THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF FINANCE

MEDIUM TERM DEBT MANAGEMENT STRATEGY (2024/25-2026/27)

November 2024

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Abbreviations

ATR	Average Time to Refixing
BMDC	Bond Market Development Committee
COVID-19	Coronavirus Disease
DMS	Debt Management Strategy
DOD	Debt Disbursed and Outstanding
GDP	Gross Domestic Product
EAC	East Africa Community
ECAs	Export Credit Agencies
IDA	International Development Association
IMF	International Monetary Fund
FYDP III	Five-Year Development Plan III
FX	Foreign Exchange
NDMC	National Debt Management Committee
MTDS	Medium Term Debt Strategy
NDF	Net Domestic Financing
PV	Present Value
SOFR	Secured Overnight Financing Rate
ST	Short Term

Foreword

According to Section 25.1(a) of the Government Loans, Guarantees, and Grants Act, Cap. 134, the Government through the Ministry of Finance is required to prepare a Medium-Term Debt Management Strategy (MTDS) and an Annual Borrowing Plan in line with the overall fiscal framework. The MTDS is a structural framework that defines Government's medium term borrowing plans with a view to achieving the financing needs and a portfolio composition congruent to the lowest possible cost and consistent with prudent level of risk.

The 2024 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 2024 MTDS outlines potential financing options in the medium term (2024/25 – 2026/27) 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 largely considered the need to minimize the cost of debt characterized by elevated semi-concessional borrowing with subdued commercial and domestic market financing. This approach aligns with the government's ongoing pipeline of semi-concessional loan agreements and contract negotiations for the medium term.

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

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Minister of Finance

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1.0 Introduction

The Ministry of Finance prepares 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 2024 MTDS covers three years (2024/25 – 2026/27) and aims to finance central Government budget deficit, with 2023/24 as a base year and 2024/25 as first year of projection.

The 2024 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).

As per the Forward, the objective of the 2024 MTDS is to achieve the financing need and a portfolio composition congruent to the lowest possible cost and consistent with prudent level of risk. Specifically, in the medium term, the government's strategy aims to maximize financing from concessional sources purposely for social sector development projects whilst optimizing financing from semi-concessional sources, particularly under Export Credit Agencies (ECAs) for flagship projects that require significant resources.

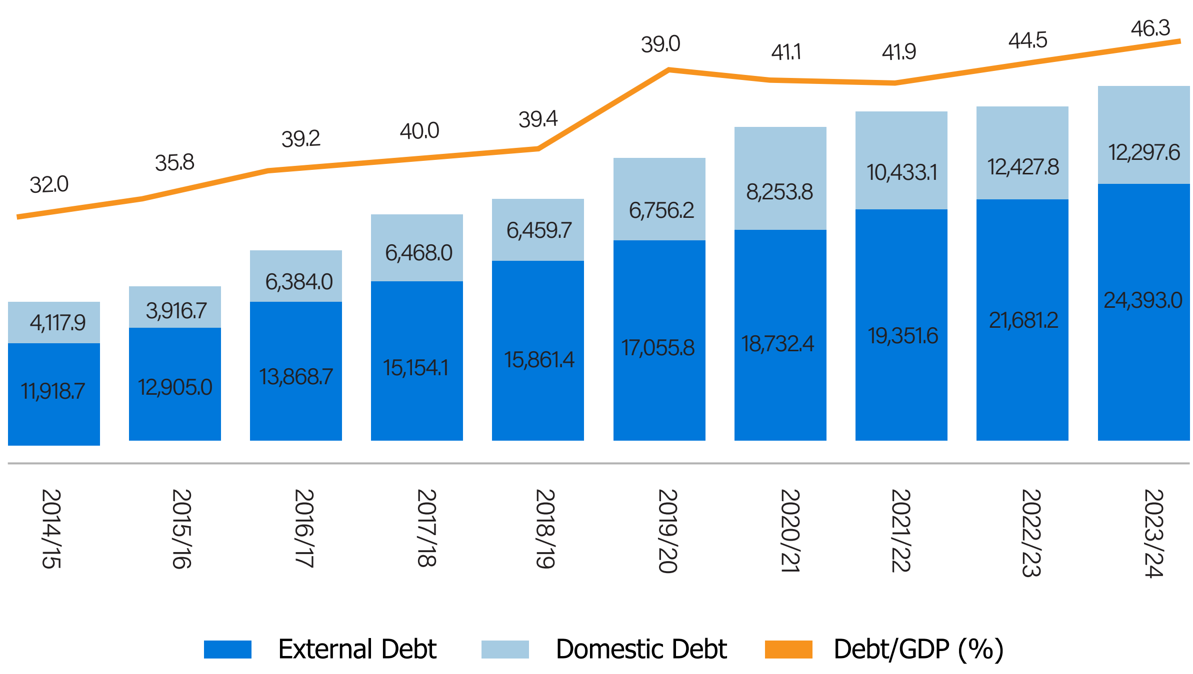
The 2024 MTDS considered baseline macroeconomic projections, implementation of the ongoing mega projects, and concluding negotiations and settlements of bilateral technical arrears within the medium term. The choice of the medium-term debt management strategy (DMS) was largely informed by quantitative cost and risk results of alternative financing strategies using the MTDS Analytical Tool. It was also informed by qualitative considerations such as long-term structural factors that influenced the feasibility of the portfolio composition.

2.0 Review of the Debt Portfolio

2.1. Evolution of the Debt Portfolio

The Central Government debt stock stood at USD 36,690.7 million (46.3 percent of GDP) at end June 2024 from USD 34,109.1 million (44.5 percent of GDP) recorded in June 2023, equivalent to an increase of 7.2 percent. The increase was attributable to disbursements of external loans and issuance of Government securities. External debt accounted for 66.5 percent of the public debt while domestic debt accounted for 33.5 percent (Chart 1).

Chart 1: Central Government Debt Development (USD Million)



Source: Ministry of Finance

As of June 2024, multilateral institutions held the largest share of external debt, accounting for 68.1 percent. Commercial and Export Credit Agencies (ECAs) a at 27.3 percent, with bilateral creditors at 4.6 percent (Table 1).

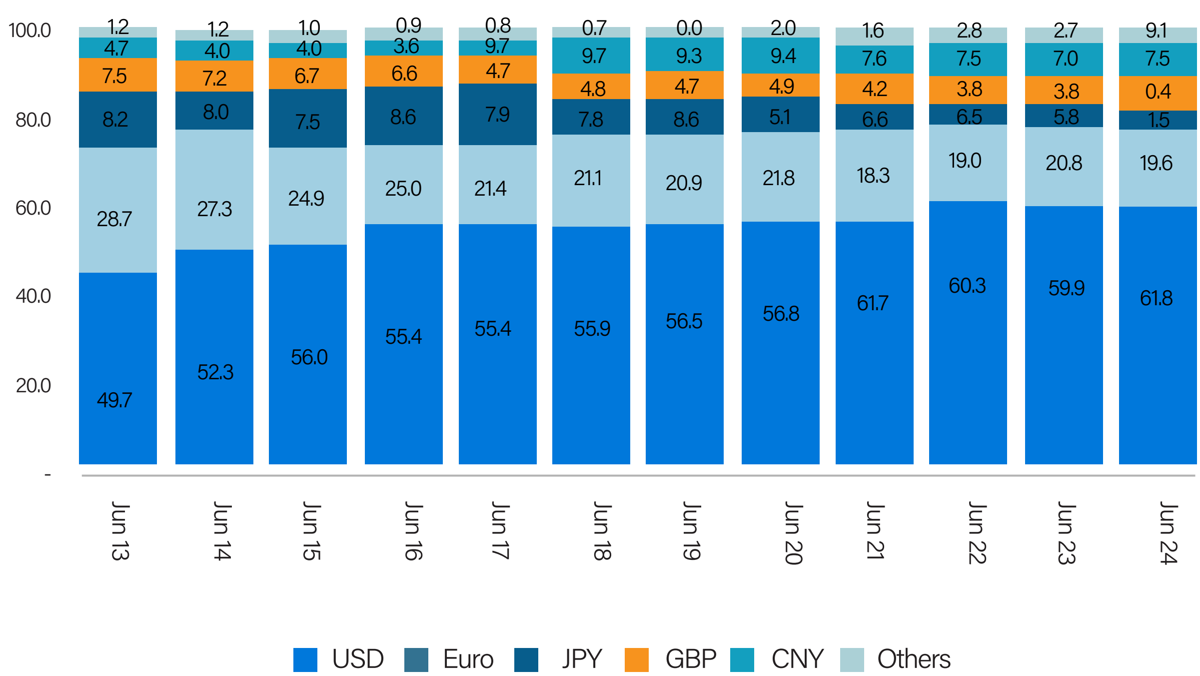
Table 1: External Debt by Creditor Categories (USD Million)

External Central Government Debt by Creditor Categories	2019/20		2020/21		2021/22		2022/23		2023/24	
	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%
Multilateral	10,461.4	57.8	11,451.5	58.1	12,409.5	60.7	14,359.1	62.9	16,614.7	68.1
Bilateral	2,229.2	12.5	2,231.0	11.3	2,265.8	11.1	2,232.8	9.8	1,232.0	5.1
Commercial Bank/ECAs	4,904.5	27.4	5,770.4	29.3	5,591.2	27.3	6,093.5	26.7	6,448.4	26.4
External Credit	284.5	1.6	250.0	1.3	192.1	0.9	142.1	0.6	97.9	0.4
External debt stock	16,627.0	100.0	19,702.9	100.0	20,458.6	100.0	22,827.50	100.0	24,393.05	100.0

Source: Ministry of Finance

The proportion of debt denominated in USD continues to account for the largest share of external debt, accounting for 61.8 percent, with Euro and Chinese Yuan at 19.6 percent and 7.6 percent, respectively. This implies that the debt portfolio is exposed to risks from changes in the USD/TZS exchange rate (Chart 2).

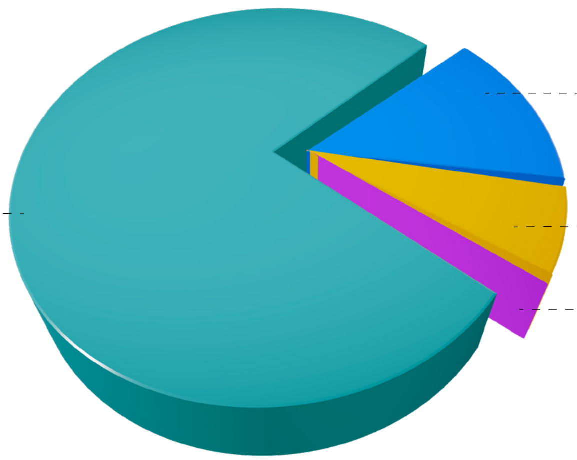
Chart 2: Debt Composition by Currency (Percent)



Source: Ministry of Finance

As of June 2024, the profile of domestic debt by instrument (excluding Bank of Tanzania liquidity paper) shows that treasury bonds account for the largest share, 77.46 percent. The greater share of Treasury bonds is consistent with the Medium-Term Debt Strategy, which requires the Government to develop the domestic bond market by issuing instruments with longer tenure to reduce refinancing risk (Chart 3).

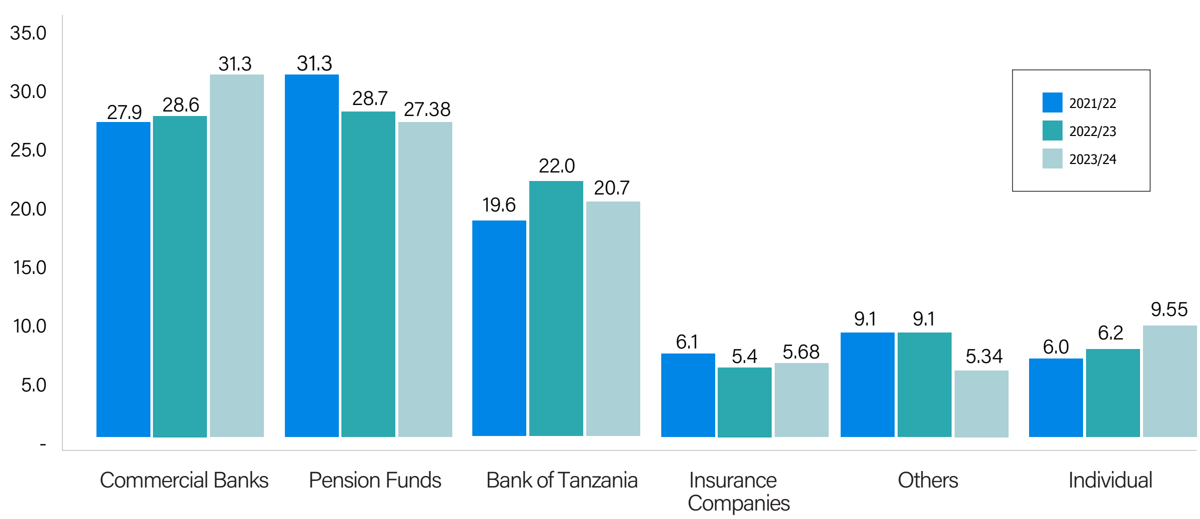
Chart 3: Domestic Debt Stock by Instrument Category



Source: Ministry of Finance

Domestic debt by holder category shows that pension funds account for the largest share of domestic debt accounting for 28.7 percent with commercial banks and Bank of Tanzania at 28.6 percent and 22.0 percent, respectively (Chart 4).

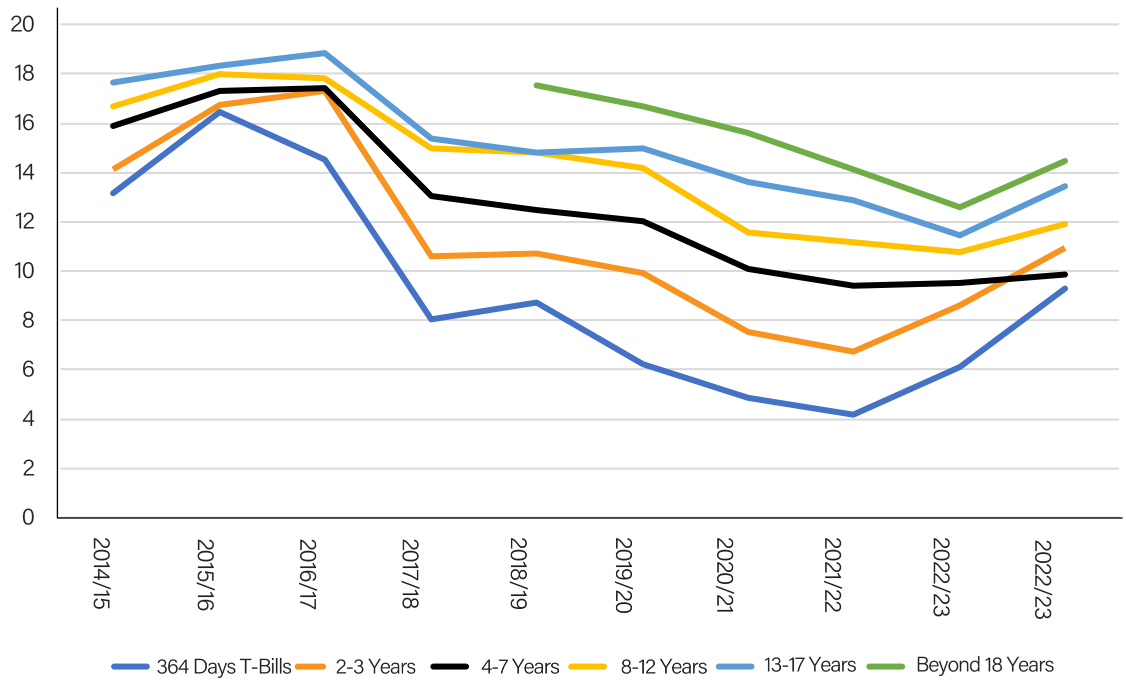
Chart 4: Domestic Debt by Holder's Category (Percent)



Source: Ministry of Finance

In 2023/24, yields on government securities increased, fueled by global interest rate hikes in response to inflation pressures from geopolitical tensions, supply chain disruptions, rising oil prices, and extreme domestic weather events. These conditions led central banks in both advanced economies and across Africa to implement tight monetary policies. (Chart 5).

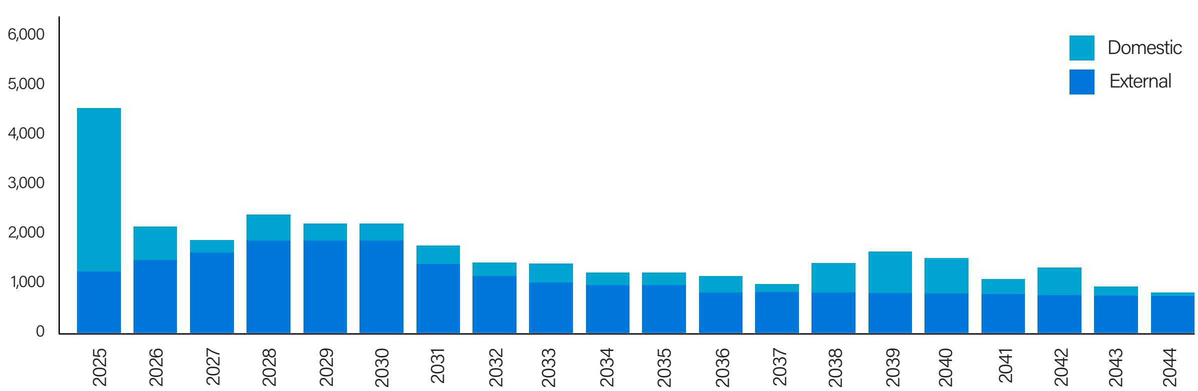
Chart 5: Primary Market Yields Trend (in Percent)



Source: Ministry of Finance

The redemption profile shows a considerable amount of domestic debt maturing in 2025, largely comprising short-term instruments highlighting refinancing risk. On the other hand, the external debt redemption profile shows that more than 50 percent of debt will fall due within ten years from now. This includes the repayments of IMF, and commercial loans debt redemption exhibiting pressure during the period 2026 – 2030 (Chart 6).

Chart 6 : Redemption profile of Public Debt as at end June 2024 (USD Millions)



Source: Ministry of Finance

3.0 Review of Implementation of the 2023 MTDS

3.1 Analysis of cost and risks in the existing debt portfolio

The 2023 MTDS sought to reduce medium-term financing costs and risks associated with borrowing from commercial sources and domestic market as well as mitigating refinancing risks, through maximizing borrowing from semi - concessional sources. The outturn of cost and risk indicators of the existing debt as of June 2024 is summarized in Table 2.

Table 2: Cost and Risk indicators for existing debt as at end June 2024

		Existing debt at the end of 2024		
Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of TZS)		64,397,645.7	31,951,242.8	96,348,888.5
Amount (in millions of USD)		24,393.0	12,102.7	36,495.8
Nominal debt as percent of GDP		32.4	16.1	48.5
PV as percent of GDP		23.5	16.0	39.6
Cost of Debt	Interest payment as percent of GDP	1.0	1.6	2.6
	Weighted Av. IR (percent)	3.0	10.1	5.4
Refinacing Risk	ATM (years)	11.4	9.0	10.7
	Debt maturing in lyr (percent of total)	4.9	28.2	11.9
	Debt maturing in lyr percent of GDP)	1.8	4.5	6.4
Interest rate Risk	ATR (years)	10.1	9.0	9.8
	Debt refixing in lyr (percent of total)	24.9	28.2	25.9
	Fixed rate debt incl T-bills (percent of totall)	77.2	100.0	84.1
	T-bills (percent of total)	-	21.9	6.6
FX Risk	FX debt (percent of total debt)			66.8
	ST FX debt (percent of reserves)			24.1

Source: Ministry of Finance

The first year of implementing the 2023 MTDS, i.e., 2023/24, showed that both nominal debt to GDP and the present value of debt to GDP rose from the projected 38.8 percent and 31.5 percent to 48.5 percent and 39.6 percent, respectively. The implied interest rate improved to 5.2 percent compared to the of 5.8 percent in 2022/23, primarily due to increase in proportion of external semi concessional loans.

Total debt's average time to maturity declined to 10.8 years, from 11.1 years end June 2023. Similarly, the share of debt maturing within a year as a percentage of GDP increased to 6.4 percent as of June 2024, from 5.5 percent June 2023, primarily due to an increase in the overdraft.

The share of debt denominated in foreign currency increased to 66.8 percent from 63.7 percent end June 2023, implying exposure of the portfolio to exchange rate risk.

Despite the evolving trends, the overall cost and risk indicators of the total debt portfolio remained within the set debt management strategic benchmarks as of June 2024 **(Table 3). Appendix 2** shows the Cost and Risk Indicators from June 2022 to June 2024 under the baseline scenario.

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

Indicator	Jun 22	Jun 23	Jun 24	Benchmark
Implied Interest rate (percent)	4.9	5.8	5.4	<7.0
Debt maturing in 12 months (percent of total)	11.7	11.5	11.9	<15
Debt maturing in 12 months (percent of GDP)	5.1	5.5	6.4	<7.5
ATM of total debt (years)	11.2	11.0	10.8	>10
Fixed rate debt (percent of total)	86.9	87.5	84.1	>75
T-bills (percent of total)	5.2	6.5	6.6	<10
Foreign Currency debt (percent of total)	65.2	63.7	66.8	<75
Short-term foreign currency debt (percent of official reserves)	24.4	20.7	24.1	<75

Source: Ministry of Finance

The deviation of key debt indicators from the 2023/24 projections in the 2023 MTDS underscores the need for a comprehensive review of the MTDS. The higher actual nominal and present value of debt as a percentage of GDP suggest a rapid debt accumulation pace that may be a challenge to fiscal sustainability. Although the implied interest rate has improved to 5.2% from the projected 5.8%, the uptick in interest payments to 2.6% of GDP indicates rising debt service burden. Additionally, the shorter average time to maturity and increased proportion of foreign currency-denominated debt expose the portfolio to refinancing and exchange rate risks, amplifying potential debt vulnerabilities.Together, these considerations highlight the importance of recalibrating the MTDS to mitigate risks, enhance debt sustainability, and align with evolving macroeconomic conditions.

4.0 Macroeconomic Assumptions and Market Environment

4.1. Recent Economic Development

The economy continued to consistently recover to its pre pandemic growth levels. Real GDP grew by 5.1 percent in 2023 from 4.7 percent recorded in 2022 supported by continued Government spending on strategic public investments in energy, social sector, and infrastructural development; increased production of minerals, especially gold and coal; and increased credit to the private sector that stimulated the economy.

In the first half of 2024, the economy grew by 5.4 percent compared to 4.8 percent in the corresponding period of 2023. Whereby, finance and insurance activities recorded the highest growth rates reflecting continued growing awareness of using financial products and services. In addition, information and communication activities experienced an uptick in growth from 4.8 percent in the first half of 2023 to 12.3 percent, indicating increased use of ICT in the country as the Government continues to create an enabling environment for telecommunication companies to operate. Agriculture continued to dominate at 26.7 percent of GDP followed by construction at 12.8 percent, remaining the significant contributors to growth at 0.9 percent and 0.7 percent, respectively.

In 2023/24, domestic revenue grew by 13.5 percent, which was 15.0 percent GDP, higher than 14.6 percent in 2022/23. Tax revenue which accounts for the largest share of domestic revenue grew by 15.6 percent, accounting for 12.5 percent of GDP. On the expenditure, the ratio of government expenditure to GDP was 18.4 percent in 2023/24, slightly below 19.1 percent recorded in 2022/23. As a result, the overall fiscal deficit was 3.1 percent of GDP, 0.4 percentage point higher than the budget estimates.

During 2023/24, the external sector faced headwinds of global shocks but improved moderately. The current account deficit narrowed by 50.2 percent to USD 2,469.5 million from USD 4,955.6 million in 2022/23, due to earnings from tourism and traditional exports coupled with the decline in the import bill. However, the shilling faced pressure in second half of 2023/24, attributable to decline in foreign currency liquidity in the market, owing to global factors, including the tight monetary policy in advanced economies and relatively high energy prices.

Consistently, the nominal exchange rate depreciated by 13 percent, year -on-year, trading at an average of 2,504.92 per US dollar, compared to under one percent in preceding two years.

Foreign exchange reserves stood at USD 5,345.5 million as of June 2024, compared with USD 5,446.1 million during 2022/23, sufficient to cover 4.4 months of projected imports of goods and services. The level was above the country's benchmark of at least 4 months, but lower than EAC and SADC benchmark of at least 4.5 months and 6 months, respectively.

4.2. Baseline Macroeconomic Projections and Assumptions

The economy is expected to keep growing at higher pace compared to the immediate post pandemic period. In 2024, the economic recovery was promising as long-term effects of COVID globally and spillover effects from war continued to fade. In that regard, economic growth projection for 2024 is expected to pick up to 5.4 percent. In addition, growth is expected to accelerate to 5.8 percent in 2025 and 6.1 percent in 2026.

In the medium term (2026-2029), the economy is projected to grow at an average of 6.3 percent. The projected growth is supported by continued implementation of strategic infrastructural projects in energy and transport, ongoing Government initiatives to improve the investment environment, full implementation of major programs such as ASDP, Youth initiatives Agribusiness (BBT-YIA), Government support to social sectors as well as prudent fiscal and monetary policy.

The headline inflation is projected to be within the national target of 3-5 percent and regional benchmarks. This projection is based on the following;

i	The continuous adequate food supply in the country attributed to the increased crop productivity due to favourable weather conditions and government efforts in agricultural sectors, including the implementation of ASDP II;
ii	Improvement in the transport network, mainly railway infrastructure, which is expected to reduce transportation costs; and
iii	Implementation of prudent monetary and fiscal policies.

On account of prudent fiscal policy measures and the expected economic recovery, domestic revenue is projected to increase to 15.8 percent of GDP in 2024/25 to an average of 16.0 percent of GDP over the medium term. Expenditure is also projected at 19.1 percent of GDP in 2024/25 and is expected to hover around 19.1 percent of GDP over the medium term. However, in absolute terms, 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 2.9 percent of GDP in 2024/25 and further decline to an average of 2.7 percent of GDP over the medium term.

Gross official reserves are projected at USD 5,542.7 million in 2024/25 supported by implementation of foreign currency mobilization strategy including gold purchase. The amount is adequate to cover at least 4 months of projected imports of goods and services, excluding foreign direct investment related imports consistent with the country's benchmark.

4.3. Downside risks to medium-term outlook and proposed mitigations

Despite the envisaged robust economic growth over the medium term, uncertainties may impede the economic outlook. This section identifies downside risks as follows:

i	Increasing global geopolitical tensions, especially an escalation of conflict in the Middle East may lead to supply disruption and spike in oil prices that will ultimately be passed to increase in production and transportation costs which will dampen growth trajectory and increase inflation.
ii	Increased frequency and intensity of adverse weather events will likely trigger food inflation and undermine growth prospects. Agriculture still accounts for the largest share of GDP; thus, climate change poses a greater risk going forward.
iii	Exchange rate stability is banked on monetary policy easing in developed economies. However, a delay in policy easing prompted by entrenched inflation could further pressure the Shilling, which will increase external debt service and import costs.

The Government is proactively implementing strategies that are geared at enhancing domestic revenue mobilization to safeguard the economy against financing risks. Further, investing in transport and energy infrastructure is accompanied by implementation of food security programs 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.

5.0 Debt Management Strategy

5.1. Alternative Financing Strategies

A comprehensive analysis was conducted, considering four distinct borrowing strategies to secure funding at minimal cost within acceptable risk levels. The candidate strategies included: (i) S1-The Status Quo; (ii) S2-Domestic Debt Market Development; (iii) S3-Increase Semi-Concessional Borrowing; and (iv) S4 - Eurobond Issuance. Each strategy was evaluated under shock scenarios based on baseline assumptions. The calibration process involved adjusting the proportions and mix of domestic and external financing sources within the respective instruments.

5.1.1. Strategy 1 (S1): Status quo

The strategy assumes that the Gross External Financing (GEF) will increase from 46.0 percent in 2024/25 to 49.0 percent in 2026/27 of total gross financing need, while the Gross Domestic Financing (GDF) will decline to 51.0 percent in 2026/27 from 54.0 percent in 2024/25. The strategy is based on the approved budget where the projected outturn of 2024/25 Net Domestic Financing (NDF) is TZS 1,055.82 billion, equivalent to 0.5 percent of GDP. For the subsequent years of 2025/26 and 2026/27, NDF is forecasted to reach TZS 2,045.51 billion (0.8 percent of GDP) and TZS 3,952.47 billion (1.5 percent of GDP), respectively. Semi-concessional sources are expected to contribute 42.0 percent of the GEF, while 20-25 years T-bonds will make up 30.7 percent of the GDF over the medium term. The underlying rationale for this strategy is to align with the implementation of the IMF program under Extended Credit Facility (ECF).

The projections show that the strategy will increase borrowing costs (implied interest rate) for domestic debt to 12.23 percent in 2025 from 10.13 percent in 2024 and raise costs associated with total debt.

5.1.2. Strategy 2 (S2): Domestic Debt Market Development

Strategy 2 (S2) assumes that the allocation of GEF and GDF is maintained across the strategy period, but NDF will increase in 2026/27, aiming to improve NDF levels to 1.6 percent of GDP from 0.5 percent in 2024/25.

The strategy also entails a projected decline in the utilization of long-term securities particularly 15-, 20-, and 25-years treasury bonds from 43.3 percent in 2024/25 to 41.5 percent in 2025/26, and further to 43.0 percent in 2026/27. Concurrently, there is a tremendous increase in the percentage of medium-term securities that is, the 3-, 7- and 10-years treasury bonds from 18.7 percent in 2024/25 to approximately 23.5 percent in 2025/26 and 27.0 percent in 2026/27. Notably, the composition of GEF proportions is maintained as status quo.

The rationale behind this strategy is to shift liquidity towards medium-term securities, which is expected to reduce costs emanating from longer maturities while aligning with market preferences. However, under this approach, the cost of borrowing is projected to rise to 5.94 percent in 2026/27 from 5.70 percent 2024/25.

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

Under the strategy, the GDF was reduced from 47 percent in 2024/25 to 43 percent in 2025/26 and to subsequently 40 percent in 2026/27. The strategy assumes an increase in the share of semi-concessional floating financing from 18.0 percent in 2024/25 to 22.0 percent in 2025/26 and 24 percent in 2026/27. At the end of the strategy period, commercial borrowing is expected to decline from 22.0 percent to 15.0 percent of GEF. Notably, proportions of all domestic instruments are maintained as in the status quo strategy.

The strategy aims to reduce financing costs and provides adequate resources to implement the strategic projects. Implementation of the strategy is vulnerable to exchange and interest rate risks as well as the effects of global economic performance, including lingering economic shocks. However, under this strategy, the foreign exchange risk is projected to rise to 70.75 percent from 68.99 percent in 2024/25, and the cost of borrowing is projected to rise to 5.66 percent from 5.38 percent in 2024/25.

5.1.4 Strategy 4 (S4): Eurobond

The strategy assumes shifting from commercial floating borrowing to create a funding gap of 25.0 percent in 2025/26 and 18 percent in 2026/27 of the GEF through issuance of Eurobonds. The consideration aims to correct the effects of the 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 rating agencies.

It is important to note that the strategy contemplates a worst-case scenario where the country may face challenges to secure financing from concessional and semi-concessional sources, while maintaining its commitment to complete ongoing development projects.

5.2. Cost-Risk Analysis of the Alternative Financing Strategies

At the end of 2026/27, 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 and their interpretations. Appendix 3 presents graphically the indicators under shock scenarios.

Table 4: Cost and Risk of Alternative Financing Strategies under the Baseline Scenario

		2024	As at end of 2027			
Risk Indicators		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		48.525	46.808	46.822	46.787	46.794
Present Value debt as percent of GDP		39.572	38.590	38.689	33.440	38.496
Interest payment as percent of GDP		2.610	2.478	2.501	2.446	2.454
Implied interest rate (percent)		5.379	5.876	5.944	5.664	5.694
Refinacing Risk2	Debt maturing in lyr (percent of total)	11.861	7.376	7.520	6.9420	6.9427
	Debt maturing in lyr (% of GDP)	6.3598	3.4526	3.5212	3.2479	3.2488
	ATM External Portfolio (years)	11.409	10.404	10.395	10.422	10.420
	ATM Domestic Portfolio (years)	9.357	13.282	12.811	13.229	13.229
	ATM Total Portfolio (years)	10.793	11.283	11.152	11.228	11.226
Interest rate Risk2	ATR (years)	9.899	10.273	10.165	10.132	10.298
	Debt refixing in lyr (percent of total)	25.885	21.535	21.379	21.896	19.061
	Fixed rate debt incl T-bills (percent of total)	84.058	83.820	84.122	83.025	85.861
	T-bills (percent of total)	2.187	1.863	2.009	1.427	1.428
FX Risk	FX debt as % of total	66.839	68.888	68.072	70.753	70.751
	ST FX debt as % of reserves	31.6	31.6	31.6	31.6	31.6

Source: Ministry of Finance Favorable UnFavorable

Table 5: : Interpretation of the Alternative Strategies Indicators

Strategy	Rationale	Comparative Advantages	Disadvantage
S1- Status quo	To align with the implementation of the IMF program under Extended Credit Facility.	i. Longest Average Time to Maturity (ATM) for Domestic Portfolio (13.28 years). ii. Longest Average Time to Maturity (ATM) for Total Portfolio (11.28 years).	i. higher interest payment and implied interest rate of 2.47 percent of GDP and 5.87 percent, respectively

Strategy	Rationale	Comparative Advantages	Disadvantage
S2- Domestic Market Development	Enhance the development of the domestic market, specifically through increasing issuance of medium-term maturities by the adoption of market-determined coupon rate modality, which will increase liquidity across the maturity spectrum.	i. The lowest FX debt as a percent of total debt is 68.07 percent.	i. Highest nominal debt (46.82 percent of GDP). ii. Highest present value debt (38.68 percent of GDP iii. Highest interest payment and implied interest rate of 2.50 percent of GDP and 5.94 percent, respectively iv. Highest proportion of debt maturing in 1 year (7.52 percent of total and 3.52 percent of GDP). v. Lowest Average time to Maturity (ATM) of external portfolio of 10.40years. vi. Highest Average Time to Maturity (ATM) for Domestic Portfolio (12.81 years). vii. Longest Average Time to Maturity (ATM) for Total Portfolio (11.15 years). viii. Highest proportion of Treasury bills (2.01 percent of total).
S2- Domestic Market Development S3- Increase Semi-Concessional Financing	Reducing financing costs in the medium term, if semi-concessional floating will provide enough financing for the execution of strategic projects.	i. The lowest FX debt as a percent of total debt is 68.07 percent. ii. Lowest nominal debt (46.79 percent of GDP). iii. Lowest present value debt (38.44 percent of GDP). iv. Lowest interest payment and implied interest rate of 2.45 percent of GDP and 5.66 percent, respectively.	i. lowest Average Time to Refixing (ATR) of total debt (10.13 years). ii. Highest proportion of debt refixing in 1 year (21.9 percent of total). iii. lowest proportion of fixed rate debt, including T-bills (83.03 per cent of the total). iv. Highest FX debt as a percent of total debt is 70.75 percent.

Strategy	Rationale	Comparative Advantages	Disadvantage
		v. Longest Average time to Maturity (ATM) of external portfolio of 10.42 years. vi. Lowest proportion of Treasury bills (1.42 percent of total).	
S4- Eurobond	To ensure financing for development projects is obtained in case there are any delays/challenges in the concessional window.	i. Longest Average Time to Refixing (ATR) of total debt (10.29 years). ii. Lowest proportion of debt refixing in 1 year (19.06 percent of total). iii. Highest proportion of fixed rate debt, including T-bills (85.86 per cent of the total).	Higher FX debt as a percent of total debt is 70.75 percent.

Source: Ministry of Finance

6.0 Recommendations

6.1. Recommended Strategy and Its Implementation

Results from the quantitative analysis of cost and risk trade-offs for the alternative strategies indicate that Strategy 3 is the most favorable in terms of cost and refinancing risk indicators. The strategy aims to increase borrowing in semi-concessional sources to reduce the cost of borrowing from commercial sources and domestic markets. The operational target for fiscal years 2024/25, 2025/26 and 2026/27 are highlighted in Appendix 1 for monitoring.

Rationale: This strategy is underpinned by the goal of reducing medium-term financing costs and manage refinancing 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 (Table 5).

Feasibility: The Government has already secured financing from various creditors for ongoing strategic development projects for 2024/25. Moreover, some bilateral lenders have also expressed interest in supporting the development initiatives.

Downside Risks: Although Strategy 3 is promising, it is essential 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 (70.75 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:

i	Extend invitations to potential external lenders to submit their financing proposals.
ii	To address delays in disbursements under the ECAs, the sector ministries and project implementation units will be guided for timely project preparations and procurement.

iii	To formulate an Annual Borrowing Plan (external and domestic) and an issuance plan (domestic) that aligns with the selected strategy. The issuance plan will be communicated to relevant stakeholders in the market.

Appendix 1: Operational targets

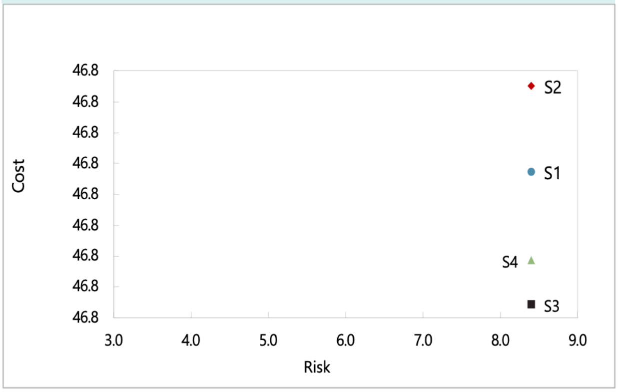
Indicator		Current 2024	Target for 2025	Target for 2026	Target for 2027
Cost of Debt	Total Nominal Debt Outstanding as percent of GDP	48.53	48.55	47.65	46.79
	Total Present Value of Debt as percent of GDP	39.57	39.62	38.95	38.44
	Total Interest payment as percent of GDP	2.61	2.36	2.50	2.45
	Total Implied Interest Rate (in percent)	5.38	5.70	5.68	5.66
Refinancing Risk	Total Debt Maturing in 1 YR (percent of total)	11.86	9.14	6.79	7.05
	Total Debt Maturing in 1 YR (percent of GDP)	6.36	4.44	3.23	3.30
	Total ATM (years)	10.69	>10	>10	11.14
Interest Rate Risk	Total Debt Refixing in 1 YR (in percent)	25.89	23.18	21.62	22.00
	Total Fixed Rate Debt Portfolio (including T-bills)	84.06	83.83	83.50	83.02
Exchange Rate Risk	FX debt as percent of total	66.84	68.99	70.34	70.75
	ST FX debt as percent of reserves	24.15	25.60	26.27	31.64

Appendix 2: Cost and Risk Indicators from June 2020 to June 2024 under Baseline Scenario

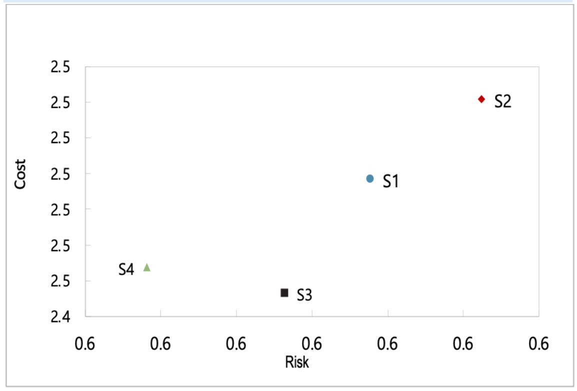
Risk Indicator		Jun - 20			Jun - 21			Jun - 22			Jun - 23			Jun - 24		
		Ext	Dom	Total	Ext	Dom	Total	Ext	Dom	Total	Ext	Dom	Total	Ext	Dom	Total
Nominal Debt (% GDP)		27.5	10.7	38.3	28.0	12.2	41.5	26.8	14.3	41.1	24.7	14.1	38.8	32.4	16.1	48.5
PV Debt (% GDP)		18.2	10.7	28.9	19	12.2	31.2	18.6	14.3	32.8	17.4	14.1	31.5	23.5	16.0	39.6
Cost of debt	Interest (% GDP)	0.5	1.1	1.6	0.6	1.3	1.9	0.6	1.4	2.0	0.7	1.5	2.3	1.0	1.6	2.6
	Weighted Av.IR (%)	1.8	10.7	4.3	2.1	10.8	4.7	2.2	9.9	4.9	2.9	11.0	5.8	3.0	10.1	5.4
Refinancing risk	ATM (years)	13.5	6.4	11.7	12.8	7.0	11.2	12.4	8.7	11.2	12.0	9.1	11.1	11.4	9.0	10.7
	Maturing in 1yr (% Total)	4.9	24.6	10.0	5.9	29.1	12.5	6.0	23.5	11.8	4.9	28.8	12.7	4.9	28.2	11.9
	Maturing in 1yr (% GDP)	1.5	2.6	4.1	1.8	3.6	5.4	1.7	3.4	5.1	1.4	4.1	5.5	1.8	4.5	6.4
Interest rate risk	ATR (years)	13.1	6.4	11.3	12.1	7.0	10.7	11.7	8.7	10.7	11.3	9.1	10.6	10.1	9.0	9.8
	Refixing in 1yr (% Total)	18.1	24.6	19.8	21.8	29.1	23.9	22.0	23.5	22.5	21.2	28.8	23.7	24.9	28.2	25.9
	Fixed rate debt (% Total)	83.2	100	87.6	80.4	100	86.0	80.6	100	87.0	81.0	100.0	87.2	77.2	100.0	84.1
FX risk	FX debt (% Total)			72.0			69.6			65.2			63.7			66.8
	ST FX (% reserves)			17.8			22.8			24.4			20.7			24.1

Appendix 3: Cost and Risk Trade-Offs under the Shock Scenarios

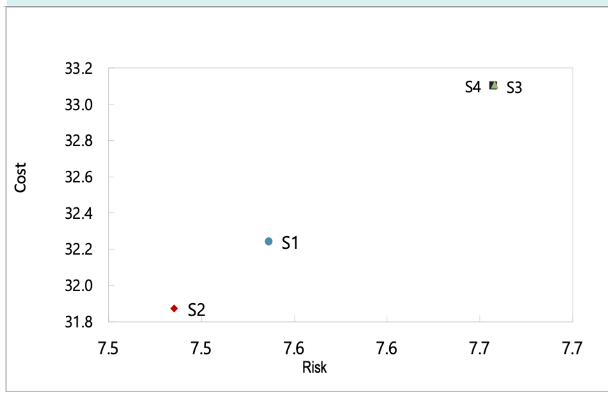
Debt to GDP as at end 2027



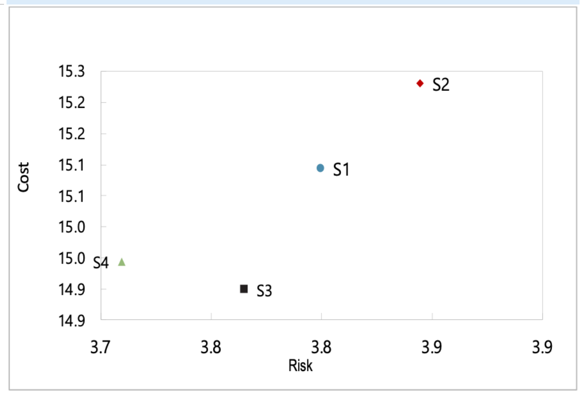
Interest to GDP as at end of 2027



External debt to GDP as at end of 2027



Interest to revenue as at of 2027



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