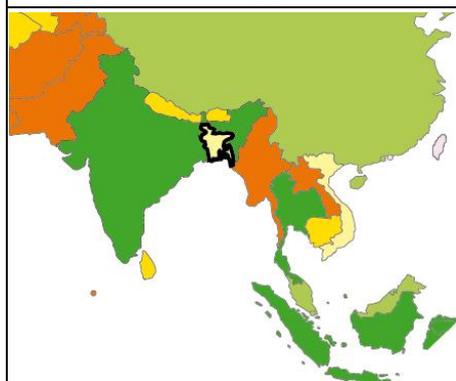


Bangladesh



COUNTRY RISK CATEGORY

5/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.



EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY

SHORT-TERM TRANSACTIONS: SEK 104 MILLION

MEDIUM AND LONG-TERM TRANSACTIONS: SEK 1,340 MILLION

DATE

24-10-2014

Resilient economy in political turbulence

With high, stable economic growth over a long period of time, Bangladesh has gone from being a country associated with high levels of development aid to become a new frontier market. Bangladesh's plentiful supply of labour has made it possible for the country to be competitive in the textile and ready-made garment industry. This sector has come to completely dominate the country's export earnings.

The political situation has however not changed in the same positive direction as the economy. Bangladesh's democracy is still immature and the lacking political stability is a central risk. A military caretaker government was in power as late as in 2007. Lack of will and insufficient pressure to change the reigning political situation, makes it likely that the current situation will prevail even in the long time. A future generational shift in the respective party leadership is still far away and would not necessarily contribute to closing the deep political gaps. The impact of the periodically turbulent political environment on the economy has not been particularly large previously and will probably not be large going forward either.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Stable growth over the past decade
- Good compliance with structural reforms within the ongoing IMF programme
- Stable external balance, with periodic current account surpluses, low external debt and growing international reserves
- Stable inflows of remittances

Weaknesses

- Undiversified economy and very low GDP per capita
- Highly polarised political parties and messy political situation
- Weak institutions, immature banking sector and difficult business climate

Restrictive risk assessment

EKN has placed Bangladesh in country risk category 5. EKN has a more positive view of Bangladesh than the joint OECD categorisation in country risk category 6. Where possible, EKN applies the premium pricing for country risk category 5. EKN's country policy for Bangladesh is restrictive. The difficult business environment and a weak banking system justify this restrictiveness.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- An improved business environment with stronger institutions, a reduction in corruption, a better functioning legal system and a modernised regulatory framework.
- A reduction in polarisation and a less confrontational policy
- Maturing of the banking system, including supervision and regulation as well as completed reforms of the state-owned banks

The policy may be made more restrictive in the event of

- An escalation in political instability with strikes or protests that impact the real economy
- A discontinuation or sharp delays in ongoing structural reformsEKN'S exposure and experience

Substantial and concentrated exposure

Bangladesh is one of EKN's largest markets for letter of credit guarantees. EKN has guaranteed over a hundred letter of credit transactions over the past five years. However, the total amount of these transactions makes up a very small portion of EKN's exposure in the country, which totals SEK 1.4 billion as of 31 August 2014. Outstanding guarantees are mainly in the telecom sector. The demand for guarantees for transactions with longer credit terms is very low, which is estimated to be mainly due to the complicated regulations related to import credits in Bangladesh. EKN has positive experience in guaranteeing transactions in Bangladesh.

COUNTRY ANALYST



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DISCLAIMER

The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.

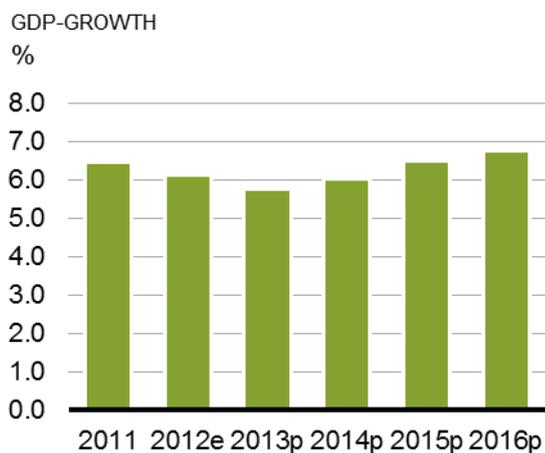
Political instability

Since independence, domestic policy in Bangladesh has revolved around tensions between the two dominant parties and the role of the military. The political rift between the two parties has its roots more in personal tensions than in widely different ideological opinions. Bangladesh's democracy is still immature and the lacking political stability is a key risk. A military caretaker government was in power as late as in 2007. Lack of will and insufficient pressure to change the reigning political situation, makes it likely that the current situation will prevail even in the long time. A future generational shift in the respective party leadership is still far away and would not necessarily contribute to closing the deep political gaps.

The current political situation is characterised at this time by a certain degree of stability. The opposition has called for popular uprisings to force new elections, but that has not happened yet. It is probable that some form of demonstration will be held in the short term, which would also send a signal of how much popular support the opposition has.

Limited economic effects of political turbulence

Lacking political stability serves as an obstacle to the country's economic growth. In spite of this, Bangladesh has experienced economic growth of over six per cent on average per year over the past ten years. This growth is starting from a low level. Bangladesh's large population has been an advantage that has provided good access to labour. This is something that the textile industry has taken great advantage of. Competition is nevertheless rough in the textile and ready-made garment industry, and last year's changes in labour regulations and an increase in the minimum wage have affected Bangladesh's competitiveness. However, Bangladesh is still doing well in comparison to the textile and clothing producers, especially those in the neighbouring region.



Source: WEO Oct 2014

The country's GDP has historically been relatively unsusceptible to natural disasters and political crises, which was also demonstrated in 2013. The turbulence and the cautious attitude of investors in the run-up to the elections in January 2014 led to slightly lower growth in the manufacturing industry than forecast, but total GDP growth was higher than projected.

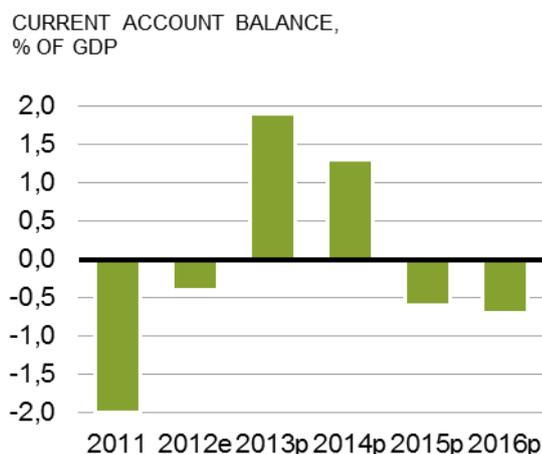
The government's own finances were however affected by lower tax revenue. The country's tax base is very small and the public revenues create very strict limits for the national budget. Out of the population of over 150 million, only 1.2

million pay tax. Corporate taxes and import taxes are therefore key sources. Revenues and taxes in particular, are among the structural issues the country is working on resolving in line with the ongoing IMF programme. With a GDP per capita below USD 1,000 and a low score in the Human Development Index, large investments are needed in virtually all areas, such as social investments, infrastructure and energy. The government's finances will continue to be weak, because ongoing measures to strengthen revenues are taking a while to produce results and there is still a high amount of public investment needed in the short term. The government primarily

finances itself on the domestic banking market, but is also planning for its first international government bond.

Low external debt and growing international reserves

The country's external debt is low, on a downward trend and mainly to multilateral institutions on favourable terms. Previously small current account surpluses are expected to change to small deficits in the coming years.



Source: WEO Oct 2014

One key factor that contributes to limiting the current account deficit is the robust inflow of remittances from migrant workers, mainly in the Gulf states. As a result of increased restrictions on guest workers in these countries, remittances decreased in 2013 for the first time since 2001. The inflow of remittances is however still high at USD 14.3 billion. This is equal to nearly half of cumulative export revenues from goods and services in 2013. The international reserves have increased and are now equal to nearly five months of import coverage. Bangladesh has many restrictions on capital transactions and the central bank manages the exchange rate to slow

down excessive fluctuations. Any major currency fluctuations are therefore not expected in the medium-term perspective.

BUSINESS ENVIRONMENT

Many factors contributing to weak business climate

The weak institutions and the deficient infrastructure serve as an insufficient base for Bangladesh's weak business environment. In addition, there are several other factors found in the World Bank's ease of doing business index. For the second year in a row, Bangladesh came in last place in the Getting electricity indicator and was ranked very poorly in the Registering property indicator. Bangladesh's total ranking in the index is unchanged from last year, coming in 130th place out of 189 places (2014), just after Pakistan, but ahead of India. Other indices highlight significant difficulties in the legal system and the police. These deficiencies result in a weak rule of law and a high degree of arbitrariness, time-consuming proceedings and frequent corruption. On the basis of the above, the chances of recovery are estimated to be very limited.

The state-owned banks have been in a miserable financial state for many years. Ongoing financial assistance programmes include both capital contributions and internal process work, but they have thus far not been enough for the banks to approach being credit worthy on their own merits. Private banks often have a better financial position and better risk management processes, but more limited risk capacity as a result of smaller balance sheets.

The weak banking system, difficult business environment and limited chances of recovery justify a restrictive risk assessment policy, where collateral is sought for risks with respect to companies and banks in Bangladesh.