

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

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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Domestic Politics

Bangladesh To Benefit From Sino-Indian Rivalry

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 in turn bodes well for Bangladesh's long-term economic growth, and we are forecasting real GDP to grow at an annual average rate of 6.3% over the next 10 years.

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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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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. Growth challenges such as the poor business environment and inefficient banking system still remain, however, which will prevent the economy from growing at a much more rapid rate.

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While the recent increase in electricity prices will hurt the economy in the near-term, it will enable the government to cut down on

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.

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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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