



THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF FINANCE

MEDIUM TERM DEBT MANAGEMENT STRATEGY (2025/26-2027/28)

November 2025

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Abbreviations

| | |
|----------|---------------------------------------|
| ATR | Average Time to Refixing |
| ATM | Average Time to Maturity |
| BMDC | Bond Market Development Committee |
| COVID-19 | Coronavirus Disease |
| DMS | Debt Management Strategy |
| DOD | Debt Disbursed and Outstanding |
| GDP | Gross Domestic Product |
| EAC | East Africa Community |
| ECAs | Export Credit Agencies |
| IDA | International Development Association |
| IMF | International Monetary Fund |
| FYDP III | Five-Year Development Plan III |
| FX | Foreign Exchange |
| NDMC | National Debt Management Committee |
| MTDS | Medium Term Debt Strategy |
| NDF | Net Domestic Financing |
| PV | Present Value |
| SOFR | Secured Overnight Financing Rate |
| ST | Short Term |

Foreword

According to Section 25.1(a) of the Government Loans, Guarantees, and Grants Act, Cap. 134, the Government through the Ministry of Finance is required to prepare a Medium-Term Debt Management Strategy (MTDS) and an Annual Borrowing Plan in line with the overall fiscal framework. This Medium Term Debt Strategy (MTDS) provides a clear framework to guide our borrowing decisions over the next three years (2025/26 – 2027/28), ensuring that public debt is managed in a manner that supports national priorities while safeguarding fiscal sustainability.

The 2025 MTDS was prepared by taking into consideration of our development agenda which requires substantial and well sequenced investments. In this context, the MTDS (2025/26 -2027/28) outlines a prudent approach to meeting the Government’s financing needs at the lowest possible cost, consistent with a manageable level of risk. The Strategy prioritizes diversification of financing sources, strengthening of the domestic debt market, and enhanced coordination between fiscal and monetary authorities. It also reinforces our commitment to transparency, accountability, and decision making in public debt management. These efforts reflect our determination to build a resilient economy capable of withstanding external shocks.

We wish to acknowledge the valuable contributions of the teams within the Ministry of Finance, the Bank of Tanzania, Macroeconomic and Financial Management of the Eastern and Southern Africa Institute (MEFMI), US Treasury Resident Advisor and all stakeholders who participated in the preparation of this Strategy. Their technical expertise and dedication have been instrumental in ensuring that the MTDS remains a credible and forward looking tool for guiding our debt operations.

As we implement this Strategy, the Government will continue to strengthen institutional capacity, deepen financial markets, and pursue reforms that enhance the efficiency and sustainability of public debt management. We are confident that this MTDS will support our collective efforts to achieve robust, inclusive, and sustainable economic growth.



Hon. Ambassador Khamis Mussa Omar
Minister of Finance



Dr. Natu E. Mwamba
Permanent Secretary – Treasury

1.0 Introduction

The Ministry of Finance prepares the Medium-Term Debt Management Strategy (MTDS) in line with Section 32.1 (a) of the Government Loans, Guarantees and Grants Act, CAP 134. The 2025 MTDS covers the fiscal years 2025/26–2027/28, using 2024/25 as the base year and 2025/26 as the first projection year. The Strategy sets out the Government’s approach to meeting financing requirements for the central Government budget deficit over the medium term.

The preparation of the 2025 MTDS was undertaken by the Ministry of Finance of the United Republic of Tanzania in close collaboration with the Bank of Tanzania. The National Audit Office of Tanzania (NAOT) also participated in the process for capacity building purpose. The process also benefited from technical support provided by the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and US Treasury Resident Advisor.

The 2025 Medium-Term Debt Strategy (MTDS) outlines the objectives and plans of the Government of Tanzania (GoT) for managing its financing needs from 2025 to 2028, in line with the medium-term fiscal framework. During this period, the Strategy focuses on increasing semi-concessional borrowing to ensure that funding for strategic projects is available when needed, while also keeping debt service obligations at the lowest possible cost in the medium to long term. This approach aims to maintain an acceptable and prudent level of risk. Additionally, the strategy aims to reduce refinancing risks by taking advantage of favorable terms and interest rates, particularly for Treasury bills, while also promoting the development of the domestic market. Additionally, the strategy seeks to reduce refinancing risks by utilizing favorable terms and interest rate, particularly for Treasury bills, while also maintaining the development of domestic market.

The formulation of the 2025 Medium-Term Debt Strategy (MTDS) considered various macroeconomic assumptions, the financing needs of both ongoing and new strategic infrastructure projects, and the progress made in addressing bilateral technical arrears over the medium term. The chosen debt management strategy is grounded in quantitative cost-risk assessments produced by the MTDS Analytical Tool, along with qualitative factors that include long-term structural dynamics influencing the feasibility and sustainability of the desired debt portfolio.

2.0 Review of the Debt Portfolio

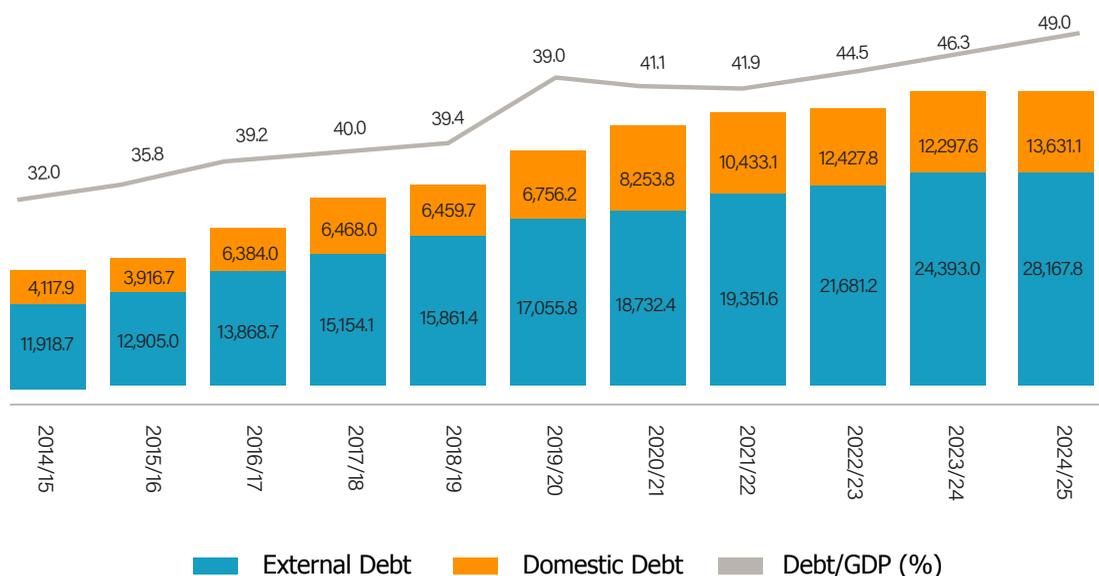
This section reviews in detail the composition of the Government’s outstanding debt.

2.1. Composition of Public Debt Portfolio

2.1.1. Total Public Debt Development

As of June 2025, the public debt stock reached USD 41,798.9 million, which is 49.0 percent of the GDP. This represents a 13.9 percent increase from the USD 36,690.7 million, or 45.4 percent of GDP, recorded in June 2024. Of the total public debt, external debt accounted for 67.4 percent, while domestic debt made up 32.6 percent (see Chart 1). The increase in public debt was mainly driven by new domestic borrowing through the issuance of government securities, disbursements from external creditors, and the depreciation of the Tanzanian shilling against the US dollar.

Chart 1: Central Government Debt Development (USD Million)

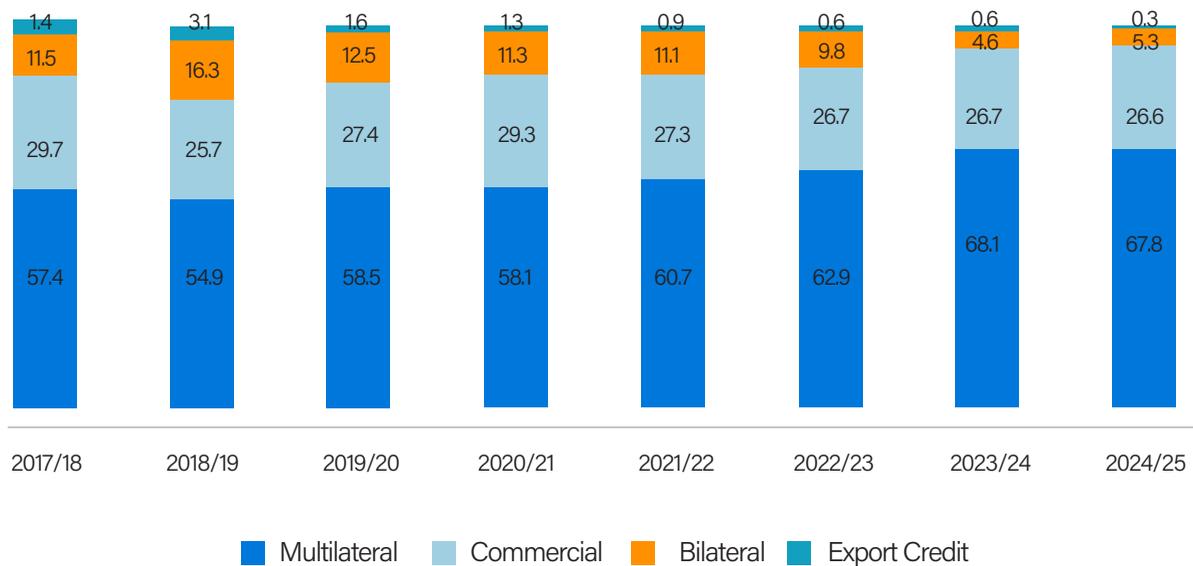


Source: Ministry of Finance

At the end of June 2025, the total external public debt stood at USD 28,167.8 million, reflecting a 15.5 percent increase from USD 24,393.0 million recorded in June 2024. Among all creditor categories, debt owed to multilateral institutions remained the largest, comprising 67.8 percent of the external debt stock.

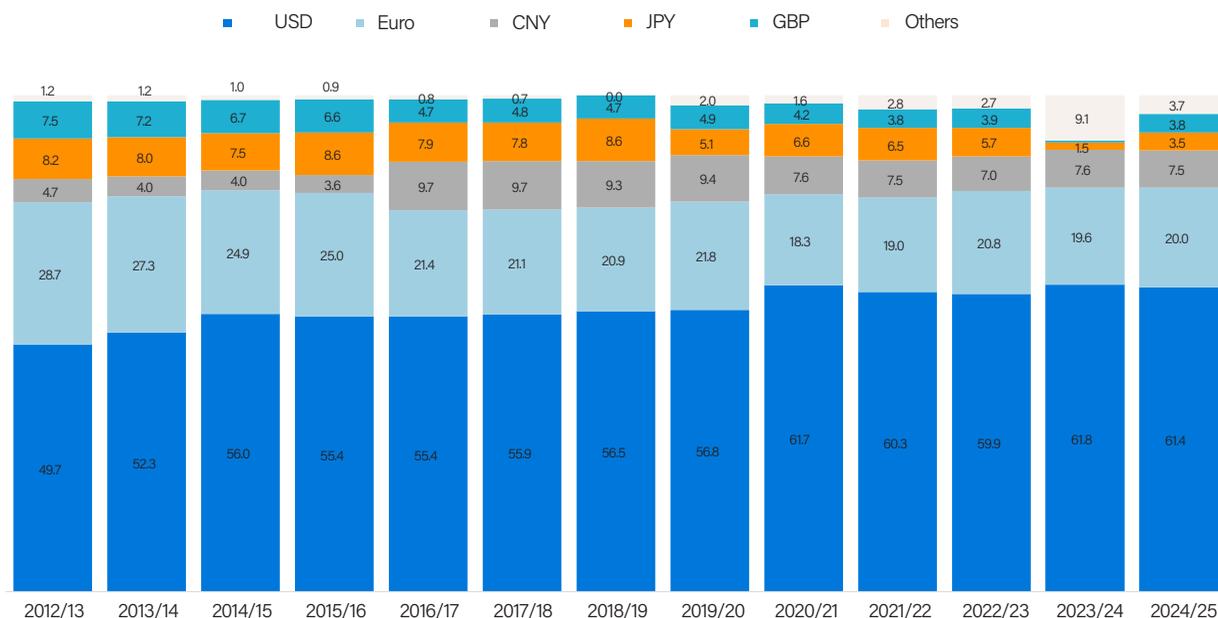
This was followed by commercial banks, which accounted for 26.6 percent. Bilateral lenders and Export Credit Agencies (ECAs) held 5.3 percent and 0.3 percent of the total external debt, respectively (Chart 2).

Chart 2: Debt Composition by Currency (Percent)



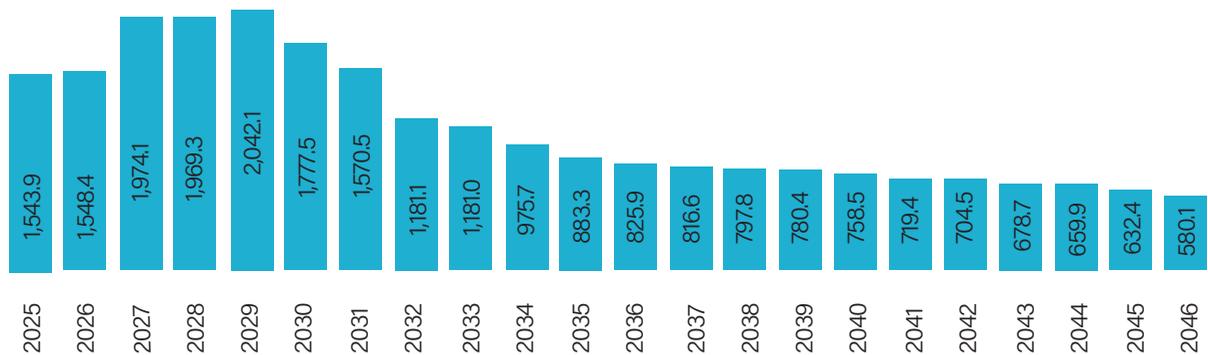
As of June 2025, the currency composition of external public debt is primarily dominated by the US Dollar, which makes up 61.4 percent of the total outstanding debt, followed by the Euro at 12.3 percent. This implies that the debt portfolio is exposed to risks from changes in the USD/TZS exchange rate (Chart 3).

Chart 3: Debt Composition by Currency (Percent)



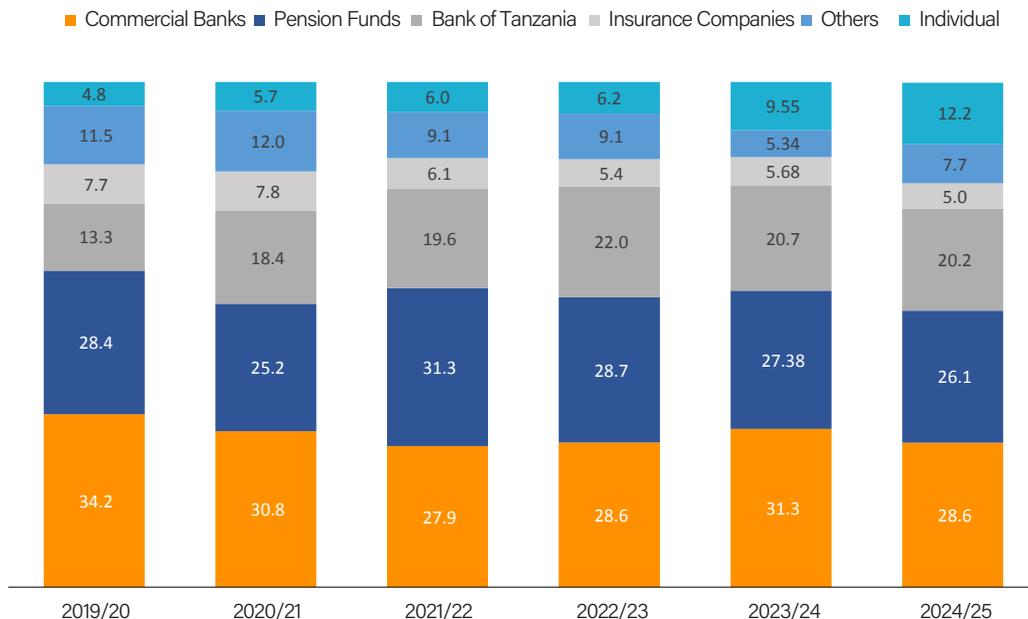
The outlook for the external debt redemption profile indicates that more than 50 percent of the outstanding debt will mature within the next ten years. This reflects the completion of several flagship projects and the expiry of their grace periods, resulting in principal repayments falling due in the short to medium term (Chart 4).

Chart 4: External Government External Debt Redemption Profile (USD Million)



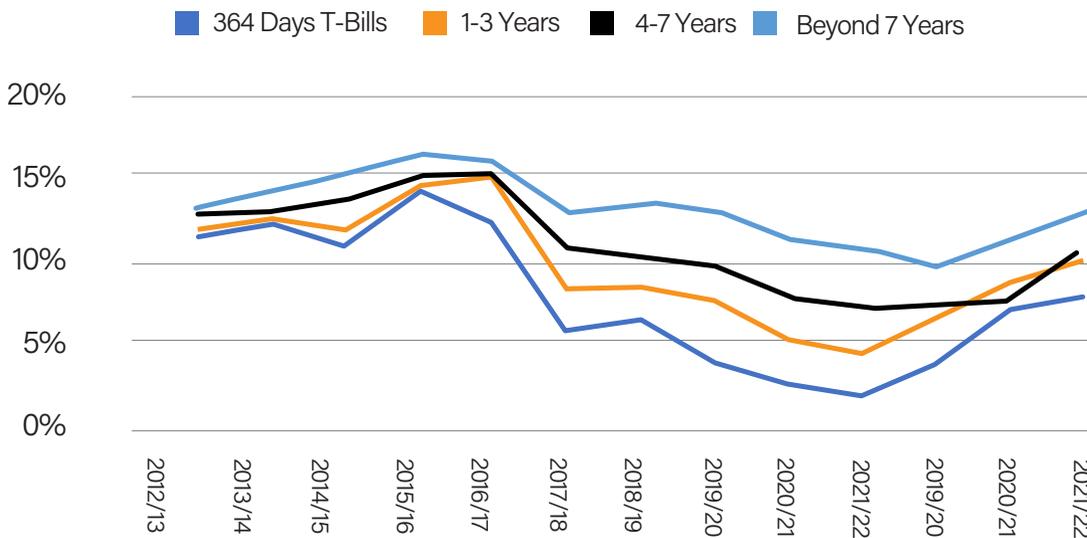
As of June 2025, the domestic debt stock stood at USD 13,631.1 million (TZS 35,502.8 billion), which represents 15.9 percent of GDP. This marks an 11.2 percent increase compared to the same period in the previous year. The composition of domestic debt among holders has remained largely unchanged from previous year, with commercial banks, pension funds, and the Bank of Tanzania collectively holding 28.6 percent, 26.1 percent, and 20.2 percent, respectively (Chart 5).

Chart 5: Domestic Debt by Holder's Category (Percent)



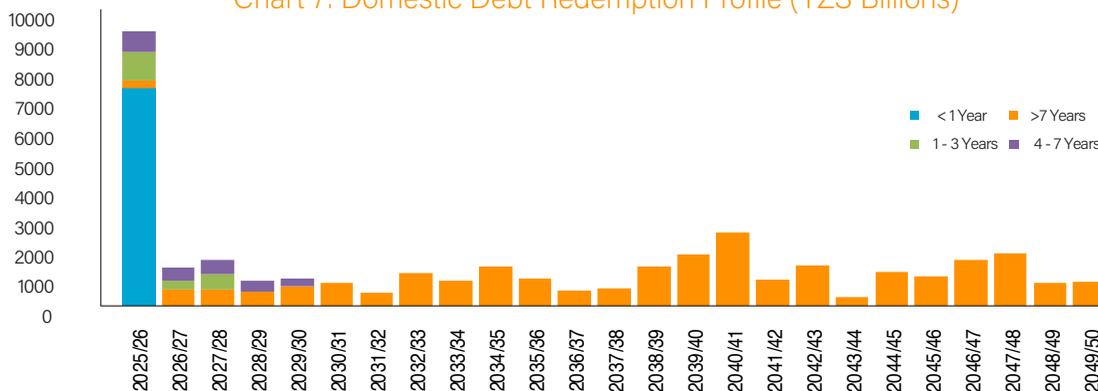
During the financial year 2024/25, yields on government securities increased across all maturities compared to the previous year. This rise was primarily driven by the reopening of previously issued Treasury bonds that had high coupon rates. The yield on the 364-day Treasury bill reached 10.95 percent. Treasury bonds with maturities between 1 and 3 years yielded 12.32 percent, while those with maturities of 4 to 7 years rose to 13.09 percent. Bonds with maturities exceeding seven years yielded 15.12 percent (Chart 6).

Chart 6: Trend of Weighted Average Yields for Government Securities



The domestic debt redemption profile reveals that a substantial share of domestic debt is expected to mature in the fiscal year 2025/26. This is largely due to the upcoming repayment of short-term obligations, which includes an overdraft facility that the government has utilized for cashflow and liquidity management. Over the years, the redemption profile has exhibited a mixed trajectory, characterized by fluctuations in repayment levels. These variations are primarily driven by the strategic re-openings of long-term bonds, which are aimed at managing refinancing risks and optimizing the debt structure (Chart 7).

Chart 7: Domestic Debt Redemption Profile (TZS Billions)



3.0 Review of Implementation of the 2024 MTDS

3.1. Overview of Cost and Risk Indicators

The Medium-Term Debt Strategy (MTDS) for 2024/25 to 2026/27 aims to increase borrowing from semi-concessional sources in order to reduce borrowing costs associated with commercial and domestic sources. Furthermore, the strategy focuses on increasing borrowing through medium-to-long-term domestic debt instruments to minimize refinancing risks. Table 1 summarizes the cost and risk indicators of the existing debt portfolio as of June 2025, comparing it with the previous year and outlining the strategic benchmarks.

Table 1: Cost and Risk Indicators of Existing Debt

| Cost and Risk Indicators for Existing Debt | External debt | | Domestic debt | | Total debt | | Benchmark | |
|--|---|---------------|---------------|---------------|---------------|----------------|-----------|------|
| | June 2024 | June 2025 | June 2024 | June 2025 | June 2024 | June 2025 | | |
| Amount (in millions of TZS) | 64,397,645.66 | 73,978,842.43 | 31,950,057.40 | 35,502,780.72 | 96,347,703.06 | 109,481,623.15 | | |
| Amount (in millions of USD) | 24,393.05 | 28,246.23 | 12,102.29 | 13,555.49 | 36,495.34 | 41,801.73 | | |
| Nominal debt as percent of GDP | 32.4 | 33.1 | 16.1 | 15.9 | 48.5 | 49.0 | <55 | |
| PV as percent of GDP | 23.5 | 24.2 | 16.1 | 15.9 | 39.6 | 40.1 | N/A | |
| Cost of debt | Interest payment as percent of GDP | 1.0 | 0.8 | 1.6 | 1.6 | 2.6 | 2.5 | N/A |
| | Weighted Av. IR (percent) | 3.0 | 2.6 | 9.7 | 10.3 | 5.2 | 5.1 | <7.0 |
| Refinancing risk | ATM (years) | 11.4 | 11.2 | 9.4 | 10.0 | 10.8 | 10.9 | >10 |
| | Debt maturing in 1yr (percent of total) | 4.9 | 4.5 | 28.2 | 26.1 | 11.9 | 10.8 | <15 |
| | Debt maturing in 1yr (percent of GDP) | 1.8 | 1.7 | 4.5 | 4.1 | 6.4 | 5.8 | <7.5 |
| Interest rate risk | ATR (years) | 10.1 | 9.9 | 9.4 | 10.0 | 9.9 | 9.9 | N/A |
| | Debt refixing in 1yr (percent of total) | 24.9 | 25.1 | 28.2 | 26.1 | 25.9 | 25.4 | N/A |
| | Fixed rate debt incl T-bills (percent of total) | 77.2 | 76.9 | 100.0 | 100.0 | 84.1 | 83.7 | >75 |
| | T-bills (percent of total) | - | - | 21.9 | 5.6 | 6.6 | 1.7 | <10 |
| FX risk | FX debt (percent of total debt) | | | | | 66.8 | 67.6 | <75 |
| | ST FX debt (percent of reserves) | | | | | 24.1 | 22.8 | <75 |

Source: Ministry of Finance

3.2. Risk Analysis of the Debt Portfolio

The debt portfolio has inherent risks related to market conditions; basic cost and risk indicators were calculated and analyzed. The main portfolio risks are covered in this section.

Total Nominal GDP: during the first year of the Medium-Term Debt Management Strategy (MTDS) implementation, total nominal debt as a percentage of GDP and the present value of debt to GDP slightly increased. Specifically, these figures rose from 48.5 percent and 39.6 percent to 49.0 percent and 40.1 percent, respectively. This change was primarily driven by changes in the external debt portfolio.

Additionally, there was a slight reduction in total interest payments as a percentage of GDP, decreasing from 2.6 percent in the previous year to 2.5 percent in the following year. This reduction can be partly attributed to an increase in loans received at more favorable terms. The weighted average interest rate (WAIR) for 2023/24 was 5.2%, compared to 5.1% in 2024/25, indicating a slight decrease in borrowing costs, particularly for external debt. This decrease is associated with higher receipts from the semi-concessional lending window, which offers relatively lower interest rates.

Refinancing/Rollover Risk: rollover and refinancing risk refers to the potential vulnerability of the portfolio to increased costs when refinancing maturing debt obligations. In extreme cases, this risk could prevent the debt from being refinanced at all. The overall operational target for the Average Time to Maturity (ATM) of the debt portfolio is greater than 10 years. Currently, the ATM has slightly increased, rising from 10.8 years in 2023/24 to 10.9 years in 2024/25. Additionally, the proportion of debt maturing within one year, expressed as a percentage of GDP, has decreased to 5.8 percent in June 2025, down from 6.4 percent in June 2024. A similar trend is evident in the share of debt maturing within one year relative to total debt. Overall, these indicators suggest a reduction in refinancing risk.

Interest Rate Risk: The Average Time to Re-fixing (ATR) measures the weighted average duration until all principal payments in the debt portfolio are subject to a new interest rate. Currently, the debt portfolio has an ATR of 9.9 years of which 25.4 percent of the total debt is subject to change in interest rates within one year, a decrease from the previous figure of 25.9 percent (Table 1).

The proportion of fixed-rate debt has also decreased slightly from 84.1 percent last year to 83.7 percent this year. This decline reflects an increase in borrowing from semi-concessional and commercial sources. Additionally, the percentage of treasury bills within the total debt has significantly dropped from 2.2 percent to 1.7 percent over the past year. This shift aligns with the strategy to extend the maturity profile from short-term instruments to medium- and long-term instruments. Overall, these indicators suggest a reduced vulnerability to interest rate risk.

Foreign Exchange Risk: foreign exchange risk measures the exposure of the portfolio to changes in the exchange rate. Tanzania's debt portfolio is minimally exposed to foreign exchange risk. Debt contracted in foreign currency constitutes 67.6 percent of the total debt portfolio, reflecting a modest increase from 66.8 percent in the previous year.

This figure is consistent with the target of maintaining foreign exchange debt at or below 75 percent. Debt contracted in USD has the largest share of the total foreign debt. Notably, despite evolving trends, the overall cost and risk indicators of the total debt portfolio have remained within the thresholds established by debt management strategic benchmarks as of June 2025.

3.3. Review of 2024/25 MTDS Operational Targets

The selected strategy in 2024 MTDS projected that the nominal and PV of debt-to-GDP would reach 48.6 percent and 39.6 percent, respectively, in its first year of implementation, however the realized levels were slightly higher at 49.0 percent and 40.1 percent. This deviation indicates that public debt is growing above what was initially envisioned. The interest payment as a percent of GDP was projected at 2.4 percent; however, the outturn rose slightly to 2.5 percent. This deviation occurred despite the improvement in the weighted average interest rate, which fell from the projected 5.7 percent to 5.1 percent. Although the cost of new borrowing improved, the size and currency composition of the debt portfolio pushed total interest payments above the MTDS target (Table 2).

Refinancing risk against operational target increased, with debt maturing within one year rising to 10.8 percent of total debt compared to a target of 9.1 percent, and 5.8 percent of GDP versus the projected 4.4 percent. This was due to an increase in short-term obligations; hence, they remain higher than anticipated. Interest rate risk also remained high, as debt refixing within one year rose to 25.4 percent against a target of 23.2 percent. This implies that a larger portion of the portfolio is sensitive to near-term interest rate changes, exposing the portfolio to potential increases in market rates. The share of fixed-rate debt remained broadly aligned with projections (83.7 percent actual versus 83.8 percent target), indicating stability. More positively, Treasury bills as a percentage of total debt fell significantly to 1.7 percent from the projected 3.6 percent.

Foreign exchange risk showed a favourable outcome, as FX debt stood at 67.6 percent of total debt compared to a projection of 69.0 percent, reflecting slightly reduced exposure to currency volatility. Table 2 shows actual cost and risk indicators against projection as of June 2025.

Table 2: Actual cost and risk indicators against projection as of June 2025

| Cost and Risk Indicators | 2024/25 Target | 2024/25 Actual |
|---|----------------|----------------|
| Nominal debt as percent of GDP | 48.6 | 49.0 |
| PV as percent of GDP | 39.6 | 40.1 |
| Interest payment as percent of GDP | 2.4 | 2.5 |
| Weighted Av. IR (percent) | 5.7 | 5.1 |
| Debt maturing in 1yr (percent of total) | 9.1 | 10.8 |
| Debt maturing in 1yr (percent of GDP) | 4.4 | 5.8 |
| Debt refixing in 1yr (percent of total) | 23.2 | 25.4 |
| Fixed rate debt incl T-bills (percent of total) | 83.8 | 83.7 |
| T-bills (percent of total) | 3.6 | 1.7 |
| FX debt (percent of total debt) | 69.0 | 67.6 |
| ST FX debt (percent of reserves) | 25.6 | 22.8 |

Despite the increase in nominal and PV debt-to-GDP ratios, the overall cost and risk indicators show improvement. Key indicators such as the WAIR and ATM were broadly within the set operational targets, reflecting the strategy's aim of lowering borrowing costs and lengthening the maturity profile. However, the deviations from the targets set for first year projections in the 2024 MTDS are significant to signal that the existing strategy is not aligned with the current financing landscape. These gaps underscore the need to reassess the MTDS, not only to rebalance cost-risk trade-offs, but also to ensure that the strategy remains responsive to emerging macroeconomic conditions to the extent that the proposed strategy can be realistically executed within the country's existing institutional, market, and macroeconomic environment. The operational targets for 2025 MTDS is attached as Appendix.1.

4.0 Recent Macro Economic Development and Assumptions

4.1. Real Sector Performance

During the first half of 2025, the real GDP grew by 5.8 percent compared to 5.2 percent recorded in the corresponding period of 2024 (Chart 8). The robust growth was attributed to Government investment in strategic infrastructure, including energy, water, and transportation; increased productive activities, particularly agriculture, industry, and mining and quarrying; as well as continued strengthening of the financial sector.

First Half Economic Performance

Chart 8: Growth

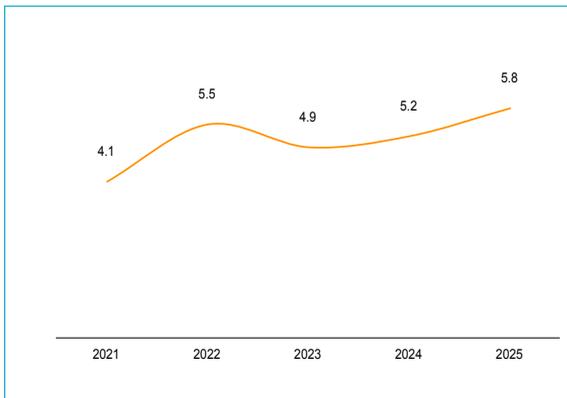


Chart 9: Share to GDP



Chart 10: Contribution to GDP Growth

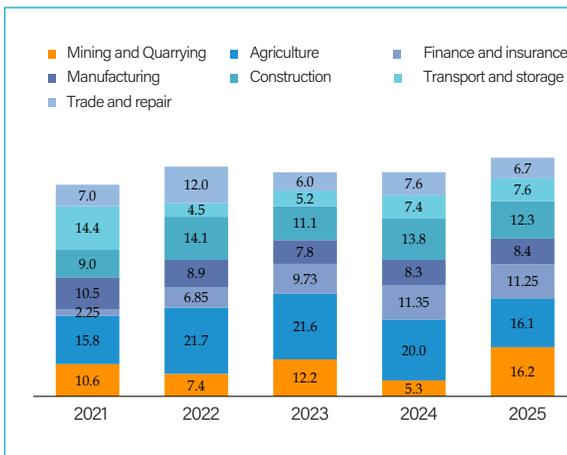
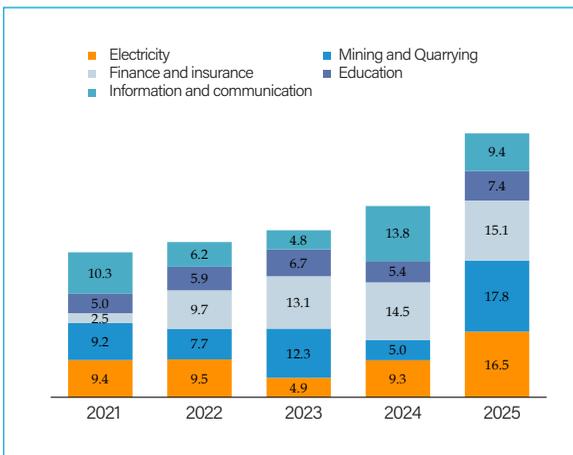


Chart 11: Growth of Activities



The growth was driven by mining sector, which contributed 16.2 percent, agriculture (16.1 percent), construction (12.3 percent), and finance and insurance (11.2 percent) (Chart 10). The growth in these sectors reflected continued Government efforts to improve the business and investment environment and the increased participation of the private sector in the economy.

Inflation has remained moderate and within the country and regional benchmarks in 2024/25. Headline inflation averaged - 3.1 percent in 2024/25. The stability in inflation reflected the implementation of prudent monetary policy. Core inflation eased to 2.7 percent from 3.1 percent in 2023/24, while average unprocessed food inflation rose marginally to 3.2 percent from 3.1 percent in 2023/24, following the increase in cereal prices. Annual average energy and fuel inflation, however, rose to 7.5 percent in 2024/25, higher than the average of 5.3 percent in 2023/24, mainly driven by the increase in prices of firewood and charcoal.

4.2. Fiscal Performance

The government continued to implement measures aimed at improving domestic tax collection and controlling spending in compliance with existing regulations. The improved fiscal space will support continued financing of development projects outlined in the Annual Development Plan for 2024/25, which forms part of the Third Five-Year National Development Plan (2021/22 - 2025/26) and aligns with the National Development Vision 2025, as well as the new Vision 2050.

As a result, total domestic revenue collection was 0.7 percent above the target for 2024/25 and attained 15.6 percent of GDP up from 14.7 percent recorded in 2023/24. In addition, grants surpassed the target by 10.8 percentage points in 2024/25, representing a 0.4 percent of GDP. This performance was driven by effective project implementation and timely submission of implementation reports to Development Partners for ongoing development projects.

In line with the projected resource envelope for 2024/25, the expenditure policy prioritized on the completion of ongoing transport and energy infrastructure projects to stimulate economic growth, and support income redistribution through increased allocations to social sectors. Spending increased to 18.8 percent of GDP from 18.1 percent recorded in 2023/24.

Budget deficit was 3.1 percent of GDP slightly lower than 3.2 percent experienced in 2023/24, resulting from continuing Government efforts in implementing fiscal consolidation. The deficit was financed by borrowing from the domestic market of 1.7 percent of GDP and foreign net borrowing of 1.4 percent of GDP. In addition, domestic primary balance continued to be within the IMF-ECF program performance criteria floor.

4.3. Baseline Macroeconomic Projections and Assumptions

Economic growth: Based on the GDP outcome of the first half of 2025 and the trend of high frequency indicators which depicted satisfactory performance, the real GDP is projected to pick up to 6.0 percent in 2025 and 6.4 percent in 2026, and an average of 6.3 percent in the medium term. The projected growth is supported by continued implementation of strategic infrastructural projects in energy and transport and robust implementation of government development plans.

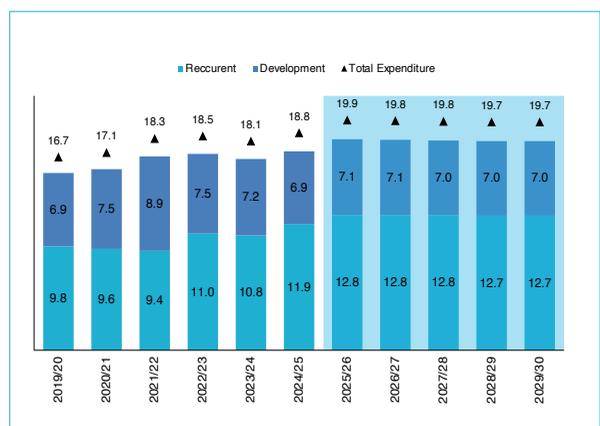
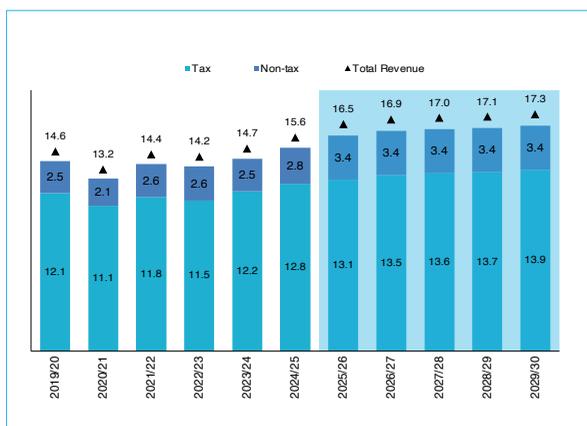
Inflation: The headline inflation is projected to be within the national target of 3-5 percent in line with EAC and SADC macroeconomic convergence criteria, reflecting continued prudent MP.

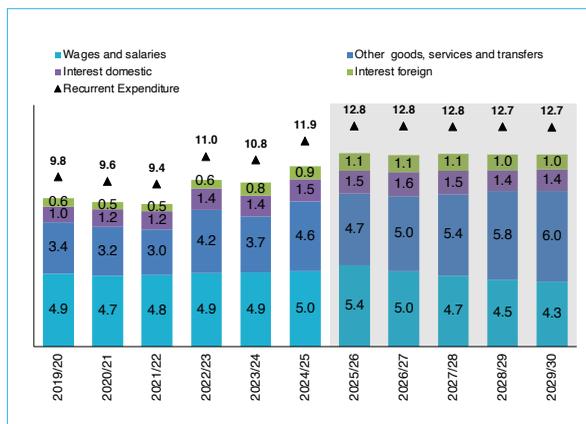
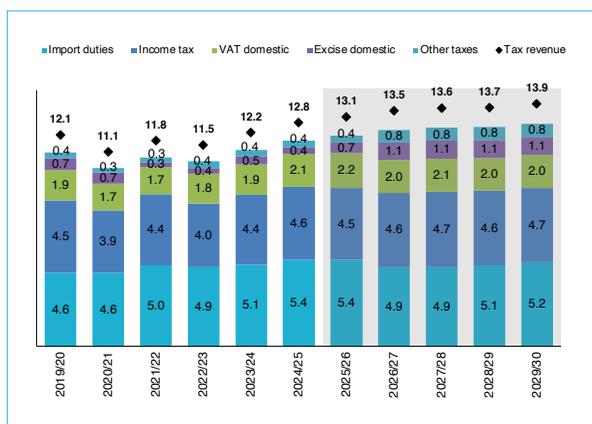
Fiscal: The fiscal position is expected to continue to improve reflecting current consolidation efforts. As such, fiscal deficit is projected to fall below 3 percent of GDP over the medium term, in line with the EAC convergence criteria. Domestic revenue is projected to increase, driven by strengthened tax administration and policy measures. Further, grants are projected to decrease over the medium term due to shifts in development partners policies. On the other hand, government expenditure as percentage of GDP is projected to moderate in the medium term to rationalization and prioritization of expenditures towards development and social sectors including major ongoing projects like the SGR, energy upgrades, AFCON-related infrastructure and procurement of essential medicine to offset reduced support from development partners.

Chart 12: Fiscal Outlook (% of GDP)

Tax revenue to increase to an average of 13.6% over the medium

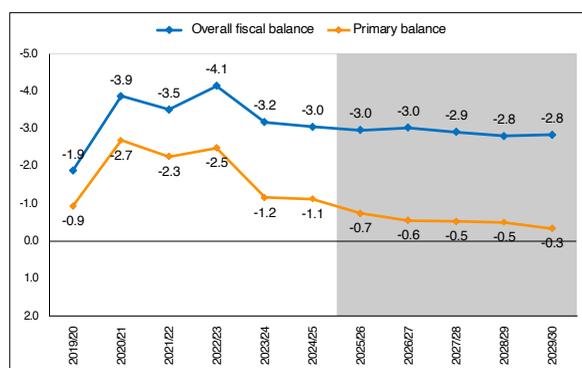
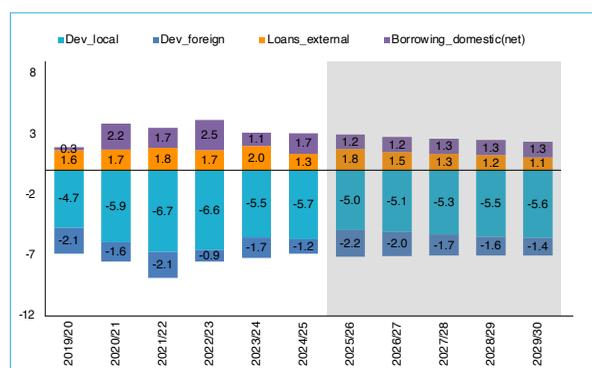
Total expenditure to increase in 2025/26 and decline in subsequent years.





Development expenditure to increase in 2025/26 and decline in subsequent years

Fiscal deficit to remain within EAC convergence criteria over the medium term.



Exchange rate: The exchange rate is projected to remain stable, supported by ongoing monetary policy easing in most developed economies. Additionally, continued government efforts to prohibit the use of foreign currency in domestic transactions are expected to further ease demand-side pressures in the foreign exchange market. Furthermore, the government's strategy to expand export-oriented production and to reduce import dependence is expected to further increase the supply of forex and support exchange rate stability.

Gross official reserves: On the external reserves front, gross official reserves are projected to exceed USD 6.8 billion by end-June 2026, equivalent to 4.9 months of import cover. This level remains comfortably above both the national and East African Community (EAC) convergence benchmarks, underscoring the resilience of the external sector. Foreign exchange reserve is projected to continue to improve owing to the current government efforts to increase reserve including the ongoing gold purchase program.

4.4. Downside risks to medium-term outlook and proposed mitigations

4.4.1. Risk Sources and Potential Impact Factors

Despite the envisaged robust economic growth over the medium term, uncertainties may impede the economic outlook. The table 3 details sources of potential risk on the existing debt portfolio and the related impact on debt management.

Table 3: Risk Sources and Potential Impact

| Risk Source | Impact on | Debt-Related Risk |
|---|-------------------------------------|---|
| GDP decline | Taxes and revenues | Weak debt repayment capacity |
| Deterioration in fiscal position | Primary balance | High financing needs |
| Current Account Deficit & FDI reduction | Balance of Payments | Need for external financing (private / public) |
| Currency depreciation | Debt Portfolio | High FX debt service |
| Terms of Trade | Commodities prices Exchange rate | High FX debt service (Potential drain on reserves/ pressure on the balance of payments) |

Additionally, recurrent climate shocks like droughts and floods threaten agricultural output, infrastructure, and revenues, raising public spending needs and worsening debt vulnerabilities.

The government is actively implementing a variety of comprehensive strategies to enhance domestic revenue mobilization while safeguarding the economy from potential financing risks. In response to the rapidly changing global economic landscape, the government remains vigilant, continuously monitoring international economic conditions. This proactive approach enables the timely implementation of appropriate policy measures aimed at mitigating the negative effects of external risks. As a result, the government is better positioned to protect the economy and ensure sustainable growth for the future.

5.0 Debt Management Strategy

5.1. Assumptions of financing

The 2025 Medium-Term Debt Strategy (MTDS) projects external financing based on several factors, including potential financing sources, a five-year historical trend of loans, the undisbursed portion of contracted loans, and both upcoming and new loans from concessional and non-concessional sources. These projections are consistent with the 2025 Debt Sustainability Analysis.

Tanzania's credit ratings of B1 from Moody's and B+ from Fitch, both with a stable outlook, are critical for the successful implementation of the MTDS, especially concerning the issuance of marketable instruments. These favorable ratings reflect an improved investment climate, which can result in lower borrowing costs and increased investor confidence.

To further develop the domestic market for Government Securities, the Government plans to implement several initiatives. These include continuing to build benchmark bonds to establish an effective sovereign yield curve, further liberalizing the capital account to the global market, and maintaining a hybrid approach to coupon rate determination as it transitions to fully market-determined rates. Additionally, the Government aims to explore innovative financial instruments to diversify and expand the investor base, implement Liability Management Operations (LMO), and introduce a mobile phone bidding platform.

5.2. Alternative Financing Strategies

A thorough analysis was conducted to explore four distinct borrowing strategies aimed at securing funding at the lowest possible cost while maintaining acceptable risk levels. The proposed strategies were: (i) S1 - The Status Quo; (ii) S2 - Gradually Increasing Domestic Borrowing; (iii) S3 - Increasing Semi-Concessional Borrowing; and (iv) S4 - Eurobond Issuance. Each strategy was assessed under various shock scenarios based on baseline assumptions. The calibration process involved adjusting the proportions and mix of domestic and external financing sources for each strategy.

5.2.1. Strategy 1 (S1): Status quo

This strategy represents the status quo and reflects the existing situation, indicating that the Gross External Financing (GEF) is expected to rise from 46.0 percent in 2025/26 to 59.0 percent in 2027/28 of the total gross financing need. Meanwhile, the Gross Domestic Financing (GDF) is projected to decrease from 54.0 percent in 2025/26 to 41.0 percent in 2027/28. In line with the budget framework, the strategy aims to maintain Net Domestic Financing (NDF) at around 1.0 percent of GDP. By the final year of the strategy period, the target for NDF is set at TZS 3,168.03 billion, equivalent to 1.0 percent of GDP. Semi-concessional sources are anticipated to make up 43.25 percent of the Gross External Financing (GEF), while 20–25-year Treasury bonds are projected to account for 37.0 percent of the Gross Domestic Financing (GDF) over the medium term. This strategy aims to align with the implementation of the IMF program.

However, projections suggest that this strategy will lead to increased borrowing costs. Specifically, the implied interest rate for domestic debt is expected to rise to 12.53 percent in 2026, up from 10.26 percent in 2025, resulting in higher overall costs associated with total debt.

5.2.2 Strategy 2 (S2): Gradually Increasing Domestic Borrowing

Strategy 2 (S2) aims to gradually increase domestic borrowing to raise Net Domestic Financing (NDF) levels from 0.5 percent of GDP in 2025/26 to 1.8 percent of GDP in 2027/28 in relation to Total Gross Financing. Additionally, it is anticipated that the use of long-term securities, specifically 20- and 25-year treasury bonds, will decrease from 37.0 percent in 2025/26 to 35.5 percent in 2027/28. In contrast, there will be a notable increase in the proportion of medium-term securities, including 5-7 year, 10-year, and 15-year treasury bonds, which are expected to rise from 32.0 percent in 2025/26 to approximately 35.5 percent in 2027/28.

The rationale behind this strategy is to stimulate demand for medium-term securities, which is expected to lower costs associated with long-term borrowing while aligning with market preferences. However, this approach is projected to lead to an increase in the cost of borrowing, rising to 5.55 percent in 2027/28 from 5.05 percent in 2025/26.

5.2.3. Strategy 3 (S3): Increasing Semi-Concessional Borrowing

This strategy focuses on increasing external financing, specifically through semi-concessional borrowing, rather than relying on domestic financing. It projects that Gross External Financing (GEF) will gradually rise from 46 percent in 2025/26 to 60 percent in 2027/28. The strategy also expects the share of semi-concessional floating financing provided by Export Credit Agencies (ECAs), the World Bank (WB), and the African Development Bank (AFDB) to increase from 22.72 percent in 2025/26 to 34.61 percent in 2027/28. By the end of the strategy period, commercial borrowing is anticipated to decrease slightly, from 13.07 percent to 12.71 percent of the GEF. Importantly, the share of all domestic financing instruments will remain constant, in line with the current situation.

The strategy aims to minimize rising financing costs and ensure that sufficient resources are available for the implementation of strategic projects. However, it is important to note that the execution of this strategy is vulnerable to exchange rate and interest rate risks, as well as the impacts of global economic shocks. Under this strategy, foreign debt is projected to increase to 69.45 percent of total debt, up from 68.07 percent in 2025/26, while the borrowing cost is expected to rise slightly from 5.55 percent to 5.61 percent during the same period.

5.2.4. Strategy 4 (S4): Eurobond

This strategy considers shifting from commercial floating borrowing to issuing Eurobonds to fund 15.50 percent of the GEF in 2026/27. This consideration seeks to address the effects of the pattern of delays in disbursements from semi-concessional sources, as well as the flexibility of the utilization of funds. Additionally, the strategy assumes to take advantage of the recent favorable country credit ratings by rating agencies and global macroeconomic conditions. Also, this strategy assumes a worst-case scenario where in the event that the country face challenges in securing financing from concessional and semi-concessional sources, while maintaining its commitment to complete ongoing development projects.

5.3. Cost-Risk Analysis of the Alternative Financing Strategies

At the end of 2027/28, under the baseline assumptions, the resulting cost and refinancing risk indicators favor financing through semi-concessional sources (S3). Table 4 summarizes the cost and risk indicators and their interpretations. Appendix 2 shows cost and risk indicators from June 2021 to June 2025 under baseline scenario, Appendix 3 presents graphically the indicators under baseline scenario while Appendix 4 details shocks to Strategy 3. Table 5 presents the interpretation of the alternative strategies indicators.

Table 4: Cost and Risk of Alternative Financing Strategies under the Baseline Scenario

| Risk Indicators | | 2025 | As at end 2028 | | | |
|--------------------------------------|---|---------|----------------|---------|---------|---------|
| | | Current | S1 | S2 | S3 | S4 |
| Nominal debt as percent of GDP | | 48.9574 | 45.2950 | 45.3208 | 45.2885 | 45.2942 |
| Present value debt as percent of GDP | | 40.0665 | 36.8598 | 37.2139 | 36.9897 | 37.0304 |
| Interest payment as percent of GDP | | 2.4743 | 2.3340 | 2.3747 | 2.3227 | 2.3284 |
| Implied interest rate (percent) | | 5.0541 | 5.6321 | 5.8700 | 5.6112 | 5.6133 |
| Refinancing risk2 | Debt maturing in 1yr (percent of total) | 10.8016 | 6.4323 | 6.7834 | 6.3727 | 6.3732 |
| | Debt maturing in 1yr (% of GDP) | 5.8408 | 2.9135 | 3.0743 | 2.8861 | 2.8867 |
| | ATM External Portfolio (years) | 11.2274 | 11.9582 | 11.7638 | 11.8765 | 11.9432 |
| | ATM Domestic Portfolio (years) | 9.9855 | 12.5226 | 12.5096 | 12.5123 | 12.5122 |
| | ATM Total Portfolio (years) | 10.8628 | 12.1231 | 12.0001 | 12.0598 | 12.1072 |
| Interest rate risk2 | ATR (years) | 9.9196 | 10.9163 | 10.8908 | 10.7263 | 10.8890 |
| | Debt refixing in 1yr (percent of total) | 25.4093 | 21.7679 | 21.0830 | 22.6440 | 21.2608 |
| | Fixed rate debt incl T-bills (percent of total) | 83.6902 | 83.0224 | 84.0593 | 82.0865 | 83.4703 |
| | T-bills (percent of total) | 6.0648 | 1.2677 | 1.5631 | 1.2267 | 1.2278 |
| FX risk | FX debt as % of total | 67.5719 | 69.0474 | 66.4911 | 69.4488 | 69.4476 |
| | ST FX debt as % of reserves | 22.8241 | 28.9458 | 28.9458 | 28.9458 | 28.9458 |

■ Favorable ■ Unfavorable

Source: Ministry of Finance

Table 5: Interpretation of the Alternative Strategies Indicators

| Strategy | Rationale | Comparative Advantages | Disadvantage |
|---|---|---|---|
| S1- Status quo | Reflects a combination of the current borrowing practices and committed financing, and align with the implementation of the IMF program under the Extended Credit Facility (ECF) and the Resilience Sustainability Facility (RSF). | <ul style="list-style-type: none"> i. Lowest Present value debt as percent of GDP (36.86 percent) ii. Longest Average Time to Maturity (ATM) for External Portfolio (11.96 years). iii. Longest Average Time to Maturity (ATM) of Domestic Portfolio (12.52 years) iv. Longest Average Time to Maturity (ATM) for Total Portfolio (12.12 years). v. Longest Average Time to Refixing (ATR) for Total Portfolio (10.92 years) | |
| S2- Increase Domestic Borrowing (Domestic Market Development) | Domestic Market Development – use of longer-term domestic instruments to fill funding gap while extending maturing of existing Treasury bills’ market, specifically through increasing issuance of medium-term instruments (5–15-year Treasury bonds). This also complements the development of the yield curve across medium-term instruments. | <ul style="list-style-type: none"> i. Highest debt refixing in 1 year as percent of total (21.08 percent) ii. Highest fixed rate debt including T-bills (84.06 percent of total) iii. The lowest FX debt as a percent of total debt (66.49 percent) | <ul style="list-style-type: none"> i. Highest nominal debt (45.32 percent of GDP). ii. Highest present value debt (37.21 percent of GDP) iii. Highest interest payment and implied interest rate of 2.38 percent of GDP and 5.87 percent, respectively iv. Highest proportion of debt maturing in 1 year (6.78 percent of total and 3.07 percent of GDP). v. Shortest Average time to Maturity (ATM) of domestic portfolio of 12.51 years. vi. Shortest Average Time to Maturity (ATM) of External Portfolio (11.76years) vii. Shortest Average Time to Maturity (ATM) for Total Portfolio (12.00 years). viii. Highest proportion of Treasury bills (1.56 percent of total). |

| Strategy | Rationale | Comparative Advantages | Disadvantage |
|--------------------------------------|---|--|---|
| S3- More Semi-Concessional Financing | Utilize more multilateral and bilateral funding to fill funding gap which aligns with the current financing landscape, as well as the Government's needs to finance the execution of strategic/flagship projects. | <ul style="list-style-type: none"> i. Lowest Nominal debt as percent of GDP (45.29 percent) ii. Lowest Interest Payment as percent of GDP (2.32 percent) iii. Lowest implied interest rate (5.61 percent) iv. Lowest proportion of debt maturing in 1 year (6.37 percent of total) v. Lowest proportion of debt maturing in 1 year (2.89 percent of GDP). vi. Lowest proportion of Treasury bills (1.23 percent of total). | <ul style="list-style-type: none"> i. Shortest Average Time to Refixing (ATR) of total debt (10.73 years). ii. Highest proportion of debt refixing in 1 year (22.64 percent of total). iii. lowest proportion of fixed rate debt, including T-bills (82.09 per cent of the total). iv. Highest FX debt as a percent of total debt is 69.45 percent. |
| S4- Eurobond | To ensure financing for development projects is obtained in case there are any delays/challenges in the concessional and semi-concessional window. To improve the country's Credit Rating. | | |

6.0 Recommendations ■

6.1. Recommended Strategy and Its Implementation

Results derived from the quantitative analysis of cost and risk trade-offs for the alternative strategies indicate that, Strategy 3 is the most favorable in terms of cost and refinancing and interest rate risk indicators. The strategy aims to increase borrowing from semi-concessional sources to minimize the rising of financing costs and ensure adequate resource available to implement the strategic projects thereby reducing reliance on commercial borrowing while maintaining domestic market development. The strategy also takes into account the evolving financing landscape, in which concessional financing sources are steadily declining. The operational targets for fiscal years 2025/26, 2026/27 and 2027/28 are highlighted in Appendix 1 for monitoring.

Rationale: The adoption of Strategy 3, which emphasizes scaling up semi-concessional borrowing, is driven by the need to reduce the overall cost of financing and to ensure adequate financing are available for executing strategic projects. As semi-concessional loans typically carry lower interest rates, longer maturities, and more favourable grace periods compared to commercial debt, increasing the share of such financing will also help mitigate refinancing risks.

Feasibility: The Government has already secured financing from various creditors for ongoing strategic development projects for 2025/26. Moreover, some bilateral lenders have also expressed interest in supporting the development initiatives.

Potential Downside Risks: Despite its benefits, Strategy 3 carries several potential risks:

| | |
|-----|--|
| i | The strategy shows that a significant portion of the debt portfolio (69.45 percent) is external debt. Given that, it exposes the Government to foreign exchange rate risk, which may raise the debt burden if the domestic currency depreciates. |
| ii | Tightening of monetary policies, particularly in developed economies, may impede the strategy execution by elevating interest rates on new semi-concessional loans. |
| iii | Competition among developing countries for limited concessional resources may constrain the actual volume of financing accessible to Tanzania. |

Implementation Guidelines: To effectively carry out Strategy 3, the Government plans to undertake the following key steps:

| | |
|-----|---|
| i | Compile a list of potential external lenders and invite them to submit their financing proposals to assess eligibility criteria, terms, and conditions. |
| ii | To address delays in disbursements under the ECAs, the sector ministries and project implementation units will be guided for timely project preparations and procurement. |
| iii | To formulate an Annual Borrowing Plan (external and domestic) that aligns with the selected strategy. |
| iv | Quarterly review the strategy's implementation and apply necessary adjustments based on changes in market conditions, lender terms, or fiscal requirements. |

6.2. Shocks to the selected Strategy (S3)

The robustness of Strategy 3 was assessed under three stress scenarios namely, exchange rate shocks, interest rate shocks, and a combined shock, to evaluate the sensitivity of the debt portfolio to plausible market and external shocks. The objective is to determine how shifts in the foreign currencies and reference rates could affect debt indicators (Appendix 4).

Baseline Scenario: Under this scenario, reference interest rates for 6-month SOFR projected to increase only marginally during 2025–2028, while the Tanzanian shilling (TZS) is expected to depreciate gradually against the U.S. dollar (USD). With the baseline, the debt-to-GDP ratio is projected to decline from 47.9 percent in 2026 to 45.3 percent in 2028, and the present value (PV) of debt-to-GDP from 39.1 to 37.0 percent.

Scenario 1: Exchange-Rate Shock: For the shock scenarios, Tanzanian shilling (TZS) is assumed to depreciate against the U.S. dollar by 15 percent in 2026 under the moderate case, and by 30 percent in 2026 under the extreme case, with the effects sustained throughout the projection period. With the most extreme shock, the debt-to-GDP ratio rises sharply to 57.2 percent in 2026 before moderating to 53.7 percent by 2028. The PV of debt-to-GDP increases from 39.1 to 46.0 percent, while the debt-service-to-GDP ratio rises from 7.6 to 8.3 percent. This outcome confirms that the debt portfolio is highly sensitive to U.S. dollar movements, given the dominance of USD-denominated liabilities in the external debt stock.

Scenario 2: Interest-Rate Shock: This scenario examines the effect of rising reference rates on floating rate and re-fixed U.S. dollar instruments. Under the moderate shock (Shock 1), a 2.5 percent increase is applied to all semi-concessional and commercial floating rate loans from 2026 to 2028. In contrast, the extreme shock (Shock 2 – Standalone) assumes a 5.0 percent increase in interest rates on all semi-concessional and commercial floating rate instruments over the same period, again leaving fixed rate instruments unchanged.

Under the moderate shock, the debt-to-GDP ratio rises to 47.0 percent in 2027 and reduces slightly thereafter, while the PV of debt-to-GDP increases marginally from 39.1 to 38.3 percent in 2028. The interest-to-GDP ratio moves upward to around 2.6 percent, and the debt-service-to-GDP ratio edges to 5.7 percent. In the extreme case, the interest-to-GDP ratio rises further to 2.9 percent, the debt-service-to-GDP ratio reaches 5.9 percent

Scenario 3: Combined Shock: This scenario merges the moderate interest-rate shock (2.5 percent increase on floating-rate USD instruments) with a moderate exchange-rate shock (15 percent TZS depreciation against the USD), both introduced in 2026 and sustained over the projection horizon. The results show that under combined stress, the debt-to-GDP ratio rises to 52.6 percent in 2026, moderating to 50.0 percent by 2028, while the PV of debt-to-GDP reaches 42.5 percent in 2026 and 40.6 percent in 2028.

Appendix 1: Operational targets

| Indicator | | Current 2025 | Target for 2026 | Target for 2027 | Target for 2028 |
|--------------------|---|--------------|-----------------|-----------------|-----------------|
| Cost of Debt | Total Nominal Debt Outstanding as percent of GDP | 48.96 | 47.90 | 46.72 | 45.29 |
| | Total Present Value of Debt as percent of GDP | 40.07 | 39.07 | 38.14 | 36.99 |
| | Total Interest payment as percent of GDP | 2.47 | 2.26 | 2.41 | 2.32 |
| | Total Implied Interest Rate (in percent) | 5.05 | 5.55 | 5.55 | 5.61 |
| Refinancing Risk | Total Debt Maturing in 1 YR (percent of total) | 10.80 | 6.97 | 7.35 | 6.37 |
| | Total Debt Maturing in 1 YR (percent of GDP) | 5.84 | 3.34 | 3.43 | 2.89 |
| | Total ATM (years) | 10.86 | >10 | >10 | >10 |
| Interest Rate Risk | Total Debt Refixing in 1 YR (in percent) | 25.41 | 21.49 | 22.40 | 22.64 |
| | Total Fixed Rate Debt Portfolio (including T-bills) | 83.69 | 83.78 | 82.86 | 82.09 |
| Exchange Rate Risk | FX debt as percent of total | 67.57 | 68.70 | 69.34 | 69.45 |
| | ST FX debt as percent of reserves | 22.82 | 23.44 | 27.85 | 28.95 |

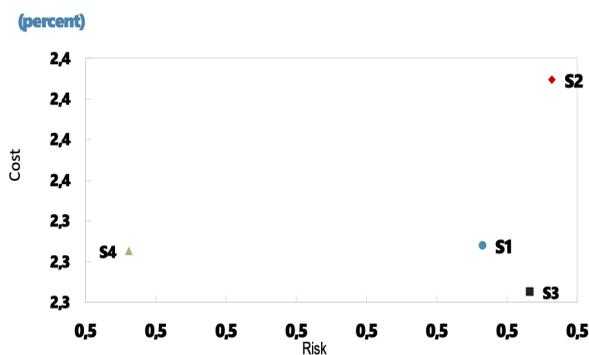
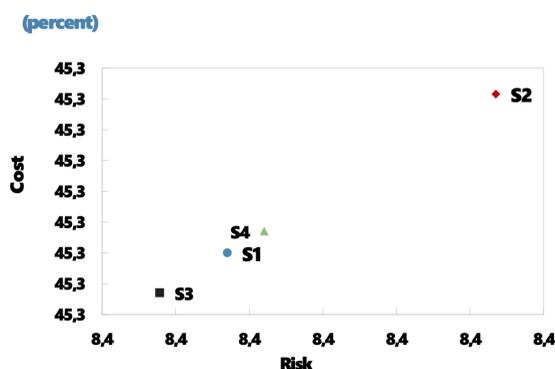
Appendix 2: Cost and Risk Indicators from June 2020 to June 2024 under Baseline Scenario

| Risk Indicator | 21-Jun | | | 22-Jun | | | 23-Jun | | | 24-Jun | | | 25-Jun | | | |
|----------------------|---------------------------|------|-------|--------|------|-------|--------|------|-------|--------|------|-------|--------|------|-------|------|
| | Ext | Dom | Total | Ext | Dom | Total | Ext | Dom | Total | Ext | Dom | Total | Ext | Dom | Total | |
| Nominal Debt (% GDP) | 28 | 12.2 | 41.5 | 26.8 | 14.3 | 41.1 | 24.7 | 14.1 | 38.8 | 32.4 | 16.1 | 48.5 | 33.1 | 15.9 | 49.0 | |
| PV Debt (% GDP) | 19 | 12.2 | 31.2 | 18.6 | 14.3 | 32.8 | 17.4 | 14.1 | 31.5 | 23.5 | 16 | 39.6 | 24.2 | 15.9 | 40.1 | |
| Cost of debt | Interest (% GDP) | 0.6 | 1.3 | 1.9 | 0.6 | 1.4 | 2 | 0.7 | 1.5 | 2.3 | 1 | 1.6 | 2.6 | 0.8 | 1.6 | 2.5 |
| | Weighted Av.IR (%) | 2.1 | 10.8 | 4.7 | 2.2 | 9.9 | 4.9 | 2.9 | 11 | 5.8 | 3 | 10.1 | 5.4 | 2.6 | 10.3 | 5.1 |
| Refinancing risk | ATM (years) | 12.8 | 7 | 11.2 | 12.4 | 8.7 | 11.2 | 12 | 9.1 | 11.1 | 11.4 | 9 | 10.7 | 11.2 | 10.0 | 10.9 |
| | Maturing in 1yr (% Total) | 5.9 | 29.1 | 12.5 | 6 | 23.5 | 11.8 | 4.9 | 28.8 | 12.7 | 4.9 | 28.2 | 11.9 | 4.5 | 26.1 | 10.8 |
| | Maturing in 1yr (% GDP) | 1.8 | 3.6 | 5.4 | 1.7 | 3.4 | 5.1 | 1.4 | 4.1 | 5.5 | 1.8 | 4.5 | 6.4 | 1.7 | 4.1 | 5.8 |
| Interest rate risk | ATR (years) | 12.1 | 7 | 10.7 | 11.7 | 8.7 | 10.7 | 11.3 | 9.1 | 10.6 | 10.1 | 9 | 9.8 | 9.9 | 10.0 | 9.9 |
| | Refixing in 1yr (% Total) | 21.8 | 29.1 | 23.9 | 22 | 23.5 | 22.5 | 21.2 | 28.8 | 23.7 | 24.9 | 28.2 | 25.9 | 25.1 | 26.1 | 25.4 |
| | Fixed rate debt (% Total) | 80.4 | 100 | 86 | 80.6 | 100 | 87 | 81 | 100 | 87.2 | 77.2 | 100 | 84.1 | 76.9 | 100.0 | 83.7 |
| FX risk | FX debt (% Total) | | | 69.6 | | | 65.2 | | | 63.7 | | | 66.8 | | | 67.6 |
| | ST FX (% reserves) | | | 22.8 | | | 24.4 | | | 20.7 | | | 24.1 | | | 22.8 |

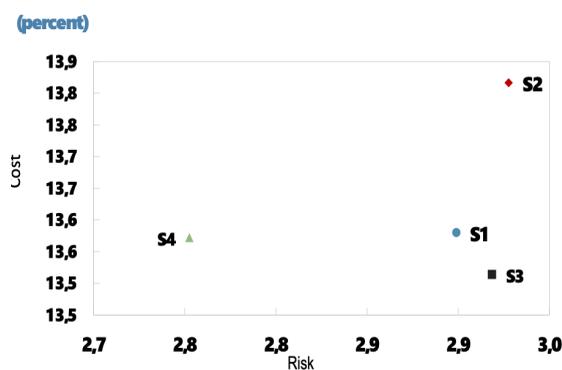
Appendix 3: Cost and Risk Trade-Offs under the Shock Scenarios

Debt to GDP as at end 2028

Interest to GDP as at end of 2028



Interest to revenue as at of 2028



Appendix 4: Shocks to Strategy 3

| | 2026 | 2027 | 2028 |
|---|--------|--------|--------|
| Strategy 3 | | | |
| Debt-to-GDP ratio | | | |
| Baseline | 47.9 | 46.7 | 45.3 |
| Exchange Rate Shock (30 percent) | 57.2 | 55.6 | 53.7 |
| Interest Shock 1 | 47.9 | 47.0 | 45.7 |
| Interest Shock 2 | 47.9 | 47.2 | 46.2 |
| Combined Shock (15 percent depreciation and IR Shock) | 52.6 | 51.4 | 50.0 |
| Interest-to-GDP ratio | | | |
| Baseline | 2.3 | 2.4 | 2.3 |
| Exchange Rate Shock (30 percent) | 2.5 | 2.6 | 2.6 |
| Interest Shock 1 | 2.3 | 2.6 | 2.6 |
| Interest Shock 2 | 2.3 | 2.9 | 2.8 |
| Combined Shock (15 percent depreciation and IR Shock) | 2.4 | 2.8 | 2.7 |
| PV of debt-to-GDP ratio | | | |
| Baseline | 39.1 | 38.1 | 37.0 |
| Exchange Rate Shock (30 percent) | 46.0 | 44.8 | 43.4 |
| Interest Shock 1 | 39.1 | 38.3 | 37.4 |
| Interest Shock 2 | 39.1 | 38.5 | 37.8 |
| Combined Shock (15 percent depreciation and IR Shock) | 42.5 | 41.7 | 40.6 |
| Debt service-to-GDP ratio | | | |
| Baseline | 7.6 | 5.4 | 5.4 |
| Exchange Rate Shock (30 percent) | 8.3 | 6.2 | 6.3 |
| Interest Shock 1 | 7.6 | 5.7 | 5.7 |
| Interest Shock 2 | 7.6 | 5.9 | 5.9 |
| Combined Shock (15 percent depreciation and IR Shock) | 7.9 | 6.1 | 6.1 |
| External debt service (US\$ million) | | | |
| Baseline | 2133.9 | 2244.7 | 2697.6 |
| Exchange Rate Shock (30 percent) | 2761.8 | 2883.8 | 3454.2 |
| Interest Shock 1 | 2133.9 | 2422.7 | 2900.3 |
| Interest Shock 2 | 2133.9 | 2600.8 | 3106.1 |
| Combined Shock (15 percent depreciation and IR Shock) | 2447.8 | 2765.4 | 3302.3 |

