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Government of Nepal

Ministry of Finance

Public Debt Management Office (PDMO)

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Message from the Chief

Public Debt Management Office (PDMO) of Nepal is a specialized government agency responsible for the overall management of public debt in Nepal. In view of enhancing efficiency and effectiveness of public debt management in the country, Government of Nepal established a dedicated Public Debt Management Office on June 20, 2018.

Public Debt Management Act, 2022 came into force on November 8, 2022, providing legal foundation to PDMO for public debt management. The act outlines debt management objective, in its preamble, emphasizing economic development and economic stability with the help of efficient and effective public debt management.

PDMO is pleased to publish the first Public Debt Bulletin for public information that would enhance transparency of public debt management which has been a growing concern among the general public in recent times. This bulletin presents debt related data, debt related activities, status of public investment (share and loan) to the state-owned enterprises (SoEs), debt service liabilities and the recent operational and institutional development issues in public debt management in Nepal.

I hope that this bulletin will be beneficial to the policy makers, investors/creditors and the scholars, researcher, into the field along with other stakeholders. I am thankful to my colleagues at PDMO, Ministry of Finance and the development partners for the direct and indirect support and suggestions, while preparing this bulletin.

Finally, I would like to request all the readers for valuable suggestions, feedback and comments on this bulletin.

Bhumi Ram Sharma
Chief
Public Debt Management Office

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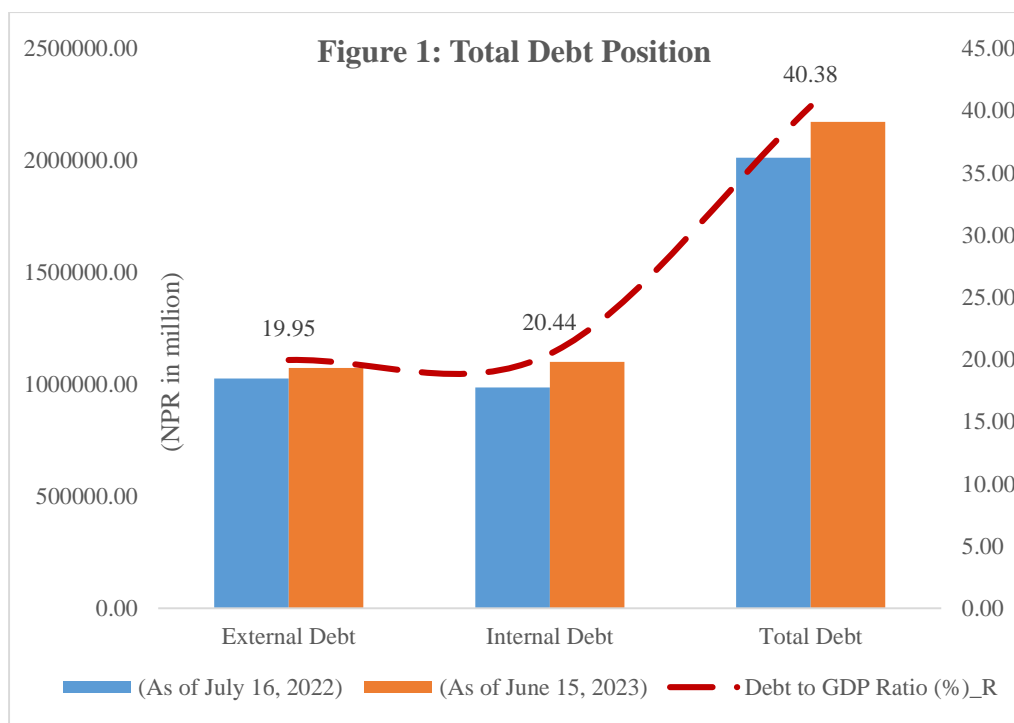
1. Introduction

Nepal's public debt consists of both domestic and external debt. Domestic debt refers to the amount borrowed from domestic sources such as banks, financial institutions, and the general public. It includes treasury bills, government bonds, citizen saving investment bonds, foreign employment saving bonds, and other forms of borrowing from domestic market. External debt refers to the amount borrowed from foreign sources such as multilateral organizations, bilateral creditors, and international financial institutions.

This public debt bulletin presents the total debt stock and debt servicing of the Government of Nepal which includes all the direct borrowings from external and domestic sources. This also outlines debt portfolio characteristics with respect to the composition and maturity profile of public debt. Furthermore, this bulletin also includes the public investment (share and loan) to the state-owned enterprises (SoEs) and the receipt from investments.

2. Outstanding Public Debt

Total debt outstanding of the government has reached to NPR 2,173,247.09 million on June 15, 2023. Of the total debt, external debt is 49.40 percent and domestic debt stock is 50.60 percent. The debt-to-GDP ratio is almost the same at 40.38 percent compared to that of 40.78 percent of the previous year. Total debt of Government of Nepal during first eleven month of year 2022/23 increased by 8.02 percent. External debt has increased by 4.65 percent and domestic debt by 11.52 percent. This increase is due to the rise in disbursement of external loans and T-bills roll over (*Figure 1*).

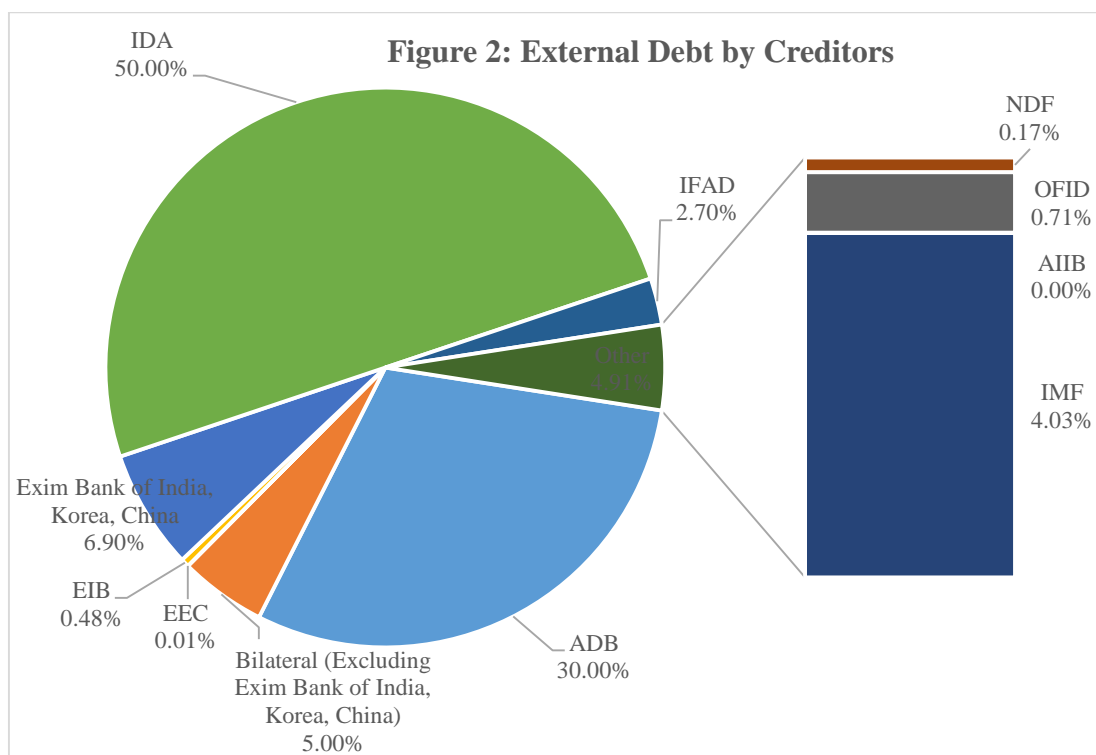


2.1. Outstanding External Debt

As of June 15, 2023, external debt stood at NPR 1,073,523,89 million. This is a 4.65 percent increase compared to that of the end of July 2022. This increase in external debt is mainly due to the increment in disbursements during this period.

2.1.1 External Debt by the Creditor

Total of the external debt outstanding by the creditor as of June 15, 2023, IDA holds the largest share of 50 percent followed by ADB with 30 percent. In the third position, Exim Bank of China, India and Korea altogether hold 6.90 percent, while IMF and IFAD carried out with 4.03 percent, 2.70 percent respectively. Bilateral loan (Excluding Exim loan) to Nepal occupies 5.00 percent. EEC and EIB carry out 0.48 percent, while others creditors including AIIB, NDF and OFID account for 0.88 percent of the total debt (**Figure 2**).

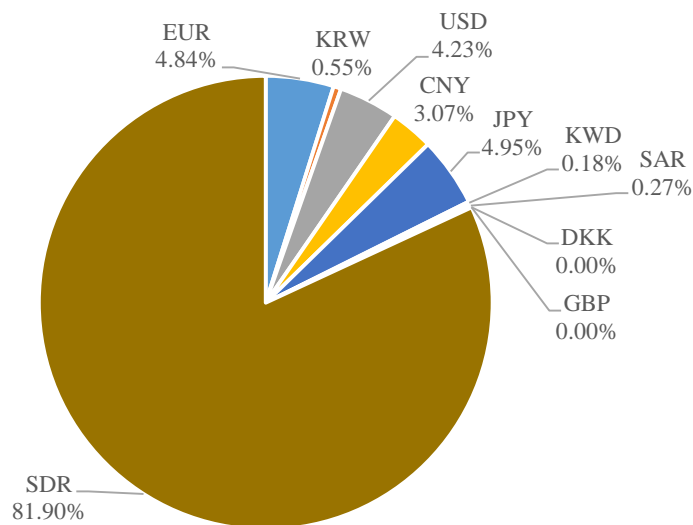


2.1.2 Currency wise Outstanding External Debt

As of June 15, 2023, 81.90 percent of the total external debt was held in SDR (Special Drawing Rights)¹ followed by 4.95 percent JPY (Japanese Yen), 4.84 percent EUR (Euro), 4.23 percent USD (United States Dollar) and 3.07 percent CNY (Chinese Yuan). The remaining other currencies hold 1.01 percent of the total external debt outstanding (**Figure 3**).

¹ SDR is a form of international money, created by the International Monetary Fund, and defined as a weighted average of USD, EUR, CNY, JPY and GBP

Table 3: Composition of External Debt by Currency

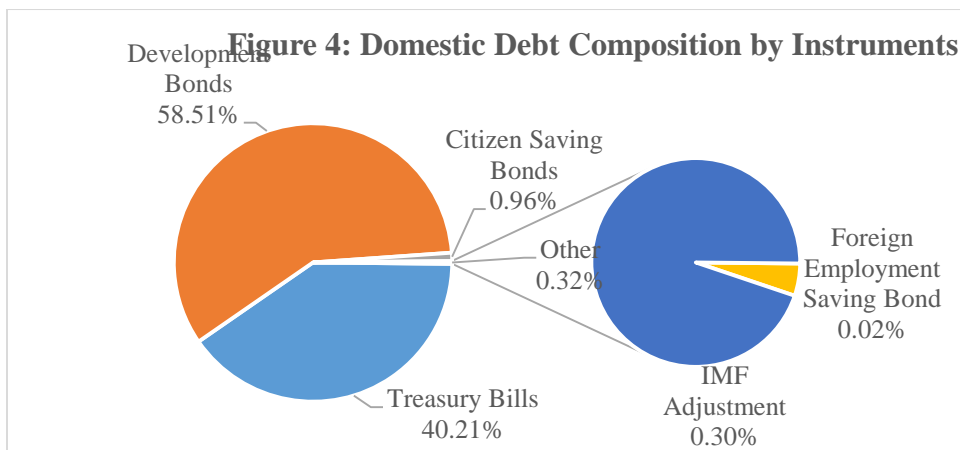


2.2 Domestic Debt

Total outstanding domestic debt was NPR 1,099,723.20 million as of June 15, 2023, which is 20.44 percent of the GDP. Domestic debt increased by 11.52 percent during the first eleven month of the year 2022/23. This increase is largely due to the issuance of medium-term bonds and also issuance of additional treasury bills and the T-bills rolled over during that period.

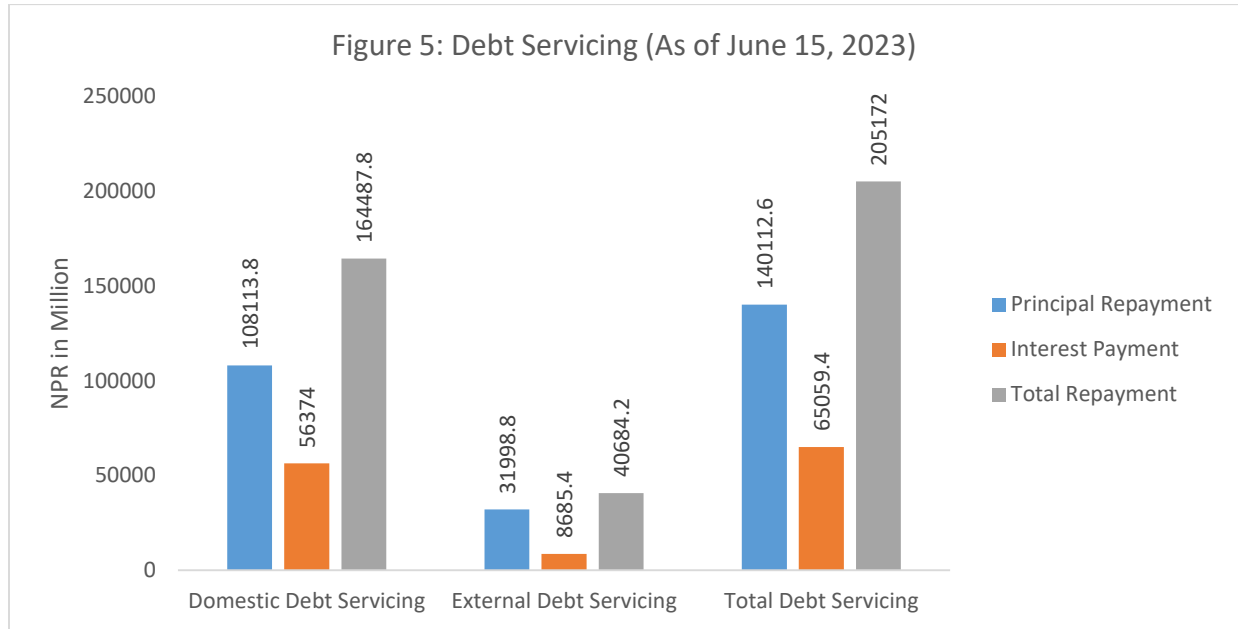
2.2.1 Composition of Domestic Debt

Domestic debt comprises mainly of short- term and long-term securities issued at the domestic market and loans borrowed from commercial banks. Development Bonds account for 58.51 percent of the total domestic portfolio, whereas Treasury bills cover 40.21 percent. Citizen saving bonds represent 0.96 percent, and IMF adjustment and foreign employment saving bonds represent only 0.32 percent of the total domestic debt (*Figure 4*).



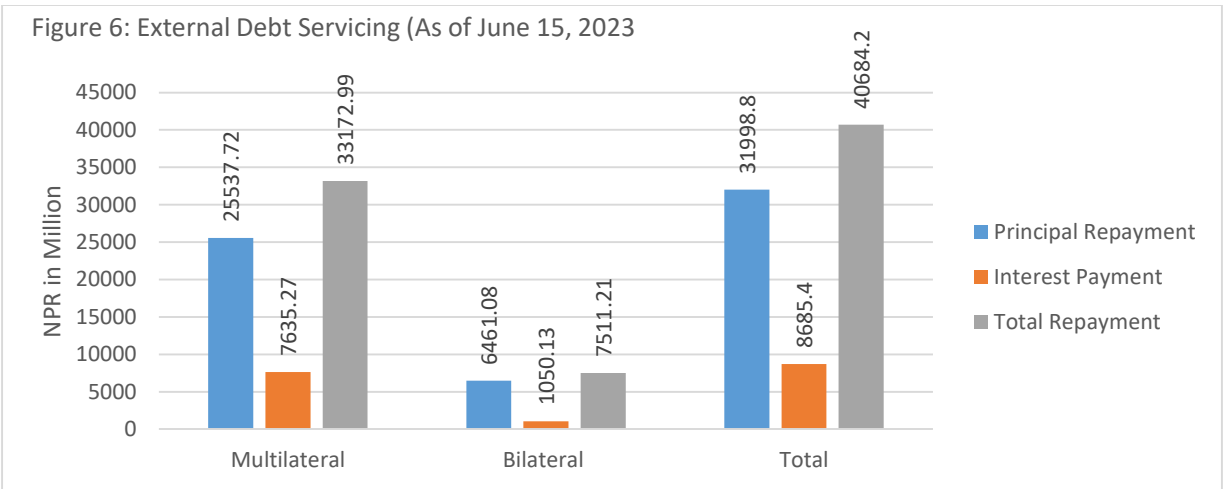
3. Debt Servicing

As of June 15, 2023 the government spent NPR 205172 million for debt servicing. Of this amount, NPR 140112.6 million s for principal repayment, and NPR 65059.4 million for interest payments. The share of domestic and external debt servicing is 68.3 percent and 31.7 percent, respectively. The debt servicing to GDP ratio stands at 3.81 percent (*Figure 5*).



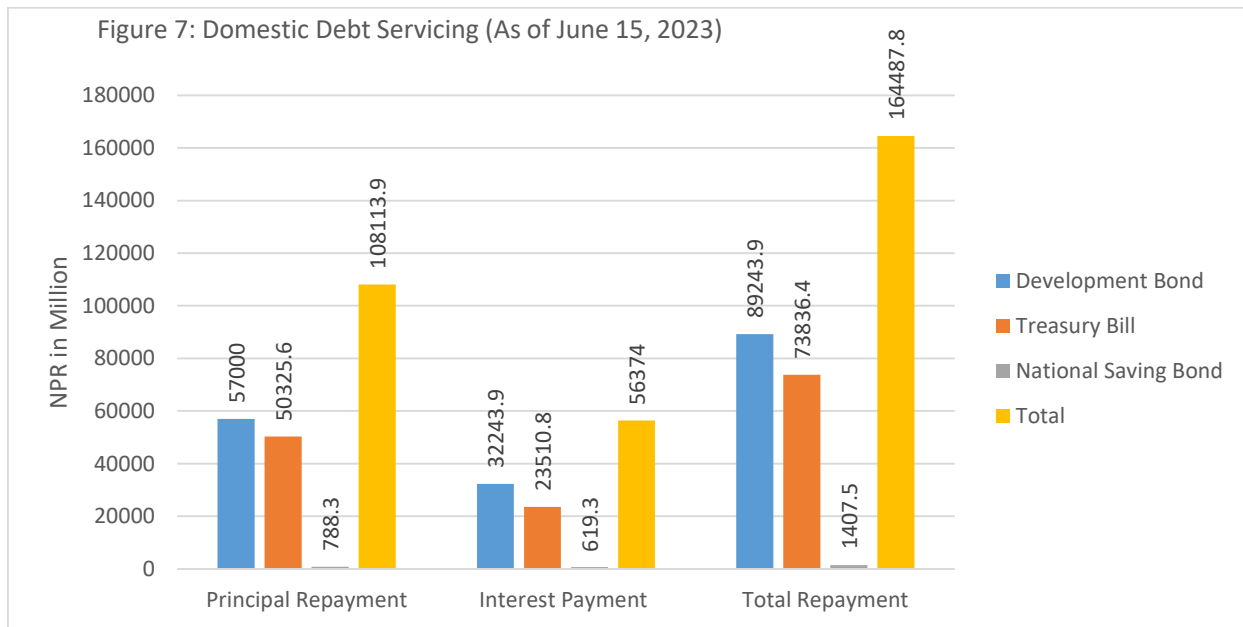
3.1 External Debt Servicing

As of June 15, 2023 the total external debt servicing stood at NPR 40,684.28 million, where the multilateral and bilateral creditors account for NPR 28,478.99 million and NPR 12205.28 million respectively. Due to more credits received, the multilateral debt servicing is higher than bilateral. The shares of principal repayment and interest payment is 70 percent and 23 percent, respectively, in the total debt servicing of multilateral credit. Likewise, in the case of the total debt servicing of bilateral creditors, the shares of principal repayment and interest payment is 86 percent and 14 percent, respectively (*Figure 6*).



3.2 Domestic Debt Servicing

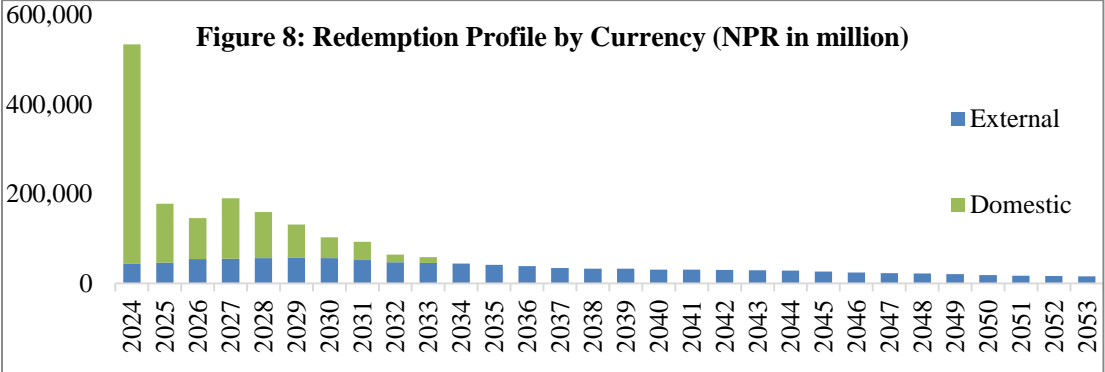
Debt service cost of domestic instruments is NPR 164487.8million for the eleven months of the fiscal year 2022/23. Principal repayments accounts for 65.7 percent, while the remaining 34.3 percent represents interest and other payments during this period. Out of the total repayment, the development bonds constitute 54.3 percent, T-bills make up 44.8 percent, and the remaining others account for 0.9 percent. (*Figure 7*).



4. Analysis of redemption profile of existing debt.

Debt portfolio of Nepal is primarily vulnerable to risks associated with refinancing, interest rates, exchange rates, operations and contingent liabilities. Amongst these, the most notable current risks in the debt portfolio are exchange rate risk, refinancing risk, and interest rate risk due to exchange rate loss and an increase in coupon rate of domestic instruments and T-bills rolled over. For this reason, the government is constantly monitoring operational risk, and the risks arising from contingent liabilities.

The redemption profile depicts the level of risk associated with refinancing. Average Time to Maturity (ATM) and debt maturing within 12 months are the two main indicators of this risk. These indicators show the presence of particularly high peaks in the redemption profile. In the year 2024, maturity profile is uneven with a significant peak due to the relatively high presence of Treasury Bills (*Figure 8*).



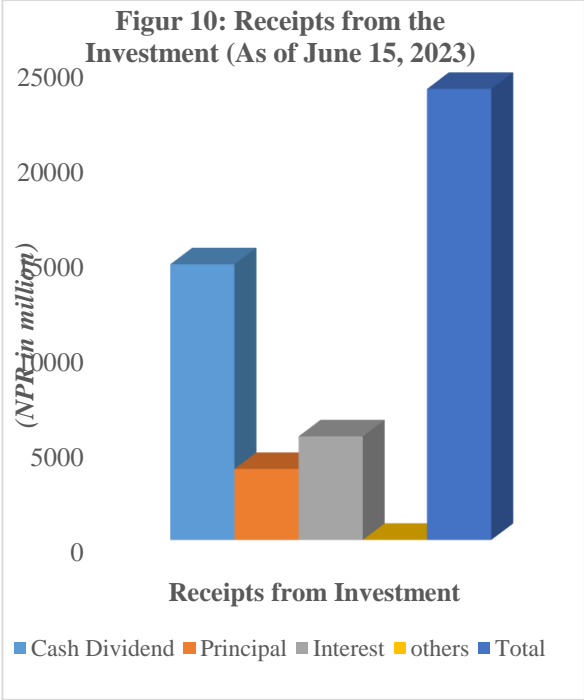
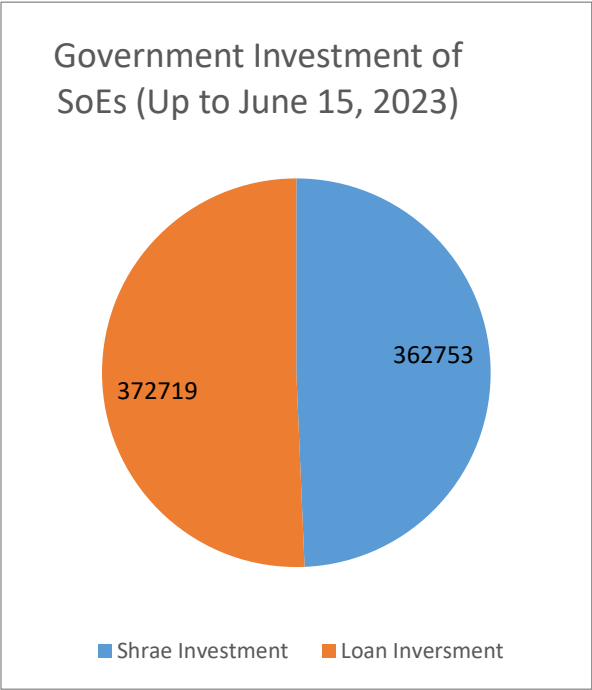
As of June 2023, 23.5 percent of the total debt outstanding had a maturity of one year or less. The increase is mainly because of the T-bills with less than a year maturity will get matured, and some of them need to be rolled over with new issuance. Likewise, the short-term development bonds are getting matured by 2024. The external debt does not impose significant refinancing risks due to the predominantly high volume of concessional loans.

5. Government Guarantees

As per the record maintained at PDMO, at present there are two government-guaranteed debt in Nepal provided to the Nepal Airlines Corporation. The guarantee amount is NPR 34 billion.

6. Government Investment

Government of Nepal has invested to State-Owned-Enterprises (SOEs) for the implementation of development projects. Total investment up to June 15, 2023 is NPR 735472.00 million. Of which share investments is NPR 362753.00 million and loan investment is NPR 372719.00 million. As of June 15, 2023, total share investment is NPR 5114.00 million and loan investment is NPR 2297.00 million resulting to total NPR 7411.00 million in FY 2022/23. SOEs payback the principal, interest and cash and share bonus to the government. The government received NPR 14498 million as a total cash dividend of share investment. Similarly, the total principal refund amount received of loan investment is NPR 3740.00 million and interest amount received is NPR 5458.00 million. In total, the cash dividend, principal refund and interest receipt of the investment, including others 7 million, is NPR 23707.00 million.



7. Recent Developments in Debt Management

7.1 Strengthening the Legal Framework

The new Public Debt Management Act, 2022 has been enacted by the parliament and that came into effect since November 8, 2022. It integrates all the functions of debt management erstwhile managed by different laws. The new law provides a full legal framework to the PDMO to perform all the given responsibilities along with the integration of public debt management functions. Public Debt Management regulation is yet to be approved.

7.2. Implementation of DOMS

The upgradation of the Debt Management and Operation Software (DOMS) is ongoing. Migration and validation of external debt database was conducted, and external debt servicing is being carried out with the system. For the domestic borrowing, all the front office functions are still carried out by Nepal Rastra Bank. And the domestic debt data are migrated to the DOMS and validation of the migrated data is underway. At the meantime, new issuance of the debt instrument is done parallelly with DOMS for testing. Investor portal has been developed and enhanced during this fiscal year for the general public. Successful testing of the Citizen Saving Bond and Foreign Employment Saving Bond issues with a live data was done through the use of investor portal. Investment data has been digitized to a substantial level within DOMS system. There are plans for the issuances of securities of domestic borrowing to be carried out by PDMO through the system from next fiscal year. Necessary guidelines to handle the domestic debt functions are being developed by PDMO.

7.3 Capacity Building

The Asian Development Bank (ADB) organized a training program on Medium Term Debt Management Strategy (MTDS) from June 5-9, 2023 in Kathmandu. There were about 25 participants from Ministry of Finance, Financial Comptroller General Office, National Planning Commission, Nepal Rastra Bank and PDMO. The main objective of the training was to strengthen the capacity of PDMO including other stakeholders to develop the debt management strategy. For this, a rigorous hand on exercise was carried out to prepare the MTDS Analytical Tools with the data of Nepal along with theoretical background. At the end of the training, participants became familiar with MTDS AT for Nepal, Activities are still ongoing on until a final report of the MTDS FY 2023/24-2025/26 for Nepal is produced.

7.4 Debt Management Strategy

PDMO has formulated and implemented the Medium-Term Debt Management Strategy of the Government of Nepal for the period of FY 2020/21-2022/23. The key features of MTDS are:

- Slightly higher use of external borrowing with a moderate combination of domestic borrowing,
- Higher presence of concessional borrowing from multilateral financial institutions,
- Introduction of non-concessional borrowing,
- A balanced use of shorter-term T-bills and T- bonds to longer term bonds,
- Utilization of borrowing from EXIM Banks for external sources.

There is no alarming risk of debt burden in terms of costs and risks indicators, as they are in line with the strategic direction. However, the debt stress has been increased mainly due to the increase in coupon rate of domestic instruments, and devaluation of currency. The PDMO has started formulating new MTDS for the next three years (2023/24-2025/26).

7.4 Debt Management Performance Assessment

The World Bank team, in collaboration with the PDMO team, has completed a Debt Management Performance Assessment (DeMPA). Previously, the assessment was conducted in 2014. The draft report of this assessment has been shared by the World Bank and is currently being reviewed and considered by the PDMO. Findings of the assessment have indicated few major developments in the area of debt management along with the areas for improvement.

7.5 Public Debt Management Committee

Public Debt Management Committee (PDMC), an apex body for policy directive to manage the debt, held a meeting at the PDMO under the chairmanship of Secretary (Revenue) of the Ministry of Finance. Some of the major decisions of the committee are as follows:

- Submit the draft report of the Public Debt Management Regulations, prepared by drafting committee, to the Ministry of Finance for policy decision.
- Review the existing organizational structure and human resources to make the debt management functions of PDMO fully functional as per the PDM Act, 2022 and present the O&M survey report to the ministry.

- Prepare and implement the action plan to improve the debt indicators identified in the Debt Management Performance Assessment (DeMPA) in coordination with Ministry of Finance and Nepal Rastra Bank.
- Update the MTDS and Debt Sustainability Analysis (DSA) reports as soon as possible.
- Submit the “Share and Investment Policy” prepared by PDMO to Ministry of Finance for the further policy decision.
- Focus on the capacity development of PDMO. For that, conduct the training, workshop and other capacity development programs.

Annex I: Overall Debt Position

Table 1: Total Debt Position (NPR in million)

| Public Debt | (As of July 16, 2022) | (As of June 15, 2023) |
|------------------------------|-----------------------|-----------------------|
| External Debt | 1025847.11 | 1073523.89 |
| Domestic debt | 987449.30 | 1099723.20 |
| Total Debt | 2013296.41 | 2173247.09 |
| Shares in Total (%) | | |
| External Debt | 50.95 | 49.40 |
| Domestic debt | 49.05 | 50.60 |
| Debt to GDP Ratio (%) | | |
| External Debt | 20.79 | 19.95 |
| Domestic debt | 20.01 | 20.44 |
| Total Debt | 40.81 | 40.38 |
| GDP (in millions) | 4933696.58 | 5381335.08 |

Source: GDP estimates for Year 2022/23 by National Statistics Office

Source: PDMO

Annex II: Total External Debt by Creditors

Table 2: Total External Debt by Creditors up to June 15, 2023 2

| S.N. | Donor Name | Amounts (NPR in million) |
|----------------------------|--|--------------------------|
| 1 | ADB | 322057.17 |
| 2 | Bilateral (Excluding Exim Bank of India, Korea, China) | 53676.19 |
| 3 | EEC | 107.35 |
| 4 | EIB | 5152.91 |
| 5 | Exim Bank of India, Korea, China | 74073.15 |
| 6 | IDA | 536761.95 |
| 7 | IFAD | 28952.94 |
| 8 | NDF | 1824.99 |
| 9 | OFID | 7622.02 |
| 10 | AIIB | 32.21 |
| 11 | IMF | 43263.01 |
| Total External Debt | | 1073523.89 |

Source: PDMO

Annex III: Domestic debt Stock

Table 3: Domestic debt (As of June 15, 2023)

| S.N. | Instruments | Amount (NPR in millions) |
|------|--------------------------------|--------------------------|
| 1 | Treasury Bills | 442205.60 |
| 2 | Development Bonds | 643447.00 |
| 3 | Citizen Saving Bonds | 10567.50 |
| 4 | Foreign Employment Saving Bond | 175.50 |
| 5 | IMF Adjustment | 3327.60 |
| | Total Debt | 1099723.20 |

Source: PDMO

Annex IV: Total Debt Servicing

Table 4: Total Debt Servicing (As of June 15, 2023)

| Details | Principal Repayment (NPR in million) | Interest Payment and others (NPR in million) | Total Repayment (NPR in million) |
|---|---|--|-------------------------------------|
| Domestic debt | | | |
| Citizen Saving Bond and Foreign Saving Bond | 788.20 | 619.30 | 1407.5 |
| Development Bond | 57000.00 | 32243.90 | 89243.9 |
| Treasury Bills | 50325.60 | 23510.80 | 73836.4 |
| Total Domestic | 108113.80 | 56374 | 164487.8 |
| External Debt | | | |
| Multilateral | 25537.72 | 7635.27 | 33172.99 |
| Bilateral | 6461.08 | 1050.13 | 7511.21 |
| Total External | 31998.8 | 8685.40 | 40684.20 |
| Total Debt | 140112.6 | 65059.4 | 205172.0 |

Source: PDMO

Annex V: Government Investments

Table 5: Government Investment to SoEs

| Investments | As of June 15, 2023 | Up to June 15, 2023 |
|---------------------------------------|---------------------|---------------------|
| Share Investment (NPR million) | 5114.00 | 362753.00 |
| Loan Investment (NPR million) | 2297.00 | 372719.00 |
| Total Investment (NPR million) | 7411.00 | 735472.00 |

Source: PDMO

Annex VI: Receipts from Investment

Table 6: Receipt from the SoEs Investment (As of June 15, 2078)

| Receipts | NPR in million |
|----------------------|-----------------|
| Cash Dividend | 14498.00 |
| Principal | 3740.00 |
| Interest | 5458.00 |
| Others | 7.00 |
| Total Receipt | 23703.00 |

Source: PDMO

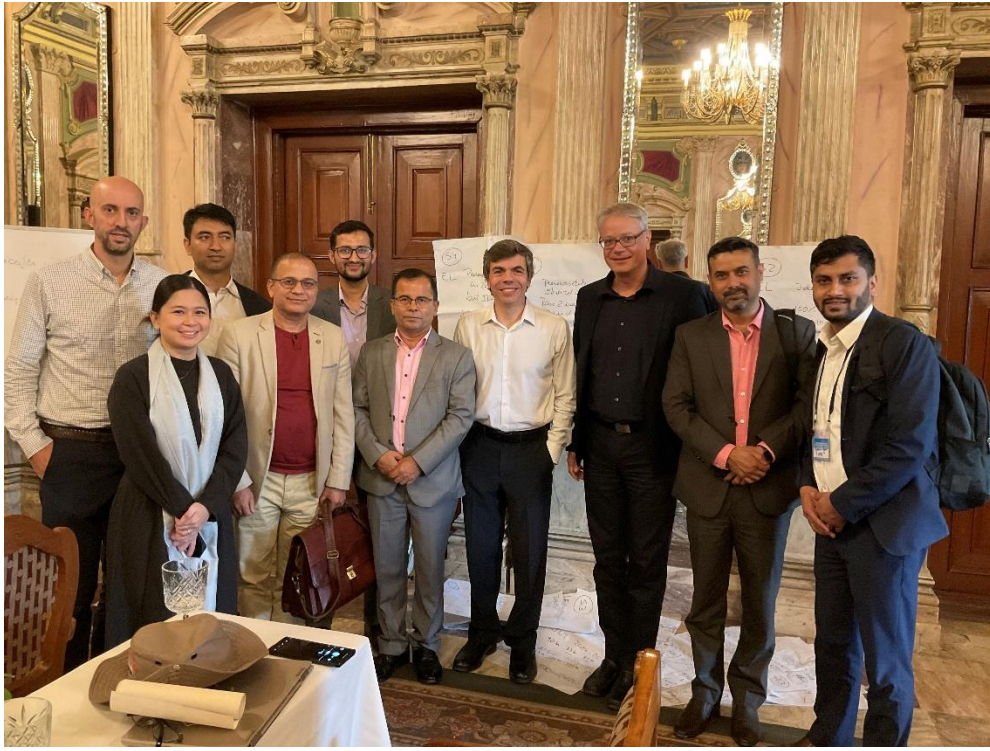
Annex VII: Photo Gallery



(PDMO Chief Presented a draft copy of the "Public Debt Management Regulation" to Secretary (Revenue))



(Training on MTDS for Nepal, organized by ADB, Kathmandu, June 5-9, 2023)



(Training on MTDS for Nepal, organized by ADB, Kathmandu, June 5-9, 2023)



(Training Workshop on LIC-DSF, organized by IMF and the WB, Singapore, **June 5-9, 2023**)



(Meeting with JICA Delegates on Public Debt and Economic Situation of Nepal in PDMO)



(Meeting with IMF Delegates on Cash Flow Forecasting at PDMO)



(Discussion with SOEs on Dematerialization of Government Share Investment)



(PDM Forum 2023 organized by ADB, Bali, Indonesia, March 8-10, 2023)



(Meeting with SOEs on Government Investment and Receipts from the Investment in PDMO)



(Meeting with Mr. Kulaman Ghising, Executive Director of Nepal Electricity Authority and officials)