

# MINISTRY OF FINANCE AND PLANNING

## Debt Management Division

# Quarterly Central Government Debt Report

For the first quarter ending September, 2022

### INSIDE THIS ISSUE:

Total Central Government Debt	1
Domestic Debt Analysis	2
Central Government External Debt Analysis	3
Central Government Debt Flows	4
Cost and Risk Indicators	5
Key Developments in first quarter 2022/23	6

### THE INCREASE IN TOTAL DEBT STOCK

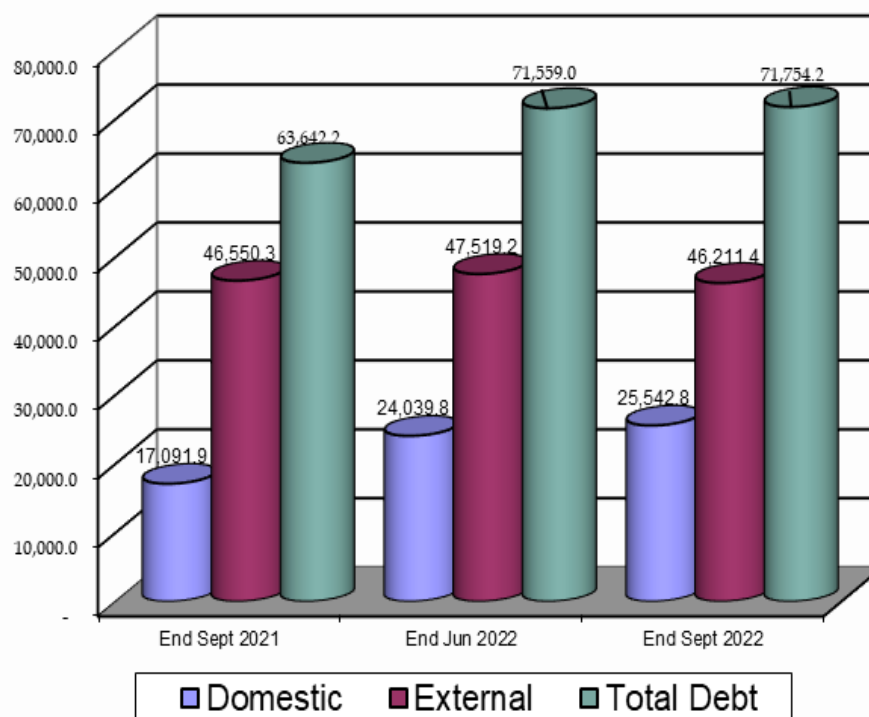
The increase in the Central Government debt stock was mainly attributed to new domestic borrowing through issuance of Government Securities and disbursements from external creditors.

## 1.0 CENTRAL GOVERNMENT DEBT STOCK

As at end September 2022, Central Government Debt Stock stood at TZS 71,754.16 billion (USD 31,090.16 million), an increase of 12.7 percent compared to TZS 63,642.19 billion recorded at end September 2021 (**chart 1**). In quarterly bases, Central Government debt stock increased by 0.27 percent compared to TZS 71,559.01 billion at end June 2022.

Out of the Central Government debt, domestic debt accounts for TZS 25,542.8 billion equivalent to 35.60 percent and external debt accounts for TZS 46,211.4 billion equivalent to 64.40 percent.

Chart 1: Trend of Central Government Debt in TZS Billion



## 2.0 DOMESTIC DEBT

### 2.1 DOMESTIC DEBT

The stock of domestic debt stood at TZS 25,542.78 billion (USD 11,067.36 million) as at end September 2022. This translates to an increase of 49.44 percent from September 2021 position of TZS 17,091.88 billion. Out of which, Treasury bills and bonds amounted to TZS 1,762.45 billion and TZS 20,392.97 billion respectively, and other domestic liabilities accounted for TZS 3,387.36 billion (**Table 1**). On quarter to quarter basis, domestic debt stock increased by 6.25 percent compared to TZS 24,039.82 billion recorded at the end June 2022.

**Table 1: Domestic Debt Stock**

Category	Jun-22		Sep-22	
	TZS billion	% Of Total	TZS billion	% Of Total
Treasury bill	1,757.75	7.02%	1,762.45	6.90%
Treasury bond	19,883.90	79.44%	20,392.97	79.84%
Others	3,387.36	13.53%	3,387.36	13.26%
<b>Total</b>	<b>25,029.02</b>	<b>100%</b>	<b>25,542.78</b>	<b>100%</b>

## 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.

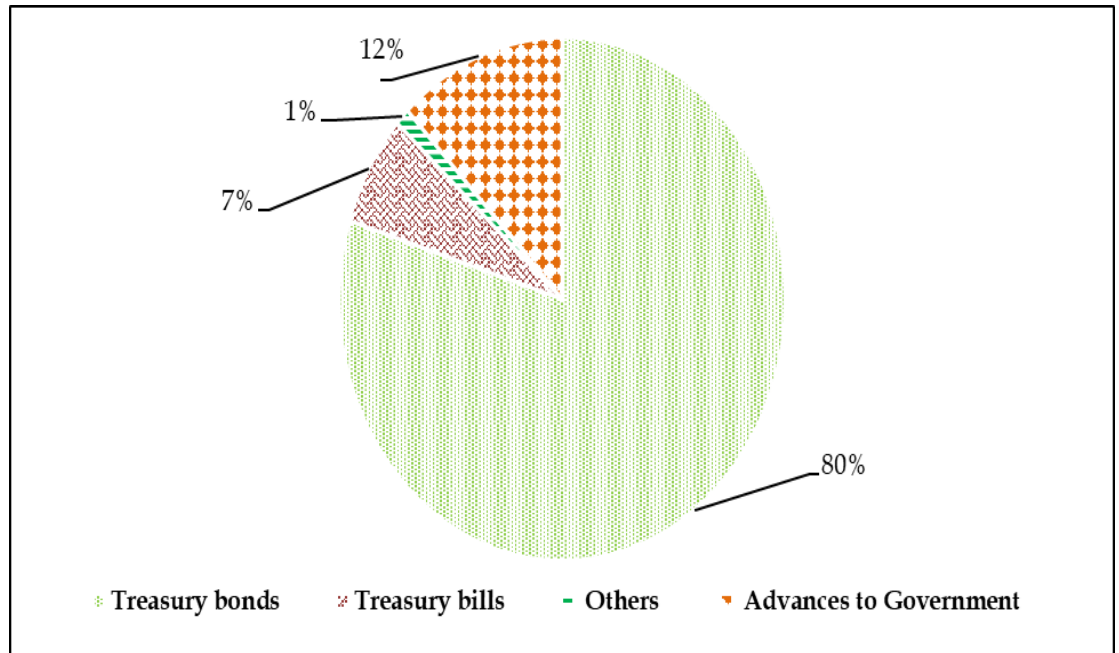
### THE ACCUMULATION AND COMPOSITION OF DOMESTIC DEBT

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).

**BUDGET FRAME FOR 2022/23 ON DOMESTIC BORROWING**

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.

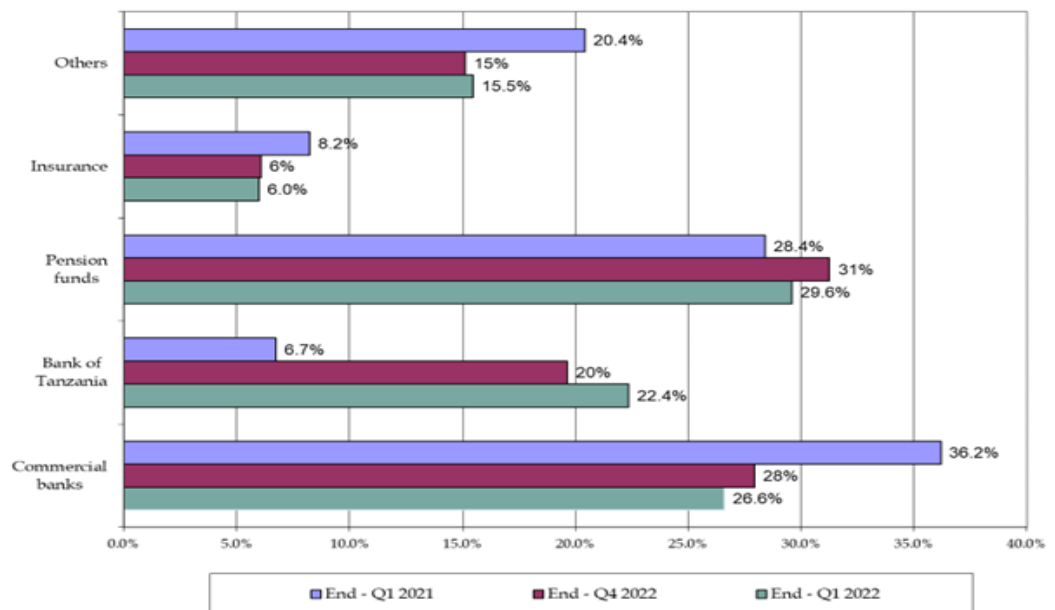
**Chart 2: Domestic Debt Stock by Instrument Category**



**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 1,421.49 billion (TZS 1,459.89 billion -FV) from the market out of which TZS 1,072.68 billion was from Treasury bonds and TZS 387.21 billion from Treasury bills. On the outturn, the government managed to raise TZS 1,113.42 billion (TZS 1,129.15 billion -FV) equivalent to 78.3 percent from the market out of which TZS 781.86 billion (TZS 587.16 billion -FV) was from Treasury bonds and TZS 331.56 billion (TZS 556.77 billion-FV) from Treasury bills .

On net basis for the period under review, the government managed to raise TZS 510.85 billion for financing the budget from the market and TZS 602.57 billion redeemed.

### **2.2.4 Costs and Risks of the 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 September 2022 stood at TZS 46,211.37 billion (USD 20,022.80 million) from TZS 46,550.32 billion (USD 20,163.00 million) recorded at end September 2021 which is a slight decrease by 0.73 percent. On quarter-to-quarter basis external Central Government debt decreased by 2.75 percent from TZS 47,519.20 billion (USD 20,520.80 million) recorded at end June 2022 (**Table 2**).

The profile shows that out of the Central Government external debt stock, Disbursed Outstanding Debt (DOD) were TZS 43,760.35 billion (USD 18,960.80 million) and TZS 2,463.22 billion (USD 1,062.00 million) were Interest Arrears.

**Table 2: Trend of Central Government external debt stocks in USD million**

	Sep-21	Jun-22	Sep-22
DOD	19,094.40	19,421.90	18,960.80
Interest arrears	1,068.60	1,098.90	1,062.00
Total	20,163.00	20,520.80	20,021.10

#### 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.

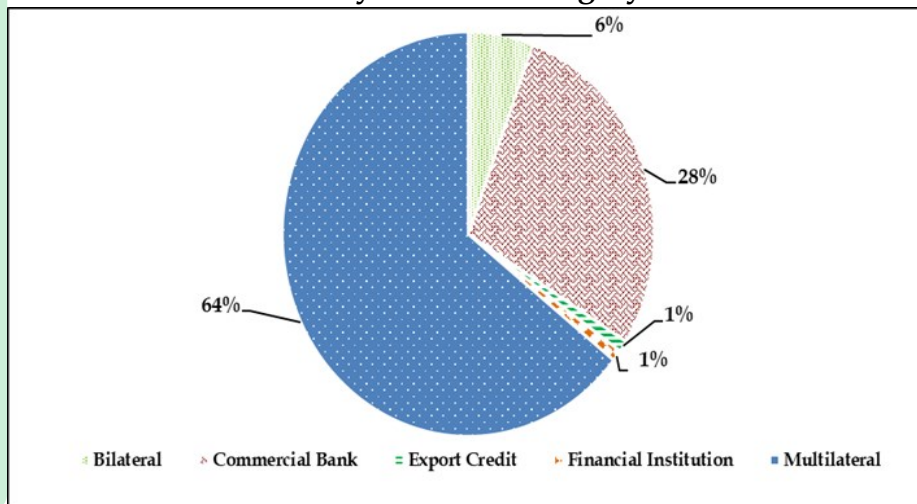
The slight decrease in the external Central Government debt decrease was due to principal repayment and less disbursement from external loans in the third quarter over quarter under reference.

### 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 September 2022, accounting for 64 percent of the external debt stock, followed by commercial creditors with 28 percent, bilateral creditors with 11.04 percent, export credit with 0.91 percent and Financial Institution shares portion of the remaining 0.83 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-concessional borrowings.

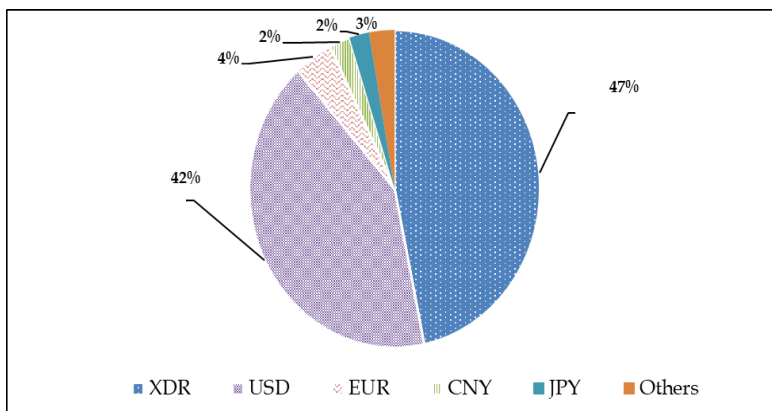
**Chart 4: External Debt by Creditor Category**



### 3.3.2 Currency Composition of External Debt

As at end September 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**



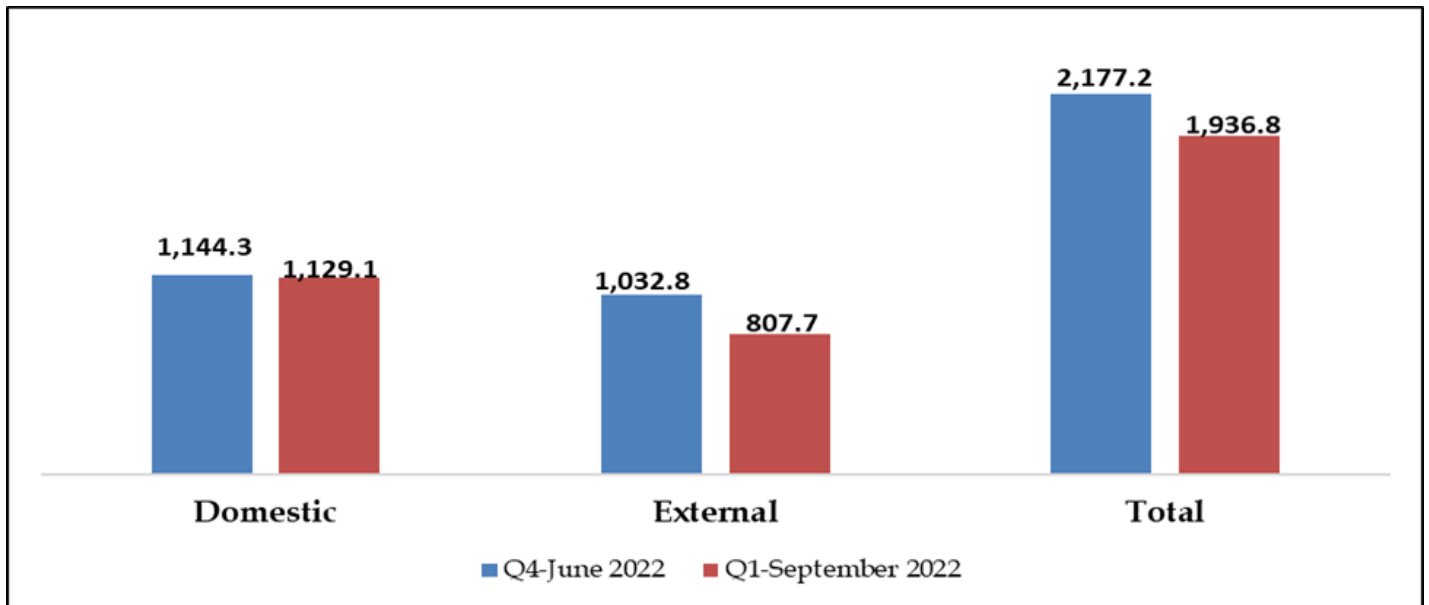
## 4.0 CENTRAL GOVERNMENT DEBT FLOWS

### 4.1 Central Government Debt inflows

The Central Government debt inflow during the quarter ended September 2022, amounted to TZS 1,936.83 billion. Out of that, a disbursement from External source was TZS 807.68 billion while from Domestic sources was TZS 1,129.14 billion. Central Government debt inflows decreased by TZS 240.35 billion from TZS 2,177.18 billion recorded in the fourth quarter ended June 2022 (**Chart 6**).

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

**Chart 6: Disbursements in TZS Billion**



### 4.2 Central Government Debt Outflows and Debt Servicing

During the quarter ended September 2022, Central Government debt outflow was TZS 1,407.85 billion out of which external principal repayment was TZS 208.36 billion and domestic principal repayment was TZS 602.57 billion. In terms of Interest payments, the debt service was TZS 596.91 billion of which TZS 76.24 billion was from the external side and TZS 520.67 billion was from the domestic side. **Table 5** shows the more detailed 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.

Table 3: Central Government Debt Outflows and Debt Servicing

Category	Q4 - June 2022		Q1-September 2022	
	TZS billion	% Of Total	TZS billion	% Of Total
<b>Domestic</b>				
Principal	969.24	62.12%	602.57	53.65%
Interest	590.91	37.88%	520.67	46.35%
Sub total	1,560.15	100%	1,123.24	100%
<b>External</b>				
Principal	824.54	80.70%	208.36	73.21%
Interest	197.22	19.30%	76.24	26.79%
Sub total	1,021.76	100%	284.60	100%
Total	2,581.92		1,407.85	

### 4.3 Net Flows on Debt

The analysis shows overall positive net flows of TZS 528.98 billion on debt for the quarter ending September 2022. Domestic side of the debt has recorded positive net flows of TZS 5.90 billion due to performance of government securities and the relatively lower amount of principal rollovers. The external debt portfolio recorded positive net flows on debt of TZS 523.08 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.

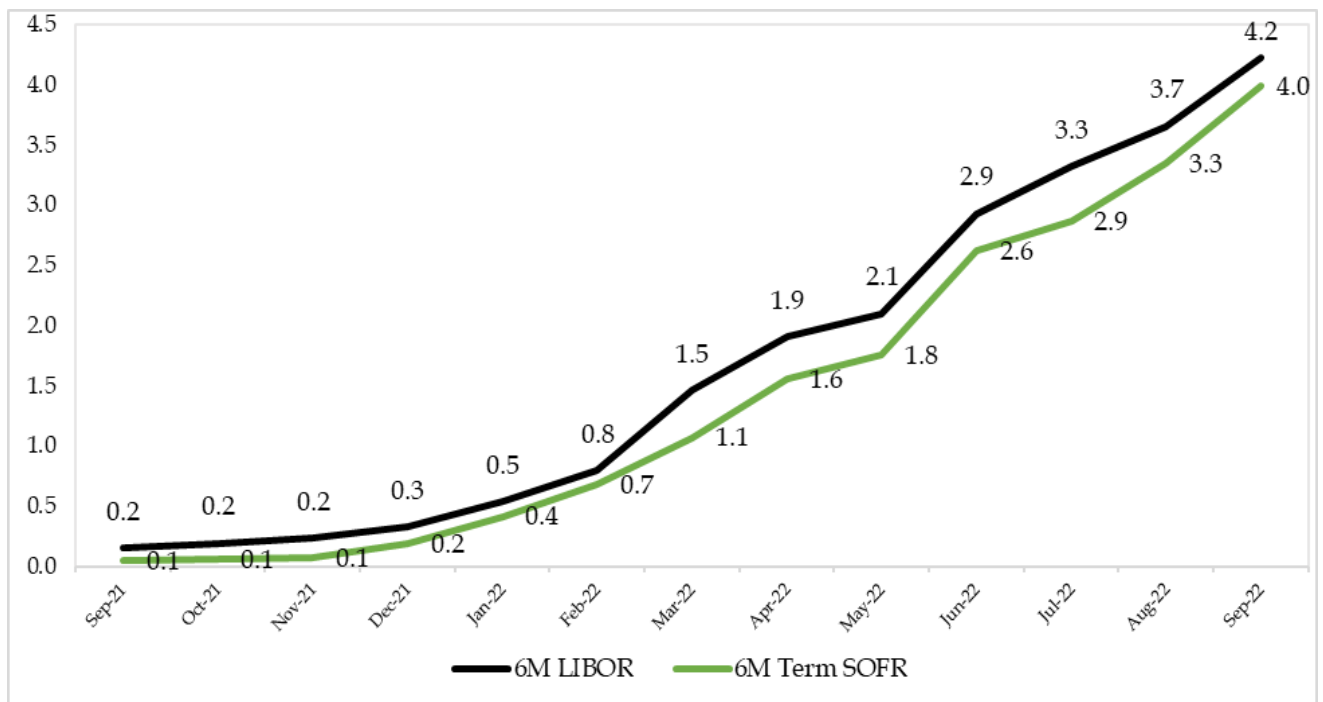


## 6.0 KEY DEVELOPMENTS ISSUES IN THE FIRST QUARTER OF 2022/23

### 6.1 REFERENCE RATES DEVELOPMENTS

As at end September 2022, the 6M LIBOR was 4.23 percent and 6M SOFR was 3.99 percent compared to 0.16 percent and 0.06 percent of 6M Libor and 6M SOFR respectively recorded at end September 2021. This translates to an increase of 4.07 percent and 3.93 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 external debt.

Chart 7: Reference Rates Developments



### 6.2.2 LEGAL FRAMEWORK

For the quarter ending September 2022, Debt Management Division held 3 TDMC meetings and 3 NDMC meetings in accordance with the Loans, Guarantees and Grants Act Cap. 134.