DCCI Seminar on Sovereign Credit Ratings

Address of **Dr. Atiur Rahman,** Governor, Bangladesh Bank

22 April 2010
DCCI Auditorium

Chief Guest

Mr. President and office bearers of DCCI; keynote speaker the Citi NA country head, distinguished seminar participants, Assalamu Alaikum and good afternoon to you all.

In the keynote speech we have heard about how the first ever sovereign country ratings of Bangladesh by two global raters S&P and Moody's have been hearteningly favorable, ahead of all our South Asian neighbors except India. These ratings are a vote of confidence in Bangladesh as a promising investment destination. The role of our business community in the economy certainly had important positive contribution in this earning of favorable sovereign credit ratings, for which I take this opportunity to thank our business community heartily. The deficiencies in power, gas and physical infrastructure now besetting us are growth constraints for sure, but are at the same time investments opportunities as well. I would urge our business community to take full advantage of these opportunities, where necessary in joint ventures with foreign investors reassured by the favorable sovereign credit rating.

I believe our business community including banks will be proactive in negotiating lower interest costs on foreign borrowings and credit confirmation lines, commensurate with the favorable sovereign credit ratings. Our businesses can go further in reducing their local borrowing costs as well, by getting themselves rated by local or international rating agencies. This opportunity arises from the newly introduced Basel II capital regime for banks in Bangladesh, which has lower risk weights and correspondingly lower capital charges on loans to favorably rated businesses. Banks will be able to pass on to favorably rated borrowers the lower carrying costs of loans, with lower interest rates.

In the euphoria about the favorable first ever sovereign credit rating let me conclude on a sobering note, drawing attention to the new responsibility of preserving the favorable rating; because costs of foreign borrowings and credit lines will go up with any negative change in rating or outlook. Both S&P and Moody's have mentioned the government's low revenue base and the country's narrow export base (very high dependence on apparels) as rating constraints. Good tax compliance will ease the former, and diversification of the export basket will ease the later. We shall all need to remain proactive in playing our due roles in attaining these objectives. In particular, we will have to be persistent in taking forward the promised reforms in NBR and providing additional incentives for diversification of exports including potential sectors like shipbuilding and skill-based human resources.
