

Deconstructing Public Debt of Bangladesh Trends, Status and Outlook

A Conversation with the Media

by

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এসডিজি বাস্তবায়নে নাগরিক প্ল্যাটফর্ম, বাংলাদেশ

Grateful to the following colleagues for their able research support

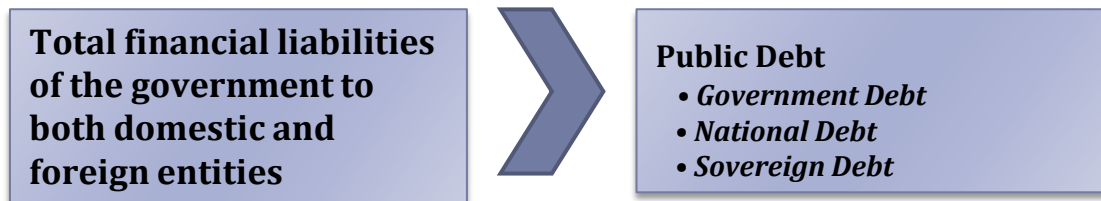
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1. Why Bother About Public Debt?

- **Public debt is a core macroeconomic issue. If not addressed, rising debt can distort the economy by undermining major macroeconomic variables such as economic growth, inflation and exchange rates.**



Mentionable “debt crises” in the recent past

- Greece Debt Crisis (2009-2018)
- Ghana Debt Crisis (2017-Present)
- Sri Lankan Debt Crisis (2019-Present)
- Zimbabwe Debt Distress (2019-Present)
- Pakistan Debt Distress (2019-Present)

1. Why Bother About Public Debt? (Contd.)

Public Debt: Reasons and Manifestations

Reasons	Manifestations
1. <u>Inadequate domestic resources</u> (and external grants) to sustain recurrent and development activities: Low revenue yield and chronic fiscal deficit	1. Debt default
2. <u>Weakening of external balance</u> : Deteriorating current account and balance of payment, fall in external financial flows including export revenue, remittance income, FDI, income on assets overseas	2. Fall in economic growth
3. <u>Imprudent external borrowing</u> : Changes in debt composition, currency mismatch, high-interest rate and shorter maturity period, failure to generate expected return on investment and escalation of project cost	3. High inflation
	4. Foreign exchange reserve depletion
	5. Exchange rate depreciation
	6. Loss of economic competitiveness
	7. Lowering of credit rating

1. Why Bother About Public Debt? (Contd.)

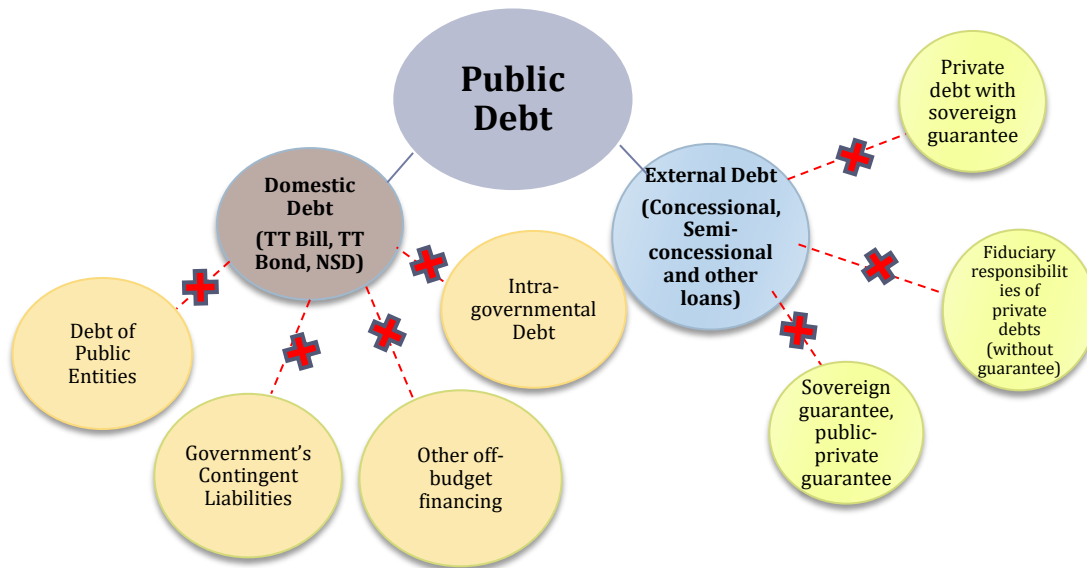
- ▶ **Public debt management:** Joint concern of fiscal and monetary authorities
- ▶ **Debt sustainability**-level beyond which the government can not service the liabilities from the debt, without incurring further debt.
- ▶ There is little theoretical or empirical support for setting a public debt target at some particular level. More important factor is the **pace of fiscal consolidation**, which is not too slow to give markets concern but not too fast to derail the recovery effort.
- ▶ A World Bank study suggests that a debt to GDP ratio above the threshold of 77% may lead to adverse impact in the economy. But this varies from country to country; **a ratio exceeding 100% doesn't necessarily indicate a bankrupt/insolvent country.**

For example, Japan has a ratio well over 200% for more than a decade without any signs of defaulting. Therefore, a high ratio does not always indicate a country's likelihood of default.

- ▶ Rather, markets usually attach low probabilities of debt crisis to countries with a **strong record of being fiscally responsible**. While countries do need to keep public debt ratios within a **safe limit**, a certain public debt target may not be necessary.

Other Elements of Total Liabilities

Many elements are not included leading to underestimation



Transparency in reporting necessary to gain a holistic view

2. What are the trends in public debt?

Total Debt

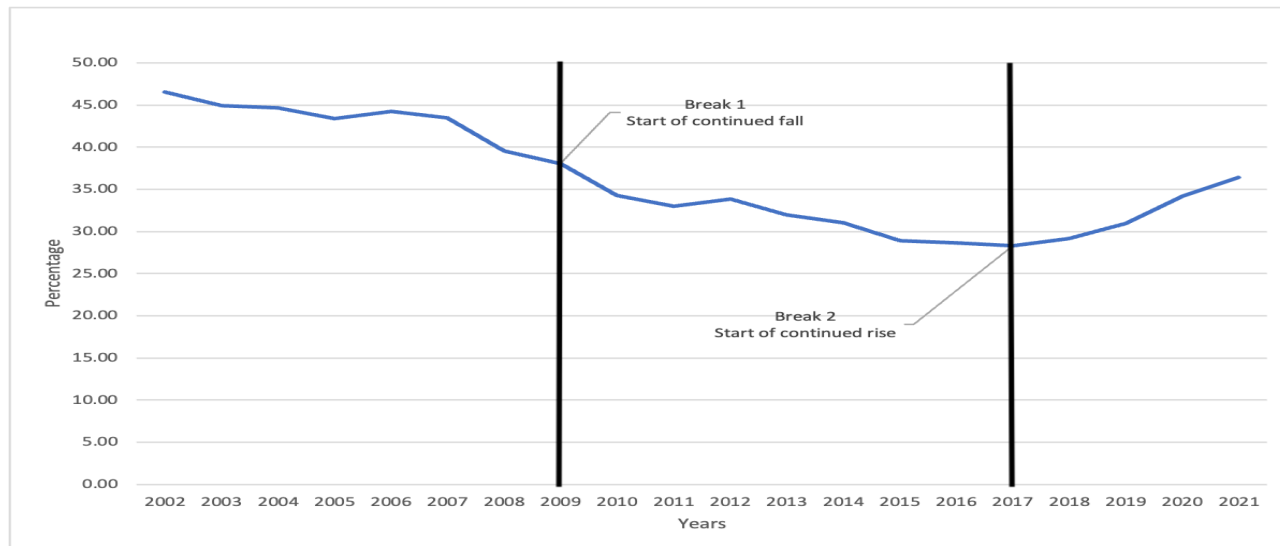
- A. Total public debt (as % of GDP) for Bangladesh (34.7%) **was among the lowest in South Asia in FY20**, with Sri Lanka (112.2%) and Bhutan (120.7%), being the highest. (source: IMF)
- B. (i) Total **outstanding debt** amount in FY21 in Bangladesh was **\$131.14 billion**
(ii) It increased by \$16.45 billion on average for the **past 3 years**, which was about 2.5% of GDP
(iii) **In FY21 only**, total public debt increased more than \$18.64 billion (additional 2.2% of GDP)
of which more than 54% was domestic debt
- C. (i) Total debt as percentage of GDP **decreased** in Bangladesh between FY08 (38.8%) and FY17 (28.2%)
(ii) It has since **increased** between FY18 (29.5)% and FY21 (36.9%)
(iii) The **linear decadal growth rates** were 44.1% (FY02 to FY11)
66.6% (FY12 to FY21)
- D. (i) Per capita outstanding debt – **USD 432 (FY21)**
(ii) Annual increase of outstanding debt (FY20 to FY21) – USD 9.62 bln
(iii) Annual increase in DSL – (FY20 to FY21) – USD 0.7 bln

*For consistency and comparability, the paper used GDP series with the base-year 2005-06

"Media reports stated that Bangladesh's principal and interest payments amounted to \$1.9bn in 2021, but CPD's research showed it to be closer to \$3.3bn."

2. What are the trends in public debt? *(Contd.)*

Figure 2.1: Total debt as percentage of GDP



NB: Breaks in the trend have been estimated by using “Chow Breakpoint Test”

2. What are the trends in public debt? (Contd.)

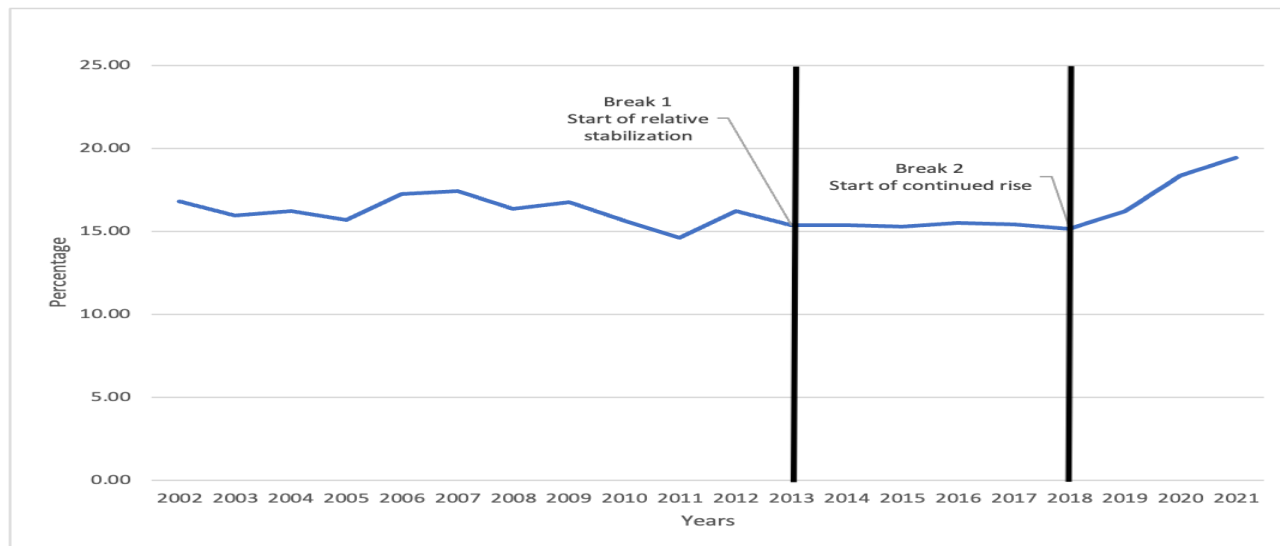
Domestic Debt

- A. (i) Total **outstanding domestic debt** amount in Bangladesh was **\$69 billion** in FY21
(ii) Share of domestic debt in total public debt **increased** between FY03 (35.6%) and 2021 (53.4%)
(iii) It increased by \$7.27 billion on average for the **past 3 years**, which was about 1% of GDP
(iv) **In FY21 only**, domestic debt increased by more than \$9.6 billion (additional 1.1% of GDP)
- B. (i) Domestic debt in 2015 became more than half of the total public debt and in FY21 it was a little above 54%
- C. (i) Domestic debt (as % of GDP) had been **stable** between
FY02 (16.8%) and FY12 (16.2%), averaging 16.3%
(ii) Between FY13 (15.4%) and FY18 (15.2%) it exhibits a nearly flat phase
(iii) Between FY19 (16.3%) to FY21 (19.5%) it exhibits an **increasing** trend
(iv) The linear decadal growth rates were -13.07% (FY02 to FY11) and 19.91% (FY12 to FY21)

Domestic debt to remain the larger share of public debt in the near future

2. What are the trends in public debt? *(Contd.)*

Figure 2.2: Domestic debt as percentage of GDP



NB: Breaks in the trend have been estimated by using “Chow Breakpoint Test”

2. What are the trends in public debt? (Contd.)

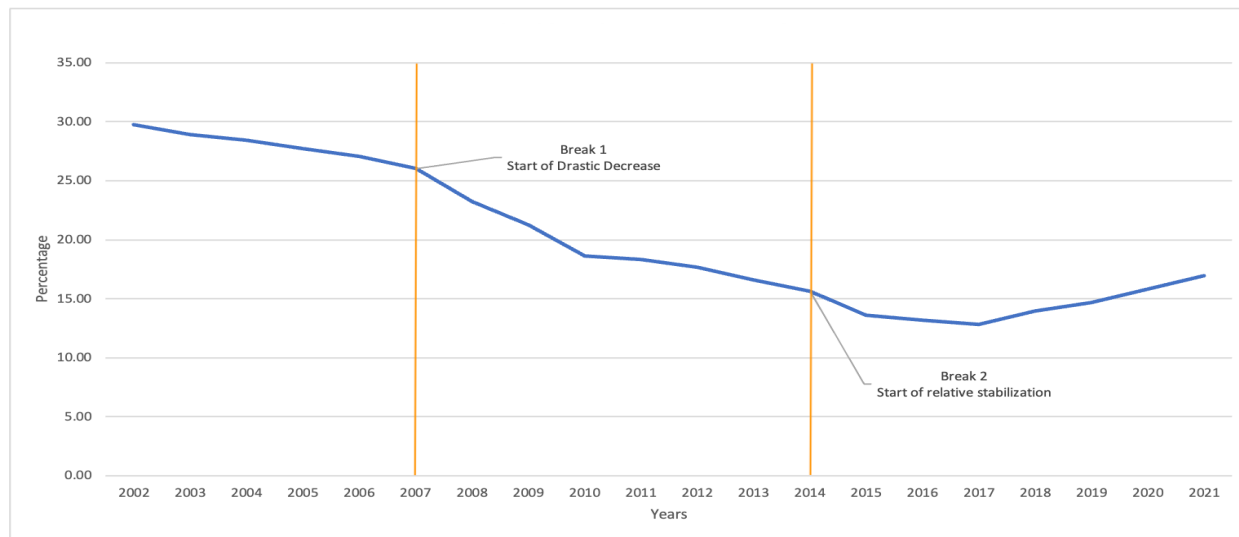
External Public Debt

- A. (i) Total **outstanding external public debt** amount in Bangladesh was **\$60.15 billion** in FY21
- (ii) Share of external public debt in total public debt **decreased** between FY03 (64.4%) and 2021 (46.6%)
- (iii) It increased by \$7.27 billion on average for the **past 3 years**, which was about 1% of GDP
- (iv) **In FY21 only**, external public debt increased by more than \$9.02 billion (additional 1.1% of GDP)
- B. Share of external public debt stands at 46% of total public debt (FY21)
- C. (i) External public debt (as % of GDP) **decreased** between FY03 (28.9%) to FY12 (17.7%), averaging 23.7%
- (ii) Between FY13 (16.6%) and FY18 (14%) it exhibits a **sharp decrease**
- (iii) Between FY19 (14.7%) to FY21 (16.9%) it exhibits an **increasing** trend
- (iv) The linear decadal growth rates were -38.9% (FY03 to FY12) and -4.1% (FY12 to FY21)

Recent pick up of external debt growth demands close scrutiny of the portfolio

2. What are the trends in public debt? *(Contd.)*

Figure 2.3: External public debt as percentage of GDP



NB: Breaks in the trend have been estimated by using "Chow Breakpoint Test"

2. What are the trends in public debt? (Contd.)

External Private Debt

- A. (i) Total **outstanding external private debt** amount in Bangladesh was **\$18.69 billion** in FY21
- (ii) Share of external private debt in total debt **increased** between FY03 (3.9%) and 2021 (14.5%)
- (iii) It increased \$1.68 billion on average for the **past 3 years**, which was about 0.05% of GDP
- (iv) **In FY21 only**, external private debt increased more than \$4.6 billion (additional 0.9% of GDP)
- B. Share of external private debt is 5.26% of GDP (FY21)
- C. (i) External private debt (% of GDP) had been relatively **stable** between FY03 (1.8%) to FY13 (1.4%) in Bangladesh, averaging 1.5%
- (ii) Between FY13 (1.4%) and FY15 (4%) it exhibits a **steep increase**
- (iii) Between FY16 (4%) to FY21 (5.3%) it exhibits an **increasing** trend
- (iv) The linear decadal growth rates were 34.1% (FY03 to FY12) and 77.9% (FY12 to FY21)

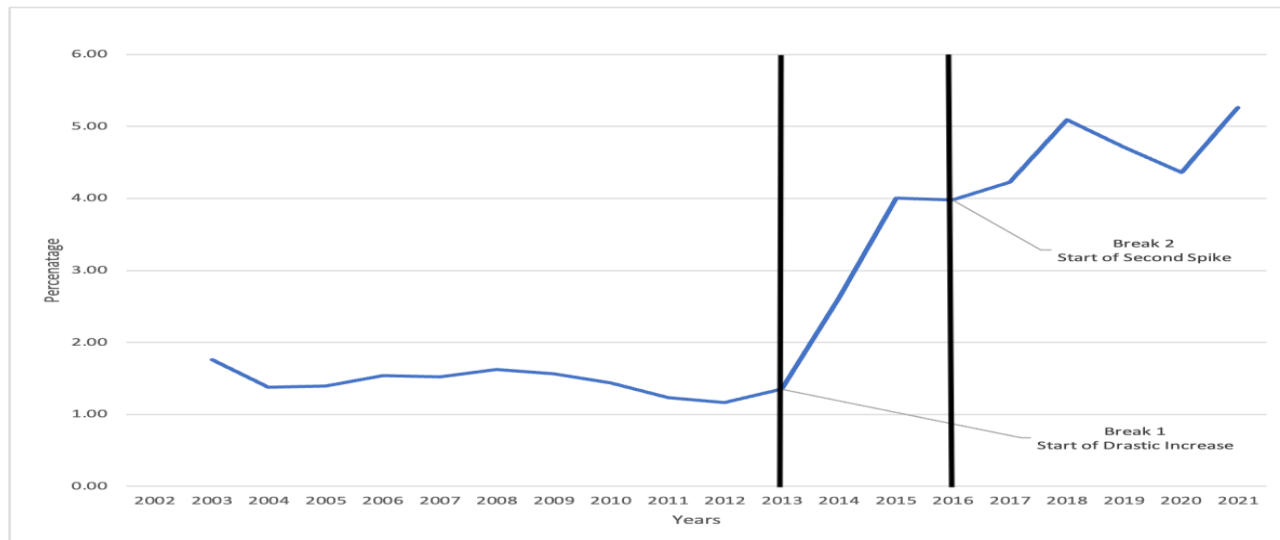
External private is growing exponentially, could become a sore point

*For consistency and comparability, the paper used GDP series with the base-year 2005-06

Debapriya Bhattacharya: Conversation on Public Debt in Bangladesh. 09.05.2022

2. What are the trends in public debt? *(Contd.)*

Figure 2.4: External private debt as percentage of GDP



NB: Breaks in the trend have been estimated by using "Chow Breakpoint Test"

2. What are the trends in public debt? (Contd.)

Domestic and Foreign Debt Servicing Liability as Share of Total DSL

Year	Foreign DSL	Domestic DSL
2006	38.91	61.09
2007	42.38	57.62
2008	44.16	55.84
2009	53.60	46.40
2010	53.42	46.58
2011	52.08	47.92
2012	46.03	53.97
2013	42.40	57.60
2014	53.27	46.73
2015	60.16	39.84
2016	62.85	37.15
2017	67.42	32.58
2018	67.46	32.54
2019	65.90	34.10
2020	66.81	33.19
2021	67.65	32.35

2. What are the trends in public debt? (Contd.)

Composition of External Debt

External public debt(Share of total External Debt); All figures in Billion USD		
Components	20-Jun	21-Jun
	47.67 (97.92)	57.11 (96.23)
1. Long-term Debt		
1.1 Multilateral	29.11 (59.79)	32.33 (54.57)
1.2 Bilateral	14.85 (30.50)	18.91 (31.86)
1.3 Trade Credit	0.00 (0)	0.00 (0)
1.4 IMF Loan	2.08 (4.26)	1.98 (3.33)
1.5 External Commercial Borrowing (ECB)	0.01 (.01)	2.15 (3.62)
1.6 Others	1.64 (3.37)	1.75 (2.95)
2. Short-term Debt	1.01 (2.08)	2.24 (3.77)
Total External Debt at June	48.68 (100)	59.35 (100)

2. What are the trends in public debt? (Contd.)

Table: Domestic Debt Composition

Year	Government (Net)				Other public sector	Domestic Public Debt
	Banking Sector	NBDCs	NSD	Total (a)	Total (b)	Total (a+b)
FY10	42.15	0.14	47.72	90.01	9.99	100
FY11	47.53	0.24	41.19	88.96	11.04	100
FY12	53.58	0.15	37.31	91.04	8.96	100
FY13	59.70	0.14	35.05	94.89	5.11	100
FY14	56.83	0.13	36.92	93.88	6.12	100
FY15	47.51	0.08	45.29	92.88	7.12	100
FY16	42.52	-0.03	51.67	94.16	5.84	100
FY17	31.88	-0.04	62.63	94.47	5.53	100
FY18	27.77	-0.91	69.59	96.45	3.55	100
FY19	27.40	-0.61	69.62	96.41	3.59	100
FY20	35.95	0.01	59.97	95.93	4.07	100
FY21	37.75	-0.11	58.78	96.42	3.58	100

NSD remains the overwhelming (and costlier) source of domestic public debt.

2. What are the trends in public debt? (Contd.)

Missing Elements of Debt Liabilities

- Private External Debt
- Sovereign guarantees to PPPs
- Contingent liabilities
- Intra-governmental liabilities

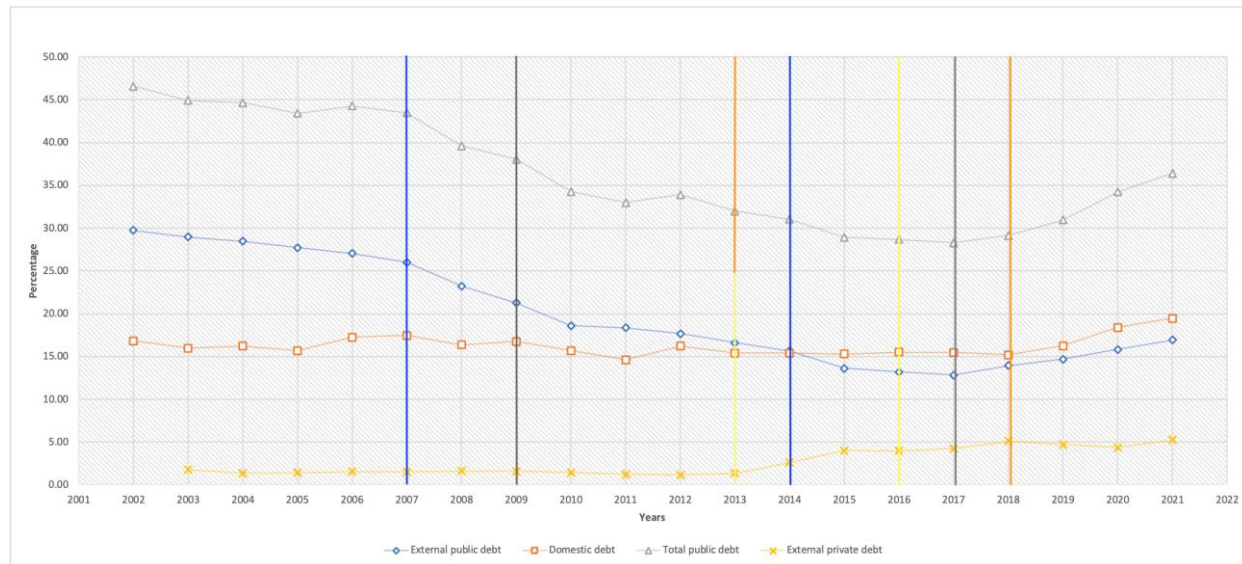
Broader estimate of total debt = Public (Domestic) + Public (External) + Private (External) + Contingent liabilities → 44.10% of GDP (FY21)

Broader Estimate of Debt, Billion USD(% of GDP, Base 2005-06)

Year	FY17	FY18	FY19	FY20	FY21
Public External	32.07 (9.03)	38.24 (10.77)	44.48 (12.53)	51.13 (14.40)	60.15 (16.94)
Public Domestic	38.58 (10.87)	41.61 (11.72)	49.18 (13.85)	59.42 (16.74)	69.04 (19.45)
Private External	10.54 (2.97)	13.97 (3.93)	14.25 (4.01)	14.09 (3.97)	18.69 (5.26)
Contingent	7.57 (2.13)	8.71 (2.45)	6.88 (1.94)	7.15 (2.01)	8.71 (2.45)
Public Guarantees for PPP	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)
Total	88.76 (25.00)	102.53 (28.88)	114.79 (32.33)	131.79 (37.12)	156.59 (44.10)

2. What are the trends in public debt? (Contd.)

Figure 2.5: Debt Trends



The Borrowing Trends Proximates the Election Cycle?

NB: Breaks in the trend have been estimated by using "Chow Breakpoint Test"

3. What is the situation with debt servicing?

3.1. Total debt servicing liability as % of Revenue Expenditure

- A. (i) Total debt servicing liability (as % of revenue expenditure) exhibits an erratic but lowering trend between FY06 (43.2%) and FY21 (26.7%)
- (ii) It increased about 0.1% on average for the **past 3 years**
- (iii) **In FY21**, it decreased by 0.08%
- (iv) Linear decadal growth rates of total DSL was 97% (FY12 to FY21)
- B. (i) Foreign **debt servicing liability** (as % of GDP) **decreasing** trend from FY06 (26.38%) till FY21 (8.64%)
- (ii) Share of foreign debt servicing liability in total public debt **decreased** between FY06 (61.1%) and FY21 (32.4%)
- (iii) It increased about 0.09% on average for the **past 3 years**
- (iv) **In FY21**, it **decreased** by 0.03%
- (v) The linear decadal growth rate of foreign DSL was 18% (FY12 to FY21)

*For consistency and comparability, the paper used GDP series with the base-year 2005-06

3. What is the situation with debt servicing? (contd.)

3.1. Total debt servicing liability as % of Revenue Expenditure (Contd.)

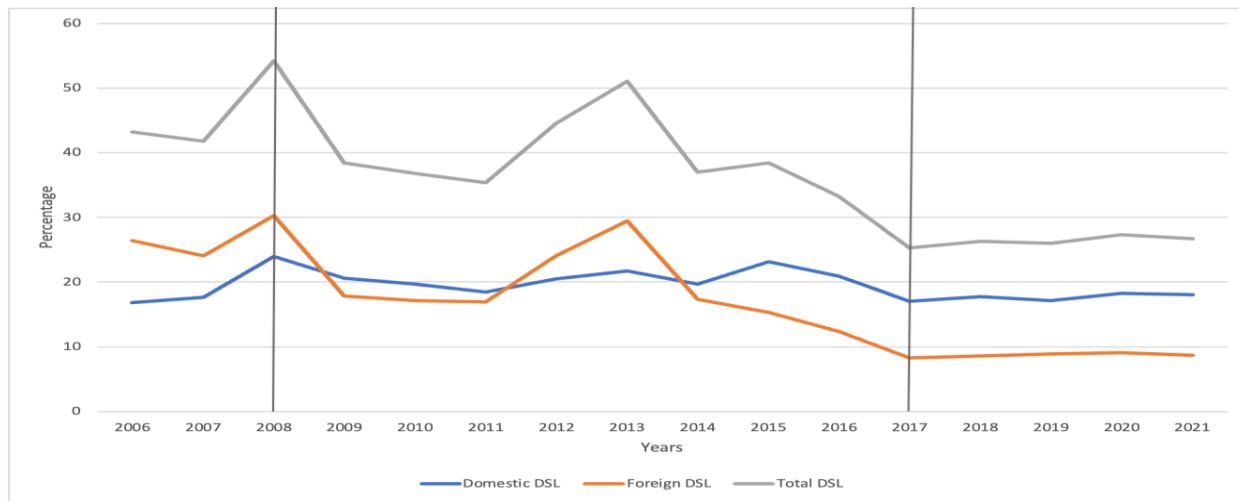
- C. (i) Domestic debt servicing liability (as % of revenue expenditure) has been **erratic** between FY06 (16.85%) to FY21 (18.07%)
- (ii) Share of foreign debt servicing liability in total debt servicing liability **decreased** between FY06 (61.1%) and FY21 (32.4%)
- (iii) The linear decadal growth rate of domestic DSL was 190% (FY12 to FY21)

In FY 21, domestic component of total DSL was 32.4% and foreign component: 67.6%.

In FY 2006, the corresponding numbers were: 61.1% (domestic) and 38.9% (foreign).

3. What is the situation with debt servicing? (contd.)

Fig 3.1: DSL (Total, Domestic and external) as % of Revenue Expenditure



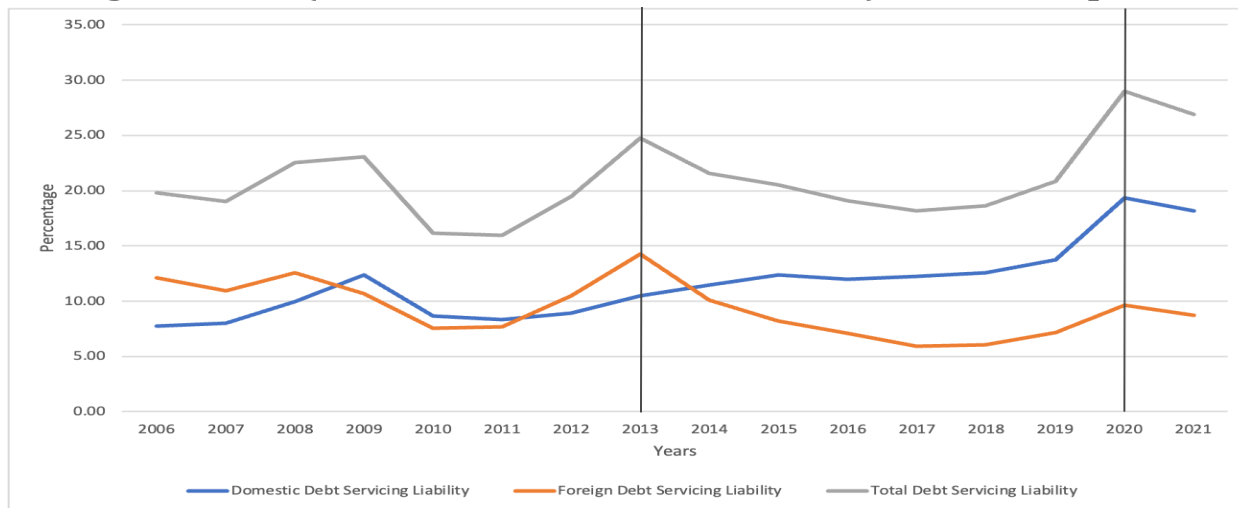
3. What is the situation with debt servicing? (contd.)

3.2. Total debt servicing liability as % of Exports

- A. (i) Total debt servicing liability (as % of exports) exhibits an erratic but lowering trend between FY06 (19.8%) and FY21 (26.9%)
- (ii) It increased about 2.8% on average for the **past 3 years**
- (iii) **In FY21**, it decreased by 2.1%
- B. (i) Foreign **debt servicing liability** (as % of GDP) decreasing trend from FY06 (2%) till FY21 (0.93%)
- (ii) Share of foreign debt servicing liability in total public debt **decreased** between FY06 (61.1%) and FY21 (32.4%)
- (iii) It increased about 0.9% on average for the **past 3 years**
- (iv) **In FY21**, it **decreased** by 0.9%
- C. (i) Domestic debt servicing liability (as % of GDP) has been erratic between FY06 (7.7%) to FY12 (9%)
- (ii) From FY13 (10.5%) to FY21 (18.2%) it has steadily increased
- (iii) It increased about 1.9% on average for the **past 3 years**
- (iv) **In FY21**, it **decreased** by 1.2%

3. What is the situation with debt servicing? (contd.)

Fig 3.2: DSL (Total, Domestic and external) as % of Exports



3. What is the situation with debt servicing? (contd.)

3.3. Total debt servicing liability as % of GDP

A. (i) Total debt servicing liability (as % of GDP) exhibits an erratic but lowering trend between

FY06 (3.3%) and FY21 (2.9%)

(ii) It increased about 0.1% on average for the **past 3 years**

(iii) **In FY21**, it **decreased** by 0.1%

B. (i) Foreign **debt servicing liability** (as % of GDP) decreasing trend from

FY06 (2%) till FY21 (0.93%)

(ii) Share of foreign debt servicing liability in total public debt **decreased** between

FY06 (61.1%) and FY21 (32.4%)

(iii) It increased about 0.04% on average for the **past 3 years**

(iv) **In FY21**, it **decreased** by 0.05%

C. (i) Domestic debt servicing liability (as % of GDP) has been **stable**

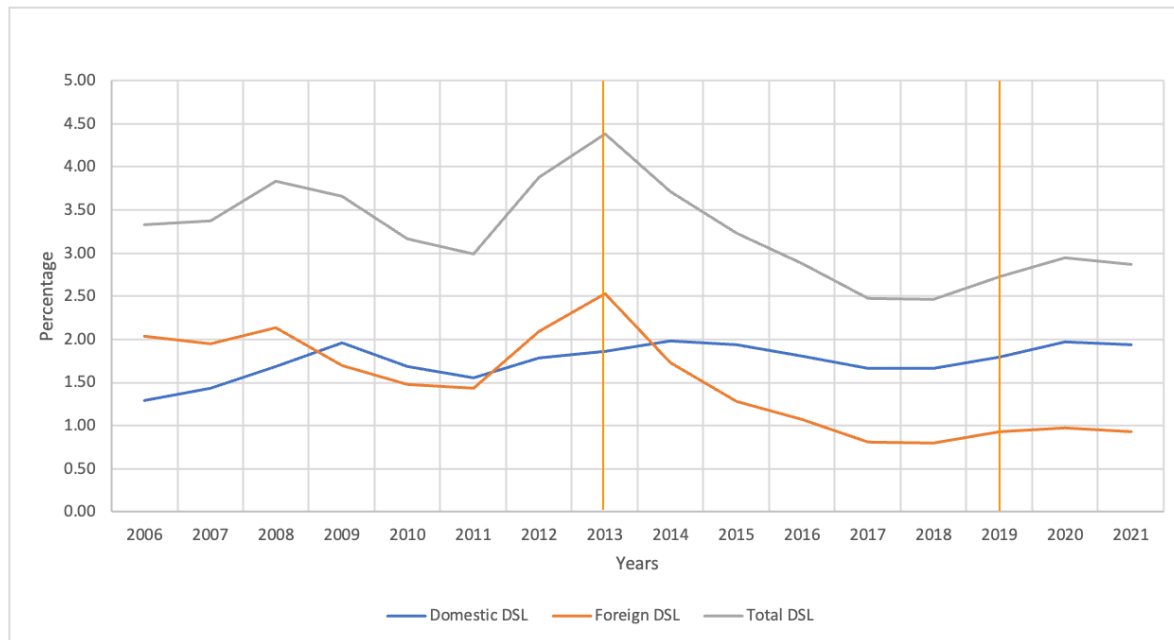
between FY06 (1.29%) to FY21 (1.94%)

(ii) It increased about 0.09% on average for the **past 3 years**

(iii) **In FY21**, it **decreased** by 0.03%

3. What is the situation with debt servicing? (contd.)

Fig 3.3: DSL (Total, Domestic and external) as % of GDP



3. What is the situation with debt servicing? (Cont.)

Selected High Value Projects Financed by External Loans

USD billion

Name	Source	Commitment	Disbursement	Repayment	Grace/ Repayment Period
Dollar Credit Line Agreement(2nd LOC)	India	2.00	-	0.11	5/15
Dollar Credit Line Agreement(3rd LOC)	India	4.50	-	0.06	5/15
Matarbari Coal Fired Power Project Loan	Japan	1.05	0.43	0.00	10/20
Ruppur Nuclear Plant	Russia	11.38	3.56	0.00	10/20

Selected High Value Projects Financed by Supplier's Credit

USD billion

Name	Source	Commitment	Disbursement	Repayment	Grace/ Repayment Period
Padma Bridge Rail Link	China	2.67	1.08	0.00	5/15
Expansion and Streamline DPDC	China	1.02	-	-	

Source: ERD, Flow of External Resources 2020-2021

3. What is the situation with debt servicing? (Cont.)

Selected Supplier's Credit by Partner

USD billion

Development Partner	Commitment	Disbursement	Repaid	Percent Repaid
China	5.85	2.06	0.17	8.23
Japan	0.05	0.05	0.05	100.00
Netherlands	0.86	0.86	0.00	82.94
UK	0.02	0.02	0.02	90.01
Total	6.78	2.14	0.24	-

Source: ERD, Flow of External Resources 2020-2021

Payments to all these high value and supplier credits – at least USD 10.5 billion are yet to start. The repayment implications for macroeconomy will become evident from 2024-25 onward.

4. How does the future look like?

Debt Management Policy Framework Improving

National

1. Bangladesh: National Policy on Development Cooperation, Economic Relations Division (ERD), Last updated 7 August 2017
2. Public Debt Management and Debt Sustainability in Bangladesh, Bangladesh Bank (BB), December 2006
3. Public Debt Sustainability in Bangladesh, Bangladesh Bank (BB), 2008
4. The Public Money and Budget Management Act (Act no.40 of 2009), National Parliament of Bangladesh, 9 July 2009
5. Bangladesh Government Treasury Bond Rules 2021, Finance Division, Ministry of Finance (MoF), 11 April 2021
6. Quarterly Debt Bulletin Issue 1, Finance Division, Ministry of Finance (MoF), April 2021
7. Quarterly Debt Bulletin Issue 2, Finance Division, Ministry of Finance (MoF), September 2021
8. Public Debt Act 2021, Finance Division, Ministry of Finance (MoF), 6 September 2021
9. Historical Trend of Debt Sustainability within DSA, Economic Relations Division (ERD), Last updated 1 November 2021
10. Bangladesh Medium Term Debt Management Strategy (MTDS), Treasury and Debt Management (TDM) wing, Ministry of Finance (MoF), Last updated 4 January 2022

Development Partners' documents

1. Joint World Bank-IMF Debt Sustainability Analysis, International Monetary Fund (IMF), May 2020*
2. Debt Sustainability Analysis, Asian Development Bank (ADB), n.d.

Are these documents used while taking borrowing decisions?

*March 2022 version of the report is yet to be available online.

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4. How does the future look like? (contd.)

Public Debt Reasons	Bangladesh Scenario
Inadequate domestic resources (and external grants)	<ul style="list-style-type: none">• Total Revenue-to-GDP ratio was at 9.4% in FY 21, the lowest among all South Asian nations.• Bangladesh with a population of 164 million has just 7.4 million people with Tax Identification Number (TIN), only 2.3 million of whom gave returns in FY22.• Budget deficit (including grants) as % of GDP fell from (-)4.8 in FY 20 to (-)3.7 in FY 21. Projected at 6.1% in FY 22. Low budget deficit reflects resource constraints as well as implementation capacity challenges.• Total Debt Servicing Liabilities (DSL) remains above 25% of revenue expenditure. It was 26.7% in FY 21.
Weakening of external balance	<ul style="list-style-type: none">• Current account deficit reached (-) USD 12.8 billion (Jul-Feb of FY 22) against 0.83 billion surplus a year back.• BOP deficit stood at (-) USD 2.5 billion (Jul-Mar of FY 22), while being at a surplus of USD 6.9 billion in FY 21, correspondingly.• Net FDI inflows haven't picked up over the years, fell to 0.71% of GDP in FY 21 from 1.29% in FY 19.• Disbursement of foreign assistance in FY 21 was USD 7.2 (provisional) billion respectively according to ERD i.e. 1.7% of GDP.• Bangladesh's forex reserves reduced to less than USD 42 billion (5 May'22) equivalent to five months of import.

4. How does the future look like? (contd.)

Public Debt Reasons	Bangladesh Scenario
Nature of external borrowing	<ul style="list-style-type: none">• Bank-Fund Debt Sustainability Analysis (Mar'22) puts Bangladesh at low risk of external and public debt distress. Needs to include domestic debt in the stress test. Also private external borrowing.• Bangladesh's external debt has an increasing trend. Outstanding foreign debt in FY 21 was USD 60.15 billion, USD 9 billion increase from the previous year.• The concentration of external debt has increased in all currencies except in SDR over the years spreading exchange rate risk.• Fall of multilateral sources, increased borrowing from bilateral creditors to finance mega infrastructure projects.• Even borrowing from World Bank, ADB and Japan have become less concessional.<ul style="list-style-type: none">- External debt composition changed towards shorter grace and repayment period, and higher interest loans- Bilateral hard loans from China and Russia have become supplementary credit sources.• At the end of the FY 2019-20, the amount of foreign assistance in the pipeline has increased to USD 49.64 billion (provisional) which indicates low utilisation of concessional and semi-concessional finance.

5. Two Sets of Thoughts

- Total national debt is increasing at a faster rate than GDP → So share of debt in GDP will increase in the foreseeable future.
- While debt stress in the external borrowing is expected to increase (because of exhaustion of grace period of a number of high value loans).
- The Achillies' Heel will be the burgeoning domestic debt. Debt servicing is not an issue as yet, although there is a trade-off in revenue resource use.

Five risk factors underpinning debt situation

1. Exchange rate risk – *increasing*
2. Interest rate risk for domestic borrowing – *increasing*
3. Interest rate risk for external borrowing – *intermediate*
4. Risk of project cost escalation – *high*
5. Economic returns from project (and maturity risk) – *yet to be assessed*

Three critical messages for preempting debt stress

1. Fiscal consolidation through revenue uptake
2. Safeguarding external sector variables
3. Holistic, transparent and frequent monitoring

Thank You!

<https://cpd.org.bd/>

<http://bdplatform4sdgs.net/>