

Bangladesh Business Forecast Report Q1 2015

<https://marketpublishers.com/r/BE5166BFB69EN.html>

Date: December 2014

Pages: 34

Price: US\$ 1,195.00 (Single User License)

ID: BE5166BFB69EN

Abstracts

Core Views

Bangladesh will continue to be vulnerable to any political turmoil, owing to its high propensity for street protests. The extreme animosity between political parties, particularly between the ruling centristliberal Bangladesh Awami League and the conservative Bangladesh Nationalist Party, pose risks to the country's political stability. Bangladesh's growth recovery remains on track and will continue to see strong growth over the coming years. We maintain our real GDP growth forecast of 6.0% in FY2014/15 (July-June), just below the Bangladesh Bureau of Statistics' (BBS) provisional estimate of 6.1% in FY2013/14 on the back of investment into the power sector, resilient garment exports and increased government development spending.

We expect Bangladesh Bank (BB) to keep its repo rate unchanged at 7.25% in H2FY2014/15 (January-June), in an attempt to achieve its inflation objective. Inflation will continue on its slow decline towards the central bank's target of 6.5% on the back of improving supplyside conditions and tight monetary policy.

Bangladesh's budget deficit will remain manageable at around 3.0% of GDP on average over the coming years. Despite an increase in development expenditure to support infrastructure spending, ongoing tax reform efforts by the government to carry out tax reforms informs our optimistic outlook.

The Bangladeshi taka will depreciate slightly against the USD in 2015, ending 2015 at BDT78.80/USD, as BB continues to anchor the currency by building up its foreign reserves, which will more than offset the support from the country's current account surplus.

Major Forecast Changes

We maintain our major forecasts highlighted in Q4 2014 Business Forecast Report.

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Bangladesh will continue to be vulnerable to any political turmoil with the potential for violence on the streets, especially after the verdicts by the Bangladesh International Crimes Tribunal on October 29 and November 1 to sentence two leaders of the opposition Islamic Jamaat-e-Islami party to death.
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Limited Chances Of Major Improvement
Although Bangladesh returned to full civilian rule following elections in December 2008, the political system remains immature and prone to instability. We see only limited prospects for a substantial improvement over the next 10 years.

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Bangladesh's budget deficit will remain manageable at around 3.0% of GDP over the coming years, narrowing slightly to 2.8 % by FY2015/16 (July-June) from 3.0 % in

FY2013/14. Despite an increase in development expenditure to support infrastructure spending, efforts by the government to carry out tax reforms informs our optimistic outlook. Total government debt and external debt as a share of GDP will also decline to 34.2% and 15.1% by FY2015/16 respectively from an estimated 34.8% and 16.9% in FY2013/14.

Table: Fiscal Policy

Monetary Policy

Slow Disinflation To Take Shape

Improving supply-side conditions and tight monetary policy by Bangladesh Bank (BB) underpin our view that inflation will continue on its slow decline towards the central bank's FY2014/15 (July-June) objective of 6.5% from 6.6% in October. We also maintain our forecast that the central bank will keep interest rates on hold at 7.25% for H2FY2014/15, in an attempt to achieve its inflation objective.

Table: Monetary Policy

Currency Forecast

BDT: Modest Depreciation Over The Coming Years

We remain neutral on the Bangladeshi taka, expecting the unit to remain relatively stable against the US dollar over the coming months as the central bank anchors the currency. We forecast that the taka will only depreciate slightly to BDT78.80/USD in 2015 and BDT80.00/USD in 2016, as the accumulation of foreign reserves by the central bank will more than offset the support from the country's current account surplus.

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