

Annual profile: Tanzania

January 2003



Background

Shortly after independence in 1964, Tanganyika and Zanzibar merged to form the nation of Tanzania. One-party rule came to an end in 1995 with the first democratic elections held in the country since the 1970s. Tanzania continues to carry out structural and institutional reforms that are required for sustained economic growth. The country's need for budgetary and balance of payments support, as well as debt relief under the heavily indebted poor countries initiative ensures that it remains in international donors' good books.

<p>Government</p> <p>Government type: Republic. Capital: Dar es Salaam.</p> <p>Independence: 26 April 1964 (Tanganyika united with Zanzibar)</p> <p>Chief of state: President Benjamin William Mkapa (since 23 November 1995).</p> <p>Elections: 29 October 2000. Next election: October 2005. <i>Source: CIA World Factbook 2002</i></p>	<p>Geography</p> <p>Area Total: 945 087 sq km. Land: 886 037 sq km. Water: 59 050 sq km. <i>Note: includes the islands of Mafia, Pemba and Zanzibar.</i></p> <p>Land boundaries Total: 3 402 km. Border countries: Burundi 451 km, Kenya 769 km, Malawi 475 km, Mozambique 756 km, Rwanda 217 km, Uganda 396 km, Zambia 338 km.</p> <p>Coastline 1 424 km.</p> <p>Climate Varies from tropical along coast to temperate in highlands.</p> <p>Terrain Plains along coast; central plateau; highlands in north and south.</p> <p>Natural resources Hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, nickel.</p> <p>Land use Arable land: 4%. Permanent crops: 1%. Other: 95% (1998 est).</p> <p>Irrigated land 1 550 sq km (1998 est).</p> <p>Natural hazards Flooding on the central plateau during the rainy season; drought.</p> <p>Environment – current issue: Soil degradation; deforestation; desertification; destruction of coral reefs threaten marine habitats; recent droughts affected marginal agriculture; wildlife threatened by poaching <i>Source: CIA World Factbook 2002</i></p>
<p>People</p> <p>Population: 37.2 million.</p> <p>Population growth rate: 2.6% (2002 est)</p> <p>Life expectancy at birth: total population: 51.7 years male: 50.76 years female: 52.67 years (2002 est)</p> <p>Ethnic groups: Mainland – native African 99% (of which 95% are Bantu consisting of more than 130 tribes), other 1% (consisting of Asian, European and Arab); Zanzibar - Arab, native African, mixed Arab and native African.</p> <p>Religions: Mainland – Christian 30%, Muslim 35%, indigenous beliefs 35%; Zanzibar - more than 99% Muslim.</p> <p>Languages: Kiswahili or Swahili (official), Kiunguju (name for Swahili in Zanzibar), English (official, primary language of commerce, administration, and higher education), Arabic (widely spoken in Zanzibar), many local languages.</p> <p>Adult literacy rate: Definition: % of population age 15 and over that can read and write. 2000: 75.1%. <i>Source: CIA World Factbook 2002, UNDP Human Development Report 2002</i></p>	

AFRICA ECONOMIC RESEARCH



Health	Human development																																														
<p>People living with HIV/Aids: Adults (age 15-49) 2001: 7.83%. Women (age 15-49) 2001: 750 000. Children (age 0-14) 2001: 170 000.</p> <p>Tuberculosis cases (per 100 000 people): 1999: 160.</p> <p>Undernourished people (1997/99): 46% of total population.</p> <p><i>Source: UNDP Human Development Report 2002</i></p>	<p style="text-align: center;">HDI Ranking (2002) 151 out of 173 countries (1=most developed, 173= least developed)</p> <table> <tr><td>Norway</td><td>1</td></tr> <tr><td>Seychelles</td><td>47</td></tr> <tr><td>Mauritius</td><td>67</td></tr> <tr><td>South Africa</td><td>107</td></tr> <tr><td>Gabon</td><td>117</td></tr> <tr><td>Namibia</td><td>122</td></tr> <tr><td>Swaziland</td><td>125</td></tr> <tr><td>Botswana</td><td>126</td></tr> <tr><td>Zimbabwe</td><td>128</td></tr> <tr><td>Ghana</td><td>129</td></tr> <tr><td>Lesotho</td><td>132</td></tr> <tr><td>Kenya</td><td>134</td></tr> <tr><td>Madagascar</td><td>147</td></tr> <tr><td>Nigeria</td><td>148</td></tr> <tr><td>Uganda</td><td>150</td></tr> <tr style="background-color: #cccccc;"><td>Tanzania</td><td>151</td></tr> <tr><td>Zambia</td><td>153</td></tr> <tr><td>DRC</td><td>155</td></tr> <tr><td>Ivory Coast</td><td>156</td></tr> <tr><td>Angola</td><td>161</td></tr> <tr><td>Malawi</td><td>163</td></tr> <tr><td>Mozambique</td><td>170</td></tr> <tr><td>Sierra Leone</td><td>173</td></tr> </table> <p>The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.</p>	Norway	1	Seychelles	47	Mauritius	67	South Africa	107	Gabon	117	Namibia	122	Swaziland	125	Botswana	126	Zimbabwe	128	Ghana	129	Lesotho	132	Kenya	134	Madagascar	147	Nigeria	148	Uganda	150	Tanzania	151	Zambia	153	DRC	155	Ivory Coast	156	Angola	161	Malawi	163	Mozambique	170	Sierra Leone	173
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Corruption perceptions index (2002)																																															
<p>Score: 2.7 (where 10 is "highly clean" and 0 is "highly corrupt"). Place: 71 (102 countries surveyed, 1 = least corrupt, 102 = most corrupt). (The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).</p> <p><i>Source: Transparency International</i></p>																																															
Restrictions on capital flows																																															
<p>Foreign exchange controls were removed through the Foreign Exchange Act of 1992.</p> <p>Capital transfers are however still subject to approval by the Bank of Tanzania.</p> <p>Profits and dividends can be fully repatriated.</p> <p><i>Source: Ministry of Finance; Bank of Tanzania</i></p>																																															
Taxation																																															
<p>Corporate Tax rate: 30%</p> <p>Personal income tax rate: 30%.</p> <p><i>Source: Ministry of Finance</i></p>	<th style="background-color: #cccccc;">Sovereign Credit Rating</th>	Sovereign Credit Rating																																													
	<p>Standard & Poors</p> <p>Local currency Long-term: not rated Short-term: not rated</p> <p>Foreign currency Long-term: not rated Short-term: not rated</p> <p>Moody's Investor Service</p> <p>Foreign currency debt: not rated Foreign currency bank deposits: not rated</p> <p>Tanzania government Issuer rating –Foreign currency: not rated Issuer rating –Domestic currency: not rated</p> <p>Fitch ratings</p> <p>Local currency Short-term: not rated</p> <p>Foreign currency Long-term: not rated Short-term: not rated</p>																																														

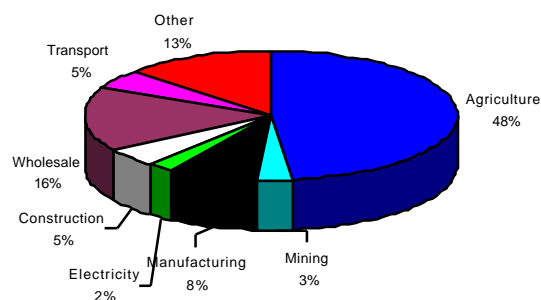
Economy

Selected statistics

	1996	1997	1998	1999	2000	2001	2002 ³
Population	30.5	31.3	31.9	32.5	33.2	33.9	34.6
Nominal GDP (US\$m) ¹	6496	7615	8365	8635	9079	9342	9392
GDP/head (US\$) ¹	213	243	262	265	273	275	271
Exchange reserves – excl. gold (US\$m) ²	440	622	599	775	974.4	1 156.6	1 503.2
Import cover (months) ²	4.4	6.4	5.3	6.6	5.1	6.1	7.1
External debt (US\$bn) ²	4.446	4.378	4.255	4.523	4.664	7 209	7 000
External debt (% of GDP)	68.4	57.5	50.9	52.3	51.4	77.2	74.3

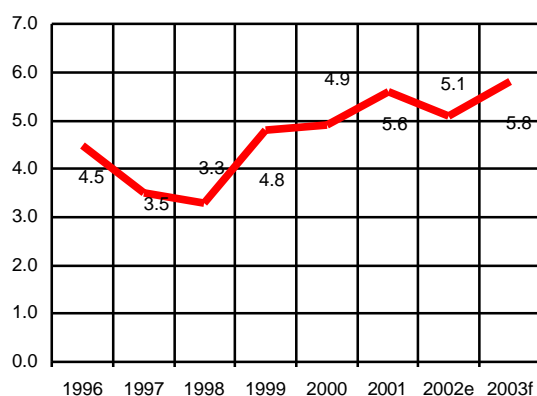
1) Year beginning in January. 2) End of period. 3) Preliminary or estimates.

Economic structure



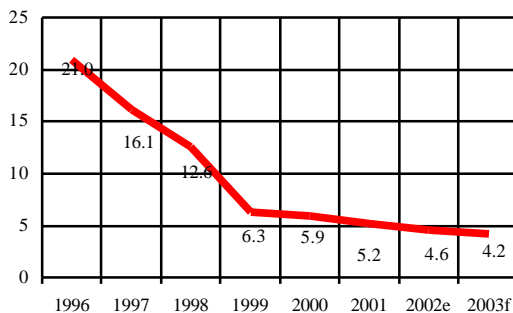
- Agriculture remains the dominant activity in the economy, contributing 48% to GDP (27% commercial and 21% subsistence). This sector employs almost 80% of the labour force.
- Further growth in the agricultural sector has been impeded by structural constraints on production and global commodity prices. Structural problems range from poor rural infrastructure and weak marketing institutions to lack of credit and agricultural inputs.
- The 'trade, restaurants and hotels' sector's contribution to GDP grew from 16.1% in 1999 to 16.4% in 2001 as a result of increased private investment in the provision of tourism services.
- Although the mining sector's contribution to GDP remains small, an increase in gold production has boosted its contribution from 1.3% in 1995 to 3% in 2001. Gold has become the country's most important export earner.

Real GDP growth (%)



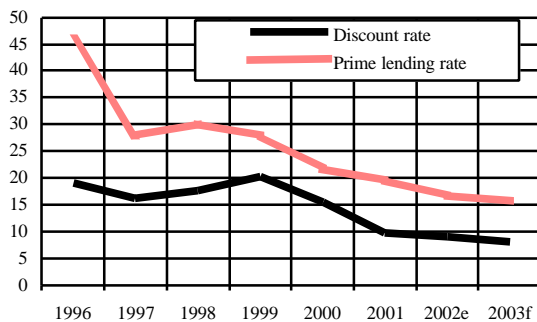
- Compliance to its restructuring programme as agreed with the IMF has served the country well. Economic restructuring supported by external financial assistance has resulted in strong growth in recent years. Economic growth has been steady, averaging more than 5% since 1999.
- However, growth is vulnerable to unfavourable weather conditions, low commodity prices and higher oil prices.
- Higher growth in agriculture has been achieved through the liberalisation of production and marketing structures, as well as of agricultural prices and the foreign exchange regime.
- Besides agriculture, other sources of growth are tourism, construction and mining. With a 1 450km coastline and 59 050 sq km of inland waters, Tanzania's fishing potential remains under-exploited.

Consumer inflation (%)



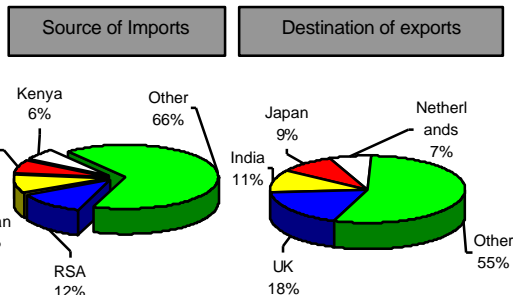
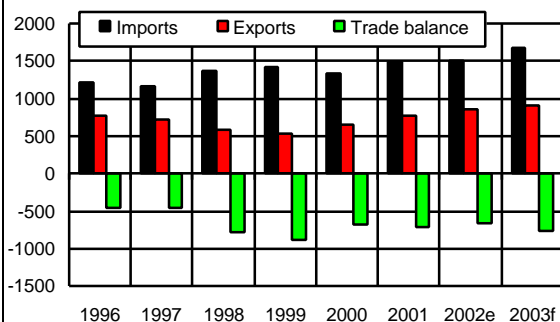
- Inflation has come down drastically from more than 20% in 1996 to less than 5% in 2002. This was achieved by following prudent monetary and fiscal policies.
- In spite of a drought in 1999 and rising oil prices the Bank of Tanzania managed to keep inflation under control.
- Inflation is largely influenced by food prices since food carries a weight of 71.2% in the index. A healthy food situation for the past three years has kept inflationary pressure down.
- Currency depreciations, volatile oil prices and recent liquidity developments are likely to put some upward pressure on inflation.

Interest rates (%)



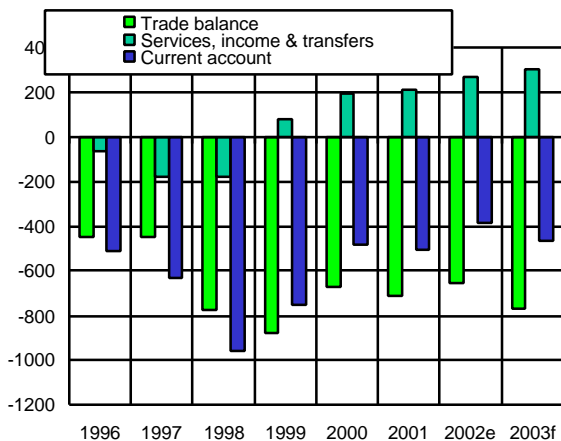
- Part of the reform programme in the 1990s included liberalisation of the financial services sector, the floating of the exchange rate and the launch of regular Treasury bill auctions. Thus the Bank of Tanzania (BoT) moved to its current monetary policy of using indirect instruments to control the growth of money supply.
- The BoT also uses direct instruments such as the discount rate, changes to statutory reserve requirements and intervention in the foreign exchange market.
- Lower inflation facilitated by prudent fiscal management opened the door to significant monetary easing in recent years. Thus interest rates have declined sharply since 1996.

International trade (US\$m)



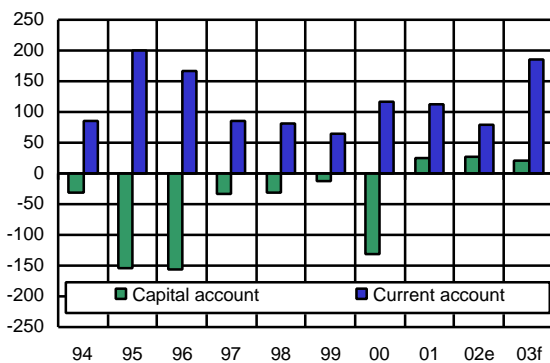
- Structural changes in the economy have resulted in the share of traditional exports, such as coffee and tea to decline significantly, and that of non-traditional exports such as gold and horticultural products to increase.
- Main exports are coffee, cashew nuts, minerals, manufactured goods, cotton, tea and tobacco. Higher gold production and the improvement in the gold price augurs well for export earnings. Main export partners are India, the UK, Japan and the Netherlands.
- Imports have been rising in line with increasing exports. The main imports are machinery, transport equipment, petroleum and petroleum products, industrial raw materials and building materials. Major import destinations are Japan, South Africa, the UK and Kenya.

Current account (US\$m)



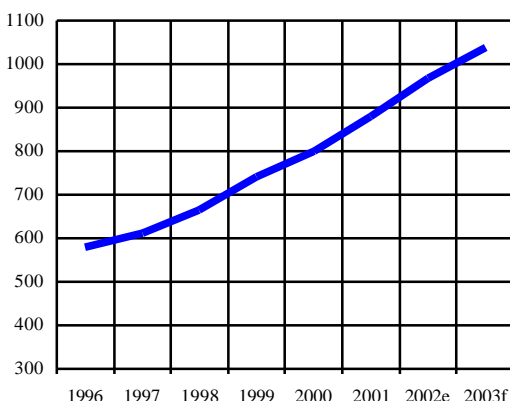
- The current account is mainly influenced by the trade account. In the late 1990s the current account deficit widened as a result of a deteriorating trade account (drop in commodity prices). The deficit narrowed as gold exports increased.
- Both services and income balances have remained negative since the 1990s. Donors continue to support the country's reform programme therefore inflows of current transfers will remain strong.
- Earnings in the services sector, particularly in tourism have not recovered from the 11 September terrorist attacks. The situation has been worsened by the slowdown in the global economy.

Capital flows (US\$m)



- Following the 1986 agreement with the IMF, capital flows became positive owing to new loans becoming available. Foreign direct investments (FDI) also grew, but portfolio inflows remained small.
- In 1997, the Paris Club agreed to write off US\$1bn of debt that was due in 1999 and to reschedule the balance over 23 years. Despite this the debt burden remains heavy. However, with the Heavily Indebted Poor Countries initiative, debt service payments are expected to decline from 2002 onwards.
- The country continues to depend heavily on donor funding for balance of payments support.

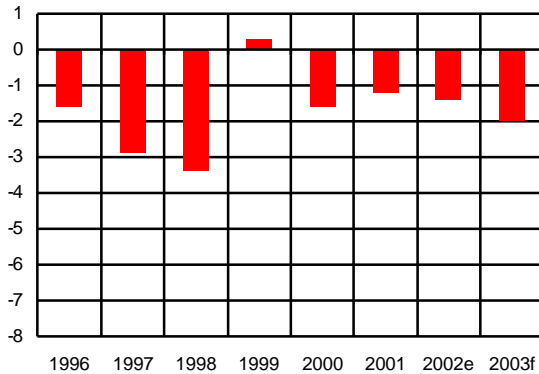
Tanzania shilling/US\$



- Tanzania moved from a pegged system in 1990 and gradually liberalised the exchange rate. In 1992, foreign exchange bureaus were authorised to buy and sell foreign currency at freely negotiated rates. In 1993 a weekly foreign exchange auction system was introduced, and the official exchange rate was guided by the average rate from these auctions.
- As a result of these auctions, the exchange rate premium in the parallel market declined gradually to below 10% of the official rate in 1993 from its peak of about 400% in 1986.
- In 1994, a market determined rate was adopted when an Interbank foreign exchange market replaced the auction system. To some extent, the shilling is managed by the central bank so that the weaker currency promotes exports. Strong foreign exchange reserves enable the Bank of Tanzania to stabilise the currency.

Government finances

Budget deficit % of GDP



- In the early 1990s the government followed a loose fiscal policy, which resulted in high budget deficits of above 5% of GDP. Thereafter, Tanzania embarked on a reform process that strengthened fiscal management.
- However, the country remains highly dependent on external assistance due to weaknesses in tax policy and tax administration, which compromises the government's ability to mobilise revenue.
- The gradual decline in the budget deficit and the associated contraction in the government's domestic financing requirements resulted in falling inflation.
- With the achievement of macroeconomic stability, the next challenge is to address crucial social needs. A poverty reduction strategy that involves increasing allocations to priority sectors has been put into place. To achieve this without jeopardising fiscal sustainability, higher domestic revenue, sounder public expenditure management and continued external assistance are required.

Economic outlook

- Although significant progress has been made in restructuring the economy and improving fiscal and macroeconomic management, major challenges still remain. Policy is aimed at achieving higher economic growth rates to reduce poverty, but in spite of FDI and diversification of the economy, poverty levels are increasing. According to the IMF, the growth momentum is constrained by structural impediments that are governance-related and rigidities in the financial sector and serious capacity constraints. The government is, however, expected to push ahead with economic and institutional reforms before the 2005 elections.
- Monetary policy has been successful in lowering inflation, but has failed to boost aggregate demand due to impediments to bank lending. These obstacles continue to dampen growth prospects.
- Gold exports have grown substantially over the years, while non-gold exports have not shown much improvement. Agricultural exports are still stagnant, while those from the manufacturing sector are recovering slowly. According to the IMF, further reforms are required to improve efficiency and competitiveness.
- The government has made some progress with its privatisation programme, but that of large strategic enterprises is taking place more slowly than scheduled. Some of the privatisations have been slowed down by the lack of investor interest. Interest has been dampened by the country's poor infrastructure, shortage of skilled labour, uncertain property rights and bureaucracy. However, initiatives such as the creation of the Tanzania National Business Council are being introduced to improve the investment climate.
- The political unrest in Zanzibar is likely to die down in the next few years as the Chama Cha Mapinduzi (CCM) and the opposition Civic United Front (CUF) make slow but steady progress towards implementing the Zanzibar Peace Accord.

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