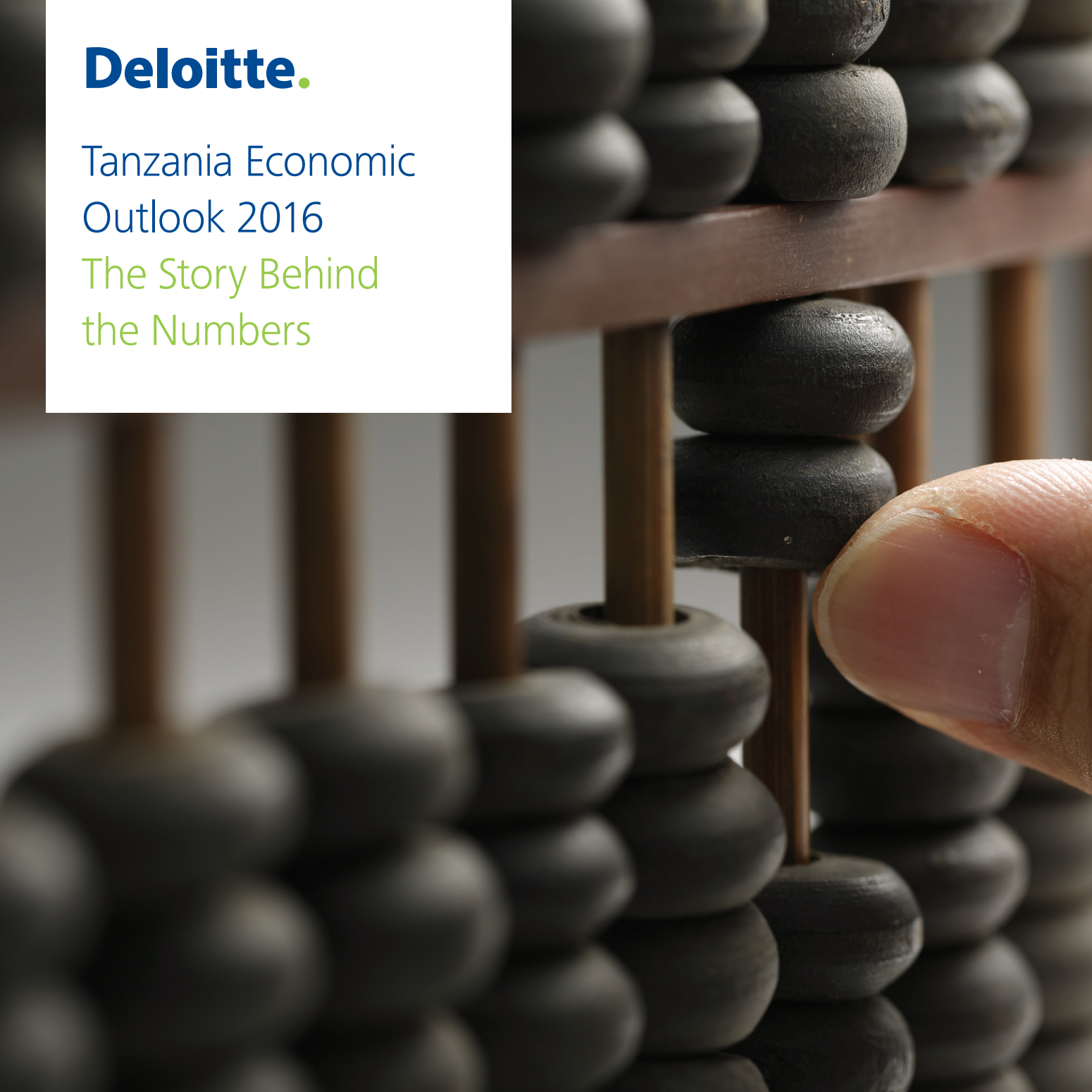




Tanzania Economic Outlook 2016

The Story Behind
the Numbers



Preamble

The Tanzania Economic Outlook 2016 report provides an overview of Tanzania's economic environment and key sectors. The report also highlights significant allocations from the 2016/17 budget to various sectors in the country.

June 2016

Tanzania Economic Review

Political overview

Tanzania held peaceful general elections on 26 October 2015 with Dr John Magufuli winning the presidential seat through a Chama Cha Mapinduzi (CCM) ticket. The win cements CCM's dominance in Tanzania's political scene and its position as the longest ruling party in Tanzania. The transition of power has been peaceful. However political tensions linger in the semi-autonomous islands of Zanzibar amid unresolved disputes including results of the March 2016 elections. These pose threats to political stability.

The incomplete constitutional review process is another source of political tension. Constitutional uncertainty remains high as the planned constitution referendum of 30 April 2015 was postponed due to delays in voter registration.

Dr John Magufuli has already made his mark as a frugal leader committed to battling waste in the public sector and punishing poor performance in delivering public services. Although an early spate of sackings and cutbacks won popular support, he faces a more difficult challenge in dealing with strong and sometimes divergent dynamics within his ruling party, particularly if the priorities of the political elite contradict his efforts to combat corruption.

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 that will undermine the East African Community's (EAC's) goal of regional integration.

The new work permit requirements for foreign nationals in Tanzania are also causing unease in the region, with the East African Business Council (EABC) calling on the government to reconsider measures, which are contrary to the EAC Common Market Protocol; which allows for free movement of people, goods and services in the bloc.

Economic overview

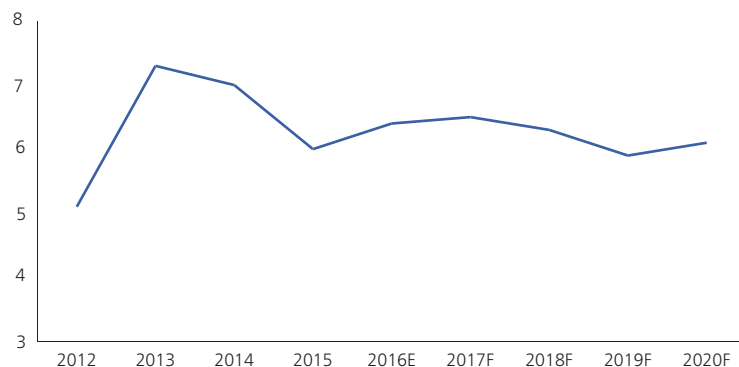
According to the 2016/17 budget real Gross Domestic Product (GDP) is forecast to grow by 7.2% in 2016 as compared to 7% in 2015; driven by rising private consumption and strong growth in the telecommunications, construction, port and service sectors. Services contribute almost 50% of GDP and spurred by private-sector activity in telecommunications and financial services, further expansion over the outlook period is expected.

Overall, Tanzania ranks 139 out of 189 economies in "Starting a Business" as per the Ease of Doing Business Report, 2016. Poor access to finance, corruption and inadequate infrastructure are seen as the largest barriers to doing business. In his regard the Tanzanian government named these sectors as some of the main focus areas in the 2016/17 budget.

Despite this, continued investment in infrastructure is expected to drive demand for credit as well as to have positive linkages to employment. In particular Tanzania's ports industry will be a key driver of growth, amid ongoing efforts to improve services and expand capacity. In late 2015 construction began of a USD11 billion port and associated industrial zone in Bagamoyo, which will be a catalyst for investment in the region. According to EIU, Tanzania is expected to have an average fiscal deficit of 9.1% of GDP in FY16. Export growth will continue to be driven by manufactured goods (which increased by 9% year on year in 2015, overtaking minerals as Tanzania's primary export), as well as rising re-exports as the ports industry expands. Import growth will remain subdued due to low oil prices.

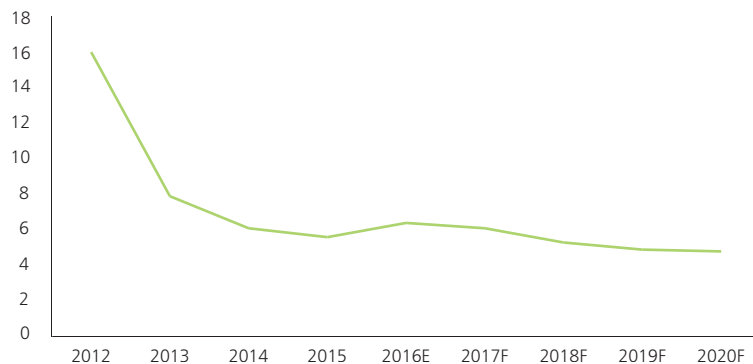
With this in mind the Tanzanian government has committed to a tighter fiscal policy marked by plans to reduce civil service overheads, postpone several infrastructure projects and crack down on tax evasion.

Chart 1: Tanzania's annual GDP growth rate (%)



Source: National Bureau of Statistics (Tanzania), IMF

Chart 2: Tanzania's inflation rate (%)



Source: IMF, Economic Intelligence Unit

GDP

According to EIU, Tanzania's GDP is forecast to average 6.4% per year in 2016-20. This growth trend reflects relatively sturdy domestic demand as well as growth in the construction and service sectors. Manufacturing is also expected to continue registering steady growth, aided by a more reliable power supply, the availability of domestic gas and Tanzania's growing integration into regional markets.

Growth in GDP is expected to be sustained in the medium to long term, underpinned by continued regional integration; serving as a transit route for the three landlocked EAC countries, Burundi, Rwanda and Uganda. Uganda in particular is expected to generate considerable business for Tanzania as it will grow at a robust rate over the coming years.

Sustained growth in GDP should drive demand for credit and other banking services, as larger sections of the population become accessible and financial inclusion deepens.

Inflation

According to EIU, the average inflation is expected to decline slightly in 2016 to about 5.4% with the effects of continuing depreciation of the Tanzanian shilling (TZS) offset by the impact of lower oil and food prices.

Inflation is expected to return to the 7-8% range in 2016-19 as fiscal policy is tightened and the introduction of the Bank of Tanzania's (BoT's) planned inflation targeting regime to bolster the effectiveness of monetary policy.

A relatively stable inflation environment bodes well for future investment planning and consumption, which would spur demand for credit from corporates and individuals.

Interest rates

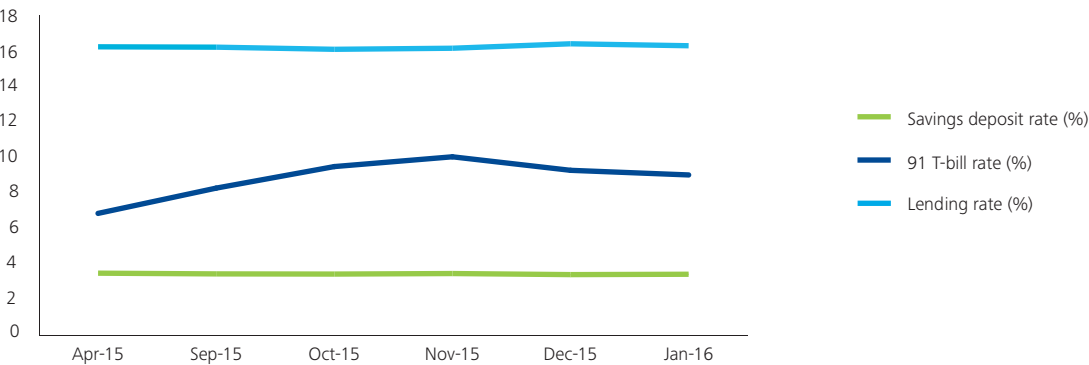
Lending rates in Tanzania are primarily driven by liquidity requirements of major corporations and government institutions, and to a lesser degree, monetary policy which is in turn driven by inflationary pressures.

Lending rates remained relatively stable at 16.1% between August 2015 and November 2015 before increasing to 16.28% in January 2016.

91 Day T-bill rates increased from 8.1% in August 2015 to peak at 10% in November 2015. According to BoT this was as a result of increased demand for domestic financing of the 2015/16 budget following delays in the disbursement of program assistance and realisation of non-concessional borrowing.

Savings rate remained stable over the past as well at around 3.4% between August 2015 and January 2016.

Chart 3: Interest rates in Tanzania (%)



Source: IMF, Economic Intelligence Unit

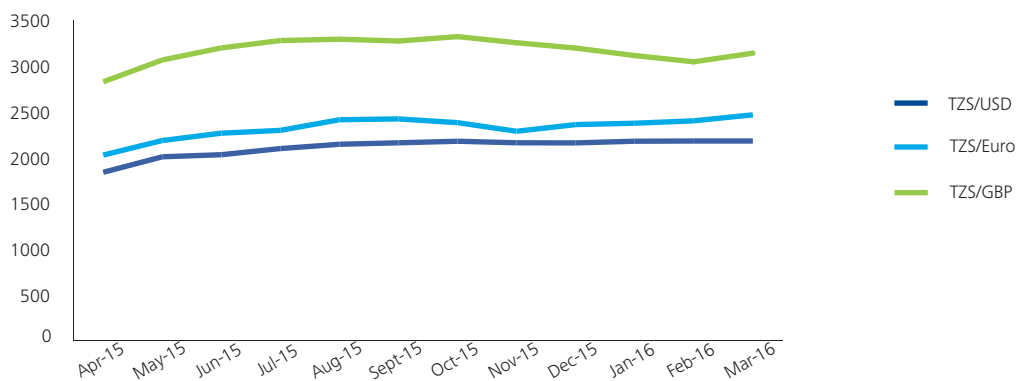
Exchange rates

The Tanzanian shilling (TZS) will experience a much less rapid pace of depreciation in 2016 than in 2015 as it benefits from a weaker United States dollar (USD), positive balance of payments dynamics and improved local sentiment.

According to BMI research, tighter monetary conditions by BoT will also offer support for the Tanzanian shilling. BoT hiked the statutory minimum reserve ratio (its primary monetary policy tool) to 10% from 8% in May 2015.

The Tanzanian shilling is also poised to benefit from an improved political environment and greater policy certainty over the near term. According to EIU a projected increase in exports should also positively impact demand finance, credit and other banking products in the coming months.

Chart 4: Exchange rates in Tanzania



Source: Bank of Tanzania

Sectoral perspectives

Financial services

According to the National Board of Statistics (NBS) of Tanzania, the financial services sector grew by 6.6% in Q3 of 2015 compared to 9.4% in Q3 of 2014. Although there was a slight slowdown the growth was attributed to a slight increase in the level of deposits from TZS 14.8 trillion in 2014 to TZS 16.8 trillion in 2015. Lending increased from TZS 11.7 trillion in 2014 to TZS 14.3 trillion in 2015. There was also an increase in the services provided by insurance companies.

Proposed in the 2016/17 budget were measures to reduce bureaucracy, expedite decision making, facilitate availability of credit through TIB Development Bank and other financial institutions to attract investors and the private sector.

Banking

Tanzania has emerged as a regional leader in its push to provide a conducive environment for financial inclusion, because of the bold policy approach by the BoT to allow non banking institutions to provide financial services.

In May 2015, the state implemented the Tanzania Automated Clearing House (TACH), which has increased the security features on cheque instruments while reducing clearing days, to the benefit of clients. Additionally, electronic funds transfers can now be processed more quickly and efficiently by providing multiple settlement windows within a day. Ultimately, the new system will allow cheques to be processed within hours, while introducing penalties for banks that incur delays for cheque clearance.

According to BMI Research, continued growth in mobile phone usage and an expansion in mobile money services has driven the performance of the mobile banking and financial sector. This in tandem with provision of micro-loans will continue to be the main drivers of growth within the sector.

The Tanzanian banking sector's funding structure is relatively strong. The sector's loan-to-deposit ratio sat at 78% in 2015 which though higher than its five-year average of 69%, remains comfortable. This implies that Tanzania's banks are predominantly domestically funded, less reliant on external financing, and thus less exposed to external shocks.

Insurance

The Tanzania Insurance Regulatory Authority (TIRA) estimates that the insurance sector will grow by 18% in 2016 and insurance penetration will reach 0.9% of GDP.

The recent discoveries of natural gas in Tanzania call for an innovative insurance solutions capable of insuring the risks associated with exploration of oil and gas. Tanzanian insurance companies are currently grouping together to create an oil and gas insurance pool that will enable the companies to mitigate and support such claims. When presenting the 2016/17 budget, the Minister of Finance proposed to exempt VAT on aviation insurance to promote the aviation industry and subsequently tourism industry.

Capital markets

The Tanzanian capital markets operating environment during the January to March 2016 has been challenging and uncertain as it has been in other capital markets around Africa and beyond. This is in tandem with volatile exchange and interest rates, a slowdown in China which has had an impact in African commodity prices and a slowdown in economic growth rates.

According to the Dar es Salaam Stock Exchange (DSE), market liquidity decreased from TZS 286 billion in Q4 2015 to TZS 123 billion in Q1 2016. Total market capitalization and indices performance increased by 4.2% in local currency basis and by 2.9% in US Dollar adjusted returns market capitalization and index. As of 31st March 2016, total market capitalization stood at TZS 21.3 billion compared with TZS 20.5 billion as of 31 December 2015.

Foreign participation in the country's financial sector is likely to receive an increment if plans proceed to remove limits on foreign share ownership. Legislation currently cap's foreign holdings of listed companies on the DSE at 60%; but this is expected to be scrapped in 2016. This in turn will offer investors enhanced economic opportunities while boosting liquidity in the market.

Extractive Industry

According to the NBST mining and quarrying recorded a growth rate of 8% in the third quarter of 2015 as compared to 5.2% in the similar quarter of 2014. The growth was mainly attributed to an increase in gold production as a result of good prices in the world market. Diamond, Tanzanite and Copper produced in the third quarter 2015 were lower than that produced in the same period 2014.

In the 2016/17 budget the Government proposes to introduce training and subsidies approximating TZS 900 million to artisanal miners. It also plans to designate areas for artisanal miners and capacitate inspection and safety institutions with the aim of reducing mining accidents. A decision by the government to raise taxes on the mining sector will continue limiting new entrants from entering the country's mining sector. It will also be a strong push for existing mining companies to focus on their assets elsewhere.

Oil and Gas

Tanzania has established gas resources amounting to 55 trillion cubic feet. These major gas discoveries offer a significant upside to the country's gas production outlook. According to BMI Research, delays to the final investment decision on the Liquefied Natural Gas (LNG) export terminal may push back the first production and export post 2020. Progress in the acquisition of the proposed LNG land site by the Tanzania Petroleum Development Corporation on 23rd December is however seen as a positive sign for the project partners going forward.

Although Tanzania passed a Petroleum Bill in July 2015, there still looms an ongoing uncertainty regarding the country's oil and gas regulations. This in turn has been highlighted as a key hurdle for investors despite the significant offshore gas resources due to an expectation of higher taxation, an expanded role for the state and more stringent local content directives.

The 2016/17 budget proposes to build capacity of public servants to enable them to carry out specialized audits in natural resources including minerals, land, oil and gas. This is with the aim of enhancing revenue collection.

Technology Media and Telecommunications

According to BMI, the mobile market has grown strongly over the last five quarters, increasing by 22.4% year-on-year, to reach 39 million subscribers at the end of 2015. This followed a period of lower growth over 2013 and the first half of 2014, led by Government's action towards SIM registration.

Data from the Tanzania Communications Regulatory Authority (TCRA) for 2015 indicated stagnation in the number of fixed line subscribers at 146,000, while internet subscribers continued to grow reaching 17.3 million subscribers out of an estimated population of 47.4 million people.

In February 2016, TCRA reported that it was planning to auction mobile broadband frequencies acquired in the World Radiocommunication Conference 2015 (WRC-15) in order to boost mobile broadband usage in the country. Tanzania is also set to join the East Africa Community (EAC) One Network Area, which harmonises mobile roaming tariffs in the region.

The mobile market, which already had six operators (Vodacom, Airtel, Tigo, Zantel, Tanzania Telecommunications Company Limited (TTCL) and Benson) at the start of 2015, was joined by Viettel under the Halotel brand and Tigo's acquisition of Zantel during the last quarter of 2015. This meant that the number of operators remained the same.

There were 17.6 million mobile money subscribers in the country at the end of 2015 with the subsector being the main driver for value-added services. According to BMI, Vodacom will remain strong through its leadership in mobile money services, the main value-added service in the country, but Airtel and the publicly owned TTCL both face stronger challenges.

Agriculture and Industrialisation

The contribution of the agricultural sector to the economic growth and the development of Tanzanians has continued to increase. In 2015, the agricultural sector contributed 29% of the GDP, compared to 28.8% in 2014. This was the largest contribution, surpassing all other sectors. In addition, agriculture is the largest employer in the country. Currently the sector alone provides employment to 65.5% of Tanzanians and in favorable seasons, covers more than 100% of the domestic food needs. Seeing most Tanzanians are involved in agriculture, this sector plays an even bigger role in the reduction and alleviation of poverty.

In the financial year 2015/2016 the government was able to implement four big programmes with the support from various development partners. These are: Agricultural Sector Development Programme; Eastern Africa Agricultural Productivity Programme; Japan Policy and Human Development; and Southern Agricultural Growth Corridor of Tanzania.

Through these and many other joint efforts, the government has succeeded in implementing some of its objectives such as increasing production and productivity in agriculture; increasing farmers' access to markets; and facilitating value addition to the agricultural produce. The establishment of the agriculture bank – Tanzania Agriculture Development Bank (TADB) – is yet another milestone. The bank which is 100% government owned will provide loans at low interest rates ranging between 8% - 12%. The overall goal is to improve farmers' access to finance so as to guarantee food security and contribute to the transformation from subsistence farming to commercial farming.

Public sector

Education

In an effort to become a middle income country by 2025, improving education is of high strategic importance to Tanzania. A lot of effort has been placed in improving elementary, primary, secondary, and tertiary education and increasing access for all. This includes the implementation of government financed free education from primary to secondary level policy, which has resulted in a significant expansion of enrollment over the last decade. The government is geared towards enhancing the quality of education even further and putting more emphasis on the science subjects.

To this effect, for the financial year 2016/2017, TZS 4.77 trillion has been budgeted for the education sector equivalent to 22.1% of the total budget excluding public debt service. The allocation has been made to address: free basic education; operational costs for schools, higher education students' loans among other things.

Water

Urban and rural water supply is at the heart of the country's development agenda because easy access to clean and safe water frees up women and children to contribute to economic activities and increase productivity. It is estimated that about 58.7% and 84% of the rural and urban populations respectively have access to a water source, showing a significant variation between rural and urban areas. The government has set ambitious targets of having 85% and 95% of rural and urban populations respectively connected to water services by 2020 and 100% coverage by 2025.

Taking into account of this the government has allotted TZS 1.02 trillion equivalent of 4.8% of the total budget excluding public debt service for the construction and rehabilitation of water infrastructure across the country, settlement of contractors outstanding claims and implementation of the Water Fund Program.

Healthcare

The government's focus on developing the country's healthcare infrastructure, reducing infant mortality, improving access to medicines and managing infectious diseases is commendable. However, the expenditure on healthcare still remains low – at 11.3% of total government expenditure, a few percentage points below the Abuja Declaration target of 15%.

Currently, around 23% of the population is covered by health insurance, with about 33% of total healthcare expenditure coming from out-of-pocket payments.

In an effort to achieve universal coverage, the government is exploring ways to increase uptake of health insurance. The introduction of Community Health Fund aimed at providing basic insurance coverage to low income households, most of which are in the informal sector, representing majority of the Tanzanians. The government is considering making this a mandatory scheme.

On the health workforce front, the government is making efforts to alleviate Tanzania's understaffed healthcare system, with the objective of reducing the deficit of health workers to 30% by 2019.

With this in mind the government has set aside TZS 1.99 trillion equivalent to 9.2% of total budget excluding public debt service.

Infrastructure and Transport

The government's focus on improving transport infrastructure (both by improving domestic infrastructure as well as links to the country) and the effort to facilitate foreign companies' ease of doing business are reflected in the government's port, rail and road network expansion plans.

In 2016/17 the government has budgeted TZS 5.47 trillion equivalent to 25.4% of the total budget excluding public debt service for infrastructure projects.

Roads

In December 2015 the African Development Bank (AfDB) approved a loan worth USD 364.4 million for the Transport Sector Support Programme, which involves rehabilitating and upgrading around 500 km of roads. The upgrades will also benefit trade between Tanzania, Malawi and Mozambique through the Mtwara corridor; and Zambia and the Democratic Republic of Congo through the Tunduma/Nakonde border and Kasanga Port. AfDB's contribution will cover 88% of the costs, with the remainder coming from the government.

In 2016/17, TZS 2.18 trillion has been allocated to cater for the construction and rehabilitation of roads.

Power

In 2016/17, TZS 1.13 trillion has been budgeted to ensure availability of reliable power supply for industrial and domestic uses. Among the projects earmarked for implementation include: rural electrification and completion of projects such as Kinyerezi I and Kinyerezi II gas fired electricity generation plants.

The government will also ensure that Tanzania Electricity Supply Company (TANESCO) is financially independent and competitive in power generation.

Ports

Significant developments are in progress at the Dar es Salaam Port, the country's main port which is responsible for around 95% of all Tanzania's export and import volumes. As part of the country's Vision 2025, the government is seeking to increase its port to 28 million tons by 2020. Berths one to seven at the port are currently being upgraded at an estimated cost of USD 596 billion, and two more (berths 13 and 14) are due to be built in 2017.

Air

The expansion of the Julius Nyerere International Airport is undergoing its second phase at a cost of USD 110 million. Dutch contractor BAM International secured the contract for this next leg having successfully completed the USD 143 million first phase construction. With the main terminal building, parking, access roads, platforms and a taxiway

complete, the company will now undertake the design and construction of Terminal 3, expected to handle the increased international traffic. The 60,000 square metres terminal building will increase the total annual capacity to 6 million passengers. Terminal 2 will then begin catering for domestic flights.

Rail

Plans are underway for the construction of a new network to cater to the demand for cargo transportation to Rwanda, Burundi, Uganda and the DRC, and also to meet domestic needs. The aim is to reduce overall transit time and costs and be a more reliable transport method given the poor state of roads in the country. The plan includes a USD 6.7 billion 2,561 km standard gauge railway (SGR), of which the consortium will fund 10%, connecting the Dar es Salaam port to Rwanda and Burundi. Additionally, two more lines at the cost of USD 6.6 billion are to be built to connect Dar es Salaam to the coal, iron ore and soda ash mining regions in the northern and southern parts of the country.

Tourism

At an average of USD 2billion (25% of annual foreign currency earnings) a year, tourism has brought Tanzania the largest amount of foreign currency in the past 3 years. In 2015, Tanzania received a total of 1.1 million tourists who visited various tourist attractions found across the country.

Tanzania's political stability and its legacy as a peaceful country have significantly contributed to the development of the tourism sector. Advancements in communication technology, developments in transport infrastructure, and improvements in quality and quantity of hospitality services have aided growth in the sector.

However, the tourist attractions are experiencing low uptake from domestic tourists despite the government setting very low entry fees (TZS 2,000- TZS 15,000). In addition, the use of electronic access cards is still facing technical challenges caused by poor internet connectivity which is necessary for the functioning of the access cards.

Women and Youth Empowerment

The government has promised to invest in youth with a focus on reducing youth unemployment so as to harness their potential to accelerate the nation's development. The expectation is that the investment will materialize into poverty alleviation, sustainable development and a peaceful nation.

On gender equality and women empowerment, progress has been made but challenges still loom large. Gender parity in primary education has been achieved, but completion and literacy rates as well as enrollment in higher learning institutions continue to be lower for women than for men. Tanzania is among the global leaders in terms of female representation at the parliamentary level with 36.9% female members of parliament after the 2015 elections. However, the representation of female decision makers at the regional and district level remains low.

Policies and action plans are in place to promote equal access to employment for men and women, but the unemployment rate is still higher among women at 12.3% compared to 8.5% for men; women generally earn less than men; and women spend on average 4 times as much time on unpaid care work as men, depriving them of time for valuable pursuits like generating an income, gaining new skills, and participating in public life.

Nonetheless, the future is bright and the support for women and youth education, political participation, entrepreneurship and employment continue to gain traction from both the government and the donor community.

In 2016/17 the Government has budgeted 5% of each Council's total revenue for empowering formal women groups. It has also put aside TZS 1.95 billion to boost capital for Tanzania Women's Bank and Women's Development Fund. Likewise the Government has budgeted TZS 1 billion under Vote 65 (Prime Minister's Office) for youth development. A further, TZS 5 billion has been budgeted for skills development for unemployed youth under the same vote.

Sources

"International Women's Day 2016: Planet 50-50 by 2030." UNDP in Tanzania. 08 Mar. 2016. Web. 31 May 2016.

Ministry of Agriculture and Cooperatives Budget Speech for 2016/2017

Ministry of Education Budget Speech for 2016/2017

Ministry of Natural Resources and Tourism Budget Speech for 2016/2017

"Pharmaceuticals and Healthcare Market Overview - Tanzania - Q2 2016." BMI Research. 22 Mar. 2016. Web. 31 May 2016.

"Tanzania Infrastructure Report." BMI Research. 28 Apr. 2016. Web. 30 May 2016.

"Tanzania Water Coverage To Reach 85% Rural And 95% Urban Population By 2020." TanzaniaInvest. 04 Mar. 2016. Web. 31 May 2016.

"Tanzania Commercial Banking Report." BMI Research. 1 Apr. 2016. Web. 30 May 2016

"BMI Industry View – Tanzania – Q2 2016" BMI Research. 1 Apr. 2016. Web. 30 May 2016

"Q3 GDP report" National Bureau of Statistics, Tanzania January 2016, 29 May 2016

Contacts

CEO

Sammy Onyango
sonyango@deloitte.co.ke

Deputy CEO

Joe Eshun
jeshun@deloitte.co.tz

Office leaders

Nobert Kagoro
Burundi and Rwanda
Managing Partner
nkagoro@deloitte.com

Solomon Gizaw
Ethiopia
Managing Partner
sgizaw@deloitte.com

Iqbal Karim
Mombasa, Kenya
Managing Partner
ikarim@deloitte.co.ke

Eshak Harunani
Tanzania
Managing Partner
eharunani@deloitte.co.tz

George Opiyo
Uganda
Managing Partner
gopiyo@deloitte.co.ug

Service line leaders

Joe Wangai
Audit leader
jwangai@deloitte.co.ke

Rodger George
Advisory leader
rogeorge@deloitte.com

Nikhil Hira
Tax leader
nhira@deloitte.co.ke

Tax leaders

Nikhil Hira
nhira@deloitte.co.ke

Fred Omondi
fomondi@deloitte.co.ke

Lillian Kubebea
lkubebea@deloitte.co.ke

Getu Jemaneh
gjemaneh@deloitte.com

Offices

Burundi
42 Boulevard de la Liberté
B.P 6444, Kinindo
Bujumbura
Tel: +257 76 443 000

Ethiopia
5th Floor, Mina Building
Ethio-China Friendship Avenue
Addis Ababa
Tel: +251 0 115 527666

Kenya
Deloitte Place
Waiyaki Way, Muthangari
Nairobi
Tel: +254 20 4230 000 or
+254 20 4441 344

10th Floor
Imaara Building, Kizingo
Opposite Pandya Memorial Hospital
Off Nyerere Road
Mombasa
Tel: +254 41 222 5827 or
+254 41 2221 347

Rwanda

1st Floor, Umoja Building
KN3 Road
Kigali
Tel: +250 783 000 673

Tanzania

10th Floor, PPF Tower
Corner of Ohio Street & Garden Avenue
Dar es Salaam
Tel: +255 22 211 6006 or
+255 22 2169000

Uganda

3rd Floor Rwenzori House
1 Lumumba Avenue
Kampala
Tel: +256 41 7 701000 or
+256 41 4 34385

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.