Business News

Wealth Concentration a Concern: UN Official

Concentration of wealth to a certain group of people in Bangladesh is a source of concern as it is stoking income inequality, said a senior official of the United Nations on February 03, 2019. Income inequality is rising not only in Bangladesh but also in its comparable countries, said Mia Seppo, the UN resident coordinator in Bangladesh.

Seppo was speaking at the launch of the "Sustainable Development Goals: Bangladesh Progress Report 2018" at the National Economic Council auditorium in Dhaka. "The report shows that the development policies have been inadequate to offset the forces that create income inequality in economies. Budget allocation also shows a mixed picture."

"As Bangladesh seeks to graduate to a middle-income country, it needs to make progress in other critical areas, notably in good governance, the rule of law and effective and independent institutions." Seppo said the country has made good strides in some areas of the Sustainable Development Goals (SDGs). She lauded the country's improvement in the areas of reducing child and maternal mortality.

She said the country has made good progress in tackling disasters but faces risks of mega disasters and climate change. She said further progress is needed in the area of restraining child marriage. The UN official called job creation and skills training for the large number of unemployed youth a big challenge for Bangladesh.

"Strengthening the skills levels and employability of youths is crucial for accelerating poverty reduction and reaping the benefits of demographic dividends." Seppo said despite the large increases in the absolute levels of social expenditure over the last few years, the proportion of total government expenditure on health, education and social protection has actually decreased.

She said ensuring rule of law and access to justice for the poor is still quite a challenge. Arbitrary arrests, disappearances and the incidents of torture and the incidents of human rights violation against journalists and trade union leaders are taking place. "So, the government should focus on good governance as it has already announced a zero-tolerance against corruption. The capacity of law enforcing agencies needs to be improved."

Wahiduddin Mahmud, a noted economist, said the country has taken strides in the areas such as reduction of child and maternal mortality. However, the revenue-to-GDP ratio is still not satisfactory. "If we look at social spending on health and education, the ratio in terms of GDP remains very low. With such a low social spending, we are still ahead of comparable countries in most social indicators. It is called Bangladesh's development surprise." He said the best surprise has been there because Bangladeshi people, particularly in rural areas, are very eager to adopt anything. The people have taken the advantages of low-cost solutions, he said. "However, the government needs to spend more for ensuring quality education and enabling the poor's access to health services."

Md. Nojibur Rahman, Principal Secretary to the Prime Minister, suggested that the planning commission deepen the engagement of the government with development partners so that the country can make progresses in SDGs' attainment.

M A Mannan, Planning Minister, said the country has integrated the goals and targets of the 2030 Agenda in its 7th five-year plan, including preparation of a number of key policy documents to identify the ministries and agencies responsible for SDGs' implementation and guide them in their actions.

The report said there is a need for enhanced international cooperation and support for achieving 41 of the 169 targets of the SDGs. Bangladesh has made good progress on all three of the first three SDGs pertain to ending poverty, hunger and improving public health and is on track to achieving the targets.

Of the 17 targets under the three SDGs, four have been met already, six are on track and five need more attention, said Shamsul Alam, a member of the General Economics Division, a branch of the Planning Commission, while presenting the report. The progress on reducing extreme poverty measured by $1.90 a day or by national poverty line and on expanding coverage of social protection and the proportion of government expenditure on services as a share of the total government expenditure is on track, said the report. Mashiur Rahman, economic affairs adviser to the prime minister, also spoke.

NBR Reaping Benefit

The National Board of Revenue logged in Tk. 10 crore in the last fiscal year thanks to 8-10 multinational companies' voluntary compliance with a rule that requires foreign firms to declare transactions with their overseas entities. "We have seen 8-10 multinational companies have voluntarily paid the tax after examining their transactions with their associated enterprises abroad," said a senior official of the NBR's transfer pricing cell.

More than 100 multinational companies have submitted their statements of international transactions (SITs) along with their returns, he said. Now, the revenue authorities will examine the transactions with their associated enterprises abroad and see how many of them voluntarily paid tax after calculating arm's length price, the official said.

Arm's length pricing is when the buyer and seller of a product or service agree on a price by acting in their self-interest and are not subject to any pressure or duress from the other party.

It assures third parties that there is no collusion between the buyer and the seller. The official said they are doing detailed profiling of multinational firms operating in Bangladesh and plan to begin auditing of the foreign companies' transactions with their associated entities abroad this year.

The NBR framed the law on transfer pricing in 2012 in order to reduce the scope for illicit fund transfer and tax evasion by foreign firms. However, the law is yet to be fully implemented. Transfer pricing refers to the rules and methods for pricing transactions within and between enterprises under common ownership or control.

The accounting method allows multinational companies to shift net profits or losses to offshore or low-tax countries to maximize earnings. For instance, two subsidiaries of a company, one based in a high-tax country and another in a low-tax haven, can engage in trade with one another. The low-tax subsidiary can quote abnormally high prices for goods or services from the high-tax subsidiary to ensure maximum net profits for the parent company, an unethical practice many multinational firms may resort to.

Some $5.9 billion was siphoned out of Bangladesh in 2015 through trade mis-invoicing, said the Global Financial Integrity (GFI) in a report last week. The amount of illegal fund outflow from Bangladesh -- at $33.73 billion -- was 17.5

percent of the nation's total trade with advanced countries in 2015, said the Washington-based research and advisory organization.

In order to enforce the law, the NBR reconstituted its Transfer Pricing Cell to monitor international transactions by foreign companies. The cell will examine transactions valued more than Tk. 3 crore in a fiscal year by a multinational or its associated entities from Bangladesh.

Foreign Aid Budget to be Slashed

The government is likely to revise down the foreign aid allocation by 15 percent in fiscal 2018-19 at a time when there is a record high level of the low-cost fund sitting idle in the pipeline. The revision comes as the government finds itself unable to keep pace with the rate at which development partner countries are pouring in funds to Bangladesh, encouraged by the country's solid economic growth over the past decade.

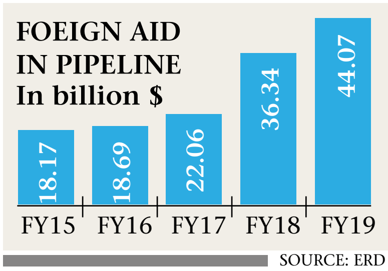
Foreign aid allocation would now be Tk. 51,000 crore ($6.09 billion), down from Tk. 60,000 crore ($7.17 billion) earmarked at the beginning of the fiscal year. The adjustment came after the Economic Relations Division (ERD) sat down with the ministries and divisions to make out how much foreign aid they would be able to spend in the end.

Of the Tk. 9,000 crore shaved off from this fiscal year's foreign aid allocation, Tk. 5,000 crore would come from the transport sector as it finds its various mega projects falling behind schedule due to problems in land acquisition. One such project is the Padma Bridge Rail Link, which has failed to utilize a single paisa from its foreign aid portion in the first five months of fiscal 2018-19.

The project was initially allotted Tk. 3,000 crore in foreign aid, but it would now be cut down to Tk. 1,300 crore. "There is a good chance that no foreign fund would be used for the project this fiscal year," said an official of the railways ministry requesting anonymity.

The ministry might also not be able to spend the full foreign aid allocation for the Dohazari to Gundum Railway project and the Karnaphuli River Tunnel project due to land acquisition problems. Last fiscal year, the ministries and divisions spent a record $6.1 billion, which was double the amount they managed each year between fiscals 2012-13 and 2016-17. "We will take several measures so that the utilization of foreign aid can be increased like last fiscal year," said an ERD official.

In the first five months of the fiscal year, utilization of foreign aid rose 9.36 percent year-on-year to $1.87 billion. As of November last year, unused foreign aid in the pipeline stood at $48.75 billion, up from $44.51 billion on June 30.



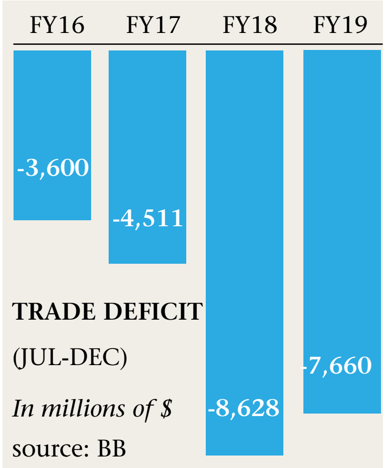
Bangladesh used to receive aid commitments of $1 billion to $2 billion every year until fiscal 2009-10, after which the amount jumped to $5 billion and progressively edged up. Last fiscal year, the country received foreign aid commitment of $14.86 billion. In practice, when a loan agreement is signed with a development partner the funds are ready for utilization right away; the unused portion is added to the pipeline.

Trade Gap Narrows to $7.66bn in Jul-Dec'19

Trade deficit narrowed 12 percent in the first half of the fiscal year thanks to a rise in exports and a slowdown in imports. At the end of December last year, trade deficit stood at $7.66 billion, down from $8.62 billion a year earlier, according to data from the central bank.

Economists, however, was not impressed with the development as the gap had gone down because of negative import growth of capital machinery in recent months, which play a major role in job creation. Import payment for capital machinery stood at $2.40 billion in the first half of the fiscal year, down 5 percent year-on-year. "It is a matter of concern," said AB Mirza Azizul Islam, a former finance advisor to a caretaker government.

The country has been facing a jobless GDP growth over the years, so the government should lay emphasis on creating employment by way of offering stimulus packages to the private sector, he said. Between the months of July and December last year, overall import rose 5.73 percent to $27.82 billion. At the same time exports fetched $20.16 billion, up 16.75 percent year-on-year.



There should be a balanced growth between imports and exports to make the economy more vibrant in all aspects, Islam said. The country's current account deficit also decreased 39 percent year-on-year to $3.08 billion in the first six months.

The country will have to face a major stumbling block in maintaining a favorable current account in the years ahead as imports will increase substantially centering on the mega infrastructural projects, said Ahsan H Mansur, executive director of the Policy Research Institute.

Against the backdrop, deficit in the current account will widen heavily, which will have a bad impact on the economy. "Foreign exchange reserves have been in a stagnant situation in the last three to four years, which is not good at all," said Mansur, also a former official of the International Monetary Fund.

At the end of December last year, foreign exchange reserves stood at $32.01 billion, down from $33.06 billion a year earlier. The amount is sufficient to cover import payments for 5.2 months, which was 6.1 months a year earlier. "So, the government should take an initiative to give a boost to both remittance and export to ease the pressure on the reserve," he said. Trade deficit hit an all-time high of $18.25 billion last fiscal year.

Business Leadership in A VUCA World

The world of business has seen some significant changes during the last decade. The global financial crisis during this period has taught us how interconnected the world could be with the growth of global trade and commerce. At the same time, many countries, including Bangladesh, have been able to insulate themselves against significant financial turmoil due to their relative disconnectedness. However, the world has become much more connected today compared to the last decade. And emerging countries such as Bangladesh have become active players in global trade and commercial activities.

Businesses fail quickly in the current business environment. For example, Kodak had maintained its leadership in the category of photography for nearly 125 years. But it took very little time for the company to move towards bankruptcy subsequently. Such a dynamic and fast-changing world of today is being described as the VUCA world by many economic and political observers. VUCA, a word initiated by the US Army War College, stands for Volatility, Uncertainty, Complexity and Ambiguity.

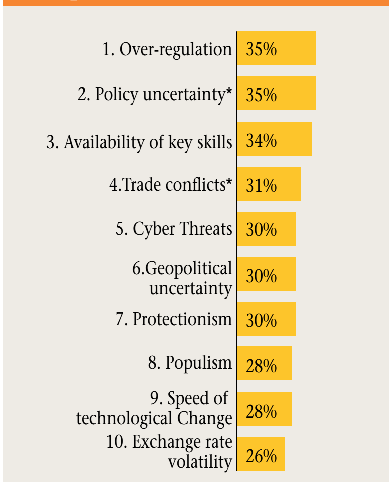
Today, the VUCA world denotes a volatile, uncertain, complex and ambiguous world. Business leadership in a VUCA world requires a unique set of capabilities, with the ability to innovate rapidly and adopt new technology quickly.

In today's volatile environment, business environments change unpredictably, suddenly and in extreme directions, making businesses obsolete. Going back to the case of Kodak, the company continued in its leadership position in making cameras and films. It successfully migrated from still photography to the world of motion pictures. It also transitioned from black-and-white to color photography. But it could not survive in the world of digital cameras that became miniaturized to get fitted inside mobile phones.

The business environment became too volatile for Kodak to maintain its leadership in the domain of photography. The company lost out to players such as mobile phone-manufacturing companies that started bundling digital cameras within their mobile phones and cloud service providers that offered users free space to store their photographs.

In a volatile environment, rapid innovation is an important tool for maintaining leadership. Businesses should encourage development of challengers in their own organizations who can create perceivably disruptive products and services that are capable of replacing existing ones.

Top Ten Threats to businesses



In an uncertain world, important information is generally not easily available. And frequently, such information is old, its authenticity is questionable and it does not provide any insight on business. In such cases, business leaders make decisions based on their gut-feeling. Such business decisions, taken in an uncertain world, are likely to fail rather than lead to success. Today's uncertain world therefore poses a challenge to business leaders in their decision-making around the world.

Moreover, in an uncertain world, business leaders need to learn to take decisions based on data. And data will continue to play an important role in decision-making in business organizations. Business leaders in Bangladesh have been taking high-stake decisions to grow, diversify and internationalize their businesses. They should now start relying on data available in digital formats to take big decisions rather than just bank on their experience and intuition.

However, this does not mean that intuition and experience are to be disregarded. In fact, they remain as valuable in the VUCA world as they were before. But data can help them scientifically prove or disprove their intuition, and thereby increase their confidence in the decision-making process.

In a complex world, many related and unrelated parts of business and society are interconnected. The number of key decision-making factors, as well as interaction among stakeholders, has increased significantly. For example, trade-related conflicts between large economies may create new opportunities for Bangladesh. But the complexity of the environment makes it difficult to accurately calculate the size of such opportunity. This requires organizations to be agile and nimble enough to adapt quickly to new processes.

In a complex world, digitalization of business will be the key driver. Digitalization helps vertical and horizontal integration of value chains, and creates digitalized products and services, and new business models. Today, the complexity of business is ushering us into the new era of Industry 4.0.

Industry 4.0 is expected to influence enterprises in Bangladesh significantly. The manufacturing, transportation and logistics, construction and packaging industries are expected to experience this revolution sooner than the others. Early adoption of enabling technologies will help these enterprises to create new products, compete globally and grow their businesses.

In this ambiguous world, business decisions are subjected to many interpretations. A wide range of stakeholders interpret every decision from viewpoints ranging from profitability to sustainability. Moreover, megatrends such as climate change are set to influence every business decision, while our collective understanding of climate change remains incomplete.

Today, business leaders need to take decisions after assessing all their stakeholders' agendas. For them, technology should become the key enabler to simulate all possible consequences quickly and to facilitate faster decision-making. Technology will also help them manage business risks when ambiguity grows significantly.

Business leaders in the VUCA world are expected to be capable of dealing with such situations mentioned above, and demonstrate their leadership. Accordingly, the educational institutions should also revisit their curricula and refresh these with relevant content to develop skills for the VUCA world. For example, a leader's capability to communicate to a diverse group of stakeholders to make a decision will become an indispensable capability for future managers. Therefore, business schools need to address such skills requirements by revising their curricula.

According to the PwC's economic projection, Bangladesh is set to emerge as one of the fastest growing countries in the next 30 years. There will be ample challenges and opportunities in the VUCA world on this growth journey. Consequently, implementing the right measures to build the right set of capabilities will help the country avail of all opportunities and grow to a new high.

Bangladesh Slips 6 Notches to 140th

Bangladesh slipped six spots to 140th among 169 countries in a ranking of the world's most connected nations brought out by global logistics company DHL. The Global Connectedness Index 2018, the fifth since it was first released in 2011, was measured by four pillars: international flows of trade, capital, information and people.

Bangladesh's overall ranking fell from the 2015 edition although it improved its position in trade, capital and information pillars, said the report, which was released earlier. It ranked Bangladesh lower than its peer countries. India ranked 74th, Pakistan 127th, Vietnam 39th and Cambodia 49th. Myanmar is seven notches ahead of Bangladesh. In South Asia, only Afghanistan (167), Bhutan (150) and Nepal (151) were ranked lower than Bangladesh.

The top 10 countries ranked by their shares of Bangladesh's international flows are: India (25 percent), the UAE (14 percent), Saudi Arabia (7 percent), Malaysia (7 percent), the UK (5 percent), Russia (5 percent), Qatar (5 percent), the US (4 percent), Singapore (4 percent), and China (4 percent). According to the report, the Netherlands is the world's most globally connected country and Europe is the world's most globally connected region, with 8 of the 10 most connected countries. Europe leads on trade and people flows, while North America is the top region for information and capital flows.

The index measures the parameters on depth and breadth. Depth evaluates the extent to which countries' international flows are distributed globally or more narrowly focused, while breadth compares countries' international flows to the sizes of their domestic economies. On the depth dimension, the lowest ranked countries are Ethiopia, Bangladesh, Sudan, Pakistan, Cameroon, Iran, India, Tanzania, Afghanistan, and Indonesia, while the top ranks are held by Singapore, Hong Kong SAR (China), Belgium, the Netherlands, Luxembourg, the United Arab Emirates, Seychelles, Ireland, Estonia, and Cyprus.

On breadth dimension, Bangladesh scored well securing 66th position out of the 169 countries. The report presents the first comprehensive assessment of how globalization—measured based on trade, capital, information, and people flows—has developed since the Brexit referendum in the UK and the election of President Donald Trump in the US.

DHL GLOBAL CONNECTEDNESS INDEX, 2018

COUNTRY	LATEST RANK	CHANGE IN RANK FROM 2015
Bangladesh	140	-6
India	74	-2
Pakistan	127	-2
Nepal	151	+8
Bhutan	150	-7
Vietnam	39	-3
Cambodia	49	+4
China	61	-1
Myanmar	133	+23
Malaysia	12	+1
Netherlands	1	0

Contrary to predictions that globalization would collapse in response to a wave of economic nationalism, the DHL Global Connectedness Index rose to a record high in 2017. For the first time since 2007, trade, capital, information, and people flows all intensified significantly. Strong economic growth boosted international flows while key policy changes such as US tariff increases had not yet been implemented. In 2018, however, major policy threats turned from rhetoric to reality. Disputes between the US and its largest trade partners prompted sharp tariff increases and raised doubts about the future of the global trading system. Foreign acquisitions were subjected to heightened scrutiny, countries advanced data localization policies, and restrictions on immigration were tightened.

Supporters of open markets, nonetheless, also tallied major victories in 2018. In March, 11 countries signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and 44 signed the African Continental Free Trade Agreement. In July, the European Union and Japan finalized an Economic Partnership Agreement. In October, the US, Canada, and Mexico agreed on a new trilateral trade deal. Meanwhile, China continued to advance its Belt and Road Initiative aimed at strengthening linkages between Asia, Europe and Africa.

Market & Financial News

Remittances Rise on Weak Taka

Remittance inflow edged up 15.23 percent last month thanks to the continuous depreciation of local currency against the greenback, which allowed the local beneficiaries to get more. The inter-bank exchange rate throughout January stood at Tk. 83.95, up from Tk. 83.90 the previous month.

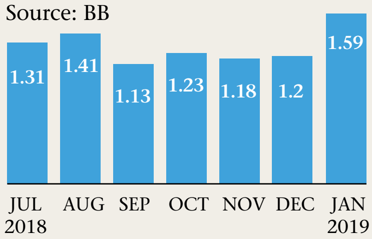
Subsequently in January, expatriate Bangladeshis sent home $1.59 billion, up 32 percent from the previous month, according to data from the Bangladesh Bank. January's receipts take the remittance inflows in the first seven months of the fiscal year to $9.08 billion, up 27 percent year-on-year.

The central bank in its latest monetary policy set the remittance growth target for fiscal 2018-19 at about 11 percent. Remittance inflows last fiscal year amounted to $14.98 billion. Inflows increased as the central bank has taken various measures to curb remittance through the illegal channel, said a senior BB official.

REMITTANCE INFLOW

Figures in billion $

Source: BB



Moreover, the dollar's appreciation against the taka encouraged remitters to send money home through the official channel, he added. In the first six months of last fiscal year, taka depreciated 0.2 percent against the US dollar. The depreciation was moderate as the BB sold over $1.1 billion to avoid excessive fluctuation of the exchange rate. In the monetary policy announced last week, the BB said additional foreign exchange flexibility would likely be needed to ensure that exchange rates remain well-aligned with the market forces. The statement hinted that the dollar price will increase further in the coming days, which will be beneficial for exporters and remitters.

Core Inflation up 1% in 2018

The country's core inflation rose by more than 1.0 percentage point last year, posing a challenge for the next monetary policy of the central bank, officials said. The core inflation expanded to 4.65 per cent on annual average basis in December last from 3.59 per cent in January 2018, according to the latest report of Bangladesh Bank (BB). The figure was 3.94 per cent in July 2018.

"Of course, we are seeing this upward trend of core inflation as a challenge for the next monetary policy statement (MPS)," a senior BB official told while replying to a query. Currently, the central bank is measuring the core inflation, excluding food and fuel components from the consumer price index (CPI).

Core inflation is a measure which excludes transitory or temporary price volatility as in the case of some commodities such as food items, energy products etc. It reflects the inflation trend in an economy. The core inflation is calculated with more than 33 per cent contents of the CPI, the central banker explained. The prime objective of computing core inflation is to separate out the components of headline inflation, officially known as general inflation, which is caused by non-monetary events, as these price changes do not reflect the impact of underlying monetary policy decisions.

The central bank may maintain its cautious position on containing inflationary pressure on the economy in the upcoming MPS, as the average core inflation witnessed an upward trend in 2018, the official hinted. The central bank is set to unveil its second half-yearly MPS tomorrow (Wednesday), aiming to achieve sustainable economic growth and curb inflation.

Another BB official said the upward trend of non-food inflation pushed up the core inflation in 2018 despite the falling trend of headline inflation. The non-food inflation rose to 4.51 per cent in December last on annual average basis from 3.52 per cent in January 2018 while the general inflation came down to 5.55 from 5.77 per cent in January 2018.

"Easy monetary financial conditions that prevailed during last two years made credit available along with lower interest rates on deposit helped increase non-food inflation in the recent months," an expert on monetary policy told.

In the first half of 2018, the private credit growth was high. But in the second half it subsided to some extent. To reduce non-food inflation, the authorities should take effective measures for curbing credit flow to unproductive sectors and to increase the interest rates on deposit that will help improve savings habit of the people, the expert added.

"Actually, the inflation depends on different factors, including prices of commodities in the global market, weather, overall production and inflationary trend of close-door neighboring countries," he explained. The government had set the average annual inflation target at a maximum of 5.6 per cent for the current fiscal year (FY) 2018-19. Senior BB officials, however, expect that credit flow to the private sector may increase in the H2 of FY '19 to meet foreign trade financing that is estimated at around US$100 billion.

Exports Rise 7.92%

Exports fetched $3.68 billion in January, up 7.92 percent year-on-year, on the back of robust growth of garment shipments. With January proceeds, export earnings in the first seven months of the fiscal year come to $24.18 billion, up 13.41 percent from a year earlier and comfortably past the periodic target of $22.41 billion. The jump in receipts come despite four major export earning sectors -- leather and leather products, jute and jute goods, home textiles and shrimps -- logging in lower shipments, according to data from the Export Promotion Bureau.

Earnings from leather and leather products, the second biggest export earner after the garment, dropped 11.71 percent year-on-year to $626 million between the months of July last year and January this year. Export of jute and jute goods, which account for part of the livelihood of tens of thousands of growers, tumbled 24.66 percent to $498 million during the period.

The sector hit a rough patch earlier this fiscal year in the face of waning demand for economic slowdown in Turkey, one of its biggest market, and anti-dumping duty slapped by India.

Export of shrimp, which is grown in the southwest and southeast costal region by more than 8 lakh farmers, also continued to suffer for ample production of vannamei shrimp in other countries, particularly in India. Processors bagged $257 million in the July-January period, which is 12.37 percent lower than a year earlier.

Home textiles exports declined 0.79 percent to $494.09 million. And yet, a 14.51 percent spike in shipment of garment products helped the overall earning scenario to remain positive.

The apparel sector, which typically accounts for more than 80 percent of total export earnings, logged in $20.21 billion in export receipts in the first seven months of the year.

Agricultural products extended additional support to the growth in export earnings.

Export of agricultural products such as dry food, vegetables and spices rose 61 percent to $579 million in the seven months to January. In addition, export earnings from petroleum bi-products, pharmaceuticals, plastic products, paper and paper products, cotton and cotton product, specialized textiles, footwear other than leather and engineering products increased in the first seven months of fiscal 2018-19.

FY '16 to be New GDP Base Year

The local statistical agency has said it will adopt a new base year for calculating the Gross Domestic Product (GDP) effective from July 2020 and it is expected to raise the size of the economy by at least 10 per cent. Under the rebasing procedure, the fiscal year 2015-16 (FY '16) will be the new base year replacing the existing FY '06. Statistical agencies across the globe usually adopt the base year actually including new products and services. So, the size of the economy changes.

Bangladesh last did it in 2013 by replacing the FY 1995-96 as the base year. On the last occasion the economy had expanded by around 12 per cent. "We've decided in principle to calculate GDP by using a new base year from July 2020," said Abul Kalam Azad, director of the national accounting wing (NAW) under the Bangladesh Bureau of Statistics (BBS).

He also said in the event of the new base year the latest system of national accounting (SNA)-2008 would be used. The SNA-2008 and similar others prepared by the UN Statistical Council are followed by all economies. He said the new base year would give a more accurate picture of the economy's structure and per capita income will also increase further.

The bureau was also analyzing data "linking the sustainable development goal (SDG) indicators," he said. "We are expecting that the GDP size might increase by 10 to 12 per cent with appropriation of the new baseline", he added. People familiar with the development at the BBS also told that they had been conducting many surveys targeting the rebasing. "Some surveys have already been done and some others in the fields like manufacturing, agriculture and e-commerce are going on to this end," joint director at NAW Ziauddin Ahmed said.

The surveys would help calculate contributions of many untapped sectors which needed to be included in the economy, he added. He said the BBS took a project titled 'Modernization of National Account' in 2017 aiming to adopt the new baseline. The project would end in June 2020. He said presently they were measuring the country's economic size taking into account 15 sectors. The sectors would be expanded to 21 with adoption of the new baseline.

Water would be a separate sector which was attached to Electricity and Gas earlier, he said. He said Real Estate and Business Activities sector would be split into two separate sectors -- Professional, Scientific & Technical Activities and Administrative & Support Service Activities.

He said the bureau started working to measure the

GDP	Current	Proposed
Base year	2005-06	2015-16
Main sectors	15	21

Source: BBS

GDP of FY 17, FY '18 and FY '19 based on the FY '16 baseline. Experts and economists familiar with such development in the country told that the move to adopt the new base year was okay as the economy changes over the years. Dr Sajjad Zohir, executive director of Economic Research Group (ERG), said adopting the new baseline meant more accurate reading of 'consumption bundles.' He expected that the CPI (consumer price index) and inflation should also be measured on the basis of the new base year.

He said: "Weight or share of rice in the consumption basket has been declining over the years." "Updating the baseline will give a more precise figure of the inflation rate as it could deliver latest status of rice's share in the consumer goods basket," he said. Dr Zaid Bakht, economist and chairman of the state-run Agrani Bank Ltd, said: "It is a step in the right direction, as the closer the base year is to the current year, the better the results are".

He said updating the base year through revising the GDP estimation was essential for different reasons, including newer economic activities, progressive expansion and downsizing of different industries and economic sectors over the years.

Commercial service of the ridesharing companies, many untapped online delivery services like food and parcels, should be included in it to find more precise data, he said. The BBS should also work on trade through social networks like Facebook, Instagram, which expanded "beyond our imagination."

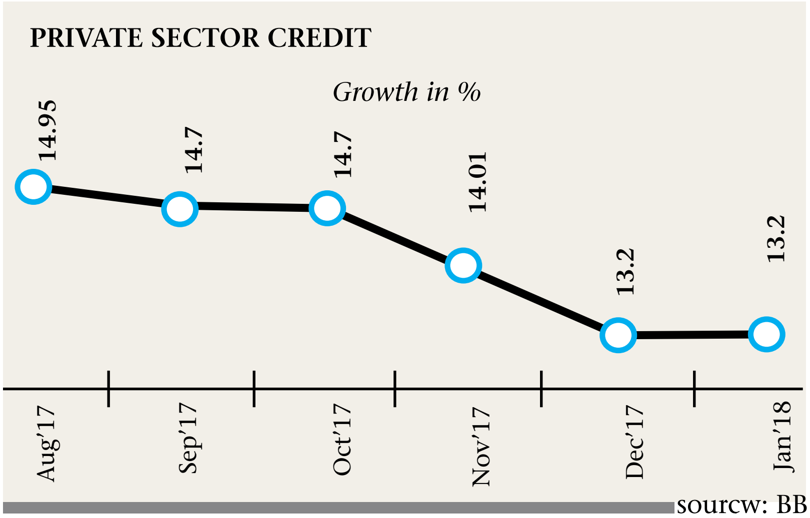
He said it was positive that the country was adopting a new baseline just in seven years as earlier it took 10-12 years. "But it would be better if a new baseline is appropriated in every five years", he added.

Dr Khandoker Golam Moazzem, director (research) at the Centre for Policy Dialogue (CPD), said inclusion of various newer sectors could help measure the GDP more accurately as the BBS is going to adopt a new base year. "But revenue generation from newer sectors is also important in line with the increase in the size of the GDP," he said. "With adoption of the new base year, it is sure that the size of the GDP will enhance further," he said.

But if the government couldn't generate more revenue keeping pace with the change, the gap in the tax to GDP ratio might increase further. In FY17, the ratio of tax to GDP in Bangladesh was 9.1 per cent, the second lowest in South Asia. The country's GDP at the current price is now US$ 274 billion and per capita income is $ 1,751.

Credit Growth Stalls in Jan'19

The private sector credit growth did not rise as expected in January even after the largely peaceful general elections as banks were reluctant to lend amid a liquidity crunch. Banks were also under exposure to adjust to a new advance deposit ratio (ADR), squeezing their lending capability further. As a result, the credit growth remained unchanged at 13.20 percent in January from the previous month, according to Bangladesh Bank data.



sourcw: BB

The growth rate is far below compared to the central bank's target of 16.5 percent set for the January-June period. Credit to the private sector totaled Tk. 963,807 crore at the end of January. The high government borrowing is another reason responsible for the slow credit growth in the private sector, said Syed Mahbubur Rahman, managing director of Dhaka Bank.

He said all banks have put in a strong effort on fund hunting resulting in a surge in interest rates on deposits. The weighted average deposit rate rose to 5.34 percent in January from 5.26 percent in December, the central bank data showed.

However, the lending rate remained unchanged at 9.49 percent during the period. The liquidity crunch had eased a bit when the central bank slashed the cash reserve requirement in April last year, said Abul Kashem Md Shirin, managing director of Dutch-Bangla Bank.

"But banks have fallen into the liquidity crisis again because of aggressive lending." He said the interest rate on inter-bank borrowing shot up to 10 percent for a short period. The rate of the call money market, which allows banks to borrow funds overnight, also went up which is the reflection of the liquidity crisis in the money market. The call money rate shot up close to 5 percent in March from below 4 percent in December, BB data showed.

Shirin said some state-owned banks which usually play the role of a lender in the call money market have turned into a borrower in the last several months due to the fund crisis. Banks will have to adjust to the new ADR limit of 83.5 percent from March from 85 percent earlier as per the BB instruction. As of December, most of the banks retained 85 percent ADR, according to the central bank.

The public sector credit growth jumped to 23.73 percent in January from 14.70 percent in December. Government borrowing surged thanks to election-related expenditure and faster implementation of infrastructure projects, according to a central banker.

Article

Need to Harness Blue Economy Potential

Shahiduzzaman Khan

The government's move for creating a data bank on blue economy is not progressing well. The concerned ministries, divisions and agencies are not in a position to provide required data on a regular basis. Besides, they are even failing to submit the progress reports of works done.

The government's Blue Economy Cell (BEC), according to a FE report last week, asked all relevant ministries, divisions and agencies to provide required information on blue economy including work plan, latest reports on progress of implementation and others.

The first meeting on blue economy was held in 2014 in order to take up strategic action plan for the ministries, divisions and agencies concerned. A 25-member Coordination Committee on Sea Resources Exploration and Fair Management was formed in the meeting. It took a number of decisions. But most of the decisions could not be implemented as yet.

Blue economy goes beyond viewing the ocean solely as a mechanism for economic growth. It also focuses on the sustainability of oceanic resources for economic growth. Therefore, blue economy encompasses ecological aspects of the ocean along with economic aspects.

The delimitation of sea boundary with Myanmar and India really opened up a new window of opportunities in terms of harnessing blue economy resources and enhancing external trade. It is mined for minerals (salt, sand, gravel, copper, cobalt etc can be found in the deep sea) and drilled for crude oil and gas. These elements together constitute blue economy.

After a lengthy battle in the court with Myanmar and India, the country did achieve its full maritime area. Such an achievement did encourage the government to extract untapped resources from the blue economy.

The Bay of Bengal is the largest among 64 bays in the world and 1.4 billion people live along its coastline in Bangladesh, India, Myanmar and Thailand. At least 26 maritime activities can be generated here which include fishery, shipping, maritime trade, energy, seabed tourism etc.

Analysts, however, say the concept of the blue economy is complex and it will take time to develop human resources and technological capacity to discover marine resources. It conceptualizes oceans and seas as 'Development Spaces' where spatial planning integrates conservation, sustainable use of living resources, oil and mineral wealth extraction, bio-prospecting, sustainable energy production and marine transport.

The government has recently set up Bangladesh Institute of Marine Technology (BIMT) and initiated study of oceanography at two public universities to carry out research in the Bay of Bengal. There were only two marine academies in the country in 2009, the number rose to 22 in 2017.

Even after all these efforts, the country's drive for exploring oil and gas is running at a snail's pace. Recently, state-run Petrobangla has finalized a draft of the model production sharing contract (PSC) to launch a fresh bidding round for onshore and offshore energy exploration.

The draft of the PSC was sent to the Power and Energy Ministry for its final approval. Unlike the past several biddings, Petrobangla is expected to offer both onshore and offshore blocks to international oil companies (IOCs) for exploration of oil and gas.

Severe natural gas crisis coupled with the commencement of expensive LNG (liquefied natural gas) and insufficient output from the previous offshore bidding rounds have prompted the state-run oil, gas and mineral corporation to go for 'aggressive' hunt of hydrocarbon. Currently, some 26 offshore blocks and over a dozen onshore blocks have remained unexplored.

The outcome of the latest three bidding rounds, exclusively for offshore blocks, however, did not bring any expected results for the country as the IOCs could not make a single commercial discovery of hydrocarbon.

Meantime, bureaucratic tangles caused substantial delay in drilling of four exploratory wells under Rupkalpa-3 at a cost of Tk. 383 billion. The government allowed state-owned Bangladesh Petroleum Exploration and Production Company Limited (Bapex) to drill four exploratory wells (Kasba-1, Madanganj-1, Jamalpur-1 and Sailakupa-1) between July 2016 and June 2018. But the company could not complete the works as yet.

Energy experts see ensuring sustainable primary energy, reducing over-reliance on fuel import and checking corruption as major challenges of Bangladesh's power and energy sector. They say the new government should expedite oil and gas exploration, utilize local coal, and ensure efficient use of energy to develop the sector.

The Bay of Bengal remains the least explored area for gas potential, so far. The western part (India) and the eastern part (Myanmar) of the Bay have discovered significant natural gas reserves in the past decade. Geological studies suggest that Bangladesh can have significant gas resources in the onshore and offshore belts which are yet to be discovered.

The seabed of Bay of Bengal is home to a rich core of solidified natural gas known as 'Diamond' or 'gas hydrates.' However, the country is yet to use the right kind of technology to extract petroleum at such a depth.

The country is now heavily dependent on onshore fields for gas output, with production hovering around 2,700MMCFD as against a demand for over 3,300MMCFD. To meet the growing energy demand and depleting onshore energy reserve, the country recently has concentrated on exploring the blue economy resources and gas reserve in the Bay of Bengal.

Bangladesh, in such a situation, has to go all-out to harness the potential of the blue economy through applying latest technological know-how which critically emerges as a dire necessity for the country.

[Contributor: Mr. Shahiduzzaman Khan is the Acting Editor of the daily Financial Express. This article was earlier published in the daily Financial Express on February 02, 2019.]

News from Member Companies

Chevron Inaugurates Road-Safety Awareness Program

Chevron Bangladesh President Neil Menzies officially inaugurated a multi-year community road safety awareness program recently at the premises of the Bibiyana Gas Plant. The program, implemented by Skills-Craft Associates, will emphasize vehicles and drivers operating on two major thoroughfares near Chevron's Bibiyana and Moulavi Bazar facilities in Nabiganj and Srimangal Upazilas respectively. According to the 2018 Global Status Report on Road Safety released by the World Health Organization (WHO) last December, the number of WHO-estimated road traffic fatalities in Bangladesh stood at nearly 25,000 in 2016.

Chevron's program is intended to build awareness on safe road behaviors and build drivers' defensive driving skills, with a goal of reducing traffic accidents. Two-day training and knowledge sharing sessions in both catchment areas will be available to 300 drivers of three-wheeler auto-rickshaws and light delivery vehicles. In addition, half-day sessions will be organized to summarize the training content for 200 people, including respected members of the local community, transport associations, educational institutions, etc. Some of the programs will cover a range of topics including traffic laws and signage, on-road demonstrations and driving coaching, causes of collision and collision prevention techniques, and consequences of speeding and over-loading.

Chevron Bangladesh President, Neil Menzies (center); PGPA Director, Ismail Chowdhury; HES Director, Ashiq Rahman hand over completion certificate to the first cohort of drivers upon completion of a two-day training and knowledge-sharing session on safe road behaviors and defensive driving. Also seen at extreme left is Gas Plant Superintendent of Bibiyana Gas Plant, Don Lewis

Also attending the inaugural event were Chevron's Director for Policy, Govt. & Public Affairs, Ismail Chowdhury; Director for Health, Environment & Safety, Ashiq

Rahman; Bibiyana Gas Plant Superintendent, Don Lewis; CEO and Lead Trainer, Skills-Craft Associates, Mahabub Alam; and other representatives from Bibiyana Gas Plant's Leadership Team.

Mr. Menzies distributed certificates to the first group of 30 Nabiganj-based drivers who successfully completed the two-day training session. Speaking on the occasion, he lauded the initiative, as it taps into the need for the community to increase awareness of safe driving and pedestrian behaviors. He further expressed the hope that the current project will build on the success of Chevron's previous three-year program with BRAC, which provided defensive driving training to 1,000 drivers of highway buses, trucks and local non-motorized vehicles operating in the Bibiyana area. Mr. Chowdhury stressed on the importance of safety and mentioned Chevron's exemplary record of safety in all aspects of its business, including fleet management – nearly 16 million kilometers driven without a major motor vehicle crash. He said, "Beyond the perimeters of Chevron's facilities, our vehicles share communal thoroughfares with other road users. Therefore, awareness of safe behaviors for drivers and pedestrians alike will ensure that everyone returns home safely to their families every day."

Activities of the Chamber

February 07: Representatives from FICCI member companies attended a meeting organized by the Ministry of Finance at the NEC auditorium on the day. Finance Minister AHM Mustafa Kamal and Prime Minister's Private Industry & Investment Advisor Salman F Rahman spoke to the business leaders from various chambers.

February 10: A meeting of the Chambers Banking & Financial Services Subcommittee was held on the day. The meeting was chaired by its convener Mr. Francois de Maricourt.

February 10: FICCI Executive Committee Member and Country Head of M&S Bangladesh, Ms. Shwapna Bhowmick attended the 12th meeting of Private Sector Development Coordination Committee on the day at the Prime Minister's Office. The meeting was chaired by the Principal Secretary of the Prime Minister.

February 24: The President of the Chamber, Mr. Shehzad Munim attended the reception organized by ICC Bangladesh in honor of Mr. Paul Polman, Chairman, International Chamber of Commerce (ICC) on the day.

International Chamber of Commerce Chairman Paul Polman (2nd from left), Economic Affairs Adviser to the Prime Minister AKM Masihur Rahman (2nd from right), ICC Bangladesh President Mahbubur Rahman (extreme left) & FICCI President, Shehzad Munim (extreme right)

February 25: The 15th Executive Committee (EC) meeting of the Chamber was held on the day at the FICCI conference room. The meeting was chaired by the Chamber President, Mr. Shehzad Munim.

15th EC Meeting

February 26: FICCI arranged a farewell ceremony for two of its outgoing Assistant Secretaries, Mr. Humayun Kabir and Mr. S. M. N. Sakib. President of the Chamber, Mr. Shehzad Munim attended the ceremony and handed over the Chamber's gifts to the outgoing Assistant Secretaries.

AIDE-MEMOIRE

To make the FICCI Monthly Bulletin more interesting/useful, please provide your company news & write ups for publication.

Key Economic Indicators

CPI Price Index & Inflation Rate (Point to Point)

(2005-06=100)

CPI Classification	2015-16	2016-17	2017-18	2017-18			2018-19		
				Nov'17	Dec'17	Jan'18	Nov'18	Dec'18	Jan'19
1	2	3	4	5	6	7	8	9	10
NATIONAL									
General index	219.86	231.82	245.22	244.85	245.03	248.13	258.00	258.13	261.58
Inflation	5.92	5.44	5.78	5.91	5.83	5.88	5.37	5.35	5.42
Food index	234.77	248.90	266.64	267.10	267.06	271.05	281.24	281.17	285.50
Inflation	4.90	6.02	7.13	7.09	7.13	7.62	5.29	5.28	5.33
Non-food index	200.66	209.92	217.76	216.33	216.79	218.73	228.21	228.60	230.91
Inflation	7.43	4.61	3.74	4.10	3.85	3.23	5.49	5.45	5.57
RURAL									
General index	220.10	231.02	244.17	244.12	244.20	247.49	256.11	256.19	260.22
Inflation	5.26	4.96	5.69	5.93	5.84	5.90	4.91	4.91	5.14
Food index	230.31	243.08	259.86	260.43	260.34	264.64	273.03	272.94	278.61
Inflation	4.20	5.54	6.90	7.07	7.08	7.40	4.84	4.84	5.28
Non-food index	203.86	211.83	219.21	218.15	218.50	220.20	229.18	229.53	230.96
Inflation	7.22	3.91	3.48	3.83	3.54	3.13	5.06	5.05	4.89
URBAN									
General index	219.31	233.29	247.17	246.21	246.57	249.31	261.51	261.72	264.09
Inflation	7.11	6.37	5.95	5.89	5.82	5.86	6.21	6.14	5.93
Food index	245.66	263.09	283.19	283.37	283.44	286.72	301.28	301.22	302.30
Inflation	6.55	7.10	7.63	7.15	7.22	8.13	6.32	6.27	5.43
Non-food index	196.39	207.38	215.83	213.89	214.50	216.77	226.91	227.35	230.85
Inflation	7.72	5.60	4.08	4.47	4.25	3.37	6.09	5.99	6.50

Source: Bangladesh Bureau of Statistics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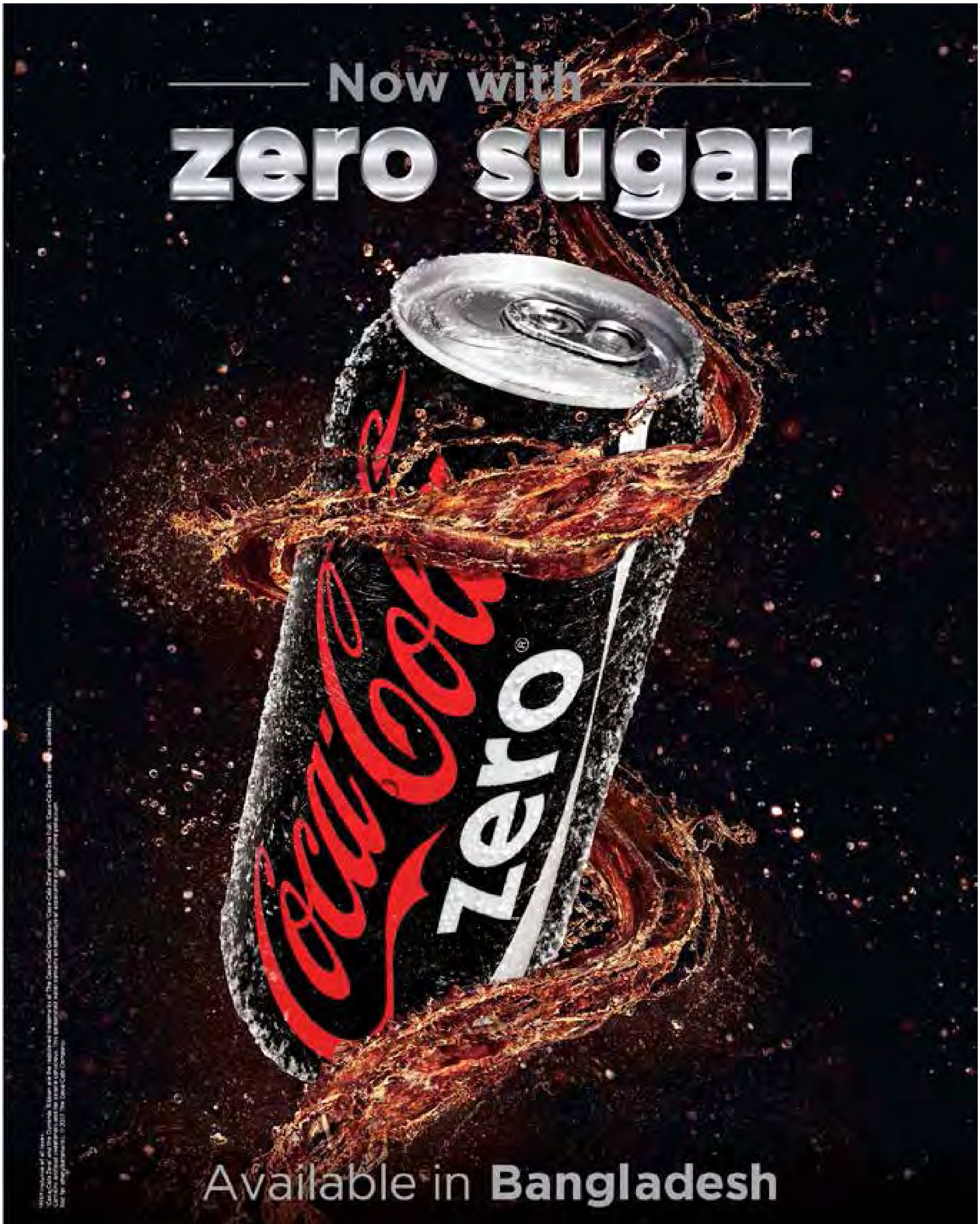
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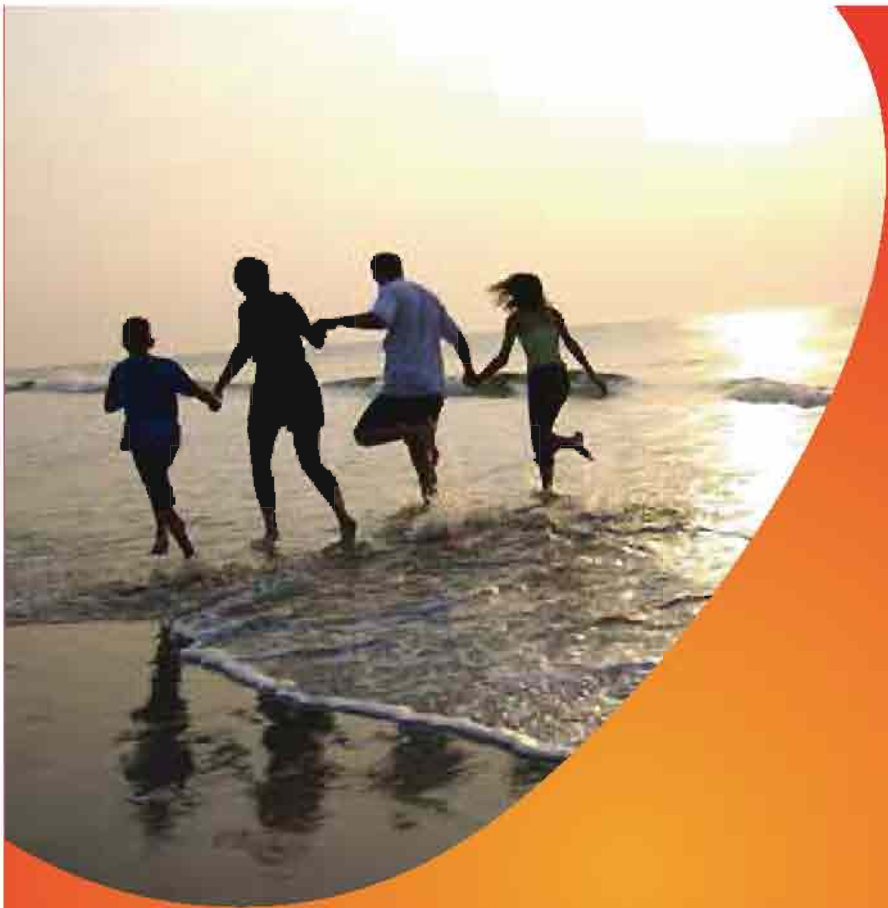

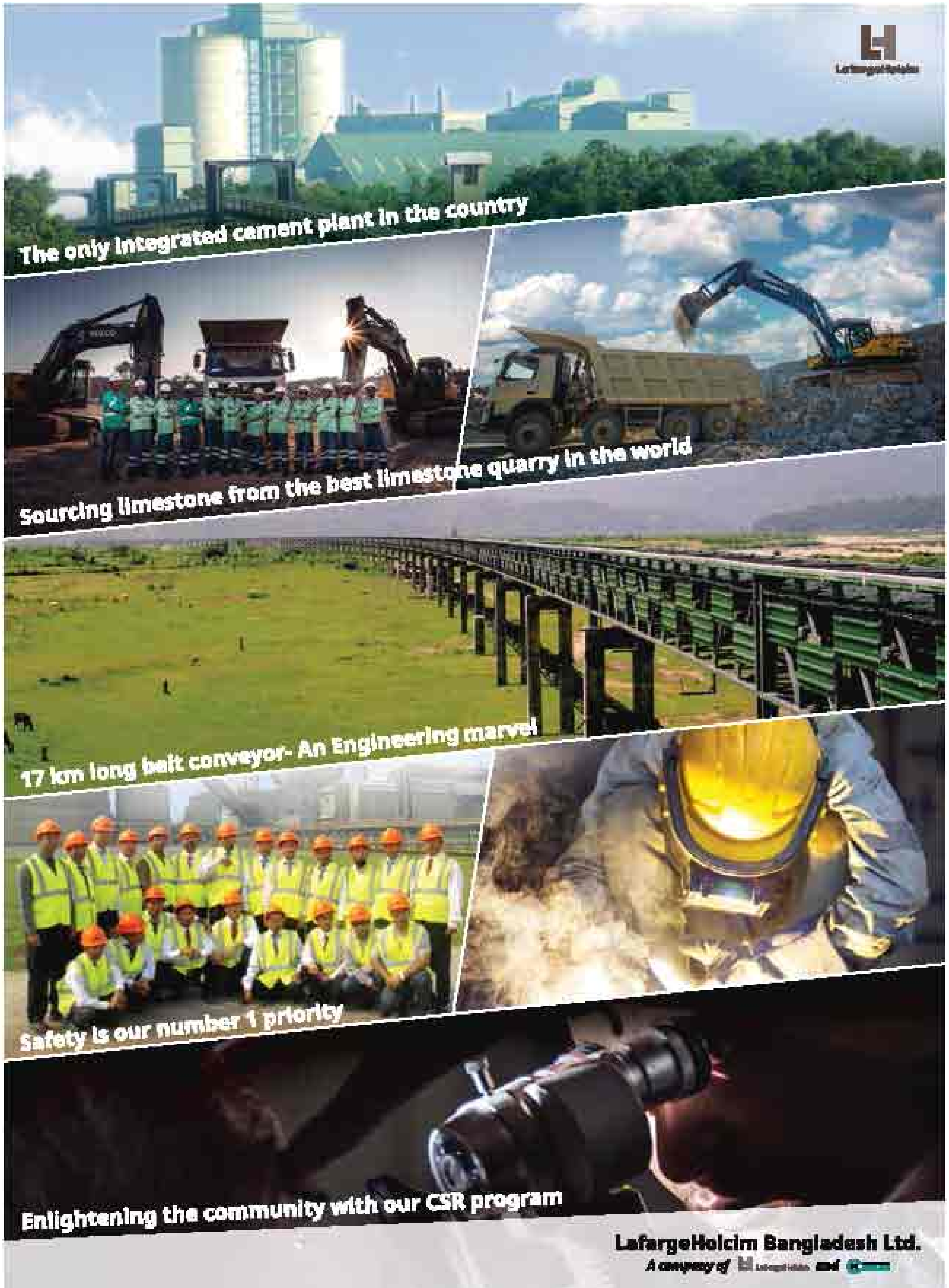
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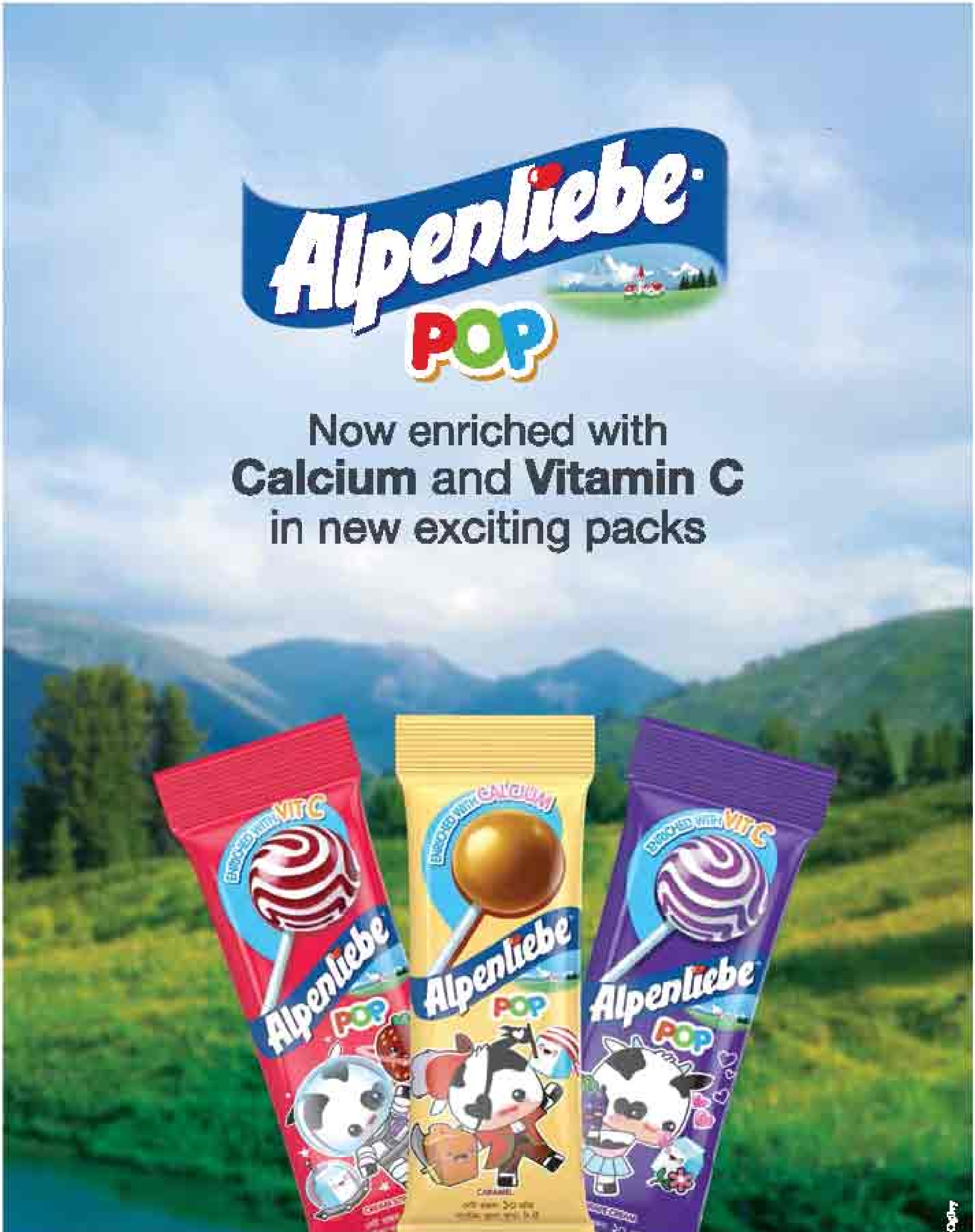
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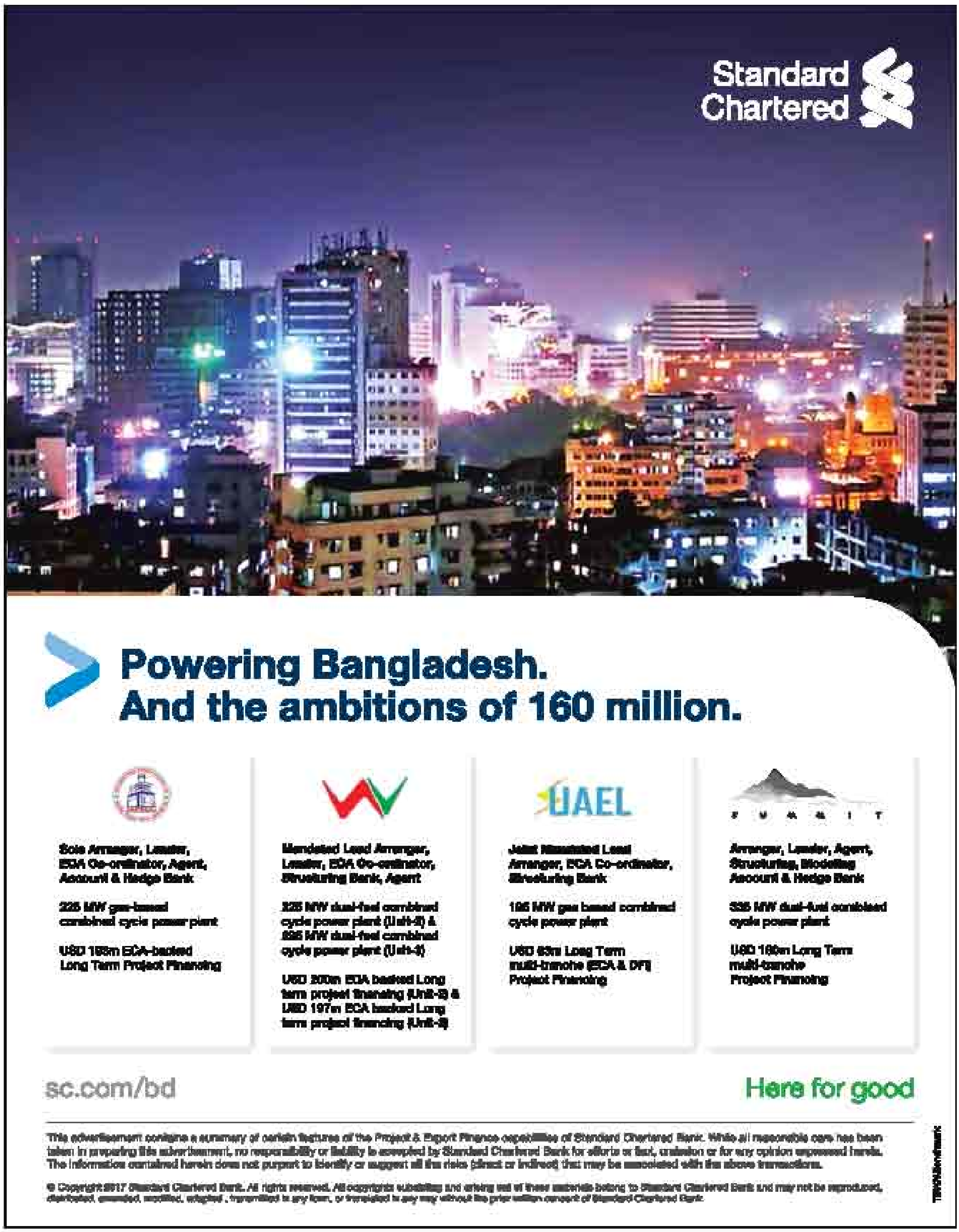
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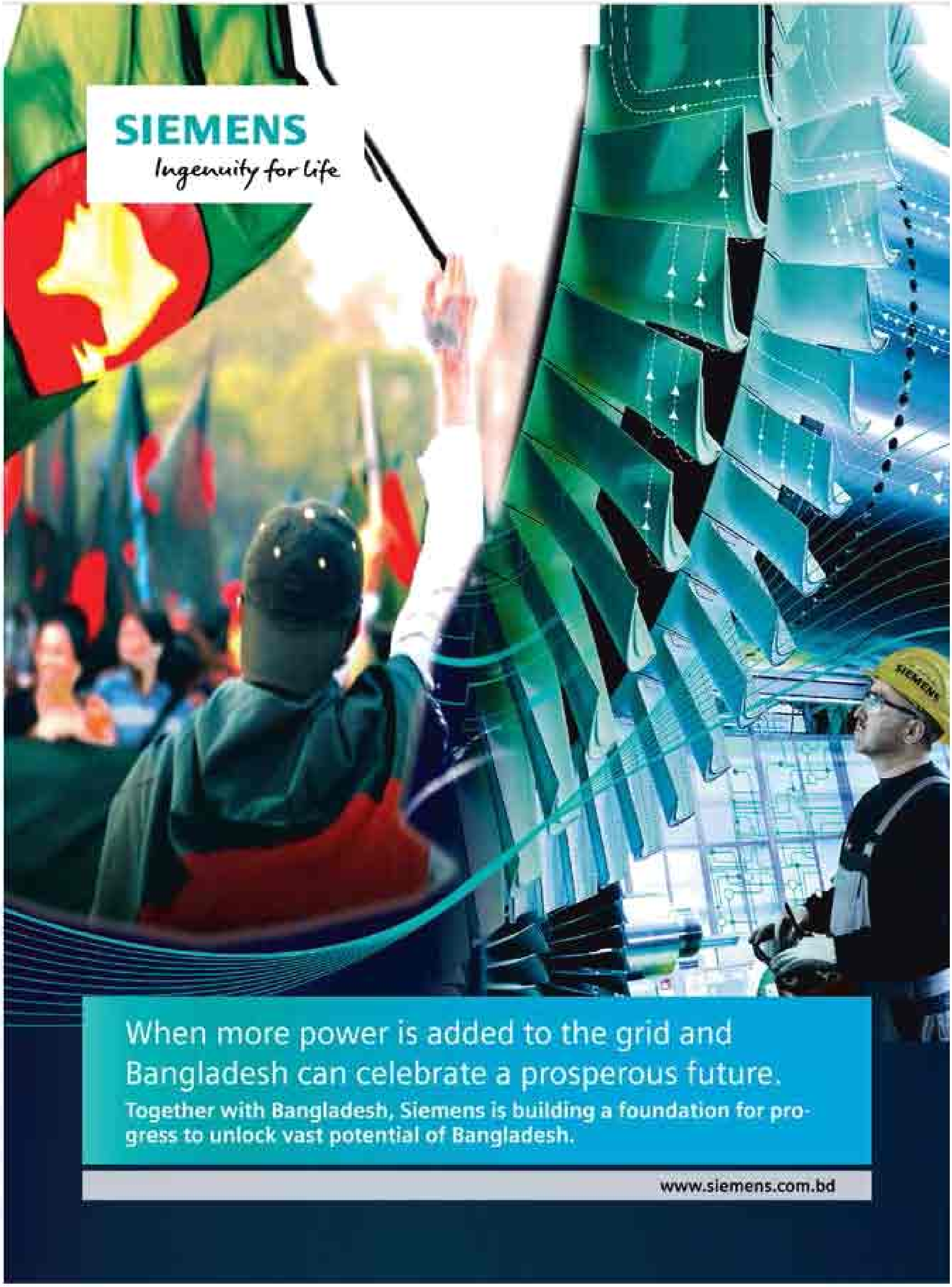
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BAT BANGLADESH WAS AWARDED CORPORATE GOVERNANCE EXCELLENCE AWARD BY SAFA

(SOUTH ASIAN FEDERATION OF ACCOUNTANTS).

Head of Public Affairs & Company Secretary, Md Azizur Rahman received the award on behalf of the organization at a gala ceremony organized in Pune, India.