THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF FINANCE

TANZANIA NATIONAL DEBT SUSTAINABILITY ANALYSIS

DECEMBER 2023

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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
EFD	Electronic Fiscal Device
EFDMS	Electronic Fiscal Device Management System
FDI	Foreign Direct Investment
FYDP	Five Year Development Plan
GDP	Gross Domestic Product
GePG	Government Electronic Payment Gateway
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 accordance with Regulation 38 (d) of the Government Loans, Guarantees, and Grant Act, Cap. 134, the Government is mandated to perform an annual Debt Sustainability Analysis (DSA). It is in this premise that the Ministry of Finance prepares the DSA as part of fulfilling this obligation with the view to identify and mitigate risks and vulnerabilities associated with country's debt trajectory. The primary objective of this analysis is to assess the country's ability to fulfill its existing and upcoming debt commitments. It serves as a guiding framework for making informed borrowing decisions, ensuring a balance between gross financing needs and the capacity to repay debts both in the current and future periods.

The 2023 DSA indicates that all external debt burden indicators continue to remain below the established thresholds in the baseline, affirming the sustainability of Tanzania's debt in the medium and long term. Nevertheless, the country's debt carrying capacity has encountered challenges due to global shocks, notably the economic repercussions of the Russia-Ukraine war and the deceleration of exports. Consequently, under shock scenarios, the country faces constrained capacity to service its external debt.

The findings of the 2023 DSA reveal that the present value (PV) of both external public debt to GDP (18.4 percent) and public debt to GDP (33.3 percent) ratios remain below the threshold of 40 percent and 55 percent respectively in 2023/24.

This positive outcome is attributed to a stable macroeconomic outlook, supported by conducive government policies, and an efficient debt management strategy.

While solvency ratios seem to be within the thresholds, as indicated by the PV of debt to GDP, liquidity ratio of external debt is sensitive to exports, indicating that, the country has limited space to absorb liquidity shocks.

In this context, the Government is steadfast in its commitment to implementing robust measures aimed at bolstering revenue mobilization and streamlining expenditures, acknowledging their crucial role in upholding fiscal buffers over the medium term. Emphasizing the significance of vigilant monitoring of external borrowing, the government strategically prioritizes optimizing a blend of concessional loans from both multilateral and bilateral official lenders, along with semi-concessional loans from Export Credit Agencies (ECAs) in the short to medium term. This approach is in harmony with the government's overarching objective of fostering sustainable fiscal practices and exercising prudent management of financial resources.

Hon. Dr. Mwigulu Lameck Nchemba (MP),
Minister of Finance

Acknowledgment

The DSA framework is a tool jointly developed by International Monetary Fund and World bank for countries to evaluate their ability to service debts without compromising economic growth and stability. Tanzania 2023 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 macro economic 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 on 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 of Finance together with officials from Policy Analysis and Budget departments, President office - Finance and Planning Zanzibar, the Bank of Tanzania, National Planning Commission, Treasury Registrar Office, and the National Bureau of Statistics.

Dr. Natu El-maamry Mwamba
Permanent Secretary - Treasury

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Chapter One

Introduction

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 the continued sustainability of government debt in the medium to long term, while aligning prospective new external and domestic borrowings with the macroeconomic framework. This comprehensive assessment evaluated both present and future debt levels, as well as the country's capacity to meet debt servicing obligations without compromising economic growth and development. The 2023 DSA was carried out by Tanzanian officials in collaboration with the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

The 2023 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 2023 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 2022/23 as base year and 2023/24 as first year of projection.

The 2023 DSA took into consideration the implementation of the Five-Year Development Plan III (FYDP III), which aims to build on the successes of prior plans. Its objectives are to support industrialization, advance structural transformation in the economy, and leverage the country's distinct geographical advantages to boost exports and trade competitiveness. Additionally, the assessment factored in the government's dedication to raising domestic revenues and securing external resources for funding strategic projects, notably the construction of the Julius Nyerere Hydropower Power Plant (JNHPP) and Standard Gauge Railway (SGR).

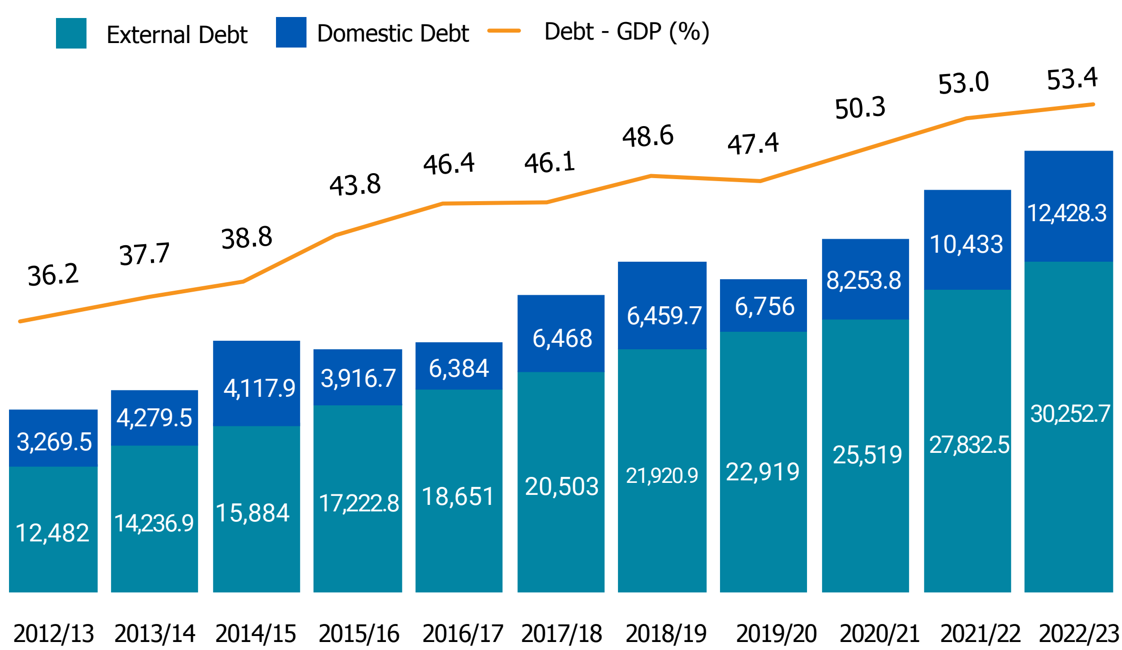
Furthermore, the 2023 DSA takes into account recovery of both the domestic and global economies from the effects of COVID-19 pandemic, as well as the ongoing global shocks such as the Russia-Ukraine war.

2 Chapter Two Debt Portfolio Review

2.1 National Debt Developments

As at end June 2023, the national debt stock comprising public domestic and external debt, and private sector external debt, stood at USD 42,681.0 million, or 53.4 percent of GDP, compared to USD 38,265.63 million recorded in June 2022. Out of this, domestic debt was USD 12,428.3 million, equivalent to 15.6 percent of GDP, and external debt (including public and private) was USD 30,252.7 million, equivalent to 37.9 percent of GDP **(Chart 1)**. The increase was mainly on account of new disbursements of external loans, issuance of new Government securities and utilization of the overdraft facility.

Chart 1: National Debt Developments (USD Million)

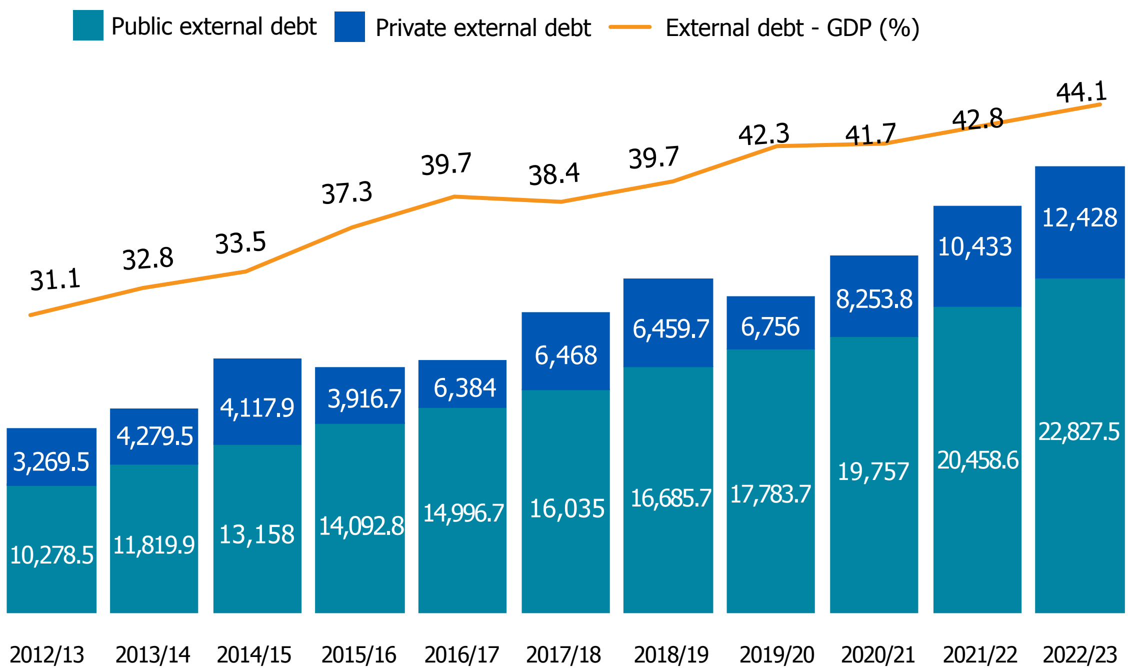


Source: Ministry of Finance, and Bank of Tanzania

2.2 Public Debt Developments

Public debt stock stood at USD 35,255.8 million (44.1 percent of GDP) at end June 2023 from USD 30,891.6 million (42.8 percent of GDP) recorded in June 2022, equivalent to an increase of 14.1 percent. Out of the public debt, external debt accounted for 64.7 percent, while domestic debt accounted for 35.3 percent **(Chart 2).**

Chart 2: Public Debt Developments (USD million)



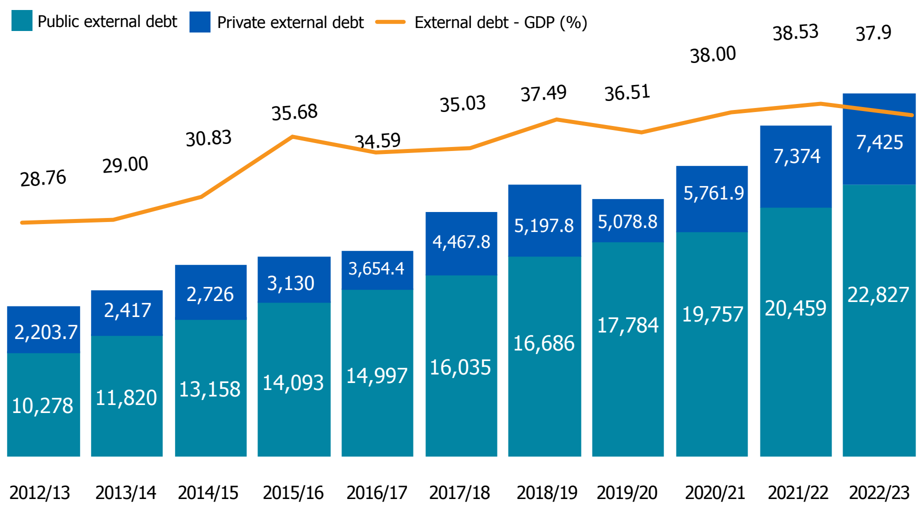
Source: Ministry of Finance, and Bank of Tanzania

2.3 External Debt Developments

The stock of external debt (comprising public and private sector) was USD 30,252.7 million at the end of June 2023, equivalent to an increase of 8.7 percent from USD 27,832.5 million recorded in June 2022. Out of that, external public debt was USD 22,827.5[1] million and private sector debt was USD 7,425.2 million **(Chart 3).**

[1] The stock of external public debt includes bilateral technical interest arrears around USD 1,118.3 million.

Chart 3: External Debt Developments (USD million)

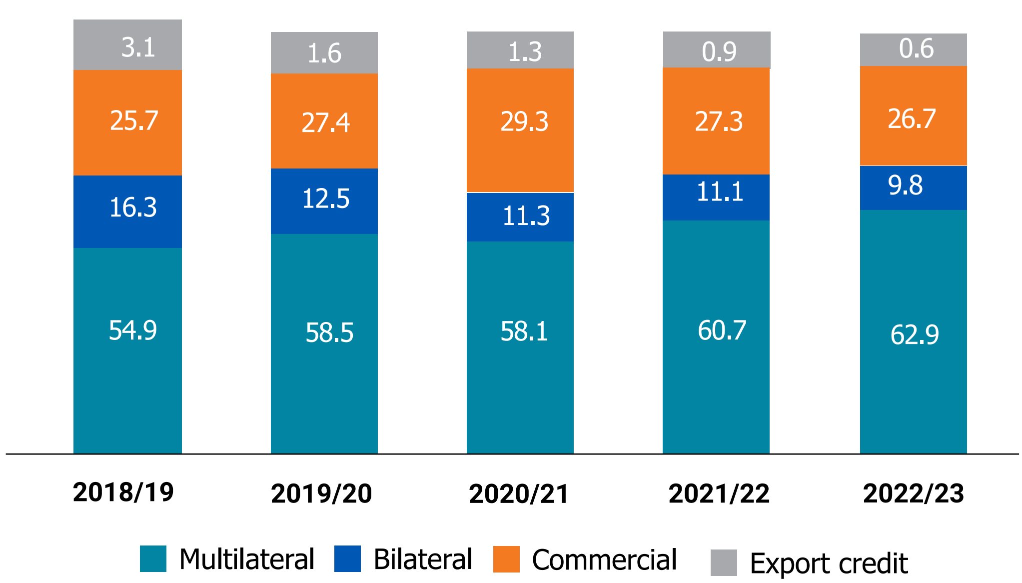


Source: Ministry of Finance, and Bank of Tanzania

2.3.1 External Public Debt Stock by Creditor Category

Multilaterals continued to dominate the external debt portfolio, whereby their relative share increased to 62.9 percent from 60.7 percent recorded in June 2022. The continued dominance of multilateral institutions is mainly on account of support from the World Bank and IMF, and this signals that a large portion of external public borrowing has been contracted on favorable terms. On the other hand, the share of Commercial creditors, declined to 26.7 percent in June 2023 from 27.3 percent in the previous year **(Chart 4).**

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

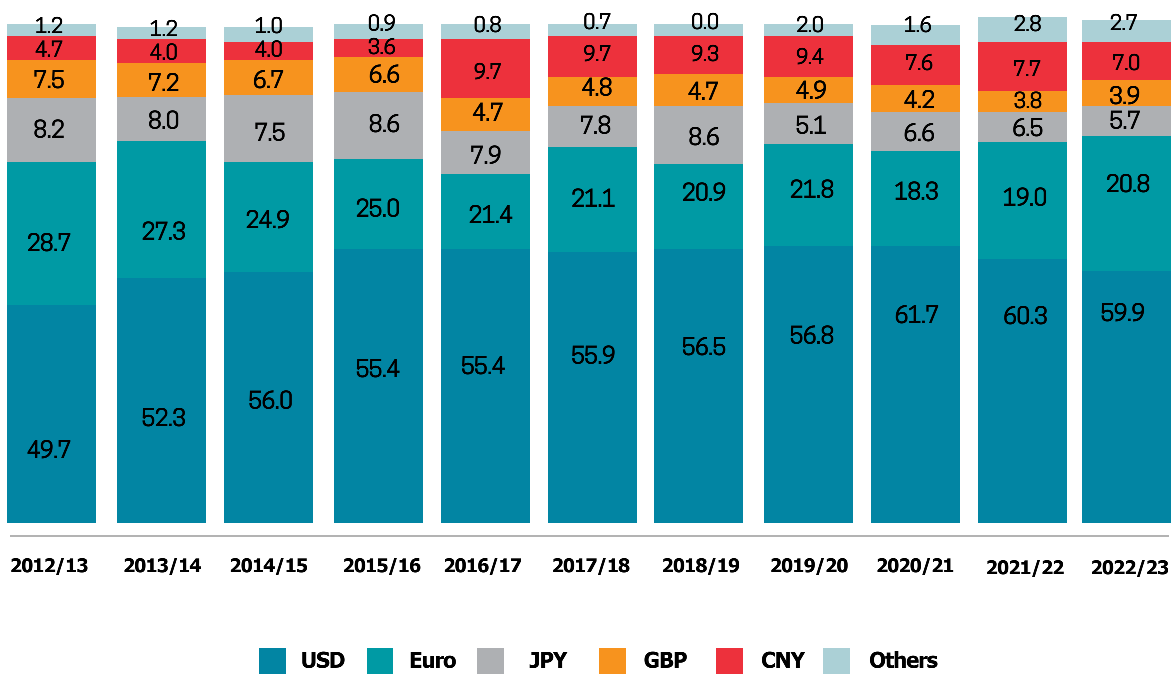


Source: Ministry of Finance, and Bank of Tanzania

2.3.2 External Central Debt by Currency Composition

In terms of currency, the US Dollar remained the dominant currency in the outstanding external public debt representing 59.9 percent, followed by Euro covering 20.8 percent as of June 2023 **(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)

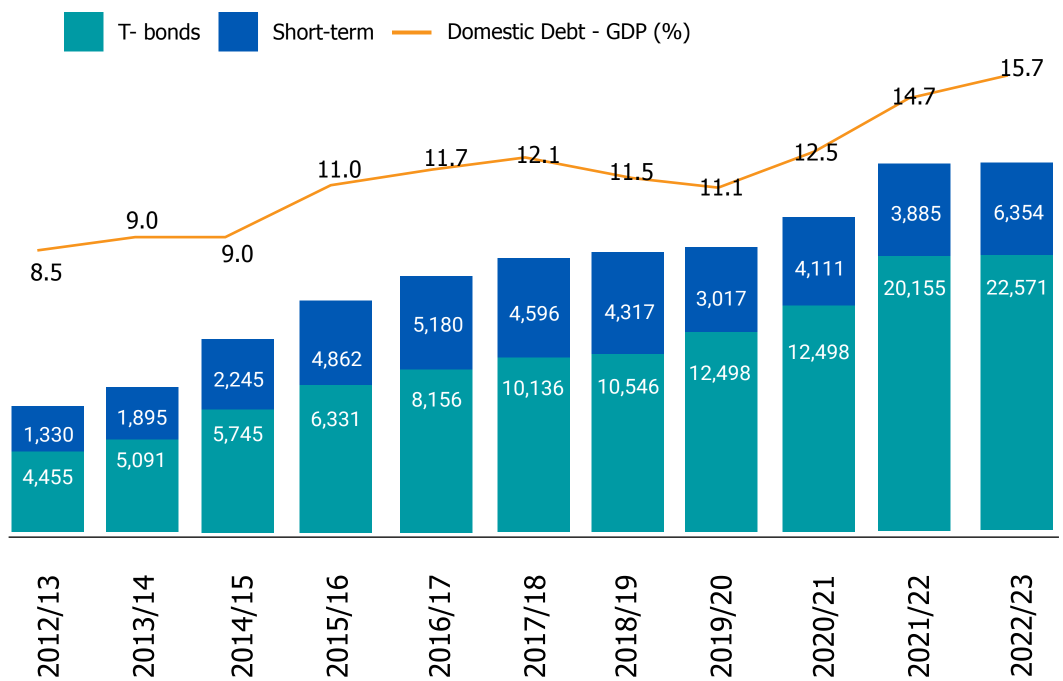


Source: Ministry of Finance, and Bank of Tanzania

2.4 Domestic Debt Developments

Tanzania domestic debt stock as at 30th June 2023 was TZS 28,926.10 billion compared to TZS 24,039.82 billion recorded at end-June 2022, indicating an increase of 20.33 percent. The increase was mainly attributed to new borrowing to finance Government budget and utilization of the overdraft facility. Treasury bonds remained dominant, accounting for 78.03 percent of the debt stock, consistent with the government strategy of lengthening the maturity profile of domestic debt through the issuance of long-term instruments. The debt stock was equivalent to 15.67 percent of GDP, higher than 14.72 percent recorded in June 2022 **(Chart 6).**

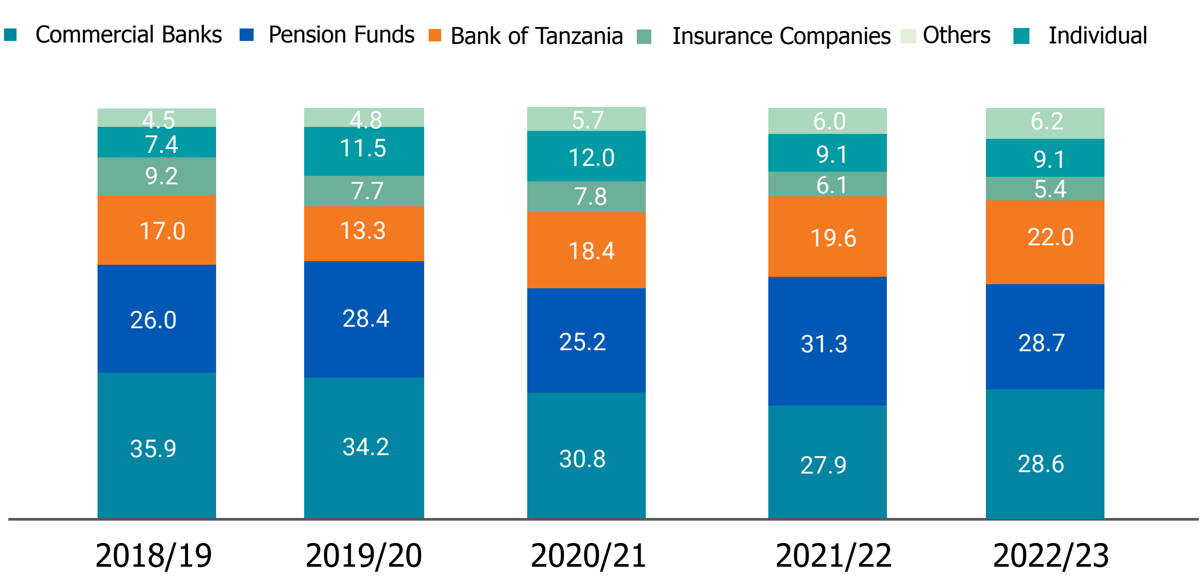
Chart 6: Domestic Debt Developments (TZS Billion)



Source: Ministry of Finance, and Bank of Tanzania

Domestic debt by creditor category shows that pension funds remained dominant accounting for 28.7 percent followed by commercial banks and the Bank of Tanzania at 28.6 percent and 22 percent, respectively **(Chart 7).**

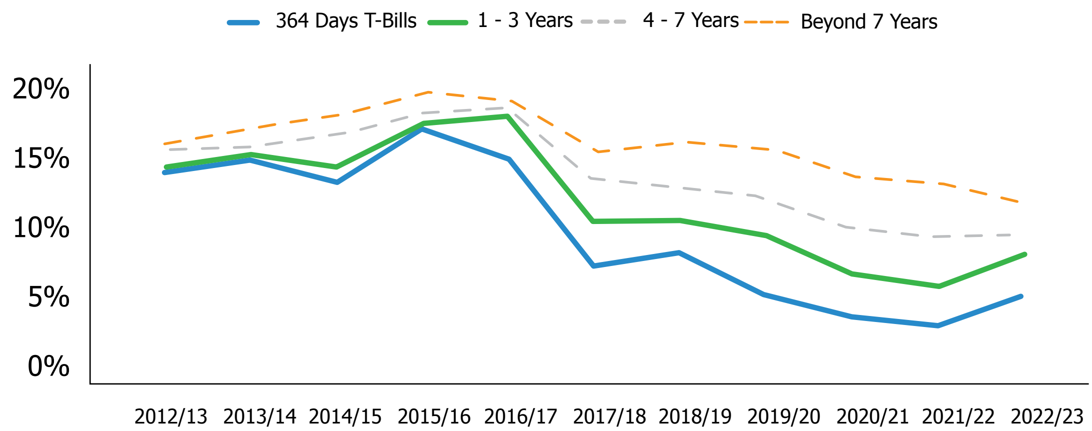
Chart 7: Domestic Debt by Holder's Category (Percent)



Source: Ministry of Finance, and Bank of Tanzania

Yields on government securities had mixed trends in 2022/23. The 364-day bills and 2-year bonds recorded an increase in yields, while yields for 5- and 7-year bonds were the same as in 2021/22, and those for securities with maturity beyond 7 years maintained a downward trend **(Chart 8)**. Increased investors' participation and hence intensified competition in auctions following awareness campaigns, market leaders' forums, and continuous listing of bonds on the Dar es Salaam Stock Exchange remained the factors behind the further decline in yields for government securities with longer-term maturities.

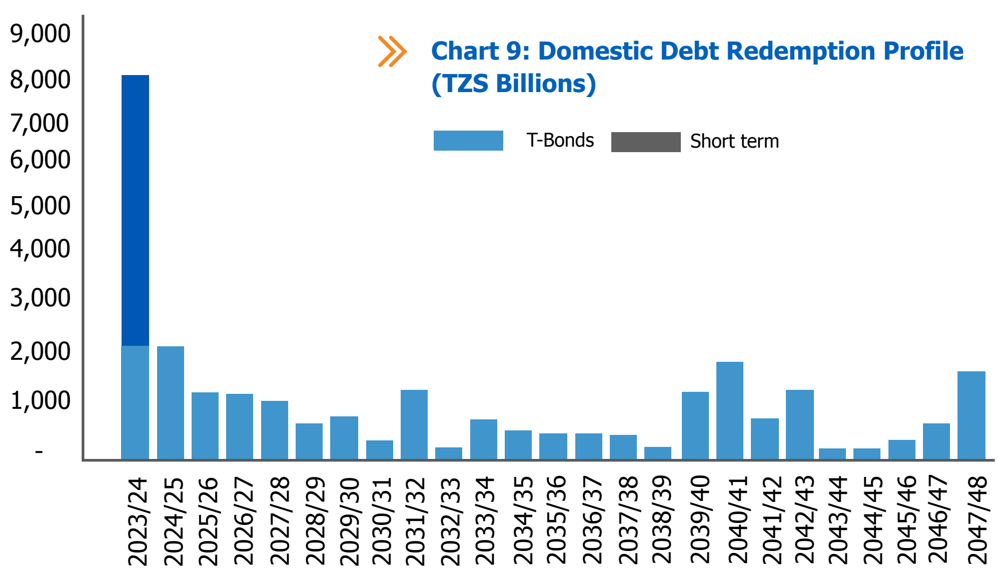
Chart 8: Trend of Weighted Average Yields for Government Securities



Source: Ministry of Finance, and Bank of Tanzania

Domestic debt redemption profile shows that a large proportion of domestic debt matures in 2023/24, owing to repayment of short-term obligations which include overdraft facility amounted to TZS 4,225 billion **(Chart 9).**

Chart 9: Domestic Debt Redemption Profile (TZS Billions)



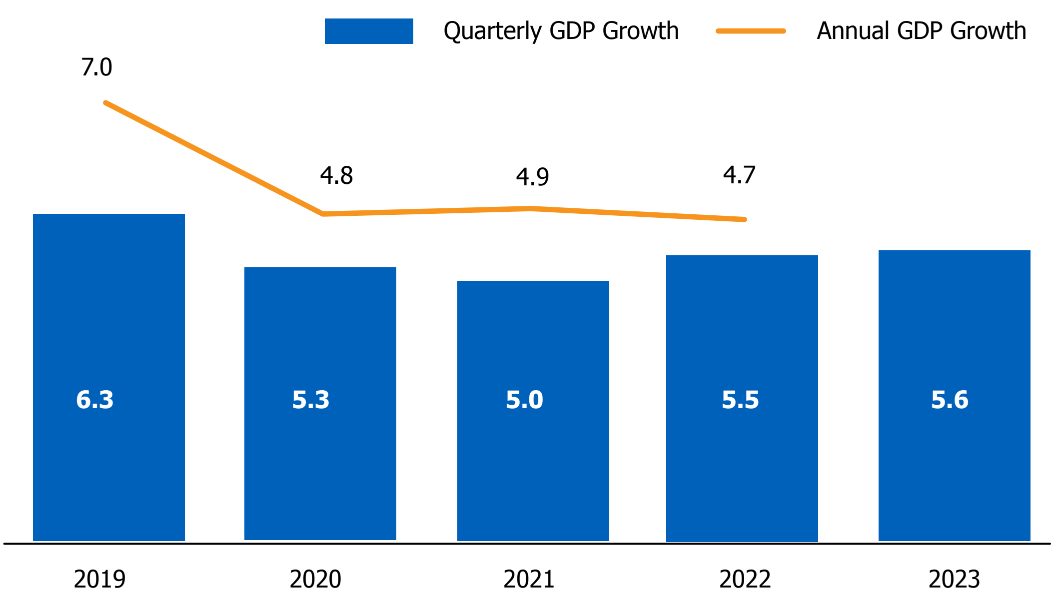
Source: Ministry of Finance, and Bank of Tanzania

3 Chapter Three

Recent Economic Development

The economy remains stable and resilient over the recent past despite ongoing global shocks. Growth in the first half of 2023 was 5.3 percent against 5.1 percent recorded in 2022 mainly supported by agriculture, construction, trade, mining, manufacturing, financial and insurance services. Headline inflation edged up to 4.6 percent in 2022/23 from 4.0 percent recorded in 2021/22, mainly driven by food inflation. Despite the increase, inflation remained within the country's target band and was consistent with EAC and SADC benchmarks of not more than 8.0 percent and between 3.0 percent and 7.0 percent, respectively **(Chart 10).**

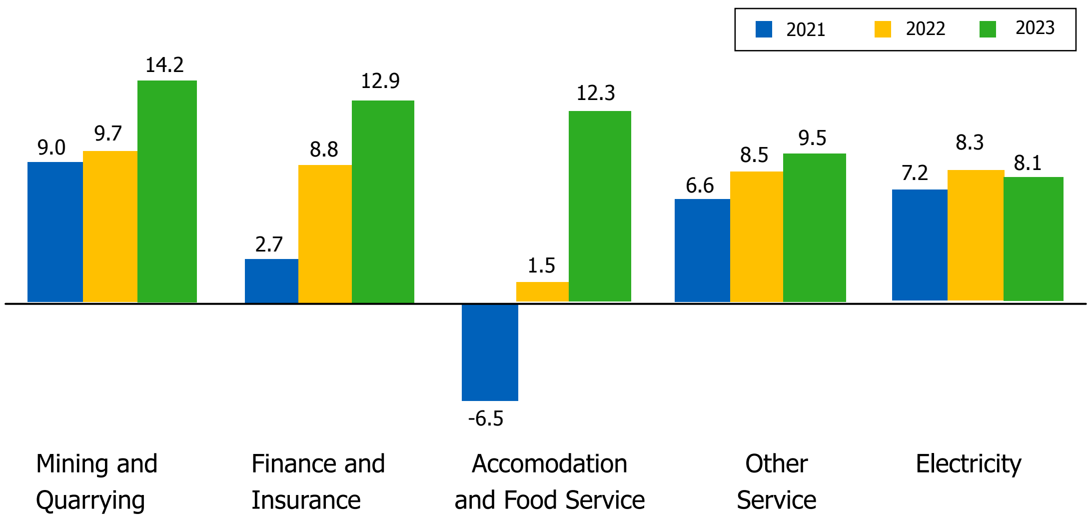
Chart 10: GDP Performance 2019-2023 (Jan - March) in Percent



Source: Ministry of Finance, and National Bureau of Statistics

The growth rates of leading economic activities in the first quarter of 2023 continued to depict an upward trend, reflecting signs of recovery despite prevailing shocks **(Chart 11)**. In terms of contribution to growth the leading activities were agriculture followed by construction and mining activities **(Chart 12).**

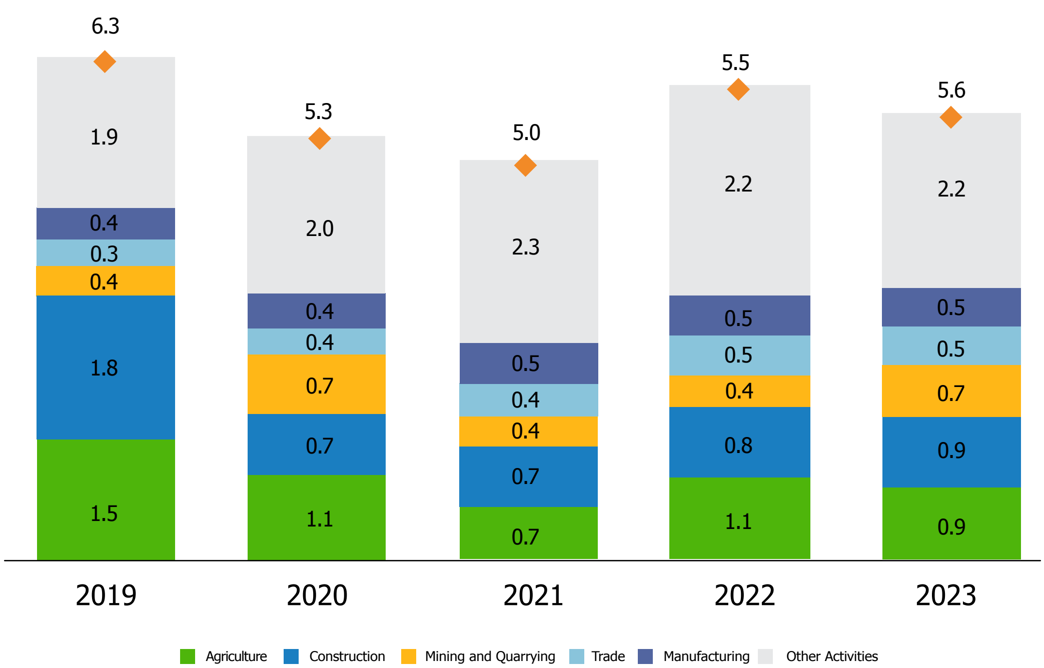
Chart 11: Growth of Selected Economic Activities First Quarter (Percent)



Source: National Bureau of Statistics

Note: Other services include: Arts, entertainment and recreation; activities of households as employers and other service activities

Chart 12: Contribution to Growth in the first Quarter (Percent)

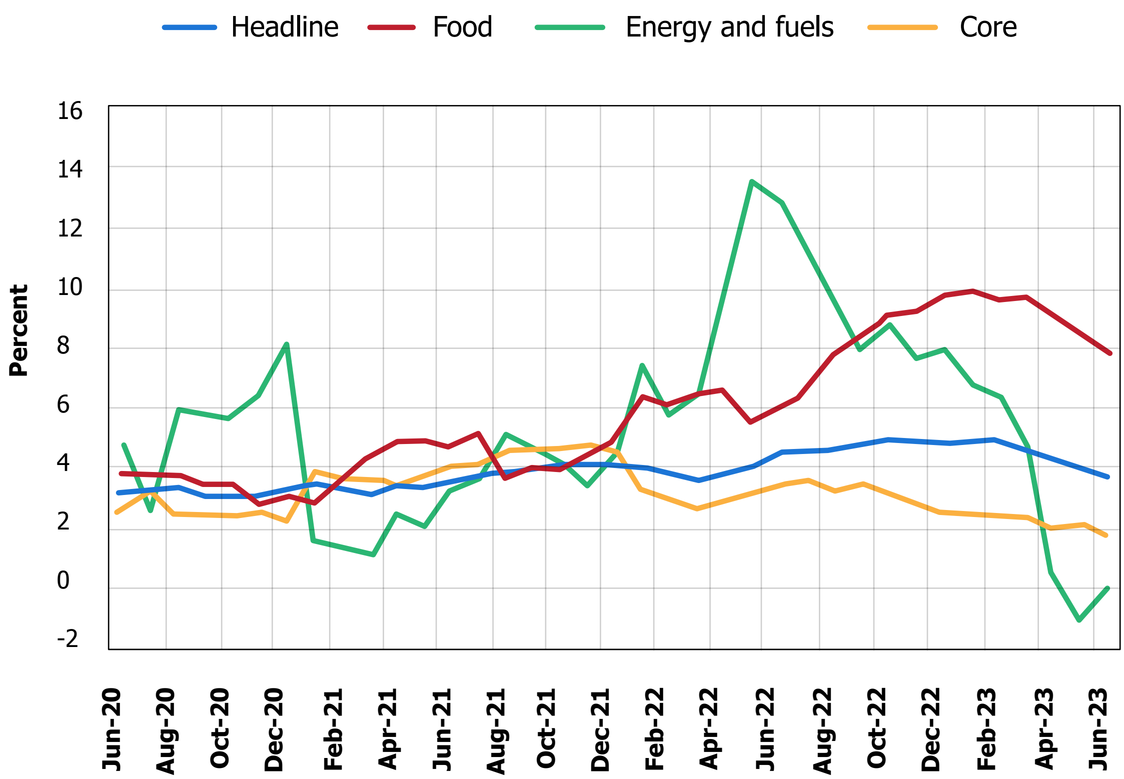


Source: National Bureau of Statistics

Note: The diamond marker shows a Real GDP growth rate (%)

As in many countries, inflation soared in the first half of 2022/23, before declining in the subsequent period. Headline inflation edged up to 4.6 percent in 2022/23 from 4.0 percent recorded in 2021/22 mainly driven by food inflation. Despite the increase, inflation remained within the country's target and was consistent with regional benchmarks **(Chart 13).**

Chart 13: Inflation Developments



Source: National Bureau Statistics

In 2022/23, domestic revenue grew by 7.6 percent, recording a ratio of total domestic revenue to GDP of 14.2 percent, slightly below 14.9 percent in 2021/22. Tax revenue which accounts for the largest share of domestic revenue also grew by 6.9 percent, with tax to GDP ratio of 11.6 percent. On the expenditure, the ratio of government expenditure to GDP was 18.7 percent in 2022/23, also below 19.0 percent in 2021/22. Consequently, the overall fiscal deficit was 4.1 percent of GDP, 0.8 percentage point higher than the budget estimates.

During 2022/23, the overall balance of payments improved to a surplus of USD 114 million, compared to a deficit of USD 1.1 million in 2021/22, supported by foreign financial inflows. The current account recorded a deficit of USD 4,868.7 million in 2022/23, compared to USD 3,398.1 million in 2021/22, owing to high import bills. The value of the Tanzanian shilling against the US dollar remained stable supported by low inflation differentials relative to trading partners. The shilling traded at an average of 2,321.69 per US dollar in 2022/23, compared with 2,309.50 shillings per US dollar in 2021/22, equivalent to a depreciation of 0.53 percent.

Foreign exchange reserves increased to USD 5,446.1 million in 2022/23, from USD 5,110.3 million during 2021/22, sufficient to cover 4.9 months of projected imports of goods and services. The level was above the country's benchmark of at least 4 months and the EAC benchmark of at least 4.5 months, but lower than the SADC benchmark of at least 6 months.

Money supply continued to respond to a less accommodative monetary policy implemented by the Bank of Tanzania in order to maintain low and stable prices, while safeguarding recovery of economic activities from COVID-19 pandemic, effects of war in Ukraine and tightening monetary policies of major global economies. Consequently, extended broad money supply (M3) recorded an annual growth of 18.8 percent, higher than 6.5 percent recorded in the corresponding period of 2022. The growth in money supply was attributed to an increase in credit to private sector that sustained strong growth of 21.3 percent in the year ending June 2023 compared with 19.4 percent recorded in the corresponding period of 2022. The strong growth was due to increased demand for new loans largely attributed to ongoing initiatives by the Government to improve business environment and picking up of various economic activities that were highly impacted by the pandemic.

4 Chapter Four
Underlying DSA Assumptions

4.1. Macroeconomic assumptions

Economic growth: GDP is projected to pick up to 5.0 percent in 2023 from 4.7 percent in the preceding year. In the medium term, real GDP is projected to hover around 6.0 percent supported by implementation of major government infrastructural projects, particularly in transport and energy sectors; and measures to improve mining and agriculture. Furthermore, the recovery of tourist activities will also amplify the growth of the economy through multiplier effect to other economic activities.

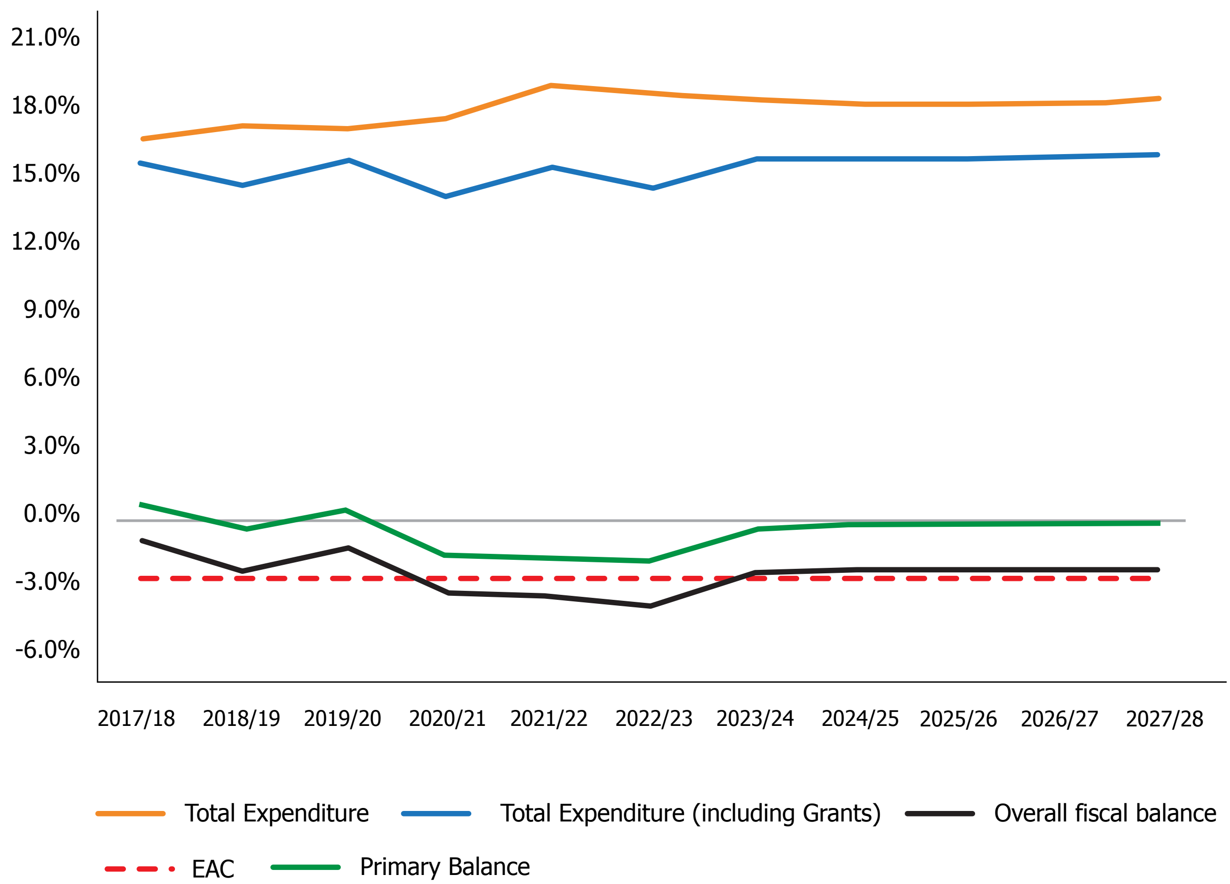
Inflation: The rate of inflation is projected to remain within the domestic medium-term target of 3-7 percent which is in line with EAC and SADC benchmarks. The projection is mainly on account of the expectation of favorable weather conditions for agriculture produce, moderation in commodities prices in the global markets and continued implementation of less accommodative monetary policy by the central bank. Further, the forecast anticipates consistent power supply in the medium term which has a beneficial effect on the production costs and the stability of the Tanzania shilling among the major trading partners currencies.

Fiscal policy: In the medium-term the Government intends to intensify domestic resource mobilization by implementing various strategies including: strengthening the use of ICT systems to increase domestic revenue collections by utilizing Electronic Fiscal Device Management System (EFDMS) data to identify taxpayers who are eligible for VAT registration and register them, analyzing taxpayer's declared sales recorded in EFDMS, closely manage usage of EFDs Machines and GePG system; broadening the tax base by bringing the informal sector and digital economy into the tax net; and strengthening of tax administration to reduce tax evasion and avoidance, and minimizing tax exemptions.

On the other hand, in order to improve the quality of public spending, the government aims to continue allocating funds to most productive sectors with higher multiplier effects on the economy and improve social services to achieve equitable growth and sustainable development. The main objective of the fiscal policy in the medium-term is to create enough fiscal space for priority social and investment spending as well as consolidate public finances to ensure fiscal and debt sustainability. As a result of aforementioned fiscal policy measures and the expected economic recovery, domestic revenue is projected to increase to 15.7 percent of GDP in 2023/24 and to an average of 16.0 percent of GDP over the medium term. Conversely, expenditure is projected to slightly decline to 19.0 percent of GDP in 2023/24 and to an average of 19.2 percent of GDP over the medium term.

With the government's commitment to align public spending with the revenue collection and the intention to consolidate public finances to ensure fiscal and debt sustainability, the overall fiscal deficit is projected at 2.8 percent of GDP in 2023/24 and decline to an average of 2.7 percent of GDP over the medium term in line with the EAC convergence criteria of not more than 3.0 percent of GDP **(Chart 14).**

Chart 14: Fiscal Trends (% of GDP)



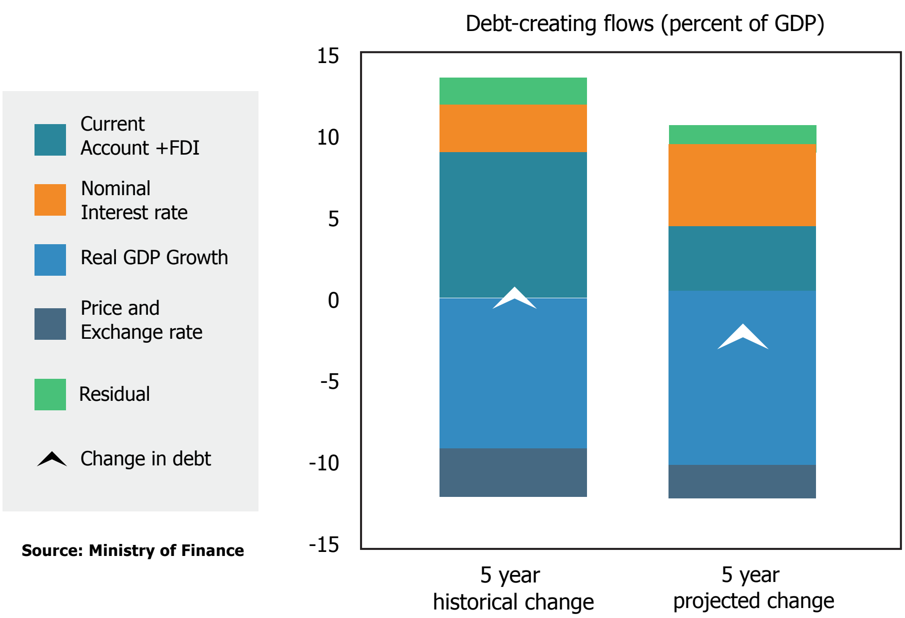
Current account balance: the current account deficit is projected to improve to 4.9 percent of GDP in 2023/24 from 6.1 percent in 2022/23 supported by slowdown in imports and stable growth in exports. In the medium term, the deficit is projected at an average of 3.9 percent, owing to the projected improvement in exports.

Exports of goods and services to GDP are projected to increase from 16.0 percent in 2022/23 to 16.6 percent in 2023/24 and 19.0 percent in the medium term. This is supported by the continued rebound of the tourism sector, increase in the exports of minerals, manufactured goods as well as agriculture exports following various initiatives being undertaken by the Government including fertilizer subsidies. Transport services receipts are projected to grow in line with the growing transportation networks and storage activities and growing activity in the landlocked countries. Meanwhile, imports of goods and services to GDP are projected at 21.3 percent in 2022/23 and slow down to 20.7 percent in 2023/24 before increasing to an average of 22.1 percent over the medium term, owing to continued implementation of flagship projects. Transport services payments are expected to rise due to high freight charges, in line with expected higher import bill of goods.

4.2 Realism of Macroeconomic Projections

External public debt increased by about 0.3 percent of GDP during the previous five years but is projected to decline by 2.6 percent of GDP over the next five years. The main drivers of decline in external debt are a real GDP growth while current account deficit contributes to raise in external debt in both previous and next five years **(Chart 15).**

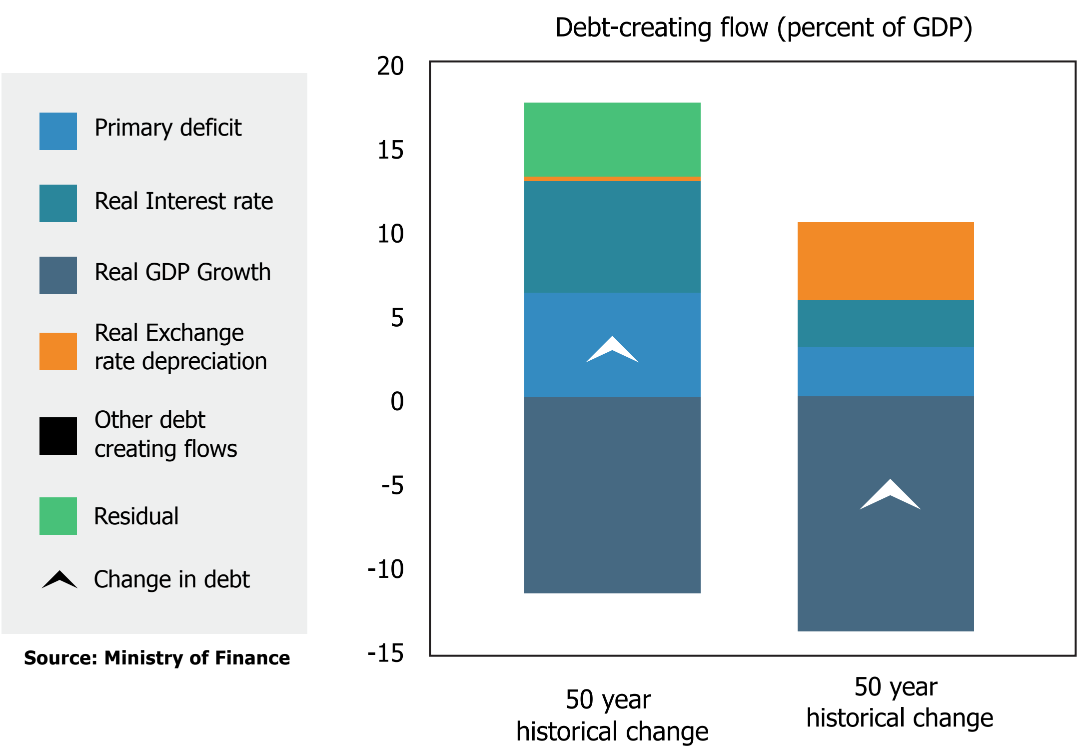
Chart 15 : Drivers of External Debt Dynamics- Baseline



Source: Ministry of Finance

On the public DSA, debt is projected to decline by 3.5 percent of GDP over the next five years compared to an increase of 4.7 percent of GDP over the previous five years. The decline in debt during the projection period will be driven by a significant reduction of the primary deficit as well as real GDP growth. **(Chart 16).**

Chart 16: Drivers of Public Debt Dynamics- Baseline



Source: Ministry of Finance

4.3 New Financing Assumptions

The 2023 Debt Sustainability Analysis (DSA) projects external financing based on several determinants, such as potential financing sources, a five-year historical trend of loans, the undisbursed portion of contracted loans, upcoming and new contracted loans from concessional sources and non-concessional sources. These projections also coincide with the Government's Medium-Term Debt Management Strategy (MTDS).

Over the medium term, the Government plans to balance financing from both concessional and non-concessional sources. The preference will be on concessional loans from bilateral and multilateral lenders.

The remaining financing gaps will predominantly be filled by semi-concessional loans from ECAs, and a minor portion will be filled with Commercial loans, that will be allocated mainly to key infrastructure projects that amplify economic growth and enhance exports.

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 0.9 percent of GDP in 2023/24 and decreased to 0.11 percent in 2024/25 and maintained at 0.13 percent throughout the period;
ii	364-days Treasury bills and long-term instruments will be used for financing purpose;
iii	The maturing Government securities will be rolled over, 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 2023/24 to 2034/35 will be maintained at 30 percent of the gross borrowing and thereafter decrease to 28 percent throughout the period **(Table 1)**; and,
vi	Generally, yields are projected to increase slightly in year 2024/25 and 2025/2026 and thereafter picked a gradual decrease from year 2026/2027 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

	2023/24-2028/29	2029/30-2033/34	2034/35-2038/39	2039/40-2043/44
364 Days -T bills	30.0%	30.0%	28.0%	28.0%
Bonds (1 to 3 Years)	12.0%	10.0%	11.0%	11.0%
Bonds (4 to 7 Years)	12.0%	13.0%	14.0%	14.0%
Bonds (beyond 7 Years)	46.0%	47.0%	47.0%	47.0%

Source: Ministry of Finance, and Bank of Tanzania

Table 2: Yield assumptions in the medium term

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
364 Days -T bills	8.0%	8.4%	8.4%	8.0%	7.8%	7.6%
Bonds (1 to 3 Years)	10.0%	10.5%	10.5%	10.0%	9.8%	9.5%
Bonds (4 to 7 Years)	10.5%	11.0%	11.03%	10.5%	10.2%	10.0%
Bonds (beyond 7 Years)	13.0%	13.7%	13.65%	13.0%	12.7%	12.4%

Source: Ministry of Finance, and Bank of Tanzania

5

Chapter Five

DSA Methodology and Results

5.1. Methodology

The 2023 DSA applied the LIC-DSF and indicative debt burden thresholds which are based on the Composite Indicator (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.

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 external 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

The CI for Tanzania, computed from data published in the World Economic Outlook (WEO) update of August 2023, is 2.918. Based on the CI score, the county's debt-carrying capacity is medium performer (Table 4). The CI is mainly supported by the country's foreign exchange reserves, which are above 4 months of imports.

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	3.500	1.35	46%
Real growth rate (in percent)	2.719	5.951	0.16	6%
Import coverage of reserves (in percent)	4.052	45.051	1.83	63%
Import coverage of reserves ^2 (in percent)	-3.990	20.296	-0.81	-28%
Remittances (in percent)	2.022	0.040	0.00	0%
World economic growth (in percent)	13.520	2.898	0.39	13%
CI Score			2.918	100%
CI Rating			Medium	

Source: International Monetary Fund /World Bank (2023)

5.2 DSA Results

5.2.1 External Public Debt Indicators under Baseline Scenario

The solvency indicators show that PV of external public debt to GDP is projected at 20.1 percent in 2023/24 and afterwards decrease to 18.1 percent in 2027/28 and thereafter slightly decrease to 15.8 percent by 2033/34, all below the threshold of 40 percent. Likewise, the PV of external public debt-to-exports is projected to decline from 114.2 percent in 2023/24 to 101.4 percent in 2027/28 and thereafter decrease to 93.8 percent by 2033/34, well below the threshold of 180 percent.

The liquidity indicators show that the ratio of debt service to exports is projected to increase from 11.1 percent in 2023/24 to 11.3 percent in 2027/28 and thereafter decrease to 10.0 percent in 2033/34, which is below the threshold of 15 percent. The debt service to revenue is projected to increase from 11.6 percent in 2023/24 to 12.0 percent in 2027/28 and decrease to 10.0 percent by 2033/34, also below the threshold of 18 percent **(Table 5).**

Table 5: External Public Debt Sustainability Indicators

Public DSA	Threshold	2022/23*	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2033/34
PV of debt-to GDP ratio	40	19.0	20.1	20.4	19.8	18.6	18.1	17.6	15.8
PV of debt-to-exports ratio	180	113.2	114.2	114.9	111.1	104.3	101.4	105.1	93.8
Debt service-to-exports ratio	15	12.7	11.1	11.5	11.2	12.2	11.3	12.2	10.0
Debt service-to-revenue ratio	18	14.3	11.6	11.9	11.7	12.9	12.0	12.2	10.0

Source: Ministry of Finance

5.2.2 Public Debt Burden Indicators Under Baseline Scenario

The DSA results for public (external and domestic) debt indicate that the PV of debt to GDP is projected at 36.4 percent in 2023/24 and afterwards decrease to to 33.8 in 2027/28 and thereafter slightly decrease to 30.3 percent by 2033/34. The ratio, therefore, remains below the benchmark level of 55 percent throughout the projection period.

The PV of public debt-to-revenue and grant is projected to decrease from 209.2 percent in 2023/24 to 194.7 percent in 2027/28 and thereafter decrease to 172.8 percent by 2033/34. The ratio of debt service to revenue and grants is projected to decrease from 44.3 percent in 2023/24 to 31.1 percent in 2027/28 and slightly increase to 25.2 percent in 2033/34 **(Table 6)**.

Table 6: Public Debt Sustainability Indicators

Public DSA	Threshold	2022/23*	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2033/34
PV of debt-to GDP ratio	55	35.6	36.4	36.7	35.7	34.9	33.8	33.0	30.3
PV of debt-to-revenue and grant ratio	n/a	232.9	209.2	207.3	204.2	200.7	194.7	189.6	172.8
Debt service-to-revenue and grant ratio	n/a	34.2	44.3	33.6	31.1	31.3	31.1	30.9	25.2

Source: Ministry of Finance

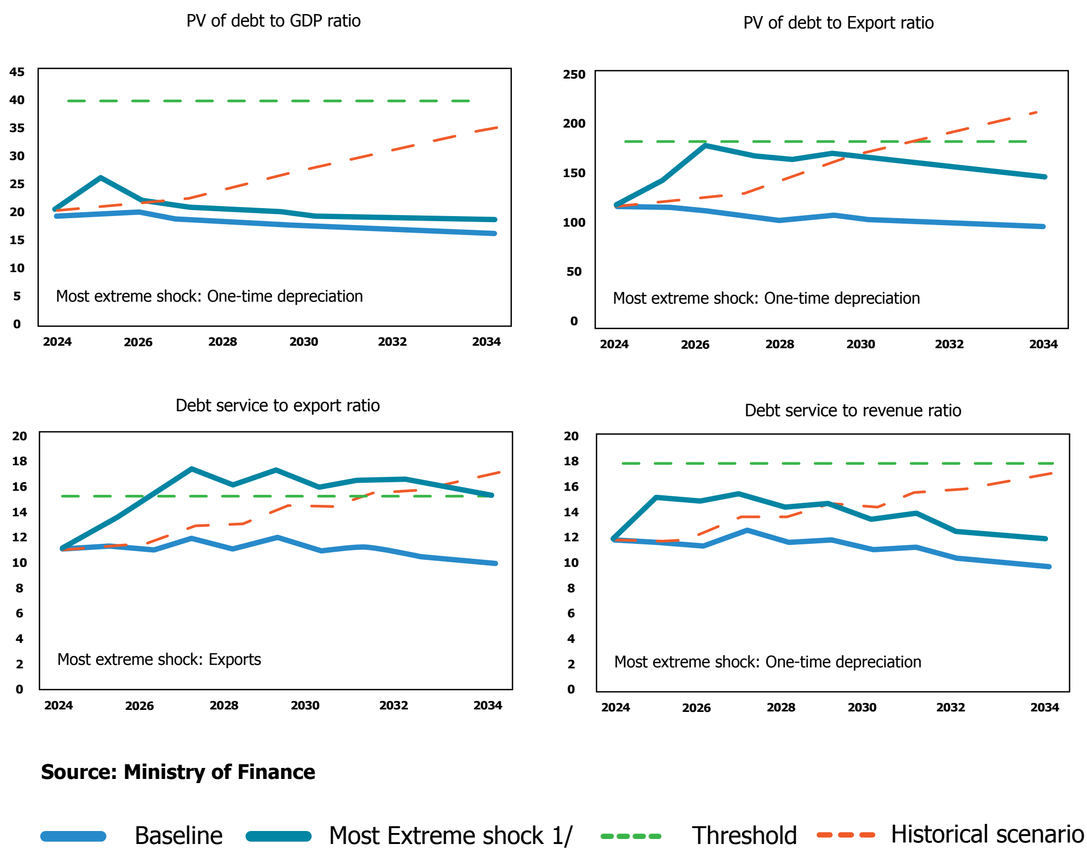
* Represent actual ratios as of end June 2023

5.2.3 External Public Debt Burden Indicators Under Stress Scenario

One-time depreciation causes the value of PV of external public debt to GDP is projected at 26 percent in 2024/25 and decreases to 18 percent in 2033/34, which is below the threshold of 40 percent. One standard deviation of export causes the value of PV of external public debt to exports GDP is projected at 138 percent in 2024/25 and increases to 143 percent in 2033/34, which is below the threshold of 180 percent **(Chart 17).**

A one standard deviation shock of exports causes the debt service to export ratio to go above the threshold of 15 percent in 2026/27 at a value of 17 percent and thereafter decreases to 16 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, after 2025/26 and onwards.

Chart 17: External Public Debt Burden Indicators



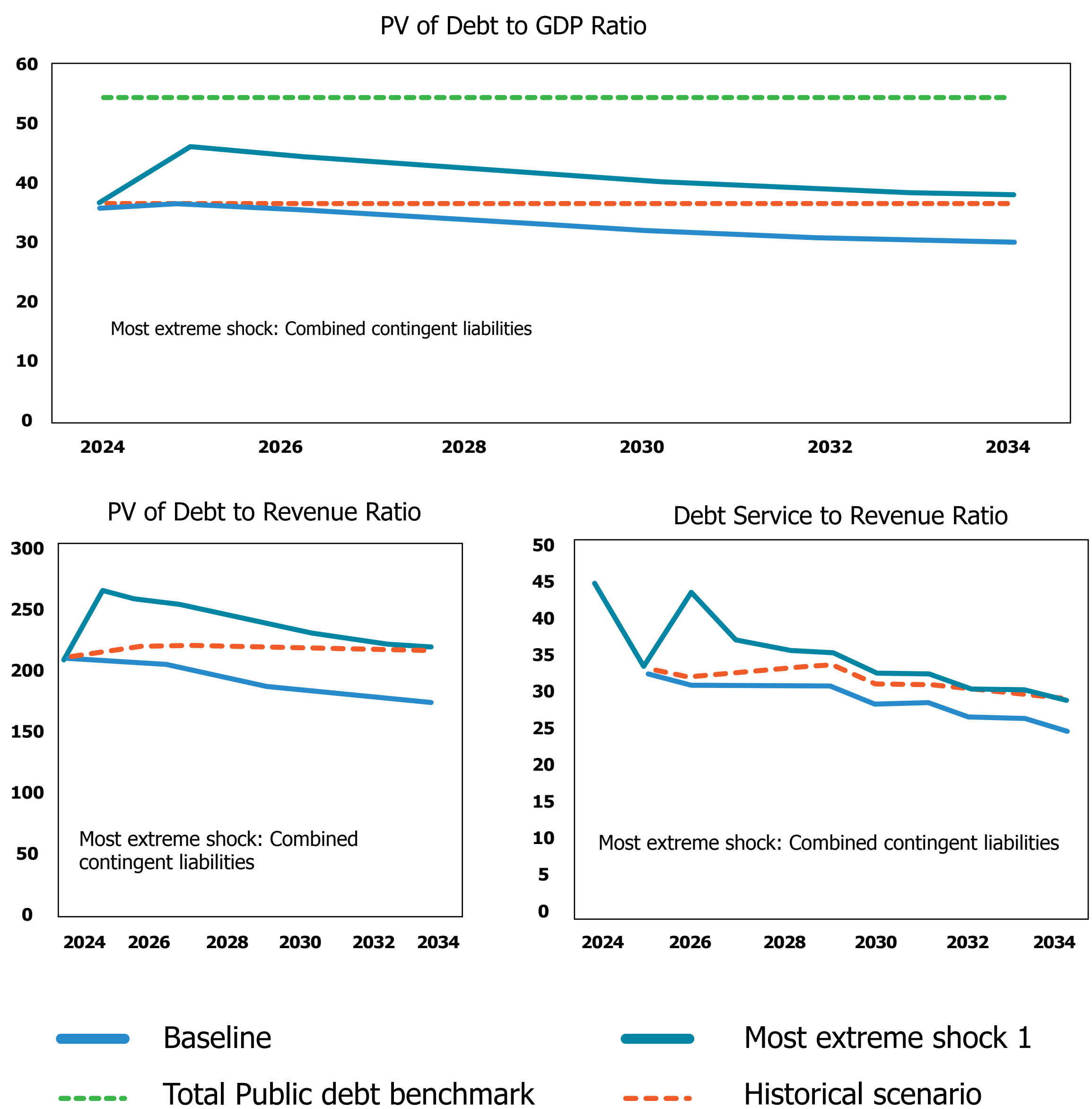
Source: Ministry of Finance

5.2.4 Public Debt Burden Indicators Under Stress Scenario

The PV of public debt to GDP stays below the threshold of 55 percent of GDP throughout the projection period under shock scenario (Chart 18).

Nonetheless, the portfolio is sensitive to combined contingent liabilities shocks. The combined contingent liability shock raises PV of debt to revenue ratio to 260 percent and 251 percent in the medium and long-term respectively. Similarly, the contingent liability shock raises debt service to revenue to 43 percent in 2025/26 and then decreases to 35 percent in 2028/29.

Chart 18: Public Debt Burden Indicators Under Shock Scenario



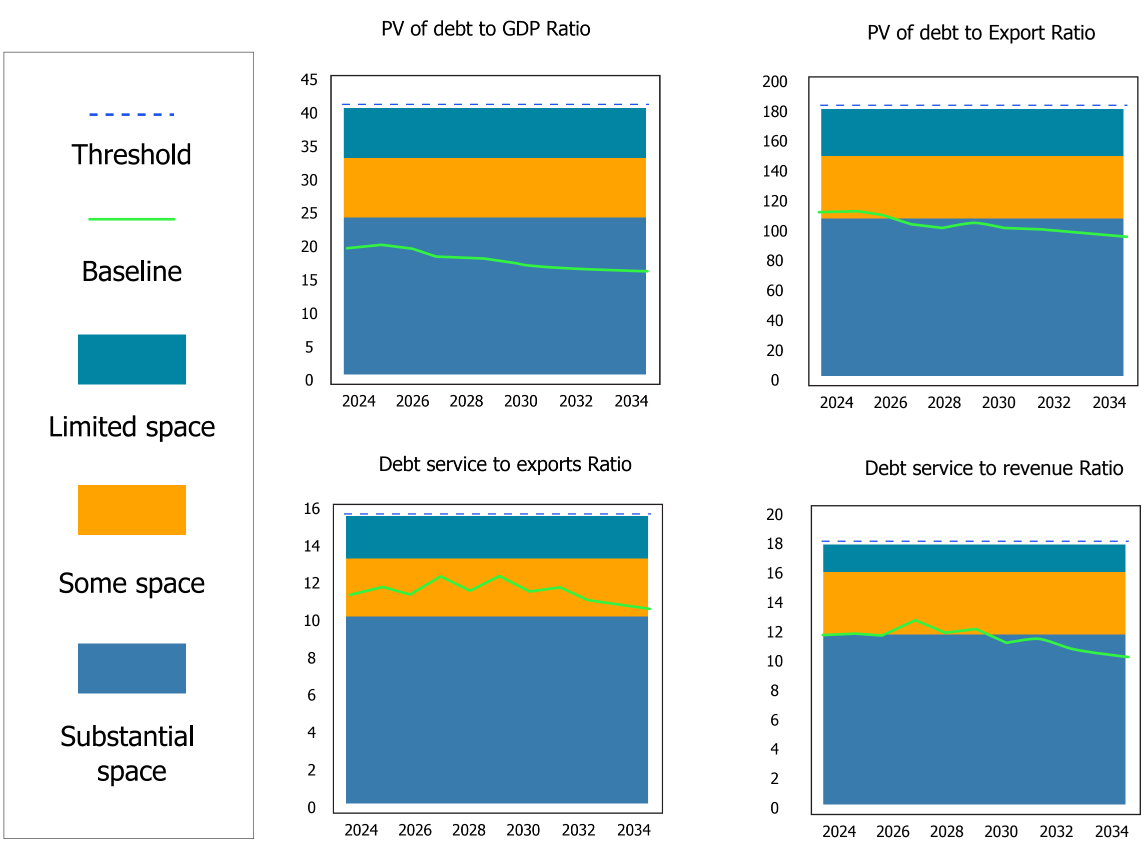
5.3 Assessment of Tanzania Risk of Debt Distress

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.

In accordance with the rule, Tanzania's risk of external debt distress is assessed as moderate. This determination arises from the fact that the debt burden indicators have not breached the thresholds in the baseline scenario. However, it is noteworthy that the debt service to export ratio did breach the threshold in the shock scenario, contributing to this moderate rating.

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 some space to absorb shocks **(Chart 19).**

Chart 19: Moderate Risk Assessment Results



6

Chapter Six

Conclusion and Way Forward

The 2023 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 due to the breach of thresholds for the external debt service to export under shock scenario.

Uncertainty on global economic recovery due to negative effects of the Russia - Ukraine war 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).

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.

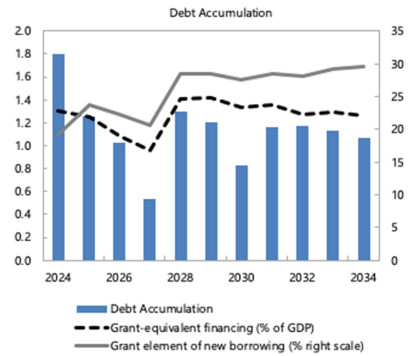
ANNEX 1: External Debt Sustainability Framework, Baseline Scenario, 2021-2044

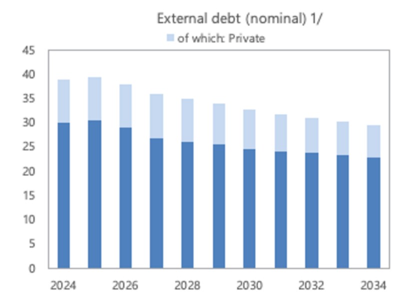
Table 1. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2021-2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**38.7**	**36.3**	**37.1**	**38.8**	**39.4**	**37.9**	**35.9**	**34.9**	**33.8**	**29.5**	**26.7**	**37.0**	**34.2**
of which: public and publicly guaranteed (PPG)	**28.5**	**27.5**	**28.6**	**29.9**	**30.4**	**28.9**	**26.7**	**26.0**	**25.4**	**22.9**	**21.9**	**27.4**	**26.0**
Change in external debt	-0.1	-2.4	0.9	1.7	0.5	-1.5	-2.1	-0.9	-1.1	-0.7	0.0		
Identified net debt-creating flows	**-1.6**	**0.4**	**2.0**	**0.9**	**-0.1**	**-0.6**	**-1.2**	**-1.7**	**-1.8**	**-1.4**	**-0.9**	**0.9**	**-1.1**
Non-interest current account deficit	**2.2**	**4.2**	**5.8**	**4.0**	**3.2**	**2.9**	**2.4**	**2.0**	**2.0**	**1.9**	**1.7**	**4.2**	**2.4**
Deficit in balance of goods and services	1.6	3.8	5.5	3.9	3.0	2.5	2.0	1.7	1.8	1.7	1.5	**4.0**	**2.2**
Exports	13.4	15.6	16.8	17.6	17.8	17.8	17.8	17.8	16.8	16.9	17.2		
Imports	15.0	19.4	22.3	21.5	20.8	20.3	19.8	19.5	18.6	18.6	18.7		
Net current transfers (negative = inflow)	-0.7	-0.8	-0.8	-0.8	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	**-0.9**	**-0.9**
of which: official	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.4	-0.1	-0.2		
Other current account flows (negative = net inflow)	1.3	1.2	1.1	0.9	1.1	1.4	1.4	1.2	1.1	1.1	1.1	**1.0**	**1.2**
Net FDI (negative = inflow)	**-1.6**	**-1.6**	**-1.8**	**-1.8**	**-1.9**	**-2.0**	**-2.1**	**-2.3**	**-2.3**	**-2.2**	**-2.2**	**-2.1**	**-2.1**
Endogenous debt dynamics 2/	**-2.1**	**-2.2**	**-2.0**	**-1.3**	**-1.5**	**-1.5**	**-1.5**	**-1.4**	**-1.5**	**-1.1**	**-0.4**		
Contribution from nominal interest rate	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.8		
Contribution from real GDP growth	-1.8	-1.6	-1.6	-1.9	-2.2	-2.2	-2.2	-2.1	-2.2	-1.8	-1.2		
Contribution from price and exchange rate changes	-0.9	-1.1	-1.0	...	...	...	...	...	...	...	...		
Residual 3/	**1.5**	**-2.8**	**-1.1**	**0.9**	**0.7**	**-0.9**	**-0.9**	**0.8**	**0.7**	**0.6**	**0.9**	**2.2**	**0.5**
of which: exceptional financing	0.0	0.0	0.0	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	**...**	**...**	**19.0**	**20.1**	**20.4**	**19.8**	**18.6**	**18.1**	**17.6**	**15.8**	**16.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**113.2**	**114.2**	**114.9**	**111.1**	**104.3**	**101.4**	**105.1**	**93.8**	**97.8**		
PPG debt service-to-exports ratio	**15.0**	**14.1**	**12.7**	**11.1**	**11.5**	**11.2**	**12.2**	**11.3**	**12.2**	**10.0**	**9.9**		
PPG debt service-to-revenue ratio	**14.7**	**14.6**	**14.3**	**11.6**	**11.9**	**11.7**	**12.9**	**12.0**	**12.2**	**10.0**	**9.9**		
Gross external financing need (Million of U.S. dollars)	2078.3	4166.2	4837.5	3715.9	3326.3	3205.4	3085.4	2560.6	2797.8	3427.4	5513.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.9	4.4	4.9	5.3	5.8	6.2	6.4	6.5	7.0	6.5	5.0	**6.0**	**6.5**
GDP deflator in US dollar terms (change in percent)	2.5	3.1	2.7	-1.6	-1.2	2.2	2.8	3.3	2.1	2.3	1.5	**0.0**	**1.5**
Effective interest rate (percent) 4/	1.5	1.6	1.8	1.7	1.9	2.0	2.1	2.2	2.3	2.5	3.3	**2.1**	**2.2**
Growth of exports of G&S (US dollar terms, in percent)	-5.7	24.9	16.3	8.5	5.7	8.5	9.4	10.1	3.0	8.9	6.5	**4.8**	**8.1**
Growth of imports of G&S (US dollar terms, in percent)	-1.7	39.4	24.0	-0.3	1.1	5.9	6.7	8.4	4.1	8.9	6.5	**4.3**	**6.3**
Grant element of new public sector borrowing (in percent)	...	...	...	19.2	23.7	22.3	20.7	28.5	28.5	29.5	15.5	**...**	**26.0**
Government revenues (excluding grants, in percent of GDP)	13.6	15.0	15.0	16.8	17.2	17.0	16.9	16.9	16.9	17.0	17.3	**14.2**	**16.9**
Aid flows (in Million of US dollars) 5/	1157.5	2099.7	1546.3	1178.3	1342.6	1093.6	1056.7	1599.7	1739.5	2376.0	3473.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.3	1.2	1.1	1.0	1.4	1.4	1.3	0.9	**...**	**1.3**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	31.8	35.3	35.8	36.6	38.8	39.3	42.4	30.7	**...**	**38.3**
Nominal GDP (Million of US dollars)	65,664	70,673	76,150	78,880	82,427	89,453	97,868	107,712	117,614	179,009	368,315		
Nominal dollar GDP growth	7.5	7.6	7.7	3.6	4.5	8.5	9.4	10.1	9.2	8.9	6.5	**6.0**	**8.1**
Memorandum items:													
PV of external debt 7/	...	...	27.5	29.0	29.4	28.8	27.7	27.0	26.0	22.5	21.5		
In percent of exports	...	...	163.7	165.0	165.3	161.8	155.6	151.6	155.0	133.3	125.2		
Total external debt service-to-exports ratio	19.3	21.2	14.1	14.7	15.2	14.9	16.0	15.1	15.9	12.9	11.6		
PV of PPG external debt (in Million of US dollars)			14491.3	15858.0	16850.9	17695.9	18178.2	19445.9	20745.4	28303.9	61873.3		
(PVt-PVt-1)/GDPt-1 (in percent)				1.8	1.3	1.0	0.5	1.3	1.2	1.1	1.4		
Non-interest current account deficit that stabilizes debt ratio	2.3	6.6	4.9	2.2	2.7	4.4	4.4	2.9	3.1	2.6	1.7		

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.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

ANNEX 2: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021-2044

Table 2. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021-2044
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	41.1	42.3	45.1	45.9	46.2	44.5	43.0	41.6	40.7	37.2	36.7	39.3	41.2
of which: external debt	28.5	27.5	28.6	29.9	30.4	28.9	26.7	26.0	25.4	22.9	21.9	27.4	26.0
Change in public sector debt	2.0	1.2	2.9	0.8	0.3	-1.7	-1.6	-1.3	-1.0	-0.4	0.2		
Identified debt-creating flows	0.7	0.8	1.1	-0.3	-1.4	-2.5	-2.0	-1.0	-0.9	-0.5	0.3	0.3	-1.0
Primary deficit	1.8	1.9	2.2	0.7	0.6	0.5	0.5	0.5	0.5	0.4	0.2	1.1	0.5
Revenue and grants	14.1	15.5	15.3	17.4	17.7	17.5	17.4	17.4	17.4	17.5	17.8	15.0	17.5
of which: grants	0.5	0.4	0.3	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5		
Primary (noninterest) expenditure	15.9	17.4	17.5	18.1	18.4	18.0	17.9	17.9	17.9	17.9	18.1	16.1	18.0
Automatic debt dynamics	-1.1	-1.1	-1.1	-1.0	-2.0	-3.0	-2.5	-1.5	-1.4	-0.9	0.1		
Contribution from interest rate/growth differential	-1.6	-2.2	0.9	-1.0	-2.0	-3.0	-2.5	-1.5	-1.4	-0.9	0.1		
of which: contribution from average real interest rate	0.2	-0.4	2.9	1.2	0.5	-0.3	0.2	1.1	1.3	1.4	1.8		
of which: contribution from real GDP growth	-1.8	-1.7	-2.0	-2.3	-2.5	-2.7	-2.7	-2.6	-2.7	-2.3	-1.7		
Contribution from real exchange rate depreciation	0.4	1.1	-2.0	...	...	...	...	...	...	...	...		
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	1.3	0.3	1.7	1.1	1.7	0.8	0.4	-0.3	-0.1	0.1	-0.1	1.2	0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	35.6	36.4	36.7	35.7	34.9	33.8	33.0	30.3	31.5		
PV of public debt-to-revenue and grants ratio	...	...	232.9	209.2	207.3	204.2	200.7	194.7	189.6	172.8	176.7		
Debt service-to-revenue and grants ratio 3/	40.2	35.1	34.2	44.3	33.6	31.1	31.3	31.1	30.9	25.2	26.5		
Gross financing need 4/	7.5	7.4	7.5	8.5	6.6	6.0	6.0	5.9	5.9	4.9	5.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.9	4.4	4.9	5.3	5.8	6.2	6.4	6.5	7.0	6.5	5.0	6.0	6.5
Average nominal interest rate on external debt (in percent)	1.7	1.8	2.2	1.9	2.1	2.2	2.4	2.6	2.7	3.0	4.1	1.9	2.6
Average real interest rate on domestic debt (in percent)	9.2	7.5	6.8	7.0	6.6	4.9	6.2	6.3	7.5	8.2	9.1	7.9	7.2
Real exchange rate depreciation (in percent, + indicates depreciation)	1.7	4.1	-7.1	...	...	...	...	...	...	...	...	1.9	...
Inflation rate (GDP deflator, in percent)	2.9	3.1	3.0	1.4	3.9	6.2	5.2	5.1	4.0	3.4	2.5	3.8	3.9
Growth of real primary spending (deflated by GDP deflator, in percent)	7.2	14.0	5.6	9.0	7.1	4.3	5.8	6.3	7.2	6.5	5.0	4.3	6.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.2	0.8	-0.6	-0.1	0.3	2.2	2.1	1.8	1.5	0.9	0.0	0.0	1.3
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.
1/ Coverage of debt: The central government, central bank . Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

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

Public sector debt 1/