



THE UNITED REPUBLIC OF TANZANIA

**MACROECONOMIC POLICY FRAMEWORK**  
**FOR THE PLAN/BUDGET 2003/04 – 2005/06**

Produced by:

THE PRESIDENT'S OFFICE – PLANNING AND PRIVATIZATION  
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**Macroeconomic Policy**  
**Framework for**  
**the Plan and Budget 2003/04**  
**-2005/06**

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## **ABBREVIATIONS AND ACRONYMS**

ADB	African Development Bank
AGOA	African Growth and Opportunity Act
BOT	Bank of Tanzania
CFS	Consolidated Fund Services
CPI	Consumer Price Index
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
EBA	Everything But Arms
EPZ	Export Processing Zone
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
HIV/AIDS	Human Immune deficiency Virus/Acquired Immune Deficiency Syndrome
IDA	International Development Association
IFEM	Inter-bank Foreign Exchange Market
ILFS	Integrated Labour Force Survey
IMF	International Monetary Fund
MTEF	Medium Term Expenditure Framework
NBIP	National Business Incubator Programme
PRBS	Poverty Reduction Budget Support
PRS	Poverty Reduction Strategy
PSDS	Private Sector Development Strategy
SADC	Southern Africa Development Community
Tshs	Tanzania shillings
USD	United States Dollar

## INTRODUCTION

1. The Government has continued to implement with notable success, various policies and reforms. Significant progress has been made in macroeconomic stabilization, which has facilitated positive economic growth in recent years. The environment for growth through private sector development has also been improved. Overall GDP growth has steadily risen from 3.3 percent in 1997 to 5.7 percent in 2001, and 6.2 percent in 2002, despite a substantial deterioration in the terms of trade, notably the collapse of prices of our major traditional export crops.

2. Having achieved single-digits by January 1999, the rate of inflation has gradually declined consistently, registering 4.5 percent by June 2002, a rate that was maintained through November and dropping further to 4.2 percent by March 2003. Recent achievements in macroeconomic stability are reflected in increased official and private capital inflows and the build-up in gross foreign reserves, registering coverage of 6.3 and 8.9 months of imports of goods and services during 2001 and 2002, respectively.

3. Budgetary performance has been improving over time. Domestic resource mobilization has improved following tax administrative reforms and rationalization of the tax regime. The adoption of the Public Expenditure Review (PER) and Medium Term Expenditure Framework (MTEF), has substantially improved budget management and accountability. The MTEF has enabled strategic prioritization, extension of the coverage of integrating donor finance into the Government budget frame, and an increased shift of donor finance towards more flexible budget support, the Poverty Reduction Budget Support (PRBS). The mainstreaming of the Poverty Reduction Strategy (PRS) financing in the MTEF, has facilitated higher expenditure shares to be directed towards priority sectors.

4. Table 1, shows a summary of trends in selected macroeconomic indicators for the period 1995-2002. On the basis of recent macroeconomic performance, coupled with planned policy interventions, established trends and the world market climate, the outlook for the period 2003/04 - 2005/06 appears fairly promising.

**Table 1: Trends in Selected Macroeconomic Indicators**

	1995	1996	1997	1998	1999	2000	2001	2002
Real GDP Growth - %	3.6	4.2	3.3	4.0	4.7	4.9	5.7	6.2
Inflation - annual average - %	27.1	21.0	16.1	12.9	7.8	6.0	5.2	4.5
Exchange Rate (Tshs/USD) – annual average	574.8	580.0	612.1	664.7	744.8	808.4	876.4	978.9
Exchange Rate (Tshs/USD) – end of period	550.4	595.6	624.6	668.0	797.3	803.3	916.3	976.3
Merchandise Exports (mil. US\$) - FOB	682.9	763.8	752.6	588.5	543.3	663.3	776.4	877.0
Merchandise Imports (mil. US\$) - FOB	1340.5	1212.6	1148.0	1382.2	1497.9	1366.3	1560.5	1506.5
Export/Import ratio (Goods) - %	50.9	63.0	65.6	42.6	39.7	49.6	52.0	58.7
Overall Balance of Payments (mil. USD)	-329.5	-146.9	-220.0	-461.9	-111.8	57.7	-14.9	132.4
Current Account Balance (mil. USD)	-589.9	-265.1	-403.6	-912.4	-858.5	-529.2	-559.5	-448.9
Investment/GDP ratio - %	19.7	16.5	14.7	16.0	15.4	17.5	17.2	-
Foreign Reserves (months of imports)	1.6	2.4	3.8	3.0	4.1	5.6	6.3	8.9
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 <sup>1</sup>
Govt. Domestic Revenue (% of GDPmp)	13.2	13.5	12.6	12.5	11.3	12.2	12.2	12.3
Total Govt. Expenditure (% of GDPmp)	13.1	15.2	14.8	14.8	17.1	16.8	119.0	23.4
Fiscal Balance (before grants) - % of GDPmp	0.1	-1.7	-2.3	-2.3	-5.8	-4.6	-6.6	-4.1
Growth of Money Supply (M2) - %	26.1	11.6	11.0	11.1	15.0	12.5	12.3	13.0
Average Deposit rate - %	12.0	11.0	10.0	7.9	7.1	4.2	3.5	3.1
Average Lending rate - %	28.0	26.5	24.0	24.5	22.1	19.6	16.4	15.7
Disbursed External Debt (mil. USD)	6623.3	6600.3	6435.8	6580.3	6538.3	6312.2	6559.7	6413.4
Total Debt Stock (mil. USD) <sup>2</sup>	7754.1	7578.5	7384.6	7669.7	7624.8	7482.1	7464.0	7384.7

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

<sup>1</sup> As at end-December 2002

<sup>2</sup> Including interest on disbursed debt

## **PART I: REVIEW OF MACROECONOMIC PERFORMANCE 2002/03**

### **Economic Growth**

5. During 2002, GDP growth rate rose to 6.2 percent, from 5.7<sup>3</sup> percent in 2001. Growth in 2002 stemmed from relatively strong performance in agriculture, mining, wholesale and retail trade (including tourism), as well as manufacturing. Per capita GDP<sup>4</sup> during 2002 grew by 3.4 percent, compared with 2.8 percent recorded during 2001. GDP projections for the period up to 2006 had assumed relatively conducive weather, enhanced growth in tourism and manufacturing, sustenance of investment and successful implementation of growth generating strategies currently in place<sup>5</sup>. However, the Iraq war, coupled with expected shortfalls in food supplies due insufficient rains in some parts of the country, as reported recently, could indeed have repercussions on the national economy. Accordingly, on compilation of concrete requisite details, a revision of earlier projections would be undertaken.

6. During 2002, the agriculture sector grew by 5.0 percent, down from 5.5 percent in 2001, with most of the growth emanating from food crop production, which is a major component of the sector (having grown by 5.3 percent), livestock (3.5 percent) and fishing (6.5 percent). The growth of the mining sector rose to 15.0 percent, up from 13.5 percent in 2001, and its contribution to GDP increased to 2.7 percent, up from 2.5 percent in 2001. Wholesale and retail trade (including tourism) rose by 7.0 percent in 2002, up from 6.7 percent in 2001. Growth of the manufacturing sector was recorded at 8.0 percent, an impressive improvement, compared with 5.0 percent in 2001. As may be noted from the tables below, performance of all other sector remained relatively strong. Tables 2(a) and 2(b), show actual and projected GDP for the period 1996-2006.

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<sup>3</sup> *Adjusted from 5.6 percent reported earlier, to take account of adjustment to growth of the Construction sector for 2001 (from 6.7 percent to 8.7 percent)*

<sup>4</sup> *Based on population projections before the national census of August 2002*

<sup>5</sup> *Including the Agriculture Sector Development Strategy, Poverty Reduction Strategy, Rural Development Strategy and the Exports Development Strategy.*

**Table 2(a): Actual and Projected Real GDP for the period 1999-2006**

Tshs. mill

	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.
Agriculture	708741	726098	739942	770509	796513	840275	882090	929082	980307	1033411	1092068
Mining	20579	24097	30700	33488	38144	43293	49787	54316	59871	65640	71907
Manufacturing	111894	117489	126887	131491	137809	144647	156219	163369	174981	189088	206151
Electricity and Water	23977	24514	25870	26874	28454	29297	30204	33744	36143	39057	42151
Construction	54868	74361	65187	70866	76818	83494	92678	92185	97036	103575	111855
Wholesale and retail trade	218105	229010	239830	254114	270567	288718	308928	338298	370888	409587	453996
Transport and communication	71597	60079	79755	84403	89515	95154	101244	109855	119000	129966	142840
Finance, insurance, etc.	139058	149762	158089	164568	172291	177911	186485	200337	213598	228481	245449
Public administration	111473	115007	118114	122207	126567	130987	136307	141880	147803	154085	161212
Imputed bank serv.	-58581	-72327	-78548	-81229	-82359	-84418	-86781	-94968	-101254	-108309	-116353
<b>GDPfc</b>	<b>1401711</b>	<b>1448089</b>	<b>1505826</b>	<b>1577291</b>	<b>1654319</b>	<b>1749358</b>	<b>1857158</b>	<b>1968098</b>	<b>2098372</b>	<b>2244581</b>	<b>2411277</b>
<b>GDPfc (fiscal year)</b>	<b>1995/96</b>	<b>1996/97</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>
	1373479	1424900	1476958	1541559	1615805	1701053	1803258	1909822	2033235	2171476	2327929

**Table 2(b): Actual and projected Real GDP Growth 1996 - 2006**

	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.
Agriculture	3.9 %	2.4 %	1.9 %	4.1 %	3.4 %	5.5 %	5.0 %	5.3 %	5.5 %	5.4 %	5.7 %
Mining	9.6 %	17.1 %	27.4 %	9.1 %	13.9 %	13.5 %	15.0 %	11.1 %	10.2 %	9.6 %	9.5 %
Manufacturing	4.8 %	5.0 %	8.0 %	3.6 %	4.8 %	5.0 %	8.0 %	6.9 %	7.1 %	8.1 %	9.0 %
Electricity and Water	11.1 %	2.2 %	5.5 %	3.9 %	5.9 %	3.0 %	3.1 %	6.9 %	7.1 %	8.1 %	7.9 %
Construction	7.6 %	35.5 %	-12.3 %	8.7 %	8.4 %	8.7 %	11.0 %	4.8 %	5.3 %	6.7 %	8.0 %
Wholesale and retail trade	3.5 %	5.0 %	4.7 %	6.0 %	6.5 %	6.7 %	7.0 %	8.9 %	9.6 %	10.4 %	10.8 %
Transport and communication	1.1 %	-16.1 %	32.8 %	5.8 %	6.1 %	6.3 %	6.4 %	7.9 %	8.3 %	9.2 %	9.9 %
Finance, insurance, etc.	0.4 %	7.7 %	5.6 %	4.1 %	4.7 %	3.3 %	4.8 %	6.3 %	6.6 %	7.0 %	7.4 %
Public administration	1.6 %	3.2 %	2.7 %	3.5 %	3.6 %	3.5 %	4.1 %	4.1 %	4.2 %	4.2 %	4.6 %
<b>GDPfc</b>	<b>4.2 %</b>	<b>3.3 %</b>	<b>4.0 %</b>	<b>4.7 %</b>	<b>4.9 %</b>	<b>5.7 %</b>	<b>6.2 %</b>	<b>6.3 %</b>	<b>6.6 %</b>	<b>7.0 %</b>	<b>7.4 %</b>
<b>GDPfc (fiscal year)</b>	<b>1995/96</b>	<b>1996/97</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>
	3.9%	3.7%	3.7%	4.4%	4.8%	5.3%	6.0%	6.1%	6.5%	6.8%	7.2%

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

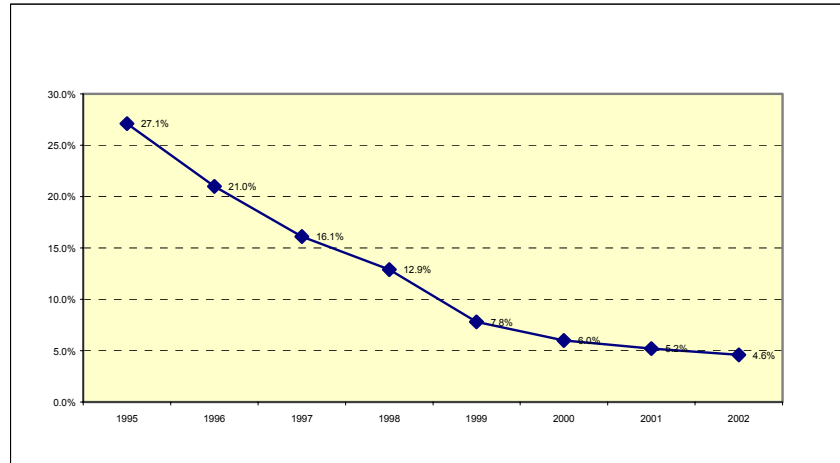


**Inflation**

7. The 12-month rate of inflation, as measured by the Consumer Price Index (CPI), has consistently continued to decline since 1999 when it notched single-digit levels. By end-December 2002, the rate of inflation was at 4.4 percent and sliding further to 4.2 percent by March 2003. The decline in inflation is attributed to improvement in food supply situation in the country, following good food crop harvests, coupled with steady implementation of conservative fiscal policies supported with a cautious monetary policy. Nonetheless, recent increases in petroleum prices are expected to exert pressure on the downward trend of inflation, if they persist.

8. In the medium term, given further improvements in food crop production and its distribution, increased productivity in agro-processing and manufacturing, and the Government's commitment in maintaining and improving the fiscal and monetary stance, the rate of inflation is targeted at 4.0 percent or lower, a rate that would be consistent with our major trading partners.

**Fig. 1: Inflation Trend**



### Government Finance

9. The Government revenue effort<sup>6</sup> has continued to improve, with collections now reaching Tshs. 100 billion per month, compared with Tshs. 25 billion per month six years ago. During the fiscal year 2001/02, Government revenue amounted to Tshs. 1,043 billion, slightly above the estimate of Tshs. 1,025 billion. The better than projected performance is attributed to higher than budgeted collections on income tax, customs duty and VAT on domestic goods and services. Higher collections from parastatal dividends also contributed to the strong revenue performance during 2001/02. A review of the three quarters of the fiscal year 2002/03 shows domestic revenue collection of 1.3 percent above estimates. Total revenue collection for the period July 2002 – March 2003 reached Tshs. 892,252.3 million compared to estimates of Tshs. 862,362 million for the period. This improved performance is mainly on account of continued higher collection on income tax and VAT on domestic goods and services.

10. In the medium term, i.e. the period up to 2005/06, revenues are projected to increase, commensurate with projected higher GDP and planned specific revenue measures. It should be noted that GDP constitutes a denominator for

<sup>6</sup> The ratio of revenue collected to GDP at current market prices. Also referred to as revenue yield.

domestic tax revenues in the budget frame. Planned revenue measures include expanding the revenue base through encouraging a shift of some informal sector activities to the formal sector, further improvements in tax administration and tightening tax exemptions through the introduction of Treasury Vouchers. Starting with the income tax legislation, tax laws will also be reviewed, with a view of rationalizing them to enhance the tax yield.

11. Government expenditure continues to be guided by the priorities set out in the Poverty Reduction Strategy. Central to the PRS are maintenance of macroeconomic stability, acceleration of pro-poor growth and creation of employment. During 2001/02, Government expenditures were broadly in line with estimates. Total Government expenditure (excluding amortization) for the fiscal year 2001/02, was Tshs. 1,556 billion, which was 5 percent below the budget estimate of Tshs. 1,642 billion. The lower than planned expenditure was mainly due to shortfalls in foreign budget support (loans and grants) and delays in Government procurement of goods and services, on account of slow adaptation to the new Public Procurement Act 2001. The shortfall in budget support was approximately USD 178 million, of the budget estimates. Notwithstanding the shortfall, priority sectors received full quarterly allocations throughout the year, in line with the respective cash flow requirements. In addition, the Population and Housing Census and HIV/AIDS priority interventions through the Tanzania Commission on Aids (TACAIDS) were fully funded. Adequate provision was also made to clear audited budgetary arrears. A review of expenditures for three quarters of the fiscal year 2002/03 (July 2002 – March 2003) shows a relatively satisfactory performance. Total expenditures for the period amounted to Tshs. 1,179,346 million, equivalent to 74.5 percent of estimates of Tshs. 1,583,530 million. Recurrent expenditures amounted to Tshs. 959,841 million, equivalent to 87 percent of estimates. Foreign financed development projects and programmes have continued to experience substantial shortfalls in financing disbursements, as well as problems in capturing some foreign disbursements in the exchequer system (especially disbursements directly to projects), which contributed to development expenditure registering only Tshs. 219,505 million, equivalent to 40.6 percent of the estimates of Tshs. 540,095 million.

12. During the medium term, the focus of fiscal policy will be to enhance domestic revenue mobilization and improving public expenditure management in line with the PRS. The revenue base will be enhanced through appropriate tax measures, including curbing tax evasion, tightening tax exemptions, and improving tax administration. Tables 3(a) and 3(b) show the actual Government Budget Frame (accounting format) outturn for the period 1996/97-2001/02 and projections for the medium term period, up to 2005/06.

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

Tshs. Mill

	1996/97 Actual	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Budget	2003/04 Budget	2004/05 Proj.	2005/06 Proj.
<b>I. TOTAL RESOURCES</b>	<b>730878.5</b>	<b>856177.4</b>	<b>973815</b>	<b>1262347</b>	<b>1410973</b>	<b>1626458</b>	<b>2,219,212</b>	<b>2,579,447</b>	<b>2,739,900</b>	<b>2,995,996</b>
Domestic revenue	572029.7	619083.1	689325.3	777644.7	929624.3	1042945	1,172,297	1,388,626	1,572,951	1,773,911
Programme loan and grants	113600	81885.8	106071	127608	153952	216171	289,072	405,047	385,194	428,748
Project loans and grants	63900	174362.3	163800	340484	251184.1	294375	624,466	472,772	667,349	667,349
Basket Support loans	0	0	0	0	0	0	0	70,982	0	0
Basket Support grants	0	0	0	0	0	0	0	123,595	0	0
Recovery from NBC Bond	0	0	0	0	0	0	5,000	0	0	0
HIPC relief IDA, IMF and ADB	0	0	0	11200	55787.09	60288	80,124	103,425	114,406	125,987
Non Bank Borrowing	4300	27274.3	44634	0	16160.39	36574	21,254	0	0	0
Bank Borrowing	-47651.2	-23605.1	8025	7900	-18654.8	-59181	9,000	10,000	0	0
Draw-down of reserves	0	0	0	0	0	0	0	0	0	0
Adjustment to cash	0	-22823	-45040.3	-2489.7	-3772.6	35286.22	0	0	0	0
Privatization Funds	24700	0	7000	0	26692.9	0	18,000	5,000	0	0
<b>II. TOTAL EXPENDITURE</b>	<b>690437.3</b>	<b>856176.5</b>	<b>973816</b>	<b>1262347</b>	<b>1410973</b>	<b>1626458</b>	<b>2,219,212</b>	<b>2,579,447</b>	<b>2,739,900</b>	<b>2,995,996</b>
RECURRENT EXPENDITURE	606308.3	669591.8	791208	902434	1124720	1281847	1,499,085	1,797,335	1,910,673	2,159,458
CFS	187880.3	249601.6	225340	266119	271615.1	271314	323,523	400,000	416,083	447,303
Debt service	164280.3	227022.2	201854	210619	209957.9	191562	244,523	315,075	331,914	357,074
interest	111580.3	101181.3	90829	128250	129610	121125	131,601	124,053	166,138	179,934
amortization	52700	125840.9	111025	82369	80347.88	70437	112,922	191,022	165,776	177,140
Others	23600	22579.4	23486	55500	61657.22	79752	79,000	84,921	84,169	90,229
Recurrent Exp.(excl. CFS)	384228	419990.2	565868	636315	820901.8	917279	1,175,562	1,397,335	1,494,589	1,712,154
O/w Salaries & wages	199228	218807	231646.5	285336	308051.6	341982	411,490	472,061	533,060	601,970

	1996/97 Actual	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Budget	2003/04 Budget	2004/05 Proj.	2005/06 Proj.
Other Charges	108816.7	109998.6	204812.5	268731	408621.1	502356	506,018	639,287	659,534	752,920
Designated Items 1/						132765.7	258,054	285,986	301,995	357,264
Payment of Arrears	34200	0	0	0	32203.25	59107	0	0	0	0
Expenditure Float	0	0	0	0	0	34147	0	0	0	0
Contingency 2/	0	0	0	0	0	0	0	9,102	55,885	51,325
DEVELOPMENT EXPENDIT	84129	186584.7	182608	359913	286253.2	344611	720,128	773,010	773,342	785,213
Projects	84129	186584.7	182608	359913	286253.2	344611	711,128	773,010	773,342	785,213
Local	20229	24026.9	18808	19429	35069.06	50236	81,662	105,662	105,993	117,864
Foreign	63900	162557.8	163800	340484	251184.1	294375	624,466	667,349	667,349	667,349
Plot Development	0	0	0	0	0	0	9,000	0	0	0

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

1/ Includes contingent expenditure that will be voted at a later stage

2/ Provision for fiscal risk

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

	1996/97 Actual	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Proj.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.
<b>I. TOTAL RESOURCES</b>	<b>17.3%</b>	<b>17.4%</b>	<b>17.6%</b>	<b>18.3%</b>	<b>16.8%</b>	<b>19.0%</b>	<b>23.4%</b>	<b>24.6%</b>	<b>23.6%</b>	<b>23.2%</b>
Domestic revenue	13.5%	12.6%	12.5%	11.3%	11.1%	12.2%	12.3%	13.2%	13.5%	13.7%
Programme loan and grants	2.7%	1.7%	1.9%	1.9%	1.8%	2.5%	3.0%	3.9%	3.3%	3.3%
Project loans and grants	1.5%	3.5%	3.0%	4.9%	3.0%	3.4%	6.6%	4.5%	5.7%	5.2%
Basket Support loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.0%	0.0%
Basket Support grants	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.0%	0.0%
Recovery from NBC Bond	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
HIPC relief IDA, IMF and ADB	0.0%	0.0%	0.0%	0.2%	0.7%	0.7%	0.8%	1.0%	1.0%	1.0%
Non Bank Borrowing	0.1%	0.6%	0.8%	0.0%	0.2%	0.4%	0.2%	0.1%	0.0%	0.0%
Bank Borrowing	-1.1%	-0.5%	0.1%	0.1%	-0.2%	-0.7%	0.00	0.0%	0.0%	0.0%
Draw-down of reserves	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjustment to cash	0.0%	-0.5%	-0.8%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%
Privatization Funds	0.6%	0.0%	0.1%	0.0%	0.3%	0.0%	0.2%	0.0%	0.0%	0.0%
<b>II. TOTAL EXPENDITURE</b>	<b>16.3%</b>	<b>17.4%</b>	<b>17.6%</b>	<b>18.3%</b>	<b>16.8%</b>	<b>19.0%</b>	<b>23.4%</b>	<b>24.6%</b>	<b>23.6%</b>	<b>23.2%</b>
RECURRENT EXPENDITURE	14.3%	13.6%	14.3%	13.1%	13.4%	15.0%	15.8%	17.1%	16.4%	16.7%
CFS	4.4%	5.1%	4.1%	3.9%	3.2%	3.2%	3.4%	3.8%	3.6%	3.5%
Debt service	3.9%	4.6%	3.6%	3.1%	2.5%	2.2%	2.6%	3.0%	2.8%	2.8%
Interest	2.6%	2.1%	1.6%	1.9%	1.5%	1.4%	1.4%	1.2%	1.4%	1.4%
Amortization	1.2%	2.6%	2.0%	1.2%	1.0%	0.8%	1.2%	1.8%	1.4%	1.4%
Others	0.6%	0.5%	0.4%	0.8%	0.7%	0.9%	0.8%	0.8%	0.7%	0.7%
Recurrent Exp.(excl. CFS)	9.1%	8.5%	10.2%	9.2%	9.8%	10.7%	12.4%	13.3%	12.9%	13.2%
o/w Salaries & wages	4.7%	4.4%	4.2%	4.1%	3.7%	4.0%	4.3%	4.5%	4.6%	4.7%
Other Charges	2.6%	2.2%	3.7%	3.9%	4.9%	5.9%	5.3%	6.1%	5.7%	5.6%

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	Actual	Actual	Actual	Actual	Actual	Actual	Proj.	Proj.	Proj.	Proj.
Designated Items	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	2.7%	2.7%	2.6%	3.8%
Payment of Arrears	0.8%	0.0%	0.0%	0.0%	0.4%	0.7%	0.0%	0.0%	0.0%	0.0%
Expenditure Float										
Contingency	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%	0.4%
DEVELOPMENT EXPENDITURE	2.0%	3.8%	3.3%	5.2%	3.4%	4.0%	7.6%	7.4%	6.7%	6.1%
Projects	2.0%	3.8%	3.3%	5.2%	3.4%	4.0%	7.5%	7.4%	6.7%	6.1%
Local	0.5%	0.5%	0.3%	0.3%	0.4%	0.6%	0.9%	1.0%	0.9%	0.9%
Foreign	1.5%	3.3%	3.0%	4.9%	3.0%	3.4%	6.6%	6.4%	5.7%	5.2%
Plot Development	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%

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



### **Public Debt Developments**

13. The national debt stock stood at USD 8,150.8 million at end October 2002, out of which external debt was USD 7,278.0 million or 89.0 percent and domestic debt was USD 872.8 million or 11.0 percent. The overall total external debt committed increased by 0.9 percent to USD 7,960.7 million recorded at end October 2002. Interest arrears also increased by 0.4 percent to USD 919.3 million at end October 2002. Total domestic debt stock owed by the government at end October 2002 stood at Tshs. 855.7 billion. Government securities constituted 94.5 percent of the debt stock while other government debts and interest arrears constituted 5.4 percent and 0.1 percent, respectively.

14. With the objective of strengthening debt management (both external and domestic), the Government launched a National Debt Strategy during August 2002. Salient features of the strategy include:

- (i) Amendments to the Government Loans, Guarantees and Grants Act 1974;
- (ii) Tightening approval procedures for foreign borrowing;
- (iii) Restricting external financing to concessional borrowing for high priority programmes, such as education, energy, infrastructure and for budget support;
- (iv) Restricting domestic financing to rolling over maturing debt and for financing specific development projects; and
- (v) Rationalizing the legal and institutional framework for debt management.

15. In managing the domestic debt stock, the Government will continue to implement its policy of non-accumulation of arrears. The menu of instruments available for the purpose of the conversion of un-securitized domestic liabilities

into marketable securities has already been expanded considerably with the launch of the 5, 7 and 10 year Treasury bonds, which are also listed on the Dar es Salaam Stock Exchange (DSE). This will, among other benefits, help to develop an appropriate benchmark for the pricing of private sector long-term debts in the economy, as well as to expand activity on the DSE.

### **Money and Credit Developments**

16. During the fiscal year 2001/02, reserve money and the broad money aggregates, M0 and M2, grew more rapidly than targeted, due to unanticipated market conditions and external developments. M2 grew by 21.3 percent against the target of 12.2 percent. The stronger expansion in reserve money and broad money is attributed to ordinary as well as extraordinary developments. There was a rapid growth in liquidity in the economy because of deposit mobilization by banks, as the new banks continued to open branches outside Dar es Salaam, and a continued decline in dollar cash holdings in the economy. However, most of the increase in reserve money and broad money occurring during January – June 2002 was a result of extra-ordinary developments:

- ❑ The transfer of funds from government's deposits at the Bank of Tanzania (BOT) to accounts of local governments in commercial banks, as a consequence, the government's net position at BOT was reduced and the stock of money increased by the same amount;
- ❑ Two non-bank institutions merged and converted to a fully fledged commercial bank, and as a consequence the deposits in this bank became part of the money stock;
- ❑ A newly – established international bank brought in sizeable capital investment to begin operations in Tanzania; and
- ❑ There was a large inflow of private capital for mining and other investment projects as well as a large amount of foreign exchange inflow connected with two large embassy buildings currently under construction.

17. For the period June-December 2002, growth in monetary aggregates was kept under relatively good control. Broad money, M2, rose by 13.0 percent during the period. On annual basis, M2 grew by 22.2 percent in December 2002, compared with 21.3 percent in the year ending June 2002. The expansion in money supply was attributed to a strong growth in international reserves of the Bank of Tanzania, increased credit to the private sector by commercial banks and increase in net claims to Government by banks. The increased credit to the private sector reflects a sustained recovery in private sector money demand, driven by steady improvements in real estate, manufacturing, transport and telecommunications, business services and wholesale and retail trade (including tourism). Despite this outturn, the proportion of private sector credit to total domestic credit declined to 68.3 percent in December 2002, from 70.4 percent recorded in June 2002.

18. In the medium term, price stability will continue to be the main objective of monetary policy, while ensuring that sufficient foreign reserves are maintained. In view of the rapid increase in the demand for money, the monetary programme envisages an increase in reserve and broad money. Treasury bill auctions will remain the main monetary policy instrument, supplemented by issue of newly-securitized government debt instruments<sup>7</sup> and foreign exchange market interventions.

**Table 4: Growth in Monetary Survey Aggregates (end-June)**

	1996	1997	1998	1999	2000	2001	2002	June-Dec 2002
<b>Base Money (M0)*</b>	<b>17.1%</b>	<b>17.2%</b>	<b>6.1%</b>	<b>2.6%</b>	<b>19.7%</b>	<b>9.3%</b>	<b>13.1%</b>	21.4%
Demand Deposits	8.9%	31.2%	-3.1%	9.6%	14.0%	21.0%	22.1%	<b>20.0%</b>
<b>Narrow Money (M1)</b>	<b>13.4%</b>	<b>23.2%</b>	<b>1.9%</b>	<b>5.7%</b>	<b>18.1%</b>	<b>15.0%</b>	<b>18.0%</b>	<b>17.6%</b>
Time Deposits	7.8%	20.8%	2.4%	15.2%	-0.4%	12.7%	27.4%	2.4%
Saving Deposits	25.4%	17.7%	19.0%	8.3%	20.3%	16.3%	26.7%	8.5%
<b>Broad Money (M2)</b>	<b>14.4%</b>	<b>21.8%</b>	<b>5.0%</b>	<b>7.9%</b>	<b>15.1%</b>	<b>14.9%</b>	<b>21.3%</b>	<b>13.0%</b>
Foreign Currency Deposits	24.9%	3.3%	20.8%	15.2%	48.1%	23.6%	24.2%	16.4%
<b>Extended Broad Money (M3)</b>	<b>16.3%</b>	<b>18.2%</b>	<b>7.7%</b>	<b>9.2%</b>	<b>21.7%</b>	<b>17.0%</b>	<b>22.1%</b>	<b>13.9%</b>
<b>Net Foreign Assets</b>	<b>47.9%</b>	<b>82.7%</b>	<b>10.0%</b>	<b>15.1%</b>	<b>49.8%</b>	<b>41.6%</b>	<b>29.2%</b>	<b>22.8%</b>

<sup>7</sup> Comprising of 5, 7 and 10 year Treasury bonds

	1996	1997	1998	1999	2000	2001	2002	June- Dec 2002
<b>Net Domestic Assets</b>	<b>-1.6%</b>	<b>-6.1%</b>	<b>5.9%</b>	<b>0.4%</b>	<b>2.3%</b>	<b>-14.5%</b>	<b>6.9%</b>	<b>3.4%</b>
Net Domestic Credit	-8.3%	-4.0%	5.0%	30.1%	22.1%	-7.1%	5.8%	21.9%
Net Claims on Government	44.2%	-6.0%	-16.7%	31.1%	22.0%	-29.8%	-24.6%	30.4%
Lending to Non-Government Sectors	-50.8%	0.8%	52.8%	29.0%	22.3%	20.7%	13.1%	18.4%
Other Items (Net)	40.6%	-14.8%	10.3%	-131.4%	367.1%	-24.7%	-2.7%	-92.0%

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

**Note: M0 Base Money or Reserve Money**

The Central Bank's liabilities in the form of (i) currency in circulation outside banks and (ii) bankers' reserves (Deposit Money Banks' domestic cash in vaults plus their required and free deposits with the Central Bank).

**M1 Narrow Money**

Consists of Currency in Circulation Outside Banks and demand deposits.

**M2 Broad Money**

It is equivalent to **Narrow Money** (M1) plus Time deposits plus Savings deposits.

**M3 Extended Broad Money**

It consists of **Broad Money** (M2) plus foreign currency deposits

19. The Government and the Bank of Tanzania are continuing to implement measures to remove impediments to lending and hence encourage banks to extend more credit to the productive sectors. While the Government has restrained itself from borrowing in the banking system, so as not to crowd-out private sector borrowing, hence, a substantial increase in credit to the private sector was recorded. The proportion of credit to the private sector to total domestic credit went up from 57.9 percent in June 2001, to 70.4 registered in June 2002. During July – October 2002, credit to the private sector increased by 16.4 percent compared with 5.7 percent in the same period in 2001.

**Table 5: Domestic Credit and Money Supply**

Tshs. Million

	Jun-99 Actual	Jun-00 Actual	Jun-01 Actual	Dec-01 Actual	%Change Jun-Dec 01	Jun-02 Actual	Dec-02 Actual	%Change Jun-Dec 02
<b>1.0 Domestic Credit</b>	<b>570411</b>	<b>697759.3</b>	<b>647341.9</b>	<b>643713.7</b>	<b>-0.1%</b>	<b>684920.4</b>	<b>835276.9</b>	<b>21.9%</b>
1.1 Claims on Government	314109	384320.9	268919.6	239201.4	-11.1%	202879.0	264608.6	30.4%
1.2 Claims on Other Domestic Sectors	256302	313438.4	378422.3	403494.2	6.63%	482041.4	570668.3	18.4%
<b>2.0 Broad Money (M2)</b>	<b>830701</b>	<b>956504.9</b>	<b>1099036.1</b>	<b>1233667.0</b>	<b>12.2%</b>	<b>1333524.2</b>	<b>1507386.5</b>	<b>13.0%</b>
2.1 Base Money (M0)	279672	463855	506847.8	584369.1	15.3%	573088.0	695701.2	21.4%
2.2 Narrow Money (M1)	508994	601193	691254.6	766019.9	10.8%	815576.3	958786.6	17.6%

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

**Financial Market Developments**

20. During the fiscal year 2001/02 weighted average lending and deposit rates fell. Lending rates declined from 19.6 percent in June 2001 to 16.4 percent in June 2002, while savings deposit rates fell from 4.2 percent to 3.5 percent during the period. With inflation rate at 4.5 percent, savings deposit rates continued to be negative in real terms. Given the stiff competition among commercial banks for prime borrowers and the differences in the perceived credit risk of borrowers, it has been possible for prime borrowers to negotiate lower lending rates with commercial banks, averaging at about 11 percent by June 2002.

21. Interest rates on domestic currency denominated deposits fell across the board between June – December 2002. Savings deposits fell from 3.5 percent in June 2002 to 3.1 percent in December 2002 and overall time deposits rate fell from 4.0 percent to 3.4 percent in the same period. Comparing with the inflation rate of 4.4 percent in December 2002, deposit rates were still negative in real terms. Lending rates also assumed a downward trend, except for short-term borrowing (up to 1 year) and term loans (over 5 years). The rates for medium-term (1-2 years, 2-3 years and long-term 3-5 year) loans dropped from 16.6 percent, 15.0 percent and 17.2 percent to 15.8 percent, 13.8 percent and 13.2 percent respectively. Consequently, the overall lending rate fell from 16.4 percent in June 2002 to 15.7 percent in December 2002.

22. The spread between lending and deposit rates narrowed only slightly and remained wide, pointing to continued presence of legal and structural rigidities, high perceived risk of business and inadequate borrower information. With the objective of promoting financial intermediation and further development of the financial sector, the Government is taking measures to remove impediments to bank lending, including improving the land registry and a possible amendment to the 1999 Land Act that would facilitate collateralization of land.

23. In recent years, the exchange rate of the Tanzania shilling, which is freely determined in the Inter-bank Foreign Exchange Market – IFEM, has been fairly volatile. In line with market developments, the shilling depreciated against the USD by 7.6 percent from Tshs. 888.9 per USD at end-June 2001, to Tshs. 956.8 per USD at end-June 2002. In between the period, the shilling experienced swings in depreciation, notching close to Tshs. 990 per USD. Depreciation of the shilling during 2001/02 was triggered by a shortage of foreign exchange in the market, due to decreased receipts from traditional exports and increased demand for imports. In the medium term, the exchange rate for the Tanzania shilling is expected to reflect developments in the IFEM.

#### **External Sector**

24. During 2002, Tanzania's merchandise exports increased by 13.0 percent to USD 877.04 million, from USD 776.4 million recorded during 2001. This increase is largely explained by a 23.8 percent increase in non-traditional exports, particularly minerals, manufactured goods, fish and fish products. Traditional exports continued to decline by 12.8 percent, having recorded export earnings of USD 201.46 million, compared with USD 231.05 million in 2001. This performance of traditional exports is the worst in recent years, mainly due to lower export prices in the world market for coffee, cotton and cashewnuts, coupled with a decline in export volumes.

25. Mineral exports, that accounted for 38.9 percent of total exports during 2001, increased by 23.3 percent to USD 372.78 in 2002, which is equivalent to 42.5 percent of total exports for the year. Likewise, manufactured goods increased

by 19.5 percent to USD 67.10 million from USD 56.17 million recorded during 2001. Fish and fish products increased by 20.7 percent to USD 116.76 million from USD 96.77 million in 2001.

26. The non-traditional exports share to total exports increased to 77.0 percent in 2002 from 70.3 percent recorded during 2001. The increase in the share of non-traditional exports is attributed to an increase in gold exports. The share of gold to total mineral exports in 2002 increased to 88.4 percent from 84.1 percent recorded in 2001 as a result of commencement of operations by Kahama Gold Mining Corporation (T) Ltd and Afrika Mashariki Gold Mines in Mara during 2001 and 2002. Notwithstanding the recent increase in gold exports, its impact on the current account and the overall Balance of Payments has been offset by huge import requirements in the initial years, since gold exploration and production requires imported heavy machinery and other equipment, resulting in an increase in imports, thus dampening the positive impact of increase in exports.

27. The improvement in exports of manufactured goods, including cotton yarn and other manufactured goods indicates a recovery of the manufacturing sector following restructuring and privatization of a large number of parastatals, coupled with new investments in the sector.

**Table 6: Value, Volume and Price of Traditional and Non-traditional Exports**

	1999	2000	2001	2002	Change 2001/02
<b>Traditional Exports:</b>					
Coffee					
<b>Value</b>	<b>76.63</b>	<b>83.7</b>	<b>57.05</b>	<b>35.14</b>	<b>-38.4%</b>
Volume	39.02	54.5	48.39	35.43	-26.8%
Price per unit	1963.80	1537.3	1179.06	991.95	-15.9%
Cotton					
<b>Value</b>	<b>28.46</b>	<b>38</b>	<b>33.7</b>	<b>28.15</b>	<b>-16.5%</b>
Volume	26.31	36.8	36.82	33.30	-9.6%
Price per unit	1081.80	1031.3	915.26	845.48	-7.6%
Sisal					
<b>Value</b>	<b>7.26</b>	<b>5.6</b>	<b>6.68</b>	<b>6.65</b>	<b>-0.4%</b>
Volume	15.47	13.3	13.86	12.46	-10.1%
Price per unit	469.17	420.8	482	533.87	10.8%
Tea					
<b>Value</b>	<b>24.65</b>	<b>32.7</b>	<b>29.03</b>	<b>29.35</b>	<b>1.1%</b>
Volume	21.40	22.6	22.96	23.63	2.9%
Price per unit	1151.74	1450	1264.45	1242.21	-1.8%
Tobacco					
<b>Value</b>	<b>43.44</b>	<b>38.4</b>	<b>35.69</b>	<b>50.50</b>	<b>41.5%</b>
Volume	21.35	19.2	18.72	24.05	28.5%
Price per unit	2034.44	1997.8	1906.17	2099.74	10.2%
Cashew nuts					
<b>Value</b>	<b>100.89</b>	<b>84.4</b>	<b>56.58</b>	<b>46.26</b>	<b>-18.2%</b>
Volume	102.04	102.4	95.04	78.37	-17.5%
Price per unit	988.78	824.5	595.38	590.29	-0.9%
Cloves					
<b>Value</b>	<b>19.86</b>	<b>10</b>	<b>12.32</b>	<b>5.40</b>	<b>-56.2%</b>
Volume	6.21	2.9	2.45	1.22	-50.2%
Price per unit	3200.34	3443.6	5026.85	4414.97	-12.2%
<b>Sub-total (Value)</b>	<b>301.18</b>	<b>292.8</b>	<b>231.05</b>	<b>201.46</b>	<b>-12.8%</b>
<b>Non-Traditional Exports (Value)</b>					
<b>Minerals</b>	<b>73.26</b>	<b>178.2</b>	<b>302.23</b>	<b>372.78</b>	<b>23.3%</b>
Gold	34.77	112.7	254.07	329.43	29.7%
Diamond	20.05	42.2	27.08	21.92	-19.1%
Other Minerals	18.44	23.3	21.08	21.43	1.7%
<b>Manufactured Goods</b>	<b>30.05</b>	<b>43.4</b>	<b>56.17</b>	<b>67.10</b>	<b>19.5%</b>
Cotton Yarn	1.81	3.5	2.5	3.18	27.2%
Manufactured Coffee	0.81	0.9	0.72	0.72	0.0%
Manufactured Tobacco	0.82	0.1	0.13	0.00	-100.0%
Sisal Products (Yarn and Twine)	5.12	4.5	2.54	1.99	-21.7%
Other manufactured goods	21.49	34.4	50.28	61.20	21.7%
<b>Fish and Fish Products</b>	<b>56.75</b>	<b>76.3</b>	<b>96.77</b>	<b>116.76</b>	<b>20.7%</b>
<b>Horticultural Products</b>	<b>8.88</b>	<b>9.7</b>	<b>11.01</b>	<b>10.86</b>	<b>-1.4%</b>
<b>Other Exports</b>	<b>72.74</b>	<b>62.9</b>	<b>79.34</b>	<b>108.09</b>	<b>36.2%</b>
<b>Sub-total (Value)</b>	<b>241.67</b>	<b>370.5</b>	<b>545.52</b>	<b>675.58</b>	<b>23.8%</b>
<b>Grand Total (Value)</b>	<b>542.85</b>	<b>663.3</b>	<b>776.37</b>	<b>877.04</b>	<b>12.9%</b>

Volume in '000 tons; Value in '000,000 USD; Unit Price in USD/ton  
Source: Bank of Tanzania, President's Office - Planning Privatization



28. During 2002, merchandise imports (at f.o.b) decreased to USD 1506.5 million, from USD 1560.5 million registered during 2001. The decrease in the value of imports is attributed to a 2.7 percent and 4.4 percent decrease in capital and intermediate goods, respectively. A decrease in imports of machinery (by 9.5 percent) and white oil products (by 11.4 percent) account for the decreases in imports of capital and intermediate goods respectively. Imports of consumer goods also declined by 3.7 percent during the period, mainly attributed to a 13.6 percent decline in imports of food and foodstuffs.

**Table 7: Tanzania Imports by major category**

USD million

Import Category	1999	2000	2001	2002	Change 2001/02
<b>Capital goods</b>	<b>770.1</b>	<b>638.7</b>	<b>739.7</b>	<b>719.7</b>	<b>-2.7%</b>
Transport Equipments	297.0	228.7	189.8	218.1	14.9%
Building and constructions	132.0	128.9	144	134	-6.9%
Machinery	341.1	281.1	406	367.6	-9.5%
<b>Intermediate Goods</b>	<b>240.9</b>	<b>319.7</b>	<b>440.8</b>	<b>421.3</b>	<b>-4.4%</b>
Oil imports	107.9	142.9	220.7	195.6	-11.4%
o/w: Crude oil	77.9	131.9	0	0	
White oil products	30.0	11.0	220.7	195.6	-11.4%
Fertilizers	13.5	16.8	15.5	20.1	29.7%
Industrial raw materials	119.5	160.0	204.6	205.6	0.5%
<b>Consumer Goods</b>	<b>552.4</b>	<b>576.7</b>	<b>534.2</b>	<b>514.6</b>	<b>-3.7%</b>
Food and Food stuffs	176.4	183.0	169.4	146.3	-13.6%
All other consumer goods	376.0	393.7	364.8	368.3	1.0%
<b>Grand Total (C.I.F)</b>	<b>1664.3</b>	<b>1535.1</b>	<b>1714.8</b>	<b>1655.4</b>	<b>-3.5%</b>
<b>Grand Total (F.O.B)</b>	<b>1497.9</b>	<b>1366.3</b>	<b>1560.5</b>	<b>1506.5</b>	<b>-3.5%</b>

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

29. Tanzania is participating in regional integration processes within the East African Community (EAC) and the Southern African Development Community (SADC). Negotiations leading to an EAC customs union are ongoing, and the protocol for the East African Customs Union are expected to be concluded by the end of 2003. In due course, the trading patterns in these regional integration

arrangements have to be established to track evolution in trade performance and macroeconomic implications for the economy of Tanzania.

**Table 8: Balance of Payments**

USD mill.

	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Provisional
<b>Goods Balance</b>	<b>-657.6</b>	<b>-448.8</b>	<b>-395.4</b>	-793.7	-954.6	-703.1	-784.1	-629.46
Exports (fob)	682.9	763.8	752.6	588.5	543.3	663.2	776.4	877.04
Imports (fob)	1340.5	1212.6	1148.0	1382.2	1497.9	1366.3	1560.5	1506.5
Service balance	-216.9	-278.8	-317.9	-463.1	-158	-86.8	-34.5	19.2
Receipts	582.9	537.1	482.4	538.8	622.0	643.8	679.3	583.0
Payments	799.8	815.9	800.2	101.9	780.0	730.6	713.8	563.8
Income	-110.3	-72.0	-121.8	-91.9	-82.5	-89.6	-55.7	-146.3
Receipts	31.8	41.5	43.0	44.4	49.0	50.4	69.2	57.9
Payments	142.1	113.5	164.8	136.3	131.5	140.0	124.9	204.2
Current transfers	338.4	338.4	431.5	427.3	336.6	350.2	314.9	305.0
Inflows	370.7	370.7	499.1	454.2	445.6	423.1	384.8	357.3
Government	236.0	236.0	433.6	421.0	411.4	387.2	347.1	312.1
Other Sectors	134.7	134.7	65.6	33.8	34.2	35.9	37.7	45.2
Outflows	32.3	32.3	67.7	26.9	109.0	72.9	70.0	52.3
<b>CURRENT ACCOUNT</b>	<b>-646.4</b>	<b>-461.2</b>	<b>-403.6</b>	<b>-921.3</b>	<b>-858.5</b>	<b>-529.3</b>	<b>-559.4</b>	<b>-451.56</b>
Capital Transfers	191.0	191.0	270.9	252.4	270.6	373.9	436.1	385.4
Inflows	191.0	191.0	270.9	252.4	270.6	373.9	436.1	373.3
Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	139.5	0.3	236.2	-134.6	614.1	572.6	-63.2	303.2
Direct Investment <sup>#</sup>	150.0	148.5	157.8	172.2	516.7	463.4	327.2	240.4
Portfolio Investment	0.0	0.0	0.0	20.5	0.7	0.0	0.0	0.0
Other Investment	-10.5	-148.2	78.4	327.3	367.0	109.2	-390.4	62.8
Errors and Omissions	-66.1	38.8	-323.5	341.6	-138.0	-359.7	151.2	-107.2
<b>OVERALL BALANCE</b>	<b>-382.0</b>	<b>-231.2</b>	<b>-220.0</b>	<b>-461.9</b>	<b>-111.8</b>	<b>57.7</b>	<b>-35.3</b>	<b>129.84</b>
Financing	382.0	231.2	220.0	461.9	111.8	57.7	35.3	-129.84

Source: Bank of Tanzania

**NOTE: #** The valuation of Foreign Direct Investments for years 1999-2002 was revised (to figures in the table) following findings of a study on the same undertaken by the Bank of Tanzania, National Bureau of Statistics and the Tanzania Investment Centre.

### **Poverty Reduction Strategy**

30. Tanzania is in the second year of implementing the Poverty Reduction Strategy (PRS). Central to the PRS are the maintenance of macroeconomic stability, acceleration of pro-poor growth and creation of employment opportunities. A second annual progress report is in the final stages of publication, having harnessed the final inputs from the Consultative Group Meeting with the donors held in December 2002. The progress report is a synthesis of inputs generated under the *Poverty Monitoring Master Plan* launched in 2001. The report includes a description of the poverty status, development of new poverty baselines, and a review of poverty indicators and targets, on the basis of the full results of the *Household Budget Survey* (HBS) and the *Integrated Labour Force Survey* (ILFS) conducted during 2000/01. The report also draws on the *Poverty and Human Development Report* (PHDR)<sup>8</sup>, prepared under the poverty monitoring system and from other participatory processes, including the *Public Expenditure Review*.

31. The Household Budget Survey (HBS 2000/01) has revealed that 18.7 percent of the Tanzanian population lie below the *food poverty line* and 35.7 percent below the *basic needs poverty line*. There are however, significant differences between Dar es Salaam, other urban areas and the rural areas. Among the total poor population, the proportion of the urban poor is only 13.0 percent, compared to 87.0 percent in rural areas. The status of poverty in Tanzania may thus be characterized as follows:

- (i) With the exception of Dar es Salaam, poverty levels have not decreased significantly over the last decade.
- (ii) The poverty burden has continued to weigh heavily on the rural population;
- (iii) Inequality has increased, notably higher in Dar es Salaam.

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<sup>8</sup> *The first of its kind in Tanzania, that informs and advises the Government on the implementation of various aspects of the poverty reduction strategy*

32. The apparent immediate challenges of PRS include:
- The policies should consider more specific targeting in PRS implementation, that is setting explicit targets for specific population groups or parts of the country;
  - The poverty monitoring system need to be sharpened to ensure that it tracks poverty status in a disaggregated manner to enable it to provide evidence on the distributional aspects of the PRS;
  - Creation of economic opportunities for young people, both because of the potential of young people to contribute to economic growth and of the risks involved in large numbers of young people who feel disenfranchised;
  - Creating an enabling environment for the urban informal sector which minimizes existing disincentives.

### **Population and Housing Census**

33. In August 2002, a Population and Housing Census was conducted in Tanzania. While full details of the findings are still being processed, aggregated summary findings show that, since the last census in 1988, the population of Tanzania has grown from 23,095,878 persons<sup>9</sup> to 34,671,453 persons in 2002. The increase in population represents an inter-censal growth rate of 2.9 percent. The average household size, calculated by dividing the total number of persons by the total number of households, has decreased from 5.2 persons per household in 1988 to 4.9 persons per household in 2002.

### **Structural Reforms and Private Sector Development**

34. The Government has demonstrated commitment to develop a liberalized private sector-led market economy. Thus, the primary objective of the privatization policy has been to facilitate disengagement of the Government from

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<sup>9</sup> Includes both mainland Tanzania and Zanzibar. For mainland Tanzania, the population has grown from 22,584,607 persons in 1988 to 33,667,659 persons in 2002, equivalent to an inter-censal growth rate of 2.9 percent.

direct ownership and responsibility in the productive sectors, so that public resources can be directed towards sustainable improvement of social and economic infrastructures and regulation of economic activities in the country.

35. The parastatal sector reform programme continues to make substantial progress. The focus now is on privatization of large utilities and banks, including the Tanzania Electric Supply Company (TANESCO), Tanzania Railways Corporation (TRC), the Tanzania Harbours Authority (THA), and the National Microfinance Bank (NMB). Divestiture of Air Tanzania Corporation (ATC) and the Dar es Salaam Water and Sewerage Authority (DAWASA), was concluded during December 2002 and February 2003 respectively.

36. Considerable progress has been made in the implementation of the privatization policy as a whole, with the result that 259 public enterprises/companies (comprising of two-thirds of all public enterprises) and 210 non-core assets, have already been placed in the hands of the private sector by June 2002. A substantial number of these enterprises have been refurbished and are currently operating efficiently, providing goods and services to the public satisfactorily and making significant contribution to the economy. Table 9 shows a sample of privatized companies/firms whose contribution to government tax revenues has increased, while table 10 shows dividend receipts during the year 2001/02 from privatized firms in which the government has shares.

**Table 9: Government Tax Revenue from Privatized Enterprises**

COMPANY	DIVESTITURE YEAR	TAXES PAID BEFORE DIVESTITURE (Tshs. millions)	TAXES PAID DURING 2000/01 (Tshs. millions)
Morogoro Canvas Mill	1998	-	205
Mtibwa Sugar Company	1998	(400)*	800
Tanzania Breweries Ltd.	1993	15,000	58,000
Tanzania Cigarette Company	1996	19,000	37,000
Kibo Paper Industries (TLL)	1999	-	662

\* Arrears

**Table 10: Government Dividends from Privatized Enterprises**

COMPANY	DIVIDENDS RECEIVED DURING	
	2001/02	(Tshs. million)
Tanzania Breweries Ltd		3,486
Tanzania Cigarette Company		1,688
Tanzania Harbours Corporation		1,500
DAHACO		698.4
Tanga Cement Co.		341.5
Tanzania Portland Cement (Wazo Hill)		315.5

37. Out of the 259 privatized enterprises, 135 have been acquired 100 percent by Tanzanian investors, out of the 210 non-core assets divested, 180 were acquired by Tanzanians through a competitive open tender system. Privatization of core and non-core assets of public firms is done separately. Some of the enterprises were closed down for several years before privatization, but have now been revived, and have improved their performance, increased productivity and quality of their products. Examples of the well performing enterprises acquired by local investors include; Sabuni Detergents Ltd (manufacturers of FOMA detergents and bar soaps), Morogoro Canvass Mill, Mtibwa Sugar Estate, Mbeya Electric Pole Plant, Blanket and Textile Manufactures Ltd, TLL (formerly Kibo Paper Ltd), New Mwanza Hotel Ltd, Kunduchi Beach Hotel, Lion Wattle Extract, Mponde Tea Factory, tea factories in Rungwe and Handicraft Marketing Co. Ltd (HANDICO).

38. The Government sold 35 percent of its shares in the Tanzania Telecommunication Company (TTCL) during 2001 to foreign investors and the process of unbundling TANESCO into autonomous commercial entities is ongoing. A private management company, which took over in April 2002, has begun to improve the finances of TANESCO. Privatization of Air Tanzania Corporation (ATC) and DAWASA were concluded during December 2002 and February 2003 respectively, while the process of privatizing the Tanzania Railway Corporation (TRC) is at an advanced stage. The Government budget for 2002/03 has made adequate provisions for payment of retrenchment benefits to employees who may be retrenched in the process of restructuring and/or privatization.

39. With the objective of enhancing private sector investment, the Government has strengthened the effectiveness of the Tanzania Investment Centre (TIC) in promoting and facilitating private investment. The TIC has been restructured, with its role transformed from granting investment certificates and tax incentives, to providing services of a modern investment facilitation centre. During the year 2000 and 2001, various steps were taken to enhance TIC's role in investment facilitation, including visits to sites of ongoing investments, setting up a computerized investor-tracking system and handling new enquiries within 48 hours and all new applications within one week.

40. During January – December 2002, TIC approved 311 private sector investment projects in the manufacturing sector worth Tshs. 1,024,536 million, compared to 220 projects worth Tshs. 1,091,805 million approved in the same period in the year 2001. Out of 311 projects, 126 were locally owned, 104 foreign owned and 81 were joint ventures. New projects approved were 206, while 105 projects needed major expansion and rehabilitation. These projects have the potential to employ 33,132 people. A total of 102 projects, worth Tshs. 193,072 million, were registered in the manufacturing sector, out of which 35 were local, 42 foreign and 26 joint ventures.

41. With the objective of enhancing active participation of stakeholders in private sector development, the Government has established a formal consultative mechanism with the private sector through the formation of the Tanzania National Business Council (TNBC). Subsequently, there has been dialogue between the Government and the private sector on various development issues. Issues emerging from such dialogue that have been acted upon by the Government include the following:

- Establishment of the Export Credit Guarantee Scheme;
- A comprehensive review of the micro credit schemes;

- ❑ Involving the private sector in negotiations for the East African Community and the SADC trade agreements;
- ❑ The Government has taken steps to enable Tanzania to benefit from international and regional risk guarantee schemes;
- ❑ Nuisance taxes have been reduced;
- ❑ The Government has reduced conditions for issuance of business licenses; and
- ❑ Views from various stakeholders on inadequacies in the Land Act of 1999, including collateralization are being processed for possible revision of the Act.

42. Cognizant of the importance of an effective Government/private partnership, the BEST programme (Business Environment Strengthening in Tanzania) has been approved and will be launched in June 2003, aiming at providing an *enabling environment* for private sector development, i.e. a better policy, administrative, legal, regulatory and judicial environment.



## **PART II: EMERGING MACROECONOMIC POLICY ISSUES AND THE STRATEGIC DIRECTIONS**

### **Sustained Economic Growth**

43. Having recorded notable macro-economic stability and some improvement in the social service delivery, the main challenge for the economy of Tanzania is to attain more significant strides in poverty reduction and sustained economic growth. The main issues to be addressed in this connection in the medium term, include the following:

- ❑ To sustain and deepen macroeconomic stability;
- ❑ To attain broad-based sustained growth rates of more than 8 percent per annum;
- ❑ Strengthen and consolidate the quantity, quality and accessibility of social service delivery;
- ❑ To expand and strengthen infrastructure to stimulate growth and investment;
- ❑ To enhance capacity in preparing, implementing and monitoring PRS programmes at the local government level; and
- ❑ To dynamize macro-micro linkages towards pro-poor outcomes/impact;

44. The medium-term pro-poor growth strategy, lies in the implementation of the Agricultural Sector and Rural Development programmes and the National Microfinance Policy. Further strengthening of the investment climate will attract private capital and technology that is required in lifting productivity in agriculture and industry, particularly through small and medium-size enterprises (SMEs). In that connection, there will be need to achieve sustainable improvement in infrastructure, notably transport, communication and energy, as well as

eliminating remaining weaknesses in the regulatory framework and public administration.

### **Credit to Micro and Small Enterprises**

45. Currently, the micro and small<sup>10</sup> enterprises sector employs the majority of the poor. This sector therefore, needs to be given priority in the national plans, especially in eradication of poverty. This sector is characterized by the following features; micro and small enterprises are perceived as high risk from the perspective of the lenders due to inherent lack of entrepreneurial skills to run businesses on sound financial terms and discipline, inability of borrowers in the sector to prepare and present applications that meet bank requirements; and inability of micro and small enterprises to fulfill the collateral requirements in borrowing.

46. There are a number of schemes providing micro credit to the poor in the country, including Youth Development Fund (YDF), Women Development Fund (WDF), Small Entrepreneurs Loan Facility (SELF), National Income Generating Programme (NIGP), Presidential Trust Fund (PTF), Agricultural Inputs Trust Fund, (AITF) National Entrepreneurship Development Fund (NEDF), Community Development Trust Fund (CDTF), etc. These schemes use several approaches, the most common being through solidarity groups as collateral. Credit providers include NGOs (e.g. PRIDE, MEDA, Poverty Africa etc), Co-operative societies, SIDO, the Government and banks. Indeed, the Microfinance Policy and its regulations should be the umbrella guiding framework which enhances access of individuals, micro and small enterprises to these credit windows.

### **Poverty Reduction Strategy Priorities**

47. In the medium term, the Government will have to achieve the targets and outcomes outlined in the PRS Progress Report and maintain policy interventions, including budgetary allocations that reflect established priorities (education, rural

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<sup>10</sup> *In the context of Tanzania's Small and Medium Enterprises (SME) Development Policy, **micro enterprises** are those employing up to 4 people, in most cases family members, or employing capital amounting up to Tshs. 5.0 million. The majority of micro enterprises fall under the informal sector. **Small enterprises** are mostly formalized undertakings engaging between 5 to 49 employees, or with capital investment from Tshs. 5.0 million to Tshs. 200 million.*

roads, water and sanitation, health, agriculture, judiciary). The Poverty Monitoring System needs to take root in priority areas and at all levels with established tracking mechanism and indicators. Furthermore, more concrete measures should be undertaken in mainstreaming the priority cross-cutting issues (HIV/AIDS, gender, environment, governance) in the planning and budgeting processes, as well as in implementation.

### **Structural Reforms and Private Sector Development**

48. The Government has to continue improving the environment for private sector investment and business in the country, including amending pertinent laws, procedures and regulations and expanding areas for private sector participation. Indeed, for the private sector to be an engine of growth, private sector policies and strategies will need to focus on:

- (i) Facilitating increased private investment in the country;
- (ii) Increased employment and incomes, especially through SMEs; and
- (iii) Improved investor perception of the country's legal and regulatory framework.

49. In addressing the challenges of private sector development, the Government will have to develop a comprehensive Private Sector Development Strategy (PSDS) that will provide direction for structured development of the private sector, which is poised to be the engine of economic growth, following the contraction of the public sector. The PSDS, to be developed during 2003/04, will review and integrate all existing sector policies as well as provide an integrated monitoring and evaluation mechanism to ensure that all remaining constraints impeding the development of a strong and vibrant private sector are adequately addressed.

50. During 2003/04, the Government will commence implementation of the SME policy through implementation of the National Business Incubator

Programme (NBIP), that is under preparation. The NBIP aims at facilitating start-up and husbandry of SMEs dealing with innovative new products and processes, as envisaged in the approved policy.

51. The progress of structural reforms is on course. However, for such reforms to succeed and have full impact, there are additional measures that will need to be implemented quickly. The additional measures include the establishment of effective and efficient regulatory mechanisms in some key areas, such as public utilities, the liberalization of land and the labour markets and further reforms in the financial system, to ensure availability of development finance for enterprises of all sizes. In that connection, the law establishing the legal, regulatory and supervisory framework for microfinance operations has to be completed expeditiously.

52. While the Government has in principle agreed to allow foreign participation in the Dar es Salaam Stock Exchange, the modalities that will guide foreign investors' dealings and institutional arrangements for monitoring private capital inflows, as well as the respective regulations that will provide the necessary safeguards, are yet to be put in place by the Bank of Tanzania. There will be need to expedite the requisite processes, taking account of international consensus on best practice for globalized capital markets.

53. In recent years, traditional agricultural exports have continued to decline due to both volume and price factors, in view of relatively low *producer prices*, resulting from low *world market prices*. The decline in producer prices relative to their *cost of production* continues to demoralize the farmers, who are now paying less attention to their farms, and hence lower levels of production. Notably, however, the situation is mitigated by the increasing importance of non-traditional exports. In view of the foregoing, where practical, farmers should be encouraged to respond to persistent market demand conditions rather than sticking to (sometimes forced) traditional export crops, while exclusively holding productive land, they are no longer capable of supporting their livelihoods.

54. For some years since the mid-90s, the Bank of Tanzania has managed to control monetary expansion, with the resulting consistent decline in non-food inflation. Nonetheless, with the deepening of reforms in the financial sector, there is an increase in the components of money supply that cannot be easily controlled by the BOT, e.g. net foreign assets held by commercial banks and foreign deposits has resulted into growth rates of M3 that are beyond targeted growth bands. So that, while M3 is targeted to grow within the 9–11 percent band, the actual turnout is growth of above 20 percent. The foreign exchange market operations (in the Inter-Bank Foreign Exchange Market – IFEM) are more or less free, with limited interventions from the Bank of Tanzania, which has resulted into autonomous movements in foreign exchange rates, that subsequently influence the valuation of components of money supply that are denominated in foreign currency, in effect adding to the volatility of money supply, expressed in M3. In view of the foregoing, the BOT has shifted to broad money – M2, in targeting money supply in the implementation of monetary policy.

**PART III: MACROECONOMIC TARGETS AND PROJECTIONS  
FOR THE PLAN AND BUDGET 2003/4 – 2005/6**

55. Broadly stated, Macroeconomic policy objectives aim at putting in place a sound and stable macroeconomic environment, that is conducive to attaining high levels of domestic savings and investment, promoting price stability and management of macroeconomic balances. Specifically, the macroeconomic objectives for 2003/04 – 2005/06 aim at attaining:

- ❑ Real economic growth of 6.3 percent in 2003 and rising gradually to 7.4 percent by the year 2006;
- ❑ Inflation rate of 4.2 percent by end-June 2003, declining to below 4.0 percent thereafter for it to be consistent with inflation rates obtaining in Tanzania's major trading partners;
- ❑ Growth in domestic revenue collection at equivalent to 13.2 percent of GDP, at current market prices in 2003/04, 13.5 percent in 2004/05 rising to 13.7 percent by 2005/06;
- ❑ A decline, in broad money supply ( $M_2$ ), consistent with GDP growth and in inflation targets;
- ❑ Expansion of credit to the private sector in order to support private sector-led growth; and
- ❑ Maintain foreign reserves above the equivalent of 5.0 months of imports of goods and non-factor services.

56. The magnitude of economic growth rates will emanate mainly from an increase in production in the agriculture sector which is expected to grow on average by 5.4 percent. Also, the beginning of implementation of the Agriculture Sector Development Strategy and Agricultural Sector Development Programme as

well as improvement in performance of some sectors, in particular, enhanced agro-processing and industrial production, and mining, will contribute to accelerating economic growth in the medium term.

57. In order for the government to succeed in increasing domestic revenue and adhering to its budget, efforts will dwell in the following: Continuing with tax restructuring in some areas so as to improve the entire tax structure and creating attracting environment in some sectors in order to increase the national income and remove inconveniences among tax payers of all categories; To put in place the tax structure which stimulate and attract investors and exporters without affecting government revenue collections; Completing preparations and implementations of rationalizing tax and various fees of local government in order to create conducive environment for the people in their efforts to produce goods and services; and Increasing and improving administration of non tax revenue and public Corporation dividends.

58. Monetary and domestic credit policies will continue to stress in controlling inflation. Auctioning of government securities will continue to be the main instrument of monetary policy. Other monetary policy instruments include repurchase operations with commercial banks and the issue of newly securitized government debt. Private sector credits will be increased in order to fuel development which emanate from that sector. In order to increase the flow of investment in the country, a plan for allowing foreign investors to participate in the stock market need to be operationalized with necessary safeguards to local investors and national interests.

59. The government shall facilitate and put in place measures to enhance provision of credit to small and micro enterprises as well as promote entrepreneurial skills to individual and groups of producers and business operatives.

60. A comprehensive export development action plan shall be put in place to optimize generation of foreign exchange earnings from the opportunities of AGOA, EBA, EPZ, EAC, and SADC.