

Executive Briefing

- Tanzania's real GDP growth will accelerate from 2% in 2020 to an impressive 5.2% in 2021, underpinned by a recovery in private consumption and strong fixed investment growth.
- President John Magufuli will maintain a broadly nationalist economic policy agenda and focus heavily on infrastructure investment.
- The government has put significant emphasis on a handful of manufacturing areas as part of its industrial policy, including textiles, leather and food processing.
- Domestic electricity consumption will increase rapidly as the country embarks on its National Rural Electrification Programme, which looks to increase access to 75% of the population by 2033.

Macroeconomic Outlook

Tanzania's real GDP growth will accelerate from 2% in 2020 to 5.2% in 2021, underpinned by a recovery in private consumption and strong fixed investment growth. Overall the country fared much better than many of its peers in sub-Saharan Africa over 2020, perhaps due to the government's more lax approach to Covid-19 restrictions.

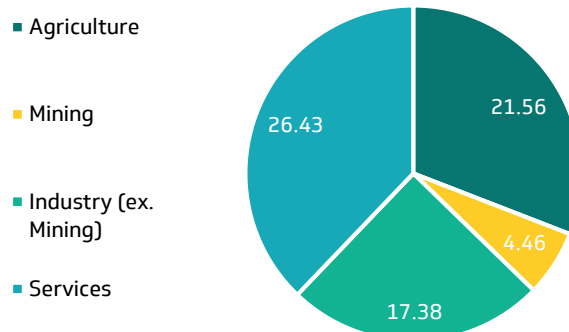
Fixed investment growth will be the major driver of economic growth in the medium term; real GDP will increase by an annual average of 5.7% between 2021 and 2025. The government will maintain its focus on infrastructure investment as part of the country's current five-year national plan, which expires in June 2021. While Tanzania's investment appeal has waned in recent years, government spending and Chinese investment are likely to mitigate any fallout from lower foreign direct investment (FDI) inflows during the global economic downturn in 2020.

Agriculture remains the mainstay of the economy, accounting for nearly 30% of GDP and is the sector in which the majority of the workforce is involved. The industry is dominated by smallholder farms and there is significant potential for boosting productivity in the sector. The Southern Agricultural Growth Corridor of Tanzania (SAGCOT), launched in 2010 by the World Bank, institutionalises international public-private partnership to promote commercial agriculture and to stimulate productivity.

Political Climate

President John Magufuli's strong victory in Tanzania's 2020 elections means the incumbent is in a powerful position and that policy formation will be stable. The government will maintain a broadly nationalist economic policy agenda with a focus on infrastructure investment.

Tanzania - GDP by Output, USD billion (2021)



Source: World Bank, Fitch Solutions

While manufacturing is unlikely to be a significant growth driver in the early part of the next decade, the sector will see tailwinds over the longer term due to Tanzania's improving operating environment and competitive labour costs. Development of the industrial sector is ongoing and Tanzania is receiving notable amounts of investment in the manufacturing of industrial materials such as cement, tiles and glass. For example, a USD1 billion cement plant in the Tanzanian city of Tanga is under development by Sinoma International Engineering in collaboration with Hengya Cement, which will have a production capacity of around seven million tonnes per annum.

| Key Macroeconomic Indicators | 2018 | 2019 | 2020 | 2021 | 2021-25 ave | 2021-30 ave |
|-----------------------------------|---------|---------|---------|---------|-------------|-------------|
| Population, mn | 56.31 | 58.01 | 59.73 | 61.50 | 65.18 | 70.08 |
| Real GDP Growth, % y-o-y | 6.95 | 6.83 | 2.00 | 5.19 | 5.67 | 5.62 |
| Real GDP per capita, USD | 944.49 | 979.54 | 970.22 | 991.31 | 1050.53 | 1124.92 |
| Inflation (%) | 3.50 | 3.45 | 3.30 | 3.80 | 5.16 | 5.33 |
| Fiscal balance, % of GDP | -1.23 | -2.53 | -3.85 | -3.75 | -3.25 | -2.94 |
| Public debt, % of GDP | 45.18 | 47.39 | 50.97 | 52.94 | 54.42 | 53.46 |
| Current account balance, % of GDP | -3.32 | -2.03 | -2.49 | -3.29 | -3.50 | -3.20 |
| Exchange rate, TZS/USD, ave | 2263.78 | 2288.21 | 2312.00 | 2370.00 | 2519.99 | 2667.97 |

Source: National Sources, Fitch Solutions

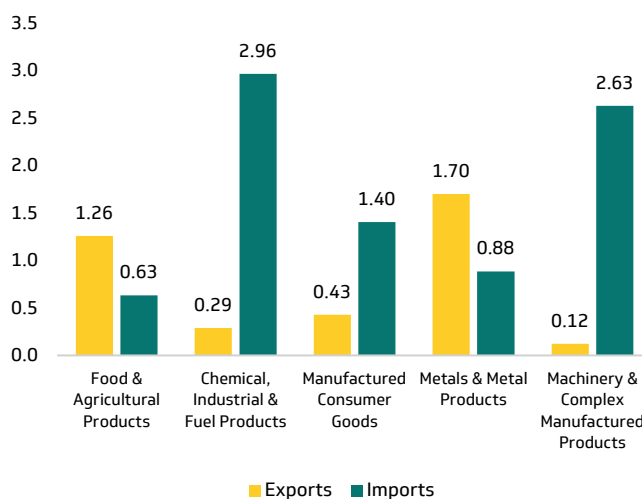
Business & Trade Climate

Tanzania's appeal to investors is buoyed by a wealth of natural resources, economic growth and an emerging manufacturing status. Further advantages include moderately low labour costs, a large labour pool, membership of the East African Community and Southern African Development Community, and direct port access. Resource nationalism in President Magufuli's second term will be partially tempered by the need to attract FDI for infrastructure projects.

The government has put significant emphasis on a handful of manufacturing areas as part of its industrial policy, including textiles, leather and food processing, and has set up a number of export processing zones (EPZs) and SEZs to promote investment into these sectors. Tanzania's National Five-Year Development Plan to 2022 prioritises SEZ development in Bagamoyo, Mtwara, Kigoma, Tanga, Ruvuma, Dodoma and Manyoni.

Gold makes up more than 15% of Tanzania's total exports, while the other major exports are food and agricultural products, such as coffee, tea, cashew nuts and tobacco. Imports are more diversified and tend to feature higher-valued products. Major imports include transport equipment, building and construction materials and refined petroleum. Increased import activity is being driven by the construction, manufacturing and extractive sectors because of their demand for goods such as cement, machinery and fuel that are not produced locally.

Tanzania Exports & Imports, USD billion (2018)



Source: UN Comtrade

Market Risk

| Risk Factor | Impact on Business |
|---|---|
| A scarcity of state funding has constrained the development of secondary and tertiary education. | Limited supply of high-skilled or technical workers could translate into high training costs for domestic workers or having to import foreign labour for firms looking to fill specialised roles. |
| There have been changes made to the country's mining code and mining taxes have been increased. | A challenging regulatory environment has undermined efforts to foster private sector investment, particularly in the extractive industries. |
| The Tanzania-Mozambique border attack in October 2020 highlights the growing reach of Islamist militancy into Tanzania. | Security risks from the al-Shabaab insurgency will continue to rise, threatening businesses operating in the border region and increasing operational costs for businesses. |

Investment Opportunities



Rail Infrastructure

The outlook for Tanzania's infrastructure is positive, underpinned by an expanding project pipeline, particularly of cross-border projects. The flagship initiative is the large-scale standard-gauge railway (SGR) project linking Dar es Salaam and Mwanza, as well as the connecting SGR lines between Isaka on the Dar es Salaam-Mwanza line and Kigali, in Rwanda, and Musongati, in Burundi. Segments of the rail project are already under construction, involving international contractors Yapi Merkezi and Mota-Engil. The involvement of international construction companies, from Turkey and Portugal respectively, and financiers illustrates the financial sustainability of the overall project.



Power Infrastructure

The completion of a handful of large-scale hydropower projects in Tanzania will create a sizeable oversupply of electricity. In order to capitalise on excess generation, investment will be channelled into expanding and upgrading the power grid network. Domestic electricity consumption will also rise, as the country embarks on its National Rural Electrification Programme, which looks to increase access to 75% of the population by 2033.



Pharmaceuticals

Tanzania is attempting to reduce its reliance on pharmaceutical imports by boosting its domestic pharmaceutical production capacity, particularly as demand for healthcare products rises sharply in line with the expanding National Health Insurance Fund (NHIF). Tanzanian authorities have been seeking collaboration with international pharmaceutical companies to promote the local development of medicines. Zanzibar is offering a tax holiday of five-ten years for Indian pharmaceutical companies. A wider roll-out of NHIF, as well as government efforts to promote domestic production, will lead to an increase in the supply and distribution of pharmaceuticals.



Natural Gas

Tanzania has strong prospects offshore and a string of major discoveries will see growth in gas reserves over the coming years. The development of the natural gas sector stands to be transformative for the economy by boosting growth, improving balance of payments and addressing persistent electricity shortfalls. Although delays to the LNG export facility is a major bottleneck in the development of offshore resources, once commissioned, Tanzania will be well positioned to tap into Asia's lucrative demand markets.

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