CareEdge Global assigns Long Term Foreign Currency Rating of CCC+ (Unsolicited) to People's Republic of Bangladesh

Credit Profile

Bangladesh's credit profile reflects its poor fiscal profile arising primarily from low government revenues, weak monetary management, high nonperforming loans in the banking sector and vulnerability to climate risks. Bangladesh's credit profile has also been negatively impacted by recent external and political challenges. The sharp decline in foreign exchange reserves over the past three years has weakened its external position, while the recent formation of the interim government following large scale protests has created uncertainty about future elections and the country's growth prospects.

However, these aspects are partly offset by the country's established position in ready-made garment exports coupled with the government's access to concessional funding from multilateral and bilateral creditors.

In January 2023, the IMF approved total assistance of USD 4.7 billion for Bangladesh through multiple facilities, with the country committing to reforms in fiscal, monetary and exchange rate policies, as well as financial sector reforms. Further, Bangladesh is seeking additional support from other multilateral and bilateral sources.

Monitoring how effectively Bangladesh navigates its current challenges amidst weak institutional quality remains crucial.

Strengths

- A competitive ready-made garments industry
- Access to concessional funding from multilateral and bilateral creditors

Weaknesses

- Weakened external position
- Low government revenues and weak debt affordability
- Infrastructural constraints
- Poor banking sector health
- Vulnerability to climate related risks

Key Monitorables

- Foreign exchange reserves position
- Successful political transition in order to stabilize the economy and growth prospects

Key Rating Drivers

Economic Structure & Resilience

Bangladesh has an economic size of USD 446 billion (2023), with the economy growing at a steady rate of around ~6.5% over the past few years. However, the near-term growth prospects are uncertain as the country deals with lower foreign exchange reserves, high inflation, elevated interest rates and frequent power outages. Further, the lack of clarity regarding the political transition is likely to weigh on economic activity and increase uncertainty about the country's economic outlook.

Bangladesh's economy also faces structural issues, including infrastructure constraints and a low GDP per capita of USD 7085 in 2023 (in constant PPP terms). The economy heavily relies on the ready-made garments sector, which accounts for about 85% of total exports and benefits from Bangladesh's Least Developed Country (LDC) status. However, Bangladesh is set to graduate from the LDC status by 2026. While a subsequent three-year transition period is available to smoothen the process, monitoring developments related to Bangladesh's LDC graduation, such as its progress on securing any other trade deals, is critical to assess its impact on export performance and economic growth.

While Bangladesh enjoys favourable demographics, significant investments in human capital development are needed for the country to fully reap the demographic dividend. Additionally, Bangladesh remains vulnerable to natural disasters, such as cyclones, floods, and droughts, that are likely to intensify due to climate change, posing further challenges to its economic potential.

Fiscal Strength

Bangladesh has one of the lowest government revenue-to-GDP ratios among sovereigns, at around 8.3% (2023). Interest expenses are high, accounting for ~22% of government revenues on average over the past five years, partly due to the reliance on high-costing National Saving Certificates (NSCs). This limits the government's ability to undertake productive expenditures like infrastructure development. However, Bangladesh's low gross government debt, averaging ~36% of GDP between 2019 and 2023, partly offsets these challenges. Additionally, while a significant portion of Bangladesh's government debt is external, it is largely owed to multilateral creditors like World Bank and Asian Development Bank, and bilateral creditors, who offer concessional terms which ease the debt burden. Still, potential contingent liability risks to the sovereign from state-owned commercial banks remain.

Under the IMF program Bangladesh is committed to fiscal reforms, including increasing tax revenue mobilization by 0.5% of GDP in FY24 and FY25 each, and by 0.7% of GDP in FY26 through tax policy and administration reforms. The program also envisages reducing Bangladesh's net NSC issuance. However, it remains unclear if Bangladesh will be able to meet these targets amidst uncertain growth prospects.

External Position & Linkages

Bangladesh's external profile is under pressure due to a significant decline in foreign exchange reserves, which have fallen by over 50% to around USD 21 billion in the past three years.

Initially, a sharp increase in the import bill, driven by higher commodity prices following Russia-Ukraine war, exerted pressure on foreign exchange reserves. In response, the government imposed import restrictions. Nonetheless, pressure on reserves sustained mainly due to delays in repatriation of export proceeds. Moreover, current political uncertainty is expected to further add to this pressure by negatively impacting export earnings, remittance inflows and foreign investments.

In January 2023, the IMF approved USD 4.7 billion in assistance to Bangladesh through a 42-month program under the Extended Credit Facility/Extended Fund Facility (ECF/EFF) and Resilience and Sustainability Facility (RSF). Bangladesh is also seeking support from other multilateral and bilateral institutions.

The country's low external debt to GDP ratio, averaging about 21% over last five years, partly reduces its vulnerability to external shocks, particularly since a significant proportion of this is owed by the general government to multilateral and bilateral creditors on concessional terms.

Monetary & Financial Stability

Bangladesh has recently introduced a crawling-peg exchange rate system. Inflation in the country is high, at 10.5% in August 2024, primarily due to a weak currency and supply side constraints exacerbated by the recent protests. To address inflation, the central bank has been raising the policy rate. As a part of the IMF program, the central bank has also shifted to an interest rate targeting framework from a monetary targeting framework, aiming to manage inflation more effectively.

The health of Bangladesh's financial sector is weak, with high nonperforming loans (nearing 10% of total loans), a high share of restructured loans, and low capitalization levels of banks. State-owned commercial banks are especially more vulnerable. Bangladesh's present economic challenges may add to the banking sector distress.

Institutions & Quality of Governance

Bangladesh ranks near or below the bottom quartile across the Worldwide Governance Indicators, reflecting poor institutional quality which hinders investments and weighs on growth.

The country is currently facing significant political uncertainty. Sheikh Hasina of the Awami League won the January 2024 general elections, securing her fourth consecutive term as Prime Minister. However, her administration faced significant unrest marked by widespread protests and instances of violence. In August 2024, Sheikh Hasina resigned and left the country amidst the turmoil, leading to the formation of an interim government headed by Muhammad Yunus, an economist, as Chief Adviser. Yunus is focused on restoring law and order in the country. At this stage there seems to be no clarity regarding the timing of the next elections. This uncertainty surrounding the interim government's duration and the future political transition presents near-term challenges for growth and stability in Bangladesh.

Bangladesh – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	321	351	374	416	460	446	455	492
GDP Per Capita (Constant-PPP)	USD	5566	5815	6058	6407	6751	7085	7520	7978
Real GDP Growth	%	7.3	7.9	3.4	6.9	7.1	6.0	5.7	6.6
GFCF/GDP	%	31.8	32.2	31.3	31.0	32.0	31.0	-	-
Gross Domestic Savings/GDP	%	26.5	26.9	27.1	25.3	25.2	25.8	-	-
Exports (G&S)/GDP	%	12.7	13.1	10.4	10.7	12.9	13.2	-	-
Working-Age (15-64) Population (% Share in Total)	%	66.6	67.0	67.4	67.7	68.0	68.2	68.4	68.5
Old-Age (65+) Population (% Share in Total)	%	5.2	5.4	5.6	5.8	6.0	6.3	6.5	6.7
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-4.1	-5.4	-4.8	-3.6	-4.1	-4.6	-4.6	-4.6
Revenue/GDP	%	8.9	8.1	8.5	9.4	8.9	8.3	8.8	9.3
Expenditure/GDP	%	13.0	13.6	13.3	13.0	13.0	12.9	13.4	13.9
GG Gross Debt/GDP	%	29.6	32.0	34.5	35.6	37.9	39.8	41.4	41.8
GG External Debt (by Creditor)/GG Gross Debt	%	39.1	37.3	37.8	37.6	34.9	38.2	-	-
Interest/Revenue	%	18.0	20.8	21.7	21.4	22.0	25.0	-	-
External Indicators									
Current Account Balance/GDP	%	-3.0	-1.3	-1.5	-1.1	-4.1	-0.7	-0.8	-2.7
FDI, Net Inflows/GDP	%	0.8	0.5	0.4	0.4	0.4	0.3	-	-
Outstanding FII Liabilities/GDP	%	1.3	1.0	1.0	0.9	0.6	0.5	-	-
NIIP/GDP	%	-12.7	-13.8	-11.8	-14.5	-16.4	-20.7	-	-
Foreign Exchange Reserves	USD Billion	32.0	32.7	43.2	46.2	33.7	21.9	-	-
Import Cover	Months	5.9	6.1	9.1	6.5	4.3	3.6	-	-
External Debt/GDP	%	17.8	17.9	19.5	21.9	21.0	22.5	-	-
Monetary and Financial Indicators									
CPI Inflation	%	5.8	5.5	5.6	5.6	6.2	9.0	9.3	6.1
Exchange Rate (Average)	LC per USD	83.5	84.5	84.9	85.1	91.7	106.3	-	-
Non-Performing Loans/Total Gross Loans	%	10.3	9.3	7.7	7.9	9.0	10.1	-	-
Private debt, loans and debt securities/GDP	%	39.3	38.4	38.4	38.3	38.2	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	CCC+	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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CIN-U66190GJ2024PLC151103