Country Report

Tanzania

March 2010

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The Economist Intelligence Unit

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Mbulu
L. Natron
L. Eyasi
L. Manyara
Nyumbaya Mungo Res.
Kilimanjaro
Moshi
Arusha
Pangani R.
Tanga
Pemba Channel
Pemba I.
Chake Chake
Korogwe
Handeni
Pangani
Manyoni
DODOMA
(Political capital)
Mkokotomi
Zanzibar
Unguja I.
(Zanzibar I.)
Zanzibar Channel
Bagamoyo
Kilosa
Morogoro
DAR ES SALAAM
(Commercial capital)
Mafia I.
INDIAN OCEAN
Mohoro
Ifakara
Mahenge
Iringa
Great Ruaha R.
Rufiji R.
Mpanda
Lake Tanganyika
Kipili
Sumbawanga
L. Rukwa
Kasanga
Chunya
Mbeya
Tukuyu
Njombe
Songwe R.
Kilwa Masoko
Mchinja
Lindi
Mikindani
Mtwara
Masasi
Songea
Tunduru
Mbamba Bay
Ruvuma R.
Lake Nyasa
Gombe R.
Moyowosi R.
Nikonga R.
Main railway
Main road
International boundary
Main airport
Capital
Major town
Other town
0 km 100 200 300 400
0 miles 100 200
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Executive summary

Highlights

March 2010

Outlook for 2010-11

- The president, Jakaya Kikwete, will retain his personal popularity in the final months of his first term, despite slower economic growth, continued corruption scandals and high inflation.
- The ruling party, Chama Cha Mapinduzi is likely to choose Mr Kikwete as its candidate in the presidential election in October 2010. He is expected to win, albeit with a smaller majority as voters express their discontent.
- The Economist Intelligence Unit forecasts real GDP growth of 6% in 2010 and 7% in 2011 as investment, trade and tourism pick up slowly. Agriculture should also perform well (weather permitting), helped by government subsidies.
- Slower economic growth has hurt the public coffers and we have revised our fiscal deficit forecast to 5.3% of GDP in 2009/10 (previously 4%) and 5% of GDP in 2010/11 (previously 3.7%).
- Inflation will ease, but stubbornly high food prices and global oil prices of over US$75/barrel will prevent it from falling more rapidly. We forecast an average inflation rate of 9% in 2010 and 7.5% in 2011.
- The current-account deficit is forecast to fall to an average of 6.7% of GDP in 2010-11 because of strong exports and decent economic growth, partly financed by rising foreign direct investment, particularly in the mining sector.

Monthly review

- In a recent Synovate Tanzania opinion poll, 75% of respondents claimed they would vote for the incumbent Mr Kikwete, in the 2010 presidential elections and 70% claimed that they were "close" to the ruling party.
- A UK company, BAE Systems, has pleaded guilty to failing to keep "reasonably accurate accounting records" and been fined £30m following an investigation into the sale of a radar system to the Tanzanian government in 2001.
- Private sector credit growth is at an annualised rate of only 9.6%, after banks shifted money towards safer options such as government securities and foreign assets, and a looser monetary policy failed to lower lending rates.
- The central bank has closed around 10,000 government accounts in commercial banks, transferring the balances to the central bank.
- Tanzanian production of jatropha, a biofuel crop, drew criticism early in 2010, with detractors saying that the initial promise of the plant—that it could be grown on marginal land and still earn profits—has proved illusory.
- A Canadian gold mining company, Barrick Gold, has announced that it plans to place all of its Tanzanian gold mining assets into a single company, African Barrick Gold, which will be listed on the London Stock Exchange.

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Outlook for 2010-11

Political outlook

Domestic politics

The president, Jakaya Kikwete, and the ruling Chama Cha Mapinduzi (CCM) party are strong favourites to win in presidential and parliamentary elections in late October, with recent polls showing an improvement in support following a dip in 2008. In a survey conducted by Synovate Tanzania, 75% of respondents claimed they would vote for the incumbent Mr Kikwete in the 2010 presidential elections and 70% claimed that they were "close" to the CCM. The ruling party will attempt to shore up this support by convincing the electorate that economic gains have been made in recent years. However, this will be a difficult task, as a combination of high inflation and slower economic growth in 2009 means that improvements in living standards have been limited. Faced with scepticism, Mr Kikwete will try to persuade voters that he is still the best candidate to address these concerns and drive further economic progress.

Despite a slowdown in economic growth in 2009, Mr Kikwete seems intent on eschewing more populist measures to achieve re-election. The government will remain broadly committed to investing in infrastructure and maintaining macroeconomic stability with the aim of achieving higher economic growth. The president also hopes to build support by continuing his high-profile campaign against corruption, which has popular support and has led to the arrest of senior members of the CCM. However, it has also caused a significant split within the party. In addition, there are some concerns about the real commitment of the political elite to the campaign, as no high-profile individuals have yet been tried and this is unlikely to occur prior to the election. However, this may change if, as expected, Mr Kikwete secures a second and final term, as he would be freed from the constraints of pleasing different factions in order to maintain support for re-election.

Even without an aggressive re-election strategy and with confidence in his administration quite low, Mr Kikwete is still a dynamic politician by Tanzanian standards and he remains popular with the electorate. The government will be helped by the ineffectiveness of the opposition, as highlighted by the latter's poor performance in local elections in 2009. They are unlikely to be able to capitalise on popular discontent, and the superior resources of the CCM will give it a considerable advantage. The opposition will discuss a possible boycott of the elections but are unlikely to pursue this strategy.

These trends indicate that there are two potential outcomes for the presidential election. By far the most likely is that Mr Kikwete will be chosen as the CCM's candidate. The Economist Intelligence Unit expects him to be re-elected with a reasonable majority, given the overwhelming strength of the party's political machinery. However, his share of the vote is likely to be below the resounding 80% that he won in 2005. Turnout could also be lower, with discontent expressed through non-participation. Alternatively, there is a small chance that if Mr Kikwete were to step up the fight against corruption and implicate senior

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CCM members, he could trigger a serious struggle for control of the party, with the result that he is not selected as its candidate.

The polls on the semi-autonomous islands of Zanzibar have the potential to be much more tumultuous, although there has been a thaw in relations recently between leadership elements of the ruling CCM and the opposition Civic United Front. This led to the Zanzibar House of Representatives passing a private members' motion calling for a referendum to ascertain public support for a government of national unity. They proposed that the forthcoming elections be postponed for two years and that the constitution be amended to allow the current president, Amani Abeid Karume, to extend his presidency for the duration of those two years. This proposal is likely to be rejected by powerful members of the CCM on the mainland, who are opposed to a government of national unity. Violence will flare up again on the islands around polling time, although it is unlikely to reach the levels that it did in 2000 or 2005, given the strong security presence.

International relations

As a former foreign affairs minister, Mr Kikwete has been keener than previous presidents to adopt a high international profile. He also pulled off a significant publicity coup by becoming the first African president to meet the US president, Barack Obama. However, this high international profile is not without its drawbacks; it has led to claims that Mr Kikwete is not focusing sufficiently on pressing domestic issues. At the regional level, the government will continue to support the development of the East African Community (EAC) as the proposed common market comes into operation in mid-2010. However, further integration will be a source of contention. The government appears to be aware that the development of the EAC will underpin its longer-term economic ambitions. However, it will be forced to temper this conviction because of nationalistic concerns over land and immigration. Tanzania will, therefore, continue to act as a brake on closer EAC integration and this will vex relations with other member states, especially Kenya and Uganda.

Economic policy outlook

Policy trends

The government has taken substantial steps to expand spending in the face of weaker economic activity. However, capacity constraints mean that the authorities will struggle to raise capital expenditure, which would make a significant impact on economic opportunities. Work has started on a new national growth strategy to succeed the current one (known by its Swahili acronym, *mkukuta*), which expires in June 2010. It is likely to be another catch-all document, emphasising participation rather than spelling out the trade-offs that the government must make given its limited resources. Major policy choices are more likely to be driven by the president.

Mr Kikwete has thrown his weight behind the agricultural sector, where spending almost doubled in the 2009/10 (July-June) budget. The government is now spending around 7% of its budget on agriculture (and aims to reach 10% in the medium term) but reforms are needed to boost the fortunes of the roughly two-thirds of Tanzanians who earn a living from the land. The government has

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shied away from the fundamental changes necessary to boost the sector's growth, particularly in land rights. If, as we expect, Mr Kikwete is re-elected to a second and final term, policy is likely to become more dynamic. Once he is no longer shackled by having to make compromises in order to get re-elected, we expect the president to push through more contentious reforms. This will also have implications for other areas targeted by the government, including improving infrastructure, reforming the weak legal system and reducing corruption. We expect that public-private partnerships will be used increasingly to improve infrastructure development.

Fiscal policy

The economic slowdown led to a sharp widening of the fiscal deficit to 4.4% in 2008/09 (July-June), which has continued into 2009/10. We expect the government to continue to run a substantial fiscal deficit throughout the forecast period. The slower rate of economic expansion will limit revenue growth, but the government will be reluctant to rein in expenditure as it seeks to counteract a private-sector slowdown with higher rates of public spending. Therefore, we believe that the government will increase borrowing instead of cutting expenditure as it tries to keep to its medium-term expenditure goals. Government revenue for the first half of 2009/10 reached only 88% of the budget target because of the slower pace of economic growth, and we have therefore revised our forecast for the fiscal deficit to 5.3% of GDP in 2009/10 (previously 4% of GDP) and 5% of GDP in 2010/11 (previously 3.7%). Domestic borrowing is likely to remain high as donor discontentment over corruption scandals and tighter budgets in donor countries may lead to a tailing-off in aid to Tanzania. At the moment this is inexpensive, as interest rates on government securities are low, although we expect them to rise in 2010-11. In this case the government may seek alternative sources of funding, and a debut Eurobond could be issued.

Monetary policy

The main thrust of the monetary policy of the Bank of Tanzania (BoT, the central bank) in recent years has been to control the growth of broad money supply and credit growth to the private sector, in order to support economic growth and meet the inflation target. However, the situation is complicated by the high weighting of food (56%) in the inflation index and the volatility of money supply growth. The BoT loosened monetary policy to support growth in 2009, but with inflation remaining elevated and domestic borrowing likely to increase, the BoT may well have to tighten monetary policy in 2010-11, with interest rates having already crept up slightly in early 2010.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2008	2009	2010	2011
GDP growth				
World	2.8	-0.9	3.7	3.5
OECD	0.5	-3.4	2.0	1.6
EU27	0.7	-4.1	0.9	1.1

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International assumptions summary
(% unless otherwise indicated)

	2008	2009	2010	2011
Exchange rates				
¥:US$	103.4	93.7	88.0	87.0
US$:€	1.470	1.393	1.345	1.368
SDR:US$	0.629	0.646	0.650	0.644
Financial indicators				
€ 3-month interbank rate	4.65	1.23	0.98	2.50
US$ 3-month Libor	2.91	0.69	0.98	1.93
Commodity prices				
Oil (Brent; US$/b)	97.7	62.0	78.0	73.0
Gold (US$/troy oz)	871.8	973.0	1,148.8	1,231.3
Food, feedstuffs & beverages (% change in US$ terms)	29.5	-20.6	2.0	-3.0
Industrial raw materials (% change in US$ terms)	-5.1	-25.6	31.5	0.6

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Following a global recession in 2009, global economic activity (in terms of purchasing power parity) is forecast to rebound to 3.7% in 2010. However it is forecast to slow slightly to 3.5% in 2011 and there is still a significant risk that growth could weaken further in 2011 as the impact of public stimulus packages wanes. Uncertainty in global markets will push the price of gold—the country's main export commodity—to new highs. Oil prices have begun to pick up but are well below their peak in 2008; dated Brent Blend is forecast to rise to US$78/barrel in 2010 before easing to US$73/b in 2011, which will lower Tanzania's import costs.

Economic growth

Foreign investment, trade and tourism will pick up slowly in 2010-11 as the global economy starts to recover, although external demand will remain somewhat muted. Overall economic growth is expected to be reasonable, underpinned by the construction, mining and services sectors. Construction growth will be driven by donor-funded infrastructure development—notably in road building and the power sector—and by commercial and residential development in major cities. Gold exports will rise steadily, bolstered by high global prices and increased production. Growth in services will be driven by telecommunications and transport, and financial services will benefit from the banking sector's relative isolation from global markets. However, long-standing constraints, such as poor energy and transport infrastructure, as well as excessive bureaucracy, will restrain economic growth. We forecast real GDP growth of 6% in 2010 and 7% in 2011, helped by robust agricultural performance (weather permitting) as the government supports the sector with large subsidies.

Inflation

The outlook for inflation in Tanzania is mixed in the short term, but it is likely to trend downwards in 2010-11. The main factor driving up inflation in 2009 was high food prices, but, encouragingly for the government, these have trended down since October. However, food price inflation still remains stubbornly elevated despite a reasonable harvest, because of strong demand, structural rigidity and high exports as neighbouring states suffer from food shortages following drought. We expect these factors to ease slowly throughout the forecast period. An updating of the consumer price basket in early 2010 will

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reduce the food weighting, probably lowering the inflation rate in the second half of 2010. As a result, we forecast that inflation will fall from an average of 12.1% in 2009 to 9% in 2010 and 7.5% in 2011—still well above the central bank's goal of 5% in the medium term. The other important factor preventing it from falling faster is the strength of global oil prices, which are forecast to average US$76/barrel in 2010/11, preventing a drop in fuel prices and transport costs.

Exchange rates

With the economy performing relatively strongly and the US dollar remaining weak, we expect the Tanzanian shilling to be broadly stable in 2010-11. Although we expect a steady performance overall, the currency is still likely to move in line with its usual seasonal trends. It is expected to come under pressure around the turn of the calendar year as, traditionally, this is the time of year when demand, especially from the corporate sector, picks up and supply tends to be more limited. Pressure will then ease as foreign-exchange inflows rise in line with crop exports, aid and tourism revenue. Given these trends, we forecast that the exchange rate will average TSh1,328:US$1 in 2010, weakening slightly to TSh1,350:US$1 in 2011.

External sector

Tanzania's current account will remain in deficit throughout 2010-11, owing mainly to a large trade imbalance. The value of gold exports—which account for over 40% of total exports—will be boosted by high prices. However, the import bill will be significant and, after a fall in 2009, global oil prices will rise again. Coupled with capital import growth for infrastructure, these developments will largely cancel out the rise in gold export earnings. The surplus on the services account will widen as tourism growth picks up on the back of the global economic recovery. The deficit on the income account is expected to widen as gold companies repatriate higher profits. The overall trade deficit will be partly offset by the surplus on the current transfers account as Tanzania continues to benefit from donor support. The current-account deficit is forecast to fall to an average of 6.7% of GDP in 2010-11 because of strong exports and decent economic growth, and it will be partly financed by rising foreign direct investment, particularly in the mining sector.

Forecast summary
(% unless otherwise indicated)

	2008[a]	2009[a]	2010[b]	2011[b]
Real GDP growth	7.4	4.9[c]	6.0	7.0
Consumer price inflation (av)	10.3	12.1	9.0	7.5
Consumer price inflation (year-end)	13.5	12.2	8.0	7.0
Lending interest rate (av)	15.0	14.6	15.0	15.6
Government balance (% of GDP)[d]	-0.8[c]	-4.4[c]	-5.3	-5.0
Exports of goods fob (US$ m)	3,036.7	3,227.3[c]	3,752.4	4,064.0
Imports of goods fob (US$ m)	-6,439.9	-6,293.9	-6,484.9	-7,083.6

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Forecast summary

(% unless otherwise indicated)

	2008[a]	2009[a]	2010[b]	2011[b]
Current-account balance (US$ m)	-2,307.2	-2,030.8[c]	-1,675.3	-1,831.2
Current-account balance (% of GDP)	-11.4[c]	-9.4[c]	-6.7	-6.5
External debt (year-end; US$ bn)	6.1[c]	7.1[c]	7.9	8.8
Exchange rate TSh:US$ (av)	1,196.3	1,320.3	1,328.3	1,349.8
Exchange rate TSh:¥100 (av)	1,157.4	1,409.0	1,509.5	1,551.5
Exchange rate TSh:€ (year-end)	1,779.7	1,901.6	1,742.4	1,886.6
Exchange rate TSh:SDR (year-end)	1,925.3	2,096.9	2,011.9	2,114.1

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates. [d] Fiscal years (July-June). Includes adjustment item.

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Monthly review: March 2010

The political scene

An opinion poll shows strong support for Mr Kikwete

In a recent opinion poll, 75% of respondents claimed they would vote for the incumbent president, Jakaya Kikwete, in the 2010 presidential election. The poll was conducted in the final three months of 2009, based on a survey of 2,000 respondents in 23 regions of the country, and was carried out by Synovate Tanzania (formerly the Steadman Group), which has a reasonably good reputation in predicting the outcome of elections in Africa. The three-quarters of those interviewed that expressed support for Mr Kikwete is still lower then the 82% of the votes he secured at the previous election in 2005, but marks an improvement on the 66% he polled in a survey in August 2009. The poll also showed that of the other potential presidential candidates there are two running neck and neck who, along with Mr Kikwete, would account for nearly all of the votes: 10% supported the likely Chadema candidate, Freeman Mbowe, and 9% the chairman of the Civic United Front (CUF), Ibrahim Lipumba.

The most significant poll finding was that 70% of those interviewed claimed that they were "close" to the ruling party, Chama Cha Mapinduzi (CCM). This compares to 17% who stated the same for Chadema and 9% for the CUF. This may indicate that floating voters preferred to state that they were supporters of the CCM and would vote for the president. It is hard to believe that 70% of the population of Tanzania are "close" to the CCM, particularly as 57% of respondents said that democracy in Tanzania was currently "experiencing some challenges". It is hard to pinpoint any development since the previous poll in August that would account for the president's increased approval rating—most respondents were not even aware of his signature agricultural policy, "Kilimo Kwanza"—which suggests either that the August poll understated his approval or that the poll is subject to a large margin of error. Either way, we expect voters will drift back to Mr Kikwete and the CCM as polling day approaches, prefer-ing to be on the winning team as there appears to be no viable alternative.

Zitto Kabwe's star is on the rise

Despite a typical lacklustre showing for the opposition parties, the poll highlighted a high level of popular support for Zitto Kabwe, member of parliament (MP) for Kigoma North and deputy secretary-general of the Chadema opposition party. Asked which MP best represented their constituency in parliament, 31% said Mr Kabwe, well ahead of CCM MP Anne Kilango in second place with 13%. Mr Kabwe is a 33-year-old socialist who came to prominence by tapping into the widespread dissatisfaction with the mining industry in Tanzania. He lobbied for an investigation into mining contracts in 2007 and was served with a four-month parliamentary ban when he alleged that a former minister for energy and minerals, Nazir Karamagi, had lied in parliament regarding a mining contract he signed; Mr Karamagi subsequently resigned in February 2008 following criticism of his role in the Richmond Affair (February 2008, The political scene). However, realising the popular support for the concerns that Mr Kabwe was articulating, a presidential commission was

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established to look at the contracts and incentives available for mining companies and Mr Kabwe was asked to sit on the committee (December 2007, Economic policy).

Mr Kabwe's popularity is a boost for Chadema but the reverence for elders means that the party is unlikely to capitalise fully on his star status in the October general election. The survey suggests that Chadema would poll better under Mr Kabwe than under its current leader, Mr Mbowe; despite 17% of respondents saying they feel "close" to Chadema, only 10% said they would vote for Mr Mbowe for president. However, party elders persuaded Mr Kabwe to withdraw his candidacy for the party leadership in September 2009. His youth was a large factor in this; former Chadema chairman Edwin Mtei said that the party elders were able to convince Mr Kabwe "since he is still young and can contest come 2014 or 2019". This appears to ignore the potential benefits of harnessing the young MPs reputation as an anti-corruption zealot, which could play well with the electorate given the widespread public disillusionment following a spate of high-level corruption allegations.

However, the decision to plump for a seemingly less popular but older leader in Mr Mbowe (aged 49) may prove sensible. Although Mr Kawbe has performed well in opinion polls, deference towards elders is still prevalent in Tanzanian society and it is not clear that voters would have been as quick to cast votes for a party headed by such a young candidate. Indeed, age almost counted against Mr Kikwete, whom some CCM members feared was too young to be a viable presidential candidate when he ran as a 55-year-old in 2005. Nevertheless, Mr Kabwe retains grand ambitions and a decline in support for Mr Mbowe in the October presidential election (he received less than 6% of the vote when he came third in 2005) could hasten his political demise. This would open up a fight for the party leadership, in which the young pretender would probably face a battle with the old guard, represented by the party secretary-general—61-year-old Wilbrod Slaa. Meanwhile, any CCM attempt to co-opt Mr Kabwe—a tactic they have often used to subdue dissent—appears unlikely to succeed; he recently reaffirmed his opinion that "the most important challenge... is to end single party dominance in our country".

The UK ends its investigation into a radar system deal

In early February, the United Kingdom's Serious Fraud Office (SFO) announced that it was ending its investigation into the government's £30m (US$45m) purchase of a radar system for Dar es Salaam airport from a UK company, BAE Systems, in 2001 (August 2002, The political scene). Critics have consistently stated that the system was "expensive, obsolete and unnecessary" and that corrupt practises were involved in its sale. BAE pleaded guilty to an offence of failing to keep "reasonably accurate accounting records" and agreed to pay a fine of £30m.

Despite the ruling, it remains unclear who the fine will be paid to. The Tanzanian minister of foreign affairs, Bernard Membe, announced that any penalty payment by BAE Systems should be paid directly to the Tanzanian government rather than its UK counterpart. A report in a fortnightly newsletter, *Africa Confidential*, suggests that the Tanzanian government will indeed be the recipient. This would be an unusual outcome for a plea bargain arrangement

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and could set a legal precedent for similar cases in future, particularly as the ruling was for a breach of UK accounting standards and made no mention of the corrupt practices allegedly involved in the deal. Edward Hoseah, the director of the government's Prevention and Combating of Corruption Bureau (PCCB), welcomed the ruling but said that the country will continue to pursue its own investigation of the case.

Economic policy

Credit growth slows despite monetary loosening

A review by the Bank of Tanzania (BoT, the central bank) in late February noted that monetary policy was eased in response to the slowdown in economic growth during 2009 and that monetary policy targets were broadly met. However, the mid-term review of the *Monetary Policy Statement* also showed that although money supply growth and foreign-exchange reserve targets were met, private-sector credit growth is off track. Private-sector credit growth, which was targeted at no more than 26.7% on an annual basis by June 2010, is currently at an annualised rate of only 9.6%, so while it is under the target set, it is much lower than the government would like.

There are a number of plausible reasons behind the slowdown in lending to the private sector. The BoT argues that it is because commercial banks have become more cautious about lending as Tanzanian economic growth has slowed and some parent banks have been hurt by the global financial crisis. Moreover, it adds, it is also in part a natural correction from the high rate of 39.7% in the previous year. At the same time, the commercial banks shifted money away from private-sector lending in 2009 towards safer options, notably government securities and foreign assets. (Foreign assets have grown at a faster rate than government securities, reflecting the sharp fall in interest rates on government securities in the second half of 2009.)

Interest rates
(average annual rate Jan-Jun, %)

	2008	2009
Lombard rate	8.75	3.66
91-day Treasury bill rate	5.83	3.05
Saving deposit rates	2.63	2.68
Overall time deposit rates	6.29	6.51
Negotiated deposit rates	9.90	10.25
Overall lending rate	14.78	14.42
Negotiated lending rate	12.24	12.89

Source: Bank of Tanzania, *Monetary Policy Statement, The Midterm Review*, February 2010.

Perhaps the most significant reason behind the private-sector credit slowdown was the ineffectiveness of monetary policy. Despite the loosening of monetary policy, as reflected in the fall in the Lombard rate and the Treasury bill rates, the overall structure of interest rates in the commercial banking sector remained largely unchanged. This highlights the weak nature of monetary policy transmission in Tanzania—a problem that affects most Sub-Saharan Africa countries. A similar predicament in neighbouring Uganda over the ineffectiveness of monetary policy in changing interest rates has led the Ugandan central bank

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recently to consider using exchange rate depreciation as a tool to boost economic growth. A depreciation would make exports more competitive, boosting demand and, ultimately, economic output. Nevertheless, the more cautious nature of the BoT may mean that such a move is unlikely in the short term.

The government closes thousands of bank accounts

In a significant policy change, the BoT closed around 10,000 government accounts in commercial banks in January, transferring the outstanding balances to the central bank. These funds had been effectively a risk-free money earner for commercial banks, as they paid nominal interest on the accounts and could invest the outstanding balance in government securities. The government plausibly argues that closing the accounts and transferring the balance to the central bank will improve the public finances. The sums involved are substantial; no total figure has been released but some analysts estimate that government funds account for 15-20% of banking deposits. Banks with a large number of government accounts, such as National Microfinance Bank (NMB), will be the worst affected by the policy and have claimed that the move will hurt market liquidity. The policy was first mooted by the IMF in 2007, following a similar move by the Ugandan government, and the 10,000 accounts initially closed will be followed by more, as the government looks to close around 36,000 accounts in total. Despite the relatively straightforward economic rationale underpinning the move, placing the accounts under the remit of the central bank may prove contentious given its record of corruption: more than US$100m was embezzled in 2005-06 in the External Payments scandal (January 2008, Economic policy).

Economic performance

Biofuels production loses some lustre

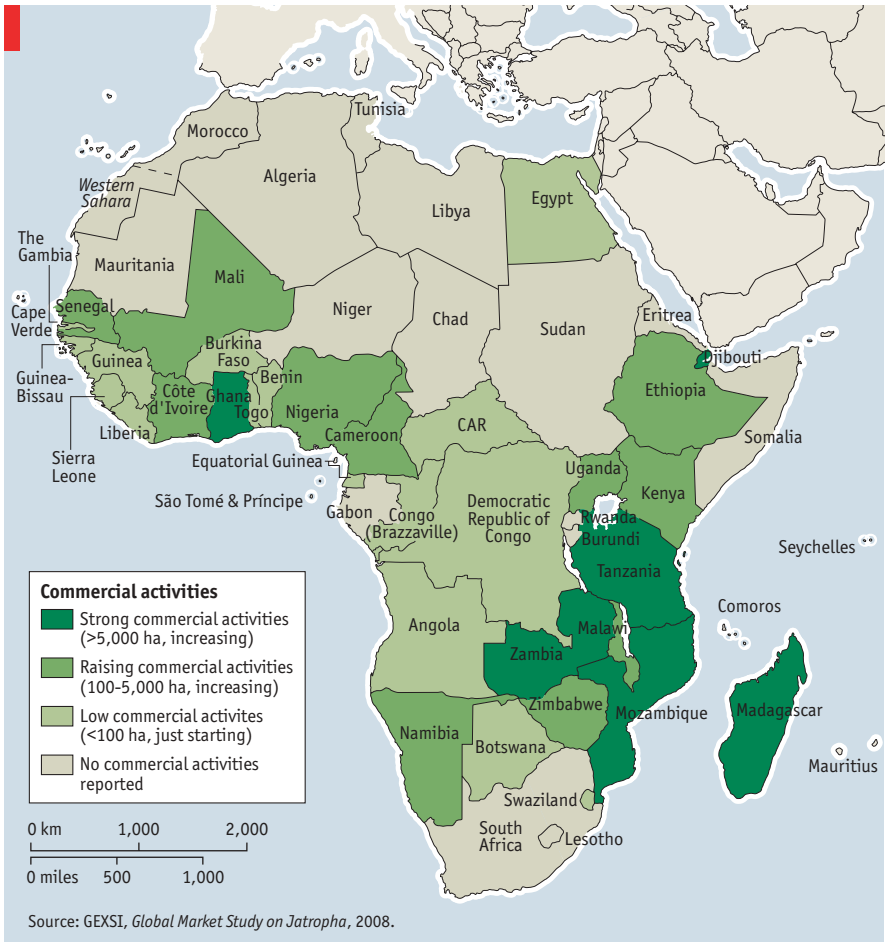
Tanzanian production of jatropha, a biofuel crop, drew criticism early in 2010, with detractors saying that the initial promise that the plant could be grown on marginal land and still earn profits has proved illusory. In a major report on the cultivation of the crop in developing countries entitled *Meals per Gallon*, a UK-based non-governmental organisation, ActionAid, argues that the plant will only produce yields of commercial value when grown on better quality land, and the crop is therefore competing for land which could also be used to grow food crops. Tanzania has been an attractive prospect for biofuel investors; the climate is well suited to jatropha cultivation, the Tanzania Investment Centre maintains a database of suitable land and the government offers tax incentives to investors. A UK charity, GEXSI, estimates that the area of land under cultivation for the crop will grow from 17,600 ha in 2008 to 166,000 ha by 2015.

Jatropha—the wonder fuel

Jatropha first started to be spoken of as a wonder crop in the mid-2000s; not only do its seeds contain oil, but the plant absorbs more CO_2 than it releases and it can be grown in arid conditions, thus preventing the displacement of food crops which has been a major drawback of biofuels such as corn and soybeans. The global jatropha industry is still in its early stages, although it is expanding at a rapid pace. The first global market study, conducted by a UK charity, GEXSI, in 2008, predicted that total acreage would grow from 900,000 ha in 2008 to 13m ha by 2015. Most land used for

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cultivating the crop lies in Asia, with Africa in second place globally. Major energy companies have been entering the market in the past couple of years, after record high oil prices in 2008 encouraged companies to look at biofuels more seriously. The industry has moved from one of mainly government-supported programmes to one driven by private industry, although the large profits predicted have yet to be achieved.



Source: GEXSI, *Global Market Study on Jatropha*, 2008.

At present, the arguments for and against the crop are unproven and the controversy is unlikely to die away quickly. For instance, it is not clear whether the Action Aid report which queries the commercial viability of jatropha includes the other economic benefits of growing the plant. Ruud van Eck, the managing director of Diligent Energy Systems, a Dutch company that is investing in Tanzania, argues that in addition to its use in biofuel, the rest of the plant can be used to manufacture charcoal and briquettes, which have local economic benefits and could reduce deforestation. Meanwhile, the process of turning Tanzanian land over to the growth of jatropha has attracted criticism. Speaking at a workshop in Dar es Salaam, a land activist, Emmanuel Mvula, argued that the compensation paid to around 250 households by Sun Biofuels (UK) when it acquired 9,000 ha of land in Kisarawe District was insufficient, only covering the cost of losing trees and not the land's market value or compensation for moving home. Sun Biofuels claims that it has already paid US$780,000 in compensation to Kisarawe District Council as well as investing

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US$3m into the project, which has so far cleared 1,000 ha of land and employed over 400 people.

Barrick Gold spins off its Tanzanian assets

A Canadian gold mining company, Barrick Gold, has announced that it plans to place all of its Tanzanian gold mining assets into a single company that will be listed on the London Stock Exchange by March. The new company will be called African Barrick Gold (ABG) and will be the largest African gold company: the four mines in its portfolio produced around 716,000 ounces of gold in 2009, compared with 488,255 by Randgold Resources, which is currently the largest predominantly African listed gold company. ABG plans to increase production to 1m ounces by 2014.

Foreign equity investors seeking a greater exposure to Africa, and especially Tanzania, will welcome the move, as it is currently difficult to find such large equity assets. For Barrick the motives are mixed. There have been some concerns that the company has become too big and needs to refocus. There are also reports that some in the company feel that its assets are undervalued and that spinning off the Tanzanian assets, which some North American investors feel are too risky, will partly solve this problem. In line with this, Barrick may also be hoping to exploit a market where large gold mining companies are currently trading at a premium because of their scarcity and an extended period of high global gold prices.

Meanwhile, domestic investors will hope that the new company will seek a listing on the Dar es Salaam stock exchange. The establishment of ABG may also add to pressure on the government to liberalise current restrictions on Tanzanians buying shares on foreign markets. Although retail investors are unlikely to be interested in the offering, local pension funds may see it as a good investment opportunity. At the same time, gold production in Tanzania continues to rise; a report by a precious metals consultancy, GFMS, estimates that Tanzanian gold production rose to around 50 metric tons in 2009, up from 39.8 metric tons in 2008. Despite the increase, Tanzania slipped to being the fourth largest gold producer in Africa behind Mali, where production rose even more rapidly.

EABL and SAB Miller settle their dispute

East African Breweries (EABL, a subsidiary of a UK-based company, Diageo) and Tanzania Breweries (TBL, owned by a South African brewer, SAB Miller) resolved the dispute over access to the Tanzanian market that arose after EABL announced plans to buy the small Tanzanian producer Serengeti (September 2009, Economic performance). A competition agreement signed in 2002 limited direct competition between the two breweries in their home markets and meant that each company controlled the distribution of each other's brands in their country. Although the exact terms of the agreement are confidential, TBL will no longer brew or distribute EABL's brands in Tanzania.

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Data and charts

Annual data and forecast

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]
GDP							
Nominal GDP (US$ m)	14,142	14,178	16,399[b]	20,325[b]	21,643	24,868	28,184
Nominal GDP (TSh bn)	15,965	17,750	20,418[b]	24,314[b]	28,575	33,033	38,044
Real GDP growth (%)	7.4	6.7	7.1	7.4	4.9	6.0	7.0
Expenditure on GDP (% real change)							
Private consumption	11.2	8.1	6.0	4.8	3.3	5.0	6.5
Government consumption	11.9	8.2	9.5	13.2	6.0	8.0	8.5
Gross fixed investment	18.7	16.0	14.5	7.8	3.0	4.6	5.0
Exports of goods & services	13.5	-3.3	16.8	19.6	3.5	6.0	8.0
Imports of goods & services	34.2	10.3	16.3	12.3	0.0	4.0	6.0
Origin of GDP (% real change)							
Agriculture	4.4	3.9	4.0	4.6	3.4	5.2	5.3
Industry	10.4	8.5	9.5	8.6	5.8	6.3	7.0
Services	8.0	7.8	8.1	8.5	6.2	6.4	8.0
Population and income							
Population (m)	39.0	40.1	41.3	42.5	43.7[a]	45.0	46.4
GDP per head (US$ at PPP)	1,035	1,109[b]	1,188[b]	1,266[b]	1,307	1,364	1,435
Fiscal indicators (% of GDP)							
Central government budget revenue	17.1	17.3	18.2[b]	20.6[b]	19.4	18.4	17.7
Central government budget expenditure	20.5	22.1	21.9[b]	21.4[b]	23.8	23.7	22.7
Central government budget balance[d]	-4.4	-5.7	-4.5[b]	-0.8[b]	-4.4	-5.3	-5.0
Public debt	47.9	20.9	20.5[b]	23.0[b]	25.1	24.8	24.8
Prices and financial indicators							
Exchange rate TSh:US$ (end-period)	1,166	1,262	1,132	1,280	1,327[a]	1,320	1,338
Consumer prices (end-period; %)	5.0	6.7	6.4	13.5	12.2[a]	8.0	7.0
Stock of money M1 (% change)	31.8	12.1	29.1	21.9	15.7	23.0	20.0
Stock of money M2 (% change)	34.8	21.5	20.5	19.8	16.8	22.6	19.0
Lending interest rate (av; %)	15.3	15.7	16.1	15.0	14.6[a]	15.0	15.6
Current account (US$ m)							
Trade balance	-1,319	-1,947	-2,634	-3,403	-3,067	-2,732	-3,020
Goods: exports fob	1,679	1,918	2,227	3,037	3,227	3,752	4,064
Goods: imports fob	-2,998	-3,864	-4,861	-6,440	-6,294[a]	-6,485	-7,084
Services balance	62	279	460	571	395	457	529
Income balance	-104	-64	-58	-92	-98	-134	-121
Current transfers balance	496	589	652	617	739	733	781
Current-account balance	-864	-1,143	-1,580	-2,307	-2,031	-1,675	-1,831
External debt (US$ m)							
Debt stock	7,796	4,240	5,063	6,138[b]	7,055	7,888	8,838
Debt service paid	132	159	101	108[b]	102	112	122
Principal repayments	82	111	56	58[b]	64	69	75
Interest	50	48	46	51[b]	38	42	47
Debt service due	132	256	181	125[b]	158	123	158
International reserves (US$ m)							
Total international reserves	2,034	2,244	2,870	2,848	3,206[a]	3,978	4,376

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Fiscal years (July-June). Includes adjustment item.

Source: IMF, *International Financial Statistics*.

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Quarterly data

	2008				2009			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (TSh bn)								
Revenue	1,105.8	1,203.4	1,379.2	1,578.8	1,364.4	1,228.1	1,596.2	n/a
Expenditure	1,300.4	1,284.3	1,295.6	1,676.6	1,722.3	2,117.4	1,983.9	n/a
Balance	-194.6	-81.0	83.6	-97.8	-357.9	-889.3	-387.7	n/a
Prices								
Consumer prices (2000=100)	123.4	125.5	126.4	131.1	139.5	139.7	141.2	147.4
Consumer prices (% change, year on year)	8.9	9.4	10.3	12.5	13.1	11.3	11.7	12.5
Financial indicators								
Exchange rate TSh:US$ (av)	1,170.3	1,201.5	1,162.7	1,250.7	1,315.0	1,326.1	1,317.6	1,322.5
Exchange rate TSh:US$ (end-period)	1,236.8	1,180.9	1,162.9	1,280.3	1,313.7	1,314.2	1,312.7	1,326.8
Deposit rate (av; %)	9.57	8.17	7.40	7.87	8.41	8.22	8.10	7.05
Discount rate (end-period; %)	12.39	12.84	15.17	15.99	18.33	10.31	4.40	3.70
Lending rate (av; %)	15.18	14.76	14.93	15.06	15.00	15.44	15.05	12.99
Treasury bill rate (av; %)	7.43	5.28	8.97	10.78	12.01	8.12	3.55	4.91
M1 (end-period; TSh bn)	2.7	2.8	3.1	3.2	3.1	3.1	n/a	n/a
M1 (% change, year on year)	31.9	26.4	28.2	21.9	13.6	11.3	n/a	n/a
M2 (end-period; TSh bn)	6.7	6.6	7.1	7.5	7.6	7.9	n/a	n/a
M2 (% change, year on year)	25.2	18.1	21.2	19.8	14.4	19.0	n/a	n/a
Foreign trade (TSh bn)								
Exports fob	722.2	671.6	866.6	941.4	736.4	670.2	928.3	789.2
Imports cif	-1,769.9	-2,230.5	-2,243.4	-2,226.3	-1,934.9	-1,750.6	-2,271.2	-2,353.2
Trade balance	-1,047.7	-1,558.9	-1,376.8	-1,284.9	-1,198.5	-1,080.4	-1,342.9	-1,564.1
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	2,727	2,632	2,709	2,848	2,651	2,848	3,235	3,206

Sources: UN Food and Agriculture Organisation; Bank of Tanzania, *Economic Bulletin*; IMF, *International Financial Statistics*.

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Monthly data

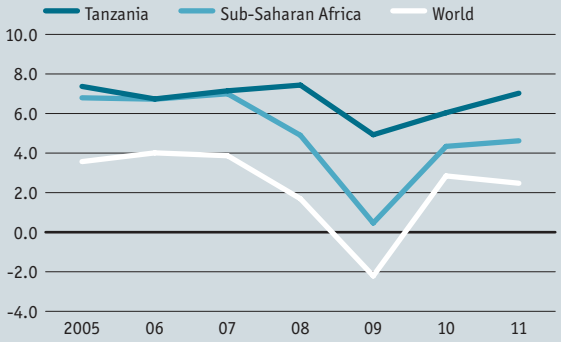
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate TSh:US$ (av)												
2007	1,291	1,289	1,259	1,264	1,271	1,267	1,277	1,281	1,256	1,180	1,146	1,159
2008	1,164	1,161	1,186	1,217	1,204	1,184	1,167	1,161	1,159	1,229	1,250	1,274
2009	1,318	1,318	1,309	1,335	1,330	1,313	1,325	1,319	1,309	1,315	1,325	1,327
Exchange rate TSh:US$ (end-period)												
2007	1,301	1,263	1,242	1,278	1,258	1,265	1,281	1,276	1,230	1,167	1,171	1,132
2008	1,172	1,173	1,237	1,201	1,197	1,181	1,164	1,165	1,163	1,279	1,259	1,280
2009	1,287	1,303	1,314	1,320	1,310	1,314	1,326	1,317	1,313	1,321	1,328	1,327
M1 (% change, year on year)												
2007	15.8	18.8	14.3	17.7	22.3	20.7	19.5	20.8	22.6	26.5	26.4	29.1
2008	28.0	27.3	31.9	28.2	22.5	26.4	24.6	27.5	28.2	27.5	28.3	21.9
2009	21.8	18.7	13.6	12.9	14.6	11.3	14.6	10.8	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2007	20.4	21.2	19.0	22.7	22.3	20.1	19.8	17.6	18.1	20.3	19.9	20.5
2008	20.4	19.5	25.2	21.2	18.8	18.1	16.5	19.5	21.2	24.8	22.7	19.8
2009	17.6	18.4	14.4	14.5	15.3	19.0	22.0	19.4	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2007	8.5	7.8	7.5	7.9	8.9	8.8	8.4	8.9	9.8	9.2	9.3	9.3
2008	9.8	9.9	9.1	8.8	7.6	8.2	7.2	7.6	7.4	7.6	8.1	7.9
2009	8.4	7.9	8.9	8.2	7.8	8.6	8.4	7.8	8.2	7.4	7.3	6.5
Lending rate (av; %)												
2007	17.2	16.2	16.4	15.8	16.0	15.8	16.1	16.3	16.0	15.8	16.0	15.3
2008	15.3	15.1	15.2	14.7	14.8	14.8	15.1	14.8	14.9	14.8	14.3	16.1
2009	14.9	15.0	15.1	15.5	15.4	15.5	15.1	15.1	14.9	14.8	12.4	11.8
Consumer prices (av; % change, year on year)												
2007	7.0	7.3	7.2	6.2	5.0	5.8	9.0	7.8	8.3	7.1	7.3	6.4
2008	8.6	8.9	9.0	9.7	9.1	9.3	9.5	9.8	11.6	11.8	12.3	13.5
2009	12.9	13.3	13.0	12.0	11.3	10.7	10.9	12.1	12.1	12.7	12.5	12.3
Exports fob (TSh bn)												
2007	234.0	205.9	179.6	204.2	171.0	183.9	205.7	226.0	220.5	258.8	201.5	219.5
2008	262.1	259.1	201.0	245.0	209.7	217.0	324.9	269.7	272.0	272.3	345.3	323.9
2009	232.4	233.0	271.0	232.0	207.0	231.2	302.4	269.3	356.5	413.8	296.1	79.3
Imports cif (TSh bn)												
2007	545.8	531.1	513.8	507.2	520.8	543.2	493.9	626.6	567.7	564.4	722.8	484.2
2008	574.6	623.7	571.6	741.8	801.9	686.8	711.8	749.1	782.4	798.6	786.6	641.1
2009	640.7	610.9	683.4	428.4	649.5	672.7	791.5	709.1	770.6	804.0	775.3	773.9
Trade balance fob-cif (TSh bn)												
2007	-311.8	-325.1	-334.1	-303.0	-349.8	-359.3	-288.3	-400.6	-347.2	-305.6	-521.4	-264.7
2008	-312.5	-364.6	-370.6	-496.8	-592.2	-469.9	-386.9	-479.4	-510.4	-526.3	-441.4	-317.2
2009	-408.3	-377.9	-412.3	-196.4	-442.5	-441.5	-489.0	-439.8	-414.1	-390.2	-479.3	-694.6
Foreign-exchange reserves excl gold (US$ m)												
2007	2,200	2,207	2,158	2,248	2,253	2,290	2,766	2,680	2,919	2,952	2,950	2,886
2008	2,760	2,762	2,744	2,732	2,702	2,648	2,672	2,555	2,725	2,568	2,727	2,863
2009	2,714	2,685	2,666	2,718	2,697	2,863	3,141	3,429	3,503	3,450	3,460	3,470

Sources: IMF, *International Financial Statistics*; Haver Analytics.

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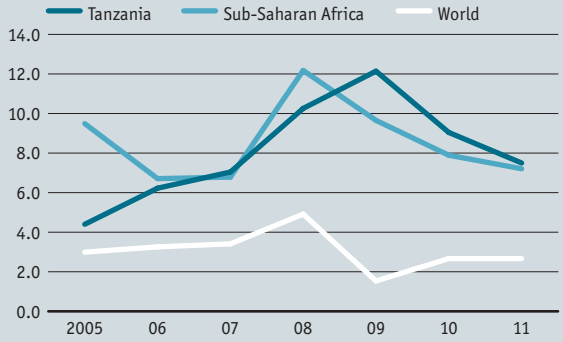
Annual trends charts

Real GDP growth
(% change)



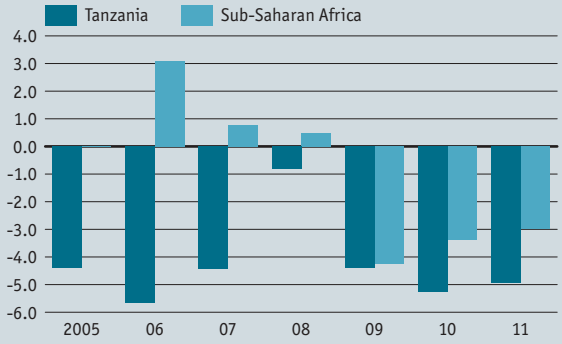
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



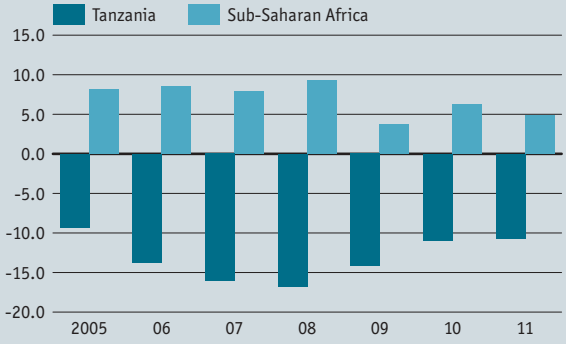
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



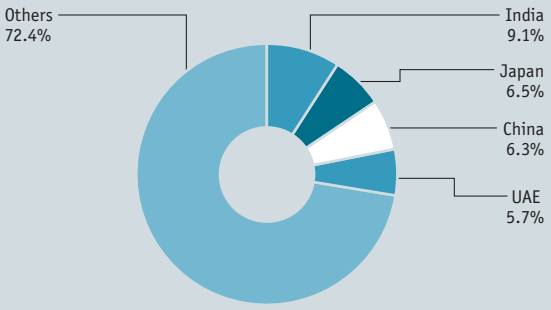
Source: Economist Intelligence Unit.

Trade balance
(% of GDP)



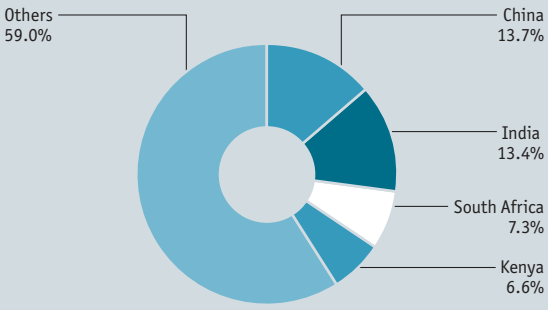
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



Source: Economist Intelligence Unit.

Main origins of imports, 2008
(share of total)

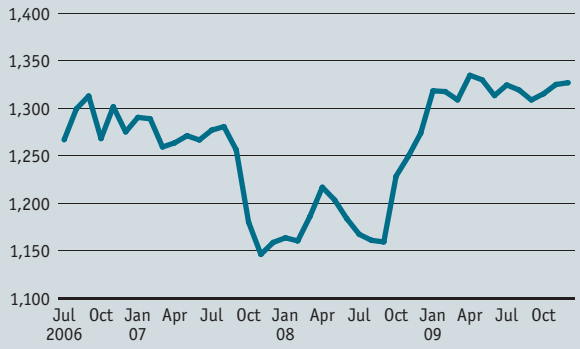


Source: Economist Intelligence Unit.

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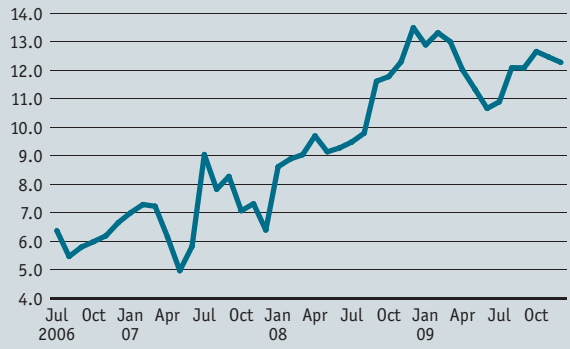
Monthly trends charts

Exchange rate
(TSh:US$; av)



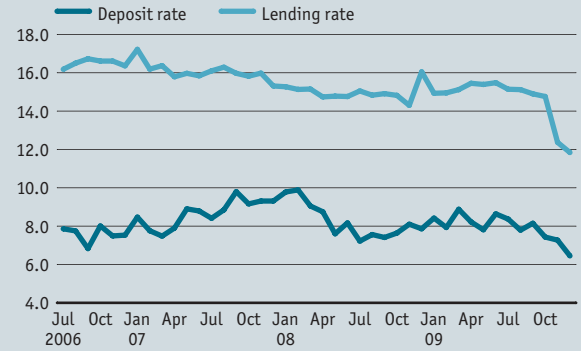
Source: Economist Intelligence Unit.

Consumer price inflation
(% change, year on year)



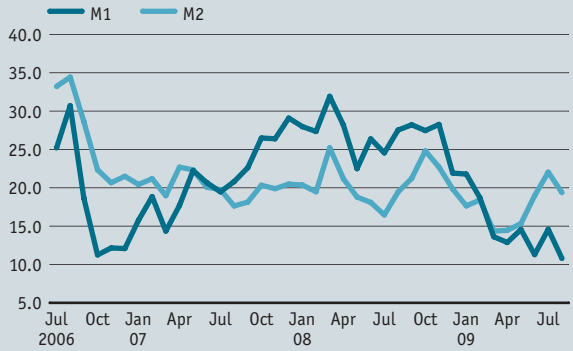
Source: Economist Intelligence Unit.

Interest rates
(av; %)



Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



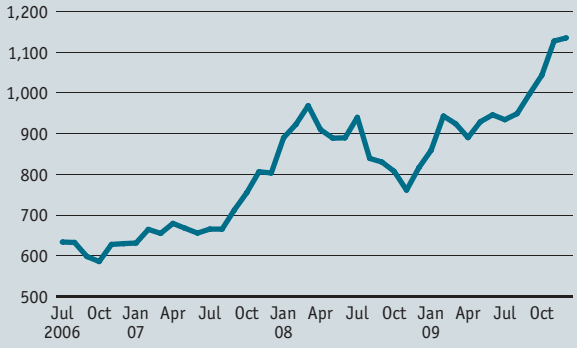
Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US$ m)



Source: Economist Intelligence Unit.

Gold: London price
(US$/troy oz; av)

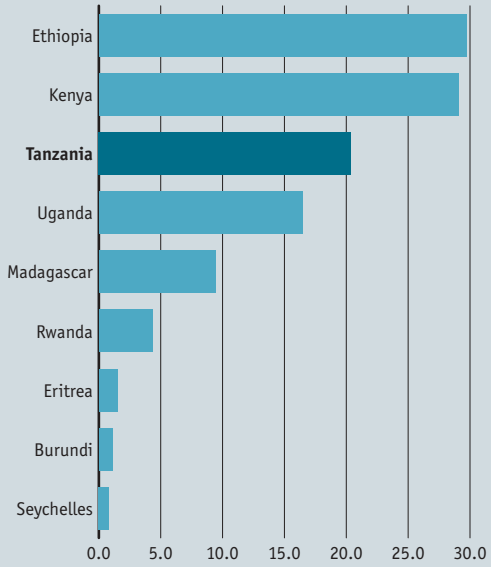


Source: Economist Intelligence Unit.

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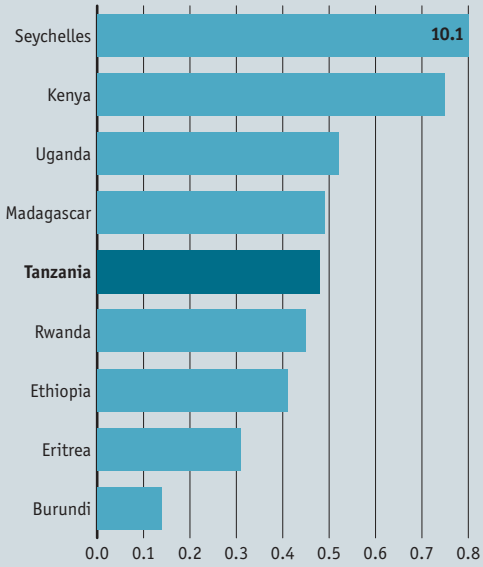
Comparative economic indicators, 2008

Gross domestic product
(US$ bn; market exchange rates)



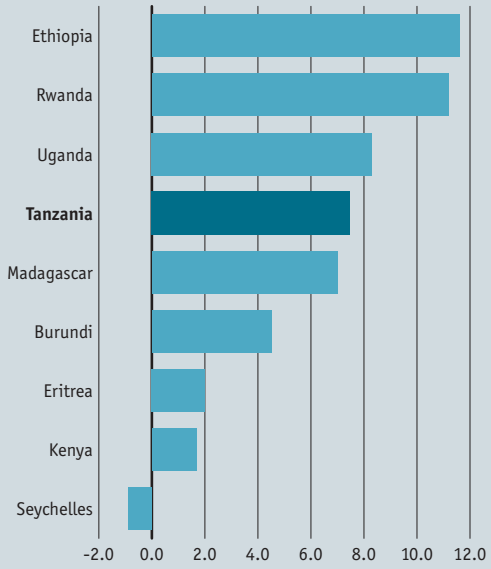
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



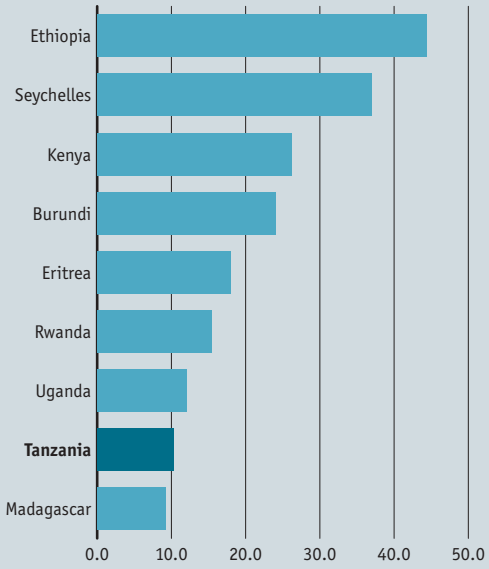
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

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Country snapshot

Basic data

Land area 883,749 sq km (881,289 sq km mainland, 2,460 sq km Zanzibar, plus lakes totalling 59,100 sq km)

Population 40.3m in 2008 (Economist Intelligence Unit estimate)

Population (2002 census)

Dodoma (political capital)	1,699,000
Dar es Salaam (commercial capital)	2,498,000
Mwanza	2,942,000
Mbeya	2,070,800
Tanga	1,642,200
Arusha	1,292,700
Zanzibar Town	391,600

Climate Tropical on the coast, semi-temperate inland

Weather in Dar es Salaam (altitude 14 metres) Hottest month, January, 23-32°C; coldest month, July, 18-29°C; driest month, September, 26 mm average rainfall; wettest month, April, 263 mm average rainfall

Languages Swahili, English

Measures Metric system

Currency Tanzanian shilling (TSh)

Fiscal year July 1st-June 30th

Time Three hours ahead of GMT

Public holidays January 12th, Zanzibar Revolution Day; March 5th, Union Day; May 1st, Workers Day; July 7th, Sabasaba; August 8th, Farmers Day; December 9th, Independence Day; December 25th, 26th and 27th; Tanzania also observes Eid al-Haj, Mawlid and Eid al-Fitr, which vary according to the Islamic lunar calendar

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Political structure

Official name	United Republic of Tanzania
Form of state	Republic, formed by the 1964 union of Tanganyika and Zanzibar
Legal system	Based on English common law, the 1977 union and 1985 Zanzibar constitutions, as amended
National legislature	National Assembly, comprising 295 members (232 directly elected on the mainland; five delegates from the Zanzibar parliament; the rest appointed); Zanzibar's House of Representatives (59 members, including nine women appointees) legislates on internal matters
National elections	Mainland legislative and presidential elections were last held in December 2005; Zanzibar presidency and House of Representatives elections were last held in October 2005; next elections scheduled for October 2010
Head of state	President, elected by universal adult suffrage every five years
National government	The president, vice-president and Council of Ministers
Main political parties	Chama Cha Mapinduzi (CCM); Civic United Front (CUF); National Convention for Construction and Reform (NCCR-Mageuzi); United Democratic Party (UDP); Chama Cha Demokrasia na Maendeleo (Chadema); Tanzania Labour Party (TLP)

Key ministers	**President**	Jakaya Kikwete
	Vice-president	Ali Mohamed Shein
	President of Zanzibar	Amani Abeid Karume
	Prime minister	Mizengo Pinda
	Agriculture, food security & co-operatives	Stephen Wassira
	Community development, gender & children	Margaret Sitta
	Defence & national service	Hussein Mwinyi
	East African co-operation affairs	Diodorus Kamala
	Education	Jumanne Maghembe
	Energy & mineral resources	William Ngeleja
	Finance & economic affairs	Mustafa Mkulo
	Foreign affairs & international co-operation	Bernard Membe
	Good governance	Sophia Simba
	Health & welfare development	David Mwakyusa
	Home affairs including public safety	Lawrence Masha
	Industry, trade & marketing	Mary Nagu
	Infrastructure development	Shukuru Kawambwa
	Justice & constitutional affairs	Mathias Chikawe
	Labour, employment & youth development	Juma Kapuya
	Lands & human settlements development	John Chiligati
	Natural resources & tourism	Shamsa Mwangunga
	Union matters	Muhammed Khatib
	Water & irrigation	Mark Mwandosya
Central bank governor	Benno Ndulu	

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