MINISTRY OF
FINANCE AND ECONOMIC AFFAIRS

Medium Term Debt Management Strategy

2016-2019

Directorate of Debt Management and Economic Cooperation

Table of Contents

List of Figures/Tables

ACRONYMS

AfDB	African Development Bank
ATM	Average time Maturity
ATR	Average Time to Re-fixing
BADEA	Arab Bank for Economic Development of African
CBG	Central Bank of the Gambia
CS-DRMS	Commonwealth Secretariat for Data Recording and Management System
DLDM	Directorate of Loans and Debt Management
DSA	Debt Sustainability Analysis
EBID	ECOWAS for Investment and development
EUR	Euro
EXIM	Export Import Bank of India
GBoS	Gambia Bureau of Statistics
GDP	Gross Domestic Product
GMD	Dalasi
GoTG	Government of The Gambia
GRA	Gambia Revenue Authority
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IsDB	Islamic Development Bank
JPY	Japanese Yen
KFEAD	Kuwait Fund for Economic Development
KWD	Kuwait Dinar
LIBOR	London Interbank Offered Rate
MDRI	Multilateral Debt Relief Initiatives
MOFEA	Ministry of Finance and Economic Affairs
MTDS	Medium Term Debt Management Strategy
NDB	Net Domestic Borrowing
NPV	Net Present Value
OPEC	Organization of petroleum Exporting Countries
PRSP	Poverty Reduction Strategy Paper
SAR	Saudi Riyal
SDR	Special Drawing Rights
SFD	Saudi Fund for Development
USD	US Dollars
WAIFEM	West African Institute for Financial and Economic Management
UAE	United Arab Emirate Dinar

EXECUTIVE SUMMARY

The significance of having a comprehensive debt management strategy aiming at debt sustainability and enhancing the debt servicing capacity of the country, cannot be overemphasized. Owing to its vital importance and indispensable nature, Government of the Gambia has reviewed once again its Medium Term Debt Management Strategy (MTDS) for the period 2016-19.

The prime objective of MTDS is to provide the financing for the government at the lowest cost over the medium to long term by giving due consideration to the risks. As at end 2015, the debt to GDP ratio rose above 100 percent, consequently explaining the huge debt service burden on the budget. Over the past few years, the composition of public debt has shifted towards domestic debt and furthermore into shorter duration instruments which is a source of vulnerability and entails high rollover and refinancing risk.

The MTDS provides alternative strategies to meet the financing requirements of the government. The four different borrowing strategies have been assessed with associated costs and risks analysis under the alternative interest and exchange rates scenarios. The cost and risk trade-off analysis is based on the existing debt cash flows, market and macroeconomic projections and alternative borrowing strategies. The robustness of alternative debt management strategies was evaluated by applying stress/shock scenarios for interest rates and exchange rates.

The Gambia would be implementing the fourth strategy as it turns out the best in both cost and risk. The strategy would lengthen the domestic debt maturity profile to reduce the refinancing risk along with providing sufficient external inflows in the medium term to reduce the pressure on domestic resources keeping in view cost-risk tradeoffs.

A strategy with an increased reliance on domestic short term sources is the least attractive. MTDS also provides strategic guidelines for comprehensive debt management which include: (i) widening of investor base; (ii) development of domestic debt markets (iii) lengthening of maturities of debt instruments; and (iv) stimulation of external finance.

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Hon. Abdou Kolley
Minister of Finance and Economics Affairs

I. INTRODUCTION

Review of the Medium Term Debt Management Strategy (MTDS) yearly in bid to accommodate new macroeconomic developments is becoming a norm in the debt management processes of the Gambia. This current review is built upon the 2015 MTDS[1]. The review is timely, given the fact that the country is currently under high pressure arising from call on guarantees to state owned enterprises (SOEs), rising recurrent expenditures, and adverse external developments. Expenditure pressures pose a significant risk to the domestic debt portfolio. Total domestic debt and associated costs have increased substantially, crowding out private sector investment as well as other expenditure areas of the government. Hence the imperative for the review is to restructure the portfolio in order to accommodate these recent developments. Accordingly, the focus is to develop a debt strategy that would ease pressures on the domestic market through fiscal consolidation and concessional external financing. Hence, this would ensure that the associated cost and risk profile of the debt portfolio remains within acceptable limits over the medium term.

In light of the above, the Ministry of Finance and Economic Affairs (MOFEA), in collaboration with stakeholders[2], conducted are view of the Medium Term Debt Management Strategy, 2016-2019 to guide the borrowing decisions of the Government of Gambia, going forward.

The team assesses the cost and risk profile of different alternative financing strategies using the World Bank/IMF Medium Term Debt Management Strategy (MTDS) Framework with a view to selecting a preferred strategy. The decision of selecting the desired strategy was difficult, because of the cost-risk trade-off associated with each of the strategies. The outcome of the supports the identification of a strategy with an optimal cost and risk profile and in-line with our debt management objectives.

II. THE OBJECTIVES OF PUBLIC DEBT MANAGEMENT

The Gambia's current public debt management objectives as enshrined in the 2014 Public Finance Act which is to provide sustainable sources of Government's financing needs with an optimal profile of cost and risk;

I. To diversify funding sources by developing the domestic debt market as well as taping new external sources;

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1 www.mofea.gov.gm

2 WAIFEM, WORLD BANK/IMF, GBOS, CBG, GRA

II. To provide efficient debt management processes to mitigate operational risk as well as portfolio

III. MACROECONOMIC DEVELOPMENTS

2.1. External Developments

Global economic activity remained subdued since 2015. Growth in emerging market and developing economies accounting for over 70 percent of global growth, declined for the fifth consecutive year, while a modest recovery continued in advanced economies.

The International Monetary Fund (IMF) has estimated global growth at 3.1 percent in 2015, and project 3.4 percent and 3.6 percent growth in 2016 and 2017 respectively. The pickup in global activity is projected to be more gradual as oppose to the previously reported in the October 2015 World Economic Outlook (WEO), especially in emerging market and developing economies.

Commodity markets pose two-sided risks. On the downside, further declines in commodity prices would worsen the outlook for the already-weaken commodity producers, while increasing yields on energy sector debt threatens a broader tightening of credit conditions. On the upside, the recent decline in oil prices may provide a stronger boost to demand from oil importers than currently envisaged, including through consumers' possible perception that prices will remain lower for a long period.

2. 2. Domestic Developments

The recent Gambia Bureau of Statistics (GBoS) estimate of real economic growth is projected at 4.7 percent premised on a strong rebound of the tourism sector and good agricultural produce in 2015. Real GDP growth in 2014 expanded by 0.9 percent compared to the growth of 4.6 percent and 5.9 percent in the preceding two years. The slowdown in economic activities in 2014 was marred by exogenous shocks as well as domestic policy challenges. The decline in agricultural production due to erratic rain pattern did not only slowdown growth but threatened food security. The spillover effects of the Ebola epidemic in the sub-region led to a decline in the international tourism receipts and related activities as well as cross-border trade. The combine effects of the shocks were exacerbated by large fiscal policy slippages and widened balance of payments deficit.

Price developments in 2015 indicated a declining trend in all major indicators. Headline inflation stood at 6.67 percent in December 2015, down slightly from 6.92 percent a year earlier but higher than the yearly target of 5.0 percent. The downward trend in headline inflation was mainly due to subdued food inflation. However, non-food inflation increased to 5.25 percent from 4.83 percent for the same period. Core Inflation stood at 6.68 percent in December 2015 compared to 6.90 percent in December 2014, reflecting moderation.

The exchange rate, based on end period mid-market averages revealed that the Dalasi (GMD/D) remained resilient against all the major trading currencies in the domestic FX market. This could be partly owing to the tight monetary stance of the Central Bank of The Gambia which dampened demand pressures evident by the decline in deposit money banks' net open position.

The 2015 budget was anchored on curtailing NDB to 1.0 percent of GDP. Restraint on government's NDB were underpinned by expenditure cutting measures such as streamlining the size of the public sector, reforming the official vehicle policy and downsizing diplomatic missions. It was envisaged that such measures would significantly help contain the NDB thus creating much needed fiscal space for other priority expenditures and cope with domestic and external shocks.

The overall budget balance (excluding grants) on commitment basis recorded a substantially lower deficit of D2.8 billion (7.6 percent of GDP) in 2015 compared to a deficit of D3.6 billion (9.7 percent of GDP) in 2014.The overall budget balance (including grants) on commitment basis remained unchanged at D2.4 billion or 6.3 percent of GDP.

Preliminary balance of payments estimates for 2015 indicated an overall surplus of US$62.1 million, lower than US$ 112.9 million in 2014. The current account deficit widened to US$115.2 million from a deficit of US$81.8 million. The import bill increased to US$357.9 million compared to US$335.0 million in 2014 partly reflecting the increase in food imports. However, Exports declined to US$94.0 million from US$104.0 million in 2013 mainly reflecting the less than expected agricultural output due to late and insufficient rains experienced in 2014. Similarly, re-exports decreased from US$88.5 million in 2014 to US$73.8 million in 2015. The services account surplus decreased during the year to US$37.2 million from US$41.7 million in 2014, reflecting mainly, the decrease in travel income.

IV. THE SCOPE OF THE DEBT MANAGEMENT STRATEGY

The strategy covers Central Government's existing external debt, domestic debt and financing needs. The strategy aims at funding the Government's financing needs optimally, taken into account recent macroeconomic developments and their projected trajectories. Developments in domestic interest rates and exchange rates, international reserves, inflation level and output were considered. The strategy does not cover the domestic debt of the State owned Enterprises or Local Governments. It is expected that going forward SOEs would contract debt based on their financial viability. Already a study on the financial conditions of SOEs was conducted and it is assumed that those without sound financial conditions would be limited in their new borrowings.

Table 1 presents the cost and risk profile of the existing public debt of the Government of the Gambia as of the end of 2015. Figure 1 shows the sources of external financing and their respective percentage shares as at the end of 2015. Figure 2 highlights the composition of domestic debt in terms of instruments as of the same date.

V. COST AND RISK PROFILE OF THE EXISTING DEBT

The nominal and PV of total public debt to GDP stood at 89.9 and 79.2 percent respectively at end-2015. Interest cost as percentage of GDP is already high at 7.06%. This is mainly due to high cost of domestic debt carrying an average interest rate of 13.4 percent. The portfolio is further characterized by an exceptionally high share of short-term debt at 43.8 percent. The recent hike in domestic interest rates indicates high interest rate risk since the maturing debt will need to be refinanced at higher rates. About 78.5% of domestic debt would be re-fixed within one year.

Foreign-currency denominated debt as a share of total public debt stands at near 50 percent of the portfolio- reflecting new on-take of external concessional loans but also the very large share of domestic debt in the portfolio. Indeed, the ratio of short-term foreign debt to reserves is quite high at 31.6 percent, indicating high currency- and external rollover risks. This is as a result of both increases in foreign obligation and a deteriorating reserve level.

Table 1 Cost Risk Indicators of the Existing Debt at End 2015

Risk Indicators		External Debt	Domestic Debt	Total Debt
Amount (in millions of GMD)		17083.07	18784.49	35867.56
Amount (in millions of USD)		430.3	473.16	903.46
Nominal debt as % GDP		42.81	47.07	89.88
PV as % of GDP		32.16	47.07	79.23
Cost of debt	Interest payment as % GDP	0.75	6.31	7.06
	Weighted Av. IR (%)	1.76	13.4	7.85
	ATM (years)	9.74	2.62	6.04
Refinancing risk	Debt maturing in 1yr (% of total)	6.22	78.47	43.82
	Debt maturing in 1yr (% of GDP)	2.66	36.45	39.11
Interest rate risk	ATR (years)	9.5	2.62	5.92
	Debt re-fixing in 1yr (% of total)	10.61	78.47	45.92
	Fixed rate debt (% of total)	95.19	100	97.69
FX risk	FX debt (% of total debt)			47.96

Figure 3 shows the redemption profile of Gambia's public debt as at end 2015. The dominance of short-term debt instrument (T-bills) in 2015 accounts for high refinancing risk in 2016.

Figure 1: The Redemption Profile of Public Debt

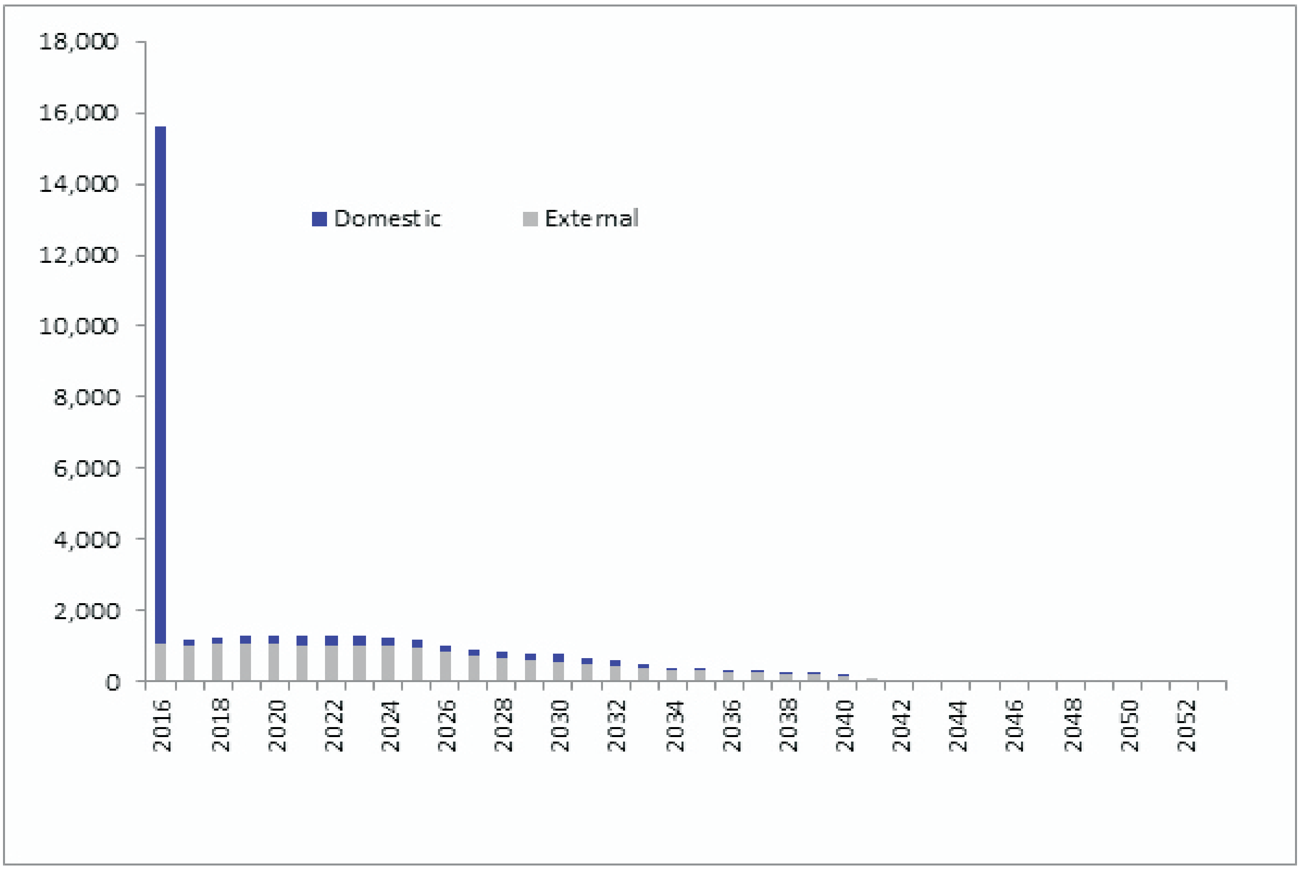
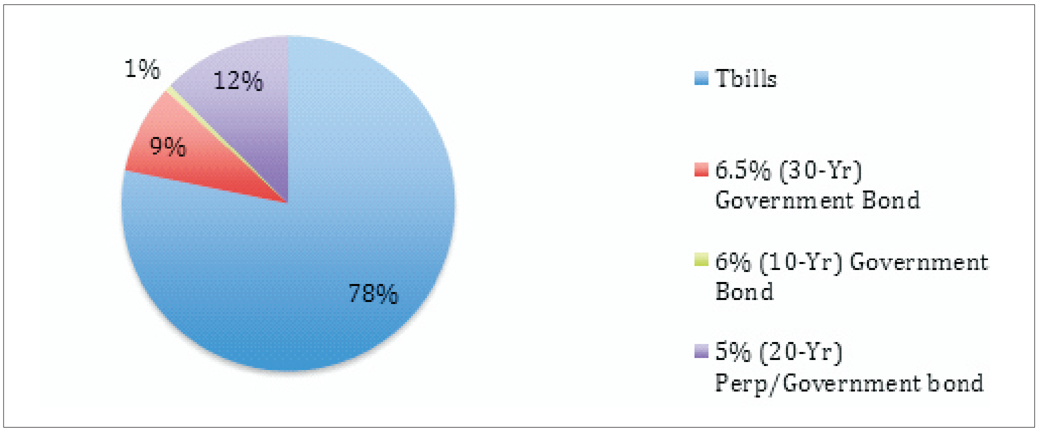


Figure 2: Composition of the Domestic Debt by Instrument



In summary, the main risks to the existing public debt portfolio are:

I. High refinancing risk, about 43.8% of total debt is maturing within one year

II. High interest rate risk, about 45.9% of total debt is due for re-fixing in one year. Moreover 78.8% of domestic debt is due for re-fixing within the period which with expected higher interest rate.

III. High foreign currency risk, the short-term foreign currency debt to reserve ratio is high at 31.6%, due to external obligations and depletion of reserves.

VI. MARKET RISK

Given the exposures of the debt portfolio to market risks and other macroeconomic variables, The Gambia's debt remains vulnerable to both external and domestic shocks. Any further rise in interest rates would increase the cost of domestic debt.

The pricing of Government's domestic debt instruments would be determined by the prevailing market conditions. However the restructuring plan also the conversion of Central Bank of the Gambia (CBG) holdings of Treasury bills (about 24% of the stock) to a long term bond at a negotiated interest rate. On the external front, the Government would continue to pursue concessional windows with a relatively small amount of non-concessional borrowing from our traditional lenders.

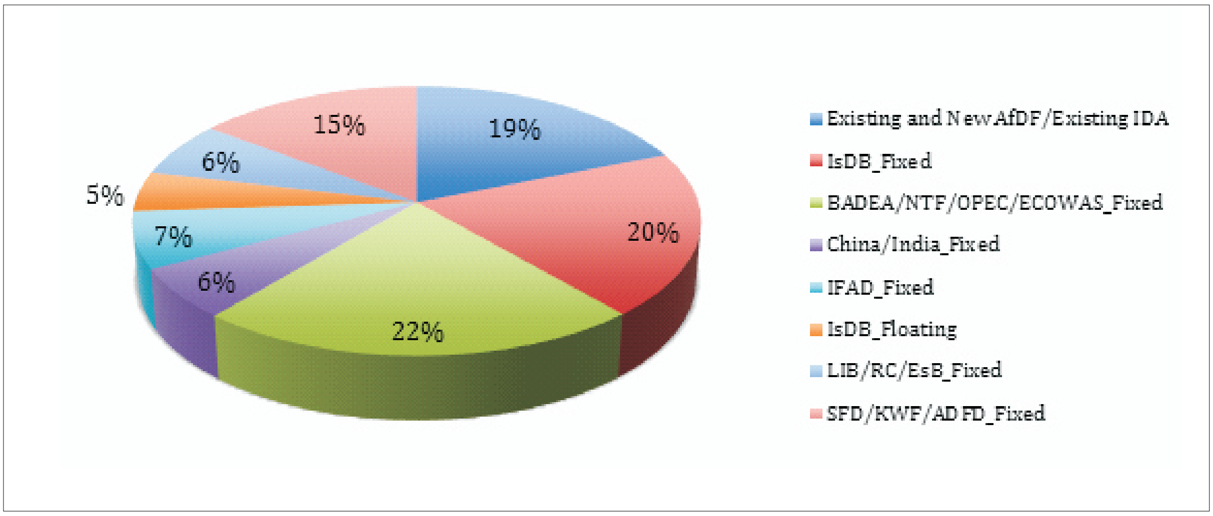
VII. GROSS FINANCING PROJECTION

The fiscal projections of the Government are based on the underlying assumptions of the macroeconomic framework. The MTDS analysis explores the various funding strategies in order to optimally meet the funding needs of the Government over the medium term. The projected gross financing needs of the government from 2016 to 2019 are; D18.65billion, 16.42 billion, D1.12 billion and D1.11 billion respectively.

VIII. FINANCING SOURCES AND INSTRUMENTS

It is expected that Government would continue to access fund from the existing lenders, however it would also pursue a new investor-base that would invest in Public Private Partnership (PPP) projects. New debt instruments would be introduced in the projection period in order to mitigate the cost and risk exposure of the domestic debt.

Figure 3 Source of External Financing by Creditor



The new debt instruments to be introduced are:

I. 30 year bond: the conversion of about 24% of the existing Short-Term Domestic debt to 30 year is expected to reduce both the interest rate and rollover risk of the portfolio.

II. 3 year bond

IX. THE 2016-2019 DEBT MANAGEMENT STRATEGY

The desired debt management strategy in terms of cost and risk profile and the one that is in-line with the debt management objectives of the Governments has the following characteristics:

I. Maximizing external concessional financing in order to reduce the cost of debt and improve average time to maturity.

II. Gradual re-profiling of the existing domestic debt by converting the 24% of the Treasury bills held by CBG into a 30-year bond, and the introduction of a 3-year bond. This is expected to have positive impact on the cost and risk profile of the debt portfolio.

The main challenges to the implementation of the chosen strategy include;

I. Gaining consensus with CBG to convert their short-term holdings to a 30-year government bond at a negotiated rate.

II. Given the narrowness of the domestic market and the recent increase in the Policy Rate leading to rise in interest rates, the cost of introducing the 3-year bond could be high.

X. THE STRATEGY TARGETS

The preferred strategy guidelines and targets 2016-2019include:

I. Maximization of concessional borrowing

II. Gross financing composition of 16% and 84% for external and domestic debt respectively

III. Lengthen the average term to maturity of the debt portfolio from 6 years to 10.8 years

IV. To mitigate risk profile of the debt portfolio.

The table below summarized the cost and risk targets of the optimal strategy

Figure 6 Cost and Risk targets of the optimal strategy

Risk Indicators		2015	2019
		Current	Targets
Nominal debt as % of GDP		89.9	84.9
Present value debt as % of GDP		79.2	70.9
Interest payment as % of GDP		7.1	5.0
Implied interest rate (%)		7.9	6.3
Refinancing risk	Debt maturing in 1yr (% of total)	43.8	20.2
	Debt maturing in 1yr (% of GDP)	39.1	17.2
	ATM External Portfolio (years)	9.7	13.1
	ATM Domestic Portfolio (years)	2.6	6.8
	ATM Total Portfolio (years)	6.0	10.8
Interest rate risk	ATR (years)	5.9	9.7
	Debt re-fixing in 1yr (% of total)	45.9	28.2
	Fixed rate debt (% of total)	97.7	91.8
FX risk	FX debt as % of total	48.0	58.4
	ST FX debt as % of reserves	31.6	89.5