

MACRO ENVIRONMENTAL ANALYSIS

COUNTRY RISK REVIEW

GEOGRAPHIC OVERVIEW

Tanzania is the largest country in East Africa, encompassing the islands of Zanzibar, Pemba, and Mafia. It is bordered by the Indian Ocean and shares its boundaries with eight neighbouring nations, namely Kenya, Uganda, Rwanda, Burundi, the Democratic Republic of Congo, Zambia, Malawi, and Mozambique. The estimated population of the country stands at approximately 67m (September 2023), with the official local currency being the Tanzanian Shilling (TZS). Dar es Salaam serves as the administrative capital of Tanzania, while Dodoma has been designated as the legislative capital of the nation.

POLITICAL LANDSCAPE

The serving President of Tanzania is Samia Suluhu Hassan, who holds the distinction of being the sixth President of the nation and its first female President. She was the former vice president and was sworn in as president following the death of Mr. John Magufuli in March 2021. Her policies and initiatives have geared up the growth of the economy and the development of the country, and as a result, she is expected to remain President until the next general elections. There is a high chance she will be voted back for the next term if the success story of the country continues. The President serves as both the head of the country and the chief of the armed services. General elections are conducted once every five years to elect the country's leadership.

Tanzania's political landscape is dominated by the Chama Cha Mapinduzi (CCM), also known as the Revolutionary Party, which has held power since independence in 1961. With its roots in socialism and Pan-Africanism, CCM has traditionally enjoyed broad support nationwide. While opposition parties contribute significantly to the country's politics, CCM's dominance is evident. Key opposition parties include the Chama cha Demokrasia na Maendeleo (CHADEMA), which advocates for democratic governance, human rights, and good governance and is one of Tanzania's largest opposition parties. Another notable political party is the Alliance for Change and Transparency (ACT-Wazalendo), which was formed in 2015 and focuses on promoting transparency, accountability, and social justice. Other opposition parties, such as the Civic United Front (CUF) and the National Convention for Construction and Reform (NCCR-Mageuzi), provide alternative political platforms. These parties advocate for pluralism, democratic governance, and economic reforms. The presence of multiple political parties enriches Tanzania's political landscape, fostering healthy competition and encouraging voter

engagement. Tanzania's political parties seem to coexist peacefully, suggesting a likelihood of stability in the short, medium, and long term.

SOVEREIGN RATING UPGRADE

Tanzania's sovereign rating has been recently upgraded to B1 with a stable outlook. This upgrade holds significant promise to improve the country's business climate and entice both local and international investors. Addressing the persistent foreign exchange shortage, especially prevalent in developing economies like Tanzania, is imperative. The current global focus on potential interest rate reductions in the United States may alleviate this situation by encouraging foreign direct investment. By synchronising governmental initiatives aimed at enhancing the business landscape with favourable global monetary policies, Tanzania stands to attract higher levels of foreign investment. Despite initial opposition, the government's dedication to broadening the tax base has proven vital in managing the country's debt levels effectively.

The credit rating upgrade reflects Tanzania's strides in bolstering its economy through structural reforms and prudent macroeconomic policies. Despite ongoing challenges, the government's strategic actions and dedication to improving the business climate indicate Tanzania's potential for sustained economic expansion and stability.

PROGRESS ON AML/CFT REFORMS AND ANTI-CORRUPTION INITIATIVES

Tanzania was recently removed from the "Grey List" by the Financial Action Task Force (FATF), often referred to as "Jurisdictions under Increased Monitoring." This designation signifies that Tanzania is actively collaborating with the FATF to rectify strategic deficiencies in its frameworks for countering money laundering (ML), terrorist financing (TF), and proliferation financing (PF). In October 2022, the Tanzanian government made a significant high-level political commitment in partnership with the FATF and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to enhance the effectiveness of its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. Consequently, Tanzania has instituted institutional structures and enacted various laws to address the issues of money laundering and terrorism financing. Furthermore, the government is dedicated to bolstering the implementation and enforcement of a comprehensive anti-corruption strategy and legislation. The National Anti-Corruption Strategy and Action Plan 2023-28 (NACSAP) represents a key initiative in pursuit of this goal.

ECONOMIC PERFORMANCE

In 2024, Tanzania's GDP growth has shown resilience and steady progress, driven by diverse economic activities and supportive government policies. The Tanzanian economy is projected to grow at

approximately 5-6% for the year, maintaining a positive trajectory aligned with its development targets. Key sectors contributing to this growth include mining, construction, agriculture, and tourism. As per the Bank of Tanzania report, GDP was recorded at 5.3% in the second quarter of 2024. This growth is being driven by accelerated investments in large-scale infrastructure projects, resulting in higher wages and increased consumer spending, all of which are positive indicators of a thriving economy.

The Zanzibar economy also performed satisfactorily, with real GDP growth estimated to be more than 6% in 2023, mostly driven by tourism activity. Favourable economic conditions are expected to continue in subsequent quarters of 2024. The outlook is supported by an improving business environment, adequate rains in most parts of the country, and the continued recovery of the global economy.

INFLATION STABILITY

In 2024, Tanzania maintained inflation levels around 3%, reaching 3.1% in September, aligning with its target to keep inflation under 5%—in accordance with the regional convergence criteria. This inflation stability has been driven by a prudent monetary policy and an ample domestic food supply. Zanzibar, in particular, has seen inflation ease to its medium-term goal of 5%, mainly due to the moderation of both food and non-food prices. The overall inflation outlook is expected to remain stable, supported by strong monetary policies and sufficient food supplies, with moderate risk to this forecast.

CURRENT ACCOUNT DEFICIT NARROWS

On the external front, Tanzania's current account deficit narrowed to USD 959.2m in the quarter ending June 2024, a reduction from USD 977.8m in the same quarter in 2023. This improvement was primarily due to higher service receipts, particularly from tourism, as the global economy recovers. Export revenues from gold, tourism, and traditional crops increased, while import growth was slower. In Zanzibar, the current account surplus grew to USD 421.5m by June 2024, up from USD 411.5m in 2023, similarly driven by growth in tourism-related service receipts. The current account is projected to keep improving, reaching 3.2% in the subsequent quarters.

Foreign exchange reserves remained adequate, exceeding USD 5.4bn by the end of September 2024, covering over four months of projected imports. Liquidity in foreign currency also slightly improved due to increased inflows from tobacco, gold, and tourism. Future growth in foreign exchange inflows is anticipated, particularly from tourism, mining, and food exports to neighbouring countries.

SECTORAL GROWTH

Tanzania's banking sector remained robust, showing adequate liquidity, profitability, and capitalisation, with assets, deposits, and loans on the rise. Asset quality also improved, as seen by a lower non-

performing loan (NPL) ratio of 4.4% in May 2024, a decline from 5.5% in the previous year. Credit to the private sector is projected to remain high against the backdrop of improving economic conditions both domestically and globally.

The mining sector, particularly gold exports, continues to play a significant role in Tanzania's GDP, bolstered by favourable global prices and increasing production capacity. Similarly, tourism has seen a strong rebound as international travel recovers, significantly enhancing service receipts and creating employment opportunities. The construction industry, supported by both public and private investments in infrastructure projects, has also been a notable contributor, aligning with the government's long-term infrastructure and urbanisation goals.

Agriculture remains the backbone of the economy, contributing around 26% of GDP and employing a significant portion of the population. The sector's growth is supported by favourable weather conditions and government initiatives aimed at modernising agricultural practices and boosting productivity. Additionally, the government's investment in industrialisation has begun to yield results, as Tanzania continues to move toward a more diversified economy.

OUTLOOK

The overall economic outlook for Tanzania is optimistic, supported by the government's timely implementation of structural reforms aimed at strengthening the economy's competitiveness, improving the business and investment environment, and reducing the cost of regulatory compliance. The World Bank report also emphasises that improving the efficiency and effectiveness of fiscal policies has enabled the country to boost revenue collection and increase public expenditure, leading to improved human capital outcomes, inclusive economic growth, and prosperity for its citizens.

Considering the favourable and encouraging factors pertaining to the economic, political, and other macroeconomic drivers, ICRA anticipates that Tanzania is poised to exhibit a moderate level of country risk with greater economic stability and sustainable growth potential, especially when compared to its neighbouring peer countries. This assessment is reinforced by the sustained positive economic growth rates and the alleviation of inflationary pressures, despite the global challenges encountered during recent review periods. Nevertheless, it is essential to underscore the inherent challenges faced by the country. These include issues of poverty and inequality, constrained access to quality educational and healthcare facilities, environmental concerns, and limited access to financial resources.