

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-on-year (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

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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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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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.

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