THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND PLANNING

TANZANIA NATIONAL DEBT SUSTAINABILITY ANALYSIS

NOVEMBER, 2021

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Abbreviations and Acronyms

AfCFTA	African Continental Free Trade Area
BoT	Bank of Tanzania
CI	Composite Indicator
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EAC	East African Community
ECA	Export Credit Agency
FDI	Foreign Direct Investment
FYDP	Five Year Development Plan
GDP	Gross Domestic Product
IDA	International Development Association
LIC-DSF	Debt Sustainability Framework for Low-Income Countries
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MoFP	Ministry of Finance and Planning
MTDS	Medium-Term Debt Management Strategy
PV	Present Value
WEO	World Economic Outlook

EXECUTIVE SUMMARY

The Debt Sustainability Analysis (DSA) is conducted in accordance with Regulation 38 (d) of the Government Loans, Guarantees and Grant Act, Cap. 134, which requires the Government to conduct DSA on annual basis. The main objective of the exercise is to evaluate the capacity of the country to meet its current and future debt obligations and guide the borrowing decisions in a way that balances gross financing needs with the ability to repay both in the present and in the future. The 2021 DSA has seen all external debt burden indicators continue to remain below the thresholds under the baseline, indicating that Tanzania's debt remains sustainable in the medium and long-term. However, country debt carrying capacity has been impacted by the negative effects of COVID-19 pandemic on growth of the economy and slowdown of exports attributable to sizable decline in tourism receipts, such that under extreme external shock scenario there is limited capacity for the country to service external debt.

The Tanzania Composite Indicator (CI) is 2.92 according to the IMF Country Report No. 21/213 of September 2021. According to the CI score, the county's debt-carrying capacity is reclassified from strong to medium performer, mainly attributed to the decline in CPIA and key macroeconomic variable such as GDP growth and exports of the country, and other external factor (world economic growth) due to negative effects of COVID-19. This poses significant uncertainties in case of sudden external shocks, leading a country to a vulnerable position in terms of macroeconomic management. This call for dedicated intervention to further promote exports, coupled with effective implementation of tailored policies for socio-economic recovery from the effects of the pandemic for a sustainable macro-economic performance over the medium-term. In addition, directing loans to projects with relatively higher rate of return is critical to also minimize primary balance shocks and reduce liquidity risks.

Specifically, the 2021 DSA results indicates that the present value (PV) of external public debt to GDP and PV of public debt to GDP ratios remain well below the threshold, at 18.8 percent and 31.8 percent compared with 40 percent and 55 percent threshold in 2021/22, respectively. This is supported by stable macroeconomic outlook, coupled with conducive government policies and streamlined debt management strategy. While solvency seem to be good, as indicated by the level of debt to GDP in present value terms, the current debt level is sensitive to exports and domestic revenue performance, indicating that the country has limited space to absorb extreme liquidity shocks. In this regard, the Government aims at pursuing both stronger revenue mobilization measures and expenditure rationalization, which are key to the sustenance of fiscal buffers over the medium-term. This also calls for a cautiously monitoring of Governments external borrowing by continuing to maximize from a blend of concessional loans from both multilateral and bilateral official lenders and semi-concessional loans from Export Credit Agencies (ECAs) in the short to medium term horizon.

In 2021 and beyond, the macroeconomic conditions are projected to sustain positive recovery path, with GDP projected to grow around 5 percent or above, benefiting from ongoing recovery of the global economy, supportive fiscal and monetary policies, and public investment. In the medium-term, growth is projected to gradually pick-up to around 6 percent. In the first half of 2021, the economy grew by 4.7 percent, slightly below 5 percent registered in the corresponding period of 2020 due to negative effects of COVID-19 on trade and investment. Inflation is expected to remain within the target range of 3-5 percent over the short- to medium-term, however upward risks remain attributable to rising global oil prices and projected below normal rains. Overall fiscal deficit is projected at 2.5 percent of GDP in 2021/22, consistent with the Governments rollout of measures to address COVID-19 related challenges and support the ongoing public investment, and it thereafter normalize to around 2 percent of GDP over the medium-term. Current account deficit is expected to record a relatively higher deficit of 4.0 percent of GDP in 2021/22, from a deficit of 2.1 percent in 2020/21, owing to expected increase of imports partly to address socio-economic effects of

COVID-19 and due to rise in global oil prices. The current account deficit will thereafter evolve around 2.5 percent of GDP over the medium-term occasioned by expected recovery to the tourism sector as global economy reopens, complemented by Government policy reform agenda in support of industrialization, agri-business and further improving doing business environment. Foreign Direct Investment (FDI) inflows are projected to be about 1.5 percent of GDP in the medium-term.

Chapter 1 : INTRODUCTION

1. The Government of Tanzania conducted Debt Sustainability Analysis (DSA) in line with Regulation 38 (d) of the Government Loans, Guarantees and Grant Act, Cap. 134, to ensure that Government debt continues to be sustainable in the medium to long-term and prospective new external and domestic borrowing consistent with macroeconomic framework. The exercise intended to assess the current and future debt levels, together with the ability to meet debt service obligations without jeopardizing economic growth and development. The 2021 DSA exercise was conducted with officials from the United Republic of Tanzania in collaboration with Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

2. The 2021 DSA used Low-Income Countries Debt Sustainability Framework (LIC-DSF) which assesses the trend of various debt indicators under different macroeconomic scenarios to inform policy decisions and design appropriate measures to maintain the public debt within acceptable levels. The debt data used for 2021 DSA comprised of public and publicly guaranteed external and domestic debt, as well as private sector external debt. The analysis covers 10 years historical data and 20 years projections, using 2020/21 as base year and 2021/22 as first year of projection.

3. The 2021 DSA considered the implementation of the Five-Year Development Plan III (FYDP III) which focuses on intensifying the thrust of the previous plans to sustain industrialization, further structural transformation of the economy and enhance the utilization of the country's unique geographical advantage to spur exports growth and trade competitiveness in the domestic, regional, continental and global markets. The exercise also took into account the Government commitment to mobilize domestic revenues and external resources to finance strategic projects including construction of Standard Gauge Railway (SGR) and Julius Nyerere Hydropower Power Plant (JNHPP).

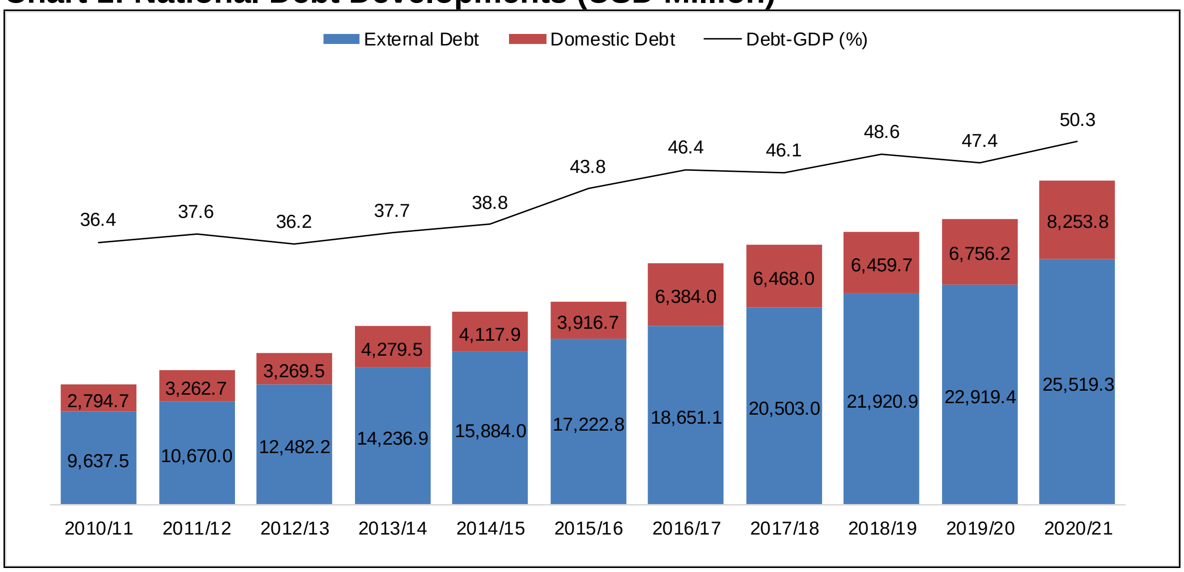
4. Furthermore, the 2021 DSA takes into account recovery of both domestic and global economy from the effects of COVID-19 pandemic due to rollout of vaccination by many countries as well as the ongoing recovery of travel activities across countries that could further boost export and tourism sector in Tanzania.

Chapter 2 : DEBT PORTFOLIO REVIEW

2.1 National Debt Developments

5. National debt stock (public and private) depicted an upward trend for the last decade, reaching USD 33,773.1 million at end of June 2021 (50.3 per cent of GDP in nominal terms). Out of this, external debt (public and private) was USD 25,519.3 million, equivalent to 38.0 percent of GDP, and domestic debt was USD 8,253.8 million, equivalent to 12.3 percent of GDP (**Chart 1**). The increase in the National debt is mainly attributed to implementation of development projects by the Government and expansion of the private sector which raises the need for new financing.

Chart 1: National Debt Developments (USD Million)



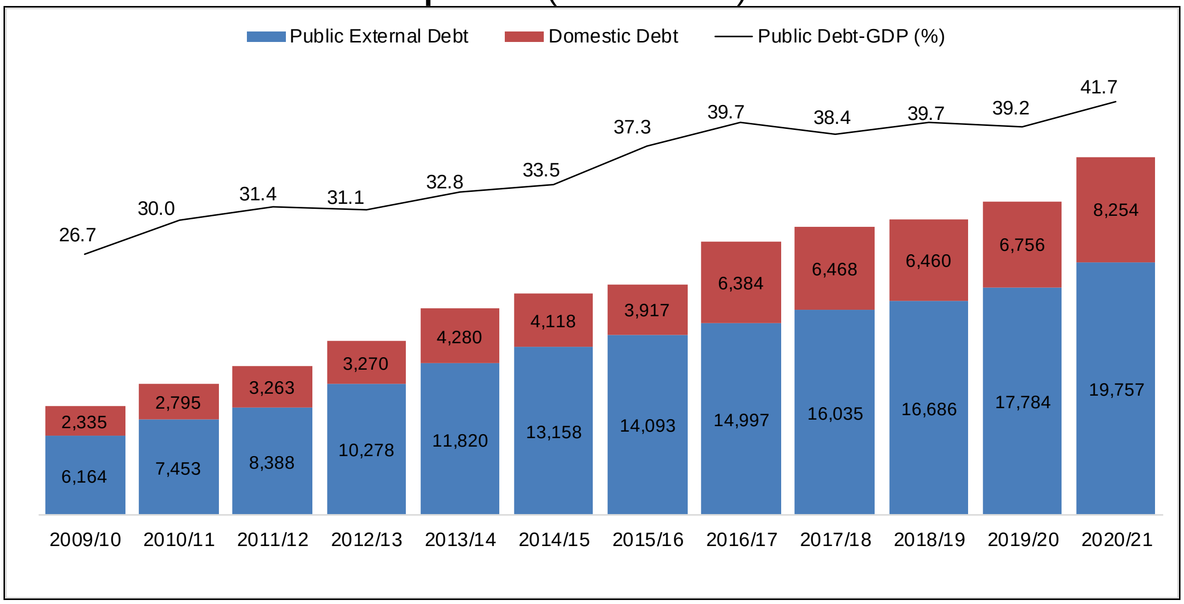
Source: Ministry of Finance and Planning, and Bank of Tanzania

2.2 Public Debt Developments

6. Public debt stock as at June 2021 was USD 28,011.2 million (41.7 per cent of GDP) compared with USD 24,539.9 million (39.2 percent of GDP) in June 2020. The increase in debt levels was mainly due to implementation of Five-Year Development Plan which among others focus on execution of strategic infrastructure projects. Out of total public debt stock, external public debt was

USD 19,757.4 million, equivalent to 29.4 percent of GDP and domestic debt was USD 8,253.76 million equivalents to 12.3 percent of GDP (**Chart 2**).

Chart 2: Public Debt Developments (USD million)

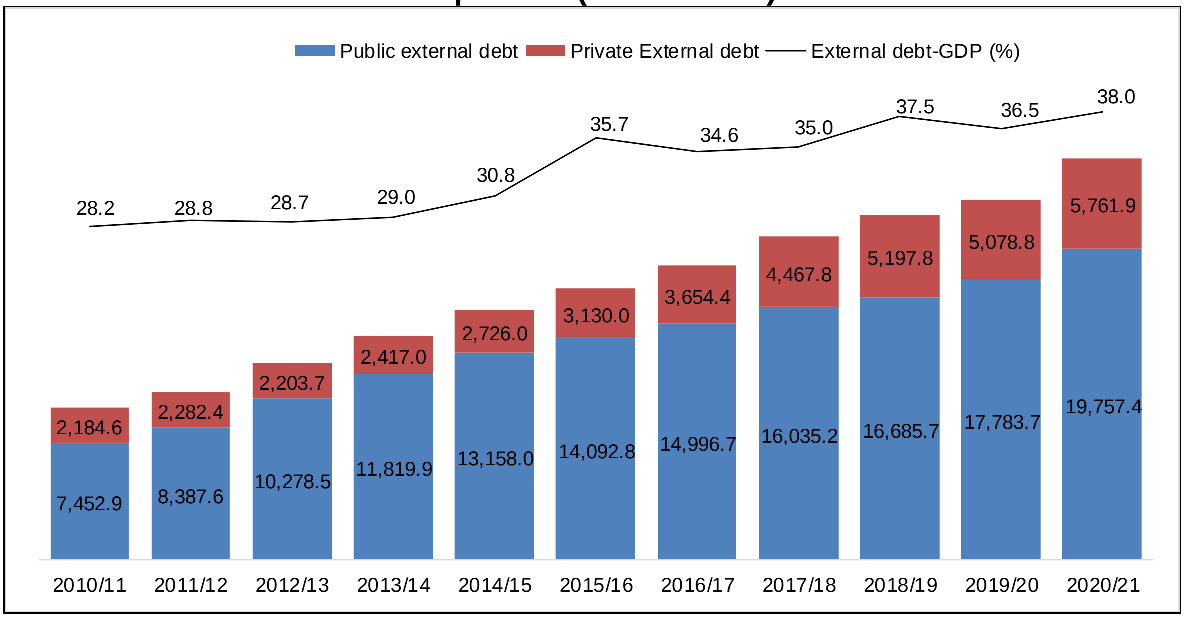


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.3 External Debt Developments

7. The stock of external debt, comprising of public and private sector amounted to USD 25,519.3 million at the end of June 2021, which is an increase of USD 2,656.8 from the stock recorded in a previous year. Out of the total, external public debt was USD 19,757.4 million and private sector debt was USD 5,761.9 million (**Chart 3**).

Chart 3: External Debt Developments (USD million)

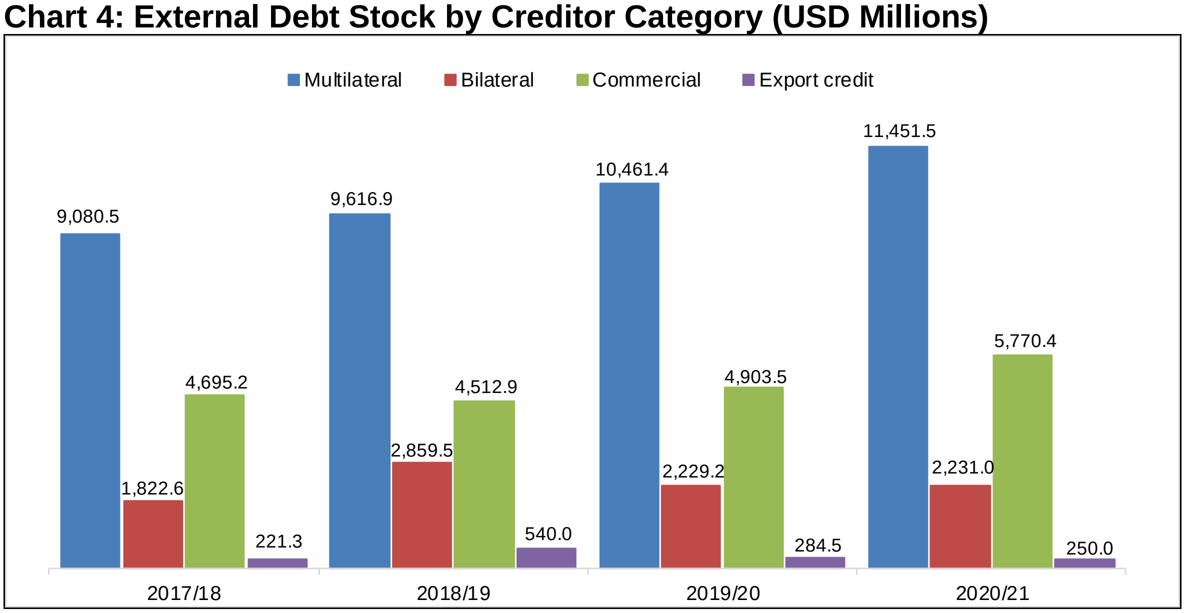


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.3.1 External Debt Stock by Creditor Category

8. The composition of total external debt by creditor category as at June 2021 continued to be dominated by multilateral institutions and commercial creditors, accounting for 46.4 percent and 34.0 percent, respectively **(Chart 4)**.

Chart 4: External Debt Stock by Creditor Category (USD Millions)

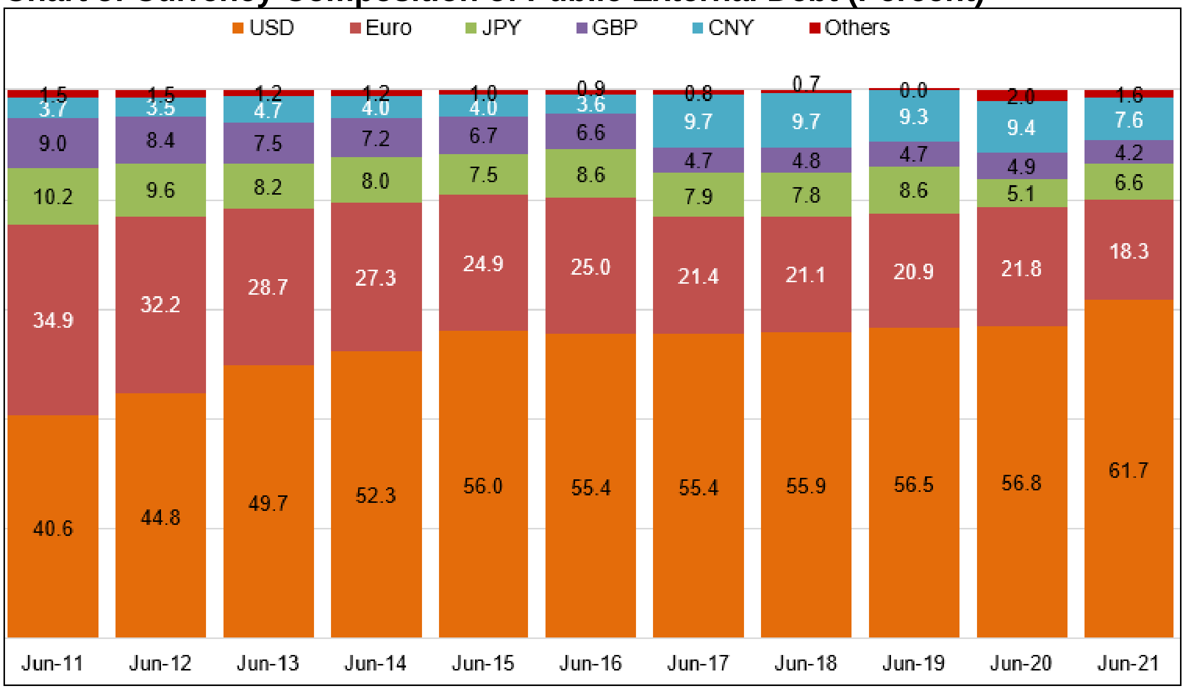


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.3.2 External Public Debt by Currency Composition

9. The USD remained a dominant currency in the outstanding external public debt covering 61.7 percent, followed by Euro accounting for 18.3 percent as at June 2021 (**Chart 5**). This shows that the debt portfolio is more exposed to USD exchange rate risk.

Chart 5: Currency Composition of Public External Debt (Percent)

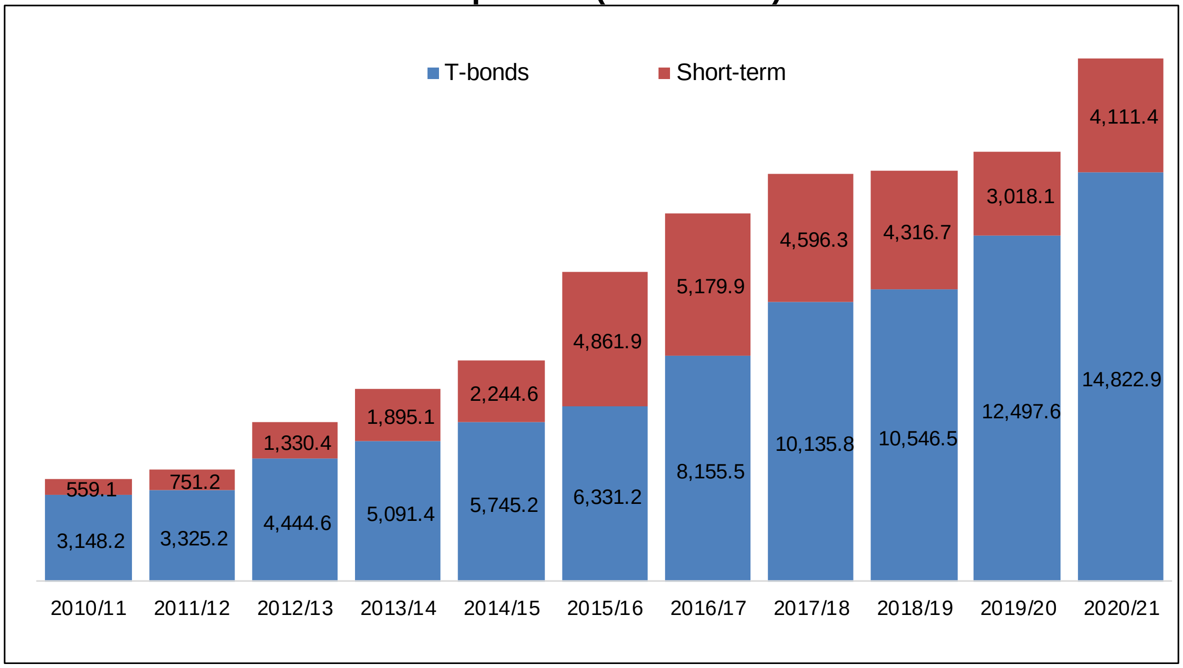


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.4 Domestic Debt Developments

10. Stock of domestic debt was TZS 18,934.3 billion as at end June 2021, up from TZS 15,515.7 billion recorded at end June 2020**.** Treasury bond continue to dominate, accounting for 78.2 percent, consistent with implementation of Government's strategy of lengthening maturity profile of domestic debt through issuance of long-term instruments **(Chart 6)**.

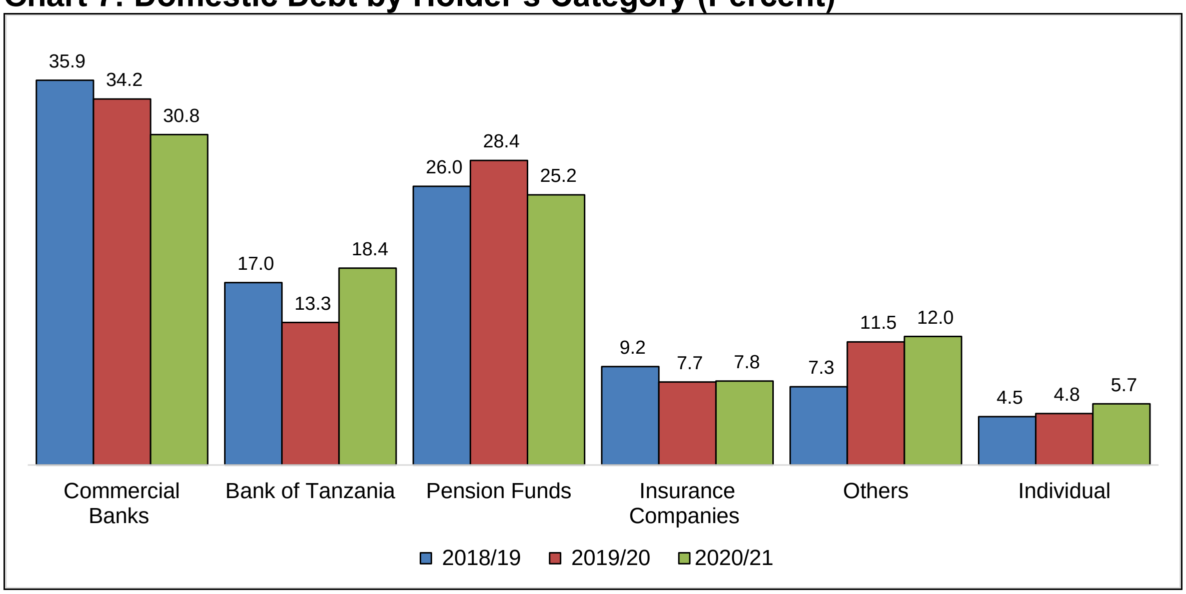
Chart 6: Domestic Debt Developments (TZS Billion)



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

11. Commercial banks remained the leading holder, accounting for 30.8 percent of total domestic debt, followed by pension funds, which accounted for 25.2 percent and the Bank of Tanzania at 18.4 percent (**Chart 7**).

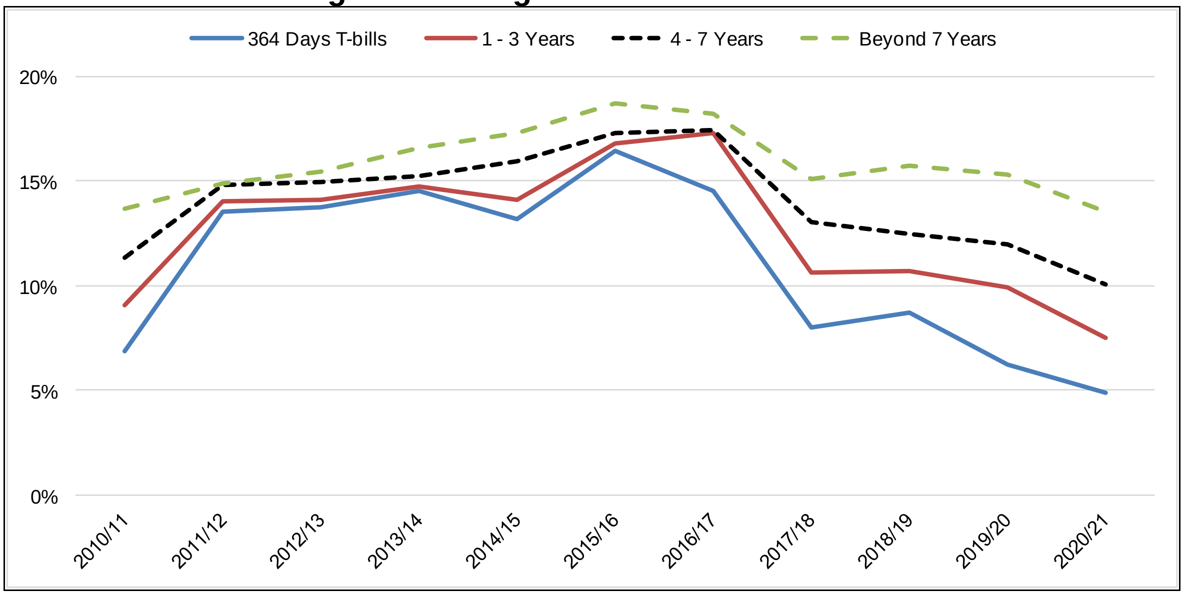
Chart 7: Domestic Debt by Holder's Category (Percent)



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

12. Yields on Government securities continued to record a downward trend, particularly in the last four years, backed by prudent monetary and fiscal policies, as well as increasing demand for long term securities. This development has been also supported by initiatives taken to increase investors' participation including awareness campaigns, market leaders' forum and continuous listing of bonds in Dar es Salaam Stock Exchange (DSE) (**Chart 8**).

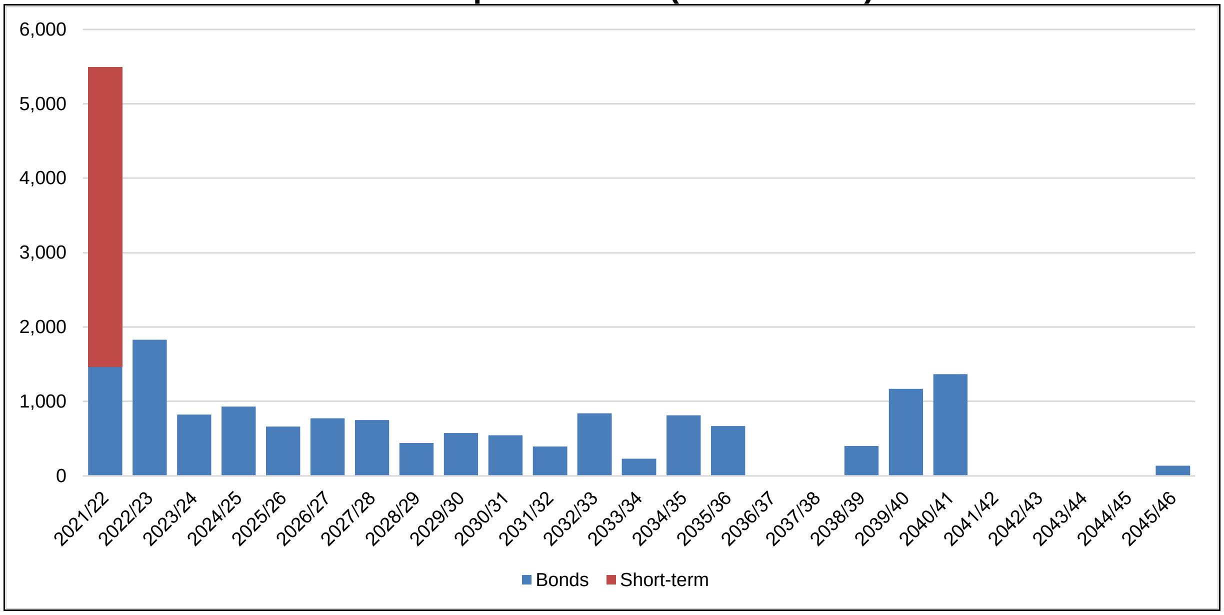
Chart 8: Trend of Weighted Average Yields for Government Securities



Source: Ministry of Finance and Planning and Bank of Tanzania

13. Domestic debt redemption profile depicts that a large proportion matures in the next twelve months, owing to repayment of short-term obligations. The introduction of 25-year Treasury bonds will extend the redemption profile to 2045/46 (**Chart 9**).

Chart 9: Domestic Debt Redemption Profile (TZS Billions)

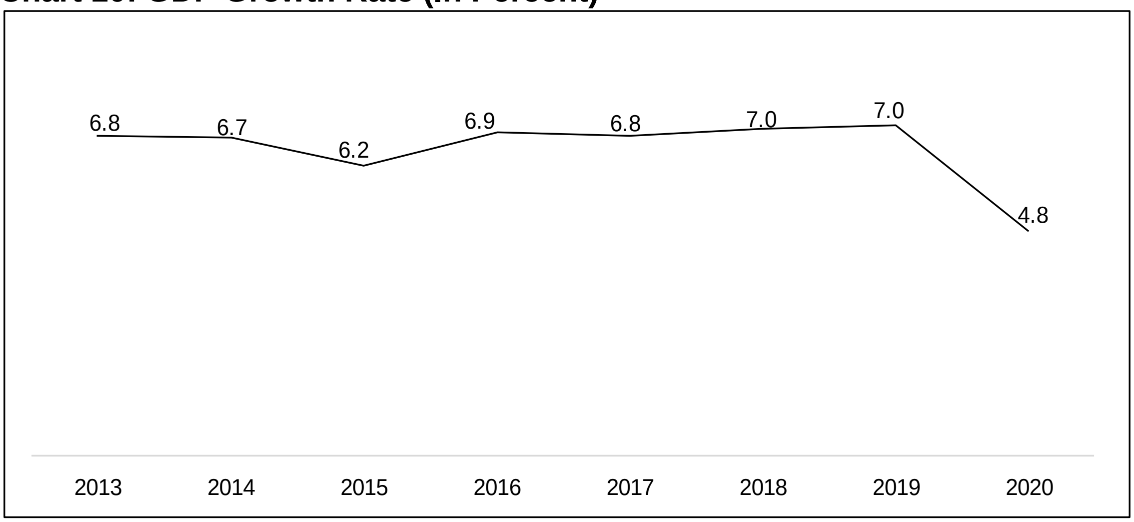


Source: Ministry of Finance and Planning, and Bank of Tanzania.

Chapter 3 : RECENT ECONOMIC DEVELOPMENTS

14. In 2020, the economy grew by 4.8 percent compared with the target growth of 5.5 percent and pre-pandemic average growth rate of 6.7 percent during 2015–2019. The recent slow growth trends are mainly attributed to negative effects of COVID-19 on businesses and investment, and measures pursued by major trading partners to contain the spread of the pandemic that disrupted global supply chain **(Chart 10)**. In the first half of 2021 the economy grew by an average of 4.7 percent compared to 5.0 percent registered in the corresponding period of 2020.

Chart 10: GDP Growth Rate (In Percent)



Source: National Bureau of Statistics

15. In 2020/21, headline inflation remained subdued, averaging 3.3 percent, down from 3.5 percent registered in the previous year. The decrease was on account of adequate domestic food supply, stable exchange rate, stable power supply, coupled with implementation of prudent fiscal and monetary policies. The recorded inflation remained low and within the country's medium-term target of 5.0 percent, as well as within EAC and SADC convergence criteria of 8.0 percent and 3 – 7 percent, respectively. Meanwhile, in the first four months of 2021/22, inflation has been slowly rising, but remained within the target range

of 3-5 percent, reaching 4.0 percent in October 2021, from 3.6 percent in June 2021, mainly due to supply side factors and rising global oil prices.

16. Despite challenges associated with COVID-19 pandemic, the Government continued to rationalize its fiscal policy by strengthening measures to improve revenue collection and streamlining expenditure by allocating funds to priority areas that stimulate growth and improve provision of social services. Owing to the impacts of the pandemic, domestic revenue has slightly declined in 2020/21 compared with 2019/20, while expenditure was largely in support of development projects to sustain high economic growth. During the period, total domestic revenue collection (including LGAs own source) was 85.6 percent of the target, a decrease of 2.2 percent compared with the amount collected in 2019/20. The shortfall in revenue collection was mainly attributed to the impacts of COVID-19 on economic activities. In 2020/21 Government expenditure reached 89.3 percent of the estimates. Recurrent expenditure was 93.3 percent of the target, while development expenditure was 82.4 percent of the target during the period. The implementation of development projects was financed by domestic and foreign loans.

17. The overall fiscal deficit was 3.4 percent of GDP in 2020/21, compared with estimated budget deficit of 2.6 percent of GDP and the 2019/20 deficit of 1.4 percent of GDP. The increase in fiscal deficit was largely explained by decline in domestic revenue and grants, following the adverse effects of COVID-19 pandemic.

18. External sector exhibited modest performance in 2020/21, amidst challenges associated with COVID-19. The effects were moderated by a diversified economic structure, with a wide range of exports. The current account deficit widened to USD 1,473.2 million from a deficit of USD 1,213.8 million recorded in 2019/20, largely due to decline in tourism receipts, which more than offset the increase in export of gold. The overall balance of payments was a surplus

of USD 44.5 million in 2020/21, compared to a surplus of USD 754.9 million recorded in preceding year, reflecting relatively low external financial inflows.

19. Foreign exchange reserves remained adequate, amounting to USD 5,209.8 million at the end June 2021, sufficient to cover 6.1 months of projected imports of goods and services. The import cover was above the country benchmark of at least 4 months, EAC 4.5 months and SADC convergence criteria of 6.0 months, which provides buffer against external shocks.

20. In 2020/21, money supply responded to sustained accommodative monetary policy consistent with the continued need to improve credit flows to the private sector, which provides conducive environment for recovery of economic activities from adverse effects of COVID-19. Consequently, extended broad money supply (M3) expanded at an average rate of 11.6 percent compared with 9.5 percent registered in the year ending June 2020. In addition, credit to the private sector recorded a growth of 3.6 percent in 2020/21, lower than 5.5 percent registered in 2019/20, owing to subdued demand for new loans, following the adverse effects of the COVID-19 pandemic on some domestic businesses. Private sector credit growth is expected to recover further owing to ongoing normalization of the global economy and measures adopted by the Government to promote credit intermediation.

Chapter 4 : UNDERLYING DSA ASSUMPTIONS

4.1 Macroeconomic assumptions

21. ***Economic Growth***: In 2021, GDP is project to grow by 5.0 percent compared with previous projection of 5.6 percent. The downward revision of projected growth is on account of poor performance of some leading economic indicators. In the medium-term (2022-2026), the economy is projected to grow at an average of 5.7 percent. The projected growth is subject to successful implementation of Five-Year Development Plan (FYDP) - III that seeks to promote policy stability and favourable performance in the key macroeconomic variables, including inflation rate, exchange rate, interest rate, balance of payments, fiscal deficit and external debt. These factors will accelerate exports, economic growth, hence inclusive human development.

22. The Government's efforts to provide COVID-19 vaccination, payment of arrears as well as enhanced efficiency in revenue collection and expenditure management will provide impetus to the projected growth in the medium term. In addition, expected recovery of the global economy and supportive monetary policy pursued by the Bank of Tanzania through deliberate measures to improve credit to the private sector, are expected to have positive impact on growth. The flagship projects under FYDP - III which support the underlying assumptions in medium-term includes:
    i. Construction of Standard Gauge Railway;
    ii. Revamping the Air Tanzania Company Limited - ATCL;
    iii. Construction of Julius Nyerere Hydropower Project (JNHPP) – 2,115 MW;
    iv. Construction of Liquefied Natural Gas Plant (LNG);
    v. East African Crude Oil Pipeline (EACOP);
    vi. Construction of Large Bridges and Flyovers;
    vii. Implementation of Agricultural Sector Development Program II (2017/18 – 2022/23); and

viii. Development of Special Economic Zones (SEZs) and Export Processing Zones (EPZs).

23. ***Headline Inflation***: The rate of inflation is projected to remain within the medium-term target of 5.0 percent, consistent with the EAC and SADC convergence criteria of not more than 8.0 percent and between 3.0 to 7.0 percent, respectively. The low and stable inflation forecast is attributed to reduction of production costs on account of reliable and affordable power supply emanating from increase in gas and hydroelectric power generation, prudent fiscal and monetary policies and stable exchange rate. However, upward risk on inflation remains, occasioned by forecasted below normal rains between November 2021 and April 2022 in most of the unimodal areas. This might affect the *vuli* harvests and hence put upward pressure on food prices and inflation.

24. ***Fiscal policy***: The Government will continue to implement prudent fiscal policy by improving domestic resource mobilization and effective control of public expenditure. The Government intends to reduce revenue leakages by implementing a number of measures including emphasizing the use of ICT systems; and formalizing the informal sector. On the other hand, the Government intends to control public expenditure by allocating funds to productive sectors with higher multiplier effects on the economy. Owing to the mentioned strategies and the expected global economic recovery, domestic revenue is projected to increase to 14.8 percent of GDP in 2021/22 and continue to increase to an average of 15.4 percent of GDP in the medium term (2022/2023 - 2026/27) from the average performance of 14.2 percent between 2016/17 and 2020/21. Likewise, expenditure is projected to increase to an average of 17.9 percent of GDP in the medium term from 16.8 percent recorded between 2016/17 and 2020/21.

25. The overall fiscal deficit (including grants) is projected at 2.4 percent of GDP in 2021/22 compared to budget estimates of 1.8 percent of GDP, explained by

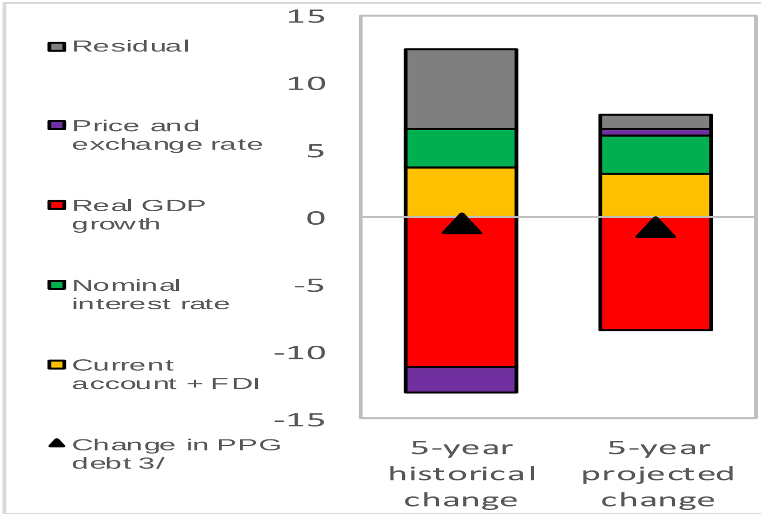
ongoing effects of COVID-19 on domestic revenue owing to sluggish performance of some businesses and investment. Over the medium term, deficit is projected to be around 2.0 percent of GDP in line with the EAC convergence criteria of not exceeding 3.0 percent of GDP. Decline in fiscal deficit is on account of expected improvement in domestic revenue collection, as well as the completion of key infrastructure projects.

26. ***Current account balance*:** The current account balance is projected to remain sustainable in the medium-term, with slight increase in imports relative to exports. The current account deficit is projected to widen from 2.1 percent of GDP recorded in 2020/21 to an average of 4.0 percent of GDP in 2021/22 and thereafter narrowed to an average of 2.5 percent of GDP in the long run. The medium-term projection is supported by the following underlying assumptions: completion of strategic projects such as SGR, JNHPP, ATCL will ease the import bill particularly on capital goods, enhance industrialization strategy and investment; recovery of tourism sector; and positive growth of non-traditional exports supported by minerals and horticultural products.

4.2 Debt Developments and Realism of Projections

27. The projections of both macroeconomic and debt variables in the 2021 DSA are not much different from the previous DSA projections. The main drivers that might increase external debt in the next 5 years are current account deficit and nominal interest rate (**Chart 11)**. Real GDP growth is projected to decrease the external debt in the five years. The projection is in line with the historical performance on the debt creating flows whereby the increase in external debt was attributed by current account and nominal interest rate, whereas real GDP growth decreased the same. The current projection shows that residuals are fairly low in terms of contribution to the debt creating flows which implies that most of the factors are well captured.

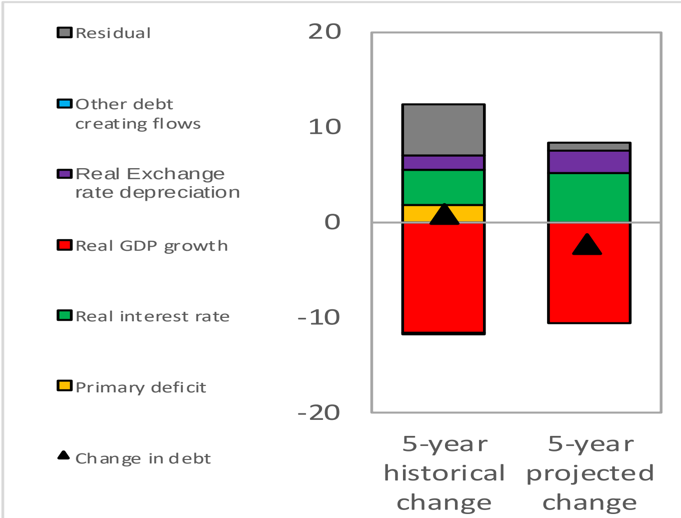
Chart 11: Drivers of External Debt Dynamics- Baseline



Source: Ministry of Finance and Planning

28. On the public DSA, accumulation of public debt in the past five years was mainly attributed to primary deficit and real exchange rate depreciation. The impact of these variables was partly mitigated by strong performance of GDP growth. Primary fiscal deficit had contributed to the increase in public debt in the historical period. Reflecting the envisaged fiscal consolidation, which will result in sustained fiscal primary surpluses in the medium term, the contribution of the primary deficit to debt will be much reduced in the projection period as shown in (**Chart 12**).

Chart 12: Drivers of Public Debt Dynamics- Baseline

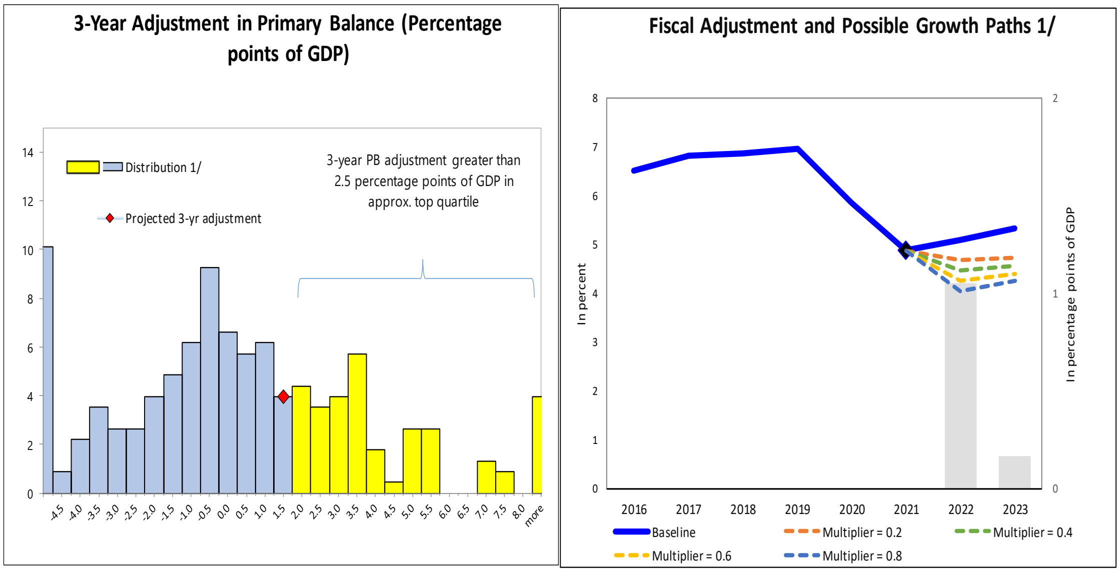


Source: Ministry of Finance and Planning

29. The projected three years' fiscal adjustment falls within the acceptable range for comparable Low-Income Countries (LICs) that have conducted fiscal adjustments in recent times (**Chart 13**). In 2022/23, the projected growth of 5.3 percent is higher than the 4.6 percent implied by the typical low-income country fiscal multiplier fiscal multiplier of 0.4[1]. This is in line with the growth experience of Tanzania which had historical been above the average of Sub-Saharan African countries and that of other low-income countries. In addition, the deviation between growth rate is mainly caused by realization of the significant multiplier effects of ongoing implementation of strategic projects and measures taken to combat COVID-19 including vaccination programs.

[1] The fiscal multiplier is the historical observed change in growth in low-income countries as a result of fiscal adjustment.

Chart 13: Tanzania Realism Tools



Source: Ministry of Finance and Planning

4.3 New Financing Assumptions

30. **External financing** projections in the 2021 DSA are based on the potential sources of financing; five years' historical trend of loans; undisbursed amount of contracted loans; new and pipeline loans from Export Credit Agencies (ECAs) and concessional sources. The assumptions are also aligned with Government's Medium-Term Debt Management Strategy (MTDS).

31. In the medium term, the Government will continue to prioritize mix of financing from concessional and semi-concessional sources. The preference will be on concessional loans from multilateral and bilateral creditors and the remaining shortfall in financing needs will be mainly covered by semi-concessional loans from ECAs. All commercial loans (including Eurobonds) will be directed to the strategic infrastructure projects which have high multiplier effects to the economy and boost export.

32. **Domestic financing**, according to the MTDS, the Government will continue to borrow from domestic market so as to develop the financial market and minimize foreign exchange rate risk. In doing so, the Government assumes that:

i. Net Domestic Financing will be maintained at around 1 percent of GDP in the medium term (2021/22 to 2025/26), decrease to around 0.75 percent from 2026/27 to 2030/31 and thereafter maintained at around 0.5 percent from 2031/32 throughout the projection period to avoid crowd out effect to private sector;

ii. 364-days Treasury bills and long-term instruments will be used for financing purpose;

iii. The debt instruments will be rolled over at maturity while interest will be paid through Government revenue;

iv. Maturing non-marketable instruments will be rolled over into marketable securities;

v. Short term borrowings for 2021/22 will be at 32 percent of the gross borrowing and will gradually decrease to 30 percent in 2027/28 and thereafter maintained at 28 percent throughout the projection period (**Table 1**); and,

Table 1: Domestic financing strategy

	2021/22 – 2026/27	2027/28 – 2031/32	2032/33 – 2036/37	2037/38 – 2041/42
364 Days T-bills	32%	30%	28%	28%
Bonds (1 to 3 years)	9%	10%	11%	11%
Bonds (4 to 7 years)	12%	13%	14%	14%
Bonds (beyond 7 years)	47%	47%	47%	47%

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

vi. Yields are projected to rise slightly in the medium term and thereafter remain constant across maturity spectrum (**Table 2).**

Table 2: Yield assumptions in the medium term

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
364 Days T-bills	6.0%	6.0%	6.0%	6.0%	6.5%	6.5%
Bonds (1 to 3 years)	8.0%	8.0%	8.5%	8.5%	9.5%	9.5%
Bonds (4 to 7 years)	10.0%	10.0%	10.5%	10.5%	11.5%	11.5%
Bonds (beyond 7 years)	14.0%	14.0%	14.0%	14.0%	14.5%	14.5%

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

Chapter 5 : DSA METHODOLOGY AND RESULTS

5.1 Methodology

33. The 2021 DSA applied the LIC-DSF and indicative debt burden thresholds which are based on the Composite Indicator[2] (CI). The CI is computed using country-specific information that includes the Country Policy and Institutional Assessment (CPIA) and relevant macroeconomic variables, specifically: real GDP growth, foreign exchange reserves, remittances and world economic growth.

34. The LIC-DSF assesses the risk of debt distress by comparing the evolution of debt burden indicators against predetermined thresholds that are set according to countries' debt carrying capacities. Solvency and liquidity thresholds of debt burden indicators are summarized in **Table 3**.

Table 3: Indicative Debt Burden Thresholds

Category	Composite Indicator Range	PV of external debt in percent of		External Debt service in percent of		PV of public debt in percent of
		GDP	Exports	Exports	Revenue	GDP
Weak	CI < 2.69	30	140	10	14	35
Medium	2.69 ≤ CI ≤ 3.05	40	180	15	18	55
Strong	CI > 3.05	55	240	21	23	70

Source: International Monetary Fund (2021)

35. The CI for Tanzania according to IMF Country Report No. 21/213 of September 2021 is 2.92. Based on the CI score, the county's debt-carrying capacity is reclassified from strong to medium performer **(Table 4)**. The reclassification of the country to medium performer is mainly attributed by the decline in CPIA and key macroeconomic variable such as GDP growth and exports of the country, and other external factors (world economic growth).

[2] An index used to measure the country's debt carrying capacity.

Table 4: Composite Indicator Table for Tanzania

Components	Coefficients (A)	10-year average values (B)	CI-Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.539	1.36	47%
Real growth rate (%)	2.719	5.108	0.14	5%
Import coverage of reserves (%)	4.052	42.413	1.72	59%
Import coverage of reserves^2 (%)	-3.990	17.989	-0.72	-24%
Remittances (%)	2.022	0.043	0.00	0%
World economic growth (%)	13.520	3.078	0.42	14%
Composite Indicator Score			**2.92**	100%
Composite Indicator rating			**Medium**	

Source: International Monetary Fund /World Bank (2021)

36. The recent trends in CI for the country shows some recovery from April 2021 World Economic Outlook (WEO) update of 2.92 to 2.97 in WEO October 2021 update. If the current trend is maintained Tanzania would quickly revert back to its strong CI rating in the short term.

5.2 DSA Results and Analysis

5.2.1 External Public Debt Burden Indicators under Baseline Scenario

37. The solvency indicators show that Present Value (PV) of external public debt to GDP is projected at 18.8 percent in 2021/22 and will slightly decrease to 18.5 percent in 2025/26 and afterwards will increase to 20.2 percent by 2031/32, all below the threshold of 40 percent. Likewise, the PV of external public debt-to-exports is projected to decline from 132.9 percent in 2021/22 to 96.9 percent in 2025/26 and thereafter decrease to 95.6 percent by 2031/32, well below the threshold of 180 percent.

38. The liquidity indicators show that the ratio of debt service to exports is projected to decrease from 14.9 percent in 2021/22 to 9.2 percent in 2025/26 and 9.4 percent in 2031/32, which is below the threshold of 15 percent. The debt service to revenue is projected to decline from 14.2 percent in 2021/22 to 11.3 percent in 2025/26 and increase to 12.1 percent by 2031/32, also below the threshold of 18 percent (**Table 5**).

Table 5: External Public Debt Sustainability Indicators

External DSA	Threshold	2020/21[3]	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2031/32
PV of debt-to GDP ratio	40	18.8	18.8	18.7	18.8	18.8	18.5	18.4	20.2
PV of debt-to-exports ratio	180	142.4	132.9	117.4	108.5	102.8	96.9	93.7	95.7
Debt service-to-exports ratio	15	14.8	14.9	11.5	9.4	9.2	9.2	7.7	9.4
Debt service-to-revenue ratio	18	14.6	14.2	12.1	10.6	10.9	11.3	9.6	12.1

Source: Ministry of Finance and Planning

5.2.2 Public Debt Burden Indicators Under Baseline Scenario

39. The DSA results for public (external and domestic) debt indicate that the projected PV of debt to GDP will decrease from 31.8 percent in 2021/22 to 29.4 percent in 2025/26 and then increases to 33.0 percent by 2031/32. The ratio, therefore, remain below the benchmark level of 55 percent throughout the projection period.

40. The PV of public debt-to-revenue and grant is projected to decrease from 206.2 percent in 2021/22 to 181.8 percent in 2025/26 and thereafter increases to 199.3 percent by 2031/32. The ratio of debt service to revenue and grants is projected to decrease from 32.4 percent in 2021/22 to 23.0 percent in 2025/26 and increase to 26.3 percent in 2031/32 (**Table 6**).

Table 6: Public Debt Sustainability Indicators

Public DSA	Threshold	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2031/32
PV of debt-to GDP ratio	55	31.0	31.8	31.8	31.5	30.7	29.4	29.0	33.0
PV of debt-to-revenue and grant ratio	N/A	224.9	206.2	201.9	198.3	191.8	181.8	179.4	199.3
Debt service-to-revenue and grant ratio	N/A	36.2	32.4	31.2	27.4	25.6	23.0	20.6	26.3

Source: Ministry of Finance and Planning

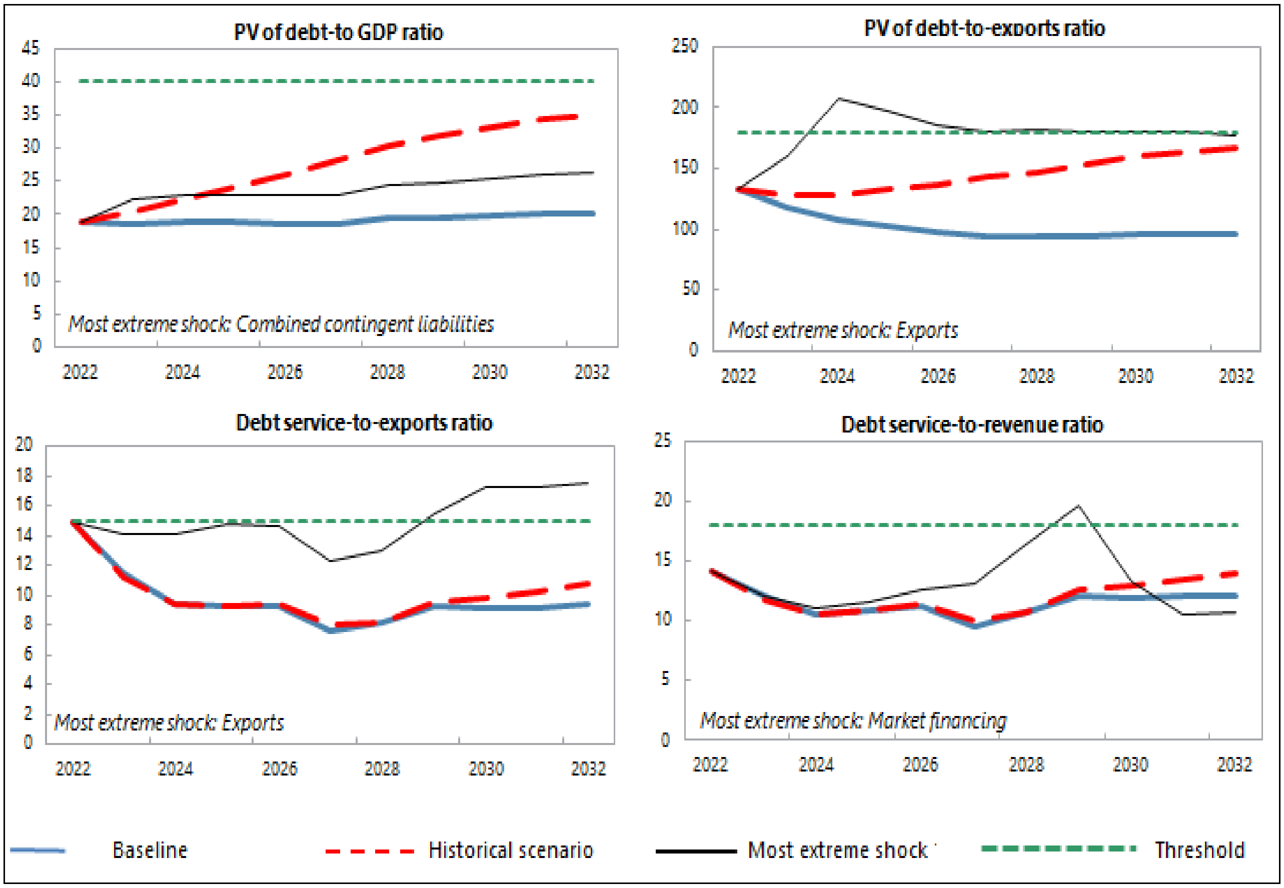
5.2.3 External Public Debt Burden Indicators Under Stress Scenario

41. Under stress scenario, PV of external public debt to GDP is projected at 24.5 percent in 2027/28 and 26.4 percent in 2031/32, which is below the threshold of 40 percent. A one standard deviation shock of exports raises PV of external public debt to exports ratio to 207.7 percent in the medium term, which is above the threshold of 180 percent (**Chart 14**).

[3] Represent actual ratios as of 30th June 2021

42. A one standard deviation shock of exports raises the debt service to export ratio to 15.4 percent and 17.5 percent in 2028/29 and 2031/32 respectively, which are above the threshold of 15 percent. On the other hand, one standard deviation shock of market financing terms raises debt service to revenue ratio to 19.7 percent in 2028/29 which causes a one-off above the threshold.

Chart 14: External Public Debt Burden Indicators



Source: Ministry of Finance and Planning

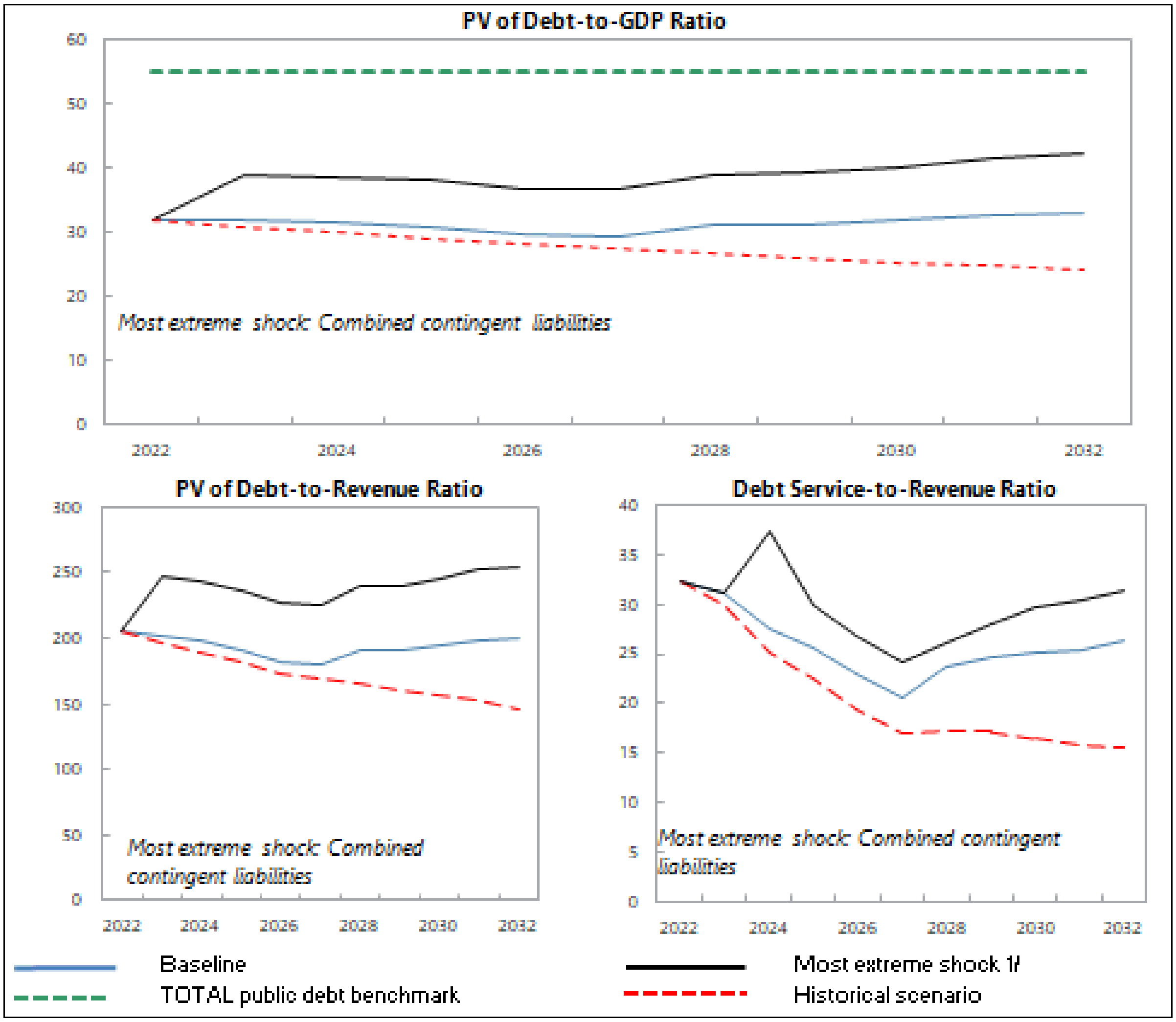
5.2.4 Public Debt Burden Indicators Under Stress Scenario

43. The PV of public debt to GDP stays well below the threshold of 55 percent of GDP throughout the projection period under shock scenario **(Chart 15)**.

44. Nonetheless, the portfolio is sensitive to combined contingent liabilities shocks. The combined contingent liability shock raises PV of debt to revenue ratio to 239.2 percent and 253.9 percent in the medium and long-term. Likewise, the

same shock raises debt service to revenue to 37.4 percent in 2023/24 and then decreases to 31.4 percent in 2031/32.

Chart 15: Public Debt Burden Indicators Under Shock Scenario



Source: Ministry of Finance and Planning

5.3 Assessment of Tanzania Risk of Debt Distress

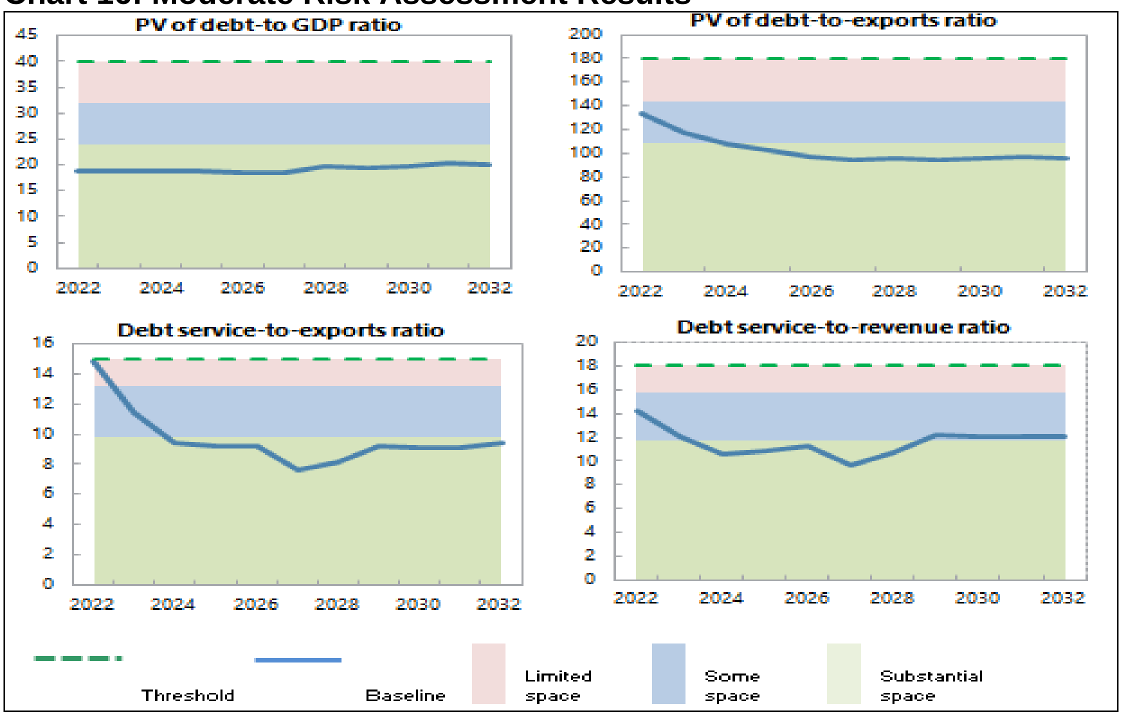
45. The assessment of risk of debt distress is assigned using the mechanical risk signal determined based on the number of breaches of indicative thresholds under the baseline scenario and the stress scenarios for the debt burden indicators.

46. Based on the rule, Tanzania's risk of external debt distress is assessed as moderate. This follows a breach of the thresholds of the PV of external debt to exports and debt service to exports ratios after a most extreme shock in

exports. However, the size of the breach under the most extreme scenario is short lived and therefore may not warrant the down grade in the risk of external debt distress. This implies that Tanzania's external debt remains within the low-risk rating category. Moreover, the observed breach in the shock scenario is mainly attributable to the downgrade in the CI rating not the changes in the debt position, which has remained largely stable. Importantly, the improvement in the CI alluded to above would quickly reverse the temporary breach in the shock scenario.

47. According to the moderate risk assessment, Tanzania has limited space only in the near-term to absorb shocks. In the medium term, however, the country has some space to absorb shocks and will regain substantial space in the long term (**Chart 16**).

Chart 16: Moderate Risk Assessment Results



Source: Ministry of Finance and Planning

48. The risk of overall public debt distress is also assessed as moderate, in line with the moderate risk of external debt distress.

Chapter 6 : CONCLUSION AND WAY FORWARD

49. The 2021 DSA results suggest that Tanzania's debt remains sustainable in the medium to long-term under the baseline scenario. All debt burden indicators remain below their respective thresholds under baseline scenario for both liquidity and solvency indicators for both external and public DSA. However, the risk of debt distress has increased from low to moderate. This follows a breach of the thresholds for the PV of external debt to exports ratio and debt service to export ratio under the most extreme shock scenario, as a result of the reclassification of the country from a strong performer to a medium performer, which reduced the debt carrying capacity and their respective debt burden thresholds.

50. The effects of COVID-19 pandemic on exports and GDP growth pose risk to Tanzania's capacity to service external debt under extreme shock scenario. Other fiscal risks to debt service outlook include combined contingent liability shock due to debt accumulation from State-Owned Enterprises (SOEs).

51. To mitigate these risks, the Government is committed to sustain sound macroeconomic performance which will accelerate economic growth and boost export in the medium and long-term. The Government will also continue to strengthen supervision of both financial institutions and state-owned enterprises with a view to minimize risks associated with contingent liabilities. In addition to that, the Government will take measures to address the factors that have led to the decline in debt carrying capacity as measured by the CI, including strengthening institutional and legal frameworks with a view to improve the CPIA rating.

ANNEX No I: External Debt Sustainability Framework, Baseline Scenario, 2019-2042

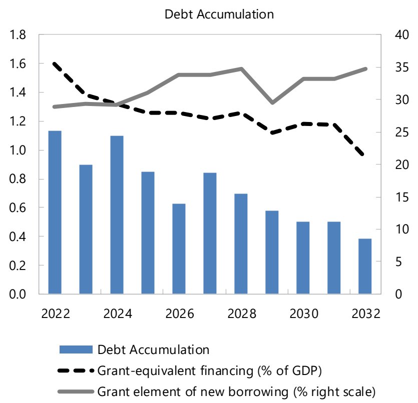
Table 1. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2019-2042

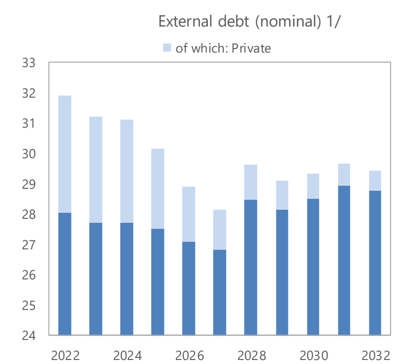
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	37.6	36.9	36.9	31.9	31.2	31.1	30.2	28.9	28.1	29.4	24.0	34.8	29.9
of which: public and publicly guaranteed (PPG)	27.4	27.2	27.9	28.1	27.7	27.7	27.5	27.1	26.8	28.8	23.7	25.9	28.0
Change in external debt	-1.4	-0.7	0.0	-5.0	-0.7	-0.1	-1.0	-1.2	-0.8	-0.2	-0.5		
Identified net debt-creating flows	-0.4	-2.3	-1.3	0.9	-0.3	-0.4	-1.2	-1.3	-1.9	-1.0	0.0	1.9	-1.0
Non-interest current account deficit	3.3	1.3	1.7	3.4	2.3	2.3	2.0	2.0	1.6	2.0	2.2	6.1	2.1
Deficit in balance of goods and services	3.2	1.2	1.5	3.2	2.2	1.8	1.5	1.6	1.3	1.7	2.3	6.3	1.7
Exports	14.8	14.8	13.2	14.1	16.0	17.3	18.3	19.1	19.7	21.1	22.1		
Imports	18.0	16.0	14.7	17.4	18.1	19.1	19.8	20.7	20.9	22.8	24.4		
Net current transfers (negative = inflow)	-0.6	-0.7	-0.7	-0.7	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-1.1	-0.7
of which: official	-0.1	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6		
Other current account flows (negative = net inflow)	0.8	0.9	0.9	0.8	0.8	1.2	1.1	1.1	1.1	1.0	0.7	1.0	1.0
Net FDI (negative = inflow)	-1.9	-1.5	-1.2	-1.4	-1.6	-1.7	-2.0	-2.1	-2.3	-1.9	-1.5	-2.6	-1.9
Endogenous debt dynamics 2/	-1.8	-2.2	-1.9	-1.1	-1.0	-1.1	-1.2	-1.2	-1.2	-1.1	-0.7		
Contribution from nominal interest rate	0.6	0.6	0.4	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4		
Contribution from real GDP growth	-2.6	-2.0	-1.7	-1.8	-1.6	-1.6	-1.7	-1.7	-1.7	-1.6	-1.1		
Contribution from price and exchange rate changes	0.2	-0.7	-0.6	...	...	...	...	...	...	...	...		
Residual 3/	-1.0	1.6	1.3	-5.9	-0.4	0.3	0.2	0.1	1.1	0.8	-0.5	-0.8	0.3
of which: exceptional financing	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	18.8	18.8	18.7	18.8	18.8	18.5	18.4	20.2	17.2		
PV of PPG external debt-to-exports ratio	...	...	142.4	132.9	117.4	108.5	102.8	96.9	93.7	95.7	77.5		
PPG debt service-to-exports ratio	11.5	13.0	14.8	14.9	11.5	9.4	9.2	9.2	7.7	9.4	7.7		
PPG debt service-to-revenue ratio	12.3	13.2	14.6	14.2	12.1	10.6	10.9	11.3	9.6	12.1	9.9		
Gross external financing need (Million of U.S. dollars)	2170.7	1480.8	1840.8	4338.2	3073.0	2559.8	2213.4	2183.0	1229.4	2108.6	3223.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.0	5.9	4.9	5.1	5.3	5.6	5.8	6.0	6.2	5.6	4.6	6.3	5.8
GDP deflator in US dollar terms (change in percent)	-0.4	2.0	1.7	0.9	-0.3	-0.1	-1.0	-1.0	-1.3	-3.3	-1.9	1.1	-2.4
Effective interest rate (percent) 4/	1.6	1.7	1.3	1.8	2.0	1.9	1.9	1.8	1.8	1.7	1.6	1.5	1.8
Growth of exports of G&S (US dollar terms, in percent)	1.6	8.0	-5.3	13.6	18.7	14.6	10.3	9.7	8.0	2.7	3.1	2.4	7.9
Growth of imports of G&S (US dollar terms, in percent)	5.6	-3.9	-2.2	25.2	9.6	11.3	8.4	9.5	6.3	3.1	3.2	0.5	7.6
Grant element of new public sector borrowing (in percent)	...	...	...	28.9	29.4	29.1	31.1	33.8	33.8	34.7	34.7	...	31.9
Government revenues (excluding grants, in percent of GDP)	13.9	14.6	13.3	14.8	15.1	15.3	15.5	15.7	15.7	16.3	17.1	13.5	15.6
Aid flows (in Million of US dollars) 5/	913.1	1522.2	1157.5	1087.5	1238.3	1307.1	1257.4	1330.5	1354.4	848.4	904.6		
of which: Grants	202.1	405.2	305.8	477.1	475.2	464.9	453.4	450.6	454.6	226.3	279.1		
of which: Concessional loans	711.0	1117.0	851.7	610.4	763.1	842.1	804.0	879.9	899.8	622.1	625.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.6	1.4	1.3	1.3	1.3	1.2	0.9	0.7	...	1.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	41.2	43.6	42.6	44.4	46.5	46.4	41.4	42.8	...	44.3
Nominal GDP (Million of US dollars)	58,333	62,956	67,155	71,197	74,776	78,887	82,574	86,654	90,836	95,094	129,696		
Nominal dollar GDP growth	6.6	7.9	6.7	6.0	5.0	5.5	4.7	4.9	4.8	2.2	2.6	7.4	3.2
Memorandum items:													
PV of external debt 7/	...	...	27.8	22.6	22.2	22.2	21.4	20.3	19.7	20.8	17.5		
In percent of exports	...	...	211.1	160.3	139.4	128.1	117.2	106.5	100.4	98.9	78.9		
Total external debt service-to-exports ratio	15.5	17.0	16.6	28.7	21.3	15.0	14.8	13.9	10.4	9.9	7.8		
PV of PPG external debt (in Million of US dollars)			12601.8	13363.5	14001.6	14823.3	15494.5	16011.7	16744.0	19164.5	22267.1		
(PVt-PVt-1)/GDPt-1 (in percent)				1.1	0.9	1.1	0.9	0.6	0.8	0.4	0.2		
Non-interest current account deficit that stabilizes debt ratio	4.7	2.1	1.7	8.4	3.0	2.4	3.0	3.2	2.4	2.2	2.7		

Sources: Country authorities; and staff estimates and projections.

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





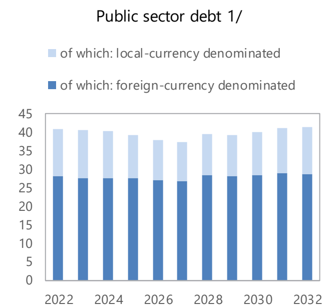
ANNEX No. II: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-2042

Table 2. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-2042

(In percent of GDP, unless otherwise indicated)

Public sector debt 1/	**38.6**	**38.0**	**40.1**	**41.0**	**40.7**	**40.2**	**39.2**	**37.8**	**37.3**	**41.4**	**46.8**	**36.2**	**39.8**
of which: external debt	**27.4**	**27.2**	**27.9**	**28.1**	**27.7**	**27.7**	**27.5**	**27.1**	**26.8**	**28.8**	**23.7**	**25.9**	**28.0**
Change in public sector debt	-1.7	-0.6	2.2	0.8	-0.3	-0.5	-1.0	-1.4	-0.6	0.3	1.2		
Identified debt-creating flows	**-0.4**	**-1.4**	**0.8**	**0.0**	**-0.3**	**-0.5**	**-1.0**	**-1.4**	**-0.6**	**0.5**	**1.2**	**-0.2**	**0.1**
Primary deficit	**0.7**	**-0.1**	**1.8**	**0.7**	**0.6**	**0.1**	**-0.5**	**-0.9**	**-0.1**	**-0.2**	**-0.4**	**1.2**	**-0.1**
Revenue and grants	14.3	15.2	13.8	15.4	15.7	15.9	16.0	16.2	16.2	16.5	17.4	**14.8**	**16.1**
of which: grants	0.3	0.6	0.5	0.7	0.6	0.6	0.5	0.5	0.5	0.2	0.2		
Primary (noninterest) expenditure	14.9	15.1	15.6	16.2	16.3	15.9	15.5	15.3	16.1	16.4	16.9	**16.0**	**16.0**
Automatic debt dynamics	**-1.1**	**-1.3**	**-1.0**	**-0.7**	**-0.8**	**-0.6**	**-0.5**	**-0.5**	**-0.5**	**0.6**	**1.6**		
Contribution from interest rate/growth differential	-1.4	-1.4	-1.0	-1.0	-1.2	-1.1	-1.0	-1.0	-1.0	-0.3	1.2		
of which: contribution from average real interest rate	1.3	0.7	0.8	0.9	0.9	1.0	1.2	1.2	1.2	1.9	3.2		
of which: contribution from real GDP growth	-2.6	-2.1	-1.8	-1.9	-2.1	-2.1	-2.2	-2.2	-2.2	-2.2	-2.0		
Contribution from real exchange rate depreciation	0.3	0.1	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-1.2**	**0.9**	**1.4**	**1.1**	**0.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.8**	**0.5**	**1.5**	**0.8**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**31.0**	**31.8**	**31.8**	**31.5**	**30.7**	**29.4**	**29.0**	**33.0**	**40.4**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**224.9**	**206.2**	**201.9**	**198.3**	**191.8**	**181.8**	**179.4**	**199.3**	**232.8**		
Debt service-to-revenue and grants ratio 3/	**40.1**	**37.4**	**36.2**	**32.4**	**31.2**	**27.4**	**25.6**	**23.0**	**20.6**	**26.3**	**39.5**		
Gross financing need 4/	6.4	5.6	6.7	5.7	5.5	4.4	3.6	2.8	3.3	4.2	6.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.0	5.9	4.9	5.1	5.3	5.6	5.8	6.0	6.2	5.6	4.6	**6.3**	**5.8**
Average nominal interest rate on public debt (in percent)	4.7	4.3	4.3	3.7	3.8	4.1	4.1	4.1	4.1	4.5	6.8	**4.3**	**4.1**
Average nominal interest rate on external debt (in percent)	2.0	2.1	1.7	1.6	1.6	1.5	1.6	1.6	1.5	1.5	1.5	**1.6**	**1.5**
Average nominal interest rate on domestic debt (in percent)	11.0	9.8	10.9	8.5	8.7	9.4	9.8	10.1	10.4	11.5	12.7	**11.5**	**10.0**
Average real interest rate (in percent)	3.3	2.0	2.2	2.4	2.2	2.7	3.1	3.2	3.4	4.9	7.3	**-1.1**	**4.0**
Average real interest rate on domestic debt (in percent)	9.6	7.3	8.6	7.1	7.0	8.0	8.7	9.1	9.7	13.3	13.8	**5.7**	**11.1**
Average real interest rate on external debt (in percent)	0.7	-0.2	-0.4	0.3	0.0	0.2	0.6	0.7	0.9	1.3	1.5	**-3.7**	**1.2**
Exchange rate (LC per US dollar)	2289.5	2297.5	2299.0	2326.2	2359.7	2407.1	2456.0	2503.6	2551.2	2792.0	3084.1	**2040.3**	**2530.3**
Nominal depreciation of local currency (percentage change in LC per dollar)	1.0	0.4	0.1	1.2	1.4	2.0	2.0	1.9	1.9	1.5	1.0	**4.1**	**1.8**
Exchange rate (US dollar per LC)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Nominal appreciation (increase in US dollar value of local currency, in percent	-1.0	-0.3	-0.1	-1.2	-1.4	-2.0	-2.0	-1.9	-1.9	-1.5	-1.0	**-3.6**	**-1.8**
Real exchange rate depreciation (in percent, + indicates depreciation)	1.0	0.4	0.1	...	...	...	...	...	...	...	...	**4.1**	**...**
Inflation rate (GDP deflator, in percent)	1.3	2.3	2.1	1.3	1.6	1.3	1.0	0.9	0.7	-1.6	-0.9	**5.6**	**-0.7**
US Inflation rate (GDP deflator, in percent)	1.3	2.3	2.1	1.3	1.6	1.3	1.0	0.9	0.7	0.2	0.1	**5.6**	**0.4**
Growth of real primary spending (deflated by GDP deflator, in percent)	6.2	7.4	8.0	9.1	6.3	3.0	2.9	4.5	11.9	6.2	5.0	**5.1**	**6.3**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.3	0.5	-0.4	-0.1	0.8	0.6	0.5	0.5	0.5	-0.5	-1.6	**0.8**	**-0.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**



Sources: Country authorities; and staff estimates and projections.