



Bangladesh Economic Update

Debt & Deficit

August 2011



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1. INTRODUCTION

Public debt and debt sustainability have been a concern of both fiscal and monetary policies in Bangladesh. The ever-rising public debt has been exerting a serious pressure on the macro-economic stability of the country. It puts an upward pressure on real interest rate crowding private investment out. It increases demand for servicing debt payment, reducing the government capacity for public investment. The social sector spending becomes prime causality.

In FY 2010-11, per capita debt burden has stood at USD 163 that is 22.99 percent of per capita GDP

The per capita debt burden is also on the rise over the years. The per capita debt burden in FY 2010-11 in Bangladesh has increased by 8.41 percent than that of FY 2009-10 (USD 151). In FY 2010-11, per capita debt burden has stood at USD 163 that is 22.99 percent of per capita GDP and it might increase to USD 171.83 in FY 2014-15, an increase by 5.42 percent.

Total debt of Bangladesh in FY 2010-11 amounts USD 23,322.417 million that is 22.21 percent of GDP.

Total debt of Bangladesh in FY 2010-11 amounts USD 23,322.417 million that is 22.21 percent of GDP. Total domestic debt in FY2010-11 is USD 1,974.97 million that is 1.88 percent of GDP. Total domestic borrowing as percentage of GDP remains 1.5 to 3.0 percent of GDP over the last ten years. In FY 2010-11, total external debt of Bangladesh amounts USD 21,347.44 million that is 20.24 percent of GDP. The government may have to borrow Tk. 17,755.76 crore from domestic sources and USD 23,475.68 million as external debt in FY 2014-15.

The government borrowing from banking sector in FY 2010-11 was 1.43 percent of GDP while it was 0.45 percent from non-banking sectors.

There are two sources of deficit financing: internal and external debt. The government has become more dependent on banking sectors other than non-banking ones for domestic financing over the time. In FY 2010-11, government has borrowed 4.43 times higher from banking sectors in comparison to that of FY 2001-02 indicating a sharp crowding out effect which has dampened private investments. The government borrowing from banking sector in FY 2010-11 was 1.43 percent of GDP while it was 0.45 percent from non-banking sectors.

Each year a major portion of its budget expenditure gets expanded on interest payment. It is seen that in FY 2006-07, 11 percent of the total development and non-development

In FY 2010-11, the allocation for social safety net programmes was only 2.64 percent of GDP.

expenditure has been paid on interest payment while payment on social security and welfare was only 4.9 percent. In FY 2009-10, the interest payment has risen to 13.9 percent while social security and welfare was only 7.3 percent. In FY 2010-11, the allocation for social safety net programmes was 2.64 percent of GDP while it is estimated at only 2.51 percent of GDP in the current fiscal year 2011-12.

In FY 2011-12, the overall budget deficit is estimated at Tk. 45,204 crore which is 5 percent of GDP and is 0.6 percent higher than that of the previous year.

The amount government has to pay per year as principal and interest of debt mainly creates deficit. For huge payment of principal and interest of debt, the government has been imposing regressive tax like vat and has to reduce allocation in social safety-net programmes which adversely affect the economy of the country. During FY 2011-12, the total revenue collection of the government is estimated at Tk. 1,18,385 crore with the tax collection of Tk. 91,870 crore from NBR that is about 21.52 percent higher than that of the previous fiscal year. The revenue expenditure in FY 2011-12 is estimated at Tk. 1,63,589 crore; Tk. 46,000 crore for development sectors and Tk. 1,02,903 crore for non-development sectors. Accordingly, in FY 2011-12, the overall budget deficit is estimated at Tk. 45,204 crore which is 5 percent of GDP and is 0.6 percent higher than that of the previous year.

The ratio of government revenue and GDP might be 12.20 in FY 2011-12 which might increase to 12.58 in FY 2014-15.

Government expenditure is increasing gradually than revenue receipts in recent years partly due to adjustment to inflationary pressure and may keep on increasing further in the forthcoming years, creating more budgetary deficit. Under the business as usual scenario, the ratio of government revenue and GDP might be 12.20 in FY 2011-12 which might increase to 12.58 in FY 2014-15. Such increase could have been a welcoming step, if invested for enhancing productive capacity and social development. As government expenditure is following a continuous upward trend than that of revenue receipt, the ratio of government expenditure and GDP may reach to 15.46 In FY 2014-15.

For FY 2011-12, the government has fixed to spend 15.5 percent of the total non-development as interest payment.

The largest sector of government expenditure, combining both development and non-development expenditure, is interest payment, which is also the single largest sector of non-development expenditure. In FY 2009-10, 19.2 percent of total non-development expenditure has been spent for interest payment. For FY 2011-12, the government has fixed to spend 15.5 percent of the total non-development as interest payment.

The debt-GDP ratio in FY 2010-11 has remained at 41 percent.

Debt sustainability is an essential condition for macroeconomic stability and sustainable economic growth. However, debt condition of Bangladesh is not sustainable because this country has more urgent needs than to make external debt service payments. The debt-GDP ratio in FY 2010-11 has remained at 41 percent. Total debt-GDP ratio in Bangladesh, on average, rose sharply from 33.65 percent during the 1970s to 56.95 percent during the 1980s. Over the last ten years, the debt-GDP ratio has stayed above 40 percent that reflects the high debt burden for Bangladesh.

Budget deficit and its financing in Bangladesh, like in many other developing countries, is very important parameters for analyzing monetary and the fiscal effects on the country's overall economic development. The government is indebted for debt servicing and deficit financing and the rate is rising swiftly. Taking debt from domestic sources is hindering private investments. Again, for external debt, foreign reserve is declining due to principal and interest payment. The dual effect is mainly responsible for devaluation of currency which in turn increases import bills and further induces debt to meet rising deficit.

Total national savings and investment share as percentage of GDP might be 30.58 and 25.45 percent respectively in FY 2014-15.

The national budget for FY 2011-12 has targeted a growth rate of 7 percent which requires about 30 to 35 percent investment share in GDP while in FY 2010-11 the rate has remained at 24.7 percent. The difference between savings and investment may rise in the upcoming years due to increasing debt scenario. If the current trend continues, total national savings and investment share as percentage of GDP might be 30.58 and 25.45 percent respectively in FY 2014-15. Gap between national savings and investment might increase to 5.13 percent which has remained at 3.7 percent in FY 2010-11. In addition, the ratio of external debt and investment in the same fiscal year has been 81.86 percent which clearly depicts the demand for excessive debt than investment.

Money supply (M1 and M2) has increased to 17.18 and 21.34 percent respectively in June 2011 than that of June 2010.

Deficit financing, money supply and inflation are interlinked. The government has to ensure adequate money supply which in turn increases further inflation. On the other hand, government debt from banking sector is hindering private investment. The outcome is lesser actual production than potential production and more inflation. Consequently, the rate of inflation (12 month average) has increased from 7.31 percent in FY 2009-10 to 8.8 percent in FY 2010-11. In addition, money supply (M1 and M2) has increased to 17.18 and 21.34 percent respectively in June 2011 than that of June 2010.

Trade deficit might reach to Tk. 477.74 billion in FY 2014-15.

Trade balance is facing adverse impact due to rising deficit, principal and interest payment, pressure on foreign reserve, rising import bills and devaluation of currency. In FY 2010-11, deficit between export and import has reached to Tk. 391.7 billion. If the current trend of the economy prevails, trade deficit might reach to Tk. 477.74 billion while the import and export might reach to Tk. 1,910.7 and 1,432.96 billion respectively in FY 2014-15.

Such economic condition hits the marginalized people of the country most. The practices of the government for adjusting excessive debt adversely affect the marginalized. The reduction in public investment due to servicing debt squeezes social security system. The eventual result is decrease in the real income of people that reduces purchasing power and increases level of poverty.

2. PER CAPITA DEBT BURDEN

Per capita debt burden in Bangladesh in FY 2010-11 is USD 163 and in FY 2014-15 it might increase to USD 171.83.

The Unnayan Onneshan analysis illustrates that per capita debt burden in Bangladesh in FY 2010-11 is USD 163 and in FY 2014-15 it might increase to USD 171.83. Per capita debt burden is the sum of per head domestic debt as well as per head external debt. In FY 2014-15, the per capita domestic and outstanding debt might be USD 15.79 and USD 156.03 respectively against per capita domestic debt of USD 13.87 and outstanding external debt of USD 149.99 in FY 2010-11.

Table 1: Per capita debt in FY 2010-11 and FY 2014-15*

Fiscal Year	Domestic debt (In million USD)	Outstanding External debt (In million USD)	Total debt (In million USD)	Per head debt burden	
				USD	Taka
2010-11	1974.97	21347.44	23322.47	163.87	12241.38
2014-15*	2376.94	23475.68	25852.62	171.83	13717.61

Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS), Bangladesh Economic Review 2011, Bangladesh Bank

Table 2: Per capita domestic and outstanding external debt burden in FY 2010-11 and FY 2014-15*

Fiscal Year	Per head domestic debt		Per head outstanding external debt	
	(In USD)	(In Taka)	(In USD)	(In Taka)
2010-11	13.87	1036	149.99	11204.77
2014-15*	15.79	1261.22	156.03	12456.38

Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS), Bangladesh Economic Review 2011, Bangladesh Bank

Debt burden ratio might increase further in FY 2014-15 to outstanding external debt of BDT 100 against domestic debt of BDT 10.1.

In FY 2010-11, domestic and outstanding external debt burden ratio is 0.092:1 which means that against the outstanding external debt of BDT 100, domestic debt is Tk. 9.2. Under the business as usual scenario, if other variables remains constant, the debt burden ratio might increase further in FY 2014-15 to outstanding external debt of BDT 100 against domestic debt of BDT 10.1. The ratio indicates that currently the government of Bangladesh is highly dependent on external debts and in forthcoming years, domestic debt burden might increase further.

Table 3: Domestic and outstanding external debt burden ratio

Year	Domestic and outstanding external debt burden ratio
2010-11	0.092:1
2014-15*	0.101:1

Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS), Bangladesh Economic Review 2011, Bangladesh Bank

3. INCREASING DEFICIT AND DEBT OVER TIME

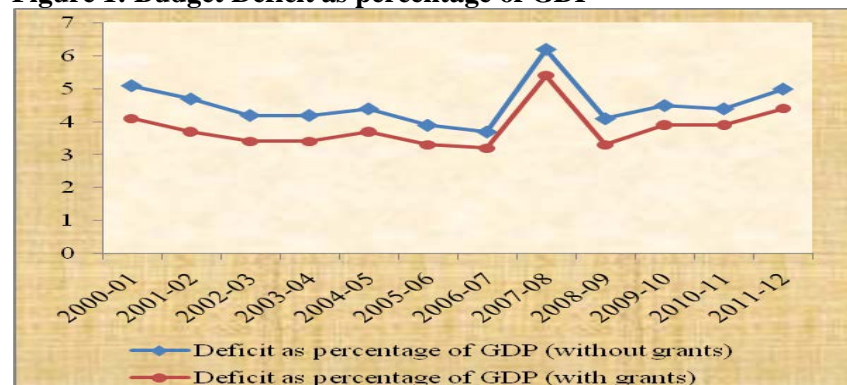
Debt burden is increasing sharply over time due to increase in the budget deficit. The deficit of budget mainly occurs for the payment of interest, principal of debt burden and the subsidy which are mainly given to non-productive sectors.

3.1 Budget Deficit

During the FY 2011-12, the total revenue collection of the government is estimated at Tk. 1,18,385 crore against Tk. 95,187 crore in revised budget of FY 2010-11. The tax collection from NBR is estimated for FY 2011-12 is Tk. 91,870 crore which was Tk. 75,600 crore in FY 2010-11 that is about 21.52 percent higher than that of the previous fiscal year. The revenue expenditure in FY 2011-12 is estimated at Tk. 1,63,589 crore. In FY 2011-12, the total expenditure for development sectors is estimated at Tk. 46,000 crore and Tk. 1,02,903 crore for non-development sectors.

During the FY 2011-12, the total revenue collection of the government is estimated at Tk. 1,18,385 crore.

Figure 1: Budget Deficit as percentage of GDP



Source: Bangladesh Economic Review 2011

In FY 2011-12, the overall budget deficit is estimated at Tk. 45,204 crore which is 5 percent of GDP.

The government revenue and GDP ratio might be around 12.60 in the upcoming years and in FY 2014-15, it might reach to 12.58.

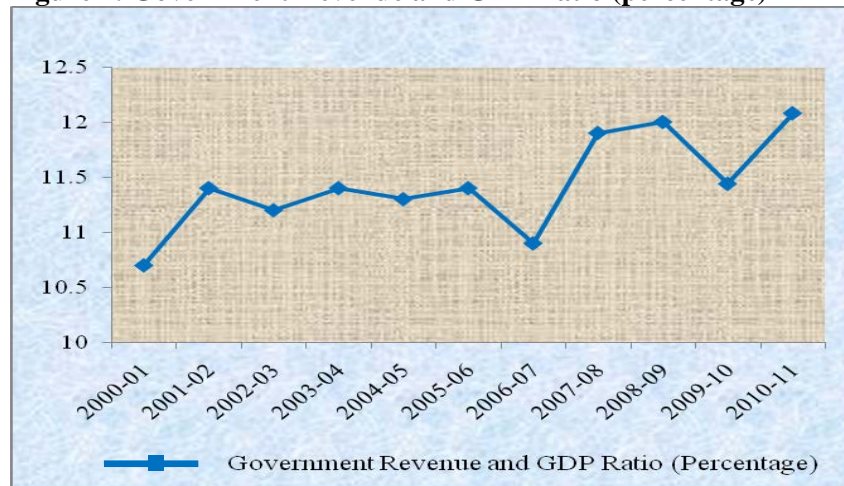
Accordingly, in FY 2011-12, the overall budget deficit is estimated at Tk. 45,204 crore which is 5 percent of GDP and is 0.6 percent higher than that of the previous year. In FY 2007-08, it has reached at the peak but after that deficit has turned around to five percent.

One of the prime tasks of the fiscal policy of the government is to continue endeavouring for narrowing the gap between expenditure and income in order to offset the budget deficit or to maintain it at a tolerable level. Over the past few years, the overall budget deficit registers an increasing trend that puts serious pressures on the total debt of the country.

3.2 Government Revenue and GDP Ratio

If the current trend continues, the government revenue and GDP ratio might be around 12.60 in the upcoming years and in FY 2014-15, it might reach to 12.58. The government revenue and GDP ratio (percentage) is increasing to some extent over the time and stays between 10 to 12 percent. In FY 2000-01, the government revenue and GDP ratio was 10.7 which increased to 12.08 in FY 2005-06. It indicates that the government revenue earning in terms of GDP will slightly be increasing in future vis-a-vis the increasing deficits and debts.

Figure 2: Government Revenue and GDP Ratio (percentage)



Source: Bangladesh Bureau of Statistics (BBS)

Table 4: Government Revenue and GDP Ratio (percentage) in upcoming years

Fiscal Year	Government Revenue-GDP Ratio (percentage)
2011-12*	12.20
2012-13*	12.33
2013-14*	12.45
2014-15*	12.58

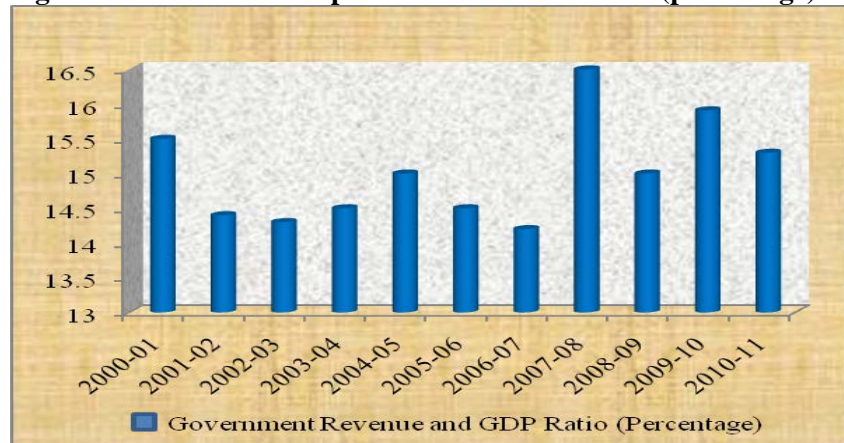
Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS)

3.3 Government Expenditure and GDP Ratio

In FY 2012-13, the government expenditure and GDP ratio might be 15.38 and it might reach to 15.46 in FY 2014-15.

In FY 2012-13, the government expenditure and GDP ratio might be 15.38 and it might reach to 15.46 in FY 2014-15, if the current trend prevails. However, in FY 2000-01, the government expenditure and GDP ratio was 15.5 while in FY 2007-08 it has risen to 16.5. Government expenditure and GDP ratio stays between 14 to 17 percent of its GDP earnings over the years. Government expenditure and GDP ratio (in percent) is much higher than that of the government revenue and GDP ratio that keeps on increasing the deficit in successive years. Combining the government revenue and GDP ratio and government expenditure and GDP ratio, it is seen that over the time the trend of deficits might increase and it might stay around four to five percent of GDP earnings.

Figure 3: Government Expenditure and GDP Ratio (percentage)



Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS)

Table 5: Government Expenditure and GDP Ratio (percentage) in upcoming years

Fiscal Year	Government expenditure-GDP ratio (percentage)
2011-12*	15.34
2012-13*	15.38
2013-14*	15.42
2014-15*	15.46

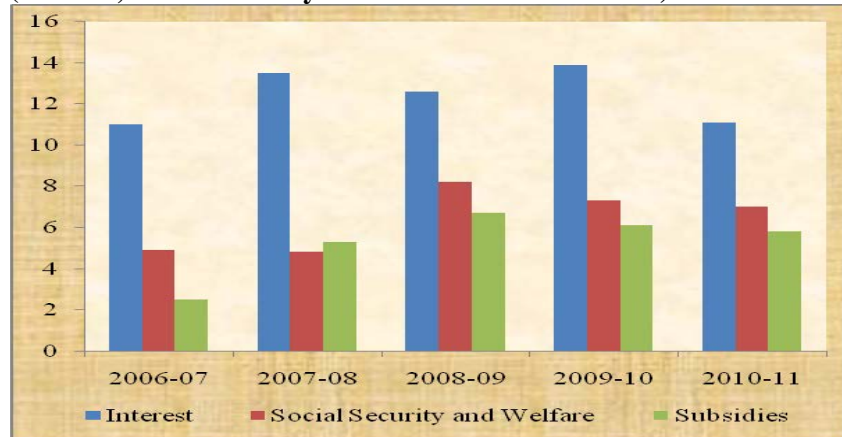
Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS)

3.4 Development and Non-development Expenditure

Each year the government has to borrow from domestic and external sources to cover the budget deficit, and each year a major portion of its budget expenditure gets expanded on interest payment. It is seen that in FY 2006-07, 11 percent of the total development and non-development expenditure has been paid on interest payment while payment on social security and welfare was only 4.9 percent and payment on subsidies was 2.5 percent.

Over the time, the portions of this expenditure are increasing. In FY 2009-10, the interest payment has risen to 13.9 percent while social security and welfare and subsidies were 7.3 and 6.1 percent respectively.

Figure 4: Development and Non-development Expenditure (Interest, Social Security and Welfare and Subsidies)

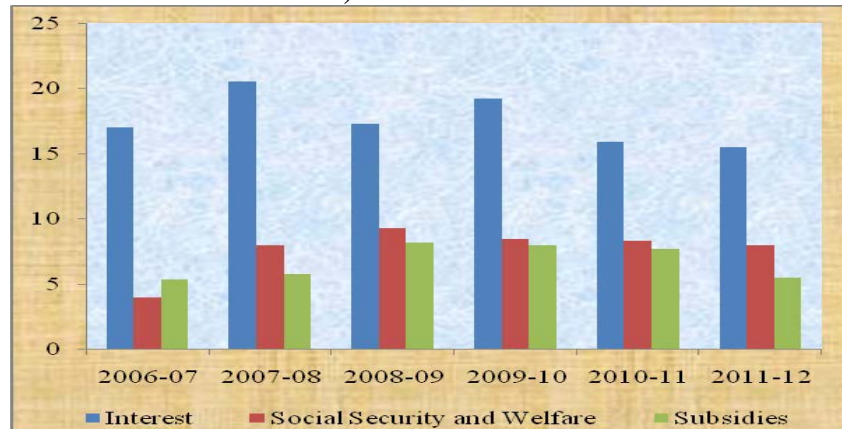


Source: Bangladesh Bureau of Statistics (BBS)

3.5 Non-development Expenditure

In case of non-development expenditure, usually the highest allocation goes to interest payment. It is seen that in FY 2006-07, the interest payment has been 17 percent of its total non-development expenditure while social security and welfare and subsidies have got an allocation of only four and 5.4 percent of its non-development expenditure respectively. In FY 2009-10, a record 19.2 percent of total non-development expenditure has been allocated as interest payment while social security and welfare and subsidies jointly have got an allocation of 16.5 percent of total non-development expenditure.

Figure 5: Non-development Expenditure (Interest, Social Security and Welfare and Subsidies)



Source: Bangladesh Bureau of Statistics (BBS)

In FY 2011-12, the interest payment has been estimated at 15.5 percent of total non-development expenditure.

In FY 2011-12, the interest payment has been estimated at 15.5 percent of total non-development expenditure, while the share of social security and welfare and subsidies has been reduced and estimated at eight and 5.5 percent of total non-development expenditure respectively.

4. SOURCES OF DEFICIT FINANCING

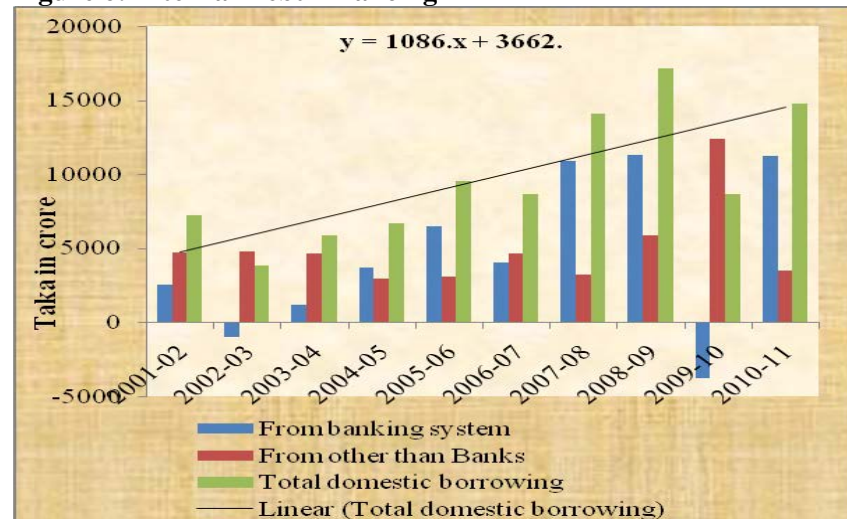
Economic theory tells that if debt financing is inflationary when met by borrowing from central bank whereas there is a possibility of crowding out of private sector investment if the borrowing conducted from the commercial ones. Again, if it is met by issuing bonds, the cost of debt financing will be higher. Hence debt financing and the method of its management are important issues. In general, deficit financing is met by expanding monetary base. Debt financing by issuing bond is less popular than the money creation.

4.1 Internal Debt

In FY 2010-11, the government has borrowed 4.43 times higher from banking sectors (BDT 11,240.5 crore) in comparison to that of FY 2001-02.

The government mainly borrows both from the Bangladesh Bank and the commercial ones. In FY 2010-11, the government has borrowed 4.43 times higher from banking sectors (BDT 11,240.5 crore) in comparison to that of FY 2001-02 indicating a sharp crowding out effect which has dampen private investments. In FY 2001-02, government has borrowed an amount of Tk. 2,534.9 crore from banking sector whereas Tk. 4,711.47 crore has been borrowed from non-banking sectors. The government has become more dependent on banking sectors other than non-banking ones for domestic financing over the time (Figure 6).

Figure 6: Internal Debt Financing



Source: Bangladesh Bank

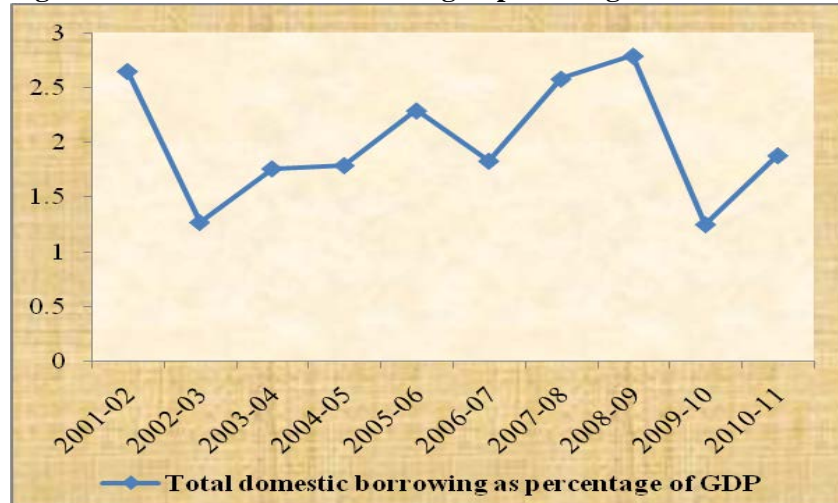
In FY 2010-11, the government borrowing from banking sector is 1.43 percent of GDP while it is 0.45 percent from non-banking sectors.

The borrowing from banks as percentage of GDP has been increasing over the time. In FY 2010-11, the government borrowing from banking sector is 1.43 percent of GDP while it is 0.45 percent from non-banking sectors. However, in FY 2001-02, the government borrowing from banking sector amounts 0.93 percent of GDP while from non-banking sector it totals 1.72 percent.

In FY 2001-02, total domestic debt as percentage of GDP was 2.65 percent while in FY2010-11, it became 1.88 percent. Total domestic borrowing as percentage of GDP remains 1.5 to 3.0 percent of GDP over the last ten years.

In FY 2001-02, total domestic debt as percentage of GDP was 2.65 percent while in FY2010-11, it became 1.88 percent. Total domestic borrowing as percentage of GDP remains 1.5 to 3.0 percent of GDP over the last ten years.

Figure 7: Total domestic borrowing as percentage of GDP



Source: Bangladesh Bank

In FY 2013-14, the government may have to borrow Tk. 16,254.42 crore from domestic sources.

Continuation of current trend will result into an increasing movement in domestic debt. In FY 2013-14, the government may have to borrow Tk. 16,254.42 crore from domestic sources while it might increase to Tk. 17,755.76 crore in FY 2014-15.

Table 6: Future Domestic Borrowing

Fiscal year	Total Domestic Borrowing (in crore taka)
2011-12*	15503.751
2012-13*	16254.421
2013-14*	17005.09
2014-15*	17755.761

Source: Authors' calculation based on Bangladesh Bank

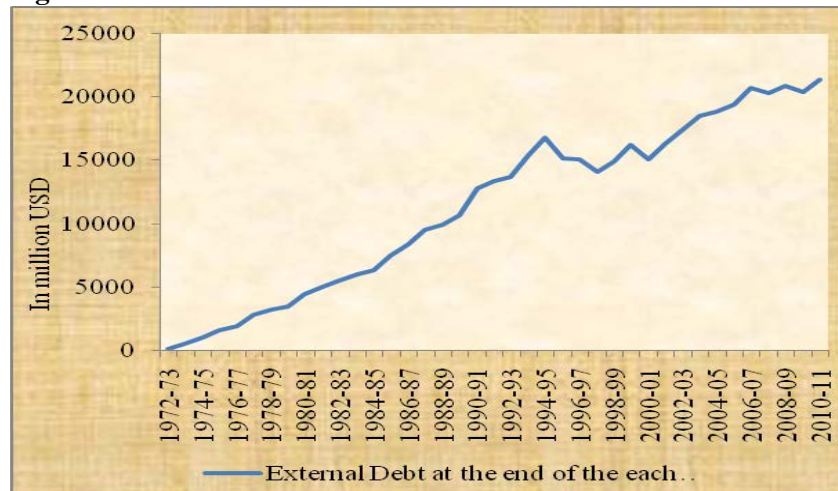
Total external debt in FY 2010-11 amounts to USD 21,347.44 million.

4.2 External Debt

Total external debt in FY 2010-11 amounts to USD 21,347.44 million while in FY 1972-73 it was only USD 65 million. Over the time the amount of external debt has been increasing at a

higher rate and therefore in FY 1989-90, the amount has reached to USD 1,069 million, incurring a growth of additional USD 55 million each year.

Figure 8: External Debt scenario



Source: ERD, Ministry of Finance

In FY 2014-15, the amount of external debt might amount USD 23,475.68 million.

If the current trend continues, there might be an increasing trend of external debt in forthcoming years. In FY 2012-13 and FY 2014-15, the amount of external debt might amount USD 22,411.56 million and USD 23,475.68 million respectively.

Table 7: Future External Debt (in million USD)

Fiscal year	External Debt Outstanding at the end of the each fiscal year (in million USD)
2011-12*	21879.5
2012-13*	22411.56
2013-14*	22943.62
2014-15*	23475.68

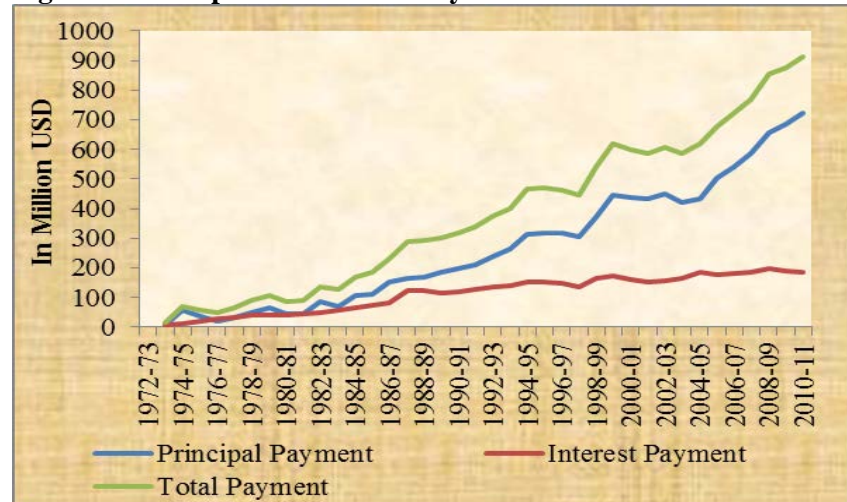
Source: Authors' calculation based on ERD, Ministry of Finance

4.3 Payments

The principal and interest payment in FY 2010-11 are 724.9 million and USD 186.42 million respectively, a total payment of USD 911.32 million. In FY 1973-74, the principal and interest payment were USD nine million each. The both principal and interest payment have risen at a much higher rate during the 90s. In FY 2001-02, the principal and interest payments were USD 435 million and USD 151 million respectively, a total payment of USD 586 million.

The principal and interest payment in FY 2010-11 are 724.9 million and USD 186.42 million respectively, a total payment of USD 911.32 million.

Figure 9: Principal and Interest Payment



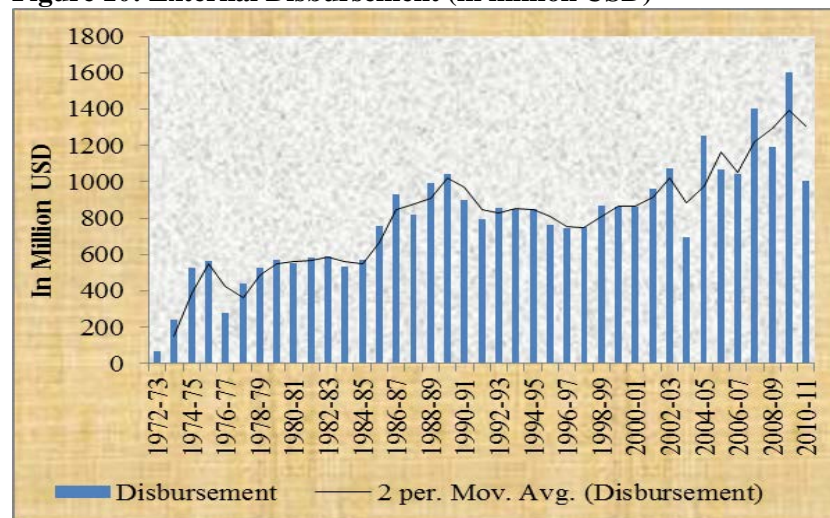
Source: ERD, Ministry of Finance

External disbursement in FY 2010-11 is USD 1,005 million that is 9.53 percent of GDP.

4.4 Disbursement

External disbursement in FY 2010-11 is USD 1,005 million that is 9.53 percent of GDP. In FY 1972-73, the disbursement was only USD 65 million whereas in FY 1990-91 it was USD 901 million. Moreover, in FY 2009-10, it has risen to USD 1,604 million that is 78 percent higher than that of FY 1990-91.

Figure 10: External Disbursement (in million USD)



Source: Economic Relation Division (ERD), Ministry of Finance

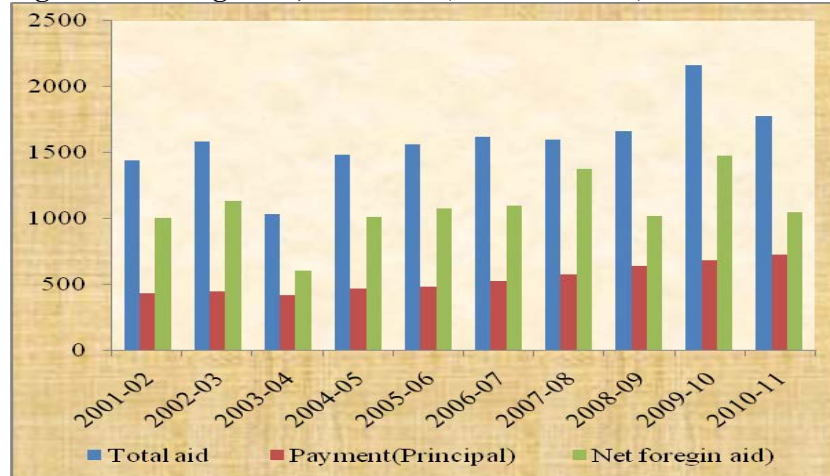
In FY 2010-11, total foreign aid amounts USD 1,777.33 million, principal payment totals USD 727.54 million and net foreign aid of USD 1,049.79 million.

4.5 Foreign Aid

In FY 2010-11, total foreign aid amounts USD 1,777.33 million, principal payment totals USD 727.54 million and net foreign aid of USD 1,049.79 million. In the last ten years, there is not much volatility in net foreign aid. Though total aid has been increasing over the time and in the meantime payment of principal has also

been increasing, made a lesser net foreign aid. In FY 2001-02, total foreign aid was USD 1,142.23 million and principal payment was USD 435.3 million which made the net foreign aid USD 1,006.93 million.

Figure 11: Foreign Aid, Year wise (in million USD)



Source: Economic Relation Division (ERD), Ministry of Finance

Net foreign financing during July-December of FY 2010-11 decreased in comparison to the corresponding period of previous year. The amount of both foreign grant and aid decreased due to lower utilization of projects development fund.

5. DEBT SUSTAINABILITY

Debt sustainability is an essential condition for macroeconomic stability and sustainable economic growth. Debt sustainability is whether a country can meet its current and future debt service obligations in full, without recourse to debt relief, rescheduling or accumulation of arrears. Debt sustainability has been considered as the ratio of debt service payments to export earnings or GDP.

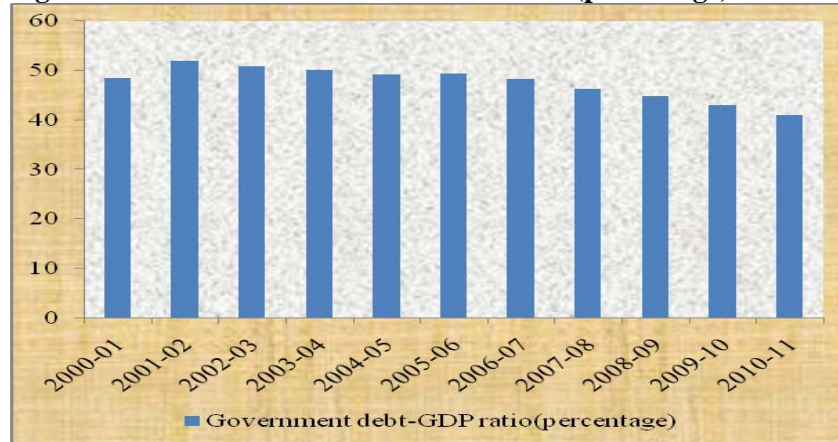
In addition to the different approaches, there are two main criteria to assess debt sustainability. First criterion is to look at the external sustainability of a country's debt and the other is to look at the fiscal sustainability of a country's debt. The external criterion is supposed to compare a country's external debt or debt service to a country's exports. The fiscal criterion compares a country's public and publicly guaranteed debt or debt service to government revenues.

5.1 Debt and GDP Ratio

The debt-GDP ratio in FY 2010-11 is 41 percent against 48.5 percent in FY 2000-01.

The debt-GDP ratio in FY 2010-11 is 41 percent against 48.5 percent in FY 2000-01. In the wake of persistent high fiscal deficit in the 1970s and 1980s, total debt-GDP ratio in Bangladesh, on average, rose sharply from 33.65 percent during the 1970s to 56.95 percent during the 1980s. Over the last ten years, the debt-GDP ratio has stayed above 40 percent that reflects the high debt burden for Bangladesh.

Figure 12: Government debt and GDP Ratio (percentage)



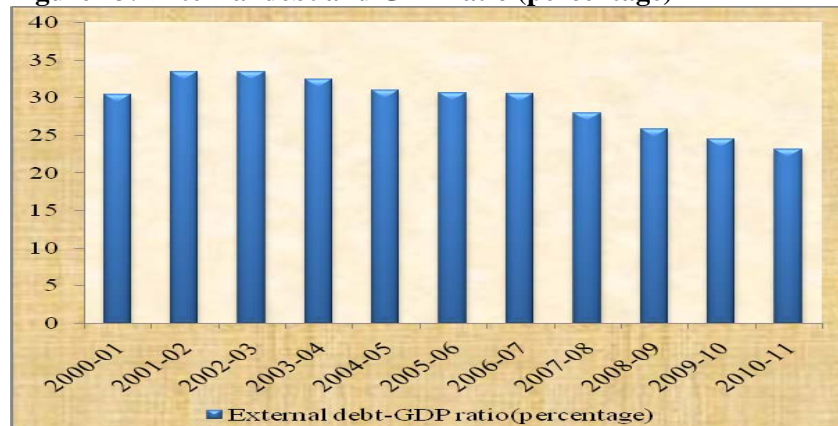
Source: Bangladesh Bureau of Statistics (BBS)

5.2 External Debt and GDP Ratio

In FY2010-11, the external debt and GDP ratio has remained at 23.1 against 30.4 in FY 2000-01.

In FY2010-11, the external debt and GDP ratio has remained at 23.1 against 30.4 in FY 2000-01. The trend in external debt and GDP ratio between FY 2000-01 and FY 2010-11 indicates that the external debt and GDP ratio has declined over time. It may be noted that external debt obligation of Bangladesh comprises mainly of public sector debt, whereas the share of private sector borrowing is negligible. It seems that external debt-GDP ratio is still high.

Figure 13: External debt and GDP ratio (percentage)



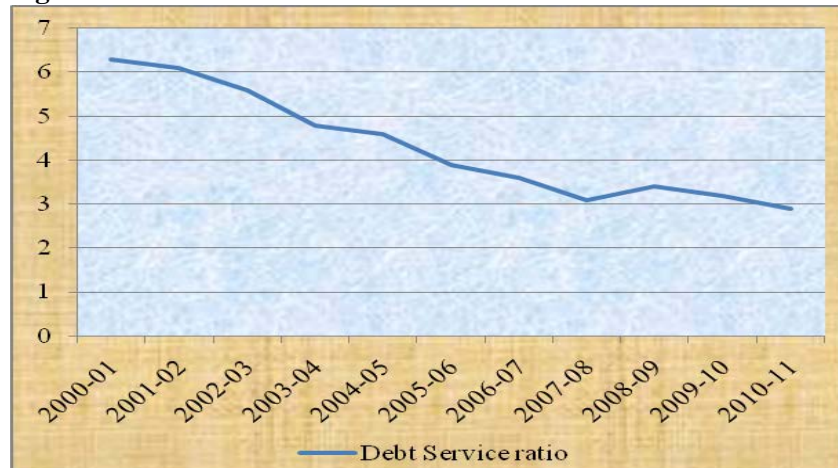
Source: Bangladesh Bureau of Statistics (BBS)

5.3 Debt Service Ratio

In FY 2010-11, the debt service ratio is 2.9.

The ratio of the sum of interest and current year repayment of principal to current account receipts is the debt service ratio. The debt service ratio is following a downward trend over the year. In FY 2000-01, the debt service ratio was 6.3 and declined to 3.6 in FY 2006-07, and in FY 2010-11, the debt service ratio is 2.9.

Figure 14: Trend of Debt Service Ratio

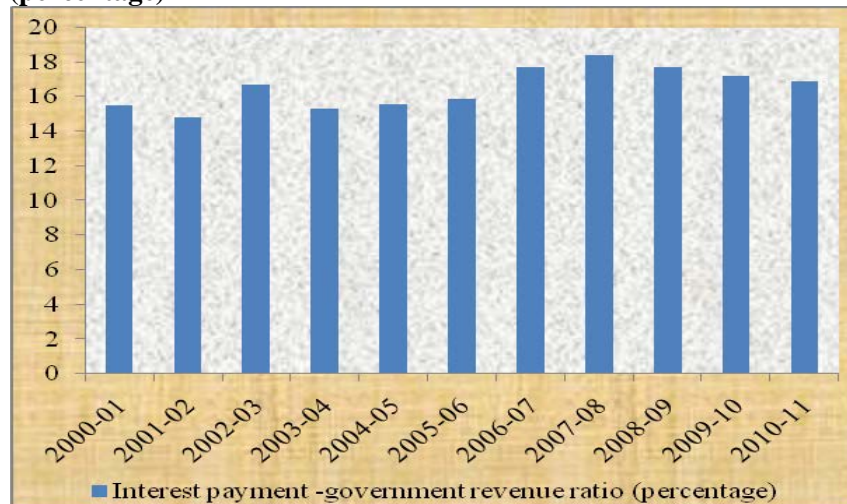


Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS)

5.4 Interest Payment and Government Revenue Ratio

The last ten years have witnessed an increasing trend of interest payment and government revenue ratio. An average of 15 percent of the government revenue has been spent as interest payment. In FY 2000-01, the interest payment and government revenue ratio was 15.5 while it has increased to 18.4 in FY 2007-08.

Figure 15: Interest payment and government revenue ratio (percentage)



Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS)

The interest payment and government revenue ratio in FY 2013-14 and in FY 2014-15 might be 17.84 and 18.16 respectively.

The UO projection shows that the interest payment and government revenue ratio in FY 2013-14 and in FY 2014-15 might be 17.84 and 18.16 respectively, if the current trend prevails.

Table 10: Interest payment and government revenue ratio (percentage)

Fiscal Year	Interest payment -government revenue ratio (percentage)
2011-12*	17.21
2012-13*	17.53
2013-14*	17.84
2014-15*	18.16

Source: Authors' calculation based on Bangladesh Bureau of Statistics (BBS)

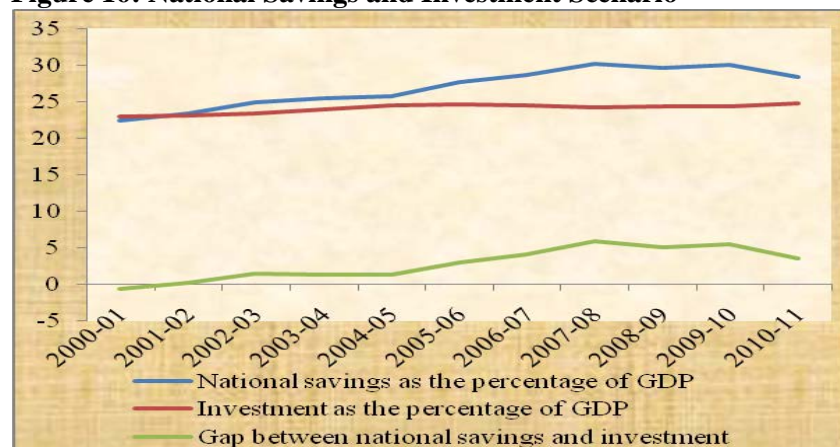
6. SAVINGS AND INVESTMENT

In FY 2014-15, the national savings might be 30.58 percent of GDP, investment 25.45 percent and gap between national savings and investment might be 5.13 percentage of GDP.

In FY 2014-15, the national savings might be 30.58 percent of GDP, investment 25.45 percent and gap between national savings and investment might be 5.13 percentage of GDP. The gap between national savings and investment as percentage of GDP increases over the time and makes a potential loss of output. The worrying factor in the saving investment scenario is the fact that gross national savings exceeded gross investment on a regular basis, particularly during the first half of the decade. This might indicate an existing shortfall of investment demand.

The budget for FY 2011-12 targeted a growth rate of 7 percent which requires about 30 to 35 percent investment share in GDP. Achieving this targeted rate of investment might be a challenge for the government as investment rate is around 25 percent. However, investment has traditionally been low in Bangladesh and is still far below than the required level.

Figure 16: National Savings and Investment Scenario



Source: Bangladesh Bureau of Statistics, Bangladesh Bank and Finance Division

Figure 11: Future Scenario of National Savings and Investment

Fiscal Year	National savings as the percentage of GDP	Investment as the percentage of GDP	Gap between national savings and investment
2011-12*	28.94	24.96	4
2012-13*	29.49	25.12	4.37
2013-14*	30	25.28	4.72
2014-15*	30.58	25.45	5.13

Source: Authors' calculation based on Bangladesh Bureau of Statistics, Bangladesh Bank and Finance Division

In FY 2000-01, external debt and investment ratio was 192.5 that have reduced to 81.86 in FY 2010-11.

6.1 External Debt and Investment Ratio

External debt and investment ratio is reducing over the year since FY 2000-01; however, the rate of reduction is very slow. In FY 2000-01, external debt and investment ratio was 192.5 that have reduced to 81.86 in FY 2010-11 but it is still very high. So the potential level of investment will be falling due to having a high level of external debt burden.

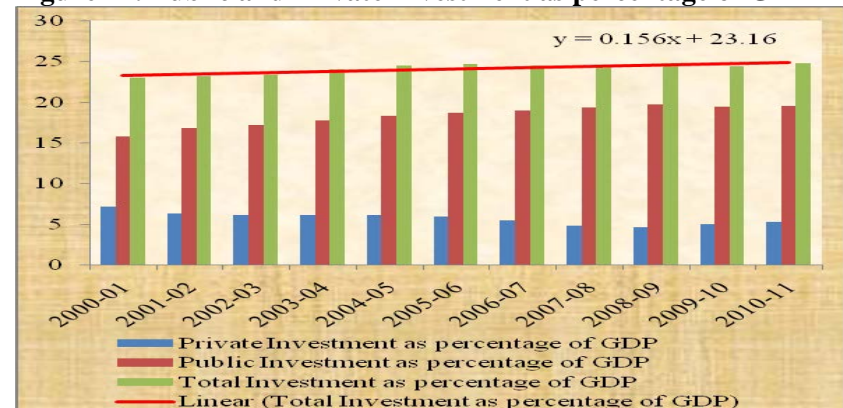
Table 12: External Debt and Investment Ratio (in percentage)

Fiscal Year	Ratio of External Debt and Investment in percentage
2000-01	192.35
2001-02	192.25
2002-03	184.87
2003-04	172.86
2004-05	154.27
2005-06	141.55
2006-07	133.85
2007-08	114.56
2008-09	103.98
2009-10	89.61
2010-11	81.86

Source: Authors' calculation based on Bangladesh Bureau of Statistics and ERD, Ministry of Finance

6.2 Public and Private Investment

Figure 17: Public and Private Investment as percentage of GDP

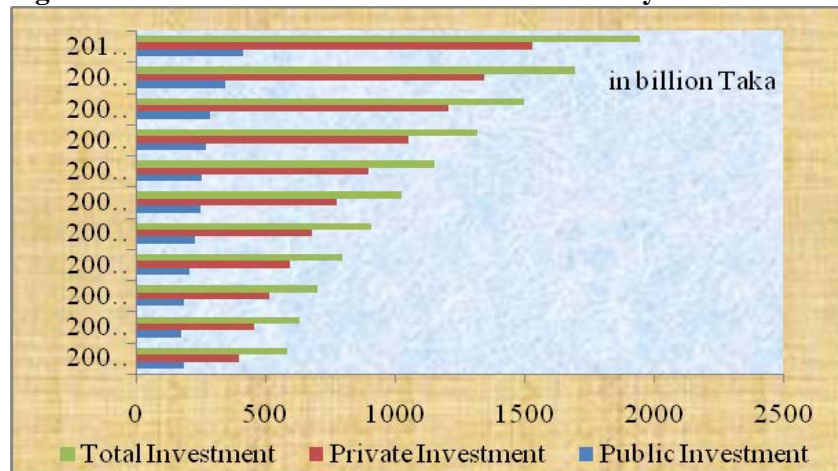


Source: Bangladesh Bureau of Statistics, Bangladesh Bank and Finance Division

In FY 2010-11, public investment totals Tk. 415.8 billion which is 5.3 percent of GDP and private investment amounts Tk. 1,532 billion which is 19.5 percent of GDP.

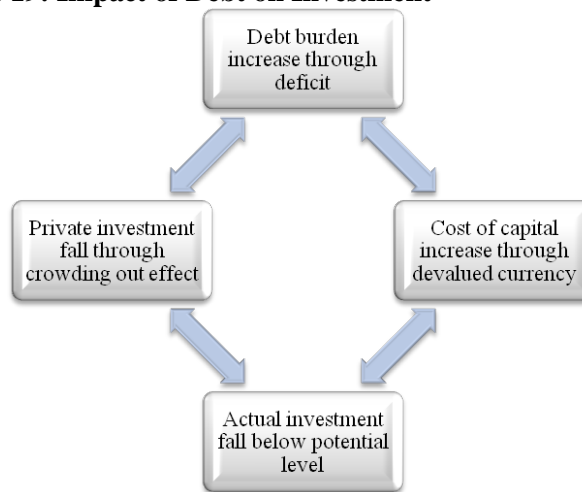
In FY 2010-11, public investment totals Tk. 415.8 billion which is 5.3 percent of GDP and private investment amounts Tk. 1,532 billion which is 19.5 percent of GDP. In this fiscal year, the total amount of investment is Tk. 1947.9 billion. However, in FY 2001-02, public investment was 7.2 percent of GDP (Tk. 183.8 billion) and private investment was 15.8 percent of GDP (Tk. 401.5 billion). The total amount of investment in FY 2001-02 was Tk. 585.5 billion.

Figure 18: Private and Public Investment over the year



Source: Accounts & Budgeting Department, Bangladesh Bank

Figure 19: Impact of Debt on Investment

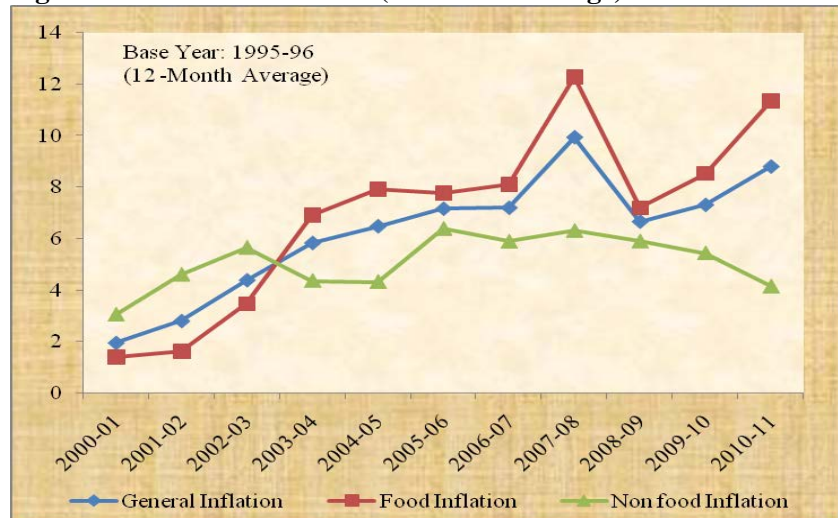


7. INFLATION RATE

Inflation is not always evident everywhere as a monetary phenomenon but is dependent on fiscal policy actions related to financing, domestic public debt creation and other means of borrowing by government and the level of total revenue

generated at any period. Sometimes the public debt is financed through money creation which directly causes inflation. There is always crowding out when the government finances through open market operation that brings about the investment to fall. As a result, actual output will be less than the potential level. The positive relationship between total deficit financing, money supply and inflation imply that total deficit financing and money supply have been contributing factors to the upward variations in the CPI over the years.

Figure 20: Inflation Scenario (12-month average)



Source: Bangladesh Bureau of Statistics (BBS) and Bangladesh Bank

Inflation rate maintained an upward trend and reached to 8.8 percent in FY 2010-11 from 7.31 percent in FY 2009-10. It is seen that food inflation is rising more than non-food inflation.

8. MONEY SUPPLY

Table 13: Changes in Money Supply over the time

Components	(Taka in millions)					
	June, 2011	June, 2010	June, 2009	Percentage Changes of June 2011 over		
				June 2010	June 2009	
					Percentage Changes of June 2010 over June 2009	
Money Supply (M1)	10,31,011	8,79,884	6,64,268	17.18	55.21	32.45
Money Supply (M2)	44,05,200	36,30,312	29,64,998	21.34	48.57	22.43

Source: Author's calculation based on Statistics Department of Bangladesh Bank

The percentage change of M1 of June 2011 over June 2010 is 17.18 percent and percentage change in M2 is 21.34 percent over the same time period.

The deficit financing from banking sector is obviously indicating an increase in the money supply. The percentage change of M1 of June 2011 over June 2010 is 17.18 percent and percentage change in M2 is 21.34 percent over the same time period. The high trend of growth of M1 and M2 creates the inflationary pressure directly.

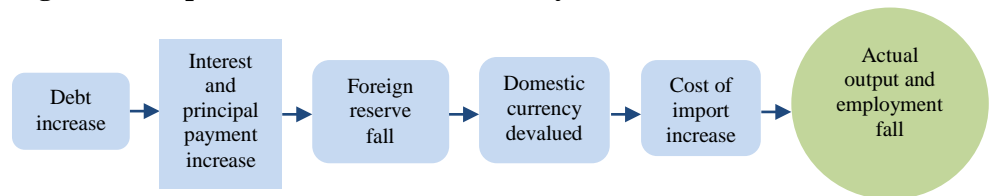
From June 2010 to June 2011, the percentage change in M1 and M2 are 17.18 and 21.34 respectively against 19.12 and 17.59 percent from June 2009 to June 2010. The domestic debt financing increases the amount of M1 and M2 which directly influence to increase the price level.

9. BALANCE OF PAYMENTS

The growth rates in both import and export during July-December in the fiscal year 2010-11 has increased. Recent high growth of import has created extra pressures on the balances of the current account and foreign currency reserve.

First, during the years prior to the global economic crisis of FY 2008-09, Bangladesh attained healthy rate of growth of exports. However, there was a sharper decline in the growth of exports in FY 2008-09; and the rate of growth was negative for the first time in FY 2009-10 since FY 2001-02 when the US economy suffered a recession.

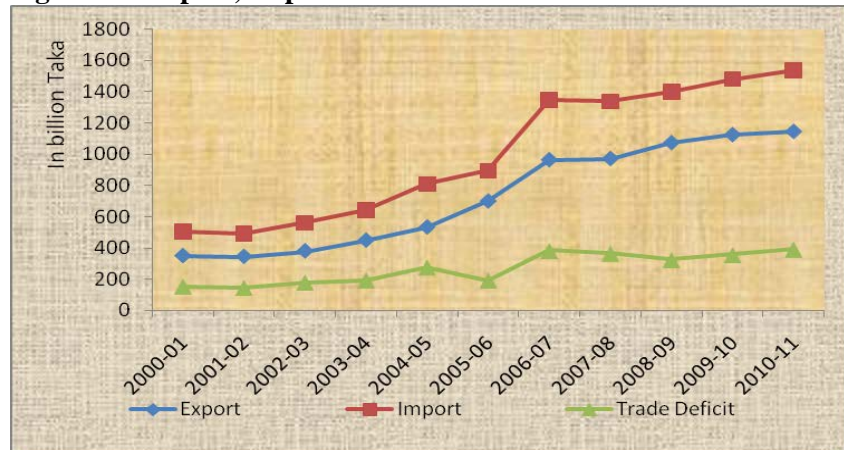
Figure 21: Impact of Debt on Balance of Payment



In FY 2010-11, the amount of export was Tk. 1143.8 billion and amount of import was Tk. 1535.5 billion, with trade deficit of Tk. 391.7 billion.

In FY 2010-11, the amount of export was Tk. 1143.8 billion and amount of import was Tk. 1535.5 billion, with trade deficit of Tk. 391.7 billion. However, in FY 2000-01, the amount of export was Tk. 348.6 billion and amount of import was Tk. 503.7 billion.

Figure 22: Export, Import and Trade Deficit Scenario



Source: Bangladesh Bureau of Statistics, Bangladesh Bank and Finance Division

Trade deficit in FY 2014-15 might be Tk. 477.74 billion while the import and export might reach to Tk. 1,910.7 and 1,432.96 billion respectively.

Under the business as usual scenario, if the current trend continues, trade deficit in FY 2014-15 might be Tk. 477.74 billion while the import and export might reach to Tk. 1,910.7 and 1,432.96 billion respectively.

Table 14: Future Trend of Trade Deficit

(in billion taka)

Fiscal Year	Export	Import	Trade Deficit
2011-12*	1216.09	1629.3	413.21
2012-13*	1288.38	1723.1	434.72
2013-14*	1360.67	1816.9	456.23
2014-15*	1432.96	1910.7	477.74

Source: Authors' calculation based on Bangladesh Bureau of Statistics, Bangladesh Bank and Finance Division

10. IMPACT OF DEBT FINANCING ON MARGINALIZED PEOPLE

The government continuously increases the revenue earning through imposing more regressive tax to pay the debt service. Increasing level of tax has two-fold effects on people: firstly, it increases the price level of the economy and secondly, it reduces the disposable income of the people. These two effects result into the fall of real income of the people and make the situation worse off.

Figure 23: Fiscal policy effect

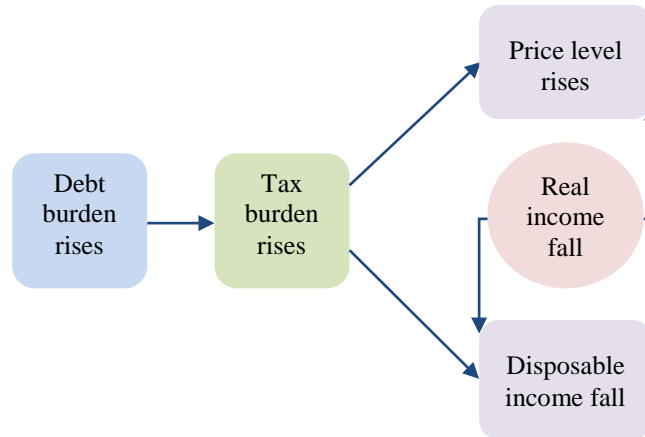
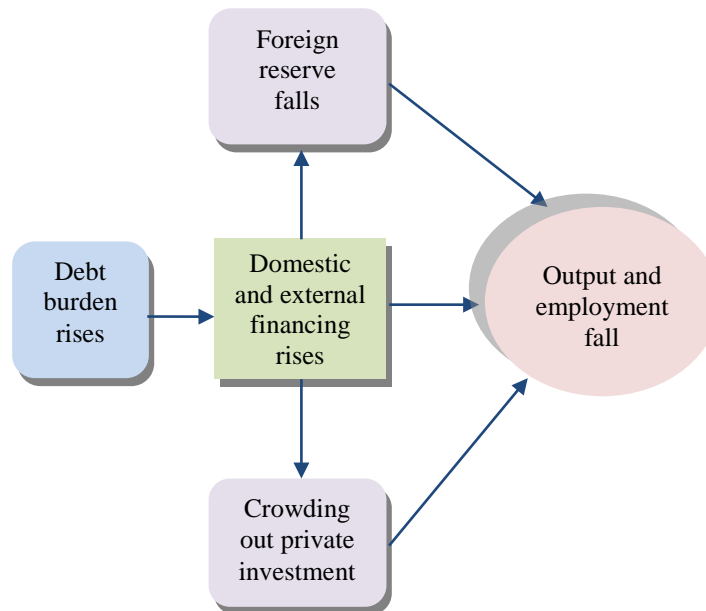


Figure 24: Monetary policy effect



When deficit is financing through debt, it also affects people through monetary mechanism. Government often finances from banking sector and over the time government borrowing from banking sector rises sharply. Government does this function through open market operation which is crowding out the private investment. In addition, domestic currency is devalued due to payment of excessive principal and interest. Therefore, the output and employment cannot reach in potential level.



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