

CWG 4 Statement on Macro Situation

Main Talking Points

Tanzania's recent economic performance is impressive by most standards, indeed during the previous decade the country's growth has been higher than that of SSA countries or the World as a whole. This has remained true during recent turbulent times.

- in 2012, with projected growth rate over 6%, Tanzania is again likely to be one of the world's fastest growing economies. The recent performance for the third quarter of 2011 is encouraging, with 6.4 % growth pushed by the good performance of financial services, construction, and communication.
- these achievements are direct results of sound structural and economic reforms the Government implemented
- there of course "dark spots" such as poverty which did not go down despite the economic performance
- Tanzania has been spared by the recent global financial crisis thanks to its own policies (3-year fiscal stimulus) but also because of favorable terms of trade (oil and gold prices in the right direction) and its low level of exposure to international markets

The Government's challenge is to maintain such a performance in volatile environment. The following risks cannot be discarded

- Fiscal buffers have been exhausted after three years of fiscal stimulus, leading to an unprecedented increase in fiscal deficit (close to 7 percent of GDP last year) and in public debt to GDP ratio, which stood at 40 percent for 2010-11 up from 35 percent in 2007-08.
- The looming global recession may produce more damages on the Tanzanian economy this time around (note that those factors are beyond the control of the Government):
 - The fiscal crisis in donors' countries may push them to reduce aid inflows.
 - The global recession may extend to emerging countries, thereby affecting negatively Tanzanian exports toward those markets
 - Prices of gold and oil can move in directions that will destabilize Tanzania's current account balance.
- Inflationary pressures have started to appear, forcing the authorities to adopt a restrictive monetary policy that may impact negatively on private sector activities (through higher interest rates and less lending).
- The country remain exposed to climatic shocks has recently experienced by the recent flood in Dar es Salaam, putting additional pressure on public finance.

Fiscal risks can emerge from unexpected costs in the energy program and road works.

The Government has today little fiscal space to address any new shock –external or domestic. We nevertheless believe that the Authorities are in good position to meet those risks if they remain **committed to:**

- maintaining fiscal prudence and discipline (applying the simple principle of caution in turbulent times)
- improving the efficiency of public spending –getting more from existing resources by better choices and management
- finding new engines for economic growth through partnerships with the private sectors and fostering a better business environment.