Quarterly Debt Bulletin

Issue No. 2, September 2021

Finance Division, Ministry of Finance

Bangladesh

Abbreviations

AIIB- Asian Infrastructure Investment Bank
AT- Analytical Tools
BDT-Bangladesh Taka
DSA- Debt Sustainability Analysis
DSF- Debt Sustainable Framework
ERD- Economic Relations Division
CGA- Controller General of Accounts
FD-Finance Division
GDP-Gross Domestic Product
IDA- International Development Association
IMF- International Monetary Fund
NSC- National Savings Certificate
NSD- National Savings Directorate
BB- Bangladesh Bank
CB- Commercial Bank
DMFAS- Debt Management & Financial Analysis System
GPF-General Provident Fund
IDB- Islamic Development Bank
IFAD- International Fund for Agricultural Development
LICs- Least Income Countries
MTDS- Medium Term Debt Management Strategy
NBFI- Non-Bank Financial Institution
SPFMS- Strengthening Public Financial Management Program to Enable Service Delivery
UNCTAD- United Nations Conference on Trade & Development
WB- World Bank

1. Recent events:

a. Bank-Fund Joint TA Mission on MTDS

- The joint Bank-Fund virtual TA mission on MTDS data preparation and formulation of strategy using MTDS AT was held from 30 June-08 July 2021.
- The mission validated the debt data prepared by FD with the support of all debt management entities, i.e., BB, ERD, NSD, and CGA office.
- The mission provided virtual training on MTDS data preparation, processes to fit the data on MTDS AT and run it, explanation of output given by AT, and other relevant issues. 21 officials from different debt management offices and consultants from SPFMS attended the training. The training is expected to improve the understanding and capacity of officials of a complex MTDS data preparation process and the AT.
- The mission conducted several meetings and consultations with high officials of FD, BB, ERD, and other concerned officials.

b. Updated information of 'Sukuk'

The Government of Bangladesh launched a Shariah-compliant investment instrument, 'Ijarah Sukuk', on 28 December 2020, the first-ever in its history. The second tranche has also been issued.

- The second tranche was issued on 09 June 2021.
- The size of the second tranche was BDT 4,000 Crore.
- All the features were the same, *inter alia,* the mode of Sukuk is Ijarah and rent is 4.69% (fixed), as it was a continuation of the June issuance.
- The subscription on the second issue was BDT 32,726 Crore that indicates a huge demand for the Shariah instrument.
- The government will continue to issue Sukuk.

c. The Public Debt Act 2021: Update

FD has drafted the Public Debt Act 2021 which got approval in principle by the Cabinet on 8 March 2021. The latest on the Public Debt Act are :

- It has been vetted by the Legislative and Parliamentary Affairs Division.

- The draft Act got the final approval of the Cabinet on 6 September 2021. Now it is ready to be placed before the Parliament.

d. **The Government Treasury Bond Rules (BGTB Rules): Update**

FD took the initiative to update the Government Treasury Bond Rules to improve the management of Treasury Securities and develop the domestic bond market. The latest on BGTB Rules are:

- The draft Rule has been vetted by the Legislative and Parliamentary Affairs Division with some observations. The draft was corrected accordingly, which needs final vetting from the same.
- FD will finalize the proposed rule after the enactment of the Public Debt Act 2021.

2. Government borrowing status in FY 2020-21:

Table 1: Government net borrowing at a glance

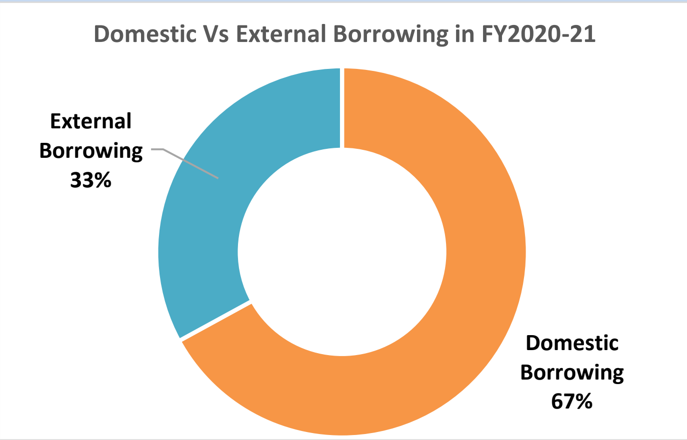
In Million BDT

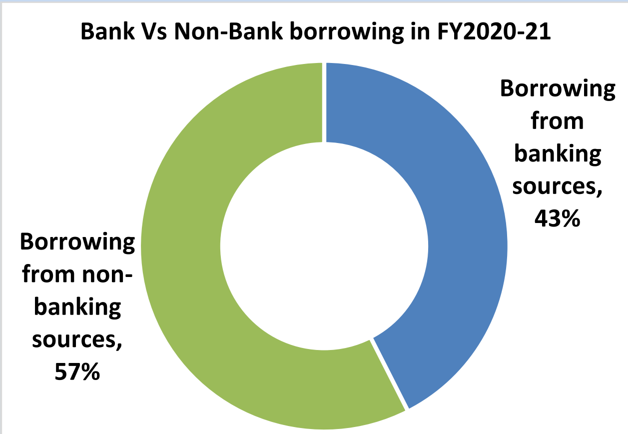
Source of Borrowing	Net Borrowing	Budget	As % of Budget
Domestic Borrowing	**925,720**	**150,520**	**80%**
Borrowing from market sources	**439,610**	**797,490**	**55%**
Treasury Bill	(115,150)	190,000	-61%
Treasury Bond	474,760	607,490	78%
Sukuk	80,000	-	-
Borrowing from market sources	**486,110**	**353,030**	**138%**
National Savings Certificate	419,600	303,020	138%
Others (GPF)	66,510	50,010	133%
External Borrowing[1]	**455,230**	**684,140**	**67%**
Total Borrowing	**1,380,950**	**1834,660**	**75%**

1- Provisional Data

- Net Government borrowing in FY2020-21 totaled BDT 1,380,950 million, 75% of the Budget estimate.
- Borrowing from banking sources was lower than the estimate due to robust sales of NSCs which exceeded the target.
- Borrowing from External sources was also significantly lower than expected.

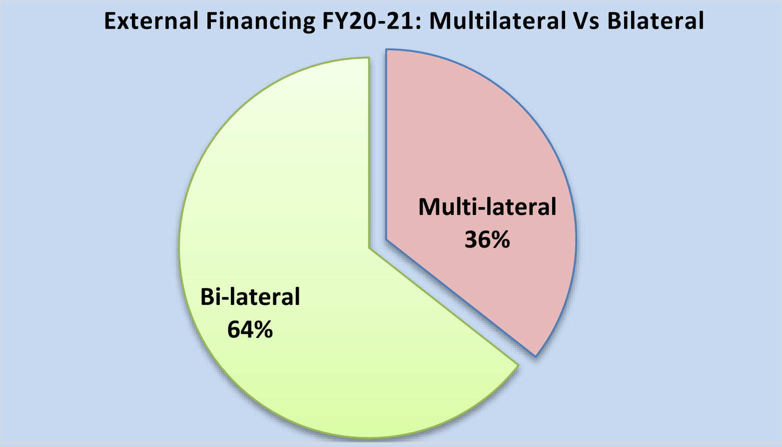
Figure 1: Composition of Borrowing: FY2020-21





- The contribution of the domestic sources of financing almost doubled compared to the external sources
- Non-banking financing constituted 57% of domestic financing which is considered a costly borrowing instrument whereas borrowing from the banking sources was only 43%

Figure 2: Composition of External Borrowing: FY2020-21



- In FY2020-21, external financing from Bi-lateral sources was much higher than Multi-lateral financing. This happened due to the implementation of several mega projects through Bi-lateral funding.

Table 2: Instrument wise Borrowing from Banking Sector (FY2020-21)

a. Treasury Bond

In Million BDT

Instrument	Gross Issuance	Redemption	Net Borrowing	As % of total
2 YR BGTB	228,000	120,000	108,000	19%
5 YR BGTB	215,000	85,000	130,000	23%
10 YR BGTB	195,000	47,500	147,500	27%
15 YR BGTB	66,000	0	66,000	12%
20 YR BGTB	59,500	0	59,500	11%
Special Bond	0	36,240	-36,240	-7%
Sukuk	80,000	0	80,000	14%
Total	**843,500**	**288,740**	**554,760**	**100%**

b. Treasury Bill

In Million BDT

Instrument	Gross Issuance	Redemption	Net Borrowing	% of total
91-day T-Bill	558,180	565,820	-7,640	7%
182-day T-Bill	274,040	331,970	-57,930	50%
364-day T-Bill	279,820	329,400	-49,570	43%
14- day T-Bill	0	0	0	0%
Total	**1,112,040**	**1,227,180**	**-115,150**	**100%**

- Net financing from T-Bill was negative over the fiscal year. The government cash position was surplus almost throughout the whole year and the yield was comparatively low. As a result, the government borrowed more from longer-term instruments (T-Bonds) at a lower interest rate.
- The lower yield of Treasury Securities will help to reduce the cost of borrowing of the Government, also reduce the borrowing cost of the private sector because of the reduction of

market interest rate, which will help to increase the private sector credit growth, triggers further economic growth.

Table 3: Month-wise Domestic Borrowing from Banking Sources (FY2020-21)

Monthly Domestic Borrowing from Banking Sources: FY2020-21

In Million BDT

Month	Treasury Bill			Treasury Bond			Total
	Gross Issuance	Redemption	Net Borrowing	Gross Issuance	Redemption	Net Borrowing	
July 20	141,360	70,980	70,380	100,000	39,520	60,480	**130,860**
August	116,730	117,270	-540	60,000	9,500	50,500	**49,960**
September	75,870	120,140	-44,270	69,000	17,000	52,000	**7,730**
October	59,590	114,380	-54,790	90,000	12,780	77,220	**22,430**
November	123,730	119,050	4,680	55,000	37,000	18,000	**22,680**
December	99,440	129,420	-29,990	103,500	8,500	95,000	**65,010**
January 21	55,760	88,010	-32,250	48,000	13,040	34,960	**2,710**
February	50,770	112,560	-61,790	60,000	5,500	54,500	**-7,290**
March	96,980	106,870	-9,890	30,000	63,500	-33,500	**-43,390**
April	37,730	47,840	-10,110	28,000	22,000	6,000	**-4,110**
May	134,290	97,260	37,030	85,000	35,000	50,000	**87,030**
June	119,800	103,400	16,400	115,000	25,410	89,590	**106,000**
Total	**1,112,040**	**122,718**	**-115,150**	**843,500**	**288,740**	**554,760**	**439,610**

- The borrowing trend shows the seasonality and June Syndrome as the government borrowed heavily in June and July which is the last and the first month of the respective fiscal year.
  The Government's cash position always remains under pressure in June & July and requires more-than-average borrowing during that period.The pressure on cash position continues in July due to cheque float from the previous fiscal year.

Table 4: Month-wise Domestic Borrowing from NSC (FY2020-21)

In Million BDT

Month	Gross Issuance	Redemption	Net Borrowing
July'20	87,060	49,970	37,080
August	88,520	51,050	37,470
September	103,880	62,350	41,530
October	92,500	52,150	40,350
November	95,480	61,450	34,030
December	82,330	67,910	14,420
January' 21	106,450	54,300	52,150
February	96,070	59,970	36,090
March	107,630	68,710	38,910
April	58,870	43,610	15,260
May	76,810	50,230	26,570
June	126,300	80,570	45,740
Total	**1,121,880**	**702,290**	**419,600**

- Borrowing from NSCs has increased significantly in the last fiscal year.
- Spike in gross sales at the end of each quarter and January is noticeable.
- Increasing trend in sales exceeded the budget and continues to create upward pressure on the interest expenditures and impacts the sales of T-Bills and Bonds.

Table 5: Month-wise Borrowing from External Sources (FY2020-21*)

- Gross financing target was 809,540 million BDT in FY2020-21.
- Actual outturn is much lower than estimation, 574,890 million BDT only.
- Bangladesh enjoys concessional financing from multi-lateral and bi-lateral sources and puts more emphasis to borrow from external sources.

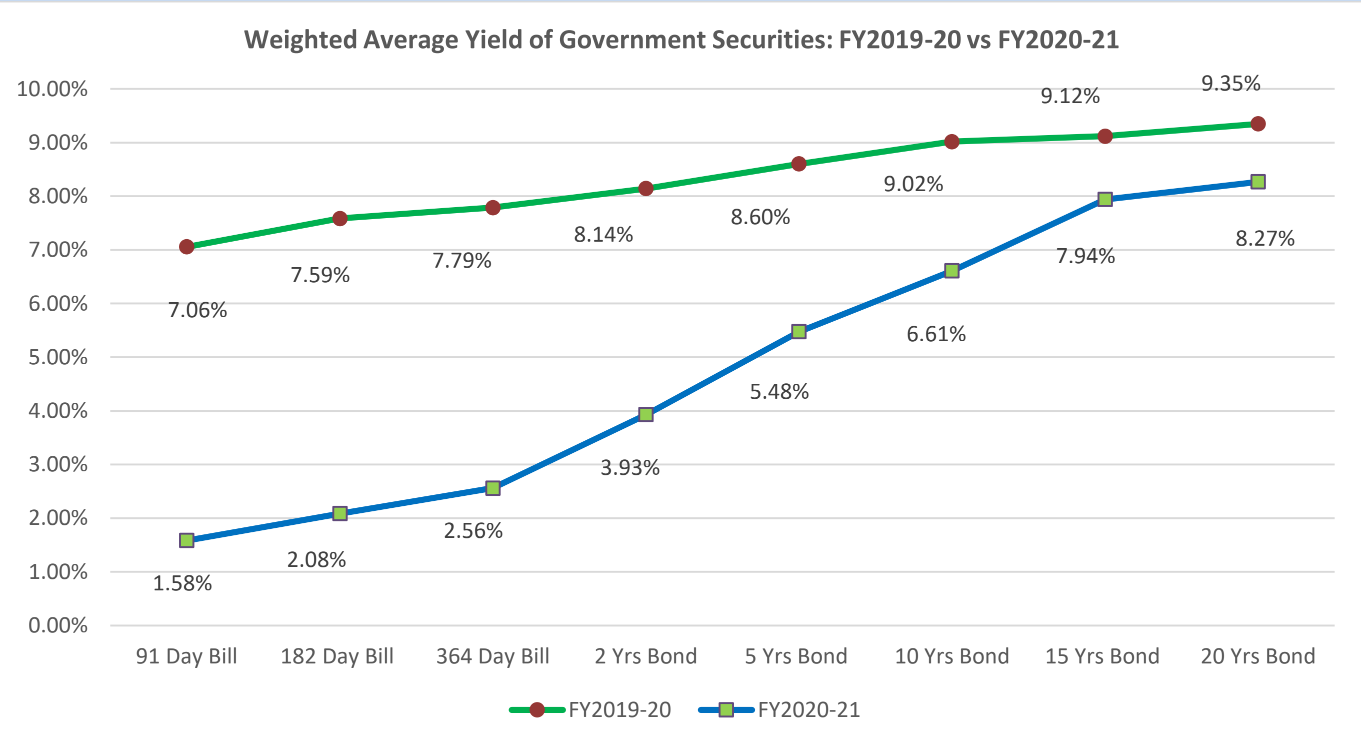
In Million BDT

Month	Gross Borrowing	Redemption	Net Borrowing
July	17,350	9,830	7,530
August	60,310	6,430	53,880
September	39,840	13,550	26,290
October	22,510	10,020	12,490
November	27,890	6,020	21,870
December	76,780	10,280	66,500
January	30,640	10,580	20,060
February	30,670	6,750	23,920
March	53,420	14,660	38,760
April	39,660	11,460	28,200
May	57,940	7,370	50,570
June	117,860	12,700	105,160
Total	**574,890**	**119,660**	**455,230**

*Provisional Data

3. Cost of Borrowing from Domestic Sources

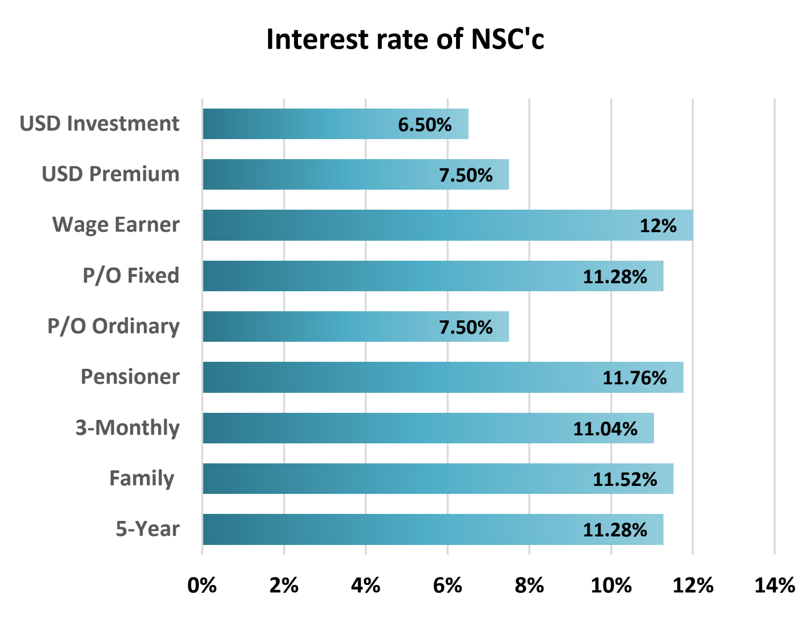
Figure 3: Yield of Government Borrowing from Financial System: FY2019-20 vs 2020-21



- The cost of borrowing from the financial system is determined by the market forces and varies from auction to auction.
- The average yield of Government Securities decreased in FY2020-21 significantly compared to the previous fiscal year.

- The major reasons behind the fall in the yield are less Government borrowing from the financial system due to excessive inflow from Non-bank sources (NSC), enough liquidity in the money market due to the implementation of a series of monetary and fiscal stimulus packages for economic recovery from COVID 19 pandemic by the Government and higher remittance inflow, slowdown of the private sector credit growth, etc.

Figure 4: Interest Rate of Government Borrowing from NSCs[1]



- Interest rate of NSCs are administered and it was last updated in 2015.
- Wage Earner Development Bond is the highest interest bearing instrument and the rate is compound. also.
- The cost of borrowing from NSCs is relatively higher than market borrowing, but it has some socio-economic impact as it is considered as an income redistribution toolsfor the marginal investors.

4. Daily Cash Position of the Government: FY2020-21

Figure 5: Government Cash Position: July 2020- June 2021

[1] By the time this bulletin will have gone to the press, the government has implemented a series of rate corrections for the NSCs; aimed at gradually reining in the cost to the government and market distortions.

- The government cash position remained in surplus over the fiscal year except at the beginning due to cheque float from the previous fiscal year.
- Even though revenue mobilization was weak due to the Covid 19 pandemic, robust sales of NSCs and the prudent borrowing plan of Treasury Securities played a significant role in the buildup of surplus cash. If the planning and execution of the spending units were better, the cash position would have been more rational and the cost of funds to the government could be less.

5. Structure and Dynamics of the Government Debt

Table 6: Government Debt Stock

In Million BDT

Source of Borrowing	FY 2019-20	FY 2020-21
A. Domestic Debt (1+2)	**6,313,670**	**7,239,390**
1. Debt from Banking Sources	**2,902,910**	**3,342,520**
1.1. Treasury Bills	627,830	512,680
1.2. Treasury Bonds & SPTB	2,275,080	2,749,840
1.3. Sukuk		*80,000*
2. Debt from Non-Bank Sources	**3,410,760**	**3,896,870**
2.1. Debt from NSCs	3,036,960	3,456,560
2.2. Others (GPF)	373,800	440,310
B. External Debt[1]	**3,748,350**	**4,203,580**
1. Multi-lateral	2,482,160	2,634,800
2. Bi-lateral	1,266,190	1,568,780
C. Total Debt (A+B)	**10,062,020**	**11,442,970**
GDP[2]	***27,393,320***	***30,110,646***
Debt to GDP (%)	**36.73%**	**38.00%**
Domestic Debt to GDP	23.05%	23.45%
External Debt to GDP	13.68%	13.62%

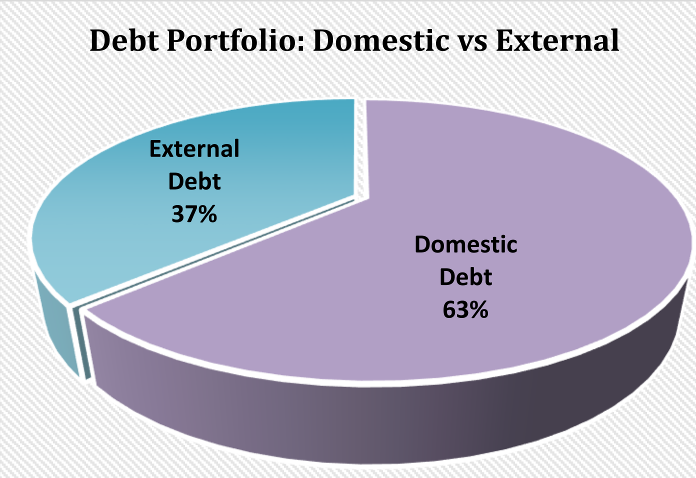
Source: BB, BBS, NSD, CGA, and ERD.

1- External debt data is provisional.

2- GDP of the fiscal year 2020-21 is Provisional.

- The total debt to GDP ratio is 38.00%, which is much lower than the threshold (70%) estimated by the DSF of IMF.
- Sluggish GDP growth rate together with a higher fiscal deficit due to the COVID 19 pandemic contributed to the increase in the debt to GDP ratio.
- The total debt to GDP ratio has increased compared to the previous fiscal year. But, the external debt to GDP ratio has decreased slightly.

Figure 6: Total Debt Structure as of June 2021: Domestic vs External



- The composition of Domestic and External debt is 63% and 37%, respectively, which is almost the same as the previous fiscal year.
- The debt portfolio is dominated by domestic debt which is increasing gradually over time indicates a decreasing dependency on external financing and improvement in the capacity of the domestic financing market.

Figure 7: Total Domestic Debt Structure as of June 2021 by Source

- The current domestic debt portfolio is dominated by the debt from the National Savings Certificate (NSC), 48% of total domestic debt.
- NSC borrowing is costly compared to bank borrowing.
- The government has taken initiatives to modernize the NSC management system through automation and actively thinking to introduce further reform.

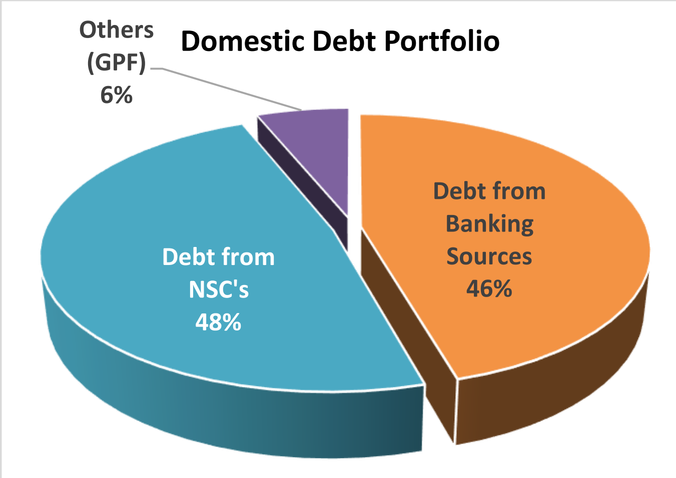
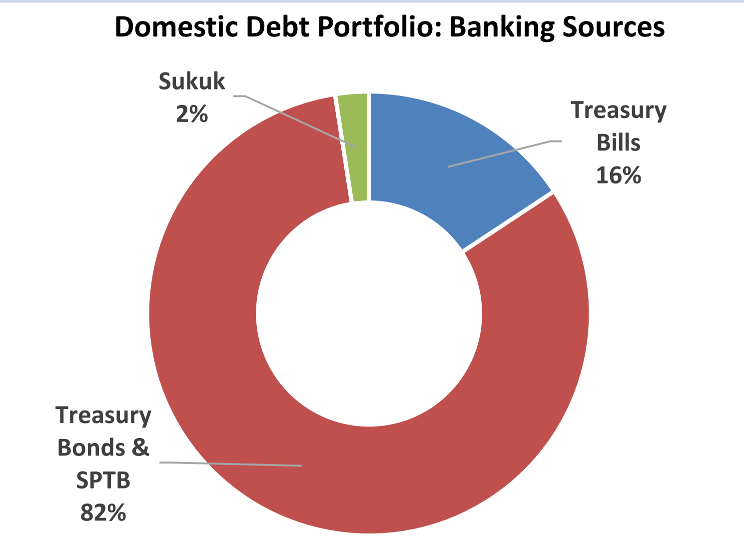


Figure 8: Total Domestic Debt Structure by Instrument as of June 2021: Bank Borrowing



- The market financing is dominated by longer-term instruments, 82% of the total.
- Treasury bills are issued mostly for cash management purposes and to create a balanced portfolio mix.
- Sukuk is the debut issuance in FY2020-21 to widen the debt portfolio and create an opportunity for a secure investment for the Islamic banking sector.

Figure 9: Total Domestic Debt Structure by Instrument as of June 2021: Non-Bank Borrowing

- The source of non-bank borrowing is NSCs and GPF. NSC contributes 89%, where GPF is 11% of total non-bank financing.
- Among the NSC instruments, Family Savings Certificate is the top contributor (33%) which is followed by the 3 monthly profit bearing and 5 year Post Office Fixed Deposit Scheme, respectively (33% & 13%).
- The reform initiative to manage and control NSCs through automation has been implemented by the FD and in operation since 1 June 2019

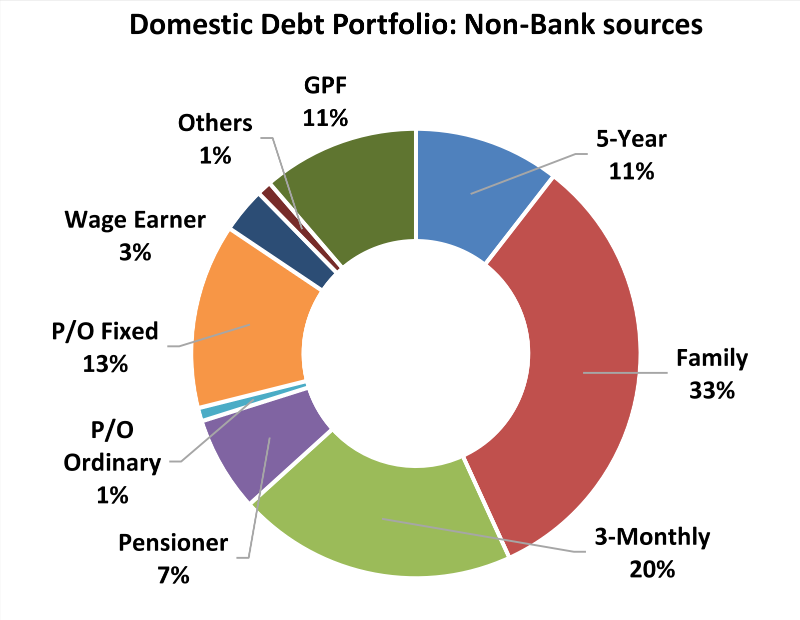
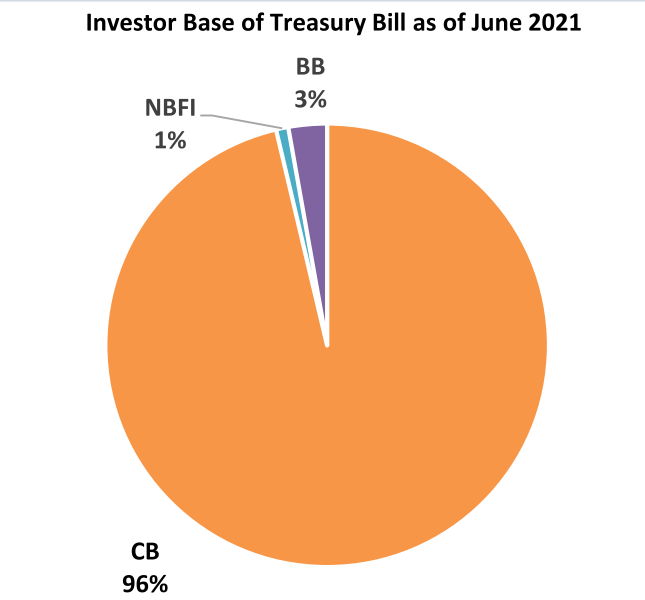
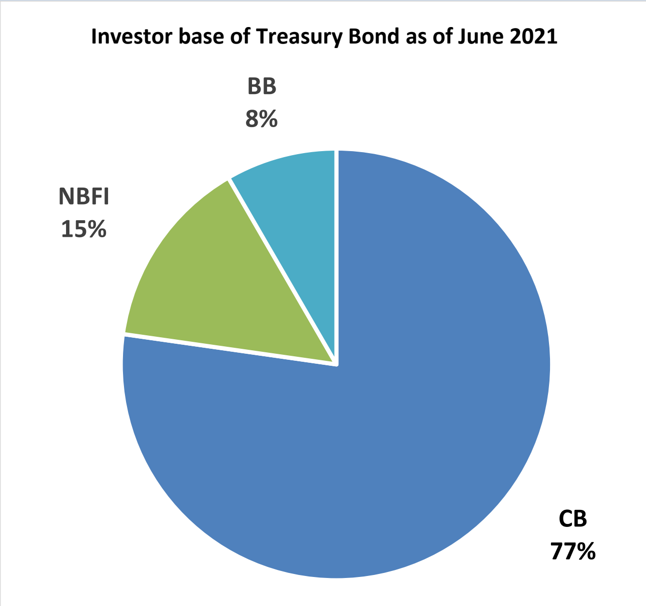


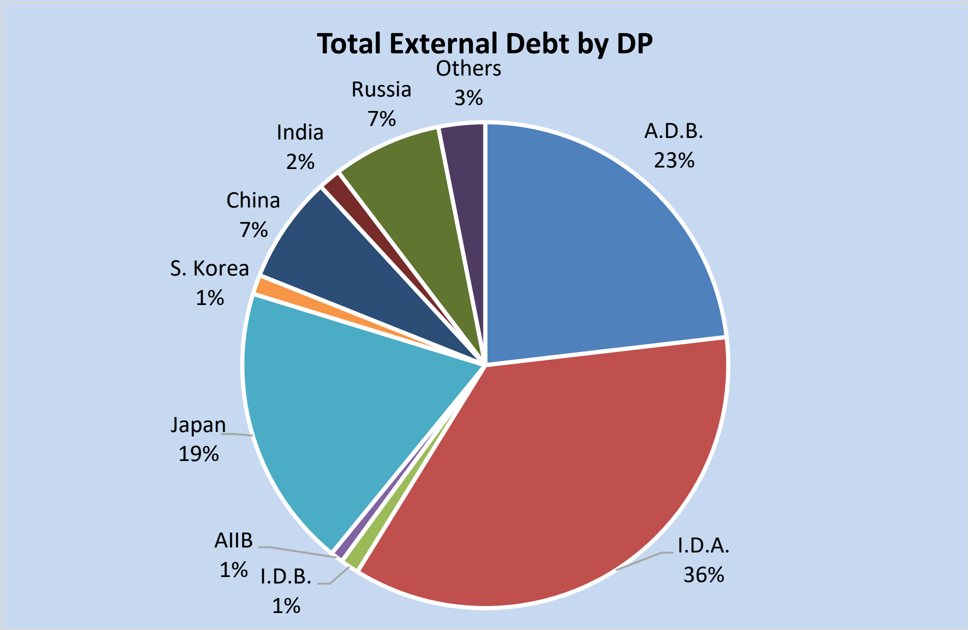
Figure 10: Investor Base of Financing through Treasury Bills & Bonds as of June 2021





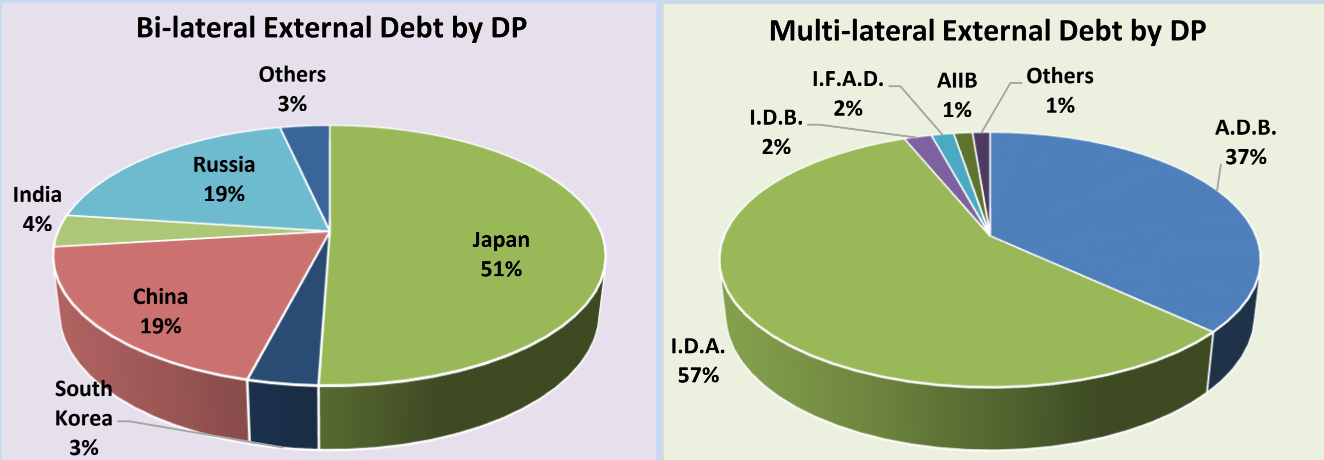
- The investors of Treasury securities are mostly the commercial Banks.
- The presence of Non-bank financial institutions in the Government Security market especially investment in Treasury Bills is insignificant. On the contrary, NBFI holds a 15% investment in Treasury Bonds. More investment from NBFI is expected to develop the bond market of Bangladesh.
- The absence of longer-term investment funds such as pension funds and an underdeveloped insurance sector is the main reason for a heavy dependence on commercial banks.

Figure 11: External Debt Structure by Creditor as of June 2021



- The external debt portfolio is dominated by IDA (World Bank) loan (36%) 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 12: External Debt Structure by Source



- Japan is the leading Bi-lateral development partner, financed more than half of the total Bi-lateral loan.
- Japan is followed by China and Russia and contributed 19% each.
- The Bi-lateral financing from India is getting larger in recent years and totaled 3% to date. South Korea is also at 3%.

- Even though, Bangladesh is graduating from LDC to a Developing country, till now we are getting significant financing from the concessional source of Multi-lateral organizations.
- IDA is the highest contributor (57%) followed by ADF of ADB (37%) of total Multi-lateral loans to date.

6. Government Debt to GDP and Debt Sustainability

Figure 13: Total Debt-to-GDP ratio of the Government as of FY2020-21

The total Debt-to-GDP ratio is approximately 38% as of FY2020-21. Commencement of several mega projects and the slowdown of growth in the last couple of years due to COVID 19 are among several reasons for the Debt/GDP ratio to demonstrate an upward trend; still far below the sustainable threshold (70%) calculated by the IMF

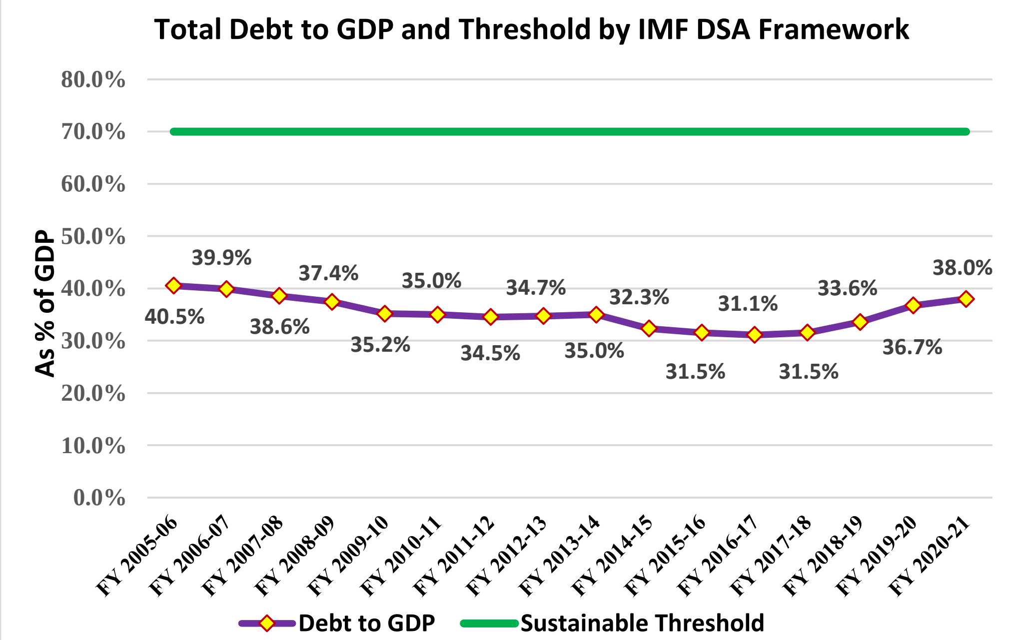
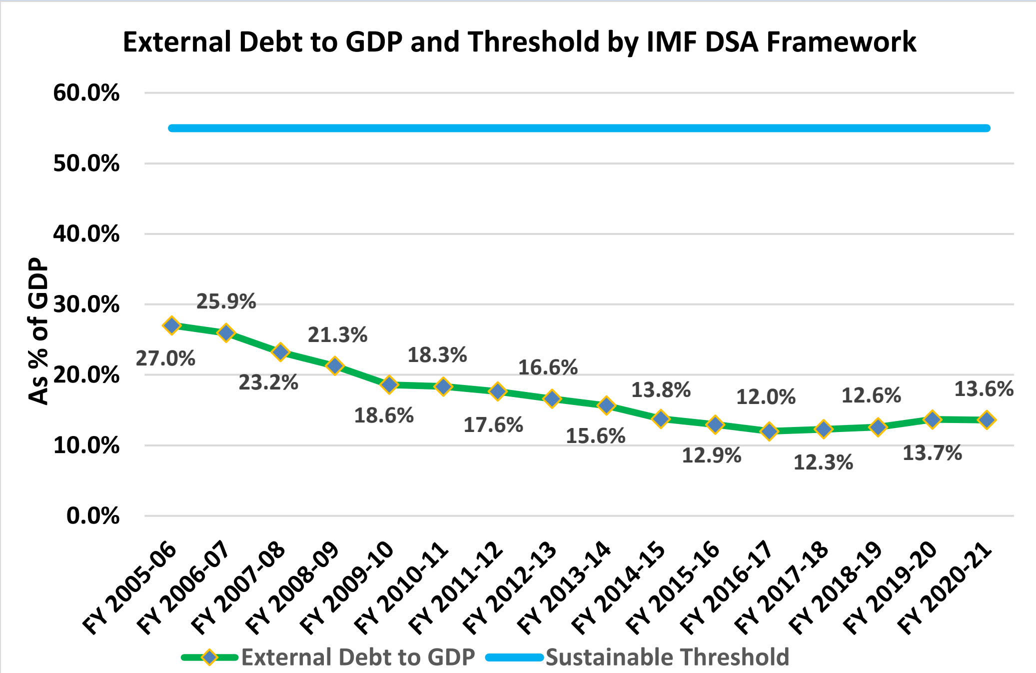


Figure 14: External Debt-to-GDP ratio of the Government as of FY2020-21



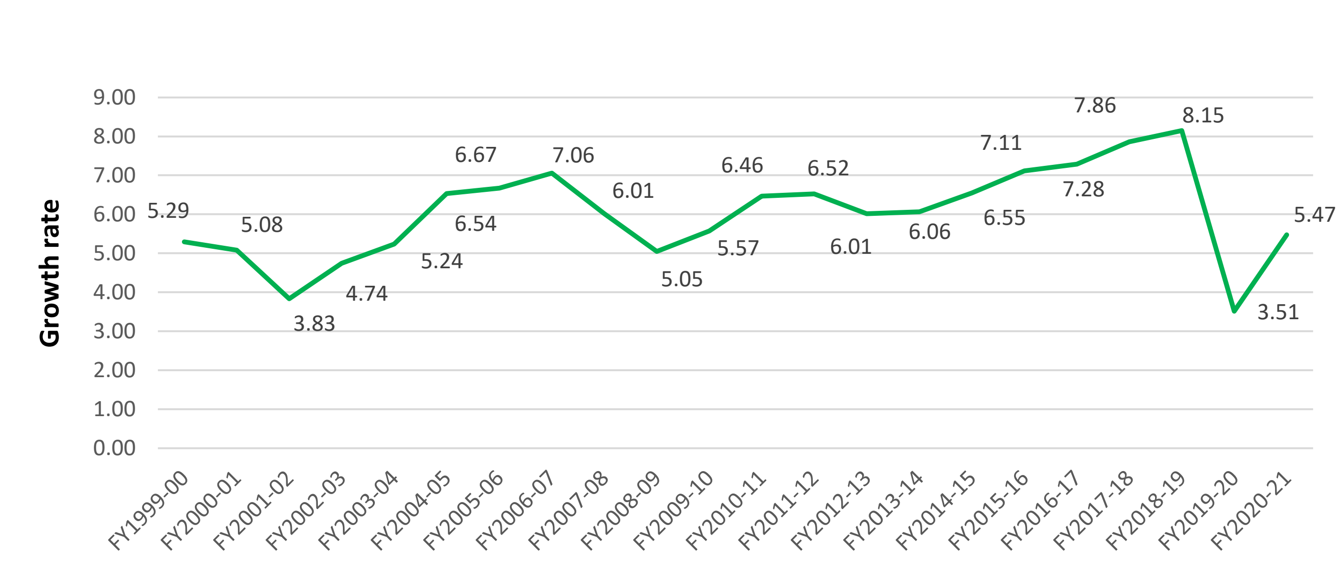
The external Debt-to-GDP ratio is approximately 13.6% as of FY2020-21, slightly decreased compared to the previous fiscal year, and remains at a comfortable level. According to the DSA framework for LICs by IMF, the sustainable level of External Debt to GDP is 55%. Hence, Bangladesh has enough room for maneuverability.

The driving forces behind strong & sustainable debt position of Bangladesh are mainly

a. Robust GDP growth rate over the decade.
b. A prudent fiscal policy that maintained a deficit limit at or below 5% of GDP.
c. Implementing the PFM reform activities etc.

The scenario of the Real GDP growth rate of Bangladesh

Figure 15: Real GDP growth rate of Bangladesh



*GDP growth rate of FY2020-21 is provisional.

- Bangladesh maintained a higher growth trajectory over the last decade.
- Prudent fiscal policy, fiscal discipline, better coordination, and political stability are some of the factors responsible for sustained high growth.
- COVID 19 pandemic has hit the economy badly, but a timely and appropriate stimulus package helped to mitigate the impact of the pandemic registering a moderate growth.
- The slower growth rate of the last two fiscal years impacted the Debt to GDP ratio.

7. Upcoming events

a. Prepare the draft report to update Medium Term Debt Management Strategy (MTDS), consultation with the stakeholders and finalize the report, getting approval from the authority, and publish the report.

b. Install a customize Debt Database (DMFAS) in the Middle Office (FD) with the technical support of UNCTAD.

c. 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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