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Special Brief
Country Rating Update
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Moody's Downgrades Bangladesh: First Impression

On November 18, 2024, Moody's Investors Service (Moody's) downgraded the government of Bangladesh's long-term issuer and senior unsecured ratings to **B2** from B1[1], affirming a short-term issuer rating at "not prime" with a **negative** outlook. Earlier, Moody's downgraded Bangladesh to B1 from Ba3 on May 30, 2023, with stable outlook, which remained unchanged in last review of May 2024.

Concurrently, Bangladesh's local-currency (LC) and foreign-currency (FC) ceilings have been lowered to Ba3 and B2 from Ba2 and B1, respectively. The LC ceiling is placed two notches above the sovereign rating, while the FC ceiling is placed two notches below the LC ceiling.

DOWNGRADED TO B2: MOODY'S RATIONALE

Moody's has identified the following critical factors contributing to the recent rating downgrade:

- Political uncertainty and weakening growth may increase risks related to government liquidity, banking sector, and external vulnerabilities.
- Challenging fiscal revenue mobilization amid a weakening growth environment to further weaken debt affordability.
- Increased vulnerabilities in the banking sector, given the expectation for higher problem loans post regime change.
- Skepticism over monetary policy effectiveness on inflation control.
- Problems from last regime's economic mismanagement will continue to suppress improvement.

OUTLOOK BECOMING NEGATIVE - WHY?

Moody's has highlighted the following factors for its "NEGATIVE" rating outlook:

- The risk of further deterioration in law and order, fuelled by social challenges and political uncertainty.
- Doubt on reform execution capacity of interim govt, with risk of waning political support, particularly in case of slow delivery on inflation and unemployment.
- High inflation weakening domestic demand, while contractionary monetary policy may prove less effective owing to transmission issues.
- Risk of weakening export outlook given Ready-made garment (RMG) sector may face greater challenges from possible order diversion.

IN SHORT

Moody's appears wary on political direction	Expects POSITIVE but weaker economic growth ahead
Worries on GoB liquidity and banking sector risks	Expects remittance to surge, more FDI inflow
Expects more defaults from past politically linked loans	FX reserve to reach USD 20 Bn by 2024, improve in 2025

OUR ASSESSMENT

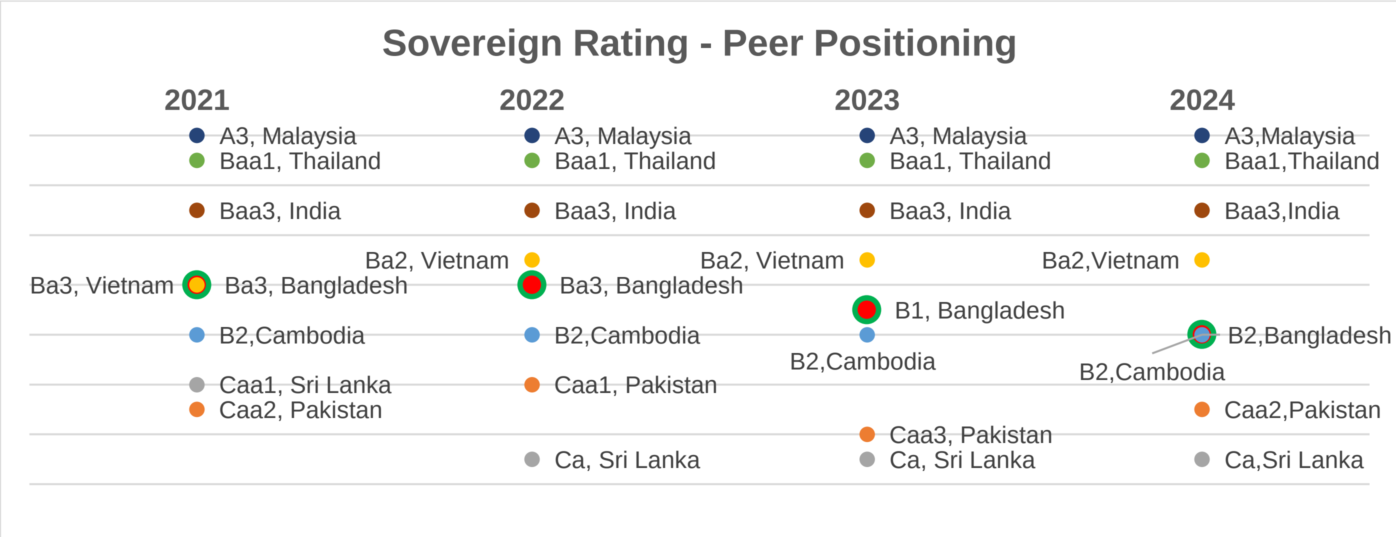
Bangladesh's comparative Peer positioning remains largely in line	Rating Change Not Imminent, However, outlook change is possible in 6-12M
Latest downgrade is part reflection of regime change & late-in-the-game policy moves	Rating reversal is possible within 12-24M horizon, in upside case

[1] B2 by Moody is equivalent to B by S&P and Fitch. For a B1 rating by Moody, the equivalent is B+ from the others.

EVALUATION

PEER COMPARISON – Bangladesh's Rank Tilts Little, Still In Line

A brief look at Moody's recent rating of multiple countries worldwide reveals that several countries in peer groups have seen their sovereign rating unchanged. As of now, compared to its regional and economic peers, Bangladesh still stands RELATIVELY in line (although weakened) with previous (See Image Below)



Among the South Asian nations, Sri Lanka has experienced a significant downgrade over the past four years, while Pakistan, despite previous downgrades, recently received an upgrade. Their current ratings are Ca and Caa2, respectively, notably below Bangladesh's rating. India was downgraded to Baa3 in 2020 and has been there since and above Bangladesh.

Within Frontier and Emerging Markets, Vietnam—a frontier market peer to Bangladesh—has maintained a stable credit rating. Key ASEAN economies, such as Malaysia and Thailand, have retained their ratings without any changes. In 2022, Laos was downgraded to Caa3, where it has remained, while Cambodia has held steady at a B2 rating. Outside of Asia, Egypt experienced a downgrade from B3 to Caa1 in October 2023. In contrast, Turkey has demonstrated notable progress, receiving an upgrade to B1 in 2024 following its previous downgrade to B3 in August 2022.

Our assessment indicates that global disruptions — such as the Middle East conflict, tensions in Asia, and the Russia-Ukraine war — have substantially impacted the economies of Frontier and Emerging Markets. Structurally weaker economies have seen rating downgrades, as evidenced by Sri Lanka and Pakistan, while more resilient economies have maintained stable ratings. In the case of Bangladesh, recent political shifts and reforms have introduced uncertainty, contributing to short-term economic challenges.

B1 to B2: Putting Into Different League

With earlier rating, Bangladesh was placed in the similar risk category as Albania, Bahamas, Benin, Costa Rica, and Fiji. However, with latest revision, Moody's has placed Bangladesh in line with Bahrain, Cambodia, Papua New Guinea, Rwanda, Tanzania, Uganda, and Nicaragua. Considering GDP size, Bangladesh's economy is at least 4.0x-10x larger compared to other countries in current set. Our strong opinion is that the revision appears to ignore the economic and structural differences and rather a conservative view considering added vulnerabilities and contingencies.

Rating Reversal: What Are the Odds

As the country went through a mass protest driven regime change, the shifts across economy alongside the added uncertainties on political front in the aftermath are prompting Moody's to stay cautious. However, as economic activities have largely normalized, substantial improvements have been seen in remittance and DFI loans, and reforms are being executed across; we expect the uncertainties to clear out ahead. In that landscape, we expect Bangladesh to have a changed outlook followed by rating reversal. In our review, we have seen similar turns for Pakistan. Moody's downgraded Pakistan's B3 credit rating (Aug'20) rating to Caa1 in Oct'22, again in Feb'23 to Caa3, and then upgrading to Caa2 in Aug'24. Brazil's credit rating was downgraded to Baa3 in Aug'15, again in Feb'16 to Ba2, and then upgrading to Ba1 in Oct'24. Costa Rica's credit rating was downgraded to Baa3 in Sep'14, B1 in Feb'18, B2 in Feb'20, and then upgraded to B1 in Nov'23 and again to Ba3 in Sep'24.

RATING REVERSAL: ACTIVE INSTANCES

Pakistan
- Caa1 (-) > Caa3 (-) > Caa2 (+)
- 22 Months

Brazil
- Baa3 (-) > Ba2 (-) > Ba1 (+)
- 9Y 2 Months

Costa Rica
- B1 (-) >B2 (-) >B1 (+)
- 5Y 7 Months

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