

Tanzania Business Forecast Report Q2 2014

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Abstracts

Core Views

We have made a slight downgrade to our 2014 growth forecast for Tanzania, from 7.3% to 7.1%, largely on the back of underperforming exports which, coupled with strong imports of capital goods, will see net exports remain a drag on growth. However, we maintain our outlook for robust growth on the back of investment flows into the nascent offshore gas sector.

We forecast that Tanzania's budget deficit will narrow from 5.1% in 2012/13 to 3.7% of GDP in fiscal 2013/14, and will remain around 4.0% over the next several years. This reduction will happen even as revenue growth is likely to disappoint this year, as a result of delays to project implementation.

We forecast a widening current account deficit in Tanzania in 2014 and believe that the shortfall will remain substantial over the medium term, as exports are hit by falling prices and imports related to the offshore oil and gas sectors grow. Nevertheless, inflows of foreign investment will keep the country in a balance of payments surplus.

Key Risks To Outlook

The major risk to our economic outlook comes from the weather. Poor rains would not only exacerbate tight food supplies (food price inflation was the major driver of rapidly rising headline inflation in 2011) but would also once again hamper hydroelectricity production, raising costs for businesses and, by extension, consumers. The country's infrastructure deficit is another concern; a failure to make significant progress would likely hold the economy back from reaching its significant potential.

A meaningful deterioration in Tanzania's investment profile as a result of protests

against major investment projects or as a result of a more populist approach to policymaking could deter much-needed foreign investment. Growth would not only be disrupted by the cancellation of projects but also by a deterioration in macro stability that would result from an accompanying balance of payments crisis.

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President Jakaya Kikwete's CCM party faces a number of challenges ahead of the 2015 presidential and National Assembly elections, namely underperforming ministers, succession, a rewritten constitution and perceived corruption. However, while opposition parties might make inroads, we do not believe there will be a serious challenge to CCM's dominance.

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Long-Term Political Outlook

Corruption And Reliance On Foreign Money High On The Agenda

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 2013-2022 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.

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We have made a slight downgrade to our 2014 growth forecast for Tanzania, from 7.3% to 7.1%, largely on the back of underperforming exports which, coupled with strong imports of capital goods, will see net exports remain a drag on growth. However, we maintain our outlook for robust growth on the back of investment flows into the nascent offshore gas sector.

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We forecast a widening current account deficit in Tanzania in 2014 and believe that the shortfall will remain substantial over the medium term, as exports are hit by falling prices and imports related to the offshore oil and gas sectors grow. Nevertheless, inflows of foreign investment will keep the country in a balance of payments surplus.

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We forecast that Tanzania's budget deficit will narrow from 4.7% in 2012/13 to 3.3% of GDP in fiscal 2013/14, and will remain around 3.5% over the next several years. This reduction will happen even as revenue growth is likely to disappoint this year, as a result of delays to project implementation.

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We are forecasting 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 being pumped in to the country to develop this. Increasing regional integration and significant investment in infrastructure projects will also boost growth. The county 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.

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