TECHNICAL SUPPORT MISSION ON INTERNATIONAL CREDIT RATINGS THE REPUBLIC OF TANZANIA

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APRM African Peer Review Mechanism | An Institution of the African Union

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1. ABOUT THIS REPORT

In line with Decision Assembly/AU/Dec.631(XXVII) of the 28th Ordinary Session of the African Union (AU) Assembly of Heads of State and Government, the African Peer Review Mechanism (APRM), an autonomous entity of the AU, supports Member States in improving their international credit ratings.

As part of this support, the APRM undertakes technical support missions (hereafter referred to as the "mission") to assess challenges encountered when engaging international credit rating agencies (ICRAs), during reviews, and in the implementation of recommendations. Another key objective of the mission is to identify gaps and constraints that may impact credit ratings, as well as to highlight success factors and good practices that can lead to improved rating outcomes.

This report presents findings from the mission and provides recommendations for consideration by relevant stakeholders in the Republic of Tanzania.

2. CONSULTATION PROCESS IN TANZANIA

The APRM technical support mission team conducted a series of consultations with various stakeholders in the Republic of Tanzania from 11 to 19 August 2025. Meetings were held with representatives from the Ministry of Foreign Affairs and East African Cooperation, the International Monetary Fund (IMF) Resident Representative, Bank of Tanzania, Capital Markets and Securities Authority (CMSA), Treasury Registrar, Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), National Bureau of Statistics, Tanzania Revenue Authority (TRA), Tanzania Investment and Special Economic Zones Authority (TISEZA), Ministry of Finance, and the Zanzibar Investment Promotion Authority (ZIPA), among other stakeholders.

3. INTERNATIONAL CREDIT RATINGS IN TANZANIA

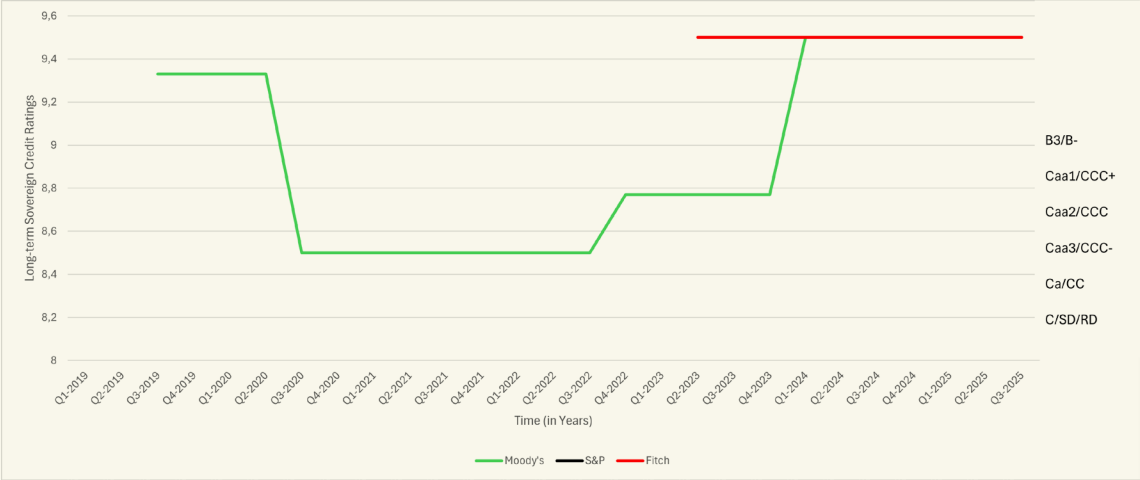
Tanzania currently maintains two active contracts with Fitch Ratings and Moody's Investors Service, both initiated in 2023. Prior to this, ratings were issued on an unsolicited basis and without consultation.

The country received its first solicited sovereign credit rating of B1 from Moody's in 2019. This followed a series of unsolicited and non-consultative ratings by Moody's in 2018, which the government of Tanzania contested[1] as misleading. The rating was downgraded in 2020 and later improved in 2024, when Fitch assigned a B+ rating, more optimistic than Moody's assessment.

Figure 1 illustrates the historical trend of Tanzania's sovereign credit ratings since 2019, when Moody's first issued a solicited rating for the country.

1 https://www.reuters.com/article/tanzania-ratings/tanzania-criticises-moodys-for-negative-rating-outlook-idUSL5N1QN4U8/

Figure 1: Trend of Tanzania's Sovereign Credit Ratings



Data from Tradingeconomics.com

4. BACKGROUND OF THE KEY RISK FACTORS

The mission identified several systemic risks that continue to undermine Tanzania's sovereign credit profile, despite the country's track record of robust growth and reform progress. While macroeconomic resilience and ongoing policy efforts have helped maintain stability, rating agencies continue to highlight structural weaknesses that collectively weigh on creditworthiness and limit upward rating potential.

4.1 Political tensions ahead of elections: Rating agencies view political risk as elevated ahead of Tanzania's general elections in October 2025. Although the country has no history of electoral violence or unrest, agencies anticipate increased tensions and political friction that could erode investor confidence and complicate governance dynamics.

4.2 Fiscal pressures and wider deficits: Moody's and Fitch have raised concerns about the rising government spending pressures. The FY2025

supplementary budget projects a 3.3% of GDP, following fiscal slippage in FY2024 when the deficit exceeded targets due to revenue shortfalls. Despite efforts to strengthen tax administration, central government revenue remains structurally low compared to peer economies. This limits fiscal space for public investment, increases reliance on external borrowing, and constrains the government's ability to respond to shocks.

4.3 Low tax-to-GDP Ratio: Tanzania maintains one of the lowest tax-to-GDP ratios in Africa, currently around 11%[2], compared to the continental average of 17% and the global average of 33%. The low ratio is attributed to the dominance of the informal sector, the reliance on agriculture (which is difficult to tax), administrative inefficiencies, and widespread tax exemptions used as investment incentives. Many of these, such as Value Added Tax (VAT) and excise duty exemptions in Special Economic Zones, are untargeted and yield limited growth or revenue benefits. Furthermore, Tanzania faces challenges in modernising tax administration due to limited capacity in advanced technologies such as AI-driven data analytics for transaction tracking and auditing.

4.4 Rising interest costs and debt service burden: Although concessional loans continue to dominate Tanzania's external borrowing, rating agencies highlight an increasing reliance on higher-cost domestic debt, which is raising interest costs. Fitch projects that the interest-to-revenue ratio will reach 16% in FY25, above the 'B' median of 14%, highlighting growing vulnerabilities in debt affordability. This pressure is expected to increase as the share of concessional debt declines following Tanzania's transition to lower-middle-income status.

4.5 External vulnerabilities and weak foreign currency buffers: Foreign exchange reserves remain low compared to peers, covering only 3.2 months of current external payments versus a 'B' median of 4.5 months. Frequent official interventions and rising external debt service obligations have weakened foreign currency buffers, leaving the country exposed to external liquidity shocks. However, recent improvements in exports have provided some relief.

4.6 Weaknesses in the macroeconomic policy framework: Despite reforms under the IMF programme, rating agencies identify lingering risks to Tanzania's macroeconomic policy framework. The Bank of Tanzania has begun transitioning to an interest rate-based framework and has introduced more transparent foreign currency policies. However, liquidity shortages in 2024 resulted in policy corridor breaches, and distortions persist in the exchange rate market. These issues undermine the credibility and effectiveness of monetary policy, particularly during periods of economic shocks.

4.7 Structural vulnerabilities in growth drivers: Tanzania's growth outlook, projected at 5.9% in 2025, remains vulnerable due to the continued dependence on agriculture, which is highly susceptible to climate-related shocks. Large-scale infrastructure projects and potential Liquefied Natural Gas (LNG) developments offer upside potential but are also associated with significant execution and financing risks. The country's historically low volatility may obscure underlying risks tied to weather, commodity prices, and external financing conditions.

4.8 Inflationary pressures and policy risks: Although inflation remains moderate, it is trending upward due to rising food prices, currency depreciation, and pre-election fiscal expansion. Fitch forecasts inflation at 3.6% in 2025 and 4% in 2026, within the central bank's target band but on an upward trajectory. With the policy rate expected to remain at 6%, the government may face challenges in balancing inflation control with growth objectives, especially if currency pressures persist or fiscal expansion accelerates.

2 https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/12/revenue-statistics-in-africa-2024_a51701c6/78e9af3a-en.pdf

Governance and institutional constraints: Governance remains a structural weakness in Tanzania's sovereign credit profile. The country ranks at the 37th percentile on the World Bank Governance Indicators (WBGI), reflecting persistent challenges in voice and accountability, institutional capacity, and regulatory quality. While there have been improvements in government effectiveness and control of corruption, governance shortfalls continue to impact fiscal management, rule of law, and investor confidence.

5. FINDINGS OF THE TECHNICAL SUPPORT MISSION

The mission acknowledged Tanzania's efforts to strengthen its engagement with international financial markets, including the appointment of Citibank as its rating advisor. The country has made also made significant progress in developing its domestic capital markets, now estimated at TAS 45 trillion in size. The market includes 28 listed equities, as well as government and corporate bonds, and collective investment schemes. While this growing financial ecosystem offers a platform for mobilising domestic resources and expanding investor participation, it also underscores the importance of credit ratings in attracting sustainable investment flows.

5.1 Institutional Structure and Capacity to Engage with International Credit Rating Agencies (ICRAs): Tanzania has taken steps to formalise its engagement with ICRAs. Since May 2023, a Credit Rating Liaison Team – coordinated by the Debt Management Division of the Ministry of Finance - has been established. A single officer serves as the primary point of contact with rating agencies, under the supervision of the Commissioner for Debt Management. However, this officer, like others in the division, manages additional substantive responsibilities, which limits the team's ability to proactively manage rating engagements.

This setup reflects a broader continental challenge identified in the APRM Guidelines: Ministries of Finance often lack institutionalised credit rating functions, relying instead on small, overstretched teams that activate only during review cycles. To compensate for these limitations, Tanzania has enlisted Citibank as a transaction and rating advisor to support its engagements with Fitch and Moody's.

Despite these measures, gaps remain. The Credit Rating Liaison Team lacks dedicated capacity to provide regular updates to CRAs and operates without clearly defined Terms of Reference (ToRs). While government officials demonstrated a basic understanding of credit ratings and their importance, Knowledge of specific rating methodologies was limited, reducing the effectiveness of their interactions with CRAs. This supports the APRM's observation that poor preparation and inconsistent communication may lead to ratings that do not accurately reflect a country's fundamentals.

5.2 Government-wide Standing Committee on Sovereign Credit Ratings: Tanzania relies on an inter-institutional team drawn from the Ministry of Finance (including divisions for Debt Management, Policy Analysis, the Accountant General, External Finance, and Government Budget Management), the Bank of Tanzania, the National Bureau of Statistics, and the Tanzania Revenue Authority. While focal points within these institutions are aware of their responsibilities, the team operates on an ad hoc basis and lack formal ToR's, undermining its consistency and institutional memory. Engagements are further delayed by the practice of routing all requests through institutional heads, who then assign them at their discretion.

5.3 Framework on stakeholder consultation: While the mission observed some level of consultation ahead of credit rating reviews, the process remains incomplete and excludes key private sector actors. Engagement is largely limited to select representatives from the banking sector, omitting influential organisations such as the Tanzania Chamber of Commerce and broader private sector stakeholders whose perspectives are critical in

offering CRAs a well-rounded view of economic performance and sentiment.

Moreover, there is no structured framework guiding stakeholder engagement. The Credit Rating Liaison Team does not participate in or coordinate meetings between domestic stakeholders and CRAs, leading to missed opportunities for unified messaging. Without proactive coordination, there is a risk of inconsistent or incomplete information being shared with rating agencies. Additionally, the team does not actively seek to include excluded but relevant stakeholders in the consultation process, undermining the coherence and credibility of Tanzania's country presentations.

5.4 Proactive and coordinated communication with investors and CRAs: The mission found that Tanzania's engagement with CRAs remains largely reactive, limited to formal review cycles. This approach increases the risk of information asymmetries, especially when the narrative is shaped by external media rather than direct government communication. In several African countries, limited interaction has fostered mistrust between governments and rating agencies. In Tanzania, the Credit Rating Liaison Team is constrained by competing responsibilities and lacks the capacity to proactively shape and manage the country's sovereign rating narrative.

5.5 Regulation of International CRAs in Tanzania: The regulatory framework for CRAs in Tanzania is anchored in the Capital Markets and Securities Act of 2002, which provides for their licensing. However, despite this legal foundation, there are currently no supervisory instruments in place to monitor or enforce the operations of licensed CRAs. Moreover, Tanzania lacks a framework for recognising externally licensed CRAs – a regulatory gap that stands in contrast to the APRM Guidelines on CRA engagement, which stress the importance of predictable and harmonised regulation of international CRAs.

Tanzania has issued Guidelines for the Issuance of Corporate Bonds, Municipal Bonds, and Commercial Papers (2019), which mandate that bond issuers must obtain a credit rating, be publicly listed, or be guaranteed by an internationally recognised entity. Additionally, the adoption of International Public Sector Accounting Standards (IPSAS 41) has expanded the use of credit ratings. Under this standard, all public entities are required to apply reasonable and supportable information, such as credit ratings, when estimating expected credit losses (ECL).

To comply with IPSAS 41, ministries, departments, and agencies (MDAs) in Tanzania now require all banks holding government accounts, and all entities managing public funds, to submit their credit ratings every six (6) months. This development aligns with AU Guideline recommendations on enhancing the domestic utility of credit ratings, it also represents good practice, as it fosters transparency in financial reporting, improves investor trust, and boosts overall market confidence.

If implemented comprehensively across all public-sector entities, the IPSAS 41–linked credit rating requirements could generate a strategic advantage for Africa-based CRAs, while also enhancing the credibility and competitiveness of Tanzania and other African countries in global capital markets. Further highlighting its commitment to international best practices, Tanzania became a Category A signatory to IOSCO's CRA Code of Conduct in 2018.

5.6 Data Transparency and Availability: The mission observed ongoing concerns from stakeholders regarding the timeliness, consistency, and accessibility of economic and fiscal data in Tanzania. Although the country is a subscriber to the IMF Special Data Dissemination Standard (SDDS), it does not consistently submit data on time, and much of the available data is outdated – potentially undermining the credibility of Tanzania's macroeconomic metrics to investors and credit rating agencies.

Stakeholders emphasised the urgent need for improved transparency in debt management and fiscal reporting, in accordance with CRA Guidelines, which recommend proactive and consistent disclosure of reliable data to both CRAs and investors. Tanzania had previously earned recognition for good practices, such as the now-discontinued Consolidated Accounts Financial Statements (last published in June 2022), and Revenue Estimates (last released in April 2024) have not been updated.

Even when data is eventually published, stakeholders noted inconsistencies across ministries, departments, and agencies (MDAs), with discrepancies in figures and reporting periods. These issuers are compounded by the lack of a consolidated reporting framework. Moreover, data is often released in non-analytical formats (e.g., PDFs), limiting usability. Available datasets on government websites are frequently outdated, with lags ranging from six (6) months to three (3) years. Critical datasets – such as customs and trade statistics, foreign exchange auction results, and border management data- are either delayed or not regularly updated.

The mission also observed a culture of excessive confidentiality, where data is released only upon request and subject to internal discretion. This approach contradicts the CRA Guidelines' call for a standardised, predictable, and investor-friendly disclosure framework. Unlike its peer countries, Tanzania does not publicly release key reports such as the External Public Debt Register, Debt and Borrowing Policy, Medium-Term Debt Management Strategy, Development Partner Funding Statements, Monthly Debt Bulletins, or Annual Debt Management Reports. These reports are essential for disclosing the composition, structure, and servicing of public and publicly guaranteed debt, thereby strengthening investor confidence.

In addition, significant capacity constraints persist. Institutions lack experienced data analysts and data scientists, and reporting practices remain fragmented and misaligned with international standards. This undermines the country's ability to engage effectively with credit rating agencies and diminishes the credibility of official statistics in the eyes of investors.

6. RECOMMENDATIONS ON STRENGTHENING SOVEREIGN CREDIT RATING ENGAGEMENTS

The APRM Technical Support Mission to Tanzania noted commendable progress in engaging with international financial markets, particularly the appointment of Citibank as rating advisor and the development of domestic capital markets. However, notable institutional, procedural, and regulatory gaps continue to undermine Tanzania's ability to secure sovereign ratings. In line with the Guidelines for AU Member States on Dealing with Credit Rating Agencies[3], this report outlines a structured set of recommendations across the pre-rating, rating, and post-rating phases to ensure Tanzania's credit rating engagements are credible, proactive, and strategically aligned with its economic goals.

i. Pre-Ratings Phase

a) **Institutionalising a Credit Rating Liaison (CRL) Team:** Tanzania needs to establish a permanent CRL team within the Ministry of Finance. The current reliance on a single officer with multiple competing responsibilities is inadequate and unsustainable. The CRL should include at least two full-time experts from the Ministry of Finance and the Bank of Tanzania, with at least 50% of their workload dedicated to sovereign rating matters. This team should be formalised through a Directive signed by the Permanent Secretary or Minister of Finance, with binding Terms of Reference (TORs). The TORs should require the CRL to:

ii. Coordinate and participate in all meetings between CRAs and stakeholders;
iii. Organise pre-review workshops to prepare government and non-government stakeholders;
iv. Develop strategic pitches for upgrades based on identified rating drivers.
v. Proactively update CRAs on fiscal, macroeconomic, and reform developments between review cycles;
vi. Maintain a central database of information requests and responses to ensure consistency.

3 https://aprm.au.int/en/documents/2025-02-26/guidelines-african-union-member-states-dealing-credit-rating-agencie

b) **Establishing a Standing Committee on Sovereign Credit Ratings:** This committee should be co-chaired by the Ministry of Finance and the Bank of Tanzania, with clear ToRs and representation from the Accountant General's Office, National Bureau of Statistics, Tanzania Revenue Authority, and key economic ministries. This structure will replace the current ad hoc arrangements, ensuring continuity and institutional memory. Most importantly, it will align fiscal policy, debt management, and central bank operations, reducing the risk of inconsistent or fragmented communication with CRAs.

c) **Developing in-house technical expertise on rating methodologies:** while external advisors like Citibank provide valuable support, long-term reliance on consultants is unsustainable. Building internal capacity will reduce costs, enhance policy ownership, and ensure the government is better equipped for technical discussions with CRAs. Training for CRL and Standing Committee members should cover sovereign rating methodologies, risk-weighting systems, and benchmarking against peer countries.

d) **Improving readiness and coordination ahead of rating reviews:** The CRL should engage CRAs early in the review cycle to understand key focus areas and ensure that stakeholders are prepared with accurate, coherent data. This includes coordinating data collection across ministries, ensuring consistent macroeconomic assumptions, and anticipating possible rating triggers. Timely and factually accurate responses are critical to prevent rating downgrades driven by miscommunication or delays.

ii. During the Rating Process

a) **Adopting a whole-of-government approach:** To maintain coherence and credibility, at least one CRL expert should attend all CRA stakeholder meetings, documenting discussions and outcomes. The CRL should also propose consultations with key private sector stakeholders, such as the Tanzania Chamber of Commerce, whose insights are currently underutilised. Broader participation will provide CRAs with a more comprehensive view of economic performance and market sentiment.

b) **Implementing a proactive rating pitch strategy:** Beyond the narrative prepared by the Ministry of Finance, the CRL and Standing Committee should present targeted messages on economic reforms, fiscal discipline, and structural improvements that directly address issues raised in previous reviews. Messaging be consistent across ministries, the central bank, and private sector participants.

c) **Ensuring high-level government engagement:** Given the importance of political and institutional stability in sovereign ratings, senior government officials should participate in CRA discussions, especially where governance, policy coherence, or institutional independence are in question. This conveys credibility, commitment, and seriousness about reform efforts.

d) **Verifying the accuracy of draft CRA reports:** A formal protocol should be established to verify the factual accuracy of draft CRA reports within the 24-48 hour window before publication. This protocol should enable rapid cross-checking of data across institutions to avoid errors that could negatively affect ratings.

iii. Post-Rating Phase

a) **Developing a national strategy on sovereign credit ratings:** Sovereign credit ratings are ongoing assessments, not once-off events. Tanzania should adopt a National Strategy on Sovereign Credit Ratings, led by the CRL, to coordinate reforms and stakeholder engagement. The strategy should include measurable targets for addressing past weaknesses and a clear action plan ahead of each review cycle.

b) **Establishing a dedicated investor relations function:** Proactive engagement with CRAs and investors is crucial. A dedicated investor relations function, linked to the CRL, should issue timely updates on key policy developments to pre-empt speculative narratives and foster confidence. It is good practice for the government to respond promptly to rating actions, outlining corrective measures and reaffirming reform commitments.

c) **Strengthening the CRA oversight:** While the Capital Markets and Securities Act (2002) provides a legal framework, practical oversight mechanisms are lacking. The Capital Markets and Securities Authority (CMSA) should be supported to develop comprehensive rules for licensing, monitoring, and recognising foreign CRAs. Tanzania should benchmark its regulatory framework against South Africa's FSCA and G20 standards and fully operationalise its commitment as a Category A signatory to the IOSCO CRA Code of Conduct.

d) **Implementing a comprehensive data publication protocol:** A formal protocol mandating the timely release of reports such as the External Public Debt Register, Medium-Term Debt Strategy, Development Partner Funding Statements, Monthly Debt Bulletins, and Annual Debt Reports is critical. Data should be published in accessible formats (e.g., Excel, CSV) rather than static PDFs to enhance usability by CRAs, investors, and researchers. Tanzania should also ensure consistent compliance with the IMF's SDDS requirements, supported by improved data analysis capacity within the Ministry of Finance, NBS, and TRA.

e) **Participating in capacity-building initiatives:** Capacity-building programmes, such as the APRM–UNECA transparency workshops, offer valuable opportunities for Tanzanian officials to strengthen their technical knowledge, benchmark against peer countries, and anticipate shifts in CRA methodologies.

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