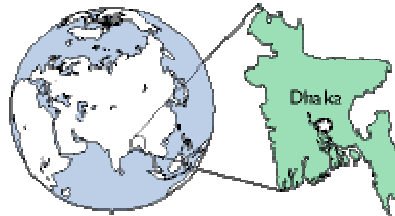


# COUNTRY REVIEW

## Bangladesh



27 August 2010

**ANALYST: Andrew Atkinson**

**EULER HERMES COUNTRY RISK GRADE: D**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

## COUNTRY PROFILE

Capital city:	Dhaka
GDP:	USD89.5bn (2009e)
Population:	162.7mn (2009e)
GDP per capita:	USD550 (2009e)
Currency:	Taka (BDT)
Form of state:	Republic
Head of government:	P.M. Sheikh Hasina Wajed
Next elections:	A caretaker government will be appointed in January 2014, with elections within 90 days thereafter

Domestic political activity and government formation have been polarised between the Bangladesh National Party (BNP) and the Awami League (AL). These two parties and their alliances have alternated in power for much of the last two decades and animosity between supporters of the two factions has been extended to extra-parliamentary activities, including boycotts, strike action and general street demonstrations. **The deep-rooted hostility between the BNP and the AL results in a highly-confrontational political environment that is not conducive to effective governance, policy implementation and attainment of long-term social and economic development.** Additionally, the leaders of the two main parties, Sheikh Hasina Wajed and Khaleda Zia (the two begums), are bitter adversaries. An active military (de facto military rule prevailed through a caretaker government for two years up to December 2008) and Islamic fundamentalist militants add to this volatile mix. Extremists have orchestrated bomb attacks across the country in recent years.

Following general elections in December 2008, an **AL-led alliance now controls 230 out of 300 parliamentary seats**, providing it with more than a two-thirds majority that allows constitutional changes to be enacted unchallenged. Indeed, the AL has sufficient representation in the legislature that its ability to govern is not dependent on the other parties within the ruling alliance. Despite this clear mandate and likelihood that the AL will be the dominant political force for the next few years, **stability is not assured**. This is largely because social unrest, action of the security forces (a violent mutiny broke out in the Bangladesh Rifles in February 2009) or attacks by militant groups could unsettle the current relative equilibrium.

Policy implementation—particularly regarding key structural reforms—has been hampered by the generally weak political environment. Full support of the international community depends on clear evidence that democratic practices have returned, although international agencies will continue to provide humanitarian support.

Relations with India and the wider South Asian Association for Regional Co-operation (SAARC) dominate regional considerations and can sometimes be strained by border and ethnic minority issues. India is constructing an extensive steel-based fence along most of its 2,980km land border with Bangladesh. This defence measure is aimed at preventing illegal entry into India of Bangladeshi workers but has aggravated bilateral tensions. Relations with the United States and with the IFIs—particularly the World Bank and the ADB—have been good overall.

Almost 50% of the population lives on less than USD1.25/day and 81% on less than USD2/day. Approximately 20% of the population does not have access to an ‘improved’ water supply and life expectancy is below 66 years. As a result of prevailing social conditions, combined with **an economy subject to wide cyclical fluctuations reflecting the adequacy, or otherwise, of monsoon rains and debilitating effect of severe flooding**, growth in long-term real GDP per capita is not sufficient in itself to make significant inroads into the country’s poverty.

**Economic development is dependent on rain-fed agricultural production (the sector accounts for 20% of GDP) 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, indications to date suggest that Bangladesh is 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 from other large producers. **Ready-made garments account for 76% of total exports**, which are marketed largely in the EU and United States. Bangladesh appears to be

maintaining market share in these areas, largely because labour costs are below those in China and India.

**We forecast that real GDP will expand by 5-6% in 2010 and in 2011**, following an average of almost 6.2% in 2005-09, with private consumption and investment providing the key drivers, although performance of the former depends on the uncertain outlook for the agricultural sector and for workers' remittances. The agricultural sector has a larger impact on the economy than its 20% share of GDP suggests as it provides the main employment channel and provides the main source of income for an estimated one-half of the working population. **Flows of workers' remittances are subject to business conditions in the Middle East, particularly the GCC**, where Bangladeshi workers are employed in the construction and services sectors. The external accounts are likely to weaken in the period to end-2011 as export trade will be subdued by only a modest recovery in some key markets (mainly in Europe), although the value of workers' remittances will still offset the combined deficit registered in the merchandise trade, services and income accounts. Overall, **the current account surplus is forecast at 1-2% of GDP this year and in 2011**.

The bulk of external debt, which is currently around USD24bn, 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 and **high inward aid flows are key to financing requirements**.

The **business environment is weak** and unsupportive of attempts to raise corporate effectiveness and overall economic growth to their true potential. The infrastructure is poor—**transport and communication links and power supplies are irregular and unreliable, thereby hampering industrial and social development**. The World Bank's Governance Indicator emphasises the relatively weak regulatory quality and the lack of concerted success in eradicating corruption, placing these below average for the South Asia region and well below average even for the low-income group of economies.

The financial services sector is relatively under-developed and the banking system is dominated by the state, with around 30% of total assets accounted for by state-run commercial banks. Foreign banks are restricted in operations and the central bank is not independent. An extensive microfinance system remains largely unsupervised. NPLs remain high.

---

Andrew Atkinson

London: +44 (0)20 7860 2577