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OF 7

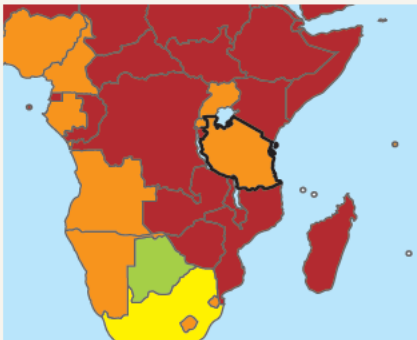
Tanzania

Martin Sturinge

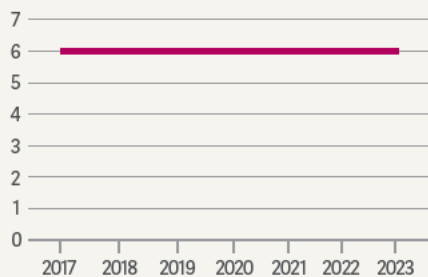
martin.sturinge@ekn.se

Basic facts (2022)

Population: 62 million
 GDP, nominal: USD 77 billion
 GDP/capita: USD 1 253



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 good 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

Robust economic growth

Since 2010, growth in the Tanzanian economy has been high, averaging about six per cent per year. The economy is relatively well diversified and growth potential is good, not least thanks to high savings and investments compared to most economies on the continent. The large agricultural sector exposes the country to climate change-related risks, in particular droughts, storms and floods. Low-income levels and relatively weak institutional capacity mean that Tanzania has limited opportunities to prevent these risks. The climate change adjustment needs of the economy are moderate, except for large gas deposits where the extraction may become more difficult to finance in the future. For example, there has been extensive international criticism of the oil pipeline being built from Uganda to the port of Tanga (EACOP).

In macroeconomic and fiscal terms, Tanzania is stable. Inflation is low from a regional perspective, averaging just under four per cent per 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 significantly lower rate than in many other African economies that, like Tanzania, have invested in large infrastructure investments. One explanation is that Tanzania's Ministry of Finance is relatively restrictive in terms of external borrowing and government guarantees compared to many other African countries. The extensive bureaucracy also has a slowing effect as decisions on external borrowing, like most other decisions in Tanzania, are subject to an extensive consultative process. Thanks to significant hard currency earnings, a stable currency and limited external debt, external liquidity is normally relatively good. Tanzania's most significant export product is gold, which accounts for approximately 30 per cent of exports. On the other hand, weak public institutions and a difficult business environment, including high levels of corruption, dominate the risk picture. Tanzania has worse institutions than two-thirds of the world's countries and there are overall weaknesses in the country's administration.

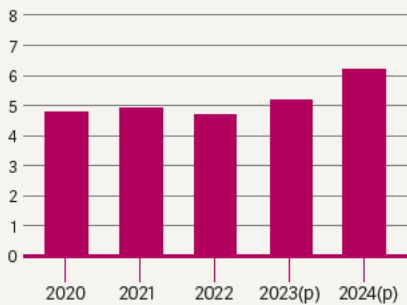
Hard currency pressure in 2023

Tanzania is one of the African countries to have weathered the global crises of recent years comparatively well. Relatively sound public finances and exports of gold and minerals have created stability during the crisis years. Despite obvious shortcomings in the rigid business environment, the economy is expected to grow by almost six per cent per year in 2023-2024. For the same period, inflation is forecast to average just over four per cent per year, i.e., a low figure in a regional perspective.

The country's public finances remain robust, although weak planning and implementation of the state budget continue to pose long-term problems. Government deficits are at a low level, public debt is expected to be around 40 per cent of GDP in 2023-2025 and the cost of debt is not alarmingly high. More than 70 per cent of public debt is in foreign currency, which means that currency stability is central. In 2022, Tanzania was granted an IMF programme worth over USD 1 billion to further stabilise the economy in the short-term and improve the country's ability to manage its external debt in the long-term. The government has completed the first follow-up of the programme and had additional loans

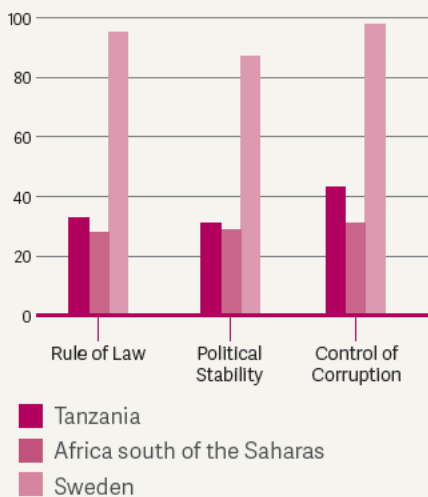
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Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Tanzania

	MSEK
2022	478
2021	529
2020	521
2019	309
2018	313

Source: SCB

EKN:s exposure

	MSEK
Guarantees	2 444
Offers	64

disbursed in the second quarter of 2023.

At the beginning of 2023, EKN has experienced several delays due to hard currency pressure, which is unusual for Tanzania. The country's imports have risen significantly in recent months, partly as a result of deliveries to the Nyerere dam and the Dar Es Salaam-Mwanza railway. As a result, the current account deficit will rise in 2023, which means reduced hard currency liquidity in the banking system and with companies. Many companies report that they are currently not receiving the currency allocation needed to pay external suppliers on time, which means that many have had to resort to trying to buy hard currency from other banks. However, these prioritise their long-term customers, which is why allocation can be difficult. However, international reserves remain at a satisfactory level, corresponding to just under four months' import coverage, and the hard currency pressure is expected to be transitory. Another explanation for the hard currency shortage is that the Bank of Tanzania has supported the Tanzanian shilling during the crisis years. Since 2020, the exchange rate change against the USD is less than one per cent, compared to tens of per cent for many African economies. The risk of a correction in the coming years has increased, which would entail higher currency volatility going forward.

President Samia continues to deviate from the line taken by her predecessor. There is greater interest in international trade and diplomacy, a softer tone on freedom of expression and human rights, and more business-friendly policies. Steps have also been taken towards increased media freedom and towards increased opportunities for the political opposition to campaign and operate. International financial assistance is therefore the highest for many years. However, power remains highly concentrated in the state supporting CCM party, which is largely intertwined with the state. Political opposition is therefore exercised at the mercy of the CCM. Although the president is popular in diplomatic circles, this is not necessarily true for the average Tanzanian. Many Tanzanians say they miss former President Magufuli, who was seen as a force for action in improving living standards in the country and curbing corruption. This could be a problem for Samia in the long run.

In April 2023, the Tanzanian National Audit Office published a report indicating widespread mismanagement and corruption in all parts of the Tanzanian state apparatus. The result is not surprising, but the report has received a lot of attention and is problematic for Samia, who has been accused of being too weak on the issue of corruption. The report reveals, among other things, suspiciously high prices in the procurement of aeroplanes and trains, unaccounted payments, major inefficiencies in the state apparatus and mismanaged state-owned companies. In 2023, Tanzania, like Uganda, has taken a tougher stance on LGBTQ rights. In addition to the issue of corruption, this could become a problem for the government if the newly won international financial support were to start to wane.

Overall, EKN sees a stable outlook for Tanzania in country risk category 6. Pro-found political change with further strengthened political leadership, strengthened public institutions, as well as an 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

Former President Magufuli's rule was characterised not only by populist crack-downs 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. The rules and regulations surrounding work permits for investors and foreign entrepreneurs have also become more generous. This means that business enterprises are more confident about the future and are once again looking at investing in the long term. Investment in the railway network, hydro-power 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 an oil pipeline to Uganda extending more than 1,400 km.

However, the business and regulatory environment in Tanzania remains difficult and is characterised by weak institutions, extensive bureaucracy and 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. There is still scepticism towards international companies and the implementation of the rules for local content in the mining sector is complex. 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, for example. 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.

EKN:s policy

EKN applies normal risk assessment for sovereign risks, corporate risks and bank risks. This applies to both short and long-term risk periods. 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 involvement consists almost exclusively of an EPC transaction for the expansion of the railway network of almost SEK 2 billion. Other than that, 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 just over 50 guarantees per year, mainly framework guarantees.

The payment experience overall is positive. Current delays in payment amount to approximately SEK 12 million, which is somewhat in excess of the average for the previous five years. The claim of SEK 45 million mainly relates to two transactions in the transport industry from 2015 and 2016 where the debtor is a minor

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local oil 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 also has receivables of just under SEK 9 million relating to transactions in the mining industry. During 2022/2023, EKN has received a few delay notifications from a number of paper suppliers due to a shortage of hard currency.

EKN has had four Paris Club agreements with Tanzania, signed between 1986 and 1993. No delays in payment or losses due to claims being paid out for political reasons have occurred since 1990. However, Tanzania benefited from debt cancellations under the HIPC (Heavily Indebted Poor Countries) Initiative in the early 2000s, which also included Sweden.