



World Economic Situation and Prospects

Weekly Highlight

Prepared by John Winkel

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Potential effects of QE tapering on the United Republic of Tanzania

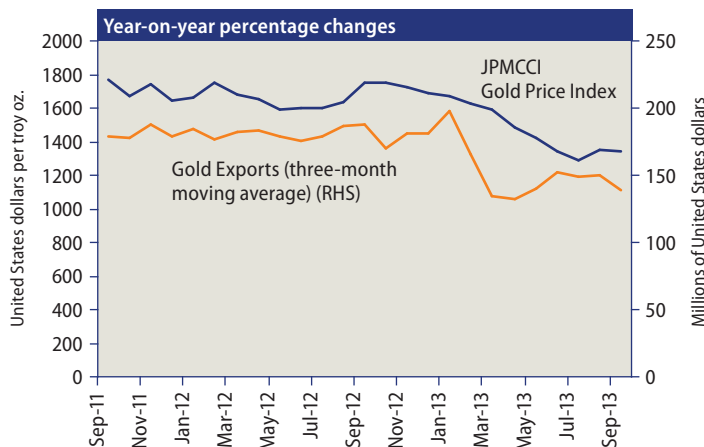
The United Republic of Tanzania could potentially find itself in a difficult position when the United States Federal Reserve (Fed) begins to taper its quantitative easing (QE) programme. As a major exporter of gold, the United Republic of Tanzania's current account and exchange rate depend heavily on the price of gold, which has been supported by the Fed's QE. The price of gold has fallen from a high of \$1877 per troy oz. in early September 2011, to an average of \$1346 in September 2013 and subsequently even lower to \$1247 by November 22nd. This price decline has caused the value of the United Republic of Tanzania's gold exports to fall by 18.9 per cent year on year in September (figure 1).

Despite the rising gold prices, the Tanzanian shilling depreciated significantly between the start of QE in late 2008 and late 2011. Much of the depreciation was driven by rising food and fuel prices in 2009 and 2010, which contributed to higher import bills and balance of payments pressure. Since mid-October 2011, the currency appreciated somewhat, owing to easing food prices and steps taken by the Central Bank of Tanzania to

prop up the currency. But there are still dangers that the reversal of international liquidity could put downward pressure on the currency—mainly through a decrease in the value of gold, which would reduce demand for the currency to purchase their gold exports. This has only occurred to a slight degree so far this year, with the currency depreciating by 2.2 per cent between the end of September 2012 and the end of September 2013 (figure 2).

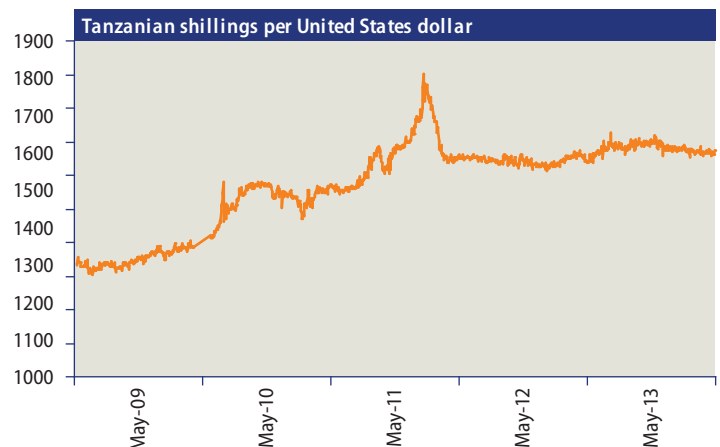
In addition, there are risks of higher debt-service costs, if the borrowing costs for external debt rise. External debt was up by 21.6 per cent year-on-year in September 2013, and is more than three times greater than domestic debt. Fortunately, a significant portion of it is bilateral and multilateral financing with concessional rates. As a result, the impact of higher borrowing costs on external debt service would be less dramatic for Tanzania than for countries that have borrowed using Eurobonds. The country has also managed to accumulate reserves over that time of \$4.5 billion, enough to cover four and a half months of imports, which could provide some room for the central bank to mitigate the potential pressures.

FIGURE 1
Tanzanian gold exports compared to gold prices



Sources: Bank of Tanzania and JPMorgan Markets.

FIGURE 2
Tanzanian shilling to United States dollar exchange rate



Source: Bank of Tanzania.