2017

Medium Term Debt Management Strategy, 2017

The United Republic of Tanzania

Ministry of Finance

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND PLANNING

MEDIUM TERM DEBT MANAGEMENT STRATEGY

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1.0 INTRODUCTION

1. The Government Loans, Guarantees and Grants Act, CAP 134, requires the Government of the United Republic of Tanzania to prepare a debt management strategy and an annual borrowing plan. In this regard, the Ministry of Finance and Planning in collaboration with the Bank of Tanzania prepared a Medium Term Debt Management Strategy (MTDS) in December 2017. This MTDS was prepared with technical assistance from the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), using the IMF/World MTDS analytical tool.

2. The objectives of debt management in Tanzania are to meet the Government's financing needs at the lowest possible cost consistent with a prudent degree of risk and to support development of domestic debt markets. The 2017 MTDS was, therefore, prepared specifically to guide the government's borrowing over the period 2017/18-2021/22. The IMF/World Bank MTDS analytical tool was used to develop the Government debt management strategy, through evaluating the cost and risk trade-offs associated with alternative financing strategies over the medium term.

3. The scope of the 2017 MTDS covers Central Government external and domestic debt. The time horizon of the analysis is five years starting from financial year 2017/18 through 2021/22, using 2016/17 as the base year.

2.0 REVIEW OF EXISTING DEBT AS AT END JUNE, 2017

2.1 Evolution of Debt

4. The central government debt stock recorded at end June 2017 was USD 20,048.90 million, equivalent to 42.0 percent of GDP, comprising external and domestic debt amounting to USD 13,825.5 million and USD 6,223.1 million respectively. **Table 1** summarises the evolution of central government debt since 2011.

Table 1: Evolution of Central Government Debt

Descriptions(USD Mn)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Domestic Debt	3,701.55	4,522.05	5,227.88	4,333.32	5,159.63	6,223.10
External Debt	8,316.53	8,787.17	11,742.70	12,805.21	12,813.91	13,825.80
Total Debt	**12,018.08**	**13,309.22**	**16,970.58**	**17,138.53**	**17,973.54**	**20,048.90**
Nominal Debt to GDP						
Domestic Debt	10%	11%	11%	10%	12%	13%
External Debt	23%	21%	26%	31%	28%	29%
Total	**33%**	**32%**	**37%**	**41%**	**40%**	**42%**
(Share to total Debt)						
Domestic Debt	31%	34%	31%	25%	29%	31%
External Debt	69%	66%	69%	75%	71%	69%

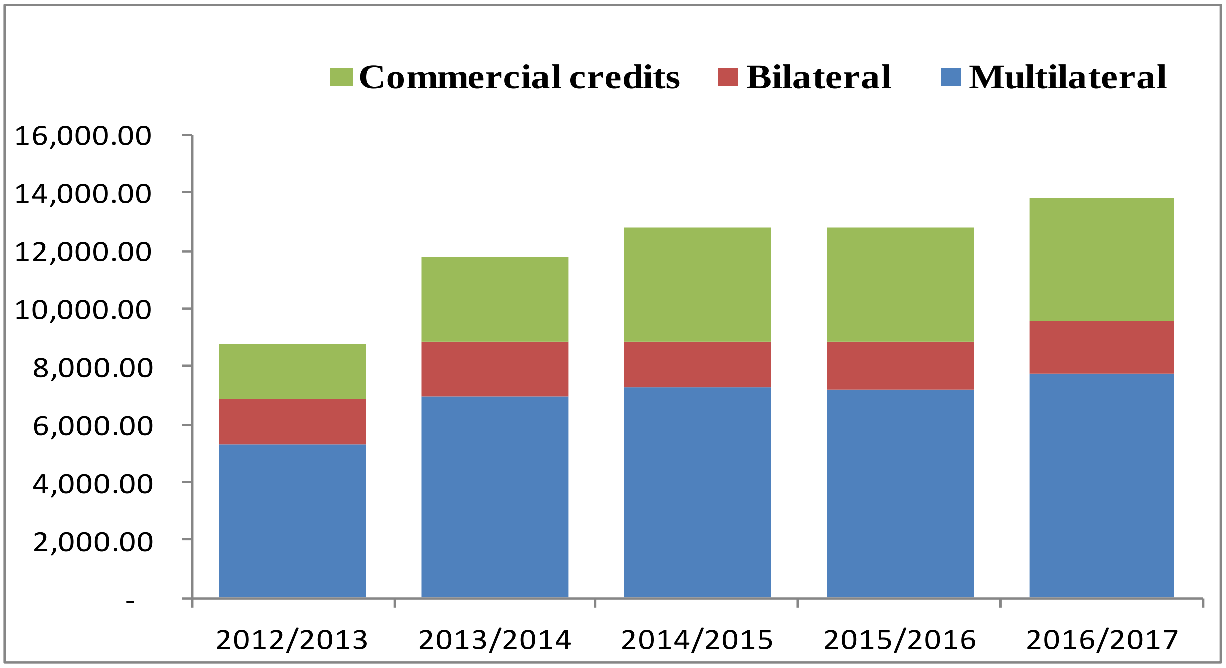
Source: Ministry of Finance and Planning & Bank of Tanzania

2.1.1 External Debt

5. The central government external debt as at end June 2017 stood at USD 13,825.8 million, equivalent to an increase of about 57 per cent from the level recorded end of June 2013. The proportion of multilateral debt has been the highest, accounting for an average of 57 percent of total external debt, followed by commercial and bilateral creditors accounting for 28 percent and 15 percent respectively.

6. The proportion of debt from commercial and Export Credit sources, mainly non-concessional loans, increased to 30.9 percent of total debt as at end of June 2017 from 21.6 percent end of June 2013. During the same period, the proportion of multilateral and bilateral debt declined from 60.2 percent and 18.2 percent to 55.9 percent and 13.1 percent respectively. This development reflects the recent change in the development financing landscape for the country whereas concessional sources of financing (multilateral and bilateral) are gradually being replaced by non-concessional loans (**Chart 1**)

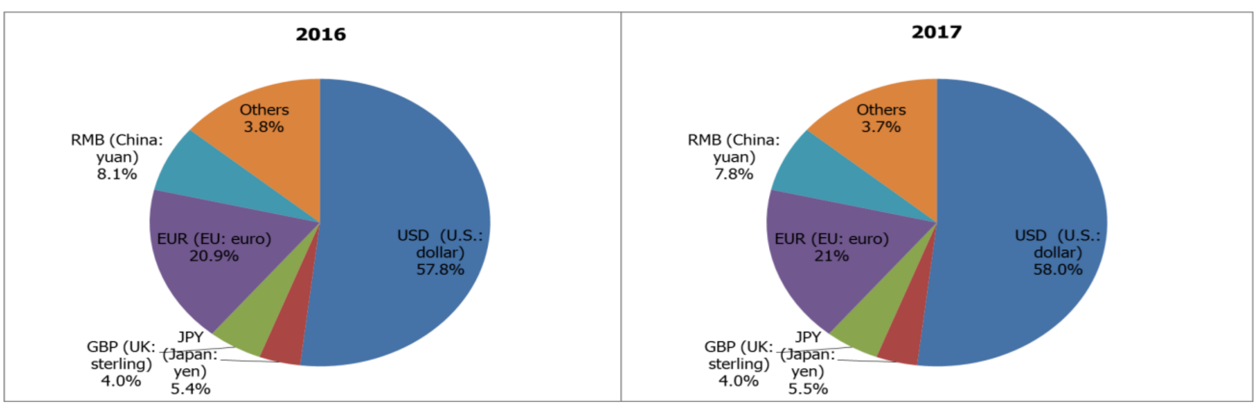
Chart 1: External Debt by Creditor Category as end June 2017



Source: Ministry of Finance and Planning

7. The currency composition of outstanding external public debt shows that a large proportion of debt was denominated in USD, at 58.0 percent in June 2017 compared to 57.8 percent recorded at end of June 2016. The proportion of debt denominated in Euro and Chinese Yuan was 21 percent and 7.9 percent, respectively (**Chart 2**). The total debt portfolio exposure to risk is mainly driven by USD exchange rate fluctuations.

Chart 2: External Debt by Currency Composition as end June 2017



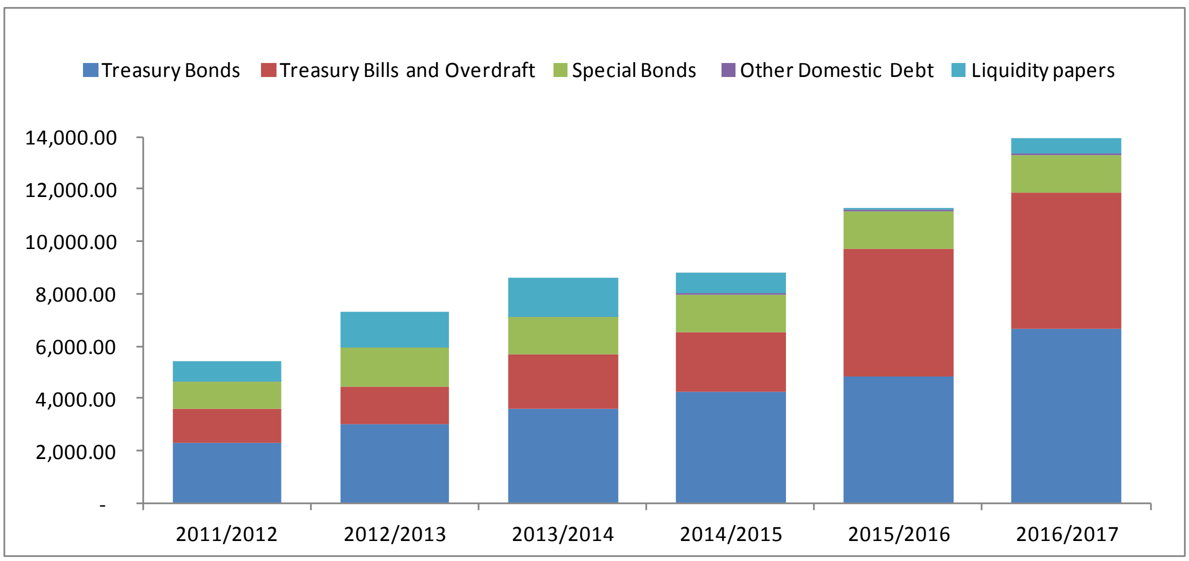
Source: Ministry of Finance and Planning

2.1.2 Domestic debt

8. As at end June, 2017 domestic debt stock[1] stood at TZS 13,947.4 billion, equivalent to 13 percent of GDP, out of which treasury bonds accounted for 47.8
9. percent, treasury bills including overdraft 37.1 percent, special bonds 10.5 percent, liquidity papers 4.4 percent and other debts 0.1 percent.

10. Treasury bonds account for the largest share of domestic debt; and increased from 42.3 percent of total debt end of June 2012 to 47.8 percent in June 2017, followed by Treasury bills that increased from 24.4 percent to 37.1 percent during the same period. However, the proportion of special bonds[2] and liquidity papers decreased from 19.2 percent and 14.1 percent to 10.5 percent and 4.4 percent, respectively (**Chart 3**). This is in line with Government's commitment to use market-based financing instruments to finance the government borrowing requirements and to support domestic debt market development.

Chart 3: Evolution of Domestic Debt



Source: Ministry of Financing and Planning

[1] Domestic government securities comprise both marketable and non-marketable securities. Marketable securities consist of Treasury bills (35, 91, 182, 364-days)1 and Treasury bonds (2, 5, 7, 10 and 15 years), whereas, non-marketable securities comprise special bonds and stocks.

[2] Special bonds comprise bonds issued for recapitalization of NMB bank as well as converted BOT advances to government

2.2 Implementation of the Existing Strategy

11. Over the past five years (2013-2017), the Government has been borrowing on an average **30:70** ratio from domestic and external sources respectively. Currently, the ratio of Domestic Debt to external debt is **31:69**. External debt consists of highly concessional loans characterized by long maturity and grace period as well as low fixed interest rates. A significant share of external debt has fixed interest rates **(82.9 percent)** while **17.1** percent of the debt has floating rate. Given a large proportion of the fixed and low interest rates debt in external debt portfolio, the government's exposure to interest rate risk is significantly minimized. However, the recent decline in concessional financing and donor flows has necessitated the Government to access non-concessional loans which is expected to gradually increase the share of floating rate debt in the debt portfolio and exposure to the risky factors, that is, interest rate and exchange rate volatility.

12. As discussed in the preceding subsection, large portions of domestic debt consist of Treasury bills whose rates are fixed only for one year and vary when rolled over. The weighted average interest rate of the domestic debt portfolio is 10.7 percent. This relatively high interest rates has been driven by several factors, including large rollover needs in a market with relatively narrow investor base. In the medium term, however, it is anticipated that average interest rate on domestic debt will decrease over time consistent with low and stable inflation supported with fiscal consolidation.

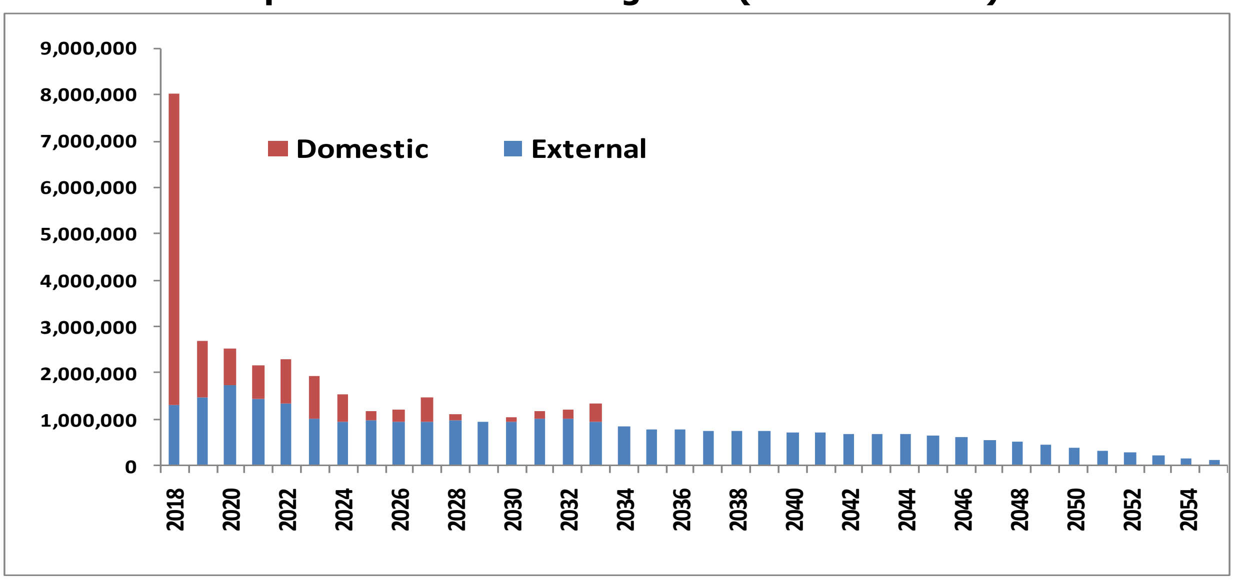
2.3 Cost and Risk Characteristics of existing Debt Portfolio

13. The cost and risks of the debt portfolio as at the end of June 2017 were evaluated using a few key parameters. The cost of debt was mainly evaluated by considering interest payments to GDP, whereas the risks considered are mainly the market risks, that is, refinancing risk, and exchange and interest rate risks.

14. **Cost of Debt**: Cost of existing debt portfolio, external debt interest payment as percent of GDP is 0.7 and weighted average interest rate is 2.5 percent. Domestic debt interest payment as percent of GDP is 1.4 and weighted average interest rate is 10.7 percent

15. **Refinancing Risk**: The Average Time to Maturity (ATM) of the overall debt portfolio is 11.2 years. The ATM for external debt is 14.8 years while for domestic debt is 3.3 years. The longer ATM for external debt is mainly due to some concessional loans whose maturity is about 40 years and grace period of 10 years on average. The ATM for domestic debt of 3.3 years is shorter compared to external debt due to dominance of treasury bills. The total domestic debt maturing within one year is 48.3 percent which implies high refinancing risk arising from rolling-over domestic debt. The increase in rollover risk is largely attributed to the high appetite for short term domestic instruments over long term dated instruments by the domestic market investors. The redemption profile in **Chart 4** depicts refinancing risk during the first year of the MTDS. The MTDS for the period 2017/18 – 2021/22, therefore, aims partly at mitigating refinancing risk associated with the domestic debt portfolio.

Chart 4: Redemption Profile of Existing Debt (Millions of TZS)



Source: Ministry of Finance and Planning and Bank of Tanzania

16. **Interest Rate Risk**: The Average Time to Re-fixing (ATR) for the total debt portfolio is 10.9 years, which is attributed to the significant share of concessional loans from multilaterals and bilateral creditors with fixed interest rates. The ATR for external debt is 14.3 years while for domestic debt it is 3.3 years. The debt re-fixing in one year as a percentage of total debt is 27.6 percent, which is largely on account of short term domestic debt (48.3 percent) and floating rate non-concessional loans in the external debt portfolio (18.3 percent). The proportion of non-concessional borrowing is likely to increase going forward, which would increase exposure to interest rate risk.

17. Given the structure of the existing debt portfolio, the exposure to market risk, that is, interest rate volatility is very low as significant proportion of external debt (82.9 percent) and domestic debt (99.8 percent) was contracted on fixed interest rate terms. However, a large portion of domestic debt consists of Treasury bills whose interest rates are fixed only for one year and varies when rolled over. The cost and risk indicators are indicated is summarized in **Table 2**.

Table 2: Cost and risk indicators for existing debt as at end 2016/17

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of TZS)		30,986,938.7	13,921,771.6	44,908,710.3
Amount (in millions of USD)		13,825.8	6,211.6	20,037.4
Nominal debt as % GDP		29.0	13.0	42.0
PV as % of GDP		18.5	13.0	31.5
Cost of debt	Interest payment as % GDP	0.7	1.4	2.1
	Weighted Av. IR (%)	2.5	10.8	5.1
Refinancing risk	ATM (years)	14.8	3.3	11.2
	Debt maturing in 1yr (% of total)	4.2	48.2	17.8
	Debt maturing in 1yr (% of GDP)	1.2	6.3	7.5
Interest rate risk	ATR (years)	14.3	3.3	10.9
	Debt refixing in 1yr (% of total)	18.3	48.2	27.5
	Fixed rate debt (% of total)	82.9	100.0	88.2
FX risk	FX debt (% of total debt)			69.0
	ST FX debt (% of reserves)			11.6

Source: Ministry of Finance and Planning and Bank of Tanzania

3.0 AN OVERVIEW OF THE ECONOMIC PERFORMANCE

3.1 Recent economic Development

18. The real GDP growth between 2012 and 2016 remained strong, growing at an average rate of 6.7 percent. In 2016, real GDP grew by 7.0 percent supported mainly by increase in power generation and supply specifically from natural gas; increase in manufactured goods; stability in transport services; and increase in Government spending on education. In the first half of 2017, GDP grew by 6.8 percent compared to a growth rate of 7.7 percent observed in the corresponding period in 2016. The slowdown was mainly attributed by decline in growth of credit to private sector and decline in power generation due to expiration of one of the power generation contracts.

19. Inflation was in single digit, mainly on account of increased food supply in the domestic and neighbouring markets, general slowdown in global commodity prices, particularly oil prices, and fiscal consolidation. The value of Tanzanian shilling against the US dollar remained broadly stable throughout 2016/17, consistent with liquidity conditions in the economy and the improvement in the current account balance. Deficit in the current account narrowed significantly to USD 1,353.3 million in 2016/17 from USD 2,954.2 million in 2015/16, mainly on account of substantial decline in imports of goods and services.

20. The government has continued to increase effort towards resource mobilization from both domestic and external sources to finance key projects. In 2016/17, the Government actual revenue collection was TZS 16,639.8 billion, equivalent to 15.6 percent of GDP, and an increase of 18.4 percent when compared to 2015/16 actual collections.

21. Total expenditure increased marginally to 22.8 percent of GDP in 2016/17, from 21.9 percent registered in 2015/16. External grants and loans were 1.0 percent and 2.4 percent of GDP, respectively compared to 0.5 percent and 1.7 percent registered in the preceding year. In 2016/17, government budgetary operations

registered overall deficit of 1.5 percent of GDP compared with 3.4 percent of GDP in 2015/16.

3.2 Baseline Macroeconomic Projections and Assumptions

22. The macroeconomic assumptions underpinning the MTDS 2017 are consistent with the medium term macroeconomic and fiscal framework for the period 2017/18 – 2021/22. During the medium term, the Government will pursue prudent fiscal policy to accommodate the large size of infrastructure projects :-

(a) The outlook forecasts a growth rate of 7.0 percent in 2017 and to maintain an upward trend to an average growth rate of 7.4 percent over the medium term (2018 – 2022).

(b) Inflation is projected to remain at a range between 5 percent and 8 percent over the medium term, consistent with East African Community (EAC) convergence criteria.

(c) On average, government revenue is projected to grow by about 10 percent annually, maintaining about 16 percent of GDP.

(d) Government expenditure is projected to grow by an average of 11 percent annually, maintaining about 19 percent of GDP.

(e) The fiscal deficit is projected to expand from 1.5 percent of GDP in 2016/17 to 2.8 percent in 2018/19 and a peak of 4.1 percent in 2019/20, and thereafter narrow down to 2.3 percent of GDP in 2021/22 (**Table 3**). The widening of the deficit is on account of increased financing need, particularly for the Standard Gauge Railway (SGR) and Stigler's Gorge Hydropower dam. In the medium term, the ratio of current account deficit to GDP is projected to narrow and stabilize at an annual average of 7.4 percent as growth in imports, particularly oil, are projected to maintain lower rates relative to exports.

(f) The primary deficit is projected to rise to 1.0 percent in 2017/18 and to a peak of 2.7 per cent in 2020 before declining to 1.1 percent in 2021/22, which is well below the EAC convergence threshold of 3 percent.

Table 3: Selected Medium Term Macroeconomic and Fiscal Assumptions

Fiscal projection(Sh. Billion)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Outturns	Estimates	Projections	Projections	Projections	Projections
Revenues and grants	17,551,809.31	19,164,408.65	21,975,985.72	24,173,584.29	26,590,942.72	29,250,036.99
Primary expenditures	17,728,769.41	20,358,930.20	24,102,998.59	28,094,695.78	29,682,436.35	31,357,248.90
Total interest expenditure	1,715,429.17	2,078,186.18	2,103,298.00	2,145,363.96	2,188,271.24	2,232,036.66
Total expenditures	19,444,198.58	22,437,116.39	26,206,296.59	30,240,059.74	31,870,707.59	33,589,285.57
Primary Deficit	176,960.10	1,194,521.56	2,127,012.87	3,921,111.49	3,091,493.63	2,107,211.92
Budget deficit	1,892,389.27	3,272,707.74	4,230,310.87	6,066,475.45	5,279,764.87	4,339,248.58
GDP	106,878,854.24	118,851,501.53	133,011,196.29	147,818,827.13	166,268,632.52	188,644,509.87
As % of GDP						
Revenues and grants	16.4	16.1	16.5	16.4	16.0	15.5
Primary expenditures	16.6	17.1	18.1	19.0	17.9	16.6
Total interest expenditure	1.6	1.7	1.6	1.5	1.3	1.2
Total expenditures	18.2	18.9	19.7	20.5	19.2	17.8
Primary Deficit	0.2	1.0	1.6	2.7	1.9	1.1
Budget Deficit	1.8	2.8	3.2	4.1	3.2	2.3
Memorundum items						
Real GDP growth(%)	7.0	7.4	7.4	7.4	7.4	7.4
Nominal GDP in TZS billion	106,878,854.24	118,851,501.53	133,011,196.29	147,818,827.13	166,268,632.52	188,644,509.87

Source: Ministry of Finance and Planning and Bank of Tanzania

3.3 Risks to the Baseline Macroeconomic Projections

23. **Real sector risk:** Agricultural sector that makes up 30 percent of GDP value added in the economy and employs about 62 percent of the working population in Tanzania is vulnerable to weather-related shocks. Underperformance of agricultural sector would lower growth and accelerates inflation through rise in food prices. The inflationary pressure could lead to higher interest rates, widens fiscal deficits and thus create the need for additional borrowing.

24. **External sector risk:** The economy is vulnerable to commodity prices fluctuations, especially oil price shocks. The deterioration in trade balance could trigger exchange rate volatility which may create inflationary pressure and dampen growth. A real depreciation of the Shilling would increase the cost of

imported capital and external debt service. The continued low demand in advanced and emerging market economies and volatile export commodity prices may impact adversely proceeds from exports and tourism activities.

25. **Fiscal risk:** In the medium term, fiscal performance remains vulnerable to declining donor support (to the detriment of infrastructure financing), rising external borrowing costs (ENCB Interest rate)[3] and implicit contingent liabilities. The fiscal performance is also vulnerable to any structural factors that affect economic growth.

4.0 POTENTIAL FINANCING SOURCES

26. Public debt in Tanzania comprises both external debt and domestic debt. Although it is relatively less costly compared to domestic borrowing, external debt is associated with fiscal risks related to exchange rate movements. Apart from being relatively expensive in terms of interest rate, domestic borrowing tends to have a crowding out effect on private investment by reducing amount of credit available to private sector and thus penalize growth. In this regard, this strategy is designed with an optimal mix of external and domestic borrowing.

4.1 Domestic Sources

27. The Government has been implementing various policy measures to facilitate development of domestic financial markets. The measures include improving market infrastructure, elongating the maturity profile of government securities and liberalizing the capital account. In order to reduce refinancing risk, the Government intends to reduce the share of short-term debt by rolling over five percent of short-term into long-term instruments over the medium-term.

[3] The increase in borrowing cost is likely to come from the uncertainty in the global markets due to potential tightening of US monetary policy and consequent increase in the US interest rates.

4.2 External Sources

28. External debt is raised through loans from multilateral, bilateral and private creditors with medium and long-term maturities (**Table 4**). Disbursement of project-based loans is dependent on implementation (absorption) capacity and efficiency of the implementing entities. Following recent improvements in project implementation, it is expected that project-based disbursements would increase in the medium term. Also, policy funding, which is linked with macroeconomic stability, is expected to increase as a result of structural changes initiated by the Government.

29. Concessional financing will continue to be the preferred source of meeting external financing requirements albeit accounting for small proportion than the levels recorded in the previous years. Government is also planning to obtain loans from private creditors, to finance mega strategic projects in the pipeline.

Table 4: External Debt Disbursements (in Million USD)

FINANCIAL YEAR	2012/13	2013/14	2014/15	2015/16	2016/17
Multilateral Loans	517.14	631.89	839.12	440.03	518.01
Bilateral Loans	119.24	41.84	241.93	118.89	162.96
Commercial Loans	1,069.00	815	1,056.00	451	592
GRAND TOTAL	**1,705.38**	**1488.73**	**2137.05**	**1009.92**	**1272.97**

Source: Ministry of Finance and Planning and Bank of Tanzania

4.3 Specific Representative instruments

30. For ease of assessment, twelve stylized instruments consisting of seven for external sources of financing and five for domestic sources have been used. Classification of the stylized instrument was informed by structure of the existing debt and Government medium terms borrowing plans given the development in both international and domestic capital markets. The stylized instruments are differentiated by interest type (fix or variable), interest rate (magnitude), currency (local versus foreign), maturity and grace periods. **Table 5** summarizes the characteristics of the twelve stylized instruments.

Table 5: Stylized Instruments

Instrument	Instrument type	Currenc	Interest type	Concessionality	Maturity(Y)	Grace (Y)
1	ADF/IDA/IFAD/NDF_Fixed	USD	Fix	Concessional	38	6
2	Concessional_Fixed	USD	Fix	Concessional	40	10
3	Semi-concessional_Fixed	USD	Fix	Semi-concessional	28	5
4	Semi-concessional_Var	USD	Var	Semi-concessional	19	3
5	Commercial_Fixed	USD	Fix	Market	10	2
6	Commercial_Var	USD	Var	Market	10	2
7	Eurobond	USD	Fix	Market	10	9
8	Tbills_Fixed	TZS	Fix	Market	1	0
9	2yr Tbonds_Fixed	TZS	Fix	Market	2	1
10	5yr Tbonds_Fixed	TZS	Fix	Market	5	4
11	10yr Tbonds_Fixed	TZS	Fix	Market	10	9
12	10yr Tbonds_Var	TZS	Fix	Market	10	9

Source: Ministry of Finance and Planning

5.0 ALTERNATIVE DEBT MANAGEMENT STRATEGIES

5.1 Description of Alternative Financing Strategies

31. The Government considered four alternative financing strategies to meet medium term borrowing requirements. The analysis was done through apportioning the gross borrowing requirements first between external and domestic and second by breaking down the external and domestic into the stylized instruments.

32. **Strategy 1, (S1): Current financing strategy.** The strategy assumes that, the Government will continue to maintain gross external financing at 41 percent while 59 percent will be from the domestic market. The strategy further assumes that the Government will borrow USD 700 million from non-concessional sources as envisaged in the 2017/18 budget frame. The instrument composition of external and domestic sources of financing will continue to reflect the existing debt portfolio (**Annex 1**). This strategy is favorable due to substantial funding from concessional sources. However, the increasing need to finance mega strategic projects amid declining concessional sources emanating from changing global financing landscape renders this strategy less practical.

33. **Strategy 2, (S2): Developing domestic debt market:** This strategy intends to develop domestic debt market through increasing the proportion of domestic

financing relative to external sources and lengthening domestic debt maturity. In this regard, domestic gross financing is assumed to increase from 59 percent to 65 percent starting in 2019/20. The share of short term domestic gross financing is assumed to decline from the current 64 percent to 20 percent by 2021/22 and increase the longer dated instruments[4] from 30 percent to about 69 percent. The instrument composition is presented in **Annex 1.** The strategy aims at minimizing exchange rate and refinancing risks on the public debt portfolio as well as shielding the country from vulnerabilities associated with external financial shocks. However, this strategy may increase the cost of borrowing given the fact that domestic debt carries high cost relative to external borrowing. Furthermore, high domestic borrowing may crowd out private sector investment amid limited market absorption capacity.

34. **Strategy 3 (S3): Eurobond:** This strategy intends to venture into international capital market through issuance of a maiden Eurobond as well as increasing proportion of external financing. The strategy, therefore, assumes issuance of Eurobond of about USD 800 million each in 2019/20 and 2021/22 and increase proportion of external financing from 41 percent in 2018/19 to about 45 percent in the medium term. This strategy aims at minimizing interest rate risk as well as obtaining substantial amount in a single issuance. However, Eurobonds may pose higher refinancing risks and tend to be costly.

35. **Strategy 4 (S4): Increase External Borrowing and lengthen domestic debt maturities:** The strategy assumes an increase in proportion of external financing as well as lengthening of domestic debt maturities. The proportion of external financing increase from 41 percent in 2018/19 to about 45 percent in the medium term. Borrowing from external concessional sources as a ratio to gross external borrowing is assumed to decline gradually from 40 percent in 2017/18 to about 32 percent in 2021/22. The decline in concessional borrowing will be compensated with semi concessional and commercial loans in line with

[4] Instruments with maturity of five years and beyond

the prevailing global financial landscape and the need by the Government to finance strategic projects. The share of short term domestic gross financing is assumed to decline from the current 64 percent to about 40 percent by 2021/22 and increase the longer dated instruments from 36 percent to about 60 percent. This strategy aims at minimizing refinancing risk. In addition, semi concessional loans provide relatively cheaper alternative for financing strategic government projects. (**Annex 1**) provides detailed information on the above strategies, including the instruments and financing mix

5.2 Evaluation of the results of alternative strategies

36. The cost and risks trade-offs of the four alternative strategies were analyzed to determine the financing path the Government could adopt in the medium term. The selection of the strategy considered the cost and risk as well as the likelihood of the financing sources. The outcome of the alternative strategies are summarized in Table 6

Table 6: Cost and Risk Indicators under Alternative Strategies

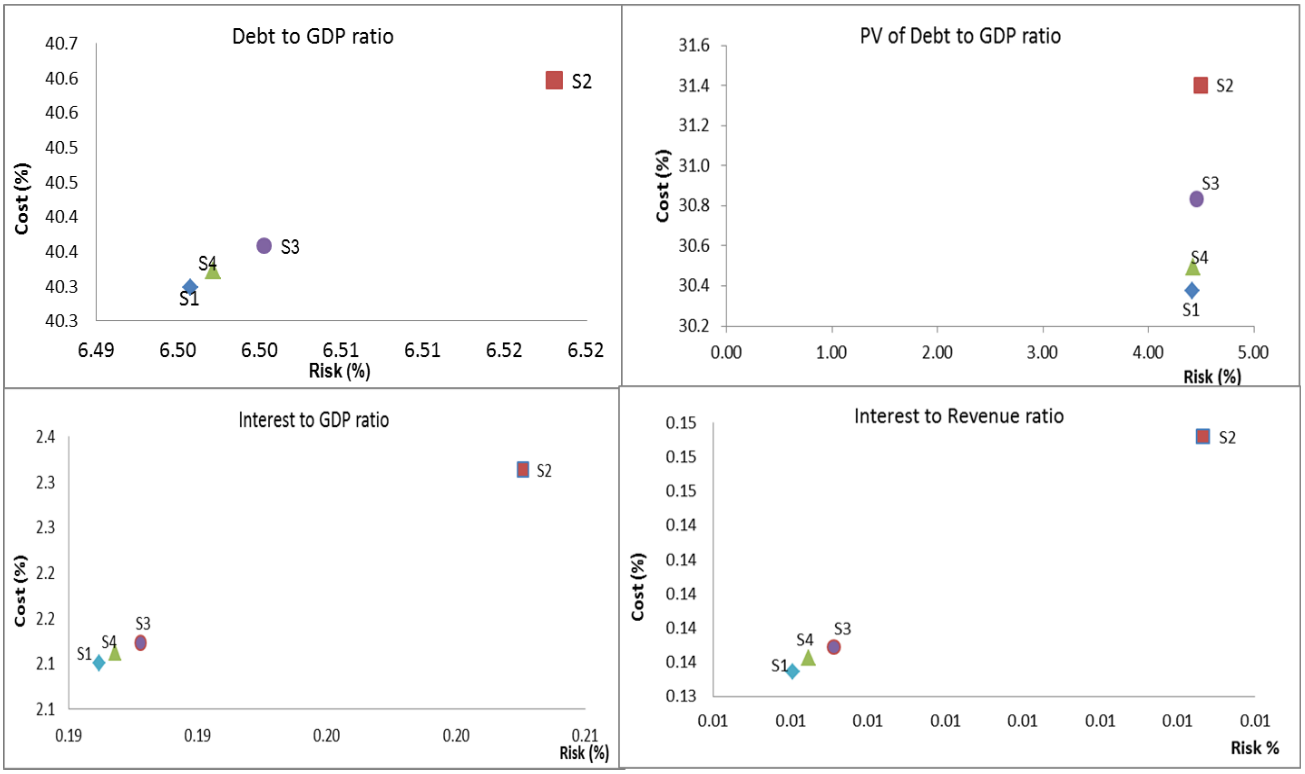
Risk Indicators		2017	As at end 2022			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		42.0	40.3	40.6	40.4	40.3
Present value debt as % of GDP		31.5	30.4	31.4	30.8	30.5
Interest payment as % of GDP		2.1	2.1	2.3	2.1	2.1
Implied interest rate (%)		5.1	5.7	6.3	5.8	5.8
Refinancing risk	Debt maturing in 1yr (% of total)	17.8	12.9	8.0	12.0	9.7
	Debt maturing in 1yr (% of GDP)	7.5	5.2	3.2	4.8	3.9
	ATM External Portfolio (years)	14.8	13.8	13.8	13.4	13.6
	ATM Domestic Portfolio (years)	3.3	3.7	4.8	3.7	4.1
	ATM Total Portfolio (years)	11.2	10.9	10.6	10.7	10.8
Interest rate risk	ATR (years)	10.9	10.4	10.2	10.3	10.3
	Debt refixing in 1yr (% of total)	27.5	21.2	15.0	20.5	20.1
	Fixed rate debt (% of total)	88.2	90.8	92.2	90.8	88.9
FX risk	FX debt as % of total	69.0	71.0	64.8	72.7	71.2
	ST FX debt as % of reserves	11.6	8.9	8.7	8.5	9.0

Source: Ministry of Finance and Planning and Bank of Tanzania

37. The analysis of the strategies shows that continuation of the current financing, strategy 1 (S1), has lower nominal and present value of debt to GDP, largely due to high proportion of concessional loans which have low interest rates, longer maturities and grace periods. The second strategy (S2) that aims at developing domestic market has lower refinancing and foreign exchange risks mainly due to relatively higher proportion of domestic debt and longer ended domestic instruments. However, S2 has higher interest costs compared to other strategies on account of higher proportion of longer ended domestic debt instruments which attract higher interest rates. Strategy 3 that consider issuance of Eurobond in 2019/20 and 2021/22 is the least cost but unfavourable in both cost and risk indicators. The strategy also worsens the average time to maturity of external debt. Strategy 4 that combines more external financing and gradual lengthening of domestic maturities is the second-best performer in terms of cost and risk indicators. **Chart 5** shows the cost and risk indicators of alternative strategies.

38. On the overall, the analysis shows that Strategy 1 (S1) outperforms other strategies and is the most preferred strategy by the Government. It is worth noting that, with the changing external financing landscape while there is increasing requirements for financing strategic projects, the feasibility of Strategy 1 is limited. In the event that Strategy 1 is not realized, or partially realized, Strategy 4 (S4), which assumes leveraging on semi-concessional borrowing particularly Export Credit Agencies (ECAs) and continuing to support the development of domestic debt market by gradual lengthening maturity, will be opted as a fallback for implementation in the medium term.

Chart 5: Cost-Risk of Alternative Debt Strategies



Source: Ministry of Finance and Planning and Planning

5.3 Strategic Benchmarks

39. Strategic benchmarks have been developed based on the historical trend of the cost and risks of the existing debt portfolio in a view to continue with implementation of Strategy 1 (S1), while Strategy 4 (S4) serves as a fall back option. **Table 7** summarizes the strategic benchmarks of the public debt management in Tanzania.

Table 7: Strategic Benchmarks

PURPOSE	MEASURE	STRATEGIC BENCHMARK	
		DOMESTIC	EXTERNAL
Refinancing Risk	Debt maturing in 1 year (% of Total)□	< 40	< 5
	ATM (Years)	> 5	< 25
Interest Rate Risk	Variable rate debt (% of Total)	> 3.5	> 13
Exchange Rate Risk	Percent of total debt	> = 30	< = 70

Source: Ministry of Finance and Planning and Planning

5.4 Guidelines for Implementation

40. The implementation of Strategy 4 will be guided by the following:
    i. Gradual leveraging on semi concessional sources of financing strategic projects in the medium term.
    ii. Lengthening and smoothen maturity structure of domestic debt.

6.0 CONCLUSION

41. The 2017-2022 MTDS aims at financing the mega strategic projects through maximizing on concessional borrowing as well as leveraging on semi concessional, particularly Export-Credit Agencies (ECAs), to complement concessional sources whenever they cannot fully meet the financing requirement. This hinges on the relatively low interest rates, longer maturities and grace periods. The fallback option is leveraging on the semi concessional borrowing, which will help to address the declining trend in concessional sources of financing as well as the appetite to minimize the refinancing risks associated with shorter domestic debt instruments.

Annex 1: The instruments and financing mix of alternative Borrowing Strategies

Strategies	Objective	Financing mix	2018	2019	2020	2021	2022
S1	Maintaining historical path	**Gross External Financing**	**41%**	**41%**	**41%**	**41%**	**41%**
		ADF/IDA/IFAD/NDF_Fixed	30.0%	29.0%	29.0%	29.0%	29.0%
		Concessional_Fixed	10.0%	6.0%	6.0%	6.0%	6.0%
		Semiconcessional_Fixed	23.0%	27.0%	27.0%	27.0%	27.0%
		Semiconcessional_Var	7.0%	8.0%	8.0%	8.0%	8.0%
		Commercial_Fixed	15.0%	15.0%	15.0%	15.0%	15.0%
		Commercial_Var	15.0%	15.0%	15.0%	15.0%	15.0%
		Gross Domestic Financing	**59.0%**	**59.0%**	**59.0%**	**59.0%**	**59.0%**
		Tbills_Fixed	63.6%	63.6%	63.6%	63.6%	63.6%
		2yr Tbonds_Fixed	6.2%	6.2%	6.2%	6.2%	6.2%
		5yr Tbonds_Fixed	13.7%	13.7%	13.7%	13.7%	13.7%
		10yr Tbonds_Fixed	16.5%	16.5%	16.5%	16.5%	16.5%
S2	Developing Domestic debt market and reducing refinancing and exchange rate risk	**Gross External Financing**	**41%**	**41%**	**35%**	**35%**	**35%**
		ADF/IDA/IFAD/NDF_Fixed	30.0%	29.0%	29.0%	29.0%	29.0%
		Concessional_Fixed	10.0%	6.0%	6.0%	6.0%	6.0%
		Semiconcessional_Fixed	23.0%	27.0%	27.0%	27.0%	27.0%
		Semiconcessional_Var	7.0%	8.0%	8.0%	8.0%	8.0%
		Commercial_Fixed	15.0%	15.0%	15.0%	15.0%	15.0%
		Commercial_Var	15.0%	15.0%	15.0%	15.0%	15.0%
		Gross Domestic Financing	**59.0%**	**59.0%**	**65.0%**	**65.0%**	**65.0%**
		Tbills_Fixed	63.6%	52.0%	40.0%	30.0%	20.0%
		2yr Tbonds_Fixed	6.2%	8.0%	9.0%	10.0%	11.0%
		5yr Tbonds_Fixed	13.7%	18.0%	25.0%	27.0%	32.0%
		10yr Tbonds_Fixed	16.5%	22.0%	26.3%	33.0%	37.0%
S3	Introduction of EUROBOND intending to venture in international debt market	**Gross External Financing**	**41%**	**41%**	**35%**	**35%**	**35%**
		ADF/IDA/IFAD/NDF_Fixed	30.0%	29.0%	22.0%	22.0%	22.0%
		Concessional_Fixed	10.0%	6.0%	6.0%	6.0%	6.0%
		Semiconcessional_Fixed	23.0%	27.0%	17.0%	21.0%	18.0%
		Semiconcessional_Var	7.0%	8.0%	5.0%	13.0%	10.0%
		Commercial_Fixed	15.0%	15.0%	10.0%	15.0%	8.0%
		Commercial_Var	15.0%	15.0%	9.0%	23.0%	5.0%
		Eurobond					
		Gross Domestic Financing	**59.0%**	**59.0%**	**65.0%**	**65.0%**	**65.0%**
		Tbills_Fixed	63.6%	63.6%	63.6%	63.6%	63.6%
		2yr Tbonds_Fixed	6.2%	6.2%	6.2%	6.2%	6.2%
		5yr Tbonds_Fixed	13.7%	13.7%	13.7%	13.7%	13.7%
		10yr Tbonds_Fixed	16.5%	16.5%	16.5%	16.5%	16.5%
S4	Borrowing more semi-concessional and lengthning domestic instruments	**Gross External Financing**	**41%**	**41%**	**45%**	**45%**	**45%**
		ADF/IDA/IFAD/NDF_Fixed	30.0%	29.0%	28.0%	27.0%	26.0%
		Concessional_Fixed	10.0%	6.0%	6.0%	6.0%	6.0%
		Semiconcessional_Fixed	23.0%	27.0%	21.0%	21.0%	21.0%
		Semiconcessional_Var	7.0%	8.0%	13.0%	13.0%	13.0%
		Commercial_Fixed	15.0%	15.0%	15.0%	15.0%	15.0%
		Commercial_Var	15.0%	15.0%	17.0%	18.0%	19.0%
		Gross Domestic Financing	**59.0%**	**59.0%**	**55.0%**	**55.0%**	**55.0%**
		Tbills_Fixed	63.6%	58.0%	52.0%	46.0%	39.5%
		2yr Tbonds_Fixed	6.2%	8.0%	10.0%	12.0%	14.5%
		5yr Tbonds_Fixed	13.7%	16.0%	18.0%	20.0%	22.0%
		10yr Tbonds_Fixed	16.5%	18.0%	20.0%	22.0%	24.0%

Source: Ministry of Finance and Planning and Planning