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National Debt Documents

Quarterly Central Government Debt Report

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2022

# Quarterly Central Government Debt Report,2022

The United Republic of Tanzania

Ministry of Finance

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# MINISTRY OF FINANCE AND PLANNING

## Debt Management Division

# Quarterly Central Government Debt Report

For the second quarter ending December, 2022

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Key Developments in 6  
second quarter 2022/23

- ⇒ Reference rates develop
- ⇒ Contingent Liabilities

### THE INCREASE IN TOTAL DEBT STOCK

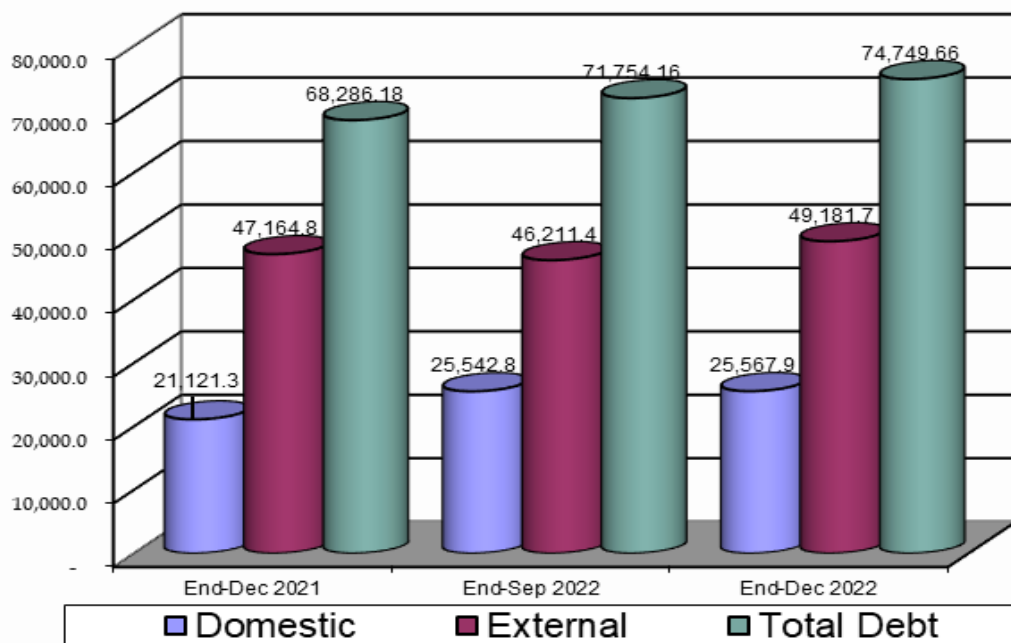
The increase in the Central Government debt stock was mainly attributed to new domestic borrowing through issuance of Government Securities and disbursements from external creditors.

## 1.0 CENTRAL GOVERNMENT DEBT STOCK

As at end December 2022, Central Government Debt Stock stood at TZS 74,749.66 billion (USD 32,374.67 million), an increase of 9.47 percent compared to TZS 68,286.18 billion recorded at end December 2021 (**chart 1**). In quarterly bases, Central Government debt stock increased by 4.17 percent compared to TZS 71,754.16 billion at end September 2022.

Out of the Central Government debt, domestic debt accounts for TZS 25,567.93 billion equivalents to 34.20 percent and external debt accounts for TZS 49,181.73 billion equivalent to 65.80 percent.

Chart 1: Trend of Central Government Debt in TZS Billion



## THE ACCUMULATION AND COMPOSITION OF DOMESTIC DEBT

The increase in debt was due to new issuance of Government Securities and Central Bank advances to the Government which in aggregation out weights the principal repayments (rollover).

In addition it is noteworthy that, the domestic debt issuance tilts to the issuance of long term instruments as per the 2022 Medium term Debt Management Strategy to financing development projects with prudent degree of refinancing risks.

## 2.0 DOMESTIC DEBT

### 2.1 DOMESTIC DEBT

The stock of domestic debt stood at TZS 25,567.93 billion (USD 11,073.67 million) as at end December 2022. This translates to an increase of 21.1 percent from December 2021 position of TZS 25,542.78 billion. Out of which, Treasury bills and bonds amounted to TZS 1,822.46 billion and TZS 20,664.99 billion respectively, and other domestic liabilities accounted for TZS 3,080.48 billion (**Table 1**). On quarter to quarter basis, domestic debt stock increased by 0.1 percent compared to TZS 25,542.78 billion recorded at the end September 2022.

**Table 1: Domestic Debt Stock**

Category	Sep-22		Dec-22	
	TZS billion	% of Total	TZS billion	% of Total
Treasury bills	1,762.45	6.90%	1,822.46	6.90%
Treasury bonds	20,392.97	79.84%	20,664.99	79.84%
Others	3,387.36	13.26%	3,080.48	13.26%
Total	25,542.78	100%	25,567.93	100%

## 2.2 Cost and Risk Characteristics of Domestic Debt Portfolio

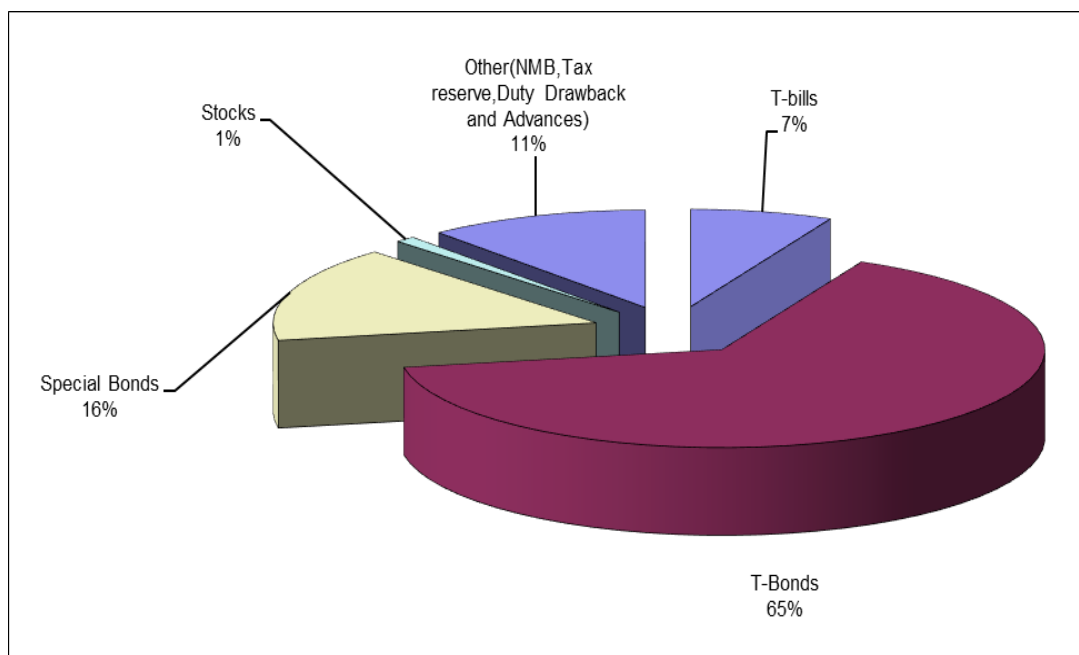
### 2.2.1 Domestic Debt Stock by Instrument Category

The profile of domestic debt by instrument shows that, treasury bonds account for the largest share of 80 percent followed by Advances to Government which accounts for 12 percent, Treasury bills accounted for 7 percent and others accounted for the remaining 1 percent (**Chart 2**). The greater share of Treasury bond is in consistent with the Medium-Term Debt Strategy which requires the Government to develop domestic bond market by issuing instrument with longer tenure to reduce refinancing risk.

## BUDGET FRAME FOR 2022/23 ON DOMESTIC BOR- ROWING

The Government plans to borrow TZS 5,780.2 billion from the domestic market. Out of that amount, TZS 3,300.0 billion is for rolling over maturing obligations and TZS 2,480.2 billion equivalent to 1.32 percent of GDP is new borrowing for financing development projects.

**Chart 2: Domestic Debt Stock by Instrument Category**

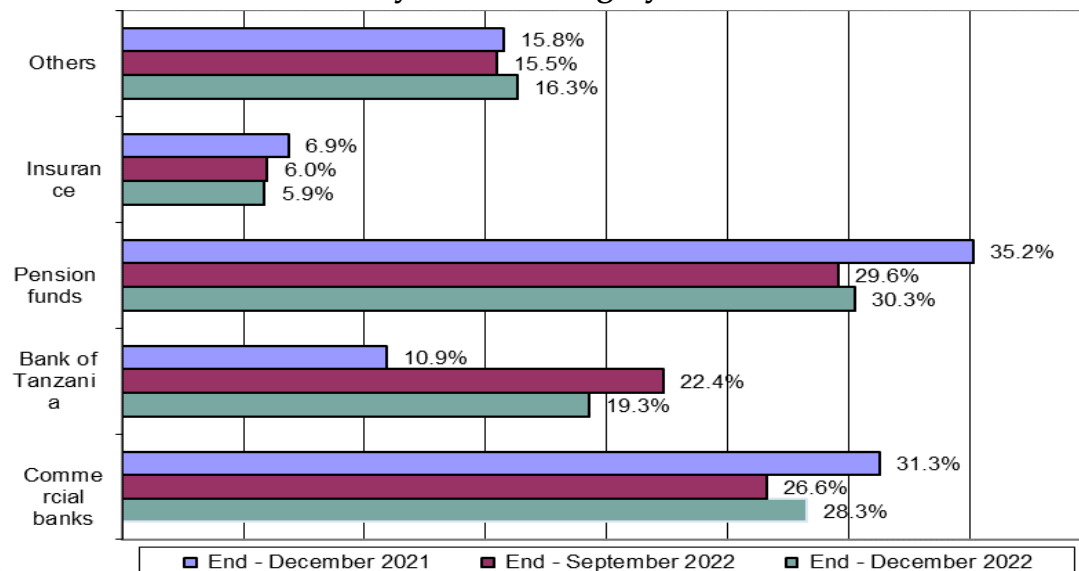


### 2.2.2 Domestic Debt by Holder Category

The Government securities (excluding BoT liquidity paper) by holder category indicates that pensions funds are the major creditors, holding 30.3 percent of the total followed by the Commercial Banks 28.3 percent and Bank of Tanzania 19.3 percent (chart 3).

The relatively low investment risk in government securities and expansion of the banking sector explains the dominance of commercial banks in securities market. Whilst the relatively large proportion of government securities are bought by commercial bank, they still maintain viable space for credit demand to the economy thus no crowding out costs in the economy.

**Chart 3: Domestic Debt by Holder Category**



**2.2.3 Government Securities Performance**

During the first half of 2022/23 the Government planned to raise TZS 2,833.82 billion (TZS 2,910.90 billion -FV) from the market out of which TZS 2,051.41 billion was from Treasury bonds and TZS 851.86 billion from Treasury bills. On the outturn, the government managed to raise TZS 2,495.35 billion equivalent to 89.4 percent from the market out of which TZS 1,773.53 billion was from Treasury bonds and TZS 721.82 billion from Treasury bills.

On net basis for the period under review, the government managed to raise TZS 823.82 billion for financing the budget from the market and TZS 1671.53 billion redeemed.

**2.2.4 Costs and Risks of Domestic Debt**

The nature of domestic debt does not pose a credible threat owing to highly fixed interest rate, the absence of exchange rate risk and the greater share of the long term instrument limiting refinancing risks.

### 3.0 CENTRAL GOVERNMENT EXTERNAL DEBT STOCK

#### 3.1 Central Government External Debt Stock

The stock of external Central Government debt as of end December 2022 stood at TZS 49,181.73 billion (USD 21,252.60 million) from TZS 47,164.85 billion (USD 20,526.00 million) recorded at end December 2021 which is an increase of 4.28 percent. On quarter-to-quarter basis external Central Government debt increased by 6.43 percent from TZS 46,211.37 billion (USD 20,022.80 million) recorded at end September 2022. The increase was due to disbursements and less principal repayments in the second quarter from the preceding quarters (**Table 2**).

The profile shows that out of the Central Government external debt stock, Disbursed Outstanding Debt (DOD) were TZS 46,611.0 billion (USD 20,187.60 million) and TZS 2,570.72 billion (USD 1,113.40 million) were Interest Arrears.

**Table 2: Trend of Central Government external debt stocks in TZS billion**

External Non-Concessional Borrowing	Sno.	Item	Dec-21	Sep-22	Dec-22
	1	DOD	44,607.16	43,760.35	46,611.01
	2	Interest arrears	2,557.69	2,451.03	2,570.72
		<b>Total</b>	<b>47,164.85</b>	<b>46,273.69</b>	<b>49,191.89</b>

In 2022/23, the Government planned to borrow TZS 3,033.90 billion (USD 1,282.10 million) from external commercial sources to finance the Government budget.

However, the Government managed to raise TZS 665.37 billion (USD 289.6 million), equivalent to 51.19 percent of the target. This performance was attributed to disruptions in the global financial markets caused by measures to control high inflation rates in developed economies.

#### 3.2 Cost and Risk Characteristics of External Debt

##### 3.2.1 Interest rates Profile

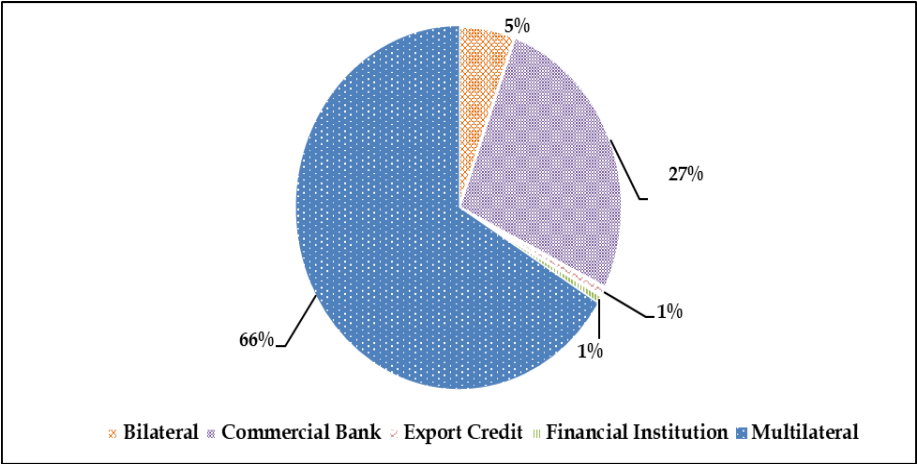
According to MTDS 2022, the debt portfolio is well shielded against interest rate risk as about 80.5 percent of the external debt is above the country's strategic benchmark of 75 percent, mostly owed to multilateral and bilateral creditors, of total debt is on fixed rate. Nonetheless, about 22.1 percent of external debt will be re-fixed within one year which reflects relatively small proportion of variable rate external loans in the debt portfolio, while domestic debt re-fixing within one (1) year is 23.5 percent.

3.2.2 External Debt by Creditor Category

The proportion of debt owed to multilateral institutions remained dominant of all creditor categories for the quarter ending December 2022, accounting for 66 percent of the external debt stock, followed by commercial creditors with 27 percent, bilateral creditors with 5 percent, export credit with 1 percent and Financial Institution shares portion of the remaining 1 percent (**Chart 4**).

Multilateral institutions being the major creditor imply low cost of debt servicing, and risk since these institutions lend in concessional terms. The loans from the International Development Association (IDA) and the African Development Bank Group (AfDB), which are highly concessional, dominate the external debt portfolio while other multilateral sources consisting of the European Investment Bank (EIB), International Fund for Agriculture Development (IFAD), Nordic Development Fund (NDF), and OPEC fund and Arab Bank for Economic Development in Africa (BADEA). Among others, Government of Iran, Iraq, Japan, Spain, Poland, France, Libya and China compose the bilateral category. Commercial credits and export credit category comprises non and semi concessional borrowings from Standard Chartered Bank, HSBC, TDB, EKN and EKF.

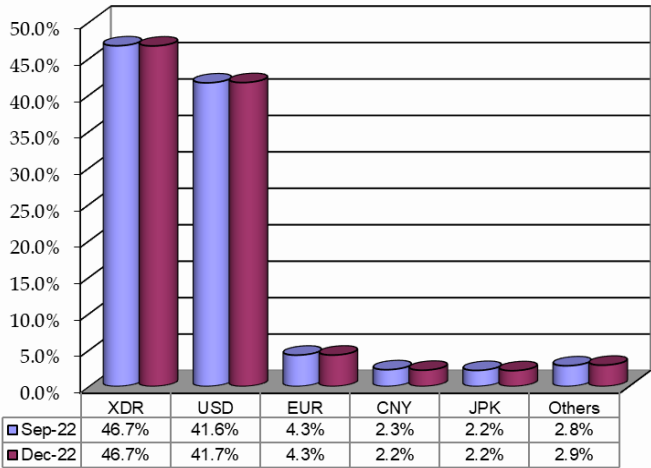
Chart 4: External Debt by Creditor Category



3.3.2 Currency Composition of External Debt

As at end December 2022, the currency composition of the outstanding Central Government debt shows a large proportion of debt was denominated by XDR in 47 followed by USD in 42 percent, EUR in 4 percent, JPY in 2 percent, CNY in 2 percent while other currencies share the remaining 3 percent (**Chart 5**). Comprising difference currencies in the debt portfolio implies diversifying currency exchange risk due to unknown volatility in the global market.

Chart 5: External Debt by Currency Category



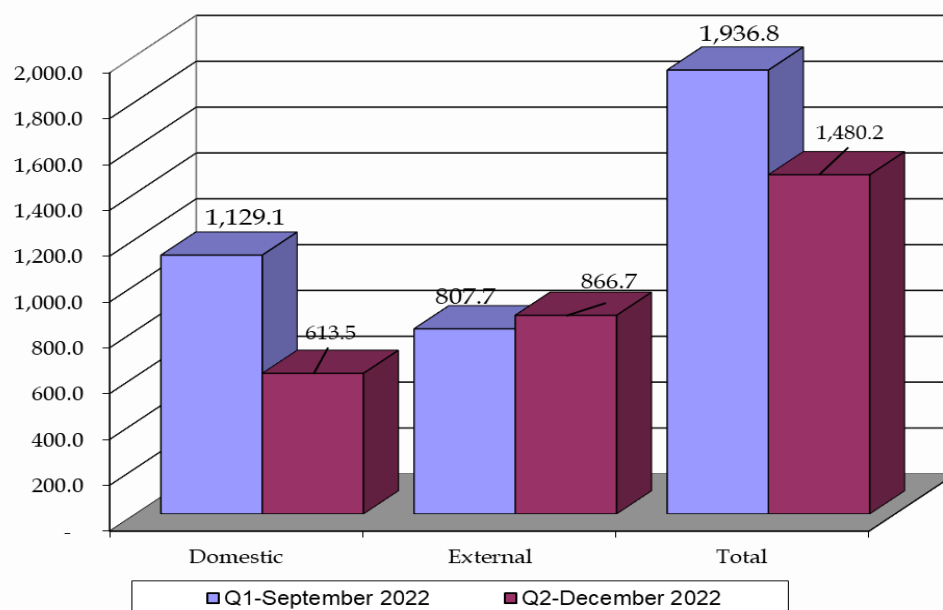
## 4.0 CENTRAL GOVERNMENT DEBT FLOWS

### 4.1 Central Government Debt inflows

The Central Government debt inflow during the quarter ended December 2022, amounted to TZS 1,480.2 billion. Out of that, a disbursement from External source was TZS 866.7 billion while from Domestic sources was TZS 613.5 billion. Central Government debt inflows decreased by TZS 456.64 billion from TZS 1,936.8 billion recorded in the first quarter ended September 2022 (**Chart 6**).

The difference is mainly due to new borrowing in the domestic market and disbursements from external creditors in first quarter being higher compared to the second quarter ended December 2022.

**Chart 6: Disbursements in TZS Billion**



### 4.2 Central Government Debt Outflows and Debt Servicing

During the quarter ended December 2022, Central Government debt outflow was TZS 1,231.5 billion out of which external principal repayment was TZS 360.6 billion and domestic principal repayment was TZS 463.1 billion. In terms of Interest payments, the debt service was TZS 407.86 billion of which TZS 140.9 billion was from the external side and TZS 267.0 billion was from the domestic side. **Table 4** shows the more detailed the distribution of debt outflow and debt service.

It is worth noting that, although external debt has larger share of debt stock, its debt service is lower compared with domestic debt due to low interest rate from external sources compared to domestic sources.

### DEBT SUSTAINABILITY ANALYSIS

- The Government continued to manage public debt in accordance with the Government Loans, Guarantees and Grant Act, CAP 134 to ensure its sustainability. The Debt Sustainability analysis (DSA) which was conducted in December 2022 confirmed that, the Government debt is sustainable in the medium and long-terms.

- In the analysis, solvency indicators show that the ratio of present value of total public debt to GDP was 32.5 percent compared to the threshold of 55 percent; and present value of external public debt to exports was 119.6 percent compared to the threshold of 180 percent.

- Regarding liquidity indicators of the DSA, the results show that the ratio of external debt service to domestic revenue was 13.5 percent compared to the threshold of 15 percent.

- As debt grows at sustainable path, there are uncertainties on global economic recovery due to negative spillover effects of the Russia - Ukraine war and COVID-19 pandemic which continue to pose risks to Tanzania's capacity to service external debt under shock sce-



Table 3: Central Government Debt Outflows and Debt Servicing

Category	End - Q2 2021		End - Q1 2022		End - Q2 2022	
	TZS billion	% of Total	TZS billion	% of Total	TZS billion	% of Total
<b>Domestic</b>						
Principal	471.2	25%	602.6	43%	463.1	38%
Interest	478.2	25%	520.7	37%	267.0	22%
<b>Sub total</b>	<b>949.4</b>	<b>49%</b>	<b>1,123.2</b>	<b>80%</b>	<b>730.0</b>	<b>59%</b>
<b>External</b>						
Principal	747.2	39%	208.4	15%	360.6	29%
Interest	222.1	12%	76.2	5%	140.9	11%
<b>Sub total</b>	<b>969.4</b>	<b>51%</b>	<b>284.6</b>	<b>20%</b>	<b>501.5</b>	<b>41%</b>
<b>Total</b>	<b>1,918.8</b>	<b>100%</b>	<b>1,407.8</b>	<b>100%</b>	<b>1,231.5</b>	<b>100%</b>

### 4.3 Net Flows on Debt

The analysis shows overall positive net flows of TZS 248.67 billion on debt for the quarter ending December 2022. Domestic side of the debt has recorded negative net flows of TZS 116.5 billion due to performance of government securities and the relatively higher amount of principal rollovers. The external debt portfolio recorded positive net flows on debt of TZS 365.2 billion attributed to new disbursements, which outweighed repayment.

### 5.0 COST AND RISK INDICATORS OF THE TOTAL DEBT PORTFOLIO

Large portion of public external outstanding debt stock is dominated by loan from concessional and semi concessional financing sources. This results to low interest rates risks and refinancing risks. The share of external debt was the largest constituting 66.2 percent of total public debt as at end of June 2022, which partly reflects the government's debt strategy of limiting net domestic debt issuance.

The Average Time to Maturity (ATM) of the total debt portfolio is 11.2 years owing to the fact that, the ATM of external debt portfolio which holds the majority of the total debt is 12.4 years as compared to the ATM of domestic debt portfolio of 8.7 years. The longer maturities of external debt portfolio emanates from the dominance of concessional financing contrary to domestic debts whose maturities are pushed up by the long maturities of the marketable instruments.

### DEBT SUSTAINABILITY ANALYSIS...

- All liquidity and solvency debt burden indicators remain below their respective thresholds under baseline scenario for both external and public DSA. However, the risk of debt distress remains moderate. This follows a breach of threshold for the debt service to export ratio under shock scenario.

- To mitigate the risks the Government will continue prioritizing borrowing on concessional and semi-concessional terms, including seeking financing from export credit agencies, while carefully venturing to non-concessional sources for projects of significant importance to the economy.

- In addition to that, the Government will continue to strengthen supervision of both financial institutions and state-owned enterprises with a view to minimize risks associated with contingent liabilities.

## CONTINGENT LIABILITY AS OF DECEMBER 2022

In 2021/22, the Government of Tanzania through the Ministry of Finance and Planning conducted a comprehensive study on both explicit and implicit contingent liabilities emanating from borrowings by LGAs and SOEs.

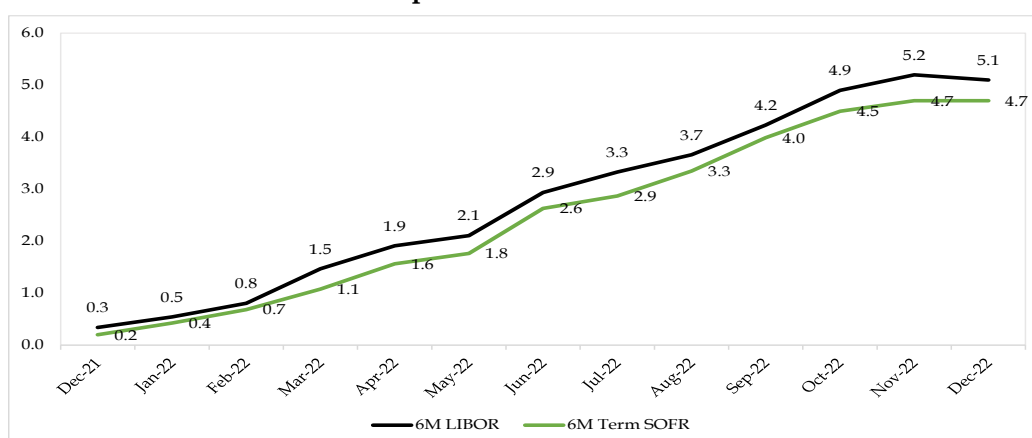
The study established total outstanding balance of contingent liabilities amounted to TZS 8,208.22 billion which is **4.9 percent** of GDP (Chart.8).

## 6.0 KEY DEVELOPMENTS ISSUES IN THE SECOND QUARTER OF 2022/23

### 6.1 REFERENCE RATES DEVELOPMENTS

As at end December 2022, the 6M LIBOR was 5.1 percent and 6M SOFR was 4.7 percent compared to 0.4 percent and 0.3 percent of 6M Libor and 6M SOFR respectively recorded at end December 2021. This translates to an increase of 4.7 percent and 4.4 percent 6M Libor and 6M SOFR respectively whereas the increase was a result of central bank's rate hikes with global hawkish stance to contain inflationary pressures in advanced economies particularly USA and EU countries (Chart 7). This increases the cost of borrowing and servicing debt.

Chart 7: Reference Rates Developments



### 6.2.2 LEGAL FRAMEWORK

For the quarter ending December 2022, Debt management department held one TDMC and NDMC meetings in accordance with the Loans, Guarantees and Grants law cap 134 Section 19 and 22 .

Chart 8: CONTINGENT LIABILITY AS OF DECEMBER 2022

CONTINGENT DEBT BY MAIN CATEGORIES IN BILLIONS OF TZS				
SN		Dec-22	Percent of Total	Percent of GDP
1	State Owned Enterprises-SOEs	329.61	4.0%	0.2%
	o/w NHC	149.58		
	o/w Others	180		
	NIC-Insurance Policy	4,832.05	58.9%	2.9%
2	Utilities Companies	14	0.2%	0.0%
3	LOCAL GOVERNMENT AUTHORITIES	42.90	0.5%	0.0%
4	CLAIMS FROM SECURITY FUNDS (UNVERIFIED)	2,989.90	0.36	1.8%
	<b>Total</b>	<b>8,208.22</b>		<b>4.9%</b>