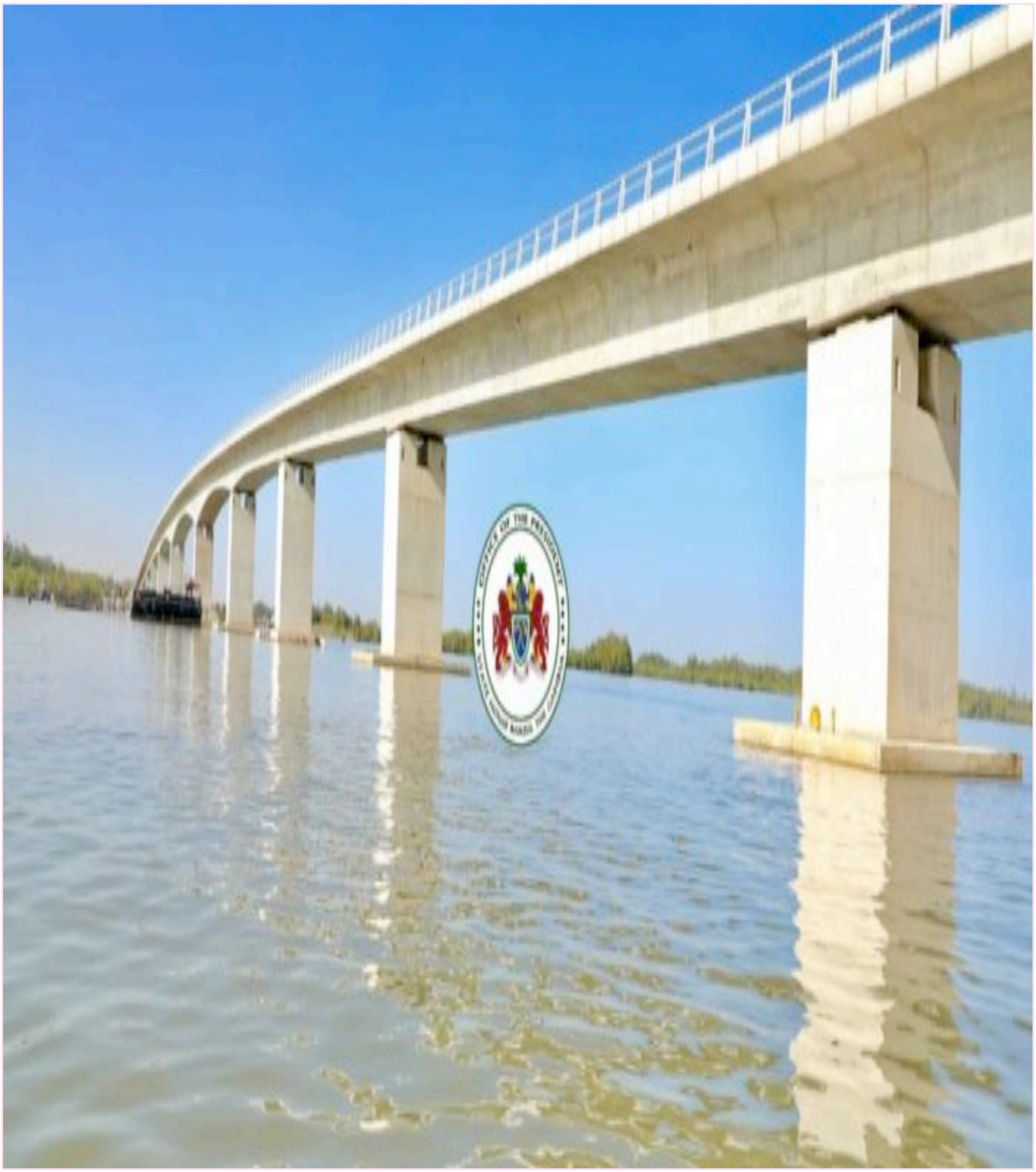
MEDIUM TERM DEBT STRATEGY

2019-2022



MOFEA-DLDM

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ACRONYMS AND ABBREVIATIONS

LIST OF CREDITORS

AfDB	African Development Bank
BADEA	Arab Bank For Economic Development in Africa
EBID	ECOWAS Bank for Investment and Development
EXIM BANK	Export Import Bank of India
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund For International Development
IMF	International Monetary Fund
KFAED	Kuwait Fund for Arab Economic Development
OFID	OPEC Fund for International Development
SFD	Saudi Fund For Development
WB	World Bank
PRC	People Republic of China
ITFC	International Islamic Trade Finance Corporation

CURRENCIES

EUR	Euro
GBP	Great Britain Pound
GMD	Gambian Dalasi
JPY	Japanese Yen
KWD	Kuwait Dinar
SAR	Saudi Arabia Riyal
SDR	Special Drawing Rights
USD	United States Dollar

OTHERS

DOD	Disbursed Outstanding Debt
GDP	Gross Domestic Product
ATM	Average Time to Maturity
ATR	Average Time to re-fixing
NAWEC	National Water and Electricity Company
NDP	National Development Plan
RCF	Rapid Credit Facility
SAS	Sukuk-Al-Salam
SOE	State Owned Enterprise
BoP	Balance of Payments
MPR	Monetary Policy Rate
MTDS	Medium Term Debt Strategy

SSHFC	Social Security and Housing Finance Corporation
PV	Present Value
FDI	Foreign Direct Investment

SECTION1: Introduction

1.1 Background

The Medium-Term Debt Management Strategy (MTDS) for the 2019-2022 horizon provides the strategic direction of Government's intent on borrowing and debt management over the medium-term to achieve the objective of ensuring that financing needs are met at the lowest possible cost and consistent with a prudent degree of risk.
In 2018, the Government was able to introduce longer dated instruments (i.e. 3-Year and 5-Year Bonds) in the domestic debt market and successfully separated domestic debt instruments from monetary policy instruments. The government also approached external creditors seeking debt restructuring and hired financial and legal advisors to assist in negotiations. Since these discussions are not yet concluded, the potential impact of restructuring is not reflected in this MTDS, but an annex presents illustrative simulations of the fiscal space that could be generated by a successful restructuring.

The review of the 2019-2022 MTDS is in fulfillment of Section vi sub-section 38 of the Public Finance Act, (2014), which requires the MTDS to take into account the following:

- Macroeconomic framework;
- Costs and risks embedded in the existing debt portfolio; and
- Market conditions;

1.2. Objectives and Scope

The overall objective of the MTDS is to provide guidance to ensure a suitable financing mix to meet the Government's financing requirement in the medium term at the lowest cost possible and prudent degree of risk. The (2019-2022) MTDS document aims at achieving specific objectives by:

- Meeting government's financing needs on a timely basis at the lowest possible cost consistent with prudent degree of risk; and
- Lengthening the maturity profile of the domestic debt by increasing the share of the longer dated domestic debt instruments in the portfolio during the medium term.

The MTDS covers public debt portfolio including debt contracted by the Central Government from external, domestic; Public and Publicly Guaranteed (PPG) debt. The time horizon covered under this strategy document is four (4) years starting from 2019 to 2022.

The remaining sections of this strategy document is structured as follows: section two evaluates the previous year's performance against its target and a review of the existing debt portfolio; Section Three presents a summary of the 2019-2022 medium term macroeconomic framework; Section Four describes and analyses the strategies; Section Five provides the cost-risk indicators of the chosen strategy and the redemption profile and Section Six concludes the document.

Section 2. 2018 Macroeconomic and Debt Performance

2.1 Macroeconomic Developments in 2018

According to the October, 2018 World Economic Outlook (WEO), global growth is projected at 3.7 percent for 2018/19. The downswing in economic activities is estimated to lower global productivity and welfare, reflecting economic vulnerabilities in the three global economic bloc-Advanced, Emerging Markets and Developing Economies.

On the domestic front, growth prospects for the Gambia have rebounded, with an improvement in economic output in 2017. Provisional estimates in 2018 revealed an impressive growth of 6.8 percent for the third quarter of the year, compared to the 2017 performance of 4.6 percent. The agricultural sector is expected to grow from negative 8.0 percent in 2017 to 4.7 percent in 2018, mainly due to an increase in agricultural projects that will boost production and productivity throughout the sector.

Inflation continued its downward trend in 2018, falling from 6.9 percent in 2017 to 6.4 percent by the end of the review year. The easing of inflationary pressures and gradual improvements in the macroeconomic fundamentals contributed towards the downward revision of the Monetary Policy Rate (MPR) by the Central Bank. The MPR was reduced to 13.5 percent from 15 percent in May 2018.

Similarly, average yearly yields on all treasury and Sukuk-Al Salaam bills declined in 2018, reflecting reduced borrowing cost in the T-bills market. The rate on the 91-Day, 182-Day and 364-Day T- bills fell from 8.0 percent, 9.61 percent and 10.96 percent to 5.01 percent, 6.41 percent and 8.85 percent respectively in the same period in 2017.

However, end year (December) yields on all treasury and Sukuk-Al Salaam bills picked up, as the rate on the 91-Day, 182-Day and 364-Day T-bills rose from 5.03 percent, 5.52 percent, and 6.73 percent in December 2017 to 5.06 percent, 7.04 percent and 9.48 percent respectively in December 2018.

The Dalasi remained relatively stable against the major trading currencies in 2018 because of improved market conditions and confidence in the economy. However, in August 2018, the Dalasi had recorded depreciation against the US Dollar and Euro by 3.6 percent, and 1.2 percent respectively over the same period.

Preliminary Balance of Payments (BoP) recorded a surplus of US$16.31 million (1.10% of GDP) in 2018 compared to US$ 41.66 million (2.8% of GDP) in 2017. This smaller surplus is mainly due to huge decline in grants. Gross International Reserves as at end December 2018 stood at US$157.14 million (sufficient to cover 3.9 months of import), compared to US$143.96 million (equivalent of 3.6 months of import cover) for the same period in 2017.

On the fiscal front, government fiscal operations as at end December 2018 resulted in an overall deficit, excluding grants of D5, 062 million (6.3 percent of GDP) compared to an overall deficit, excluding grants of D9, 277 million (19.6 percent of GDP) for the same period in 2017. This decrease in the overall deficit is because of a 27 percent increase in domestic revenue and a contraction in capital expenditure of 42 percent over the period from end December 2017 to end December 2018.

Total interest payments in 2018 amounted to D2,477 million, accounting for 23.3 percent of recurrent expenditure during the period, compared to D3,381 million (34.5 percent of recurrent expenditure) in 2017. Of the total interest cost, domestic interest payments in 2018 represents 83.1 percent of total interest payments compared to 92.9 percent in 2017. External interest payments for 2018 recorded D419.6 million compared to D241.2million in 2017, registering 74 percent increase during the period under review. Year-on-year, total interest payments declined by 26.7 percent.

The total wage bill in 2018 increased to D2, 987 million (36.9 percent of tax revenue) from D2, 234 million (31.5 percent of tax revenue) in 2017, indicating an increase of 34 percent.

The overall deficit including grants narrowed to D3, 026 million (3.8 percent of GDP) in 2018 from D3,672 million (5.3 percent of GDP) in 2017 indicating an improvement of 17.6 percent.

Total public debt as a percentage of GDP declined from 124 percent in 2017 to 89.1 percent in 2018. In nominal terms, the public debt stock stood at D67.3 billion as at end 2018 compared to D58.7 billion in 2017. The above reduction in the debt to GDP ratio is as a result of GDP rebasing.

2.2 Debt Portfolio Review

The total public and publicly guaranteed debt stock as at end 2018 stood at GMD 67.3 Billion (USD 1.36 Billion), of which external debt constitute 55 per cent and the remaining 45 per cent is the domestic debt portion. The nominal debt as percentage of GDP decreased from 124[1] per cent as at end 2017 to 89.1 per cent as at end period 2018.

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[1] The figures quoted for 2017 are from the 2018-2021 MTDS Document available at MoFEA Website on www.mofea.gov.gm.

Present value (PV) of debt to GDP also decreased from 106 per cent in 2017 to 76.1 per cent in 2018. The reduction in the aforementioned ratios are as a result of the recent GDP rebasing.
The rise in the total public and publicly quaranteed debt stock results mainly from the increased in guarantees to the State Owned Enterprises and fiscal slipages still remains a key concern for the government.

External Debt Stock

Table 1: External debt by creditor category

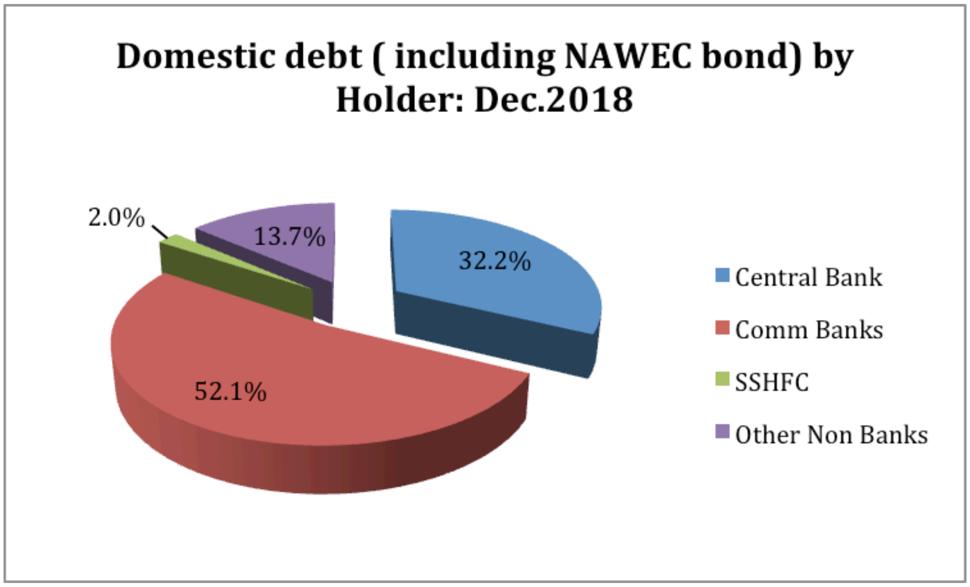
END 2018		
External Debt By Creditor Category	DOD IN USD	DOD IN GMD
Multilateral Creditors	512,193,924.55	23,821,430,237.27
Bilateral Creditors	243,693,520.76	12,053,081,536.86
	755,887,445.31	**37,386,193,045.0**

The total external debt stock as at end 2018 stood at USD 756 Million equivalent to GMD 37.39 Billion representing 54.5 per cent of the total debt portfolio. Year-on-year basis, the total external debt stock increased from USD 638.5 million in 2017 to USD 756 Million in 2018 representing 18 per cent increment.

Domestic Debt Stock

The stock of domestic debt included in the MTDS analysis amounted to D29.9 billion (US$ 606.4 million) as at end 2018, accounting for 45.5 percent of total public debt and 39.6 percent of GDP. Domestic debt is composed of marketable debt and non-marketable debt.

Figure 1: Domestic Debt by Institution



Source: Central Bank of Gambia

Holders of Government domestic debt as at end 2018 comprised of Central Bank, commercial banks, SSHFC and other non-banks.

Commercial Banks hold 52.1 percent of the domestic debt portfolio at end 2018. The Central Bank holds 32.2 percent of domestic debt, while the non-bank holds 13.7 percent and SSHFC holds 2.0 percent.

Cost and Risk Analysis of the Existing Debt Portfolio.

As at end 2018, the total public and publicly guaranteed debt portfolio has a weighted average interest rate of 3.8 percent.
The weighted average interest rate for external was 1.5 percent reflecting a mix of debt contracted on concessional and semi concessional terms.

The weighted average interest rate for domestic was 6.8 percent. Interest rates over the past year have been declining due to extensive inflows in the form of budget support.

The average time to maturity for the entire public and publicly guaranteed debt has decreased from 8.23 years in 2017 to 7.6 years as at end 2018. The average time to maturity for the External portfolio declined from 10.5 years in 2017 to 9.6 years in 2018, due to the inclusion of the International Islamic Trade Finance Corporation (ITFC) trade facility and other guarantees, which are very short term in nature.

The domestic debt portfolio, including non-marketable debt, has an ATM of 5.2 years. The share of total domestic debt maturing in a year was 55.8 percent, explained by the significant proportion of shorter-dated instruments in the portfolio.

Interest rate risk is moderate for both external and domestic debt. The PPG debt denominated in fixed interest rate accounts for a large proportion of external debt. About 11.6 percent of external debt will be re-fixed within one year due to the relatively small proportion of variable-rated external debt. For domestic debt, the weighted Average Time to Re-fixing (ATR) is 5.2 years with 55.8 percent of the portfolio to be re-fixed within a year. See Table 2 below.

More than half of the total public and publicly guaranteed debt portfolio (55 percent) is exposed to exchange rate risk. The main exposure of the external debt portfolio is to the USD.

Table 2:Cost and Risk Indicators of Existing Debt

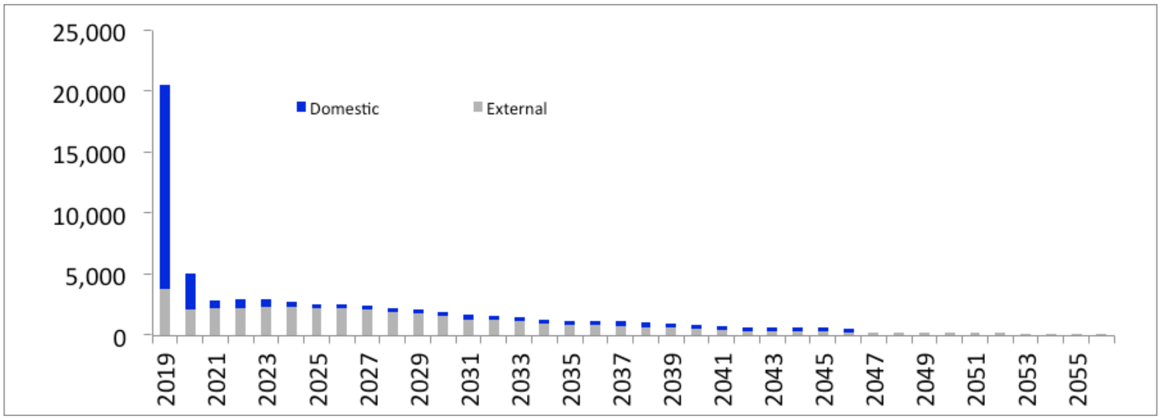
Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of GMD)		37,396.0	29,990.3	67,386.3
Amount (in millions of USD)		756.1	606.4	1,362.4
Nominal debt as % GDP		49.4	39.6	89.1
PV as % of GDP		36.4	39.6	76.1
Cost of debt	Interest payment as % GDP	0.7	2.7	3.4
	Weighted Av. IR (%)	1.5	6.8	3.8
Refinancing risk	ATM (years)	9.6	5.2	7.6
	Debt maturing in 1yr (% of total)	10.0	55.8	30.4
	Debt maturing in 1yr (% of GDP)	4.9	22.1	27.1
Interest rate risk	ATR (years)	9.5	5.2	7.6
	Debt refixing in 1yr (% of total)	11.6	55.8	31.3
	Fixed rate debt (% of total)	98.2	100.0	99.0
FX risk	FX debt (% of total debt)			55.5
	ST FX debt (% of reserves)			41.8

Source: MOFEA

Redemption Profile of the Public Debt Portfolio

The redemption profile of the total public and publicly guaranteed debt portfolio shows a high concentration of domestic debt maturing within a year due to the shorter-dated instruments. The redemption profile of external debt is relatively smooth with an ATM of 9.6 years. This reflects a moderately low refinancing risk supported by a large proportion of concessional loans from multilateral and bilateral creditors. Figure 2 shows the repayment profile of existing debt portfolio for external and domestic debt.

Figure 2:Redemption Profile of Existing Debt as at end December 2018



Source: MOFEA

2.3 Performance Review of 2018 MTDS

In recent past, the MTDS review has consistently and progressively recommended the introduction of longer-dated domestic debt instruments due to the high refinancing risk associated with the portfolio. In 2018, the 3-Year and 5-Year bonds were introduced thus reducing the refinancing risk and smoothened a bit the redemption profile.

Section 3: Medium Term Macroeconomic Framework 2019-2022

General Macroeconomic Assumptions

1. Restored Business Confidence
2. Trans-Gambia Bridge to expand regional trade
3. Tourism Sector rebound, boosting both domestic excise and VAT
4. Construction activity boom from the emergence of new projects like the infrastructure for the upcoming OIC
5. Improved availability of foreign currency and policy stability, aided by increased FDI and downward trending lending rates through reduced policy rate.

3.1 Baseline Macroeconomic Assumptions

The following key macroeconomic objectives as also highlighted in the 2019 Budget underpin the 2019-2022 MTDS:

- Fiscal consolidation;
- Restoring business confidence;

The underlining macroeconomic assumption that feeds into the strategy is taken from the current macro framework projections. Key macroeconomic assumptions are highlighted in Table 3.

Table 3: Baseline Macroeconomic Assumptions

GMD million	2018**	2019*	2020*	2021*	2022*
Revenues and grants	19,844.90	25,284.25	17,614.00	19,003	20,510
Total primary expenditures	16,188.51	26,123.26	17,556	18,802	20,000
Total expenditures	18,477.67	28,825.90	20,197	21,455	22,641
Total interest expenditure	2,289.16	2,702.64	2,641	2,653	2,641
International reserves (USD million)	180.00	200.00	224.10	252.20	268.20
GDP	75,668.05	87,662.00	97,482.00	108,018.00	118,306.00

Note: ** Actual * All numbers are projections
Source: MOFEA

Fiscal Policy

The government is committed to continue its fiscal consolidation while engaging its development partners to support its effort. The fiscal gap is expected to improve over time due to fiscal consolidation and the effective and efficient revenue mobilization through the broadening of our tax base. In this vein, the percentage of revenue to GDP is expected to increase from 15.05% to 21% in the medium term. This would enhance the reduction of the net domestic borrowing as percentage of GDP from 3.3 per cent as at end 2018, whilst striving to achieve a 1.41 per cent by end 2019. Beyond 2019, the government will commit to a 1.0 percent and 0.5 percent in the medium term. The overall fiscal deficit as percentage of GDP is expected to reduce from 9.8% to 3.0%. This would be triggered by the heavy investment in the real sector especially the agricultural sector and some part of services sector such as construction, hotels and restaurants.

Real Sector

The nominal GDP is projected to increase on average by 9 per cent in the medium term mainly driven by the implementation of the priority areas of National Development Plan. Growth during the period is anchored on general macroeconomic assumptions- such as restored business confidence, fueling economic activities, rebound in tourism and construction sectors, improved availability of foreign currency and stability of the GMD against major trading currencies. In addition, increased FDI inflows coupled with downward trending interest and lending rates will spur growth.

Monetary Policy

Prudent monetary policy supported by well-functioning transmission channels coupled with fiscal consolidation is expected to contain inflation and stabilize exchange rates. Inflation is targeted at 5% from the end December 2018 6.4% while the dalasi is expected to remain stable.

3.2 Financing Sources [2]

External Sources

The government of the Gambia will continue tapping funds from its usual multilateral creditors namely; IDB, IDA, AfDB, BADEA, and OFID given their favorable borrowing terms. However, the amount by which the Government can borrow from these creditors depends on a number of factors including the availability of funds in their concessional windows. Government will also continue to pursue its bilateral creditors with more favorable terms like Saudi Fund for Development (SFD), Kuwaiti Fund for Arab Economic Development (KFAED), and Peoples' Republic of China (PRC) in financing its medium-term development priorities.

The government will equally pursue its traditional donors to give the new government a breeding space through rescheduling of debt service payments to restore debt sustainability. So far, government has succeeded in securing a deferral in principal re-payments from Saudi Fund for Development (SFD) in an effort to reduce the excessive pressure of debt service payment on the budget. This rescheduling enables the government to continue funding its existing and pipeline development projects that support economic growth and development.

Domestic Sources

The 2019 Budget projects a Net Domestic Borrowing (NDB) of (1.41 percent of GDP) GMD 1.2 billion for 2019. Domestic financing is expected to be raised mainly from marketable debt issuances. Government intends to continue lengthening the maturity profile by issuing more longer-dated bonds. In addition, government will employ a blend of marketable instruments including treasury bills and bonds.

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[2] The existing domestic debt instruments are; T-Bills, Sukuk-Al Salam, 3-Year Government Bond, 5-year Government Bond, 7-Year NAWEC Bond and 30-Year Government Bond.

Section 4. Description and Analysis of Strategies

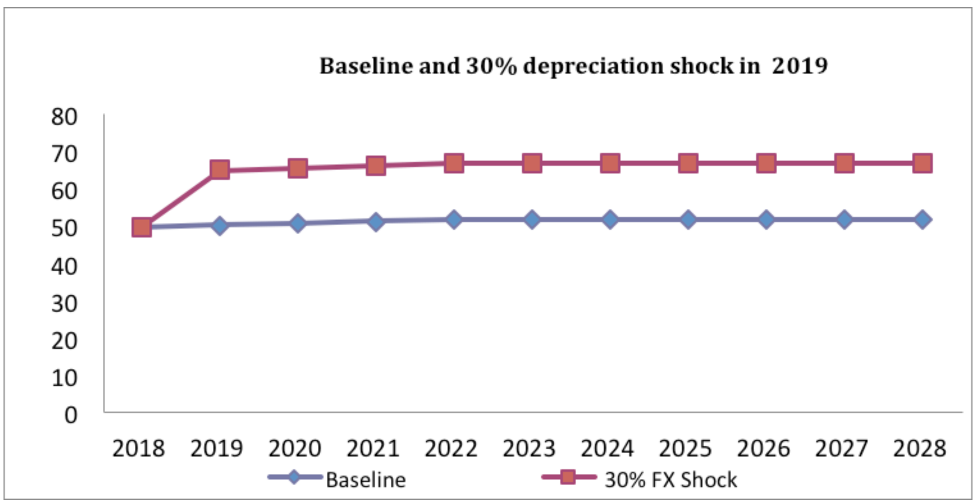
4.1 Baseline Pricing Assumption and description of Shock Scenario

For the purpose of this analysis, three typical shocks stemming from exchange rate, interest rates and a combination of both are considered. It is assumed that shocks materialize from 2019 to 2020.

Exchange Rate Shock Scenario

Under this shock scenario, the Gambian Dalasi is presumed to depreciate against the US Dollar by 30 percent in 2019.

Figure 3: Baseline Exchange Rate Projections and Shock



Source: MoFEA

Interest Rate Shock Scenario

In this scenario, interest rates on domestic T-bills & 1-year notes are shocked by 1.5 basis points, whereas rates on the 3-year & 5-year bonds are shocked by 1 and 0 basis points, respectively.

Combined Exchange Rate & Interest Rate Shock

The third shock scenario is a combination of the two previous scenarios. It assumes a 15 percent depreciation of the Gambian Dalasi against the Dollar in 2019, combined with an increase in the baseline interest rates by half (50 percent) of the interest rate shocks described above.

4.2 Description and Analysis of Alternative Strategies

Four strategies are formulated and analyzed, all of which reflects key policy choices. All four strategies assume access to concessional financing as provided in the budget estimate and consistent with the macroeconomic framework and reflect key policy choices. Three strategies are intended to illustrate the costs and risks of alternative approaches to the baseline status quo.

In relation to external financing, concessional loans from bilateral and multilateral lenders are expected to be realized as planned. Details of the various strategies are outlined as follows:

Strategy One: S1; in line with the 2019 Budget (Baseline status quo)

S1 reflects the baseline and seeks to mimic the current financing strategy of Government and proposes the issuances of T-bills and 3-5 Year bonds in 2019. S1 is generally based on current market conditions and performance of issuances in 2018, and thus, is heavily reflective of the capacity of the domestic market to accommodate the financing requirement and to make available the projected funds.

Strategy Two (S2; Domestic Restructuring)

S2 is more reliant on domestic financing from medium and long-term bonds. S2 mimics S1 in 2019 but includes the assumption of increased issuances of longer-dated instruments (3-Year and 5-Year) in the domestic market.

S2 poses the least exposure to foreign exchange risk as it is largely focused on long-term domestic funding. The success of S2 is therefore highly dependent on vigorous engagement and coordination with market players, particularly pension funds and corporate resident investors in the domestic market, to increase participation in the longer end of the curve and reduce the risk of refinancing. Addressing the interest rate gap between T-bills and bonds to increase demand will also be key.

Strategy 3 (S3: Domestic T-bills)

S3 envisions the issuance of more short-dated securities (91-Day and 182-Day T-Bills and 1-Year Notes), with minimal net issuances in relatively longer-dated instruments with maturities of more than 3 years over the strategy period.

S3 aggressively targets the shorter end of the curve, in pessimistic anticipation of the event where the planned issue of longer-dated instruments does not materialize. Consequently, S3 is certain to pose the highest refinancing and interest rate risks to Government if macroeconomic fundamentals do not improve drastically.

Strategy Four (S4: maximizing external concessional financing and restructuring the domestic debt)

S4 largely mimics S2 in 2019 with increased issuances in the longer-term bonds thereby minimizing interest rate and refinancing risks of the portfolios. S4 is largely hinged on the assumption of increased external concessional financing, it offers a relatively less costly financing option with the lowest implied interest rate compared to all other strategies.

S4 however poses the biggest foreign exchange rate risk and is highly susceptible to conditions with bilateral and multilateral creditors.

Analysis of Results

Details of the costs and risks indicators of the various strategies are also provided in

Table 4: Cost Risk Indicators of the various Strategies

Risk Indicators		Current	S1	S2	S3	S4
Nominal debt as % of GDP		89.1	70.0	70.0	69.7	70.0
Present value debt as % of GDP		76.1	59.0	59.0	58.8	58.7
Interest payment as % of GDP		3.4	3.4	3.5	3.3	3.5
Implied interest rate (%)		3.8	5.2	5.3	4.9	5.2
Refinancing risk	Debt maturing in 1yr (% of total)	30.4	19.7	14.3	34.7	14.3
	Debt maturing in 1yr (% of GDP)	27.1	13.8	10.0	24.2	10.0
	ATM External Portfolio (years)	9.6	11.2	11.2	11.2	11.4
	ATM Domestic Portfolio (years)	5.2	4.9	6.1	3.4	6.1
	ATM Total Portfolio (years)	7.6	9.2	9.8	7.9	10.0
Interest rate risk	ATR (years)	7.6	9.2	9.8	7.8	9.9
	Debt refixing in 1yr (% of total)	31.3	20.1	14.7	35.2	14.7
	Fixed rate debt (% of total)	99.0	99.5	99.5	99.5	99.5
FX risk	FX debt as % of total	55.5	58.1	58.5	58.0	58.4
	ST FX debt as % of reserves	41.8	17.1	17.1	17.1	17.1

Source: MoFEA

Section 5: Cost and Risk of the Preferred Strategy

5.1. Selection of Strategy

Based on the cost-risk analysis of alternative strategies as shown in Table 4 above, the share of debt maturing in one year as a percentage of total public and publicly guaranteed debt is expected to improve from 30.4% as at end 2018 to 14.3% as at end 2022 for S4. In addition, the proportion of debt subject to interest rate re-fixing within 1 year as a percentage of total public and publicly guaranteed debt will nearly half from 31.3% in 2018 to 14.7% as at end 2022.

Redemption profiles provide additional information on refinancing risks. Similar to the current situation, S1and S3 show a significant concentration of domestic maturities in the short end. S2 and S4 are successful in reducing the refinancing risk through restructuring towards longer-term domestic instruments. For S4, the distribution of the projected redemption profile would improve significantly compared to the existing redemption profile as at end 2018 (see Figure 1) through the extension of maturities in the domestic debt market. This is expected to help mitigate the refinancing risk associated with the existing debt portfolio from 30.4 per cent to about 14 per cent of the total public and publicly guaranteed debt maturing in one year, by the end of the strategy period. Given the constrained options available, S4 is chosen as the most preferred and feasible strategy to be implemented over the medium term.

Table 5: Cost Risk Indicators of the Strategy

Risk Indicators		2018	As at end 2022
		Current	S4
Nominal debt as % of GDP		89.1	70.0
Present value debt as % of GDP		76.1	58.7
Interest payment as % of GDP		3.4	3.5
Implied interest rate (%)		3.8	5.2
Refinancing risk	Debt maturing in 1yr (% of total)	30.4	14.3
	Debt maturing in 1yr (% of GDP)	27.1	10.0
	ATM External Portfolio (years)	9.6	11.4
	ATM Domestic Portfolio (years)	5.2	6.1
	ATM Total Portfolio (years)	7.6	10.0
Interest rate risk	ATR (years)	7.6	9.9
	Debt refixing in 1yr (% of total)	31.3	14.7
	Fixed rate debt (% of total)	99.0	99.5
FX risk	FX debt as % of total	55.5	58.4
	ST FX debt as % of reserves	41.8	17.1

Source:MOFEA

Figure 4: The Projected Redemption profile of the Strategy

Source:MOFEA

5.2 Financing Strategy

The chosen strategy is in line with the debt management objectives of borrowing at minimum cost, subject to a prudent degree of risk.

The Strategy broadly aims to restructure the domestic debt and the desire to reduce cost of borrowing specifically by:

- Maximizing external concessional financing in order to reduce borrowing cost.
- Continuing the issuance of the 3-and 5-year bonds to develop and deepen the domestic debt market.
- Extending the maturity of domestic debt by substituting a greater proportion of the short-term debt with longer-term debt, thereby minimize refinancing risks of the portfolio.

The Strategy envisages an increased issuance of medium-term bonds (especially 3 and 5-year bonds) in the domestic bond market over the strategy period. It also assumes the issuances of these bond will extend the yield curve. Through this, the Strategy seeks to diversify the instrument base and provide suitable options with which institutions like the pension and insurance companies can match their assets to their liabilities.

The preferred Strategy projects the most significant improvement in cost and risk indicators by the end of the period, especially in respect of the share of total debt maturing in a year, ATM of domestic debt and share of debt re-fixing in a year.

Section 6. Conclusion

The MTDS for the period 2019-2022 represents a robust framework for prudent debt management, as it provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the 2019 budget. The cost-risk trade-off of alternative borrowing strategies under the MTDS has been evaluated within a medium term context and has used the Net Domestic Borrowing (NDB) targets agreed with IMF as its anchor in the medium term.

The MTDS complements the debt sustainability framework which is concerned with long-term debt sustainability. While current level of public debt is unsustainable, long-term debt sustainability depends on a number of factors including real GDP growth, sound macroeconomic policy mix and prudent debt management.

The MTDS, having considered domestic market environment and related vulnerabilities, recommends a shift in the composition of short term domestic debt towards long term domestic debt.

Overall, Government would continue consolidating on the gains registered in deepening and developing the domestic debt market and at the same time, maximizing concessional external financing over the medium term.

Annex: Potential Impact of External Debt Restructuring

In 2018, over 40 % of the domestic revenue generated in the Gambia goes to servicing debt which ultimately constraint governments fiscal space. As a result of this high debt service cost, the government engaged its external partners, including bilateral, plurilateral and private creditors on the need to restructure its external debt. The aim of the restructuring is to give fiscal space to the Government in the medium term for a smooth execution of the National Development Plan and subsequently bring back debt to a sustainable path. The government has appointed Potomac Group as international financial advisor, working with Orrick, Herrington & Sutcliffe as international legal advisor, to assist with the development of and implementation of a strategy to put the country's external debt on a sustainable path.[3]

This Debt Restructuring would in principle bring The Gambia's public debt profile below the debt distress thresholds expressed in the IMF's April 2019 debt sustainability analysis (DSA).

Restructuring Terms and Assumptions;

The government requested a five-year deferral of both principal and interest payments from 2019 through 2023.

From the initial engagements, positive feedback was received from some creditors, including Saudi Fund For Development, ECOWAS Bank for Investment and Development, Arab Bank for Economic Development in Africa. However, other creditors initially indicated that they did not wish to restructure their debt. As such, the restructuring scenario discussed below assumes that creditors representing only around two-thirds of eligible claims agree to the proposed 5-Years deferral of the principal, while interest payments are assumed not to be included. In fact, in this scenario the expected cost of external interest is expected to increase over the five-year period, reflecting the larger balance of debt outstanding. The outcome of a restructuring under these assumptions is presented in Table A1.

[3] See Press Release LDM 342/459/02 Part (ED), available at: http://www.mofea.gm/downloads-file/international-legal-advisors

Table A1: Potential Impact of Debt Restructuring (Conservative Scenario)
(amounts in US$ millions unless otherwise stated)

	2019	2020	2021	2022	2023	Total
External Principal Payments (before restructuring)	68.5	36.3	37.7	41.5	41.4	**225.5**
External Principal Payments (after restructuring)	49.5	15.9	15.0	19.5	19.6	**119.5**
Potential Fiscal Space generated	19.0	20.4	22.7	22.0	21.8	**106.0**
Potential Fiscal Space in GMD millions	948.6	1050.8	1205.2	1202.4	1229.5	**5636.5**
External Interest Payments (before restructuring)	10.7	9.9	9.1	8.5	6.3	**44.5**
External Interest Payments (after restructuring)	10.7	10.8	10.4	10.0	7.9	**49.8**
Potential External Interest Saving (Cost) generated	0.0	(0.9)	(1.3)	(1.5)	(1.7)	**(5.4)**
Potential External Interest Saving (Cost) in GMD millions	0.0	(45.8)	(70.6)	(81.5)	(92.9)	**(290.8)**
Net Fiscal Space generated	19.0	19.6	21.4	20.5	20.2	**100.6**
Net Fiscal Space generated in GMD millions	948.6	1005.1	1134.6	1120.8	1136.5	**5345.7**
memo: Exchange Rate assumptions (from MTEFF)	*49.9*	*51.4*	*53.1*	*54.6*	*56.3*	

From the above restructuring scenario in table A1, it is estimated that there would be a potential saving on principal payments of GMD 5.6 Billion (USD 106 Million) over the 5 years restructuring period from 2019 to 2023. This reflects the potential fiscal space from the debt restructuring. However, external interest payment over the same period would increase by GMD 290.8 Million (USD 5.4 Million) reflecting the cost of restructuring, due to the larger balance of external debt that would remain outstanding over 2019–2023.

The net fiscal space expected from the debt restructuring would therefore amount to GMD 5.3 Billion (USD 101 million). In addition, if this fiscal space were used to reduce domestic debt, substantial further savings on domestic interest would be generated.

More recently, at a roundtable event in Washington DC in April 2019, many creditors, notably including members of the Arab Co-ordination Group, pledged to support the efforts of the Government in restructuring the debt. Bilateral discussions with these creditors are continuing, supported by the advisors.

To reflect the possible upside potential from a stronger participation in the restructuring, Table A2 presents a scenario with full participation by eligible creditors, including a deferral for both Principal and Interest. In this more optimistic scenario, the resulting fiscal space would improve from GMD 5.3 Billion to about GMD 9.6 Billion Dalasis equivalent to USD 180 Million i.e. (GMD 8.2 Billion savings on Principal payments plus GMD 1.4 Billion savings on interest payments). As in the more conservative scenario, above, there would be additional savings on domestic interest if the proceeds from the external restructuring were used (in part) to repay domestic debt.

Table A2: Potential Impact of Debt Restructuring (Favorable Scenario)
(amounts in US$ millions unless otherwise stated)

	2019	**2020**	**2021**	**2022**	**2023**	**Total**
External Principal Payments (before restructuring)	68.5	36.3	37.7	41.5	41.4	**225.5**
External Interest Payments (after restructuring)	40.2	5.8	6.5	9.3	9.3	**71.1**
Potential Fiscal Space generated	28.4	30.5	31.2	32.2	32.1	**154.4**
Potential Fiscal Space in GMD millions	1415.4	1567.3	1658.6	1760.8	1807.6	**8209.7**
External Interest Payments (before restructuring)	10.7	9.9	9.1	8.5	6.3	**44.5**
External Interest Payments (after restructuring)	5.0	4.0	3.9	3.8	2.0	**18.7**
Potential External Interest Saving (Cost) generated	5.7	5.8	5.2	4.7	4.3	**25.8**
Potential External Interest Saving (Cost) in GMD millions	285.9	300.7	275.9	258.5	239.9	**1360.8**
Net Fiscal Space generated	34.1	36.3	36.4	37.0	36.4	**180.2**
Net Fiscal Space generated in GMD millions	1701.3	1868.0	1934.4	2019.2	2047.6	**9570.5**
memo: Exchange Rate assumptions (from MTEFF)	*49.9*	*51.4*	*53.1*	*54.6*	*56.3*	