Bangladesh's External Public Borrowings and Debt Servicing Capacity

Are There Reasons for Concern?

Presentation by

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Study on

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carried out by

CPD in Collaboration with TAF - Bangladesh

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Section 1: Backdrop and Motivation

Section 1: Backdrop and Motivation

- While Bangladesh's external borrowings and **debt servicing liabilities have been quite comfortable** till the recent past, for several reasons there is a need to have a fresh look at the attendant issues.
- Till recent times, **country's external borrowings as percentage of GDP,** has been low compared to many other developing countries, and **debt carrying capacity**, in terms of debt servicing as percentage of export and remittance and revenue earnings, were within reasonable limits.
- However, what is disquieting is the **pace at which both external borrowings and debt servicing liabilities have been on the rise in very recent** years, particularly when these are compared to the growth of the GDP, Revenue earnings, Earning from export goods, services and remittances and Forex reserves.
- This paper has focused on Bangladesh's **Public and Publicly Guaranteed (PPG) borrowings.**
- **To be true, Bangladesh is not an exception in view of the emergent debt scenario**. Indeed, increasing external debt and growing debt servicing liabilities have manifested as a global concern in recent years.
- This has prompted the Executive Board of the **IMF to approve a new Framework** and a new template for assessing Sovereign Risk and Debt Sustainability.

- **Lessons from Debt Crisis of Latin American countries in the 1980s (*Decade Perdida*, *the Lost Decade*) as also those of recent times (e.g. Debt crisis of Greece; recent sovereign debt crisis of Sri Lanka, Ghana and a number of other countries) transmit cautionary note for Developing Countries and LMICs.**

- **Underlying Factors Based on Global Literature Review:**

- **External Factors**: Global economic and financial shocks.

➢ Adverse impact of the covid pandemic.

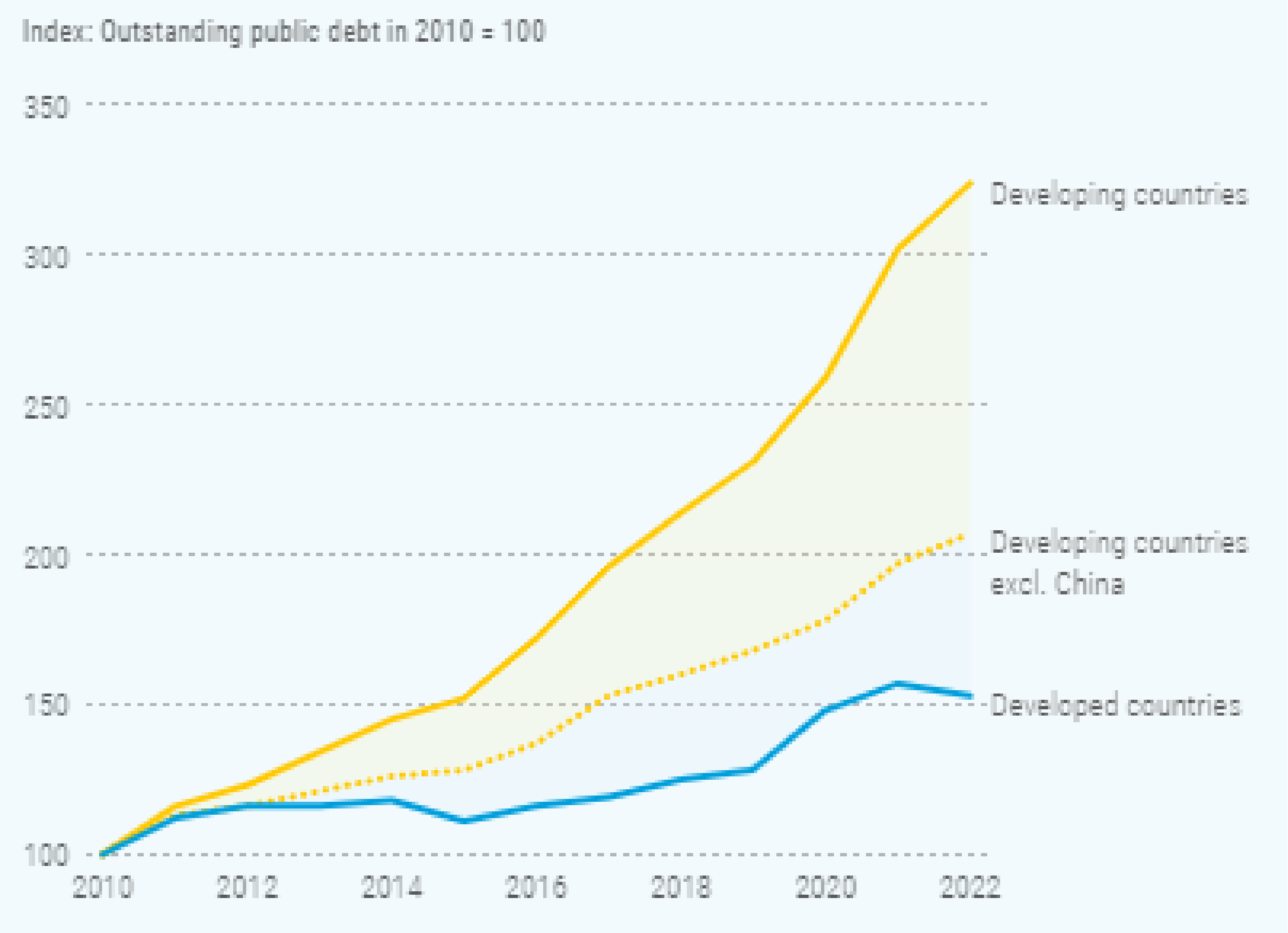
➢ Negative fallouts of Russia-Ukraine war.

➢ Depressed global demand for goods and services.

▪ Domestic Factors:

- **Weak management of external debt and borrowings.**
- Borrowings that **did not generate expected returns** with consequent impact on debt servicing.
- **Unsustainable borrowings.**
- **Low domestic resource mobilisation.**
- **Currency fluctuation.**
- **Unfavourable terms of and conditionalities of lending.**
- **Changed composition of borrowings and high exposure to sovereign bond market.**
- **Borrowings at flexible interest rate and financial market fluctuations.**

Figure: Growing Public Debt in Developing Countries



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

- **Public debt is growing at a faster pace** in the developing world compared to non-developing countries.

- **An emergent global concern calling for urgent attention and action.**

- ***A World in Debt Default (UN: July, 2023).***
  - Debt situation has **worsened in many developing countries.**
  - This has led a number of countries to fall into ***Debt Distress*, some resulting in *Debt Default.***
  - Developing countries' total Public Debt increased from **35% of GDP in 2010 to 60% in 2021**. Of these external public debt (borrowed from foreign creditors) increased from **19% of GDP to 29% of GDP in 2021.**
  - Share of external Public Debt to exports of developing countries increased from **71% in 2010 to 112% in 2022.**
  - Over the corresponding period, external **debt service as share of exports rose from 3.9% to 7.4%.**
  - Share of **private creditors** in total public external borrowings has been on the rise, **from 47% to 62%**, compared to bilateral and **multilateral sources** whose share have fallen **from 22% and 30% to 14% and 24% respectively** between 2010 and 2021.
  - The increasingly heavy reliance on private creditors has **two negative implications:** it makes **credit more expensive** and **debt rollover and debt restructuring more complex** when there is a crisis, (e.g. Sri Lanka's external debt was underwritten, to a large part, by international sovereign bonds at 5 %-7% interest).

- ***International Debt Report (The World Bank: 2023):***
  - Total debt stock of **LMICs** has been on an upward trajectory since 2016, **outpacing economic growth:** Debt stock of low income countries increased **by 109 percent as** against rise in GDP of **33%**.
  - **Public and Publicly Guaranteed (PPG) debt service payments by LMICs (including the IMF) totalled USD 443.5 billion in 2022**, highest level in history, and forecast to continue to grow. This increase is taking place during a time of rising interest rate, and unfavourable exchange rate movements, which exacerbated the fiscal burden of external debt service payments which is expected to rise at a fast pace.
- Consequently, servicing external debt could become increasingly **burdensome** for many LMICs and **could crowd out spending on other priorities**.

- ***Are We Heading for Another Debt Crisis in Low-Income Countries? (IMF, 2023)***
    - The report compared **current scenario with pre-HIPC Era.**
    - The HIPC time IMF/MDRT Debt relief was worth **USD 120.00 billion** (in current value).
    - New debt instruments are being increasingly used that tend to be riskier and hard to restructure.
    - **The symptoms that led to HIPC are resurfacing,** aggravated by COVID-19 shock and Russia-Ukraine war.
    - G-20 took initiative to set up **Debt Service Suspension Initiative** (DSSI) to offset pandemic-related debt servicing challenges:48 countries took advantage, worth about USD 12.9 billion (May 2020- December 2021).
    - The share of non-traditional official creditors (such as non-Paris Club Countries) and commercial lenders have been on the rise.
    - More than **80% of external debt in LMICs was denominated in U.S. dollars** (2022) **increasing vulnerability** to sudden movements in exchange rates of the USD.

▪ Why the discourse has become so urgent and important for Bangladesh?

- Bangladesh's robust external borrowings track record is coming to an end.
  - ➢ Bangladesh was not a beneficiary of the **HIPCs initiative in 2003**, worth USD 120.0 billion, which benefited **42 highly indebted countries**. Neither was it eligible for grant as part of the **Millennial Challenge Account** set up by the USA. Bangladesh was considered to be a good debt carrying country. We used to complain that '**we are being punished because of our success**!'
  - ➢ Bangladesh did not seek assistance from ***Debt Service Suspension Initiative*** (DSSI) of G20 as some other LMICs did particularly to address Covid -related difficulties.

- But the situation has changed in recent years.
- In recognition of the emergent challenges, and as a cautionary step, Bangladesh has resorted to the **IMF balance of payment support of USD 4.7 billion for 42 months.**
- **IMF has recommended a number of measures** Tax Reforms: Review of Tax -GDP ratio is to rise to 9.4% in FY 2025-26 .
- The upshot of the above is that **debt management and debt sustainability have emerged as a major concern** in global development discourse as also in the context of Bangladesh.
- This paper has mainly focused on Bangladesh's **Public and Publicly Guaranteed (PPG) Borrowings, and debt servicing thereof**, from the lens of public finance management.

Section 2: Bangladesh's External Debt Scenario

Some Stylised Facts

- **Table : External Debt Stock of Bangladesh (Public and Private)**

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
External Debt Stock (USD Billion)	41.17	45.81	56.01	62.63	68.55	81.62	95.45	98.94
Of Which:								
Long Term External Debt Stock at end-June	34.19	36.78	43.78	51.39	58.60	67.56	74.81	82.90
Short Term External Debt Stock at end-June	6.98	9.03	12.23	11.24	9.96	14.07	20.65	16.03
External Debt to GDP (per cent)	15.50	15.60	17.40	17.80	18.30	19.60	20.70	21.80

Source: Bangladesh Bank (2023)

- Bangladesh's external debt (public and private) stood at **USD 98.9 billion in June, 2023**. In September 2023 it crossed the **USD 100.0 billion mark (USD 100.34 billion).**
- Bangladesh's external debt stock is rising at **a fast pace over the recent years.**
- Whilst external **Debt-GDP ratio, at 21.6%** is not high by comparison, there is no room for complacency.
- It is the repayment capacity i.e. debt servicing capacity, which is of critical importance.
- Domestic Resource Mobilisation (DRM), Export of Good and Services and Remittance Flows and Forex Reserves **determine debt-carrying capacity of an economy .**
- It is in view of this that Bangladesh's worries are growing.

Table : Outstanding PPG External Debt and Debt Service *(in Million USD)*

Years	Total PPG Debt Outstanding	Total External Debt Servicing
FY 2011	23608.8	1836.6
FY 2012	23537.1	2792.5
FY 2013	24907.0	3789.7
FY 2014	27036.0	3004.6
FY 2015	26573.3	2513.6
FY 2016	29193.3	3004.6
FY 2017	32069.8	2513.6
FY 2018	38235.7	2375.2
FY 2019	44479.2	2011.2
FY 2020	51127.2	3160.9
FY 2021	60153.9	3297.6
FY 2022	63519.0	3684.5
FY 2023	70767.2	4780.5

Source: ERD (2023c)

- Between **FY 2011 and FY 2023** total external **outstanding PPG debt has increased by three times**, while increase in **debt servicing rose 2.6 times over the corresponding period**.
- In September 2023, PPG Debt stood at USD 79.0 billion (total debt USD 100.3 bln.), indicating a fast rise in the indicator.
- **This fiscal year (FY 2023-24), Bangladesh is expected to borrow $10.0 billion from different sources. Between July-February, FY 2023-24 Bangladesh has incurred loans of USD 7.2 billion. The external debt stock is expected to grow further in the coming years.**

Table: Outstanding Public Debt as percentage of revenue earnings and export of goods, and services and remittance earnings.

Fiscal Year	Total PPG Outstanding Debt (Mln. USD)	Total Debt Service (Mln. USD)			Outstanding PPG Debt as % of Revenue Earnings	Outstanding PPG Debt as % of Export of Goods & Services and Remittance	Debt Servicing as % of Export of Goods & Services and Remittance
		Interest	Principal	Total			
2018-19	44,479.2	487.5	2335.6	2823.1	148.4%	70.40%	4.47%
2019-20	51,127.2	689.7	2471.2	3160.9	163.0%	88.53%	5.47%
2020-21	60,153.9	675.6	2622	3297.6	145.1%	85.87%	4.71%
2021-22	63,519	656.1	2953	3609.7	163.5%	79.14%	4.50%
2022-23	***70,767.2***	***1307.1***	***3473.4***	***4780.5***	***200.1%***	***82.77%***	***5.59%***

Source: ERD (Table 10.0- Bangladesh: Position of External debt of Flow of External Resources into Banglades-2022-23), Bangladesh Bank and Monthly Fiscal Report from Ministry of Finance.

- September 2023: Total Outstanding external borrowing: USD 100.30 billion of which sovereign debt: USD 79.0 billion (78.8%).
- Outstanding public debt as percentage of revenue earnings and exports of goods and services and remittance earnings have been on sharp rise in very recent years. Projections are that these will rise further over the next few years.

Table: Debt Servicing Trends

Time	Forex Reserve (Bln. USD)	PPG Debt Servicing (Mln. USD)					
		Interest		Principal		Total	
		Amount	Growth Rate	Amount	Growth Rate	Amount	Growth Rate
June 2019	32.72	487.5	-	2335.6	-	2823.1	-
June 2020	36.04	689.7	41.48%	2471.2	5.81%	3160.9	11.97%
June 2021	46.39	675.6	-2.04%	2622	6.10%	3297.6	4.32%
June 2022	41.83	656.1	-2.89%	2953	12.62%	3609.7	9.46%
June2023 *	24.75	1307.1	99.22%	3473.4	17.62%	4780.5	32.43%

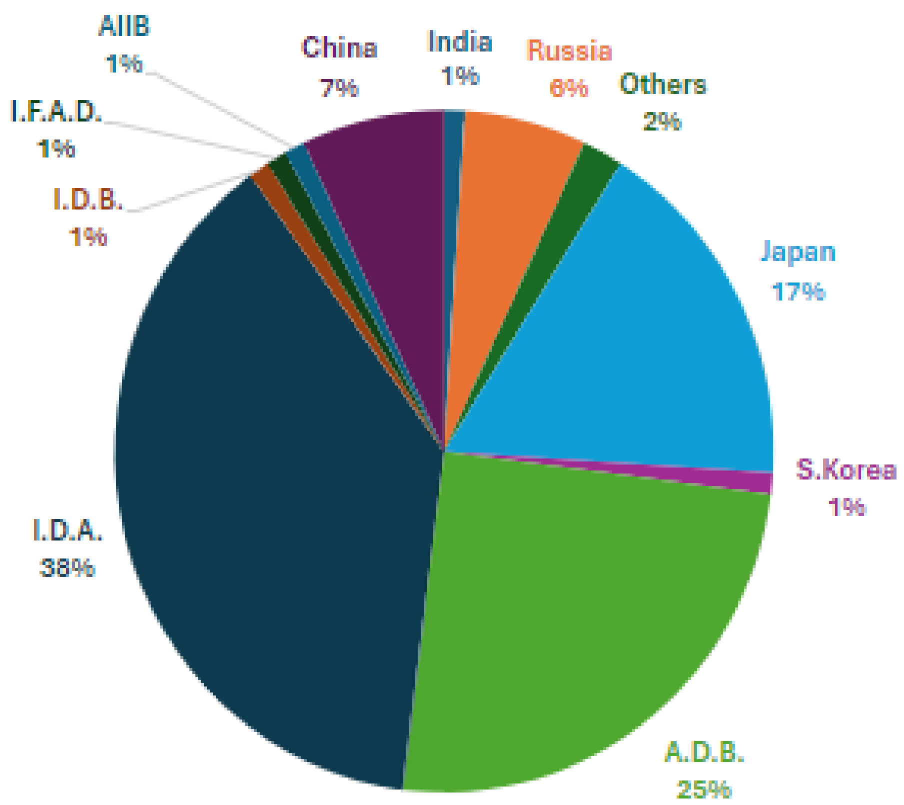
*According to IMF's BPM-6

Source: ERD (Table 9.0: Year wise statement of debt service payments of Flow of External Resources into Banglades-2022-23), Bangladesh Bank and Economic Review of Bangladesh.

- Forex Reserves stood at USD 19.45 billion on March 27, 2024 according to IMF's BPM-6.
- Servicing of public debt, both of Interest and Principal, are growing at a fast pace as grace period of some of the relatively bigger, and more hard term loans are coming to an end. This rate of rise has been higher than GDP growth rate in recent times, **leading to rising share of PPG debt in GDP.**
- GDP (in USD terms) has grown **35.3% between FY 2018-19 and FY 2022-23** in current USD terms, whereas outstanding **PPG borrowings and debt servicing** have grown by **62.8% and 69.3% respectively.**

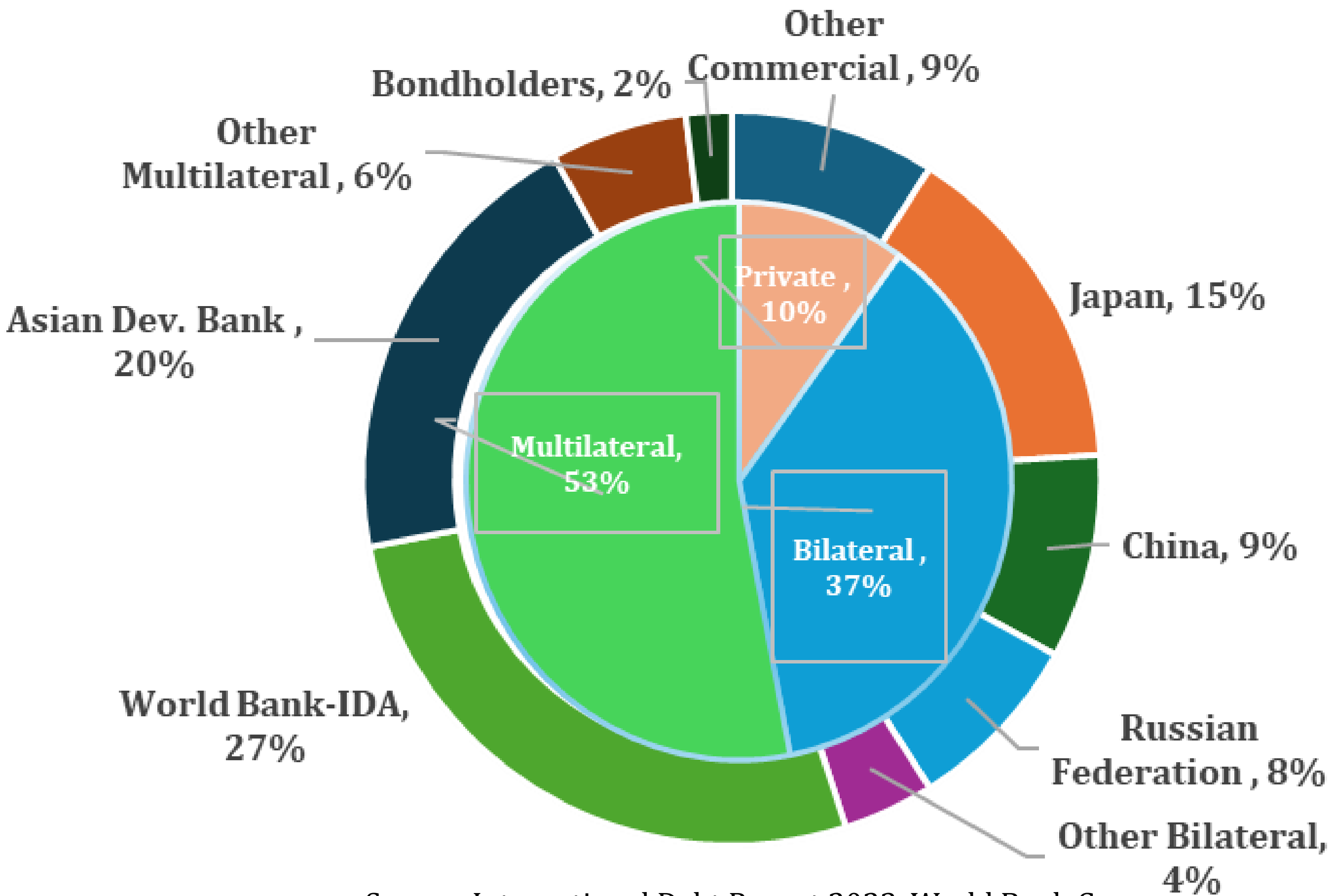
External Debt Portfolio by DPs

2020



Sorce: FABA, ERD, 2020

2023



Source: International Debt Report 2023, World Bank Group

- **The composition of debt portfolio is changing fast. Share of concessional, IDA-type loans** are coming down while **share of non-concessional, as also market interest-based multilateral loans**, are on the rise.
- Terms of loans are also becoming more stringent.

Section 3: PPG Debt Carrying Capacity of Bangladesh: Emergent Scenario and the Urgency to Address Attendant Concerns

- **BB's Medium-Term Debt Management Strategy (MTDS) of Bangladesh (FY 2021-22 to FY 2023-24) recognises that external debt management has emerged as a concern**

- **The MTDS cautions about challenges** the country will be facing in terms of Debt management over the medium term:

  - MTDS Strategy **explores various options** and strategies for government borrowings .
  - **It cautions that LDC graduation** will call for exploration of newer forms of borrowings and draws attention to associated risks originating from pitfalls of international financing.
  - The MTDS spells out the risks of **pressure on the domestic currency**, which could affect external debt service in terms of local currency.
  - MTDS also cautions about the **rising higher borrowing costs** leading to higher debt servicing liabilities.
  - **The MTDS takes the year 2020 as the reference point. Now, in April 2024**, some of the risks that were foreseen are here and now.
  - However, the anticipated flanking measures are yet to be seen.

- **High level committee formed in January, 2024 for:**
  - **Accelerated implementation** of foreign- funded projects.
  - **Speedier release of foreign funds.**

- The committee identified several reasons that demand attention.
  - **Lack of proper feasibility study.**
  - **Time escalation and cost escalation.**
  - **Coordination failure among implementing agencies** and between project management and funders.
  - Need for more expertise and experience in dealing with foreign funded projects.

- The MTDS observes that the risks will be **mitigated through expected increase in revenue mobilisation** through reforms in revenue administration, and **resurgence in economic growth** which will offset the anticipated risks.

- The GoB is contemplating preparing and **presenting debt sustainability report along with the Budget**. IMF and the WB are expected to help the Finance Ministry in this regard. This is a welcome initiative.

- The 2021/22-2023/24 MTDS **has lost a large part of its relevance** in the backdrop of the emergent scenario.

- It is **time to formulate a robust medium term debt management strategy**, on an urgent basis, keeping in view the challenges that are emerging.

- **Bangladesh's Changing borrowing scenario:**
  - Over the recent past, significant **changes are taking place in both debt portfolio and terms of loan.**
  - A shift from **concessional to non-concessional, commercial term loans.**
  - A shift from **predominantly multilateral to bilateral loan.**
  - A notable shift **towards suppliers' credit**.
  - Growing share of **flexible interest rate loan (LIBOR/SOFR plus)**.
  - **Shift to more stringent term loans:** shorter grace period and maturity period.

Table: Movement of LIBOR, SOFR and EURIBOR rates (in percentage)

Year	LIBOR 12 Months	SOFR	EURIBOR 6 months
2016	1.38		-0.17
2017	1.79		-0.26
2018	2.76	1.98	-0.27
2019	2.37	2.20	-0.30
2020	0.77	0.36	-0.37
2021	0.30	0.04	-0.52
2022	3.40	1.64	0.68
2023	5.47	4.96	3.66

- Source: Global Rates (2023).

- **Loans that were incurred on flexible LIBOR/SOFR terms are becoming more costly and onerous from the perspective of debt servicing.**

Table: Selected Infrastructure Projects: Interest Rates and Terms of Borrowings

Loan Description	Sign.	Loan (Mln. USD)	Disbursement (Mln. USD)	Rest Amount (Mln. USD)	Repaid	Inter./Serv. Charge rate (in percentage)	Grace / Repayment Period (Years)
Rooppur Nuclear Power Plant Loan No. Rooppur 2	26-Jul-16	11380.0 (Russia)	4998.8	6381.2	-	LIBOR+ 1.75	10/20
Indian Line of Credit Loan No. LOC-3	4-Oct-17	4500.0 (India)	215.2	4284.8	-	I: 1.00	5/15
Rail Link on Padma Bridge	27-Apr-18	2667.9 (China)	1569.2	1098.7	-	I: 2.00 SC: 0.25	5/15
Construction of Dhaka-Ashulia Elevated Expressway 503	26-Oct-21	1127.0 (China)	0.0	1127.0	-	I: 2.00, SC: 0.25	5/15
Bangladesh Power System Enhancement And Efficiency Improvement Project, Loan No 3522-BAN	29-May-17	572.6 (ADB)	533.9	38.7	-	SOFR+0.6%+ Adj% C: 0.15%	5/20

Source: Authors' Ranking based on ERD (2023).

- **Terms and conditions of some of the recent loans are more stringent compared to earlier PPG loans.**

- **Rooppur Nuclear Energy Plant: (2016): Russian Government Loan:**
  - Loan amount: $11.38 billion .
  - Interest Rate: LIBOR +1.75% .
  - Grace Period: 10 years .
  - Repayment period: 20 years.
  - USD 330.0 mln. in interest payment already. From 2026, every year, in two instalments repayment of more than 500.0 mln. annually for three years and then decline thereafter.
- **Rampal Coal-fired Plant, Exim Bank of India Loan:**
  - Grace Period: 7 years.
  - Repayment period: 27 semi-annual installments.
  - Interest rate: LIBOR +1% .
  - A 0.5% interest is to be charged for unused/undisbursed amount of the loan.
- **Payra Coal-fired Plant: Chinese Exim bank:**
  - Loan: USD 1.4 billion.
  - Grace period: 4 years.
  - Maturity period: 15 years.
  - Six months average LIBOR + 2.98%.

Current repayment of $250.0 million to rise to about $700.0 mln. in FY 2026-2027.

- It is to be noted that **interest is counted from day one of the first fund release,** following which principal as also interest is to be paid after the grace period is over. Interest is also charged on legal fees and management fees which is included in the loan amount.

> Payment period ✚ Repayment period
> Interest During Grace Period ✚ Principal + Interest During Maturity Period

- As regards the Rooppur Nuclear Power Plant, repayment for the **main construction (USD 11.68 bln. loan) is to commence from March 2027** as grace period comes to an end **(repayment of the USD 500 million Feasibility Study has already started).**
- Delayed debt servicing payment, as also repatriation of proceeds and profits, because of the emergent forex reserves situation is creating multiple problems –problems with lenders, loss of business opportunities, resorting to high cost short term borrowings (e.g. **borrowings at 7% interest to underwrite fuel procurement**).

- **Sometimes debt repayment starts even before the project is completed, commissioned and handed over**. And it should be borne in mind that interest payment starts to be counted from the day of first disbursement of the loan, when the grace period starts.
- **Problems affecting implementation of public projects arises from:** delays in land acquisition; delays in DPP/RDPP/TPP approval; unsatisfactory design necessitating follow-up corrections; delays in procurement; delays in award of contracts; weak contract management; delays in project implementation, lack of coordination among involved agencies; frequent changes change of PDs; delays in the disbursement of matching domestic finance; weakness of oversight institutions. Even when particular mega projects have been put under close monitoring, these problems tended to persist.
- **IMED has identified many of these problems over the past years.** Some steps are being taken at present, **but much more will need to be done.**

▪ Significant Depreciation of BDT

- **Significant depreciation of BDT will raise the actual debt servicing liabilities** when returns are generated in local currency, as is the case for majority of foreign-funded infrastructure projects and energy projects.
- **BPDB pays the IPPs in BDT.** But the price of electricity purchased by the **BPDB has been negotiated in dollar terms** (for ≥ 30 MW domestic producers). BPDB is having to pay the IPPs larger amount, because the significant depreciation of the BDT. This is also having impact on price charged for electricity.

Table: Bangladesh's Credit Rating by Rating Agencies: A Trend of Downgrading

Agency	Previous Rating	When changed	New Rating	Reasons
Moody's	Ba3	30-May-23	B1	Moody's assessment is that Bangladesh's heightened external vulnerability and liquidity risks are persistent, and that, in the backdrop of institutional weaknesses, the situation could deteriorate over the near term.
S&P	BB- Stable	24-Jul-23	BB- Negative	The downgrade stems from growing concerns that the country's external liquidity position might worsen over the next year, and its foreign exchange reserves may remain under pressure.
Fitch	BB- Stable	25-Sep-23	BB- Negative	This decision, is attributed to the country's dwindling reserves and tightening dollar liquidity which have heightened its susceptibility to economic shocks

Source: Trading Economics (2023

- **Credit agencies have downgraded Bangladesh's ratings which would make commercial borrowings from global market more costly.**

▪ Implications of Private Sector Borrowings:

- Whilst there is no sovereign guarantee for private sector loans, **their debt servicing payments do create pressure on the demand for foreign currency** and, indirectly on Forex Reserves.

- When BDT exchange rate was stable and **LIBOR/SOFR interest rate was very low** (almost zero during Covid), Bangladeshi's private sector borrowed heavily from international market (as also but to a lesser extent, this was also the case for the public sector borrowings from some bilateral sources). Now the situation has changed quite significantly, with LIBOR/SOFR increasing quite significantly. Private sector borrowers who have borrowed for purposes of export-oriented business, are not affected by depreciation of the BDT but have been impacted by significant changes in SOFR/LIBOR rates. Those who have borrowed for domestic-market-oriented business activities have been affected on both counts.

▪ Implications of Private Sector Borrowings: (Contd.)

➢ **Private credit:**

: Trade Credit (including buyers' credit)

: Back to Back L/C

: Deferred payment

: Short term loans

➢ **During Covid time, because of very low interest rate**, private sector had borrowed heavily from the international market.

➢ Out of USD 16.42 billion : 67.5% ≤ 1 year

:32.5% ≥ 1 year

➢ In 2022, Private loans worth US D 18.0 billion had matured

➢ **Foreign creditors are not renewing many of the loans.** So these are having to be repaid on maturity, creating pressure on demand for foreign currency, which is turn is having adverse impact on Forex Reserves.

Growing Aid Pipeline

The growing aid in pipeline is creating yet another burden and liability. The total aid in the pipeline currently stands at USD 46.4 billion (March 2024) and has been on the rise.

When release from aid pipeline is delayed there are three consequences:
Interest charged on unutilised loan raises debt burden; commitment charge on unutilized loan have to be paid; time escalation leads to cost escalation, which in turn leads to higher borrowings and higher debt servicing liabilities.

- **Case study:** Indian LOCs: Of the three LOC, (2010, 2015 and 2017 worth about USD 7.4 billion), only 22.5% could be spent (till December 2023); 15 of the 40 earmarked projects have been completed so far. The first LOC had to be increased from USD 800.0 million to USD 862.0 million.
- **Loan terms:** Threshold of minimum procurement e.g. in case of Indian LoC varying from 55% to 75% needs to be negotiated in a way that maximises spending on domestic sources.

▪ Implications of LDC Graduation

- The MTDS makes the point that once Bangladesh graduates out of the LDCs, to a developing country (2026), the access to concessional financing will decline. This is not actually the case. There is hardly any relationship between LDC graduation and access (or absence thereof) to concessional finance. Rather, it is related to GNI/Per Capita , and Bangladesh's middle income graduation (in 2015 from LIC to LMIC) which is the pertinent issue. However, if exports are negatively impacted by LDC graduation, it will have implications for Export Earnings, Forex Reserves and Debt Servicing Capacity.
- LDC graduation will entail gradual phase-out of para-tariffs. Bangladesh's dependence on customs duties and indirect tax will have to come down; Greater emphasis must to be put on DRM from more direct taxes. Taxation of digital economy and digitalisation of the taxation system ought to receive highest priority on the part of NBR and policymakers.
- Signing of FTAs, EPAs and CEPAs will need to be part of LDC graduation strategy. However, while facilitating market access this will also lead to revenue loss.
- As a graduating LDC, Bangladesh should make use of the access to concessional credit from the Climate Fund following LDC graduation (allowed for a time-bound period).

- **An exercise to estimate Debt Carrying Capacity of Bangladesh**

Table : CI cutoffs for Country Classification

CI SCORE	COUNTRY CLASSIFICATION
CI<2.69	Weak
2.69≤CI≤3.05	Medium
CI>3.05	Strong

Source: IMF & World Bank (2018).

- Bangladesh has been categorised as a country with Medium Debt Carrying Capacity by WB/IMF.
- The new IMF/ WB Framework (February 2018) to measure Debt Distress is an improvement over the previous one. It is more dynamic and captures the broad financial landscape of an economy.

Table : External Debt Thresholds

Debt Carrying Capacity (CI Classifications)	External debt as per cent of:		External debt service as per cent of:	
	GDP	Exports and Remittance	Export and Remittance	Revenue
Weak	30	140	10	14
Medium	40	180	15	18
Strong	55	240	21	23

Source: IMF & World Bank (2018).

Table: Public Debt Thresholds

Debt Carrying Capacity (CI Classifications)	Total Public Debt as Percent of GDP
Weak	35
Medium	55
Strong	70

- **The WB/IMF estimates consider 10 years average, of which 5 years are actual, and rest 5 years are forecasted values.**
- **We have considered different scenarios, with a number of assumptions, some similar to the IMF, some somewhat less upbeat. For example, remittance has picked up since January, 2024 but revenue earnings and forex reserves have not performed as expected.**
- **While Bangladesh remains in the moderate category, the score comes down under a number of scenarios developed by us and approximates the lower threshold of CI<2.69.**
- **To note, the IMF December 2023 (Article IV) puts the score at 2.86, somewhat lower than 2.88.**

- **A Growing Public finance Management Concern**

- No one denies the **need for a country such as Bangladesh for external borrowing** for various development purposes.
- A major concern with regard to debt carrying capacity and debt servicing strength relates to the low **Revenue-GDP Ratio**, one of the lowest in developing world.
- At the end of the day, it is domestic resource mobilisation **(DRM) which will need to underwrite the debt servicing**, both for domestic and external borrowings.
- **Already an increasing part of DRM is having to be deployed to repay the principal and interest of domestic and external borrowings.**

Section 4: Ensuring External Debt Servicing Sustainability

- **Having to Borrow to Repay for Borrowing!**

Resources for ADP

(crore Tk.)

Particular	BFY24	RBFY23	BFY23	AFY22
A. Total Revenue Receipt	**500,000**	**433,000**	**433,000**	**334,641**
B. Operating Recurrent Expenditure	436,247	390,085	373,242	307,725
C. Revenue Surplus (A-B)	**63,753**	**42,915**	**59,758**	**26,916**
D. Other public expenditures except ADP	54,552	35,420	51,027	19,369
Of which, Foreign interest	***12,376***	***9,322***	***7,200***	***4,554***
E. Revenue Surplus after all expenditures other than ADP (C-D)	**9,201**	**7,495**	**8,731**	**7,547**
F. Foreign Debt Repayment (Principal amount)	**24,700**	**18,150**	**17,000**	**13,302**
G. Revenue Surplus after all expenditures and foreign debt repayment other than ADP (E-F)	**(15,499)**	**(10,655)**	**(8,269)**	**(5,755)**
H. Net Domestic Borrowing	**155,395**	**140,425**	**146,335**	**115,216**
I. Total Foreign Borrowing for ADP	**123,104**	**97,796**	**108,000**	**74,716**
J. Total ADP financing (G+H+I)	**263,000**	**227,566**	**246,066**	**184,177**

- **Budget document shows surplus in Revenue Budget because we are including only interest payments on foreign borrowings in the Revenue Expenditure side**. However, if we include payment of Principal Amount (debt repayment) component, there will be deficit in terms of Revenue Budget.
- **We are indeed borrowing to repay a large part of our PPG debt repayment liabilities.**
- There is no alternative to increasing DRM at a fast pace.

▪ Negotiating with Funders

- **When a significant amount of borrowings is spent locally in BDT**, Bangladesh can negotiate with the funding agencies to make the payment in taka although the loan is mostly incurred in foreign currency (the first of its kind, was in case of **Dhaka-Ashulia expressway** which is mostly funded by EXIM Bank of China).
- Bangladesh should continue **exploring opportunities of borrowings** in other than the present mostly USD-denominated loans.
- In going for **Rupee or Yuan or Ruble denominated borrowings**, several options may be considered- integration of borrowings, local payments, bilateral trade, FDI flows). ACU type of settlement involving countries trading in particular currencies may be developed as alternative settlement mechanisms.
- When Russia asked for servicing of the loan in Ruble, and Bangladesh expressed its inability, Bangladesh was asked to make the payment in Yuan!
- **To ease pressure on forex reserves, short term trade credit for import may be negotiated** with major importers e.g. India, China to release pressure on forex reserves for purposes of debt servicing. But this may only give temporary relief.
- Bangladesh should **actively explore accessing such loans as Short Term Maturity Loan of the WB** (no interest up to USD 0.5 billion; Grace period: 5 years, Maturity period: 7years), Concessional Climate fund, IMF's Extended Credit Facility (no interest; Grace period: 5 years; Maturity period: 10 years) and Resilience and Sustainability Facility: Group. B/C with 1 interest rate: 1-1.5%; Grace period: 10 and half years; Maturity period: 20 years).

▪ Getting Ready for Change in Borrowing Status

- **Bangladesh's middle income graduation in 2015** (according to WB's GNI/Capita criterion) entails that it has graduated from ***IDA-only to Gap Country*** *status* and to the current ***'Blend Country'*** status. The rate of interest and terms of borrowings are becoming increasingly stringent as it graduates from one status to the next. Bangladesh will likely come out of the 'Blend Country' status to ***IBRD only status*** in near future. This will entail (mostly) non- concessional market-determined loan terms (instead of 0.7% interest rate for IDA loans): minimum of 2.0% plus front-end fees.
- **Budget support:** The Budget Support component in external borrowings has been on the rise in recent past. Post-Covid, this amounts to about USD 8.0 billion. (e.g. WB, ADB, China). Whilst this type of loan allows flexibility in terms of expenditure, **we must be careful about how these are spent transparency and accountability** in its use ought to be ensured.
- Negotiating loans that are of non-concessional type must be pursued with caution and care: **ERD has a formula to calculate** the present value of the loan over its maturity period, and a **threshold of more than 25% is considered non-concessional**.
- Loans with components that include **learning tours, unnecessary procurement, cash disbursement etc.** need to be carefully monitored and whenever possible discarded.
- **Bangladesh should explore new sources of Funding** while diversifying loan sources (**e.g. AIIB, NDB**). However, interest rate and terms of loans should be carefully examined. Particularly loans with flexible interest rates (LIBOR/SOFR plus 1-2 %), must be carefully weighed to assess their future implications in terms of liabilities and debt servicing obligations. Whether to go for fixed or flexible term loans must be carefully weighed.
- **Loans with single source procurement conditionalities** should be carefully scrutinised to assess their implications and good value for money.

- **The BB should spell out how it will operationalise its 'crawling peg ' modality**. Delays will incentivise keeping foreign currency abroad in anticipation of further depreciation of the BDT.
- **Swap-type arrangements have a positive impact on forex reserves**. However, these are likely to bring only short term relief, since deposits and withdrawals will nearly balance out over the medium term, particularly in view of rising demand for foreign exchange by commercial banks as the economy picks up and import restrictions are gradually withdrawn.
- **Vigorously pursue getting support from *Loss and Damage* Fund** announced at CoP 28. Borrowings for purposes of mitigating environmental damage must be carefully managed by taking advantage of the fund.

▪ A need for comprehensive PPG Data

- **Provide Consolidated and reconciled information on outstanding debt and debt servicing liabilities:**
  - It is good that the Finance Ministry, Bangladesh Bank and ERD produces periodic reports on debt status and debt-related data, including external borrowings. This may be **further improved with more rigorous projections** about future debt liabilities and debt carrying capacity of Bangladesh.
  - ERD vs. Bangladesh Bank figures .
  - BB vs. IMF figures.
  - **ERD figures do not show S/T loans and sovereign guaranteed loan repayment**, but BB figures do.
  - **Loans incurred by various government entities** that are underwritten by sovereign guarantee are also treated differently by different organisations.
  - **BB should provide detailed inflow and outflow balance sheet** with regard to foreign borrowings as it does for purposes of trade transactions.
  - **Both quality of borrowing and quality of investment** will need to be considered.
  - **Lender selection process must be rigorous**- what type of project call for which of the loans from what type of development partners must be decided in an informed manner.
  - Domestic human resources, expertise and analytical capacities to deal with external debt management, issues as also the country's debt carrying capacity will need to be further strengthened in view of the anticipated challenges facing Bangladesh, now and in future.
  - **The *Term Sheet Matrix* developed by the OECD which spells out various options** (guidelines, terms and conditions, currency in which the loan is to be incurred, etc.) ought to be carefully studied and compared before going for negotiating particular loans and payment options.

Final Remarks

- Give topmost priority to enhancing DRM through taxation, particularly by raising direct taxes, reviewing tax expenditure and incentives, closing loopholes, broadening tax net and by pursuing zero-tolerance against tax dodgers.
- Make accurate estimates of debt service obligations
- Strengthen good governance in implementation of the PIPs
- Factor in exchange rate movement
- Be mindful of dual graduation
- Explore new sources of funds
- Diversify sources of development finance
- Keep private sector borrowings under vigilance
- Caution regarding flexible exchange rates and project selection
- Take advantage of debt restructuring if there are opportunities
- Explore concessional debt for trade financing from major importing source
- Strengthen loan negotiation capacity