THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF FINANCE

MEDIUM TERM DEBT MANAGEMENT STRATEGY (2023/24-2025/26)

November 2023

Medium Term Debrt Management Strategy 2023/24 -2025/26 * Medium Term Debrt Management Strategy 2023/24 -2025/26 * Medium Term Debrt Management Strategy 2023/24 -2025/26 *

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Abbreviations

ABP	Annual Borrowing Plan
BMDC	Bond Market Development Committee
BoT	Bank of Tanzania
COVID-19	Coronavirus Disease
EAC	East Africa Community
ECAs	Export Credit Agencies
FYDP III	Five-Year Development Plan III
NDMC	National Debt Management Committee
MTDS	Medium Term Debt Strategy
SADC	Southern African Development Community
TDMC	Technical Debt Management Committee

Foreword

Preparation of 2023 MTDS is the adherence to Section 25.1(a) of the Government Loans, Guarantees, and Grants Act, Cap. 134, that requires the Government through the Ministry of Finance to prepare a Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plans in line with the overall fiscal framework. This MTDS outlines the Government borrowing and debt management plans during the period 2023/24 -2025/26 with a view to achieving a portfolio composition congruent to minimizing cost and risks tolerance.

The 2023 MTDS was prepared with prior consideration of the financing needs to implement projects outlined in the Five-Year Development Plan III (FYDP III)-2021/22 to 2025/26 amid the prevailing economic slowdown arising largely from the spillover effects of COVID-19 pandemic and the Russia-Ukraine war. Specifically, the 2023 MTDS outlines potential financing options in the medium term (2023/24 to 2025/26) consistent with the debt management objective of minimizing financing costs and prudent degree of risk as well as supporting domestic debt market development.

Robust performance assessment of four alternative strategies was conducted using quantitative techniques including subjecting the strategies to shock scenarios, primarily to inform the selection of the most optimal strategy. The optimal debt strategy selected for implementation in the medium term was largely to minimize costs of debt characterized by elevated semi-concessional borrowing with subdued commercial and domestic market financing. This strategy is consistent with the ongoing pipeline and contract negotiations of semi-concessional loans that Government is undertaking for the medium term.

The Ministry of Finance is committed to implement the selected financing strategy in the medium term. To take into consideration domestic and global economic and financing developments, the MTDS will be reviewed annually.

Hon. Dr. Mwigulu L. Nchemba (MP),
Minister of Finance

Dr. Natu E. Mwamba
Permanent Secretary – Treasury

Introduction

The Ministry of Finance has been preparing the Medium-Term Debt Management Strategy (MTDS) in accordance with the requirements of Section 25.1(a) of the Government Loans, Guarantees and Grants Act, CAP. 134. The 2023 MTDS covers three years (2023/24- 2025/26) and aims to finance central Government budget deficit, using 2022/23 as a base year and 2023/24 as first year of projection.

The 2023 MTDS is prepared by the Ministry of Finance of the United Republic of Tanzania in collaboration with the Bank of Tanzania, and President's Office -Finance and Planning of the Revolutionary Government of Zanzibar. It received technical assistance from the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

The objectives of the 2023 MTDS is to minimize financing cost and mitigate refinancing risks. Specifically, in the medium term, the government's strategy aims to maximize financing from concessional sources. However, due to meager resources under concessional sources amid implementation of flagship projects that require significant resources, the Government will optimize financing from semi-concessional sources, particularly under Export Credit Agencies (ECAs) arrangements. Specifically, in 2023, the Government intends to implement a strategy with an objective of minimizing financing cost.

The 2023 MTDS considered baseline macroeconomic projections, implementation of the ongoing mega projects, and concluding negotiations and settlements of bilateral technical arrears within the medium term. The choice of the medium-term strategy is informed by quantitative outcomes of alternative financing strategies using the MTDS Analytical Tool.

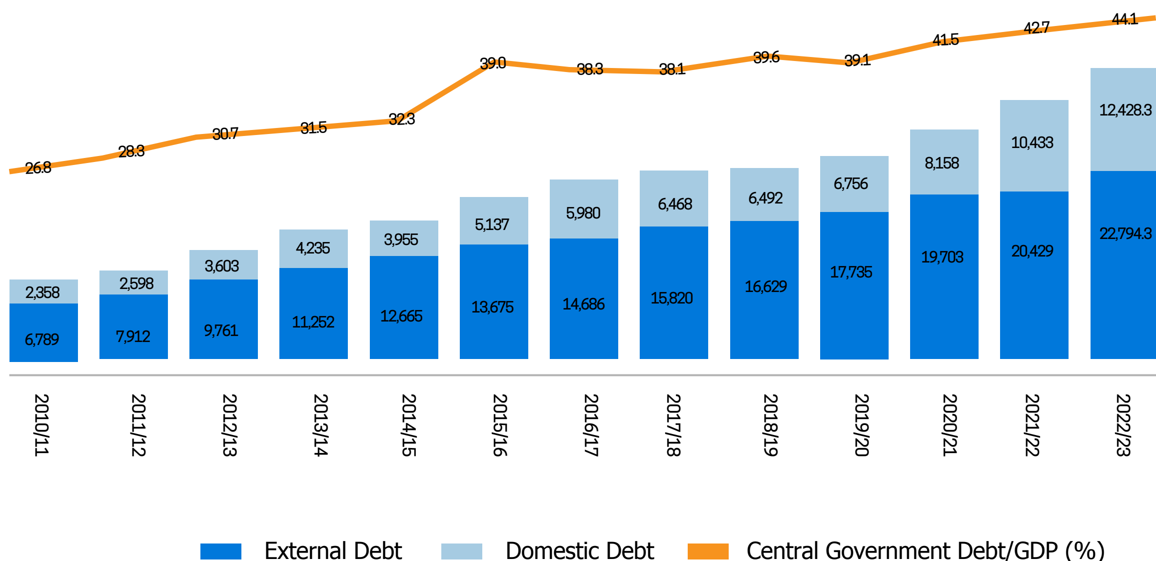
2. Review of Implementation of the 2022 MTDS

This section reviews implementation of the 2022 MTDS by analyzing evolution of debt portfolio in both nominal and key ratios, as well as cost and risks of the existing debt portfolio as at end June 2023.

2.1. Evolution of Debt Portfolio

The central Government debt stock increased to USD 35,223.6 million (44.1 percent of GDP) in the year ending June 2023 from USD 30,862.0 million (42.7 percent of GDP) recorded at end of June 2022 **(Chart 1).** The increase was attributable to disbursements of external loans, issuance of Government securities, and utilization of overdraft facility. Out of the USD 35,223.6 million, external debt accounted for USD 22,794.3 million (64.7 percent of total) while domestic debt was USD 12,428.30 million (35.3 percent of total).

Chart 1: Central Government Debt Development (USD Million)



Despite the evolving financing landscape, it is note worthy that as of June 2023, significant portion of the external debt is owed to multilateral institutions, making up 62.9 percent of the total debt. Commercial and ECAs creditors accounted for 27.4 percent, whereas bilateral creditors were 9.7 percent of the external debt **(Table 1).** The portfolio structure reflects a prevailing trend whereas multilateral institutions continue to dominate external financing sources, consistent with their favorable terms of financing.

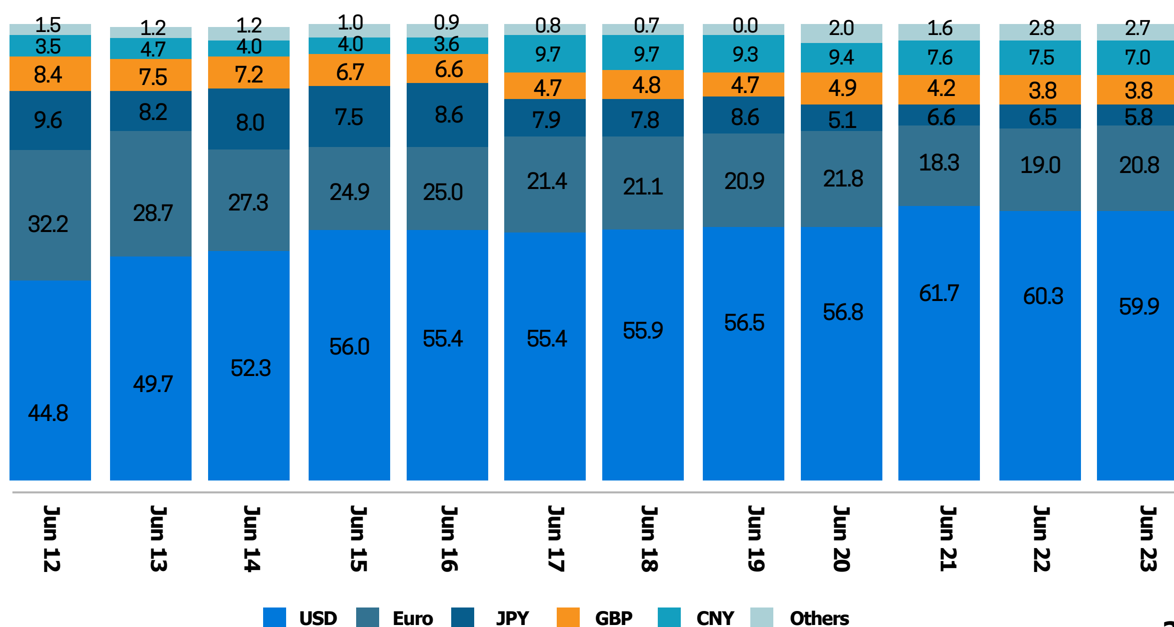
Table 1: External Debt by Creditor Categories (USD Million)

	2018/19		2019/20		2020/21		2021/22		2022/23	
Creditor Categories	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %
Multilateral	9,616.9	57.8	10,461.4	59.0	11,451.5	58.1	12,399.7	60.7	14,345.8	62.9
Bilateral	1,958.1	11.8	2,085.7	11.8	2,231.0	11.3	2,265.7	11.1	2,212.9	9.7
Commercial Bank/ECAs	5,052.0	30.4	5,188.0	29.3	6,020.6	30.6	5,763.5	28.2	6,235.6	27.4
External debt stock	**16,627.0**	**100.0**	**17,735.1**	**100.0**	**19,703.1**	**100.0**	**20,428.9**	**100.0**	**22,794.3**	**100.0**

Source: Ministry of Finance

The proportion of debt denominated in USD continue to account for the largest share of external debt, accounting for 59.9 percent, followed by Euro and Chinese Yuan at 20.8 percent and 5.8 percent, respectively, implying exposure of the portfolio to exchange rate risk associated with USD volatility **(Chart 2)**. For instance, the appreciation of the USD against global currencies including the Tanzanian Shilling, particularly starting in the second quarter of 2023, has exposed the debt portfolio to exchange rate risk.

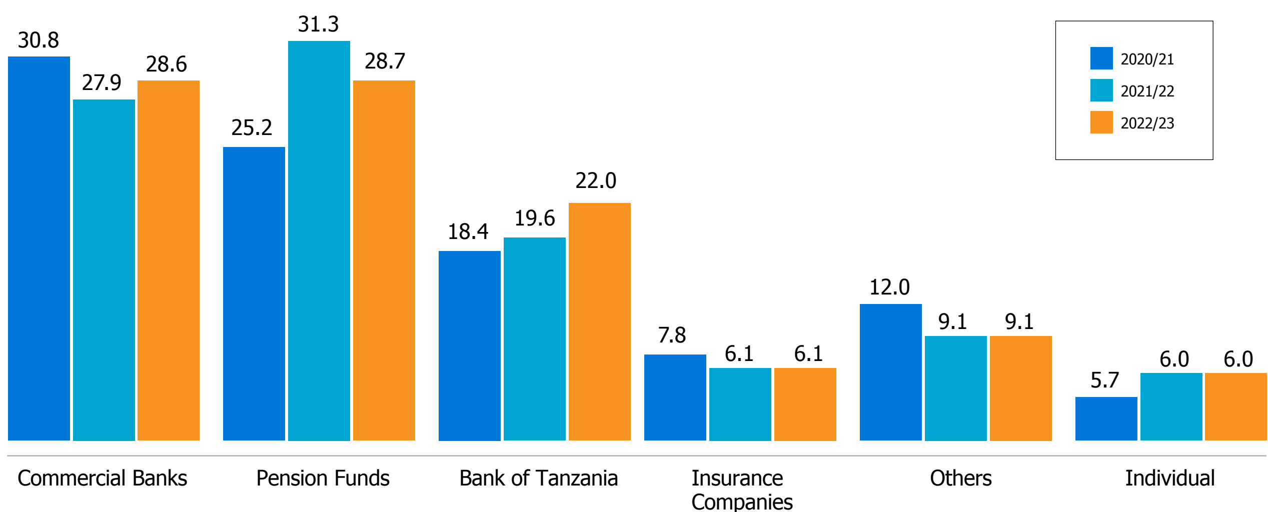
Chart 2: Debt Composition by Currency (Percent)



The profile of domestic debt by instrument shows that, Treasury bond continue to dominate, accounting for 78.0 percent while short term Securities accounted for 22.0 percent at the end of June 2023. This is in line with Government strategy of borrowing using long-term instruments to reduce refinancing risks.

Domestic debt by holder category shows that, pension funds dominated, accounting for 28.7 percent followed by commercial banks and Bank of Tanzania at 28.6 percent and 22.0 percent , respectively **(Chart 3).** The dominance of pension funds signifies deepening of the domestic debt market as they prefer bonds with longer-term maturities compared to commercial banks.

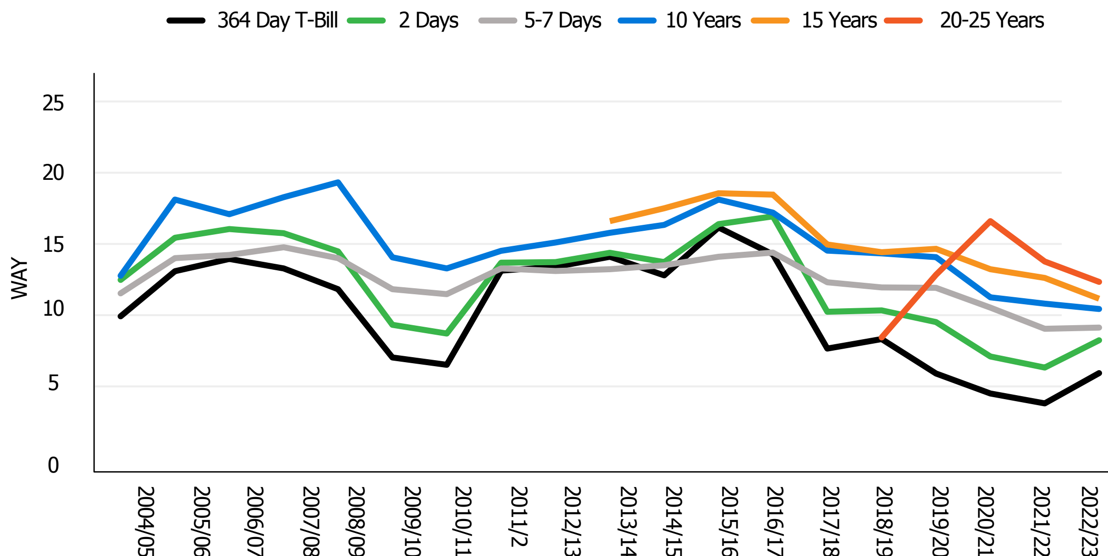
Chart 3: Domestic Debt by Holder's Category (Percent)



Source: Ministry of Finance

On average Government securities' yields on all maturities trended downward starting 2020/21 **(Chart 4)**. This was attributed to implementing prudent monetary and fiscal policies, awareness campaigns through consultative market leaders' forums, and continuous listing of bonds on the Dar es Salaam Stock Exchange. These initiatives led to an increased competition in auctions and partly induced a rise in demand for long-term securities.

Chart 4: Primary Market Yields Trend (in Percent)



Source: Ministry of Finance

2.2. Analysis of cost and risks in the existing debt portfolio

The 2022 MTDS sought to maximize borrowing from concessional and semi-concessional sources, mainly from ECAs as well as minimizing the refinancing risks through allocation of longer dated domestic instruments compared to reduced short and medium dated instruments. The outturn of cost and risk indicators of the existing debt as of June 2023 is summarized in **Table 2.**

Table 2: Cost and Risk indicators for existing debt as at end June 2023

		Existing debt at the end of 2023		
Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of TZS)		50,733,942.8	28,926,064.7	79,660,007.5
Amount (in millions of USD)		21,689.5	12,366.3	34,055.8
Nominal debt as percent of GDP		24.7	14.1	38.8
PV as percent of GDP		17.4	14.1	31.5
Cost of Debt	Interest payment as percent of GDP	0.7	1.5	2.3
	Weighted Av. IR (percent)	2.9	11.0	5.8
Refinacing Risk	ATM (years)	12.0	9.1	11.1
	Debt maturing in lyr (percent of total)	4.9	28.8	12.7
	Debt maturing in lyr percent of GDP)	1.4	4.1	5.5
Interest rate Risk	ATR (years)	11.3	9.1	10.6
	Debt refixing in lyr (percent of total)	21.2	28.8	23.7
	Fixed rate debt incl T-bills (percent of totall)	81.0	100.0	87.2
	T-bills (percent of total)	0.0	22.0	7.2
FX Risk	FX debt (percent of total debt)			63.7
	ST FX debt (percent of reserves)			20.7

Source: Ministry of Finance

The first year of implementing the 2022 MTDS showed that both nominal debt to GDP and the present value of debt to GDP have increased in accordance with the projections. However, cost and risk indicators of the portfolio have aggravated. The cost-related metrics, including the implied interest rate and interest payments as a percentage of GDP, have rose relative to first year projections in the strategy. The deviation is a reflection of tightening financing options in both domestic and international capital markets.

On risk indicators, the share of debt denominated in foreign currency decreased to 63.7 percent from 65.2 percent at the end of the previous year, implying improvement in the exposure of the portfolio to exchange rate risk. However, the risk indicators, that is the percentage of debt maturing within one year and the proportion of T-bills as a percentage of the total exceeded the three-year projections in the 2022 MTDS.

Despite the evolving trends, the overall, cost and risk indicators of the total debt portfolio remain within the country's debt management strategic benchmarks as at end of 2022/23 **(Table 3)**. Appendix 1 shows detailed Cost and Risk Indicators from June 2021 to June 2023 under baseline scenario.

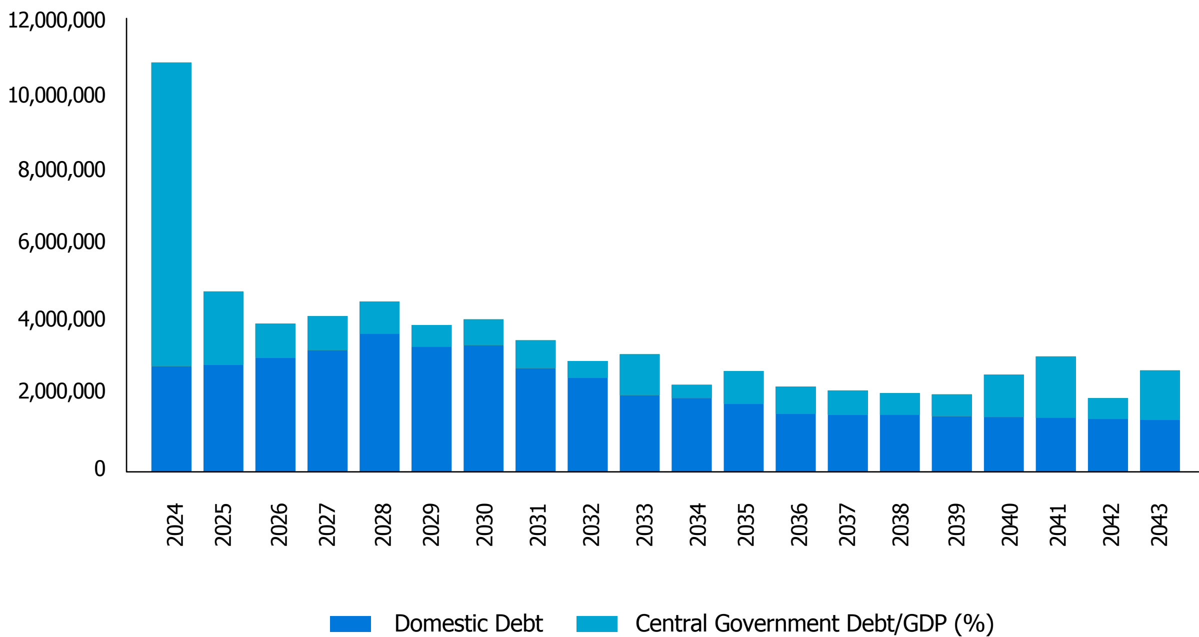
Table 3: Evolution of Risk Indicators against Strategic Benchmarks (2021/22-2023/24)

Indicator	Jun 21	Jun 22	Jun 23	Benchmark
Implied Interest rate (percent)	4.7	4.9	5.8	<7.0
Debt maturing in 12 months (percent of total)	10.9	11.7	11.5	<15
Debt maturing in 12 months (percent of GDP)	5.4	5.1	5.5	<7.5
ATM of total debt (years)	11.7	11.2	11	>10
Fixed rate debt (percent of total)	86.2	86.9	87.5	>75
T-bills (percent of total)	5.2	5.2	6.5	<10
Foreign Currency debt (percent of total)	69.6	65.2	63.7	<75
Short-term foreign currency debt (percent of official reserves)	22.8	24.4	20.7	<75

Source: Ministry of Finance

The redemption profile of the total portfolio indicates a significant portion of domestic debt maturing in 2023, reflecting sizeable amount of treasury bills (Chart 5). This is indicative of elevated refinancing risks that Government has to plan accordingly to mitigate this fiscal challenge. On external debt, repayments for loans from the IMF, and commercial loans exhibit redemption pressure during the period 2026 - 2030.

Chart 5 : Redemption profile as at end June 2023 (TZS Millions)



Source: Ministry of Finance

3.

MacroEconomic Assumptions and Market Environment

3.1. Recent Economic Development

The economy remains stable and resilient over the recent past despite ongoing global shocks. Growth in the first half of 2023 was 5.3 percent against 5.1 percent recorded in 2022 mainly supported by agriculture, construction, trade, mining, manufacturing, financial and insurance services. Headline inflation edged up to 4.6 percent in 2022/23 from 4.0 percent recorded in 2021/22, mainly driven by food inflation. Despite the increase, inflation remained within the country's target band and was consistent with EAC and SADC benchmarks of not more than 8.0 percent and between 3.0 percent and 7.0 percent, respectively.

In 2022/23, domestic revenue grew by 7.6 percent, recording a ratio of total domestic revenue to GDP of 14.2 percent, slightly below 14.9 percent in 2021/22. Tax revenue which accounts for the largest share of domestic revenue also grew by 6.9 percent, with tax to GDP ratio of 11.6 percent. On the expenditure, the ratio of government expenditure to GDP was 18.7 percent in 2022/23, also below 19.0 percent in 2021/22. Consequently, the overall fiscal deficit was 4.1 percent of GDP, 0.8 percentage point higher than the budget estimates.

During 2022/23, the overall balance of payments improved to a surplus of USD 114 million, compared to a deficit of USD 1.1 million in 2021/22, supported by foreign financial inflows. The current account recorded a deficit of USD 4,868.7 million in 2022/23, compared to USD 3,398.1 million in 2021/22, owing to high import bills.

The value of the Tanzanian shilling against the US dollar remained stable supported by low inflation differentials relative to trading partners. The shilling traded at an average of 2,321.69 per US dollar in 2022/23, compared with 2,309.50 shillings per US dollar in 2021/22, equivalent to a depreciation of 0.53 percent.

Foreign exchange reserves increased to USD 5,446.1 million in 2022/23, from USD 5,110.3 million during 2021/22, sufficient to cover 4.9 months of projected imports of goods and services. The level was above the country's benchmark of at least 4 months and the EAC benchmark of at least 4.5 months, but lower than the SADC benchmark of at least 6 months.

3.2. Baseline Macroeconomic Projections and Assumptions

GDP is projected to pick up to 5.0 percent in 2023 from 4.7 percent in the preceding year. In the medium term, real GDP is projected to hover around 6.2 percent supported by implementation of major government infrastructural projects, particularly in transport and energy sectors; and measures to improve mining and agriculture. Furthermore, the recovery of tourist activities will also amplify the growth of the economy through multiplier effect to other economic activities.

Inflation is expected to remain within the medium-term target of 3 - 7 percent, which is consistent with the benchmarks set by EAC and SADC. The projection is supported by anticipation of favorable weather conditions for strong agricultural growth, stable global commodity prices, and the ongoing implementation of a less accommodative monetary policy by the BoT. Additionally, the forecast anticipates a consistent power supply in the medium term, which is expected to have a positive impact on production costs and contribute to the stability of the Tanzanian shilling in relation to major trading partners' currencies.

On an account of prudent fiscal policy measures and the expected economic recovery, domestic revenue is projected to increase to 15.7 percent of GDP in 2023/24 and to an average of 16.0 percent of GDP over the medium term. Expenditure is also projected at 19.0 percent of GDP in 2023/24 and is expected to increase to an average of 19.2 percent of GDP over the medium term. However, in absolute term expenditure is increasing over medium term. Considering the Government's commitment to align public spending with the revenue collection and to consolidate public finances to ensure fiscal and debt sustainability, the overall fiscal deficit is projected at 2.8 percent of GDP in 2023/24 and further decline to an average of 2.7 percent of GDP over the medium term.

GrDss official reserves are projected at USD 5,832.6 million in 2023/24 supported by expected increase in foreign financial inflows and recovery of the tourism sector. The amount is adequate to cover 4 months of projected imports of goods and services, excluding foreign direct investment related imports. The level is consistent with the country's benchmark of a minimum of 4 months but less than EAC benchmark of at least 4.5 months of import of goods and service.

3.3. Downside risks to medium term outlook and mitigation

Global growth is still experiencing a slow recovery despite recent growth trends. As a result, tightening of monetary and fiscal policy in response to inflation in advanced economies, may lead to a rise in borrowing costs. This could constrain the pace of economic recovery and in turn elevated cost of debt service. Likewise, exchange rate depreciation, escalation of the war in Ukraine, Middle East conflict with potential spillover to other countries in the Middle East and the anticipated El Niño could push up inflation through petroleum and agricultural product prices.

The Government is proactively implementing strategies that are geared at enhancing domestic revenue mobilization in a bid to safeguard the economy against financing risks. Further, investing in transport and energy infrastructure accompanied with the implementation of food security programs with the intention to curb inflation. Additionally, the Government continues to engage private sector in delivery of public investment as well as implementation of the medium-term plans and in the reform process to build ownership and foster collaboration. Moreover, the Government is constantly monitoring global economic conditions and implementing suitable policy measures to mitigate the impact of external risks.

4. Debt Management Strategy

4.1 . Financing Assumptions

In the medium term, the Government intends to sustain funding of the budget deficit through a combination of domestic and external channels. From external sources, a blend of concessional and semi-concessional loans is envisaged as potential sources for executing pivotal initiatives outlined in the Third Five-Year Development Plan (FYDP III). Where necessary, the Government may explore commercial sources to fund projects with economic returns and those that contribute to export growth.

On domestic funding, the Government will access the market through the issuance of Government securities. In the medium term, the government will strive to enhance the cost-efficiency and risk management of its financing by adopting an appropriate blend of maturities.

4.2. Alternative Financing Strategies

A comprehensive analysis was conducted, taking into account four different borrowing strategies to provide funding at a minimal cost within acceptable levels of risk. The candidate alternative strategies include; (i) The status quo; (ii) Domestic market development; (iii) Increase semi-concessional borrowing; and (iv) Eurobond issuance. The strategies were subjected to shock scenarios given underlying baseline assumptions to assess their robustness and competitiveness, a process whose results helps to inform the strategy selection process.

The calibration of the strategies involved adjusting the proportions of domestic and external sources, as well as financing mix within both domestic and external potential sources. The potential financing options included variations in currency (local and foreign), maturity periods, grace periods, interest structures (fixed and variable), as well as rates and margins.

4.2.1. Strategy 1 (S1): Status quo

The strategy is based on the approved budget where the projected outturn of 2023/24 Net Domestic Financing (NDF) is TZS 1,898.3 billion equivalent to 0.8 percent to GDP. For the subsequent years of 2024/25 and 2025/26, NDF is forecasted to reach TZS 2,179.4 billion (0.9 percent of GDP) and TZS 2,272.6 billion (0.8 percent of GDP), respectively. Semi-concessional sources are expected to contribute 40.8 percent of the Gross External Financing (GEF), while 20-25 years T-bonds will make up 21.9 percent of the Gross Domestic Financing (GDF) over the medium term. The underlying rationale for this strategy is to continue the implementation of the approved 2022 MTDS.

The underlying rationale for this strategy is to continue with the implementation of the approved 2022 MTDS. The projections, based on the MTDS-AT outputs, show that the strategy will increase borrowing costs (implied interest rate) for domestic debt to 11.0 percent in 2023 from 9.9 percent in 2022 and raise risks associated with external debt.

4.2.2. Strategy 2 (S2): Domestic Market Development

Strategy 2 (S2) assumes a 37.8 percent increase in the allocation of NDF for 2024/25, aiming to maintain NDF levels below 1 percent of GDP. The strategy also entails a projected rise in the utilization of long-term securities particularly 15-, 20-, and 25-years treasury bonds from 34.3 percent in 2023/24 to 41.2 percent in 2024/25, and further to 45.2 percent in 2025/26. Concurrently, there is a gradual reduction in the percentage of medium-term securities that is, the 2-, 5- and 10-years treasury bonds from 24.2 percent in 2023/24 to approximately 20.0 percent in 2024/25 and 18.0 percent in 2025/26. Notably, composition of GEF proportions is maintained as status quo.

The rationale behind this strategy is two-fold: to foster the development of the domestic market and diversify funding sources, particularly as concessional financing continues to be limited. The strategic shift towards increased domestic financing with longer maturities is expected to mitigate refinancing risks while aligning with market preferences. However, under this approach, the cost of borrowing is projected to rise to 5.96 percent.

4.2.3. Strategy 3 (S3): Increase semi-concessional financing

Under the strategy, the NDF was reduced by 10 percent in 2024/25 and 2025/26, while increased amount was allocated to GEF. The strategy assumes an increase in the share of semi-concessional floating financing from 20.7 percent in 2023/24 to 22.5 percent in 2024/25 and 25 percent in 2025/26. At the end of strategy period, commercial borrowing is expected to decline from 15.9 percent to 13.4 percent of GEF. Notably, proportions of all domestic instruments are maintained as in the status quo strategy.

The strategy aims at reducing financing cost and provides adequate resources needed to implement the strategic projects, whose financing negotiations are at an advanced stage. Implementation of the strategy is vulnerable to exchange and interest rate risks as well as the effects of global economic performance including the lingering economic shocks. However, under this approach, the foreign exchange risk is projected to rise to 68.2 percent. However, under this approach, the cost of borrowing is projected to rise to 6.1 percent.

4.2.4. Strategy 4 (S4): Eurobond

The strategy assumes reduction of semi-concessional financing to create a funding gap of USD 852 million in the second year of the strategy to be met by a one-time issuance of a Eurobond. To secure the amount, a one-time issuance of a Eurobond is planned in second year that is 2024/25. The consideration aims to correct effects of pattern of delays in disbursements from semi-concessional sources, as well as the complexities encountered during the negotiation of such loans. Additionally, the strategy takes advantage of the recent favorable country credit ratings by Fitch and Moody's. It's important to note that the strategy contemplates a worst-case scenario where the country may face challenges in securing financing from concessional and semi-concessional sources, all while maintaining its commitment to complete ongoing development projects.

4.3. Cost-Risk Analysis of the Alternative Financing Strategies

At the end of the third year (2025/26), under the baseline assumptions, the resulting cost and refinancing risk indicators favor financing through semi-concessional sources (S3). Table 4 and 5 summarize the cost and risk indicators, along with their interpretations. Appendix 2 presents graphically the indicators under shock scenarios.

Table 4: Cost and Risk of Alternative Financing Strategies under baseline scenario

		2023	As at end of 2026			
Risk Indicators		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		38.81	37.96	37.97	37.94	38.00
Present Value debt as percent of GDP		31.52	30.47	30.57	30.32	30.60
Interest payment as percent of GDP		2.26	2.08	2.10	2.06	2.12
Implied interest rate (percent)		5.82	5.96	6.09	5.83	6.08
Refinacing Risk	Debt maturing in lyr (percent of total)	12.71	6.76	6.62	6.52	6.76
	Debt maturing in lyr (% of GDP)	5.48	2.57	2.51	2.48	2.57
	ATM External Portfolio (years)	12.05	13.07	13.01	13.22	12.89
	ATM Domestic Portfolio (years)	9.12	10.55	10.90	10.60	10.55
	ATM Total Portfolio (years)	11.09	12.26	12.31	12.41	12.13
Interest rate Risk	ATR (years)	10.62	11.29	11.38	11.35	11.32
	Debt refixing in lyr (percent of total)	23.68	19.44	18.98	19.62	18.39
	Fixed rate debt incl T-bills (percent of total)	87.21	85.94	86.24	85.51	86.98
	T-bills (percent of total)	7.19	1.48	1.34	1.24	1.48
FX Risk	FX debt as % of total	63.69	67.07	66.26	68.19	67.11
	ST FX debt as % of reserves	20.69	19.54	19.54	19.54	19.54

Source: Ministry of Finance

Favorable UnFavorable

Table 5: Interpretation of the Alternative Strategies Indicators

Strategy	Rationale	Comparative Advantages
S1- Status quo	Maintaining existing strategy (domestic and external) in the medium term.	Based on the rationale of all the strategies, the analysis suggests that S1 is not the optimal choice for the 2024-2026 period options as most of cost and risk indicators are unfavorable compared to others.

Strategy	Rationale	Comparative Advantages
S2-Domestic Market Development	Enhance development of domestic market, specifically through longer maturities.	**i.** Longest Average Time to Maturity (ATM) for Domestic Portfolio (10.9 years). **ii.** Longest Average Time to Refixing (ATR) of total debt (11.4 years). **iii.** Lowest proportion of foreign exchange debt (66.3 percent of total).
S3- Increase Semi-Concessional Financing	Reducing financing cost and risk in the medium term assuming that semi-concessional floating will provide enough financing for execution of strategic projects.	**i.** Lowest nominal debt (37.9 percent of GDP). **ii.** Lowest present value debt (30.3 percent of GDP). **iii.** Lowest interest payment and implied interest rate of 2.1 percent of GDP and 5.8 percent, respectively. **iv.** Low proportion of debt maturing in 1 year (6.5 percent of total and 2.5 percent of GDP). **v.** Longest Average time to Maturity (ATM) of total portfolio of 12.4 years. **vi.** Lowest proportion of Treasury bills (1.2 percent of total).
S4- Eurobond	To ensure financing for development projects are obtained in case there are any delays/challenges in semi concessional window.	**i.** Low proportion of debt refixing in 1 year (18.4 percent of total). **ii.** Highest proportional of fixed rate debt including T-bills (87.0 percent of total).

5. Recommendations

5.1. Recommended Strategy and Its Implementation

Results from the quantitative analysis of cost and risk trade-offs for the alternative strategies indicates that, Strategy 3 is more favorable in terms of cost and risk indicators. The strategy aims to increase borrowing in semi - concessional sources in order to reduce cost of borrowing in commercial source and domestic market.

Rationale: This strategy is underpinned by the goal of reducing medium-term financing costs and risks. It operates on the assumption that semi-concessional loans will supply adequate resources for executing strategic projects. Furthermore, the approach aims to mitigate refinancing risks, as indicated by improvements in most of the refinancing risk indicators as shown in Table 5. Additionally, implementing the strategy will alleviate the pressure on domestic borrowing.

Feasibility: The Government has already secured a mandate letter worth USD 3.04 billion for financing ongoing strategic development projects. Moreover, some bilateral lenders have also expressed their interest in supporting these development initiatives.

Downside Risks: Although Strategy 3 is promising, it is important to acknowledge potential downside risks. Ongoing geopolitical tensions and possible tightening of monetary policies, particularly in developed economies, may impede the strategy execution by elevating interest rates on semi-concessional loans. Furthermore, it's worth noting that the proposed strategy suggests that a significant portion of the debt portfolio (68.1 percent) consists of external debt, exposing it to foreign exchange risks.

Implementation Guidelines: To effectively carry out Strategy 3, the Government plans to undertake the following key steps:

1. Extend invitations to diversified potential lenders to submit their financing proposals. The Debt Management Committees (TDMC and NDMC) will scrutinize all submitted borrowing proposals to ensure they align with the proposed strategy.

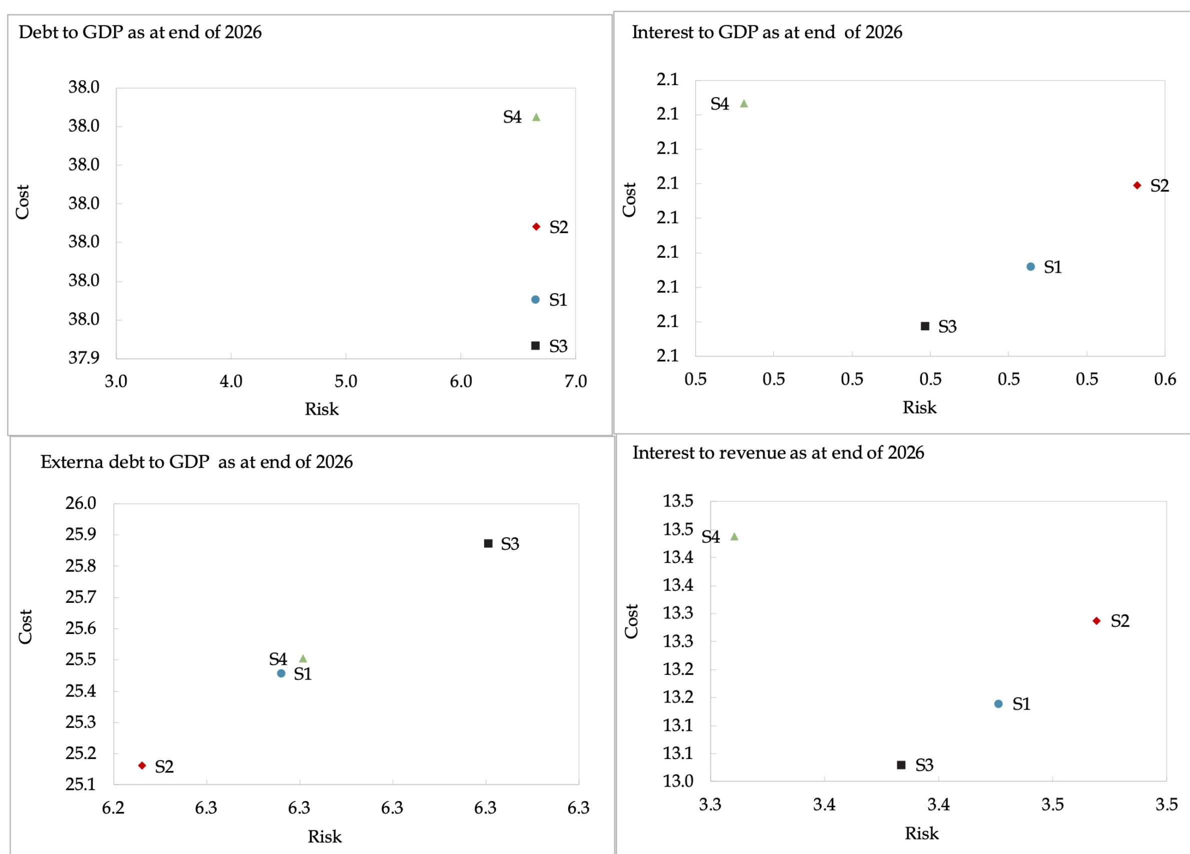
2. To address delays in disbursements under the ECAs, the sector ministries and project implementation units, will be guided for timely project preparations and procurement.

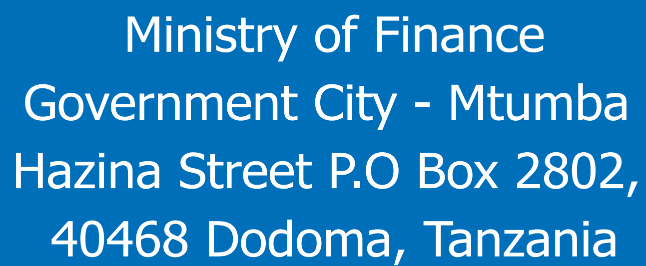
3. The Bond Domestic Market Committee (BDMC) will formulate an annual issuance plan for FY 2023/24 that aligns with the selected strategy. The issuance plan will be communicated to relevant stakeholders in the market.

Appendix 1: Cost and Risk Indicators from June 2019 to June 2023 under Baseline Scenario

Risk Indicator		Jun - 19			Jun - 20			Jun - 21			Jun - 22			Jun - 23		
		Ext	Dom	Total	Ext	Dom	Total	Ext	Dom	Total	Ext	Dom	Total	Ext	Dom	Total
Nominal Debt (% GDP)		27.4	11.0	38.4	27.5	10.7	38.3	28.0	12.2	41.5	26.8	14.3	41.1	24.7	14.1	38.8
PV Debt (% GDP)		17.9	11.0	28.9	18.2	10.7	28.9	19	12.2	31.2	18.6	14.3	32.8	17.4	14.1	31.5
Cost of debt	Interest (% GDP)	0.6	1.1	1.7	0.5	1.1	1.6	0.6	1.3	1.9	0.6	1.4	2.0	0.7	1.5	2.3
	Weighted Av.IR (%)	2.0	10.4	4.4	1.8	10.7	4.3	2.1	10.8	4.7	2.2	9.9	4.9	2.9	11.0	5.8
Refinancing risk	ATM (years)	13.6	4.7	11.0	13.5	6.4	11.7	12.8	7.0	11.2	12.4	8.7	11.2	12.0	9.1	11.1
	Maturing in 1yr (% Total)	7.5	35.7	15.6	4.9	24.6	10.0	5.9	29.1	12.5	6.0	23.5	11.8	4.9	28.8	12.7
	Maturing in 1yr (% GDP)	2.1	3.9	6.0	1.5	2.6	4.1	1.8	3.6	5.4	1.7	3.4	5.1	1.4	4.1	5.5
Interest rate risk	ATR (years)	13.2	4.7	10.8	13.1	6.4	11.3	12.1	7.0	10.7	11.7	8.7	10.7	11.3	9.1	10.6
	Refixing in 1yr (% Total)	20.0	35.7	24.5	18.1	24.6	19.8	21.8	29.1	23.9	22.0	23.5	22.5	21.2	28.8	23.7
	Fixed rate debt (% Total)	83.2	100	88.0	83.2	100	87.6	80.4	100	86.0	80.6	100	87.0	81.0	100.0	87.2
FX risk	FX debt (% Total)			71.4			72.0			69.6			65.2			63.7
	ST FX (% reserves)			27.0			17.8			22.8			24.4			20.7

Appendix 2: Cost and Risk Trade-Offs under the Shock Scenarios

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