Overview

Bangladesh has been pursuing a prudent macro-fiscal policy for the last 13 years and has been maintaining macroeconomic stability & rapid development with a low & comparatively concessional external debt and greater resilience to external shocks over the last decades. However, in this critical phase of our development, the COVID-19 pandemic has hit the economy and put the momentum of our economic growth, poverty reduction, and other socio-economic development at risk. Like other nations, the government of Bangladesh undertook a comprehensive stimulus and economic recovery program to facilitate the implementation of the government's strategies to combat the pandemic and economic recovery. As a result, though the COVID-19 pandemic and associated economic slowdown have seriously affected the global economy since early 2020, Bangladesh has successfully weathered the impact mainly due to the implementation of a range of timely and effective fiscal and monetary stimulus programs.

In early 2022, the start of the Russia-Ukraine conflict brought new challenges. The unprecedented price hike in energy, food, and other essential commodities and the widespread disruption in the international supply chain have adversely affected the global economy, including Bangladesh. This conflict threatens to emerge as an obstacle in the way of achieving full economic recovery and targeted development goals.

Therefore, the government is requiring additional financing from external sources to address the adopted plan at this critical time, and accordingly, Economic Relations Division (ERD) has been working proactively for external resources to address the present problem. As a result, there is a significant increase in the government's borrowing. Moreover, the scope of mobilization of foreign assistance in concessional terms has become less than in previous years because most of the development partners have already adjusted their financial terms and conditions either by shortening maturity and grace period or by increasing interest rates as Bangladesh graduated to Lower Middle-Income Country (LMIC). On the other hand, to meet the investment needs, especially for some big and nationally important projects, borrowing on non-concessional terms from bilateral sources has increased.

Under all these adverse situations, despite a phenomenal increase in external debt, Bangladesh has been comfortably servicing its debt with an impeccable reputation of a **'non-defaulting party' with** maintaining a comfortable debt sustainability position in considering the internationally used indicators, **Because of the prudent borrowing policy pursued by the government**.

In FY 2021-22, external resources amounting to US$ 10.173 billion have been mobilized; out of this, the power & energy sector and transport & communication sector have the major allocations amounting to US$ 3.06 and US$ 2.07 billion respectively. The other major sectors which have significant allocations are general government services (US$ 1.84 billion), health (US$ 1.70 billion), local govt. & rural development (US$ 0.41 billion), housing & community amenities (US$ 0.36 billion), and agriculture (US$ 0.34 billion). External resources, one of the main sources of financing development activities, have been playing a pivotal role. The scenario of realization of committed assistance has been improved compared to the last few years. In FY 2021-22, disbursement crossed the landmark of USD 10 billion for the first time and the total amount of disbursement was US$ 10.87 billion which is also the highest since independence. Compared with 2021, the commitment has increased by 7.74 percent and disbursement has increased by 36.68 percent. Despite the increased mobilization of external assistance, Bangladesh has been able to maintain a comfortable debt sustainability position in terms of solvency and liquidity. The ratio of the government's external debt stock as of 30.06.2022 to GDP is 13.78% vis-à-vis the threshold limit of 40% revealing the solid solvency position. The external debt stock excluding the government's guaranteed debt to GDP is 12.07% in the same FY. On the other hand, the ratio of the government's external debt service obligation in FY 2021-22 to the export of goods and services is 6.09% vis-à-vis the threshold limit of 15% mirrors the good liquidity condition of Bangladesh. However, the mobilization of non-concessional loans has decreased than last FY. An amount of US$ 3.42 billion non-concessional loan has been mobilized in 2022 which stood at 43.90% of total loans committed. On the other, the volatility of exchange rates and the possibility of increasing LIBOR rates have increased the risks of escalation of borrowing costs in the coming years.

2. This section of the document is organized into the following different parts:

i. **Part-1**focuses on the objectives of external resources management with a snapshot of Key information of external resource flows and some important macro-economic indicators;
ii. **Part-2** presents information, analysis, and evaluation of external resource flow into Bangladesh;
iii. **Part-3** highlights the external debt portfolio including changes in external debt stock with currency composition and maturity structure, debt servicing, and other important debt-related issues;
iv. **Part-4** indicates risks associated with external debt portfolio and debt sustainability status;
v. **Part-5** describes some steps taken in recent times in the area of aid and debt management

3. Part-1: Objective of External Resource Management and a Snapshot of key Information

3.1Objectives: The primary objectives of external resource management are:

(a) to ensure mobilization of the government's external resources in line with national development strategy at the lowest possible cost;

(b) to contain debt burden in a comfort zone consistent with a prudent degree of risk.

3.2 Snapshot: A snapshot of key information relating to external resource flow such as aid in the pipeline, commitment, disbursement, debt stock, debt servicing, and aid channeled through Non-Government Organization (NGO) of FY 2021-22 are given in the table below. It also captures related macroeconomic indicators which would offer readers an opportunity to have a broad appreciation of the external debt of the country in the context of the overall macro-fiscal situation of the country.

A. Foreign Aid Flow and Debt

	FY 2021-22	FY 2020-21
1. Flow of Foreign Aid	*(In million US$)*	*(In million US$)*
(i) Opening Pipeline	**50,346**	**48,819**
(ii) Total Commitment	**10,173**	**9,442**
Grant	2231	701
Loan	7,792	8,742
Projects	10,023	9,442
Non-projects	150	0
(iii) Total Disbursement	**10,969**	**7,959**
Grant	656	492
Loan	10,294	7,450
Projects	10860	7,943
Non-projects	19	17
(iv) Closing Pipeline	**45,173**	**50,346**
(v) Foreign grant channeled through NGO		
Amount Approved	1031	995
Amount released	822	779
2. External Debt Stock	*(In million US$)*	*(In million US$)*
Total public sector outstanding debt	**63,519**	**60,153**
(a) General Government Debt (Medium & Long Term)	**55,602**	**50,879**
Multilateral	33,920	31,964
Bilateral	21,682	18,915
(b)Government's Guaranteed debt	**7,917**	**9,274**
Air Craft	293	1,044
Crude Oil	575	443
Power	5,219	5,134
IMF	1,015	2,031
BTRC	96	128
BCIC	719	495

	FY 2021-22	FY 2020-21
3. External Debt Service	*(In million US$)*	*(In million US$)*
Total debt servicing	**3,610**	**3,298**
(a) Principal	**2,954**	**2,622**
General Government (Medium & Long Term)	1527	1,419
Air Craft	53	120
Crude Oil	786	547
Power	395	361
IMF	171	157
BTRC	16	18
BCIC	6	0
(b) Service Charge	**656**	**676**
General Government (Medium & Long Term)	491	496
Air Craft	4	6
Crude Oil	12	12
Power	142	155
IMF	5	5
BTRC	2	2
BCIC		0

B. Macro Economic Statistics

Macro Economic Statistic	FY 2021-22	FY 2020-21
i. GDP growth rate (Base Year: 2015/16)	7.25	6.94(R)
ii. GDP at the current price (Base year: 2015/16 in million US$)	460,772	355,037
iii. GDP as per PPP at Current Int'l Dollar (in million US$)*	1,345,646	1,173,854(R)
iv. Per Capita Income (Base year: 2005/06 in US$)	2,824	2,591(R)
v. **Export of Goods and Services (In Million US$)**	**59,228**	**45,278**
Merchandise (FoB)	49,246	37,882
Services	9,982	7,396
v. **Import (In Million US$)**	**89162**	**65,595**
Food	2,562	2,681
Capital Machinery	5,463	3,825
vi. **Foreign Exchange Reserve (in million US$)**	**41,826**	**46,391**
vii. **Remittance (in million US$)**	**21,032**	**24,778**
Of the total from KSA	4,542	5,721
USA	3,438	3,462
UAE	2,072	2,440

* Reference: World Economic Outlook Database, October 2022 IMF (Calendar Year Value).

4. Part-2: Aid flow, Composition, and Trend

Up to June 30, 2022, a total of about US$ 171.45 billion of external assistance was committed. According to the classification by purposes the share of food aid is US$7.05 billion, commodity aid is US$ 11.07 billion, project aid is US$ 144.12 billion and budget support is 9.21 billion of the total commitments.

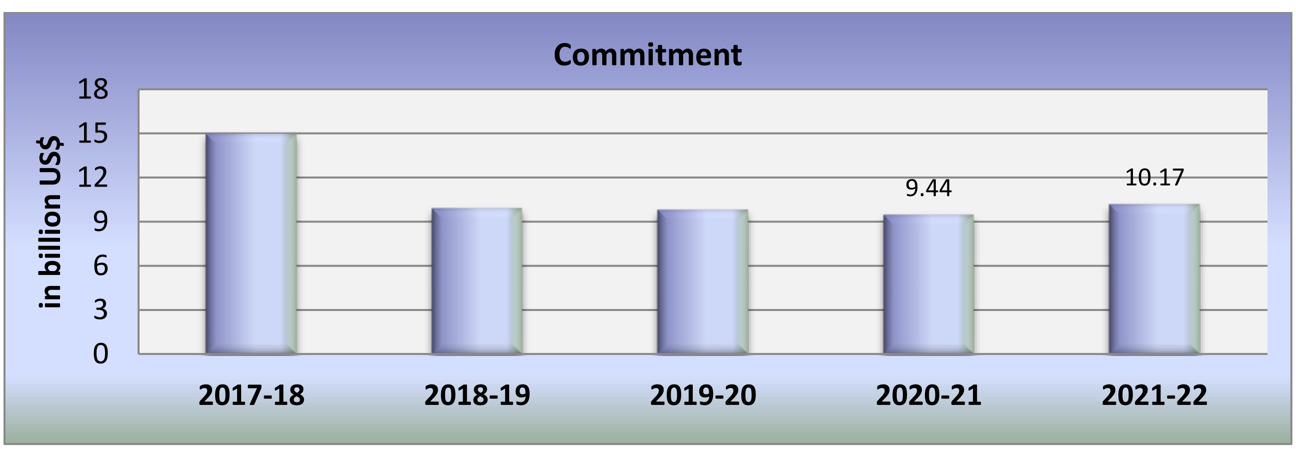
For the period since independence up to June 30, 2022, a total amount of about US$112.59 billion of foreign aid was disbursed, of which US$29.41 billion is grant and US$83.17 billion is loan. Of the total amount, US$ 6.98 billion as food, US$ 10.91 billion as a commodity, US$ 86.19 billion as project aid and US$ 8.51 billion as budget support were disbursed.

Significant changes have taken place in case of the total aid package to the country over fifty years since independence. The share of grants is declining gradually is-à-vis the share of loans. Considering sources of the total aid flows, multilateral aid has been growing through the years compared to bilateral aid. Vulnerable food security and shift in global economic power structure have made aid mobilization more difficult than ever before. It is facilitated through a variety of means. Co-ordination with Development Partner (DP) such as holding periodic meetings of the Bangladesh Development Forum, and greater partners has an important bearing on the interaction of the Local Consultative Groups which aims at aid effectiveness and harmony, regular triangular portfolio meetings of ERD, DPs and project implementing ministries/agencies, etc.

Some key features for the financial year 2021-21 related to external aid are discussed below.

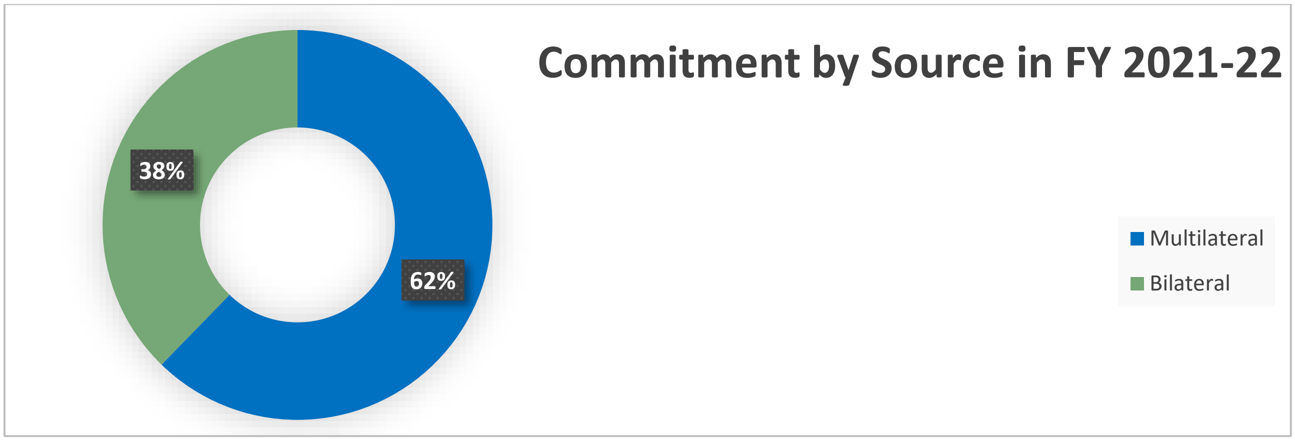
4.1 Commitments:

During FY2021-22, a total of US$10.17 billion of external assistance was committed. Compared to last fiscal year, the growth of commitment is 7.74 percent. Graph-1 shows the commitment to foreign aid the for last five years.



Graph 1

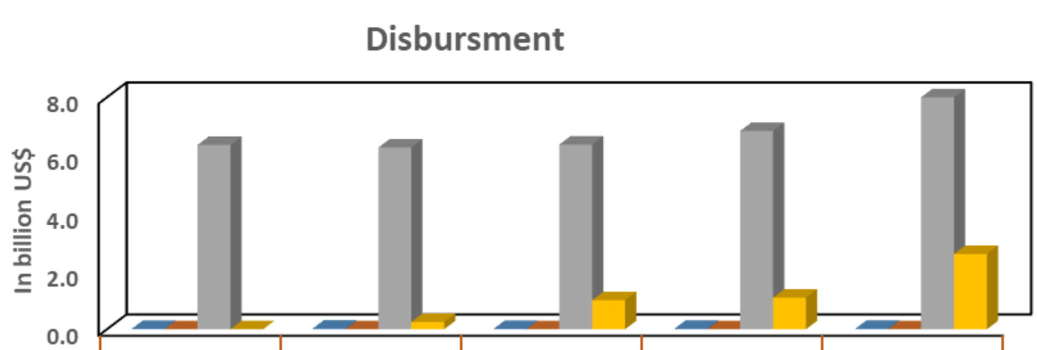
In FY2021-22 project aid constituted the lion's share of the whole amount of commitment. There is no commitment to commodity aid in this financial year. According to the source of financing, commitment from multilateral agencies and bilateral sources are US$ 6335.89 million and US$ 3837.36 million respectively. The composition of commitment is shown for the FY2021-22 in graph 2.



Graph-2

4.2 Disbursement:

In FY2021-22, a total amount of US$ 10.97 billion was disbursed which registered the highest disbursement in a single financial year since independence. Disbursement during FY 2021-22 is 37.85 percent higher than the disbursement of the previous year. Of this US$ 674.77 million is a grant and US$ 10,294.52 million is loan. Of the total amount, food aid, and project Aid and budget support are US$ 18.96 million, US$ 8,353.18 million, and US$ 2,597.15 million respectively. Bilateral donors disbursed the lion's share of the total disbursement amounting to US$ 5,624.09 million and multilateral donors disbursed US$ 5,345.21 million. Graph-3 shows a comparison of disbursement by purpose in different years.



	2017-18	2018-19	2019-20	2020-21	2021-22
Food	0.013	0.0226	0.011	0.0165	0.01896
Commodity	0	0	0	0	0
Project	6.356	6.268	6.37	6.84	8.3532
Budget support	0	0.251	1	1.09	2.5971

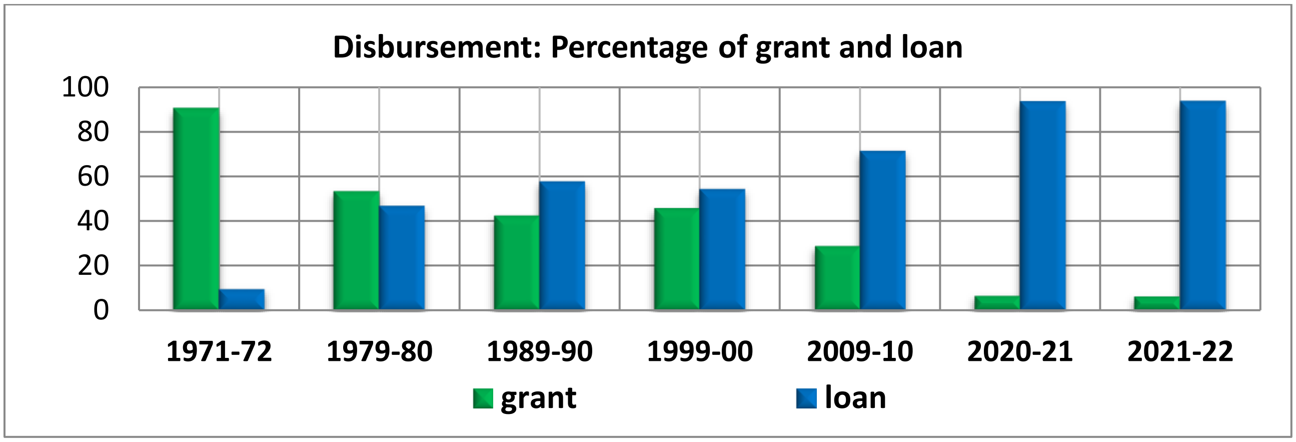
Graph-3

Since 1972 on a cumulative basis of aid disbursement, the major multilateral development partner is IDA followed by ADB. On the other hand, Japan ranks as the largest bilateral development partner followed by Russia. Disbursement of the op 10 development partners according to their cumulative contribution since independence has been presented in graph-4.

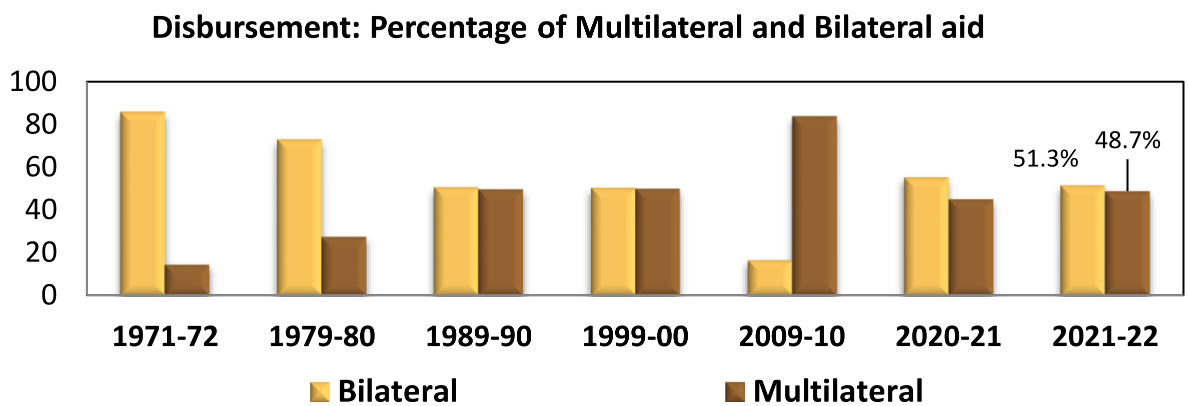
Graph-4

4.3 Changing scenarios in aid composition

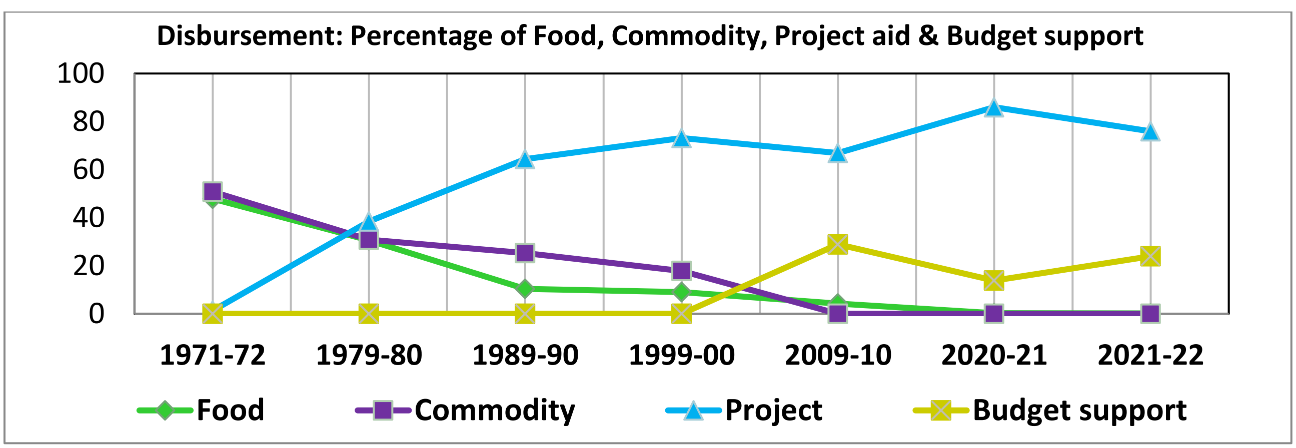
Over the past several years changes have taken place in the composition of foreign aid disbursement. The share of the grant is declining, and the share of the loan is increasing gradually. The share of grant and loan of disbursed aid was 90.5 percent and 9.5 percent in FY 1971-72 which stood at 6.2 percent and 93.8 percent respectively in FY2021-22. Similarly, multilateral aid has increased over the period. The share of bilateral aid has decreased from 85.7 percent in FY 1971-72 to 51.3 percent in FY 2021-22. On the other hand, the share of multilateral aid has increased from 14.3 percent in FY 1971-72 to 48.7 percent in FY2021-22. However, there is an increasing trend in the share of bilateral aid since FY 2010-11 compared to the past couple of years. Some Bilateral development partners such as China, Russia, and India have become more active in the global aid architecture. Bangladesh, like many other countries, has been mobilizing resources from these countries to fulfill its growing investment needs in large infrastructure projects. Moreover, over time, the flow of food and commodity aid has drastically declined. Food aid, which was 47.9 percent in FY 1971-72, has decreased to 0.2 percent in FY2021-22. Similarly, commodity aid has come down to nil in FY 2021-22 from 50.8 percent in FY 1971-72. On the other hand, project aid has shot up from 1.3 percent to 99.8 percent during the same period. Changes in disbursement pattern over the years can be seen in Graphs -5, 6and 7.



Graph -5



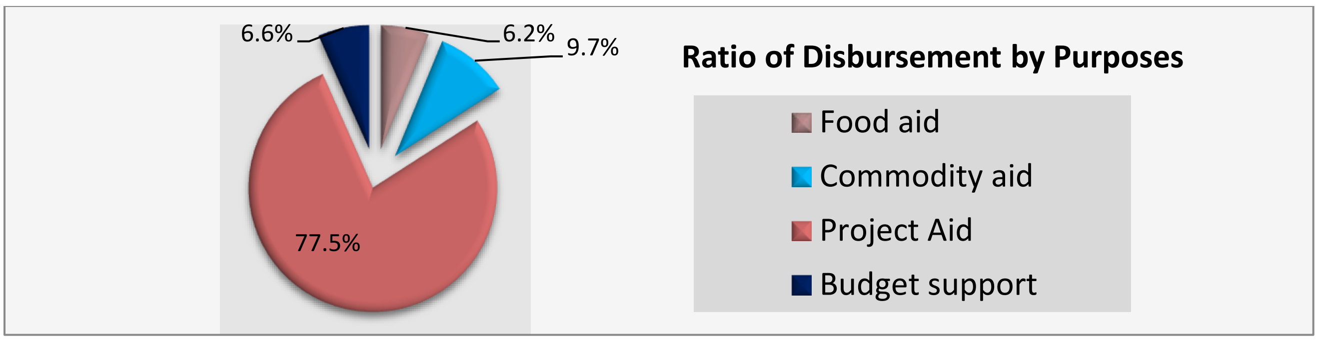
Graph -6



Graph -7

4.4 Aid Utilization:

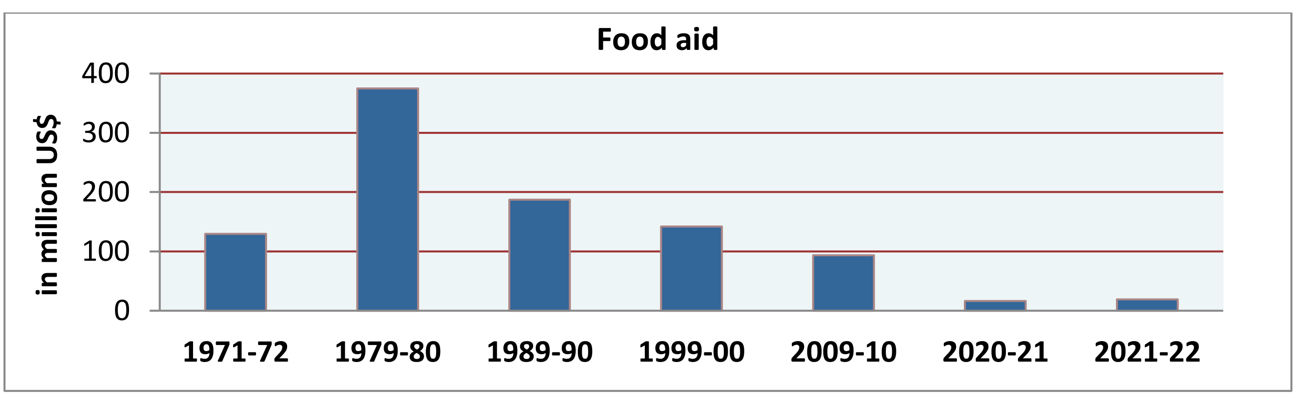
Aid utilization is in a state of a critical juncture. This arises from the slow implementation of projects. Over time, food aid and commodity aid have lost their place as important constituents of the total aid package. On the other hand, project aid has become a more and more popular and important mode of assistance considering the purpose of aid. From independence to June 30, 2022, a total of US$ 112.59 billion of foreign aid was disbursed on a cumulative basis. As a policy, the donors reduced commodity and food aid as a young nation matured over years. Food and commodity aid are generally replaced by more and more project aid. The bilateral aid gives way to more multilateral concessional loans. The share of total food aid, commodity aid, budget support and project aid have been shown in the following pie chart.



Graph-8

4.4.1 Food aid:

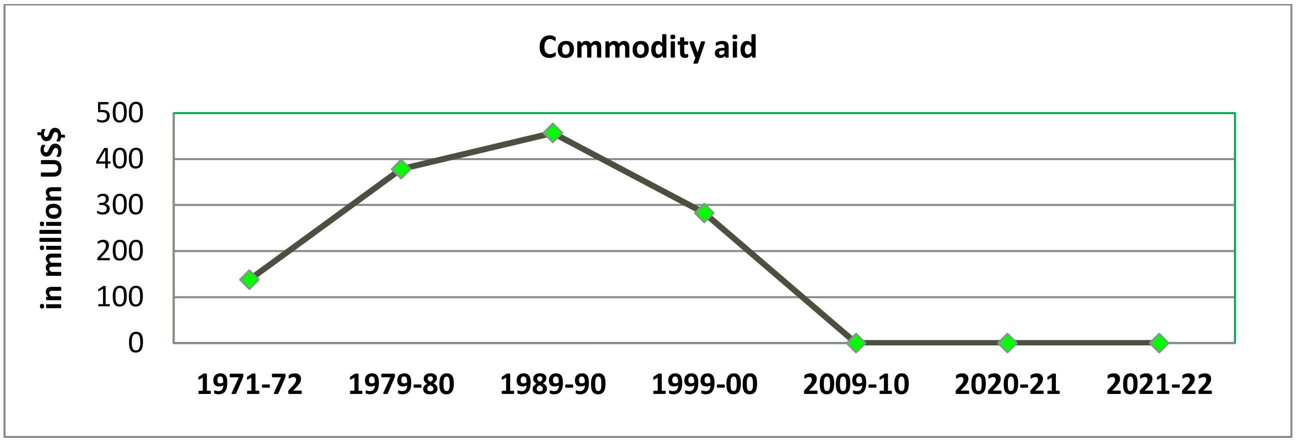
Food aid is now availed of in reduced volumes and occasionally received in larger amounts to support natural calamities like floods, cyclones, and unfavorable weather conditions. This is because self-sufficiency has been nearly achieved in recent years with increased food production. Although, a persistent level of food aid is essential to assist the poorest section of the population and to run the targeted safety net programs like VGD and FFW. The share of food aid has gradually declined over the years which is presented in the bar chart below.



Graph-9

4.4.2 Commodity aid:

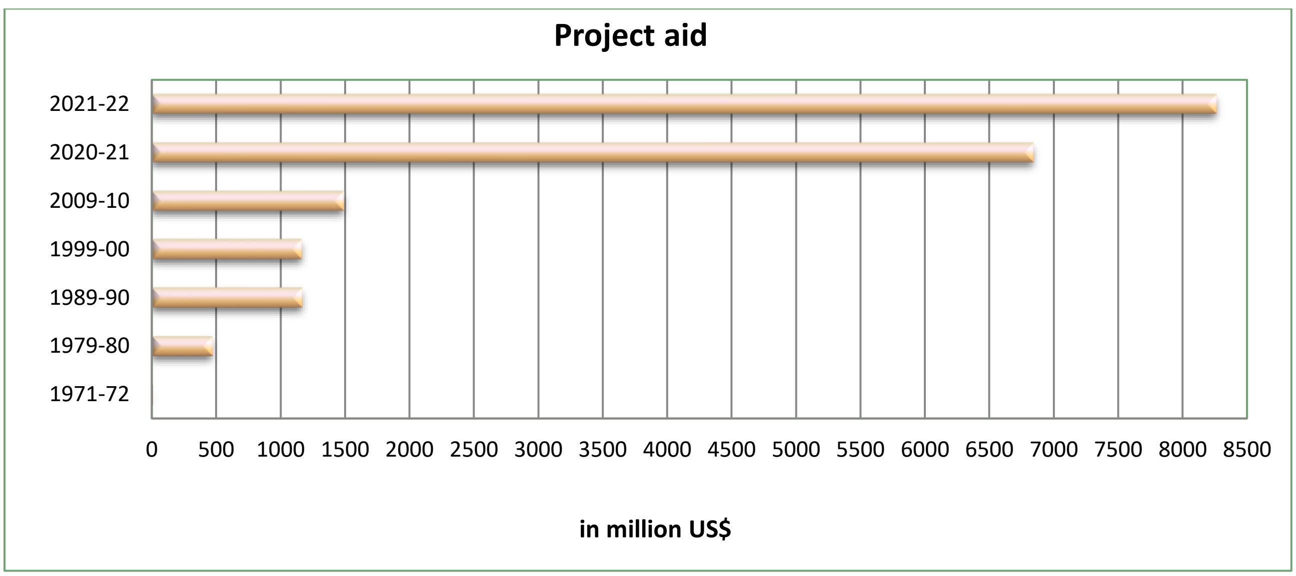
Generally, commodity aid is offered for the acquisition of intermediate inputs and raw materials and thus, provides a cushion to the balance of payments. Increasing export volume, tax revenue growth, and consistent increased flow of foreign remittance have eased the balance of payment deficit from own resources. In the process, the share of commodity aid has declined considerably in recent years and zeroed in FY2021-22.



Graph-10

4.4.3 Project aid:

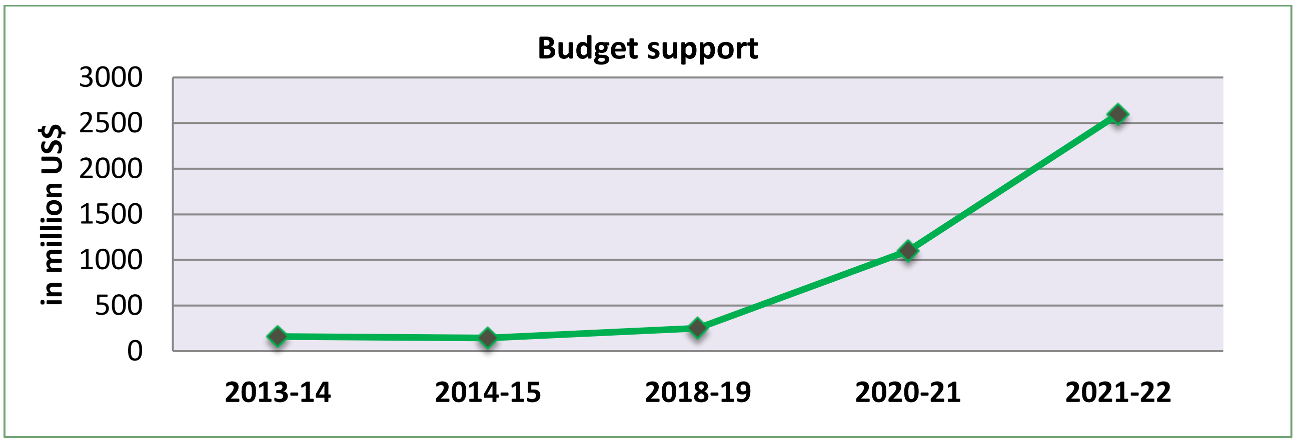
The largest share of foreign assistance comprises project aid. It is extended by the development partners primarily to finance projects included in the Annual Development Program (ADP). The share of project aid excluding budget support has increased over the years as shown in graph 11.



Graph-11

4.4.4 Budget support

Budget support is extended in one single or multi-tranche to undertake different priority programs. The payments against budget support are triggered on fulfillment of certain agreed policy objectives between the recipient country and Multilateral Financial Institutions. It gives the recipient country more flexibility to align aid spending with national priorities in comparison to project aid. Therefore, budget support is becoming a more popular form of receiving external aid. However, budget support does not come by very frequently. It is usually offered sparingly on occasions where development partners trigger payment only after recipient countries achieve previously agreed benchmarks. Disbursement under the budget support scheme for the last couple of years including US$ 2597.15 million in FY 2021-22 as shown in graph-12.

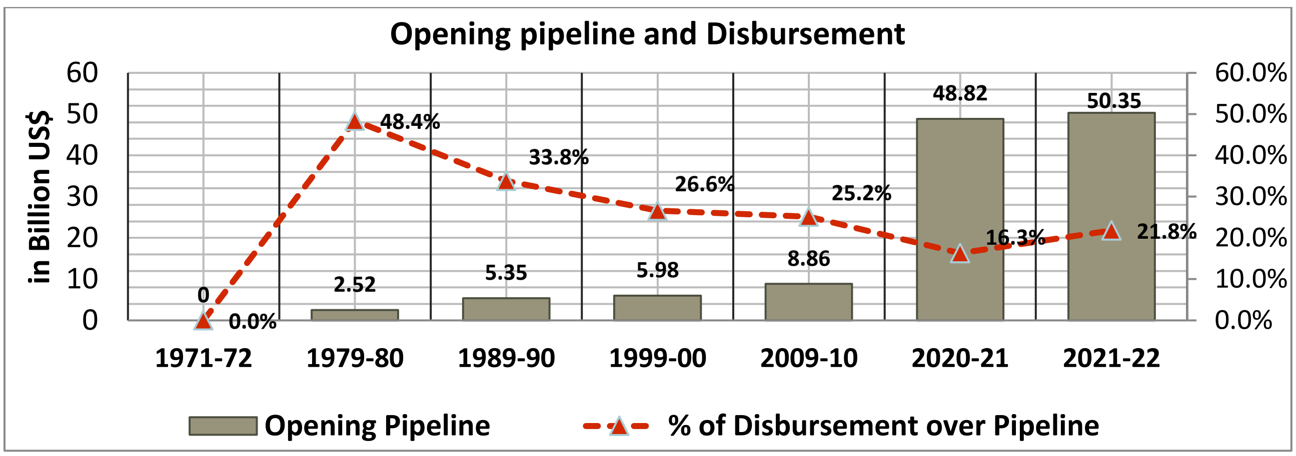


Graph-12

4.5 Aid in the pipeline

FY 2021-22 began with an opening pipeline of about US$ 50.35 billion on July 1, 2021. The new commitment during the period amounted to US$ 10.17 billion and total disbursement during FY 2021-22 amounted to US$ 10.97 billion. The closing pipeline as of 30th June 2022 stood at about US$ 45.17 billion after cancellation/adjustment which is 10.28 percent lower than that of the previous year. The disbursement of foreign aid during FY 2021-22 as a percentage of pipeline opening balance is near 21.79 percent. In FY 2020-21, the disbursements percentage of the opening pipeline increased by 5.5 percent compared to that of the last financial year.

Slow implementation of projects results in slow disbursement of aid which leads to time and cost overruns. It negatively impacts the balance of payments leading to increased borrowing from domestic sources. Factors creating difficulties in the speedy implementation of projects or utilization of economic assistance are manifold. Projects are often designed without proper planning or feasibility studies. Also, people engaged in the project preparation are not properly trained. In many cases, faulty design of the project leads to a revision of the Development Project Proposal (DPP)/Technical Project Proposal (TPP) even before the commencement of the project. The lengthy approval process of the DPPs/TPPs takes longer time to start the projects. Sometimes, projects are not adequately staffed with the right kind of people. Moreover, in many cases, project personnel are transferred (in the case of government officials) and/or moved to another job. Procurement-related bottlenecks and challenges in the land acquisition process also slow down the speed of project implementation. Besides, projects involving several sectors/organizations often suffer from a lack of coordination. On the other hand, delays in the approval of awarding contracts, delays in appointing consultants, delays in releasing funds, and lack of coordination among co-financers, (in the case of multi-donors funded projects) were found to be the causes of slow disbursement. In graph 14 disbursement ratios over the opening pipeline in different years have been shown.

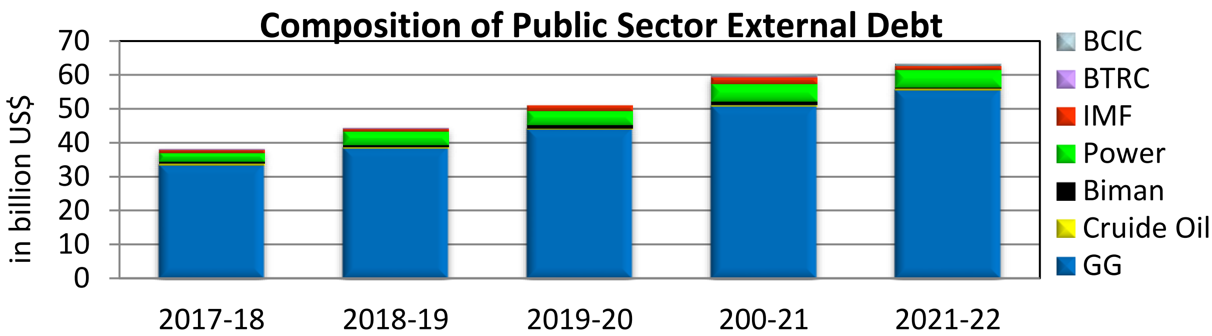


Graph-13

5. <u>Part- 3: External Debt management</u>

Managing external debt is more sensitive to some extent than that domestic debt. Domestic debt is a charge on budget and must be serviced with government revenue and/or additional domestic borrowings. Whereas external debt, in addition to meeting repayment obligations with government revenues, is also a charge on the balance of payments and it is serviced with the foreign exchange by drawing down on the reserve. The large trade deficit, savings-investment gap, slow growth of revenue, and rapid growth of public expenditures contribute to the increased external debt of the country.

5.1 Public Sector External Debt: The external borrowings of Bangladesh consist mainly of public sector external debt. The share of private sector external borrowing is negligible. The total Public Sector External Debt has increased from US$ 973.80 million in FY 1974-75 to about US$ 63.52 billion in FY 2021-22 which constitutes a debt liability of 13.78 percent of GDP. The per capita debt obligation of the country has risen from US$ 6.59 in 1973-74 to US$ 371.89 in FY 2021-22. Public sector external debt consists of General Government debt and guaranteed debt of State Owned Enterprises (SOEs) and debt to the IMF. The composition of public sector external debt may be seen in the following graph-14:



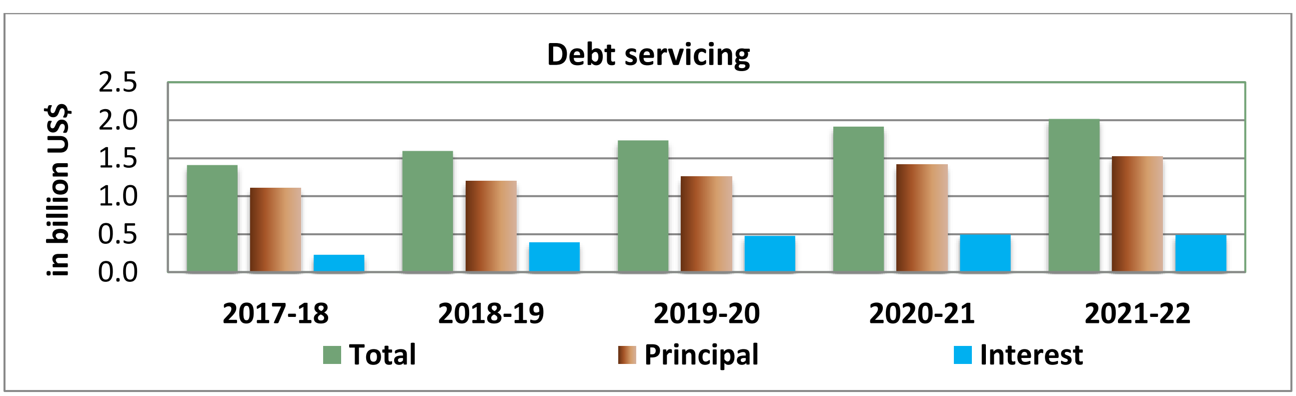
Graph-14

5.2 General Government Debt

The General Government debt amounting to US$ 55.60 billion is the major component of Public Sector External Debt. All of the general government external loans are Medium and Long Term (MLT) in nature. The share of MLT debt is 87.53 percent of total Public Sector External Debt and it constitutes a debt liability of 12.07 percent. Most of MLT credits are acquired on concessional terms with a weighted average grace period of 7.7 years, a weighted average maturity period of 30.5 years and a weighted average repayment period of 22.8 years. These credits mainly come from bilateral and multilateral sources. Economic Relations Division manages the Governmental debt. A few issues related to General Government external debt are presented in the following paragraphs:

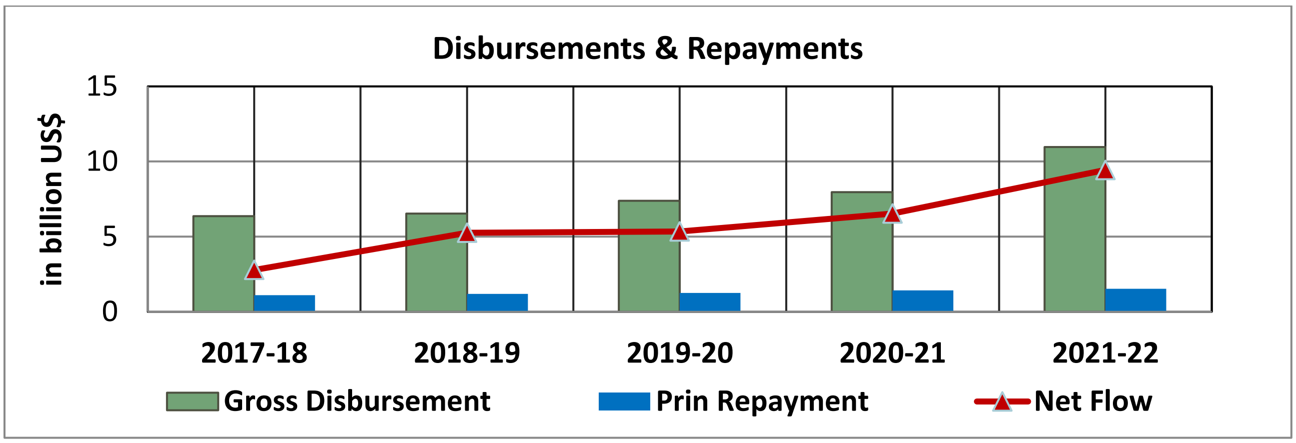
5.2.1 Debt Servicing

The total expense for debt servicing of the government is US$ 2,017.96 million in FY 2021-22. Of the total, the principal repayment is US$ 1,526.71 million and the interest is US$ 491.25 million. Of the total debt, servicing amounts US$ 1466.98 million is paid to multilateral creditors and US$ 550.98 million is paid to bilateral creditors. Statistics of debt servicing for the last five years are shown in Graph-15.



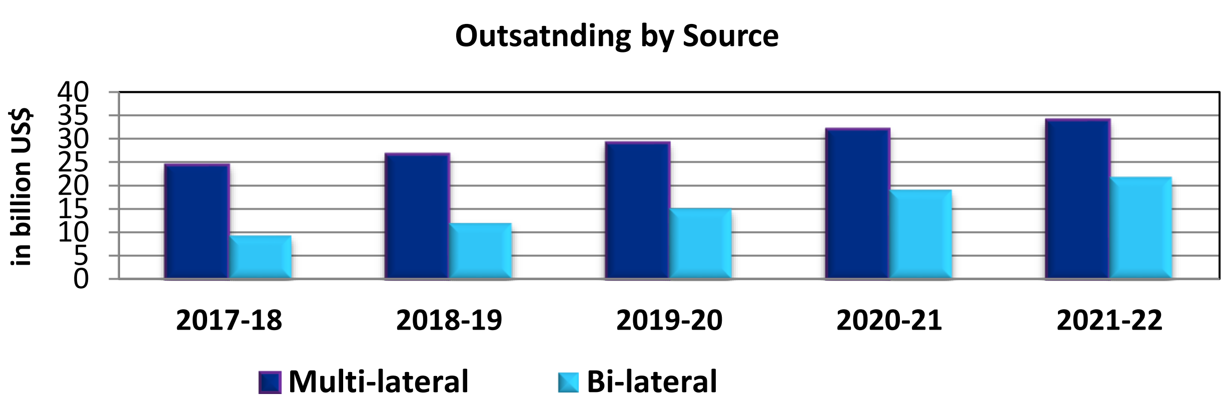
Graph-15

5.2.2 Net Flows and Transfer: Net flows, which account for the difference between disbursement and amortization (principal repayment), registered a positive value in FY 2021-22 by US$ 9442.58 million. In FY 2020-21, net flows were US$ 6538.92 million. Compared to the previous year, net flow increased by 44.40 percent in FY 2021-22. Since independence net flow of each financial year has been always registering a positive value due to the higher disbursements than amortization. Moreover, net transfer which is the residual value after netting of interest payments from net flows, has also been scoring positively since independence. Graph below shows the net flows for the last five financial years.



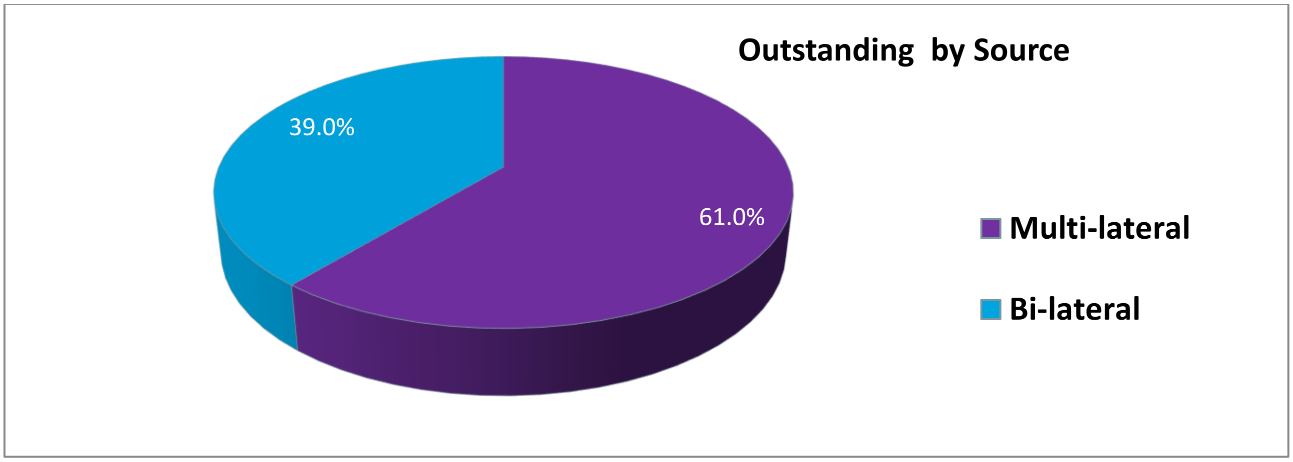
Graph-16

5.2.3Source composition: Usually public sector external debt is mobilized from bilateral, multilateral and commercial sources. Bangladesh, as a policy generally refrains from contracting commercial loans. However, some authorized SOEs are taking sovereign backed commercial loans. Almost all the loans received from different sources are concessional except for a few non concessional loans. The share of outstanding debt as on 30th June 2022 from multilateral source is US$33.92 billion, while it is equal to US$ 21.68 billion in case of bilateral sources.



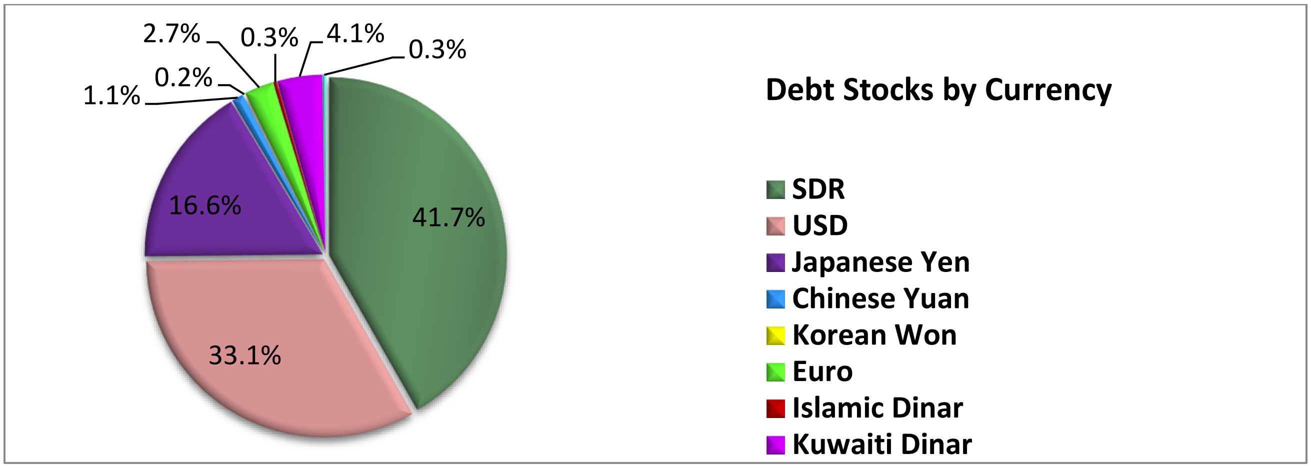
Graph-17

In FY 2021-22 the share of multilateral outstanding loans increased by 6.20 percent compared to that of FY 2020-21. Similarly, share of bilateral outstanding loan increased by 14.54 percent to last financial year. The share of debt outstanding by source for the FY 2021-22 are shown in graph-18.



Graph-18

5.2.4Currency composition: External MLT debt as on 30th June 2022 is mainly composed of eight major currencies, such as Special Drawing Right (SDR), United States Dollar, Japanese Yen, Korean Won, Islamic Dinar, European Union Euro, Kuwaiti Dinar and Chinese Yuan. The currency structure of external debt remains virtually unchanged. In terms of denominations, SDR continues to account for the largest share. The share of SDR stood at 41.74 percent in FY 2021-22 compared to 47.40 percent in 2020-21. World Bank and ADB (ADF) provided loans in SDR denomination. Due to the disbursements of SDR denomination loan of the two multilateral agencies; debt stock in SDR is still predominant in the debt portfolio. Similarly, the share of debt stock of USD increased to 33.08 percent in FY 2021-22 from 26.44 percent in FY 2020-21. USD occupied the second-largest share of the total debt stock. Net flows of loans in USD from various new bilateral creditors like Russia, and India constituted an increased share of USD loans in the debt portfolio. On the other hand, the Japanese Yen lost its share by 1.4 percent in equivalent US$ compared to the previous year's share of debt stock due to the depreciation of the Japanese Yen against the US Dollar despite the record 2nd highest disbursement of loan. The share of major currencies in the debt stock may be seen in the following graph.



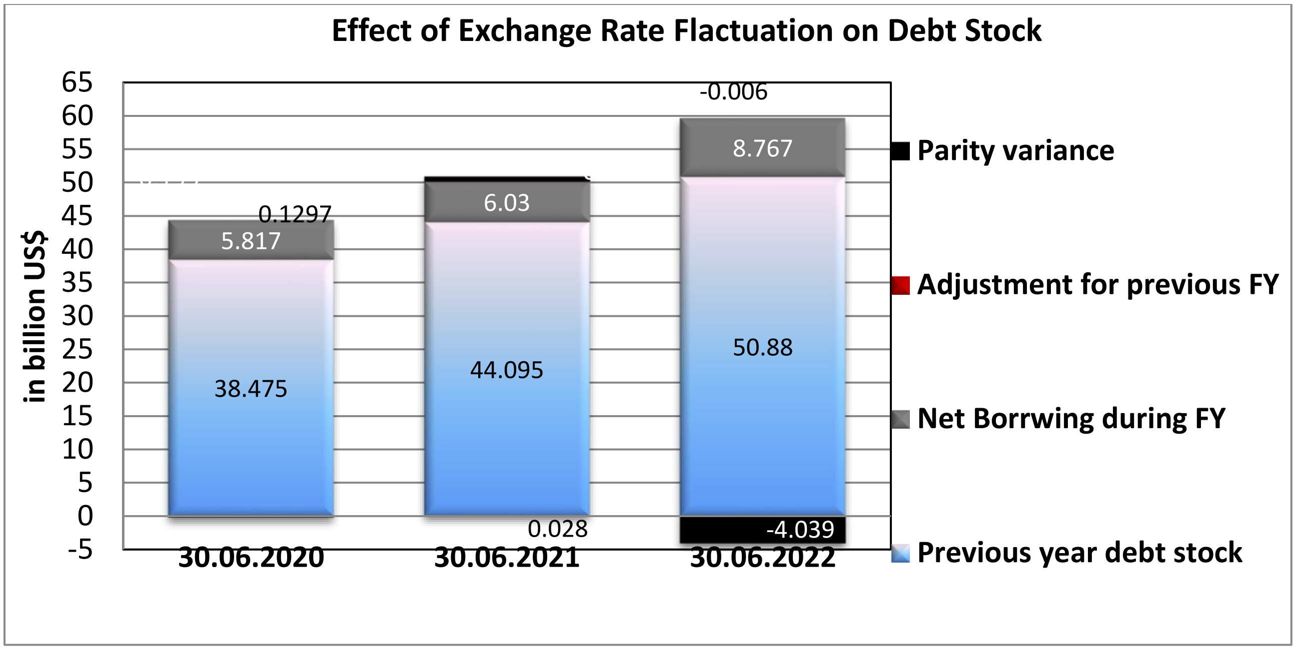
Graph-19

6. Part-4: Risk Analysis

Around 87.53% of the total external debt is derived from Medium- and Long-Term loan and most of the loans are mobilized under fixed term interest rate basis. Therefore, the risks of existing external debt portfolio is minimized considering that our portfolio is exposed mainly to exchange rate fluctuation and, minimally, to interest rate change. However, there are some other risks that are related to economic performance and the overall debt strategy of the country. To examine the risks of the debt portfolio, detailed information related to currency composition, interest rate, maturity, and repayment period are required. As ERD only manages General Government loans, therefore risk analysis of the existing external debt portfolio is confined within the purview of General Government debt which may be seen in the following few paragraphs.

6.1 Foreign Currency Risk

The total government medium- and long-term external debt stock increased to US$ 55.602 billion as on 30th June 2022 from US$ 50.880 billion as on 30th June 2021, indicating an increase of US$ 4.722 billion during the year. However, net government external borrowing during the same period stood at US$ 8.768 billion. Episodes of appreciation of US dollar against SDR and against other currencies were frequent during the year (parity variance). This parity variance recorded a decrease of US$ 4.039 billion to the debt stock in US dollar during the year.



Graph-20

But the flip side is that excessive concentration of SDR in the debt portfolio has the effect of exposing the public debt to one single currency exchange rate risk. As the share of SDR in debt stock is more than 41%, appreciation of the nominal value of US dollar against SDR may cause a decrease of debt stock in US dollar despite the adding new loan to the debt portfolio. Similarly, it may also decrease expenditure in US dollars on account of debt servicing as most of SDR loans are paid in US dollars. Adverse movement of the exchange rate between foreign currencies and local currency causes an increase of debt servicing expenditure in Taka. However, in the FY 2021-22 the value of SDR against US dollar depreciated slightly. LIBOR rate has increased considerably compared to last financial year in the 2nd half of the FY, but LIBOR value was lower in the 1st half of the FY compared to last FY. Moreover, the value of taka was depreciated against US$ dollar. Due to above situations, the actual expenditure of debt servicing in Taka was considerably less than the budget provision. An amount of Taka 13,166.26 crore and Taka 4,224.42 crore paid as principal and interest respectively against the budget provision of Taka 14,792 crore and Taka 6,243.60 crore which made an under expenditure of Taka 3,646.82 crore in total for the government.

6.2 Liquidity Risk

The capacity of servicing external debt is measured by liquidity monitoring indicators. Interest service ratio and total debt service ratio are the two key indicators for the purpose. Interest service ratio is measured by the cost of external debt as a percentage of export. In FY 2021-22 the interest service of MLT debt ratio is 0.83 percent which was 1.09 percent in FY 2020-21. The total debt service ratio is the ratio of total debt service (principal plus interest payment) as a percentage of export. The total debt service of MLT debt ratio decreased in FY2021-22 as the export value increased and the ratio is 3.41 percent in FY 2021-22 compared to 4.22 percent in FY 2020-21. The rollover ratio, the ratio of amortization over total disbursement in a single year also indicates the comfort zone of liquidity position. The Rollover ratio in the case of MLT debt went down to 13.94 percent in FY 2021-22 which was 17.87 percent in FY 2020-21 due to record-high disbursement during FY2021-22. Total debt service payment to revenue earning is also an important tool to monitor liquidity risk. The total debt service to revenue in FY 2021-2 and 2020-21 are 5.15 percent and 5.48 percent respectively.

6.3Solvency Risk

Debt burden indicator is measured by various ratios. Of these, one is the ability to repay all outstanding debt from export earnings in a single year. In FY 2021-22, the outstanding of MLT debt stood at 93.88 percent of the export earnings compared to 112.37 percent of the same in FY 2020-21. Based on the result of the above analysis it could be said that solvency risk does not pose any significant threat to the external debt portfolio.

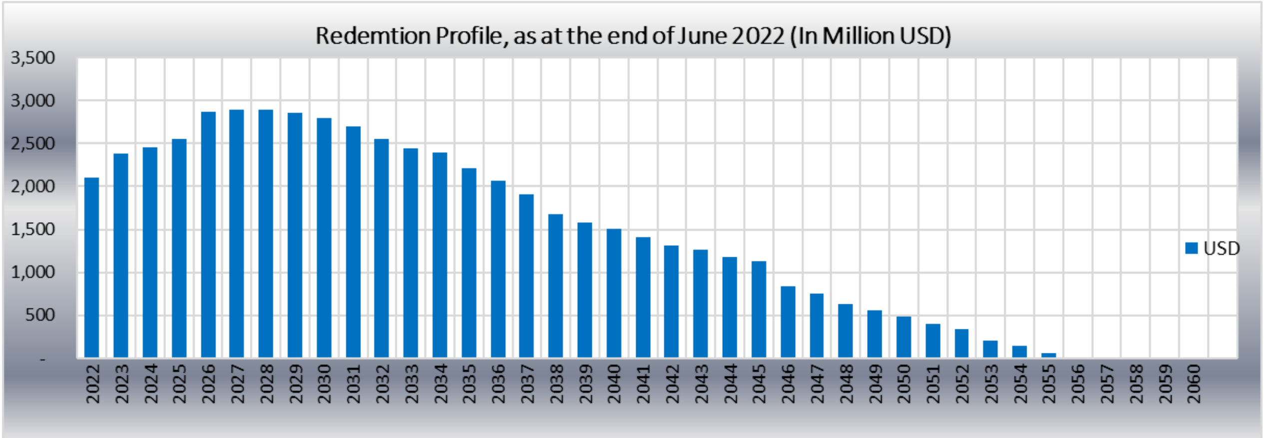
6.4Re-fixing and Interest Rate Risk

Interest rate risk does not pose a significant threat to the external debt portfolio as almost all external loans are acquired at concessionary fixed rates. On the Other hand, there is no such refinancing risk as only 3.8% of outstanding debt will mature in the next financial year.

Risks	Indicators	FY 2021	FY 2022
Cost of Debt	Weighted Average Interest Rate	1.35%	2.11%
Refinancing Risk	Average Time To Maturity (ATM) (Years)	12.8	11.7
	Debt maturing in 1yr (% of total)	3.7%	3.8%
Interest Rate Risk	Average Time to Repayment (ATR) (years)	11.0	9.4
	Debt re-fixing in 1yr (% of total)	19.6%	26.4%
	Fixed-rate debt (% of total)	83.3%	76.4%

However, interest rate risk is high when the variable interest rate-dominated debt portfolio exists. Recently few loans have been mobilized at a variable interest rate. All that is required to keep a close eye on the issue of interest rate risk for coming years.

The redemption profile of debt at the end of June 2022 does not pose any risk as there is no extreme spike of amortization seen in graph-21. According to the redemption, profile amortization is smoother, and it will remain below 2.90 billion in the medium term.

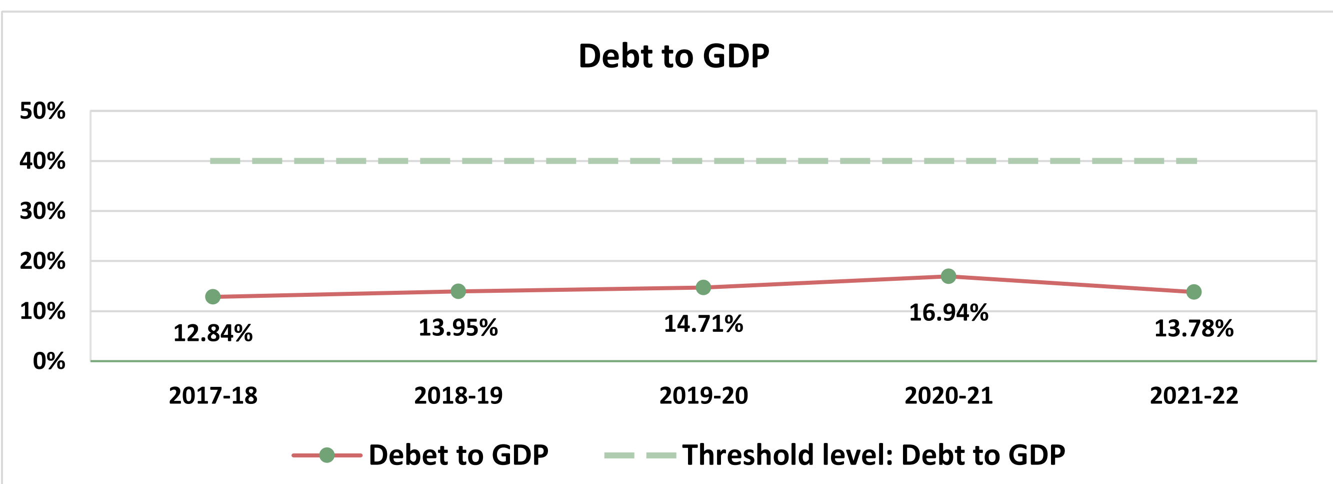


Graph-21

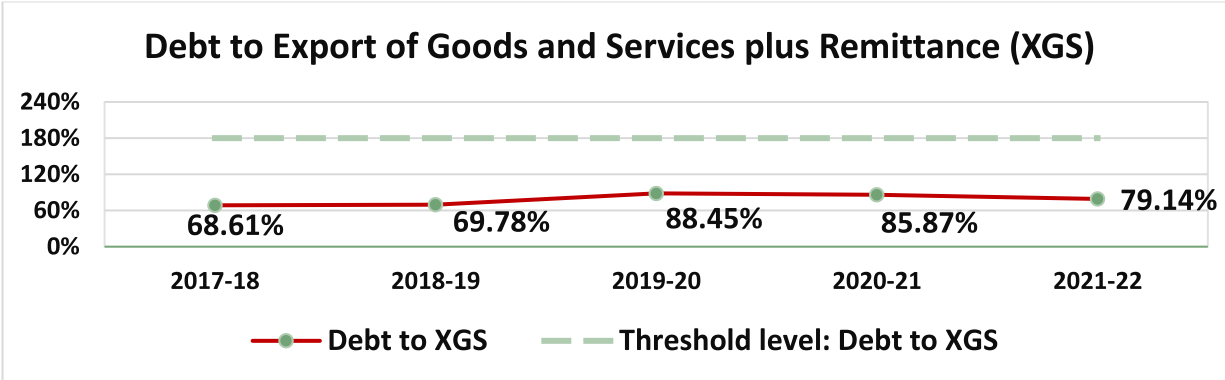
6.5Debt sustainability of overall Public Sector External Debt

Broadly overall debt sustainability is measured by applying two aggregate sets of indicators. One is the ratio of ***total debt outstanding*** (public sector external debt) ***to GDP and total debt to the export of goods and services***. The other one is the ratio of ***debt servicing to the export of goods and services and revenue earning***. The overall debt sustainability situation of Bangladesh is presented in the following graphs.

Debt Stock to GDP, Export of goods & services plus Remittance (XGS) and Revenue ratio and Threshold Level

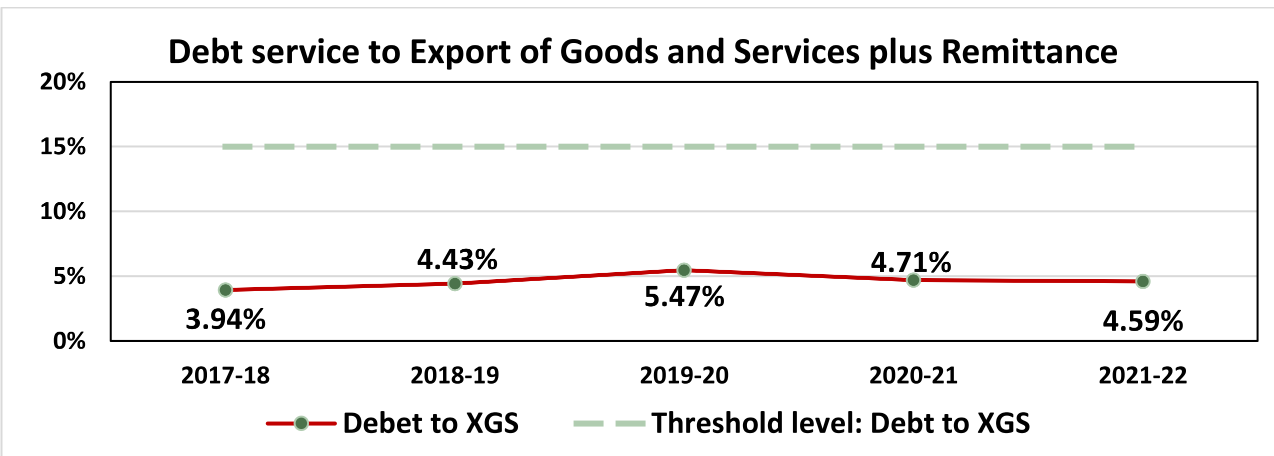


Graph-22

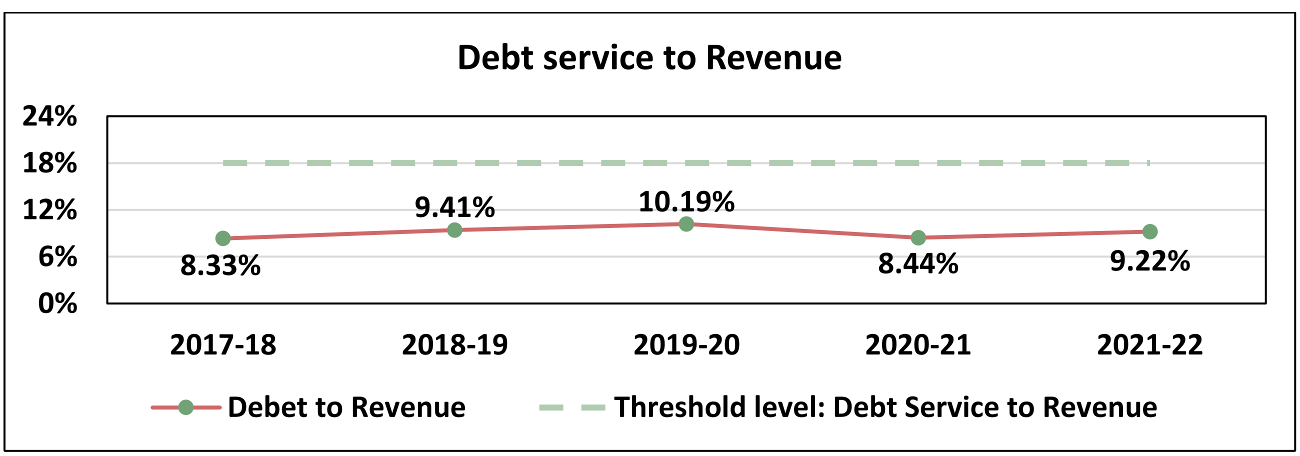


Graph-23

<u>**Debt Service to Export of goods & services plus Remittance (XGS) and Revenue ratio and Threshold Level**</u>



Graph-24



Grapg-25

From the above indicators it is clear that all the indicators of the external debt sustainability related to debt stock and debt service have improved in FY 2016-17 compared to the previous year. All the indicators are below the level of threshold. According to present classification by World Bank, Bangladesh is categorized as "less indebted" country.

7. Part-5: Developments in Aid and Debt Management

7.1Institutional Strengthening and Capacity Building: The recent IMF/WB/UNCTAD and the DeMPA Missions highlighted in their findings the need to improve on the institutional arrangement of public debt management. Economic Relations Division (ERD) took a number of activities that should lead to improved institutional arrangement for external debt management. Foreign Aid Budget and Accounting (FABA) wing was established in 2012 to ensure a prudent debt repay and accounting system. As a part of ERD's continuous effort to strengthen and manage public debt efficiently, officials are accruing knowledge and skills through specialized trainings/seminars/workshops on risk analysis, debt strategy analysis, negotiation analysis , financial Management, LIBOR transition ,technological change , SDGs and other related areas. In September 2015 a new wing, Development Effectiveness has been established in ERD for responding to the changing dynamics of international development cooperation. The broad mandate of this Wing is to undertake analytical and research work to help ERD in adapting strategic policy measures for ensuring aid effectiveness.

7.2Development in Borrowing Strategy: Since independence, Bangladesh has been depending on concessional loan from multilateral and bilateral agencies/countries. However, besides complex and time-consuming loan approval process, the concessional loans are usually conditional. Moreover, Bangladesh's access to the ODA is limited compared to increased investment need for fulfilling the national development strategy. Global economic recession has also adversely affected mobilizing foreign aid in concessional terms. But interest rates in the external borrowing markets are at still low.

In this context, the Government is evaluating various financing alternatives now to bridge the financing gaps. Government already signed agreement with Russia, European Investment Bank, France Development Agency, Exim Bank of China etc. to borrow at a market floating interest rate. For ensuring better screening of non-concessional loan, the government has for a long time a high level committee naming "Standing Committee on Non-Concessional Loan" to contain debt burden in a comfort zone consistent with a prudent degree of risk. The Committee approved 65 proposals of non-concessional loans from 1st July 2013 to 30 June 2021.

7.3Debt Management System: Bangladesh developed a debt accounting and management system immediately after the liberation of the country with some assistance from IMF. This was refined into a system by 1978. UNCTAD reviewed the system and based on it developed its Debt Management and Financial Analysis System (DMFAS). Since 1992 FABA has been using UNCTAD formulated software, for managing external debt. In June 2013 DMFAS was successfully upgraded from version 5.3 to version 6.0 under Deepening Medium Term

Budget Framework (DMTBF) project of SPEMP. DMFAS version 6.0 is a web based software that connected Office of the Controller General of Account, Bangladesh Bank, Economic Relations Division (ERD) and Finance Division through Wide Area Network (WAN). The essence of this interconnectivity is to improve debt data quality and reporting among the institutions concerned. The operational linkages among institutions are yet to be completed. Once this process is completed, the quality of the country's debt management capacity will be substantially enhanced.

7.4 Monitoring of slow disbursing projects/ programs: To speed up disbursement against commitment, ERD has taken some measures which are as follows:

(i) Initiatives have been taken to identify slow-moving projects by using the following criteria:

- Projects which failed to achieve disbursement of less than 80% of the commitments over a period of 5 years or more;
- Projects which failed to achieve disbursement of less than 50% of the commitments over a period of 3 years or more; and
- Projects which failed to achieve disbursement of less than 10% of the commitments over a period of 1 year or more.

(ii) To expedite project implementation and establishing better cooperation among stakeholders, ERD arranges 'Tripartite Review Meeting' among ERD, Line Ministries and DPs at least once in three months at the Wing Chief level and biennially at the Secretary level. Progress, bottlenecks, measures taken to mitigate the bottlenecks of project implementation is monitored in the Tripartite Review Meeting. The variance between planned disbursements according to DPP/TPP and actual disbursements are also examined in the meeting.

(iii) ERD officials inspthe slow-moving projects and submit reports regularly.

7.5 Fast Track Project Monitoring Committee: A high-level committee, chaired by the honorable Prime Minister, has been established to monitor the progress of the large projects that have or will have transformational value in the economic development of the country. Up to January 2020, nine projects have been selected for monitoring by the committee. The Projects are Padma Multi-purpose Bridge Project, 2X600 MW Maitree Super Tharmal Power Project (Rampal), Ruppur Nuclear Power Plant Project, Dhaka Mass Rapid Transit Development Project (Metro Rail), LNG Terminal construction Project, Matarbari 2X600 MW Ultra Super Critical Coal Fire Power Project, Paira Sea Port Project, Padma Rail Link Project and Construction of Single Line Duel Gauge Track from Dohazari to Ramu-Cox Bazar-Ghumdum (near to Myanmar).

7.6 Initiatives toward diversification of sources of external resources: To strengthen the platform of South-South Cooperation, according to the decision of High Level Meeting on ‘South-South and Triangular Cooperation in the Post 2015 Development Agenda: Financing for Development in the South and Technology Transfer’, Bangladesh has communicated with 127 countries as an initiative to establish Finance and Development Ministers’ Forum of the South. A number of countries have already responded positively. Moreover, Bangladesh has communicated with the UN to take initiative for a Resolution of the General Assembly regarding establishing the Finance and Development Ministers’ Forum of the South. Besides that Senior Secretary of ERD has been nominated as National Designated Authority (NDF) to coordinate with Green Climate Fund (GCF), established under UN Framework Convention on Climate Change (UNFCCC), to ensure just share for Bangladesh as it is one of the worst victims of the climate change.

7.7 Bangladesh Development Forum (BDF): The latest edition of the Bangladesh Development Forum (BDF) was held on 29-30 January, 2020 in Dhaka. Honorable Prime Minister of the Government of Bangladesh Sheikh Hasina, MP, inaugurated the BDF main session. This was the fourth round of BDF that took place over the last 10 years following its earlier edition in 2010, 2015 and 2018. This flagship event provides as an appropriate platform for assessing the progress made in implementing the SDGs aligned with the 7^{th} five year plan for dialogue on ways to accelerate Bangladesh’s development. Senior Vice President of JICA Mr. Junichi Yamada, Vice President of World Bank for South Asian region Mr. Hart wig Schafer, Vice President of Asian Development Bank Mr. Shixin Chen attended the event along with other representatives from Development Partners, international development agencies, foreign missions, civil society organizations, private sector, think tanks, research organizations and Ministries/Divisions of the Government. The forum also serves to affirm broad-ranging support for Bangladesh’s Development. Among many other issues, integrated SDG financing and strengthening multi-stakeholder partnerships, broader strategies of the 8^{th} five-year plan, and national priorities were discussed widely in the Forum. The deliberations of the Forum will support collective efforts to help Bangladesh in achieving SDGs, promoting inclusive, resilient, sustainable growth and development, and improving the lives of all Bangladeshis.

7.8 Initiative towards project readiness: To ensure readiness for implementation of the projects, ERD prepared a checklist of jobs to be complemented at the formulation stage of projects. Consequently, a policy of allocating and managing the fund for the preparation of projects and completion of jobs listed in the checklist was also prepared. The Cabinet Committee on Economic Affairs approved both the checklists and the policy on 08.02.2017. It was published as a gazette on 6.3.2017. It is expected that the lead times for commencing the implementation of the project will be reduced considerably. It is implied that the rate of utilization of aid in the pipeline will be improved with faster implementation of projects.

7.9 Efforts towards implementation of SDG: The preliminary assessment of the General Economic Division (GED) of the Ministry of Planning shows that it may require around US$928.48 billion worth of additional resources for the full implementation of SDGs from 2017 to 2030. That means the annual average cost would be 66.32 billion US$ which is 19.75% of the accumulated GDP. Importantly, external resources are estimated as 14.89% (9.95% FDI and 4.94% foreign aid and grant) of the total resource requirement. ERD pertains to Goal-17 of SDG (Partnership for the Goals) which entails multi-stakeholder partnership needs for mobilizing resources and transferring technology through innovations and sharing knowledge in accomplishing the Agenda 2030. ERD's role has been instrumental in realizing Bangladesh's SDGs through mobilizing foreign resources as well as enhancing effective ties with the Development Partners (DPs) and International organizations. As per the Handbook on Mapping of Ministries published by the General Economic Division (GED), ERD has the role of coordinator for Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development. ERD has been assigned the role of Lead for 12 targets, and 12 Indicators and is responsible for providing data for 23 different Indicators. According to Target 17.2 of SDGs, Developed Countries are supposed to fulfill their commitments to providing Official Development Assistance (ODA) at a minimum rate of 0.7% of the GNI of respective countries. It has been urged to provide at least 0.15-0.20% of GNI to LDCs out of the total target flow of ODA. ERD has undertaken several strategic Institutional and policy measures to harness resources to support Bangladesh's SDGs implementation. As per the directives from the Prime Minister's Office (PMO), the General Economic Division (GED) of the Planning Commission in consultation with the SDG-based coordinating ministries/divisions and relevant stakeholders prepared a comprehensive Voluntary National Review (VNR) of Bangladesh through series of meetings and workshops. All coordinating Ministries/ Divisions were instructed to organize Consultation Workshops on SDGs Implementation involving the Lead, Co-Lead, and Associate Ministry/Division, DPs, local and international NGOs, CSOs, and relevant stakeholders to provide necessary inputs for the VNR. Like other coordinating Ministries/Divisions, ERD also arranged a Consultation Workshop on the progress of SDG Implementation on 29 December 2019 involving relevant stakeholders. The findings of this workshop were reflected in the VNR Report of Bangladesh. The Division submitted its SDG Implementation Report (SIR) 2019 to the PMO. Bangladesh presented their VNR reports on SDG's Implementation on 13 July 2020 at the United Nations High-Level Political Forum (HLPF) through Virtual Meetings.

ERD is providing relevant indicators to **SDG Tracker**- a macro-level data repository system prepared by the a2i project of the Prime Minister's Office to facilitate the results-based monitoring system within the Government.