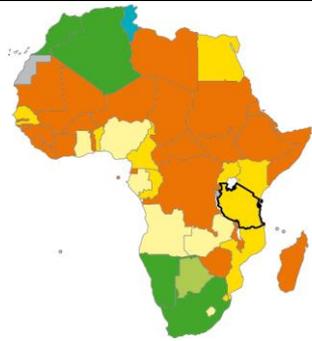


Tanzania

DIN SÄKERHET I
EXPORTAFFÄRER



COUNTRY RISK CATEGORY

6/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.



EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY

SHORT-TERM TRANSACTIONS SEK 11 5 MILLION

MEDIUM AND LONG-TERM TRANSACTIONS SEK 685.5 MILLION

DATE

8/12/2014

Caught in a poverty trap

Tanzania enjoys both political and economic stability and has access to significant natural resources. In spite of this, the country is characterised by high poverty, high dependence on development assistance and weak growth dynamics. Few of the government's grandiose promises of extensive structural reforms have been made good on. Economic growth is being held back by deficient infrastructure, inadequate power supply, weak government administration and widespread corruption. In recent years, the shaping of economic policies has taken a backseat to the political games surrounding the drafting of a new constitution. There are power struggles between the governing party's dominance and the increasingly noisy opposition parties, as well as between the central government and a growing desire for regional autonomy. Newly found gas deposits off Tanzania's coast have fuelled regional demands for increased autonomy in the hunt for the revenues the extraction of the gas is expected to generate. There is a risk that the increased polarisation in the political environment will lead to the country damaging its relations with international development assistance organisations and losing its attractiveness to international investors. Overall, it is estimated that the political tensions will increase in the run-up to the autumn 2015 elections and then subside as the parliamentary and constitutional situation clears up.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Political stability with low levels of violence and terrorist attacks in comparison to the rest of the region and good relations with neighbouring countries.
- Strong international support from the donor community for a long time.
- Good relations with the IMF, with which the country recently entered into a new three-year agreement.
- Public debt at sustainable levels.

Weaknesses

- Low GDP per capita and narrow economic base based on raw material extraction and agriculture with low productivity.
- Large portion of population employed in agricultural sector with low productivity.
- Difficult business environment with weak institutions, widespread corruption and extensive bureaucracy.

- Underdeveloped infrastructure and inadequate power supply are getting in the way of the expansive sectors of the economy.

EKN'S POLICY

Restrictive risk assessment

Since 2004, Tanzania has been placed in country risk category 6, which is consistent with the OECD's categorisation of the country. For public buyers where there is no guarantee from the government, a letter of credit, or a bank or government guarantee is required. For banks and companies, EKN is restrictive in its assessment of risk, which means that great emphasis is placed on the exporter having experience in doing business in the country and therefore being familiar with the difficult operating environment. For public buyers, transactions must also be in accordance with EKN's and the OECD's policy on sustainable lending to poor and indebted countries.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- A new constitution with broad parliamentary support and a legal framework for the extraction of gas that promotes foreign and domestic investments
- Revenues from gas deposits spreading to the entire economy.
- A marked improvement in the business environment and vigorous efforts by the government to strengthen public administration and curb corruption.

The policy may be made more restrictive in the event of

- The rapidly increasing accumulation of external debt outside the frameworks set by the IMF which would jeopardise the country's credit rating and thereby increase the credit risk.
- Increased internal strife as a result of disagreements between the central government and the regions.

EKN'S EXPOSURE AND EXPERIENCE

Small inflow of new transactions

EKN has a relatively small inflow of transactions in Tanzania. EKN guarantees transactions in several industries, but the majority of EKN's exposure is in the power industry. EKN has generally good experience of transactions conducted in Tanzania.



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DISCLAIMER

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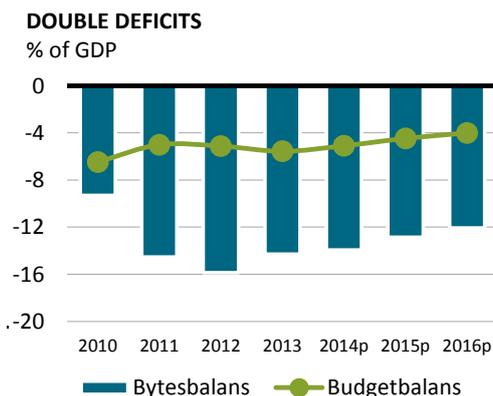
RISK DEVELOPMENT

New political challenges

Tanzania is rich in natural resources, but is also one of Africa's poorest countries and is one of the countries most dependent on development assistance in the world. In comparison to several other African countries, the political situation is stable and the country has overall good relations with its neighbours. The governing party, Chama Cha Mapinduzi (CCM), has dominated the political scene since independence in the 1960s. At the last election in 2010, the party got its leader Kikwete re-elected for a term of office lasting until October 2015. The government's promised reforms of the economy have essentially remained empty words and the rate of reform has, if anything, waned. As a result, the opposition parties have garnered greater support from the population and are seriously beginning to challenge the dominance of the governing party. Questions concerning the drafting of a new constitution and how to divide up future revenues from newly discovered gas deposits in southern Tanzania serve as a hotbed for increased political and regional division. The drafting of the new constitution may undermine the governing party's special position and change the balance of power between the central government and the regions. Even though the results are uncertain, it is highly likely that the governing party will stay in power after the next election, and that the amendments made to the constitution will benefit the sitting governing party and provide limited scope for increased regional autonomy.

External and internal imbalances

Over the past five years, the country has exhibited an annual growth rate of around seven per cent, a trend expected to continue in the coming years. The most rapid expansion of the



Source: IMF, 2014-2016 forecast

economy can be found in the services sector, while the agricultural sector, where the majority of the workforce is employed, is growing much slower. Tanzania mainly exports raw materials, in particular gold, but a growing manufacturing industry is making a larger and larger contribution to the country's export revenues. In recent years, rising energy prices and extensive

Kommentar [DF1]: Current account balance
 Budget balance

investments, in particular in the power sector, have contributed to a rise in the current account deficit. A decrease in investments in the country's power supply combined with lower energy costs is expected to contribute to the reduction in the external balance deficit in the coming years. The country's international reserves are equivalent to nearly four months of imports, which is estimated to be sufficient to secure the ongoing allocation of currency in international trade. The public finances are also running a deficit. About half of the national budget is financed using development assistance. The scope for public services (public spending) is thus largely determined by the development assistance policies in the country's most important donor countries. In recent years, a series of corruption scandals have led to development assistance being frozen and the government instead being forced to increase its borrowing on the financial markets. The actual deficit has gone above the government's target multiple times, mainly as a result of tax revenues being lower than expected. A narrow tax base and a budget system with major shortcomings in terms of monitoring, evaluation and transparency serve as obstacles to collecting higher amounts of tax.

Large natural gas deposits off Tanzania's coast have raised hopes on the part of both the government and multinational energy companies. The revenues from the gas deposits create the prospects for the government to give the country an economic boost and replace coal as its main source of energy. There are also fears that the profits from extracting the gas will exclusively wind up in the hands of the country's political elites similarly to in other raw material producing African countries. The prolonged and delayed process of drafting a new constitution and a legal framework for gas extraction has led to the postponement of gas investments. When the uncertainty concerning the political and constitutional situation has cleared up, gas extraction is expected to get underway, which will likely lead to an increase in foreign investments and ultimately to increased revenues for the state's finances. The concentration of political power and widespread corruption are expected to prevent the revenues from leading to an improvement in living conditions for the population as a whole. The country will remain dependent on development assistance with a narrow economic base. Tanzania received extensive multilateral debt relief in 2001 (HIPC) and most recently in 2006 (G8 initiative), and the country signed a new three-year agreement with the IMF in 2014. The majority of the country's external debt is made up of development assistance-related loans. The government debt has gradually risen as the public finances deficit has been financed via borrowing, but it is still at a manageable level. The country has access to the capital market, but government bonds are only being issued in local currency until the country receives a credit rating from an international credit institution.

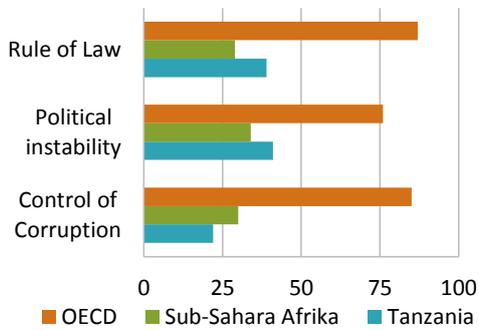
Toward more developed financial markets

The financial sector is relatively small and undeveloped, but the banks are generally liquid and well capitalised. Credit growth in the private sector has been very high, but is increasing from a low level and this has occurred without any material deterioration of the loan quality of the banks. Tanzania has acceded to the East African Community (EAC) in order to increase trade with its neighbours. The community was created in 2005 as a customs union and an internal common market was established in 2010 with free movement of goods, labour and capital. In accordance with the trend, the Tanzanian schilling has gone down in value against the USD, but has stabilised somewhat over the past year. The central bank's key interest rate has been at 12% since late 2011 and inflation has stabilised around a level just above the central bank's inflation target of 5%.

BUSINESS ENVIRONMENT

WEAK BUSINESS ENVIRONMENT

Ranking from 0 (worst) to 100 (best)



Source: World Bank

The operating environment is being aggravated on the hand by underdeveloped infrastructure and on the other by institutional weaknesses, such as widespread corruption and shortcomings in the judiciary. The country is ranked in the middle of the pack in the region in the World Bank's Doing Business Index. However, pressure to make reforms to improve the investment climate is increasing, as Tanzania becomes more and more dependent on foreign direct investment to finance its current account deficit and to mitigate the rising criticism from the country's donor countries.

Kommentar [DF2]: OECD
Sub-Saharan Africa
Tanzania

Extraction of the gas deposits may also place demands on an improvement in the operating environment to entice foreign investors to get involved.