Euler Hermes Economic Research

Country Risk Analysis

Bangladesh

Structural weaknesses

General Information

GDP	USD115.6 billion (World ranking 59, World Bank 2012)
Population	154.7 million (World ranking 8, World Bank 2012)
Form of state	Parliamentary Democracy
Head of government	PM Sheikh HASINA
Next elections	2014, legislative

Strengths

- Adequate level of public debt
- Rapidly increasing workers' remittances inflows shifting the current account into surplus
- Low external debt stock

Weaknesses

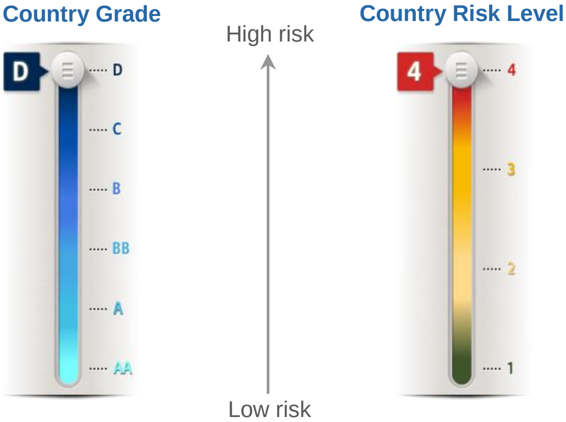
- Fragile political environment
- Strained regional and international relations
- Low-income economy
- Weak economic structure
- Elevated inflation
- Weak business environment

Country Rating

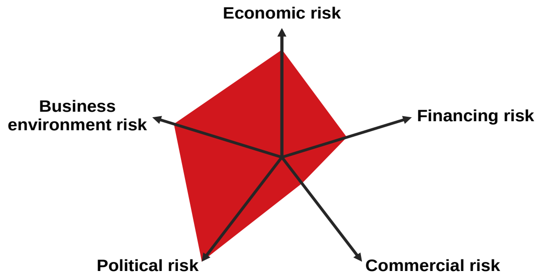
D4

Country Grade

Country Risk Level



Risk Dimensions



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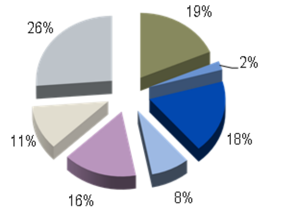
Economic Structure

GDP breakdown (% of total, 2011)



Sources: UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

Exports		Rank		Imports
United States	21%	1	22%	China
Germany	16%	2	10%	India
United Kingdom	9%	3	7%	Singapore
France	7%	4	5%	Malaysia
Netherlands	5%	5	5%	Korea, Republic of

Exports		Rank		Imports
Articles of apparel & clothing accessories	75%	1	17%	Textile yarn and related products
Textile yarn and related products	9%	2	8%	Petroleum, petroleum products and related materials
Fish, crustaceans, molluscs and preparations thereof	4%	3	7%	Fixed vegetable oils and fats, crude, refined or fractionated
Leather, leather manufactures and dressed furskins	2%	4	6%	Textiles fibres and their wastes
Textiles fibres and their wastes	2%	5	5%	Cereals and cereal preparations

Economic Forecast

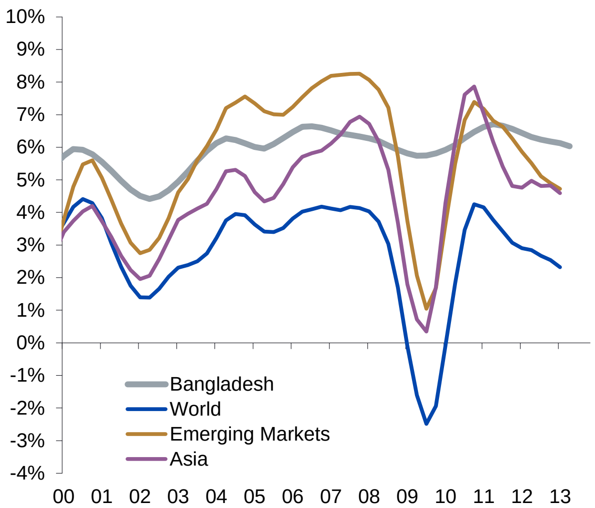
	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	5.7	6.1	6.7	6.3	5.5	6.0
Inflation (%, end-year)	8.5	8.3	10.6	7.4	8.0	7.0
Fiscal balance (% of GDP)	-3.7	-3.1	-4.1	-3.4	-3.9	-3.8
Central government debt (% of GDP)	42	37.9	39.1	40.4	43	41.8
Current account (% of GDP)	4.0	2.1	0.2	2.9	2.0	1.6
External debt (% of GDP)	27.6	25.8	25.2	24.3	21.0	20.0

Source: IHS Global Insight, national sources, Euler Hermes

Economic Overview

Economic development is dependent on rain-fed agricultural production (the sector accounts for 19% of GDP and is the main employer) and is also subject to natural disasters, principally severe flooding. The other main economic driver is the clothing and textile sector. Bangladesh is the second-largest world producer of manufactured jute goods (carpet backing, twine and sacking) and the largest global exporter. However, jute is losing long-term market share to synthetic materials and the clothing sector has faced significant uncertainties in a more-liberalised global trading regime. Nevertheless, to date, Bangladesh appears to be a net winner from the termination at the end of 2004 of the Multi-Fibre Arrangement (MFA), which opened global markets to increased competition in the ready-made garment sector. Labour costs in Bangladesh are below those in China and India. Ready-made garments account for 75% of total exports, which are marketed largely in the EU and the US. These dependencies create some vulnerability to the global economic business cycle. Moreover, the garments industry may experience a backlash from factory safety issues, following the recent garment factory collapse that claimed the lives of over 1,000 people. The US has suspended the Generalised System of Preferences (GSP) agreement with Bangladesh, and the EU is considering a similar move.

GDP growth (% y/y, 4 qtrs cumulated)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Real GDP grew by +6.3% in 2012. Growth of the agricultural sector decelerated to +2.5% from +5.1% in 2011 while the services sector remained stable at nearly +6%. The relatively small manufacturing industry (accounting for 18% of GDP) expanded by +9.5% in 2012, up from +8.2% in 2011. EH projects real GDP growth to slow down to +5.5% in 2013 before picking up to +6% in 2014.

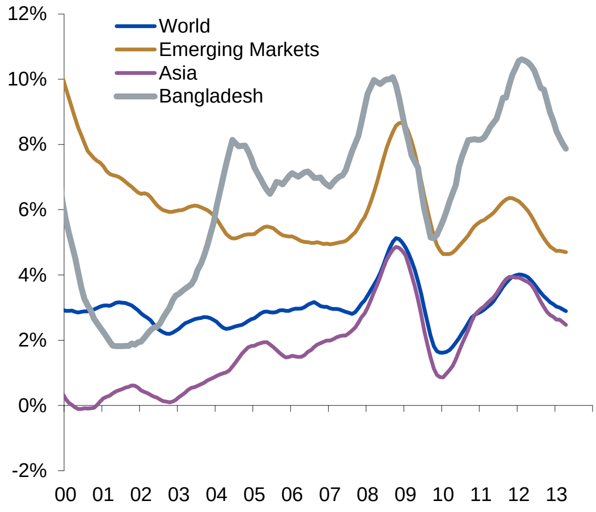
Inflationary pressures have decreased since 2011. Headline inflation moderated from 10.6% at end-2011 to 7.4% at end-2012 but has picked up slightly to 8% y/y in June 2013. We forecast inflation to remain elevated at around 8% until end-2013 before gradually easing to 7% at end-2014.

Fiscal deficits have been somewhat elevated in recent years, averaging 3.8% of GDP in 2008-2012. Nonetheless, sovereign risk is contained in the short term as public debt accounts for just about 40% of GDP, half of which is external on highly concessional terms. In December 2012, the Parliament voted in favour of a value added tax. The VAT rate of 15% should improve fiscal situation by increasing the fiscal base. Beyond that the government has little room for manoeuvre to generate revenues, such that public finances are a potential source of concern in the medium term.

Bangladesh has continued to record large trade deficits (7.5% of GDP in 2011, 4.6% in 2012). But thanks to rapidly increasing workers' remittances inflows (USD14.4bn in 2012, up from USD4.3bn in 2005) the overall current account has posted surpluses since 2008, despite weaknesses in the main goods export markets, the EU and the US. Going forward, flows of workers' remittances will be subject to business conditions in the Middle East, particularly the GCC, where Bangladeshi workers are employed in the construction and services sectors. EH expects the current account surplus to narrow from 2.9% of GDP in 2012 to 1.6% in 2014.

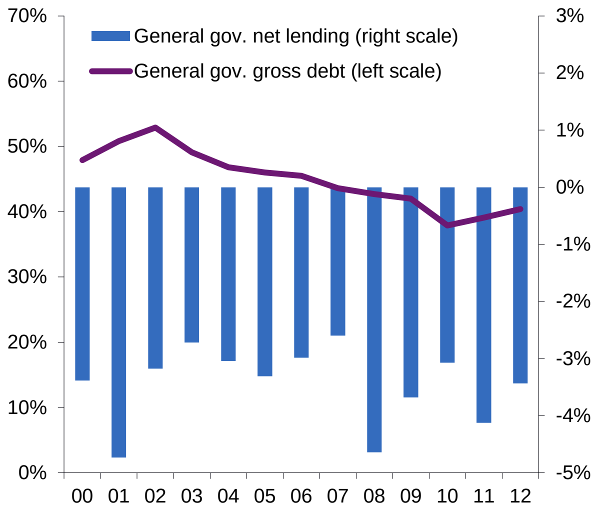
The bulk of external debt, which is currently around USD27bn (24% of GDP), is medium- to long-term and is owed by the public sector to the official sector (IFIs and governments) and is on highly concessional terms. Nevertheless, foreign debt obligations (debt servicing accounts for 4-6% of annual export earnings) represent a major obstacle to long-term development as they consume scarce financial resources. FDI inflows do not provide a major source of external finance, given infrastructural and institutional weaknesses. High inward aid flows will remain key to financing requirements.

Inflation rate (12-month moving average, %)



Sources: IHS Global Insight, national sources, Euler Hermes

Fiscal balance and public debt (% of GDP)



Sources: IHS Global Insight, national sources, Euler Hermes

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