Euler Hermes Economic Research

Country Report

Tanzania

Large current account deficits but strong GDP growth

General Information

GDP	USD49.18bn (World ranking 84, World Bank 2014)
Population	50.76mn (World ranking 26, World Bank 2014)
Form of state	Republic
Head of government	John Pombe Magufuli
Next elections	October 2020, presidential and legislative

Strengths

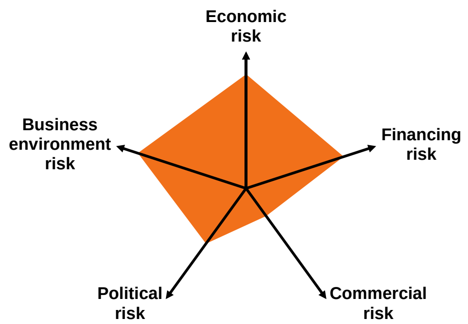
- Substantial natural resource base, with offshore natural gas now supplementing mining (including gold) and agriculture.
- Generally stable politically, with pro-market government with large parliamentary majority.
- Strong IFI and donor support.
- Strong inward investment flows.
- Strong GDP growth.
- External debt relief under the HIPC initiative and debt forgiveness under G8 auspices.

Weaknesses

- Despite years of strong economic growth, Tanzania is still a low-income country and poverty is pervasive.
- Perceptions of corruption remain high.
- Secessionist tensions and periodic violence involving the semi-autonomous islands of Zanzibar.
- Fiscal (before grants) and current account deficits.
- Dependence on external funding.
- Despite HIPC and G8 initiatives and (generally) improved external debt ratios, servicing of foreign obligations uses up valuable FX earnings, limiting the pace of development.
- Weak structural business environment.

Country Rating

C3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
India	21%	1	25%	China
China	10%	2	24%	India
Congo	6%	3	5%	United Arab Emirates
Kenya	5%	4	4%	Kenya
Japan	5%	5	4%	South Africa

By product (% of total)

Exports		Rank		Imports
Gold, non-monetary (excluding gold	16%	1	27%	Petroleum, petroleum products and
Metalliferous ores and metal scrap	12%	2	7%	Road vehicles
Vegetables and fruits	11%	3	4%	Other industrial machinery and parts
Tobacco and tobacco manufactures	8%	4	4%	Electrical machinery, apparatus and
Oil seeds and oleaginous fruits	6%	5	4%	Iron and steel

Source: UNCTAD

Economic Overview

Strong growth & positive outlook

GDP growth has been relatively strong for several years; over a ten-year period to end-2015 GDP growth was an annual average +6.7%. In every year except one since 2000 growth was higher than the average for Sub-Saharan Africa (see chart). The outlook remains good both in the short-term and over a five-year period, given the continuation of current policies and development of the offshore and onshore natural gas industry. The mining sector (including gold) appears to be losing cost competitiveness but this is occurring as the energy sector moves into potential rapid growth. Natural gas reserves are currently estimated at 57tn cubic feet but could be considerably higher and exports of natural gas should be forthcoming within the next decade. In the meantime, and with some investment in gas liquefaction and associated infrastructure already taking place, EH forecasts GDP growth of +6.5% in 2016 and +6% in 2017.

International agencies provide support to cover large external imbalances

The country's external accounts provide a challenge for economic management. Current account deficits averaged an annual -8.2% of GDP in the period 2000-2015. The marked increase in the current account deficit in 2011 (-13.1% of GDP) reflected the high costs of imported energy supplies (oil and petroleum-related products account for around 27% of the import bill) and inputs related to state-sponsored infrastructure investments. Demand for imports of capital goods, particularly related to the gas sector, are likely to keep import levels high and the current account deficit at elevated levels (see chart). The wider donor and investment community remains supportive.

FX accumulation is limited and external debt is now increasing again, but repayment obligations are comfortable

Against the background of large current account deficits, which would not be sustainable without correspondingly large inflows of donor support, accumulation of FX reserves remains limited and EH expects import cover will remain around four months in 2016 and 2017.

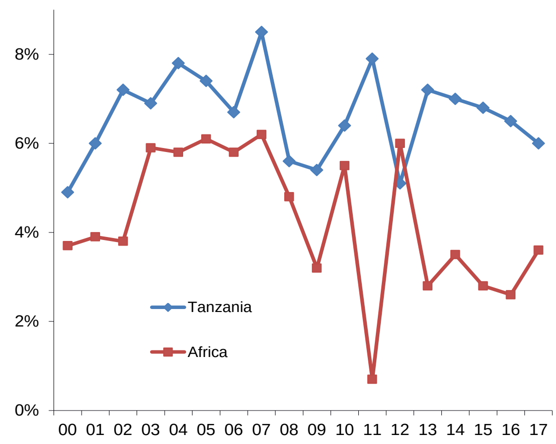
External debt levels and associated ratios improved following debt relief programmes under the auspices of HIPC and G8 initiatives, but remain a burden to the country's development needs. EH forecasts external debt/GDP and debt/export earnings in 2016 at almost 35% and 185%, respectively. However, a high degree of concessional lending results in an annual servicing ratio (debt repayments/export earnings) of below 3%.

Key Economic Forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	7.0	6.8	6.5	6.0
Inflation (%, end-year)	4.8	6.8	6.0	5.0
Fiscal balance (% of GDP)	-4.2	-4.5	-4.0	-3.5
Public debt (% of GDP)	23.9	22.0	20.0	18.5
Current account (% of GDP)	-10.1	-8.0	-7.5	-7.5
External debt (% of GDP)	29.0	32.5	35.0	36.5

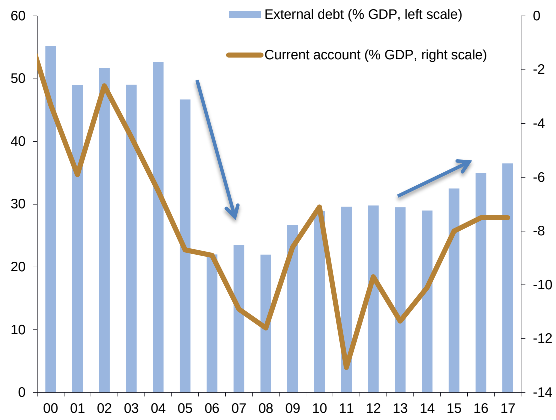
Sources: National Sources, IHS, Euler Hermes

GDP Growth (%)



Sources: National sources, IHS, Euler Hermes

Current Account Balance and External Debt (% of GDP)



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