THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND PLANNING

TANZANIA NATIONAL DEBT SUSTAINABILITY ANALYSIS

December 2022

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ABBREVIATIONS AND ACRONYMS

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

FOREWORD

In line with Regulation 38 (d) of the Government Loans, Guarantees and Grant Act, Cap. 134, the Government is required to conduct Debt Sustainability Analysis on annual basis. The Ministry of Finance and Planning prepares the DSA in fulfilment of this mandate. The main objective of the exercise is to evaluate the capacity of the country to meet its current and future debt obligations and guide borrowing decisions in a way that balances gross financing needs with the ability to repay debts both at present and future.

The 2022 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 economic growth and slowdown of exports attributable to sizable decline in tourism receipts, such that under shock scenario there is limited capacity for the country to service external debt.

The Composite Indicator (CI) for Tanzania is 2.94, according to the IMF Country Report No. 22/269 of August 2022, the country's debt-carrying capacity is classified as medium performer. As outlined on the previous DSA, reclassification of debt carrying capacity is 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 continues to call for 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.

The 2022 DSA results indicate 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 17.7 percent and 31.9 percent compared with 40 percent and 55 percent threshold in 2022/23, 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 PV of debt to GDP, external debt servicing for the external debt is sensitive to exports, indicating that, the country has limited space to absorb liquidity shocks. In addition to that, total public debt servicing is sensitive to domestic revenue mobilization.

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.

Mwigulu Nchemba

Hon. Dr. Mwigulu L. Nchemba (MP),
Minister of Finance and Planning.

ACKNOWLEDGMENT

The DSA framework is a tool developed by International Monetary Fund and World bank for countries to evaluate their ability to service debts in the long run without compromising economic growth and stability. Tanzania 2022 DSA examined a range of factors that impact its debt profile, such as the level and structure of debt, macroeconomic conditions, external factors, and policy frameworks.

This framework starts by assessing a country's debt levels relative to its economic output, such as its debt-to-GDP ratio, and its ability to generate sufficient revenues to service its debt obligations. It also considers factors such as the composition of debt, including its currency and maturity structure, and the country's external financing needs. It also examined a range of macroeconomic indicators, such as inflation, exchange rates, and economic growth, to determine how these factors might impact a country's ability to service its debt. External factors, such as changes in global interest rates or shifts in international trade patterns, were also considered.

In view of the above, we would like to express our gratitude to IMF &WB for their invaluable support and consultations during the Tanzania's economic program under the ECF arrangement. We would also like to thank Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) for their guidance throughout the DSA workshop. Finally, we would like to express our appreciation to a team led by the Debt Management Department of the Ministry. The team also included officials from Policy Analysis, National Planning, Budget Analysis departments, the Bank of Tanzania, and the National Bureau of Statistics.

Nmwamba

Dr. Natu E. Mwamba
Permanent Secretary - Treasury

Chapter 1: INTRODUCTION

1. The Government of Tanzania conducted a 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 assessed the current and future debt levels, together with country's ability to meet debt service obligations without jeopardizing economic growth and development. The 2022 DSA exercise was conducted by officials from the United Republic of Tanzania in collaboration with the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

2. The 2022 DSA used the Low-Income Countries Debt Sustainability Framework (LIC-DSF) which assesses the trend of various debt burden indicators under different scenarios to inform policy decisions and design appropriate measures to maintain the public debt within acceptable levels. The debt data used for 2022 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 2021/22 as base year and 2022/23 as first year of projection.

3. The 2022 DSA considered the implementation of the Five-Year Development Plan III (FYDP III) which builds on the achievements of 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. 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).

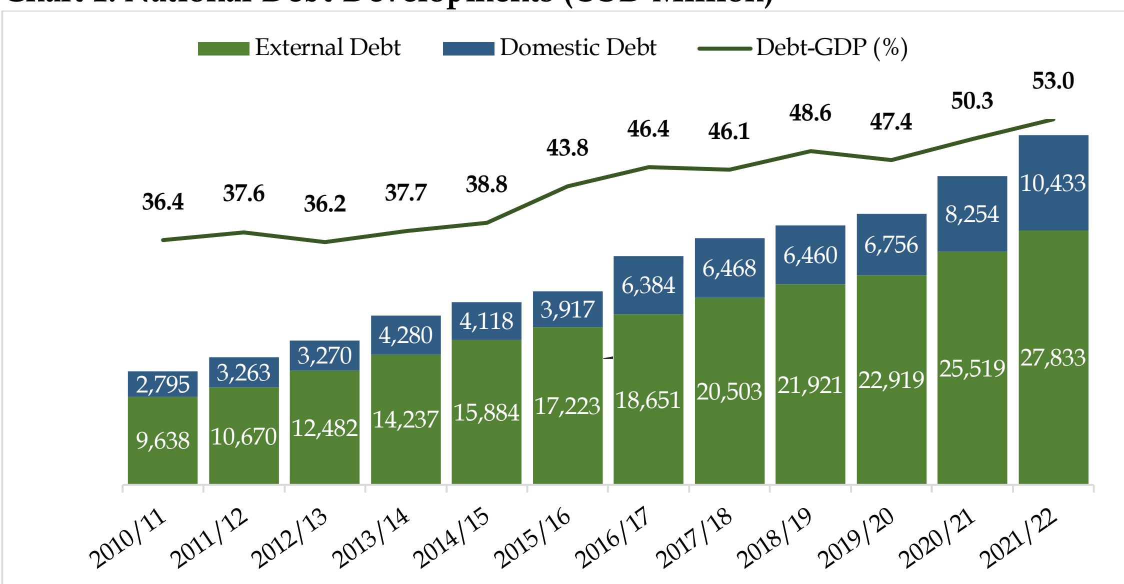
4. Furthermore, the 2022 DSA takes into account recovery of both the domestic and global economies from the effects of COVID-19 pandemic, as well as the ongoing recovery of travel activities across countries that could further boost export and tourism sector in Tanzania.

Chapter 2: DEBT PORTFOLIO REVIEW

2.1 National Debt Developments

5. Over the past ten years, the national debt stock (both public and private) has shown a rising trend, reaching USD 38,265.6 million by the end of June 2022 (52.9 percent of GDP). Out of this, domestic debt was USD 10,433.1 million, equivalent to 14.4 percent of GDP, and external debt (including public and private) was USD 27,832.5 million, equivalent to 38.5 percent of GDP (**Chart 1**). The increase was attributed to new disbursements of external loans, issuance of new Government securities and securitization of Pension Funds' arrears.

Chart 1: National Debt Developments (USD Million)

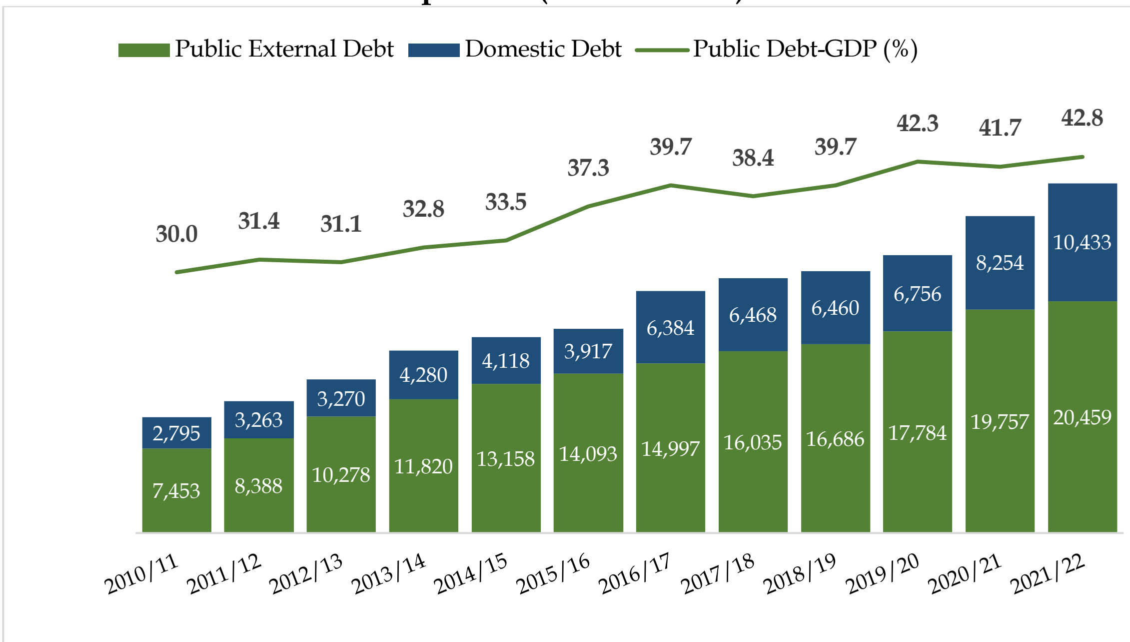


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.2 Public Debt Developments

6. As at end June 2022, Public debt stock was USD 30,891.6 million (42.8 percent of GDP) compared to USD 28,011.2 million (41.7 per cent of GDP) recorded in June 2021, which is an increase of 10.3 percent. Out of the public debt, external debt represented 66.2 percent, while domestic debt represented 33.8 percent (**Chart 2**).

Chart 2: Public Debt Developments (USD million)



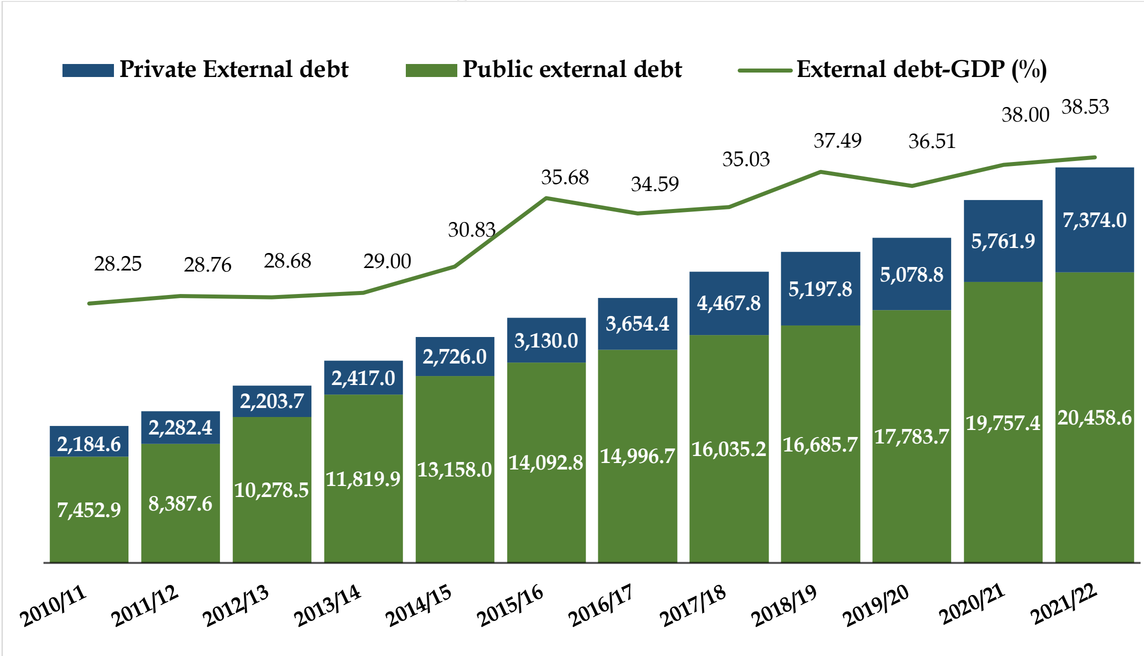
Source: Ministry of Finance and Planning, and Bank of Tanzania

2.3 External Debt Developments

7. The stock of external debt (consisting of public and private sector) amounted to USD 27,832.5 million at the end of June 2022, representing an increase of 9.1 percent from USD 25,519.3 million recorded in the previous year. Out of that, external public debt was USD 20,458.6[1] million and private sector debt was USD 7,374.0 million (**Chart 3**).

[1] The stock of external public debt includes bilateral technical interest arrears around USD 1,098.2 million.

Chart 3: External Debt Developments (USD million)

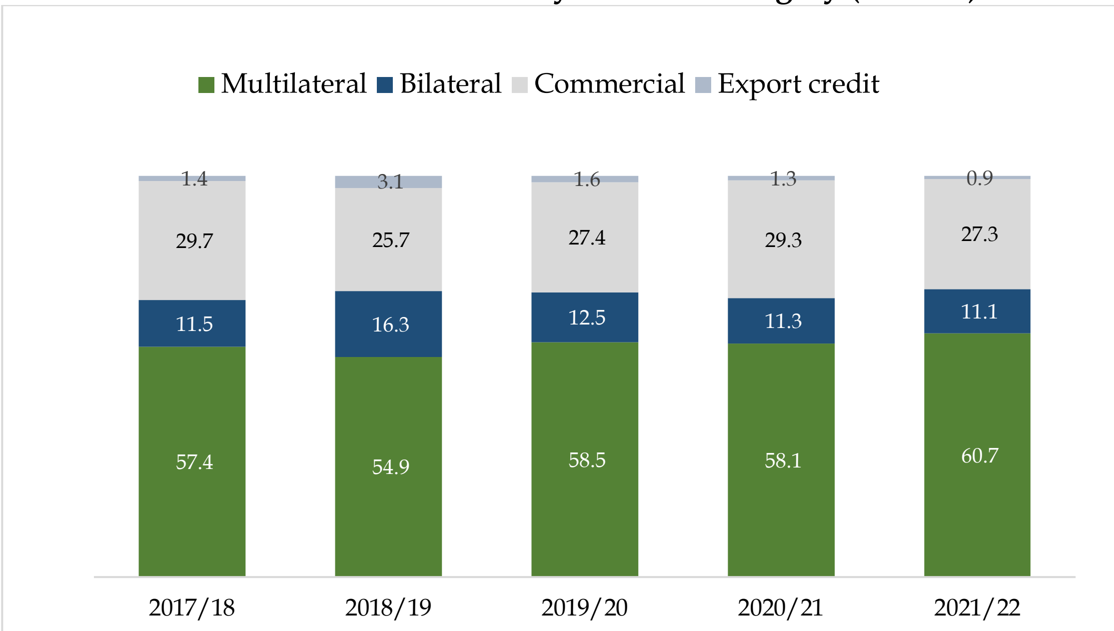


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.3.1 External Public Debt Stock by Creditor Category

8. The portfolio of public external debt as at end June 2022 was dominated by multilateral institutions and commercial creditors, accounting for 60.7 percent and 27.3 percent, respectively. The continued dominance of multilateral institutions implies that a large portion of external public borrowing has been contracted on favorable terms **(Chart 4)**.

Chart 4: External Public Debt Stock by Creditor Category (Percent)

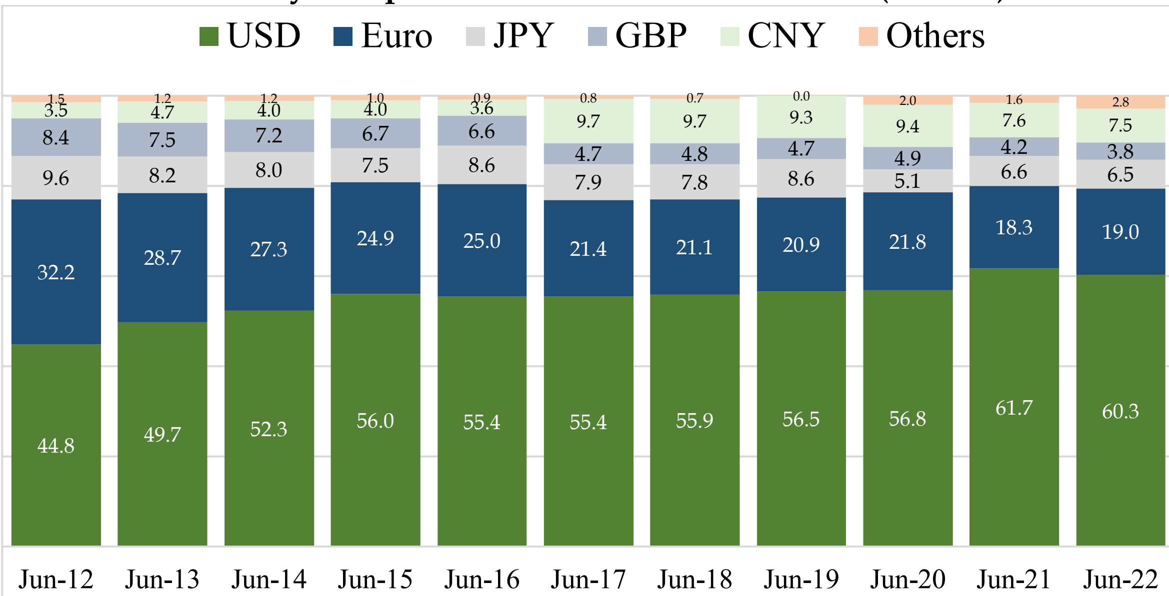


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.3.2 External Central Debt by Currency Composition

9. In terms of currency, the US Dollar remained the dominant currency in the outstanding external public debt representing 60.3 percent, followed by Euro covering 19.0 percent as of June 2022 (**Chart 5**). This shows that the debt portfolio is more exposed to USD exchange rate risk.

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

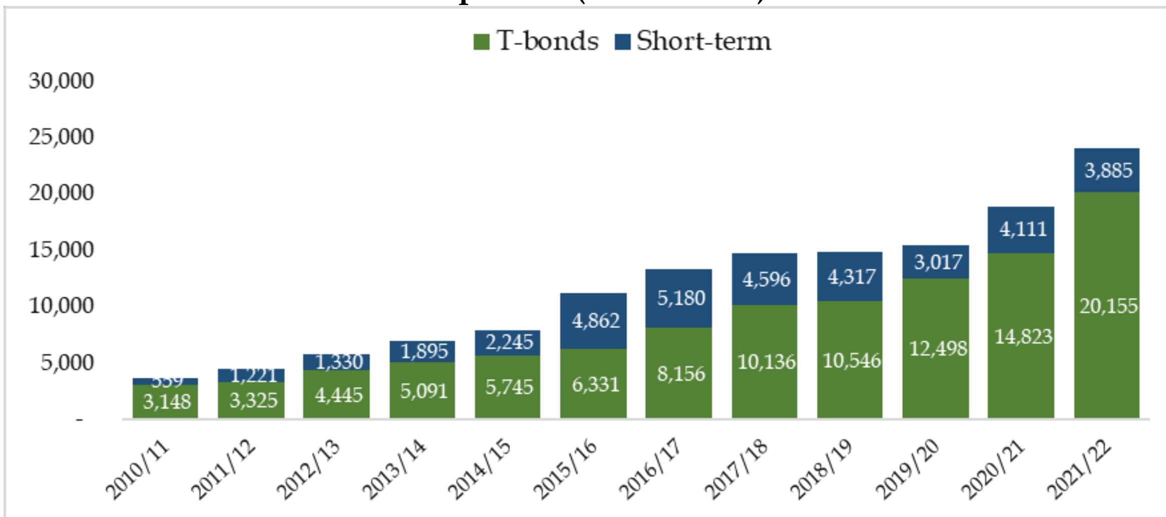


Source: Ministry of Finance and Planning, and Bank of Tanzania

2.4 Domestic Debt Developments

10. As at end June 2022, stock of domestic debt was TZS 24,039.8 billion, an increase of 27.1 percent from TZS 18,915.9 billion recorded at end June 2021. Treasury bonds continue to dominate, accounting for 79.8 percent of the stock, consistent with the strategy of lengthening the maturity profile of domestic debt through issuance of long-term instruments. **(Chart 6)**.

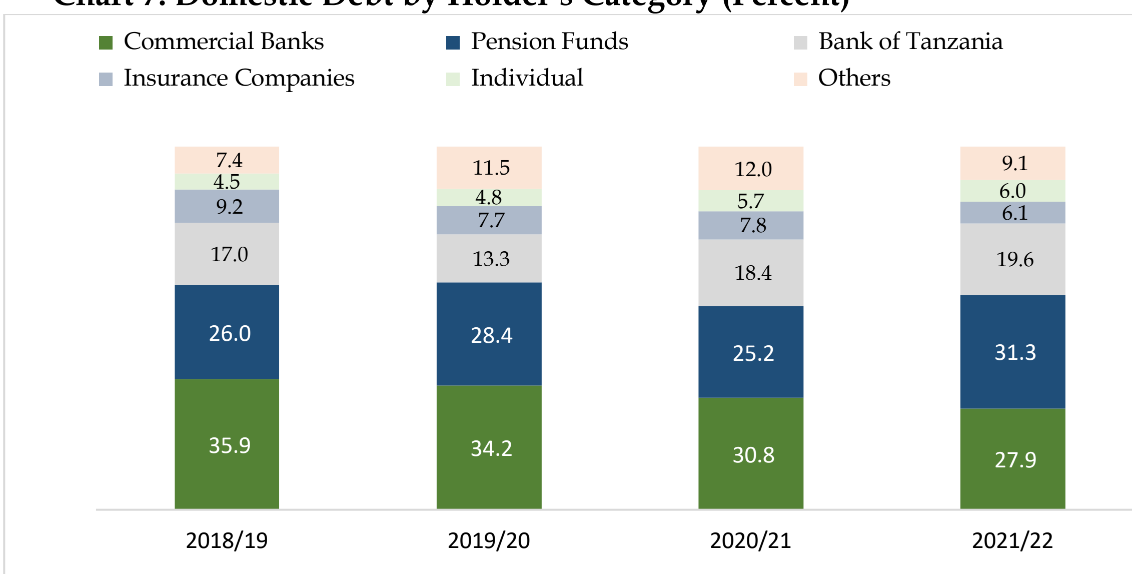
Chart 6: Domestic Debt Developments (TZS Billion)



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

11. Pension funds were the leading holders, accounting for 31.3 percent of total domestic debt, followed by commercial banks, which accounted for 27.9 percent and the Bank of Tanzania at 19.6 percent (**Chart 7**).

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

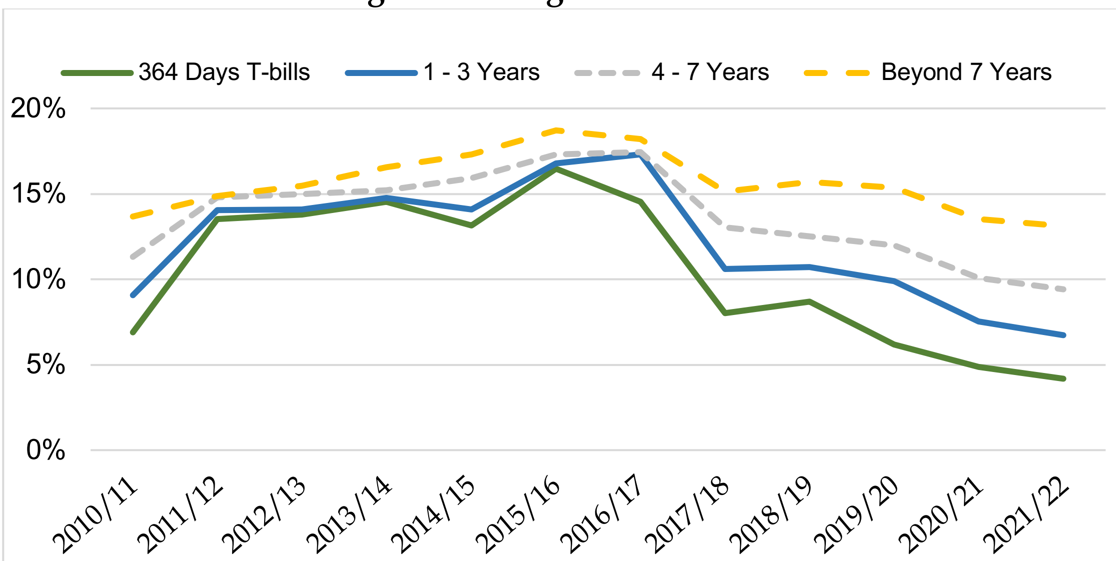


Source: Ministry of Finance and Planning, and Bank of Tanzania

12. Government bond yields have continued to fall, especially in the last five years (**Chart 8**). This advancement has also been aided by initiatives to increase

investor participation. Awareness campaigns, market leaders' forums, and continuous listing of bonds on the Dar es Salaam Stock Exchange are some of the initiatives. In general, these initiatives increased competition in auctions, causing prices to rise and, as a result, yields to fall. Furthermore, the COVID-19 pandemic influenced investors' preference for less risky assets.

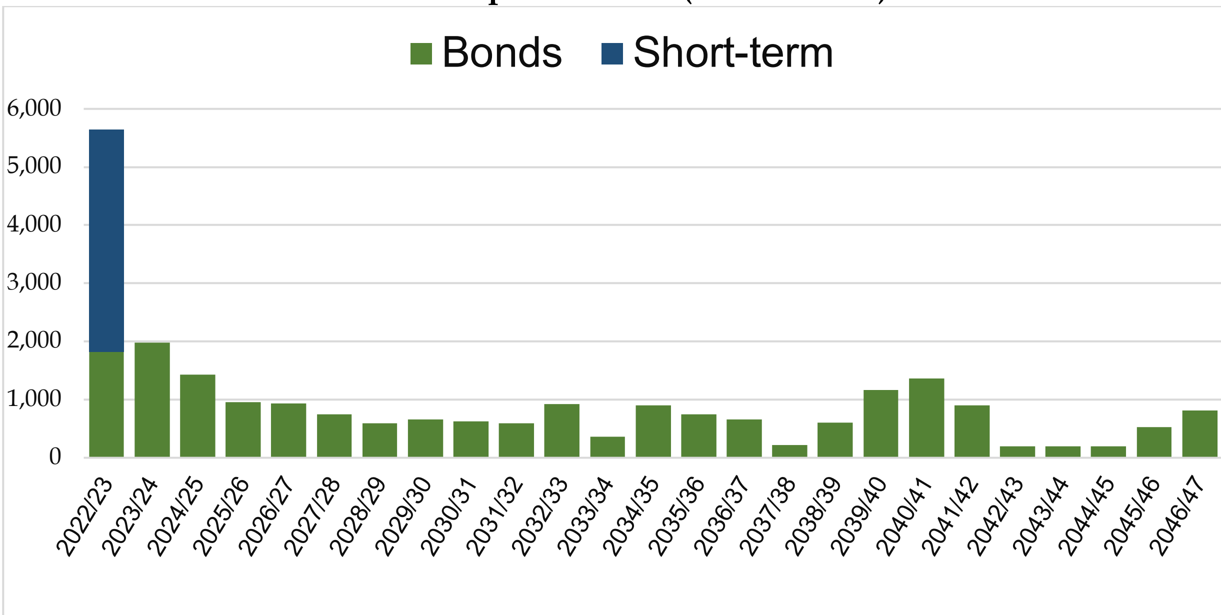
Chart 8: Trend of Weighted Average Yields for Government Securities



Source: Ministry of Finance and Planning and Bank of Tanzania

13. Domestic debt redemption profile depicts that a large proportion matures in 2022/23, owing to repayment of short-term obligations. The 25-year Treasury bonds will extend the redemption profile to 2046/47 (**Chart 9**).

Chart 9: Domestic Debt Redemption Profile (TZS Billions)

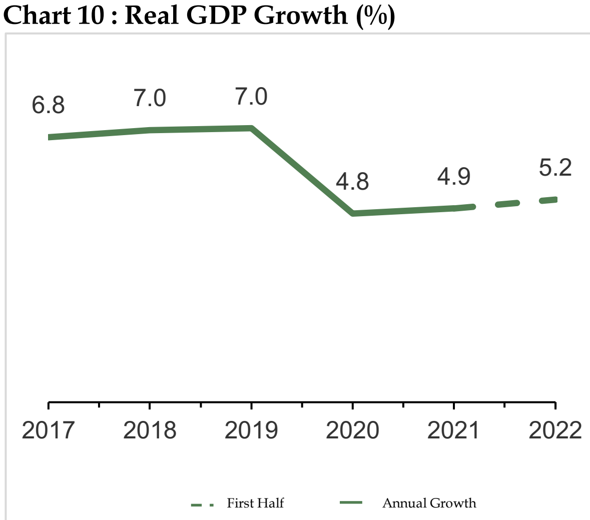


Source: Ministry of Finance and Planning, and Bank of Tanzania.

Chapter 3: RECENT ECONOMIC DEVELOPMENTS

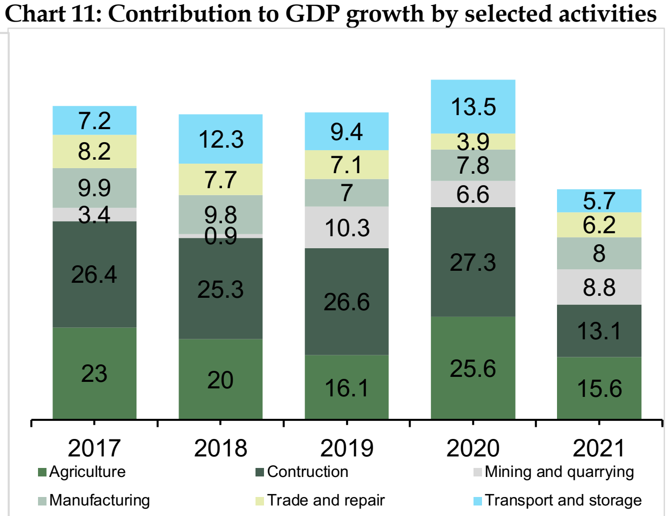
14. The Tanzanian economy continued to recover from the lingering effects of COVID-19 with real GDP growing by 4.9 percent in 2021 compared with 4.8 percent in 2020 and the pre-pandemic average growth rate of 7 percent during 2018 – 2019 (**Chart 10**). This growth was mainly driven by agriculture (15.6 percent); construction (13.1 percent); mining and quarrying (8.8 percent); manufacturing (8.0 percent); trade and repair (6.2 percent) as well as transport and storage (5.7 percent) (**Chart.11**). The continued recovery was also supported by the Government measures to sustain the economy by investing in strategic infrastructure projects, growth of credit to private sector and increasing mining production especially gold and coal. In the first half of 2022, the economy grew by an average of 5.2 percent, mainly driven by agriculture; mining and quarrying; manufacturing and construction.

Chart 10 : Real GDP Growth (%)



Source: National Bureau of Statistics

Chart 11: Contribution to GDP growth by selected activities

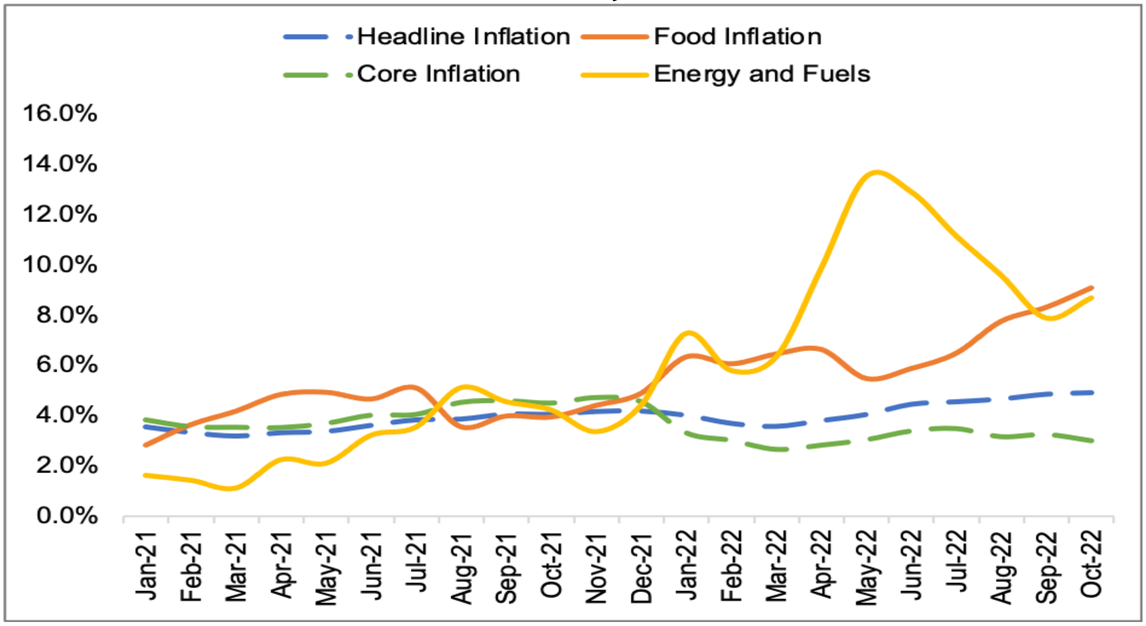


Source: National Bureau of Statistics

15. Headline inflation rose to 4.0 percent in 2021/22 from 3.3 percent in 2020/21 on account of increases in prices of some items in the subgroup of food and energy. This was attributed to high international oil prices and continued disruptions of

global supply chains. In the first four months of 2022/23, the headline inflation rose to 4.7 percent from 3.9 percent recorded in the same period in 2021/22 due to high food and energy and fuel prices (**Chart 12)**.

Chart 12: The Trend of Inflation Between Jan 2021 and Oct 2022



Source: National Bureau Statistics

16. In 2021/22, the Government continued to rationalize its fiscal policy by strengthening measures to improve domestic revenue and streamlining expenditures by allocating funds to priority areas that stimulate growth and improve provision of social services. The ratio of domestic revenue (including LGAs own source) to GDP was 14.5 percent an increase from 13.2 in 2020/21. The improvement of the ratio was mainly attributed to the continued government efforts on the domestic revenue collection by enhancing the usage of electronic systems in the management of revenue collection; improving the environment for doing business and investment in the country; increased voluntary tax payment and providing awareness to the taxpayer. On the other hands, the ratio of Government expenditure to GDP reached 18.6 percent from 17.0 percent recorded in 2020/21.

17. The overall fiscal deficit was 3.6 percent of GDP in 2021/22, compared with estimated budget deficit of 1.8 percent of GDP, owing to increase in Government expenditure including implementation of Tanzania COVID-19 Recovery Programme (TCRP) and provision of subsidies on fuel to contain adverse effects of Russia – Ukraine war.

18. The external sector experienced headwinds arising from global challenges of high commodity prices and tight financial conditions aggravated by the Russia-Ukraine war which significantly disrupted the global supply chain. In 2021/22, the overall balance of payments was a surplus of USD 65.6 million, which was below surplus of USD 132.7 million in 2020/21. The current account deficit widened to USD 3,386.3 million (4.6 percent of GDP) from USD 1,825.6 million (2.6 percent of GDP) recorded in 2020/21, driven by higher imports of goods. During the same period, the value of goods export increased by 10 percent to USD 7,097 million from the amount recorded in 2020/21. The significant increase was registered in non-traditional exports which grew by 7.2 percent, supported by exports of manufactured goods and cereals. Import of goods increased to USD 11,712.7 million from USD 8,546.6 million recorded in 2020/21, driven by imports of intermediate goods particularly white petroleum products, iron and steel, and plastic products.

19. Foreign reserves remained adequate, at USD 5,110.3 million at the end of June 2022, sufficient to cover 4.6 months of projected imports of goods and services. The import cover was above the country benchmark of at least 4 months and the EAC convergence criteria of 4.5 months. The shilling remained stable against the major global trading currencies supported by moderate current account deficit and prudent monetary and fiscal policies.

20. In 2021/22, money supply continued to expand in response to accommodative monetary policy and improving private sector economic activities. Extended

broad money supply grew at an average of 12.2 percent in 2021/22, compared with 7.3 percent in 2020/21. In addition, credit to private sector recorded an average growth of 9.9 percent compared to 4.3 percent recorded in 2020/21, largely due to improved business conditions coupled with supportive fiscal and monetary policy conditions.

Chapter 4: UNDERLYING DSA ASSUMPTIONS

4.1 Macroeconomic assumptions

21. ***Economic growth:*** In 2022, the economy is estimated to grow by 4.7 percent compared to the earlier projection of 5.2 percent. The downward revision of the projected growth was due to adverse effects of Russian-Ukraine war which led to an increase in the global commodity and oil prices. In the medium-term (2022 – 2026), the economy is projected to grow by an average of 5.9 percent. The expected growth is subject to successful implementation of Five-Year Development Plan (FYDP – III) that seeks to promote policy stability and favorable performance in the key macroeconomic variables.

22. Government's efforts to resuscitate the economy from the spillover effects of Russia-Ukraine war and COVID-19 pandemic, including payment of arrears will provide impetus to the projected growth in the medium term. In addition, expected recovery of the global economy, continued revamping of the tourism sector and supportive monetary policy pursued by the Bank of Tanzania through deliberate measures to improve credit to the private sector, are expected to have a positive impact on growth. Moreover, completion of ongoing strategic infrastructure projects, which are expected to have large positive multiplier effects to the rest of the economy, is expected to further support growth. Some of the projects include:
    i. Construction of Standard Gauge Railway (SGR),
    ii. Construction of Julius Nyerere Hydropower Project (JNHPP),
    iii. Revamping the Air Tanzania Company Limited – ATCL, and
    iv. Construction of Liquefied Natural Gas Plant (LNG).

23. ***Inflation:*** The rate of inflation is projected to remain within 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 low cost of production on account of reliable and affordable power supply emanating from an increase in gas and hydroelectric power generation, prudent fiscal and monetary policies, and sufficient food supply on domestic markets based on the expected good weather condition in the country. However, upward risk on inflation remains, attributed to further supply shocks to food as a result of both climate change and the Russia-Ukraine war, as well as energy price spikes.

24. ***Fiscal policy:*** The Government will continue to implement prudent fiscal policy by improving domestic resource mobilization and effective control of public expenditure. Some of the measures the Government intends to implement include: Continued strengthening of administration of tax laws to address tax evasion and avoidance so as to reduce revenue leakages; strengthen the use of ICT systems to increase domestic revenue collections including the Government Electronic Payment Gateway (GePG); promote growth and formalization of small and medium enterprises to widen tax base. On the other hand, the Government intends to control public expenditure by allocating funds to most productive sectors with higher multiplier effects on the economy and improve provision of social services.

25. Owing to the above strategies and the expected global economic recovery, domestic revenue is projected to increase to 14.9 percent of GDP in 2022/23 and average 14.5 percent of GDP in the medium term compared to an average performance of 14.1 percent of GDP in past five (5) years. Similarly, expenditure is projected to increase to 18.8 percent of GDP in 2022/23 and slightly decline to an average of 17.2 percent of GDP in the medium term from 17.0 percent of GDP recorded in past five years.

26. The overall fiscal deficit (including grants) is projected at 3.3 percent of GDP in 2022/23 and decline to an average of 2.2 percent of GDP in the medium term compared to 3.6 percent of GDP recorded in 2021/22. In the medium term, the deficit is projected to be in line with the EAC convergence criteria ceiling of 3.0 percent of GDP.

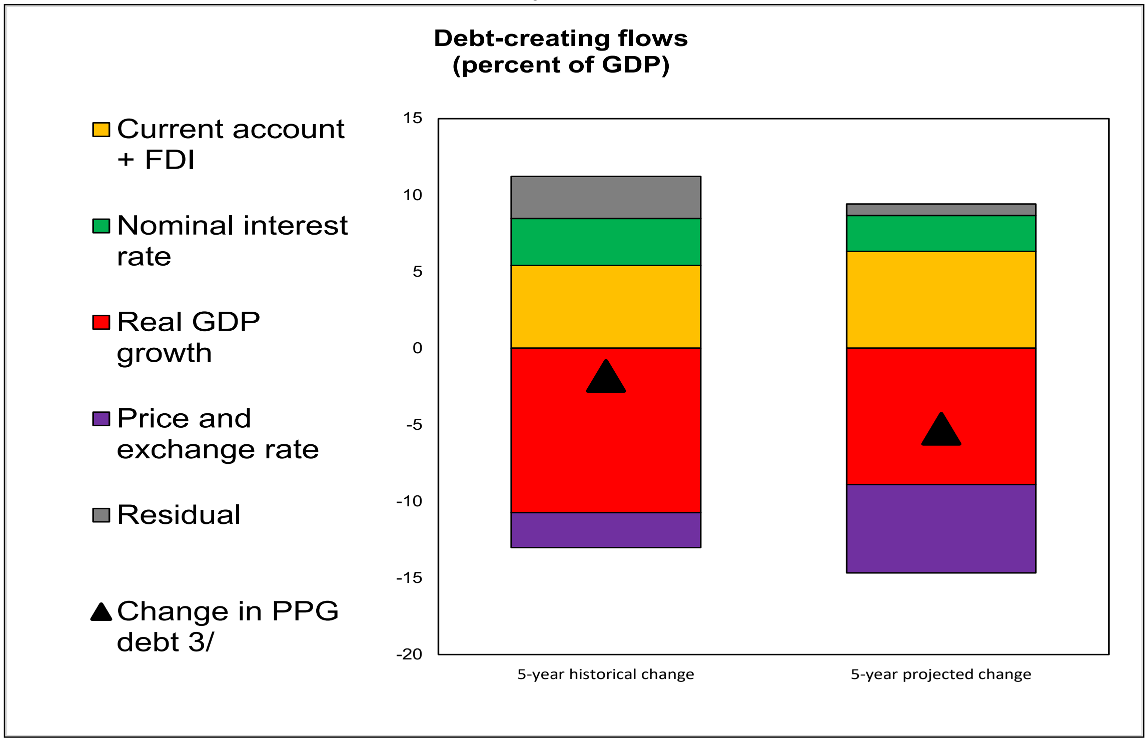
27. ***Current account balance:*** The current account balance is projected to remain sustainable in the medium-term, with slower growth in imports relative to exports. The current account deficit is projected to narrow from 4.6 percent of GDP recorded in 2021/22 to 3.7 percent of GDP in 2022/23 and thereafter to an average of 3.0 percent of GDP in the medium-term. Exports of goods and services are projected to scale up in line with the continued rebounding of the tourism sector and growth of manufacturing activities alongside with increase of intra-regional trade. Imports of goods and services are also projected to increase following an extended period of rising global commodity prices as well as increase in travel and transportation payments. The medium-term projections are supported by the underlying assumptions including the implementation of strategic projects such as SGR, JNHPP, ATCL that could raise the imports particularly on capital goods. However, the recovery of tourism sector and higher growth of non-traditional exports supported by minerals and horticultural products will slightly reduce the rising import bill in the long run.

4.2 Realism of Macroeconomic Projections

28. The main drivers of changes in external debt in the next five years remain unchanged from those in the historical period with the current account deficit and interest rates exerting upward pressure on the debt levels but more than offset by robust GDP growth and exchange rate stability. External debt declined by 1.8 percent of GDP cumulatively over the last five years. The results show

that debt will further reduce by 5.3 percent of GDP cumulatively over the next five years (**Chart 13**).

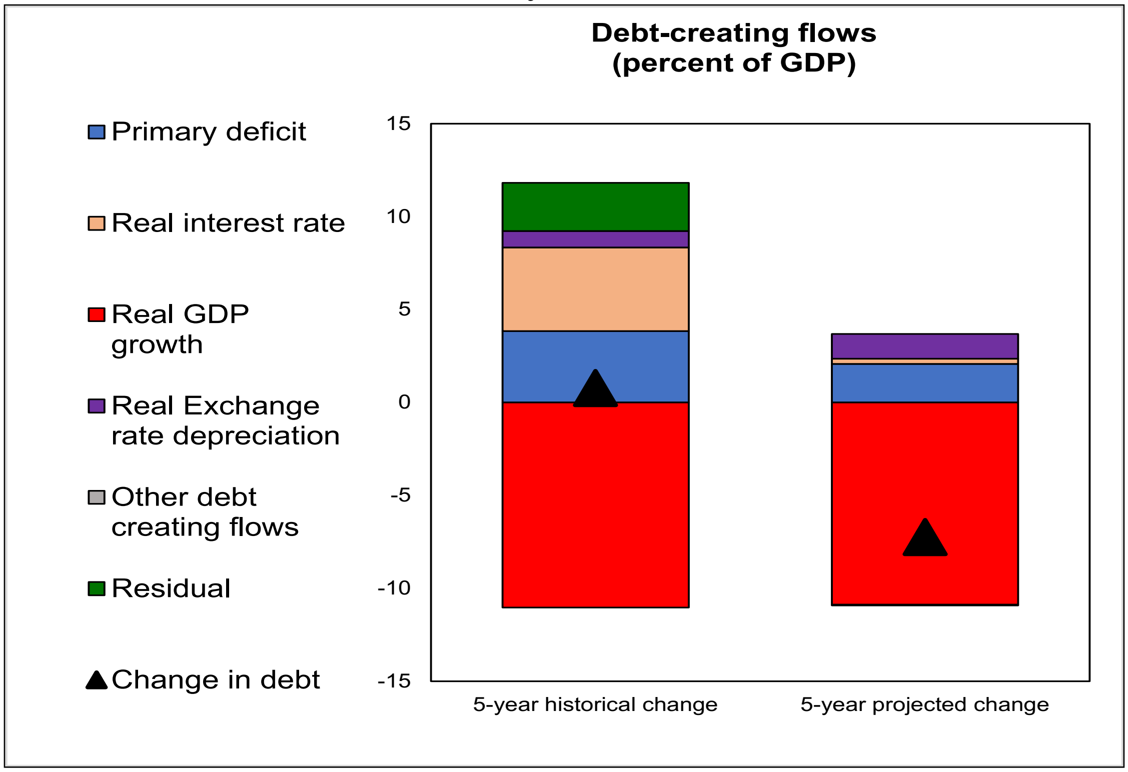
Chart 13: Drivers of External Debt Dynamics- Baseline



Source: Ministry of Finance and Planning

29. On the public DSA, the primary deficit has been the major factor exerting upward pressure on the debt level in both the historical and projection period, with robust GDP growth offsetting this impact. The results show that debt increased slightly by 0.8 percent of GDP cumulatively over the five-year historical period, but is expected to reduce by 7.2 percent of GDP cumulatively in the next five years (**Chart 14)**.

Chart 14 : Drivers of Public Debt Dynamics- Baseline



Source: Ministry of Finance and Planning

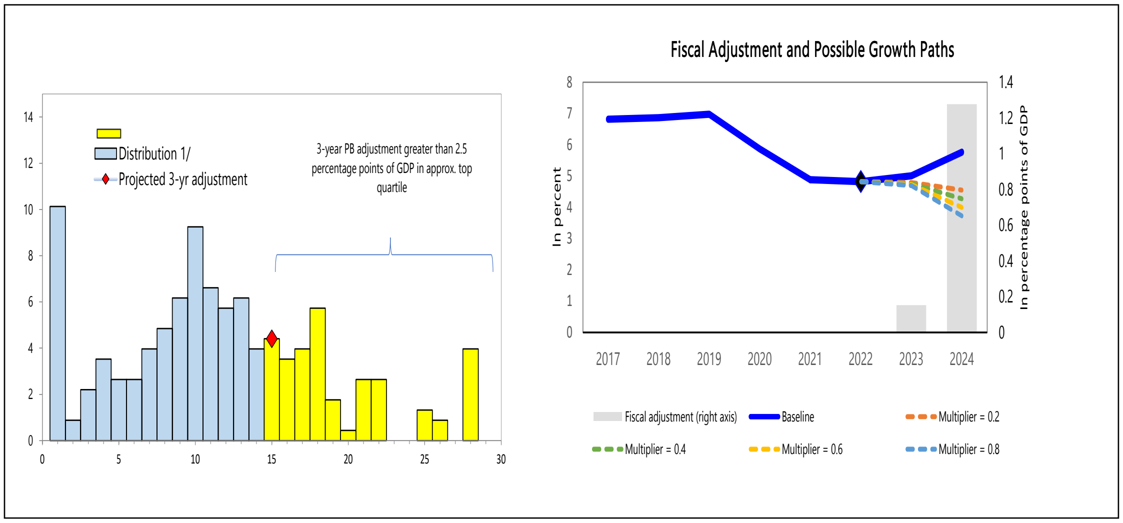
30. The projected three-year fiscal adjustment places Tanzania within the top quartile of Low-Income Countries (LICs), suggesting that it might be difficult to achieve. However, the projections show that the fiscal adjustment will be achieved on account of a reduction in expenditure to GDP in the medium term, following a reduction in some COVID-19 related expenditures. that have conducted fiscal adjustments in recent past (**Chart 15**).

31. In 2023/24, the projected growth of 5.8 percent is higher than the 4.3 percent implied by the typical low-income country fiscal multiplier of 0.4[2] percent. This is in line with the growth experience of Tanzania which had historically been above the average of Sub-Saharan African countries and that of other low-

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

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.

Chart 15: Tanzania Realism Tools



Source: Ministry of Finance and Planning

4.3 New Financing Assumptions

32. **External financing** projections in the 2022 DSA are based on a number of factors including: 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).

33. In the medium term, the Government will continue to prioritize a 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. Commercial loans will be directed to the strategic

infrastructure projects which have high multiplier effects to the economy and boost exports.

34. **Domestic financing:** The Government will continue to borrow from domestic market in line with the MTDS objectives of developing the financial markets and minimizing foreign exchange rate risk. In doing so, the following assumptions were made:

i. Net Domestic Financing limit will be 1.3 percent of GDP in 2022/23 and decrease to 1.0 percent and 0.9 percent in 2023/24 and 2024/25, respectively. Thereafter, it will be maintained at 0.8 percent;

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

iii. The long-term 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 2022/23 will be at 32 percent of the gross borrowing and will gradually decrease to 30 percent in 2028/29 and thereafter from 2033/34 will be maintained at 28 percent (**Table 1**); and,

vi. Yields are projected to rise slightly in the medium term and thereafter remain constant across maturity spectrum. The rise in yields is mainly driven by global economic conditions including rising inflation due to supply chain disruptions, leading investors to demand higher returns (**Table 2).**

Table 1: Domestic financing strategy

	2022/23 – 2027/28	2028/29 – 2032/33	2033/34 – 2037/38	2038/39 – 2042/43
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

Table 2: Yield assumptions in the medium term

	2022/2023	2023/24	2024/25	2025/26	2026/27	2027/28
364 Days T-bills	6.0%	6.0%	6.5%	6.5%	6.5%	6.5%
Bonds (1 to 3 years)	8.5%	8.5%	9.0%	9.0%	9.5%	9.5%
Bonds (4 to 7 years)	10.0%	10.5%	11.0%	11.5%	12.0%	12.5%
Bonds (beyond 7 years)	13.0%	13.25%	13.5%	13.75%	14.0%	14.25%

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

Chapter 5: DSA METHODOLOGY AND RESULTS

5.1 Methodology

35. The 2022 DSA applied the LIC-DSF and indicative debt burden thresholds which are based on the Composite Indicator[3] (CI). The CI is computed using country-specific information that includes the Country Policy and Institutional Assessment (CPIA)[4] and relevant macroeconomic variables, specifically: real GDP growth, foreign exchange reserves, remittances and world economic growth.

36. 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

37. The CI for Tanzania, computed from data published in the World Economic Outlook (WEO) update of August 2022, is 2.94. Based on the CI score, the county's debt-carrying capacity is medium performer **(Table 4)**.

[3] An index used to measure the country's debt carrying capacity.
[4] The CPIA is computed annually by the World Bank for IDA countries. It consists of 16 criteria grouped into four clusters—economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions—weighted equally to derive the overall CPIA Rating, which ranges from 1 to 5.

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	3.521	1.36	46%
Real growth rate (in percent)	2.719	5.824	0.16	5%
Import coverage of reserves (in percent)	4.052	45.199	1.83	62%
Import coverage of reserves^2 (in percent)	-3.990	20.430	-0.82	-28%
Remittances (in percent)	2.022	0.040	0.00	0%
World economic growth (in percent)	13.520	3.050	0.41	14%
CI Score			2.94	100%
CI rating			Medium	

Source: International Monetary Fund /World Bank (2022)

5.2 DSA Results

5.2.1 External Public Debt Indicators under Baseline Scenario

38. The solvency indicators show that PV of external public debt to GDP is projected at 17.7 percent in 2022/23 and afterwards decrease to 15.8 percent in 2026/27 and thereafter slightly decrease to 15.4 percent by 2032/33, all below the threshold of 40 percent. Likewise, the PV of external public debt-to-exports is projected to decline from 113.4 percent in 2022/23 to 101.3 percent in 2026/27 and thereafter decrease to 92.1 percent by 2032/33, well below the threshold of 180 percent.

39. The liquidity indicators show that the ratio of debt service to exports is projected to decrease from 14.1 percent in 2022/23 to 8.2 percent in 2026/27 and thereafter increase to 10.6 percent in 2032/33, which is below the threshold of 15 percent. The debt service to revenue is projected to decline from 14.9 percent in 2022/23 to 9.3 percent in 2026/27 and increase to 12.2 percent by 2032/33, also below the threshold of 18 percent (**Table 5**).

Table 5: External Public Debt Sustainability Indicators

External DSA	Threshold	2021/22[5]	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2032/33
PV of debt-to GDP ratio	40	18.1	17.7	17.3	16.4	15.8	15.8	16.3	15.4
PV of debt-to-exports ratio	180	119.6	113.4	108.1	104.0	101.9	101.3	99.7	92.1
Debt service-to-exports ratio	15	13.5	14.1	9.6	8.9	8.5	8.2	8.8	10.6
Debt service-to-revenue ratio	18	14.1	14.9	10.4	9.6	9.3	9.3	10.9	12.2

Source: Ministry of Finance and Planning

5.2.2 Public Debt Burden Indicators Under Baseline Scenario

40. The DSA results for public (external and domestic) debt indicate that the projected PV of debt to GDP will decrease from 31.9 percent in 2022/23 to 27.8 percent in 2026/27 and then increases to 30.8 percent by 2032/33. The ratio, therefore, remains below the benchmark level of 55 percent throughout the projection period.

41. The PV of public debt-to-revenue and grant is projected to decrease from 207.0 percent in 2022/23 to 194.6 percent in 2026/27 and thereafter increases to 207.1 percent by 2032/33. The ratio of debt service to revenue and grants is projected to decrease from 41.6 percent in 2022/23 to 27.7 percent in 2026/27 and increase to 41.0 percent in 2032/33 (**Table 6**).

Table 6: Public Debt Sustainability Indicators

Public DSA	Threshold	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2032/33
PV of debt-to GDP ratio	55	32.5	31.9	30.9	29.5	28.4	27.8	28.6	30.8
PV of debt-to-revenue and grant ratio	N/A	217.3	207.0	202.4	196.3	194.4	194.6	207.7	207.1
Debt service-to-revenue and grant ratio	N/A	34.0	41.6	33.3	30.5	27.6	27.7	30.1	41.0

Source: Ministry of Finance and Planning

5.2.3 External Public Debt Burden Indicators Under Stress Scenario

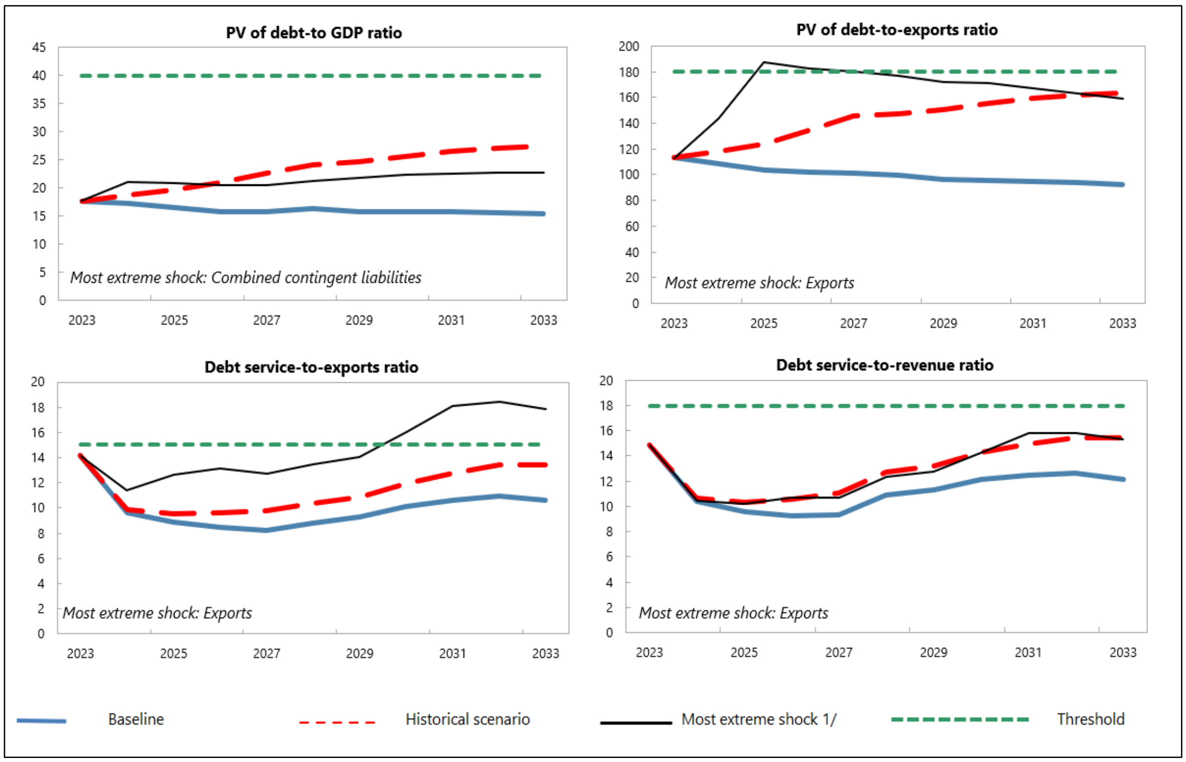
42. Under stress scenario, the value of PV of external public debt to GDP is projected at 21.1 percent in 2023/24 and increases to 22.8 percent in 2032/33, which is below the threshold of 40 percent. A one standard deviation shock of exports causes an increase of PV of external public debt to exports ratio to 187.3 percent

[5] Represent actual ratios as of 30th June 2022

in 2024/25, which is slightly above the threshold of 180 percent and later decreases to 159.1 percent in 2032/33 (**Chart 16**).

43. A one standard deviation shock of exports causes the debt service to export ratio to go above the threshold of 15 percent in 2030/31 at a value of 18.1 percent and thereafter increases to 18.5 percent in 2031/32. On the other hand, one standard deviation shock of exports leaves the debt service to revenue ratio well below the threshold value of 18 percent.

Chart 16: External Public Debt Burden Indicators



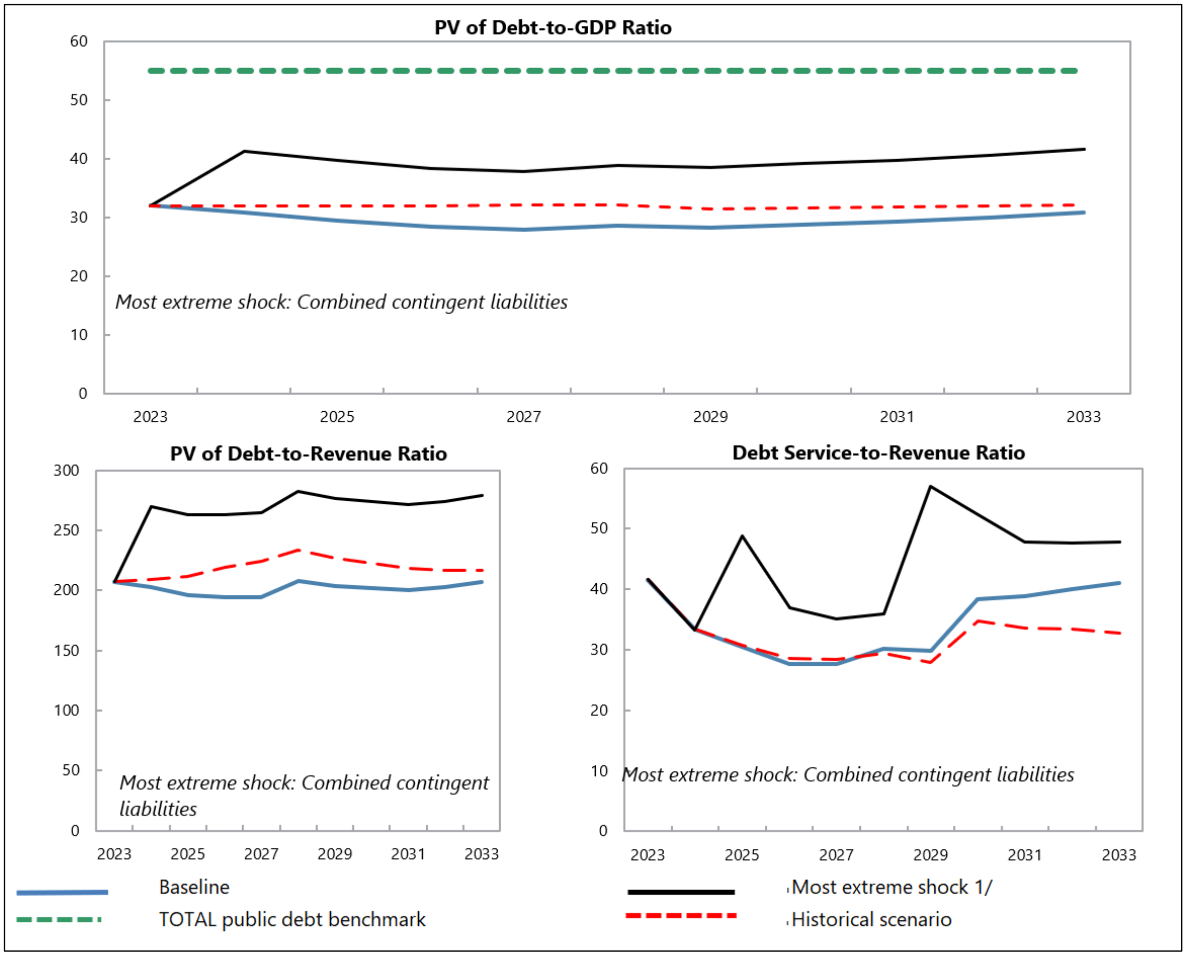
Source: Ministry of Finance and Planning

5.2.4 Public Debt Burden Indicators Under Stress Scenario

44. 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 17)**.

45. Nonetheless, the portfolio is sensitive to combined contingent liabilities shocks. The combined contingent liability shock raises PV of debt to revenue ratio to 264.3 percent and 279.4 percent in the medium and long-term. Similarly, the contingent liability shock raises debt service to revenue to 57.0 percent in 2028/29 and then decreases to 47.8 percent in 2032/33.

Chart 17: Public Debt Burden Indicators Under Shock Scenario



Source: Ministry of Finance and Planning

5.3 Assessment of Tanzania Risk of Debt Distress

46. The mechanical risk signals are used to determine the risk ratings of external and overall public debt distress. The risk signal is determined based on the number

of breaches of the indicative threshold by the four debt burden indicators under the baseline scenario and the stress scenarios.

47. Based on the rule, Tanzania's risk of external debt distress is rated as moderate. This follows a non-breach of the thresholds by the debt burden indicators under the baseline scenario but a breach of the threshold by the debt service to export ratio under shock scenario.

48. In view of the moderate risk rating, an assessment of the space available to absorb shocks without moving into a high risk of debt distress category is important to shed light on the robustness of the debt position. According to the moderate risk assessment tool, Tanzania has limited space to absorb shocks only in the short-term. In the medium term, however, the country has some space to absorb shocks and is expected to gain substantial space in the long term (**Chart 18**).

Chart 18: Moderate Risk Assessment Results

Source: Ministry of Finance and Planning

49. 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

50. The 2022 DSA results show that Tanzania's debt remains sustainable in the medium to long-term. All liquidity and solvency debt burden indicators remain below their respective thresholds under baseline scenario for both external and public DSA. However, the risk of debt distress remains moderate. This follows a breach of threshold for the debt service to export ratio under shock scenario.

51. Uncertainty on global economic recovery due to negative spillover effects of the Russia - Ukraine war and COVID-19 pandemic continue to pose risks to Tanzania's capacity to service external debt under shock scenario, with severe effect on exports and GDP growth. Other fiscal risks to the Government include contingent liability which are anticipated from implicit and explicit guarantee to the State-Owned Enterprises (SOEs).

52. To mitigate these risks, the Government intends to maintain prudent debt management policies and to continue monitoring developments by updating debt sustainability analysis annually. With the objective to minimize risk, the Government is committed to fiscal consolidation in the medium term. Nevertheless, the Government will continue prioritizing borrowing on concessional and semi-concessional terms, including seeking financing from export credit agencies, while carefully venturing to non-concessional sources for projects of significant importance to the economy. In addition to that, the Government will continue to strengthen supervision of both financial institutions and state-owned enterprises with a view to minimize risks associated with contingent liabilities.

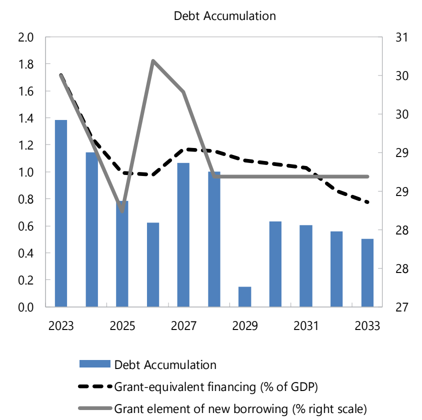
ANNEX No I: External Debt Sustainability Framework, Baseline Scenario, 2020-2043

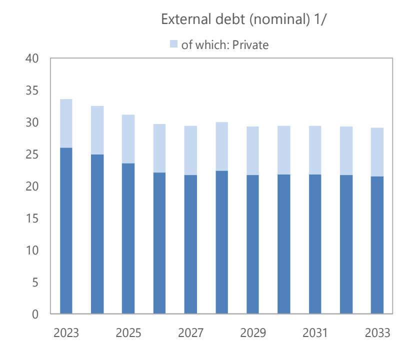
Table 1. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2020-2043

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	38.0	37.4	34.8	33.5	32.5	31.1	29.7	29.3	30.0	29.1	25.2	**36.9**	**30.2**
of which: public and publicly guaranteed (PPG)	27.7	28.6	26.7	25.9	24.9	23.5	22.1	21.7	22.4	21.5	17.7	**27.1**	**22.6**
Change in external debt	-1.7	-0.6	-2.7	-1.2	-1.0	-1.4	-1.4	-0.4	0.7	-0.2	-0.2		
Identified net debt-creating flows	-2.4	-1.4	0.7	0.8	0.3	-0.1	-0.4	-0.8	-0.7	-0.2	0.4	**1.2**	**-0.3**
Non-interest current account deficit	1.5	2.1	4.0	3.3	2.9	2.5	2.1	1.8	1.8	1.9	1.9	**5.3**	**2.1**
Deficit in balance of goods and services	1.2	1.5	3.6	2.7	2.1	1.8	1.4	1.1	1.2	1.6	2.0	**5.2**	**1.6**
Exports	14.7	13.0	15.2	15.6	16.0	15.8	15.5	15.6	16.3	16.7	17.6		
Imports	15.9	14.5	18.7	18.3	18.0	17.6	17.0	16.7	17.5	18.3	19.6		
Net current transfers (negative = inflow)	-0.7	-0.7	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	**-1.0**	**-0.6**
of which: official	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3		
Other current account flows (negative = net inflow)	1.1	1.3	1.2	1.3	1.5	1.4	1.3	1.2	1.2	0.8	0.5	**1.0**	**1.2**
Net FDI (negative = inflow)	-1.7	-1.5	-1.3	-1.4	-1.3	-1.2	-1.2	-1.1	-1.0	-0.9	-0.7	**-2.3**	**-1.1**
Endogenous debt dynamics 2/	-2.2	-2.0	-2.0	-1.1	-1.3	-1.4	-1.4	-1.4	-1.5	-1.1	-0.8		
Contribution from nominal interest rate	0.7	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4		
Contribution from real GDP growth	-2.2	-1.7	-1.7	-1.6	-1.8	-1.9	-1.9	-1.9	-2.0	-1.7	-1.2		
Contribution from price and exchange rate changes	-0.7	-0.8	-0.9	...	...	...	...	...	...	...	...		
Residual 3/	0.7	0.8	-3.4	-2.0	-1.3	-1.3	-1.0	0.4	1.4	0.0	-0.5	**-0.5**	**-0.2**
of which: exceptional financing	0.0	0.0	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**18.1**	**17.5**	**16.9**	**16.1**	**15.2**	**15.1**	**15.6**	**15.3**	**12.7**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**119.6**	**111.9**	**105.9**	**101.9**	**98.1**	**96.8**	**95.6**	**91.2**	**72.2**		
PPG debt service-to-exports ratio	**14.0**	**15.8**	**13.5**	**14.1**	**9.6**	**8.8**	**9.1**	**8.5**	**8.7**	**9.9**	**8.0**		
PPG debt service-to-revenue ratio	**14.2**	**15.6**	**14.1**	**14.9**	**10.4**	**9.6**	**10.0**	**9.5**	**10.8**	**11.4**	**11.4**		
Gross external financing need (Million of U.S. dollars)	1578.2	2433.8	3992.2	3796.0	3270.2	3198.9	3175.3	2965.2	3303.0	4544.3	6560.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.9	4.9	4.8	5.0	5.8	6.3	6.6	6.9	6.9	5.9	5.0	**6.2**	**6.3**
GDP deflator in US dollar terms (change in percent)	1.9	2.2	2.3	6.4	4.1	3.3	3.1	1.3	-3.8	-2.2	-1.7	**1.1**	**0.2**
Effective interest rate (percent) 4/	1.8	1.5	1.6	1.5	1.6	1.6	1.7	1.7	1.7	1.9	1.8	**1.7**	**1.7**
Growth of exports of G&S (US dollar terms, in percent)	8.0	-5.3	25.0	15.1	12.6	8.8	7.9	8.5	8.0	4.1	3.8	**3.6**	**7.4**
Growth of imports of G&S (US dollar terms, in percent)	-4.0	-2.4	38.9	9.4	8.3	7.1	5.9	6.6	8.0	4.5	3.9	**1.5**	**6.2**
Grant element of new public sector borrowing (in percent)	...	...	...	30.0	29.1	28.2	30.2	29.8	28.7	28.7	28.7	**...**	**29.0**
Government revenues (excluding grants, in percent of GDP)	14.5	13.2	14.5	14.8	14.7	14.6	14.1	13.8	13.3	14.6	12.3	**13.7**	**14.2**
Aid flows (in Million of US dollars) 5/	1522.2	1157.5	2099.6	2119.6	1650.7	1414.6	1448.2	1912.6	1941.8	1605.3	1933.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.7	1.2	1.0	1.0	1.2	1.2	0.8	0.6	**...**	**1.1**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	39.4	41.6	43.2	44.8	42.9	41.6	39.6	38.0	**...**	**42.0**
Nominal GDP (Million of US dollars)	63,499	68,032	72,983	81,532	89,796	98,584	108,337	117,281	120,592	144,300	209,928		
Nominal dollar GDP growth	7.8	7.1	7.3	11.7	10.1	9.8	9.9	8.3	2.8	3.6	3.3	**7.3**	**6.4**
Memorandum items:													
PV of external debt 7/	...	...	26.2	25.1	24.5	23.7	22.8	22.6	23.2	22.9	20.3		
In percent of exports	...	...	173.0	160.5	153.5	149.9	147.0	145.6	142.1	136.6	115.3		
Total external debt service-to-exports ratio	18.0	22.4	18.5	17.7	13.1	12.4	12.7	12.1	12.2	13.2	11.2		
PV of PPG external debt (in Million of US dollars)			13234.8	14246.3	15180.9	15884.3	16499.0	17654.3	18828.4	22041.7	26679.0		
(PVt-PVt-1)/GDPt-1 (in percent)				1.4	1.1	0.8	0.6	1.1	1.0	0.5	0.3		
Non-interest current account deficit that stabilizes debt ratio	3.2	2.7	6.7	4.5	3.9	3.9	3.6	2.2	1.1	2.0	2.1		

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, 2020-2043

Table 2. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-2043

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	38.4	40.7	41.0	40.0	38.4	36.4	34.6	33.8	34.6	36.5	45.7	38.0	35.8
of which: external debt	27.7	28.6	26.7	25.9	24.9	23.5	22.1	21.7	22.4	21.5	17.7	27.1	22.6
Change in public sector debt	-1.4	2.3	0.3	-1.0	-1.6	-2.0	-1.8	-0.9	0.8	0.7	1.8		
Identified debt-creating flows	-1.4	0.7	0.9	-1.2	-1.9	-2.2	-2.1	-1.2	-1.7	0.1	1.4	0.4	-1.0
Primary deficit	-0.1	1.8	1.9	1.7	0.5	-0.2	-0.2	0.2	0.3	-0.2	-0.2	1.5	0.2
Revenue and grants	15.1	13.6	15.0	15.4	15.3	15.0	14.6	14.3	13.8	14.9	12.5	14.7	14.6
of which: grants	0.6	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.3	0.2		
Primary (noninterest) expenditure	15.0	15.4	16.9	17.2	15.7	14.9	14.4	14.5	14.0	14.7	12.3	16.2	14.8
Automatic debt dynamics	-1.3	-1.0	-1.0	-2.9	-2.3	-2.1	-1.9	-1.4	-2.0	0.3	1.7		
Contribution from interest rate/growth differential	-1.4	-1.0	-1.1	-2.9	-2.3	-2.1	-1.9	-1.4	-2.0	0.3	1.7		
of which: contribution from average real interest rate	0.8	0.7	0.8	-0.9	-0.1	0.2	0.3	0.9	0.2	2.3	3.8		
of which: contribution from real GDP growth	-2.2	-1.8	-1.9	-2.0	-2.2	-2.3	-2.2	-2.2	-2.2	-2.0	-2.1		
Contribution from real exchange rate depreciation	0.1	0.0	0.1	...	...	...	...	...	...	...	...		
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	0.0	1.6	-0.5	0.2	0.2	0.3	0.3	0.3	2.6	0.6	0.3	0.9	0.5
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	32.5	31.7	30.5	29.2	27.9	27.2	28.0	30.4	40.8		
PV of public debt-to-revenue and grants ratio	...	...	217.3	205.5	200.0	194.0	190.9	190.5	203.6	204.5	326.0		
Debt service-to-revenue and grants ratio 3/	37.5	39.1	34.0	41.6	33.3	30.5	28.3	28.2	30.3	40.0	78.1		
Gross financing need 4/	5.6	7.1	7.0	8.1	5.5	4.4	4.0	4.2	4.4	5.8	9.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.9	4.9	4.8	5.0	5.8	6.3	6.6	6.9	6.9	5.9	5.0	6.2	6.3
Average nominal interest rate on external debt (in percent)	2.0	1.7	1.8	1.6	1.7	1.8	1.8	1.8	1.9	2.1	2.1	1.8	1.9
Average real interest rate on domestic debt (in percent)	8.6	9.5	8.3	2.2	5.0	6.5	7.1	8.9	14.6	13.9	13.8	7.3	10.2
Real exchange rate depreciation (in percent, + indicates depreciation)	0.4	0.1	0.2	...	...	...	...	...	...	...	...	4.1	...
Inflation rate (GDP deflator, in percent)	2.2	2.5	2.3	7.2	5.5	4.6	4.4	2.9	-2.0	-1.0	-0.7	4.8	1.7
Growth of real primary spending (deflated by GDP deflator, in percent)	7.5	7.5	14.8	6.9	-3.1	0.6	3.5	7.3	3.3	5.9	3.0	6.1	5.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.3	-0.6	1.6	2.7	2.1	1.8	1.7	1.1	-0.6	-0.9	-2.0	0.7	0.6
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		

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

Public sector debt 1/