DEBT SUSTAINABILITY ANALYSIS WORKSHOP
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DEBT SUSTAINABILITY ANALYSIS: THE BANGLADESH CASE

ERIK LUETH
INTERNATIONAL MONETARY FUND

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Outline

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II. External Debt Sustainability Analysis

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III. Public Debt Sustainability Analysis

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I. Macroeconomic Assumptions

- Real GDP growth of around 6½ percent is above the recent historical average of 5.3 percent, but slightly lower than the PRSP projections
- The GDP deflator in US dollar terms increases at around 2 percent
- Imports and exports grow slightly as a share of GDP

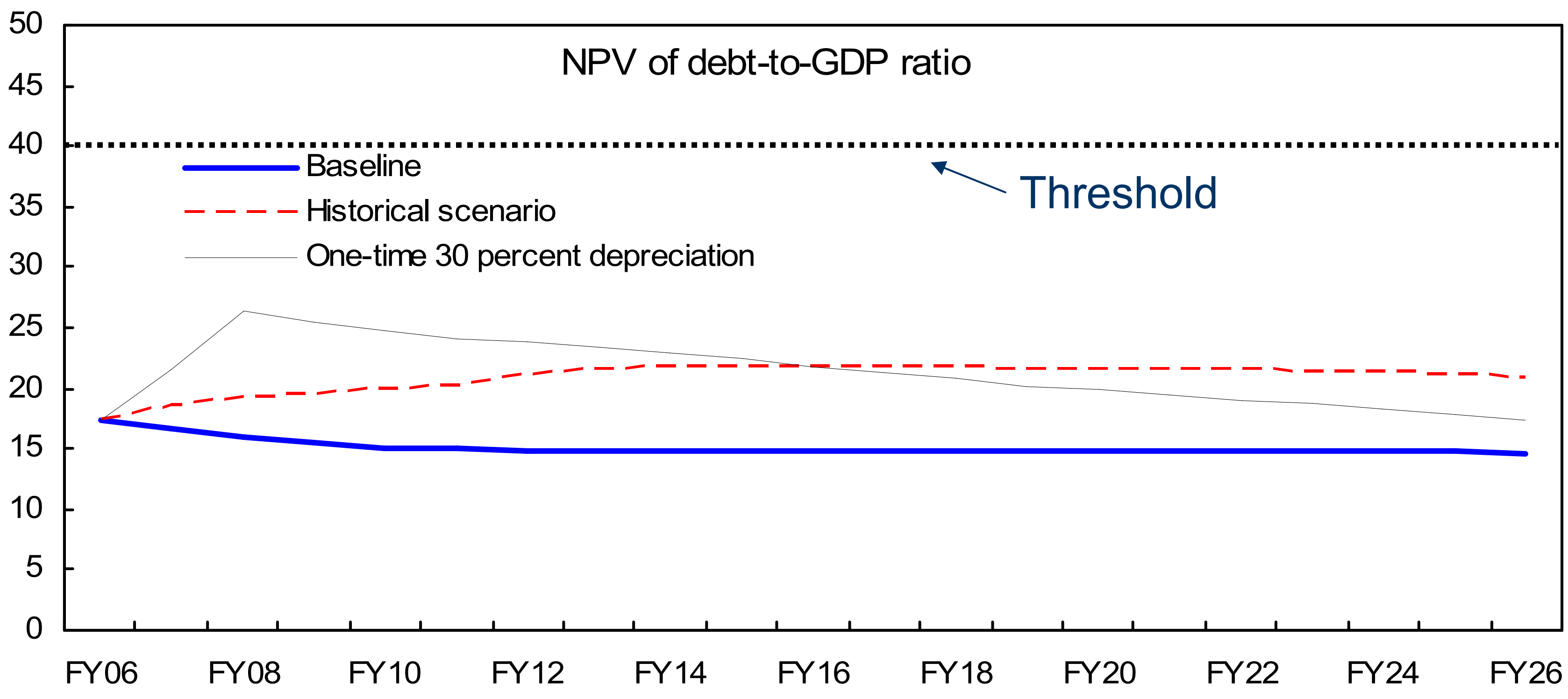
I. Macroeconomic Assumptions (cont.)

- The current account balance declines from 1 to -2 percent of GDP to fund investment
- Net aid inflows increase from 1.2 to 2 percent of GDP, but the share of grants declines
- The primary deficit as a share of GDP remains close to the historical average
- The real interest on domestic debt increases slightly to around 4 percent

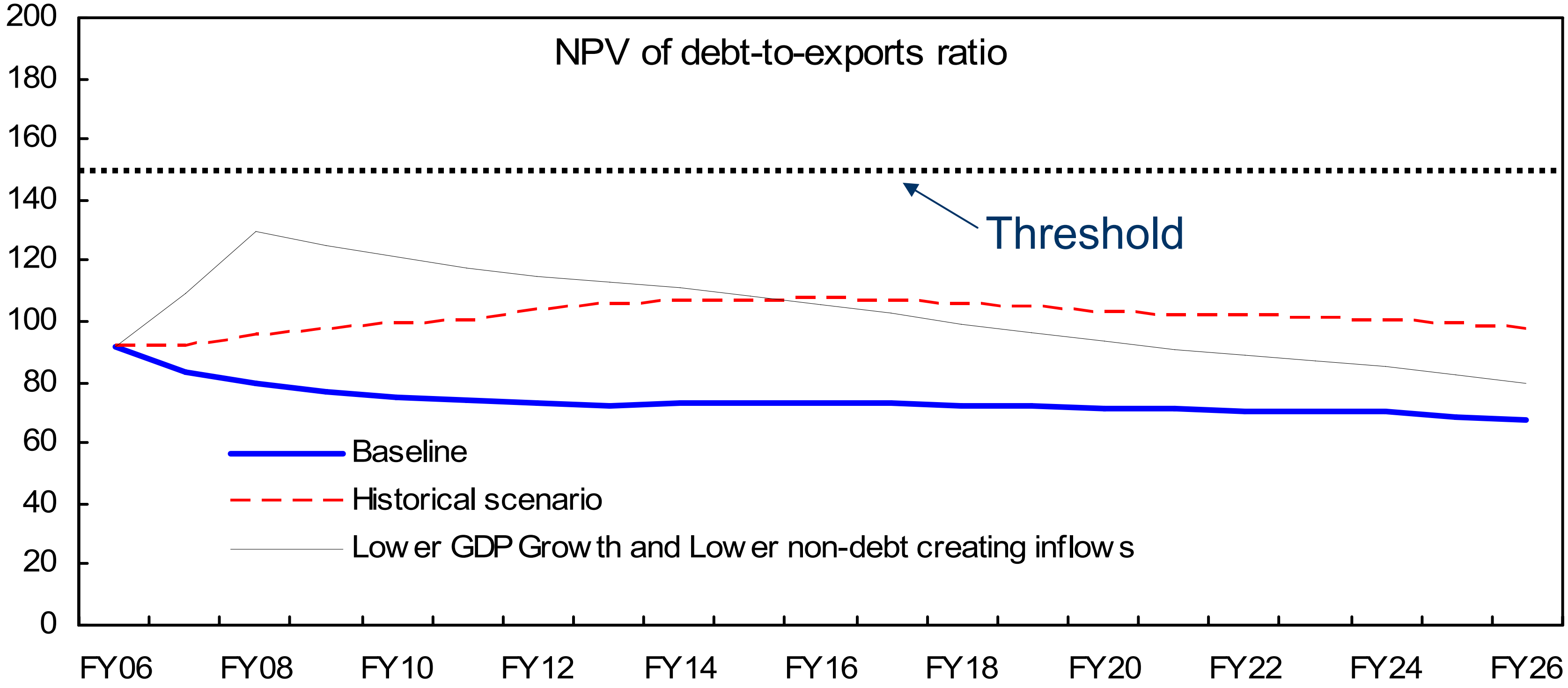
II. External Debt Sustainability Analysis
A. Baseline Scenario

- All debt indicators decline over the projection period
- All debt indicators remain well below the debt burden thresholds for “CPIA medium performers”

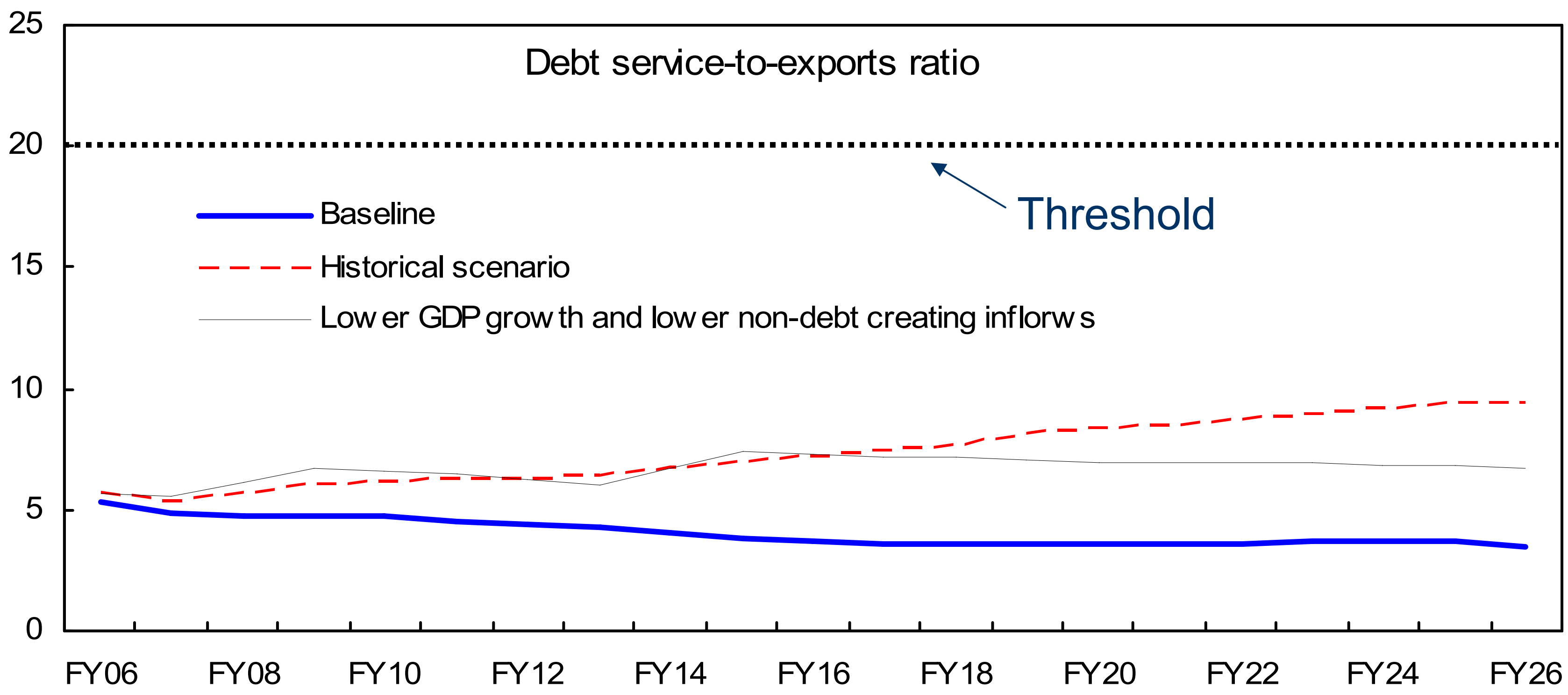
II. External Debt Sustainability Analysis
A. Baseline Scenario (cont.)



II. External Debt Sustainability Analysis
A. Baseline Scenario (cont.)



II. External Debt Sustainability Analysis
A. Baseline Scenario (cont.)



II. External Debt Sustainability Analysis
B. Standard Tests

No test breaches the indicative thresholds

Bangladesh DSA -- Maxima under Standard Stress Tests, 2006-2026

		NPV-to-GDP	NPV-to-Exports	DS-to-Exports
	Tresholds	40%	150%	20%
A1	Variables at historical averages	22%	107%	9%
A2	Less favorable borrowing	21%	98%	7%
B1	Real growth shock in 2007-08	17%	92%	6%
B2	Export shock in 2007-08	19%	106%	6%
B3	Deflator shock in 2007-08	18%	92%	6%
B4	Nondebt flow shock in 2007-08	24%	118%	7%
B5	Combination of B1-B4	27%	130%	8%
B6	Exchange rate shock in 2007	24%	92%	6%

II. External Debt Sustainability Analysis C. Country-Specific Tests

- Lower GDP growth
  - Since growth is not very volatile in Bangladesh, the standard test B1 may not be that relevant
  - However, long-term growth could be significantly lower in the absence of structural reforms
  - To what level would the growth rate have to fall over 2007-2016 for one debt indicator to breach the benchmark?
  - The answer was -3.5%, which was deemed a highly unlikely scenario

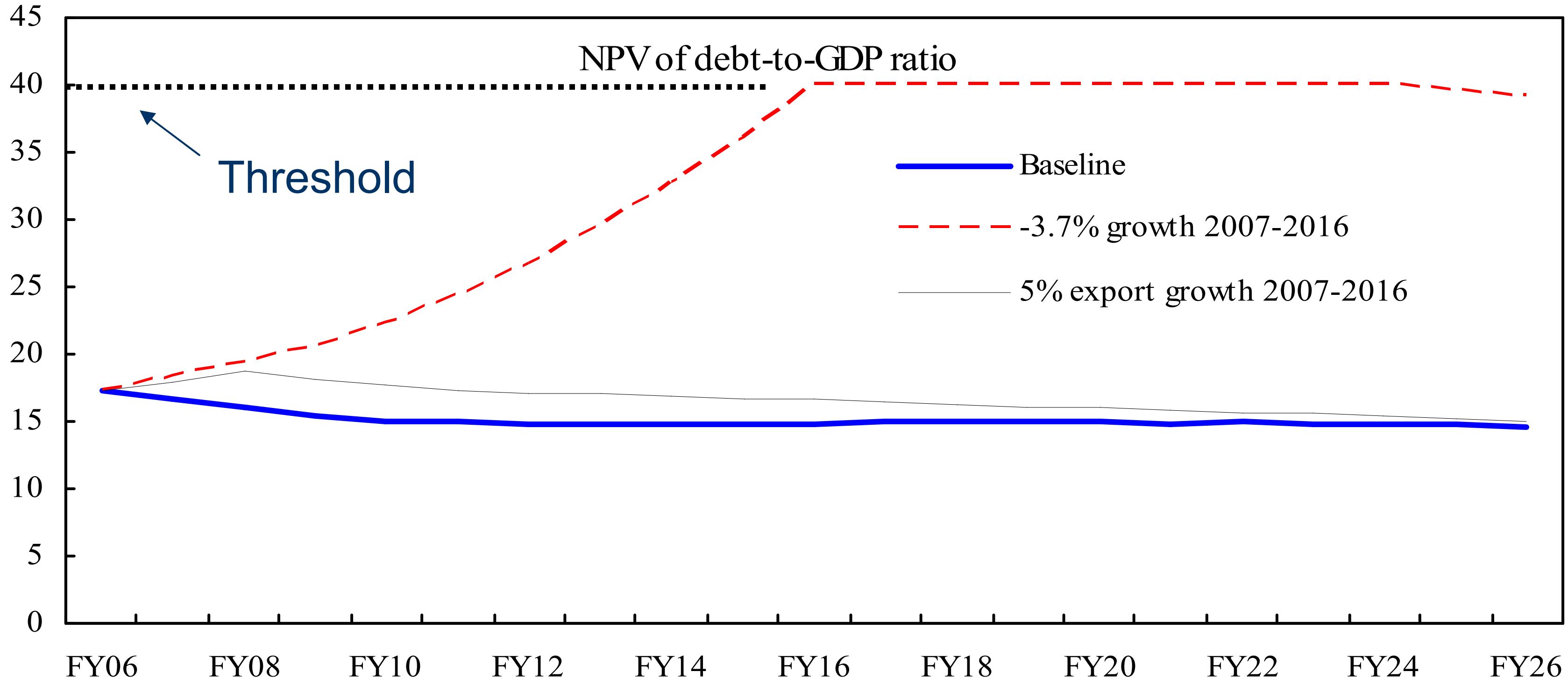
II. External Debt Sustainability Analysis C. Country-Specific Tests (cont.)

- Lower Exports
  - Some 75 percent of Bangladesh’s exports are in ready-made garments
  - Although, exports have held up well, this could change when temporary safeguards expire (2008)
  - Staff considered a scenario, where exports grow by a mere 5 percent over 2007-2016.
  - The impact on GDP was assumed to be negligible since the sector accounts for 10 percent of GDP

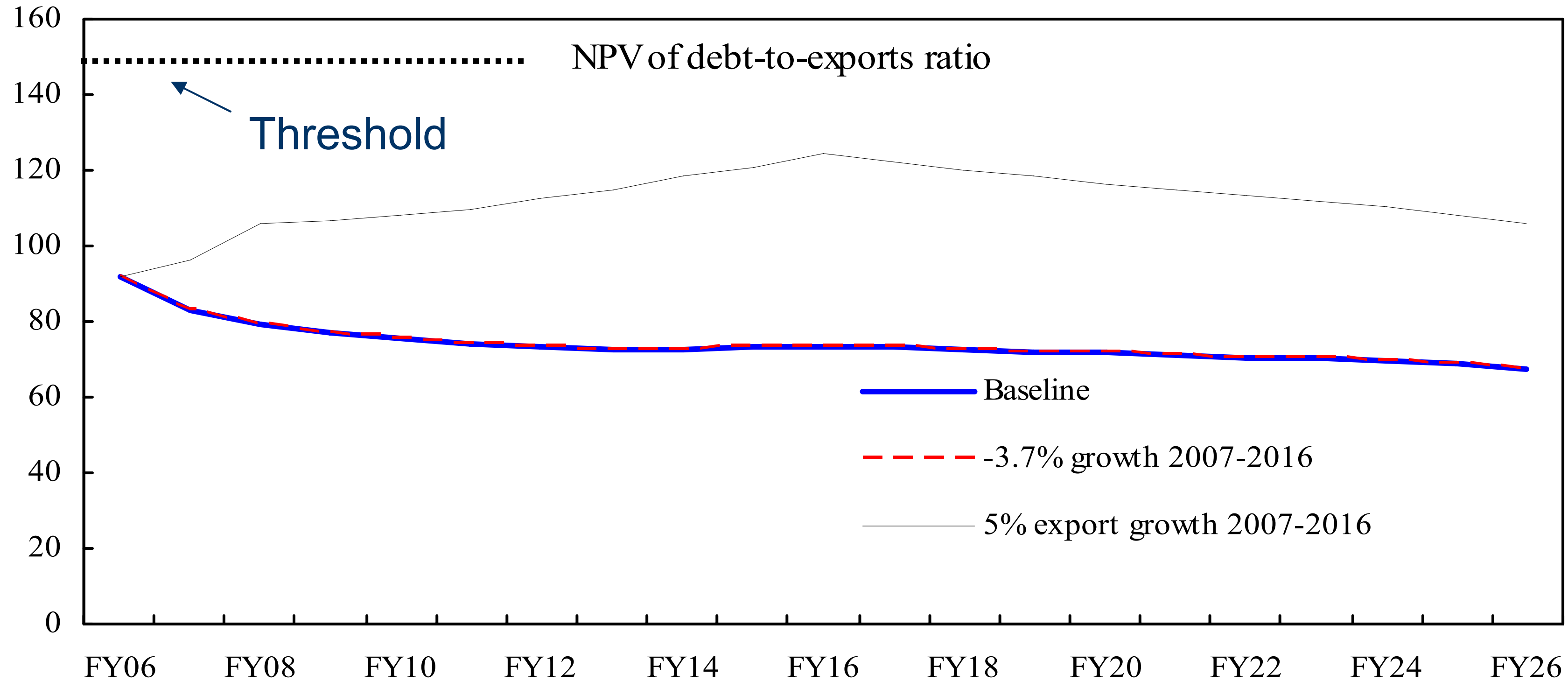
II. External Debt Sustainability Analysis
C. Country-Specific Tests (cont.)

- Lower Exports (cont.)
  - Under this scenario debt burden indicators again stayed well below the thresholds
  - Export growth would have had to fall to 3.2 each year between 2007 and 2016 for a threshold to be breached, which was deemed highly unlikely.

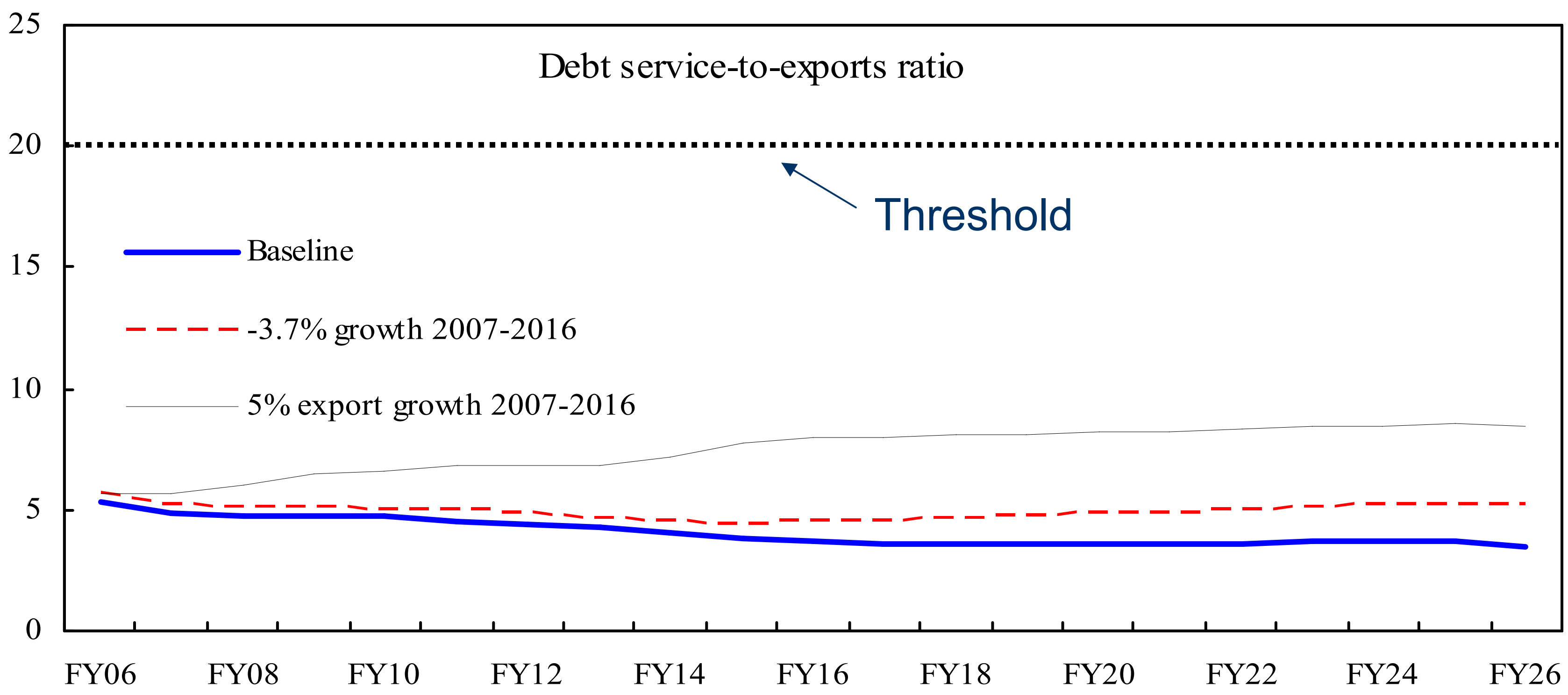
II. External Debt Sustainability Analysis
C. Country-Specific Tests (cont.)



II. External Debt Sustainability Analysis
C. Country-Specific Tests (cont.)



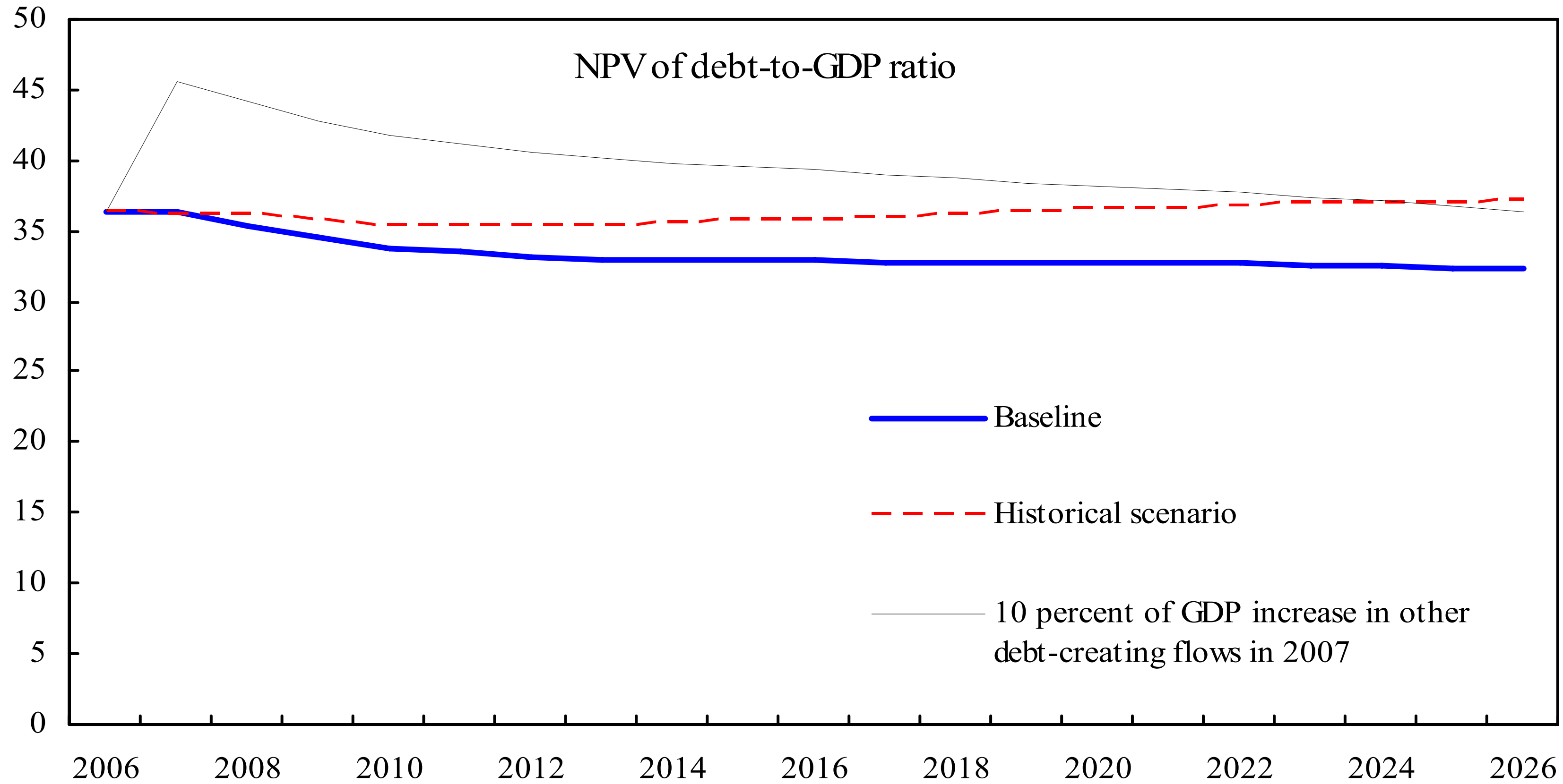
II. External Debt Sustainability Analysis
C. Country-Specific Tests (cont.)



III. Public Debt Sustainability Analysis

- Domestic debt has stayed relatively stable over the past five years (19 percent of GDP)
- Under the baseline scenario all debt burden indicators fall over the next 20 years
- But, the stress tests point to downside risks:
  - Under-pricing of energy has created large quasi-fiscal liabilities in the SOE and banking sector
  - With the budget taking on liabilities equivalent to 10 percent of GDP, debt service would reach 47 percent of revenues, nearly 2.5 times the baseline value of 20 percent.

III. Public Debt Sustainability Analysis (cont.)



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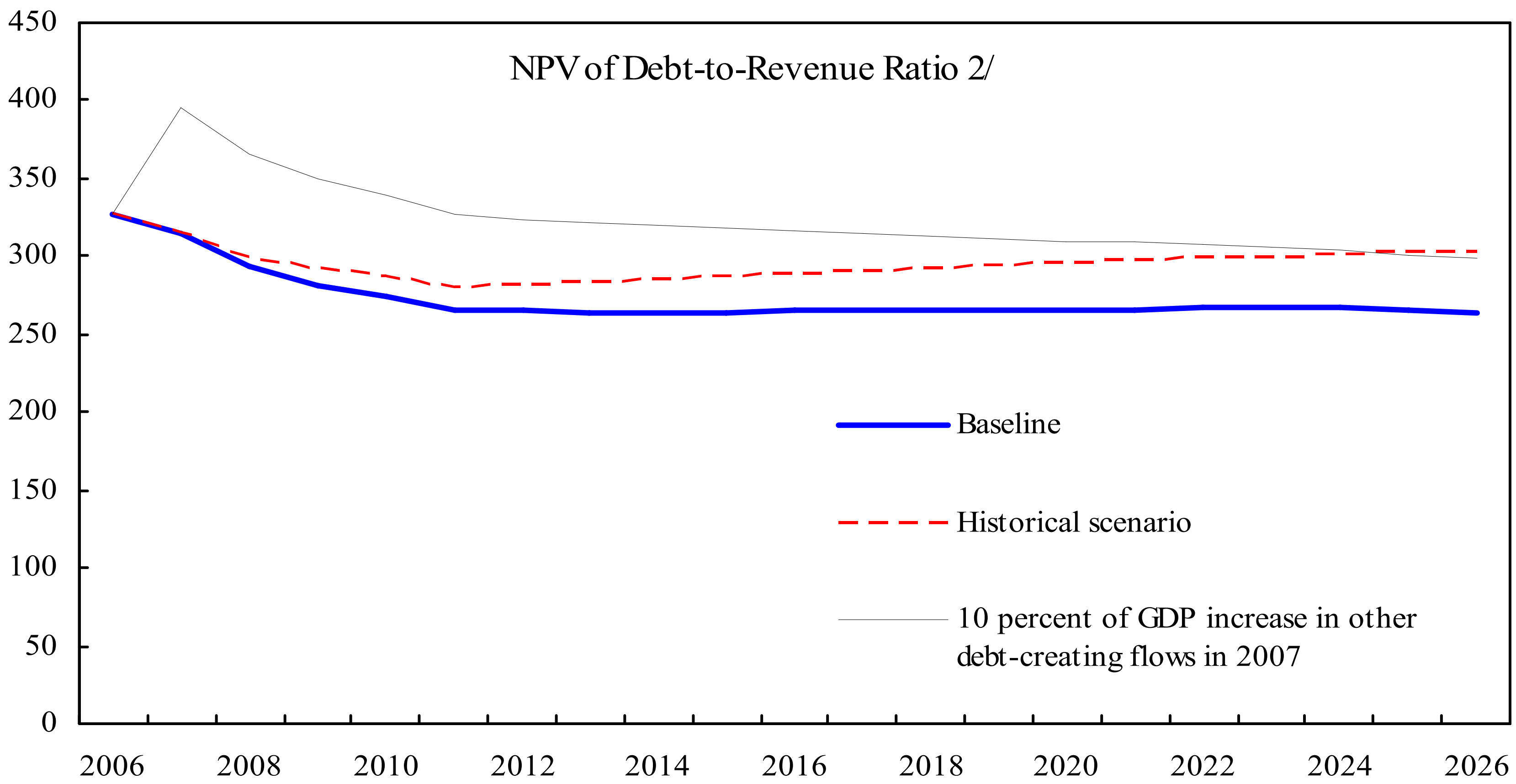

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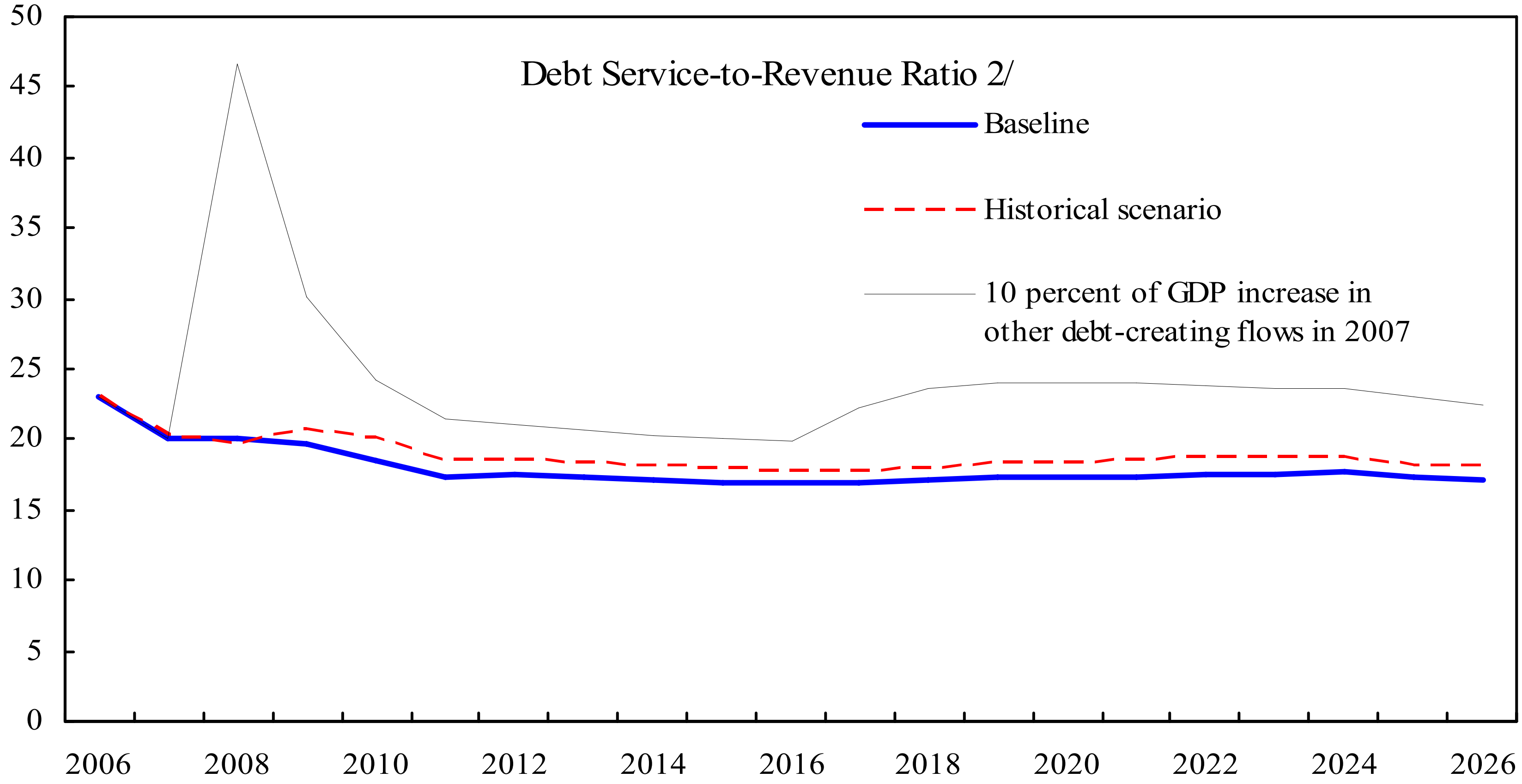

IV. Conclusion

- Based on external indicators Bangladesh can be considered at low risk of debt distress
- However, taking into account domestic obligations, the risk of debt distress becomes moderate