

2005/06

BUDGET DIGEST

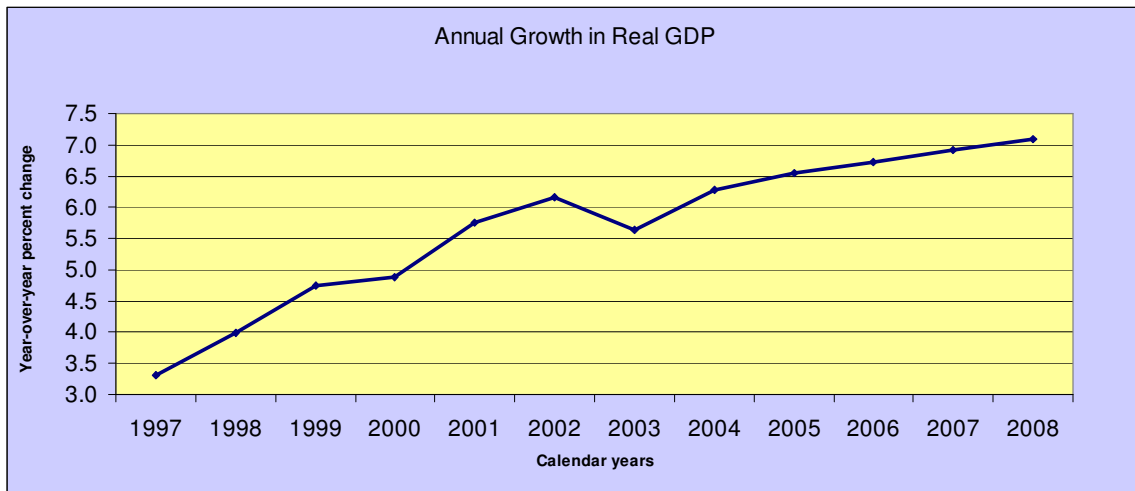


Ministry of Finance
United Republic of Tanzania

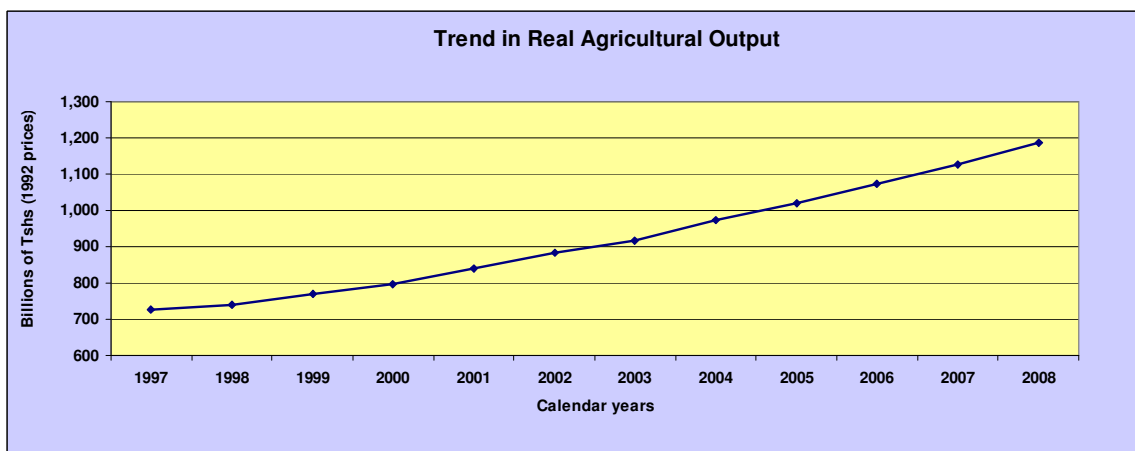
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Achieving middle-income status is a cornerstone of the national development policy agenda, as articulated in the Vision 2025. Acceleration of real economic growth and higher productivity are key to sustained improvement in the living standards of Tanzanians. There are ample signs that we are on the way, with higher growth recorded year after year, and even higher rates projected for 2005 - 2008.

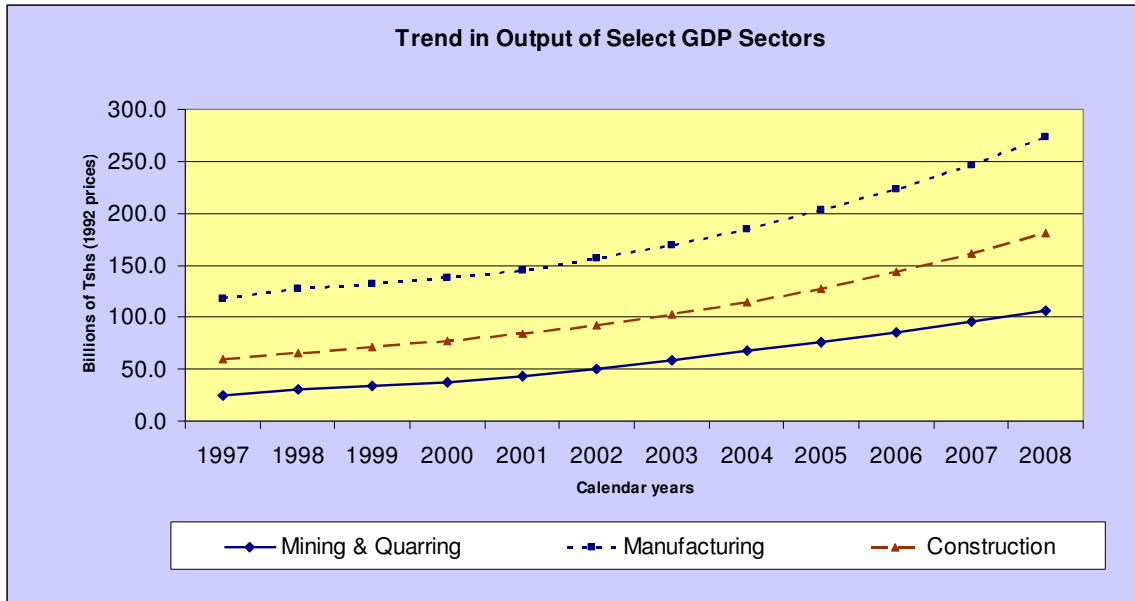


Real GDP growth is picking momentum, and is broad based ...

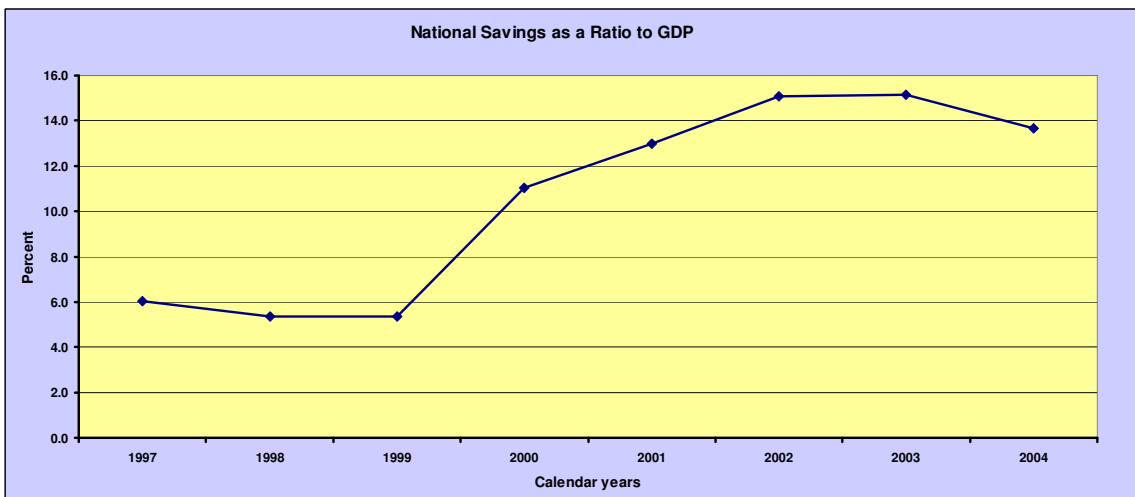


An upward trend in economic growth is reflected in agriculture, (including hunting, forestry and fishing) which employs around 70%

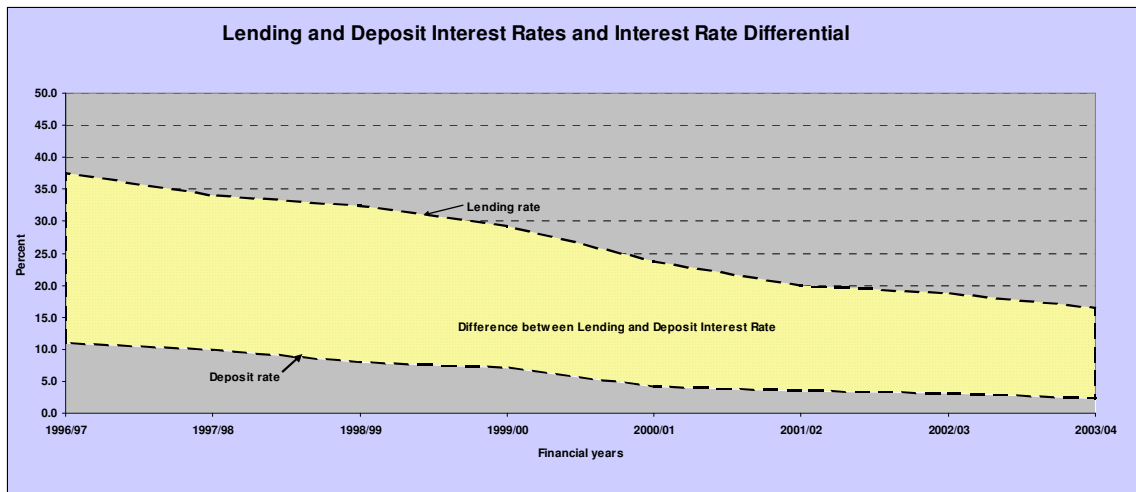
of the work force and accounts for almost half of the national income (GDP) ...



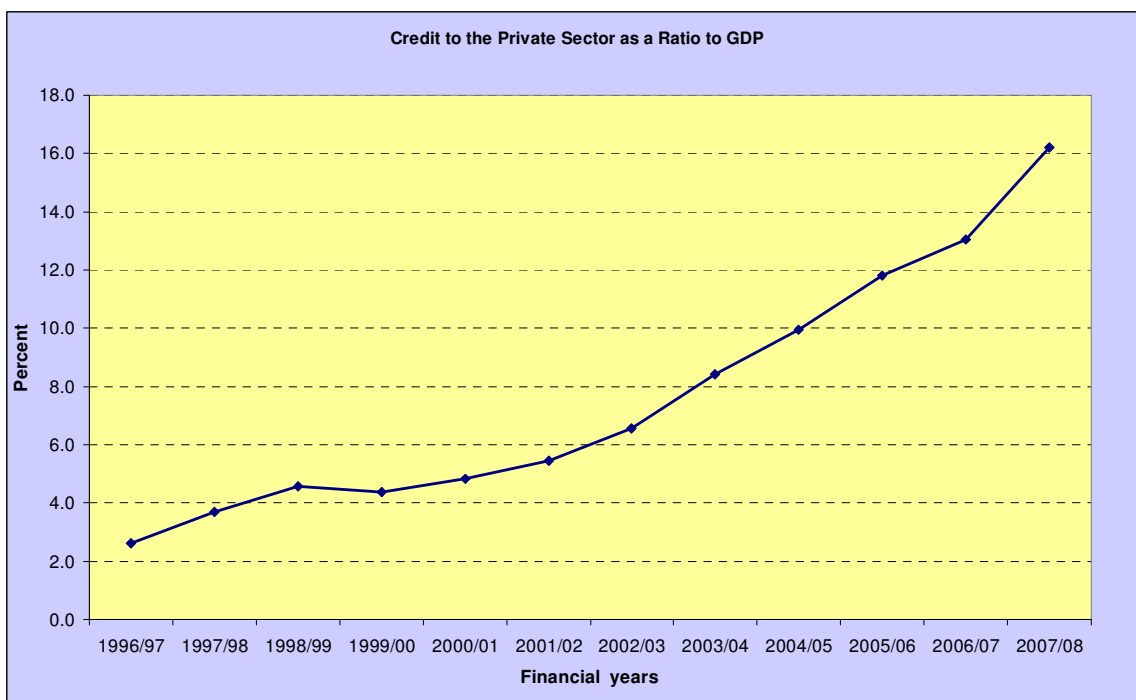
and in many other sectors including manufacturing, mining and construction. Growth is supported by the increased mobilisation of national savings and financial intermediation as evidenced by ...



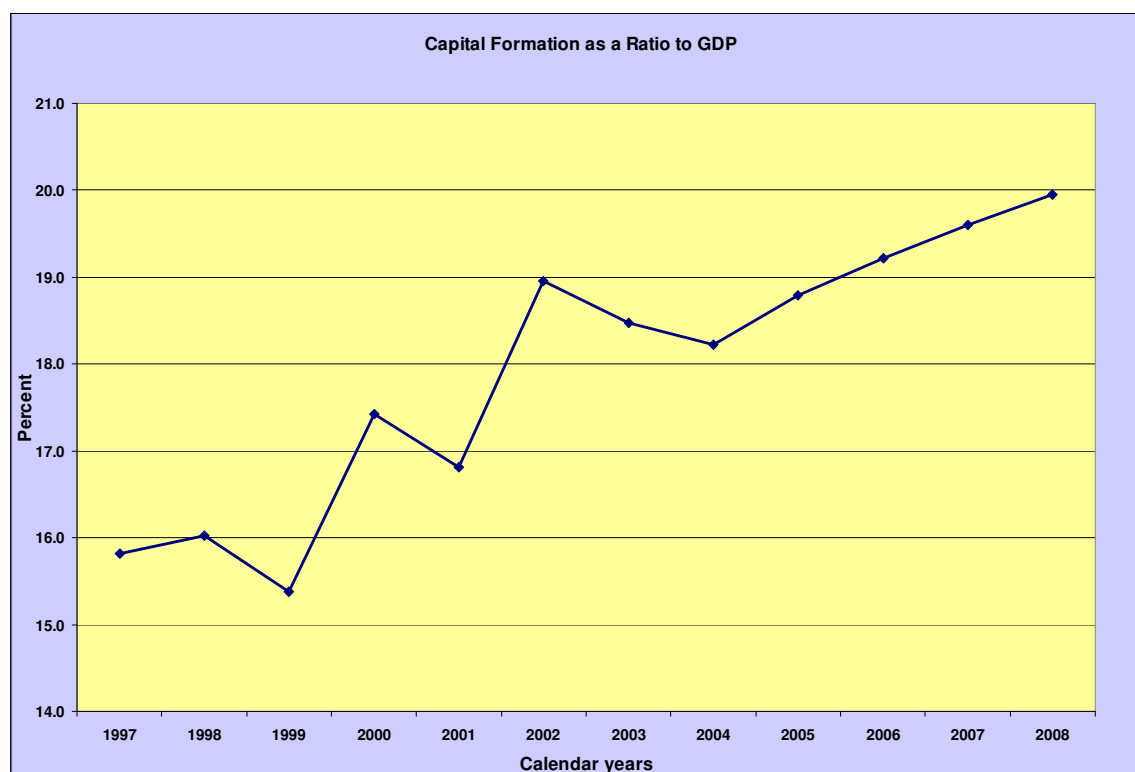
the increasing trend in the national savings rate (i.e., savings as a share of the GDP), as financial intermediation increases ...



.... and the narrowing difference between lending and savings interest rates due to increased competition and a conducive policy environment. The combination of rising savings rate, falling lending rates and restricted domestic borrowing by Government is funding a surge in private sector investment...



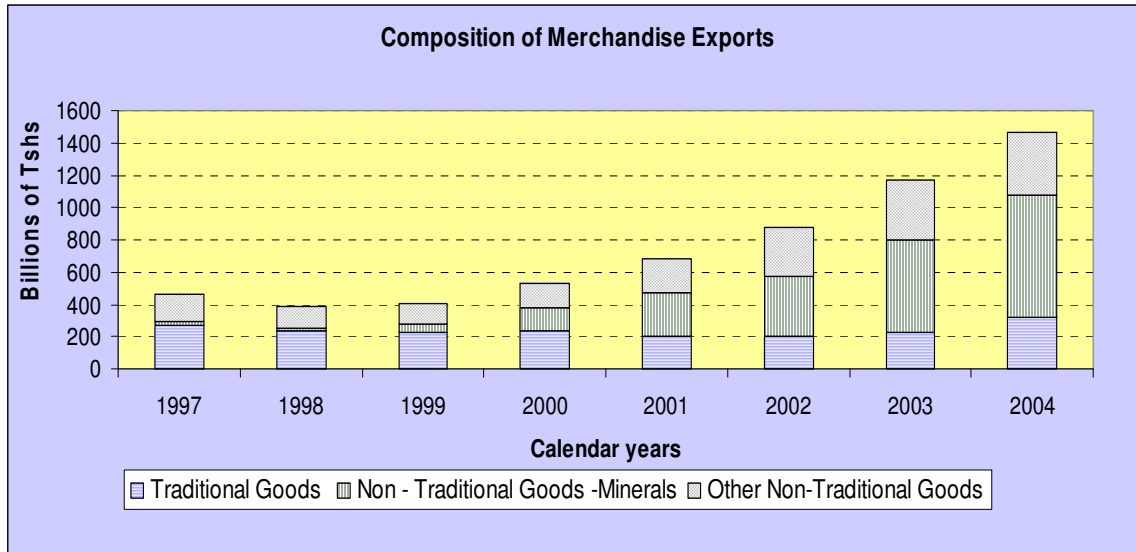
...thereby enabling the latter to position itself as the economy's engine of growth. Increased credit is...



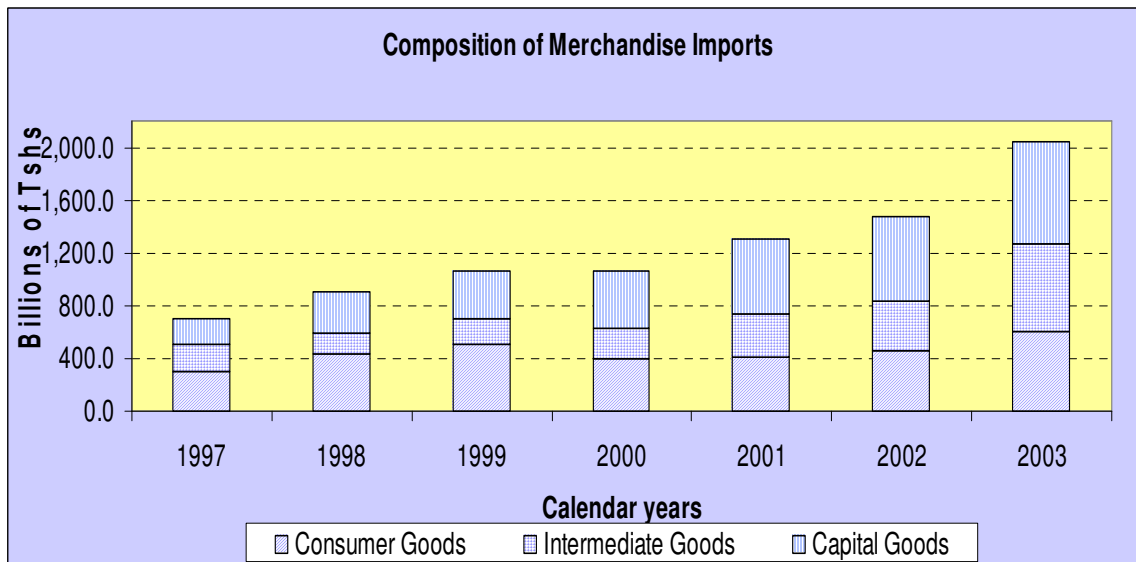
... financing an increase in capital formation, another leading indicator of a strengthening base for sustained economic momentum. The increasing openness of the economy adds further to this momentum, demonstrated by...



the rising ratios of exports and imports to GDP...

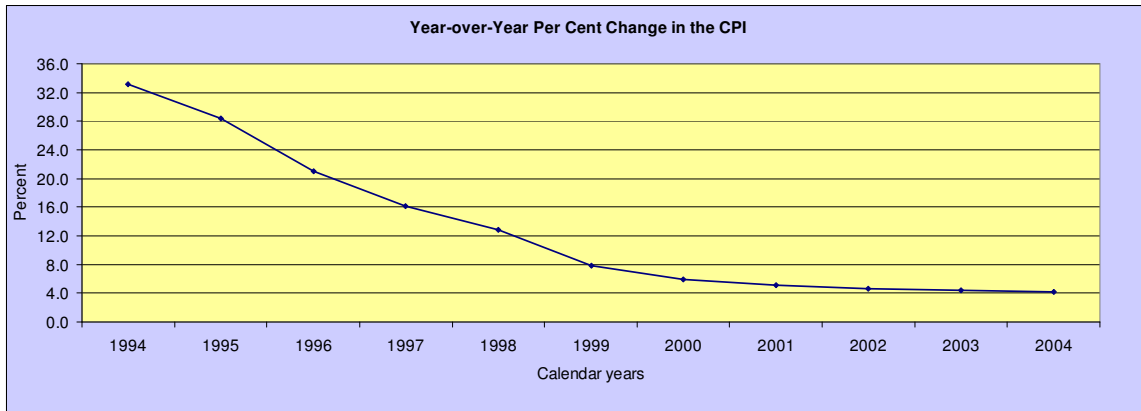


and the growing importance of non-traditional exports...

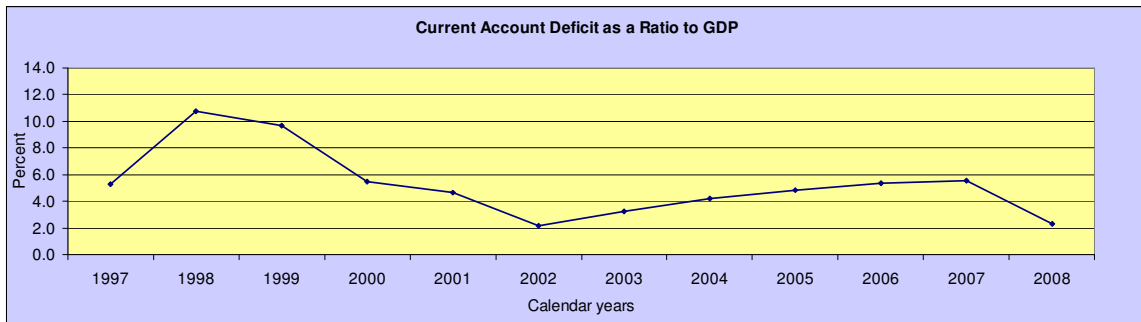


On the other hand, the rising importance of capital and intermediate goods' imports signals the continued expansion of productive capacity in Tanzania.

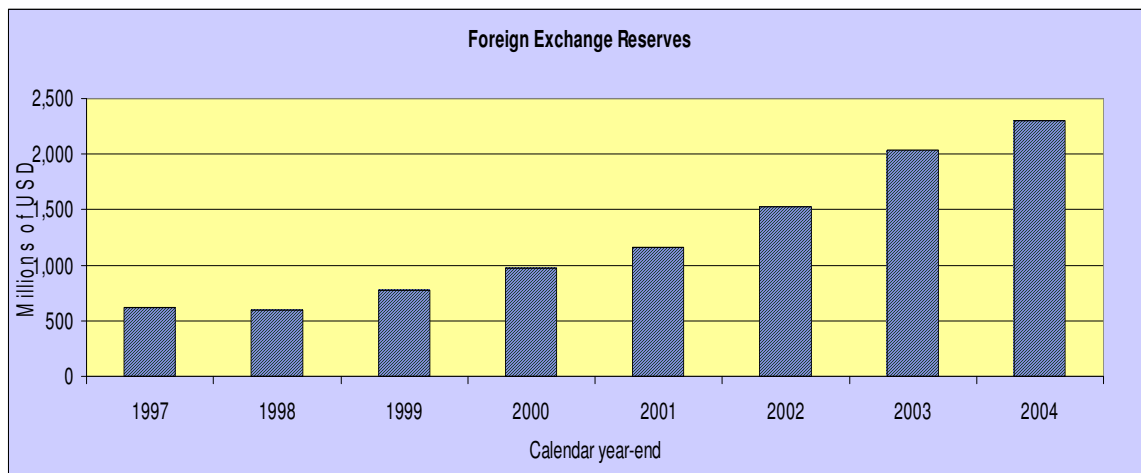
The pick up in growth is not being achieved at the expense of macroeconomic stability!



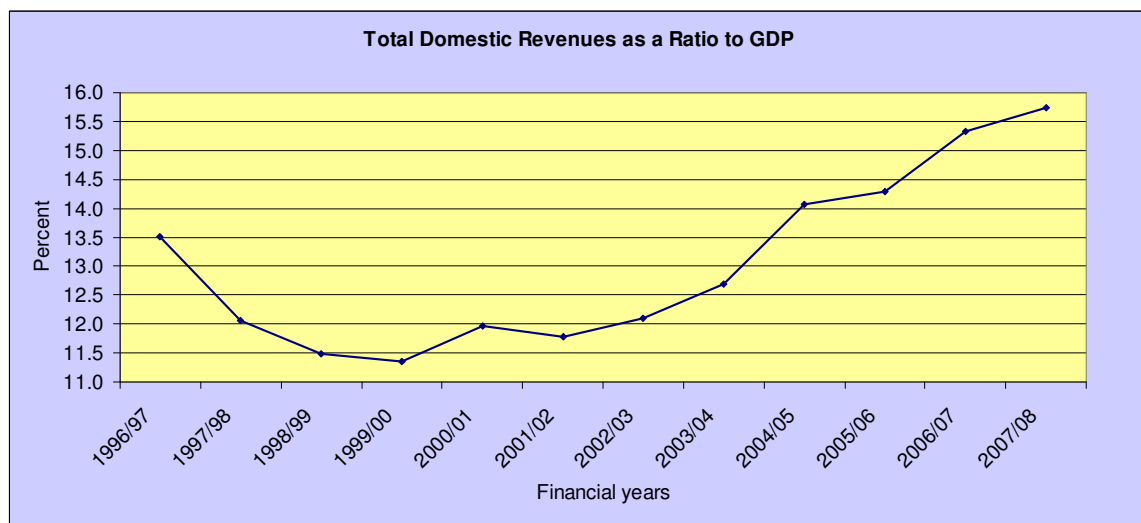
Indeed, domestic inflation pressures are being contained, notwithstanding the pressures on general prices from drought, and from the spike in energy prices globally...



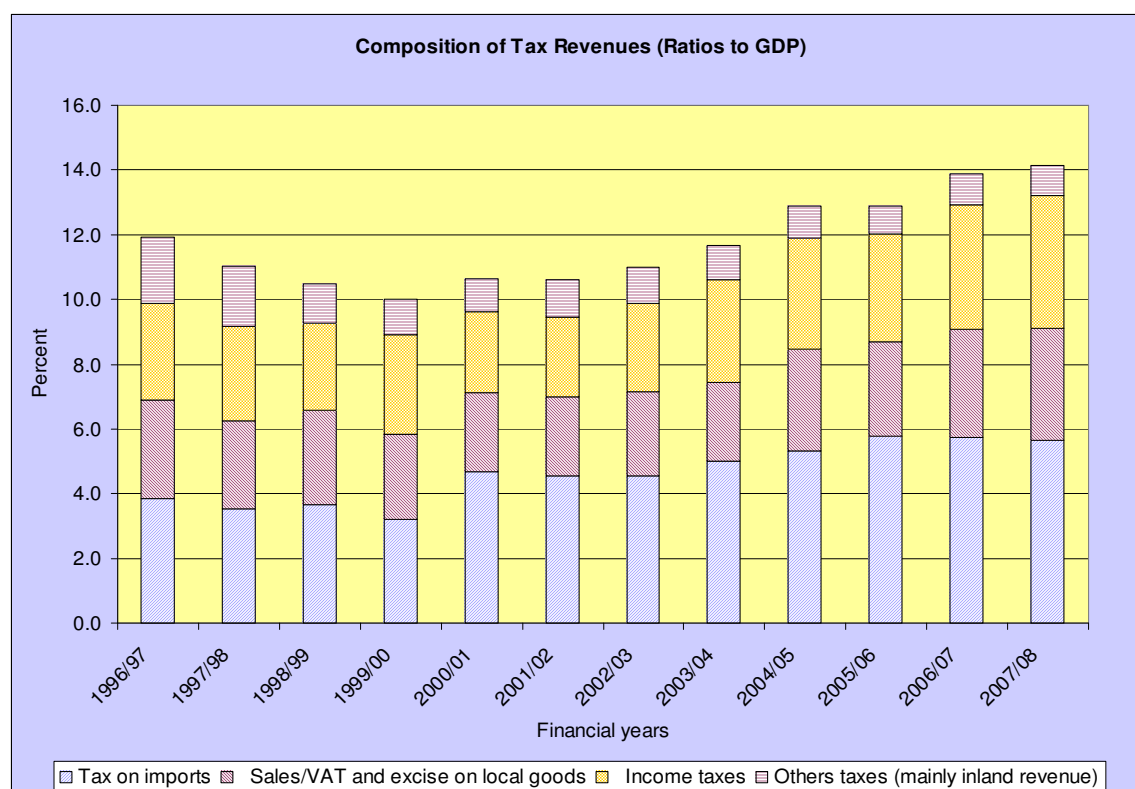
In the external sector, the current account balance and the trade balance have been fairly stable...



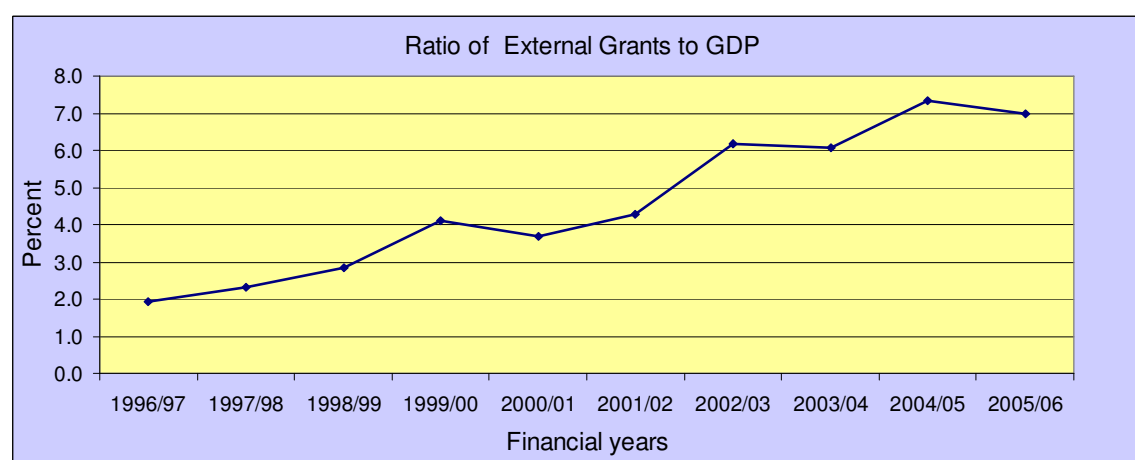
... and foreign exchange reserves have risen steadily. The domestic revenue effort is also performing well:



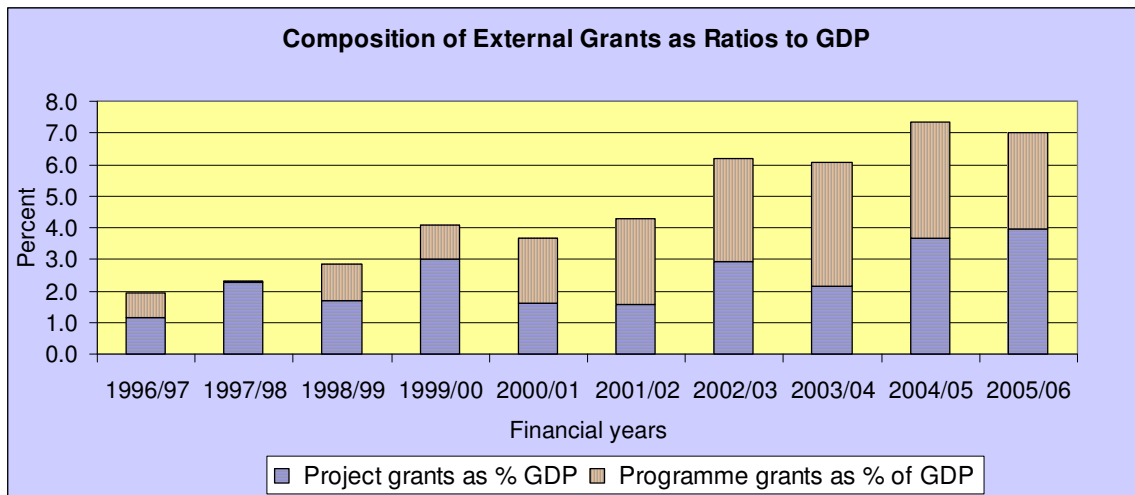
The ratio of domestic revenues to GDP has been rising, reflecting a more buoyant tax structure and improved tax administration and compliance.



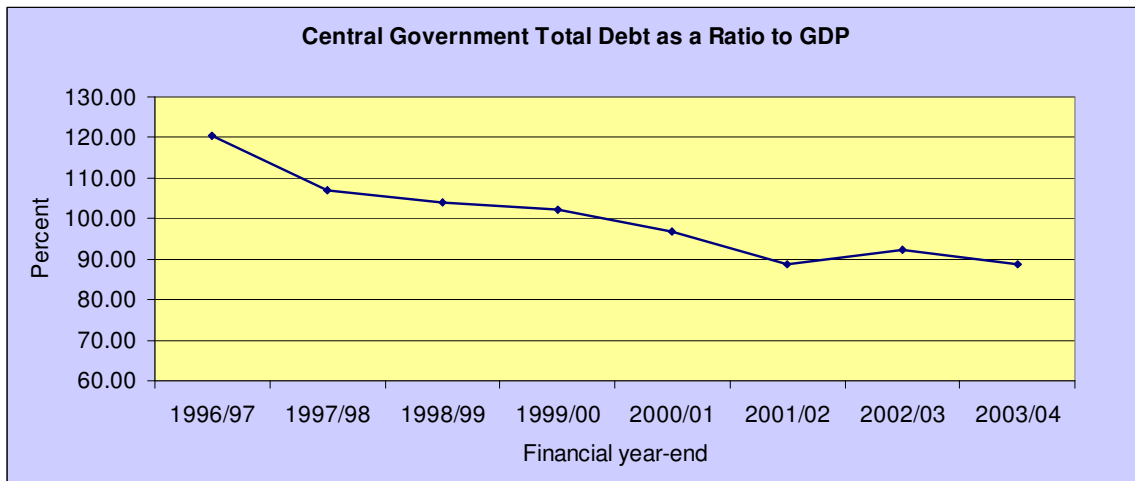
Domestic revenue growth has been widespread, reflecting a buoyant fiscal regime, enhanced by recent tax reform initiatives. Domestic revenue effort is being supplemented by sustained support from Tanzania's development partners.



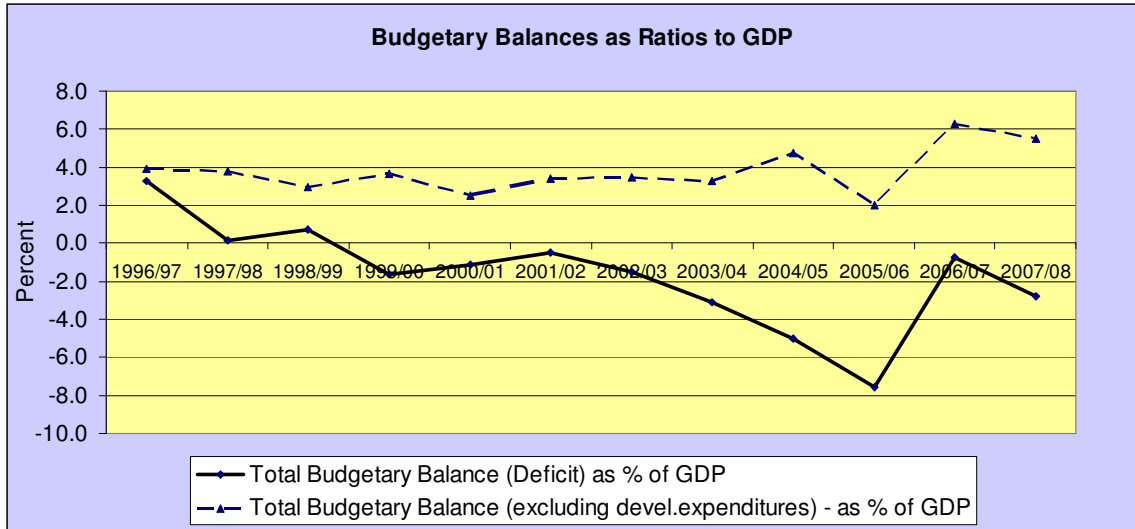
The ratio of external grants to GDP has been increasing...



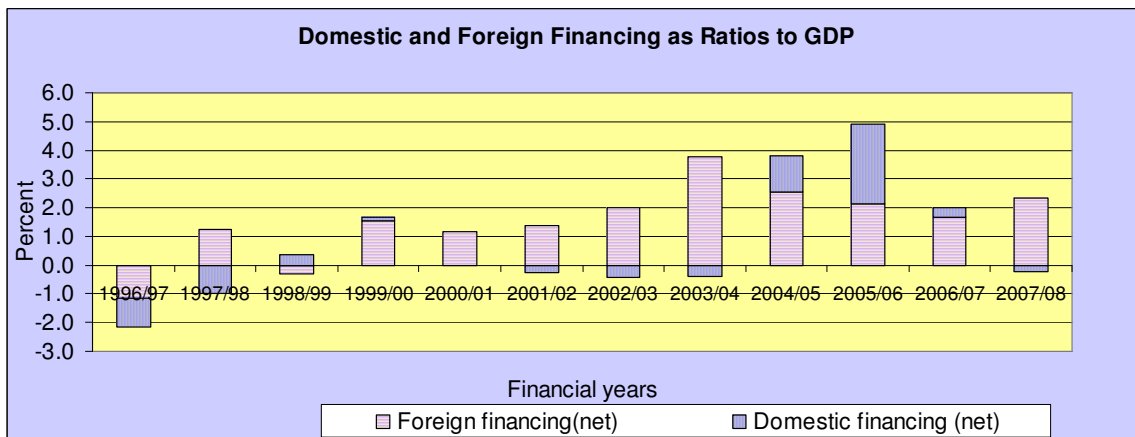
The appreciable share of program support is a mark of confidence in our commitment to sound macroeconomic management. These positive trends have been supported by sound debt management.



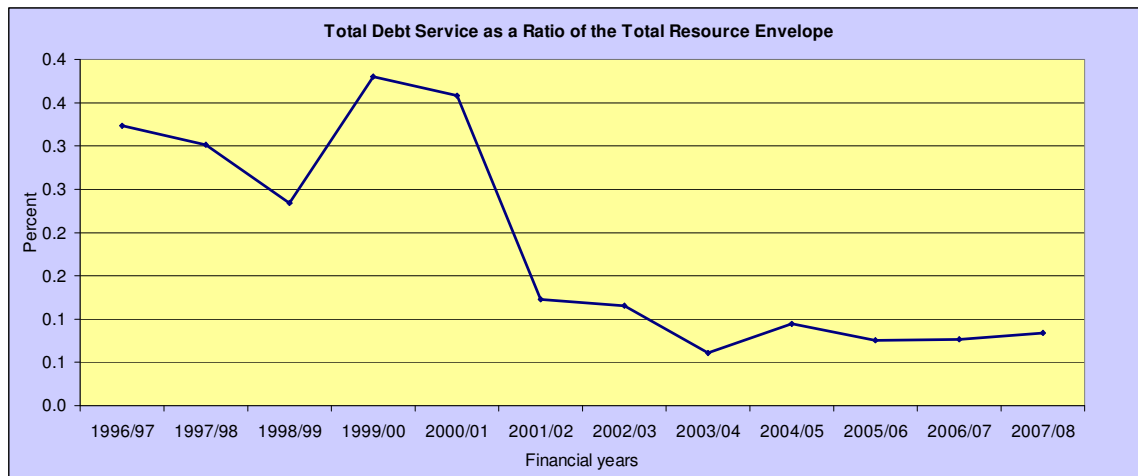
The ratio of central government debt to GDP has been dropping,



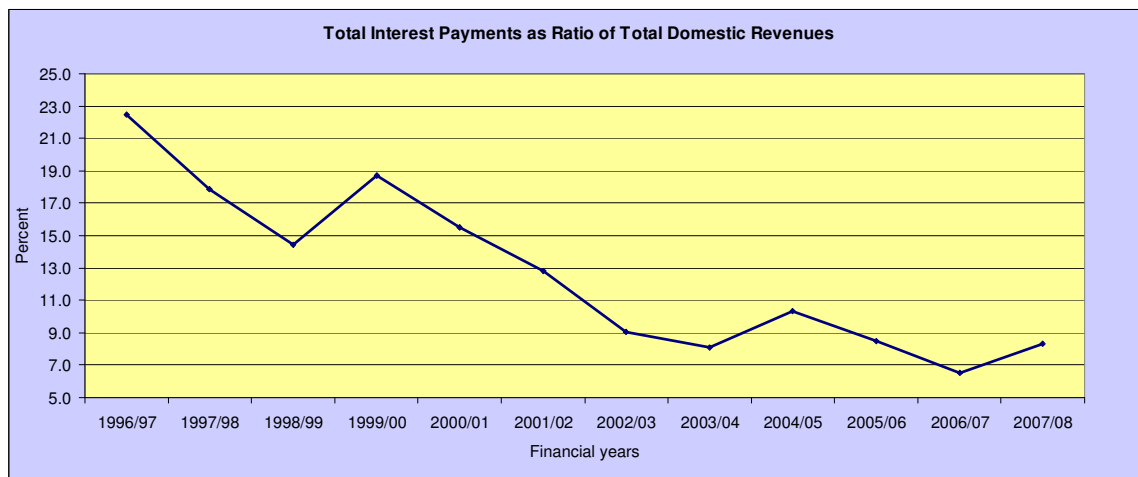
The budgetary balance has been stable, and new debt is financing development expenditures.



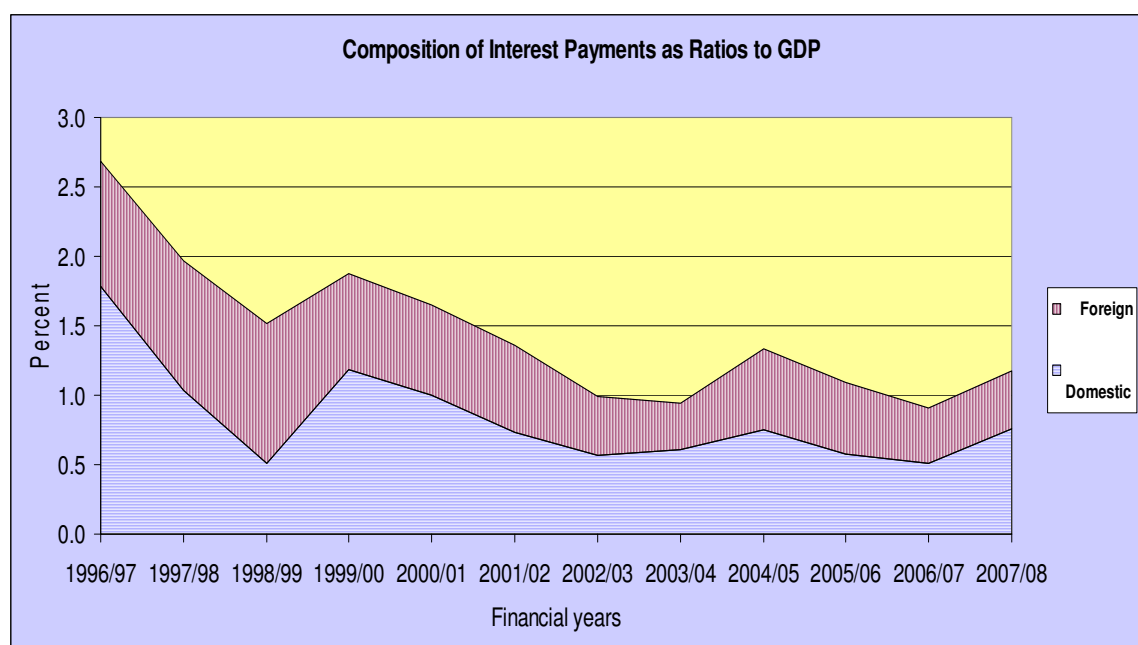
For example, in 2005/06 net new domestic financing will finance the new infrastructure development program. Higher grants and concessional loans from development partners have meant that an increasingly small and stable share of available resources is devoted to servicing the public debt...



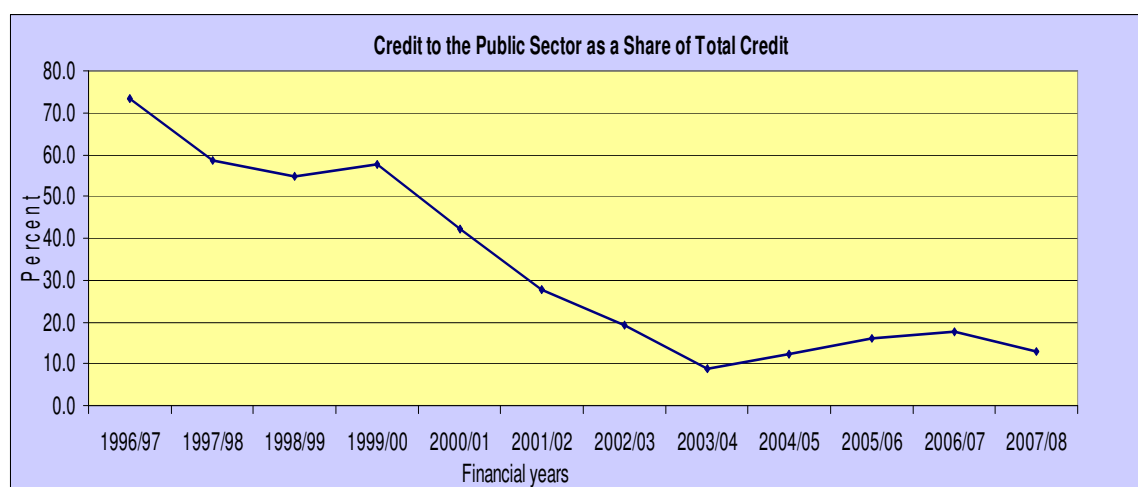
This is evidenced in the downward trend in the ratio of interest payments to GDP...



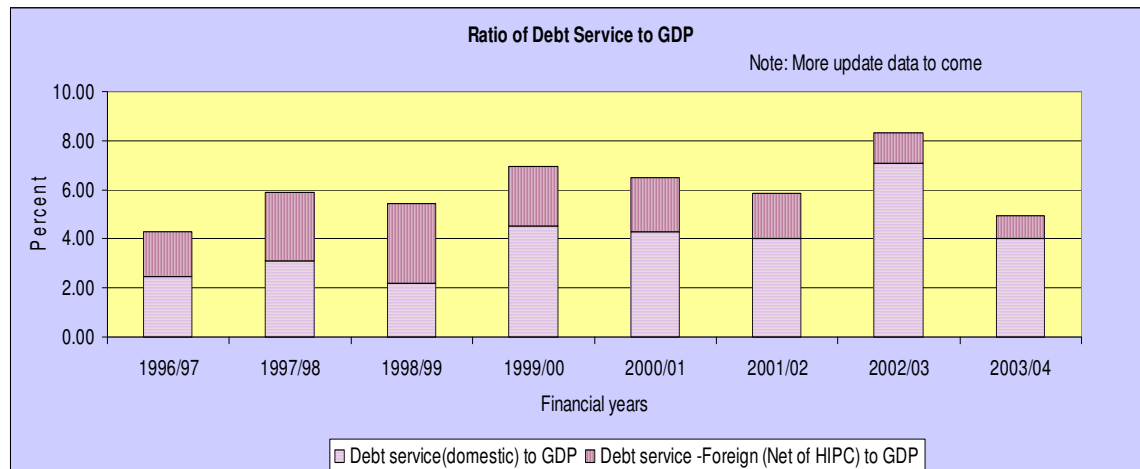
The share of total revenues going out as interest payments is also diminishing.



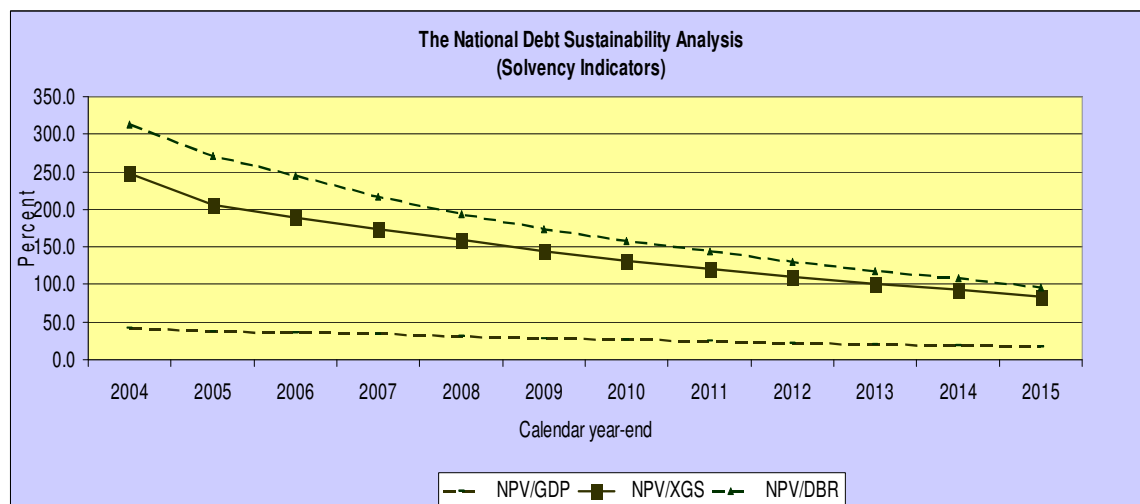
And both domestic and foreign interest payments share in this trend. Fiscal discipline remains the hallmark of sound macroeconomic management.



Government domestic financing requirements will not crowd-out private sector investment,

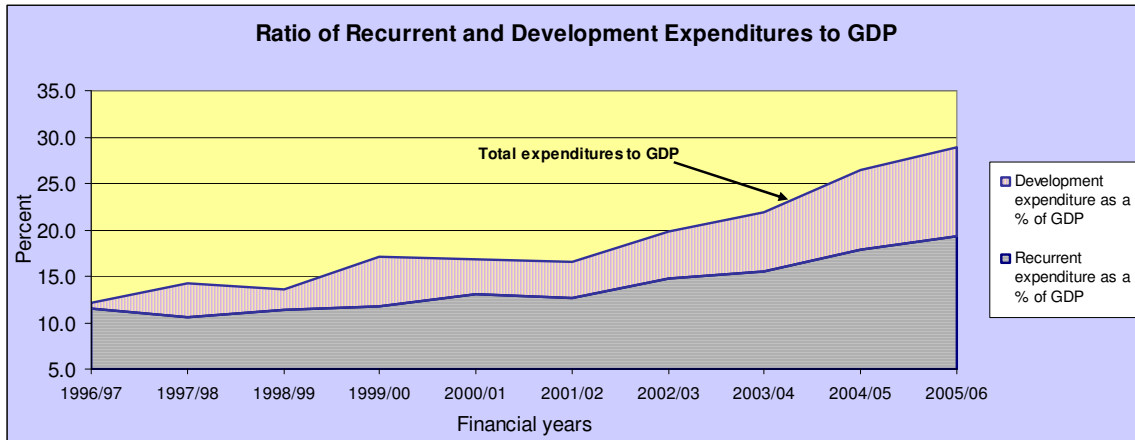


Debt service obligations remain contained, and...

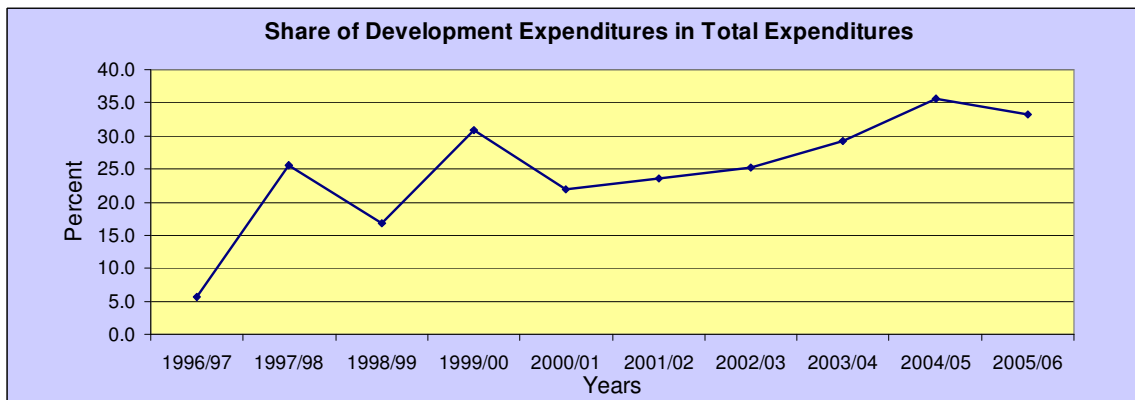


... indeed, all indicators point to progressively improving debt sustainability.

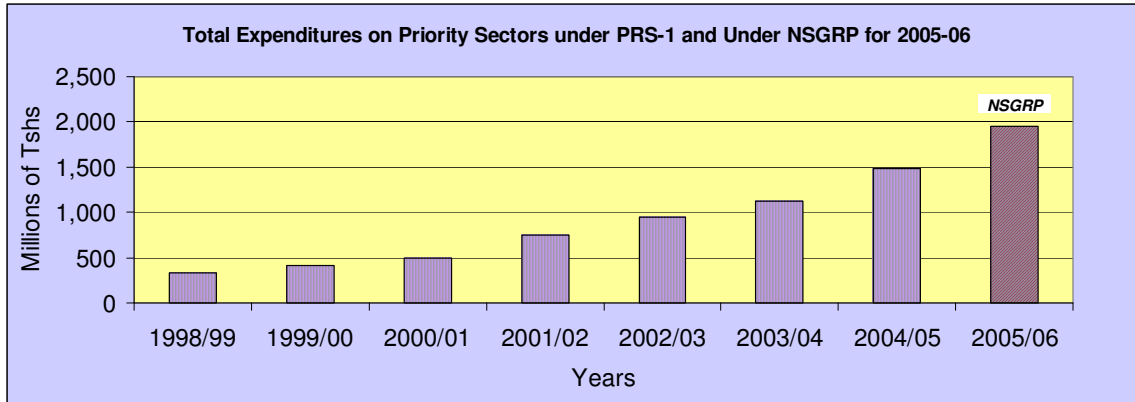
Increased domestic resources and development partner assistance are permitting an increase in the expenditure effort...



Both recurrent and development expenditures are increasing



The rising development expenditure share attests to the commitment to renew and augment national infrastructure in support of private sector growth.



Resources allocated to Poverty Reduction Strategy (PRS) priority sectors have been increasing and have set the stage for ever increasing allocations to the three National Strategy for Growth and Reduction of Poverty (NSGRP-MKUKUTA) clusters.

NSGRP INTERVENTIONS 2005/06

	Cluster	Recurrent	Development	Total
NSGRP:	I	505,192,231	422,785,185	927,977,416
	II	426,392,422	433,068,915	859,461,337
	III	104,989,054	55,611,305	160,600,359
Total NSGRP		1,036,573,707	911,465,405	1,948,039,112
NON-NSGRP		1,232,353,341	422,128,802	1,654,482,143
TOTAL (Central Government)		2,268,927,048	1,333,594,207	3,602,521,255
Regions and Councils		521,940,136	51,588,906	573,529,042
GRAND TOTAL		2,790,867,184	1,385,183,113	4,176,050,297

	Cluster	% of NSGRP Cluster Budget		
		Recurrent	Development	Total
NSGRP:	I	49%	46%	48%
	II	41%	48%	44%
	III	10%	6%	8%
TOTAL		100%	100%	100%

	Cluster	% of Total Central Government Budget		
		Recurrent	Development	Total
NSGRP:	I	14%	12%	26%
	II	12%	12%	24%
	III	3%	2%	4%
SubTotal		29%	25%	54%
NON-NSGRP		34%	12%	46%
TOTAL (Central Government)		63%	37%	100%

	Cluster	% of Total Budget		
		Recurrent	Development	Total
NSGRP:	I	12%	10%	22%
	II	10%	10%	21%
	III	3%	1%	4%
Total NSGRP		25%	22%	47%
NON-NSGRP		30%	10%	40%
TOTAL (Central Government)				
Regions and Councils		12%	1%	14%
GRAND TOTAL		67%	33%	100%

The National Strategy for Growth and Reduction of Poverty (NSGRP)

- The Government adopted this year a new medium-term anti-poverty and national development strategy, the National Strategy for Growth and Reduction of Poverty (NSGRP).
- The 2005-06 Budget is the first national Budget to link budget allocations to the NSGRP priorities.
- The NSGRP builds on the Poverty Reduction Strategy (PRS) of 2000. It targets poverty alleviation directly and indirectly - by supporting the sustained broadly based acceleration in economic output and productivity.
- Indeed, the achievements made under PRS1 to strengthen the safety nets and improve the quality of social services, will be protected as the NSGRP subsumes these PRS1 objectives.
- Under the first Poverty Reduction Strategy (PRS1) the allocation of budget resources focused principally on the inputs required by the seven selected priority sectors, namely, education, health water, roads, agriculture, governance, and HIV/AIDS to achieve set objectives.
- The NSGRP reorients the focus of budget allocations from inputs to outcomes.
- It adopts a cross-cutting approach, recognizing the contribution of the entire group of MDAs to the overall achievement of these objectives. All MDAs will contribute to varying degrees to each of the three major priority Clusters – growth and reduction of poverty; quality of life and well-being; and governance and accountability.
- From a budget-making standpoint, under the NSGRP, the allocations flow from the inputs needed to achieve a concrete set of priority outputs and outcomes. This marks a re-orientation from

the PRS1 in the approach and methodology used to prioritize resource allocations.

- Cross-cutting issues are mainstreamed into broad sectors, namely the macro sectors; productive sectors; social service sectors; economic service sectors; and public administration sectors.
- The NSGRP regroups key actors into broad sectors or cluster areas of collaboration to optimize synergies and inter-linkages.
- The NSGRP envisages a strengthening in private sector development; an effective participation of civil society; and the emergence of strategic partnerships.
- The specific goals and interventions of the NSGRP under each of the three clusters, are set out below.

CLUSTER I: GROWTH AND REDUCTION OF INCOME POVERTY

Broad outcomes:

Broad based and equitable growth is achieved and sustained

Goals:

- Ensuring sound economic management.
- Promoting sustainable and broad-based growth.
- Improving food availability and accessibility.
- Reducing income poverty of both men and women in rural areas.
- Reducing income poverty of both men and women in urban areas.
- Provision of reliable and affordable energy to consumers.

CLUSTER II: IMPROVEMENT OF QUALITY OF LIFE AND SOCIAL WELL-BEING

Broad outcomes:

- Quality of life and social well-being, with particular focus on the poorest and most vulnerable groups improved.
- Inequalities in outcomes (e.g. education, survival, health) across geographic, income, age, gender and other groups reduced.

Goals:

- Ensuring equitable access to quality primary and secondary education for boys and girls, universal literacy among men and women and expansion of higher, technical and vocational education.
- Improved survival, health and well-being of all children and women and of specially vulnerable groups.
- Access to clean, affordable and safe water, sanitation, decent shelter and a safe and sustainable environment and thereby, reduced vulnerability from environmental risk.
- Adequate social protection and provision of basic needs and services for the vulnerable and needy.
- Effective systems to ensure universal access to quality and affordable public services.

CLUSTER III: GOVERNANCE AND ACCOUNTABILITY

Broad outcomes:

- Good governance and the rule of law
- Accountability of leaders and public servants
- Democracy and political and social tolerance

- Peace, political stability, national unity and social cohesion deepened

Goals:

- Structures and systems of governance as well as the rule of law are democratic, participatory, representative, accountable and inclusive.
- Equitable allocation of public resources with corruption effectively addressed.
- Effective public service framework in place to provide foundation for service delivery improvements and poverty reduction.
- Rights of the poor and vulnerable groups are protected and promoted in the justice system.
- Reduction of political and social exclusion and intolerance.
- Improved personal and material security, reduced crime, eliminate sexual abuse and domestic violence.
- National cultural identities enhanced and promoted.
- MDAs' strategic plans have to be translated into Medium Term Expenditure Frames. Policy objectives are then expressed in terms of programmes, targets and activities. Expenditure programmes are therefore driven by policy priorities and disciplined by budget realities.
- The NSGRP envisages the planned increase in public investment in infrastructure, recognizing it to be one of the interventions necessary to hasten the economic growth and reduction of poverty.
- Indeed, in the NSGRP document, its importance is reaffirmed in all three Clusters. This is a reflection in part of the recognition of

serious negative effects that have resulted following more than a decade of the insufficient levels of investment in infrastructure and of serious lapses in the maintenance of the existing stock.

- This accelerated strategic infrastructure development programme will yield many benefits: it will help ramp up the nation's growth prospects. It will contribute directly to human development and welfare improvements. It will yield access to new external markets. It will facilitate the transportation of goods from the interior of the country, to internal markets. These substantive and sustained economic benefits will be mirrored in the rise in the domestic revenue yield, as these investments pay for themselves. This is consistent with sound fiscal policy management.
- Building on the very impressive performance of the Special Roads Construction Initiative, it is now proposed to scale up infrastructure investment through domestic borrowing, under the Special Infrastructure Facility (SIF). The domestic debt so raised will be applied towards carefully selected infrastructure projects considered to meet stringent selection criteria, themselves well aligned with NSGRP priorities.

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Summary of Revenue Measures

Value Added Tax

- (i) Exempt VAT on Aviation Fuel (JET A1)
- (ii) Give VAT special relief to Mobile Health Clinics supplied to registered medical practitioners
- (iii) Exempt VAT on railways locomotives, rolling stocks, spare parts and accessories

Stamp Duty

- (i) Reduce stamp duty on Acknowledgement of Debt (Article 1) from 4% to nominal stamp duty rate of Tshs. 500
- (ii) Reduce Stamp duty rates from 4% to 1% on the following articles:
 - Article 13 (bill of sale)
 - Article 17 (certificate of sale)
 - Article 30 (exchange of property, instrument of)
 - Article 32 (gift, instrument of)
 - Article 61 (transfer of lease by way of assignment)
- (iii) Reduce stamp duty rate from 2% to 1% of the following articles:
 - Article 43 (Partition, instrument of)
 - Article 53 (Release, instrument of)
 - Article 56 (Settlement, instrument of)

Personal Income Tax

Increase the PAYE threshold to Tshs. 80,000 per month and apply the following rate structure:

<80,000	0%	
80,001 - 180,000	18.5%	marginal rate
180,001 - 360,000	18,500 + 20%	marginal rate
360,001 - 540,000	54,500 + 25%	marginal rate
>540,000	99,500 + 30%	marginal rate

Excise Duty

- (i) Exempt Excise Duty on Aviation Fuel (JET A1)
- (ii) Change the basis for determining cigarette excise tax bracket from cigarette length to cigarette with or without filters
- (iii) Adjust specific excise tax rates on non petroleum products by inflation rate
- (iv) Reduce excise duty rate on low cost clear beer made from un malted barley from TShs. 243 per litre to TShs. 150 per litre.

Others

- (i) Abolish transport license fees for non Passenger Vehicles
- (ii) Increase annual motor vehicle license fee from TShs. 10,000 to TShs. 20,000 per annum

Import Duties

Partner States proposals for amendment of certain common external tariff rates were considered by the Ministers for Finance in their meeting of 4th May 2005. The Minister's recommendations will be submitted to the EAC Sectoral Council of Trade, Finance and Investment which will meet on 20th June 2005. The agreed measures will be implemented together with other measures.

Changes in Governance Indicators in Africa, 1996-2004		
	<u>Number of Countries</u>	<u>Country Names</u>
Voice and Accountability		
Significantly Improved	5	Ghana, Gambia, Nigeria, Sierra Leone, Tanzania
Improved	16	
Worsened	22	
Significantly Worsened	4	Central African Republic, Cote d'Ivoire, Eritrea, Zimbabwe
Government Effectiveness		
Significantly Improved	4	Botswana, South Africa, Tanzania, Congo D.R.
Improved	16	
Worsened	21	
Significantly Worsened	6	Central African Republic, Cote d'Ivoire, Comoros, Sierra Leone, Chad, Zimbabwe
Control of Corruption		
Significantly Improved	3	Gabon, Tanzania, Congo D.R.
Improved	13	
Worsened	12	
Significantly Worsened	5	Cote d'Ivoire, Guinea, Gambia, Namibia, Zimbabwe

Source : Kaufmann, Kraay and Mastruzzi (2005) – <http://www.worldbank.org/wbi/governance/govdata/>

Good Governance underpins the demonstrated business confidence and investment, as Tanzania is the only country in the “Best Performers” for all categories in the Kaufmann, Kraay, and Mastruzzi index (2005). The Index represents the work of the World Bank Institute (WBI) to monitor governance developments globally.

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Policy Analysis Department
MINISTRY OF FINANCE

Madaraka Avenue, P.O. Box 9111, Dar es Salaam, Tanzania

Tel: +255 22 2110331/0 or 2111174/9, Fax: +255 22 2110326, E-mail: ps@mof.go.tz,

Website: www.mof.go.tz