



Debt Bulletin

Issue No. 1, April 2021

Finance Division, Ministry of Finance



Abbreviations

AIIB- Asian Infrastructure Investment Bank

BC- Buyers Credit

BDT- Bangladesh Taka

DSA- Debt Sustainability Analysis

DSF- Debt Sustainable Framework

EIB- European Investment Bank

FD- Finance Division

GDP- Gross Domestic Product

IDA- International Development Association

IMF- International Monetary Fund

MTDS- Medium Term Debt Management Strategy

NSC- National Savings Certificate

PV- Present Value

UAE- United Arab Emirates

WB- World Bank

IDB- Islamic Development Bank

IFAD- International Fund for Agricultural Development

GPF- General Provident Fund

LIC's- Least Income Countries

NDF- Nordic Development Fund

DSE- Dhaka Stock Exchange

SPV- Special Purpose Vehicle

DMFAS- Debt Management & Financial Analysis System

SDR- Special Drawing Right

OPEC- Organization of the Petroleum Exporting Countries

FX- Foreign Exchange

DPHE- Department of Public Health Engineering

KSA- Kingdom of Saudi Arabia

UNCTAD- United Nations Conference of Trade & Development

1. Recent events:

a. Issuance of Shariah-compliant Government Investment 'Sukuk'

The Government of Bangladesh has issued a Shariah-compliant investment instrument, 'Sukuk', on 28 December, 2020, the first-ever in its history. It is an important milestone in the debt management of Bangladesh.

Main features of debut Sukuk

- Project funded through Sukuk: 'Safe Water Supply Project in the Country' implemented by DPHE
- Sukuk Structure: Ijarah
- Total Sukuk proceeds: BDT 8,000 crore in two tranches; BDT 4,000 crore in each tranche
- The issuance for the 2nd tranche is scheduled for 28 June 2021
- Tenure: 5 (Five) years from the date of 1st issuance
- Offered rate: 4.69%
- Subscription amount in 1st tranche: BDT 15,153.10 Crore
- 'Special Purpose Vehicle' (SPV) and 'Trustee': Bangladesh Bank

Main objectives of issuing Sukuk

- To reduce the cost of government borrowing through the widening of its debt portfolio
- To create an additional as well as a secured investment opportunity for the Islamic banks and financial institutions and individual investors
- To implement more projects through Sukuk issuing regularly in the future

b. Enactment of the Public Debt Act

The current Public Debt Act was enacted in 1944. Although it has been updated several times, as public debt management has evolved a lot over the last eight decades, the government felt the

need to overhaul the law to make it comprehensive and modern. As a result, FD has drafted the Public Debt Act 2021 in consultation with relevant stakeholders and submitted it to the Cabinet.

Main features of the proposed Public Debt Act

- Covers all the current aspect of public debt management
- Defines all the terminology related to public debt management
- Clarify the relevant debt management entity and specify their functions
- Dispute resolution process among the parties

Present status of the Public Debt Act 2021

- The draft Public Debt Act 2021 has received approval in principle by the Cabinet on 8 March 2021
- The next step is to get final approval from the Parliament.

c. Update the Government Treasury Bond Rules

The stakeholders felt that the existing government treasury bond rule is not conducive to managing the treasury securities of the country. As a result, with the support of the Bangladesh Bank, FD has taken the initiative to update the government Treasury bond rules to address, *inter alia*, the difficulties of Treasury bill and Treasury bond management, trading of bond in the secondary market especially trading by using the DSE platform.

Main features of the proposed Government Treasury Bond Rules 2021

- Covers all the current aspects of government treasury bond management
- Aims to provide legal support for developing a secondary market for treasury bond
- Resolves the hindrance to trade treasury bonds using the DSE platform
- Simplifies the process of trading, settlement and dispute resolution

Present status of the Government Treasury Bond Rules 2021

- The draft Rule has been vetted by the Legislative Division of the Ministry of Legislative and Parliamentary Affairs
- It has been published to solicit public opinion
- Once the formalities are complete, they will be published in the gazette.

2. Government borrowing status as of December 2020 (FY 2020-21)

Table 1: Government net borrowing during 1st & 2nd quarter

By the end of the 2nd quarter of FY 2020-21

Net Government borrowing totaled 63,825 crore taka. The main features of the government borrowing over this period are

- Bank borrowing is lower than the estimate
- Borrowing from NSCs has risen sharply compared to the last fiscal year and could exceed the target of budget
- External borrowing shows a bit slow trend with the budget estimation

	Borrowing (Crore BDT)	Budget FY 2020-21	As % of Budget	As % of Total Borrowing
Domestic Borrowing	44,970	117,551	38%	70%
<i>Treasury bill & Bond</i>	24,880	82,249	30%	39%
NSC	20,487	30,302	68%	32%
<i>Others (GPF)</i>	(397)	5,000	-8%	-1%
External Borrowing	18,855	72,399	26%	30%
Net Borrowing	63,825	189,950	34%	100%

The portfolio composition of domestic and external borrowing is 70% and 30% respectively during the period.

3. Government Debt Stock

Figure 1: Total Debt Structure: Domestic vs External

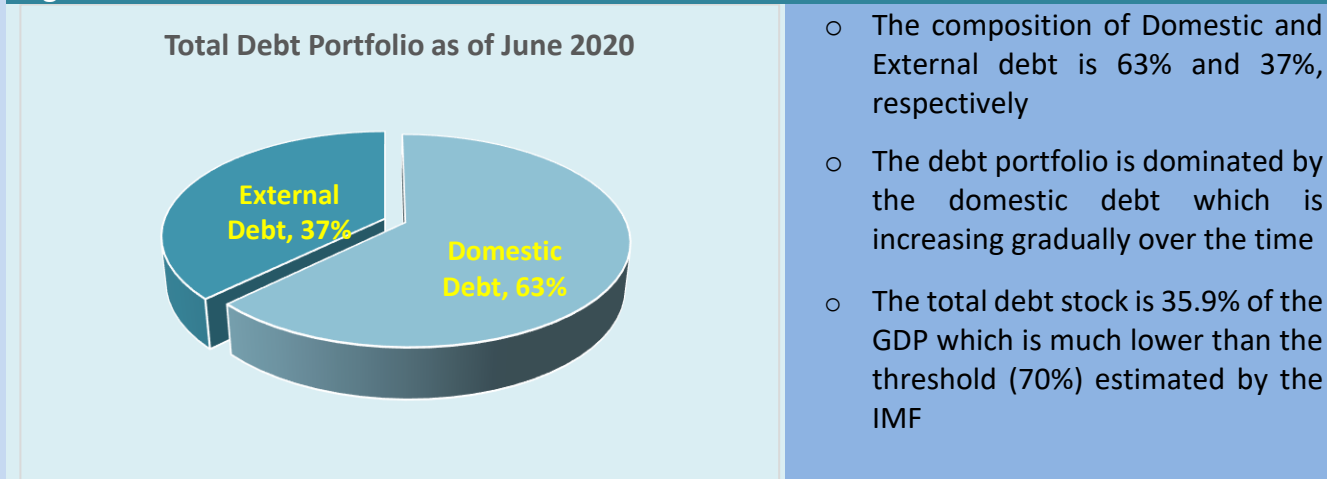


Figure 2: Total Domestic Debt Structure by Source

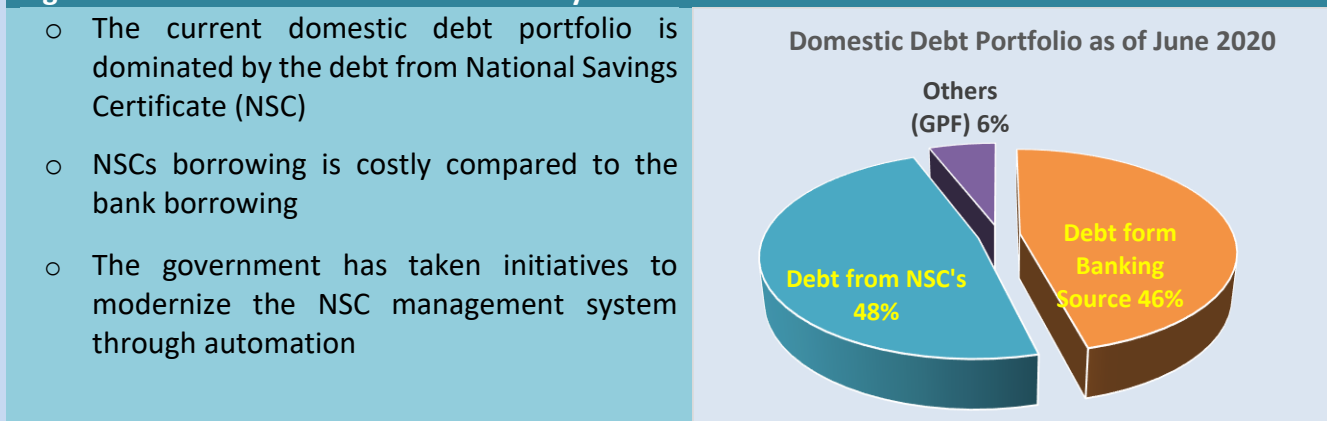
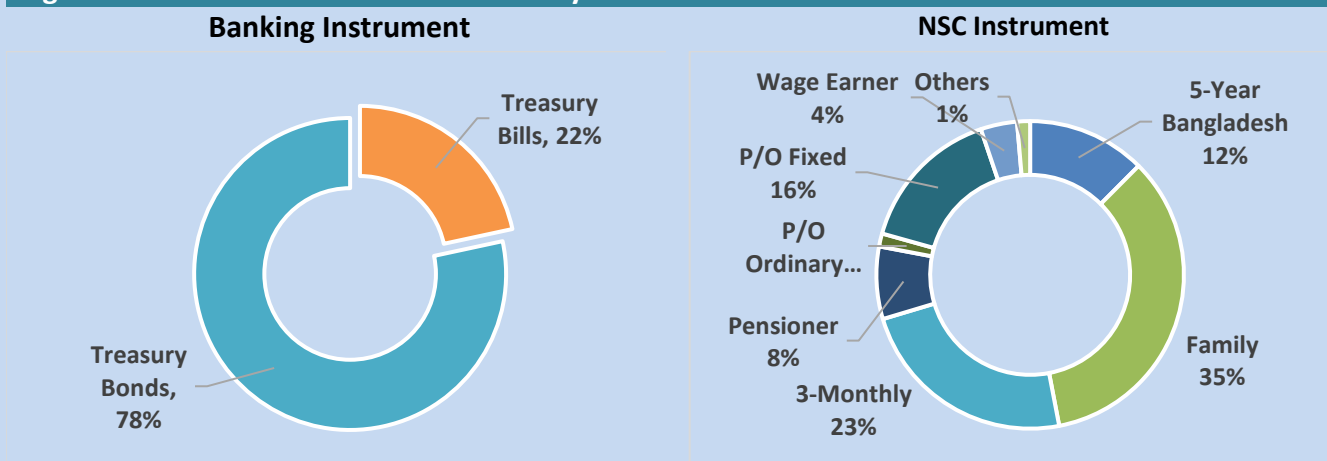
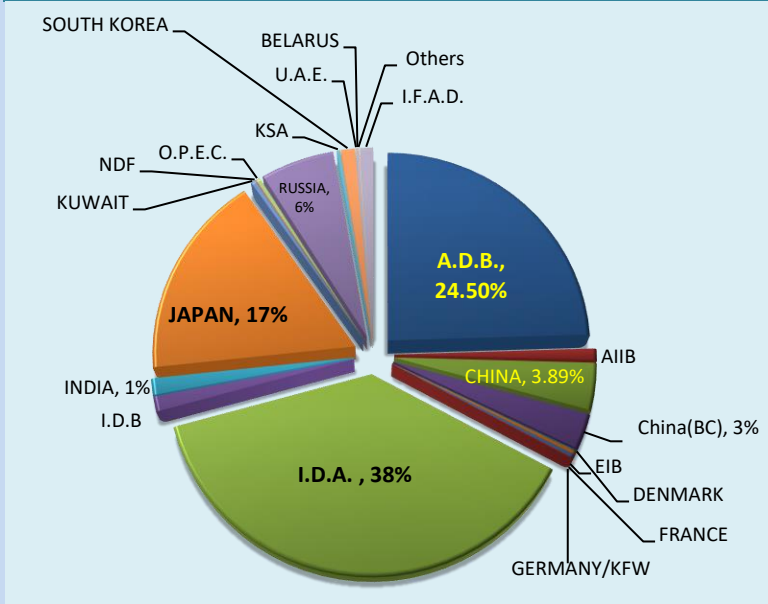


Figure 3: Total Domestic Debt Structure by Instrument



- The composition of bank borrowing (Treasury Bond and Bill) is 78:22
- The borrowing from NSC is dominated by Family Savings Certificate (35%) followed by 3 Monthly profit bearing Savings Certificate: 5 Year Bangladesh Savings Certificate, Pensioners Savings Certificate, and Wage Earners Development Bond
- The strategy suggested by the first MTDS could not be followed due to uncontrolled borrowing from the NSC
- The reform initiative to manage NSC through automation has been implemented by the FD since 1 June 2019

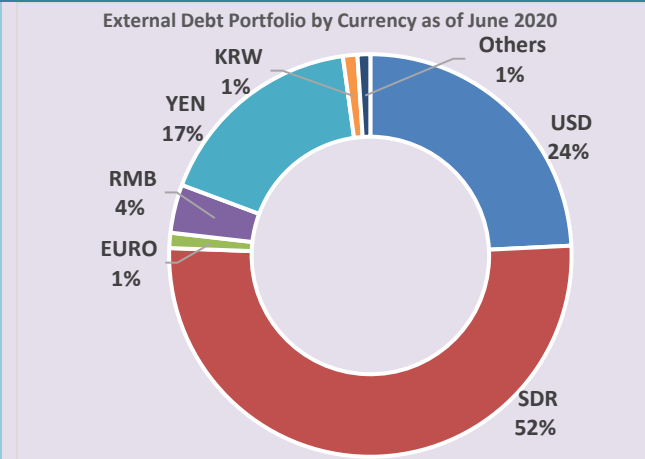
Figure 4: External Debt Structure by Creditor



- The external debt portfolio is dominated by IDA (World Bank) loan (38%) which is concessional
- The second highest multi-lateral source of external borrowing is Asian Development Bank (ADB) which is concessional as well
- Japan is the top-most bi-lateral source of external financing
- China and Russia are the next two biggest bi-lateral sources of external borrowing

Figure 5: External Debt Structure by Currency

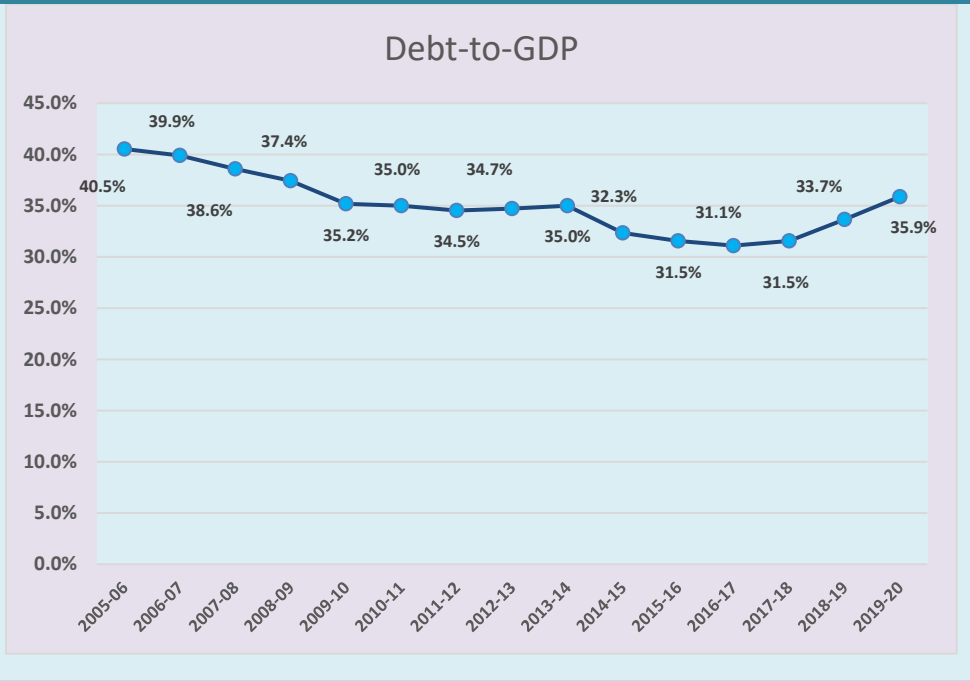
- Primarily, SDR, USD, Yen, RMB and EURO represent the currency composition of Bangladesh's external debt
- External debt is dominated by the SDR followed by USD, Japanese Yen, and Chinese RMB
- Currency risk remains low since almost 76 percent of the external debt is comprised of relatively stable currencies like the USD and the SDR



4. Government Debt to GDP

Figure 6: Debt-to-GDP ratio of the Government

- Debt-to-GDP ratio is approximately 35.9% as of June 2020
- The ratio showed a declining trend until FY 2016-17 due to the robust and steady growth and prudent fiscal policy
- Due to the commencement of several mega projects, the Debt/GDP ratio demonstrates an upward trend since FY 2017-18



5. Debt Sustainability of Bangladesh

Figure 7: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020-2030



Source: Debt Sustainability Analysis report by IMF Article IV Staff Mission 2020

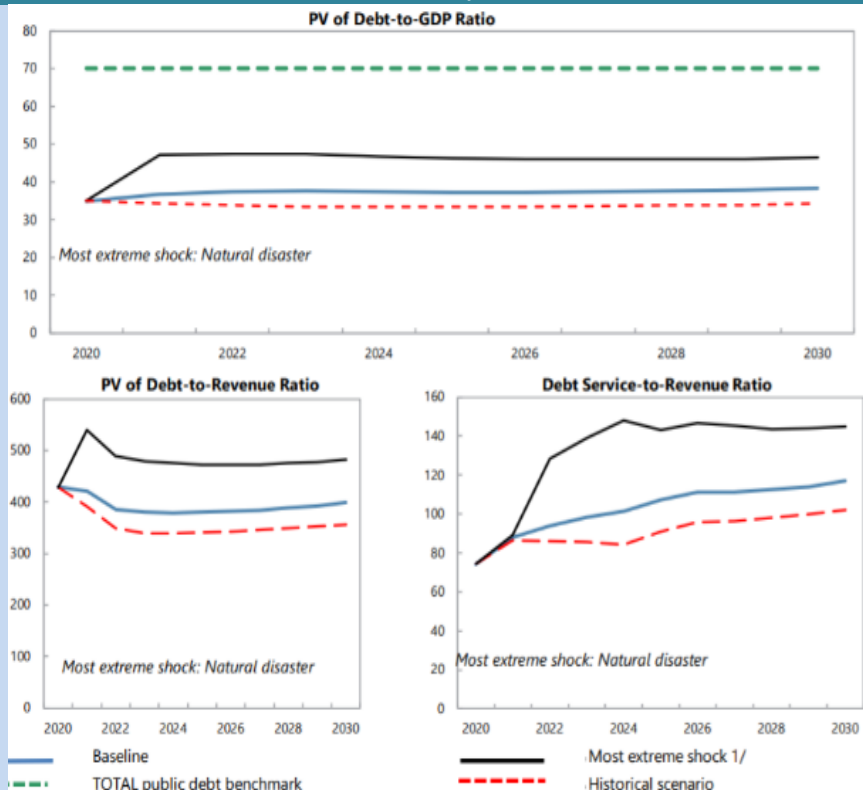
According to the latest Bank-Fund DSF for LIC's, the external debt indicators of Bangladesh are

- The PV of external debt-to-GDP ratio: Max threshold of this indicator is 55% for Bangladesh. However, it stands at less than 14% currently
- No significant impact in the case of extreme shock
- A similar trend is present in debt-to-export ratio, debt service-to-export ratio, and debt service-to-revenue ratio

Figure 8: Indicators of Total Public Debt Under Alternative Scenarios, 2020-2030

The total debt indicators of Bangladesh using the same tool are

- The threshold of PV of total debt-to-GDP ratio. It is 35.9% in Bangladesh compared to the threshold value of 70% for the LICs
- The extreme shock scenario doesn't present a significant threat to the debt-to-GDP ratio and debt-to-revenue ratio over the period
- The debt service-to-revenue ratio shows an upward trend in the extreme shock scenario which is a concern in the medium term



Source: Debt Sustainability Analysis report by IMF Article IV Staff Mission 2020

The outcome of Debt Sustainability Analysis 2020

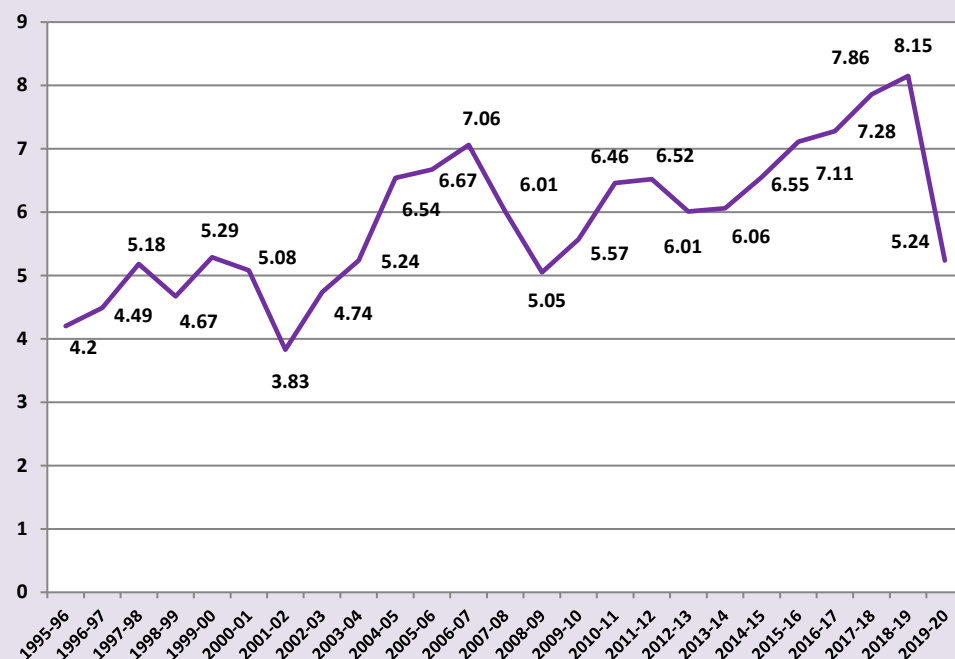
indicators	Rating
Risk of external debt distress	Low
The overall risk of debt distress	Low
Country Classification	Strong

6. The driving force to maintaining strong debt sustainability of Bangladesh are mainly

- Robust GDP growth rate
- A prudent fiscal policy along with maintaining deficit within 5% of the GDP

The scenario of the Real GDP growth rate of Bangladesh

Figure 9: Real GDP growth rate of Bangladesh

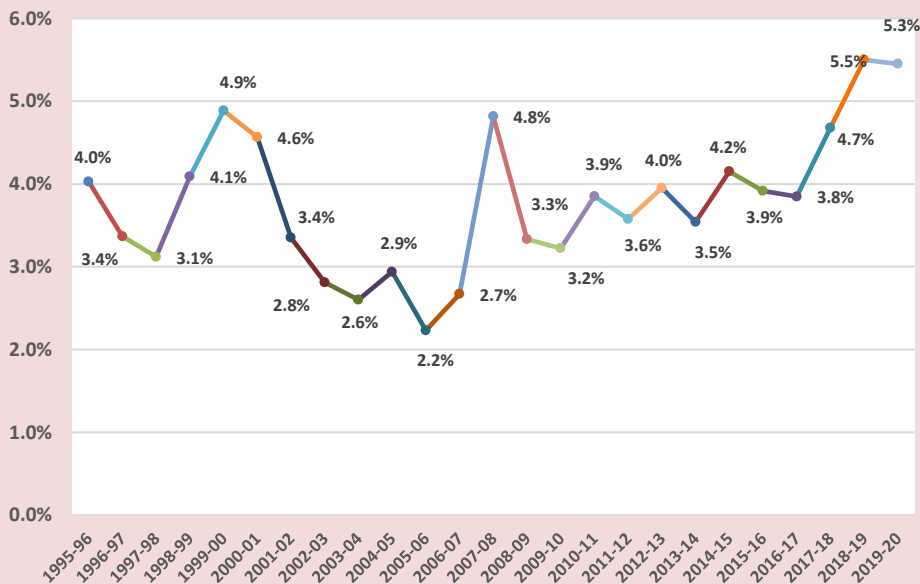


- Bangladesh achieved high growth over the last decade
- Prudent fiscal policy, fiscal discipline, better co-ordination, and political stability are some of the factors responsible for sustained high growth
- A timely and appropriate stimulus package helped to mitigate the impact of the pandemic registering a moderate growth

Budget Deficit trend in terms of GDP

Figure 10: Budget Deficit trend in terms of GDP

- FD generally maintains a budget deficit of around 5% of GDP
- The budget deficit breached this threshold in recent years due to the Covid-19 pandemic with no significant impact on debt sustainability
- Moreover, benefits from the vaccination, assistance to prop up the SMEs, aid for the poor & the low-income group etc. had more than offset the temporary breach of the 5%-tradition



7. Upcoming events

- a. Update Medium Term Debt Management Strategy (MTDS)
- b. Conduct a Debt Sustainability Analysis (DSA)
- c. Provide necessary training on MTDS and DSA for the relevant officials
- d. Install a customize Debt Database (DMFAS) in the Middle Office (FD) with the technical support of UNCTAD
- e. Arrange a Debt Summit to discuss and analyze the present and future debt situation, identify the challenges and get recommendations from the experts

Quarterly Bulletin/April 2021

The contents of the bulletin may be quoted or reproduced without further permission. Due acknowledgment is requested.

Published by

Debt Management Branch

Treasury and Debt Management Wing

&

Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS) Scheme supported by the World Bank

Finance Division, Ministry of Finance, Bangladesh.