

Regional Economic Outlook

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A Commentary

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Sound economic policies have helped

- The REO has shown clearly that Africa's prospects for growth remain positive despite recent shock originating from the GFC.
- Economic activity is projected to expand by 5% in 2010 and 5.5% in 2011
- Growth will be broad based due to:
 - Strong domestic demand
 - Rising incomes
 - Sustained private and public investment

- This derives from Africa's record of sound economic policy implementation as sighted in the REO,
- But also due to Africa's relatively low level of integration to the global economy.

Prospects are also good for the Tanzanian economy

- Like the rest of Africa, the Tanzanian economy suffered from the impact of the GFC,
 - but the resilience of the economy BUILT ON STRONG POLICIES helped.
- In 2009, GDP growth was stronger than expected -- 6% cf with projected 5.5%

GDP performance during 1st Q 2010 shows good prospects:

- RGDP growth rate was 7.0%, up from 4.8% recorded 1stQ in 09, mostly driven by:
 - agriculture
 - mining and quarrying
 - Transport and communication

Inflation continue to decline

- Similarly, despite GFC pressure on overall inflation
 - Inflation declined from a peak of 12.7% in Oct-09 to single digit of 9.6% in Feb-10 and further down to 6.3% in Jul-10 and now 4.5% as at Sept. 2010
 - due to improving food supply in the country and
 - prudent monetary policy.

External sector developments are positive

- Gross official reserves increased from \$3.2bn in Jul-09 to \$3.6bn in Jul-10,
 - Sufficient to cover about 5.7 months of projected imports of G&S.
- Gross foreign reserves of the banking system increased from \$4.0bn to \$4.7bn in the same period;
 - suff. to cover about 7.4 months of import of G&S
- Non-traditional exports went up to \$2.7bn compared with \$2.1bn. recorded in the year ending Jul-09,
 - mainly due to increase in export values of manufactured goods and gold.

Still short of MDG targets

- Despite the positive outlook, it worthwhile that:
 - Even with recent improvement in growth, Tanzania and Africa in general is still short of the required MDG target of halving income poverty by 2015

Moreover, Downside risks exist

- Downside risks to global recovery have heightened recently, especially
 - Shocks to financial conditions and domestic demand in Euro area
 - This could result into global decline due to cutback in exports, decline in tourism and Fiscal deterioration.

Africa's potential for growth is under-exploited

- Africa is well endowed with abundant natural resources including 12 percent of global crude oil reserves and 8.2 percent of gas reserves.
- Africa accounts for about 30 percent of global mineral reserves, including 38 percent of uranium, 42 percent of gold and 88 percent of diamonds.
- With a total land area of more than 3,025.8 million hectares, Africa is the second largest continent in the world after Asia.

- Africa's total forest cover (with an abundance of animals) is estimated at nearly 650 million hectares equivalent to 17 percent of global forest cover
- Although home to 11 percent of the world's population,
 - Africa contributes only 1.4 percent to global GDP
 - Accounts for only 3.5 percent of global merchandise export, and
 - Only 3.3 percent of total international tourist arrivals.
- Therefore, the scope for Africa's growth is very large.

What can African countries do to exploit these potentials

Africa has to overcome 5 main impediments to growth:

- 1) African economies are too small to be competitive in the global economy;
- 2) The region has poor infrastructure and remains primarily disconnected within itself and with the rest of the world;

- 3) Cost of doing business remains too high to attract investment;
- 4) Africa has limited capacity in the form of skills and ability to innovate;
- 5) Continued instability from civil strife and wars dents the continents reputation as an investment destination.

Priority areas to unlock Africa's growth

- 1) Sustaining macroeconomic stability is important, as pointed out in the REO.
- 2) Effective utilization of the continent's comparative advantages as a spring board for building a more diversified and resilient economy.
 - i.e. Comparative advantage in natural resources

Priorities for Africa...

- i) Ensure retention of a higher proportion of proceeds from natural resources extraction;
- ii) Value addition to our exports for higher returns and job creation.
- iii) Strengthen linkages with other sectors, particularly to domesticate services and supplies to the mining industry;

iv) Harnessing tourism potentials;

v) Enhance investment in Agriculture and agro-processing to realize its potential .

vi) Getting Africa connected and “powered” through improved infrastructure

vi) Regional Integration

- Economic isolation is more acute in SSA than in other region
- Fragmentation is a drag on economic progress and livelihoods

The Global society has an important role to play

1) Restrain from Protectionist policies

- Report calls upon African countries to maintain open business climate
- BUT recent analysis by Overseas Development Institute (ODI), have shown that, developed and emerging economies have become more protectionist

2) Continue to support LIC towards MDGs

- uncertain ODA and FDI's hamper attainment of MDGs

3) Improve global financial governance –

- Important to make global financial system safer and more stable
- Africa's hard won economic achievements have been eroded by a contagion caused by mistakes in developed nations

4) Climate change - crucial for sustaining global growth

- The present global growth model is environmentally unsustainable, mainly caused by actions in DCs
- Low income countries could suffer the most from droughts food shortages etc. due to climate change – “the shock to end all shocks” ***

THANK YOU