

The Global Financial Crisis and Tanzania: Effects and Policy Responses

Final Report

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LIST OF ABBREVIATIONS

ADB	-	Agricultural Development Bank
BOT	-	Bank of Tanzania
CRDB	-	Cooperative and Rural Development Bank
CBA	-	Commercial Bank of Africa
COMESA	-	Common Market for Eastern and Southern African
DOD	-	Disbursed Outstanding Debt
DSE	-	Dar es Salaam Stock Exchange Market
ESF	-	Exogenous Shock Facility
EAC	-	East African Community
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Product
GFC	-	Global Financial Crisis
GTV	-	Government Television
IMF	-	International Monetary Fund
IPO	-	Initial Public Offer
KCB	-	Kenya Commercial Bank
MDG	-	Millennium Development Goals
MFEA	-	Ministry of Finance and Economic Affairs
NMB	-	National Microfinance Bank
PPP	-	Public Private Partnership
SADC	-	Southern Africa Development Countries
SDR	-	Special Drawing Right
SMEs	-	Small Micro Enterprises
TANAPA	-	Tanzania national Parks Authority
TATEPA	-	Tanzania Tea Parkers
TASAF	-	Tanzania Social Action Fund
TCC	-	Tanzania Cigarette Company
TIB	-	Tanzania Investment Bank
TIC	-	Tanzania Investment Centre
TTB	-	Tanzania Tourist Board
USA	-	United States of America
VAT	-	Value Added Tax
ZATI	-	Zanzibar Tourism Investors

ABSTRACT

This paper examines the impact of the recent global financial crisis (GFC) in Tanzania. It gives a snap shot of the economic, financial and social effects of the current worse global economic down turn and summarises the policy responses at national level to rescue the economy from eroding the past achievements reached.

At macro-level, the Crisis has reversed the Tanzania's GDP growth projection from 8 per cent to 5 percent for year 2009/10; this projection has negative implication in terms of investments, employment and income to various actors in the economy. Initially the global effects to Tanzania were limited such that the country survived the first round effects of the GFC. This was attributed to the country's low levels of integration with the international financial markets. As the GFC was becoming severe worldwide, the effects started to be felt in the Tanzanian economy and the banking sector in Tanzania started worrying that trade in finance was increasingly becoming more risky as the country's export commodity prices continued to lose value in the world market, export orders reduced and the revenues from the tourist sector dwindled as tourists postponed their holiday visits.

Early in 2009 there were already indications that the crisis had adversely affected a number of sectors such as: agricultural, mining and the tourism sectors. By May 2009 the Tanzanian government estimated a loss of about US\$255 million from domestic income occasioned by the Global Financial Crisis. However the analysis by sector indicates that by the third quarter of 2009, using various indicators such as profitability, liquidity and other financial assets; the financial sector in Tanzania was still sound although some banks experienced an increase in their non performing loans and decline in price of equities in the Dar es Salaam Stock Exchange (DSE) and foreign exchange inflows (remittances).

The trade sector suffered some setbacks as agricultural exports, minerals and gemstones, traditional crops and non- traditional crops recorded negative growth. However, trade in industrial goods recorded a positive trend, which was accounted by the increase in regional trade between Tanzania and its EAC neighbors. An improved performance was also recorded in manufactured goods; horticultural products; fish and fish products.

In terms of investments, the available information has confirmed that some multinational companies have decided to close their operations and hundreds of workers have been declared redundant as a result of the crisis. The TIC recorded a decrease in FDI projects (for year 2009) and low employment creation from the registered projects despite an increased in FDI value. To counteract GFC affects; the Tanzania government came up with the following policy responses:

- Formed a crisis committee led by the BOT governor who updates and advises the government on regular bases.
- A Two-Year Economic Rescue Plan was instituted (for FY 2009/10 to 2010/11) that was also approved by the parliament.
- Applied for a loan amounting to USD 336 million from the IMF under the Exogenous Shock Facility (ESF) to fill the gap in the balance of payment.

- The Government has already channeled TSh21.9 billion of that package directly to the banking sub-sector to cover losses suffered by bank clients like co-operatives and firms which bought agricultural products from farmers.
- Improved foods distribution to curb food shortages in the country; to cushion against the decline in incomes in some families; allocated Tsh 20 billion in FY 2009/09 budget to ensure food availability at a reasonable cost.
- Provision of affordable capital for businesses. Under this scheme, the Government has released a stimulus package of Tsh.200 billion through the commercial banks.
- Under the Central Bank of Tanzania, the government has intensified surveillance of both domestic and international capital financial markets to oversee the performance of all financial institutions.
- The government has also formed a Financial Sector Regulatory Authority. It has also established an early warning system using selected financial soundness indicators; through this measure an oversight of the banking system has been intensified. The BOT has also established a financial stability department that produces regular financial stability reports.
- The BOT holds on daily basis surveillance meetings to ensure stability in the financial sector and availability of appropriate level of liquidity in the system.

Although the GFC had negative effects in the country's growth path, it provides some challenges and opportunities for the country. The challenges are in its low domestic revenue generation capacity and productivity and weak infrastructures systems, where as the opportunities exist such as; wide diversification ability due to large natural resources base and increase in income from exports due to expanding regional trade in the EAC.

1.0 INTRODUCTION

The Global Financial Crisis (GFC) has been referred as the worst since the Great Depression of the 1930s. It has contributed to the failure of key businesses; decline in consumer wealth estimated in trillions of U.S. dollars; triggered a significant decline in economic activities; and prompted substantial financial commitments by governments. The main reasons for this failure were mortgage loans extended 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. As a result of the above weaknesses an accumulation of bad loans and business loss amounting to US\$ 2.3 trillion (or 17 percent of the USA's GDP) were realized. 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 the 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 Central banks responded with an exceptional fiscal stimulus, monetary policy expansion, and institutional bailouts (World Bank, 2009).

The effects of the GFC on developing countries were forecasted to be comparable to those on developed countries. IMF forecasts for Sub-Saharan African growth by early 2009 were downgraded by between 1 to 2 percent up to 5.5 percent in 2008 and 5.1 percent in 2009. By October 2009 IMF was forecasting the SSA to record a deficit of 3 percent from about 2.8 percent surplus in 2008. The revision represented a reduction of up to USD 20 per head in Sub-Saharan Africa due to the financial crisis. The channels through which the global financial turmoil affects developing countries include *financial channels* and *real channels*. Financial channels include effects through stock markets, banking sector (borrowing from advanced economies, foreign ownership of banks, exposure to 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, it was suggested that net financial flows to developing countries may fall by as much as \$300 billion in two years, equivalent to a 25 percent drop.

Before the Global Financial Crisis, Tanzania's economy was projected to increase by 8 per cent in 2009; but due to the crisis, the economic growth was projected to grow at 5-6 percent for year 2009/10. By early 2009 there were already indications that the crisis had already affected a number of sectors, including the agricultural and the tourism sectors, thus adversely affecting growth projections. By May 2009 the Tanzanian government estimated a loss of about US\$255 million from domestic income occasioned by the Global Financial Crisis, calling for concerted efforts in boosting agriculture and curbing excessive spending through importation of expensive vehicles and unnecessary seminars countrywide. The financial crisis also affected decisions to review the minimum wage for both public and private sector workers.

2.0 GLOBAL FINANCIAL CRISIS ON TANZANIA

2.1 Introduction

First Round Effect to Tanzania

The initial global effects to Tanzania were limited such that the country survived the first round effects of the GFC which were characterized by sudden credit crunch or failure of the financial market to work. This is because traditionally the financial markets within the country have low levels of integration with the international financial market and operated in a regime of capital account restrictions. This lowered exposure to the bad financial assets leading to lower exposure to the crisis. However, by late 2008 the banking sector in Tanzania started worrying that trade financing was increasingly becoming more risky as commodity prices continued to lose value in the world market and export orders reduced. One of the initial interventions by government of Tanzania was to assure the general public that the local banking sector was in sound condition. Meanwhile it started initiatives to support the Banks so that they avoid reducing trade financing as that would have greatly affected the national economy in terms of foreign exchange earnings and job creation.

Second Round Effects

Over time the falling purchasing power of developed economies began to manifest in terms of fall of commodity prices; loss of jobs leading to unemployment; decline in incomes; fall demand for world tradable commodities. The most negatively affected sectors were: agriculture, industry, mining and tourism (MOFE, Budget Speech 2009/10). As the global economy continue to sink into depression, price levels of key export commodities in Tanzania fell further as consumer demand in advanced countries continued to decline and the revenues from the tourist sector dwindled as tourists cut back on holiday making. There were fears that although the government had managed to stay on track in the promise to create a million jobs by 2010, the financial crisis was likely to derail the process. The government therefore made concerted efforts to maximize the benefits from falling international crude oil prices so that local prices are lowered and therefore reducing the cost of production and transport.

Signs of Resilient of the Financial Sector

The earlier assessment by the Bank of Tanzania that the domestic financial sector was in sound condition due to proper management and minimal direct exposure to the international financial markets has not been disputed by 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 banks¹ an after-tax profit of approximately Tsh 2.2 billion was recorded (compared to the profit level of approximately Tsh 1.8 billion in the second quarter). The same applied to bigger banks² which showed an increasing trend in the recorded after-tax profit. A combined profit of approximately

¹ Commercial Bank of Africa, CF Union Bank, Tanzania Postal Bank, Mwanga Rural Community Bank, Habib Bank, Tanzania Women Bank, and Kagera Farmers Cooperative Bank

² Standard Chartered Bank, CRDB Bank, Stanbic Tanzania, Citibank Tanzania, NBC Ltd, Diamond trust Bank, National Microfinance Bank and Akiba Commercial Bank.

Tsh 50.6 billion was recorded in this third quarter, compared to the Tsh 29 billion recorded in the second quarter.

2.1 Trade

However, despite the positive performance of the banking sector, the trade sector suffered some setbacks as agricultural exports, minerals and gemstones, traditional crops and non-traditional crops recorded negative growth. However, trade in industrial goods recorded a positive trend, which was accounted by the increase in regional trade between Tanzania and its EAC neighbors (BOT quarterly report 2009). Table 1 indicates the situation by June 2009 and performance of some sectors that were vulnerable to the world down turn:

Table 1: Agricultural, Mining and Industrial Sector Exports

Export Item	2007/08	2008/09	% Change in Growth
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

Regional Trade: East African Community

Trade balance between Kenya and Tanzania has been negative since 2000 (see table 2). However the situation started to improve marginally in favour of Tanzania from a negative balance of US\$ 63.9 million in 2006 to positive balance of US\$ 1.5 million in 2008. Tanzania reduced her import from Kenya to US\$ 155.3 in 2008 from US\$130.2 million in 2004, whereas her exports to Kenya increased to US\$ 115.2 million in 2008 from US\$89.3 million in 2006. The improvement is partly explained by an increased of export of staple foods and improvement of quality of Tanzania products for the Kenyan Market. At the same time Tanzania continued to be the net exporter to Uganda, Rwanda and Burundi (BOT Annual Report 2008/09).

Notwithstanding an increase in Tanzania's absolute exports to Kenya, its share of exports to Kenya slowed down to 58.4 percent in 2008 from 77.6 percent in 2006 while her export share to Burundi and Rwanda went up significantly from 3.1 and 2.4 percent to 24.0 and 6.5 percent respectively in 2008. The increase of exports to Burundi was a result of increased exports of cereals and fertilizers. Tanzania holds a significant share of import from Kenya; however the share declined in 2008 to 94.0 from 97.5 percent in 2007, while her import share increased significantly from 2.4 to 6.0 percent in Uganda over the same period. The general picture from the table below is that Kenya and Tanzania do dominate export and import trade in the region, and the increase in trade in the region played a significant role to offset the decline in Tanzania's exports in the world market. However, there is a need to assess whether the global financial crisis resulted to exceptionally increased trade between the member states compared to their trade volumes and values with the rest of the world.

Table 2: Tanzania's Trade with EAC States (Kenya, Uganda, Burundi and Rwanda) 2000-2009(Mil.US\$)

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Tanzania's trade with Kenya										
Export to Kenya	32.1	38.1	35.3	78.2	83.7	76.3	89.3	101.1	115.2	78.5
Import from Kenya	93.1	203.4	95.2	115.8	130.2	155.3	153.2	100.2	113.7	76.2
Trade Balance(A-B)	-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										
Export to Uganda	8.5	5.5	5.5	10.3	11.7	20.1	19.6	19.3	21.2	13.4
Import from Uganda	5.6	11.4	2.7	8.2	7.7	5.1	3.8	6.4	7.5	8.1
Trade Balance(A-B)	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										
Export to Burundi	4.2	6.1	7.0	4.7	7.5	7.3	3.5	41.5	44.8	27.3
Import from Burundi	0.0	0.2	0.0	0.3	0.0	0.3	0.0	0.0	0.4	0.2
Trade Balance(A-B)	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										
Export to Rwanda	1.8	2.8	3.9	2.6	2.9	3.0	2.7	11.2	13.5	7.5
Import from Rwanda	0.1	0.1	0.0	0.1	0.1	0.0	0.2	0.0	0.3	0.1
Trade Balance(A-B)	1.7	2.7	3.9	2.8	2.8	3.0	2.5	11.2	13.2	7.4
Total to EAC States:										
Export to EAC States	46.6	52.0	51.7	95.8	105.8	106.7	115.1	173.1	175.2	98.6
Import 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(A-B)	-52.2	-163.1	-46.2	-29.3	-32.2	-54.0	-42.1	66.5	58.6	22.3

Source: BOT Annual Report 2008/2009. * Unconfirmed data for January to July 2009

2.1.1 External Sector Development

So far the external trade performance was fairly satisfactory (MOFE, 2009) whereby the export of goods and services increased by 3.2 percent during the period up to September 2009. However, imports decreased by 4.4 percent in the same period. Meanwhile, the current account deficit narrowed to USD 2,060.7 million from a deficit of USD 2,950.4 million recorded in the same period in 2008.

2.1.2 Export Performance

During the year ending September 2009, earnings from exports of goods amounted to USD 2,671.7 million, equivalent to an increase of 7.9 percent compared to the same period in 2008. Improved performance was also recorded in manufactured goods; horticultural products; fish and fish products during the period. The value of traditional exports went up by 32.2 percent to USD 492.5 million from USD 372.4 million recorded in the corresponding period in 2008. This was due to the increase in the export volumes of coffee, tobacco and cloves. With the exception of tea, tobacco and cashew nuts, which recorded an increase in the export unit prices, other traditional exports recorded a decline in prices mainly on account of the effects of the global financial crisis (see details Annex 1).

As for non-traditional exports, their earnings increased marginally by 3.6 percent largely due to an increase in the exports of manufactured goods and horticultural products. There was a remarkable performance in horticultural exports largely associated with expansion in

horticultural production coupled with new investments in cut-flowers in the southern part of Tanzania.

2.1.3 Import

During the first six months of the financial year 2009/10, imports of goods and services amounted to US\$6,425 million, representing an increase of 11.6 percent over the previous year, much of the increase coming from import of goods. Total goods import increased by 10.9 percent to US\$5,024.6 million during this period. Imports of capital and consumer goods rose by 29.0 percent and 6.9 percent, respectively, while imports of intermediate goods decreased by 3.4 percent.

2.2 World Commodity Prices

During the period up to July 2009, the world market prices for agriculture and non-agriculture commodities recorded mixed trends. Prices of robusta and arabica coffee recorded a decline from USD 2.2 in July 2008 to USD 1.87 in July 2009 per kg and from USD 3.08 in July 2008 to USD 2.17 in July 2009 per kg respectively. While the price of cotton (A index) decreased from USD 1.64 to 1.41 per kg and the price of tea (average price) and Mombasa auction rose moderately from USD 2.36 to 2.41 and USD 2.02 to 2.24 per Kg respectively. The price of tea at Mombasa auction rose by 10.7 percent following strong demand from Russia, Middle East and Pakistan. For cloves, the price declined slightly from USD 4,164.9 to USD 3,913.1 per metric ton, whereas the price of sisal increased from USD 1,090.7 to 1,213.0 per metric ton in July 2009. On an annual basis, the price of robusta coffee declined by 18 percent to USD 1.9 per kg. Similarly the price of cotton (A-index and Memphis) declined to USD 1.4 per kg as a result of reduced global market demand (table 3).

During the period 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 the result of weak global demand occasioned by the financial turmoil. On the other hand the price of gold rose slightly to USD 873.1 per troy ounce (table 3). These positive trends helped to mitigate the effects of falling revenue from other export earnings which had declined due to the falling world market prices.

Table 3: World Commodity Prices (2007-2009)

Commodity	Units	Year Ending July			% change
		2007	2008	2009	
Robusta coffee	USD per Kg	1.77	2.28	1.87	-18.08
Arabica	USD per Kg	2.60	3.08	2.17	-13.54
Tea (Average price)	USD per Kg	1.90	2.36	2.41	2.30
Tea (Mombasa Auction)	USD per Kg	1.71	2.02	2.24	10.67
Cotton (Mombasa Auction)	USD per Kg	1.31	1.61	1.35	-16.28
Cotton 'A Index'	USD per Kg	1.35	1.64	1.41	-14.42
Sisal (UG)	USD per Metric ton	931.67	1,090.67	1,213.00	11.22
Cloves	USD per Metric ton	3,662.13	4,164.58	3,913.10	-6.04
Crude oil*	USD per barrel	62.8	99.28	63.07	-36.47
Crude oil**	USD per barrel	61.21	95.44	62.14	-34.89

Commodity	Units	Year Ending July			% change
		2007	2008	2009	
White products	USD per ton	600.91	922.86	598.16	-35.18
Jet/Kerosene	USD per ton	620.69	978.54	620.69	-36.57
Premium Gasoline	USD per ton	613.12	860.78	575.08	-33.19
Heat oil	USD per ton	568.91	929.27	598.68	-35.57
Gold	USD per troy ounce	641.07	845.84	873.12	3.22

Source: Bank of Tanzania, November 2009

Note: * = Average of UK Brent, Dubai and West Texas international; ** = Fob Dubai; *** = Fob West Mediterranean

2.3 Agriculture

In Tanzania's agricultural sector provides raw material to domestic processing industries and it offers employment to about 70% of the total population. The sector contributes about 45% of total export earnings. The sector produces 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 of the production is self-financed, marketing is largely funded by seasonal credits provided by the banks to cooperatives and private companies. The GFC mostly affected borrowers engaged in marketing of cotton, coffee and tea. For instance, the CRDB Bank in Tanzania reported TSh168 billion at risk following persistent failure by traders to service their loans. Flower farmers also pleaded for rescheduling of servicing of their loans following a decline of world market prices. Between October 2008 and March 2009 the world market price of horticultural crops, including flowers, had declined by as much as 30 to 50 percent because of the economic downturn.

The demand for Tanzanian cotton products had also declined in the world market leading to a domestic market crisis as international prices fell by 40%, leading to a pile up of unsold cotton stock in warehouses. Cotton that was bought by traders at a high price from peasants suddenly lost its market and demanded at much lower prices. By April 2009 there were 124,344 bales of unsold cotton out of 605,812 bales that were bought during the previous season. As a consequence of reduced business profitability and individual incomes, there are already indications that domestic revenue collection in the Fiscal Year 2009/10 will experience 10 percent shortfall of its 4.73 trillion shilling (\$3.53 billion) target.

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 the expected food shortages in the world.

2.4 Financial Sector

The financial crisis revealed the power of globalization and how the world economy is inter-linked. The threads of globalization can take a problem from one corner of the globe to multiple destinations, Tanzania included. Fortunately the financial indicators for the Tanzania indicates that the market has managed to weather the storm relatively well (*Bank of Tanzania, 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 percent against the benchmark of 10 percent;
- All banks had adequate liquidity; whereby their liquidity ratio was 48.5 percent as compared to the flow of 20 percent;
- The Gross Non-Performing loans ratio was equivalent to 6.8 percent compared to the international lower standard of 10 percent;
- The interbank payments and settlements system continued to be liquid and efficient; and
- The interbank cash market continues to be liquid and characterized by stability interest rates.

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

2.5 Industrial Sector

Tanzania's industrial sector is dominated by agro-based industries such as textile and clothing industry, which is greatly dependant on the local market. The products from this industry were also affected by the financial crisis as evidenced by reduced exports revenues by factories such as SunFlag and 21st Century, which started reporting reduced export orders in November 2008. There were also other textile industries such as Tabora textile, Mbeya textile and Kilitex, which couldn't export their products due to loss of markets.

The action by some Far East countries to provide subsidies to their local industries caused some distortions in the world market prices such that our local industries could not compete not internationally but in the domestich market as well following the flooding 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 are not spared from the GFC. Tanzania is the leading country in SADC and the third country in Africa, having a large number of livestock, whose products include leather. The leather industry in Tanzania has been affected by the Global Financial Crisis whereby between September 2008 and July 2009 the prices of different types of livestock leather had declined from US\$ 1500 to US\$ 500 per ton for salt leather and from US\$ 1,100 to US\$ 350 per ton for ghafi leather.

2.6 Tourism Sector

In Tanzania, the tourism industry is among the fast growing sectors at an average of 12 percent and the country's Gross Domestic Product (GDP) and about quarter (25 percent) of the foreign exchange earnings in Tanzania. The sector was expected to receive 500,881 visitors to its National parks between July and December 2008, but instead only recorded 425,137 visitors, including climbers, at the 15 national parks in the country. The 15 percent shortfall could be attributed to the recent decline in the number of external visitors to the country. Most of the income generated by sector is from visitors who come for game viewing in national parks. Overall, the tourism industry generated Tsh 41.6 billion in 2008, which is less than the anticipated revenue of at least Tsh 49.9 billion. Preliminary findings of the task force formed by the Tanzania Tourism Board (TTB) to strategize on mitigation measures had shown that there was a reduction of visitors from two of its primary market hubs, namely the USA and Europe, which together accounted for approximately 80 percent of the country's visitors (*TTB, 2009*).

2.6.1 Tourism Promotion

The government responded by working closely with TTB and the private sector in promoting Tanzania as a tourist destination. This included marketing all the tourist attraction 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 the overall collections from the sector surpassing the target set in 2008/09 by 6 percent ultimately receiving TSh 1.8 billion as licence fee from 468 firms in eleven months (*Ministry of Tourism and Natural Resources, 2009*).

Data from the migration shows that there was a 10% decline in the number of tourists in Tanzania mainland, registering 214,733 tourists arrivals in the period of January to April 2009 compared to 238,139 tourists received in the same period in 2008. Figure 1 indicates the international tourism arrivals in the period of January 2006 to December 2008 and January to April 2009. Consequently the revenue obtained from tourism sector went down to US\$ 302.1 million in the period of January-April 2009 compared to US\$ 388.2 million in 2008.

Figure 1: International Tourism Arrival in Tanzania in the Period 2006 – 2009
(January 2006 –December 2008 and January - Maay 2009)

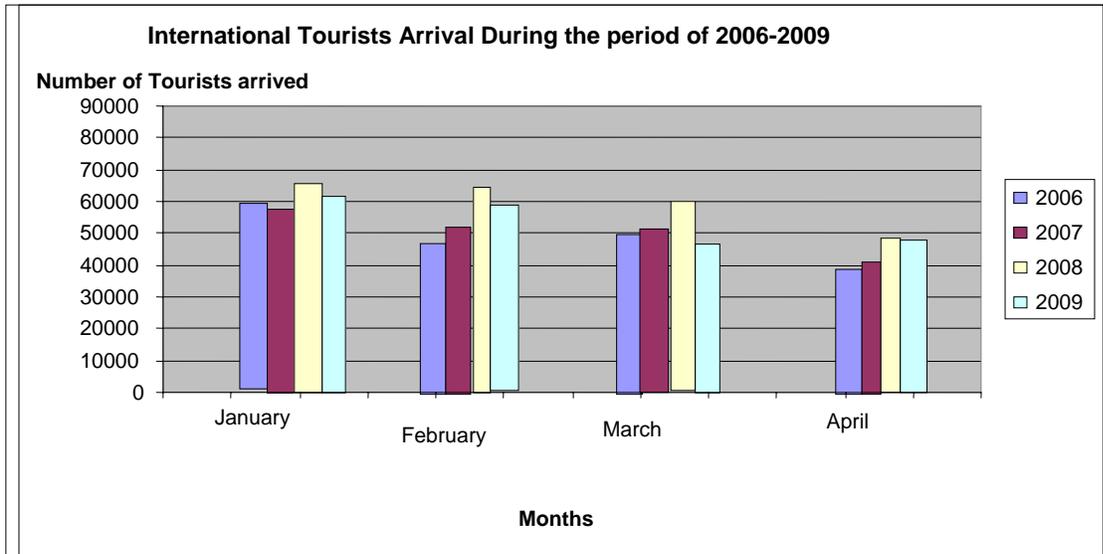
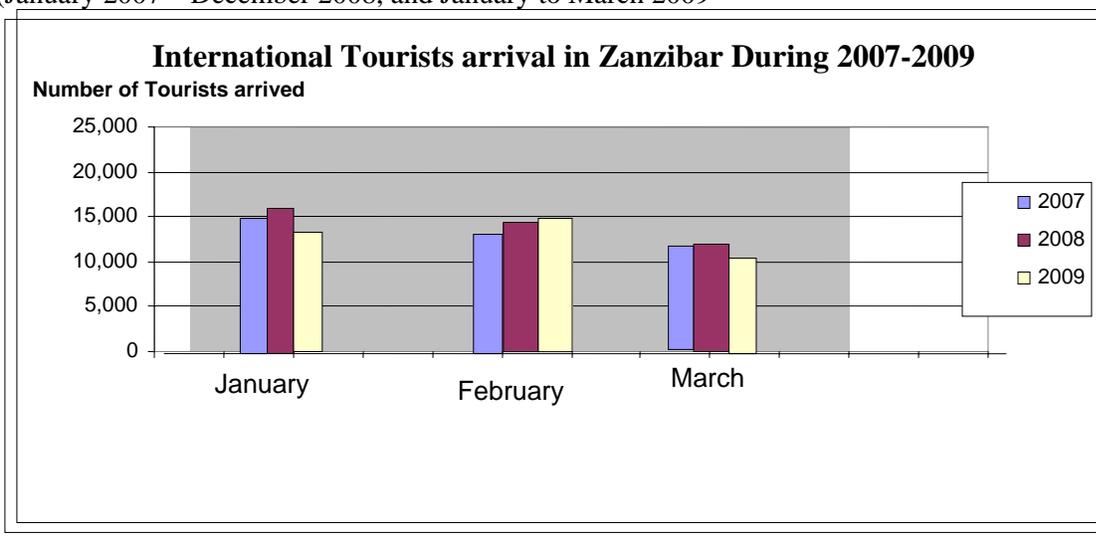


Figure 2: International Tourism Arrival in Zanzibar in the Period 2007 - 2009 (January 2007 – December 2008, and January to March 2009)



Likewise in Zanzibar there was a decline of 10.4 percent in tourist arrivals to the islands in 2008 compared to 2007. However, there were some indications of improvements by February 2009 amidst fears by hotel owners that the decline would persist in 2009. A small research by investors in tourism sector (ZATI) showed that that the estimated decline of tourists by at least 15 percent would affect employment by 20-30 percent. Figure 2 indicates the trend of tourist arrivals in Zanzibar for the period of January 2007 to December 2008, and January to March 2009.

2.7 Mining Sector

World market prices also went down as a result of the GFC. In Tanzania, minerals mostly affected were: diamonds, tanzanite, nickel and aluminium. However gold was not affected since

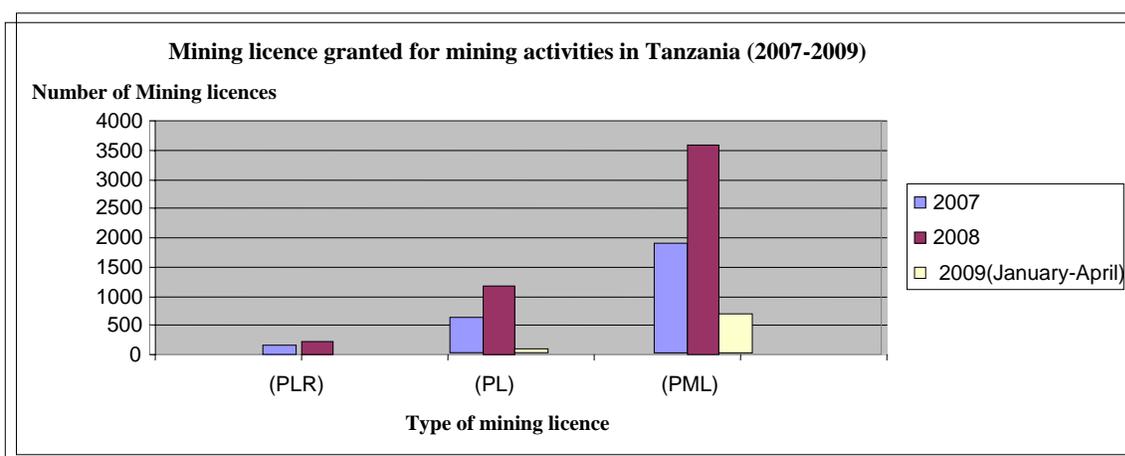
it is used by nations as an alternative for currency value stabilization following the depreciation of the major currencies such as the Euro, US Dollar and the Sterling Pound. The decline in prices of nickel in the world market caused the Barrick and Xtrata companies in Tanzania to postpone their plans to operate Kambanga nickel mine until when the price has improved to avoid further losses to this project worth US\$ 165 million. Mining of aluminium by other companies were also expected due to declined revenues as a result of world market price falls. The impact of GFC was most severe to the tanzanite mining companies and small scale miners due to a 50 percent decline in the price of tanzanite in the world market. Consequently the income and employment of small scale miners has declined due to reduced revenue obtained from mining processes. It has been shown that for every miner there are three people employed to provide food and other services required by miners. The price of diamond was also affected, recording a decrease of 26 percent, i.e from US\$ 8,870 per carat in September 2008 to US\$ 6,608 per carat in April 2009.

Investment in mining sector in Tanzania are expected to decrease by more than 50 percent i.e from US\$ 90 million to US\$ 40 million per year as indicated by a decline in the requests of mining licence where by in April 2009 only 15 licenses were granted compared to 2008 which were 224 licenses. Despite the fact that the mining sector backslided in new investment, it has started to pick up due to price strengthen of mineral commodities.

Table 3: Mining Licenses granted for Mining activities in Tanzania

	2007	2008	2009 (January-April)
Prospecting Licenses with Reconnaissance (PLR)	155	224	15
Prospecting Licenses (PL)	607	1,169	72
Special mining Licenses (SML)	1	0	0
Mining Licenses (ML)	28	69	9
Primary Mining Licenses (PML)	1,863	3,573	678

Figure 3: Mining licenses Granted for Mining Activities in Tanzania (2007 – 2009)



2.8 Remittances and Migration

The global crisis could impact not only on export earnings but on remittances as well, where the most direct short-term impact on the economy would be declining funds from the Tanzanians living abroad whose incomes are affected after losing jobs and reduced income from wages and dividends from investments they had made in real estates and financial markets. The bank of Tanzania has reported getting some indicators or reduced personnel remittances, but hard data on the subject will be available after completion of a special research by the Bank of Tanzania's Policy and Research Directorate. However, a recent study by the International Organisation for Migration (IOM) has indicated some signs of reduced remittance between Tanzania and Uganda, although data was for up to July 2009 only. Banks such as CRDB and Commercial Bank of Africa, however, reported a surge in interest by the Diaspora to invest in "safe" and high dividend projects in Tanzania, citing increasing default by friends and relatives when they send money home for projects. CRDB Bank had opened special accounts for 500 people and 300 clients in UK and USA in response to that demand.

3.0 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 maintain 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 percent annually over the last five years. Despite the world financial crisis and economic recession, GDP growth in 2009/10 is officially estimated at 5.4 percent. However inflation has been accelerating since 2006 and averaged 11.3 percent in 2009. As a result, the Bank of Tanzania revised its medium-term inflation objective upward in 2008 from 5 per cent to 7 percent. The main short-run challenge facing planners therefore is to reduce the current double digit inflation rate to single digit. In the medium term, alleviating the critical infrastructure constraints in the transport, communications and energy sectors; putting in place measures to mitigate the impact of the global economic downturn; and establishing a mechanism for translating 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 corruption scandals.

Tanzania's foreign reserve holds more than \$2.6 billion, enough to finance more than 4 months of goods and services imports. Moreover, the foreign exchange denominated deposits held with commercial banks by Tanzania residents remained stable at \$ 1.5 billion equivalent to another 2 months of imports of goods and services. Also foreign exchange denominated assets held by commercial banks adds 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 the financial market robustness in the country, speculative demand for foreign exchange existed in the market since October 2008, partially driven by anxiety about foreign exchange availability in the light of GFC (BOT, 2009). The Bank of Tanzania responded by intervening in the market to stabilize the value of Tanzania shillings. Despite the interventions its value depreciated by 12.9 percent by September 2009 to an average of Tsh 1308.9; from Tsh 1,159.5 in September 2008. This fall was attributed to increased demand for foreign exchange in 2009, partly due to speculative gains and partly due to reduced foreign earnings relative to import requirements demand. However, the value of the Tanzania 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 Bank of Tanzania. The annual exchange rate averaged Tsh 1,317.4 per US\$ in 2009 compared to an annual average of Tsh 1,195.8 per US\$ in 2008, a depreciation 10.2 percent.

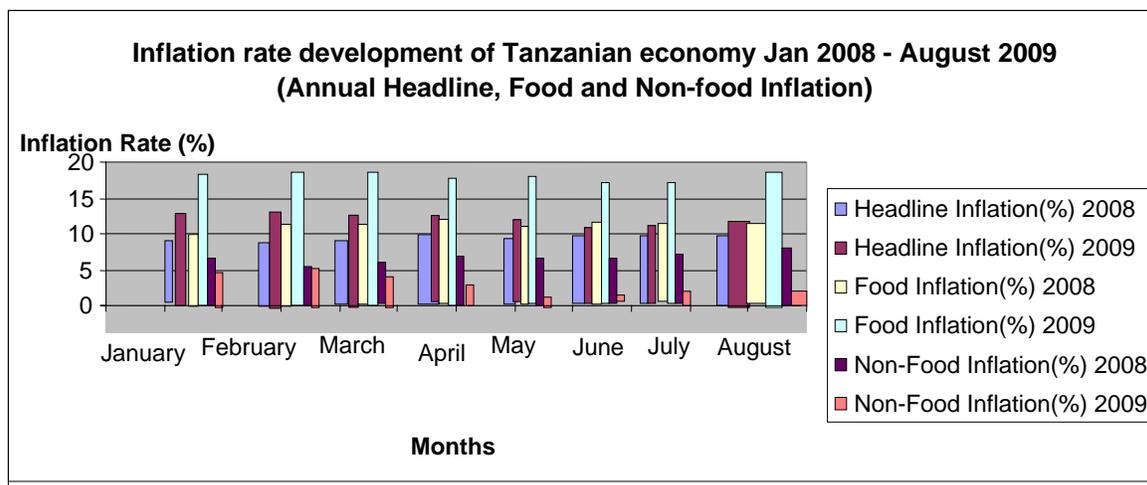
3.3 Inflation Development

Tanzanian 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. During this period the annual inflation rate reached a peak at 13.5 percent in December 2008 which was driven by food inflation of 18.6 percent while non-food inflation was at 6.0 percent. By the end of July 2009 the annual headline inflation continued to decline to 10.9 percent from 12.9 percent in January 2009 when annual non-food inflation was only 1.9 percent but annual food inflation was 16.9 percent.

The headline inflation rate was expected to decline further before the end of 2009 due to easing of global fuel prices as well as sustained prudent fiscal and monetary policies of the country. So far so far there has been a change in the annual headline inflation rate in August 2009 which increased to 12 percent compared to 11.3 percent and 10.9 percent in May and July 2009 compared to the same period in 2008, respectively. The increase in the rate of inflation was mainly attributed to the increase of food inflation from 16.9 percent registered in the year ended July 2009 to 18.9 percent in the year ended August 2009.

Food items that contributed to such price increase were cereals, cassava, potatoes, cooking banana, fruits, fish, coconut and milk also non-food inflation rate has also increased by 0.9 percent in August 2009 where the Non food items that had increased prices include fuel and fares. The inflation development in Tanzania for the period is shown in figure 4, 5 and table 4 below.

Figure 4: Inflation Rates in Tanzania (Jan 2008 – July 2009)



Source: BOT 2009

Figure 5: Inflation Rates in Tanzania (Jan 2008 – November 2009)

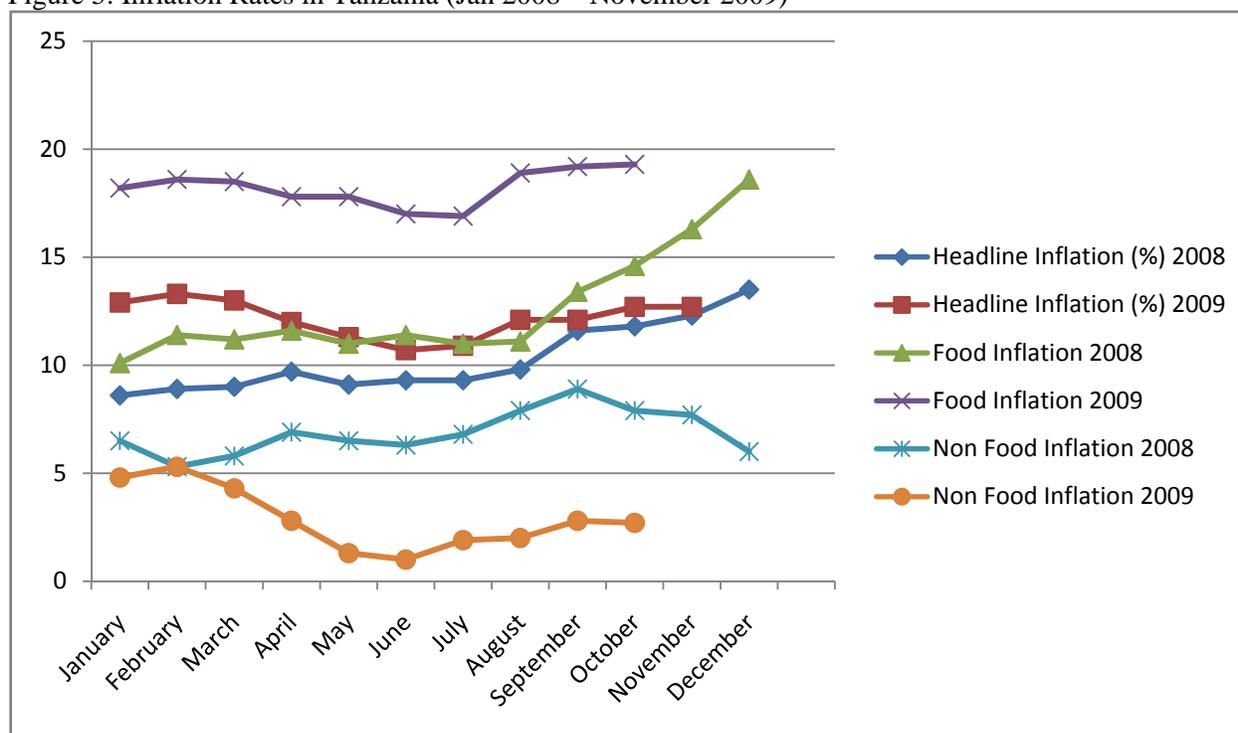


Table 4: Inflation Development 2008 -2009 (Annual headline, food and Non food)

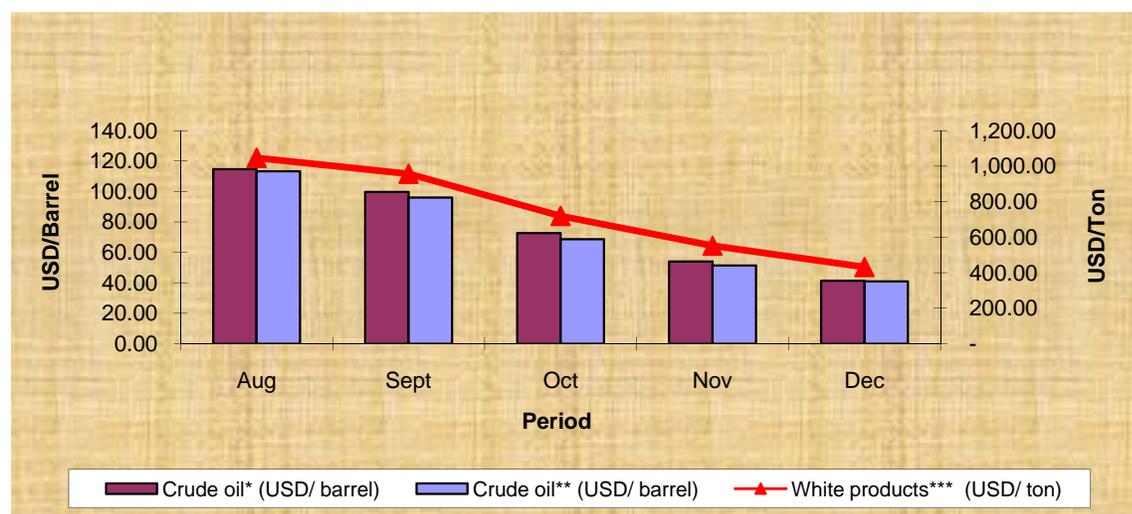
	Headline Inflation (%)		Food Inflation (%)		Non-Food Inflation (%)	
	2008	2009	2008	2009	2008	2009
January	8.6	12.9	10.1	18.2	6.5	4.8
February	8.9	13.3	11.4	18.6	5.3	5.3
March	9	13	11.2	18.5	5.8	4.3
April	9.7	12	11.6	17.8	6.9	2.8
May	9.1	11.3	11	17.8	6.5	1.3
June	9.3	10.7	11.4	17	6.3	1
July	9.5	10.9	11	16.9	6.8	1.9
August	9.8	12.1	11.1	18.9	7.9	2
September	11.6	12.1	13.4	19.2	8.9	2.7
October	11.8	12.7	14.6	19.3	7.9	2.8
November	12.3	12.5	16.3	17.1	7.7	5.0
December	13.5	12.2	18.6	-	6	-

Source: BOT 2009.

During the period, the 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 year 2009/10. The fall in the price of fuel in the world market was among the positive effects that have assisted to lower the 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 country's energy sector regulators (EWURA) and fuel importers retailers. The figure below indicates the monthly oil prices in the world market up to December 2008.

Figure 6: Monthly Oil Prices



3.4 Fiscal Operation

The Global Financial Crisis had some impacts on revenue sources with shortfalls in taxes on imports and income. During the first three quarters of the year there was a lower performance on domestic revenue against the targets even though overall foreign inflows were in line with budget estimates. The tax revenue collection during the first three quarters of 2009 was 11.4 percent of GDP compared to 10.8 percent of GDP during the corresponding period in 2008. Total revenue collection was 91.5 percent of budget projections. A good performance was recorded in taxes of local goods where by the revenue collection was 21.6 percent higher compared to the corresponding period of the fiscal year 2007/08. The government continued to reform in the tax system order to modernize, broaden and enhance domestic revenue collection even though its expenditure during 2008/09 was below budget estimates where the recurrent expenditure was 94.6 percent of estimates and development expenditure was 74.5%. The total government expenditure during 2008/09 was 17.3 percent of GDP out of which recurrent expenditure was 11.7 percent of GDP.

The government in early 2009 formed a task force chaired by the Bank of Tanzania Governor, Prof. Benno Ndulu to evaluate the situation and propose mitigation strategies. The task force reported in mid 2009 that the crisis had led to reduced production capacity and job cuts in different sectors. The government set aside 1.7 trillion shillings (about 1.3 billion U.S. dollars) as an economic stimulus package, among which over 200 billion shillings (152.67 million dollars) were set aside to aid local banks in separate programs from credit financing to traders,

cooperative societies and large-scale farmers who were falling behind on loan payments during the fiscal year 2009/10. Although the country will get an additional \$ 220 million as part of the fiscal stimulus package from the G20 to fight off the world economic crisis, the amount, which was injected into the 2009/10 national budget, was equivalent to one percent of the country's Gross Domestic Product (GDP).

3.5 Money Market

Interest rate

Tanzania's money market generally remained healthy during the whole period of the crisis, although few negative effects have been noted. As noted earlier, the money market fared well due to interventions by BOT helping the banks to have more liquidity whereby the interbank overnight rate was on average 1 percent, while that of weighted average treasury bills was ranging between 4.7 percent, 5 percent and 6 percent. Tanzania is now reviewing the investment rules where it wants to open a room for foreign subjects to invest in treasury bills.

Bank Deposits

Likewise the global economic crisis has had little impact on bank operations in the country; although some major banks were vulnerable, being directly in the line of fire by virtue of their link to the shrinking global trade. However, the system had low exposure to the crisis because it had limited amount of foreign borrowing and none holds securities of the international banks which were affected by the crisis. The low level of integration with the international capital and financial markets is manifested by the level of foreign assets component in our commercial bank system, which is 11% of total commercial bank assets. Another stabilizing factor is that "foreign" commercial banks in Tanzania are licensed, regulated and supervised under Tanzania law; and are not operating as branches of parent banks abroad but as independent subsidiaries. However, the crisis somehow affected their deposits overseas, which indicated a slight decline in the period; with some Banks recording a decline in deposits from 3 to 12 percent. The banks have been warned that non-performing loans 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 show that pretax profits increased to Tsh 84bn (\$64.61 m) during the year that ended on June 30, 2009. This is a slight increase over the Tsh81bn (\$62.30 m) recorded in the year to June 30, 2008 (BOT 2009). Despite this seemingly rosy picture the central Bank intensified supervision efforts on banks and other financial institutions.

However, according to the International Monetary Fund (IMF), Tanzania's financial system is still not safe from the global economic crisis. In its country report for June, 2009 the IMF called for vigilance and closer scrutiny of the local financial sector, warning that local banks were not out of the woods yet and urged the Tanzanian government to safeguard pension funds whose assets in banking institutions could be eroded by the crisis. There is fear about the rapidly-growing and inadequately supervised pension funds, which could be affected by deterioration in

the quality of their assets and the weak regulation of pension funds. The IMF report pointed out that urgent action was required to put in place a regulatory authority whose law was enacted in November 2009.

3.6 Equities

During the second quarter of 2009, the financial market experienced a fall in the price of most of the equities. Shares of many companies such as; Tanzania Cigarette Company (TCC), Microfinance bank (NMB), Tanzania Tea parkers (TATEPA) declined. The quarterly average price changes are as shown in the table 5 below:

Table 5: Quarterly Average prices for Equities in the DSE

Type of shares	1st Quarter	2 nd Quarter	% Change
TCC	1760	1740	-1.14
TWIGA	1580	1540	-2.53
NMB	900	740	-17.78
TATEPA	510	495	-2.94
SIMBA	1860	1820	-2.15
NICOL	2855	280	-1.75

Notwithstanding the negative changes above, the shares of East African Breweries (EABL), Tanzania Breweries (TBL), SWISSPORT, Kenya Airways (KA) and Kenya commercial Bank (KCB) remained the same over the period. Although the third quarter report for the DSE is yet to be published, the trend in the market has remained more or less the same. If this negative trend persists it will further erode the purchasing power of shareholders.

Nevertheless the Dar es Salaam Stock Exchange Market (DSE) recorded a total turnover of Tsh 7.04 billion while in the first quarter the turnover was 5.8 billion recording an increase of 21.34 percent. A total of 18.5 million shares were traded compared to 5.3 million shares traded in the first quarter of 2009. This implies a rather healthy market despite some falls in share values as witnessed in the first parts of 2009.

3.7 Investment and Capital Flows

Some of the multinational companies in the agriculture, mining and energy sector decided to close their operations and lay off workers as a result of the economic crunch. As noted elsewhere, some have postponed investment in new mining and energy 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 daily basis to determine signs of weakness, established intensified oversight of the banking system and broadened collection of information on the performance of its banks and it ensures necessary adequate capacity of the Bank and the Government to intervene.

The Tanzania Government is looking into ways of enhancing the export incentives to investors, especially investors in priority sectors of the economy. The Tanzania Investment Centre (TIC) has so far experienced shrinkage of about 30 percent in the value of new investments during the

first half of this year, compared with the same period last year. Major sources of Foreign Investments in Tanzania are Britain which has an edge over other countries in terms of number and value of projects followed by Kenya, South Africa and India. The Tanzania Investments Centre (TIC) data indicates that Tanzania received US\$695.5 million in foreign direct investment (FDI) in 2008 compared to \$653 million recorded in 2007 equivalent to an increase of 6.4 percent. In 2008, TIC approved 871 projects with an employment potential of 109,521 jobs compared to 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 6: Approved Projects 1996 -2008 and January - June 2009

Year	Approved Projects	Local projects	Foreign Projects	Joint ventures	Total Employment	FDI Value (Mill.USD)	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 2009. For 2009 include data up to July only

In terms of ownership 450 were local, 208 were foreign and 213 were joint ventures. Investments also grew by 24.3 percent in 2008 compared to 3.2 percent in 2007. The growth was attributed to the increase in investments by local investors, especially in the tourism sector (tour operation), commercial buildings and the general improvement in the investment climate. Sectors that attracted more investors in 2008 were tourism (268 projects), manufacturing (221 projects), commercial buildings (141 projects) and transportation (93 projects). 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.

The US\$3.5 billion investment in aluminium smelting, the \$165 million nickel mining project, and a Canadian company which was set to invest in telecoms are among the victims of the crisis. A Swedish company, SEKAB, which had 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 due to a decline in the demand for commodities, a fall in prices at the world marketplace. However, the flow of new investments was stable in 2008 due to the fact that most of the source countries have traditional economic relationships with Tanzania

3.8 Employment

The actual employment effects of the crisis are yet to be determined in the country, but the available information 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 scaling-down their business investments.

The bio-energy company based in Rufiji and Kilwa towns in eastern Tanzania is also cutting off employees, and selling its production facilities in some European countries. Kabanga Nickel project, which initially employed 200 Tanzanians, has laid off over 150 workers. It was estimated that when the mine becomes fully operational by 2011 it would employ over 2,000 people. In the communication sector the current information indicates that only GTV closed its business all over Africa including its office in Dar es Salaam leading to loss of direct jobs and a big loss to its trading partners and customers who were connected to their business. The financial crisis also affected decisions to review the minimum wage such that the proposal by the Trade Union Congress of Tanzania (TUCTA) to set a US\$315 minimum wage was considered untenable by other stakeholders. The Crisis also made it hard for the Tanzanian government to increase salaries for the public servants in the financial year 2009/10 as has been in past years.

3.9 Poverty Status

The onset and continuation of the crisis has undermined government efforts to alleviate poverty and attain the Millennium Development Goals (MDGs). The fall in investments, loss of jobs and fall in demand of agricultural products and some minerals and decline in international tourists will finally lead or worsen the poverty status in the country. However, the absence of systematic data makes it rather difficult to make global estimates of the magnitude of the crisis on livelihoods and poverty in the country. However, one can simply extrapolate the impact from loss of export revenue, leading to reduced profitability, jobs cuts, reduced purchasing power and 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 cross-cutting investment such as road and energy.

3.9 Public and Private Debt

The National Domestic debt stock at the end of September 2009 stood at USD 9,330.9 million, equivalent to an increase of 9.9 percent from the amount at the end of June 2008. The increase is attributed to new disbursement of government bonds and depreciation of Tanzania shilling compared to its trading partners' currencies, which is partly explained by the GFC. Out of debt stock, 80.1 percent is external debt and the remaining 19.9 is domestic debt stock. (See table 7)

3.9.1 External Debt

The external debt stood at 7,474.2 million at the end of September 2009, equivalent of an increase of 4.7 percent, compared to USD 7,137.2 at the end of June 2009. Out of the total external debt, USD 5,932.8 million or 79.4 percent is disbursed outstanding debt (DOD) and the remaining amount of USD 1,541.4 is interest arrears. The analysis of external debt indicates that 69.6 percent of the total debt is government debt, while the debt owed by private and public corporations is 20.3 percent and 10.1 percent, respectively.

Table 7: Tanzania's External Debt Stock by Borrower Category (US\$ mill.)

Borrower	2008/09 September	Share (%)	2008/09 (June)	Share (%)	2009/10 September	Share (%)
Centre Government	4,396.10	72.7	4,893.90	68.6	5,202.80	69.6
DOD	3,780.60	62.5	4,221.20	59.1	4,510.70	60.4
Interest Areas	615.5	10.2	672.7	9.4	692.1	9.3
Private sector	1,168.80	19.3	1,494.20	20.9	1,513.60	20.3
DOD	742	12.3	1,010.00	14.2	1,025.40	13.7
Interest Areas	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 Areas	331	5.5	356.9	5	361.1	4.8
Total External Debt	6,046.70	100	7,137.20	100	7,474.20	100

Source: BOT, 2009

The profile of external debt stock by creditor category indicates that debt owed by multilateral creditors is USD 3,831.1 million which accounts for 51.3 percent of the total debt, while bilateral creditors accounted for 21.9 percent. Debt owed to other creditors is shown in the table 8:

Table 8: Tanzania's External Debt stock by Creditor category Millions of USD

Creditor	2007/08	Share (%)	2008/09 (June)	Share (%)	2009/10 September	Share (%)
Bilateral	1,545.80	25.6	1,601.20	22.4	1,633.30	21.9
Paris Club	557.5	9.2	595.4	8.3	616.7	8.3
Non Paris Club	988.3	16.3	1,005.80	14.1	1,016.60	13.6
Multilateral	2,823.50	46.7	3,545.10	49.7	3,831.10	51.3
AfDB	636.2	10.5	730.40	10.2	801.60	10.7
World Bank	1,843.40	30.5	2,185.20	30.6	2,388.30	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	1,039.00	17.2	1,265.30	17.7	1,264.40	16.9
Export Credit	638.40	10.6	725.60	10.2	725.40	10
Total External Debt	6,046.70	100	7,137.20	100	7,474.20	100

Source: BOT 2009

During the first quarter of 2009/10, new debts contracted and the net debt amounted to USD 77.9 million. Disbursements received and recorded during the period amounted to USD 250.9 million, out of which USD 233.8 (93.2 percent) was disbursed to the Government and the remaining balance received by private companies. External payments for the quarter amounted to USD 26.8 million, equivalent 1.9 percent of the export goods and services. The payments represented 39.1 percent of USD 68.5 million scheduled for debt payments. The lower service payments were due

to accumulated arrears on non-serviced debt and inadequate information on debt serviced by private borrowers.

3.9.2 Domestic Debt

Up to the end of September 2009, the stock of domestic debt stood at Tsh 2,418.1 billion, out of which the government securities were valued at Tsh 2,409.8 billion (99.7 percent) and other debts were Tsh 8.2 billion (0.3 percent). The debt stock increases by Tsh 155.7 billion (6.9 percent) from Tsh 2,262.3 registered at the end of June 2009, the increase was attributed to the purchase of government bonds. The composition of the domestic bond by creditor category at the end of September 2009 indicates that the Bank of Tanzania was the leading Government creditor by holding almost 42 percent of the total domestic debt stock, followed by the commercial banks that held 30.3 percent, Pension funds 21.9 percent while the rest held the remaining 0.58 percent.

4.0 POLICY RESPONSES AND CONSTRAINTS

4.1 Strategic Interventions at International and Country Level

To rescue the world economies from this global down turn, 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 had promised to provide an additional \$220 million to the government's rescue package. Tanzania is one of eight countries receiving Global Financial Crisis funds of more than USD255 million. Other African countries receiving this one-time assistance are Ghana, Liberia and Zambia. In October 2009, the USAID office in the country issued USD37.7 million as Financial Crisis Initiative Package. The office also promised to partner with Tanzania's local banks to provide up to USD10 million in credit and financing options for agribusinesses, including over 1,000 Small and Micro-enterprises and households through micro-finance over a five year period to stimulate production and improve food security. The African Development Bank also announced in November the approval of another facility similar to that by USAID and will also be operated through commercial banks. Apart from the international assistance to rescue the economy from this crisis, the government of Tanzania came up with own initiatives as explained below:

4.2 Economic and Social Policies

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

- Reduce the pressure of the GFC by providing safety nets against extreme vulnerabilities so as to protecting economic growth attained over years: protect and create jobs, ensure food security and protect key social programs; and
- Protect key investments and continue building capacity for growth in the medium term, for achieving Millennium development goals (MDGs)

The main Components of the plan are:

- a) **Fiscal space:** To fill the gap in revenue caused by the GFC. The government accommodated in the budget for FY2009/10 a net domestic financing (NDF), equivalent to 1.2 percent of GDP in 2008/9 and 1.6 percent of GDP in 2009/10.
- b) **Reduce the tax rate:** such as the VAT rate from 20 percent to 18 percent and income tax of selected categories from 30 percent to 25 percent.
- c) **An Accommodating Monetary policy:** The BOT has relaxed its monetary policy stance beginning fourth quarter of 2008/09 to facilitate bank financing of the privates sector.
- d) **Reduced 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.

- e) **Bridging the foreign Exchange gap:** A loan amounting to USD 336 million from the IMF under the Exogenous Shock Facility (ESF) to fill the gap in the balance of payments caused by the decline in our exports was approved by the IMF board. The first installment of USD 245.8 million was disbursed in June 2009. In addition the IMF Board approved on 7th August 2009 an enhancement of SDR allocations to Tanzania, which is equivalent to USD 249 million.
- f) **Banking Package:** The government has provided a relief to borrowers from financial institutions that were affected by the crisis. Two complimentary instruments were issued, namely (i) Loss Compensation Facility aimed at compensating losses incurred as a result of sharp drop in cotton, seaweeds and cloves prices during the 2008/09 crop season; and (ii) 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 sail through the crisis safely and avert a credit crisis in the economy.
- g) **Improving Foods Distribution to Curb food shortages:** Under this program the government has provided a cushion against the impact of food shortages by allocating Tsh 20 billion in FY 2009/09 budget to ensure food availability at a reasonable cost, the funds have been provided in October 2009 expenditure ceiling and will be used to purchase maize.
- h) **Social Programs before the GFC:** Needless to say, the government has maintained its commitment to continue supporting special social schemes through programs under Presidential Trust Fund (PTF), Tanzania Social Action Fund (TASAF) the special presidential development fund (nicknamed “Mabilioni ya Kikwete”) and agricultural input subsidy funds for fertilizer seeds and farm implements

What is the progress in the rescue plan?

Under the rescue plan, the Government allocated Tsh1.7 trillion (US\$1.307 billion) in the Fiscal Year-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 channeled TSh21.9 billion of that package directly to the banking sub-sector to cover losses suffered by bank clients like co-operatives and firms which 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 due to the global recession. The guarantee will be for two years during which period lending institutions would not charge interest on the loans they extend to such institutions.

Another measure taken by the Government to ensure that the global economic crisis is brought under control is to avail affordable capital for businesses. Under this scheme, the Government has released a stimulus package of Th200 billion through the commercial banks. Another segment of the package went into guarantee schemes whereby Tsh10bn was set aside for the Export Guarantee Scheme and another Tsh10 billion for small and medium enterprises, SMEs.

To cushion the crisis the government 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 East Africa Community for example, Central Banks are in final stages to simply cross-border remittances by eliminating the need to use clearing banks in USA and Europe.

Regulation and oversight of the capital and financial market

Under the Central Bank of Tanzania, the government has intensified surveillance of both domestic and international capital financial markets to oversee the 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; an oversight of the banking system has been intensified. The BOT has established a financial stability department that produces regular financial stability reports whereas the BOT holds on daily basis surveillance meetings to ensure stability in the financial sector and availability of appropriate level of liquidity in the system.

4.3 Growth and Development Policies

The GFC presents both threats and opportunities to the Tanzanian economy, whereas the threat to erosion of the past achievements has already been seen in parts of the economy, opportunities do exist in natural resources by adding value to our commodities and increase their export values. Appreciating these opportunities, the government through KILIMO KWANZA (“Agriculture first” slogan) has set agriculture as a priority growth sector. The aim is to boost agriculture by providing among others, agriculture credit windows. 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.

Although there is a plan to develop infrastructure by raising about USD 500 million the international financial markets there has been challenge in this plan following the GFC as interest rates in the financial markets went up tremendously. Under this plan, the government has provided Tsh 205 billion in the budget, which will be raised through issuance of long term bonds. Already a Tsh 52.163 billion through a 5-year treasury bond has been raised from the Bank of Tanzania.

5.0 OPPORTUNITIES AND WAY FORWARD

5.1 Challenges

- a. The main challenge for Tanzania remains its low tax base and inability to mobilize enough domestic resources' for her development projects and over-reliance on donor finance for development projects, which risks creating unsustainable interventions.
- b. Another challenge at this juncture is how to sustain the achieved macroeconomic stability, restoration and maintenance of low inflation, maintenance of fiscal prudence, financial sector stability and sustenance of external balance in the wake of the GFC.
- c. Domestically, creating a more responsible working and governance culture, whereby all sections of the society the crisis seriously and adjust accordingly remains a challenge. The attempt by Government during its 2009/10 budget to remove tax exemptions, which had been identified a major source of revenue leakages was not successful partly due to lack of appreciation of the seriousness of the problem at hand.
- d. The promotion of regional trade, which is seen as the easiest to penetrate by small and medium enterprises, will require extra efforts of support by government besides removing tariffs as the Common Market is established by July 2010. Among the interventions will be strategies to reduce or eliminate Non-Tariff Barriers and empowering local producers and processors on marketing skills.

5.2 Opportunities

- e. The Current crisis presents an opportunity to export trade diversification of markets by exploring new market ventures, especially embarking in boosting regional trade (e.g. EAC SADC and COMESA markets) to compensate for the fall in demand for exports in our traditional trading partners in Europe, America and Asia. This includes among others development of regional infrastructure network and promotion of regional tourism.
- f. The fact that due to the financial downturn, the government had to postpone some projects due to unavailability of foreign resources underscores the need for government to collaborate with the local private sector to finance infrastructure projects through Public Private Partnership (PPP) systems. The government can raise capital internally through IPOs, Government guarantees, corporate bond issues and loan syndication arrangements by banks.
- g. Need to establish new lines for foreign inflows including promotion of Diaspora remittances or establishing Diaspora financial instruments.

5.3 The Way Forward

- a) With commitment and willingness, the country has an opportunity to diversify the economy due to the rich natural resources base. The plenty agriculture land and waters can boost agriculture by adding value to the products (agro-processing), prudent use of natural resources such as minerals, natural gas, forestry, and fishery products and attracting regional tourism due to many tourism attractions compared to its neighboring countries.

- b) The transport sector can provide substantial future sources of income and employment in the country. Improvement of infrastructures in road, railways and ports (e.g. Dar Port) will assist in to speed transport and clearance of transit goods to land locked countries such as DR Congo, Uganda, Rwanda, Burundi, Malawi and Zambia.
- c) The GFC has highlighted the importance of increasing surveillance in regulation and supervision not only for commercial banks but for the entire financial system (to include pension funds and insurance companies)
- d) Implement judicious capital account liberalization. The Tanzanian financial sector was hardly hit by the GFC simply because the capital account is partially liberalized. The planned liberalization process should carefully be design to facilitate smooth portfolio flows whilst ensuring stability of small and fragile financial sector.
- e) The design and management of social safe 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” and input subsidies for peasants), whose operations could be tied to local resources mobilization (e.g. village banks and savings and credit cooperative societies-SACCOS) and farmer empowerment to commercialize farm production and produce in response to identified markets and invest at specific value chain for different commodities.

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ANNEX

Annex 1: Exports by Type of Commodities (July 2008 - July 2009)

Item	% Change		Year Ending July 2009		
	July 08 – July 09	June 09 – July 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	2,321.8	2,005.5	-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	1,189.3	1.0
Sisal					
Value	-	-	4.8	1.2	-74.3
Volume	-	-	4.5	0.7	-85.1
Unit price	-	-	1,046.3	1,802.4	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	1,433.9	1,649.3	15.0
Tobacco					
Value	-	-	59.6	143.3	140.4
Volume	-	-	27.4	45.9	67.5
Unit price	-	-	2,175.7	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	3,504.8	3,359.4	-4.1
Non Traditional Exports					
Minerals					
Gold	12.8	35.3	1,010.1	881.5	-12.7
Diamond	14.9	34.9	947.7	838.4	-11.5
Diamond	-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(yam &twine)	-90.1	-	11.6	5.8	-49.7
Other Manufactured goods²	-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 ³	-47.8	-12.2	241.1	267.4	10.9

Source: Bank of Tanzania, November 2009

Note

1. Include, Tanzanite, Rubies, Sapphire, Emerald, Copper, Silver
2. Include Plastic items, Textiles, Apparels, and Iron/steel
3. Include Edible vegetable, Oil seeds, Cereals, Cocoa, Raw hides and skins, and Woods
4. Volumes in '000' tones; value in '000,000 USD; Unit Price in USD