

*Full Length Research Paper*

# The current global economic crisis and its impacts in Tanzania

Honest Prosper Ngowi

Dar Es Salaam Business School, Mzumbe University, Box 20266, Dar Es salaam, Tanzania.  
E-mail: [pngowi2002@yahoo.com](mailto:pngowi2002@yahoo.com). Tel: +255 754653740.

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This paper is on the current global financial crisis and its impacts in Tanzania. The author gives an overview of the meaning, nature, causes, general impacts and possible solutions for the crisis in Tanzania. Informed mainly by a review of literature and analysis of the same, it is found by the author that the crisis officially started to manifest itself in September 2008 in the financial markets in the United States of America (USA). Since then it has spread not only to financial but also to the real economy of many parts of the world especially in Europe and Asia where the first round effects are rapidly being experienced. In Africa in general and Tanzania in particular, the second round effects (bounce-on effects) are increasingly being experienced. The many direct and indirect, long term and short term impacts are emanating from the recession that is unfolding as a result of the crisis. There have been several strategies to deal with the crisis at macro and micro-level in various countries. These include but are not limited to various bailout plans and stimulus packages for various economies in general and specific sectors and industries in particular. Tanzania, as is the case with many other developing countries is suffering from the second round effects of the crisis. The impacts on the country so far include but are not limited to potential and actual reduced economic growth, reduced foreign currency earning as a result of reduced exports, reduced tourism and its earnings, reduced remittances and reduced Official Development Assistance (ODA). These impacts are likely to have many far-reaching and profound negative implications on many other aspects in the country. Among the policy implications based on the discussions in the paper include the need to be proactive instead of being reactive in addressing the crisis in general and its impacts. Among other things, there is a need to be vigilant as the crisis keeps on unfolding and to take measures to reduce the negative impacts of the crisis.

**Key words:** Global financial crises, economic, employment, Tanzania.

## INTRODUCTION

The current global financial crisis started officially in the United States of America (USA) in September 2008 or so. It is generally manifested in the form of inadequate liquidity as a result of credit crunch in the financial markets. As a result, a recession is looming across the globe in form of a general, rapid and high decline in economic activities. The activities include production, distribution and consumption of goods and services. A similar but more severe form of economic turmoil was last experienced at global level during the great depression

of the 1930s.

The crisis is increasingly resulting into inter alia, uncertain and hard social and economic times for countries across the globe. Whereas the developed countries started suffering from the first round and direct effects of the crisis, the developing ones are likely to suffer more from the second and indirect effects of the crisis. Countries with relatively weak and externally dependent financial structures like Tanzania, are struggling to recover from the shocks caused by hiking and highly volatile global and local food and fuel prices. The current financial crisis therefore is likely to fuel incidences of poverty and vulnerability in the poor countries in general and Tanzania in particular.

According to Mtango (2008), the effects of the global

**Abbreviations:** ODA, Official development assistance; FDI, foreign direct investment.

**Table 1.** Some selected impacts of the crisis on selected countries.

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Various countries have been affected differently by the crisis. Some of these effects are documented here. China has lowered its forecasted economic growth to 8% from the 9% that was achieved in 2008 and double digit figures attained in the previous years. Its export in January 2009 declined by 17%. In Japan, unemployment reached 4% by December 2008 and export declined by 45% while industrial production declined by 10% in January 2009. This is the highest for the past forty (40) years. House holding spending in Japan declined by 4.6% in the last quarter of 2008. In Korea economic growth is forecasted to be below 1% in 2009. The US economy contracted by 3.8% in the fourth quarter of 2008. In Australia mines are closing due to declining prices and reduced demand from its main importer – China. In United Kingdom the number of people losing houses due to foreclosures increased by 50% in January 2009. There are mass jobs cuts, protests and riots in all of these countries as is the case in Russia, Spain, Ireland, Scotland, Iceland and Greece among other countries.

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Source: Collected by the author from various media.

financial crisis have forced Tanzania to reduce its growth forecast from 7.8 to 7.5%. Tanzania Investment Centre (TIC) has reported that FDI flow into the country will be less than \$675million instead of the \$750 predicted earlier in 2008. This is a reduction of 10%.

According to The Guardian (Sunday, 4 January, 2009), revenues in various sectors have been reported to be highly affected by the crisis. These include a decline of exports by 44% in the cotton industry; a decline by 30% in tourism; a decline by 32% in the coffee industry; a decline by 50% in the Nile Perch Industry and 22% in food prices. Taking into account the inter-sectoral linkages and multiplier effects, the negative impacts reported above will have more and more far-reaching and profound negative effects on many other sectors, people and institutions involved in them directly and indirectly.

Among other things, the impacts of the crisis (Table 1) will have many far-reaching and profound implications in many spheres of life including social, political and economical. In the economic sphere among the implication of the crisis include reduced aggregate demand of goods and services both at the local and global (export) markets. The reduced aggregate demand will result into reduced production which will necessitate reduced employment and remuneration (compensation) of factor inputs including labour especially unskilled and part-time labour. Owners of factors of production in general and labour in particular are likely to be poorer as a result of the crisis. This will reduce their living standards as measured by the quantity and quality of goods and services consumed.

Another likely economic impact of the crisis is reduced Official Development Assistance (ODA). This is because the sources of revenue for ODA from the donor countries will be reduced. Also, donors may be compelled to give less or nothing to recipient countries as the latter are obliged to address the crisis in their own countries first and may not have willingness and/or ability to give any surplus in form of ODA as they fix their domestic problems.

The current crisis is still in its infancy stage of development. It is still taking shape and there are many

unfolding issues, realities and lessons. Yet, there are many unknown issues and realities of the crisis. Among these unknown variables in the crisis include its full impacts in various countries including Tanzania. This work therefore focuses on the crisis and its likely and some actual impacts in Tanzania based on available information.

## **METHODOLOGY**

This work is mainly informed by the review and discussion of the existing and emerging literature on the crisis. It is also informed by opinions of some experts and practitioners on the ground. The literature however, is limited given the relative infancy of the current crisis globally as well as in Tanzania. It is still a relatively new research area and very few known scientific works have been conducted on the about six months old crisis. Most of the literature used therefore is grey.

### **An overview of the current global financial crisis**

In this section, an overview of the current global financial crisis is presented. The overview covers inter alia, the meaning, nature, causes, impacts and possible solutions for the crisis in general.

### **Meaning, nature and causes of the crisis**

The current global financial crisis is also termed the credit crunch, economic turmoil, economic downswings, global downturn and financial meltdown. The crisis is termed 'the current' to distinguish it from a similar crisis that was experienced in the 1930s that resulted into the Great Depression. The crisis is manifesting itself in form of severe credit, banking, currency and trade crisis which emerged in September 2008. Some background financial market events dating from July 2007 however, show that the credit crisis is the result of sub-prime mortgage crisis. It is believed however that there are a number of economic problems during the late 2000s that formed the basis of the current crisis.

Akbar (2008) correctly argues that the current global financial crisis is an ongoing major financial crisis. The crisis became prominently visible in September 2008 with the failure, merger or conservatorship of several large United States based financial firms including Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York

Mellon and State Street.

The underlying causes leading to the crisis had been reported for many months before September 2008, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the sub-prime mortgage crisis. See Akbar (2008), Evans-Pritchard (2007), *The Economist* (15 and 22 May, 2008). The failures of large financial institutions in the United States rapidly evolved into a global crisis resulting in a number of European bank failures and declines in various stock indexes and large reductions in the market value of stock (Norris, 2008) and commodities worldwide (Evans-Pritchard, 2007). The collapse of Lehman Brothers in September 2008 when it filed for bankruptcy was a symbol of the global financial crisis. Broadly, it is seen that lack of adequate regulation (*laissez-faire*) of the financial markets by the appropriate authorities in the US is the major explanation behind this crisis.

### **General impacts of the crisis**

The crisis is having many and far-reaching direct and indirect and short-term and long-term impacts across the globe. So far however, given the source and nature of crisis it is the developed countries that have been more affected than the developing ones. However, the impacts of the crisis are continuously unfolding.

The actual extent of impacts of the crisis will depend on a number of issues. The issues include but are not limited to the degree to which a particular country is integrated into the dynamics of global investment flows, expanded trade, information technology and vibrant financial security arrangements. It will also depend on the extent to which a country is marginalized from the dynamic processes above. The kinds of policies that will be put in place by individual governments independently and in collaboration with the global community to solve and mitigate the impacts of the global economic downturn will determine *inter alia*, the severity and length of the crisis.

Generally, the crisis has led to a liquidity problem and the deleveraging of financial institutions especially in the United States and Europe, which further accelerated the liquidity crisis. It is causing fears and declining sentiments in the market. It is ongoing and continues to change, evolving at the close of October 2008 into a currency crisis with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc. This in turn is leading many emergent economies to seek aid from the International Monetary Fund. (Landler, 2008; Fackler, 2008).

Most developing countries including Tanzania, are dependent on commodities for import or export. The impacts of the crisis on these countries are likely to be profound and far-reaching. Commodity-dependent economies are exposed to considerable external shocks stemming from price booms and busts in international commodity markets. UNCTAD (2008) reports that uncertainty and instability in international financial, currency and commodity markets, coupled with doubts about the direction of monetary policy in some major developed countries, are contributing to a gloomy outlook for the world economy and could present considerable risks for the developing world.

Among other things, Tanzania depends on the production (for domestic and export markets) and consumption (from domestic and foreign sources) of such commodities as agricultural, mineral and fuel commodities. Tanzania therefore stands to be affected by the crisis through its dependency on commodities production, export, imports and consumption.

Raja (2008) argues that market liberalization and privatization in the commodity sector have not resulted in greater stability of international commodity prices. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets, which fail to transmit reliable price signals for commodity producers.

In recent years, the global economic policy environment seems to have become more favorable to fresh thinking about the need for multilateral actions against the negative impacts of large commodity price fluctuations on development and macroeconomic stability in the world economy.

Other general impacts of the crisis include reduced aggregate demand of goods and services across the globe. This is due to limited liquidity and related problems such as all-times low consumer sentiments that are emanating from the crisis. The reduced aggregate demand in turn is leading to reduced production of goods and services with the necessary result of reducing demand for and employment of factors of production including labour. The implications of reduced employment of factor inputs include reduced incomes to the factors and their owners in general and reduced standard of living and possibility of vulnerability to poverty for labour in particular. In some countries, migrant workers, (foreign labour) are likely to suffer more by being the first to be laid-off. This will have many and far-reaching implications on the countries and individuals dependent on transfers from migrant workers in form of remittances.

Some specific impacts of the crisis that have been observed and recorded so far include a loss of over 2,500,000 jobs in the US in 2008 where unemployment has reached the 7.2% mark and may move to double digits. The current unemployment figure is the highest in the past 15 years. Other observed tendencies in the US include situations where the unemployed are giving up in looking for jobs as the chances to get one are slim. Other impacts of the crisis include dismal sales in stores, downsizing firms and declining financial markets and stocks. However, housing foreclosures and governments take over financial institutions in several parts of the world.

### **Impacts of the crisis in Tanzania**

The crisis is likely to have many and far-reaching impacts in Tanzania. Some of the impacts are of long term nature while others are of short term nature. Some of the potential and actual impacts of the crisis in Tanzania are presented in what follows.

### **Impacts on official development assistance (ODA)**

The Organization for Economic Cooperation and Development (OECD) – Development Assistance Committee generally defines ODA as those flows to eligible ODA recipients or multilateral institutions that are administered with the promotion of the economic development and welfare of developing countries as its main objective.

Generally, ODA or foreign aid consists of loans, grants, technical assistance and other forms of cooperation extended by governments to developing countries. A significant proportion of official development assistance is aimed at promoting sustainable development in poorer countries, particularly through natural resource conservation, environmental protection and population programs.

The Human Development Report (HDR) 2007/2008 gives a list of OECD-Development Assistance Committee (DAC) countries that make some expenditure on ODA. These include Norway, Australia, Canada, Ireland, Sweden, Switzerland, Japan, Netherlands, France, Finland, United States, Spain, Denmark, Austria, United Kingdom, Belgium, Luxembourg, New Zealand, Italy, Germany, Greece and Portugal.

Some non-DAC countries and areas also provide ODA. According to OECD-DAC net ODA was disbursed in 2005 by Taiwan Province of China, Czech Republic, Hungary, Iceland, Israel, Republic of Korea, Kuwait, Poland, Saudi Arabia, Slovakia, Turkey, United Arab Emirates and other small donors, including Estonia, Latvia, Lithuania and Slovenia totaled US\$3,231 million.

China also provides aid but does not disclose the amount. All of the countries listed above have been affected differently by the crisis. Therefore, there is a possibility of declining ODA because the source countries have been affected by the crisis.

Ringer (2008), making reference to the Organization for Economic Cooperation and Development (OECD) reports that global ODA from all donors for 2007 was \$117.576 billion. The European Union (EU) and its 27 member states are by far the largest ODA providers, supplying half the global amount. Because of a downward trend, their ODA fell to 46.1 billion Euros (\$59.4 billion) or 0.38% of Gross National Income (GNI) in 2007, down from 47.7 billion Euros (\$61.4 billion), or 0.41% of GNI, in 2006.

Ikome (2008) correctly points out that ODA is a useful tool for the reduction of poverty and increasing prospects for achieving sustainable development. Over the years, African governments have relied on foreign aid to provide services to their people.

Tanzania is among the countries that depend heavily on ODA for its development in general and budget in particular. Tanzania's national budget has been approximately donor funded through bilateral and multilateral ODA to the tunes of 40%.

The crisis is likely to lead to reduced ODA flows to the country. As a result of the crisis, some donor countries and development partners may reduce or even stop their financial contributions to developing countries including Tanzania. This is because they may be forced to concentrate on rescuing their own economies first through various strategies including bail out plans and economic stimuli packages. This implies less ODA for a country like Tanzania.

The reduced ODA will affect this aid-dependent country severely and deepen the negative impacts of the crisis. If the promised ODA will not be forthcoming in the remaining part of the 2008/09 financial year it means that a number of recurrent and development expenditure will go unfunded with a number of consequent negative implications.

Deeper impacts of the crisis on ODA flows to Tanzania may be observed and experienced from the 2009/10 financial year. This is because some donors may not give pledges to in the context of both Direct Budget Support (DBS) and project funding as a result of the crisis. This will deepen the impacts of the crisis outlined above.

It is important to see the direct relationship between the economic crisis and possibilities of reduced ODA flows. ODA funds accrue from donor countries' tax payers' money. This tax is collected from various sources in the process of production of goods and services. With the crisis, we are witnessing a global recession. This is a situation of reduced level of economic activities including production and consumption of goods and services. This reduction by itself will necessarily reduce the amount of taxes that donor and other countries are going to collect. Therefore the donor countries' disposable national incomes from which some funds could be set aside as ODA will be reduced.

The other way in which ODA may be reduced is through reduced tax revenues due to possible expansionary fiscal policies that may be applied by these countries as part of the strategies to solve the crisis. Among the fiscal policy instruments that may be used include reduced tax rates and tax multiplicities. This will lead to collection of less tax revenues and availability of the same for ODA purposes.

Even the reduced disposable national income described above will partly be devoted to addressing the global financial crisis in the donor countries' economies. The amount available for ODA purposes therefore will be reduced if available at all.

ODA from multilateral organizations such as the World Bank and United Nations agencies may also be substantially reduced as a result of member countries' failure to contribute into these funds due to the crisis. Both bilateral and multilateral ODAs therefore are at risk. The impacts of the same for a donor dependent economy like that of Tanzania are many, far-reaching and profound. magnitude and the potential impact of the current economic crisis. However, it is clear that the crisis will have short as well as medium-term effects, which may differ in magnitude depending on how long

the crisis lasts. The impacts will vary across countries depending on their production and export structure, exposure to the international financial system, as well as capacity to cushion the potential negative effects of the crisis.

The short- run effects on Sub Sahara Africa (SSA) including Tanzania will be relatively small as most countries in the region are de-linked from the international financial system. The medium-term effects will depend on four key factors (Osakwe, 2008). The first is the degree to which the crisis leads to a severe and protracted recession in the US and Europe, which will certainly have a negative effect on other industrial countries given the interdependence of these economies through trade and foreign investment. This will in turn have a contagious effect on African countries through a number of channels including ODA. Tanzania is not an exception in this.

In the context of ODA, the medium- term effect of the crisis will depend on what happens to ODA flows to recipient countries. If the donor countries respond to the economic slow down by reducing ODA flows, this will deepen the potential impact of the crisis on recipient economies. This is especially so for economies in Sub Sahara Africa (SSA) because they heavily rely on ODA to finance their budgets. Reduced ODA will further reduce the fiscal space available to recipient countries to cushion the impact of the crisis.

Traditional donors, like the United States, the Scandinavian countries, the UK and other European Union countries are among the hardest-hit by the crisis. According to Ikome (2008), the donor countries have become further constrained from readily releasing funds earmarked for development assistance, particularly to Africa. Concerns are that they will become compelled to become more inward-looking, directing more resources to address domestic challenges. These donors are looking to the emerging economies of China, India and the Gulf states for liquidity. This implies that the traditional donors have liquidity problem and may therefore not be in a position to fulfill their ODA commitments or make new ones unless the crisis ends. The outcome would be shrinking ODA which would have a direct impact on the potential to achieve the Millennium Development Goals (MDGs), which are currently under funded by over \$ 50 billion.

Some specific impacts of the crisis in selected countries are presented in the box below. The main source of the information in the box is grey literature recorded by the author of this work from various sources, mainly CNN and BBC business and economic news.

The relatively few and brief impacts above help to elaborate the fact that the crisis is impacting different countries differently. In the context of this work in general and this sub-section in particular, the pieces of evidence indicate that the crisis is reducing donor countries' financial muscles and their ability and/or willingness to contribute in the development of poor countries through ODA.

### **Selected specific and actual impacts of the crisis in Tanzania**

In this sub-section, some selected specific and actual impacts of the crisis in Tanzania are documented. Generally, the unfolding impacts of the crisis in Tanzania are emanating from the reduced aggregate demand both at global and local levels. The crisis has resulted into liquidity problems and all times low consumer and investors sentiments in the world market. Foreigners' appetite for goods and services produced in and exported from Tanzania is necessarily declining on account of the crisis, inter alia.

The declining and in some places all time low consumer sentiments from Tanzania's importers is leading into reduced exports from the country. The reduced exports are making it inevitable for producers to reduce their output of goods and services. As a result in the context of this work, the basis for internal sources of revenue for Tanzania including but not limited to taxes, licenses fees, fines and contributions of various kinds are being

eroded.

### **Impacts of the crisis in the tourism sector in Tanzania**

Tourism has been one of the leading foreign currency earners for Tanzania. The 1 billion USD industry however, experienced a decline in revenue by about 18% in 2008 and a predicted decline by some 30% in 2009 due to the financial hard times in the US and Europe which are the leading sources of tourists in Tanzania.

The tourism value chain to be affected by the crisis includes travel agents, transporters (taxis, buses, car rentals, safari/tour operators), hotels, restaurants and camping sites (reported 60% cancellation of bookings). The reduced number of tourists will affect employment in hotels, restaurants and camping sites and their suppliers of food, beverages, laundry and utilities. Their financiers too (mainly banks) will be negatively affected. There have been some reports of renegotiation of loan repayments to banks by some tourism-dependent hotels due to inability to pay as per prior agreed schedules. The inability is attributed to the crisis. Other nodes in the tourism chain that will be negatively affected are bureau de changes and trade/commercial sector in general and souvenir industry in particular.

### **Impacts of the crisis in the cotton sub-sector in Tanzania**

In 2008, there was a loss of revenues by 54.4% (Tshs. 40.9 billion) in the cotton sub-sector. For 2009, the decline is estimated at 44% due to the crisis that is leading to the decline of the crop's price – from USD 0.82 cents per kilogram in March 2008 to USD 0.45 cent per kilogram in December 2008. Cotton as raw material is not having high demand as before the crisis. There have been reports of cancellations of future cotton supply (export) contracts. This necessitates reduction and/or stop of cotton production in Tanzania.

Government (and individual) revenues that were emanating from the sub-sector will no longer be as forthcoming as before the emergence of the crisis. Incomes generated in the various cotton commodity chain have been made highly vulnerable. These include those incomes directly earned in cotton farming node of the chain (cultivation, planting, weeding, fertilizing, manure/fertilizer application, harvesting, storage (go-downs); transporters and traders. Other cotton-commodity chain related service providers that will be impacted include financiers, food, beverages, accommodation and other daily supplies dependent on the cotton commodity chain. Others that will be affected include the district councils that depend on cotton crop sales as part of their internal sources of revenues. This is mainly the case in a number of cotton growing districts in the Lake Victoria zone.

### **Impacts of the crisis in the coffee industry in Tanzania**

Coffee exports earn Tanzania about 90 billion USD per year. By December 2008, Arabica prices fell by 34% reaching USD 104 for a 50 kg bag. Robusta prices declined by 30%, fetching USD 65.46 per a 50 kg bag. The coffee industry on average suffered a 32% decline in export earnings due to the crisis. As is the case for other industries, revenues include government revenues in the whole coffee commodity chain will be negatively affected. These include revenues earned by those directly employed in coffee crop preparation, cultivation, weeding, fertilizing, harvesting, transporting, storing and marketing. As is the case for cotton, the districts councils that depend on coffee crop sales as part of their internal sources of revenue will be affected. These include a number of district councils in Kilimanjaro, Mbeya, Arusha, Kagera and Ruvuma regions.

### **Impacts of the crisis in the Nile Perch industry**

The Nile Perch industry in Tanzania exports about 80% of its fish fillet to the European Union (EU) market. The export is valued at USD 200 million and supports over 300,000 people directly and 3,000,000 people indirectly. Due to the crisis however, it is projected that Nile Perch exports will decline by 50%. In the context of this work, the decline will reduce government revenues hitherto accruing from the Nile Perch commodity chain. The chain includes fishers, fish and fish-byproduct processors, fishing gears (including boats and nets) producers and maintainers, fish traders and related service producers especially women who participate in a number of activities including food preparation and sale for those in the mainstream fish industry. As for cotton, coffee and other produce, the districts councils depending on fish sales will be affected.

### **Impacts of the crisis in food production activities in Tanzania**

Another area through which investment in human capital may be reduced is in the food production industry. General food prices are projected to decline by 22% in 2009. For maize, wheat and soybeans the decline is projected to 25% while rice is projected to fall by 19%. Food producers in particular and those in the food production chain in general may suffer from reduced revenues due to reduced demand and incentives to produce food crops for sale as a result of the crisis. Other dynamics however may counter this negative effect by stimulating the food crops upwards. The dynamics include the booming bio-fuels industry. This is the industry where food crops are produced not for human consumption but for producing fuel to power machines.

### **Impacts of the crisis on foreign direct investment (FDI) inflows to Tanzania**

The crisis is leading to reduced investment funds and low sentiments for multinationals undertaking FDIs. Marketing-seeking FDIs may not see promising market prospects. This is the same for resource and efficiency seeking FDIs. As a result there will be reduced direct and indirect revenues that emanate from FDI projects. It is to be remembered that FDIs are regarded as engines of growth in host economies especially the developing ones like Tanzania. See Ngowi (2000, 2001a, 2001b, 2002a, 2002b, 2004, 2005a, 2005b, 2006, 2008 and 2009 ) on various aspects of FDI in Tanzania in relation to this work including FDI roles in increasing government revenues through licenses, fees, fines, privatization proceedings, taxes and royalties.

### **Impacts of the crisis in other economic activities in Tanzania**

Similar to the possibilities of reduced revenues in the selected sectors and sub-sectors above, effects are likely to be experienced in the production of many other goods and services. This is primarily mainly so for export products like minerals (including but not limited to gold, diamond and tanzanite) and other traditional crops such tobacco, tea, sisal and cashew nuts and none-traditional agricultural products like horticultural products. Others include industrial sector products and products from the services sector. The accumulated impacts of the decline in these sectors will substantially decrease government's internal revenues.

## **GENERAL POSSIBLE SOLUTIONS FOR THE CRISIS**

Generally, the solution to the current global financial crisis should be to address its specific causes in general

and reverse its impacts in particular. Among the key to solving the crisis is to address the demand side of the economy. This can be done by various measures to stimulate aggregate demand at national, sub-regions and global level.

Among the strategies towards that end include use of expansionary monetary and fiscal policies in general and appropriate policy tools in particular. Among the appropriate monetary policy instruments that can be employed include appropriately increased money supply and reduced interest rate. Fiscal policy instruments include appropriately reduced tax rates and increased subsidies for both producers and consumers of goods and services. Other similar measures include surplus as opposed to deficit budgets.

Generally therefore more spending at all levels is the key out of the crisis. Among other things, these measures are likely to stimulate the supply side of the economy positively. The challenges in implementing the measures especially for poor developing countries include the availability and accessibility of the huge funds needed to make a real and sustainable positive difference. Rich governments have designed various bailout and economic stimulus packages either for the whole economy or specific sectors and industries. The sectors and industries include the cash-trapped major banks.

Other measures to solve the crisis in the long term and help to avoid one in the future include effective and comprehensive reform of international banking, financial and monetary systems. Among the measures towards this end include the U.S. to give up its veto power at the international monetary fund (IMF) and European countries to give up some more of their voting rights in order to make room for emerging and developing countries. These have been critical voices from some Asian leaders.

Some countries can and indeed are already turning to the IMF for help. As Stiglitz (2008a) notes however, the worry of turning to IMF is that, at least in some cases, the fund will go back to its old failed recipes: fiscal and monetary contraction, which would only increase global inequities. While developed countries engage in stabilizing countercyclical policies, developing countries would be forced into destabilizing policies, driving away capital when they need it most. No wonder then that, according to The Daily News (Friday, 28 November, 2008) Indonesia said no to IMF loans.

In Iceland, where the economy was very dependent on the finance sector, economic problems have hit them hard. The banking system virtually collapsed and the government had to borrow from the IMF and other neighbors to try and rescue the economy. However, Iceland has raised its interest rates to some 18%, partly on advice from the IMF. It would appear to be an example where high interest rates may be inappropriate.

There is a need for fundamental rethinking of the international banking system. There is a need of increasing capital and liquidity requirements at institutions with

strong restraints on the build up of risk. The reforms should include but not be limited to increasing the reserves banks must have. Fractional reserve banking works well in good times, but can lead to a crisis through encouraging more loans which get riskier as competition increases.

Financial market liberalization and very rapid growth should be reconsidered and be substituted by more stringent controls, regulations and supervisions. The logic here is that lower but more stable long term growth may be better and sustainable in the long run rather than short bursts of high growth followed by disruptive bursts, some of which can be very violent as the current crisis is showing.

Interpreting Stiglitz (2008b), there is a need for well designed incentive structures, adequate competition, change-minded behaviour and adequate transparency in the financial sector. Better regulation is required to reign in the financial markets and bring back trust in the system.

## **Conclusions**

The global financial crisis is real and affects virtually all spheres of life. In this work, it has been documented that the crisis has affected various sectors of the economy in Tanzania and it is still doing so. Other effects still remain potential and should be measured and documented as they emerge.

Without solving the crisis the negative impacts will be more severe and may result into the economic depression of the 1930s. The need for coordinated efforts to fight the crisis both at the global and local levels therefore cannot be overemphasized.

## **Policy implications**

There are several policy implications that emanate from the discussions made in this paper. These include but are not limited to the need of all stakeholders including the Government of Tanzania, the donor community, various organizations to strive to reduce the impacts of the crisis at macro and micro- levels.

There is also a need to be proactive instead of being reactive in addressing the crisis in general and its impacts in the economy in particular. Among other things, there is a need to be vigilant as the crisis keeps on unfolding and taking measures to reduce its negative impacts. Among the measures at macro-level include expansionary fiscal and monetary policies and cooperation with the global community.

## **Implications for further research**

The crisis is still in its infancy stage of development. Its

impacts are and will still continue to unfold as time passes. There is a need for more detailed, field-based, empirical studies on the crisis in general and on its impacts in various countries including Tanzania in particular. The unfolding realities of the crisis across the globe should be documented and form a basis for comparison and sustainable solutions.

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