

MEDIUM-TERM DEBT MANAGEMENT STRATEGY (2022-2026)

SEPTEMBER 2022

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS	Error! Bookmark not defined.
EXECUTIVE SUMMARY	Error! Bookmark not defined.
1 OVERVIEW	6
1.1 Debt Management Objective.....	6
1.2 Performance Review of the 2021-2025 MTDS.....	6
2 MACROECONOMIC PERFORMANCE, MEDIUM -TERM OUTLOOK AND KEY RISKS... 7	
2.1 Baseline Assumptions	8
2.1.1 Fiscal Sector	9
2.1.2 Real Sector	10
2.2 Fiscal Forecast.....	10
2.3 External Sector	12
2.4 Monetary Sector	12
2.4.1 Inflation	12
2.4.2 Exchange rates.....	13
3 EXISTING DEBT PORTFOLIO - 2021	14
3.1 Composition of Central Government Debt Portfolio	14
3.1.1 Total Public Debt	14
3.1.2 Domestic Debt.....	14
3.1.2 External Debt.....	15
3.2 Risk Analysis of the Debt Portfolio	15
3.2.1 Interest Rate Risk	15
3.2.2 Refinancing /Rollover Risk.....	16
3.2.3 Foreign Exchange Risk	16
3.3 Redemption Profile	17
4 MEDIUM-TERM DEBT MANAGEMENT STRATEGY.....	18
4.1 Targets and Ranges for Key Risk Indicators.....	18
4.2 Assumptions and Potential Financing Sources	19
4.3 Alternative Strategies	19
3.1.3 Strategy 1 (S1).....	19
3.1.4 Strategy 2 (S2).....	20
3.1.5 Strategy 3 (S3).....	20
3.1.6 Strategy 4 (S4).....	20
4.4 Baseline Scenario	20
4.4.1 Shock Scenarios	21
4.5 Cost Risk Analysis under Different Strategies.....	21
4.6 Selected Strategy	23
5 BORROWING PLAN	25

List of Tables

List of Figures

Figure 2: Composition of Total Public Debt.....	14
Figure 3: Domestic Debt by Instrument Type	14
Figure 4: External Debt by Creditor Category.....	15
Figure 5: Redemption Profile as at end-2021 (in millions of GMD).....	17
Figure 6: Cost-Risk Indicators	23

ACRONYMS AND ABBREVIATIONS

LIST OF CREDITORS

ADFD	Abu Dhabi Fund for Development
AfDB	African Development Bank
BADEA	Arab Bank for Economic Development in Africa
EBID	ECOWAS Bank for International Development
EIBI	Export Import Bank of India
EIBC	Export Import Bank of China
IDA	International Development Association
IsDB	Islamic Development Bank
IFAD	International Fund for Agricultural 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

CURRENCIES

CNY	Chinese Yuan
EUR	Euro
GBP	Great Britain Pound Sterling
GMD	Gambian Dalasi
JPY	Japanese Yen
KWD	Kuwait Dinar
SAR	Saudi Arabia Riyal
USD	United States Dollar

OTHERS

BoP	Balance of Payment
CBG	Central Bank of the Gambia
DLDM	Directorate of Loans and Debt Management
DOD	Disbursed Outstanding Debt
DSA	Debt Sustainability Analysis
DMBs	Deposit Money Banks
ECF	Extended Credit Facility
GBoS	Gambia Bureau of Statistics
GDP	Gross Domestic Product
GRA	Gambia Revenue Authority
GSRB	Gambia Strategy Review Board
MTDS	Medium Term Debt Strategy
MTEFF	Medium Term Economic Fiscal Framework
MoFEA	Ministry of Finance and Economic Affairs
NAWEC	National Water and Electricity Company
NDP	National Development Plan
NDB/NDP	Net Domestic Borrowing/Net Domestic Financing
RCF	Rapid Credit Facility
SAS	Sukuk-Al-Salam
SOE	State Owned Enterprise
SSHFC	Social Security and Housing Finance Corporation

EXECUTIVE SUMMARY

The Public Finance Act (PFA), enacted in June 2014, provides the framework for effective debt management, which involves establishing and executing a strategy for managing public sector debt. The Medium-Term Debt Management Strategy (MTDS) is a plan to achieve the desired debt portfolio consistent with the debt management objectives. It ensures that the Government's funding needs are met with due consideration of its cost and risk objectives. The MTDS, among other considerations, highlights a preferred strategy that can be used over the medium-term (2022-2026).

The Gambia's economy went through a turbulent period between 2019 and 2021, with its effects being felt across all sectors. The COVID 19 pandemic significantly pushed growth levels down from 6.2 percent in 2019 to 0.6 percent in 2020; however, signs of recovery started to emerge as the economy grew by 4.3 percent in 2021, led by robust construction activity and record-high remittances (US\$777 million in 2021 compared to US\$590 million in 2020).

At the end of 2021, the total Central Government public and publicly guaranteed (PPG) debt is estimated to be \$1.67 billion, of which external debt amounts to \$981.10 million and domestic debt \$693.4 million.

With regard to risks in the existing portfolio, the interest rate is subject to moderate risk, given the current upward movement of interest rates on the international markets. The Average Time to Re-Fixing (ATR) of the total portfolio is 6.7 years, of which 27.6 percent is subject to a change in interest rates in one year. The risk resides predominantly in the domestic portfolio, given that 54.94 percent of the debt is subject to re-fixing in one year, namely treasury bills. Variable rate debt accounts for 4.2 percent of the total portfolio and does not pose a significant risk. The refinancing risk profile of the portfolio has an Average Time to Maturity (ATM) of 6.8 years. The portfolio has exposure to foreign exchange risk; most of the debt contracted in foreign currency accounts for 58.6 percent of the total debt.

Four strategies were analyzed, and all strategies were subject to various stress scenarios, including interest and exchange rate shocks of moderate and extreme degrees. The analysis

illustrates that Strategy 2 (S2) represents the most feasible option for financing Government's needs in the medium term and is firmly in line with debt management targets and objectives. It assumes that Government's financing needs will be met by contracting highly concessional external debt with minimum grant element of 35 per cent, and also continue to elongate the maturity profile (re-profiling) of the domestic debt by issuing medium to long term debt instruments.

1 OVERVIEW

The debt data utilized for the MTDS encompasses Central Government external and domestic debt. T- Bills are recorded at their discounted value only for the purpose of this Strategy. Government Guaranteed debt, which as at end December 2021 accounted for 4 per cent of public debt was included in the analysis except in cases where these debts have been subsumed by the Government. The MTDS spans a four-year horizon (2022-2026) inclusive.

The report is divided in five sections. Following the Overview, section 2 provides a review of the existing debt portfolio with a focus on Central Government. This section includes existing debt stocks and debt service payments, risk analysis, and redemption profile at the end of 2021. Section 3 examines macroeconomic performance, medium term outlook and key risks; section 4 presents alternative strategies to finance the Government's borrowing needs, based on its current economic constraints and the preferred strategy with regard to the cost-risk trade-off. Section 5 proposes the implementation methodology and financing plan for the identified strategy.

1.1 Debt Management Objective

The MTDS sets out the Government's objectives and strategy to meet its financing needs at the least cost possible, consistent with a prudent degree of risk. The secondary objective is to promote domestic debt market development expected to spur economic growth and to provide efficient, transparent and accountable public debt management processes to mitigate operational and portfolio risks. The MOFEA through DLDM is committed to implementing the debt management objectives as outlined by the Public Finance Act, 2014.

1.2 Performance Review of the 2021-2025 MTDS

The Debt Management Directorate has registered some progress in implementing the 2021-2025 MTDS. The actual position as at end December 2021 shows a financing mix of 58.6 percent and 41.4 percent respectively. In order to reduce the cost of debt and refinancing risk. A lot of emphasis has previously been put on the domestic debt refinancing risk by issuance of longer dated securities while continuously contracting shorter term maturity commercial debt on the external side.

In a bid to elongate the maturity profile on the domestic debt portfolio as stipulated in the strategy, the Ministry has successfully issued 3-year bonds in the tune of GMD 3.5 billion in

March and September 2022, and issued GMD 2 billion 5-year bond in June 2022 which was a little undersubscribed due to some market conditions.

The share of T-bills and SAS as percentage of total domestic debt has been reduced to 53 percent compared to 57.7 percent in the previous year. This reduction is largely driven by the implementation of the strategy.

In order to also improve the implementation of the strategy, the Directorate of Loans and Debt Management prepared an Annual Borrowing Plan which detailed out the aggregate borrowing requirement derived from the approved debt management strategy. Additionally, the Government has institutionalized regular market engagements/consultation and also a monthly Issuance Calendar is published on both the MoFEA and CBG websites to communicate Government's borrowing decision ahead of time to the investors.

2 MACROECONOMIC PERFORMANCE, MEDIUM -TERM OUTLOOK AND KEY RISKS

The Gambian economy went through a turbulent period between 2019 and 2021, with its effects being felt across all sectors. The COVID-19 pandemic had a significant impact on the Gambian economy, pushing growth levels down from 6.2 percent in 2019 to 0.6 percent in 2020; however, with prudent economic management, the global vaccine rollout, and development partner support, growth rebounded to 4.3 percent in 2021 after negative growth in the previous year. Although the growth remained below pre-pandemic levels, it was still significant considering the challenges faced by business activities slowing or shutting down through most of 2020. Although the growth remained below pre-pandemic levels, it is still significant considering the challenges faced by business activities slowing or shutting down through most of 2020 and a third wave of the virus manifesting in July 2021 when the economy was already on a path to recovery.

In 2022, the economy was gradually recovering, but the spillovers from the war in Ukraine are hampering a vigorous rebound and exacerbating inflation pressures, reaching 12.3 percent in August 2022. The Gambia economy relies heavily on imported goods (including wheat and maize from Ukraine), which means that the disruption in supply chains led to shortages of essentials, spurring inflationary pressures on the economy. This has dampened initially optimistic growth prospects to a more modest growth of 3.8 percent projected in 2022.

These immediate short-term impacts will likely worsen as the conflict continues. For instance, the current trajectory of global inflation threatens to significantly reduce the real incomes of the diaspora and tourists. As a result, the local economy is at risk of reduced remittance receipts and

tourist arrivals, which will further exacerbate the negative impact on growth.

2.1 Baseline Assumptions

Recovery and growth prospects over the medium term will be subdued as conditions remain uncertain due to the Russia-Ukraine conflict. With economies worldwide being negatively impacted by the conflict and global growth projections being revised downwards, the medium-term outlook is challenging. As most countries grapple with the effect of the conflict on their real incomes, the previously positive expectations of tourist arrivals for the 2022-23 tourist season are now uncertain.

Performance in the Industry sector is also expected to decline slightly as most of its subsectors are directly or indirectly impacted by supply chain disruptions associated with manufacturing and construction inputs usually imported from the warzone.

Due to volatility in the prospects for tourism and trade, the economy will rely heavily on other productive sectors to perform as projected in the medium term. The risk of a poor rainy season in the medium term could also exacerbate volatility; hence recovery efforts must be premised on a solid commitment to medium-term policy reforms to ensure resilience.

Table 1: GDP contribution by Economic Sector 2022-2026

Industry	2022	2023	2024	2025	2026
Gross Domestic Product (GDP) market price	3.8%	4.3%	4.6%	4.8%	4.9%
Agriculture, forestry and fishing	4.8%	6.0%	4.6%	4.6%	4.0%
Crops	-5.3%	0.9%	1.0%	1.5%	1.5%
Livestock	-3.6%	0.6%	1.2%	1.5%	1.6%
Forestry and logging	-6.7%	-3.7%	1.4%	2.0%	3.4%
Fishing and aquaculture	13.3%	9.9%	7.0%	6.5%	5.5%
Industry	6.3%	7.4%	4.9%	4.9%	6.5%
Mining and quarrying	6.4%	11.3%	4.5%	4.4%	4.0%
Manufacturing	-11.3%	-6.2%	1.4%	1.4%	1.4%
Electricity, gas, steam and air conditioning supply	4.5%	8.5%	8.0%	7.5%	7.5%
Water supply, sewerage, waste management and remediation activities	-2.0%	1.0%	4.0%	5.9%	5.9%
Construction	8.9%	8.7%	5.0%	5.0%	5.0%
Services	1.1%	2.4%	4.3%	4.7%	5.1%
Wholesale and retail trade; repair of motors and motorcycles	0.9%	2.1%	2.5%	3.0%	3.5%

Transport and storage	-0.3%	2.7%	3.0%	3.5%	5.0%
Accommodation and food service activities	15.2%	14.1%	12.7%	9.2%	10.2%
Information and Communication	3.2%	3.7%	7.3%	7.5%	8.0%
Financial and insurance activities	4.8%	3.5%	11.8%	13.5%	13.5%

The agriculture sector is expected to recover, projected to grow at 6.0 percent in 2023 and an average of 4.0 percent by 2026. This projection is premised mainly on improved investment efficiency in agricultural projects and increased private sector participation in rice and vegetable farming. The increased use of the Gambia Strategy Review Board (GSRB) for project screening and selection will further strengthen efficiency in agricultural projects, which, in the past, suffered from gross inefficiency in public investment management. Fishing output is also expected to perform well over the medium term.

While Industry continues to be the main growth driver in 2021, its path to recovery from the pandemic has suffered another setback from the conflict, coupled with a delay in implementing some major projects under construction in 2022. As a result, growth is expected to hit 7.4 percent in 2023 and moderate to 6.5 percent by 2026. With the OIC summit drawing closer, construction of roads and other infrastructure for the conference is expected to be completed in 2023, signaling an expected slowdown in investment in public construction thereafter. Similarly, private construction also faces the risk of a slowdown due to an unexpected decrease in private remittance flow. However, the mining and quarrying subsector is expected to remain on a decent path in the medium term due to the increased export of heavy mineral concentrates (HMCs).

The Services sector is expected to register a very subdued recovery over the medium term from the effects of the pandemic and the war. Growth is projected at 2.4 percent in 2023, averaging 5.1 percent in 2026.

2.1.1 Fiscal Sector

Fiscal performance in 2021 has been affected by the negative effect of the crisis (commodity prices) as the domestic revenue collection for the first half of 2022 shows a decline of 5 percent against the same period in 2021. The increase in global oil prices put pressures on government as it was forced to subsidize fuel to buffer against exorbitant pump prices. Although this measure is to ease the burden of high fuel prices on the populace, this however has negative impact on

domestic revenue mobilization and the budget for 2022.

Fiscal outturn in 2021 was weaker than projected, registering a performance rate of 77 percent (D19.8 billion), which is below the budget by D5.9 billion. This underperformance rate of 23 percent during the 2021 fiscal year was primarily due to the low budget support disbursement, which recorded an outturn of D505 million against the budgeted D3.2 billion. Furthermore, the Project Grant outturn recorded D3.9 billion against the budgeted amount of D8.8 billion. The low disbursement of Project grants was due to a decline in the COVID-19-related spending in the health (purchase of ambulances) and education sectors. Domestic revenue mobilization in 2021 reached 112 percent (D13.7 billion) of the budget, which was a result of the strong performance in both Tax Revenue (D10.8 billion) and Non-tax Revenue (D4.5 billion).

2.1.2 Real Sector

Preliminary estimates based on data for the first half of 2022 indicate that the economy is projected to grow by 3.8 percent in FY 2022. However, the projected medium-term economic prospects are positive. Real GDP growth is projected to grow at an average of 4.7% over the medium. Growth will be carried by tourism as the sector recovers, infrastructure, and agriculture investments. Meanwhile, inflation edged-up to 12.3% in July 2022 because of rising global oil prices, putting pressure on domestic pump prices, and increases in the prices of imported products stemming from the war in Ukraine. Inflation is expected to remain high in 2022 and 2023, reflecting the impact of the war before moderating in the medium term. High sustained economic growth over the medium term will contribute to debt reduction. Conversely, lower than expected growth will adversely affect tax revenues, which may increase social spending, ultimately leading to increased borrowing needs by Government.

2.2 Fiscal Forecast

On the fiscal front, the domestic revenue collection is projected to increase from D15.9 billion (13 percent of GDP) in 2022 to D18.1 billion (14 percent of GDP) in 2023. This positive growth trend is expected to remain consistent over the medium term. This reflects robust revenue mobilization efforts and the implementation of the GRA reform agenda geared towards improving compliance and expanding the tax-base.

Additionally, MoFEA in collaboration with the GRA is working closely with a consulting firm to

carry out a tax expenditure analysis which will lay the foundation for a comprehensive tax policy. As part of the reforms, the Ministry has also set up a Tax Policy Unit under the Directorate of Economic Policy and Research to spearhead this process and handle all tax related issues going forward. This is all geared towards increasing domestic revenues over the medium to long term.

Total grants are anticipated to decrease from D10.7 billion in 2022 to D9.1 billion in 2023. This decrease is largely attributed to the anticipation of minimal budget support over the medium-term as the need for support dissipates. Whilst project grants are expected to remain moderately stable as the need for project financing is mostly in the health, education and agriculture sector increases.

Total government expenditure is projected to increase from D30.7 billion in 2022 to D32.9 billion in 2023. It is expected to increase gradually to the tune of D38.9 billion by 2026. The projected increase in total expenditure in 2023 is largely attributed to an anticipated increase in capital expenditure due to the ongoing major road projects (urban roads such as Kanifing, Brufut, rural roads such as Nuimi Hakalang, Sabach Sanjally etc) and the expansion of the Bertil-Harding Highway for the OIC Summit.

In light of the forecast on revenue and expenditure, the primary balance is estimated to increase moderately from a deficit of 0.9 percent of GDP in 2022 to 2.1 percent of GDP in 2023. The fiscal balance is anticipated to increase from a deficit of 3.5 percent of GDP in 2022 to a deficit of 4.4 percent of GDP in 2023. Over the medium term, both balances are expected to remain on a decreasing trend.

Table 2: Fiscal Projection for 2022-2026

GMD (MM)	2022	2023	2024	2025	2026
Total Rev	26,594	27,154	29,604	32,334	34,944
Tax + non-Tax	15,857	18,072	19,613	21,345	24,064
Total Grants	10,737	9,082	9,991	10,990	10,880
Budget support	1,068	-	-	-	-
Projects	9,669	9,082	9,991	10,990	10,880
Gov. Expenditure	30,744	32,926	35,552	37,717	38,930
Total Current Expenses	16,837	18,044	18,936	19,546	20,762
Compensation of employees	5,709	6,531	6,835	7,163	7,513

Basic Salaries	2,925	3,316	3,521	3,761	3,907
Allowances	2,431	2,775	2,802	2,865	3,005
ECA	354	440	512	537	601
Gross Fixed Capital formation	13,907	14,882	16,616	18,171	18,168
Primary Balance	-1,107	-2,770	-2,754	-2,390	-1,264
Primary Balance (%GDP)	-0.9%	-2.1%	-2.0%	-1.6%	-0.7%
Fiscal Balance	-4,150	-5,771	-5,948	-5,383	-3,986
Fiscal Balance (% GDP)	-3.5%	-4.4%	-4.3%	-3.5%	-2.3%

2.3 External Sector

In 2021, the current account deficit widened by US\$94.08 million to (4.6 percent of GDP) from US\$86.55 million (4.58 percent of GDP) in 2020, mainly due to the deterioration of the goods and services accounts reflecting weak tourism alongside a higher import bill driven by rising commodity prices and infrastructure-related imports. The worsening of the current account also reflects some decline in budget support grants. The end-year goods account estimated deficit of US\$575.70 million (31.0 percent of GDP) in 2021, compared to a deficit of US\$511.76 million (26.96 percent of GDP) in 2020. Export receipts decreased by 54.8 percent to US\$31.66 million during the period under review. However, imports increased from US\$581.82 million at the end of 2020 by 4.4 percent to US\$607.36 million in 2021. Gross Official reserves stood at US\$427.13 million as of December 2021.

The balance of Payments (BoP) remained stable despite the current account deterioration. The current account worsened from a deficit of US\$8.25 million (0.5 percent of GDP) at the end of June 2021 to a deficit of US\$25.60 million (1.3 percent of GDP) for the same period in 2022. This was because of the declined position in the goods account (imports). The estimates for the gross official reserves as of the end-June 2022 stood at US\$318.76 million, equivalent to over 5.3 months of imports. Low foreign currency earnings due to depressed exports and increased imports can adversely affect the country's ability to meet external debt service payments.

2.4 Monetary Sector

2.4.1 Inflation

A potential resurgence of the COVID-19 pandemic and the protraction of the Russia-Ukraine war still poses a significant risk to the global economic outlook and continue to affect the supply chain of essential commodities. In terms of the domestic front, the critical risk to the inflation outlook is

the agricultural sector's vulnerability to unpredictable rains and crop harvest, which could potentially lower food production, and structural bottlenecks around the seaport continue to create upward pressure on food prices. Without unforeseen shocks, the forecasts show inflation is expected to remain high at the end of the 3rd quarter of 2022 (at 14.1 percent), and it may rise to 14.2 percent at the end of the 4th quarter of 2022.

2.4.2 Exchange rates

At the end of 2021, the current account deficit widened by US\$94.08 million to (4.6 percent of GDP) from US\$86.55 million (4.58 percent of GDP) in 2020, mainly due to the deterioration of the goods and services accounts reflecting weak tourism alongside a higher import bill driven by rising commodity prices and infrastructure-related imports. The worsening of the current account also reflects some decline in budget support grants. The end-year goods account estimated deficit of US\$575.70 million (31.0 percent of GDP) in 2021, compared to a deficit of US\$511.76 million (26.96 percent of GDP) in 2020. Export receipts decreased by 54.8 percent to US\$31.66 million during the period under review. However, imports increased from US\$581.82 million at the end of 2020 by 4.4 percent to US\$607.36 million in 2021. Gross Official reserves stood at US\$427.13 million as of December 2021.

The exchange rate will remain flexible to be allowed to adjust to market fundamentals with limited intervention. It is projected to depreciate in accordance with macroeconomic fundamentals, including projected current account dynamics over the medium term. The gradual recovery of the domestic economy is premised on the successful vaccination campaign targeted at the majority of the population and buoyant demand due to fiscal stimulus and ongoing expenditure through the OIC-related projects. Moreover, the monetary accommodation and strong private remittance inflows are also expected to support consumption and investment spending, stimulating aggregate demand.

Overall, the foreign exchange market remained stable in 2020-2021, underpinned by adequate foreign currency liquidity and a stable exchange rate. The supply conditions were supported by large foreign inflows from official development assistance and private remittances. Private remittance inflows have remained strong, reaching US\$ 339.28 million at the end of June 2022. The exchange rate is expected to remain stable, supported by expected budget support receipts, gradual recovery in tourist activity, private remittances inflow, and stable macroeconomic conditions. The exchange rates are projected using the natural depreciation rate of about 0.8 percent over the medium term.

3 EXISTING DEBT PORTFOLIO - 2021

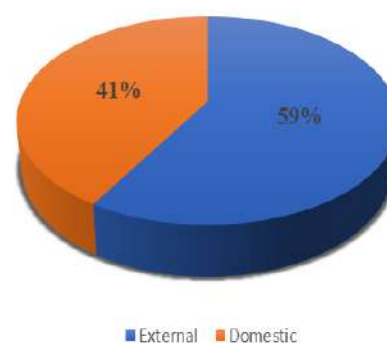
This section reviews in detail the composition of Central Government's outstanding debt.

3.1 Composition of Central Government Debt Portfolio

3.1.1 Total Public Debt

Figure 1: Composition of Total Public Debt

For the purpose of this analysis debt is classified by currency. External Debt consists of all foreign currency denominated instruments while domestic debt refers to all GMD denominated instruments. As at the end of 2021, total Central Government public and publicly guaranteed (PPG) debt is estimated to be GMD 88.31 billion (USD 1.67 billion). This comprises USD 981.06 million m (58.6 per cent) external debt and \$ 693.4 million (41.4 per cent) domestic debt. The nominal debt as a percentage of GDP has remained the same at 84.1 percent from 2020 to end 2021.

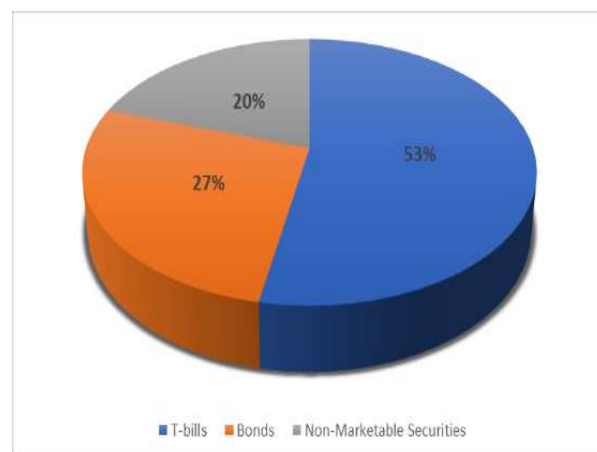


3.1.2 Domestic Debt

Instrument Type

As at end 2021, domestic debt is estimated to comprise 53 per cent. Treasury bills, 27 per cent bonds, and 20 per cent loans non-marketable securities in GMD.

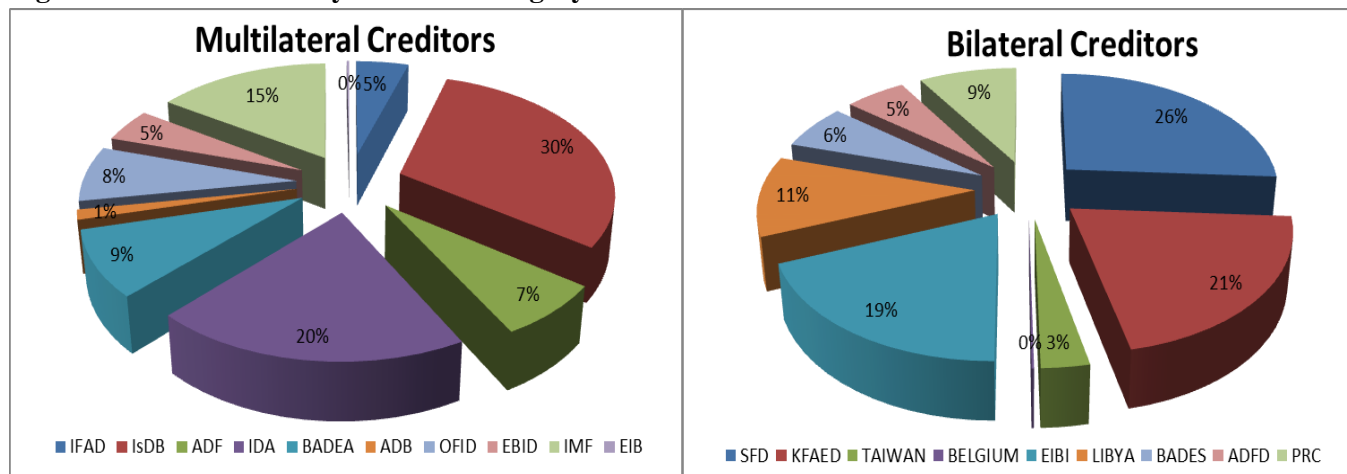
Figure 2: Domestic Debt by



3.1.2 External Debt

The composition of external debt as at end 2021 is estimated to be as follows: multilaterals 68 per cent, and bilateral creditors 32 per cent. The Islamic Development Bank is the leading multilateral creditor to The Gambia followed by International Development Association. Bilateral creditors account for the remaining 32 per cent of the portfolio, of which Saudi Fund for Development is the leading creditor followed by Kuwaiti Fund for Arab Economic Development.

Figure 3: External Debt by Creditor Category



3.2 Risk Analysis of the Debt Portfolio

The debt portfolio has inherent risks related to market conditions; essential cost and risk indicators were calculated and analyzed. For this analysis, three typical shocks stemming from the exchange rate, interest rates, and a combination of both are considered. It is assumed that the shocks are applied in 2021 and sustained throughout the remainder of the simulation horizon. The primary portfolio risks are covered in this section.

3.2.1 Interest Rate Risk

The Average Time to Re-fixing (ATR) is a measure of the weighted average time until all the principal payments in the debt portfolio is subjected to a new interest rate. The Gambia's debt portfolio has an ATR of 6.7 years of which 27.6 per cent of total debt is subject to a change in interest rate in one year (Table 1). Interest rate risk is mainly inherent in the domestic debt portfolio with a relatively short ATR of 2.8 years. As reflected, 54.9 per cent of its debt is subject to re-fixing in one year due to the relatively short maturity profile of domestic instruments (less

than one year). In contrast, the ATR for the external debt is 9.2 with 9.7 per cent of this debt re-fixing in one year. In addition, a relatively large proportion 93 of external debt is contracted on fixed rate terms. The remaining 7 per cent reflects variable-rate debt owed to multilateral and bilateral creditors.

3.2.2 Refinancing /Rollover Risk

Rollover/refinancing risk shows the vulnerability of the portfolio to higher costs for refinancing maturing debt obligations within a period or in extreme cases if the debt cannot be rolled over at all. With an overall operational target of greater than 8 years, the Average Time to Maturity (ATM) of The Gambia's debt portfolio is 6.8 years which below its target. This is mainly skewed towards the external debt portfolio which has an ATM of 9.4 years of which 5.9 percent matures in one year. In contrast, domestic debt is mainly exposed to refinancing risk due to its relatively short maturity profile. The ATM of domestic debt is 2.8 years of which 54.9 per cent will mature in one year and is subjected to refinancing/rollover risks since a significant portion of short-term debts are rolled over.

3.2.3 Foreign Exchange Risk

Foreign exchange risk measures the exposure of the portfolio to changes in the exchange rate. The Gambia debt portfolio is minimally exposed to foreign exchange risk. Debt contracted in foreign currency accounts for 58.6 per cent of the total debt portfolio. This is in line with the target of less than or equal to 75 percent set for foreign exchange debt.

Table 3: Cost and Risk Indicators for the Existing Debt Portfolio as at year end 2021

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of GMD)		51,741.3	36,569.5	88,310.8
Amount (in millions of USD)		981.1	693.4	1,674.5
Nominal debt as percent of GDP		49.3	34.8	84.1
PV as percent of GDP ¹		35.7	34.8	70.5
Cost of debt ²	Interest payment as percent of GDP ³	0.7	1.9	2.6
	Weighted Av. IR (percent)	1.3	5.5	3.1
Refinancing risk ²	ATM (years)	9.4	2.8	6.8
	Debt maturing in 1yr (percent of total)	5.9	54.9	25.3
	Debt maturing in 1yr (percent of GDP)	3.1	19.1	22.3
Interest rate risk ²	ATR (years)	9.2	2.8	6.7
	Debt re-fixing in 1yr (percent of total)	9.7	54.9	27.6
	Fixed rate debt incl T-bills (percent of total)	93.0	100.0	95.8
	T-bills (percent of total)	0.0	53.0	20.9
FX risk	FX debt (percent of total debt)			58.6
	ST FX debt (percent of reserves)			11.2

Notes:

¹ PV as percent of GDP is calculated based on projected debt service payments where discount rate of 5% is applied to those instruments on concessional or semi-concessional term

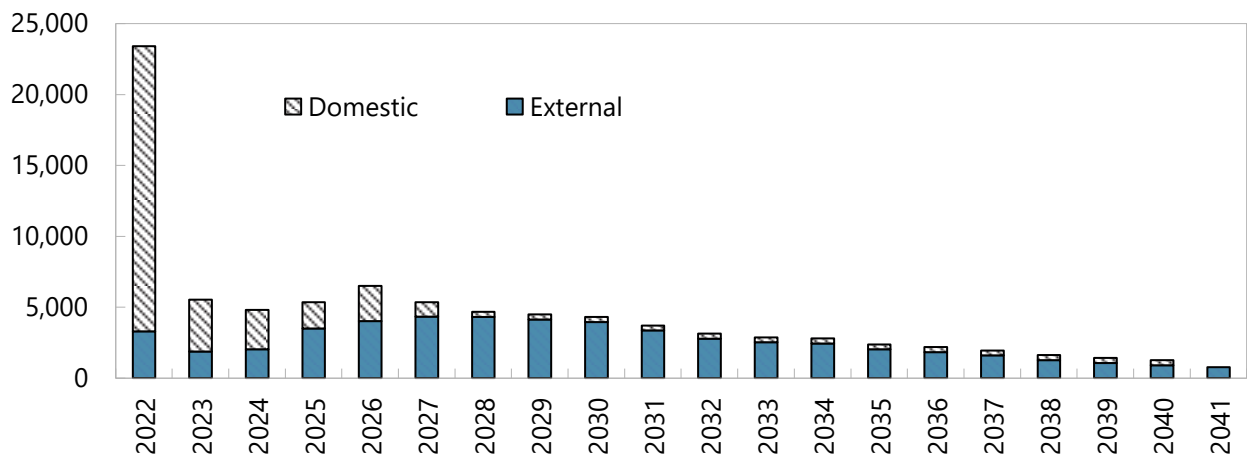
² Cost-Risk indicators that use projected cash flows such as weighted average interest rate, refinancing and interest rate risks use projected exchange rate assumptions.

³ Interest payment as percent of GDP is calculated by dividing interest payment on outstanding debt at 2021 to 2021 GDP.

3.3 Redemption Profile

The redemption profile depicts the amortization of outstanding debt and it reflects the risks inherent in the structure of the existing debt portfolio (Figure 4). The redemption profile shows a high portion of domestic debt (54.9 per cent) is due within one year for redemption. This is affected by significant share of T-bills and SAS which is about 53 per cent of the domestic debt portfolio. External debt has a relatively smooth redemption profile and a longer maturity period. It is characterized by concessional loans from multilateral and bilateral creditors.

Figure 4: Redemption Profile as at end-2021 (in millions of GMD)



4 MEDIUM-TERM DEBT MANAGEMENT STRATEGY

4.1 Targets and Ranges for Key Risk Indicators

The existing cost and risk structure, while moving in the right direction, is not yet satisfactory and, for that reason, the interim targets have been revised relative to the last Strategy.

Table 4: Risk Targets and Ranges

Risk Indicators	2021	2022
	Current	Target Range
*PV of Public Debt as % of GDP	70.5	<=55%
Interest payment as % of GDP	2.6	<=2.5%
Debt maturing in 1yr (% of total)	25.3	<=20%
Debt maturing in 1yr (% of GDP)	22.3	<=10%
ATM Total Portfolio (years)	6.8	>=8 years
ATR (years)	6.7	>=10 years
FX debt as % of total	58.6	<=75%

One of the debt management objectives is to achieve and maintain sustainable debt levels. This target is guided by the debt sustainability analysis (DSA) which states that the PV of Public Debt-to-GDP ratio must not exceed 55 per cent. The target for 2022, is for Central Government debt-to-GDP to be less than or equal to 55.0 per cent. This risk indicator has been declining from 70.6 per cent (2021), and currently estimated 56.6 per cent for all the strategies except strategy (S4) which is a hypothetical strategy that seeks to depict a worst-case scenario which assumes a 100% issuance of T-Bills at the end of the strategy period. This rapid decline was supported by the debt restructuring activities that have now ended, as well as fiscal consolidation. The interim target for 2022 is to be marginally above 55.0 per cent. Meeting this target will require reducing the stock of debt and/or increasing economic growth.

Interest payments as a percent of GDP, shows declines from 2.9 per cent (2020) to 2.6 per cent (2021) which has been driven by both lower interest rates achieved through highly concessional loans and a reducing stock of debt. Consistent with the debt management objective to have a low cost of debt, the target is to maintain the current cost of debt below 2.5 per cent.

Debt maturing in 1 year as a share of total Central Government debt is set to be less than or equal to 16 per cent of the total debt. While this may appear as a high concentration of repayments in the short-term, it reflects the importance of Treasury-bills in the development of the domestic market and also meeting statutory requirements for the financial sector. This indicator has declined from

31.3 per cent (2020) to 25.3 per cent (2021), reflective of the conversion of Treasury-bills to Treasury notes in 2021.

Extending the ATM and ATR of the total portfolio to 8 years or more respectively reduces the refinancing risk and avoids pressures on the Gambia to securing new sources of finance. Existing debt is primarily from concessional sources and development partners with long maturities. The policy of the Government, as is reflected in this MTDS, emphasizes implementation of existing Public Sector Borrowing Requirement (PSBR) and draw down on committed undisbursed balances from external creditors on concessional terms.

4.2 Assumptions and Potential Financing Sources

The MTDS (FY2022 -2026) embodies the Government's key strategic debt management objectives and as such, preparation of the Strategy is based on the following assumptions:

- Utilization of a portion of the bond issuance to repay short-term debt and;
- Utilization of committed undisbursed balances and new loans

Over the medium term (2022 –2026), the existing official creditors including multilateral and bilateral creditors will continue to support Gambia's development programs. Generally, external financing will be dominated mainly in USD, at fixed interest rates, although a portion of bilateral credit is contracted at variable rate.

4.3 Alternative Strategies

Four (4) alternative debt management strategies were considered. They vary by the mix of borrowing between domestic and external sources, fixed and variable interest rates, and maturity and grace periods.

3.1.3 Strategy 1 (S1)

This strategy represents the status quo and reflects the current practice of re-issuing domestic debt (T-bills). Under this Strategy, there is no new borrowing, rather multilateral and bilateral creditors are considered to provide project financing based on committed and undisbursed debt, as well as assumed improvements in implementation capacity and project readiness. This assumption is maintained throughout the medium term, albeit, at an overall reduced amount. However, there will be a consistent level of project financing from the multilaterals. Residual financing needs are met primarily by T-bill issuance.

3.1.4 Strategy 2 (S2)

This strategy considers the extension of the maturity of the domestic portfolio by gradually introducing longer-dated securities. Consistent with this Strategy, the intent is to convert short-term securities into three-year and five-year bonds in 2022 through to the end of the strategy period. Further, a portion of short-term debt is also assumed to be repaid over a three-year period from surpluses.

3.1.5 Strategy 3 (S3)

This Strategy increases external financing relative to domestic financing, while maintaining the extension of the Treasury-bill maturities and repayment of short-term debt. On the external side, this strategy replaces some of the traditional multilateral creditors with semi-concessional bilateral funding.

3.1.6 Strategy 4 (S4)

Is also a simulation of a hypothetical strategy that seeks to depict a worst case scenario which assumes a 100% issuance of T-Bills at the end of the strategy period. This strategy aims to determine how the domestic and public debt portfolios will be impacted by focusing entirely on T-bill domestic financing.

The robustness of the alternative debt management strategies is assessed under three stress scenarios for interest and exchange rates with differing impacts; moderate and extreme. The shocks help to identify the vulnerabilities of the strategies to external shocks. The magnitude of the shocks was determined by the historical experiences of the interest rates in external markets and the Gambia. Possible macroeconomic risks facing the economy are also considered. For the shocks, it is assumed that the market variables (interest rates and exchange rates) will increase over the medium-term. Also, the model assumes consistent growth in nominal GDP for the respective years in the period under consideration.

4.4 Baseline Scenario

In the baseline scenario the reference rates for 3-month re-fixed instruments are forecasted to increase marginally over the period 2022-2026. In addition, there are no expected exchange rate changes in the major foreign borrowing currencies. However, the is expected to depreciate marginally over the projection horizon.

4.4.1 Shock Scenarios

Scenario 1: Exchange Rate Shock

- a) Moderate: A 15 percent depreciation of the domestic currency against the GMD in 2022, which is sustained thereafter.
- b) Extreme: A 30 percent depreciation of the domestic currency against the GMD in 2022 which is sustained thereafter.

Scenario 2: Interest Rate Shock

- a) Moderate (combined with 15% depreciation shock) : On the domestic debt instruments, a 200, 300, and 400 basis points shock is applied on T-bills, 3-year bond, and 5-year bond respectively. The shock was applied to the projected baseline interest rate for each year of the Strategy period. On the external debt portfolio, a 100 basis point shock was applied on both the IsDB Istisna and ITFC facility.
- b) Extreme Shock (Standalone Shock): A 400 basis points standalone shock was applied on both the T-bill and 3-year bond and a 500 basis points shock was applied on the 5-year bond. On the external debt, a 300 basis points standalone shock was applied on both the IsDB Istisna and ITFC facility.

Scenario 3: Combine Interest and Exchange Rate Shock

Is the moderate interest rate shock (200 basis points on floating rate debt) combined with a moderate exchange rate shock (15 percent depreciation against the USD) in 2022 and sustained thereafter.

4.5 Cost Risk Analysis under Different Strategies

Table 4 illustrates the cost and risk indicators under each of the strategies. The robustness of the strategies is assessed by comparing the outcomes under the baseline and the shock scenarios discussed above. The debt-to-GDP ratio declines across each of the strategies compared to the current period ended in 2021. Present value of the debt in each of the strategies was significantly reduced relative to the current period. Moreover, the interest payment as a percent of GDP was also lowered in Strategy and marginally increases for the rest of the strategies, likewise the implied interest rate decreased in Strategy S1 and the rest of the strategies exhibit a marginal increase relative to the

current period.

The associated risks with each of the strategy were assessed based on established targets outlined in Table 4. As it relates to refinancing risk, the results indicated significant improvements across all four strategies relative to the current period. Specifically, the percentage of debt maturing in one year fell significantly across all four strategies, which contributed to an increase in the ATM beyond the established target of at least eight years.

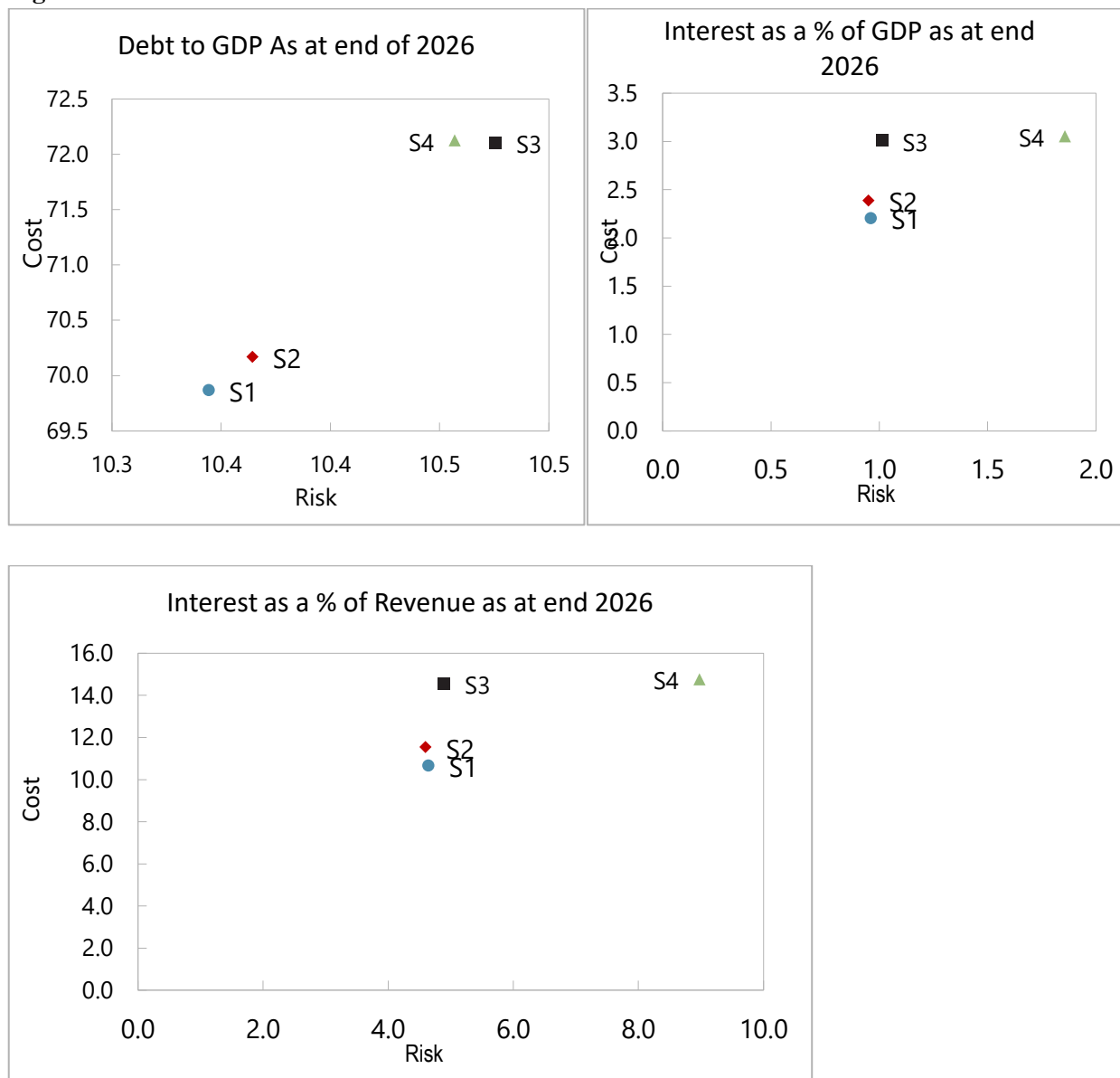
With respect to the interest rate risk, the alternative strategies resulted in a lengthening of the average time in which the interest rate of the portfolio will be subject to change- ATR- (years).

The foreign debt as a percentage of total debt ratios declined marginally when Strategies 1 and 2 are considered while the ratio increases significantly in Strategy 3 relative to the current period (2021). These results are expected given the varying financing combinations considered under the various strategies over the period (2022 - 2026) and the bias towards external financing in Strategies 3. A high level of foreign debt in the portfolio reflects heightened risk as the share of debt denominated in foreign currency (USD) is subject to exchange rate risk.

Table 5: Cost and Risks Indicators (2022-2026)

Risk Indicators		2021	As at end 2026			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		84.1	69.9	70.2	72.1	72.1
Present value debt as percent of GDP		70.5	57.3	56.8	58.1	66.8
Interest payment as percent of GDP		2.6	2.2	2.4	3.0	3.1
Implied interest rate (percent)		3.1	3.4	3.7	4.7	4.0
Refinancing risk2	Debt maturing in 1yr (percent of total)	25.3	25.8	22.4	13.1	60.1
	Debt maturing in 1yr (% of GDP)	22.3	18.1	15.7	9.4	43.3
	ATM External Portfolio (years)	9.4	10.4	11.1	11.3	7.0
	ATM Domestic Portfolio (years)	2.8	1.8	1.9	2.5	1.0
	ATM Total Portfolio (years)	6.8	7.5	8.1	8.4	3.1
Interest rate risk2	ATR (years)	6.7	7.4	8.0	8.4	3.0
	Debt refixing in 1yr (percent of total)	27.6	28.1	23.8	14.4	61.1
	Fixed rate debt incl T-bills (percent of total)	95.8	97.3	98.4	98.4	98.8
	T-bills (percent of total)	20.9	18.3	14.3	3.5	49.8
FX risk	FX debt as % of total	58.6	66.0	66.2	67.1	33.5
	ST FX debt as % of reserves	11.2	12.8	12.1	12.1	12.1

Figure 5: Cost-Risk Indicators



4.6 Selected Strategy

Strategy 2 which emphasizes utilization of increased proportion of external concessional and domestic market development outperformed the alternative strategies with respect to the risk indicators and represents the best alternative to capture Government’s preferences in terms of cost and risk.

Relative to the current period, S2 recorded an increase in the ATM by 0.9 years and an increase in the ATR by 1.6 years over the medium run. The share of fixed rate debt in S2 and the share of USD debt in the portfolio is projected to high at 98.4 and 66.2 respectively in S2 by 2026. With respect to the

cost and risk trade-off, although S2 is slightly more expensive relative to S3 lower refinancing and interest rate risk highlights the cost and risk trade-off.

Market Risks – Exchange Rate

In the chosen Strategy (S2) identified financing is restricted to securities denominated in domestic currency and drawdown of committed undisbursed funds from multilateral organizations that are denominated in USD.

Foreign debt as a percentage of total debt over the medium term is estimated to reduce slightly to 68.3 per cent from the current proportion of 69.1 per cent, well within the established maximum limit of 75.0 per cent. The chosen strategy thus continues to mitigate against the debt portfolio's exposure to foreign currency risk in the medium term.

Market Risks – Interest Rate

Variable rate debt as a percentage of the total Central Government debt portfolio is projected to decline to 4 per cent as at end 2021. The interest payments-to-GDP ratio is projected to fluctuate from the baseline by 0.1 per cent under a moderate shock (2 per cent) scenario and 0.3 per cent under extreme shock (4 per cent) scenario. As at end 2021, under adverse interest rate movements the ratio of interest payments to GDP would reflect a maximum of 2.6 percent (Figure). Exposure to interest rate risk is hence marginal under S2.

Refinancing Risk

S2 facilitates an extended ATM for the total portfolio, although marginal, while the ATM for the domestic debt portfolio is improved by over a year. Debt maturing in one year as a percentage of total debt and debt maturing in one year as a percentage of GDP would improve significantly by end of year 2021, 25.5 per cent and 22.3 percent respectively. This is consistent with the goal of retiring a portion of short-term securities and introducing longer-term securities into the portfolio.

Notwithstanding the extension in the ATM and the reduction in the ratio of debt maturing in one year as a percentage of GDP or total debt, the redemption profile is reflecting a spike in 2021. This is indicative of the high level of short-term securities in the portfolio and accelerated payment of portion of outstanding domestic debt. This implies exposure to refinancing risk. The Strategy however, mitigates this risk by retiring higher priced over-the-counter treasury bills on a phased basis. This will take effect over the years 2020 and 2021.

Development of the Domestic Market

Strategy 2 aims to support the development of the domestic debt market. Some of the measures that will be undertaken include continuing the issuance of medium to long term domestic debt instruments (3-year and 5-year bonds). This is anticipated to complement the improvements made by the preceding strategies in order to significantly lower the refinancing risk, minimize crowding out of private sector.

Foreign debt as a percentage of total debt over the medium term is estimated to reduce slightly to 68.3 per cent from the current proportion of 69.1 per cent, well within the established maximum limit of 75.0 per cent. The chosen strategy thus continues to mitigate against the debt portfolio's exposure to foreign currency risk in the medium term.

5 BORROWING PLAN

The Annual Borrowing Plan (ABP) is developed based on the Government financing requirement for the fiscal year. The ABP details the projected funding sources to cover financing after revenues and expenditure have been considered. The Government's financing requirement is projected at D5, 245 billion in 2022.

Table 5 illustrates the borrowing plan for the year 2022. The expected sources of funding are consistent with the implementation of Government's strategy objective to foster development of the domestic securities market.

Table 6: Annual Borrowing Plan 2022

External Funding	GMD (Billions)	UDS (Millions)
Multilateral	4,470.57	83.54
Bilateral	2,103.80	39.31
Domestic Funding		
Treasury Bills	17,677.50	330.33
3 Year Bond	2,079.71	38.86
5 Year Bond	1,039.85	19.43
Gross Financing Need	27,371.43	511.47