Overview

Bangladesh has witnessed continuous development over the last decade and is now on course to graduate from the list of LDCs. Bangladesh has been maintaining macroeconomic stability & rapid development with a low & comparatively concessional external debt and greater resilience to external shocks over the last decades. However, in this critical phase of our development, the COVID-19 pandemic has hit the economy and putting the momentum of our economic growth, poverty reduction and other socio-economic development at risk. Like other nations, the government of Bangladesh undertook a comprehensive stimulus and economic recovery program to facilitate the implementation of the government's strategies to combat the pandemic and economic recovery. Mass vaccination program is implemented on free of cost to ensure herd immunity.

So, the government is requiring additional financing from domestic and external sources to address the adopted plan as well as to support vaccination programs along with regular borrowing and accordingly, Economic Relations Division (ERD) has been working proactively for external resources from the outset of COVID-19 crisis apprehending its immediate health & economic impact in the short & medium term. As a result, there is a significant increase in government's borrowing. Moreover, scope of mobilization of foreign assistance in concessional term has become less than previous years because most of the development partners have already adjusted their financial terms and conditions either by shortening maturity and grace period or by increasing interest rates as Bangladesh graduated to Lower Middle Income Country (LMIC). On the other hand, to meet the investment needs, especially for some big and nationally important projects, borrowing on non-concessional terms from bilateral sources has increased.

Under all these adverse situation, despite phenomenal increase of external debt, Bangladesh has been comfortably servicing its debt with an impeccable reputation of **'non-defaulting party' with** maintaining a comfortable debt sustainability position in considering the internationally used indicators, **Because of the prudent borrowing policy pursued by the government**.

In FY 2020-21, external resources amounting to US$ 9.44 billion has been mobilized; out of this, health and power sector have the major allocations amounting to US$ 2.55 and US$ 1.59 billion respectively. The other major sectors which have significant allocations are transport (US$ 1.45 billion), public administration (US$ 1.42 billion), rural development and institutions (US$ 0.76 billion), physical planning (US$ 0.65 billion), and social welfare (US$ 0.36 billion). External resources, one of the main sources of financing development activities, have been playing a pivotal role. The scenario of realization of committed assistance has been improved compared to the last few years. In FY 2020-21, disbursement crossed the landmark of USD 7 billion for the second consecutive time and the total amount of disbursement was US$ 7.95 billion which is also the highest since independence. Comparing with FY 2020, the commitment has decreased by 3.57 percent and disbursement has increased by 7.72 percent.

Despite the increased mobilization of external assistance, Bangladesh has been able to maintain comfortable debt sustainability position in terms of solvency and liquidity. The ratio of Government's external debt stock as on 30.06.2021 to GDP is 16.94% vis-à-vis the threshold limit of 55% reveals the solid solvency position. The external debt stock excluding government's guaranteed debt to GDP is 14.33 in the same FY. On the other hand, the ratio of government's external debt service obligation in FY 2020-21 to export of goods and services is 4.71% vis-à-vis the threshold limit of 21% mirrors good liquidity condition of Bangladesh. However, mobilization of non-concessional loans has been increasing recently except last FY. An amount of US$ 4.05 billion non-concessional loan has been mobilized in 2021 which stood at 46.43% of total loans committed. On the other, the volatility of exchange rates and the possibility of increasing LIBOR rate have increased the risks of escalation of borrowing costs in the coming years.

2. This section of the document is organized into following different parts:

i. **Part-1** focuses on the objectives of external resources management with a snapshot of Key information of external resource flows and some important macro-economic indicators;
ii. **Part-2** presents information, analysis and evaluation of external resource flow into Bangladesh;
iii. **Part-3** highlights external debt portfolio including changes in external debt stock with currency composition and maturity structure, debt servicing, and other important debt related issues;
iv. **Part-4** indicates risks associated with external debt portfolio and debt sustainability status;
v. **Part-5** describes some steps taken in recent times in the area of assistance and debt management

3. Part-1: Objective of External Resource Management and a Snapshot of key Information

3.1 Objectives: The primary objectives of external resource management are:

(a) to ensure mobilization of government's external resource in line with national development strategy at lowest possible cost;

(b) to contain debt burden in a comfort zone consistent with a prudent degree of risk.

3.2 Snapshot: A snapshot of key information relating to external resource flow such as assistance in the pipeline, commitment, disbursement, debt stock, debt servicing and assistance channeled through Non-Government Organization (NGO) of FY 2020-21 are given in the table below. It also captures related macroeconomic indicators which would offer readers an opportunity to have a broad appreciation of external debt of the country in the context of overall macro-fiscal situation of the country.

A. Foreign Assistance Flow and Debt

	FY 2020-21	FY 2019-20
1. Flow of Foreign Assistance	*(In million US$)*	*(In million US$)*
(i) Opening Pipeline	**48,819**	**47,268**
(ii) Total Commitment	**9,442**	**9,798**
Grant	701	584
Loan	8,742	9,214
Projects	9,442	9,798
Non-projects	0	0
(iii) Total Disbursement	**7,959**	**7,382**
Grant	492	308
Loan	7,450	7,074
Projects	7,943	7,371
Non-projects	17	11
(iv) Closing Pipeline	**50,346**	**48,819**
(v) Foreign grant channeled through NGO		
Amount Approved	995	891
Amount released	779	11
2. External Debt Stock	*(In million US$)*	*(In million US$)*
Total public sector outstanding debt	**60,153**	**51,127**
(a) General Government Debt (Medium & Long Term)	**50,879**	**44,095**
Multilateral	31,964	29,105
Bilateral	17,021	13,701
Supplier/Buyer's Credit	1,894	1,289
(b)Government's Guaranteed debt	**9,274**	**7,032**
Air Craft	1,044	1,069
Crude Oil	443	255
Power	5,134	4,197
IMF	2,031	1,373
BTRC	128	138
BCIC	495	**0**

	FY 2020-21	FY 2019-20
3. External Debt Service	*(In million US$)*	*(In million US$)*
Total debt servicing	**3,298**	**3,161**
(a) Principal	**2,622**	**2,471**
General Government (Medium & Long Term)	1,419	1,257
Air Craft	120	165
Crude Oil	547	675
Power	361	231
IMF	157	126
BTRC	18	17
BCIC	0	0
(b) Service Charge	**676**	**690**
General Government (Medium & Long Term)	496	477
Air Craft	6	20
Crude Oil	12	14
Power	155	169
IMF	5	8
BTRC	2	2
BCIC		0

B. Macro-Economic Statistics

Macro Economic Statistic	FY 2020-21	FY 2019-20
i. GDP growth rate (Base Year: 2005/06)	5.47	3.51 (R)
ii. GDP at current price (Base year: 2005/06 in million US$)	355,037	330,112
iii. GDP as per PPP at Current Int'l Dollar (in million US$)*	870,790	868,972 (R)
iv. Per Capita Income (Base year: 2005/06 in US$)	2,227	2,024 (R)
v. Export of Goods and Services (In million US$)	**45,278**	**39,548 (R)**
Merchandise (FoB)	37,882	32,832
Services	7,396	6,716
v. Import (In million US$)	**65,595**	**54,785**
Food	2,681	1,672
Capital Machinery	3,825	3,581
vi. Foreign Exchange Reserve (in million US$)	**46,391**	**36,037**
vii. Remittance (in million US$)	**24,778**	**18,205**
Of the total from: KSA	5,721	4,015
UAE	3,462	2,472
USA	2,440	2,403

* ***Reference: World Economic Outlook Database, October, 2021 IMF (Calendar Year Value).***

4. Part-2: Assistance flow, Composition and Trend

Up to June 30, 2021 a total of about US$ 161.28 billion of external assistance was committed. According to the classification by purposes the share of food assistance is US$ 6.90 billion, commodity assistance is US$ 11.07 billion, project assistance is US$ 136.24 billion and budget support is 7.07 billion of the total commitments.

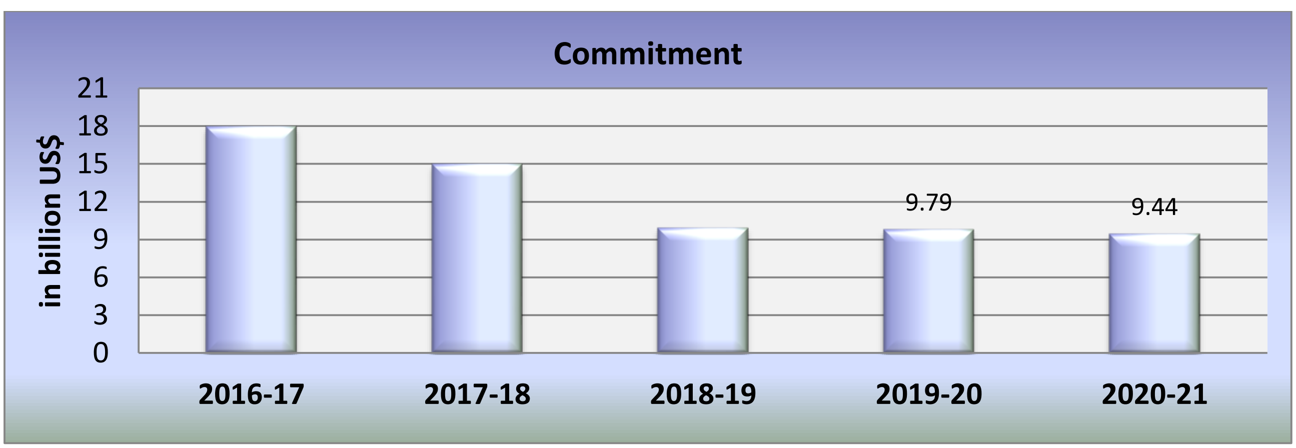
For the period since independence up to June 30, 2021, a total amount of about US$ 101.37 billion of foreign assistance was disbursed, of which US$ 28.52 billion is grant and US$ 72.85 billion is loan. Of the total amount, US$ 6.96 billion as food, US$ 10.91 billion as commodity, US$ 77.58 billion as project assistance and US$ 5.92 billion as budget support were disbursed.

Significant changes have taken place in case of the total assistance package to the country over forty-nine years since independence. The share of grant is declining gradually is-à-vis the share of loan. Considering sources of the total assistance flows, multilateral assistance has been growing through years compared to bilateral assistance. Vulnerable food security and shift in global economic power-structure have made assistance mobilization more difficult than ever before. It is facilitated through a variety of means. Co-ordination with Development Partner (DP) such as holding periodic meetings of the Bangladesh Development Forum, greater partners has an important bearing on the interaction of the Local Consultative Groups which aims at assistance effectiveness and harmony, regular triangular portfolio meetings of ERD, DPs and project implementing ministries/agencies etc.

Some key features for the financial year 2020-21 related to external assistance are discussed below.

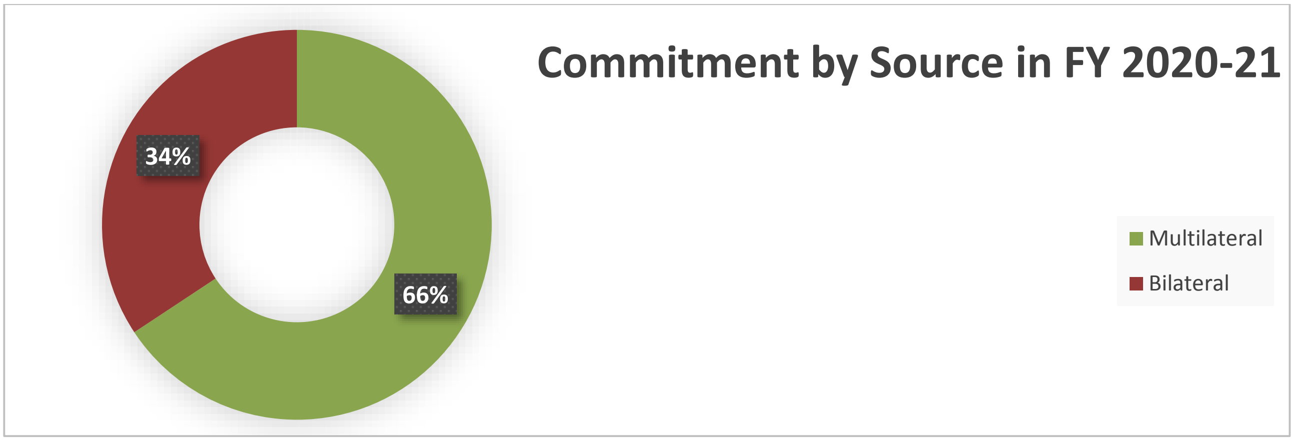
4.1 Commitments:

During the FY 2020-21, a total of US$9.44 billion of external assistance was committed. Compared to last fiscal year, the growth of commitment is minus 3.57 percent. Graph-1 shows commitment of foreign assistance for last five years.



Graph 1

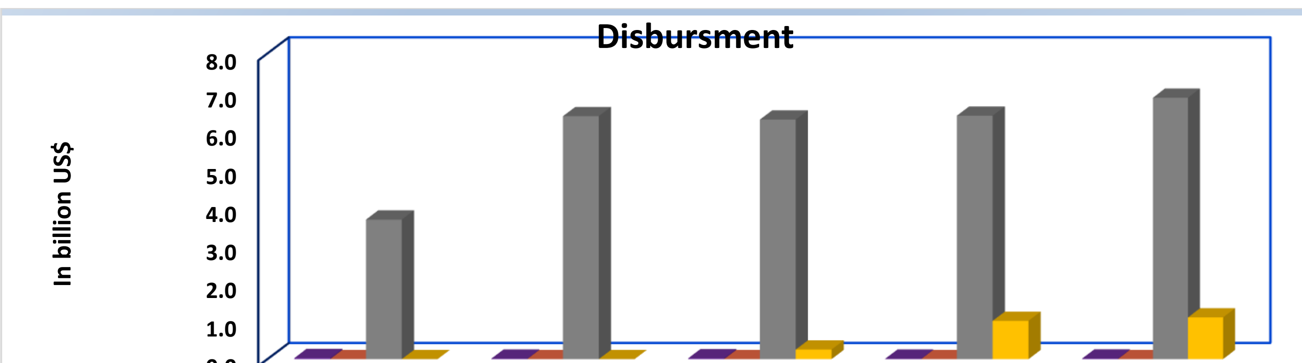
In FY2020-21 project assistance constituted the lion's share of the whole amount of commitment. There is no commitment for the commodity assistance in this financial year. According to source of financing, commitment from multilateral agencies and bilateral sources are US$ 6204.833 million and US$3237.536 million respectively. Composition of commitment is shown for the FY 2020-21 in graph 2.



Graph-2

4.2 Disbursement:

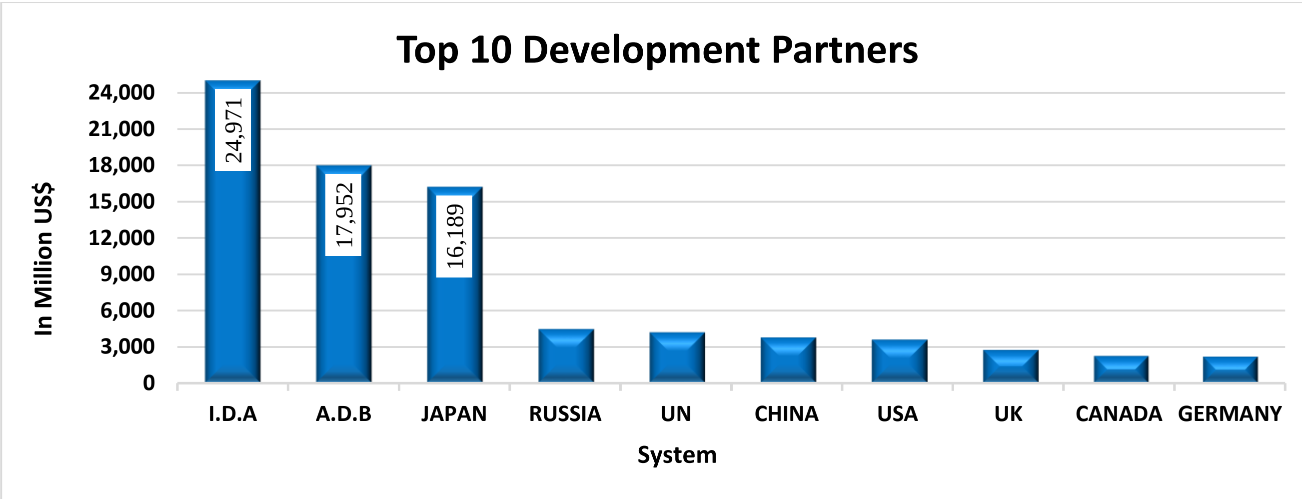
In the FY 2020-21, a total amount of US$ 7.95 billion was disbursed which registered the highest disbursement in a single financial year since independence. Disbursement during FY 2020-21 is 7.72 percent higher than the disbursement of the previous year. Of this US$ 508.87 million is grant and US$ 7448.68 million is loan. Of the total amount, food assistance, project assistance and budget support are US$ 16.5 million, US$ 6843.05 million and US$ 1098.00 million respectively. Bilateral donors disbursed the lion's share of the total disbursement amounting to US$ 4386.14 million and multilateral donors disbursed US$ 3571.41 million. Graph-3 shows a comparison of disbursement by purpose in different years.



	2016-17	2017-18	2018-19	2019-20	2020-21
Food	0.029	0.013	0.0226	0.011	0.0165
Commodity	0	0	0	0	0
Project	3.648	6.356	6.268	6.37	6.84
Budget support	0	0	0.251	1	1.09

Graph-3

Since 1972 on a cumulative basis of assistance disbursement, the major multilateral development partner is IDA followed by ADB. On the other hand, Japan ranks as the largest bilateral development partner followed by Russia. Disbursement of top 10 development partners according to their cumulative contribution since independence has been presented ingraph-4.

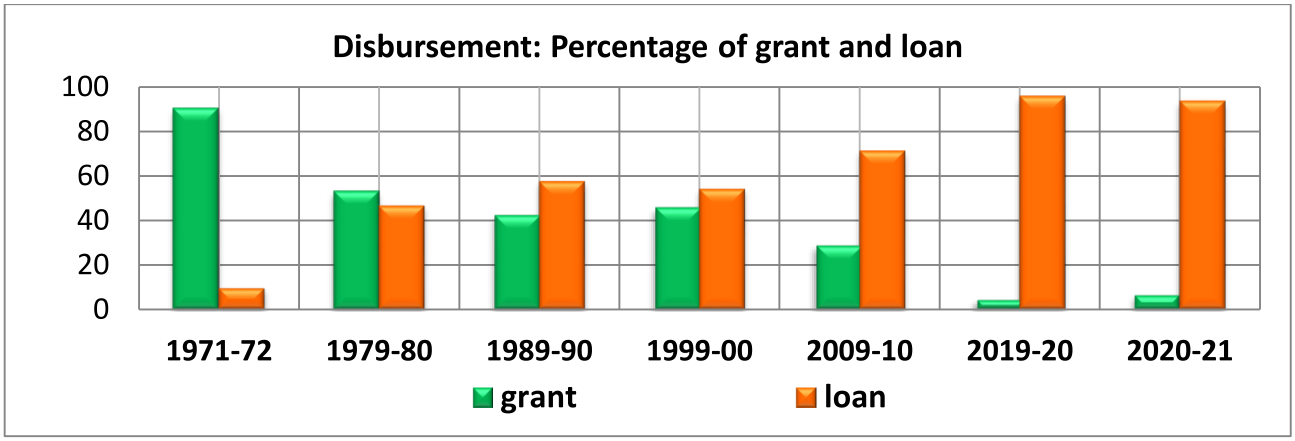


Graph-4

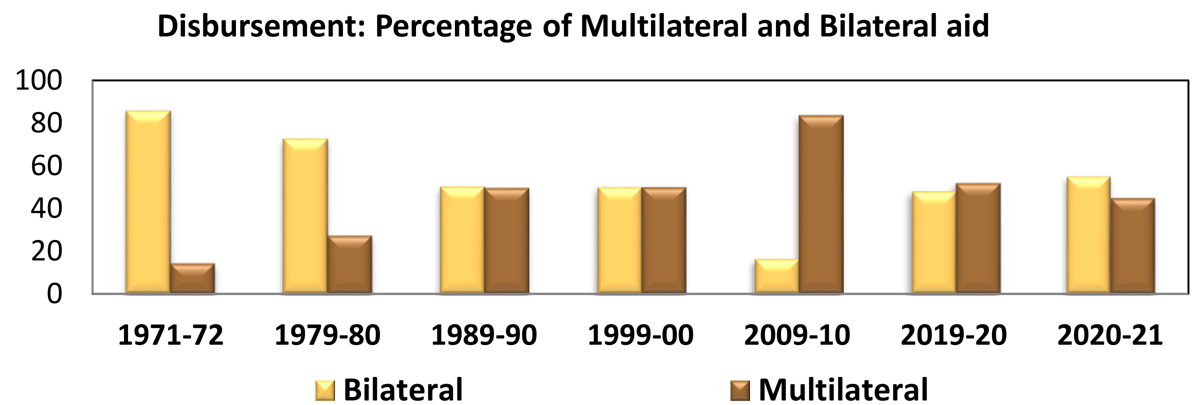
4.3 Changing scenarios in assistance composition

Over the past several years' changes have taken place in the composition of foreign assistance disbursement. The share of grant is declining and share of loan is increasing gradually. The share of grant and loan of disbursed assistance was 90.5 percent and 9.5 percent in FY 1971-72 which stood at 6.4 per cent and 93.8 percent respectively in FY 2020-21. Similarly, multilateral assistance has increased over the period. The share of bilateral assistance has decreased from 85.7 percent in FY 1971-72 to 55.1 percent in FY 2020-21. On the other hand, share of multilateral assistance has increased from 14.3 percent in FY 1971-72 to 44.9 percent in FY 2020-21. However, there is an increasing trend in the share of bilateral assistance since FY 2010-11 compared to past couple of years. Some

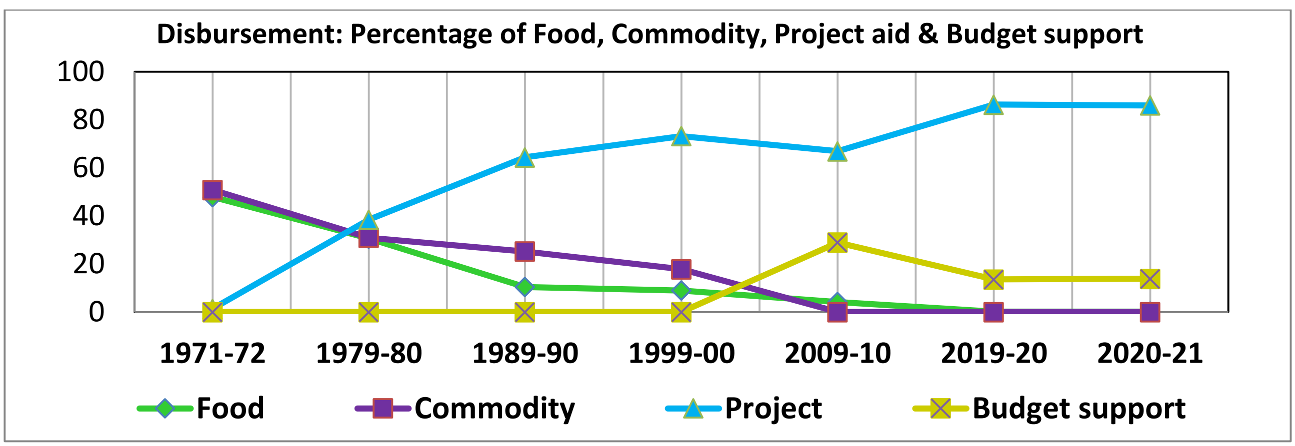
Bilateral development partners such as China, Russia and Indian have become more active in the global assistance architecture. Bangladesh, like many other countries, has been mobilizing resources from these countries to fulfill it's growing investment needs in the large infrastructures projects. Moreover, over time, the flow of food and commodity assistance has drastically declined. Food assistance, which was 47.9 percent in FY 1971-72, has decreased to 0.2 percent in FY2020-21. Similarly, commodity assistance has come down to nil in FY 2020-21from 50.8 percent in FY 1971-72. On the other hand, project assistance has shot up from 1.3 percent to 99.8 percent during the same period. Changes in disbursement pattern over the years can be seen in Graph -5, 6and 7.



Graph -5



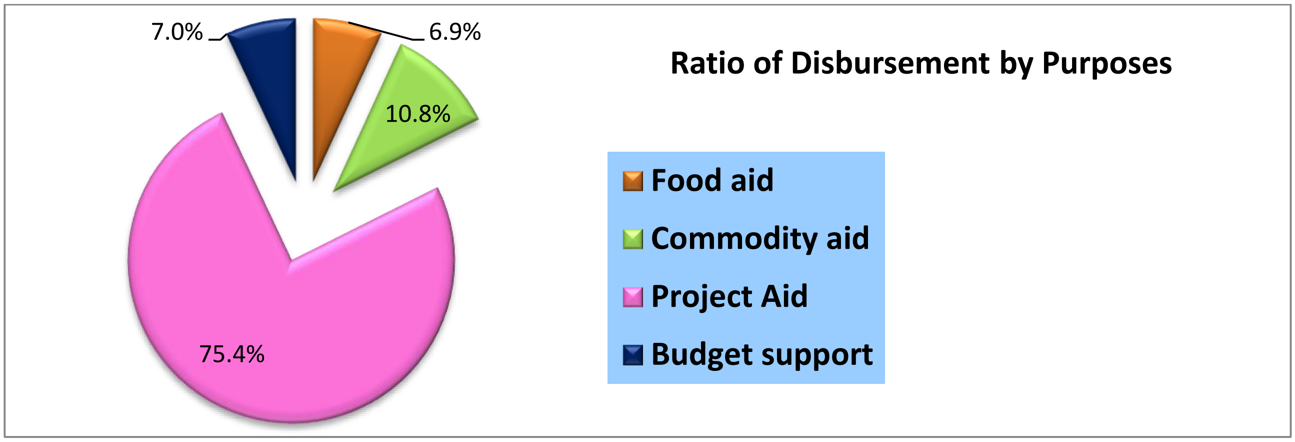
Graph -6



Graph -7

4.4 Assistance Utilization:

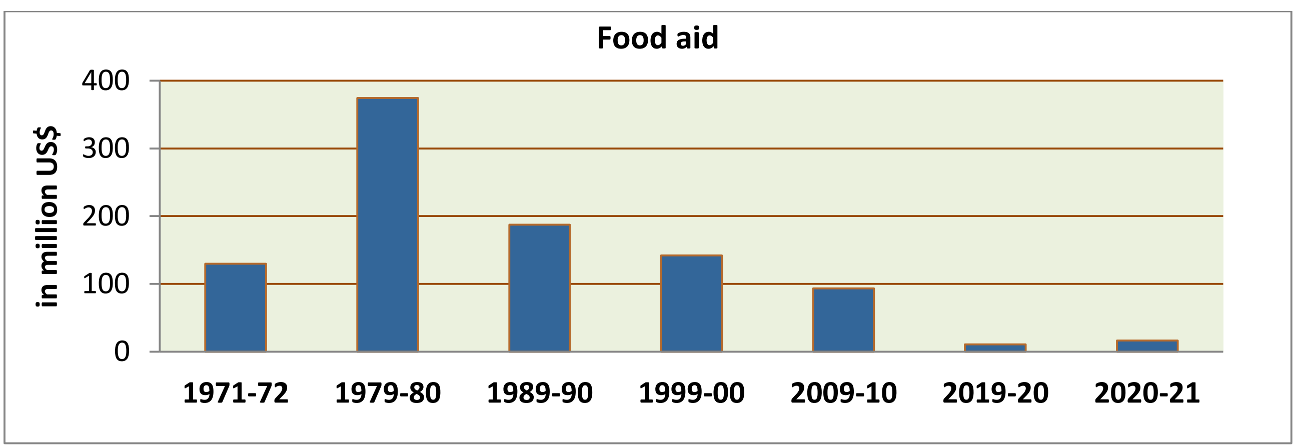
Assistance utilization is in a state of a critical juncture. This arises from slow implementation of projects. Over time, food assistance and commodity assistance have lost their place as important constituents of total assistance package. On the other hand, project assistance has become more and more popular and important mode of assistance considering the purpose of assistance. From independence to June 30, 2021, a total of US$ 93.35 billion of foreign assistance was disbursed on a cumulative basis. As a policy the donors reduced commodity and food assistance as a young nation matured over years. The food and commodity assistance is generally replaced by more and more project assistance. The bilateral assistance gives way to more multilateral concessional loan. The share of total food assistance, commodity assistance, budget support and project assistance have been shown in the following pie chart.



Graph-8

4.4.1 Food assistance:

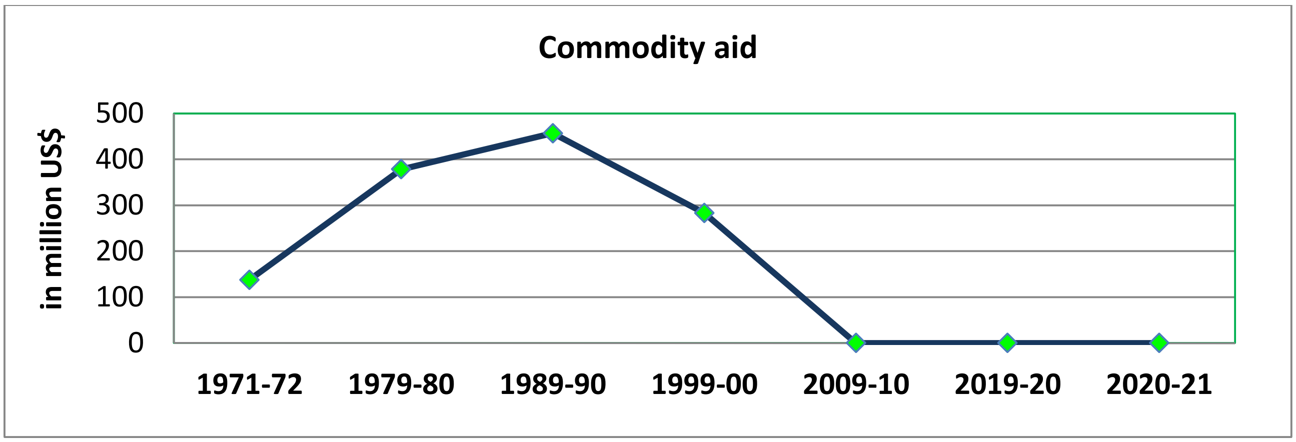
Food assistance is now availed of in reduced volumes and occasionally received in larger amount to support natural calamities like floods, cyclones and unfavorable weather conditions. This is because self-sufficiency has been nearly achieved in recent years with the increased food production. Although, a persistent level of food assistance is essential to assist the poorest section of the population and to run the targeted safety net programs like VGD and FFW. The share of food assistance has gradually declined over the years which are presented in the bar chart below.



Graph-9

4.4.2 Commodity assistance:

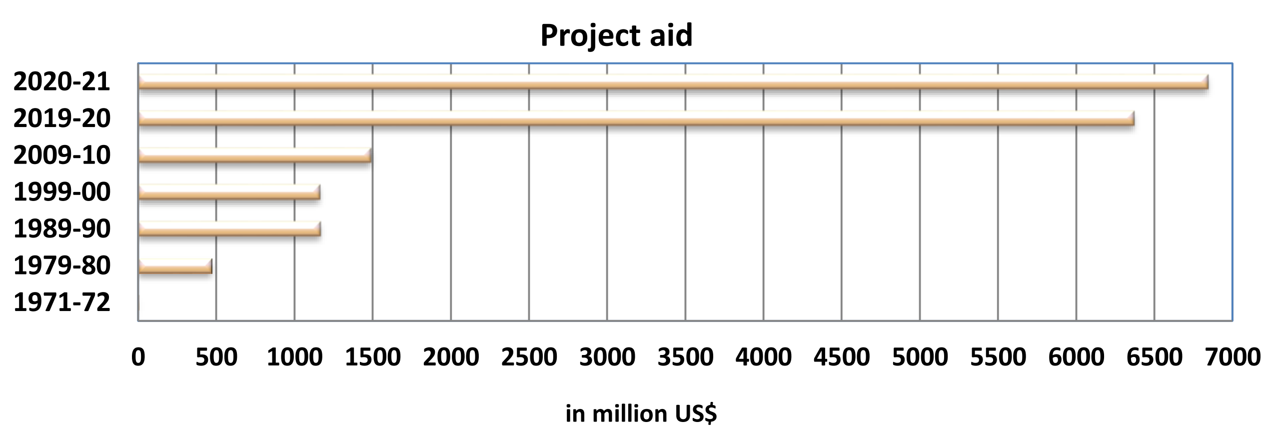
Generally, commodity assistance is offered for acquisition of intermediate inputs and raw material and thus, provide cushion to balance of payments. Increasing export volume, tax revenue growth and consistent increased flow of foreign remittance have eased balance of payment deficit from own resources. In the process, the share of commodity assistance has declined considerably in the recent years and zeroed in FY 2020-21.



Graph-10

4.4.3 Project assistance:

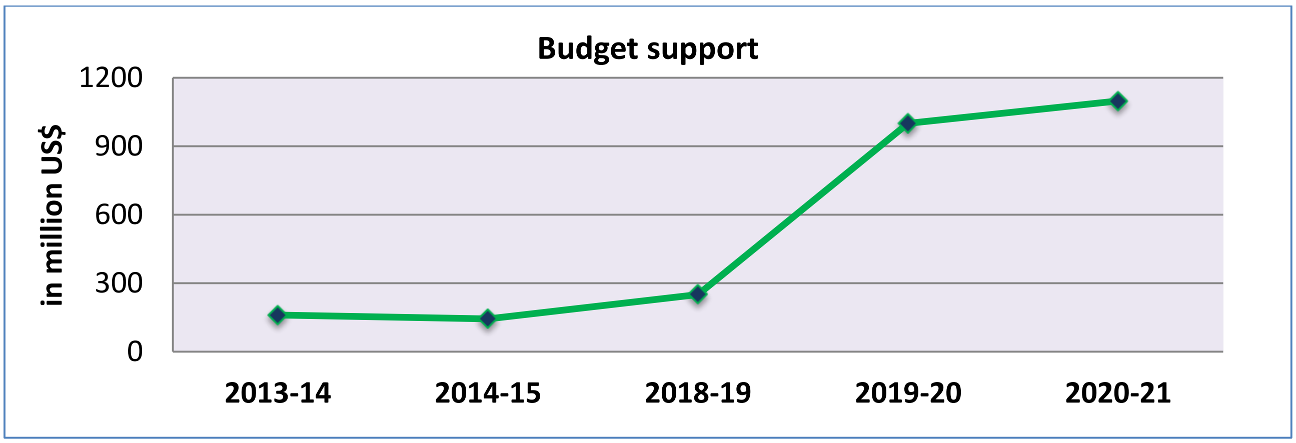
The largest share of foreign assistance comprises of project assistance. It is extended by the development partners primarily to finance projects included in the Annual Development Program (ADP). The share of project assistance excluding budget support has increased over years as shown in graph 11.



Graph-11

4.4.4 Budget support

Budget support is extended in one single or multi tranche to undertake different priority Programs. The payments against budget support are triggered on fulfillment of certain agreed policy objectives between the recipient country and Multilateral Financial Institutions. It gives recipient country more flexibility to align assistance spending with national priorities in comparison to project assistance. Therefore, budget support is becoming more popular form of receiving external assistance. However, budget support does not come by very frequently. It is usually offered sparingly on occasions where development partners trigger payment only after recipient countries achieve previously agreed benchmarks. Disbursement under budget support scheme for the last couple of years including US$ 1098.00 million in FY 2020-21, out of which 136.00 million as grant from EU & KFW has been shown in graph-12.

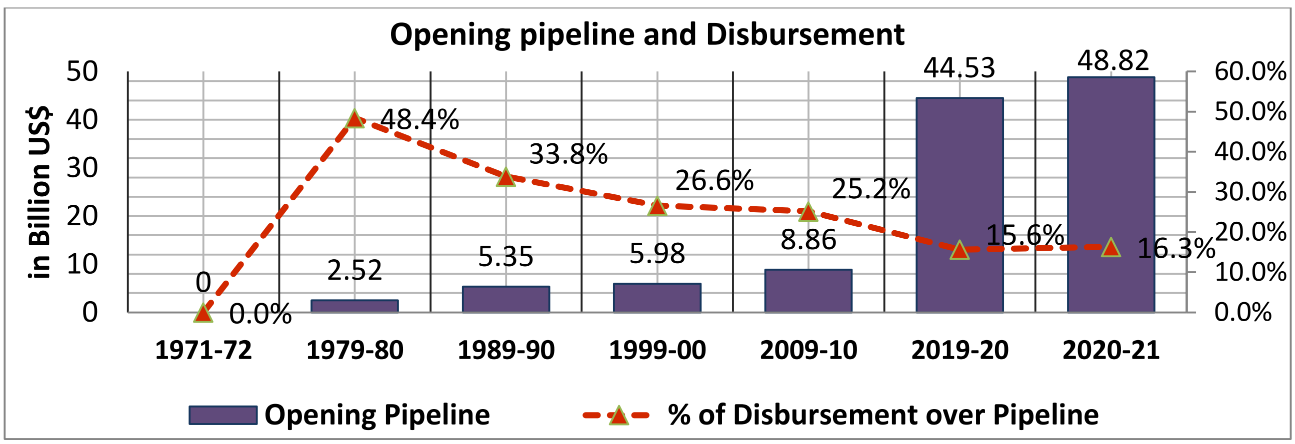


Graph-12

4.5 Assistance in the pipeline

FY 2020-21 began with an opening pipeline of about US$ 48.82 billion on July 1, 2020. The new commitment during the period amounted to US$ 9.44 billion and total disbursement during FY 2020-21 amounted to US$ 7.95 billion. The closing pipeline as on 30th June, 2021 stood at about US$50.35 billion after cancellation/ adjustment which is 3.13 percent higher than that of the previous year. The sharp increase of closing pipeline in the past couple of years has occurred due to the larger commitments during FY 2017 and 2018. In the FY 2017, Russian credit of US$ 11.38 billion for Ruppur Nuclear Power Plant Project and in the FY 2018, Indian credit of US$ 4.5 for 3rd Line of Credit and in the FY 2021, Japanese credit of US$2.28 billion for Matarbari coal fired power project & Mass Rapid Transit Project, are the main factors for the spike in the pipeline. The disbursement of foreign assistance during FY 2019-20 as a percentage of pipeline opening balance is near 16.30 percent. In FY 2020-21, the disbursements percentage of opening pipeline is increased by 0.68 percent compared to that of the last financial year.

Slow implementation of project results in slow disbursement of assistance which leads to time and cost overrun. It impacts negatively on the balance of payments leading to increased borrowing from domestic sources. Factors creating difficulties in the speedy implementation of projects or utilization of economic assistance are manifold. Projects are often designed without proper planning or feasibility studies. Also people engaged in the project preparation are not properly trained. In many cases, faulty design of the project leads to a revision of the Development Project Proposal (DPP)/Technical Project Proposal (TPP) even before commencement of the project. Lengthy approval process of the DPPs/TPPs takes longer time to start the projects. Sometimes, projects are not adequately staffed with right kind of people. Moreover, in many cases, project personnel are transferred (in case of government officials) and/or moved to another job. Procurement related bottlenecks and challenges in land acquisition process also slow down the speed of project implementation. Besides, projects involving several sectors/organizations often suffer from lack of coordination. On the other hand, delay in approval of awarding contracts, delay in appointing consultants, delay in releasing fund and lack of coordination among co-financers, (in case of multi-donors funded projects) were found to be the causes of slow disbursement. In graph 14disbursementratios over opening pipeline in different years have been shown.

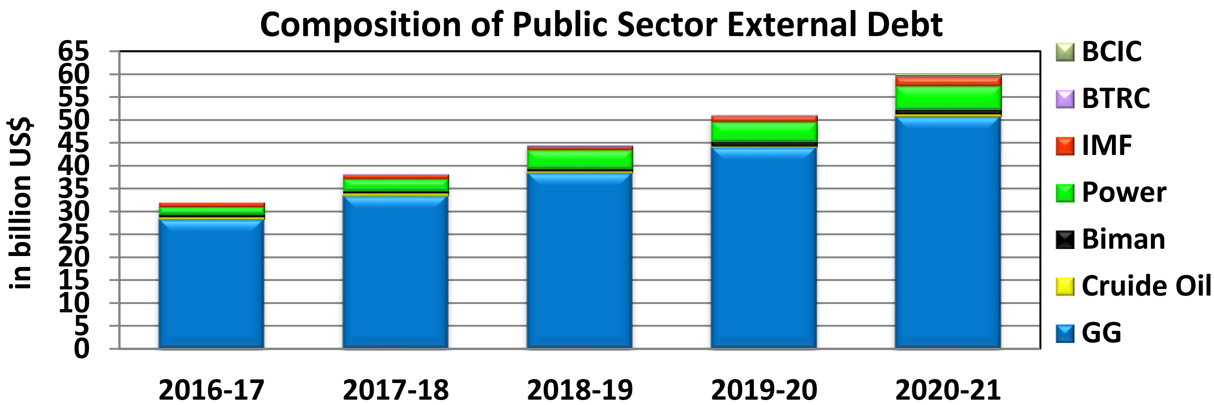


Graph-13

5. Part- 3: External Debt management

Managing external debt is more sensitive to some extent than that of domestic debt. Domestic debt is a charge on budget and must be serviced with government revenue and/or additional domestic borrowings. Whereas external debt, in addition of meeting repayment obligation with government revenues, is also a charge on balance of payments and it is serviced with foreign exchange by drawing down on the reserve. Large trade deficit, savings-investment gap, slow growth of revenue and rapid growth of public expenditures contribute to the increased external debt of the country.

5.1 Public Sector External Debt: The external borrowings of Bangladesh consist mainly of public sector external debt. The share of private sector external borrowing is negligible. The total Public Sector External Debt has increased from US$ 973.80 million in FY 1974-75 to about US$ 60.15 billion in FY 2020-21 which constitutes a debt liability of 16.94 per cent of GDP. The per capita debt obligation of the country has risen from US$ 6.59 in 1973-74 to US$ 355.29 in FY 2020-21. Public sector external debt consists of General Government debt and guaranteed debt of State Owned Enterprises (SOEs) and debt to IMF. Composition of public sector external debt may be seen in the following graph:



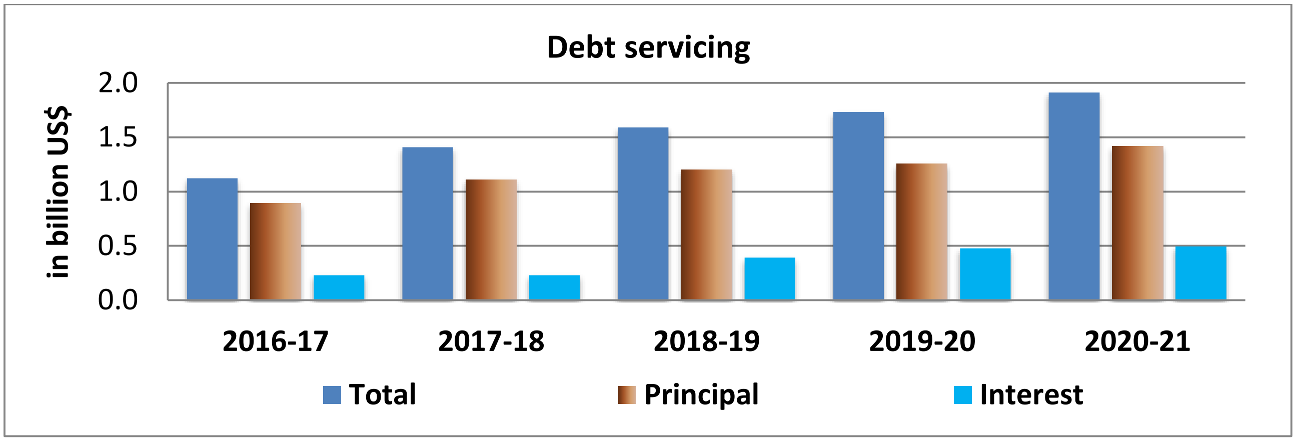
Graph-14

5.2 General Government Debt

The General Government debt amounting to US$ 50.87 billion is the major component of Public Sector External Debt. All of the general government external loans are Medium and Long Term (MLT) in nature. The share of MLT debt is 84.58 percent of total Public Sector External Debt and it constitutes a debt liability of 14.33 percent of GDP. Most of MLT credits are acquired on concessional terms with a weighted average grace period of 7.6 years, a weighted average maturity period of 30.8 years and weighted average repayment period of 23.2 years. These credits mainly come from bilateral and multilateral sources. Economic Relations Division manages the General Government external debt. Few issues related to General Government external debt are presented in the following paragraphs:

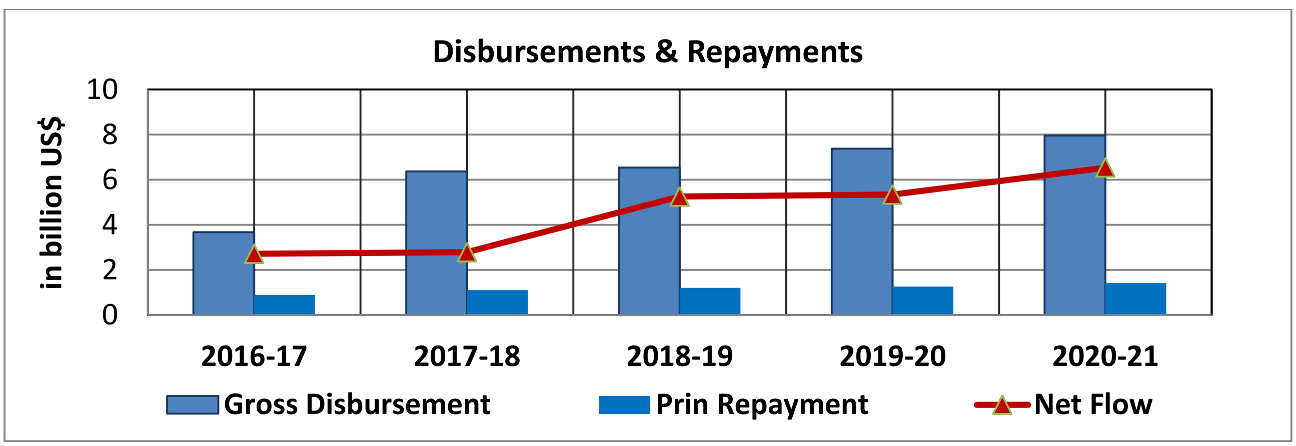
5.2.1 Debt Servicing

A total expense for debt servicing of the government is US$ 1914.81 million in FY 2020-21. Of the total, principal repayment is US$ 1418.63 million and interest is US$ 496.18 million. Of the total debt servicing amounts US$ 1354.33 million is paid to multilateral creditors and US$ 560.48 million is paid to bilateral creditors. Statistics of debt servicing for the last five years are shown in Graph-15.



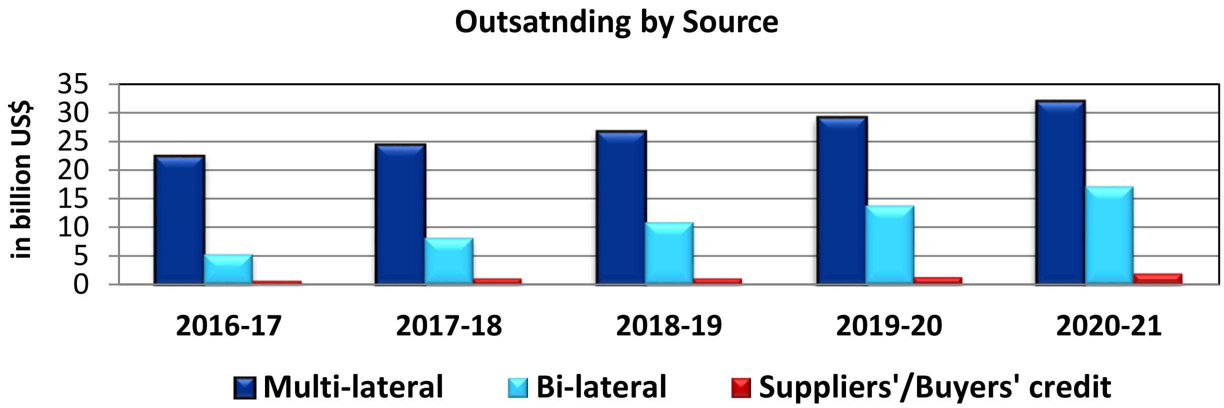
Graph-15

5.2.2 Net Flows and Transfer: Net flows, which account for the difference between disbursement and amortization (principal repayment), registered a positive value in FY 2020-21 by US$ 6538.92 million. In the FY 2019-20 net flows were US$ 6125.18 million. Compared to previous year, net flow increased by 7.80 percent in FY 2020-21. Since independence net flow of each financial year has been always registering a positive value due to the higher disbursements than amortization. Moreover, net transfer which is the residual value after netting of interest payments from net flows, has also been scoring positively since independence. Graph below shows the net flows for the last five financial years.



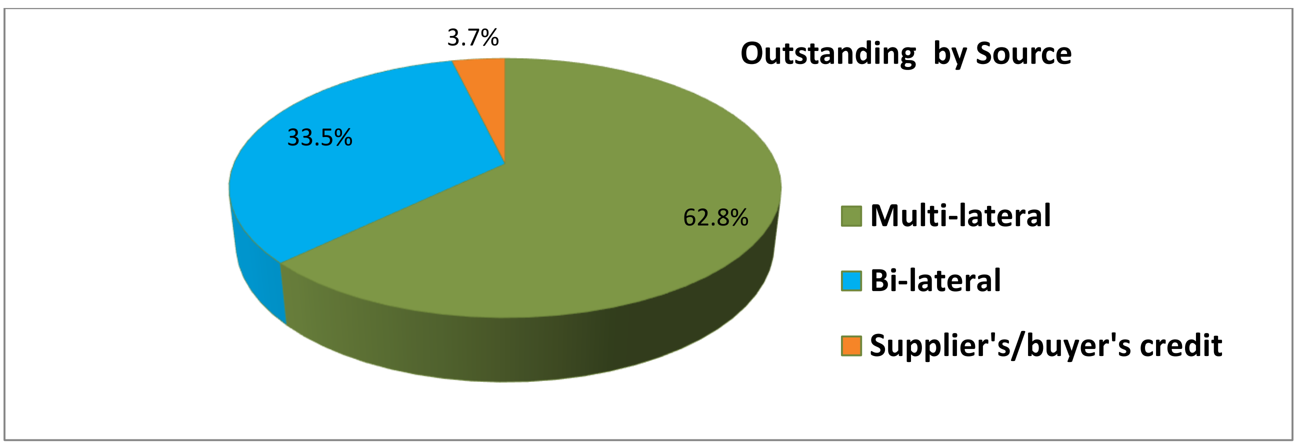
Graph-16

5.2.3 Source composition: Usually public sector external debt is mobilized from bilateral, multilateral and commercial sources. Bangladesh, as a policy generally refrains from contracting commercial loans. However, some authorized SOEs are taking sovereign backed commercial loans. Almost all the loans received from different sources are concessional except for a few non concessional loans. The share of outstanding debt as on 30th June 2021 from multilateral source is US$31.94 billion, while it is equal to US$ 17.04 billion in case of bilateral sources and suppliers' credit US$ 1.89 billion.



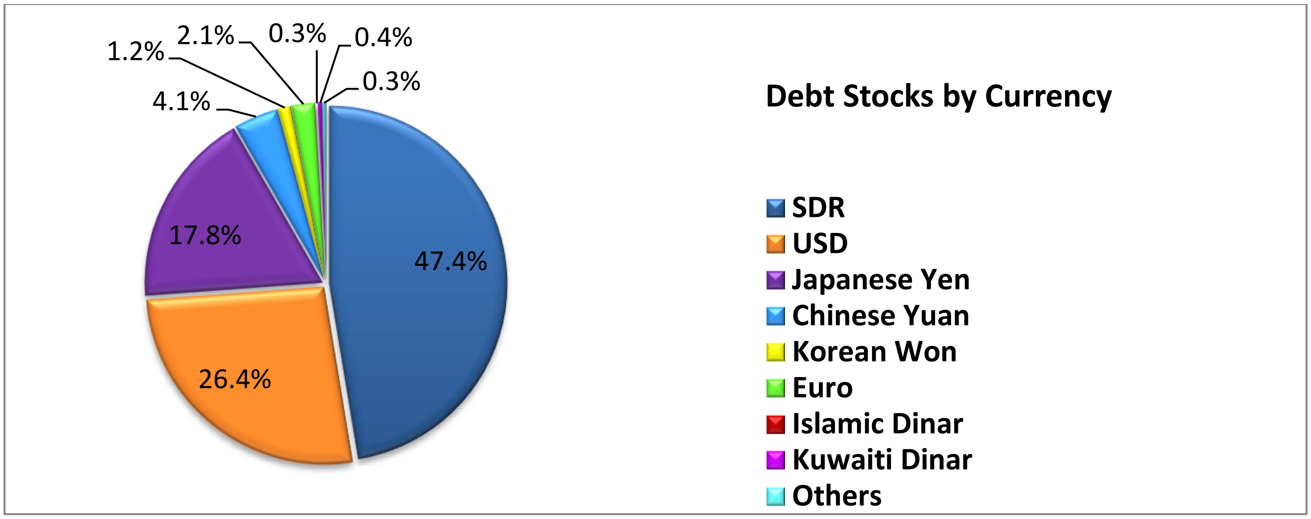
Graph-17

In FY 2020-21. the share of multilateral outstanding loans increased by 9.75 percent compared to that of FY 2019-20. Similarly, share of bilateral outstanding loan increased by 24.38 percent and outstanding of supplier's/buyer's credit increased by 46.93 percent compared to last financial year. The share of debt outstanding by source for the FY 2020-21 are shown in graph-18.



Graph-18

5.2.4 Currency composition: External MLT debt as on 30th June 2021 mainly composed of eight major currencies, such as Special Drawing Right (SDR), United States Dollar, Japanese Yen, Korean Won, Islamic Dinar, European Union Euro, Kuwaiti Dinar and Chinese Yuan. The currency structure of external debt remains virtually unchanged. In terms of denominations SDR continues to account for the largest share. The share of SDR stood at 47.40 percent in FY 2020-21 compared to 51.19 percent in 2019-20. World Bank and ADB (ADF) provided loans in SDR denomination. Due to the disbursements of SDR denomination loan of the two multilateral agencies; debt stock in SDR is still predominant in the debt portfolio. Similarly, the share of debt stock of USD increased to 26.44 percent in FY 2020-21 from 24.37 percent in FY 2019-20. USD occupied the second largest share of the total debt stock. Net flows of loan in USD from various new bilateral creditors like Russia, and India constituted increased share of USD loan in the debt portfolio. On the other hand, Japanese Yen gained its share by 1.7 percent compared to previous year's share of debt stock due to record highest disbursement of loan. The share of major currencies in the debt stock may be seen in the following graph.



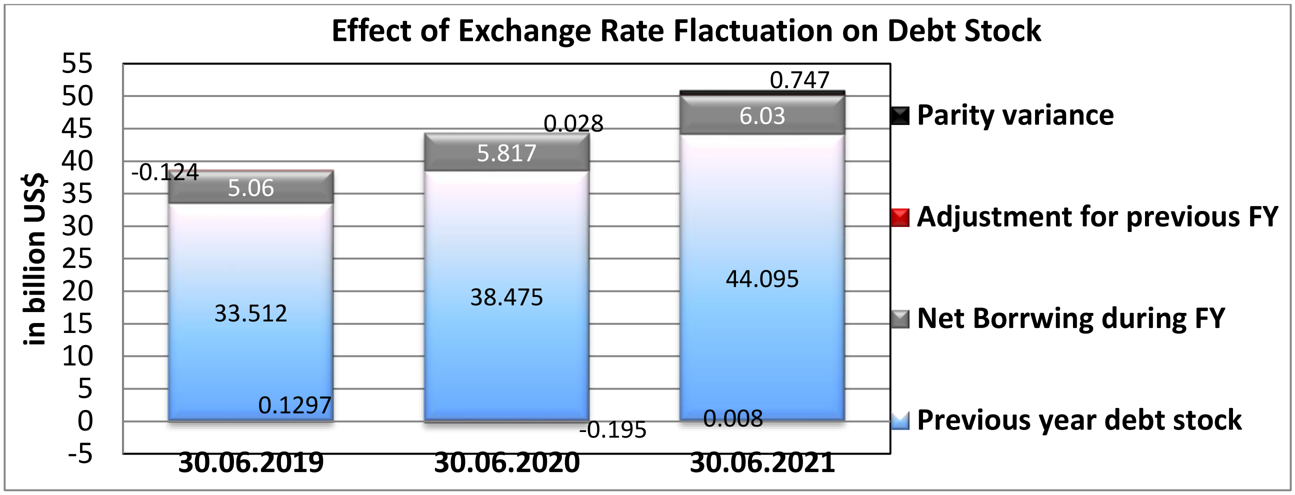
Graph-19

6. Part-4: Risk Analysis

Around 84.58% of the total external debt is derived from Medium and Long Term loan and most of the loans are mobilized under fixed term interest rate basis. Therefore, the risks of existing external debt portfolio is minimized considering that our portfolio is exposed mainly to exchange rate fluctuation and, minimally, to interest rate change. However, there are some other risks which are related to economic performance and overall debt strategy of the country. To examine the risks of the debt portfolio, detailed information related to currency composition, interest rate, maturity and repayment period are required. As ERD only manages General Government loans, therefore risks analysis of existing external debt portfolio is confined within the purview of General Government debt which may be seen in the following few paragraphs.

6.1 Foreign Currency Risk

The total government medium and long term external debt stock increased to US$ 50.879 billion as on 30th June 2021 from US$ 44.095 billion as on 30th June 2020, indicating an increase of US$ 6.784 billion during the year. However, net government external borrowing during the same period stood at US$ 6.030 billion. Episodes of depreciation of US dollar against SDR and against Japanese Yen were frequent during the year (parity variance). This parity variance recorded an increase of US$ 0.747 billion to the debt stock in US dollar during the year.



Graph-20

But the flip side is that excessive concentration of SDR in the debt portfolio has the effect of exposing the public debt to one single currency exchange rate risk. As the share of SDR in debt stock is more than 47%, depreciation of the nominal value of US dollar against SDR may cause an increase of debt stock in US dollar without adding new loan to the debt portfolio. Similarly, it may also increase expenditure in US dollar on account of debt servicing as most of SDR loans are paid in US dollar. Adverse movement of exchange rate between foreign currencies and local currency causes increase of debt servicing expenditure in Taka. However, in the FY 2020-21 the value of SDR against US dollar appreciated slightly. LIBOR rate has decreased considerably compared to last financial year. Moreover, the value of taka was depreciated against US dollar. However, actual expenditure of debt servicing in Taka was less than the budget provision. An amount of Taka 12,031.67 crore and Taka 4,207.92 crore paid as principal and interest respectively against the budget provision of Taka 12,500 crore and Taka 5,300 crore which made an under expenditure of Taka 1,560.41 crore in total for the government.

6.2 Liquidity Risk

The capacity of servicing external debt is measured by liquidity monitoring indicators. Interest service ratio and total debt service ratio are the two key indicators for the purpose. Interest service ratio is measured by the cost of external debt as a percentage of export. In FY 2020-21 the interest service of MLT debt ratio is 1.09 per cent which was 1.20 percent in FY 2019-20. Total debt service ratio is the ratio of total debt service (principal plus interest payment) as percentage of export. Total debt service of MLT debt ratio is 4.22 percent in FY 2020-21 compared to 4.38 percent in FY 2019-20. The rollover ratio, the ratio of amortization over total disbursement in a single year also indicates the comfort zone of liquidity position. The Rollover ratio in case of MLT debt went up to 17.87 percent in FY 2020-21 which was 17.0 5 percent in FY 2019-20. Total debt service payment to revenue earning is also an important tool to monitor liquidity risk. The total debt service to revenue in FY 2020-21 and 2019-20 are 5.48 percent and 5.58 percent respectively.

6.3 Solvency Risk

Debt burden indicator is measured by various ratios. Of these, one is the ability to repay all outstanding debt from export earnings in a single year. In FY 2020-21, outstanding of MLT debt stood at 112.37 per cent of the export earnings compared to 111.3 5 per cent of the same in FY 2019-20. Based on the result of the above analysis it could be said that solvency risk does not pose any significant threat to the external debt portfolio.

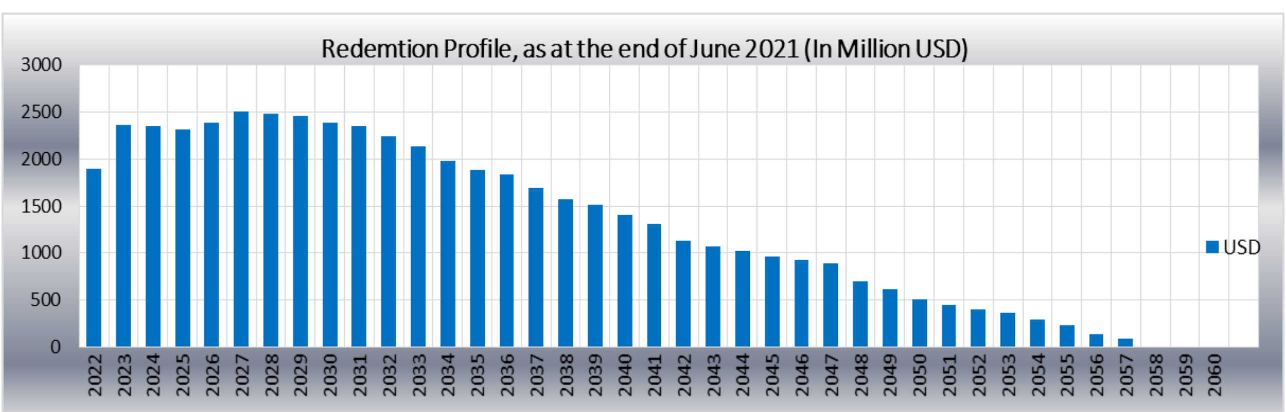
6.4 Re-fixing and Interest Rate Risk

Interest rate risk does not pose significant threat to the external debt portfolio as almost all external loans are acquired at concessionary fixed rates. On the other hand, there is no such refinancing risk as only 3.7% of outstanding debt will mature in the next financial year.

Risks	Indicators	FY 2020	FY 2021
Cost of Debt	Weighted Average interest Rate	1.3%	1.35%
Refinancing Risk	Average Time To Maturity (ATM) (Years)	13.1	12.8
	Debt maturing in 1yr (% of total)	3.8%	3.7%
Interest Rate Risk	Average Time to Repayment (ATR) years)	11.3	11.0
	Debt re-fixing in 1yr (% of total)	19.9%	19.6%
	Fixed rate debt (% of total)	84.2%(R)	83.3%

However, interest rate risk is high when the variable interest rate dominated debt portfolio exists. Recently few loans have been mobilized at variable interest rate. All that is required to keep a close eye on the issue of interest rate risk for coming years.

Redemption profile of debt at the end of June 2021 does not pose any risk as there is no extreme spike of amortization seen in the graph-21. According to the redemption profile amortization is smoother and it will remain below 2.51 billion in the medium term.

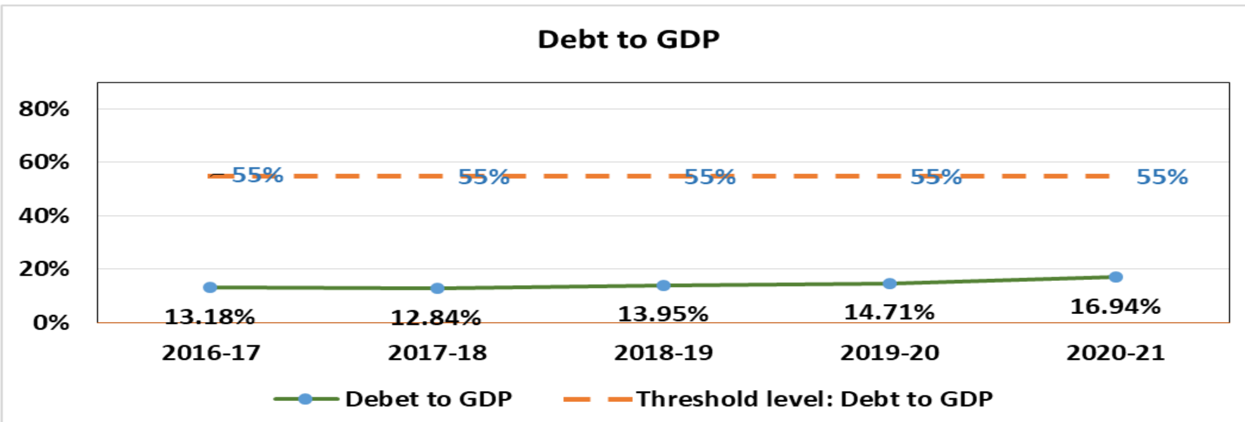


Graph-21

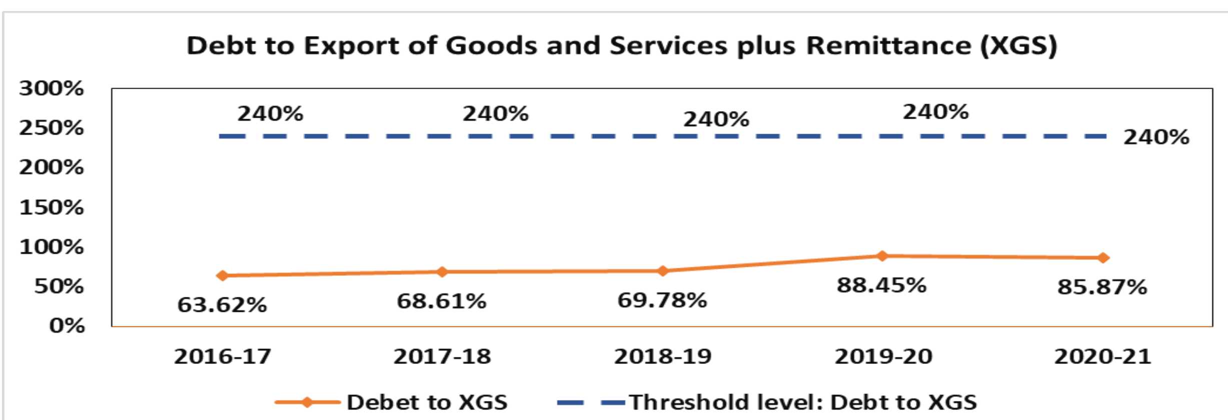
6.5 Debt sustainability of overall Public Sector External Debt

Broadly overall debt sustainability is measured by applying two aggregate sets of indicators. One is the ratio of ***total debt outstanding*** (public sector external debt) ***to GDP***. The other one is the ratio of ***debt servicing to export of goods and services and revenue earning***. Overall debt sustainability situation of Bangladesh is presented in the following graphs.

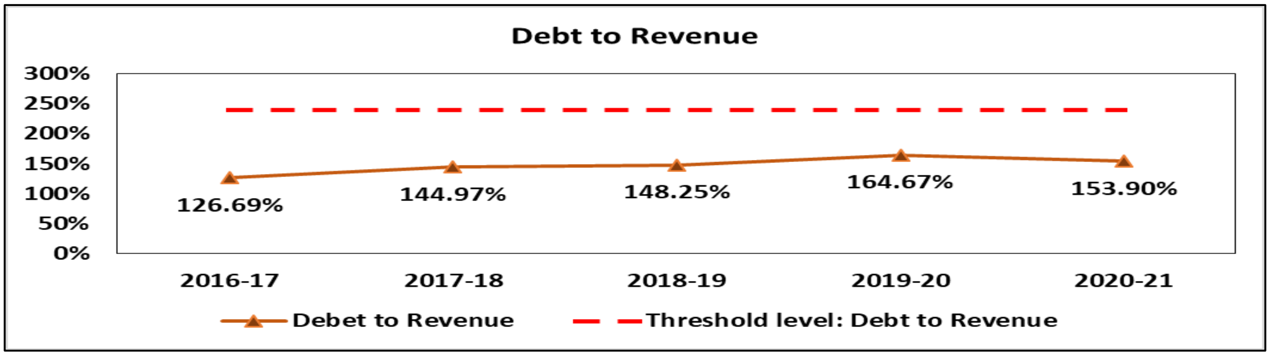
Debt Stock to GDP, Export of goods & services plus Remittance (XGS) and Revenue ratio and Threshold Level



Graph-22

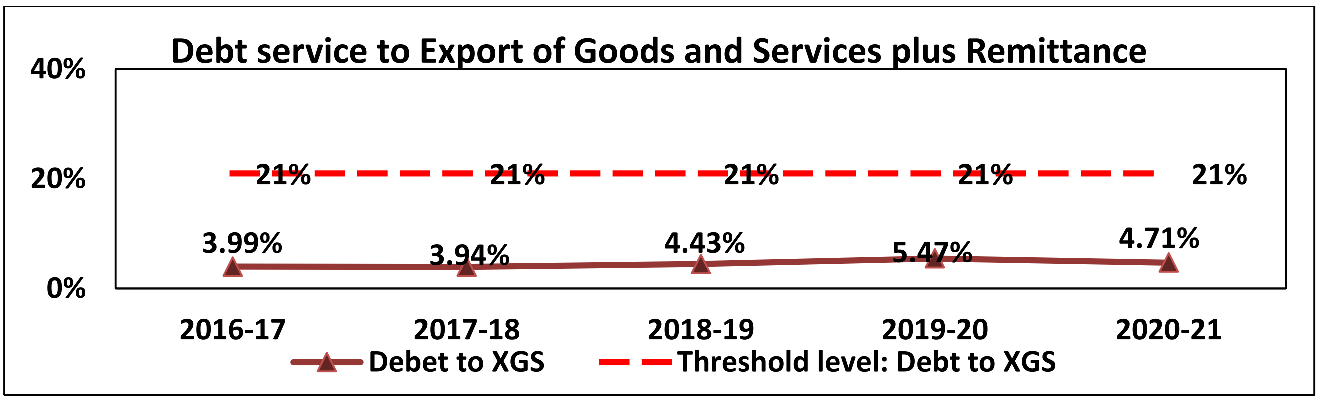


Graph-23

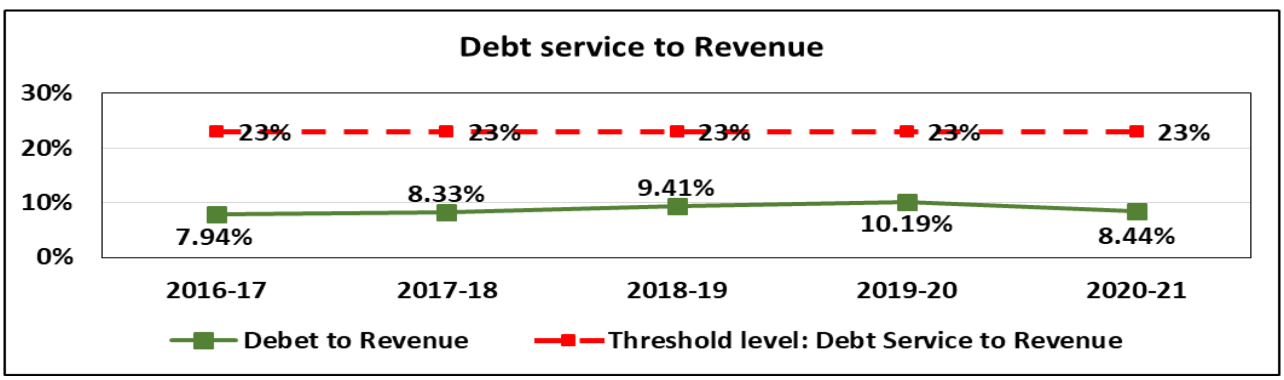


Graph-24

Debt Service to Export of goods & services plus Remittance (XGS) and Revenue ratio and Threshold Level



Graph-25



Grapg-26

From the above indicators it is clear that all the indicators of the external debt sustainability related to debt stock and debt service have improved in FY 2016-17 compared to the previous year. All the indicators are below the level of threshold. According to present classification by World Bank, Bangladesh is categorized as “less indebted” country.

7. Part-5: Developments in Assistance and Debt Management

7.1 Institutional Strengthening and Capacity Building: The recent IMF/WB/UNCTAD and the

DeMPA Missions highlighted in their findings the need to improve on the institutional arrangement of public debt management. Economic Relations Division (ERD) took a number of activities that should lead to improved institutional arrangement for external debt management. Foreign Assistance Budget and Accounting (FABA) wing was established in 2012 to ensure a prudent debt repay and accounting system. As a part of ERD's continuous effort to strengthen and manage public debt efficiently, officials are accruing knowledge and skills through specialized trainings/seminars/workshops on risk analysis, debt strategy analysis, negotiation analysis, financial Management, LIBOR transition, technological change, SDGs and other related areas. In September, 2015 a new wing, Development Effectiveness has been established in ERD for responding to the changing dynamics of international development cooperation. The broad mandate of this Wing is to undertake analytical and research work to help ERD in adapting strategic policy measures for ensuring assistance effectiveness.

7.2 Development in Borrowing Strategy: Since independence, Bangladesh has been depending on concessional loan from multilateral and bilateral agencies/countries. However, besides complex and time consuming loan approval process, the concessional loans are usually conditional. Moreover, Bangladesh's access to the ODA is limited compared to increased investment need for fulfilling the national development strategy. Global economic recession has also adversely affected mobilizing foreign assistance in concessional terms. But, interest rates in the external borrowing markets are at still low.

In this context, the Government is evaluating various financing alternatives now to bridge the financing gaps. Government already signed agreement with Russia, European Investment Bank, France Development Agency, Exim Bank of China etc. to borrow at a market floating interest rate. For ensuring better screening of non-concessional loan, the government has for a long time a high level committee naming "Standing Committee on Non-Concessional Loan" to contain debt burden in a comfort zone consistent with a prudent degree of risk. The Committee approved 65 proposals of non-concessional loans from 1st July 2013 to 30 June 2021.

7.3 Debt Management System: Bangladesh developed a debt accounting and management system immediately after the liberation of the country with some assistance from IMF. This was refined into a system by 1978. UNCTAD reviewed the system and based on it developed its Debt Management and Financial Analysis System (DMFAS). Since 1992 FABA has been using UNCTAD formulated software, for managing external debt. In June 2013 DMFAS was successfully upgraded from version 5.3 to version 6.0 under Deepening Medium Term Budget Framework (DMTBF) project of SPEMP. DMFAS version 6.0 is a web based software that connected Office of the Controller General of Account, Bangladesh Bank, Economic Relations Division (ERD) and Finance Division through Wide Area Network (WAN). The essence of this interconnectivity is to improve debt data quality and reporting among the institutions concerned. The operational linkages among institutions are yet to be completed. Once this process is completed, the quality of the country's debt management capacity will be substantially enhanced.

7.4 Monitoring of slow disbursing projects/ programs: To speed up disbursement against commitment, ERD has taken some measures which are as follows:

(i) Initiatives have been taken to identify slow moving projects by using following criteria:

- Projects which failed to achieve disbursement of less than 80% of the commitments over a period of 5 years or more;
- Projects which failed to achieve disbursement of less than 50% of the commitments over a period of 3 years or more; and
- Projects which failed to achieve disbursement of less than 10% of the commitments over a period of 1 year or more.

(ii) To expedite project implementation and establishing better cooperation among stakeholders, ERD arranges 'Tripartite Review Meeting' among ERD, Line Ministries and DPs at least once in three months at the Wing Chief level and biennially at the Secretary level. Progress, bottlenecks, measures taken to mitigate the bottlenecks of project implementation is monitored in the Tripartite Review Meeting. Variance between planned disbursements according to DPP/TPP and actual disbursements are also examined in the meeting.

(iii) ERD officials inspect the slow moving projects and submit report regularly.

7.5 Fast Track Project Monitoring Committee: A high level committee, chaired by honorable Prime Minister, has been established to monitor progress of the large projects that have or will have transformational value in economic development of the country. Up to January 2020, nine projects have been selected for monitoring by the committee. The Projects are: Padma Multi-Purpose Bridge Project, 2X600 MW Maitree Super Tharmal Power Project (Rampal), Ruppur Nuclear Power Plant Project, Dhaka Mass Rapid Transit Development Project (Metro Rail), LNG Terminal construction Project, Matarbari 2X600 MW Ultra Super Critical Coal Fire Power Project, Paira Sea Port Project, Padma Rail Link Project and Construction of Single Line Duel Gauge Track from Dohazari to Ramu-Cox Bazar- Ghumdum (near to Myanmar).

7.6 Initiatives toward diversification of sources of external resources: To strengthen the platform of South-South Cooperation, according to the decision of High Level Meeting on 'South-South and Triangular Cooperation in the Post 2015 Development Agenda: Financing for Development in the South and Technology Transfer', Bangladesh has communicated with 127 countries as an initiative to establish Finance and Development Ministers' Forum of the South. A number of countries have already responded positively. Moreover, Bangladesh has communicated with the UN to take initiative for a Resolution of General Assembly regarding establishing Finance and Development Ministers' Forum of the South. Besides that, Senior Secretary of ERD has been nominated as National Designated Authority (NDF) to coordinate with Green Climate Fund (GCF), established under UN Framework

Convention on Climate Change (UNFCCC), to ensure just share for Bangladesh as it is one of the worst victims of the climate change.

7.7 Bangladesh Development Forum (BDF): The latest edition of Bangladesh Development Forum (BDF) was held on 29-30 January, 2020 in Dhaka. Honorable Prime Minister of the Government of Bangladesh Sheikh Hasina, MP, inaugurated the BDF main session. This was the fourth round of BDF that took place over the last 10 years following its earlier edition in 2010, 2015 and 2018. This flagship event provides as an appropriate platform for assessing the progress made in implementing the SDGs aligned with the 7th five-year plan for dialogue on ways to accelerate Bangladesh's development. Senior Vice President of JICA Mr. Junichi Yamada, Vice President of World Bank for South Asian region Mr. Hart wig Schafer, Vice President of Asian Development Bank Mr. Shixin Chen attended the event along with others representatives from Development Partners, international development agencies, foreign missions, civil society organizations, private sector, think tanks, research organizations and Ministries/Divisions of the Government. The forum also serves to affirm broad-ranging support for Bangladesh's Development. Among many other issues, integrated SDG financing and strengthening multi-stakeholder partnerships, broader strategies of the 8th five-year plan and national priorities were discussed widely in the Forum. The deliberations of the Forum will support collective efforts to help Bangladesh in achieving SDGs, promoting inclusive, resilient, sustainable growth and development, and improving the lives of all Bangladeshis.

7.8 Initiative towards project readiness: To ensure readiness for implementation of the projects, ERD prepared a check list of jobs to be complemented at the formulation stage of projects. Consequently, a policy of allocating and managing fund for preparation of project and completion of jobs listed in the check list was also prepared. The Cabinet Committee on Economic Affairs approved both the check lists and the policy on 08.02.2017. It was published as a gazette on 6.3.2017. It is expected that the lead times for commencing implementation of the project will be reduced considerably. It is implied that the rate of utilization of assistance in the pipeline will be improved with faster implementation of projects.

7.9 Efforts towards implementation of SDG: The preliminary assessment of General Economic Division (GED) of the Ministry of Planning shows that it may require around US$928.48 billion worth of additional resources for full implementation of SDGs from 2017 to 2030.That mean, annual average cost would be 66.32 billion US$ which is 19.75% of the accumulated GDP. Importantly, external resources are estimated as 14.89% (9.95% FDI and 4.94% foreign assistance and grant) of total resource requirement. ERD pertains to Goal-17 of SDG (Partnership for the Goals) which entails multi-stakeholder partnership needs for mobilizing resources and transferring technology through innovations and sharing knowledge in accomplishing the Agenda 2030. ERD's role has been instrumental in realizing Bangladesh's SDGs through mobilizing foreign resources as well as enhancing effective ties with the Development Partners (DPs) and International organizations. As per the Handbook on Mapping of Ministries published by the General Economic Division (GED), ERD is the Lead agency for 15 different targets, Co-lead for 2 targets and Associate for another 29 targets. According to Target 17.2 of SDGs Developed Countries are supposed to fulfill their commitments in providing Official Development Assistance (ODA) at a minimum rate of 0.7% of the GNI of respective countries. It has been urged to provide at least 0.15-0.20% of GNI to LDCs out of the total target flow of ODA. ERD has undertaken several strategic Institutional and policy measures to harness resources to support Bangladesh's SDGs implementation. As per the directives from the Prime Minister's Office (PMO), General Economic Division (GED) of the Planning Commission in consultation with the SDG based coordinating ministries/divisions and relevant stakeholders prepared a comprehensive Voluntary National Review (VNR) of Bangladesh through series of meetings and workshops. All coordinating Ministries/ Divisions were instructed to organize Consultation Workshops on SDGs Implementation involving Lead, Co-Lead, and Associate Ministry/Division, DPs, local and international NGOs, CSOs and relevant stakeholders to provide necessary inputs for the VNR. Like other coordinating Ministries/Divisions, ERD also arranged a Consultation Workshop on the progress of SDG Implementation on 29 December 2019 involving relevant stakeholders. The findings of this workshop was reflected in the VNR Report of Bangladesh. The Division submitted its SDG Implementation Report (SIR) 2019 to the PMO. Bangladesh presented their VNR reports on SDG's Implementation on 13 July 2020 at the United Nations High Level Political Forum (HLPF) through Virtual Meetings.

ERD is providing on relevant indicators to **SDG Tracker**- a macro-level data repository system prepared by a2i project of Prime Minister's Office to facilitate the results based monitoring system within Government.