DEBT MANAGEMENT STRATEGY

25. During the past four years, the profile of Government debt has improved significantly both in terms of the cost of borrowings and the refinancing and interest rate risks. This has been achieved through a pro-active and effective Debt Management Strategy.

Cost of borrowings:	(i) Ratio of interest payments to recurrent revenue reduced from 12.3% in FY 2014 to 10.9% in FY 2017/18.
	(ii) Ratio of interest payments to GDP brought down from 2.5% to about 2.3%
Refinancing risks:	(i) Average time to maturity of Government debt increased from 4.7 years at end-December 2014 to 4.9 years at end-June 2018
	(ii) Average time to re-fixing Government debt improved from 3.2 years to 4 years

26. The Debt Management Strategy will continue to aim at making the optimal trade-off between costs and risks in the financing of Government borrowing requirements. This involves determining the appropriate mix of foreign and domestic borrowings, the currency, maturity and interest mix as well as their related costs.

27. **Mix of Foreign and Domestic Borrowings.** The main factors determining the mix of foreign and domestic borrowings are their relative costs and associated risks. Government external debt portfolio will be downsized during FY 2019/20. This will be achieved through early repayment of relatively expensive foreign loans equivalent to some Rs 15.6 billion and by having greater recourse to domestic financing. As a result of this downsizing, the share of external debt in Government debt portfolio is expected to drop to around 9% by end-June 2020. The target over the medium term will be to contain the share of external debt to within 15% and that of domestic debt at around 85%.

28. **Currency Mix:** The long term objective of the Strategy is to align the currency composition of public sector external debt to that of export earnings of the country. In this respect, the share of Government external debt in USD will be reduced to about 25% over the medium term. The share of debt in Euros will be maintained at around 35% and the portfolio further diversified in terms of other currencies.

29. **Maturity Mix**: The quasi totality of Government external loans is long term, with original maturities of between 15 to 20 years. With the planned early repayment of a number of external loans, the time to maturity (ATM) of Government external debt is expected to drop during FY 2019/20. However, with disbursements of long term concessionary loans, the ATM of Government external debt is expected to pick up to 5.3 years over the medium term, that is, close to the target of 5.5 years.

30. Regarding domestic debt, the average time to maturity currently stands at about 4.8 years. Around 13% of Government domestic debt is of short term maturity, while the share of medium term and long term debt is 22% and 65%, respectively. The target over the medium term is to further reduce the share of short term debt to about 10% and increase that of medium and long term debt to about 23% and 67%, respectively. This will maintain the ATM of Government domestic and total debt at close to 5 years.

31. **Interest Rate Mix**: In terms of interest rate mix of Government external debt, the long term strategy is to have a near balance between fixed and variable interest rate loans. However, in view of the rise in interest rates, particularly in the international USD market, the interest rate mix will be tilted towards fixed interest rate loans over the medium term to around 60%. The share of floating interest rate loans will be brought down to 35% and that of interest free loans increased to 5%. This will improve the average time to re-fixing (ATR) of Government external debt from about 2.3 years at present to about 4.2 years over the medium term.

32. As regards Government domestic debt, it comprises about 96% of fixed interest rate instruments and about 4% of variable rate instruments. This mix will be maintained at around 95% and 5%, respectively over the medium term. The ATR of domestic debt will thus remain at around 4.3 years while that of total Government debt will improve from 4.1 years to 4.3 years over the medium term.