Royal Government of Bhutan

Public Debt Policy 2016

Ministry of Finance

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དངུལ་རྩིས་ལྷན་ཁག།
ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE
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FINANCE MINISTER

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Foreword

Bhutan has been among the fastest growing economies in the region. Growth however, was coupled with increasing public debt, comprising largely of external debt contracted for investments in hydropower development.

If Bhutan maintains the recent growth rates, it is expected to graduate to a middle income country status in the next decade, achieving an important milestone in economic development. If so, Bhutan will no longer be eligible to take advantage of the sources of low-cost finance that has fueled growth till date. The present concessionary lending terms offered by the multilateral agencies is also expected to be hardened with the increased GDP per capita. This will mean that the Government will have to seek new sources to finance its capital expenditures. With the dwindling of grant resources, external borrowing is expected to increase in the years ahead.

The absence of a clear policy guideline on public debt management and borrowings poses risks due to unsustainable borrowings. From this perspective, a prudent debt management policy assumes high importance. A well-articulated debt management policy will help to ensure that the government's financing needs and debt obligations are met at the lowest possible cost with a prudent degree of risk. Debt levels and their related annual costs are important long term obligations that must be managed within available resources. Effective debt management will be of paramount importance in ensuring that debt financing is sustainable and contributes to the economic growth of Bhutan, and ultimately in achieving the overarching development objective of Gross National Happiness.

Against this backdrop, this Policy has been framed to provide a broad framework to guide decisions that will ensure sustainable debt levels and efficient portfolio management.

I am hopeful that this Policy will enable the Government to proactively guide its investment plans and ensure that financing decisions are prudent and public debt is maintained at a sustainable level.

This policy was approved in the 109th Lhengye Zhungtshog session held on 2nd August 2016.

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LIST OF ABBREVIATIONS

ECB	External Commercial Borrowings
DeMPA	Debt Management Performance Assessment
DPDM	Department of Public Debt Management
DSA	Debt Sustainability Analysis
FY	Fiscal Year
FYP	Five Year Plan
GDP	Gross Domestic Product
GNHC	Gross National Happiness Commission
IMF	International Monetary Fund
MOEA	Ministry of Economic Affairs
MOF	Ministry of Finance
MTDS	Medium Term Debt Management Strategy
PFA	Public Finance Act
PPD	Policy and Planning Division
RGOB	Royal Government of Bhutan
RMA	Royal Monetary Authority
TOR	Terms of Reference

1. Rationale

Since the inception of the five-year socio-economic development plans in 1961, Bhutan has experienced steady and stable growth driven primarily by public sector investments, particularly in large-scale hydropower projects. Growth however, was coupled with increasing public debt, comprising largely of external debt contracted for investments in social sector infrastructure projects and for hydropower development.

In recognition of Bhutan's comparative advantage in hydropower given the huge market in the region and to achieve self-reliance,the Government embarked on an accelerated hydropower development program. This has resulted in the initiation of several capital-intensive hydropower projects sourced through bilateral loans.

Mindful of the burgeoning level of debt, the Government has recognized the need for a comprehensive public debt policy to proactively guide its investment and ensure that financing decisions are prudent and public debt is maintained at a sustainable level. The need to have a public debt policy is also underscored as the economy is on the threshold of graduating from Low Income to Middle Income Country status, with concomitant decline in access to concessional financing windows. Effective debt management will be of paramount importance in ensuring that debt financing is sustainable and contributes to the economic growth of Bhutan, and ultimately in achieving the over arching development objective of Gross National Happiness.

This policy therefore provides a broad framework to guide decisions that will ensure sustainable debt levels and efficient portfolio management.

2. Scope

This Policy shall extend to all Public and Publicly Guaranteed External and Domestic Debt of Bhutan. However, given the nascent stage of development of the domestic debt market, the thresholds in this Policy shall apply only to External Debt, until such time that the thresholds for domestic debt can be determined to complement this Policy.

All external debt of the private sector shall be guided by the External Commercial Borrowings (ECB) Guidelines issued by the Ministry of Finance.

3. Legal Framework

The Public Debt Policy shall be governed by the Constitution of the Kingdom of Bhutan, the Public Finance Act of Bhutan 2007, the Audit Act of Bhutan 2006 and the Royal Monetary Authority of Bhutan Act 2010,and amendments thereof. The specific legal provisions governing the Policy are provided below.

Articles as enshrined in the **Constitution of the Kingdom of Bhutan:**

Article 14 (4):*"The Government, in the public interest, may raise loans, make grants or guarantee loans in accordance with the law."*

Article 14 (5):"*The Government shall exercise proper management of the monetary system and public finance. It shall ensure that the servicing of public debt will not place an undue burden on future generations."*

Article 14 (7):"*A minimum foreign currency reserve that is adequate to meet the cost of not less than one year's essential import must be maintained."*

Provisions as laid down in the **Public Finance Act of Bhutan 2007 (and amendments thereof):**

Chapter II, Section 7 (d): "*The level of public debt shall be contained such that it will not create undue burden on future generations and threaten national solvency.*"

Chapter III, Section 15 (a) vests the Minister of Finance with powers for "*Approval of borrowings and issuance of public securities subject to concurrence of the Lhengye Zhungtshog.*"

Chapter VII, Sections 124 to 128 and 132 to 134 empower the Minister of Finance to raise loans, on-lend and issue guarantees.

Section 38(e) of the Royal Audit Act of Bhutan 2006, requires the Royal Audit Authority to "conduct the audit of aid, grants and public debt of the Nation".

Provisions as laid down in Chapter VIII of the RMA Act 2010 shall govern the relations between the Royal Government and the Royal Monetary Authority of Bhutan on matters relating to the extension of credit to the Government.

4. Objective of the Policy

4.1 Policy Statement

The objective of this Policy is to ensure that financing decisions are prudent and public debt is maintained at a sustainable level. To achieve this objective, the Public Debt shall be managed in such a manner that the Public Sector's financing needs and debt service obligations are met in a timely manner, at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk;while also supporting the development of an efficient domestic capital market in the long run.

4.2 Guiding Principles

The broad guiding principles for raising domestic and external debt are categorized by type of liability (direct or contingent) and by sector of borrower, as follows:

4.2.1 Direct Liabilities

4.2.1.1 General Government

i. The Government can contract debt for the following purposes:
   a. To finance budget deficits;
   b. To refinance a maturing debt or a loan paid before the redemption date;
   c. To maintain credit balances in the bank accounts;
   d. For on-lending to State Enterprises and other legal entities;
   e. Any other purposes approved by the Lhengye Zhungtshog.

ii. The financing needs of the Government's development priorities shall be met through debt financing only after fully exhausting the possibilities of obtaining the required financing in the form of grants;

iii. When resorting to debt financing, the Government shall prioritize borrowings from concessional windows over other alternatives;

iv. The debt-financing decisions of the Government shall made on needs-basis, taking due consideration of absorptive capacity and requirement, and shall not be motivated by availability, prior commitments and concessions;

v. The Government shall resort to commercial borrowing only for the purposes of investment in financially viable sectors, the implementation of which will help the economy to generate the required fiscal dividends;

vi. The Government shall ensure appropriate currency composition, interest rate and maturity structure of the debt stock to minimize refinancing and market related risks;

vii. The Government shall ensure that mobilization of capital from the domestic market does not crowd out private sector investment.

4.2.1.2 Public Corporations

Public Corporations can borrow or create actual liability only after obtaining the written approval of the Minister of Finance, subject to the concurrence of the Lhengye Zhungtshog.

Debt contracted by Public Corporations and their subsidiaries constitute a part of the country's total public debt. The Ministry of Finance and Public Corporations shall have a shared understanding of the objectives of public debt to ensure that debt financing is sustainable and contributes to the over arching development objective of Gross National Happiness.

Borrowings shall be based on the following principles and conditions:

i. Borrowing shall be resorted to only after all other alternative sources and options are exhausted; or after duly assessing the appropriate level of financial leverage that is required to maximize returns;

ii. Long-term borrowings shall only be for investment purposes and not for meeting recurrent expenditure;
iii. Public Corporations shall try to secure the most favourable terms of borrowings at lowest possible costs while ensuring adequate return on investments;
iv. Due diligence and proper risk analysis of the investment proposals must be carried out by the sector ministry and vetted by the Ministry of Finance before submission for approval;
v. Where direct borrowings by Public Corporations from external sources are difficult or not possible, the Government may borrow and on-lend to the Public Corporations under a separate subsidiary agreement. The debt service burden and any other associated risks such as exchange rate and interest rate risks arising from the debt shall be the obligation of the Public Corporation;
vi. The Government may levy service charge not exceeding three-fourth of one percent of the on-lent amount;
vii. Lending from the Government shall only be for socially beneficial projects or for the purposes of carrying out the development priorities of the Government.

4.2.1.3 Royal Monetary Authority of Bhutan

Any debt contracted by the RMA shall constitute a part of the country's total public debt. The RMA and the Ministry of Finance shall have a shared understanding of the objectives of debt management, fiscal and monetary policies and work together to ensure policy consistency and coherence.

4.2.2 Contingent Liabilities

4.2.2.1 Sovereign Guarantees

The power to issue sovereign guarantees is vested with the Minister of Finance subject to the concurrence of the Lhengye Zhungtshog. Such sovereign guarantees shall be provided to public corporations based on the following principles and conditions.

A. Principles and Conditions for Issuance of Sovereign Guarantees

Public Corporations shall be eligible for sovereign guarantees if their proposed investment meets one or more of the following principles:

i. Serves public interest and maximizes social benefit;
ii. Supports the development priorities of the government;
iii. Improves the financial viability of the project.

In addition, eligibility for sovereign guarantees shall be subject to the following conditions:

i. Existing public corporations must have a good track record of credit worthiness and sound financial standing as assessed by the relevant public authority;the assessment for newly established public corporations will be based on their projected financial strength.
ii. The public corporations shall try to secure the most favourable terms of borrowings at lowest possible cost while ensuring adequate return on investment;
iii. Detailed investment proposal and feasibility report must be submitted to the Ministry of Finance through the sector ministry;

iv. Due diligence and proper risk analysis must be carried out by the sector ministry and vetted by the Ministry of Finance;
v. A primary charge shall be created on the fixed assets of the company in favour of the guarantor and duly registered with the Registrar of the company and other relevant agencies;
vi. An up front guarantee fee shall be levied on the guaranteed amount, based on associated risks;
vii. The Government may exempt the levy of guarantee fee, if it deems the fee to be unnecessary;
viii. All other conditions associated with the guarantee shall be stipulated in the terms and conditions of issuance of the guarantee;

B. Invocation of the Guarantee

i. In the event that the guarantee is invoked, the obligation shall be met by the Government asstipulated in the terms and conditions of issuance of the guarantee.
ii. Any money paid by the Minister of Finance pursuant to any guarantee shall constitute a debt due to the Government from the public corporation in respect of whom the guarantee was issued.

5. External Debt Thresholds

5.1 Background

Macroeconomic projections carried out under the umbrella of the multi-sector Macroeconomic Framework Coordination Committee have been used as the main basis for defining the thresholds and the thresholds apply only to the external public debt of Bhutan. Given the unique nature of Bhutan's debt dynamics, which is driven by investments in hydropower, and the role of the hydropower sector in driving the country's economic growth, the thresholds set out in this policy have been framed in a manner to allow Bhutan to continue to pursue and optimize its hydropower resources. As such, this policy provides a single overall threshold for total external debt and sector-specific debt thresholds for two categories of external debt viz., (i) Non-hydropower external debt (ii) Hydropower external debt. All the thresholds set in the policy are equally binding.

Projections are based on past trends and also have forward looking assumptions and therefore take into account the Government's investment plans and resulting upward growth trajectory in spending and external debt.

In addition, several other considerations have also been taken into account in line with the broad objectives of the policy. For example, with respect to debt contracted by the Government for socially beneficial investments without tangible monetary returns that consequently have to be serviced from tax revenues, the associated threshold aims to reduce undue burden on the Bhutanese population. Other considerations are aimed at disciplining ad-hoc, short-term borrowing which are usually costly; and limiting the contingent liability of the Government.

5.1.1 Threshold for Total External Debt

i. The annual debt service obligations of total external debt shall not exceed twenty-five percent (25%) of total exports of goods and services.

5.1.2 Thresholds for Non-hydro External Debt

The following debt thresholds are prescribed for Bhutan's non-hydropower external debt:

i. Non-hydro debt stock shall not exceed thirty-five percent (35%) of GDP during a five-year plan period;
ii. General Government Debt Service shall not exceed

twenty two percent (22%) of Domestic Revenue in any given financial year;

iii. Short-term external debt (by original maturity and including debt contracted by the RMA) shall not exceed thirty percent (30%)of Surplus Reserves in any given financial year;

iv. Sovereign guarantee issuances shall not exceed five percent (5%) of the country's GDP in each year.

5.1.3 Thresholds for Hydropower External Debt

The following thresholds are prescribed for Bhutan's hydropower debt:

i. The Debt Service Coverage Ratio (DSCR) for a hydropower project shall be above one point two (1.2).

ii. In any given year, the ratio of hydropower debt service to hydropower export revenue shall be maintained within forty percent (40%).

iii. The debt-to-equity ratio for hydropower projects shall not exceed 70:30.

5.2 Breach of Thresholds

Any breaches in the above thresholds will be allowed only during times of economic crisis and other unforeseen exigencies and extraordinary circumstances, where the Government has no other means but to raise additional debt in order to maintain socio-economic stability. The Government must issue a formal directive to the Ministry of Finance to raise the additional debt.

The Government shall inform the next sitting of Parliament of any such directives that have been issued and a strategy to stabilize debt levels to the standard thresholds prescribed in the Policy. The stabilization period shall not exceed three years.

6. Institutional Arrangement

6.1 Ministry of Finance

The Ministry of Finance shall be the nodal agency for the implementation of this policy. The role of the Ministry of Finance in this respect shall include: mobilization and raising of direct government debt; approving other public sector debt; and, issuing sovereign guarantees to the public sector, in accordance with relevant laws. With regard to the debt of hydropower and other critical investment projects, the Ministry of Finance shall mobilize the debt in coordination with the Ministry of Economic Affairs, Ministry of Foreign Affairs, Gross National Happiness Commission and other relevant stakeholders.

Within the Ministry of Finance, the current Debt Management Division shall be upgraded to the **Department of Public Debt Management** (DPDM) to assume all functions related to debt management. In order to ensure that this policy is implemented in an efficient, consistent and coordinated manner, all aspects of public debt management shall be brought under the purview of the DPDM while also maintaining close working relations with other stakeholders such as the Public Enterprise Division within the Ministry of Finance, the MOEA, RMA, GNHC and other relevant partners.

To assist the Ministry of Finance in the implementation of this policy, a two-tiered approach to facilitate decision-making shall be followed. While the final authority to approve all decisions lies with the Minister of Finance subject to the concurrence of the Lhengye Zhungtshog, a high-level **Public Debt Advisory Committee** shall provide their recommendations and advice to the Government. This advisory committee shall base their recommendations on the technical inputs provided by the Department of Public Debt Management.

In the interim however, until the current Debt Management Division is upgraded and reconstituted as the DPDM, a **Public Debt Technical Committee** shall be formed to work in conjunction with the Debt Management Division. The Debt Management Division shall chair and coordinate the work of the Public Debt Technical Committee.

The broad objectives of the Public Debt Advisory Committee, the Public Debt Technical Committee, and the Department of Public Debt Management are outlined below:

6.2 Public Debt Advisory Committee

The Public Debt Advisory Committee shall function as the highest advisory body in all matters related to Bhutan's public debt management. The Committee shall comprise of the following members:

1. Minister of Finance,
2. Minister / Secretary, Ministry of Economic Affairs,
3. Minister / Secretary, Ministry of Works and Human Settlement,
4. Secretary, Ministry of Finance,
5. Secretary, Gross National Happiness Commission,
6. Governor / Deputy Governor, Royal Monetary Authority of Bhutan,
7. Any other relevant stakeholders as deemed necessary from time to time, and
8. Head of the DPDM as the Member Secretary.

The Minister of Finance shall chair the Committee, while the role of the Committee shall be two-fold:

i. Support and advise the Royal Government of Bhutan on all aspects of Bhutan's public debt management and strategy. All recommendations that this Committee makes to the Lhengye Zhungtshog through the Minister of Finance, shall be based on the technical inputs of the Public Debt Technical Committee and DPDM.

ii. Review and assess the work of the Public Debt Technical Committee and DPDM with the objective of providing overall strategic directions and guidance.

6.3 Public Debt Technical Committee

Until the DPDM is formed, the Public Debt Technical Committee shall provide all the necessary technical support needed to enable the Public Debt Advisory Committee to provide sound and objective advice to the Government. The Technical Committee shall comprise of relevant sector experts from:

1. Ministry of Finance (with assured representation of the Policy and Planning Division, Public Enterprise Division and the Department of Public Debt Management),
2. Ministry of Economic Affairs,
3. Gross National Happiness Commission,
4. Royal Monetary Authority of Bhutan,
5. National Statistics Bureau, and
6. Other relevant stakeholders if necessary.

The DPDM shall chair and coordinate the work of the Technical Committee in the following areas:

i. Providing technical backstopping in carrying out periodic Debt Sustainability Analysis and risk assessments;

ii. Reviewing and assessing all new loan proposals including issuance of sovereign guarantees; and,

iii. Development of the domestic capital market.

Both the Public Debt Advisory and Technical Committees shall draw up their own Terms of Reference in line with the objectives of this Policy and the broad functions listed above. The Public Debt Committees shall ensure coordination with the existing **Macroeconomic Framework Coordination Committee** and the **Macroeconomic Framework Coordination Technical Committee**.

6.4 Department of Public Debt Management (DPDM)

An important and specialized function, debt management assumes an even more critical role as the volume, size and complexity of public debt increases over time. In order to ensure a wholesome, strategic focus and a clear long-term vision,the current Debt Management Division shall be upgraded as the Department of Public Debt Management, under the Ministry of Finance, with responsibility for all aspects of Bhutan's public debt management such as front, middle and back office functions. The World Bank in its DeMPA Report 2014 also strongly recommended an independent Debt Management Office in line with international best practices. Such an institutional arrangement will be critical for consolidating all functions related to public debt management, such as cash management, sovereign guarantees and debt of SOEs (which are currently fragmented). In addition, given the specialized nature and increasing importance of debt management, the institutional, professional and technical capacity of the DPDM must be strengthened with adequate staffing. Given the importance of timely and good quality data to facilitate sound analysis and decision-making, the DPDM shall be empowered to collect information from all stakeholders.

The DPDM shall also work together with the PPD, Ministry of Finance in addition to its regular functions, which shall include, but not be limited to:

- Resource mobilization
- Debt recording, settlement and reporting
- Risk management and assessment
- Debt projections
- Formulate and update the Medium Term Debt Strategy
- Liaising with relevant stakeholders and partners

7. Risk Assessment and Monitoring

7.1 Debt Sustainability Analysis

The constant monitoring and periodic assessments of the level, composition and growth of public debt constitutes an important cornerstone of this policy to ensure that the public debt management objectives envisioned in the policy are being pursued and thresholds adhered to.

The DPDM shall conduct periodic debt sustainability analysis to monitor the risks and potential vulnerabilities of Bhutan's public debt in conjunction with the PPD, Ministry of Finance. The DSA shall be timed in such a manner so that it can supplement the biennial DSA conducted jointly by the IMF and World Bank as part of the Article IV consultation. The Public Debt Supervisory Committee shall review the results of the DSA for onward submission to the Minister of Finance.

7.2 Medium Term Debt Management Strategy

The Medium Term Debt Management Strategy (MTDS) shall lay out the road map to achieve the objectives of public debt management set out in this policy. The results of assessments conducted by the DPDM shall form the basis for formulating the MDTS to guide the implementation of this policy. The Public Debt Advisory Committee shall review the MTDS before submission for approval of the Government. The MTDS shall be updated on an annual basis.

7.3 Disclosure and Independent Audit

Another vital dimension of risk assessment and monitoring stems from the transparent and timely dissemination of public debt statistics to the general populace, and independent audit of debt management.

The following disclosure requirements are stipulated to ensure proper risk assessment and monitoring of public debt:

i. Publication of the Medium Term Debt Management Strategy and DSA on the website of the Ministry of Finance;
ii. Publication of Quarterly Public Debt Status Report (containing complete public debt statistics such as disbursements, debt service and outstanding debt) on the website of the Ministry of Finance within a one-quarter time lag;
iii. Submission of annual public debt report to Parliament as part of Budget Report in line with the provisions of the Public Finance Act;
iv. Disclosure of all required documents and information to enable the Royal Audit Authority of Bhutan to conduct its periodic performance audit of public debt management.

8. Implementation Procedure

The following procedures provide an indicative list of actions needed to implement this policy:

i. Review and endorsement of the Public Debt Policy by the Lhengye Zhungtshog;
ii. Formation of the Public Debt Advisory Committee and Public Debt Technical Committee through Executive Order;
iii. Drawing up of the detailed TORs of the Committees;
iv. Reconstitution and strengthening of the Debt Management Division into a full-fledged Department of Public Debt Management;
v. Issuance of a separate Standard Operating Procedure by the DPDM.

The success of the policy is contingent on meeting the criteria listed above, and especially enhancing the capacity and oversight of the DPDM.

9. Interpretation of the Policy

In the event of conflict of interpretation of any part of this policy, the Ministry of Finance shall, on behalf of the RGOB, be the final and binding authority.

10. Policy Review and Amendment

This policy shall be reviewed and revised as and when deemed necessary by the RGOB. The policy will come into force with effect from 18th August, 2016.

11. Policy Evaluation

An independent agent shall evaluate the implementation of this policy.

12. Glossary of Terms

1. **Public** refers to the public sector and comprises of the general government, the central bank, and public corporations.

2. **General Government** comprises of all government units of the Royal Government of Bhutan and all non market nonprofit institutions that are controlled by government units. Government units include both **central government** and **local government**.
3. **Public Corporations** are corporations, financial and non-financial, which are subject to the control of the Government or where the Government is the major or equal shareholder.

4. **Public Debt** is the debt of the public sector (i.e. of the Royal Government of Bhutan, the Royal Monetary Authority of Bhutan and Public Corporations)

5. **Sovereign Debt** is debt that has been legally contracted by the Government. Debt issued by agents of the sovereign (quasi-sovereigns) may be part of the sovereign debt only if the sovereign explicitly guarantees or contracts on their behalf.

6. **Debt** consists of all liabilities that are debt instruments, i.e. financial claims that require payment(s) of interest and/or principal by the debtor (borrower) to the creditor (lender) at a date, or dates, in the future. Debt instruments include **loans** and **debt securities**.

7. **Debt stock** includes all existing outstanding debt liabilities.

8. **Loan** is a financial instrument that is created when a creditor lends funds directly to a debtor and receives a nonnegotiable document as evidence of the asset. Loans include overdrafts, mortgage loans, loans to finance trade credit and advances, repurchase agreements, financial assets and liabilities created by financial leases, and claims on or liabilities to the IMF in the form of loans.

9. **Concessional loans** are loans with contractual interest rates that are intentionally set below the market interest rates that would otherwise apply, or has grant element of at least equal to 35 percent. The degree of concessionality can be enhanced with grace periods, frequencies of payments and maturity periods favorable to the debtor.

10. **Debt securities** are negotiable financial instruments serving as evidence of a debt. Examples of debt securities include bills, bonds and debentures, promissory notes, commercial papers, loans that have become negotiable from one holder to another, nonparticipating preferred stocks or shares, asset-backed securities and collateralized debt obligations and similar instruments normally traded in the financial markets.

11. **Bills** are securities (usually short term) that give holders the unconditional rights to receive stated fixed sums on a specified date. Examples of bills are treasury bills, negotiable certificates of deposits, bankers' acceptances, promissory notes and commercial papers. **Bonds and debentures** are securities that give the holders the unconditional right to fixed payments or contractually determined variable payments on a specified date or dates.

12. **Short-term** debt is debt payable on demand or with a maturity of one year or less. **Long-term** debt is debt with a maturity of more than one year or with no stated maturity (other than on demand).

13. The **maturity** of a debt instrument refers to the time until the debt is extinguished according to the contract between the debtor and the creditor. **Original maturity** is the period from the issue date until the final contractually scheduled payment date; **Remaining maturity** or **residual maturity** is the period from the reference date (balance sheet date) until the final contractually scheduled payment date.

14. Debt liabilities owed by residents to residents of the same economy are **domestic debt**, and debt liabilities owed by residents to nonresidents are **external debt**.

15. **Contingent liabilities** are obligations that arise only if a particular, discrete event(s) occurs in the future. **Guarantees** are explicit contingent liabilities whereby the guarantor legally or contractually guarantees the servicing of existing debt of other units. The guarantor assumes the existing debt when one or more pre-stipulated conditions arise. **Publicly Guaranteed Debt** refers to the debt of another sector or institutional unit that has been contractually guaranteed by the Public Sector.

16. A **Sovereign Guarantee** refers to the issue of a contractual

guarantee by the Government in which the Government guarantees the servicing of the debt liabilities of another sector or institutional unit.

17. **Surplus Reserves** refer to the country's gross international reserves after provisioning for the Constitutional requirement of 12 months' coverage of essential imports.

18. The **medium term** covers a period of up to three to five years.