THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE

FISCAL RISK STATEMENT FOR 2026/27

JUNE, 2026

MINISTRY OF FINANCE

FISCAL RISK STATEMENT
FY 2026/27

June 2026

EXECUTIVE SUMMARY

The Fiscal Risk Statement for FY 2026/27 has been prepared in accordance with the Budget Act (CAP 439) and the East African Community (EAC) fiscal surveillance requirements. The Statement assesses provides the fiscal outlook, identifies key fiscal risks that may affect budget implementation and macroeconomic stability, and proposes mitigation measures to safeguard fiscal sustainability.

Tanzania's macroeconomic outlook remains broadly stable, with real GDP growth projected to increase from 5.9 percent in 2025 to 6.3 percent in 2026, supported by sustained public investment and improved performance in tourism, agriculture, mining, and services. Inflation remained within the national target range at 4.0 percent in April 2026, while the exchange rate experienced moderate depreciation pressures due to global financial tightening and evolving external balances.

Despite this positive outlook, fiscal performance remains exposed to both external and domestic risks. Key external risks include geopolitical tensions, particularly the ongoing conflicts in the Middle East and between Russia and Ukraine which have contributed to increases in global oil and fertilizer prices, disruptions in supply chains, and rising transport and production costs. Tanzania's dependence on imported fuel and fertilizers continues to expose the economy to commodity price volatility with implications for inflation, food security, agricultural productivity and economic growth.

Other macroeconomic risks include exchange rate volatility, rising borrowing costs, climate related shocks and potential slowdowns in economic activity which may weaken domestic revenue performance and increasing financing pressures. In addition, changes in donor financing policies and declining external assistance could affect the implementation of development projects, and increase reliance on domestic and non-concessional borrowing.

Public debt also remains a key fiscal risk. As of June 2025, Tanzania's public debt stock stood at USD 41.8 billion, equivalent to 49.0 percent of GDP, reflecting domestic borrowing through the issuance of government securities, external disbursements, and exchange rate depreciation. This Statement also highlights fiscal risks arising from contingent liabilities associated with State-Owned Enterprises (SOEs), Public-Private Partnerships (PPPs), and Local Government Authorities (LGAs). As of June 2025, contingent liabilities amounted to TZS 4,519.46 billion, largely associated with pension obligations, government guarantees, and public enterprise debt.

Climate change and natural disasters remain among the most significant and growing fiscal risks facing Tanzania. Increasing occurrences of floods, droughts, landslides, strong winds,

and rising temperatures continue to affect infrastructure, agriculture, energy systems, water resources, social services, tourism, and livelihoods. The implementation of climate adaptation and mitigation actions identified under Tanzania's Nationally Determined Contributions (NDCs 3.0) is estimated to require approximately USD 48.6 billion by 2035, subject to periodic review and evolving national priorities.

To mitigate these risks, the Government will continue implementing prudent fiscal and debt management, strengthen domestic revenue mobilization, enhance expenditure prioritization, promote economic diversification, and maintain macroeconomic stability. Furthermore, the Government will enhance disaster preparedness, response and recovery as well as enhancing climate-resilience financing, reinforcing contingency financing mechanisms, strengthening National Disaster Management Fund and promote the implementation of Disaster Risk Financing Framework.

ACRONYMS

ATM	Average Time to Maturity
CNG	Compressed Natural Gas
CRU	Climatic Research Unit
DAP	Diammonium Phosphate
EAC	East African Community
FYDP	Five Year Development Plan
GDP	Gross Domestic Products
GHG	Green House Gases
LGAs	Local Government Authorities
MSMEs	Micro, Small and Medium Enterprises
NAP	National Adaptation Plan
NDC	Nationally Determined Contributions
NDMF	National Disaster Management Fund
NEMPSI	National Environmental Management Master Plan for Strategic Interventions
NHC	National Housing Corporation
NPSZn	Nitrogen–Phosphorus–Sulphur–Zinc
SA	Sulphate of Ammonia
TANESCO	Tanzania Electric Supply Company Limited
TFRA	Tanzania Fertilizer Regulatory Authority
TMA	Tanzania Meteorological Authority
UK FCDO	United Kingdom Foreign, Commonwealth & Development Office
UNDRR	United Nations Office for Disaster Risk Reduction
USD	United States Dollar

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1.0 Introduction

The Fiscal Risk Statement for the 2026/27 financial year is prepared in accordance with the Budget Act (CAP 439), which mandates the identification, assessment, and management of fiscal risks to support macroeconomic stability and the achievement of the Government's development objectives. The Statement also fulfils the requirements of the East African Community (EAC) fiscal surveillance framework, which obliges Partner States to disclose fiscal risks that may affect planned fiscal and economic outcomes. In this context, the Statement presents an assessment of Tanzania's fiscal outlook, including key macroeconomic assumptions, revenue and expenditure projections, financing requirements, and potential vulnerabilities that may affect fiscal performance during 2026/27.

The Statement is anchored in the implementation of the Tanzania Development Vision 2050 and the Fourth National Five-Year Development Plan (2026/27–2030/31), which aim to transform Tanzania into a high-income, inclusive, resilient, and competitive trillion-dollar economy by 2050.

Notwithstanding these development ambitions, the achievement of fiscal and economic objectives remains vulnerable to a range of domestic and external risks. Accordingly, the Fiscal Risk Statement identifies and analyses major sources of fiscal risk, including macroeconomic shocks, fluctuations in commodity and energy prices, exchange rate and interest rate volatility, public debt sustainability, contingent liabilities arising from State-Owned Enterprises and Public-Private Partnerships, and fiscal pressures associated with Local Government Authorities. The Statement further examines risks related to the implementation of large-scale strategic investment projects, evolving global disruptions, and uncertainties in external financing flows.

Furthermore, in recognition of the increasing impact of climate change and environmental degradation on economic performance and public finances, the Statement also provides an assessment of climate-related fiscal risks, including droughts, floods, pandemics, food insecurity, and other natural disasters that may disrupt production, infrastructure, livelihoods, and domestic revenue performance.

Overall, the Statement serves as an important policy tool for strengthening fiscal transparency, accountability, and prudent fiscal management. It reinforces the Government's commitment to maintaining fiscal sustainability, enhancing economic resilience, and balancing fiscal discipline with strategic investments necessary to support sustainable growth, job creation, improved service delivery, and the realization of the aspirations of Tanzania Development Vision 2050.

2.0. Macroeconomic Risks

Macroeconomic risks refer to the exposure of fiscal policy to the volatility of key economic parameters and assumptions compared with the levels of those parameters that were assumed in the forecast. Macroeconomic risks may occur due to internal and external factors. These risks may stem from natural and non-natural events and can affect macroeconomic indicators; including commodity prices, interest rates, exchange rates, and credit to the public and private sectors.

2.1 Geopolitical Tensions

The ongoing conflicts between Russia and Ukraine and in the Middle East in 2026 have become a major concern with economic consequences. Although the conflicts are geographically distant from Tanzania, it is expected to affect the economy through key channels: global oil price shocks, supply chain and logistics disruptions, foreign exchange pressures, and financial and investment impacts. The oil price channel is the most immediate and dominant, with secondary effects likely to appear in inflation and trade, thus posing moderate downside risks to economic growth.

2.2 Commodities Price Fluctuations

The commodity price volatility remains a persistent source of fiscal risk, given Tanzania's dependence on imported fuel and its exposure to fluctuations in the prices of key exports such as gold. In connection with this, the conflict in the Middle East has affected key oil infrastructure and shipping routes such as the Strait of Hormuz, which handles a significant share of the world's oil. As a result, global oil prices have risen sharply between February and April 2026. As of 7 April 2026, the price of crude oil, as measured by the Brent Crude benchmark, had risen to USD 109.85 per barrel, compared with an average of approximately USD 60 per barrel in December 2025, representing an increase of about 83.1 percent. Moreover, from April to May 2026, Brent crude oil prices remained elevated at around USD 107 per barrel, reflecting continued market volatility.

Subsequently, in Tanzania fuel prices increased significantly in May 2026, rising by approximately 1,250 shillings per litre for petrol, 1,400 shillings per litre for diesel, and 1,700 shillings per litre for kerosene compared with March 2026 levels. This brought pump prices to range from 4,115 shillings to 4,388 per litre for petrol, 4,248 shillings to 4,521 per litre for diesel, and 4,677 shillings to 4,950 per litre for kerosene in May 2026. The sharp rise in fuel prices has contributed to a slight increase in inflation to 4.0 percent in April 2026 from 3.2 in March 2026 consistent with EAC and SADC convergence criteria of not more than 8 percent and 3–7 percent. However, the inflation level indicates generally stable prices, though with

moderate upward inflationary pressures that may persist in the subsequent months, depending on the duration and intensity of the conflict.

Moreover, Tanzania's agricultural sector relies heavily on imported fertilizers to support crop production and enhance food security. Over 80 percent of the country's total fertilizer requirements are met through imports, with a significant proportion sourced from Middle Eastern countries. In particular, Tanzania depends strongly on nitrogen-based fertilizers, especially urea, which is the most widely used nitrogen fertilizer among farmers. The country imports substantial quantities of urea both for direct agricultural use and as an input for domestic industrial processes. The breakdown of urea fertilizer imports for the period 2023/24 to 2024/25 is presented in Table 1.

Table 1: Importation of Urea Fertilizer in Tanzania, 2023/24 - 2024/25

Year	Middle East (Tonnes)	Other Regions (Tonnes)	Total Imports (Tonnes)	(%) Middle East
2023/24	180,374	53,611	233,985	77
2024/25	195,279	82,778	278,152	70
Total	**375,653**	**136,484**	**512,137**	**73**

Given that more than 70 percent of Tanzania's nitrogen fertilizer imports originate from the Middle East, the country is highly dependent on this region as a key source of supply. This dependence exposes Tanzania to significant risks, including higher import costs, potential fertilizer shortages, increased government expenditure on subsidies, reduced fertilizer accessibility for farmers, lower agricultural productivity and ultimately threats to food security and broader economic growth.

In addition, the ongoing conflict in the Middle East has contributed to a sharp rise in global fertilizer prices, with nitrogen-based fertilizers being the most affected. Urea prices increased by 80 percent, while sulphate of ammonia (SA) prices rose by 55 percent. Furthermore, the cost of fertilizers imported into Tanzania increased by 51 percent for urea and 49 percent for sulphate of ammonia.

As a result, the Tanzania Fertilizer Regulatory Authority (TFRA) reviewed fertilizer prices for imports received in March and April 2026, which were higher compared to the prices in the September 2025 review.

In response to the observed increases in global fertilizer prices and the rising import costs for fertilizers received in March and April 2026, the TFRA undertook a review and adjustment of the indicative prices for urea, SA, nitrogen–phosphorus–sulphur–zinc (NPSZn), and

diammonium phosphate (DAP) fertilizers. The review indicates that the indicative prices of these fertilizers increased by between 4 percent and 46 percent, as presented in Table No. 2.

Table 2: Average indicative fertilizer prices in the domestic market

Type of Fertilizer	COUNTRY AVERAGE RETAIL PRICES TZS/50KG						% change (A,B)
	Market prices – September 2025			Market prices - 11th May 2026			
	Market price (A)	farm-gate price	Gvt Subsidy	Market Price (B)	farm-gate price	Gvt Subsidy	
Diammonium Phosphate (DAP)	132,313	74,880	57,433	140,854	91,283	49,571	6%
Urea	84,534	69,943	14,591	123,323	83,304	40,019	46%
Sulphate of Ammonia	53,869	52,869	1,000	69,920	69,920	-	30%
Nitrogen–Phosphorus–Sulphur–Zinc (NPSZn)	132,313	74,880	57,433	137,581	91,287	46,294	4%

2.3 Economic Growth

Tanzania's economy is projected to grow from 5.9 percent in 2025 to 6.3 percent in 2026, driven by a conducive business environment, continued infrastructure investment, and expansion in the services sector. However, given the reliance of fiscal revenues on economic activity, risks remain from a potential slowdown driven by adverse weather conditions affecting productive sectors. Additionally, ongoing geopolitical tensions in the Middle East pose downside risks, including rising production and transport costs, weakening external demand, and possible delays in investment and project implementation. Such a slowdown would reduce key tax revenues while increasing expenditure pressures, potentially widening the fiscal deficit and raising debt levels. On the services side, tourism receipts are vulnerable due to reduced flight frequencies, higher travel costs, and disruptions in key transit hubs in Dubai, Abu Dhabi, Doha, Bahrain, and Kuwait. These factors have contributed to a decline in tourist arrivals, thereby affecting foreign exchange earnings.

2.4 Exchange Rate Developments

The Tanzanian shilling appreciated by an average of 2.7 percent in the year ending April 2026, compared with a depreciation of 3.9 percent recorded in the corresponding period of

2025. Despite these favorable developments, risks to exchange rate stability remain, mainly stemming from ongoing geopolitical tensions that continue to exert volatility in global financial markets and increase inflation, which may prompt advanced economies to tighten their monetary policies to fight inflation. An increase in prices of imported commodities, such as oil and fertilizer is likely to exert pressure on our external position and affect the Shilling if the conflict is prolonged. Nevertheless, adequate foreign exchange reserves, supported by the ongoing domestic gold purchase programme, are expected to help cushion the economy against such external shocks.

2.5 Monetary Aggregates and Credit Developments

Extended broad money supply (M3) grew by an average of 22 percent in April 2026 compared with 20.3 percent in April 2025, driven mainly by strong growth in private sector credit amid improving economic conditions and rising demand for investment financing. Private sector credit expanded by 23.6 percent, compared with 14.8 percent in the corresponding period of 2025, supported by policy measures aimed at enhancing access to credit and improving the business environment. Personal loans, which are largely associated with micro, small, and medium-sized enterprises (MSMEs), continued to account for the largest share of private sector credit at 35 percent, followed by trade (14.8 percent) and agriculture (13.8 percent) as of April 2026. Despite the strong credit performance, risks to the outlook remain. Persistent geopolitical tensions could heighten inflationary pressures and lead to tighter global monetary policy, which may increase borrowing costs and moderate the pace of private sector credit growth. Nevertheless, these risks are currently assessed as manageable, supported by stable domestic macroeconomic conditions and the continued implementation of supportive policy measures.

2.6 Domestic Revenues

From July 2025 to April 2026, non-tax revenue amounted to TZS 3.3 trillion, equivalent to 94.4 percent of the target. During this period, the main sectors contributing to non-tax revenue include mining, immigration services, as well as contributions and dividends from public corporations. On the other hand, from July 2025 to April 2026, tax revenue amounted to TZS 29.3 trillion, equivalent to 107.0 percent of the target.

While the overall performance of non-tax revenue collection is close to target, there is a concentration risk, as non-tax revenues are mainly derived from a limited number of sources, including mining activities, immigration services, and dividends from public corporations. Such dependence exposes public finances to shocks affecting any of these sectors. For

instance, fluctuations in global mineral prices or reduced profitability of public enterprises can significantly affect revenue performance.

The risk may also extend to non-tax revenue, which is relatively concentrated in a few key sectors. In particular, the tourism sector is vulnerable to increases in international travel costs arising from higher fuel prices and disruptions to global aviation routes. An increase in air ticket prices may reduce the number of international tourists visiting Tanzania, thereby affecting non-tax revenue collected from tourism-related fees, charges, permits, and other sector-specific payments.

The ongoing geopolitical tensions in the Middle East pose a significant risk to Tanzania's domestic revenue performance. As a net importer of petroleum products, Tanzania is exposed to increases in global oil prices and disruptions to shipping routes. Higher fuel prices may raise transport and production costs, increase inflationary pressures, weaken household consumption, and reduce business profitability. Consequently, revenue from VAT, excise duty, income tax, and trade-related taxes may underperform. In addition, the Government may face pressure to introduce temporary tax relief measures on fuel and essential goods to cushion consumers, which could further reduce domestic revenue collections.

Therefore, prolonged geopolitical tensions in the Middle East may weaken both tax and non-tax revenue performance by increasing costs, reducing trade and travel volumes, and slowing economic activity in key revenue-generating sectors.

2.7 Foreign Policy Changes

Tanzania's fiscal position remains vulnerable to changes in foreign policies, donor financing priorities, and global geopolitical conditions. Shifts in development cooperation frameworks, evolving governance requirements, and the reallocation of aid toward global humanitarian and strategic priorities have led some development partners to reduce, suspend, or reconsider the provision of grants and concessional financing to Tanzania. This may result in a gradual shift from traditional concessional sources of financing toward increased reliance on domestic and non-concessional borrowing to finance budgetary and development needs. Such changes pose risks to budget execution and project implementation, while also increasing borrowing costs and exposing the country to heightened debt sustainability and foreign exchange risks.

Recent changes include Sweden's decision to terminate development cooperation with Tanzania upon expiry of the current cooperation framework in August 2026; reductions in funding allocations by the Global Fund and the UK FCDO; suspension of assistance from the

United States Government; and the risk of reduced European Union budget support following policy resolutions by the European Parliament. In addition, contributions to United Nations programmes have declined due to funding reductions by major donor countries. Escalation of ongoing geopolitical tensions and conflicts across major economies, particularly in the Middle East, may lead to changes in global foreign, trade, and security policies. Such policy shifts may affect foreign direct investment, international trade and capital flows, thereby posing risks to exchange rate stability, domestic prices and economic growth.

2.8 Macroeconomic Risk Mitigation Measures

The following mitigations have been proposed to address the identified macroeconomic risks:

i. Maintain excise duty exemption on the supply of automobile accessories used in the conversion of motor vehicle fuel systems to natural gas or electricity. This will help reduce dependence on imported liquid fuels and promote the utilization of locally available natural gas;
ii. Provide targeted subsidies for diesel to ensure fuel pump prices remain affordable;
iii. Provide targeted subsidies for fertilizer to reduce the burden on farmers and sustain agricultural productivity;
iv. Increase strategic fuel and fertilizer reserves to sustain demand;
v. Strengthen the investment climate and business environment;
vi. Reprioritize spending, including infrastructure investments, to help protect the most vulnerable;
vii. Diversify trade partnerships, strengthen regional integration, and maintain fiscal and external buffers to enhance resilience against external shocks;
viii. Strengthening domestic revenue mobilization, promoting economic diversification through industrialization and value addition, and improving the efficiency and prioritization of public investments to sustain growth while preserving fiscal stability.
ix. Promoting export diversification, strengthening foreign exchange reserve buffers, maintaining prudent external borrowing strategies with a preference for concessional financing, and supporting policies that attract stable foreign direct investment inflows to enhance external resilience; and
x. Implementing a medium-term debt management strategy focused on extending maturities, increasing reliance on concessional financing, and maintaining macroeconomic stability to reduce risk premiums.

3.0 Public Debt

Public debt remains a critical and reliable component of the Government budget, underpinning the financing of public investments. As of June 2025, the public debt stock reached USD 41,798.9 million, which is 49.0 percent of the GDP. This represents a 13.9 percent increase from the USD 36,690.7 million, or 45.4 percent of GDP, recorded in June 2024. Of the total public debt, external debt accounted for 67.4 percent, while domestic debt made up 32.6 percent. The increase in public debt was mainly driven by new domestic borrowing through the issuance of government securities, disbursements from external creditors, and the depreciation of the Tanzanian shilling against the US dollar. The analysis of the existing debt portfolio shows that Tanzania's debt is exposed to market risk and refinancing risk as shown in Table 3 below.

3.1 Market Risk

Market risk in the debt portfolio is driven mainly by fluctuations in interest rates and exchange rates. Interest rate risk, measured by the Average Time to Re-fixing (ATR), shows that the debt portfolio has an ATR of 9.9 years. As of June 2025, about 25.4 percent of the total debt is subject to interest rate changes within one year, a decrease from 25.9 percent in June 2024. This decline suggests a modest reduction in interest rate exposure, implying a slight improvement in the stability and predictability of debt servicing costs. Exchange rate risk remains significant due to the high share of external debt, accounting for 67.6 percent of the total portfolio. Borrowing from external sources heightens vulnerability to exchange rate fluctuations and debt service costs, particularly during periods of currency depreciation.

3.2. Refinancing Risk

The Government refinancing policy for domestic debt is to roll over the maturing principal and pay the interest costs using Government revenue. The exposures to refinancing/rollover risk are measured by the Average Time to Maturity (ATM) and the percentage of total domestic debt maturing in one year. The overall operational target for the Average Time to Maturity (ATM) of the debt portfolio is greater than 10 years. ATM has slightly increased, rising from 10.8 years in June 2024 to 10.9 years in June 2025. Additionally, the proportion of debt maturing within one year, expressed as a percentage of GDP, has decreased to 5.8 percent in June 2025, down from 6.4 percent in June 2024. A similar trend is evident in the share of debt maturing within one year relative to total debt. Overall, these indicators suggest a reduction in refinancing risk.

Table 3: Cost and Risk Indicators of Existing Debt

Cost and Risk Indicators for Existing Debt		External debt		Domestic debt	Total debt
		June 2024	June 2025	June 2025	June 2025
Amount (in millions of TZS)		64,397,645.66	73,978,842.43	35,502,780.72	109,481,623.15
Amount (in millions of USD)		24,393.05	28,246.23	13,555.49	41,801.73
Nominal debt as percent of GDP		32.4	33.1	15.9	49.0
PV as percent of GDP		23.5	24.2	15.9	40.1
Cost of debt	Interest payment as percent of GDP	1.0	0.8	1.6	2.5
	Weighted Av. IR (percent)	3.0	2.6	10.3	5.1
Refinancing risk	ATM (years)	11.4	11.2	10.0	10.9
	Debt maturing in 1yr (percent of total)	4.9	4.5	26.1	10.8
	Debt maturing in 1yr (percent of GDP)	1.8	1.7	4.1	5.8
Interest rate risk	ATR (years)	10.1	9.9	10.0	9.9
	Debt refixing in 1yr (percent of total)	24.9	25.1	26.1	25.4
	Fixed rate debt incl T-bills (percent of total)	77.2	76.9	100.0	83.7
	T-bills (percent of total)	-	-	5.6	1.7
FX risk	FX debt (percent of total debt)				67.6
	ST FX debt (percent of reserves)				22.8

Source: Ministry of Finance

3.3 Mitigation Measures of Public Debt

The following mitigations have been proposed to address the identified public debt risks:

i. To maintain prudent debt management by ensuring committed fiscal consolidation in the medium term to minimize risks through prudent borrowing and use of proceeds to invest in projects with high economic returns, and enhancing revenue mobilization to safeguard the country's macroeconomic stability.
ii. To prioritize borrowing on concessional and semi-concessional terms, including seeking financing from export credit agencies, while carefully venturing into non-concessional sources for projects of significant importance to the economy.
iii. To strengthen supervision of both financial institutions and state-owned enterprises to minimize risks associated with contingent liabilities.

4.0 Contingent liabilities

Contingent liabilities pose a fiscal risk, as they can materialize into substantial and unanticipated financial obligations within a short timeframe, thereby exerting pressure on government resources. These liabilities are activated by specific events or economic shocks; limited fiscal space to absorb such pressures can amplify macroeconomic instability and heighten fiscal vulnerabilities.

4.1 Public corporations and Local Government Authorities

The Government of Tanzania owns 252 public enterprises, including key corporations like Tanzania National Electric Supply Company (TANESCO), National Housing Corporation (NHC), and water authorities, which provide essential services. Government bailouts for

these entities may strain public finances, highlighting the need for financial and operational reforms to enhance sustainability.

Similarly, Local Government Authorities (LGAs) may pose fiscal risks due to the possibility of creating potential liabilities arising from loan contracting. As of June 2025, contingent liabilities from public corporations and LGAs amounted to TZS 4,519.46 billion, representing a 46.6 percent decline from TZS 8,469.60 billion recorded in June 2024. The decrease was largely attributable to the completion of the Julius Nyerere Hydropower Project, which led to the cessation of the Government guarantee issued to facilitate the National Insurance Corporation in insuring contractors' risks amounting to TZS 4,832.05 billion. Out of the total contingent liabilities, PSSSF debt accounted for the largest share at 50.67 percent, followed by Government guarantees (24.38 percent), consent letters (12.90 percent), the Zanzibar commercial loan (12.02 percent) and LGAs' loans (0.03 percent).

4.2. Mitigation Measures for Public Corporations and Local Government Authorities

The following mitigations have been proposed to address the identified contingent liabilities risks:

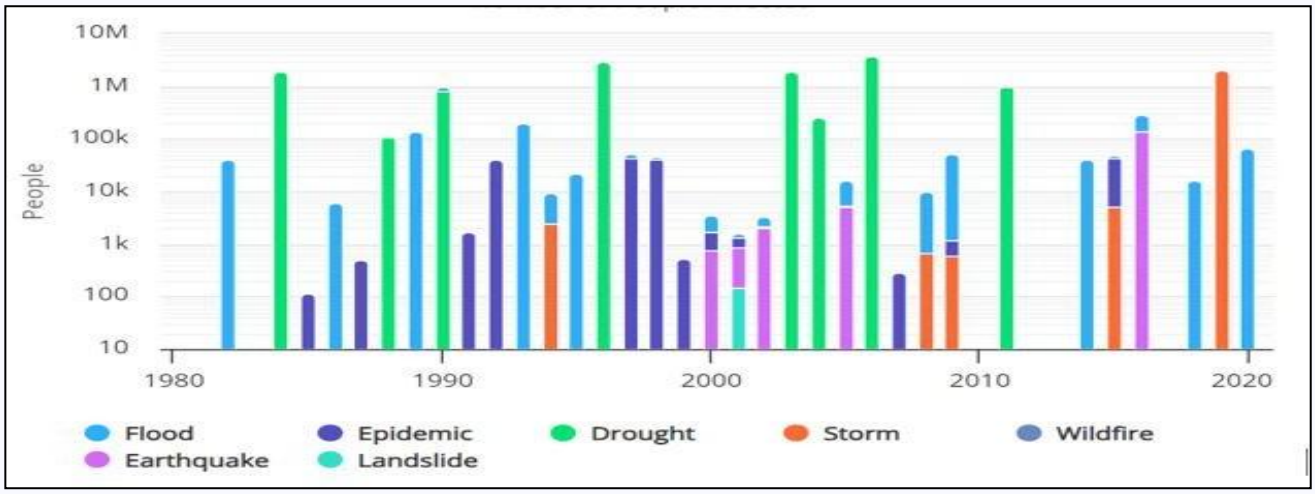
i. Enhancing governance and oversight by enforcing audits, improving transparency, and closely monitoring financial operations;
ii. Financial and operational reforms, including cost-cutting measures, restructuring and merging entities, and promoting efficiency in service delivery, aim to improve sustainability and reduce fiscal burdens.; and
iii. The Government is reinforcing project appraisal and scrutiny mechanisms to ensure that public investments meet the criteria of economic viability, cost-effectiveness, and alignment with national development priorities, thereby strengthening fiscal discipline, containing contingent liabilities, and supporting long-term macroeconomic stability.

5.0 Fiscal Risks from Climate-Related Hazards and Natural Disasters

Tanzania is vulnerable to climate-related and natural hazards, including floods, droughts, strong winds, landslides, wildfires, and rising temperatures. Coastal areas are particularly exposed to sea-level rise, coastal erosion, and cyclonic activity, while inland regions are experiencing erratic rainfall patterns and recurrent drought conditions.

Mostly the Tanzanian population and economy are exposed to, and impacted by, floods and droughts, which affect a large share of the population (Figure 1). In 2018, floods in Dar es Salaam alone cost USD 100 million, or 2 percent of GDP (Erman, et al., 2019). [1]Over the past two decades, severe droughts have impacted livestock, wildlife, and the country's predominantly small-scale, rainfed crops. The culmination of a series of droughts in 2009 resulted in the loss of more than 50 percent of livestock in some parts of northern Tanzania (Goldman and Riosmena 2013). Extensive agriculture and livestock production has continued to expand in response to shocks, at the expense of forests and unsustainable soil and water exploitation, decreasing production systems' natural resilience to climate shocks and increasing greenhouse gas (GHG) emissions.

Figure 1: Key Natural Hazards Statistics, 1980-2020

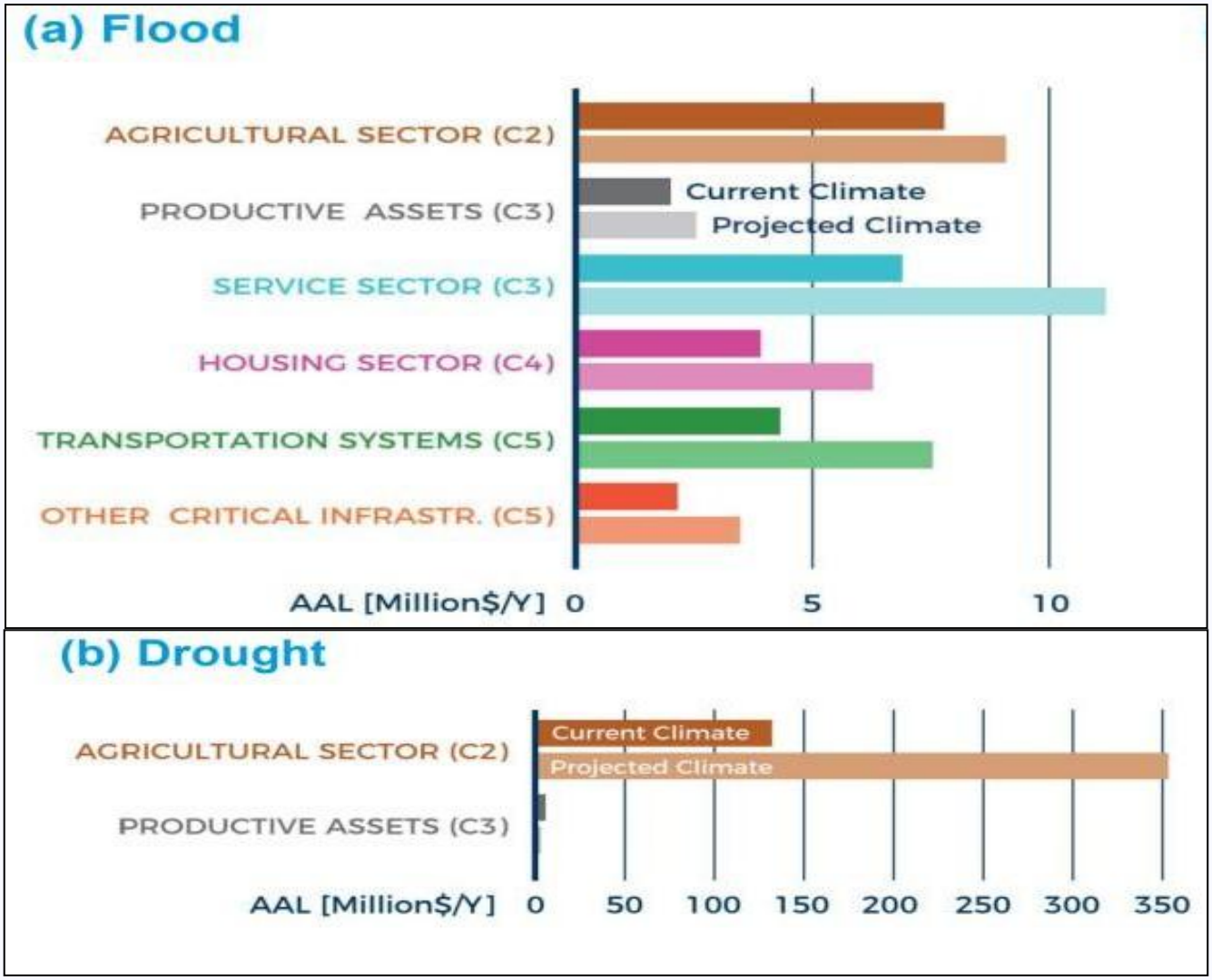


Source: *World Bank Climate Change Knowledge Portal*
https://climateknowledgeportal.worldbank.org/country/tanzania/vulnerability

Economic losses are projected to increase with climate change, with Annual Average Loss (AALs) from floods and droughts increasing from USD 28 million to USD 41 million per year and from USD 140 million to USD 350 million per year respectively (Figure. 2).

[1] "Erman, Alvina; Obolensky, Marguerite; Hallegatte, Stephane. 2019. Wading Out the Storm: The Role of Poverty in Exposure, Vulnerability and Resilience to Floods in Dar es Salaam.

Figure 2: Annual Average Loss (AAL) per Sector in the Event of a Disaster



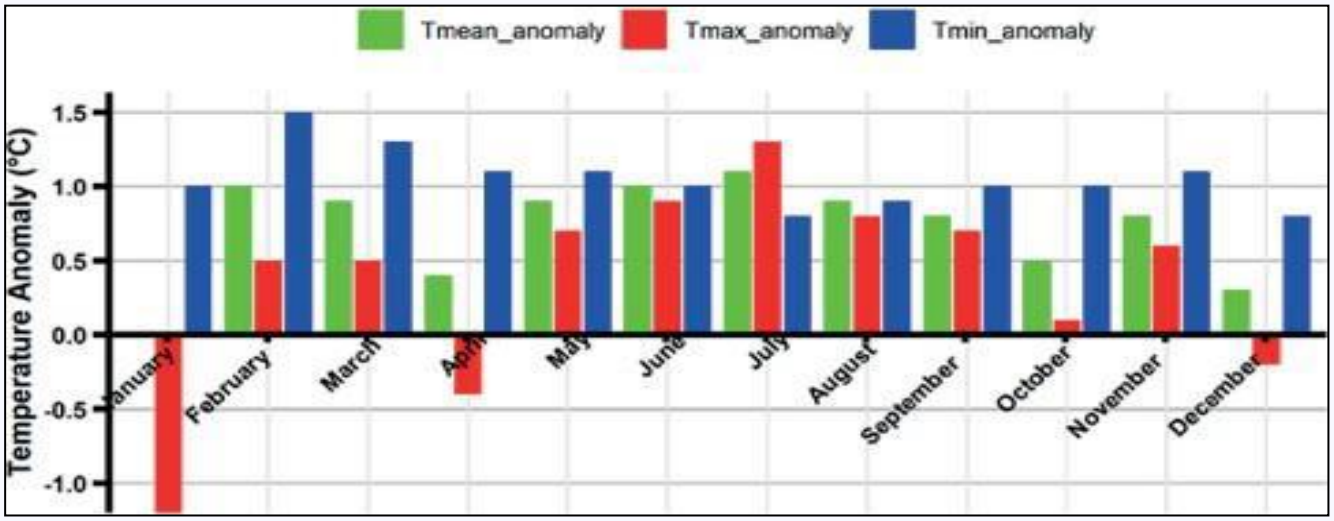
Source: UNDRR, 2019, Tanzania Disaster Risk Profile

According to the World Meteorological Organization (WMO, 2024), State of the Climate in Africa, the continent continues to warm at a rate faster than the global average, with East Africa experiencing increasingly frequent heat extremes, prolonged warm spells, and persistent shifts in seasonal rainfall patterns. Historical climate records from the Tanzania Meteorological Authority (TMA) and global datasets, including the Climatic Research Unit (CRU) of the University of East Anglia, confirm a consistent and statistically significant warming trend across the mainland Tanzania.

Between 1961 and 2024, the mean annual temperature increased by approximately 0.69 °C, with minimum temperatures rising faster than maximum temperatures (TMA, 2025). A continued and significant increase in temperature is projected across all regions of Tanzania with high confidence. On the mainland, the mean annual temperature is projected to increase

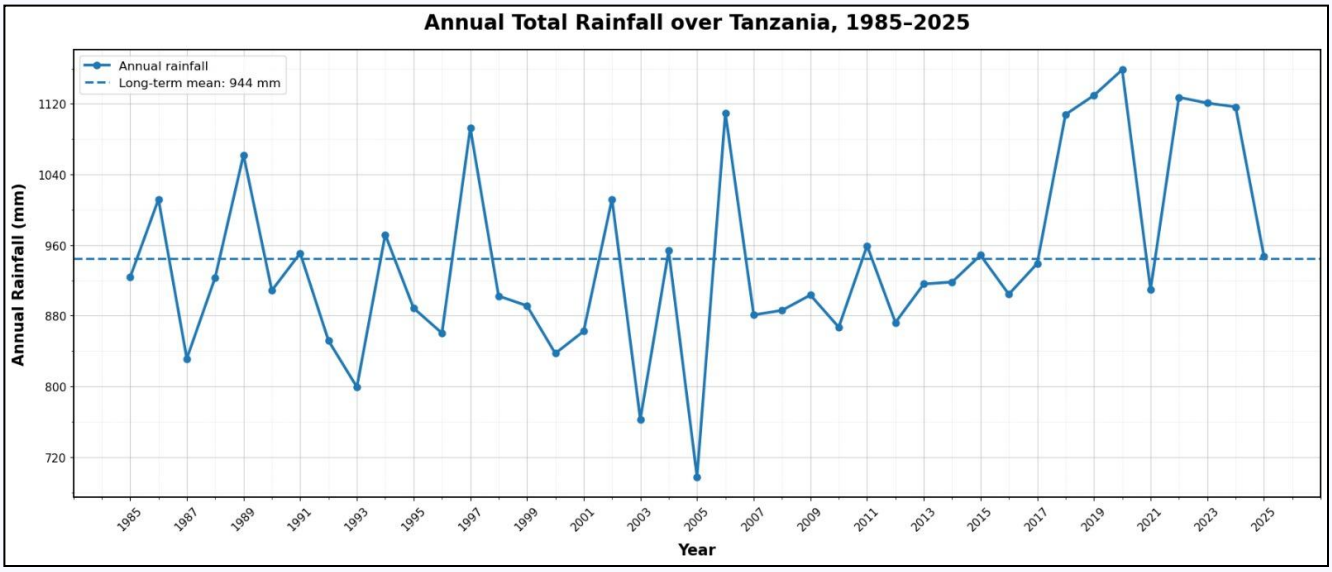
by 1.4 to 2.3 degrees Celsius by the 2050s, relative to the 1995-2014 baseline. By the end of the century, under a high emissions scenario (SSP5-8.5), this warming could reach up to a devastating temperature of 5 degrees Celsius. The most significant warming is projected for the western and south-western parts of the country. A substantial increase in extreme heat events is expected to accompany this rise in average temperature (Figure 3).

Figure 3: Observed monthly anomalies of the mean (Tmean), maximum (Tmax) and minimum (Tmin) temperature (oC) for Tanzania relative to 1991-2020 (Source: TMA, 2025)



Rainfall in Tanzania exhibits high spatial and temporal variability, which is a defining feature of the country's climate (Figure 4). While total annual rainfall at a national scale has remained relatively stable since the mid-1980s, its distribution has become increasingly uneven. The long rainy season (Masika, March–May), which is critical for agriculture and water resources, has notably declined in duration and reliability across all regions. Future precipitation trends are characterized by high uncertainty among climate models, particularly concerning changes in annual mean rainfall. However, there is greater agreement on changes in rainfall patterns and extremes. The projections for average yearly rainfall range from a 3 percent decrease to a 9 percent increase by the 2050s, there is a stronger consensus that rainfall will become more erratic. The key projected changes include an increase in the intensity of heavy rainfall events (by 7 percent - 40 percent) and an increase in the duration of dry spells (by up to 7 days). Some regional patterns are emerging, with models suggesting a potential increase in mean annual rainfall over the Lake Victoria Basin and the North-Eastern Highlands, while other areas may experience decreases.

Figure 4: Annual total rainfall in Tanzania from 1985 to 2025 (mm)



Source: *TMA*

These events present direct fiscal risks by increasing unplanned government expenditures for emergency response and infrastructure recovery, as well as long-term risks by impacting economic productivity and revenue generation.

5.1 Direct Risks

During the period from July 2024 to March 2026, floods and landslides were the most frequently occurring natural disasters in the country, causing damage to infrastructure and buildings across various public institutions in Tanzania, including road networks, electricity and water systems, schools, health facilities, and residential houses. During this period, a total number of 6,028 houses comprised 11,023 households with a population of 80,296 people were affected, 40 electricity poles were destroyed, 45 schools equivalent to 58 classrooms were affected, seven health service buildings sustained damage, a total number of 7,023 livestock were affected and 2,841.41 acres of farms were destroyed and a total number of 144,949.75 km roads were destroyed. The country is particularly vulnerable to landslides during periods of heavy rainfall and flooding. The Government continues to bear the primary responsibility for reconstruction and strengthening climate resilience, with financial and technical support from development partners.

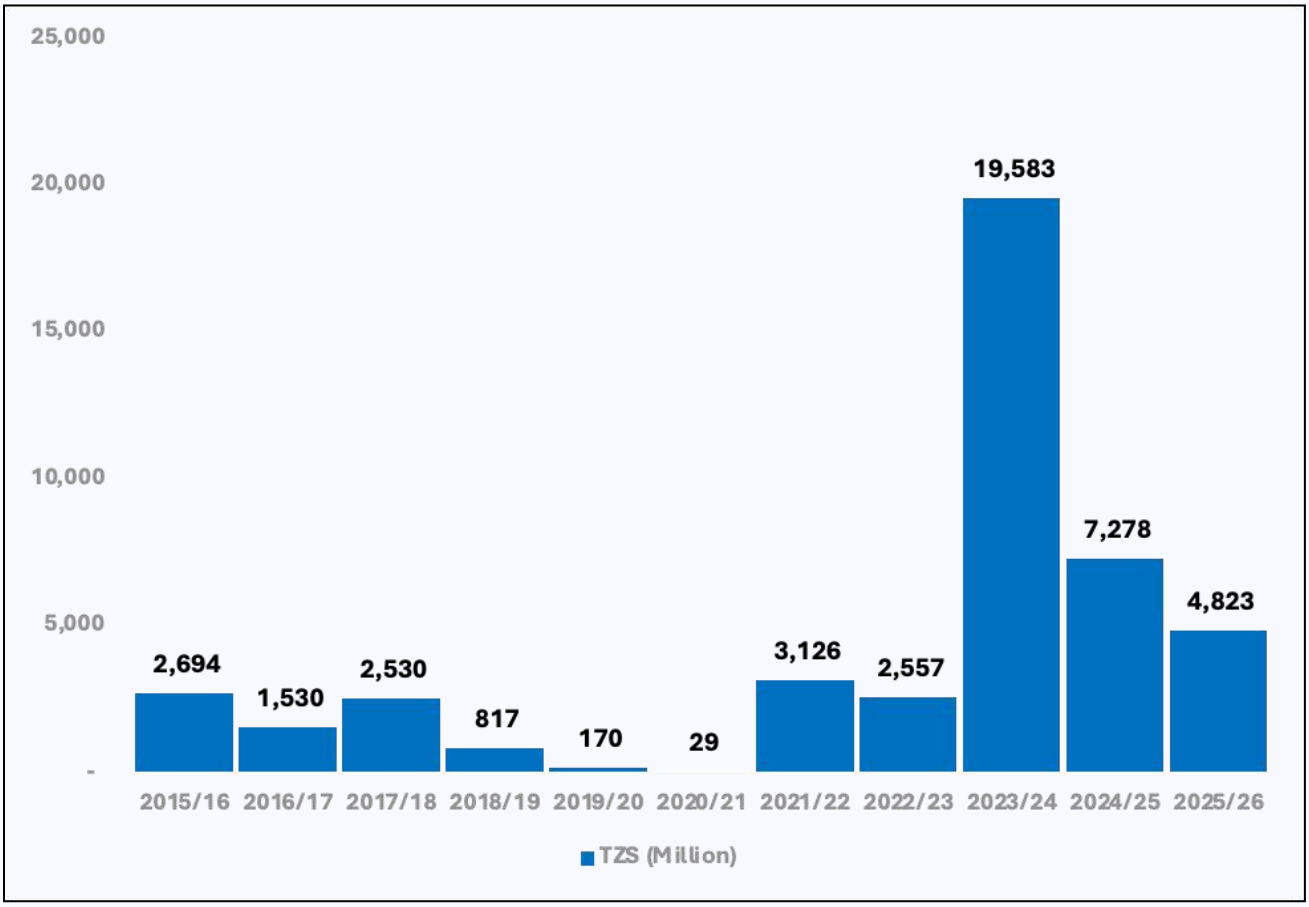
5.2 Climate and Disaster Risk Financing

The Government has developed the Disaster Risk Financing Framework and Implementation Plan (2025/26 – 2030/31), signaling a shift from reactive disaster management to proactive

financial preparedness. This approach integrates disaster risk financing into national and sectoral development planning and budgeting.

The Framework estimates that, Tanzania's disaster risk financing needs are estimated to range between approximately USD 14 million equivalent to 0.02 percent of GDP (2-year event) to USD 441 million equivalent to 0.56 percent of GDP (50-year event). Of these amounts, disaster response will require USD 2.8 million (2-year event) to USD 88.2 million (50-year event). On the other hand, the Nationally Determined Contributions (NDCs 3.0) estimates that: USD 48.6 billion from domestic and international sources by year 2035 are required to adapt and mitigate climate change; and the costs for addressing the loss and damage associated with economic and non-economic losses are estimated to USD 1.4 billion. Historical data shows increased frequency and severity of floods and droughts, for instance, the floods occurred 2018 in Dar es Salaam alone cost USD 100 million (2 percent of GDP). In Tanzania expenditure for disaster response is channeled through the National Disaster Management Fund (NDMF) or through specific sectors, depending to the intensity and nature of the disaster. From FY 2024/25 up to April, 2026, Tanzania spent 904.221 billion shillings, on disaster response. Out of the amount spent, 12.102 billion shillings was financed through the NDMF (**figure 5**).

Figure 5: Expenditure for Disaster Response channeled to NDMF



The Government aims to make an annual contribution of 2.0 billion shillings in normal years from the budget to the NDMF, which is inadequate to cover the costs of an immediate response to recurrent natural hazards in Tanzania. The Plan and Budget Guidelines for 2025/26 recognized the risks from natural disasters and climate change and the need to continue strengthening the NDMF going forward.

Tanzania has experienced an increase in landslides in recent years across various parts of the country. During the period 2024-2026, landslide devastation caused death of people and injuries, houses were destroyed, leaving many families displaced whereby, 526 households comprising 1,576 people were affected by the disaster. Additionally, 742 business operators were impacted, leading to significant economic disruption. Approximately 755 acres of farmland were also affected, further threatening livelihoods and food security in the affected areas. Critical infrastructure, roads, bridges and water points impacted. Furthermore, Health and education services also suffered setbacks, and the overall environment was severely damaged.

In many disaster event cases, financing has been reactive. Going forward, a shift toward predictable, risk-informed financing is essential. The Government in the forthcoming 2026/27 budget, remains committed to enhancing preparedness and reducing reliance on emergency reallocations by ensuring the availability of a contingent reserve in the budget, which provides a robust buffer for moderately severe disasters; an emergency budget from the Road Fund; and the budgetary risks when disaster hits; and allocation of 50 percentage of the total railway development levy to the contingency fund for disaster preparedness, response and recovery.

5.3. Long-Term Climate and Transition Risks

Beyond immediate disasters, climate change has long-term implications for fiscal sustainability. Rising temperatures (projected to exceed 2°C in some regions by 2041, per National Environmental Management Master Plan for Strategic Interventions (NEMPSI-2022-2032) are expected to reduce agricultural yields, increase health-related expenditures, and disrupt energy and water systems. Tanzania's agriculture sector, which contributes 24.3 percent of GDP and employs over 61.1 percent of the workforce, is particularly vulnerable (NBS Report, 2024). Some of the impacts of climate change in key economic sectors have been narrated in table 5 below.

Table 4: Impacts of Climate Change on key economic sectors

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
Agriculture Sector			
Warmer temperatures by more than 2°C to the western regions, southern highlands, and central part by 2041	Dry conditions across most of the country could lead to lower agricultural productivity. Dry conditions may lead to human wildlife conflict, which directly affects agricultural production and human livelihood.	Agriculture still accounts for the largest share of GDP, contributing 24.3 percent in 2025 and employing 61.1 percent of the workforce in the country. Lower crop yields for major cash crops like coffee, tea, and cashews will lead to lower export earnings. Moreover, this will lead to low yields in food crops such as rice, maize, edible seeds, and legumes, which will lead to inflation and threaten food security.	GDP slowdown due to changes in crop yields translate into lower revenue collections.
Increased frequency and intensity of heavy rains (2022-2032)	Floods could damage transport infrastructure, adversely affect agriculture and tourism.	i. Annual damages to transport infrastructure are expected to rise to USD 117 million by 2030; ii. Lower GDP growth and iii. Inflation due to disruption of the supply chain	i. Increase government spending due to reconstruction costs. ii. Lower revenue collections from productive and service sectors.
Livestock Sector			
	Tanzania hosts one of Africa's largest livestock populations. NAP identifies drought, heat stress, water shortages, and disease outbreaks as	Declining livestock productivity reduces meat and milk supply, export earnings, and household incomes. Increased livestock mortality threatens pastoral livelihoods and food security. Conflicts between pastoralists and	Increased government expenditure on livestock disease control, veterinary services, water infrastructure, emergency feed support, livestock restocking programs,

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
	major threats. Pastureland degradation has become severe; for example, in Mvomero District pastureland declined from 82 percent in 1985 to only 5 percent in 2015. Heat stress reduces milk production, reproductive performance, and livestock growth rates.	farmers may intensify due to competition for water and grazing land.	and conflict management. Reduced livestock exports lower foreign exchange earnings and tax revenues
Fisheries Sector			
Water level rise and temperature changes	Fish stocks and migration patterns	i. Loss of foreign exchange earnings due to decline in fish exports. ii. Decrease of household income and food security.	Increased government spending on coastal protection infrastructure and support for fishing communities. Loss of government revenue
Energy sector			
Warmer temperatures.	Droughts, especially in the central and southern highlands, significantly reduce water flow in major rivers like Rufiji and Kagera, lowering hydropower output.	Currently, about 58 percent of total installed electricity generation in Tanzania comes from hydropower sources. Reduced hydro output leads to: Higher costs from emergency diesel generation (expensive and import-dependent); and Load shedding (power rationing), which affects industrial productivity and economic growth.	Increase of unexpected Government Expenditure due to increased fuel imports, budget subsidies and tariff pressures and Exposure to foreign exchange risk

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
Floods	Floods can lead to the destruction of energy infrastructures, which may lead to power disruptions and energy projects.	i. Costly repairs, power disruption; ii. Inefficient output, turbine shutdown, and silt removal costs; and iii. Higher implementation costs, slowed electrification.	i. Power outages can lead to loss of GDP, tax revenue; and ii. High repair and replacement costs are often borne by TANESCO or subsidized by the Government particularly through Emergency bailouts and off-budget financing.
Health Sector			
Warmer temperatures by more than 2°C to western regions, southern highlands, and central parts by 2041	Rising temperatures can increase heat stress, dehydration, and the spread of vector-borne diseases such as malaria and dengue into new areas.	Increased healthcare costs for treatment of heat-related illnesses, cardiovascular (heart) conditions and vector-borne diseases	Increased government health expenditure on medicines, and medical supply;
Floods	i. Contamination of water sources leading to water-borne disease outbreak such as cholera, typhoid, and diarrhea diseases; and ii. Physical damage of health facilities and	i. Increased health care cost for treatment of water-borne diseases; ii. Disruption of health supply chains causing shortages of medicine and equipment; and iii. Reduced functioning of health facilities in affected areas, and increased costs to repair and construct	Emergence fiscal reallocation for outbreak response and relief operations;

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
	disruption of medical supply chains.	damaged health facilities.	
Drought and water scarcity:	Reduced access to safe water can worsen sanitation, hygiene, and nutrition outcomes, especially for children and vulnerable groups. Drought can also increase food insecurity, leading to malnutrition.	Prolonged droughts and water scarcity increase cases of malnutrition, dehydration, and sanitation-related diseases, raising healthcare costs nationwide. Water shortages in hospitals and clinics increase service delivery costs, while worsening maternal and child health outcomes may weaken labour productivity and long-term human capital development.	Increased public spending on nutrition programmes, water trucking, and emergency health interventions.
Water Sector			
Temperature rise exceeding by 2°C by 2041.	This warming trend accelerates evapotranspiration, leading to higher water losses from reservoirs and surface water bodies. Lower water levels in rivers and reservoirs limit water availability for households, agriculture, and ecosystems and increase the concentration of pollutants due to reduced	i. Increased costs for water trucking and boreholes; and ii. Reduced output and job losses in the beverage industry, accommodation and hospitality, agriculture and mining sectors.	i. Emergency infrastructure spending that can lead to unnecessary budget reallocations; and Reduction of revenue due to reduced output.

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
	dilution, risking contamination.		
Periods of intensive rainfall leads to severe flooding. For	Widespread flooding across the country can cause extensive damage of water infrastructure, displace displaced thousands and led to numerous fatalities.	i. Costly emergency repairs or full reconstruction; ii. Temporary water outages disrupt households, hospitals, and businesses; and iii. Reduced revenue collection by water authority due to service interruption.	Increased Government spending for repairing damaged infrastructures that can lead to budget reallocations, donor support,
Infrastructure and Human Settlements			
More intense rainfall, floods, droughts, heatwaves, landslides, sea-level rise, and coastal erosion.	Roads, bridges, ports, drainage systems, housing, energy infrastructure, and water systems face growing climate risks. Informal settlements remain particularly vulnerable.	Infrastructure disruptions increase transport costs, reduce productivity, interrupt trade, and discourage investment. Damage to roads and utilities can affect entire supply chains.	Large public liabilities arise from repair and reconstruction costs. Government must increase spending on resilient infrastructure, drainage systems, flood protection, and relocation programs. Public debt may rise if climate disasters require extensive reconstruction financing.
Tourism Sector			
Extreme weather events	i. Climate change affects wildlife habitats, national parks and coastal attractions; and ii. Impact on biodiversity and natural ecosystems	i. Tourism disruption affects broader service sectors and employment; and ii. Loss of foreign exchange earnings, which is caused by a decline of tourism activities.	i. Government increased spending on conservation and ecosystem protection ii. Reduced tourism receipts lead to lower government revenue (taxes, fees, and

Climate scenario	Sectoral impact	Economic impact	Fiscal Cost
			foreign exchange)
Coastal and Marine Sector			
Sea-level rise, coastal flooding, storm surges, saltwater intrusion, marine heatwaves, coral bleaching, and coastal erosion.	Approximately 8 percent of Dar es Salaam's area lies within highly exposed coastal zones. Coastal ecosystems, ports, fisheries, settlements, and tourism infrastructure face increasing threats. Coral reefs and mangroves are deteriorating due to warming oceans and rising sea levels.	Damage to ports, coastal infrastructure, tourism facilities, fisheries, and residential properties. Loss of ecosystem services and declining coastal productivity.	Government liabilities include sea walls, coastal protection works, resettlement programs, rehabilitation of damaged infrastructure, ecosystem restoration, and disaster response.

Sources; World Bank_CCDR-2024; Ministry of Water (2023), Annual Water Sector Performance Report; UNDRR (2019), Tanzania Disaster Risk Profile; TRA – Revenue Performance Report, 2023; National Environment Master Plan for Strategic Interventions (NEMPSI 2022–2032); Nationally Determined Contributions (NDC 2021); TANESCO (2023), Annual Report.

Tanzania's economic resilience is increasingly challenged by the growing fiscal risks posed by natural and climate-induced disasters. Droughts, floods, and extreme weather events driven by climate variability are not only endangering livelihoods but also exerting substantial unplanned pressure on the national budget. These events often lead to unexpected public expenditures, revenue shortfalls, and disruptions in service delivery, particularly in key sectors such as agriculture, energy, infrastructure, health and water.

Therefore, the Government approved the National Disaster Management Strategy 2022 which requires planning for disaster preparation and mitigation measures; the National Development Project Approval Guideline to ensure that every implementing agency prepares mitigation measures at the project design, implementation, and post-implementation, for the Five-Year Development Plan (FYDP) IV 2026 - 2031, NAP 2025-2035 as well as the NDC 3.0, 2026 - 2035 which articulate the need for and the government's commitment to adaptation and resilience building, laying the ground for disaster preparedness and mitigation measures.

5.4 Mitigation of Climate and Natural Disaster-Related Fiscal Risk.

The following mitigations have been proposed to address the identified climate and natural disasters risks:

i. To overcome temperature, rise in line with the Paris Agreement, to continue to incentivize clean and green technologies by charging excise duty on imported used motor vehicles, motorcycles, and domestic appliances, including refrigerators and washing machines;

ii. To strengthen crisis preparedness and fiscal resilience, to enforce the Railway Development Levy and allocate fifty percent (50 percent) thereof to be contributed to the Contingency Fund;

iii. Propose to introduce VAT exemption for CNG motor vehicles;

iv. To strengthen emergency preparedness, response, and recovery, to strengthen and support the institutional structures for disaster coordination and management by implementing the National Disaster Management Policy 2004 (Revised Edition 2025);

v. To conduct scientific research within the country to enhance data availability and identify appropriate technologies for disaster risk management, including the installation of monitoring equipment to track the movement of rocks from their original positions;

vi. To continue the implementation of the disaster risk and vulnerability mapping platform across sectors to systematically assess climate-related risks to development interventions and inform targeted mitigation and preparedness actions based on the identified risks;

vii. To mobilize more climate finances for implementing various programs to address catastrophe and climate-related risks, among which is the implementation of contingency and resilience programmes, e.g., Catastrophe Deferred Drawdown Options financed by the World Bank and the Resilience and Sustainability Facility financed by the International Monetary Fund;

viii. To strengthen and operationalize the contingency fund to mitigate climate-related and natural disaster risks;

ix. To allocate budget and establish a specific budget code for disasters to ensure disbursement and budget expenditure for disaster prevention, preparedness, response, and recovery at national to sub-national levels; and

x. To strengthen observations, promoting research and innovation in weather and climate services to ensure early warning for all.

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