DEBT MANAGEMENT STRATEGY

27. The debt management strategy, which is in line with the macroeconomic framework in the Budget, aims at minimising the cost of public sector debt while maintaining risks at a prudent level. This will be achieved through an appropriate borrowing mix to meet government cash flow requirements while attaining the desirable trade-off between costs and risks.

28. In this respect, foreign exchange risks will be contained by meeting the majority of Government financing needs from domestic sources. Accordingly, the share of external debt in Government debt portfolio is planned to be maintained at 19% over the medium term well below the benchmark of 20%. In the same vein, the share of external debt in the public sector debt portfolio will be kept below the benchmark of 24%, with domestic debt set at 76%.

29. As regards the currency composition of public sector debt, it is planned to bring it more in line with the composition of the foreign exchange reserves of the country. Thus, over the medium term, the share of USD will be raised from about 41% at present to 49%, while that of EURO will be reduced from around 33% to 29%, and the share of other currencies from 26% to 22%. Similarly, the share of USD in Government external debt is envisaged to be increased from around 20% at present to 33% by reducing those of EURO and other currencies to 38% and 29%, respectively.

30. Refinancing risks would be reduced by lengthening the maturity profile of Government debt from around 5.6 years at present to 6 years over the medium term. Simultaneously, the share of interest falling due for payment on Government debt within 1 year is planned to be reduced from 23.2% to around 18%. These will be achieved by bringing down the share of short term debt in Government domestic debt portfolio from around 11% at present to 9.8%. The share of medium term debt will be increased to around 18.4% and that of long term to 71.9%. The maturity profile of external Government debt is set to be maintained at around 8 years.

31. Interest rate risks are envisaged to be reduced by raising the average time for fixing of interest rate from around 4.9 years at present to about 5.1 years over the medium term. This will be achieved by resorting to long term foreign loans from bilateral and multilateral sources, and increasing issuance of medium and long term Government securities at fixed interest rates. In addition, proposed reforms in the domestic debt market are expected to lower the cost of borrowings in the short to medium term.

32. Taking into account interest rate trends on the international market, the interest rate mix of public sector external debt will be slightly tilted in favour of variable interest rates. Thus, the share of variable interest rate loans of the public sector is planned to be increased to around 55% and that of fixed interest loans reduced to 44.5%, with 0.5% comprising interest free loans. Similarly, the share of variable interest rate loans in Government foreign debt portfolio will be raised to 62.5% and fixed interest rate loans reduced to 36.8%. Interest free loans will account for 0.7%.

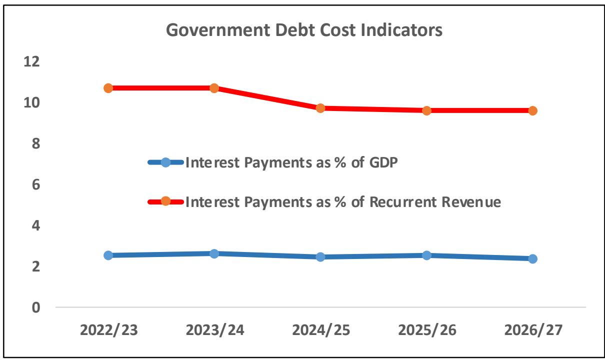
33. While planning to reduce exchange rate, refinancing and interest rate risks, it is also envisaged to contain costs. Interest payments as a ratio to GDP is set to be reduced from their present level of 2.6% to 2.4% over the medium term. This is well below the limit of 3.5%. As regards the ratio of interest payments to recurrent revenue, it is aimed to bring it down from around 10.7% to 9.6%.

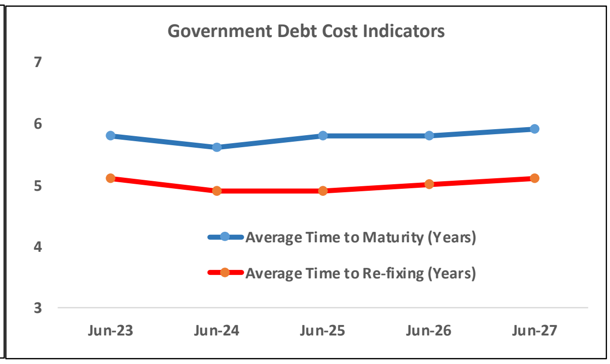
34. At the country level, total external debt is expected to go down to around 23% of GDP over the medium term from about 29% at present. This is to be achieved through improvement of debt levels as a ratio to GDP for all category of debt holders. Furthermore, the debt service ratio over the medium term is scheduled to be contained at its present level of 3%, well below the set limit of 6%.

35. In addition to enhancing the public sector debt profile, foreign debt sustainability is planned to be further improved. Thus, the foreign exchange reserves cover of external debt is designed to go up from around 168% at present to 171.4% by end June 2027. This is expected to be achieved both by containing the level of total external debt and increasing the level of gross foreign exchange reserves of the country.

36. In regard to development of the market for Government securities, benchmark instruments of various maturities will continue to be issued at regular intervals and the market will be duly informed through an issuance calendar based on the financing plan in the Budget documents.

37. The prime objective of the debt management strategy is to enhance public sector debt sustainability by further improving public sector debt profile while at the same time reducing costs, as shown in the charts below. The strategy represents the desirable trade-off between costs and risks after assessment of alternative strategies.





Medium Term Cost and Risk Indicators

	End Jun-23 Actual	End Jun-24 Rev. Est.	End Jun-27 Estimates	Benchmarks/ Limits	Tolerance Level %
Government Debt					
As % of GDP (End of Period)	70.3	65.4	57.9	60.0	+/-5
Cost Indicators (Financial Year)					
Interest Payments as % of GDP	2.5	2.6	2.4	< or = 3.5	-
Interest Payments as % of Recurrent Revenue	10.7	10.7	9.6	10.0	+/-10
Average Interest on Debt (%)	3.9	4.2	4.3	5.0	+/-10
Composition (%) (End of Period)					
Foreign	19.5	18.4	19.1	20.0	+/-5
Domestic	80.5	81.6	80.9	80.0	+/-5
Currency Composition of External Debt (%)					
USD	19.5	19.7	33.0	32.0	+/-5
EURO	43.5	44.9	38.2	39.0	+/-5
YEN	11.9	10.7	6.8	7.0	+/-5
Others	25.1	24.7	22.0	22.0	+/-5
Refinancing Risks					
Average Time to Maturity (Years)					
Total Debt	5.8	5.6	5.9	6.0	+/-10
External Debt	8.6	8.3	7.8	8.0	+/-10
Domestic Debt	5.3	5.1	5.5	5.5	+/-10
Due Within 1 year (%)					
Total Debt	18.6	23.2	18.1	20.0	+/-10
External Debt	4.8	4.7	5.0	5.0	+/-10
Domestic Debt	21.3	26.5	20.7	22.0	+/-10
Interest Rate Risk					
Average Time to Re-Fixing (Years)					
Total Debt	5.1	4.9	5.1	5.3	+/-10
External Debt	5.0	4.5	3.3	3.5	+/-10
Domestic Debt	5.1	5.0	5.4	5.5	+/-10
Share with Re-fixing in 1 Year (%)					
Total Debt	27.7	32.2	28.0	30.0	+/-10
External Debt	48.1	50.8	59.4	60.0	+/-10
Domestic Debt	23.9	28.9	22.0	24.0	+/-10
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	44.4	41.9	36.8	35.0	+/-10
Variable Interest Rate Loans	54.4	57.0	62.5	64.0	+/-10
Interest Free Loans	1.2	1.1	0.7	1.0	+/-10
Public Sector Debt					
As % of GDP (Gross)	80.9	74.5	64.1	65.0	+/-5
As % of GDP (Net)	69.8	68.9	60.2	60.0	+/-5
Composition (%)					
Foreign	23.3	21.9	22.4	24.0	+/-5
Domestic	76.7	78.1	77.6	76.0	+/-5
Currency Composition of External Debt (%)					
USD	41.5	40.8	48.8	48.0	+/-5
EURO	31.6	33.1	29.1	30.0	+/-5
YEN	8.6	7.9	5.2	5.5	+/-5
Others	18.3	18.2	17.0	16.5	+/-5
Interest Rate Mix of External Debt (%)					
Fixed Interest Loans	52.4	50.3	44.6	44.5	+/-5
Variable Interest Rate Loans	46.7	48.9	54.9	55.0	+/-5
Interest Free Loans	0.9	0.8	0.5	0.5	+/-5
National External Debt [1]					
As % of GDP	34.8	28.8	23.0	25.0	+/-10
FX Reserves as % of External Debt	143.3	168.1	171.4	175.0	+/-10
Debt Service Ratio (%) (Financial Year)[2]	6.2	2.8	3.0	< or = 6	-

1 - Excludes Deposit Taking Institutions and Global Business.

2 - Includes debt servicing of a short term loan of USD 250 million in FY 2022/23 .
Excluding that servicing, the debt service ratio would be 2.8% for FY 2022/23.