

# Bon voyage, Bangla Bond!



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**B**ANGLADESH needs to boost private investment from the current 23 percent of GDP to nearly 30 percent to accelerate and sustain growth as it moves up the middle-income path and strives to achieve the Sustainable Development Goals.

The financing needs are enormous. Infrastructure, manufacturing, construction, housing and modern services sectors require substantial financing. Most of these sectors generate revenues primarily in local currency.

Even if they could borrow in foreign currency, such borrowing will be subject to a currency mismatch exposing the borrowers to exchange rate risk. Local currency bond issuance avoids such risks, but such a market does not exist within Bangladesh.

Thus, local investors would like to borrow provided they can service such borrowing in local currency.

There are global investors interested in high-quality assets in the offshore market for various maturities offering competitive returns at affordable risk. They will not mind investing in bonds denominated in currency of the country where the bond proceeds will be used and paid back in the same currency.

A significant part of the dollar return to the buyer of the bond is thus determined by the change in the local currency-dollar exchange rate. International investors assume the exchange rate risk.

The International Finance Corporation (IFC) has floated taka bonds—Bangla Bond—in the London Stock Exchange. Bangla Bonds are taka-denominated bond

on the LSE leveraging IFC's own AAA credit rating.

The bond is expected to be principally purchased by institutional investors seeking exposure to the taka and a higher yield. The final repayment may be in hard currencies such as the US dollar or Euro, but the investors bear the risk of taka depreciation and the risk of IFC default.

This is a good time for issuing taka bonds because interest rates in hard currencies (US dollar, euro, pound sterling, yen) are at very low levels.

IFC in turn will lend the money in taka to fund its own investments, bear the risk of domestic borrower default and expect to earn a margin on the rate of interest charged to borrowers in Bangladesh.

The objective is to fund commercially viable projects to fuel domestic growth via borrowings and internationalise the Bangladesh currency.

The IFC's Bangla Bond programme is inspired by its experience with the Masala Bond Programme launched in India in November 2013. The first tranche of \$100 million under the programme was sold to a range of investors, including asset managers, banks, and a pension fund in the United States and Europe.

It succeeded in having a demonstration effect prompting additional issuances, creating an offshore rupee bond market, and testing international markets for potential internationalisation of the rupee.

The lack of currency risk on the part of domestic borrowers with such issuances widens access to a large global investor base looking for high-quality assets, which in turn allows for a larger potential programme size to be executed in offshore markets.

Dollar-settled taka bonds will enable global investors to benefit from Bangladesh's healthy economic fundamentals while avoiding the cumbersome onshore investment routes.

Is the avoidance of the currency risk a significant advantage for the domestic borrowers? It can be,

judging from the Indian experience. Following the 'Global Financial Crisis' in 2008 and subsequently the 'Tapering Tantrum' in 2013, the Indian rupee depreciated significantly against the US dollar, distressing all those entities who had gone the external commercial borrowing route to raise capital.

In 2013, the Indian rupee depreciated by about 15 percent in three months causing huge losses arising out of the currency movements to those who borrowed in foreign currency from the international markets. Those

Bonds? Obviously, IFC will have to offer a much higher yield than otherwise available in the market to compensate for the risk of taka depreciation and the returns from comparable alternative investments.

The high returns therefore serve as an attraction to investors to invest in such bonds. The additional return will also have to cover for default risk, but that is not expected to be large because of IFC's AAA rating.

Successful launching and operation of the Bangla Bond can hasten the development and maturity of the fixed income market in Bangladesh. If it

and investment as well as offered investment avenues for RMB holders based outside China.

Once established, if Bangladesh Bank allows domestic banks to issue taka bonds, it will open up an additional source of funding for the local lenders who are facing difficulties raising capital domestically. But the extent to which banks will be able to use this channel will depend on the risk appetite of foreign investors, the pricing of the bond and demand for the taka.

Like everything else there is no free lunch. The exchange rate risks

economic risks, the taka will face depreciation pressure.

While Bangla Bond has the potential to open up an international investor base, firms with weaker balance sheets may find it difficult to use. Too much reliance on external debt, exacerbated by the issue of Bangla Bonds, apart from the non-concessional external borrowing for the mega projects, can lead to serious pressure down the road on the balance of payments and the sovereign ratings.

Too much success with the issuance of this bond can also



AHM Mustafa Kamal, finance minister, and Salman F Rahman, prime minister's adviser on private industry and investment, are seen during the debut of Bangla Bond on the London Stock Exchange in London yesterday.

using Masala bond funds were not impacted by this fall in the value of the rupee.

What is in it for investors? Given that the investor will bear the currency risk, what benefit will entice the investor to invest in Bangla

really becomes popular with overseas investors, then they can be a huge support to the taka.

This has been exemplified by the rising demand for China's Dim-Sum Bonds, which significantly promoted the use of RMB in global trade

rest with the issuing economy at the macro level. If the foreign investors start in hordes to redeem their holdings of the taka bonds because of weak macroeconomic fundamentals, rise in international interest rates or increased global political and

be problem as it will lead to appreciation of the taka, thus discouraging exports, remittances and dent the competitiveness of several Bangladeshi industries.

The author is an economist.

## PKSF Development Fair begins Thursday

**STAR BUSINESS REPORT**

**A** weeklong fair is set to begin in Dhaka on Thursday where a number of small entrepreneurs funded by non-governmental organisations under various programmes of the Palli Karma-Sahayak Foundation (PKSF) will showcase their

products.

Prime Minister Sheikh Hasina will inaugurate the "Development Fair 2019" at the Bangabandhu International Conference Center.

The fair will continue till November 20, said Qazi Kholiqzaman Ahmad, chairman of the PKSF, the organiser of the exposition.

A total of 200 stalls will be set up at the fair, he said at a press conference at the National Press Club in Dhaka yesterday.

The economist said market expansion would help small entrepreneurs grow rapidly and play an important role in creating jobs.

The PKSF does not only

provide funds to its partner organisations like NGOs, it also monitors whether borrowers are being able to ensure their business development.

The state-run agency provides up to Tk 10 lakh in loans to small and medium-sized enterprises in order to create entrepreneurs and jobs in rural areas. It also provides training and extends assistance to the borrowers so that they can market their products.

## What slowdown? Chinese spend big in 'Singles' Day' shopping spree

**AFP, Shanghai**

**C**HINESE consumers closed in on a new spending record Monday during the annual "Singles' Day" frenzy, the world's biggest 24-hour shopping event, which kicked off this year with a glitzy show by US megastar Taylor Swift.

E-commerce leader Alibaba said that within the first 12 hours, nearly 192 billion yuan (\$27.4 billion) had been spent -- apparently on pace to shatter last year's full 24-hour record of \$30.7 billion.

China's economy is in the midst of an extended slowdown, exacerbated by the trade war with the United States, and

Singles' Day, also called "11.11" for the November 11 date, was originally set as an unofficial day for China's unmarried millions. But Alibaba, based in the eastern city of Hangzhou, latched on to it a decade ago as a shopping promotion akin to the late-November US "Black Friday" retail crush, which "Singles' Day" now exceeds in sales.

Other Chinese online platforms and myriad retailers have tapped in as well. Alibaba competitor JD.com, which holds an 11-day promotion ending at midnight on November 11, said total sales so far had reached \$23.7 billion by Monday morning, with hours to go, surpassing the \$22.4 billion reached for



Qazi Kholiqzaman Ahmad, chairman of Palli Karma-Sahayak Foundation, speaks at a press conference at the National Press Club in Dhaka yesterday.

The PKSF has created at least 15 lakh entrepreneurs across the country, according to Ahmad.

The fair will remain open for visitors from 10am and 8:30pm every day.

As of June 2018, the PKSF has 277 partner organisations (POs) providing various services to 1.3 crore members, of whom 91.07 percent are women. The number of borrowers is 1.04 crore, of which 92.01 percent are women, according to its annual report.

Loan disbursement from POs to borrowers stood at Tk 44,793 crore in 2017-18, up 24.03 percent from a year ago. Till June 2018, the amount of loan outstanding of POs with borrowers is Tk 25,057 crore.

Mohammad Moinuddin Abdullah, managing director of the PKSF; Md Jashim Uddin and Golam Touhid, deputy managing directors, and Prof Shafi Ahmed, senior editorial adviser, were present at the press conference.



Workers sort out packages to be delivered to customers during "Singles' Day" -- the world's biggest 24-hour shopping event -- in Beijing yesterday.

## UK economy avoids recession with 0.3pc quarterly growth

**AFP, London**

**B**RTAIN'S Brexit-facing economy avoided entering recession in the third quarter with growth of 0.3 percent, official data showed on Monday.

Gross domestic product rebounded in the July-September period after a 0.2-percent contraction in the second quarter, the Office for National Statistics (ONS) said in an initial estimate.

The technical definition of a recession is two straight quarters of negative growth.

Economic activity was propelled largely by the construction and services sectors, while the production sector was flat.

"GDP grew steadily in the third quarter, mainly thanks to a strong July," said an ONS spokesman.

"Services again led the way with construction also performing well.

"Manufacturing failed to grow as falls in most industries were offset by car production bouncing back," he added.

The third-quarter performance however fell short of market expectations and the Bank of

England's growth forecast -- which had both stood at 0.4 percent.

And despite rebounding growth, the ONS pointed to "signs" of a slowdown, as Britain readies to leave the European Union on January 31.

"The underlying momentum in the UK economy shows some signs of slowing," it added.

On an annual comparison, British GDP grew by 1.0 percent in the third quarter from a year earlier -- the weakest reading since the first three months of 2010.

the Singles' Day fire sale is viewed as a snapshot of consumer sentiment in the world's second-biggest economy.

There was little hint of Chinese consumer belt-tightening, as \$1 billion was spent on Alibaba platforms in just the first 68 seconds.

Total gross merchandise volume settled through its payments platform Alipay hit 100 billion yuan within just 64 minutes -- 43 minutes ahead of last year's pace, the company said. The promotion, now in its 11th year, kicked off at midnight with Chinese bargain-hunters snapping up everything from electronics to clothing and household goods via Alibaba and rival platforms.

As it counted down to midnight, Alibaba led up to the event with a gala show in Shanghai headlined this year by Grammy-winner Swift, whose soul-bearing love songs are hugely popular with young Chinese.

the entire 11-day stretch last year.

Despite sobering economic data over the past year, China retail sales have remained a relatively bright spot, facilitated by the Chinese consumer's embrace of e-commerce and one-click smartphone payments.

China also is transitioning to an economic model increasingly driven by domestic consumption and away from a past over-reliance on manufacturing.

"Over the years, we've seen consumers become more diverse and younger," Alibaba Chairman Daniel Zhang said in comments released by the company, describing the continued robust Singles' Day performance.

China e-commerce sales also have expanded thanks to the growing diversity of products available to shoppers, and as consumers increasingly seek better-quality, higher-priced goods, analysts say.