THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND PLANNING

MEDIUM TERM DEBT MANAGEMENT STRATEGY (2021/22-2023/24)

November, 2021

Table of Contents

List of Charts

List of Tables

List of Appendices

Foreword

In line with Section 25.1(a) of the Government Loans, Guarantees and Grants Act Cap. 134 the Government is required to prepare a Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plans consistent with the overall fiscal framework. The Ministry of Finance and Planning prepares the MTDS in fulfilment of this mandate. The MTDS stipulates how the Government plans to borrow and manage its debt to achieve a portfolio mix that reflects its costs and risk preference in a bid to meet financing needs.

The 2021 MTDS has been prepared taking into account the financing need for strategic infrastructure projects as outlined in the Five-Year Development Plan (FYDP) III and the economic slowdown largely attributed to COVID-19 pandemic. In view of this, the 2021 MTDS outlines financing strategies to be implemented in the medium term (2021/22 to 2023/24) while keeping in view of the broader debt management objective of minimizing government financing costs and support development of domestic market.

The cost and risk performance of four alternative strategies were assessed basing on shock scenarios on baseline macroeconomic assumptions. This informed the selection process of the optimal strategy given the robust quantitative results which highlighted the strategy that was more aligned to the country's debt management objectives. The optimal debt strategies selected for medium term were characterized by significant financing from export credit agencies (ECA) earmarked for strategic infrastructural projects and domestic borrowing aligned to reducing yields in a bid to lower cost of domestic financing.

The Ministry of Finance and Planning will work towards successful implementation of the chosen financing strategies. It is worth noting that, MTDS is not a static document, thus will be reviewed annually to check if the chosen strategies are still relevant based on the prevailing macro-fiscal situation in the country and global economic environment at large.

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Hon. Dr. Mwigulu L. Nchemba (MP),

Minister of Finance and Planning.

1. INTRODUCTION

1. The Medium-Term Debt Management Strategy 2021/22 – 2023/24 (MTDS) is formulated in line with Section 25.1(a) of the Government Loans, Guarantees and Grants Act, CAP. 134. The MTDS is designed in the endeavor to achieve desired composition of the Government debt portfolio in consideration to the Government's preferences on cost-risks tradeoff.

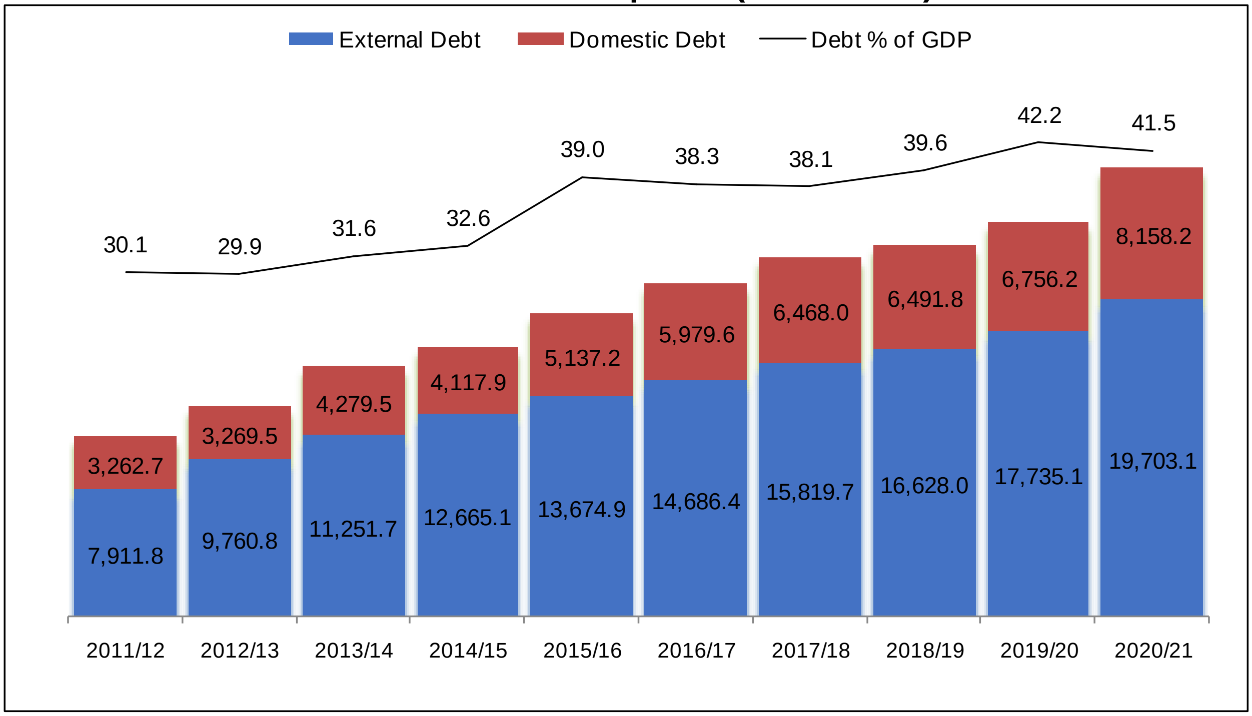
2. The 2021 MTDS is based on Central Government debt, both external and domestic, with the time horizon of three years commencing 2021/22 through 2023/24, using data of 2020/21 as base year. The MTDS is formulated with aid of the MTDS Analytical Tool developed by the World Bank and International Monetary Fund (IMF), which assesses cost and risk characteristics of the existing debt and alternative financing strategies. The 2021 MTDS was prepared by the Ministry of Finance and Planning (URT) in collaboration with the Bank of Tanzania, National Bureau of Statistics and Ministry of Finance and Planning Zanzibar, with the technical assistance from the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

3. The main objective of the 2021 MTDS is to maximize financing through semi-concessional loans, particularly from Export Credit Agencies (ECAs), and reduce financing cost associated with long-term treasury bonds. Where necessary, commercial loans financing at limited level and directed to projects with high impact on economic growth and that promotes exports.

2. DEBT PORTFOLIO REVIEW

4. The Central Government debt stock was USD 27,861.29 million (41.5 percent of GDP in nominal terms) as at end June 2021. Of the total debt stock, external debt was USD 19,703.10 million and domestic debt was USD 8,158.29 million (**Chart 1**).

Chart 1: Central Government Debt Development (USD Million)



Source: Ministry of Finance and Planning, and Bank of Tanzania

5. Notwithstanding, the recent development in financing landscape, the proportion of external debt owed to multilateral institutions remained dominant at end June 2021, accounting for 58.1 percent of the external debt, followed by debt from commercial and ECAs creditors, and bilateral accounting for 30.6 percent, and 11.3 percent, respectively (**Table 1**).

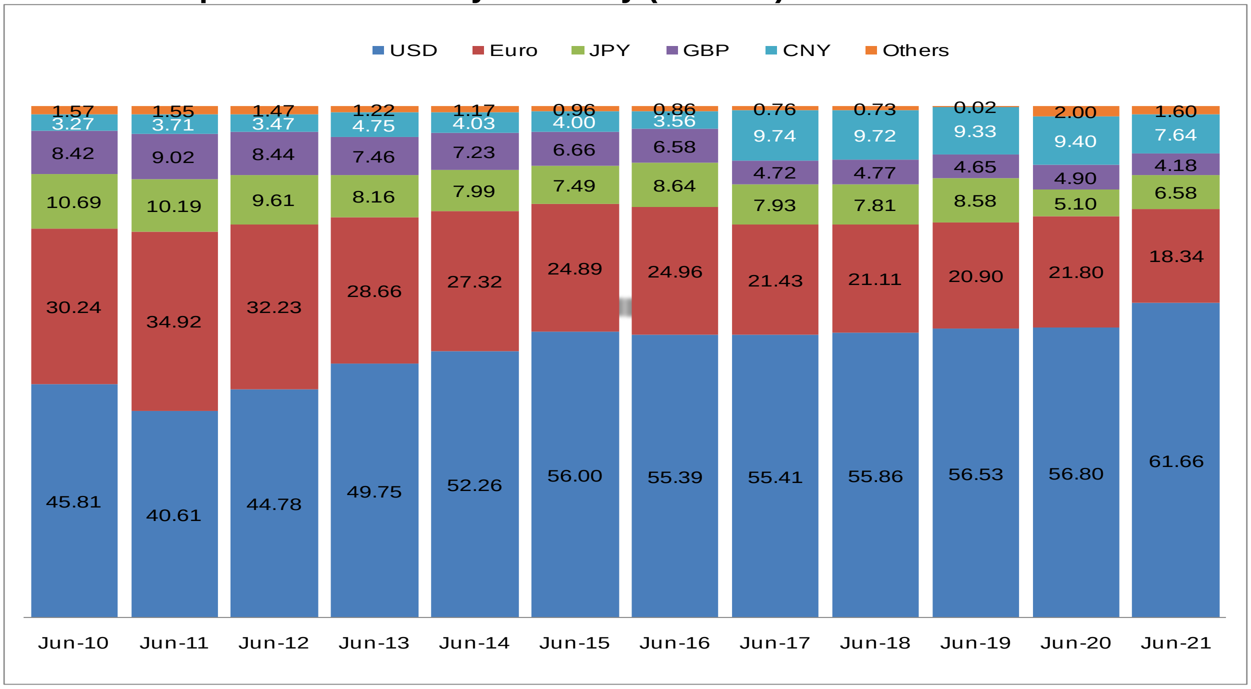
Table 1: External Central Government Debt by Creditor Category (USD Million)

Creditor Category	2017/18		2018/19		2019/20		2020/21	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Multilateral	9,080.50	57.40	9,616.90	57.84	10,461.40	58.99	11,451.50	58.12
Bilateral	1,822.64	11.52	1,958.14	11.78	2,085.70	11.76	2,231.00	11.32
Commercial & Export credit	4,916.53	31.08	5,052.97	30.39	5,188.00	29.25	6,020.60	30.56
Total	**15,819.67**	**100.00**	**16,628.01**	**100.00**	**17,735.10**	**100.00**	**19,703.10**	**100.00**

Source: Ministry of Finance and Planning, and Bank of Tanzania

6. The proportion of debt denominated in USD has continued to account for the largest share of external debt accounting for 61.7 percent, followed by Euro and Chinese Yuan at 18.3 percent and 7.6 percent, respectively (**Chart 2**).

Chart 2: Composition of Debt by Currency (Percent)



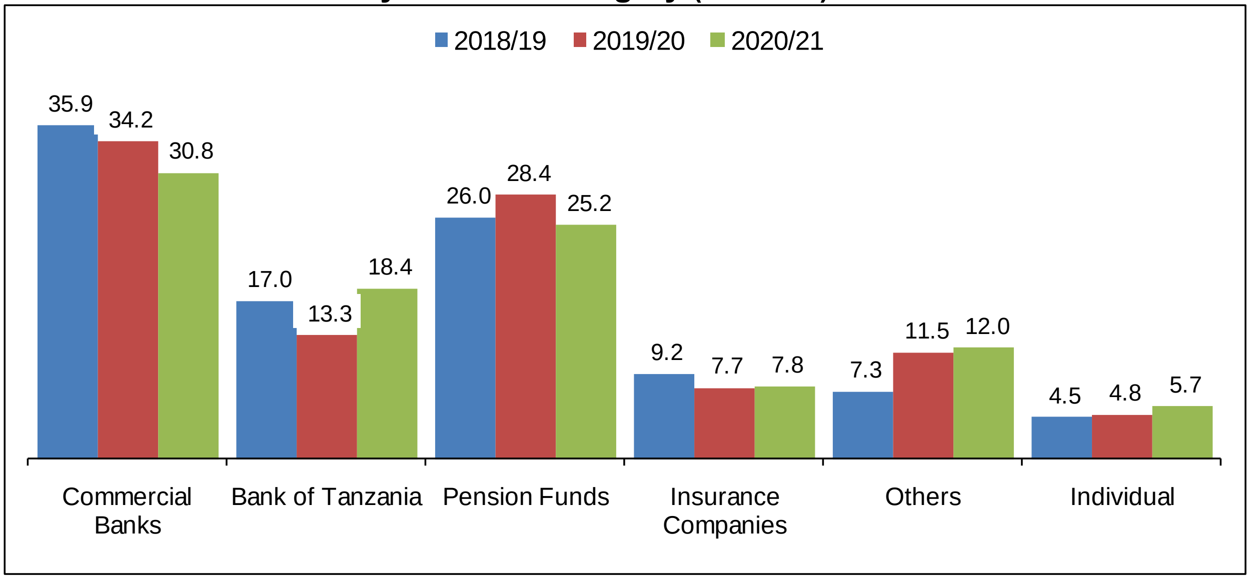
Source: Ministry of Finance and Planning, and Bank of Tanzania

7. The profile of domestic debt by instrument shows that, Treasury bond continue to dominate, accounting for 78.2 percent at end June 2021 consistent with implementation of Government's 2020 MTDS of lengthening maturity profile of domestic debt in the effort to minimize refinancing risk.

8. Domestic debt by holder category shows that, commercial banks continue to dominate, accounting for 30.8 percent followed by pension funds and Bank of Tanzania at 25.2 percent and 18.4 percent[1], respectively (**Chart 3)**.

[1] Bank of Tanzania holding of 18.4 percent includes overdraft.

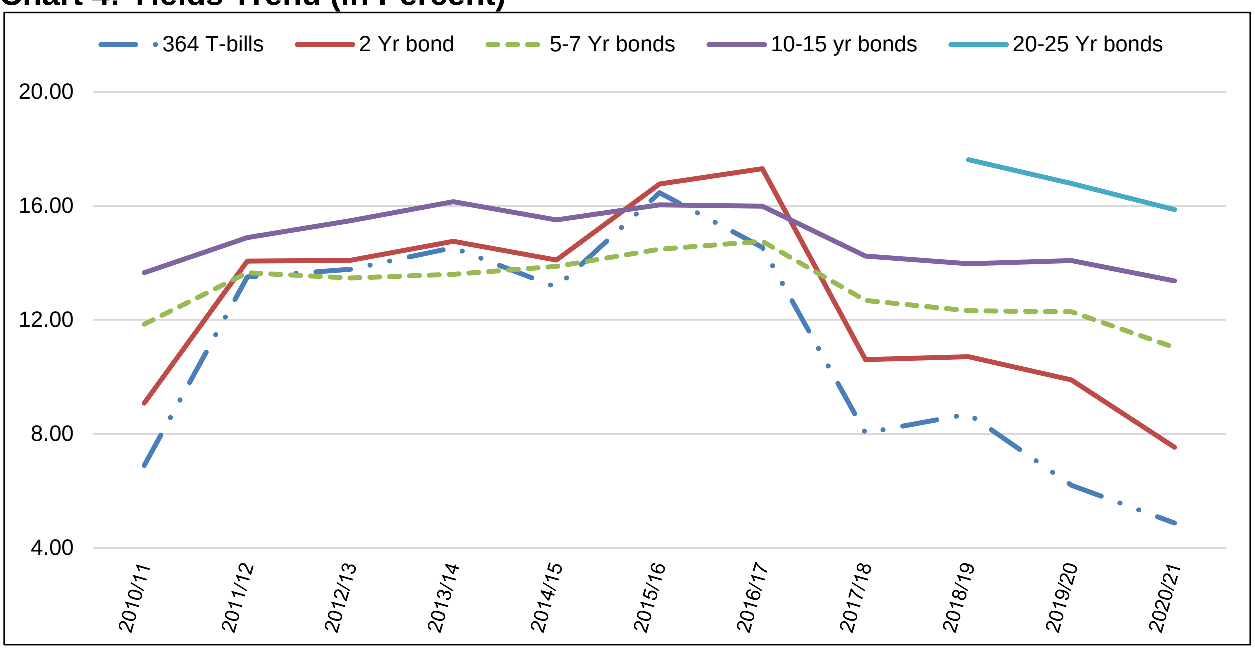
Chart 3: Domestic Debt by Holder's Category (Percent)



Source: Ministry of Finance and Planning, and Bank of Tanzania

9. Government securities' yields continued to record a downward trend, particularly in the last three years (**Chart 4**). The decrease is attributable to prudent monetary and fiscal policies as well as listing of bonds in Dar es Salaam Stock Exchange (DSE) that partly induced rise in demand for long-term securities.

Chart 4: Yields Trend (in Percent)



Source: Ministry of Finance and Planning and Bank of Tanzania.

3. REVIEW OF THE 2020 MTDS

10. The 2020 MTDS aimed to support development of domestic debt markets to minimize refinancing risk and foreign exchange risk exposures, as well as maximization of financing from semi-concessional sources, particularly from ECAs. Among the key measures included introduction of 25-year treasury bonds and increased use long-term treasury bonds in response to the market preferences. Consequently, the cost and risks of the debt portfolio as at end of June 2021 evolved as summarized in **Table 2**.

Table 2:Cost and Risk indicators for existing debt as at end June 2021

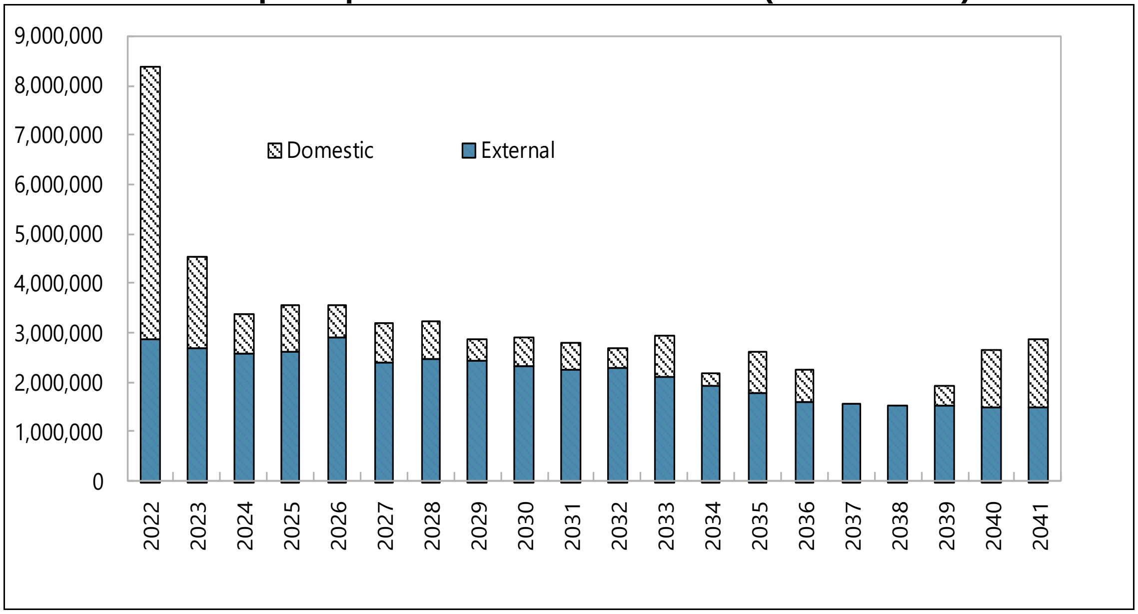
Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of TZS)		45,295,456.6	18,848,433.5	64,143,890.1
Amount (in millions of USD)		19,703.1	8,158.2	27,861.3
Nominal debt as percent of GDP		28.0	12.2	41.5
PV as percent of GDP		19.0	12.2	31.2
Cost of debt	Interest payment as percent of GDP	0.6	1.3	1.9
	Weighted Av. IR (percent)	2.1	10.8	4.7
Refinancing risk	ATM (years)	12.8	7.0	11.2
	Debt maturing in 1yr (percent of total)	5.9	29.1	12.5
	Debt maturing in 1yr (percent of GDP)	1.8	3.6	5.4
Interest rate risk	ATR (years)	12.1	7.0	10.7
	Debt refixing in 1yr (percent of total)	21.8	29.1	23.9
	Fixed rate debt incl T-bills (percent of total)	80.4	100.0	86.0
	T-bills (percent of total)	0.0	21.4	6.1
FX risk	FX debt (percent of total debt)			69.6
	ST FX debt (percent of reserves)			22.8

Source: Ministry of Finance and Planning

11. As intended, one-year implementation of the 2020 MTDS improved both refinancing and interest rate risk exposures of the domestic debt. The domestic debt Average Time to Maturity (ATM) and debt maturing in a year increased to 7 years and 10.9 percent from 6.4 years and 10.0 percent end of the preceding year, respectively. The redemption profile of the total portfolio indicates a significant portion of domestic debt matures in 2021 reflecting sizeable amount of treasury bills **(Chart 5)**. Likewise, domestic debt re-fixing within one year increased to 29.1 percent at end June 2021

from 24.6 percent at end June 2020. Exchange rate risk exposure also improved as debt denominated in foreign currency decreased to 69.6 percent of total debt from 72.0 end of the preceding year. Nonetheless, the external debt portfolio remains exposed to exchange rate risk associated with USD and EURO, which account for 61.7 percent and 18.3 percent of the total external debt, respectively.

Chart 5 : Redemption profile as at end June 2021 (TZS Millions)



Source: Ministry of Finance and Planning, and Bank of Tanzania

12. The 2020 MTDS has however raised the cost of the debt due increased borrowing through long-terms Treasury bonds and declining financing from external concessional sources. The interest payment increased to 1.9 percent of GDP at end June 2021 from 1.6 percent of GDP at end June 2020, of which external debt increased from 0.5 to 0.6 percent of GDP and domestic debt from 1.1 to 1.3 percent of GDP. The total debt portfolio weighted average interest rate, also rose to 4.7 percent at end June 2021 from 4.3 percent end of the preceding period. In particular, the weighted average interest rate for domestic debt increased to 10.8 percent from 10.7 percent recorded end of 2019/20.

13. The general analysis shows as at end of 2020/21, the cost and risk indicators of the portfolio remain within the country’s debt management strategic benchmarks as indicated in **Table 3.**

Table 3: Evolution of Risk Indicators against Strategic Benchmarks (2021/22-2023/24)

SN	Indicator	June 2020	June 2021	Benchmark
1	Implied Interest rate (percent)	4.3	4.7	<7.0
2	Debt maturing in 12 months (percent of total)	10.0	10.9	<15
3	Debt maturing in 12 months (percent of GDP)	4.1	5.4	<7.5
4	ATM of total debt (years)	11.7	11.7	>10
5	Fixed rate debt (percent of total)	87.6	86.2	>75
6	T-bills (percent of total)	4.9	5.2	<10
7	Foreign Currency debt (percent of total)	72.0	69.6	<75
8	Short-term foreign currency debt (percent of official reserves)	17.8	22.8	<75

Source: Ministry of Finance and Planning

4. AN OVERVIEW OF ECONOMIC PERFORMANCE

4.1. Recent Economic Development

14. In the first half of 2021, the economy grew by an average of 4.7 percent compared to 5.0 percent recorded in the corresponding period of 2020. Slight decline in growth rate during the first half of 2021 is due to ongoing impacts of COVID-19 on the economy. Nonetheless, the headline inflation remained low and below the country's medium-term target of 5.0 percent, and the EAC and SADC convergence criteria of not more than 8.0 percent and of between 3.0 percent and 7.0 percent, respectively.

15. In 2020/21, the overall fiscal deficit was 3.4 percent of GDP, compared with deficit of 1.4 percent of GDP recorded in 2019/20. The fiscal deficit recorded was above the EAC and SADC convergence threshold level of not more than 3.0 percent, largely attributable to decline in domestic revenue and grants, following the adverse effects of COVID-19 pandemic. During the year 2019/20, the Government through Bank of Tanzania continued to implement an accommodative monetary policy, to minimize the effects of COVID-19 to the economy. The banking sector remained stable and profitable with adequate level of capital and liquidity above regulatory requirements.

16. The overall balance of payments recorded a surplus of USD 44.5 million in the year ending June 2021, from a surplus of USD 754.9 million in 2019/20, reflecting impact of COVID-19 on the external sector. Current account deficit widened to USD 1,473.2 million, equivalent to 2.1 percent of GDP compared to USD 1,213.8 million (1.9 percent of GDP) in the preceding year, largely due to decline in tourism receipts. During the same period, the value of the shilling remained stable whereby in the wholesale market the shilling traded at an average rate of TZS 2,309.58 per US dollar compared with TZS 2,301.30 per US dollar in the preceding year, equivalent to a depreciation of 0.4 percent. As at end of June 2021, gross official reserves were USD 5,209.8 million, sufficient to cover about 6.1 months of projected imports of goods and services.

4.2. Baseline Macroeconomic Projections and Assumptions

17. In 2021, real GDP growth is project to slow down to 5.0 percent compared and thereafter pick up to an average of average of 5.7 percent throughout the medium-term (2022 -2026). The assumption is supported by successful implementation of FYDP III that seeks to realize competitiveness and industrialization for human development.

18. Inflation in the medium-term is projected to remain within the target of 5.0 percent, in line with EAC and SADC convergence criteria, supported by: low cost of production on account of reliable and affordable power supply emanating from increase in gas and hydroelectric power generation; prudent fiscal and monetary policies; and sufficient food supply in domestic markets, as a result of expected good weather condition in the region.

19. In 2021/22, domestic revenue is expected to increase to 14.8 percent in 2021/22 and thereafter increase to an average of 15.4 percent of GDP in the medium term (2022/2023 - 2026/27) in response to continuous implementation of Government measures to promote tax compliance and leveraging on ICT system to collect domestic revenue. Expenditure is projected to increase to an average of 17.9 percent of GDP in the medium term from an average of 16.8 percent recorded between 2016/17 - 2020/21. Consequently, fiscal deficit is projected to be around 2.0 percent of GDP in the medium term.

20. Gross official foreign reserves are projected to meet the country's benchmark of at least four (4) months of imports of goods and services with a view to shield the value of the shilling against exogenous shocks. The projection is backed by Government measures to attract foreign direct investments, boosting exports and expected recovery of tourism sector.

4.3. Downside risks to medium term outlook

21. Attainment of the medium-term baseline macroeconomic projections, including balance of payments, fiscal, money supply and gross domestic product, depends on resilience and severance of the COVID-19 pandemic effects, domestic and world market commodity prices, world economy, weather condition and interest rates. Therefore, negative shock to any of the variables will have effects on sustainability of fiscal and monetary policies and consequently implementation of the MTDS. However, the Government will continue to implement prudent monetary and fiscal policies in order to minimize the risks which can be controlled.

22. Notwithstanding the on-going global and Government efforts to minimize the effect of COVID-19 on the socio-economy, there are still risks associated with outbreak of variants which may continue to affect investments, productivity and growth in the most vulnerable sectors and consequentially hampering the projected growth.

23. However, in the medium term the Government will continue to formulate and implement macroeconomic policies, particularly those geared towards promotion of diversified exports, and prudent monetary and fiscal policies in order to minimize the downside risks to the implementation of the MTDS.

5. DEBT MANAGEMENT STRATEGIES

5.1. Potential Financing Sources

24. In the medium term, a mix of concessional, semi-concessional and commercial loans remain the potential external sources of financing Government budget deficit. In the medium term, the Government will continue sourcing funds from concessional traditional sources, that is multilateral and bilateral creditors. However, due to country's upgrade to middle income status, the changing global financing landscape and the needs for financing strategic infrastructure projects under the Five-Year Development Plan (FYDP III), the Government plans to access loans through ECAs arrangements and commercial creditors. The Government will continue to support development domestic debt market by borrowing from the market.

5.2. Alternative Financing Strategies

25. In the process of identifying an optimal medium term financing strategy, four alternative borrowing strategies were considered in order to ensure Government financing need continue to be met at lowest possible cost with prudent degree of risk. These strategies vary by the mix of borrowing between domestic and external sources, as well as the operational target between domestic and external sources. Key financing terms such as maturity and grace periods, fixed and variable interest rates and currency are the elements considered in the mix of financing options.

5.2.1. Strategy 1 (S1): Status quo

26. This strategy is based on the approved budget and likely outturn of 2021/22 whereas operational target of 51.3 percent from external gross financing remains throughout the strategy period while gross domestic financing is maintained at 48.7 percent. Semi-concessional sources will contribute higher amount of about 38.0 percent of total external financing and 20-25yr T-bonds will be maintained at 33.2 percent throughout the medium term.

5.2.2. Strategy 2 (S2): Minimize Domestic Financing cost

27. Broadly, strategy (S2) assumes a gradual reduction in the share of gross domestic borrowing from 48.7 percent to 40.0 percent in 2023/24. Financing through long-term debt securities is projected to decline from 47.0 percent of the domestic borrowing in 2021/22 to 39.7 percent by 2023/24. A gradual increase in the proportion of short and medium terms of domestic financing is assumed, from 53.0 percent in 2021/22 to about 60.3 percent by 2023/24. This strategy aims at reducing the cost emanating from long-term domestic instruments.

5.2.3. Strategy 3 (S3): Maximize Semi-concessional loans

28. The strategy assumes an increase in the share of semi-concessional borrowing in the total external financing from 38.0 percent in 2021/22 to 54.4 percent in 2023/24 and proportionate decline of commercial borrowing from 31.4 percent to 15.0 percent at the end of strategy period. The strategy aims at reducing financing cost and risk in the medium term with the assumption that the ECA's will provide adequate resources needed to implement the strategic projects.

5.2.4. Strategy 4 (S4): Access International capital market - Eurobond

29. This strategy assumes maiden issuance of a 10-year Eurobond worth USD 800 million in 2022/23 at fixed interest rate and reduction of commercial variable instrument from 31.41 percent. It intends to introduce visibility of the country into international capital market with a view to diversify financing sources as country attained middle income status.

5.3. Cost-Risk Analysis of the Alternative Financing Strategies

30. The resultant cost and risk indicators of the alternative financing strategies and summary of interpretation of indicators are presented in **Table 4** and **Table 5**, respectively. The indicators are presented graphically in **Appendix 1**.

31. Cost and risk indicators of the debt portfolio for the past four years (end June 2018 – end June 2021) is in **Appendix 2.**

Table 4: Cost and Risk of Alternative Financing Strategies

Risk Indicators		2021	As at end 2024			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		40.2	42.431	42.405	42.393	42.433
Present value debt as percent of GDP		31.2	33.3	33.1	33.0	33.5
Interest payment as percent of GDP		1.9	1.98	1.95	1.94	2.01
Implied interest rate (percent)		4.7	5.27	5.08	5.04	5.34
Refinancing risk2	Debt maturing in 1yr (percent of total)	12.5	7.2	7.2	7.4	7.0
	Debt maturing in 1yr (% of GDP)	5.4	3.07	3.03	3.15	2.99
	ATM External Portfolio (years)	12.8	12.2	12.3	12.4	12.1
	ATM Domestic Portfolio (years)	7.0	11.6	11.00	10.99	11.5
	ATM Total Portfolio (years)	11.2	12.035	11.913	12.039	11.945
Interest rate risk2	ATR (years)	10.7	11.121	10.978	11.094	11.113
	Debt refixing in 1yr (percent of total)	23.9	22.6	22.5	21.5	21.3
	Fixed rate debt incl T-bills (percent of total)	86.0	82.904	82.901	84.2	84.0
	T-bills (percent of total)	6.1	2.126	1.841	2.083	1.953
FX risk	FX debt as % of total	69.6	70.4	72.1	71.2	71.1
	ST FX debt as % of reserves	22.8	20.9	20.9	20.9	20.9

Source: Ministry of Finance and Planning

Table 5: Interpretation of the Alternative Strategies Indicators

Strategy	Rationale	Strength at end of 2024
S1-Status Quo	Continuation of the existing debt market (domestic and external) conditions in the medium term.	i. Highest ATM Domestic Portfolio (11.6 years); ii. Highest ATR of total debt (11.1 years); and iii. Lowest proportion of foreign exchange debt (70.4 percent).
S2- Minimize domestic financing cost	Minimizing domestic financing cost emanating from long-term domestic borrowing.	i. Lowest proportion of T-bills (1.84 percent of total debt).
S3- To maximize Semi-concessional loans	Declining concessional financing resources, increased cost from commercial loans and that Export Credit Agencies will provide adequate resources with favorable terms to	i. Lowest nominal debt to GDP (42.39 percent); ii. Lowest interest to GDP and implied interest rate of 1.94 percent and 5.04 percent, respectively; iii. Highest Average time to Maturity (ATM) of total and external portfolio of 12.04 years and 12.4 years respectively; and iv. Highest fixed rate debt including Treasury bills (86.4 percent).

Strategy	Rationale	Strength at end of 2024
	finance development projects.	
S4- Eurobond	Significant decline in concessional and semi-concessional loans as well as drying domestic debt market.	i. Lowest proportion of debt maturing in 1 year to total debt and GDP at 7.0 percent and 2.99 percent respectively; and ii. Lowest proportion of Debt re-fixing in 1 year to total debt at 21.3 percent.

Source: Ministry of Finance and Planning

5.4. Favorable Strategy for Implementation

32. Based on quantitative results of cost and risk trades-off for the alternative strategies, Strategy 3 dominates in terms of cost and risk trade-off. However, with the objective of reducing costs emanating from long-term domestic instruments, Strategy 2 is also considered to reduce domestic financing costs. Hence, a combination of Strategies 2 and 3 are desirable and feasible for implementation.

5.5. Strategy Implementation Guidelines

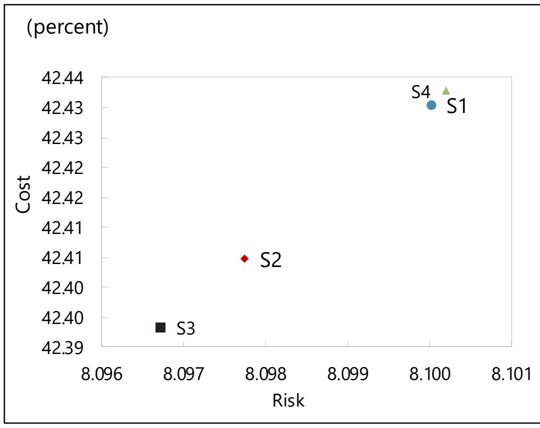
33. In the course of implementing the strategy in 5.4, the Government plans to implement the following:

    i. Maximization of financing from semi-concessional sources, particularly ECAs while strengthening multilateral and bilateral ties for enabling the country to continue accessing concessional loans and restricting commercial borrowing to projects with high impact on economic growth including those that promote exports; and

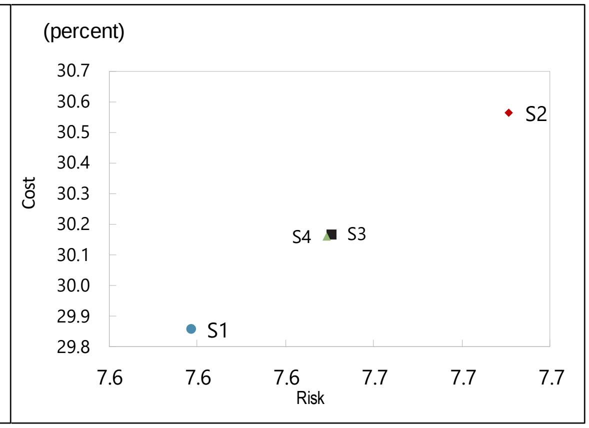
    ii. Government securities with shorter and medium maturities will be assigned more weight so as to reduce costs arising from interest payment of instruments with longer maturity in accordance with Strategy 2. Furthermore, various measures including improving market infrastructure will be given impetus.

Appendix 1: Cost and Risk Trade-off of alternative financing Strategies

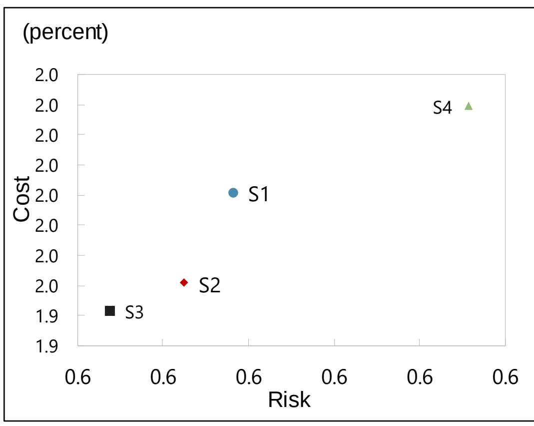
Debt to GDP
As at end of 2024



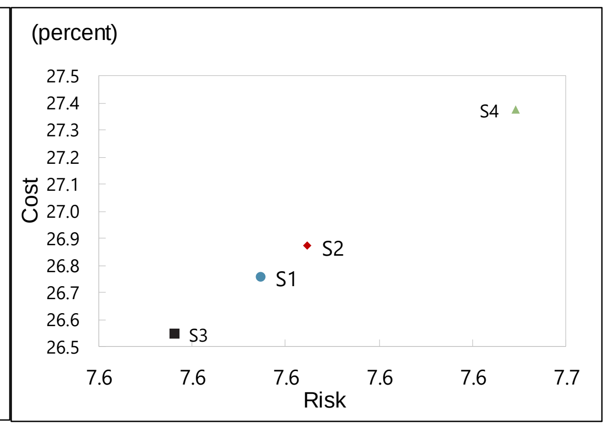
External Debt to GDP
As at end of 2024



Interest to GDP
As at end of 2024



External Debt Service to Internatioal Reserves
As at end of 2024



Appendix 2: Cost and Risk Indicators for Existing Debt end June 2018 – end June 2021

Risk Indicator		Jun-18			Jun-19			Jun-20			Jun-21		
		External	Domestic	Total	External	Domestic	Total	External	Domestic	Total	External	Domestic	Total
Nominal Debt (% GDP)		27.9	11.8	39.7	27.4	11	38.4	27.5	10.7	38.3	28	12.2	41.5
PV Debt (% GDP)		18	11.8	29.8	17.9	11	28.9	18.2	10.7	28.9	19	12.2	31.2
Cost of debt	Interest (% GDP)	0.6	1.2	1.8	0.6	1.1	1.7	0.5	1.1	1.6	0.6	1.3	1.9
	Weighted Av.IR (%)	2.1	9.8	4.4	2	10.4	4.4	1.8	10.7	4.3	2.1	10.8	4.7
Refinancing risk	ATM (years)	14.2	5	11.5	13.6	4.7	11	13.5	6.4	11.7	12.8	7	11.2
	Maturing in 1yr (% Total)	4.5	25.4	10.7	7.5	35.7	15.6	4.9	24.6	10	5.9	29.1	12.5
	Maturing in 1yr (% GDP)	1.3	3	4.3	2.1	3.9	6	1.5	2.6	4.1	1.8	3.6	5.4
Interest rate risk	ATR (years)	13.9	5	11.2	13.2	4.7	10.8	13.1	6.4	11.3	12.1	7	10.7
	Refixing in 1yr (% Total)	18.2	25.4	20.3	20	35.7	24.5	18.1	24.6	19.8	21.8	29.1	23.9
	Fixed rate debt (% Total)	82.8	100	87.9	83.2	100	88	83.2	100	87.6	80.4	100	86
FX risk	FX debt (% Total)			70.4			71.4			72			69.6
	ST FX (% reserves)			12.5			27			17.8			22.8