MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

MIDIUM TERM DEBT MANAGEMENT STRATEGY

2017 – 2020

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I.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 2017-20.

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 2016, the debt to GDP ratio rose above 114 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 semi-concessional external financing 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.

1. Introduction

Yearly review of Gambia's Medium Term Debt Strategy (MTDS) is a priority objective of debt management functions of Directorate of Loans and Debt Management and the Ministry at large. The MTDS serves as a guide to design and implement a strategy that would help government to raise funds to fill its financing gap at the lowest possible cost and also consistent with a prudent degree of risk.

This year's review could not have come at a better time as it coincided with a historical turning point for The Gambia, with a new democratically elected government committed to resolve the debt crises that it inherited through fiscal discipline and rule of law. It also seeks to engage development partners to restructure its unsustainable debt.

The Gambia's public debt has elevated to unsustainable level due to high fiscal deficit rising from economic mismanagement, call-on guarantees to State Own Enterprises (SOEs) and adverse external developments. The financing of the huge financing gap through high domestic borrowing has not only crowded out private sector but also substantially increase the cost of borrowing. This makes the baseline scenario unsustainable. However, the authorities are committed to take measures that would make debt sustainable in the medium term. This measures includes, fiscal consolidation and limiting fiscal shocks from unbudgeted support to SOEs.

With this new look of macro assumptions, this strategy focuses on restructuring the debt portfolio through re-profiling and liquidation of short-term debt while at the same time harnessing new opportunities of concessional financing. This would ensure that the debt management objectives with regards to cost and risk of the debt portfolio are met over the medium term.

A team of local experts, staff of Ministry of Finance and Economic Affairs and The Central Bank of the Gambia, Gambia Revenue Authority (GRA) and Gambia Bureau of Statistics for the first time reviewed the Gambia's MTDS using the World Bank/IMF MTDS Analytical Tool, Which was then subjected to peer-review by our development partners such as World Bank/IMF and WAIFEM. The cost and risk profile of different alternative financing strategies were assessed with a view of choosing a preferred strategy. The outcome of the exercise is to identify a strategy with optimal cost-risk profile that is in line with the current debt management objectives.

Accordingly, the 2017 – 2020 MTDS is to guide the government's borrowing decision going forward.

2. The Objectives of Public Debt Management

The Gambia's Public debt management objectives are enshrined in the Public Finance Act 2014. This includes;

1. To raise funds for the government at a lowest possible cost with an acceptable degree of risk.
2. To diversify funding sources by developing the domestic debt market as well as taping new external sources.
3. To provide efficient debt management processes to mitigate operational risk as well as portfolio risk.

3. MACROECONOMIC ASSUMPTIONS

Total revenue and grants in 2017 is estimated at D14, 172 million from D8, 466 million in 2016, largely due to an expected increase in grant receipts of 350 percent increase in 2017. This includes donor support from World Bank (WB), African Development Bank (AfDB), the European Union (EU) to the tune of D3, 385 million. The International Monetary Fund (IMF) is expected to disburse to The Gambia in July 2017 from its Rapid Credit Facility of D710 million. An expected decline in revenue and grants in 2018 to D13, 700 million is associated to a decline in expected grant receipts compared to 2017. Frontloaded disbursement in grants is assumed in the medium term.

On the other hand, total expenditure is forecasted at D14, 169 million in 2017 based on the revised budget, down from D12,585 million in 2016. Interest expenditures are expected to drop by 0.05 percent in the medium term.

Table 1: The Macroeconomic Data

GMD million	2016	2017	2018	2019	2020
Revenues and grants	8,466	14,172	13,700	15,931	14,801
Total primary expenditures	9,324	11,399	11,201	12,140	13,319
Total expenditures	12,585	14,169	13,778	14,748	15,950
Total interest expenditure	3,261	2,770	2,577	2,608	2,631
International reserves (USD million)	20	33	67	89	114
GDP	42,252	47,139	52,041	57,169	62,617

4. THE SCOPE OF THE DEBT MANAGEMENT STRATEGY

The strategy covers central government's debt as well as on-lending and SOEs debt that are taking over by government as part of the restructuring program. However, the SOEs debts that are not taken over or on-lend to them by government are not included. It takes into account the recent macroeconomic developments and their projected trajectories. New developments in the domestic interest rate, exchanges and international reserves, inflation and output were considered.

5. COST AND RISK PROFILE OF THE EXISTING DEBT

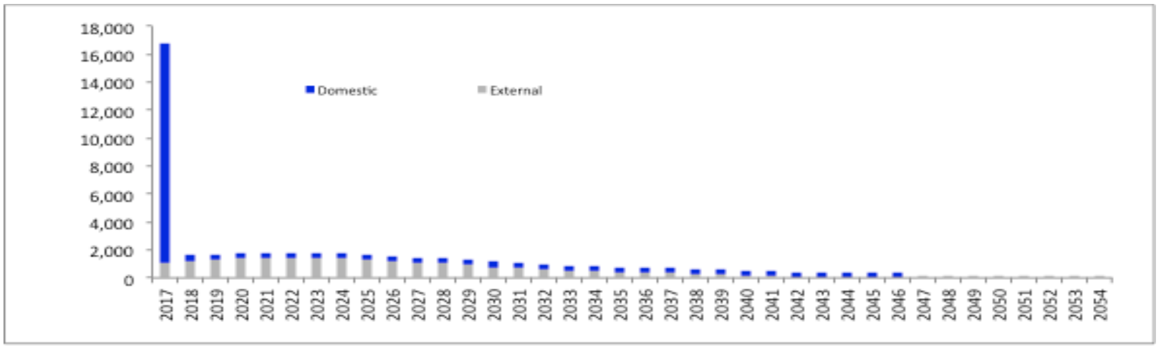
The nominal and PV of total public debt to GDP stood at 117.5 and 100.3 percent respectively at end-2016. Interest cost as percentage of GDP is at 7.3%. This is mainly due to high cost of domestic debt carrying an average interest rate of 12.5 percent. The portfolio is further characterized by an exceptionally high share of short-term debt at 34.5 percent. Over 60% of domestic debt would be re-fixed within one year.

Foreign-currency denominated debt as a share of total public debt stands at near 47.3 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 162.3 percent, indicating high currency and external rollover risks. This is as a result of both increases in foreign obligation and a deteriorating reserve level. The below table summarized the cost and risk profile of the existing debt.

Table 2: Cost Risk Indicators of the Existing Debt at End 2016

Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of GMD)		23,482.3	26,152.4	49,634.7
Amount (in millions of USD)		536.5	597.5	1,134.0
Nominal debt as % GDP		55.6	61.9	117.5
PV as % of GDP		41.4	61.9	103.3
Cost of debt	Interest payment as % GDP	0.7	6.6	7.3
	Weighted Av. IR (%)	1.3	10.7	6.3
Refinancing risk	ATM (years)	9.4	6.5	7.8
	Debt maturing in 1yr (% of total)	6.0	60.2	34.5
	Debt maturing in 1yr (% of GDP)	3.3	37.2	40.6
Interest rate risk	ATR (years)	9.1	6.5	7.7
	Debt re-fixing in 1yr (% of total)	10.2	60.2	36.5
	Fixed rate debt (% of total)	95.5	100.0	97.9
FX risk	FX debt (% of total debt)			47.3
	ST FX debt (% of reserves)			162.3

Figure 1: The Redemption profile of public debt



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

I. High refinancing risk, about 34.5% of total debt is maturing within one year

II. High interest rate risk, about 36.5% of total debt is due for re-fixing in one year. Moreover 60.2% of domestic debt is due for re-fixing within the period with expected higher interest rate.

III. High foreign currency risk, the short-term foreign currency debt to reserve ratio is high at 162.3%, due to external obligations and depletion of reserves

6. 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. On the external front, the Government would continue to pursue concessional windows with a relatively small amount of semi-concessional borrowing from our traditional lenders.

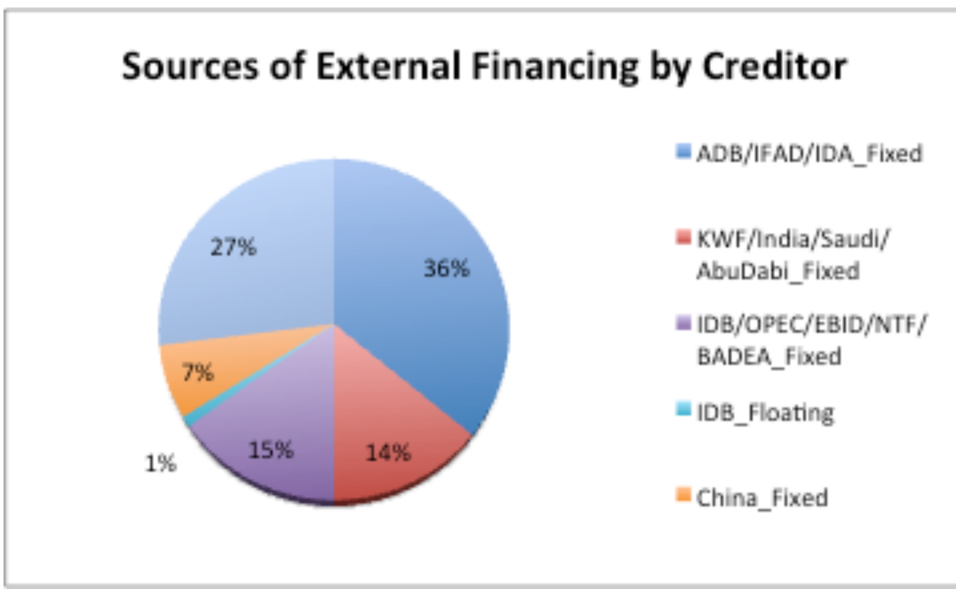
7. THE FINANCING PROJECTIONS

The fiscal projections of the Government are based on the underlying assumptions of the medium term 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 gross external borrowing over medium term is projected to be 5.8% of GDP and gross domestic borrowing is 27.0% of GDP. While the gross domestic borrowing is high, the net addition to domestic debt is expected to be as low as 0.8% of GDP over the strategy period. This is as a result of contractionary fiscal policy and a gradual shift to external concessional financing. The projected net external borrowing over the period is 2.5% of GDP.

8. 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 projected period in order to mitigate the cost and risk exposure of the domestic debt.

Figure 2: Source of External Financing by Creditor



The new debt instruments to be introduced are:

I. 3-year bond
II. 5-year bond
III. 7-year bond

9. THE 2017-2020 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. II. Gradual introduction of the 3-year, 5-year and 7-year bonds in bid to develop domestic bond market.

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

I. Introducing bond instruments at a much lower cost.

II. The domestic debt market is under-developed diversification could be difficult.

III. Maintaining debt targets as a reference for fiscal rules especially the net domestic borrowing.

10. THE STRATEGY TARGETS

The preferred strategy guidelines and targets 2017-2020 include:

I. Maximization of concessional borrowing

II. Gross financing composition of 18% and 82% for external and domestic debt respectively

III. Lengthen the average term to maturity of the debt portfolio from 7.8 years to 8.7 years

IV. To mitigate risk profile of the debt portfolio.

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

Table 3: Cost and Risk Targets of the Optimal Strategy

Risk Indicators		2016	2020
Nominal debt as % of GDP		117.5	97.2
Present value debt as % of GDP		103.3	82.1
Interest payment as % of GDP		7.3	4.5
Implied interest rate (%)		6.3	4.8
Refinancing risk	Debt maturing in 1yr (% of total)	34.5	21.0
	Debt maturing in 1yr (% of GDP)	40.6	20.4
	ATM External Portfolio (years)	9.4	11.5
	ATM Domestic Portfolio (years)	6.5	5.5
	ATM Total Portfolio (years)	7.8	8.7
Interest rate risk	ATR (years)	7.7	8.7
	Debt refixing in 1yr (% of total)	36.5	22.5
	Fixed rate debt (% of total)	97.9	98.4
FX risk	FX debt as % of total	47.3	54.2
	ST FX debt as % of reserves	162.3	30.7