

# tanzania



## Demographics

<b>Population</b>	49 639 138 (July 2014 est.)
<b>Population: world ranking</b>	26 out of 240 countries (CIA)
<b>Life expectancy (years)</b>	Total population: 61.24; male: 59.91; female: 62.62 (2014 est.)
<b>Main ethnic groups</b>	Mainland - African 99% (of which 95% are Bantu consisting of more than 130 tribes), other 1% (consisting of Asian, European, and Arab); Zanzibar - Arab, African, mixed Arab and African
<b>Business language</b>	English
<b>Urban population</b>	27.2%
<b>Population below national poverty line</b>	28.2% (2012 est.)

Sources: CIA, World Bank

## Geography

<b>Area in sq km</b>	947 300
<b>Area: World ranking</b>	31 out of 252 countries (CIA)
<b>Climate</b>	Varies from tropical along coast to temperate in highlands
<b>Natural resources</b>	Hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, nickel

Sources: CIA, World Bank

## Sovereign ratings

<b>S&amp;P</b>	N/R
<b>Fitch</b>	N/R
<b>Moody's</b>	N/R

Source: NKC Research

## Economy in 2013

<b>Nominal GDP (US\$bn)</b>	31.98	<b>Total government debt as % of GDP</b>	45.30
<b>Nominal GDP: World ranking</b>	92 out of 188 countries (IMF)	<b>Total external debt as % of GDP</b>	41.26
<b>Real GDP (% change y-o-y)</b>	7.0	<b>Consumer price inflation (average, %)</b>	7.87
<b>GDP growth: World ranking</b>	24 out of 189 countries (IMF)	<b>Current account balance as % of GDP</b>	-14.61
<b>GDP per capita (US\$)</b>	649.26	<b>Equity market: Size in US\$</b>	US\$3.9bn
<b>Agriculture as % of GDP</b>	26.04	<b>Equity market: Listed companies</b>	12 primary listings
<b>Industry as % of GDP</b>	25.63	<b>Bond market size</b>	US\$3.97bn (end Mar-14) govt bonds outstanding in the domestic market
<b>Services as % of GDP</b>	48.33		

Sources: IMF, NKC Research

**Political environment**

Government type	Republic
Head of state	President Jakaya Kikwete
Head of government	President Jakaya Kikwete
Ruling political party	Chama Cha Mapinduzi (CCM)
Main opposition parties	Chama Cha Demokrasia na Maendeleo (Chadema), Civic United Front (CUF), National Convention for Construction and Reform – Mageuzi (NCCR-M)
Elections	Last held on 31 October 2010 (next to be held in 2015)

Source: NKC Research

**Economic outlook**

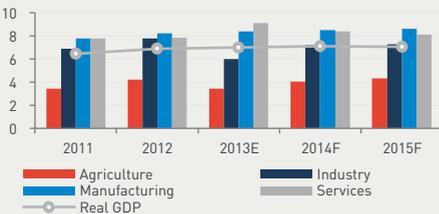
**GDP per capita vs real GDP**



Source: NKC Research

The Tanzanian economy has consistently expanded at a robust pace in recent years. Real GDP growth averaged 6.8% per annum between 2006 and 2012 within a narrow range of 6% (2009) and 7.4% (2008). The services and industrial sectors in particular have shown strong growth. The performance of the agricultural sector, however, remains far below potential. The primary sector’s real growth rate was below 5% in every year since 2005, averaging just below 4% per annum during 2005-12. The sector is crucial for poverty alleviation, as employment in agriculture accounts for around 80% of the total.

**Real GDP by sector (% change pa at factor costs)**

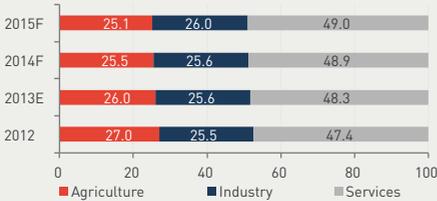


Source: NKC Research

Key drivers of economic growth in Tanzania over the forecast period will be banking, telecommunications, trade, construction, electricity, manufacturing, and mining, and over the longer term, natural gas and commercialised agriculture. Real GDP growth is forecast to remain high, averaging 6.9% per annum during 2014-16, from 6.8% per annum during 2011-13. Despite strong real GDP growth, Tanzania’s development challenges remain immense. Rapid population growth also means that the benefits of economic expansion are not felt as strongly, as the dependent population remains quite large. According to the United Nations (UN) Population Division, the proportion of Tanzania’s population under the age of 15 was 44.8% in 2010, compared to a global average of 26.6%.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

### GDP by sector (% of GDP)



Source: NKC Research

An important milestone is the completion of the pipeline transporting gas from Mtwara to Dar es Salaam, which should ease electricity constraints.

President Kikwete has stated that, if the pipeline is completed on time, the country should be able to double its electricity output to 3 000 MW by 2015. (The pipeline is expected to be completed by the end of this year.) This is expected to benefit all sectors of the economy, particularly manufacturing.

As such, we expect the manufacturing sector's performance to be robust over the forecast period, averaging 8.55% per annum during 2014-15, up from 8.3% per annum in 2012-13. Although Tanzania's manufacturing sector has performed well in recent years, there is still significant room for expansion, especially by increasing the extent of value addition of current manufactured goods, as well as by starting to manufacture products higher up the value chain.

### International trade

The current account deficit widened to an estimated US\$4.7 billion (14.6% of GDP) last year from US\$3.5 billion (12.4% of GDP) in 2012. This was mainly caused by lower gold exports and a sharp increase in oil-related imports. Gold exports declined due to a reduction in prices, as well as lower volumes as some mines closed down. Meanwhile, the increase in oil imports was predominantly due to higher import volumes. In turn, this was caused by an increase in the demand for petroleum for electricity-generating purposes due to low levels

at many hydropower dams. Total exports of goods declined by 9.2% last year to US\$5.3 billion. Apart from gold, there were also declines in tobacco, fish, coffee, and cotton exports. In turn, total imports of goods increased by 6.9% last year, as the sharp increase in oil imports was partly offset by lower imports of machinery, industrial raw materials, and food. Therefore, the trade deficit last year amounted to US\$5.7 billion (17.8% of GDP), the largest on record and significantly wider than 2012's US\$4.4 billion (15.7% of GDP).

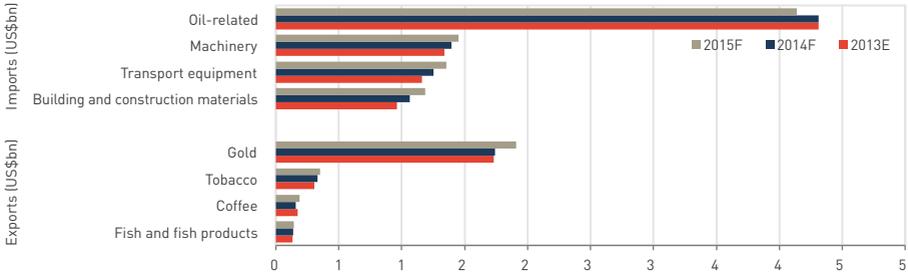
### Foreign trade flows, 2013

Main exports	(US\$ billion)	Main imports	(US\$ billion)
Gold	1.73	Oil-related	4.31
Tobacco	0.31	Machinery	1.34
Coffee	0.17	Transport equipment	1.16
Fish and fish products	0.13	Building and construction materials	0.96

Source: NKC Research

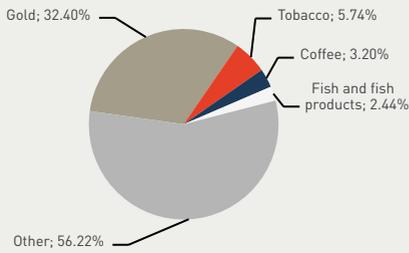
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Tanzania top four exports and imports (US\$ billion)



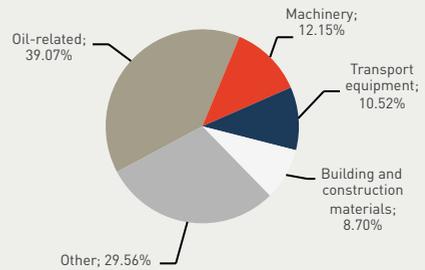
Source: NKC Research

2013 exports (% of total)



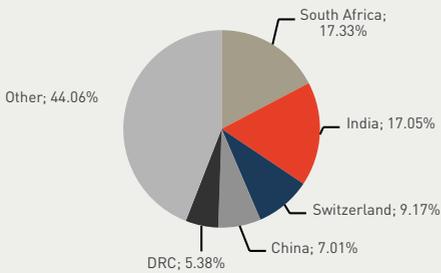
Source: NKC Research

2013 imports (% of total)



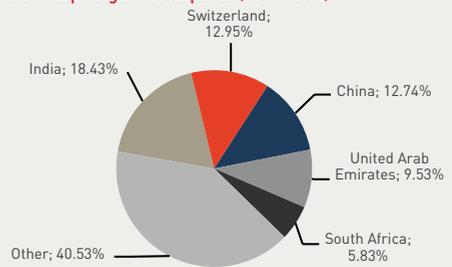
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

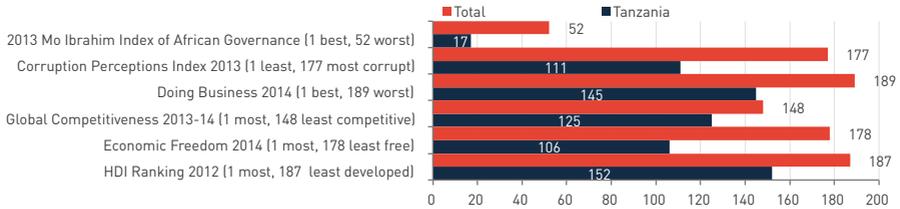
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

### Business development indicators



Source: NKC Research

## Policy environment

### Monetary policy:

The Bank of Tanzania (BoT, the central bank) uses reserve money targeting as its main monetary policy tool. The growth rate in extended broad money supply reached 10% y-o-y by the end of last year, down from 12.5% y-o-y in December 2012. Growth in credit extended to the private sector is also down, from 18.2% y-o-y in December 2012 to 15.3% y-o-y in December 2013. Despite these factors supporting a stable inflation outlook, we expect to see some intensification of price pressures this year, mainly due to higher electricity tariffs and an increase in government spending. Monetary policy is expected to remain tight this year, but may be loosened in 2015 in the run-up to elections. Banks' claims on the government totalled TSh6.9 trillion last year, 30.6% higher than in the previous year. Increased lending to the government by commercial banks is likely to crowd out credit to the private sector. CPI inflation is expected to average 8.1% this year, before rising to 8.5% in 2015.

### Exchange rate policy:

Generally, the Tanzanian shilling has a weakening bias due to large structural twin deficits. After reaching a low of above TSh1,800/US\$ in October 2011, the Tanzanian shilling made a strong comeback in the subsequent 12 months. The sharp depreciation in the shilling in 2011 (as was seen in other East African countries also), was caused by a notable increase in imports due to higher fuel and food prices and a regional drought. After being under a bit of pressure during the first half of 2013, the shilling stabilised in H2. The depreciatory

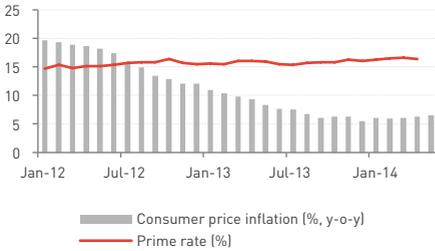
pressures during 2012 Q4 to 2013 H1 were caused by delays in the disbursements of non-concessional loans and increased demand for forex to pay energy supplier arrears. In response, the central bank intervened in the market in order to prevent 'excessive downward momentum' of the exchange rate.

### Fiscal policy:

According to the finance ministry, total fiscal expenditure for the 2014/15 fiscal year (FY, starting in July) is expected to reach TSh19.9 trillion, reflecting a 9.1% increase compared to the 2013/14 FY. According to the budget, recurrent expenditure will amount to TSh13.4 trillion (around 68% of the total budget), while the remaining TSh6.4 trillion will be directed towards development projects. The government plans to borrow around TSh1.3 trillion from external commercial lenders and TSh3 trillion from domestic sources.

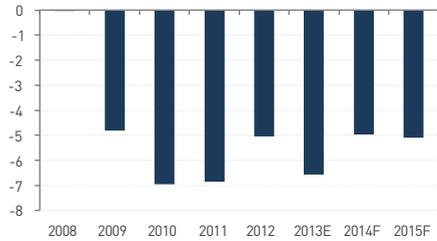
Furthermore, as one of Africa's biggest per capita aid recipients, the government expects to receive TSh2.9 trillion in loans and grants from development partners in FY 2014/15. The government intends to keep the budget deficit for the coming FY at or below 4.9% of GDP. The finance ministry expects real GDP growth to come in at 7.2% this year and 7.7% per annum in the medium term. We are much more circumspect, projecting growth of 6.8% for this year, and 6.9% per annum in 2015-17. As a result, we expect that domestic revenue collection may underperform, thereby necessitating lower-than-planned spending in order for the budget deficit target to be maintained.

Consumer price inflation and monetary policy rate



Sources: Bank of Tanzania, National Bureau of Statistics

Budget balance (% of GDP)



Source: NKC Research

**Regulatory and tax environment:**

Over the past few years, Tanzania has been moving in the wrong direction on the World Bank’s Doing Business surveys, with other countries in the world reforming much faster. In the 2014 edition of the index, Tanzania moved nine positions weaker from the previous year to a ranking of 145<sup>th</sup> out of 189 countries. The corporate income tax rate in the country is 30% of profit. There is also a 10% tax on gross salaries for social security contributions, in addition to a 6% labour tax, also on gross salaries. The value-added tax (VAT) rate is quite high at 18%. Interest is taxed at 10% and capital gains (included in business/investment income) at 30%.

A company operating in an Export Processing Zone (EPZ) receives a number of benefits, including exemption from exchange control, corporate income tax for 10 years, and from withholding tax on rent, dividends, and interest for 10 years.

**Political environment**

Tanzania celebrated its 50<sup>th</sup> anniversary as a united country in 2014. Concerns about the strength of the union, and moves from Zanzibar to gain greater autonomy from the union government, are part of the public discourse in Tanzania, but this year’s Golden Jubilee does seem to come at a time when these energies are more visible than usual. The main concern is the apparent failure (at least temporarily) of the constitutional review process: the opposition walked out of the constituent

assembly in April 2014, and said that it does not plan to join talks when they resume in August.

The main point of contention is the triangular relationship between Tanganyika, Zanzibar and the overall United Republic of Tanzania. The opposition wants a tricameral system, with Zanzibar and Tanganyika each having a legislative assembly, and a third chamber for the union, while the government prefers to maintain the existing two-government system.

This means that it is not yet clear what the legal framework for the union will be in future, which leaves in place the potential for arguments about Zanzibar’s autonomy especially in the context of exploration for oil around the islands. While developments in the constitutional review process may yet prove destabilising, the way the process has been conducted up to now is reason enough to be optimistic that participants will take the time necessary to deliver a legitimate text that has the buy-in of as many Tanzanians as possible. Talk of strains on the union or even civil war is overblown. Apart from the constitution, most political activity is preparation for the October 2015 election, in which the opposition will seek to further weaken the ruling party’s grip on power.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

## Economic environment

### Ratings:

At present, Tanzania remains unrated by any of the major global rating agencies. The government plans to issue a Eurobond after securing a rating from Standard & Poor's, Fitch Ratings, and/or Moody's Investors Service (two out of the three).

The government had hoped to obtain a rating by the end of last year, but there have been delays. On 31 January 2014, the finance ministry said that the process is being finalised. However, on

7 February 2014, Finance Ministry Permanent Secretary, Servacius Likwelile, said that the government is yet to apply for a credit rating due to a risk assessment by Citigroup not being finalised. On a previous occasion, the director of economic policy and research at the BoT, Joseph Massawe, stated that authorities expect to receive a rating of at least 'B+'. Meanwhile, Mr Likwelile said that the government expects a rating of at least 'BB'. We believe that both these expectations are unrealistic, and we would be surprised if Tanzania gets a rating better than 'B'.

### Key indicators to watch

<b>Gold prices</b>	Gold accounted for 32.4% of Tanzania's goods exports in 2013. A protracted slump in bullion prices could result in some mining expansion projects being delayed.
<b>Forex reserves and exchange rate</b>	The shilling tends to depreciate gradually, with inflation in Tanzania being much higher than in trading partners. Reserve levels are expected to remain adequate over the forecast period, despite a widening current account shortfall during 2014-16.
<b>Monetary policy and inflation</b>	The little pressure on CPI inflation that there currently is is coming from food prices, with non-food price inflation at a four-year low. Surplus food stocks from last year continue to be released on the market, which should help to keep food price inflation under control in the near term.

Source: NKC Research

### Key vulnerabilities

### What is the government doing to address this?

<b>Large twin deficits</b>	The government has access to precautionary financing from the International Monetary Fund (IMF).
<b>The country is vulnerable to weather shocks and fluctuating commodity prices.</b>	The government is aiming to boost the amount of land under irrigation from 350 000 ha currently to one million ha by 2015. The economy is also becoming increasingly diversified, with services and manufacturing growing strongly.
<b>The electricity sector potentially poses a significant contingent liability to the government.</b>	From 2015 onwards, a new gas pipeline will begin operations, which will boost the supply of cheaper power.

Source: NKC Research

**Market participation**

<b>Foreign investors</b>	Foreign investors are currently not allowed to participate in either treasury bill or treasury bond auctions. Investments in corporate bonds listed on the Dar es Salaam stock exchange are permitted.
<b>Local investors</b>	Local investor participation is made up of the banking and pension fund industry. Retail investors access the market mainly through collective investment schemes, while bid submissions can be made through primary dealers through the maintenance of sub-accounts.

Source: NKC Research

**Financial market**

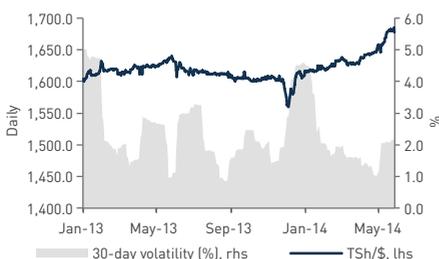
**Foreign exchange**

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/maturity	Quotation/settlement	Reuters page	Additional information
Spot	US\$0.25m to US\$1m	US\$5 to US\$20m	10 bps	-	T+2	TZS=	Main cross is US\$/TZS
Forwards (deliverable)	US\$1m to US\$3m	US\$0m to US\$5m	300 bps to 600 bps	Illiquid up to 1 year	T+2	-	Main benchmark is US\$/TZS
Swaps	US\$0.25m to US\$1.5m	US\$0m to US\$10m	300 bps to 600 bps	Illiquid up to 1 year	T+2	-	Main benchmark is US\$/TZS

Sources: NKC Research, Reuters, Bloomberg

**Exchange rate**

**Tanzanian shilling**



Source: Reuters

The shilling has been depreciating steadily in 2014 on the back of strong forex demand from importers.

The shilling depreciated by 4.9% against the US dollar during the first five months of the year. We expect the shilling to depreciate to an average of TSh1,665/US\$ this year, and further to TSh1,730/US\$ in 2015. This will be driven by large and widening current account and budget deficits, and an inflation rate that is higher than that of trading partners.

### Equities

The Dar es Salaam Stock Exchange (DSE) All Share Index (ALSI) has gradually trended upward since mid-2011. The exchange is small, with a market capitalisation of some US\$3.9 billion, and with only 12 primary listings and a further six cross listings.

The most recent listing was that of Maendeleo Bank on the Enterprises Growth Market (EGM) on 4 November 2013. The bourse's market capitalisation has increased notably of late, mainly

due to additional shares being sold by Tanzania Breweries Limited. Total market cap stood at a much smaller US\$2.6 billion in September 2013.

Turnover on the DSE increased almost five-fold in 2013 relative to the average of the previous three years. According to the DSE's quarterly report, this can be attributed to a reduction in the settlement cycle (from T + five days to T + three days), longer trading hours, the switch to a Wide Area Network, as well as public education and awareness programmes.

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Dar es Salaam Exchange	12 primary listings	Low	US\$3.9bn	T+3	Banking, food and beverages	1.15m shares

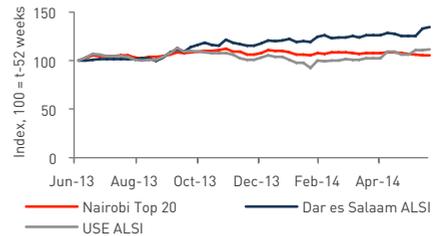
Sources: Bloomberg, Dar es Salaam Stock Exchange

### Dar es Salaam Stock Exchange - ALSI



Source: Bloomberg, NKC Research, Reuters

### EAC (Kenya, Tanzania and Uganda) SEs performance indices



Source: NKC Research, Reuters

### Top-five listed companies

### Market capitalisation

Tanzania Breweries	US\$1.5bn
National Microfinance Bank	US\$987m
Tanzania Cigarette Company	US\$608m
CRDB Bank	US\$407m
Tanzania Portland Cement Company	US\$264m

Source: Bloomberg

## Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	35, 91, 182 and 364 day	Fortnightly	High	T+1	Commercial banks and brokers	100 bps to 300 bps
Treasury bonds	2, 5, 7, and 10 years	Fortnightly	Medium	T+1	Commercial banks and brokers	50 bps to 200 bps

Sources: Reuters, Bloomberg, NKC Research

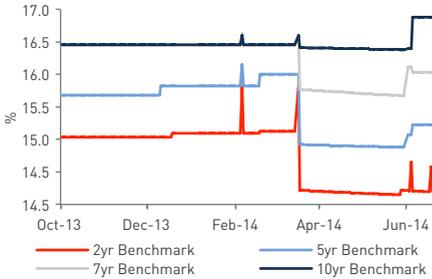
Treasury bills are issued by the BoT on behalf of the government for deficit financing and liquidity management. Meanwhile, treasury bonds are currently issued primarily as fiscal policy instruments, but also serve to lengthen the maturity profile of government debt and the yield curve, as well as to increase liquidity. In an African context, Tanzania has a fairly well-developed debt market. The government debt curve extends up to 10 years and auctions occur fairly regularly. In addition, several instruments are also traded on the local bourse. According to the African Development Bank's Fixed Income Guidebook, foreigners may invest in corporate bonds that are listed on the DSE, but not in government securities. The market for non-government debt is still in its infancy, with parastatals and corporate issuers not actively issuing debt at present, and with limited liquidity in the secondary market.

After increasing slightly during 2013, Tanzania's treasury bill yields declined in the first quarter of 2014. A decline in consumer price inflation has been partially offset by higher financing requirements

by the government to fund its widening budget deficit. The government is planning to issue its maiden Eurobond in the second half of this year to fund infrastructure projects, although the process has been held up by a delay in getting a credit rating. If the Eurobond does not materialise, it is likely to be replaced by other external borrowing. Finance Ministry Permanent Secretary, Servacius Likwelile, has stated that, due to the postponement of the Eurobond to the following fiscal year, the government is seeking syndicated loans of up to US\$700 million.

Tanzania's international bond has been added to JP Morgan's Emerging Markets Bond Index (EMBI). Tanzania raised US\$600 million in February 2013 through the issuance of a seven-year amortising bond at a yield of 600 basis points above the London Interbank Offer Rate (Libor). The dollar-denominated Regulation S (Reg S) bond has an amortising structure and average maturity of five years, with the final due date set at 8 March 2020. The principal will amortise in nine semi-annual instalments commencing on the notes' third anniversary.

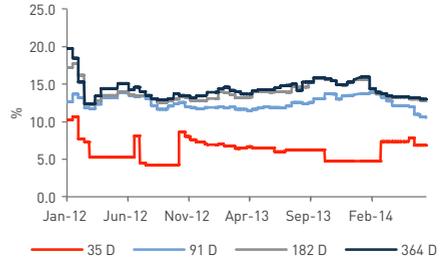
Tanzania treasury bonds (secondary market)



Sources: NKC Research, Reuters

According to Joseph Massawe, the director of economic research and policy at the BoT, 'almost all restrictions on the capital account' will be removed by 2015 'for investors even from beyond East Africa'. Promises of removing restrictions on the movement of capital have, in the past, not come to fruition. This time, a more definite deadline has been given, and this, along with fears of being excluded further from regional integration, could

Tanzania treasury bills (primary market)



Sources: NKC Research, Reuters

persuade policymakers to follow through with their pledge. This would enable a deepening of the capital market. Currently, foreign investors are not allowed to invest in Tanzanian government securities or on the equity market, and partly as a result of this, very little trading takes place in the secondary market. Removing restrictions on capital movements beyond East Africa may, however, take longer than the suggested target date of 2015.

## Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012E	2013E	2014F	2015F
Real GDP (% change)	6.02	7.04	6.45	6.86	7.00	6.78	6.82
Nominal GDP (US\$bn)	21.37	22.90	23.85	28.25	31.98	35.00	39.37
Consumer price inflation (average, %)	12.14	6.20	12.69	16.00	7.87	8.11	8.49
Budget balance, incl grants (% of GDP)	-4.81	-6.9%	-6.85	-5.03	-6.56	-4.98	-5.09
- Revenue (% of GDP)	21.26	20.51	21.09	22.07	20.94	21.73	22.88
- Expenditure (% of GDP)	26.07	27.47	27.95	27.10	27.50	26.71	27.97
Government debt (% of GDP)	38.39	40.94	44.68	42.61	45.30	45.08	43.40
Current account balance (% of GDP)	-8.47	-8.56	-16.74	-12.39	-14.61	-13.73	-12.57
Trade balance (% of GDP)	-11.87	-12.41	-19.83	-15.68	-17.76	-16.88	-15.69
TZS/US\$	1,320.31	1,438.22	1,582.80	1,581.41	1,612.01	1,665.00	1,730.00
Short-term interest rate (%)	15.03	14.55	14.96	15.46	15.82	16.00	16.10
Foreign reserves (US\$bn)	3.47	3.90	3.73	4.07	4.68	4.95	5.50
Months of import cover	5.51	5.17	3.72	3.85	4.13	4.09	4.29

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	5.55	19.76	12.06	5.56	6.07	6.29	6.49
Bank prime loan rate (%)	14.55	14.96	15.46	15.82	16.63	16.43	N/A
Foreign reserves (US\$bn)	3.91	3.73	4.07	4.68	4.62	4.65	N/A
91-day treasury bill rate (% eop)	5.48	12.82	11.92	13.55	12.17	12.17	10.95
TZS/US\$ (eop)	1,333.00	1,577.00	1,580.00	1,582.00	1,633.00	1,642.00	1,660.00
Gold (US\$/oz, eop)	1,419.45	1,563.80	1,674.34	1,204.94	1,283.64	1,291.29	1,250.69

Sources: NKC Research, Reuters, Bloomberg, Bank of Tanzania, National Bureau of Statistics

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.