Euler Hermes Economic Research

Country Risk Analysis

Tanzania

Continuing strong GDP growth

General Information

GDP	USD23.9 bn (World ranking 98, World Bank 2011)
Population	47.22 million (World ranking 29, World Bank 2011)
Form of state	Republic
Head of government	Jakaya KIKWETE
Next elections	2015, 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.

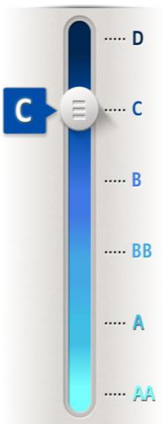
Weaknesses

- 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 improved external debt ratios, servicing of foreign obligations uses up valuable FX earnings, limiting the pace of development.
- Weak structural business environment.

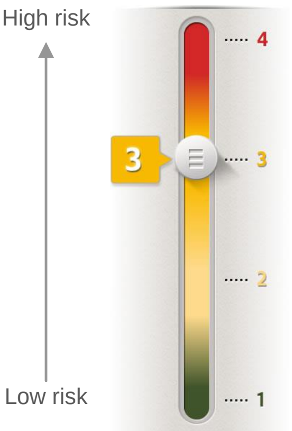
Country Rating

C3

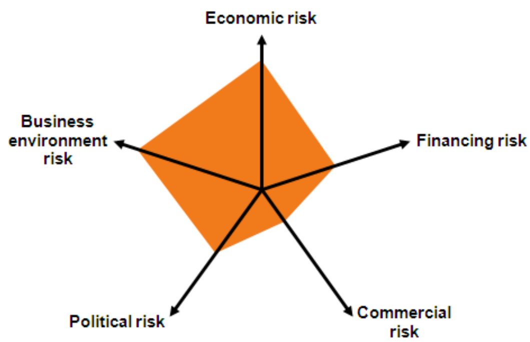
Country Grade



Country Risk Level



Risk Dimensions



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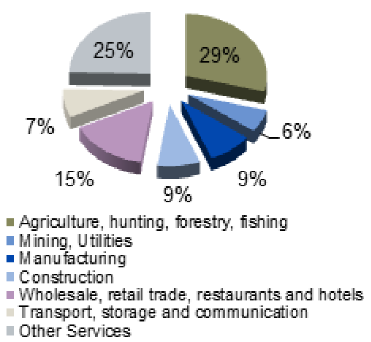
Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
China	15%	1	18%	India
Japan	8%	2	17%	China
South Africa	8%	3	6%	South Africa
Switzerland	8%	4	6%	UAE
India	7%	5	6%	Kenya

By product

Exports		Rank		Imports
Metalliferous ores abd metal scrap	22%	1	24%	Petroleum products and related materials
Gold, non-monetray	15%	2	8%	Road vehicles
Coffee, tea, cocoa, spices	10%	3	8%	Specialized machinery
Vegetables and fruits	7%	4	6%	Iron and steel

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	6.8	6.0	7.0	6.4	6.7	6.9	6.5
Inflation (%)	5.9	12.2	5.6	19.8	11.9	9.5	13.2
Fiscal balance (% of GDP)	#N/A	-7.5	-6.4	-4.6	-5.9	-4.9	-4.2
Public debt (% of GDP)	#N/A	30.9	34.5	37.7	37.7	38.2	37.7
Current account (USD bn)	-8.3	-8.4	-8.4	-16.4	-12.1	-10.1	-10.7
External debt (USD bn)	52.9	35.7	39.2	42.5	39.7	40.1	39.4

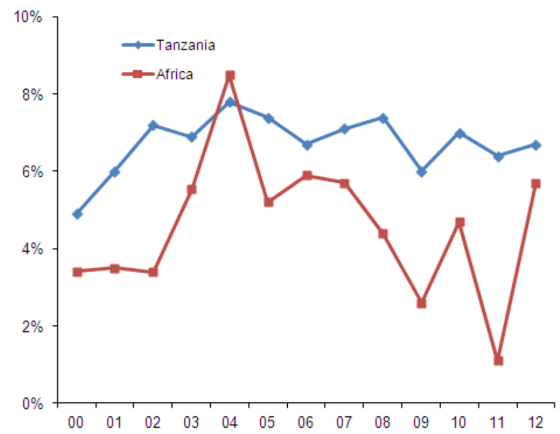
Source: IHS Global Insight, National sources, Euler Hermes

Economic Overview

GDP growth was strong in the period 2000-12, with an annual average expansion of +6.7%, which was above the average for Sub-Saharan Africa in all but one of those years. Growth was based on relative political stability, adoption of market-oriented policies, improvements in business regulations and generally buoyant global commodity demand. The outlook remains good both in the short-term and over a five-year period, given continuation of current policies and development of the offshore 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 40 trillion 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 +6.9% in 2013 and +6.5% in 2014.

While the growth outlook is favourable, economic policy challenges remain in the short-term. Inflationary pressures remain high (EH forecasts double-digit consumer price inflation through most of 2013 and 2014) and fiscal deficits continue to be large (-5.9% of GDP in 2012). Despite some concerns relating to perceptions of corruption, external donors continue to provide budget support.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

The country's external accounts also provide a challenge to economic management. Annual current account deficits as a ratio to GDP are now double-digit (annual average -8.3% in 2000-08). The marked increase in the current account deficit in 2011 reflected the high costs of imported energy supplies (oil and petroleum-related products account for around 24% 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. The downturn in the external accounts in 2011 resulted in a request for a precautionary Standby Credit Facility arrangement with the IMF, which was approved in July 2012. The support of the IMF provided the wider donor and investment community with a positive signal for Tanzania's short- to medium-term prospects.

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 import cover will remain below four months in 2013 and 2014. However, disbursements under the IMF facility halted the decline in import cover (previously six months).

Tanzania's external debt levels and associated ratios have 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 2013 at 40% and 127%, respectively. However, a high degree of concessional-lending leaves an annual servicing ratio (debt repayments/export earnings) of just 2%.

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2013-06-04
Country Risk Analyst:
Andrew Atkinson
andrew.atkinson@eulerhermes.com