

REPUBLIC OF SRPSKA

GOVERNMENT

**REPUBLIC OF SRPSKA DEBT MANAGEMENT STRATEGY
FOR THE PERIOD 2015-2018**

December, 2015

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1. Goals and assumptions

Republic of Srpska Medium-term debt management strategy (RS MTDS) specifies the medium term goals and operations of the Republic of Srpska Ministry of Finance (RS MoF) within debt management.

Implementation of the RS MTDS is continuously monitored and an annual report on the execution of the MTDS is submitted to the RS Government accordingly.

The scope of the RS MTDS covers all debt that represents direct or indirect obligation of the RS Government (RS budget), with some exceptions.

External debt data includes:

- a) RS government debt (except for the part of the debt to the Paris Club of Creditors (Germany) for which the repayment mechanism has not yet been determined);
- b) Local governments debt;
- c) Debt of SOEs and the RS Investment Development Bank (IRB RS).

Domestic debt data includes:

- a) RS Government debt (verified domestic debt according to the RS Law on Domestic Debt, treasury bills, bonds, bank loans and activated guarantees) and
- b) debt of the social security funds contracted indirectly.

Directly contracted domestic debt of local governments and social security funds is not covered by the MTDS, since it does not represent direct nor indirect obligation to RS and therefore it cannot be managed by RS MoF. Obligations related to frozen foreign currency savings, war damages and general liabilities are included under the MTDS only if they have been formally verified. Detailed table on the scope of the RS MTDS is presented in Annex I.

The RS debt management goal is to provide financial resources for financing the approved investment projects, refinancing debt covered in MTDS and executing the RS Budget, at minimal costs and risks, while taking into account the development of the economy and domestic securities market.

The RS MTDS has been prepared on the basis of following assumptions:

- a) In the medium-term the RS Government will continue with implementation of its fiscal consolidation and reform plans as presented in the RS Government's Economic Policy, in order to ensure long-term fiscal sustainability and enhance transparency (as stipulated by the Fiscal Discipline Law);
- b) Macroeconomic situation will evolve in accordance with the projections presented in the Revised RS Mid-term Budget Framework document (RDOBRS) (Table 1 and 2);
- c) Any new borrowings on behalf of the RS government will be contracted in accordance with the stipulations of the RS Law on borrowing, debt and guaranties, i.e. through the RS MoF;
- d) There will not be taking over of debt except the one which refers to the Public Fund for pension and disability insurance, which becomes part of the treasury system as of 01.01.2016.;
- e) New issuance of war-damage and frozen-currency-savings bonds will proceed in accordance with the projections included in the Revised RS Mid-term Budget Framework Document;
- f) Central Bank of Bosnia and Herzegovina will continue to adhere to the Currency Board Arrangement as constituted under the Law on Central Bank, and will not be issuing any securities in the domestic financial market;

- g) The long term credit ratings of Bosnia and Herzegovina will not be downgraded within the medium term;
- h) Institutional investor base in the RS domestic financial market will be maintained and broadened in the medium term;
- i) There will not be significant increase of the European central bank reference rate;
- j) Counterparties will offer borrowing at acceptable terms.

Table 1: Macroeconomic indicators in 2009-2014. and forecasts for the period 2015-2018.

PRODUCTION APPROACH	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP - in million KM	8,236	8,318	8,682	8,585	8,761	8,847	8,873	9,135	9,536	10,012
Population - in million	1.44	1.43	1.43	1.43	1.43	1.42	1.42	1.42	1.41	1.41
GDP per capita - in million KM	5,739	5,805	6,073	6,006	6,146	6,225	6,256	6,454	6,752	7,104
Nominal GDP growth rate (%)	-3.0%	1.0%	4.4%	-1.1%	2.1%	1.0%	0.3%	2.9%	4.4%	5.0%
Real GDP growth rate (%)	-3,0%	0,8%	0,8%	-1,1%	1,9%	0,2%	1,4%	2,4%	2,7%	3,0%
Inflation - annual rate	-0,4%	2,5%	3,9%	2,1%	0,0%	-1,2%	-1,0%	0,5%	1,5%	1,7%
Average net salaries - in KM	788	784	809	818	808	825	833	842	853	865
Import - in million KM	3.568	4.053	4.578	4.488	4.558	4.946	4.575	4.777	5.053	5.352
Growth of import (%)	-14.0%	13.6%	13.0%	-2.0%	1.6%	8.5%	-7.5%	4.4%	5.8%	5.9%
Export - in million KM	1,673	2,178	2,561	2,375	2,604	2,692	2,613	2,744	2,936	3,171
Growth of export (%)	-13.0%	30.2%	17.6%	-7.3%	9.7%	3.4%	-2.9%	5.0%	7.0%	8.0%
Export over import (%)	46.9%	53.7%	55.9%	52.9%	57.1%	54.4%	57.1%	57.4%	58.1%	59.2%
Unemployment rate (%)	21.4%	23.6%	24.5%	25.6%	27.0%	25.7%	25.2%	24.7%	24.2%	23.7%

Source: Revised Mid-term budget framework document 2016-2018, RS Ministry of Finance

Table 2: General section for the period 2016-2018

Description	Revised Budget 2015	RDOBRS 2016	RDOBRS 2017	RDOBRS 2018
A. BUDGET REVENUES (I+II+III+IV)	1.608.900.000	2.468.103.000	2.524.012.100	2.610.926.800
I Tax revenues	1.449.882.000	2.288.940.000	2.351.372.100	2.434.211.800
II Non tax revenues	159.018.000	179.163.000	172.640.000	176.715.000
III Grants	0	0	0	0
IV Transfers between budgetary users	0	0	0	0
B. BUDGET EXPENDITURES (I+II+III)	1.545.352.300	2.405.362.800	2.416.945.900	2.422.607.800
I Current expenditures	1.219.913.000	2.270.503.500	2.285.258.500	2.294.779.500
II Transfers between budgetary users	324.388.100	127.039.000	127.289.800	123.903.200
III Budget reserve	1.051.200	7.820.300	4.397.600	3.925.100
C. GROSS BUDGET SURPLUS/DEFICIT (A-B)	63.547.700	62.740.200	107.066.200	188.319.000
D.NET EXPENDITURES FOR NONFINANCIAL ASSETS	-27.308.300	-52.059.700	-19.749.800	-20.656.800
E. BUDGET SURPLUS/DEFICIT(C+D)	36.239.400	10.680.500	87.316.400	167.662.200
F. NET FINANCING (G+H)	-36.239.400	-10.680.500	-87.316.400	-167.662.200

Description	Revised Budget	RDOBRS	RDOBRS	RDOBRS
	2015	2016	2017	2018
G. NET PROCEEDS FROM FINANCIAL ASSETS	3.480.000	1.347.500	117.200	0
H. NET BORROWING	-39.719.400	-12.028.000	-87.433.600	-167.662.200

Source: RS Ministry of Finance

2. Existing debt

2.1. Portfolio review

The composition of the RS debt for the MTDS analysis (RS MTDS debt) is consistent with the implicit debt management strategy implemented in the past, which involved maximizing external concessional borrowing. In particular, the RS MTDS debt portfolio is characterized by a high share of external debt with relatively long maturities, as well as low implied interest rate of the external debt portfolio at the level of 1,4%.

RS MTDS debt amounts to 4,3 billion BAM (2,6 billion USD) i.e. 48,0% GDP-a, as of 31.12.2014. External MTDS debt accounted for 67,7% of the total (2,9 million BAM or 1,8 billion USD, representing 32,5% of GDP), while domestic debt accounted for 32,3% of total (1,4 billion BAM or 0,8 billion USD, representing 15,5% of GDP).

The external MTDS debt is composed of:

- a) Loans contracted through the BH Ministry of Finance and treasury;
- b) Direct external debt (debt directly contracted to external creditors); and
- c) "old" external debt (debt incurred before April 2nd 1992).

External borrowing is primarily from multilaterals (77,3% of the total external debt outstanding). The largest multilateral creditors are The World Bank (IDA or IBRD), The European Bank for Reconstruction and Development (EBRD), The European Investment Bank (EIB), and International Monetary Fund (IMF).

Domestic MTDS debt is composed of:

- a) Issued T-bills and bonds with medium-term maturities
The amount of T-bills outstanding was 94,5 million BAM at the end of 2014 (58,8 million USD). These have maturities of 3, 6, 9 and 12 months. Debt outstanding under medium-term securities (4 and 5 year amortization and 7 year bullet Treasury bonds) amounted to 335,0 million BAM (208,3 million USD).
- b) Bonds issued for repayment of debt stipulated by RS Law on Domestic Debt
 - i) amortizing war claim bonds with 13 - 15 year maturity and 3 - 5 year grace period, at an interest rate of 1,5%;
 - ii) amortizing 5 year frozen foreign currency savings account bonds, with no grace period and 2,5% interest rate; and
 - iii) amortizing bonds for the settlement of liabilities to suppliers and liabilities under executive court decisions with a 15 year maturity and 5 year grace period with the 1,5% interest rate;

These bonds are registered at the RS Registry of Securities and listed on Banja Luka Stock Exchange. As of end-2014, debt outstanding for these instruments totalled 422,5 million BAM (262,7 million USD).

c) Domestic commercial bank loans;

Debt outstanding under these loans as of end-2014 amounted to 294,9 million BAM (183,4 million USD). These are generally fixed or variable rate amortizing loans with a maturity of 4-12 years and 1-2 year grace period.

d) cash payments (action plans) for executive court decisions - war damage claims and general liabilities, as stipulated by RS Law on Domestic Debt;

Debt outstanding under this category totalled 181,9 million BAM (113,1 million USD).

War damage claims, frozen currency savings and general liabilities which don't yet represent direct government debt, as they are still not verified, are excluded from the portfolio used for the MTDS, but they are included in new borrowings at projected amounts of verification, which influences gross financing needs. However, RS is required to recognize these liabilities as debt, in accordance with the existing legal framework. These projected obligations totalled 390,6 million BAM (242,8million USD) at the end of 2014.

2.2. Cost and risk indicators

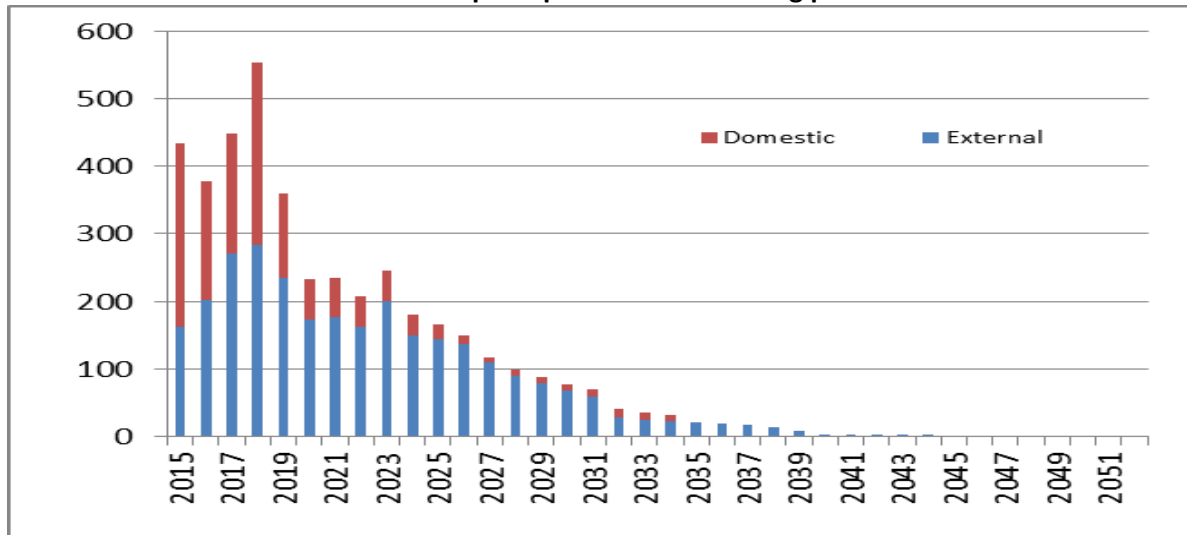
Main cost and risk indicators of the existing portfolio are shown in the following table and redemption profile chart.

Table 3: Cost and risk indicators of the existing portfolio

Risk indicators		External debt	Domestic debt	Total debt
Amount of debt (in millions of USD)		1.789,4	853,1	2.642,4
Nominal debt as % of GDP		32,5	15,5	48,0
PV of debt as % of GDP		25,9	15,5	41,5
Cost of debt	Weighted average interest rate (%)	1,4	3,4	2,1
Refinancing risk	ATM (years)	7,7	4,2	6,6
	Debt maturing in 1 year (% of total)	5,7	19,7	10,2
Interest rate risk	ATR (years)	4,7	3,7	4,4
	Debt refixing in 1 year (% of total)	51,8	34,3	46,1
	Fixed rate debt (% of total)	50,2	82,9	60,7
FX risk	FX debt (% of total)			67,7
	Short term FX debt (% of reserves)			5,7

Source: RS Ministry of Finance

Chart 1: Redemption profile of the existing portfolio



Source: RS Ministry of Finance

Overall, portfolio is associated with low costs. The weighted average interest rate across the portfolio is 2,1%, comprising 1,4% for external debt and 3,4% for domestic debt. This is reflection of external concessional loans and low interest rates on bonds for repayment of domestic debt obligations.

Exchange rate risk is modest. 32,3% of the portfolio is denominated in BAM, while 35,3% is denominated in EUR. Under current currency arrangements whereby the BAM is pegged to EUR, only 32,4% of the portfolio is exposed to exchange rate risk (or 23,6% after SDR decomposition). The fact that 4,5% of the portfolio is denominated in USD (or 14,4% after SDR decomposition), impose some risk, having in mind historical volatility of the USD against the Euro.

Refinancing risk is moderate. Fixed rate instruments account for 60,7% of the total portfolio. The average time to maturity is 6,6 years. The average time to maturity for external debt is 7,7 years, reflecting long-term concessional financing, while the average time to maturity for domestic debt is 4,2 years. Nearly 20% of domestic debt is expected to mature within 1 year, which is common in countries that use T-bills for the liquidity management. Redemption profile shows an increase in the repayment of domestic and external debt over coming years, especially in 2018, reflecting bunching of domestic debt repayments related to T-bonds and commercial loans, while on the external side in 2018 there is a large spike due to IMF SBA repayments.

RS is facing the challenge of maintaining relatively benign risk and cost indicators in the context of change in the structure of financing.

The current debt portfolio is characterized by favorable cost and risk indicators, as a result of heavy use of external concessional financing and bonds for repaying domestic debt with relatively low cost and long-maturity. As concessional financing becomes scarcer, it will be needed to utilize commercial funds from external and domestic sources, without leading to undue increase in costs and risks over the projection period.

3. Medium-term debt management strategy

The main RS debt management goal is to provide financial resources for financing investment projects, refinancing the RS government debt and executing the RS government budget at minimal costs and risks, while taking into account the development of the economy and domestic securities market.

In order to achieve the main goal, the following borrowing objectives are defined:

- a) to ensure continuous borrowing opportunities in the domestic financial market and explore borrowing opportunities in the international financial markets, under optimal terms and conditions, and
- b) to minimize costs subject to acceptable level of risk, while facilitating development of domestic securities market.

In the following medium-term period (2016-2018), the above-mentioned goals will be achieved through the *Diversifying Financing Sources and Instruments Strategy*, which has been chosen as preferred strategy among four analyzed medium-term debt strategies¹. This strategy achieves low costs and risks, reflecting continued utilization of the available support from multilateral creditors. At the same time, this strategy improves the RS position in the future, through supporting development of the domestic financial market and initial participation in the global capital market towards the end of the period. Average time to maturity increases modestly, for domestic and total debt, while foreign currency risk and interest rate risk are comparable to other strategies.

When implementing the strategy, all borrowing activities of the RS MoF will comply with the following best practice principles:

- a) activities in domestic and international financial markets shall be performed professionally, transparently, practical and in a timely manner, while contracted obligations shall be fulfilled in the due time and amount;
- b) selection of the borrowing strategy and its conditions shall be (in priority order) aimed at government debt refinancing, providing resources for financing the budget execution, facilitation to comply with debt covenants set in the Fiscal discipline law and achievement of the government debt structure parameters;
- c) when planning borrowing activities, attention shall not be focused on the comparative short term advantages of borrowing conditions for each specific transaction, but rather on the development and enhancement of long term borrowing opportunities in financial markets;
- d) in general, the most favorable terms and conditions for each borrowing transaction shall be ensured while taking into account principle under the c).

In order to implement the preferred strategy, following basic tasks have been set out:

- a) developing and maintaining relations with partners and investors on domestic and international market;
- b) developing and, if necessary, revising the medium term Borrowing Plan;
- c) publishing domestic securities borrowing plan on a quarterly basis and, whenever possible, providing information about planned issuances for a possibly longer time period;

¹ More details can be found in Annex 2

- d) maintaining permanent offer of medium to long term financial instruments in the domestic financial market, with a tendency to expand the range of instruments facilitating the development of domestic securities market;
- e) identifying the specific debt portfolio parameters for the following variables - maturity profile, interest rate cost and structure, domestic debt outstanding, non EUR foreign exchange exposure (having in mind currency board arrangement) and specifying targets for cost and risk indicators;
- f) regular monitoring of the debt portfolio in relation to identified debt indicators and reporting on them on the semi-annual basis;
- g) managing the credit rating evaluation process in RS ensuring active involvement of the appropriate representatives.

In the medium term, a further task will be to harmonize practices and procedures relating to domestic securities market with those of the EU.

In accordance with the defined debt management goals and basic principles, and taking into consideration RS MTDS debt composition and situation in the financial markets, the following parameters of the RS MTDS debt portfolio structure have been set out, as shown in the table.

Tabela 4: Identified debt structure indicators

Goal	Indicator	Target
Manage FX risk	FX non EUR debt (as % of RS MTDS debt)	≤ 35%
domestic market development	domestic debt (as % of RS MTDS debt)	≥ 25%
manage refinancing risk	ATM (years)	≥ 4
	short term debt - original maturity (as % of last year public revenues)	≤ 8%
manage interest rate risk	Fixed rate debt (% of RS MTDS debt)	≥ 60%
manage cost of debt	WAIR (%)	≤ 3,5

Annex 1.Scope of the RS MTDS

DESCRIPTION		Included/ Excluded	Reasoning behind including into MTDS	Amount (mil.USD) as of 31.12.2014.
1	Total debt in accordance with the Law (1.1.+1.2.+2.a.)		100.0%	3,143 \$
1.1	External debt			1,795 \$
1.1.1	Republika Srpska			1,156 \$
1.1.1.1.	"Relevant" external debt	✓	Direct liability with clear repayment obligation	1,145 \$
1.1.1.2.	"Relevant" external debt - Paris club, Germany	X	Direct liability without repayment method determined	6 \$
1.1.1.3.	Direct external debt	✓	Direct liability with clear repayment obligation	5 \$
1.1.2	Municipalities			39 \$
1.1.2.1.	"Relevant" external debt	✓	Indirect liability with clear repayment obligation	39 \$
1.1.3	SOEs and Investment development bank			600 \$
1.1.3.1.	"Relevant" external debt	✓	Indirect liability with clear repayment obligation	564 \$
1.1.3.2.	Direct external debt	✓	Indirect liability with clear repayment obligation	35 \$
1.2	Domestic debt			1,345 \$
1.2.1	Republika Srpska			947 \$
1.2.1.1.	Debt stipulated by RS Law on domestic debt			646 \$
1.2.1.1.1.	Issued bonds (frozen foreign currency savings bonds, war claim bonds, bonds to suppliers and executive court decisions)	✓	Direct liability with clear repayment obligation	262.7 \$
1.2.1.1.2.	Planned bond issuances - war claim bonds	✓	Direct liability with clear repayment obligation	27 \$
1.2.1.1.3.	Planned bond issuances (frozen foreign currency savings bonds, bonds on the basis of general liabilities)	X	Direct liability depending on the verification process	211.1 \$
1.2.1.1.4.	Cash repayments (action plans - general liabilities, war claims ...)	✓	Direct liability with clear repayment obligation	113.5 \$
1.2.1.1.5.	Planned cash repayments - general liabilities, war claims...	X	Direct liability depending on the verification process	31.8 \$
1.2.1.2.	T- bonds	✓	Direct liability with clear repayment obligation	208.3 \$
1.2.1.3.	T-bills	✓	Direct liability with clear repayment obligation	58.8 \$
1.2.1.4.	Long term bank loans	✓	Direct liability with clear repayment obligation	34.3 \$
1.2.2	Municipalities	X	Not direct nor indirect liability	205 \$
1.2.3	Social security funds			193 \$
1.2.3.1.	Direct debt	X	Not direct nor indirect liability	47 \$
1.2.3.2.	Indirect debt	✓	Indirect liability with clear repayment obligation	145.9 \$
2	Guaranties (a+b+c)			150 \$
a	Activated RS guaranties	✓	Called guaranties and included in debt	3.1 \$
b	Non activated RS guaranties	X	Guaranties yet to be called	147 \$
c	Implicit RS guaranties	X	Debt of SOEs and municipalities and other forms of implicit guaranties	0 \$
3	Total debt included in MTDS		84.1%	2,642 \$
4	Total debt excluded from MTDS		15.9%	500 \$

Source: RS Ministry of finance

Annex 2. Analytical underpinnings

This section presents scenario analysis and alternative borrowing strategies for the RS in terms of costs and risks. Debt servicing flows are generated for each strategy under a baseline and alternative scenarios, applying interest rate and exchange rate shocks. Costs are calculated based on the flows generated under the baseline scenario while risk is measured as the debt service increase due to the interest rate and exchange rates shocks applied.

a. Scenario analysis

For the purpose of sensitivity analysis of the strategies, following shocks are applied:

- **Exchange rate shock:** 30% depreciation against USD in the second year of the period;
- **Interest rate shock:** 4 % increase for domestic and external short-term instruments and 2% increase for domestic medium-term instruments, representing flattening of the yield curve;
- **Combined shock:** 20% depreciation against USD combined with 3% interest rate shock for short-term domestic and long-term external instruments and 1,5% interest rate shock for medium-term domestic instruments.

b. Description of analyzed strategies

The analyses reflect rigidities of the financing options. Structure of financing budget expenditures in the current year is defined by the revised RS budget, and applied in all the observed strategies. All the strategies include disbursements for approved investment projects, new bond issuances for repayment of verified domestic debt obligations, as well as taking over the Pension fund in 2016. The instruments used to finance these needs are predetermined. Variations in strategies relates primarily to the sources of financing budget expenditures (including refinancing needs) in the next 3 years - approximately 49% of the total financing needs over the projection period.

RS is facing relatively limited options. After a long period of accessing concessional multilateral and bilateral financing, which are becoming scarce, RS must now diversify sources of financing, having in mind limitations of domestic market. Accessing global capital markets is included in an option within some strategies, but RS's relatively small financing needs may increase the cost and limit options for bond issuances and private placements.

The following strategies were considered:

- **Strategy 1 - Status quo.** Under this strategy, the existing structure of financing budget expenditures in the current year is maintained across the period.
- **Strategy 2 - Accessing global capital markets.** Financing needs are met through issuing Eurobonds or similar external commercial instruments. Bonds amounting 500 million BAM (310 million USD) are issued in 2016-2018 period. Reliance on domestic market and multilateral creditors is substantially reduced, with no domestic bonds issuances other than for repaying obligations stipulated by the Law on domestic debt. However, issuance of T-bills is maintained during the period, amounting to 60, 50, 75 million BAM (35, 30, 45 million USD) in 2016, 2017, 2018, respectively.

- **Strategy 3 - Diversifying financing sources and instruments.** Development of domestic financial market is continued by introducing instruments with maturities of 3, 5, 7 and 10 years and bullet repayment. Issuance of T-bills is maintained at the annual amount of 95-100 million BAM (60 million USD) over the period 2016-2018, while 3 year bonds issuances are maintained at the annual amount of 20-35 million BAM (10-20 million USD), 5 year bonds at the annual amount of 65-105 million BAM (40-65 million USD) with the gradually downward trend during the period, 7 year and 10 year bonds at the annual amount of 40-105 million BAM (25-65 million USD) with the gradually growing trend during the period, with the support by multilateral creditors' during 2016-2018, whereas accessing global market is projected in 2018, together with BH Federation or independently.
- **Strategy 4 - Intensive domestic market development.** Limited assistance from multilateral creditors is available, forcing increased reliance on domestic market instruments. The volume of domestic issuances is increased, with a reorientation of the domestic portfolio towards short-term bonds, caused by constraints in domestic banking sector (exposure to the public sector, internal policies of limiting maturities for the placements in public sector bonds, etc.)

Table 5: Structure of financing instruments in the observed strategies

Gross borrowing (%) - over projection period				
New borrowing instruments	S1	S2	S3	S4
External Var USD	0%	0%	0%	0%
External Var EUR	22%	18%	18%	17%
External Fix USD	9%	9%	9%	9%
External Fix EUR	2%	2%	2%	2%
IMF SBA Var USD	0%	0%	14%	0%
Eurobonds	0%	46%	6%	0%
Domestic Commercial Bank Var	2%	2%	2%	2%
T-bills Fix DX	15%	9%	12%	19%
T-bonds 3y Fix DX	43%	7%	9%	19%
T-bonds 5y Fix DX	0%	0%	8%	10%
T-bonds 7y Fix DX	0%	0%	6%	12%
T-bonds (verified debt) 3-8y Fix DX	0%	0%	0%	0%
T-bonds 10y Fix DX	6%	6%	12%	9%
External	34%	76%	50%	29%
Domestic	66%	24%	50%	71%
	100%	100%	100%	100%

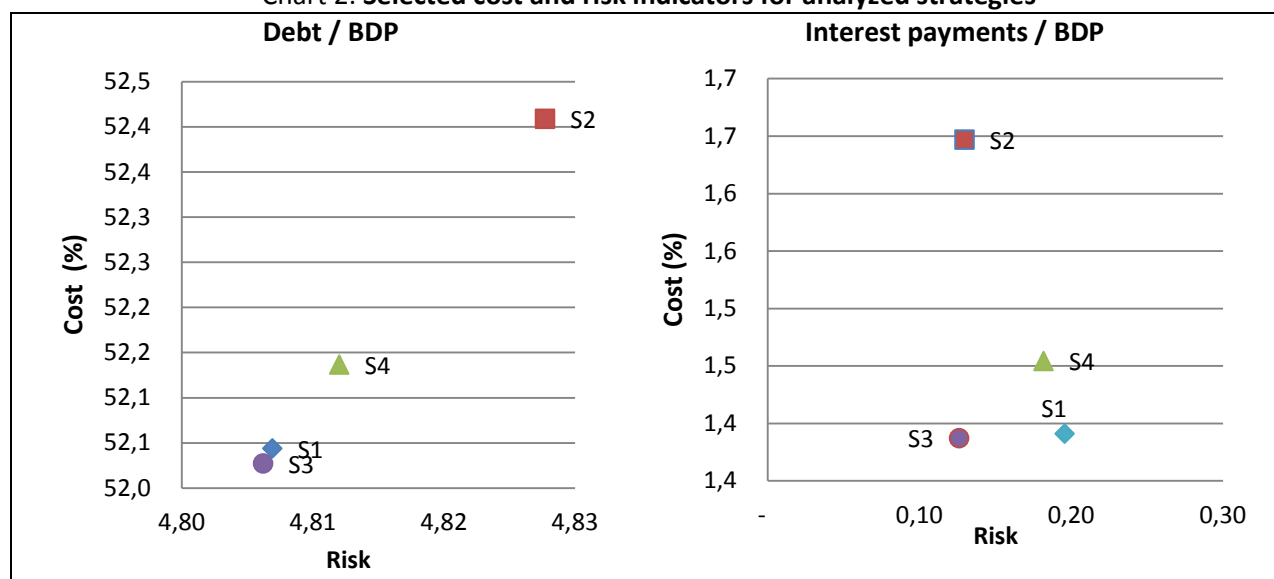
Source: RS Ministry of Finance

c. Costs and risks of observed strategies

The performance of the selected four strategies was assessed under both the baseline and shock scenarios. Two key cost indicators, debt/GDP and interest payments/GDP were calculated to determine how the strategies respond to a set of shocks. The debt/GDP ratio is important when analyzing the change in size of the outstanding debt due to exchange rate movements as it takes into account the valuation effects. Interest payments/GDP assesses each strategy's potential impact on the government's budget. For a given financing strategy, risk is representing the difference between its costs under a baseline and under risk scenario (i.e., after applying certain shocks to the baseline). The maximum risk outcome across the three stress scenarios is used to compare the risk associated with each of the borrowing strategies. For the purpose of comparison, the focus is on the outcome at the end of the time

horizon, 2018. Standard cost and risk indicators for the four strategies are shown in the following charts and table.

Chart 2: Selected cost and risk indicators for analyzed strategies



Source: RS Ministry of Finance

Table 6: Cost and risk indicators in analyzed strategies, at the end of 2018

Risk indicators		2014	as of 31.12.2018.			
		Current	S1	S2	S3	S4
Debt /GDP (%)		48,0	52,0	52,4	52,0	52,1
Debt PV/GDP (%)		41,4	46,8	47,5	46,9	47,2
WAIR (%)		2,1	2,6	3,1	2,6	2,8
Refinancing risk	ATM external portfolio (years)	7,7	8,0	6,9	7,2	7,8
	ATM domestic portfolio (years)	4,2	3,3	5,1	5,4	4,5
	ATM total portfolio (years)	6,6	6,2	6,7	6,6	6,4
Interest rate risk	ATR (years)	4,4	3,9	4,7	4,5	4,4
	Debt refixing in 1 year (% of total)	46,1	44,7	34,2	44,2	40,9
	Fixed rate debt (% of total)	60,7	68,1	71,1	62,2	70,8
FX risk	FX debt (% of total)	67,7	60,6	84,6	69,9	58,0
	ST FX debt (% of reserves)	5,7	7,8	7,8	7,8	7,8

Source: RS Ministry of Finance

In terms of stock of debt and interest rate costs, Strategy 2 and Strategy 4 bear the highest cost, while Strategy 1 and Strategy 3 show similarly low cost. Costs are increased under Strategy 2 and Strategy 4 based on the greater reliance on more expensive external and domestic financing sources, respectively. The higher share of multilateral financing under Strategy 1 and Strategy 3 reduces overall costs and therefore also risks. For similar reasons, the present value of debt is lower under Strategy 1 and Strategy 3, with increased use of longer-maturity and lower-cost instruments. Strategy 1 carries slightly higher risk than Strategy 3 due to the greater share of external debt which is exposed to interest rate shocks.

Refinancing and re-fixing risks also vary across strategies. Both Strategy 3 and Strategy 2 achieve the longest average time to maturity for the domestic and total portfolio. Decreased average time to maturity for external debt reflects higher share of external financing with relatively short maturities. For domestic debt, longer maturities reflect the issuance of new long-term instruments for reparations and also reorientation of domestic debt portfolio towards longer-term bonds. Average time to maturity decreases under Strategy 2 with greater reliance on relatively short-term Eurobonds and issuance of domestic T-bills exclusively. Average time to re-fixing is similar over strategies, while slightly decreasing under Strategy 1, which reflects higher share of external variable instruments, as well as short term domestic instruments.

Certain strategies imply significant increase in currency risk. Share of debt denominated in foreign currency increase significantly under Strategy 2 and substantially decrease under Strategy 4. This reflects the strategy objectives in terms of moving towards increased external commercial financing and domestic financing respectively. It is important to note, however, that actual currency risk is mitigated by the currency board arrangement, which implies fixed exchange rate against the Euro.

Based on all the given considerations, Strategy 3 is preferred strategy for RS. This Strategy achieves low cost and risk, due to the available support from multilateral creditors. At the same time, the strategy provides good position for RS in terms of future potential funding sources, through supporting development of the domestic market and initial participation in the global capital market towards the end of the period. Under this strategy, average time to maturity for domestic and total debt increase modestly, financing costs are the lowest among all the strategies, while foreign currency risk and re-fixing risk are at the acceptable levels. Redemption profile is comparable to other strategies, with the significant peak in 2021, driven by the commencement of accelerated repayment of IDA loans and slightly bunching of repayments related to medium-term domestic instruments issued towards the end of the period.