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18 May 2020

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RATINGS

Bangladesh

	Foreign Currency	Local Currency
Gov. Bond Rating	Ba3/STA	Ba3/STA
Country Ceiling	Ba2	Baa3
Bank Deposit Ceiling	B1	Baa3

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Government of Bangladesh – Ba3 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

Bangladesh's (Ba3 stable) credit profile is supported by its robust economic growth prospects, a moderate government debt burden and access to concessional funding. Continued macroeconomic stability, including low growth and inflation volatility and the absence of boom-bust credit cycles, point to some effectiveness in macroeconomic policies. We expect economic activity in Bangladesh to slow sharply over the next eighteen months on account of the effects from the global coronavirus outbreak. Nonetheless, we expect growth over the medium term to recover, driven by the ready-made garment (RMG) industry, which contributes to exports, along with income and job growth. Ongoing implementation of large infrastructure projects will further support domestic demand. We also expect the government debt burden to remain relatively low compared to Ba-rated peers.

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, human capital and institutional constraints weigh on the economy's global competitiveness.

The stable outlook reflects balanced risks to Bangladesh's credit profile. The rating could be upgraded if there is a durable and substantial improvement in Bangladesh's finances beyond our current expectations. This is likely to come from an improvement in the government's revenue-generation capacity and a lower cost of financing, both of which would improve debt affordability and allow the government greater fiscal flexibility. We would also consider upgrading the rating if there is substantially more progress in developing critical infrastructure and enacting institutional and economic reforms that raise economic competitiveness, diversification and shock-absorption capacity.

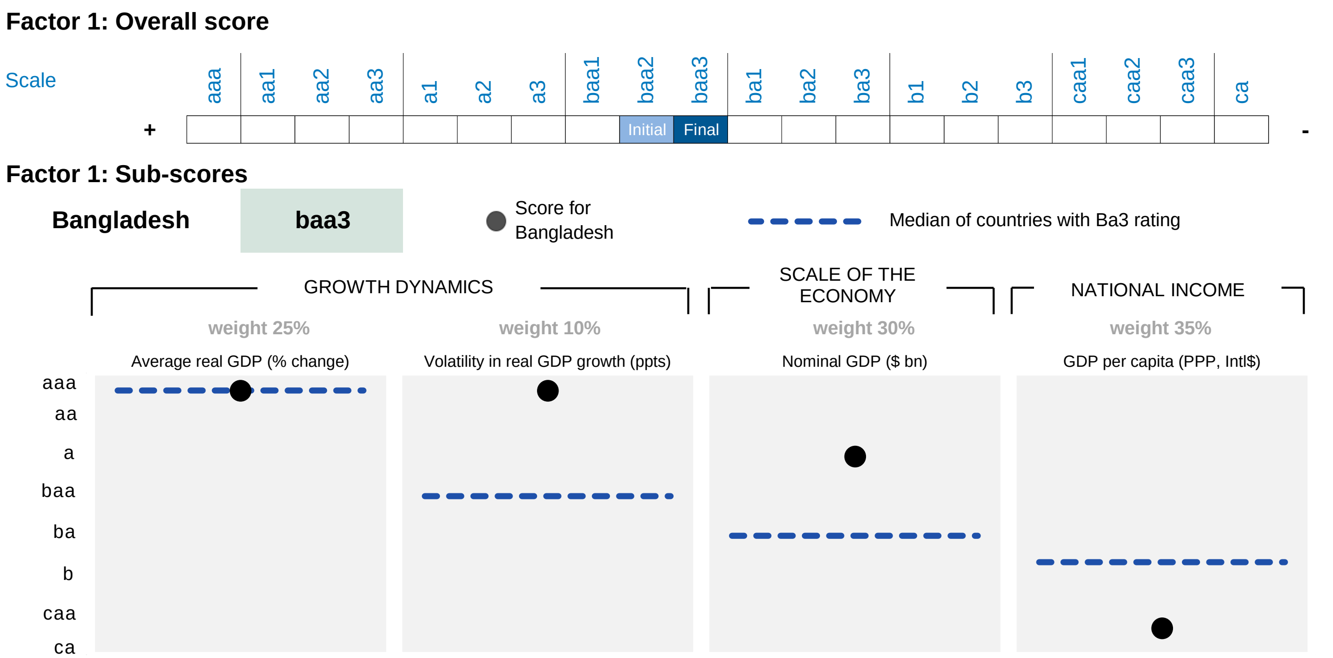
The rating could be downgraded if there is a marked deterioration in the government's fiscal position. This could occur through large borrowing to fund infrastructure projects that do not provide commensurate economic returns, an erosion in the government's revenue base or a sharp increase in financing costs. Any of these events would significantly weaken the strength of the financial sector. Specifically, increased contingent liability risks from state-owned banks or signs that a period of greater financial stress that would impair macroeconomic and external conditions would be credit negative.

This credit analysis elaborates on Bangladesh's credit profile in terms of economic strength, institutional 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 RMG industry and policies conducive to macroeconomic and external stability. Our final assessment is one notch lower than the initial score of "baa2". This adjustment reflects supply-side constraints in infrastructure and human capital, low levels of economic competitiveness and high concentration in drivers of economic growth compared with its peers. Moreover, it reflects the Bangladeshi economy's exposure to both sudden and gradual climate change risks that can create adverse economic and social costs.

Other countries with a similar economic strength score include Greece (B1 stable) and Bulgaria (Baa2 positive).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Bangladesh Ba3/STA	baa3 Median	Greece B1/STA	Bulgaria Baa2/POS	Brazil Ba2/STA	Morocco Ba1/STA	Sri Lanka B2/RUR	Pakistan B3/RUR
Final score	baa3		baa3	baa3	baa3	baa3	baa2	baa2
Initial score	baa2		baa3	baa2	baa3	baa3	baa2	baa2
Nominal GDP ($ billion)	274.1	117.9	218.0	66.2	1,885.5	117.9	88.4	314.6
GDP per capita (PPP, Intl$)	4,630.3	16,146.1	29,072.0	23,169.3	16,146.1	8,930.7	13,443.4	5,689.6
Average real GDP (% change)	6.6	2.3	1.0	2.5	0.1	2.9	3.8	3.8
Volatility in real GDP growth (ppts)	0.8	2.1	3.9	2.3	3.3	1.2	2.3	1.5

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

Bangladesh, like many of its South Asian neighbors, is vulnerable to climate-change risks, as identified in our report on environmental risks and their impact on sovereigns. The country's low-lying land and coastal position exposes it to flooding, which can create negative economic and social costs. Meanwhile, the magnitude and dispersion of seasonal monsoon rainfall influence agricultural sector growth, generating some volatility and raising uncertainty about rural incomes and consumption.

Growth to slow sharply amid global coronavirus outbreak; robust medium-term growth prospects supported by a globally competitive RMG industry

We expect economic activity in Bangladesh to slow sharply over the next eighteen months on account of the effects from the global coronavirus outbreak, as domestic activity restrictions during the national lockdown will hamper consumption and investment and the weak global economy will lead to declines in RMG exports. This temporary slowdown comes as Bangladesh has had a prolonged period of robust growth in the past two decades, supported by low labor costs and productivity gains amid a shift from agriculture to manufacturing and services, which we expect to continue to anchor growth during the subsequent recovery.

Over the past decade, real GDP growth averaged 6.8% a year. The economy's growth has been remarkably stable despite natural disasters, political transitions and global economic slowdowns. Bangladesh's growth continued through to the fiscal year ending 30 June 2019 (fiscal 2019), with real GDP growth accelerating to 8.2%, the highest on record. This growth was significantly higher than the median of 3.8% and 4.3% of its Ba- and B-rated peers, respectively (see Exhibit 2).

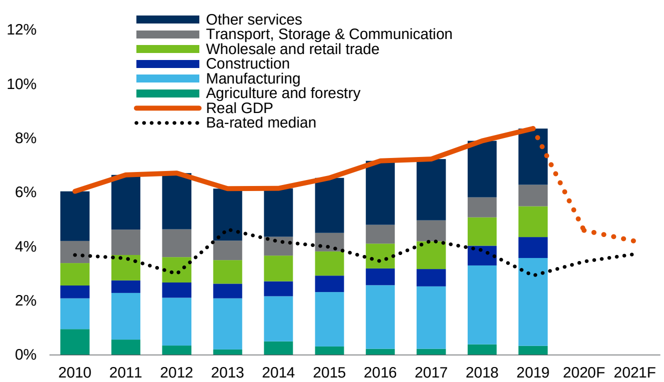
Slightly weaker consumption spending by both households and the government led to a moderate deceleration in domestic demand. Additionally, a significant slowdown in imports – driven by narrower capital goods imports as a result of delayed execution on large infrastructure projects – contributed to growth. Growth in exports of goods and services increased to nearly 11% in fiscal 2019, the fastest rate of growth since fiscal 2012.

Manufacturing activity, led by the RMG industry, has consistently contributed around two to three percentage points of real GDP growth, while also being the main driver of export growth (see Exhibit 3).

Exhibit 2

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

Percentage-point contribution to growth

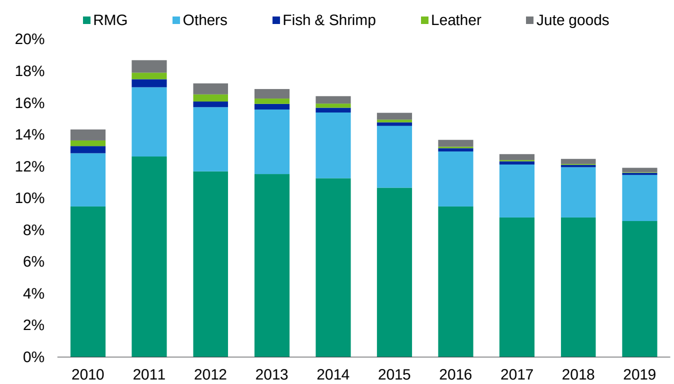


Sources: Bangladesh Bureau of Statistics and Moody's Investors Service

Exhibit 3

RMG constitutes most of Bangladesh's exports

Percent of GDP



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

The RMG industry only employs around 7% of the total workforce. However, the associated wealth creation generates demand for goods and services domestically, as shown by a strengthening in domestic demand.

The government is promoting further development of the RMG industry and has set an ambitious target of $50 billion in RMG exports by 2021. However, we do not expect such rapid growth in Bangladesh's RMG industry because of the prevailing global environment and weaker outlook for cross-border trade. Nonetheless, growing RMG exports have benefited, and can continue to benefit, from trade diversion because of the US (Aaa stable) tariffs on exports from China (A1 stable). Global retailers diversifying production sources will benefit Bangladesh.

Some of the macroeconomic gains from the RMG sector are being exhausted and the industry will increasingly face more global competition, which will gradually eat away at profit margins and market share. Regional competitors, including Vietnam (Ba3 negative) and Cambodia (B2 stable), have begun to increase their share in the global apparel market (see Exhibit 4), specifically in lowest value-added apparel goods.

Bangladesh's difference is a larger labor supply compared with Cambodia and a different specialization of product line than Vietnam. Some large global companies report reassessing their garment supply chains to other regions to African countries like Ethiopia (B2 review for downgrade), where wages are even more competitive. Nevertheless, Bangladesh will remain important because of its proximity to South and Southeast Asia, which the industry views as a growing region for fast fashion because of an increasing middle class in Asia.

We expect Bangladesh's RMG industry to continue to anchor the country's overall economic growth, but for growth to slow to around 4% over 2020-21, before accelerating thereafter.

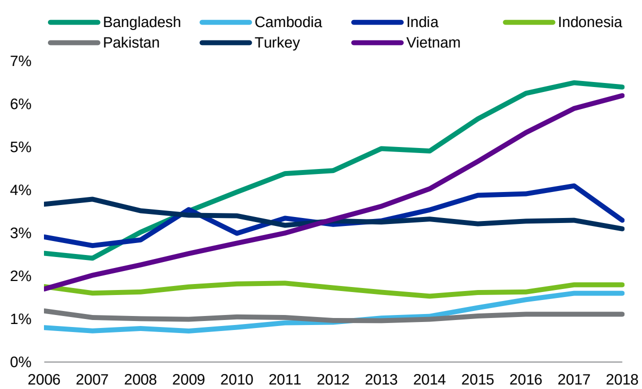
The industry will retain its competitiveness because producers continue to invest in technology and sustainable processes and use high-quality machinery, typically imported from abroad. Additionally, greater vertical integration has enabled local sourcing and production of textiles. Production flexibility enables switching to mixed fabrics from pure cotton fabrics in response to changes in global demand. Lastly, strategic relationships with buyers underpin export demand and reduce the 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 on to a lot of unsold inventory. Wages in Bangladesh are low compared with regional competitors (see Exhibit 5), although a nearly 51% annual increase in the minimum wage in January 2019 did lead to a moderate reduction in producers' margins.

Exhibit 4

Bangladesh's share in global RMG exports appears to have plateaued

Percent of global apparel exports

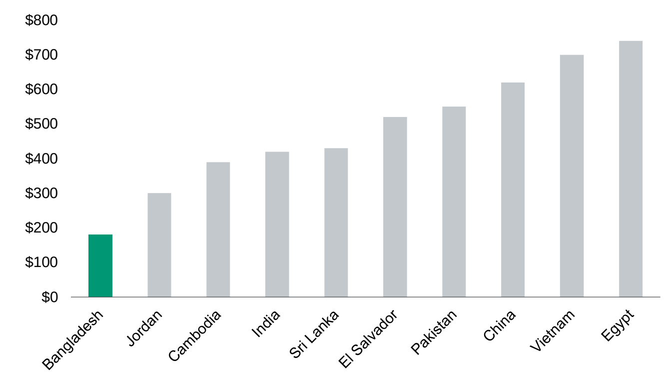


Note: Exhibit does not include China, which accounts for 34% of global apparel exports
Sources: World Trade Organization and Moody's Investors Service

Exhibit 5

Labor-cost competitiveness a key advantage for Bangladesh

Monthly wages on a purchasing power parity (PPP) basis



Note:
Sources: McKinsey, World Bank and Moody's Investors Service

Because of disruptions caused by the coronavirus outbreak, many Bangladeshi RMG factories that source raw materials and parts from China are facing difficulties. Supply chain disruption amid slowing global growth poses risks to exports. We expect the cancellation of export orders from the US and Europe amid weaker consumer behavior and depressed economic activity from disruptions caused by the coronavirus outbreak. However, we expect this situation to be temporary, with supply chains and demand starting to recover later in 2020-21.

Additionally, the combination of both weaker oil prices and restrictions on the arrivals of foreigners in many Gulf Cooperation Council countries because of the outbreak of the coronavirus are risks to the flow of remittances into Bangladesh. Remittances' declined to around 5.5% of GDP in fiscal 2019, nearly half the 2009-10 level. Nonetheless, the disruptions caused by the outbreak of the coronavirus in Gulf Cooperation Council countries that has weakened remittances from Bangladeshi workers abroad will cause significant disruptions to economic activity in Bangladesh.

We expect real GDP growth to slow to 4.6% in fiscal 2020 and to 4.2% in fiscal 2021. This fall is aligned with our global view of a deep but temporary slowdown in global growth. However, even at these levels, growth will remain above the median that for Ba-rated sovereigns.

Low incomes, infrastructure and human capital constraints, and limited economic diversification constrain the economy's shock-absorption capacity

Despite consistently high and stable growth, income levels in Bangladesh remain one of the lowest of all rated sovereigns and when compared with similarly rated peers. GDP per capita in purchasing power parity (PPP) was just around $5,028 in 2019, indicating the weak shock-absorption capacity of the country's economy.

Some significant infrastructure investments have begun to bear fruit, most significantly in the power sector. However, lack of infrastructure in Bangladesh limits its manufacturing and export capacity. Improvements in energy supplies have substantially benefited domestic businesses, but road congestion, limited rail transportation and lack of port facilities reduce export efficiency.

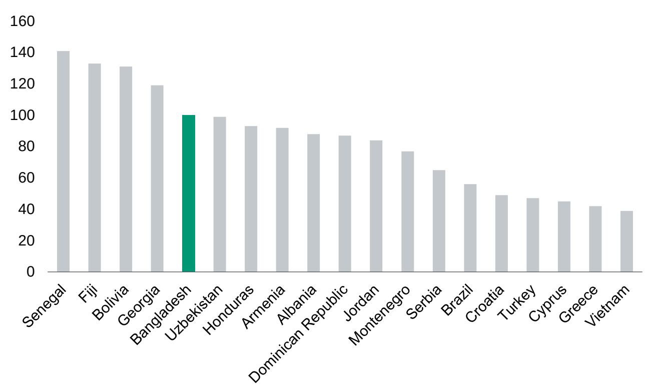
The government sets infrastructure investment as a key priority and promotes the development of special economic zones (SEZs) to attract domestic and foreign investments, including in the city of Chittagong, the country's only seaport. SEZs are also attracting private foreign investors into the economy in addition to foreign government investors.

Providing policy incentives and easing business registration in SEZs can promote greater economic diversification. Nonetheless, there are still difficulties in acquiring adequate technological capabilities to develop manufacturing facilities. Bangladesh's global logistics ranking is low (see Exhibit 6), with the government aiming to address this through 10 huge infrastructure projects that are being fast tracked (see Exhibit 7). However, weak execution has led to recurring delays in finalizing these infrastructure investments.

Exhibit 6

Bangladesh's logistics performance ranking is low

Rank out of 160 countries, higher ranking = lower quality of infrastructure

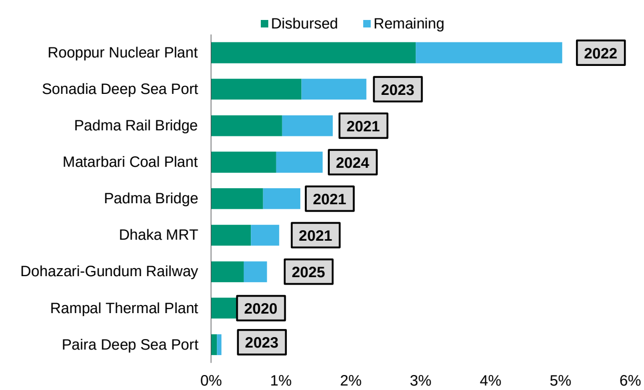


Sources: World Bank and Moody's Investors Service

Exhibit 7

Progress in government's mega-infrastructure projects

Estimated cost as % of 2018 GDP

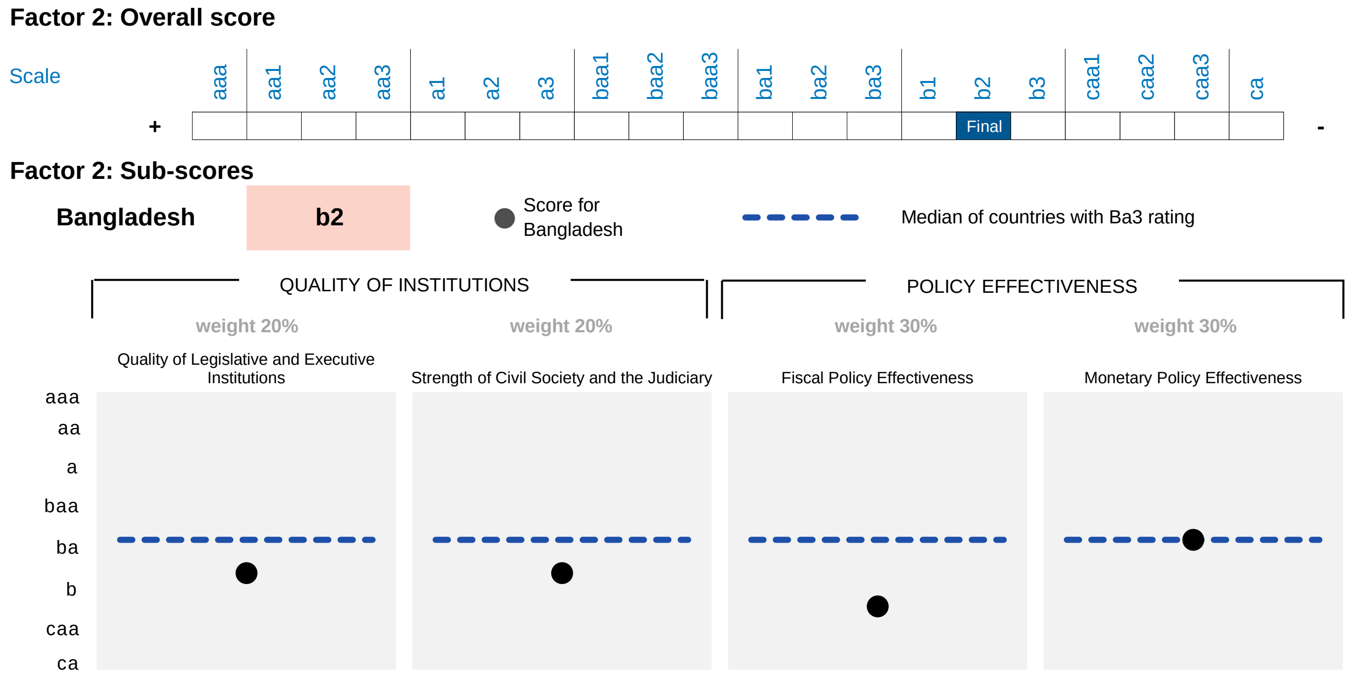


Authorities' estimated completion date

Sources: National authorities and Moody's Investors Service

Human capital quality is improving alongside growth in the labor supply, while the education system is being developed gradually. However, the economy still faces skilled labor shortages among higher-ranking positions across sectors. For instance, individuals from neighboring countries including India (Baa2 negative), Pakistan (B3 review for downgrade) and Sri Lanka (B2 review for downgrade) or expatriates from the US, Europe and Japan (A1 stable) 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 balances effective macroeconomic policies that are conducive to ongoing macroeconomic stability against weaknesses in government effectiveness, control of corruption and weak credibility in 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 in execution on long-term measures to improve the quality of infrastructure and human capital.

Other sovereigns with similar institutions and governance strength assessments include Ethiopia, Mongolia (B3 negative), Vietnam and Pakistan.

Exhibit 8

Peer comparison table factor 2: Institutions and governance strength

	Bangladesh Ba3/STA	b2 Median	Ethiopia B2/RUR	Mongolia B3/NEG	Azerbaijan Ba2/STA	Vietnam Ba3/NEG	Pakistan B3/RUR	Maldives B2/NEG
Final score	b2		b2	b2	b2	b2	b2	b3
Initial score	b2		b2	b2	b2	b2	b1	b3
Quality of legislative & executive institutions	b	b	b	b	b	caa	b	b
Strength of civil society & judiciary	caa	b	b	b	caa	b	ba	b
Fiscal policy effectiveness	b	ba	ba	b	ba	b	caa	caa
Monetary & macro policy effectiveness	ba	b	caa	b	b	ba	ba	b
Fiscal balance/GDP (3-year average)	-4.9	-2.9	-3.1	-2.8	2.1	-3.7	-8.4	-8.1
Average inflation (% change)	5.8	5.3	11.4	6.2	4.8	3.2	6.5	1.4
Volatility of inflation (ppts)	1.2	4.3	8.8	4.0	4.5	5.1	16.2	4.1

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

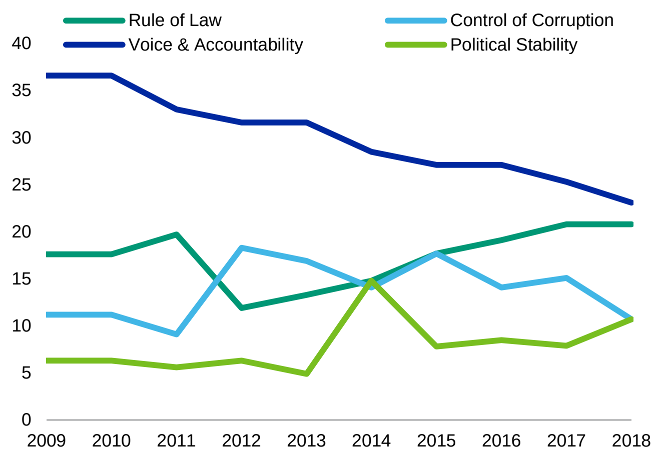
Global survey rankings reveal institutional and governance challenges

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, political stability improved moderately and Bangladesh continues to see improvements in the rule of law. Control of corruption continued to weaken. Bangladesh's rankings in all three areas are lower than the median for similarly rated peers of similar institutions and governance assessments (see Exhibits 9 and 10).

Exhibit 9

Voice and accountability, and control of corruption have declined, while rule of law has improved moderately since 2012

Percentile ranking

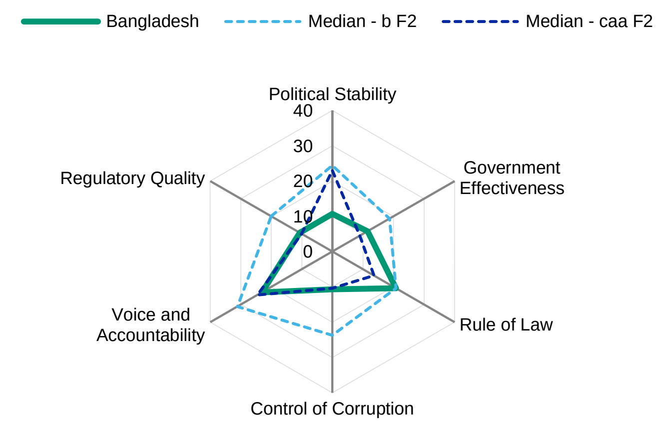


Sources: Worldwide Governance Indicators and Moody's Investors Service

Exhibit 10

... and both of these indicators are now below the median "b" institutions and governance strength ranking

Percentile ranking, 2018



Sources: Worldwide Governance Indicators and Moody's Investors Service

Low WGI rankings compared with higher-ranked sovereigns limit 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.

In particular, the World Economic Forum cites control of corruption as a major constraint to doing business in Bangladesh. The potential time and uncertainty related to the length of the judiciary processes is significant. Borrowers often exploit this aspect of the legal system to disrupt default proceedings, resulting in higher credit risk and nonperforming loans (NPLs).

Additionally, the IMF says that the legal system prohibits banks' ability to recover 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 on average. Since February 2019, banks no longer have to file with the Money Loan Court to write off a loan worth up to BDT200,000. This amount was increased from BDT50,000 and allows for greater regulatory forbearance.

The government of Prime Minister Sheikh Hasina, reelected in December 2018, is focusing on tackling corruption and improving the rule of law. Our global experience suggests that improvements are typically slow and gradual with vested interests posing potential obstacles to otherwise faster institutional reforms.

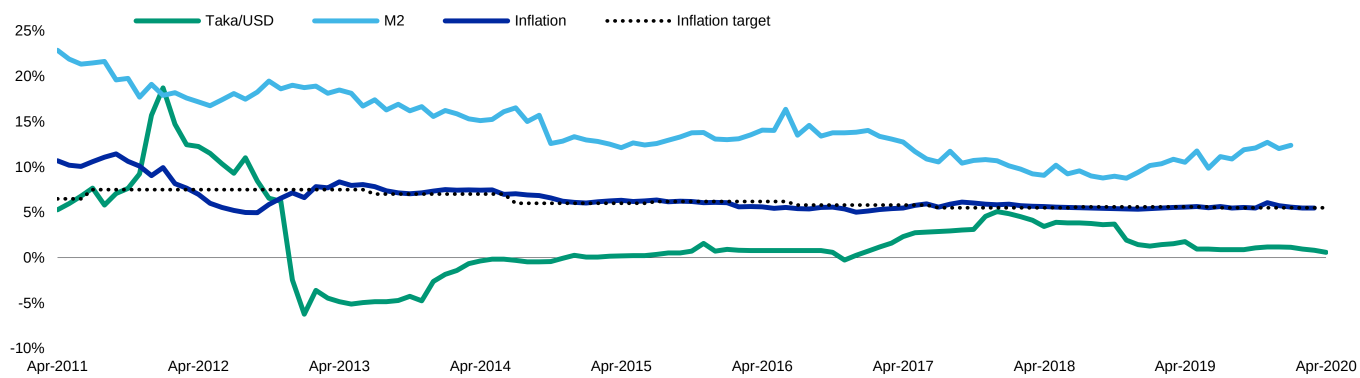
Furthermore, Bangladesh's large and complex bureaucracy – which requires coordination and multiple layers of approvals – is characterized by overlapping mandates between government ministries or agencies. Gaps in essential macroeconomic data, such as quarterly GDP estimates, also limit the speed and 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, as demonstrated by the absence of boom-bust credit cycles and the inherent low growth and inflation volatility thereof. Bangladesh Bank, the country's central bank, has kept a prudent grown in reserve money, which has anchored credit growth and inflation expectations. Credit growth remains slower than 2016-17; however, Bangladesh Bank sees this level of credit growth as appropriate because of the prevailing economic conditions. Inflation has remained stable, hovering around 5%-6% over the last five years (see Exhibit 11). The government targets an inflation rate of 5.5% for fiscal 2020.

Exhibit 11

A prudent level of growth in reserve money anchored credit growth and inflation expectations
Percent



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

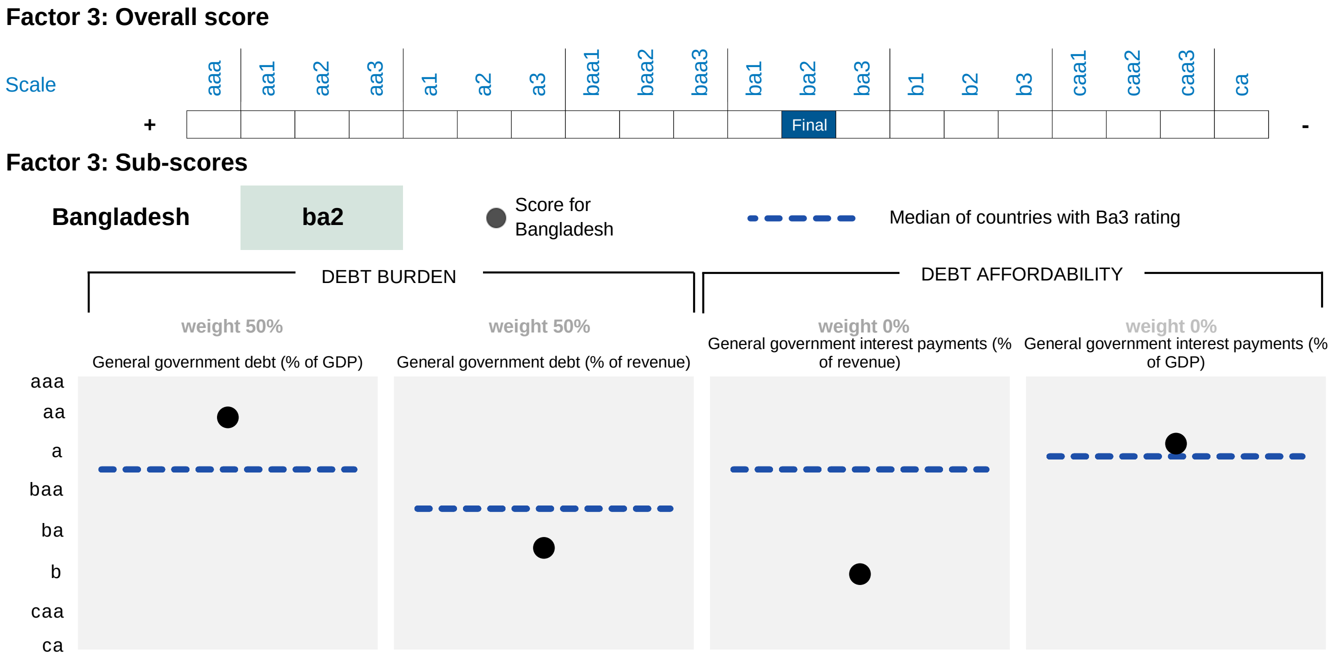
The stability in consumer price growth has occurred within an environment of macroeconomic stability and a low frequency of macroeconomic credit boom-bust cycles. Despite the economy's high concentration in the RMG sector, this had not led to boom-bust cycles as reflected in the industry's stable growth rates over the past few years, even amid global growth shocks.

Ongoing macroeconomic stability demonstrates some policy effectiveness. In particular, monetary and fiscal policies have been prudent and conservative. Moderate reserve money growth – Bangladesh Bank's operational target – anchors credit growth and inflation expectations. Private sector entities are the predominant provisioners of private sector credit growth. Moreover, recent regulatory measures to slow the issuance of National Savings Certificates (NSCs) – retail savings instruments that pay higher interest compared with domestic government securities – have been effective. Adherence to fiscal deficit limits of 5% of GDP, which we expect the government to temporarily stray from amid the unprecedented global economic shock, also fosters moderate inflation and reduces growth volatility arising from procyclical fiscal policy.

The government's strong commitment to and realization of a 5% of GDP budget deficit cap has kept the debt burden remarkably stable over the last decade, essentially flat over a 10-year period. While the government has one of the most shallow revenue bases of 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 issuance. Additionally, government accounts are not opaque. The Ministry of Finance publishes monthly fiscal and fiscal macroeconomic reports. These reports provide a detailed outline of operating and development expenditure, revenue collections and sources of financing, broken down by foreign and domestic borrowing.

Fiscal strength score: ba2



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 "ba2" fiscal strength reflects the constraints posed by the government's narrow revenue base to fiscal flexibility and debt affordability. At around 13% of GDP in fiscal 2019, government revenue is one of the lowest of 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 40% of Bangladesh's general government debt and more than 90% of total external debt, mitigates these fiscal constraints.

A moderately low government debt burden offsets these fiscal constraints. We expect strong nominal GDP growth and a temporary widening of the government's fiscal deficit above the 5% of GDP threshold to nonetheless anchor the debt burden at manageable levels compared with Ba-rated sovereigns.

Other countries with a similar fiscal strength score include, Cote d Ivoire (Ba3 stable), Honduras (B1 stable), Mali (B3 stable) and Uruguay (Baa2 stable).

Exhibit 12

Peer comparison table factor 3: Fiscal strength

	Bangladesh Ba3/STA	ba2 Median	Cote d Ivoire Ba3/STA	Honduras B1/STA	Mali B3/STA	Uruguay Baa2/STA	Fiji Ba3/STA	Maldives B2/NEG
Final score	ba2		ba2	ba2	ba2	ba2	ba1	ba3
Initial score	ba2		b2	ba2	b1	b1	baa3	ba3
Gen. gov. debt (% of GDP)	28.0	41.2	48.6	41.2	37.3	52.0	45.9	58.6
Gen. gov. debt (% of revenue)	289.8	240.9	244.3	155.9	240.9	177.6	161.2	222.0
Gen. gov. interest payments (% of GDP)	1.9	1.9	1.8	2.2	0.9	2.8	2.5	1.8
Gen. gov. int. payments (% of revenue)	19.2	9.1	9.1	8.4	5.7	9.6	8.9	6.7

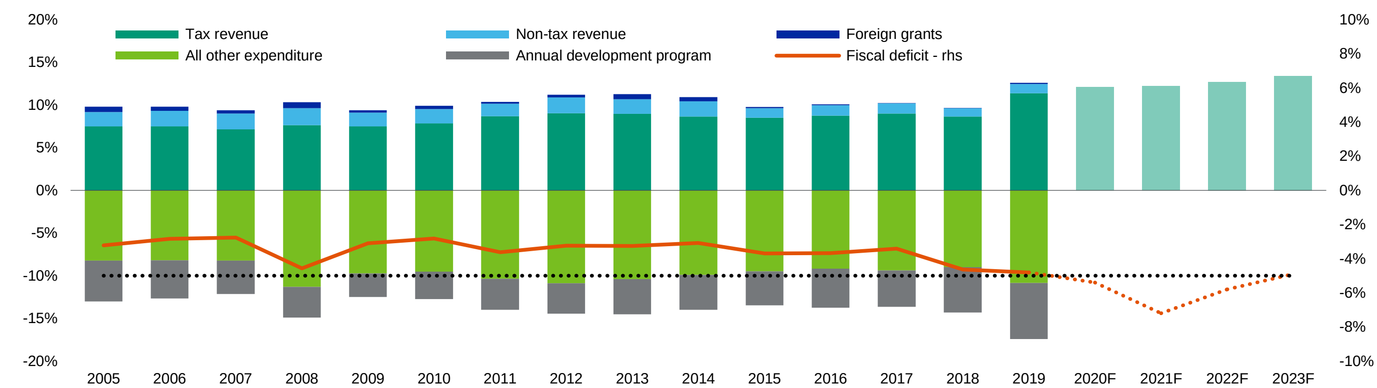
Sources: National authorities, IMF and Moody's Investors Service

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

We expect Bangladesh's fiscal deficits to widen modestly to an average of 6.5% of GDP over fiscal 2020-21, as the government continues to budget large increases in development spending, but remains constrained by weak domestic revenue mobilization which will take a hit from the effects of the coronavirus outbreak. Amid the unprecedented shock, we expect the government to temporarily deviate from its 5% of GDP fiscal deficit cap, with a return within this limit by fiscal 2023.

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 deficits under 5% of GDP. The government's fiscal deficit was 4.8% of GDP in fiscal 2019, moderately higher than the 4.6% of GDP in the year prior (see Exhibit 13). Tax revenue grew by 49% year on year, aided by the government's ongoing efforts to widen the tax base through measures including tax fairs and administrative improvements. Increases in government spending targeted reallocating sources of spending growth, with spending in the Annual Development Program (ADP) increasing by around 40% year on year for the second year in a row. Nondevelopment revenue expenditure also increased by nearly two percentage points of GDP amid greater revenue mobilization.

Exhibit 13
Fiscal deficits remain below government's self-imposed cap
Percent of GDP



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

The government's fiscal 2020 budget targets a deficit of 5% of GDP, and we expect a modest slippage from this target given revenue underperformance in the last quarter of the fiscal year during the domestic lockdown. Looking ahead, while a weaker economic outlook will subdue revenue collections, we expect the government will increase spending within the ADP, and within the budget in general, to support the economy, even as it temporarily deviates from its fiscal deficit target. Additionally, we expect greater spending on healthcare to limit the public health implications of the spread of the coronavirus.

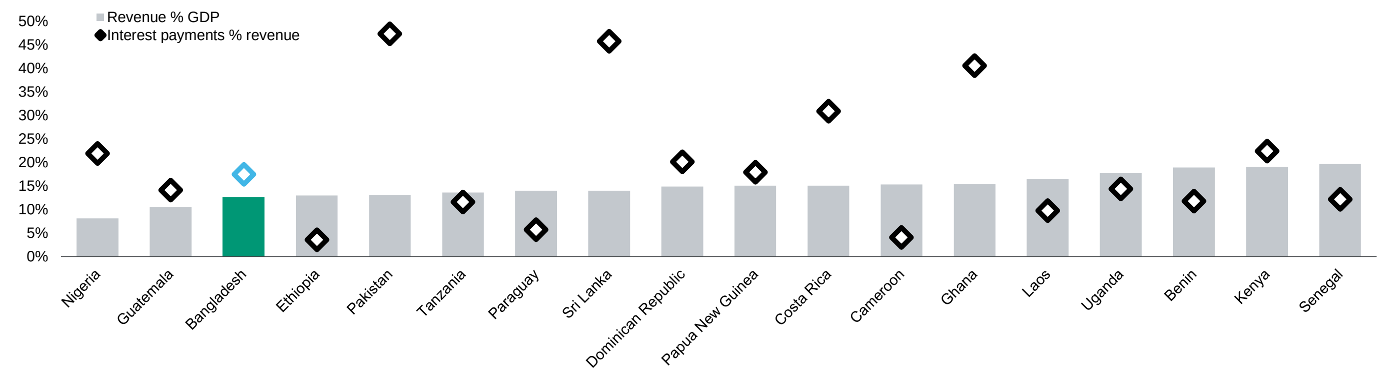
The government has demonstrated an ability to increase tax revenue, although from a low base. Implementation of a value added tax (VAT) law has been significant milestone; however, since enactment in June 2019, ongoing challenges limit the near-term scope for significantly greater revenue. In the first eight months of fiscal 2020, VAT revenue totaled BDT470 billion. This amount was below the BDT526 billion recorded in the same eight months in fiscal 2019. Nonetheless, VAT revenue is on pace to miss the full-year budget target of BDT1.2 trillion (4.7% of 2019 GDP). We expect that revenue as a share of GDP in fiscal 2020 will temporarily decline to around 12% of GDP given the effects of the domestic lockdown. Gains will begin to accrue in fiscal 2021, with a boost to government revenue of around 0.1 percentage points of GDP. This is based on our assumption that the tax authorities gradually remediate administrative issues and authorities retaining their reliance on tax fairs to boost non-VAT tax revenue.

A positive is that administrative reforms have begun to dampen demand for NSCs, which are social savings instruments that offer an interest rate premium over domestic instruments. Fiscal year-to-date borrowing from NSCs to February 2020 was BDT183 million, a significant reduction from around BDT504 million in fiscal 2019. The outstanding stock of NSCs has also begun to decline, which will slowly feed through to improvements in debt affordability. Nonetheless, the slowing of NSC issuance limits a further erosion in debt affordability.

Weak revenue generation capacity weighs on debt affordability

At 12.6% of GDP, Bangladesh's general government revenue is one of the lowest in the sovereigns that we rate and slightly less than half of the Ba-rated median. This translates to weak debt affordability (see Exhibit 14) because of high domestic interest rates and around 80% of annual financing coming from domestic sources, predominantly the banking sector. Weak revenue also limits the government's ability to spend on infrastructure, which would raise the country's economic competitiveness and growth potential.

Exhibit 14
Limited revenue generation capacity translates to weak debt affordability
Percent



Sources: National authorities and Moody's Investors Service

Raising government revenue is among the government's key priorities. The National Board of Revenue (NBR) has set a target revenue/GDP ratio of 16% within three to four years. The NBR aims to achieve this by widening the tax base and improving tax compliance.

Supporting the government's efforts to grow revenue is the long-awaited implementation of a VAT regime. The new regime aims at streamlining the rate structure, reducing exemptions and raising effective rates for businesses by broadening the base. The NBR plans to include transactions involving immovable property and the provision of services provided by nonresidents without a physical presence in Bangladesh, which will target potential taxpayers abroad. Revised amendments will also include digital services of global technology companies.

To boost compliance, the government plans to build a digital filing system and a centralized registration system in phases. Centralized registration would allow larger entities engaged in multiple business activities to file taxes under a single taxpayer number. As for small businesses, the government concurrently raised the annual sales threshold for mandatory VAT registration to BDT30 million from BDT8 million to ease compliance. Smaller vendors will have the option of voluntary VAT registration or paying a flat 4% turnover tax.

However, the VAT regime implementation has not gone smoothly. Being unable to create an invoice at transaction limits the effectiveness of an online registration of taxpayers and exposure to greater risks of leakage and overall evasion for VAT payments. Poor record-keeping at small businesses is also a hindrance to the VAT's effectiveness. A full digital system and its associated benefits will take time to materialize.

Besides VAT implementation, the Customs Department within the NBR is creating a single trade facilitation process, with an implementation target of 2022. The department is in the process of revising the outdated Customs Act and implementing risk-based auditing for customs departments to streamline processes. NBR officials estimate that only a very small fraction of exporters are currently registered in online customs payment systems.

Overall, we do not expect that VAT implementation and Customs Department administrative reforms will lead to significant near-term revenue gains. We expect government revenue to eclipse 13% of GDP by fiscal 2023.

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

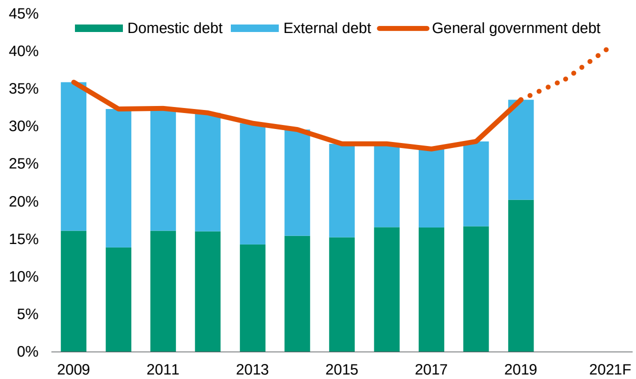
We expect that Bangladesh's debt burden will remain low compared with its peers because of strong growth and moderate deficits, offsetting the fiscal constraints of weak government revenue and increased government spending to support the economy amid weaker near-term economic growth.

We expect general government debt to remain around 40% of GDP over the next two years. Access to concessional loans from multilateral and bilateral sources, which account for more than 30% of Bangladesh's general government debt and more than 80% of total external debt, also mitigates debt affordability risks (see Exhibits 15 and 16).

Exhibit 15

Bangladesh's large share of external concessional debt mitigates fiscal risk

General government debt as % of GDP

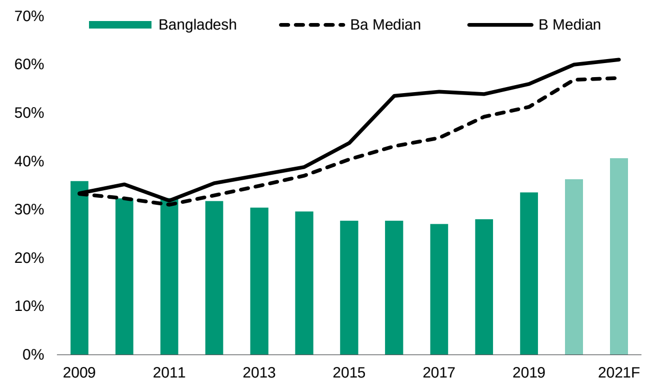


Sources: Bangladesh Bank, Ministry of Finance and Moody's Investors Service

Exhibit 16

Government debt will stay low compared with similarly rated peers

General government debt as % of GDP



Sources: National authorities and Moody's Investors Service

The Ministry of Finance External Relations Department estimates total external financing available for fiscal 2020 is around $9 billion or 3% of fiscal 2019 GDP. This amount will decline slightly to around $8 billion in the next two years. Around 90% of external financing is project based, and these funds are allocated for social projects that have an internal rate of return of less than what commercial operators would accept. Asian Development Bank (ADB, Aaa stable) financing has doubled over the past five years to about a total of $5 billion and annual available commitments will remain over $1 billion per annum through 2022.

The government intends to use maximum funds available from development partners. Financial support comes predominantly from the World Bank (IBRD, Aaa stable), International Development Association's (IDA, Aaa stable), the ADB and the Japan International Cooperation Agency (JICA). These development partners lead most the financing for the mega-infrastructure projects, including the Bus Rapid Transit and Mass Rapid Transit projects in Dhaka.

Also included are rail projects to connect between Dhaka–Chittagong–Cox's Bazar and large road projects to improve connection north of Dhaka to allow for greater commerce in the northern regions. Further assistance from the World Bank may from its private sector arm, the International Finance Corporation (IFC, Aaa stable), to assist with Bangladesh's microfinancing, affordable housing, renewable energy and supply chains. The IFC recently issued its first Bangladeshi taka-denominated bond to mobilize local-currency financing, which it plans to develop in gradual stages.

Susceptibility to event risk score: ba

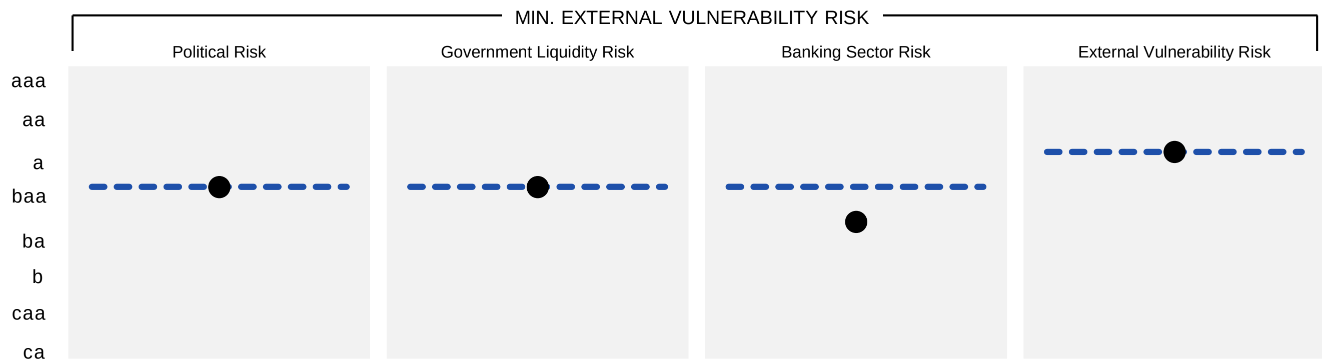
Factor 4: Overall score

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.

Political risk: "baa"

We assess Bangladesh's political risk at "baa," on par with our assessments of political risk in Colombia (Baa2 stable), Brazil (Ba2 stable) and Solomon Islands (B3 stable).

Exhibit 17

Peer comparison table factor 4a: Political risk

	Bangladesh Ba3/STA	baa Median	Colombia Baa2/STA	Brazil Ba2/STA	Solomon Islands B3/STA	Vietnam Ba3/NEG	Mongolia B3/NEG	Philippines Baa2/STA
Final score	baa		baa	baa	baa	baa	baa	baa
Voice & accountability, score[1]	-0.7	0.2	0.2	0.4	0.5	-1.4	0.3	0.0
Political stability, score[1]	-1.0	0.1	-0.8	-0.4	0.3	0.2	0.8	-1.1

[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

In March 2020, we adjusted Bangladesh's political risk score one notch to "baa" from "ba". This adjustment reflects our view of a reduction in the chances of domestic political protests that have threatened economic and financial stability.

Our assessment of Bangladesh's "baa" political risk reflects the medium probability, low impact scenario, of protests by students and workers threatening to slow economic activity and raise perceptions of risk, thereby deterring foreign investment. Fewer protests support political stability, along with the successful democratic election in late 2018. Nonetheless, the next generation of leadership at both major political parties remains a consideration in our political risk assessment.

In December 2018 elections, the Awami League (AL) got a resounding majority in Parliament, its third consecutive term in government. We expect that it will last through its full term to 2023. This is likely to be the last term served by Prime Minister Sheikh Hasina, who has held office since January 2009 and is 73 years old. There are now less opposition members in Parliament, led by smaller parties including the Bangladesh Nationalist Party (BNP). We do not expect that political opposition will result in a significant challenge to the AL's ability to advance its policymaking. We expect that there will be a smooth transition of the leadership of both the AL and BNP parties at the next elections, although there is currently little clarity on the situation.

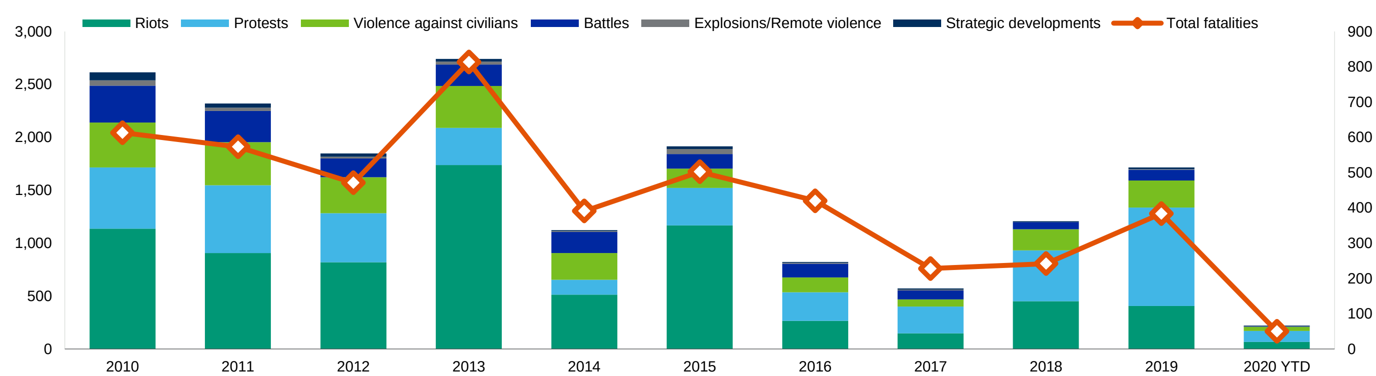
In the lead-up to December 2018 elections, there were significant smaller protests and fewer fatalities than with those that occurred ahead of elections 2014. Besides the protests, there have been signs of greater political stability. The country's rapid economic growth has led to income gains for the average Bangladeshi, whether living in the urban or rural region.

Moreover, have been no large-scale protests since the election, even with the opposition alleging a fraudulent outcome. Protests surrounding the elections and other events have been less violent and disruptive than the August 2018 protests, which spiraled out of control when the government responded violently.

In October 2019, there were short-lived protests in Dhaka in response to a defamatory Facebook post, which led to four dead and 50 injured. The protest occurred outside of Dhaka in Bhola (a southwest island) and led to little disruption in economic activity.

Data from the Armed Conflict Location and Event Data Project (ACLED) shows a reduction in protests and fatalities since the period between 2010-15 (see Exhibit 18).

Exhibit 18
Both the frequency and severity of protests has declined since the mid-2010s
Number of occurrences – left axis; number of fatalities – right axis



Note: 2020 year to date includes data through the end of February
Sources: ACLED and Moody's Investors Service

We expect that social unrest and protest will remain a part of Bangladesh's political risk because of societal issues, including workers rights and demands for improvement in living conditions. However, we expect that a drop in the number and severity of the protests in the future will mean less macroeconomic or financial market upheaval.

Separately, the hosting of nearly one million Rohingya refugees does not play a role in our political risk assessment because of the limited political implications. While there have been difficulties in providing services for the refugees, international actors – for example, European Parliament – 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 of political risk in Armenia (Ba3 stable), Senegal (Ba3 stable), and Solomon Islands.

Exhibit 19

Peer comparison table factor 4b: Government liquidity risk

	Bangladesh	baa Median	Armenia	Benin	Cyprus	Senegal	Tajikistan	Solomon Islands
	Ba3/STA		Ba3/STA	B2/POS	Ba2/POS	Ba3/STA	B3/NEG	B3/STA
Final score	baa		baa	baa	baa	baa	baa	baa
Initial score	baa		baa	baa	baa	baa	baa	baa
Ease of access to funding	baa	baa	baa	baa	baa	baa	baa	baa
Gross borrowing requirements (% of GDP)	4.8	8.0	7.0	7.9	12.7	10.4	6.3	1.8

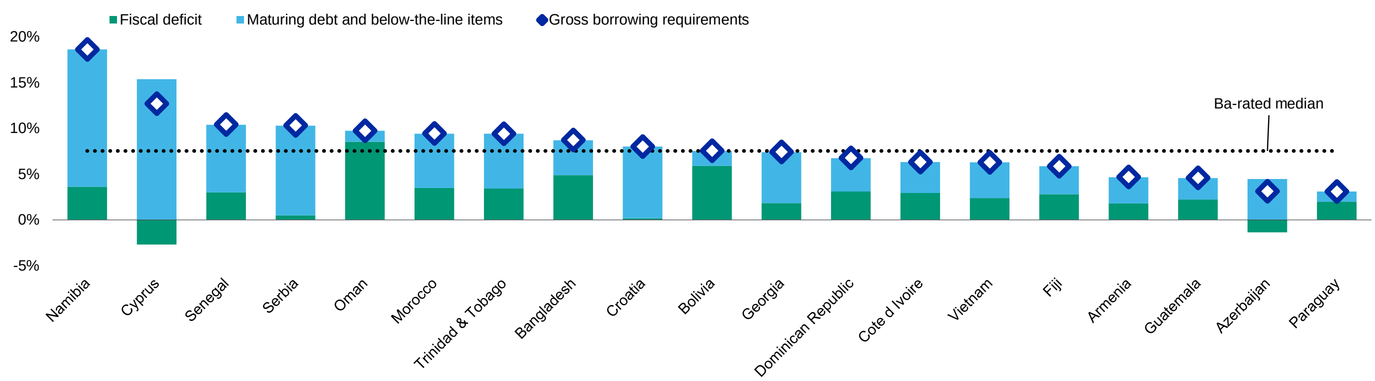
Sources: National authorities, IMF and Moody's Investors Service

Bangladesh's government liquidity risk at "baa" reflects the government's moderate gross borrowing requirements as demonstrated by moderate fiscal deficits by the government's self imposed limit at 5% of GDP, notwithstanding what we expect will be a temporary deviation. Additionally, long tenors and concessional terms associated with the government's external borrowings limit rollover risks. Our assessment also reflects the fact that in the event of liquidity constraints in the domestic market, which we do not expect as a baseline assumption, funding of the government's domestic borrowing could come at significantly higher costs.

Moderate fiscal deficits have limited the government's annual gross financing needs. Bangladesh's gross borrowing requirement is slightly greater than 9% of GDP in fiscal 2020 and in line with the median Ba-rated sovereign (see Exhibit 20). We do not expect any significant change in total financing needs over the next few years.

Exhibit 20

Bangladesh's gross borrowing requirements are in line with that of its rated peer group
(Percent of GDP)



Fiscal 2020 for Bangladesh shown
Sources: National authorities and Moody's Investors Service

Exposure to global financial market volatility is low because of very limited 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 propagation of liquidity shocks.

An increase in domestic borrowing from NSCs has the potential to reduce trading liquidity in the domestic bond market. This could translate into higher domestic funding costs for the government. Positively, administrative reforms have begun to dampen demand for NSCs. Fiscal year-to-date borrowing from NSCs to February 2020 was BDT183 million, a significant reduction from around BDT504 million in fiscal 2019.

Banking sector risk: "ba"

We assess Bangladesh's banking sector risk at "ba," on par with our assessments of banking sector risk in Bahrain (B2 stable), Brazil and India.

Exhibit 21

Peer comparison table factor 4c: Banking sector risk

	Bangladesh Ba3/STA	ba Median	Bahrain B2/STA	Brazil Ba2/STA	India Baa2/NEG	Russia Baa3/STA	Vietnam Ba3/NEG	Tajikistan B3/NEG
Final score	ba		ba	ba	ba	ba	ba	ba
Initial score	ba		b	baa	baa	ba	ba	ba
BCA[1]	b2	b1	b2	ba2	ba2	ba3	b1	b3
BSCE[2]	caa-c	ba3-b3	ba3-b3	ba1-ba2	ba1-ba2	ba3-b3	ba3-b3	caa-c
Total domestic bank assets (% of GDP)	66.1	89.8	230.0	88.8	82.6	90.2	153.3	30.8

[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 posed by state-owned banks, which have solvency metrics weaker than rated banks. Our banking sector credit event (BSCE) assessment incorporates risks from state-owned commercial banks (SOCBs), despite rated banks not representing the full landscape of financial institutions. Weaknesses in SOCBs stifle lending to the real economy as banking system liquidity is concentrated in this sector.

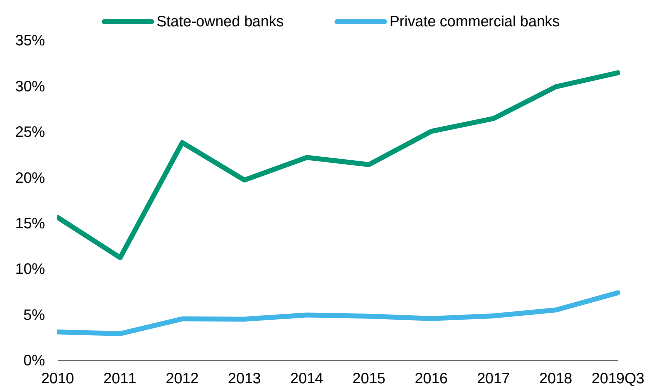
SOCBs' NPLs are around 30% of total loans, with an additional 20% classified as rescheduled and restructured. These levels are much higher than at the private commercial banks (PCBs), which have around 5% NPL and 10% classified as rescheduled and restructured (see Exhibit 22).

Capitalization ratios have improved among PCBs to 12.7% as of second quarter 2019 from a low of 10.1% in 2010. This the minimum capital adequacy ratio of is just below 13% set by the central bank. While thin, capitalization at PCBs is much higher than that of SOCBs. SOCB capitalization was around 8% on average in mid-2019, although improved from 2018 when it was around 6%. (see Exhibits 23).

Exhibit 22

SOCBs have significantly worse loan portfolio quality than private commercial banks

Gross NPLs as % of total loans

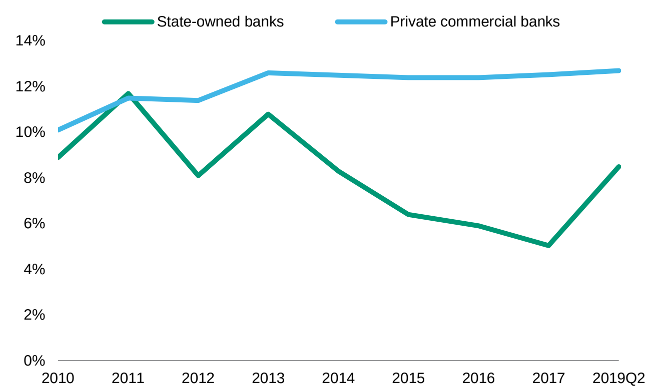


Sources: Bangladesh Bank and Moody's Investors Service

Exhibit 23

... and are also significantly undercapitalized

Total capital as % of risk-weighted assets



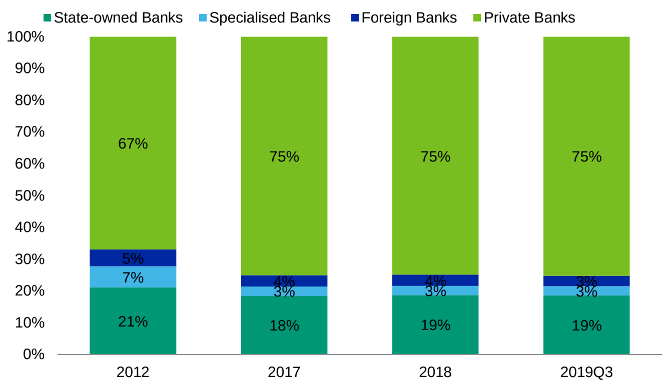
Sources: Bangladesh Bank and Moody's Investors Service

The government has been injecting around BDT15 billion (less than 0.1% of GDP) into the SOCBs each year, an amount significantly less than the estimation of around 2%-3% of total recapitalization needs.

Financial stability or contingent liability risks arising from the weak SOCBs are nevertheless lower than implied by the high NPL and low capital adequacy ratios. First, the loan market share of state-owned banks has declined to fewer than 20% of total banking system advances, as private commercial banks have been responsible for the bulk of credit growth (see Exhibit 24).

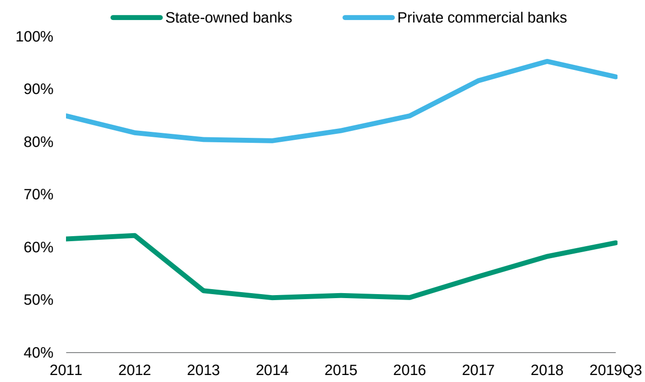
Liquidity remains abundant throughout the banking system, and the SOCBs benefit from excess liquidity because of the large amounts of retail and SOE deposits (see Exhibit 25). Additionally, the implicit assumption of state support has kept deposit growth at SOCBs stable.

Exhibit 24
The market share of state-owned banks has declined to less than 20% of total banking system advances
Percent of total advances



Sources: Bangladesh Bank and Moody's Investors Service

Exhibit 25
State-owned banks are flush with liquidity
Loan/deposit ratio, %



Sources: Bangladesh Bank and Moody's Investors Service

Financial stability and contingent liability risk from the banking sector are limited and not explicitly increasing. However, the regulatory environment continues to address core banking sector issues. This further weighs on longer-term economic competitiveness because of inefficient allocation of capital. Additionally, the regulatory direction only serves to worsen the existing moral hazards that are present in many areas of the banking system. Asset quality issues remain significant and are a legacy issue among the five largest SOCBs.

Regulatory forbearance is resulting in further understatement of asset risks and hampers loan recovery. As of June 2019, banks can defer classifying a term loan as a default until it is nine months overdue, compared with three months previously. This came following an earlier announcement that offered borrowers a one-time ability to reschedule default loans on relaxed terms.

Rescheduling and restructuring have not dealt with the systemic issues. Additionally, borrowers still can 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.

Other recently proposed regulatory measures include the imposition of interest rate caps effective April 2020 and the development of a public asset management company (AMC).

The implementation of interest caps will not lead to an improved credit transmission channel and could potentially lead to credit rationing. It could also lead to an improper pricing risk in the market and potentially further squeeze margins at banks and led to an acceleration in NPLs.

In January 2020, the Finance Ministry began drafting of legislation of a Public AMC Act, with a projected paid-in capital of BDT50 billion (around 0.2% of GDP). This relatively small amount will do little to alleviate the significantly larger size of the banking sector's bad assets. Additionally, issues surrounding successful implementation of an AMC include 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 a 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 of political risk in Indonesia (Baa2 stable), Panama (Baa1 stable) and Senegal.

Exhibit 26

Peer comparison table factor 4d: External vulnerability risk

	Bangladesh Ba3/STA	a Median	Indonesia Baa2/STA	Panama Baa1/STA	Senegal Ba3/STA	South Africa Ba1/NEG	Tanzania B1/NEG	Uruguay Baa2/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
Current account balance (% of GDP)	-3.5	-2.5	-2.9	-8.2	-8.9	-3.5	-3.3	0.1
Net IIP (% of GDP)[1]	-9.9	-44.6	-30.4	-93.5	-43.8	12.2	-52.3	-25.5
External debt (% of current account receipts)	97.0	99.0	160.8	59.4	163.4	144.6	204.5	226.3
External vulnerability indicator (EVI)[2]	44.8	53.4	50.2	24.8	23.5	116.7	59.5	87.2

[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 that cover about five to six months of imports and more than 70% of gross public external debt. While we expect a moderate deterioration in the current account balance, Bangladesh's external buffers will remain strong and foreign-exchange reserves coverage of imports and external debt payments will stay ample.

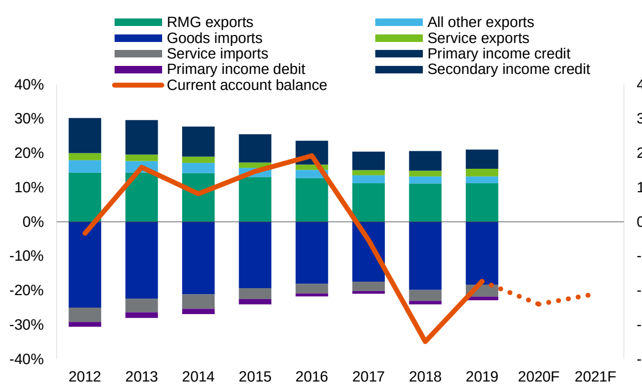
Low external risks anchor this stability despite wider current account deficits because of infrastructure-related imports and a slowing of export growth. We expect the current account deficit to widen slightly to around 2%-2.5% GDP in the next two years. This follows a significant contraction to 1.7% of GDP in fiscal 2019 and a substantial widening to 3.5% of GDP in fiscal 2018.

The wider deficit in fiscal 2018 was driven by larger capital goods and food imports and higher commodity prices (see Exhibit 27). Petroleum products account for around 10% of total merchandise imports; therefore, we also expect lower prevailing oil prices during fiscal 2020-21 to assist in keeping current account deficits within 2%-3% of GDP.

A moderate current account deficit is manageable for Bangladesh because the government ensures that there is foreign-currency financing before approving projects, including private sector projects signed under existing MoUs. Nonetheless, we expect the basic balance to remain negative, as foreign direct investment (FDI) will not rebound significantly in the next two years (see Exhibit 28).

Exhibit 27

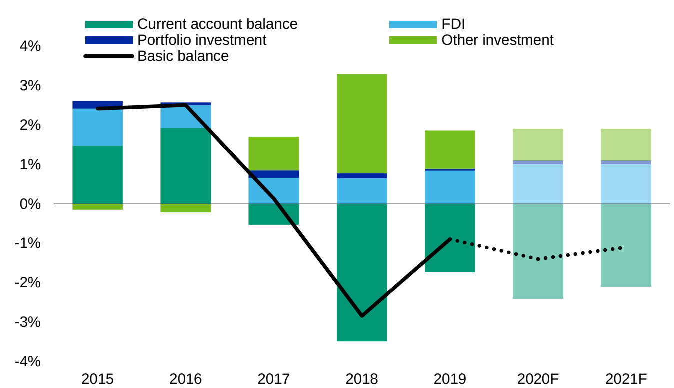
Bangladesh's current account deficit narrowed in 2019 because of a contraction in goods imports
Percent of GDP



Sources: Bangladesh Bank and Moody's Investors Service

Exhibit 28

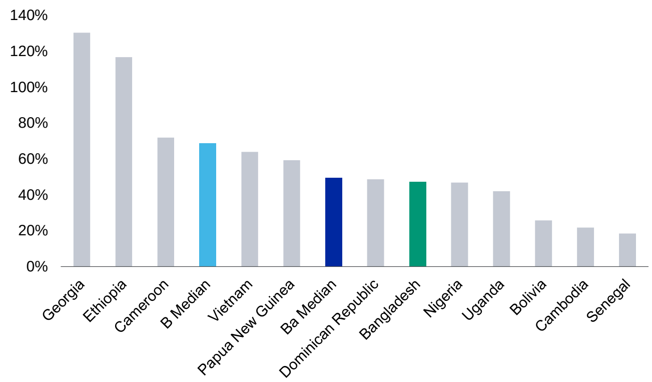
Basic balance is likely to remain negative because of tepid FDI
Percent of GDP



Sources: Bangladesh Bank and Moody's Investors Service

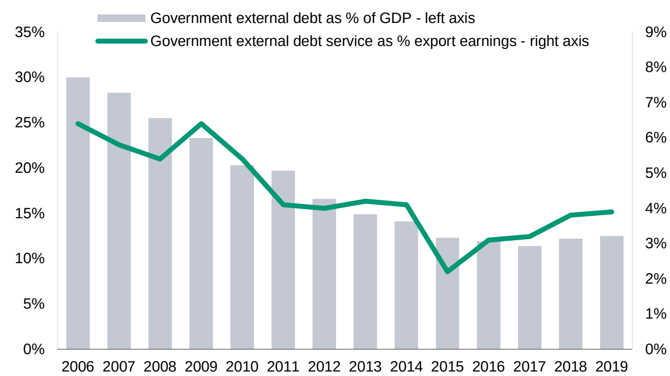
Foreign-exchange reserves coverage of external debt payments is also adequate, with the sovereign's external vulnerability indicator below 50% in fiscal 2019 (see Exhibit 29); it is likely to remain below 50% over the next two to three years. Bangladesh has no outstanding external commercial debt. Its external debt, which is almost entirely concessional, amounts to around 30% of total government debt or around 10% of GDP as of fiscal 2019. Moreover, concessional interest rates limit any significant external debt-servicing (see Exhibit 30). The government has shown significant caution on incurring external debt by spreading out project implementation; this supports very low external vulnerability risks.

Exhibit 29
Bangladesh's external vulnerability is low compared with peers
External vulnerability indicator, %



Sources: National authorities and Moody's Investors Service

Exhibit 30
Declining external debt burden and concessional rates support low external vulnerability risks
Percent



Sources: Bangladesh Bank and Moody's Investors Service

Environmental, social and governance considerations

How ESG risks inform our credit analysis of Bangladesh

We take account of the impact of environmental, social and governance (ESG) factors when assessing sovereign issuers' economic, institutions and governance and fiscal strength and their susceptibility to event risk. In the case of Bangladesh, the significance of ESG to the credit profile is as follows:

Environmental considerations are significant to Bangladesh's rating. As a low-lying country with a large sea coast, Bangladesh is highly prone to flooding, which disrupts economic activity and raises social costs. Low incomes and infrastructure quality compound the impact of weather-related events on the sovereign. 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.

Social considerations are inherent in Bangladesh's economic strength. Low incomes stem in part from physical and social infrastructure constraints that will take time to address. That said, per capita incomes have grown strongly over the past decade and poverty rates have declined sharply, thanks to high and stable economic growth.

Governance considerations are substantial to Bangladesh's rating. The country's WGI scores low in weaknesses in control of corruption and rule of law, while the credibility of legal structures is also limited. These governance challenges have in part contributed to asset quality issues in the banking sector.

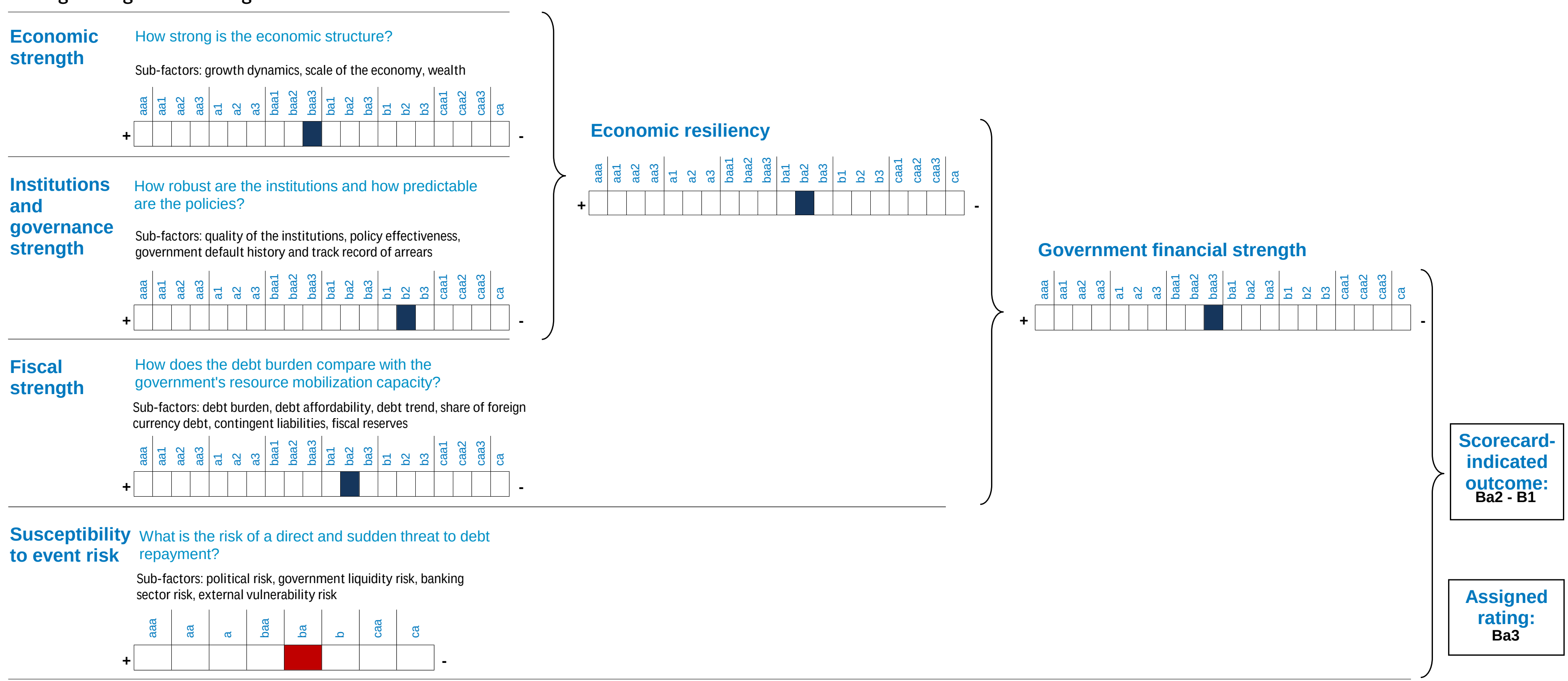
All of these considerations are further discussed in the Credit profile section above. Our approach to ESG is explained in our report on how ESG risks influence sovereign credit profiles and our cross-sector methodology General Principles for Assessing ESG Risks.

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 31

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, potential growth and stability of growth and government debt burden. Bangladesh's external position is comparable with peers; its current account deficit is narrower than that of the Ba3 median, while its ratio of maturing external debt obligations in relation to foreign reserves is on par.

Exhibit 32

Bangladesh's key peers

	Year	Bangladesh	Vietnam	Senegal	Cote d Ivoire	Fiji	Bolivia	Ba3 Median	Asia Pacific Median
Rating/outlook		Ba3/STA	Ba3/NEG	Ba3/STA	Ba3/STA	Ba3/STA	B1/NEG	Ba3	Baa2
Scorecard-indicated outcome		Ba2 - B1	Ba1 - Ba3	Ba2 - B1	Ba2 - B1	Ba1 - Ba3	Ba3 - B2	Ba2 - B1	Baa1 - Baa3
Factor 1		**baa3**	**a3**	**ba3**	**ba3**	**ba3**	**ba1**	**ba2**	**a3**
Nominal GDP ($ bn)	2018	274.1	302.8	23.5	43.0	5.6	40.3	46.8	314.6
GDP per capita (PPP, Intl$)	2018	4,630	7,513	3,671	4,180	11,685	7,842	8,893	13,451
Avg. real GDP (% change)	2014 - 2023F	6.6	6.6	6.3	7.4	2.5	3.2	5.8	3.8
Volatility in real GDP growth (ppts)	2009 - 2018	0.8	0.6	2.1	4.5	2.0	1.0	2.2	2.2
Factor 2		**b2**	**b2**	**ba2**	**b1**	**ba2**	**b1**	**ba3**	**baa3**
Quality of legislative & executive institutions	Latest available	b	caa	ba	ba	b	ba	ba	baa
Strength of civil society & judiciary	Latest available	caa	b	ba	ba	b	b	b	ba
Fiscal policy effectiveness	Latest available	b	b	ba	baa	ba	b	ba	ba
Monetary & macro policy effectiveness	Latest available	ba	ba	ba	ba	baa	b	ba	baa
Gen. gov. fiscal balance (% of GDP)	2018 - 2020F	-4.9	-3.4	-3.8	-4.4	-5.6	-6.1	-3.6	-3.4
Average inflation (% change)	2014 - 2023F	5.8	3.3	0.9	1.0	2.5	3.1	2.3	2.5
Volatility of inflation (ppts)	2009 - 2018	1.2	5.1	1.5	1.4	1.8	2.3	2.1	1.7
Factor 3		**ba2**	**baa3**	**b2**	**ba2**	**ba1**	**ba1**	**ba2**	**baa3**
Gen. gov. debt (% of GDP)	2018	28.0	39.7	54.7	48.6	45.9	53.8	47.3	36.3
Gen. gov. debt (% of revenue)	2018	289.8	194.2	294.1	244.3	161.2	192.0	233.5	202.2
Gen. gov. interest payments (% of revenue)	2018	19.2	7.7	11.6	9.1	8.9	2.8	9.6	6.7
Gen. gov. interest payments (% of GDP)	2018	1.9	1.6	2.2	1.8	2.5	0.8	2.1	1.7
Factor 4		**ba**	**ba**	**baa**	**baa**	**baa**	**b**	**baa**	**baa**
Political risk	Latest available	**baa**	**baa**	**a**	**baa**	**baa**	**b**	**baa**	**baa**
Government liquidity risk	Latest available	**baa**	**a**	**baa**	**baa**	**baa**	**baa**	**baa**	**a**
Gross borrowing requirements (% of GDP)	2019F	4.8	6.2	10.4	6.7	6.4	7.4	6.5	5.9
Banking sector risk	Latest available	**ba**	**ba**	**baa**	**a**	**a**	**baa**	**baa**	**a**
BSCE[1]	Latest available	caa-c	ba3-b3	ba3-b3	ba1-ba2	ba1-ba2	ba3-b3	ba1-ba2	baa3
Total domestic bank assets (% of GDP)	2018	66.1	153.3	39.4	41.3	85.7	78.7	72.2	119.8
External vulnerability risk	Latest available	**a**	**a**	**a**	**aa**	**aa**	**baa**	**a**	**a**
Current account balance (% of GDP)	2018	-3.5	2.0	-8.9	-4.8	-8.4	-4.5	-4.9	-2.1
External vulnerability indicator (EVI)	2020F	44.8	47.0	23.5	19.5	33.3	41.2	45.9	49.0
External debt (% of current account receipts)	2018	97.0	39.9	163.4	112.4	27.0	109.9	105.2	97.0
Net international investment position (% of GDP)	2018	-9.9	--	-43.8	3.2	-84.3	-10.8	-60.5	-12.3

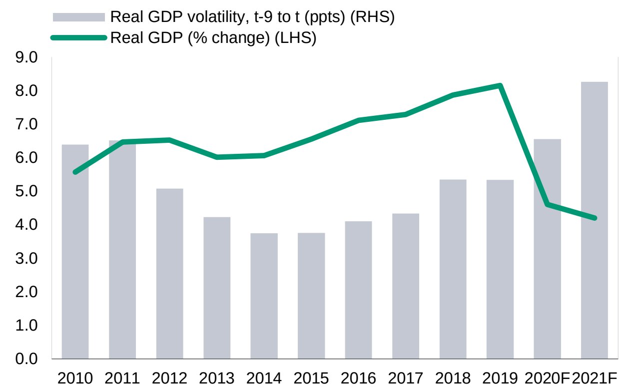
[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

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

DATA, CHARTS AND REFERENCES

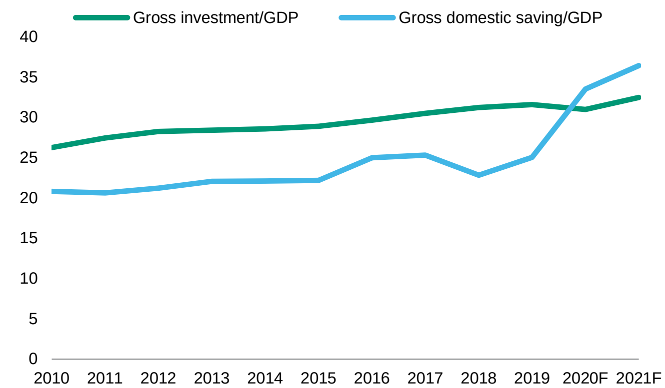
Chart pack: Bangladesh

Exhibit 33
Economic growth



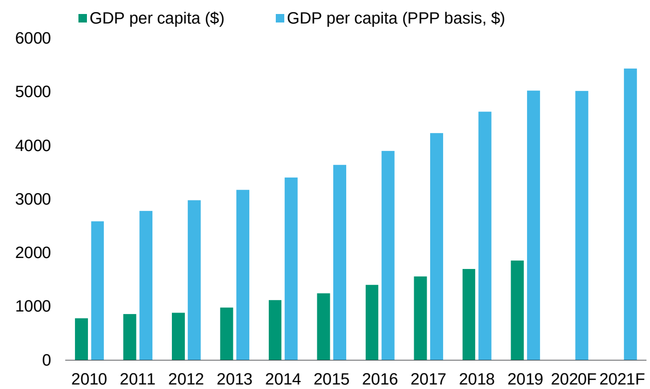
Source: Moody's Investors Service

Exhibit 34
Investment and saving



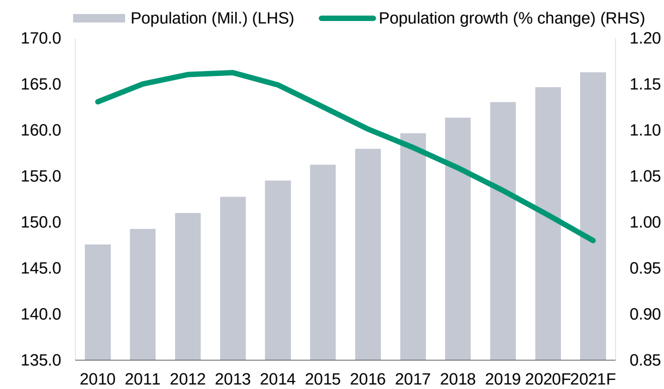
Source: Moody's Investors Service

Exhibit 35
National income



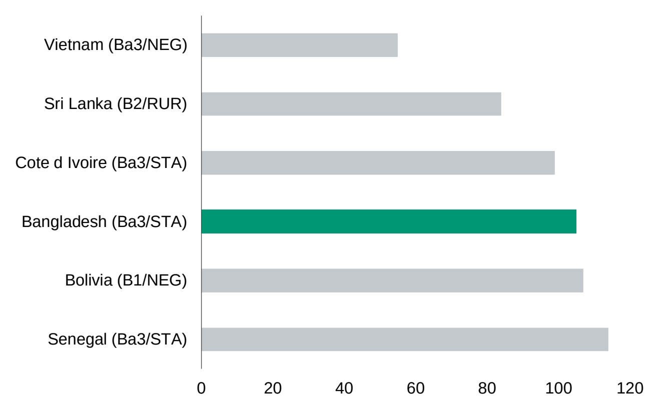
Source: Moody's Investors Service

Exhibit 36
Population



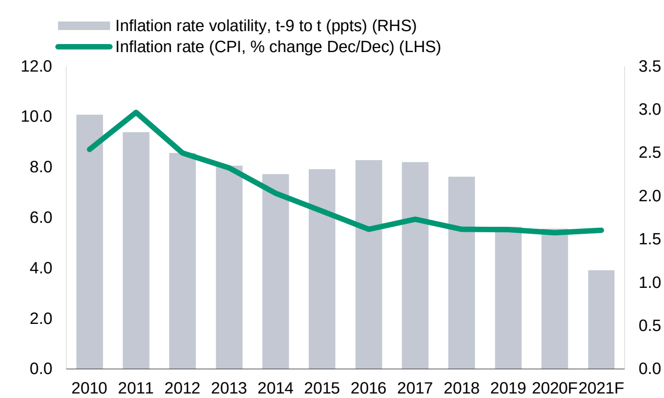
Source: Moody's Investors Service

Exhibit 37
Global Competitiveness Index
Rank 105 out of 138 countries



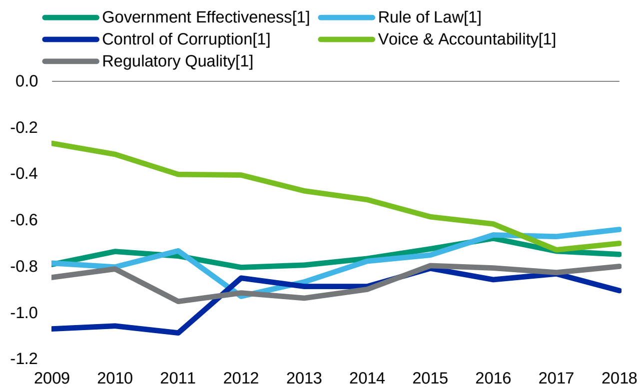
Note: Percentile ranking is based on Moody's rated sovereigns and sourced from the World Economic Forum's 2017-18 Global Competitiveness Report
Source: World Economic Forum

Exhibit 38
Inflation and inflation volatility



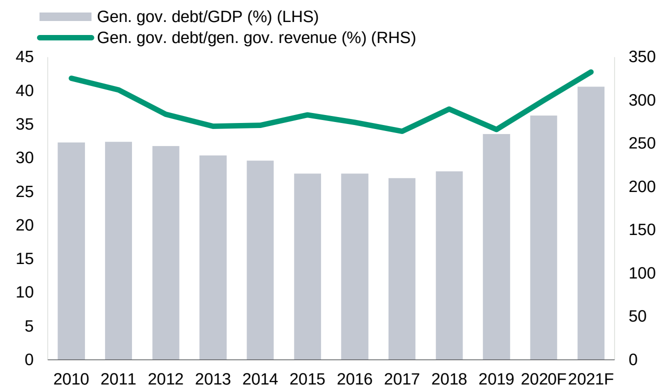
Source: Moody's Investors Service

Exhibit 39
Institutional framework and effectiveness



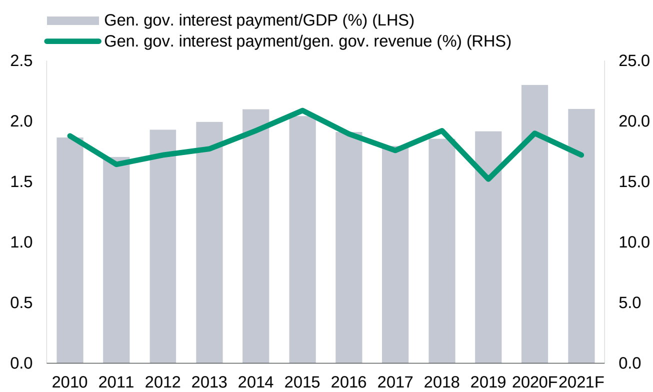
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 40
Debt burden



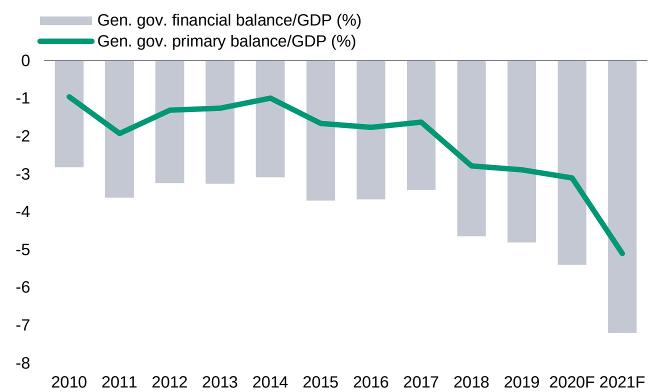
Source: Moody's Investors Service

Exhibit 41
Debt affordability



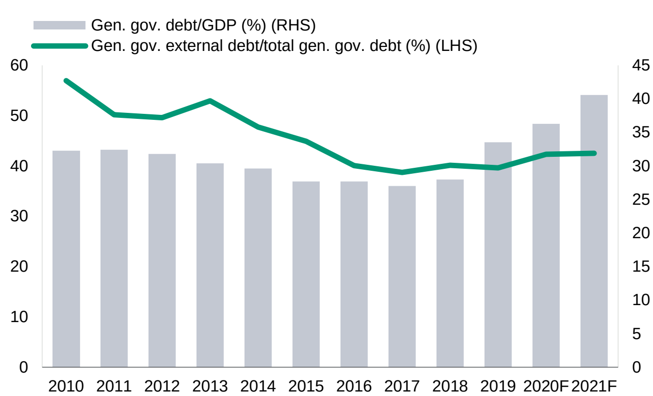
Source: Moody's Investors Service

Exhibit 42
Financial balance



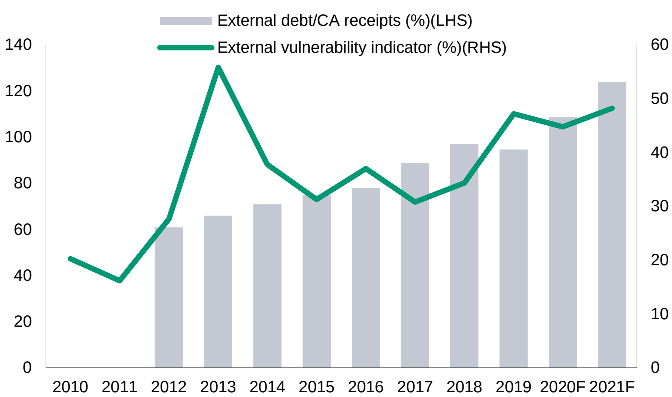
Source: Moody's Investors Service

Exhibit 43
Government liquidity risk



Source: Moody's Investors Service

Exhibit 44
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 45
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	-	-	-	-	Apr-10

Notes: [1] 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 46

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Economic structure and performance												
Nominal GDP (US$ bil.)	115.3	128.7	133.4	150.0	172.9	195.1	221.4	249.7	274.1	302.6	328.7	355.4
Population (Mil.)	147.6	149.3	151.0	152.8	154.5	156.3	158.0	159.7	161.4	163.0	--	--
GDP per capita (US$)	781	862	883	982	1,119	1,249	1,402	1,564	1,699	1,856	--	--
GDP per capita (PPP basis, US$)	2,592	2,785	2,981	3,177	3,405	3,638	3,900	4,231	4,630	5,028	--	--
Nominal GDP (% change, local currency)	13.1	14.8	15.2	13.6	12.1	12.8	14.3	14.0	13.9	13.0	10.1	9.7
Real GDP (% change)	5.6	6.5	6.5	6.0	6.1	6.6	7.1	7.3	7.9	8.2	4.6	4.2
Inflation (CPI, % change Dec/Dec)	8.7	10.2	8.6	8.0	7.0	6.3	5.5	5.9	5.5	5.5	5.4	5.5
Gross investment/GDP	26.2	27.4	28.3	28.4	28.6	28.9	29.7	30.5	31.2	31.6	31.0	32.5
Gross domestic saving/GDP	20.8	20.6	21.2	22.0	22.1	22.2	25.0	25.3	22.8	25.0	33.5	36.4
Nominal exports of G & S (% change, US$ basis)	7.0	4.0	28.5	15.4	13.2	9.0	2.2	8.6	-0.8	9.6	-6.3	-8.4
Nominal imports of G & S (% change, US$ basis)	3.5	3.4	30.5	15.9	11.9	7.0	8.6	-2.7	4.5	28.7	-4.3	-8.4
Openness of the economy[1]	35.4	32.9	41.2	42.3	41.3	39.5	36.8	33.3	31.0	33.9	29.6	25.1
Government Effectiveness[2]	-0.7	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	9.9	10.4	11.2	11.3	10.9	9.8	10.1	10.2	9.7	12.6	12.1	12.2
Gen. gov. expenditures/GDP[3]	12.7	14.0	14.4	14.5	14.0	13.5	13.8	13.6	14.3	17.4	17.5	19.4
Gen. gov. financial balance/GDP[3]	-2.8	-3.6	-3.2	-3.3	-3.1	-3.7	-3.7	-3.4	-4.6	-4.8	-5.4	-7.2
Gen. gov. primary balance/GDP[3]	-1.0	-1.9	-1.3	-1.3	-1.0	-1.7	-1.8	-1.6	-2.8	-2.9	-3.1	-5.1
Gen. gov. debt (US$ bil.)[3]	37.1	40.0	41.0	46.9	51.2	54.0	61.2	66.2	75.3	101.0	118.4	143.3
Gen. gov. debt/GDP[3]	32.3	32.4	31.8	30.4	29.6	27.7	27.7	27.0	28.0	33.6	36.3	40.6
Gen. gov. debt/gen. gov. revenue[3]	325.6	312.2	283.7	270.0	271.1	283.1	274.5	264.2	289.8	266.3	300.0	332.8
Gen. gov. interest payments/gen. gov. revenue[3]	18.8	16.4	17.2	17.7	19.2	20.9	18.9	17.6	19.2	15.2	19.0	17.2
Gen. gov. FC & FC-indexed debt/gen. gov. debt[3]	54.5	53.1	52.2	49.0	47.6	44.0	43.0	41.9	43.6	38.6	42.3	42.5

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)[3]	69.5	74.2	81.8	77.8	77.6	77.8	78.4	80.6	83.7	84.5	85.8	87.0
Real eff. exchange rate (% change)	--	--	--	--	--	--	--	--	--	--	--	--
Current account balance (US$ bil.)[3]	3.7	-1.7	-0.4	2.4	1.4	2.9	4.3	-1.3	-9.6	-5.3	-7.9	-7.3
Current account balance/GDP[3]	3.2	-1.3	-0.3	1.6	0.8	1.5	1.9	-0.5	-3.5	-1.7	-2.4	-2.1
External debt (US$ bil.)[3]	--	--	24.5	29.3	34.0	37.3	40.8	45.2	54.7	60.4	64.2	68.4
Public external debt/total external debt[3]	--	--	93.2	85.5	82.4	73.3	73.6	76.7	74.5	76.5	76.5	76.5
Short-term external debt/total external debt[3]	--	--	6.1	8.6	11.6	17.8	17.1	20.0	22.3	18.6	18.6	18.6
External debt/GDP[3]	--	--	18.4	19.5	19.6	19.1	18.4	18.1	20.0	19.9	19.5	19.2
External debt/CA receipts[4][3]	--	--	60.9	65.9	70.8	74.9	77.9	88.7	97.0	94.6	108.7	123.8
Interest paid on external debt (US$ bil.)[3]	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.4	0.4
Amortization paid on external debt (US$ bil.)[3]	1.5	1.6	2.5	3.5	2.7	2.3	2.1	1.7	1.8	2.3	2.5	2.6
Net foreign direct investment/GDP[3]	0.9	0.6	0.9	1.2	1.3	1.5	0.9	1.0	0.7	0.9	1.0	1.1
Net international investment position/GDP	-16.5	-15.3	-15.2	-13.9	-11.2	-10.8	-8.6	-7.4	-9.9	-12.4	--	--
Official forex reserves (US$ bil.)[3]	10.0	9.2	9.0	13.9	19.8	23.6	28.2	31.6	30.9	30.7	30.3	29.9
Net foreign assets of domestic banks (US$ bil.)	-0.3	0.2	0.1	0.7	0.5	-0.6	-0.7	-2.0	-3.3	-3.5	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)[3]	22.4	21.3	17.4	16.7	16.1	12.4	16.3	10.9	9.2	9.9	--	--
Monetary policy rate (% per annum, Dec 31)[3]	4.5	6.8	7.8	7.3	7.3	7.3	6.8	6.8	6.0	6.0	--	--
Domestic credit (% change Dec/Dec)[3]	17.9	27.4	19.6	10.3	11.6	10.0	14.2	11.2	14.7	12.3	--	--
Domestic credit/GDP[3]	42.7	47.3	49.1	47.7	47.5	46.3	46.2	45.1	45.4	45.1	--	--
M2/official forex reserves (X)[3]	5.3	6.5	7.0	5.6	4.5	4.3	4.1	4.0	4.3	4.7	--	--
Total external debt/official forex reserves[3]	--	--	272.7	210.2	171.1	158.1	144.6	143.2	177.4	196.9	211.9	228.8
Debt service ratio[5][3]	5.7	5.0	6.9	8.5	6.3	5.1	4.5	3.9	3.9	4.4	4.9	5.5
External vulnerability indicator (EVI)[6][3]	20.3	16.2	27.7	55.8	37.8	31.3	37.0	30.8	34.3	47.2	44.8	48.2
Liquidity ratio[7][3]	39.1	58.5	79.5	105.4	88.7	77.9	58.1	53.6	80.7	83.7	--	--
Total liabilities due BIS banks/total assets held in BIS banks	37.3	50.9	71.1	106.5	90.9	93.8	82.1	71.0	104.6	129.8	--	--
"Dollarization" ratio[8]	1.2	1.3	1.5	1.1	1.0	0.9	0.8	0.6	0.7	0.7	--	--
"Dollarization" vulnerability indicator[9]	5.1	6.8	8.3	5.1	3.8	3.2	2.8	2.1	2.7	2.7	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Fiscal years ending June 30, for example 2014 refers to fiscal year 2013/14
[4] Current Account Receipts
[5] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[6] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[7] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[8] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[9] 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

Rating Action

- » Moody's affirms Bangladesh's Ba3 rating, maintains stable outlook, March 2020

Credit Opinion

- » Government of Bangladesh – Ba3 stable: Update following rating affirmation, outlook unchanged, March 2020

Sector Research

- » Global Macro Outlook 2020-21 (March 25, 2020 Update): The coronavirus will cause unprecedented shock to the global economy, March 2020
- » Sovereigns — Global: Coronavirus and oil price shock magnify weaknesses highlighted in negative 2020 outlook, March 2020
- » Sovereigns — Asia Pacific: Intensifying coronavirus outbreak heightens growth risks, raises fiscal pressures for some, a credit negative, March 2020
- » Sovereigns — Global: Governments most exposed to economic repercussions of coronavirus tend to have strong fiscal and external buffers, February 2020

Outlook

- » Sovereigns — Asia Pacific: 2020 outlook negative as slower growth amplifies long-standing fiscal, liquidity and demographic challenges, January 2020
- » Sovereigns — Global: 2020 outlook is negative as unpredictable, disruptive political environment exacerbates credit challenges, November 2019

Rating Methodology

- » Sovereign Ratings Methodology, November 2019

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Related websites and information sources

- » Sovereign risk group web page
- » Sovereign ratings list
- » Bangladesh Bank
- » Ministry of Finance

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