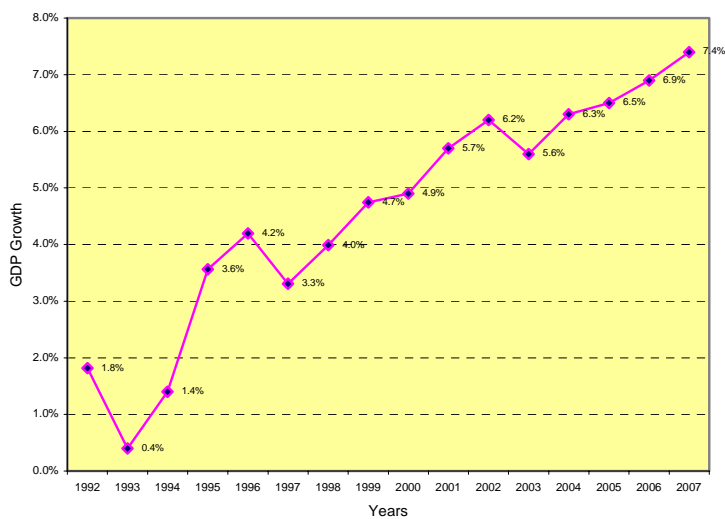




THE UNITED REPUBLIC OF TANZANIA

MACROECONOMIC POLICY FRAMEWORK FOR THE PLAN/BUDGET 2004/05 – 2006/07



Produced by:

THE PRESIDENT'S OFFICE – PLANNING AND PRIVATIZATION
DAR ES SALAAM – TANZANIA
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**Macroeconomic Policy Framework for
the Plan and Budget 2004/05 -2006/07**

CONTENTS

	Page
ACRONYMS AND ABBREVIATIONS	ii
I: INTRODUCTION	1
II. REVIEW OF MACROECONOMIC PERFORMANCE FOR THE YEAR 2003/04 AND THE MEDIUM TERM OUTLOOK....	3
Economic Growth	3
Inflation	5
Government Finance	6
Public Debt Developments.....	14
Money and Credit Developments	15
Financial Market Developments	18
External Sector Developments.....	21
Private Sector Development.....	29
Structural Reforms	32
III: EMERGING MACROECONOMIC POLICY ISSUES AND THE STRATEGIC DIRECTIONS	36
Economic Growth	36
Government Finance	36
Credit to the Private Sector	37
The External Sector.....	37
Poverty Reduction Strategy	38
Structural Reforms	39
IV: MACROECONOMIC ASSUMPTIONS, PROJECTIONS AND POLICY TARGETS FOR THE PERIOD 2004/05 - 2006/07	40

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
AGOA	African Growth and Opportunity Act
BEST	Business Environment Strengthening in Tanzania
BOT	Bank of Tanzania
CPI	Consumer Price Index
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
EPZ	Export Processing Zone
FEMO	Foreign Exchange Market Operations
GDP	Gross Domestic Product
GDPfc	Gross Domestic Product at factor cost
GDPmp	Gross Domestic Product at market prices
GFS	Government Finance Statistics
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IFEM	Inter-bank Foreign Exchange Market
IMF	International Monetary Fund
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NPES	National Poverty Eradication Strategy
OMO	Open Market Operations
PER	Public Expenditure Review
PHDR	Poverty and Human Development Report
PRBS	Poverty Reduction Budget Support
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PSDS	Private Sector Development Strategy
SADC	Southern Africa Development Community
Tshs	Tanzania shillings
USD	United States Dollar

I: INTRODUCTION

1. The national economy has generally continued to improve in recent years, with substantial achievements having been made in sustaining macroeconomic stability, following successful implementation of rigorous economic reforms. Notwithstanding recent adverse weather conditions that has affected agricultural output, overall real growth remains strong and inflation has been contained at below 5.0 percent, while gross official reserves continue to be above 8 months of imports of goods and services during the past two years.

2. While performance of the economy during 2003 was largely expected to be adversely affected by drought and the Middle-East tensions, the outturn has not been to the extent earlier anticipated, with overall real GDP growth slowing down by 0.6 percentage points to 5.6 percent, compared to 6.2 percent registered in 2002. Merchandize exports for the year increased by 26.6 percent to US Dollars 1142.4 million, compared with USD 902.5 million during 2002. In view of the foregoing, the country appears to have weathered through the difficult period with notable success.

3. In view of the improved macroeconomic fundamentals, coupled with the Government's strong resolve to stay the course of economic reforms, real GDP is expected to increase in the medium term, reaching 7.4 percent by 2007, consistent with the aspirations of Vision 2025. Domestic resource mobilization will be enhanced, while the Government's expenditure policies will focus on achieving poverty reduction objectives, as articulated in the PRS. Invariably, the Government will take policy measures that sustain and consolidate recent achievements as well as gear up for higher performance in all sectors of the economy.

4. Table 1, shows a summary of trends in selected macroeconomic indicators for the period 1996-2003.

Table 1: Trends in Selected Macroeconomic Indicators

	1996	1997	1998	1999	2000	2001	2002	2003
Real GDP Growth - %	4.2	3.3	4.0	4.7	4.9	5.7	6.2	5.6
Inflation - annual average - %	21.0	16.1	12.9	7.8	6.0	5.2	4.5	4.4
Exchange Rate (Tshs/USD) – annual average	580.0	612.1	664.7	744.8	808.4	876.4	966.6	1038.6
Exchange Rate (Tshs/USD) – end of period	595.6	624.6	668.0	797.3	803.3	916.3	976.3	1063.6
Merchandise Exports (mil. US\$) - FOB	763.8	752.6	588.5	543.3	663.3	776.4	902.5	1142.4
Merchandise Imports (mil. US\$) - FOB	1212.6	1148.0	1382.2	1415.4	1367.6	1560.3	1511.3	1973.0
Export/Import ratio (Goods) - %	63.0	65.6	42.6	39.7	49.6	52.0	58.7	57.9
Current Account Balance (mil. USD)	-265.1	-403.4	-905.4	-829.5	-498.6	-480.0	-251.1	-337.2
Investment/GDP ratio - %	16.5	14.7	16.0	15.4	17.6	17.0	18.9	18.5
Foreign Direct Investment (FDI) - mil. USD	148.5	157.8	172.2	516.7	463.4	327.2	240.4	247.8
Foreign Reserves (months of imports)	2.4	3.8	3.0	4.1	5.6	6.3	8.3	8.9
	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04 ¹
Govt. Domestic Revenue (% of GDPmp)	13.5	12.6	12.5	11.3	12.2	12.1	12.8	13.4
Total Govt. Expenditure ² (% of GDPmp)	17.3	17.4	17.6	18.3	20.6	19.1	23.4	24.9
Fiscal Balance (before grants) - % of GDPmp	-1.7	-2.3	-2.3	-5.8	-4.6	-5.6	-8.2	-11.2
Fiscal Balance (after grants) - % of GDPmp	3.3	0.2	0.8	-1.6	-1.2	-1.1	-1.7	-4.0
Growth of Money Supply (M2) - %	11.6	11.0	11.1	15.0	12.5	12.3	13.0	14.2
Average Deposit rate - %	11.0	10.0	7.9	7.1	4.2	3.5	3.1	3.9
Average Lending rate - %	26.5	24.0	24.5	22.1	19.6	16.4	15.7	13.8
Disbursed External Debt (mil. USD)	6600.3	6435.8	6580.3	6538.3	6312.2	6559.7	6413.4	6730.8
Total Debt Stock (mil. USD) ³	7578.5	7384.6	7669.7	7624.8	7482.1	7464.0	7268.2	7890.7

Source: President's Office - Planning and Privatization, Ministry of Finance, and Bank of Tanzania

¹ As at end-December 2003

² Including amortization

³ Including interest on disbursed debt

II. REVIEW OF MACROECONOMIC PERFORMANCE FOR THE YEAR 2003/04 AND THE MEDIUM TERM OUTLOOK

Economic Growth

5. After a consistent rise in GDP growth over the past six years, 2003 saw a decline to 5.6 percent, following shortfalls in rain during the 2002/03 season, which adversely affected agricultural output. The per capita GDP growth for the year accordingly decreased by 0.3 percent to Tshs. 55,118 from Tshs. 55,273 equivalent to growth of 4.0 percent recorded during 2002⁴. The real GDP outturn is generally in line with the revised projection of 5.5 for the year, that took into account the adverse weather conditions, as well as expected higher growth in some non-agricultural sectors, including wholesale and retail trade (tourism included), manufacturing, public administration, finance and insurance etc.

6. During 2003, the agriculture sector grew by 4.0 percent, compared with 5.0 percent during 2002. The decline in growth of the sector is attributed to shortfalls in rainfall (both short and long rains) in many parts of the country during the 2002/03 season. Nonetheless, the impact of sector's performance on overall GDP growth was mitigated by higher growth in other sectors. During the year, the manufacturing sector grew at 8.6 percent, compared with 8.0 percent in 2002. The growth of the mining sector registered 17.0 percent, compared with 15.0 percent attained in 2002. The sector's contribution to overall GDP increased to 3.0 percent, up from 2.7 percent in 2002. Wholesale and retail trade (including tourism) slackened slightly to 6.5 percent, compared with 7.0 percent in 2002, on account of global security concerns during the year, that adversely affected international travel.

7. Projections for the period 2004 – 2007 assume improvements in the performance of agriculture (the largest sector), mainly driven by the Agricultural Sector Development Strategy (ASDS); higher growth in the manufacturing sector, following extensive rehabilitation of defunct

⁴ At 1992 constant prices, based on population figures from the national census of August 2002

manufacturing enterprises and increased investments in the sector, coupled with implementation of conducive strategic trade policies, including the SME policy and rationalization of industrial power tariffs; a slight slowdown in the growth of the mining sector, following completion of major investments in the mining projects; and as the global economy gets out of recession, the wholesale and retail trade sector (including tourism) is also expected to improve, with increased investments in new shopping centres, fast foods, tourist services, etc. On the basis of the foregoing, real GDP growth is projected to return to its upward trend. Tables 2(a) and 2(b), show actual and projected GDP for the period 1998 - 2007.

Table 2(a): Actual and Projected Real GDP for the period 1998-2007

	Tshs. mill									
	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
Agriculture	739942	770509	796513	840275	882106	917395	962776	1012863	1067383	1131299
Mining	30700	33488	38144	43293	49787	58251	66735	74062	81115	88778
Manufacturing	126887	131491	137809	144647	156219	169653	184733	202219	222932	248387
Electricity and Water	25870	26874	28454	29297	30200	31669	33013	34306	35985	38452
Construction	65187	70866	76818	83494	92679	102872	112740	121209	132095	141926
Trade	239830	254114	270567	288718	308928	329009	352389	380111	412799	450672
Transport and comm.	79755	84403	89515	95154	101244	106419	113655	121676	131690	143116
Finance, insurance,	158089	164568	172291	177911	186485	194710	207068	220472	235714	253257
Public administration	118114	122207	126567	130987	136307	141880	148974	156423	164244	172944
Imputed bank serv.	-78548	-81229	-82359	-84418	-86781	-89819	-95520	-101703	-108734	-116827
GDPfc	1505826	1577291	1654319	1749358	1857174	1962039	2086563	2221640	2375224	2552005
GDPfc (fiscal year)	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2004/06	2004/07
	1476958	1541559	1615805	1701839	1803266	1909607	2024301	2154101	2298432	2463614

Source: National Bureau of Statistics, President's Office - Planning and Privatization

Table 2(b): Real GDP Growth 1997 – 2007

	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
Agriculture	1.9 %	4.1 %	3.4 %	5.5 %	5.0 %	4.0 %	4.9 %	5.2 %	5.4 %	6.0 %
Mining	27.4 %	9.1 %	13.9 %	13.5 %	15.0 %	17.0 %	14.6 %	11.0 %	9.5 %	9.4 %
Manufacturing	8.0 %	3.6 %	4.8 %	5.0 %	8.0 %	8.6 %	8.9 %	9.5 %	10.2 %	11.4 %
Electricity and Water	5.5 %	3.9 %	5.9 %	3.0 %	3.1 %	4.9 %	4.2 %	3.9 %	4.9 %	6.9 %
Construction	-12.3 %	8.7 %	8.4 %	8.7 %	11.0 %	11.0 %	9.6 %	7.5 %	9.0 %	7.4 %
Trade	4.7 %	6.0 %	6.5 %	6.7 %	7.0 %	6.5 %	7.1 %	7.9 %	8.6 %	9.2 %
Transport and comm	32.8 %	5.8 %	6.1 %	6.3 %	6.4 %	5.1 %	6.8 %	7.1 %	8.2 %	8.7 %
Finance, insurance	5.6 %	4.1 %	4.7 %	3.3 %	4.8 %	4.4 %	6.3 %	6.5 %	6.9 %	7.4 %
Public administration	2.7 %	3.5 %	3.6 %	3.5 %	4.1 %	4.1 %	5.0 %	5.0 %	5.0 %	5.3 %
GDPfc	4.0 %	4.7 %	4.9 %	5.7 %	6.2 %	5.6 %	6.3 %	6.5 %	6.9 %	7.4 %
GDPfc (fiscal year)	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2005/07
	3.7 %	4.4 %	4.8 %	5.3 %	6.0 %	5.9 %	6.0 %	6.4 %	6.7 %	7.2 %

Source: National Bureau of Statistics, President's Office - Planning and Privatization

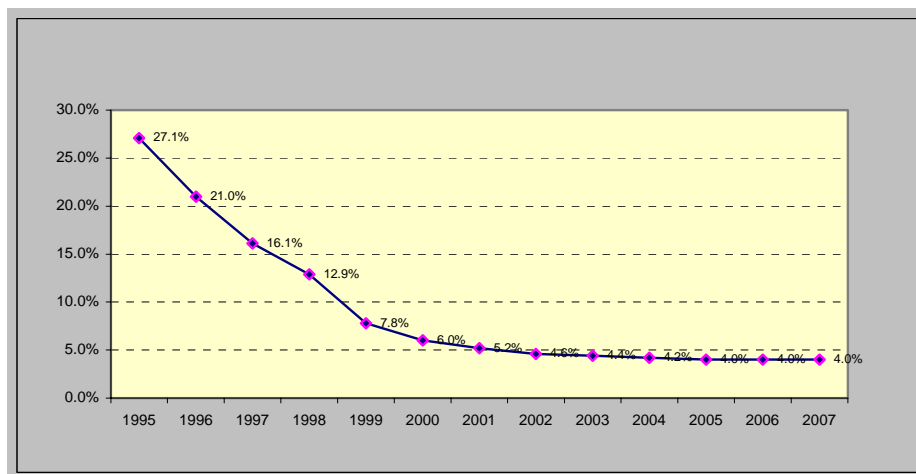
Inflation

8. Consistent with recent achievements in macroeconomic stability, inflation, as measured by the Consumer Price Index (CPI), was contained at below 4.5 percent for most of the year 2003, despite drought and rising oil prices. Having registered the lowest rate ever of 4.2 percent in February and March 2003, inflation went on a gradual up-swing, reaching 4.6 percent by October 2003, and remained unchanged for three months through December 2003. The annual average for the year was 4.4 percent, which is an improvement compared to a rate 4.6 percent in 2002. The increase in inflation during the year was caused by higher food prices, occasioned by shortfalls in food supplies, due to poor harvests caused by drought during the 2002/03 season in many parts of the country.

9. While the upward trend in inflation was also experienced during January and February 2004, the pressure has been mitigated by Government

efforts to fill the food supply gap. Upcoming harvests, which are expected to improve food supply, coupled with a slow-down in non-food inflation, are expected to put headline inflation back on the down-swing track, towards 4.0 percent, consistent with the macroeconomic objective of attaining a rate of inflation that would be consistent with the average rate of our major trading partners. Accordingly, in the medium term, inflation is projected to stabilize around 4.0 percent.

Figure 1: Inflation Trend



Government Finance

10. The Government revenue performance has consistently shown an upward trend. During the fiscal year 2002/03, Government revenue amounted to Tshs. 1,217.5 billion, compared to Tshs. 1,043.0 billion realized during 2001/02, representing an improvement of 16.7 percent. The first half of the fiscal year 2003/04 (July-December) recorded revenue collections amounting to Tshs. 713.5 billion, being 2.0 percent higher than the projected amount of Tshs. 699.4 billion. This performance is 20.0 percent higher than collections in the same period of the previous fiscal year. During the same period, the Government received grants amounting to Tshs. 378.8 billion, equivalent to 97.8 percent of expected inflows of

387.2 billion during the period. The better than projected performance in revenue collections during the period is mainly attributed to an increase in corporate income tax collections, which surpassed the target of Tshs. 42.3 billion by Tshs. 9.1 billion.

11. Government expenditure (excluding amortization) during the fiscal year 2002/03 amounted to Tshs. 1,896.9 billion, compared to Tshs. 1,466.1 billion spent during 2001/02, representing an increase of 29.4 percent. During the first half of 2003/04, government expenditure amounted to Tshs. 1,044.5, which is 93 percent of Tshs. 1,121.8 estimated for the period, while expenditure during the corresponding first half period of 2002/03 was only 81 percent of estimates. Recurrent expenditure during the period amounted to Tshs. 768.6 billion (96.0 percent of estimates), while development expenditure amounted to Tshs. 275.9 billion (85 percent of estimates). While there are substantial improvements in expenditure absorption compared to the previous fiscal year, the lower than estimated expenditures are partly explained by the time lag between actual expenditures and reporting the same to the Ministry of Finance, particularly spending of project funds.

12. In the medium term, fiscal policy will continue to focus on achieving poverty reduction objectives as articulated in the PRS and updated by three subsequent annual progress reports on the same. To facilitate monitoring of Government expenditures in implementation of the strategy, poverty reducing expenditures have been specified with GFS codes during 2003/04. The first PRS cycle having come to an end during 2003/04, the Government has embarked on a comprehensive review of the strategy, with the objective of updating it and making it more comprehensive and pro-poor. The review process will also seek to harmonize the PRS with the Public Expenditure Review (PER) and the budget cycle for efficient implementation of the strategy.

13. The Government revenue effort over the medium term is expected to improve, largely on account of improved tax administration, expanded tax base and rationalization of tax laws and regulations. Accordingly, domestic revenues are projected to increase to 13.8 percent of GDP during 2004/05,

rising to 16.2 percent by 2006/07. On the expenditure front, the cash-budget system will be maintained in order to consolidate financial discipline in public finances, while improving on early allocations of resources to spending units for efficient execution of the budget.

14. Tables 3(a) and 3(b) below, show actual and projected budget frame for the period 1994/95 – 2006/07, with figures 2 and 3 showing trends in government finance.

Table 3 (a): The Government Budget Frame (Analytical format)

Tshs. Mill

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 Dec.2003	2003/04 Budget	2004/05 Budget
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Domestic revenue	331238.0	448372.9	572029.7	619083.1	689325.3	777644.7	929624.0	1042954.0	1217517.1	713511.2	1393026.2	1586681.0
Tax Revenue	299898.0	383743.5	505354.7	566122.6	616284.1	685107.4	827788.4	939266.0	1105746.0	653295.7	1264161.5	1393028.0
Non -Tax revenue	31340.0	64629.4	66675.0	52960.5	73041.2	92537.3	101835.6	103688.0	111771.1	60215.5	128864.7	193653.0
Total Expenditure	398023.8	420522.1	515389.3	730336.0	816706.6	1168778.8	1305035.3	1466138.0	1989511.7	1054924.9	2418337.0	3191382.0
Recurrent expenditure	366331.8	415139.8	486493.7	543751.0	680182.7	808865.4	1018782.1	1121527.0	1488650.0	768599.2	1610897.0	1945126.0
Interest Payments	50164.0	59605.8	113647.5	101181.2	90828.2	128178.4	128149.7	120389.0	99780.0	49743.5	134807.0	167955.0
Foreign	23461.0	25446.3	38080.3	47966.3	60482.3	46848.8	50361.3	55784.0	42770.7	21362.8	62955.0	77100.0
Domestic	26703.0	34159.5	75567.2	53214.9	30345.9	81329.6	77788.4	64605.0	57009.3	28380.7	71852.0	90855.0
Wages/salaries	111494.0	156086.7	199228.0	218807.0	220478.0	285335.8	308051.5	341982.0	397770.0	229781.4	464061.0	521159.0
Goods/services/transfers	204673.8	199447.3	173618.2	223762.8	368876.5	395351.2	582580.9	659156.0	991100.0	489074.3	1012029.0	1256012.0
Development expenditure	31692.0	5382.3	28895.6	186585.0	136523.9	359913.4	286253.2	344611.0	500861.7	286325.7	807440.0	1246256.0
Local					18807.5	19428.8	35069.1	50236.0	95661.7	55732.1	140091.0	128091.0
Foreign					117716.4	340484.6	251184.1	294375.0	405200.0	230593.6	667349.0	1118165.0
Overall Deficit (cheques issued) - before grants	-66785.8	27850.8	56640.4	-	-	-391134.1	-375411.3	-423184.0	-771994.6	-341413.7	-	-
Grants	58505.0	46881.6	81415.6	119358.3	169945.6	280306.7	286306.0	379848.0	622302.1	385918.2	727650.0	1180061.0
Project	51822.0	16914.7	48380.0	117541.0	100499.8	207519.4	123629.8	140192.0	293927.7	41885.6	364303.0	845080.0
Budget Support (MDF/PRBS)					47530.2	72787.3	30436.4		255516.2	313579.1	259922.0	251881.0
HIPC relief - Multilateral								56657.0	72858.2	30453.5	103425.0	83100.0
Overall deficit (cheques issued) - after grants	-8280.8	74732.4	138056.0	8105.4	42564.3	-110827.4	-89105.3	-43336.0	-149692.5	44504.5	-297660.8	-424640.0

Table 3(a)....contd.

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 Dec.2003	2003/04 Budget	2004/05 Budget
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Adjustment to cash	-56278.2	-96001.9	-60916.8	-76242.7	-25140.6	-2444.3	-25447.4	4759.1	-15013.2	-25999.4	0.0	0.0
Overall deficit (cheques cleared)	-64559.0	-21269.5	77139.2	-68137.3	17423.7	-113271.7	-114552.7	-38576.9	-164705.7	18505.1	-297660.8	-424640.0
Financing	64559.0	21269.5	-77139.3	68137.3	-17423.7	113272.7	114552.7	38576.9	164705.7	-18505.1	297660.8	424640.0
Foreign	2956.0	-34899.5	-49065.3	64468.1	-18683.7	105418.3	90354.2	121842.5	201305.7	227758.9	287261.0	310270.0
Loans	42365.0	15509.0	19233.1	136890.0	53842.8	187786.3	172880.4	187355.5	302631.0	264647.7	448171.0	434470.0
Programme	19862.0	7703.4	16543.4	80069.0	36626.2	54821.0	45326.1	33171.2	151331.0	137883.4	216107.0	161385.0
Development Projects	22503.0	7805.6	2689.7	56821.0	17216.6	132965.3	127554.3	154184.3	151300.0	126764.3	232064.0	273085.0
Amortization	-39409.0	-50408.5	-68298.4	-72421.9	-72526.5	-82368.0	-82526.2	-65513.0	-101325.3	-36888.8	-160910.0	-124200.0
Domestic (net)	61603.0	56169.0	-41926.6	3669.2	-5740.0	7854.4	-2494.4	-24158.6	-36600.0	-252330.8	-6600.2	100370.0
Bank borrowing (net)	55803.0	62753.0	-26072.3	-23605.1	1230.0	7690.6	-18654.8	-59180.9	-10300.0	-293601.0	21356.0	0.0
Non-bank (net)	5800.0	-6584.0	-15854.3	27274.3	-6970.0	163.8	16160.4	36574.3	-26000.0	41270.2	0.0	110370.0
Amortization of Contingent Debt								-1552.0	-300.0	0.0	-27956.2	-10000.0
Privatization Proceeds			13852.6		7000.0		26692.9			6066.8	17000.0	14000.0
memo:												
GDPmp	2659700	3394100	4235551	4929469	5532096	6,884,940	7600177	8564000	9493500	10490318	10490318	11581311

Source: Ministry of Finance, President's Office - Planning and Privatization

Table 3 (b): The Government Budget Frame (Analytical format) - % of GDPmp

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2003/04	2004/05
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual Dec.2003	Budget	Budget
Domestic revenue	12.5%	13.2%	13.5%	12.6%	12.5%	11.3%	12.2%	12.2%	12.8%	6.8%	13.3%	13.7%
Tax Revenue	11.3%	11.3%	11.9%	11.5%	11.1%	10.0%	10.9%	11.0%	11.6%	6.2%	12.1%	12.0%
Non -Tax revenue	1.2%	1.9%	1.6%	1.1%	1.3%	1.3%	1.3%	1.2%	1.2%	0.6%	1.2%	1.7%
Total Expenditure	15.0%	12.4%	12.2%	14.8%	14.8%	17.0%	17.2%	17.1%	21.0%	10.1%	23.1%	27.6%
Recurrent expenditure	13.8%	12.2%	11.5%	11.0%	12.3%	11.7%	13.4%	13.1%	15.7%	7.3%	15.4%	16.8%
Interest Payments	1.9%	1.8%	2.7%	2.1%	1.6%	1.9%	1.7%	1.4%	1.1%	0.5%	1.3%	1.5%
Foreign	0.9%	0.7%	0.9%	1.0%	1.1%	0.7%	0.7%	0.7%	0.5%	0.2%	0.6%	0.8%
Domestic	1.0%	1.0%	1.8%	1.1%	0.5%	1.2%	1.0%	0.8%	0.6%	0.3%	0.7%	0.7%
Wages/salaries	4.2%	4.6%	4.7%	4.4%	4.0%	4.1%	4.1%	4.0%	4.2%	2.2%	4.4%	4.5%
Goods/services/transfers	7.7%	5.9%	4.1%	4.5%	6.7%	5.7%	7.7%	7.7%	10.4%	4.7%	9.6%	10.8%
Development expenditure	1.2%	0.2%	0.7%	3.8%	2.5%	5.2%	3.8%	4.0%	5.3%	2.7%	7.7%	10.8%
Local					0.3%	0.3%	0.5%	0.6%	1.0%	0.5%	1.3%	1.1%
Foreign					2.1%	4.9%	3.3%	3.4%	4.3%	2.2%	6.4%	9.7%
Overall Deficit (cheques issued) - before grants	-2.5%	0.8%	1.3%	-2.3%	-2.3%	-5.7%	-4.9%	-4.9%	-8.1%	-3.3%	-9.8%	-13.9%
Grants	2.2%	1.4%	1.9%	2.4%	3.1%	4.1%	3.8%	4.4%	6.6%	3.7%	6.9%	10.2%
Project	1.9%	0.5%	1.1%	2.4%	1.8%	3.0%	1.6%	1.6%	3.1%	0.4%	3.5%	7.3%
Budget Support (MDF/PRBS)					0.9%	1.1%	0.4%	0.0%	2.7%	3.0%	2.5%	2.2%
HIPC relief - Multilateral								0.7%	0.8%	0.3%	1.0%	0.7%
Overall deficit (cheques issued) - after grants	-0.3%	2.2%	3.3%	0.2%	0.8%	-1.6%	-1.2%	-0.5%	-1.6%	0.4%	-2.8%	-3.7%

Table 3(b)contd.

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 Dec.2003	2003/04 Budget	2004/05 Budget
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Adjustment to cash	-2.1%	-2.8%	-1.4%	-1.5%	-0.5%	0.0%	-0.3%	0.1%	-0.2%	-0.2%	0.0%	0.0%
Overall deficit (cheques cleared)	-2.4%	-0.6%	1.8%	-1.4%	0.3%	-1.6%	-1.5%	-0.5%	-1.7%	0.2%	-2.8%	-3.7%
Financing	2.4%	0.6%	-1.8%	1.4%	-0.3%	1.6%	1.5%	0.5%	1.7%	-0.2%	2.8%	3.7%
Foreign	0.1%	-1.0%	-1.2%	1.3%	-0.3%	1.5%	1.2%	1.4%	2.1%	2.2%	2.7%	2.7%
Loans	1.6%	0.5%	0.5%	2.8%	1.0%	2.7%	2.3%	2.2%	3.2%	2.5%	4.3%	3.8%
Programme	0.7%	0.2%	0.4%	1.6%	0.7%	0.8%	0.6%	0.4%	1.6%	1.3%	2.1%	1.4%
Development Projects	0.8%	0.2%	0.1%	1.2%	0.3%	1.9%	1.7%	1.8%	1.6%	1.2%	2.2%	2.4%
Amortization	-1.5%	-1.5%	-1.6%	-1.5%	-1.3%	-1.2%	-1.1%	-0.8%	-1.1%	-0.4%	-1.5%	-1.1%
Domestic (net)	2.3%	1.7%	-1.0%	0.1%	-0.1%	0.1%	0.0%	-0.3%	-0.4%	-2.4%	-0.1%	0.9%
Bank borrowing (net)	2.1%	1.8%	-0.6%	-0.5%	0.0%	0.1%	-0.2%	-0.7%	-0.1%	-2.8%	0.2%	0.0%
Non-bank (net)	0.2%	-0.2%	-0.4%	0.6%	-0.1%	0.0%	0.2%	0.4%	-0.3%	0.4%	0.0%	1.0%
Amortization of Contingent Debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%	-0.1%
Privatization Proceeds	0.0%	0.0%	0.3%	0.0%	0.1%	0.0%	0.4%	0.0%	0.0%	0.1%	0.2%	0.1%

Source: Ministry of Finance, President's Office - Planning & Privatization

Figure 2: Trends in Government Finance

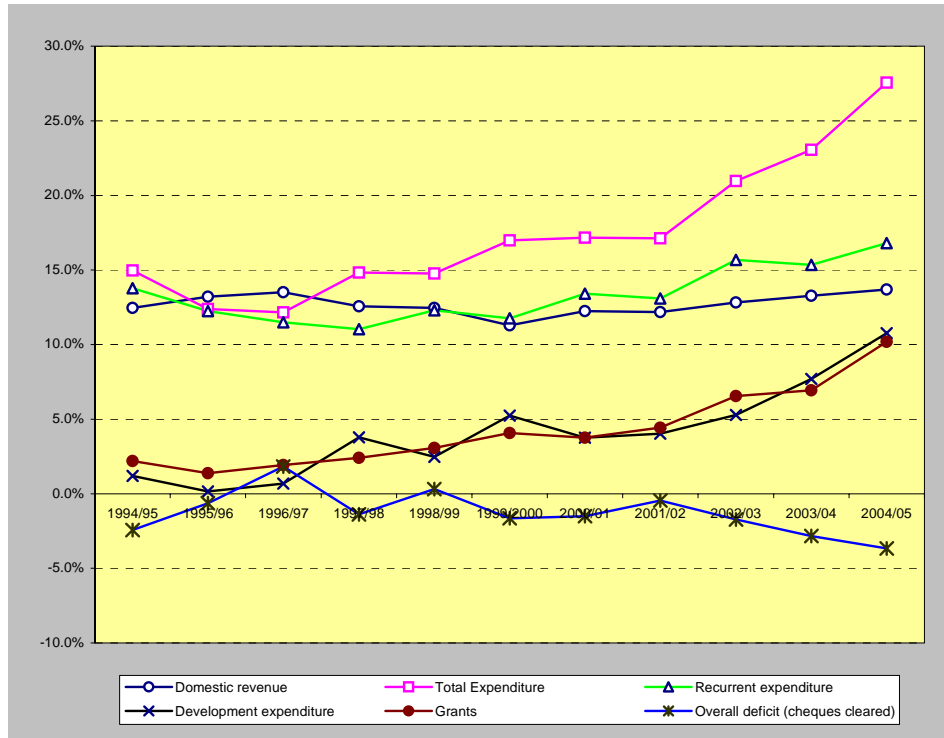
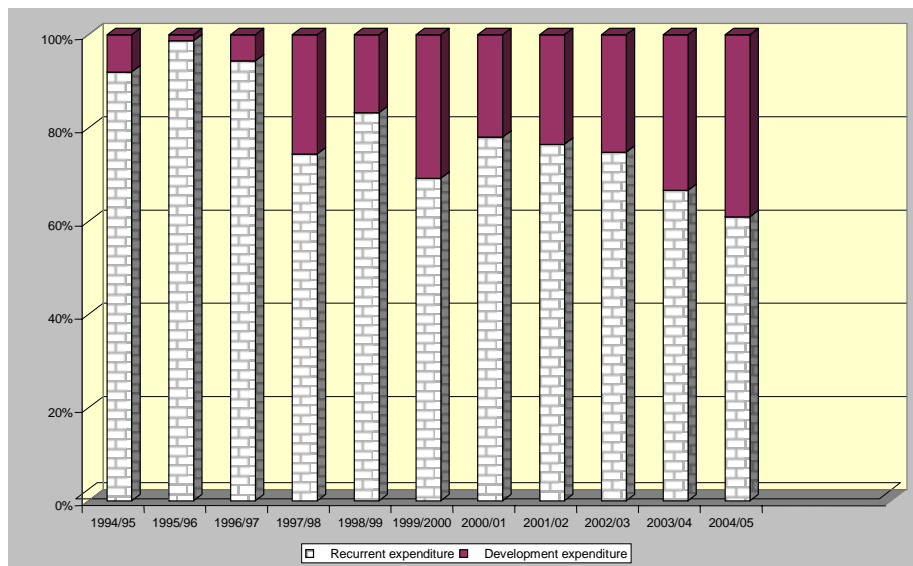


Figure 3: Composition of Government Expenditures



Public Debt Developments

15. As at end-December 2003, the national debt stock(including both external and domestic) stood at USD 8,755.0 million, out of which external debt was USD 7,890.7 million or 90.1 percent of total, while domestic debt amounted to USD 864.3 million or 9.9 percent. During the period June-December 2003, external debt increased by USD 622.6 million from USD 7,268.1 million in June 2003, whereas domestic debt stock increased only slightly by USD 22.7 million, from USD 841.6 million as at end-June 2003. The rise in the overall debt stock during the period is accounted for by new disbursements on new and existing loans, and accumulation of interest arrears for non-Paris Club debt.

16. The country has continued to receive external debt relief under the enhanced HIPC Initiative. Paris Club creditors continued to provide debt relief through cancellation of up to 90 percent of debt stock in net present value (NPV) terms, while multilateral institutions including the IMF, World Bank and the African Development Bank, provided additional debt relief. By end-December 2003, the Government had signed bilateral agreements with all Paris Club Creditors, except Brazil and Japan. However, negotiations with Japan were concluded in early 2004, while negotiations with Brazil are continuing. On the other hand, the Government continues to appeal to Non-Paris Club and commercial creditors to extend debt relief on terms comparable to those under the enhanced HIPC framework. By end December 2003, total debt cancelled by the Paris Club creditors under the HIPC arrangement amounted to USD 749.7 million. Non-Paris Club creditors who have offered debt relief through cancellation include (with amounts in brackets), China (USD 37.7 million), Bulgaria (USD 15.1 million), India (USD 19.7 million), while Kuwait has rescheduled debt amounting to USD 31.9 million.

17. The Government has continued with its endeavours to convert unsecuritized domestic debt into marketable securities and to streamline the domestic debt maturity profile. Subsequently, the principal amount for government stocks, bonds and Treasury bills are rolled over at maturities, while the interest is paid out of the Government budget. During the first half of the fiscal year 2003/04 (June-December 2003) domestic debt

increased by 42.9 percent, from Tshs. 881.5 billion at end-June 2003, to Tshs. 919.3 billion. The increase is mainly explained by the increase in the special government bonds that were issued to retire external debt under the debt swap arrangements.

Money and Credit Developments

18. Monetary policy has continued to focus on maintaining low and stable inflation, while ensuring consistency with economic growth objectives. Thus, the Bank of Tanzania continued to manage liquidity in the economy through appropriate application of open market operations (OMO) and foreign exchange market operations (FEMO). Accordingly, during the fiscal year 2002/03, there was a slowdown in the annual growth rate of M2 from 21.3 percent at end-June 2002 to 16.9 percent at end-June 2003, while M3 increased marginally to 22.7 percent during the period.

19. For the year ended December 2003, the annual growth of M3 and M2 slowed down to 16.6 and 14.1 percent, respectively, compared to 25.1 and 20.7 percent respectively, recorded during same period in 2002. Thus, the expansion of money supply during the year ended December 2003 was appreciably tightened and maintained within the target bands of 14.0 – 17.0 percent for M3 and 12.0 – 15.0 percent for M2. The slowdown in the expansion of money supply resulted mainly from Bank of Tanzania's Open Market Operations (OMO) and the Foreign Exchange Operations (FEMO). FEMO led to a net sale of USD 91.6 million, equivalent to a mop-up of Tshs. 96.8 billion. To improve liquidity management, the Bank of Tanzania introduced two standby credit facilities, namely the Intraday and the Lombard⁵ facility in December 2003.

20. During the year ended December 2003, credit to the private sector increased substantially, registering a growth rate of 43.2 percent, which is the highest in the recent past. This growth rate is also far above the target of 24.5 percent for end-June 2004. The increase in private sector credit is

⁵ *An overnight facility to enable commercial banks that have signed the master repurchase agreement, to borrow at their own discretion, through pledging of eligible government securities as collateral, mainly in Treasury bills. The facility is used to meet overnight liquidity needs of commercial banks.*

mainly attributed to: (i) conversion of foreign loans to Tanzania shillings loans (ii) increase in competition among commercial banks (iii) increase in lending to micro enterprises. Accordingly, the share of the banking system's credit to the private sector increased to 98.4 percent in December 2003, from 68.4 percent in December 2002. The share of credit to the government declined to 1.6 percent in December 2003, from 31.6 percent in December 2002. The substantial decline in the banking system's net credit to the government is mainly explained by the government repayment of its domestic obligations to commercial banks and increase in its deposits with the Bank of Tanzania, arising mainly from donor funds inflows during the period.

21. In the medium term, monetary policy will continue to focus on maintenance of low and stable inflation that is close to Tanzania's major trading partners, while supporting the broader growth objectives of the government. Accordingly, the Bank of Tanzania will continue to monitor closely liquidity and price developments in the economy and take appropriate action. OMO will continue to be the main monetary policy instrument, supplemented with FEMO. The Government in collaboration with the Bank of Tanzania will continue to reduce impediments to banks, with a view to increasing credit to the private sector. The recently established Export Credit Guarantee Scheme (ECGS) will continue to be strengthened, while a pilot scheme for guaranteeing SMEs is expected to be operational before the end of the fiscal year 2003/04.

Table 4 (a): Monetary Survey Aggregates

	End of June						Tshs.mill	
	1998	1999	2000	2001	2002	2003	2002	2003
							End-Dec	end-Dec
Currency in circulation outside banks	272667	279872	339928	375045	429384	473704	495446	553045
Demand Deposits	208975	229122	261303	316210	386192	507444	463341	558412
Narrow Money (M1)	481642	508994	601231	691255	815576	981148	958787	1111457
Time Deposits	132735	152902	152291	171598	218602	246720	223899	231495
Saving Deposits	155803	168805	203021	236184	299346	330918	324701	376758
Broad Money (M2)	770180	830701	956543	1099037	1333524	1558785	1507387	1719710
Foreign Currency Deposits	177214	204193	302471	373868	464366	647109	540297	667206
Extended Broad Money (M3)	947394	1034894	1259014	1472905	1797890	2205894	2047683	2386916
Net Foreign Assets	410228	472304	707352	1001412	1293645	1871286	1558627	2182072
Net Domestic Assets	537127	539395	551662	471490	750102	710283	775291	1001726
Net Domestic Credit	438343	570411	696536	647342	684920	858204	835277	830281
Net Claims on Government	239665	314109	383098	268920	202879	199679	264609	13156
Lending to Non-Govt. Sectors	198678	256302	313438	378422	482041	658525	570668	817125
Other Items (Net)	98784	-31016	-144875	-175852	65181	-147921	-59986	171445

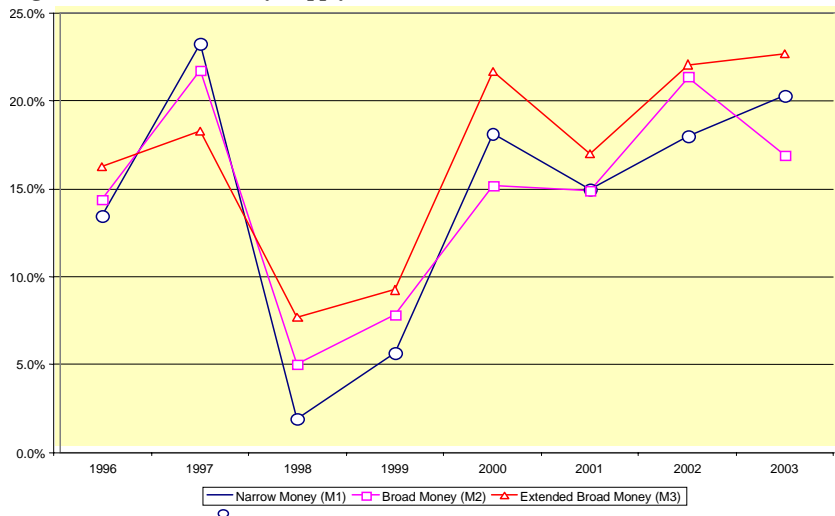
Source: Bank of Tanzania, President's Office - Planning and Privatization

Table 4 (b): Growth in Monetary Survey Aggregates

	End of June						2002-2003
	1998	1999	2000	2001	2002	2003	end-Dec.
Currency in circulation outside banks	6.1%	2.6%	21.5%	10.3%	14.5%	10.3%	16.7%
Demand Deposits	-3.1%	9.6%	14.0%	21.0%	22.1%	31.4%	10.0%
Narrow Money (M1)	1.9%	5.7%	18.1%	15.0%	18.0%	20.3%	15.9%
Time Deposits	2.4%	15.2%	-0.4%	12.7%	27.4%	12.9%	3.4%
Saving Deposits	19.0%	8.3%	20.3%	16.3%	26.7%	10.5%	16.0%
Broad Money (M2)	5.0%	7.9%	15.1%	14.9%	21.3%	16.9%	14.1%
Foreign Currency Deposits	20.8%	15.2%	48.1%	23.6%	24.2%	39.4%	23.5%
Extended Broad Money (M3)	7.7%	9.2%	21.7%	17.0%	22.1%	22.7%	16.6%
Net Foreign Assets	10.0%	15.1%	49.8%	41.6%	29.2%	44.7%	40.0%
Net Domestic Assets	5.9%	0.4%	2.3%	-14.5%	59.1%	-5.3%	29.2%
Net Domestic Credit	5.0%	30.1%	22.1%	-7.1%	5.8%	25.3%	-0.6%
Net Claims on Government	-16.7%	31.1%	22.0%	-29.8%	-24.6%	-1.6%	-95.0%
Lending to Non-Government Sectors	52.8%	29.0%	22.3%	20.7%	27.4%	36.6%	43.2%
Other Items (Net)	10.3%	-131.4%	367.1%	21.4%	137.1%	-326.9%	-385.8%

Source: Bank of Tanzania, President's Office - Planning and Privatization

Figure 4: Trends in Money Supply (end-June)



Financial Market Developments

22. During the period June – December 2003, interest rates on domestic currency denominated deposits registered marginal changes, with average saving deposit rates stabilizing at around 2.5 percent, while the overall weighted time deposits rate rose to 3.9 percent in December 2003 from 3.5 percent in June 2003. The rates on various maturity profiles of time deposits exhibited a mixed trend. The dominant characteristic of deposit rates is that banks with huge deposits offer low rates, while small banks offer higher rates. The overall weighted lending rates declined from 14.1 percent in June 2003 to 13.8 percent in December 2003. However, prime borrowers continued to enjoy lower lending rates, at around 8.4 percent. The interest rate spread⁶ narrowed marginally from 11.3 percentage points in June 2003, to 10.6 percentage points in December 2003.

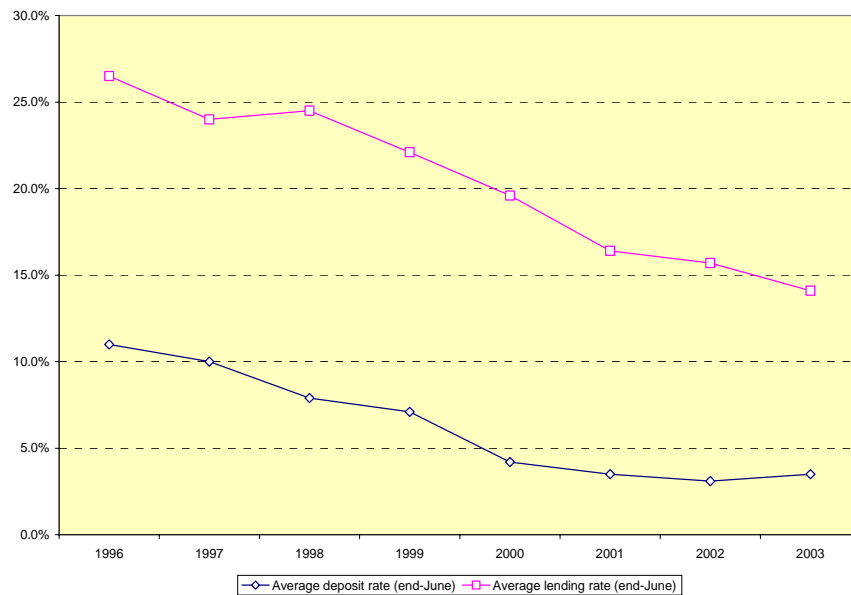
23. Foreign currency denominated saving deposits interest rates increased marginally from 0.9 percent in June 2003, to 1.0 percent in December 2003. However, interest rates on all time deposits declined during the period, leading to a decline in the overall weighted average interest rate from 1.1

⁶ Measured by the difference between 12-months savings deposits and 1-year lending rates

percent to 0.9 percent. The overall weighted average lending rate declined marginally from 7.5 percent to 7.4 percent during the same period.

24. During the period June-December 2003, the amount of foreign exchange traded in the IFEM increased by 5.2 percent to USD 520.4 million, from USD 494.4 million traded during a corresponding period in 2002. The increase is mainly attributed to high demand for the USD associated with increase in demand for imports during the period. In line with the increase in demand for foreign exchange, the Tanzania shilling depreciated by 8.7 percent, from Tshs. 976.3 per USD at end-December 2002 to Tshs. 1,061.7 per USD at end-December 2003.

Figure 5: Trends in Interest Rates



25. The Dar es Salaam Stock Exchange (DSE), whose trading activities commenced on 15th April 1998, is still nascent, with only 6 listed equities⁷,

⁷ Including Tanzania Breweries Ltd (TBL), Tanzania Tea Packers (TATEPA), Tanzania Oxygen Ltd (TOL), Tanzania Cigarette Co. (TCC), Dar es Salaam Airport Handling Co. (DAHACO) and Tanga Cement Co. (SIMBA)

14 Treasury bonds⁸ and 3 corporate bonds⁹ listed to date. Business in the stock exchange is yet to pick up to desirable levels. With the objective of tapping global capital, the Government opened the DSE to foreigners in May 2003. However, as a safeguard against undesirable foreign control, foreign participation in the DSE is limited to 60 percent of total shares traded and they are not allowed to participate in Government securities. Foreigners are also not allowed to dispose the acquired shares or corporate bonds for a period of six months following the acquisition.

26. As more privatized firms are restructured and the requisite operational track record attained, the number of listed equities is expected to increase, while the development of a secondary market for Government securities, through appropriate sensitization of prospective investors, should expand the size of the DSE substantially in the medium term. The Government is currently examining appropriate safeguards for foreign investors dealings at the DSE. The opening of the DSE to foreign participation stretches further liberalization of the capital account of the Balance of Payments, which will require increased vigilance on maintaining macroeconomic and financial stability.

Microfinance

27. The Bank of Tanzania has been working on the development of a regulatory and supervisory framework for microfinance operations in the country; a task expected to be through by June 2004. Operational guidelines and standards for Savings and Credit Cooperative Societies (SACCOS) are expected to be put in place and disseminated to stakeholders. In addition, the database on microfinance will be operationalized and benchmarks for the microfinance industry created. Also, the Parliament approved repeal of the National Microfinance Bank (NMB) 1997 Act in November 2003, to pave way for the privatization of the bank.

⁸ With maturities of 2, 5, 7, and 10 years

⁹ Including 2 bonds of the East African Development Bank (EADB) and 1 bond of the Eastern and Southern African Trade and Development Bank (PTA Bank)

28. With the objective of enhancing internal capacity for accessing capital, the Government has promoted the development of Savings and Credit Cooperative Societies (SACCOS), that have shot up from 803 in June 2000 to 1,264 at end-December 2003. The value of shares and savings has increased from Tshs. 14.0 billion to Tshs. 25.7 billion, equivalent to an increase of 83.0 percent during the period. Loans also increased from Tshs. 11.5 billion, to Tshs. 28.5 billion, equivalent to an increase of 117.0 percent.

External Sector Developments

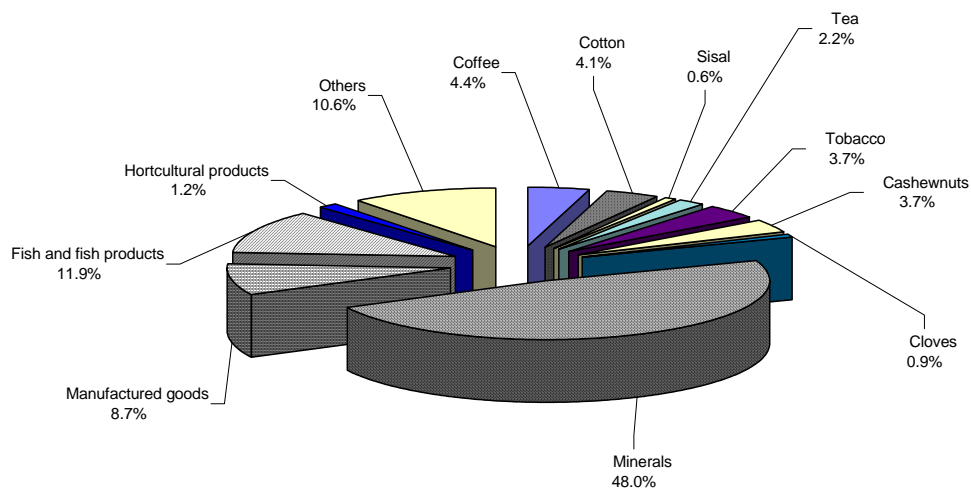
29. During the year ending December 2003, exports of goods increased by 26.6 percent, from USD 902.5 million in the previous year to USD 1,142.4 million. Traditional exports increased by 8.1 percent from USD 206.1 million in 2002, to USD 222.7 million, accounting for 19.5 percent of total goods exports. During the same period, non-traditional exports increased by 32.0 percent from USD 696.5 million to USD 919.7 million and accounted for 80.5 percent of total goods exports, of which gold exports alone contributed about 43.7 percent. Specifically, mineral exports increased to USD 548.3 million in 2003, from USD 383.8 million recorded in 2002; manufactured exports surged to USD 99.9 million from USD 65.8 million exported in 2002, while fish and fish products exports increased to USD 136.2 million, from USD 116.8 million exported in the previous year. Table 5 below shows Tanzania's major exports, traditional and non-traditional for the period 1999-2003.

Table 5: Value, Volume and Price of Tanzania's Major Exports

	1999	2000	2001	2002	2003	Change (%) 2002-2003
Traditional Exports:						
Coffee						
Value (US\$ mill.)	76.63	83.7	57.05	35.2	50.0	42.0%
Volume ('000 tons)	39.02	54.5	48.39	36.4	46.0	26.4%
Price (US\$ per ton)	1963.80	1537.3	1179.06	968.4	1087.0	12.2%
Cotton						
Value (US\$ mill.)	28.46	38	33.7	28.6	46.6	62.9%
Volume ('000 tons)	26.31	36.8	36.82	33.3	46.9	40.8%
Price (US\$ per ton)	1081.80	1031.3	915.26	859.4	992.8	15.5%
Sisal						
Value (US\$ mill.)	7.26	5.6	6.68	6.6	6.6	0.0%
Volume ('000 tons)	15.47	13.3	13.86	12.7	12.8	0.01%
Price (US\$ per ton)	469.17	420.8	482	516.4	517.8	0.0%
Tea						
Value (US\$ mill.)	24.65	32.7	29.03	29.6	24.8	-16.2%
Volume ('000 tons)	21.40	22.6	22.96	24.3	20.9	-14.0%
Price (US\$ per ton)	1151.74	1450	1264.45	1217.8	1188.2	-2.4%
Tobacco						
Value (US\$ mill.)	43.44	38.4	35.69	55.5	42.2	-24.0%
Volume ('000 tons)	21.35	19.2	18.72	24.3	20.3	-16.5%
Price (US\$ per ton)	2034.44	1997.8	1906.17	2188.6	2076.1	-5.1%
Cashew nuts						
Value (US\$ mill.)	100.89	84.4	56.58	46.6	42.2	-9.4%
Volume ('000 tons)	102.04	102.4	95.04	79.0	69.2	-12.4%
Price (US\$ per ton)	988.78	824.5	595.38	589.7	609.5	3.4%
Cloves						
Value (US\$ mill.)	19.86	10	12.32	4.0	10.3	157.5%
Volume ('000 tons)	6.21	2.9	2.45	1.0	5.6	460%
Price (US\$ per ton)	3200.34	3443.6	5026.85	4164.4	1858.8	-55.4%
Sub-total (US\$ mill.)	301.18	292.8	231.05	206.1	222.7	8.1%
Non-Traditional Exports : (US\$ mill)						
Minerals						
Gold	34.77	112.7	254.07	341.1	499.0	46.3%
Diamond	20.05	42.2	27.08	22.0	28.6	30.0%
Other Minerals	18.44	23.3	21.08	20.7	20.7	0.0
Manufactured Goods						
Cotton Yarn	1.81	3.5	2.5	-	-	-
Manufactured Coffee	0.81	0.9	0.72	-	-	-
Manufactured Tobacco	0.82	0.1	0.13	-	-	-
Sisal Products (Yarn and Twine)	5.12	4.5	2.54	-	-	-
Other manufactured goods	21.49	34.4	50.28	-	-	-
Fish and Fish Products	56.75	76.3	96.77	116.8	136.2	16.6%
Horticultural Products						
	8.88	9.7	11.01	10.9	13.7	25.7%
Other Exports						
	72.74	62.9	79.34	119.2	121.6	2.0%
Sub-total	241.67	370.5	545.52	696.5	919.7	32.0%
Grand Total (US\$ mill.)	542.85	663.3	776.37	902.5	1142.4	26.6%

Source: Bank of Tanzania, President's Office - Planning and Privatization

Figure 6: Composition of Exports in 2003



30. Total merchandise imports (f.o.b.) during the year ending December 2003 increased by 30.5 percent to USD 1,973.0 million, from USD 1,511.3 million recorded during 2002. Imports of capital goods accounted for the largest share of imports, at 39.3 percent, followed by intermediate and consumer goods, contributing 31.3 and 29.3 percent, respectively, of total imports. There was a surge in imports of intermediate goods by 60.7 percent, mostly comprising of oil and industrial raw materials. Oil imports increased by 107.1 percent, mostly attributed to improved recording of oil imports, following measures taken by the Tanzania Revenue Authority (TRA) to plug loopholes in tax evasion through under-declaration of oil imports. Imports of industrial raw materials increased by 19.1 percent, owing to production recovery in the manufacturing sector, particularly in plastics, beverages, soap and textile industries. Fertilizer imports increased by 41.8 percent, mainly attributed to a decision by the Government to subsidize imported fertilizer, in order to boost agricultural production in the southern highlands of Tanzania. Imports of consumer goods increased by 23.1 percent, mostly accounted for by increased imports of food items to cater for food shortages in the country, following bad harvests during the year.

Table 6: Tanzania's Imports by Major Category

USD million

Import Category	1999	2000	2001	2002	2003	Change (%) 2002-2003
Capital goods	770.1	638.7	739.7	721.1	852.4	18.2%
Transport Equipments	297.0	228.7	189.8	218.3	263.2	20.6%
Building and constructions	132.0	128.9	144	134.7	168.3	24.99%
Machinery	341.1	281.1	406	368.3	420.9	14.3%
Intermediate Goods	240.9	319.7	440.8	423.0	679.7	60.7%
Oil imports	107.9	142.9	220.7	194.8	403.4	107.1%
O/w: Crude oil	77.9	131.9	0.0	0.0	0.0	0.0
White oil products	30.0	11.0	220.7	194.8	403.4	107.1%
Fertilizers	13.5	16.8	15.5	20.1	28.5	41.8%
Industrial raw materials	119.5	160.0	204.6	208.0	247.7	19.1%
Consumer Goods	552.4	576.7	534.2	516.6	636.0	23.1%
Food and Food stuffs	176.4	183.0	169.4	147.3	183.1	24.3%
All other consumer goods	376.0	393.7	364.8	369.3	452.9	22.6%
Grand Total (C.I.F)	1664.3	1535.1	1714.8	1660.8	2168.2	30.6%
Grand Total (F.O.B)	1497.9	1366.3	1560.5	1511.3	1973.0	30.5%

Source: Bank of Tanzania, President's Office - Planning and Privatization

31. The balance in the service account worsened to a deficit of USD 107.2 million, from a surplus of USD 1.3 million recorded in 2002, following an unprecedented increase in service payments. The increase in service payments is mainly attributed to freight charges associated with a surge in imports in 2003. During the same period, payments of communication services increased due to the expansion of the telecommunications sector, whereas the increase in insurance service payments is partly explained by the higher premium associated with global security concerns.

32. During the year ending December 2003, the overall Balance of Payments (BOP) surplus increased to USD 420.8 million, from USD 330.1 million in 2002. The increase is mainly accounted for by improved performance in the capital account, following large donor funds¹⁰ inflows

¹⁰ Capital transfers

Table 7: Balance of Payments

USD mill.

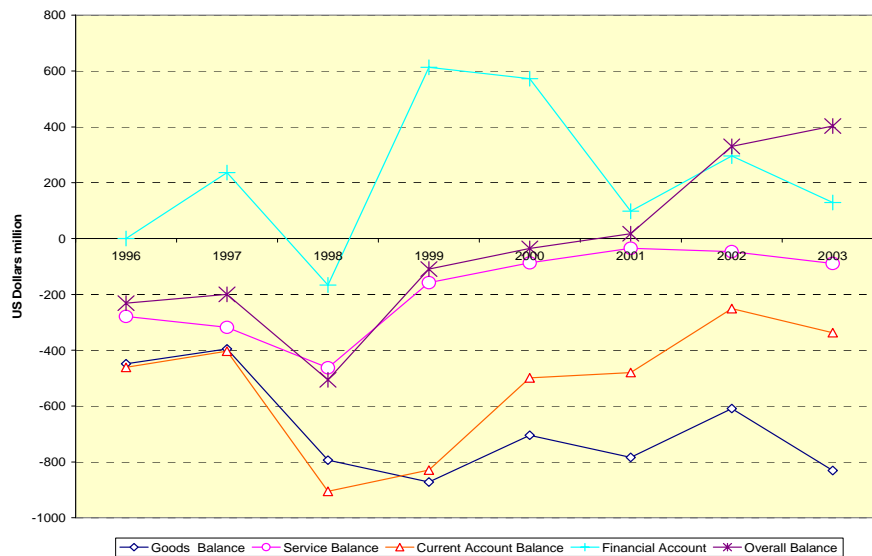
	1996	1997	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Provis.
Goods Balance	-448.8	-395.4	-793.7	-872.1	-703.1	-783.9	-608.7	-830.6
Exports (fob)	763.8	752.6	588.5	543.3	663.2	776.4	902.5	1142.4
Imports (fob)	1212.6	1148.0	1382.2	1415.4	1366.3	1560.3	1511.3	1973.0
Service balance	-278.8	-317.9	-450.0	-225.3	-86.8	-34.5	-46.7	-89.3
Receipts	537.1	482.4	538.8	622.0	643.8	679.3	665.8	685.2
Payments	815.9	800.2	988.8	847.3	730.6	713.8	712.5	774.5
Income	-72.0	-121.8	-105.0	-99.3	-130.0	-85.2	-16.3	-43.7
Receipts	41.5	43.0	44.4	49.0	50.4	55.3	74.3	87.1
Payments	113.5	164.8	149.4	148.3	180.4	140.5	90.6	130.8
Current transfers	338.4	431.5	427.3	336.6	390.8	399.4	420.7	626.4
Inflows	370.7	499.3	454.2	445.6	463.7	469.5	472.9	689.5
Government	236.0	433.6	421.0	411.4	427.8	418.4	427.7	629.6
Multilateral HIPC	0.0	0.0	0.0	0.0	40.6	71.3	68.8	68.2
Other Sectors	134.7	65.7	33.2	34.2	35.9	51.1	45.2	69.9
Outflows	32.3	67.7	26.9	109.0	72.9	70.0	52.3	63.0
CURRENT ACCOUNT	-461.2	-403.6	-905.4	-860.1	-498.6	-480.0	-251.1	-337.2
Capital Transfers	191.0	270.9	252.4	270.6	330.4	365.2	354.1	677.7
Inflows	191.0	270.9	252.4	270.6	330.4	365.2	354.1	677.7
Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	0.3	236.3	-166.1	613.3	572.5	98.2	295.9	129.3
Direct Investment	148.5	157.8	172.2	516.7	463.4	327.2	240.4	247.8
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	-148.2	78.5	-338.3	96.6	109.1	-229.0	55.5	-118.5
Errors and Omissions	38.8	-303.6	313.3	-132.7	-439.5	34.1	-68.8	-67.0
OVERALL BALANCE	-231.2	-199.8	-505.8	-108.9	-35.1	17.5	330.1	402.8
Financing	231.2	199.8	505.8	108.9	35.1	17.5	-330.1	-402.8
Reserve assets		-182.0	21.8	-175.5	-197.3	-186.6	-372.4	-508.8
SDR and loans		77.4	11.0	51.3	49.4	15.6	26.0	-2.9
Exceptional financing ¹¹		304.4	473.0	233.2	183.0	153.5	16.3	108.9

Source: Bank of Tanzania

¹¹ Includes arrears on debt servicing (both interest and amortization of principal), debt rescheduling, and debt forgiveness.

into the country, in support of the Governments' poverty reduction programmes. However, the current account balance deteriorated from a deficit of USD 251.1 million to USD 337.2 million, largely due to a substantial increase in imports of both goods and services. Gross official reserves reached USD 2,037.8 million, equivalent to 8.9 months of imports of goods and services, partly because of the increase of donor funds inflows and savings from the HIPC debt relief. Table 7, shows the balance of payments for the period 1996-2003.

Figure 7: Trends in the Balance of Payments



33. Implementation of the EPZ Act began in May 2003. By November 2003, two zones in Dar es Salaam had become operational and three companies, which are expected to export 100 percent of their output, were licensed¹². Two of the licensed companies are exclusively for the AGOA market, while the third will export electronics to the SADC countries, benefiting from the SADC tariff agreement. It is expected that implementation of EPZs, targeted exclusively to exporting firms with proven markets, will support the development of manufactured exports.

¹² Although the law allows a maximum of 30 percent of the production to be sold in the domestic market.

With the objective of protecting the tax base, the Government will exercise prudence in licensing and enforcing strict regulations for EPZs, including preventing leakage of products into the domestic market. With the exception of a zone in Arusha, planned for processing and exporting of tanzanite and other gemstones, additional zones will be developed after assessing the impact of current EPZs.

34. With the objective of promoting exports of high value agricultural and manufactured products, the Government has established an Exports Credit Guarantee Scheme (ECGS) to underwrite loans to exporters, including cooperative unions. Under the scheme, in 2002/03, CRDB Bank loaned cooperatives Tshs. 10.1 billion, while in 2003/04, CRDB and Kilimanjaro Bank loaned the cooperatives Tshs. 16.3 billion. The Government has established a small pilot scheme to guarantee commercial bank credit to small and medium sized enterprises (SMEs). The medium term focus is to strengthen the scheme in order to sustain rural/urban incomes and increase exports.

35. Progress in regional integration continues within the framework of the East African Community (EAC) and through continued implementation of the Southern Africa Development Community (SADC) tariff reduction. The East African presidents signed a protocol for the establishment of the EAC Customs Union on 2nd March 2004, which includes adoption of a three-band (0, 10, and 25 percent) common external tariff (CET). In addition, the protocol substantially reduces non-tariff barriers between the three countries, albeit retaining some restrictions including some additional customs duties on some sensitive goods. In the short to medium term, the Government will seek the establishment of a code of conduct within the EAC that would help in the harmonization of taxes and avoiding harmful competition on investment incentives within the region.

Poverty Reduction Strategy

36. The Household Budget Survey of 2000/01 provides the most current information on trends in income poverty between 1991/92 – 2000/01, showing very limited declines in income poverty levels over the 1990s. Estimates of household consumption levels are not produced annually. In

the last three years, different levels of achievement have been attained in addressing non-income poverty, in particular, education, health, water and vulnerability. Substantial achievement was registered in primary school enrolment, which by grew by 50 percent, from 4.4 million in 2000 to 6.6 million in 2003. Both net and gross enrolments have increased by about 30 percent, largely an account of abolition of UPE levy and other mandatory contributions. Transition rate increased from 16 percent during 1990s to about 20 percent mainly due to the 50 percent expansion of secondary school places between 1997 – 2003. However, there is a need for further improvement in quality of education and absolute level of transition. There have been no significant changes in infant mortality and prevalence of fever in children under five and nutrition status. Continuous improvement has been registered in DPT3 (reached 90 percent) and measles coverage. Analysis of 2002 census will provide more robust recent estimates for many of the indicators of survival, nutrition status and health.

37. The third Poverty Reduction Strategy (PRS) progress report, covering the period July 2002 – June 2003, has been completed following a participatory consultative process with stakeholders, culminating in a Poverty Policy Week in October 2003. The report includes the poverty status in the country, progress report of policy implementation in the priority sectors, as well as progress in mainstreaming crosscutting issues such as HIV/AIDS, environment and gender. While it marks the end of the first cycle of the PRSP launched in 2000, it also provides a bridge to the review process leading to the formulation of the second cycle – PRSP II.

38. The PRS review process, which was launched during the Poverty Policy Week in October 2003, is documented in the “Guide for the Poverty Reduction Strategy Review”. The overall purpose of the review process is to update the current PRS by making it more comprehensive and pro-poor. Among other things, the review is expected to reorient the PRS in the context of the country’s long-term strategies (including Vision 2025 and the NPES), so that the PRS is seen as a means to achieving the long-term goals set out in Vision 2025 and the NPES. Also, the review is expected to expand and deepen interventions to reduce poverty and raise awareness on

the PRS. The review, expected to be completed by December 2004, will involve consultations with a wide spectrum of stakeholders.

39. Experience during the preparation of the three PRS progress reports has revealed that there is need for improvement in poverty monitoring, including data collection, collation and analysis. The Government will thus strengthen data generation and reporting capacity of sectors and thematic areas during the PRS review and in the next PRS cycle. The Government will also strengthen the capacity of the PRS Technical Committee and Secretariat, and harmonize and synchronize various reporting instruments, e.g. PHDR, PER and sector reviews.

40. One of the most substantial changes made in the Poverty Monitoring System (PMS) since 2002 has been the revision of the list of poverty monitoring indicators, in response to monitoring requirements of the PRBS, PRSC and the MDGs¹³. The indicators in the Poverty Monitoring Master Plan (PMMP) were thus revised accordingly. A number of important data collection and analysis activities are currently being undertaken and will provide additional poverty monitoring data in the near future. Foremost among these are the analysis of the Population and Housing Census 2002, the agricultural survey conducted in 2003 and the review and rebasing of the GDP and CPI series undertaken in 2003.

Private Sector Development

41. Cognizant of the fact that the private sector is the engine of growth in Tanzania, and that if poverty reduction goals have to be achieved, significant strides must be made in the private sector, the Government has covered substantial milestones in promoting private sector development. In ensuring that the private sector takes the lead in sustainable economic development, a Better Regulation Unit (BRU) was established in the POPP during 2003, to operationalize a programme for Business Environment Strengthening in Tanzania (BEST) that has been developed to deliver a more conducive environment for doing business in Tanzania. The goal of the BEST programme is poverty reduction through enhanced business

¹³ *The Millennium Development Goals (MDGs) have been integrated into the poverty monitoring framework through the revision of the PRS poverty indicators*

development and growth. Objectives of the programme include, (i) to reduce the burden on business, including Small and Medium Enterprises (SMEs) by reforming and eliminating as many procedural and administrative barriers/impediments as possible and (ii) to improve the quality of services provided by government to the private sector, including commercial dispute resolution. The programme has five components namely; better regulations, commercial justice delivery, strengthening of Tanzania Investment Centre, change of government culture and private sector advocacy. So that, one of the main tasks of BRU is coordination of the formulation of the Private Sector Development Strategy (PSDS) that will guide implementation of the programme.

42. Investments in the country, through facilitation of the Tanzania Investment Centre (TIC), are on the increase, following improvements in the investment environment. During the year 2003, TIC approved 372 projects, valued at Tshs. 1,669.4 billion (equivalent to USD 1.6 billion), out of which 229 projects were new and 143 projects were expansions and rehabilitation of existing enterprises. These projects have the potential of generating employment to 198,458 persons. Details of the projects are summarized in table 8 below.

43. Under the umbrella of Tanzania National Business Council (TNBC), the Government has resolved outstanding issues, which include:

- ❑ A review of the Income Tax of 1973 has been carried out and a new legislation that is in line with current business and tax administration best practices was enacted in April 2004;
- ❑ Amendments were made to the Business Licensing Act No. 25 of 1972, resulting in the removal of a number of bureaucratic/cumbersome sections of the legislation, including the requirement for tax clearance before a business license is issued;
- ❑ Establishment of a Better Regulation Unit (BRU) in the President's Office - Planning and Privatization.

Table 8: Tanzania Investment Centre (TIC): Registered Projects in 2003

Sector	Total projects registered	New projects	Expansion & rehabilitation projects	Local projects	Foreign projects	Joint Venture projects	Total employment	Total investment Tshs million	Total investment US\$ million
Agriculture and Livestock	20	9	11	8	10	2	5581	152982.00	145.70
Natural Resources	21	13	8	5	9	7	5148	53858.00	51.29
Tourism	81	48	33	39	22	20	4350	127157.00	121.10
Manufacturing	127	80	47	46	38	43	15765	239622.00	228.21
Petroleum Products and Mining	4	4	0	1	1	2	418	13257.00	12.63
Construction	26	17	9	15	8	3	1831	34959.00	33.29
Commercial Building	22	16	6	9	8	5	834	24170.00	23.02
Transportation	28	16	12	13	3	12	1957	80935.00	77.08
Services	8	5	3	1	5	2	617	4357.00	4.15
Computer	4	3	1	1	2	1	182	1909.00	1.82
Financial Institutions	3	2	1	1	1	1	104	6586.00	6.27
Telecommunication	12	6	6	6	1	5	890	111615.00	106.30
Energy	0	0	0	0	0	0	0	0.00	0.00
Human Resource	10	7	3	7	0	3	722	23494.00	22.38
Economic Infrastructure	6	3	3	3	1	2	160059	794462.00	756.63
TOTAL	372	229	143	155	109	108	198458	1669363.00	1589.87

Source: Tanzania Investment Centre (TIC)

44. Tanzania hosted the Second Investors Round Table Meeting (IRT) in May 2003. Subsequently, in consultation with the private sector, the Government has reviewed various laws and policies aiming at providing a better environment for business and investment. The issues that have been acted upon by the Government include:

- ❑ Reviewing of the Land Act to facilitate securitization of land for accessing bank credit and other mortgage industry transactions. Amendments to the Land Act were passed by Parliament in February 2004;
- ❑ Establishment of a Land Bank for attracting investors in the agriculture sector;
- ❑ Revision of various labour related legislations for increased growth of employment. The first phase¹⁴ of the Labour Law was approved by Parliament in April 2004;
- ❑ Reviewing the tax regime by reducing the burden of numerous nuisance taxes.

Structural Reforms

45. A market economy, like which is being developed in Tanzania, needs effective and efficient regulation, in order to protect the rights of the consumers and clients, while ensuring a level playing field for the various actors on the market. To that end therefore, the Government has established five major regulatory bodies, namely; the Energy and Water Utilities regulatory Authority (EWURA), the Surface and Marine Transport Regulatory Authority (SUMATRA), the Tanzania Communication Regulatory Authority (TCRA), the Tanzania Government Aviation Regulatory Authority (TGARA) and the Tanzania Civil Aviation Authority (TCAA). While committing itself in strengthening these regulatory bodies, the Government will, in future establish other such bodies as appropriate, to cater for other sectors.

¹⁴ *Addressing employment relations, collective labour relations, dispute resolution, and labour market institutions.*

46. The Government, through the Parastatal Sector Reform Commission (PSRC), has continued to restructure and privatize public enterprises with considerable success. By end-December 2003, a total of 617 enterprises and other assets had been privatized since the PSRC was established, comprising of 289 public enterprises/companies and 328 non-core assets. During the year 2003, a total of 101 enterprises and other assets were privatized, comprising of 26 public enterprises/companies and 75 non-core assets. Notable divestitures during the year include the famous TAHI Hotels¹⁵ in the northern tourist circuit, which were handed over to a new investor, Hotels and Lodges (T) Ltd and concessioning of DAWASA to City Water Services Ltd. Divestiture of the huge SPM Paper Mills was concluded in February 2004, when it was handed over to Rai Group of Kenya.

47. A preliminary assessment of the privatization process has shown that it has contributed substantially to the development of the economy. Notable achievements include the following:

- ❑ More than 70 enterprises that were closed before privatization are now up and running profitably, contributing to Government tax revenues¹⁶.
- ❑ The Government has stopped subsidizing commercial public enterprises, saving more than Tshs. 100 billion that was paid by the Government annually as subsidies before privatization;
- ❑ The volume and quality of products in manufacturing enterprises has increased substantially following investment in improved technology and injection of new capital through privatization. This development puts the country in a better position to enter and gain from regional and global markets;

¹⁵ *Comprising of Lake Manyara Hotel, Ngorongoro Wildlife Lodge, Seronera Wildlife Lodge and Lobo Wildlife Lodge.*

¹⁶ *During the fiscal year 2001/02 a total of Tshs. 129.2 billion in tax revenues was collected from 16 large privatized firms.*

- ❑ Both direct and indirect employment in defunct enterprises is on the increase after privatization and subsequent refurbishment of the factories.
- ❑ Privatization has contributed immensely in encouraging both local and foreign investments in the economy;
- ❑ Increased domestic production, with substantial contribution from privatized firms, is saving foreign exchange the country would need to import products that are now locally available,
- ❑ The establishment of sector regulatory bodies (the EWURA, SUMATRA etc.) and the respective enabling legislations has provided a level playfield for the economic actors in the sectors, guaranteeing fair play in business.

48. The privatization process has faced a number of problems and challenges, which in some cases delayed conclusion of deals in appropriate time. Some of the problems/challenges faced during the year included the following:

- ❑ Difficulty in getting eligible investors with the requisite qualities and adequate capital to acquire assets offered for privatization;
- ❑ Privatized enterprises having excessive employees, hence the need for retrenchments, that are associated with undesirable social hardships to retrenched;
- ❑ Public enterprises lined for privatization having huge liabilities, to the extent of rendering them unattractive to prospective investors;
- ❑ Managements of some public enterprises lined for privatization being uncooperative in facilitating the privatization process;
- ❑ Defaulting of subscriptions for pension and other social security schemes for employees by some public enterprises being privatized,

in effect, leading to undue inconveniencies and hardships to retrenched employees, following privatization.

49. Notwithstanding the foregoing challenges, the Government has braced itself to complete divestiture of remaining public enterprises, including NMB, TANESCO, TRC, THA, TAZARA, NIC, TTCL, Cashew factories, NAFCO farms, NARCO ranches, etc. and will establish the requisite regulatory bodies as appropriate.

III: EMERGING MACROECONOMIC POLICY ISSUES AND THE STRATEGIC DIRECTIONS

Economic Growth

50. Emerging from the review of recent economic performance it is evident that, more efforts are needed in ensuring sustained economic growth, that will facilitate tangible poverty reduction over the medium term. A decline in economic growth during 2003, mostly caused by reduced growth of the agricultural sector, following drought during the 2002/03 season, is indeed a reminder that rain-fed agriculture is highly susceptible to the vagaries of weather; and hence the need for enhancing initiatives in expanding irrigation schemes. Agriculture continues to contribute immensely to overall GDP and hence merits increased public resources and facilitation that will boost production. To that end, the Government through the Agricultural Development Programme will channel increased budgetary resources to the sector to support extension services and research, as well as ensuring the availability of inputs and seeds.

Government Finance

51. While collections of domestic revenues are increasing over time, execution of the budget, particularly with respect to expenditures, does not appear to wholly and consistently adhere to MTEF best practice. The 2003/04 is a point in case, whereby expenditures had to be made outside the approved MTEF framework, to meet needs that were not budgeted for during the year¹⁷. Indeed, a credible budget frame has to take into account all foreseeable and affordable expenditures during the planning phase, while providing for reasonable contingencies. Experience has it that, whenever expenditures that were not budgeted for have to be made, local funding of development programmes has suffered, in effect making implementation difficult and unpredictable. Development programmes build the capacity for future sustenance of the economy that will support poverty reduction programmes, even with reduced or no donor support. The current practice of funding development programmes mostly from donor funds is, indeed unsustainable in the long run.

¹⁷ *Necessitating a supplementary budget in February 2004.*

Credit to the Private Sector

52. The Government has taken a number of measures, including enacting and repealing some enabling legislations to promote lending to the private sector by commercial banks. Nonetheless, although, lending to the private sector is increasing, the amounts lent compared to potential loanable funds are still too low, and large productive sectors such as agriculture and manufacturing (particularly the SMEs) do not get credit that would be commensurate with their size. The Government will need to take further steps in reducing impediments to bank lending. To that end, subsequent to the amendments made to the Land Act, the Government will accelerate land surveys and issuing of land titles to lease holders, in order to enhance commercialization of land leases and their collateralization for bank loans. The Bank of Tanzania should expedite removal of other obstacles to bank lending associated with the legal framework and the judiciary, as well as put in place the long overdue regulatory and supervisory framework for microfinance institutions.

The External Sector

53. The structure of our merchandize exports has increasingly shifted towards non-traditional exports, with mineral exports (mostly gold) constituting the largest share, following huge investments in the sector. Nonetheless, while the export numbers are that impressive, in terms of earnings to the country, the amount retained is dismal, since most of those exports are financing external loans¹⁸ contracted by the investors in the mineral sector. It will thus take some time before the country starts to reap real benefits from increased mineral exports. To rationalize the country's earnings from the mineral sector, there will be need to review the fiscal incentives offered by the Government.

54. After five consecutive years of declining traditional exports, there was some improvement during 2003, following increased world market prices for coffee and cotton and the volumes exported. While the market price for cashewnuts during 2003 also improved slightly, the volume exported

¹⁸ *Such loans are not part of our debt stock; hence they are not included in our Debt Sustainability Analysis (DSA). Accordingly, total export figures in DSA have to be adjusted, to take account of gold exports that do not enhance our capacity to service the country's external debt.*

declined substantially, and hence resulting in reduced export earnings from the crop. There are credible indications that improvements in world market prices for those crops will hold for some time, hence the need to encouraging and facilitating the farmers to increase output. These crops will have to be targeted in the Export Credit Guarantee Scheme as well as ensuring that the requisite inputs and seeds are availed in good time.

55. The advent of globalization and regional integration arrangements entail a comprehensive change in the conduct of international trade and expected benefits thereof. Indeed, while such arrangements promise immense opportunities for increased trade, and hence benefits, the country has to brace itself appropriately for that to happen. The protocol for establishment of the EAC Customs Union signed by the East African states in March substantially reduces non-tariff barriers between the three states, in effect opening the doors for unrestricted trade. The country will accordingly need to take measures that will increase both the domestic output and quality of our products destined for the East African market and beyond. Strengthening of both the Export Credit Guarantee Scheme and the SME Credit Guarantee Scheme should play a crucial catalytic role in this respect.

Poverty Reduction Strategy

56. The ongoing review of the first cycle of the Poverty Reduction Strategy that ended during 2002/03, should provide the requisite input for a more comprehensive and pro-poor second cycle of the strategy. While consolidating the gains from the first cycle, the Government will need to reorient the strategy in the context of the country's long term strategies (including Vision 2025 and the NPES) and rationalize the targets accordingly¹⁹. Mindful of the need to do a thorough job, the review process should be expedited, to facilitate a smooth transition into the second cycle of the Poverty Reduction Strategy.

¹⁹ *Ensuring that they are SMART (Specific, Measurable, Achievable, Realistic and Time-bound)*

Structural Reforms

57. Various documents²⁰ have itemized benefits and achievements realized in the privatization of public enterprises. Indeed, the success story is impressive, albeit punctuated with challenging situations, particularly with respect to big corporations requiring en-mass retrenchments as part of the privatization package. Often, finalization of the privatization process has taken longer than was scheduled and sometimes disputes with workers have scared away prospective investors and/or reduced the sale price. As we embark on the privatization of major utility corporations, there will be need to review terminal benefits of retrenched from such corporations, with the objective of mitigating hardships associated with retrenchments.

²⁰ Including the “Mafanikio ya Ubinafsishaji” prepared for the CCM Party National Executive Committee

IV: MACROECONOMIC ASSUMPTIONS, PROJECTIONS AND POLICY TARGETS FOR THE PERIOD 2004/05 - 2006/07

58. During the medium term, 2004/05 – 2006/07, key assumptions underlying the economic outlook are summarized as follows:

- (i) **Sectoral developments:**
Following adverse weather conditions during 2002/03 that resulted into a slowdown in the growth of agriculture (the largest sector) to 4.0 percent in 2003, growth of the sector is expected to pick up in 2004 and subsequent years. Other sectors, including manufacturing²¹, trade (including tourism), transport and communication, finance and public administration are also expected to improve substantially.
- (ii) **Savings and Investments:**
The current macroeconomic stability will be sustained and hence savings are expected to increase, encouraging more investment and hence improving the ratio of investment to GDP overtime.
- (iii) **Inflation:**
Notwithstanding the recent upswing in CPI inflation, following food shortages, the downward trend should resume in time with the advent of the harvest season and will continue to decline gradually to 4.2 percent by June 2004 and below thereafter. The deflator inflation is expected to follow the same pattern as the CPI inflation. Trading partners' inflation is assumed at below 4.0 percent.
- (iv) **Government Finance:**
Planned tax reforms, including the comprehensive review of tax laws²², further tightening of tax exemptions; improvement of administrative efficiency and further expansion of tax base will enhance domestic revenue collections. Following the enhanced HIPC debt relief and complementary support arrangements,

²¹ Implementation of EPZs is expected to boost manufacturing output substantially

²² A new comprehensive Income Tax legislation was enacted in April 2004

government expenditures are expected to increase, with the share of development expenditure to total expenditure increasing significantly. Non-Bank borrowing for financing development programmes will be applied consistent with the National Debt Strategy.

- (v) Foreign Reserves:
Exports are expected to increase over time, resulting in improvements in foreign exchange earnings, and hence an improved reserve position, equivalent to above six months of import requirements.
- (vi) Exchange Rate:
The nominal exchange rate of the Tanzania shilling will continue floating freely, with the BOT intervening only to smooth out large and inconsistent transitory fluctuations. The real exchange rate is expected to follow the purchasing power parity (PPP).

59. Government priority actions will continue to focus on consolidating the gains from current socio-economic reforms, including macroeconomic stability, as well as enhancing implementation of programmes with the highest impact on poverty reduction. Thus, consistent with the objectives and focus of the Medium Term Plan for Growth and Poverty Reduction for the period 2004/05 – 2006/7, macroeconomic policy targets for the period are summarized as follows:

- Attain a real GDP growth of 6.3 percent in 2004, 6.5 percent in 2005, 6.9 percent in 2006 rising to 7.4 percent by 2007;
- Reduce consumer price inflation to 4.0 percent by end-June 2005 and maintain it below 4.0 percent thereafter, consistent with major trading partners;
- Increase domestic revenue collection to the equivalent of 15.1 percent of GDPmp in 2004/05, rising gradually to 16.2 percent by the year 2006/07;

- ❑ Contain the growth rate of broad money supply (M_2) within a band that is consistent with GDP growth and inflation targets;
- ❑ Maintain adequate official foreign reserves of not less than a value equivalent to six months of imports of goods and non-factor services;
- ❑ Maintain a freely floating exchange rate, limiting interventions exclusively to smooth wide fluctuations and/or for purposes of liquidity management.