Government
of the
Commonwealth of Dominica

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

FISCAL YEAR 2013/14 TO FISCAL YEAR 2017/18

June 2013

GOVERNMENT
OF THE
COMMONWEALTH OF DOMINICA

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Notes

Fiscal Year	Dominica's fiscal year runs from July to June
Local Currency	The domestic currency is the Eastern Caribbean dollar (EC$). The EC dollar is pegged to the US dollar under the current exchange rate regime; a system which has been in place since 1976. Unless otherwise stated all values are in Eastern Caribbean dollars (EC$)

Acronyms

AFD	Agence Française de Développement
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
CDB	Caribbean Development Bank
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DMU	Debt Management Unit
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECF	Extended Credit Facility
ECSE	Eastern Caribbean Securities Exchange
EIB	European Investment Bank
FAA	Finance Administration Act
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoCD	Government of the Commonwealth of Dominica
GSPS	Growth and Social Protection Strategy
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMC	Internal Monitoring Committee
IMF	International Monetary Fund
MoF	Ministry of Finance
MTDS	Medium-Term Debt Management Strategy
NIS	National Insurance Scheme
OCR	Ordinary Capital Resources
PRGF	Poverty Reduction and Growth Facility
PV	Present Value
RMB	Royal Merchant Bank
RGSM	Regional Government Securities Market
SBA	Stand-By Arrangement

Executive Summary

The 2013/14 Medium-Term Debt Management Strategy (MTDS) outlines the plan of the Government of Dominica for pursuing its desired debt objectives for the period FY2013/14 to FY2017/18. The 2013 MTDS is an update to the 2010/11 MTDS. Given the changes in the global and local economy, it is necessary to update the MTDS and to adjust the strategy to reflect actions that will address the new realities. This MTDS was developed using the IMF/World Bank analytical toolkit.

Total public debt to GDP as at end of the FY2012/13 is estimated at 71.4 percent. Total public debt at the end of the FY2012/13 stood at $981.3 million, of which central government accounted for $818.9 million or 83.5 percent, and government guarantees of $162.4 million or 16.5 percent of total debt. External debt accounted for $712.5 million with central government accounting for $598.5 million and government guarantee accounting for $114.0 million. Domestic debt, on the other hand, was $268.8 million of which $220.4 is held by central government and $48.4 million is held by public corporations. The risks in the existing portfolio appear to be manageable; however, these risks have to be monitored. In an effort to keep debt level on a sustainable path, and to develop the regional market, government intends to secure mainly grant funds, concessional loans and issue securities on the RGSM to meet its financing needs.

The debt management strategy for the period FY2013/14 to FY2017/18 derives from the examination of cost and risk trade-offs of four possible strategies. The selection of the strategy was based on the strategy with the lowest cost and risk among the four strategies examined and is best suited to obtaining the desired targets, and developing the domestic market, in keeping with the overall debt management objective.

Section 1: Introduction

The development of a Medium Term Debt Management Strategy (MTDS) for the period 2013/14 to 2017/18 is an update to the 2010/11 debt strategy and is consistent with the overall fiscal framework which aims to achieve macro-economic stability and debt sustainability. This strategy was developed in accordance with the relevant financial management laws.

Following the comprehensive debt restructuring exercise in 2004 and successive IMF programmes[1], all external borrowings have been on concessional terms, thus minimizing debt servicing costs. The government is also committed to the development of the regional securities market and will utilize this as a source of financing for short-term funding requirements.

Over the years, the increases in the level of Government's debt are mainly attributed to exogenous shock such as natural disasters. In its efforts to respond to these natural disasters, government has to continually seek resources for rehabilitation purposes. Vulnerability to natural disasters is therefore identified as one of the major risks to achieving the debt targets. Also, in the context of a challenging global economic environment, it was necessary to undertake projects aimed at providing much needed physical infrastructure and projects which would support economic growth.

This MTDS was developed using an analytical toolkit designed by the IMF and World Bank which evaluates the costs and risks of various alternative strategies. The choice of the final strategy is guided by the analysis of the results. Given the government's commitment to improve debt management practices, borrowing will be informed by the MTDS which is tabled in Parliament.

The remainder of this document is as follows: Section 2 outlines the debt management objective and the quantitative targets while section 3 addresses the legal frame and institutional arrangement. Section 4 examines the 2010/11

[1] Stand By Arrangement: 2002-2004; Extended Credit Facility: 2003-2006

debt strategy and provides a review of the debt portfolio in terms of its composition and risks. The economic development over the financial year is addressed in section 5, whereas the medium term debt management strategy for FY 2013/14-2017/18 is analyzed in section 6. The borrowing plan, transparency and accountability, and acknowledgement are dealt with in sections 7, 8 and 9 respectively.

SECTION 2: DEBT MANAGEMENT OBJECTIVES

The debt management objective of the Government is, "to ensure that Government's financing needs and obligations are met on a timely basis, to do so in a way that minimises cost over the medium to long term while taking account of risk; and, subject to that, to develop over time a range of financing options".

Government has set the following quantitative targets for the Medium Term Debt Strategy for the period 2013/14 to 2017/18:

a. Maintain an ATM of 9 years and above;

b. Variable interest rate debt to be 15 percent of the total debt stock;

c. Non-USD Debt Exposure (excluding SDR) at 20 percent of total debt stock;

d. Maintain government guaranteed debt at 17 percent of the total debt stock;

e. Achieve a 60 percent debt to GDP by 2020.

SECTION 3A: LEGAL FRAMEWORK

It is not a legal requirement that a debt strategy be developed. However, it is a policy of the Government, as part of its commitment to maintain accountability and transparency in its public finance management practices, that the debt management strategy and debt statistics are made public. Various statute provides the legal basis for Government borrowing and these indirectly influence the debt policies and debt management strategies.

The Finance (Administration) Act No. 4 of 1994 is the primary legislation, which governs borrowing for development purposes. Other applicable statute includes the Loans Act Chapter 64:05 of the 1990 Revised Laws of the Commonwealth of Dominica and Loans (Amendment) Act (No. 4 of 1996) which gives the Minister for Finance the authority to contract debt on behalf of the State and to provide guarantees to qualifying institutions. The Treasury Bill Act No. 5 of 2010 authorises the Minister for Finance to incur debt through the issuance of Treasury Bills; while in accordance with the Bonds and Securities Act No. 21 of 2001 the Financial Secretary is authorised to borrow money approved by the Minister for Finance, through the issuance of bonds.

Section 3b: Institutional Framework

The functions of debt management are coordinated among the Debt Management Unit (DMU), the Accountant General's Office and the Attorney General's Chambers. The DMU is the main arm of Government engaged in that process and it is part of the Budget section of the Ministry of Finance (MoF). The DMU is mainly responsible for the middle and back office functions, and is an integral part of the front office function together with the Macro and Public Sector Implementation Project Units within the MoF. The Eastern Caribbean Central Bank (ECCB) acts as the paying agent for Government in its debt servicing function and conducts auctions on the domestic on behalf of the Government.

Section 4a: Review of the Debt Management Strategy for FY2010/11

A Debt Management Strategy was developed in 2010 and covered a three year period - FY2010/11 to 2012/13. The debt management objectives were clearly outlined and quantitative targets were established to guide the achievement of these objectives. The government's position at the end of FY2012/13 against these targets is shown in table 1 below.

Table 1: Targets against Preliminary Outturn in FY 2012/13

Debt Risk Indicators	Target	Estimated FY 2012/13
Share of Public Corporation Debt (per cent)	**17.0**	19.0
Variable Rate Debt (per cent)	**10.0**	11.0
Non-USD Exposure (exclude SDR) (per cent)	**15.0**	15.7
Average Term to Maturity (years)	**9.0**	8.7
RGSM Financing (EC$M)	**-**	45.0
Growth in Debt to GDP (assuming 4.5% annual nominal growth)	**1.5**	8.2

At the end of the three-year period, four of the quantitative targets were marginally breached while for one target the deviation was greater; however the outturn has been generally positive given the challenging economic environment.

Increased drawdown of loans from the AFD and PRC for implementation of projects in the capital programme increased foreign exchange and variable rate risk exposure in the debt portfolio. These loans are denominated in non-US dollar currencies. This increased risk is balanced by the fact that these loans are contracted at highly concessional rates which have contributed to the low average interest rate (2.0 percent) on Dominica's external debt. The Government has since reviewed the 15.0 percent Non–USD target and increased it to 20.0 percent to accommodate for this type of borrowing.

The actual GDP growth rate averaged 1.6 percent over the three years, below the annual target of 4.5 percent. The continuing global challenges have impacted on the country's growth outcomes. This combined with the unanticipated borrowing which took place for natural disaster rehabilitation, as well as the accelerated drawdown of loans to finance projects aimed at improving physical infrastructure, have caused a deviation from the 1.5 percent growth in the debt/GDP ratio target. Given that GDP growth is projected to remain modest, and that the achievement of the growth targets is closely linked to external factors, the target growth of the debt rate of 1.5 percent growth in GDP was thought to be impractical in the circumstances; therefore this target has been removed.

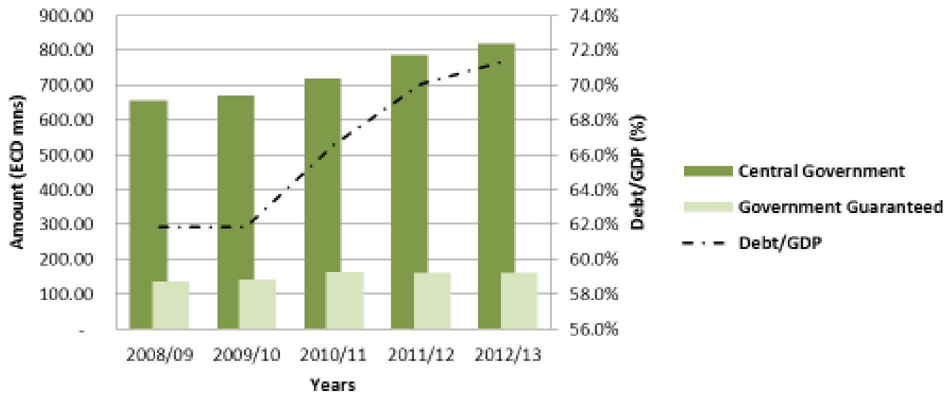
In keeping with the objective of developing the regional market, Government of Dominica participated in the Regional Government Securities Market (RGSM) with the issuance a 91 day T-Bill in the amount of EC$20 million and a five year bond in the amount of EC$25 million. This resulted in a slight shortening of the ATM but Government was able to access short term funding at a lower cost than the overdraft facilities from the domestic commercial banks bringing their average domestic borrowing rate to 5.6 percent in FY2012/13 from 6.0 percent in FY2010/11. The fact that all the instruments issued have been largely oversubscribed, suggests that the interest rates on that type of debt are likely to remain low.

Section 4b: Review of the Debt Portfolio

Public Sector Debt

At the end of FY2012/13, the total public debt stood at $981.3 million of which central government debt amounted to $818.9 million or 83.5 percent. Over the period FY2008/09-FY2012/13, public debt had an average annual increase of 5.6 percent with the debt/GDP increasing from 61.8 percent to 71.4 percent. Figure 1 below shows the trend in public debt over the review period.

Figure 1: Public Debt Outstanding 2008-2012



Public Corporation debt, for which the government has given an explicit guarantee, averaged 17.3 percent of total debt over the five year period. The major statutory bodies seeking guarantees from the Government include the Dominica Water & Sewerage Company, the AID Bank and the Government Housing Loans Board.

External debt on average accounted for 72.0 percent of the total debt stock while domestic debt made up 28.0 percent.

Composition of Central Government Debt

The MTDS is intended to guide the management of central Government debt; the analysis contained in this document therefore focuses on central government debt.

Figure 2a and 2b show the breakdown of domestic debt by creditor and instrument, at the end of FY 2012/13. Currently, 36.0 percent of domestic debt is owed to the Dominica Social Security while the commercial banking sector holds 31.0 percent. "Other" which is mostly individuals, makes up 11.0 percent and the insurance companies account for 2.0 percent. Other financial institutions hold 0.2 percent of the domestic debt stock. Dominica's domestic debt is comprised of bonds, loans, T-bills and an overdraft facility. Securities make up 77.0 percent of the domestic debt stock while loans and the overdraft facility account for 23.0 percent.

Figure 2: Characteristics of Central Government Debt

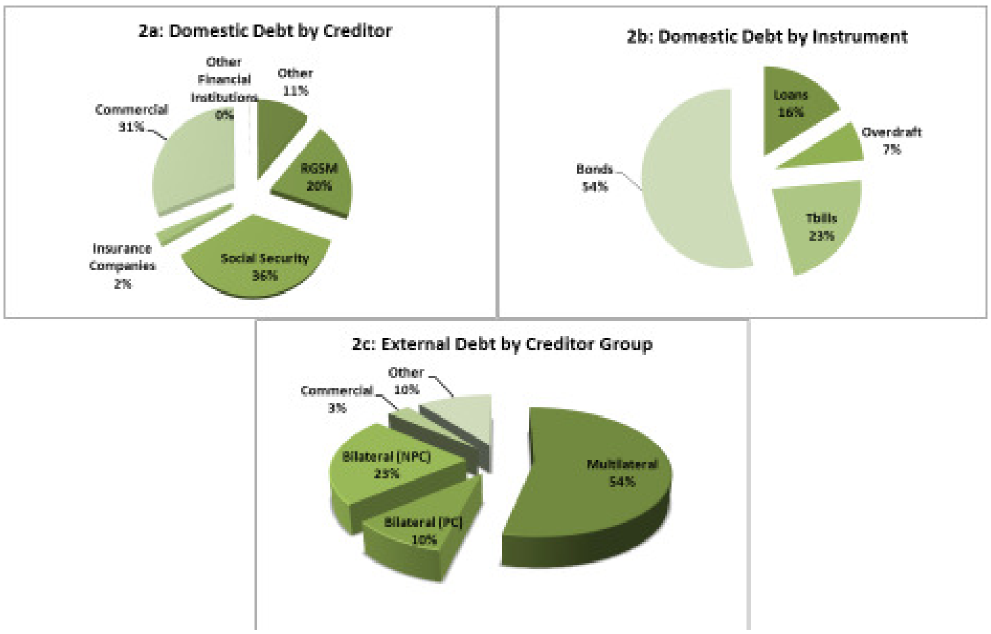


Figure 2c shows the composition of external debt by creditor group. Multilateral debt accounted for 54.0 percent of total external debt while Bilateral debt which comprises Paris Club and non-Paris Club creditors make up 33.0 percent. "Other" includes insurance companies and individuals and make up 10.0 percent of external debt while external commercial banks account for 3.0 percent of the external debt.

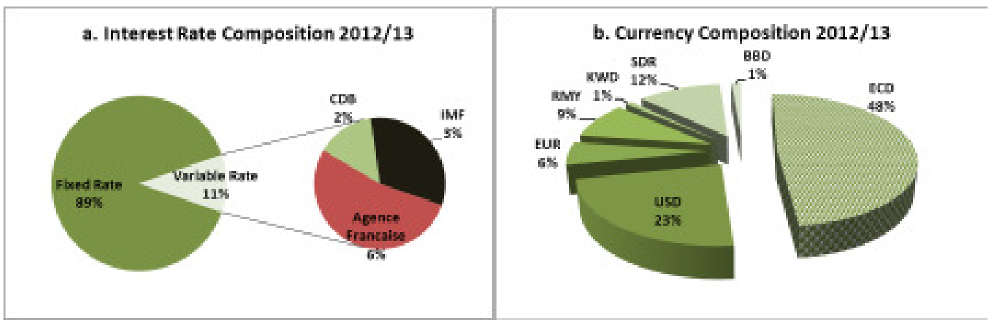
Portfolio Risks Cost and Risk Indicators

The average interest rate on central government debt is 2.9 percent. The weighted average interest rate on external debt is 2.0 percent, given the concessional terms on the multilateral and bilateral credits, as well as the interest rate on the restructured bonds. The average domestic interest rate is 5.6 percent.

Interest Rate Risk and Currency Risk

At the end June 2013, the interest rate structure of the central government debt was 89.0 percent fixed and 11.0 percent variable as shown in figure 3a.

Figure 3: Interest and Currency Composition



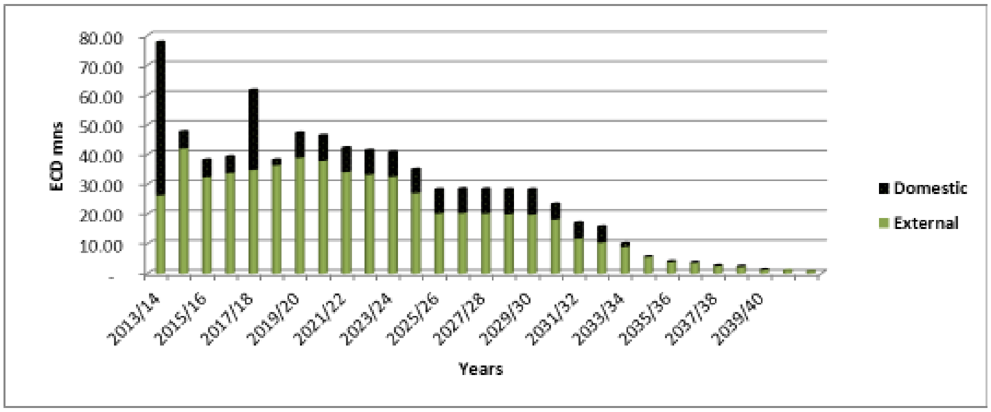
A further split of the variable rate debt by creditors indicates that variable rates are associated with the CDB, the AFD and the IMF debt. The loans with the CDB have been contracted from the ordinary capital resources (OCR) with an interest rate which is re-fixed every six months. The loan with the AFD is based on the EURIBOR rate and a spread of -2.0 percent while the facility with the IMF currently carries a zero interest rate. The Average Time to Re-fixing (ATR) which measures the weighted average time for interest rates in the portfolio to be re-set is 8.0 years.

Figure 3b shows the currency profile of the central government debt. The exposure to foreign currency risk is low as EC and US dollar denominated debt account for 71.0 percent while the floating currencies (SDR, RMB, KWD and EUR) constitute roughly 29.0 percent of the central government debt.

Refinancing Risks

Figure 4 shows the maturity profile of central government debt given the stock of debt at the end of FY2012/13. The spike in FY2013/14 is due to T-Bill payments (EC$38.5million) and the final payment (EC$8.3 million) on the short bonds from the 2004 debt restructuring exercise. The only outstanding bond on the RGSM will mature in FY2017/18 (EC$25.0 million) and payments on the restructured long-term bonds will commence in FY2019/20.

Figure 4: Maturity Profile on Existing Central Government Debt



The Average Time to Maturity (ATM) which is a measure of the weighted average time to maturity of all the principal repayments in the debt portfolio is currently 8.7 years.

Section 5: Macroeconomic Overview

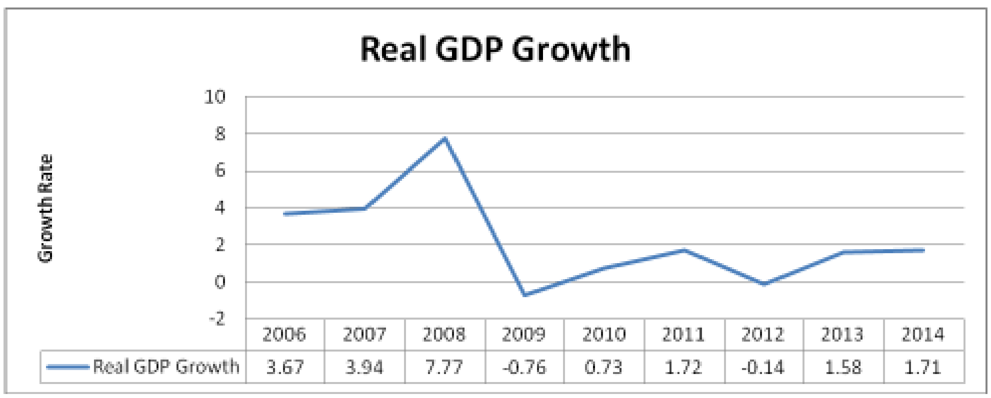
Recent Economic Performance

The Dominican economy continued to recover from the impact of the global financial crisis of 2007/2008. Since the crisis, declines in private sector activity have been compensated by policy efforts to drive growth through the Public Sector Investment Programme (PSIP). These efforts have created fiscal pressures as capital expenditure increased in an environment whereby grant inflows were not as robust.

Preliminary data suggest that the economy remained relatively flat in 2012 with a small decline of 0.1 percent, on the heels of growth of 1.7 percent in 2011 (See Figure 5).

Over the period 2011-2012, growth in the Agriculture sector has been led by improved production of the non-banana sub-sector which has benefited from export-led diversification efforts; a rebound in the manufacturing sector supported by firm local and export demand; and an increase in the value added of the education sector based on an estimated increase in the number of visitors travelling to Dominica for the purpose of study. The tourism industry experienced a slight contraction during the year in question as performance has been constrained by the reduction in cruise visitors. The construction sector is also estimated to contract owing to the completion of a number of large Public Sector projects. This contraction is expected to be short term, as there is expected to be a resurgence in major capital works over the period of this strategy.

Figure 5: Real GDP Growth



Consumer prices are estimated to have increased by 2.3 percent in 2012. The rise in consumer prices was largely driven by increases in the sub-indices for fuel, light and personal care services.

During fiscal year 2012/13, Government continued its effort to practice prudent financial management. While revenue did not perform in line with projections, Government was able to reduce expenditure on discretionary items and focus its attention on the capital programme, all aimed at supporting economic growth. The fiscal position of Government, and Government's careful management of public finances ensured that Dominica maintained its credit rating by the Credit rating Agency, CARICRIS, based on an assessment made in early 2013.

Prospects

Economic activity is expected to increase in the medium term premised on positive developments in the global and local economy. According to a recent report of the IMF, the global economy is growing more slowly than expected, with risks increasing especially in emerging markets. Global growth is projected at 3.1 for 2013 and 3.8 percent for 2014. Growth in the United Kingdom is estimated at 0.9 percent and 1.5 percent for 2013 and 2014 respectively. For the United States, growth is expected to be 1.7 percent and 2.7 percent respectively.[1] As two of Dominica's major trading partners, it is expected that developments in these countries will help to boost external demand for Dominica's goods and services thereby supporting domestic growth.

Locally, current efforts geared at diversifying the agricultural sector; improving airlift and marketing for the tourism industry; developing geothermal energy for domestic use and subsequently for export; and seeking grants for capital projects should help to anchor growth. Over the period 2013-2015, real GDP growth is expected to average 1.7 percent. This should be driven by a rebound in construction and mining and Quarrying, and an improved tourism cruise season which will have spin off effects on sectors such as transport, storage and communications. Over the period 2016 – 2018, real GDP growth is expected to average 2.5 percent. This should be led by the completion of the Moroccan Hotel and the corresponding influx of visitors; positive developments in geothermal energy; and continued diversification efforts.

Government is expected to work towards achieving a primary balance of an average of 3.0 percent of GDP over the period of the strategy. Improvement in revenue administration, improvement in the efficiency of the delivery of services and closer monitoring of the implementation of the capital programme are all expected to result in a better overall fiscal position over the medium term.

[2] Data obtained from IMF website

Generally, the macroeconomic framework underlying the MTDS is one of modest growth and relatively stable fiscal performance. The macroeconomic outlook, however, remains highly uncertain with significant downside risks. The forecasts above are contingent on a gradual improvement in the global economy and the success of local strategies as outlined in the Growth and Social Protection Strategy (GSPS) for 2012-2014 and subsequent revisions. Factors which pose risks to this macroeconomic outlook include: a weaker than anticipated global recovery; adverse weather; and volatility in grants to fund capital spending.

Section 6: Medium-Term Debt Management Strategy FY 2013/14-2017/18

Pricing Assumptions

The borrowing terms used for crafting the strategies were based on existing average term from various creditors and prevailing marketing conditions (see Table 3).

Table 2: Pricing Assumptions

Creditory Category	Interest Type	Interest Rate (%)	Grace Period (years)	Maturity (years)
Multilateral	Fixed	0.75-2.5	10	30-40
Multilateral	Variable	2.5 (margin)	5	20
Multilateral (SDR)	Fixed	0.5	3	13
Bilateral	Fixed	2-3	5	20-25
Bilateral	Variable	-2 (margin)	5	20
Commercial	Fixed	7.5	2	15
Bond	Fixed	7	1-4	5-7
Treasury Bill	Fixed	6	0	1

Potential Financing Sources

The potential sources of financing available to Government are multilateral, bilateral, commercial creditors and the domestic market. For the FY2012/13, funding was sourced from multilateral, bilateral traditional and non-traditional, and commercial creditors and the domestic market. Funding for the immediate financial year is expected to come from the same sources, whereas for the future years, government intends to target other non-traditional bilateral creditors in addition to the existing creditors. Four strategies were developed to analyse the options available to Government to meet its financing needs for the period 2013/14 to 2017/18.

Description of Strategies

The strategies aim to maximize external concessional funding and develop the regional debt market. On the external side, the principal difference in the strategies is in the sources of borrowing, whilst on the domestic side the main difference is in the type of instrument.

Table 3 shows the gross borrowing associated with each of the strategies over the five year period.

Strategy 1: Strategy 1 is based on Government's current debt management strategy and is considered the status quo strategy. The objective of this strategy is to meet financing needs mainly from multilateral semi-concessional fixed; as well as bilateral creditors. Under this strategy, domestic debt accounts for 52 percent and external debt 48 percent. Most of the domestic funds will come from the issuance of treasury bills, and some 5-year and 7-year bonds.

Strategy 2: Under strategy 2, the objective is to reduce the multilateral semi-concessional fixed rate creditors, and shift mainly towards bilateral creditors. This strategy assumes 58 percent of the debt will come from external funds and 42 percent from domestic funds. The external debt comes mainly from bilateral creditors and the domestic debt mainly from treasury bills.

Strategy 3: The objective for strategy 3 is to reduce the reliance on bilateral creditors and source funding from multilateral semi-concessional variable and fixed rate creditors, as well as multilateral concessional creditors. External sources account for 54 percent of the funds with most of these funds coming from multilateral sources. Domestic funds account for 46 percent and as with the other strategies, the concentration is on the treasury bills.

Strategy 4: The aim of strategy 4 is to maximize funding from bilateral creditors. Given the government's medium-term objective of reducing cost, the strategies continue to rely on concessional and semi-concessional funding from multilateral and bilateral creditors. External and domestic funds account for 52 percent and 48 percent, respectively. Under this strategy the external funds are expected to come from mainly bilateral sources and the domestic funds from treasury bills.

Table 3: Projected Gross Borrowing

% of gross borrowing - Over Projection Period				
New debt	S1	S2	S3	S4
External				
Multilateral	20%	15%	42%	21%
Bilateral	28%	43%	12%	31%
Domestic				
Commercial	6%	1%	1%	1%
Tbills_RGSM	26%	26%	23%	25%
Tbills_Other	7%	7%	8%	8%
Bonds_5yr	6%	0%	7%	6%
Bonds_7yr	7%	7%	7%	7%
External	48%	58%	54%	52%
Domestic	52%	42%	46%	48%
	100%	100%	100%	100%

Description of Scenarios

The strategies were subjected to interest rate and exchange rate shocks under four scenarios.

- Scenario 1: ***Depreciation of the domestic currency:*** In the FY2014/15 the Eastern Caribbean dollar depreciates by 15 percent relative to the non-pegged foreign currencies (EUR, KWD, RMB and XDR) in the debt portfolio.

- Scenario 2: ***Interest rate shock:*** The cost of all variable borrowing increases by 1 percent. This is a permanent shock applied throughout the five year period.

- Scenario 3: ***Interest rate shock:*** The cost of all variable borrowing increases by 2 percent. This is a permanent shock applied throughout the five year period.

- Scenario 4: ***Combination shock:*** In this scenario the domestic currency depreciates by 10 percent relative to the non-pegged foreign currencies (EUR, KWD, RMB, and XDR) and interest rates on variable rate debt increases by 1 percent.

Cost Risk Analysis under Different Strategies

Table 4 illustrates the costs and risks under each of the strategies. It shows the impact of the 4 scenarios at the end of FY2017/18. Each of the strategies shows a reduction in the nominal debt to GDP over the current period. However, strategy 4 has the lowest nominal debt to GDP at 47.87 percent. There is also a reduction in the Present Value of debt to GDP under all the strategies with the lowest at 41.94 under strategy 3. The implied interest rate has improved under each of the alternative strategies over the current strategy, the lowest being strategy 4 with 2.59 percent. The ATM has shown remarkable increases with the best result being strategy 4 at 10.62 years. As it relates to the indicators for interest rate risk, strategy 4 has the best results. The ATR is 8.81 years, and the debt re-fixing in 1 year and the fixed rate debt is 20.69 percent and 85 percent respectively. The percentage of foreign denominated debt to the central government debt stock under the current period is 76.56 percent; the results show a reduction in the figure under all the strategies with strategy 1 having the lowest at 70.79 percent.

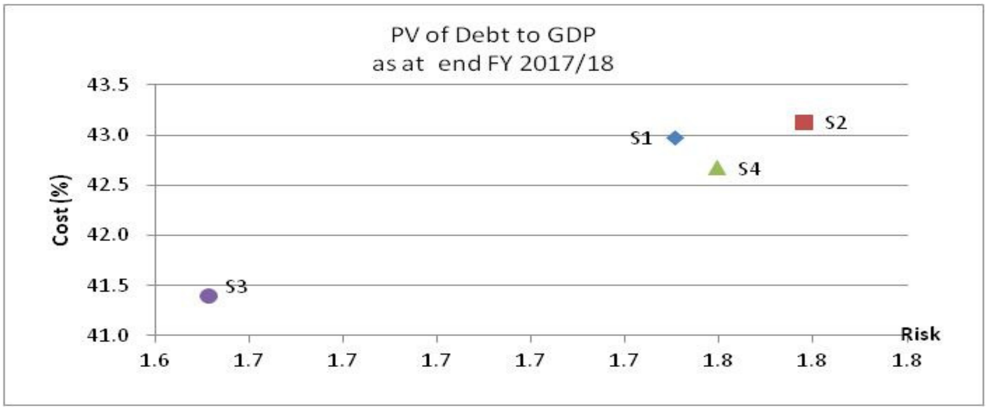
Table 4: Cost and Risk Indicator as at end FY 2018

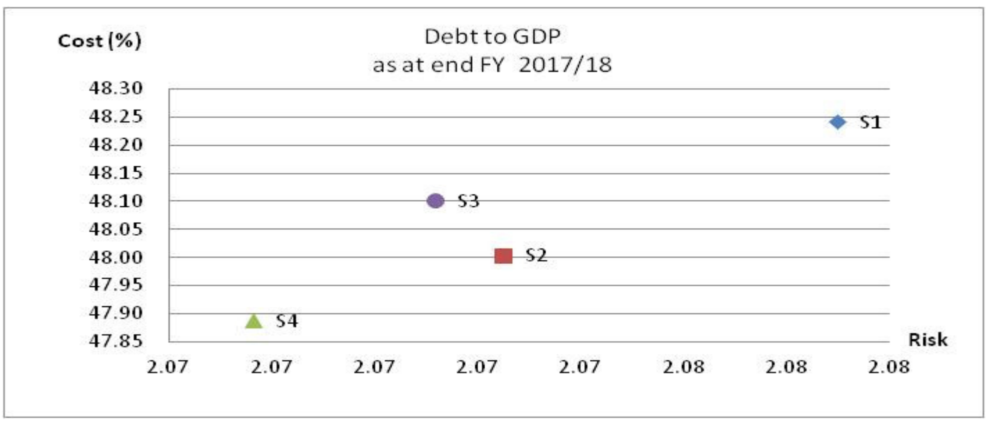
Risk Indicator		2012	As at end FY2018			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		59.69	48.23	47.99	48.11	47.87
PV as % of GDP		50.16	42.77	43.17	41.94	42.58
Implied interest rate (%)		2.90	2.73	2.67	2.76	2.59
Refinancing risk	ATM External Portfolio (years)	8.87	10.36	10.42	10.32	10.62
	ATM Domestic Portfolio (years)	6.85	5.87	6.17	5.78	6.18
	ATM Total Portfolio (years)	8.73	9.19	9.51	9.17	9.57
Interest risk	ATR (years)	8.02	7.71	8.69	7.89	8.81
	Debt refixing in 1 yr (% of total)	22.00	28.57	21.94	25.29	20.69
	Fixed debt rate (% of total)	86.55	78.27	84.85	80.87	85.49
FX risk	FX debt as % of total	76.56	70.79	75.46	72.87	73.52
	ST FX debt as % of reserves	12.60	13.02	13.02	13.02	13.02

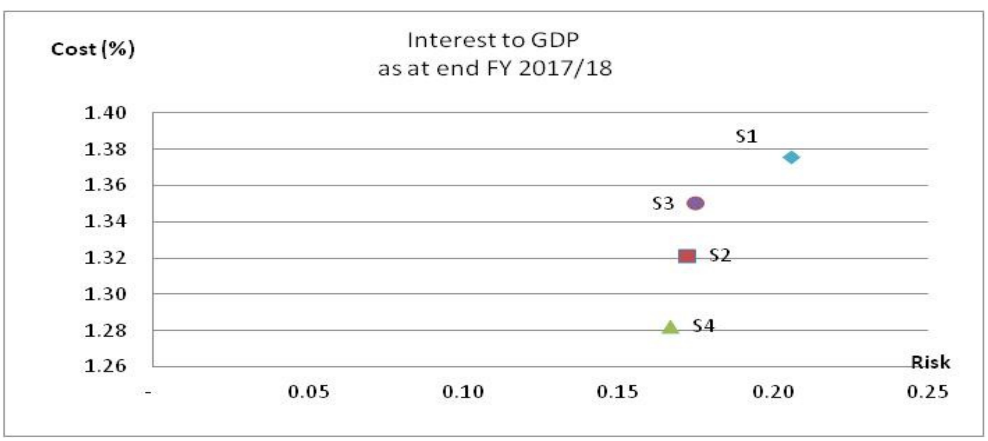
Selection of Strategy

The performance of the four alternative strategies was assessed on the basis of cost and risk. These results are shown in figure 6. Due consideration is placed on the debt to GDP and interest to GDP. The debt to GDP is important since the Government has set a target of achieving a 60 percent debt to GDP by 2020. In terms of the interest to GDP, this gives an indication as to the amount of budgetary resources required to service debt, and not available for any other purpose. Additionally, fixed rate debt as a percentage of total debt, and the ATM is relevant as government has set targets of 15 percent and 9 years respectively. The commitment to develop the domestic market is also of utmost significance.

Figure 6: Cost-Risk Analysis under Different Financing Strategies







Appendix III illustrates the redemption profile of the debt under each of the strategies. The redemption profile under all the strategies does not indicate a significant refinancing risk. The difference in the strategies is seen in the period 2019 to 2024, this is mainly due to the timing of issue of the 5 year bond. The 5 year bond which is a bullet payment is issued in 2015 under strategies 1 and 3, while the same bond is issued in 2018 under strategies 4. Therefore the redemption profile for strategies 1 and 3 are similar, however; among these three strategies, strategy 4 has a smoother redemption profile. The 5 year bond was not issued under strategy 2 hence this strategy has a flatter redemption profile over a longer period.

Among the four strategies, strategy 4 best fulfils the overall objective. This strategy has the lowest cost and risk of debt to GDP as well as interest to GDP. Strategy 4 also has the longest ATM and highest percentage of fixed rate debt as a percentage of total debt.

Section 7: Borrowing Plan

The amount for Treasury bill redemption is treated as a principal repayment in the MTDS. However, it is intended that the Treasury bill will be rolled over at its maturity in fiscal year 2013/14. Funding for FY2013/14 will be in line with the MTDS and the Government's budget estimates. Government will continue to issue securities on the domestic market in an effort to develop that market and to increase its investor base. The plan is to issue longer-term instruments with a different payment option to cater to the needs of investors.

The annual borrowing plan will be determined on the basis of the capital programme which will be pursued in a particular year. By and large, it is expected that recurrent revenues will be adequate to meet the cost of recurrent expenditures and debt amortization. In the case where Government's contribution to the capital programme can be met from revenues, then financing would have to be sought for the portion of the capital programme not funded by grants. Consistent with the preferred strategy, financing will first be sought from bilateral sources or multilateral sources which provide similar concessional terms. Any additional amounts required to finance Government's contribution will be sought from the RGSM.

Section 8: Transparency and Accountability

The Budget Estimates and the Financial Accounts are the main documents used by Government for reporting debt information. In accordance with the Finance (Administration) Act No. 4 of 1994, Government is to show fully, its financial position, including a statement of contingent liabilities. The publication of the debt strategy goes beyond this requirement but it is seen as an important part of Government's effort to continually improve financial management practices.

Section 9: Acknowledgement

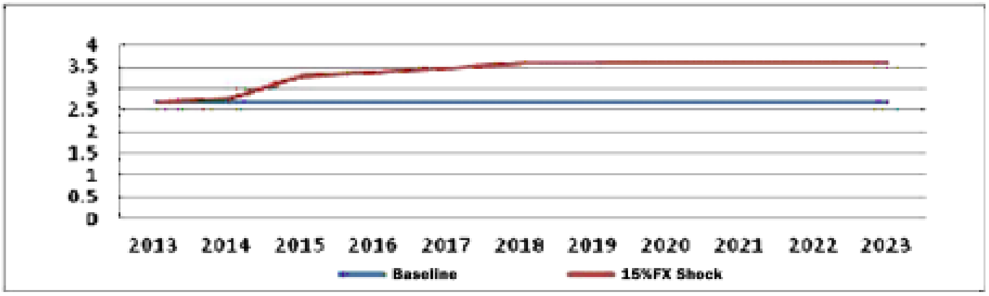
The Government of Dominica wishes to sincerely thank the staff of the Eastern Caribbean Central Bank for the technical assistance rendered in developing the Medium Term Debt Strategy. The Government also expresses its gratitude to the World Bank and the International Monetary Fund for the training afforded to staff in the development of MTDS.

SECTION 10: APPENDICES

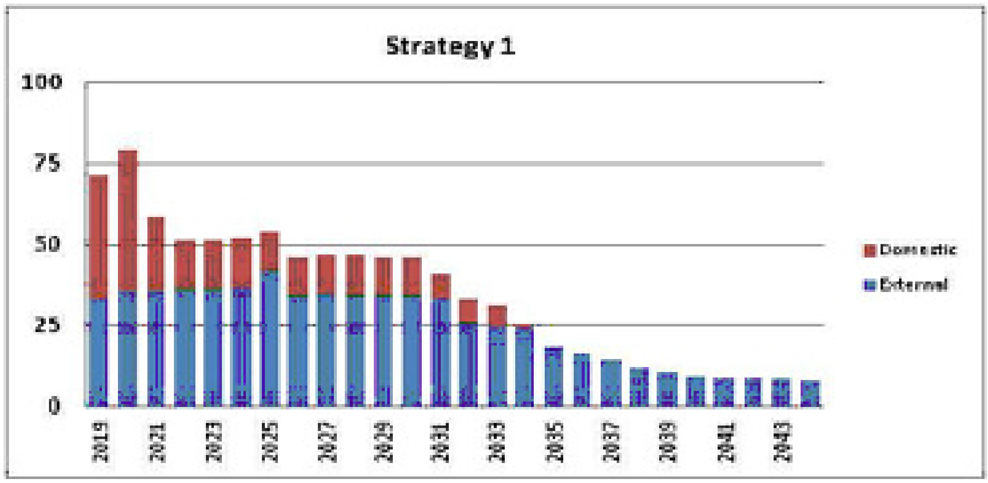
Appendix I: Total Public Debt

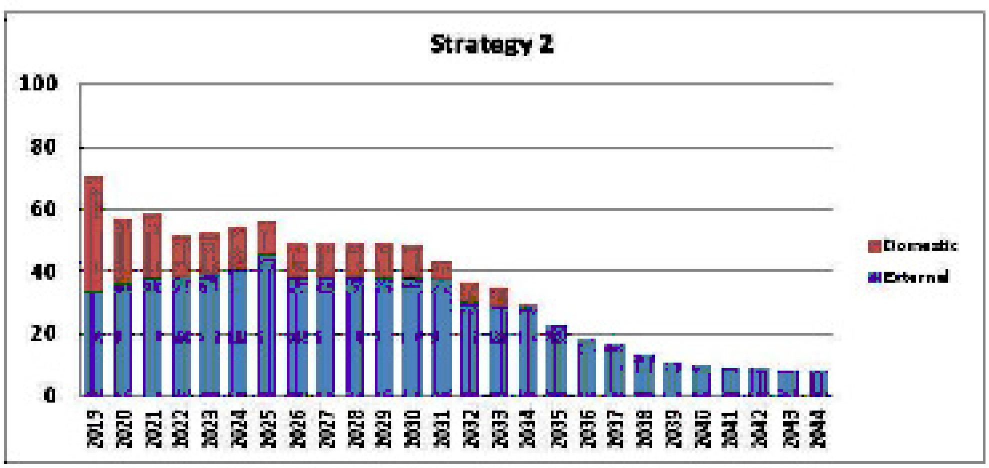
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Total External Debt	**591.1**	**566.2**	**575.3**	**641.4**	**678.8**	**712.5**
Central Government	**474.6**	**459.9**	**471.9**	**522.8**	**563.5**	**598.5**
Bilateral	84.0	78.0	75.6	113.5	148.3	200.6
Commercial Bank	75.4	75.4	75.4	75.3	75.2	35.0
Multilateral	291.2	282.5	297.5	311.71	319	316.9
Central Bank	0.3	0.3	0.2	0.2	0.1	0.1
Private	2	2	1.6	1.3	1	0.33
Other	21.7	21.7	21.6	20.8	19.9	45.6
Guarantee	**116.5**	**106.3**	**103.4**	**118.6**	**115.3**	**114.0**
Bilateral	13.0	10.2	7.8	22.3	20.4	22.4
Multilateral	103.5	96.1	95.6	96.3	94.9	91.6
Total Domestic Debt	**226.3**	**225.4**	**235.5**	**239.2**	**268.0**	**268.8**
Central Government	**201.6**	**196.0**	**197.0**	**194.6**	**222.5**	**220.4**
Commercial Bank	66.3	64.6	63.3	60.7	75.5	71.5
Central Bank	5.6	1.7	1.7	1.7	0	0
DSS	104.8	104.8	104.1	103.3	102.7	96.3
Other	24.9	24.9	27.9	28.9	44.3	7.6
RGSM (bonds)						25.0
RGSM (T/bills)						20.0
Government	**24.7**	**29.4**	**38.5**	**44.6**	**45.5**	**48.4**
Commercial Bank	7.4	8.5	5.9	10.6	10.4	10.1
DSS	17.3	20.9	32.6	34	35.1	38.3
Total Debt	**817.4**	**791.6**	**810.8**	**880.61**	**946.8**	**981.27**

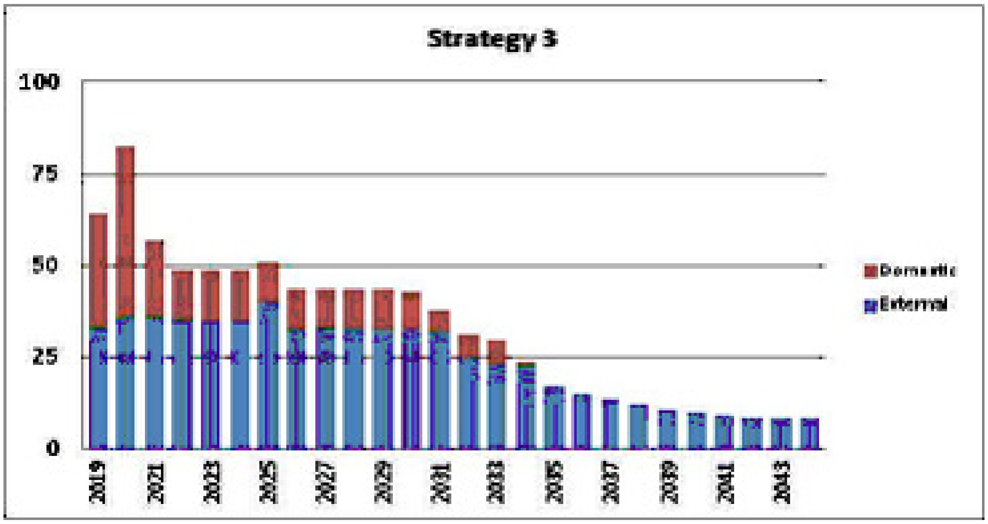
Appendix II: Exchange rate projection

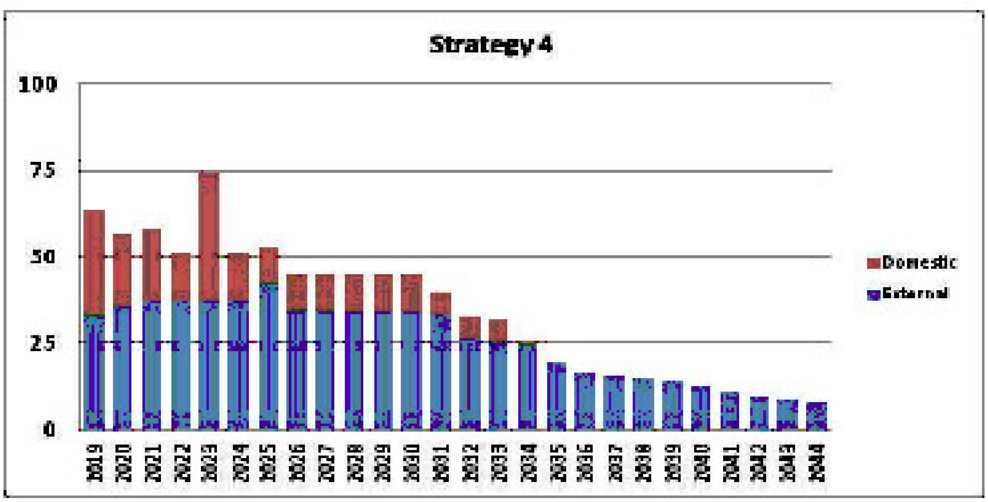


Appendix III: Amortization Profile under Different Strategies
(as at end FY 2017/ 18)






Strategy 3
100
75
50
25
0
2019
2021
2023
2025
2027
2029
2031
2033
2035
2037
2039
2041
2043
Domestic
External


Strategy 4
100
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2043
2044
Domestic
External

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