



UNDER THE BONNET OF BANGLADESH

FEBRUARY 2018

While the Bangladeshi equity market has performed strongly in recent months, it has been a tricky period for the country's banking sector. Iona Dent, our Frontier Markets Financials Analyst, spent a few days in the Bangladeshi capital of Dhaka to investigate the issues.

KEY TAKEAWAYS

- The broad economic backdrop in Bangladesh is currently supportive, with GDP growth of 7% making it one of the fastest growing major economies in South Asia.¹
- While several factors will continue to weigh on the banking sector this year, we believe high-quality institutions have the strength to weather a tougher period.
- Consumer stocks and other quality market leading operators in the country are continuing to deliver strong growth.
- The political situation must continue to be closely monitored, as free and fair elections have been elusive in Bangladesh.

A CLOSER LOOK

One of the fastest growing economies in the Frontier universe, Bangladesh posted GDP growth of 7% for the second year running in 2017.² This growth has been driven by significant investment in both infrastructure and the private sector.

While heavily delayed, the Padma bridge – which stretches for more than 6km – is a key part of this investment programme. Incredibly, it will be the first fixed river crossing for road traffic, linking the south-west of the country to northern and eastern regions.



Oliver Bell
*Portfolio Manager,
Frontier Markets Equity
Strategy*



Iona Dent
*Associate Analyst,
Frontier Markets*

¹ International Monetary Fund [accessed 20 February 2018]

² International Monetary Fund [accessed 20 February 2018]

“The political situation must continue to be closely monitored, as free and fair elections have not progressed as well in Bangladesh compared to other Frontier countries.”

There are undoubtedly issues facing the Bangladeshi banking sector, which has witnessed a tightening in the regulatory loan-to-deposit ratio. At the same time, the government has been issuing high-yielding National Savings Certificates, which has crowded out bank deposits. These developments have led to liquidity concerns for the sector and resulted in a negative impact on margins.

We used this trip to take a deep dive into our holdings Brac Bank and Eastern Bank, to ensure both institutions are adequately prepared for a more difficult period. Although the outlook for 2018 appears tougher, we retain our conviction in the capital strength of both banks and expect our positive long-term outlook to prevail.

Meanwhile, our other Bangladeshi holdings have performed well. We had a meeting with the new CEO of Grameenphone, a leader in the telecoms sector, which continued to grow strongly and posted rising margins. In addition, our other consumer holdings have delivered solid results.

However, the political situation must continue to be closely monitored, as free and fair elections have not progressed as well in Bangladesh compared to other Frontier countries.

It is likely the elections at the end of 2018 will again be dominated by the Awami League, as the opposition Bangladesh Nationalist Party has been severely impacted by the five-year prison sentence handed down to leader and former prime minister Khaleda Zia in February. We will continue to keep close watch closely for any impact on economic policy or additional currency pressures.

As is typically the case for Frontier economies, the path of progression rarely moves in a straight line. This trip to Bangladesh was a reminder of this. However, experienced investors able to unearth the winners can still share in this prosperous journey.

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit troweprice.com.

Key Risks - The following risks are materially relevant to the strategy highlighted in this material:

Transactions in securities denominated in foreign currencies are subject to fluctuations in exchange rates which may affect the value of an investment. Returns can be more volatile than other, more developed, markets due to changes in market, political and economic conditions. Investments are less liquid than those which trade on more established markets.

Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA—Issued in the European Economic Area by T. Rowe Price International Ltd., 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

T. ROWE PRICE, INVEST WITH CONFIDENCE and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc. All rights reserved.