

Bangladesh

	COUNTRY RISK CATEGORY <h2>6/7</h2> <p>The country risk categories range from 0 to 7. The lower number the better the credit rating of the country.</p>	EKN'S POLICY Sovereign risks: Restrictive risk assessment Other public risks: Restrictive risk assessment Bank risks: Restrictive risk assessment Corporate risks: Restrictive risk assessment See also the section "EKN'S POLICY"
	EKN'S OUTSTANDING GUARANTEES ON THE COUNTRY Short-term transactions: SEK 10 million Medium and long-term transactions: SEK 993 million	DATE 24/10/2013

Political turmoil dominates

Bangladesh's economy continues to grow at a moderate but steady pace. The level of investment is insufficient to achieve a higher growth rate and seriously address the structural problems of inadequate electricity supply, poor infrastructure and widespread corruption that are inhibiting the economy. The political situation is disorderly and the lead-up to the elections in early 2014 will be marked by protests, strikes and violent riots. The assessment is that the moderate GDP growth in Bangladesh will continue, although some political unrest is expected ahead of the elections.

STRENGTHS

- Stable growth is expected to continue
- Strong inflow of remittances strengthens the current account
- Rising international reserves
- Long-standing and good relations with donors

WEAKNESSES

- Political unrest and a high risk of violence associated with the elections
- Structural problems with poor infrastructure and energy supply
- Low government revenue and a large population result in little scope for reform and vulnerability
- Difficult business environment has led to a very low level of FDI

POLITICS

Political unrest ahead of elections

The political landscape is dominated by two parties, the Bangladesh Awami League (AL), which is in power, and the Bangladesh Nationalist Party (BNP). These have alternated in government since the early 1990s. The relationship between them is frosty. The ruling AL has traditionally pursued more secular and pro-India policies, thereby creating hopes of increased economic integration with India, while the BNP is closer to Pakistan and has a moderate Islamist agenda. The parliamentary elections will be held by January 2014, and during 2013, the opposition has been vocal and sometimes violent towards government policy. There were a number of clashes in early 2013. In the summer, a court banned an anti-government Islamist party, Jamaat-e-Islami, from standing in the upcoming elections, which caused further discontent against the government. In addition, the fact that AL nullified the caretaker government system, which has long existed to ensure free elections, on its own initiative in 2011 was strongly criticised. The opposition party, the BNP, has even threatened to boycott the elections unless the system is reinstated. The country's military is like a third front, ready to step in if the democratic system falls apart, and has monitored the caretaker government system for two decades.

The main political risk in the near term is linked to the outcome of the election. Political protests and strikes are common features of the country's political landscape, but if the election results were questioned or incomplete or if the BNP chose to boycott the elections, the situation could lead to protests getting out of hand and the military would feel obliged to interfere, at least temporarily. However, the main scenario is that the two dominant parties will agree on how elections should be supervised and that they will therefore proceed in relatively good order. The BNP opposition made large gains in the local elections that were held in several towns, which may give some indication of how the national election results will unfold.

ECONOMY

Stable growth despite many obstacles

Bangladesh has had relatively good economic growth over the past 20 years. GDP growth has averaged between 5 and 6 per cent for many years, which is often cited as one of the country's strengths for foreign investors. Whatever party has been in power, the economy has shown a stable trend. However, the country is still poor and growth need to be several percentage points higher if poverty is to be seriously reduced. A large population means that GDP per capita is among the lowest in the world which results in vulnerability and little scope for economic reforms.

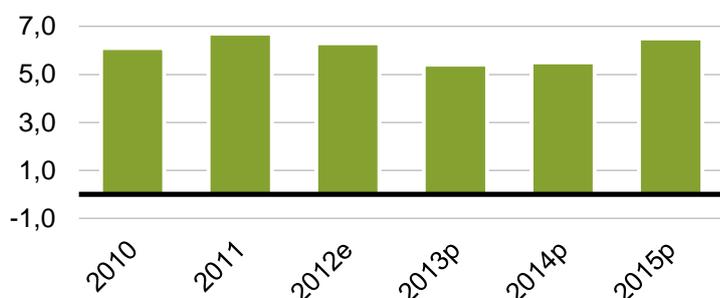
The country's important textile sector accounts for the majority of exports, but only corresponds to 17 per cent of GDP. Approx. 80 per cent of the country's population live in rural areas and the agricultural sector employs half of the population, but it corresponds to just under 20 per cent of GDP. The service sector is growing and currently represents the largest percentage of GDP.

The outlook for economic growth in 2013-2014 is clouded by concerns about production interruptions caused by strikes and protests, before and after the impending elections. In addition, weak import growth in 2012-2013 points to a slowdown in domestic demand. Major deficiencies in infrastructure and energy production are structural problem that have impeded the development situation of Bangladesh for many years. Despite large inflows of aid, the

expansion that is needed hasn't materialized, and this is partly due to widespread corruption. The structural weaknesses are also resulting in low levels of FDI, currently less than 1 per cent of GDP. Another factor is that Bangladesh is also highly dependent on the weather. Flooding occurs regularly, although there is contingency in place. In exceptional circumstances, the country receives external assistance if needed.

Public finances are weak and the budget balance has been in deficit for a long time. The deficit is manageable and relatively stable and revenue-strengthening reforms are in progress. One example is the development of a tax reform that is expected to increase revenue by the equivalent of two percentage points of GDP from 2015. Financing of the budget deficit occurs mainly through borrowing in the banking system. The government has taken the first steps towards launching international government bonds totalling USD 500 to 1,000 million to finance infrastructure projects. This would represent the country's first international government bond issue.

GDP GROWTH (% PER YEAR)



Stable but insufficient growth to reduce poverty in the country. Data: IMF

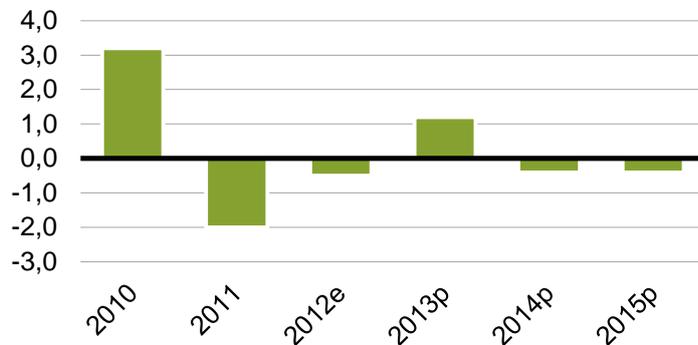
The overall risk scenario for 2013 and 2014 is dominated by domestic factors. In addition to being affected by the weak business environment, economic growth will also be hit by political uncertainty ahead of the elections and strikes. The focus on economic policy has been the same for a long time, regardless of which party has been in power, and this is likely to remain the case in the next few years.

BALANCE OF PAYMENTS AND DEBT ISSUES

Increased international reserves

Two important components of the country's balance of payments are exports of goods and remittances. Bangladesh's exports of textiles and clothing account for 80 per cent of the country's export revenue and have made the country the world's second-largest textile exporter, behind China. Low pay and duty free access to the EU have resulted in a steady increase in exports in recent years and Bangladesh has thus claimed its place on the map of textile manufacturing. However, the sector has been hit by several tragic incidents, including the collapse of a building in April 2013, which put the spotlight on the difficult working conditions that often exist in the factories. Both foreign importers and local authorities are keen to show that reform work aimed at improving working conditions is in progress and that the accident is unlikely to have any appreciably adverse effect on exports.

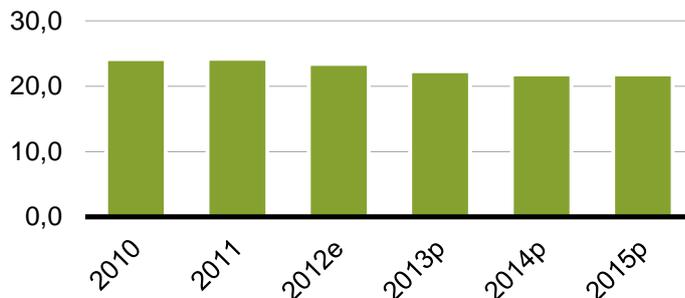
CURRENT ACCOUNT BALANCE (% OF GDP)



Only moderate deficits are expected in the next few years. Data: IMF

Transfers from workers abroad (remittances) account for approx. 12 per cent of the country's GDP, corresponding to USD 13 billion. With strong exports and rising remittances, the current account balance is expected to be in surplus during 2013, subsequently turning to a deficit in the next two years due to rising imports. However, Bangladesh has experienced strong growth in international reserves. Compared with a year ago, when international reserves corresponded to about three months of import requirements, the level has risen by 50 per cent and now corresponds to five months of import requirements (USD 16 billion). Good relations with donors have also made it possible to keep the country's external debt at a low level.

EXTERNAL DEBT AS A PERCENTAGE OF GDP



There is a low level of external debt as most lending to Bangladesh involves some form of aid. Data: IMF

Overall, there are no signs of dramatic changes in the country's ability to meet its external payment obligations. External debt is expected to remain low, the current account balance is only showing a slight deficit and international reserves remain relatively high.

CURRENCY POLICY

Some currency restrictions remain

Bangladesh has had a floating exchange rate since 2003. The IMF classifies the exchange rate as a managed float. Interventions by the central bank have been increasingly rare since 2011. The currency, the Taka, has weakened over a period of many years but since the low point in

early 2012, the currency has recovered a little. The outlook for the coming years is an unchanged Taka to US dollar rate.

The currency can be converted and transferred freely in export and import contracts, although there are currency restrictions for transactions outside the current account for non-residents. Banks may buy and sell currency hedges. Short-term contracts (3 to 6 months) are most common, but there are also maturities of 2 to 3 years on a smaller scale. Imports with credit periods in excess of one year still require authorisation from the Board of Investment, which has been an inhibiting factor for larger transactions and investments.

FINANCIAL SECTOR

Weak banking sector

The country's financial sector comprises about 50 banks. Despite this it is relatively small, corresponding to approx. 50 per cent of GDP. Although the banking sector has grown and strengthened in recent years, the growth has been moderate and significant weaknesses remain. Poor governance of the publicly-owned commercial banks (Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank) has led to mismanagement and a need for new capital. The proportion of non-performing loans for public banks was 24 per cent in 2012, compared with 5 per cent for private banks. Banking supervision and regulation of the sector is weak. Several private banks have inadequate administrative capacity and do not comply with international regulations. An amendment to the legislation governing banking supervision has been tabled and is intended to improve the central bank's ability to exercise supervision. However, EKN's experience of banks in Bangladesh shows that weaknesses in the banking sector are sufficiently serious to justify restrictive risk assessment.

BUSINESS ENVIRONMENT

Difficult business climate

Bangladesh has a difficult business environment and the country has a low ranking in the World Bank's Ease of Doing Business index for 2013, occupying 129th place out of 185, which is also a decline of five places since the previous year. Important contributory factors are weak governance, inadequate infrastructure and widespread corruption. The country's political parties are based more on key persons and families than on politics. This provides a breeding ground for corruption.

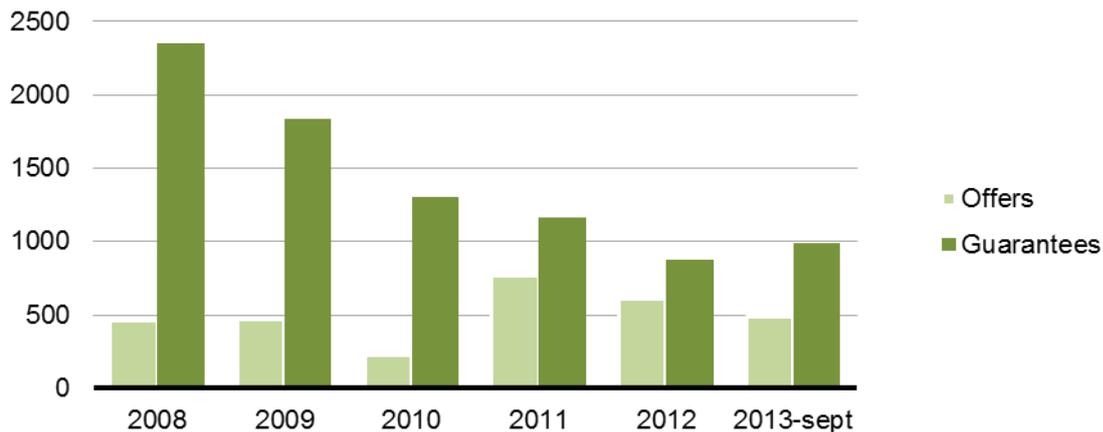
Reform efforts are lagging behind and institutional capacity is still very weak. Bangladesh has little experience in commercial lending, which is reflected in the high proportion of aid. Consequently, the judiciary's ability to handle commercial disputes is considered to be undeveloped and weak, which means that there is a risk of high final losses in a claim situation. There is little access to financial information and it is rare for local companies to have audited closing accounts. Overall, the difficult credit environment justifies restrictive risk assessment and collateral should be requested.

EKN'S EXPOSURE

Telecom sector dominates

EKN has extensive experience in transactions to Bangladesh. EKN's outstanding guarantees for transactions to Bangladesh amount to approx. SEK 1 billion. It is largely related to transactions in the telecom sector and with credit periods exceeding one year. However, in

terms of numbers, the vast majority of guarantees are short-term letter of credit guarantees where EKN shares the risk with a Swedish bank. The amounts are small, but the number of guarantees is between 20 and 30 per year. The existing exposure is de-escalating at the moment, without being replaced by any large volume of additional transactions.



PAYMENT EXPERIENCE

Payment problems in the banking sector

Payment experience has generally been positive based on the large number of EKN's guaranteed letter of credit transactions, but payment arrears have occasionally occurred. However, the increase in the number of arrears relating to banks in Bangladesh since 2011 is a worrying. The fact that several banks have not always fulfilled their payment obligations over a period of several years suggests more than just administrative carelessness. No claim settlements have occurred.

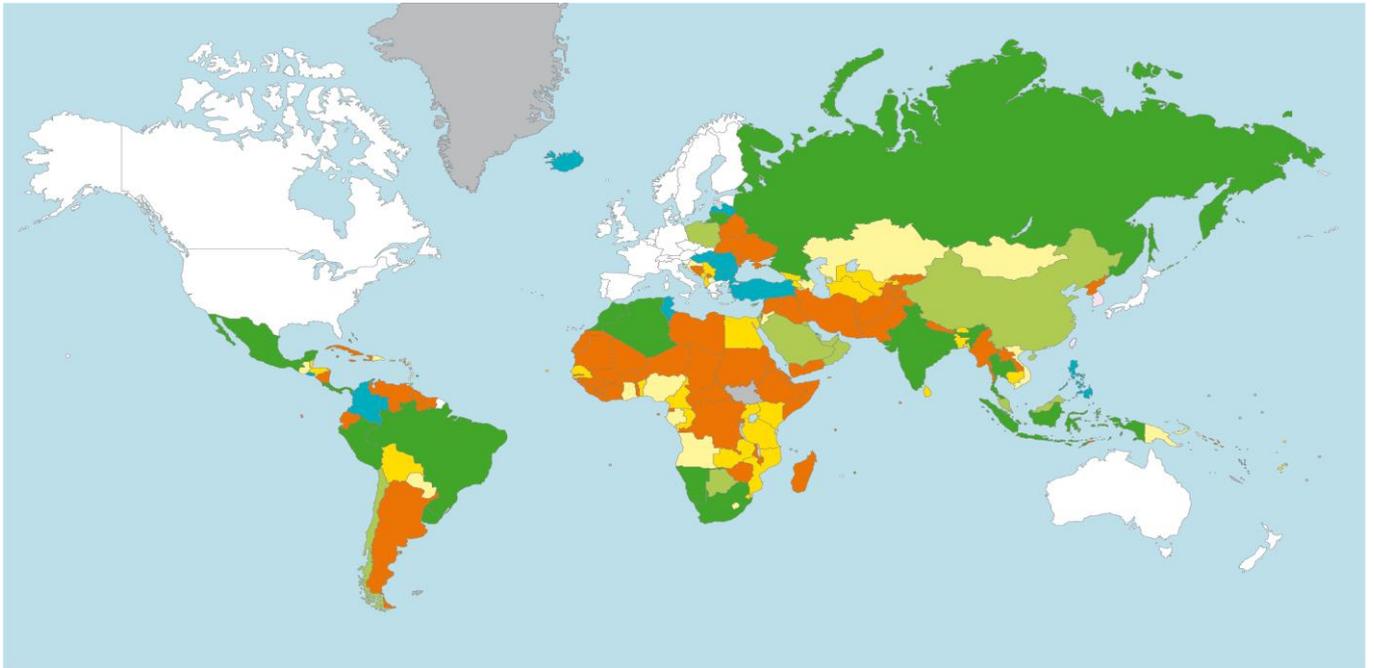
EKN'S POLICY

Increased restrictiveness

EKN has placed Bangladesh in country risk category 6 for both short and long-term guarantees – an assessment made in collaboration with other OECD countries. As a result of EKN's experiences, certain restrictions with regard to bank risks have also been introduced from 24 October 2013. This means that EKN has some form of restrictiveness for all buyer categories. For public buyers, such as public utilities or line ministries, EKN requires a sovereign guarantee from the central bank or the ministry of finance, or bank security in the form of a letter of credit or a guarantee.

For private buyers (companies and banks), the policy means that, in addition to assessing the risk on its own merits, EKN has a more restrictive approach from the start and wants to see that the transaction has a high level of transparency and that the debtor has sufficient buffers. The buffers are to be used to offset unanticipated events which are expected to arise more frequently in Bangladesh than in countries with a more stable operating environment.

EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.

The lower number the better the credit rating of the country.



EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.