

## Energy sector will continue to spur growth



### General Information

GDP	USD28.249bn (World ranking 93, World Bank 2012)
Population	47.78 million (World ranking 27, World Bank 2012)
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 (generally) improved external debt ratios, servicing of foreign obligations uses up valuable FX earnings, limiting the pace of development.
- Weak structural business environment.

### Country Rating

C3

#### Country Grade



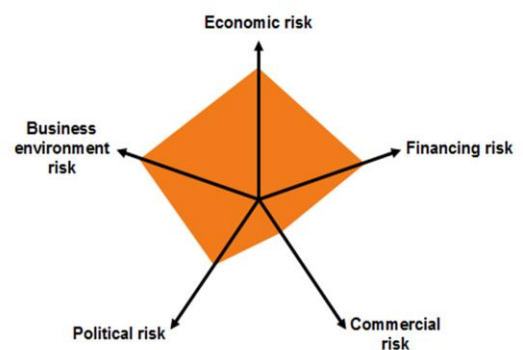
High risk

#### Country Risk Level



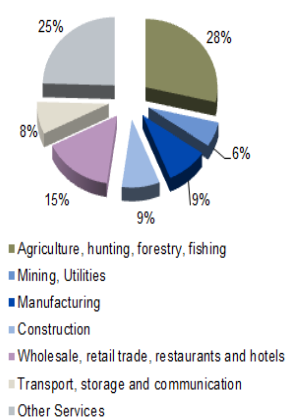
Low risk

### Risk Dimensions



## Economic Structure

### GDP breakdown (2011)



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

### Trade structure (% of total, 2011)

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% United Arab Emirates
India	7% 5	6% Kenya

By product

Exports	Rank	Imports
Metalliferous ores and metal scrap	23% 1	24% Petroleum, petroleum products and related materials
Gold, non-monetary (excluding gold ores and	15% 2	8% Road vehicles
Coffee, tea, cocoa, spices, and manufactures thereof	10% 3	6% Specialised machinery
Vegetables and fruits	7% 4	4% Iron and steel
Tobacco and tobacco manufactures	6% 5	4.2% Power generating machinery and equipment

## Economic Forecast

	2010	2011	2012	2013	2014f	2015f
GDP growth (% change)	7.0	6.4	6.9	7.1	7.0	7.5
Inflation (% end-year)	5.6	19.8	12.1	5.6	9.4	9.2
Fiscal balance (% of GDP)	-6.4	-4.5	-5.9	-5.9	-5.1	-3.8
Public debt (% of GDP)	37.1	40.2	40.4	39.5	41.8	41.3
Current account (% of GDP)	-8.6	-16.7	-12.9	-14.5	-13.9	-14.5
External debt (% of GDP)	39.2	41.6	41.0	41.1	42.9	42.1

Sources: IHS Global Insight, national sources, Euler Hermes

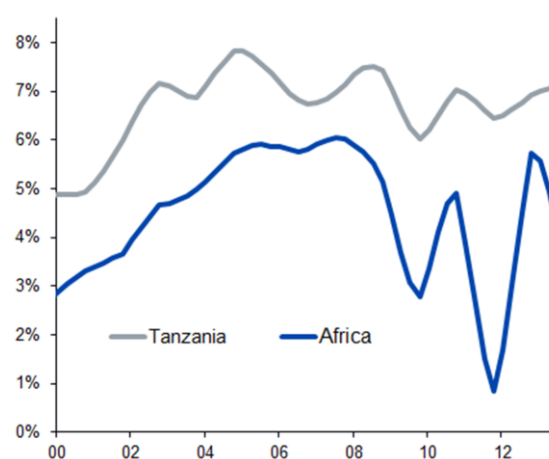
## Economic Overview

### Strong growth & positive outlook

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 and onshore natural gas industry. The mining sector (including gold) appears to be losing cost competitiveness but this is occurring as the energy sector moves into potential rapid growth. Natural gas reserves are currently estimated at 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 +7% in 2014 and +7.5% in 2015.

While the growth outlook is favourable, economic policy challenges remain in the short-term. Inflationary pressures remain high and fiscal deficits continue to be large (over -5% of GDP in 2013 and 2014). Despite some concerns relating to perceptions of corruption, external donors continue to provide budgetary support.

### GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

## Economic Overview (continued)

### Large external imbalances but the international community remains supportive

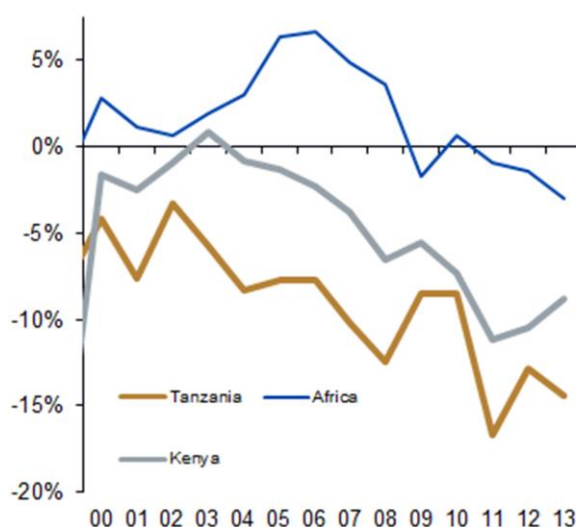
The country's external accounts also provide a challenge to economic management. Annual current account deficits as a ratio to GDP are now double-digit (annual average -8.3% in 2000-08). The marked increase in the current account deficit in 2011 reflected the high costs of imported energy supplies (oil 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.

### FX reserves are increasing but import cover remains low, given weak external accounts, and debt ratios are again increasing

Against the background of large current account deficits, which would not be sustainable without correspondingly large inflows of donor support, accumulation of FX reserves remains limited and EH expects import cover will remain below four months in 2014 and 2015. However, disbursements under the IMF facility halted the pace of decline in import cover (previously six months).

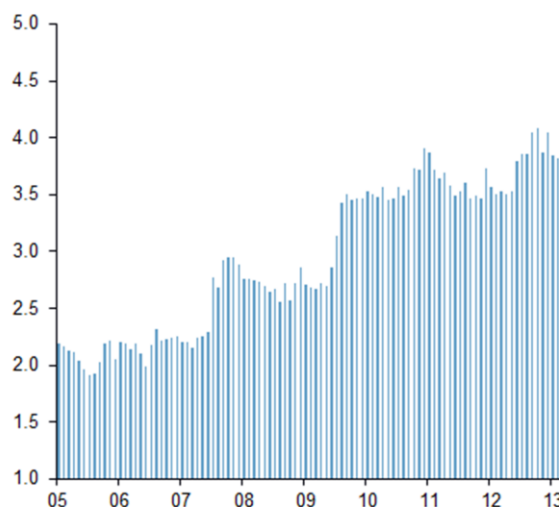
Tanzania's external debt levels and associated ratios improved following debt relief programmes under the auspices of HIPC and G8 initiatives, but remain a burden to the country's development needs. EH forecasts external debt/GDP and debt/export earnings in 2014 at almost 43% and over 149%, respectively. However, a high degree of concessional-lending leaves an annual servicing ratio (debt repayments/export earnings) of below 5%.

Current account balance as % of GDP



Sources: IHS Global Insight, Euler Hermes

Foreign Exchange Reserves (USD bn)



Sources: IHS Global Insight, Euler Hermes

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