

Fast economic growth but not healthy yet

General Information



GDP	USD195bn (World ranking 47, World Bank 2015)
Population	161mn (World ranking 8, World Bank 2015)
Form of state	Parliamentary Democracy
Head of government	Sheikh Hasina
Next elections	2019, general elections



Strengths

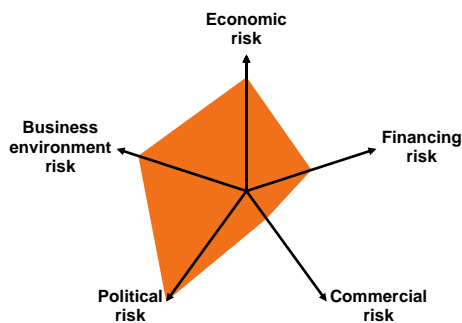
- Adequate level of public debt
- Large workers' remittances inflows
- Low wage costs
- Low external debt stock
- Competitive in low-end manufacturing

Weaknesses

- Fragile political environment,
- Large trade deficit
- Weak business environment : infrastructure shortcomings, red tape
- Vulnerable to natural disaster
- Vulnerable export base (heavily dependent on garment industry)

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	17% 1	24% China
Germany	14% 2	15% India
United Kingdom	10% 3	6% Singapore
Spain	6% 4	4% Japan
France	6% 5	4% Indonesia

By product (% of total)

Exports	Rank	Imports
Articles of apparel and clothing accessories	81% 1	19% Textile yarn and related products
Textile yarn and related products	6% 2	7% Petroleum, petroleum products and related materials
Fish, crustaceans, molluscs	3% 3	6% Textiles fibres
Footwear	2% 4	5% Specialised machinery
Leather, leather manufactures and dressed furskins	1% 5	4% Fixed vegetable oils and fats, crude, refined

Source: UNCTAD

Economic Overview

Growing with risks

GDP growth was robust in FY2015-16 (+7.1%). Domestic demand was the main driver underpinned by favorable macro-policies. Private consumption remained resilient as weaker remittances were offset by a pay hike for public servants. The net trade of goods and services contribution to growth improved as lower commodity prices decreased import bill.

Economic growth is set to slow in both FY2016-17 (6.7%) and FY2017-18 (6.3%) but remains in the range of 6-7%. Firstly, a gradual rise in commodity prices and a rise in VAT will likely translate into higher inflation and act as a drag on private consumption. Secondly, net trade performance is set to weaken reflecting modest exports outlook and a higher import bill.

Going forward, risks are elevated. Enhancing private investment will be pivotal to put growth on a healthy and sustainable path. Growth relies heavily on domestic consumption. Private investment remains weak and low foreign direct investment point to a fragile outlook. Security issues, weak business environment, financial weaknesses and infrastructure shortcomings are among the reasons for investor's caution.

Financial sector weaknesses are a cause of concern

Macroeconomic buffers are at reasonable level. Public debt is at a manageable level (below 60% GDP) and the outlook is broadly positive. The new VAT should be implemented in July 2017 and help improve revenue collection.

On the external front, foreign reserves are at an adequate level covering over 5 months of imports. The current account is in surplus but is quite vulnerable. Net trade of goods balance is in deficit. External revenues are highly dependent on remittances from overseas workers.

The financial sector is weak and credit risk is elevated. Non-performing loans ratio stood at 10.3% in Q3 2016. Asset quality and profitability are weak. Close monitoring of financial risks will be key in the short run as the central bank target high credit growth (+16.5% by June 2017).

Weak business environment and security issues weigh on the outlook

Bangladesh ranks 176 out of 190 economies in the Doing Business 2017 survey. It is almost the lowest in the world for getting electricity (ranked 187th) and enforcing contracts (189th). Corporate insolvency resolution framework is also poor (151).

The political context is fragile. Vulnerabilities stem from strong polarization between the two main political parties, high terrorism risk and a difficult geopolitical context.

Key economic forecasts

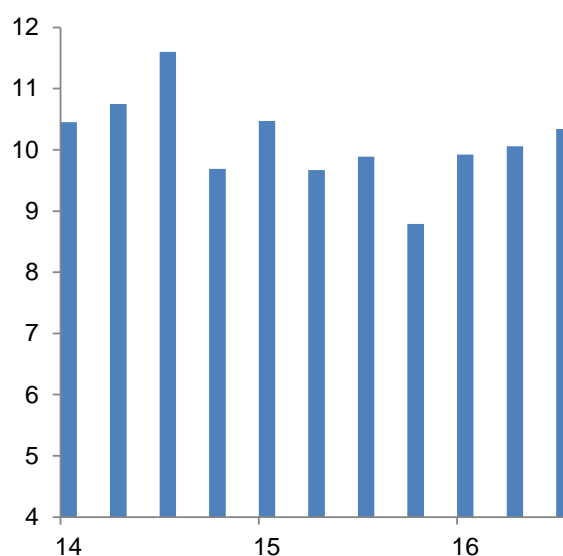
	2015*	2016e	2017f	2018f
GDP growth (% change)	6.6	7.1	6.7	6.3
Inflation (% year average)	6.4	5.9	5.7	6.3
Fiscal balance (% of GDP)**	-3.9	-4.3	-4.5	-4.5
Public debt (% of GDP)**	33.9	34.0	34.5	35.0
Current account (% of GDP)	1.5	1.7	0.0	0.2
External debt (% of GDP)	19.2	18.5	17.0	16.8

* 2015 refers to fiscal year 2014-2015 ending in June 2015

** Perimeter includes central government

Sources: IHS, IMF, Euler Hermes

Non performing loans ratio



Sources: IHS, Euler Hermes

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