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Bangladesh Business Forecast Report Q2 2014

https://marketpublishers.com/r/BF8C0C59E90EN.html
Date: March 2014
Pages: 35
Price: US$ 1,195.00 (Single User License)
ID: BF8C0C59E90EN

Abstracts

Core Views

While the intense political violence has recently abated, we believe that stability will still be hard to come by due to the ongoing security crackdown on opposition activists and the war crime tribunals against Islamist leaders. As such, we maintain our short-term political risk rating of 62.1 out of 100.

The political turmoil in recent months has weighed heavily on investment. As such, we have downgraded our real GDP growth forecast from 6.5% to 5.7% for FY2013/14 (July-June).

We believe that the Bangladesh Bank (BB) is currently in a tough position, as the country is facing a rising inflation, but at the same time sluggish growth. We expect the BB to maintain a neutral policy stance for the remaining months of FY2013/14, and will keep its repo rate unchanged at 7.25%.

We are forecasting the government debt to GDP ratio to decline gradually towards an estimated 33.8% by FY2022/23, as the Bangladeshi government continues to consolidate its fiscal position.

We are forecasting remittance inflows to contract by 4.5% year-onyear (y-o-y) in FY2013/14, as Bangladesh’s manpower exports will likely remain weak over the medium term. The continued slowdown in remittances will hurt Bangladesh’s external accounts. As such, we have revised down our FY2013/14 current account balance forecast to 0.9% of GDP, from 1.6% previously.

Major Forecast Changes

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As a result of the heightened political turmoil, we have downgraded the country's short-term political risk rating from 65.8 out of 100 to 62.1 out of 100 and our real GDP growth forecast from 6.5% to 5.7% for FY2013/14.

While we initially forecasted a 50 basis points cut in interest rates to support growth, rising inflationary pressures will likely hold back such a move. As such, we forecast the central bank to maintain a neutral monetary policy stance for the remaining months of FY2013/14, and will keep its benchmark repo rate unchanged at 7.25%.

We have revised down our FY2013/14 current account balance forecast to 0.9% of GDP, from 1.6% previously, as we expect manpower exports to remain weak over the medium term.

Key Risks To Outlook

Downside Risks To Interest Rate Forecast: We believe that inflationary pressures will likely subside over the medium term, as M2 money supply growth and domestic credit growth have been on a downtrend, which will put downside pressure on inflation. As such, there will then be scope for monetary easing, should growth outlook weaken further.

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Contents

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Fiscal Policy

Fiscal Debt Profile On A Sustainable Path

While the government's efforts to increase tax revenues have paid off, progress on the expenditure side will likely be slow given its downward stickiness and the continual need to spend on infrastructure development. We therefore expect a gradual decline in the fiscal deficit, which will allow the government to maintain public debt as a share of GDP at a manageable level. We forecast public debt as a share of GDP to decline gradually towards 33.8% by FY2022/23.

TABLE: FISCAL POLICY

Monetary Policy

Rates To Hold As Inflation Rises

Faced with rising inflation and a sluggish economic growth outlook, we expect the Bangladesh Bank (BB) to keep its repo rate unchanged at 7.25% for H2FY14 (January-June). That said, the risks to our outlook remain weighted to the downside, as inflationary pressures will likely subside over the medium term, thus allowing scope for monetary easing should economic growth deteriorate further.

TABLE: MONETARY POLICY

Balance Of Payments

Remittance Weakness To Hurt External Accounts

We are forecasting remittance inflows to contract by 4.5% year-on-year in FY2013/14, as Bangladesh's manpower exports will likely remain weak over the medium term. The continued slowdown in remittances will hurt Bangladesh's external accounts. As such, we have revised down our FY2013/14 current account balance to 0.9% of GDP, from 1.6% previously.

TABLE: CURRENT ACCOUNT

CHAPTER 3: 10-YEAR FORECAST

Bangladeshi Economy To 2023

Long-Term Potential Strong But Restricted

We believe that a real GDP growth rate above 6.0% for Bangladesh is sustainable in the long term given the increasing size of the workforce. However, to achieve growth in the 7-8% range and higher, productivity will need to improve. Until this happens, GDP per capita - while on an upward trajectory - will remain relatively low.

TABLE: Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

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CHAPTER 5: BMI GLOBAL ASSUMPTIONS

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