BEST'S COUNTRY RISK REPORT

Bangladesh
CRT-5

August 22, 2018

Region: Asia

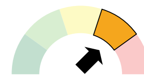
[Country Risk Criteria Procedures]

[Guide to Best's Country Risk Tiers]

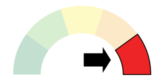
- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Bangladesh has a high level of economic risk and very high levels of political and financial system risk. Bangladesh's economy has experienced rapid growth, with GDP rising 7.1% in 2017. The country will undergo economic and political strain heading into the November 2018 elections. Ongoing labor negotiations over the minimum wage and changes in trade policy could have implications for Bangladesh's global competitiveness and growth in coming years.
- Attached is a map of the region, which contains some of the fastest growing economies in the world.

Vital Statistics 2017		
Nominal GDP	USD bn	261.37
Population	mil	163.2
GDP Per Capita	USD	1,602
Real GDP Growth	%	7.1
Inflation Rate	%	5.7
United Nations Estimates		
Literacy Rate	%	72.8
Urbanization	%	35.8
Dependency Ratio	%	52.6
Life Expectancy	Years	73.4
Median Age	Years	26.7
Insurance Statistics		
Insurance Regulator	Insurance Development & Regulatory Authority of Bangladesh (IDRA)	
Premiums Written (Life)	USD mil	974
Premiums Written (Non-Life)	USD mil	371
Premiums Growth (2016 - 2017)	%	-3.7
Regional Comparison		
	Country Risk Tier	
Bangladesh	CRT-5	
Bhutan	CRT-5	
India	CRT-4	
Myanmar	CRT-5	
Nepal	CRT-5	
Sri Lanka	CRT-4	

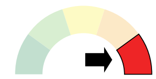
Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Risk



Political Risk



Financial System Risk

Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk

Country Risk Tier 2 (CRT-2) Low Level of Country Risk

Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk

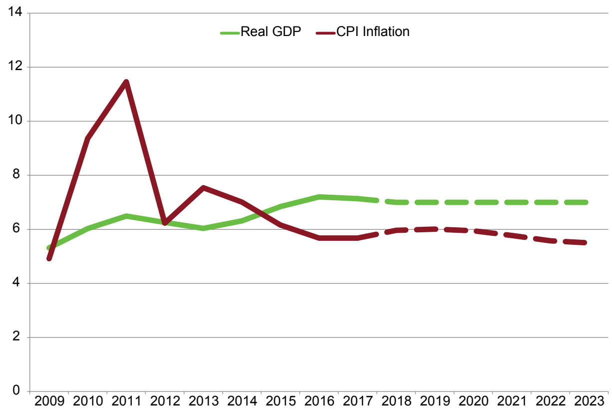
Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Southeast Asia

- Southeast Asia largely consists of the countries located north of Australia, west of New Guinea, east of India, and south of China.
- The region is particularly vulnerable to trade protectionist policies, given its reliance on exports to fuel economic growth. To diminish some of the vulnerability to external conditions, most of the region's countries are trying to implement structural changes which encourage economic diversification and capital market development. Improving infrastructure and shrinking bureaucracy would also bolster the prospects for sustainable economic growth.
- Additional headwinds for the region include political turmoil/uncertainty, poverty due to growing income inequality, endemic corruption, bureaucracy, susceptibility to natural disasters, and the volatility of capital flows and exchange rates owing to ongoing monetary policy normalization in developed countries.
- Growth in the region has been supported by improving global conditions as well as growing domestic demand and increased levels of government spending, particularly on infrastructure.

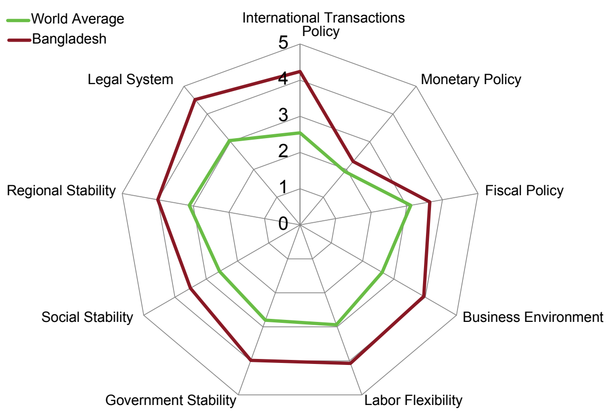
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

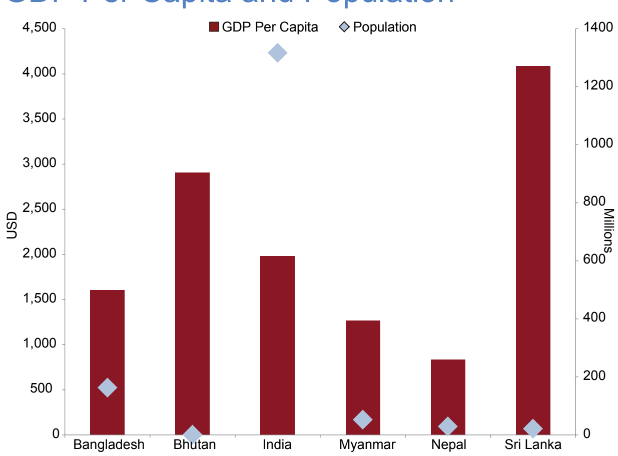
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risks: High

- Agriculture, manufacturing, and the textile industry are Bangladesh's primary economic sectors. Agricultural production is crucial to growth but is subject to severe weather events.
- The export-oriented manufacturing industry is led by ready-made garments and knitwear, which together account for 80% of exports.
- Poverty has declined markedly, and the country has reached lower middle-income status, however a significant portion of the population still remains below the poverty line.
- Steady economic growth has raised the demand for infrastructure, which is currently inadequate. The government aims to improve human capital and encourage women to enter the workforce for more inclusive growth.
- Garment exports, remittance inflows, and Bangladesh's preferential access to markets abroad generate substantial foreign exchange earnings, but the export base needs to be broadened for growth to be sustainable.

Political Risks: Very High

- The Awami League (AL) party has consolidated power since its 2014 electoral victory and has become increasingly authoritarian, with a legislative majority.
- The main political opposition, led by the Bangladesh Nationalist Party (BNP), which is looking to regain power in the upcoming 2019 elections, after boycotting the 2014 elections.
- The government welcomes foreign investment and plans to establish special economic zones to enhance the efficiency of the investment process.
- Bangladesh's legal system is highly inefficient and prone to corruption, which is rampant across sectors. Contract enforcement is particularly weak, with the country ranked 189 out of 190 countries by the World Bank.
- Attacks by extreme Islamist groups targeting politicians, foreigners, and minorities are likely to remain high and pose a significant security risk.

Financial System Risks: Very High

- The Insurance Development and Regulatory Authority (IRDA) regulates Bangladesh's insurance sector.
- The tax system is cumbersome but is unlikely to be reformed. The government seeks to improve collection efficiency, but doing so is likely to be difficult. Value-added tax reform has been repeatedly thwarted by businesses.
- Foreign exchange reserves are abundant and external liquidity is strong, but the heavy dependence on international aid leaves the country vulnerable to global shifts in growth and attitudes.
- The IMF has recommended tightening monetary policy when necessary and notes the need to strengthen banking regulation and supervision.
- Non-performing loans have reached 8.3% of total loans, calling for an accelerated resolution.