



Quarterly Debt Bulletin

Issue No. 4

Finance Division, Ministry of Finance Bangladesh

Abbreviations

<i>AiIB- Asian Infrastructure Investment Bank</i>	<i>IMF- International Monetary Fund</i>
<i>ADB- Asian Development Bank</i>	<i>NSC- National Savings Certificate</i>
<i>BBS- Bangladesh Bureau of Statistics</i>	<i>NSD- Department of National Savings</i>
<i>BDT- Bangladesh Taka</i>	<i>BB- Bangladesh Bank</i>
<i>BGTB- Bangladesh Government Treasury Bond</i>	<i>DMFAS- Debt Management & Financial Analysis System</i>
<i>DSA- Debt Sustainability Analysis</i>	<i>GPF- General Provident Fund</i>
<i>ERD- Economic Relations Division</i>	<i>IDB- Islamic Development Bank</i>
<i>CGA- Controller General of Accounts</i>	<i>IFAD- International Fund for Agricultural Development</i>
<i>FD- Finance Division</i>	<i>SOE- State-Owned Enterprise</i>
<i>GDP- Gross Domestic Product</i>	<i>SPFMS- Strengthening Public Financial Management Program to Enable Service Delivery</i>
<i>IDA- International Development Association</i>	<i>SPTB- Special Purpose Treasury Bond</i>
<i>IRD- Internal Resources Division</i>	<i>WB- World Bank</i>

A. Recent events

Public Debt Act, 2022

The parliament passed the Public Debt Bill 2022 on 01 September 2022 and the bill came into effect on 07 September 2022 with gazette notification. The legislation replaced the Public Debt Act 1944, which was extended on several occasions. The new law was necessary as the deficit financing of Bangladesh has been witnessing a regular shift in policy approach and facing increasing turbulence due to exogenous shocks coming from the pandemic and the war in Europe. Some features of the new Act are:

- Includes provisions for a sustainable debt management policy
- Recognizes savings certificates as government financing instruments
- Has a provision for penalties for violation of certain provisions of the law
- Has the provision to issue Sovereign Guarantee in favor of non-sovereign debt drawn by the SoEs
- Specified the responsibilities of the Government Debt Office by clearly marking the areas for FD, ERD, BB, CGA and NSD.
- Provides for the formation of Special Purpose Vehicles (SPVs) by the government to issue Shariah-compliant government securities and appoint trustees to protect the interests of the holders of the issued Islamic Securities.

S&P Sovereign Ratings

S&P published its sovereign ratings for Bangladesh on August 25, 2022. In its ratings, S&P affirmed Bangladesh's BB-/B' ratings and stable outlook. The overviews of the report are as follows:

- Bangladesh's economic growth trajectory remains sound, and external conditions are expected to stabilize gradually over the next 12 months,
- 'BB-' long-term and 'B' short-term sovereign credit ratings on Bangladesh,
- The stable outlook reflects expectation that Bangladesh's external position will stabilize following a recent deterioration, with solid economic growth continuing to support gradual fiscal consolidation.

B. Government borrowing status in FY 2021-22

In FY22, net government borrowing stood at BDT 1,79,550 crore which was BDT 1,37,617 crore in FY21. Borrowing from domestic sources was much higher compared to external sources. Borrowing from treasury bills and bonds outweigh borrowing from NSD. Table 1 presents a summary of the borrowing from different sources during these periods.

Table 1: Government Net Borrowing (at a glance)

In Crore BDT

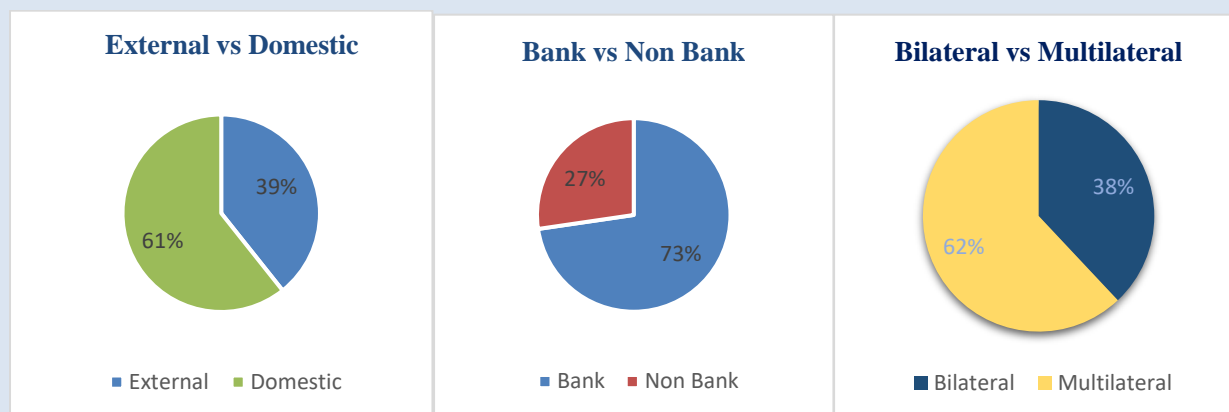
Borrowing Sources	2021-22			2020-21		
	Budget	Revised Budget	Actual	Budget	Revised Budget	Actual
Total Borrowing	211,191	204,500	1,79,550	185,987	183,465	137,617
Domestic Borrowing	113,453	124,288	108,978	109,983	115,052	78,476
Bank						
Treasury Bill	24,852	24,852	25,755	31,326	19,000	-11,515
Treasury Bond	51,600	62,436	43,456	53,654	60,749	47,476
Sukuk			10,000			8,000
Non-Bank						
NSC	32,000	32,000	19,907	20,000	30,302	41,960
Others (GPF)	5,001	5,000	9860*	5,003	5,001	555
External Borrowing**	97,738	80,212	70,572	76,004	68,414	51,141

* Net receipt and payment (interest included and opening balance excluded)

** Provisional

Borrowing Composition 2021-22

Figure 1: Borrowing Compositions



- The ratio of domestic and external borrowing was 61 percent and 39 percent, respectively.
- Bank borrowing was 73% of the total domestic borrowing which was much higher than the non-bank sources which was only 27%.
- Bilateral sources accounted for around 38 per cent and the rest was from multilateral sources in case of external borrowing.

Domestic Borrowing: Banking Sources FY 2021-22

Table 2: Instrument-wise Borrowing: Treasury Bonds

(Crore taka)

Instrument	Gross Borrowing	Maturity	Net Borrowing	As % of total
2 YR BGTB	20000	22700	-2700	-5%
5 YR BGTB	19762	5250	14512	27%
10 YR BGTB	19500	6150	13350	25%
15 YR BGTB	9466	0	9466	18%
20 YR BGTB	10228	0	10228	19%
Special Bond	0	1400	-1400	-3%
Sukuk	10000	0	10000	19%
Total	88956	35500	53456	100%

Source: Bangladesh Bank.

Table 3: Instrument-wise Borrowing: Treasury Bills

(Crore taka)

Instrument	Gross Borrowing	Maturity	Net Borrowing	As % of total
91-day T-Bill	73802	55166	18636	72%
182-day T-Bill	31551	24031	7519	29%
364-day T-Bill	29328	29729	-401	-2%
14- day T-Bill	0	0	0	0%
Total	134682	108927	25755	100%

Source: Bangladesh Bank.

- Net financing through T-Bill was BDT 25,755 crore in FY22;
- Long-term instrument (T-bond) has continued to be the preferred instrument. In FY22, Net borrowing from T-Bond amounted to BDT 53,456 crore, of which BDT 10,000 crore was borrowed through Sukuk (Islamic investment).

Table 4: Month-wise Borrowing from Banking Sources

(Crore taka)

Month	Treasury Bill			Treasury Bond			Total
	Gross Issuance	Redemption	Net Borrowing	Gross Issuance	Redemption	Net Borrowing	
Jul 21	11157	6686	4471	11202	5750	5400	9871
Aug 21	8730	9497	-767	4528	300	4200	3433
Sep 21	9390	7192	2199	4244	5700	-1360	839
Oct 21	7097	6256	842	4390	500	4100	4942
Nov 21	7125	11887	-4763	5278	500	5100	337
Dec 21	18480	10427	8054	6670	5000	2085	10139
Jan 22	7419	9566	-2146	6293	5050	1438	-708
Feb 22	4416	7861	-3445	2796	550	2113	-1332
Mar 22	6605	13816	-7211	5213	1050	4085	-3125
Apr 22	7788	5868	1919	6058	5200	1000	2919
May 22	16029	7091	8938	9279	700	8770	17708
June 22	30445	12780	17665	11809	5200	6525	24190
Total	134682	108927	25755	77760	35500	43456	69211

Source: Bangladesh Bank.

- The borrowing trend shows some degree of seasonality, with higher government borrowing from banking sources during the first and last quarters of FY22.

Domestic Borrowing: Non-bank Sources

Table5: Month-wise Borrowing from NSC

(Crore taka)

Month	Gross Issuance	Redemption	Net Borrowing
July'21	5365	3261	2104
August	9891	6263	3629
September	11349	8524	2826
October	8723	7956	767
November	8941	8240	701
December	7362	7798	-436
January' 22	9966	7389	2577
February	9457	6935	2523
March	10271	8456	1815
April	8159	7144	1015
May	7865	7226	639
June	10712	8962	1750
Total Borrowing	108062	88155	19907

Source: Department of national Savings

- Net borrowing from NSC in the FY22 was 19,907 crores, which is 62% of the target.
- Various reform initiatives, such as the online issuance process, investment limit, and revision in the interest rates contributed to the slow growth in FY22.

External Borrowing*

Table 6: Month-wise Borrowing from External Sources

(Crore taka)

Month	Gross Borrowing	Redemption	Net Borrowing
July	2690	1170	1520
August	6724	628	6096
September	6429	1806	4624
October	5891	1086	4806
November	3965	984	2981
December	8683	968	7715
January	4379	1120	3260
February	10391	684	9707
March	7508	1564	5944
April	7424	1125	6299
May	5999	1092	4907
June	13668	954	12715
	83752	13180	70572

Source: Economic Relations Division *provisional

- The revised financing target from external sources in FY22 was BDT 80,212 crore wherein actual borrowing was BDT 70,572 crore which is 88% of the target.
- Bangladesh still has access to external concessional financing from multi-lateral and bi-lateral partners and prefers this mode of financing vis-a-vis semi/non- concessional or commercial financing although the latter modes of financing will gradually replace concessional financing with increasing maturity of the economy as well as debt management.

Cost of Borrowing from Domestic Sources

Figure 2: Average Yield of the Treasury Bills

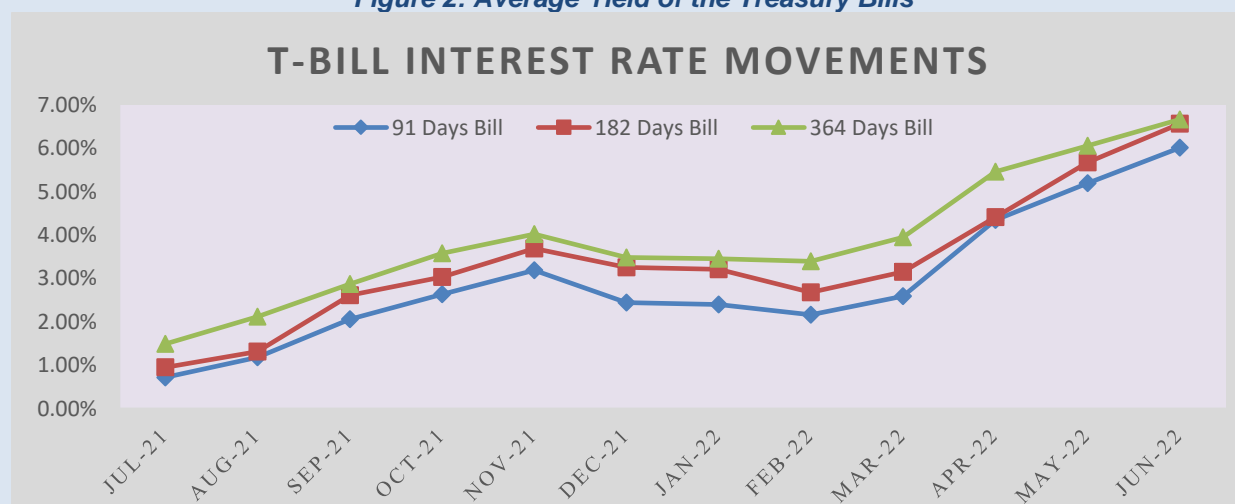
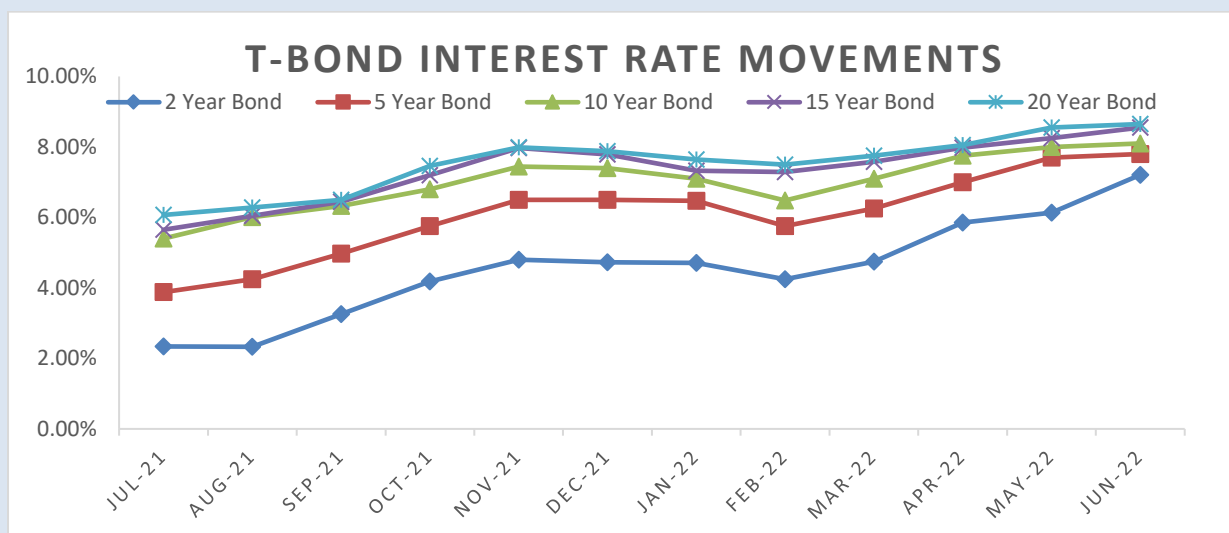


Figure 3: Average Yield of the Treasury Bonds



- Once the economy rebounded after the pandemic years, interest rates started going back to the pre-pandemic average level.
- In the first quarter of FY22, short-term securities yields were much lower in comparison with the long-term ones but over the months the gaps were narrowed.

C. Interest Expenditure of Government Borrowing

Table 7: Interest Expenditures

(in Crore taka)

Source of Borrowing	FY 2021-22		FY2020-21	
	Rev. Budget	Actual	Rev. Budget	Actual
Bank	21,500	24,388	17,000	21,414
Non-banking sources				
<i>NSC</i>	39,500	40,008	33,000	33,797
<i>Others (GPF)</i>	4,000	7,128	5,000	6,365
External Borrowing	6,244	4,235	5,323	4,130
Total Interest Expenses	71,244	75,759	60,323	65,706

- Interest expenses of the government in FY22 are much higher compared to FY21.

D. Structures and Dynamics of the Government Debt

Table 8: Government Debt Stock

Source of Borrowing	As on 30 June 2021 (crore taka)	As on 30 June 2022 (crore taka)
A. Domestic Debt (1+2)	722,591	847,930
1. Debt from Banking Sources	326,252	419,627
1.1. Treasury Bills	51,268	77,024
1.2. Treasury Bonds & SPTB	266,984	324,603
1.3. Sukuk	8,000	18,000
2. Debt from Non-Bank Sources	396,338	428,303
2.1. Debt from NSCs	345,656	365,563
2.2. Others (GPF)	50,683	62,740
B. External Debt¹	420,358	495,794
C. Total Debt (A+B)	1,142,948	13,43,724
GDP²	3,530,185	3,976,462
Debt to GDP (%)	32.38%	33.79%
Domestic Debt to GDP	20.47%	21.32%
External Debt to GDP	11.91%	12.47%

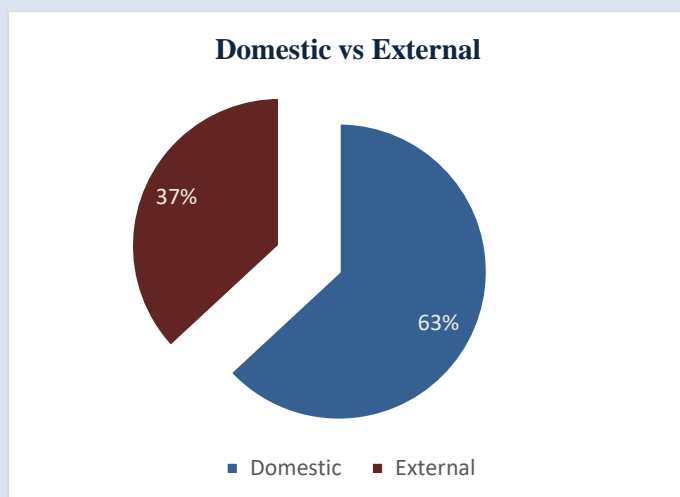
Source: BB, BBS, NSD, CGA, and ERD;

¹External debt data is provisional; ²GDP of the fiscal year 2021-22 is Provisional and the base year is 2015-16.

- The total debt-to-GDP ratio was at around 33.79% based on provisional GDP estimates for FY22 by BBS and is significantly lower than the IMF threshold of 55 per cent.
- The gap between the debt from the banking source and debt from the non-banking source has decreased.
- External debt stock is around 12.47 per cent of GDP at the current market price.

Total Debt Stock: (Domestic vs External)

Figure 4: Total Debt Stock as on 30 June 2022 (domestic vs external)



- Domestic debt constitutes the major share of the total debt stock and financing from the domestic sources is increasing gradually;
- As on 30 June 2022, domestic and external debt was 63 per cent and 37 per cent of the total debt stock, respectively.

Total Domestic Debt Stock: Contribution from different sources

- Financing from the Banking sector constitutes 50 percent of the total domestic debt in FY22, followed by NSCs, 43 per cent, and the rest was financed from the provident fund.
- It is expected that the ongoing NSC reforms will help reduce the need to finance from the NSCs.

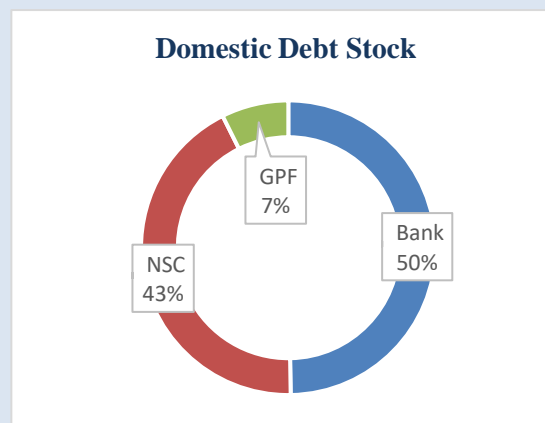
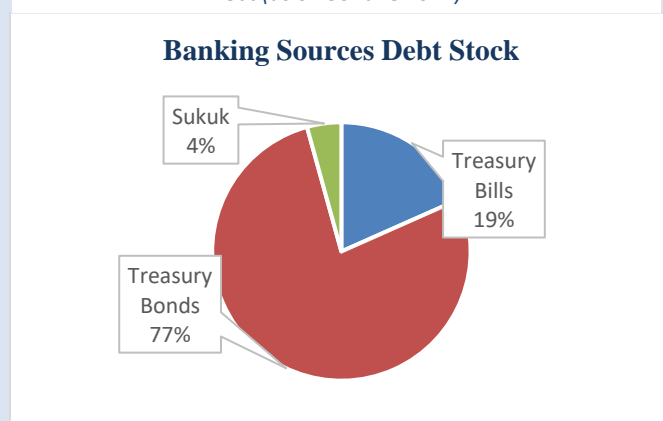


Figure 5: Domestic Debt Stock by sources as on 30 June 2022

Debt from the Bank Source: Contribution from different Government Securities

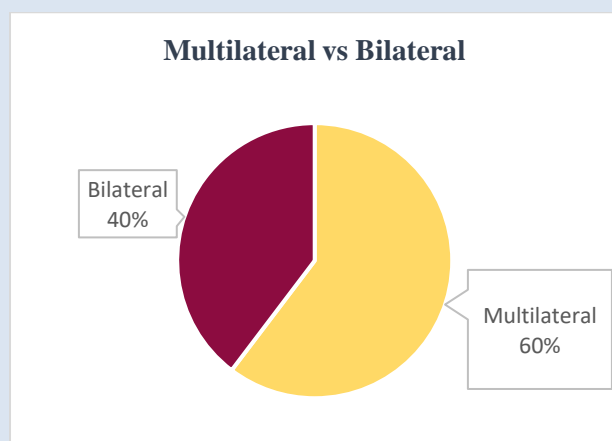
Figure 6: Contribution of the different Govt. Securities in Domestic Debt (as on 30 June 2022)



- 77% of the banking sector financing is sourced from the treasury bonds and SPTB that reflects the government's preference for long-term instruments;
- Treasury bills are issued mostly for cash management purposes, and to create a balance between short- and long-term financing;
- Recently introduced Shariah-compliant Islamic Bond has experienced a good response.

Total External Debt Stock: Multilateral vs Bilateral

Figure 7: External Debt Stock as on 30 June 2022 (Multilateral vs Bilateral)



- 60 per cent of the total external debt is sourced from Multilateral DPs compared to the 40 per cent from bilateral partners;
- The government will leverage concessional borrowing from DPs for public investment as long as it is available.

Total External Debt Stock by different bilateral and multilateral sources

Figure 8: Bilateral Sources

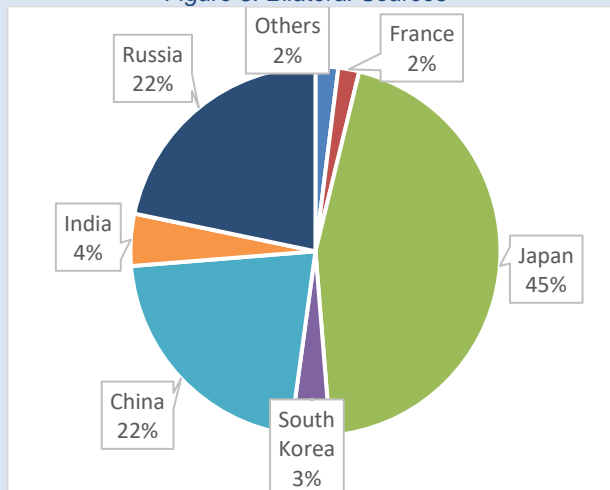
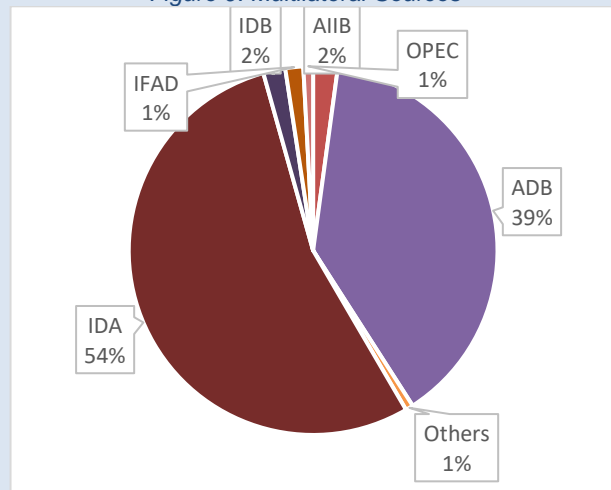


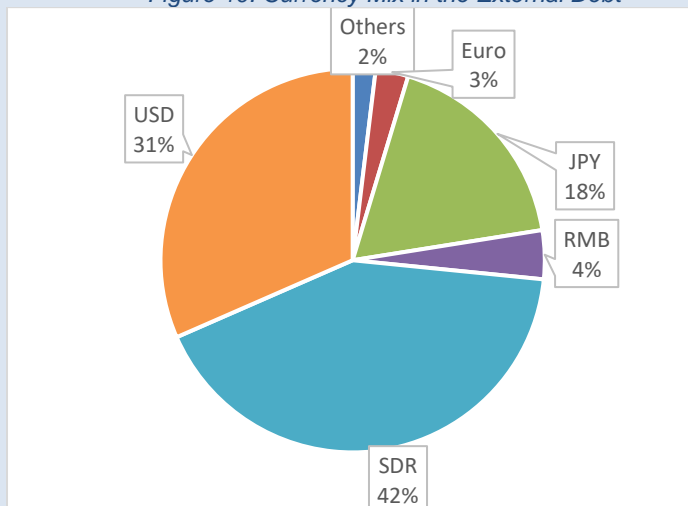
Figure 9: Multilateral Sources



- Japan is the leading bilateral development partner (45 per cent). It is followed by Russia and China (both 22 per cent) and South Korea (4 per cent);
- In recent years, India has become a financing partner with 4 per cent of the total bilateral financing to date.
- IDA is the highest contributor (54 per cent), followed by ADF of ADB (39 per cent) to date.

External Debt Currency Mix

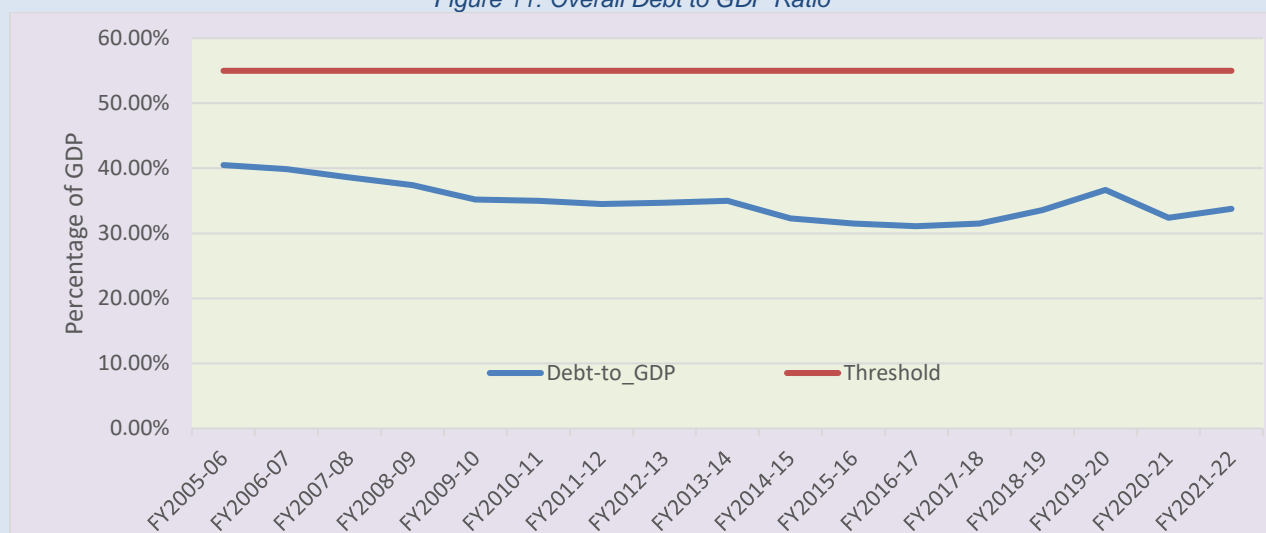
Figure 10: Currency Mix in the External Debt



- Government's external debt stock is dominated by SDR, followed by the US Dollar and Japanese Yen;

Government Debt to GDP and Debt Sustainability

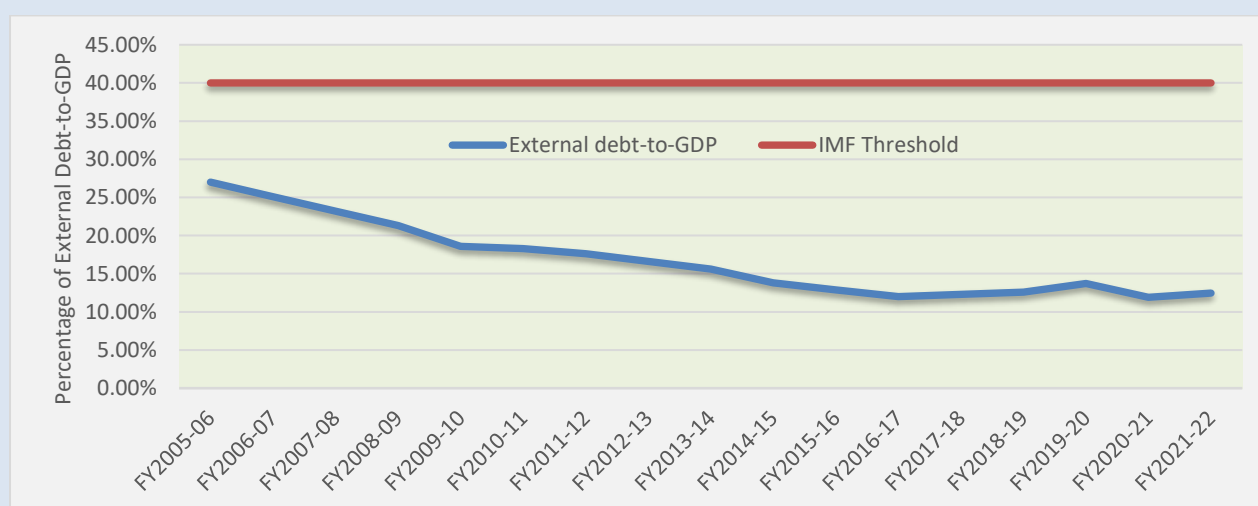
Figure 11: Overall Debt to GDP Ratio



- The total Debt-to-GDP ratio is approximately 33.79% as of FY22;
- Due to COVID-19 and subsequent necessary financing requirements, Debt-to-GDP has shown an upward trend in the last couple of fiscal years. Although the total Debt-to-GDP ratio remains below the sustainable threshold (55 per cent), the upward trend may continue for a while.

Government External Debt to GDP and Debt Sustainability

Figure 12: External Debt to GDP Ratio



- The external Debt-to-GDP ratio is approximately 12.47 per cent as of FY22.

The sustainable Debt outlook of the country is attributable to the following factors

- The robust GDP growth rate over the decade;
- A prudent fiscal policy that maintained a deficit limit at or below 5% of the GDP;
- Implementation of the PFM reform activities.
- Continuation of other reforms in overall expenditure management.

E. Total Government guarantees issued and outstanding

At the end of June 2022 the total guarantee issued was BDT 1,25,982 crore, among this, the outstanding guaranteed amount was BDT 92,602 crore which is 2.33 per cent of GDP. The majority of sovereign guarantees were issued against Bangladesh Biman, Power Sector investments, Fertilizer production plants, TCB etc.

F. Total SOE Debt Outstanding

At the end of June 2022, total SOE liabilities were BDT 4,31,303.77 crore which is 10.85 per cent of GDP. The amount increased by 14 per cent compared to June 2021 (BDT 3,77,609 crore). In addition, the Government on-lending to the SOEs with outstanding balance of BDT 4,18,022 crore at the end of June 2022 which was BDT 3,53,727 crore at the end of June 2021.

G. Upcoming events

- Secondary trading of government securities
- Debt Sustainability Analysis with the support of IMF
- Install a customized Debt Database in the Middle Office (FD)
- Arrange a Debt Summit to discuss and analyze the present and future debt situation, identify the challenges, and get recommendations from the experts.

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