International Journal of Asian Social Science
ISSN(e): 2224-4441
ISSN(p): 2226-5139
DOI: 10.55493/5007.v15i5.5433
Vol. 15, No. 5, 54-69.

URL: www.aessweb.com

A comprehensive overview of the external debt history of Bangladesh

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Article History
Received: 28 April 2025
Revised: 30 May 2025
Accepted: 13 June 2025
Published: 26 June 2025

Keywords
Bangladesh
Budget deficit
Economic growth
External debt
Foreign aid
Trade deficit

ABSTRACT

This paper presents a comprehensive analysis of Bangladesh's external debt, utilizing secondary data spanning from the year of the country's independence in 1971 to 2023. The data sources for this analysis include reputable institutions such as the Ministry of Finance of Bangladesh, Bangladesh Bank (the central bank), and the World Bank's World Development Indicators (WDI). The paper employs trend analysis, utilizing diverse tables, graphs, and computations conducted by the authors, to evaluate the determinants and patterns of external debt in Bangladesh. The findings reveal that both the budget and trade deficits have been consistently rising from the fiscal year 1972 to 2023, reflecting the growing economic challenges faced by the country. Although foreign aid continues to be an essential worldwide financial resource, Bangladesh has experienced a consistent reduction in foreign aid inflows as its economy has developed and matured over time. Despite this, the amount of external debt has continued to rise, with the country's economy increasingly reliant on foreign loans to maintain internal and external balances, as well as secure foreign exchange reserves. To address these issues, the study recommends several measures to manage external debt more effectively, including restructuring debt repayment terms, diversifying the export base, and strengthening domestic revenue collection. The study's findings and recommendations aim to assist policymakers in formulating strategies to utilize foreign debt more effectively, fostering long-term economic growth and stability for Bangladesh.

Contribution/ Originality: The study goes beyond simple descriptive analysis by incorporating trend analysis and visual aids like graphs and tables to present a clearer picture of Bangladesh's external debt patterns. Furthermore, this study offers a unique, comprehensive, and longitudinal analysis of Bangladesh's external debt that have not been thoroughly addressed in previous research.

1. INTRODUCTION

External debt is critical both globally and nationally, as it provides essential financing for development projects, infrastructure, and social programs that may not be achievable with domestic resources alone. It enables countries to invest in key sectors like education, healthcare, and infrastructure, thereby driving economic growth. In Bangladesh, external debt plays a crucial role in funding the country's ambitious development goals, such as poverty reduction and sustainable infrastructure development, while also supporting its participation in global trade and investment (Săvoiu & Apostol, 2013). External debt can be broadly classified into two categories: public debt, which refers to the amount owed by the government, and private sector debt, which includes the debts owed by corporations and individuals. Foreign debt can be sourced from many channels such as public and government debt, bilateral loans from international organizations, commercial banks, export credits, and non-resident deposits.

Several prominent theories explain the relationship between external debt and economic growth including the Ricardian Equivalence Theory, the Reasonable Level of Debt Theory, the High Level of Debt Theory, the Debt Overhang Theory, and the Non-linear Debt Overhang Theory.

Ricardian Equivalence Theory, proposed by economist David Ricardo in the 19th century, suggests that government borrowing does not impact a country's overall demand or economic activity. According to this theory, when a government borrows to finance its spending instead of raising taxes, individuals anticipate that the government will need to repay the debt in the future, likely through higher taxes. As a result, people increase their savings in preparation for these anticipated tax hikes. This behavior offsets the government's borrowing and the spending its finance, leading to no net change in aggregate demand or output (Ricardo, 1820).

Reasonable Level of Debt Theory, proposed by Cohen (1995) that a moderate level of debt can stimulate growth, as long as a country can generate sufficient output to meet its debt obligations. Properly utilizing external debt to achieve development goals can boost growth, but the country must avoid debt repudiation, which could result in negative consequences such as trade sanctions.

High Level of Debt Theory argues that excessive debt can harm the economy. High debt can lead to higher future taxes, which, in turn, reduce economic activity. If the debt surpasses a country's resources, it may trigger capital flight, reducing investment and production, thereby, destabilizing the economy.

Nonlinear Debt Overhang Theory (also known as the Debt Laffer Curve) posits that there is an optimal level of debt that encourages growth. However, beyond a certain threshold, further increase in debt can harm growth. Initially, moderate debt can stimulate investment and growth, but as debt service rises, it begins to impede growth. The Laffer curve illustrates this relationship, with a "positive side" where debt supports growth and a "negative side" where excessive debt becomes detrimental.

These theories highlight the complex relationship between external debt and economic growth, suggesting that while moderate levels of debt may support economic development, excessive debt can undermine long-term stability and growth. For both developed and developing nations, managing external debt is crucial. Developed countries often rely on external debt to finance large investments, infrastructure projects, and to implement broader monetary policy strategies aimed at controlling inflation and interest rates. Such borrowing can enhance productivity, foster economic growth, and provide flexibility to navigate economic fluctuations (Slav'yuk & Slaviuk, 2018). In developing nations, external debt plays a vital role by closing financing gaps, boosting foreign exchange reserves, funding social services and infrastructure, reducing poverty, promoting social development, enhancing market confidence, and improving creditworthiness (Chenery, 1967). Jayaraman and Lau (2009) examined the impact of external borrowings on the economic growth in six major Pacific Island countries between 1988 and 2004, finding that these borrowings contributed significantly to the countries' economic growth.

A study by Kasidi and Said (2013) analyzed the correlation between external debt, debt servicing, and economic growth in Tanzania from 1990 to 2010. They also examined the long-term relationship between debt and growth in the country. The findings suggested that while debt has a positive effect on economic growth, it negatively impacts the country's ability to service the debt. Additionally, the study revealed no long-term association between debt and growth, nor any correlation between successive periods. When the debt level is low, it lacks efficiency, but when it is excessive, it may lead to numerous economic complications. Moreover, the constraints imposed by donor agencies can place additional strain on an economy, resulting in adverse effects.

Similarly, Bangladesh's persistent twin deficits—budget and trade deficits—have forced the country to heavily rely on external financing and aid, including official development assistance (ODA) and conditional, irrevocable loans (Sadekin, Muzib, & Al Abbasi, 2015). Before the Liberation War, per capita foreign aid in Bangladesh was $4. By the mid-1970s, this amount had tripled, continuing to rise during the military dictatorship years, peaking at a record $20 per Bangladeshi in 1990. Bangladesh's balance of payments deficits necessitates external debt, as noted by Rahman and Bari (2018). Their study, which utilized econometric tools to assess the relationship between

Bangladesh's economic development and overseas debt from 1972 to 2010, found a significant positive correlation over the long term.

Bangladesh has relied heavily on external debt to finance its constrained economy since gaining independence. Between 1974 and 1984, the external debt rate increased by 133.3%. However, this rate sharply declined over the following three decades. In the past decade, from 2014 to 2023, the external debt rate surged more than tenfold, reaching 33.99% (source: ERD, Ministry of Finance). This situation mainly stemmed from extensive spending on large-scale development projects and the efforts to recover from the COVID-19 pandemic. Consequently, sluggish economic activities, inadequate revenue mobilization, and COVID-19 recovery expenditures led the government to depend more on external debt (Ahmed, Anjum, Hasan, & Seikdear, 2022).

High foreign debt levels can expose governments to economic shocks, making debt repayment increasingly difficult (Clements, Bhattacharya, & Nguyen, 2003). In light of recent developments, Bangladesh's debt sustainability issue has become more pronounced. The country is grappling with several financial challenges, exacerbated by both domestic and international factors. According to the ERD Ministry of Finance, funding for climate change adaptation and mitigation programs—including infrastructure development, disaster management, and agricultural resilience—surpassed $10 billion in the fiscal year 2023-2024.

This financial support could bolster the economy, provided the funds are utilized effectively and promptly. However, due to delays in project implementation, the government has consistently struggled to meet its targets. According to documents from the Ministry of Finance, unused foreign funds stood at $47 billion in fiscal year 2023 and $43.76 billion in the previous fiscal year. Additionally, since 2015, when Bangladesh transitioned to the lower middle-income class, the country has been borrowing at higher interest rates (Bhattacharya, 2018) preventing it from securing loans at favorable terms from external sources.

Furthermore, the Bangladesh Bank’s statistics department reported that the country’s foreign exchange reserves decreased from $48.09 billion to approximately $24 billion between 2021 and early 2024. The geopolitical tensions between major powers such as the U.S., China, and Russia have exacerbated Bangladesh's economic challenges, complicating efforts to secure consistent foreign support.

As a result, Bangladesh's foreign debt service rose by 49% during the July-March period of the 2023-24 fiscal year, largely due to soaring interest payments. With the government continuing to borrow funds for large infrastructure projects from bilateral and multilateral sources, the burden of debt servicing continues to grow. Key projects include the establishment of an international-standard laboratory for vaccine research, the production of high-quality vaccines, the Dhaka Northwest Corridor (190 km), the "Smart Metering Energy Efficiency Improvement Project," the third terminal at Hazrat Shahjalal International Airport, the Matarbari Coal Power Plant, and the Dhaka Metro Rail project (Ministry of Finance, 2018).

Monitoring a country's external debt is essential for evaluating its economic health and long-term stability. Researchers such as Ahmed et al. (2022); Farhana and Chowdhury (2014); Rahman, Bashar, and Dey (2012) and Shah and Pervin (2012) have explored the relationship between external debt and economic growth in Bangladesh. Additionally, numerous studies have examined external debt management and sustainability from Bangladesh's perspective, including works by Patwary (2021); Debapriya Bhattacharya and Ashraf (2018); Rahman and Bari (2018) and Islam and Biswas (2005). However, to the best of the authors' knowledge, no comprehensive analysis of Bangladesh's external debt has been conducted. This study aims to provide an in-depth overview of the country's external debt. The specific objectives of the study are:

i. To investigate the reasons behind the continuous increase in Bangladesh’s external debt from 1972 to 2024.
ii. To check the composition of Bangladesh's external debt in terms of periods and the distribution between public and private debt.
iii. To identify the sources of external debt in Bangladesh and examine the changes in these sources over time.

iv. To assess the scenario of external debt servicing in Bangladesh.

The subsequent sections of the study will present the findings related to these objectives. The paper concludes with policy recommendations and a summary of the key insights.

2. METHODOLOGY

This study presents a comprehensive analysis of Bangladesh's external debt, utilizing secondary data spanning from the year of independence in 1971 to 2023. The data sources include the Ministry of Finance of Bangladesh, Bangladesh Bank (the central bank), and the World Development Indicators (WDI) of the World Bank. Trend analysis is employed, incorporating various tables, graphs, and the authors' calculations to identify the key factors contributing to external debt in Bangladesh.

3. RESULTS AND DISCUSSION

3.1. The Aggregate Economic Background of External Debt

The overall economic context of external debt in a developing country like Bangladesh is both multifaceted and complex. Several interconnected macroeconomic factors, such as development financing through deficit budgeting, trade imbalances, and a declining trend in foreign aid, contribute to the growing dependence on external debt. In this section, we analyze these factors by examining historical data.

3.1.1. Budget Deficit Status in Bangladesh

Budget deficits arise when government expenditure surpasses the revenue collected from taxes. These deficits are a common characteristic in both developed and developing nations. Since Bangladesh's independence, the country has consistently operated under a deficit budget. Figure 1 illustrates the budget deficit of Bangladesh from the 1972-73 fiscal year to the 2022-23 fiscal year.

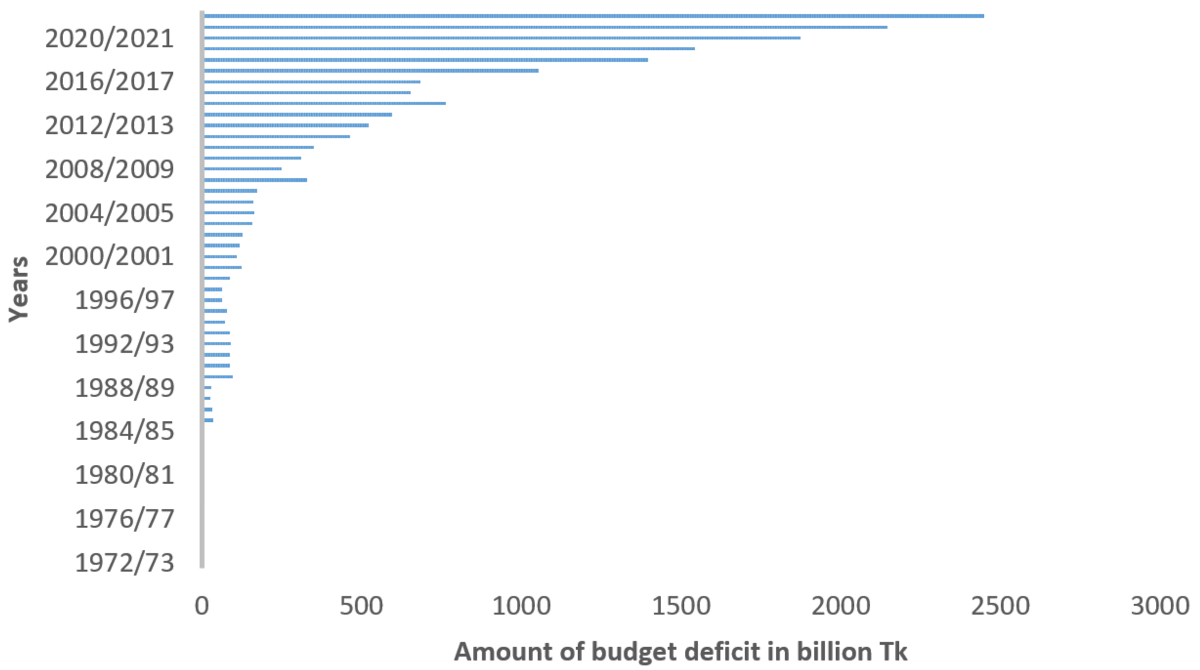

Figure 1. Budget deficit of Bangladesh.

Source: Annual report of various issues, Bangladesh bank.

The first budget in Bangladesh's history recorded a deficit of Tk 7 billion. At that time, the government was managing a war-torn economy that required substantial public spending for reconstruction. Since then, factors such as low tax revenue growth, high government expenditure, a challenging competitive environment, the shadow economy, corruption, and income inequality have contributed to the increasing deficit (Alam, Rahman, & Hasan, 2022). In the fiscal year 2022-23, the budget deficit rose to Tk 2,450 billion, which is 5.51% of GDP. This trend demonstrates that the Bangladesh government has consistently increased its budget deficit over the years. To finance this growing deficit, external debt has also risen significantly.

3.1.2. Trade Deficit History of Bangladesh

A trade deficit occurs when the monetary value of a country's imports exceeds that of its exports during a specific period. This situation is also known as a negative trade balance. Figure 2 illustrates Bangladesh's trade balance from the fiscal year 1973-74 to 2023-24.

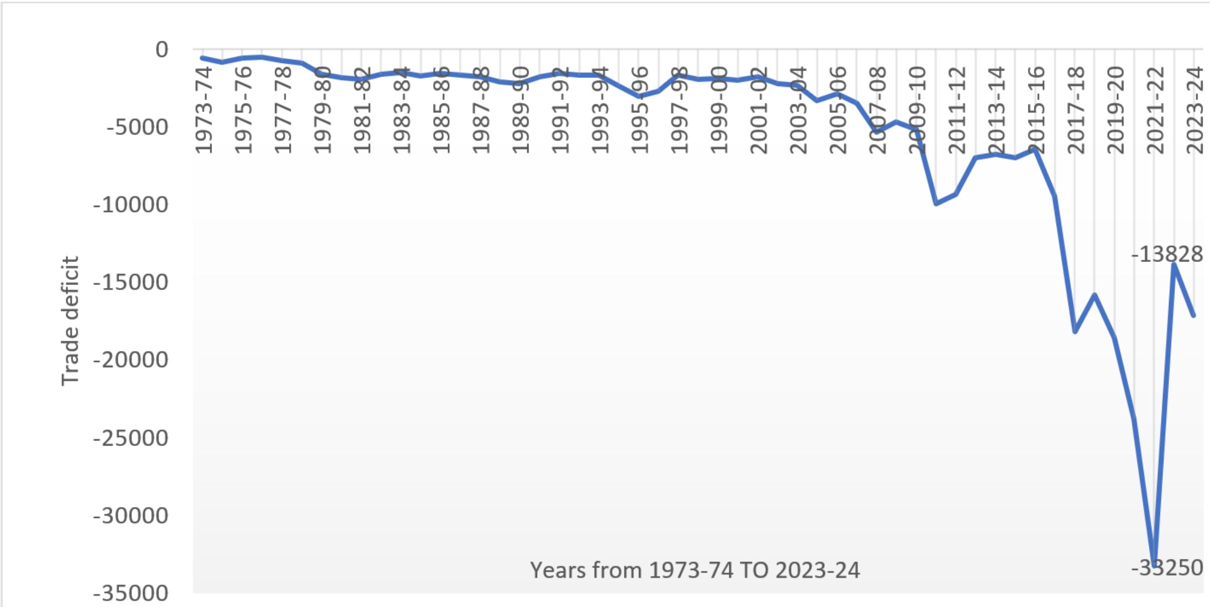

Figure 2. Trade balance of Bangladesh (Million USD).

Source: Bangladesh bank. Various years. statistics department. balance of payments (BOP).

The negative trade balance in the graph concludes that Bangladesh has been experiencing a negative trade balance from 1974 to 2024. The high cost of importing petroleum products from the world market to maintain domestic development demand is the main cause of this sustained trade deficit (Hassan, Sanchez, & Yu, 2017). Before 2015, the amount of the trade deficit did not exceed $10,000 million. After that, because of different national and international crises, the trade deficit continuously increased, and in the fiscal year 2021-22, it touched the highest amount of $33,250 million. The deficit improved to -13,828 million USD in 2022-23 but increased again to -17,155 million USD in 2023-24. To balance Bangladesh's international trade of Bangladesh, one of the crucial sources is external debt.

3.1.3. Foreign Aid of Bangladesh

In developing countries like Bangladesh, official development assistance (ODA), or "foreign aid," plays a crucial role as an international source of financial resources. Traditional development theory, such as the two-gap model proposed by Chenery and Strout (1966) suggests that foreign aid helps developing nations bridge two key gaps: the foreign exchange gap and the saving-investment gap (Bacha, 1984). Table 1 presents foreign aid as a percentage of ADP, GDP, and the budget across various decades.

Table 1. Foreign aid as the percentage of ADP, GDP, and budget.

Items	Decade					
	1970s	1980s	1990s	2000s	2010s	2021-2023
Aid as the % of ADP	100.22	98.95	70.02	48.32	42.9	30.21
Aid as the % of GDP	176.99	231.27	40.05	28.5	22.81	25.79
Aid as the % of budget	57.85	52.41	32.48	16.95	7.64	2.51

Source: Author's calculation from various years' annual reports of Bangladesh bank and ERD, ministry of finance.

In the 1970s, foreign aid financed 100 percent of the ADP. During the post-liberation period, it was common for nations to rely heavily on foreign aid to recover from a state of economic stagnation. Over time, however, Bangladesh began to progress on its development path and reduced its dependence on foreign development assistance. The flow of aid as a percentage of GDP has decreased in tandem with the expansion of the economy, with the most recent figure standing at only 22.81 percent of GDP. Before 1990, foreign aid financed fifty percent of Bangladesh's national budget. In the 2000s, aid contributed an average of about 17 percent to the national budget. By 2023, this contribution had fallen to less than three percent. As a result, the budget's reliance on foreign aid has significantly decreased. However, the analysis shows that both the budget deficit and trade deficit have followed an increasing trend. Bangladesh remains heavily reliant on foreign resources to stabilize these deficits. Meanwhile, foreign aid, which has historically been a vital source of foreign exchange, has diminished over time. Consequently, Bangladesh's economy has become increasingly dependent on external debt as a source of foreign exchange to maintain its internal and external balance.

3.1.4. Linking the Macroeconomic Indicators to External Dependence

The persistent budget deficit, reaching Tk 2,450 billion in FY 2022-23 (5.51% of GDP) as shown in Figure 1, compels the Bangladesh government to borrow externally, as domestic revenue (such as tax receipts) cannot fully cover the gap. This growing reliance on external debt helps finance the deficit over time.

Similarly, the trade deficit, driven by high imports and low exports, depletes foreign exchange reserves. With the trade deficit widening (e.g., $33,250 million in 2021-22) as depicted in Figure 2, the government faces increasing pressure to borrow externally to maintain foreign exchange reserves and ensure the ability to meet international trade obligations.

Furthermore, the decline in foreign aid, which dropped from 50% of the national budget before 1990 to less than 3% in 2023, as shown in Table 1, exacerbates the need for external debt. As foreign aid has diminished, the government has increasingly relied on external borrowing to finance both the budget and trade deficits, compensating for the loss of aid and helping to maintain economic stability.

3.2. External Debt Statistics and Economic Expansion of Bangladesh

This study examines the overall statistics of external debt and Bangladesh's economic growth. Figure 3 illustrates two key economic indicators over several years: external debt (in millions of dollars) and GDP growth rate. The analysis explores trends and potential relationships between these two variables.

External debt was relatively low in the early years (around 1973/74) but saw a significant increase by the late 1970s and early 1980s. During this period, Bangladesh borrowed extensively to finance development projects and other economic activities. From 1970 to the early 1980s, despite high debt levels, GDP growth rates remained moderate to high, reflecting the country's economic expansion.

External debt continued to rise steadily from the mid-1980s to the mid-1990s. While GDP growth fluctuated during this time, it remained positive, though there were some years of slower growth. By the late 1990s and early 2000s, external debt began to stabilize or grow at a slower pace. During this period, GDP growth rebounded and generally maintained above-average levels.

From 2014/2015 to 2023/2024, external debt rose consistently from $23,489 million in 2014/2015 to a peak of $103,790 million in 2023/2024, reflecting increased borrowing to support development and economic activities. The GDP growth rate fluctuated, peaking at 7.86% in 2017/2018, followed by a sharp decline to 3.5% in 2019/2020, likely due to global economic challenges such as the COVID-19 pandemic. Growth rebounded to 6.9% in 2020/2021 but gradually slowed to 5.82% by 2023/2024, signaling the need for sustainable growth strategies in light of rising debt levels.

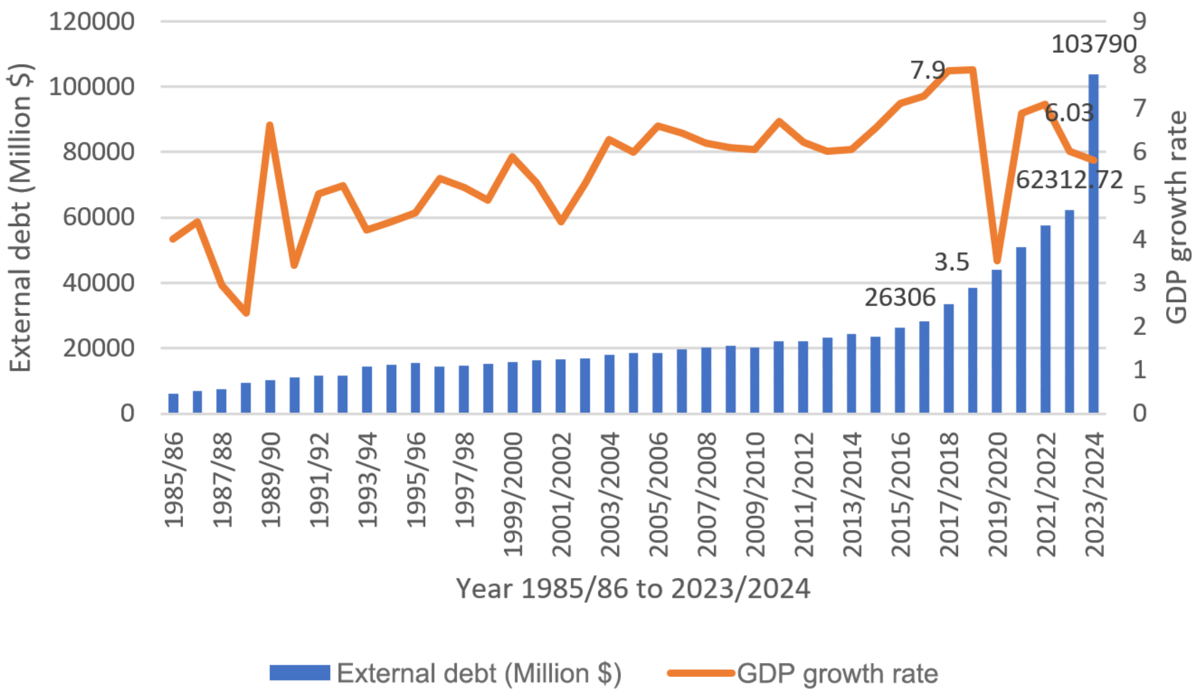

Figure 3. External debt and the trend of GDP growth rate.

Source: i) General govt. debt of public sector- ERD, ministry of finance.
ii) Public sector debt excluding general govt. debt, private sector debt - FIED management cell, statistics department, Bangladesh bank.

In summary, external debt has consistently increased, corresponding with rising economic activity, although occasional drops in GDP growth rate have been observed. This indicates that while external debt has supported growth, its sustainability remains a crucial consideration.

Table 2. Composition of external debt of Bangladesh.

Year	Public debt (In million USD)				Private debt (In million USD)			
	Long term	% change	Short term	% change	Long term	% change	Short term	% change
2015/2016	30,449.90	-	1,556.20	-	3,371.40	-	5,424.60	-
2016/2017	33,100.39	8.7	1,601.90	2.94	3,107.4	-7.83	7,430.20	36.97
2017/2018	38,866.37	17.4	1,904.05	18.86	3,640.72	17.16	10,325.95	38.97
2018/2019	44,037.98	13.3	2,116.18	11.14	5,081.42	39.57	9,120.57	-11.67
2019/2020	47,673.66	8.3	1,265.53	-40.2	5,354.12	5.37	8,732.27	-4.26
2020/2021	57,113.91	19.8	2,236.55	76.73	6,888.76	28.66	11,799.67	35.13
2021/2022	67,016.63	17.3	2,890.31	29.23	8,195.24	18.97	17,755.68	50.48
2022/2023	74,303.30	10.9	2,375.13	-17.82	8,600.57	4.95	13,656.47	-23.09

Source: i) General govt. debt of public sector- ERD, ministry of finance.
ii) Public sector debt excluding general govt. debt, private sector debt - FIED management cell, statistics department, Bangladesh bank. iii) Author's calculation.

3.3. External Debt Composition of Bangladesh

Table 2 shows the composition of Bangladesh's external debt over several years. Bangladesh's external debt is divided into two main categories: public debt and private debt. Public debt refers to the debt owed by the government of Bangladesh, while private debt refers to the debt owed by private entities within the country, such as corporations or private banks. Within each category, the debt is further divided into long-term and short-term debt. Long-term debt typically refers to debt with a maturity period of more than one year, while short-term debt must be repaid within a year.

As shown in Table 2 and Figure 4, public debt is higher than private debt. At the end of June 2020, public debt accounted for 74.6% of Bangladesh's total external debt, and by June 2023, this share increased to 83.8% of the total external debt (Figure 4).

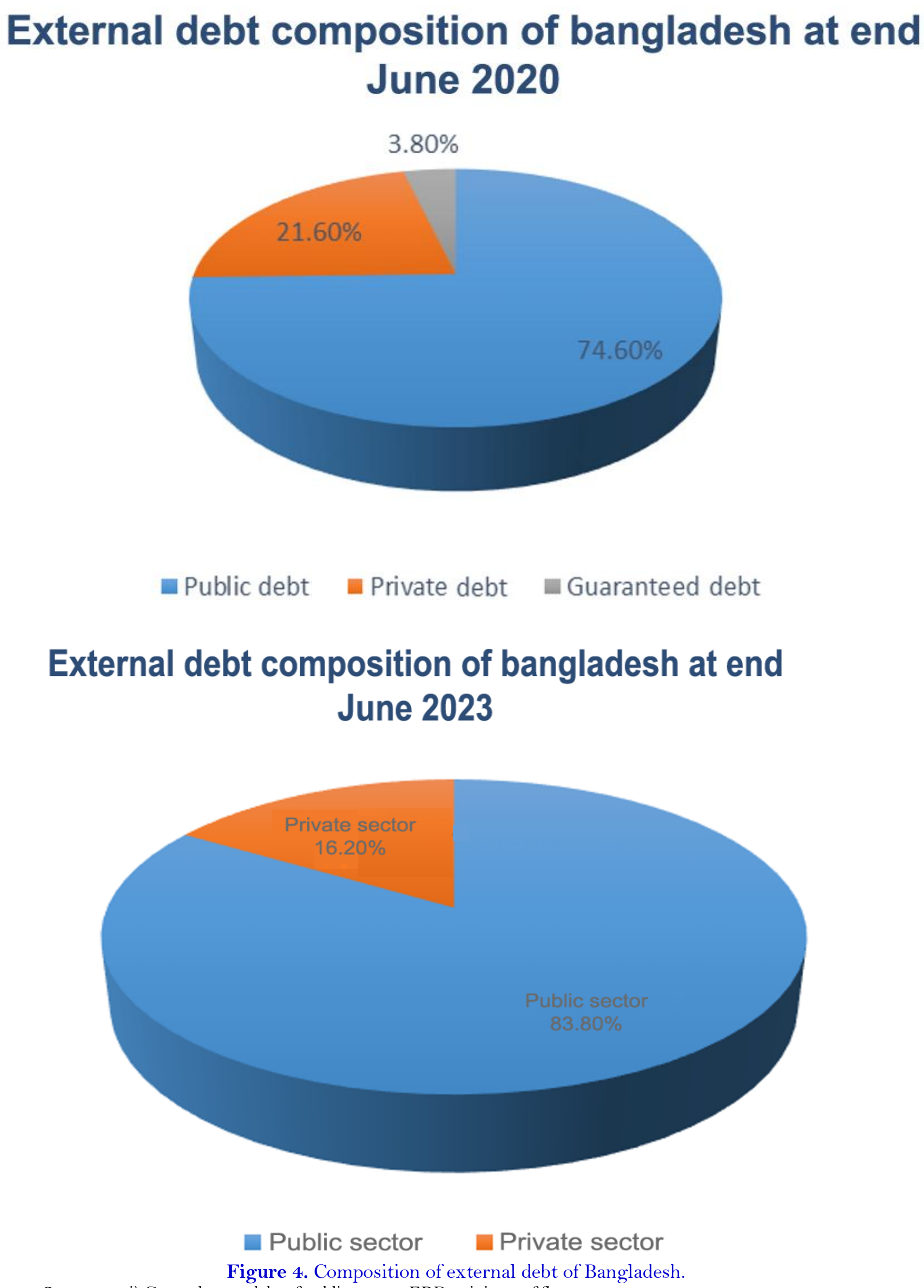

Figure 4. Composition of external debt of Bangladesh.

Source: i) General govt. debt of public sector- ERD, ministry of finance.
ii) Public sector debt excluding general govt. debt, private sector debt - FIED management cell, statistics department, Bangladesh bank.

Table 3. Public debt composition of Bangladesh from 2019/20 to 2022/23.

Public debt (In million USD)								
Year	Long term							Short term
	Multilateral	Bilateral	Supplier's credit	IMF loan	External commercial borrowings	Others	Total	
2019/2020	29,106.03	14,848.04	0	2,075.28	6	1,638.31	47,673.66	1,265.53
2020/2021	32,327.29	18,909.41	0	1,976.90	2,150.14	1,750.17	57,113.91	2,236.55
2021/2022	34,347.05	24,499.15	0	3,024.06	3,707.51	1,438.86	67,016.63	2,890.31
2022/2023	37,920.88	25,761.51	0	3,374.71	6,166.99	1,079.21	74,303.30	2,375.13

Source: i) General govt. debt of public sector- ERD, ministry of finance.
ii) Public sector debt excluding general govt. debt, Private sector debt - FIED management cell, statistics department, Bangladesh bank.

Table 4. Private debt composition of Bangladesh from 2019/20 to 2022/23.

Private debt (In million USD)								
Year	Long term							Short term
	Multilateral	Bilateral	Supplier's credit	IMF loan	External commercial borrowings	Others	Total	
2019/2020	1,426.14	239.85	211.57	0.00	3,180.90	295.66	5,354.12	8,732.27
2020/2021	2,133.35	325.23	134.43	0.00	3,970.09	325.66	6,888.76	11,799.67
2021/2022	2,044.55	1,064.69	135.97	0.00	4,572.88	377.15	8,195.24	17,755.68
2022/2023	1,590.59	34.21	122.70	0.00	5,674.23	1,178.84	8,600.57	13,656.47

Source: i) General govt. debt of public sector- ERD, Ministry of Finance.
ii) Public sector debt excluding general govt. debt, Private sector debt - FIED management cell, statistics department, Bangladesh bank.

Table 2 shows that in the fiscal year 2015-2016, Bangladesh's government owed approximately 30,449.90 million USD in long-term public external debt. By the fiscal year 2022-2023, this amount more than doubled to 74,303.30 million USD. Short-term public external debt also followed an increasing trend, although it remained lower than long-term public external debt. For private external debt, short-term debt exceeded long-term debt. For instance, private entities in Bangladesh owed approximately 10,325.95 million USD in short-term external debt and 3,640.72 million USD in long-term external debt during the fiscal year 2017-2018.

Table 3 and Table 4 provide a breakdown of Bangladesh's public and private debt composition for the fiscal years from 2019/2020 to 2022/2023, categorizing the debt into long-term and short-term and further subdividing it by the source of financing. The available sources of funding for each long-term debt are:

Multilateral: Debt obtained from international financial institutions like the World Bank, Asian Development Bank, etc.

Bilateral: Debt obtained from foreign governments or their agencies through bilateral agreements.

Supplier's Credit: Credit extended by suppliers for the purchase of goods or services.

IMF Loan: Loans obtained from the International Monetary Fund.

External Commercial Borrowings: Debt sourced from foreign commercial entities, such as loans from foreign banks or bond issuance in international markets.

Others: Possibly includes debt from other sources not categorized above.

Guaranteed Loan: In 2020, Bangladesh introduced the "Guaranteed Loan" program to support businesses affected by the COVID-19 pandemic. Under this initiative, the government provided guarantees to banks for loans extended to affected businesses, ensuring easier access to credit during challenging times.

Table 3 and Table 4 further illustrate how the balance between long-term and short-term debt has changed over the years. In public debt, long-term debt predominates, reflecting a preference for financing with extended repayment periods to manage cash flow and ensure sustainability. In contrast, private debt is largely composed of short-term debt, which is often used by businesses to cover working capital needs, operational expenses, or temporary financial gaps.

Both public and private debts are sourced from similar channels, although the proportions may differ. Public debt typically relies more on multilateral and bilateral sources, while private debt tends to be financed through external commercial borrowings. The IMF loan is a significant component of public debt but does not contribute to private debt. On the other hand, supplier credit plays a key role in the accumulation of private debt but is not involved in public debt accumulation.

Public debt is often used for long-term projects, such as power plants, roads, and other public infrastructure, which may take years to repay. Additionally, the public sector borrows to cover fiscal deficits, where government spending exceeds revenue. This gap is often filled with external loans. Furthermore, the government may borrow externally, and currency depreciation can increase external debt obligations in local currency terms, even if the nominal value of the debt in foreign currency remains unchanged. This has contributed to the rise in public debt.

In contrast, the private sector may not have the same access to credit as the government, particularly during periods of economic uncertainty or reduced investor confidence. Banks may become more cautious about lending to private firms, especially for short-term borrowing, leading to more volatility in private debt growth. Additionally, higher inflation or interest rates can discourage private borrowing, as businesses and households are less likely to incur debt when borrowing costs rise. Meanwhile, the government may continue borrowing to fund expenditures despite inflationary pressures.

As Bangladesh's public debt increases, a larger portion of the national budget is allocated to repaying it, leaving fewer funds available for essential sectors such as education, healthcare, and infrastructure. This could hinder the country's development. If the debt grows faster than the economy, it may become increasingly difficult for the government to meet repayment obligations, leading to potential challenges. Bangladesh's reliance on foreign loans also makes it vulnerable to global financial fluctuations, which could increase the cost of debt. While default is not yet a concern, the rising debt may make it difficult to meet future obligations without increased revenue. This also limits the government's ability to respond to unforeseen challenges, such as natural disasters or economic crises. Recently, the growing public debt has already placed significant pressure on Bangladesh's fiscal budget.

3.4. Sources of External Debt

External debt is classified into two main categories based on its sources: bilateral external debt from various countries and multilateral external debt from different agencies.

Table 5 shows Bangladesh's external debt sources by country from 2013 to 2022, expressed as a percentage of total external debt. This table highlights how Bangladesh's external debt sources have shifted over time, reflecting changes in bilateral relations, economic partnerships, and global financing dynamics. Historically, Japan has been Bangladesh's largest creditor, contributing a significant portion of its external debt, although its share has decreased over the years, from around 69% in 2013 to about 42% in 2022. According to Table 5, China's share of Bangladesh's external debt has grown substantially, rising from around 3.59% in 2013 to about 21.93% in 2022, indicating an increasing reliance on Chinese financing. South Korea has also been a notable creditor, with its share fluctuating but generally declining from around 9.8% in 2013 to about 3.43% in 2022. As shown in Table 5, India's share has remained relatively stable, ranging from around 3.44% to 6.30% over the same period. Russia's contribution has significantly increased from 2013 onwards, reaching around 23.48% in 2022, indicating its growing role in financing Bangladesh's external debt. Contributions from countries like France, Kuwait, Saudi Arabia, and the USA have varied but generally remained significant. Meanwhile, countries such as Norway, Sweden, Iran, Turkey, and Spain have shown minimal or no contribution to Bangladesh's external debt in the listed years.

As Bangladesh increasingly relies on loans from China and Russia, it is likely to align more closely with their geopolitical interests, with China's Belt and Road Initiative fostering infrastructure development in the country. However, this could bring Bangladesh into China's sphere of influence and create tensions with Western powers such as the U.S. and the EU, especially given Russia's actions in Ukraine. Bangladesh's growing ties with China may also impact its relationship with India, as India may be concerned about China's expanding presence in South Asia.

Furthermore, Bangladesh could face debt diplomacy, where China and Russia might leverage their financial influence to gain strategic advantage. The country's increasing dependence on these loans may strain its relations with Western nations and multilateral institutions like the IMF and the World Bank, which often emphasize reforms and governance principles that may not align with the approaches of China and Russia.

While loans from China and Russia may offer more favorable terms than Western loans, they could lead to higher interest rates and longer repayment periods, raising concerns about debt sustainability. As Bangladesh borrows more, its debt burden increases, which could put pressure on the economy if growth does not match rising obligations. Chinese loans, in particular, have faced criticism for their lack of transparency and the potential for creating unsustainable debt levels. Currency fluctuations, particularly if the Bangladeshi Taka depreciates against foreign currencies, could increase debt-servicing costs, impacting the national budget.

Although borrowing from China and Russia diversifies debt sources, it could limit Bangladesh's ability to negotiate favorable terms in the future. Loans aimed at infrastructure projects could stimulate economic growth, but inefficient implementation or unfavorable terms could lead to financial strain. Bangladesh must be cautious of falling into a debt trap, where excessive borrowing could result in the transfer of strategic assets to China, as seen in other countries.

Table 5. Bangladesh external debt sources (Country wise from 2013 to 2022) %.

Country name	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Belgium	0.17	0.13	0.07	0.03	0.02	0.01	0.005	0.003	0.002	0
France	1.42	1.06	0.74	0.53	0.66	1.17	1.01	1.08	1.73	1.81
Japan	69.15	65.07	60.1	62.53	61.14	58.06	54.82	54.9	53.25	42.44
Norway	0.11	0.07	0.04	0.012	-	-	-	-	-	-
Sweden	0.42	0.098	0.06	0.03	-	-	-	-	-	-
Swizerland	0.097	0.076	0.06	0.04	0.03	0.02	0.01	0.008	0.005	0.002
USA	2.38	1.4	0.88	0.29	1.24	0.03	0.02	0.001	-	-
Iran	0.03	0.02	-	-	-	-	-	-	-	-
Kuwait	5.1	4.03	3.52	2.61	2.67	1.8	1.48	1.11	1.03	0.82
Saudi Arabia	0.31	0.39	0.54	1.35	1.69	1.24	1.08	0.84	0.67	0.56
UAE	0.13	0.11	0.11	0.48	0.73	0.57	0.5	0.34	0.25	0.17
China	3.59	10.04	11.25	9.36	8.77	11.33	12.78	12.48	12.22	21.93
Denmark	3.28	3.39	2.59	1.65	1.31	0.73	0.43	0.25	0.16	0.06
Germany	-	-	-	-	-	0.09	0.19	0.25	0.32	0.27
India	3.44	4.88	6.04	6.15	6.3	4	4.28	4.37	4.35	4.72
Pakistan	0.07	0.05	0.04	0.04	0.04	-	-	-	-	0.01
Russia	-	-	3.32	6.81	7.9	14.88	18.62	20.23	21.73	23.48
South Korea	9.8	8.82	10.28	7.84	7.46	5.31	4.22	3.73	3.81	3.43
Spain	0.18	0.11	0.1	0.062	0.04	0.02	0.01	0.01	0.002	-
Turkey	0.01	-	-	-	-	-	-	-	-	-
Yugoslavia	0.31	0.26	0.26	0.19	0.17	0.11	0.08	0.06	0.05	0.04
Belarus	-	-	-	-	0.95	0.62	0.46	0.35	0.28	0.14
ITFC	-	-	-	-	-	-	-	-	0.15	0.12

Source: Bangladesh bank, Bangladesh bureau of statistics, ministry of finance, planning commission.

Table 6. Major multilateral agencies as the source of external debt, %.

Agencies	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
ADB	37.74	36.54	37.3	37.41	36.68	36.37	36	37	36.55	39.17
EEC	0.12	0.11	0.11	0.07	0.06	0.05	0.04	0.03	0.03	0.02
IDA	58.88	59.72	58.44	57.89	58.4	58.37	58	57	57.31	53.49
IDB	1.15	1.48	2.05	2.26	2.22	2.14	1.96	1.86	1.93	1.96
IFAD	1.69	1.73	1.71	1.86	1.9	1.86	1.76	1.64	1.61	1.52
OPEC	0.22	0.21	0.21	0.33	0.43	0.46	0.49	0.49	0.58	0.87
NDF	0.2	0.21	0.19	0.18	0.16	0.15	0.13	0.11	0.1	0.08
EIB	-	-	-	-	-	0.21	0.28	0.42	0.53	0.47
AIIB	-	-	-	-	-	0.39	0.53	1.4	1.36	2.41

Source: Bangladesh bank, Bangladesh bureau of statistics, ministry of finance, planning commission.

Table 6 illustrates the distribution of external debt sourced from major multilateral agencies for Bangladesh from 2013 to 2022, expressed as percentages of total external debt. The Asian Development Bank (ADB) has consistently been a major source of external debt for Bangladesh, contributing between 36% and 39% of the total external debt. This reflects a strong reliance on ADB funding for various development projects and initiatives.

The International Development Association (IDA), part of the World Bank Group, has played the most significant role in financing Bangladesh's external debt, with its contribution ranging from approximately 57% to 59% of total external debt during the years covered.

The Islamic Development Bank (IDB) also contributes to Bangladesh's external debt, though its share is relatively small compared to ADB and IDA, ranging from about 1% to 2% over the years. The International Fund for Agricultural Development (IFAD) has consistently accounted for around 1.5% to 1.7% of external debt, reflecting targeted financing for agricultural development projects in Bangladesh.

Other organizations, such as the Organization of the Petroleum Exporting Countries (OPEC) and the Nordic Development Fund (NDF), provide financial support for international development. While their contributions are smaller, they help diversify Bangladesh's external debt portfolio. Recently, the European Investment Bank (EIB) and the Asian Infrastructure Investment Bank (AIIB) have also become part of this portfolio.

ADB and IDA have been the primary contributors to Bangladesh's external debt over the years, demonstrating a continued dependence on these multilateral institutions for funding development projects. Table 6 also shows efforts to diversify funding sources by including contributions from other multilateral agencies like IFAD, IDB, OPEC, NDF, EIB, and AIIB. This diversification can improve flexibility and provide access to specialized funding for specific sectors.

3.5. Scenario of External Debt Service

It is essential to assess the fiscal sustainability of Bangladesh to understand its capacity to repay external debt. Figure 5 illustrates Bangladesh's total debt service from 1973/74 to 2021/22, broken down into interest payments and principal repayments.

According to the figure, interest payments generally increase over time, which is typical when dealing with loans, especially if the outstanding principal remains high. Principal payments may fluctuate from year to year based on factors such as loan terms, economic conditions, and government policies. The total debt service (interest + principal) shows a consistent upward trend, indicating a growing financial burden associated with servicing the debt.

In the early 1970s, interest and principal payments were relatively low compared to later years, suggesting lower debt levels or lower interest rates during this period. From the 1980s to the early 1990s, both interest and principal payments saw significant increases, possibly due to economic factors such as inflation, borrowing for development projects, or external debt obligations. From the late 1990s to the 2000s, interest and principal payments fluctuated, potentially influenced by economic policies, changes in interest rates, or global economic conditions.

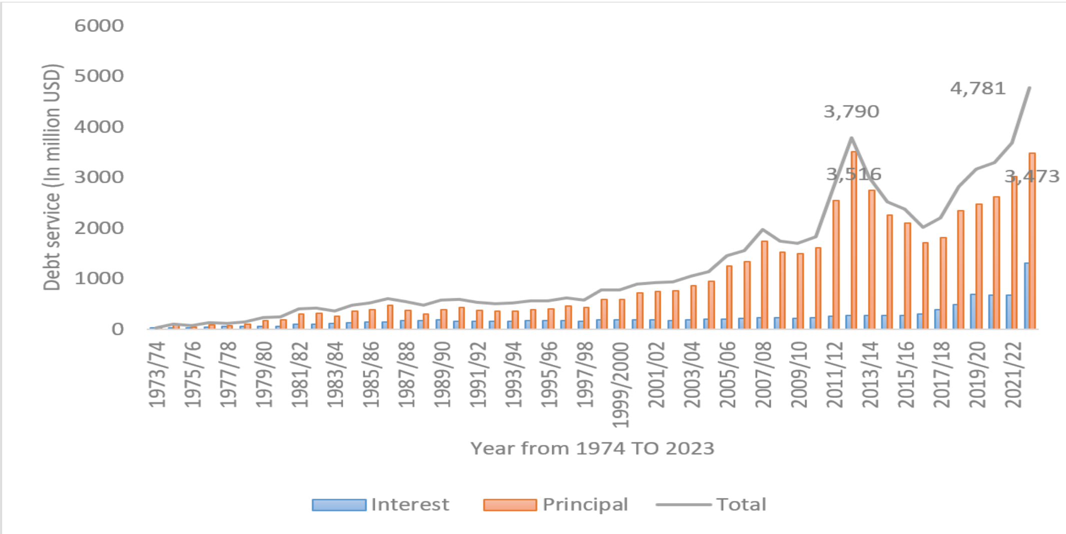

Figure 5. Total debt service.

Source: Economic review, various issues, ministry of finance, Dhaka.

A noticeable increase in total debt service post-2008 reflects efforts to stabilize economies and stimulate growth following the global financial crisis. This increase may be attributed to increased borrowing for stimulus packages and bailouts. In recent years, interest payments seem to have stabilized, while principal payments continue to grow steadily, suggesting a focus on reducing the outstanding debt.

An important consideration is that increasing debt service could raise concerns about debt sustainability, particularly if the growth in debt service outpaces economic growth.

Figure 6 provides the debt-export and debt-to-GDP ratios over the years 1974 to 2022, which are critical for assessing the sustainability of Bangladesh's debt servicing burden.

The *TDS/Exports ratio* reflects the portion of export revenue that is used for debt servicing. This is a useful measure because it shows how much of a country's export earnings are needed to pay off its debt.

The *Debt-to-GDP ratio* provides insight into the level of debt relative to the country's overall economic output. A higher ratio means the country is carrying a heavier debt load in relation to its economic size.

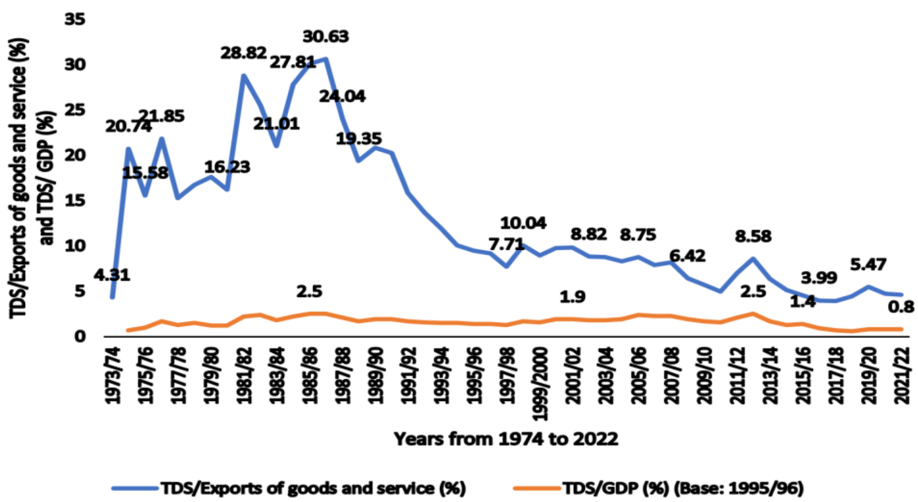

Figure 6. TDS/Exports of goods and service (%) and TDS/GDP (%).

Source: Economic review, various issues, ministry of finance, Dhaka.

From Figure 6, it is clear that the declining trends in both indicators—TDS/Exports of Goods and Services and TDS/GDP—suggest that Bangladesh's debt servicing burden is becoming more manageable and sustainable over time. However, the overall sustainability of the country's debt servicing will also depend on other factors, such as GDP growth, foreign exchange reserves, and the terms of the debt.

4. CONCLUSION

This study recommends several strategies for managing Bangladesh's external debt and enhancing financial stability. First, the country should diversify its financing sources by forming new international partnerships and encouraging private sector borrowing. This would help distribute the debt burden and secure more favorable terms. Second, Bangladesh should promote export-oriented industries, diversify its export products, and explore new international markets. Additionally, focusing on import substitution and enhancing domestic production capacities will reduce reliance on imports and help mitigate the trade deficit. Third, a comprehensive public debt management plan should be developed to ensure sustainable borrowing practices and reduce dependence on a single creditor. Renegotiating existing debt terms to lower interest rates and extend repayment periods could further ease the financial strain. By implementing these strategies, Bangladesh can improve its external debt management, reduce fiscal vulnerabilities, and build a more sustainable economic future.

Funding: This study received no specific financial support.
Institutional Review Board Statement: Not applicable.
Transparency: The author states that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.
Competing Interests: The author declares that there are no conflicts of interests regarding the publication of this paper.

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