GOVERNMENT OF THE REPUBLIC OF ZAMBIA
Ministry of Finance and National Planning

Medium-Term Debt Management Strategy (2024-2026)

www.mofnp.gov.zm

Contents

FOREWORD

Formulation of the 2024 – 2026 Medium Term Debt Strategy (MTDS) is in accordance with the provisions of the Public Debt Management Act No of 15 of 2022, which provides for the review of the MTDS in case of major macroeconomic changes. The primary goal of the MTDS is to develop comprehensive strategies to finance fiscal deficits and address public debt vulnerabilities through creating sustainable financing solutions.

Zambia is grappling with severe macro economic challenges mainly due to the drought caused by El Niño, leading to the declaration of a national disaster by His Excellency the President of the Republic of Zambia. The adverse economic impact of the drought resulted in the revision of Gross Domestic Product (GDP) growth expectations for 2024 from 4.8 percent to 2.3 percent on account of a reduction in economic activities in some key sectors including agriculture and energy. Further, heightened inflationary pressures and volatility in the exchange rate have continued to negatively impact performance in the manufacturing, wholesale and retail trade industries.

Additionally, there has been subdued performance of Government securities auctions, thereby affecting Government's ability to meet the budget financing needs which includes maturities on domestic debt. On a positive note significant progress was reached in the external debt restructuring resulting in agreements with 75 percent of the creditors within the restructuring perimeter, resulting in a positive realignment of the cost and risk profile of Zambia's debt. The foregoing developments have necessitated an update to the 2023-2025.

The Ministry of Finance and National Planning is dedicated to ensuring the successful implementation of the financing strategies outlined in the MTDS. It is important to emphasize that the MTDS is a dynamic and evolving document, designed to be reviewed and updated annually. This annual review process is crucial for assessing whether the chosen strategies remain appropriate and effective in addressing the country's fiscal deficits and public debt vulnerabilities, considering the prevailing macro-fiscal conditions and the broader global economic environment. Through these efforts, the MTDS will contribute significantly to the country's development and long-term economic resilience.

Nsandi Manza
Acting Secretary to the Treasury
MINISTRY OF FINANCE AND NATIONAL PLANNING

LIST OF ABBREVIATIONS

ATM	Average Time to Maturity
ATR	Average Time to Refixing
FX	Foreign Exchange
ECF	Extended Credit Facility
GDP	Gross Domestic Product
IMF	International Monetary Fund
MTDS	Medium Term Debt Management Strategy
OCC	Official Creditor Committee
PDMA	Public Debt Management Act No. 15 of 2022
SDR	Special Drawing Rights
USD	United States Dollar
ZMW	Zambian Kwacha

EXECUTIVE SUMMARY

The 2024-2026 MTDS has been prepared in accordance with the Public Debt Management Act, No. 15 of 2022, which mandates the Government to formulate, update, and publish the MTDS annually. This strategy covers the period from 2024 to 2026, outlining initiatives to minimize the costs and risks associated with debt.

The strategic scope includes the existing debt portfolio and projected fiscal deficits under the 2024-2026 Medium-Term Budget Plan. The 2024-2026 MTDS Report provides an update on the performance of the 2023-2025 MTDS for the financial year 2023, and also outlines the optimal financing strategy selected for the 2024-2026 period, which was assessed based on cost and risk indicators. Analysis of the alternative financing strategies was conducted using the IMF-MTDS tool under given macroeconomic and market assumptions.

Implementation of the 2023-2025 MTDS exhibited both positive and negative results in the year 2023. On the positive side, the strategy achieved a favorable shift towards fixed-rate debt, increasing this portion from 77% to over 90%, surpassing the 2025 target of 81.8%. Additionally, the amount of debt that was re-fixed during the year decreased from 33.4% to 22.3% of the total debt stock. These outcomes are seen as dividends of the debt restructuring process, which has resulted in the conversion of some debt from variable to fixed interest rates.

On the other hand, nominal debt as a percentage of GDP rose from 91% to 106.6%, exceeding the target of 84%, largely due to continued loan disbursements and slow repayments owing to the debt service standstill. The 2023 financing mix was 35% domestic and 65% external, instead of the MTDS target of 30:70. External financing was lower than anticipated due to the conversion of some loans to grants and generally slow disbursements, while domestic financing was concentrated with T-bills, partly compensated by carryover funds. The planned issuance of the 20-year domestic bond did not occur.

Changes in the macro-fiscal assumptions due to drought conditions necessitated a revision of the strategy. Additionally, progress made in the debt restructuring exercise, with agreements reached with Official Creditor Committee (OCC) and bondholders, has altered the cost and risk profile of debt. The subdued performance of the Government securities market in meeting budget financing needs, including maturities on domestic debt in the first half of 2024, also contributed to the need for the strategy to be revised. Provisions in the Public Debt Management Act, 2022 allow for amendments in case of significant economic changes.

Upon evaluation of four alternative strategies during the formulation process, strategy 3 was preferred for the medium term 2024-2026. The strategy targets a 40:60 mix of domestic to external financing, optimizing concessional external financing while maintaining a zero ceiling on commercial external borrowing. On the domestic front, the strategy seeks to reduce refinancing risk through increased issuance of longer-dated instruments. This adjustment reflects Zambia’s current debt landscape, domestic borrowing costs, and commitments under the IMF Programme.

1 INTRODUCTION

1.1 Background

The 2024-2026 MTDS presents Government's debt management strategies consistent with the medium-term macroeconomic framework and available sources of financing. These strategies consider the impact of key macroeconomic policies and indicators on the cost and risks of public debt. By so doing, costs and risks of Zambia's current debt stock are reviewed considering the prevailing macroeconomic circumstances and trajectory. The strategies are developed within the IMF MTDS Tool and analyzed with the view of meeting Government financing requirements at least possible cost with a prudent degree of risk.

Zambia's economy faces turbulent times due to the El Niño-induced drought, compounded by global monetary policy tightening, which have led to the depreciation of the Kwacha against major currencies. The drought has adversely affected agricultural and electricity production, dampening growth prospects for 2024 to 2.3 percent, down from an initial projection of 4.8 percent.

The depreciating currency poses a downside foreign currency risk to the country's debt portfolio which is largely denominated in foreign currency (at 65 percent). Despite this, external financing is more affordable as it is currently being sourced from multilateral development banks at highly concessional rates. The moratorium on contraction of non-concessional debt will continue as part of the efforts to restore sustainability of public external debt. Conversely, the country faces high borrowing costs for long-term domestic instruments and has seen a recent decline in the performance of Government securities auctions in the domestic market.

Despite the underperformance of Government securities, it is still envisaged that the Government will continue to issue Treasury bills and Government bonds and access only concessional financing from the external market to finance the budget deficits in the medium term. Additionally, the Government will continue undertaking its debt management operations in line with set benchmarks under the ongoing IMF program.

1.2 Objective of the 2024-2026 MTDS

- To minimize the cost of financing in accordance with a prudent degree of risk;
- To progressively mitigate the refinancing and exchange rate risks; and
- To promote the development of the domestic financial markets.

1.3 Scope of the MTDS

The scope of the MTDS is limited to domestic and external Central Government debt. The 2024-2026 strategy will guide borrowing for the 2025 budget.

2 MACRO ECONOMICS AND MARKET PERFORMANCE

2.1 Gross Domestic Product (GDP) Performance

Real GDP growth has been positive over the period 2021 to 2023. Growth in 2021 was recorded at 6.2 percent driven mainly by the information and communication technology and construction sectors. In 2022, growth was lower at 5.2 percent driven by growth in wholesale and retail trade, information and communication technology, transport and storage, education, accommodation and food services and manufacturing sectors.

Growth in 2023 was recorded at 5.4 percent and was mainly driven by positive performance in the Information and Communication Technology, construction, wholesale and retail trade, financial and insurance services, manufacturing and transport and storage sectors.

2.2 Fiscal Performance

During the 2021 – 2023 period, total revenues and grants amounted to K321.7 billion, with an average of K107.2 billion per year constituting 22.9 percent of the GDP. Tax revenues accounted for an average of K81.0 billion, non-tax revenues accounted for an average of K22.7 billion while grants accounted for an average of K3.5 billion. The overall performance during the period generally surpassed the set targets and this was mainly attributed to higher collections from the mining sector during 2021 and 2022 financial years amidst high copper prices.

2.3 Monetary and Financial Sector Performance

During the period 2021 to 2023, inflation averaged 14.7 percent, higher than the 6-8 percent target band. The pass-through from the sharp depreciation of the exchange rate, higher food (mostly maize and its products) and fuel prices and upward adjustment in electricity tariffs were the major drivers of inflationary pressures.

Over the same period, the Kwacha marginally depreciated against the US Dollar by 1.2 percent from an annual average of K19.97 per US Dollar in 2021 to an annual average of K20.21 per US Dollar in 2023. Low and intermittent supply of foreign exchange by the mining sector (major source of market liquidity), heightened domestic demand, adverse market sentiments on account of protracted external debt restructuring discussions, and a stronger US dollar were the key factors that contributed to the sharp depreciation of the Kwacha.

2.4 External Sector Performance

External sector performance deteriorated between 2021 and 2023. In 2023, a current account deficit of US$0.5 billion (-1.1 percent of GDP) was recorded from a surplus of US$2.6 billion (11.9 percent of GDP) in 2021. This was due to a significant reduction in net exports amid sustained deficit in the primary income account.

Gross international reserves increased to US$3.3 billion (equivalent to 3.7 months of import cover) at end-December 2023 from US $2.8 billion (equivalent to 4.4 months of import cover)[1] at end-December 2021. This was mostly attributed to mining tax payments, disbursements by

[1] The higher months of import cover in 2021 despite a lower gross reserves value is explained by a relatively lower import value of US$7.7 billion compared to the 2023 import value of US$10.9 billion.

the IMF under the Extended Credit Facility and World Bank, net statutory reserve deposits, project inflows and monetary gold reserves.

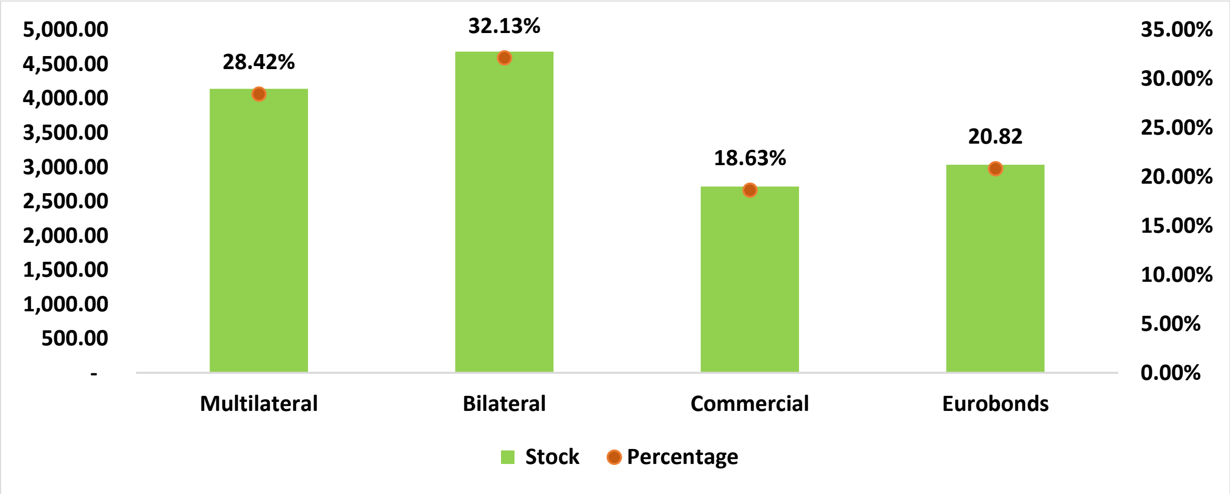
3 REVIEW OF THE EXISTING PUBLIC DEBT PORTFOLIO

3.1 Public Debt Portfolio Review

Central Government`s debt stock increased by 25 percent to US$23,626.20 million as at end 2023 from US$18,891.04 million as at end 2020. The increase was due to disbursements from loans to finance various project and budget support, including social protection. Of the debt stock at end 2023, Central Government external debt stock was US$14,572.92 million [2] while domestic debt stock was ZMW232,621.26 million (US$9,053.28 million).

3.2 External Debt by Creditor Type

Figure 1: External debt stock at end December 2023 by creditor type **'USD' millions**



Source: Ministry of Finance and National Planning

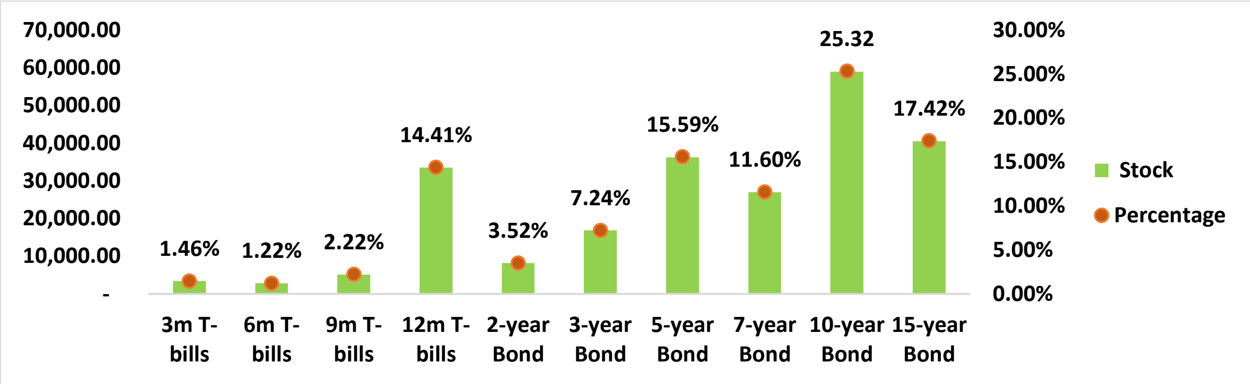
Bilateral creditors accounted for the largest share of the external debt stock at 32.13 percent followed by Multilateral creditors at 28.42 percent while Eurobonds and other commercial creditors accounted for 18.63 percent and 20.82 percent respectively[1] (refer to figure 1).

3.3 Domestic Debt Portfolio

Domestic Debt was composed largely of the 10-year Government bonds at 21.18 percent of the entire portfolio followed by the 15-year bond at 17.42 percent, while the 182-day Treasury Bill accounted for the lowest share at 1.22 percent (refer to figure 2).

[2] The US $14.57 billion is as reported in the end 2023 DSB which excludes default interest to be capitalized on restructured agreements. So far, US $2.53 billion in default interest has been reconciled with selected creditors under the OCC.

Figure 2: Domestic Debt stock at end December 2023 by type of instrument 'ZMW' millions



Source: Ministry of Finance and National Planning

3.4 Cost and Risk of Existing Debt

Table one below highlights the cost and risk indicators of the debt stock at the end of 2023. The overall cost of debt as depicted by the weighted average interest rate stood at 6.2 percent, significantly below 8.4 percent at end 2022. This is largely due to the restructuring of external bilateral debt. Refinancing risk was minimal as depicted by the high ATM of 9.1 years on overall debt and 11.8 years on external debt. ATR was 8 years overall, and 10.3 and 4.3 years on external and domestic debt respectively. Notably, following the restructuring of external debt, about 90 percent of the debt portfolio is at a fixed interest rate. The percentage of debt being re-fixed in 2024 stood at slightly over 22 percent. The FX risk exposure under short term instruments was high at 20.1 percent of international reserves.

Table 1: Cost indicators of debt stock at end 2023

Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of ZMW)		**374,446.6**	**232,621.3**	**607,067.8**
Amount (in millions of USD)		**14,572.9**	**9,053.3**	**23,626.2**
Nominal debt as percent of GDP		**65.8**	**40.9**	**106.6**
Cost of debt[2]	Interest payment as percent of GDP[3]	**1.8**	**4.8**	**6.6**
	Weighted Av. IR (percent)	**2.8**	**11.7**	**6.2**
Refinancing risk[2]	ATM (years)	**11.8**	**4.3**	**9.1**
	Debt maturing in 1yr (percent of total)	**4.4**	**29.5**	**13.4**
	Debt maturing in 1yr (percent of GDP)	**3.2**	**12.1**	**15.2**
Interest rate risk[2]	ATR (years)	**10.3**	**4.3**	**8.1**
	Debt refixing in 1yr (percent of total)	**18.3**	**29.5**	**22.3**
	Fixed rate debt incl T-bills (percent of total)	**85.5**	**100.0**	**90.7**
	T-bills (percent of total)	**0.0**	**19.3**	**7.0**
FX risk	FX debt (percent of total debt)			**62.0**
	ST FX debt (percent of reserves)			**20.1**

Source: Ministry of Finance and National Planning

4 PERFORMANCE REVIEW OF THE 2023-2025 MTDS

4.1 Debt Strategy Review

The 2023-2025 Medium-Term Debt Strategy was used guide to financing of the budget deficit in the review period. The Strategy aimed to reduce the cost of debt by optimizing concessional external borrowing and implementing a zero ceiling on commercial external borrowing. Additionally, the strategy sought to reduce refinancing risk by lengthening the maturity profile of public domestic debt and supporting deepening of the domestic market through the issuance of medium to long-term debt securities.

The total external financing requirement to cover the budget deficit in the 2023 financial year was K38.4 billion, representing 71 percent of the budget deficit. Of this amount a total of K29.2 billion (76 percent) was raised, leaving a balance of K9.2 billion. The shortfall is due to the conversion of some loans into grants and the slow disbursement on some projects due to lags in achieving project implementation milestones.

The Government managed to raise a total of K13.80 billion in Government securities against the budgeted Net Domestic Financing (NDF) of K15.6 billion (29 percent of the budget deficit). The shortfall on the required NDF was bridged by carry over funds from 2022.

As a result, the outturn of the 2023 financing mix was 65 percent from external financing and 35 percent domestic financing as opposed to the targeted 70:30 composition in the 2023-2025 MTDS.

4.2 Assessment of Cost and Risk Against Target

Table 2 below compares the risk and cost indicators outlined in the 2023-2025 MTDS with their actual performance in 2023. This assessment aims to determine if the 2023 actual performance was progressing towards the intended targets at the end of the strategy period in 2025.

Nominal debt as a percentage of GDP increased from 91 percent to 106.6 percent, above the end strategy target of 84 percent. This is due to continued disbursements on external debt and slow amortization in 2023 as there was still a debt service standstill on debt within the restructuring perimeter.

There were improvements in some respects. The debt re-fixing in one year as a percentage of total stock decreased from 33.4 percent to 22.3 percent due to assumptions on extension of maturities resulting from the external debt restructuring exercise. Additionally, fixed-rate debt as a percentage of total stock increased from 77 percent to over 90 percent, surpassing the 2025 target of 81.8 percent.

However, FX debt as a proportion of the stock increased, reaching 62 percent from 54 percent. Short-term FX debt as a portion of reserves also saw a notable rise due to increased arrears stemming from the debt service standstill in 2023.

Table 2: Performance of 2023 outturn against indicators in the 2023 -2025 MTDS

		MTDS base year (2022)	MTDS Target for end 2025	Actual (2023)	Variation from 2025 target	variance from base year
Nominal debt as percent of GDP		91.6	84.0	106.6	22.7	15.0
Interest payment as percent of GDP		7.7	7.1	6.6	-0.5	-1.1
Implied interest rate (percent)		8.4	9.4	6.2	-3.2	-2.2
Refinancing risk	Debt maturing in 1yr (% of total)	11.5	17.7	13.4	-4.3	1.9
	Debt maturing in 1yr (% of GDP)	12.2	14.9	15.2	0.3	3.0
	ATM External Portfolio (years)	11.8	11.1	11.8	0.7	0.0
	ATM Domestic Portfolio (years)	4.2	4.9	4.3	-0.6	0.1
	ATM Total Portfolio (years)	8.8	8.6	9.1	0.5	0.3
Interest rate risk	ATR (years)	6.4	7.0	8.1	1.1	1.7
	Debt re-fixing in 1yr (% of total)	33.4	34.3	22.3	-12.0	-11.1
	Fixed rate debt incl T-bills (% of total)	77.9	81.8	90.7	8.9	12.8
	T-bills (% of total)	7.4	7.1	7.0	-0.2	-0.4
FX risk	FX debt as % of total	54.6	56.9	62	4.8	7.1
	ST FX debt as % of reserves	3.2	43.7	20.1	-23.6	16.9

Source: Ministry of Finance and National Planning

5 FINANCING STRATEGY 2024-2026

5.1 Overview

In order to select the optimum strategy for the medium-term (2024 – 2026), four alternative financing strategies were considered under certain macroeconomic and market assumptions. The analysis involved the application of four risk assumptions: two shocks to interest rates, an exchange rate shock, and a combined interest rate and exchange rate shock. The performance of each of the four strategies were evaluated under both baseline and shock scenarios, to assess the risks associated with each of the strategies. Several cost and risk indicators were calculated to determine how the strategies react to the given set of shocks.

The selection of the financing strategy for the period 2024 – 2026 was guided by Government debt management objectives provided under section 3 of the Public Debt Management Act, 2022 which are to minimize the cost of borrowing at a prudent degree of risk. This involved choosing the most favorable mix of borrowing between domestic and external sources given the underlying macroeconomic and market assumptions.

5.2 Macroeconomic and Market Assumptions 2024-2026

5.2.1 GDP Growth

GDP growth expectations for 2024 have been reduced from 4.8 percent to 2.3 percent on account of a reduction in economic activities in some key sectors including agriculture and energy, owing to the drought experienced during the 2023/2024 rain season. Further, heightened inflationary pressures and volatility in the exchange rate have continued to negatively impact performance in the manufacturing, wholesale and retail trade industries.

In the medium term, growth is projected to average 6 percent with growth forecasts in 2025 at 6.6 percent and 5.9 percent in 2026. This will be supported by a recovery of the mining and agriculture industries, following the resolution of the challenges experienced at major mines and timely supply of agricultural inputs, as well as provision of agricultural support services.

5.2.2 Budget Performance

Over the medium term, revenues and grants are projected to reach a total of K490.9 billion while Government projects to spend a total of K629.5 billion, leaving a total budget deficit of K138.6 billion. (refer to table 3).

Table 3: Projected revenues and expenditures, 2024-2026

	Projected Revenue (ZMW' billion)	Projected Expenditure (ZMW' billion)	Estimated Financing need (ZMW' billion)	% change
2024	144.5	177.9	33.4	-38
2025	177.7	215.8	38.2	14
2026	197.7	237.5	39.8	4

Source: Ministry of Finance and National Planning

5.2.3 Monetary, Financial and External Sectors

Inflation projection in the medium-term remains above the target range but is expected to reduce towards the desired range of 6-8 percent.

Through the Central Bank, Government will over the medium term, pursue policies aimed at maintaining price and financial system stability and implement a forward-looking monetary policy framework. Government will also diversify the export base to increase export earnings, build gross international reserves and reduce volatility in the exchange rate.

5.3 Description and Evaluation of Alternative Debt Management Strategies

To guide future borrowings, four alternative financing strategies were identified, namely: status quo, more of domestic financing, more of external financing and domestic debt refinancing. The strategies were assessed and analyzed with the view of meeting Government's financing requirements at least possible cost with a prudent degree of risk[3]. The strategies mostly focused on gradually varying a mix of domestic and external debt proportions in financing the budget gap and rolling over maturities in the medium term, see table 4.

Table 4: Alternative financing strategy and cost and risk analysis

Strategy	Assumptions of strategy	Cost & Risk analysis
Strategy 1: Status quo	• The strategy maintains the 2024 budgeted financing proportions of 49 percent domestic and 51 percent external financing of the annual budget deficit throughout the strategy period. • Continued access to only concessional external financing in line with IMF programme requirements • A mix of 70:30 issuances of short to longer dated domestic instruments.	• This strategy has the highest debt maturing in 1 year and the lowest ATM, resulting in high refinancing risk. The FX risk and cost are also undesirable. • The strategy yields the best outcome for interest rate risk due to the low ATR and fixed debt as a percentage of total.
Strategy 2 (S2): More of Domestic Financing	• An increase in the proportion of domestic to external financing, from the 49:51 assumed in the 2024 budget to 55:45 by 2026	• This Strategy yields the highest PV of debt as a percentage of GDP, and interest rate as a percentage of GDP.

3 The analysis was conducted using the International Monetary Fund (IMF) Medium Term Debt Strategy (MTDS) Analytical Tool

	• Continued access to only concessional external financing. • A 50:50 proportion in new issuances of short to longer-dated domestic instruments	• The strategy has the highest debt re-fixing in 1 year. • Owing to the increase in the proportion of domestic debt, this strategy yields the lowest FX exposure.
Strategy 3 (S3): More of External Financing	• Increased concessional external financing from the 51 percent as per 2024 budget to 60 percent in 2025 and 2026. • From the external sources, the strategy broadens concessional financing from multilateral creditors to also include bilateral creditors. • 68:32 proportion in new issuances of short to longer-dated domestic instruments	• The Strategy yields a moderate tradeoff between cost and risk for all indicators. • The strategy provides the highest ATM on the domestic portfolio
Strategy 4 (S4): Refinancing of Domestic Debt	• Aggressive reduction in net domestic financing from the current mix of 49:51 in the 2024 budget to 0:100 in 2025 and 10:90 in 2026. • Maximize external concessional financing from both bilateral and multilateral sources. • Attain a 65:35 proportion in new issuances of short to longer-dated domestic instruments	• This strategy yields the least cost and the least refinancing risk. • It also yields a moderate interest rate risk. • However, it yields the highest FX risk.

Source: Ministry of Finance and National Planning

The strategies are characterized by different cost and risk structure on the basis of contracting currency, maturity profiles and interest rate type. Table 5 presents the cost and risk indicators for each of the alternative strategies

Table 5: Cost and Risk Indicators of the Alternative Strategies 2024-2026

	2023	As at end 2026			
	Current	S1	S2	S3	S4
Nominal debt as percent of GDP	106.6	92.9	92.9	92.4	91.9
Interest payment as percent of GDP	6.6	4.7	4.8	4.4	4.0
Implied interest rate (percent)	6.2	5.1	5.3	4.7	4.1
Debt maturing in 1yr (percent of total)	13.4	9.2	8.8	7.5	4.4
Debt maturing in 1yr (% of GDP)	15.2	8.6	8.2	7.0	4.0
ATM External Portfolio (years)	11.8	14.4	14.2	15.1	15.2
ATM Domestic Portfolio (years)	4.3	4.3	4.6	4.2	4.6
ATM Total Portfolio (years)	9.1	12.0	11.5	12.6	13.6
ATR (years)	8.1	8.6	8.6	9.8	10.5
Debt refixing in 1yr (percent of total)	22.3	33.2	30.2	28.1	26.8
Fixed rate debt incl T-bills (percent of total)	90.7	75.8	78.4	79.2	77.4

T-bills (percent of total)	7.0	5.3	3.8	2.9	0.7
FX debt as % of total	62.0	75.8	72.1	77.5	85.3
ST FX debt as % of reserves	20.1	8.8	8.8	8.8	8.8

5.3.1 Debt Composition Mix of Alternative Strategies

The strategies above will result in the debt composition mix of domestic-external as shown in the table below: Each strategy has been assigned a risk rating of the resulting exposure to FX shocks.

Table 6: Composition mix and resulting FX exposure

In percent of Total	**FY2023**	**As at end FY2026**			
Outstanding by instrument	Current	S1	S2	S3	S4
External (%)	65.4%	77.9%	74.4%	79.5%	86.8%
Domestic (%)	34.6%	22.1%	25.6%	20.5%	13.2%
Exposure to FX shock		High risk	Moderate risk	High risk	High risk

5.4 Selection of Strategy for Implementation

The analysis indicates that Strategy 1 provides the lowest re-fixing risk but has the highest refinancing risk. Strategy 2 has the highest cost and re-fixing risk however provides the lowest FX risk. Strategy 3 provides a moderate level of risk across all categories as risk exposure is not too concentrated in one indicator. Strategy 4 assumes the least cost and refinancing exposure, however provides in the highest FX risk. In addition, factoring in the estimated financing gap outlined in the MTEF approximated at US $1.49 billion in 2025, the proposal of 0:100 domestic to external financing under Strategy 4 may not be feasible or desirable.

Therefore, Strategy 3 is the optimal strategy selected as it results in a lower cost from the status quo and provides moderate risk exposure. The strategy aims to achieve a net financing mix of 60 percent from external sources and 40 percent from the domestic market in the medium term. This is from the current 51:49 external to domestic issuances in the 2024 budget to 60:40 mix by end 2025.

The strategy will optimize the use of concessional financing with zero ceiling on commercial borrowing, thereby reducing the cost of debt but increasing FX exposure. In the domestic market, the strategy seeks to reduce refinancing risk through increased issuance of medium to long-term debt instruments. The implementation of strategy 3 will result in an improvement in the cost and risk indicators from the current status.

5.5 Guidelines for Implementation

In implementing strategy 3, Government will be guided by the following:

i. Minimize the variation between the projected and actual net financing need in the medium term;

ii. Restrict external financing to concessional financing. To increase the envelope, and provide for the increase from 51 to 60 percent external financing, bilateral concessional financing will be considered in the medium term;

iii. Enhance investor engagement through targeted outreach programmes to promote investment in Government securities and widen the investor base, with more focus on resident investors; and

iv. Develop and publish the Annual Borrowing Plan (ABP) in line with the MTDS. The ABP will highlight key information needed by investors in planning their investments in Government securities.

5.6 Risk to Implementation

i. Increase in the projected net financing need;
ii. Limited access to concessional financing from bilateral creditors;
iii. Failure to achieve the macro and fiscal objectives outlined over the strategy period;
iv. Weak revenue outturn, high variation between projected and actual revenue;
v. Underperformance of Government securities auctions; and
vi. Failure to absorb the concessional external financing from creditors during the strategy period.

5.7 Possible Intervention

i. Aptly and timely absorption of concessional financing;
ii. Increased marketing and sensitization of Government securities market to marginalized yet potential investors; and
iii. Broadening of concessional financing sources to include bilateral, plurilateral and other forms of creditors.