2019-2022 MEDIUM TERM DEBT STRATEGY

THE GAMBIA

MOFEA-DLDM
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ACCRONYMS AND ABBREVIATIONS

LIST OF CREDITORS

AfDB  African Development Bank
BADEA  Arab Bank For Economic Development in Africa
EBID  ECOWAS Bank for International Development
EXIM BANK  Export Import Bank of India
IDA  International Development Association
IDB  Islamic Development Bank
IFAD  International Fund For International Development
IMF  International Monetary Fund
KFAED  Kuwait Fund for Arab Economic Development
OFID  OPEC Fund for International Development
SFD  Saudi Fund For Development
WB  World Bank
PRC  People Republic of China
ITFC  International Islamic Trade Finance Corporation

CURRENCIES

EUR  Euro
GBP  Great Britain Pound
GMD  Gambian Dalasis
JPY  Japanese Yen
KWD  Kuwait Dinar
SAR  Saudi Arabia Riyal
SDR  Special Drawing Rights
USD  United States Dollar

OTHERS

DOD  Disbursed Outstanding Debt
GDP  Gross Domestic Product
ATM  Average Time to Maturity
ATR  Average Time to re-fixing
NAWEC  National Water and Electricity Company
NDP  National Development Plan
RCF  Rapid Credit Facility
SAS  Sukuk-Al-Salam
SOE  State Owned Enterprise
BoP  Balance of Payments
MPR  Monetary Policy Rate
SSHFC  Social Security and Housing Finance Corporation
PV  Present Value
FDI  Foreign Direct Investment
SECTION1: Introduction

1.1 Background

The Medium-Term Debt Management Strategy (MTDS) for the 2019-2022 horizon provides the strategic direction of Government’s intent on borrowing and debt management over the medium-term to achieve the objective of ensuring that financing needs are met at the lowest possible cost and consistent with a prudent degree of risk. In 2018, the Government was able to introduce longer dated instruments (i.e. 3-Year and 5-Year Bonds) in the domestic debt market and successfully separated domestic debt instruments from monetary policy instruments.

The review of the 2019-2022 MTDS is in fulfillment of Section iv sub-section 38 of the Public Financial Act, (2014), which requires the MTDS to review the following:
- Macroeconomic framework;
- Costs and risks embedded in the existing debt portfolio; and
- Market conditions;

1.2. Objectives and Scope

The overall objective of the MTDS is to provide guidance to ensure a suitable financing mix to meet the Government’s financing requirement in the medium term at the lowest cost possible and prudent degree of risk. The (2019-2022) MTDS document aims at achieving specific objectives by:
- Meeting government’s financing needs on a timely basis at the lowest possible cost consistent with prudent degree of risk; and
- Lengthening the maturity profile of the domestic debt by increasing the share of the longer dated domestic debt instruments in the portfolio during the medium term.

The MTDS covers public debt portfolio including debt contracted by the Central Government from external, domestic; and publicly guaranteed (PPG) debt. The time horizon covered under this strategy document is four (4) years starting from 2019 to 2022.

The remaining section of this strategy document is structured into five sections as follows: section two evaluates the previous year’s performance against its target and a review of the existing debt portfolio; Section Three presents a summary of the 2019-2022 medium term macroeconomic framework; Section Four describes and analyses the
strategies; Section Five provides the cost-risk indicators of the chosen strategy and the redemption profile and Section Six concludes the document.

Section 2. 2018 Macroeconomic and Debt Performance

2.1 Macroeconomic Developments in 2018

According to the October, 2018 World Economic Outlook (WEO), global growth is projected at 3.7 percent for 2018/19. The downswing in economic activities is estimated to lower global productivity and welfare, reflecting economic vulnerabilities in the three global economic bloc-Advanced, Emerging Markets and Developing Economies.

On the domestic front, growth prospects for the Gambia have rebounded, with an improvement in economic output in 2017. Provisional estimates in 2018 revealed an impressive growth of 6.8 percent for the third quarter of the year, compared to the 2017 performance of 4.6 percent. The agricultural sector is expected to grow from negative 8.0 percent in 2017 to 4.7 percent in 2018, mainly due to an increase in agricultural projects that will boost production and productivity throughout the sector.

Inflation continued its downward trend in 2018, falling from 6.9 percent in 2017 to 6.4 percent by the end of the review year. The easing of inflationary pressures and gradual improvements in the macroeconomic fundamentals contributed towards the downward revision of the Monetary Policy Rate (MPR) by the Central Bank. The MPR was maintained at 13.5 percent following a reduction from 15 percent in May 2018.

Similarly, yields on all treasury and Sukuk-Al Salaam bills declined, reflecting reduced borrowing in the T-bills market. The rate on the 91-Day, 182-Day and 364-Day Treasury Bill fell from 6.3 percent, to 3.8 percent, 6.9 percent and 9.0 percent respectively in the same period.

The Dalasi remained relatively stable against the major trading currencies in 2018 because of improved market conditions and confidence in the economy. As at end August 2018, the Dalasi had recorded depreciation against the US Dollar and Euro by 3.6 percent, and 1.2 percent respectively over the same period.

Preliminary Balance of Payments (BoP) recorded a surplus of US$16.31 million (1.10% of GDP) in 2018 compared to US$ 41.66 million (2.8% of GDP) in corresponding period of 2017. This smaller surplus is mainly due to huge decline in grants. Gross International Reserves as at end December 2018 stood at US$157.14 million (sufficient to cover 3.9 months of import), compared to US$143.96 million (equivalent of 3.6 months of import cover) for the same period in 2017.
On the fiscal front, preliminary estimates of Government’s fiscal operations during the first nine months of 2018 indicate a decline in the fiscal position the same period of 2018. Revenue and grants declined by 29 percent from D10.9 billion in the first nine months of 2017 to D 7.8 billion in the same period of 2018. This decline was mainly due to decline in grants (78 percent), which was large enough to offset the increase in domestic revenue (16 percent) between the two periods under review.

Total expenditure and net lending registered a decline of 19 percent in the first nine months of 2018, from D13.3 billion (28 percent of GDP) in 2017 to D10.6 billion (20 percent of GDP) in 2018. This is due to the significant decline in interest payments, loans and project grant financing of capital expenditure during the period under review.

Preliminary estimates of Government’s overall fiscal balance excluding grants for the first nine months of 2018 registered a deficit of D4.0 billion (7.6 percent of GDP) compared to D7.5 billion (16.0 percent of GDP) in the corresponding period.

Total public debt as a percentage of GDP declined from 129.2 percent in 2017 to 88.0 percent in 2018. In nominal terms, the public debt stock stood at D65.9 billion as at end 2018 compared to D58.7 billion in 2017.

### 2.2 Debt Portfolio Review

The total public and publicly guaranteed debt stock as at end 2018 stood at GMD 65.9 Billion (USD 1.33 Billion) of which external debt constitute 54.5 per cent and the remaining 45.5 per cent is the domestic debt portion. The nominal debt as percentage of GDP decreased from 124\(^1\) per cent as at end 2017 to 87 per cent as at end period 2018. Present value (PV) of debt to GDP also decreased from 106 per cent in 2017 to 74.4 per cent in 2018. The reduction in the aforementioned ratios are as a result of the recent GDP rebasing.

Despite the decreasing debt to GDP ratios, the continuous rise in the total public and publicly guaranteed debt stock mainly from the increased in guarantees to the State Owned Enterprises and fiscal slipages still remains a key concern for the government.

\(^1\) The figures quoted for 2017 are from the 2018-2021 MTDS Document available at MoFEA Website on www.mofea.gov.gm.
Externa Debt Stock

Table 1: External debt by creditor category

<table>
<thead>
<tr>
<th>External Debt By Creditor Category</th>
<th>DOD IN USD</th>
<th>DOD IN GMD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral Creditors</td>
<td>481,630,211.02</td>
<td>23,821,430,237.27</td>
</tr>
<tr>
<td>Bilateral Creditors</td>
<td>243,693,520.76</td>
<td>12,053,081,536.86</td>
</tr>
<tr>
<td></td>
<td><strong>725,323,731.79</strong></td>
<td><strong>35,874,511,774.13</strong></td>
</tr>
</tbody>
</table>

The total external debt stock as at end 2018 stood at USD 725.32 Million equivalent to GMD 35.87 Billion representing 54.5 per cent of the total debt portfolio. On a year-to-year basis, the total external debt stock increased from USD 638.5 million in 2017 to USD 725.32 Million in 2018 representing 13 per cent increment in external debt stock.

Domestic Debt Stock
The stock of domestic debt included in the MTDS analysis amounted to D29.9 billion (US$ 606.4 million), accounting for 45 percent of total public debt and 39.6 percent of GDP. Domestic debt is composed of marketable debt and non-marketable debt.

Figure 1: Domestic Debt by Institution

Holders of Government domestic debt as at end 2018 comprised of Central Bank, commercial banks, SSHFC and other non-banks.
Commercial banks hold 52.1 percent of the domestic debt portfolio at end 2018. The Central bank holds 32.2 percent of domestic debt, while the non-bank holds 13.7 percent and SSHFC holds 2.0 percent respectively.

Cost and Risk Analysis of the Existing Debt Portfolio.

As at end 2018, the total public and publicly guaranteed debt portfolio has a weighted average interest rate of 3.9 percent where the weighted average interest rate for external was 1.5 percent reflecting a mix of debt contracted on concessional and semi concessional terms.

The weighted average interest rate for domestic was 6.8 percent. Interest rates over the past year have been declining due to extensive inflows in the form of budget support.

The average time to maturity for the entire public and publicly guaranteed debt has decreased from 8.23 years in 2017 to 7.8 years as at end 2018. The average time to maturity for the External portfolio declined from 10.5 years in 2017 to 9.9 years in 2018, due to the inclusion of the ITFC trade facility and other guarantees, which are very short term in nature.

The domestic debt portfolio, including non-marketable debt, has an ATM of 5.2 years. The share of total domestic debt maturing in a year was 55.8 percent, explained by the significant proportion of shorter-dated instruments in the portfolio.

Interest rate risk is moderate for both external and domestic debt. Public and publicly guaranteed debt denominated in fixed interest rate accounts for a large proportion of external debt. About 11.2 percent of external debt will be re-fixed within one year due to the relatively small proportion of variable-rated external debt. For domestic debt, the weighted Average Time to Re-fixing (ATR) is 5.2 years with 55.8 percent of the portfolio to be re-fixed within a year. See Table 1 below.

More than half of the total public and publicly guaranteed debt portfolio (54 percent) is exposed to exchange rate risk. The main exposure of the external debt portfolio is to the USD.

Table 2: Cost and Risk Indicators of Existing Debt

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>External debt</th>
<th>Domestic debt</th>
<th>Total debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (in millions of GMD)</td>
<td>35,874.5</td>
<td>29,990.3</td>
<td>65,864.8</td>
</tr>
<tr>
<td>Amount (in millions of USD)</td>
<td>725.3</td>
<td>606.4</td>
<td>1,331.7</td>
</tr>
<tr>
<td>Nominal debt as % GDP</td>
<td>47.4</td>
<td>39.6</td>
<td>87.0</td>
</tr>
<tr>
<td>----------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>PV as % of GDP</td>
<td>34.8</td>
<td>39.6</td>
<td>74.4</td>
</tr>
<tr>
<td>Cost of debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest payment as % GDP</td>
<td>0.7</td>
<td>2.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Weighted Av. IR (%)</td>
<td>1.5</td>
<td>6.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATM (years)</td>
<td>9.9</td>
<td>5.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>9.4</td>
<td>55.8</td>
<td>30.6</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of GDP)</td>
<td>4.5</td>
<td>22.1</td>
<td>26.6</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR (years)</td>
<td>9.8</td>
<td>5.2</td>
<td>7.7</td>
</tr>
<tr>
<td>Debt refixing in 1yr (% of total)</td>
<td>11.2</td>
<td>55.8</td>
<td>31.5</td>
</tr>
<tr>
<td>Fixed rate debt (% of total)</td>
<td>98.1</td>
<td>100.0</td>
<td>99.0</td>
</tr>
<tr>
<td>FX risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX debt (% of total debt)</td>
<td></td>
<td>54.5</td>
<td></td>
</tr>
<tr>
<td>ST FX debt (% of reserves)</td>
<td></td>
<td>38.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: MOFEA

**Redemption Profile of the Public Debt Portfolio**

The redemption profile of the total public and publicly guaranteed debt portfolio shows a high concentration of domestic debt maturing within a year due to the shorter-dated instruments. The redemption profile of external debt is relatively smooth with an ATM of 9.9 years. This reflects a moderately low refinancing risk supported by a large proportion of concessional loans from multilateral and bilateral creditors. Figure 2 shows the repayment profile of existing debt portfolio for external and domestic debt.

![Redemption Profile of Existing Debt as at end December 2018](Image)

Source: MOFEA
2.3 Performance Review of 2018 MTDS

In recent past, the MTDS review has consistently and progressively recommended the introduction of longer dated domestic instruments due to the heavy refinancing risk associated with the portfolio. In 2018, there was the introduction of the 3-Year and 5-Year bonds that have improved the refinancing risk and smoothen a bit the redemption profile.

Section 3: Medium Term Macroeconomic Framework 2019-2022

<table>
<thead>
<tr>
<th>General Macroeconomic Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Restored Business Confidence</td>
</tr>
<tr>
<td>2. Trans-Gambia Bridge to expand regional trade</td>
</tr>
<tr>
<td>3. Tourism Sector rebound, boosting both excise and VAT</td>
</tr>
<tr>
<td>4. Construction activity boom from the emergence of new projects like the infrastructure for the upcoming OIC</td>
</tr>
<tr>
<td>5. Improved availability of foreign currency and policy stability, aided by increased FDI and downward trending lending rates through reduced policy</td>
</tr>
</tbody>
</table>

3.1 Baseline Macroeconomic Assumptions

The following key macroeconomic objectives as also highlighted in the 2019 Budget underpin the 2019-2022 MTDS:

- Fiscal consolidation;
- Restoring business confidence;

The underlining macroeconomic assumption that feeds into the strategy is taken from the current macro framework projections. Key macroeconomic assumptions are highlighted in Table 2.

Table 3: Baseline Macroeconomic Assumptions

<table>
<thead>
<tr>
<th>GMD million</th>
<th>2018**</th>
<th>2019*</th>
<th>2020*</th>
<th>2021*</th>
<th>2022*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues and grants</td>
<td>19,844.90</td>
<td>25,284.25</td>
<td>16,004.00</td>
<td>18,357.93</td>
<td>19,826.56</td>
</tr>
<tr>
<td>Total primary expenditures</td>
<td>16,188.51</td>
<td>26,123.26</td>
<td>14,725.92</td>
<td>16,677.80</td>
<td>17,656.54</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>18,477.67</td>
<td>28,825.90</td>
<td>17,915.03</td>
<td>20,440.95</td>
<td>22,097.06</td>
</tr>
<tr>
<td>Total interest expenditure</td>
<td>2,289.16</td>
<td>2,702.64</td>
<td>3,189.11</td>
<td>3,763.15</td>
<td>4,440.52</td>
</tr>
<tr>
<td>International reserves (USD million)</td>
<td>180.00</td>
<td>200.00</td>
<td>224.10</td>
<td>252.20</td>
<td>268.20</td>
</tr>
<tr>
<td>GDP</td>
<td>75,668.05</td>
<td>87,662.00</td>
<td>95,551.58</td>
<td>104,151.22</td>
<td>113,524.83</td>
</tr>
</tbody>
</table>

Note: ** Actual * All numbers are projections
Source: MOFEA
**Fiscal Policy**
The government is committed to continue its fiscal consolidation while engaging its development partners to support its effort. The fiscal gap is expected to improve over time due to fiscal consolidation and the effective and efficient revenue mobilization through the broadening of our taxes. In this vein, the percentage of tax revenue to GDP is expected to increase from 18.05% to 23.6% in the medium term. This would enhance the reduction of the net domestic borrowing as percentage of GDP from 3.3 per cent as at end 2018, whilst striving to achieve a 1.41 per cent by end 2019. Beyond 2019, the government will commit to a 1.0 percent and 0.5 percent in the medium term. The overall fiscal deficit as percentage of GDP is expected to reduce from 9.8% to 3.0%. This would be triggered by the heavy investment in the real sector especially the agricultural sector and some part of services sector such as construction, hotels and restaurants.

**Real Sector**
The nominal GDP is projected to increase on average by 10.7 per cent in the medium term mainly driven by the implementation of the priority areas of National Development Plan. Growth during the period is anchored on general macroeconomic assumptions- such as restored business confidence, fueling economic activities, rebound in tourism and construction sectors, improved availability of foreign currency and stability of the GMD against major trading currencies. In addition, increased FDI inflows coupled with downward trending interest and lending rates will spur growth.

**Monetary Policy**
Prudent monetary policy supported by a well-functioning transmission channels coupled with fiscal consolidation is expected to contain inflation and stabilized exchange rates. Inflation is targeted at five percent (5%) from the current six percent (6.6%) while dalasi is expected stabilized at its current rates.

### 3.2 Financing Sources

**External Sources**
The government of the Gambia will continue tapping funds from its usual multilateral creditors namely; IDB, IDA, AfDB, BADEA, and OFID given their favorable borrowing terms. However, the amount by which the Government can borrow from these creditors depends on a number of factors including the availability of funds in their concessional windows. Government will also continue to pursue its bilateral creditors with more favorable terms like Saudi Fund for Development (SFD), Kuwaiti Fund for Arab

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2 The existing domestic debt instruments are; T-Bills, Sukuk-Al Salam, 3-Year Government Bond, 5-year Government Bond, 7-Year NAWEC Bond and 30-Year Government Bond.
Economic Development (KFAED), and Peoples’ Republic of China (PRC) in financing its medium-term development priorities. The government will equally pursue its traditional donors to give the new government a breeding space through rescheduling of debt service payments to restore debt sustainability. So far, government has succeeded in securing a deferral in principal repayments from Saudi Fund for Development (SFD) in an effort to reduce the excessive pressure of debt service payment on the budget. This rescheduling enables the government to continue funding its existing and pipeline development projects that support economic growth and development.

**Domestic Sources**
The 2019 Budget projects a Net Domestic Borrowing (NDB) of (1.41 percent of GDP) GMD 1.2 billion for 2019. Domestic financing is expected to be raised mainly from marketable debt issuances. Government intends to continue lengthen the maturity profile by issuing more longer-dated bonds. In addition, government will employ a blend of marketable instruments including treasury bills and bonds.

**Section 4. Description and Analysis of Strategies**

**4.1 Baseline Pricing Assumption and description of Shock Scenario**
For the purpose of this analysis, three typical shocks stemming from exchange rate, interest rates and a combination of both are considered. It is assumed that shocks materialize from 2019 to 2020.

**Exchange Rate Shock Scenario**
Under this shock scenario, the Gambian Dalasi is presumed to depreciate against the US Dollar by 30 percent in 2019.

*Figure 3: Baseline Exchange Rate Projections and Shock*
Interest Rate Shock Scenario
In this scenario, interest rates on domestic T-bills & 1-year notes are shocked by 1.5 basis points, whereas rates on the 3-year & 5-year bonds are shocked by 1 and 0 basis points, respectively.

Combined Exchange Rate & Interest Rate Shock
The third shock scenario is a combination of the two previous scenarios. It assumes a 15 percent depreciation of the Gambian Dalasi against the Dollar in 2019, combined with an increase in the baseline interest rates by half (50 percent) of the interest rate shocks described above.

4.2 Description and Analysis of Alternative Strategies

Four strategies are formulated and analyzed, all of which reflects key policy choices. All four strategies assume access to concessional financing as provided in the budget estimate and consistent with the macroeconomic framework and reflect key policy choices. Three strategies are intended to illustrate the costs and risks of alternative approaches to the baseline status quo.

In relation to external financing, concessional loans from bilateral and multilateral lenders are expected to be realized as planned. Details of the various strategies are outlined as follows:

Strategy One: S1; in line with the 2019 Budget (Baseline status quo)
S1 reflects the baseline and seeks to mimic the current financing strategy of Government and proposes the issuances of T-bills and 3-5 Year bonds in 2019. S1 is generally based on current market conditions and performance of issuances in 2018, and thus, is heavily reflective of the capacity of the domestic market to accommodate the financing requirement and to make available the projected funds.
Strategy Two (S2; Domestic Restructuring)
S2 is more reliant on domestic financing from medium and long-term bonds. S2 mimics S1 in 2019 but includes the assumption of increased issuances of longer-dated instruments (3-Year and 5-Year) in the domestic market.

S2 poses the least exposure to foreign exchange risk as it is largely focused on long-term domestic funding. The success of S2 is therefore highly dependent on vigorous engagement and coordination with market players, particularly pension funds and corporate resident investors in the domestic market, to increase participation in the longer end of the curve and reduce the risk of refinancing. Addressing the interest rate gap between T-bills and bonds to increase demand will also be key.

Strategy 3 (S3: Domestic T-bills)
S3 envisions the issuance of more short-dated securities (91-Day and 182-Day T-Bills and 1-Year Notes), with minimal net issuances in relatively longer-dated instruments with maturities of more than 3 years over the strategy period.

S3 aggressively targets the shorter end of the curve, in pessimistic anticipation of the event where the planned issue of longer-dated instruments does not materialize. Consequently, S3 is certain to pose the highest refinancing and interest rate risks to Government if macroeconomic fundamentals do not improve drastically.

Strategy Four (S4: maximizing external concessional financing and restructuring the domestic debt)
S4 largely mimics S2 in 2019 with increased issuances in the longer-term bonds thereby minimizing interest rate and refinancing risks of the portfolios. S4 is largely hinged on the assumption of increased external concessional financing, it offers a relatively less costly financing option with the lowest implied interest rate compared to all other strategies.

S4 however poses the biggest foreign exchange rate risk and is highly susceptible to conditions with bilateral and multilateral creditors.

Analysis of Results
Details of the costs and risks indicators of the various strategies are also provided in

**Table 4: Cost Risk Indicators of the various Strategies**

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>Current</th>
<th>S1</th>
<th>S2</th>
<th>S3</th>
<th>S4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal debt as % of GDP</td>
<td>87.0</td>
<td>67.5</td>
<td>67.6</td>
<td>67.2</td>
<td>67.5</td>
</tr>
<tr>
<td>Present value debt as % of GDP</td>
<td>74.4</td>
<td>57.6</td>
<td>57.5</td>
<td>57.4</td>
<td>56.8</td>
</tr>
<tr>
<td>-------------------------------</td>
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<td>------</td>
</tr>
<tr>
<td>Interest payment as % of GDP</td>
<td>3.4</td>
<td>3.5</td>
<td>3.6</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Implied interest rate (%)</td>
<td>3.9</td>
<td>5.3</td>
<td>5.4</td>
<td>5.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>30.6</td>
<td>20.7</td>
<td>14.7</td>
<td>36.8</td>
<td>13.8</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of GDP)</td>
<td>26.6</td>
<td>14.0</td>
<td>10.0</td>
<td>24.8</td>
<td>9.3</td>
</tr>
<tr>
<td>ATM External Portfolio (years)</td>
<td>9.9</td>
<td>10.8</td>
<td>10.9</td>
<td>10.7</td>
<td>11.2</td>
</tr>
<tr>
<td>ATM Domestic Portfolio (years)</td>
<td>5.2</td>
<td>5.0</td>
<td>6.2</td>
<td>3.4</td>
<td>6.4</td>
</tr>
<tr>
<td>ATM Total Portfolio (years)</td>
<td>7.8</td>
<td>8.8</td>
<td>9.5</td>
<td>7.4</td>
<td>9.8</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR (years)</td>
<td>7.7</td>
<td>8.7</td>
<td>9.5</td>
<td>7.4</td>
<td>9.8</td>
</tr>
<tr>
<td>Debt refixing in 1yr (% of total)</td>
<td>31.5</td>
<td>21.2</td>
<td>15.2</td>
<td>37.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Fixed rate debt (% of total)</td>
<td>99.0</td>
<td>99.4</td>
<td>99.4</td>
<td>99.4</td>
<td>99.4</td>
</tr>
<tr>
<td>FX risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX debt as % of total</td>
<td>54.5</td>
<td>55.2</td>
<td>56.0</td>
<td>55.0</td>
<td>57.9</td>
</tr>
<tr>
<td>ST FX debt as % of reserves</td>
<td>38.1</td>
<td>15.4</td>
<td>15.4</td>
<td>15.4</td>
<td>15.4</td>
</tr>
</tbody>
</table>

Source: MOFEA

### Section 5: Cost and Risk of the Chosen Strategy

#### 5.1. Selection of Strategy

Based on the cost-risk analysis of alternative strategies as shown in Table 3 above, the share of debt maturing in one year as a percentage of total public and publicly guaranteed debt is expected to improve from 30.6% as at end 2018 to 13.8% as at end 2022 for S4. In addition, the proportion of debt subject to interest rate re-fixing within 1 year as a percentage of total public and publicly guaranteed debt will fall by almost 2 times from 31.5% in 2018 to 14.3% as at end 2022.

Redemption profiles provide additional information on refinancing risks. Similar to the current situation, S1 and S3 shows a significant concentration of domestic maturities in the short end. S2 and S4 are successful in reducing the refinancing risk through restructuring towards longer-term domestic instruments. For S4, the distribution of the projected redemption profile would improve significantly compared to the existing redemption profile as at end 2018 (see Figure 1) through the extension of maturities in the domestic debt market. This is expected to help mitigate the refinancing risk associated with the existing debt portfolio from 31.1 per cent to about 10 per cent of the total public
and publicly guaranteed debt maturing in one year, by the end of the strategy period. Given the constrained options available, S4 is chosen as the most preferred and feasible strategy to be implemented over the medium.

Table 5: Cost Risk Indicators of the Strategy

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>2018 Current</th>
<th>As at end 2022 S4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal debt as % of GDP</td>
<td>87.0</td>
<td>67.5</td>
</tr>
<tr>
<td>Present value debt as % of GDP</td>
<td>74.4</td>
<td>56.8</td>
</tr>
<tr>
<td>Interest payment as % of GDP</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Implied interest rate (%)</td>
<td>3.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>30.6</td>
<td>13.8</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of GDP)</td>
<td>26.6</td>
<td>9.3</td>
</tr>
<tr>
<td>ATM External Portfolio (years)</td>
<td>9.9</td>
<td>12.2</td>
</tr>
<tr>
<td>ATM Domestic Portfolio (years)</td>
<td>5.2</td>
<td>6.4</td>
</tr>
<tr>
<td>ATM Total Portfolio (years)</td>
<td>7.8</td>
<td>9.8</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR (years)</td>
<td>7.7</td>
<td>9.8</td>
</tr>
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<td>38.1</td>
<td>15.4</td>
</tr>
</tbody>
</table>

Source: MOFEA

Figure 4: The Projected Redemption profile of the Strategy
5.2 Financing Strategy
The chosen strategy is in line with the debt management objectives of borrowing at minimum cost, subject to a prudent degree of risk.

The Strategy broadly aims to restructure the domestic debt and the desire to reduce cost of borrowing specifically by:

- Maximizing external concessional financing in order to reduce borrowing cost.
- Continuing the issuance of the 3-and 5-year bonds to develop and deepen the domestic debt market.
- Extending the maturity of domestic debt by substituting a greater proportion of the short-term debt with longer-term debt, thereby minimize refinancing risks of the portfolio.

The Strategy envisages an increased issuance of medium-term bonds (especially 3 and 5-year bonds) in the domestic bond market over the strategy period. It also assumes the issuances of these bond will extend the yield curve. Through this, the Strategy seeks to diversify the instrument base and provide suitable options with which institutions like the pension and insurance companies can match their assets to their liabilities.

The chosen Strategy projects the most significant improvement in cost and risk indicators by the end of the period, especially in respect of the share of total debt maturing in a year, ATM of domestic debt and share of debt re-fixing in a year.

Section 6. Conclusion
The MTDS for the period 2019-2022 represents a robust framework for prudent debt management, as it provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the 2019 budget. The cost-risk trade-off of alternative borrowing strategies under the MTDS has been evaluated within a medium term context and has used the Net Domestic Borrowing (NDB) targets agreed with IMF as its anchor in the medium term.

The MTDS complements the debt sustainability framework which is concerned with long-term debt sustainability. While current level of public debt is unsustainable, long-
term debt sustainability depends on a number of factors including real GDP growth, sound macroeconomic policy mix and prudent debt management.

The MTDS, having considered domestic market environment and related vulnerabilities, recommends a shift in the composition of short term domestic debt towards long term domestic debt.

Overall, Government would continue consolidating on the gains registered in deepening and developing the domestic debt market and at the same time, maximizing concessional external financing over the medium term.