Country Report

Bangladesh

Generated on August 13th 2019

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The Economist Intelligence Unit

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ISSN 2047-4296

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Bangladesh

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Briefing sheet

Editor: **Sarthak Gupta**

Forecast Closing Date: **July 23, 2019**

Political and economic outlook

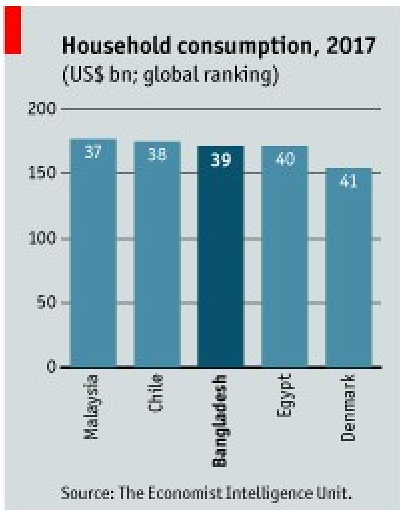
- The Economist Intelligence Unit expects the Awami League to serve out its third term of office, which expires in 2023. The party's entrenched system of patronage at local level, as well as its strong command of the armed forces, will strengthen its rule.
- The political environment will be characterised by frequent bouts of social unrest during our 2019-23 forecast period. Alongside the immediate risk of terrorist attacks, opposition protests and public demonstrations will threaten political stability.
- Increased spending on infrastructure projects and slow progress on expanding the tax base will result in a budget deficit equivalent to 4.5% of GDP on average in fiscal years 2019/20-2022/23 (July-June), wider than the 4.1% average over the preceding four years.
- We expect Bangladesh Bank (BB, the central bank) to hold off on tightening monetary policy in 2019 amid slower credit growth. It will loosen monetary policy against a backdrop of moderating price pressures in 2020 before resuming tightening from 2021.
- We forecast that real GDP will grow by an average of 7.8% per year in 2019/20-2022/23, bolstered by strong increases in private consumption and investment. We expect economic growth to remain robust, despite high imports of goods and services.
- We expect the current-account deficit to remain wide throughout the forecast period, owing to the country's high import needs. We forecast that the deficit will average the equivalent of 2.2% of GDP in 2019-23.

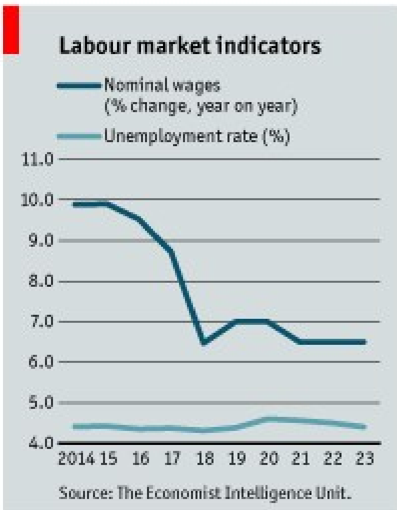
Key indicators

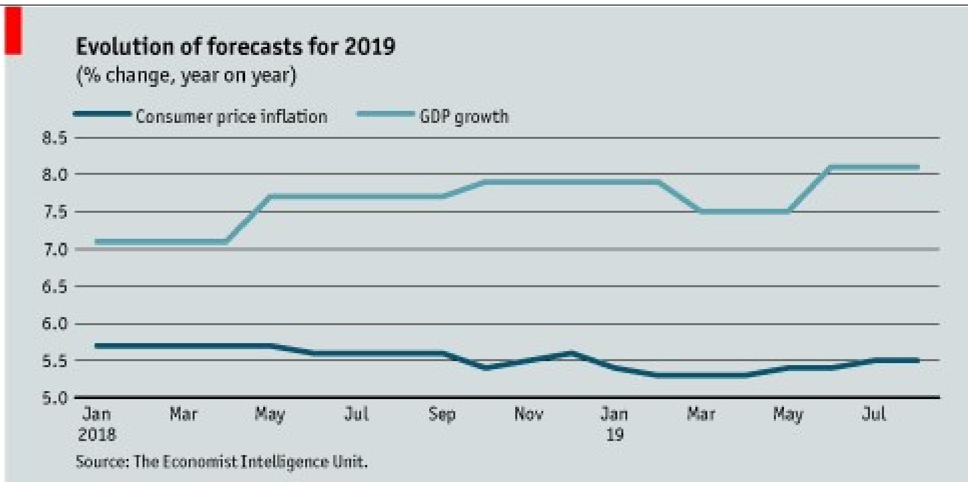
	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth (%)	7.9	8.1[c]	7.7	7.6	7.9	8.1
Consumer price inflation (av; %)	5.5	5.5	5.0	5.3	5.4	5.3
Government balance (% of GDP)[d]	-4.6[c]	-4.8[c]	-4.7	-4.5	-4.4	-4.6
Current-account balance (% of GDP)	-2.8	-2.2	-1.8	-2.2	-2.4	-2.2
Money market rate (end-period; %)	3.7	4.2	3.6	3.9	4.1	4.1
Unemployment rate (%)	4.3	4.4	4.6	4.6	4.5	4.4
Exchange rate Tk:US$ (av)	83.47	84.53	85.56	86.74	88.47	90.46

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates. [d] Fiscal years (ending June 30th).

Market opportunities







Key changes since June 26th

- The taka has remained remarkably stable against the US dollar over the past couple of months, owing to strong export and remittance earnings. As a result, we have revised our average exchange-rate forecast for 2019 to Tk84.5:US$1, from Tk84.8:US$1 previously.
- Owing to stronger inflows of remittances and weak service imports in 2019, as well as changes to our global oil price forecast, the current-account deficit is now expected to average the equivalent of 2.2% of GDP in 2019-23, compared with 2.6% previously.

The month ahead

- **Early August—External sector data (June):** We expect Bangladesh to continue to record strong growth in exports, owing to the ongoing shift of low-cost export manufacturing industries away from China.
- **Early August—Monetary policy statement (July-December 2019):** Bangladesh Bank (the central bank) releases its monetary policy statement twice a year. It will be an important indicator of the bank's expectations for inflation and growth in 2019/20.

Major risks to our forecast

Scenarios, Q2 2019	Probability	Impact	Intensity
Terrorists target foreigners	Moderate	Very high	15
Bangladesh loses preferential market access to the EU	Moderate	High	12
Politicised rulings increase	Moderate	High	12
The banking sector experiences a crisis	Moderate	High	12
The government removes tax incentives available to foreign companies	Moderate	High	12

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

The Economist Intelligence Unit expects the Awami League (AL) party, which won a third consecutive spell in government at the December 2018 election, to serve out its full term, which expires in 2023. The AL enjoys an overwhelm-ing majority in the country's unicameral parliament, the Jatiya Sangsad, holding 301 of 350 seats. Although the Jatiya Party (Ershad) is the official opposition party to the AL in parliament, we expect it to extend tacit support to the government (as has been the case during the AL's previous terms). The government is expected to face more substantive opposition from the Jatiya Oikya Front, an informal alliance of smaller parties in parliament that includes the Bangladesh Nationalist Party (BNP), Gano Forum and Jatiya Samajtantrik Dal. However, the alliance's small parliamentary representation means that significant challenges to the AL's policymaking are unlikely. The admin-istration's strength is rooted in its well-entrenched system of patronage at local level, as well as its strong command of the armed forces.

Terrorism will continue to pose risks to political stability. Although the security forces have been successful in thwarting recent attempts at attacks, any increase in the incidence of terrorism could contribute to broader political instability, fuelling dissatisfaction with the government and prompting wide-spread social unrest.

Political stability will be threatened further by protests and demonstrations by members and supporters of the former main opposition party, the BNP, campaigning for the release from jail of Khaleda Zia, that party's de facto leader. Mrs Zia was charged with corruption and given a custo-dial sentence in February 2018. She is also facing numerous other charges, making the prospect of her release unlikely during our forecast period. Mrs Zia is 73 years old and has been facing health problems since her arrest last year. There is a risk of these protests becoming violent if her health were to deteriorate further, as BNP supporters would probably accuse the government of denying Mrs Zia proper care. The ongoing rivalry between the AL and the BNP will ensure that the political environment remains tense during our 2019-23 forecast period.

Social unrest and protests by various other interest groups will also pose a minor risk to political stability. In January 2019 workers in the export-oriented garment sector staged large protests over low wages. Following the demonstrations, the government raised wages for some grades of worker. Worker safety will remain a concern as poor regulations and safety standards fail to improve working conditions. We expect such issues to remain a common feature of the political landscape in Bangladesh in 2019-23, but they are unlikely to threaten the AL's grip on power.

Election watch

The next parliamentary election will be held in late 2023. We expect the AL to maintain its firm grip on power throughout the forecast period and to win by-elections for parliamentary seats whenever they are held.

The most recent presidential election in Bangladesh took place in February 2018 and saw the re-election of the sitting president, Abdul Hamid of the AL. The powers of the Bangladeshi president are ceremonial, and real political power dwells with the prime minister. The next presidential election will be held in early 2023. A two-term limit on the presidency will prevent Mr Hamid from standing again, but we expect a trusted member of the AL to be elected as his successor.

International relations

Bangladesh’s foreign policy will continue to centre on its neighbours, with China and India vying for influence. Ties with India will strengthen over the forecast period, and will be cemented by India's increased participation in development projects in Bangladesh. Bilateral co-operation in the energy sector in particular will improve in 2019-23. However, developments since July 2018 in India’s north-eastern Assam state—where the issue of illegal migration from Bangladesh has gained increasing political traction—pose a minor risk of straining bilateral relations.

We also expect economic engagement with China to deepen in 2019-23, given the rising number of Chinese-backed infrastructure projects in Bangladesh. China is already Bangladesh’s largest source of imports and its main supplier of military equipment. Clashes occurred in June between Bangladeshi and Chinese workers at a power project construc-tion site. Such incidents may recur at other Chinese-led projects, but we do not expect this to affect engagement between the two countries. Japan will remain an important development partner for Bangladesh in 2019-23. We expect Bangladesh to continue to exploit its strategically important location on the Bay of Bengal to extract concessions and economic assistance from India, China and Japan.

An acrimonious history between Bangladesh and Pakistan, coupled with mutual mistrust between the administrations, will continue to weigh on bilateral ties. Diplomatic spats over allegations by Bangladesh of political interference and terrorism will continue over the forecast period. Meanwhile, bilateral ties with Myanmar will be strained by the Rohingya refugee crisis, which will remain severe in the next few years. We do not expect the refugees’ planned repatriation to be completed in 2019-23. The scheme will be hindered by Myanmar’s stringent verification process for re-entry and the refugees’ unwillingness to return to that country, as security measures to protect the community remain poor.

Bangladesh maintains strong relations with countries in the Middle East, particularly Saudi Arabia and the UAE, as these countries are major employers of expatriate Bangladeshis. We expect Bangladesh's relations with countries in the Gulf region to remain robust throughout 2019-23.

Policy trends

The policy agenda will focus on incentives to encourage investment and improve security during 2019-23. The extension of the AL's rule will bode well for policy continuity. This will be important in sustaining foreign investment and will also support the administration’s drive to expand and deepen private-sector participation in the economy.

The authorities will continue to accord a high priority to achieving the UN’s Sustainable Development Goals. In addition, the government aims to transform Bangladesh into an upper-middle-income economy by 2021. However, incomes would have to more than double from their current level (GDP per head in 2018 was estimated at US$1,647) for the country to move into the next income bracket (defined by the World Bank as gross national income per head of at least US$3,896 in 2018). We do not believe that this will be achieved within the government’s timeline.

As Bangladesh is set to graduate in 2024 from “least developed country” status (LDC, a UN classification based on economic and social development) to "developing country" status, it will lose some forms of concessional aid, as well as the preferential market access to the EU from which LDCs typically benefit. We expect government policy during our outlook period to be directed towards securing bilateral trade and financing agreements with major economic partners in order to minimise trade disruption and ensure a smooth transition to “developing country” status.

The more fundamental challenge for policymakers is to increase the electricity supply; demand has outstripped supply for decades. To overcome this imbalance as quickly as possible, the government is turning to coal and liquefied natural gas (LNG). Overall, the government plans to increase power generation to almost 24,000 MW by 2021, from around 13,000 MW in May 2019; we believe that it is on track to achieve this goal. However, rapid population growth and urbanisation mean that the energy deficit will persist in 2019-23.

Fiscal policy

Bangladesh will record budget deficits throughout fiscal years 2019/20-2022/23 (July-June) as it struggles to engineer a significant expansion of the tax base. The government projects that revenue collection will total Tk3.8trn (US$44.8bn) in 2019/20—an ambitious 19.2% rise compared with the revised estimates for 2018/19. On the expenditure side, the government targets an increase of 18.2%. In line with the trend in previous years, we do not expect the government to meet either of its targets for revenue or expenditure in 2019/20. Overall, we expect the fiscal deficit as a proportion of GDP to narrow to 4.7% in 2019/20—slightly better than the government's target of 4.8%. The introduction of the new value-added tax (VAT) law will support this improvement. Furthermore, spending pressures are expected to ease in the current fiscal year. Public expenditure in 2018/19 was lifted by outlays associated with the December 2018 election.

We forecast that the budget deficit will narrow further to the equivalent of 4.4% of GDP by 2021/22 as rapid economic expansion supports revenue growth. The modest reduction in the ratio reflects our view that the government will need to maintain a high level of spending growth to invest in fields such as power and water infrastructure, as well as education and healthcare. The slight widening of the deficit forecast for 2022/23, to 4.6% of GDP, reflects higher spending ahead of the 2023 general election.

Monetary policy

At its latest monetary policy meeting in January 2019, Bangladesh Bank (BB, the central bank) held its key policy rates, the repurchase (repo) rate and the reverse repo rate, unchanged at 6% and 4.75% respectively. The repo rate was last altered in April 2018, when it was cut by 75 basis points to resolve a liquidity crisis faced by private banks. We expect BB to keep policy rates at their current level in 2019 as the bank focuses on expanding credit to the private sector. According to the bank's monetary policy statement, private-sector credit rose by 13.3% year on year in the first half of 2018/19, below the bank's targeted ceiling of 16.5%. Despite an easing of inflationary pressures in mid-2019, we do not expect a rate cut. BB will be wary of inflation rates spiking again over the next few months, owing to gas price increases and the probable impact of recent floods on food prices. Indeed, there is a modest risk that higher than anticipated price pressures arising from unexpected increases in food prices may force a rate increase in 2019, as price stability will remain the bank's foremost objective. However, a rate increase is not our central forecast.

A further easing of inflationary pressures in 2020 will give the central bank scope to sanction modest interest-rate cuts. Furthermore, as the Federal Reserve (Fed, the US central bank) cuts its rates in that year, depreciatory pressures on the taka will ease, which will also allow for a more accommodative monetary policy stance. We expect BB to raise rates again from 2021 as inflationary pressures begin to build, owing to demand-side factors associated with sustained economic growth and a recovery in global commodity prices.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
OECD GDP	2.2	1.6	1.6	1.8	2.0	1.8
World GDP	2.9	2.4	2.5	2.8	2.9	2.8
World trade	4.4	3.1	3.5	3.8	3.9	4.0
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.0	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.3	1.9	2.1	2.1	2.1
Manufactures (measured in US$)	5.1	1.0	3.0	3.8	3.2	3.3
Oil (Brent; US$/b)	71.1	67.7	62.0	67.0	73.2	75.0
Non-oil commodities (measured in US$)	1.8	-4.7	4.0	3.5	1.4	0.7
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.0	2.4	1.7	1.7	2.2	2.5
Exchange rate Tk:US$ (av)	83.47	84.53	85.56	86.74	88.47	90.46
Exchange rate US$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24

Economic growth

According to provisional estimates from the Bangladesh Bureau of Statistics, the economy is expected to have grown by 8.1% in 2018/19. A jump in readymade garment exports since the rise in global trade tensions in mid-2018 is likely to have contributed to higher growth in 2018/19. Nevertheless, we expect the rate of economic growth to slow marginally to 7.7% in 2019/20, as exports increase by a more modest rate compared with 2018/19.

In 2020/21-2022/23 real economic growth is expected to average 7.8% a year. We expect capital flows from international partners and multilateral institutions to continue over the next few years. This will sustain investment in infrastructure projects, particularly in the transport and energy sectors, and thus support economic growth. The Padma Bridge connectivity project, which is likely to be operational by late 2020, is a case in point. As a result, we forecast that gross fixed investment and private consumption will grow by annual averages of 9.8% and 8% respectively in 2019/20-2022/23, up from the respective averages of 9.4% and 6.7% in the preceding four-year period. Strong remittance inflows will support private-consumption growth in the later half of the forecast period. Real imports of goods and services will grow more rapidly than exports, owing to Bangladesh's need for imported construction materials and machinery as it invests in infrastructure to support its economic expansion. Export growth will suffer in 2020/21 as a slowdown in global growth weighs on external demand, but will pick up subsequently.

Although agriculture will account for just 12% of GDP in 2019/20-2022/23 on average, it will employ around half of the workforce. Nevertheless, on a factor-cost basis economic growth will continue to be driven by services and industry. The traditionally strong readymade garments sector will benefit from the ongoing shift of low-value manufacturing away from China, which will support growth in the manufacturing sector.

Economic growth

(%; fiscal years ending Jun 30th)	2018[a]	2019[b]	2020[c]	2021[c]	2022[c]	2023[c]
GDP	7.9	8.1	7.7	7.6	7.9	8.1
Private consumption	11.0	5.4	5.9	6.6	10.0	9.6
Government consumption	15.4	8.0	7.8	7.5	8.0	9.0
Gross fixed investment	10.5	8.2	10.5	10.3	8.8	9.5
Exports of goods & services	8.1	14.9	4.8	4.0	5.5	7.8
Imports of goods & services	27.0	4.8	4.0	6.0	14.5	15.0
Domestic demand	11.1	6.5	7.5	7.9	9.5	9.5
Agriculture	4.2	3.5	3.5	3.4	3.6	3.6
Industry	12.1	13.0	11.6	10.9	11.3	11.6
Services	6.4	6.5	6.2	6.3	6.4	6.4

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Inflation

Consumer price inflation in 2019 will average 5.5%, matching the rate recorded in 2018. After a bumper rice harvest in the boro season (March-May), food prices are expected to ease. However, an increase in retail prices for natural gas from July 1st will offset the impact of lower food prices on the headline rate of inflation. There is a risk that flash floods across South Asia in July could lead to a temporary shortage of food grains, which might lead to price pressures spiking in the near term.

Looking ahead, we expect inflation to ease in 2020, to an average of 5%, in line with a further fall in global oil prices. Inflationary pressures will pick up gradually from 2021 as demand-side pressures build amid strong growth in private consumption and higher global commodity prices. We forecast that consumer price inflation will average 5.3% a year in 2021-23

Exchange rates

We expect the taka to weaken against the currencies of Bangladesh's main trading partners in 2019, owing to a persistent deficit on the current account. The taka will average Tk84.5:US$1 in 2019, compared with Tk83.5:US$1 in 2018. We believe that BB will continue to operate a managed-float exchange-rate regime in 2019-23, which will help to prevent extreme volatility in the rate. The central bank will allow the currency to depreciate against the US dollar in late 2019 and 2020 to retain export competitiveness, even as the Fed loosens US monetary policy. A widening of the current-account deficit in 2021-23 will lead to faster depreciation of the taka in those years. We expect the taka to depreciate to an annual average of Tk90.5:US$1 in 2023.

External sector

Owing to the country’s large import needs, we expect the current account to remain in deficit throughout the forecast period. The shortfall will largely remain stable, averaging the equivalent of 2.2% of GDP in 2019-23.

Bangladesh's rising fuel needs and heavy dependence on both imported inputs for its export-oriented garment sector and capital goods for infrastructure development mean that merchandise imports will continue to grow in the forecast period. Nevertheless, we continue to believe that the redistribution of trade resulting from the ongoing shift of low-value manufacturing away from China will be positive for Bangladesh’s export industries, leading to stronger export earnings in this period. Notwithstanding this, growth in export earnings will continue to be outstripped by growth in import payments. With strong economic expansion expected over the forecast period, services debits will also increase, as a result of higher costs incurred for services such as transport. Low global oil prices in 2019-20 will ease some of the pressure on imports, resulting in a slight narrowing of the current-account deficit in those years. The deficit will widen again in 2021-23, with global oil prices and economic growth picking up.

Remittances will remain strong throughout the forecast period owing to continued overseas migration. The ongoing depreciation of the local currency against the US dollar has encouraged overseas workers to send more money back home. Softening global oil prices will have a dampening effect on remittances in 2020, but they will still dwarf outflows, leaving the secondary income account in the black. However, the surplus will only partially offset deficits on the trade, services and primary income accounts throughout 2019-23.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth	7.9	8.1[c]	7.7	7.6	7.9	8.1
Industrial production growth	14.9[c]	15.2	13.8	9.7	12.2	13.4
Gross agricultural production growth	4.2	3.5[c]	3.5	3.4	3.6	3.6
Unemployment rate (av)	4.3	4.4	4.6	4.6	4.5	4.4
Consumer price inflation (av)	5.5	5.5	5.0	5.3	5.4	5.3
Short-term interbank rate	9.7	9.5	9.3	9.4	9.5	9.6
Government balance (% of GDP)[d]	-4.6[c]	-4.8[c]	-4.7	-4.5	-4.4	-4.6
Exports of goods fob (US$ bn)	38.7	41.6	44.2	47.1	50.0	53.2
Imports of goods fob (US$ bn)	55.6	58.8	59.8	65.8	71.1	74.6
Current-account balance (US$ bn)	-7.6	-6.6	-6.3	-8.4	-10.6	-10.9
Current-account balance (% of GDP)	-2.8	-2.2	-1.8	-2.2	-2.4	-2.2
External debt (end-period; US$ bn)	50.9[c]	56.3	63.3	71.4	79.4	87.5
Exchange rate Tk:US$ (av)	83.5	84.5	85.6	86.7	88.5	90.5
Exchange rate Tk:US$ (end-period)	83.9	85.1	85.9	87.3	89.4	91.1
Exchange rate Tk:¥100 (av)	75.6	76.9	78.7	82.8	88.1	94.2
Exchange rate Tk:€ (end-period)	96.1	97.5	103.0	107.0	111.4	113.8

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates. [d] Fiscal years (ending June 30th).

Data and charts

Annual data and forecast

	2014[a]	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[b]
GDP[c]							
Nominal GDP (US$ bn)	172.9	195.1	221.4	249.7	274.0	301.8	341.0
Nominal GDP (Tk bn)	13,437	15,158	17,329	19,758	22,505	25,362[d]	29,013
Real GDP growth (%)	6.1	6.6	7.1	7.3	7.9	8.1[d]	7.7
Expenditure on GDP (% real change)[c]							
Private consumption	4.0	5.8	3.0	7.4	11.0	5.4[d]	5.9
Government consumption	7.9	8.8	8.4	7.8	15.4	8.0[d]	7.8
Gross fixed investment	9.9	7.1	8.9	10.1	10.5	8.2[d]	10.5
Exports of goods & services	3.2	-2.8	2.2	-2.3	8.1	14.9[d]	4.8
Imports of goods & services	1.2	3.2	-7.1	2.9	27.0	4.8[d]	4.0
Origin of GDP (% real change)[c]							
Agriculture	4.4	3.3	2.8	3.0	4.2	3.5[d]	3.5
Industry	8.2	9.7	11.1	10.2	12.1	13.0[d]	11.6
Services	5.6	5.8	6.2	6.7	6.4	6.5[d]	6.2
Population and income							
Population (m)	154.5	156.3	158.0	159.7	161.4[d]	163.0	164.7
GDP per head (US$ at PPP)	3,241	3,451	3,697	3,998	4,363[d]	4,763	5,177
Recorded unemployment (av; %)	4.4	4.4	4.4	4.4	4.3	4.4	4.6
Fiscal indicators (% of GDP)[c]							
Public-sector expenditure	14.0	13.5	13.8	13.6	14.3[d]	17.4[d]	17.1
Public-sector balance	-3.1	-3.7	-3.7	-3.4	-4.6[d]	-4.8[d]	-4.7
Net public debt	26.0	25.5	25.3	27.2[d]	28.3[d]	29.8	30.7
Prices and financial indicators							
Exchange rate Tk:US$ (end-period)	77.95	78.50	78.70	82.70	83.90	85.13	85.87
Exchange rate Tk:€ (end-period)	94.64	85.46	82.96	99.18	96.07	97.47	103.05
Consumer prices (av; % change)	7.0	6.2	5.5	5.7	5.5	5.5	5.0
Consumer prices (end-period; % change)	6.1	6.1	5.0	5.8	5.3	5.5	4.7
Stock of money M1 (% change)	15.1	13.7	21.5	14.4	9.3	8.4	11.8
Stock of money M2 (% change)	13.3	13.1	13.8	10.7	9.4	8.5	11.5
Lending interest rate (av; %)	12.9	11.7	10.4	9.5	9.7	9.5	9.3
Current account (US$ m)							
Trade balance	-7,482	-6,120	-6,244	-12,966	-16,913	-17,236	-15,616
Goods: exports fob	29,925	31,736	34,122	35,301	38,687	41,589	44,209
Goods: imports fob	-37,406	-37,856	-40,366	-48,267	-55,600	-58,824	-59,824
Services balance	-4,638	-4,486	-4,261	-4,629	-4,444	-4,605	-4,610
Primary income balance	-2,727	-2,583	-2,687	-2,392	-2,338	-2,324	-2,389
Secondary income balance	15,603	15,769	14,123	14,002	16,102	17,538	16,345
Current-account balance	756	2,580	931	-5,985	-7,593	-6,627	-6,270
External debt (US$ m)							
Debt stock	33,005	36,305	38,820	47,155	50,872[d]	56,333	63,279
Debt service paid	1,978	1,662	1,776	2,168	3,125[d]	3,562	3,613
Principal repayments	1,647	1,337	1,367	1,504	2,314[d]	2,625	2,631
Interest	331	324	409	665	811[d]	937	983
International reserves (US$ m)							
Total international reserves	22,311	27,493	32,279	33,424	32,019	31,647	32,603

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Fiscal years (ending June 30th). [d] Economist Intelligence Unit estimates.
Source: IMF, International Financial Statistics.

Quarterly data

	2017		2018				2019	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Prices								
Consumer prices (2005=100)	240.3	245.2	248.2	247.2	253.4	258.4	261.8	260.9
Consumer prices (% change, year on year)	5.9	5.9	5.8	5.6	5.5	5.4	5.5	5.6
Financial indicators								
Exchange rate Tk:US$ (av)	80.69	81.55	82.90	83.35	83.75	83.86	84.06	84.44
Exchange rate Tk:US$ (end-period)	80.80	82.70	82.96	83.73	83.75	83.90	84.25	84.50
Deposit rate (av; %)	5.54	5.69	6.43	7.40	6.61	6.19	6.31	n/a
Money market rate (end-period; %)	3.80	3.87	4.14	5.00	5.00	5.00	5.00	n/a
Lending rate (av; %)	9.44	9.34	9.56	9.93	9.63	9.49	9.49	n/a
M1 (end-period; Tk bn)	2,313	2,338	2,253	2,549	2,449	2,555	2,517	n/a
M1 (% change, year on year)	14.9	14.4	11.2	6.2	5.9	9.3	11.7	n/a
M2 (end-period; Tk bn)	10,287	10,560	10,541	11,100	11,189	11,554	11,686	n/a
M2 (% change, year on year)	10.4	10.7	9.3	9.2	8.8	9.4	10.9	n/a
Foreign trade (Tk bn)								
Exports fob	66.2	64.2	68.2	68.6	73.2	71.4	77.6	n/a
Imports cif	-95.9	-106.1	-115.1	-117.9	-111.1	-118.3	-122.8	n/a
Trade balance	-29.8	-42.0	-46.8	-49.3	-37.9	-46.9	-45.2	n/a
Balance of payments (US$ m)								
Merchandise trade balance fob-fob	-3,651	-4,965	-4,575	-5,051	-3,486	-3,801	-3,976	n/a
Services balance	-1,095	-1,218	-1,085	-1,364	-1,120	-875	-926	n/a
Primary income balance	-501	-594	-519	-532	-717	-571	-620	n/a
Net transfer payments	3,454	3,720	3,919	4,400	3,964	3,819	4,432	n/a
Current-account balance	-1,793	-3,057	-2,260	-2,546	-1,359	-1,428	-1,088	n/a
Reserves excl gold (end-period)	32,432	32,849	31,996	32,382	31,424	31,453	31,171	32,104

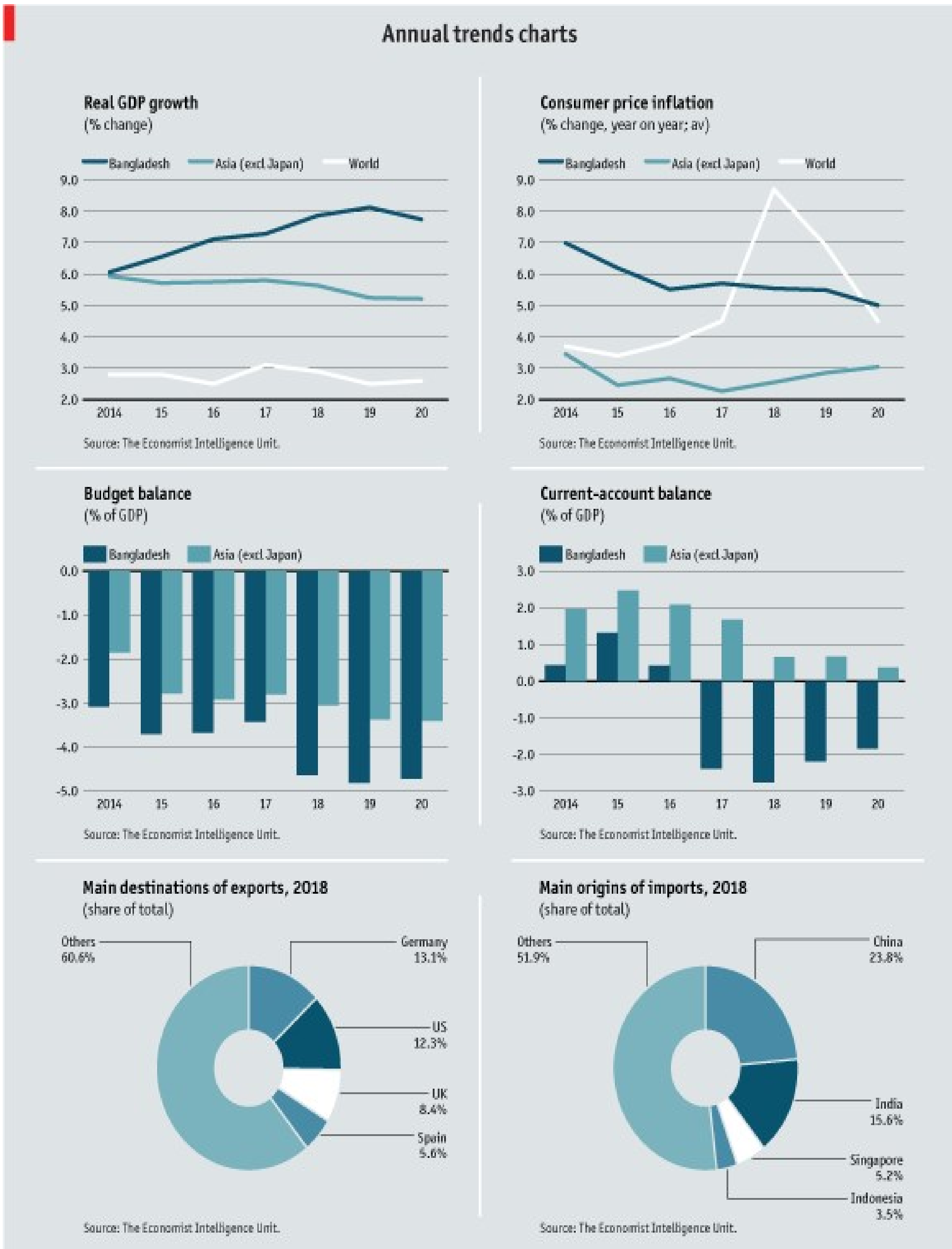
Sources: IMF, International Financial Statistics; Bangladesh Bank, Economic Trends.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Tk:US$ (av)												
2017	78.85	79.24	79.54	79.83	80.49	80.59	80.63	80.69	80.74	80.82	81.28	82.55
2018	82.82	82.92	82.96	82.97	83.38	83.70	83.75	83.75	83.75	83.82	83.87	83.90
2019	83.94	84.04	84.21	84.33	84.49	84.50	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Tk:US$ (end-period)												
2017	79.07	79.37	79.67	80.23	80.55	80.60	80.66	80.70	80.80	80.87	82.30	82.70
2018	82.90	82.96	82.96	82.98	83.70	83.73	83.75	83.75	83.75	83.85	83.90	83.90
2019	83.95	84.15	84.25	84.45	84.50	84.50	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	5.7	5.7	5.6	5.6	5.5	5.5	5.5	5.6	5.5	5.6	5.7	5.8
2018	6.0	6.5	6.8	7.2	7.5	7.5	7.0	6.6	6.2	6.2	6.2	6.2
2019	6.3	6.3	6.3	6.5	6.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	9.9	9.8	9.7	9.6	9.7	9.6	9.5	9.5	9.3	9.4	9.3	9.3
2018	9.4	9.6	9.7	9.9	10.0	10.0	9.7	9.6	9.5	9.5	9.5	9.5
2019	9.5	9.5	9.5	9.5	9.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M1 (% change, year on year)												
2017	19.2	18.8	18.1	17.4	15.3	13.0	14.7	22.7	14.9	14.7	15.0	14.4
2018	13.9	12.9	11.2	11.2	11.9	6.2	8.6	5.7	5.9	7.9	7.5	9.3
2019	11.1	11.4	11.7	11.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M2 (% change, year on year)												
2017	14.0	13.4	13.1	12.8	11.7	10.9	10.5	11.7	10.4	10.7	10.8	10.7
2018	10.1	9.8	9.3	9.1	10.2	9.2	9.6	9.0	8.8	9.0	8.8	9.4
2019	10.2	10.4	10.9	10.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	5.1	5.3	5.4	5.5	5.8	5.9	5.6	5.9	6.1	6.0	5.9	5.8
2018	5.9	5.7	5.7	5.6	5.6	5.5	5.5	5.5	5.4	5.4	5.4	5.3
2019	5.4	5.5	5.5	5.6	5.6	5.5	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (Tk bn)												
2017	21.4	19.1	21.6	19.8	21.6	18.6	23.2	24.0	19.0	22.2	21.8	20.2
2018	23.9	21.2	23.2	23.1	24.3	21.2	26.5	21.5	25.2	25.3	22.7	23.4
2019	27.2	23.2	27.2	25.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (Tk bn)												
2017	32.8	27.3	31.2	30.9	31.7	26.6	32.2	32.6	31.1	35.6	36.1	34.4
2018	41.9	36.2	37.0	40.4	45.3	32.1	38.2	33.2	39.7	42.6	37.4	38.2
2019	46.5	34.6	41.7	43.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (Tk bn)												
2017	-11.4	-8.2	-9.6	-11.1	-10.1	-8.0	-9.0	-8.6	-12.1	-13.3	-14.4	-14.3
2018	-18.0	-15.0	-13.8	-17.3	-21.0	-10.9	-11.7	-11.7	-14.6	-17.3	-14.7	-14.9
2019	-19.3	-11.4	-14.5	-17.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2017	31,375	32,175	31,830	32,134	31,868	33,121	32,617	33,193	32,432	33,071	32,236	32,849
2018	32,288	32,962	31,996	32,501	31,767	32,382	31,558	32,387	31,424	31,528	30,515	31,453
2019	30,695	31,646	31,171	31,552	30,768	32,104	n/a	n/a	n/a	n/a	n/a	n/a

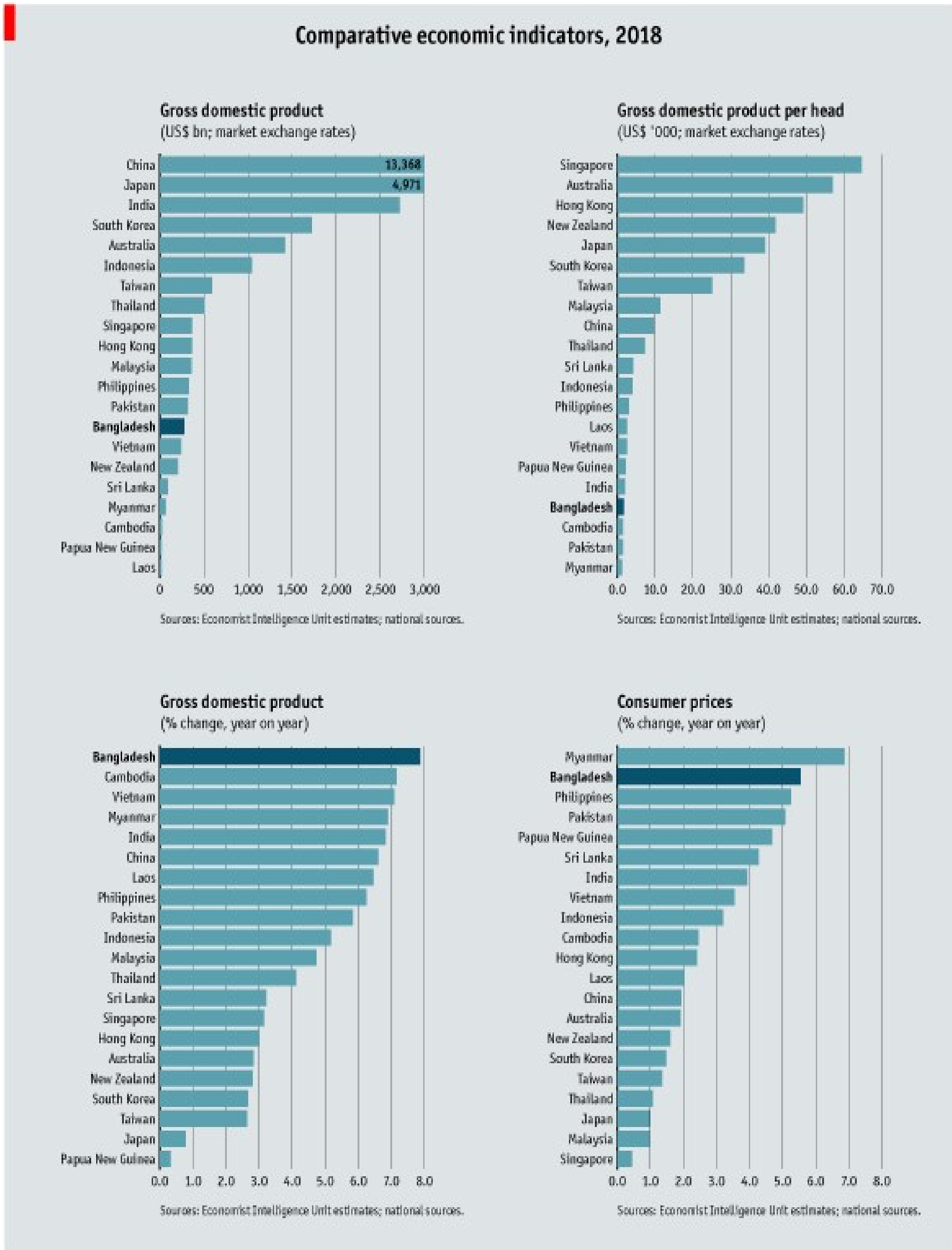
Sources: IMF, International Financial Statistics; Bangladesh Bank, Economic Trends; Haver Analytics.

Annual trends charts



Monthly trends charts

Comparative economic indicators



Basic data

Land area

147,570 sq km

Population

164.7m (2017; UN)

Main towns

Population in ’000 (2011 census)

Dhaka (capital): 26,335

Chittagong: 15,023

Rajshahi: 6,300

Khulna: 5,388

Climate

Tropical monsoon

Weather in Dhaka (altitude 3 metres)

Hottest month, July, 23-35°C (average daily minimum and maximum); coldest month, January, 11-28°C; driest months, December and January, 5 mm average monthly rainfall; wettest month, July, 567 mm average monthly rainfall

Languages

Bengali; Urdu and Hindi are minority languages, and English is also used

Religion

Muslim (89.7% in 2001 census); Hindu (9.2%); Buddhist (0.7%); Christian (0.3%); others (0.1%)

Measures

Imperial system. Local measures include: 1 tola = 11.66 g; 1 seer = 80 tolas = 932 g; 1 maund = 40 seers = 37.29 kg

Numbers are commonly expressed in crores and lakhs; 1 crore = 10m, written 1,00,00,000; 1 lakh = 100,000, written 1,00,000

Currency

Taka (Tk); Tk1 = 100 paisa. Average exchange rate in 2018: Tk83.5:US$1

Fiscal year

July 1st-June 30th

Time

6 hours ahead of GMT

Public holidays

February 21st (International Mother Language Day); March 17th (Birthday of Sheikh Mujibur Rahman); March 26th (Independence Day); April 14th (Bengali New Year); May 1st (Labour Day); June 5th-6th (Eid al-Fitr); August 12th-14th (Eid al-Adha); August 15th (National Mourning Day); October 8th (Durga Puja); December 16th (Victory Day); December 25th (Christmas Day); plus religious holidays that depend on lunar sightings and optional holidays for various religious groups

Political structure

Official name

People's Republic of Bangladesh

Form of government

Bangladesh has been a parliamentary democracy since 1991

Head of state

The president, Abdul Hamid, was reappointed to his post in February 2018 for a second term. The president is elected by members of parliament. The next presidential election is due in 2023

The executive

The prime minister is chief executive and head of the Council of Ministers (the cabinet), and selects its members. The presidency is a largely ceremonial role, although the president appoints members of the cabinet and judiciary and has the power to dissolve parliament

National legislature

A unicameral parliament, consisting of 300 seats occupied by members directly elected from geographical constituencies for five-year terms, plus 50 seats reserved for women appointed by political parties with numbers in proportion to the party's vote

National elections

The last general election was held in December 2018. Governments serve maximum terms of five years. The next general election will be held in late 2023

National government

The Awami League (AL) won 288 of the 300 contested seats in the parliamentary elections at the 2018 election and formed a government in early January 2019

Main political organisations

Grand Alliance (comprises the AL; Jatiya Party (Ershad); Workers Party of Bangladesh; Jatiya Samajtantrik Dal; Bangladesh Jatiya Party (Manju); Bangladesh Tarikat Federation); Jatiya Oikya Front (comprises the Bangladesh Nationalist Party; Gano Forum; Jatiya Samajtantrik Dal-JSD; Nagorik Oikya).

Key ministers

Prime minister; minister of power, energy and mineral resources; minister of defence: Sheikh Hasina Wajed

Agriculture: Abdur Razzak

Civil aviation & tourism: Md Mahbub Ali

Commerce: Tipu Munshi

Education: Dipu Moni

Finance: A H M Mustafa Kamal

Fisheries & livestock: Md Ashraf Ali Khan Khasru

Food: Sadhan Chandra Majumder

Foreign affairs: AK Abdul Momen

Home affairs: Asaduzzaman Khan

Industries: Nurul Majid Mahmud Humayun

Law, justice & parliamentary affairs: Anisul Haq

Local government, rural development & co-operatives: Md Tajul Islam

Planning: MA Mannan

Road transport & bridges: Obaidul Quader

Shipping: Khalid Mahmud Chowdhury

Textiles & jute: Golam Dastagir Gazi

Water resources: Zahid Faruk

Central bank governor

Fazle Kabir

Recent analysis

Generated on August 13th 2019

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

Worker clash delays commissioning of power plant

July 2, 2019: Political stability

Event

On June 19th Bangladeshi and Chinese workers engaged in a violent clash at the construction site of the 1,320-MW Payra power plant in Patuakhali district in southern Bangladesh. According to local media reports, the clashes were sparked by the death of a Bangladeshi worker while on the job on June 18th.

Analysis

The ensuing violence has resulted in the death of a Chinese worker, while many others have been injured. The violence has also caused significant damage to property associated with the plant and as a result, the planned commissioning of the project is expected to be delayed. The Bangladesh-China Power Company (BCPCL)—the developer of the plant—has filed several cases against hundreds of workers. According to a report submitted by a government-appointed probe panel, "outside forces" were responsible for instigating the clash. The committee found that some intellectual property, including power-plant designs, was stolen from the premises during the clash.

Following the incident, workers were given 15 days' leave. This decision is likely to have been taken to provide time for the situation to cool off. The incident, and particularly the legal cases surrounding it, may lead to a short-term delay in the construction of the plant. However, we do not expect other China-backed power or infrastructure projects in Bangladesh to be affected. Issues around a lack of worker safety in Bangladesh will continue to persist in the next few years, owing to obsolete government regulations and lax implementation of safety norms by companies.

The risk of labour unrest remains high in Bangladesh, owing to frequent incidents involving mistreatment of labourers. The government tends to deploy the security forces to control such incidents. Draconian labour laws in the country allow for easy hiring, as well as easy firing of employees who take part in protests or strikes against employers. On the international front, the Payra plant incident is unlikely to prompt a withdrawal of Chinese firms from ongoing or upcoming projects in Bangladesh.

Impact on the forecast

The development reinforces our view that the threat of labour unrest will remain high in the next few years. We do not expect the recent incident to affect progress on China-backed projects in our 2019-23 forecast period.

Rain and landslides destroy Rohingya camp shelters

July 17, 2019: International relations

Event

On July 4th to 12th, torrential rain fell in parts of Cox's Bazar in Bangladesh, where nearly 1m Rohingya Muslims reside in refugee camps. Subsequent winds and floods also triggered landslides in the area.

Analysis

The combined impact of rain, floods and mudslides led to the destruction of nearly 5,000 shelters in the camp, according to the International Organisation of Migration (IOM), an intergovernmental body. The disaster directly affected approximately 50,000 Rohingya, an ethnic minority group from Myanmar's Rakhine state, many of whom have fled from human rights abuses there since 2017. According to the World Meteorological Organisation, extreme rainfall and flooding are due to intensify owing to climate change, worsening the impact of regular monsoons in Bangladesh.

We expect climate change to exacerbate the humanitarian crisis concerning the Rohingya refugees in coming years. Although pre-emptive measures by non-governmental agencies have strengthened the camp's resilience against extreme weather events in the past two years or so, hazardous terrain, a lack of infrastructure and inadequate funding continue to make the camp highly vulnerable to natural disasters. We expect the occurrence of similar extreme weather events in coming years to worsen the fatalities and damage caused in high-vulnerability, low-resilience areas such as Cox's Bazar.

We also expect natural disasters to heighten bilateral tensions on the issue of refugee repatriation. The government in Bangladesh is keen to encourage refugees to return to Myanmar, and will refrain from disbursing funds to support rehabilitation or the construction of permanent structures in the camp. Meanwhile, ongoing conflict in Rakhine state will prevent the easy return of refugees to Myanmar, undermining the limited efforts pursued by the Burmese authorities. This, as well as the already-slow pace of bilateral negotiations, will ensure that the process of repatriation is not completed during our 2019-23 forecast period.

Impact on the forecast

The event supports our view that tensions between Bangladesh and Myanmar will remain heightened in coming years, largely owing to limited progress on the issue of refugee repatriation.

Economy

Forecast updates

Regulator increases natural gas prices

July 3, 2019: Policy trends

Event

On July 1st the Bangladesh Energy Regulatory Commission (BERC) raised natural gas prices by an average of 32.8% for all users.

Analysis

The BERC had last raised natural gas prices by a cumulative average of 22.7% (in a two-step process) in 2017. The increase is intended to reduce losses at the state-run oil and gas firm, Petrobangla. The company imports liquefied natural gas (LNG) and sells it domestically at a loss, owing to prices being subsidised by the government. The tariff rise comes ahead of an increase in gas supplies from August 2019, when certain pipeline projects are completed.

The BERC's decision has already sparked a backlash from opposition parties and industry associations, which claim that the price rise will hurt the profitability and export competitiveness of major industries. Several protests have already been held, and the Left Democratic Alliance, a coalition of eight left-leaning political parties, has called a half-day countrywide strike for July 7th. This reflects the reaction to previous gas price hikes, and we do not expect any major social unrest to arise out of the protests.

The increases in natural gas prices are likely to exert inflationary pressure over the next 12 months. Apart from the direct effect on consumer prices from an increase in the retail price of natural gas, second-round effects, through an increase in electricity prices (as the majority of the country's power plants are gas-fired), will also fuel inflation. In addition, a 7.5% increase in the price of compressed natural gas (CNG), a major automotive fuel, will raise transportation costs.

Impact on the forecast

The development has no impact on our political forecast. We will raise our inflation forecasts for 2019-20 to reflect the latest increases in natural gas prices. We currently forecast consumer prices to increase by an average of 5.2% over the two-year period.

Analysis

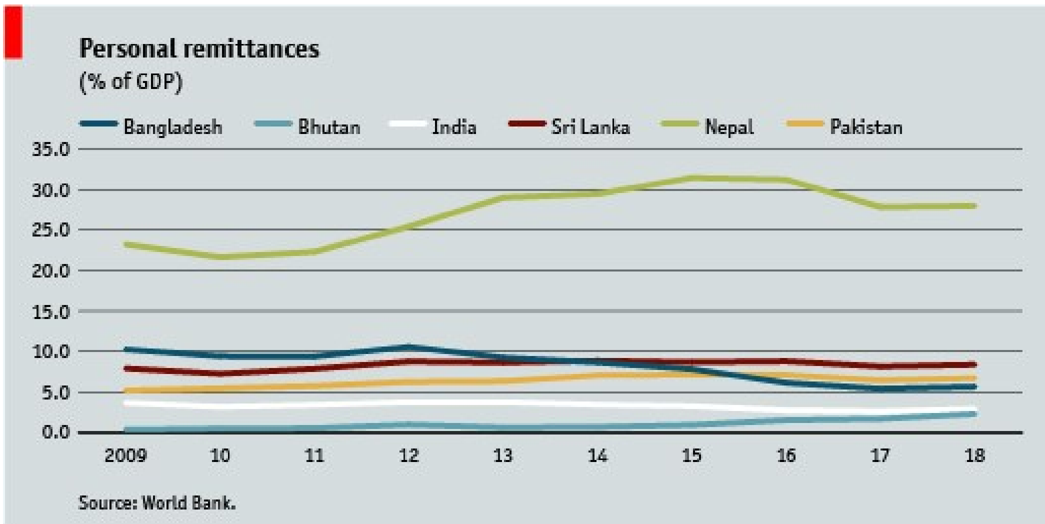
South Asian remittances remain strong

July 30, 2019

Remittances remain economically important for most of the South Asian countries. The region's labour force continues to grow and the skill-set of the labour force has been improving rapidly. However, limited earning prospects will act as a push factor for workers, underpinning an outflow of labour to the Middle East and the West over the forecast period. While remittances in most of the region grew strongly in 2018 (and have continued to grow in 2019), Sri Lanka remains an outlier. The Economist Intelligence Unit believes that remittance inflows to the region will remain strong in the forecast period. However, there are risks to this outlook.

Remittances play an important part in the South Asian economies by bringing in much-needed foreign-exchange reserves, financing the countries' import needs on the current account and propelling private consumption growth. In South Asia specifically, these inflows are even more important, considering the general low-income status of the economies in the region. In Nepal, for example, remittance inflows were equivalent to 28% of GDP in 2018, according to the World Bank. Elsewhere, this ratio is much smaller but still significant. Remittances as a share of GDP stood at 8.4% in Sri Lanka, 6.7% in Pakistan, 5.7% in Bangladesh, 2.9% in India and 2.3% in Bhutan in 2018. For most of these countries, the Gulf states (comprising Saudi Arabia, the UAE, Qatar, Kuwait and

Oman) are the major source of remittances, while the US, the UK, Malaysia, Japan and South Korea are also important sources.



On an oil high

India is the largest recipient of worker remittances worldwide. In 2018 the country received a record US$78.6bn in remittance earnings, ahead of China, which received around US$67.4bn. The UAE remained the largest source of remittances for India, closely followed by the US and Saudi Arabia. Other sources include Kuwait, Qatar and the UK. Given that the Middle East is a popular destination for Indian workers seeking employment overseas, remittance inflows to the country are largely tied to oil price movements. Since most of the Middle-Eastern states are dependent on oil, their economic fortunes—and, by extension, remittance outflows—follow a direct correlation with oil prices.

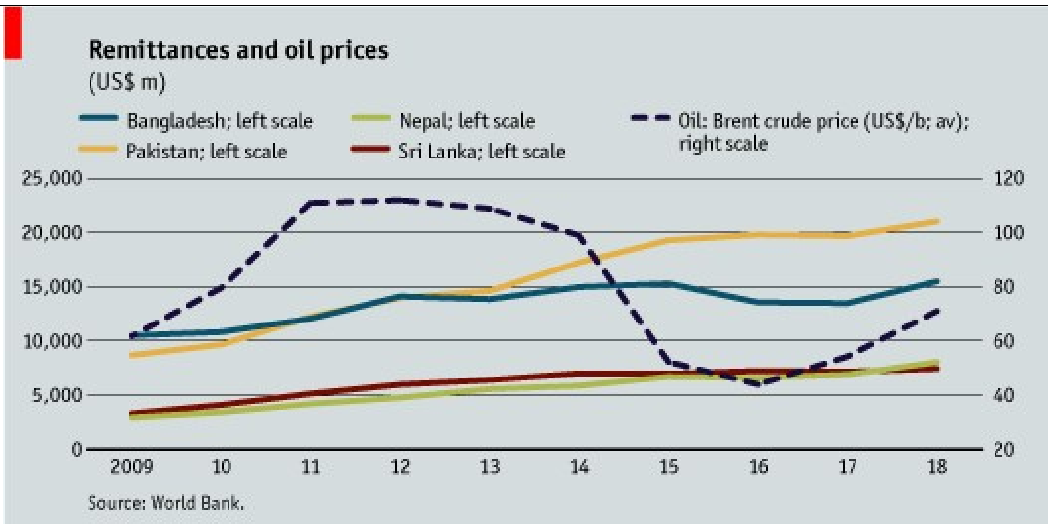
The situation is similar for Pakistan and Bangladesh. Both countries received record remittance inflows in 2018, in line with the recovery in global oil prices in that year. Workers' remittances to Pakistan in 2018 totalled US$21bn (up by 7.2% from 2017), while inflows to Bangladesh reached US$15.6bn (up by 14.9%). Even in 2019, remittance inflows for both countries have continued to rise rapidly, with the growth rate over the first half of the year averaging around 8-11%. Continuous currency depreciation is another factor propelling remittance growth in these countries, as it raises the incentive for expatriate workers to remit more money home.

Nepal receives more than two-thirds of its remittances from four Gulf Co-operation Council countries: Qatar, Saudi Arabia, the UAE and Kuwait. India also accounts for a large portion of remittances into Nepal, given the minimal border restrictions and free flow of labour between the two countries.

We expect remittance inflows in these countries to grow at strong rates in the forecast period, albeit with a slight slowdown in 2020, owing to an expected oil price slump in that year. Outward migration from these countries will continue over the medium term, owing to better earning potential available abroad and a lack of jobs domestically.

The majority of migrants from these countries are manufacturing and construction labourers. The growing preference of Middle East nationals for white-collar jobs means that demand in those countries for blue-collar workers will continue to grow over the forecast period, providing a conducive market for labour from South Asian countries. Furthermore, as countries in the Middle East diversify into the financial and technological sectors, demand for higher-skilled workers will also increase. For example, India has a massive pool of highly skilled workers in the information technology and services sector, which attracts talent to the US as well.

Emigration from South Asian countries remains strong. In 2017 (latest available data), the number of emigrants from India was the highest in the world, with 16.4m people leaving the country to settle abroad. Bangladesh and Pakistan also recorded large number of emigrants, at around 7.8m and 6.1m respectively.



Divergence in Sri Lanka, due to flooding

Contrary to the trend in other countries, remittance earnings in Sri Lanka did not rebound in 2018 (compared with 2016-17), even with the strong recovery in global oil prices. A probable reason for this is that remittances to Sri Lanka continued to grow rapidly in 2016 and remained relatively strong in 2017, owing to higher amounts remitted by non-resident Sri Lankans in response to devastating floods in the country in those years. This created a high base of comparison for remittance earnings, which have been moderating slowly since 2018. Most other countries in South Asia experienced a slowdown in remittance earnings in 2016-17, as low oil prices constrained the earnings of overseas workers and impaired their capacity to remit money home.

We expect emigration from Sri Lanka to continue over the medium term, as young professionals search for better opportunities and earnings not available domestically. This trend will also be promoted by the government's bilateral agreements with countries such as Japan and South Korea.

The outlook is positive, but risks remain

Overall, remittances are expected to remain an important contributor to the economies of most of the countries in the region. While this is our core forecast, remittance inflows to South Asia run the risk of being disrupted by nationalisation policies in the Middle East. Countries including Saudi Arabia, the UAE and Kuwait have imposed additional taxes on expatriate workers to discourage the outflow of remittances. The tighter immigration stance adopted by the US president, Donald Trump, also poses a risk that the flow of labour to that country might be curbed.

Indeed, there has recently been a sharp increase in "requests for evidence" (RFEs) issued by the US citizenship and immigration services for H-1B visa applications (a common route for foreign professionals to be temporarily employed in the US). In the first quarter of 2019 RFEs were issued on 60% of H-1B visa applications, compared with 20.8% in the same period of 2016. This indicates tougher scrutiny in the granting of work visas. In the medium term, however, the better earning prospects and improved living standards offered by these countries (in comparison with South Asia) will underpin emigration from the region.

