

Tanzania

Tanzania's real gross domestic product (GDP) grew at an estimated 6.8% in 2010, with economic prospects for the medium term looking bright with the exception of a growing fiscal deficit.

The country remains one of the poorest in the world, and will likely fail to meet all the Millennium Development Goals (MDGs).

Emerging economic partners include historic ideological allies, India and China, but also relative newcomers such as the United Arab Emirates, Turkey, Russia and others.

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.

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

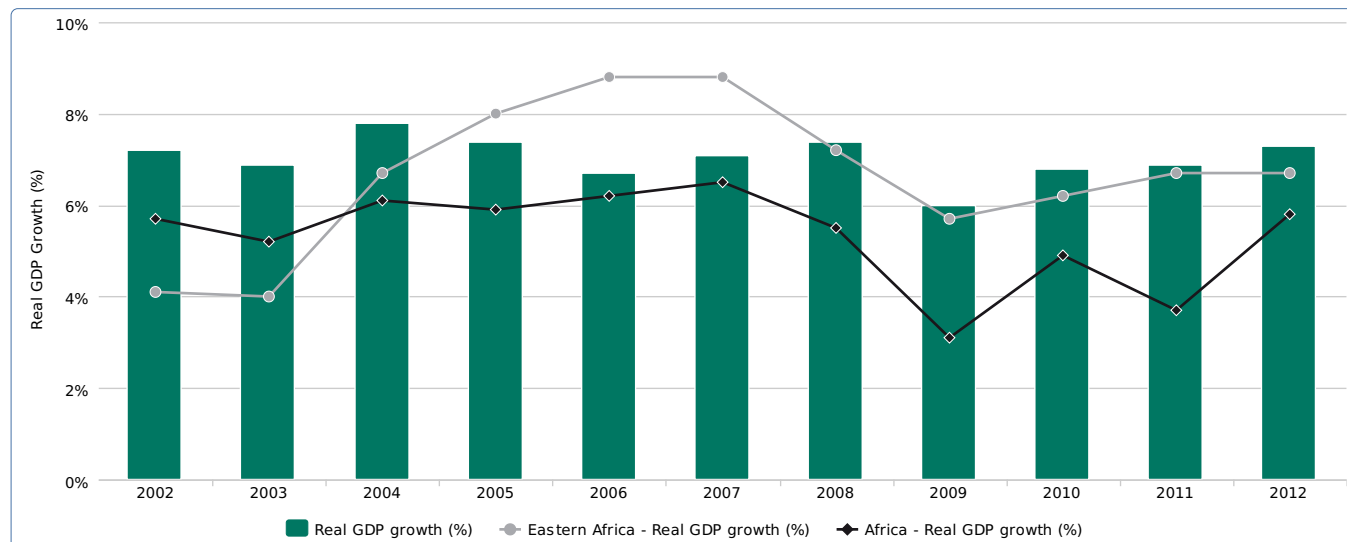
Source: IMF and local authorities' data; estimates and projections used on authors' calculations.

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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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.

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