MEDIUM-TERM DEBT MANAGEMENT STRATEGY

FY2024-25 to FY2026-27

June 2024

Debt Management Branch
Treasury & Debt Management Wing
Finance Division, Ministry of Finance

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Abul Hassan Mahmood Ali, MP
Minister
Ministry of Finance

Message

I am pleased to know that The Finance Division is publishing Medium-Term Debt Strategy (MTDS) for Bangladesh for FY2024-2025 to FY2026-2027. Government has been pursuing prudent fiscal policy to support the development needs of the country as well as keeping the budget deficit and overall debt at a sustainable level.

This MTDS, using the World Bank's MTDS Analytical tool, provides a thorough assessment of the costs and risks of our public debt portfolio and outlines strategic financing options for the upcoming three fiscal years. Since our last strategy in 2022 we have made progress by extending the government securities secondary market to stock exchanges and reducing our dependence on national savings certificates. This MTDS aims to balance domestic and external debt in line with our fiscal policy and debt management objectives, while promoting the development of our domestic debt market.

I would like to thank the officers for their efforts and hard work in preparing this strategy. I hope this strategy will guide us to continue with a sustainable debt trajectory.

Joy Bangla, Joy Bangabandhu.
Joytu Sheikh Hasina.

Abul Hassan Mahmood Ali, MP

Waseqa Ayesha Khan, MP
State Minister
Ministry of Finance

Message

I am pleased to know that The Finance Division is publishing Medium-Term Debt Management Strategy (MTDS) for Bangladesh for FY2025 to FY2027. This strategy will help investors, creditors and other stakeholders of the government to understand government borrowing plans.

In the medium-term, our approach to deficit financing and debt management aims to secure government financing needs at the lowest possible cost, consistent with a prudent degree of risk. A central focus of this strategy is the development of a vibrant bond market, providing a stable and efficient funding source for the government. Through disciplined fiscal management, the government seeks to bolster investor confidence, deepen the capital market, and support the nation's overall economic growth.

I would like to thank the Finance Division officials involved with preparing this strategy. I hope this exercise will continue in future.

Joy Bangla, Joy Bangabandhu. Joytu Sheikh Hasina.
May Bangladesh Live Forever.

Waseqa Ayesha Khan, MP

Dr. Md. Khairuzzaman Mozumder
Secretary
Finance Division, Ministry of Finance

Foreword

The 2024 Medium-Term Debt Management Strategy (MTDS), formulated utilizing the World Bank's MTDS Analytical tool, assesses the costs and risks linked with the Government of Bangladesh's public debt portfolio. Covering the upcoming three fiscal years, it outlines potential financing avenues and aims to facilitate more prudent debt management decisions.

Since the last MTDS in 2022, the economy has encountered challenges stemming from the COVID-19 pandemic and disruptions in supply and pricing due to the Russia-Ukraine conflict. Consequently, the Bangladesh Taka has depreciated, and inflationary pressures have mounted. To address these issues, the central bank has raised its policy rate, leading to an increase in market interest rates for treasury securities. With no devolvement of treasury securities on the central bank, the government's reliance on short-term T-Bills has escalated, exposing the portfolio to refinancing risks.

In the meantime, government has extended the government securities secondary market to stock exchanges and has successfully reduced its dependence on national savings certificates. This MTDS aims to strike an appropriate balance between domestic and external debt, aligning with the government's fiscal policy and debt management objectives. Additionally, it seeks to foster the development of Bangladesh's domestic debt market.

While Bangladesh's debt remains sustainable and the country is categorized as a low debt-distressed nation, the pressure on foreign exchange reserves has underscored the importance of prudent public debt management. The challenge of financing the budget deficit and debt has been exacerbated by a lower revenue-to-GDP ratio. To address this, the government will focus on reducing the domestic primary deficit as a percentage of GDP, necessitating an increase in revenue.

In conclusion, the government expresses gratitude to the officials in the Finance Division responsible for crafting this Strategy and acknowledges the technical support provided by the World Bank and the International Monetary Fund.

Dr. Md. Khairuzzaman Mozumder

Executive Summary

The current medium-term debt management strategy (MTDS) covers the period from FY 2024-25 to FY 2026-27. The MTDS has been formulated based on the debt portfolio data as of the end of June 2024. The last three month's data for the FY 2023-24 has been projected for this analysis. The debt data includes domestic and external central government debt, excluding the liabilities of the General Provident Fund. The structure of the report follows the MTDS framework developed by the IMF-WB. This strategy will guide the government's borrowing over the next three fiscal years.

The assumption of the baseline scenario has been aligned with the government's medium-term macroeconomic policy statement (MTMPS). The primary deficit target of the baseline is 2.6 per cent of GDP which will decline gradually, and the GDP growth rate is expected to reach the pre-COVID level over the medium term. The gross financing assumptions are derived from the baseline scenario.

The current strategy takes into consideration the real, fiscal, external and monetary sectors of the economy, based on which it analyses the macro-economic risks and their implications on the debt management of Bangladesh. This exercise showed that the major macroeconomic indicators such as growth in the real sector fiscal outlook, and monetary conditions have a medium degree of risk. The structural factors of the economy, inter alia, graduation from LDC to developing country & IDA graduation, the dominance of the National Savings Certificate (NSC) in deficit financing and their impact on debt management have also been assessed to formulate the strategy.

The analysis also considered a shock scenario on the exchange rate and interest rates. An additional 15% and 30% depreciation on top of the depreciation assumed in the baseline has been considered as a moderate and large shock, respectively. On the other hand, the interest rate increase in the international market by 200 bps has been considered a moderate shock and 400 bps as an extreme case. It has also been assumed that an extreme interest rate shock in the international market will translate into an increase in the interest rate of external official creditors by 100 bps.

Four strategies have been developed with different combinations in the composition of gross financing sources. Strategy 1 is the status quo that represents the current financing mix, i.e. relatively more reliance on T-Bills. Strategy 2 is to link NSC rates with T-Bond rates and financing from the NSCs is assumed to be linked with the anticipated returns, Strategy 3 emphasises reliance on T-Bills to reduce and gradually increase in longer tenor T-Bonds. Strategy 4 analyses a hypothetical situation where net financing from NSCs reaches 25 per cent of net total domestic financing which is an upper limit set by the government with its consensus with the IMF.

Strategy 3 is the most preferred strategy among the four strategies considering the cost and risk of new debt, as it puts more emphasis on domestic market development. But, as the liquidity position in the financial market remains tight, there will be some challenges to implement the strategy. The government will pursue external investment in the domestic debt market to alleviate the pressure.

Key measures for effective implementation include updating the MTDS annually to align with the government's budgeting and cash flow needs, strengthening the coordination between debt offices, publishing a quarterly issuance calendar for government securities, and engaging with market participants to develop the domestic debt market. Additionally, the government plans to enhance the cash and debt management capacity of officials and introduce an annual borrowing plan soon.

Acronyms and Abbreviations

ADB – Asian Development Bank

ATM – Average Time to Maturity

ATR – Average Time to Re-fixing

BB- Bangladesh Bank

BDT- Bangladesh Taka

CPI – Consumer Price Index

FD- Finance Division

FX – Foreign Exchange

FY – Fiscal Year

GDP – Gross Domestic Product

IDA – International Development Association

IMF – International Monetary Fund

MoF- Ministry of Finance

MTDS – Medium-Term Debt Management Strategy

MTMF- Medium Term Macroeconomic Framework

MTMPS- Medium Term Macroeconomic Policy Statement

NDF- Net Domestic Financing

NSC- National Savings Certificate

PFM – Public Financial Management

USD – United States Dollar

1. INTRODUCTION

Bangladesh's economy has grown at a fast pace over the past decade and a half, and the plan is to further accelerate it. For that, the pace of investment in soft and physical infrastructure need to pick up. As the revenue is not enough to cover these much-needed investments, Bangladesh, following the standard practice around the world, resort to deficit financing. Sourcing this necessary financing through external as well as domestic sources is always competitive. Moreover, countries around the globe rolled out large fiscal packages to address the health emergency during the COVID-19 pandemic. This trend continued even after the severity of the pandemic eased up and it was inevitable that this spending spree will put pressure on global inflation. To make matters even worse for net importers of primary products such as, oil, the Russia-Ukraine war disrupted the global supply chain. These twin factors caused the global inflation to rise continuously. As a country increasingly connected to the global financial system, Bangladesh could not remain an exception. At the same time, due to the terms of trade deterioration because of the war in Ukraine, Bangladesh's forex reserve has come under severe pressure. The need to keep financing the growth-inducing investments and continue the reform in the fiscal sector with a keen focus on maintain the debt sustainability is an imperative now. It is in this backdrop that the Third Medium-Term Debt Management Strategy (MTDS)[1] for the fiscal year 2024-25 to 2026-27 is being published.

This MTDS will serve as a blueprint for the government to manage its debt, aligned with the existing medium-term macroeconomic frameworks and available funding sources. It enables the government to assess various financing strategies in terms of their relative costs, risks, and alignment with key macroeconomic policies. The assessment of available options affords the government to adopt one or a combination of several strategies suited for its long-term goals. The strategy considers potential sources of financing and puts forward strategies with various outcomes to determine a balanced approach for the country in the medium term. The adopted approach ensures that the Government's borrowing activities remain consistent with its broader economic goals and sustainable financing.

2. DEBT MANAGEMENT OBJECTIVES AND PRINCIPLES OF BANGLADESH

The primary objective of the debt management policy of government is to ensure that the financing and debt service obligations are met at the lowest possible cost with an acceptable level of risk.

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[1] According to the IMF-World Bank, the Medium Term Debt Management Strategy (MTDS) is a framework to guide the debt management decisions and operations of government authorities. The MTDS links borrowing with macroeconomic policy; helps countries maintain sustainable levels of debt; and facilitates domestic debt market development. It helps to raise the required fund of the government at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. The MTDS framework is developed by the IMF-World Bank jointly with its member states to support the formulation of the debt management strategy and other relevant issues of government debt management.

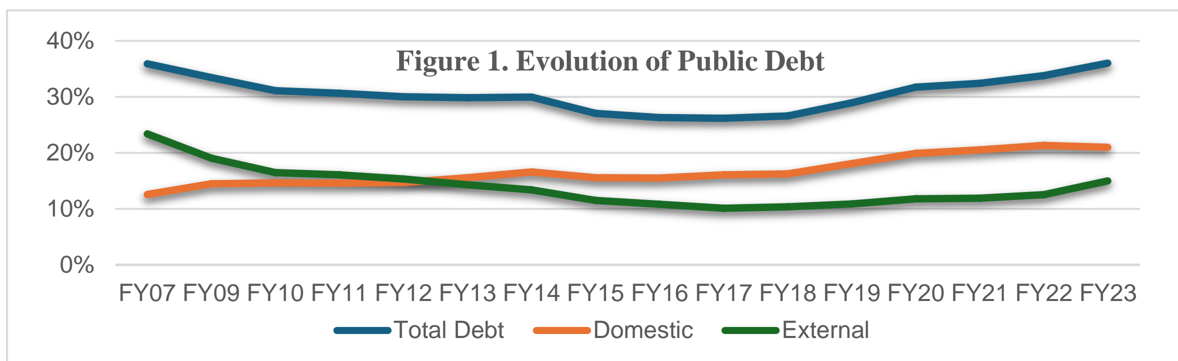
The government pursues the objective in accordance with the principles of responsible fiscal management enshrined in Section 3(1) of the Public Moneys and Budget Management Act, 2009 to keep the budget financing at a sustainable level.

3. SCOPE

The scope of the current debt strategy is limited to the domestic and external central government debt of Bangladesh. The current MTDS will guide government borrowing over the next three fiscal years, from FY2024-25 to FY2026-27. Sovereign guarantees issued by the government and other contingent liabilities are not covered in this analysis.

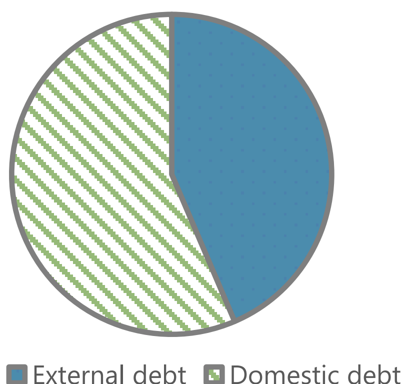
4. COMPOSITION, COST AND RISKS OF THE EXISTING DEBT

The data on Bangladesh's debt portfolio from FY07 to FY23 highlights a shift in the composition of total debt and the factors influencing it. Initially, total debt as a percentage of GDP experienced a downward trend, decreasing from 35.9% in FY07 to 26.2% in FY17. However, there has been a subsequent upward trend, with total debt reaching 36.0% in FY23.

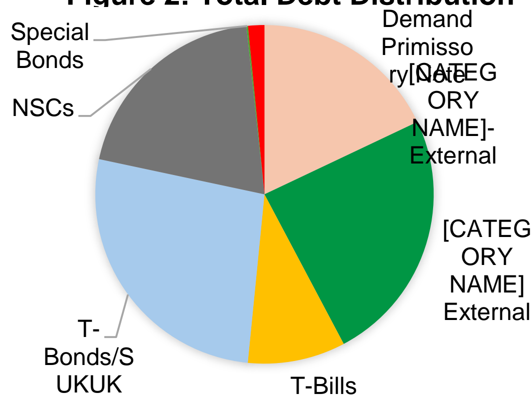


Source: FD

The public debt of Bangladesh is composed of domestic and external debt. At the end of the fiscal year 2024, domestic debt is projected to be 56 per cent of the total debt stock and the remaining 44 per cent is external debt.



Source: MTDS AT



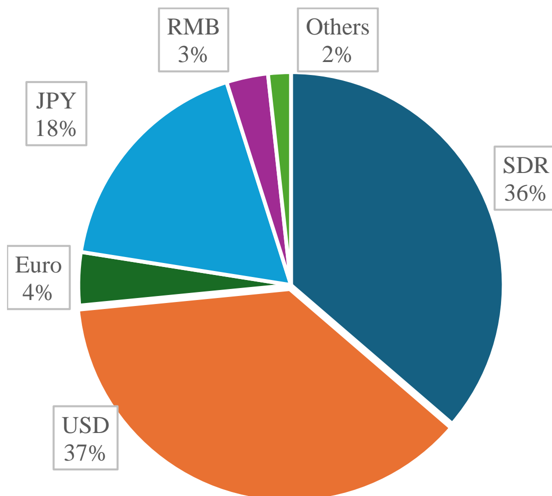
Source: MTDS AT

The domestic debt portfolio comprises short-term securities (T-Bills), T-bonds, Sukuk, Demand Promissory Notes, and Special Bonds. NSCs and T-bonds are the main components of the domestic debt. Bilateral and multilateral debt from development partners (DPs) are the only sources of external debt since Bangladesh is yet to issue a sovereign bond. However, the terms of external financing have been shifting from concessional to semi or non-concessional in recent years.

4.1. EXTERNAL DEBT PORTFOLIO

4.1.1. External Debt Currency Mix

Most of the external debt of the government is denominated in currencies of US dollar (USD) and Special Drawing Rights (SDR). USD-denominated debt accounts for around 37 per cent of the total external debt stock followed by SDR with a share of 36 per cent. Other significant currencies in the external debt stock include the Japanese Yen, Euro and Renminbi (RMB). Notwithstanding the relatively high local currency risk, cross-currency risk remains low as the majority of Bangladesh's external debt (73%) is denominated in stable currencies such as, USD and SDR.

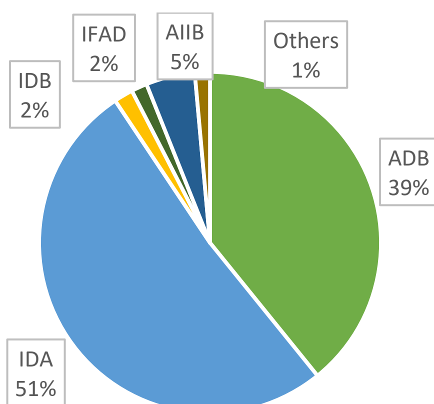


Source: ERD

4.1.2 External Debt Portfolio by Development Partner

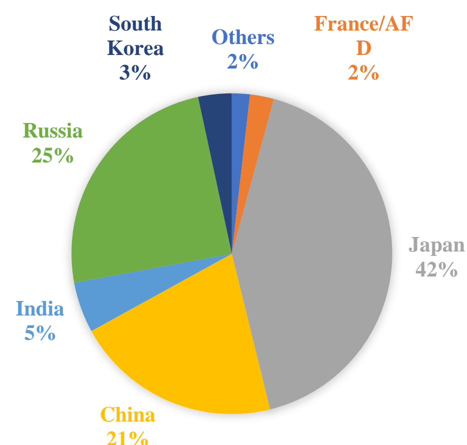
Although the preference is still for concessional external financing from DPs, external debt of the government is decreasing gradually. Bangladesh's external debt portfolio includes both multilateral and bilateral sources. Among multilateral agencies, IDA, ADB and AIIB are the largest sources of external financing, accounting for 51 per cent, 39 per cent and 5 per cent, respectively, of the total multilateral financing.

Figure 4:External Multilateral Debt Sources



Source: ERD

Figure 5:External Bilateral Debt Sources

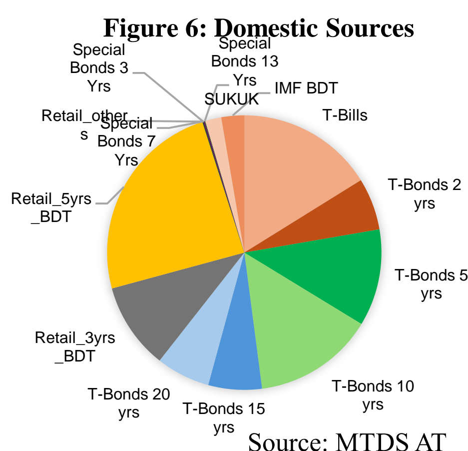


Among the bilateral lenders, Japan stands out as the biggest creditor, accounting for 42% of the bilateral debt. Russia, China, India and South Korea are the other major sources of bilateral external financing accounting for 25 per cent, 21 per cent, 5 per cent and 3 per cent, respectively. It is worth noting that Chinese loans have now increased to 21 per cent of the total external debt in FY 2024 compared to 6 per cent in FY 2020. Russian lending is concentrated in one project and is non-concessional.

4.2. DOMESTIC DEBT PORTFOLIO

Financing from domestic sources has increased substantially over the years. Domestic market debt is projected at 65.85 per cent of total domestic debt while debt in the form of National Savings Certificates (NSCs) is at 34.15 per cent at the end of FY 2024. To carry on with the much-needed public investment, the government is increasingly reliant on the domestic market. As a result, the Government is actively engaged in developing the domestic debt market. The government has undertaken various reforms with this objective at the forefront. They include automating the NSC issuance process, implementing slab-based interest rates, and imposing individual investment ceilings. Another significant initiative involves facilitating secondary trading of government securities through stock exchanges. It should also be noted that the reforms have pushed the domestic borrowing in the right direction. However, to bring down high-cost domestic borrowing and uncertainty in debt management, these reforms need to be continued and augmented going forward.

Figure 6: Domestic Sources



Source: MTDS AT

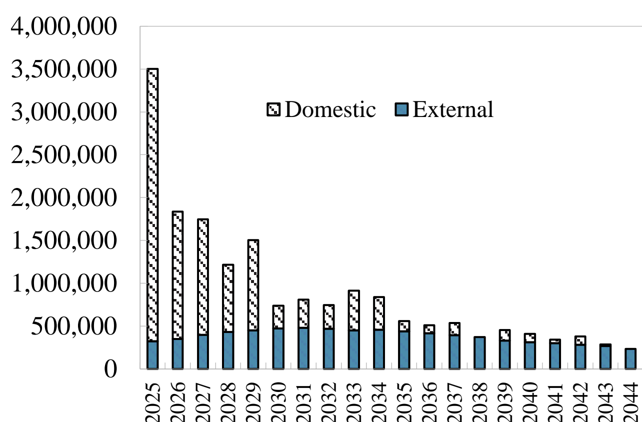
In recent years, due to liquidity constraints in the financial market, there has been an increase in reliance on short-term borrowing through T-bills.

4.3 Redemption Profile of the Outstanding Debt Stock

The redemption profile of the outstanding government debt is influenced by short-term domestic debt instruments that are mostly T-Bills and retail debt instruments which are 3-5 year-tenor NSC instruments. The debt maturity in FY2025 is the highest and decreases gradually but remains comparatively high up to FY29. T-bonds with maturity periods ranging from 2 to 20 years help to maintain a stable redemption profile of the government securities. The redemption of external debt is relatively smooth. Most of the outstanding debt of the government is fixed interest-bearing.

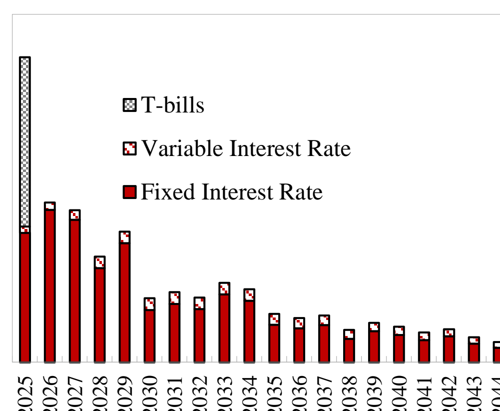
Though the interest in T-bills is fixed due to its short maturity time it is subject to refixation at the rollover time. At the same time, the shift to semi/non-concessional external debt with floating interest rates resulted in growing floating-rate external debt. Therefore, the debt profile is moderately exposed to interest rate sensitivity.

Figure 7: Redemption profile



Source: MTDS AT

Figure 8: Redemption Profile (interest type)



Source: MTDS AT

4.4 Costs and Risks of Existing Debt Portfolio

The risk in the existing debt portfolio is moderate, primarily due to the majority of the debt being denominated in local currency and the long maturity period of external debt. Domestic debt is significantly more expensive than external debt. However, exchange rate risk has increased over time due to high reliance on external borrowing. The higher refinancing risk associated with domestic debt due to its shorter average time to maturity (ATM) and a higher percentage of debt maturing within a year (30.7%) indicates the necessity to further extend the maturity profile of domestic debt to reduce refinancing pressures. While a substantial portion of the debt is at fixed rates, the shorter average time to refixing (ATR) for domestic debt (3.8 years) compared to external debt (8.8 years) suggests that domestic debt is more vulnerable to interest rate fluctuations. Strategies should therefore aim to increase the proportion of longer-term fixed-rate domestic debt. The redemption profile is largely influenced by domestic debt with a significant presence of T-bills. In comparison, the amortization of external debt is more evenly distributed over time.

Table 1: Cost and risk indicators of existing debt as of 30-June 2024

Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of BDT)		7,995,058.2	10,355,298.3	18,350,356.5
Amount (in millions of USD)		68,333.8	88,506.8	156,840.7
Nominal debt as per cent of GDP		15.9	20.6	36.5
PV as per cent of GDP		12.3	20.6	32.9
Cost of debt	Interest payment as per cent of GDP[3]	0.2	2.0	2.2
	Weighted Av. IR (per cent)	1.4	9.6	6.0
Refinancing risk	ATM (years)	11.4	3.8	7.3
	Debt maturing in 1yr (per cent of the total)	3.6	30.7	18.2
	Debt maturing in 1yr (per cent of GDP)	0.6	6.3	7.0
Interest rate	ATR (years)	8.8	3.8	6.1

risk	Debt refixing in 1yr (per cent of the total)	29.2	30.7	30.0
	Fixed-rate debt incl. T-bills (per cent of total)	73.6	100.0	87.8
	T-bills (per cent of total)	0.0	18.8	10.1
FX risk	FX debt (per cent of total debt)			43.6
	ST FX debt (per cent of reserves)			9.1

Source: MTDS AT

5. BASELINE MACROECONOMIC ASSUMPTIONS AND THE KEY RISK FACTORS

5.1 Macroeconomic Assumptions

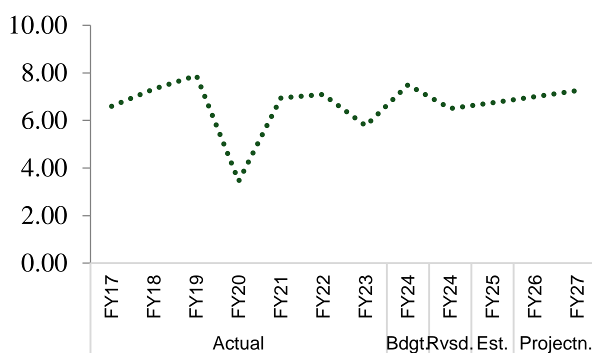
The outputs used to evaluate debt strategies in this report are based on macroeconomic assumptions and estimates taken from the government's medium-term macroeconomic framework approved by the Coordination Council. The medium-term framework is elaborated in the government's medium-term macroeconomic policy statement (MTMPS).

5.2 Real Sector

5.2.1 Gross Domestic Product

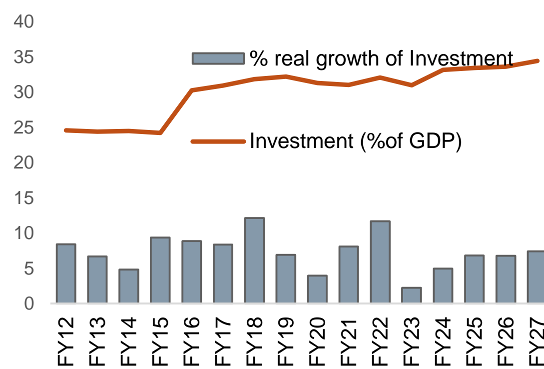
Bangladesh has experienced consistent economic growth alongside macroeconomic stability and poverty reduction over a decade. It has emerged as one of the world's fastest-growing economies. Although the real GDP growth decreased in the fiscal year 2019-20 due to the COVID-19 pandemic, the growth rate rebounded sharply to 7.10 per cent in FY 2021-22.

Figure 9: Real GDP Growth



Source: MTMPS

Figure 10: Investment Scenario



Source: MTMPS

However, due to rising global inflation and the Russia-Ukraine war, on the one hand, investment has become expensive due to a high interest rate; on the other hand, commodity prices, such as oil, increased substantially. Foreign exchange reserves got depleted faster than expected. The local currency has been devalued. These shocks are likely to keep growth below expectations. Consequently, the budget will come under increasing pressure due to

rising debt service obligations. Nonetheless, Bangladesh's economic growth is projected to accelerate in the medium term. This is expected to occur as inflationary pressures ease, external conditions improve, and reforms are implemented more effectively. Specifically, it is anticipated that the economy will grow slightly faster in the fiscal year 2023-24, supported by reduced inflation and some improvement in export growth. Going forward, GDP growth is expected to climb back gradually to the pre-pandemic trajectory, increasing to 6.75 per cent, 7.0 per cent, and 7.25 per cent in FY2024-25, FY2025-26 and FY2026-27, respectively.

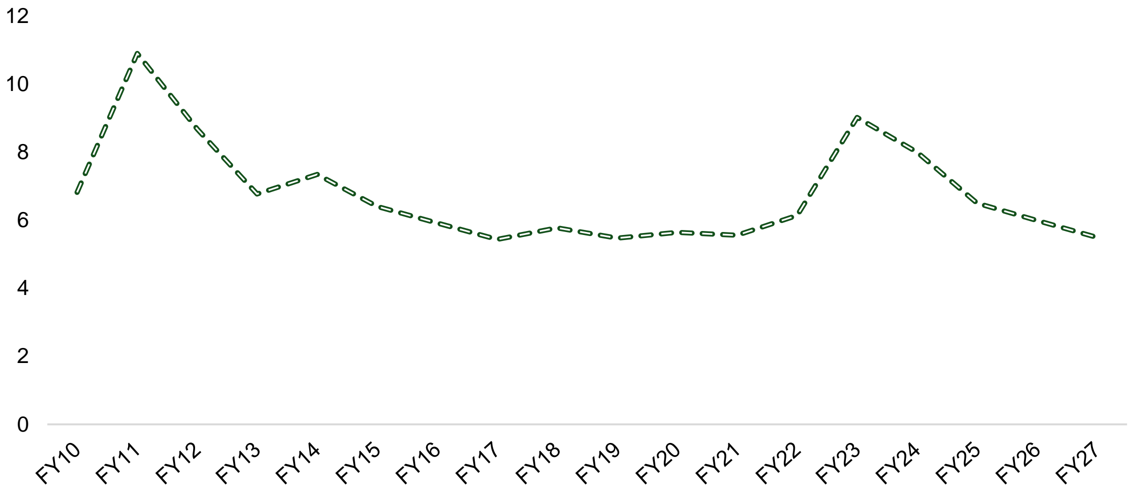
Investment

Bangladesh needs accelerated investment, public and private, to attain the target to becoming a middle-income country by 2030 and a developed country by 2041. However, private investment did not materialise as needed. Public investment has been contributing more to the overall investment. Whereas public investment is necessary to build the infrastructure and has an enabling role, private investment is an equally important requirement for the economy to grow. Recognising this, the government aims to improve the investment climate by initiating various reform measures, establishing exclusive economic zones and encouraging innovation. As a result, investment is expected to pick up in the medium term.

5.3 Inflation and Interest Rate

Supply disruptions and the spike in the prices of fuels and other commodities in the global market pushed up costs worldwide, leading to high inflationary pressure in Bangladesh.

Figure 11: Inflation Scenario *(12-month average)*



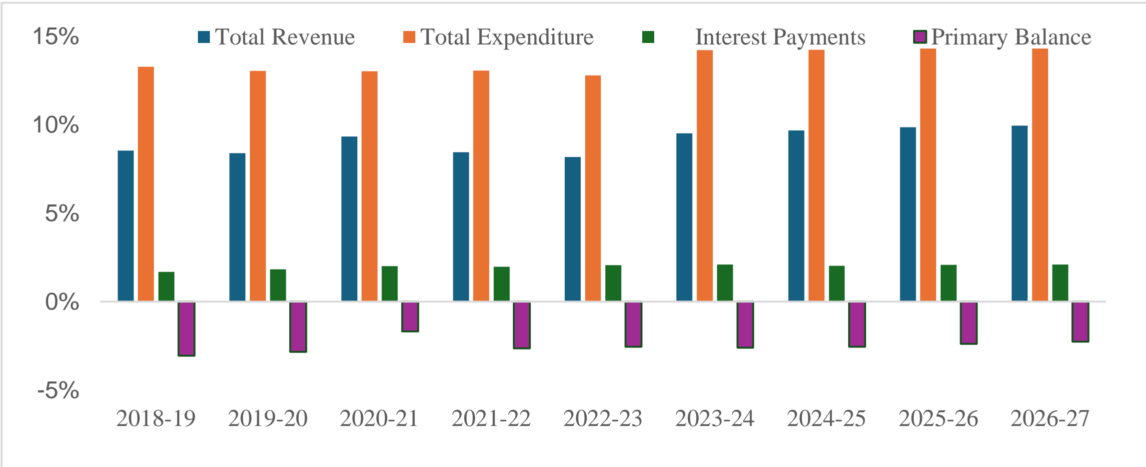
Source: MTMPS

It is expected to ease in FY2024-2025 as global nonfuel commodity prices fall, and crop production improves. In addition to that, the tightening monetary policy and supportive fiscal policy is expected to bring the rate of inflation down to a pre-war trajectory.

5.4 Fiscal Projections

The fiscal projections for the years FY2025 to FY2027 outline a trajectory of cautious optimism amidst rejuvenated economic growth. Budgeted revenue and grants are expected to witness a steady increase, reflecting a positive outlook on the overall economic performance. It is also projected that the government will continue to allocate resources to maintain essential services and investments.

Figure 12: Fiscal Sector Projections



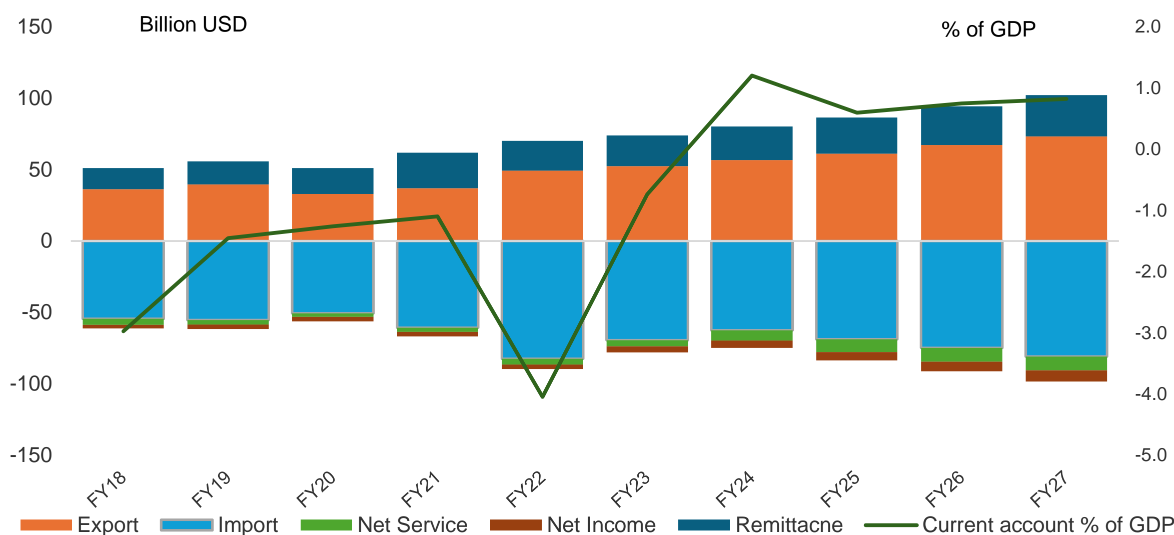
Source: MTMPS

The primary balance reflects a slight improvement over the forecast period, suggesting a marginal reduction in the deficit. Despite the persistence of budgeted interest payments as a proportion of GDP, underscoring the importance of managing debt obligations effectively, the overall fiscal balance exhibits a gradual narrowing, signalling a concerted effort to contain expenditure and enhance revenue generation.

5.5 External Sector Projections

Despite the challenges stemming from the COVID-19 pandemic, the ongoing Russia-Ukraine war, and the current global geopolitical situation, the government has been working to boost exports and attract private investment into the country's economy. The figure below shows the composition of the current account balance (CAB) and its forecast for the medium term.

Figure 13: External Sector Projections



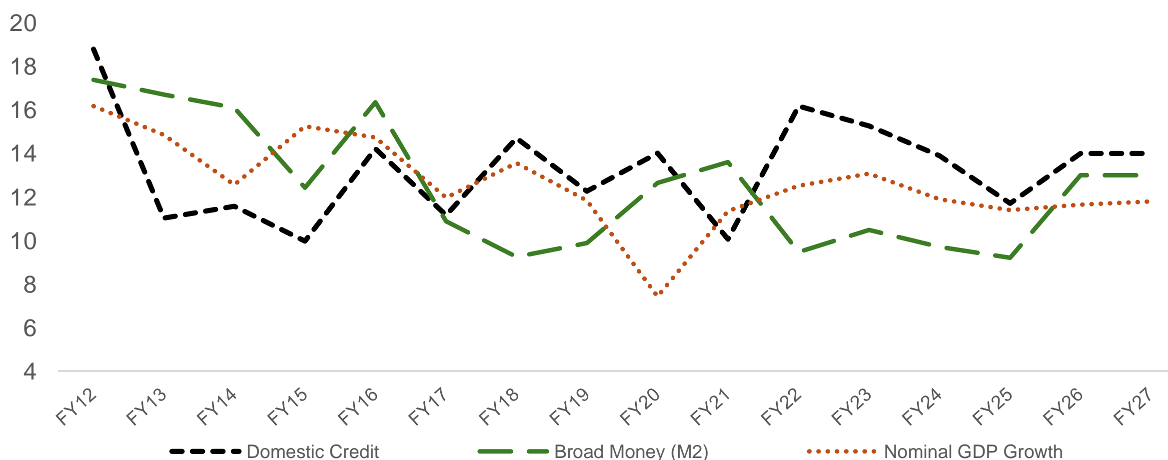
Source: MTMPS

The CAB was negative due to a sudden increase in import in FY 2021-22 defying the general trend of surpluses. Since FY23, however, due to a stringent import monitoring regime and strong export and remittance growth, CAB is moving in a positive direction.

5.6 Monetary Assumptions

The central bank, Bangladesh Bank (BB), has adopted a contractionary stance in monetary policy considering the persistent high inflation. As a result of the change in BB's position, policies have been put in place to tackle inflation head-on. These are inter alia, policy rates increase, removal of caps on lending rates and introduction of a competitive market-based interest rate. It is expected that once inflationary pressure wanes due to this measures, BB's stance will ease and domestic credit and broad money growth will resume the momentum required to support economic growth.

Figure 14: Monetary Sector Assumptions



Source: MTMPS

The figure shows recent trends in monetary indicators and medium-term forecasts. Interest rates on government securities continued to rise; however, it's important to recognize that interest rates in Bangladesh, as in other countries, have risen primarily to combat inflation. The government is also expecting that tighter monetary policy supported by an appropriate fiscal stance will help control inflationary pressure in the coming fiscal years. This, in turn, is anticipated to soften the yields of government securities, bringing interest rates back to pre-COVID levels in the medium term.

5.7 Key Risk Factors

It is imperative to consider the risk facing the economy even when it is showing signs of a healthy comeback. These risks, whether stemming from domestic or external factors, have the potential to negatively impact the desired growth trajectory and cause the country to underachieve its long-term goals. Thus, a thorough assessment of these risks is essential to inform policy decisions, including on debt management strategy and ensure preparedness to deal with the critical challenges.

Table 2: Key Macroeconomic Risks and Implications for Debt Management Strategy

Indicators	Risks	Degree of Risk	Implications for Debt Management
Inflation	High inflation persists and monetary policy continues to be tight which leads to continued high interest rates in the domestic market	Medium	Yield on government securities remains high and rising interest expenditure creates fiscal pressure.
Exchange Rate	The exchange rate of BDT may experience further depreciation if the interest rate remains high in developed countries	Medium	External loan servicing may become expensive in terms of local currency.
Financial Sector	High non-performing loans and liquidity crunch in banking sector may pose challenges to the financial sector.	Medium	May make domestic borrowing challenging for the government.
Contingent Liability	Realization of implicit and/or explicit contingent liability may put pressure on fiscal balance.	Low	Any funding requirement generating from contingent liability may exacerbate government borrowing requirement.
Fiscal Position	Revenue shortfalls and/or over shooting of expenditure in comparison with baseline fiscal projections.	Medium	Any additional primary deficit will require additional financing.

Indicators	Risks	Degree of Risk	Implications for Debt Management
External	High benchmark interest rates will eventually keep floating interest rates high.	Medium	Government external interest expenses will be larger than projected.

6. SOURCES OF FINANCING AND PRICING ASSUMPTIONS

6.1 External Financing Sources

To minimize borrowing costs, traditional concessional sources of external creditors remain as the preferred funding sources for the government. However, in the face of decreasing external concessional financing, the government needs to diversify its borrowing sources. Key multilateral partners such as the Asian Development Bank (ADB), the International Development Association (IDA), and the International Bank for Reconstruction and Development (IBRD) are expected to provide substantial financial support, reflecting a collective effort to address developmental priorities and enhance economic resilience. Bilateral partners are expected to play a pivotal role; notable bilateral partners include Japan, China, India, and Russia, with commitments in critical sectors such as infrastructure, including power.

Disbursements of external project-linked loans will proceed in accordance with the progress of the associated public investment projects, unless these projects are postponed or cancelled, which would be undesirable, or alternative financing is sought, which is highly unlikely. Disbursements of external budget support loans will occur as the government meets the policy actions it has committed to.

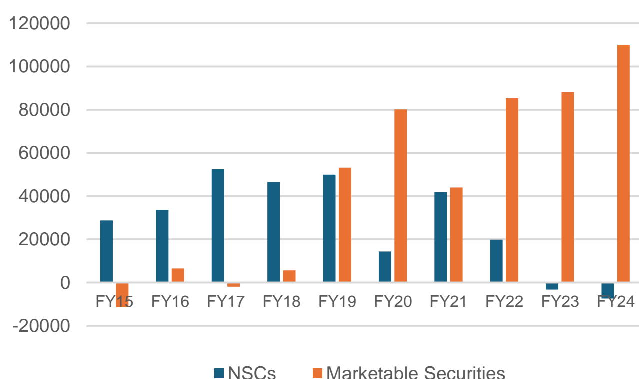
6.2 External Financing Pricing Assumptions

Baseline pricing assumptions for external debt instruments are based on the lending terms presently available from multilateral and bilateral creditors and the current global interest rates on which part of this debt is provided in floating interest rates. For fixed-rate official loans, the current interest rates remain constant. For variable-rate official loans, the current margins remain unchanged, but the underlying USD 3-month SOFR reference rate for each projected fiscal year aligns with its recent forward rates.

6.3 Domestic Financing Sources

Domestic debt issuances in Bangladesh have increased dramatically in recent years. While domestic debt stock has increased, the diversity of the Government's marketable treasury instruments has remained broadly the same.

Figure 15: Domestic Financing Sources



Source: FD

The chart shows the recent trend in government domestic borrowing. NSCs were major sources of domestic financing that led to high interest costs along with increasing outstanding stock. This was due to the higher interest rates of NSCs compared to the marketable securities. To manage the worsening fiscal pressure, government undertook reform initiatives aimed at discouraging the rich buyers from buying NSCs and gradually reducing the interest expense and gross issuance of NSCs in the medium- to long-run. Thanks to these reforms along with high interest rate in the marketable securities, net financing from NSCs were negative in the recent fiscal years FY2023 and FY2024. The government is committed to maintaining reforms to ensure that borrowing from NSCs does not lead to additional fiscal pressure and marketable securities become a more important source for the domestic borrowing.

T-bills and T-bonds are the instruments for which the volume and timing of issuance are directly controllable, though these issuances are determined as a residual after forecasts of disbursements of external loans and net flows of NSCs have been prepared. Consequently, changes to the cost and risk characteristics of the debt portfolio will occur gradually and incrementally over time.

Table 3. Ownership Pattern of G-Sec (Taka in Crore)

Sl	Category	Jun-22		Jun-23		Mar-24	
		Amount	%	Amount	%	Amount	%
1	BB	53,193.80	14%	130,889.88	27%	95,701.88	18%
2	Banks	287,311.33	74%	301,560.74	62%	351,243.70	66%
3	Non-Banks	48,793.34	13%	57,312.72	12%	84,208.84	16%
Total		**389,298.47**	**100.00%**	**489,763.34**	**100.00%**	**531,154.42**	**100.00%**

Source: Bangladesh Bank

Borrowing through marketable securities grew from approximately BDT 389,298.47 crore in June 2022 to BDT 531,154.42 crore in March 2024, reflecting an overall increase across all major sources in absolute terms. Banks remained the dominant source of investment, though their share slightly decreased over time. Non-Banks saw their share rise from 13% to 16% during the same period, highlighting a steady growth in the non-bank sector's participation in the government securities investment landscape. In a set of reform initiatives, investment ceilings for institutional investors for NSCs have been adjusted downwards, and most investors have already reached their limits. The introduction of government securities in the

secondary market for individual investors along with institutional investors has contributed to this growth by expanding the investor base. This trend suggests a growing preference for marketable securities among investors which is expected to be stronger going forward. Financial market liquidity and health will be instrumental in this borrowing assumption.

6.4 Domestic Financing Pricing Assumptions

Baseline pricing assumptions for domestic debt instruments are derived from the outlook over the medium term, recent experience at past auctions, and current administered rates for NSCs. Anticipated moderation in the rate of y-o-y inflation and an improvement in liquidity conditions are expected to lead to a reduction in market-determined rates.

7. Shocks to exchange rates and interest rates

The MTDS simulation applies shocks to exchange rates and interest rates, beyond the assumptions in the baseline, to assess the sensitivity of the debt portfolio to changes in those variables. Three shock scenarios are examined:

A stand-alone extreme exchange-rate shock: One-time 30 per cent depreciation of BDT relative to other basket currencies in 2025 on top of the depreciation assumed in the baseline scenario.

A stand-alone extreme interest-rate shock: One-time extreme increase in borrowing costs in 2025, which is sustained in the subsequent years, of 400 basis points for external official variable rate instruments, external commercial fixed rate instruments, T-bonds, and NSCs; and 200 basis points for external official fixed rate instruments and T-bills.

A combined moderate exchange rate and interest rate shock: In 2025, a simultaneous one-time depreciation of BDT (15 per cent of BDT relative to other basket currencies) and a one-time increase in borrowing costs, i.e. 200 basis points and sustained in the subsequent years for external official variable rate instruments, external commercial fixed rate instruments, T-bonds, and NSCs; and 100 basis points for external official fixed rate instruments and T-bills.

8. ASSESSMENT OF ALTERNATIVE STRATEGIES & RISK SCENARIOS

8.1 BORROWING STRATEGIES

Four alternative financing strategies are being considered to cover the financing needs of the government during FY2024-25 to FY2026-27. It should be noted that the government does not plan to issue any international sovereign bonds. It is also important to note that the government's objective is to maintain the reforms already in place and plan and implement others as and when practicable.

Strategy 1: Status Quo (Continued reliance on T-Bills)

Strategy 1 assumes the status quo i.e. continues with the financing pattern in operation in FY2023-24. The strategy envisages decreasing reliance on external financing as well as on NSCs going forward. Domestic financing will compensate the short fall in external financing assumed in the strategy.

Table 4. Strategy 1 (Per cent of GFN)

Sources	FY25	FY26	FY27
External	**22.9%**	**19.9%**	**16.7%**
Official-Fixed	17.0%	14.8%	12.3%
Official-Variable	5.9%	5.1%	4.4%
Domestic	**77.1%**	**80.1%**	**83.3%**
T-Bill	44.2%	38.9%	46.9%
T-Bonds	17.0%	25.8%	23.6%
NSC	14.1%	14.0%	12.8%
IMF	**1.8%**	**1.5%**	**0.0%**

Source: FD's Calculation

Strategy 2: Further Reforms in NSCs[2]

Strategy 2 explores the impact of aligning NSC interest rates with those of T-Bonds. In FY 25 and FY 26, NSC rates are expected to rise above their current administered levels, leading to an increased share of NSCs in gross financing needs (GFN) for these two fiscal years. Conversely, it is assumed that by FY 27, as market interest rates decline, NSC rates will also drop below the current administered levels, resulting in a reduced share of NSCs in GFN. It will, however, at least for the first two fiscal years of the planning horizon, increase the cost of domestic debt and impede further development of the government securities market. The goal of this strategy is to directly link NSC interest rates to the yields of T-bonds with similar tenors and adjust them automatically in line with the market.

Table 5. Strategy 2 (Per cent of GFN)

Sources	FY25	FY26	FY27
External	**22.9%**	**19.9%**	**16.7%**
Official-Fixed	17.0%	14.8%	12.3%
Official-Variable	5.9%	5.1%	4.4%
Domestic	**77.1%**	**80.1%**	**83.3%**
T-Bill	44.2%	38.9%	46.9%
T-Bonds	14.4%	25.5%	25.6%
NSC	16.7%	14.3%	10.8%
IMF	1.8%	1.5%	0.0%

Source: FD's Calculation

[2] Strategy 2 has been run on stand-alone mode in the MTDS AT, the other 3 strategies assume current administered rates of the NSCs for all the fiscal years, but strategy 2 assumes higher rates for the first two fiscal years but lower in the third fiscal year.

Strategy 3: Increasingly shifting reliance to the long-term domestic market instruments

Strategy 3 examines an expansion in the issuance of medium-term and long-term T-bonds, consistent to support the development of the government securities market. The share of T-bonds in GFN increases from FY25, (21.9 per cent) to FY27, (48.3 per cent) in this strategy. The number of T-bills issued is reduced accordingly, from 39.3 per cent of GFN in FY25 to 22.2 per cent of GFN in FY27. The increase in T-bond issuance is distributed evenly in nominal terms across the maturities of 2, 5, 10, 15, and 20 years.

Table 6. Strategy 3 (Per cent of GFN)

Sources	FY25	FY26	FY27
External	**22.9%**	**20.1%**	**16.7%**
Official-Fixed	17.0%	15.0%	12.3%
Official-Variable	5.9%	5.1%	4.4%
Domestic	**77.1%**	**79.9%**	**83.3%**
T-Bill	39.3%	22.1%	22.2%
T-Bonds	21.9%	42.1%	48.3%
NSC	14.1%	14.2%	12.8%
IMF	**1.8%**	**1.5%**	**0.0%**

Source: FD's Calculation

Strategy 4: Stronger Demand for NSCs

Strategy 4 assumes stronger demand for NSCs, with maturities of 3 and 5 years than projected under the status quo. Under the baseline pricing scenario, interest rates on government securities decline over time; however, if the interest rates on NSCs remain constant, it is highly likely to augment the demand for NSCs with a commensurate reduction in the issuance of government securities. The net issuance of NSCs is assumed to reach approximately 25 per cent of NDF by FY2026 accounting for 14.2 per cent of GFN and remain around that level thereafter, which is the target set for the structural benchmark as part of the government's IMF-supported economic and financial program. Additional financing from NSCs has been adjusted with the reduction in T-Bills.

Table 7: Strategy 4 (Per cent of GFN)

Sources	FY25	FY26	FY27
External	**22.9%**	**20.1%**	**16.7%**
Official-Fixed	17.0%	15.0%	12.3%
Official-Variable	5.9%	5.1%	4.4%
Domestic	**77.1%**	**79.9%**	**83.3%**
T-Bill	42.8%	22.1%	22.2%
T-Bonds	18.4%	42.1%	48.3%
NSC	14.1%	14.2%	12.8%
IMF	**1.8%**	**1.5%**	**0.0%**

Source: FD's Calculation

8. 2. Cost and risk indicators under the baseline scenario

The cost and risk indicators for the four strategies are similar under the baseline scenario. For FY2024, the nominal debt is 36.5 per cent of GDP, and the present value debt is 32.9 per cent of GDP. By FY2027, the projections for nominal debt are slightly higher across all strategies, ranging from 38.3 per cent to 38.4 per cent. Similarly, present value debt is projected to increase slightly, ranging from 34.7 per cent to 34.8 per cent. These changes indicate a modest rise in debt levels, with minimal differences between the strategies.

Interest payments as a percentage of GDP remained stable at 2.2 per cent for both FY2024 and all FY2027 projections. The implied interest rate is currently 6.0 per cent in FY2024. By FY2027, it is projected to increase to 6.2 per cent for S1 and S2, compared to 6.7 per cent for S3, and to 6.3 per cent for S4. This indicates that while S3 shows a higher implied interest rate as it assumes higher borrowing from T-Bonds, the others have a slightly moderate increase.

In FY2024, 18.2 per cent of debt matures in one year, which is 7.0 per cent of GDP. In FY2027, under S1 and S2, debt maturity in one year increases to around 21 per cent of total debt and is equivalent to 8.0-8.1 per cent of GDP. S3 significantly reduces this risk with only 10.2 per cent of debt maturing in one year, equivalent to 3.9 per cent of GDP. S4 shows a moderate reduction compared to S1 & S2 with 20.2 per cent of debt maturing in one year, equivalent to 7.7 per cent of GDP.

Currently, the ATM for the external portfolio is 11.4 years and 3.8 years for the domestic portfolio, while the ATM for the total portfolio is 7.3 years. By FY2027, for S1 and S2, the ATM on external debt increases to 11.9 years, domestic debt ATM slightly decreases to 3.5 and 3.4 years, and the total ATM remains around 7.4 years. S3 projects a significant increase in domestic ATMs to 4.8 years and total ATMs to 8.3 years, while S4 shows similar ATMs for S1 and S2.

In FY2024, the ATR is 6.1 years, and 30.0 per cent of debt is subject to re-fixing in one year. In FY2027, ATR for S1 and S2 slightly improves to 6.2 years; debt re-fixing in one year increases to 31.8 per cent. S3 shows a higher ATR of 7.0 years and a significant reduction of debt re-fixing in one year to 21.0 per cent compared to the current status as well as S1, S2 and S4. S4 has an ATR of 6.2 years and 31.0 per cent of debt re-fixing.

Table 9: COST-RISK INDICATORS - Baseline Scenario

Risk Indicators				2024	End 2027			
				Current	S1	S2	S3	S4
Nominal debt as per cent of GDP				36.5	38.3	38.4	38.4	38.3
Present value debt as per cent of GDP				32.9	34.7	34.8	34.8	34.7
Interest payment as per cent of GDP				2.2	2.2	2.2	2.2	2.2
Implied interest rate (per cent)				6.0	6.2	6.2	6.7	6.3
Refinancing	Debt maturing in 1yr (per cent			18.2	21.0	21.1	10.2	20.2

risk2	of total)							
	Debt maturing in 1yr (% of GDP)			7.0	8.0	8.1	3.9	7.7
	ATM External Portfolio (years)			11.4	11.9	11.9	11.9	11.9
	ATM Domestic Portfolio (years)			3.8	3.5	3.4	4.8	3.5
	ATM Total Portfolio (years)			7.3	7.4	7.4	8.3	7.4
Interest rate risk2	ATR (years)			6.1	6.2	6.2	7.0	6.2
	Debt re-fixing in 1yr (per cent of total)			30.0	31.8	31.8	21.0	31.0
	Fixed rate debt incl T-bills (per cent of total)			87.8	88.7	88.7	88.7	88.7
	T-bills (per cent of total)			10.1	13.6	13.5	1.9	12.8
FX risk	FX debt as % of total			43.6	42.8	42.7	42.7	42.8
	ST FX debt as % of reserves			9.1	8.8	8.8	8.8	8.8

Source: MTDS AT

In FY2024, foreign exchange (FX) debt constitutes 43.6 per cent of total debt, and short-term FX debt is 9.1 per cent of reserves. By FY2027, FX debt slightly decreases to around 42.7-42.8 per cent across all strategies, and short-term FX debt will remain stable at 8.8 per cent.

S1 and S2 exhibit similar outcomes with slightly increased refinancing and interest rate risks, and a moderate rise in debt levels. S3 stands out by significantly reducing refinancing and interest rate risks due to a longer ATM and ATR, although it has a higher implied interest rate. S4 shows moderate outcomes with balanced risks but a slightly higher refinancing risk compared to S3. Overall, S3 appears to be the most conservative strategy, minimizing refinancing and interest rate risks, but potentially a slightly higher borrowing cost.

8.3. Cost and risk indicators under shock scenarios

Even when considering shocks, the differences in cost and risk indicators across the four strategies are subtle. The debt/GDP ratio at the end of FY 2027 shows similar results for all strategies, both under the baseline and maximum shock scenarios. The maximum shock for all four strategies is the extreme exchange rate shock, primarily due to the consistent share of foreign-currency borrowing across the strategies.

Figure 16: Interest to GDP

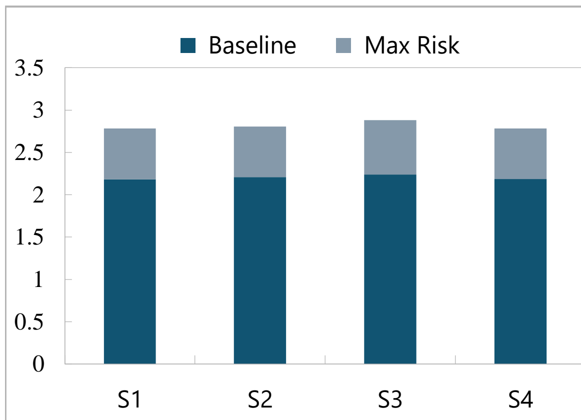


Figure 17: Interest to Revenue

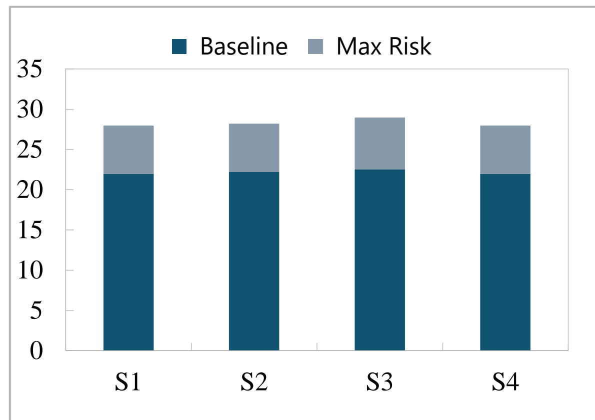
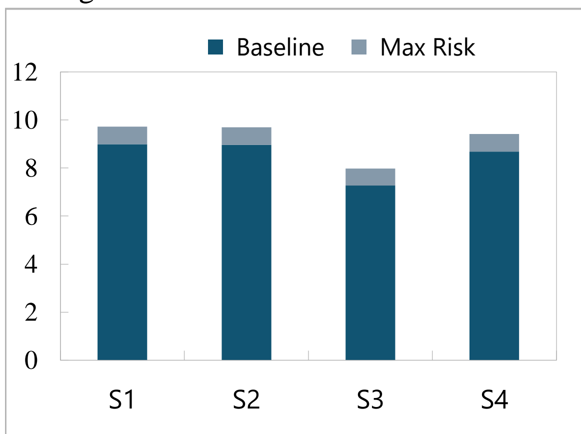
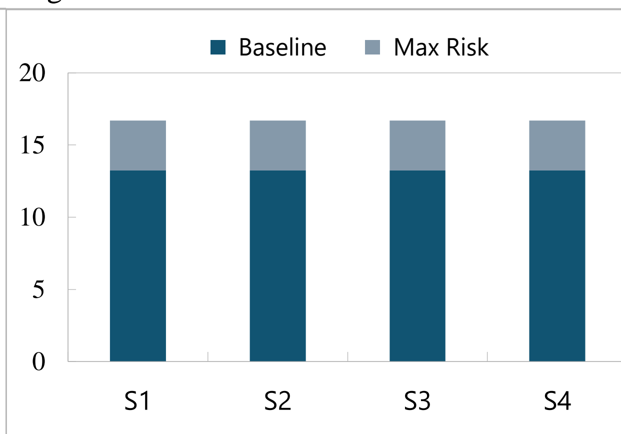


Figure 18: Total Debt Service to GDP



Source: MTDS AT

Figure 19: External Debt Service to Reserve



Source: MTDS AT

In terms of interest payments, Strategy 3 has the highest interest payments under the baseline scenario, whether measured as a share of GDP or as a share of revenue. Under the maximum shock scenario, Strategy 3 also shows the largest increase in interest payments. The differences among Strategies 1, 2, and 4 are not material.

In summary, while the cost and risk indicators under shock scenarios are generally similar across the four strategies, Strategy 3 stands out due to its higher interest payments and larger increases under extreme interest rate shocks. However, it offers a potential benefit in reducing refinancing risks and total debt service relative to GDP by lessening dependence on T-Bills.

9. Recommended Strategy and its Implementation

After analysing the cost, risk scenarios and shock scenarios presented, Strategy 3 emerges as the most favourable debt management strategy for the government over the medium term. This strategy involves gradually reducing the reliance on T-bills, smoothing the issuance of T-bonds across different categories, and maintaining external borrowing through official bilateral and multilateral sources. Implementing Strategy 3 will help develop the government securities market, which benefits the government by reducing refinancing risk, supporting the implementation of monetary policy by strengthening the

transmission mechanism, and fostering wider capital market development by providing a pricing benchmark for private sector debt issuance.

The government will update the MTDS annually. This strategy will be aligned with the government's budgeting and cash flow need to determine its annual borrowing plan. Additionally, a quarterly issuance calendar for government securities will be published at the beginning of each fiscal quarter to inform market participants and stakeholders of planned issuances throughout the year. Auction results will be published on the Bangladesh Bank’s website following each auction. Regular meetings of the Cash and Debt Management Committee and the Cash and Debt Management Technical Committee will ensure that borrowing requirements are met and adjusted according to the government’s needs.

Furthermore, the Finance Division, Bangladesh Bank and the Securities and Exchange Commission will take measures to develop the domestic debt market by engaging with market participants on planned borrowing and policy systematically. The government will pursue external investment in the domestic debt market. The government will also enhance the cash and debt management capacity of its officials and work towards introducing an annual borrowing plan soon.

To enhance the management of public debt, it is crucial for Bangladesh to move towards a unified debt management framework gradually. A unified approach would allow for more coherent and effective debt management. Under this framework, all aspects of public debt management, from the issuance of treasury securities to the oversight of National Savings Certificates and external borrowing, among others should be conducted under the Finance Division through an autonomous unit. Capacity development of the debt management unit in this regard will help to ensure better implementation of the debt strategy and maintain public debt on a sustainable trajectory. A single debt management office/entity will improve coordination, reduce redundancies, enhance the government's ability to manage debt-related risks efficiently and maximize the benefits of public debt.