+44 20 8123 2220
info@marketpublishers.com

Tanzania Business Forecast Report Q4 2013

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Abstracts

Core Views

Robust private consumption and investment spending, combined with weak import growth, will offset an expected subdued performance for exports and keep the Tanzanian economy expanding by more than 7.0% in 2013 and 2014.

Tanzania's current account deficit is set to expand over the coming years as demand for imports surges and gold prices fall. At this juncture, we believe that capital and financial account inflows will be sufficient to cover the forecasted shortfall. The balance of payments position could, however, come under pressure if the current account deficit ends up being wider and/or if capital and financial account inflows end up being lower than we currently anticipate.

We believe the period of disinflation, which has seen price growth fall from 19.8% in December 2011 to 7.5% in July 2013, is coming to an end, as demand-pull pressure and a looser monetary policy will prevent headline inflation from falling much lower than 6.5%. That said, we do not think inflation will head higher rapidly after it has bottomed thanks to prudent monetary policy, a stable shilling and ample food supplies.

Friction between the governments of Tanzania and Rwanda, which has been rising since May, will likely dissipate over the medium term as the incentives for cooperation between the two states outweigh those for hostility. Even so, the volatile situation in the eastern Democratic Republic of the Congo could see tensions between Kigali and Dodoma flare, which would in turn pose a risk to economic and political integration in the East African Community.

Major Forecast Changes

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No major forecast changes

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 very 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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Tanzania's current account deficit is set to expand over the coming years as demand for imports surges and gold prices fall. At this juncture, we believe that capital and financial account inflows will be sufficient to cover the forecast shortfall. The balance of payments position could, however, come under pressure if the current account deficit ends up being wider and/or if capital and financial account inflows end up being lower than we currently anticipate.

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We believe the period of disinflation that has seen price growth fall from 19.8% in December 2011 to 7.5% in July 2013 is coming to an end, as demand-pull pressure and looser monetary policy will prevent headline inflation from falling much lower than 6.5%. That said, we do not think inflation will head higher rapidly after it has bottomed thanks to prudent monetary policy, a stable shilling and ample food supplies.

TABLE: MONETARY POLICY

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The Tanzanian budget for the 2013/14 fiscal year announced by Finance Minister William Mgimwa on June 13 is expansionary and will be financed by tax increases, especially for telecoms companies that will now face a total burden of 36.5% when including VAT and all other levies. Overall, we think that the budget deficit will reach 6.8% of GDP, higher than the official estimate of 5.9%.

TABLE: FISCAL POLICY

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Strong Long-Term Growth Expected

With the telecoms, food and drink, transport, construction, energy and mining sectors forecast to be drivers of growth in the years ahead, and with conditions supportive for long-run productivity gains in the important agricultural sector, we are projecting robust economic expansion over the next 10 years. The weather is likely to remain the key risk to our outlook owing to the country's dependence on hydroelectricity and the agricultural sector.

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