SIG MEDIUM TERM DEBT MANAGEMENT STRATEGY 2021-2024

Ministry of Finance & Treasury

Debt Management Unit

Solomon Islands Government

2021

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1. Executive Summary

The Medium- term Debt Management Strategy 2021-2024 (MTDS) reflects the government's plans for financing its activities during this period.

This MTDS assess the existing level of SIG debt and develops four borrowing strategies, which provides technical advice to the government on areas of debt including debt management and administration. This approach provides clarity for decision makers, debt management practitioners and other debt stakeholders (e.g. donors) in the Solomon Islands.

The Debt Management Unit (DMU), within the Ministry of Finance and Treasury (MoFT), is responsible for debt management operations in the Solomon Islands and is custodian and administrator of the DMF. This assessment deals with all forms of Government borrowing (i.e. SIG direct borrowing, state owned enterprise borrowing, provincial Government borrowing and SIG guarantees).

A key provision of the DMF is that the Minister of Finance has the sole power to approve, or provide consent for (in the case of sub national borrowing), any Government borrowing. In exercising this power, the Minster is required under the PFMA to seek advice from the Debt Management Advisory Committee (DMAC). Roles, responsibilities and operational rules for the DMAC are outlined in the DMAC Charter, which is one component of the DMF.

Ideally, to promote predictability and continuity in public policy, it is expected that this MTDS will remain in effect for the next four years (2021-2024). The MTDS is however, a policy document that is endorsed by Cabinet, and is subject to change if and when macroeconomic situation and domestic debt market developments require so.

2. Objective and Scope

1.1 Objective

Based on the 2018 debt regulation, the objectives of the Public Debt Management in Solomon Islands are as follows:

a) Net Economic Benefits: To finance development is Solomon Islands in a manner that maximizes the net economic benefits to Solomon islands whilst ensuring that the level of Government borrowing is at an affordable and sustainable level;
b) Cost Versus Risk: to minimize the cost of Government borrowing, subject to an acceptable and affordable level of risk;

c) Development of Domestic Debt Market: to promote the development of the Domestic debt market by, in particular, aiming to maintain a properly functioning primary market and a secondary market for Government securities yield curve.

1.2 Scope of debt

The current MTDS assesses SIG Debt.

1.3 Cost and Risks to be Managed

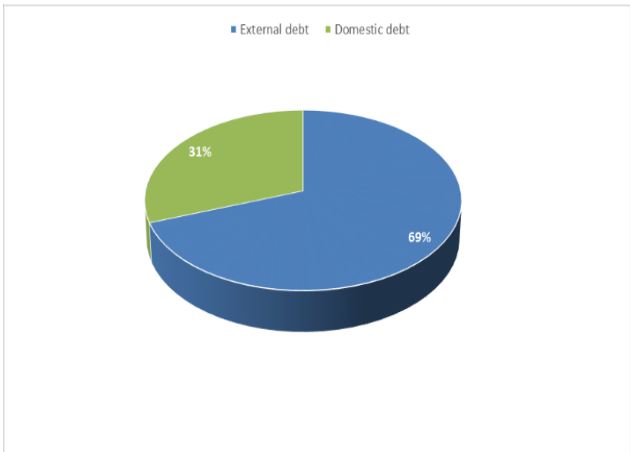
The SIG Debt portfolio is exposed to market risks, namely refinancing risk, interest rate risks, and foreign currency exchange rate risk. Despite the moderate risk of debt distress of SIG debt portfolio as assessed by the debt sustainability analysis[1], a sudden shock to any of the market and financing risks can increase the debt distress level, this may trigger more fiscal pressures to the government already tight finances.

3. Existing Portfolio

1.1. Description of Debt Levels and Trends, Drivers

The composition of the existing strategy was largely dominated by external highly concessional borrowing. The period covered by this assessment, end of December 2020, the percentage share of external borrowing and domestic borrowing were 69% and 31% respectively., To date there were no outstanding guarantees. The total central government debt amounted to SBD 1.5 billion or US$ 182.9 million, equivalent to 11.7 percent of GDP as at end December 2020.

Figure 1: Composition of SIG Debt Outstanding, as at end-2020 (in %)



Source: MTDS Team

[1] WB/ IMF Debt Sustainability Assessment, (staff report for the 2019 article iv consultation, 2020)

The accumulated debt level continues to rise as an impact of fully drawn loans during the pandemic and continued disbursement of the previously approved major loans.

1.2. Composition by Creditor, Currency, Interest type.

Of the total external debt, 95% were the fixed rate IFAD/IDA loans and the remaining 5% were the fixed rate semi concessional instruments. Development bonds constitute 82% of the domestic bond while 18% was the Treasury bill share of the total domestic borrowings sourced through Open Market Operations.

1.3. Key Risk Indicators

The current debt portfolio is mostly vulnerable to foreign exchange rate risk due to the relatively high share of foreign currency (FX) denominated debt (see Table 2 below). Solomon Islands FX debt accounted for about 69.4 percent of the total debt portfolio. The depreciation of SDB against major currencies would increase debt service obligations as well as the debt stock measured in local currency terms. Nevertheless, the exchange rate risk is mitigated by very low interest rates and long grace periods and maturities granted by concessional loans.

Assessment of the existing strategy identified that the Average Time to Maturity (ATM) for the total debt portfolio is 11.4 years. While the repayment profile for external debt presents an ATM of 13.6 years compared to the ATM for the domestic debt which is 6.2 years. Nonetheless, 20 percent of the domestic debt portfolio will need to be refinanced in 2020 which could represent refinancing risk. This is mostly driven by the need to rollover T-bills. However, this should be weighed in by the market condition where there is excess liquidity and higher demand on the part of the market participants than the government's supply of securities.

To date the Solomon Islands Government debt portfolio have no variable rate loans outstanding. The Average Time to Re-fixing (ATR) is the same as the ATM indicating that interest rate risk is driven by debt that has to be refinanced. Only T-bills, which represents 18.9 percent of domestic debt, could be considered risky due to their short tenor. However, as explained above, yields have remained close to constant over the past years and are expected to remain at their levels in the near future, thereby limiting the risk.

Most of external loans are contracted at highly concessional terms with weighted average interest rate of 1 percent and interest payments as a share of GDP estimated at 0.1 percent at end-2020 (Tables 2). Borrowing costs in the domestic market are also relatively low. The domestic interest payments were equivalent to 0.2 percent of GDP at end-2020 with a weighted average interest rate of 4.9 percent. This is primarily due to the market conditions (high liquidity in the banking system) whereby yields have remained mostly constant throughout the auctions (around 1.9 percent for the one-year T-bills) and the negotiated coupon rate on the development bonds.

Figure 2: Risk indicators: Existing Strategy

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of SBD)		1,019.9	450.0	1,469.8
Amount (in millions of USD)		126.9	56.0	182.8
Nominal debt as percent of GDP		8.1	3.6	11.7
PV as percent of GDP[1]		5.2	3.6	8.8
Cost of debt[2]	Interest payment as percent of GDP[3]	0.1	0.2	0.3
	Weighted Av. IR (percent)	1.0	4.9	2.2
Refinancing risk[2]	ATM (years)	13.6	6.2	11.4
	Debt maturing in 1yr (percent of total)	3.8	20.0	8.7
	Debt maturing in 1yr (percent of GDP)	0.3	0.7	1.0
Interest rate risk[2]	ATR (years)	13.6	6.2	11.4
	Debt refixing in 1yr (percent of total)	3.8	20.0	8.7
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0	100.0
	T-bills (percent of total)	0.0	18.9	5.7
FX risk	FX debt (percent of total debt)			69.4
	ST FX debt (percent of reserves)			0.8

1.4. Conclusions regarding the costs and risks to be managed

Due to the shorter ATM the domestic debt has a higher risk exposure. Cost of domestic debt was higher relative to SIG external debt .In addition, the quick accumulation of domestic bond within a shorter time period increases the refinancing risk, that is SIG accumulated SBD360million worth of bonds between 2017-2020.

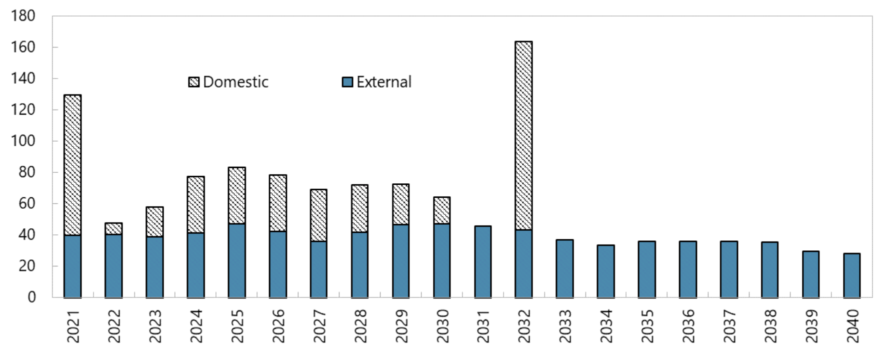
The refinancing risk was also high for the domestic debt category (6.2 years) because the ATM was shorter compared to the external debt, 13.6 years.

Interest rate risk was high for domestic, because the ATR was shorter. The shorter ATR exposes the portfolio to rate re-fixing at the shorter period.

FX risk was high for external debt but the longer maturity and re-fixing time makes it less risky.

The redemption profile below reflects the country's debt structure with long-term repayment period for the external debt and medium-term period for domestic debt. The graph shows that Solomon Islands will face peaks in 2021 and 2032 due to maturing Solomon Islands Provident Fund Bond (SINPF) 2017 Bond. In 2021, the peak is primarily caused by the rollover of T-Bills, while in 2032, from development bonds. Solomon Islands issued a 15-year bullet repayment bond in 2017, maturing in 2032 with a coupon rate of 6.50 percent.

Figure 3: Solomon Islands: Redemption Profile, as at end-2020 (in millions of SBD)



4. Environment for Debt Management

1.1. Macroeconomics Environment for 2020

In 2020, the Solomon Islands economy contracted by -3.6 per cent, a less severe contraction than forecasted in June 2020 (growth of -4.3 percent).

- ✓ The forecast reflects the impact of the COVID-19 pandemic on key sectors such as manufacturing, tourism sector and logging sector.

The downturn in the economy in 2020 is being driven by reduced value-add from the Industry and Services sectors. The primary sector has performed well in particular the agriculture sector. But there is expected to be a slight decline in logging and fishing activities compared to 2019. Contributions to growth for 2020:

- ✓ Primary Sector: -0.5 percentage points;
- ✓ Industry Sector: - 1.48 percentage points;
- ✓ Service Sector: -1.54 percentage points

Logging activities continues to be one of the key export commodities and log outputs are forecast to decline by 7.9 per cent from 2.38 to 2.2 million cubic meters in 2020.

Fishing activities is also expected to contract in 2020 due to low fish catches align with low export demand from major market and current lockdown across the world. In contrast, the agriculture sector is forecast to grow this year based on strong performance for palm oil, copra and cocoa driven by buoyant international demand, higher expected informal activities and increased support from the Government to local farmers.

The health, public administration and education sectors are expected to contribute positively to the economy in 2020 and 2021, reflecting increased allowances and allocation for testing, screening and other COVID-19 related expenditure.

Restrained consumer spending and retail sales will impact business turnover and investment. Major construction projects (including major infrastructure projects) are currently on hold or moving slowly due to material and foreign labour shortages while other planned private sector projects are likely to be delayed. Government is also scaling back and reprioritising expenditure as a result of lower projected revenue collections.

Outlook for 2021 and 2022

Solomon Islands economic growth is projected at 1 percent in 2021, broadly in line with June 2020 forecast update, reflecting the more moderate downturn projected for 2020 and consistent with expectation of border restriction. Tourism sector is assumed not return to pre covid-19 level at least until mid-2021 however depending on relaxation of restriction.

Services and industry sector is expected to contribute 0.5 per cent and 0.6 per cent, respectively, in 2021. Primary sector, however, is projected to subtract to around -0.1 per cent in 2021, this is attributed to the expected downward trend in log output in the near term.

After the rebound in 2021, Solomon Islands growth is expected to gradually slowly up to around 2.5 per cent in average into the medium term. This implies only limited progress towards catching up to the path of economic activity for 2020-25 projected before the pandemic covid-19.

1.2. Policy and Budget Environment.

1.2.1. Overview of the 2021 Budget

The two key overarching policy objectives of the Government for 2021 and beyond are:

To protect our citizens from the spread of COVID 19; and

To keep our domestic economy afloat and accelerate recovery in the short to the medium term.

The 2021 National Budget was developed under the theme, "*Towards a Path to Economic Recovery: Advancing Growth and Service Delivery through Better Partnerships*".

The key priority areas of the government for the 2021 budget;

- Covid-19 operations and activities.
- Economic recovery initiatives, focusing resources towards Productive and Resources sectors, support targeted investments that are designed to support economic growth and recovery.
- Maintaining of key essential and social services, education, health, safety/law and order, justice and other revenue generating activities

The government has a planned overall deficit of $329 million in the 2021 budget. Total consolidated revenue estimate is $3.710 billion and total expenditures is $4.039 billion. Of the total consolidated revenue estimate, total SIG domestic revenue estimate is $3.009 billion, and $701.5 million (including grant and loan) will be externally sourced from development partners.

Of the $701.5 million balance, the government has already secured $341 million from its traditional multilateral and bilateral partners. The remaining balance will be sourced domestically or from other normal external sources.

Both the Inland Revenue Division (IRD) and Customs and Excise Division are projected to collect $2,576 million in 2021. This is a slight decrease of 2 percent from the 2020 revised estimates of approximately $2,580 million. Total non-tax revenue is estimated at $433 million dollars for 2021.

In terms of expenditures, the government is planning to spend a total consolidated expenditure of $4.039 billion, which consists of $2.830 billion recurrent expenditure, and $938 million development expenditure. A total of $270.5 million will be budget support and $90 million is support from the People's Republic of China (PRC). An amount of $32 million, consisting of $12 million for continued ESP program and $20 million in Contingency Warrant provision is also budgeted for the year.

On the recurrent expenditure side, total recurrent expenditures are estimated at $2.810 billion in 2021. This consists of payroll budget estimates of $1.290 billion and $1.520 million for Other Charges.

1.2.2. Budget Monitoring and Implementation

MoFT will continue to strengthen its budget monitoring and implementation of the 2021 budget. The government will have a very tight fiscal situation in the next 9 months and the tight liquidity situation within Treasury will affect Treasury's ability to meet outstanding creditor payments in a timely way.

MoFT will continue to monitor both government revenue inflows and available cash resources on a daily basis and this remains a key responsibility of Treasury at this critical juncture. MoFT will be strictly enforcing ministries to comply with the Solomon Islands Government procurement and payment processes.

In order to facilitate smooth operation and delivery of government services to our people, all ministries and agencies are required to put together comprehensive procurement plans and other documentations, so that implementation of the 2021 budget, especially the development spending is not unnecessarily delayed.

1.2.3. FISCAL PERFORMANCE (Jan-Feb 2021).

1.2.3.1. Revenue:

- ✓ SIG Revenue collection for January 2021 was \$237.3m against estimates of \$252.9m an under collection of \$15.6m
- ✓ SIG Collected Revenue for February was \$174.4m against a budget of \$212.4 an under collection of \$\$38.0m
- ✓ There was no new Grants and Budget Support received in February. However, spending from roll over funds (from 2020) was \$18.1m.
- ✓ SIG Cash position as at 31st January was \$308.8m, slightly above IMF minimum balance requirement of \$300m.
- ✓ SIG Cash position as at 28st February was \$293.8m that is \$6.2m below our IMF minimum balance requirement of \$300m.
- ✓ Revenue collections have been and will continue to be impacted by the pandemic halting economic activity on a global basis.
- ✓ The IMF designated minimum cash balance (\$300m) continue to be an important guide in managing SIG cash balances.

1.2.3.2. Outlook and Risks

Revenue

The new revenue streams approved by the government could see some increase in the revenue collections but the risk of overall under collections is real.

Expenditure

After the budget proper is passed, it will be only 8 months to implement and the pressure to deliver will have an immense pressure on cash flow. There is also risk of cutting corners of processes to fast track delivery of government objectives.

1.3. Constraints on Policy choices regarding debt portfolio.

Current factors affecting the government determine the choice of policy regarding debt portfolio. The current assessment happened during the height of the COVID 19 Pandemic, which sees the trend of the recent borrowing were triggered by natural phenomenon, this was provided for by the PFMA.

The policy choice as to whether national debt be funded with short term or long term borrowing was determined by the current MTDS. Assessment of the existing strategy clearly indicate national debt be funded with highly concessional long-term borrowing.

The choice of the source of debt financing will strictly adhere to the recommendation of this current MTDS to avoid stock piling expensive debt stock sourced from the domestic market. An alternative marketing strategy will help to reorganize the current formation of the domestic debt portfolio to avoid accumulating the highly priced domestics bonds.

5. Analysis

1.1. Description of analysis undertaken

The analysis was conducted based of the MTDS Analytical tool adopted by the joint mission. This involves eight (8) technical steps to properly sterilize government debt and macro fiscal data for the concerned assessment areas.

Stylized instruments are used to aggregate debt-service projections of the existing debt portfolio that are extracted from the debt database on a loan-by-loan and security-by-security basis. This aggregation represents the characteristics of existing financing instruments and considers new borrowing terms and conditions of sources of financing available to Solomon Islands over the medium term.

Three stylized instruments represent potential external borrowing terms. Two external borrowing instruments include loans with varying degrees of concessionality, such as highly concessional and semi-concessional loans. Non-concessional instruments provide an option of borrowing externally on market terms and capture potential cost-risk implications of incurring commercial debt. All external instruments carry fixed interest rate and are denominated in USD.

The following are the external debt instrument groups.

i. **Highly Concessional loans:**

This instrument includes loans from IDA, IFAD and ADB. These loans are priced at 0.75 percent interest rate with a grace and maturity period of ten and forty years respectively.

ii. **Semi-Concessional loans:**

Loans from the Exim Bank of Taiwan and other bilateral creditors, whose lending terms are similar, were grouped under this instrument and priced at 2.5 percent with fifteen years maturity and five-years of grace period.

iii. **Commercial borrowing:**

This instrument is priced at 7.6 percent to 8.8 percent interest rate with ten years to maturity and five years of grace period.

The Domestic debt instruments are grouped into five (5) categories.

T-bills with a maturity of up to one year.

The authorities are issuing T-bills with maturities of 92-days, 182-days, and 364-days. Since the maturity bucket used in the MTDS analysis is on an annual basis, these all constitute a T-bill instrument of up to one year.

T-bonds with a maturity of two-, three-, and five- years.

Currently, there are no marketable two-, three-, and five- year bonds issued by the authorities. However, the SIG is preparing a new bond operations policy document, which indicates that there may be the possibility of issuing two-, three- and five-year marketable instruments. These instruments are repaid in full at their respective maturity dates (i.e. bullet payment).

Development bonds.

Non-marketable fixed rate instruments with a maturity of 10 years and grace period of three years.

Figure 4:Stylized Instruments used for Strategy Analysis

Instrument Type / Name	Interest rate type	Discount rate applied for PV calculations	Maturity (Years)	Grace (years)	Currency
External Debt Instruments					
Highly Concesional	Fix	Yes	40	10	US$
Semi-Concesional	Fix	Yes	15	5	US$
Commercial borrowing	Fix	No	10	5	US$
Domestic Debt Instruments					
T-bills	T-bills	No	1	0	SBD
Development Bonds	Fix	No	10	3	SBD
T-Bond2yr	Fix	No	2	1	SBD
T-Bond3yr	Fix	No	3	2	SBD
T-Bond5yr	Fix	No	5	4	SBD

Data source: MTDS team.

1.2. Assumptions and forecasts

Baseline Interest and Exchange Rate Development

Figure 5: Underlying financing assumptions

Interest Rate	• Fixed for Most Highly Concessional (0.75%) • Semi-concessional Loan (2.5%). • Fixed for T-Bills (1.92%) & T-Bonds (5-7%). • Commercial Borrowing (7.26% -8.79%).
Exchange rate	USD1/SBD8.03 (constant)
Discount Rate	5%
Moderate Shock assumption	15% Depreciation Shock
Extreme Shock assumption	30% Depreciation shock

Figure 5 above summarizes the adopted underlying assumption for the MTDS assessment. The interest rate assumptions assume fixed rates for most instruments along with the assumed constant exchange rate. Two interest shock assumptions (15% & 30%) were employed for the exchange rate to test likely hood of a moderate and extreme shock to the exchange rate as it directly affects the debt repayment profile.

1.3. Limitations

The limitations in the assessment picture include the absence of bond policy. The SIG is a price taker when negotiating the terms of the domestic bond. SIG directly negotiated with the State Owned Enterprises (SOE) who were rated as having a healthy financial position. In the government has less flexibility or being a price maker in the market.

In addition, the absence of a borrowing plan hinders the government capacity to inform the important stakeholders to acknowledge and appreciate the direction of SIG Debt in future. Most of the times, proposal to borrow reached the debt management unit in MoFT from everywhere and complicated coordination between government ministries and SOEs, especially in setting a good equilibrium bond price in the market.

Moreover, banks do business with the government. Most of the time WB and ADB step into the Ministerial roles by unleashing their development agendas with the government baiting along the grant portion of most loans. It’s evident in many projects that, the grant component of loan packages were used consumable expenditures that were always not part of the project value adding. This always complicates the calculation of the real impact of the projects. Due to the banks tight allocation to the funding availability per year, SIG at some point has to accept loans for non-tangible developments, for example Technical Assistance (TA) programs.

6. Strategy

1.1. Description of a single, clear strategy

The MTDS team analyzed four financing strategies under the baseline assumptions and alternative shocks to baseline interest and exchange rates. The four shock scenarios include two shocks to interest rates; an exchange rate shock; and a combined interest rate and exchange rate shock. These shock scenarios reflect downside risks for debt management and test the robustness of the candidate borrowing strategies. All strategies are analyzed with the assumption that the primary deficit in 2021 will reach 2.4 percent of GDP and in years 2022-2024 around 4 percent of GDP.

In summary;

- Four alternative strategies were analyzed under a baseline and four stress test scenarios to interest and exchange rate.
- The Primary Deficit for 2021 is consistent with the Budget Strategy document. And for 2022-2024 based on the WB projections. Financing assumptions are the same for all strategies.
- All strategies assume SBD100 million issuance in T-Bills.
    - **Strategy 1:** Financing mainly through highly concessional and semi-concessional funds supplemented with issuance of domestic development bonds starting from 2022;
    - **Strategy 2**: Increased borrow from domestic market to support DEM objective of domestic market development and to reduce the level of currency risk in the portfolio.
    - **Strategy 3**: Maximize concessional and semi-concessional external resources.
    - **Strategy 4**: Substitute semi-concessional external resources with external borrowing on commercial terms. Domestic borrowing is projected to be the same as in strategy 1, but the mix is different. In addition to development bond, 2- and 3-year bonds are issued fin 2023 and 2024, respectively.

Based on the assumptions above, the following were the results of the tests;

Figure 6: 4 Alternative strategies (Nominal amount).

Implied gross borrowing in million SBD				
External gross borrowing	2021	2022	2023	2024
S1	384	504	579	540
S2	242	252	294	270
S3	384	655	747	804
S4	384	504	579	540
Domestic gross borrowing	2021	2022	2023	2024
S1	100	249	272	376
S2	242	507	571	874
S3	100	100	100	100
S4	100	257	295	424
Gross borrowing requirement	2021	2022	2023	2024
S1	484	754	851	916
S2	484	759	865	1,144
S3	484	755	847	903
S4	484	762	874	964

These strategies represent alternative ways of financing the government during 2021–2024. The strategy 1 is a "status quo" strategy and represents the authorities' intentions based on the 2020 DSA discussions. Strategy 2 increases the domestic debt financing, which was proposed in view of two main considerations. Firstly, domestic market development which is one of the stated debt management objectives. Secondly, considering the possibility of significant shortfall in external disbursements, and government's investment commitments for the upcoming Pacific Games. The Strategies 3 aims at maximizing concessional and semi-concessional financing sources. Finally, strategy 4 tests cost-risk implications to budget if the expected concessional and semi-concessional resources do not materialize, and the authorities need to borrow on commercial terms to close the financing gap. For all four strategies, T-bills were projected to roll over at current volumes (a ceiling of SBD 100 million).

Overall, strategy 4 is less attractive than all other alternative strategies analyzed. The analysis shows that foreign currency borrowing on commercial terms is likely to be more expensive and riskier than other financing sources, based on the terms achieved by similarly rated sovereign borrowers.

The Solomon Islands Government intends to pursue Strategy 2 as it best reflects Government's intention to ensure that the government have the much flexibility to raise much needed funding for short term financing through bond and the Treasury Bill issuance. More technically is because it meets development capital market and reduce foreign exchange risks.

Strategy 2 goes along with the government target to achieve an appropriate mix between domestic (50%) and external (50%) borrowing by end of FY2024. The flexibility and space provided by the nominated strategy roughly is SBD 240 million in financing per year from the local market. It also implies a marked cut back in external official borrowing.

1.2. Progress to be made over period

To achieve strategy 2 (more domestic debt) work on development the Bond Policy has been rolling and policy was in the draft stage and review. This targeted a cut back in the level of concessional financing and promoting a domestic securities market. The achievement of strategy 2 would depend on sufficient demand from the local market.

More importantly will be the creation of the Annual Borrowing Plan. This will be aiming at setting the percentage of external borrowing and domestic borrowing.

The cost and risk factors to consider in the nominated strategy include both the refinancing, interest rate, and FX risks. The current level of these risks for this strategy were minimal for the strategy except for the ATR which is higher against the four candidate strategies and even high against the existing strategy, however poses no risk in general. Debt Management while maintain the ATR equals to 8.6 years in managing the governments annual borrowing limit during the MTDS period (2021-2024)

Figure 7: Cost-Risk Indicators

COST-RISK INDICATORS - Baseline Scenario							
Risk Indicators		2020	As at end 2024			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		11.7	23.3	23.5	23.2	23.7
Present value debt as percent of GDP		8.8	17.3	19.5	15.7	18.9
Interest payment as percent of GDP		0.3	0.42	0.57	0.35	0.71
Implied interest rate (percent)		2.2	2.35	3.54	1.80	4.05
Refinancing risk2	Debt maturing in 1yr (percent of total)	8.7	4.7	10.3	4.7	6.8
	Debt maturing in 1yr (% of GDP)	1.0	1.1	2.4	1.1	1.6
	ATM External Portfolio (years)	13.6	14.4	14.1	15.1	13.5
	ATM Domestic Portfolio (years)	6.2	4.9	3.2	3.6	3.8
	ATM Total Portfolio (years)	11.4	12.0	8.6	13.9	10.9
Interest rate risk2	ATR (years)	11.4	12.0	8.6	13.9	10.9
	Debt refixing in 1yr (percent of total)	8.7	4.7	10.3	4.7	6.8
	Fixed rate debt incl T-bills (percent of	100.0	100.0	100.0	100.0	100.0
FX risk	FX debt as % of total	69.4	74.4	49.4	89.7	72.9
	ST FX debt as % of reserves	0.8	1.2	1.2	1.2	1.2

Interest rate risk reflects refinancing risk since all debt instruments are issued at fixed rate. The medium-term refinancing profile is determined by the maturing external debt and composition of domestic debt. This is an integral component of the strategy, thus the target would be zero percent variable rate.

Strategy 2 has the highest debt service payments under the baseline assumptions relative to other strategies. This is because strategy 2 assumes 2, 3- and 5-year T-bond issuance which in part would mature within the projection period. The total debt service payments (under S2) would be 1 percentage point of GDP higher than under S4 and double of the amount under S1 and S3.

Despite the above, strategy 2 was nominated with reasons supporting the government's borrowing and investing intention. The government support the strategy on the following grounds;

1. Promote and further develop its domestic capital market. This was anticipate promoting the inclusion of both the private sector and the public sector participation in the Open Market Operation. The development of the domestic capital market will provide a level of private and public investors trust in the government when commercial banks and other financial institution were reluctant provide a higher savings or investment interest rate to the investors. The government sets an interest rate higher than the rates provided by most banks and financial institutions in the domestic market.
2. Among other factors, the global COVID-19 pandemic triggered negative economic shocks and thus there was excess liquidity in the financial system. The excess liquidity weakens the monetary policy transmission mechanism, thus the government anticipated the capital market demand will be higher and the higher demand for short-term securities will enable the government sell at the perfect market condition. In addition, the government will be able to control the negative impacts of excess liquidity in the short-run.

7. Specific Plans

1.1. Specific plans (implementation of DMS)

To implement the objectives sustainability and affordability, the mix in the nominated strategy will be recalibrated taking into account the borrowing and disbursement. Actual borrowing and utilization will be periodically reviewed to match the government borrowing intentions and potential to service the portfolio given the risks associated with the strategy to increase the domestic borrowing share. The borrowing plan will be developed to act as a mechanism to control and maximize either of the concessional and domestic borrowing composition.

1.2. Specific measures for domestic market development (new framework)

A policy shift to develop the domestic market would require a change in thinking around the management of domestic borrowing. The traditional practice of direct bond issuance to identified bodies will be diversified to allow perfect competition in the bond market to enable the government to take the market price of bond other than setting the bond terms which was expected to put out other potential and infant buyers of bond. Utilization of the current excess free liquidity in the market was one of the areas the government intends to encourage participation by both the public and private sector.

In addition, the debt department will engage in doing public awareness and actively involved in formulating and reviewing the bond policy to attract more participation in the market and to provide investing comfort to the players in both the bond market and T-bill market.

8. Monitoring & Evaluation

1.1. Description of how progress will be measured

Various implementation progress monitoring and evaluation mechanism will be put in place to verify that Loan financing was spend according to PFMA requirements and the DMF. This will include periodic quarterly assessment of the funded projects to monitor whether the projects funded were actually the once promoted by the said act and framework.

This includes investing time resources to physically attend to project site and collect data to produce project reports which will then be published on the Ministry of Finance and Treasury (MoFT) website for public consumption.

The work will enable the government, especially the debt office, to assess the level of risk was positively leveraged with government development activities actually mitigates the potential cost and risk indicators, at a time when the risk will tend to be high.

1.2. Steps to taken if conditions change

Depending on the development/ borrowing aspirations of the government, condition may change despite the outcome provided by the current MTDS. The major twist will be to increase domestic borrowing through issuance of bond instruments.

To do this, a major recalibration will be required throughout the eight (8) steps of MTDS Analytical Tool. The team will recalibrate the adopted strategy and produce relevant advise to the government and update the strategy and or adopt another less riskier. In so doing the MoFT will need properly document the probable path of disbursements and reconcile it with those of the implementing agents. Similarly, as the work on the bond policy framework develops and market consultation begins, the strategy will be recalibrated based on likely demand and preferred instruments to the horizon period. This work will provide a basis for reviewing the projections of domestic interest rates and maturity period.

End of Document!