ECONOMIC COMMENTARY 2003

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Tanzania's economy continues to show good signs of recovery and growth as a result of the sustained reforms that the country has been pursuing over the past decade. In 2002/2003 most sectors, including agriculture, grew by more than 5%. There was also a noticeable sector shift in performance, with construction and manufacturing, leading the table after mining.. With inflation being contained at around 4%, a comfortable foreign reserve position, an attractive policy environment for direct foreign investment and a balanced government budget the country has the correct economic fundamentals to sustain this trend into the foreseeable future. Nevertheless, given the low base, growth in the economy needs to further increase and translate into increased income to the majority of ordinary citizens, particularly the rural peasants on whom abject poverty and HIV/AIDS continue to weigh heavily.

Overview of macro and sector performance

Tanzania's economy grew by a respectable 6.2% in 2002, against the projected rate of 6.3% and the 5.7% achieved in 2001. This translates into a per capita income growth rate of 3.4 % compared with 2.8 % in 2001. Tanzania is one of only eight countries in Africa whose economies grew by more than 5% in 2002. All the economic sectors, except water and electricity, grew by more than 5.0%, which is impressive compared to past performance..

Agriculture grew by 5.0% in 2002, half a percentage point lower than achieved in 2001. This sector continues to dominate the economy, contributing 47.5 % to GDP last year compared to 48.0% the year before. Commercial and subsistence production accounted for 25.1% and 19.1 per cent respectively of the total output from this sector. The livestock sub-sector grew by 3.5% and fishing by 6.5%

Tanzania's agriculture, which accounts for 75% of the foreign exchange earnings and employs 80% of the population, requires considerably more resources to turn it into the country's engine of growth. Last year, for example, only 15.75% of the disbursed foreign debt was channelled to this sector while balance of payments support absorbed 23.11%, transport and communications (15.87%) and energy and minerals (14.11%), received almost equal allocation while they contributed only 4.7 and 3.3% to GDP respectively.

An unusual upsurge in manufacturing activity last year triggered a 13.1% growth in this sector compared to the 5% growth rate achieved in 2001. Its contribution to GDP (measured in 1992 constant prices) increased marginally from 8.3% in 2001 to 8.4%, contributing 7.2% in 2001 and 7.3% in 2002 to export revenue. In absolute terms the value added by the sector has increased from TZS147.5 billion in 1999 to TZS188.8 billion in 2002.

The manufacturing sector has performed dismally over the years, mainly due to the inability of most industries to compete effectively in the local and international export markets following the liberalisation of trade. The only exceptions to this trend are those companies with a strong or monopolistic local market such as beer and cigarettes. However, these are mature industries with lower potential for strong further growth. For example whilst beer production grew by 0.1% and cigarettes by 8% last year, steel production increased by 55%, paint by 50.1%, and biscuits by 88%. Production of wheat flour, *konyagi*, textiles, twine and corrugated iron sheets increased by more than 20% each. The revamping of the textile sector is beginning to show results, with exports of yarn that earned the country some foreign exchange.

Mining contributed 2.7% to total GDP last year – a marginal improvement from 2.5% recorded in 2001. In terms of annual growth, however, this sector remains the fastest growing at 15%. In 2001 it also led the league with 13.5%. This good performance is partly explained by the enabling environment provided by the Mineral Policy of Tanzania of 1997 and the Mining Act of 1998 that provide generous incentives to local and foreign investors. As noted last year the rise in gold production during the year was accounted for largely by the commissioning of the Afrika Mashariki gold mine in Tarime as well as increased production from the other mines commissioned earlier.

Construction activity grew by 11% in 2002, which is 2.3% higher than the 8.7% achieved in 2001. Growth in this sector is spurred by the increased activity in mining, road and building construction. It also contributes to the 19% growth in total capital formation (measured in 1992 constant prices) from TZS 381.7 billion in 2001 to TZS 454.2 billion in 2002.

Travel accounts for 60% of receipts from services. This sector grew by 5.9%, bringing in USD 437.2 million in 2002, compared to USD 412.8 million in 2001. Trade and hotel services combined grew by 7.0% in 2002, a slight improvement over the 6.7% achieved in 2001.

The External Sector

The deficit in the balance of trade narrowed by 2% from USD 784.1 million in 2001 to USD 629.5 in 2002. While merchandise exports increased by 13.0% to USD 877.0 million, from USD 776.4 million, merchandise imports decreased to USD 1506.5 million, from USD 1560.5 million.

Export value increased mainly on account of the 23.8 % increase in non-traditional exports (minerals, manufactured goods, fish and fish products) while import value dropped largely due to a 2.7 and 4.4 % decrease in capital and intermediate goods imports dominated by machinery (9.5%) and white oil products (11.4%) respectively.

Traditional exports fell by 12.8 %, recording export earnings of USD 201.5 million, compared with USD 231.1 million in 2001. This is the worst performance in recent years, precipitated by the continuing downward spiral of export prices for coffee (-38.4%), cotton (-16.5%), cloves (-56.2%) and cashew nuts (18.2%), coupled with declining export volumes.

Non-traditional exports increased their share in total exports to 77.0% in 2002 from 70.3 % recorded during 2001. Mineral exports that accounted for 38.9% of total exports during 2001, increased by 23.3% to USD 372.78 in 2002, which is equivalent to 42.5% of total export revenue. The leader, gold, jumped by 29.7% earning the country USD 329.4 million compared to USD 254.1 million in 2001, thereby increasing its share in total mineral exports to 88.4 % from 84.1 % in 2001. Within the non-traditional export group, minerals accounted for 55 per cent of foreign exchange earnings, of which 49% was from gold.

Diamond came a distant second in the mineral league, earning the country USD 21.9, which represents a 19.1% drop from the USD 27.1 earned in 2001. Fish and fish products exports increased by 20.7 % to USD 116.76 million from USD 96.77 million the year before.

Manufactured goods, another non-traditional export category, increased by 19.5 % to USD 67.10 million from USD 56.17 million recorded during 2001. Yarn exports rose by 27.2% compared to 3.18% in 2001. This partly reflects the success of the ongoing economic reforms, particularly relating to private sector participation in Greenfield investment as well as reviving privatised parastatals.

A decrease of 2.7% was recorded in capital goods imports compared to 2001. This was largely on account of a decrease of 9.5% and 6.9% in the value of machinery and building materials respectively, which reflects the levelling off of ongoing investments, particularly in the mining sector. The decrease in intermediate goods imports by 4.4% was accounted for mainly by an 11.4% decline in both crude and refined oil. Consumer goods imports fell by 3.7% from USD 534.2 million to 514.6 million. A big proportion of this fall relates to food and foodstuffs whose importation dropped by 13.7% because of improved food supply within the country.

For the first time in more than a decade total service receipts (USD 583.0 million) exceeded payments (USD 563.8 million), recording a surplus of USD 19.2 million. There was a deficit in this account of USD 34.5 million in 2001 and USD 463.1 million three years earlier in 1998.

Committed external debt was USD 8,029.9 million at 31 December 2002 compared to USD 7,370.8 million at 31 December 2001. Sixty per cent of the disbursed outstanding debt was owed to multilateral and 33% to bilateral creditors, while commercial and export credits accounted for the balance of around 4% and 3% respectively. The central government owes around 92% of the total external debt.

The financial Sector

The financial sector continued to record impressive growth in the economy. The Net Domestic Assets (NDA) of the banking system increased from TZS 662.3 billion in June 2002 to TZS 805 billion by February 2003. The Net Foreign Assets (NFA) of the banking system adjusted to include foreign currency deposits decreased from TZS 1,293 billion as at June 2002 to TZS 1073 billion by February 2003, a net decrease of 17%.

The Bank of Tanzania (BoT) recorded a substantial increase in gross foreign reserves over the past six months from USD 1,152.5 million in January 2001 to USD 1,544 million as at February 2003, equivalent to 7.3 months of imports. The increase has been attributed to increased resource inflows from donors and debt relief under the HIPC initiative.

Domestic credit increased by 22% from TZS 687.9 billion in June 2002 to TZS 835.3 million in December 2002. The Government continued to be the major beneficiary of this increase as the proportion of private sector credit to total domestic credit decreased to 68.3% in December 2002, from 70.4% recorded in June 2002.

Commercial bank deposits including foreign currency deposits stood at TZS 2,047.7 billion in December 2002. The steady growth in deposits is attributed to the increased public confidence in the banking system and deposit mobilization by commercial banks. Most of the commercial banks and non- financial institutions posted impressive results during the year.

The Delphis Bank Tanzania Limited was placed under the statutory management of the Bank of Tanzania. There is a bill currently with the Parliament to increase the minimum capital of banks to TZS five billion from TZS one billion.

Consistent with the macroeconomic objective of the Government inflation continued to decline. from 4.4% in December 2002 to 4.2% in February 2003. However, there has been a consistent clamour for the revision of the basket used in the measurement of the consumer price index to make it more realistic.

The value of the local currency declined sharply from TZS 951.82 in July 2002 crossing the feared TZS 1,000 line for the first time in the history of the country. It stood at TZS 1,047 as at May 2003 and continued its free fall but for the subtle timely intervention of the regulatory authority which appeared to target a rate of TZS 1120.

Interest rates declined across the board on all deposits in the last 10 months. The saving deposit rate fell from 3.5% in June 2002 to 3.1% in December 2002. By February 2003 it had decreased further to 2.8%. The interest rate on time deposits also fell from 4.0% in June 2002 to 4.4% in December 2002. Deposit rates were negative in real terms when compared with the inflation rate of 4.4% in December 2002.

The reduction in virtually all the key interest rates may be attributed to excess liquidity in the economy as more deposits were mobilised but the economy lacks enough bankable projects to which these funds can be deployed. Besides, the deposits were of short term, with about 80% of them maturing within 90 days.

Interest rates on credits equally assumed a downward trend. Overall the average lending rate fell from 16.4% in June 2002 to 15.7% by December 2002. During the period the interest margin between deposit and lending rates declined from 12.4% to 12.3%. This continued to be a source of concern to regulators and major players in the industry. However, banks continue to insist that the scenario is a reflection of the cost of doing business in the country.

Weighted Average Yields (WAY) on Treasury Bills and Bonds increased from 4.2% in June 2002 to 4.7% and 6.5% respectively.

Capital markets

There were some notable developments in the capital market during the year. The Bank of Tanzania and Capital Markets and Securities Authority took steps toward installing appropriate safeguards to achieve full capital account liberalization of the balance of payments. In achieving this objective, both BoT and CMSA issued the regulation that allowed foreign participation on the shares listed on the Dar es Salaam Stock Exchange (DSE). However, as of date, only the shares of TOL Limited qualify for foreign participation as per the guidelines.

Two securities (Tanga Cement Company Limited and Dar es Salaam Handling Company) were listed on the bourse during the year. This deepened the market further and increased the market capitalization by 46% from TZS 499.6 billion (USD524.94 million) to TZS 730.03 billion (USD 703 .56 million) as of 5 June 2003.