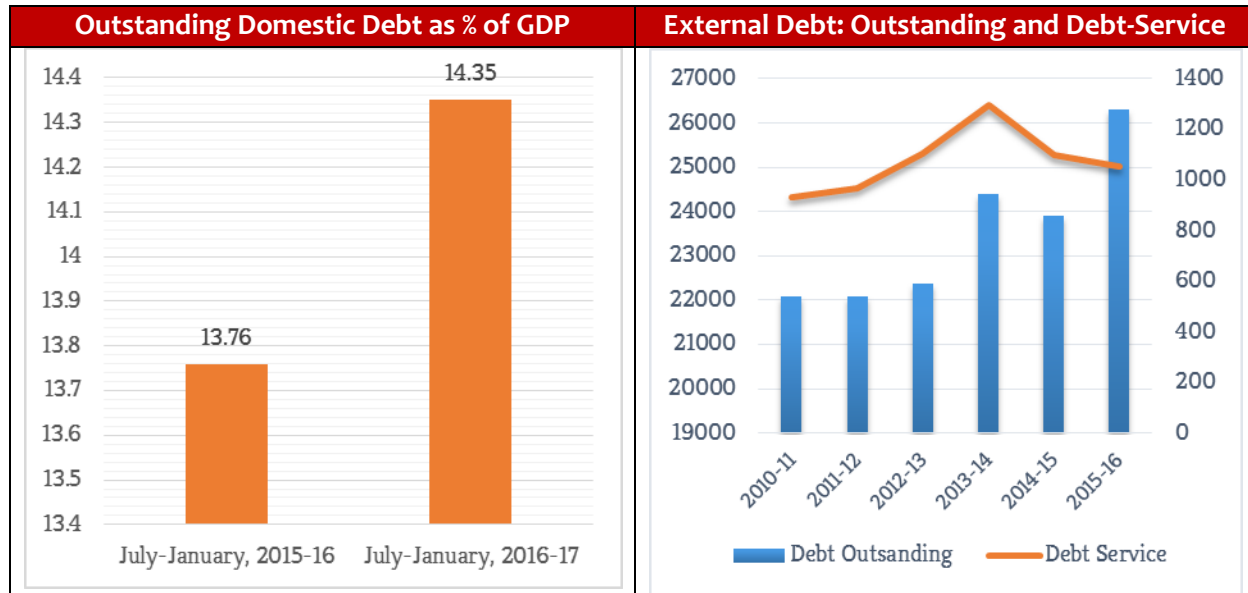


Bangladesh Economic Update
Debt and Deficit: Trends and Challenges
 March, 2017



Source: Unnayan Onneshan, *Debt and Deficit: Trends and Challenges*, Bangladesh Economic Update, Volume 8, No. 3, March 2017.

The Unnayan Onneshan (UO), an independent multidisciplinary think-tank, in its monthly publication of the ‘Bangladesh Economic Update’ March 2017, reveals that persistently increasing outstanding debt along with high debt-service payment every year is likely to lower development finance and escalate intergenerational debt burden in the future.

The research organisation in its eighth year of this monthly publication notes that at the end of FY 2015-16, the total outstanding domestic debt has increased by 17.7 percent while the total outstanding external debt burden increased by 10.1 percent. However, during the period of July-January of FY 2016-17, total outstanding domestic debt increased by 18.21 percent while foreign aid decreased by 16.53 percent compared to the corresponding period of FY 2015-16.

The debt-gross domestic product (GDP) ratio is on the rise since FY 2012-13. Statistics suggest that the outstanding domestic debt as percentage of GDP was 15.11 percent in FY 2012-13, 15.12 percent in FY 2013-14, and 15.23 percent in FY 2014-15, and 15.55 percent in FY 2015-16. In the first seven months of the current fiscal year (July-January of FY 2016-17), the ratio increased to 14.35 percent in compared to 13.76 percent in the corresponding period of FY 2015-16.

Government has been borrowing more from non-banking system than the banking system since FY 2013-14, although, as shown in previous years, deficits were usually financed by government borrowing from the banking system, observes the UO.

The outstanding domestic debt stood at Tk. 281331.64 crore in July-January period of the current fiscal year compared to Tk. 237992.37 crore in the corresponding period of the previous fiscal year. The year-end amount of outstanding domestic debt, however, doubled during period from FY 2009-10 (Tk. 116823.84 crore) to FY 2015-16 (Tk. 269009.50 crore), finds the research organization.

The outstanding external debt, which is currently 12 percent of GDP in the country, has exhibited a significant increase in the previous fiscal year. Statistics from the Economic Relations Divisions of the Ministry of Finance demonstrate that year-end outstanding external debt increased to USD 26305.71 million in FY 2015-16 from USD 23901 million in FY 2014-15.

However, during the first seven months of the current fiscal year, total foreign aid decreased to USD 1464.88 million from USD 1754.92 million in the corresponding period of FY 2015-16 due to a substantial decline in grants. For instance, grant receipts fell by 45.03 percent in FY 2015-16 compared to FY 2014-15, finds the think tank.

Interest payment on the external debt has increased of late, although total debt-service payment slightly decreased. The total debt-service payment stood at USD 929.37 million in FY 2010-11, which increased to USD 1294.44 million in FY 2013-14 and then declined to USD 1050.57 million in FY 2015-16. Interest payment, on the other hand, increased from USD 187.73 million in FY 2014-15 to USD 202.1 million in FY 2015-16.

In terms of debt sustainability, the research organization evinces that the outstanding external debt represents 53.49 percent of the total amount of export earnings and remittance in FY 2015-16, whereas this ratio was 48.68 percent in FY 2014-15. In addition, total external debt-service payment represents 4.62 percent of total revenue earned and 2.15 percent of the total amount of export earnings and remittance in FY 2015-16.

Increasing allocation for non-development expenditure due to high debt-service payments every year does not allow the government to allocate adequately for Annual Development Programme (ADP), resulting in barrier to the expansion of productive capacity in the economy, says the think tank.

The research organisation shows that while the rate of growth in non-development expenditure has stood at nearly 17 percent in the budget of FY 2016-17 compared to the budget of previous fiscal year, the rate of growth in development expenditure stood at 14 percent in the budget of FY 2016-17 compared to that of FY 2014-15.

In financing increased deficit, the target of government borrowing in the budget of FY 2016-17 increases and amounts to Tk. 92337 crore, which was Tk. 80857 crore in the proposed budget and Tk. 82138 crore in the revised budget of FY 2015-16, finds the think tank.

Increasing government borrowing from domestic sources primarily through the sale of national saving certificate, i.e. Tk. 41100.57 crore during July-January period of FY 2016-17 which is 46.3 percent higher than that in the corresponding period of the FY 2015-16, reflects sluggish demand for investible funds in the private sector resulting in stagnant investment in the sector, comments the research organization.

In order to effectively deal with the ominous effects of debt and deficit, the UO urges for the adoption of a prudent debt management policy that harmonizing with the macroeconomic policies will ensure growth-enhancing fiscal management in the economy.