

# Does Bangladesh deserve a higher sovereign rating?

SHARJIL HAQUE

**I**N Fiscal Year (FY) 2014-15, global sovereign rating agencies Moody's, Standard & Poor's and Fitch assigned Bangladesh a 'stable' sovereign credit outlook. While certainly commendable, Bangladesh's rating is still well below many emerging economies. A higher sovereign rating lowers the interest rate companies and sovereign governments have to pay to access international credit markets. This is particularly relevant now that Bangladesh has opened up foreign commercial borrowing. It is also used as a gauge by foreign investors when deciding to invest in various manufacturing sectors. This article uses Moody's rating methodology to highlight that Bangladesh deserves a higher sovereign rating from international rating agencies.

Moody's rating methodology is based on four broad categories - economic strength, fiscal strength, institutional strength and susceptibility to event risk. Each of these categories is based on multiple sub-factors. For instance, fiscal strength is determined by the level and cost of overall government debt. Economic strength is based on the level and volatility of GDP growth as well as scale of the economy's wealth. Susceptibility to event risk depends on political risk, government's liquidity risk, banking sector risk and external vulnerability risk. Scores to these sub-factors are aggregated to give individual rankings to the four broad categories listed above. Rankings to the broad categories are then aggregated and assigned a formal credit rating. Bangladesh achieved a 'Ba3' rating from Moody's last year.

**Fiscal strength:** Bangladesh's below-par rating in fiscal dimension reflects low revenue base compared to peer countries. This creates challenges for the country's debt burden (ratio of

government debt to government revenue) and debt affordability (ratio of government interest payment to government revenue). We all know that improving tax collection has been a major challenge in Bangladesh. In this regard, completion of the VAT automation process by the end of this year will show (rating agencies) progress in a key fiscal dimension. Reduction of interest rates on National Savings Schemes (NSS) by 2 percent last year should also not be overlooked (albeit rate

and good governance. Fiscal policy echoes these concerns more, especially given below-par quality of fiscal expenditure. On the other hand, monetary policy has been generally laudable. The central bank brought down inflation from 11 percent in 2011 to 6 percent and ensured both price and nominal exchange rate stability in recent years. This success notwithstanding, improving institutional effectiveness and policy credibility is a longer term concern. For instance, further improvements in monetary

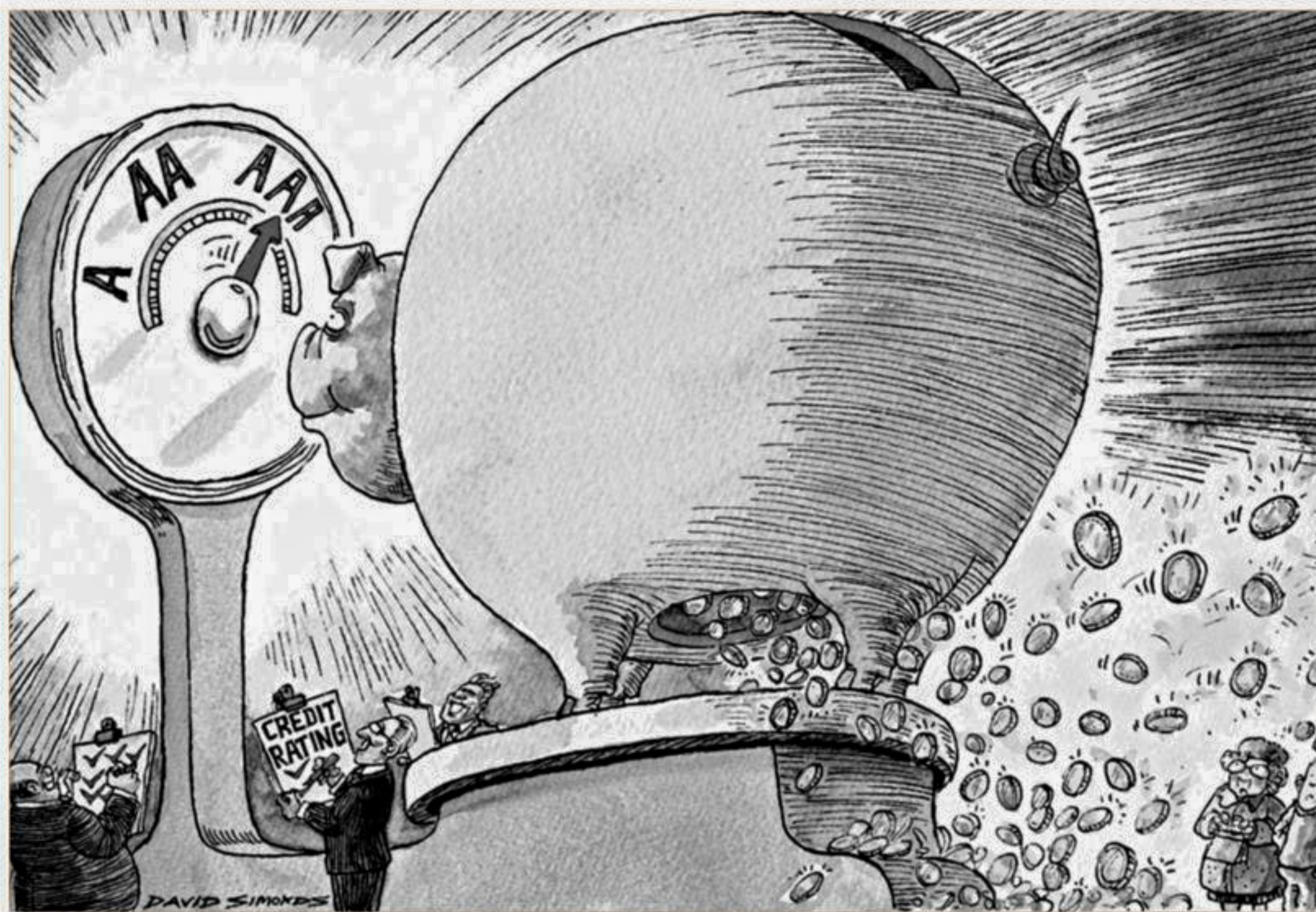
percent. Additionally, volatility of growth rate is substantially lower than peer countries. Concerns have also been raised about Bangladesh's investment scenario. While credit flow to the real economy has improved in recent months, sustained periods of 15-16 percent private sector credit growth requires substantial improvement in infrastructure. In this regard, Bangladesh Economic Zones Authority (BEZA) is starting development work of 10 economic zones. According to recent press reports, the next

investment outlook is certainly credit-positive and warrants a higher ranking in economic strength.

**Susceptibility to event risk:** The main factor which lowered ranking in this category last year was political volatility. But since the first quarter of 2015, political condition has been relatively stable. Confrontational politics and frequent strikes have more or less dissipated and signs are that this year will be free of such turmoil. Two other factors in this category - government liquidity risk and external vulnerability - are also in strong shape. With banks sitting on excess liquidity, raising funds through sale of debt-securities is certainly not a challenge for the government if the need arises. Low-cost and limited foreign liability backed by record-high international reserves means our vulnerability to an external debt-related crisis is minimal. Additionally, the central bank's recent appointment of 'observers' to public banks shows that authorities are taking tangible steps to improve asset quality in the financial sector. Based on these arguments, Bangladesh's ranking in 'Susceptibility to Event Risk' deserves an improved ranking as well.

Given an outlook of improving private sector credit, higher GDP growth with restrained inflation, gradual initiatives to address infrastructural bottlenecks, political stability and stronger external condition, we can argue that Bangladesh deserves a higher sovereign rating. It should be mentioned that the methodologies of international credit rating agencies largely focus on similar economic indicators. So the arguments raised in this column can be extended to ratings assigned by all agencies.

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of return on NSS is still considered relatively high). The slump in international oil prices has created fiscal space through reduction in energy subsidy. Overall, assuming continued political stability, improved economic activity will generate higher revenue in the near term. These developments suggest fiscal strength warrants a more positive outlook.

**Institutional effectiveness:** A low score in this category reflects widely-known challenges to public institutional credibility

policy effectiveness will depend on bond market development. So at least for the coming year, Bangladesh's existing ranking in this category is justified.

**Economic Strength:** Moody's based its previous score in this category on a projected 6.1 percent growth in FY 15, substantially lower than the actual 6.5 percent. With political turmoil significantly reduced, analysts are now relatively bullish on Bangladesh's growth rate for FY 16 and are projecting economic expansion above 6.5

budget plans to create a separate 'capital budget' for big public investment projects. Consistent with the need for additional capital to fund mega projects, Bangladesh joined the Asian Infrastructure Investment Bank. Finally, the central bank's continued the 'Selective Easing' initiative to ensure affordable credit to productive sectors - with strong emphasis on small and medium enterprises - is also worth mentioning. These initiatives suggest that medium-term infrastructure and

## Pre-poll clashes in Patuakhali

Come down strongly on the trouble mongers

**W**ITH the union parishad polls just a few days away, the news of deadly clashes during election campaign is really worrying. On March 7, one person was killed and 42 were injured in two separate incidents of clashes between supporters of UP chairman candidates in Patuakhali. Earlier it was also reported in the media that candidates, particularly the BNP-nominated ones and AL's rebel aspirants, had been obstructed from submitting their nomination papers in many places. Workers' Party's President Rashed Khan Menon in his parliamentary speech alleged that his party candidates were barred from filing nomination papers. We are apprehensive of this trend which might deteriorate during the elections. A violence ridden election will mar the whole electoral process and the credibility of the polls.

This time elections to the UP chairman post will be held on partisan lines. So the political parties have the responsibility to check irregularities of their party men. In both the cases in Patuakhali, AL candidates were involved in the violence. The ruling party should look into the matter seriously and take action against its unruly elements. Unfortunately, we are yet to see any action by the election authority though they are primarily responsible for ensuring a peaceful poll ambience. They should play a proactive role to avoid further occurrence of such untoward incidents.

## Sand lifting threatens bridge

No one to protect national assets

**T**HE unbridled lifting of sand and that too within 50 metres from a crucial bridge on Thakurgaon-Patiadangi road in Thakurgaon Sadar upazila by a local political party leader is a classic case of strong arm tactics where authorities seem powerless to act. Although the executive engineer of the LGED has pointed out that they do not allow extraction of sand 100 metres of a bridge, this activity is going on without giving two hoots to the damage being caused to the concrete pillars that hold up the bridge.

When profits meet power, unscrupulous activity like this goes on unabated, and with the dredger extracting sand at full swing, the fate of the bridge is anyone's guess. All that has happened by way of warning the public of the dangers posed is a few signboards designating it to be "risky". It is ironic that the local administration has not taken any action, particularly in light of the fact that the local contractor's claims that he has permission to do this work has been refuted by the Water Development Board authorities.

Local people's complaints to authorities have fallen on deaf ears since the group causing the havoc is a ruling party stalwart. Regardless of political connections, the act itself breaks more than one law and the administration must act, and decisively at that, before further damage is done to the bridge on Senua River which could be in real danger of collapse.

MOHAMMAD ABDUL QAYYUM

**B**ANGLADESH experienced over 200 natural disasters since 1980, leaving a total death toll of approximately 200,000 people and causing economic loss worth nearly \$17 billion. Every year, we incurred 1.8 percent of GDP loss due to natural disaster. It is estimated that 14 percent of our GDP is exposed to disasters. After the devastating cyclone of 1991, the concept of response (acting after the occurrence) has been changed by the new concept of total disaster management (which includes response, recovery, rehabilitation and prevention, mitigation and preparedness). This is the genesis of observing National Disaster Preparedness Day. After the 1998 floods, the momentum increased significantly towards risk reduction. Such change or shifts are well ahead of many global initiatives.

In order to make disaster management system operative in an effective and efficient manner we have taken a lot of initiatives and we achieved significant success. The progress achieved can be of two categories mainly - the institutional framework and the legal and policy framework. Among the public sector institutions, the Ministry of Disaster Management and Relief, established in 1972, is the apex body, which currently focuses on the complete disaster management concept, and has taken shape as a separate ministry. The new concept is reflected in the allocation of business prioritising risk reduction as the centre of all activities.

The government has restructured and established the Disaster Management Department as the main organ or instrument in the field for implementing and coordinating various forms of disaster management activities. Merging two organisations - the Disaster Management Bureau (established after the 1991 cyclone) and the Directorate of Relief and Rehabilitation established earlier. For the dissemination of early warning signals of cyclones to the communities in the coastal zone, the Cyclone Preparedness Programme (CPP), a globally renowned volunteer organization of Bangladesh, which combines volunteerism and

communication technology, was established in 1972, after the devastating Bhola cyclone. The organisation has been restructured and rejuvenated through training, technology upgrades (e.g. wireless network) and extension of the areas per the changing cyclone route.

Besides these reformed organisations, there are frontier organisations like the Bangladesh Metrological Department, Flood Forecasting and Warning Center, Water Development Board, Fire Service and Civil Defense. In the last couple of years, these organisations have also been strengthened significantly.

Research organizations like IWM WARPO, CEGIS, BUET, BCAS and others have also proven their increased capability.

The most demanded legal instrument was enacted in 2012 viz. the Disaster Management (DM) Act - incorporating existing orders, reforming institutions, envisaging new institutions, putting necessary mechanisms in place and making the disaster management system accountable with mandatory legal provisions. Before this Act, we worked under the Standing Order on Disaster (SOD) issued in 1997. It has two important features - provision of duties and responsibilities for the ministries and departments and secondly, the establishment of committees at all levels, considering the inter-relatedness of disaster management activities. This SOD is regarded as the "Bible of Disaster Management". Now these orders are part of the DM Act.

Currently we have other instruments like the Disaster Management Policy, approved by the cabinet, the Disaster Management Plan, guidelines also prepared for addressing specific disasters and purposes.

Understanding disaster and development related challenges, the General Economic Division incorporated a disaster and climate change action in the five year plan document (which started from the Sixth Five Year Plan). It's a tremendous achievement and is expected to guide the whole development process and quantify the results achieved with specific indicators. The Environment Ministry also prepared the Bangladesh Climate Change Strategy and Action Plan and National plan of Action.

Mortality reduction is the single most important result we achieved, as it reduced from 300,000 in 1970 to 3,000 in 2007. Food production increased three times in 1970. Poverty reduced from 40 percent in 2005 to 24.7 percent in 2014. Economic growth is averaging at 6 percent and is expected to increase. Five out of the eight goals were achieved under the Millennium Development Goals (MDGs). Literacy rate, sanitation coverage and women's participation are also mentionable achievements.

Against the backdrop of reforms done and the success achieved, we can claim justifiably that we are not afraid. But we must be aware about the present and future challenges. The changing patterns of disaster pose major challenges. We are better in managing rapid onset disasters like floods and cyclones. We have to agree that the intensity and frequency of natural disasters will increase with further climate change. On the other hand, we have no better understanding in managing slow-onset disasters, which include salinity, agricultural droughts and earthquakes. These disasters in the future may create insurmountable pressure on lives and livelihoods.

Unplanned urbanisation has been emerging as a major threat for us. Due to this process, many new disasters have already manifested. Urban congestion, fires, building collapses, pollution, urban flooding, etc. will be more frequent in the future.

Bangladesh, being a low deltaic country, is extremely vulnerable. Climate change has its impacts on every sector of the country's development. This will create complex and compound disasters. It is required to understand the change and its trend, and the dynamic and sustainable adaptation strategies. Longer term investments and strategies need to be developed.

Mainstreaming disaster and climate change issues in different sectors and in the development process are challenging tasks. Disaster and climate change is not an external issue - rather, it must be internalised by all sectors; otherwise, we shall not be able to overcome the odds successfully through just one ministry or department.

Human induced and technological disasters are getting more dominance in

the landscape of disaster management. The role and engagement of the private sector is unquestionable. In our country, the matter to be considered is beyond the 'charity' mindset. Reduction of harmful consumption, production, distribution and deviant activities, attitudes and habits must be reduced. On the other hand, innovative ways need to be utilized to improve the disaster and climate change situation by producing and promoting new products and services. The other issue is short term versus long term investments, benefits, preparedness, planning and strategy. People here tend to prioritise short term benefits, but practitioners and academicians are always in favour of long term planning.

In the area of disaster management, Bangladesh is well ahead of many countries. This is why the country is considered a role model in managing natural disasters. The strength and attributes we have among others include community resilience, volunteerism, the Early Warning System, community based decision making process, government commitment, a vibrant NGO sector and an appreciable legal and institutional framework. These need to be strengthened further. Implementation of various provisions of legal and policy directives needs to be evaluated and further commitment is needed in this regard. Many provisions of the DM Act, especially the Disaster Management Fund, Volunteer Platform, Research and Training Institute, are to be put in place as priority activities. Educational and research organisations should be supported continuously.

This year is the beginning of three international interrelated processes - the Sendai Framework for Disaster Risk Reduction, the Agenda 2030 for Sustainable Development, and the COP21 Paris Agreement for climate change action. Bangladesh, as an active participating country, will once again prove to be the champion of disaster risk reduction through better preparedness at all levels and across all sectors, battling every type of disaster.

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## LETTERS TO THE EDITOR

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### Charging for the re-registration of SIMs

The decision of the re-registration of SIM cards is indeed a good one as it will reduce the crimes committed using mobile phones. The process of re-registration is supposed to be free of cost. But it is a matter of sorrow that in some areas, representatives of the mobile companies are taking Tk 50 to 100 for the registration process. We urge the authority to look into this matter and take necessary actions.

Md. Mominur Rahman

Jigatola, Dhanmondi



## COMMENTS

"No one except the court can identify someone as a criminal."

-Sultana Kamal to BBC Bangla on Rab's claim that the two Banasree siblings were killed by their own mother.

Salahuddin Jamal

After having established proof, only the court can claim a person as criminal.