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UNITED REPUBLIC OF TANZANIA

JOINT WORLD BANK-IMF DEBT SUSTAINABILITY ANALYSIS

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UNITED REPUBLIC OF TANZANIA: JOINT BANK-FUND DEBT SUSTAINABILITY ANALYSIS	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgment	No

The Debt Sustainability Analysis (DSA) indicates that Tanzania's risk of external debt distress remains moderate, mainly due to the continued effects of the pandemic on exports, which has marginally weakened Tanzania's ability to service its external debt.[2] Although the economy is gradually recovering from the pandemic, risks remain tilted to the downside and the macroeconomic outlook is stable, leading to limited space to absorb shocks. Results of the external DSA show that, except for a one-off breach in the debt service to exports ratio caused by the collapse in tourism receipts due to the pandemic, all other external debt burden indicators continue to remain below the policy-determined thresholds under the baseline. The public DSA analysis shows that the present value of the public debt-to-GDP ratio remains contained at around 31 percent, well below the 55 percent threshold for the present value of the public debt-to-GDP ratio. The results of the DSA underscore the importance of accessing, to the extent possible, external financing on concessional terms. To maintain fiscal and debt sustainability, the authorities should improve revenue mobilization and public investment management, proceeding only with investment projects with clear socioeconomic payoffs.

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[1] Prepared by the IMF and the World Bank. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.
[2] Tanzania's debt carrying capacity classification remains medium as in the September 2021 DSA. The composite index (CI), estimated at 2.94 is based on the April 2022 World Economic Outlook (WEO) and the 2020 World Bank Country Policy and Institutional Assessment (CPIA) data.

PUBLIC DEBT COVERAGE

1. The public sector debt covers central government debt, central government-guaranteed debt (i.e., excluding guaranteed debt of SOEs and local governments), and central bank debt (Text Table 1). Owing to data constraints, the coverage of public sector debt is limited as debt data from all local governments and public corporations are not available. The BoT has currently no outstanding debt. With assistance from development partners, the authorities have been working on broadening the coverage of the fiscal data, including local governments and public corporations. The Ministry of Financing and Planning has a wide mandate over debt management, as any domestic debt issuance by local governments and parastatals with weak financials is subject to its approval, and all external financing requires government guarantees.[3] The definition of external debt is based on residency. The contingent liability stress test is calibrated to 6.4 percent of GDP. The size of the shock is in line with the authorities' estimates of the size of contingent liabilities at 5 percent. The contingent liabilities include external arrears claims under dispute to Libya, whose discussions to settle are progressing;[4] potential domestic arrears to social security funds and TANESCO's arrears to suppliers; and other contingent liabilities from local governments and public non-financial corporations, which are still under verification, as discussed with the Debt Management Office. The analysis also adds government domestic arrears, estimated at about 2.3 percent of GDP (i.e., 1.9 percent of GDP in expenditure arrears to suppliers and 0.4 percent of GDP of VAT refunds in arrears) at the end of the fiscal year FY2021/22, to the domestic debt stock.[5]

Text Table 1. Tanzania: Tanzania: Public Debt Coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Public debt coverage and the magnitude of the contingent liability tailored stress test

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	6.4	5 percent from authorities' estimation from a recent (unpublished) report on contingent liabilities and 1.4 percent from an outstanding claim of arrears of the Public Service Social Security Fund (PSSSF)
4	PPP	35 percent of PPP stock	0.00	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		11.4	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[3] The central government's strong control over public sector debt limits the risk of other uncaptured contingent liabilities.

[4] The arrears stem from a US$101 million loan contracted in 1983. The outstanding amount reflects a 50 percent debt cancellation and US$40 million debt swap signed in 2005 and a 2009 addendum. Tanzania ceased payments in 2015 during the Libyan civil war. The authorities met with a Libyan delegation in mid-March and agreed on the amount of the outstanding debt (US$61 million), which is already included as part of the debt stock for this DSA. The payment of interest rate penalties, however, is still under dispute and negotiations on the matter are ongoing. That payment of interest rate is currently included in the value of contingency liabilities given its small size as share of external debt.

[5] Since more recently, the authorities have accelerated the payment of those arrears and the ECF arrangement presents an indicative target (IT) with a schedule of their clearance of those arrears, at this stage, those arrears do not impact Tanzania's DSA rating.

BACKGROUND ON DEBT

2. **Tanzania's public and publicly guaranteed (PPG) debt remains relatively low.** At the end of FY 2020/21, the level of public debt stood at 39.7 percent of GDP, marginally up from 38.0 percent in 2019/20.[6] However, over the past decade the debt to GDP ratio increased by more than 13 percent of GDP. While domestic debt rose over the period, most of the increase was related to external debt which accounts for 74 percent of the total debt.

3. **Non-concessional borrowing has increased in recent years to finance the public infrastructure agenda**. Multilateral and official bilateral creditors continue to be the major financiers, accounting for about 68 percent of the stock of external public and publicly guaranteed (PPG) debt as of end-FY2020/21. Text Table 2 shows that most of this debt is from multilateral institutions, followed by Paris Club bilateral creditors. However, in recent years, commercial borrowing as a share of new disbursement was increasing. In FY2020/21 it reached 61 percent, as the authorities borrowed US$1.3 billion through commercial loans to finance the Standard Gauge Railway project. The pandemic made external non-concessional borrowing more challenging, creating a new need for financing from multilateral and official bilateral institutions, including through the RCF. In FY2021/22, commercial borrowing as a share of new disbursements fell to around 38 percent, while the IMF RCF corresponded to 21 percent. Text Table 2 further shows that there are currently zero public guarantees in the data for the central government as indicated as a Memo Item of the table (see the discussion about public guarantees for SOEs and LGAs above), and only some one-off guarantees treated as "other contingent liabilities". The BoT has currently no debt outstanding.

4. **Domestic public debt has also increased but remains small.** Domestic debt stood at 10.4 percent of GDP at end-FY2020/21, with about 30 percent of that stemming from short-term instruments. Commercial banks continue to hold the largest share of government debt, followed by social security funds

MACROECONOMIC AND POLICY ASSUMPTIONS

5. **Tanzania's economy is gradually recovering from the negative effects of the COVID-19 pandemic, but the country continues to face development and reform challenges to unleash its economic potential.** The authorities are seeking Fund assistance through the Extended Credit Facility (ECF) to support the country in facing protracted balance of payments needs associated with the two external shocks—the COVID-19 pandemic and the war in Ukraine—and to support their reform agenda summarized in the Five-Year Development Plan. The ECF seeks to safeguard fiscal and debt sustainability, and public debt sustainability is a key program anchor.

[6] All the figures and tables in the DSA follow the fiscal year (July-June). In the figures and tables, for example the year 2021 corresponds to FY2020/21.

Table 1. Tanzania: Decomposition of Public Debt and Debt Service by Creditor, 2021-24[1]

	Debt Stock			Debt Service				Debt Service			
	2021			2021	2022	2023	2024	2021	2022	2023	2024
	(In US$ millions)	*(Percent of total debt)*	*(Percent of GDP)*	*(In US$ millions)*				*(Percent of GDP)*			
Total[2]	**26,760**	**100.0**	**39.7**	**3,367**	**4,621**	**2,603**	**2,301**	**5.0**	**6.3**	**3.2**	**2.5**
External	**19,757**	**73.8**	**29.3**	**1,343**	**1,624**	**1,309**	**1,200**	**2.0**	**2.2**	**1.6**	**1.3**
Multilateral creditors[3]	12,173	45.5	18.1	263	322	333	357	0.4	0.4	0.4	0.4
IMF	557	2.1	0.8	0	0	0	0	0.0	0.0	0.0	0.0
World Bank	8,294	31.0	11.8	178	212	235	254	0.3	0.3	0.3	0.3
AfDB	317	1.2	0.5	49	23	23	25	0.1	0.0	0.0	0.0
Other Multilaterals	3,005	11.2	4.3	36	87	75	79	0.1	0.1	0.1	0.1
o/w African Development Fund	2,415	9.0	3.4	n/a	37	40	42	n/a	0.0	0.0	0.0
o/w International Fund for Agricultur	239	0.9	0.3	11	13	12	12	0.0	0.0	0.0	0.0
Bilateral creditors	1,300	4.9	1.8	12	126	42	47	0.0	0.2	0.1	0.1
Paris Club	743	2.8	1.1	5	53	24	26	0.0	0.1	0.0	0.0
o/w France	168	0.6	0.2	0	21	11	12	0.0	0.0	0.0	0.0
o/w Japan	488	1.8	0.7	2	19	11	12	0.0	0.0	0.0	0.0
Non-Paris Club	557	2.1	0.8	8	73	18	21	0.0	0.1	0.0	0.0
o/w China	115	0.4	0.2	n/a	2	0	3	n/a	0.0	0.0	0.0
o/w Iran	78	0.3	0.1	n/a	0	8	8	n/a	0.0	0.0	0.0
Bonds[4]	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Commercial creditors	6,285	23.5	8.9	1,068	1,175	934	796	1.6	1.6	1.1	0.9
o/w Credit Suisse AG	1,704	6.4	2.4	421	371	354	240	0.6	0.5	0.4	0.3
o/w Exim Bank China	1,625	6.1	2.3	198	256	171	168	0.3	0.3	0.2	0.2
Domestic	**7,003**	**26.2**	**10.4**	**2,023**	**2,997**	**1,294**	**1,101**	**3.0**	**4.1**	**1.6**	**1.2**
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	774	2.9	1.1	968	1,317	0	0	1.4	1.8	0.0	0.0
Bonds	6,229	23.3	8.9	1,049	1,680	1,294	1,101	1.6	2.3	1.6	1.2
Loans	-	-	-	0	0	0	0	0.0	0.0	0.0	0.0
Memo Items:											
Collaterized debt[5]	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
o/w: Related	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
o/w: Unrelated	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Contingent liabilities	**4,311**	**16.11**	**6.40**								
o/w: Public guarantees (external)	0.00	0.00	0.00								
o/w: Other contingent liabilities[6]	4,311	16.11	6.40								
Nominal GDP (US$, millions)	67,356			67,356	73,800	81,638	90,051				

Source: Tanzanian Authorities & IMF Staff estimates

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/ Excludes public guarantees and other contingent liabilities, which are noted under memo items.

3/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g., Lending Into Arrears).

4/ Debt stock as of end-2020 is old Eurobond; debt service projection includes interest payments for the new Eurobond.

5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the join IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

6/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g., credit lines) and other explicit contingent liabilities not elsewhere classified (e.g., potential legal claims, payments resulting from PPP arrangements).

6. Spillovers from the war in Ukraine are stalling the recovery from the COVID-19 pandemic. The authorities estimate 2021 growth at 4.9 percent. Inflation increased to 4.0 percent in May 2022 (from 3.2 in April 2021), mainly due to rising oil and food prices and supply chain delays. The war in Ukraine is expected to slow the economic recovery in 2022 through decreased tourist arrivals, higher fuel and food prices, and disruptions in fertilizer and pesticide markets. Inflationary pressures are also expected from second-round effects.

7. The macroeconomic outlook hinges on the extent of changes to COVID-19 policies as well as the broader policy and reform agenda. The impact of the COVID-19 pandemic on Tanzania's economy continues to be subject to considerable uncertainties, with significant downside risks on the horizon. Scarring effects of the pandemic and/or new coronavirus variants, notably if vaccination is not ramped up, might prolong the negative impact of the pandemic on Tanzania's external demand and domestic activity. That risk is compounded by potential effects in terms of external demand and prices coming from the war in Ukraine. A decline in tourism demand by source markets, or a delayed vaccine roll-out could undermine the recovery in tourism and add to external pressures. In line with the ECF, the medium- and long-term macroeconomic outlook assumes an acceleration in the implementation of the authorities' reform agenda.

- **War in Ukraine and ECF scenario.** The war in Ukraine is impacting Tanzania's economy through multiple channels. A deterioration in the terms of trade (oil, food, and fertilizer prices), and disrupted tourist flows from Russia and Ukraine are projected to widen the current account deficit by more than 1 percent of GDP in the next few years, and reserves to decline by about US$800 million over the next few years. The external shock is expected to reduce growth in 2022 and 2023 by about 0.3 pp, relative to the pre-war scenario. The effect on the fiscal path is expected to be small given the authorities response so far. The war in Ukraine is also expected to cause NPLs to increase in the financial sector, and particularly affect financial institutions with certain sectoral balance sheet exposures (for example to the energy industry). The ECF scenario underlying this DSA reflects those effects of the war in Ukraine and the implementation of a structural reform and development agenda to deliver higher growth rates over the medium-term (see also Text Table 3).

- **COVID-19 vaccination**: Tanzania has received support from development partners for vaccines from COVAX and have already vaccinated about 8 percent of the total population or 15.5 of the adult population (above 18 years). The country aims to vaccinate 70 percent of the adult population by June 2023.

- **Real GDP growth:** Real GDP under the program scenario is expected to remain relatively constant in 2022 at 4.7 due to the spillover effects of the war in Ukraine; accelerate again in 2023 to 5.3 percent; and continue to increase in the medium term, stabilizing at around 7 percent in the outer years.

- **Inflation (CPI):** A hump-shaped path of average inflation, moderating and stabilizing at 4 percent over the medium term. Average inflation is expected to peak by FY2022/23 at 5.3 percent. It is expected to fall back and stabilize at 4 percent over the medium term reflecting (i) the expected impact of plans for import substitution of goods affected by the war in Ukraine; and (ii) planned investments in agriculture. Going forward, the transition to an interest rate-based framework is a key component of monetary policy. Inflation developments, particularly reflecting fuel prices, will also play a key role in exchange rate intervention policy.

- **Investment:** Investment will increase to 40 percent of GDP, driven notably by the private sector, in line with the objectives of Tanzania's Third Five Year Development Plan (FYDPIII). With the expected implementation of the Investment Act and the Blueprint for Regulatory Reforms, private investment is expected to increase over the medium term by almost 6 pp. of GDP. This will increase total investment in Tanzania's economy despite the relative decline in public investment.

Text Table 2. Tanzania: Selected Macroeconomic Indicators, Current vs Previous DSA[1]

		Mean last 10 years	2021	2022 proj.	2023 proj.	2024 proj.	2025 proj.	2026 proj.	2027 proj.	Long-term Last 15 years[2]
Real GDP Growth	Current	6.6	4.9	4.8	5.0	5.8	6.3	6.6	6.9	5.6
(percent)	Previous	6.6	4.4	4.6	5.3	5.7	5.9	6.0	6.0	5.1
Inflation	Current	7.0	3.3	4.2	5.3	4.4	4.0	4.0	4.0	3.9
(average)	Previous	7.0	3.2	3.4	3.5	3.5	3.5	3.5	3.5	3.5
Fiscal Balance	Current	-2.7	-3.4	-2.8	-3.3	-3.1	-2.7	-2.5	-2.5	-2.2
(percent of GDP)	Previous	-2.7	-2.5	-3.9	-2.9	-2.9	-2.9	-2.6	-2.6	-2.7
Current Account	Current	-6.7	-1.9	-4.5	-4.3	-3.5	-3.1	-2.9	-2.7	-2.5
(percent of GDP)	Previous	-6.7	-1.9	-4.5	-3.3	-3.1	-2.8	-2.7	-2.6	-2.6
Exports of Good & Services	Current	18.1	13.1	13.5	13.5	13.9	14.1	14.2	14.4	14.6
(percent of GDP)	Previous	18.1	13.3	13.4	13.6	13.9	14.2	14.5	14.5	14.5
FDI	Current	3.1	1.2	1.3	1.4	1.7	1.8	1.9	2.0	2.1
(percent of GDP)	Previous	3.1	1.2	1.3	1.3	1.4	1.5	1.6	1.7	1.7

Sources: Tanzanian authorities; and IMF staff estimates and projections.

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[1] Projections refer to fiscal years. The previous DSA was conducted in the context of the RCF disbursement in September 2021.

[2] For the current projections it covers the period 2028-2042, and for the previous DSA the period 2027-2041.

- **Fiscal balance:** The overall fiscal deficit is projected to increase temporarily to 3.3 percent of GDP to accommodate a hike in social spending and development projects aligned to the authorities' development plan in FY2022/23. The deficit will gradually decay to around 2.2 percent of GDP over the medium- and long-term reflecting the improvement in revenue mobilization delivered by the reforms during the ECF concomitantly with a gradual decline in development spending.[7] Such projected long-term fiscal deficit (2.2 percent of GDP) implies that it will remain below the 3 percent of GDP ceiling required by the convergence criterion of the East African Community.

[7] Fiscal structural reforms and new tax measures are expected to mobilize revenue and open fiscal space over the program period. Those include: (i) broadening the tax base through incentivizing more electronic declarations and electronic payments; (ii) bringing the digital economy into the tax net; (iii) controlling and reducing tax exemptions granted in the tax laws; (iv) enhancing tax administration systems and human resource capacity; and (v) improving risk-based programming and recovery action. The ECF arrangement also envisages efforts to recover tax arrears, expand the registration of taxpayers, and improve rationalization of tax and customs exemptions. Development spending is projected to peak at 8.4 percent of GDP in 2021/22 and then slowly decline to around 6.4 percent of GDP over the long run.

- **Gross financing needs:** Gross financing needs are projected to peak in FY2022/23 at about 10.7 percent of GDP and remain around 8.8 percent of GDP over the medium term. Beyond the other foreign and domestic sources, the analysis assumes that external donors will cover 0.4 percent of GDP of the financing needs in both FY2022/23 and FY2023/24 and 0.3 percent of GDP in FY2024/25. In both FY2022/23 and FY2023/24, this financing is expected from a World Bank Development Policy Operation. In the subsequent fiscal year (FY2024/25), the external donors remain to be identified.[8] External non-concessional borrowing (ENCB), in turn, is projected to remain below 50 percent of annual foreign financing over the next five years, while access to grants is assumed to taper. Domestic borrowing assumptions are further realistic and in line with authorities' debt management strategy.

- **Current account balance:** The current account deficit is expected to remain high at 4.3 percent of GDP in 2022/23. In the near term, the external position is projected to deteriorate amidst pandemic-related uncertainty that will keep tourism below its pre-crisis levels, and a combination of expanding capital goods imports for development projects and rising oil and food prices. Over the medium-term, the current account is expected to improve by almost 2 pp. of GDP and stabilize around 2.5 percent of GDP, supported by a recovery in the tourism sector and lower imports as the commodity price surge and public investment drive ease.

- **Debt Service Suspension Initiative (DSSI):** Tanzania benefited from debt service suspension estimated at around US$252 million over May 2020 to December 2021 period, according to the latest figures provided by creditors. Consequently, the DSA includes a corresponding reduction in debt service payments in the debt stock of 2021 and reflects the higher debt service over the period 2022-27 to repay the rescheduled debt.

- **Special Drawing Rights (SDR):** The authorities have indicated their intention to withdraw their entire August 2021 SDR allocation of SDR 381.3 million (USD 534 million) to boost reserves and bought US treasury bonds in a strategy to optimize their foreign reserves management at the Bank of Tanzania (BoT).[9] Since the SDR withdrawal will remain in the balance sheet of the BoT, based on the 2021 Guidance Note on the SDRs' usage, the operation is not integrated in the DSA.

- **IDA projections and terms:** The new DSA assumes an IDA disbursement profile with USD 500 million in the long-term, with initially higher disbursements in FY23 (USD 1.07 billion) and FY 24 (USD 720 million). Projections use the regular IDA terms and conditions for countries with moderate risk of debt distress. They also incorporate the recently created Shorter-Maturity Loans (SMLs) as an additional IDA instrument. Overall, the DSA rating of the risk of debt distress remains unaffected by using this new instrument.[10]

[8] Given that the external donors have not been identified yet, as a conservative assumption, the DSA includes the exceptional financing for FY2024/25 as non-concessional borrowing.

[9] Note that the authorities have pursued a similar strategy for the SDR allocation following the 2009 Global Financial Crisis

[10] Alternative scenarios have been considered for the values of SMLs in the World Bank's IDA composition, respecting the 12-percent limit of its share in the total IDA portfolio. Given that the contribution of these type of loans are a small fraction of new external disbursements, they do not affect the DSA analysis and rating.

- **Debt conditionality and Tanzania's Development Finance Policy (SDFP) process:** Given Tanzania's ECF arrangement conditionality is set in line with the 2021 Guidance Note on Implementing the Debt Limits Policy in Fund Supported Programs, which is consistent with any applicable SDFP debt limits. A quantitative performance criterion (QPC) is placed on the PV of newly contracted external public debt (ceiling) as well as an indicative target on newly disbursed external non-concessional borrowing (ceiling). The QPC on the PV of newly contracted external debt is established in line with authorities' borrowing plan for newly contracted debt presented in Text Table 4 below.[11]

8. The realism tools indicate that the projections are reasonable (Figure 4). The projected scaling-up of public investment is expected to yield a growth dividend somewhat in line with historical factors. As the bottom-right chart of Figure 4 indicates, using the DSA assumption on its output elasticity (0.15), government capital is expected to contribute with 1.5 percentage points of the 5.9 percent growth in real GDP in the next five years. This compares to an historical average contribution of government capital of around 2 percentage points to the 6.3 percent historical (last five years) growth of real GDP in Tanzania. This contribution of government capital will be supported by the improvement in the business environment and public investment management (bottom-left chart of Figure 4). Reforms will also support financial intermediation and the development of domestic markets, which, in turn, will allow for additional levels of domestic financing.

[11] Tanzania has proposed three performance and policy actions (PPAs) with the World Bank for FY2022/23 under the SDFP, which are currently under review. These PPAs include a debt transparency PPA to strengthen debt transparency through improving the coverage of PPG debt by including SOEs, and two PPAs on fiscal sustainability to strengthen efficiency of PIM, and efficiency of VAT refund system.

Text Table 3. Tanzania: Summary Table on External Borrowing Plan

PPG External Debt Contracted or Guaranteed	Volume of New Debt, US Million 1/	Present Value of New Debt, US Million 1/
Sources of Debt Financing	**7,546**	**7,057**
Concessional debt, of which 2/	2,471	2,183
Multilateral debt	1,515	1,320
Bilateral debt	956	863
Non-concessional debt, of which 2/	5,075	4,874
Semi-concessional debt 3/	0	0
Commercial terms 4/	5,075	4,874
Use of Debt Financing	**7,546**	**7,057**
Infrastructure	6,885	6,549
Budget financing	661	508
Memorandum Items		
Indicative projections		
Year 2	3,004	2,400–2,800
Year 3	3,029	2,410–2,840

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.
3/ Debt with a positive grant element which does not meet the minimum grant element.
4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the

Source: Tanzanian Ministry of Finance and Planning; and IMF staff calculations.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TEST

9. **The country's debt-carrying capacity applied to this DSA is categorized as medium, as in the previous DSA.** The calculated Composite Indicator (CI) Index is 2.94 (down from 3.02 in the September 2021 DSA) based on the April 2022 WEO and the 2020 CPIA data (Text Table 5). The corresponding indicative thresholds are: 40 percent for the net present value (NPV) of external debt-to-GDP ratio; 180 percent for the NPV of debt-to-exports ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio. The benchmark of the PV of total public debt for medium debt-carrying capacity is 55 percent.

10. **Besides the six standardized stress tests, there is one tailored stress test.** The tailored stress test is a market financing shock which is applied to countries with market access, such as Tanzania. It reflects a temporary increase in the cost of new commercial external borrowing, shortening of maturities of new external commercial borrowing, and temporary depreciation. As those tests will highlight, the combined shock of the pandemic and war in Ukraine as well as the active policies that Tanzania is envisaged to pursue under the ECF arrangement provide projected debt-creating flows that differ from the

historic developments. The inclusion of domestic arrears to the stock of domestic debt and the presence of cash adjustments on the authorities' fiscal execution data further explain the residuals in the debt creating flows in 2021 and 2022.

Text Table 4. Tanzania: Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.521	1.36	46%
Real growth rate (in percent)	2.719	5.824	0.16	5%
Import coverage of reserves (in percent)	4.052	45.199	1.83	62%
Import coverage of reserves^2 (in percent)	-3.990	20.430	-0.82	-28%
Remittances (in percent)	2.022	0.040	0.00	0%
World economic growth (in percent)	13.520	3.050	0.41	14%
CI Score			2.94	100%
CI rating			Medium	

Source: 2021 October WEO; 2020 World Bank CPIA; and IMF and World Bank staff calculations.

EXTERNAL DSA

11. According to the baseline projections and borrowing assumptions, Tanzania's risk of external debt distress is assessed as moderate. The present value of the PPG external debt-to-GDP ratio has peaked at about 20.3 percent in FY2020/21. Going forward it is projected to decline over time with its maximum value at 19.8 percent in FY2022/23 and remain below the corresponding threshold. The debt service-to-export ratio breaches the 15 percent threshold in FY2023/24 under the baseline (Figure 1), but falls below that threshold for the remaining years, staying close to it. Due to the different scenario breaches (see below), the DSA rating for the external risk of debt distress is assessed as moderate. The maintenance of the risk rating of the last DSA is due to the scarring effects of the COVID-19 pandemic and the external outlook with the war in Ukraine.

12. Furthermore, several debt indicators are sensitive to shocks (Figure 1). A decline in exports is the most extreme scenario among bound tests for most of the ratios, confirming the sensitivity of the Tanzanian economy to a narrowing of its exports base, as the one experienced with the COVID-19 shock. This is especially conspicuous for the debt service to exports ratio, which is projected to remain elevated, and in breach of the threshold under this shock. Furthermore, the historical scenario breaches three thresholds, highlighting the risks of past behavior.

PUBLIC DSA

13. The risk of overall public debt distress is assessed as moderate, in line with the moderate risk of external debt distress rating. Under the baseline scenario, the PV of public debt remains below the indicative threshold under the baseline and most extreme stress scenario and is expected to increase in the short-term and peak at 33.5 percent of GDP in FY2021/22. After that, the ratio is projected to decline gradually and remain below both the threshold associated with heightened public debt vulnerabilities and the EAC convergence criterion of 50 percent (Figure 2). Although the overall debt service to revenue ratio remains relatively high, its present value declines over time which, combined with the fact that gross financing needs remain below 10 percent of GDP during the long-term horizon, indicates that debt roll-over risks are not high. That overall debt service to revenue ratio further plateaus at the end of the forecast horizon.

14. Bound tests indicate the importance of public investment management. A one-time materialization of contingent liabilities is the most extreme scenario amongst the bound tests for all ratios, highlighting again the importance of improving public investment management processes and the proper prioritization of investment projects, as well as proper public financial management processes. As some of the debt service on public debt has been pushed to higher maturities, the reforms on domestic revenue mobilization will need to continue in the long term to flatten the debt service to revenue ratio. It will also be important to improve the coverage and transparency of public sector debt statistics, including non-guaranteed debt, to minimize the risk of unexpected debt surprises

RISK RATING AND VULNERABILITIES

15. The DSA indicates that the external and the overall risk of debt distress for Tanzania are moderate. The pandemic's devastating effect on tourism inflows brought to light Tanzania's vulnerability to export shocks that threaten its capacity to service external debt. This is now compounded by the war in Ukraine, which may impact on external demand for the country's exports. However, the healthy level of reserves of around 4.5 months of imports serves as a significant buffer against these types of shocks. All external debt burden indicators, but the debt-service-to-exports ratio,[12] remain below the policy-dependent thresholds under the baseline scenario, but are breached under different shocks and stress tests, highlighting the increase in risk of debt distress since the last DSA. In the baseline scenario, the debt service-to-exports ratio peaks in 2023 given the improvement in exports and external sector envisaged over the program. However, a narrow export base and one-time currency depreciation pose risks. The results highlight the importance of raising domestic revenue, improving public investment management, and leveraging domestic and concessional financing sources when available, while carefully selecting projects to be financed by commercial loans.

[12] Such breach of the debt service-to-exports ratio only happens in one year in the series. It can thus be discounted for the purpose of assigning the rating of the risk of debt distress in Tanzania.

16. Tanzania has limited space to absorb shocks due to the effect of the pandemic on tourism exports (Figure 5). The DSA analysis suggests that over the medium-term, Tanzania has limited space to absorb shocks, but over the long-term Tanzania may regain some space to absorb shocks. Most of the indicators show some space towards the end of the projection period. However, over the next few years the debt service to exports ratio and to a lower extent the debt service to revenue ratio suggest that the country has limited space to address shocks, which is reinforced by the results of the market financing stress test (Figure 6). Both ratios underscore the importance of pursuing reforms to make Tanzanian exports more competitive and to enhance revenue mobilization in the long term. There are two countervailing factors that qualify this assessment; on the one hand Tanzania already has and is projected to maintain healthy levels of reserves around 4.5 months of imports; but, on the other hand, the ongoing effect of the scarring of the pandemic and of the war in Ukraine on the tourism sector are highly uncertain and could continue to worsen the capacity of the country to earn foreign exchange, which then serves to pay down debt. The government will need to carefully balance their COVID-19 response and public investment plans with their broader development agenda to preserve debt sustainability.

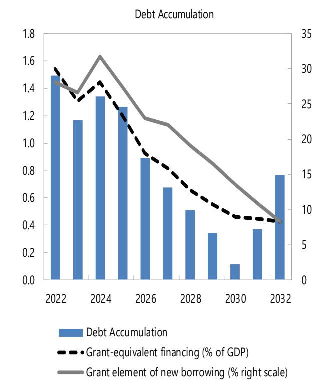
AUTHORITIES' VIEWS

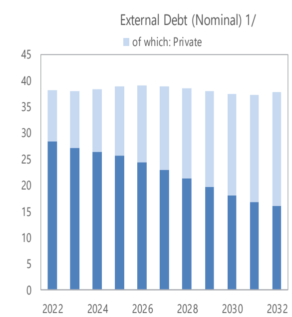
17. The authorities agreed about the economic outlook and risks and indicated economic growth will be supported by the implementation of their development plan (FYDPIII) and the ECF objectives. On the overall assessment, the authorities agreed with the characterization of Tanzania's risks of debt distress and noted their intention to maintain prudent debt management policies and to continue to monitor developments by updating their debt sustainability analysis yearly. They plan to continue prioritizing borrowing on concessional terms, including seeking financing from export credit agencies, while carefully venturing to non-concessional sources for projects of significant importance to the economy. They indicated that the estimation of contingent liabilities may be too conservative (large) and are working on reducing some of the fiscal risks, including domestic arrears. To anchor fiscal consolidation in the long-term, the authorities reiterated their commitment to the EAC guidelines

Table 2. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2021-2042

	Actual											Projections								Average 8/	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External Debt (Nominal) 1/	25.3	23.7	25.9	26.2	32.0	33.1	34.3	37.7	37.4	36.1	37.9	38.2	38.0	38.4	38.9	39.0	38.8	37.9	50.3	32.4	38.2
of which: Public and Publicly Guaranteed (PPG)	21.9	20.5	23.1	25.1	29.4	28.3	28.4	29.5	28.6	28.0	29.3	28.4	27.1	26.4	25.6	24.4	22.9	16.1	11.6	27.0	22.4
Change in external debt	...	-1.5	2.1	0.3	5.8	1.1	1.2	3.3	-0.3	-1.3	1.8	0.3	-0.3	0.4	0.5	0.1	-0.1	0.6	1.2		
Identified net debt-creating flows	...	5.7	2.9	3.8	5.5	2.8	-0.9	-1.4	-0.6	-2.1	-1.9	1.6	1.2	-0.1	-1.0	-1.4	-1.7	-1.4	-1.8	1.4	-0.9
Non-Interest Current Account Deficit	7.5	12.3	10.4	10.6	8.7	5.0	2.1	1.9	2.9	1.1	1.4	4.1	3.6	2.8	2.3	2.4	2.3	2.1	1.9	5.6	2.5
Deficit in balance of goods and services	8.8	13.3	10.9	11.2	9.0	4.6	1.9	1.8	2.8	1.0	1.3	3.8	3.5	2.7	2.1	2.0	1.9	1.7	1.7	5.8	2.2
Exports	21.6	21.8	19.3	18.0	18.4	19.2	16.8	15.9	14.8	14.9	13.1	13.5	13.5	13.9	14.1	14.2	14.4	14.6	14.6		
Imports	30.4	35.1	30.2	29.2	27.4	23.8	18.7	17.7	17.6	15.9	14.4	17.3	17.0	16.5	16.2	16.2	16.2	16.3	16.3		
Net current transfers (negative = inflow)	-3.0	-2.5	-1.8	-1.6	-1.4	-0.7	-0.9	-0.8	-0.6	-0.7	-0.7	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-1.2	-0.5
of which: official	-2.2	-1.7	-1.2	-0.9	-0.6	-0.1	-0.3	-0.3	-0.1	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0		
Other current account flows (negative = net inflow)	1.7	1.5	1.2	1.0	1.1	1.1	1.1	0.9	0.7	0.9	0.8	0.9	0.7	0.6	0.7	0.9	0.9	0.8	0.7	1.0	0.8
Net FDI (negative = inflow)	-4.6	-4.1	-4.6	-4.3	-3.4	-3.0	-1.7	-1.7	-1.7	-1.5	-1.2	-1.3	-1.4	-1.7	-1.8	-1.9	-2.0	-2.1	-2.1	-2.7	-1.8
Endogenous Debt Dynamics 2/	...	-2.5	-2.9	-2.5	0.2	0.8	-1.2	-1.5	-1.8	-1.7	-2.0	-1.3	-1.1	-1.2	-1.5	-1.9	-2.0	-1.4	-1.7		
Contribution from nominal interest rate	...	0.3	0.3	0.3	0.6	0.8	0.6	0.6	0.6	0.6	0.5	0.4	0.7	0.8	0.7	0.5	0.5	0.4	0.5		
Contribution from real GDP growth	...	-1.5	-1.2	-1.6	-1.7	-2.1	-2.1	-2.2	-2.5	-2.1	-1.6	-1.7	-1.7	-2.0	-2.2	-2.3	-2.4	-1.9	-2.2		
Contribution from price and exchange rate changes	...	-1.3	-2.0	-1.2	1.2	2.2	0.3	0.0	0.0	-0.2	-0.9	...	...	...	...	...	...	...	...		
Residual 3/	...	-7.2	-0.7	-3.5	0.3	-1.7	2.1	4.7	0.3	0.8	3.7	-1.3	-1.5	0.5	1.4	1.5	1.6	2.0	2.9	-0.1	0.9
of which: exceptional financing	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.6	-0.3	-0.3	0.0	0.0	0.0	0.0		
Sustainability Indicators																					
PV of PPG External Debt-to-GDP ratio	...	...	...	...	...	...	...	...	...	...	20.3	19.8	19.0	18.4	18.0	17.3	16.4	12.2	9.9		
PV of PPG External Debt-To-Exports Ratio	...	...	...	...	...	...	...	...	...	...	154.1	146.8	140.9	133.1	127.9	121.7	114.2	83.5	67.8		
PPG Debt Service-To-Exports Ratio	1.0	1.3	2.1	3.0	4.1	5.4	8.5	11.6	11.5	13.4	15.2	12.8	15.1	11.7	11.4	12.1	12.0	13.6	13.9		
PPG Debt Service-To-Revenue Ratio	1.8	2.3	3.2	4.0	6.0	7.9	9.7	12.7	12.3	13.7	15.1	12.1	13.6	10.4	10.1	10.7	10.8	12.2	12.6		
Gross external financing need (Billion of U.S. dollars)	...	...	...	...	3.2	1.8	1.1	1.3	2.0	1.4	1.8	3.7	4.1	3.1	2.8	2.8	2.8	4.4	10.2		
Key Macroeconomic Assumptions																					
Real GDP growth (in percent)	7.2	6.5	6.0	6.8	6.4	6.5	6.8	6.9	7.0	5.9	4.9	4.8	5.0	5.8	6.3	6.6	6.9	5.5	5.0	6.4	6.1
GDP deflator in US dollar terms (change in percent)	1.2	5.5	9.2	5.0	-4.4	-6.3	-0.8	-0.1	-0.1	0.7	2.6	4.5	5.4	4.3	2.7	2.5	2.6	3.0	5.0	1.1	3.3
Effective interest rate (percent) 4/	...	1.1	1.4	1.4	2.4	2.3	2.0	1.9	1.8	1.6	1.5	1.0	1.9	2.3	2.1	1.4	1.3	1.3	1.2	1.8	1.5
Growth of exports of G&S (US dollar terms, in percent)	23.4	13.3	2.4	4.6	4.0	4.4	-7.1	0.8	-0.8	7.7	-5.3	12.8	10.3	13.3	11.2	10.3	10.8	8.6	10.3	2.4	10.6
Growth of imports of G&S (US dollar terms, in percent)	19.1	29.7	-0.5	8.5	-4.4	-13.3	-16.6	1.0	6.2	-3.5	-2.5	31.1	8.8	7.3	7.0	9.2	9.8	8.6	10.3	0.5	10.9
Grant element of new public sector borrowing (in percent)		...	...	...	...	...	...	...	...	...	...	28.1	26.6	31.7	27.4	22.9	22.0	8.2	3.7	...	20.6
Government revenues (excluding grants, in percent of GDP)	11.9	12.3	12.5	13.2	12.8	13.3	14.7	14.5	13.7	14.6	13.2	14.3	14.9	15.6	15.8	16.0	16.1	16.3	16.1	13.5	15.8
Aid flows (in Billion of US dollars) 5/	1.8	1.9	1.9	1.8	1.2	0.8	1.1	1.1	0.9	1.5	1.2	1.0	1.1	1.6	1.2	1.1	1.1	1.0	1.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	...	...	...	...	...	...	...	...	1.5	1.3	1.4	1.2	0.9	0.8	0.4	0.3	...	0.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	...	...	...	...	...	...	...	...	41.5	37.6	42.8	39.3	36.0	35.4	17.5	13.9	...	32.2
Nominal GDP (Billion of US dollars)	32.8	36.9	42.7	47.8	48.7	48.6	51.5	55.0	59	63	67	74	82	90	98	107	118	184	429		
Nominal dollar GDP growth	...	12.4	15.8	12.1	1.8	-0.2	6.0	6.7	6.9	6.6	7.6	9.6	10.6	10.3	9.2	9.3	9.6	8.6	10.3	7.6	9.6
Memorandum Items:																					
PV of external debt 7/	...	...	...	...	...	...	...	...	...	...	28.8	29.7	29.9	30.4	31.2	31.9	32.4	33.9	48.6		
In percent of exports	...	...	...	...	...	...	...	...	...	...	219.3	219.5	221.6	219.3	221.6	224.4	225.2	232.8	333.5		
Total External Debt Service-To-Exports Ratio	4.1	2.7	3.3	3.6	6.1	9.6	10.4	13.7	14.4	17.3	18.6	15.6	19.9	17.1	16.3	15.0	14.8	16.4	17.0		
PV of PPG external debt (in Billion of US dollars)											13.6	14.6	15.5	16.6	17.7	18.6	19.3	22.4	42.4		
(PVt-PVt-1)/GDPt-1 (in percent)												1.5	1.2	1.3	1.3	0.9	0.7	0.8	0.6		
Non-interest current account deficit that stabilizes debt ratio	...	13.8	8.2	10.3	3.0	3.9	0.9	-1.4	3.2	2.5	-0.5	3.8	3.9	2.3	1.8	2.3	2.4	1.5	0.8		

Definition of External/Domestic Debt	**Residency-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) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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.

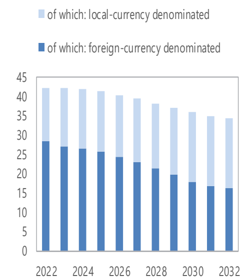
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

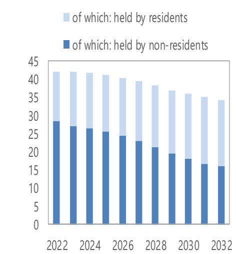
Table 3. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021-2042

	Actual	Projections																Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	Historical	Projections
Public Sector Debt 1/	39.7	42.2	42.1	41.9	41.3	40.4	39.5	34.3	33.8	33.3	32.9	32.4	32.0	31.7	31.6	31.2	30.6	29.9	35.8	38.9
of which: External Debt	29.3	28.4	27.1	26.4	25.6	24.4	22.9	16.1	15.6	15.2	14.7	14.3	13.9	13.5	13.1	12.7	12.2	11.6	27.0	22.4
Change in public sector debt	1.7	2.4	0.0	-0.3	-0.6	-0.9	-1.0	-0.7	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.2	-0.3	-0.6	-0.7		
Identified Debt-Creating Flows	0.5	-1.1	0.5	-0.1	-0.4	-0.7	-0.8	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1	-0.1	-0.3	-0.4	-0.2	-0.6
Primary Deficit	1.8	1.3	1.8	1.2	0.8	0.5	0.6	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.1	0.2	1.2	0.7
Revenue and grants	13.7	15.0	15.4	16.1	16.3	16.5	16.5	16.5	16.5	16.6	16.6	16.6	16.6	16.7	16.7	16.7	16.6	16.3	14.8	16.2
of which: grants	0.5	0.7	0.5	0.5	0.5	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2		
Primary (noninterest) expenditure	15.5	16.3	17.2	17.4	17.2	17.0	17.0	16.7	16.7	16.8	16.8	16.8	16.8	16.8	16.9	16.9	16.7	16.5	16.0	16.9
Automatic Debt Dynamics	-1.3	-2.4	-1.3	-1.3	-1.2	-1.3	-1.4	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.2	-0.3	-0.4	-0.5		
Contribution from interest rate/growth differential	-1.6	-2.4	-1.3	-1.3	-1.2	-1.3	-1.4	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.2	-0.3	-0.4	-0.5		
of which: contribution from average real interest rate	0.2	-0.6	0.7	1.0	1.2	1.3	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.2	1.0	1.0		
of which: contribution from real GDP growth	-1.8	-1.8	-2.0	-2.3	-2.5	-2.6	-2.6	-1.8	-1.8	-1.8	-1.7	-1.7	-1.7	-1.6	-1.5	-1.5	-1.5	-1.5		
Contribution from real exchange rate depreciation	0.3	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...		
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	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	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	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	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.2	3.5	-0.5	-0.2	-0.2	-0.1	-0.1	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	1.4	0.1
Sustainability Indicators																				
PV of public debt-to-GDP ratio 2/	30.7	33.6	34.1	34.0	33.8	33.5	33.2	30.5	30.3	30.1	29.9	29.7	29.6	29.5	29.4	29.3	28.8	28.3		
PV of public debt-to-revenue and grants ratio	224.0	223.7	220.6	211.0	207.4	203.8	201.5	184.6	183.3	181.5	180.3	179.0	177.9	176.7	175.8	174.9	173.8	173.1		
Debt service-to-revenue and grants ratio 3/	39.3	31.6	55.2	47.2	46.8	48.0	50.5	58.4	58.1	57.0	57.4	57.9	58.1	58.2	58.4	58.9	59.2	59.4		
Gross financing need 4/	7.1	6.0	10.3	8.8	8.5	8.4	8.9	9.8	9.8	9.6	9.7	9.8	9.8	9.8	9.9	10.0	10.0	9.9		
Key Macroeconomic and Fiscal Assumptions																				
Real GDP growth (in percent)	4.9	4.8	5.0	5.8	6.3	6.6	6.9	5.5	5.5	5.5	5.5	5.5	5.5	5.2	5.0	5.0	5.0	5.0	6.4	6.1
Average nominal interest rate on external debt (in percent)	1.8	1.4	1.6	1.8	1.9	2.1	2.1	2.9	3.2	3.5	3.8	4.1	4.3	4.5	4.6	4.7	4.9	5.0	1.7	2.2
Average real interest rate on domestic debt (in percent)	8.2	7.1	8.0	8.0	8.8	8.7	8.0	6.0	5.9	5.9	5.8	5.7	5.7	5.6	5.5	5.0	4.0	3.4	5.8	7.4
Real exchange rate depreciation (in percent, + indicates depreciation)	1.2	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	0.4	...
Inflation rate (GDP deflator, in percent)	2.9	4.3	5.2	5.4	4.8	4.5	4.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.5	6.6	7.1	5.8	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	7.1	10.3	11.3	6.5	5.0	5.4	7.2	5.4	5.4	6.0	5.4	5.5	5.5	5.5	5.6	4.9	4.0	3.6	4.4	6.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.0	-1.2	1.8	1.5	1.4	1.4	1.5	0.9	0.7	0.7	0.6	0.6	0.5	0.4	0.3	0.5	0.7	0.9	1.0	1.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of External/Domestic Debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public Sector Debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Residency-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.

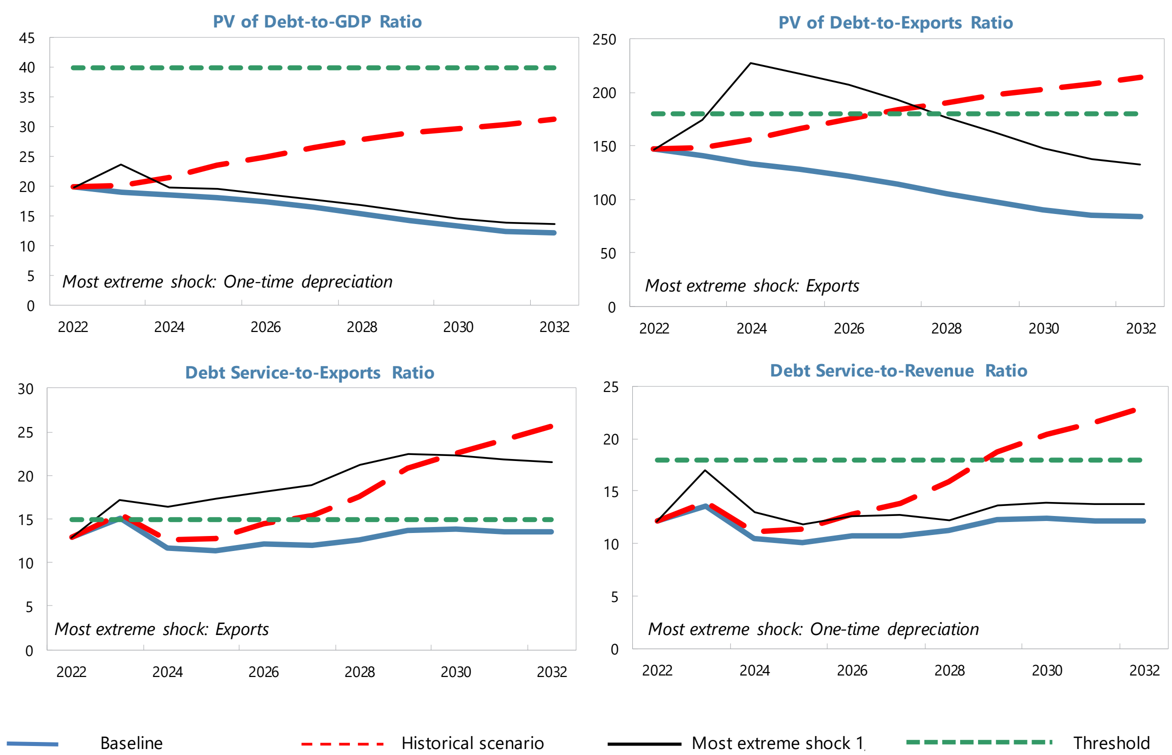
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2022–32



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*		
	Default	User Defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.5%	4.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	15	15
Avg. grace period	3	3

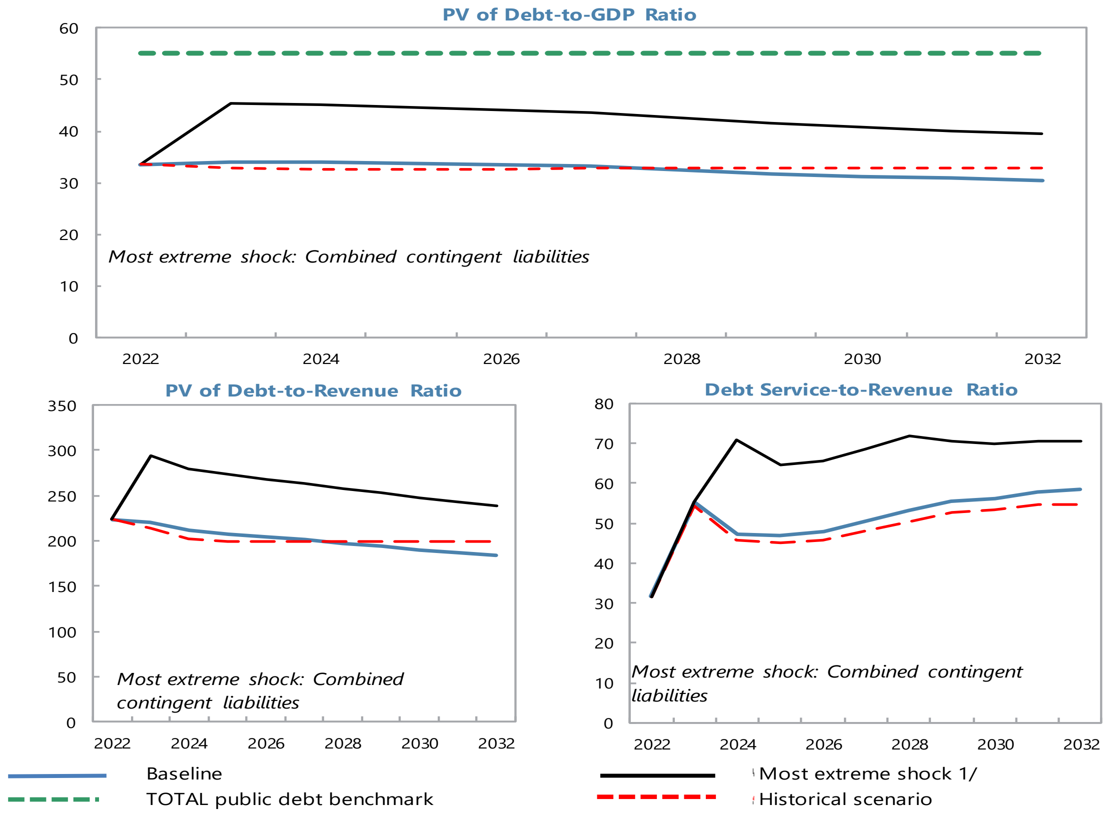
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2022-2032



Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*	Default	User Defined
Shares of marginal debt		
External PPG medium and long-term	24%	24%
Domestic medium and long-term	59%	59%
Domestic short-term	17%	17%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.5%	4.5%
Avg. maturity (incl. grace period)	15	15
Avg. grace period	3	3
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.0%	6.0%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	1.1%	1.1%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 4. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022-2032
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	20	19	18	18	17	16	15	14	13	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	20	20	22	23	25	26	28	29	30	30	31
B. Bound Tests											
B1. Real GDP growth	20	19	19	18	18	17	16	15	13	13	12
B2. Primary balance	20	19	19	19	18	18	17	15	14	14	13
B3. Exports	20	21	24	23	22	21	19	18	16	15	14
B4. Other flows 3/	20	21	22	22	21	20	18	17	15	14	14
B5. Depreciation	20	24	20	20	19	18	17	16	15	14	14
B6. Combination of B1-B5	20	22	21	21	20	19	18	16	15	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	20	22	22	22	21	21	20	19	18	18	17
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	20	21	21	20	20	19	17	16	15	14	14
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of Debt-to-Exports Ratio											
Baseline	147	141	133	128	122	114	106	98	91	85	84
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	147	149	156	167	176	**184**	**191**	**198**	**203**	**208**	**215**
B. Bound Tests											
B1. Real GDP growth	147	141	133	128	122	114	106	98	91	85	84
B2. Primary balance	147	143	140	135	129	122	114	106	99	93	91
B3. Exports	147	175	**227**	**217**	**207**	**193**	177	163	149	138	133
B4. Other flows 3/	147	155	159	153	145	136	124	115	105	98	94
B5. Depreciation	147	141	115	111	105	99	92	86	80	76	76
B6. Combination of B1-B5	147	175	147	178	170	158	146	135	124	116	113
C. Tailored Tests											
C1. Combined contingent liabilities	147	161	157	155	151	145	139	132	126	121	120
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	147	141	134	130	124	117	108	100	92	86	84
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt Service-to-Exports Ratio											
Baseline	13	**15**	12	11	12	12	13	14	14	14	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	13	**15**	13	13	14	**15**	**18**	**21**	**23**	**24**	**26**
B. Bound Tests											
B1. Real GDP growth	13	**15**	12	11	12	12	13	14	14	14	14
B2. Primary balance	13	**15**	12	12	13	13	13	14	15	14	14
B3. Exports	13	**17**	**16**	**17**	**18**	**19**	**21**	**22**	**22**	**22**	**22**
B4. Other flows 3/	13	**15**	12	12	13	14	15	**16**	**16**	**16**	**15**
B5. Depreciation	13	**15**	12	11	11	11	11	12	12	12	12
B6. Combination of B1-B5	13	**17**	**16**	**15**	**16**	**17**	**18**	**19**	**19**	**18**	**18**
C. Tailored Tests											
C1. Combined contingent liabilities	13	**15**	13	12	13	13	14	**15**	**15**	**15**	**15**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	13	**15**	12	12	14	**15**	**17**	**15**	13	12	13
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt Service-to-Revenue Ratio											
Baseline	12	14	10	10	11	11	11	12	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	12	14	11	11	13	14	16	**19**	**20**	**22**	**23**
B. Bound Tests											
B1. Real GDP growth	12	14	11	10	11	11	12	13	13	12	12
B2. Primary balance	12	14	11	10	11	11	12	13	13	13	13
B3. Exports	12	14	11	12	12	13	14	15	15	15	14
B4. Other flows 3/	12	14	11	11	12	12	13	14	14	14	14
B5. Depreciation	12	17	13	12	13	13	12	14	14	14	14
B6. Combination of B1-B5	12	14	12	11	12	13	13	14	14	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	12	14	11	11	12	12	12	14	14	14	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	12	14	11	11	13	14	15	14	12	10	12
Threshold	18	18	18	18	18	18	18	18	18	18	18

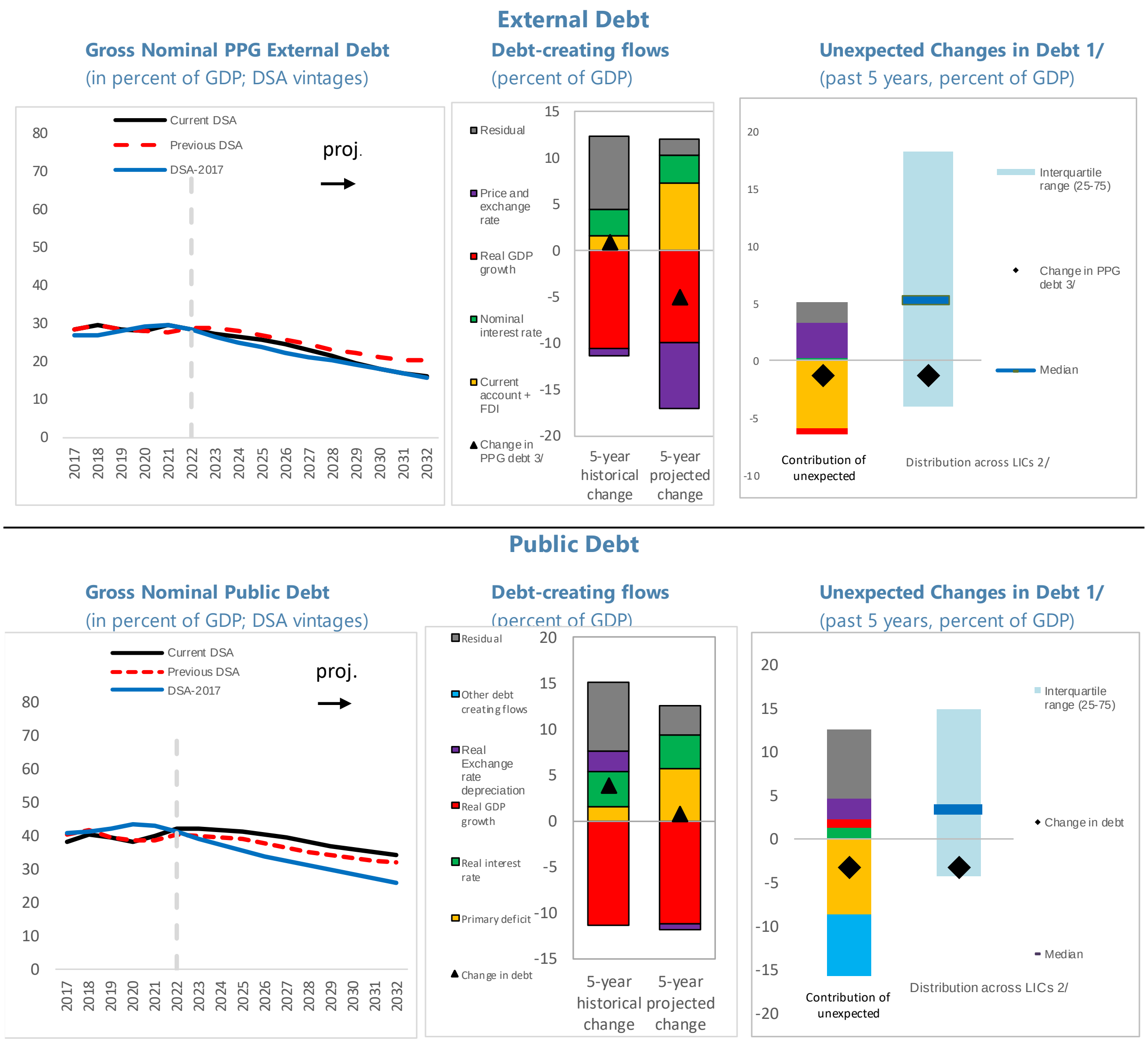
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 5. Tanzania: Sensitivity Analysis for Key Indicators of Public Debt, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	34	34	34	34	34	33	33	32	31	31	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	34	33	33	33	33	33	33	33	33	33	33
B. Bound Tests											
B1. Real GDP growth	34	35	35	35	35	35	35	34	34	34	34
B2. Primary balance	34	35	37	37	36	36	35	34	34	33	33
B3. Exports	34	36	39	39	38	37	36	35	34	33	33
B4. Other flows 3/	34	36	38	37	37	36	35	34	33	33	32
B5. Depreciation	34	37	36	34	32	31	29	27	26	24	23
B6. Combination of B1-B5	34	33	34	34	33	32	31	30	29	28	27
C. Tailored Tests											
C1. Combined contingent liabilities	34	45	45	45	44	43	43	42	41	40	40
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	34	34	34	34	34	34	33	32	31	31	30
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	224	221	211	207	204	202	198	194	190	187	185
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	224	213	202	200	199	199	199	200	200	199	199
B. Bound Tests											
B1. Real GDP growth	224	224	218	216	214	213	211	209	207	205	204
B2. Primary balance	224	229	228	224	220	217	213	209	205	201	198
B3. Exports	224	231	242	237	232	228	221	214	208	202	198
B4. Other flows 3/	224	233	234	229	224	220	214	209	203	198	194
B5. Depreciation	224	243	222	208	196	187	175	165	156	147	139
B6. Combination of B1-B5	224	217	213	206	199	194	187	181	174	168	163
C. Tailored Tests											
C1. Combined contingent liabilities	224	294	280	274	268	264	258	253	248	243	239
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	224	221	212	209	206	204	200	195	191	187	185
Debt Service-to-Revenue Ratio											
Baseline	32	55	47	47	48	51	53	55	56	58	58
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	54	46	45	46	48	51	53	53	55	55
B. Bound Tests											
B1. Real GDP growth	32	56	48	49	50	53	57	59	61	63	64
B2. Primary balance	32	55	50	52	52	55	58	60	60	62	62
B3. Exports	32	55	48	48	49	52	56	58	59	60	61
B4. Other flows 3/	32	55	48	48	49	52	55	57	58	59	60
B5. Depreciation	32	54	47	45	47	49	52	54	54	55	55
B6. Combination of B1-B5	32	53	46	47	48	50	52	54	54	55	56
C. Tailored Tests											
C1. Combined contingent liabilities	32	55	71	65	66	69	72	71	70	71	71
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	32	55	48	47	50	53	57	57	56	56	58

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. Drivers of Debt Dynamics - Baseline Scenario



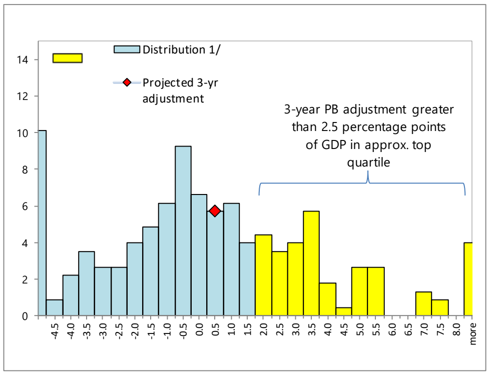
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

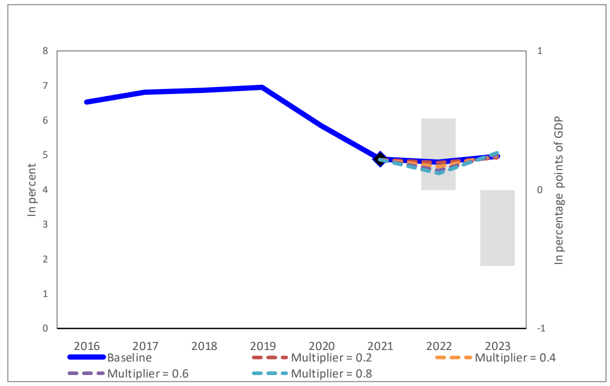
Figure 4. Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



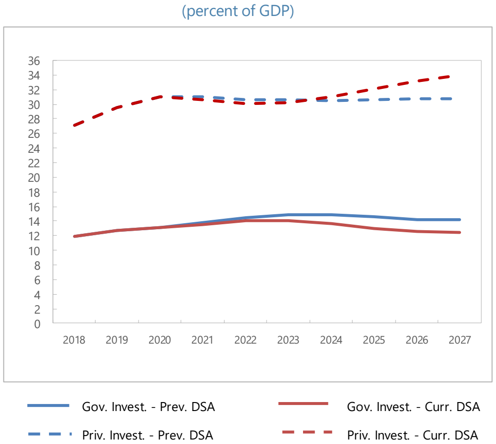
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP Growth
(percent, 5-year average)

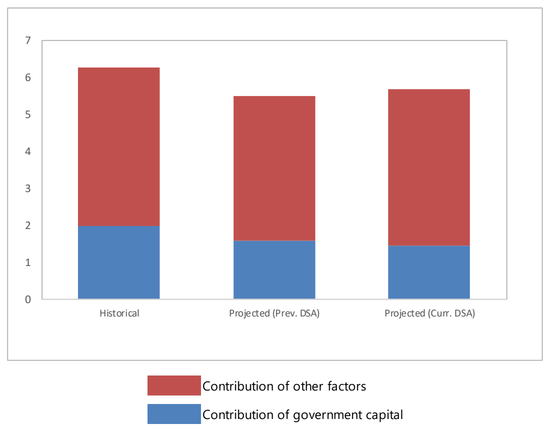
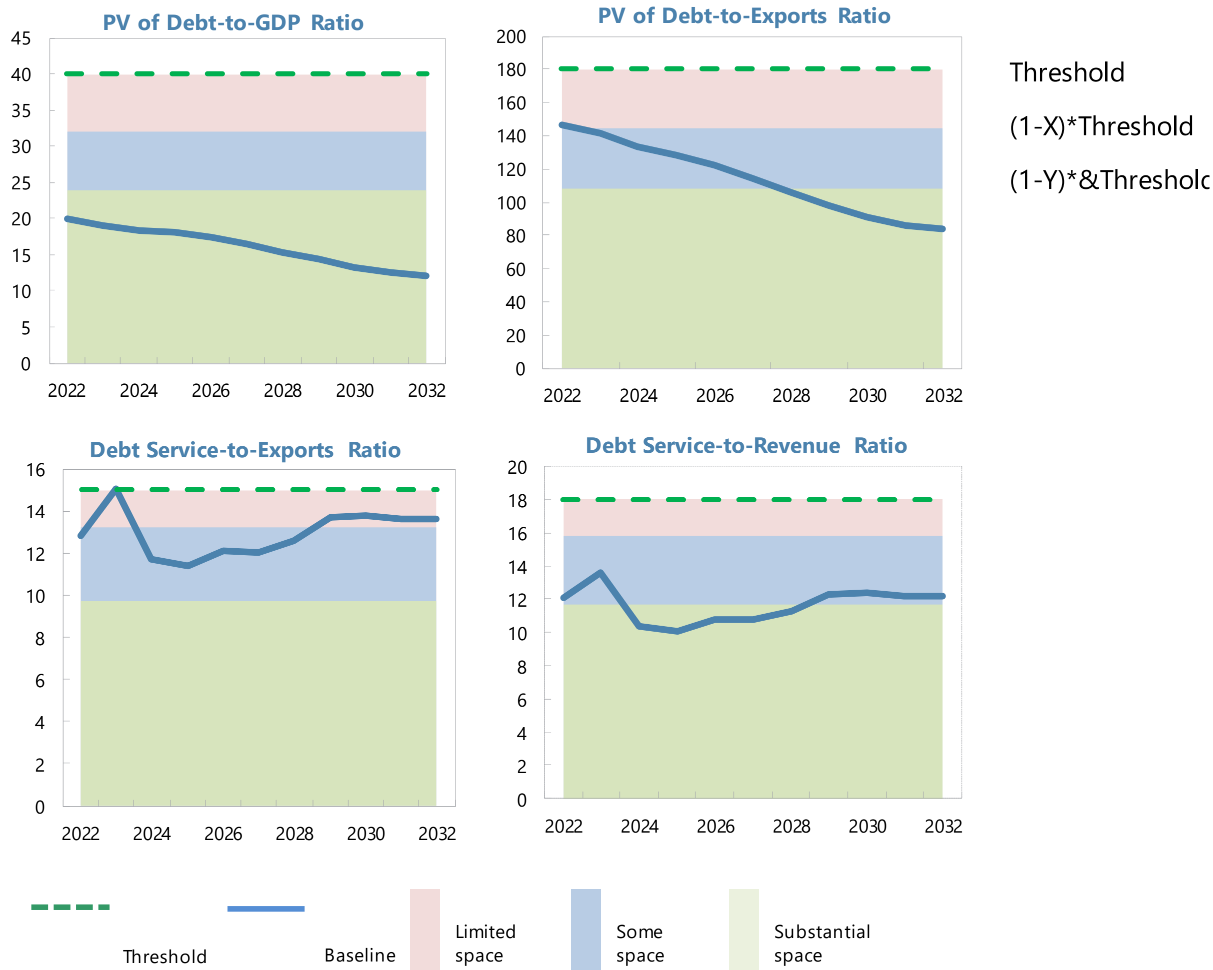


Figure 5. Qualification of the Moderate Category, 2022-2032 1/



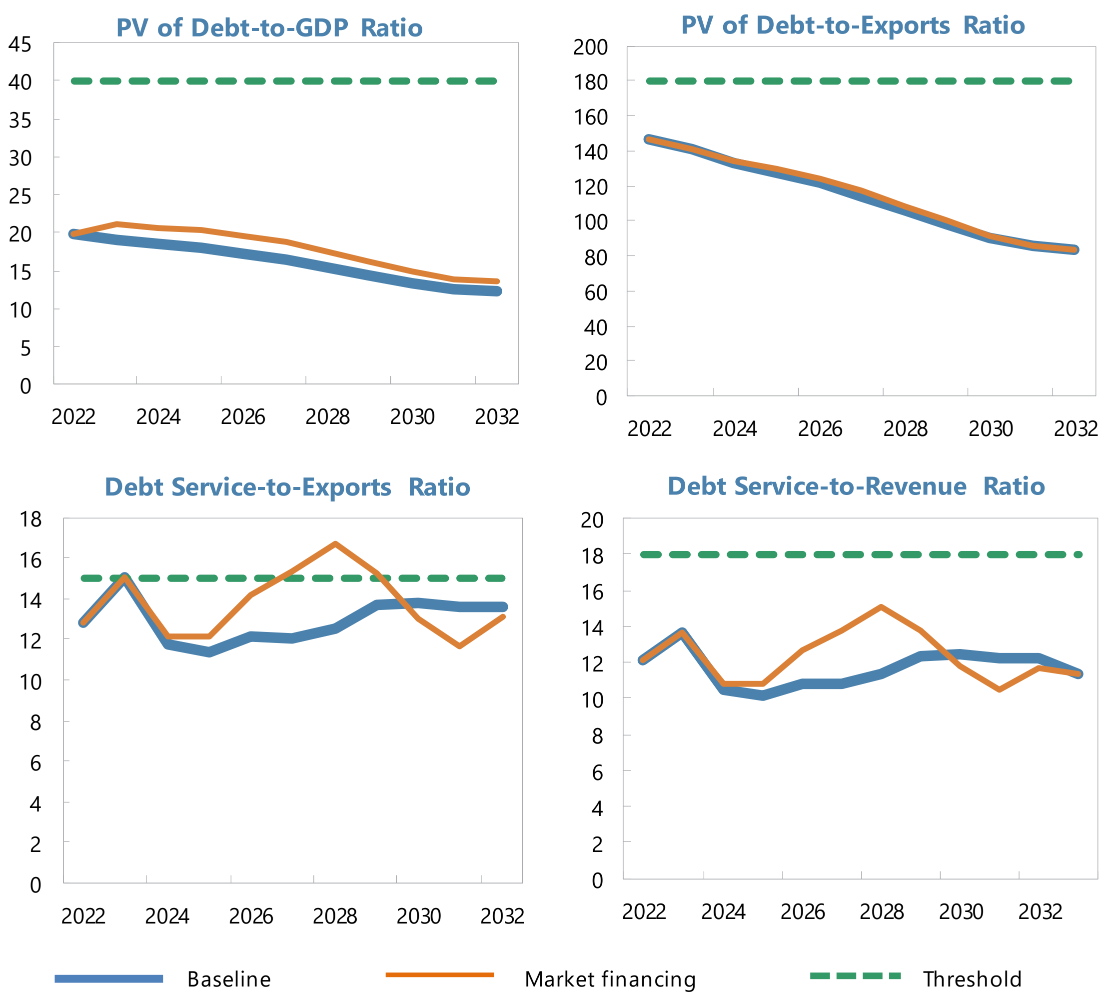
Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	10	n.a.
Breach of benchmark	No	n.a.
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.