Tanzania

Country Risk Report

Includes 10-year forecasts to 2025

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Contents

Executive Summary

Core Views

- Tanzania's growth prospects are bright in 2016 and 2017, supported by robust infrastructure investment and stronger household spending. While increased taxes on the tourism and telecoms sectors will offer some headwinds, we nevertheless single out Tanzania as a growth outperformer in the next two years.

- Tanzania's current account deficit will widen as fuel prices rise and major infrastructure projects ramp up, prompting a sharp increase in capital goods imports. However, robust investment will keep Tanzania's external position strong.

- A wide-reaching programme of infrastructure development will keep Tanzania's fiscal balance in deficit for the next decade. However, authorities are making long-term efforts to broaden the tax base and gas production will come online in 2020, bolstering the outlook for revenue collection.

Key Risks

- The Magufuli government's implementation of tax and regulatory reform has been too rapid and forceful for many businesses. If sustained, the pattern of sudden policy shifts could damage Tanzania's attractiveness for many businesses. Meanwhile, despite the president's popularity, the government's crackdown on opposition will cause short-term political and social instability.

Chapter 1:
Economic Outlook

SWOT Analysis

Strengths

- The country has significant underdeveloped natural resources, including mining deposits (gas, gold, diamonds, gemstones, industrial minerals, coal, kaolin, tin, gypsum and phosphate).
- There is room for productivity growth in the large agricultural sector.
- If key issues such as access to basic services and education can be resolved, the country has a large and potentially competitive workforce.
- Ongoing East African Community integration will provide a large, attractive market for foreign investors.

Weaknesses

- Heavy reliance on agriculture, which is subject to extremes of weather, means that periodic droughts can lead to crop failures and serious food shortages.
- The level of poverty is high and a large proportion of the population has limited access to education, health and other basic services.

Opportunities

- Tourism is a significant growth industry, based on the country's vast natural resources base.
- Reforms to property ownership laws could allow better access to bank lending for the rural population.
- Development of the natural gas sector stands to be transformative for the economy by boosting growth, improving the balance of payments position and addressing persistent electricity shortfalls.

Threats

- Inclement weather not only poses a risk to economic growth due to the impact on agricultural production but also decreases efficiency as hydroelectricity is an important source of power. Droughts are often accompanied by high inflation and currency weakness which can undermine macroeconomic stability.
- Fiscal reform has caused harm to the private sector of late. Increased taxes on sectors such as tourism, telecoms and banks have the potential to squeeze profitability.

BMI Economic Risk Index

Consistently high growth in recent years provides Tanzania with the largest boost to its Short-Term Economic Risk Index score. According to the sub-components of our index, however, there is room for improvement in the wider economy. A substantial current account deficit weighs significantly on the overall score. Furthermore, Tanzania's capital markets are not well developed, with portfolio investment in the country extremely weak.

	S-T Economic	Trend	Regional Rank	Global Rank
Uganda	51.0	=	1	86
Tanzania	**49.8**	**=**	**2**	**92**
Kenya	49.6	-	3	95
Rwanda	49.0	=	4	102
Congo (DRC)	42.7	=	5	127
Djibouti	41.7	=	6	132
Ethiopia	41.0	=	7	136
Chad	34.8	=	8	160
Burundi	33.5	=	9	165
Central African Rep.	28.1	=	10	176
Sudan	27.5	=	11	178
Eritrea	26.9	=	12	179

Regional ave 39.6 / Global ave 51.2 / Emerging Markets ave 46.8

	L-T Economic	Trend	Regional Rank	Global Rank
Uganda	52.6	=	1	88
Rwanda	52.2	=	2	89
Tanzania	**51.5**	**=**	**3**	**93**
Kenya	51.2	-	4	94
Ethiopia	43.0	=	5	132
Djibouti	41.5	=	6	141
Congo (DRC)	40.3	=	7	147
Burundi	38.1	=	8	157
Eritrea	35.8	=	9	165
Central African Rep.	34.2	=	10	173
Chad	31.1	=	11	182
Sudan	30.9	=	12	183

Regional ave 41.9 / Global ave 52.5 / Emerging Markets ave 48.4

Economic Growth Outlook

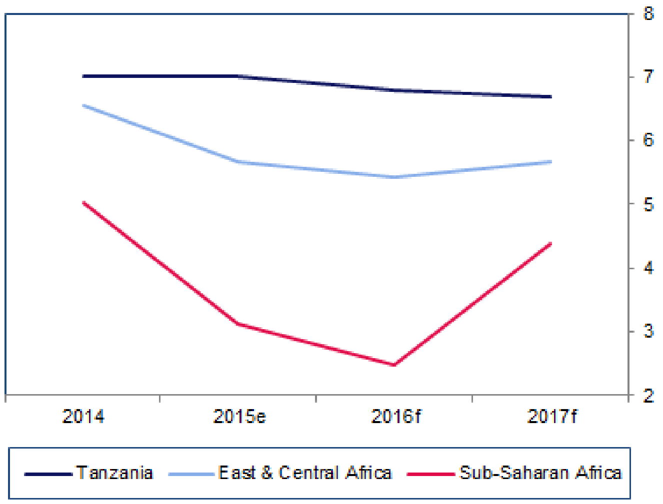
Infrastructure Investment Will Offer Tailwinds To Growth

BMI VIEW

Tanzania's growth prospects are bright in 2016 and 2017, supported by robust infrastructure investment and stronger household spending. While increased taxes on the tourism and telecoms sectors will offer some headwinds, we nevertheless single out Tanzania as a growth outperformer in the next two years.

Tanzania Will Be A Regional, Sub-Regional Growth Outperformer

Tanzania, East & Central Africa & Sub-Saharan Africa – Real GDP Growth, % y-o-y



e/f = BMI estimate/forecast Source: BMI, NBS, national sources

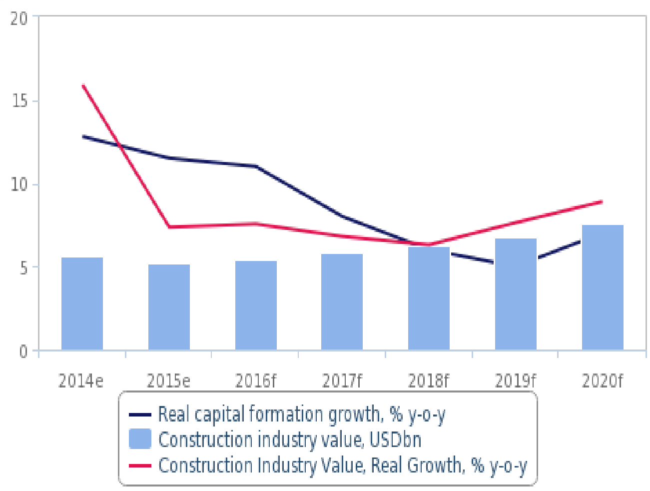
Tanzania's growth outlook will be buoyant over the course of the next two years. We maintain our forecasts for real GDP growth of 6.8% in 2016 and 6.7% in 2017, following estimated growth of 7.0% in 2015. A large-scale programme of infrastructure investment will support economic activity in the coming years, with development of the transport sector taking centre-stage. Furthermore, relatively subdued inflation and still robust credit growth will support consumer spending and boost the retail sector. However, it is worth noting that our growth forecast for 2016 is below the official government forecast of 7.2%. This is due a series of new taxes on the tourism, telecoms and banking sectors implemented as part of the FY2016/17 budget, which will offer some headwinds to these sectors' growth. Nevertheless, we expect Tanzania will be a regional growth outperformer, beating both average growth across the East Africa sub-region (4.5% and 5.7%) and that of Sub-Saharan Africa at large (2.5% and 4.4%) for 2016 and 2017.

Large Project Pipeline Will Bolster Fixed Capital Formation

Investment will be a major growth driver in 2016 and 2017 with a large number of infrastructure development projects currently underway in Tanzania. Transport development is a key focus of the government's current five-year National Development Plan, with projects including a standard gauge railway connecting Tanzania to its neighbours (*see 'China EximBank Pledges USD7.6bn Loan For Railway', July 22*) and construction on Dar es Salaam and Tanga ports (*see 'Robust Construction Growth Despite Bagamoyo Uncertainty', May 13*). We expect gross fixed capital formation to contribute 4.2 and 3.6 percentage points (pp) to headline growth in 2016 and 2017 respectively – the largest overall contribution to growth overall.

Infrastructure Growth Fuelled By Construction

Construction Industry Value, USDbn, Real Growth, % y-o-y & FCF Growth, % y-o-y



e/f = BMI estimate/forecast. Source: National sources, BMI

Moderating Inflation Will Support Retail Sector

Household spending and the retail sector are also set for gains in the coming quarters, supported by more subdued inflation and relatively strong credit growth. Inflation will be tempered by lower food and oil price inflation and a more stable currency will temper imported price growth (*see 'Monetary Policy On Hold Into 2017', August 30*). At the same time, private sector credit growth will also remain in double digit figures, near the BoT target of 19.3%, supporting consumer spending. Hence, we forecast private consumption to contribute 3.6pp and 3.2pp to growth in 2016 and 2017 respectively.

Fiscal Tightening Will Offer Some Headwinds

While the overall outlook is bright, increased taxes on the tourism and telecoms sector will offer some short-term economic headwinds. For the fiscal year 2016/17, the government enacted additional taxes on both sectors through a 10.0% levy on mobile money transactions and 18.0% VAT on tourism services respectively (*see 'Broader Revenues Will Boost Budget In The Long Term', August 25*). The former will cause a squeeze in profits for telecoms providers, likely leading to reduced investment and expansion of services (*see 'MFS Tax To Discourage Service Deepening', June 14*). Furthermore, the Tanzania Revenue Authority imposed 18.0% VAT on bank fees and commissions. However, while tempering growth to a certain extent this year, the aforementioned taxes will not offer significant headwinds to long-term economic gains. Indeed, we believe the taxes were put in place, at least in part, in reaction to the withdrawal of USD450mn in aid by the US in March. However, USD407mn was recently re-pledged, providing government coffers with more cash than expected. Overall, this will not cause a significant dent in our positive outlook for growth though, as we expect the scale of investment in transport and construction to dwarf that of the aforementioned sectors.

GDP By Expenditure Outlook

We forecast a period of robust growth in the Tanzanian economy over the coming years underpinned by the development of its nascent offshore gas sector and a strengthening consumer base. We predict that economic growth will average 6.5% between 2016 and 2025.

Private Consumption: Private consumption is the largest contributor to GDP in Tanzania and this will remain the case over our forecast period, averaging 6.5%. Rising per capita incomes will see increasing numbers of lower-middle class Tanzanians purchasing consumer goods, boosting the sector, and this will

TABLE: GDP GROWTH FORECASTS

	2014e	2015e	2016f	2017f	2018f	2019f
Nominal GDP, TZSbn	79,718	90,864	97,491	107,583	120,579	135,634
Real GDP growth, % y-o-y	7.0	7.0	6.8	6.7	6.5	6.3
GDP per capita, TZS	1,570,575	1,737,661	1,864,409	1,997,786	2,174,978	2,377,217
	2020f	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**
Nominal GDP, TZSbn	150,187	165,855	182,932	202,812	223,716	244,244
Real GDP growth, % y-o-y	6.0	6.4	6.5	6.8	6.7	6.5
GDP per capita, TZS	2,558,378	2,746,615	2,945,755	3,176,457	3,408,548	3,620,605

e/f = BMI estimate/forecast. Source: BMI, UN

TABLE: PRIVATE CONSUMPTION FORECASTS

	2014e	2015e	2016f	2017f	2018f	2019f
Private final consumption, TZSbn	51,157	55,614	62,134	69,879	79,257	89,893
Private final consumption, % of GDP	64.2	61.2	63.7	65.0	65.7	66.3
Private final consumption, real growth % y-o-y	4.5	2.3	6.0	6.5	7.0	7.0
	2020f	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**
Private final consumption, TZSbn	101,003	113,488	127,515	143,275	160,984	180,360
Private final consumption, % of GDP	67.3	68.4	69.7	70.6	72.0	73.8
Private final consumption, real growth % y-o-y	6.0	6.0	6.0	6.0	6.0	5.7

e/f = BMI estimate/forecast. Source: BMI, NBS

TABLE: GOVERNMENT CONSUMPTION FORECASTS

	2014e	2015e	2016f	2017f	2018f	2019f
Government final consumption, TZSbn	10,997	12,447	13,875	15,824	18,115	20,834
Government final consumption, % of GDP	13.8	13.7	14.2	14.7	15.0	15.4
Government final consumption, real growth % y-o-y	-0.5	-4.0	5.0	5.0	5.0	5.0
	2020f	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**
Government final consumption, TZSbn	23,961	27,939	32,577	37,985	44,290	51,642
Government final consumption, % of GDP	16.0	16.9	17.8	18.7	19.8	21.1
Government final consumption, real growth % y-o-y	2.0	4.0	5.0	5.0	5.0	5.1

e/f = BMI estimate/forecast. Source: BMI, NBS

be supported by relatively benign levels of inflation. Rising financial inclusion, accelerated by the spread of mobile financial services, will also play an important role in strengthening the consumer base.

Government Consumption: Growth in government consumption is set to moderate over the coming years, with real growth averaging 4.4% between 2016 and 2020, compared to some 7.4% over the previous five years. Increased uncertainty over the future of external budget support is likely to engender a more cautious approach to expenditure and greater focus on fiscal consolidation. A raft of measures boost tax collection and strengthen public financial management are being implemented, but we expect progress to be gradual. Government spending is therefore likely to become a less significant driver of economic growth over the coming years.

Investment: Our positive long-term growth outlook for Tanzania over the next decade is in large part predicated on continued heavy infrastructure investment into transport and the nascent offshore gas sector. While this view remains broadly intact, a weak oil price environment and regulatory uncertainty is likely to impact the pace of investment into the sector, particularly over the medium term.

Net Exports: Net exports will remain a drag on headline growth over the coming years. Rapid investment and robust private consumption growth will see demand for non-substitutable imported capital and consumer goods remain high. However, Tanzania will produce LNG by 2020, and our Oil & Gas team forecast that Tanzania will be a net gas exporter by 2022, boosting the country's external dynamics in the longer term.

Fiscal Policy And Public Debt Outlook

Broader Revenues Will Boost Budget In The Long Term

BMI VIEW

A wide-reaching programme of infrastructure development will keep Tanzania's fiscal balance in deficit for the next decade. However, authorities are making long-term efforts to broaden the tax base and gas production will come online in 2020, bolstering the outlook for revenue collection.

Fiscal Balance

Revenue: The outlook for government revenue will be bright for the foreseeable future, with revenue to GDP averaging at 14.5% over our 10-year forecast period. The Tanzania Revenue Authority (TRA) is gradually increasing tax collection. Under President John Magufuli, significant steps have been taken to improve revenue collection and crack down on tax evasion and

TABLE: FIXED INVESTMENT FORECASTS

	2014	2015e	2016f	2017f	2018f	2019f
Fixed capital formation, TZSbn	25,969	31,345	36,881	42,612	47,879	53,289
Fixed capital formation, % of GDP	32.6	34.5	37.8	39.6	39.7	39.3
Fixed capital formation, real growth % y-o-y	12.8	11.5	11.0	9.0	6.0	5.0
	2020f	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**
Fixed capital formation, TZSbn	60,440	68,551	77,751	88,185	100,020	113,442
Fixed capital formation, % of GDP	40.2	41.3	42.5	43.5	44.7	46.5
Fixed capital formation, real growth % y-o-y	7.0	7.0	7.0	7.0	7.0	7.0

e/f = BMI estimate/forecast. Source: BMI, NBS

TABLE: NET EXPORTS FORECASTS

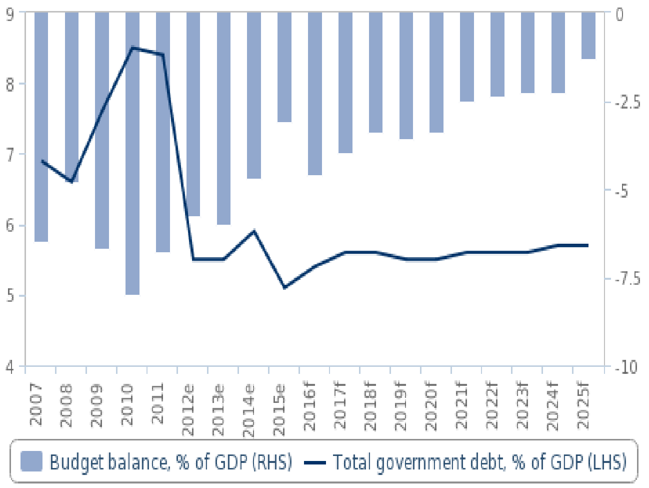
	2014	2015e	2016f	2017f	2018f	2019f
Net exports of goods and services, TZSbn	-8,270	-4,291	-7,271	-8,235	-8,905	-9,359
Net exports of goods and services, % of GDP	-10.4	-4.7	-7.5	-7.7	-7.4	-6.9
Net exports of goods and services, real growth % y-o-y	-16.9	-49.7	26.8	19.0	7.2	3.8
	2020f	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**
Net exports of goods and services, TZSbn	-9,930	-10,460	-10,938	-10,920	-11,018	-11,129
Net exports of goods and services, % of GDP	-6.6	-6.3	-6.0	-5.4	-4.9	-4.6
Net exports of goods and services, real growth % y-o-y	5.2	4.7	4.1	-0.2	1.4	2.2

e/f = BMI estimate/forecast. Source: BMI, NBS

corruption. Although some corporate taxation measures, such as a 10.0% levy on mobile money providers introduced in fiscal year (FY) 2016/17, are unattractive to investors and potentially unsustainable, we expect that reforms by the Tanzania Revenue Authority under Magufuli will lead to more prudent fiscal management in the long term. Furthermore, Tanzania's ample gas reserves are currently being developed, and gas production will come online in 2020, boosting corporate tax revenues in the longer term.

Deficit To Narrow Gradually

Fiscal Balance



e/f = BMI estimate/forecast. Source: BMI, NBS

Budget support from overseas donors as a percentage of total revenue has been gradually declining amid donor concerns over corruption, halving from 30.1% in FY2010/11 to 15.5% in FY2014/15, and we expect this trend to continue. Diminished aid flows will exert more pressure on the budget in the medium term, forcing the TRA to source these funds from elsewhere. However, we view this as credit positive on the whole, as it will reduce dependency on foreign aid flows, which can be a volatile source of revenue depending on political developments, and provide authorities with the necessary motivation to improve tax collection.

Expenditure: Government expenditure will remain elevated within our 10-year forecast period. The government is undertaking a five-year national development plan up until FY2020-2021. This will entail an ambitious programme with the aim of developing infrastructure, improving the business environment, and accelerating socio-economic development. Key projects include an LNG plant and a standard gauge railway connecting to neighbouring countries. The capital expenditure will be productive, and as most infrastructure projects are expected to be completed after 2020, development expenditure will gradually taper off.

Since John Magufuli's premiership began, meaningful steps have been taken to pare back recurrent spending. In FY2014/15, public sector wages accounted for a third of government expenditure. An audit of the wage bill is in place in order to stamp out 'ghost' workers on the public sector payroll, and salaries for civil servants were slashed in the budget for FY2016/17. Hence, we expect expenditure to fall to 13.3% of GDP by FY2024/25 from an estimated 19.2% in FY2015/16,

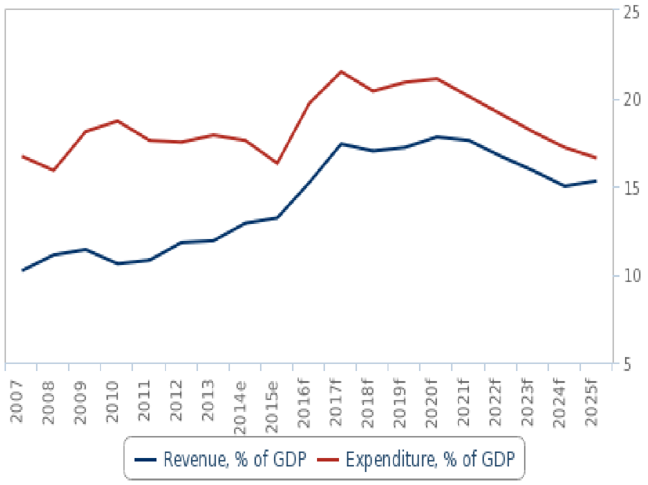
TABLE: FISCAL AND PUBLIC DEBT FORECASTS

	2014	2015e	2016f	2017f	2018f	2019f
Fiscal revenue, TZSbn	10,253	12,003	14,797	18,659	20,449	23,277
Total revenue, TZS, % y-o-y	21.4	17.1	23.3	26.1	9.6	13.8
Fiscal expenditure, TZSbn	14,011	14,823	19,235	22,966	24,517	28,195
Total expenditure, TZS, % y-o-y	10.2	5.8	29.8	19.4	6.8	15.0
Budget balance, TZSbn	-3,758	-2,821	-4,438	-4,307	-4,068	-4,918
Budget balance, % of GDP	-4.7	-3.1	-4.6	-4.0	-3.4	-3.6
Total government debt, EURbn	2.1	2.1	2.2	2.5	2.7	2.9
Total government debt, % of GDP	5.9	5.1	5.4	5.6	5.6	5.5
	2020f	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**
Fiscal revenue, TZSbn	26,530	29,023	30,395	32,000	33,347	37,158
Total revenue, TZS, % y-o-y	14.0	9.4	4.7	5.3	4.2	11.4
Fiscal expenditure, TZSbn	31,578	33,157	34,815	36,556	38,383	40,302
Total expenditure, TZS, % y-o-y	12.0	5.0	5.0	5.0	5.0	5.0
Budget balance, TZSbn	-5,048	-4,134	-4,420	-4,556	-5,036	-3,145
Budget balance, % of GDP	-3.4	-2.5	-2.4	-2.3	-2.3	-1.3
Total government debt, EURbn	3.1	3.3	3.6	3.8	4.0	4.3
Total government debt, % of GDP	5.5	5.6	5.6	5.6	5.7	5.7

e/f = BMI estimate/forecast. Source: BMI, NBS

with the deficit narrowing to 1.0% of GDP in FY2024/25 from 2.0% this year.

Revenue, Expenditure To Converge In The Long Term
Government Spending & Revenue



e/f = BMI estimate/forecast. Source: BMI, NBS

Government Debt: The government debt stockpile has grown quickly over the past five years, and this trend is likely to continue into the next decade due to the aforementioned development plan. However, with the outlook for revenue relatively bright due to improving tax collection and gas production coming online in 2020, we expect that debt as a percentage of GDP will subsequently plateau.

Debt Composition: Although debt stocks are rising, we would assert that Tanzania's public sector debt dynamics are sustainable overall. While 74.4% of Tanzania's public debt is external, the vast majority of this comprises concessional loans from IFIs. The Ministry of Finance (MoF) has been preparing for a eurobond debut, and will secure sovereign credit ratings from major agencies within the next year. The MoF have been reticent to issue, having originally planned the debut in 2014, and the Bank of Tanzania governor Benno Ndulu has commented that they will be 'guided by what is needed'. Therefore, although a foreign currency issuance will pose risks to Tanzania's creditworthiness, we expect that it will be managed prudently by the authorities, and at a time when investor sentiment is buoyant and borrowing costs will be relatively accommodative.

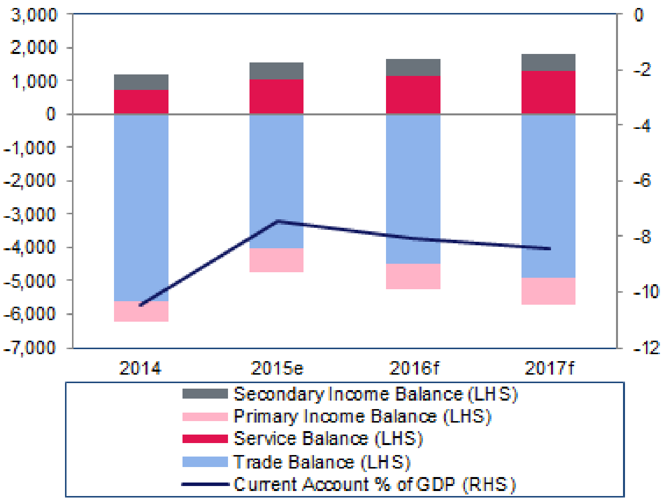
External Trade And Investment Outlook

Robust Foreign Investment Will Buoy External Position

BMI VIEW

Tanzania's current account deficit will widen as fuel prices rise and major infrastructure projects ramp up, prompting a sharp increase in capital goods imports. However, robust investment will keep Tanzania's external position strong.

Widening Goods Trade Deficit Will Weigh On Current Account
Current Account Balance, % Of GDP & Components



e/f = BMI estimate/forecast. Source: BMI, BoT

Tanzania's current account deficit will widen in 2016 on the back of rising capital goods imports – increasing the goods trade shortfall – and a narrowing services trade surplus. We forecast that the current account deficit will come in at 8.1% of GDP in 2016 from an estimated 7.4% in 2015. Thereafter, higher global fuel prices will see the current account deficit widen further to 8.3% of GDP in 2017. That said, the larger external account shortfalls will be comfortably funded by robust foreign direct investment (FDI) inflows from the country's numerous oil pipeline projects, suggesting that the larger external account shortfall pose little risk to Tanzania's sovereign credentials.

Capital Imports, Rising Fuel Prices Will Ramp Up Goods Deficit

Tanzania's goods trade deficit will widen in 2016 to 10.1% of GDP, up from an estimated 9.0% in 2015. Although the outlook for exports will brighten in 2016 and 2017 with the price of gold – which accounts for a fifth of Tanzania's exports – set to rise (*see 'Gold: Weaker Growth Outlook Bolsters Bullish View', August*

4), growth in imports will accelerate even more quickly. While low fuel prices have kept energy imports relatively subdued in H116, an uptick in the Brent crude price will hike Tanzania's fuel bill gradually steadily in the coming quarters (*see 'Brent: Rebound Ahead But Curbed By Stocks', August 1*). Moreover, the government's infrastructure investment programme will bolster capital goods imports. While the completion of the Mtwara gas pipeline saw a temporary contraction in capital imports in 2015, the construction of the Uganda-Tanga oil pipeline, which begins in 2017, will see import growth reaccelerate (*see 'Two Pipelines To Be Developed', April 27*). The standard gauge railway system is also being built, and will link Tanzania to its regional neighbours, with construction starting this year and complete by 2020.

Services Surplus Weighed Down By Tourism Tax

Meanwhile the government's introduction of 18.0% VAT on tourism services in July will weigh on the country's services trade surpluses from H216. The extra cost – which we expect will be passed along to tourists – has the potential to discourage tourists and prompt them to seek out cheaper holiday destinations in the region. In light of this, we anticipate slower growth in services exports this year and next, dampening the services surplus.

Pipeline Deal Will Bolster FDI

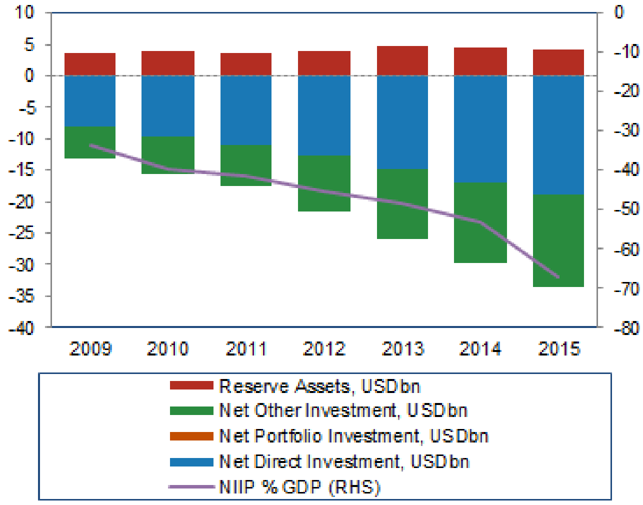
However, while the country's external account deficit will rise in the coming years, it will not pose a significant risk to Tanzania's balance of payments position. The country will continue to benefit from robust FDI inflows, tempering the extent to which the country will be forced to rely on external debt to fund its external financing gap. Indeed, the oil pipeline to be built between Uganda and Tanga will attract significant foreign capital (*see 'Oil Firms To Build Uganda-Tanzania Oil Pipeline', August 9*), with **Tullow Oil**, **Total**, and **China National Offshore Oil Corporation** all involved in the USD3.5bn project. Additionally, an LNG plant worth an estimated USD15bn is set to be built starting in 2017 by the national petroleum development company in conjunction with **Royal Dutch Shell**, strengthening inflows further over the next five years. Moreover, the country maintains a relatively healthy stock of foreign reserves, at 4.5 months' worth of import cover. This will help to bolster the country's sovereign credentials and maintain favourable investor sentiment toward the country.

Outlook On External Position

Net International Investment Position: Tanzania runs a consistently negative net international investment position, with net liabilities having grown to 67.2% from 40.0% of GDP in 2010. This is largely due to the stock of inward FDI and government debt liabilities from international financial institutions (listed as 'other investment'). We expect inward FDI flows to increase over the next few years, particularly in the energy sector due to the joint oil pipeline project with Uganda and a number of onshore natural gas discoveries. Portfolio investment is currently insignificant as Tanzania's capital markets lack depth. However, we expect this to represent more of the net investment deficit in the years to come as the country steps up its Eurobond issuance for development projects, and market capitalisation in Tanzania's companies grows.

Inward FDI Main Driver Of Negative NIIP

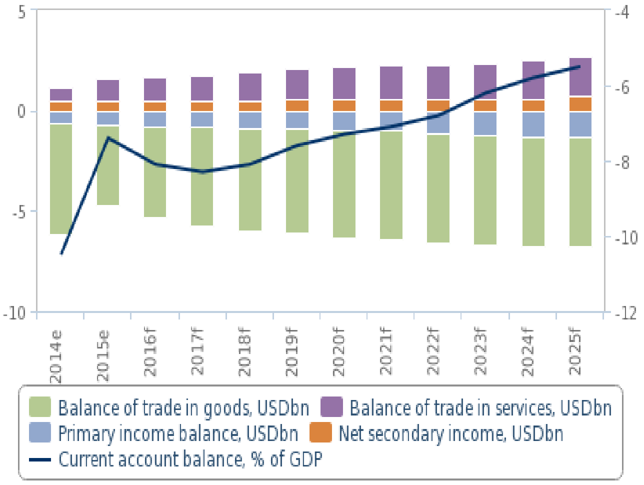
Breakdown Of Net International Investment Position



Source: BoT

Balance Of Payments: Tanzania's current account balance is set to improve in the long term. We forecast higher export revenue on the back of improving gold prices and modest growth in production, which will drive a narrowing of the current account deficit given that it made up 21.6% of Tanzania's exports in 2015. Furthermore, recent onshore natural gas discoveries in addition to ongoing offshore developments will mean that Tanzania will become a net gas exporter by 2022 as the country's proven natural gas reserves are more than enough to cover domestic demand. Additionally, as investment in transport infrastructure and publicity takes effect, the tourism industry will grow steadily, improving the services surplus. We therefore forecast that the current account deficit will fall to 5.5% of GDP by 2025, from 7.4% in 2015. The pace of Tanzania's current account deficit narrowing will be slowed by strengthening import demand in the next few years, amid rising capital goods imports for the purpose of infrastructure projects, and an ongoing recovery in oil prices.

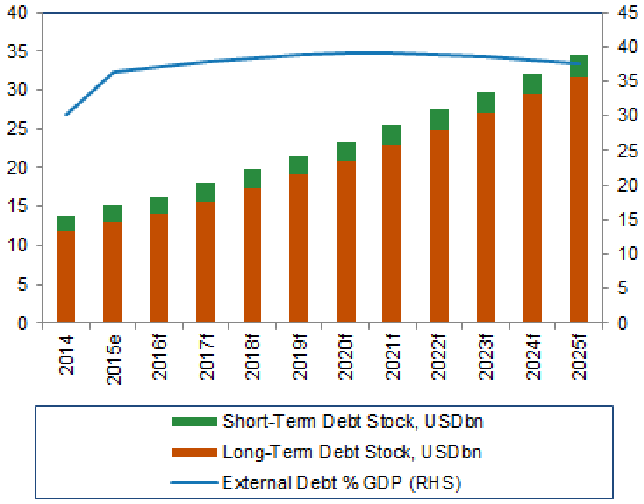
Gas Discoveries Trade-Positive In The Long Term
Current Account Balance (2014-2025)



e/f = BMI estimate/forecast. Source: BMI, BoT

External Debt: Tanzania has a manageable external debt stock, which stood at 36.1% of GDP in 2015. 83.0% of the debt is long term, which means that rollover risk is low.

External Debt To Remain Low Risk
External Debt Stock



e/f = BMI estimate/forecast. Source: BMI, IMF

The key risk is additional dollar-denominated eurobond issuance – Tanzania's public foreign currency debt currently lies at the comparatively low level of USD600mn, but the government have planned further issuance of around USD0.8bn in FY2016/17 for the purpose of infrastructure development projects. However, we expect the government to wait until yields fall closer to 2015 levels of 10.0%, down from the current average of 15.1%, to avoid higher borrowing costs. Overall, debt will rise on the back of financing infrastructure development, but remain at sustainable levels.

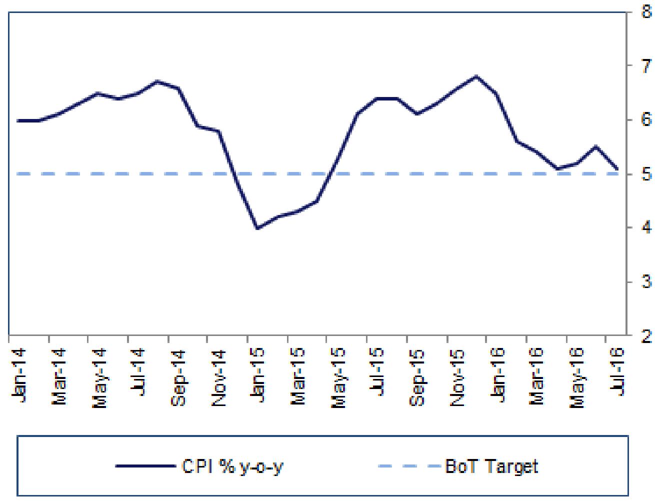
Monetary Policy

Monetary Policy On Hold Into 2017

BMI VIEW

The Bank of Tanzania (BoT) will keep the statutory minimum reserve ratio on hold at 10.0% in the coming quarters. With inflation and credit growth close to the BoT's targets, and growth poised to remain robust, we see little impetus for a shift in policy stance in the short term.

Inflation Moderating On Stable Shilling
CPI inflation, % y-o-y & BoT Inflation Target, %



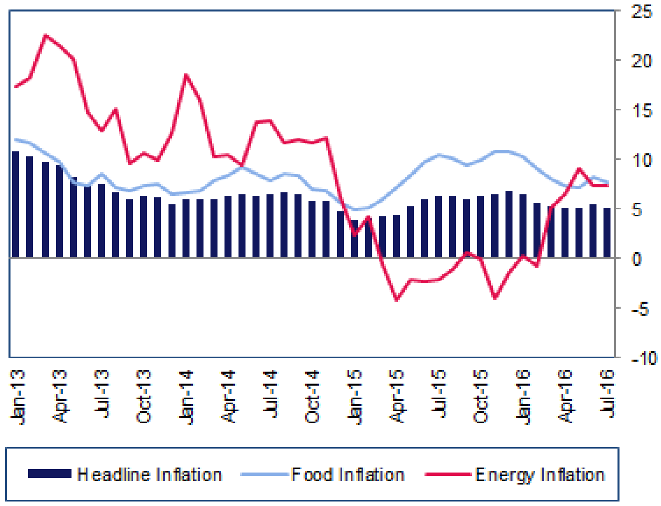
Source: NBS

After the Bank of Tanzania (BoT) raised the statutory minimum reserve (SMR) ratio in early 2015, we see little scope for additional tightening in the coming quarters. The SMR is the main tool used by the BoT, and the bank had previously raised it in May 2015 from 8.0% to 10.0% in order to support oncoming price pressure from the fast-depreciating exchange rate, as well as cool a rapid uptick in credit growth. However, since then these dynamics have subsided, and in the coming quarters we expect headline inflation will remain relatively subdued. Similarly, growth is facing mild headwinds, with slowing (if still strong) credit growth and a recent tax hike set to temper tourism sector growth. This will not be sufficient to prompt a turn toward monetary easing by the BoT, but does suggest that any further monetary tightening is off the cards in the coming quarters.

Inflation Will Linger Close To Target

Inflation will slow in H216, after averaging 5.6% y-o-y in H116 as as greater currency stability temper imported price pressures. Indeed, after a sharp sell-off in late 2015 and early 2016, we have since seen the downward pressure on the currency ease on the back of greater investor appetite for risk assets. We forecast inflation to average 5.4% in 2016. There will be modestly increased upward pressure on inflation in 2017, as global crop and oil prices, of which Tanzania is a net importer, will rise. Grain prices, particularly wheat and corn, are expected to rise somewhat after falling in the second half of 2016 (*see 'Grains: Subdued Prices To Continue Into Q416', August 10*).

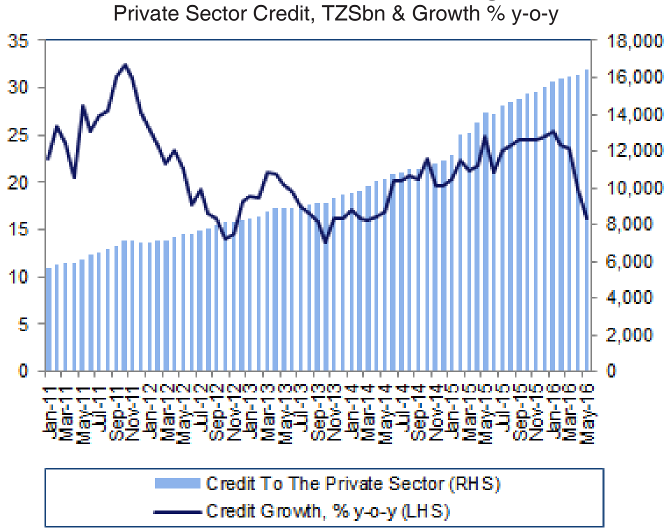
Food, Energy Main Drivers Of Price Volatility
Food, Energy & Headline Inflation, % y-o-y



Source: NBS

Crops are a significant driver of price changes given that food accounts for 37.1% of the inflation basket. Furthermore, our Oil & Gas team forecast Brent Crude to average USD57.0 per barrel (/bbl), which will offer further upward pressure on headline inflation, given that fuel makes up 8.7% of the inflation basket. Hence, we forecast higher average inflation of 5.6% in 2017.

Credit Growth Moderating
Private Sector Credit, TZSbn & Growth % y-o-y



Source: BoT

However, even as prices inch higher, they will still stay relatively close to the bank's 5.0% target, forestalling the impetus for further tightening.

Little Impetus To Shift Policy Stance

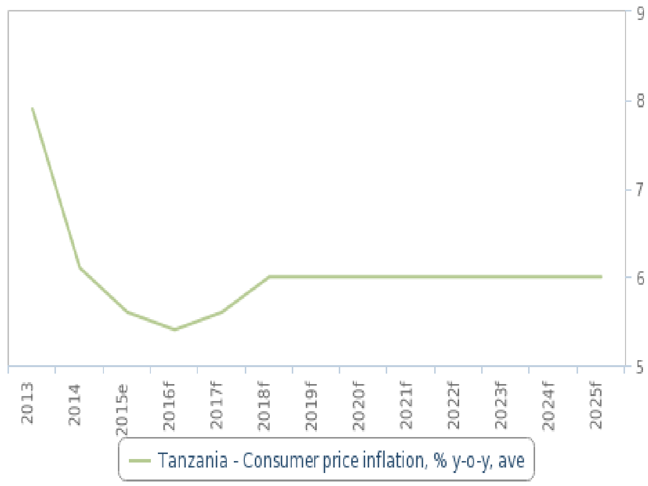
In an environment of gradually strengthening growth, we expect the BoT to keep the statutory minimum reserve ratio on hold at 10.0% in 2016 and 2017. We do not believe there is scope for additional tightening given that credit growth slowed to 16.2% in May, down from 19.2% in April – below the bank's target of 19.3%. Furthermore, a recently-introduced VAT charge of 18.0% on the tourism sector has the potential to offer slight headwinds to GDP growth.

However, there is little impetus for monetary easing either. Despite the aforementioned factors, the outlook for growth is still bright – we forecast real GDP growth of 6.8% this year and 6.7% in 2017 (*see 'Retail And Construction Will Drive Economic Outperformance', June 2*). This will come on the back of impressive fixed capital formation due to infrastructure development and healthy private consumption, due to expansion from a low base.

Monetary Policy Framework

Consumer price inflation in Tanzania will average around 6.0% annually over the course of our 2016-2025 forecast period, slightly below historical trend. On the demand side, strong economic growth driven by robust infrastructure investment and a strengthening consumer base will exert increasing upward pressure on prices over this period.

Manageable, But Above Target
Headline Inflation, % yoy

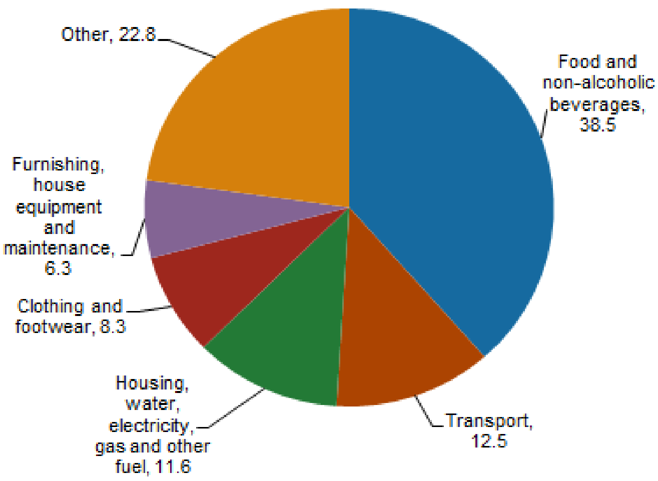


e/f = BMI estimate/forecast. Source: BMI, Tanzania Bureau of Statistics

A number of supply side factors will also serve to keep inflation in the high single digits. For one thing, the prospect of continued exchange rate depreciation in light of a wide current account deficit will pose a persistent upside risk to the inflation outlook. Food, which accounts for almost 40% of Tanzania's CPI basket, will also continue to be a key driver of inflation over the coming years. In a region historically vulnerable to drought, food price inflation arguably poses the single biggest upside risk to our inflation outlook. Moreover, should weather patterns become more unpredictable over the coming years as expected, these risks are likely to become heightened.

CPI Breakdown

Breakdown Of CPI Basket 2016, %



Source: BMI

Breakdown Of Inflation Basket: Tanzania announced in February that CPI reporting would be rebased. The most significant change was the change in food weighting to 38.5% from 47.8%, which should cause a significant shift downwards in headline figures given that food prices continue to rise well above 5.0%. However, food still dominates the CPI basket, reflecting the fact that the majority of Tanzanians continue to spend mostly on essential low cost items. Other key areas of consumer spending are: transport (12.5%), housing, water, electricity & gas (11.6%), household equipment & furniture (6.3%), clothing & footwear (8.3%), and communication (5.6%). Over the next 10 years we expect a greater proportion of household spending to be directed towards the non-essential (ie, discretionary) goods as consumer behaviour shifts in line with rising incomes and greater financial inclusion. Even so, this shift will be gradual, with food continuing to dominate.

Inflation Targeting Credibility: Inflation has consistently been above the Bank of Tanzania (BoT)'s 5.0% target over the past decade (averaging over 9.0%) and we expect this trend to continue over the coming years. This is in part due to the strong supply side pressures that are difficult for monetary authorities to combat. While inflation was below the BoT's medium target of 5.0% between December 2014 and May 2015, we believe this was more to do with low food prices (due to a bumper harvest) and weak commodity prices (particularly oil) than a result of prudent monetary policy. Indeed, despite a tightening of monetary conditions in May 2015 – when the BoT hiked the statutory minimum reserve (SMR) ratio, its primary policy tool, to 10.0% from 8.0% – the BoT has been unable to prevent inflation exceeding its target level in the face of currency-induced inflation pass through.

Central Bank Targets & Operations: The BoT's primary focus is on maintaining price stability, with an inflation target of 5%. It does this through a number of ways. Within this framework, targets include ensuring that annual average growth of reserve money does not exceed 13.4% and that annual average private sector credit growth stays close to 19.0%. In addition, its policy also stipulates that gross official reserves cover at least four months of projected imports of goods and services (excluding FDI related imports). While the exchange rate will largely continue to be market determined (ie, free floating), the BoT tend to intervene periodically in the foreign exchange market in order to curb volatility.

Currency Forecast

TZS: Shilling To See Downside Break By 2017

BMI VIEW

Our short-term outlook for the Tanzania shilling is neutral as we expect the Bank of Tanzania to maintain the current loose peg with the US dollar for the remainder of the year. We expect it to resume its gradual depreciatory trend in 2017 due to relatively high inflation but note that weakness will be much more mild compared to previous years

Short-Term Outlook (three to six months)

We have revised up our average shilling forecasts to TZS2,190/USD from TZS2,203/USD, to reflect the ongoing stability in the currency. Although the exchange rate of the Tanzanian shilling is market-determined, the Bank of Tanzania (BoT) has been intervening sporadically in order to 'smooth out excessive volatility in the short-term exchange rate'. In H116, reserves fell to below the bank's target of four months worth of imports, indicating that reserves had been sold off in order to keep the shilling steady. This has enabled the currency to trade within a tight range since February, and the recent increase in reserves suggests the BoT will be able to keep the currency stable for the remainder of the year.

Range-Trading For Majority Of 2016
Exchange Rate, TZS/USD

Source: Bloomberg

More favourable terms of trade and foreign direct investment (FDI) have bolstered foreign savings this year, adding to the central bank's ability to defend the currency as a number of infrastructure projects funded by foreign companies have come to fruition. Higher gold prices over the coming months should also support hard currency inflows.

Long-Term Outlook (six-to-24 months)

We continue to see the shilling depreciating gradually over the long term and are forecasting 5.0% further weakness in 2017, following an expected 3.8% overall fall in 2016, as high inflation gradually undermines competitiveness. M2 money growth has lingered at around 13.0% y-o-y, in line with the central bank's targets, and inflation is forecast to average 5.6% in 2017. Furthermore, an uptick in food and fuel prices will cause some weakening of the terms of trade, and exert downward pressure on the savings rate.

That said, healthy FDI inflows will provide a large injection of foreign savings over the coming years, which should support robust real GDP growth. While high external indebtedness may result in long-term depreciatory pressure on the currency as external debt payments act as a drag on the income account, at present the wide current account deficit reflects high investment rather than a lack of savings, which is a relatively positive story for the county's growth outlook. We therefore expect the currency to depreciate much more slowly than its long-term trend (and especially the 19.4% weakness seen in 2015) and indeed much more slowly than the current interest rate differential between Tanzania and the US. Furthermore, an upcoming eurobond issuance will bolster portfolio investment into the country; raising its investment profile and drawing in foreign savings (*see 'Broader Revenues Will Boost Budget In The Long Term', August 25*).

Risks To Outlook

The most significant upside risk to our view is the possibility that the BoT will continue to intervene heavily in the foreign exchange market in 2017, in which case the spot value of the shilling would continue to trade within a tight range. This is a plausible risk given that foreign reserves are now above the bank's target of 4.0 months worth of imports.

On the other hand, a downside risk is the potential for declining secondary income inflows to undermine the currency as a result of the pound sterling depreciation that took place after the UK's vote to leave the European Union (*see 'Brexit Will Create Headwinds For SSA', July 20*). Indeed, the pound has depreciated 12.4% against the shilling since the Brexit vote on June 24. In 2015, the largest share (17.5%) of remittances came from the UK, representing a large source of foreign currency.

TABLE: CURRENCY FORECAST

	Spot	2016	2017
TZS/USD, ave	2,188	2,190	2,286
TZS/EUR, ave	2,438	2,343	2,400

Source: BMI, Bloomberg. Last updated: September 2 2016

Chapter 2:
10-Year Forecast

The Tanzanian Economy To 2025

Robust Growth Hinges On Gas Investment

BMI VIEW

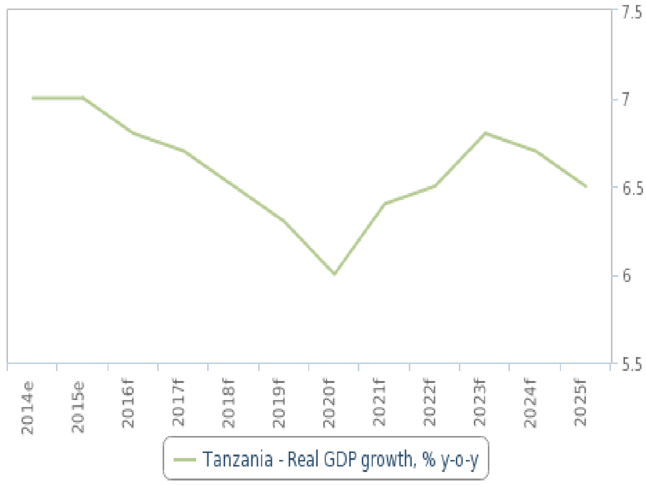
We forecast a period of robust growth in the Tanzanian economy in the years ahead, as the country looks set to benefit from its nascent offshore gas sector, and the investment flowing in to develop this. Increasing regional integration and significant investment in infrastructure projects will also boost growth. The country remains beholden to the weather, however, through the importance of its agricultural sector and dependence on hydroelectricity, and this presents the greatest risk to our forecasts.

Over the 10 years to 2025 we forecast that the Tanzanian economy will continue upon its healthy growth trajectory, with GDP set to grow by an average 6.6% a year in real terms, comparable to that seen in the previous decade – 7.0%. Nominal GDP is expected to almost double in dollar terms, and GDP per capita is forecast to expand to over USD1,120 by 2025. Nevertheless, we note that Tanzania is expanding from a low base, and will remain one of the poorest countries in the world.

Burgeoning Transit Trade

Tanzania will benefit over the coming decade from continuing integration with its fellow East African Community (EAC) members, Burundi, Kenya, Rwanda and Uganda. We believe that Tanzania will gain from deeper involvement with the bloc, and the Tanzanian government has been urging increased integration. Tanzanian Vice-President Mohamed Gharib Bilal, told a conference in June 2013 that 'we must force ourselves to think as a region, plan as a region, aspire as a region and implement as a region'. The opening up of the Tanzanian fixed income market to the wider EAC is one step towards this goal; at present no foreigners are able to invest in this.

Robust Growth Over Next Decade
Real GDP Growth, % y-o-y



e/f = BMI estimate/forecast. Source: BMI, BoT, UN

One key manner by which Tanzania will benefit from regional integration is through serving as a transit route for the three landlocked EAC countries, Burundi, Rwanda and Uganda. Uganda in particular is expected to generate considerable business for Tanzania as it will grow at a robust rate over the coming years. Although Kenya's port of Mombasa is currently the EAC's leading maritime facility, it is operating vastly over capacity and is bogged down by congestion and delays. The same can be said of Tanzania's Dar es Salaam. However,

TABLE: LONG-TERM MACROECONOMIC FORECASTS

	2016f	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f
Nominal GDP, USDbn	44.5	47.1	50.2	53.8	56.8	60.0	63.6	67.8	71.9	75.5
Real GDP growth, % y-o-y	6.8	6.7	6.5	6.3	6.0	6.4	6.5	6.8	6.7	6.5
Population, mn	55.2	56.9	58.6	60.4	62.3	64.1	66.1	68.0	70.0	72.0
GDP per capita, USD	851	874	906	943	966	993	1,024	1,062	1,096	1,119
Consumer price inflation, % y-o-y, ave	5.4	5.6	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Current account balance, % of GDP	-8.1	-8.3	-8.1	-7.6	-7.3	-7.1	-6.8	-6.2	-5.8	-5.5
Exchange rate TZS/USD, ave	2,190	2,286	2,400	2,520	2,646	2,765	2,875	2,990	3,110	3,234

f = BMI forecast. Source: BMI, NBS

Tanzania is also developing ports at at Dar es Salaam, Tanga and Mtwara, which, coupled with developments in the rail freight network and the expansion of the Julius Nyerere International Airport, should tip the regional trade balance in Tanzania's favour.

Significant Infrastructure Investment

These freight transport projects are just some of the large infrastructure projects planned in Tanzania over the next decade that will serve to bolster economic growth. Further developments are also planned in the construction of residential housing, as well as in the power sector. Chinese firms have signed agreements to expand the national grid to north eastern regions of Tanzania, and new gas and hydro electric power plants have been announced. The expansion of the national grid could also serve to boost manufacturing in Tanzania, and aid mining companies' margins. The erratic power supply in many parts of the country serves to hamper the development of a robust manufacturing base, and regions where the extractive industries are based are particularly poorly served, with mining companies forced to run on expensive fuel generators most of the time.

The government has stated its intention to export power, though this is an ambition our Oil and Gas team believes is unlikely to bear fruit in the short term. Only an estimated 24% of the population has access to electricity at present, meaning that exports would likely run up against rising populist opposition.

Gas To Be Game Changer

The major source of foreign direct investment (FDI) inflows over the course of our outlook period will be the nascent offshore natural gas sector. Discoveries of natural gas off the Tanzanian coast by Norway's Statoil have the potential to transform the economy. Large-scale hydrocarbons production will not only boost Tanzania's external accounts owing to increased exports, they will also decrease the country's reliance on energy imports. Although production is some way off (our Oil & Gas team expect 2022 at the earliest), investment into extractive and export infrastructure will have a meaningful impact on growth in the preceding years. In March 2016, another USD8bn worth of onshore gas was discovered in the Ruvu Basin Coast Region by Dodsal Group, bringing in yet more investment.

The hydrocarbons sector is another industry, however, that is likely to be affected by rising populism in Tanzania, with protests over the use of the country's natural resources potentially influencing government policy to ensure adequate local benefits from the exploration being carried out by foreign oil and gas companies. In October 2013, then-President Jakaya Kikwete announced that the government may increase its stake in production sharing contracts awarded under the bidding round to between 65% and 75%. Although Tanzanian officials are counting on the significant windfall to be gained from offshore gas, which would generate billions of dollars in revenues, as well as offer badly needed fuel feedstock for the local market, the latest moves to see the state acquire such a large share could serve to reduce the attractiveness of upstream investment.

Fall In Gold Price A Challenge

Tanzania will be hoping to get its offshore gas export sector up and running as soon as possible, particularly considering the price volatility of gold. Considering that Tanzania relies upon gold for over 20% of its goods export revenues, a downturn in the sector would be likely to have serious repercussions for the economy as a whole.

The agricultural sector has strong potential, although we believe this is only likely to be realised in the long run. Land use has very low productivity – 85% of land is cultivated by hand-held tools, 10% by animals and only 5% using modern methods. Poor infrastructure and a lack of access to credit hold back the development of the agricultural sector. Lack of access to credit is a consequence of historical laws that make borrowing against land difficult. There is also an absence of rural bank branches, financial institutions are under-developed and there is difficulty in obtaining seasonal credit, which is necessary for farming. While weak infrastructure is likely to remain a constraint over our forecast period, most of the limitations on accessing credit are likely to ease over the next few years. Seasonal credit is beginning to become available, and banking via mobile telephone is greatly expanding the reach of the most basic financial services.

We are seeing substantial inflows of FDI into the agricultural sector. This, coupled with the rising yields such investment is generating, will serve to augment production growth over the period. However, as with other industries there are rising concerns over whether the benefits of rising farm production will feed through to improving living standards in rural areas.

BMI's long-term macroeconomic forecasts are based on a variety of quantitative and qualitative factors. Our 10-year forecasts assume in most cases that growth eventually converges to a long-term trend, with economic potential being determined by factors such as capital investment, demographics and productivity growth. Because quantitative frameworks often fail to capture key dynamics behind long-term growth determinants, our forecasts also reflect analysts' in-depth knowledge of subjective factors such as institutional strength and political stability. We assess trends in the composition of the economy on a GDP by expenditure basis in order to determine the degree to which private and government consumption, fixed investment and the export sector will drive growth in the future. Taken together, these factors feed into our projections for exchange rates, external account balances and interest rates.

Chapter 3:
Political Outlook

SWOT Analysis

Strengths

- Since becoming independent in the early 1960s, Tanzania has earned a reputation as one of the more stable political systems in Africa.
- Tanzania is largely free of ethnic enmity; an issue that has caused considerable strife in neighbouring Kenya and elsewhere in Africa.

Weaknesses

- The political system is not entirely free, and the opposition continues to claim elections have been rigged.
- Tensions on the semi-autonomous Zanzibar archipelago have been a source of instability in the past, although a power-sharing deal signed in 2010 between the Civic United Front and ruling Chama Cha Mapinduzi could see these risks dissipate.
- Corruption is endemic, with the government estimating that around 30% of the budget is lost to graft each year.

Opportunities

- Ongoing progress towards East African unification could present opportunities for better regional cooperation on economic policy and foreign affairs.
- Political stability provides reassurance to foreign investors, especially compared with more politically volatile neighbours.
- The ongoing redrafting of the constitution offers the opportunity to increase satisfaction with the state of the nation.

Threats

- Corruption remains an important problem; if not checked, it could seriously tarnish the country's reputation.
- The government is heavily reliant on foreign assistance for budget support, with the withdrawal of this support potentially having serious negative implications for the fiscal accounts.

BMI Political Risk Index

Tanzania's high Short-Term Political Risk Index score is reflective of the country's historic stability, having avoided major conflict – both internal and external – since independence in 1961. The country also scores highly in the 'policymaking process' sub-component of our Index, a testament to the strength of the ruling Chama Cha Mapinduzi (CCM) party, which faces no effective opposition on the mainland. However, in the semi-autonomous region of Zanzibar, where the opposition Civic United Front has shown itself capable of mounting a serious challenge to CCM rule, tensions have regularly sprung up and caused instability.

	S-T Political	Trend	Regional Rank	Global Rank
Djibouti	68.1	=	1	76
Eritrea	67.3	=	2	80
Rwanda	61.5	=	3	107
Tanzania	**59.0**	**=**	**4**	**121**
Kenya	53.8	-	5	141
Uganda	51.7	=	6	148
Ethiopia	47.5	=	7	160
Chad	40.0	=	8	172
Sudan	36.0	=	9	177
Burundi	35.6	=	10	178
Congo (DRC)	32.7	=	11	181
Central African Rep.	24.6	=	12	185

Regional ave 48.2 / Global ave 63.9 / Emerging Markets ave 60.1

	L-T Political	Trend	Regional Rank	Global Rank
Tanzania	**62.3**	**=**	**1**	**90**
Uganda	53.7	=	2	124
Djibouti	53.1	=	3	128
Kenya	47.9	-	4	152
Rwanda	44.1	=	5	159
Eritrea	41.7	=	6	163
Burundi	40.9	=	7	165
Ethiopia	40.7	=	8	166
Sudan	28.3	=	9	181
Congo (DRC)	27.1	=	10	182
Chad	26.7	=	11	183
Central African Rep.	22.8	=	12	185

Regional ave 40.8 / Global ave 61.1 / Emerging Markets ave 56.0

Domestic Politics

Tighter Government Grip Hurting Business Environment

BMI VIEW

BMI View: *The Magufuli government's implementation of tax and regulatory reform has been too rapid and forceful for many businesses. If sustained, the pattern of sudden policy shifts could damage Tanzania's attractiveness for many businesses. Meanwhile, despite the president's popularity, the government's crackdown on opposition will cause short-term political and social instability.*

Tanzanian President John Magufuli's rapid implementation of fiscal and regulatory reforms is likely to remain a concern to businesses, and his heavy-handed governing style will draw further accusations of authoritarianism from the opposition. Thus far, President John Magufuli has gained a reputation as no-nonsense fiscal reformer since his election victory in October 2015, and has been nicknamed the 'Bulldozer' for his swift execution of anti-corruption policies. We believe that his policies will lead to an improved fiscal outlook *(see 'Broader Revenues Will Boost Budget In The Long Term', August 25)*. However, the pace of reform has arguably been too quick and his aggressive execution of tax and regulatory reform will hurt businesses' profitability and ease of operations.

While we still forecast Tanzania's growth to outperform that of many countries in the region, the aforementioned measures have prompted us to forecast real GDP growth of 6.8% and 6.7% in 2016 and 2017 respectively, lower than last year's rate of 7.0%. In the longer term, we view Magufuli's authoritarian stance on freedom of expression and public dissent as a threat to Tanzania's development as a stable multiparty democracy.

Tax Hikes On Sectors Squeeze Profits

We expect that a wave of new taxes introduced in the 2016/17 budget will hurt the profitability of a number of industry sectors, including tourism, telecoms and banking. In particular, the imposition of 18.0% VAT on the tourism sector occurred hastily, with tourism providers given only one week's notice to implement the new tax. We anticipate that this will see many tourists favour cheaper safari destinations in the region, such as Kenya and South Africa. The telecoms industry will also see a squeeze in profits. Whilst the 10.0% levy on mobile money transactions will not be passed onto consumers, telecommunications companies will have less revenue to invest in expanding their services (*see 'MFS Tax To Discourage Service Deepening', June 14*). However, bank customers will see fees and commissions on services rise, with the addition of 18.0% VAT already being passed onto them. We also see mild risks that a cap on bank lending rates, such as that in Kenya, could be implemented in Tanzania. The Bank of Tanzania (BoT) governor Benno Ndulu publicly commented that he would be watching the outcome of the Kenyan rate cap, implying that

TABLE: POLITICAL OVERVIEW

System of Government	Republic, universal suffrage. Mainland legislature (274 seats) makes laws for the country and for the mainland. Zanzibar is a semi-autonomous region with a legislature (50 seats) that makes laws for Zanzibar only. Power rests with the president.
Head of State (and Government)	President (John Magufuli – Chama Cha Mapinduzi) – up to two five-year terms
Last Election	Presidential – October 25 2015 Parliamentary – October 25 2015
Composition of Current Government	On the mainland, Tanzania is a de facto one-party state. The Chama Cha Mapinduzi (CCM) party has been in power with a large majority since the country legalised opposition parties in 1995. In Zanzibar, the opposition Civic United Front (CUF) has a sizeable representation.
Key Figures	President – John Maguful (CCM); President of Zanzibar – Ali Mohamed Shein (CCM); Vice President – Samia Suluhu (CCM); Prime Minister – Kassim Majaliwa (CCM)
Main Political Parties	Chama Cha Mapinduzi (252 seats on mainland, 28 seats in Zanzibar): Founded in 1977 and initially socialist, though subsequently adopted a pragmatic, market-oriented approach. Led by President John Magufuli. Civic United Front (42 seats on mainland, 22 seats in Zanzibar): founded in 1992 from two movements that campaigned for multi-party democracy. Main support base is in Zanzibar. Ideology is liberal. Led by Professor Ibrahim Lupumba. Chama cha Demokrasia na Maendeleo (70 seats on mainland).
Next Election	Presidential – 2020 Parliamentary – 2020
Ongoing Disputes	Corruption: The central bank governor was dismissed in January 2008 and replaced with Benno Ndulu, and Prime Minister Edward Lowassa resigned in February 2008 – both amid allegations of corruption.
Key Relations/Treaties	Member of the East African Community, African Union, G77, Southern African Development Community, UN, WTO.
BMI Short-Term Political Risk Index score	59.0
BMI Long-Term Political Risk Index score	62.3

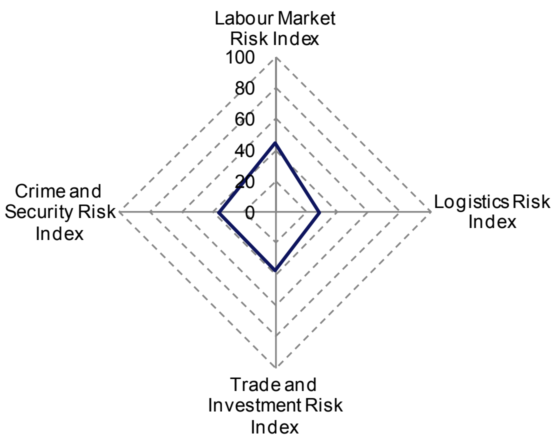
Source: BMI

such a policy is being taken into consideration. Hence, we expect that a number of sectors will begin to see a squeeze in profits due to stringent new taxation.

Other Regulations Disrupting Business Operations

The stricter regulatory environment is beginning to manifest itself in other ways as well, with authorities ramping up surveillance. After tax reforms involving the strict enforcement of VAT receipts, consumers are often made liable by officers if they are not given VAT receipts from transactions with retailers, and have been subject to random checks. Furthermore, homes and businesses have been raided in an attempt to find and expel illegal immigrants. These measures, along with other reforms, have made the day-to-day running of businesses more challenging and have the potential to negatively affect the Trade and Investment Risk sub-component of our proprietary Operational Risk Index, where it is already performs relatively poorly (*see chart*).

Policy Shifts Negative For Trade, Investment
Operational Risk Sub-Indices, Scores Out Of 100



Note: Higher score indicates lower risk. Source: BMI

'Bulldozer' Policies Fiscally Positive, But Authoritarian

We are still of the view that Magufuli will cut corruption and fiscal waste through measures such as the removal of 'ghost workers' from the public sector wage bill (*see 'Magufuli Presidency A Positive For Economy', May 19*). However, we view his style of leadership as becoming increasingly authoritarian of late. In early June and late August, pro-democracy demonstrations in response to suppression of political activity, restriction of TV broadcasting of parliamentary debates and control of the media were planned. However, these were violently suppressed by law enforcement, and demonstrations and opposition rallies have been banned, with Edward Lowassa, the leader of the main opposition party Chadema having been arrested on charges of organising rallies in August. Furthermore, free speech has been threatened, with the editor of the Daily News brought in for questioning in July after the paper published a story about law enforcement, and reports of arrests after anti-government posts were published on social media. While this will have minimal impact on the country's economic growth in the short term apart from the potential for donors to cut aid flows, it will stall Tanzania's development towards becoming a stable multiparty democracy. We see this as negative because we view countries with freedom of expression and a credible opposition as having more institutional strength and competitiveness (*see '2016 SSA Elections Will Largely Favour Incumbents', July 27*). Hence, the lack of accountability for Tanzanian leaders will be a continuing problem, allowing disruptive changes and regulations to continue being implemented and threatening policy stability.

Long-Term Political Outlook

Corruption And Reliance On Foreign Money High On The Agenda

BMI VIEW

Tanzania will continue to enjoy broad political stability over the coming decade, with little to suggest that the ruling Chama Cha Mapinduzi party's authority will be threatened. That is not to say the 2015-2025 period will be without challenges. Chief among these will be dealing with high levels of corruption and addressing the country's dependence on foreign aid.

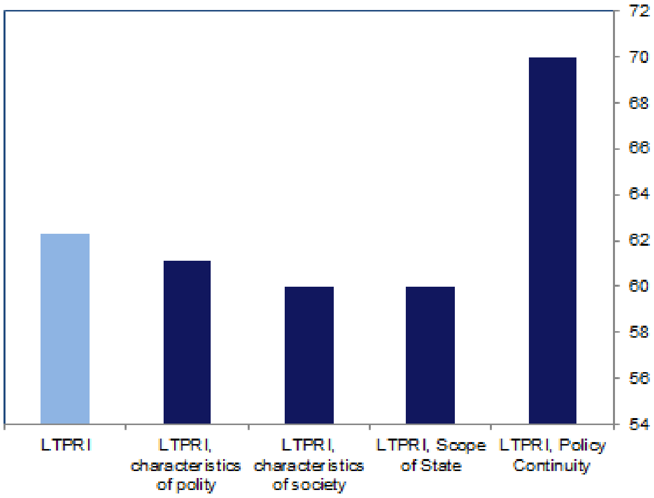
Tanzania scores 62.3 out of 100 in our Long-Term Political Risk Index, placing it in the top 10 in Sub-Saharan Africa. The dominance of the ruling party Chama Cha Mapinduzi (CCM) means the country scores 70.0 out of 100 in the 'policy continuity' sub-component of the overall score. One of the biggest drags comes from the 'scope of state' sub-component, which scores 60.0 out of 100, reflecting the government's dependence on foreign aid to fulfil its budget expenditure commitments. Also weighing on the headline score is the 'characteristics of society' score, which also comes in at 60.0 out of 100, representing the fact that poverty is widespread. Below, we explore these challenges in more depth and outline several scenarios in which CCM dominance might be eroded, leading to an eventual transfer of power.

Challenges And Threats To Stability

Poverty: According to **BMI** estimates, Tanzania was ranked as the 26th poorest country when measured by 2015 GDP per capita, at USD853. While popular unrest is not common in Tanzania, continued economic hardship will exacerbate the risk of instability. The alleviation of poverty will therefore be an important goal for the government over the next decade.

Bastion Of Long-Term Stability

Tanzania – Long Term Political Risk Index Scores (Out Of 100)



Source: BMI

Corruption: According to Transparency International's 2015 Corruption Perceptions Index, Tanzania scored 30 out of 100, placing it 117th of 168 countries assessed (compared to 119th of 175 the previous year). Although it fares slightly better than regional peer Kenya (25), corruption remains endemic. Indeed, the government admitted in 2009 that about a third of its budget on average is lost to graft. President John Magufuli has undertaken a number of measures to combat corruption since his election victory in 2015, for example by tackling misappropriation of public sector funds and introducing a special court to deal with corruption. The fight against corruption is all the more important given that the Tanzanian authorities are heavily reliant upon foreign assistance for their budget, and donors have threatened to withdraw support if corruption continues unabated.

Reliance On Foreign Aid: This dependence upon external assistance as a source of revenue is in itself a cause for concern. In the event that foreign donors withhold support, authorities would find themselves in a fiscal predicament and be forced to cut spending or risk becoming over-indebted. A move away from this reliance is necessary to alleviate these risks. Tanzania receives grants equivalent to about 12.4% of its budgetary requirements, meaning that if the country is subject to negative political scrutiny from donors, this could affect its budget balance and debt dynamics adversely.

De Facto One-Party State: The dominance of the ruling CCM (on the mainland, in particular) is such that Tanzania is a one-party state in all but name. There are signs that CCM's dominance is being eroded – at the 2015 presidential election, Magufuli's share of the vote was 58.5% (with his nearest competitor gaining 40.0%), down from Kikwete's 80.3% in 2005. However, it seems very unlikely that an opposition party will present a real challenge to CCM in the near future. This is illustrated in the national assembly, where CCM has secured 185 out of 239 seats. An opinion poll conducted in 2010 showed 57% of respondents believed democracy in Tanzania was facing challenges. This indicates to us that support for CCM has more to do with a lack of alternatives than anything else. In our view, the lack of checks and balances leaves the door open to abuse of power.

Tensions In Zanzibar: The archipelago of Zanzibar is semi-autonomous, with its own president, legislature and bureaucracy. While CCM holds the presidency and a majority in the Zanzibari parliament, its dominance is less assured than on the mainland, with the opposition Civic United Front enjoying a wider following on the archipelago (particularly on the second largest island, Pemba). However, instead of leading to higher levels of accountability and transparency, the existence of a popular opposition, combined with historic tensions on the islands, has led to violence and unrest during elections. In 2000, 23 people were killed in post-election violence, and the 2005 poll was also blighted by violence and widespread irregularities, according to international observers. In 2010, Zanzibari voters opted to enshrine power-sharing in the constitution in a bid to end decades of feuds, which led to a far more peaceful process in that year's elections. However, it remains to be seen whether the power-sharing agreement is a long-term answer to defusing tensions.

Scenarios For Political Transition

As alluded to above, CCM's dominance on mainland Tanzania and the lack of a credible alternative mean the party is not likely to be removed from power over the coming decade. Unlike many countries in Africa, Tanzania has achieved social integration to the point where there is little evidence of ethnic or religious divisions in society. For this reason, an appeal to ethnic or religious loyalty is unlikely to provide impetus for political transition. A more likely basis for a threat to CCM's dominance stems from the potential for slower-than-expected economic development and the resultant stagnation or fall in living standards for the majority of the population.

In order for sluggish economic growth to provide a realistic threat to CCM dominance, it would need to coincide with the emergence of a credible alternative party or a split in CCM itself. The former seems unlikely to us, given that a credible opposition has failed to materialise since the introduction of a multi-party system in 1992. This has a lot to do with CCM's control of state infrastructure – something that is also unlikely to be altered over the coming decade.

A more realistic scenario (although still unlikely) would be for CCM to split after internal disagreement. John Magufuli's anti-corruption policies have the potential to cause friction among other high-ranking members of his party, as they may be concerned about being implicated in corruption investigations. This would have the knock-on effect of infighting, causing policy gridlock, particularly as Magufuli was not considered to be a part of the political establishment.

In addition to corruption, the issue of Zanzibar could be a divisive issue for the ruling party. The islands are 99% Muslim, and the majority of their inhabitants have expressed support for independence. This is opposed by the union government. Over the medium term, Zanzibar's economic dependence on the mainland will likely prevent a secessionist movement from gathering much steam. An independent Zanzibar would not be an economically viable entity, especially if the process of independence led to a hostile mainland. However, if pressure for full independence of semi-autonomous Zanzibar were to intensify, policy differences over dealing with such pressure could challenge the unity of CCM.

Chapter 4:
Operational Risk

SWOT Analysis

Strengths

- There is limited risk of conflict with other states.
- The low cost of exporting from and importing to Tanzania makes the country competitive from a regional perspective and boosts the country's role as a transit point to landlocked countries.
- Tanzania has achieved nearly universal access to primary education.
- Increased regional integration, with Tanzania's participating in major sub-regional and regional trade agreements, benefits trade flows.

Weaknesses

- Porous borders leave the country vulnerable to regional terrorist groups.
- Access to water is poor. Sanitation rates are even worse, threatening the health of the labour force.
- A lack of resources for secondary and tertiary education lowers the quality of education received in Tanzania.
- A low number of bank branches per population means Tanzanian consumers have limited access to capital.

Opportunities

- Increased regional and international coordination may lower the threat of terrorism.
- The introduction of compulsory secondary education will boost the level of skill in the workforce.
- Rail is expected to play a growing role in freight transport owing to new routes between Tanzania and neighbours Rwanda and Burundi, as well as routes built out of the country's mining bases; this will decrease the pressure on road freight and aid in tackling congestion.
- The discovery of natural gas could significantly boost trade flows and foreign reserves.

Threats

- An inability to prevent the expansion of cyber and financial crime means these crimes will pose greater threat to companies in the medium term.
- Projections indicate that by 2025, Tanzania will experience water stress due to population growth and the resulting increase in consumption. This will place further pressure on the country's utilities.
- Growing unemployment, particularly among the youth population, could lead to growing discontent and political instability.
- Widespread corruption, particularly in the legal system, will continue to drive up the cost of doing business in the country.

Operational Risk Index

Tanzania is on an improving path with regards to ease of doing business. Challenges to the operational environment over the long term include poor transport and supply chain logistics, a somewhat unpredictable legal environment and low productivity. However, rapid economic growth, investment in railways, ports and roads and improving levels of education will see the country rise in prominence as an investment destination over the coming years.

	Operational Risk	Trend	Regional Rank	Global Rank
Mauritius	62.4	+	1	45
South Africa	54.3	-	2	78
Seychelles	53.9	-	3	79
Ghana	49.2	-	4	102
Botswana	48.5	+	5	104
Namibia	48.5	+	5	104
Rwanda	44.5	+	7	122
Zambia	44.4	-	8	124
Cape Verde	44.1	-	9	125
Gambia	40.5	+	10	139
Swaziland	40.3	+	11	140
Senegal	39.0	+	12	146
Kenya	38.9	+	13	148
Nigeria	37.9	+	14	150
Côte d'Ivoire	37.7	-	15	155
Tanzania	**37.5**	**-**	**16**	**156**
Ethiopia	37.1	+	17	157
Malawi	37.1	-	17	157
Madagascar	36.9	-	19	159
Uganda	36.6	+	20	160
Benin	36.5	-	21	161
Cameroon	36.5	-	21	161
Gabon	36.3	-	23	163
Djibouti	36.0	+	24	164
Sao Tome	35.6	+	25	165
Liberia	34.8	-	26	168
Mozambique	34.4	-	27	171
Zimbabwe	34.4	-	27	171
Togo	34.2	+	29	174
Lesotho	34.0	+	30	176
Angola	31.8	-	31	179
Burkina Faso	31.7	+	32	180
Sierra Leone	31.1	-	33	182
Mauritania	31.0	+	34	183
Equatorial Guinea	30.9	-	35	184
Guinea	30.0	-	36	186
Sudan	29.4	+	37	187
Congo Republic	28.4	-	38	188
Mali	27.1	+	39	190
Burundi	26.8	+	40	191
Eritrea	26.3	-	41	192
Niger	23.6	-	42	195
DRC	23.4	-	43	196
Guinea-Bissau	23.1	-	44	197
Somalia	22.0	+	45	198
South Sudan	21.2	+	46	199
Chad	20.3	+	47	200
CAR	18.1	-	48	201

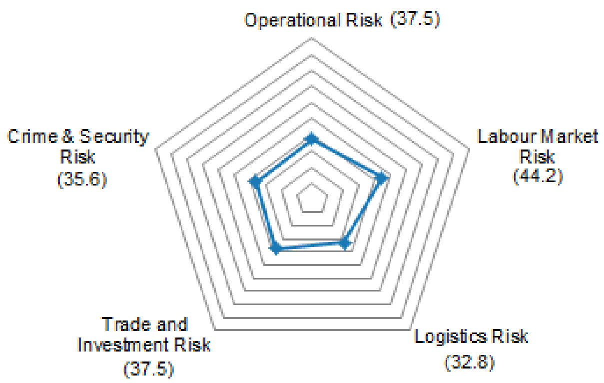
Regional ave 35.4 / Global ave 49.8

Operational Risk

BMI's Operational Risk report series provides a comprehensive overview of potential risks facing investors operating in a country, as well as a cross-country regional evaluation of threats and advantages. The Operational Risk service evaluates Logistics Risk, Trade and Investment Risk, Labour Market Risk and Crime and Security Risk. Below are sections from these reports.

Security, Logistics Risks Weigh Down Operational Risk Environment

Tanzania – Operational Risk



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Operational Risk Index

Tanzania is characterised by a moderate level of operational risk by regional standards, underlined by relative political stability and a diversity of trade and economic opportunities. Further advantages include moderately low labour costs, a large labour pool and a wealth of natural gas reserves, though production will not start until 2023. The main challenges investors face in Tanzania include: transport and supply chain bottlenecks, burdensome bureaucratic procedures, low levels of urbanisation, industrialisation and productivity, weak service delivery resulting in low life expectancy levels and a predominantly un skilled workforce. Corruption is pervasive throughout Tanzanian society and is a serious problem across all sectors of the economy, heightening legal risks for foreign investors. Tanzania's limited transport network and cumbersome trade procedures constrain business operations. Consequently Tanzania scores 37.5 out of 100 for Operational Risk, ranking 16th out of 48 states in the region and 156th out of 201 states on a global scale.

Logistics (32.8/100): Due to its strategic location, Tanzania's transport system serves as an important link in regional trade, enabling landlocked neighbours to access maritime trade routes through Tanzania. Within this, firms benefit from a competitive and efficient system of trade procedures and governance within the context of the region, enabling companies to lower trade costs and maximise price competitiveness for their products. At the same time, the national transport network is of a fairly high quality, particularly in terms of the country's ports. Tanzania also offers competitive packages in terms of pricing and accessibility for a number of important utilities, notably water and electricity. However, a moderate level of risk stems from other characteristics of the country's logistics capabilities, including the limited size and extent of the national transport network, particularly within air travel, and cumbersome and lengthy customs procedures that inhibit the efficient flow of trade.

Crime and Security (35.6/100): Security risks in Tanzania are moderate in comparison with its regional peers, as the country enjoy stable relations with its neighbours, possesses one of the most capable military forces in the region. However, its porous borders elevate the threat of terrorism from regional groups and businesses remain exposed to organised crime and corruption.

Trade and Investment (37.5/100): Tanzania offers a number of strategic advantages to investors and businesses, including a wealth of natural resources and a government that is becoming increasingly open to foreign participation in the economy. However, firms continue to face challenges in the form of non-tariff trade barriers and difficulty competing with public sector firms in key economic sectors. Tanzania's main challenges include addressing infrastructure bottlenecks, improving the business environment, increasing agricultural productivity and value addition across all sectors and managing urbanisation. Corrup-

TABLE: OPERATIONAL RISK

	Operational Risk	Labour Market Risk	Logistics Risk	Trade and Investment Risk	Crime and Security Risk
Tanzania Score	37.5	44.2	32.8	37.5	35.6
Sub-Saharan Africa Average	35.4	39.1	33.8	35.8	32.7
Sub-Saharan Africa Position (out of 48)	16	12	27	17	22
Global Average	49.8	50.3	49.3	49.9	49.8
Global Position (out of 201)	156	147	166	147	148

Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Operational Risk Index tion is pervasive throughout Tanzanian society and is a serious problem across all sectors of the economy. The most affected sectors are government procurement, land administration, taxation and customs.

Labour Market (44.2/100): With one of the most competitive labour markets in Sub-Saharan Africa, Tanzania offers a relatively low level of labour risk to investors and businesses. Benefits include flexibility in hiring and firing workers, a high percentage of working-age citizens and women employed in the workforce and increasing education attainment levels in the workforce. However, businesses face a moderate level of risk in the poor quality of the country's educational sector. Despite rapid growth in enrolment rates as well as educational facilities, a scarcity of state funding has constrained the development of secondary and tertiary education, resulting in a limited supply of high-skilled and technical labourers. This necessitates high training costs and the import of foreign labour.

Market Size And Utilities

Tanzania's utilities sector still reflects its status as a developing country, with water shortages, blackouts and slow internet download speeds representing significant risks to investors. While the country does have some of the lowest electricity costs in the region, lengthy and frequent power cuts mean businesses are often reliant on back-up diesel generators at extensive cost. Furthermore, access to water is variable across the country, with even the capital, Dar es Salaam, experiencing on average just nine hours of water per day. These risks are factored into the country's score of 35.2 out of 100 for Market Size and Utilities, which places it 26th in the region.

Although firms already enjoy competitive electricity costs, the promise of natural gas production in the long term will provide a major boost to Tanzania's utilities competitiveness. However, risks exist in the form of rising fuel prices. As such, Tanzania places 22nd regionally for Electricity and Fuel, with a score of 49.1 out of 100.

Firms will also enjoy significant growth in internet penetration rates, which could facilitate improvements in the country's download speeds in the medium term. However, businesses face a high risk emanating from the country's dwindling freshwater reserves, which threaten industries such as agriculture and tourism. Consequently, we score Tanzania 21.4 out of 100 for Telecommunications and Water, which places the country towards the bottom of the pack in Sub-Saharan Africa (SSA), in 36th position out of 48 states in the region.

Electricity

Tanzania's electricity generation sector has an installed capacity of 773MW, of which 71% is hydropower, leaving it highly vulnerable to drought. Thermal power represents the second largest power source in the country, and currently generates around 240MW of electricity. The country's inability to meet its electricity generation needs domestically means it has to import electricity from its neighbours, which leads to reliability risks.

Increased demand has left Tanzania heavily reliant on energy imports from Uganda and Zambia, leaving the country vulnerable to power shortages and rising prices. In 2011 (latest available data), the country was only able to produce a total of 777MW of electricity from all sources, which equated to 63.9% of 1,200MW required for the country. Electricity imports from Tanzania's neighbours have been inconsistent, in part because both countries also depend on hydropower, which exposes these states to power shortages during draughts.

Tanzania therefore continues to suffer from frequent power outages, with many grid-connected consumers receiving just four hours of electricity per day. Power outages pose risks to business operations and significantly undermine profits. In 2013, for example, the World Bank estimates that 17.6% of sales value was lost due to power outages in the country, significantly higher than Kenya (7.1%), Zambia (7.5%) and Uganda (11.5%). As a result, many firms are obliged to pay for expensive self-generation plants, which smaller businesses are generally unable to afford. Investors must therefore be aware of this extra-cost outlay that is required to ensure a reliable power source for operations.

In an effort to enhance the reliability of the power supply, the state-run **Tanzania Electric Supply Company** announced the commencement of a major rehabilitation project of its hydropower plants at Kitadu and Mtera. The project will involve the replacement of old technologies and switch gears to boost power generation, as well as the upgrade of the control system and the powerhouse ventilation and cooling system. Additionally, several new power sub-stations are being constructed in Dar es Salaam, which will add another 150MW to the national grid by the end of June 2015. Furthermore, a number of other power projects are being implemented in hydro, coal and wind power, which will help meet growing domestic demand for electricity in the long term.

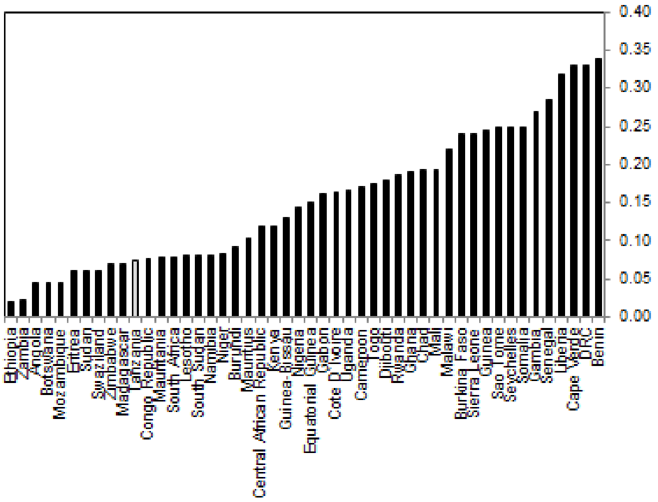
TABLE: SUB-SAHARAN AFRICA – MARKET SIZE AND UTILITIES RISK			
Country	**Electricity and Fuel**	**Telecommunications and Water**	**Market Size and Utilities Risk**
Namibia	69.3	44.5	56.9
Sudan	79.3	34.3	56.8
Mauritius	48.2	62.8	55.5
Zambia	64.8	34.6	49.7
Côte d'Ivoire	62.6	36.1	49.3
Botswana	59.5	38.7	49.1
Congo Republic	64.3	33.0	48.7
Zimbabwe	43.5	52.3	47.9
South Africa	42.8	52.0	47.4
Cape Verde	46.3	48.5	47.4
Angola	53.3	38.6	45.9
Lesotho	60.7	30.4	45.6
Cameroon	66.1	24.5	45.3
Gabon	50.9	36.5	43.7
South Sudan	55.3	31.2	43.3
Mauritania	55.2	31.0	43.1
Ghana	43.9	41.6	42.8
Swaziland	55.5	29.6	42.6
Rwanda	53.9	25.1	39.5
Madagascar	49.3	27.6	38.4
Chad	57.0	19.7	38.4
Guinea	41.8	33.5	37.7
Seychelles	21.5	52.2	36.8
Kenya	39.4	33.7	36.6
Mali	41.7	30.2	35.9
Tanzania	**49.1**	**21.4**	**35.2**
Ethiopia	61.8	8.3	35.0
Nigeria	31.3	38.3	34.8
Niger	55.6	12.5	34.0
Sierra Leone	38.5	28.6	33.5
Mozambique	51.5	15.3	33.4
Eritrea	58.4	8.0	33.2
Uganda	36.3	29.6	33.0
Equatorial Guinea	37.7	28.0	32.9
Gambia	33.7	31.4	32.6
Burundi	47.2	17.1	32.2
CAR	45.4	18.9	32.1
Sao Tome	37.2	26.8	32.0
Somalia	43.8	18.2	31.0
Senegal	29.0	32.6	30.8
Liberia	29.1	32.5	30.8
Togo	49.7	10.0	29.8
Benin	33.1	23.2	28.1
DRC	30.1	22.5	26.3
Burkina Faso	30.3	22.1	26.2
Guinea-Bissau	30.8	18.0	24.4
Djibouti	33.4	9.3	21.4
Malawi	23.0	19.2	21.1

Source: BMI Logistics Risk Index

Tanzania's discovery of natural gas will also enhance the country's long-term energy security. The country is estimated to have over 53.2trn cubic feet of gas reserves off the southern coast, generating considerable interest from foreign investors. Within this, the Norwegian energy company Statoil discovered an additional natural gas find, bringing the total discovered gas volumes in Block 2 offshore Tanzania to roughly 22trn cubic feet, while the company is optimistic that there is more natural gas to be discovered.

Despite Poor Access To Electricity, Low Power Costs

SSA – Cost Of Electricity (USD Per KWh)



Source: National statistics

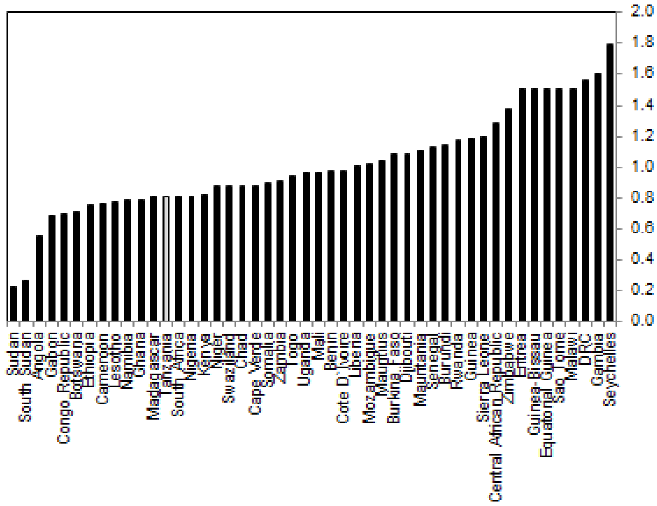
To effectively exploit the fruits of the country's natural gas, the Tanzanian government has earmarked an estimated USD6mn to purchase land that will house a USD30mn liquefied natural gas (LNG) terminal. The two-train onshore export terminal will be constructed in the southeast of the country at Lindi, near past natural gas discoveries. However, the benefits of this discovery will not be felt until the long term, as production will not begin until after 2020.

The electricity sector will receive a further boost from the liberalisation of the industry, thereby allowing private partners to generate and distribute electricity in the country. However, thus far, private companies have been unable to effectively compete with the state-owned Tanzania Electricity Supply Company (TANESCO) and its monopoly over the sector. As a result, businesses seeking to invest in the power industry may face high entrance barriers to the market.

Electrification rates in Tanzania are similar to the rest of the region, though low by global standards at just 14%. Access to electricity is far lower in rural areas, where less than 3% of the population are connected to the electricity grid, compared with 50% in Dar es Salaam. Furthermore, the reliability of the electricity grid is low, with frequent brownouts and blackouts averaging up to 60 days per year, disrupting business operations. Tanzania has experienced numerous drought-related power crises in past decade. In 2011, TANESCO had to institute rolling blackouts of up to 12 hours, forcing about 50 factories to close down and lay off their employees.

Low Global Oil Prices Facilitate Declining Diesel Prices

SSA – Cost Of Fuel (USD Per Litre)



Source: National statistics

Despite these risks for businesses, once they are connected to the grid, the initial connection process for companies is relatively easy, with four procedures required to get electricity, taking 109 days. This compares competitively with the regional average of five procedures and the time for connecting taking 138 days.

Despite importing a significant share of its power, electricity costs in Tanzania are low relative to its regional peers at USD0.07 per KWh, making it the ninth cheapest nation in SSA for electricity costs, jointly with Zimbabwe and Madagascar. The government heavily subsidises electricity costs, though these have not been enough to meet TANESCO's rising operational costs. According to a spokesperson for the firm, TANESCO buys emergency hydropower from its neighbours at USD0.50 per KWh and sells the same at USD0.12, creating losses that accrue to billions. These losses are unsustainable, and, consequently, the company has submitted an application for a power tariff hike that will likely see rising costs based on consumption as opposed to the current standard tariff structure. If this extra cost is passed on to consumers, the country's electricity costs will rise, decreasing Tanzania's competitiveness and attractiveness to investors.

Fuel

Tanzania imports all of its crude oil requirements, pushing up the cost of fuel in the country to USD0.81 per diesel litre, ranking it 12th in the region for the cost of fuel jointly with three other SSA countries. Specifically, Tanzania is the second-largest importer of refined petroleum, importing an average of 95,000 barrels per day. The **Tanzanian Petroleum Development Company** procures the oil, refines it at the Tiper refinery and then delivers the product to marketing companies. Refined products are also imported, as the refinery does not process enough to supply the demand in Tanzania, pushing the cost of fuel higher.

One of the main problems facing Tanzania's fuel sector is the high cost of delivery of petroleum products into the country. This is largely due to the fact that most of the imported product is transported by roads that are of poor quality, increasing transport costs, as well as the high tax component in the price structure, which can be up to 55% of the 'freight on board' price.

In 2013, Tanzania's energy regulator increased petrol, kerosene and diesel prices due to growing international oil prices, with costs increasing 0.56%, 1.72% and 1.60% for petrol, diesel and kerosene respectively. As a result, firms have been subjected to an increase in operational costs, presenting a sizeable burden for firms reliant on road to meet supply chain needs. However, the price hike, which was driven by a change in price in petroleum products on the international market and the depreciation of the Tanzanian shilling against the dollar, is expected to be temporary, which means that prices will likely stabilise in the medium term. Indeed, by December 2014, Tanzania's energy regulator greatly reduced the retail prices of diesel, petrol and kerosene in light of low international oil prices. Within this, the maximum retail price of petrol was reduced by 6.83% to USD1.16 in the capital of Dar es Salaam, while the prices of diesel and kerosene were reduced by 5.85% and 7.16%, respectively.

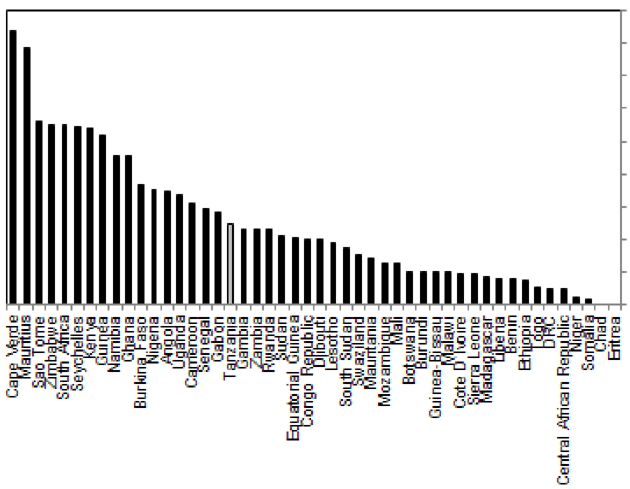
Telecommunications

Internet coverage in Tanzania is steadily expanding, with 24.6 internet users per 100 people – ranking 18th in SSA. Investors will, however, face the fact that in the majority of cases, they will have to operate via dial up, as there are only an estimated 2.9 broadband subscribers per 100 people in the country, thereby slowing business operations.

Internet connectivity in Tanzania is slow from a regional perspective, negatively impacting business operations. According to Ookla's Net Index Explorer, download speeds in Tanzania average 3.9Mbps, low relative to 7.5Mbps in Kenya, 7.1Mbps in Rwanda and 5.5Mbps in Zambia. While connectivity does vary according to location, with large cities such as Dar es Salaam and Arusha experiencing download rates of 4.8Mbps and 5.0Mbps respectively, slow download speeds reduce the productivity of businesses and decrease the connectivity available to these businesses to contact other operations, either domestically, regionally or globally.

Room For Improvement In Internet Usage

SSA – Internet Users Per 100 People



Source: National statistics

Like many other states in SSA, Tanzania's population have gained access to the internet via mobile connections, rather than more costly broadband operations, with the number of 3G/4G users having reached 14.6 out of 100 inhabitants, up from 11.6 out of 100 inhabitants in 2014.

Business opportunities via mobile platforms, are already starting to emerge, with products such as M-Pawa, which allows customers to save and borrow money using their mobile phones, as well as a mobile money transfer service by **Tigo**, which allows Tigo Cash and Tigo Pesa subscribers in Rwanda and Tanzania to use transferred funds to access a range of services including airtime top-ups, transport, utilities payments, cash withdrawals and transfers.

The expanding internet connectivity of the country via mobile links is leading to greater internet knowledge and expertise among the country's workforce and is also opening up new opportunities in supply chains for greater cargo tracking.

Indeed, Tanzania's relative sophistication in ICT capabilities is demonstrated by its e-governance readiness. According to the UN E-Government 2012 Survey, Tanzania ranked 139th out of 193 states in the world for its e-government development in

2013, constituting one of East Africa's fifth most capable governments. In the past several years, the government has harnessed fibre-optic cabling, ICT centres and other facilities to improve the running of the government and its services, bringing both direct and indirect benefits to businesses by lowering delays in basic bureaucratic procedures while delivering e-health and education to the Tanzanian workforce.

Water

Water supply in Tanzania is characterised by decreasing access to improved water sources, intermittent water supply and a generally low quality of service. The country's water sector is highly fragmented and underfunded, with many utility companies barely able to cover their operational and maintenance costs due to low tariffs and poor efficiency. In addition, there are significant regional differences, with the greatest water coverage found in major cities such as Arusha and Tanga. These issues will therefore impact investors, which require reliable water supply for their operations and so will decrease Tanzania's attractiveness for certain industries.

Despite having 1,812 cubic metres of renewable internal freshwater resources per capita, access to water and sanitation remains low in Tanzania. Roughly just half of the population has access to an improved water source, with stark differences between urban areas (about 79% in 2010) and rural areas (about 44% in 2010). Furthermore, in 2011, out of the 57.8% rural water supply coverage, about 30% of the installed capacity of water facilities was non-operational due to factors such as drought and obsolete facilities.

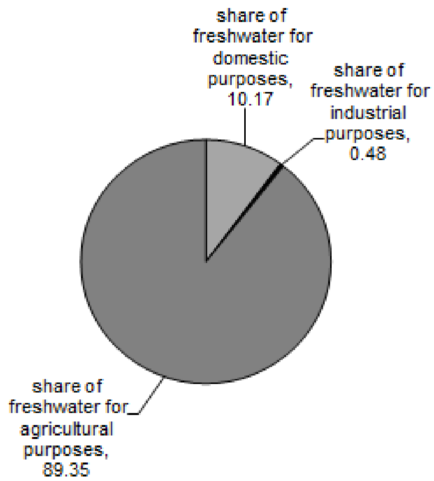
Of the 20 urban water supply and sanitation authorities that operate in Tanzania, just three are able to provide continuous water supply (Arusha, Songea and Tanga). In 11 other cities, water is supplied for at least 19 hours per day. In Babati and Mtwara, there is water supply for 12 hours per day, while the lowest figures come from the cities of Kigoma, Lindi and Singida. In the capital city, Dar es Salaam, water is supplied on average for nine hours per day. This limits the available locations for investors to set up operations, specifically those where water resources are a necessity, such as agriculture.

Access to sanitation is even lower than access to water, with just 12% of the population having access to toilets. This is particularly problematic to the health of the labour force in densely populated, unplanned settlements. It is estimated that 12.1% of total deaths in Tanzania are water, sanitation and hygiene-related. This causes considerable cost to employers in terms of high absenteeism and staff turnover rates.

Projections indicate that by 2025, Tanzania will experience water stress (defined as average per capita water resources below 1,500 cubic metres) due to population growth and the resulting increase in consumption. During the dry season, which usually lasts from June to October, the country already faces capacity problems as even large rivers can dry up or their flows decline substantially. This once again varies according to region, with some parts of the country receiving heavy rainfalls of 3,000mm per year, while others, such as the Dodoma Region or the Rift Valley, experiencing yearly rainfall averages of 600mm, thereby impacting future water reliability and heightening risk for sectors such as agriculture in the longer term.

Agriculture Dominates Water Consumption

Tanzania – Freshwater Consumption By Sector (%)



Source: World Bank, national statistics

Tanzania's water resources are also under increased pressure from the relatively high freshwater withdrawals made; indeed, at 102 cubic metres per capita, the country has the 14th highest freshwater withdrawals per capita, which will likely exacerbate the severity of future water shortages. Although industry only accounts for 0.5% of freshwater withdrawals, the consumption patterns of the population will increasingly clash with the needs of water-intensive industries like agriculture and tourism, thereby enhancing the impact of water shortages on business operations. Specifically, the agriculture industry accounts for as much as 89.35% of total freshwater withdrawals, indicating the importance of the sector to employment and the national economy. In light of this state of affairs, growing competition between the population, agriculture and other industries will greatly constrain the future contributions of agriculture to GDP in particular.

Labour Costs

The key risks to investors entering Tanzania are the relatively high minimum wage relative to productivity and onerous labour-related taxes, both of which increase employment costs for businesses. Businesses benefit from moderately flexible wage determination structures and low severance pay entitlement, which somewhat mitigates the high cost of employment and offers flexibility to workers in terms of the hiring and firing of their employees. Overall, we score Tanzania 55.1 out of 100 for Cost of Employment; a score that ranks it lowly both from a global and regional perspective, in 17th place out of 48 states in the SSA and 87th out of 201 countries globally.

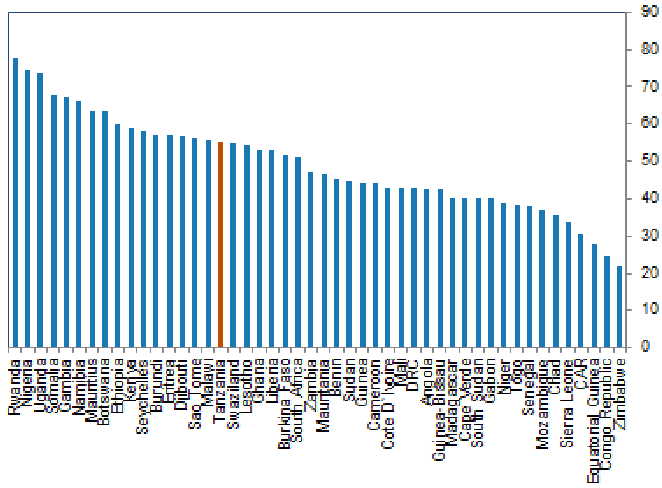
Latest Labour Costs Analysis:

- In May 2016, the High Court in Tanzania dismissed a lawsuit filed by 121 former **Tanzanite One** workers regarding the firm's decision to terminate their employment. The case, led by the Tanzania Mines and Construction Workers Union (TAMICO), was dismissed on the basis that the employees were involved in an illegal strike at the mines and that they also allegedly rejected a mediation meeting with the employer. This highlights the ability of employers to seek fair legal mediation of labour-related cases. It simultaneously shows the propensity of the heavily unionised workforce to engage in strike action.

- Consumer price inflation in Tanzania will average around 6.0% annually over the course of our forecast period, broadly in line with historical trends. For instance, the prospect of continued exchange rate depreciation in light of a wide current account deficit will pose a persistent risk to the inflation outlook. Food, which accounts for almost half of Tanzania's CPI basket, will also continue to be a key driver of inflation over the coming years. In a region historically vulnerable to drought, food price inflation arguably poses the single biggest risk to our inflation outlook. This will raise the general cost of living for workers and exert upward pressure on wage expectations.

Businesses Face Regionally Uncompetitive Labour Costs

SSA – Labour Costs Risk



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

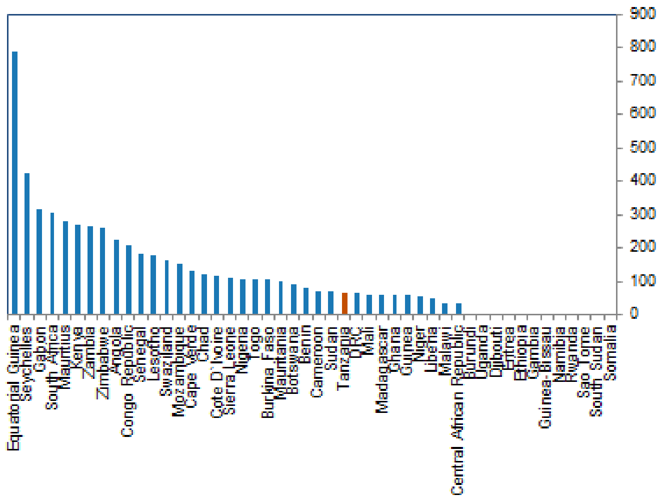
Costs And Flexibility Of Labour: Tanzania is placed in the middle of the regional pack for costs of labour, owing to its above-average labour tax rate and high average wage costs – particularly relative to productivity. Benefits to firms include the relative ease in hiring foreign workers, a low annual leave

TABLE: REGULATIONS GOVERNING FLEXIBILITY OF THE WORKFORCE	
Contracts	
Fixed-term contracts prohibited for permanent tasks?	Yes
Maximum length of a single fixed contract (months)	0 – Not allowed at all for 'our worker' (however, no limit for professionals and managerials cadres). Fixed employment could also be for 'a specific task'
Working Week and Absences	
Maximum working days per week	6
Premium for overtime work (% of hourly pay)	50
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	20
Paid or unpaid maternity leave mandated by law?	Yes
Minimum length of maternity leave (calendar days)	84
Redundancy	
Dismissal due to redundancy allowed by law?	Yes
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	4
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	5.3

Source: World Bank 'Doing Business'

entitlement and a low redundancy notice period, which all provide flexibility to businesses in the country. Taking these factors into account, Tanzania receives a score of 55.2 out of 100 for its Labour Costs, ranking 20th regionally, ahead of Kenya and Mozambique, but well below Rwanda and Nigeria.

Comparatively Low Minimum Wage Costs
SSA – Minimum Wages (USD/Month)



Note: As applicable to the worker assumed in the case study. Source: World Bank 'Doing Business'

In addition, notable advantages come in the form of the flexibility of Tanzania's labour force, where factors such as its low number of paid holidays, secure labour-management environment, less time-consuming redundancy notice periods and regionally competitive severance packages mitigate labour costs. While official unemployment remains low, the actual rate of unemployment is likely higher than reported and could stimulate social unrest due to limited job creation, particularly among the nation's youth population, raising risks of supply chain disruption. Consequently, Tanzania performs relatively well for Flexibility of Workforce, ranked 12th in the region with a score of 55.1 out of 100.

According to the World Bank, the average minimum wage in Tanzania stands at USD68.20, which is low by global standards, however, it is uncompetitive on a regional comparison where Rwanda and Ethiopia have no stipulated national minimum wage. The minimum wage is determined separately for each economic sector and ranges from TZS70,000 monthly for hotel employees to TZS350,000 for workers in the mineral industry. Despite the country's relatively competitive minimum wage, the labour force underperforms in terms of relative productivity, where regional counterparts such as Rwanda and Uganda rank higher. This means that employers will gain more value for each additional unit of labour over time in comparison to regional counterparts, meaning labour-intensive industries will find countries such as Ethiopia more appealing due to higher rates of marginal productivity per additional unit of labour and a large working age population. The minimum wage has been steadily eroded by rising inflation, prompting government officials to increase the minimum wage in 2012. An additional raise may occur in the short- to medium-term. In May 2015, the government reiterated its intention to increase wages and lower the monthly income tax taken from salaries, known as Pay As You Earn (PAYE), which currently stands at 10%. However, as no concrete salary increases had been announced at the time of publication, it is unclear the extent to which this decision will increase operational costs for employers.

The country's labour tax and contributions consist of 10% on gross salaries payable by the employer and an additional skills development levy of 5% on gross salaries, raising direct labour costs. The risk for Tanzania's low value added per worker relative to its rising minimum wage is moderated somewhat by other indicators. A relatively low severance pay entitlement of 5.3 weeks, and redundancy notice period of four weeks, ranks Tanzania 10th and ninth in the region respectively for these indicators and offers greater flexibility to employers when it comes to hiring and firing practices.

The flexibility of Tanzania's workforce is one of its most significant labour advantages. Firms do not have access to a large international migrant stock; however, a number of other positive indicators enable firms to be more productive while lowering costs by regional standards. For example, the process of hiring foreign workers in the country is relatively simple, enabling businesses to mitigate the risk of low skill by employing more qualified foreign workers.

Tanzania and Zanzibar ascribe to their own labour laws, but trade unions are generally weak throughout national territory. In 2012, around 13% of workers in the formal sector were covered by unions, notably by the Trade Union Congress of Tanzania, while only 5-8% of agricultural workers were unionised during the same time. In Zanzibar, approximately 40% of the workforce is unionised under the Zanzibar Trade Union Congress, but workers are restricted from joining mainland-based labour unions. Workers are legally able to strike and cannot be fired for participating in a lawful strike, but are not permitted to strike within sectors integral to the wellbeing of the population, such as electricity, health services, water and sanitation and fire fighting. The right to collectively bargain exists for private sector workers on the mainland, while disputes are overseen and concluded with the assistance of the Commission for Mediation and Arbitration, lowering the likelihood of prolonged conflict between labour and management.

A number of strikes have taken place in recent years. In 2012, doctors, nurses and teachers went on strike to protest for better salaries and working conditions, though the strikes were ultimately called off. During the same year, strikes also occurred following changes to the social security law that took away the right for labourers to withdraw their contributions before retiring. These events pose risk to businesses in these sectors, which may face disruption to their business activities.

In the last several months, Tanzania's transport network has been adversely affected by labour activities, incurring delays for businesses. In particular, firms involved in copper exports from Zambia and the Democratic Republic of the Congo suffered transport delays owing to the importance of the Tanzania-Zambia Railway Authority (TAZARA) railway for transporting copper to the Port of Dar es Salaam. Unionised workers of TAZARA went on strike in late 2014 to protest the fact that they had not received their salaries for the past five months. However, the High Court of Tanzania, Labour Division declared the strike as illegal in January 2015 and demanded that workers resumed their responsibilities.

Finally, Tanzania's bus drivers went on strike in April 2015 to exert pressure on the government to provide drivers with government recognised employment contracts from employers. As of April, none of the 36,000 bus drivers in Tanzania possessed a permanent and pensionable job from their employers, excluding drivers of government vehicles. Due to the relatively high frequency of strikes, firms face a growing risk from unionised action, which may disrupt business activities, lengthen trading times and increase operational costs.

Chapter 5:
BMI Global Macro Outlook

Global Macro Outlook

EMs Past The Worst, But Structural Problems Persist

- Global growth in 2016 forecast at a seven-year low of 2.4%
- Long-term eurozone monetary policy tightening and euro exchange rate forecasts revised lower
- Key economies such as Brazil and Russia are showing signs of turning a corner, but structural problems persist
- US growth in 2016 revised lower; Chinese growth to slow in H216

Our world real GDP growth forecast of 2.4% in 2016 is a downgrade from 2.5% and points to a global economy that is on the cusp of recession. We maintain our view that a recession is not imminent though, as reflected by our 2.8% global growth forecast for 2017, implying an acceleration of activity in H216 and beyond.

First, monthly data show that manufacturing and industrial production in several key emerging markets (EMs) appear to have bottomed out in H116 on a year-on-year basis after prolonged contractions, and production began turning higher in Q216, which is crucial given that EM industrial output and real GDP are highly correlated.

This improvement includes countries which had severe adjustments through 2014 and 2015, including Russia and Brazil, but which are now turning the macroeconomic corner from our perspective. We do not expect such key EMs to enjoy particularly

TABLE: GLOBAL ASSUMPTIONS

		2015	2016f	2017f	2018f	2019f	2020f
Real GDP Growth (%)							
	US	2.4	1.5	2.2	2.3	2.1	2.1
	Eurozone	1.7	1.5	1.4	1.5	1.6	1.6
	Japan	0.4	0.6	0.5	0.6	0.6	0.5
	China	6.9	6.3	5.9	5.8	5.6	5.3
	World	2.8	2.4	2.8	3.1	3.0	3.1
Consumer Inflation (ave)							
	US	0.4	1.8	2.5	2.0	2.1	2.1
	Eurozone	0.1	0.5	1.3	1.7	1.8	1.8
	Japan	0.8	0.4	1.6	2.5	2.8	2.9
	China	1.6	1.8	2.3	2.5	2.5	2.5
	World	2.1	2.5	3.0	2.9	2.9	2.9
Interest Rates (eop)							
	Fed Funds Rate	0.25	0.25	0.50	1.00	1.75	2.00
	ECB Refinancing Rate	0.05	0.00	0.00	0.00	0.00	0.25
	Japan Overnight Call Rate	0.10	0.00	0.00	0.00	0.00	0.25
Exchange Rates (ave)							
	USD/EUR	1.11	1.07	1.05	1.02	1.00	1.00
	JPY/USD	121.03	107.00	105.00	107.59	109.20	110.84
	CNY/USD	6.28	6.65	6.95	7.10	7.10	7.10
Oil Prices (ave)							
	OPEC Basket (USD/bbl)	49.77	43.50	54.00	59.00	62.00	68.00
	Brent Crude (USD/bbl)	53.60	46.50	57.00	62.00	65.00	71.00

f = forecast. Source: BMI

robust growth, since major structural problems abound (China is likely to slow in H216 versus the first half, for instance).

But our thesis that the worst is over appears to be playing out, and with the EM recession a major cause for concern for the global economy, this should pave the way for greater stability in the next few quarters.

Second, fears of a Brexit-led recession are fading. Data out of Europe since the UK's June referendum vote to leave the European Union have come out largely on the positive side, allaying concerns about a global recession being triggered by the eurozone. For instance, apart from the UK, post-Brexit purchasing managers' index (PMI) and sentiment surveys have exhibited resilience so far, particularly those of Germany.

Even in the UK, where the June post-referendum flash PMI was extremely contractionary, overall expectations had fallen so low that economic readings for July have been almost entirely to the upside compared with consensus, with the Citi Economic Surprise Index reaching three-year highs in early August.

Europe's long-term growth outlook looks bleak, and there is an increasing likelihood that uncertainty over the euro's future will be prolonged for many years as a result of future eurosceptic political events. We have thus revised down our forecasts for European Central Bank (ECB) monetary tightening in the years ahead. Whereas we had previously seen the ECB raising rates in 2019, as the nascent recovery and extraordinary monetary easing slowly translated into reduced economic slack and inflation converging on the 2.0% target, we now see the first rate hike only in 2020.

Furthermore, the ECB's asset purchase programmes will run through March 2018 at least – a year later than the current des-

TABLE: DEVELOPED STATES – REAL GDP GROWTH, %

	2015	2016f	2017f	2018f
Developed States Aggregate Growth	1.9	1.5	1.7	1.9
G7	1.8	1.3	1.6	1.8
Eurozone	1.7	1.5	1.4	1.5
EU-28	1.9	1.7	1.3	1.7
Selected Developed States				
Australia	2.5	2.4	2.2	2.3
Austria	0.9	1.8	1.7	1.8
Belgium	1.4	1.3	1.2	1.2
Canada	1.2	1.4	2.0	2.0
Czech Republic	4.2	2.4	1.9	2.4
Denmark	1.0	0.8	1.0	1.5
Finland	0.5	0.5	0.7	0.9
France	1.2	1.3	0.9	1.3
Germany	1.7	1.7	1.5	1.7
Hong Kong	2.4	1.2	1.7	2.4
Ireland	7.8	4.4	3.3	3.6
Italy	0.8	0.8	0.9	0.8
Japan	0.4	0.6	0.5	0.6
Netherlands	2.0	2.0	1.8	1.8
Norway	1.6	0.9	1.2	1.5
Portugal	1.5	1.1	1.3	1.4
Singapore	2.0	1.7	2.2	2.7
South Korea	2.6	2.6	3.0	3.4
Spain	3.2	2.3	2.0	2.0
Sweden	4.2	3.5	2.8	2.7
Switzerland	0.9	1.1	1.4	1.8
Taiwan	0.7	0.7	2.0	2.7
United Kingdom	2.3	1.4	0.2	1.6
United States of America	2.4	1.5	2.2	2.3

f = forecast. Source: BMI

ignated end-date, adding around EUR1trn to the ECB balance sheet. We have revised down our forecast for the euro, now seeing the currency continue its multi-year depreciation towards parity (USD1.00/EUR) against the US dollar.

Developed States

Our latest estimates put developed states real GDP growth at just 1.5% on aggregate in 2016, a three-year low and a big drop from 1.9% in 2015. Apart from the eurozone, whose growth forecasts we revised down slightly in the wake of the UK Brexit referendum, the US stands out as having a weaker year than we had expected. We have downgraded our 2016 real GDP growth forecast to 1.5% from 1.9% previously, with weak data through the first half of 2016, including a 1.2% q-o-q annualised reading for Q216, putting H116 growth as a whole at around 1.0%. Though we see a pick-up in growth in H216, with 2.2% expansion in 2017, we note that despite robust household spending and low interest rates, businesses continue to postpone long-term capital investments. This is putting the long-term growth outlook at risk: productivity fell by 0.5% q-o-q annualised in Q216, versus 0.4% growth expected, marking a contraction for the third straight quarter, the longest such stretch since 1979.

Another key developed market in which Q216 data disappointed is Japan, which posted a below-consensus 0.2% q-o-q annualised real GDP growth rate – a significant slowdown from Q116. In spite of the recently announced large-scale stimulus package, we do not expect to see a significant recovery over the coming quarters, and our 2016 and 2017 real GDP forecasts remain at 0.6% and 0.5% respectively. We reiterate that the risks are weighed to the downside over the long term, with persistently zero real GDP growth a growing possibility.

TABLE: EMERGING MARKETS – REAL GDP GROWTH, %

	2015	2016f	2017f	2018f
Emerging Markets Aggregate Growth	**4.0**	**3.9**	**4.4**	**4.6**
Latin America	0.0	-0.6	2.0	2.8
Argentina	2.4	-0.6	3.1	3.9
Brazil	-3.8	-4.0	1.0	1.4
Mexico	2.5	2.6	3.0	3.8
Middle East and North Africa	1.1	1.4	2.3	2.9
Saudi Arabia	3.4	1.0	1.5	2.1
UAE	3.8	2.3	2.4	2.4
Egypt	2.6	2.6	3.2	3.3
Sub-Saharan Africa	3.1	2.5	4.4	4.7
South Africa	1.3	0.5	1.2	2.2
Nigeria	2.8	-0.8	4.7	5.4
Emerging Asia	6.5	6.2	5.9	5.9
China	6.9	6.3	5.9	5.8
India*	7.6	7.2	6.9	6.7
Indonesia	4.8	5.2	5.7	6.1
Malaysia	5.0	4.1	4.7	4.6
Philippines	5.8	6.0	5.9	5.9
Thailand	2.8	3.0	3.5	4.1
Emerging Europe	0.4	1.5	2.4	2.8
Russia	-3.7	-0.8	1.5	1.8
Turkey	4.0	3.0	3.3	3.5
Hungary	2.9	2.1	2.2	2.2
Romania	3.7	4.2	3.4	3.4
Poland	3.6	3.6	3.1	3.4

*Note: *Fiscal years ending March 31 (2015 = 2015/16). f = forecast. Source: BMI*

Emerging Markets

Emerging markets are broadly continuing to recover, with key economies such as Brazil and Russia showing signs of having passed the bottom of their economic cycles. Indeed, in Russia's case, the latest data have prompted us to revise upward our 2016 growth forecast. Real GDP contracted by 0.6% in Q216, following a 1.2% contraction in Q116, and we have accordingly adjusted our 2016 full-year forecast to -0.8% versus a previous projection of -1.2%.

The perception that EMs have passed the worst of their multiyear crisis, coupled with low/negative interest rates in developed markets (DMs), is boosting investor inflows into EM assets, causing sharp currency appreciation in some cases. Although we think the rally may have run its course for now, for some currencies such as the South African rand and Brazilian *real*, we nevertheless remain generally constructive on EM FX over a multi-month horizon.

However, the Chinese yuan is an important exception to our upbeat view on EM FX. The yuan is overvalued and poised for continued depreciation amid sluggish export growth and weak private investment. China's real GDP growth of 6.7% y-o-y in H116 was supported by large-scale fiscal stimulus, but we believe growth will slow in H216 as the government is forced to tighten its belt. With private sector investment already in contraction, a continued slowdown in public spending and investment will weigh on growth. As such, we maintain our below-consensus growth forecasts of 6.3% in 2016 and 5.9% in 2017.

TABLE: MACROECONOMIC DATA & FORECASTS

	2015e	2016f	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f
Nominal GDP, USDbn	44.6	44.5	47.1	50.2	53.8	56.8	60.0	63.6	67.8	71.9	75.5
Nominal GDP, EURbn	40.2	41.6	44.8	49.3	53.8	56.8	60.0	63.6	67.8	71.9	75.5
GDP per capita, USD	853	851	874	906	943	966	993	1,024	1,062	1,096	1,119
GDP per capita, EUR	769	795	832	888	943	966	993	1,024	1,062	1,096	1,119
Real GDP growth, % y-o-y	7.0	6.8	6.7	6.5	6.3	6.0	6.4	6.5	6.8	6.7	6.5
Private final consumption, % of GDP	61.2	63.7	65.0	65.7	66.3	67.3	68.4	69.7	70.6	72.0	73.8
Private final consumption, real growth % y-o-y	2.3	6.0	6.5	7.0	7.0	6.0	6.0	6.0	6.0	6.0	5.7
Government final consumption, % of GDP	13.7	14.2	14.7	15.0	15.4	16.0	16.9	17.8	18.7	19.8	21.1
Government final consumption, real growth % y-o-y	-4.0	5.0	5.0	5.0	5.0	2.0	4.0	5.0	5.0	5.0	5.1
Fixed capital formation, % of GDP	34.5	37.8	39.6	39.7	39.3	40.2	41.3	42.5	43.5	44.7	46.5
Fixed capital formation, real growth % y-o-y	11.5	11.0	9.0	6.0	5.0	7.0	7.0	7.0	7.0	7.0	7.0
Population, mn	53.5	55.2	56.9	58.6	60.4	62.3	64.1	66.1	68.0	70.0	72.0
Consumer price inflation, % y-o-y, ave	5.6	5.4	5.6	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Lending rate, %, ave	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Exchange rate TZS/USD, ave	2,037.04	2,189.63	2,285.68	2,399.96	2,519.96	2,645.96	2,764.70	2,875.29	2,990.30	3,109.92	3,234.31
Exchange rate TZS/EUR, ave	2,259.21	2,342.90	2,399.96	2,447.96	2,519.96	2,645.96	2,764.70	2,875.29	2,990.30	3,109.92	3,234.31
Budget balance, USDbn	-1.4	-2.0	-1.9	-1.7	-2.0	-1.9	-1.5	-1.5	-1.5	-1.6	-1.0
Budget balance, % of GDP	-3.1	-4.6	-4.0	-3.4	-3.6	-3.4	-2.5	-2.4	-2.3	-2.3	-1.3
Goods and services exports, USDbn	9.5	10.0	10.7	11.3	12.1	12.8	13.6	14.5	15.5	16.5	17.8
Goods and services imports, USDbn	12.4	13.3	14.3	15.0	15.8	16.6	17.4	18.3	19.1	20.1	21.3
Balance of trade in goods and services, USDbn	-3.0	-3.3	-3.6	-3.7	-3.7	-3.8	-3.8	-3.8	-3.7	-3.5	-3.4
Balance of trade in goods and services, % of GDP	-6.7	-7.5	-7.7	-7.4	-6.9	-6.6	-6.3	-6.0	-5.4	-4.9	-4.6
Current account balance, USDbn	-3.3	-3.6	-3.9	-4.1	-4.1	-4.1	-4.3	-4.3	-4.2	-4.2	-4.1
Current account balance, % of GDP	-7.4	-8.1	-8.3	-8.1	-7.6	-7.3	-7.1	-6.8	-6.2	-5.8	-5.5
Foreign reserves ex gold, USDbn	4.1	4.5	5.0	5.5	6.0	6.6	7.3	8.0	8.8	9.7	10.6
Import cover, months	4.0	4.1	4.2	4.4	4.6	4.8	5.0	5.2	5.5	5.8	6.0

e/f = BMI estimate/forecast. Source: BMI, BoT, TBoS

BMI Research
A FitchGroup Company

BMI Research,
2 Broadgate Circle, London
EC2M 2QS, UK
Tel: +44 (0)20 7248 5162
Fax: +44 (0)20 7248 0467
Email: subs@bmiresearch.com
Website: www.bmiresearch.com

Analyst: Laura Hyde
Editor: Julie Beckenstein
Sub-Editor: Andrine Skjelland
Subscriptions Manager: Yen Ly
Marketing Manager: Julia Consuegra
Production: Neeraj Kumar

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