

COUNTRY PROFILE

Quarterly update

July 2016



United Nations
Economic Commission for Africa

TANZANIA

Introduction

This document provides an update to the 2015 United Republic of Tanzania Country Profile, with a particular focus on the recently released data for the first half of 2016.

Recent developments: Key highlights

The economy continued to grow rapidly in 2015, with real gross domestic product (GDP) growth of 7.0 per cent. The rate of expansion was the same as in 2014 and one of the highest in Eastern Africa. The United Republic of Tanzania's growth performance has been remarkably consistent over the past three years, within a margin of +/- 0.3 per cent per year. Regarding international trade, the United Republic of Tanzania has announced that it will no longer sign the Economic Partnership Agreement (EPA) with the European Union. It has indicated that "Brexit", the recent decision of the United Kingdom to leave the European Union, has put in question the benefits of the Agreement, since the United Kingdom is an important trade partner. According to data from the most recent investment survey (Bank of Tanzania, 2014), the United Kingdom was the United Republic of Tanzania's leading source of foreign direct investment (FDI) in both 2011 and 2012, even though the United Kingdom is not a significant export mar-

ket (according to the United Nations Commodity Trade Statistics Database, Tanzanian exports to the United Kingdom were worth 48 million United States dollars in 2014). The Tanzanian authorities have been resolute in their insistence that the EPA agreement with the East African Community (EAC) will not help further the subregion's industrialization objectives.

The strong economic performance achieved in 2015 was driven principally by the expansion of the industrial sector (11.3 per cent) and services (6.9 per cent) (Bank of Tanzania, 2016a, p. 40). Within the industrial sector, growth was mainly driven by construction (16.8 per cent), due to increased real estate development and the building of road networks. In the services sector, the most dynamic subsectors were the wholesale and retail trade subsector and the information and communication subsector, with growth in the latter facilitated by higher demand for mobile services (Bank of Tanzania, 2016a, p. 11). In contrast to the high growth rates in the industrial and services sectors, the agricultural sector performed poorly in 2015: it grew at just 2.3 per cent, down from 3.4 per cent in 2014.

Regarding fiscal performance, revenue collection improved in the first nine months of the 2015/16 financial year. Between July 2015 and March 2016, domestic revenue was 10,346.5 billion Tanzanian shillings, 28 per cent higher than the reve-

nue collected in the same period of the 2014/15 financial year. The impressive performance in revenue collection was due both to the strong overall performance of the economy and to measures undertaken by the Government to strengthen tax administration (Bank of Tanzania, 2016b, p. 13).

Regarding monetary policy, the Central Bank implemented tighter monetary policy measures to contain inflationary expectations and contain the depreciation of the shilling. The shilling depreciated by 5.1 per cent against the United States dollar between July 2015 and April 2016, although this is still more modest than the 18.4 per cent depreciation experienced in 2014/15. Despite the depreciation of the exchange rate, the stock of gross official reserves amounted to US\$3.9 billion at the end of April 2016, still sufficient to cover about four months of projected imports of goods and services.

As a result of the tighter monetary policies, inflation declined to 5.6 per cent in 2015, down from 6.1 per cent in 2014. In April 2016, annual inflation further declined to 5.1 per cent, partly due to increased food supply and exchange rate stability (Bank of Tanzania, 2016a, p. 39).

The current account deficit decreased by 53.4 per cent to US\$ 1.5 billion between July 2015 and April 2016, compared to a deficit of US\$ 3.3 billion registered in the corresponding period in 2014/15. The improvement was mainly due to increased exports of manufactured goods, transportation, tourism receipts, and a decline in the value of imports. In recent years, the United Republic of Tanzania has done well in terms of exploiting export opportunities to other EAC member states, and this is reflected in the improved trade performance. Exports to EAC countries increased by 65.8 per cent between 2010 and 2015, from US\$ 558 million to US\$ 925 million (United Nations Commodity Trade Statistics Database, 2016).

In contrast, inflows of FDI declined marginally in 2015, to US\$ 2.0 billion, down from US\$ 2.1 billion in 2014 (Bank of Tanzania, 2016a, p. 52). This decline occurred despite measures instituted in 2014 to lift a 60 per cent restriction on foreign ownership of listed companies, permitting full foreign control (Bloomberg, 2014). Over the past five

years, the United Republic of Tanzania has consistently been the largest recipient of FDI within EAC, but much of that FDI has been directed to the natural resources sector. According to the 2013 investment survey, 50 per cent of all FDI has been directed to mining and quarrying, compared to just 16 per cent to the manufacturing sector and barely 2 per cent to agriculture, raising concerns that FDI inflows have not been facilitating the process of structural transformation.

Economic performance

Macroeconomic performance

	Value	Year
GDP, current prices (US\$ million)	48214.3	2015
Real GDP growth rate (%)	7.0	2015
Inflation rate (%)	5.6	2015

Source: Bank of Tanzania, 2016c, p. 22 and p. 15.

Monetary policy

(%)	Value	Year
Central Bank reference rate	12.00	(Dec) 2015
Interbank rate	7.29	(Dec) 2015
Lending interest rate	16.39	(Dec) 2015
Deposit interest rate (average)	3.42	(Dec) 2015
Spread between lending and deposit rate	12.97	(Dec) 2015

Source: Bank of Tanzania, 2016d, p. 63.

Current account

(US\$ million)	Value	Year
Imports of goods (f.o.b)	12528	2015
Exports of goods (f.o.b)	9450	2015
Trade balance	-3078	2015
Current account	-3275.0	2015

Source: Bank of Tanzania, 2016c, p. 15.

Capital and financial accounts

(US\$ million)	Value	Year
Direct investment	2049.3	2015
Portfolio investment	11.6	2015
Other investment	2095.2	2015
Financial account balance	4156.1	2015
Total external reserves (end of period) in future months of imports of goods & services	3.8	2015

Source: Bank of Tanzania, 2016c, p. 22.

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