

Tanzania

2011



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Tanzania

Overview

Tanzania registered eight consecutive years of gross domestic product (GDP) growth in excess of 6% until the global economic downturn began to affect growth in 2009. Consequently, the country achieved one of the most impressive rates of growth for a non-oil-producing sub-Saharan African country in the 2000s. Available data suggest that Tanzania's real GDP growth is firmly on the recovery path with growth at an estimated 6.8% in 2010. Economic prospects for the medium term continue to look bright: inflationary pressures are low, gold prices (a major Tanzanian export) are at historic highs and investor sentiment towards East Africa's second largest economy remains upbeat.

Key drivers of growth in the short and medium term include private consumption, exports and gross fixed capital, tourism revenues, foreign investment and aid. The government also intends to direct interventions to ensure that GDP growth is propelled mainly by key sectors, namely agriculture, manufacturing, tourism, mining and infrastructure. Given these factors, which should see the economy continuing its robust expansion in real terms, and in the absence of major adverse effects from the global economy, the forecast is a real GDP growth rate of 6.9% in 2011 and 7.3% in 2012.

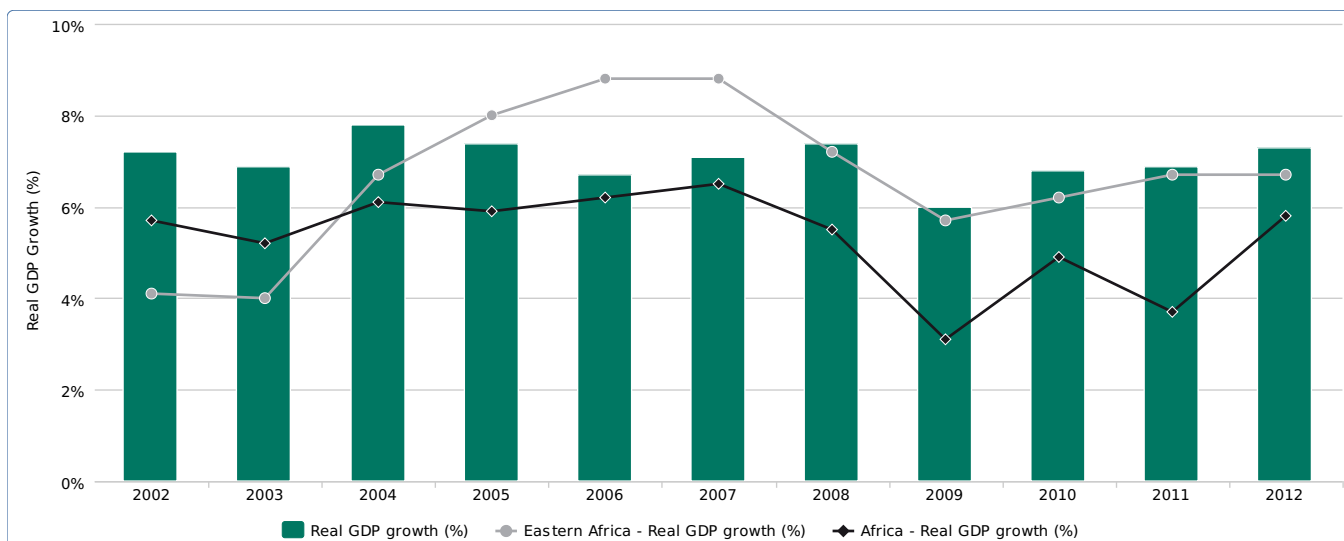
The greatest risk to economic growth in the short and medium term is the growing fiscal deficit and the implied potential need to raise bridging funds. In turn, this could translate into an even greater reliance on foreign grants and investment or the government's need to raise such funds from non-concessional borrowing. Any significant disruption to either of these sources of funding would have negative ramifications for macroeconomic stability, and in turn, for economic development.

The government started using a revised methodology to calculate inflation in October 2010. That month, headline inflation declined to 4.2% from 4.5% in September, and followed on from a generally disinflationary trend in place for most of 2010. That trend is expected to bottom out in early 2011 before rising to a forecast 5.1% for the year. Higher energy and food prices, coupled with potential adverse weather conditions bode ill for inflation, especially given that food is the largest single contributor in the consumer price basket. Nonetheless, inflation is expected to be contained at around 6.9% and decline to just above 6% in 2012.

At a more fundamental level, Tanzania remains one of the world's poorest countries despite the huge strides made in recent years to promote economic development. The country still lags behind most of its neighbours in terms of economic development and is unlikely to meet all the Millennium Development Goals (MDGs). With rapid population growth forecast for the next 50 years, it will prove very challenging to stem poverty in the medium to longer term, particularly as government revenues are spread very thinly.

Having won the elections in 2010, the ruling Chama Cha Mapinduzi (CCM) party faces no serious threats in 2011. Confident of his political base, President Kikwete has vowed to continue the economic reforms that have allowed Tanzania to have one of Africa's fastest-growing economies in the 2000s. There are, however, potentially destabilising political factors including Zanzibari separatism and periodic unrest along Tanzania's borders. However, neither is a severe threat for the short term.

Figure 1: Real GDP growth (E)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932404617>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	6	6.8	6.9	7.3
CPI inflation	12.1	8.9	6.9	6.2
Budget balance % GDP	-4.8	-5.4	-7.8	-9.2
Current account % GDP	-8.2	-10.3	-10.5	-12

Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for budget balance refer to fiscal year July (n-1)/ June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	31.8	28.8
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	3.1	3.7
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	8.7	9.5
of which hydrocarbon	-	-
Electricity, gas and water	2.3	2.3
Electricity, water and sewerage	-	-
Construction	8.6	8.8
Wholesale and retail trade, hotels and restaurants	14.7	15.6
of which hotels and restaurants	-	-
Transport, storage and communication	6.7	7.9
Transport and storage, information and communication	-	-
Finance, real estate and business services	12.2	11.8
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	11.8	11.7
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	-	-
Gross domestic product at basic prices / factor cost	100	100

Source: Data from Tanzania National Bureau of Statistics (NBS).

Figures for 2010 are estimates; for 2011 and later are projections.

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As is the case for much of the east Africa sub-region, private consumption has been, and is expected to continue

to be a key driver of Tanzania's growth in 2011 and over the medium term, for several reasons. First, growth in credit to the private sector (of which personal loans make up the largest share at 20.1%) was on the rise in 2010 after slowing in 2009, as risk-averse banks were reluctant to lend during the global financial crisis. The rate of expansion peaked in December 2008 at 44.6%. Whereas the corresponding year-on-year figure for September 2010 was 18.5 below that seen in 2008 (when it peaked at 44.6% in December of that year), there is reason to believe that credit growth will continue into 2011 at high but sustainable levels, boding well for private consumption. Second, the spread of mobile banking services is also helping to improve access to money for the country's vast unbanked population. Mobile banking enjoys strong support from the central bank and from the country's telecoms regulator, which can only be good for even greater mobile penetration in coming years. Third, the historically low inflation is good for private consumption.

An additional driver of growth in 2010, which is expected to continue contributing positively to growth in 2011, is gross fixed capital formation. There is little reason to suggest that the record high gold prices of 2010 will be reduced in 2011. This should spur increased production in Africa's fourth largest gold producer, which would mean an increase in real exports. In addition to gold, the country's natural gas sector has potential to add to Tanzania's export basket, even though production is not expected to begin until after 2011. The British gas producer BG Group's second discovery off the coast of Tanzania underscores the Ruvuma basin's potential in east Africa, and could likely provide reserves for the region's first liquid natural gas (LNG)-export terminal. Indeed, continuing investment in the country's nascent gas sector will further boost Tanzania's gross fixed capital formation. Based on available figures, Tanzania has been one of sub-Saharan Africa's most attractive destinations for foreign direct investment (FDI) in recent years. Should that trend continue, it should have positive implications for gross fixed capital formation through the provision of an additional source of investment financing.

In terms of government initiatives, one of the most significant recent economic developments was the adoption of the country's new development plan. Building on the previous national development plan, the government inaugurated a revised Second National Strategy for Growth and Reduction in Poverty (NSGRP), more popularly referred to as MKUKUTA II and MKUZA II. The NSGRP was made public during the Annual National Policy Dialogue on 2 December 2010, although the government endorsed it formally following national elections on 31 October 2010. The NSGRP provides an operational framework for achieving the MDGs and Tanzania's Development Vision 2025, which aims to transform Tanzania into a middle-income country. The strategy adopts a results-based approach focusing on three clusters (raising economic growth and reducing poverty, improving the quality of life and social well-being, and improving governance and accountability). More than its predecessor, the new strategy focuses even more on enhancing productivity and growth, in order to achieve more marked progress in reducing income poverty. The strategy identifies selected growth drivers including agriculture, and outlines sectoral strategies to promote productivity and private sector activity in these areas. The strategy also calls for a notable shift towards enhancing the role of the private sector in economic growth.

Details of the implementation arrangements for the NSGRP still need to be specified. Indeed, while the strategy outlines desired goals, operational targets and intervention packages for each of the focus clusters, a plan for both implementation and monitoring are still lacking. Likewise, the cost of sectoral programmes is pending, meaning that the aggregated NSGRP costs are only estimates even though many of the plan's expenditures have already been incorporated into the government's 2010/11 fiscal year budget. The risks for the NSGRP's implementation thus include insufficient financing, but also delays with meaningful structural reforms to address supply constraints, as well as insufficient prioritisation.

Elsewhere, the leaders from the five East African Community (EAC) member states (Kenya, Tanzania, Uganda, Rwanda and Burundi) signed a common market treaty that will allow for the free movement of people and goods across the region. Elsewhere, four countries (Ethiopia, Rwanda, Tanzania and Uganda), signed an agreement on calling for more water from the Nile River and its tributaries to be allocated to these countries. The agreement was rejected immediately by Egypt and Sudan, which receive 90% of the Nile's water.

The Common Market Protocol for the EAC became effective in January 2010. Tanzania, along with the other EAC partner states, is working on a full monetary union scheduled for 2012. Signing of the Framework for Economic Partnership Agreement (FEPA) with the European Union, which was to have been completed by 2010, was once again postponed to 2011. The negotiations are slated to resume with key issues, which the two parties had failed to agree on during earlier negotiations for FEPA in June 2010. These issues included the most-favoured-national clause, development components and export taxes. The EAC negotiators failed to sign the framework agreement because their European Union partners declined to incorporate important development and trade issues in the document.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	17.2	29	6.3	9.2	9.2	1.6	2.4	2.5
Public	6.7	7.9	15	9.8	9.8	1.1	0.8	0.8
Private	10.5	21	3	9	9	0.6	1.6	1.7
Consumption	85.1	83	6.1	5	6.5	5.1	4.1	5.2
Public	13.1	17.5	13.2	3	3	2.1	0.5	0.5
Private	71.9	65.5	4.4	5.6	7.4	2.9	3.6	4.7
External sector	-2.3	-11.9	-	-	-	0.1	0.4	-0.4
Exports	17.6	23.2	11.6	10.5	9.7	2.5	2.4	2.2
Imports	-19.8	-35.2	7.8	6.5	8.7	-2.4	-2	-2.7
Real GDP growth rate	-	-	-	-	-	6.8	6.9	7.3

Source: Data from Ministry of Finance and Economic Affairs; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Fiscal Policy

The Tanzanian central government's budget performance for the fiscal year 2009/10 was characterised by a revenue increase, but it was insufficient to meet planned expenditures. Total domestic collection rose from approximately 15.3% of GDP in 2008/09 to 17.2% in 2009/10. However, this left a shortfall in domestic revenues against budget targets, which was mainly attributable to the enduring effects of the global financial crisis that resulted in slower than anticipated growth in taxable production activities, overly optimistic tax projections and delays in the implementation of some non-tax revenue measures that had been announced previously in the budget. The latter included, for example, revised immigration, residency permit and visa fees and revised fire service charges.

Overall, government expenditure for 2009/10 (with the exclusion of figures from local government authorities), was within available resources, reaching approximately 8 174 billion Tanzanian shillings (TZS) or 92% of the budget estimates of TZS 8 882 billion. This is in comparison to the 2008/09 figure of TZS 6 812 billion. For its part, development spending for 2009/10 was TZS 2 612 billion or approximately 92% of what had been budgeted. The 2009/10 development expenditure figure also corresponded to some 8.6% of GDP compared to 8.4% in 2008/09. On the other hand, recurrent spending was TZS 5 562 billion or 18.8% of GDP in 2009/10 compared to 17.7% in 2008/09.

Externally financed development expenditure for 2009/10 stood at a cumulative figure of TZS 1 405 billion – approximately 67% of the original estimate and an increase of 5% when compared with the TZS 1 340 billion figure of 2008/09 – mainly because of slow implementation of government projects.

Total financing for 2009/10 is estimated at 6.4% of GDP, of which external resources accounted for 4.5% and domestic resources 1.9%. Some development partners, including the African Development Bank (AfDB), frontloaded their programme assistance, which had been planned initially for the 2010/11 budget, with the aim of complementing the government's efforts in mitigating some of the adverse effects of the global financial crisis on the economy. Nonetheless, overall programme assistance from external resources failed to meet forecasts. Consequently, agreed net domestic financing was enhanced to allow for extra support to uninterrupted implementation of government policies as set forth in the NSGRP.

The government continued implementing its counter-cyclical expansionary fiscal policy in 2009/10 as part of its economic recovery strategy. The policy stance involved modest reductions in tax rates during 2009/10, and an economic stimulus plan to help firms adversely affected by the global economic crisis. The programme was targeted specifically at income and employment protection, securing food security, as well as safeguarding investments in key infrastructural and social services. To help keep credit to the private sector available, as well as to support banks' confidence in lending, the government made provisions for loan rescheduling, loss compensation and enhancement of the small- and medium-sized enterprises (SMEs), as well as initiating an export credit guarantee programme. Likewise, additional domestic borrowing narrowed the government's revenue gap for smoother execution of commitments in 2009/10, while the government also made provisions for maintaining the uninterrupted implementation of power projects.

Going forward, the government is facing a major financial squeeze as it seeks to plug the budget deficit arising from unplanned expenses in an economy where revenues are thinning, with potential adverse effects for growth. In January 2010, the government indicated that it was seeking assistance to shore up the country's finances, after severe power and food shortages nearly emptied the government's purse. As of January 2010, foreign reserves had shrunk to around USD 3.9 billion, equivalent to about six months' worth of imports, while tax revenues had registered a 10% shortfall by the end of 2010. The government's finances were complicated further by the fact that its development partners have scaled back on their funding pledges for the 2010/11 budget by nearly a quarter of a billion dollars due to concerns about the slow rate of implementation of governance reforms. The situation could get even more complicated were the development partners to freeze even more funds in the upcoming 2011/12 budget – a development that might compel the government to seek further assistance from the International Monetary Fund (IMF).

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	14.6	19.1	22.8	20.9	26	22.9	21.1
Tax revenue	9.6	13	14.7	15.3	17.2	16	16.2
Oil revenue	-	-	-	-	-	-	-
Grants	3.9	5	6.9	4.7	7.4	5.7	3.8
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	15	23	22.8	25.7	31.4	30.7	30.2
Current expenditure	11.5	16.1	14.9	17.7	21.4	20.8	19.9
Excluding interest	10.2	15	13.7	16.8	20	19.6	19.1
Wages and salaries	3.5	5	5	6.1	6.3	5.5	5.2
Goods and services	6.7	10	8.7	10.7	13.7	14.1	14
Interest	1.2	1.1	1.2	0.9	1.4	1.2	0.8
Capital expenditure	3.5	6.9	7.9	8	10	9.9	10.3
Primary balance	0.8	-2.8	1.2	-3.8	-4	-6.6	-8.4
Overall balance	-0.4	-3.9	0	-4.8	-5.4	-7.8	-9.2

a. Only major items are reported.

Source: Data from Ministry of Finance and Economic Affairs; estimates (e) and projections (p) based on authors' calculations. Fiscal year July (n-1)/June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The monetary policy of the Central Bank of Tanzania in 2009/10 continued to focus on accommodating the counter-cyclical fiscal measures adopted to address the adverse effects of the global financial crisis, by managing the growth of broad money and credit, and containing liquidity-induced inflation while making space for increased private sector lending. In this regard, monetary targets were revised upwards in line with the Policy Support Instrument (PSI) arrangement targets agreed with the IMF, and both the central bank and Lombard rates were revised downwards.

Whereas the country's average reserve money remained within the PSI targets, extended broad money supply (M3) recorded an annual growth of 22.6% during the period ending September 2010, down from 26.4% registered in August 2010, but higher than the 19.0% recorded in September 2009. Likewise, the country's broad money supply (M2) increased by 20.8% during the period ending in September 2010 compared with 24.5% recorded in the preceding month but higher than 19.9% recorded in September 2009. The central bank attributes the decline in the growth trend of money supply to the decline in the annual growth rate of both net domestic assets and net foreign assets of the country's banking system.

Despite the more accommodating monetary policy stance, the growth of credit to the private sector remained considerably lower than in the preceding years, largely due to the central bank's caution in the aftermath of the global economic downturn and other associated risks. Thus, for the period ending September 2010, credit to the private sector grew by 18.5%, slightly lower than the 18.9% recorded in the period ending August 2010, but noticeably lower compared with 26.6% recorded in September 2009. During the same period, loans for personal purposes accounted for 20.1%, followed by those for trade activities (16.9%), manufacturing (15.2%), agriculture (12.1%) and transport and communication (9.2%).

The central bank maintained moderate tender sizes of treasury securities in line with the monetary policy stance. Tanzanian banks' liquidity registered significant increases, particularly of net foreign assets as money market interest rates declined. Likewise, the central bank's demand for treasury securities rose, largely as a result of the noted slowdown in credit to the private sector. Expansion in private sector lending increased by 16.7% in 2009/10, compared with the growth rate of 33.1% recorded for 2008/09. Net foreign assets holdings by commercial banks grew by an annualised rate of 64.2% in 2009/10, up from 40.8% recorded in 2008/09.

Interest rates offered by commercial banks exhibited a rising trend in the last quarter of 2010 in comparison with rates recorded earlier in the calendar year. For example, the overall time deposit rate stood at 6.03% in September 2010, up from 5.55% in August, although that rate was still lower than 6.73% recorded in September 2009.

In contrast, the rates charged by banks trended downward by the last quarter of 2010 implying an easing in the relative cost of funds compared with the rates in the preceding months. For example, the overall lending rates decreased to 14.31% from 14.40% recorded in August 2010. The spread between short-term lending rates (up to one year) and the one-year time deposit rate narrowed to 6.17 percentage points in September 2010 from 7.24 percentage points recorded in August.

The value of the Tanzanian shilling against the US dollar remained fairly stable during the first half of 2010, due in part to the country's moderate import bill as well as the central bank's regular US dollar sales in the interbank foreign exchange market for liquidity management purposes. By year's end however, the depreciation of the shilling against the US dollar rose, mostly because of the strengthened US dollar against other major world currencies. During the month ending September 2010 for example, the average value of the shilling against the US dollar depreciated by 3.43% to roughly TZS 1 500 per USD, from approximately TZS 1 450 per USD recorded in August. Overall, the shilling depreciated by 14.21% on an annual basis, from roughly TZS 1 330 per USD recorded in September 2009.

In October 2010, the Tanzanian National Bureau of Statistics (NBS) altered the weighting and methodology used to calculate the country's consumer price index (CPI). The changes were aimed at making the basket of consumer goods and services used to calculate the CPI more reflective of current rural and urban spending patterns. The most significant adjustment is to the contribution of food, which now makes up 47.8% of the total as opposed to the 55.9% used previously. In general, the new weightings, which were based on the 2007 household budget survey, reflect the course of Tanzania's recent economic development. GDP per capita in 2007 had grown significantly since 2000 when the previous survey was conducted. With more discretionary income for the average Tanzanian, the weightings of several items required adjustment.

The last quarter of 2010 saw the easing of the inflation pressures the country experienced in the first half of the year. Central bank figures indicated rates of 7.2%, 6.3% and 4.5% in June, July and September, respectively. The downward trend was largely attributable to favourable weather conditions in the 2009/10 crop season that, in turn, improved food supplies. Food supply is expected to remain good at least through the first part of 2011, pointing to possible additional declines in food inflation, and hence, headline inflation. This also assumes stable oil prices as well as continued prudence in monetary and fiscal policies.

Going forward in 2010/11, the central bank's monetary policy will most likely continue to focus on managing the growth of broad money and credit, and containing liquidity-induced inflation while making space for increased private sector lending, which has been the hallmark of its policy stance since 2008/09.

External Position

The structure of Tanzania's external sector is more diversified in 2010 than it was even just a decade previously and thus less vulnerable to shocks. This is mostly because of economic reforms implemented by the government since the mid-1980s. In particular, the dominance of foreign exchange earnings shifted from traditional agricultural commodities to non-traditional exports, mainly travel services (tourism), minerals, manufacturing products and transportation services. For instance, between 1998 and 2009, the contribution of traditional export earnings dropped from approximately 31% of total exports to 10%, while the share of non-traditional exports rose from 69% to 90%. However, the country's exports are still directed largely to European Union countries, although Asia and countries in the EAC Customs Union are also growing in significance.

Due largely to improvements in the export of gold, manufactured goods, as well as increased tourism receipts, Tanzania's value of export of goods and services had increased by 25.5% to USD 5 527 million by September 2010.

With the exclusion of services, the value of export of goods rose to USD 3.5 billion in the year ending September 2010, compared with approximately USD 2.6 billion recorded during the corresponding period in 2009, largely because of a surge in gold and manufactured exports.

By September 2010, the value of Tanzania's traditional exports (tobacco, coffee and tea) was up by 5% on a year-to-year basis, to USD 492.3 million in September 2010, largely due to increases in both export volumes and unit prices of tobacco and tea. Improved quality, and in turn, higher export unit prices accounted for the good performance of tobacco exports. As of September 2010, the annual value of shipped non-traditional exports (e.g. gold, manufactured goods, fish and fish products) was USD 3 billion, compared with USD 2.1 billion recorded for the corresponding period a year earlier. This was mostly the result of significant surges in the export value of manufactures as well as similar increases in both export volumes and the price of gold in the world market. Official statistics indicate annual gold export volumes having increased to 36.8 tons in September 2010 compared to 31 tons recorded in 2009. The spike in gold exports is largely attributable to the beginning of operations of the Buzwagi gold mine. Meanwhile, the value of the country's manufactured goods increased to USD 808 million, approximately 55% higher than the value recorded in a similar period a year earlier.

In terms of services, total receipts during the year ending September 2010 amounted to USD 2 billion, compared to USD 1.8 billion for the corresponding period a year earlier. The improvements were largely attributable to better performance of the tourism, travel, transportation and several other business sectors following the gradual recovery of the global economy. Transportation receipts in particular, increased not only because of the increase in transit goods to the neighbouring countries, but also because of cargo clearing improvements at Dar es Salaam port.

For their part, imports of goods and services amounted to an estimated USD 8.5 billion in September 2010, compared with USD 7.5 billion recorded in the corresponding period in 2009. The value of imported goods alone amounted to some USD 6.8 billion, compared with USD 5.8 billion recorded in the year ending in September 2009, mostly as a result of increases in both the values and quantities of imported oil, food and other consumables. Imports of food items (mostly wheat), pharmaceuticals, plastic goods as well as paper, each grew by over 10%, partly because of demand for re-exports to the neighbouring countries. Capital goods imports also increased to USD 2 billion in the year ending September 2010, compared with USD 2.5 billion recorded during the year ending September 2009. Whereas freight payments went up by 14.3% to USD 647.6 million in line with an increase in importation of goods, payments for services overall went down on an annual basis by almost a percentage point to USD 1.7 billion in September 2010, in part because of a decline in government and other business services.

In 2009, the government requested IMF support of USD 328 million via the Exogenous Shocks Facility to help deal with a deteriorating current account balance. This was disbursed fully in the 2009/10 fiscal year, helping to ease, albeit modestly, the current account deficit. The authorities then undertook first steps towards full liberalisation of the country's capital account, including engaging a stakeholder consultative process. Despite record high gold prices and a recovering tourism industry, Tanzania's current account is expected to remain deeply in deficit in the medium term due to robust import growth and a declining current account transfer surplus. Tanzania has relatively high current account deficits. After the deficit declined from above 11% of GDP in 2008 to above 8% in 2009 it increased again to above 10% in the first months of 2011 and is expected to further increase in later 2011 and 2012. Nonetheless, the risks of a balance of payments crisis for Tanzania are quite low. The combination of the country's benign political climate, its generally positive macroeconomic outlook, its abundant natural resources and its membership in a revitalised EAC will see Tanzania attract high levels of FDI. Furthermore, an expectation of deepening financial markets will give easier access to international portfolio investors and therefore suggests that portfolio inflows will also rise over the coming years.

Table 5: Current account (percentage of GDP)

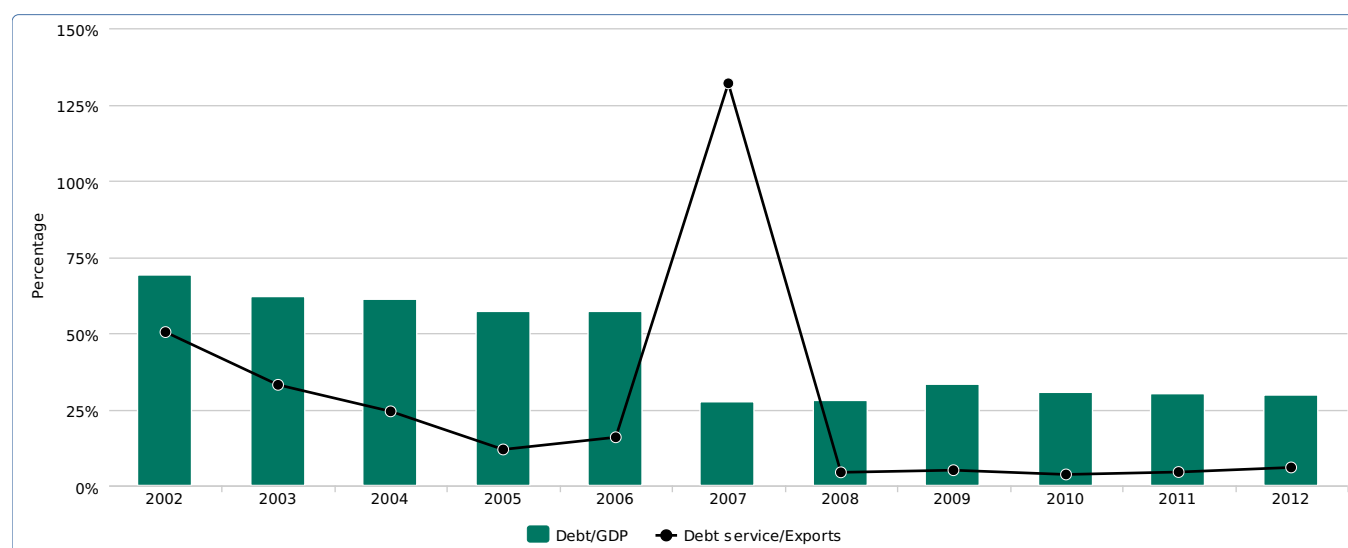
	2002	2007	2008	2009	2010	2011	2012
Trade balance	-4.9	-15.7	-16.4	-12.5	-13.2	-14	-14.8
Exports of goods (f.o.b.)	9.1	13.2	14.7	14.5	15.8	16.5	16
Imports of goods (f.o.b.)	14	28.9	31.1	27	29	30.5	30.8
Services	2.7	2.7	2.8	1.5	0.9	0.7	0
Factor income	-0.8	-0.3	-0.6	-0.3	-0.5	-0.5	0
Current transfers	4	3.9	3	3.2	2.5	3.2	2.9
Current account balance	0.9	-9.4	-11.3	-8.2	-10.3	-10.5	-12

Source: Data from Ministry of Finance and Economic Affairs; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Structural Issues

Private Sector Development

Since the early 1990s, the government has undertaken a number of reform measures to help create a better environment for the private sector. Nonetheless, many challenges remain. According to the World Economic Forum's *2010-11 Global Competitiveness Report*, Tanzania ranked 113th, having slid by 13 positions from 2009. Most notably, Tanzania has been trending downwards since 2006, dropping from 97th (out of 122) in 2006, to 104th (out of 131) in 2007, and further to 113th out of 134 countries in 2008.

Whereas Tanzania's performance had remained stable over the past few years, the drop in the competitiveness ranking is attributed partly to the relatively better performance by other countries. Tanzania faces a number of daunting constraints before it can climb up the competitiveness ladder. These include: an undeveloped infrastructure, low enrolments in secondary and tertiary institutions, an underdeveloped technological readiness, and the generally poor quality of the country's human resource base. Furthermore, access to financial services is quite limited; less than 17% of formal businesses reported borrowing from financial institutions and the stock of private sector credit is only 16-17% of GDP. The private sector is also based too narrowly to provide significant employment opportunities. For example, less than 30% of total non-agriculture employment was registered as private wage employment in 2006, according to the most recent Labour Force Survey from the same year.

It is thus unsurprising that Tanzania has also slipped in business environment indicators tallied in the World Bank's *Doing Business 2011* report. Of 183 countries, Tanzania ranks as 128th in ease of doing business, compared to 125th in the previous edition. The drop is attributable to the worsening ranking in five areas: *i*) registering property (3 ranks down from 148 to 151); *ii*) access to credit (2 ranks down from 87 to 89); *iii*) protecting investors (1 rank down from 92 to 93); *iv*) paying taxes (4 ranks down from 116 to 120); and *v*) closing a business (1 rank down from 112 to 113). The only aspect where Tanzania improved (2 places up from 111 to 109) is cross-border trade – largely because of full operationalisation of the EAC Customs Union (since January 2010) and the EAC Common Market (since July 2010).

The country's relatively small private sector presents potential opportunities for broader-based growth and reductions in income poverty. Improving Tanzania's overall business environment and its competitiveness have been accorded a high priority by both the government and by the country's development partners. Both were key issues in the 2009 and 2010 annual reviews of general budget support. In 2010, the president established a task force to develop recommendations for improving the business environment as well as to improve the private sector's response to scaled-up infrastructure investment. Additional efforts to improve the country's business environment are continuing through several reform programmes, including the Business Environment Strengthening for Tanzania (BEST) Programme, the Tax Modernisation Plan (TMP) and the on-going Second Generation Financial Sector Reform.

Nonetheless, the government's vision for private sector development needs further articulation. In particular, the government needs to delineate, in more detail, the responsibilities of different government agencies in regulating the private sector, and listing even more concrete steps to improve the market environment than is the case thus far. Likewise, there is a need to improve legislation governing the competition regime given the high market concentration in most manufacturing industries. There is also a need to prioritise the provision of extension services in critical sectors such as agriculture, as well as for making technology more accessible. Such actions would help increase the very low levels of productivity for small-scale farmers as well as for small and medium enterprises. Lastly, there is also need to revamp the country's trade policy to make it more outwardly focused with the aim of removing persisting bottlenecks in cross-border trade and investment.

Emerging Economic Partnerships

Tanzania's long-established economic partners were mostly in Europe. This is true in terms of trade, investment, aid and migration. For example, over 55% of the country's exports as well as 23% of its imports are with the European Union. Japan and India also account for significant proportions of the country's merchandise trade. However, as is the case for much of the continent, recent years have seen the emergence of new economic partners. Strictly speaking, some of the most significant ones are not exactly "emerging"; they are simply non-western.

One of the most significant non-western economic partners for Tanzania is India. Tanzania and India have traditionally enjoyed close, friendly and co-operative relations. Between the 1960s and the 1980s, the political relationship was driven largely by shared ideological commitments to anti-colonialism, anti-racism, socialism in various forms as well as genuine desire for South-South co-operation. Former President Julius Nyerere was held in high esteem in India and was conferred not only the Jawaharlal Nehru Award for International Understanding in 1974, but also the International Gandhi Peace Prize in 1995. During the post-Cold War re-adjustment of policies, both countries initiated economic reform programmes around the same time with external relations aimed at broader international political and economic engagement, cultivation of international business relationships and the promotion of foreign investment. In the 2000s, Indo-Tanzanian ties have evolved into a modern and pragmatic relationship with greater and diversified economic engagement.

India and Tanzania have a vibrant business and commercial relationship in part driven by the presence of a large community of Tanzanians of Indian origin. India is one of Tanzania's leading trading partners as well as an important source of essential machinery and pharmaceutical products. Many of the top business establishments of Tanzania are owned by citizens of Indian origin.

According to trade figures, India has exported almost a billion dollars' worth of goods to Tanzania per annum in the 2000s; these consist mostly of mineral fuels, oils, iron and steel, pharmaceuticals, motor vehicles (including auto parts), electrical machinery, plastic products including synthetic polymers, rubber items including tires, cotton fabrics, apparel and clothing and cereals. For its part, Tanzania's major exports to India include vegetables, pulses, cashew nuts, raw cotton, gemstones, cloves and other spices, wood and articles thereof and tanning/dyeing extract.

On a bilateral basis, the government of India has extended a line of credit (LOC) of USD 40 million for financing in the Tanzanian agriculture sector. The LOC was signed on 5 June 2009. The Tanzanian Prime Minister inaugurated the first consignment of 288 tractors in October 2010 of the total of 1 860. The second LOC of USD 36.56 million for the supply of Indian vehicles to the Government of Tanzania was approved and is being implemented.

Overall, India's economic engagement with Tanzania has significantly increased over the last two decades and India now ranks as one of the biggest investors in Tanzania. Indian corporations have significant involvement in Tanzania's natural gas, coal and other mineral wealth industries. For example, Reliance Industries Limited has acquired a majority stake and management control of Gulf Africa Petroleum Corporation (GAPCO), headquartered in Mauritius and having a significant presence in east Africa in the downstream petroleum sector. Likewise, Indian firms are also active in the bank and non-bank financial sector and include the likes of the Bank of Baroda, the Bank of India, the National Insurance Corporation, and others. In the telecoms sector, Bharti Airtel has acquired Zain Telecom in Tanzania as part of its purchases in 16 countries from Zain Africa. Zain Telecom was re-branded as Airtel on 22 November 2010, which was presided over by President Kikwete. Airtel is estimated to invest USD 150 million and is focusing on competitive pricing as well as penetration into rural areas.

China is another very significant emerging economic partner for Tanzania. Much like India, Tanzania and China have long enjoyed very strong diplomatic relations, going back to the socialist period of 1961-85 in Tanzania. As one of the major recipients of China's aid to Africa, Tanzania has received more than 100 co-operation projects and programmes totalling several billion dollars since the early 1960s. The majority of earlier aid projects were undertaken in the form of turnkey projects, of which the most well known is the Tanzania-Zambia (Tazara) railway linking Tanzania's Dar es Salaam with Zambia's Kapiri Mposhi in the copper belt. At its construction, Tazara was one of the largest foreign aid projects China had ever undertaken, financed through an interest free loan of USD 500 million and built at the height of Cold War hostilities by the Chinese Railway Engineering Corporation (CREC) between 1970 and 1976.

In the time since, China has provided Tanzania with financing towards several other major development projects over the years, starting with agriculture and manufacturing, but more recently in construction and mining. In December 1997, the China Investment and Trade Promotion Centre was established in Dar es Salaam to provide assistance in linking businesses in the two countries. Following Tanzania's extensive liberalisation and privatisation programme in the 1990s, Chinese aid gradually changed from bilateral aid and economic and

technical assistance, to the more flexible use of Chinese loans. These have focused on a variety of key industries and usually dispersed through bilateral arrangements. The Beijing Action Plan adopted after the Forum on Africa-China Cooperation (FOCAC) summit in 2006 included a number of commitments towards African countries, including a number of specific pledges to Tanzania. In April 2008, Chinese President Hu Jintao and his Tanzanian counterpart discussed the possibility of Chinese investment in a Special Economic Zone (SEZ) in Tanzania as a key initiative to stimulate trade and employment creation. Later that year, two proposals were submitted to the China Development Bank (CDB), with the first one detailing the Mbegani-Bagamoyo SEZ that would be based 7 kilometres south of Bagamoyo and 60 kilometres north of Dar es Salaam. The Zone will include an international airport, a deep seaport and satellite communications equipment, and the total value of the investment would be an estimated USD 2 billion. The second proposal was for the establishment of another SEZ in Kigoma, one of the busiest ports on Lake Tanganyika with a functioning railway connection and a direct link to the seaport at Dar es Salaam.

At the same time, Chinese investors and contractors have been particularly successful in the country's construction, water and agriculture sectors, with an estimate of over 100 Chinese-funded enterprises active in the country, and growing. In addition to these, there are many individual Chinese entrepreneurs active in various service sectors such as health, merchandise trade and the hospitality business. There are conflicting statistics on the number of Chinese in the country. In 2000, Tanzania's immigration department indicated that 239 residence permits had been issued to Chinese nationals, making them one of the smaller groups of foreigners in the country. However, China's official Xinhua News Agency reported in 2008 that some 10 000 Chinese people live in the country.

Chinese firms have been particularly successful in the construction sector, in which they represent over three-quarters of foreign construction firms presently operating in the country. Mining is another area that has seen a lot of activity by Chinese firms in recent years. For example, Jinchuan Mining, along with Beijing Songshanheli Mining Investment signed an option in 2010 to partner with Tanzania Royalty Exploration's Kabanga nickel property. The state-run National Development Corporation (NDC) also announced in January 2011 that China's Sichuan Hongda Company Limited would invest USD 3 billion in a coal-fired power plant and two iron ore mines in Tanzania. Sichuan Hongda is currently said to be in advanced negotiations with the government to sign a contract after it successfully won the bid process with more than 20 international companies including Rio Tinto and BHP Bilton. The investment involves construction of the Mchuchuma integrated coal mine and thermal power station as well as an iron ore mine in Liganga. The projects would be implemented in a joint venture under a public-private partnership arrangement. Mchuchuma is located 800 kilometres from Dar es Salaam and has an estimated 536 million tons of coal. The investment in the coal mine would also involve the construction of a 600 megawatt coal-fired power plant. Early studies have indicated that the Liganga area is rich in not just iron, but also, vanadium and titanium. Reserves are estimated to be between 200 and 1 200 million tonnes, with 45 million already proven through drilling.

The United Arab Emirates (UAE) is another significant emerging economic partner for Tanzania, particularly in merchandise trade. Tanzanian imports from the UAE include fuel oil, machinery and chemical appliances, aluminium, iron, steel, electrical instruments and consumer electronics. The UAE's imports from Tanzania are mostly pearls and precious stones, fish, oil seed, grains and copper. The UAE has also positioned itself as a significant re-export market within the region and worldwide, and Tanzania represents a gate to potentially lucrative African markets for UAE investors and traders due to the already established economic relations.

Turkey is yet another emerging economic partner for Tanzania with great potential. However, merchandise trade between Tanzania and Turkey is negligible, with the latter exported goods worth USD 55 million to Tanzania, while Tanzanian imports to Turkey amounted to USD 11 million in 2009. Authorities in both countries have made concerted efforts in recent years to strengthen economic relations and the trade volume between the two countries from its current level of under USD 70 million to billions of dollars within the next five years. Delivering a speech in 2010 at the Turkey-Tanzania Trade and Investment Forum, organised by the Turkish Confederation of Businessmen and Industrialists (TUSKON) and attended by Turkish Foreign Trade Minister Zafer Çağlayan, Tanzanian President Kikwete predicted that trade volume between Turkey and Tanzania will increase steadily with the abolition of visa requirements between the two countries. The Turkish national carrier, Turkish Airlines also started operating direct flights between the two countries, opening up additional economic avenues.

Another emerging economic partner for Tanzania is Russia. Whereas the merchandise trade between the two countries is very small, Russian firms have shown increasing interest in investments in the mining sector in recent years. The most significant deal involves the Russian nuclear holding company, Rosatom, which took over the uranium assets of the Tanzanian based Mantra Resources Limited for USD 1.15 billion in 2010. Rosatom, through its SC Atomredmetzoto ARMZ Uranium Holding Company subsidiary, had acquired the Australian Perth-based company, Mantra Resources Limited. The agreement saw ARMZ, which is authorised by Russia's State Corporation of Nuclear Energy to supply the Russian nuclear industry with raw materials, take over 100% of Mantra Resources Limited. Mantra's core assets are the world-class Mkuju river project in

Tanzania. The transaction is seen generally as part of ARMZ's strategy on diversifying the uranium base of Rosatom, a Russian state corporation. The Tanzania acquisition extended the company's portfolio of assets with low uranium production costs and consolidated the leading position of the firm among the world's natural uranium producers. The Mkuju river in Tanzania ranks among the best uranium development projects in the world. The project has estimated resources of approximately 101.4 million pounds of uranium oxide concentrate – about 77% of global mined output in 2009.

For its part, Brazil, the world's leader in sugar cane-based ethanol production, wants to help Tanzania develop its biofuel sector and will consider waiving debt worth USD 240 million. Signing a memorandum of understanding between the two countries in 2010, the former Brazilian President Luiz Inacio Lula da Silva urged Brazilians to invest in east Africa's second largest economy.

Political Context

In general, Tanzania rates well in terms of political stability, rights and civil liberties, and will most probably continue to do so in the medium term.

During the last half of 2010, the country's political agenda revolved around the presidential and parliamentary elections that were held on 31 October 2010. President Jakaya Kikwete, representing the ruling party, Chama Cha Mapinduzi (CCM), secured re-election winning 61.2% of the votes. The next nearest opposition candidate, Willibrod Slaa of the Chama cha Demokrasia na Maendeleo (Chadema), garnered 26.3%. Although this margin of victory was relatively comfortable, it represented a slump from the 80% the president had won in the 2005 elections for his first term. The elections were in fact, relatively peaceful, albeit characterised by a low turnout (43%) hinting at increasing voter apathy or even a slump in support for the dominant CCM.

Some election observers raised concerns about some aspects of the election, notably the poor organisation of the polls by the National Election Commission (NEC) as well as more significant concerns about the slowness of counting the vote; there were no real concerns about outright fraud or vote rigging. Chadema, the party which emerged as the main opposition to the ruling CCM, also continued to argue that there were more fundamental problems. On 18 November 2010, this led all its newly elected members of parliament (MPs) to walk out of the speech being given by President Kikwete to inaugurate the newly elected body. Prior to the walkout, the party's leadership had also refused to attend the formal announcement of the results by the NEC or to attend the swearing-in of the president on 6 November. In the time since, Chadema activists have made various attempts at launching a nationwide programme to explain their case to their supporters. In a tangentially related, but much publicised incident, in Arusha on 5 January 2011, two people were killed and several dozen hurt following an attempt by a Chadema mob to storm the central police station and free party officials and supporters who were being held there.

The elections in Zanzibar saw no political unrest unlike the case during the 2000 and 2005 elections, thanks to the formation of a Government of National Unity (GNU), which prompted a political compromise acceptable to all parties. Earlier in July 2010, the Zanzibari electorate had gone to the polls for a referendum on the proposed GNU with a majority (66.4%) of the electorate voting in favour of its creation. The new Zanzibari president is expected to work closely with President Kikwete to try to make the GNU work in the spirit of compromise in which it was agreed. Specifically, it was agreed that the GNU will include the elected president, two vice presidents (both of whom are appointed by the president), and cabinet ministers who are also presidential appointees commensurate with the number of seats that each political party garnered in the House of Representatives. In line with the agreement, the new Zanzibari President, Ali Mohamed Shein, appointed the first vice president from the main opposition party in the island, namely the Civic United Front (CUF) and the second from the CCM.

In the future, the CCM's dominance on mainland Tanzania combined with the continuing absence of a credible alternative mean that it is unlikely that the party will face any challenges in the medium term. Unlike many countries in Africa, Tanzania has achieved social integration to the point where there is little evidence of ethnic or religious divisions in society. A possible basis for a threat to the CCM's dominance stems from the potential for slower-than-expected economic development and the resultant stagnation or fall of living standards for the majority of the population.

Social Context and Human Resource Development

The country remains on track to meet roughly half of the Millennium Development Goals (MDGs) by 2015. Mortality rates for children under 5 fell from 112 per 1 000 live births in 2004/05 to 81 in 2009/10 on mainland Tanzania and from 101 in 2004/05 to 79 in Zanzibar in 2009/10. Similarly, primary school enrolment improved from 59% in 2001 to 95.4% in 2010 on the mainland and from 75.5% in 2006 to 81.4% in Zanzibar in 2010. The incidence of HIV/AIDS also dropped from 7.0% in 2003 to 5.7% in 2007/08. Furthermore, the prevalence of malaria also decreased, with only 27 reported cases per 1 000 persons in 2007/08, according to the most recent available national survey.

However, there have only been marginal improvements in income poverty, and the country is unlikely to meet the MDG target of halving such poverty by 2015. On the mainland, the incidence of poverty was 33.6% in 2007, having declined only marginally from the 35.6% figure in 2000/01. Even in Zanzibar, the incidence of poverty is projected to have declined from 49% in 2004/05 to 40% in 2009, missing the 25% target by 2010.

Poverty reduction in the country's rural areas has been particularly slow. According to the World Bank, the incidence of poverty was 16.4% in Dar es Salaam and 24.1% in the country's other urban areas in 2007. In contrast, incidence of poverty in rural areas on the mainland was 37.6% in 2007, a figure statistically indistinguishable from the 38.7% in 2001. Although agriculture should be a central channel for reducing poverty given the country's comparative advantages, the sector has continued to perform poorly. In particular, there have been very little gains in agricultural productivity due largely to underdeveloped rural infrastructure. In turn, this has meant that the country's agricultural growth has been largely the function of expanding land under cultivation. Further constraints are related to the myriad taxes and regulations by local government authorities (LGAs), crop boards and co-operatives. In turn, this often translates into significant differentials between producer and market prices, thus dampening farmers' incentives to produce.

Lastly, whereas the country's poverty rate has declined in the 2000s, the absolute number of poor Tanzanians increased by an estimated 1.3 million over the same period. Rapid population growth not only translates into a swelling youth population with few employment opportunities, but also it means a greater strain on the already meagre social services. This structural demographic challenge will persist as long as the country's fertility rate remains high, child mortality continues to decline and life expectancy increases.