Bangladesh

**CRT-5**

August 22, 2019

Region: Asia

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers

- Bangladesh has a moderate level of economic risk and very high levels of political and financial system risk. Bangladesh's economy continues to expand at a rapid pace, as remittances support burgeoning domestic demand and exports are competitively priced. Growth in recent years has exceeded 7.5%. In the coming year, growth is expected to moderate somewhat as external demand softens, but still remain over 6%.
- Below is a map of the region, which contains some of the fastest growing economies in the world.

**Regional Summary: South Central Asia**

- Led by India, the region has been the world’s fastest growing in recent years. Imports have risen on rising domestic demand; exports remain below potential, with the region still only weakly integrated into global value chains.
- Private investment remains low; significant increases in investment and credit are needed for the region to meet its full growth potential and extend poverty-reduction gains.
- Risks to growth include heightened geopolitical tensions and security concerns, delays in reform implementation, insufficient job creation for a growing population, infrastructure deficiencies, climate change-related challenges, widening fiscal and current account deficits, and inadequate international reserves to manage shocks.
- Inflation throughout most of the region has been relatively stable, although some countries have experienced inflationary pressure owing to domestic currency depreciation (Pakistan) and volatility in energy pricing. Global financial conditions have led to the adoption of more accommodative monetary policy stances.
Economic Risks: Moderate

- Agriculture, manufacturing, and textiles are Bangladesh’s primary economic sectors. Agricultural production is crucial to growth but is vulnerable to severe weather events.
- The export-oriented manufacturing industry is led by ready-made garments and knitwear, which together account for 80% of exports.
- Steady economic growth has raised the demand for infrastructure, which is inadequate. Through its Belt and Road Initiative, China has been instrumental in co-financing a number of development projects. China is also Bangladesh’s largest trading partner; and a Chinese consortium recently purchased a 25% stake in the Dhaka Stock Exchange.
- Garment exports, remittance inflows, and preferential access to markets abroad generate substantial foreign exchange earnings, but the export base needs to be broadened for sustainable growth.
- Bangladesh is targeting becoming an upper middle income country as classified by the World Bank by 2021. According to Bangladeshi authorities, the poverty rate declined from 40% in 2005 to 21% the most recent fiscal year. The country is also on track to graduate from the UN’s Least Developed Countries list in 2024.

Political Risks: Very High

- In the late 2018 elections, the Awami League (AL) party renewed its electoral mandate, with the opposition winning only seven out of 300 seats.
- The government welcomes foreign direct investment and plans to establish special economic zones to enhance the efficiency of the investment process. However, the World Bank recently cited regulatory uncertainty as an impediment to attracting FDI, which remains under 1% of GDP. Contract enforcement is particularly weak, with the country ranking 189 out of 190 countries by the World Bank.
- Bangladesh’s legal system is highly inefficient and prone to corruption, which is rampant across sectors. The country ranks 149 out of 180 in the Corruption Perceptions Index.
- 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 as it has one of the lowest tax-to-GDP ratios in the world, but doing so will likely be difficult. The country is targeting VAT reform for 2020, but earlier efforts have been repeatedly thwarted by business.
- Non-performing loans have been on the rise, reaching over 10%, and are unevenly distributed among the banking sector. To sustain growth, the IMF has cited the need to reduce elevated vulnerabilities in the banking sector.