Government of Nepal
Ministry of Finance

Public Debt Management Office

Tripureshwor, Kathmandu

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

FY 2024/25 - 2026/27

May 4, 2025

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Abbreviations

ADB	Asian Development Bank
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
CNY	Chinese Yuan
DM	Debt Management
EEC	European Economic Commission
EIB	European Investment Bank
EU	European Union
EXIM	Export-Import
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GFR	Gross Financing Requirement
GoN	Government of Nepal
IDA	International Development Association
IDCP	International Development Cooperation Policy
IECCD	International Economic Cooperation and Coordination Division
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IR	Interest Rate
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
KRW	South Korean Won
MoF	Ministry of Finance
MTDS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
NDF	Nordic Development Fund
NNRFC	National Natural Resources and Fiscal Commission
NPC	National Planning Commission

NPR	Nepalese Rupee
NRB	Nepal Rastra Bank
OFID	OPEC Fund for International Development
p.a.	Per Annum
PDMO	Public Debt Management Office
PPP	Purchasing Power Parity
PV	Present Value
RDIs	Representative Debt Instruments
SDR	Special Drawing Rights
SNGs	Sub-National Governments
SOEs	State Owned Enterprises
ST	Short term
T-bills	Treasury bills
T-Bonds	Treasury Bonds (It includes Development Bonds, Citizens Savings Bond, Foreign Employment Savings Bond)
USD	United States Dollars
WB	World Bank

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Executive Summary

The Medium-Term Debt Management Strategy (MTDS) (FY 2024/25 - 2026/27) outlines objectives and criteria for debt management of the Government of Nepal (GoN) for the period of FY 2024/25 - 2026/27 and has been prepared according to the responsibilities assigned by the Public Debt Management (PDM) act, 2079. This strategy has been developed to implement the policies and programs to achieve a desired composition of the Government´s debt portfolio. Further, the MTDS aims to evaluate the cost-risk tradeoffs associated with different strategies.

Over the last five years, the outstanding stock of debt of GoN has grown substantially from NRs. 1,433.4 billion in FY 2019/20 to NRs. 2,434.1 billion in FY 2023/24 (growth of almost 70 percent in five years period). The growth of domestic debt has been far larger than the external debt during this period. In last FY, the composition of external debt was 1,253.2 billion and domestic debt was 1,180.9 billion. With relatively larger growth in domestic debt, mix of domestic to external debt has changed from 43:57 to 49:51 over this period.

Within domestic debt, majority of the debt, 45.34% (NPR 535,375 million), is in mid-term treasury bonds, followed by treasury bills, which account for 34.19% (NPR 403,692 million), then distantly followed by long-term treasury bonds contributing 13.53% (NPR 159,835 million) and short-term Treasury Bonds (T-Bonds Short) make up the smallest share, at 6.94% (NPR 82,000 million). Within external debt, the largest external creditor for GoN is World Bank IDA representing 48.86 percent of the total external debt, followed by ADB with 32.40 percent, IMF with 5.05 percent then, JICA with 4.06 percent, India with 3.23 percent and all other remaining creditors with 6.40 percent of external debt.

The debt-to-GDP ratio of existing debt was at 42.7 percent of GDP, interest payments consuming 1.448% of GDP, and weighted average interest rate on the debt is 3.4%. The average time to maturity is 8.0 years, moderate refinancing risk with 22.5% of the total debt maturing within a year. As per the redemption profile of the existing debt, the largest redemption burden occurs in 2024/25, which is largely due to the t-billls rollover of the GoN. After 2024/25, there is relatively smoother repayment profile in the following years. In 2025/26 and 2026/27, there is a relatively steady level of combined domestic and external debt repayments with, 2026/27 repayment values little higher than 2025/26. Domestic debt continues to represent a larger share compared to external obligations during this period.

GoN, at broader level, utilizes two instruments: domestic and external debt. The domestic debt for GoN means those instruments which are issued within the country's territory denominated in local currency i.e., Nepalese Rupees (NRs.). GoN issues four types of specific instruments i.e., T-bills, Development Bonds, Citizen Savings Bond and Foreign Employment Savings Bond. The external debt for GoN refers to the instruments issued outside the country's territory denominated in foreign currency. Almost all the external debt of the GoN is concessional in nature i.e., very long maturity and very low interest rates, provided by multilateral and bilateral partners. These external debts are sourced largely from World Bank IDA and ADB. Other sources include bilateral partners and EXIM banks as well as IMF.

Four alternative strategies have been explored in this strategy document and Strategy 3 has been selected based on analysis of three dimensions:

i. Market appetite for Government securities and lending availability from International Creditors;
ii. Compliance with policy target;
iii. Analysis of cost-risk trade-off outcomes in baseline and shock scenario.

Strategy 3 envisages the mix of external and domestic debt as well as representative instruments within the domestic and external debt for the FY 2024/25 is same as budgeted in the medium-term expenditure framework (MTEF) FY 2024/25 - FY 2026/27. In following two forecast years i.e., FY 2025/26 and FY 2026/27, the proportion of external debt disbursements is expected to increase by 2% each year against what is budgeted by the National Planning Commission (NPC) in MTEF. As Nepal is in transition phase to graduate from LDC status, its concessional sources will slowly start to dry and thus has been predicted in this strategy so, within external debt, concessional sources like World Bank and ADB disbursement is slightly reduced (0.5% less each year) and replaced same by non-concessional multilateral borrowings.

The cost-risk analysis of selected strategy 3 has the following outputs as of the end of strategy period FY 2026/27 in baseline scenario:

- Nominal debt as percent of GDP will reach 38.23 percent while present value of debt as percent of GDP will reach 29.68 percent;
- Interest payment as percent of GDP will be 0.99 percent with implied interest rate reaching 2.62 percent;
- Debt maturing in 1-year will reach 14.73 percent of total debt and 5.63 percent of GDP;
- Average time to maturity will reach 9.89 years for total portfolio with 14.42 years for external and, 3.33 years for domestic debt;
- T-bills will come down to 9.96 percent of total debt;
- Average time to refixing will reach 9.79 years and,
- 59.16 percent of total debt will be foreign exchange denominated debt.

By the end of the strategy period, Strategy 3 achieves a stronger cost-risk profile, with a marginally lower debt-to-GDP ratio and reduced interest burden. It outperforms other strategies in refinancing and interest rate risks, offering improved ATM and ATR indicators across both external and domestic debt. Finally, Annual Borrowing Plan (ABP) will be prepared based on this strategy for its smooth implementation. Coordination among the stakeholders will be strengthened through better communication and dissemination of the strategy to help ensure the GoN's financing needs are met at the lowest possible cost with a prudent degree of risk to fulfill its payment obligations.

1 Introduction

1.1. Background

This Medium-Term Debt Management Strategy (MTDS) (FY 2024/25 - 2026/27) outlines objectives and criteria for debt management of the Government of Nepal (GoN) for the period of FY 2024/25 - 2026/27. This strategy has been developed to implement the policies and programs to achieve a desired composition of the Government´s debt portfolio. Further, the MTDS aims to evaluate the cost-risk tradeoffs associated with different strategies. The current version of the document has incorporated the changes in the macroeconomic and financial scenario currently affecting the country and its economy. This document has been prepared according to the responsibilities assigned by the Public Debt Management (PDM) act, 2079.

The PDM Act, 2079; clause 4 (Kha) states that the Ministry of Finance (MoF) projects the public debt requirement for each fiscal year based on the ceiling proposed by the National Natural Resource and Fiscal Commission (NNRFC) and based on that projection, the Public Debt Management Office (PDMO) prepares the short-term, medium-term, and long-term public debt management strategies and presents them to the MoF for approval. This Medium-Term Debt Management Strategy (MTDS) (FY 2024/25 - 2026/27) has been prepared as per the direction of the act.

The implicitly stated debt strategy of the GoN has been to prioritize concessional sources of financing, taking advantage of loans from multilateral and bilateral agencies, or governments, in conditions of tenor and cost that have not been available in market debt instruments. The residual financial gap has been covered using the domestic borrowing, which generally involves short-term T-bills and short-to-medium term bonds. This Medium-Term Debt Management Strategy (MTDS) (FY 2024/25 - 2026/27) document analyzes four possible alternative debt management strategies prepared with different financing composition and recommending the GoN with one selected strategy that is best suited to fulfill the GoN's financing needs while maintaining risk exposure arising from its debt portfolio in reasonable levels, reducing macro-financial risks, reinforcing fiscal policy and supporting the development of a well-functioning government securities market.

2 Objectives

2.1 Goal and Objectives of Debt Management

Long-Term Objectives

The overarching goal of debt management is to finance the government's fiscal deficit requirements, mobilize additional source of finance to fund capital expenditure needs and refinance maturing debt of the GoN, while maintaining macroeconomic stability.

Major Objectives:

In line with the objectives of debt management in Nepal, the specific objectives of MTDS are:

- To ensure that GoN's borrowing requirements are met in consonance with the macro-fiscal framework and, maintain a sustainable debt service profile;
- To keep the borrowing cost at a minimum, consistent with a prudent degree of risk;
- To broaden the investor base and to diversify the financing instruments both for internal and external sources.

2.2 Debt Management Guidelines and the Quantitative Targets

The debt management guidelines are based on debt policies, existing debt profile, its structure, and the GoN's preference based on risk analysis for the future. These guidelines are formulated strictly within the policies, laws, and institutions of the GoN i.e., PDM Act 2079, International Development Cooperation Policy (IDCP), 2019, National Natural Resources and Fiscal Commission Act 2017 and the Sixteenth Plan (FY 2023/24-2027/28).

The guidelines to public debt management for the medium-term are:

- To explore further on available concessional borrowing, which accrues a lower interest cost, but accounting for exchange rate risk;
- To keep annual domestic borrowing within the limits of good debt management practices;
- To help GoN in maintaining fiscal stability and market confidence
- To help enhance Sub-National Governments´ (SNGs) legal and institutional framework for debt management, based on the guiding principles set in the Constitution of Nepal.

3 Existing Institutional and Legal Framework

3.1 Institutional Setup

The Public Debt Management Office (PDMO), established on June 20, 2018, under the Ministry of Finance (MoF), is responsible for managing the country's public debt. The Public Debt Management Act, 2079, enacted on November 8, 2022, provides the legal foundation for its operations, integrating previously fragmented debt management roles. The PDMO oversees front-, middle-, and back-office functions for public debt, coordinating with the MoF's International Economic Cooperation Coordination Division (IECCD) for the external debt. One responsibility of the PDMO is preparing the Medium-Term Debt Management Strategy (MTDS), which supports the GoN with deficit financing at minimum borrowing cost consistent with a prudent degree of risk. The new legal framework unifies public debt functions, enabling the PDMO to manage debt effectively while promoting macroeconomic stability and fiscal discipline across federal, provincial, and local levels.

3.2 Existing Debt Policy

The PDM Act, 2079 aims to pursue sustainable economic development and economic stability in the country through an effective management of public finance, as well as virtuous coordination between fiscal and monetary policy. The NNRFC sets an annual debt ceiling, which guides the Ministry of Finance (MoF) in projecting revenue, expenditure, and public debt while coordinating with provincial and local governments.

Provincial and local governments can borrow to cover budget deficits, with the Public Debt Management Office (PDMO) handling debt issuance, records, and planning support. External borrowing is capped at one-third of the previous fiscal year's GDP, while domestic borrowing limits are set by the NNRFC and require federal approval. Although subnational borrowing is currently not anticipated, any such actions could alter debt dynamics during the strategy period.

4 Existing Debt Portfolio

4.1 Outstanding Debt Data Series

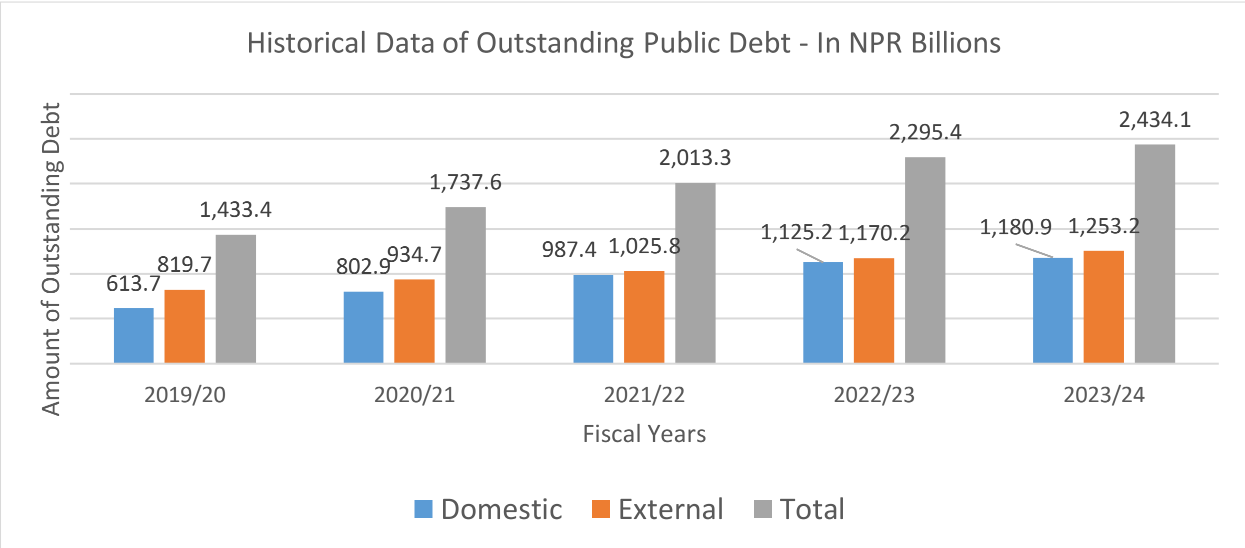

Figure 1: External and Domestic Outstanding Debt of Government of Nepal

Source: PDMO

The figure 1 presents the series of outstanding stock debt data of the GoN for the last five years including its composition as domestic and external debt. In last five years, the outstanding stock debt data has grown substantially from NRs. 1,433.4 billion in FY 2019/20 to NRs. 2,434.1 billion in FY 2023/24 (growth of almost 70 percent in five years period).

In total outstanding debt stock, domestic portion was NRs. 613.7 billion in FY 2019/20 which increased to NRs. 1180.9 billion in FY 2023/24 (representing growth of almost 92 percent in five years period) while, the external's portion was NRs. 819.7 billion in FY 2019/20 which increased to NRs. 1,253.2 billion in FY 2023/24 (representing growth of almost 53 percent growth over the period). The five-years data clearly depicts that the growth in domestic debt far exceeds external debt which led the domestic to external debt mix from current 43:57 to 49:51.

4.2 Composition of Existing Public Debt Portfolio

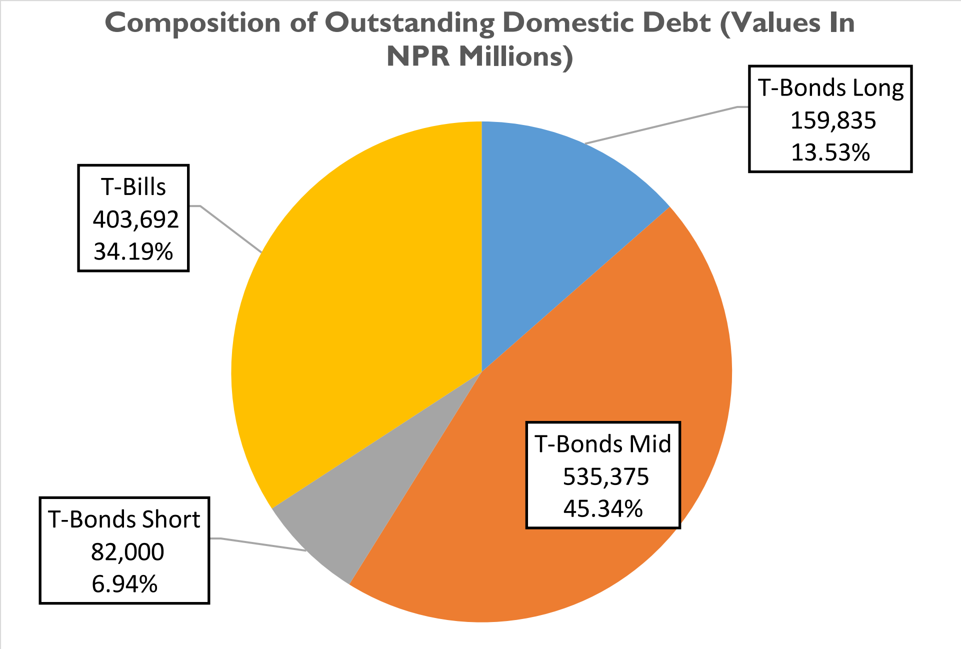

Figure 2: Outstanding domestic debt by instruments in FY 2023/24[1]

Source: Author's calculated based on data from PDMO

The figure 2 illustrates the composition of outstanding domestic debt in Nepal, expressed in NPR millions and categorized by the types of financial instruments bucket we developed for domestic debt. The majority of the debt, 45.34% (NPR 535,375 million), is in mid-term Treasury Bonds (T-Bonds Mid). This is followed by Treasury Bills (T-Bills), which account for 34.19% (NPR 403,692 million). Long-term Treasury Bonds (T-Bonds Long) contribute 13.53% (NPR 159,835 million), while short-term Treasury Bonds (T-Bonds Short) make up the smallest share, at 6.94% (NPR 82,000 million).

This breakdown highlights the government's preference for mid-term debt instruments, with a significant portion also allocated to short-term financing through T-Bills, indicating a mixed strategy of balancing maturity profiles in domestic debt management.

[1] T-Bonds Short refers to all the retail and wholesale debt instruments issued by the GoN with maturity between 2-4 years while, T-Bonds Mid refers to instruments of maturity 5-9 years and, T-Bonds Long refers to instruments with matuiroty 10 uear

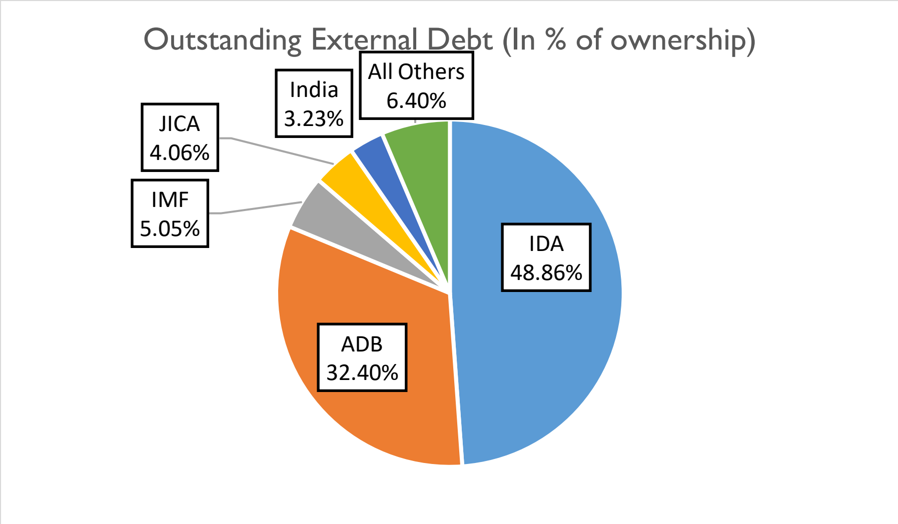

Figure 3: Outstanding External Debt by creditors in FY 2023/24

Source: PDMO

The figure 3 illustrates the composition of outstanding external debt by five-largest creditors with rest categorized as all others. At the end of FY 2023/24, the largest external creditor of the GoN is IDA representing 48.86 percent of the total external debt of the GoN. 32.40 percent of the external debt is owned by the ADB while, the 3rd largest is IMF which owns almost 5.05 percent. 4th largest external creditor is JICA owning 4.06 percent followed by India owning 3.23 percent of the external debt. All other creditors own 6.40 percent of the external debt.

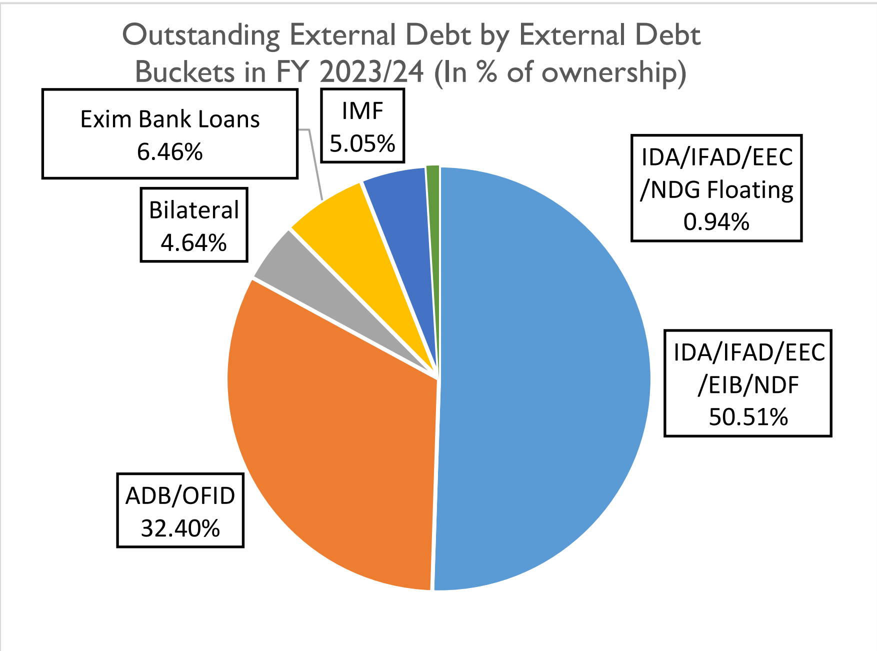

Figure 4: Outstanding External Debt by External Debt Buckets in FY 2023/24

Source: Author's calculated for MTDS based on data from PDMO

The figure 4 displays the composition of outstanding external debt by external debt buckets as outlined in the Medium-Term Debt Management Strategy (MTDS) for fiscal year 2079/80. The largest share of external debt, accounting for 50.51%, is attributed to multilateral financing institutions such as IDA, IFAD, EEC, EIB, and NDF, highlighting their critical role in providing long-term concessional loans. This group significantly influences the overall debt structure, emphasizing the reliance on multilateral sources.

The second-largest contributor, at 32.40%, is a combined category of the Asian Development Bank (ADB) and the OPEC Fund for International Development (OFID). Other contributors include Exim Bank Loans (6.46%), bilateral loans (4.64%), and the International Monetary Fund (IMF) (5.05%). A minor share, 0.94%, is allocated to instruments categorized as "IDA/IFAD/EEC/NDG Floating" which includes lending from bilateral and multilateral creditors with floating rates. This distribution underscores the dominance of multilateral lenders while reflecting a modest diversification into bilateral and other debt instruments

4.2 Currency Composition of External Debt Portfolio

Currency	External Debt Outstanding (In NPR Millions)	External Debt Outstanding (In %)
Special Drawing Rights (SDR)	934,191.9	74.54%
United States Dollars (USD)	214,803.4	17.14%
Japanese Yen (JPY)	50,889.5	4.06%
Chinese Yuan (CNY)	35,293.4	2.82%
Korean Won (KRW)	5,010.8	0.40%
Euro (EUR)	8,056.1	0.64%
Saudi Riyal (SAR)	3,075.8	0.25%
Kuwaiti Dinar (KWD)	1,834.1	0.15%
Great Britain Pounds (GBP)	38.5	0.004%
Danish Kroner (DKK)	4.4	0.00045%
Total External Debt Outstanding (In NPR Millions)	**1,253,197.9**	**100%**
External Debt as percent of GDP	**21.97%**	

Table 1: Currency Composition of Outstanding External Debt in FY 2079/80 (In NPR Millions)

Source: Author's calculated based on data from PDMO

The domestic public debt is denominated in local currency i.e., Nepalese Rupees, while external debt is denominated in foreign currencies. While the residence criterion is used, no external debt denominated in local currency has been issued yet by the GoN. Table 1 illustrates that the most predominant currency for foreign debt is SDR, accounting for almost 74 percent of total. SDR is followed by USD, representing almost 17 percent of foreign debt, and Japanese Yen (JPY) represents almost 4 percent of foreign debt. Finally, Chinese Yuan (CNY) accounts for almost 3% of external debt. while other currencies represent less than 1 percent of the composition. The detailed value of currency-wise foreign outstanding debt denomination is presented in Table 1.

4.3 Cost and Risk Indicators of Existing Public Debt Portfolio

2. COST AND RISK INDICATORS FOR EXISTING DEBT AS AT END 2024

Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of NPR)		1,253,197.9	1,180,901.8	2,434,099.7
Amount (in millions of USD)		9,355.0	8,815.3	18,170.3
Nominal debt as percent of GDP		22.0	20.7	42.7
PV as percent of GDP[2]		14.2	20.7	34.9
Cost of debt[3]	Interest payment as percent of GDP[4]	0.167	1.282	1.448
	Weighted Av. IR (percent)	0.8	6.2	3.4
Refinancing risk[3]	ATM (years)	13.0	2.7	8.0
	Debt maturing in 1yr (percent of total)	3.7	42.7	22.5
	Debt maturing in 1yr (percent of GDP)	0.8	8.8	9.7
Interest rate risk[3]	ATR (years)	12.9	2.7	8.0
	Debt refixing in 1yr (percent of total)	4.6	42.7	23.0
	Fixed rate debt incl T-bills (percent of total)	99.1	100.0	99.5
	T-bills (percent of total)	0.0	34.2	16.5
FX risk	FX debt (percent of total debt)			51.5
	ST FX debt (percent of reserves)			2.3

Table 2: Cost and Risk Indicator of Existing Debt Portfolio

Source: Author's calculation in MTDS Analytical Tool

2 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 terms.

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

4 Interest payment as percent of GDP is calculated by dividing interest payment on outstanding debt.

Nepal's debt at the end of FY 2023/24 comprises 1,253.2 billion Nepali Rupees (NPR) in external debt and 1,180.9 billion NPR in domestic debt, amounting to a total of 2,434.1 billion NPR. This represents 42.7% of GDP. The present value of the debt is 34.9% of GDP. The cost of debt is significant, with interest payments consuming 1.448% of GDP. The average interest rate on the debt is 3.4%, and the average time to maturity is 8.0 years. Refinancing risk is moderate, with 22.5% of the total debt maturing within a year. Interest rate risk is low, as 99.5% of the debt has fixed interest rates. Foreign exchange risk is minimal, with low exposure to foreign currency fluctuations.

4.4 Redemption Profile of Existing Public Debt Portfolio

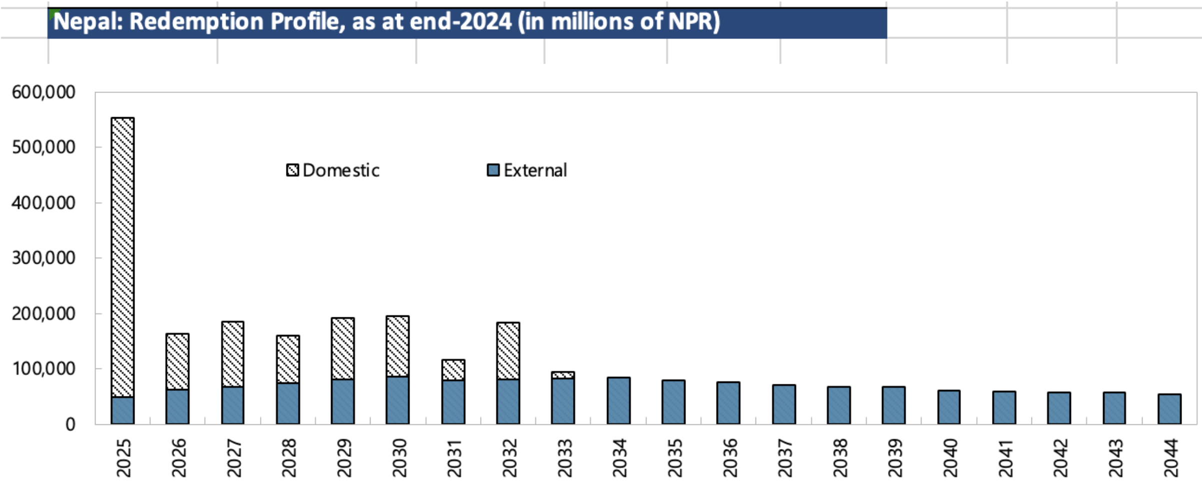

Figure 5: Redemption Profile of Existing Debt Portfolio

Source: MTDS Analytical Tool Output

The figure displays Nepal's debt redemption profile as of the end of FY 2023/24**,** showing the repayment obligations for both domestic and external debt in millions of Nepalese Rupees (NPR) over the medium-term and strategy period 2024/25-26/27. The largest redemption burden occurs in 2024/25, with a significant portion of domestic debt (striped bar) maturing alongside external debt (solid bars). This suggests a near-term repayment peak requiring substantial fiscal resources. But, In Nepal's case, this is due to maturing T-bills. T-bills, by characteristics, has maturity of 1 year or less so, all the outstanding stock of T-bills in 2024 has to be repaid in 2025 and large portion of same is rolled over which means no significant pressure will fall in GoN's fiscal space.

After 2025, annual redemption volumes decline sharply for both domestic and external debt. This indicates a concentration of debt maturing in the short term, with a relatively smoother repayment profile in the following years. In 2026 and 2027, there is a relatively steady level of combined domestic and external debt repayments with, 2027 repayment values little higher than 2026. Domestic debt continues to represent a larger share compared to external obligations during this period.

The figure suggests that Nepal faces a concentrated repayment challenge in the near term, particularly in 2025 but, this won't be a problem for the GoN as, the T-bills are necessary to financial institutions on their funds management and meet the reserve requirement of the Central bank so, there hasn't been any situation where GoN faced any issue in rolling over its T-bills. The smoother repayment profile in later years reflects efforts to align debt maturity with the government's capacity to repay, emphasizing sustainable debt management practices.

5 Baseline Macroeconomic Framework

Fiscal projections				
S. No.	**Particulars**	**2081/82 (B)**	**2082/83 (B)**	**2083/84 (B)**
1	Total Revenue and Grants (NPR Billions) *	1,312.63	1,520.46	1,773.52
2	Total Expenditure (NPR Billions) **	1,860.30	2,088.21	2,429.98
3	GDP Current Prices (NPR Billions)	6,375.16	7,152.93	8,075.66
4	Real GDP Growth Rate (%)	6%	6.08%	6.14%
5	Inflation Rate (%)	5.5%	5.5%	5.8%
6	Revenue and Grants (% of GDP)	20.58%	21.25%	21.96%
7	Primary Expenditure (% of GDP)	29.17%	29.19%	30.08%
Source: (B) Mid-Term Expenditure Framework (MTEF) FY 2024/25 - FY 2026/27, National Planning Commission (NPC)				
*exclude revenue-sharing amount **include recurrent, capital & financing expenditure				

Table 3: Macroeconomic Forecasts for Strategy Period

5.1 Baseline Pricing Assumptions

Domestic Debt

The domestic debt for GoN means those instruments which are issued within the country's territory denominated in local currency i.e., Nepalese Rupees (NRs.). GoN issues four types of specific instruments i.e., Treasury bills termed T-bills in this document and Development Bonds, Citizen Savings Bond and Foreign Employment Savings Bond termed T-bonds in this document. T-bills refers to short-term instruments which are issued with maturity of 1 or less than 1 year and, Nepal has T-bills of maturity 28 days, 91 days, 182 days and 364 days. These short-term instruments are issued at discount through auction thus, interest rates are determined by the market and most of these instruments are subscribed by the institutional investors such as commercial banks, development banks, finance companies, insurance companies etc. and is also used by the Central bank of the country i.e., NRB for liquidity management in the banking system. T-bonds are issued with maturity of more than 1 year and this document has grouped T-bonds into three categories based on their maturity i.e., T-Bonds Short with maturity of 2 to 4 years, T-Bonds Mid with maturity of 5 to 9 years and T-

Bonds Long with maturity of 10 years and above. Development Bonds are subscribed by the institutional investors so, thus have market-based interest rates determined through auction while, Citizen Savings Bond and Foreign Employment Saving Bond are subscribed by individual investors so, thus have pre-determined interest rates.

External Debt

The external debt for GoN refers to the instruments issued outside the country's territory denominated in foreign currency. Almost all the external debt of the GoN is concessional in nature i.e., very long maturity and very low interest rates, provided by multilateral and bilateral partners. These external debts are categorized into six groups in which 1st include Multilateral sources such as: World Bank - International Development Association, International Fund for Agricultural Development, European Economic Commission, European Investment Bank, Nordic Development Fund; 2nd include Multilateral sources such as: Asian Development Bank, and OPEC Fund for International Development; 3rd group include borrowings from bilateral partners such as: Belgium, Japan International Cooperation Agency, Kuwait, Saudi Fund, Natixis Bank France, and Saudi Arabia; 4th includes borrowings from Exim Banks such as Export-Import Bank of China, Export-Import Bank of India, and Export-Import Bank of Korea; 5th group includes borrowing from International Monetary Fund (IMF) and finally 6th group includes multilateral and bilateral lenders with non-concessional terms.

5.2 Available Sources of Financing

Most of the existing external debt borrowings are made from bilateral and multilateral lenders who have been offering concessional lending i.e., very long tenure of more than 20 years and low fixed interest rates of mostly 2 percent. These debt instruments are sourced primarily from multilateral institutions such as the World Bank (IDA) and the Asian Development Bank (ADB). Other multilateral institutions with the same features of debt include the International Fund for Agricultural Development (IFAD), the European Union, the Nordic Development Fund (NDF), and the OPEC Fund for International Development (OFID). Other major external creditors include loans from Exim Banks such as Exim Bank of India, Exim Bank of China, and Exim Bank of Korea. Additional sources of concessional lending for the GoN include loans from bilateral partners like Japan International Cooperation Agency (JICA) and the Governments of Saudi Arabia, Kuwait and Belgium. As the country has already graduated and currently is in transition phase from its least-developed country (LDC) status, these concessional sources is slowly going to be difficult to be sourced thus, the GoN has already started exploring borrowing from the multilateral and bilateral sources with non-concessional terms. The GoN has already agreed to borrow with floating interest rates and disbursements from these borrowings has already started and is reflected in this period's MTDS document.

The country is in its path of rapid economic growth after implementation of new constitution which means continuously growing GoN's financing needs, all led by the the increasing capital expenditure. To meet this rising financing needs, various possible options for borrowing that meet the GoN's development goals are being continuously explored, including non-concessional lending from multilateral financial institutions and even market-based lending.

Innovative instruments will continuously be assessed and utilized such as co-financing agreements and blended finances along with instruments of hedging and swaps. In the medium and long terms, the PDMO intends to issue bonds in the international capital market, a funding source that has not been available so far. The availability of this source will be continuously assessed and utilized once the necessary conditions are met.

While, domestic debt is issued in local currency within the country's territory and the primary source of this debt are banks and financial institutions, insurance companies, employment provident funds etc. The different categories of financial institutions have to maintain different types of minimum funding requirements set by the Central bank i.e., Nepal Rastra Bank and, most of those needs are maintained through the government securities. As these requirements are set to continue in future meaning the domestic debt financing sources has remained and is expected to remain in future as well.

6 Financing Strategy

6.1. Alternative Strategies

Four alternative strategies are formulated using various debt instruments and assessed in relation to their consistency with the expected supply of financing from lenders and market investors in the next few years, compliance with policy ceilings and/or targets, and cost-risk profile. Table 4 below summarizes the main features of each strategy concerning the debt instruments utilized and their respective assessment:

	Debt Instruments Utilized	Assessment
Strategy 1 (S1)	- The mix of external & domestic debt for the entire strategy period FY 2024/25 - FY 2026/27 is as budgeted in MTEF (FY 2024/25 - FY 2026/27). - The composition of representative instruments within external debt for FY 2025/26 is as per 2081/82 budget and same is expected to continue throughout the strategy period and within domestic debt, T-bills proportion is increased to maintain T-bills stock at acceptable level (gradual decline in value terms) while long-term debts are gradually increased.	This strategy: (i) takes advantage of concessional financing provided by multilateral and bilateral lenders. (ii) takes into consideration prevailing market conditions, lending capacity of the market to the government, implications of declining T-bills stock. (iii) complies with the policy ceiling on annual net issuance of domestic debt (which should not exceed 5 percent of GDP).
Strategy 2 (S2)	- The mix of external & domestic debt for FY 2024/25 is as budgeted in MTEF (FY 2024/25 - FY 2026/27) and for the remaining years i.e., FY 2025/26 &	This strategy: (i) Gradual increase in concessional financing provided by multilateral and bilateral lenders to take maximum possible utilization of

	2026/27, the external debt proportion is expected to increase by **<u>1% of GFN</u>** each year in addition to the budgeted proportion in MTEF (FY 2024/25 - FY 2026/27) - Within external debt, concessional sources like World Bank and ADB disbursement is expected to slightly increase (0.5% of GFN more each year) replacing non-concessional, bilateral and Exim loan sources. - Within domestic debt composition, keeping T-bills stock at an acceptable level, preference during new issuances in each strategy year is diverted from short-term T-bonds instrument to mid-term instruments.	concessional sources available during LDC graduation transition. (ii) reduces the public debt portfolio's exposure to refinancing and interest rate risks by gradually limiting the stock of T-bills and meeting the expected domestic debt requirements through medium- and long-term T-bonds—which may only be partly offset by the T-bonds' higher interest costs, and offer predictive interest costs for the GoN; (iii) increases the public debt portfolio's duration and supports the development of the domestic yield curve. (iv) complies with the policy ceiling on annual net issuance of domestic debt.
Strategy 3 (S3)	- The mix of external & domestic debt for FY 2024/25 is as budgeted in MTEF (FY 2024/25 - FY 2026/27) and for the remaining years i.e., FY 2025/26 & 2026/27, the external debt proportion is expected to increase by **<u>2% of GFN</u>** each year in addition to the budgeted proportion in MTEF (FY 2024/25 - FY 2026/27) - Within external debt, proportions of non-concessional sources will slightly increase y-on-y replacing limited bilateral and EXIM sources. While other sources i.e., concessional loans are expected to contribute equivalent proportions. - Within domestic debt composition, an attempt has been made to keep T-bills stock at acceptable level and preference has been shifted gradually towards long-term T-bonds	This strategy: (i) Gradual increment in utilization of external debt available at competitive terms than domestic debt. It would allow us for maximum utilization of concessions offered by multilateral and bilateral lenders available during LDC graduation transition. (ii) reduces the public debt portfolio's exposure to refinancing and interest rate risks by gradually limiting short-term bonds issuance and gap being filled with both medium- and long-term T-bonds—which may only be partly offset by the T-bonds' higher interest costs and offer predictive interest costs for the GoN. An attempt has been made to keep T-bills stock at certain limit necessary for short-term cash management and to meet the appetite of domestic debt investors. (iii) slightly attempt to increase the public debt portfolio's duration and extend development of domestic yield curve.

		(iv) complies with the policy ceiling on annual net issuance of domestic debt.
Strategy 4 (S4)	- The mix of external & domestic debt for FY 2024/25 is as budgeted in MTEF (FY 2024/25 - FY 2026/27) and for the remaining years i.e., FY 2025/26 & 2026/27, the external debt proportion is expected to decrease by **3% of GFN** each year in addition to the budgeted proportion in MTEF (FY 2024/25 - FY 2026/27). This decline reflects the growing geo-political and economic tensions at the global level that affects the preferred concessional sources of external debt. - Bilateral and Exim loan sources are expected to be available at stable level while, concessional sources are less available and, gap created is expected to be filled by non-concessional sources. - Within domestic debt composition, preference is given towards maintaining T-bills volume and utilizing longer-term T-bonds	This strategy: (i) take in account the growing geo-political tension and economic issues among the developed economies-key supplier of concessional funds. (ii) Being a LDC in transition economy, non-concessional sources would be available to fill the gap left by the decline in concessional sources (iii) Gradual attempt to extend the maturity/duration of the domestic debt market by increasing usage of medium-& long-term bonds while, small decline in short-term instruments to reduce the refinancing risk of the GoN (iv) Attempt to diversify/extend domestic bond market to support the development of the domestic yield curve; (v) complies with the policy ceiling on annual net issuance of domestic debt (which should not exceed 5 percent of GDP).

Table 4: Key Characteristics of the Strategies and its Feasibility

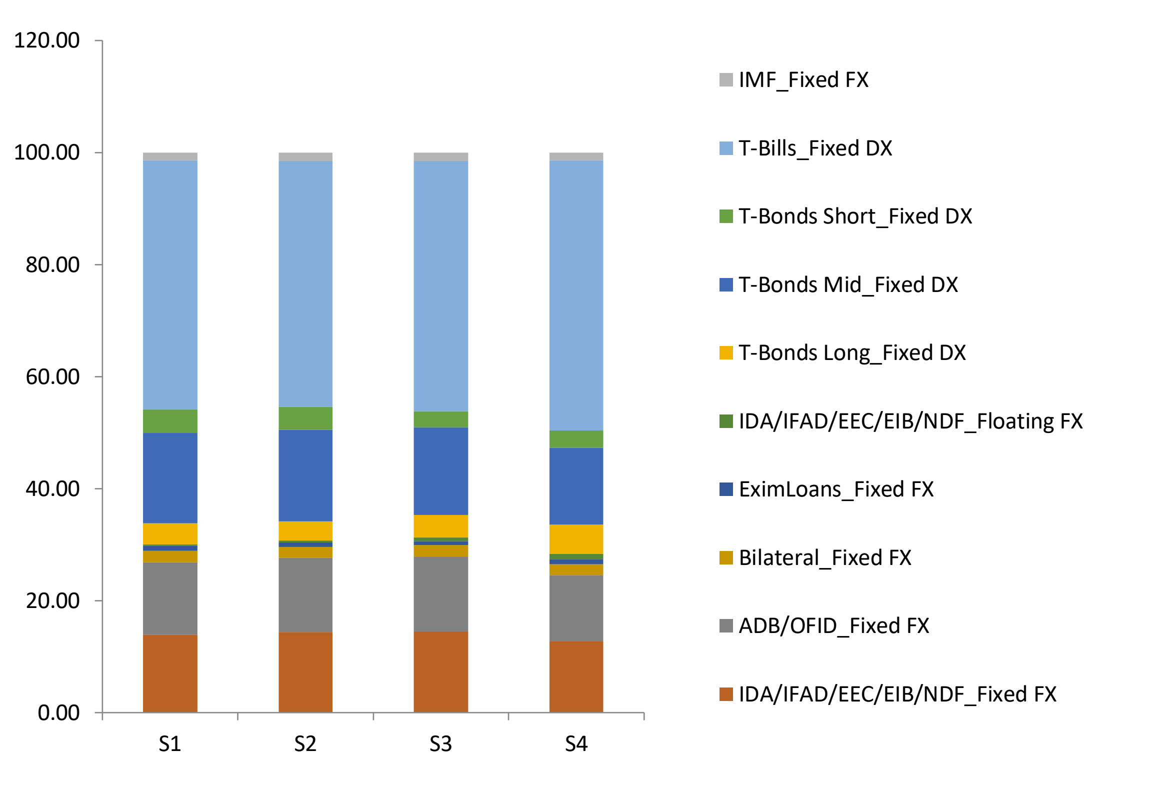

Figure 6: Financing Sources for each Strategy (% of total)

Source: MTDS Analytical Tool

Figure 6 illustrates the composition of financing flows across three-year strategy periods, highlighting distinct approaches.

6.2 Analysis of Results: Cost and Risk of the Alternative Strategies for the Baseline Scenario

The cost-risk trade-offs of the four alternative strategies are key to inform the selection of an adequate strategy to be adopted by the GoN in the medium term. Table 4 summarizes the main cost and risk indicators corresponding to the public debt portfolio that would be outstanding by FY 2026/27 if: (i) the GoN pursues each of the strategies over the next three years, and (ii) the baseline scenario materializes as expected. An analysis of said indicators is presented below.

Cost-Risk Indicators - Baseline Scenario					
Risk Indicators	**2023/24**	**As at end 2026/27**			
	Current	**S1**	**S2**	**S3**	**S4**
Nominal debt as percent of GDP	42.70	38.235	38.232	38.230	38.242
Present value debt as percent of GDP	34.90	29.81	29.73	29.68	30.08
Interest payment as percent of GDP	1.40	1.00	1.00	0.99	1.01
Implied interest rate (percent)	3.40	2.63	2.62	2.62	2.67
Debt maturing in 1yr (percent of total)	22.5	14.62	14.32	14.73	16.71

Refinancing risk	Debt maturing in 1yr (% of GDP)	9.7	5.59	5.48	5.63	6.39
	ATM External Portfolio (years)	13.0	14.33	14.39	14.42	14.22
	ATM Domestic Portfolio (years)	2.7	3.32	3.31	3.33	3.30
	ATM Total Portfolio (years)	8.0	9.72	9.80	9.89	9.55
Interest rate risk	ATR (years)	8.0	9.67	9.75	9.79	9.43
	Debt refixing in 1yr (percent of total)	23.0	15.11	14.82	15.54	17.65
	Fixed rate debt incl T-bills (percent of total)	99.5	99.48	99.47	99.15	99.03
	T-bills (percent of total)	16.5	9.85	9.56	9.96	11.94
FX risk	FX debt as % of total	51.5	58.17	58.58	59.16	57.21
	ST FX debt as % of reserves	2.3	2.96	2.96	2.96	2.96

Table 5: Results of Cost-Risk Indicators of each strategy

Source: MTDS Analytical Tool Output

Risk Indicators

Debt Stock (as percent of GDP): The value of nominal debt at the end of the strategy period (i.e., end of FY 2026/27) is projected to reach 38.235 percent of GDP with strategy 1, reach 38.232 percent of GDP with strategy 2, reach 38.23 percent of GDP with strategy 3 and 38.242 with strategy 4. The value of nominal debt as percent of GDP in the previous FY 2023/24 was 42.7 percent which means the ratio is projected to marginally decline over the strategy period with all the financing strategy. After a rapid growth in debt-to-GDP ratio in the last decade, now it is expected to come on track with growth in debt stock expected to be lower than the economic growth rate.

Present Value (PV) of Debt Stock (as percent of GDP): The present value (PV) of debt at the end of FY 2023/24 was 34.90 percent of GDP which is expected to marginally decline during the strategy period following the marginal decline in debt-to-GDP ratio. The ratio of present value of debt as percent of GDP is expected to marginally decline to 29.81 percent with strategy 1, to 29.73 percent with strategy 2, to 29.68 percent with strategy 3 and 30.08 percent with strategy 4. The PV of debt is substantially lower than the nominal debt because most external debt of the GoN are concessional in nature meaning the interest rates are very low. As most strategies have prioritized lending from the concessional external source so, the decline in this indicator is higher than decline in debt-to-GDP ratio.

Interest Payments (as percent of GDP): Interest payments are 1.40 percent of GDP for the existing debt and are projected to marginally decline with all the strategies during the strategy period and will stay at 1.00 percent of GDP with strategy 1, and 2 while 0.99 percent with strategy 3, and 1.01 percent with strategy 4 by the end of FY 2026/27. The entire portfolio of external debt is concessional in nature with very low interest rates while the portfolio of domestic debt is market-based and presently most are issued at relatively lower interest rates than in previous years. This has led to marginal decline in interest cost as percent of GDP in the strategy period.

Implied interest rate (percent): The implied interest rate, average interest rates calculated based on interest payments made and current level of debt stock, is 3.4 percent at the end of FY 2023/24 and is expected to further decline marginally over the strategy period with all the strategies. The strategy 1 will result in decline of implied interest rate to 2.63 percent, strategy 2 will result in decline to 2.62 percent, strategy 3 will result in decline to 2.62 percent, and strategy 4 will result in decline to 2.67 percent. The risk indicator of implied interest rate is projected to marginally decline with relatively larger net increase in concessional external debt compare to market-based domestic debt and the market-based domestic debt is projected to have relatively lower interest rates.

Refinancing Risk Indicators

Debt maturing in 1-year (as percentage of total debt): At the end of FY 2023/24, debt maturing in 1-year was existing at 22.5 percent of the total debt. With all the proposed financing strategies, the indicator is projected to improve by the end of the projection period FY 2026/27. The debt maturing in 1-year is expected to decline to 14.62 percent with strategy 1, 14.32 percent with strategy 2, 14.73 percent with strategy 3 and 16.71 percent with strategy 4. With the projected domestic debt amortization, T-bills stock is expected to decline each year which was the strategy taken during our last MTDS strategy. This year, all the financing strategies are designed to reduction in controlled level the T-bills stock each year during the strategy period. The strategies are maintained to give preference to either Mid- or long-term T-bonds over short-term T-bonds.

Debt maturing in 1-year (as percentage of GDP): At the end of FY 2023/24, debt maturing in 1-year was 9.7 percent of GDP. This indicator is projected to improve significantly by the end of the strategy period with all the four recommended financing strategies. The ratio is expected to go down to 5.59 percent of GDP with strategy 1, 5.48 percent of GDP with strategy 2, 5.63 percent of GDP with strategy 3, and 6.39 percent of GDP with strategy 4. All the results obtained from the four strategies is a significant improvement relative to the current ratio at the end of FY 2023/24.

Average Time to Maturity (ATM, in years): The average maturity period of existing debt at the end of FY 2023/24 is 8.0 years for the total portfolio, with 13 years for external debt and 2.7 years for domestic debt. During the strategy period across all four strategies, instruments with longer maturities are preferred over shorter tenures. As a result, the ATM (Average Time to Maturity) of total portfolio is projected to increase by the end of the strategy period. For total debt, the ATM is projected to reach 9.72 years with strategy 1, 9.80 years with strategy 2, 9.89 years with strategy 3, and 9.55 years with strategy 4.

Interest Rate Risk Indicators

Average Time to Re-Fixing (ATR, in years): Without the presence of any variable rate debt instruments in the total debt portfolio, the ATR (Average Time to Refixing) will be identical to the ATM (Average Time to Maturity). The ATR of existing debt at the end of FY 2024 is 8.0 years and is projected to increase by the end of the projection period across all four strategies. The ATR is projected to reach 9.67 years with strategy 1, 9.75 years with strategy 2, 9.79 years with strategy 3, and 9.43 years with strategy 4.

Debt re-fixing in 1-year (as percentage of total debt): Debt refixing in 1 year, which measures the proportion of debt instruments that are subject to changes in debt terms within one year, is a critical indicator of a country's vulnerability to short-term market fluctuations such as interest rate fluctuations. At the end of FY 2023/24, 23% of the total debt portfolio is expected to undergo refixing within one year. During the strategy period, with strategies giving preference to replace short-term instruments with longer-term instruments, the proportion of debt refixing in 1 year is expected to decline under all four strategies. By the end of the strategy period, this indicator is projected to fall to 15.11% with strategy 1, 14.82% with strategy 2, 15.54% with strategy 3, and 17.65% with strategy 4. This decline reflects the adoption of strategies aimed at reducing exposure to interest rate risk, as longer-term fixed-rate instruments are prioritized over shorter-term or variable-rate instruments. As a result, the debt portfolio becomes less sensitive to sudden increases in interest rates, enhancing the overall financial stability and resilience of the portfolio.

T-bills Stock (as percentage of total debt): Treasury bills (T-bills) are essential for short-term cash management. While they offer flexibility and quick access to financing, their short-term nature introduces higher refinancing and interest rate risks, making them a volatile and potentially costly component of the debt portfolio. By FY 2024, T-bills constituted 16.5% of the total debt portfolio. To reduce these risks, all strategies prioritize medium- and long-term instruments, aiming to enhance debt stability. By the projection period's end, the share of T-bills is expected to decline to 9.85% (strategy 1), 9.56% (strategy 2), 9.96% (strategy 3), and 11.94% (strategy 4). This reduction in the reliance on T-bills not only lowers refinancing risk but also aligns with best practices in debt management by fostering a more sustainable debt structure. It underscores the importance of balancing cost considerations with risk management objectives, ensuring that short-term borrowing remains an instrument of flexibility rather than a source of systemic vulnerability.

Foreign Exchange (FX) Risk Indicators

External Debt (as percentage of total debt): External debt represented 51.5% of the total debt portfolio by the end of FY 2023/24. The larger share of external debt reflects the country's strategy to leverage concessional loan opportunities provided by bilateral and multilateral partners, offering favorable terms compared to domestic borrowing. Under the four financing strategies, the share of external debt as a percentage of total debt is projected to increase during the strategy period. By the end of the period, the share of external debt is expected to rise to 58.17% under strategy 1, 58.58% under strategy 2, 59.16% under strategy 3 (the highest), and 57.21% under strategy 4. This increase aligns with the strategic emphasis on external financing to take advantage of concessional funding while maintaining fiscal sustainability. However, it also necessitates careful management of foreign exchange risks associated with a larger share of external debt.

6.3 Analysis of Results: Cost and Risk of the Alternative Strategies for Risk Scenarios

Complementing the baseline scenario—built upon the macroeconomic framework and pricing assumptions presented in Section 5—an analysis of risk scenarios is conducted. Risk scenarios are used to evaluate the performance of strategies under adverse market conditions—including the calculation of cost and risk indicators. These scenarios are formulated with shocks to exchange rates and interest rates that may hit the Nepalese economy.

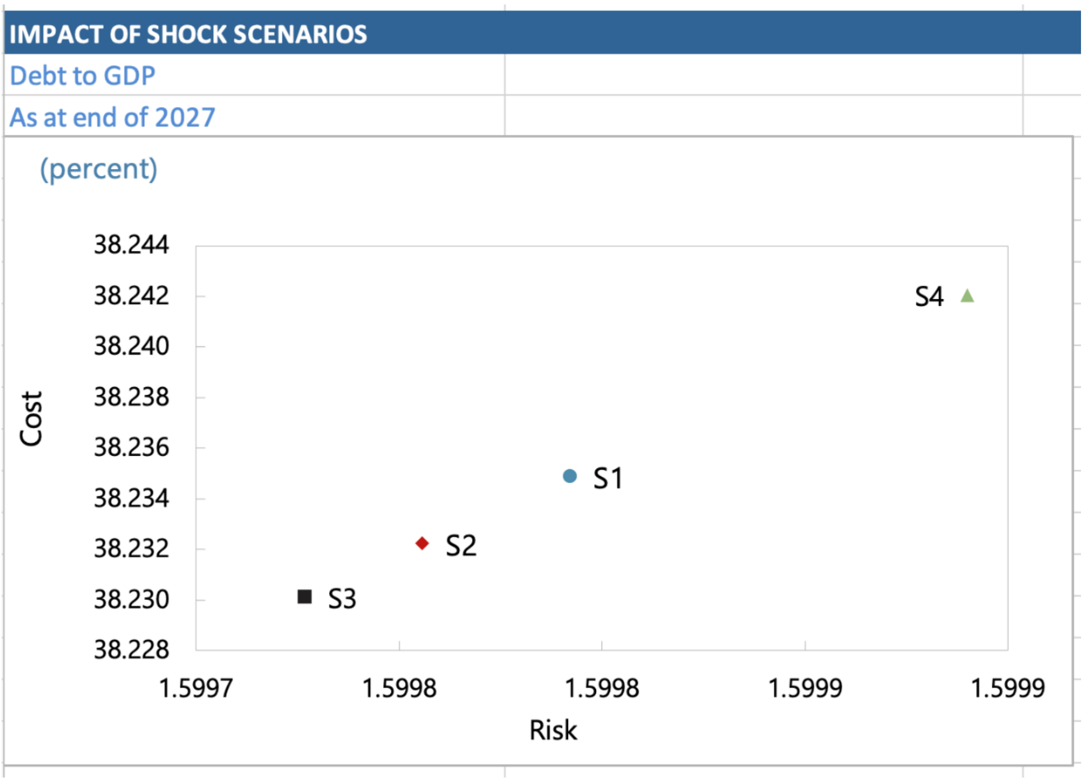

Figure 7: Impact of Shock Scenarios on Debt-to-GDP Ratio at end of FY 2026/27

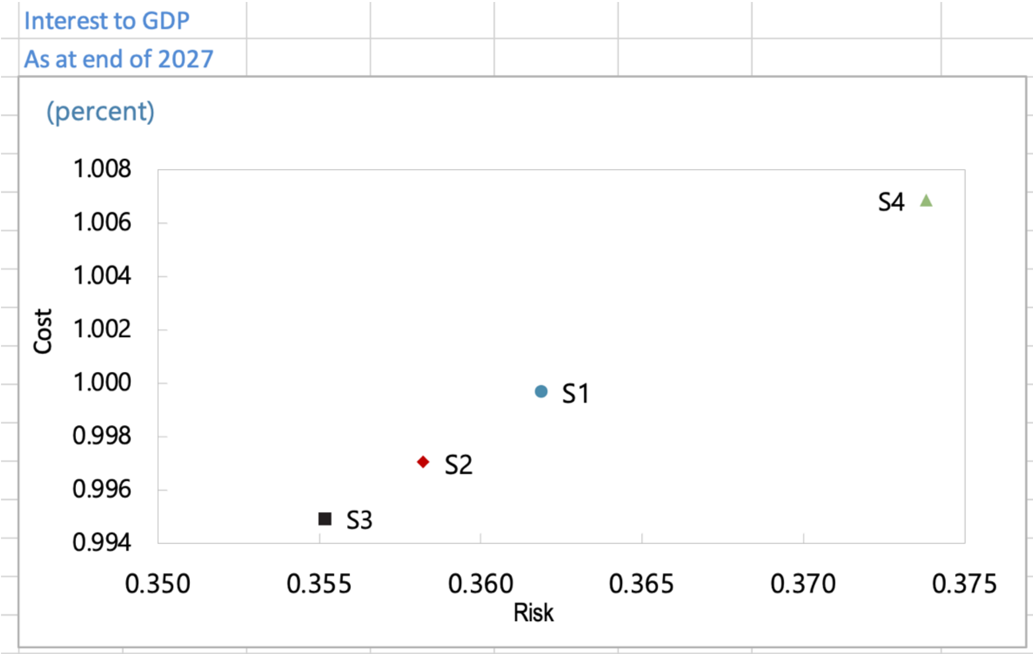

Figure 8: Impact of Shock Scenarios on Interest-to-GDP Ratio at end of FY 2026/27

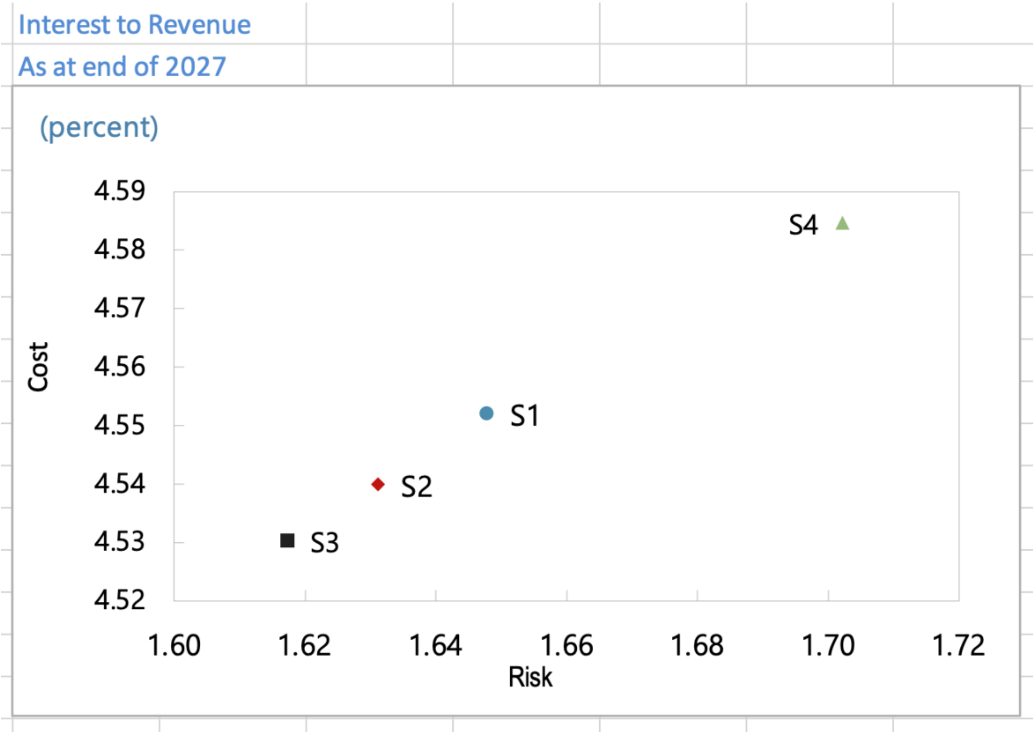

Figure 9: Impact of Shock Scenarios on Interest-to-Revenue Ratio at end of FY 2026/27

Figure 8, 9 and 10 summarize a key cost indicator—the debt stock and Interest Payments as percent of GDP and interest to revenue — for the public debt portfolio that would be outstanding by FY 2026/27 if: (i) the GoN pursues each of the strategies over the next three years, (ii) either baseline or risk scenarios materialize. In all three indicators, there is not much significant difference in cost and risk values but, the best performing among them is strategy 3.

6.4 Selection of Financing Strategy for Implementation

As per the assessment of the four debt management strategies in relation to their consistency with the expected supply of financing from lenders and market investors in the next few years, compliance with policy ceilings and/or targets, and cost-risk profile, the **strategy 3 is selected as the optimal financing path** to be adopted by the GoN in the medium-term.

Market investors' appetite for Government securities and lending availability from international lenders is key to determine the feasibility of securing the financing flows required by any given strategy. Strategy 3 envisages disbursements by creditors that replicate the historical patterns observed in last 5 years as well as consider the projections made by the GoN in its already published policy documents, thus providing a more realistic outlook. The external creditors have strong commitment towards Nepal and they are willing to provide sizable credit facilities; however, the actual disbursements will be largely based on the progress of the projects they finance.

Strategy 3 envisages the mix of external and domestic debt as well as representative instruments within the domestic and external debt for FY 2024/25 is same as budgeted in the already announced mid-term review budget for FY 2081/82. In following two forecast years i.e., FY 2025/26 and FY 2026/27, the proportion of external debt disbursements is expected to increase by 2% each year against what is predicted by the Economic policy analysis division of Ministry of Finance. As Nepal is in transition phase to graduate from LDC status, its concessional sources will slowly start to dry and thus has been predicted in this strategy so, within external debt, concessional sources like World Bank and ADB disbursement is slightly reduced (0.5% less each year) and replaced same by non-concessional multilateral borrowings.

Within domestic debt composition, T-bills stock is expected to contract but, at controlled and accepted level while, short-term bonds issuance is gradually controlled with use of larger proportion of mid- and long-term bonds. T-bills, though offer considerable refinancing risk to the GoN, is an essential tool for short-term cash management and used by the Central bank for liquidity management in the economy thus, our economy does need certain T-bills stock which is why it is controlled at acceptable level. The GoN's domestic market is largely short tenured so, it is actively seeking to extend the tenure thus, strategy 3 has made an attempt to gradually reduce the issuance of the short-term T-bonds while making an attempt to use larger proportion of mid- and long-term T-bonds.

Compliance with policy ceilings and/or targets on debt stocks, financing flows, or other variables, is another requirement that any strategy must accommodate. Strategy 3 complies relatively better with the debt management objectives and goals set by the GoN, compared to the other three strategies. The guidelines set by the GoN for public debt management stress the need to utilize available concessional borrowing, which accrues a lower interest cost after accounting for exchange rate risk. Strategy 3 does rely on realistic volumes of concessional financing—especially from multilateral partners which generally offers better credit terms. Strategy 3 also accomplishes the policy target of systematically controlling the proportion of T-bills in domestic debt and replacing them with medium- and long-term T-bonds.

Adequate cost-risk profile of any given strategy is also desirable in order to strengthen public finances in the baseline outlook as well as in the risk scenarios. Strategy 3 offers the preferable outcomes for the GoN. By the end of the strategy period, it leads to a marginally lower debt stock (relative to GDP) and relatively lower interest burden. In terms of refinancing and interest rate risks, strategy 3 also outperforms other strategies—with notable performance in a range of indicators, including ATM-both external and domestic, ATR.

The cost-risk analysis of selected strategy 3 has the following outputs as of the end of strategy period FY 2026/27 in baseline scenario:

- Nominal debt as percent of GDP will reach 38.23 percent while present value of debt as percent of GDP will reach 29.68 percent;
- Interest payment as percent of GDP will be 0.99 percent with implied interest rate reaching 2.62 percent;
- Debt maturing in 1-year will reach 14.73 percent of total debt and 5.63 percent of GDP;
- Average time to maturity will reach 9.89 years for total portfolio with 14.42 years for external and, 3.33 years for domestic debt;
- T-bills will come down to 9.96 percent of total debt;
- Average time to refixing will reach 9.79 years and,
- 59.16 percent of total debt will be foreign exchange denominated debt.

The selected strategy 3 intends to take advantage of concessional financing and simultaneously increase the duration of the outstanding public debt portfolio by gradually meeting the larger domestic debt requirement with medium and long-term T-Bonds. Specifically, this strategy will continue to moderately increase the proportion of external debt disbursement than predictions made in GoN's policy document i.e., MTEF while, for domestic loan disbursement, it plans to make issuance of T-bills in controlled level, utilizing mid- and long-term bonds over shorter ones. Thus, this strategy will lead to the best possible level of cost and risk indicators for the GoN.

6.5 Potential Constraints and Remedies for Implementation of the Strategy 3

The main constraints to implement selected strategy are described below:

Graduation from Least-Developed Country (LDC) status: Nepal is expected to access significant levels of concessional financing from international financial institutions during the strategy period. However, competition for these resources could result in tighter borrowing conditions. Additionally, as Nepal transitions to a higher income level, access to concessional loans will narrow, with loan terms becoming more stringent.

Diversion of concessional funding towards climate finance goals: The COP29 - coined finance COP - had led to substantial diversion of investor's interest towards climate mitigation and adaptation related financing. This has led to additional burden for developing countries like Nepal which developing its potential projects for receiving the financing. Thus, the external concessional financing flows will largely depend on Nepal's ability to adapt itself to design the relevant projects.

Macro-Fiscal Risks: Projected economic growth may not materialize as expected, which could adversely affect GDP and tax revenue. Revenue shortfalls during the strategy period may widen the fiscal deficit, increasing gross borrowing requirements (GBR) and deteriorating debt cost and risk indicators.

Non-Economic Risks: The macroeconomic assumptions underlying this strategy are based on projections by the NPC, MoF, NNRFC, and NRB. However, non-economic factors such as strikes, low absorption capacity (e.g., inadequate capital expenditure), and natural disasters are not accounted for in the baseline scenario. These risks could significantly alter economic outcomes and debt management performance.

Market Dynamics: Strategy 1 involves a combined use of T-bills and medium-term T-bonds in the domestic market. Shifting from short-term to long-term borrowing may increase borrowing costs. Furthermore, the domestic market's performance depends on macroeconomic stability, liquidity conditions, and investor participation in auctions.

Market Infrastructure: Nepal's domestic government securities market remains underdeveloped, with a narrow investor base dominated by commercial banks and financial institutions, primarily concentrated in Kathmandu Valley. Enhancing transparency and broadening the investor base are critical to deepening the primary and secondary markets. Increased participation from diverse investors will improve competition, reduce government borrowing costs, and ensure stable demand for securities. The current market limitations could hinder the implementation of Strategy 1. To address this, the government plans to conduct research and build capacity to develop the domestic debt market.

Borrowing by Subnational Governments: The PDM Act allows provincial and local governments to borrow from domestic sources with federal approval to address financing gaps. However, no subnational governments have planned to borrow in the immediate fiscal years. This assumption was incorporated into Strategy 1. Any subnational borrowing during the strategy period would alter debt dynamics and could impact the projected outcomes of the strategy.

Contingency Plan: Given recent shocks like COVID-19 and climate-related crises, it's vital for governments to have a clear contingency plan. This should include risk assessment, response strategies, and strong systems to act for debt management as well. A strong plan ensures quick action and protects the government and economy.

7 Conclusion

This MTDS document covers three fiscal years (from FY 2024/25 to FY 2026/27) and was prepared to fulfill one of the requirements for risks assessment and monitoring stipulated in the PDM act, 2079. This document has outlined the financing strategy, based on rigorous cost and risk analysis, to help achieve the financing need of the country at the lowest possible cost with a prudent level of risks in the medium term.

Four alternative strategies have been explored. **Strategy 3 has been selected** based on analysis of three dimensions:

i) Market appetite for Government securities and lending availability from International Creditors;

ii) Compliance with policy target;

iii) analysis of cost-risk trade-off outcomes in baseline and shock scenario.

The selected strategy 3 intends to take advantage of concessional financing and simultaneously increase the duration of the outstanding public debt portfolio by gradually meeting the larger domestic debt requirement with medium-term T-Bonds. Specifically, this strategy will continue to moderately increase the proportion of external debt disbursement that initial estimate made in FY 2024/25 in the following strategy period as well while, for domestic loan disbursement, it plans to continuously meet the larger domestic debt needs with the medium-term T-bonds.

In the domestic debt composition, the proportion of T-bills and long-term bonds remains stable, while short-term bonds are gradually replaced by mid-term bonds to extend maturities. The domestic market for government securities is underdeveloped, with most subscriptions by financial institutions meeting regulatory requirements, limiting appetite for long-term bonds. T-bills, despite their refinancing risk, remain essential for short-term cash and liquidity management, maintaining their current issuance levels.

Strategy 3 aims to reduce short-term bonds and increase reliance on mid-term bonds, aligning with market appetite for short- to medium-term instruments. It also better complies with GoN debt management objectives, focusing on utilizing concessional borrowing with lower interest costs and gradually reducing T-bills in favor of medium- and long-term T-bonds.

By the end of the strategy period, Strategy 3 achieves a stronger cost-risk profile, with a marginally lower debt-to-GDP ratio and reduced interest burden. It outperforms other strategies in refinancing and interest rate risks, offering improved ATM and ATR indicators across both external and domestic debt.

Finally, Annual Borrowing Plan (ABP) will be prepared based on this strategy for its smooth implementation. Coordination among the stakeholders will be strengthened through better communication and dissemination of the strategy to help ensure the GoN's financing needs are met at the lowest possible cost with a prudent degree of risk to fulfill its payment obligations.