Economics

Tanzania: Annual Economic Outlook

Navigating the way to continued growth

Standard Bank

May 2010

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Projections for 2010

- Real GDP growth is expected to increase to 5.9%
- Average annual inflation to decline to 8.2%
- Shilling to depreciate to annual average rate of TZS1 461/USD
- The trade balance is projected to widen to 12.8% of GDP
- Fiscal deficit is expected to reach 5.6% of GDP in FY 2009/10

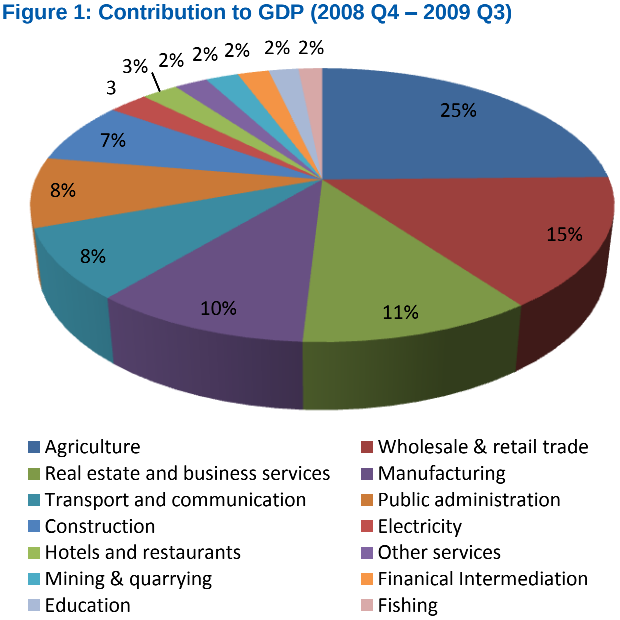
Recent trends

Production

Following the challenging circumstances of 2009, Tanzania still managed to achieve a relatively high level of growth in that year. Growth is expected to have reached 5.6% in this year, which is above previous expectations of 5.0%. It is also lower than the 7.1% that was attained in 2008. The economic performance was particularly strong in the following sectors, with significant importance to the economy: transport and communication, manufacturing, wholesale and retail trade, construction and real estate and business services. The contribution of education and financial intermediation to the economy increased in the recent past following strong growth in these sectors.

Agriculture remains the largest sector in the economy, contributing a quarter of the GDP. Growth in agricultural production has, however, been below that of most sectors in the economy. The agriculture sector demonstrated improved performance in 2007 and 2008 as growth increased to 4.0% and 4.6%, respectively, from 3.8% in 2006. Growth in 2009 is, however, expected to be below 3.0% following the dry conditions. Improved weather conditions brought relief to the production of food and various other crops towards the end of last year. Conditions in 2010 are expected to continue to improve as rainfall remains normal to above average for most parts of Tanzania. The major food crops include maize, cassava, rice and millet/sorghum, production of which improved over the course of 2009, with harvests concentrating in the third quarter under the Msimu and the Masika harvests in the unimodal and bimodal areas, respectively. The production of maize was equal to 6 166 tonnes in the first three quarters of 2009, of which 3 309 tonnes were harvested in the third quarter. Production was 3.3% higher than that produced in the same period of 2008. Cassava is the second-largest major food crop, of which 4 314 tonnes were harvested in the period Q1-Q3 2009, with two-thirds harvested in the third quarter. Production in 2009 was 24.1% more than was produced in the same period in the previous year. Improved performance has been associated with the farming input voucher programme that is part of the Agricultural Sector Development Programme (ASDP).

Figure 1: Contribution to GDP (2008 Q4 – 2009 Q3)



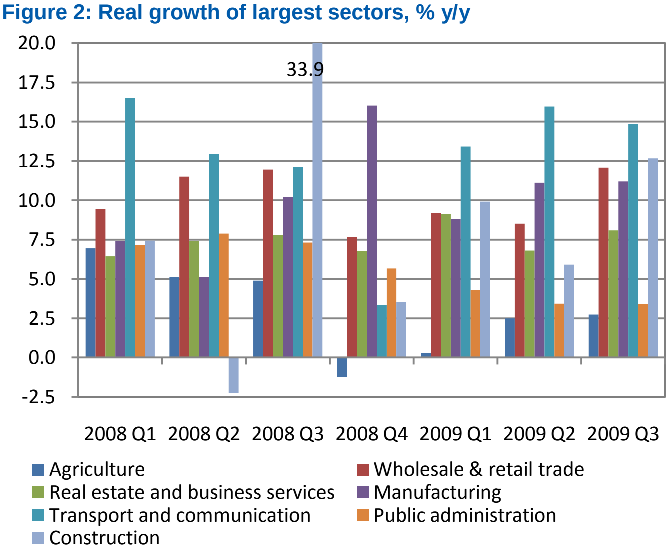
Source: National Bureau of Statistics

Wholesale and retail trade, the second-largest sector in the economy, grew by 9.3% in the four quarters prior to October 2009, according to the most recent quarterly data released by the National Bureau of Statistics (NBS). This sector is believed to have benefitted from increased trade, mainly imports of merchandised goods, but also from a rise in domestic production of manufactured goods. This is demonstrated in the manufacturing growth numbers: this sector expanded by 11.8% in the 12 months up to October 2009, compared to 8.5% in the same period a year ago. In 2009, imports of consumer goods were equal to US$1 392.1 million, which is 8.5% higher than imports of consumer goods in 2008. This increase was mainly on the back of increased food (stuff) imports, which were necessary to complement domestic supply. The value of imports of other consumer goods, which include pharmaceutical products, plastic items and paper products, increased by 5.8% to US$1 050.2 million in 2009. The upward trend in imports of other consumer goods continued in the last quarter of 2009 as well as the first months of 2010, implying continued growth in the wholesale and retail trade sector.

The real estate and business services sector, which contributes 11% to GDP, continued to exhibit strong and robust growth in 2009. This sector grew by 7.7% in the year ending in September 2009, up from 7.3% in the same period in the preceding year. This growth emerged as the deflated turnover of companies providing business services, such as communication and computer information services, continued to increase. The real estate sub-sector has continued to boom under increased supply and continued demand for both rented and purchased residential property. The number of owner occupied dwellings increased by 3.9% y/y in September 2009, while the number of rented private residences swelled by 9.2% y/y.

Manufacturing, which contributes 9.8% to the gross domestic product (GDP) of Tanzania, accelerated to 11.8% in the period Q4 2008 – Q3 2009, from 8.5% in the same period of the previous year. The increase in industrial production resulted mainly from elevated output in the tobacco, food processing and cement industries.

Figure 2: Real growth of largest sectors, % y/y



Source: National Bureau of Statistics

The communication sector has experienced sustained expansion as the number of mobile subscribers continues to rise, while the declining average revenue per user and associated increased competition continue to pose challenges to the mobile operators. Increased usage of internet and other value added services offer the greatest source of expansion to the communication sector. The transport sector benefitted from the fairly resilient performance of the export sector as well as increased imports of selected goods. Exports of gold and other traditional goods (such as coffee, cotton, tobacco and cashew nuts) increased by 12.5% in 2009. As mentioned earlier, imports of consumer goods experienced positive growth; total imports, however, fell by 10.9% as a result of lower imports of capital and intermediate goods (particularly oil).

The construction industry expanded by 10.5% in 2008; in the two years preceding, the year's growth was below ten per cent for the first time in five years. Growth in the first three quarters of 2009 was on average 9.5%, with development accelerating in the third quarter to 12.5%. This sector is expected to receive further impetus from increased government expenditure on infrastructure in the remainder of FY2009/10 and in coming fiscal years. Infrastructure was allocated TShs 1 096.6 billion in this fiscal year, which is equal to an increase of 12.7% compared to FY2008/09.

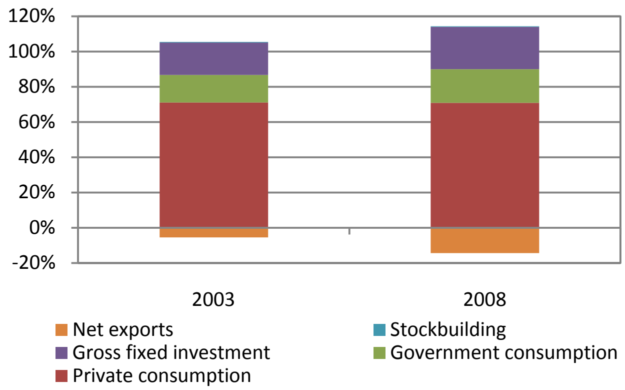
The mining industry currently contributes less than 3% to national output; however, the sector has great importance as an earner of foreign exchange through the exportation of gold. Other mining products such as coal and uranium as well as other base metals, diamonds, ferrous minerals and gemstones (incl. Tanzanite) offer further growth potential to this sector. According to the NBS, this sector showed severely negative growth in the last quarter of 2008 and first two quarters of 2009, reaching as much as -40.3% in Q1. Growth recovered to positive territory in the third quarter of 2009 at 6.1%. The increase in output resulted from the Barrick Gold's Buzwagi Gold Mine that started production at the end of the first half of 2009. On average growth was equal to -19.5% in these four quarters. Should commercial production of uranium and coal become a reality in the medium term then it is plausible that the contribution of this sector to GDP will come closer to the government's aspired 10%.

Domestic expenditure

Gross domestic expenditure (GDE) largely derives from Tanzanian households, which contribute 62 shillings of each 100 shillings spent in the economy by means of consumption, compared to 68 shillings of 100 shillings in 2003. Fixed capital is the second-largest contributor to GDE at 21.3%; this has increased steadily from 17.7% in 2003. Government consumption forms 16.7% of domestic spending, an increase from 15.8% in 2003.

Tanzania's net exports (exports minus imports) to GDE ratio dropped from -5.5% in 2003 to -14.3% in 2008, as imports more than doubled in this period while exports increased by 60%. Strong capital expenditure has been the main driver of increased imports as can be derived from the growing share of transport equipment, building materials and machinery in imports. The value of these imports has more than doubled in five years, with the share of capital goods in imports increasing from 35% in 2004 to 41% in 2008. The share of consumer goods has decreased from 31% to 20%.

Figure 3: Structure of GDP by expenditure (% of GDP)

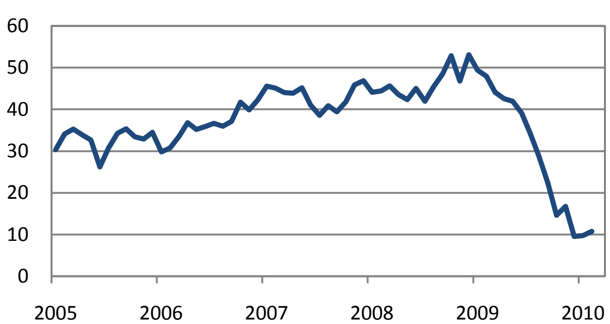


Source: National Bureau of Statistics

The contribution of imports to the GDE diminished in 2009, as the import bill declined by 10.9%, mainly as a result of the reduced oil imports, which fell by 28.9%. Imports of other intermediate goods (fertilisers and industrial raw materials) decreased by 36.7% and 16.7% in 2009, respectively. The value of purchases of capital goods from abroad decreased by 5.1% in 2009. On the other hand imports of consumer goods increased, offsetting some the decline of imports in intermediate goods. Overall, however, the trade balance did fare better than was anticipated in the turmoil in the international markets. Exports of goods declined by a mere 2%, allowing the goods balance to improve by 17.2% in 2009.

The overall decline of imported capital and intermediate goods is an indication of a decline in fixed investment. Public investment is set to increase in line with the expansionary budget of FY2009/10; however, underspending of the development expenditure budget in the last quarters of FY2008/09 as well as the first quarters of FY2009/10 led to lower-than-anticipated public fixed investment in 2009. Private fixed investment also slowed in 2009 as foreign and domestic investors reduced their capital expenditure, predominantly in the mining and construction sectors. Tight local financing conditions contributed to this, while foreign direct investment (FDI) is expected to have contracted in the course of 2009. The International Monetary Fund (IMF) estimates show that FDI was equal to US$591 million in FY2008/09 and that it will reach US$520 million in FY2009/10. This compared to US$696 million in FY2007/08.

Figure 4: Banks lending to the private sector (% y/y)



Source: Bank of Tanzania

Government consumption expenditure surged in 2009 as the recurrent expenditure in the government budget ballooned. Recurrent expenditure in the first half of FY2009/10 was over 50% higher than that of the preceding year. While wages and salaries have increased, the largest rise in expenditure emanates from the purchase of other goods and services as well as transfers.

Household consumption expenditure increased by 5% in 2008, slowing from 6% in 2007. High inflation (mainly linked to high food prices) eroded the purchasing power of households the past year, causing the growth of household consumption expenditure to slow further in 2009. In addition, prudent lending by the banking sector slowed private sector credit extension, which has further subdued private consumption. Money supply growth slowed in the course of 2009 as credit extension to the sectors other than the government diminished dramatically. Annual growth in claims on other sectors, which form part of the net domestic assets of the banking assets, was as low as 9.6% in December 2009 compared to 44.6% in December 2008. Fairly resilient export earnings from traditional agricultural products have, however, assisted in maintaining consumption levels.

Monetary policy

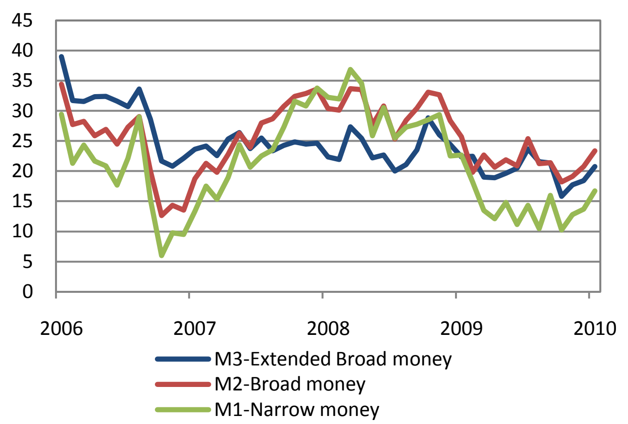
The Bank of Tanzania (BoT) strives to maintain a level of liquidity in the banking system that is consistent with price stability and economic growth objectives. The stance of monetary policy became accommodative in the final quarter of the FY 2008/09 as the central bank aimed to reduce the negative effects of the global economic and financial crisis on economic growth. The central bank did this by raising the targeted growth rates of money supply and lowering the interest rates on its Lombard rates and discount windows. In July 2009, the central bank moved to make the Lombard and discount rate more active instruments of monetary policy. As a result the margin applied on the base rate to determine both the Lombard rate and the discount (or Bank) rate was changed from fixed percentage points to a proportion of the base rate.

The targets for monetary policy for December 2009 were set as follows: annual growth rates of M3 and M2 equal to or below 21.7%, annual growth of credit to private sector not exceeding 26.7% and stock of gross official reserves sufficient to cover not less than five months of imports of goods and services. Average reserve money forms the working target for monetary policy. The BoT makes use of government securities, repurchase agreements and foreign exchange transactions to achieve its operational targets for average reserve money. The amount of these instruments sold in the market was reduced by the central bank in order to allow for increased supply of monetary aggregates.

Although the reduced sales of monetary policy instruments allowed for increased liquidity in the banking sector, they did not translate into increased credit growth. The banks demonstrated extreme caution in their lending behaviour, showing a preference for secure assets in the form of government securities. Money supply growth remained below the targeted annual growth rates by December 2009, reaching 19.5%

and 18.4% for broad money (M2) and extended broad money supply (M3), respectively. Broad money supply growth reached a low in October 2009 of 15.8% (M3) and 18.2% (M2) before commencing an upward trend that persisted into the first quarter of 2010. This mainly resulted from an increase in net claims on the central government, in line with increased domestic borrowing. Net claims on government moved into positive territory, as the government accumulated loans from the banking system. The BoT, and more recently depository corporations, furthermore increased its net foreign assets allowing for growth in money supply. Private sector credit extension has continued to slow, reaching 7.9% in February 2010, reflecting the cautious stance of commercial banks as well as their preference for foreign assets and treasury securities.

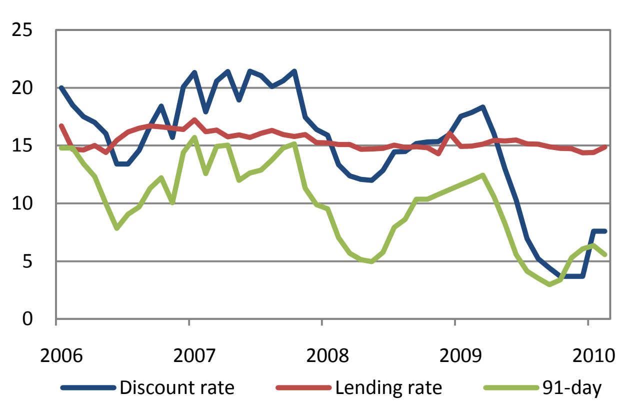
Figure 5: Money supply growth (% y/y)



Source: Bank of Tanzania

Treasury rates as well as the interest rates on monetary policy instruments fell in line with the expansionary policy stance; however, the commercial lending rates have remained persistently high. The overall lending rate stood at 14.38% in December 2009, rising slightly in the beginning of 2010 and reaching 14.86% in February. The overall weighted average yield on Treasury bills fell from its peak of 13.3% in March 2009 to on average 5.4% in the second half of 2009, as the liquidity in the banking sector increased and the size of the treasury security auctions was reduced.

Figure 6: Interest rates (%)



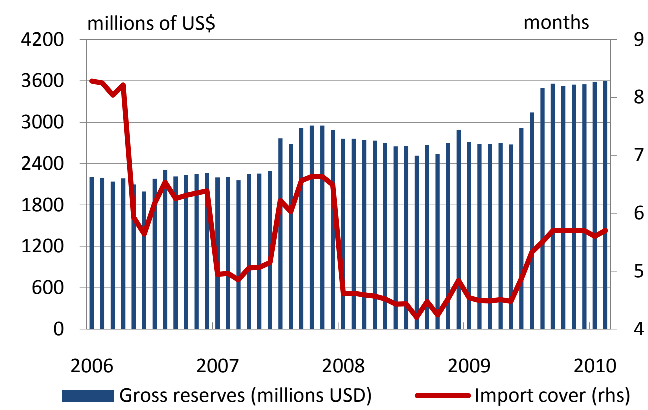
Source: Bank of Tanzania

Targets for monetary aggregates aim to ensure growth of broad money supply M3 and M2 not exceeding 20.0% by June 2010, allow credit to the private sector to grow at an annual rate of 28.7%, and maintain gross official reserves sufficient to cover not less than five months of imports of goods and services, while continuing to exercise strong regulation and supervision of banks and maintaining stability of the financial market. Broad money supply growth in the first quarter of 2010 has exceeded the targets mentioned above, at 23.6% in February 2010. Extended broad money expansion has remained below the target, at 19.0% in February 2010.

Tanzania's international reserves' position has been above its targeted level for the latter half of 2009. The level of gross reserves benefitted from the disbursements from the IMF's External Shock Facility (ESF, in June and December 2009) as well as the general and special allocation of Special Drawing Rights (SDR) (August and September 2009). Receipts from these facilities were equal to SDR 198.9 million (approximately US$300 million) and SDR 159.1 million (approximately US$250 million), respectively. Tanzania is yet to receive a third tranche of the ESF sum that was granted in May 2009. This amount is likely to be disbursed before the end of the first half of 2010 following positive feedback from the IMF's visit to Tanzania in March 2010. This tranche amounts to SDR 19.8 million.

International reserves veered closer to the US$4 000 million level in the beginning of 2010, reaching US$3 596.1 million at the end of February 2010. This is equal to 5.7 months of imports, above the BoT's target of reserves of not less than five months.

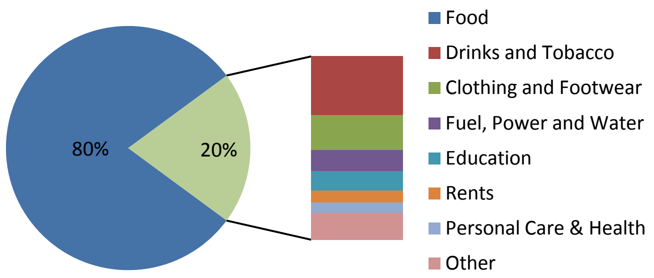
Figure 7: Gross reserves (US$ millions) and import cover (months)



Source: Bank of Tanzania

Inflation remained persistently high in Tanzania in 2009, mainly on the back of increasing food prices. Food inflation peaked in August 2009 at 18.9% y/y before falling to 14.5% in December 2009. Regional shortages of food continued to exert pressure on food prices, leading to Tanzania placing an export ban on food, while it required imports to supplement its domestic production. Non-food inflation on the other hand fell to its lowest point in June 2009 (0.9% year on year), before increasing consistently in the remainder of 2009. By December 2009 non-food inflation was equal to 8.5% on the back of higher drinks, tobacco, fuel, power and water prices. The prices of rented dwellings were also elevated in 2009, contributing to high non-food inflation. Headline inflation was on average 12.1% in 2009.

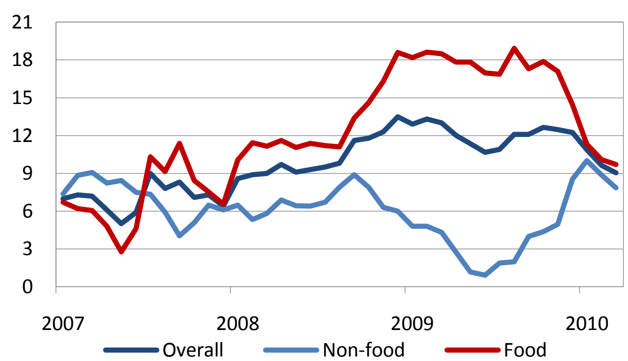
Figure 8: Contribution to consumer price inflation (year to March 2010)



Source: Bank of Tanzania

Food inflation has, however, eased in the first quarter of 2010, reaching single digits in March at 9.7%, with headline inflation falling to 9.0%. Elevated fuel, power and water prices (contributing 8.5% to the CPI basket of goods and services) continue to rise, adding to non-food inflation pressure in the first half of 2010.

Figure 9: Contribution to consumer price inflation (year to March 2010)



Source: National Bureau of Statistics

External sector

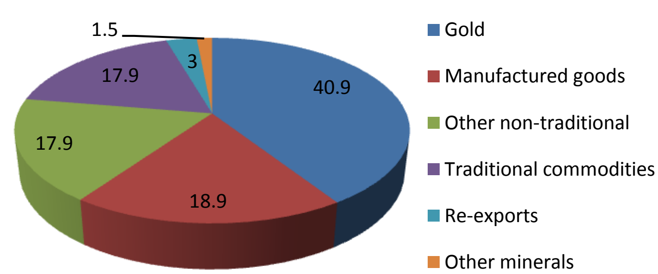
In 2009, international markets witnessed the largest decline in volume and value of trade in more than 70 years. Statistics provided by the World Trade Organisation (WTO) show that the volume of world trade declined by 12% in 2009, while the drop in value was even larger on the back of declining oil prices as well as falling prices of other primary commodities. The emergence of the global recovery will assist in allowing world trade to resume its upward trend in the course of this year; the volume of global trade is, however, expected to remain below the levels of 2008. The dynamics of international trade have furthermore changed as a result of the divergence in the economic growth patterns of the emerging and developing economies from that of the advanced economies. The growth in the emerging parts of the world is set to continue to drive primary commodity prices and global trade flows of these goods.

Tanzania is endowed with various minerals and metals, which could allow it to benefit from growing global demand for these finite goods through its external sector. Tanzanian minerals and metals are believed to include gold, diamonds, tanzanite, nickel, copper, cobalt, tin, iron ore and coal. Exports are currently concentrated in gold. Over 40% of exports were in the form of gold in 2009, increasing in the past year on the back of larger output as well as higher gold prices. Manufactured exports include processed tobacco, cement, textile apparels, iron and steel products, glassware and fertilisers. Exports in this category make up the second-largest export category, contributing close to a fifth of exports. Fish (products), horticulture and re-exports are considered as other non-traditional exports. Agricultural exports, also known as “traditional exports”, consist of coffee, cotton, tobacco, cashew nuts, tea and cloves. These products make up 18% of total exports.

The rest of Africa receives over a fifth of Tanzania’s exports and is therefore the most important trading region. This share has been growing steadily over recent years. South Africa, Malawi, the Democratic Republic of Congo, Uganda, Rwanda and Kenya each receives between 2.4% and 3.5% of total exports. The Euro-area receives 19.3% of total exports, making it the second-most-important region in terms of trade. The share of export to this region has, however, declined over the past five years from over 35% in 2004. Germany, the Netherlands and Spain are most important in this area. India, Japan and China are the most important individual countries with which Tanzania trades, receiving 8.9%, 6.4% and 6.1% of 2008 exports, respectively.

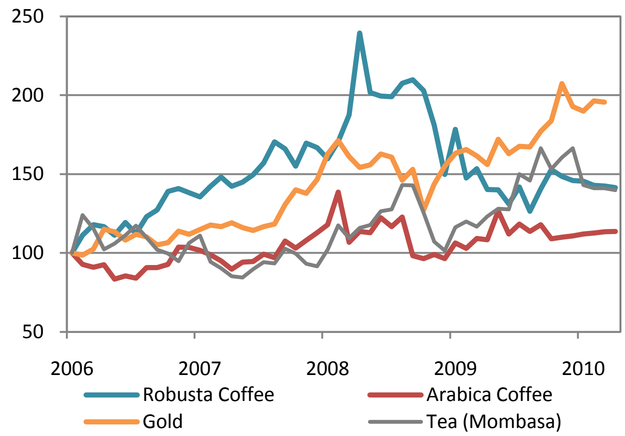
Tanzania’s recorded exports declined slightly in 2009, falling by only 2% from US$2.67 billion in 2008 to US$2.63 billion in 2009. The decline in exports was mainly a result of reduced regional demand for manufactured goods as well as substantially fewer re-exports. Exports of agricultural goods on the other hand increased as production volumes improved and global prices for tea and tobacco rose. In 2009, the price of tea exports was 14.1% higher than in 2008; tobacco was worth on average 23.7% more per unit. Gold prices resumed their steady upward march in September 2009, ending the year at US$1 179.2 per troy ounce. The price of gold in 2009 was on average 12% higher than in the previous year. Tanzania benefitted from prices increasing by expanding its production. In 2009, the value of exports of gold increased by 15.4% to US$470 million.

Figure 10: Composition of 2009 exports (% of total)



Source: Bank of Tanzania

Figure 11: Price indices for various export products (2006=100)

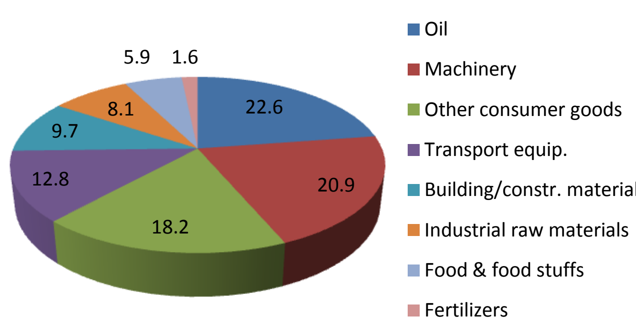


Sources: IMF, Bloomberg

Tanzania's imports of supersede its exports by more than US$2.5 billion, thus creating a large deficit on the trade balance which is only partially complemented by inflows in the form of services income and current transfers. The deficit on the current account is as a result expected to have reached US$1.75 billion in 2009 (close to 8% of GDP), down from US$2.53 billion in 2008 (12% of GDP). The large decline in the deficit results mainly from substantially lower imports of goods in 2009.

The decline in imports was mainly in intermediate goods: the oil import bill was 28.9% lower in 2009 than in the previous year, with imports of fertilisers and industrial raw materials falling by 36.7% and 16.8%, respectively. Capital goods imports were 5.1% lower in 2009. The surplus on the services balance declined in 2009 as income from transportation and tourist travel services declined by 8.3% and 2.2%, respectively. This followed the decline in tourist arrivals and the quantity of goods being transported to and from Tanzania.

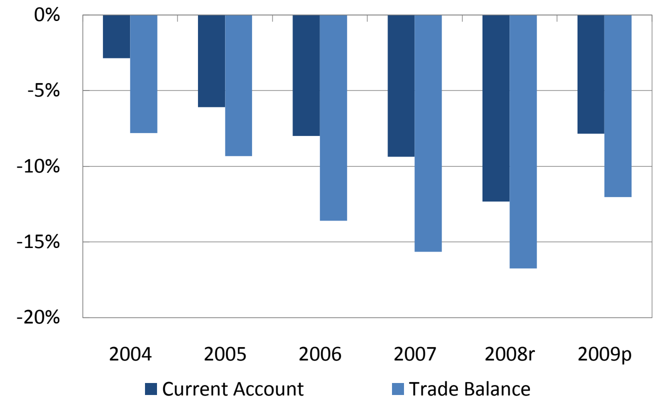
Figure 12: Composition of 2009 imports (% of total)



Source: Bank of Tanzania

The overall balance of payments' position improved in 2009 from a surplus of US$148.2 million in 2008 to US428.9 million. In addition to the declining trade deficit, the disbursement of funds by the IMF under the ESF further strengthened the balance of payments. Receipts on the capital account amounted to US$466.5 million in 2009, of which US$403.9 million was received by the general government. These transfers relate to investment grants for capital projects that are executed by the general government. The amount received was almost US$75 million lower than that received in 2008. The surplus on the financial account amounted to US$1 553.2 million, which was also lower than the surplus realised in 2008 (US$1 745.7 million). As reflected on the provisional outcome of the balance of payments for 2009, FDI (as included on the financial account) was equal to US$645 million in 2009, a 5% decline relative to 2008.

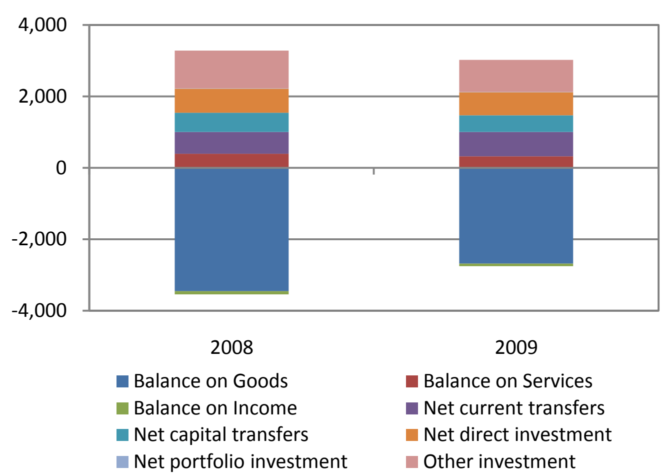
Figure 13: Current account and trade balance (% of GDP)



Source: Bank of Tanzania

Portfolio investments are highly insignificant on the balance of payments, reaching a mere US$3.0 million in 2009 (against market capitalisation of the Dar es Salaam stock exchange of US$3.64 billion in May 2010). The majority of the surplus on the financial account is a result of increased liabilities in the form of short- and long-term loans that amounted to US$905.2 million in 2009 (compared to US$1 063.4 million in 2008).

Figure 14: Balance of payments (US$ millions)

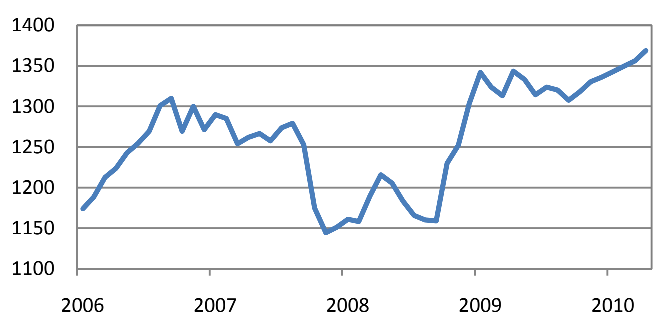


Source: Bank of Tanzania

The exchange rate against the US dollar became relatively more stable in the course of 2009. The Tanzanian shilling traded between TZS 1 289/USD and TZS1 400/USD in the first half of the year. This band became smaller in the second half the year, with the currency trading between TZS1 295/USD and TZS1 345/USD. The currency has since the third quarter of 2009 embarked on a path of depreciation against the dollar, losing on average 0.65% m/m. The speed of depreciation has accelerated to 0.92% m/m in the past month on the back of increased risk aversion in global markets that has been spurred by the threat of sovereign default in European markets. This is above the long-term depreciation trend that the Tanzanian shilling has demonstrated: over the past ten years the shilling has lost on average 0.45% m/m in value against the dollar.

Increased capital flows to Tanzania in 2007 and 2008 led to a periodic departure from this trend. This was associated with the space to borrow from international financial markets that was created by debt relief received under the Heavily Indebted Poor Country Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI) in late 2006. External investment finance in the form of financial leases, trade credit and other long- and short-term loans increased fivefold between 2007 and 2008, from US$263 million in 2007 to US$1 063 million in 2008. It is these substantial financial flows to Tanzania that provided support to the currency; the subsequent turmoil in financial markets at the end of 2008 led to these sources of finance coming under severe strain. As overall risk aversion increased, the currency lost over 15% of its value in less than four months, breaching TZS 1 300/USD in December 2008.

Figure 15: Exchange rate (TZS/USD)



Source: Bank of Tanzania

The policy of the BoT in the course of 2009, with regard to the exchange rate, was to structure "its sale of foreign exchange to reduce volatility in the exchange rate and dampen speculative tendencies". To this end, the central bank sold foreign exchange in the market amounting to US$560 million between June and December 2009; this is substantially more than was sold in the same period of 2008, namely US$368.5 million.

Fiscal sector

With the budget currently under execution the government aspires to extend the expansionary stance of fiscal policy that was envisaged with the FY2008/09 budget. This included an economic stimulus package with a value of TSh1 692.5 billion; as of December 2009 TSh870.8 billion of this package had been disbursed (51%). The largest share of the stimulus package will be spent on assisting in ensuring food security (TSh141 billion). The second-largest share will be spent on the improvement of the railway and road infrastructure (Tsh110.4 bllion), closely followed by price subsidies that will be provided to a value of Tsh80 billion. Other measures include compensation to farmers for declines in demand and prices of primary commodities, guarantees for debt rescheduling and an export and SME credit guarantee scheme.

The overall budget outlined government expenditure equal to TSh8.86 trillion (approximately US$6.6 billion) or 28% of GDP. This is a substantial increase from the realised budget of the previous year in which total expenditure was equal to TSh6.81 trillion. The increase in expenditure in the 2009/10 budget is as much as 30%. The largest share of expenditure is dedicated to recurrent expenditure: 62% of total expenditure. Wages and salaries alone consume 20% of the budget. Development expenditure is set to equal Tsh2.84 trillion by June 2010, which is one-third more than the amount realised in the previous fiscal year. Two-thirds of this expenditure is to be financed through external lending, ideally from concessional sources as provided by multilateral organisations such as the IMF and World Bank, but also other development finance institutions such as the African Development Bank (AfDB) and bilateral development facilities. Grants are expected to equal 6.7% of GDP, or 23.6% of total expenditure (TSh2.1 trillion).

Domestic revenue collections are projected to finance 58% of the budget, with tax collections by the central government set to reach Tsh5.1 trillion (about US$3.8 billion) in FY2009/10. The majority of these collections are expected to be in the form of taxes on imports: TSh1.76 trillion or 37% of total central government tax revenue collections. The second-largest source of revenue is income tax, which is scheduled to raise Tsh1.47 trillion (31% of total collections). This is a 17% increase from actual receipts in FY2008/09.

Expenditure levels were equally below target by December 2009, with the shortfall occurring solely in development expenditure. Only 77% of the anticipated development spending had been actualised by the end of the year. Execution did, however, improve in the first two months of 2010, with expenditure reaching 98% of estimates by February. The contribution of foreign lending to this expenditure was larger than expected, reaching 110% of estimates. Recurrent expenditure between July 2009 and February 2010 was equal to TSh3.6 trillion (11.7% of GDP), which was 91.5% of estimates.

On the basis of preliminary execution reports of the 2009/10 budget, produced by the Ministry of Finance and Economic Affairs, revenue collections were 10% below target in the first two quarters of this fiscal year – a trend which has progressed into 2010: revenue collections between July 2009 and February 2010 were equal to TSh2.89 trillion or 91.6% of estimates under the budget. The largest shortfall was in non-tax revenues: 89% of estimates were achieved in this case.

While domestic revenues and expenditure remained fairly in sync in their shortfalls from estimates, the financing of the difference between the two did not emerge as expected. The overall deficit before grants half way into the fiscal year was equal to TSh2.04 billion (6.5% of GDP); this is set to increase to close 12% of GDP by June 2010. However, it is likely that the budget deficit before grants will grow beyond this level as revenue collections continue to fall below targets and expenditure moves closer to estimations.

Table 1: Fiscal budgets (TSh billion)

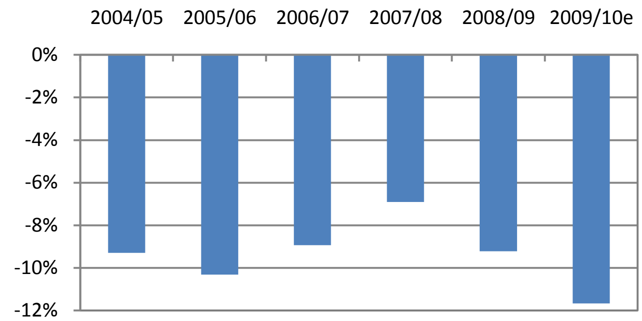
	2008/09 Actual	2009/10 Budget	2009/10 Estimates Jul – Feb	2009/10 Actual Jul – Feb
Total Revenue	4 293	5 096	3 327	3 030
Tax revenue	4 044	4 841	3 154	2 889
Non-tax revenue	249.4	255	174	141
Total Expenditure	6 812	8 862	5 901	5 522
Recurrent expenditure	4 027	6 037	3 988	3 648
Wages and salaries	1 609	1 766	1 172	1,129
Development Exp. and net lending	2 130	2,825	1,912	1,874
Domestic	906	968	728	572
Foreign	1 224	1 857	1 185	1 302
Overall Balance before grants	-2 518	-3 628	-2 505	-2 492
Grants	1 246	2 091	1 488	1 181
Overall deficit. (after grants)	-1 273	-1 537	-1 017	-1 312
Financing:				
Foreign Financing (net)	944	1 037	-	1 089
Loans	-	801	657	938
Program loans	331	368	368	340
Development Project loans		432	288	598
Domestic	259	1 061	213.6	335.6
Bank & Non Bank Financing (NDF)	249	506	156	157

Source: Ministry of Finance and Economic Affairs

The overall deficit after grants was almost double that anticipated owing to the lower-than-expected disbursements of grants. Receipts of grants were less than three-quarters of anticipated amounts in the budget, namely TSh957.0 billion (US$715 million). As a result, the overall budget after grants reached 3.7% of GDP, which was higher than the 2.9% of GDP anticipated in the first half of FY2009/10. The deficit is expected to reach 6.7% of GDP at the end of the fiscal year.

Domestic borrowing has increased in the course of fiscal year 2009/10 following the underperformance of revenue collections and grants. Total outstanding domestic debt as of February 2010 was equal to US$2 552.5 million, compared to US$1 907.1 million in the preceding year, a 34% increase. Domestic debt is equal to approximately 8.5% of GDP. The new debt issued in the current fiscal year has predominantly been in the form of government securities, specifically Treasury Bonds. In the period July 2009 to February 2010, TSh496.2 billion in Treasury Bonds were issued compared to TShs227.5 billion in Treasury Bills. This is 66.8% of the TSh1.1 trillion

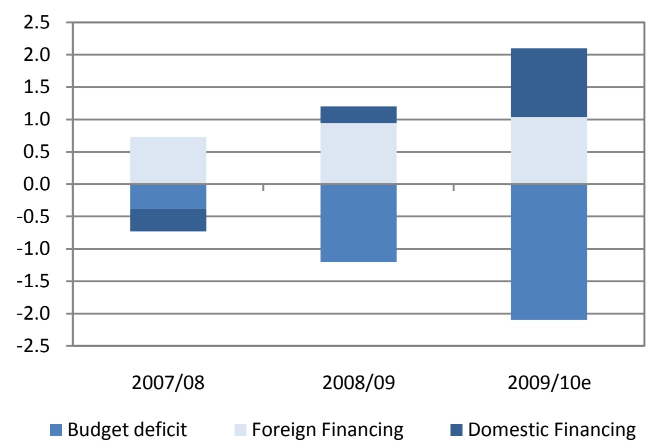
Figure 16: Budget deficit before grants (% of GDP)



Source: Ministry of Finance

in domestic borrowing that was foreseen in the 2009/10 budget. The value of Treasury Bills had already exceeded the budget estimates of TShs202.5 billion. The central bank was set to provide Tsh300 billion to the government of Tanzania under the exceptional circumstances provision of the Bank of Tanzania Act. The first tranche of this sum was disbursed in July 2009.

Figure 17: Overall budget deficit and financing (TSh billions)



Source: Ministry of Finance and Economic Affairs

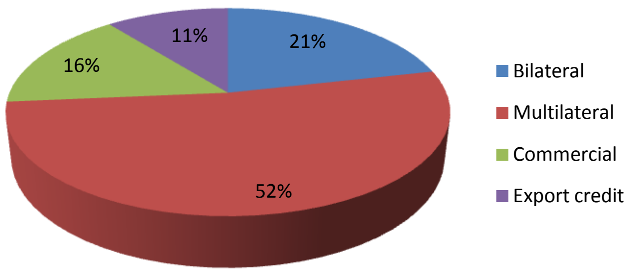
In January 2010, the central bank raised concern that a large number of long-term government bonds and stocks are scheduled for repayment in the coming fiscal year. The principal amount scheduled to be paid is believed to be as much as TSh418.7 billion, compared to less than TSh100 billion in the current fiscal year. As the absorptive capacity of the domestic market is limited, the rollover of this debt could prove to be challenging. Another peak in principal payments is expected in FY2018/19, when TSh349 billion in government bonds will mature.

Public external debt was equal to US$5 358.9 million in February 2010, compared to US$4 660.8 million in the same period a year ago, which reflects a 15% increase. The overall external debt stock is equal to US$7 735.9 million, or 34.8% of GDP. The majority of external debt is owed to multilateral organisations, of which the World Bank has extended the most (31.6% of total external debt). Debt to the AfDB stood at US$863.1 million in February 2010 (11.2%).

Bilateral debt, at US$1 661.4 million, was mainly owed to Non-Paris club creditors (62.3% of total bilateral debt).

Tanzania's risk of debt distress is low as its external borrowing is relatively limited and as a large share of its loans is on concessional terms provided for by multilateral organisations such as the World Bank and the AfDB. The debt sustainability assessment executed by the IMF in mid-2009 reveals that even if Tanzania were to increase its non-concessional external loans as well as increase domestic borrowing in a situation of reduced support from donors (in the form of grants) the present value of public debt as a percentage of GDP would remain below 40% in the medium term.

Figure 18: External debt (US$7 735.9 million) by creditor category (February 2010)



Source: Bank of Tanzania

External support to the budget of Tanzania in the form of grants is likely to fall relative to the total budget as well as GDP, peaking in this fiscal year and falling to below 5% of GDP by FY2012/13. The decline in grants may, however, be more rapid following a statement released by the group of budget support partners to Tanzania on 13 May 2010. In this statement, the 14 development partners providing budget support moved to reduce their commitment to US$534 million.[1] While the budget for the subsequent fiscal year has not yet been released, the medium term plan gives in an indication of the size of public expenditure in the coming three years. The maximum expenditure for each year is described as the 'ceiling'. The reduction of direct budget support is equal to less than 3% of the current ceiling for expenditure for FY2010/11. Total expenditure is set to equal approximately US$7.5 billion under this budget. The decline in contribution to the general budget by these donors is therefore relatively insignificant. Over half of the 2010/11 is to be financed with domestic revenues, with the remainder of the budget to be largely financed through external loans.

National policy assumptions and the international environment

Tanzania's vision for long-term development is outlined in the Development Vision (Vision 2025) of "high and shared growth, high quality livelihood, peace, stability and unity, good governance, high quality education and international competitiveness". With this vision, Tanzania aims to graduate to a middle-income country by 2025. This vision is further detailed in the National Strategy for Growth and Reduction of Poverty (NSGRP or MKUKUTA) and the Tanzania Mini-Tiger Plan (TMTP2020). Tanzania further strives to reach the Millennium Development Goals by 2015.

To reach its goal of becoming a middle-income country by 2025, Tanzania aims to achieve GDP growth rates of between 6% and 8% a year. This growth is expected to stem from increased growth in the manufacturing and agricultural sectors as well as an increased proportion of value-added minerals in exports. Vision 2025 identifies the following strategies to reach these growth levels: sound macroeconomic management; infrastructural development; promotion of science and technology education, and information and communication technology (ICT); the increased mobilisation and utilisation of domestic resources; and the development of the capacity to anticipate and respond to external changes. Operational targets for sound macroeconomic management include maximum inflation of 4%, maintenance of official reserves of at least six months, external debt to GDP ratio of 50% or less and unemployment of below 7% by 2010. Concrete infrastructural targets include the repair of 15 000 km of rural roads by 2010. The government also aims to improve the infrastructure services of harbours, airports and the reach of the rural electricity grid.

Tanzania has been lauded for the transformation of its economy after the period of Ujamaa Socialism that followed independence (from 1970 to 1985). The Economic Recovery Programme launched in 1986 allowed for the gradual liberalisation of the economy. However, only from 1995 onwards did structural reform start translating into substantial stabilisation of the macroeconomic environment and real GDP growth of above 5%. The previously mentioned poverty reduction strategy allowed Tanzania to graduate to comprehensive debt relief, which in turn provided increased fiscal space for the implementation of development policies and provided a basis for donor support of government policy. Despite these reforms that have been successful in creating a stable economic environment and increased economic growth, Tanzania still faces challenges in creating an environment that is conducive to business that will allow for private-sector-led growth. Alleviation of infrastructure bottlenecks and improvement of human capital through increased delivery of education and health care, as identified in public policy, are necessary to achieve this. Tanzania ranks 131 out of the 183 countries evaluated in the World Bank's 2010 Doing Business survey in terms of ease of doing business, a deterioration of five places relative to its position in 2008 following a year in which no significant reforms were implemented to improve the business climate.

The NSGRP or MKUKUTA launched in 2005 covers an initial five-year plan and uses an outcome-based approach to define policy priorities. It succeeds the first medium-term Poverty Reduction Strategy paper (PRS) that was formulated as part of the HIPC Initiative. MKUKUTA focuses on broadly three clusters: growth and reduction of income

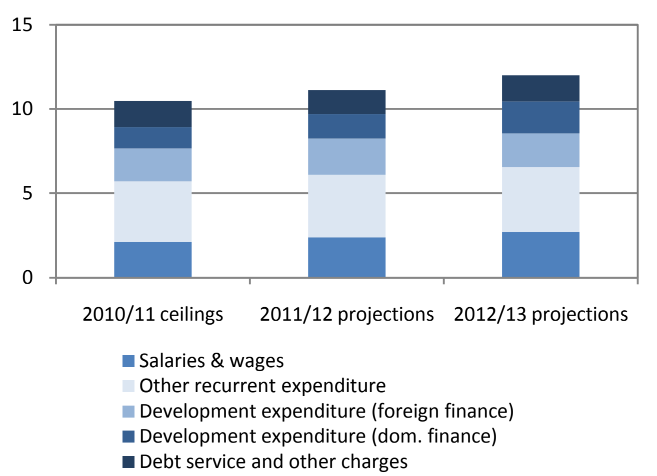
[1] The 14 partners include the AfDB, Canada, Denmark, the European Commission, Finland, Germany, Ireland, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the World Bank.

poverty, improvement in quality of life and social well-being, and governance and accountability. The initial phase of implementation of MKUTATA ends in June 2010. TMTP2020 aims to fast track the achievement of Vision 2025 through the creation of Special Economic Zones (SEZs) that will foster the competiveness of Tanzanian produce and stimulate exports.

The 2009/10 budget presented in June describes constrained circumstances that follow from the international financial and economic crisis for the continued implementation of the objectives of MKUKUTA. The emphasis of this budget is on the improvement of agricultural production in an attempt to mitigate the adverse effects of the global financial crisis. This sector is of particular importance to the well-being of the citizens of Tanzania as close to 80% of the population is employed in this sector. Domestic borrowing will be increased from 3% of budgetary resources to 11% while efforts to increase domestic revenue collections will continue to facilitate development expenditure as the availability of (concessional) international finance remains constrained and unpredictable. One-third of the 2009/10 government budget is expected to be provided in the form of grants and foreign loans. The government has conducted an increasingly expansionary fiscal policy over the years, with expenditure relative to GDP reaching an estimated 30% of GDP in 2009/10 from 22.5% in 2004/05.

Monetary policy will continue to focus on price stability through careful management of liquidity. However, the BoT has expressed its intention to continue its relaxed liquidity stance in support of economic activity. The BoT has specifically defined the following targets for fiscal year 2009/10: money supply growth of 20% (M2 and M3), annual rate of private sector credit growth of 28.7% and international reserve level equal to four months of import by June 2010. The monetary policy targets for beyond June 2010 are to be announced along with the budget in June 2010.

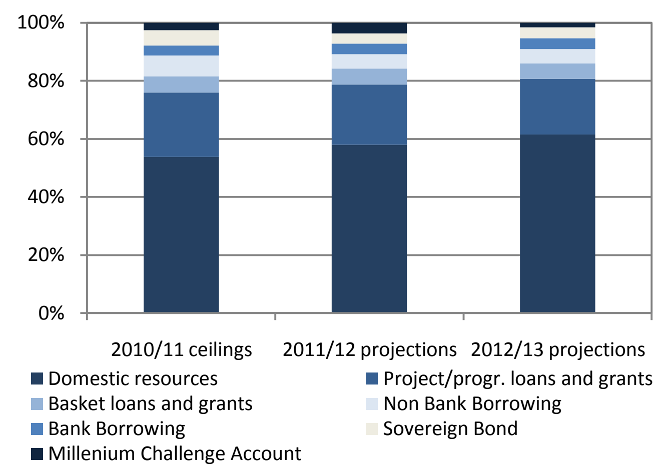
Figure 19: Medium-term expenditure framework FY2010/11 – 2012/13 (TSh trillions)



Source: Ministry of Finance and Economic Affairs

The guidelines for the preparations of the medium-term plan and the budget framework outline the fiscal plans for the coming three years, which include the increase of the overall budget by on average 10% per year over the medium term. Overall expenditure is projected to increase to Tsh10.5 trillion (29.1% of GDP), TSh11.1 trillion (28.1%) and TSh12.0 trillion (26.8% of GDP) in fiscal years 2010/11, 2011/12 and 2012/13, respectively. The medium-term plans outline intentions to proceed with the issuance of a sovereign bond in the coming fiscal year. The government of Tanzania hopes to raise over TSh550 billion through this channel, approximately US$410 million.

Figure 20: Medium-term resources framework FY2010/11 – 2012/13 (% of total)



Source: Ministry of Finance and Economic Affairs

In April 2010, the government presented the long-awaited Minerals Amendment Bill to parliament. The legislation aims to increase the benefits of the mining sector to the Tanzanian population by increasing the revenues received through the removal of tax breaks to mining companies as well as increasing the royalty tax rate from 3% to 4% for metallic mineral mines and 5% for gemstone and diamond mines, while the formula for calculation of the royalties is also set to change. The government also aims to acquire 10% ownership of all mining companies, although it is unclear at this point how the acquisition will be financed. The capitalisation of the Dar es Salaam stock exchange will benefit from the mandatory listing of mining companies on the local bourse. The extraction of uranium will not be encompassed by the Mining Amendment Bill; legislation covering this sector is expected to be put in place in the course of 2010. While the changes to the mining Act clearly add to the costs of doing business in Tanzania, it is believed that the legislation does not fare worse than the tax regimes of other African countries. The overall appeal of the resources known to be encrusted with Tanzanian soil is likely to outweigh the additional incremental costs that will be incurred by this bill. The government's goal is to increase the contribution of the mining sector to GDP to 10% by 2025, from its current contribution of 2.2%.

International environment

The close of 2009 signalled the end of the global economic recession. The global economy shrank by 0.6% in 2009, following growth of 3.0% in 2008. The advanced economies were by far the worst affected by the recession; the collective of economies contracted by 3.2% in 2009. Of these economies, Japan, the Euro-area and the United Kingdom were the hardest hit by the global financial and economic crisis. Conversely, the emerging and developing economies showed positive growth of 2.4% in 2009, albeit significantly slower than the buoyant 6.1% of 2008.

Of the BRIC economies, Russia and Brazil were the laggard performers, with negative growth rates of 7.9% and 0.2%, respectively, in 2009. China and India's economies were a lot more resilient to the recession than expected. China's economy exhibited growth of 8.7% in 2009, which is less than a percentage point lower than its growth rate for 2008. In contrast, sub-Saharan Africa's real economy was pummelled by the global economic slump and, in particular, the collapse in global trade. As a result, economic growth slowed to 2.1% in 2009, from 5.5% in 2008.

The resilience of the emerging and developing economies partly explains the bounce back in economic performance projected for 2010. A brisk recovery of 4.2% is projected for the world economy in 2010, which is even stronger than its 2008 growth performance. This strong projection is largely based on an expectation that the advanced economies will exhibit a convincing recovery in 2010, with a growth rate of 2.3%. However, increasing concerns about a double-dip recession, partly due to the rising risk of sovereign debt defaults, especially in the Euro-area, could mute the strength of the recovery. The strengthening of advanced economies is necessary to lift consumer spending, which is supportive of a recovery in export-led emerging economies that will in turn support a recovery in demand for Africa's commodities.

Table 2: Global economic outlook

Real GDP growth (year-on-year)				
	2008	**2009**	**2010p**	**2011p**
World	3.0	-0.6	4.2	4.3
Advanced economies	0.5	-3.2	2.3	2.4
United States	0.4	-2.4	3.1	2.6
Euro-area	0.6	-4.1	1.0	1.5
United Kingdom	0.5	-4.9	1.3	2.5
Japan	-1.2	-5.2	1.9	2.0
Emerging and developing economies	6.1	2.4	6.3	6.5
China	9.6	8.7	10.0	9.9
India	7.3	5.7	8.8	8.4
Brazil	5.1	-0.2	5.5	4.1
Russia	5.6	-7.9	4.0	3.3
Sub-Saharan Africa	5.5	2.1	4.7	5.9
Developing Asia	7.9	6.6	8.7	8.7

** p = projection*

Source: IMF

The emerging and developing economies are expected to lead the global recovery, with China at the forefront. China's growth projection for 2010 currently stands at 10.0%, while that of India is expected to reach 8.8%. Higher commodity prices and an increase in economic activity are expected to spur an increase in inflation in 2010. Average inflation in the advanced economies is thus projected to increase to 1.5% in 2010, from 0.1% in 2009, while that of the emerging and developing world is expected to increase from 5.2% to 6.2%.

Forecast summary

Domestic expenditure

Growth in 2009 slowed significantly on the back of lower production in predominantly the mining, agriculture and hospitality sectors. In 2010, however, it is expected that the output of these sectors will improve considerably, with the strong performance of the manufacturing, financial intermediation and construction sectors to continue to buoy. Fiscal and monetary programmes have provided support to these sectors, with specific measures in the 2009/10 budget providing assistance to the agriculture sector. These measures placed a floor under economic activity in the course of 2009 and are set to continue to assist growth in 2010.

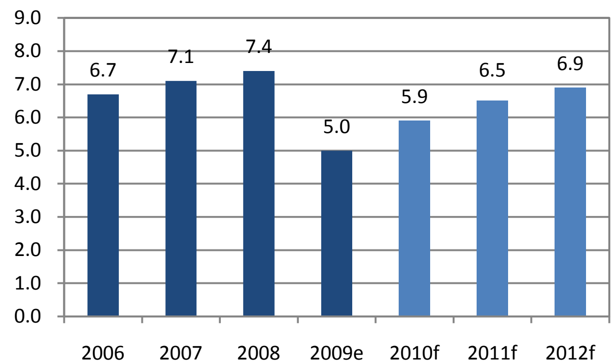
The 2009/10 budget, with the motto "Agriculture First", recognised the need to nurture the well-being of consumers by increasing the productivity of agricultural activities. Three-quarters of the population is active in this sector. Initiatives implemented to increase the productivity of this sector include the improvement of infrastructure for irrigation and the transportation of products to the market place (i.e. the improvement of rural roads), the distribution of subsidised fertilisers, the increased availability of higher-quality seeds, as well as the sensitisation of commercial farming. The cotton sector was supported through price guarantees, provided by the government.

Private consumption is highly intertwined with the performance of the agriculture sector as it is the largest source of income. Improved prospects for 2010 will support growth in private consumption, with purchasing power also improving as a result of lower inflation and higher growth in private sector credit extension.

The current expansionary budget will further stimulate gross fixed capital formation through the planned development expenditure equal to an estimated 9.1% of GDP (TSh2 825 billion), which is one-third more than the development expenditure realised in FY2008/09. Education and road infrastructure are the main beneficiaries of expenditure on the priority sectors as identified in MKUKUTA. Government expenditure will mainly stimulate public consumption rather than investment, with over two-thirds of the 2009/10 budget formed by recurrent expenditure. The elections to be held at the end of this year are furthermore expected to drive government consumption expenditure in 2010.

Private investment has been under strain following increased caution in the commercial banks' lending behaviour, which has demonstrated a preference for foreign assets as well as government securities. The decline in private sector credit extension has reduced the contribution of private investment to GDE. The monetary expansion programme that has continued into 2010 is, however, likely to translate into improved private sector credit extension growth rates in the remainder of this year. Private investment is also likely to be bolstered by improved confidence in the region, with growth prospects improving for Kenya, while those for other members of the East Africa Community (EAC) remain positive. Tanzania will, however, only benefit from this through the realisation of improved infrastructural links as envisaged in its medium-term public investment plan.

Figure 21: Real GDP growth (%)



Source: Bank of Tanzania

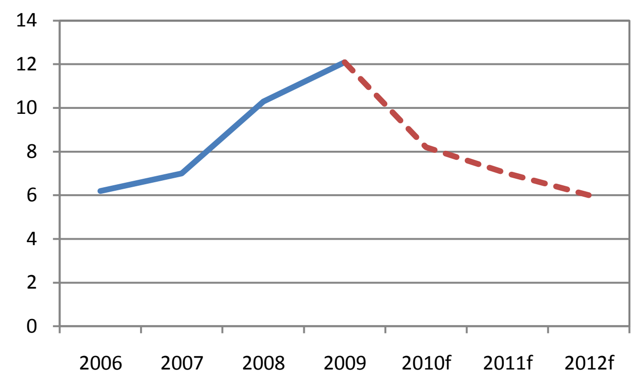
FDI is estimated to have declined by 5% in 2009, which is less than expected, considering the magnitude of the global financial and economic crisis. FDI is expected to grow in 2010, mainly benefitting the mining sector, exceeding the US$680 million received in 2008. Tanzania is the second-largest receiver of FDI in the region, with Uganda leading in East Africa. Tanzania will need to improve the investor environment to avoid its relative attractiveness to FDI deteriorating further. FDI in the resources sector is, however, expected to continue to demonstrate strong growth as existing mining companies aim to expand their gold production and commence extraction of uranium (as early as mid-2011). The increased activity of foreign mining companies is also expected to be associated with increased investment in other sectors as these companies build roads, power plants and other supporting infrastructure.

Increases in the price of various export products have held up the performance of the external sector to some extent. The development in the price of gold, Tanzania's main export, has been notable. There is large scope for increased earnings from the exportation of (value-added) mining products. Production of uranium is expected to start in 2011. Export earnings have been further supported by the prices of tea, coffee and tobacco. Exports in manufactured goods are expected to benefit from improved business confidence in the region. Improved supply of electricity in 2010 is likely to support improved output of the manufacturing sector, while the improved weather conditions also bode well for the output of agri-businesses.

Monetary policy

The central bank aims to restore and maintain low and stable inflation following increased levels of inflation after the exogenous shocks to the food and fuel prices that were experienced in the previous year. The BoT aims to return headline inflation of between 6% and 8% by June 2010. Headline inflation stood at 9.4% as of April 2010. While the inflationary outlook is benign, upside risks to non-food inflation could prevent the central bank form meeting its target by the middle of this year. Food and fuel, electricity and utility inflation remains high, with price increases in utility category currently providing upward pressure on inflation. These categories together contribute two-thirds of the CPI basket. Price increases in drinks and tobacco, the forth-largest category in the CPI basket (6.9% of CPI basket), have added to inflationary pressure. While food inflation will provide relief to headline inflation, rising non-food inflation is likely to cause inflation to reach on average 8.2% in 2010.

Figure 22: Consumer price inflation (%, annual average)



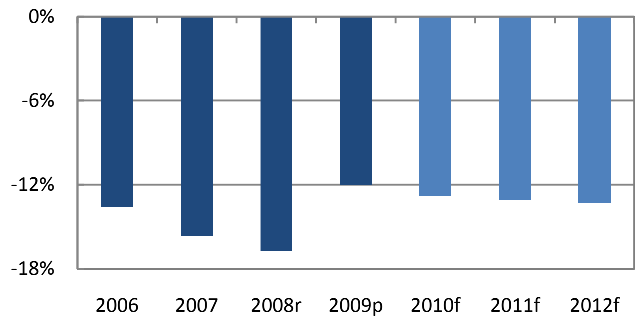
Source: Bank of Tanzania, Standard Bank est.

Monetary policy remained expansionary in the second half of 2009, with interest rates declining dramatically. The Lombard rate fell from 10.1% in March 2009 to 2.38% in March 2010, while the discount rate fell from 18.33% in March 2009 to its lowest level of 3.7% in the final quarter of 2009. In the first quarter of 2010, the discount rate was raised to 7.58%. Overall interest rates have, however, continued to fall, with yields on the 91-day Treasury Bills falling from on average 12.43% in March 2009 to 3.25% in the same period this year. The central bank could reverse the expansionary stance of monetary policy in the second half of this year, following the potential for increasing upside risks to the inflation associated with the high level of liquidity in the banking sector. The liquidity in the banking sector has persisted in the absence of increased private sector credit extension.

External sector

Tanzania's current account deficit improved markedly in 2009 as the growth in imports slowed. Imports reached a record high in the course of 2008, causing a spike in the trade deficit. As the importation of intermediate goods (mainly oil) fell in 2009 and exports were maintained, the trade deficit declined drastically. The growth in imports has resumed this year, with growth expected to exceed the increase in exports in 2010. Gold exports are expected to continue to form the largest export product, with increased output volumes and gold prices relative to the past year boosting exports. Improved global and regional demand will furthermore assist in increasing exports in manufacturing goods and other traditional goods. The trade balance is expected to reach close to 13% of GDP in 2010, rising over the medium term.

Figure 23: Trade balance (% of GDP)

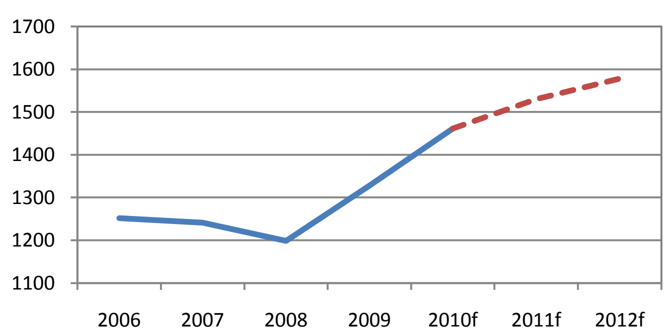


Sources: Bank of Tanzania, IMF, Standard Bank est.

The current account deficit is far less severe as a result of current transfers in the form of grants to the government of Tanzania, which amounted to an estimated US$650 million in 2009. As stated above, these are expected to decline over the medium term as assistance from development partners falls. Current transfers in the form of remittances from the Tanzanian Diaspora are, however, to rise, while the relative size of transfers to government remains small. The current account deficit is therefore set to expand from the 7.8% of GDP in 2009 towards 10% of GDP in the medium term.

In 2009, Tanzania received considerable support to its balance of payment support from the IMF by means of the ESF and allocation of SDRs, allowing the overall balance to improve relative to 2009. The current year is likely to bring an increased positive balance on the balance of payments (BoP), following sustained receipts on the capital account related to project grants from development partners, increased FDI as well as foreign investment in government securities and portfolios.

Figure 24: Exchange rate, TZS/USD (annual average)



Sources: Bloomberg, Standard Bank est.

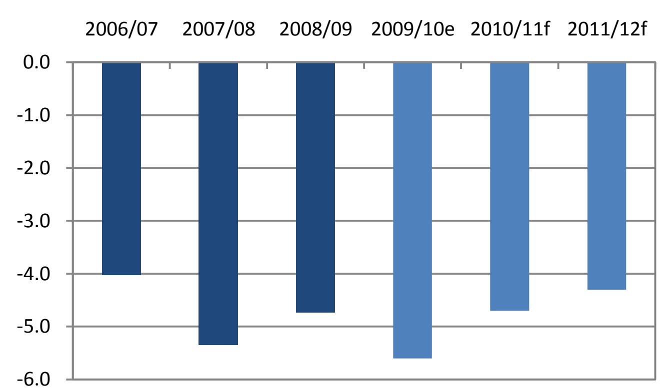
The currency is, however, expected to face depreciation pressure in line with continued demand for foreign assets in the banking sector, strong import growth and the repatriation of earnings by foreign corporates. An overall stronger dollar against major currencies in 2010 furthermore implies a depreciation of the Tanzanian shilling against the US currency. The currency is expected to depreciate to an average of TZS1 461/USD in 2010.

Public and external solvency indicators

The 2009/10 budget outlines an anticipated increase of the overall deficit (after grants) to 4.9%; however, it is likely that the realised budget will result in a larger deficit. Domestic revenue collection has in the course of the current fiscal year fallen approximately 8% short of the target while expenditure has been 8.5% below the foreseen spending, resulting in a lower-than-anticipated deficit before grants. Receipts of grants have, however, also been substantially below target, causing the overall deficit after grants to grow. The overall deficit is expected to reach 5.6% of GDP at the end of the fiscal year in June 2010.

The deficit is expected to decline in the medium term as the government strives to implement its plans to increase domestic revenue collection (by over 14% y/y). The increase of overall expenditure is also expected to slow following sharp rises in the past fiscal years, assisting in reducing the fiscal deficit. The government of Tanzania plans to raise capital through issuing a sovereign bond in the following three fiscal years to finance this deficit. Tanzania is yet to receive a sovereign credit rating that would enable this. Tanzania could potentially face difficulty in financing its overall deficit in the absence of the sovereign bond that is aimed to raise approximately US$410 million, or 5% of its projected ceiling for the next fiscal year.

Figure 25: Fiscal balance (% of GDP)



Sources: Bank of Tanzania, Standard Bank est.

Tanzania's public debt increased over the past year as the government increased its domestic and foreign borrowing. External public debt was equal to US$5 341.91 million in March 2010, accounting for over two-thirds of overall external debt. The domestic debt stock amounted to TSh2 578 billion at the end of March 2010 (roughly US$1.8 billion), up from TSh1 925.5 billion in the same period a year ago. The nominal debt level currently stands at approximately 31% of GDP. External debt is set to increase in the coming year as the country receives increased foreign loans in the medium term, while new domestic lending is set to decrease. The rollover of existing domestic debt in the current year is, however, expected to be substantial this year (TSh418.7 billion).

Outlook

Tanzania's very impressive growth path experienced what could be called a minor setback as a result of global economic turmoil in 2009. Growing at 7.1% in 2008, this African country was amongst the eight fastest growing economies on the continent and among the top thirty economies globally. Last year Tanzania was in the top twenty in terms of GDP growth, with annual growth reaching an estimated 5.6%. The growth of Ethiopia, Malawi, the Democratic Republic of Congo and Uganda is expected to exceed that of Tanzania reaching as much as 10% (in the case of Ethiopia).

This year, 2010, promises to bring continued growth, allowing it to maintain its position amongst the fastest growing economies of the world. GDP growth is expected to reach 5.9%, as both foreign and domestic private fixed investment increase. Domestic investors are likely to benefit from greater credit extension by the banking sector, which saw significant declines in 2009. Foreign direct investment is likely to concentrate on the resources sector, which will have positive externalities as private companies invest in supporting infrastructure. Increased global and regional demand will assist in generating larger export growth in 2010, with imports also growing on the back of increased investment. The trade deficit is, as a result, expected to grow.

Public investment is also expected to continue to grow, however the pace of expansion is likely to slow as the size of the budget will not expand as much as is it did in recent years. The overall fiscal deficit is set to peak this fiscal year (2009/10) as revenue collections remain lower than expected and disbursements of foreign loans are delayed. Public debt is also expected to increase moving forward as the government of Tanzania decreases its reliance on foreign grants and obtains funds from the domestic and foreign capital markets. Debt levels are however expected to remain at sustainable levels.

Consumers will benefit from lower levels of inflation in 2010. Headline inflation is likely to be, on average, slightly above 8% this year, declining over the medium term. The central bank has continued its expansionary stance for monetary policy in the first five months of 2010; however interest rates on government securities are believed to have bottomed.

Low yields on government securities have contributed to decreased inflows of foreign capital, while demand for dollars by local corporations and the banking sector has remained strong, causing the currency to face depreciation pressure. A weaker currency is however likely to continue to be preferred by local authorities in a bid to support its exports. The Tanzanian shilling is expected to depreciate in 2010, reaching on average TZS1 461/USD from TZS1 328/USD in 2009.

Tanzania

Forecasts of selected indicators

	2006	2007	2008	2009	2010f	2011f	2012f
National accounts							
% change	6.7	7.1	7.3	5.0	5.9	6.5	6.9
Price							
Inflation (annual average, %)	6.2	7.0	10.3	12.1	8.2	7.1	6.2
Monetary sector							
Exchange rate, annual average (TZS/USD)	1 251	1 241	1 199	1 328	1 461	1 533	1 570
External sector							
Trade balance (% of GDP)	-13.6	-15.6	-16.8	-12.0	-12.8	-13.1	-13.3
Public and external solvency indicators							
Government balance, incl. grant (% of GDP)*	-4.0	-5.3	-4.7	-5.6	-4.7	-4.3	-3.9

* *Fiscal year ends on June 30*

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