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1 June 2022

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RATINGS

Bangladesh

	Foreign Currency	Local Currency
Gov. Bond Rating	Ba3/STA	Ba3/STA
Country Ceiling	Ba2	Baa3

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Government of Bangladesh – Ba3 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

Bangladesh's credit quality is supported by its robust economic growth prospects, a moderate government debt burden, and access to concessional funding. Continued macroeconomic stability, including stable real GDP growth, limited inflation volatility and the absence of boom-bust credit cycles, points to some effectiveness in macroeconomic policies. While the decline in external demand caused by the coronavirus pandemic led to a sharp slowdown in manufacturing activity, growth has rebounded, driven by the globally competitive ready-made garment (RMG) industry, which accounts for around 80% of exports and 15% of GDP. Moreover, domestic demand will continue to be supported by strong remittance inflows, a rebound in credit growth, and ongoing implementation of large infrastructure projects.

Credit challenges include a narrow revenue base that constrains the government's capacity to spend on physical and social infrastructure development. Additionally, low per capita income and limited economic diversification reduce the economy's shock-absorption capacity. Overall, weak infrastructure, low human capital and institutional constraints weigh on the economy's global competitiveness.

The stable outlook reflects our expected progress on reforms, although very gradual, which will help shore up macroeconomic stability. Despite initiating a series of reforms to increase the tax base in recent years, authorities' implementation remains weak because of low capacity. External vulnerability risks remain low, and foreign-exchange reserves have increased during the pandemic because of a surge in official remittance flows, providing some protection against widening current-account deficits as import prices rise.

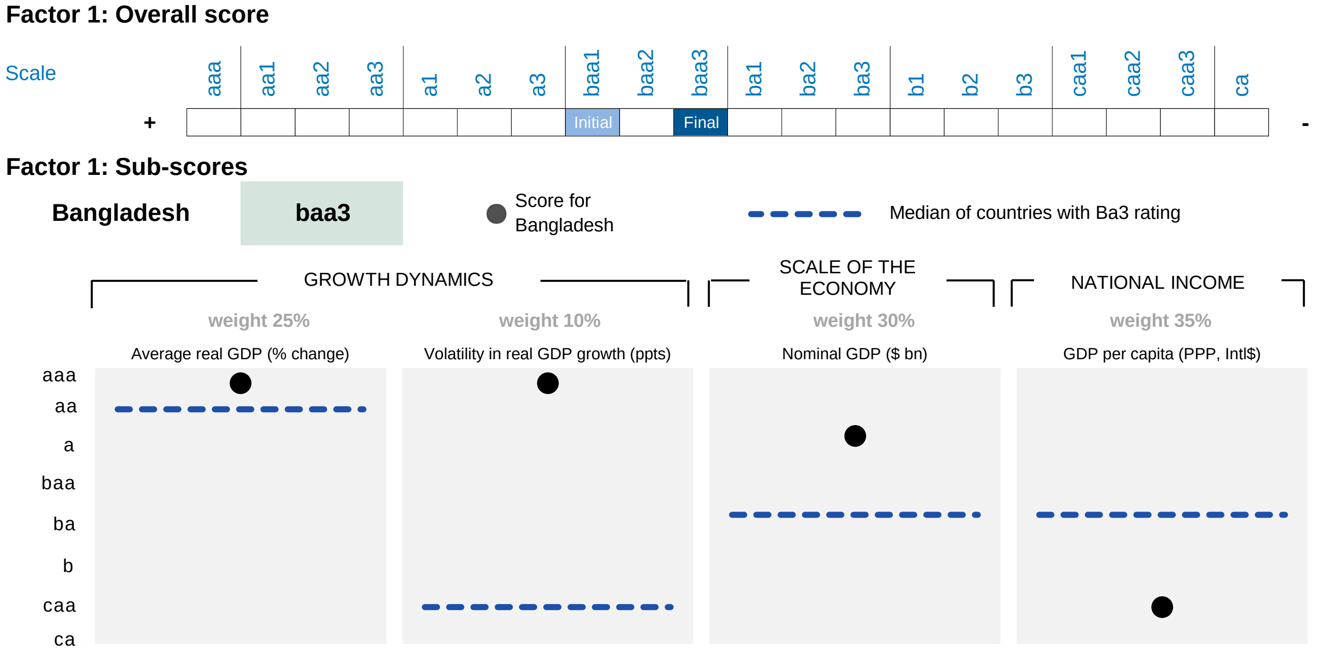
We would consider a rating upgrade if significant progress in the government's fiscal reform increases its capacity to generate revenue, which would lead to an increase in debt affordability and fiscal space, or a material progress in diversifying the economy away from its reliance on the ready-made garment sector, or both; and developing key infrastructure to raise longer-term economic competitiveness and FDI to sustain economic growth. The rating could be downgraded from a severe weakening of the macroeconomic environment, including a slowdown in growth, sustained high inflation and depreciation pressures leading to a worsening of fiscal and external metrics; increased reliance on bilateral debt leading to a worsening of debt affordability and liquidity metrics without a commensurate improvement in infrastructure development; and a weakening of the banking sector's financial health after rolling back forbearance measures, with rising contingent liability risks to the government.

This credit analysis elaborates on Bangladesh's credit quality in terms of economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in our Sovereign Ratings Methodology.

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Economic strength score: baa3



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversity, productivity and labour supply challenges.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Bangladesh's "baa3" economic strength balances the country's low per capita income and competitiveness against robust GDP growth prospects, underpinned by its globally competitive ready-made garment industry and policies conducive to macroeconomic and external stability. Our final assessment is two notches lower than the initial score of "baa1". This adjustment reflects supply-side constraints in infrastructure and human capital, low economic competitiveness and high concentration in drivers of economic growth compared with peers. It also reflects the economy's exposure to both sudden and gradual climate change risks that can create adverse economic and social costs.

Other countries with a "baa3" score for economic strength include Oman (Ba3 stable) and South Africa (Ba2 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Bangladesh Ba3/STA	baa3 Median	Cyprus Ba1/STA	Greece Ba3/STA	Oman Ba3/STA	South Africa Ba2/STA	Brazil Ba2/STA	Serbia Ba2/STA
Final score	baa3		baa3	baa3	baa3	baa3	baa2	ba1
Initial score	baa1		baa2	baa2	baa3	ba1	baa3	baa2
Nominal GDP ($ billion)	374.0	75.8	24.6	188.4	74.0	335.4	1,448.6	53.3
GDP per capita (PPP, Intl$)	5,287.5	21,994.9	41,346.9	28,456.6	31,312.0	13,289.3	14,890.5	19,168.1
Average real GDP (% change)	6.4	2.6	3.4	1.6	1.8	0.8	0.5	3.7
Volatility in real GDP growth (ppts)	1.2	2.7	4.9	4.6	3.5	2.7	3.0	2.2

Sources: National authorities, IMF and Moody's Investors Service

Strong recovery in exports and remittances supports economic rebound

We expect that Bangladesh's economy grew around 5% in the fiscal year ended June 2021 (fiscal 2021),[1] up from a low of 3.4% in fiscal 2020, supported by ready-made garment exports and remittances. Over the past decade, inflation-adjusted real GDP growth averaged 6.3%, bolstered by low labor costs and productivity gains amid a shift from agriculture to manufacturing and services.

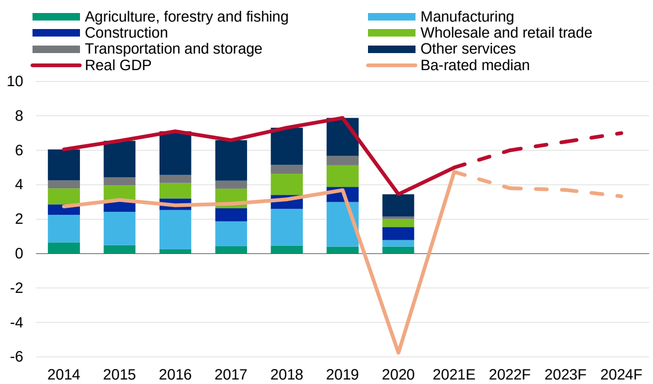
Despite the resurgence in coronavirus infections that led to reimpositions in nationwide social restrictions between March-May 2021 and stalled the recovery in household demand, overall consumption grew 5.7% in fiscal 2021. Growth was supported by a strong revival in workers' remittance inflows, which grew by 36.1% in fiscal 2021, largely because of higher oil prices supporting Gulf Cooperation Council (GCC) economies, which are the main destinations for Bangladeshi overseas workers.

In parallel, the robust recovery in external demand for Bangladesh's goods – particularly ready-made garment exports which grew by 11.1% in fiscal 2021 – boosted the economy. In addition, the resumption of strategic infrastructure projects supported growth in private and public investments, which increased by 2.6% in fiscal 2021.

Exhibit 2

Increasing manufacturing activity has contributed to real GDP growth over the past decade

Percentage point contribution to growth

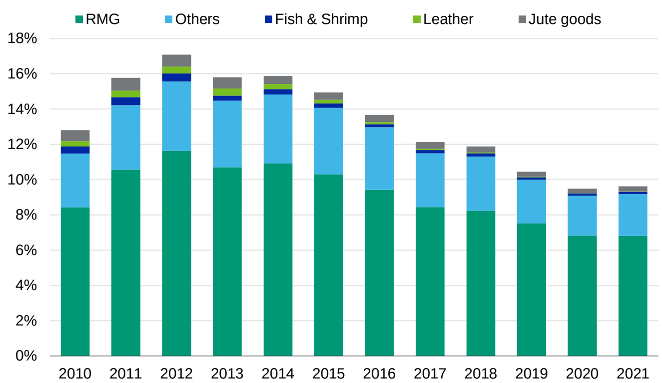


Sources: Bangladesh Bureau of Statistics and Moody's Investors Service

Exhibit 3

Ready-made garment industry accounts for most of Bangladesh's exports

Share of GDP



RMG = ready-made garment

Sources: Bangladesh Bank, Bangladesh Bureau of Statistics and Moody's Investors Service

Bangladesh reimposed movement restrictions in July-August 2021 to curb the Delta coronavirus variant. However, key economic sectors including ready-made garments largely remained in operation to meet the surge in external demand. Few restrictions were imposed during the subsequent Omicron wave, with only school closures. In the fiscal year through February 2022, growth in ready-made garment exports remained strong at around 35% year on year.

We expect the recovery of Bangladesh's economy to continue in fiscal 2022, with an increase in domestic consumption, strong ready-made garment exports, and high worker remittances – helped by the government's increased cash incentive. We forecast Bangladesh's real GDP to grow by 6.0% in fiscal 2022, above the Ba-rated median of 3.8%, before returning to its potential growth rate of 7.0% by fiscal 2024.

At the same time, the military conflict between Russia and Ukraine (Caa2 review for downgrade) presents risks to growth. The surge in food and energy prices – which had already been rising before the conflict – will dampen the recovery in household consumption from the pandemic. Inflationary pressure from food is of particular concern because of the disruption of exports of agricultural commodities such as wheat and soybeans from Russia and Ukraine. Bangladesh imports more than around 32% of its wheat from Russia and 23% from Ukraine. We also expect the invasion to dent the recovery in global demand and thus in Bangladesh's exports, especially if the military conflict persists.

Other risks to growth in fiscal 2022-23 include any occurrence of a more severe strain of the coronavirus that could hamper Bangladesh's economic recovery, given its lower booster shot rate. A further tightening of global fiscal and monetary policies could also significantly weaken growth because of the country's heavy dependence on ready-made garments exports.

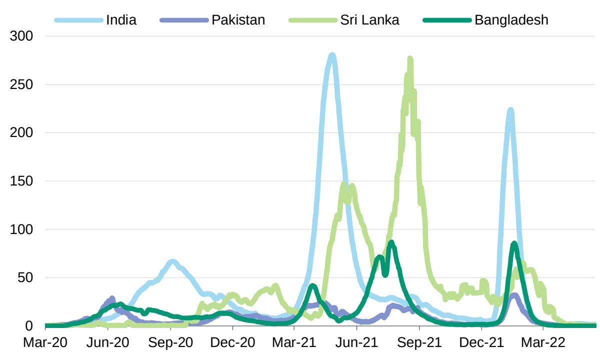
More broadly, Bangladesh's propensity to flooding, the volatility of seasonal monsoon rainfall, and a lack of reliable access to water for industry, agriculture and human consumption – all of which are likely to worsen with climate change – act as constraints on economic potential. Bangladesh's high exposure to rising sea levels, given its location in the Ganges Delta, will also accelerate climate migration and affect its agricultural sector. Limited access to quality education, and weak physical and social infrastructure further restrict growth potential and incomes, aggravating social risks.[2]

Bangladesh's response to the coronavirus pandemic

In general, Bangladesh has fared better than its regional peers during the pandemic in both health and economic terms. The number of cases per capita over the various coronavirus variants has mostly been lower than India (Baa3 stable) and Pakistan (B3 stable), although its vaccination rate has been low, particularly during the Delta wave. There were also fewer restrictions: although most sectors were closed during the first lockdown in early 2020, garment factories were reopened after a month. Subsequent waves of the outbreak saw less stringent restrictions in some sectors, with factories and construction sites remaining open.

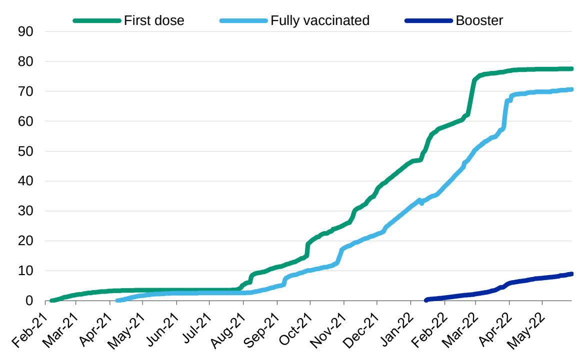
Bangladesh's vaccination campaign, despite slow beginnings because of supply issues, accelerated toward the end of 2021, with its booster program starting in February 2022. The authorities are on track with their target for 80% of the population to have received at least one dose of the vaccine by early 2022.

Exhibit 4
Bangladesh has managed the pandemic better than its regional peers
Cases per million, seven-day rolling average



Sources: Our World in Data and Moody's Investors Service

Exhibit 5
Bangladesh's vaccination campaign was slow initially, but has accelerated
% of total population



Sources: Our World in Data and Moody's Investors Service

Ready-made garment industry supports robust medium-term growth prospects despite increasing competition

While the ready-made garment industry only employs around 7% of Bangladesh's total workforce, its associated wealth creation generates demand for goods and services domestically.

The government continues to promote further development of the industry. While it has fallen short of its ambitious target of $50 billion in ready-made garment exports by 2021 (they were $36 billion), the ongoing diversification of the sector into new seasonal product lines, as well as capital investment to increase factories' productivity, is likely to support continued growth.

Bangladesh's ready-made garment exports have benefited and can continue to benefit from trade diversion because of United States (US, Aaa stable) tariffs on exports from China (A1 stable). Additionally, global retailers' diversification of production sources out of China may further support Bangladesh.

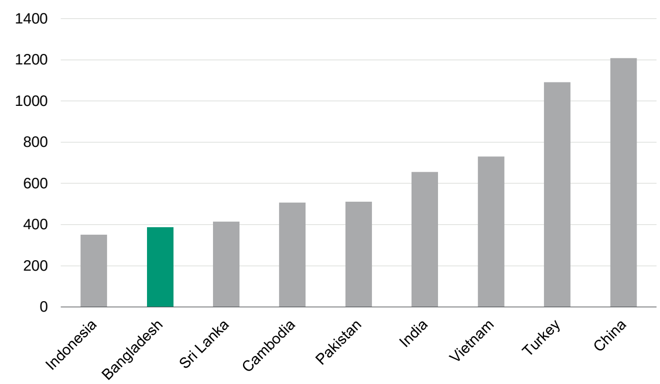
Nevertheless, some of the macroeconomic gains from the ready-made garment sector are beginning to wane as competitors erode profit margins and increase market share. Regional competitors, including Vietnam (Ba3 positive) and Cambodia (B2 stable), have begun to increase their share in the global apparel market (Exhibit 6), specifically in the lowest value-added apparel goods.

Between 2011-20, growth in Bangladesh's exports to Europe and the US underperformed compared with Vietnam, although the latter's exports to Europe started from a lower base (Exhibit 7). More significantly, Vietnam's exports to the US grew at a 7.6% compound annual growth rate, much faster than the 1.7% rate for Bangladesh. Although Bangladesh's performance to Europe remains strong, Vietnam's increasing integration through the European Union-Vietnam Free Trade Agreement since August 2020 poses additional risks.

Exhibit 6

Labor cost competitiveness is a key advantage for Bangladesh

Monthly wage of manufacturing employees, 2017 purchasing power parity (PPP) $



Sources: International Labour Organization and Moody's Investors Service

Exhibit 7

Bangladesh's share in global RMG exports declined in 2020

Share of global apparel exports, %

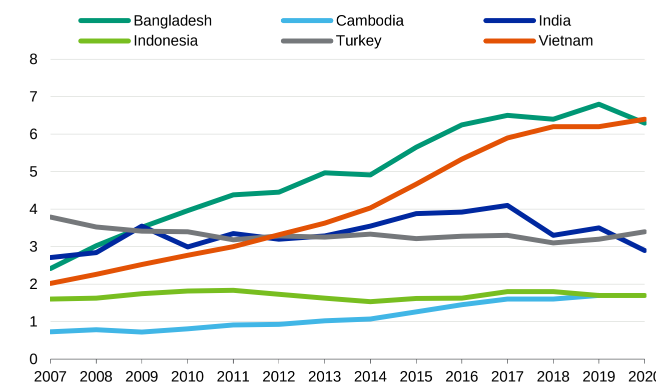


Exhibit does not include China, which accounts for 30.8% of global apparel exports
Sources: World Trade Organization and Moody's Investors Service

Bangladesh's advantages compared with its competitors include a larger labor supply than Cambodia, while different product specialization from Vietnam reduces direct competition. Some global garment companies report relocating their supply chains to other regions including African countries such as Ethiopia (Caa2 negative) where wages are even lower. Nevertheless, Bangladesh will remain competitive because of its proximity to Southeast Asia, where a rapidly growing middle class supports demand for fast fashion.

Bangladesh’s ready-made garment industry will continue to anchor the country's overall economic growth. The industry will retain its competitiveness because producers continue to invest in technology and sustainable processes and use high-quality machinery, typically imported from abroad. Greater vertical integration has enabled local sourcing and production of textiles and shortened lead times. Production flexibility enables switching to mixed fabrics from pure cotton fabrics in response to changes in global demand. Additionally, strategic relationships with buyers underpin export demand and reduce price sensitivity for garments. For example, buyers subsidize garment producers by raising their purchase price if cotton prices rise significantly. Conversely, producers will offer discounts if buyers are holding a lot of unsold inventory.

We do not expect Bangladesh's graduation from the United Nations' least developed countries (LDC) status, which has been delayed to 2026 from 2024, to affect the ready-made garment sector in the near term. A wide variety of preferences and privileges, particularly low tariffs, will gradually be phased out as a result. But Bangladesh will continue to benefit from preferred market access in the European Union (EU, Aaa stable) and the United Kingdom (UK, Aa3 stable) through to 2031, providing additional time for the industry to adjust. Over this time, we expect the industry will continue to focus on improvements in productivity, and investment in digitization, automation and sustainability.

Low incomes and economic diversification, along with infrastructure quality and human capital, constrain competitiveness and limit shock-absorption capacity

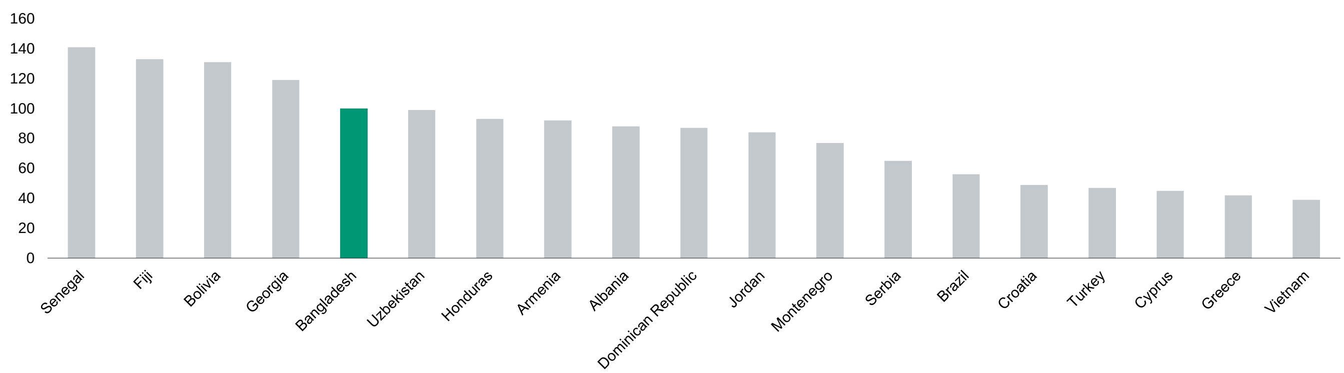
Despite high and stable economic growth, Bangladesh's income levels remain below its peers. GDP per capita in purchasing power parity (PPP) was at $5,287 in 2020, only around one-third of the Ba-rated median of $14,750. Lower income levels point to the weaker shock-absorption capacity of the economy.

In the government's eighth Five-Year Plan for 2020-25, increasing manufacturing production outside of ready-made garments and export competitiveness are key priorities. The government hopes to diversify the country's production into areas including processed food, leather and footwear, light engineering and pharmaceuticals, many of which are labor intensive and have large external markets, similar to ready-made garments. We expect economic diversification to gradually increase and support the economy's shock-absorption capacity.

In support of this goal, the government is seeking to address the country's low quality of infrastructure. Some investments are beginning to bear fruit. Most significantly, investments in the power sector have increased the reliability of energy supply for manufacturing plants. Nevertheless, road congestion, limited rail transportation and lack of port facilities remain significant bottlenecks that reduce export efficiency. Bangladesh's global logistics ranking remains low compared with peers (Exhibit 8). The government aims to address this through 10 mega-infrastructure projects including the Padma Bridge, Dhaka Metro Rail and Rooppur Nuclear Plant, which are being fast-tracked. However, weak execution has led to recurring delays.

Moreover, difficulty of doing business in Bangladesh highlights its low attractiveness for FDI. Bangladesh ranked 168 out of 190 countries for ease of doing business in a 2019 World Bank survey, although that was slightly better than 176th place the year before because of the implementation of the One Stop Service by the Bangladesh Investment Development Authority to reduce barriers of entry into the country.

Exhibit 8
Bangladesh's logistics performance ranking is low
Rank out of 160 countries, 2019

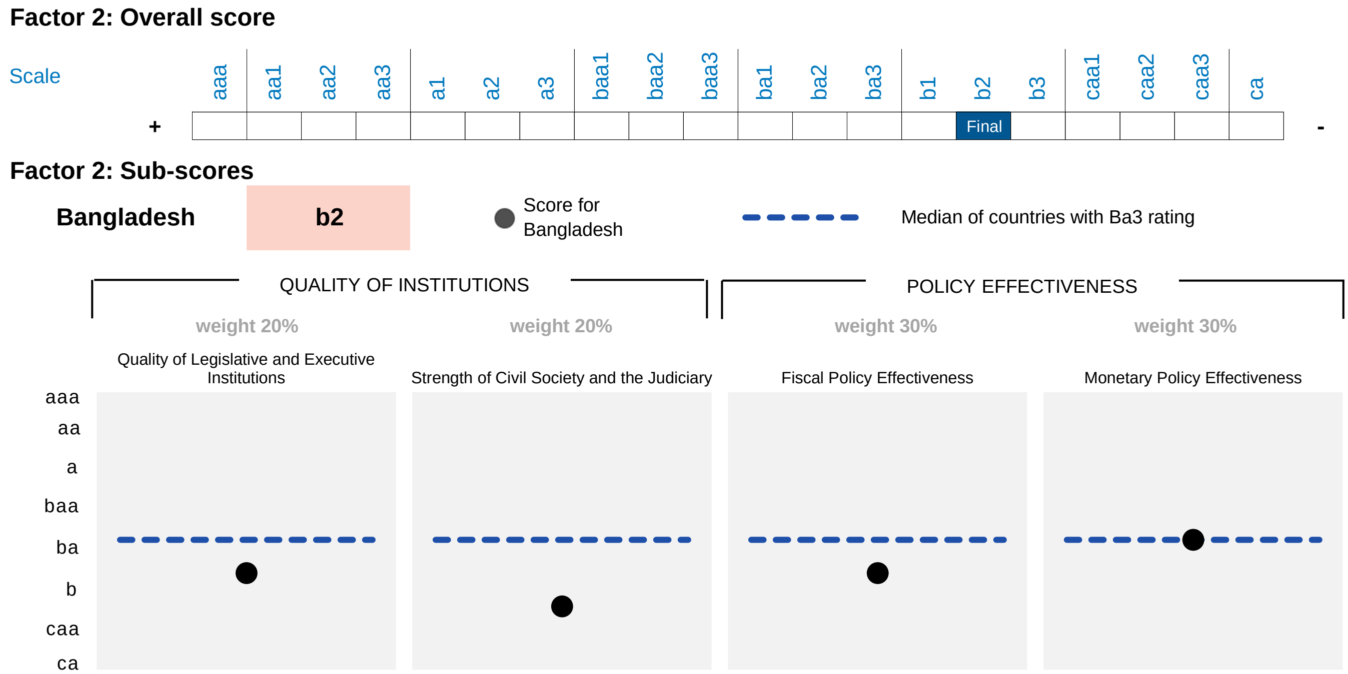


Note: Higher ranking = lower quality of infrastructure
Sources: World Bank and Moody's Investors Service

Apart from infrastructure investment, the development of investment-friendly zones has been a key mechanism through which the government is seeking to attract domestic and foreign investment that would support economic diversification. There are eight special export processing zones across the country, including in Chittagong, the country's only seaport, which provide up to 100% in tax exemptions. Moreover, the government has set up 11 private economic zones in key districts, while development of a $1 billion industrial zone outside of Dhaka in the Narayanganj district, designated specifically for companies from Japan (A1 stable), is set to be operational by 2025.

Human capital quality in terms of health and education was improving before the pandemic, alongside growth in the labor supply. However, the economy still faces shortages of skilled labor across sectors. For instance, people from neighboring countries including India, Pakistan and Sri Lanka (Ca stable) or from the US, Europe and Japan fill many managerial positions.

Institutions and governance strength score: b2



Institutions and governance strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Bangladesh's "b2" institutions and governance strength score balances effective macroeconomic policies that are conducive to ongoing macroeconomic stability against weaknesses in government effectiveness, control of corruption, and weak credibility of its legal structures. Bangladesh's rankings in the cross-country surveys within the Worldwide Governance Indicators (WGI) reflect these attributes and characterize the limited efficacy of execution on long-term measures to improve the quality of infrastructure and human capital.

Other sovereigns with similar institutions and governance strength assessments include Mongolia (B3 stable) and Pakistan.

Exhibit 9

Peer comparison table factor 2: Institutions and governance strength

	Bangladesh Ba3/STA	b2 Median	Honduras B1/STA	Mongolia B3/STA	Pakistan B3/STA	Turkey B2/NEG	Azerbaijan Ba2/POS	Uzbekistan B1/POS
Final score	b2		b2	b2	b2	b2	b1	b3
Initial score	b2		b2	b2	b1	b2	b1	b3
Quality of legislative & executive institutions	b	b	b	b	b	b	b	b
Strength of civil society & judiciary	caa	b	caa	b	ba	b	caa	caa
Fiscal policy effectiveness	b	b	ba	b	caa	ba	ba	b
Monetary & macro policy effectiveness	ba	b	b	b	ba	caa	ba	b
Fiscal balance/GDP (3-year average)	-5.5	-5.5	-2.7	-7.3	-6.5	-4.0	1.2	-2.4
Average inflation (% change)	5.9	6.8	3.9	6.8	7.5	22.3	7.2	11.8
Volatility of inflation (ppts)	1.3	3.4	1.3	4.1	3.5	3.4	4.4	2.9

Sources: National authorities, IMF and Moody's Investors Service

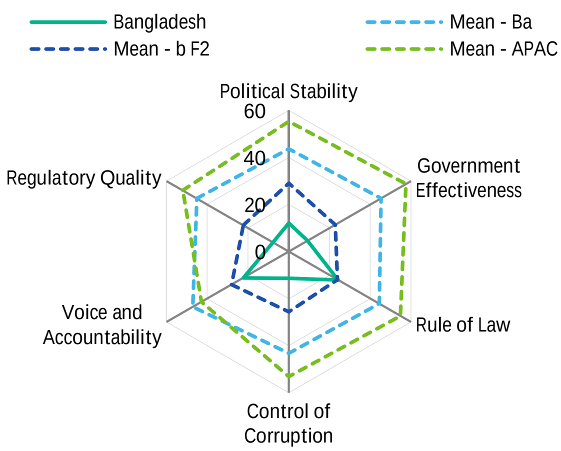
Global survey rankings reveal institutional and governance problems

We gauge the institutional framework and effectiveness in a country on the basis of a country's WGI scores for government effectiveness, rule of law, and control of corruption. Based on the latest survey data, while rule of law has continued to improve in recent years, regulatory quality and government effectiveness have been relatively stable. Meanwhile, voice and accountability has consistently declined in the last decade. Overall, Bangladesh's WGI rankings are significantly lower than the median of similarly rated peers (Exhibits 10 and 11).

Exhibit 10

Bangladesh's WGI rankings are significantly weaker than similarly rated peers

Percentile ranking, 2020

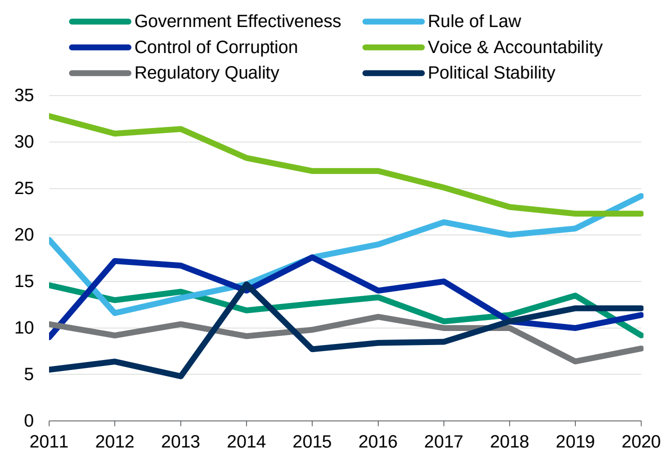


Sources: Worldwide Governance Indicators and Moody's Investors Service

Exhibit 11

... while Government Effectiveness and Voice and Accountability have deteriorated

Percentile ranking, 2020



Sources: Worldwide Governance Indicators and Moody's Investors Service

The lack of institutional strength reflected in low WGI rankings limits the efficacy of long-term measures to raise economic competitiveness or the quality of human capital. Weak rule of law and control of corruption also deter foreign investment, which could otherwise boost the country's longer-term growth potential. According to Transparency International's latest Corruption Perceptions Index (CPI), Bangladesh's ranking of 147th out of 180 countries globally has declined because of the effect of the coronavirus pandemic and the country's low investment in its healthcare sector[3] and despite the authorities' pledge to combat corruption.

Challenges related to government effectiveness and control of corruption are also prevalent in financial sector regulation and revenue administration. In addition, the amount of time taken to complete judicial procedures is highly uncertain. Borrowers often exploit this aspect of the legal system to disrupt default proceedings, resulting in higher credit risk and nonperforming loans (NPLs). Additionally, the legal system makes it relatively easy for borrowers to prevent banks from recovering NPLs, particularly those by willful defaulters. Commercial courts are not established at the district level and disputes can take anywhere from one to two years. Since the central bank increased the loan amount that banks could write off without having to file with the courts in 2019,[4] banks have failed to recover slightly over 55% of these bad loans.

In terms of revenue administration, the National Bureau of Revenue's (NBR) effectiveness in combating tax evasion is weak. There are nearly 20,000 cases of tax evasion backlogged in the court system, totaling around BDT20 billion. While the NBR has introduced alternative resolution mechanisms to settle disputes outside of the court system, they have not been effective in reducing this backlog.

The government's eighth Five-year Plan for 2020-25 makes tackling corruption and improving the rule of law a priority. Our global experience suggests that improvements are typically slow and gradual, with vested interests posing obstacles to otherwise faster institutional reforms. Furthermore, Bangladesh's large and complex bureaucracy – which is complicated to navigate and involves multiple layers of approvals – is characterized by overlapping mandates between government ministries or agencies.

Gaps in essential macroeconomic data, such as quarterly GDP estimates, also limit the speed and quality of policymaking.

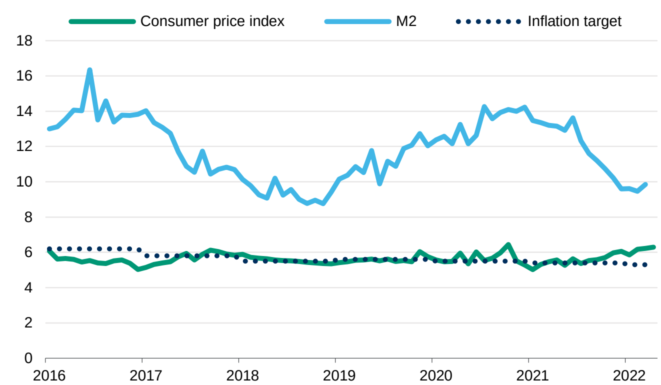
Macroeconomic and external stability point to both monetary and fiscal policy effectiveness

Prudent and conservative monetary and fiscal policies further underpin Bangladesh's macroeconomic stability, including stable real GDP growth and limited inflation volatility. This is demonstrated by the absence of boom-bust credit cycles despite the economy's high concentration in the RMG sector. Bangladesh Bank, the country's central bank, has maintained moderate growth in reserve money, which has anchored credit growth and inflation expectations, demonstrating some policy effectiveness.

Credit growth has come down since 2016-17, and Bangladesh Bank sees this slower pace of credit growth as appropriate. Over fiscal 2021, broad money (M2) grew by 13.7%, just below the Bangladesh Bank's target ceiling of 15%, as it sought a balance to maintain an accommodative policy to support economic growth throughout the pandemic and to stabilize the Bangladeshi taka by purchasing foreign-exchange currency, while ensuring inflation remained well anchored to its target.
Although Bangladesh, similar to many other economies globally, has experienced increased external price pressures, particularly in food and energy, inflation was stable at 5.6% in fiscal 2021, just marginally higher than Bangladesh Bank's inflation target of 5.4%. For the past five years, inflation has been steady, hovering at 5%-6%, signaling policy credibility of the central bank. For fiscal 2022 however, Bangladesh Bank expects inflation to be above its target rate of 5.3%, at 5.9%. Another risk is our expectation of a persistently higher oil prices this year. Nevertheless, based on a historical track record of adequate monetary policy to stabilize inflation in Bangladesh, we do not expect inflationary pressures to build up further and start jeopardizing macroeconomic stability.

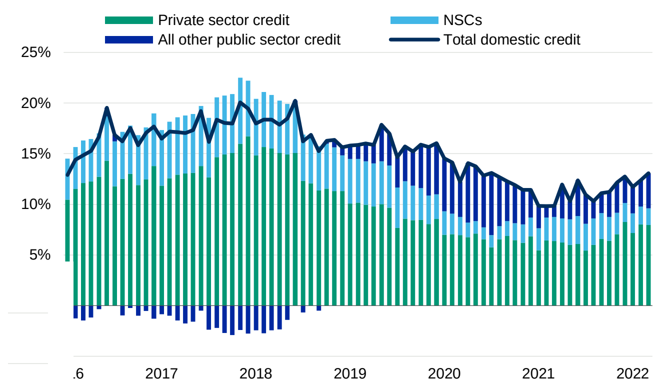
Moreover, recent regulatory measures to slow the issuance of National Savings Certificates (NSCs), which are retail savings instruments that pay higher interest than domestic government securities, have been effective (Exhibit 13), although issuance has increased slightly again in fiscal 2021 to support the vulnerable population who are hard hit by the pandemic.

Exhibit 12
Prudent growth in reserve money has anchored inflation expectations
Year-on-year change, %



Sources: Bangladesh Bureau of Statistics, Bangladesh Bank and Moody's Investors Service

Exhibit 13
... while effective regulatory measures have reduced demand for NSCs
Percentage point contribution to domestic credit growth



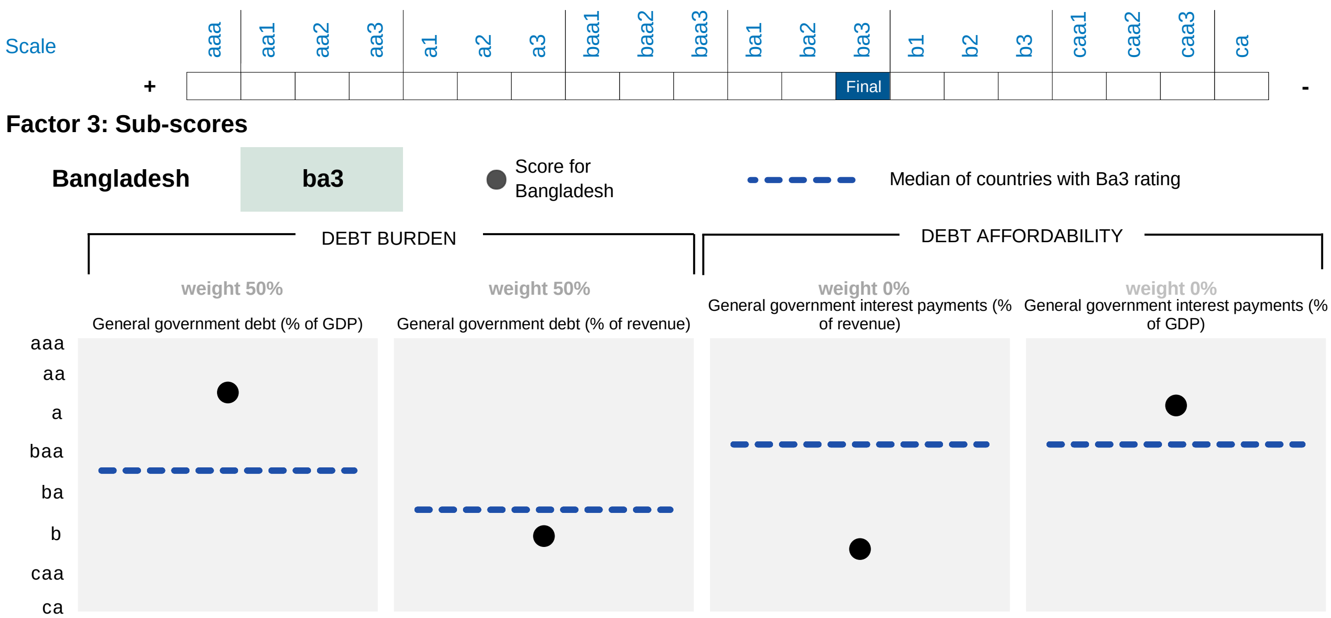
Sources: Bangladesh Bureau of Statistics, Bangladesh Bank and Moody's Investors Service

With regards to fiscal policy, the government has temporarily relaxed its operational fiscal deficit limit of 5% of GDP for fiscal 2021-23 to increase social and health spending in the wake of the coronavirus pandemic – although it has adhered to this fiscal deficit limit consistently over the past two decades, which fosters moderate inflation and reduces growth volatility arising from pro-cyclical fiscal policy. While the government has one of the most shallow revenue bases among the sovereigns we rate, the authorities' ability to cut expenditure, despite being mostly within the capital budget, demonstrates the commitment to this deficit cap.

The government prepares medium-term macroeconomic policy statements for three-year periods and is incorporating the establishment of a medium-term debt strategy within this macroeconomic and fiscal framework. As a part of the current medium-term debt strategy, the authorities are working toward more structured domestic debt issuance, with a target of increasing local bond market liquidity.

Fiscal strength score: ba3

Factor 3: Overall score



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor, the overall score of fiscal strength can be lowered or increased.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our assessment of Bangladesh's "ba3" fiscal strength reflects the constraints set by the government's narrow revenue base on fiscal flexibility and debt affordability. At around 10% of GDP in fiscal 2021, government revenue is among the lowest for the sovereigns that we rate. Nonetheless, the government's low debt burden and access to concessional loans from multilateral and bilateral sources, which account for around 30% of Bangladesh's general government debt and more than 70% of total external debt, mitigate these fiscal constraints.

We expect strong nominal GDP growth to anchor the debt burden at manageable levels compared with Ba-rated sovereigns, despite a temporary widening of the government's fiscal deficit above the 5% of GDP threshold because of the pandemic.

Other countries with a similar fiscal strength score include Cambodia (B2 stable), Greece (Ba3 stable) and Turkey (B2 negative)

Exhibit 14

Peer comparison table factor 3: Fiscal strength

	Bangladesh Ba3/STA	ba3 Median	Cambodia B2/STA	Cote d Ivoire Ba3/STA	Greece Ba3/STA	Turkey B2/NEG	Georgia Ba2/NEG	Albania B1/STA
Final score	ba3		ba3	ba3	ba3	ba3	ba2	b1
Initial score	ba3		baa3	b3	ba3	ba2	ba3	ba3
Gen. gov. debt (% of GDP)	32.1	49.5	33.7	47.6	206.3	39.7	60.1	75.9
Gen. gov. debt (% of revenue)	379.1	284.5	142.8	317.7	414.6	122.6	238.6	293.1
Gen. gov. interest payments (% of GDP)	1.8	1.9	0.4	1.9	3.0	2.8	1.6	2.1
Gen. gov. int. payments (% of revenue)	21.5	8.6	1.6	12.6	6.0	8.7	6.2	8.1

Sources: National authorities, IMF and Moody's Investors Service

Fiscal deficits to widen temporarily amid significant development spending and revenue underperformance

Fiscal deficits in Bangladesh have averaged 3.6% of GDP a year over the past decade, a moderate level for a fast-growing economy and consistent with the government's commitment to keep them at a level that would not result in a material increase in the debt burden. We expect Bangladesh's fiscal deficits to widen modestly to an average of 6.3% of GDP over fiscal 2022-23. The government continues to budget large increases in development spending but remains constrained by weak domestic revenue mobilization.

In fiscal 2021, Bangladesh's fiscal deficit widened to 5.2% of GDP compared with 4.8% in fiscal 2020 and above the 5% deficit limit, which has since been relaxed. The government aims to return within the cap by fiscal 2023. However, we expect fiscal consolidation to be below the limit only by fiscal 2025 given the potentially higher subsidy bill for fuels and food following the Russia-Ukraine conflict.

As a result of increased spending to support the economic recovery, we expect the fiscal deficit to further widen to 6.4% in fiscal 2022, above the Ba-rated forecast median of 4.1%.

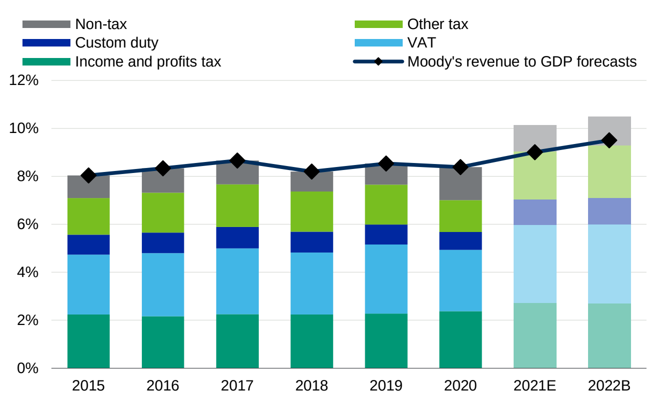
For fiscal year to date ending January 2022, total revenue collected increased 16.2% year on year, largely attributable to an increase in customs duties following the economic rebound. Despite the authorities initiating a series of taxation reforms in recent years, implementation challenges will significantly curb near-term revenue gains. Total expenditures for the same period increased by 14% because of broad increase in operating expenditure.

Outside of operational expenditure, the government is again planning to cut its Annual Development Programme (ADP) expenditure for the current fiscal year by about 9% to BDT2.1 trillion ($24.3 billion) because of lower utilization of funds from the ministries and other cost-cutting measures.

Exhibit 15

Progress of revenue reforms have been slow...

Government revenue composition, % of GDP



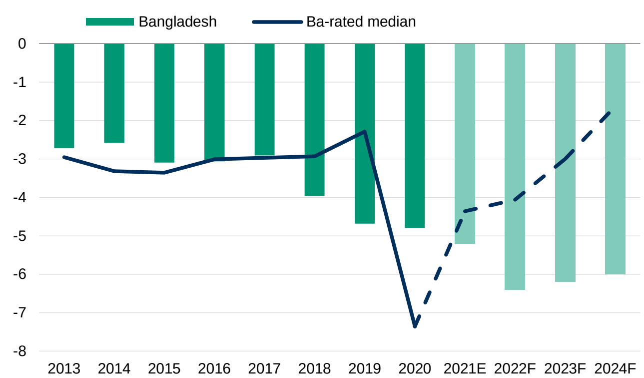
Note: 2021 figures are the government's revised estimates, while 2022 are from the budget

Sources: Ministry of Finance and Moody's Investors Service

Exhibit 16

... resulting in wider fiscal deficits as spending increases to support economic recovery

Fiscal deficit, % of GDP



Source: Moody's Investors Service

Administrative reforms since 2019 have begun to dampen demand for NSCs, which are social savings instruments that offer an interest rate premium over domestic instruments. Reforms include a lowering of interest rates, linking rates to the size of total investments and a development in digital databases to enforce caps on individual investment amount. Fiscal year to date to December 2021 of net sales of NSCs was BDT453 billion, a significant reduction of around 42% from the same period in the previous year. The outstanding stock of NSCs is also gradually declining, which will slowly feed through to improvements in debt affordability.

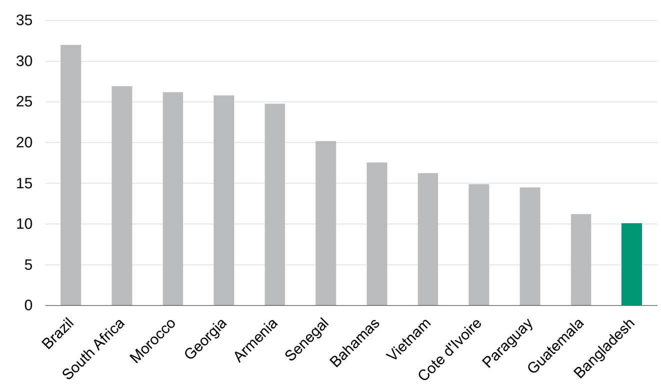
Weak revenue generation capacity weighs on debt affordability

At 10.1% of GDP as of fiscal 2021, Bangladesh's general government revenue is one of the lowest among our rated universe, and significantly less than the Ba-rated median of 24.9% of GDP. A number of structural factors contribute to this weak domestic resource mobilization, including a high degree of economic informality and weak tax administration and policy, causing significant challenges for Bangladesh's debt affordability. Weak revenue also limits the government's ability to spend on infrastructure, which would raise the country's economic competitiveness and growth potential. Reduced domestic consumption because of the pandemic has also constrained revenue from domestic sources.

Around 80% of financing comes from domestic sources, predominantly the banking sector. Although monetary policy easing since 2020 has lowered domestic funding costs for the government, the domestic interest burden has not eased. Slightly more than 90% of the government's budgeted BDT682 billion (1.7% of forecast 2022 GDP) for interest payments are domestic payments, which have not declined meaningfully.

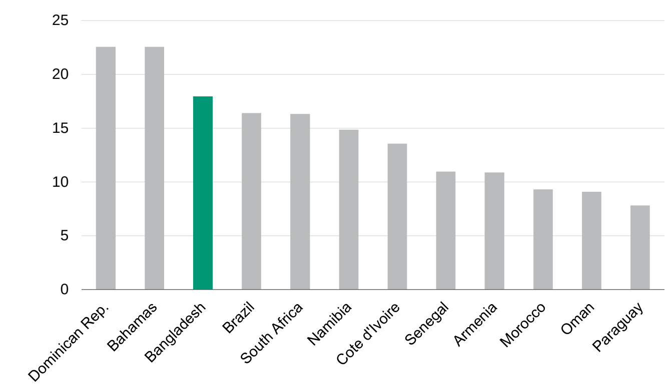
For fiscal 2021, Bangladesh's debt affordability, defined as interest payments as a share of general government revenue, was 18.0%, which is significantly higher than the Ba-rated median of 9.3% and with only Bahamas (Ba3 negative) and Dominican Republic (Ba3 stable) having weaker debt affordability. The still relatively large stock of NSCs, combined with weaker revenue, will continue to keep debt affordability weaker compared with peers (Exhibit 18).

Exhibit 17
Bangladesh has a very low revenue generation capacity
General government revenue, % of GDP, 2021



Sources: Ministry of Finance and Moody's Investors Service

Exhibit 18
... resulting in weak debt affordability, along with predominantly domestic financing
Interest payments, % of general government revenue, 2021



Sources: Ministry of Finance and Moody's Investors Service

Raising government revenue is a key government priority. The government's eighth plan for 2020-25 targets increasing total government revenue to around 14.1% of GDP by fiscal 2025, predominantly through growing National Board of Revenue (NBR) tax revenue. Since VAT reforms were enacted in June 2019, a host of challenges has led to slow implementation of the new regime, which targets streamlining the rate structure, reducing exemptions and raising effective rates to broaden the base. Revenue has thus been lower than the NBR's yearly targets.

In November 2021, the NBR launched its automated VAT system for businesses, which allows VAT to be filed online or through mobile banking, while cross-border transactions will also be automatically recorded in the system. This is aimed at increasing tax compliance costs and minimizing the number of fraudulent returns. At the same time, VAT collection for the provision of services by nonresidents has also been introduced in fiscal 2021. Despite these rollouts, it remains to be seen if such measures will significantly increase tax revenue given the still high level of exemptions and complicated tax structures.

Beyond VAT, the NBR's Customs Department is creating a single trade facilitation process, with an implementation target of 2022. While the department has revised the outdated Customs Act 1969 with a more modern framework that automates customs procedures, facilitates cross-border trade and investment and reduces the risk of duty evasion, Parliament has yet to pass the new law. The draft legislation includes provisions for advanced cargo declaration, electronic submission of export-import documents, electronic payments, and maintenance of electronic records to facilitate trade. NBR officials estimate that only a very small fraction of exporters are currently registered in online customs payment systems.

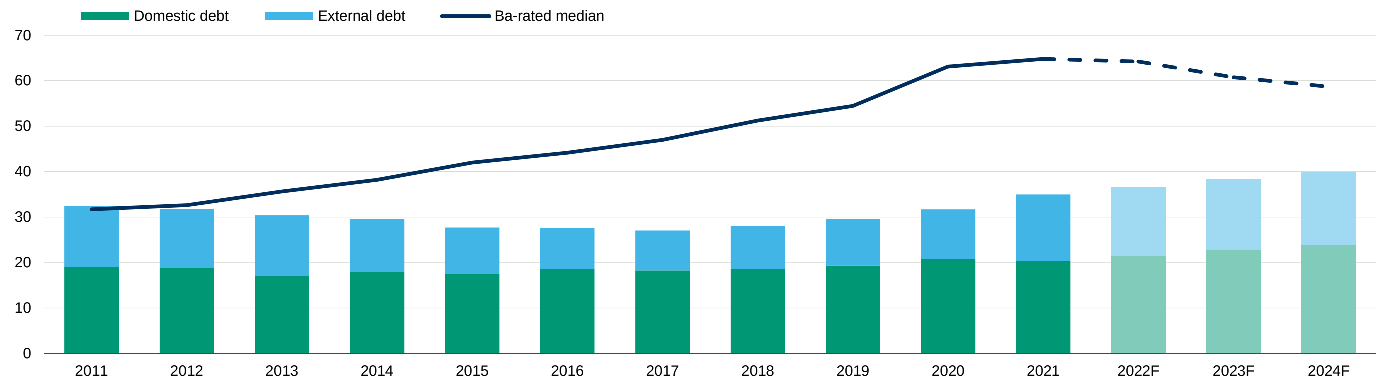
Overall, we expect continued implementation challenges in both VAT and customs administration reforms to significantly curb near-term revenue gains, and government revenue to return to around 10% of GDP in the near term.

Debt burden to remain low compared with peers; access to concessional financing underpins fiscal strength

Despite our expectation of general government debt to increase to around 40% of GDP by fiscal 2025, Bangladesh's debt burden will still remain low compared with its peers because of strong growth and moderate deficits, offsetting the fiscal constraints of weak government revenue and increased spending to support the economy amid weaker near-term economic growth. Access to concessional loans from multilateral and bilateral sources, which account for more than 30% of Bangladesh's general government debt and more than 70% of total external debt, also mitigates debt affordability risks. Compared with Ba-rated peers, Bangladesh's debt burden will remain below the median over the next three years (see Exhibit 19).

Exhibit 19

Bangladesh's large share of external concessional debt mitigates its already lower debt burden compared to peers
General government debt, % of GDP



Sources: Bangladesh Bank, Ministry of Finance, and Moody's Investors Service

The Ministry of Finance's Economic Relations Department estimates total external financing available for fiscal 2022 is around $12.9 billion (or 2.8% of forecast 2022 nominal GDP), a significant increase from expected commitments of $7.2 billion in fiscal 2020. Around 80%-90% of external financing is project-based and these funds are allocated for social projects that have a lower internal rate of return than commercial operators would typically accept.

The government intends to use the maximum funds available from development partners, which have increased markedly as a result of emergency financial assistance. The Asian Development Bank (ADB, Aaa stable) has continued to provide development support, disbursing funds for various projects to further develop its transport infrastructure, healthcare, employment growth, utilities and overall economic support including the disbursement of $250 million in September 2021 to aid in the country's post-pandemic economic recovery. Since 1973, ADB has committed around $26.1 billion.

Financial support comes predominantly from the World Bank (IBRD, Aaa stable), the International Development Association (IDA, Aaa stable), the ADB and the Japan International Cooperation Agency (JICA). Between March-May 2021, Bangladesh received $1.7 billion in financing and grants from IDA to build its resilience to the pandemic and improve the rural and vulnerable population through social development programs. Additionally, the World Bank further disbursed $500 million in December 2021 to transform and modernize Bangladesh's electricity infrastructure. Further assistance from the World Bank comes from its private-sector arm, the International Finance Corporation (IFC, Aaa stable), in microfinancing, affordable housing, renewable energy, and supply chains.

JICA also provides significant financial support in the infrastructure and social sectors. In November 2021, JICA approved a disbursement of $2.5 billion to Bangladesh to provide emergency support to combat the pandemic, and funding for the mega-infrastructure projects of the Dhaka Mass Rapid Transit and the Matarbari Coal-Fired Power Plant for Chattogram city.

Susceptibility to event risk score: ba

Factor 4: Overall score

Scale	aaa	aa	a	baa	ba	b	caa	ca	
+					Final				-

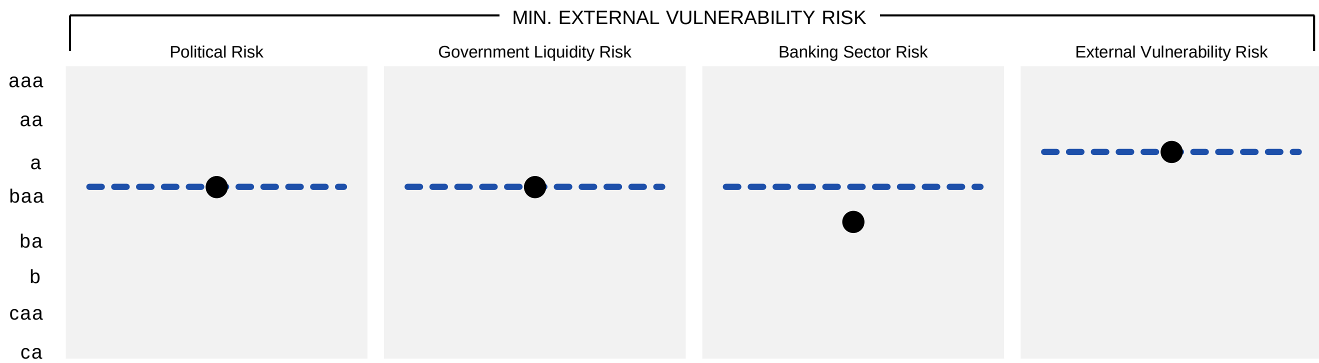
Factor 4: Sub-scores

Bangladesh **ba**

Score for Bangladesh

Median of countries with Ba3 rating

Overall adjustment to Factor 4 Susceptibility to Event Risk: **0**



Susceptibility to event risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of event risk is a constraint which can only lower the scorecard-indicated outcome.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Bangladesh's "ba" susceptibility to event risk is driven by vulnerabilities in the banking system, while political, government liquidity and external vulnerability risks are less prominent.

Political risk: baa

We assess Bangladesh's political risk at "baa," on par with our assessments of political risk in Greece (Ba3 stable) and Malaysia (A3 stable).

Exhibit 20

Peer comparison table factor 4a: Political risk

	Bangladesh Ba3/STA	baa Median	Angola B3/STA	Croatia Ba1/STA	Greece Ba3/STA	Malaysia A3/STA	Paraguay Ba1/STA	Armenia Ba3/NEG
Final score	baa		baa	baa	baa	baa	a	ba
Voice & accountability, score[1]	-0.8	0.3	-0.8	0.6	1.0	-0.1	0.1	0.0
Political stability, score[1]	-0.9	0.3	-0.5	0.6	0.1	0.1	0.0	-0.6

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Sources: National authorities, IMF and Moody's Investors Service

Our "baa" assessment of Bangladesh's political risk reflects the medium probability but low-impact scenario of protests by students and workers threatening to slow economic activity and raise perceptions of risk, thereby deterring foreign investment. Historically, protests in Bangladesh have caused significant disruption to the economy by shutting down businesses and factories in some regions. Fewer protests support political stability, as did the successful democratic election in late 2018.

The next generation of leadership at both major political parties remains a consideration in our political risk assessment. We expect that the Awami League (AL) will serve out its third consecutive term in government through 2023, when the next parliamentary elections are to be held. But there will continue to be clashes with opposition members in Parliament led by smaller parties including the Bangladesh Nationalist Party (BNP), which has not been in power for more than a decade. While we do not expect that the political opposition will result in a significant challenge to the AL's policymaking ability, there remain sources of underlying tension. These include the jailing of BNP leader Khaleda Zia, who was sentenced to 17 years in jail in February 2018 on two corruption charges, but whose sentence was suspended in March 2020 because of her health. An international travel ban that forbids her access to medical treatment overseas appears to have been extended indefinitely. This has caused friction between the government and opposition and led to a weeklong protest by BNP supporters across the country in November 2021.

Since the December 2018 elections, both the frequency and severity of protests have declined, although protests did occur in the run up to the election and following its outcome, which was disputed by the opposition party. However, the country's rapid economic growth has continued to lead to income gains for the average Bangladeshi in both urban and rural areas, which has helped usher in greater social stability. While there were some smaller protests in 2020 because of the coronavirus lockdowns, there was little resulting economic fallout.

Nevertheless, there has been recent flare ups in protests on contentious social issues. In October 2021, religious violence on Hindus has led to unrest in the capital Dhaka, leading to multiple deaths and casualties. The protests pose challenges to the AL party, which is typically seen as the more secular political party among the two major parties. Additionally, the death of a high school student after a traffic accident sparked yet another protest in Dhaka's commercial district in November 2021, although on a smaller scale that those in 2018.

We expect that unrest and protests will remain a part of Bangladesh's political risk because of social issues, including workers' rights and demands for improvement in living conditions.

Separately, the hosting of nearly one million Rohingya refugees does not affect our political risk assessment because of the limited political implications, especially because escalating violence in Myanmar in opposition to the military coup d'état is likely to stall any repatriation process. Past repatriation attempts were unsuccessful as many Rohingya refugees believed living conditions in Myanmar had not improved. While there have been difficulties in providing services for the refugees, international actors have commended Bangladesh's efforts in hosting refugees. The current government has attempted to create conditions that would enable the safe and voluntary return of refugees to Myanmar.

Government liquidity risk: baa

We assess Bangladesh's government liquidity risk at "baa," on par with our assessments in Senegal (Ba3 stable), Cyprus (Ba1 stable) and Oman (Ba3 stable)

Exhibit 21

Peer comparison table factor 4b: Government liquidity risk

	Bangladesh Ba3/STA	baa Median	Bahamas Ba3/NEG	Cyprus Ba1/STA	Oman Ba3/STA	Senegal Ba3/STA	Brazil Ba2/STA	Namibia B1/STA
Final score	baa		baa	baa	baa	baa	a	ba
Initial score	baa		baa	baa	baa	baa	a	ba
Ease of access to funding	baa	baa	baa	baa	baa	baa	a	ba
Gross borrowing requirements (% of GDP)	10.9	10.1	19.6	10.7	8.8	13.6	19.3	38.8

Sources: National authorities, IMF and Moody's Investors Service

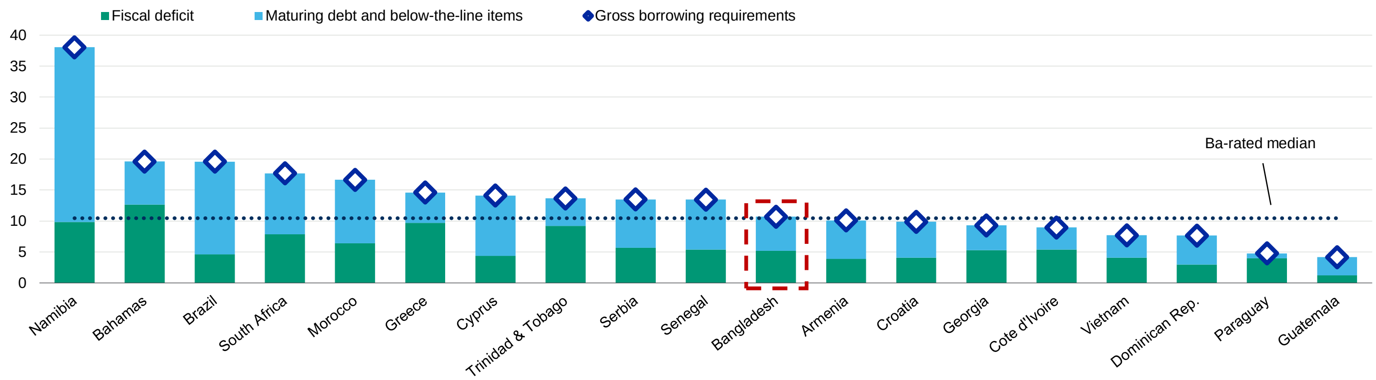
Bangladesh's government liquidity risk at "baa" reflects the government's moderate gross borrowing requirements. Long tenors and concessional terms associated with the government's external borrowings limit rollover risks. Our assessment also reflects that in the event of liquidity constraints in the domestic market, funding costs could rise. Since fiscal 2020, banks' surplus liquidity increased substantially, supported by Bangladesh Bank's accommodative policy measures, which helped lead to a reduction in the government's domestic borrowing costs.

Moderate fiscal deficits and the long tenor of external debt have limited the government's annual gross financing needs. Bangladesh's gross borrowing requirement is slightly greater than 10% of GDP in fiscal 2021, in line with the median Ba-rated sovereign (see Exhibit

22). We project Bangladesh's gross borrowing requirements to decrease slightly along with the narrowing of fiscal deficits following the pandemic.

Exhibit 22

Bangladesh's gross borrowing requirements are in line with that of its rated peer group
% of GDP, 2021



Fiscal 2021 for Bangladesh shown
Sources: National authorities and Moody's Investors Service

Exposure to global financial market volatility is low because of the very limited nature of foreign participation in domestic capital markets and because the government does not have any outstanding external commercial bonds. However, domestic capital markets are shallow and thus more susceptible to a potential propagation of liquidity shocks.

An increase in domestic borrowing from National Saving Certificates (NSCs) has the potential to reduce trading liquidity in the domestic bond market, which could translate into higher domestic funding costs for the government. Despite declining deposit rates in line with Bangladesh Bank's accommodative monetary policy, administrative reforms have proved effective in mitigating NSC borrowing. Borrowing from NSCs in fiscal year to date to December 2021 was at a net sale of BDT95.9 billion, down from BDT204.9 billion over the same period in fiscal 2021.

Banking sector risk: ba

We assess Bangladesh's banking sector risk at "ba," in line with assessments in Pakistan (B3 stable), Egypt (B2 stable) and Morocco (Ba1 negative).

Exhibit 23

Peer comparison table factor 4c: Banking sector risk

	Bangladesh Ba3/STA	ba Median	Armenia Ba3/NEG	Egypt B2/STA	Pakistan B3/STA	Morocco Ba1/NEG	Azerbaijan Ba2/POS	Vietnam Ba3/POS
Final score	ba		ba	ba	ba	ba	baa	b
Initial score	ba		ba	ba	ba	ba	baa	ba
BCA[1]	b2	b2	b1	b2	caa1	b1	b2	b1
BSCE[2]	caa-c	ba3-b3	ba3-b3	ba3-b3	caa-c	ba3-b3	ba3-b3	ba3-b3
Total domestic bank assets (% of GDP)	58.1	103.0	108.3	109.4	49.9	140.8	36.6	174.3

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Sources: National authorities, IMF and Moody's Investors Service

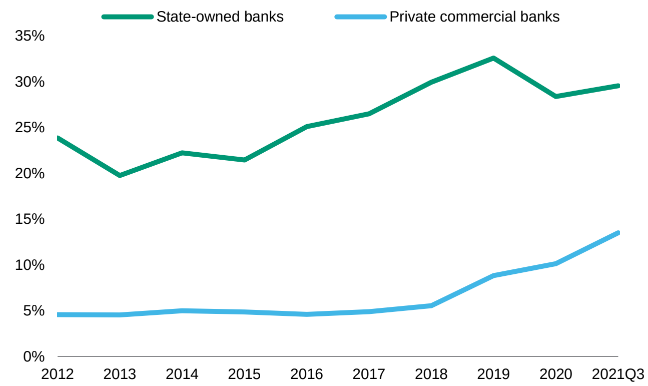
We assess Bangladesh's banking sector risk at "ba". Our assessment incorporates financial sector weaknesses because of contingent liabilities at state-owned banks, which have weaker solvency metrics than rated banks. Our banking sector credit event (BSCE) assessment incorporates risks from state-owned commercial banks (SOCBs), because rated banks are not representative of the country's financial institutions. Weaknesses in SOCBs stifle lending to the real economy because banking system liquidity is concentrated in this sector.

SOCBs' NPLs have ranged between 20%-30% of total loans over the past decade, with an additional 20% classified as rescheduled and restructured. These levels are much higher than at private commercial banks, which have around 5% in NPLs and 10% classified as rescheduled and restructured (see Exhibit 24). Capitalization ratios dipped to 13.1% as of September 2021 from 14.0% as of end 2020, close to the minimum capital adequacy ratio of 13% set by the central bank. While thin, capitalization at private banks is much higher than that of SOCBs, which was just 6.3% as of September 2021 (see Exhibit 25).

Exhibit 24

SOCBs have significantly worse loan portfolio quality than private commercial banks

Gross NPLs as % of total loans

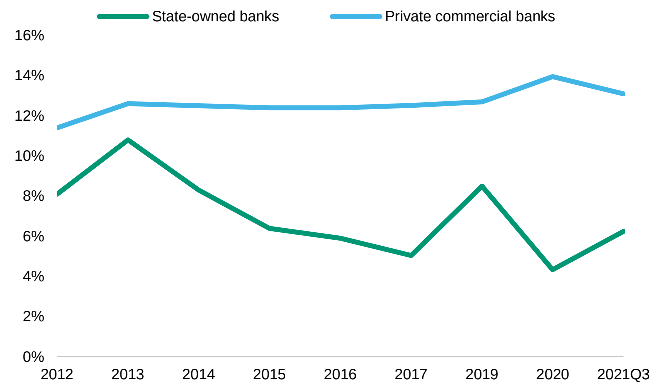


Sources: Bangladesh Bank and Moody's Investors Service

Exhibit 25

... and are also significantly undercapitalized

Total capital as a share of risk-weighted assets



Sources: Bangladesh Bank and Moody's Investors Service

Government support in the form of recapitalizations has also waned, because it has sought to initiate corporate governance reforms to fix the SOCBs instead of artificially propping them up with capital injections. The government has not made any capital injections since 2019 and expects the SOCBs to improve their capital bases through internal capital generation.

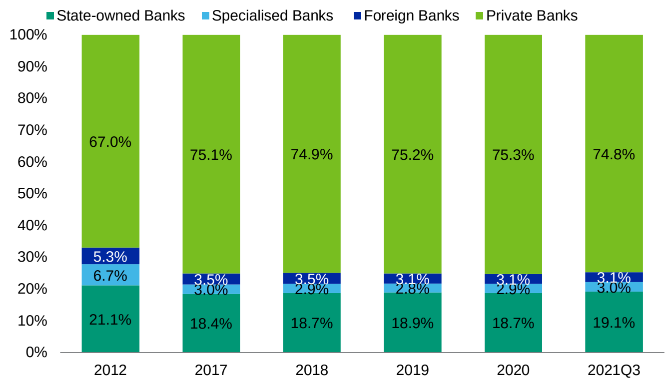
Financial stability and contingent liability risks for the government's balance sheet arising from the weak SOCBs are nevertheless lower than implied by the very weak asset quality and capitalization ratios.

The SOCB's market share of outstanding loans has continued to decline since the early 2010s, to less than 20% of total banking system advances at the end of 2021. Private commercial banks continue to be responsible for the bulk of credit growth (see Exhibit 26), as they have maintained their share of advances at around 75% over the last few years. Additionally, a few factors have kept the SOCBs from facing a liquidity crunch. Liquidity remains abundant throughout the banking system because of the central bank's monetary easing and SOCBs benefit from excess liquidity because of the large amounts of retail and state-owned enterprize (SOE) deposits (see Exhibit 27). Moreover, the implicit assumption of government support has kept deposit growth at SOCBs stable.

Exhibit 26

The market share of state-owned banks has remained less than 20% of total banking system advances

Percent of total advances

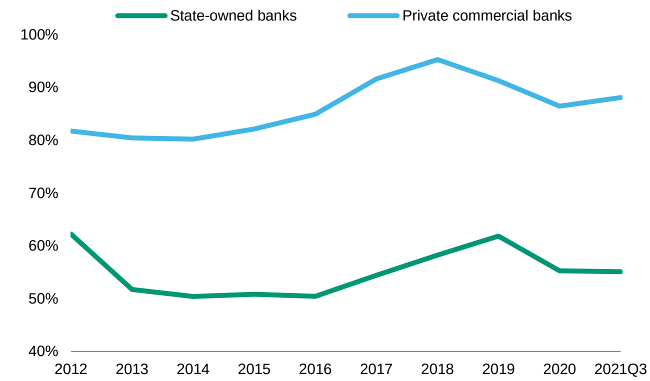


Sources: Bangladesh Bank and Moody's Investors Service

Exhibit 27

State-owned banks are flush with liquidity

Loan/deposit ratio, %



Sources: Bangladesh Bank and Moody's Investors Service

Financial stability risks for the government from the banking sector are limited and not explicitly increasing. The banking sector is gradually recovering from the impact of the coronavirus pandemic. Loans under pandemic-related forbearance measures have decreased, and profitability will stabilize as credit costs moderate. With improvement in economic activities, credit growth will likely rebound, pressuring capitalization. In March 2022, we changed our outlook on the Bangladesh banking sector to stable from negative, considering these factors.

The inability of the regulatory environment to meaningfully address core banking sector issues weighs on longer-term economic competitiveness because of inefficient allocation of capital. Additionally, the regulatory direction only serves to generally worsen the existing moral hazards that are present in many areas of the banking system. For instance, asset quality issues remain significant and are a legacy issue among the five largest SOCBs.

Rescheduling and restructuring have not dealt with the systemic issues. As of December 2021, about 25% of loans in the banking system were restructured or rescheduled. Most of the loans remained unclassified, masking the asset quality issues in the banks' loan portfolio. In Bangladesh, borrowers can still obtain stay orders from courts, which prevents banks from classifying loans as in default and entering a recovery phase. The low levels of efficiency in the court system compound this issue.

The elevated level of restructured loans is also a result of the forbearance measures to tackle the impact of the coronavirus outbreak. The banks are allowed to hold off recognition of NPLs under these measures, so that distressed borrowers can delay loan repayments until they recover from impact of the pandemic. We expect the banks' NPL ratios to increase moderately if regulators withdraw forbearance measures in 2022 and require the banks to recognize problematic exposures.

Other recently proposed regulatory measures include the development of a public asset management company (AMC). In January 2020, the Finance Ministry began drafting a Public AMC Act, with projected paid-in capital of BDT50 billion (around 0.2% of GDP). This relatively small amount will do little to address the banking sector's bad assets, which are significantly larger. Additionally, questions around the successful implementation of an AMC include its ability to price bad assets, weak governance across many participants and the risk of capture between the government and parties involved in purchasing and selling assets. Overall, there is high potential for rent-seeking activities and little scope to fix systemic issues.

External vulnerability risk: a

We assess Bangladesh's external vulnerability risk at “a,” on par with our assessments for Indonesia, Mexico (Baa1 negative) and Vietnam (Ba3 positive).

Exhibit 28

Peer comparison table factor 4d: External vulnerability risk

	Bangladesh Ba3/STA	a Median	Cambodia B2/STA	Indonesia Baa2/STA	Mexico Baa1/NEG	Vietnam Ba3/POS	Brazil Ba2/STA	Kenya B2/NEG
Final score	a		a	a	a	a	aa	baa
Initial score	a		a	a	a	a	aa	baa
Current account balance (% of GDP)	-1.5	-0.7	-8.5	-0.4	2.4	4.4	-1.7	-4.8
Net IIP (% of GDP)[1]	-11.1	-44.2	-76.3	-26.5	-52.9	--	-38.1	--
External debt (% of current account receipts)	113.7	133.3	77.3	214.8	95.7	41.3	241.7	258.3
External vulnerability indicator (EVI)[2]	37.9	56.5	28.2	45.7	47.1	38.9	39.7	57.7

[1] Net international investment position (% of GDP).
[2] Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year/official foreign-exchange reserves.
Sources: National authorities, IMF and Moody's Investors Service

Bangladesh's “a” external vulnerability risk reflects ample foreign-exchange reserve buffers ($40.1 billion as of March 2022) that cover eight to nine months of imports and 78.3% of gross public external debt at the end of fiscal 2021. Despite our expectation of a slight deterioration in the current account balance, external buffers will remain strong and foreign-exchange reserve coverage of imports and external debt payments will remain ample.

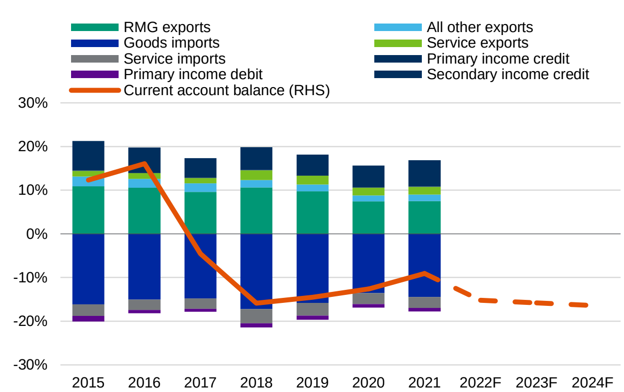
Low external risks anchor this stability despite our expectation of wider current account deficits over the coming years. During fiscal 2021, the current account deficit narrowed to 1.1% of GDP from 1.5% in fiscal 2020. This was because of robust demand for Bangladesh's RMG exports, which were up 12.5%, and the strong growth in workers' remittances, which increased by 36.1%, and despite the expansion in total imports (dropping 18.5%) as domestic demand recovered.
We expect current account deficits to widen to 2.9% of GDP in fiscal 2022 because of the higher import bill from elevated fuel and food prices. Support from workers' remittances has also fallen. For the fiscal year to date ending March 2022, remittances have declined 17.7% year on year. However, higher oil prices could lead to increased level of workers' remittances inflows in the last quarter of fiscal 2022 because most workers are in GCC countries.

Bangladesh can run a moderate current account deficit because the government ensures that there is foreign-currency financing before approving projects, including private-sector projects signed under existing memorandums of understanding. Nonetheless, we expect the basic balance to remain negative, because FDIs are likely to still remain low over the next few years (see Exhibit 30).

Exhibit 29

Bangladesh's current account deficit has narrowed with strong export and remittance growth

Percent of GDP

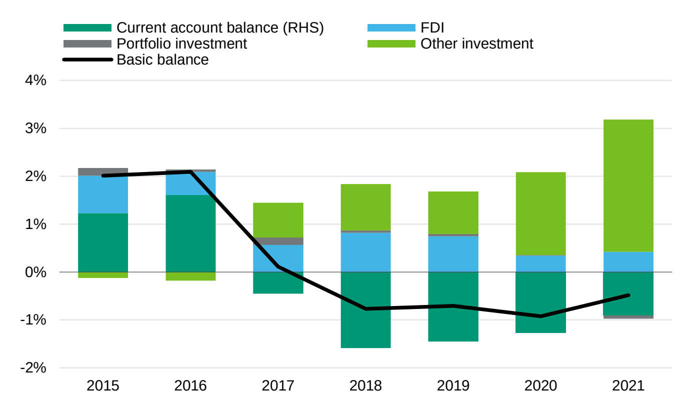


Sources: Bangladesh Bank and Moody's Investors Service

Exhibit 30

The basic balance has remained negative because of tepid FDI

Percent of GDP



Sources: Bangladesh Bank and Moody's Investors Service

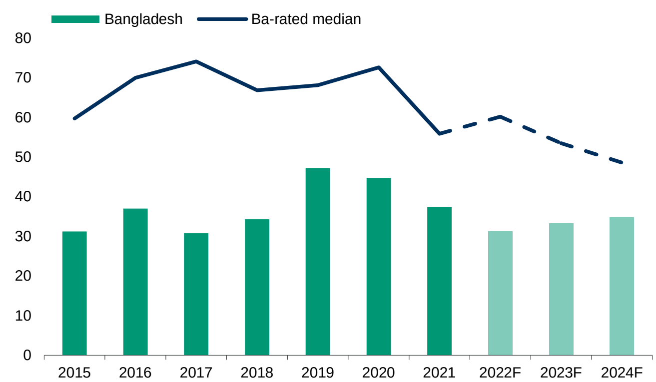
Foreign-exchange reserve coverage of external debt payments is also adequate, with the sovereign's external vulnerability indicator below 50% in fiscal 2021 (Exhibit 31). We expect it will remain below 50% over the next two-to-three years, as Bangladesh Bank continues to amass foreign-exchange reserves to keep the exchange rate competitive and sources of hard currency export revenue, like RMG exports and remittances, remain buoyant.

Bangladesh has no outstanding external commercial debt. Its external debt, which is almost entirely concessional, amounts to around 37% of total government debt or around 14% of GDP as of fiscal 2021. Moreover, concessional interest rates limit any significant external debt-servicing (Exhibit 32).

Exhibit 31

Bangladesh's external vulnerability is low compared with peers

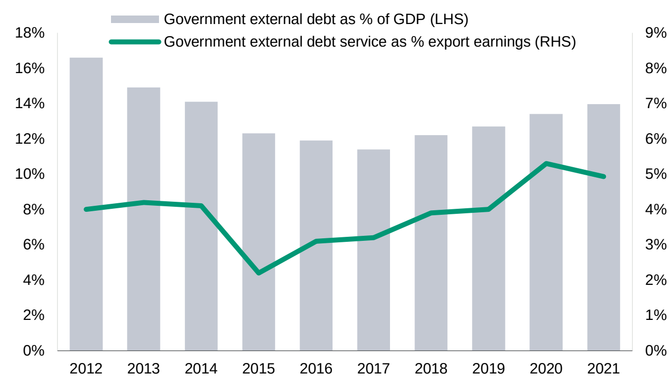
External vulnerability indicator, %



Sources: National authorities and Moody's Investors Service

Exhibit 32

Low external debt burden and concessional rates support low external vulnerability risks



Sources: Bangladesh Bank, Haver Analytics and Moody's Investors Service

The government has shown significant caution on incurring external debt by spreading project implementation; this supports very low external vulnerability risks. External debt repayments will continue to be modest in comparison to foreign aid disbursements. Total government medium- and long-term debt service was just $1.9 billion in fiscal 2021, compared with $6.8 billion in foreign-aid loan disbursements.

ESG considerations

Bangladesh's ESG Credit Impact Score is Very Highly Negative CIS-5

Exhibit 33
ESG Credit Impact Score

CIS-5
Very Highly Negative

NEGATIVE IMPACT POSITIVE IMPACT

For an issuer scored CIS-5 (Very Highly Negative), its ESG attributes are overall considered as having a very high negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-4.

Source: Moody's Investors Service

Bangladesh's Very Highly Negative (**CIS-5**) ESG Credit Impact Score reflects very high exposure to environmental and social risks, further weakened by institutional difficulties in the control of corruption and rule of law and challenges related to banking regulation and supervision.

Exhibit 34
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-5	S-5	G-4
Very Highly Negative	Very Highly Negative	Highly Negative

Source: Moody's Investors Service

Environmental

The exposure to environmental risk is Very Highly Negative (**E-5**). As a low-lying country with large coastal areas, Bangladesh is highly prone to flooding, which disrupts economic activity and raises social costs. Low incomes and weak infrastructure compound the impact of weather-related events on the economy, and in turn, associated fiscal costs. In addition, the magnitude and dispersion of seasonal monsoon rainfall also influence agricultural sector growth, generating some volatility and raising uncertainty about rural incomes and consumption. As a net energy importer, exposure and risks related to carbon transition are not present.

Social

We assess Bangladesh's exposure to social risks as Very Highly Negative (**S-5**). Low incomes stem in part from physical and social infrastructure constraints to economic development that will take time to address. However, per capita incomes have grown strongly over the past decade and poverty rates have declined sharply, thanks to high and stable economic growth. This has also delivered improvement in access to basic services, although Bangladesh's challenges related to improvements in educational opportunities and outcomes, health and safety, and labor force inclusion remain areas of social risk.

Governance

Bangladesh's weak institutions and governance profile constrain its rating, as captured by a Highly Negative governance issuer profile score (**G-4**). Challenges in control of corruption and rule of law weaken existing institutions, while the credibility of legal structures is also limited. These governance challenges have in part contributed to asset quality issues in the banking sector. Nevertheless, a relatively strong monetary policy framework and fiscal prudence contribute to ongoing macroeconomic stability.

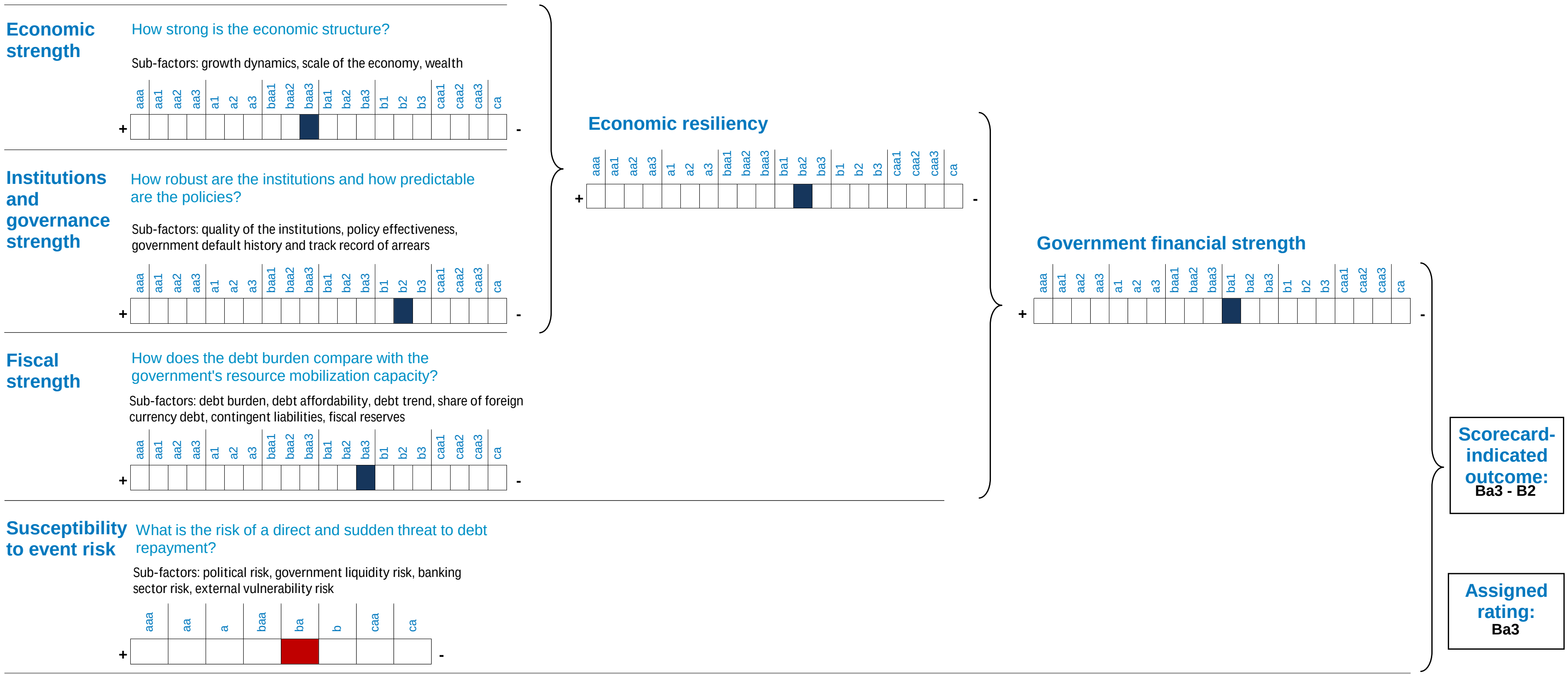
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Exhibit 35

Sovereign rating metrics: Bangladesh



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Bangladesh with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same scorecard-indicated outcome and shows the relevant credit metrics and factor scores.

Bangladesh compares favorably to Ba3-rated sovereigns on economic size and potential growth as well as stability of growth and government debt burden. However, Bangladesh's debt affordability remains weak against peers. Bangladesh's external position is comparable with peers; its current account deficit is narrower than that of the Ba3 median, although the gap may close in the medium-term, while its ratio of maturing external debt obligations in relation to foreign reserves is on par.

Exhibit 36

Bangladesh's key peers

	Year	Bangladesh	Vietnam	Cote d Ivoire	Armenia	Dominican Republic	Senegal	Ba3 Median	Asia Pacific Median
Rating/outlook		Ba3/STA	Ba3/POS	Ba3/STA	Ba3/NEG	Ba3/STA	Ba3/STA	Ba3	Baa2
Scorecard-indicated outcome		Ba3 - B2	Ba1 - Ba3	Ba2 - B1	Ba3 - B2	Ba3 - B2	Ba2 - B1	Ba2 - B1	Baa1 - Baa3
Factor 1		**baa3**	**a3**	**ba2**	**ba3**	**baa2**	**ba2**	**baa3**	**a3**
Nominal GDP ($ bn)	2020	374.0	343.0	61.3	12.6	78.8	24.6	74.0	343.0
GDP per capita (PPP, Intl$)	2020	5,287	10,897	5,347	13,323	18,620	3,504	13,323	13,223
Avg. real GDP (% change)	2016 - 2025F	6.4	6.0	6.4	3.3	4.9	6.1	4.9	3.8
Volatility in real GDP growth (ppts)	2011 - 2020	1.2	1.3	4.3	4.5	4.1	2.2	4.1	3.3
Factor 2		**b2**	**b1**	**b1**	**baa3**	**b1**	**ba2**	**ba2**	**baa3**
Quality of legislative & executive institutions	Latest available	b	b	ba	ba	ba	ba	ba	baa
Strength of civil society & judiciary	Latest available	caa	b	ba	ba	b	ba	ba	ba
Fiscal policy effectiveness	Latest available	b	b	baa	baa	b	ba	ba	ba
Monetary & macro policy effectiveness	Latest available	ba	ba	ba	baa	ba	ba	ba	baa
Gen. gov. fiscal balance (% of GDP)	2020 - 2022F	-5.5	-3.6	-5.4	-4.7	-4.8	-5.9	-5.4	-5.5
Average inflation (% change)	2016 - 2025F	5.9	3.2	1.2	3.4	3.9	1.9	2.5	2.4
Volatility of inflation (ppts)	2011 - 2020	1.3	5.2	1.6	2.6	2.1	1.2	1.4	1.9
Factor 3		**ba3**	**baa2**	**ba3**	**b2**	**caa3**	**b2**	**b2**	**ba1**
Gen. gov. debt (% of GDP)	2020	32.1	39.4	47.6	63.5	58.4	62.8	62.8	45.9
Gen. gov. debt (% of revenue)	2020	379.1	208.2	317.7	243.9	411.6	313.2	317.7	246.1
Gen. gov. interest payments (% of revenue)	2020	21.5	7.6	12.6	10.2	22.8	10.2	10.6	7.6
Gen. gov. interest payments (% of GDP)	2020	1.8	1.4	1.9	2.7	3.2	2.0	2.7	1.5
Factor 4		**ba**	**b**	**baa**	**ba**	**baa**	**baa**	**ba**	**baa**
Political risk	Latest available	**baa**	**baa**	**baa**	**ba**	**a**	**baa**	**baa**	**baa**
Government liquidity risk	Latest available	**baa**	**a**	**baa**	**baa**	**baa**	**baa**	**baa**	**a**
Gross borrowing requirements (% of GDP)	2021F	10.9	6.8	8.8	10.7	5.8	13.6	10.7	10.7
Banking sector risk	Latest available	**ba**	**b**	**a**	**ba**	**baa**	**baa**	**baa**	**a**
BSCE[1]	Latest available	caa-c	ba3-b3	ba1-ba2	ba3-b3	ba3-b3	ba3-b3	ba3-b3	baa3
Total domestic bank assets (% of GDP)	2020	58.1	173.1	39.9	108.3	46.8	59.0	108.3	166.4
External vulnerability risk	Latest available	**a**	**a**	**aa**	**ba**	**baa**	**a**	**a**	**a**
Current account balance (% of GDP)	2020	-1.5	4.4	-3.2	-3.8	-1.7	-10.8	-3.8	1.7
External vulnerability indicator (EVI)	2022F	37.9	38.9	34.0	116.1	52.4	30.6	38.4	47.0
External debt (% of current account receipts)	2020	113.7	41.3	163.7	231.8	184.9	255.5	174.3	136.8
Net international investment position (% of GDP)	2020	-11.1	--	--	-81.4	-75.4	-67.5	-71.5	-8.5

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

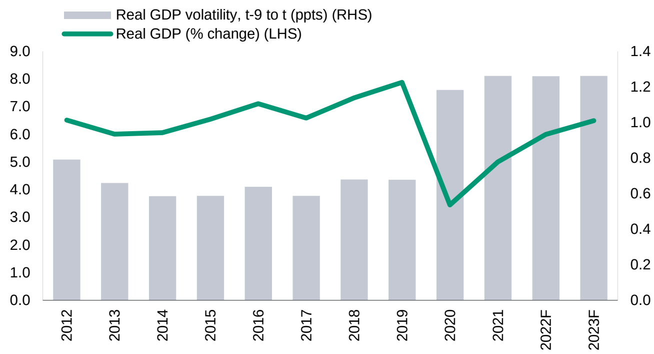
Sources: National authorities, IMF, Moody's Investors Service

DATA, CHARTS AND REFERENCES

Chart pack: Bangladesh

Exhibit 37

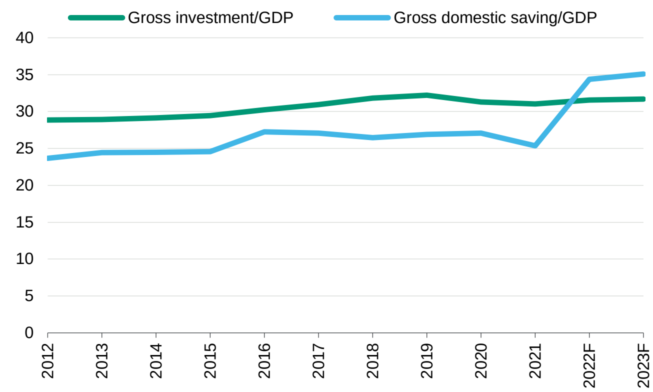
Economic growth



Source: Moody's Investors Service

Exhibit 38

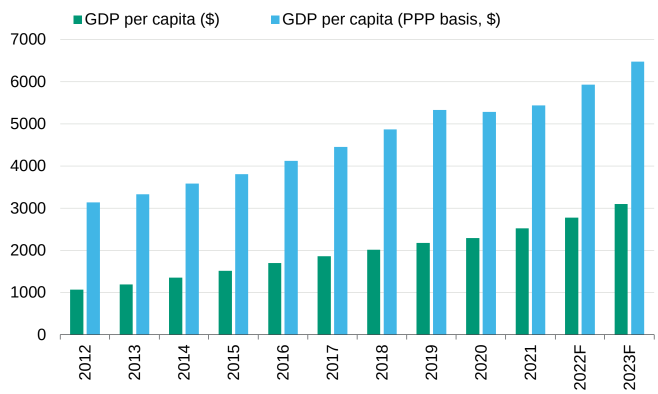
Investment and saving



Source: Moody's Investors Service

Exhibit 39

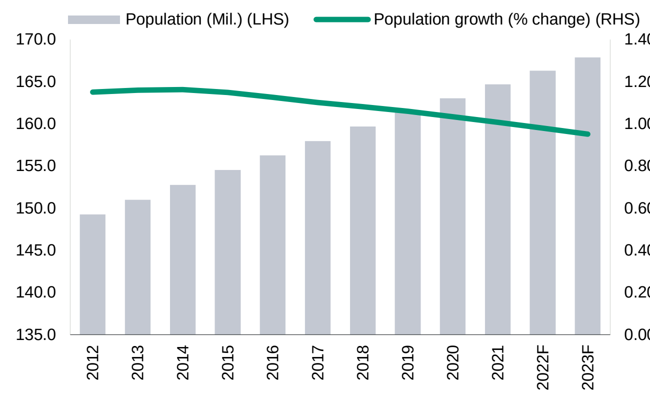
National income



Source: Moody's Investors Service

Exhibit 40

Population

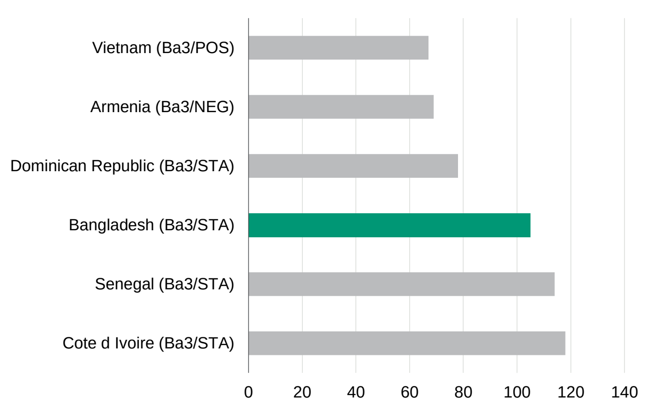


Source: Moody's Investors Service

Exhibit 41

Global Competitiveness Index

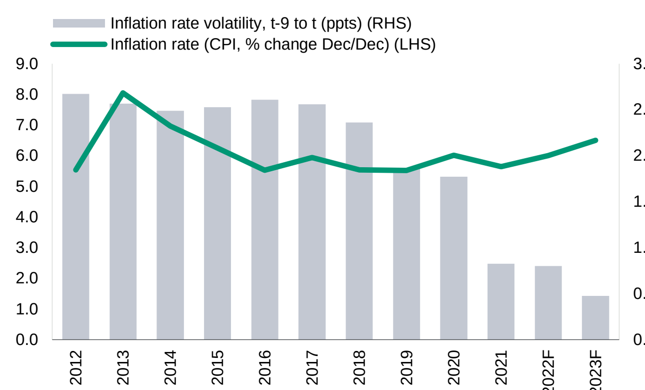
Rank 105 out of 141 countries



Source: World Economic Forum

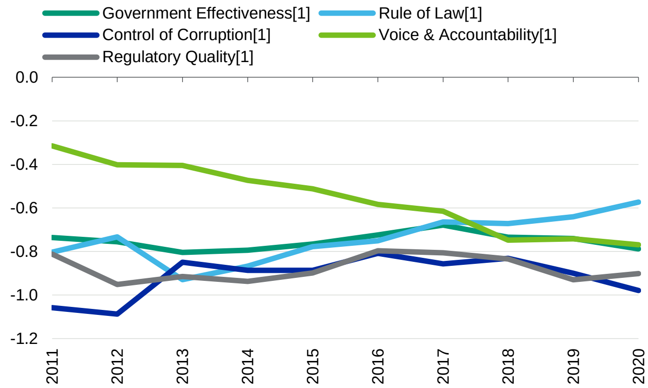
Exhibit 42

Inflation and inflation volatility



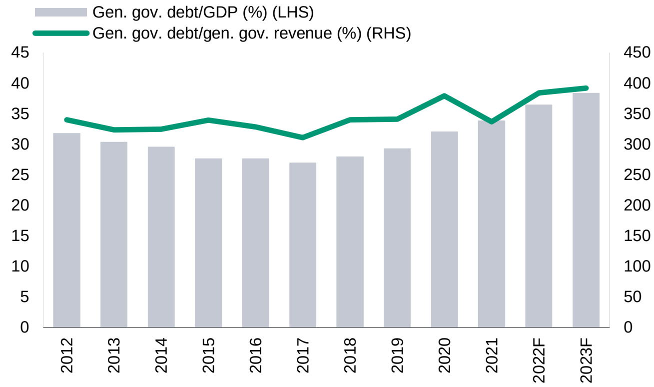
Source: Moody's Investors Service

Exhibit 43
Institutional framework and effectiveness



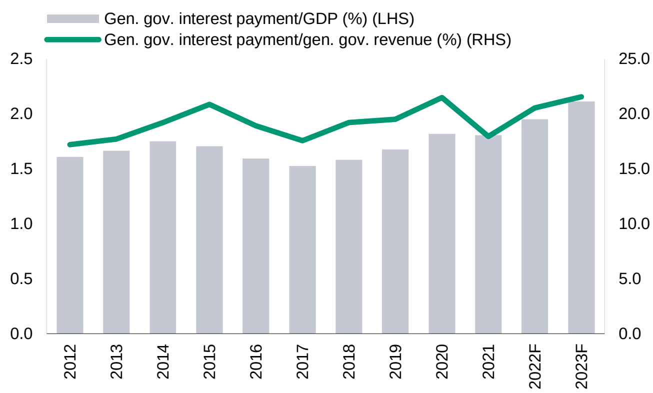
[1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 44
Debt burden



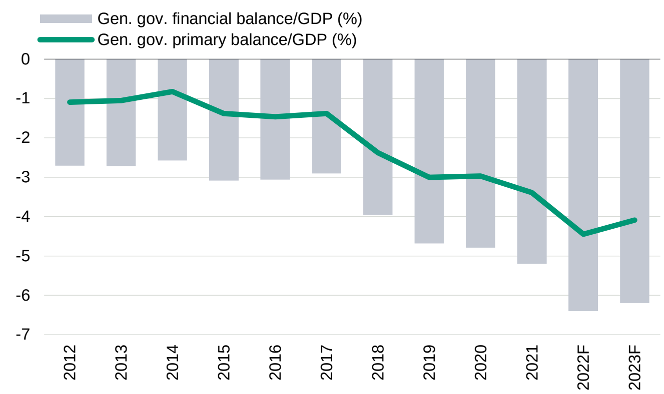
Source: Moody's Investors Service

Exhibit 45
Debt affordability



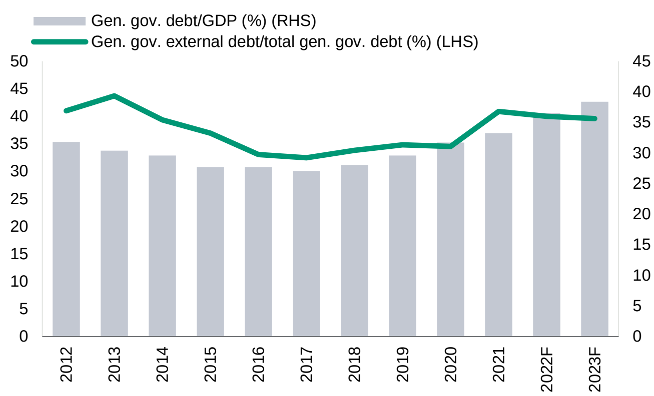
Source: Moody's Investors Service

Exhibit 46
Financial balance



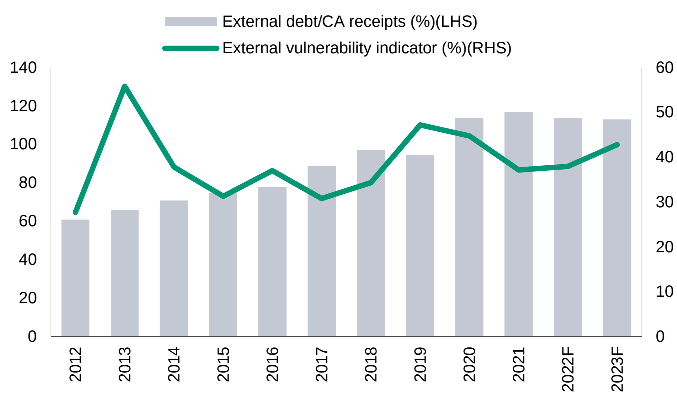
Source: Moody's Investors Service

Exhibit 47
Government liquidity risk



Source: Moody's Investors Service

Exhibit 48
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 49
Bangladesh[1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Ba3	Ba3	STA	-	-	-	-	April-10

Table excludes rating affirmations and ceilings. Please visit the issuer page for Bangladesh for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 50

Bangladesh

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022F	2023F
Economic structure and performance												
Nominal GDP (US$ bil.)[2]	159.8	179.7	207.1	233.8	265.2	293.8	321.5	351.3	374.0	416.2	462.9	520.3
Population (Mil.)	149.3	151.0	152.8	154.5	156.3	158.0	159.7	161.4	163.0	164.7	166.3	167.9
GDP per capita (US$)	1,071	1,190	1,356	1,513	1,697	1,860	2,013	2,177	2,294	2,527	2,784	3,099
GDP per capita (PPP basis, US$)	3,138	3,333	3,584	3,810	4,119	4,450	4,870	5,330	5,287	5,733	--	--
Nominal GDP (% change, local currency)[2]	15.2	13.6	12.1	12.8	14.3	12.0	13.5	11.8	7.4	11.3	12.0	13.5
Real GDP (% change)[2]	6.5	6.0	6.1	6.6	7.1	6.6	7.3	7.9	3.4	5.0	6.0	6.5
Inflation (CPI, % change Dec/Dec)[2]	5.5	8.1	7.0	6.3	5.5	5.9	5.5	5.5	6.0	5.6	6.0	6.5
Gross investment/GDP[2]	28.9	28.9	29.1	29.4	30.2	30.9	31.8	32.2	31.3	31.0	31.6	31.7
Gross domestic saving/GDP[2]	23.7	24.4	24.5	24.6	27.3	27.1	26.5	26.9	27.1	25.3	34.4	35.1
Nominal exports of G & S (% change, US$ basis)[2]	28.5	15.4	13.2	9.0	2.2	8.6	-0.6	9.7	14.5	-14.4	14.2	8.9
Nominal imports of G & S (% change, US$ basis)[2]	30.5	15.9	11.9	7.0	8.6	-2.7	6.5	28.1	3.3	-8.0	20.6	14.8
Openness of the economy[3][2]	34.0	34.9	34.1	32.6	30.4	28.0	26.4	29.1	29.4	23.6	25.0	25.1
Government Effectiveness[4]	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	--	--
Government finance												
Gen. gov. revenue/GDP[2]	9.4	9.4	9.1	8.2	8.4	8.7	8.2	8.6	8.5	10.1	9.5	9.8
Gen. gov. expenditures/GDP[2]	12.1	12.1	11.7	11.3	11.5	11.6	12.2	13.3	13.3	15.3	15.9	16.0
Gen. gov. financial balance/GDP[2]	-2.7	-2.7	-2.6	-3.1	-3.1	-2.9	-4.0	-4.7	-4.8	-5.2	-6.4	-6.2
Gen. gov. primary balance/GDP[2]	-1.1	-1.1	-0.8	-1.4	-1.5	-1.4	-2.4	-3.0	-3.0	-3.4	-4.4	-4.1
Gen. gov. debt (US$ bil.)[2]	49.1	56.1	61.4	64.6	73.2	77.9	88.3	102.3	119.9	141.1	167.8	199.2
Gen. gov. debt/GDP[2]	31.8	30.4	29.6	27.7	27.7	27.0	28.0	29.3	32.1	33.9	36.5	38.4
Gen. gov. debt/gen. gov. revenue[2]	339.9	323.4	324.7	339.2	328.4	310.8	339.9	341.1	379.1	336.6	384.2	391.8
Gen. gov. interest payments/gen. gov. revenue[2]	17.2	17.7	19.2	20.9	18.9	17.6	19.2	19.5	21.5	17.9	20.5	21.6
Gen. gov. FC & FC-indexed debt/gen. gov. debt[2]	52.2	49.0	47.6	44.0	43.0	41.9	43.6	42.7	42.4	41.0	40.0	39.6

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022F	2023F
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)[2]	81.8	77.8	77.6	77.8	78.4	80.6	83.7	84.5	84.9	84.8	86.0	86.5
Real eff. exchange rate (% change)	--	--	--	--	--	--	--	--	--	--	--	--
Current account balance (US$ bil.)[2]	-0.4	2.4	1.4	2.9	4.3	-1.3	-9.6	-4.5	-5.4	-4.6	-13.2	-20.2
Current account balance/GDP[2]	-0.3	1.3	0.7	1.2	1.6	-0.5	-3.0	-1.3	-1.5	-1.1	-2.9	-3.9
External debt (US$ bil.)[2]	24.5	29.3	34.0	37.3	40.8	45.2	54.7	60.4	65.7	81.6	86.9	93.3
Public external debt/total external debt[2]	93.2	85.5	82.4	73.3	73.6	76.7	74.5	76.5	78.6	77.1	77.1	77.1
Short-term external debt/total external debt[2]	6.1	8.6	11.6	17.8	17.1	20.0	22.3	18.6	15.2	17.2	17.2	17.2
External debt/GDP[2]	15.3	16.3	16.4	15.9	15.4	15.4	17.0	17.2	17.6	19.6	18.8	17.9
External debt/CA receipts[5][2]	60.9	65.9	70.8	74.9	77.9	88.7	97.0	94.5	113.7	116.6	113.8	112.9
Interest paid on external debt (US$ bil.)[2]	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.7	0.7	0.6	0.6
Amortization paid on external debt (US$ bil.)[2]	2.5	3.5	2.7	2.3	2.1	1.7	1.8	2.3	2.5	2.6	2.8	3.0
Net foreign direct investment/GDP[2]	0.7	1.0	1.1	1.3	0.7	0.8	0.6	0.7	0.3	0.3	0.4	0.4
Net international investment position/GDP[2]	-12.7	-11.6	-9.3	-9.0	-7.2	-6.3	-8.4	-10.8	-11.1	-10.1	--	--
Official forex reserves (US$ bil.)[2]	9.0	13.9	19.8	23.6	28.2	31.6	30.9	30.7	33.9	44.4	42.0	37.0
Net foreign assets of domestic banks (US$ bil.)	0.2	0.7	0.5	-0.6	-0.7	-2.0	-3.4	-3.5	-3.9	-3.2	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)[2]	17.4	16.7	16.1	12.4	16.3	10.9	9.2	9.9	12.6	13.6	--	--
Monetary policy rate (% per annum, Dec 31)[2]	7.8	7.3	7.3	7.3	6.8	6.8	6.0	6.0	5.3	4.8	--	--
Domestic credit (% change Dec/Dec)[2]	19.6	10.3	11.6	10.0	14.2	11.2	14.7	12.3	14.0	10.1	--	--
Domestic credit/GDP[2]	41.0	39.8	39.6	38.6	38.6	38.3	38.7	38.9	41.2	40.8	--	--
M2/official forex reserves (X)[2]	7.0	5.6	4.5	4.3	4.1	4.0	4.3	4.7	4.8	4.1	--	--
Total external debt/official forex reserves[2]	272.7	210.2	171.1	158.1	144.6	143.2	177.4	196.9	193.6	183.6	206.8	252.1
Debt service ratio[6][2]	6.9	8.5	6.3	5.1	4.5	3.9	3.9	4.4	5.5	4.7	4.5	4.4
External vulnerability indicator (EVI)[7][2]	27.7	55.8	37.8	31.3	37.0	30.8	34.3	47.2	44.7	37.2	37.9	42.8
Liquidity ratio[8][2]	79.5	105.4	88.7	77.9	58.1	53.6	80.6	83.6	82.6	97.8	--	--
Total liabilities due BIS banks/total assets held in BIS banks	71.1	106.5	90.9	93.8	82.1	71.1	104.5	129.6	133.0	172.0	--	--
"Dollarization" ratio[9][2]	1.5	1.1	1.0	0.9	0.8	0.6	0.7	0.7	0.9	0.7	--	--
"Dollarization" vulnerability indicator[10][2]	8.1	5.1	3.8	3.2	2.8	2.1	2.7	2.7	3.4	2.5	--	--

[2] Fiscal years ending June 30, e.g. 2019 refers to fiscal year 2018/19
[3] Sum of Exports and Imports of Goods and Services/GDP
[4] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[5] Current Account Receipts
[6] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[8] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[9] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[10] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)
Sources: National authorities and Moody's Investors Service

Moody's related publications

Credit Opinion

» Government of Bangladesh – Ba3 stable: Update following affirmation of ratings, outlook unchanged, 31 March 2022

Sector Comment

» Geopolitical Risks – Global: Scenario analysis: Potential Russia-NATO military conflict would have swift and severe credit impact, 23 March 2022

» Macroeconomics – Global: Geopolitical developments pose new risks to global supply-chain recovery, 14 March 2022

Sector In-Depth

» Emerging Markets – Global: Russia-Ukraine shock amplifies pandemic led credit deterioration for many sovereigns, 21 April 2022

» Sovereigns – Global: Broadening Russia-Ukraine shock weighs on credit profiles through multiple channels, 31 March 2022

» Credit Conditions – Asia-Pacific: Russia-Ukraine conflict carries risks for growth, commodity-dependent sectors and high-yield issuers, 16 March 2022

» ESG – Asia-Pacific: Carbon transition, natural capital risks will pose uneven credit challenges in 2022, 10 March 2022

Outlook

» Global Macro Outlook 2022-23 (March 2022 Update): Economic growth will suffer as fallout from Russia's invasion of Ukraine builds, 17 March 2022

Rating Methodology

» Sovereign Ratings Methodology, 25 November 2019

» General Principles for Assessing Environmental, Social and Governance Risks Methodology, 19 October 2021

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

» Sovereign risk group webpage

» Sovereign ratings list

» Bangladesh Bank

» Ministry of Finance

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Endnotes

1 We did not take into account the authorities' revised GDP growth figures (6.9% in fiscal 2021) because of a rebasing exercise that has yet to be reflected in the entire data series.

2 See Sovereigns – Global: Explanatory Comment: New scores depict varied and largely credit-negative impact of ESG factors, 18 January 2021

3 The report notes instances of bribery in health clinics, misappropriated medical aid, and corruption in the area of procurement of medical supplies and contracts.

4 In February 2019, banks no longer had to file with the Money Loan Court to write off a loan worth up to BDT200,000, increased from BDT50,000 previously.

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