

Summary

Despite chronic power shortages and rampant inflation, Tanzania managed to grow at an estimated 6.4% in 2011. We expect the economy to continue to grow at 6-7% in 2012, boosted by investments in mines and power supply. Tanzania's reputation as one of the most politically stable nations in sub-Saharan Africa was slightly hampered by mounting anti-government sentiment and increasing tensions between the ruling party and the main opposition party in 2011, but for now, we do not expect it will lead to disrupting social unrest. In the country, poverty remains widespread, while donor inflows are needed to fund the government's budget. Tanzania's budget and current account balances both show worrying large deficits.

Things to watch:

- Measures to combat power shortages
- Central bank's policy to fight inflation
- Continuance of donor inflows
- Twin deficit on fiscal and current account balance

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Tanzania			
National facts		Social and governance indicators	
Type of government	Republic	Human Development Index (rank)	152 / 187
Capital	Dodoma	Ease of doing business (rank)	127 / 183
Surface area (thousand sq km)	947	Economic freedom index (rank)	108 / 179
Population (millions)	44.8	Corruption perceptions index (rank)	100 / 183
Main languages	Swahili	Press freedom index (rank)	41 / 178
	English	Gini index (income distribution)	37.6
Main religions	Muslim (35%)	Population below \$1.25 per day (PPP)	89%
	Indigenous (35%)		
	Christian (30%)	Foreign trade	
Head of State (president)	Jakaya Kikwete	2010	
Head of Government (PM)	Mizengo Pinda	<i>Main export partners (%)</i>	<i>Main import partners (%)</i>
Monetary unit	Tanzanian shilling (TZS)	India 15	China 17
		China 10	India 15
		Japan 6	South Africa 8
		Netherlands 5	Kenya 7
Economy		2010	
<i>Economic size</i>		<i>bn USD</i>	<i>% world total</i>
Nominal GDP	24	0.04	
Nominal GDP at PPP	62	0.08	
Export value of goods and services	6	0.03	
IMF quatum (in mIn SDR)	199	0.09	
<i>Economic structure</i>		2011	5-year av.
Real GDP growth	6.4	6.9	
Agriculture (% of GDP)	28	30	
Industry (% of GDP)	24	23	
Services (% of GDP)	48	47	
<i>Standards of living</i>		USD	% world av.
Nominal GDP per head	548	5	
Nominal GDP per head at PPP	1464	12	
Real GDP per head	454	6	
		<i>Openness of the economy</i>	
		2011	
		Export value of G&S (% of GDP)	30
		Import value of G&S (% of GDP)	42
		Inward FDI (% of GDP)	2.1

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economic structure and growth

Tanzania is the largest country of the East African Community (EAC) and the second-biggest economy of the EAC region, after Kenya.¹ The country consists of Tanzania mainland and the semi-autonomous archipelago Zanzibar (accounting for 3% of total Tanzanian GDP). With a GNI per capita of USD 530, Tanzania is classified as a low-income country. The country has a poor infrastructure, with just 10% of the population having access to electricity. In 2011, East Africa was hit by its worst drought for 60 years. Tanzania experienced the consequences of the drought in its power supply, which relies for more than half on hydro-electric dams. As remaining water in hydro-electrical dams reached critical levels in July 2011, electricity was rationed and persistent power shortages occurred. An estimated 7,000 jobs were lost due to the power crisis, while over 50 businesses temporarily halted operations, causing an estimated loss of 31bn Tanzanian shilling (or nearly USD 20mIn) to the manufacturing sector. The government is carrying out an emergency power plan to avert further power shortages, but until now the measures can best be described as expensive, incoherent and inefficient. Meanwhile, also continuous strikes by fuel dealers led to the collapse of economic activities.

The agricultural sector is one of the key sectors of the economy, contributing nearly 30% to GDP and employing nearly 80% of the labor force. The sector is still dominated by small-scale farmers, with about 70% of the farmers dependent on the hand hoe. The services sector is the largest

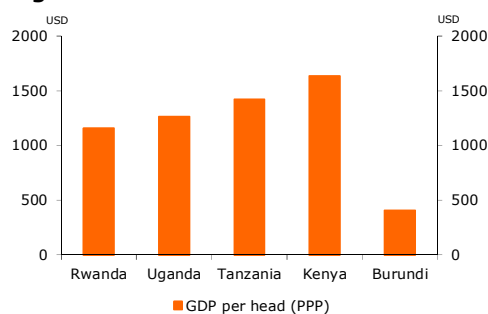
¹ The East African Community (EAC) is a customs union comprising of Kenya, Uganda, Tanzania, Rwanda and Burundi.

sector, contributing about 50% to GDP. The main sub-sectors tourism and transportation are both vulnerable to global adverse development. The mining sector is increasing in importance, owing to the rise in the price of gold. From negligible around the year 2000, gold exports have increased to 36% of total exports in 2010, making Tanzania the fourth-largest gold exporter in Africa. In 2011, agricultural exports were reduced following an export ban imposed by the Tanzanian government, after drought in the Horn of Africa caused shortages and drove inflation up to double-digits. In October 2011, an export ban on grain imposed in May 2011 was lifted, while a ban on sugar which was imposed in September 2011 remained in force.

Economic growth in Tanzania has averaged 6-7% since 2000. In 2011, growth was slightly slower than in 2010 (6.4% vs. 7.0%), due to persistent power shortages and inflationary pressures from food and fuel prices. For 2012, we expect economic growth to increase to 7%, backed by Chinese/Tanzanian investments in among others iron ore and coal mines, while also gas-fired and coal power plants are being built and another gold mine will come into production in early 2012. Downside risks to growth are new food and power shortages and a falling gold price.

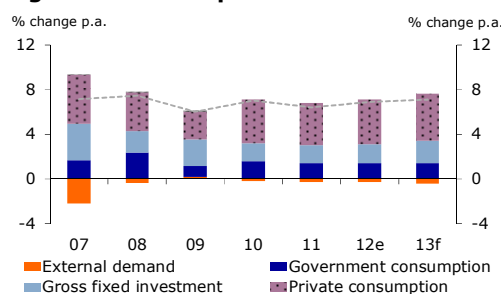
Tanzania’s financial sector is relatively undeveloped, as only one in six Tanzanians has access to formal financial services and lending is restricted by a lack of credit information. This results in high lending and default rates for loans. Private credit to GDP ratio is very low, estimated at 16% in 2008. However, lending and default rates are slightly improving, which will be further boosted by the establishment of a Credit Reference Bureau by the government in 2011/12.

Figure 1: Income level



Source: EIU

Figure 2: Growth performance



Source: EIU

Political and social situation

Tanzania has a tradition of peaceful elections and political stability. The country is a multi-party democracy, though influence of opposition parties is still limited, but slightly rising. The latest presidential and parliamentary elections took place in 2010. Parliamentary elections resulted in a comfortable win for the revolutionary Chama Cha Mapinduzi (CCM) party, taking 75% of the seats. The conservative Chama Cha Demokrasia na Maendeleo (Chadema) party emerged as the main opposition party with 13% of the seats. Jakaya Mrisho Kikwete (CCM) was re-elected as president, taking almost two-thirds of the vote, while his main opponent Wilbrod Slaa (Chadema) took 26% of the vote. Elections were peaceful, but the turnout was low and vote-counting process was dense. Next elections are scheduled for 2015.

Despite the broad political stability, anti-government sentiment is mounting, fuelled by a high unemployment rate as well as public discontent with rising inflation, a weak shilling, power cuts and authorities’ oppressing methods. Since the elections of 2010, a number of opposition protests have resulted into clashes with the police, in which four opposition protesters died. Furthermore, after a closely fought by-election in the Igunga district in October 2011, tensions between supporters of the ruling CCM party and the main opposition Chadema party raised fears that future

by-elections could provoke violence. In reaction, the police imposed a ban on political protests in November 2011.

Another source of tensions is the establishment of a new constitution, which is a central pledge of Kikwete's final term in office. The elections in 2010 led to complaints by the opposition about the organization and the results, leading to demand for changes to the constitution to introduce key reforms, including the curbing of the power of the president, the establishment of an independent electoral commission, allowing private candidates to run for parliament and president, and – most controversially of all – the creation of a federal system of government. As the government has started the constitutional review process, opposition parties fear president Kikwete's power in the process is too big and have threatened to stage protests.

However, despite the tensions and occasional social unrest, risk of an overthrow of the government is low, as security forces back the ruling CCM party and have the capacity to contain unrest.

Moreover, the opposition parties do not seem able to rally enough followers. Therefore, president Kikwete and his CCM party will continue to dominate the political scene. However, due to internal debate about its leadership, divisions within the party may grow in the period to the elections of 2015.

Looking to corruption, Tanzania's efforts to control it do not seem to have a lot of success, as corruption is still rampant. Tanzania ranks 100 out of 183 in the Corruption Perceptions Index, at the same level as Argentina and Indonesia. In July 2011, Rostam Aziz, a close ally of president Kikwete and a key financier of the party, resigned from his constituency seat after allegations of corruption. Meanwhile, two other close allies of the president, did not stand down over corruption allegations, despite demands of the CCM to do so.

Despite sustained economic growth, poverty has declined only slightly over the last decade in Tanzania. Poverty remains widespread, with one in three living below the poverty line. In order to accelerate the decline in poverty, government's policy has been given greater focus on agriculture and private sector development. However, the fast-growing population, growing at 3% year-on-year, increases the difficulty in fighting poverty and improving public services. Nevertheless, the country has made progress in meeting Millennium Development Goals. Child mortality has been reduced markedly, while also combatting diseases moves forward steadily.

Economic policy

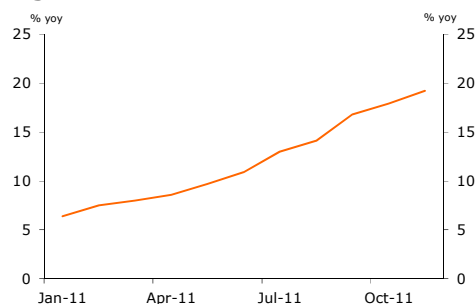
Tanzania's economic policy is formulated in close cooperation with the IMF. Economic policy is strongly focused on reducing poverty by increasing economic growth, while the government continues its social spending. To fulfill the growth goal, the government heavily invests in infrastructure, including power supply. However, the considerable size of the fiscal deficit is a major constraint for the growth stimulating policy. The fiscal deficit reached 6.9% in 2011 and is forecast to be around 6% of GDP in 2012. Although the size of the deficit is worrying, it is at a level comparable to recent years.

Tanzania is heavily reliant on donor aid in order to fund its expenditure. Donor aid, including concessional loans, is projected around USD 2bn or 8.6% of GDP in 2011, which makes the country the fourth largest aid recipient in the world in terms of total flows (excluding Iraq and Afghanistan). Continuation of donor aid is a cause for concern, as donors expressed their worries about the country's progress in tackling corruption and the pace of economic reform, while austerity measures by donors may also reduce aid.

Resulting from the fiscal deficits in recent years, public debt has risen to an expected 37% of GDP in 2011, from 27% of GDP in 2008. Prudent fiscal policies are necessary to keep public debt sustainable.

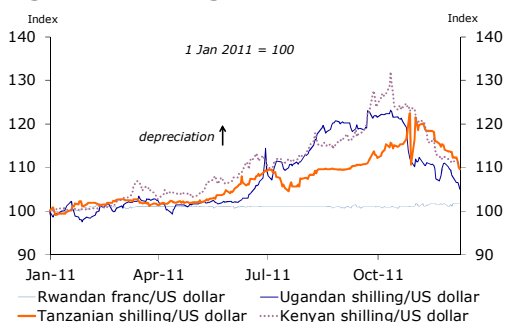
Monetary policy rests with the Bank of Tanzania (central bank) and is aimed at managing growth of broad money and credit, containing liquidity-induced inflation, while making space for increased private sector lending. In 2011, inflation had been rising throughout East Africa, including Tanzania. This was caused by poor rains, which affected food security and electricity output, as well as higher global energy prices and a depreciation of the shilling. Tanzanian headline inflation jumped from 5.6% yoy in December 2010 to 19.2% yoy in November 2011, while core inflation (which excludes food and energy prices) remained in single digits. The central bank seemed reluctant to tighten its policy, preferring to promote credit growth and the real economy. However, in October 2011, the central bank stepped down from its very loose policy stance, raising the central bank rate by 200bps to 9.58%, reducing the core capital of foreign exchange dealers from 20% to 10% and increasing its cash reserve requirement on government deposits from 20% to 30%. However, since then inflation has not yet slowed and further tightening is necessary to curb inflation. Inflation may decrease to single-digits in mid-2012, if new food shortages do not occur and the government succeeds to improve food and fuel distribution in the country.

Figure 3: Inflation



Source: EIU

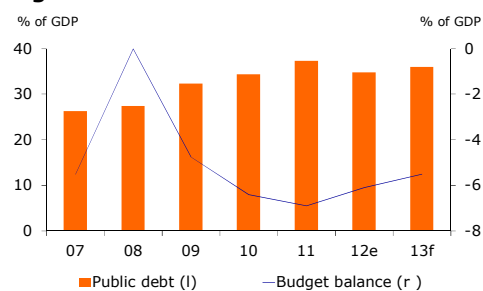
Figure 4: Exchange rate



Source: EcoWin

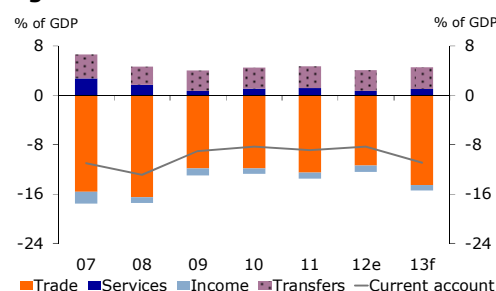
The Tanzanian shilling, the country's currency, has a managed floating exchange rate regime. During the second half of 2011, the Tanzanian shilling depreciated strongly. Reasons for the depreciation were rising prices of import products and large, dollar-financed Tanzanian infrastructure projects, which lowered demand for Tanzanian shillings. Also, the rising trade deficit led to declining confidence in the currency, and thereby a loss in its value. Monetary policy described above helped the Tanzanian shilling to appreciate somewhat by end-2011. However, compared to the start of the year, the shilling depreciated by nearly 6% in 2011. For 2012, we expect the shilling to remain susceptible to volatility.

Figure 5: Public finances



Source: EIU

Figure 6: Current account



Source: EIU

Balance of Payments

The trade balance is the largest component of Tanzania's current account balance and generally shows a large deficit. The trade deficit widened from USD 2.8bn in 2010, to an expected USD 3.2bn in 2011, as the positive impact of higher gold prices did not keep up with higher oil prices, while export and import volume both increased. For 2012, we expect the deficit to remain around USD 3.2bn, but seen as its contribution to GDP, the deficit is expected to decline from 12.5% of GDP in 2011 to 11.4% of GDP in 2012. A downside risk to this estimate is a further drop in gold prices. The services account showed a small surplus of around USD 300mln in 2011. In 2012, the tourism sector, which contributes 4.5% to GDP, will experience the effects of the slowdown of the global economy and the country's power crisis. Both will lower the tourist arrivals, and thereby the receipts on the services account. For 2012, we expect the surplus on the services account will decrease to below USD 200mln. The income account showed a small deficit of about USD 250mln in 2011, at a comparable level to recent years. The transfer balance is the second-largest component of the current account balance and generally shows a large surplus of USD 800-900mln in 2011, reflecting a large amount of donor inflows. All in all, the current account balance shows a large deficit, about 8-9% of GDP.

On the capital account, net foreign direct investment inflows increased from about USD 430mln in 2010 to an expected USD 540mln in 2011, while debt inflows were about USD 1bn in 2011.

External position

Tanzania benefited from extensive debt relief in 2007, reducing external debt to USD 4.6bn or 30% of GDP in mid-2007. Debt has built up since and amounted to an expected USD 9.1bn or 36% of GDP in 2011. About 75% of debt consists of medium- and long-term debt and is owed to official creditors. Principal and interest arrears have accumulated to USD 1.4bn in 2010, from USD 1bn in 2006, as revenue collection by the government falls short of targets.

In 2011, foreign exchange reserves amounted to about USD 3.6bn. Seen in terms of import cover, reserves deteriorated from an import cover of 4.9 months in 2010 to an import cover of 4.0 months in 2011, as import of goods and services increased, while foreign exchange reserves remained stable. The unfavorable debt position of Tanzania is also visible in its liquidity ratio. The ratio is rather low, around 100%, but at a comparable level to recent years.

Tanzania							
Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	7.1	7.4	6.0	7.0	6.4	6.9	7.1
Consumer prices (average % change pa)	7.0	10.3	12.1	7.2	19.0	12.0	7.6
Current account balance (% of GDP)	-11.0	-12.9	-9.0	-8.3	-8.9	-8.4	-10.9
Total foreign exchange reserves (mln USD)	2870	2848	3206	3645	3573	3750	3530
<i>Economic growth</i>							
GDP (% real change pa)	7.1	7.4	6.0	7.0	6.4	6.9	7.1
Gross fixed investment (% real change pa)	14.5	7.8	10.0	6.5	6.5	7.0	8.0
Private consumption (real % change pa)	6.0	4.8	3.5	5.7	5.5	5.9	6.2
Government consumption (% real change pa)	9.5	13.2	5.1	8.5	7.2	7.5	7.0
Exports of G&S (% real change pa)	16.8	19.6	5.1	6.5	8.0	7.2	7.8
Imports of G&S (% real change pa)	16.3	12.3	2.6	4.5	6.0	5.5	6.4
<i>Economic policy</i>							
Budget balance (% of GDP)	-5.5	0.0	-4.8	-6.4	-6.9	-6.1	-5.5
Public debt (% of GDP)	26	27	32	34	37	35	36
Money market interest rate (%)	13.4	8.1	7.1	3.9	5.7	7.0	4.6
M2 growth (% change pa)	21	20	18	25	14	24	19
Consumer prices (average % change pa)	7.0	10.3	12.1	7.2	12.2	12.0	7.6
Exchange rate LCU to USD (average)	1245.0	1196.3	1320.3	1409.3	1582.2	1717.4	1814.4
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Balance of payments (mln USD)</i>							
Current account balance	-1849	-2675	-1934	-1978	-2247	-2340	-3340
Trade balance	-2634	-3434	-2540	-2828	-3167	-3180	-4440
Export value of goods	2227	3579	3295	4297	5483	5750	4650
Import value of goods	4861	7012	5834	7125	8650	8940	9100
Services balance	462	350	146	242	296	190	290
Income balance	-329	-201	-237	-216	-269	-290	-280
Transfer balance	652	609	697	824	894	940	1090
Net direct investment flows	582	400	415	433	542	590	640
Net portfolio investment flows	3	3	3	3	3	0	0
Net debt flows	698	783	1269	1063	1009	910	1050
Other capital flows (negative is flight)	1193	1466	606	918	620	1020	1420
Change in international reserves	626	-23	358	440	-73	180	-230
<i>External position (mln USD)</i>							
Total foreign debt	5008	5964	7325	8260	9113	9900	10860
Short-term debt	1065	1347	1342	1487	1574	1570	1610
Total debt service due, incl. short-term debt	2123	2390	2868	2934	3102	3160	3140
Total foreign exchange reserves	2870	2848	3206	3645	3573	3750	3530
International investment position	-6933	-7263	-10042	-11173	n.a.	n.a.	n.a.
Total assets	3566	4226	3836	3759	n.a.	n.a.	n.a.
Total liabilities	10499	11489	13878	14932	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-15.7	-16.5	-11.9	-11.9	-12.5	-11.4	-14.6
Current account balance (% of GDP)	-11.0	-12.9	-9.0	-8.3	-8.9	-8.4	-10.9
Inward FDI (% of GDP)	3.5	1.9	1.9	1.8	2.1	2.1	2.1
Foreign debt (% of GDP)	30	29	34	35	36	35	36
Foreign debt (% of XGSIT)	102	94	121	111	103	108	130
International investment position (% of GDP)	-41.2	-35.0	-47.0	-47.0	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	43	37	47	39	35	35	38
Interest service ratio incl. arrears (% of XGSIT)	14	13	15	13	11	10	11
FX-reserves import cover (months)	5.5	3.9	5.1	4.9	4.0	4.1	3.8
FX-reserves debt service cover (%)	135	119	112	124	115	119	112
Liquidity ratio	103	91	100	104	99	100	91

Source: EIU

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