COUNTRY RISK CATEGORY

6

OF 7

JUNE 2022

Tanzania

COUNTRY ANALYST

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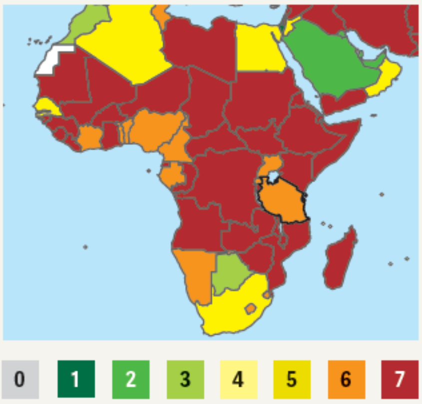
Basic facts (2021)

Population: 60 million

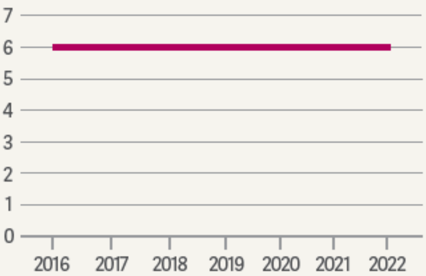
GDP, nominal: USD 70,3 billion

GDP/capita: USD 1 177



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

+ High average economic growth and growth potential
+ Moderate government debt
+ Relatively low cost of government debt

Weaknesses

– Low GDP/capita
– A large agricultural sector means extensive exposure to climate change
– Weak public institutions
– Weak business climate and investment climate

Relatively robust African economy

Since 2010, Tanzania has shown high economic growth rates, averaging around six per cent a year. The Tanzanian economy is relatively well diversified, and the growth potential is high, not the least thanks to high levels of savings and investment compared to most economies on the African continent. The large agricultural sector means that the country is exposed to climate change-related risks, such as drought. Macroeconomically and fiscally, Tanzania is relatively stable. Inflation is low, from a regional perspective, averaging some five per cent a year over the past five years, and interest rates have fallen sharply since 2017. Government debt shows an upward trend as the share of GDP, but at a s ignificantly lower rate than in many other African economies that, in similarity with Tanzania, have invested in large infrastructure projects. Thanks to declining current account deficits, significant hard currency earnings, relatively stable currency and limited foreign debt, external liquidity is relatively good. Tanzania's most significant export product is gold bullion, which accounts for approximately 30% of all exports. On the other hand, weak public institutions and a difficult business climate, including high levels of corruption, dominate the risk picture. Tanzania has weaker public institutions than two-thirds of the world's countries, and overall, its leadership is weak.

The "Mama Samia" effect persists

Despite heavy losses in the tourism industry, Tanzania has weathered the coronavirus crisis relatively well. In 2020 and 2021, the economy continued to grow at close to five per cent per year, a rate few economies in the world have been able to match. Tanzania's public finances have remained robust through the crisis, although weak planning relating to state revenues and expenditures, and weak implementation, continue to present longer-term challenges. However, fiscal deficits remain low and sovereign debt will fall below 40 per cent of 2022 GDP, therefore the cost of the borrowings is not alarmingly high. As more than roughly 70% of the sovereign debt is in foreign currencies, this means that currency stability has been crucial during the crisis. Although Tanzania's strict regulations on international capital transfers are detrimental to the investment climate, they have provided support for the shilling, which only lost a few per cent against the USD in 2020-21. External liquidity remains good. Foreign exchange reserves are currently equivalent to more than four months of import cover, and there is hard currency liquidity in the banking system. The ongoing military conflict in Ukraine is causing energy and food prices to rise, however the negative impacts on the economy appear manageable for Tanzania.

Former President Magufuli's rule was characterised not only by populist crackdowns on corruption, but also by high levels of state intervention, repression and capricious leadership. With President Samia, predictability in political leadership has increased, there is less use of the tax authorities for political purposes, and bilateral trade has increased thanks to improved relations with neighbouring countries. In her first year, Samia has managed to consolidate her position within the ruling party and has rolled back many of the policies of the previous regime, which were particularly harmful to business. This means that business enterprises are more confident about the future and are once again looking at investing in the long term. The tone surrounding freedom of expression and human rights has softened, which in turn has resulted in that international financial support has increased. At the same time, corruption is once again more visible, having been reduced, or at least suppressed, under the previous regime. There are fears of a return to the extreme levels of corruption that prevailed under Kikwete (2005-2015), which will be detrimental to the ability of Swedish companies to win procurement contracts in the country. Investment in the railway network, hydropower dams and electrical transmission networks has continued under Samia. Major investments will be made in the coming years, including the Dar es Salaam-Mwanza Railway project, and the East African Crude Oil Pipeline to Uganda, of which approximately 1400 km will be in Tanzania.

Overall, EKN sees a stable outlook for Tanzania in country risk category 6. Profound political change with further strengthened political leadership, strengthened public institutions improved business and investment climate, can lead to an upgrade of the country risk category. A marked weakening of public finances and external liquidity may lead to a downgrade.

Business environment

The business and regulatory environment in Tanzania remains difficult and is characterised by weak public institutions, extensive bureaucracy and challenging levels of corruption. The situation with complex, difficult to understand and bureaucratic tax administration, unclear licensing/permitting processes, an inadequate regulatory framework and deficiencies in the legal system, and generally obstructive government intervention in business, are described as particularly challenging for businesses enterprises. Compared for example to neighbouring Kenya, the business climate is significantly more bureaucratic, cumbersome and unpredictable. The port of Dar es Salaam is inefficient. Despite the possibility of maritime transport by sea, the cost of exporting from Tanzania can be five times higher than from Uganda. In recent years, there have been several examples of large and sudden post-facto revised tax assessments on companies. However, under President Samia, the risk of unwarranted state intervention has diminished, which is a positive development. The rules and regulations surrounding work permits for investors and foreign entrepreneurs have also become more generous.

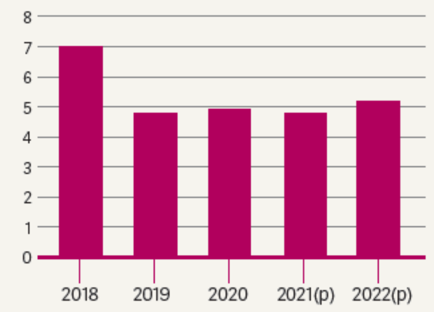
EKN:s policy

EKN applies normal risk assessment for sovereign, corporate and banking risks in both short-term (<1 year) as well as long-term risk terms. With other public risks, such as a ministry or public authority, a letter of credit guarantee, or a bank or sovereign guarantee is required.

EKN:s commitment and experience

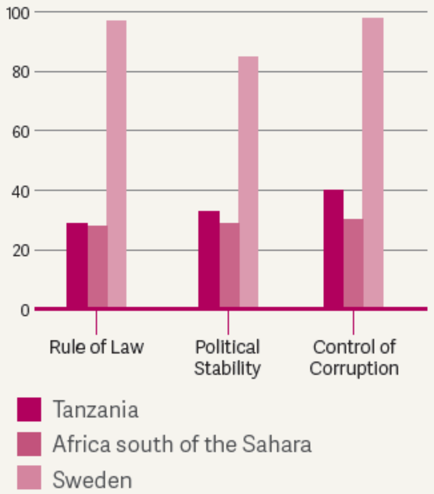
EKN's exposure consists almost exclusively of an EPC transaction in the railway industry in an amount close to SEK 2 billion. In addition, there is a wide range of smaller transactions in the mining, paper, transport, and power industries. Over the past five years, EKN has issued an average of 42 guarantees per year,

GDP growth (fixed prices, % per annum)



Source: IMF WEO, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Tanzania

	MSEK
2021	529
2020	521
2019	309
2018	313
2017	496

Source: SCB

EKN:s exposure

	MSEK
Guarantees	2 359
Offers	90

predominantly framework guarantees. The payment experience overall is positive. Current delays in payment amount to approx. SEK 12 million, which is somewhat above the average for the previous five years. The claim of SEK 25 million relates almost exclusively to two transactions in the transport industry where the debtor is a private petrol company. The reason for the delay in payment and loss claim was stated to be a sharp decline in sales i.e., a commercial loss. EKN has had four Paris Club Agreements with Tanzania, signed from 1986 to 1993. Tanzania benefited from debt relief under the HIPC (Heavily Indebted Poor Countries) Initiative in the early 2000s, which also included Sweden.