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Acronyms

AfDB	African Development Bank
BOT	Bank of Tanzania
CRDB	Cooperative and Rural Development Bank
COMESA	Common Market for Eastern and Southern African
DOD	Disbursed Outstanding Debt
DSE	Dar es Salaam Stock Exchange Market
EAC	East African Community
ESF	Exogenous Shocks Facility
EWURA	Energy & Water Utilities Regulatory Authority
FDI	Foreign Direct Investment
fob	Free on Board
GDP	Gross Domestic Product
IMF	International Monetary Fund
IOM	International Organization for Migration
MDG	Millennium Development Goal
NPL	Non-Performing Loan
SADC	Southern African Development Community
SDR	Special Drawing Rights
TIC	Tanzania Investment Centre
TTB	Tanzania Tourist Board
UK	United Kingdom
US	United States
URT	United Republic of Tanzania
USAID	US Agency for International Development
VAT	Value Added Tax
ZATI	Zanzibar Tourism Investors

Abstract

This paper examines the impact of the recent global financial crisis in Tanzania. It gives a snapshot view of the economic, financial and social effects of the current global economic downturn and summarises national policy responses to ensure that past economic achievements are not overturned.

At macro level, the crisis has reversed Tanzania's gross domestic product (GDP) growth projection from 8% to 5% for 2009/10. This has negative implications in terms of investment, employment and income for various actors in the economy. The banking sector started worrying that trade in finance was becoming increasingly more risky as export commodity prices continued to lose value in world markets, export orders reduced and tourism revenues dwindled.

Early in 2009, there were indications that the crisis had adversely affected a number of sectors, including agriculture, mining and tourism. By May 2009, the government estimated a loss of about $255 million in domestic income as a result of the crisis. By the third quarter of 2009, the financial sector was still sound, although some banks experienced an increase in non-performing loans and a decline in equity prices on the stock exchange and in foreign exchange inflow.

Trade suffered some setbacks: agricultural exports, minerals and gemstones and traditional and non-traditional crops recorded negative growth. However, trade in industrial goods recorded a positive trend, accounted for by the increase in trade between Tanzania and its neighbours in the East African Community (EAC). Manufactured goods, horticultural products and fish and fish products also recorded improved performance.

Some multinational companies have decided to close operations and hundreds of workers have been declared redundant as a result of the crisis. There was a decrease in foreign direct investment (FDI) projects (for 2009), and low employment creation from the registered projects, despite an increase in FDI value.

The Tanzanian government has come up with a number of policy responses to the global crisis, which has also provided some challenges and opportunities for the country. The challenges lie in Tanzania's low domestic revenue generation capacity and productivity and weak infrastructure. Opportunities include the potential to diversify as a result of the country's large natural resources base and the change to increase export income by expanding regional trade in the EAC.

1. Introduction

The global financial crisis has been referred as the worst since the Great Depression of the 1930s. It has contributed to the failure of key businesses, a decline in consumer wealth estimated at trillions of US dollars and a significant decline in economic activities, and has prompted substantial financial commitments by governments. The main factors behind the crisis were: extension of mortgage loans to borrowers at highly concessional terms; weak oversight and poor supervision of banks and financial institutions; and excessive relaxation of fundamental rules and regulatory requirements for financial institutions. These led to the accumulation of bad loans and business losses amounting to $2.3 trillion (or 17% of US gross domestic product (GDP)). Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy.

Economies worldwide started slowing down in late 2008 as credit tightened and international trade declined. Critics argued that credit rating agencies and investors failed to accurately price the risk involved with mortgage-related financial products, and that governments did not adjust their regulatory practices to address 21st century financial markets. Governments and c responded with an exceptional fiscal stimulus, monetary policy expansion and institutional bailouts (World Bank, 2009).

The effects of the crisis on developing countries have been forecast to be comparable with those on developed countries. In early 2009, the International Monetary Fund (IMF) downgraded its estimates and forecasts for sub-Saharan African growth by between 1% and 2%, to 5.5% for 2008 and 5.1% for 2009. By October 2009, the IMF was forecasting a deficit of 3% for sub-Saharan Africa, from a surplus of about 2.8% in 2008. This revision represented a reduction of up to $20 per head in sub-Saharan Africa as a result of the financial crisis.

The channels through which the global financial turmoil has affected developing countries have included financial channels and real channels. Financial channels include effects through stock markets, the banking sector (borrowing from advanced economies, foreign ownership of banks, exposure to the sub-prime market) and foreign direct investment (FDI). Real channels include effects through remittances, exports, imports, terms of trade and aid. Research based on current updates and forecasts, as well as evidence on what happened in previous slowdowns and in the absence of policy responses, suggested that net financial flows to developing countries may fall by as much as $300 billion in two years, equivalent to a 25% drop.

Before the global financial crisis, Tanzania's economy was projected to increase by 8% in 2009. Because of the crisis, economic growth is now projected to grow at 5% to 6% for 2009/10. By early 2009, there were already indications that the crisis had affected a number of sectors, including agriculture and tourism, thus adversely affecting growth projections. By May 2009, the Tanzanian government had estimated a loss of about $255 million in domestic income, and was calling for concerted efforts to boost agriculture and curb excessive spending through the import of expensive vehicles and the holding of unnecessary seminars. The financial crisis has also affected decisions to review the minimum wage for both public and private sector workers.

2. Global financial crisis in Tanzania

2.1 Introduction

2.1.1 First-round effects

The country survived the first-round effects of the global financial crisis, which were characterised by a sudden credit crunch, or failure of financial markets to work. This was because Tanzania's financial markets traditionally have low levels of integration with international financial markets and operate under a regime of capital account restrictions. This lowered the country's exposure to bad financial assets, leading to lower exposure to the crisis. However, by late 2008 the banking sector started worrying that trade financing was becoming increasingly more risky as commodity prices continued to lose value in world markets and export orders reduced. One of the government's initial interventions was to assure the general public that the local banking sector was in a sound condition. It also started initiatives to support banks so that they would be able to avoid reductions in trade financing, as this would have greatly affected the national economy in terms of foreign exchange earnings and job creation.

2.1.2 Second-round effects

Over time, the falling purchasing power of developed economies began to manifest itself in terms of a fall in commodity prices, loss of jobs leading to unemployment, a decline in incomes and a fall in demand for world tradable commodities. The most negatively affected sectors were agriculture, industry, mining and tourism (Mkulu, 2009). As the global economy continued to sink into depression, prices of key export commodities in Tanzania fell further. Consumer demand in advanced countries continued to decline and revenues from the tourism sector dwindled as people cut back on holidays. The government had managed to stay on track with regard to its promise to create a million jobs by 2010, but there were fears that the financial crisis was going to derail the process. The government therefore made concerted efforts to maximise the benefits from falling international crude oil prices to lower local prices and therefore reduce the cost of production and transport.

2.1.3 Signs of resilience in the financial sector

The assessment early on by the Bank of Tanzania (BOT) that the domestic financial sector was in a sound condition, as a result of proper management and minimal direct exposure to international financial markets, has not been disputed by the facts on the ground. By the third quarter of 2009, the financial sector in Tanzania was still reporting growth and profitability. In terms of small banks,[2] an after tax profit of approximately Tsh2.2 billion was recorded (compared with a profit level of approximately Tsh1.8 billion in the second quarter of the year). The same applied to bigger banks,[3] which showed an increasing trend in after tax profit recorded. A combined profit of approximately Tsh50.6 billion was recorded in the third quarter, compared with Tsh29 billion in the second quarter.

2.2 Trade

However, despite the positive performance of the banking sector, the trade sector suffered some setbacks. Agricultural exports, minerals and gemstones, traditional crops and non-traditional crops recorded negative growth. However, trade in industrial goods recorded a positive trend, accounted for by the increase in regional trade between Tanzania and its East African Community (EAC) neighbours

2 Commercial Bank of Africa, CF Union Bank, Tanzania Postal Bank, Mwanga Rural Community Bank, Habib Bank, Tanzania Women Bank and Kagera Farmers Cooperative Bank.

3 Standard Chartered Bank, CRDB Bank, Stanbic Tanzania, Citibank Tanzania, NBC Ltd, Diamond Trust Bank, National Microfinance Bank and Akiba Commercial Bank.

(BOT, 2009a). Table 1 shows the situation by June 2009 and the performance of some sectors that were vulnerable to the global economic downturn.

Table 1: Agricultural, mining and industrial sector export growth, 2007/08-2008/09 (%)

	2007/08	2008/09	Change
Traditional crops	15.8	15.6	-0.2
Industrial goods	15.3	24.6	9.3
Non-traditional goods	27.0	22.8	-4.2
Minerals and gemstones	41.9	37.0	-3.9
GDP growth	7.1	5.0	-2.1

Source: BOT data.

2.2.1 Regional trade: East African Community

From 2000, the trade balance between Kenya and Tanzania was negative (see Table 2). However, by 2008, the situation had started to improve marginally, from $-63.9 million in 2006 to $1.5 million in 2008. Tanzania reduced imports from Kenya to $113.7 in 2008 from $153.2 million in 2006; exports to Kenya increased to $115.2 million in 2008 from $89.3 million in 2006. This is explained partly by increased exports of staple foods and improved quality of products for the Kenyan market. At the same time, Tanzania continued to be a net exporter to Uganda, Rwanda and Burundi (BOT, 2009b).

Notwithstanding an increase in absolute exports to Kenya, Tanzania's share of exports to Kenya slowed to 58.4% in 2008 from 77.6% in 2006. Meanwhile, export share to Burundi and Rwanda in 2008 went up significantly, from 3.1% and 2.4% to 24.0% and 6.5%, respectively. The increase in exports to Burundi was a result of increased exports of cereals and fertilisers. Tanzania holds a significant share of imports from Kenya, but this declined in 2008 to 94.0%, from 97.5% in 2007; import share from Uganda increased significantly over the same period, from 2.4% to 6.0%. The general picture from Table 2 is that Kenya and Tanzania dominate export and import trade in the region, and that the increase in trade in the region played a significant role in offsetting the decline in Tanzania's exports to the world market. There remains a need to assess whether the crisis resulted in exceptionally increased trade between EAC states compared with their trade volumes and values in the rest of the world.

Table 2: Tanzania's trade with EAC states, 2000-2009 (US$ millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Tanzania's trade with Kenya										
Exports to Kenya	32.1	38.1	35.3	78.2	83.7	76.3	89.3	101.1	115.2	78.5
Imports from Kenya	93.1	203.4	95.2	115.8	130.2	155.3	153.2	100.2	113.7	76.2
Trade balance	-61.0	-165.3	-59.9	-37.6	-46.5	-79.0	-63.9	0.9	1.5	2.3
Tanzania's trade with Uganda										
Exports to Uganda	8.5	5.5	5.5	10.3	11.7	20.1	19.6	19.3	21.2	13.4
Imports from Uganda	5.6	11.4	2.7	8.2	7.7	5.1	3.8	6.4	7.5	8.1
Trade balance	2.9	-5.9	2.8	2.1	4.0	15.0	15.8	12.9	13.7	5.3
Tanzania's trade with Burundi										
Exports to Burundi	4.2	6.1	7.0	4.7	7.5	7.3	3.5	41.5	44.8	27.3
Imports from Burundi	0.0	0.2	0.0	0.3	0.0	0.3	0.0	0.0	0.4	0.2
Trade balance	4.2	5.9	7.0	4.4	7.5	7.0	3.5	41.5	44.4	27.1
Tanzania's trade with Rwanda										
Exports to Rwanda	1.8	2.8	3.9	2.6	2.9	3.0	2.7	11.2	13.5	7.5
Imports from Rwanda	0.1	0.1	0.0	0.1	0.1	0.0	0.2	0.0	0.3	0.1
Trade balance	1.7	2.7	3.9	2.8	2.8	3.0	2.5	11.2	13.2	7.4
Total to EAC states										
Exports to EAC states	46.6	52.0	51.7	95.8	105.8	106.7	115.1	173.1	175.2	98.6
Imports from EAC states	98.8	215.1	97.9	125.1	138.0	160.7	157.2	106.6	116.6	76.3
Trade balance	-52.2	-163.1	-46.2	-29.3	-32.2	-54.0	-42.1	66.5	58.6	22.3

Note: * = Unconfirmed data for Jan-Jul 2009.
Source: BOT (2009b).

2.2.2 External sector development

So far, external trade performance has been fairly satisfactory (Mkulu, 2009). Exports of goods and services increased by 3.2% during the period up to September 2009, and imports decreased by 4.4% in the same period. The current account deficit narrowed to $2060.7 million from a deficit of $2950.4 million recorded in the same period in 2008.

2.2.3 Export performance

During the year ending September 2009, earnings from exports of goods amounted to $2671.7 million, equivalent to an increase of 7.9% compared with the same period in 2008. An improved performance was also recorded in manufactured goods, horticultural products and fish and fish products. The value of traditional exports went up by 32.2%, to $492.5 million from $372.4 million recorded in the corresponding period in 2008. This was because of an increase in export volumes of coffee, tobacco and cloves. With the exception of tea, tobacco and cashew nuts, which recorded an increase in export unit prices, other traditional exports recorded a decline in prices, mainly on account of the effects of the global financial crisis (see Annex 1). Earnings from non-traditional exports increased marginally, by 3.6%, largely because of an increase in exports of manufactured goods and horticultural products. There was remarkable performance in horticultural exports, associated mainly with expansion in horticultural production coupled with new investments in cut flowers in the southern part of Tanzania.

2.2.4 Imports

During the first six months of 2009/10, imports of goods and services amounted to $6425 million, an increase of 11.6% over the previous year, much of it coming from imports of goods. Total goods imports increased by 10.9% to $5024.6 million during this period. Imports of capital and consumer goods rose by 29.0% and 6.9%, respectively, and imports of intermediate goods decreased by 3.4%.

2.3 World commodity prices

Up to July 2009, world prices for agricultural and non-agricultural commodities recorded mixed trends. Prices of Robusta and Arabica coffee recorded a decline from $2.28 per kg in July 2008 to $1.87 in July 2009, and from $3.08 per kg to $2.17, respectively. The price of cotton (A Index) decreased from $1.64 per kg to $1.41 and the price of tea (average price and Mombasa Auction) rose from $2.36 per kg to $2.41 and $2.02 per kg to $2.24, respectively, the price of tea at the Mombasa Auction rising by 10.7% following strong demand from Russia, the Middle East and Pakistan. For cloves, the price declined slightly from $4164.58 per metric tonne to $3913.10, whereas the price of sisal increased from $1090.67 per metric tonne to $1213.00 in July 2009. On an annual basis, the price of Robusta coffee declined by 18% to $1.87 per kg. Similarly, the price of cotton (A Index and Memphis) declined to $1.41 per kg as a result of reduced global market demand. To July 2009, the average price of crude oil (Dubai fob and white petroleum products) recorded a notable decline, owing to an increase in crude oil stocks as a result of weak global demand occasioned by the financial turmoil. On the other hand, the price of gold rose slightly to $873.12 per troy ounce. These positive trends helped mitigate the effects of falling revenue from other export earnings, which declined as a result of falling world market prices.

Table 3: World commodity prices, year ending Jul 2007-2009 (US$)

	Unit	Year to Jul-07	Year to Jul-08	Year to Jul-09	% change
Robusta coffee	kg	1.77	2.28	1.87	-18.08
Arabica	kg	2.60	3.08	2.17	-13.54
Tea (average price)	kg	1.90	2.36	2.41	2.30
Tea (Mombasa auction)	kg	1.71	2.02	2.24	10.67
Cotton (Mombasa auction)	kg	1.31	1.61	1.35	-16.28
Cotton (A Index)	kg	1.35	1.64	1.41	-14.42
Sisal (UG)	MT	931.67	1090.67	1213.00	11.22
Cloves	MT	3662.13	4164.58	3913.10	-6.04
Crude oil (avg UK Brent, Dubai, West Texas International)	Barrel	62.8	99.28	63.07	-36.47
Crude oil (Dubai fob)	Barrel	61.21	95.44	62.14	-34.89
White products (West Mediterranean fob	Ton	600.91	922.86	598.16	-35.18
Jet/kerosene	Ton	620.69	978.54	620.69	-36.57
Premium gasoline	Ton	613.12	860.78	575.08	-33.19
Heat oil	Ton	568.91	929.27	598.68	-35.57
Gold	Troy ounce	641.07	845.84	873.12	3.22

Source: BOT data.

2.4 Agriculture

Tanzania's agricultural sector provides raw material to domestic processing industries and offers employment to about 70% of the population. The sector contributes about 45% of total export earnings, producing food crops including cereals, legumes and tubers, sugar, livestock and fish, mainly for the local market, and coffee, cotton, cashew nuts, tea, sisal, tobacco and horticultural crops.

Although most production is self-financed, marketing is funded largely by seasonal credits provided by banks to cooperatives and private companies. The crisis mostly affected borrowers engaged in marketing of cotton, coffee and tea. For instance, Cooperative and Rural Development Bank (CRDB) reported that TSh168 billion was at risk following persistent failure by traders to service their loans. Flower farmers also pleaded for a rescheduling of loan servicing following a decline in world market prices. Between October 2008 and March 2009, the world market price of horticultural crops, including flowers, declined by as much as 30% to 50% because of the economic downturn.

Demand in the world market for Tanzanian cotton products also declined, precipitating a domestic market crisis. International prices fell by 40%, leading to a pile-up of unsold cotton stock in warehouses. Cotton bought by traders at a high price from peasants suddenly lost its market. By April 2009, 124,344 bales of cotton were unsold out of 605,812 bales bought during the previous season; as a consequence business profitability and individual incomes declined.

Meanwhile, Tanzanian farmers were advised to take advantage of the crisis by diversifying and increasing their productivity in large production of food crops such as maize, paddy, cassava, wheat, legumes, grams, millet, sweet potatoes, bananas, Irish potatoes, beef, milk, chicken, fish, oilseeds, fruits and vegetables, so as to ensure food security for the country and open up massive opportunity to export food to address expected food shortages in the world.

2.5 Financial sector

The financial crisis has revealed the power of globalisation and how the world economy is interlinked. Globalisation can take a problem from one corner of the globe to multiple destinations, Tanzania included. Fortunately, financial indicators for Tanzania indicate that the market has managed to weather the storm relatively well (BOT data, November 2009). Lending to the private sector, for example, grew by 26.6% during the year to September 2009. Other key indicators for the financial sector show that:

- The average capital adequacy ratio was 19.3%, against a benchmark of 10%.
- All banks had adequate liquidity, with a liquidity ratio at 48.5% compared with a flow of 20%.
- The gross non-performing loan (NPLs) ratio was equivalent to 6.8%, compared with the international lower standard of 10%.
- The interbank payments and settlements system continued to be liquid and efficient.
- The interbank cash market continued to be liquid and characterised by stability interest rates.

Despite the encouraging financial indicators above, some financial institutions during the period experienced an increase in their NPLs, leading to a decline in their profitability. To cushion it from negative effects, Tanzania was earmarked for support under the Global Trade Liquidity Programme, started in March 2009. Stanbic Bank Tanzania and Standard Chartered are local beneficiaries of the initiative, and are expected to get support of up to $50 billion of trade. Other financial houses, such as Exim Bank and Access Bank, have also received special grants, from India and the African Development Bank (AfDB), to help cushion the effects of the crisis by extending special credit to agriculture, value addition and other businesses.

2.6 Industrial sector

Tanzania's industrial sector is dominated by agro-based industries such as textiles and clothing, which are heavily dependent on the local market. Products from this industry have been affected by the financial crisis, as evidenced by reduced export revenues by factories such as SunFlag and 21st Century, which started reporting reduced export orders in November 2008. Other factories, such as Tabora, Mbeya and Kilitex, could not export their products owing to a loss of markets.

Provision of subsidies by some Far Eastern countries to their local industries caused some distortions in world market prices, such that Tanzanian local industry could not compete, not only internationally but also in the domestic market, following a flooding in of cheap garment imports from these countries. This has affected the profitability of local textile industries and their ability to create jobs and retain workers.

Livestock products have not been spared the effects of the global financial crisis. Tanzania is the leading country in the Southern African Development Community (SADC) and the third country in Africa with regard to livestock, whose products include leather. The leather industry in Tanzania has been affected by the crisis: between September 2008 and July 2009, prices of different types of livestock leather declined, from $1500 to $500 per ton for salt leather and from $1100 to $350 per ton for ghafi leather.

2.7 Tourism

In Tanzania, tourism is among the fastest growing sectors, contributing about 16% of the country's GDP and about 25% of foreign exchange earnings. Most of the income generated is from the country's 15 national parks, which were expected to receive 500,881 visitors between July and December 2008 but instead recorded only 425,137 visitors, including climbers. The 15% shortfall could be attributed to the recent decline in the number of external visitors to the country. Overall, tourism generated Tsh41.6 billion in 2008, less than the anticipated revenue of at least Tsh49.9 billion. Preliminary findings of a taskforce formed by the Tanzania Tourism Board (TTB) to strategise on mitigation measures showed a reduction in the number of visitors from two of its primary market hubs, namely the US and Europe, which together accounted for approximately 80% of the country's visitors.

The government responded by working closely with the TTB and the private sector in promoting Tanzania as a tourist destination. This included marketing tourist attractions in overseas media and urging industrial operators to improve their services and promote domestic tourism. As a result, the number of domestic tourists increased from 536,341 in 2007/08 to 637,749 in 2008/09. These steps resulted in overall collections from the sector surpassing the target set in 2008/09, ultimately receiving TSh1.8 billion in license fees from 468 firms in 11 months (Ministry of Tourism and Natural Resources data).

Data show a 10% decline in the number of tourists to the Tanzanian mainland, which registered 214,733 arrivals in January-April 2009 compared with 238,139 in the same period in 2008. Figure 1 shows international tourism arrivals in January-April for 2006-2009. Revenue obtained from tourism went down to $302.1 million in January-April 2009 compared with $388.2 million in 2008.

Likewise, in Zanzibar there was a decline of 10.4% in tourist arrivals in 2008 compared with 2007. However, there were some indications of improvements by February 2009, despite fears among hotel owners that the decline would persist in 2009. A research by Zanzibar tourist investors (ZATI) shows that that an estimated decline in the number of tourists by at least 15% would affect employment by 20% to 30%. Figure 2 shows tourist arrivals in Zanzibar for January-March of 2006-2009.

Table 4: International tourism arrivals in Tanzania, Jan-Apr 2006-2009

	2006	2007	2008	2009
Jan	59,673	59,572	65,760	62,020
Feb	49,223	51,563	65,426	61,713
Mar	52,110	52,932	64,979	48,752
Apr	39,719	52,690	58,950	58,763

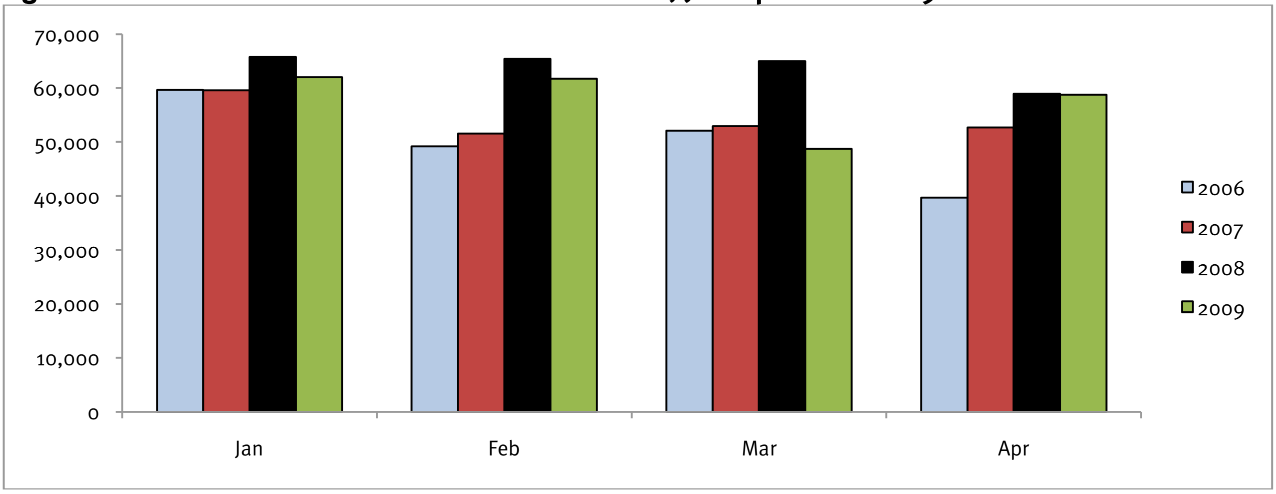
Source: Ministry of Tourism and Natural Resources data.

Table 5: International tourism arrivals in Zanzibar, Jan-Mar 2007-2009

	2007	2008	2009	Difference	
				2008-2007	2009-2008
Jan	14,942	16,228	13,226	1286	-3002
Feb	13,289	14,323	14,884	1034	561
Mar	11,580	12,045	10,577	465	-1468
Apr	6,323	4,542		-1781	
May	4,076	4,275		199	
Jun	6,990	6,429		-561	
Jul	13,640	13,283		-357	
Aug	19,870	13,907		-5963	
Sep	11,727	10,398		-1329	
Oct	13,408	7,790		-5618	
Nov	11,374	9,385		-1989	
Dec	16,064	15,835		-229	
Total	143,283	128,440		-14,843	

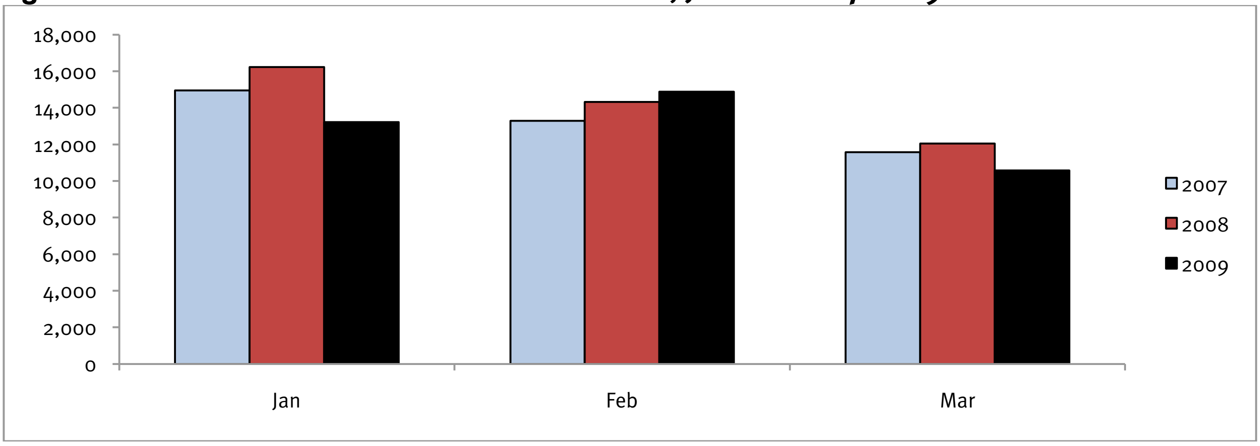
Source: Zanzibar Tourist Commission data.

Figure 1: International tourism arrivals in Tanzania, Jan-Apr 2006-2009



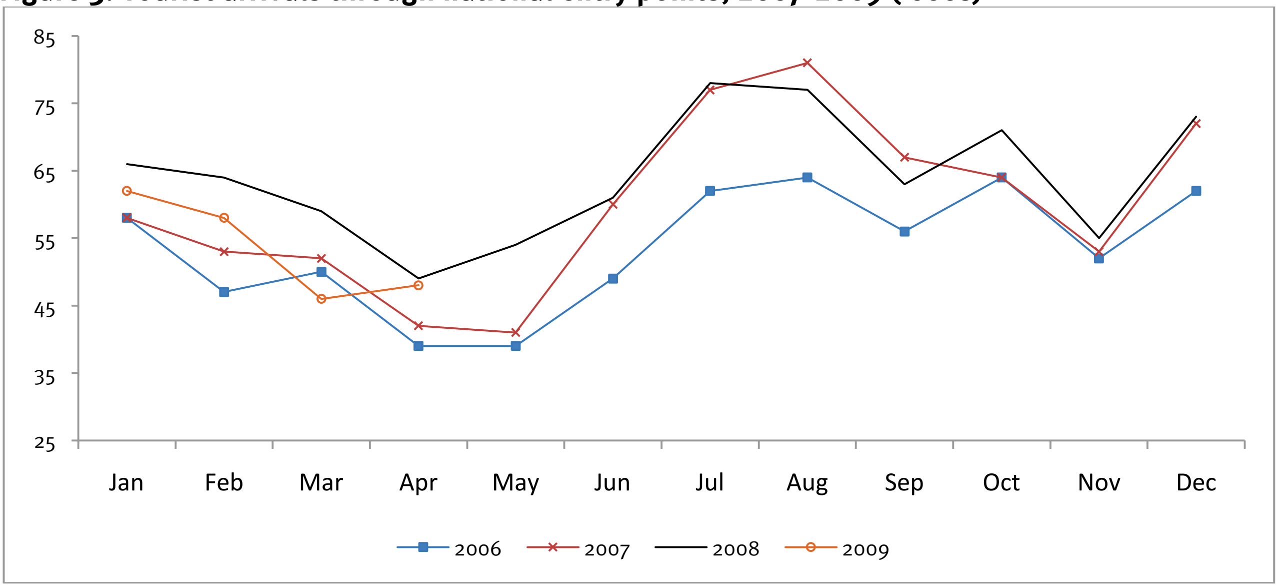
Source: Ministry of Tourism and Natural Resources data.

Figure 2: International tourism arrivals in Zanzibar, Jan-Mar 2007-2009



Source: Ministry of Tourism and Natural Resources data.

Figure 3: Tourist arrivals through national entry points, 2007-2009 ('000s)



Note: Julias Nyerere International Airport, Kilimanjaro International Airport, Zanzibar International Airport and Namanga border.
Source: URT (2009c).

2.8 Mining

World market prices for mining also went down as a result of the crisis. In Tanzania, minerals most affected were diamonds, tanzanite, nickel and aluminium. Gold was not affected since it was used by nations as an alternative for currency value stabilisation following the depreciation of the major currencies (euro, US dollar and pound sterling). The decline in nickel prices caused Barrick and Xstrata to postpone their plans for Kabanga nickel mine until prices improve to avoid further losses to this project worth $165 million. Mining of aluminium was also expected to see a decline in revenue as a result of world market price falls. The impact of the crisis was most severe for tanzanite mining companies and small-scale miners, given a 50% decline in the price of tanzanite in the world market. Consequently, income and employment of small-scale miners declined, as well as that of other indirect earners: it has been shown that for every miner there are three people employed to provide food and other services. The price of diamonds was also affected, recording a decrease of 26%, from $8870 per carat in September 2008 to $6608 per carat in April 2009.

Investments in the mining sector in Tanzania are expected to decrease by more than 50%, from $90 million to $40 million per year, as indicated by a decline in requests for mining licenses: in April 2009 only 15 licenses were granted compared with 2008 (224 licenses). However, the sector seems now to be picking up as a result of strengthened prices of mineral commodities (URT, 2009c).

Table 6: Mining licenses granted for mining activities in Tanzania, 2007-2009

	2007	2008	2009 (Jan-Apr)
Prospecting licenses with reconnaissance	155	224	15
Prospecting licenses	607	1169	72
Special mining licenses	1	0	0
Mining licenses	28	69	9
Primary mining licenses	1863	3573	678

Source: URT (2009c).

2.9 Remittances and migration

The global crisis is likely to have impacted not only export earnings but also remittances. The most direct short-term impact on the economy is likely to be declining funds from Tanzanians living abroad whose incomes have been affected (loss of jobs, reduced income and/or reduced dividends from investments made in real estate and financial markets). The BOT has reported some indication of reduced personal remittances, but hard data on the subject will not be available until special research by the Policy and Research Directorate is completed. However, a recent study by the International Organization for Migration (IOM) has indicated reduced remittances between Tanzania and Uganda, (data up to July 2009 only). Banks such as CRDB and the Commercial Bank of Africa, however, have reported a surge in interest by the diaspora in investing in 'safe' and high dividend projects in Tanzania, citing increasing default by friends and relatives when they send money home. CRDB had opened special accounts for 500 people and 300 clients in the UK and US in response to this demand.

3. Broad macroeconomic indicators

3.1 Introduction

Tanzania's economic policies continue to centre on sustaining macroeconomic stability through measures to support strong economic growth. They entail maintaining fiscal stability via both revenue mobilisation and prudent expenditure management and controlling the money supply to meet inflation and economic growth targets, as well as maintaining an adequate level of foreign exchange reserves. Combined with policies to support private sector-led development and promote exports, these policies have enabled Tanzania's GDP to grow by an average of 7.2% annually over the past five years. Despite the global financial crisis and economic recession, GDP growth in 2009/10 is officially estimated at 5.4%. However, inflation has been accelerating since 2006 and averaged 11.3% in 2009. As a result, the BOT revised its medium-term inflation objective upward in 2008 from 5% to 7%. The main short-run challenge facing planners, therefore, is to reduce the current double-digit inflation rate to single-digit levels. In the medium term, alleviating critical infrastructure constraints in transport, communications and energy sectors; putting in place measures to mitigate the impact of the global economic downturn; and establishing a mechanism to translate economic growth into broad-based poverty reduction are crucial. Restoring the credibility of the government in fighting corruption is also important in the face of several recently unearthed high-level scandals.

Tanzania's foreign reserve holds more than $2.6 billion, enough to finance more than 4 months of goods and services imports. Moreover, foreign exchange-denominated deposits held with commercial banks by Tanzanian residents remains stable, at $ 1.5 billion, equivalent to another 2 months of imports of goods and services. Foreign exchange-denominated assets held by commercial banks add another half a month to this stock. In total, the country has reserves enough to last 6.5 months.

3.2 Exchange rate movements

Despite financial market robustness in the country, speculative demand for foreign exchange existed in the market after October 2008, driven partially by anxiety about foreign exchange availability in light of the crisis (BOT, 2009c). The BOT responded by intervening in the market to stabilise the value of the Tanzanian shilling. Despite this, its value depreciated by 12.9% by September 2009, to an average of Tsh1308.9, from Tsh1159.5 in September 2008. This fall was attributed to increased demand for foreign exchange in 2009, partly because of speculative gains and partly because of reduced foreign earnings relative to import requirement demand. However, the value of the Tanzanian shilling has been maintained within a narrow band against the US dollar in line with the sustained supply of foreign currency in the market by the BOT. The annual exchange rate averaged Tsh1317.4 per US dollar in 2009, compared with an annual average of Tsh1195.8 per US dollar in 2008, a depreciation of 10.2%.

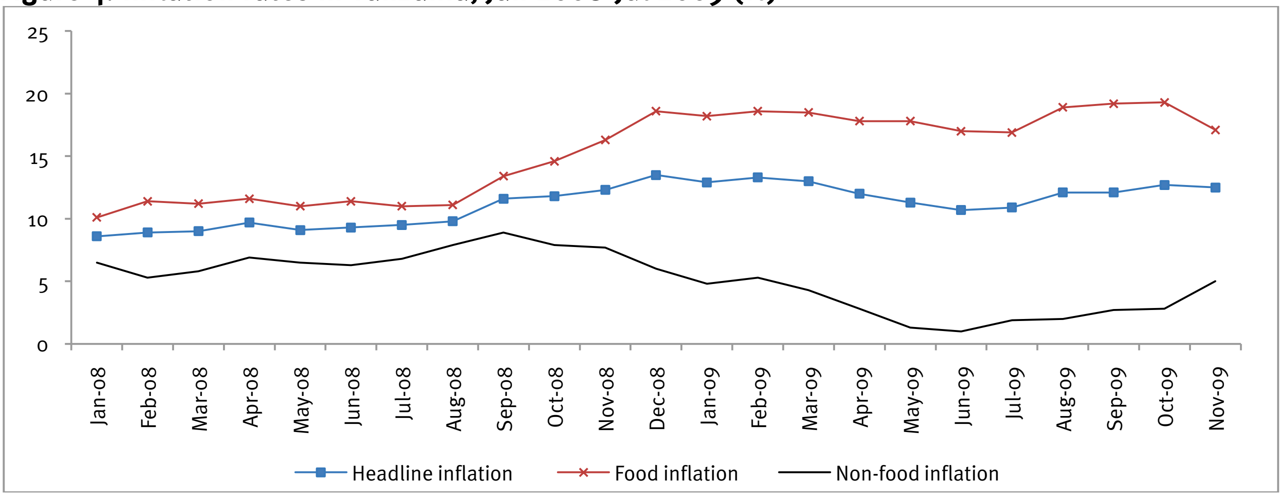
3.3 Inflation development

The economy continued to experience inflationary pressures originating from the lagged effects of soaring world oil prices in 2007 and 2008, compounded by severe food supply shocks in the region and poor short rains in some areas of Tanzania in the first half of 2009. Annual inflation reached a peak of 13.5% in December 2008, driven by food inflation of 18.6%. Non-food inflation was at 6.0%. By the end of July 2009, annual headline inflation had continued to decline to 10.9%, from 12.9% in January 2009, when annual non-food inflation was only 1.9% but annual food inflation was 16.9%.

The headline inflation rate was expected to decline further before the end of 2009, owing to easing global fuel prices as well as sustained prudent fiscal and monetary policies in country. In August 2009, the annual headline inflation rate had increased to 12% compared with 11.3% and 10.9% in May and

July 2009, respectively. This was attributed mainly to the increase in food inflation from 16.9% registered in the year ending July 2009 to 18.9% in the year ending August 2009. Food items that contributed to such price increases were cereals, cassava, potatoes, cooking bananas, fruits, fish, coconut and milk. The non-food inflation rate had also increased by August 2009, by 0.9%, including through fuel and fares. Inflation for the period is shown in Figure 4.

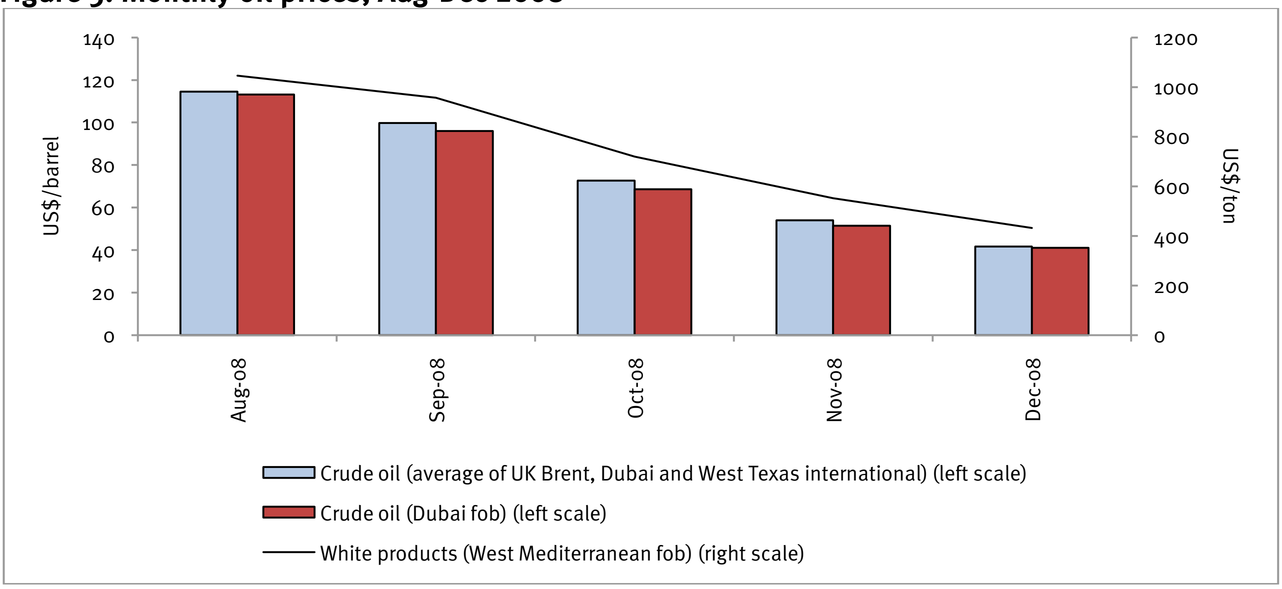
Figure 4: Inflation rates in Tanzania, Jan 2008-Jul 2009 (%)



Source: BOT data.

During the period, headline inflation was influenced by increased food costs but moderated by the easing of global fuel prices as well as sustained prudent fiscal and monetary policies pursued by the government for 2009/10. The fall in the price of fuel in the world market was among the positive effects that assisted in lowering production costs in many sectors of the economy. The translation of lower global prices to reduced domestic prices was made possible through a consensus campaign between the Energy & Water Utilities Regulatory Authority (EWURA) and fuel importers retailers. Figure 5 indicates monthly oil prices in the world market up to December 2008.

Figure 5: Monthly oil prices, Aug-Dec 2008



Source: BOT data.

3.4 Fiscal operations

The crisis has had some impacts on revenue sources, with shortfalls in taxes on imports and income. During the first three quarters of 2009, there was lower performance on domestic revenue against targets, even though overall foreign inflows were in line with budget estimates. Tax revenue collection was 11.4% of GDP compared with 10.8% during the corresponding period in 2008. Total revenue collection was 91.5% of budget projections. Good performance was recorded in taxes on local goods, whereby revenue collection was 21.6% higher compared with the corresponding period of 2007/08. The government continued to reform the tax system to modernise, broaden and enhance domestic revenue collection, even though its expenditure during 2008/09 was below budget estimates. Recurrent expenditure was 94.6% of estimates and development expenditure 74.5%. Total government expenditure during 2008/09 was 17.3% of GDP, out of which recurrent expenditure was 11.7%.

In early 2009, the government formed a taskforce chaired by the Governor of the BOT to evaluate the situation and propose mitigation strategies. The taskforce reported in mid-2009 that the crisis had led to reduced production capacity and job cuts in different sectors. The government set aside Tsh1.7 trillion (about $1.3 billion) as an economic stimulus package, among which over Tsh200 billion ($152.67 million) was set aside to aid local banks in separate programmes on credit financing to traders, cooperative societies and large-scale farmers who were falling behind on loan repayments during 2009/10. Although the country will get an additional $220 million as part of the fiscal stimulus package from the G-20 to fight off the crisis, this amount, which has been injected into the 2009/10 national budget, is equivalent to 1% of the country's GDP.

3.5 Money market

3.5.1 Interest rate

Tanzania' money market generally remained healthy, although a few negative effects have been noted. As noted earlier, money markets fared well as a result of BOT interventions to help banks have more liquidity, whereby the interbank overnight rate was on average 1% and that of weighted average treasury bills ranged between 4.7%, 5% and 6%. Tanzania is now reviewing its investment rules, as it wants to open up room for foreign subjects to invest in treasury bills.

3.5.2 Bank deposits

Likewise, the crisis has had little impact on bank operations, although some major banks were vulnerable, being directly in the line of fire by virtue of their link to shrinking global trade. However, the system had low exposure because it had a limited amount of foreign borrowing and no securities of international banks affected by the crisis. Low integration with international capital and financial markets is manifested in the level of foreign assets in the commercial bank system (11% of total assets). Another stabilising factor is that 'foreign' commercial banks are licensed, regulated and supervised under Tanzanian law, and do not operate as branches of parent banks abroad but as independent subsidiaries. However, the crisis affected their deposits overseas, which showed a slight decline during the period, with some banks recording a decline in deposits of between 3% and 12%. The banks have been warned that NPLs are likely to increase if the economy slows down and international commodity prices and demand for traditional exports continue to fall.

Overall, the banks seem to be doing well. On a yearly basis, the overall financial accounts of all banks showed pre-tax profits at Tsh84 billion ($64.61 million) during the year to 30 June 2009. This is a slight increase on the Tsh81 billion ($62.30 million) recorded in the year to 30 June 2008 (BOT data). Despite this, the BOT intensified supervision of banks and other financial institutions.

However, according to the IMF, Tanzania's financial system is still not safe. In its country report for June 2009, the Fund called for vigilance and closer scrutiny of the local financial sector, warning that local banks were not out of the woods yet. It urged the Tanzanian government to safeguard pension funds, whose assets in banking institutions could be eroded by the crisis. There is fear about rapidly growing and inadequately supervised pension funds, which could be affected by deterioration in the quality of their assets and weak regulation of pension funds. The IMF pointed out that urgent action was required to put in place a regulatory authority, whose law was enacted in November 2009.

3.6 Equities

In the third quarter of 2009, the financial market continued to experience a fall in the price of some equities. As in the first quarter, shares of many companies declined. Quarterly average price changes are in Table 7.

Table 7: Average prices for equities in the DSE, 2009Q2 and Q3 (TSh)

	2009Q2	2009Q3	% change
Tanzania Cigarette Company (TCC)	1740	1740	0.0
Tanzania Portland Cement Company Ltd (TWIGA)	1540	1640	6.5
National Microfinance Bank (NMB)	740	790	6.8
Tanzania Tea Packers Ltd (TATEPA)	495	490	-1.01
Tanga Cement Company Ltd (SIMBA)	1820	1820	0.0
National Investment Company Ltd (NICOL)	285	270	-5.3
Cooperative Rural Development Bank Ltd (CRDB)	195	168	-13.8
Kenya Commercial Bank (KCB)	440	440	0.00
Tanzania Breweries Ltd (TBL)	1800	1780	-1.1
Swissport Tanzania Ltd (SWISSPORT)	580	580	0.00

Source: DSE data (see http://www.dse.co.tz/main/index.php?rec=main&page=9).

Notwithstanding the negative changes, shares of East African Breweries, Swissport Tanzania and Kenya Airways remained the same over the period. Nevertheless, the Dar es Salaam Stock Exchange Market (DSE) recorded a total turnover of Tsh23.07 billion during the third quarter of 2009, an increase of 228% on the second quarter (which ended on 30 June 2009), which generated Tsh7.04 billion. A total of 77.34.5 million shares were traded in the third quarter of 2009 compared to 18.53 million in the second quarter. This implies a rather healthy market, despite falls in share values of some companies.

3.7 Investment and capital flows

Some of the multinational companies in agriculture, mining and energy have decided to close operations and lay off workers as a result of the economic slowdown. As noted elsewhere, some have postponed investment in new projects. The government has intensified surveillance of the domestic, international capital and financial markets by setting up an early warning system using selected indicators of financial sector performance on a daily basis to determine signs of weakness. It has also established intensified oversight of the banking system and broadened information collection on bank performance, ensuring the capacity of the BOT and the government to intervene.

The government is looking into enhancing export incentives for investors, especially in priority sectors of the economy. The Tanzania Investment Centre (TIC) saw shrinkage of about 30% in the value of new investments in the first half of 2009 compared with the same period in 2008. The UK is a major source of investment in Tanzania in terms of number and value of projects, followed by Kenya, South Africa and India. TIC data indicate that Tanzania received $695.5 million in FDI in 2008 compared with $653 million in 2007, an increase of 6.4%. In 2008, the TIC approved 871 projects, with employment potential of 109,521 jobs, compared with 701 projects with employment potential of 103,958 jobs in 2007. Out of these approved projects, 621 were new and 250 were either for rehabilitation or extension.

Table 8: Approved projects, 1996-Jul 2009

	Approved projects	Local projects	Foreign projects	Joint ventures	Total employment	FDI value (US$m)	Growth rate (%)
1996	111	49	17	45	19,745	148.64	6.2
1997	199	90	53	56	37,311	157.8	9.1
1998	213	111	46	56	35,010	172.2	9.12
1999	181	81	43	57	12,933	517.7	200.6
2000	1624	745	343	536	241,250	463.4	-10.5
2001	220	87	53	80	24,699	467.2	0.82
2002	311	126	104	81	33,132	387.6	-20.5
2003	372	155	109	108	198,458	308.2	7.3
2004	454	208	119	127	55,057	330.6	7.3
2005	550	281	131	138	55,663	447.6	35.4
2006	679	345	161	173	74,946	616.6	6.0
2007	701	376	147	178	103,958	653.4	6.0
2008	871	450	208	213	109,521	695.5	6.4
2009	364	204	69	91	39,883	1875.93	-

Source: TIC data (www.tic.gov.tz).

In terms of ownership, 450 projects were local, 208 foreign and 213 joint ventures. Investments also grew, by 24.3% in 2008 compared with 3.2% in 2007. This was attributed to the increase in investments by local investors, especially in tourism (tour operations) and commercial buildings, and a general improvement in the investment climate. Sectors that attracted more investors in 2008 were tourism (268 projects), manufacturing (221), commercial buildings (141) and transportation (93). These sectors attracted more investors because of easy marketability of the products/services provided. In terms of regional distribution, Dar es Salaam, Arusha and Mwanza attracted most investors.

A $3.5 billion investment in aluminium smelting, a $165 million nickel mining project and a Canadian company set to invest in telecoms are among the victims of the crisis. A Swedish company, SEKAB, which leased 40,000 hectares of land in Bagamoyo and invested $250 million in efforts to produce ethanol has also decided to scale down the project. A number of commercial banks have also announced losses after their borrowers failed to repay their loans as a result of a decline in demand for commodities and a fall in prices in world markets. However, the flow of new investments was stable in 2008 because most source countries have traditional economic relationships with Tanzania.

3.8 Employment

The actual employment effects of the crisis are yet to be determined in Tanzania, but the information available indicates that a number of sectors have been negatively affected. These include mining, agriculture and tourism. Following the crisis, some multinational companies decided either to close their businesses operations or to scale down their business investments.

A bio-energy company based in Rufiji and Kilwa towns in eastern Tanzania is also cutting down on employees and selling its production facilities in some European countries. Kabanga Nickel, which initially employed 200 Tanzanians, has laid off over 150 workers (it was estimated that when the mine became fully operational by 2011 it would employ over 2000 people). In the communications sector, current information indicates that GTV has closed its business (all over Africa, including its office in Dar es Salaam), leading to a loss of direct jobs and a big loss to its trading partners and to customers who were connected to the business. The financial crisis also affected decisions to review the minimum wage, such that a proposal by the Trade Union Congress of Tanzania to set a $315 minimum wage was considered untenable by other stakeholders. The crisis also made it hard for the Tanzanian government to increase salaries for public servants in 2009/10 as in past years.

3.9 Poverty status

The onset and continuation of the crisis has undermined efforts to alleviate poverty and attain the Millennium Development Goals (MDGs). The fall in investment, loss of jobs, reduction in demand for agricultural products and minerals and decline in international tourist arrivals will worsen the country's poverty status. However, the absence of systematic data makes it difficult to make estimates of the magnitude of the crisis impact on livelihoods and poverty in Tanzania. However, one can extrapolate the impact from loss of export revenue, leading to reduced profitability, job cuts, reduced purchasing power and lack of ability of individuals to cater for their basic needs. The loss of government revenue or use of its resources to rescue businesses (equity consideration) may mean reallocation of resources from basic sectors such as education and crosscutting investments such as road and energy.

3.10 Public and private debt

The national domestic debt stock at the end of September 2009 stood at $9330.9 million, equivalent to an increase of 9.9% on the amount at the end of June 2008. This increase is attributed to new disbursement of government bonds and depreciation of the Tanzanian shilling compared with its trading partners' currencies, which is partly explained by the global financial crisis. Out of debt stock, 80.1% is external debt and the remaining 19.9% is domestic debt stock (see Table 9).

3.10.1 External debt

External debt stood at $7474.2 million at the end of September 2009, equivalent to an increase of 4.7%, compared with $7137.2 at the end of June 2009. Out of total external debt, $5932.8 million or 79.4% is disbursed outstanding debt (DOD) and the remaining $1541.4 is interest arrears. Analysis of external debt indicates that 69.6% of the total debt is government debt. Debt owed by private and public corporations is at 20.3% and 10.1%, respectively.

Table 9: External debt stock by borrower category Sep 2008/09-Sep 2009/10

	Sep 2008/09 (US$m)	Share (%)	Jun 2008/09 (US$m)	Share (%)	Sep 2009/10 (US$m)	Share (%)
Central government	**4396.10**	**72.7**	**4893.90**	**68.6**	**5202.80**	**69.6**
DOD	3,780.60	62.5	4221.20	59.1	4510.70	60.4
Interest arrears	615.5	10.2	672.7	9.4	692.1	9.3
Private sector	**1168.80**	**19.3**	**1494.20**	**20.9**	**1513.60**	**20.3**
DOD	742	12.3	1010.00	14.2	1025.40	13.7
Interest arrears	426.8	7.1	484.2	6.8	488.2	6.5
Public corporations	**481.8**	**8**	**749.2**	**10.5**	**757.8**	**10.1**
DOD	150.8	2.5	392.3	5.5	396.7	5.3
Interest arrears	331	5.5	356.9	5	361.1	4.8
Total external debt	**6046.70**	**100**	**7137.20**	**100**	**7474.20**	**100**

Source: BOT data.

A profile of external debt stock by creditor category indicates that debt owed by multilateral creditors is $3831.1 million, which accounts for 51.3% of total debt, whereas bilateral creditors accounted for 21.9%. Debt owed to other creditors is shown in Table 10.

Table 10: External debt stock by creditor category, 2007/08-Sep 2009/10

	2007/08	Share (%)	Jun 2008/09	Share (%)	Sep 2009/10	Share (%)
Bilateral	1545.80	25.6	1601.20	22.4	1633.30	21.9
Paris Club	557.5	9.2	595.4	8.3	616.7	8.3
Non-Paris Club	988.3	16.3	1005.80	14.1	1016.60	13.6
Multilateral	2823.50	46.7	3545.10	49.7	3831.10	51.3
AfDB	636.2	10.5	730.40	10.2	801.60	10.7
World Bank	1843.40	30.5	2185.20	30.6	2388.30	32
IMF	17.7	0.3	263.30	3.7	267.80	3.6
Others	326.20	5.4	366.30	5.1	373.50	5
Commercial	1039.00	17.2	1265.30	17.7	1264.40	16.9
Export credit	638.40	10.6	725.60	10.2	725.40	10
Total external debt	6046.70	100	7137.20	100	7474.20	100

Source: BOT data.

During the first quarter of 2009/10, new debts contracted and the net debt amounted to $77.9 million. Disbursements received and recorded during the period amounted to $250.9 million, out of which $233.8 (93.2%) was disbursed to the government and the remaining balance was received by private companies. External payments for the quarter amounted to $26.8 million, equivalent to 1.9% of export goods and services. The payments represented 39.1% of the $68.5 million scheduled for debt payments. The lower service payments were a result of accumulated arrears on non-serviced debt and inadequate information on debt serviced by private borrowers.

3.10.2 Domestic debt

Up to end-September 2009, the stock of domestic debt stood at Tsh2418.1 billion, out of which government securities were valued at Tsh2409.8 billion (99.7%) and other debts at Tsh8.2 billion (0.3%). The debt stock increase by Tsh155.7 billion (6.9%) from Tsh2262.3 registered at the end of June 2009 was attributed to the purchase of government bonds. Composition of the domestic bond by creditor category at the end of September 2009 indicates that the BOT was the leading government creditor, holding almost 42% of total domestic debt stock, followed by the commercial banks, which held 30.3%, pension funds (21.9%) and others (0.58%).

4. Policy responses and constraints

4.1 Strategic interventions at international and country level

To rescue world economies from the global downturn, the IMF called for arrangements to provide emergency liquidity, improve financial sector supervision and take a comprehensive approach to financial sector stability assessment that includes all types of institutions.

In Tanzania, international support came from the G-20, which promised to provide an additional $220 million to the government's rescue package. Tanzania is one of eight countries receiving funds. Other African countries receiving this one-time assistance are Ghana, Liberia and Zambia. In October 2009, the US Agency for International Development (USAID) office in the country issued $37.7 million as a Financial Crisis Initiative Package. The office also promised to partner with Tanzania's local banks to provide up to $10 million in credit and financing options for agri-businesses, including over 1000 small and micro enterprises and households through microfinance over a five-year period to stimulate production and improve food security. The AfDB announced in November the approval of another facility similar to that of USAID, to be operated through the commercial banks.

4.2 Economic and social policies

The government of Tanzania has put in place a two-year economic rescue plan (2009/10-2010/11), approved by Parliament in June 2009. The objectives of the plan are to:

1. Reduce the pressure of the crisis by providing safety nets against extreme vulnerabilities so as to protect economic growth attained over the years: protect and create jobs, ensure food security and protect key social programmes;
2. Protect key investments and continue building capacity for growth in the medium term to achieve the MDGs.

The main components of the plan are:

1. **Fiscal space:** To fill the gap in revenue caused by the crisis. The government accommodated in the budget for 2009/10 a net domestic financing, equivalent to 1.2% of GDP in 2008/9 and 1.6% of GDP in 2009/10.
2. **Reduce the tax rate**, such as the VAT rate from 20% to 18% and income tax of selected categories from 30% to 25%.
3. **Accommodating monetary policy**: The BOT has relaxed its monetary policy stance, beginning in the fourth quarter of 2008/09, to facilitate bank financing of the private sector.
4. **Reduce the penal rate for BOT's standby facilities (the Lombard facility and the discount rate)** to allow easy and cheaper access by the banks to resources from the central bank.
5. **Bridging the foreign exchange gap:** A loan amounting to $336 million from the IMF under the Exogenous Shocks Facility (ESF) to fill the gap in the balance of payments caused by the decline in exports was approved by the IMF Board. The first instalment, of $245.8 million, was disbursed in June 2009. In addition, the IMF Board approved an enhancement of Special Drawing Rights (SDR) allocations to Tanzania, equivalent to $249 million.
6. **Banking package:** The government has provided relief to borrowers from financial institutions affected by the crisis. Two complementary instruments were issued: a) the Loss Compensation Facility, aimed at compensating for losses incurred as a result of sharp drops in cotton, seaweed and clove prices during the 2008/09 crop season; and b) the Loan Scheduling Guarantee Facility, aimed at providing a partial credit guarantee to borrowers affected by the crisis. These facilities are also expected to enable banks lending to distressed sectors to sail through the crisis safely and avert a credit crisis in the economy.

7. **Improving food distribution to curb food shortages:** The government has provided a cushion against the impact of food shortages by allocating Tsh20 billion in FY2009/09 budget to ensure food availability at a reasonable cost. Funds were provided in the October 2009 expenditure ceiling and will be used to purchase maize.
8. **Social programmes from before the crisis:** The government has maintained its commitment to support special social schemes through programmes under the Presidential Trust Fund, the Tanzania Social Action Fund, the special presidential development fund (Mabilioni ya Kikwete) and agricultural input subsidy funds for fertiliser seeds and farm implements.

4.2.1 What is the progress in the rescue plan?

Under the rescue plan, the government allocated Tsh1.7 trillion ($1.307 billion) in the 2009/10 budget to bail out the economy, certain areas of which had already been hit hard by the global crisis, including agricultural exports and tourism.

The government has already channelled TSh21.9 billion of this directly to the banking sub-sector to cover losses suffered by bank clients like cooperatives and firms that bought agricultural products from farmers. Announcing the package in June 2009, President Jakaya Kikwete promised that the government would further guarantee financial institutions for loans worth Tsh270 billion, extended to companies that fail to repay their loans as a result of the global recession. The guarantee will be for two years, during which period lending institutions will not charge interest on loans they extend to such institutions.

Another measure is to avail affordable capital for businesses. Under this scheme, the government has released a stimulus package of Tsh200 billion through the commercial banks. Another segment of the package has gone into guarantee schemes, whereby Tsh10 billion has been set aside for the Export Guarantee Scheme and another Tsh10 billion for small and medium-sized enterprises.

The government has intensified cross-border coordination between host country and home country supervisors so as to avoid transmitting stress from one institution to another in different countries. In order to encourage trade among businesses within the EAC for example, central banks will send remittances cross-border, eliminating the need to use clearing banks in the US and Europe.

4.2.2 Regulation and oversight of the capital and financial market

Under the BOT, the government has intensified surveillance of both domestic and international capital financial markets to oversee performance of all institutions, especially at this time of the crisis. The government has also formed a Financial Sector Regulatory Authority. It has also established an early warning system using selected financial soundness indicators. The BOT has established a financial stability department that produces regular financial stability reports. The BOT holds daily surveillance meetings to ensure stability in the financial sector and availability of appropriate levels of liquidity in the system.

4.3 Growth and development policies

The crisis is presenting both threats and opportunities for the Tanzanian economy. Threats that past achievements will be eroded have already been seen in parts of the economy, but opportunities do exist in terms of natural resources, by adding value to commodities and increasing their export value. Appreciating these opportunities, the government, through Kilimo Kwanza ('Agriculture First') has set agriculture as a priority growth sector. The aim is to boost agriculture by providing agriculture credit windows, among other factors. The plan also aims to improve food self-sufficiency and provide soft loans to small and agricultural intermediaries and food processors. On top of this plan, the government intends to establish a fully fledged Agricultural Development Bank.

There is a plan to develop infrastructure by raising about $500 million in international financial markets, although this has been challenged since the global financial crisis as interest rates have gone up tremendously. Under this plan, the government has provided Tsh205 billion in the budget, which will be raised through issuance of long-term bonds. Already, a Tsh52.163 billion through a five-year treasury bond has been raised from the BOT.

5. Opportunities and way forward

5.1 Challenges

The main challenge for Tanzania remain its low tax base, inability to mobilise enough domestic resources for development projects and overreliance on donor finance for development projects, which risks creating unsustainable interventions.

Another challenge is how to sustain macroeconomic stability, restore and maintain low inflation and maintain fiscal prudence, financial sector stability and sustenance of the external balance in the wake of the global financial crisis.

Domestically, creating a more responsible working and governance culture, whereby all sections of society take the crisis seriously and adjust accordingly, remains a challenge. The government attempt during its 2009/10 budget to remove tax exemptions, identified as a major source of revenue leakages, was not successful, partly because of a lack of appreciation of the seriousness of the problem at hand.

The promotion of regional trade, seen as the easiest to penetrate by small and medium-sized enterprises, will require extra support efforts by government besides removing tariffs, as the EAC Common Market will be established by July 2010. Among the interventions will be strategies to reduce or eliminate non-tariff barriers and empower local producers and processors in marketing skills.

5.2 Opportunities

The crisis presents an opportunity to explore new market ventures, especially by boosting regional trade (e.g. EAC, SADC and Common Market for Eastern and Southern African (COMESA) markets), to compensate for the fall in demand for exports in traditional trading partners in Europe, the US and Asia. This includes development of a regional infrastructure network and promotion of regional tourism.

The financial downturn has led the government to postpone some projects because of the unavailability of foreign resources. This underscores the need for government to collaborate with the local private sector to finance infrastructure projects through public–private partnership systems. The government can raise capital internally through initial public offerings, government guarantees, corporate bond issues and loan syndication arrangements by banks.

There is also a need to establish new lines for foreign inflows, including promotion of diaspora remittances or establishing diaspora financial instruments.

5.3 The way forward

With commitment and willingness, the country has an opportunity to diversify the economy, lying in its rich natural resources base. The country's plentiful agricultural land and waters can boost agriculture by adding value to products (agro-processing), as can prudent use of natural resources such as minerals, natural gas, forestry and fishery products and promotion of regional tourism, given Tanzania's many tourist attractions compared with its neighbouring countries.

The transport sector can provide substantial future sources of income and employment in the country. Improvement of infrastructure in road, railways and ports (e.g. Dar Port) will assist in the speedy transport and clearance of transit goods to landlocked countries such as the Democratic Republic of Congo, Uganda, Rwanda, Burundi, Malawi and Zambia.

The global financial crisis has highlighted the importance of increasing surveillance in terms of regulation and supervision, not only for commercial banks but also for the entire financial system (to include pension funds and insurance companies).

It is also necessary to implement judicious capital account liberalisation. The Tanzanian financial sector was barely hit by the global financial crisis simply because the capital account is only partially liberalised. The planned liberalisation process should be carefully designed to facilitate smooth portfolio flows while ensuring the stability of the small and fragile financial sector.

The design and management of social safety nets should take into account their sustainability in terms of creating wider multiplier effects. This includes the issuance of revolving funds (e.g. Mabilioni ya Kikwete (Billions from President Kikwete) and input subsidies for peasants), whose operations could be tied to local resource mobilisation (e.g. village banks and savings and credit cooperative societies) and farmer empowerment, to commercialise farm production and produce in response to identified markets and to invest in specific value chains for different commodities.

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Annex 1: Exports by type of commodity, Jul 2008-Jul 2009

	% change		Year to Jul 2009		
	Jul 08-Jul 09	Jun 09-Jul 09	2008	2009	% change
Traditional exports					
Coffee					
Value	171.4	-52.2	83.7	121.4	45.1
Volume	194.7	-57.6	36.0	60.5	68.0
Unit price	-7.9	12.8	2321.8	2005.5	-13.6
Cotton					
Value	-28.1	17.1	91.7	127.8	39.3
Volume	-38.3	-18.3	77.9	107.4	37.9
Unit price	-16.6	43.2	1,177.4	1189.3	1.0
Sisal					
Value			4.8	1.2	-74.3
Volume			4.5	0.7	-85.1
Unit price			1046.3	1802.4	72.3
Tea					
Value	-27.3	8.0	35.9	31.1	-13.4
Volume	-33.2	4.6	25.0	18.8	-24.7
Unit price	8.8	3.2	1433.9	1649.3	15.0
Tobacco					
Value			59.6	143.3	140.4
Volume			27.4	45.9	67.5
Unit price			2175.7	3122.9	43.5
Cloves					
Value	12.9	-48.3	4.3	14.9	243.8
Volume	-18.3	-70.1	1.2	4.4	258.7
Unit price	38.1	72.8	3504.8	3359.4	-4.1
Non-traditional exports					
Minerals	12.8	35.3	1010.1	881.5	-12.7
Gold	14.9	34.9	947.7	838.4	-11.5
Diamonds	-100.0	-100.0	22.4	12.3	-45.2
Others*	20.2	243.6	40.0	30.8	-22.8
Manufactured goods	-74.2	17.7	8.4	14.9	78.5
Cotton yarn			1.0	0.4	-64.6
Manufactured tobacco	-6.9	-40.9	1.0	3.2	216.8
Sisal products (yarn and twine)	-90.1	-	11.6	5.8	-49.7
Other manufactured goods**	-57.3	59.7	470.0	547.4	16.5
Fish and fish products	22.0	84.6	148.9	134.2	-9.9
Horticultural products	-10.8	-13.9	24.9	36.2	45.4
Other exports***	-47.8	-12.2	241.1	267.4	10.9

Notes: * = includes tanzanite, rubies, sapphire, emerald, copper, silver. ** = Includes plastic items, textiles, apparels, iron/steel. *** = includes edible vegetables, oilseeds, cereals, cocoa, rawhides and skins and woods. **** = Volumes in '000 tons; values in US$ millions; unit price in US$.
Source: BOT (2009d).

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