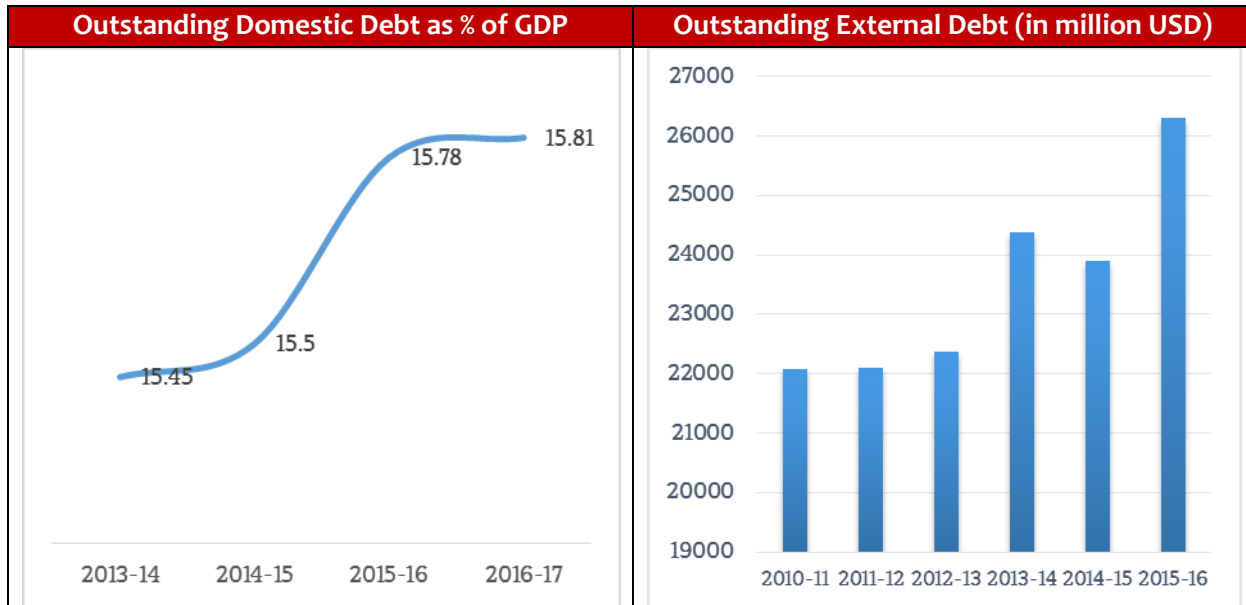


Bangladesh Economic Update
Debt and Deficit: Trends and Challenges
 September, 2017



Source: Unnayan Onneshan, *Debt and Deficit: Trends and Challenges*, Bangladesh Economic Update, Volume 8, No. 9, September 2017.

The Unnayan Onneshan (UO), an independent multidisciplinary think-tank, in its monthly publication of the ‘Bangladesh Economic Update’ September 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 2016-17, the total outstanding domestic debt has increased by 13.25 percent. According to the most recent data, the total outstanding external debt burden increased by 10.1 percent at the end of FY 2015-16. On the other hand, rate of growth in net foreign aid decreased to 2.10 percent in FY 2016-17 from 17.54 percent in FY 2015-16.

The think tank finds that the debt-gross domestic product (GDP) ratio is on the rise since FY 2013-14. Referring to the recent data published by the central bank, the UO states that the outstanding domestic debt as percentage of GDP was 15.45 percent in FY 2013-14, 15.50 percent in FY 2014-15, and 15.78 percent in FY 2015-16, and 15.83 percent in FY 2016-17.

Of late, the government has been borrowing more from the non-banking sources than the banking system, primarily by selling national savings directorate (NSD) certificates at a significantly higher interest rate. Higher domestic borrowing by the government through NSD certificates reflects sluggish demand for investible funds in the private sector, comments the research organization.

The outstanding domestic debt stood at Tk. 309682.37 crore at the end of June 2017 compared to Tk. 273461.37 crore in the corresponding period of the previous fiscal year. Analysing the increasing trend in outstanding domestic debt over the last eight years, the UO, however, finds that the amount of outstanding domestic debt has become 2.65 times higher in FY 2016-17 than the outstanding domestic debt of Tk. 116823.84 crore in FY 2009-10.

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.

Referring to the declining rate of growth in foreign aid disbursement, the research organization evinces that total foreign aid grew by only 2.36 percent in FY 2016-17 compared to 11.21 percent in FY 2015-16. With 3.15 percent increase in principle repayment, net foreign aid grew by 2.1 percent in FY 2016-17 compared to 17.54 percent in FY 2015-16.

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, resulting in barrier to the expansion of productive capacity in the economy, says the think tank.

Despite increasing outstanding external debt, the government targets to borrow Tk. 55313 crore from external sources during FY 2017-18, whereas the target of government borrowing from external sources was Tk. 31587 crore in the revised budget of FY 2016-17, finds the think tank.

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.