MOODY'S RATINGS

CREDIT OPINION
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Update

Contacts

John Walsh, CFA +44.20.3314.2442
Analyst
john.walsh@moodys.com

Marco Santaniello +44.20.3314.2032
Ratings Associate
marco.santaniello@moodys.com

Lucie Villa +33.1.5330.1042
Senior Vice President
lucie.villa@moodys.com

Matt Robinson +44.20.7772.5635
Associate Managing Director
matt.robinson@moodys.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moodys.com

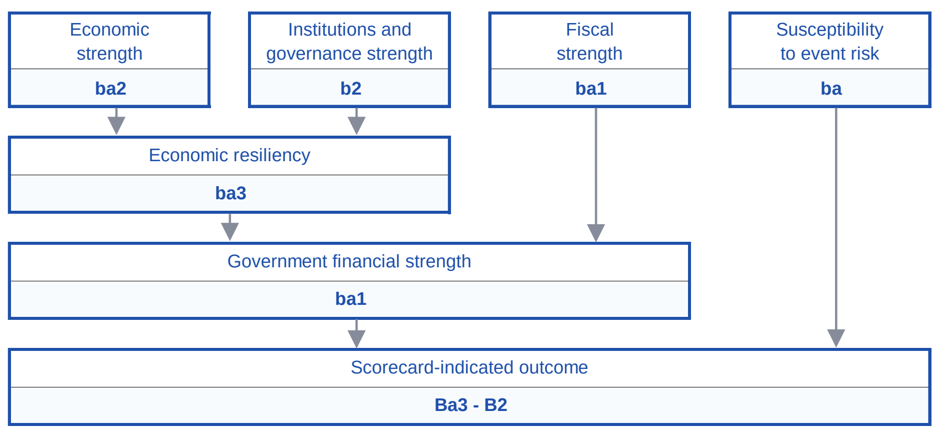
Government of Tanzania – B1 stable

Regular update

Summary

Tanzania's credit profile benefits from a moderate debt burden and consistent, high GDP growth. These strengths are balanced against the country's weak institutional framework and low per capita income, heightening social risks. Tanzania's economy has been resilient to the recent shocks, and the government's structural reform agenda is gradually improving its policy effectiveness and governance, supporting an improving business environment and higher investment. Nevertheless, Tanzania faces significant external vulnerability risk, highlighted by the persistent current account deficits, as well as elevated environmental risks, underscored by its heavy reliance on rain-fed agriculture for employment and in terms of its GDP contribution.

Exhibit 1
Tanzania's credit profile is determined by four factors



Source: Moody's Ratings

Credit strengths

» Historically high and stable economic growth rates

» Large and diversified economy

» Moderate debt burden compared with peers and track record of fiscal discipline

Credit challenges

» Low per capita income

» Weak institutional framework and concentration of decision-making authority

» High social risks, including poor health and education outcomes and limited access to basic services

Rating outlook

The stable rating outlook reflects Tanzania's track record of economic and fiscal resilience to shocks, while low per capita income and high levels of poverty contribute to its exposure to social risks and future shocks. We expect continued robust and stable GDP growth in the next five years, supported by higher private-sector investment and gradually improving competitiveness. Ongoing fiscal discipline and declining public-sector infrastructure spending will enable the government to boost social expenditures while maintaining stable debt levels, thereby gradually mitigating social risks over time. The persistent current account deficit poses a risk of external imbalances, potentially hindering economic growth. Additionally, the economy's substantial reliance on rain-fed agriculture for both growth and employment significantly increases its susceptibility to climate-related shocks.

Factors that could lead to an upgrade

We would upgrade Tanzania's rating if it continues to implement reforms that boost private-sector growth and investment, especially in industries that generate exports and at a level that supports significant income increases. Enhancing governance through faster reform execution, better policy coordination, and stronger administrative capacity would be credit positive. A reduction in external imbalances and higher reserve generation would allow for higher rating levels. Finally, a sizeable reduction in the government debt burden and a significant, sustained increase in tax revenue generation via higher economic formalization would also support a higher rating.

Factors that could lead to a downgrade

Downward pressure on the rating would emerge from continuing foreign-currency shortages that weigh on competitiveness, thereby weakening investment, and disrupt activity in Tanzania's import-dependent sectors, contributing to a growth slowdown and keeping incomes low. Increasing demand for government spending, for example, because of the crystallization of social or environmental risks, which adds to the debt burden, would also be credit negative. Finally, an interruption in the government's reform agenda, such as because of implementation lags, social pushback to reforms or privatisation efforts, or policy changes under a new administration, may prompt a rating downgrade.

Key indicators

Exhibit 2

Tanzania	2018	2019	2020	2021	2022	2023	2024F	2025F
Real GDP (% change)	7.0	6.9	4.5	4.8	4.7	5.1	5.5	6.0
Inflation rate (% change average)	3.5	3.4	3.3	3.7	4.3	3.8	3.1	3.8
Gen. gov. financial balance/GDP (%)[1]	-2.0	-2.1	-2.6	-3.5	-3.9	-3.6	-3.2	-3.0
Gen. gov. primary balance/GDP (%)[1]	-0.4	-0.3	-1.0	-1.9	-2.3	-1.6	-1.5	-0.9
Gen. gov. debt/GDP (%)[1]	40.8	39.3	38.7	41.1	41.7	46.3	48.0	47.1
Gen. gov. debt/revenues (%)[1]	267.2	258.4	260.0	276.9	273.8	289.6	284.8	294.4
Gen. gov. interest payment/revenues (%)[1]	10.5	11.8	10.6	10.9	10.9	12.4	9.7	13.2
Current account balance/GDP (%)	-3.5	-3.0	-2.5	-3.8	-5.6	-5.4	-4.3	-3.7
External debt/CA receipts (%)[2]	248.4	233.7	280.1	268.5	234.1	228.5	235.9	230.3
External vulnerability indicator (EVI) [3][4]	56.2	68.1	74.2	78.5	91.6	104.0	89.1	64.1

[1] Fiscal years ending June 30, e.g. 2019 refers to fiscal year 2018/19Fiscal years ending June 30, e.g. 2019 refers to fiscal year 2018/19
[2] Current Account Receipts
[3] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[4] Excludes total nonresident deposits over one yearExcludes total nonresident deposits over one year

Source: Moody's Ratings

Detailed credit considerations

Our assessment of Tanzania's **economic strength** at "ba2" reflects the country's relative economic diversification, which helps mitigate its high exposure to climate-related and other external shocks. Sustained high growth rates of 6% on average between 2012 and 2023 have led to a rapid expansion of the economy and compare favourably with the median of B-rated peers at 4.2%. However, rapid population growth has hindered income growth despite the broad economic expansion. The country's GDP per capita in 2023 was $3,570 on a purchasing power parity basis, lower than the B-rated median ($11,627) and among the lowest across the sovereigns we rate. Poor education and health outcomes limit the benefits from favourable demographics and are key drivers of our S-5 Issuer Profile Score.

We set the final score for economic strength one notch below the initial score of "ba1" because of low levels of competitiveness than those of peers, and exposure to environmental risks given the large agriculture sector and its vulnerability to climate shocks. Structural challenges related to infrastructure, goods market efficiency, underdeveloped human capital, and an underdeveloped financial market limit the economy's competitiveness, as does the regular emergence of domestic foreign-currency shortages and ongoing regulatory inefficiencies.

We assess Tanzania's **institutions and governance strength** at "b2", which is consistent with its weak (although improving) scores for Worldwide Governance Indicators. Tanzania's weak institutional profile raises concerns about the long-term viability and sustainability of the government's new reform and investment attraction strategy. The significant policy shift following the transition to the current presidential administration highlights the influence of key individuals over the broader institutional capacity in shaping policy direction. Decision-making remains predominantly concentrated in the presidency, which sets the government policy with few checks and balances and can wield significant influence over the judiciary. Poor budget execution, low revenue generation and significant fiscal payment arrears have also demonstrated weak institutional capacity, although the government is starting to address these issues as part of the current IMF programme and via institutional reform efforts that have improved forecasts and strengthened commitment controls. We expect gradual reform implementation and legislative changes to support an improvement in institutional and governance strength over time but with some implementation lags because of poor policy coordination and gaps in administrative capacity. Continued use of the central bank overdraft facility by the government undermines the central bank's independence and impedes monetary policy implementation.

Tanzania's "ba1" **fiscal strength** balances a moderate debt burden, which is lower than the B-rated median, against significant exposure to exchange-rate risk because external debt accounts for almost 60% of the debt stock (29.1% of GDP). Tanzania's substantial informal sector poses hurdles in revenue collection, which is lower compared with similar economies. Further fiscal shocks and increased social spending could push the debt burden higher unless countered by enhanced revenue-raising abilities and greater access to concessional lending. However, a history of fiscal discipline and stability during external shocks supports the rating at the current level, and low contingent liabilities decrease downside risks.

We set the final score one notch above the initial score of "ba2" as the most recent increase in the debt burden was driven by exchange-rate depreciation rather than significantly higher government borrowing. The worsening of Tanzania's debt metrics may be temporary if there is a slight reversal in the recent exchange-rate movements.

We assess Tanzania's **susceptibility to event risk** at "ba", driven by external vulnerability risks.

Our "baa" assessment of **political risk** balances the low level of ethnic tensions and relative political stability against the government's history of policy unpredictability. The current administration under President Hassan has taken steps at dismantling regulatory impediments to investment, removing restrictions on media and opposition parties, and mending international relationships; however, political risks associated with a return to policy instability could increase under a new administration or because of social pushback to ongoing reform efforts.

We assess **government liquidity risk** at "baa". The government has access to concessional external funding from multilateral institutions, but policy unpredictability had decreased the participation of development partners in the past. The government also has access to central bank financing and long-dated domestic capital markets, but the small size of the banking sector limits its capacity to finance the government. The government's funding needs at 10.7% of GDP have remained modest because of its access to long-dated markets in local currency, reducing rollover and foreign exchange risks, and its robust adherence to the IMF program, which has ensured continued access to concessional lenders.

We assess **banking sector risk** at "baa," which reflects our view that the small size of the banking sector limits contingent liability risks for the government. Moreover, banks are broadly well capitalised, liquid and highly profitable, although asset quality is susceptible to shocks given the low income and wealth levels and exposure to environmental risks.

We assess **external vulnerability risk** at "ba", which reflects a high stock of external debt and persistent current account deficits that, in absence of higher foreign direct investment (FDI), increase the risks of external imbalances. Similar to its East African peers, Tanzania is dependent on energy imports from global suppliers. The commodity price surge, triggered by Russia's invasion of Ukraine (Ca stable) in 2022, and the subsequent tightening of global liquidity have worsened its terms of trade. In the next five years, we expect robust economic growth and infrastructure needs to continue to drive import demand, weighing on reserve levels and offsetting the benefits of increasing tourism and mineral exports, leading to seasonal episodes of foreign-exchange shortages.

ESG considerations

Tanzania's ESG credit impact score is CIS-4

Exhibit 3
ESG credit impact score

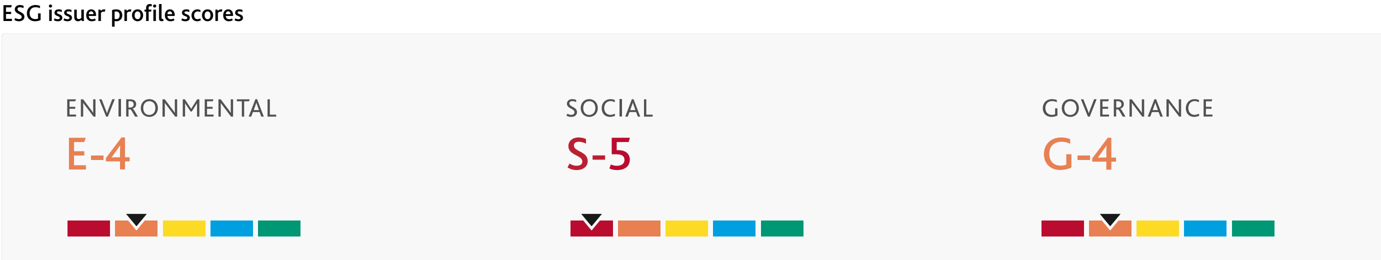
CIS-4

ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks did not exist. The negative impact of ESG considerations on the rating is higher than for an issuer scored CIS-3.

Source: Moody's Ratings

Tanzania's ESG Credit Impact Score of **CIS-4** reflects its high exposure to environmental and social risks, and weak governance. A high dependence on rain-fed agriculture for economic production and employment, poor social outcomes and governance constraints all weigh on Tanzania's rating.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Tanzania's Environmental Issuer Profile Score (IPS) is **E-4**. Environmental risks weigh on Tanzania's economic strength and broader credit profile given the country's significant dependence on water for the agriculture and hydroelectricity generation and a low share of irrigated arable land. A high dependence on agriculture as a share of GDP and for employment amplifies exposures. Investment in irrigation schemes will support improving resilience to climate risks but these remain at an early stage.

Social

High levels of poverty and limited access to basic services and quality health, education and housing also weigh on sovereign credit profile, captured in a Social IPS of **S-5**. The government is taking steps to address social risks by prioritising social spending, notably by implementing universal healthcare, building and staffing education infrastructure, and implementing social cash transfers for poverty alleviation, but these initiatives will take time to alleviate social risk and improve human capital. Access to basic services is also improving but remains low.

Governance

Tanzania's Governance IPS is **G-4**. Weak governance also weighs on Tanzania's credit profile reflecting its history of unpredictable policy actions which have weakened policy effectiveness and the rule of law and could hinder its growth potential. The government has taken steps to improve policy predictability and strengthen institutions under its current reform programme and with support from the IMF, leading improved governance, albeit from a low level and with lagging implementation. Nevertheless, fiscal policy credibility has improved and revenue generation has increased through use of digitization and automation and the government has ceased accumulation of new fiscal arrears through improved internal processes and commitment controls.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Recent developments

Growth momentum will continue in 2025 amid slowing inflation

In 2023, Tanzania's real GDP growth increased to 5.1% from 4.7% in the previous year, driven by substantial infrastructural projects, enhanced credit to the private sector and significant mineral production, notably in gold and coal. We expect economic growth to continue to accelerate to 5.5% in 2024 and further to 6% in 2025. This growth is likely to be fueled by a relaxation in global monetary policies and a decrease in import commodity prices, alongside the activation of several large-scale infrastructure projects.

Over the next three years, the government's capital spending is likely to decline significantly, as public investment in major new infrastructure projects slows down following the completion of the Julius Nyerere Dam in 2024. As part of its reform agenda, the government is pivoting towards driving growth through higher private-sector investment — notably FDI — as it reduces spending on large-scale infrastructure projects. This shift is accompanied by gradual improvements in policy effectiveness and governance, fostering a more favourable business climate. Notably, the establishment of a new Public Private Partnership (PPP) Investment Centre aims to mobilize private sector financing for infrastructure.

We expect inflation to slow to 3.1% in 2024, after having reached 4.6% in 2023, on a tighter monetary policy, sufficient food supply within the country following a strong harvest, and easing prices for essential imports offsetting the declining value of the shilling. We expect inflation to rise in 2025 but to remain below the 4.0% target standing at 3.8%. In January 2024, the Bank of Tanzania (BoT) shifted from a reserves-targeting monetary policy framework to an interest rate-based regime to improve transparency and the effectiveness of monetary policy through the development of the interest rate transmission channel. The initial rollout was successful, with the bank managing to keep the seven-day interbank rate within 200 basis points of the policy rate and meeting the IMF programme program targets.

Fiscal consolidation continues despite higher debt burden

Tanzania's deficit decreased to 3.6% in 2023 from 3.9% in 2022, as a result of improved domestic revenue mobilisation and expenditure management. We expect deficit to drop further to 3.2% in 2024, driven by ongoing fiscal consolidation efforts and the absence of new large-scale infrastructure investments. Fiscal deficit is likely to stabilize around the government's target of 3% from 2025 onwards because of strong economic growth and the ongoing fiscal reforms.

The debt burden increased to 46.3% of GDP in 2023 from 41.7% in 2022, mainly because of the pre-funding of government pension obligations and other contingent liabilities, as well as currency depreciation since almost 60% of government debt is denominated in foreign currency. The Tanzanian shilling depreciated 8.5% against the US dollar in 2023 and we forecast Tanzania's debt to increase to 48% in 2024 as the ongoing domestic currency depreciation thus far in 2024 continues to weigh on the value of external debt, before declining over time. Further exchange-rate depreciation remains a risk to our deficit and debt projections, notwithstanding upside risks to the exchange rate after recent developed market central bank policy actions.

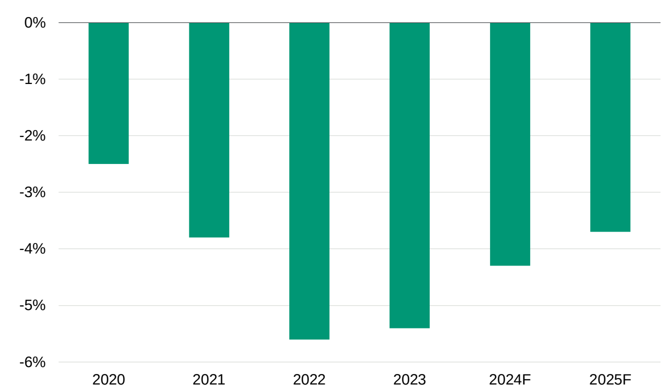
Foreign-exchange shortages continue to weigh on Tanzania's import-dependent sectors

The current account deficit was 5.4% of GDP in 2023, similar to the 5.6% recorded in 2022, because of high imports of capital goods for large infrastructure projects and higher fuel prices. However, we expect it to narrow to 4.3% in 2024 on the back of export growth, mainly in services and gold, as well as reduced imports, fiscal consolidation and lower commodity prices (see Exhibit 5). Although current account deficits will persist in the next five years, the levels will likely moderate as export activity grows and a depreciated currency promotes import substitution.

Frequent episodes of foreign-currency shortages, driven by a structural current account deficit and seasonal export flows, disrupt Tanzania's import-dependent economy. Foreign-currency market pressures resurfaced in 2024, causing the BoT to resume interventions in the interbank foreign-exchange market (IFEM). These interventions had been paused in November 2023 when reserves dipped to the threshold of four months' worth of non-FDI financed imports (see Exhibit 6). Although a cessation of the central bank interventions in the IFEM helped maintain reserve levels above this critical benchmark, it resulted in challenges for importers in securing foreign currency. Consequently, a parallel market developed, adversely affecting both competitiveness and investor confidence. Foreign-exchange reserves stood at $5.4 billion in 2023.

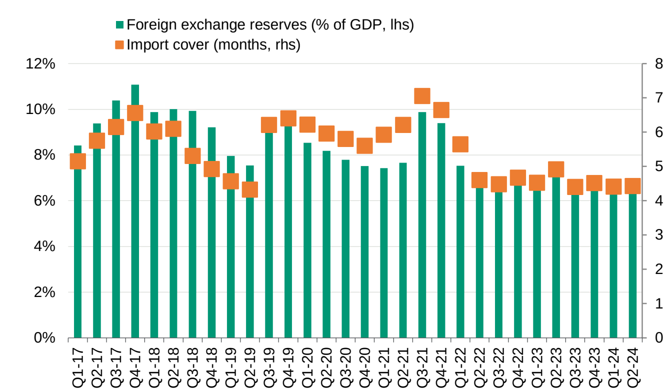
Under its IMF programs, Tanzania can draw up to $1.83 billion (2.4% of GDP) until May 2026, with a recent disbursement of $149 million (0.2% of GDP) in June 2024 serving as an important source of external financing for reserve balances. However, the risk of seasonal foreign-exchange liquidity shortages is likely to persist, weighing on Tanzania's competitiveness and growth until the current account is brought closer to a structural balance and the functioning of the IFEM improves.

Exhibit 5
We expect the current account deficit to ease as exports grow and currency depreciation supports import substitution
As a percentage of GDP



Source: Moody's Ratings

Exhibit 6
Foreign-exchange reserves have declined and seasonal foreign-currency shortages will likely persist
As a percentage of GDP



The BoT's minimum reserve threshold of four months of imports is net of imports financed by FDI. The bank has maintained its reserves above its minimum threshold.
Sources: Bank of Tanzania and Moody's Ratings

Moody's rating methodology and scorecard factors: Tanzania - B1 stable

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength				**ba1**	**ba2**	**50%**
Growth dynamics	Average real GDP growth (%)	2019-2028F	5.7	aa1		25%
	MAD Volatility in Real GDP Growth (%)	2014-2023	0.5	a2		10%
Scale of the economy	Nominal GDP ($ billion)	2023	76.5	ba1		30%
National income	GDP per capita (PPP, Intl$)	2023	3,570.4	ca		35%
Adjustment to factor 1	*# notches*				-1	max ±9
Factor 2: Institutions and governance strength				**b2**	**b2**	**50%**
Quality of institutions	Quality of legislative and executive institutions			b		20%
	Strength of civil society and the judiciary			b		20%
Policy effectiveness	Fiscal policy effectiveness			b		30%
	Monetary and macroeconomic policy effectiveness			b		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	*# notches*				0	max ±3
F1 x F2: Economic resiliency				**ba3**	**ba3**	
Factor 3: Fiscal strength				**ba2**	**ba1**	
Debt burden	General government debt/GDP (%)	2023	46.3	a3		50%
	General government debt/revenue (%)	2023	289.6	ba3		50%
Debt affordability	General government interest payments/revenue (%)	2023	12.4	ba1		0%
	General government interest payments/GDP (%)	2023	2.0	a1		0%
Specified adjustments	*Total of specified adjustment (# notches)*			-2	-2	max ±6
	Debt Trend - Historical Change in Debt Burden	2015-2023	11.0	0	0	
	Debt Trend - Expected Change in Debt Burden	2023-2025F	0.8	0	0	
	General Government Foreign Currency Debt/ GDP	2023	29.1	-2	-2	
	Other non-financial public sector debt/GDP	2023	0.0	0	0	
	Government Financial Assets including Sovereign Wealth Funds / GDP	2023	5.5	0	0	
Other adjustment to factor 3	*# notches*				1	max ±3
F1 x F2 x F3: Government financial strength				**ba1**	**ba1**	
Factor 4: Susceptibility to event risk				**ba**	**ba**	Min
Political risk				baa		
	Domestic political risk and geopolitical risk			baa		
Government liquidity risk				baa	baa	
	Ease of access to funding			baa		
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk				baa	baa	
	Risk of banking sector credit event (BSCE)	Latest available	b1	ba3-b3		
	Total domestic bank assets/GDP	2023	--	<80		
Adjustment to F4 BSR	*# notches*				0	max ±2
External vulnerability risk				ba	ba	
	External vulnerability risk			ba		
Adjustment to F4 EVR	*# notches*				0	max ±2
Overall adjustment to F4	*# notches*				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome				**Ba3 - B2**	**Ba3 - B2**	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) Initial factor score: scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. **(2) Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. **(3) Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. **(4) There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

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