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Bangladesh Business Forecast Report Q3 2014

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Abstracts

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Core Views

Bangladesh will benefit from the power struggle between China and India for dominance of South Asia and the Indian Ocean, as the two giants will want to strengthen their political, economic, and defence cooperation with Dhaka. This bodes well for Bangladesh’s long term economic growth, which we are forecasting to come in at an annual average rate of 6.3% over the next 10 years.

With the return of political normalcy, we are optimistic that investment and export sector growth will start to pick up over the coming quarters, and are forecasting real GDP growth of 6.3% in FY2014/15. We expect the Bangladesh Bank to keep its repo rate unchanged at 7.25% in H1FY15 (July-December), as inflation will likely remain relatively benign, while the economy should recover from the recent political turmoil.

The recent increase in electricity prices will enable the government to reduce energy subsidies and narrow the fiscal deficits. With this positive development, we are forecasting the budget deficit to come in at 3.1% of GDP in FY2013/14, before falling marginally to 3.0% of GDP in FY2014/15.

We expect the Bangladeshi taka to remain fairly stable near its current level of BDT77.65/USD over the coming months, as the Bangladesh Bank (BB) will likely continue to anchor the currency while it bolsters its foreign reserves. However, we see scope for mild appreciation over the course of the year as the garment export sector recovers amid renewed political stability.

Major Forecast Changes

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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%.

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energy subsidies and narrow the fiscal deficit. The fact that the government has pushed through reform measures amid the ongoing
political crisis bodes well for the government's fiscal reform efforts and the economy in general over the medium term. With this positive
development, we are therefore forecasting the budget deficit to come in at 3.1% of GDP in FY2013/14, before falling marginally to 3.0
%of GDP in FY2014/15.
Table: Fiscal Policy
Monetary Policy
Current Rates Still Appropriate In H1FY15
We expect the Bangladesh Bank to keep its repo rate unchanged at 7.25% in H1FY15 (July-December), as inflation will likely remain
relatively benign, while the economy should recover from the recent political turmoil. Risks to our interest rate forecast remain weighted
to the downside, however, as inflationary pressures should subside, allowing scope for monetary easing should the economy fail to
recover strongly.
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Table: Current Account
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CHAPTER 3: 10-YEAR FORECAST

The 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
BMI Business Environment Risk Ratings
Business Environment Outlook

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