Weathering the storm

INTERVIEW WITH PROF BENNO J NDULU
GOVERNOR OF THE BANK OF TANZANIA

BENNO J NDULU took over as Governor of the Bank of Tanzania in January 2008. Prior to that he had been the Bank's First Deputy Governor, a post he assumed in July 2007. An internationally recognised expert on African Economics and finance, he founded the African Economic Research Consortium, becoming its Executive Director. He then worked for the World Bank between 1998 and 2007, as its Africa region's Lead Economist – acting as Tanzania Country Manager between 2002-03, Research Manager, and was Advisor to Vice President and Manager Partnership Group Africa Region.

Have Tanzania's efforts to stimulate the economy had any impact on its ability to meet debt repayments?

Tanzania's debt servicing capacity remains very strong and has hardly been affected by the initiatives to cushion the economy from the effects of the global economic recession. The Bank of Tanzania (BOT) is currently the custodian and manager of debt databases for both external and domestic debt, a responsibility that is substantially going to be shifted soon to the Ministry of Finance and Economic Affairs. Based on the most recent debt sustainability analysis, Tanzania's indebtedness – domestic and external has been rated 'sustainable' with a lot of head room for judicious borrowing. The net present value of debt to GDP ratio was estimated to be 15.1 per cent by June 2010, compared to a prudent limit of 50 per cent. At the same time the value of debt to export ratio was estimated to be 65 per cent against a prudent threshold of 200 per cent. Efforts to stimulate the economy after the financial crisis had no direct impact on the ability to meet debt payments.

President Kikwete predicted that the long-term effects of the financial crisis would be felt indirectly in Tanzania in the form of a decline in the demand for Tanzanian exports to developed countries, a decrease in the amount of funds available from those countries and decreased FDI, as well as a fall in tourist arrivals. From your perspective in the Central Bank over the last 18 months, would you agree with that assessment?

The developments of the last 18 months have turned out as predicted. Overall, growth decelerated from 7.4 per cent in 2008 to 6 per cent in 2009. This rate turned out to be above the projected 5 per cent and substantially above the global performance, with the global economy actually shrinking by 0.6 per cent in 2009 and Sub Saharan African by 2.2 per cent.

Tanzania experienced a deceleration of export growth, particularly exports of manufactures (down by 25 per cent) and a reduction in both tourist arrivals and earnings. Tanzania also experienced a 5 per cent reduction in the flow of foreign direct investment. A number of foreign investors stopped or postponed their investment plans in energy, mining and manufacturing largely due to difficulties in raising funds from international financial markets. There was a shortfall of official development assistance with US$1,233.1 million (mn) received instead of the expected US$1,415.8 mn during the year ending June 2010. The economic downturn also affected revenue collection, falling short of targets by 10 per cent in 2008-09 and about 7 per cent in 2009-10.

To mitigate the adverse impact of the crisis the government of Tanzania came up with a two-year rescue plan, which was announced by the President in June 2009. The rescue plan was designed to ensure sustained credit flow, particularly to export related activities. It also aimed at providing safety nets against extreme vulnerabilities, protecting jobs, ensuring food sufficiency, protecting investment in major infrastructural projects and protecting key social programmes.

It has been predicated that growth in 2011 will be fuelled by capital investments precipitated by increased business opportunities in the East African Community as tariffs are lifted across the region. Please give your opinion of this assessment.

The impact from the implementation of both the EAC Customs Union and the Common Market Protocol will take time to materialise. The Protocol only became effective on the 1st July 2010 and implementation is just starting. These two protocols will go a long way toward enhancing the attractiveness of East Africa as a single investment destination. But there are substantial investments needed to realise this attractiveness, particularly in infrastructure to enhance connectivity as well as to generate and distribute power. Recent projections show that for 2010 foreign direct investment is expected to grow by about 10 percent in Tanzania, reversing the losses suffered in 2009. With strong drive towards infrastructure investments in all partner states and a reduction in barriers to trade and movement of capital and skills, it is very likely that we may start to experience a quantum jump in investment to exploit the region's rich natural resource base as well as attracting labour intensive manufacturing. The EAC's wage cost advantage can only, however, be exploited if skills and technological innovation can spearhead large changes in productivity. Large investments in fiber-optic network infrastructure, nearing completion in Tanzania and other countries, lay a strong foundation for technological leapfrogging in productivity growth and vast improvement in the access to financial services.

Taming inflation is one of the major achievements of the BOT. The bank has forecast the cost of living in Tanzania to average 7.5 per cent this year and 8.0 and 7.2 per cent in 2011 and 2012 respectively. How have you been so successful in managing inflation?

Over the past 10 years (2000-09) Tanzania has managed overall to keep inflation in single digits. For this period, annual inflation has averaged 6.7 per cent and stayed in double digit only in the last 2 years. In 2008 and 2009 average headline inflation was 10.3 per cent and 12.2 per cent respectively, mainly on account of a sharp spike in oil prices and sharp increase in global food prices combined with regional shortages in 2008-09. Inflation came back to single digits in the first half of 2010 and reached 7.2 per cent by June 2010.

The BOT's strong track record in managing liquidity away from excesses has underpinned a significant part of inflation control throughout this period. Given the fact that much of inflation is still driven by food prices, the challenge of attaining low inflation remains in the country's ability to control factors that affect food supply particularly, weather, informal cross-border food trade and transport bottlenecks for distribution of food from surplus areas. There has been an improvement in the production of food in the country and most of the neighbouring countries.

In June 2008 the government announced measures aimed at stimulating the economy, after the country qualified for US$336 mn in loans from the IMF and President Kikwete unveiled a stimulus plan to help local companies and agricultural cooperatives weather the crisis. How effective have the measures been?

The Government of Tanzania unveiled a package estimated to be US$1.3 billion in June 2009, as a rescue plan to mitigate the effects of global economic crisis on the economy. The aim of the rescue plan was to reduce the severity of the impact of the crisis by protecting jobs, ensuring credit availability particularly to export related activities and protecting investments in major infrastructural projects and key social services.

The rescue plan has helped to bridge the budget gap by approximately US$524 mn, which kept expenditure on key social services and infrastructure from collapsing. The plan also included the US$308.4 mn equivalent support received from the International Monetary Fund under the Exogenous Shock Facility arrangement. The plan has provided US$14.5 mn for loss compensation, US$11.3 mn has been provided to give relief to entities facing liquidity constraints while US$6 mn has been provided to enhance credit guarantee schemes, about US$29.4 mn for food security and US$7 mn for energy production. Tanzania has survived the crisis much better than other countries partly due to the rescue plan, maintaining positive credit growth while GDP growth for 2009 was 6 per cent. The government managed to finance its budget as planed with major development projects being carried out smoothly.

Could you outline the continuing impact on the economy of the government's challenge in meeting revenue targets?

The global financial crisis caused a shortfall in government revenues. To address the shortfall the rescue plan entailed Government borrowing from foreign and domestic sources. The borrowing was pegged to macro-economic stability within the general macro-economic framework agreed between the Government and the IMF under the Policy Support Instrument (PSI) programme. This has enabled Tanzania to sail through the crisis without major disruption in macro-economic stability. As the global economy recovers gradually, and demand for exports improve, economic activity is expected to pick up leading to resurgence of credit growth. These developments, together with the policy measures, are expected to strengthen activity and return the economy to high growth path in 2010 and beyond.

It was reported in January that Tanzania has revived its plan to raise US$500 mn in its first sale of Eurobonds. This is dependent on the country receiving an international credit rating. As Chairman of the Eurobond Issuing Committee, can you give us an indication of how plans are proceeding in this regard?

The Government intends to restart the credit rating and bond issuance processes. The process involves getting a rating, and then issuing a Eurobond. The importance of getting rated by at least two credit rating agencies cannot be overemphasised given the recent European sovereign bonds problems. We believe that Tanzania will get a good rating which will enable the country to borrow from the international capital markets at low rates. The tender process for the bonds is expected to be finalised in the 2010-11 financial year.

At the end of last year, the World Bank said it might be possible for a CRS to be in place by June. How realistic do you think that is, and what other issues are involved?

The Credit Reference Bureaus Regulations, which will enable the Bank of Tanzania to license and regulate private credit reference bureaus, are in the process of being finalised by the government. In the meantime, the Bank is working closely with the IFC to facilitate the establishment of the Credit Reference Databank, which will initially be set at the Bank of Tanzania. The process of establishing the credit reference system in the country is now expected to be completed by June 2011. F

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