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Economic Overview of Tanzania

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ECONOMIC OVERVIEW OF TANZANIA

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INTRODUCTION

I. In recent years, the economy of Tanzania has emerged as one among many other developing country's economies, which is potentially viable for fast economic growth with stability. This is because Tanzania is endowed with abundant natural potentials, which include mineral resources, water resources and its marine life, unique tourist attractions and huge and fertile land of many opportunities and potentials. It is well positioned geographically and has a fairly good climate which resembles various climatic condition ranging from those of the lowest altitudes in the coastal areas to those of highest altitudes like those found in Mount Kilimanjaro the highest point of Africa located in Tanzania. The country has and continues to enjoy a period of peace and tranquility and the Government has made considerable progress towards achieving macro economic stability. There are many hopes for Tanzania to register steady growth if the current stability and the existing potentialities are economically harnessed or developed.

2. This paper therefore provides an overview of Tanzania's economy and sheds lights on the current macro economic performance of the economy. It also gives some highlights on the current government policies, initiatives and strategies and ends up with a brief note on the way forward.

ECONOMIC GROWTH

3. Since 1986, Tanzania has made a significant progress in the macro economic and structural reform program of the central and local government. The government has undertaken macroeconomic policy reforms with the aim of creating a more stable macroeconomic environment. These reforms were pursued with the understanding that such stability was necessary to achieve sustainable growth necessary for reducing the pervasive poverty in the country. As a result, Tanzania has progressed significantly well in re-establishing macroeconomic stability;

- Inflation has fallen from 32.5 in 1986 to the current single digit of 4.4 percent in August 2002;
- Attained an average GDP growth rate of 5.6 percent in 2001; and
- The foreign exchange reserves position has climbed to 6.1 months of merchandised imports in year 2002.

Table 1. Shows a summary of trends in selected macroeconomic indicators.

Table 1: Trends in Selected Macroeconomic Indicators:

	1995	1996	1997	1998	1999	2000	2001
Real GDP Growth	3.6	4.2	3.3	4.0	4.7	4.9	5.6
Inflation-annual average	27.1	21.0	16.1	12.9	7.8	6.0	5.2
Exchange Rate (Tshs/US $)-annual average	574.8	580.0	612.1	664.7	748.1	800.4	885.1
Merchandise Exports (mil. US$)	682.9	763.8	752.6	588.5	543.3	662.1	776.4
Export/Import ratio (Goods)	50.9	63.0	65.6	43.1	38.1	49.6	52.1
Overall Balance of Payments (mil .US $)	-382.1	-231.2	-633.4	-645.8	-372.8	-239.3	55.0
Current Account Balance (mil. US$)	-646.4	-461.3	-558.6	-993.0	-793.5	-515.2	-413.5
Foreign Reserves (Months of Imports)	1.6	1.5	2.8	3.5	4.2	5.6	6.0

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02*
Govt. Domestic Revenue (% of GDPmp)	13.2	13.5	12.6	12.5	11.3	12.2	12.2
Total Govt. Expenditure (% of GDPmp)	13.1	15.2	14.8	14.8	17.1	16.8	18.8
Fiscal Balance (before grants)-% of GDPmp	0.1	-1.7	-2.3	-2.3	-5.8	-4.5	-6.6
Growth of Money Supply (3) - %	18.2	14.5	11.0	9.2	21.7	17.0	
Growth of Money Supply (M2)%	14.4	21.8	5.0	7.9	15.2	14.9	
Average Deposit rate	12.0	11.0	10.0	7.9	7.1	4.9	
Average Lending rate	28.0	26.5	24.0	24.5	22.1	19.8	

Source: - (1) Economic Survey; 1995-2001, President's, Office Planning and Privatisation (2) Bank of Tanzania; and (3) Ministry of Finance

4. Over the past five years, Tanzania has attained an average growth rate of around 4.5 percent (3.3 percent in 1997, rising steadily to 5.6 percent in 2001), notwithstanding shocks of adverse weather conditions to agriculture and negative effects on major commodity prices during the period. The fact that the economy could withstand those shocks and still continue growing, is indicative of stability of the economy that is poised for higher growth levels.

5. Overall, performance of other sectors has shown an improving trend. Consistent with the rehabilitation and capitalization drive in industry, following privatisation of most industrial enterprises, the manufacturing sector continues to grow gradually. During 2001, the manufacturing sector grew at 5.0 percent, compared to a growth rate of 4.8 percent during 2000. Contribution of the mining sector to overall economic growth is on the increase averaging 13.7 percent in the last two years. Nonetheless, as output in the sector approaches capacity, growth of the sector is expected to taper-off in the long run. Wholesale and retail trade (incorporating tourism) continued to grow and reached 6.7 percent in 2001 compared to 6.5 percent in 2000. Construction, Transport and communications also registered positive growth rates.

* Preliminary estimates

Growth of public administration has picked up significantly, reflecting increased government expenditures in the social services sectors (education, health and water) in implementing the Poverty Reduction Strategy. In the year 2001, the sectors of agriculture, mining, construction, industries, wholesale, retail trade and hotels (including tourism), transport and communications played a significant role in the overall GDP. Table 2 shows the sectoral real growth rates (1996 – 2001).

6. With regard to development in the tourism sector, it has registered satisfactory performance particularly in the last decade. The trend shows that between 1990 and 2001 most of the sector performance indicators have been positive. For example, (i) the share of the sub-sector to total GDP increased to 16.5 percent by 2001. (ii) Total earnings from the sector increased from US $ 65 million in 1990 to US $ 725 million in 2001. (iii) Other positive results were also registered in various indicators such as the increase in flow of tourists from 295,000 tourist in 1995 to 525,100 tourists in 2001; the increase in the number of hotels from 183 in 1990 to 329 in 2001, and (iv) tremendous increase in employment opportunities mainly arising from an increase in small and medium enterprises (SME) related to the tourism sector such as tour guides, carvings and souvenir makers, various groups making all kinds of textiles, traditional dancing groups, etc. This positive trend were mainly a result of government efforts to restructure the economy and recent macro-economic reform measures, adoption of the new tourism policy of 1999, as well as the implementation of the integrated tourism master plan and modest publicity and marketing of our tourist attractions abroad.

7. While the current performance is encouraging, the Government has committed itself to maintain the stability and improve the growth pattern.

According to the recent macroeconomic forecasts, it is expected that GDP figure will improve further and reach a growth rate of 6.3 percent in 2003 and 7.0 percent in 2004.

8. Apart from the macroeconomic reforms, the government has also carried out structural reforms on realigning the incentive structure toward increased exports, using scarce foreign exchange more efficiently, liberalizing markets for goods and services and reducing the involvement of the public in commercial activities. A large part of gross economic distortions have been removed. Markets are relatively free, the parastatal sector and the civil service have been downsized and there is a big improvement in fiscal discipline through enforcing cash budgets. While such improvements must be sustained to instill confidence more efforts are required to complement structural policies and institutional structures for sustained growth and sharing benefits from growth.

INFLATION

9. Tanzania has surpassed many African countries in reducing its inflation rate over a shorter period of time and within the reform period. Inflation, which was 32.4 percent in 1986, and 35.5 percent in 1994 and has been reduced to a single digit of 7.8 percent by 1999. It is very encouraging to note that by August 2002, the inflation rate has gone down to 4.4 percent. This happened mainly due to steps taken to increase production and availability of food, maintaining acceptable levels of government expenditure and money supply, decline in the prices of non-food items, implementation of prudent monetary and fiscal policies, improvement in transport and communication, and rehabilitation of infrastructure which facilitated distribution and availability of goods and services.

Government Finance

10. Budgetary performance has been improving over time. Domestic resource mobilization has improved following improvements in the tax regime. The adoption of the Public Expenditure review (PER) and Medium Term Expenditure Framework (MTEF) in 1998, has substantially improved budget management and accountability. The MTEF has enabled strategic prioritization, extension of the coverage of integrating donor finance into the Government Budget frame, and an increased shift of the donor finance towards more flexible budget support. With the mainstreaming of PRSP financing in the MTEF, higher expenditure shares have gone to priority sectors.

Monetary Development And The Financial Sector

11. Consistent with the anti-inflation stance, The Bank of Tanzania has continued to control monetary expansion, resulting in the consistent decline of non –food inflation.

12. Over the last five years, interest rates, which are market determined, have continued to decline consistently. Average deposit rates have declined from 11.0 percent end-June 1997, to below 5.0 percent by end-June 2001; while average lending rates have declined from 26.5 percent to 19.8 percent during the same period. Notwithstanding the general decline, the spread between deposit and lending rates has continued to be wide, in spite of the declining inflation over the period. While recent developments show that lending rates are becoming more flexible, the differential between short term lending rates and deposit rates has remained particularly high during the period, with some deposit rates turning negative in real terms. Inadequate competition in the Banking sector, coupled with weaknesses in the legal and structural framework

(e.g. collateral enforcement), explain in part, the rigidity in the lending rates.

External Sector

13. Exchange rates have continued to be freely determined in the Inter Bank Foreign exchange Market (IFEM). (In recent Years, the Exchange rate of the Tanzania Shilling has been very volatile, mostly due to increased import demand, both for investment and consumption goods). During the last three years, the exchange rate of the Tanzania shilling in the IFEM depreciated from shs.721.7 per US Dollar in June 1999, to shs.799.6 in June 2000 and shs.888.9 per US Dollar in 2001. In June 2002, it was around Shs. 980.0 per US Dollar after which it slid back to around shs.960.0. In general, the liberalization of the foreign exchange regime, has promoted foreign exchange inflows and hence enabled the country to accumulate foreign exchange reserves, currently at an equivalent of six months of imports of goods and non-factor services.

14. After substantial decline in the trend of merchandise exports during the period 1996-1999, there has been some improvement in the overall performance of exports in the last two years. The year 2000 registered exports of US Dollars 663.2 million, and increased to US Dollars 776.4 million in 2001. With the continued decrease in the world commodity prices of major traditional agricultural exports, the structure of merchandise exports (coffee, cotton, sisal, tea, tobacco and cashew nuts) is towards non-traditional exports (minerals, manufactured goods, fish and fish products, horticultural products, etc) which now account for more than 55 percent of merchandise exports.

15. There was no substantial increase in the Value of merchandise imports (at f.o.b.) between the years 1998 – 2000 (US $ 1,366.0 million in

1998, US $ 1368.2 million in 1999 and US $ 1,334.9 million in 2000). While capital Goods dominated the import bill, close to 50 percent of the total value merchandise imports, they declined consistently during the completion of major mining projects (Ashanti Goldfields Co. Ltd and Kahama Gold mining co. Ltd, that started production in June2000 and May 2001 respectively) that used to import high value equipment. During 2001, merchandise imports picked up, following substantial increases in imports of intermediate goods (mostly industrial raw materials and white petroleum products). Food imports also declined during the period owing to favourable weather conditions.

16. Tanzania is a member of the Southern Africa Development Community (SADC) and the East African Community (EAC). These regional trade arrangements are important in promoting export trade for member states and hence reduce deficit in the respective country current accounts. Furthermore such cooperation arrangements provide tremendous opportunities for tourism development.

PRIVATE SECTOR AND INVESTMENT TRENDS

Investment Trends:

17. Investment in the form of capital formation has averaged about 20 percent of GDP over the past six years from 1996 – 2001, with an average annual rate of growth of 4.1 percent. The ratio of investment to GDP fluctuated between 18 percent and 22 percent with a slight increase of the ratio in the last three years. The share of private sector investment in total investment has averaged 74.4 percent in the period 1996 to 2001, an improvement over the average of 71.8 percent for the period since 1990. In general, the performance of investment in the past six years is promising consistent with the prevailing macro-economic stability and the country's

efforts aimed at creating a conducive environment to both domestic and foreign investors.

The Private Sector And Business Development

18. The private sector is expected to take a lead in economic development. Government has taken various measures intended at promoting effective private sector participation. These include opening up the financial sector to private sector participation hence increasing access to finance, acceleration of privatization process, encouragement of foreign investment, rationalization of the tax regime and reviewing existing laws, rules and regulations, to make them user and investor friendly. In addition the Parliament amended the Investment Act 1997, and the Government transformed the Tanzania Investment Centre into a one-stop centre. Various investment incentives have been designed thus attracting a steady flow of investments into manufacturing, agriculture, mining and tourism sectors. The sector of wholesale, retail trade and hotels including tourism accounted for 14 percent of the total approved investment projects thus ranking second in attraction to investors. This shows that the tourism sector has potential and a big role to play in the development of the economy.

19. The government has also inaugurated the Tanzania National Business Council to provide a forum for consultation between the government and the private sector on investment policy and sector policies and strategies to bring about sustainable growth and development in the country. It has further continued to create a conducive and an enabling environment, and is embarking on the implementation of a programme for Business Environment Strengthening

for Tanzania (BEST) to address constraints in private sector participation in economic development. These efforts are aimed at reducing bureaucracy and costs of doing business in Tanzania as well as improving incentives already being provided by the Tanzania Investment Act.

20. Furthermore the restructuring program for Public Enterprises is on course with increasing successes. Inspite of some problems and constraints, implementation of the privatization policy has been beneficial to the country. Now in its ninth year since inception of the Parastatal Sector Reform program in 1992, about 70 percent of the 395 enterprises have been privatized and restructured by June 2002. The target is to complete the restructuring by the year 2004. Foreign and local private sector companies in the tourism sector are highly encouraged to participate in the divestiture process.

Tanzania Development Vision 2025

21. For a country to develop, the economy needs deliberate policies to get the benefits of growth to the majority of its citizens. It is very encouraging to note that Tanzania's economy continues to grow and the policies and strategies in place aim at bringing about better standards of living for the people. In 1999, the government adopted the Tanzania Development Vision 2025. The Vision puts emphasis on building a strong and competitive economy by the year 2025, the private sector taking the leading role. Specifically, the Development Vision envisages that the people will be living by 2025 in a substantially developed society with a high quality of livelihood, having reached to the level of middle-income country where abject poverty will be invisible. The economy will have been transformed from a low productivity agricultural economy to a semi

industrialized one led by activities in rural and urban areas. Consistent with this vision, Tanzania in 2025 should be a nation imbued with the five main attributes: high quality livelihood, peace, stability and unity, good governance, well educated and learning society; and competitive economy capable of producing sustainable growth and shared benefits. The development vision puts a macro economic growth target at 8 percent per annum or more.

22. The primary objective of the development vision is alleviation of poverty. The development Vision has identified the kind of enabling environment that is essential for the nation to flourish economically, socially, politically and culturally. It has taken into account expected changes and trends in the world of tomorrow. Peace, stability and security of citizens and their property constitute a fundamental and necessary environment for development. Tourism is articulated as one of the priority sectors in the composite goal of the development vision. Over the medium term, Government objective for the tourism sector is to attain the following:-

(i) To increase the average annual growth rate to over 8 percent by 2005/06, which is equivalent to that envisioned in Vision 2025.

(ii) To increase foreign exchange earnings from US $ 725. Million earned in 2001 to over US $ 1.0 billion by 2005/06.

(iii) To create more employment opportunities in the tourist industry of over 180,000 people by 2005/06.

(iv) To ensure maximum preservation of the country's rich natural resource and heritage and promote tourism that is socially acceptable, and environmentally sustainable.

(v) To enhance local and international cross-cultural exchanges and international cooperation through tourism activities.

The Way Forward:

23. Tanzania's rich resource endowment offers the opportunity to collect additional growth from balanced and optimal exploitation of its resource base. Exports of non-traditional agricultural commodities, increased activity in mining sector and expansion of tourism are three areas that already have registered relatively high growth rates in recent years, but they still have substantial potentials for additional growth in the near future.

24. Tanzania Development Vision 2025 envisages to raise growth that focuses on raising over all productivity while benefits from an improved policy environment take root and lead to higher levels of private sector investments in the key sectors identified earlier as pacemaker for growth, tourism sector being one of them.

25. Tanzania can achieve 6 – 8 percent sustained growth rate given its natural resource potential and sustained peace and tranquility, through a combination of various policy environment initiatives. Among these include better quality and low cost infrastructure services, favourable tax regime, conducive legal framework, improved labour laws, an educated

and skilled labour force, good governance and maintenance of macro-economic stability.

Conclusion

26. It is very encouraging to note that Tanzania's recent development efforts have gained her a reputation as a serious economic reformer. The stability in macroeconomic performance has not only been key and foundation for the current steady economic growth but also a catalyst for growth in the various potential sectors of the economy. As pointed out earlier on, the achievements have been based on sound and sustained government policies and strategies and support from Tanzania's development partners.

ATTACHMENTS

Table1. Gross Domestic Product (GDP) Growth Rates by sector

S/N	SECTOR	1996	1997	1998	1999	2000	2001
1	Agriculture	3.9	2.4	1.9	4.1	3.4	5.5
2	Mining and Quarrying	9.6	17.1	27.4	9.1	13.9	13.5
3	Manufacturing	4.8	5.0	8.0	3.6	4.8	5.0
4	Electricity and Water	11.1	2.2	5.5	3.9	5.9	3.0
5	Construction	7.6	8.2	9.9	8.7	8.4	6.7
6	Trade Hotels and Restaurants	3.5	5.0	4.7	6.0	6.5	6.7
7	Transport and communication	1.1	4.9	6.2	5.8	6.1	6.3
8	Financial and Business Services	0.4	7.7	5.6	4.1	4.7	3.4
9	Public Administration and other Services	1.6	3.2	2.7	3.5	3.6	3.5
10	**GDP at mkt. price**	**4.2**	**3.3**	**4.0**	**4.7**	**4.9**	**5.6**

Source: Economic Survey, 2001: - President's Office, Planning and Privatisation.

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