Tanzania Economic Outlook 2017
Joining the dots

Tanzania Economic Review

Preamble

The Tanzania Economic Outlook 2017 report provides an overview of Tanzania's economic environment and key sectors. The report also highlights significant allocations in the 2017/18 Budget to various sectors of the economy.

Political Environment

Tanzania has continued to enjoy political stability since it became independent in the early 1960s. This has provided reassurance to foreign investors, compared to the more politically volatile neighbours.

President John Magufuli's administration has taken steps to eradicate corruption in Tanzania's public institutions. This has helped the Government to secure grants and concessional loans from international development multilateral institutions as well as attract foreign investment. In 2016, Tanzania removed more than 10,000 ghost workers from its public sector payroll in a crackdown on corruption. In April 2017, the Tanzanian President John Magufuli sacked 9,932 public servants found with fake academic certificates. This came after the conclusion of the verification process of their academic qualifications.

The Tanzanian Government is however heavily reliant on foreign assistance for budgetary support. The withdrawal of this support, would potentially have negative implications on the fiscal accounts.

According to Business Monitor Intelligence (BMI), Uganda's decision to consider pursuing an oil pipeline route through Tanzania instead of Kenya in April 2016 highlights economic competition within the region. Ministers from the two countries (Uganda and Tanzania) signed framework agreement on their proposed US$ 3.55bn crude export pipeline on 26th May 2017. The 1,445km long, 24 inch diameter pipeline is heralded as the longest electrically heated crude oil pipeline in the world.

According to BMI, the accord enables financiers led by Total to start firming up funding options for the pipeline. The Tanzanian tax waiver makes Uganda's oil more competitive and the project more bankable.

Economic Environment

According to the World Bank, Tanzania's population of 53m is estimated to grow at an annual rate of 3%. This coupled with an urbanisation rate of 30%, has resulted in increased consumer and credit demand. An increased population will also trigger increased demand for social amenities and infrastructure.

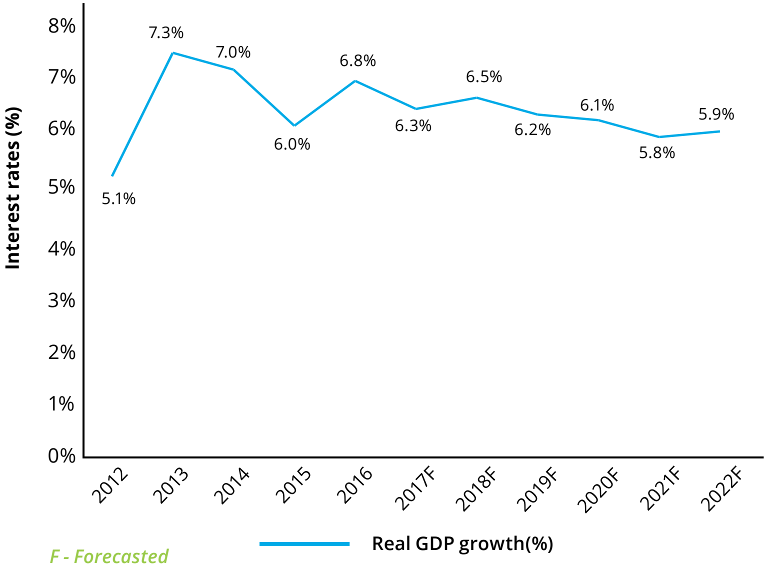
Tanzania's economic growth is expected to average 6.2% between 2017 and 2026. The growth is underpinned by infrastructure development and a growing consumer base.

Heavy infrastructure investment into rail, port and road is expected to be one of the main drivers of Gross Domestic Product (GDP) growth between 2017 and 2026. BMI forecasts the real growth of fixed capital formation to average 7.1% within this period.

The increased investment in infrastructure is expected to widen the trade deficit between 2017 and 2018. It is also expected to weigh in on the Tanzanian currency as demand for capital imports increases.

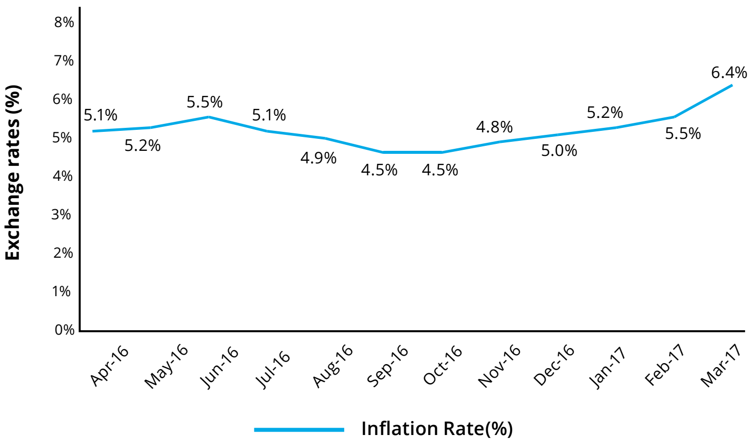
According to BMI, regulatory uncertainty is a major impediment to the progression of planned infrastructure projects in the Tanzanian gas sector. The current draft of petroleum legislation that stipulates the extent to which oil companies are required to comply with local content requirements remains off-putting to investors.

A number of developments in the telecommunications industry happened in 2016/17, which have led to disruptions in the market. This includes the introduction of shared infrastructure among mobile network providers in services such as Mobile Financial Services (MFS). Another development was the mobile network sharing initiative between Airtel, TIGO and Vodacom. Tanzania is the first African country to have platform interoperability as a norm.



F - Forecasted

Source: National Bureau of Statistics, BMI



Source: National Bureau of Statistics

GDP

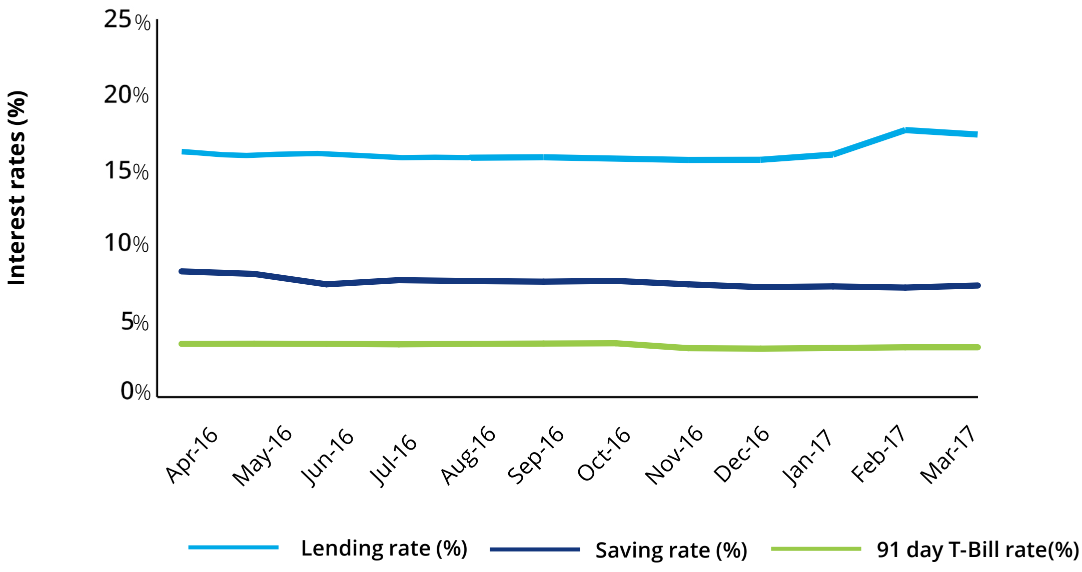
- According to BMI, Tanzania's is expected to experience robust economic growth underpinned by infrastructure development and a strengthening consumer base. BMI expects economic growth to average 6.2% between 2017 and 2026;
- Private consumption is the largest contributor to GDP in Tanzania. BMI expects this to remain the same between 2017 and 2026. Rising financial inclusion was attributed to the spread of mobile financial services. This rise will play an important role in strengthening the consumer base; and
- Heavy infrastructure investment into rail, port and road is expected over the next ten years. BMI expects the real growth of fixed capital formation to average at 7.1%.

Inflation

- According to the World Bank, the inflation rate has remained relatively low and near the authorities' medium-term target of 5%. It has however trended upward in the last six months, reaching a 12 month high of 6.4% in March 2017. This was attributed to a tightening of food supply and rising energy costs. This saw the overall Consumer Price Index (CPI) increase to 108.44 in March 2017 from 101.93 in March 2016; and
- The Economic Intelligence Unit (EIU) forecasts the annual average headline inflation to rise to 7.2% in 2017 from 5.2% in 2016. This will be spurred by higher international prices for oil and industrial materials and drought-related food shortages in the early part of 2017.

Interest Rates

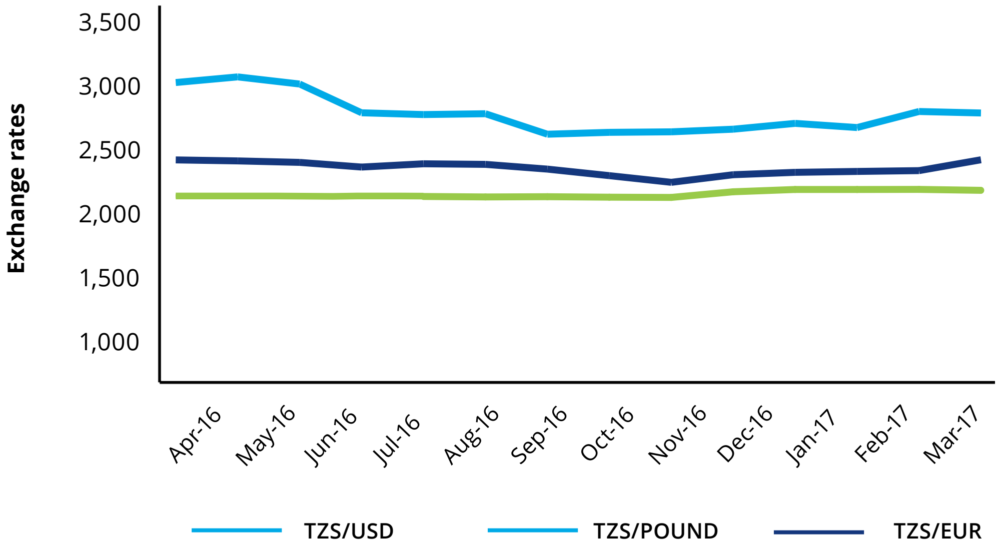
- The savings deposit rate increased from 3.12% in January 2017 to 3.17% in March 2017. The overall lending rate increased by 1.35% to 17.36% in March 2017, over the same period;
- The increase in deposit interest rates is associated with banks' efforts to attract deposits. This follows the Government's directive that all public deposits (ministries, public corporations and local government authorities) held in commercial banks be transferred to the Bank of Tanzania. The increase of lending rates is attributable to an increased risk premium following a rise in non-performing loans in recent months; and
- Going forward, the Bank of Tanzania (BoT) plans to shift to a fully fledged interest-rate-based framework in 2017. The interbank cash market rate is set to replace the average reserve money growth, as BoT's operational target.



Source: Bank of Tanzania

Exchange Rates

- The Tanzanian shilling (Tshs) is expected to remain stable in the short term after trading within a tight range throughout 2016. BMI expects the Tshs to continue range-trading between Tshs2,230/US$ and Tshs2,260/US$ in the 2017;
- The Tshs is however expected to depreciate against the dollar in the long term due to a decrease in the Tshs's purchasing power. This is as a result of higher forecasted inflation levels in Tanzania (5.5% in 2018) compared to the US (2.0% in 2018). Additionally, monetary easing as a result of cutting the discount rate by the BoT, will increase credit growth in 2017. This will in-turn expand money supply and consequently weaken the competitiveness of the Tshs; and
- Increased investment in infrastructure is also expected to widen the trade deficit between 2017 and 2018, weighing in on the currency as demand for capital imports increases.



Source: Central Bank of Kenya

Sectoral Perspective

Financial Services

Banking

According to the IMF, 2016 saw the Tanzanian banking sector perform relatively well in terms of the levels of capital and liquidity ratios. The reported ratios were above the national requirement of 10% and 20% respectively. Capital ratio is the ratio of core capital to total risk weighted assets and off balance sheet exposures. Liquidity ratio is the ratio of liquid assets to demand liabilities.

However, the increase in the number of non-performing loans (NPLs) from 6.6% at the end of 2015 to 8.7% at the end of 2016 indicates the falling quality in the types of assets that banks acquire. As a result, the BoT has set measures to ensure commercial banks with a high number of NPLs reduces the overall NPL ratio to not more than 5% by 2018, with quarterly reviews on the progress of the initiative. Due to sever undercapitalization, the Government took over the administration of three banks: Twiga Bankcorp, FBME and Mbinga Community Bank. Among the three, only Twiga Bancorp was allowed to resume with some operations, while the Government awaits new capital from potential investors.

BMI reports the decline in liquidity experienced in the second half of 2016, after President Magufuli announced that all public institutions had to transfer their funds from private to publically owned financial institutions, will be remedied by monetary easing through the cutting of the discount rate.

The current regulatory environment of the country, specifically the newly introduced 18% VAT on bank transactions, has become a challenge to the growth of the industry and will hinder the industry's ability to increase investment and penetrate their services to rural areas with less access to financial services.

Insurance

Life insurance premiums which account for 10% of the whole insurance premiums, are estimated to have grown by 9.3% in 2016 and are forecasted to grow by 10.4%. Due to local currency depreciation, these growth numbers are lower when the currency is expressed in US$ to an estimated 2016 growth of 1.8% and a forecasted 8.3% growth.

On the other hand, non-life premiums, which are estimated to have grown by 6.6% in 2016 (Tshs 586.4 Billion), are predicted to grow at the 10.6% in Tshs. As with life premiums, the non-life premiums growth indicators change when using US$. The growth that was experienced when expressing in Tshs, is replaced with a slight contraction of 0.8% in 2016, and a predicted growth of 8.5% in 2017.

Capital markets

The Government plans to develop its government debt market through various measures. Such measures include the publishing of a quarterly bond auction calendar, enhancing communication with market participants, and re-opening bond series to provide the market with more liquid instruments.

Amendment introduced through Finance Act 2016 required all telecommunication companies to be publically listed on the Dar es Salaam Stock Exchange (DSE) by the end of 2016, following the lack of enforcement of a similar Postal and Communications Act 2010 which also required the companies to be listed by 2013.

To date, only Vodacom's application to the CMSA has been approved and therefore the company been successful in listing its 25% of shares on the DSE. Apart from TIGO, none of the other market players (Airtel, Smart, Halotel and TTCL) have submitted their prospectus for approval.

Extractive Industry

The mining industry has experienced an estimated 8.5% growth in 2017 to stand at an estimated valued of US$ 960m, compared to last year's growth of 3.09% and a value of US$ 880m.

One of the largest mining companies in the country, Acacia Mining which operated in Bulyanhulu, Buzwagi and Northern Mara, recently announced a projected 40% y-o-y increase in gold output in 2017 which is expected to bring about a 3.6% growth in the sector. However, the forthcoming closure of its Buzwagi Gold Mine operations is predicted to affect the market growth projections in the short term.

In March 2017 the Ministry of Energy and Minerals placed a ban on the export of mineral ore from the country. The aim was to ensure value addition of minerals produced in the country. The Tanzania Chamber of Minerals and Energy (TCME) plans to conduct an assessment on what the effects of the ban will be on the economy. For mining companies, the ban has had adverse negative effects. Acacia Mining lost 30% of its revenue as well as experiencing a downward trend of its share price on the London Stock Exchange as a result of the ban. Stakeholders in the industry suggest a temporary lift on the ban of mineral ore exports, while the Government focuses on capacitating the country's smelting capacities.

In the 2017/18 budget, the Government has indicated that it will implement a 1% of value clearing fee for all minerals being exported out of the country. Clearing houses will be established at appropriate areas including airports and mining areas to facilitate the verification of minerals and collection of fees.

Oil and Gas

Up until 2015, the oil and gas industry operated under the 1980 Petroleum Act. However, following the discovery of natural gas in 2016 on the east coast of Tanzania, the Government introduced the new Petroleum Act 2015. The new act was meant to provide a better investing environment for the upstream sector.

Through that act, the Government will formulate the following agencies: PURA – to regulate the upstream function of the industry, and EWURA to regulate the midstream and downstream function of the industry.

One anticipated challenge of the new act is the increased level of involvement of the central government in the approval process of the establishment of a petroleum company, something which may discourage foreign investment.

Tanzania will adopt the MPSA (Model Production Sharing Agreement) to replace the currently in place PSAs, which might not be received positively by oil and gas companies seeking to enter Tanzania.

Despite the discovery of offshore natural gas deposits, major exports are not expected until 2026 after certain points regarding production and building of an joint LNG facility have been agreed upon between the Government and the successful oil and gas companies that have struck natural gas deposits offshore. Negotiations between the Government and the oil and gas companies are on-going.

Technology, Media and Telecommunications

A number of developments in the telecommunications industry happened in 2016/17, which have led to disruptions in the market. One of them include the introduction of shared infrastructure among mobile network providers in services such as Mobile Financial Services (MFS) and mobile network sharing initiative between Airtel, TIGO and Vodacom. Tanzania is the first African country to have platform interoperability as a norm.

However, the interoperability of the MFS platform has observed a decrease in the number of active MFS accounts, the reason predicted to be that people now use only their most preferred service provider for MFS, and let the others expire, although the general trend, is that the number of subscribers is expected to increase from 10.225m in 2015 to 29.647m by 2020.

The market has experienced decreasing in Annual Revenue Per User (ARPU) following a decrease in the Minutes of Usage (MOU).

Following the acquiring of Zantel, TIGO has experienced the largest share of new mobile subscribers, with TTCL still lagging behind, and Viettel (Halotel) increasing the number of subscribers, every quarter.

The introduction of Halotel into the market promised to disrupt the market shares, and increase the number or rural subscribers.

In March 2017, Tanzania also introduced Mobile Number Portability (MNP) which is aimed at boosting competition and improving the cellular packages offered by telecommunication companies.

Agriculture and Industrialisation

Agriculture is the single largest employer of the country currently employing 65% of the population. In 2015, it contributed to 29.0% of the GDP, while in 2016, it is estimated to have contributed 29.1% of the GDP.

In December 2016, Tanzania Agricultural Development Bank secured a US$ 94m concessional loan to be used to provide soft loans to farmers which as a result will increase the value chain from production, value for money and increased number of markets available for farmers after production.

Industrialization in Tanzania is mainly focused in the processing of agricultural foods. Tanzania has a vision 2025, which aims at having at least 40% of the GDP contributed by the manufacturing sector by 2025. According to Tanzania Invest, so far the manufacturing sector contributes 13.25% to the country's GDP, with constant growth over the past few years.

Initiatives to improve the manufacturing industry have already begun. In July 2016, the Chinese Government agreed to invest US$ 100m to build a tile plant in Mkiu village. The plant is set to directly employ 1,500 Tanzanians and 3,000 indirectly. Additionally, in September 2016, the pension fund NSSF disbursed US$ 2.1m to the Tanzania Biotech Product Limited in Kibaha, for production expansion. In October 2016, a fruit processing factory was launched under the Bakhresa group which will employ at least 1,000 Tanzanians.

Through the ministry of agriculture, livestock and fisheries, the Government plans to spend Tshs 150.2bn to finance agricultural development projects.

Public sector

Education

Amid the implementation of the Government's free education for all secondary school students program, they still face challenges to complete their education due to other high non-fee costs such as uniforms and school supplies. Furthermore, according to the Human Rights Watch Report, the abolishment of school fees has rid schools of necessary income that was otherwise used to pay for other school spending.

In 2017/18, the Government will allocate Tshs 916.8 billion to the education, science and technology sector. The funds are anticipated to be used to continue with the Government initiative of building and renovating more schools and learning facilities in the country.

Water

The World Bank reports that in 2015 only 55.6% of the population had access to an improved water source.
It is projected that due to increasing population growth and increased consumption, by 2025, Tanzania will be facing water stress (defined as average per capita water resource being below 1500m3).

For the financial year the water sector estimates to spend Tshs 623.6 billion in its efforts to continue proper management and development of water resources, services for quality and clean water, accessibility of water in rural areas and in cities.

Healthcare

Although the Government increased its efforts in building of new health facilities all over the country, most of them remain to be below acceptable standards, and therefore unable to service patients as required. As a result, in February 2017 the Minister of health has vowed to reduce the status of some health facilities into dispensaries for their inability to handle maternal and new-born care.

The Government is in the process of finalizing a bill that will make membership in the improved Community Health Fund (iCHF) mandatory for all Tanzanians. According to the Finance Minister, the insurance plan will enable children under 18 to be able to be enrolled in the contributor's plan, irrespective of their relationship.

For 2017/18, the ministry of health has planned to spend Tshs 785.8 billion as part of its development budget, which will help the ministry implement its health improving initiatives.

Infrastructure and Transport

Roads

In February 2017, the World Bank announced the approval of increased US$ 130m funding for the Tanzania Strategic Cities Project (TSCP), which will benefit 8 cities of Tanga, Arusha, Kigoma, Dodoma, Mwanza, Mbeya and Mtwara. The project promises to improve publically accessible roads, drainage within the cities and more robust planning and financial management practices.

In October 2016, the heads of state of Tanzania and Kenya, met to discuss the two road project, which will be financed by the African Development Bank and improve passenger and cargo traffic between the two countries.

The 2017/18 budget plans to allocate Tshs 1.216 trillion towards the construction and maintenance of regional and district roads under the Road Fund, as well as road construction projects.

Ports

The ports sector is forecasted to grow in the near future, which is influenced by the emerging middle class, increasing private consumption and a steady GDP growth.

Tanzania Ports Authority (TPA) has developed initiatives to ensure it is the preferred choice for transporting to land-locked countries in Africa, for example in October 2016, TPA established a liaison office in Kigali, Rwanda in order to reduce logistical costs of doing business between the two countries. As a result, we anticipate that this will increase the amount of trade that flows between Tanzania and its neighboring land locked countries.

For the financial year 2017/18, the GoT has expressed interest in reducing the cost of using Tanzanian ports and increasing their competitiveness in the market. The Government aims to do this by zero rating the VAT for ancillary transport services.

Air

In an attempt to revive the airline market in Tanzania, the Government purchased and began operations for their new planes. The re-introduction of the national airline has not affected the prices in the market. Other competitor airline such as FastJet continue to enjoy lower prices, while the national carrier maintains higher prices.

Rail

The railway sector is forecasted to grow as a result of increased mining and quarrying activities, and investment in new lines. However, the growth is still predicted to be lagging behind the road system.

New developments, particularly the construction of the first phase of the Dar es Salaam – Mwanza – Kigoma Standard Gauge Railway begun in April 2016. Once completed, the railway promises to benefit Tanzanian through reduced transit time within the regions covered, as well as increased options for modes of transport.

Tourism

In 2017 the revenues from the tourism industry are projected to be at US$ 2.69bn which would be an 8.6% increase from the revenues in 2016 at US$ 2.48bn. This increase goes hand in hand with the estimated increase in the absolute arrival numbers which stands at 1.32m in 2016, and are forecasted to be 1.39m in 2017, which would indicate a 5.3% growth from the previous year.

In 2016, the tourism industry directly contributed US$ 2.1bn, equal to 4.7% of total GDP to the economy and is forecasted to rise by 3.7% in 2017. Tanzania's tourism industry still has a potential to grow due to its safe and peaceful nature especially in places like Arusha and Mwanza. However, the introduction of the 18% VAT to all tourist activities poses a challenge to the growth potential of the sector, as well as terrorism threats of the neighbouring country Burundi. BMI predicts a y-o-y growth rate of 6.4%, lower than the 7.2 growth rate in the total number of visitors that was observed in 2015.

Development in infrastructure also promise a growth within the tourism sector. Projects such as the expansion of the Julius Kambarage Nyerere International Airport (JKNIA), reviving of the Air Tanzania Company Limited (ATCL), the Tanzania Zambia Railway (TAZARA) as well as the Voi-Taveta road to be built between Tanzania and Kenya, will increase tourist access to the interiors of the country, and areas where tourists would otherwise not visit.

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Glossary of Terms

ATCL	Air Tanzania Company Limited
BMI	Business Monitor International
BoT	Bank of Tanzania
CMSA	Capital Markets and Securities Authority
CPI	Consumer Price Index
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
EIU	Economic Intelligence Unit
EUR	Euro
EWURA	Energy and Water Utilities Regulatory Authority
GBP	British pound
GDP	Gross Domestic Product
GNI	Gross National Income
ICHF	International Criminal Court
ICT	Information Communications and Technology
IMF	International Monetary Fund
JKNIA	Julius Kambarage Nyerere International Airport
LNG	Liquified Natural Gas
m3	Metres Cubed
MFS	Mobile Financial Services
MNP	Mobile Number Portability
MOU	Minutes of Usage
NPLs	Non Performing Loans
PURA	Petroleum Upstream Regulatory Authority
TCME	Tanzania Chamber of Minerals and Energy
TCRA	Tanzania Communication Regulatory Authority
TPA	Tanzania Ports Authority
TSCP	Tanzania Strategic Cities Project
TTCL	Tanzania Telecommunications Company Limited
TTMS	Telecommunications Traffic Monitoring System

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