

DEBT MANAGEMENT STRATEGY

25. In addition to reducing the debt ratio, Government aims at further improving the debt profile through an effective debt management strategy, as evidenced by the following cost and risk indicators:

- (a) the ratio of interest payments on Government debt to GDP is being reduced from 2.8% in FY 2020-2021 to 2.5% in FY 2021-2022, well below the limit set at 3.5%;
- (b) while the average time to maturity is being maintained at the existing benchmark of 5.5 years, the proportion of Government debt due for repayment within one year is being reduced from 22.9% to 21.6% during the same period thus lowering refinancing risk; and
- (c) the share of external debt in Government portfolio is being reduced from 22.4% as at end June 2021 to 19.6% by end June 2022 to lower exchange rate risk

Medium Term Debt Management Targets/Benchmarks

26. The medium-term debt management strategy will continue to aim at minimising the cost of the debt portfolio while maintaining risks at an acceptable level. In this context, the risk control targets and benchmarks are being reviewed to further improve the trade-off between cost and risks for the period ending June 2025.

27. Accordingly, interest payments on Government debt are planned to be further reduced to 2.3% of GDP. At the same time, with a view to improving debt affordability, interest payments as a ratio to recurrent revenue would be brought down to 8.8% compared to the benchmark of 10.5%. As for the average cost of Government debt, it is expected to remain within 4%.

28. In order to contain foreign exchange rate risks, the share of foreign debt in Government debt portfolio is planned to be reduced to around 15% despite the set benchmark of 20%. In regard to the composition of public sector debt, the benchmarks for foreign and domestic debt will be maintained at 25% and 75%, respectively.

29. In the same vein, the currency composition of public sector external debt will be better aligned by setting a benchmark of 40% for USD, 35% for Euro and 25% for other currencies.

30. To further reduce refinancing risks, the benchmark for the average time to maturity is being reviewed upwards to 5.8 years, while that for the share of Government debt falling due for repayment within one year is being reduced to 20%. This will be achieved by limiting foreign borrowings to loans with long term maturities at concessionary interest rates. As regards domestic debt, the share of long-term and medium-term domestic securities will be raised to around 74.4% and 16.7%, respectively while that of short-term instruments will be reduced to around 8.9%.

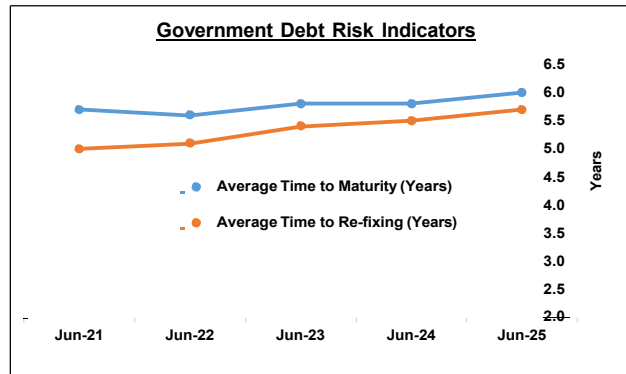
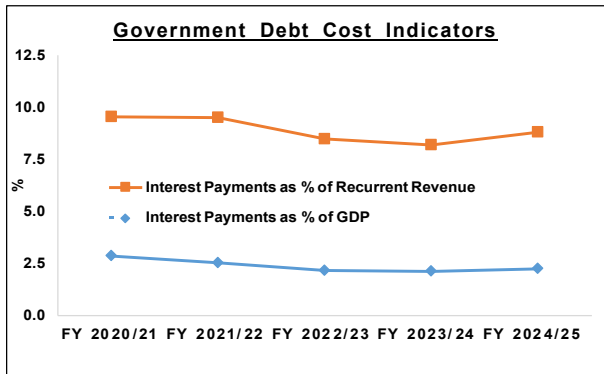
31. With a view to further reducing interest rate risks, the benchmark for re-fixing of interest rates on Government debt is being raised to 5.4 years while that for the share of re-fixing is being lowered to 25%. These are planned to be achieved by maintaining the share of fixed interest rate loans, variable interest rate loans and interest free loans in government external debt portfolio at 65%, 33% and 2%, respectively. As for domestic debt, the share of Government securities with fixed interest rate will be raised to about 98% by issuing all new instruments at fixed interest rates.

32. For public sector debt, the benchmark for interest rate mix for fixed, variable and interest free external loans are being set at 68%, 31% and 1%, respectively.

33. As regards the national external debt, in spite of its recent increase in the wake of COVID-19 pandemic and the Russia-Ukraine war, in the medium term it is planned to be reduced to around 26% of GDP in order to further improve external debt sustainability.

34. On the financing side, the borrowing requirements of Government all through the medium term will be met mainly from domestic sources. The issuance of Government securities, besides reducing exchange rate risks, aims at the continued development of the secondary market for such securities. In this respect, it is also envisaged to increase the range of long-term instruments through the issuance of 7-year Government bonds.

35. The overall focus of the strategy is to further reduce costs while maintaining risks at prudent levels as reflected in the charts below. It also aims at furthering the development of the secondary market for Government securities.



Medium Term Cost and Risk Indicators

	End Jun-21	End Jun-22	End Jun-25	Benchmarks/ Limits	Tolerance Level %
	Actual	Revised Estimates	Estimates		
Government Debt					
As % of GDP (End of Period)	87.0	77.3	63.3	65.0	+/-5
Cost Indicators (Cash Basis) (Financial Year)					
Interest Payments as % of GDP	2.8	2.5	2.3	< or = 3.5	-
Interest Payments as % of Recurrent Revenue	9.5	9.5	8.8	10.5	+/-10
Average Interest on Debt (%)	3.5	3.3	3.7	4.0	+/-10
Composition (%) (End of Period)					
Foreign	22.4	19.6	15.2	20.0	+/-5
Domestic	77.6	80.4	84.8	80.0	+/-5
Currency Composition of External Debt (%)					
USD	6.1	6.7	15.0	15.0	+/-5
EURO	48.7	46.7	46.4	47.0	+/-5
YEN	14.2	13.8	15.4	15.0	+/-5
Others	31.0	32.8	23.2	23.0	+/-5
Refinancing Risks					
<i>Average Time to Maturity (Years)</i>					
Total Debt	5.7	5.5	6.0	5.8	+/-10
External Debt	8.8	8.3	7.8	7.5	+/-10
Domestic Debt	5.0	5.1	5.7	5.5	+/-10
<i>Due Within 1 year (%)</i>					
Total Debt	22.9	21.6	19.0	20.0	+/-10
External Debt	6.2	7.0	8.0	8.0	+/-10
Domestic Debt	26.5	24.1	20.7	22.0	+/-10
Interest Rate Risk					
<i>Average Time to Re-Fixing (Years)</i>					
Total Debt	5.0	5.1	5.7	5.4	+/-10
External Debt	6.3	6.0	6.4	6.2	+/-10
Domestic Debt	4.8	4.9	5.6	5.3	+/-10
<i>Share with Re-fixing in 1 Year (%)</i>					
Total Debt	31.2	28.5	23.8	25.0	+/-10
External Debt	38.6	39.1	32.1	33.0	+/-10
Domestic Debt	29.6	26.6	22.6	24.0	+/-10
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	64.9	64.9	65.1	65.0	+/-10
Variable Interest Rate Loans	33.8	33.7	33.5	33.0	+/-10
Interest Free Loans	1.3	1.4	1.4	2.0	+/-10
Public Sector Debt					
As % of GDP (Gross)	96.1	87.4	71.8	75.0	+/-5
As % of GDP (Net)	79.1	77.3	69.1	72.0	+/-5
Composition (%)					
Foreign	26.4	23.7	19.8	25.0	+/-5
Domestic	73.6	76.3	80.2	75.0	+/-5
Currency Composition of External Debt (%)					
USD	27.4	31.7	40.8	40.0	+/-5
EURO	37.9	34.2	33.1	35.0	+/-5
YEN	10.9	10.1	10.4	10.0	+/-5
Others	23.8	24.0	15.7	15.0	+/-5
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	64.8	66.3	68.2	68.0	+/-5
Variable Interest Rate Loans	34.2	32.6	30.8	31.0	+/-5
Interest Free Loans	1.0	1.1	1.0	1.0	+/-5
National External Debt ¹					
As % of GDP	33.6	36.8	25.6	26.0	+/-10
FX Reserves as % of External Debt	211.5	174.6	205.2	200.0	+/-10
Debt Service Ratio (%) (Financial Year)	8.0	5.7	5.4	< or = 6	-

1 - Excludes Deposit Taking Institutions and Global Business