THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE

FISCAL RISK STATEMENT FOR 2025/26

JUNE, 2025

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1. Introduction

The Budget Act (CAP 439) mandates the identification and management of fiscal risks to support the Government's medium-term macroeconomic objectives. Further, as part of the East African Community (EAC) fiscal surveillance framework, each Partner State is required to prepare a Fiscal Risk Statement (FRS) outlining the risks that may lead to deviations from planned outcomes. In that context, Fiscal Risk Statement indicates the Government's exposure to various fiscal risks arising from budgetary assumptions, public debt dynamics, operations of public entities and local governments, contingent liabilities, and unexpected natural disasters. Identifying these risks and implementing appropriate mitigation strategies is essential to ensure that budgetary plans and development objectives are met.

In the 2025/26 fiscal year, the Government will continue implementing the priorities outlined in the National Five-Year Development Plan (2021/22 – 2025/26) as stipulated in the Annual Development Plan. These priorities include fostering a competitive and inclusive economy, enhancing industrial production and service delivery, promoting investment and entrepreneurship, and strengthening human capital development.

The total projected revenue and expenditure for the 2025/26 budget is 56.49 trillion shillings, of which 39.0 trillion shillings is allocated to recurrent expenditure and 17.49 trillion shillings to development expenditure. Domestic revenue is projected at 38.78 trillion shillings, comprising 32.3 trillion shillings from tax revenue and 6.48 trillion shillings from non-tax sources. Local Government Authorities are expected to collect 1.68 trillion shillings from their own sources.

These projections are based on the best available information and reflect key assumptions. However, multiple risks may influence actual outcomes, therefore disclosing these risks enhances the transparency of fiscal forecasts, particularly those related to macroeconomic conditions, climate change and natural disasters, contingent liabilities, and other specific risks. This Fiscal Risk Statement highlights vulnerabilities and provides a framework for identifying, assessing, and mitigating fiscal risks to support sound fiscal management.

2. Macroeconomic Risks

Macroeconomic risks refer to the exposure of fiscal policy to the volatility of key economic parameters and assumptions compared to the levels of parameters that were assumed in the forecast. Macroeconomic risks may occur due to internal and external factors. These risks may stem from natural and non-natural events and can affect macroeconomic indicators; including commodity prices, interest rates, exchange rates, and credit to the public and private sectors. Macroeconomic risks, their causes, and effects include:

2.1. Commodity Price Fluctuations

An increase in the prices of essential commodities, particularly, petroleum products prices in the global market can impact Government revenues, spending and purchasing power. In 2022, global prices for petroleum increased from USD 105 per barrel to USD 139; diesel from USD 107 per barrel to USD 157 and kerosene from USD 103 per barrel to USD 145. This global increase resulted to increase of domestic pump price by 21.6 percent for petroleum, 33.7 percent for diesel and 30.1 percent for kerosine. As a result, the Government reduced several levies that are factored in the computation of cap prices for petroleum products. Further, the Government paid 100 billion shillings as subsidy to contain rising fuel price in the country which increased Government expenditures. moreover, global price volatility for commodities like minerals and cash crops, driven by adverse global economic trends and supply chain disruptions, may reduce revenue from exports which will affect plans and budget as well as the value of the shilling.

2.2. Geopolitical Tensions

In recent years, the global economy has deteriorated due to rising geopolitical tensions like the Russia-Ukraine war and conflict in Middle East. These conflicts potentially disrupt global supply chains and pose volatility in commodity prices, affecting households purchasing power and increase production costs for business. Further, ongoing Democratic Republic of Congo (DRC) conflicts may disrupt trade routes, reduce export volumes and port revenues on account that DRC is a key trading partner with the largest share of the transit goods.

2.3. Policy Changes

Delays or inefficiencies in implementing key economic policies, such as de-dollarization and fiscal discipline measures, could hinder the expected price stability amid increased in imported products due to depreciations of Tanzania Shilling. Change in global foreign policies may pose a risk to the economic growth by affecting foreign direct investment if the policy escalating to outflow of capital from other countries.

2.4. Depreciation of the Shilling

The value of the Tanzanian shilling against foreign currencies may decline due to exchange rate volatility as a result of increased demand for foreign currency to finance essential imports, particularly petroleum products. During the year ending December 2023, one USD was traded at 2,516.0 shillings compared with 2,320.2 shillings in the corresponding period in 2022, equivalent to a depreciation of 8.4 percent in December 2023 compared with 0.56 percent in December 2022. This depreciation increases external debt service and imports costs, especially for capital goods and raw materials, thus resulting to inflation. Consequently, undermines growth prospects, hinder business operations, and decrease purchasing power, ultimately affecting the implementation of the plan and budget.

2.5. Macroeconomic Risk Mitigation Measures

The following mitigations have been proposed to address the identified macroeconomic risks:

i. Implement and monitor fiscal and monetary policies to meet economic targets;
ii. Implement National Strategy to Improve Availability of Foreign Currency;
iii. Encourage the use of alternative energy such as gas to reduce the impact of rising global petroleum prices;
iv. Allocate resources for irrigation, conservation of the environment and water source to ensure agricultural activities are conducted throughout the year. Nevertheless, investing in modern farming, resilient seeds and food resilient systems to curb food inflation;
v. Build capacity and improve institutional framework to access international climate finances;
vi. Strengthen strategic cooperation with Development Partners through a reviewed Development Cooperation Framework; and
vii. Reprioritize spending including infrastructure investments to help protect the most vulnerable, while safeguarding fiscal and debt sustainability.

3. Contingent liabilities

Contingent liabilities pose a risk of unexpected and significant financial obligations for the government within a short period, potentially straining its fiscal resources. Since they become payable only when triggered by specific events or economic shocks, limited fiscal capacity to respond effectively could worsen macroeconomic and fiscal vulnerabilities.

3.1. Public corporations and Local Government Authorities

The Government of Tanzania owns 253 public enterprises, including key corporations like TANESCO, ATCL, and TRL, which provide essential services but face financial distress. Continuous government bailouts for these entities strain public finances which highlighting the need for financial and operational reforms to enhance sustainability. Similarly, Local Government Authorities (LGAs) pose fiscal risks due to fund mismanagement and potential liabilities from independent loan contracting. As of June 2024, contingent liabilities from public corporations and LGAs amounted to 8,469.60 billion shillings, with the majority stemming from insurance liabilities (52.70%), government guarantees (32.94%), and consent letters (13.71%).

3.2. Mitigation measures for public corporation and Local Government Authorities

To address risks associated with public corporations and Local Government Authorities, the Government of Tanzania is enhancing governance and oversight by enforcing audits, improving transparency, and closely monitoring financial operations. Further, financial and operational reforms, including cost-cutting measures, restructuring or merging failing entities, and promoting efficiency in service delivery, aim to improve sustainability and reduce fiscal burdens. Furthermore, through the National Planning Commission and Ministry of Finance, the Government will continue to strengthen the scrutiny and appraisal of projects to ensure their viability, cost-effectiveness, and alignment with national development goals, ultimately enhancing long-term fiscal responsibility and economic stability.

4. Fiscal Risks from Climate-Related Hazards and Natural Disasters

Tanzania is increasingly exposed to climate-related hazards such as floods, droughts, and extreme temperature rise. These events present direct fiscal risks by increasing unplanned government expenditures for emergency response and infrastructure recovery, as well as long-term risks by impacting economic productivity and revenue generation.

4.1. Fiscal Costs of Climate Change and Disaster Response

Climate hazards have significant budgetary implications. Historical data show increased frequency and severity of floods and droughts, with Annual Average Losses (AALs) projected to rise from USD 28 million to USD 41 million for floods and from USD 140 million to USD 350 million for droughts (UNDRR, 2019). For instance, the 2018 floods in Dar es Salaam alone cost USD 100 million (2% of GDP). Disaster response spending has also grown. In FY 2023/24, Tanzania spent 19.58 billion shillings on disaster response, largely financed through the National Disaster Management Fund (NDMF) which was established by the Disaster Risk Management Act 2023 for preparedness, response, and recovery from natural disasters. The Act has financial provisions for the NDMF to raise funds from different sources, including the budget, public donations, and international financial institutions. The government aims to make an annual contribution of 2.0 billion shillings in normal years from the budget to the NDMF, which is adequate to cover the costs of immediate response to recurrent natural hazards in Tanzania. The Plan and Budget Guidelines for 2025/26 recognizes the risks from natural disasters and climate change and the need to continue to strengthen the NDMF going forward.

In many cases, financing has been ad-hoc and reactive. Going forward, a shift toward predictable, risk-informed financing is essential. The Government in forthcoming 2025/26 budget is remaining committed to enhance preparedness and reduce reliance on emergency reallocation by ensuring the availability of contingent reserve in the budget that provides a robust buffer for moderately severe disasters; emergency budget of the Road Fund and helps distribute the budgetary risks when disaster hits; and allocation of a percentage of total railway development levy to the contingency fund for addressing climate emergency related road infrastructure maintenance.

4.2. Long-Term Climate and Transition Risks

Beyond immediate disasters, climate change has long-term implications for fiscal sustainability. Rising temperatures (projected to exceed 2°C in some regions by 2041, per National Environmental Management Plan for Strategic Interventions (NEMPSI- 2022-2032) are expected to reduce agricultural yields, increase health-related expenditures, and disrupt energy and water systems. Tanzania's agriculture sector, which contributes 26.5% of GDP and employs over 66% of the workforce, is particularly vulnerable (CCDR, 2024). Some of the impacts of climate change in Key economic Sector has been narrated in table.1 below.

Table 1:Impacts of Climate Change on key economic sectors

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
Agriculture Sector			
Warmer temperatures by more than 2°C to the western regions, southern highlands, and central part by 2041	Dry conditions across most of the country could lead to lower agricultural productivity.	Agriculture still accounts for the largest share of GDP where it contributed 26.5 percent in 2023 and employs 75–80 percent of the workforce in the country. Lower crop yields for major cash crops like coffee, tea and cashews will lead to lower export earnings.	GDP losses due to changes in crop yields translate into lower revenue collections.
Increased frequency and intensity of heavy rains (2022-2032)	Floods could damage transport infrastructure, adversely affect agriculture and tourism.	i. Annual damages to transport infrastructure are expected to rise to USD 117 million by 2030. ii. Lower GDP growth and iii. Inflation due to disruption of supply chain	i. Increase of government spending due to reconstruction costs ii. Lower revenue collections
Energy Sector			
Warmer temperatures	Droughts, especially in the central and southern highlands, significantly reduce water flow in major rivers like Rufiji and Kagera, lowering hydropower output.	Currently, about 58 percent of total installed electricity generation in Tanzania comes from Hydro-power sources. Reduced hydro output leads to: i. Higher costs from emergency diesel generation (expensive and import-dependent); and ii. Load shedding (power rationing),	i. Increase of unexpected Government Expenditure due to increased fuel imports, budget subsidies and tariff pressures and ii. Exposure to foreign exchange risk

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
		which affects industrial productivity and economic growth	
Floods	Floods can lead to the destruction of energy infrastructures which may lead to power disruption and energy projects delays.	i. Costly repairs, power disruption; ii. Inefficient output, turbine shutdown, silt removal costs; and iii. Higher implementation costs, slowed electrification	i. Power outages can lead to loss of GDP, tax; and ii. High repair and replacement costs are often borne by TANESCO or subsidized by the Government particularly through Emergency bailouts and off-budget financing.
Water Sector			
Temperature rise exceeding 2°C by 2041.	This warming trend accelerates evapotranspiration, leading to higher water losses from reservoirs and surface water bodies. Lower water levels in rivers and reservoirs limit water availability for households, agriculture, and ecosystems and increased concentration of pollutants due to reduced dilution, risking contamination.	i. Increased costs for trucking and boreholes and reduced household productivity; and ii. Reduced output due to job losses in beverage, tourism, and mining sectors.	i. Emergency infrastructure spending that can lead to unnecessary budget reallocations; and ii. Reduction of tax due to reduced output.
Periods of intensive rainfall leads to severe flooding. For	Widespread flooding across the country can cause extensive damage of water	i. Costly emergency repairs or full reconstruction;	Increased Government spending for repairing damaged infrastructures that can lead to Budget reallocations, donor

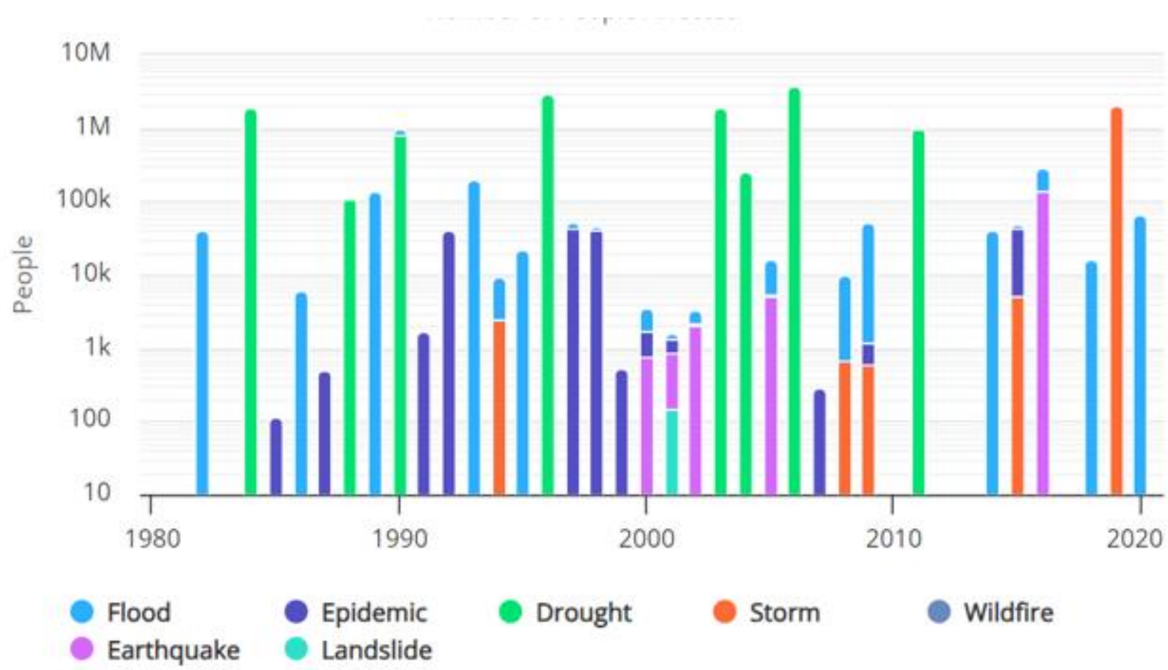
Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
example, between March and May 2024, catastrophic rains.	infrastructure and displaced thousands, and led to numerous fatalities	ii. Temporary water outages disrupt households, hospitals, and businesses; and iii. Reduced revenue collection by water utilities due to service interruption	appeals, impact on capital project timelines.

Sources; *World Bank_CCDR-2024; Ministry of Water (2023), Annual Water Sector Performance Report; UNDRR (2019), Tanzania Disaster Risk Profile; TRA – Revenue Performance Report, 2023; National Environment Master Plan for Strategic Interventions (NEMPSI 2022–2032); Nationally Determined Contributions (NDC 2021); TANESCO (2023), Annual Report.*

4.3. Tanzania's Natural Disaster Profile

Tanzania's population and economy are exposed to, and impacted by, a range of disasters. Among them, floods and droughts affect a large share of the population (figure 1). In 2018, floods in Dar es Salaam alone cost USD 100 million, or 2 percent of GDP (Erman, Obolensky and Hallegatte 2019). Over the past two decades, severe droughts have impacted livestock, wildlife, and the country's predominantly small-scale and rainfed crops. The culmination of a series of droughts in 2009 resulted in the loss of more than 50 percent of livestock in some parts of northern Tanzania (Goldman and Riosmena 2013). Extensive agriculture and livestock production has continued to expand in response to shocks, at the expense of forests and unsustainable soil and water exploitation, decreasing production systems' natural resilience to climate shocks and increasing greenhouse gas (GHG) emissions.

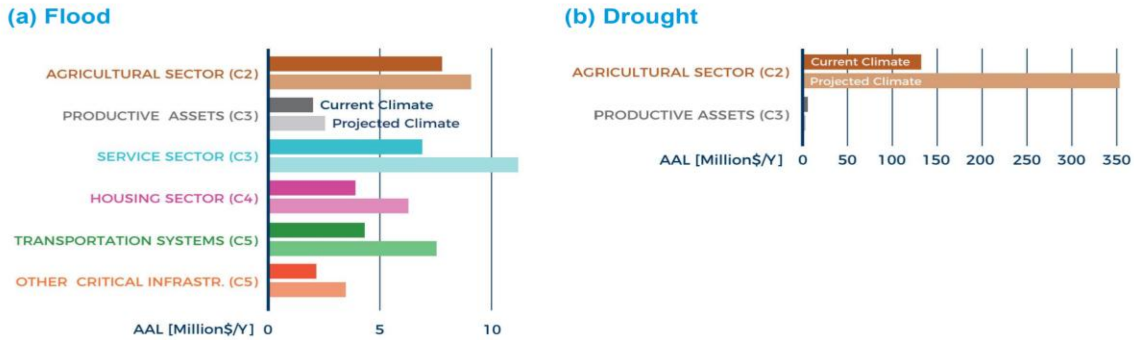
Figure 1:Key natural Hazards Statistics for 1980-2020



Source: World Bank Climate Change Knowledge Portal
https://climateknowledgeportal.worldbank.org/country/tanzania/vulnerability

Economic losses are projected to increase with climate change, with Annual Average Loss (AALs) from floods and droughts increasing from USD 28 million per year to USD 41 million, and from USD 140 million per year to USD 350 million, respectively (Figure. 2)

Figure 2:Annual Average Loss (AAL) per Sector in Case of a Disaster



Source: UNDRR, 2019, Tanzania Disaster Risk Profile

Tanzania's disaster risk financing needs are estimated to range between approximately USD 14 million or 0.02 percent of GDP (2-year event) to USD 441 million or 0.56 percent of GDP (50-year event). Of which, disaster response will require USD 2.8 million (2-year event) to USD 88.2 million (50-year event).[1] Further, the expenditure for disaster from the NDMF has been indicated in figure. 3. In financial year 2023/24 disaster related expenditures from NDMF were equivalent to about 13 per cent of GDP because the country experienced significant floods and landslides to different regions.

Figure 3:Expenditure for Disaster Response (in millions of shillings)

4.4. Mitigation of Climate and Natural Disaster related Fiscal Risk.

Tanzania's economic resilience is increasingly challenged by the growing fiscal risks posed by natural and climate-induced disasters. Droughts, floods, and extreme weather events driven by climate variability are not only endangering lives and livelihoods, but also exerting substantial unplanned pressure on the national budget. These events often lead to unexpected public expenditures,

[1] https://www.elibrary.imf.org/configurable/content/journals$002f002$002f2024$002f187$002farticle-A001-en.xml?t:ac=journals%24002f002%24002f2024%24002f187%24002farticle-A001-en.xml

revenue shortfalls, and disruptions in service delivery, particularly in key sectors such as agriculture, energy, infrastructure, and water.

Therefore, the Government approved National Disaster Management Strategy 2022which requires the planning for disaster preparation and mitigation measures; Public Investment Management Operational Manual to ensure every implementing agency to prepare mitigation measure at the stage of project designing, implementation and post implementation ,for , the Five Year Development Plan (FYDP) III 2021, as well as the 2021 NDC which articulate the need for and the government's commitment to adaptation and resilience building, laying the ground for disaster preparedness and mitigation measures. In that regard, the following are the mitigation of climate and natural disasters;

i. To overcome temperature, rise in-line with Paris Agreement, the Government will continue to incentivize clean and green technologies by charging exercise duty at the rate of 25% on imported used motor vehicles, motorcycles and domestic appliances including refrigerators and washing machine.
ii. To strengthen crisis-preparedness and fiscal resilience, the Government will continue to enforce the Railway Development Levy and appropriated fifty percent (50%) thereof to be contributed to the Contingency Fund and National Disaster Management Fund (NDMF),
iii. Propose to impose excise duty on coal and Natural Gas in the forthcoming FY 2025/26.
iv. Propose to introduce VAT exemption to CNG motor Vehicle in the forthcoming Financial Year 2025/26.
v. To strengthen emergency preparedness and response, the Government will continue to strengthen and support the institutional structures for disaster coordination and management, as evidenced by the approval of the National Disaster Management Policy 2004 Edition 2025, dated January 2025.
vi. The Government is committed to mobilize climate finances to address catastrophe and climate related risks. Among which is the implementation of contingency & Resilience facility Programmes i.e Catastrophe Deferred Drawdown Options (World Bank) and Resilience and Sustainability Facility (International Monetary Fund).
vii. To mitigate the occurrence of hunger disaster, the Government has increased allocation of the budgets to Agricultural subsectors to ensure food security in the country.
viii. To ensure there is emergency budget for infrastructure restoration, the Government has dedicated Road Fund which will help to distribute budgetary risks when disaster hits.

5. Other Specific Risks

5.1. Public Debt

Public debt is one of the most important and dependable components in the budget for financing public investments. Public debt stock stood at USD 36,690.7 million (46.3 percent of GDP) at end June 2024 from USD 34,109.1 million (44.5 percent of GDP) recorded in June 2023, equivalent to an increase of 7.6 percent. External debt accounted for 66.5 percent of the public debt while domestic debt accounted for 33.5 percent. The annual increase is attributable to new disbursements of external loans and issuance of Government securities to finance development projects. The analysis of the existing debt portfolio shows that Tanzania's debt is exposed to liquidity risk and market risk.

5.1.1. Market Risk

Market risk originates primarily from interest rate and exchange rate volatility.

i) Interest Rate volatility

Interest rate risk is assessed by the Average Time to Re-fixing (ATR), which has declined from 10.6 years in 2023 to 9.8 years by June 2024, indicating a greater share of debt subject to interest rate changes in the short term; notably, the share of external debt re-fixing within one year rose from 23.7% to 25.9%. Exchange rate risk is elevated due to the dominance of external debt, making up 66.8% of the total portfolio. The growing reliance on commercial external debt, unlike concessional loans, exposes the country to higher debt service costs, particularly in the event of currency depreciation.

ii) Exchange Rate volatility

A larger share of the public debt portfolio is dominated by external debt which is approximately 66.8% of the debt portfolio of which more than 65 percent of the external debt is from the concessional sources. The existing portfolio continues to entail exchange rate risk given the large share of external debt. In addressing it the Government continues to implement measures to develop domestic primary capital market to ensure large part of financing is raised from domestic market. These measures include developing a benchmark bond program through reopening's and liability management operations, establishing a formal sovereign benchmark yield curve and public awareness programs and developing programs for digital media platforms for a wider outreach.

Table 2:Cost and Risk Indicators of Public Debt as at June 2024

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of USD)		24,393.0	12,102.7	36,495.8
As percentage of total		67.1	32.9	100
Nominal debt as % GDP		32.4	16.1	48.5
PV of Debt as % of GDP		23.5	16.0	39.6
Cost of debt	Interest payment as % GDP	1.0	1.6	2.6
	Weighted Av. IR (%)	3.0	10.1	5.4
Refinancing	ATM (years)	11.4	9.0	10.7
	Debt maturing in 1yr (% of total)	4.9	28.2	11.9
	Debt maturing in 1yr (% of GDP)	1.8	4.5	6.4
Interest rate	ATR (years)	10.1	9.0	9.8
	Debt re-fixing in 1yr (% of total)	24.9	28.2	25.9
	Fixed rate debt (% of total)	77.2	100.0	84.1
Foreign exchange (FX)	FX debt (% of total debt)			66.8
	ST FX debt (% of reserves)			24.1

Source: Ministry of Finance

5.1.2. Liquidity Risk

The Government refinancing policy for domestic debt is to rollover the maturing principal paying interest cost using Government revenue. The exposures to rollover risk are measured by the Average Time to Maturity (ATM) and percentage of total domestic debt maturing in one year. The ATM of total debt portfolio shows a declining trend from 11.1 years in 2023 to 10.7 as of June 2024, reflecting reduced access to concessional loans from development partners. This trend is driven by global economic tensions impacting the economies of developed nations and Tanzania's transition to a middle-income economy.

5.2. Mitigation Measures of public debt

The Government will maintain prudent debt management policies by ensuring committed fiscal consolidation in the medium term to minimize risks through prudent borrowing and use of proceeds to invest in projects with high economic returns; and enhancing revenue mobilization in order to safeguard the countries macroeconomic stability. Also, the Government will prioritize 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 develop domestic market in order to ensure adequate financing is raised from the domestic market for the purpose of minimizing exchange rate risks. Furthermore, the Government will continue to strengthen supervision of both financial institutions and state-owned enterprises to minimize risks associated with contingent liabilities.

6. Conclusion

The 2025/26 Fiscal Risk Statement underscores the Government's continued commitment to identifying, assessing, and mitigating fiscal risks that may hinder the achievement of its development and budgetary goals. These risks include macroeconomic shocks, rising public debt, contingent liabilities from public entities and LGAs, and increasing threats from climate-related hazards and natural disasters.

In particular, the growing fiscal impact of climate change and extreme weather events calls for a proactive and risk-informed approach to disaster preparedness and financing. The Government is strengthening the National Disaster Management Fund, expanding contingency reserves, and mainstreaming climate risk into budget planning. Additionally, efforts to mobilize international climate finance and enforce climate-resilient public investments are underway.

To ensure fiscal sustainability, Tanzania will continue to pursue prudent borrowing, enhance domestic revenue mobilization, and strengthen oversight of public enterprises. These measures will reinforce economic resilience and protect against both immediate and long-term fiscal shocks.

Through effective risk management and strategic policy implementation, the Government remains focused on maintaining macroeconomic stability and achieving its long-term development objectives