



THE UNITED REPUBLIC OF TANZANIA

**MACROECONOMIC POLICY  
FRAMEWORK FOR THE PLAN/BUDGET  
2006/07 - 2008/09**



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Plan/Budget  
2006/07 – 2007/08

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## ABBREVIATIONS AND ACRONYMS

APRM	African Peer Review Mechanism
ASDS	Agriculture Sector Development Strategy
BEST	Business Environment Strengthening for Tanzania
BOT	Bank of Tanzania
CDR	Commercial Dispute Resolution
CET	Common External Tariff
CIF	Cost Insurance and Freight
CMSA	Capital Market and Securities Authority
CPI	Consumer Price Index
EAC	East African Community
EPZ	Export Processing Zone
f.o.b.	Free on Board
FDI	Foreign Direct Investment
GDI	Gross Domestic Income
GDP	Gross Domestic Product
GDPfc	Gross Domestic Product at factor cost
GDPmp	Gross Domestic Product at market prices
HBS	Household Budget Survey
HIPC	Highly Indebted Poor Countries
IFEM	Inter-bank Foreign Exchange Market
IFMS	Integrated Financial Management System
ILD	Institute of Liberty and Democracy
LTDF	Long Term Development Finance
MAFSC	Ministry of Agriculture and Food Security and Cooperative
MDAs	Ministry, Departments and Agencies
MEAC	Ministry of East African Cooperation
MEVT	Ministry of Education and Vocational Training
MFAIC	Ministry of Foreign Affairs and International Cooperation
MHSW	Ministry of Health and Social Welfare
MID	Ministry of Infrastructure Development
MITM	Ministry of Industry, Trade and Marketing
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
MKURABITA	MPANGO WA Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania
MLEYD	Ministry of Labour, Employment and Youth Development
MLHSD	Ministry of Lands and Human Settlement Development
MMS	MKUKUTA Monitoring System
MoF	Ministry of Finance

MPEE	Ministry of Planning, Economy and Empowerment
MSMEs	Micro, Small and medium Enterprises
MTEF	Medium Term Expenditure Framework
MTNR	Ministry of Tourism and Natural Resources
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NIC	National Insurance Corporation
NPES	National Poverty Eradication Strategy
NSGRP	National Strategy for Growth and Reduction of Poverty
PBFP	Property and Business Formalization Programme
PEDP	Primary Education Development Programme
PER	Public Expenditure Review
PLWHA	People Living With HIV and AIDS
POPP	President's Office, Planning and Privatization
PO-PSM	President's Office, Public Service Management
PMO-RALG	Prime Minister's Office, Office, Regional Administration and Local Government
PMS	Poverty Monitoring System
PRS	Poverty Reduction Strategy
PSDS	Private Sector Development Strategy
R&D	Research and Development
SADC	Southern Africa Development Community
SEDP	Secondary Education Development Programme
SEZs	Special Economic Zone
SMEs	Small and Medium Enterprises
TMTP	Tanzania Mini Tiger Plan
TANESCO	Tanzania Electric Supply Company
TIC	Tanzania Investment Centre
Tshs	Tanzania shillings
USD	United States Dollar
VAT	Value Added Tax

## **OVERVIEW: MACROECONOMIC PERFORMANCE**

1. Staying the course of macroeconomic and structural reforms in recent years have resulted into strong macroeconomic performance, characterized by relatively high economic growth and low inflation. The real GDP growth rate for the year 2005 was 6.8 percent, which is slightly higher than the 2004 growth rate of 6.7 percent. Except for agriculture, whose growth rate declined slightly, because of adverse weather, all other sectors posted higher growth rates. The annual average rate of inflation for the year 2005 was 4.3 percent, compared to 4.2 percent in 2004. However, due to the drought experienced during the last quarter of 2005, that adversely affected food production and hydropower generation, coupled with a persistent increase in petroleum prices, there was an upswing in inflation that has continued into 2006, reaching 6.5 percent by March.

2. Government domestic revenue collection has improved substantially, with most of it coming from the Value Added Tax (VAT), and income tax. The increase in domestic revenue collection was partly attributed to improved tax administration systems and increased tax payers' compliance. Government expenditure during the first half of fiscal year 2005/06 exceeded the planned level due to extra costs incurred on the postponed October 2005 General Elections and government subsidies to Tanzania Electric Supply Company (TANESCO) to help mitigate increased costs of thermal power generation.

3. During the year ending December 2005, the growth rate of extended broad money ( $M_3$ ) rose to 38 percent, far above the 19.3 percent recorded in December 2004. Broad money supply, ( $M_2$ ) grew by 36.6 percent, significantly higher than 19.2 percent recorded in December 2004. The expansion in money supply was partly attributed to substantial increase in domestic credit associated to expansionary fiscal policies (as outlined in Para 2 above), which called for increase in borrowing from the banking system.

4. Credit extended to the private sector increased to 34.4 percent for the year ended December 2005, compared with 32.9 percent in the same period in 2004. The increase of private sector credit was attributed to a number factors, including the increased number of credit-worthy clients in the domestic market; increased competition in the banking sector, the existence of guarantee schemes for exporters, and the ongoing efforts by the Government to improve the business environment. However, the spread between lending and deposit rates remains wide, reflecting the presence of structural rigidities and high-perceived risk of business by banks.

5. Following a study undertaken by the Bank of Tanzania in collaboration with the National Bureau of Statistics and the Tanzania Investment Centre, statistics for the external sector for the period 2001-2005 have been revised, in effect, improving significantly accounting of foreign transactions. Accordingly, the new series for the period has significantly higher values. The new series shows that, the performance of the external sector for the year 2005 improved significantly, characterized by a substantial increase in the exports of both traditional and non-traditional commodities. Total merchandise exports increased to USD 1,676.3 million, compared with USD 1,473.1 million in 2004, equivalent to a 13.8 percent increase. Merchandise imports (f.o.b) went up by 13.8 percent to USD 2,661.8 million, up from USD 2,339.7 million in 2004. The increase stemmed largely from increased importation of capital and intermediate goods, in line with the growth in manufacturing, mining, and tourism activities.

6. With the objective of improving the business environment, the Government has strengthened the Tanzania Investment Centre (TIC) in promoting both foreign and local investments in the country. In addition, the Government continued to implement the Business Environment Strengthening for Tanzania (BEST) Programme with the objective of providing an enabling environment for private sector development through improved administrative, regulatory, and legal framework. As the privatization process reaches its final stages, the Government has established Sector Regulatory Authorities that are charged with overseeing and regulating compliance with the regulatory framework of privatized enterprises. Table 1 below, shows a summary of trends in selected macroeconomic indicators for the period 1996– 2005.

**Table 1: Trends in Selected Macroeconomic Indicators, 1996 – 2005**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>P</sup>
Real GDP Growth - %	4.2	3.3	4.0	4.7	4.9	5.7	6.2	5.7	6.7	6.8
Inflation - annual average - %	21.0	16.1	12.9	7.8	6.0	5.2	1.0	3.5	4.2 <sup>1</sup>	4.3
Exchange Rate (Tshs/USD) – annual average	580.0	612.1	664.7	744.8	808.4	876.4	966.6	1038.6	1089.3	1128.8
Exchange Rate (Tshs/USD) – end of period	595.6	624.6	668.0	797.3	803.3	916.3	976.3	1063.6	1042.9	1165.5
Merchandise Exports (mil. US\$) - FOB	763.8	752.6	588.5	543.3	663.3	851.3	979.6	1216.1	1473.1	1676.3
Merchandise Imports (mil. US\$) - FOB	1212.6	1148.0	1382.2	1415.4	1367.6	1560.3	1511.3	1933.5	2339.7	2661.8
Export/Import ratio (Goods) - %	63.0	65.6	42.6	39.7	49.6	54.6	64.8	62.9	63.0	63.0
Current Account Balance (mil. USD)	-265.1	-403.4	-905.4	-829.5	-498.6	-237.4	22.3	-111.0	-259.4	-592.7
Investment/GDP ratio - %	16.5	14.7	16.0	15.4	17.6	17.0	18.9	18.5	21.0	17.0
Foreign Direct Investment (FDI) - mil. USD	148.5	157.8	172.2	516.7	463.4	467.2	429.8	526.8	469.9	325.0
Foreign Reserves (months of imports)	2.4	3.8	3.0	4.1	5.6	6.3	8.6	9.2	8.2	6.4
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Govt. Domestic Revenue (% of GDPmp)	13.5	12.6	12.5	11.3	12.2	12.1	12.8	13.4	13.1	14.2 <sup>*</sup>
Total Govt. Expenditure <sup>2</sup> (% of GDPmp)	17.3	17.4	17.6	18.3	20.6	19.1	23.4	24.9	24.4	27.7 <sup>*</sup>
Fiscal Balance (before grants) - % of GDPmp	-1.7	-2.3	-2.3	-5.8	-4.6	-5.6	-8.2	-11.2	-11.8	-13.5 <sup>*</sup>
Fiscal Balance (after grants) - % of GDPmp	3.3	0.2	0.8	-1.6	-1.2	-1.1	-1.7	-4.0	-4.5	-6.6 <sup>*</sup>
Growth of Money Supply (M <sub>2</sub> ) - %	11.6	11.0	11.1	15.0	12.5	12.3	13.0	14.2	19.2	36.9 <sup>**</sup>
Average Deposit rate - %	11.0	10.0	7.9	7.1	4.2	3.5	3.1	2.4	2.5	3.94 <sup>**</sup>
Average Lending rate - %	26.5	24.0	24.5	22.1	19.6	16.4	15.7	14	14.4	15.24 <sup>**</sup>
Disbursed External Debt	6600.3	6435.8	6580.3	6538.3	6312.2	6559.7	6413.4	6730.8	6,999.6	6743.58 <sup>**</sup>
Total Debt Stock (mil. USD) <sup>3</sup>	7578.5	7384.6	7669.7	7624.8	7482.1	7464.0	7268.17	7890.7	9,219.3	9383.88 <sup>**</sup>

Source: Ministry of Planning, Economy and Empowerment

<sup>1</sup> Starting from 20024, National Consumer Price Index (NCPI) is based on 2001 constant prices

<sup>2</sup> Including amortization

<sup>3</sup> Including interest on disbursed debt

\*\* As at end – December, 2005

\* Based on the projected estimates 2005/06

<sup>P</sup> Provisional

## **II: REVIEW OF MACROECONOMIC PERFORMANCE DURING 2005/06 AND THE MEDIUM TERM OUTLOOK**

### **Economic Growth**

7. In 2005, the real GDP growth rate increased to 6.8 percent, compared to a rate of 6.7 percent in 2004. Per capita GDP (at current factor cost) in 2005 amounted to Tshs. 379,077, equivalent to an increase of 18.6 percent, from Tshs. 319,754 recorded in 2004; while per capita real GDP (at 1992 factor cost) amounted to Tshs. 61,665, equivalent to a 3.9 percent increase from Tshs. 59,335 in 2004. While the overall GDP for 2004 remains the same as published last year, sectoral GDP numbers for the year have been revised as appropriate {see tables 2(a) and 2(b)}.

8. Except for agriculture, whose growth rate declined slightly, because of adverse weather, all other sectors posted higher growth rates during 2005, compared to the previous year. The agriculture sector grew by 5.2 percent, down from a growth rate of 5.8 percent in 2004. Drought conditions experienced in many parts of the country in 2005 was the main cause for the slow-down in the performance of the sector. The lower agricultural growth during 2005, coupled with increased growth of other sectors has led to a decline in the share of agriculture sector to total GDP, at 45.6 percent, compared to a share of 46.3 percent in 2004.

9. The mining and quarrying sector grew by 15.7 percent in 2005 compared to a growth rate of 15.4 percent in 2004. The increased growth of the sector was attributed mainly to commencement of production of a new gold mine, Tulawaka Gold Mine in Biharamulo and a slight increase in diamond production. After a stagnant growth rate of 8.6 percent in two consecutive years, the growth of the manufacturing sector accelerated to 9.0 percent in 2005. The growth was largely due to the increase in production of cement, cigarettes, beverages, and textiles. Performance of the construction sector improved further to 11.9 percent, compared to a growth rate of 10.8 percent in 2004, reflecting increased investments in physical infrastructure, including roads and bridges, commercial and residential buildings, and water projects. Trade (including tourism) also posted higher growth during 2005, at 8.2 percent, up from 7.8 percent in 2004, consistent with increased trading and tourism activities. Increased Government consumption, to cater for higher expenditure obligations during 2005, led to higher growth of the public administration sector, at 5.1 percent, compared to a growth rate of 4.3 percent in 2004.

10. The economic outlook for the period 2006/07 - 2008/09, as projected in tables 2(a), 2(b) and 2(c) appears generally promising, assuming sustained implementation of macroeconomic and structural reforms. Drivers of the brighter outlook include implementation of the National Strategy for Growth and Reduction of Poverty (NSGRP, also referred to as MKUKUTA, a Swahili acronym), the Tanzania Mini-Tiger Plan 2020, Agriculture Sector Development Strategy (ASDS) Private Sector Development Strategy (PSDS), Property and Business Formalization Program (PBFP, also referred to as MKURABITA, a Swahili acronym) development and promotion of Small and Medium Enterprises (SMEs) and other such initiatives

**Table 2 (a): Actual and Projected GDP by Sector, Constant 1992 Prices (Tshs. mill),  
1996-2009**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual.	Projection.	Projection.	Projection.	Projection.
Agriculture	739942	770509	796513	840275	882106	917395	970378	1020497	1059116	1112063	1169720	1230049
Mining	30700	33488	38144	43293	49787	58749	67798	78443	85220	94595	105000	113400
Manufacturing	126887	131491	137809	144647	156219	169653	184218	200797	214963	236459	262470	292654
Electricity and Water	25870	26874	28454	29297	30200	31688	33123	34815	35804	36856	39030	41333
Construction	65187	70866	76818	83494	92679	102872	113994	127533	143631	162964	184913	210197
Wholesale and Retail Trade	239830	254114	270567	288718	308928	329009	354726	383814	418293	464306	515379	577226
Transport and Communication	79755	84403	89515	95154	101244	106294	112648	119833	129065	138233	147909	158263
Finance, insurance, Real Estate and Business Services	158089	164568	172291	177911	186485	194711	203222	213961	225388	236903	249300	262590
Public administration	118114	122207	126567	130987	136307	141880	147950	155490	163284	170716	178534	186796
Imputed bank services	-78548	-81229	-82359	-84418	-86781	-89819	-93541	-98104	-104979	-109177	-113544	-118086
<b>GDPfc</b>	<b>1505826</b>	<b>1577291</b>	<b>1654319</b>	<b>1749358</b>	<b>1857174</b>	<b>1962432</b>	<b>2094516</b>	<b>2237079</b>	<b>2369785</b>	<b>2543918</b>	<b>2738711</b>	<b>2954422</b>
<b>GDPfc (fiscal year)</b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
	1476957.5	1541558.5	1615805	1701838.5	1803266	1909803	2028474	2165798	2303432	2456851	2641315	2846567

**Table 2 (b): Actual and Projected Real GDP Growth Rates, 1996-2009**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture	1.9 %	4.1 %	3.4 %	5.5 %	5.0 %	4.0 %	5.8 %	5.2 %	3.8 %	5.0 %	5.2 %	5.2 %
Mining	27.4 %	9.1 %	13.9 %	13.5 %	15.0 %	18.0 %	15.4 %	15.7 %	8.6 %	11.0 %	11.0 %	8.0 %
Manufacturing	8.0 %	3.6 %	4.8 %	5.0 %	8.0 %	8.6 %	8.6 %	9.0 %	7.1 %	10.0 %	11.0 %	11.5 %
Electricity and Water	5.5 %	3.9 %	5.9 %	3.0 %	3.1 %	4.9 %	4.5 %	5.1 %	2.8 %	2.9 %	5.9 %	5.9 %
Construction	-12.3 %	8.7 %	8.4 %	8.7 %	11.0 %	11.0 %	10.8 %	11.9 %	12.6 %	13.5 %	13.5 %	13.7 %
Wholesale and Retail Trade	4.7 %	6.0 %	6.5 %	6.7 %	7.0 %	6.5 %	7.8 %	8.2 %	9.0 %	11.0 %	11.0 %	12.0 %
Transport and Communication	32.8 %	5.8 %	6.1 %	6.3 %	6.4 %	5.0 %	6.0 %	6.4 %	7.7 %	7.1 %	7.0 %	7.0 %
Finance, insurance, Real Estate and Business Services	5.6 %	4.1 %	4.7 %	3.3 %	4.8 %	4.4 %	4.4 %	5.3 %	5.3 %	5.1 %	5.2 %	5.3 %
Public administration.	2.7 %	3.5 %	3.6 %	3.5 %	4.1 %	4.1 %	4.3 %	5.1 %	5.0 %	4.6 %	4.6 %	4.6 %
<b>GDPfc</b>	<b>4.0 %</b>	<b>4.7 %</b>	<b>4.9 %</b>	<b>5.7 %</b>	<b>6.2 %</b>	<b>5.7 %</b>	<b>6.7 %</b>	<b>6.8 %</b>	<b>5.9 %</b>	<b>7.3 %</b>	<b>7.7 %</b>	<b>7.9 %</b>
<b>GDPfc (fiscal year)</b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
	3.7%	4.4%	4.8%	5.3%	6.0%	5.9%	6.2%	6.8%	6.4%	6.7%	7.5%	7.8%

**Table 2(c): Actual and Projected GDP by expenditure, current prices, 1996-2009**

GDPmp (calendar)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Proj.	Proj.	Proj.	Proj.
	5571255	6432911	7268380	8274607	9445483	10686333	12365503	14209092	15950274	17884803	20128720	22696239
	18.5%	15.5%	13.0%	13.8%	14.2%	13.1%	15.3%	11.7%	12.1%	12.4%	12.8%	13.0%
<b>GDPmp (fiscal )</b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
	5137357	6002083	6850645.5	7771493.5	8860045	10065908	11521688	13287298	15079683	16917539	19006762	21412479
	21.3%	16.8%	14.1%	13.4%	14.0%	13.6%	14.6%	15.3%	13.5%	12.2%	12.3%	12.7%

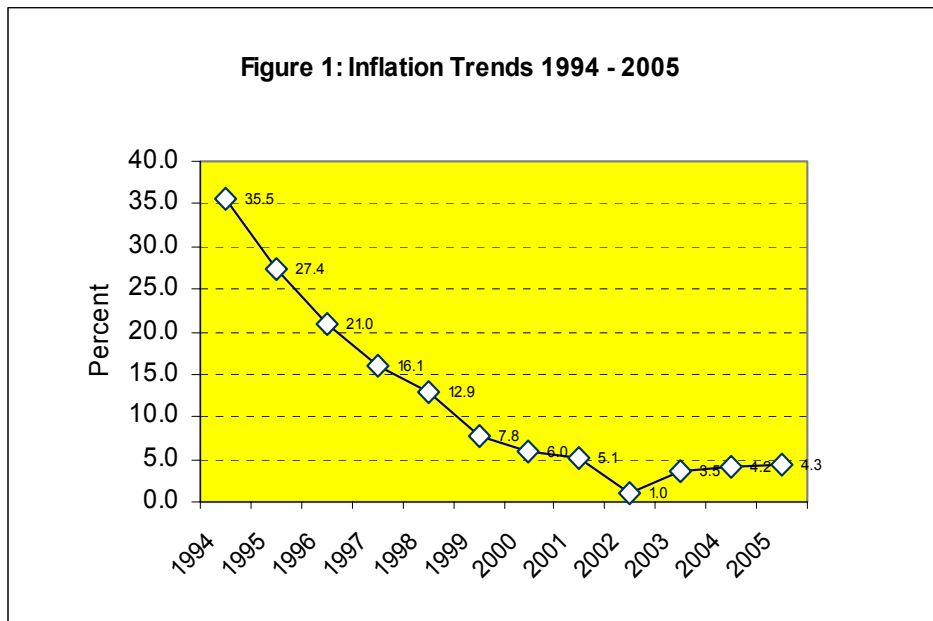
Projection formula for GDP<sub>mp</sub> (current prices)  $GDP_{mpcurr} \text{ in year } n = GDP_{mpcurr} \text{ in year } n-1(1+g_n)(1+\pi_n)$

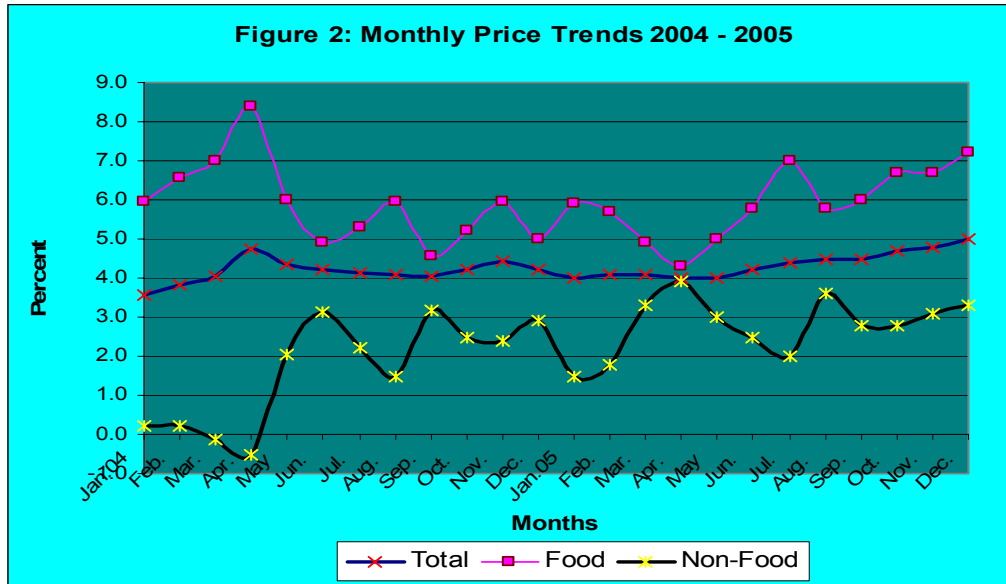
Where  $g_n = \text{projected growth rate of real GDP in current/projection year } (n)$

$\pi_n = \text{target/projected inflation rate in current/projection year } (n)$

### Inflation Trends

11. After notching the lowest rate of 4.0 percent in January 2005, the rate of inflation, as measured by the National Consumer Price Index (NCPI), has continued to increase gradually reaching 6.5 percent by March 2006. The annual average rate of inflation for the year 2005 was 4.3 percent, compared to 4.2 percent in 2004. This up-swing in the trend of inflation is attributed to rising average prices of some food and non-food items, spurred by draught and the increase in average prices of petroleum products. Food shortages in some neighbouring countries during the period, particularly in Malawi and Zambia, also contributed to some extent, in food supply shortfalls in some parts of the country, as traders sold foodstuffs across the borders. The average price increase of petroleum products in the world market compelled the government to spend more foreign exchange for the importation of petroleum products, resulting to a decrease in foreign reserves from a value equivalent to 8.2 months of imports in 2004, to a value of 6.4 months of imports in 2005.





## Government Finance

### Revenue

12. In 2005/06, the Government planned to collect domestic revenue amounting to Tshs. 2,066.8 billion, equivalent to 14.3 percent of GDP<sub>mp</sub>, compared to actual collections of 13.8 in 2004/05. Domestic revenue collection during the first half of the fiscal year 2005/06 amounted to Tshs. 1,013.8 billion, equivalent to 99.1 percent of estimates for the period and higher by 16.5 percentage points over the same period in the previous fiscal year. Out of this amount, tax revenue amounted to Tshs. 935.3 billion and non-tax revenue was Tshs.78.6 billion.

13. On monthly basis, the collection for July-December 2005 averaged Tshs. 169.0 billion per month, compared to an average of Tshs. 145.0 billion collected in the same period in the previous fiscal year. Domestic revenue collections for the period were satisfactory largely on account of good performance in the collection of VAT on both domestic and imported goods, income taxes and enhanced compliance of large taxpayers.

14. By March 2006, total revenue collections amounted to Tshs. 1,544.4 billion, compared to Tshs. 1,314.5 billion collected over the same period in 2005. On monthly basis, average collection was Tshs. 171.6 billion compared to Tshs. 146.0

in 2005. Although domestic revenue collections for the period falls below estimates, generally there is an upward trend compared to a similar period in the preceding year. This is consistent with continuous implementation of tax administration reforms.

15. During 2005/06, total inflows (grants, loans and debt relief) were estimated at Tshs. 1,725 billion equivalent to 41 percent of the government budget. During the first half of 2005/06, the Government received grants amounting to Tshs. 621.5 billion, being 3.0 percent lower than estimates for the period. Out of that amount, Tshs. 294.9 billion or 47.5 percent was for programmes, Tshs. 192.4 billion or 31.0 percent for projects, Tshs. 98.4 billion or 15.8 was for basket support and Tshs. 35.2 billion or 5.7 percent was for Highly Indebted Poor Countries (HIPC) initiative. During the same period, the Government received loans amounting to Tshs. 417.0 billion against estimates of Tshs. 433.6 billion or 96.2 percent of estimates for the period. Of this amount, Tshs. 253.9 billion was loans for programmes, Tshs. 190.1 billion and Tshs. 25.4 billion for projects and basket support respectively. Amortization for the period amounted to Tshs. 52.4 billion.

16. By March 2006, basket support amounted to Tshs. 123.8 billion compared to estimates of Tshs.196.6 billion, whereas programme loans and grants amounted to Tshs.548.8.billion, which was less than estimates of Tshs. 584.8.billion by 0.1 percent. More donors continued to respond positively in channeling their support through the Government Exchequer System.

### **Expenditure**

17. Government expenditure policies for fiscal year 2005/06 focused on enhancing and sustaining good financial management in order to facilitate achievement of the NSGRP objective of promoting economic growth and poverty reduction. This being the first year of implementation of the NSGRP, the Government planned to spend Tshs. 4,035.1 billion, equivalent to 28.9 percent of GDP<sub>mp</sub>. Out of that amount, Tshs. 2, 649.9 billion was for recurrent expenditure and Tshs. 1,385.2 billion was for development expenditure. The allocation for recurrent expenditure was as follows: Tshs. 681.9 billion, equivalent to 25.7 percent of total recurrent expenditure was allocated to wages and salaries, while goods and services including transfers were allocated Tshs. 1,580.8 billion, equivalent to 59.7 percent of total recurrent expenditure; Consolidated Fund Services (CFS), including interest payments, amortization and other statutory obligations were allocated Tshs 212.4 billion equivalent to 8.0 percent of total recurrent expenditure.

18. Total government expenditure during the first-half of the year 2005/06 amounted to Tshs. 2,122.9 billion, equivalent to 104 percent of estimated amount of Tshs. 2,038.6 billion or 52.6 percent of the total budgeted expenditure for the whole fiscal year. During the same period, recurrent expenditure amounted to Tshs. 1,401.1 billion, equivalent to 5.9 percent above the budget estimate of Tshs. 1,323.3 billion. Development expenditure during the period amounted to Tshs. 721.0 billion, equivalent to 0.8 percent above the estimate of Tshs 715.2, or 34.0 percent of total expenditure. By the end of March 2006, total expenditures amounted to Tshs.3,180.5 billion, equivalent to 100.3 percent of the budget estimates for the period of Tshs.3,117.1 billion. Tables 3(a) – 3(b) show the analytical format of the Government Budget Frame for the period 1997/98 – 2006/07.

19. Overall, expenditures above estimates during the period under review, is attributed to four main factors, including (i) Government subsidies to TANESCO, to cater for extra costs incurred in thermal generation, following severe droughts that adversely affected hydropower generation, (ii) higher costs associated with the postponement of the October 2005 General Elections (iii) Government subsidies to supplement relief food following the prolonged drought in many parts of the country and (iv) continuous price hikes of petroleum products. To alleviate food shortages in some areas that needed assistance, the Government spent about USD 42 million equivalents, to 0.3 percent of GDP for purchasing food. The extra-budgetary requirements by the Government had to be financed through bank borrowing, in effect, adversely affecting money supply targets and domestic credit.

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

	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Budget	2006/07 Proj.
<b>Domestic revenue</b>	<b>619,083.10</b>	<b>689,325.30</b>	<b>777,644.70</b>	<b>929,624.00</b>	<b>1,042,954.00</b>	<b>1,217,517.10</b>	<b>1,459,303.40</b>	<b>1,773,709.00</b>	<b>2,066,752.00</b>	<b>2,460,995.00</b>
<b>Total Expenditure</b>	<b>730,336.00</b>	<b>816,706.60</b>	<b>1,168,778.80</b>	<b>1,305,035.30</b>	<b>1,466,138.00</b>	<b>1,989,511.70</b>	<b>2,516,943.00</b>	<b>3,248,351.60</b>	<b>4,035,114.00</b>	<b>4,587,320.00</b>
Recurrent expenditure	543,751.00	680,182.70	808,865.40	1,018,782.10	1,121,527.00	1,488,650.00	1,780,115.00	210,174,890.00	2,649,931.00	2,948,598.00
Interest Payments	101,181.20	90,828.20	128,178.40	128,149.70	120,389.00	99,780.00	108,534.00	143,285.20	174,763.00	112,000.00
Foreign	47,966.30	60,482.30	46,848.80	50,361.30	55,784.00	42,770.70	70,232.00	55,892.20	74,585.00	40,000.00
Domestic	53,214.90	30,345.90	81,329.60	77,788.40	64,605.00	57,009.30	38,302.00	87,393.00	100,178.00	72,000.00
Wages/salaries	218,807.00	220,478.00	285,335.80	308,051.50	341,982.00	397,770.00	462,964.00	550,554.00	681,887.00	1,003,881.00
Goods/services/transfers	223,762.80	368,876.50	395,351.20	582,580.90	659,156.00	991,100.00		1,164,615.00	1,580,826.00	2,054,257.00
<b>Development expenditure</b>	<b>186,585.00</b>	<b>136,523.90</b>	<b>359,913.40</b>	<b>286,253.20</b>	<b>344,611.00</b>	<b>500,861.70</b>	<b>736,828.00</b>	<b>1,230,861.64</b>	<b>1,385,183.00</b>	<b>1,734,467.00</b>
Local		18,807.50	19,428.80	35,069.10	50,236.00	95,661.70	133,041.00	239,651.13	370,038.00	641,766.00
Foreign		117,716.40	340,484.60	251,184.10	294,375.00	405,200.00	603,787.00	991,210.51	1,015,145.00	1,092,701.00

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Proj.
<b>Overall Deficit (cheques issued) - before grants</b>	<b>-111,252.90</b>	<b>-27,381.30</b>	<b>-391,134.10</b>	<b>-375,411.30</b>	<b>-423,184.00</b>	<b>-771,994.60</b>	-1,057,640.00	-1,474,642.21	1,958,362.00	<b>2,231,223.00</b>
<b>Grants</b>	<b>119,358.30</b>	<b>169,945.60</b>	<b>280,306.70</b>	<b>286,306.00</b>	<b>379,848.00</b>	<b>622,302.10</b>	696,673.00	<b>992,975.44</b>	<b>1,011,345.00</b>	<b>1,413,864.00</b>
Budget Support	117,541.00	100,499.80	207,519.40	123,629.80	140,192.00	293,927.70		400,314.13	345,476.00	388,045.00
Projects		47,530.20	72,787.30	30,436.40		255,516.20		156,071.63	572,269.00	623,959.00
HIPC relief//MDRI (IMF)					56,657.00	72,858.20	77,417.00	72,309.39	93,600.00	401,860.00
<b>Overall deficit (cheques issued) - after grants</b>	<b>8,105.40</b>	<b>42,564.30</b>	<b>-110,827.40</b>	<b>-89,105.30</b>	<b>-43,336.00</b>	<b>-149,692.50</b>	-360,967.00	<b>-481,666.77</b>	<b>-957,017.00</b>	<b>-817,359.00</b>
Adjustment to cash	-76,242.70	-25,140.60	-2,444.30	-25,447.40	4,759.10	-15,013.20	50,776.00	-53,211.40	0.00	0
<b>Overall deficit (cheques cleared)</b>	<b>-68,137.30</b>	<b>17,423.70</b>	<b>-113,271.70</b>	<b>-114,552.70</b>	<b>-38,576.90</b>	<b>-164,705.70</b>	-399,739.00	<b>-568,596.86</b>	<b>-957,017.00</b>	<b>-817,359.00</b>
<b>Financing</b>	<b>68,137.30</b>	<b>-17,423.70</b>	<b>113,272.70</b>	<b>114,552.70</b>	<b>38,576.90</b>	<b>164,705.70</b>	399,739.00	<b>568,596.86</b>	<b>957,017.00</b>	<b>817,359.00</b>
<b>Foreign</b>	<b>64,468.10</b>	<b>-18,683.70</b>	<b>105,418.30</b>	<b>90,354.20</b>	<b>121,842.50</b>	<b>201,305.70</b>	434,235.00	<b>423,642.37</b>	<b>584,888.00</b>	<b>659,881.00</b>
Loans	136,890.00	53,842.80	187,786.30	172,880.40	187,355.50	302,631.00	479,421.00	373,987.66	612,273.00	606,031.00
Programme	80,069.00	36,626.20	54,821.00	45,326.10	33,171.20	151,331.00	216,389.00	65,396.00	270,689.00	304,967.00
Projects	56,821.00	17,216.60	132,965.30	127,554.30	154,184.30	151,300.00	263,032.00	308,591.66	341,584.00	301,064.00
Amortization	-72,421.90	-72,526.50	-82,368.00	-82,526.20	-65,513.00	-101,325.30	-45,185.00	-107,089.62	-128,676.00	-51,800.00
<b>Domestic (net)</b>	<b>3,669.20</b>	<b>-5,740.00</b>	<b>7,854.40</b>	<b>-2,494.40</b>	<b>-24,158.60</b>	<b>-36,600.00</b>	-34,496.00	<b>144,954.49</b>	<b>372,129.00</b>	<b>157,478.00</b>
Bank borrowing (net)	-23,605.10	1,230.00	7,690.60	-18,654.80	-59,180.90	-10,300.00	44,263.00	97,306.55	259225	163,478.000
Non-bank (net)	27,274.30	-6,970.00	163.8	16,160.40	36,574.30	-26,000.00	0	47647.94	0.00	0
Amortization of Contingent Debt					-1,552.00	-300	0	0	-12,151.00	-11,000.00
Privatization Proceeds		7,000.00		26,692.90			9,767.00	0	10420	5,000.00
memo:										
<b>GDPmp</b>	<b>4,929,469</b>	<b>5,532,096</b>	<b>6,884,940</b>	<b>7,600,177</b>	<b>8,564,000</b>	<b>9,493,500</b>	<b>10,686,333</b>	<b>12,321,183</b>	<b>12,820,511</b>	<b>14,256,408</b>

**Table 3 (b): The Government Budget Frame (Analytical Format) - % of GDP mp**

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Proj.
<b>Domestic revenue</b>	12.56%	12.46%	11.29%	12.23%	12.18%	12.83%	13.66%	14.40%	13.7%	14.5%
<b>Total Expenditure</b>	14.82%	14.76%	16.98%	17.17%	17.12%	20.96%	23.55%	26.36%	27.2%	28.0%
Recurrent expenditure	11.03%	12.30%	11.75%	13.40%	13.10%	15.68%	16.66%	1705.80%	18.3%	18.0%
Interest Payments	2.05%	1.64%	1.86%	1.69%	1.41%	1.05%	1.02%	1.16%	1.1%	0.8%
Foreign	0.97%	1.09%	0.68%	0.66%	0.65%	0.45%	0.66%	0.45%	0.5%	0.2%
Domestic	1.08%	0.55%	1.18%	1.02%	0.75%	0.60%	0.36%	0.71%	0.6%	0.6%
Wages/salaries	4.44%	3.99%	4.14%	4.05%	3.99%	4.19%	4.33%	4.47%	4.7%	6.1%
Goods/services/transfers	4.54%	6.67%	5.74%	7.67%	7.70%	10.44%	0.00%	0.07	12.4%	11.1%
Development expenditure	3.79%	2.47%	5.23%	3.77%	4.02%	5.28%	6.89%	9.99%	9.6%	10.0%
Local		0.34%	0.28%	0.46%	0.59%	1.01%	1.24%	1.95%	1.8%	3.7%
Foreign		2.13%	4.95%	3.30%	3.44%	4.27%	5.65%	8.04%	7.0%	6.3%
<b>Overall Deficit (cheques issued) - before grants</b>	-2.26%	-2.30%	-5.68%	-4.94%	-4.94%	-8.13%	-9.90%	-3.91%	-13.6%	-13.6%
<b>Grants</b>	2.42%	3.07%	4.07%	3.77%	4.44%	6.56%	6.52%	8.06%	7.0%	8.6%
Budget Support	2.38%	1.82%	3.01%	1.63%	1.64%	3.10%	0.00%	3.25%	2.4%	2.4%
Projects		0.86%	1.06%	0.40%	0.00%	2.69%	0.00%	1.27%	4.0%	3.8%
HIPC relief//MDRI (IMF)		0.00%	0.00%	0.00%	0.66%	0.77%	0.72%	0.59%	0.6%	2.4%

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Proj.
<b>Overall deficit (cheques issued) - after grants</b>	0.16%	0.77%	-1.61%	-1.17%	-0.51%	-1.58%	-3.38%	-3.91%	-6.6%	-5.0%
Adjustment to cash	-1.55%	-0.45%	-0.04%	-0.33%	0.06%	-0.16%	0.48%	-0.43%	0.0%	0.0%
<b>Overall deficit (cheques cleared)</b>	-1.38%	0.31%	-1.65%	-1.51%	-0.45%	-1.73%	-3.74%	-4.61%	-6.6%	-5.5%
<b>Financing</b>	1.38%	-0.31%	1.65%	1.51%	0.45%	1.73%	3.74%	4.61%	6.6%	5.0%
<b>Foreign</b>	1.31%	-0.34%	1.53%	1.19%	1.42%	2.12%	4.06%	3.44%	4.0%	4.4%
Loans	2.78%	0.97%	2.73%	2.27%	2.19%	3.19%	4.49%	3.04%	1.9%	1.9%
Programme	1.62%	0.66%	0.80%	0.60%	0.39%	1.59%	2.02%	0.53%	0.7%	0.6%
Development Projects	1.15%	0.31%	1.93%	1.68%	1.80%	1.59%	2.46%	2.50%	2.4%	1.8%
Amortization	-1.47%	-1.31%	-1.20%	-1.09%	-0.76%	-1.07%	-0.42%	-0.87%	-0.1%	-0.1%
<b>Domestic (net)</b>	0.07%	-0.10%	0.11%	-0.03%	-0.28%	-0.39%	-0.32%	1.18%	2.6%	1.0%
Bank borrowing (net)	-0.48%	0.02%	0.11%	-0.25%	-0.69%	-0.11%	-0.41%	0.79%	1.8%	1.0%
Non-bank (net)	0.55%	-0.13%	0.00%	0.21%	0.43%	-0.27%	0.00%	0.39%	0.0%	0.00%
Amortization of Contingent Debt	0.00%	0.00%	0.00%	0.00%	-0.02%	0.00%	0.00%	0.00%	0.1%	0.0%
Privatization Proceeds	0.00%	0.13%	0.00%	0.35%	0.00%	0.00%	0.09%	0.00%	0.0%	0.0%

Source: Ministry of Finance

## **Public Debt Developments**

20. As at end-December 2005, the national debt stock (external and domestic) was USD 9.96 billion, compared to USD 9.73 billion at end-December 2004, equivalent to an increase of 2.4 percent. Debt sustainability analysis undertaken by the Bank of Tanzania and Government experts, based on internationally acceptable procedures, has shown that this level of public debt is sustainable. The external debt stock stood at USD 7.93 billion, equivalent to 79.7 percent of the overall total national debt stock compared with USD 8.02 billion recorded at end-December 2004, representing a decrease of 1.1 percent. The decrease in external debt is accounted for by enhanced surround effort in paying foreign debt completed with debt relief received by the Government through the HIPC Debt Relief Programme as well as strict adherence to the National debt Strategy.

21. Analysis of disbursed outstanding debt by borrower category indicates that the Central Government remained the largest borrower with a total debt of USD 5.79 billion (85.9 percent) followed by the private sector with USD 0.49 billion (7.2 percent) and parastatals with USD 0.47 billion (6.9 percent). On the other hand, domestic debt was USD 2.03 billion or 20.4 percent of total national debt stock.

22. Domestic debt stock at end-December 2005 stood at USD 2.03 billion (equivalent to Tshs. 2,369 billion), mostly comprising of Government securities, amounting to Tshs. 1,675.8 billion, or 99.0 percent of total domestic debt. The main domestic creditors were commercial banks, pension funds, and the Bank of Tanzania, holding 44.9%, 24.8%, and 17.6% of total domestic debt respectively.

## **Money and Credit Developments**

### **Money Supply**

23. During the year ended June 2005, the growth of money supply was higher than the planned level of 24 percent for both broad money ( $M_2$ ) and extended broad money ( $M_3$ ). During the period,  $M_2$  increased by 27.5 percent compared to 19.1 percent in the same period last year, while  $M_3$  recorded a growth rate of 25.5 percent during the period, compared to 18.0 percent registered in June 2004.

24. For the period ended December 2005,  $M_2$  increased by 36.9 percent, slightly higher than the projected 35.4 percent for the period, compared to a growth rate of 19.2 percent recorded at end-December 2004. The annual growth of  $M_3$  during the period accelerated to 38.2 percent from 19.3 percent at end-December 2004,

which was also higher than the targeted growth of 34.6 percent. Nonetheless, the expansion of money supply was consistent with the increase in money demand for financing expansion of economic activities. The increase in money supply mainly emanated from increased demand deposits in the banking systems, increased lending to private sector; inflows of donor funds for budget support; and higher Government expenditures associated with the 2005 general elections and Government subsidies to TANESCO and relief food procurement. Tables 4(a) – (b) show the trend of monetary survey aggregates (1998-2005).

**Table 4(a): Monetary Survey Aggregates**

Tshs. Million

	End of June							2004 End- Dec	2005 End-Dec
	1998	1999	2000	2001	2002	2003	2004		
<b>Currency in circulation outside banks</b>	<b>272667</b>	<b>279872</b>	<b>339928</b>	<b>375045</b>	<b>429384</b>	<b>473704</b>	<b>590,441</b>	<b>664,148</b>	<b>843,157</b>
Demand Deposits	208975	229122	261303	316210	386192	507444	595,622	651,591	915,652
<b>Narrow Money (M1)</b>	<b>481642</b>	<b>508994</b>	<b>601231</b>	<b>691255</b>	<b>815576</b>	<b>981148</b>	<b>1186063</b>	<b>1315739</b>	<b>1,758,810</b>
Time Deposits	132735	152902	152291	171598	218602	246720	269132	276396	422,269
Saving Deposits	155803	168805	203021	236184	299346	330918	401130	458750	627,168
<b>Broad Money (M2)</b>	<b>770180</b>	<b>830701</b>	<b>956543</b>	<b>1099037</b>	<b>1333524</b>	<b>1558785</b>	<b>1856326</b>	<b>2050885</b>	<b>2,808,247</b>
Foreign Currency Deposits	177214	204193	302471	373868	464366	647109	746608	797234	1,126,738
<b>Extended Broad Money (M3)</b>	<b>947394</b>	<b>1034894</b>	<b>1259014</b>	<b>1472905</b>	<b>1797890</b>	<b>2205894</b>	<b>2602934</b>	<b>2848120</b>	<b>3,934,986</b>
Net Foreign Assets	410228	472304	707352	1001412	1293645	1871286	2134182	2379909	2,407,311
Net Domestic Assets	537127	539395	551662	471490	750102	710283	962910	932533	2,136,881
Net Domestic Credit	438343	570411	696536	647342	684920	858204	1123597.8	1012357	1,838,844
Net Claims on Government	239665	314109	383098	268920	202879	199679	157606	(47719)	413,782
Lending to Non-Government Sectors	198678	256302	313438	378422	482041	658525	965980.9	1060077	1,425,062
Other Items (Net)	98784	-31016	-144875	-175852	65181	-147921	-160687	-79824	298,036

Source: Bank of Tanzania

**Table 4(b): Growth in Monetary Survey Aggregates**

Percentage

	End of June							2005
	1999	2000	2001	2002	2003	2004	2005	end – Dec
<b>Currency in circulation outside banks<sup>4</sup></b>	<b>2.60</b>	<b>21.50</b>	<b>10.30</b>	<b>14.50</b>	<b>10.3</b>	<b>24.64</b>	<b>24.47</b>	<b>27.00</b>
Demand Deposits	9.60	14.00	21.00	22.10	31.40	17.38	33.28	40.00
<b>Narrow Money (M<sub>1</sub>)<sup>5</sup></b>	<b>5.70</b>	<b>18.10</b>	<b>15.00</b>	<b>18.00</b>	<b>20.30</b>	<b>20.89</b>	<b>28.89</b>	<b>33.70</b>
Time Deposits	15.20	-0.40	12.70	27.40	12.90	9.08	22.14	52.80
Saving Deposits	8.30	20.30	16.30	26.70	10.50	21.22	26.88	36.70
<b>Broad Money (M<sub>2</sub>)<sup>6</sup></b>	<b>7.90</b>	<b>15.10</b>	<b>14.90</b>	<b>21.30</b>	<b>16.90</b>	<b>19.09</b>	<b>27.48</b>	<b>36.90</b>
Foreign Currency Deposits	15.20	48.10	23.60	24.20	39.40	15.38	20.54	41.30
<b>Extended Broad Money (M<sub>3</sub>)<sup>7</sup></b>	<b>9.20</b>	<b>21.70</b>	<b>17.00</b>	<b>22.10</b>	<b>22.70</b>	<b>18.00</b>	<b>25.49</b>	<b>38.20</b>
Net Foreign Assets	15.10	49.80	41.60	29.20	44.70	14.00	6.80	1.20
Net Domestic Assets	0.40	2.30	-14.50	59.10	-5.30	35.57	56.92	129.10
Net Domestic Credit	30.10	22.10	-7.10	5.80	25.30	35.9	33.86	81.60
Net Claims on Government	31.10	22.00	-29.80	-24.60	-1.60	-21.07	81.87	-967.10
Lending to Non-Government Sectors	29.00	22.30	20.70	27.40	36.60	46.69	26.23	34.40
Other Items (Net)	-131.40	367.10	21.40	-137.10	-326.90	8.63	-104.38	-473.40

Source: Bank of Tanzania Credit Development

25. Credit extended to the private sector grew by an annual rate of 34.4 percent in the year December 2005, compared to 29.7 percent registered in the same month a year earlier. The strong growth of private sector credit was attributed to the increased number of credit-worthy clients taking advantage of relatively favourable negotiated cost of borrowing in the domestic market; increased competition in the banking sector, the existence of guarantee schemes for exporters, and the ongoing efforts by the Government to improve the business environment. The sustained expansion in credit is accompanied by expansion of various economic activities, mainly in mining, construction, tourism, manufacturing, trade and agriculture. Table 5, shows commercial banks lending by borrowing sectors.

<sup>4</sup>  $M_0 = \text{Currency in circulation outside banks} + \text{Deposit Money with the Bank of Tanzania}$

<sup>5</sup>  $M_1 = M_0 + \text{Demand Deposits}$

<sup>6</sup>  $M_2 = M_1 + \text{Time Deposits} + \text{Savings Deposits}$

<sup>7</sup>  $M_3 = M_2 + \text{Foreign Currency Deposits}$

**Table 5: Commercial Banks Lending by Borrowing Activity in 2005 (major borrowers)**

Sector	Manufacturing	Trade	Agriculture	Transport	Building and Construction	Tourism	Public Administration	Mining	Others
Tshs. (billion)	3,222.6	3,467.1	1,990.4	1,241.4	632.3	411.2	182.8	240.3	2,892.1
Percentage Share	22.60	24.3	13.80	8.20	4.40	2.90	1.3	1.7	20.3

Source: Bank of Tanzania

## Financial Market Development

### Capital Market Development

26. By end-December 2005, there were eight companies listed at the Dar es Salaam Stock Exchange (DSE), out of which two were foreign companies. The current listed companies at the DSE are shown in Table 6. The increase in the number of companies participating in the DSE is attributed to ongoing macroeconomic and financial sector reforms that have substantially improved the business climate in the capital market.

**Table 6: Number of Companies Listed at DSE**

Name	Ticker	Sector
Tanzania Breweries Limited (TBL)	TBL	Beverages
Tanzania Cigarette Company Limited (TCC)	TCC	Tobacco
Tanzania Tea Parkers Limited	TTP/TATEPA	Agriculture
Tanzania Oxygen Limited (TOL)	TOL	Natural Gas and Oil
Dar es Salaam Airport Handling Company (DAHACO)	Swiss port	Transport
East African Breweries Limited (EABL)	EABL	Beverages
TANGA Cement Limited	SIMBA	Building Materials
Kenya Airways Limited (KA)	KA	Transport

Source: Dar es Salaam Stock Exchange (DSE)

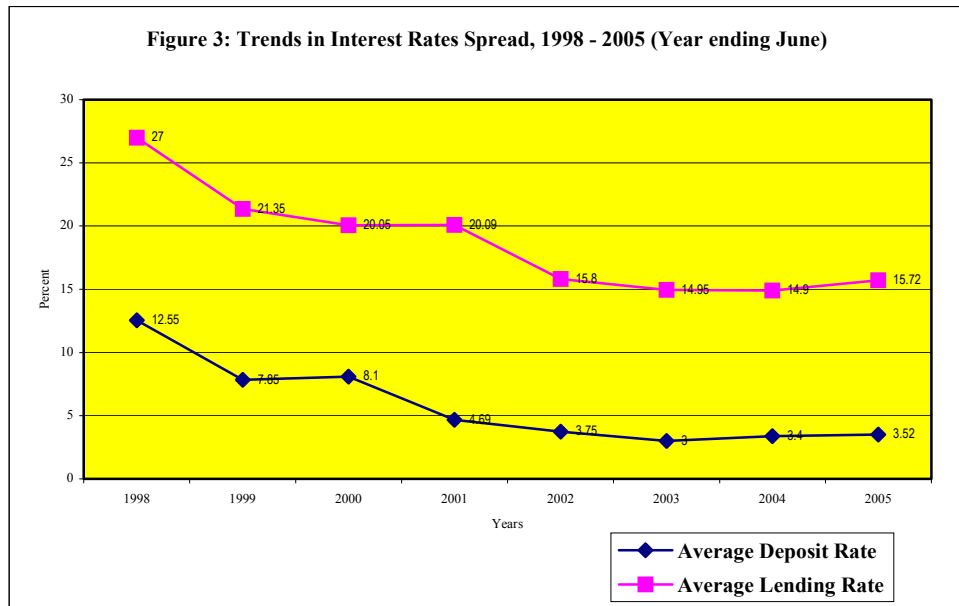
### Interest Rates on Domestic Currency

27. During 2005, the domestic money market interest rates recorded a general upward trend, reflecting implementation of concretionary monetary policy. The average interest rate for savings deposits offered by commercial banks increased slightly to 2.6 percent in June 2005 from 2.4 percent in June 2004, and remained at 2.6 percent by end December 2005. The average interest rate for fixed deposits increased slightly from 4.35 percent in June 2004 to 4.41 percent in June 2005 and accelerated to 5.20 percent by December 2005. The 12-month time deposits rate was 7.7 percent in December 2005 compared with 5.8 percent in December 2004. Nonetheless, the overall average deposit rate increased from 3.5 percent in

December 2004 to 3.9 percent in December 2005. However, the average negotiated deposit rate increased to 10.6 percent in December 2005 from 8.8 percent in December 2004. With most commercial banks holding huge deposits (mostly because they are not lending as much), there is little incentive for them to raise deposit interest rates in order to attract more deposits, in effect, not helping in mobilization of domestic savings.

28. The discount rates charged to commercial banks by the Central Bank increased from 12.6 percent in June 2004 to 13.9 in June 2005, and increased further to 18.3 percent by December 2005. The overall Treasury Bills rate increased from 7.8 percent in June 2004 to 9.3 percent in June 2005, and accelerated to 14.8 percent in December 2005, while the overnight inter-bank rate increased from 3.6 percent to 5.1 percent and further up to 5.97 percent in the same period.

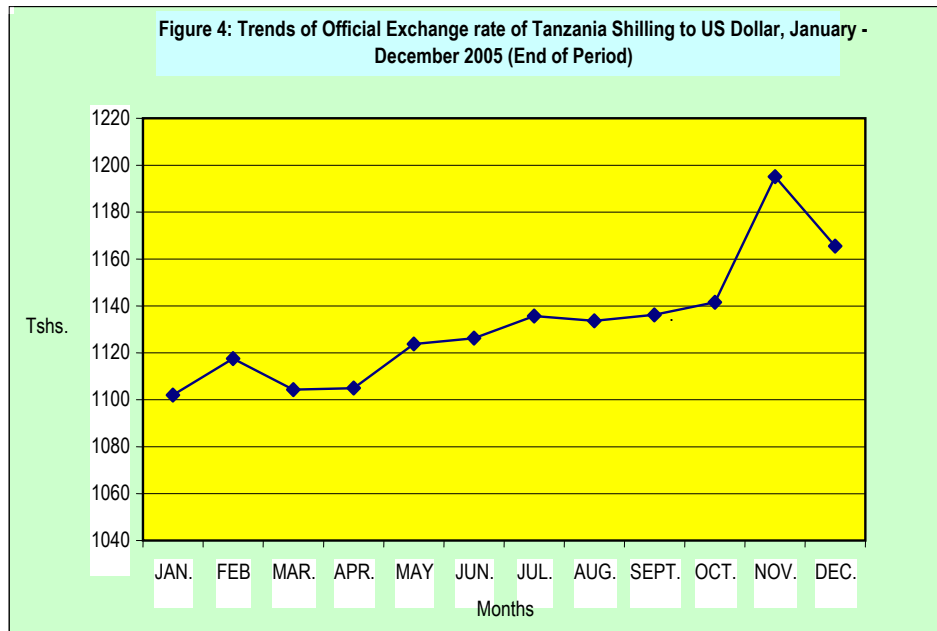
29. In general, commercial banks lending rates registered a mixed pattern. The overall average commercial banks lending rate increased from 14.2 percent in June 2004 to 15.5 percent in June 2005 and declined slightly to 15.0 percent in December 2005. The average short-term lending rate rose from 15.7 percent in June 2004 to 16.1 percent in June 2005 and increased to 15.7 percent in December 2005, while the medium term (2-3 years) lending rate fell from 16.2 percent in June 2005 to 14.52 percent in December 2005. The average long term (over 5 years) lending rates increased to 13.9 percent in June 2005 from 13.1 percent in June 2004 and slightly increased to 14.1 percent in December 2005. The average negotiated lending rate to prime customers increased from 9.4 percent in June 2004 to 11.0 percent in June 2005 and increased further to 11.1 percent in December 2005. The spread between lending and deposit interest rates increased to 12.2 percent in June 2005 from 11.5 percent in June 2004 and decreased to 11.04 percent by December 2005. The interest spread continued to remain wider, reflecting the presence of structural rigidities and high-perceived risk of business by banks; in effect, the cost of borrowing from commercial banks for financing economic activities remains high.



### Interest Rates on Foreign Currency

30. The overall weighted average lending rate slightly declined to 8.04 percent in June 2005 from 8.4 percent in June 2004 and it was 8.03 percent in December 2005. Savings deposits rate declined to 0.7 percent in June 2005 from 0.9 percent in June 2004, and increased to 0.8 percent in December 2005. Time deposits rates increased from 1.1 percent in June 2004 to 1.7 percent in June 2005 and increased further to 1.90 percent in December 2005

31. The nominal exchange rate of the Tshs. to the USD depreciated to an annual average of Tshs. 1,132.2 per USD in 2005, from an average of Tshs. 1,053.3 per USD in 2004. Likewise, the value of Tshs. per USD was Tshs. 1,165.51 at the end of December 2005 compared with Tshs. 1,043.0 per USD at the end of December 2004.



32. The volume traded in the Inter-bank Foreign Exchange Market (IFEM) declined to USD 731.4 million in November 2005 from USD 974.2 million recorded in November 2004 equivalent to a decline of 24.0 percent. The decline was attributed to low demand for US USD particularly from corporate clients to meet foreign exchange obligations.

33. The foreign currency reserves decreased to USD 2,048.4 million in 2005, from USD 2,296.1 million in 2004, equivalent to 6.4 months of imports of goods and services compared to 8.2 months of imports in 2004. The decrease in foreign reserves was attributed to a substantial increase in demand for foreign exchange to import capital goods to meet the needs of the growing economic activities and petroleum products for thermal power generation.

**Microfinance**

34. The Bank of Tanzania continued to coordinate and monitor implementation of the National Microfinance Policy (NMP). In order to provide greater access for many people to engage in activities within the financial system in Tanzania, the Financial Sector Deepening Trust (FSDT) was established in 2004. Furthermore, the task of formulating the regulatory and supervisory framework for micro-finance institutions activities in the country has been completed.

### **External Sector Performance**

35. During 2005, the external sector performance improved, characterized by substantial growth in both traditional and non-traditional exports. Total exports of goods increased to USD 1,676.3 million compared to USD 1,473.1 million in 2004, equivalent to an increase of 13.8 percent.

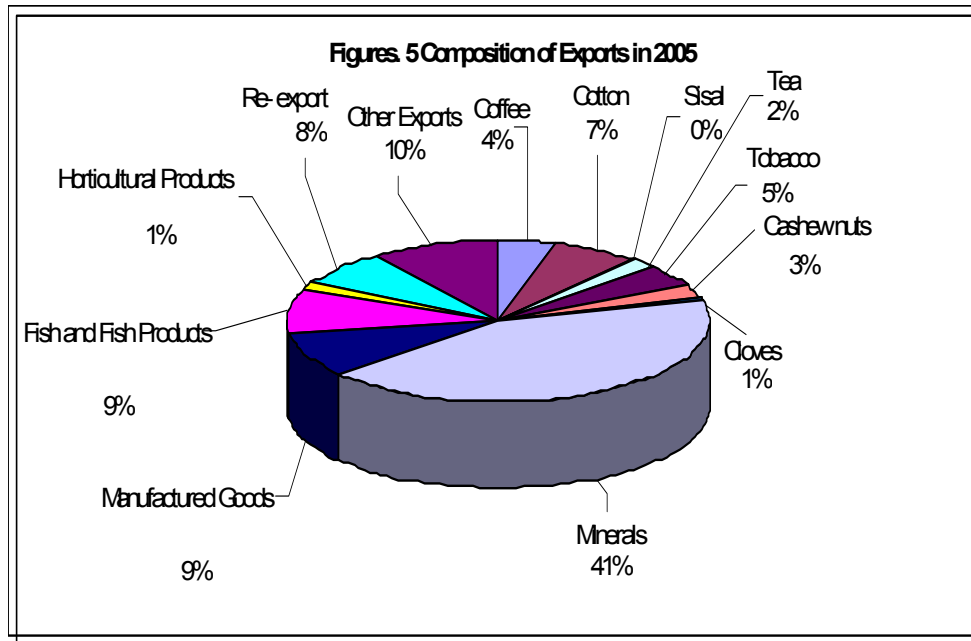
36. The value of traditional export increased to USD 354.5 million in 2005, up from USD 297.8 million in 2004, equivalent to an increase of 19 percent. The good performance of traditional exports was attributed to increase in both price and volumes of coffee, tobacco, and cotton. The notable improvement in volumes resulted from favorable weather and timely usage of agricultural inputs, particularly pesticides for cotton and fertilizers for tobacco. However, the volume of cashew nuts exported dropped significantly due to lower prices offered by private traders, compared with indicative prices published by the Government.

37. The value of non-traditional exports increased to USD 1,321.8 million in 2005, up from USD 1,175.3 million in 2004, equivalent to an increase of 12.5 percent. During the period, gold export earnings continued to lead the list, registering USD 655.5 million, compared with USD 629.4 million earned in 2004, following improved gold prices in the world market and an increase in production. A gold mining company, Tulawaka Gold Mining Company, started production during early 2005 and its first exports were done in March 2005. Exports of manufactured goods and other exports also improved, with the former mainly attributed to the on-going rehabilitation and establishment of new industries, while the latter was on account of a rise in exports of textile apparels, footwear, plastic items, iron and steel.

**Table 7: Value, Volume and Price of Tanzania's Major Exports**

	2001	2002	2003	2004	2005p	Change (%) 2004 - 2005
<b>Traditional Exports:</b>						
<b>Coffee</b>						
Value (US\$ mill.)	57.05	35.2	50	49.8	74.3	49.2
Volume ('000 tons)	48.39	36.4	46.2	38.6	46.1	19.43
Price (US\$ per ton)	1179.06	968.4	1,081.70	1,289.60	1,613.60	25.12
<b>Cotton</b>						
Value (US\$ mill.)	33.7	28.6	46.5	74.6	111.5	49.46
Volume ('000 tons)	36.82	33.3	46.9	77.6	112.9	45.49
Price (US\$ per ton)	915.26	859.4	992	961.1	987.9	2.79
<b>Sisal</b>						
Value (US\$ mill.)	6.68	6.6	7.3	7.2	7.3	1.39
Volume ('000 tons)	13.86	12.7	13.9	12	9.3	-22.5
Price (US\$ per ton)	482	516.4	523.5	602.8	781.7	29.68
<b>Tea</b>						
Value (US\$ mill.)	29.03	29.6	24.8	30.1	25.6	-14.95
Volume ('000 tons)	22.96	24.3	21.2	24.3	21.8	-10.29
Price (US\$ per ton)	1264.45	1217.8	1,170.30	1,237.30	1,178.00	-4.79
<b>Tobacco</b>						
Value (US\$ mill.)	35.69	55.5	39.9	57.6	80.8	40.28
Volume ('000 tons)	18.72	24.3	18.3	27.2	31.1	14.34
Price (US\$ per ton)	1906.17	2188.6	2,177.00	2,119.40	2593.1	22.35
<b>Cashew nuts</b>						
Value (US\$ mill.)	56.58	46.6	41.8	68.1	46.6	-31.57
Volume ('000 tons)	95.04	79	65.1	83.6	62	-25.84
Price (US\$ per ton)	595.38	589.7	641.6	814.2	751.1	-7.75
<b>Cloves</b>						
Value (US\$ mill.)	12.32	4	10.3	10.3	8.5	-17.48
Volume ('000 tons)	2.45	1	5.6	4.3	3	-30.23
Price (US\$ per ton)	5026.85	4164.4	1,845.20	2,367.30	2863.5	20.96
<b>Sub-total (Traditional exports)</b>	<b>231.05</b>	<b>206.1</b>	<b>220.5</b>	<b>297.8</b>	<b>354.5</b>	<b>19.04</b>
<b>Non-Traditional Exports: (US\$ mill)</b>						
Minerals	302.23	383.8	552.2	680.2	711.3	4.57
Gold	254.07	341.1	502.8	629.4	655.5	4.15
Diamond	27.08	22	28.6	26	24.4	-6.15
Other Minerals	21.08	20.7	20.7	24.8	31.4	26.61
Manufactured Goods	56.17	65.9	83.8	110.1	156.1	41.78
Fish and Fish Products	96.77	116.8	136.2	125.7	147.5	17.34
Horticultural Products	11.01	10.9	13.7	14.3	18.3	27.97
Re- export	74.9	77	86.9	137	127.1	-7.23
Other Exports	79.34	119.2	122.9	108.1	161.5	49.4
<b>Sub-total (Non-traditional exports)</b>	<b>545.52</b>	<b>696.5</b>	<b>908.7</b>	<b>1,175.30</b>	<b>1,321.80</b>	<b>12.5</b>
<b>Grand Total (US\$ mill.)</b>	<b>776.37</b>	<b>902.5</b>	<b>1,129.20</b>	<b>1473.1</b>	<b>1676.3</b>	<b>13.79</b>

Source: Bank of Tanzania



38. Receipts on services exports during 2005 increased to USD 1,206.6 million, up from USD 1149.9 million recorded in 2004, representing an increase of 4.9 percent. The increase in services exports is accounted for by a rise in travel and transportation services, associated with tourism related activities and improvement in infrastructure.

39. During 2005, merchandise imports (f.o.b) went up to USD 2,661.8 million, up from USD 2,339.7 million in 2004, equivalent to an increase of 13.8 percent. This development was attributed to a substantial increase in imports of capital and intermediate goods, in line with growth in manufacturing, mining and tourism activities. Imports of capital goods increased by 25.4 percent, intermediate goods by 16.5 percent, while consumer goods declined by 1.8 percent.

**Table 8: Tanzania's Imports by Major Category (Million USD)**

Import Category	2001	2002	2003	2004	2005	Change (%)
						2004 - 2005
Capital goods	739.7	721.1	814.8	945	1184.8	25.38
Transport Equipment	189.8	218.3	233.5	251.6	318.2	26.47
Building and construction	144	134.7	166.3	203.8	282.7	38.71
Machinery	406	368.3	415.1	489.5	583.9	19.28
Intermediate Goods	440.8	423	679.5	783.4	912.3	16.45
Oil imports	220.7	194.8	403.3	474.5	561.8	18.40
Fertilizers	15.5	20.1	28.5	59.4	71	19.53
Industrial raw materials	204.6	208	247.7	249.4	279.5	12.07
Consumer Goods	534.2	516.6	630.3	842.7	827.9	-1.76
Food and Food Stuffs	169.4	147.3	182.5	273.4	185	-32.33
All Other Consumer Goods	364.8	369.3	447.9	569.3	642.9	12.93
Grand Total (cif)	1714.8	1660.8	2,124.70	2,571.10	2925	13.76
Grand Total (fob)	1560.5	1511.3	1,933.50	2,339.70	2661.8	13.77

Source: Bank of Tanzania

40. Services imports during 2005 increased to USD 1,158.1 million, representing a 14.6 percent increase from USD 1,010.9 million recorded in 2004. The increase was mainly attributed to increases in payments for construction, freight charges associated with increased imports, travel and government services

41. In 2005, the trade account balance registered a deficit of USD 985.5 million compared to a deficit of USD 866.6 million in 2004, while the balance on services account declined to a surplus of USD 48.6 million in 2005 compared with a surplus of USD 139 million in 2004. The current account balance deteriorated from a deficit of USD 259.4 million in 2004 to USD 592.7 million in 2005, mainly due to a higher import bill than exports and a decline in official transfers. The overall balance of payments indicated a deficit of USD 420.1 million compared to a surplus of USD 100.9 million in 2004.

**Table 9: Balance of Payments (BoP)**

US Dollars million

	<b>2001 Actual</b>	<b>2002 Actual</b>	<b>2003 Actual</b>	<b>2004 Actual</b>	<b>2005 Prov.</b>
<b>Goods Balance</b>	<b>-709.0</b>	<b>-531.7</b>	<b>-717.4</b>	<b>-866.6</b>	<b>-985.5</b>
Exports (fob)	851.3	979.6	1216.1	1473.1	1676.3
Imports (fob)	1560.3	1511.3	1933.5	2339.7	2661.8
Service balance	264.9	287.6	222.1	139.0	48.5
Receipts	914.6	920.1	947.8	1149.9	1206.6
Payments	649.7	632.5	725.7	1010.9	1158.1
Income	-188.5	-150.2	-162.6	-177.8	-237.1
Receipts	55.3	67.9	87.1	81.8	79.7
Payments	243.8	218.1	249.7	259.6	316.8
Current transfers	395.3	416.6	546.9	646.1	581.4
Inflows	474.8	477.9	609.9	711.1	656.3
Government	418.4	427.7	543.3	641.7	587.4
o/w Multilateral					
HIPC relief	71.3	68.8	68.2	73.7	79.4
Other Sectors	56.4	50.2	66.6	69.4	68.9
Outflows	79.5	61.3	63.0	65.0	74.9
<b>CURRENT ACCOUNT BALANCE</b>	<b>-237.3</b>	<b>22.3</b>	<b>-111.0</b>	<b>-259.3</b>	<b>-592.7</b>
Capital Transfers	361.5	355.4	358.2	293.6	504.9
Inflows	361.5	355.4	358.2	293.6	504.9
Outflows	0.0	0	0	0	0
Financial Account	-353.7	191.6	257.3	440.2	34.4
Direct Investment	467.2	429.8	526.8	469.9	325
Portfolio Investment	8.2	2.2	2.7	2.4	2.5
Other Investment	-829.1	-240.4	-272.2	-32.1	-293.1
Errors and Omissions	-580.0	-681.6	-449.6	-373.6	-366.7
<b>OVERALL BALANCE</b>	<b>-809.5</b>	<b>-112.3</b>	<b>54.9</b>	<b>100.9</b>	<b>-420.1</b>
Financing	<b>809.5</b>	<b>112.3</b>	<b>-54.9</b>	<b>-100.9</b>	<b>420.1</b>
Reserve assets	-182.2	-372.4	-508.8	-258.4	247.7
SDR and loans	15.6	26.0	-2.9	-33.8	-50.5
Exceptional financing	976.2	458.8	456.8	191.3	222.9

Source: Bank of Tanzania

## **Regional Integration**

### **East African Community**

42. The East African Community (EAC) member states continued with the implementation of Development Strategy as stipulated in the Treaty for the Establishment of EAC. Implementation of development programmes and projects went on as planned. Implementation of the EAC Customs Union Protocol started in January 2005. The Common External Tariff (CET) bands applied are 0, 10 and 25 percent. Management of the CET is under Commissioners of Customs in the Partner States.

43. With regard to fast tracking the formation of the EAC federation, partner states resolved to continue wide consultations with stakeholders in the respective countries, with the objective of consolidating national consensus on the issue. The main ingredients of the federation are customs union and a common market. So that, fast tracking of the federation, will, to some extents depend on the implementation of a common market, which is not yet in place. During 2005, the EAC Development Fund was launched. The Fund is intended to finance programmes and projects at the regional level for socio-economic development in EAC partner states.

### **New Partnership for Africa's Development**

44. African Leaders endorsed the New Partnership for Africa's Development (NEPAD) in 2001 as a programme and shared commitment to eradicate poverty and promote sustainable economic growth. Tanzania as a member of the African Union, is part of and subscribes to objectives and principles of NEPAD. Accordingly, Tanzania is poised to participate effectively and gainfully in all aspects anchored in five key themes, namely; Conditions for Sustainable Development; Sectoral Priorities; Mobilization of Resources, Partnership and Peer Review.

### **African Peer Review Mechanism**

45. Under NEPAD, African Peer Review Mechanism (APRM) for self monitoring and peer learning have been put in place. Peer review refers to the systematic assessment of the performance of a country by other states, designated institutions, or by selected group of individuals. The objective is to help a country undergoing review to improve its policy making, adopting best practices, and comply with established standards, principals, codes and other agreed commitments. It also helps in confidence building with regard to stability and predictability of policies and strategies.

46. By January 2005, twenty-three countries, including Tanzania had acceded to APRM. With respect to Tanzania, APRM was acceded in February 2005 and has already communicated with APRM Secretariat on her willingness and readiness to be reviewed. Four research institutions have been commissioned by the government to undertake studies on Governance with respect to Democracy and Political Governance; Economic Governance and Management; Corporate Governance; and Socio-Economic Development.

#### **Southern African Development Community**

47. In 2005, Southern African Development Community (SADC) celebrated the Silver Jubilee (1980-2005), whereby member states continued to pursue the common objectives and shared vision of SADC, aiming at propelling the region to greater prosperity through deeper regional integration.

48. Member States continued to implement sound macroeconomic policies and business friendly reform, aimed at putting the region on a sustainable growth path that would contribute to poverty reduction and improvement in the quality of life of the people in the region. As a result, a GDP growth rate of 4.1% for the region was registered in 2004 compared to 3.2 percent in 2003, while intra-SADC trade has increased from a mere 5 percent in 1980 to about 25 percent in 2005.

#### **Private Sector Development**

49. During 2005 the Government continued with its efforts to foster private sector development by creating conducive investment and business environment. Formulation of Private Sector Development Strategy that will guide private sector development comprehensively is ongoing.

50. The Government has continued with efforts to improve the businesses environment and reduce the burden of doing businesses in Tanzania through the implementation of the BEST Programme. The BEST Programme aims at eliminating regulatory, procedural and administrative barriers; enhancing efficiency in service delivery by the Government to the private sector; improving commercial disputes resolution; and promotion and maintenance of better partnerships between public and private sectors. The World Bank has joined the BEST programme via the SDR 65 million Private Sector Competitiveness Project, which was approved by the Executive Board during December 2005.

51. Through BEST, *the Business Activities Registration Bill* has been drafted, and read for the first time in Parliament on July, 2005 and the final draft will be presented in the Parliament on October, 2006. Once it becomes law; it will repeal the Business Licensing Act of 1972, thereby replacing the current universal licensing system with the registration system. The new registration system will facilitate the formalization of business operations, collection of data, while creating the necessary environment for voluntary registration and compliance. Regulatory reforms in labour, land, business licensing, commercial dispute resolution are at various stages of implementation. The rolling out of the BEST Programme to Zanzibar has also been completed.

52. The BEST Programme has recorded remarkable achievements in creating practical space for the private sector to contribute to the policy and legislative reform processes, by catalyzing and fostering a Public-Private Partnership spirit and thus, ownership and commitment by both the public and private sectors

#### **The Micro-Small and Medium Enterprise Project**

53. The Government is designing a Micro, Small and Medium Enterprises Project (MSMEs) aiming at promoting development of a strong and competitive private sector, by reducing the cost of doing business. The project also aims at increasing the capacity of the local private sector to participate in domestic and international markets, and improving financial services to MSMEs. The Project has three components, namely; Business Environment Strengthening; Enterprise Development; and Improving Access to Financial Services. An Implementation Manual has been prepared, to guide implementation of the project. Issuance of a national Identity Card will contribute positively to the growth of MSMEs as well as access to credit. Moreover, the Property and Business Formalization Programme (MKURABITA) will also enhance MSMEs growth.

#### **Investment**

54. During 2005, TIC approved 550 projects valued at Tshs. 1,651,063 million, compared to 454 projects valued at Tshs. 1,246,040 million in 2004. Out of the approved projects, 339 were new and 211 were expansion and rehabilitation. The projects have the potential of creating employment to 55,663 persons. The manufacturing sector continued to lead with the highest number of approved projects, and the second in employment creation opportunities. However, the agriculture sector that has the highest employment opportunities had a lesser number of approved projects during the year under review. Overall, the increase in

investments is attributed to macroeconomic stability and Government's efforts in undertaking legal and institutional reforms to support private sector growth. Table 11 below, shows the number of projects approved by TIC over the past ten years.

**Table 11: Approved Projects (1995 – 2005)**

	Approved Projects	Local Projects	Foreign Projects	Joint Projects	Total Employment	Values Tshs. (million)
1995	82	35	20	27	11,304	186,829
1996	111	49	17	45	19,745	376,979
1997	199	90	53	56	37,311	602,642
1998	213	111	46	56	35,010	447,275
1999	181	81	43	57	12,933	399,138
2000	1624	745	343	536	241,250	4,957,288
2001	220	87	53	80	24,699	1,091,805
2002	311	126	104	81	33,132	1,024,536
2003	372	155	109	108	198,458	1,669,363
2004	454	208	119	127	56,057	1,246,040
2005	550	281	131	138	55,663	1,651,063
<b>Total</b>	<b>4,317</b>	<b>1,968</b>	<b>1038</b>	<b>1,311</b>	<b>725,562</b>	<b>13,652,958</b>

Source: TIC

### Foreign Direct Investment

55. In the past five years, FDIs into Tanzania have been increasing, with an average of USD 443.74 million during the period 2001 to 2005. A survey of Private Capital Flows undertaken in 2004 by the Bank of Tanzania in collaboration with the National Bureau of Statistics and the Tanzania Investment Centre, revealed that over 72.5 percent of investors were satisfied with the investment environment. FDIs to Tanzania amounted to USD 469.9 million in 2004 compared to USD 526.8 million that was obtained in 2003. The sharp increase in FDIs in 2003 was due to huge investment in mining projects. In 2005, the FDIs value was estimated to be USD 325. The decline in estimated FDIs value in 2005 was due to the decline in investment in mining sector. Table 12 shows the trend of FDIs from 1995 to 2005. The trend is based on the revised FDIs data from 1999 to 2004. The revision in investments data was necessitated by the need of establishing actual investments on the ground compared to records of investments registered by TIC.

**Table 12: Growth of Foreign Direct Investment (FDIs) in Tanzania (1995 – 2005)**

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Value of Investment (US\$ million)	150.86	148.64	157.8	172.2	516.7	463.4	467.2	430	526.8	469.9	325

Source: MPEE, BoT

56. In promoting investment, two bills were presented to Parliament in February 2006. The first was the amendment of Export Processing Zones Act of 2002, which led to the creation of Export Processing Zones Authority (EPZA). The second bill was an enactment of the Special Economic Zones Act, 2006.

### **Privatization**

57. By end-December 2005, a cumulative total of 948 divestiture transactions had been completed since the Presidential Parastatal Sector Reform Commission (PSRC) was formed. These transactions include divestiture of 323 units and disposal of 625 non-core assets. The units were divested to Tanzanians, foreign investors and joint ventures of local and foreign investors through share sales, asset sales, leases and liquidation.

58. During 2005, a total of 136 divestiture transactions were completed, made up of divestiture of 10 units and disposal of 126 non-core assets, compared to 172 divestiture transactions made up of 26 units and disposal of 146 non-core assets in 2004. One big transaction completed in 2005 was the Share Sale Agreement for the sale of 49% of government shares in the National Microfinance Bank (NMB) to a consortium led by Rabobank Nederland of the Netherlands, which was signed on 30<sup>th</sup> September, 2005 by the government and the Consortium represented by Rabobank.

59. Privatization (concessioning) of the Tanzania Railways Corporation (TRC) was concluded on 10th March, 2006 when M/s RITES Company from India was confirmed to have won the tender to manage TRC with effect from August 2006.

60. By March 2006, there were about 36 parastatals in various stages of privatization. TANESCO was despecified from privatization due to its complexity, sensitivity and critical position in the nation's overall socio-economic development. The challenge in the electricity sub-sector is to develop additional generation capacity and to provide electricity to 90 percent of the population, currently not served. Moreover, the private sector is not expected to engage in huge capital development costs associated with development of generation, transmission and distribution. Privatization of Tanzania Fishing Company (TAFICO) will be dealt with by the Ministry of Natural Resources and Tourism. Parastatals awaiting privatization include, Tanzania - Zambia Railways Authority (TAZARA), commercial sections of Tanzania Ports Authority (TPA) excluding the Container Section which is already on lease, the National Insurance Corporation (NIC), the

Marine Services Company; and other parastatals earmarked for privatization whose process has not been initiated or has been on receivership after the investor's failure to run them as per agreed terms.

### **National Strategy for Growth and Reduction of Poverty (NSGRP)**

61. Implementation of the NSGRP or MKUKUTA started in the financial year 2005/06. MKUKUTA that focuses on outcome based interventions has three clusters namely: growth and reduction of income poverty; quality of life and social well being; and governance and accountability. After revising the Poverty Monitoring System (PMS) during PRS phase 1 (2000 – 2004) and aligning it with the broader remit of MKUKUTA, (2005 – 2010), a new monitoring system, the MKUKUTA Monitoring System (MMS) has been established, comprising of three Technical Working Groups as (TWGs), as opposed to four TWGs in the PRS 1. The new TWGs include: Census, Surveys and Routine Data; Research and Analysis; and Communication. The MMS aims at assessing implementation of MKUKUTA, just as was the case with the PMS during PRS1. A number of ongoing programmes have been aligned towards achieving overall MKUKUTA objectives, such as; the Tanzania Mini Tiger Plan 2020, Agriculture Sector Development Strategy, TASAF, BEST Programme, MKURABITA, PEDP, SEDP, etc.

### **Rural Poverty**

62. One important target of MKUKUTA is to halve the incidence of poverty by the year 2010 through enhanced growth and reduction of income inequality. Tanzania has achieved remarkable economic performance and much of it from agriculture sector, where 80% of rural population lives. Significant poverty reduction thus depends on higher growth in the rural economy, particularly in the agriculture sector. Although substantial macroeconomic achievements have realized, productivity in agriculture sector remains low, and hence making rural poverty reduction efforts futile.

63. The incidence of poverty in rural areas decreased only by 2.0 percentage points between the two Household Budget Survey (HBS) of 1991/92 and 2000/01. The survey revealed that poverty trend averaged 2.2 percent per capita growth in agriculture. In view of foregoing, sustenance of the rate to 2010 period, the MKUKUTA target of halving poverty by 2010 cannot be attained, and hence more efforts would be needed in order to achieve the overall national poverty rate of 19.0 percent by 2010.

**Table: Actual and Projected Poverty Trend 2001 – 2010<sup>8</sup>**

	1991	2001	2002	2003	2005	2006	2006	2007	2008	2009	2010	Target 2010
Rural	40.8	38.6	36.8	36.1	34.5	32.9	31.1	30.3	28.8	27.6	26	<b>20</b>
Urban	28.4	23.1	20.8	18.6	17.1	15.3	14.1	12.7	11.5	10	8.8	<b>14</b>
National	38.6	35.6	33.7	32.7	31.1	29.5	28	26.8	25.4	24.2	23.1	<b>19</b>

It has further been revealed that poverty reduction is sensitive to growth; hence the strategy must be designed to ensure high growth over the period and the need to sustain agriculture growth of at least 6 percent per annum. To ensure shared benefits from such achievements, the strategy will need to focus on promoting broad-based growth.

#### **Property and Business Formalization Programme (PBFP)**

64. The objective of the PBFP, also referred to as MKURABITA, is to facilitate the transformation of properties and businesses from the informal to the formal sector. It intends to create a property and business legal system that will empower the poor by facilitating and encouraging them to capitalize the value of their assets, and hence create an expanded market economy within the rule of law, and in the process, increasing individual or group income. The Programme will be implemented in four phases namely: Diagnosis, Reform Design; Implementation and Capital Formation and Good Governance.

65. During diagnosis that was undertaken between November 2004 and September 2005, it was established that the informal sector has assets worth USD 29.3 billion, of which USD 2.9 billion and USD 26.4 billion are extra-legal business and real estates assets respectively. Furthermore, 98 percent of all businesses and 89 percent of all properties are extra-legal. Currently, the Programme is in its second phase and is expected to be completed by end-June, 2006.

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<sup>8</sup> Based on 2.2 per capita growth on Agriculture

### **III. EMERGING MACROECONOMIC POLICY ISSUES AND STRATEGIC DIRECTIONS**

66. During 2005/06, important policy issues identified as priority agenda for the medium term were: economic growth; investment in infrastructure; pay reform and productivity; MKUKUTA implementation challenges; and the implementation of the Second Generation Financial Sector Reform. In view of their medium-term dimension, these issues remain on the priority agenda list of the Government in the forthcoming year, during which, higher emphasis will be exerted in realizing the expected outcomes.

#### **Economic Growth**

67. A sustainable higher economic growth rate is needed in order to reduce income poverty and improve social well being of the people. In order to achieve this objective, more and sustainable efforts will have to focus on the following areas:

- (i) Developing and strengthening economic and social policy reforms;
- (ii) Broadening the domestic revenue base;
- (iii) Improving agriculture sector productivity, focusing on irrigation schemes and modernizing livestock production systems and fishing;
- (iv) Increasing efficiency in the marketing and cooperative sectors;
- (v) Continuing to improve conducive business environment in order to attract both foreign and local investors, especially in the Special Economic Zones (SEZs) and Export Processing Zones (EPZs), to expand production and productivity, particularly in agriculture sector, tourism, manufacturing, and natural resources;
- (vi) Encouraging savings and investments;
- (vii) Directing more resources to areas that have greater and quick impact to economic growth, such as agriculture, infrastructure, manufacturing and energy sectors;
- (viii) Strengthening regional and international trade by increasing production of goods and services for exports in accordance with international standards;
- (ix) Continue implementation of MKURABITA;
- (x) Continue implementation of BEST Programme;
- (xi) Promotion of cluster formation and value-addition chains; and
- (xii) Promoting the development of SMEs in the rural and urban areas, for enhanced production and increased employment opportunities.

68. In order to reduce the external debt service burden, more efforts will be needed in economic management and increase in production, utilizing available resources. With the objective of reducing donor dependence syndrome, more efforts will need to be directed to enhancing domestic revenue collection.

### **Public Sector Reforms**

69. An important component of public sector reform that has, over the years, eluded implementation in earnest, is the pay reform. In effect, the public service has suffered through loss of its professionals, who after being trained through huge amounts of public funds, move to greener pastures in the private sector and those who stay do not exert themselves to their full potential, on account of low wages. For enhanced productivity and efficiency in public service, as well as ensuring professional staff retention, the Government will need to address the pay reform more vigorously. Furthermore, there is need to review training needs and bonding procedures in public service.

70. In order to consolidate decentralization by devolution to local government authorities more effort will need to focus on facilitating the local authorities in improving the design and execution of development plans, collection and analysis of statistics and monitoring and administration of revenue and expenditure. Rolling out of the Integrated Financial Management System (IFMS) to all local government authorities, will be an important instrument in enhancing financial management that is currently highly wanting.

### **Agricultural Developments**

71. Agriculture continues to be the mainstay of the economy. However, the sector is constrained by underdeveloped irrigation potentials; limited capital, inadequate extension services; poor rural infrastructure, infestations and outbreaks of crop and animal pests and diseases; limited technological capacity and dependence on rain. The Sector is also constrained by external trade shocks, unsatisfactory marketing arrangements in some areas and presence of low backward and forward linkages.

72. In order for the agriculture sector to grow at a sustainable rate, emphasis should be directed on the following:

- (i) Establishment of modern systems of irrigation schemes and livestock production;
- (ii) Improving agricultural infrastructure;

- (iii) Promoting agro-processing industries and diversified agro economy;
- (iv) Ensuring reliable extension services;
- (v) Improving credit accessibility to the farmers
- (vi) Improving market access, including quality standards information.

### **Revenue Effort**

73. Revenue effort, which was estimated at 14.3 percent of GDP<sub>mp</sub> in 2005/06, is slightly higher than that of Uganda, which was 13.4 percent, but significantly lower than Kenya's estimates of 22.8 percent of GDP. In addition, 59 percent of expenditure was financed domestically, slightly lower than Uganda and Kenya which were estimated at 60 percent and 63.6 percent respectively.

74. The Government will continue to implement rigorous tax reforms, including strengthening the administration and management of the Customs Department. In addition, the Large Tax Payers Department will be strengthened, and information gathering on non-tax revenue collected by MDAs will be improved. Furthermore, the Government will implement the National Identity Cards Project, as well as scale-up land surveys and titling.

### **Money Supply and Credit**

75. While the Bank of Tanzania will continue to manage liquidity in the economy utilizing instruments at its disposal, the Government on its part, will need to strengthen implementation of prudent fiscal policies aimed at maintaining macroeconomic stability and promotion of growth. Despite increased credit to the private sector, there remain structural problems in the economy, popularly referred to by the banking sector as *impediments or perceived risks*, which have caused interest rates - spread to remain high. The Government's continued reliance on T-Bills and T-Bonds in deficit financing has to some extent, contributed in maintaining high interest rates spread, by providing risk-free investment opportunities to the banking sector. The Government and the Bank of Tanzania will need to address these problems more vigorously, with the objective of resolving them in good time, for higher benefits on increased credit.

### **Scaling-up Investment in Physical Infrastructure**

76. The Government has taken steps on infrastructure development by reviewing progress, identifying challenges, and financing mechanisms. In this respect, the Government is charting out ways to improve and increase investment in infrastructure so as to accelerate economic growth and get out of the poverty trap, as

envisaged in the Tanzania Development Vision 2025, Millennium Development Goals (MDGs) and MKUKUTA. Given the fact that the infrastructure projects need huge amounts of resources, the Government has identified strategic areas of investment in infrastructures that have rapid multiplier effect in accelerating economic growth.

77. The areas that will be accorded priority include:
- (i) Strengthening and expanding the existing infrastructures, particularly railways and roads;
  - (ii) Investment in irrigation potential areas, and in roads and railways to facilitate transportation of agriculture products;
  - (iii) Investment in tourist attraction areas;
  - (iv) Investment in mineral deposit areas;
  - (v) Improvement of Mtwara and Tanga Ports, as well as construction of an oil pipeline from Dar es Salaam to Mwanza; and
  - (vi) Investment in ring roads in Dar es Salaam. This will involve construction of a road from Kimara to the Mwalimu J.K Nyerere International Airport, the Madale-Mbezi Luisi and improving the Morocco-Bunju; Shekilango, Old Bagamoyo and Sam Nujoma roads to four-lane standards.

### **The Environment**

78. The Government in collaboration with various stakeholders has committed itself to promoting, strengthening and sensitizing communities and individuals' participation in environmental conservation and management. During the medium term, the government will commit substantial resources in promoting sustainable management of water catchments areas and afforestation in critical highland areas. Furthermore, the Government will continue to implement the ***national waste management strategy*** in reducing, recycling and undertaking safe disposal of waste. Invariably, environmental concerns will continue to be mainstreamed in policies and strategies in all sectors of the economy.

### **Research and Development**

79. Research and Development (R&D) is an important factor in promoting economic growth, and in developing a more dynamic economy, capable of competing successfully on the international stage. Total domestic R&D allocation in Tanzania is estimated at 0.01 percent of GDP annually, which is not sufficient to cater for R&D needs. Furthermore technological transfer has been affected due to

lack of link between research and usage of the research findings. Also there is lack of proper coordination among key stakeholders in R&D particularly donors, implementing agencies (Government and/or private sector), and research and academic institutions.

80. In view of the foregoing, there is need to increase the domestic budget allocation to R&D so as to increase investment in R&D; enhance human research capacities; encourage better use of Tanzania's existing research infrastructure (research and academic institutions); develop a greater capacity for adaptation of foreign technology; and implement the research recommendations. There is also need to improve coordination of research and development in the country, in order to benefit from synergies, as well as improve participation of actors.

### **Social Services**

81. The government continues to implement the Second Health Sector Strategic Plan (2003 – 2008), which aims at improving service delivery at district level and referral hospitals. Despite the achievement obtained in the health sector, more focus should be directed at: reducing infant mortality; reducing maternal mortality; reducing under-five mortality; control of new HIV infections and ensuring accessibility to Anti-Retroviral (ARVs) drugs; and malaria controls.

82. The government in its efforts of improving the education system in the country has undertaken various programmes including Primary Education Development Programme (PEDP) and Secondary Education Development Programme (SEDP). The implementation of PEDP has increased the Gross Enrollment Ratio (GER) and Net Enrollment Ratio (NER). Successes realized in primary education continue to steer challenges in improving and developing secondary and higher education. More effort will thus be needed in order to widen and improve higher education for it to be able to face the challenges of human capital development and use available opportunities in regional and international levels.

83. The Government through the Medium Term Plan (MTP) in the water sector, has implemented various strategies and plans as per the National Water Sector Policy of 2002. Nonetheless, the challenge is accessing more people in urban and rural areas with clean water, and hence, there will be need to scale-up investment in urban and rural water supply schemes.

## **Employment Creation**

84. The Government is working out modalities to create 200,000 jobs per year. Currently, the formal sector has capacity to create 30,000 jobs per year, while the informal sector creates between 50,000 and 60,000 jobs per year. Taking into consideration investment potentials in mining, tourism and agriculture sectors, there exists great opportunities for employment creation. Furthermore, the ongoing program in promoting exports by establishing SEZs and EPZs are among the potentials in employment creation. The Government is also creating an enabling environment for promoting private sector development, including promotion of SME activities and vocational training, in order to enhance self employment opportunities.

## **The Tanzania Mini-Tiger Plan 2020**

85. The Tanzania Mini-Tiger Plan (TMTP) 2020 is a vehicle for implementing MKUKUTA and the Tanzania Development Vision 2025, designed to make Tanzania a fast growing economy in Sub-Saharan Africa. The Plan provides a unique opportunity to accelerate economic growth by adopting the East Asian Economic Development Model. The Model focuses on providing competitive business environment for the attraction of FDIs (migrating birds) as well as local investment to the Special Economic Zones (SEZs) or “ponds”. The envisaged benefits that would emanate from the Tanzania Mini-Tiger Plan include employment creation, technological diffusion, increased export earnings, as well as other externalities that will speed up the rate of economic growth. The Tanzania Mini-Tiger Plan envisages the development of about 25 or so SEZs throughout the country, but will start with a pilot project in each sector of the economy and expand the success nationwide, with the “Z-A Approach” that is from the market to production.

86. Implementation of the TMTP 2020 begun in 2005/06. A number of programmes and projects have been earmarked for immediate implementation in the medium term, including development of the Benjamin William Mkapa (BWM) SEZ – Mabibo, Dar es Salaam, Bio-Diesel - Arusha, Mchuchuma Coal Mine - Ludewa; construction of an ICT Science Park – University of Dar es Salaam and an afforestation programme in Mtwara and maybe Tanga depending on the investors.

## **Second Generation Financial Sector Reforms**

87. The financial system in Tanzania has high potential to play a significant role in the economy. The main problem is lack of Long Term Development Finance (LTDF) facilities, both in terms of legal and institutional frameworks and liquidity gap - targeting particularly on the great emerging demands from productive and supportive sectors.

88. The main challenge is thus developing viable and sustainable Development Finance Institutions (DFIs) to facilitate provision of long term development financing. More and sustained efforts need to be geared towards: establishing a legal and policy framework; identifying and quantifying needs for and sources of LTDF in productive and supportive sectors, (based on an integrated approach towards meeting economic targets); identifying and developing mechanisms for the delivery of LTDF; and developing a strategy to address the structural impediments to credit and other financial services.

## **IV: MACROECONOMIC ASSUMPTIONS, PROJECTIONS AND POLICY TARGETS FOR THE PERIOD 2006/07 – 2008/09**

89. Key macroeconomic assumptions underlying macroeconomic projections and policy targets for the period 2006/07 – 2008/09 are as follows:

- (i) Sustaining key macroeconomic indicators, including economic growth, inflation, domestic revenue, and exchange rate;
- (ii) Increased impetus in implementation of MKUKUTA and resource allocation in the areas that have rapid multiplier effects in economic growth in the medium term, such as SEZs and EPZs, MKURABITA, and Tanzania Mini-Tiger Plan 2020;
- (iii) The growth rate of agricultural sector (crops, livestock, fishing and forestry) is expected to decrease to 3.8 percent in 2006 from 5.2 percent in 2005 resulting from the impact of drought during 2005/06, and picking up in 2007 to 5.0 percent.
- (iv) The wholesale and retail trade (including tourism), transport and communication and construction sectors are expected to grow at higher rates in 2006, than in 2005
- (v) Further improvement in socio-economic reforms in the medium term, and sustaining current macroeconomic reform achievements;

- (vi) Enhancing domestic revenue collections, through tax administration reforms, improved production activities and formal business and expanded tax base.;
- (vii) Foreign inflows, including grants and concessional loans to remain at 2005/06 level, and HIPC debt relief to stay on course and multilateral debt cancellation initiative to be fully delivered;
- (viii) Increased progress in private sector development, including increased local and FDI, and further improvements in business environment; and
- (ix) A supportive monetary policy manifested in an appropriate fiscal framework, low inflation, a narrowing interest rate spread, and increased credit to the private sector.

### **Macroeconomic Projections and Policy Targets**

90. The overall macroeconomic objectives focus on implementation of MKUKUTA, in attaining the highest economic growth and the reduction of poverty. Consistent with the objectives, macroeconomic projections and policy targets for the period 2006/07 – 2008/09 are as follows:

- (i) Attain a real GDP growth of 5.9 percent in 2006; 7.3 percent in 2007, 7.7 percent in 2008 rising to 7.9 percent by 2009;
- (ii) Control Consumer Price Inflation (CPI) at below 4.5 percent by end June, 2007, consistent with major trading partners;
- (iii) Increase domestic revenue collection to the equivalent of 14.5 percent of GDPmp in 2006/07, 14.7 percent in 2007/08, and 14.8 percent in 2008/09;
- (iv) Contain the growth rate of  $M_2$  within a band that is consistent with GDP growth and inflation targets;
- (v) Maintain adequate official foreign reserves of not less than a value equivalent to seven months worth in imports of goods and non-factor service;
- (vi) Maintain a market determined realistic exchange rate, with BoT's interventions exclusively limited to smoothing wide fluctuations and/or liquidity management purposes; and;
- (vii) Accelerate reforms to the requisite legal and regulatory framework for enhancing access to credit by the private sector.

**V: PERSPECTIVE ON THE IMPLEMENTATION AND MONITORING OF EMERGING AND PRIORITY MACROECONOMIC POLICY ISSUES AND TARGETS**

91. The successful implementation of this framework requires broader participation and harnessing of resources from all stakeholders, including the Government as implementers, the private sector as partners, Non Government Organization (NGOs) and Civil Service Organization (CSOs) as supporters and active participants. Therefore, it is the responsibility of each MDAs to prepare plans and budgets based on the policy perspective and targets of this framework in the next three years, in order to attain desirable achievements in macroeconomic stability, high growth rate and sustainable economic growth, improve social well being and quality of livelihoods and achieve the objective of poverty reduction. The table below shows for implementation and monitoring of emerging and priority macroeconomic policy issues and targets.

## RESPONSIBILITY MATRIX FOR EMERGING MACROECONOMIC POLICY ISSUES

<b>Emerging Macroeconomic Policy</b>	<b>Main Actor</b>	<b>Collaborators</b>	<b>Time Frame</b>
Continuing with macroeconomic stability	MPEE	BoT, MoF	2006/07-2008/09
Developing and improving socio-economic policies.	MPEE	All MDAs	2006/07-2008/09
Broadening revenue base and improving domestic revenue mobilization	MoF	MPEE, TRA	2006/07-2008/09
Modernization of agriculture	MAFSC	PMO-RALG, MoLD, MNRT	2006/07-2008/09
Creating a conducive business environment	MPEE	All MDAs	2006/07-2008/09
Promotion of regional and international trade	MITM	MoEAC, MoFAIC, MPEE	2006/07-2008/09
Promoting SMEs	MITM	MPEE, MoF, ,BoT, PMO-RALG and MLHSD	2006/07-2008/09
Monitoring and Evaluation (M&E) of NSGRP	MPEE	All MDAs	2006/07-2008/09
Implementation of MKURABITA	PO-SH	MPEE, MITM, MLHSD, PMO-RALG	2006/07-2008/09
Scaling up investment in infrastructure	MoID	MPEE, MoF, MEM, PMO-RALG, MoW, BOT, MAFSC, MLHSD and MTNR	2006/07-2008/09
External Debt Sustainability	MoF	MPEE, BoT	2006/07-2008/09
Implementation of Pay Reform	PO-PSM	MoF, MPEE	2006/07-2008/09
Employment creation	MoLEYD	MPEE	2006/07-2008/09
Implementation of the Second Generation Financial Sector Reforms (SGFSR)	MoF	BoT, MPEE, PMO-RALG	2006/07-2008/09
Implementation of Local Government Reforms	PMO-RALG	MPEE, MoF	2006/07-2008/09
Implementation of SEDP	MEVT	PMO-RALG, MoF, MHEST, MPEE	2006/07-2008/09
Expansion of Higher Education	MHEST	MEVT, MoF, MPEE	
Monitoring and Evaluation (M&E) of Second Phase of Health Sector Reforms	MHSW	PMO-RALG	2006/07-2008/09