# THE UNITED REPUBLIC OF TANZANIA

## MINISTRY OF FINANCE AND PLANNING

# MEDIUM TERM DEBT MANAGEMENT STRATEGY

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# 1. INTRODUCTION

1. Regulation No.38 (a) of the Government Loans, Guarantees and Grants Act Cap. 134 requires the Government to prepare a Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plans in line with the overall fiscal framework. In cognizant with this, the 2020 MTDS is designed to ensure that the Government financing need are met, and considers the financing option that take into account the costs and risks trade-off as well as support development of domestic debt market.

2. The scope of 2020 MTDS is the Central Government (domestic and external) debt and medium term (2020/21 - 2022/23). Preparation of the strategy employed the MTDS Analytical Tool developed jointly by the World Bank (WB) and International Monetary Fund (IMF). The MTDS Analytical Tool evaluates the cost and risk characteristics of the existing debt and the medium-term alternative financing strategies. The 2020 MTDS assumed macroeconomic stability despite the global impacts of the COVID-19. In addition, it has been prepared with recognition that the Country has recently been categorized as a lower middle-income country with less concessional borrowing.

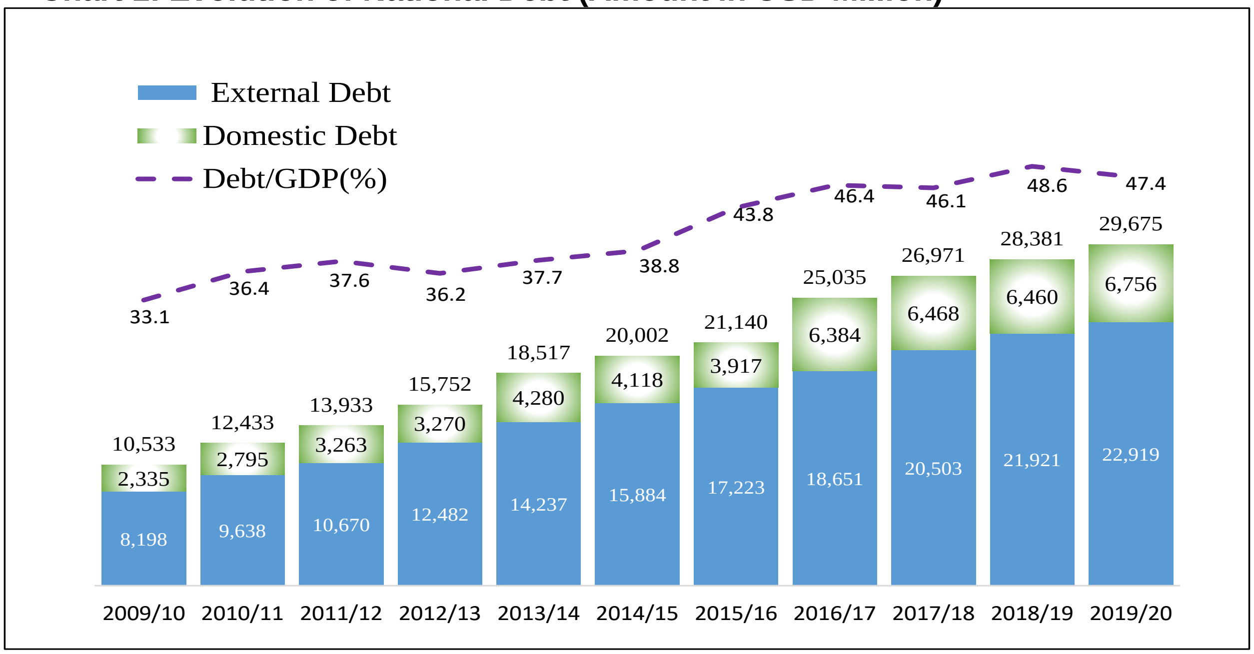
3. The 2020 MTDS provides an optimal financing options from both external and domestic sources by considering the terms of anticipated borrowing and the shocks that may impact the government debt obligations as well as taking into consideration changes in financing landscape whereas grants and concessional loans continue to decline. To the extent possible, the Government will continue to borrow from concessional lenders while maximizing financing resources from semi-concessional lenders mostly Export Credit Agencies (ECAs) and at limited level commercial sources. With regard to domestic borrowing, all maturities will be used with preference on long-term bonds.

## 2. DEBT PORTFOLIO REVIEW

### 2.1 Evolution of National Debt

3 National debt as at end of June 2020 was USD 29,675.6 million (47.4 per cent of GDP in nominal terms). Out of which, external debt (public and private) was USD 22,919.4 million, equivalent to 36.6 percent of GDP in nominal terms, and domestic debt was USD 6,756.2 million, equivalent to 10.8 percent of GDP. The stock of national debt increased by 4.4 percent when compared to USD 28,432.12 million recorded at end of June 2019 (**Chart 1**).

**Chart 1: Evolution of National Debt (Amount in USD Million)**



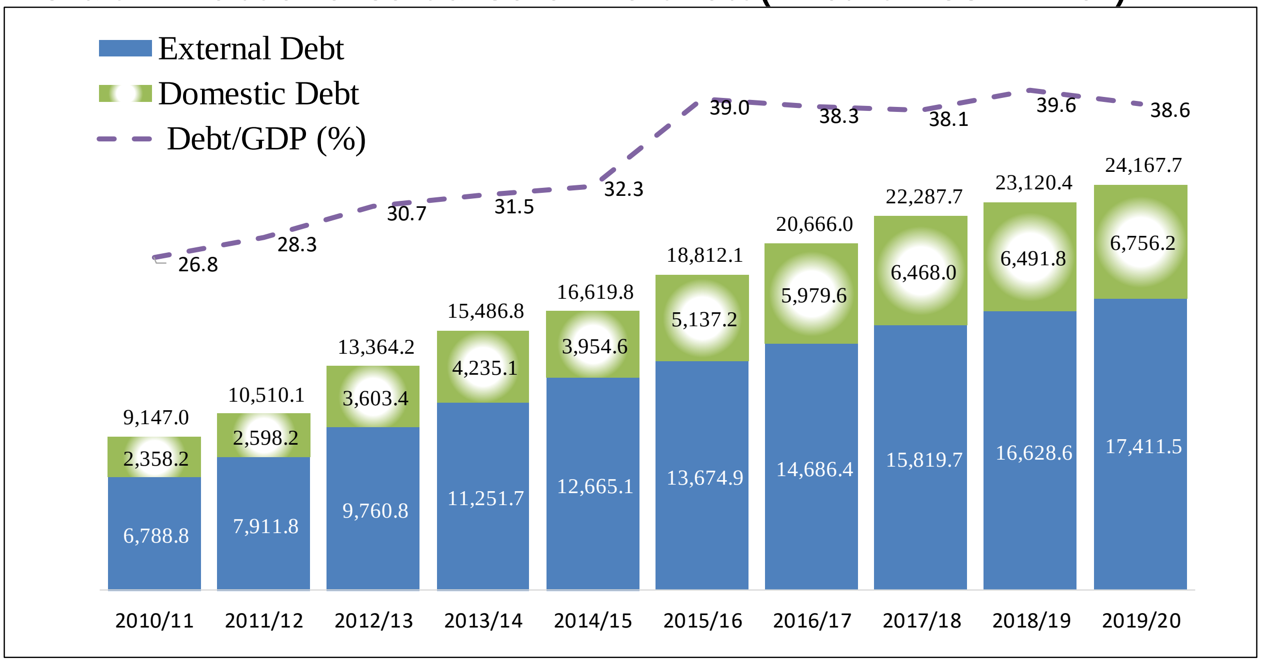

Source: Ministry of Finance and Planning, and Bank of Tanzania

### 3.1.1 Evolution of Central Government Debt

4. Central Government debt increased by 4.5 percent to USD 24,167.7 million at end June 2020 from the level recorded at the end of June 2019. The increase was mainly due to net inflows and depreciation of the USD against other currencies in

which the external debt is denominated. Central Government external debt was USD 17,411.5 million, and domestic debt was USD 6,756.2 million. (**Chart 2**).

**Chart 2: Evolution of Central Government Debt (Amount in USD Million)**




Source: Ministry of Finance and Planning, and Bank of Tanzania

### 3.1.2 External Central Government Debt by Creditor Category

5. Despite the recent changes in development financing landscape, the proportion of debt owed to multilateral institutions remained dominant at end June 2020, accounting for 60.1 percent of the external debt, followed by debt from commercial creditors and export credit, and bilateral accounting for 29.7 percent, and 10.2 percent, respectively (**Table 1**).

**Table 1: External Central Government Debt by Creditor Category (USD Millions)**

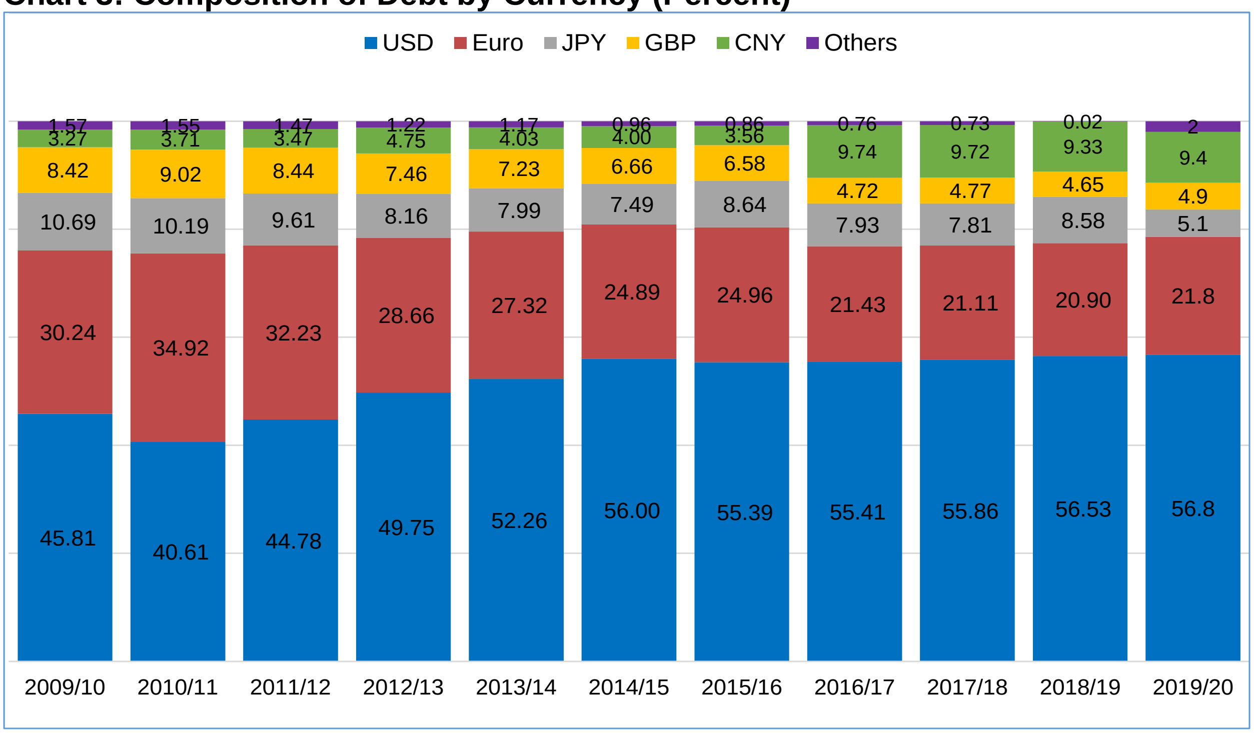
| External Central Government Debt by Creditor category | 2017/18 | | 2018/19 | | 2019/20 | |
|---|---|---|---|---|---|---|
| | Amount | Share (%) | Amount | Share (%) | Amount | Share (%) |
| **Multilateral** | 9,080.5 | 57.4 | 9,618.1 | 57.8 | 10,459.2 | 60.1 |
| **Bilateral** | 1,822.2 | 11.5 | 1,958.5 | 11.8 | 1,773.4 | 10.2 |
| **Commercial Bank/Export Credit** | 4,916.6 | 31.1 | 5,052.0 | 30.4 | 5,178.9 | 29.7 |
| **External debt stock** | **15,819.3** | **100.0** | **16,628.6** | **100.0** | **17,411.5** | **100.0** |

Source: Ministry of Finance and Planning, and Bank of Tanzania

### 3.1.3 External Central Government Debt by Currency

6. The proportion of debt denominated in USD has continued to account for the largest share of external debt. As at end June 2020, the share of debt denominated in USD debt was 56.8 percent, followed by Euro and Chinese Yuan at 21.8 percent and 9.4 percent, respectively (**Chart 3**). The external debt currency composition suggests that the debt portfolio is more exposed to risk emanating from USD exchange rate fluctuations.

**Chart 3: Composition of Debt by Currency (Percent)**

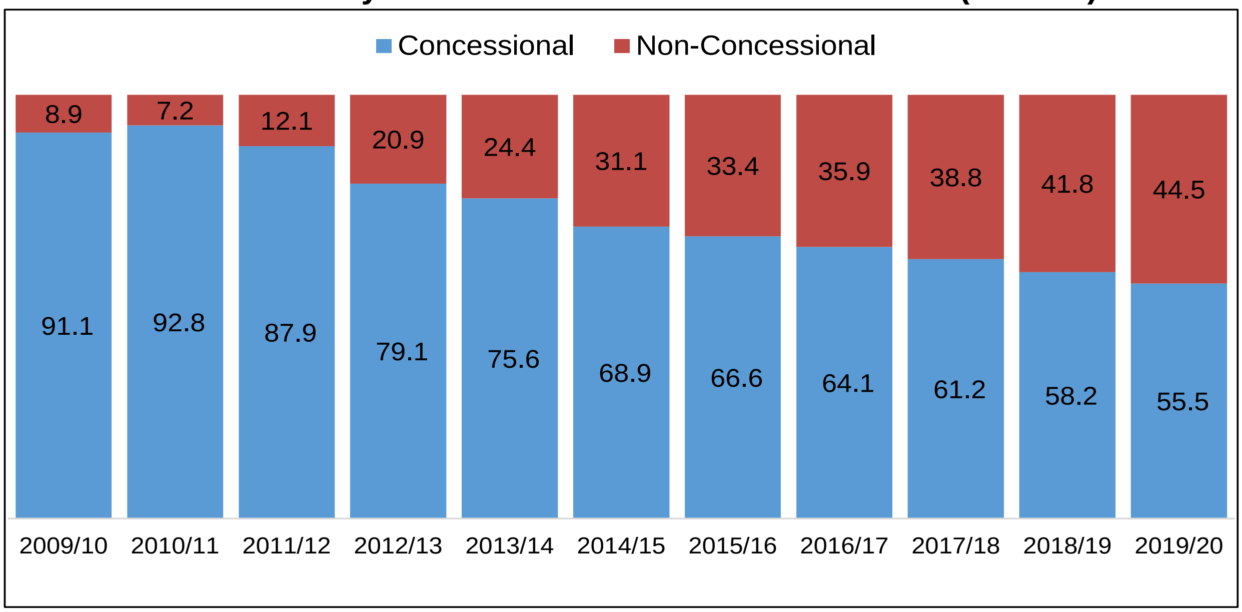



Source: Ministry of Finance and Planning, and Bank of Tanzania

### 3.1.4 External Central Government debt by Concessionality

7. Concessional loans from multilateral and bilateral creditors continue to dominate the external central government debt portfolio accounting for 55.5 percent as at end June 2020. However, the continuous declining trend of financing from these creditors and Government's commitments to finance development projects, necessitated increased access to non-concessional sources in recent years. Consequently, the share of non-concessional debt increased to 44.5 percent of external central government debt as at end June 2020 from 7.2 percent in June 2011 (**Chart 4**).

**Chart 4: Concessionality of External Central Government Debt (Percent)**



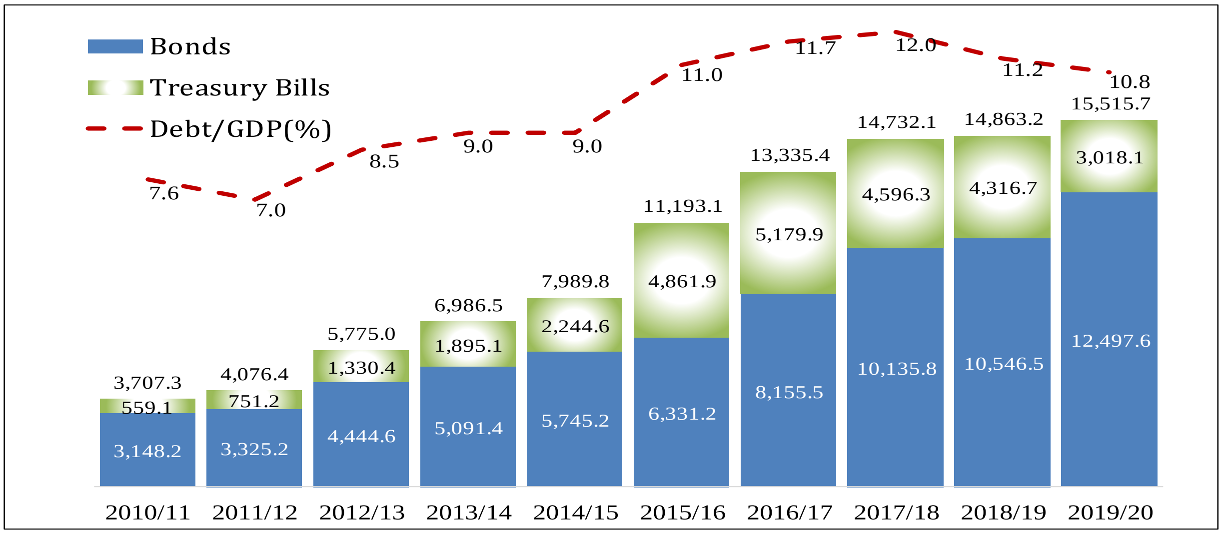

Source: Ministry of Finance and Planning, and Bank of Tanzania

### 3.1.5 Evolution of Domestic Debt

8. The stock of domestic debt increased by 4.0 percent to TZS 15,515.7 billion at end June 2020 from TZS 14,863.1 billion recorded at end of the corresponding period of the preceding year **(Chart 5).** The increase was mainly on account of borrowing to finance development projects.

9. The profile of domestic debt by instrument shows that, the share of Government bonds has increased to 72.2 percent at end June 2020 from 62.2 percent recorded in corresponding period in the preceding year. The increase is consistent with implementation of Government's strategy of lengthening maturity profile of domestic debt to minimize refinancing risk.

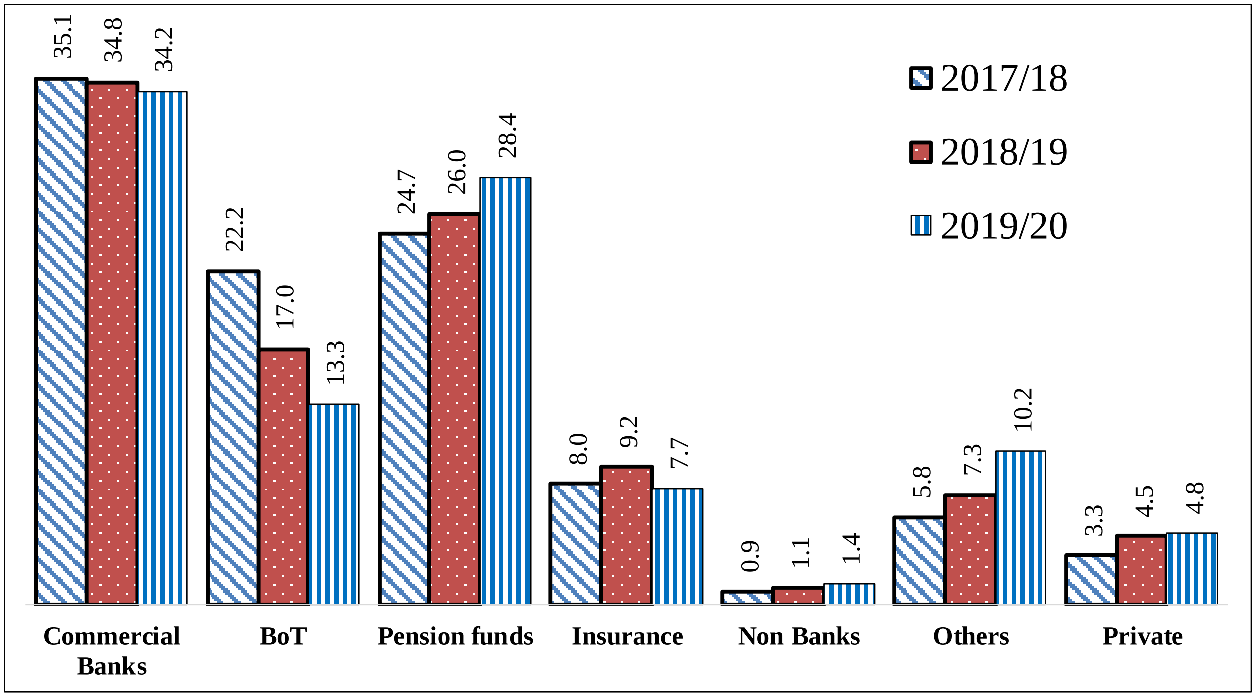
**Chart 5: Evolution of Domestic Debt**




Source: Ministry of Finance and Planning, and Bank of Tanzania

10. Domestic debt by creditor category shows that, commercial banks remained the leading investors, accounting for 34.2 percent of domestic debt followed by pension funds with 28.4 percent. Participation of retail investors in the market has consistently gone up from 3.3 percent to 4.8 percent in a period of 3 years, as depicted in **Chart 6**. The overall increase was the result of Government securities awareness campaigns.

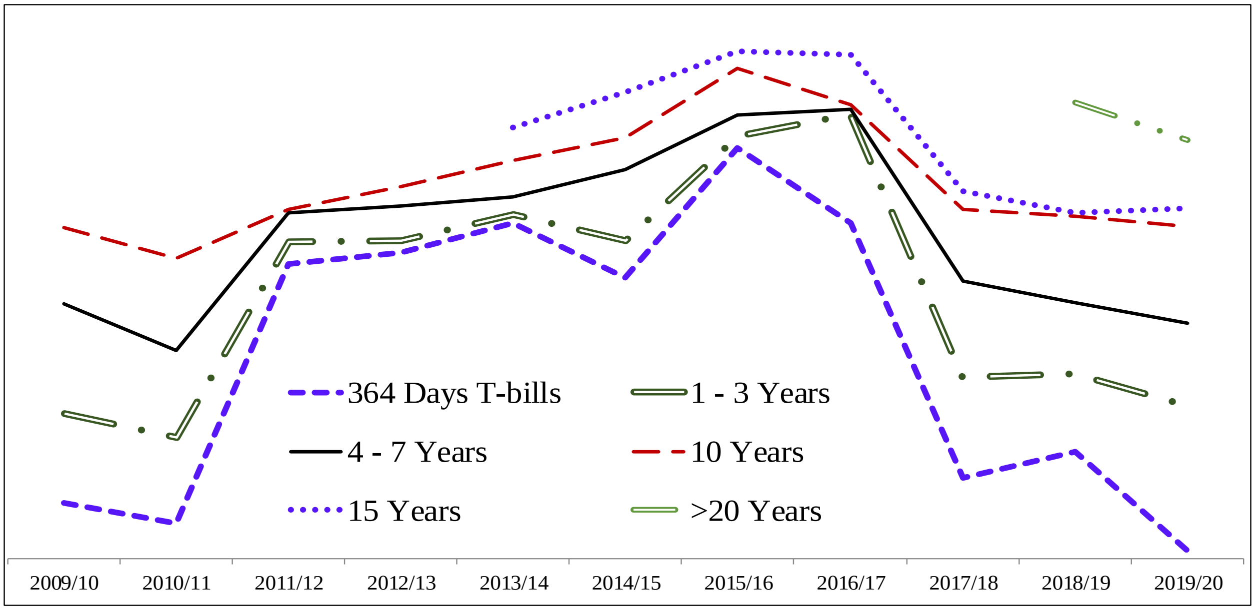
**Chart 6: Domestic Debt by Holder's Category (Percent)**




Source: Ministry of Finance and Planning, and Bank of Tanzania

11. Yields on Government securities across maturity spectrum have decreased in the last three years. The decrease is associated with implementation of prudent monetary and fiscal policies coupled with increased demand for the securities (**Chart 7**).

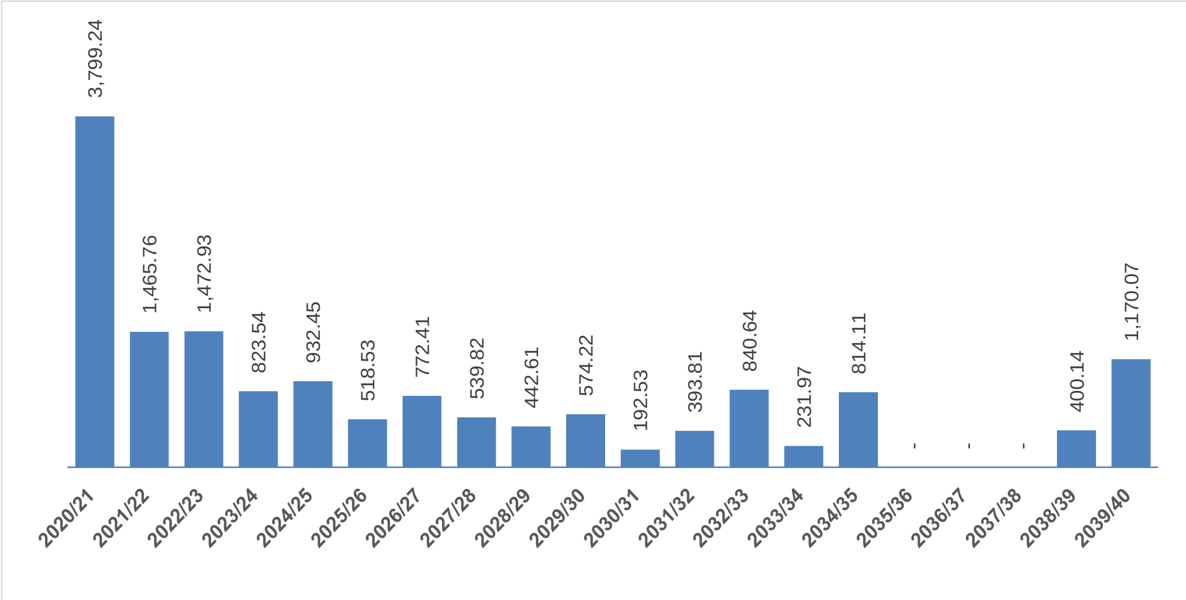
**Chart 7: Yields Trend**




Source: Ministry of Finance and Planning and Bank of Tanzania.

12. Domestic debt redemption profile depicts that large proportion matures in the next twelve months, owing to Treasury bills amounting to TZS 2,236.5 billion, which are expected to be rolled over. The redemption profile also shows that the 20-year Treasury bonds will start maturing from 2038/39 (**Chart 8**).

**Chart 8: Domestic Debt Redemption Profile (TZS Billions)**




Source: Ministry of Finance and Planning, and Bank of Tanzania

## 3. REVIEW OF THE 2019 MTDS

13. Implementation of the 2019 MTDS met unprecedented global economic downturn especially during second half of 2019/20 which had an impact on performance of capital markets. Hence, the 2019 MTDS aimed to maximize blend of longer domestic instruments with concessional loans from both multilateral and bilateral lenders and semi-concessional loans mainly from ECAs while optimizing commercial borrowing to project with higher impact on economic growth and which promote export. On the outturn, cost and risk characteristics of the debt portfolio improved. The cost and risks of the debt portfolio as at end of June 2020 are summarized in **Table 2**.

### 3.1 Cost Characteristics of the Portfolio

14. **Interest payment:** The overall interest payment slightly declined to 1.6 percent of GDP from 1.7 percent of GDP at end June 2019, of which external debt was 0.5 percent of GDP and domestic debt was 1.1 percent of GDP.

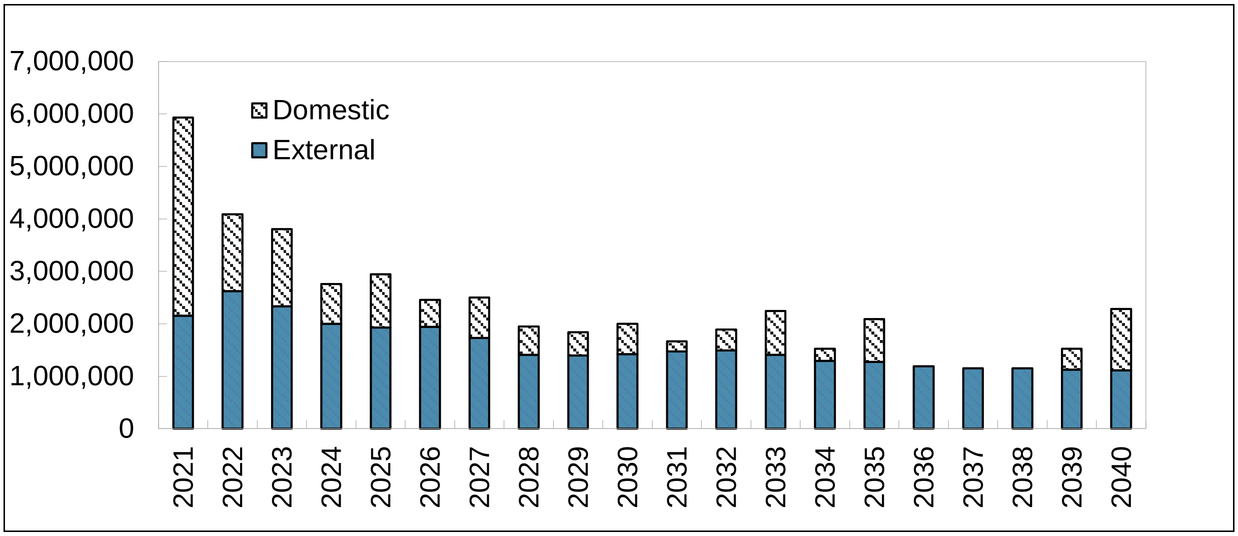
15. **The Weighted Average Interest Rate**: The weighted average interest rate for debt portfolio decreased to 4.3 percent from 4.4 percent. While the weighted average interest rate for external debt decrease to 1.8 percent from 2.0 percent, the weighted average interest rate for domestic debt increased to 10.7 percent from 10.4 percent as recorded at end June 2019 conforming to the strategy of lengthening maturities of domestic instruments.

## 3.2 Refinancing Risk Exposure

16. **Average Time to Maturity (ATM):** The ATM for total debt increased to 11.7 years from 11.0 years recorded at end June 2019. External debt portfolio was 13.5 years compared to 13.6 years registered at end June 2019 while that of domestic reached 6.4 years from 4.7 years. The outturn was on account of a gradual shift from concessional creditors to semi and commercial creditors which have relatively shorter tenure and a shift of investor's preference to longer maturities for domestic instruments.

17. **Debt Maturing in one (1) year:** Exposure to refinancing risk remains despite the relative increase in ATM for domestic instruments due to existence of significant proportion of Treasury bills. Redemption profile spikes in the first year and smoothens thereafter **(Chart 9)**. It is worth noting that, debt maturing in a year declined to 10.0 percent of total debt from 15.6 percent recorded at end June 2019. Debt maturing in a year for domestic debt fell considerably from 35.7 percent to 24.6 percent at end June 2020 which is in line with the strategy of lengthening maturities of domestic instruments.

**Chart 9**: **Redemption profile as at end June 2020 (TZS Millions)**




Source: Ministry of Finance and Planning, and Bank of Tanzania

## 3.3 Interest Rate Risk Exposure

18. **Interest Rate Risk:** Debt portfolio continues to be dominated with fixed rate instrument which shields against interest rate risk exposure. The proportion of fixed debt to total debt was 87.6 percent. External debt re-fixed within one year declined to 18.1 percent at end June 2020 from 20.0 percent at end June 2019. Domestic debt re-fixing within one year decreased to 24.6 percent at end June 2020 compared to 35.7 percent at end June 2019. The proportion of Treasury bills to total debt in domestic debt was 18.8 percent at end June 2020.

## 3.4 Foreign Currency Risk Exposure

19. **Foreign Exchange Risk**: Structure of debt portfolio continued to be dominated by external debt that accounted for about 72.0 percent of total debt which makes it prone to exchange rate volatility. The main exposure of the external debt portfolio is to USD and EURO which account for 56.8 percent and 21.8 percent of the total external debt, respectively.

**Table 2: Cost and Risk indicators for existing debt as at end June 2020**

| Risk Indicators | | External debt | Domestic debt | Total debt |
|---|---|---|---|---|
| Amount (in millions of TZS) | | 39,985,843.2 | 15,515,742.7 | 55,501,585.9 |
| Amount (in millions of USD) | | 17,411.5 | 6,756.2 | 24,167.7 |
| Nominal debt as percent of GDP | | 27.5 | 10.7 | 38.3 |
| PV as percent of GDP | | 18.2 | 10.7 | 28.9 |
| Cost of debt | Interest payment as percent of GDP | 0.5 | 1.1 | 1.6 |
| | Weighted Av. IR (percent) | 1.8 | 10.7 | 4.3 |
| Refinancing risk | ATM (years) | 13.5 | 6.4 | 11.7 |
| | Debt maturing in 1yr (percent of total) | 4.9 | 24.6 | 10.0 |
| | Debt maturing in 1yr (percent of GDP) | 1.5 | 2.6 | 4.1 |
| Interest rate risk | ATR (years) | 13.1 | 6.4 | 11.3 |
| | Debt refixing in 1yr (percent of total) | 18.1 | 24.6 | 19.8 |
| | Fixed rate debt incl T-bills (percent of total) | 83.2 | 100.0 | 87.6 |
| | T-bills (percent of total) | 0.0 | 18.8 | 4.9 |
| FX risk | FX debt (percent of total debt) | | | 72.0 |
| | ST FX debt (percent of reserves) | | | 17.8 |

Source: Ministry of Finance and Planning

20. The cost and risk indicators have generally improved during the year and relative to strategic benchmarks except for foreign currency exposure (percent of foreign currency denominated total). This reflect that MTDS is aligned with the objective of the Government to finance the infrastructure projects with the low cost and prudent degree of risks. Also, the cost and risk indicators did not breach the benchmarks as indicated in **Table 3.**

**Table 3: Evolution of Risk Indicators against Strategic Benchmarks**

| SN | Indicator | June 2019 | June 2020 | Benchmark |
|---|---|---|---|---|
| 1 | Implied Interest rate (percent) | 4.4 | 4.3 | <7.0 |
| 2 | Debt maturing in 12 months (percent of total) | 15.6 | 10.0 | <15 |
| 3 | Debt maturing in 12 months (percent of GDP) | 4.4 | 4.1 | <7.5 |
| 4 | ATM of total debt (years) | 11 | 11.7 | >10 |
| 5 | Fixed rate debt (percent of total) | 88 | 87.6 | >75 |
| 6 | T-bills (percent of total) | - | 4.9 | <10 |
| 7 | Foreign Currency debt (percent of total) | 71.4 | 72.0 | <75 |
| 8 | Short-term foreign currency debt (percent of official reserves) | 27 | 17.8 | <75 |

Source: Ministry of Finance and Planning

# 4. AN OVERVIEW OF ECONOMIC PERFORMANCE

## 4.1. Recent Economic Development

21. During the first quarter (January – March) of 2020, Gross Domestic Product (GDP) at 2015 constant prices in absolute terms was TZS 31.6 trillion compared to TZS 29.9 trillion recorded in the corresponding quarter of 2019, equivalent to a growth of 5.7 percent compared to 6.3 percent of the first quarter of 2019. Economic activities that recorded highest growth during the period under review were mining and quarrying (15.3 percent); human health and social work (10.2 percent); and professional, scientific and technical (8.9 percent).

22. During the first five months of 2020/21, headline inflation averaged 3.2 percent compared to 3.6 percent recorded in similar period in 2019/20. Food and non-alcoholic beverages inflation eased to an average of 3.4 percent from 4.4 percent during the same period while energy inflation remained the same at 5.8 percent. The decrease in inflation was largely due to adequate supply of food in domestic and neighboring countries, stable exchange rate, and subdued oil prices in the world market as well as implementation of prudent monetary and fiscal policies. The inflation remained within the medium-term target of 5.0 percent, East Africa Community (EAC) convergence criteria of not more than 8.0 percent and Southern Africa Development Community (SADC) benchmarks of between 3.0 percent and 7.0 percent.

23. The Government, through Bank of Tanzania, maintained accommodative monetary policy in 2019/20 in the endeavor to steer private sector credit growth. The monetary policy stance was amplified in the second half of 2019/20 to cushion the economy from the impact of COVID-19 pandemic. Responding to the accommodative monetary policy, credit to the private sector grew at an average of 8.1 percent in 2019/20, compared with 6.8 percent in 2018/19. Consequently,

extended broad money supply (M3) expanded at an average rate of 10.0 percent compared with 5.2 percent in the preceding year. The banking sector remained stable, profitable and adequately capitalized with levels of capital and liquidity above regulatory requirements.

24. The value of Tanzanian shilling against the US dollar remained broadly stable throughout 2019/20, reinforced by moderate current account deficit, low and stable domestic inflation, sustained prudent monetary and fiscal policies, and active participation of the Bank of Tanzania in the interbank foreign exchange market. In the wholesale market, the average nominal exchange rate fluctuated within a narrow range, recording an annual depreciation of 0.19 percent to 2,305.1 shillings per US dollar at end June 2020, compared to 2,300.6 shillings per US dollar at end June 2019. During the first four months of 2020/21, the shilling averaged at 2,309.0 per US dollar compared to 2,300.6 per US dollar traded in the similar period in 2019/20.

25. Fiscal policy remained streamlined in 2019/20, with expenditure aligned with the available resources and priorities. The overall fiscal deficit was 1.4 percent of GDP which was within the EAC and SADC convergence threshold level of not more than 3.0 percent.

26. The balance of payments improved to a surplus of USD 744.2 million in the year ending June 2020, compared to a deficit of USD 990.7 million in 2018/19, owing to narrowing of current account balance. Current account deficit narrowed to USD 774.9 million, equivalent to 1.2 percent of GDP compared to USD 2,029.7 million (3.5 percent of GDP) in the preceding year, on account of increase in the value of goods export and a decline in import bill.

27. Gross official reserves were USD 5,184.7 million at the end of June 2020 sufficient to cover about six (6) months of projected imports of goods and services. The

import cover was above the country's benchmark of at least four (4) months and EAC convergence benchmark of not less than 4.5 months.

## 4.2. Baseline Macroeconomic Projections and Assumptions

28. The 2020 MTDS is based on medium-term macroeconomic framework as provided in the Guidelines for Preparation of Plans and Budget 2021/22. The Government will, therefore, continue to pursue prudent fiscal and monetary policies that support strong economic growth, ensure price stability and maintains public debt at sustainable levels.

29. The real GDP growth in 2020 is projected to slow down to 5.5 percent from initial projection of 6.9 percent. The slowdown in growth was on account of excessive rainfall in early 2020 and the outbreak of COVID-19. However, successful implementation of Five-Year Development Plan III (2021/22 – 2025/26) is expected to promote a competitive industrial based export-led economy that will spur higher growth, averaging 6.3 percent in the medium-term. In addition, the implementation of the on-going projects under the FYDP II will continue to have positive spillover effects in the economy over the medium-term.

30. The rate of inflation is projected to remain within the medium-term target of 5.0 percent, EAC and SADC convergence criteria of not more than 8.0 percent, and between 3.0 and 7.0 percent, respectively. The medium-term projected low and stable inflation is likely is based on the assumption of adequate food supply, stability of power supply, prudent monetary and fiscal policies and expected subdued oil prices in the world market.

31. Domestic revenue is projected at an average of 15.6 percent of GDP in the medium term from the average performance of 14.3 percent between 2015/16 and 2019/20. The projected increase in revenue will be supported by continuing

improvement of business environment; emphasizing on the proper use of ICT system; improvement in tax administration; and new revenue policy measures. In addition, expenditure is projected to widen to an average of 22.1 percent of GDP in the medium term from 21.1 percent recorded between 2015/16 and 2019/20. Grants and concessional loans are expected to decline in the medium term consistent with graduation into lower middle-income status and the after effects of the COVID-19/21.

32. Gross official foreign reserves are projected to cover not less than four months of imports of goods and services with a view to shield the value of the shilling against strong currencies, attract foreign direct investments.

## 4.3. Downside risks to medium term outlook

33. Medium term outlook depends on outturn of key variables including public and private investment, current account balance, fiscal deficit, interest rate, exchange rate, commodity prices and weather condition. Negative shock to any of the variables will have detrimental effects on sustainability of fiscal and monetary policies. For instance, a negative shock on nominal exchange rate can have adverse effects on debt repayment of both principal and interest, external trade and inflation rate. The monetary and fiscal policies will, therefore, focus on stabilizing such variables.

34. Despite the increased contribution of agriculture to GDP growth, the significant portion of the sector is still informal which has low contribution to revenue collection. The ongoing efforts to transform the sector towards higher productivity and commercialization through implementation of Agriculture Sector Development Program (ASDP) II and Southern Agricultural Growth Corridor of Tanzania (SAGCOT) are expected to boost contribution of the agriculture. The program will

be sustained to maximize the contribution of agriculture sector to the growth of economy.

35. Financing pattern is expected to change in towards less concessional loans as the Government continues to implement strategic projects amid drying up grants and concessional sources, partly due to the after effects of COVID-19 and graduation of the country of middle-income status. The Government is mindful of the risks relating to higher costs of debt servicing; hence all commercial loans will be limited to projects that have high multiplier effect on economy growth and those that promote exports.

# 5. DEBT MANAGEMENT STRATEGIES

## 5.1. Potential Financing Sources

36. In the course of implementing the 2020 MTDS, the Government will continue sourcing funds from multilateral, bilateral and commercial creditors. The anticipated key external creditors will include the World Bank and African Development Bank, through concessional windows of International Development Association (IDA) and African Development Fund (ADF), respectively. Financing from other multilateral and bilateral creditors is expected though at minimal level. In addition, due to the changing financing landscape and the financing needs, the Government is expected to access loans from Export Credit Agencies (ECAs) and commercial creditors to finance development projects.

37. In facilitating the development of domestic markets, the Government will continue to use all maturities of Government securities ranching from Treasury bills and the longest Treasury bonds. Moreover, a 25-year Treasury bond will be introduced in 2020/21 with a view to developing the domestic debt market and elongating the maturity profile of government debt to reduce exposure to refinancing risk.

## 5.2. Alternative Financing Strategies

38. In the process of analyzing and selecting an optimal medium-term financing strategy, four alternative borrowing strategies were considered. These strategies vary by the mix of borrowing between gross domestic and external sources, as well as composition of financing terms within domestic and external sources. Key financing terms such as maturity and grace periods, interest rates and currency are the elements considered in the mix of financing options. The alternative strategies were premised on the assumption that concessional sources will gradually continue to decline while the Government continue with the implementation of major infrastructure projects.

### 5.2.1. Strategy 1: Status quo (S1)

39. The strategy assumes a ratio of 50.3 percent in external borrowing to total gross borrowing for the entire implementation period. Within the external gross borrowing, large share will come from commercial sources at 34.4 percent while semi-concessional and concessional sources will contribute 34.0 percent and 31.6 percent, respectively. For the domestic borrowing, Treasury bonds will contribute 70.2 percent and the 29.8 percent is allocated to Treasury bills. The rationale behind the strategy is the assumption that the current debt market (domestic and external) conditions will persist in the medium term.

### 5.2.2. Strategy 2: Domestic Debt Market Development (S2)

40. The strategy assumes a gradual increase in gross domestic borrowing from 49.7 percent in 2020/21 to 53.0 percent in 2022/23 by reducing proportionately the portion of gross external borrowing. The proportion of short-term domestic debt securities (Treasury bills) is expected to decrease from 29.8 percent of the domestic borrowing in 2020/21 to 28.0 percent in 2022/23 whereas Treasury bonds will increase from 70.2 percent in 2020/21 to 72 percent in 2022/23. The strategy aims at developing the domestic debt market as well as mitigating refinancing and exchange rate risk exposures. The strategy is, however, expected to raise the cost of debt consistent with the interest rates of local currency debt relative to foreign currency debt.

### 5.2.3. Strategy 3: Preference to Export Credit Agencies (S3)

41. The strategy assumes the increase in the proportion of gross external borrowing from 50.3 percent in 2020/21 to 55.0 percent in 2022/23. The strategy intends to reduce cost and refinancing risk by increasing the share of semi-concessional loans from 34.0 percent in 2020/21 to 37.6 percent by 2022/23, while concessional borrowing will exhibit a gradual decrease from 31.6 percent in 2020/21 to 28.0 percent in 2022/23. The basis behind the strategy is due to declining trend of

concessional loans and the assumption that the ECAs will provide adequate resources needed to implement strategic projects including standard railway line, power generation and transmission as well as roads and bridges.

### 5.2.4. Strategy 4: More Commercial (S4)

42. Strategy assumes the decline of gross external borrowing from 50.3 percent in 2020/21 to 50 percent in a subsequent year and decline of financing from concessional and semi-concessional sources, partly as a result of the graduation into lower- middle-income status and after effects of COVID-19/21 in both domestic and external capital markets. Subsequently, a significant increase in the share of fixed rate commercial borrowing from 34.4 percent of total external financing in 2020/21 to 41.5 percent by 2022/23 is assumed.

## 5.3. Cost - Risk Analysis of the Alternative Strategies

43. Analysis of cost and risks trade-offs of the alternative strategies was conducted using WB and IMF MTDS - Analytical Tool. The resultant cost and risk indicators and summary of interpretation of indicators are presented in **Table 4** and **Table 5,** respectively. The indicators are presented graphically in **Appendix 1**.

**Table 4: Cost and Risk of Alternative Financing Strategies**

| Risk Indicators | | 2020 | As at end 2023 | | | |
|---|---|---|---|---|---|---|
| | | Current | S1 | S2 | S3 | S4 |
| Nominal debt as percent of GDP | | 38.261 | 37.304 | 37.310 | 37.302 | 37.311 |
| Present value debt as percent of GDP | | 28.946 | 29.028 | 29.092 | 29.026 | 29.186 |
| Interest payment as percent of GDP | | 1.640 | 1.669 | 1.677 | 1.665 | 1.676 |
| Implied interest rate (percent) | | 4.288 | 4.966 | 5.031 | 4.926 | 5.019 |
| Refinancing risk | Debt maturing in 1yr (percent of total) | 10.038 | 6.998 | 7.010 | 6.809 | 7.012 |
| | Debt maturing in 1yr (% of GDP) | 4.140 | 2.610 | 2.616 | 2.540 | 2.616 |
| | ATM External Portfolio (years) | 13.531 | 12.940 | 12.932 | 12.889 | 12.760 |
| | ATM Domestic Portfolio (years) | 6.393 | 8.931 | 9.054 | 8.917 | 8.933 |
| | ATM Total Portfolio (years) | 11.674 | 11.847 | 11.849 | 11.837 | 11.714 |
| Interest rate risk | ATR (years) | 11.340 | 10.957 | 10.988 | 10.895 | 10.821 |
| | Debt refixing in 1yr (percent of total) | 19.782 | 19.547 | 19.227 | 19.884 | 19.601 |
| | Fixed rate debt incl T-bills (percent of total) | 87.603 | 86.035 | 86.367 | 85.509 | 85.996 |
| | T-bills (percent of total) | 4.883 | 1.902 | 1.916 | 1.713 | 1.918 |
| FX risk | FX debt as % of total | 71.950 | 71.233 | 70.535 | 72.015 | 71.158 |
| | ST FX debt as % of reserves | 17.764 | 18.378 | 18.378 | 18.378 | 18.378 |

Source: Ministry of Finance and Planning

**Table 5: Interpretation of the Alternative Strategies Indicators**

| Strategy | Rationale | Strength at end of 2023 |
|---|---|---|
| S1-Status Quo | Continuations of the existing debt market (domestic and external) conditions in the medium term. | i. Highest ATM of external portfolio (12.94 years). |
| S2-Domestic Debt Market Development | Development of the domestic debt market and mitigation of refinancing and exchange rate risk exposures. | i. Highest ATM of total and domestic portfolio of 11.894 years and 9.0 years, respectively;<br>ii. Highest ATR of total debt (10.99 years);<br>iii. Lowest proportion of Debt refixing in 1 year to total debt at 19.2 percent;<br>iv. Highest fixed rate debt including Treasury bills (86.4 percent); and<br>v. Lowest proportion of foreign exchange debt (70.5 percent). |
| S3-preference to Export Credit Agencies | Declining concessional financing resources and that Export Credit Agencies will provide adequate resources to finance development projects. | i. Lowest nominal debt to GDP (37.302 percent);<br>ii. Lowest interest to GDP and implied interest rate of 1.665 percent and 4.93 percent, respectively;<br>iii. Lowest proportion of debt maturing in 1 year to total debt and GDP at 6.8 percent and 2.5 percent, respectively; and<br>iv. Lowest proportion of T-bills (1.7 percent of total debt). |
| S4-More Commercial | Significant decline in concessional and semi-concessional loans as well as drying domestic debt market. | i. Found to have no strength in all cost and risk indicators. |

Source: Ministry of Finance and Planning

## 5.4. The Favorable Strategy for Implementation

44. Based on quantitative results of cost and risk trades-offs analysis of the alternative strategies, Strategies 2 and 3 dominates in terms of cost and risk trade-offs. Strategy 2 supports development of domestic debt markets which minimizes refinancing risk and foreign exchange risk exposures whereas, Strategy 3 reduces cost of borrowing. Hence, a combination of Strategy 2 and Strategy 3 is desirable and feasible for implementation.

## 5.5. Strategy Implementation Guidelines

45. In the course of implementing the strategy in 5.4, the Government plans to implement the following:

    i. Government securities with longer maturities will be assigned more weight so as to minimize refinancing risk in accordance with Strategy 2. This will be complemented by the introduction of 25-year Treasury bond. Furthermore, various measures including improving market infrastructure will be given impetus; and

    ii. Maximization of financing from semi-concessional sources, particularly from ECAs while restricting commercial borrowing to projects with high impact on economic growth including those that promote exports.

## Appendix 1: Cost and Risk Trade-off of alternative financing Strategies