Current State of Affairs In Bangladesh-Part II

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THE BANGLADESHI ECONOMY IN TIMES OF UNCERTAINTY

Economic activity in South Asia (excluding India) expanded by 5.3 percent in 2016, primarily due to a sturdy domestic demand. However, a static recovery in exports markets, weak private investment and security challenges affected the region as well as Bangladesh. Further, reform complications, heightened domestic insecurity, political rigidity and unexpected tightening of financial systems added to growing apprehensions in the minds of investors. Having said that, limited exposure to global unification has helped Bangladesh and South Asia to relatively bypass negative impacts of spillovers in the west and other parts of the globe.

Following the first pre-budget discussion with premier economic policy research organizations in the country, Finance Minister AMA Muhith declared the upcoming budget projection of approximately 4-4.2 trillion Bangladeshi Taka for the 2018-19 fiscal year. During the announcement, the Minister emphasized on the need for concentrating on Sustainable Development Goals (SDG’s) to meet the needs of the emerging economy. The announcement was seen as a positive development to encompass the plans and schemes of the government, meant to drive in investment and help further galvanize the country’s growing economy.

From an official estimate of 7.1 percent in the previous fiscal year, Bangladesh’s growth is expected to downgrade to a concrete 6.8 percent in the coming days, according to a World Bank report. Domestic security challenges posed a threat to the already weak external demand and offsetted an increase in infrastructure spending. Moreover, a nominal exchange rate appreciation also helped the Bangladeshi economy to remain robust in spite of several internal and external challenges.
RMG SECTOR LOSING STEAM

The largest contributor of currency to Bangladesh’s economy is the ready made garment (RMG) sector, providing employment to approximately 4.2 million citizens. As Asian giant China finds it increasingly difficult to manufacture textile and other accessories due to rising labor costs, investors have diverted their attention to Bangladesh, due to its cheap labor. Owing to the emergence of a robust economic interdependence, the knitwear industry has added 75 percent value and has opened up new avenues for domestic and foreign investors in areas of spinning, weaving, sewing, packaging and accessories manufacturing. The RMG industry has aided the transition of Bangladesh from being one of the poorest countries in the world to an emerging market.

However, in recent times conducting business in the RMG sector has become increasingly onerous due to internal and external factors that have made the sector uncompetitive. Government policies such as an escalation of natural gas prices by 15 percent for industrial units and 100 percent for captive power producers have proved detrimental for the RMG sector. Lower prices offered by international buyers for RMG products notwithstanding the efforts taken by RMG units to meet internationally recognized compliance standards have added to the woes of the sector. During January-July 2015, the price of RMG products imported by the US fell by 2.45 percent while that of the European Union (EU) fell by 1.41 percent. Taking these numbers into consideration, every RMG unit in Bangladesh reportedly spent between 600,000-2 million USD to upgrade infrastructural, fire-safety and electrical-safety facilities. Moreover, Regional Trade Agreements (RTA) which were perceived to be commendatory for developing countries such as Bangladesh have not provided any
benefits, given that it does not possess any such RTA’s with its trade partners. Business continuity remains a persistent issue in Bangladesh due to its status as a disaster-prone region, security challenges and problems arising with regards to the sustainability of businesses, that have been attributed to multiple factors.

On April 24, 2013, Rana Plaza, a commercial building housing RMG industries, a bank and apartments collapsed leading to the death of approximately 1,100 individuals. According to the investigations that followed, the building collapsed due to structural faults that the owners of the RMG industries ignored. A Jubo League (Awami League’s student wing) leader allegedly owned the commercial building. The collapse served as another eye-opener for the western countries that had invested heavily in the RMG sector and reportedly used their soft influence to force owners to improve the working conditions of workers and the infrastructure in place. In the aftermath of the Rana Plaza collapse, the government declared a 76 percent hike in the minimum wage for RMG workers, however, these benefits have supposedly not been implemented realistically to support the claims of the government. Moreover, contrary to reports indicating the influence exerted by western governments and garment manufacturers, on ground realities remain persistent.

On December 12, 2016, hundreds of garment workers went on strike, demanding that their minimum wages be increased from 63 USD to 190 USD, citing an exponential rise in inflation of food prices as well as increasing house rents. Garment Sramik Front Union (GSFU), a union of RMG workers had allegedly distributed leaflets on November 25, 2016, with regards to the strike action, however, no memorandum of this sort was presented to the apex Bangladesh
Garment Manufacturers and Exporters Association (BGMEA) until December 22, 2016. After a complete breakdown of negotiations between the BGMEA and GSFU, approximately 85 RMG factories were closed for operation by the BGMEA, thus locking out around 200,000 employees. The stringent actions of the BGMEA and factory owners were followed by a series of demonstrations by multiple unions in Ashulia suburb of Dhaka. However, the civil unrest was neutralized by the government with a heavy hand by a paramilitary occupation and banning of labor protests in sensitive and affected areas. Furthermore, raids on union offices and workers’ homes were also witnessed in Ashulia and Dhaka. To add to the authoritarian attitude of the central government, media censorship was allegedly imposed, and a well known newspaper journalist was arrested for his detailed coverage of the labor unrest.

The abovementioned strike provides a perfect sample in understanding the unionized sectors of the Bangladeshi economy. Approximately 50 relatively new unions have been formed and have continued to exert pressure on garment workers forcing them to abstain from work. As per sources, minor leftist parties have had a relevant role to play in organizing the labor unrest. Due to the allegedly substandard conditions in which RMG workers operate, the support for such minor unions has been re-enforced. Further, the stance taken by the government with respect to workers in the RMG sector coupled with media censorship and the nexus between RMG owners and the government has further bolstered the resentment in RMG employees, specifically the blue-collared class.

![Map of Sensitive Areas in Dhaka Capital](image-url)
NATURAL GAS EXPLORATIONS AND KEY INVESTMENTS

Another potential market for western countries in Bangladesh has been identified as the seventh largest natural gas deposits in the Asia-Pacific region. However, Bangladesh continues to be energy insufficient and imports crude oil and petroleum products. The two major local petroleum and natural gas corporations, Petrobangla and Bangladesh Petroleum Corporation are state owned while several international petroleum giants such as Chevron, ConocoPhillips, Statoil, Gazprom and ONGC have invested in the south Asian country. Chevron alone accounts for 50 percent of the natural gas production in Bangladesh.

Following a favoured verdict by the U.N territorial arbitration, against India, Bangladesh won rights to explore offshore natural gas deposits in the Bay of Bengal. Further, several researchers have cited that the Bengal Delta and Bay of Bengal surrounding southern Bangladesh, probably holds the largest deposits of natural gas and petroleum in the Asia-Pacific region. That said, a lack of technical capacity combined with Bangladesh’s status as a high-risk investment region due to political tensions, poverty and high subsidies provided by the government, have hindered the investment in the petrochemical and hydrocarbon energy sectors. In 2013, an Australian petrochemical organization pulled the plug on its investment in Bangladesh’s offshore natural gas deposits due to unacceptable offshore drilling clauses put forward by Petrobangla. Chevron has also planned divesting its assets in Bangladesh due to slumping energy prices and has valued its business’ sale value at 2 billion USD. Recently, complications grew for Chevron as 600 of its local employees dragged the corporation to court over non-payment of Workers’ Profit Participation Fund (WPPF).
Currently, India’s Oil and Natural Gas Corporation (ONGC) and American ConocoPhillips have obtained offshore drilling rights in Bangladesh. Additionally, the Indian government under Prime Minister Narendra Modi has proposed the construction of a 6,900-kilometre pipeline stretching from Sittwe province in Myanmar, Chittagong in Bangladesh and Siliguri, Durgapur in northeast India. Moreover, India’s largest Liquefied Natural Gas (LNG) importer, Petronet signed a 950 million USD agreement with the Bangladeshi government with regards to setting up a plant on Kutubdia subdistrict of Cox’s Bazar. Bangladesh also received a 167 million USD loan from the Asia Development Bank, for the development of its natural gas deposits. Thus, the potential for Bangladesh to emerge as a destination for investment in the petrochemical sector remains high as western and neighboring countries such as India and China have continued to expand operations.
In mid-February, the Bangladesh Energy Regulatory Commission (BERC) decided to raise natural gas prices for the second time in two years in two phases in March and June. Gas prices are slated to rise by an average of 22.7 percent to reduce the gap between the purchase price of natural gas and subsidized retail rates in the country. According to BERC, the decision was taken keeping in mind the low demand and ever-decreasing price of readymade garments which rely on natural gas to power RMG factories. Prices are slated to increase by 34 percent. The rise in natural gas prices is likely to have a direct impact on the RMG sector in terms of business continuity.

Given the presence of piped natural gas in the domestic market of Bangladesh, the country remains a promising market for the Liquefied Petroleum Gas (LPG) sector. LPG has been used as an alternative petroleum product since the last 20 years in Bangladesh, however, the consumption of LPG is comparatively low with respect to other south Asian countries. The automobile sector in Bangladesh is set to benefit the most in the case that LPG is promoted appropriately in the country, taking into consideration the multiple advantages LPG has over Compressed Natural Gas (CNG). While the government has set official regulations for auto and conversion LPG workshops, challenges such as unpredictable international LPG prices and inadequate infrastructure in the form of deficient storage and bottling capacity might stem the growth of the sector in Bangladesh. That said, if concerted efforts by the government in these areas are made, given the novelty of LPG in the country and its benefits, the petrochemical product has the potential of playing a significant role in Bangladesh in the coming days.

The National Committee to Protect Oil, Gas, Mineral Resources and Power, a combination of environmental activist groups has repeatedly indulged in conducting strikes and protests across the country. The direct action has been called for against the proposed Rampal Power
Plant, a coal-powered power project, to be established in the Sundarbans mangrove forests. The project is slated to be the biggest project under bilateral cooperation between Bangladesh and India. Bharat Heavy Electricals (BHEL) bagged the deal through an open tender while Indian Exim Bank will provide a 1.49 billion USD loan for the project, scheduled to start generating power in 2019.

The Rampal Power Plant has been vehemently opposed by the primary political opposition, the Bangladesh Nationalist Party (BNP) and several environmentalists who have expressed concerns over the proximity of the coal-based power plant to the Sundarbans, that is also a UNESCO world heritage site. The environmentalist groups have also claimed that the delicate eco-system that persists in the mangroves is liable to get disturbed due to the pollution created by the power plant. While the Rampal Power Plant highlights the drawbacks of investing in Bangladesh, specifically touching on an environmental agitation against the power project, Bangladesh’s power sector has seen several positive signs since the last seven years.

According to the Tawfiq-e-Elahi Chowdhury, the PM’s adviser on power, energy and mineral resources, the country is seeking approximately 20 billion USD in investment with respect to transmission and distribution. Bangladesh further has the advantage of being a least developed country (LDC), thus making it unnecessary to bring down its carbon footprint, a parameter that has been a hurdle for power conglomerates while investing across the world. Bangladesh reportedly imports approximately 600 MW of power through regional cooperation. While the country is aiming to generate around 60,000 MW by 2041, about 20 percent of its population remains devoid of electricity. Beginning in 2009, the power sector witnessed an inflow of investments amounting to 8 billion USD through public-private partnership (PPP).
In 2013, Bangladesh and Russia signed a deal concerning the Rooppur Nuclear Power Plant, a 2,400 MW project and the country’s first step in the field of nuclear power generation. The plant is being developed by ASE Group of Companies a subsidiary of Russia’s state-owned Rosatom. The plant will be constructed on the eastern shore of Padma River, 160 kilometres northwest of national capital Dhaka. The first power unit of the nuclear plant is expected to be commissioned by 2022.

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THE BANGLADESH BANK HEIST AND RESTRUCTURING OF THE BANKING SECTOR

Between February 4-5, anonymous hackers managed to compromise Bangladesh Bank’s (central bank of Bangladesh) cyber security networks and attempted to swindle 951 million USD. The amount was supposedly attempted to be transferred to several fictitious accounts in Sri Lanka and the Philippines. The hackers were able to observe how transfers are conducted and gain access to the bank’s credentials for payment transfers. The cyber-criminals were based outside Bangladesh and used certain shortcomings in the Society for Worldwide Interbank Financial Telecommunication (SWIFT), that provides a system which allows banks to transmit and receive information about financial transactions in a secure and standardized environment.

30 fraudulent transactions amounting to 851 million USD were flagged by the Federal Reserve Bank of New York, where Bangladesh Bank had an account. Only an amount of 80 million USD was able to be siphoned off and transferred to a bank in the Philippines after which investigators found out that the money had changed hands between the hackers and a broker who then converted the sum into Philippine Pesos, following which the money was consolidated in the account of a Chinese-Filipino businessman. The Bangladesh Bank heist opened a discussion on the security and viability of the SWIFT software as well as on the credibility of the banking system in Bangladesh. The investigation conducted by multiple international agencies found out that the hackers were aided by certain Bangladeshi computer technicians within the bank. According to the renowned Kaspersky Lab cyber threat map, Bangladesh ranks 20th worldwide, in the countries that are most vulnerable to cyber attacks.

On February 6, 2017, the Ministry of Information and Communication Technology announced that the government is slated to enact a digital security act in order to prevent cyber crimes and track down cyber criminals. The act is associated with the formation of a strengthened cyber-security apparatus, including a state of the art forensic lab with a national cyber incident response team, that will perform penetration testing and vulnerability audits. The government has identified 21 national critical infrastructures across the country that are currently under the threat of cyber-crime. Additionally, approximately 55,000 cyber specialists will be employed by the ministry to bolster its cyber-security.

In an unrelated development in the banking sector, a complete reshuffle of the top management at the Islami Bank (most profitable bank in the country) was witnessed on January 5, 2017. The board of directors of the bank, as well as several senior officers were replaced. The reason for this abrupt restructuring was cited as the alleged contacts of the management to Islamist organizations, specifically the Jel.

Notably, Islami Bank which was incorporated in 1983, has 63.09 percent foreign shareholders, most of whom are based in the Middle East. Allegations of funding provided by Islami Bank to Islamist extremist were bolstered following the disclosure by an internal HSBC report that
cited that the bank had the account of a former leader of the JMB, Abdul Rahman. The reshuffle can also be attributed to the alleged selective targeting carried out by the Bangladesh government with regards to JeI and its supporters. While the allegations against the management are yet to be conclusively proved, the government might have forced the reshuffle to target alleged funding provided by the Islami Bank to political opponents of the Sheikh Hasina government. Keeping this in mind, future purges and reshuffles remain a possibility, in the case that banks face allegations similar to the ones proclaimed against Islami Bank.

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Recently, Finance Minister AMA Muhith emphasized on the need to privatize all state-run banks, excluding Sonali Bank, due to the recurring losses made by the financial institutions. Referring to a statement made by Bangladesh Bank Governor, Mohammad Farazuddin, citing that the banks remained ‘loss-making machines’ due to deficient capital and provisional shortfall, Muhith recommended the privatization. In 2016, six state-run banks had registered operating profits amounting to 2.5 billion USD, around 37 percent down from a year ago. However, after provisioning and tax payments made, the banks recorded a loss of approximately 63 million USD compared to a loss of around 15.5 million USD in 2015. While the proposed privatization might help Bangladesh reduce its fiscal deficits, provide better incentives and monitoring, given the current state of affairs in the country, issues such as problems pertaining to valuation, transparency, financing, foreign influence and competition might surface. These drawbacks might prove to be a hindrance in implementing the proposed privatization of state-owned banks.
MEGA PROJECTS IN THE PIPELINE

PADMA BRIDGE
BA: 60.26 BILLION

PADMA BRIDGE RAIL CONNECTION
BA: 41.02 BILLION

RAMPAL POWER PLANT
BA: 25.4 BILLION

PAYRA PORT
BA: 2 BILLION

COX’S BAZAR RAIL ROAD
BA: 6.14 BILLION

ROOPPUR NUCLEAR POWER PLANT
BA: 6.18 BILLION

SOURCE: The Financial Express  * BA: Budget Allocation for fiscal year 2017
LOCAL POLITICS: KEY TO ECONOMIC GROWTH

Free and fair elections have predominantly remained a myth in Bangladesh as political assassinations, military coups and widespread election frauds have dominated the political landscape of the South Asian country since independence in 1971. The next general elections are slated to be witnessed in January 2019 as the Awami League and BNP go head-to-head for the people’s mandate. Talks were initiated on December 22, 2016 by the major political stakeholders in the country in the presence of incumbent President Abdul Hamid with regards to the reconstitution of the Election Commission (EC), under a non-partisan committee. BNP Chairperson Khaleda Zia, led an 11-member delegation to ‘Bangabandhan’, the President’s official residence to elucidate the BNP’s demands regarding the strengthening of the EC. Further, other political parties across the spectrum also followed in the footsteps of BNP to submit proposals to the President with respect to the EC. Notably, the BNP Chief expressed her satisfaction with the dialogue she had with the President and hoped for free and fair elections in 2019. On February 7, 2017, the President reconstituted the EC for the 11th general elections in 2019. Former administrative secretary, K M Nurul Huda was appointed Chief Election Commissioner (CEC) after consultations by the President over 125 names proposed by 25 political parties of the country. The term of the current CEC ended on February 14. Further, the head of the EU delegation in Dhaka expressed his willingness to aid the EC and announced a new development cooperation program under which Bangladesh would get grants amounting to 700 million USD until 2020.

That said, the BNP faces an arduous task with respect to resurrecting the political party in the country. The logic behind this assessment can be evidenced from multiple cases filed against Chairperson Zia and her political heir and son, Tarique Rahman, who is currently exiled from the country. Zia and her family members currently face charges ranging from misappropriation of funds, inciting violence as well as loan defaults. These cases might be reopened or expedited in the case that the main opposition displays some traction before the general elections of 2019. Cases filed against Rahman have the potential of entirely prohibiting him from contesting elections, thus affecting the BNP’s prospects in 2019. While the probability for a military coup at this moment remains distant, the insistence by the BNP on the reconstitution of the Caretaker Government (CTG), which was abolished by the Sheikh Hasina government during its tenure, might increase the possibility of a military takeover. This scenario is liable to arise in the case that the Awami League government loses its credibility following a negative national development. That said, keeping in perspective the current relatively high approval ratings of the incumbent government, it would surely take a gargantuan effort by the opposition or a crisis to unseat Sheikh Hasina and the Awami League from the seat of power.

BNP, JI and other political opponents remain battled and bruised following the mass arrests and executions conducted by the Sheikh Hasina government pertaining to the 1971 war crimes tribunal. Due to the abovementioned, political opponents are perceived to not pose a serious threat to the Awami League in the 2019 elections or in the build-up to the polls. The internal feuds in the single-party regime might however, be a matter of contention for the top
leadership of the Awami League, given that 56 majority party workers have been killed and approximately 3,500 wounded, in incidents of party infighting between January 2015 and October 2016. The murder of Manzurul Islam Liton, a sitting MP of the Awami League from Gaibandha, on December 31, by suspected Islamist elements has underscored the vulnerability of even top politicians of the ruling party to political violence.

The investment atmosphere in Bangladesh is liable to revolve around the political developments in the run-up to the elections of 2019 and might heavily depend on the general election outcome. A sample of free and fair elections was provided in the Narayanganj City Corporation (NCC), which was a cakewalk for the Awami League candidate, despite the fact that these elections were supposedly conducted in a non-partisan way.

If the Awami League is able to counter its factional feuds and project itself as the only alternative wherein the one-party model survives in the aftermath of the 2019 elections, the reportedly investment-friendly policies of the government are likely to be further strengthened. An additional consolidation of power by Sheikh Hasina, leading to her re-election as PM in the 2019 elections might provide a green signal to investors to increase their respective sponsorship spectrums with respect to the RMG and energy sectors, that have been identified as high growth industries in times of stability. The funds infused economy might also lead to the development of various sectors that have not been tapped in the past and result in the development of novel industries in one of the fastest growing economies of the world.

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PROSPECTS FOR THE ECONOMY IN THE NEAR TERM

On the economic front, all indicators including inflation, foreign exchange reserves, exchange rates and credit flows remain broadly in accordance with goals set by the Sheikh Hasina government. Private credit growth rose by 15.34 percent in the first quarter of 2017, in close proximity to the target of 16.5 percent. The local currency remained stable against the USD. Average exchange rates of USD with regards to Bangladeshi Taka were 78.83 in December 2016 and 78.66 in December 2015. Further, the central Bangladesh Bank cited that it had achieved 43 percent of its targeted agriculture loan dispersal while massive loans were distributed amongst agricultural Small and Medium Enterprises (SME), that reportedly aided in employment generation and strengthened agricultural produce, known to be the backbone of the south Asian country’s economy. Moreover, international projects in the south Asia region, spearheaded by either China and India, have kept Bangladesh as a fulcrum for regional cooperation and are likely to benefit the country.

Bangladesh’s development is swiftly moving towards sustainability due to a symbiotic expansion of the public and private sectors in the country. Since, 2000, the Bangladeshi economy has persistently grown at a rate of 6 percent per annum from being a country that had 80 percent of its population under the poverty line in 1971. Several factors can be credited for the slow but steady rise of the Bangladeshi economy including its 74.6 million strong workforce, reforms in agriculture leading to higher yields, a bolstered industrial production, strong RMG sector and exports, perpetually growing foreign investment, robust remittances (reserves of foreign exchange) and last but not the least a forward-looking leadership with regards to economic development. Bangladesh’s development over the years can be summarised in the table below, highlighting various sectors and their contribution to the economy between 2011-16.
Furthermore, compared to other emerging countries, economic conditions in Bangladesh remain relatively stable. Developing projects such as the Padma Bridge Project, a CNG terminal centre, the Payra and Sonadia deep-sea ports and multiple railway links that are in the pipeline are liable to help boost investor prospects in Bangladesh. While the completion of the abovementioned projects remains lackadaisical, the inauguration of two major highways namely, the Dhaka-Chittagong and Dhaka-Mymensingh Highways might aid efforts of the government to increase connectivity between the capital and other economic centres. The expedited completion of such infrastructure projects could reduce travel time and increase the productivity of trading operations. The expansion of government’s annual spending target in FY 2016-17 to 14 billion USD with a concentration in transport and energy sectors has also been viewed positively. However, geopolitical developments such as ‘BREXIT’ and Donald Trump’s electoral victory may present emerging trade prospects and challenges with partners such as the UK and US in the medium-term.