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Tanzania: Recent Economic Developments

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TANZANIA

Recent Economic Developments

Prepared by Mr. G.G. Johnson (head), Mr. H. Snoek, Ms. K. Elborgh-Woytek, Ms. A. Kourelis (EP) (all AFR), Mr. H. Davoodi (FAD), and Mr. O. Kanaan (PDR)

Approved by the African Department

January 26, 1999

Contents — Page

Text Tables

Figures

Text Boxes

Appendix Tables

I. INTRODUCTION

1. The United Republic of Tanzania, consisting of mainland Tanzania and Zanzibar, has one of the lowest per capita income levels of Africa and a rapidly increasing population of about 30 million. The country has a diverse geography, its land resources can support diversified agriculture, and there is large potential in mining, manufacturing, tourism, and transit trade to neighboring countries. When it became independent in 1961, Tanzania's economy was mainly based on subsistence agriculture and the production of coffee, sisal, and cotton for export; manufacturing was virtually nonexistent. With the Arusha Declaration of January 1967, the focus of economic policy shifted to central planning, government control, and an inward looking striving for "self-reliance." Social indicators improved, and Tanzania made important progress in building a nation-state. However, when the external environment deteriorated in the 1970s and early 1980s, the inefficiencies of the state-dominated economy led to foreign exchange crises, and growth rates dropped considerably below population growth.

2. In order to address the decline in living standards, Tanzania's policies have been geared since the mid-1980s to stabilizing and subsequently dismantling the commanding role of the state in the economy. Toward the end of the 1970s, some progress had been made with liberalization, but it was only in 1986 that, with the first comprehensive Economic Recovery Program (ERP), policies changed toward promoting a market-based open economy. This program focused on macroeconomic stabilization and liberalization, especially in imports and the agricultural sector. In the early 1990s, the recovery efforts focused on improving fiscal management and comprehensively reforming the public sector, including privatization of state-owned enterprises and civil service reform. These measures led to a rebound in growth to about 3–4 percent on average a year during 1985–91, and the level of international reserves improved to about 3 months of imports by end-1992/93 (July–June). However, inflation remained above 30 percent, and fiscal discipline declined toward the middle of the 1990s, with both budget and external current account deficits increasing sharply. Growth rates fell to 1.3 percent on average a year during 1992–95 and international reserves declined to 1.5 months of imports of goods and nonfactor services. Progress with structural reforms was slow as the country gradually built up consensus for the new economic policies.

3. Substantial progress has been made since the election of a new government in 1995, which reinforced the macroeconomic and structural adjustment policies. The main focus in macroeconomic stabilization has been on fiscal consolidation. Reform of tax administration has aimed at increasing revenues and streamlining the civil service, and a strict cash management system has contributed to the containment of expenditures. These actions, supported by tight monetary policies, contributed to a substantial reduction in inflation to 12 percent, the lowest in 20 years, by June 1998. Both traditional and nontraditional exports increased sharply in 1995/96 and 1996/97 as agricultural and manufacturing production responded to the reforms; however, exports fell again in 1997/98, owing initially to drought and subsequently the floods associated with the El Niño phenomenon. The external position strengthened during the last two years as the deficit on the current account of the balance of payments (excluding transfers) declined and international reserves rebounded to the equivalent of three months of

imports of goods and nonfactor services. Major progress was also made in parastatal reform and privatization, including the restructuring of the government-owned banks; a key step was the split in 1997 of the largest bank in the country, the National Bank of Commerce, into two separate banks. The two banks are now being recapitalized and privatized.

4. The background report to the IMF's 1996 Article IV consultation with Tanzania included reviews of reforms in the financial sector during 1990–96 and of the evolution of the tax system since the start of the reforms in 1985/86. The present document discusses the progress made in a number of areas. Section II reviews recent developments in the real sector, including the major revision in the national accounts data published in 1997; Sections III and IV discuss the progress in privatization and civil service reform. Sections V and VI review recent developments in the tax system and the financial sector of Tanzania, building on similar discussions in the 1996 report. Section VII provides information on trade policy and reform, and the statistical appendix gives the background tables to the 1998 Article IV consultation.

II. REAL SECTOR[1]

A. National Accounts[2]

5. The Tanzania Bureau of Statistics published a revised series for the national accounts 1988–95 in May 1997. It had become necessary to revise the data to reflect the structural changes in the economy since the last major revision in 1976.[3] The revision included increased coverage of the formal and informal private sectors based on a number of sector studies, adjustments to the methodology of the 1993 System of National Accounts (SNA), and a rebasing of the constant price series from 1985 to 1992. In addition, the new methodology introduced separate estimates for monetary and nonmonetary GDP.

6. The revisions led to a considerable increase in the level of nominal GDP compared with the previous data (Table 1), namely, an increase in 1988 GDP of 263 percent and in 1992 GDP of 68 percent. The inclusion of the nonmonetary sector added 30 percent to the 1992 level of GDP. Owing to the wider coverage, the share of agriculture in monetary GDP declined sharply, while the shares of trade, public administration, and manufacturing increased. The change in the base year for GDP in constant prices resulted in a decline of the average

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[1]Prepared by Katrin Elborgh-Woytek.

[2]This section draws to a large extent on Bureau of Statistics, Office of the President, Planning Commission, "Report on the Revised National Accounts of Tanzania," Dar es Salaam, May 1997. The National Accounts Project incorporated results of numerous sector studies, the 1991/92 household budget study, and the 1991 and 1995 informal sector surveys.

[3]In August 1996, the Bureau of Statistics published an ad hoc revision of the national accounts.

Table 1. Tanzania: Comparison of Old and New GDP Series for 1988 and 1992

	1988			1992		
	Pre-1996	1996 1/	1997 Rev.	Pre-1996	1996 1/	1997 Rev.
	(In millions of Tanzania shillings)					
Agriculture	178,760	197,684	292,408	428,441	551,884	339,062
Manufacturing	15,187	23,985	97,730	31,914	82,700	104,589
Mining and quarrying	723	1,673	8,529	11,383	19,181	13,503
Electricity and water	4,628	2,744	15,312	11,033	21,281	19,766
Construction	11,808	14,808	51,728	30,433	47,740	57,293
Trade	41,591	45,591	181,040	98,173	163,100	202,207
Transportation and communications	14,259	18,259	54,935	49,350	64,327	66,191
Public administration and other services	16,952	24,272	99,034	38,392	51,150	117,419
Finance, insurance, and real estate	14,132	14,132	59,908	33,169	45,630	72,209
Imputed bank service charge	-12,888	-12,888	-42,365	-34,264	-39,417	-56,992
GDP (at factor cost)	285,152	330,260	818,259	698,024	1,007,576	935,247
Indirect taxes less subsidies	46,065	46,065	82,225	119,312	99,641	93,958
Monetary GDP at market prices	331,217	376,325	900,484	817,336	1,107,217	1,029,205
Nonmonetary GDP	...	...	300,757	...	...	340,668
Total GDP	331,217	376,325	1,201,241	817,336	1,107,217	1,369,873
	(In percent of monetary GDP at factor costs, unless otherwise indicated)					
Agriculture	62.7	59.9	35.7	61.4	54.8	36.3
Manufacturing	5.3	7.3	11.9	4.6	8.2	11.2
Mining and quarrying	0.3	0.5	1.0	1.6	1.9	1.4
Electricity and water	1.6	0.8	1.9	1.6	2.1	2.1
Construction	4.1	4.5	6.3	4.4	4.7	6.1
Trade	14.6	13.8	22.1	14.1	16.2	21.6
Transportation and communications	5.0	5.5	6.7	7.1	6.4	7.1
Public administration and other services	5.9	7.3	12.1	5.5	5.1	12.6
Finance, insurance, and real estate	5.0	4.3	7.3	4.8	4.5	7.7
Imputed bank service charge	-4.5	-3.9	-5.2	-4.9	-3.9	-6.1
Investment/GDP ratio (in percent)	30.6	28.0	16.1	41.9	33.4	27.0

Source: Tanzanian authorities.

1/ Interim revision, published in 1996.

annual growth rate from 4.3 percent to 2.7 percent for 1988–96. The new methodology also generated a sharp downward revision in the 1992 investment-to-GDP ratio, from 41.9 percent, according to the original estimates, to 27 percent.

7. Despite the improvements, serious deficiencies remain in the national accounts statistics. Recent studies indicate continuing large gaps in the trade statistics.[4] A large part of foreign aid–financed expenditure is not reflected in the budget, and information about such expenditure outside the budget is incomplete. Furthermore, Tanzania lacks a proper import price index. As a result of these weaknesses, there remains a large statistical discrepancy between the production and expenditure accounts. To help to address such deficiencies, the government intends to start preparing GDP data on a semiannual basis, and to transform the Bureau of Statistics into an executive agency in order to improve its efficiency.

B. Recent Developments in GDP

8. Following a disappointing performance in the early 1990s, economic growth rates started to increase in 1995 as the economy stabilized and responded to the strengthened reform effort (Appendix Tables 8 and 9). In 1995 and 1996, real growth accelerated in most sectors; the major exception was public administration, where the downsizing that began in 1993 continued. As a result, the growth rate rose from an average of 1.4 percent a year in 1991–94 to an average of 4.0 percent a year in the next two years, exceeding the population growth rate of 2.8 percent a year. In 1997, the growth rate of nontraditional agriculture declined sharply, owing to drought. However, growth in the trade and manufacturing sectors continued to increase, and overall growth remained at 3.5 percent. The mining, construction, and financial sectors also grew at high rates in 1997, but, because of their relatively low share in overall GDP, their contribution to overall growth remained limited.

Nontraditional agriculture

9. In 1993/94, the government accelerated its efforts to liberalize production and marketing structures, agricultural prices, and the foreign exchange regime. Production of agricultural cash crops has generally responded well to the reforms initiated, despite adverse weather conditions in the last few years (Appendix Table 12), but the experience has been uneven:

- Cotton production increased by 75 percent from 48,400 tons in 1993/94 to 84,500 tons in 1996/97. The increase in the producers' share of the export price from

[4]A study commissioned by the U.S. Agency for International Development, "Unrecorded Cross-Border Trade Between Tanzania and Its Neighbors: Implications for Food Security," April 1997, estimated unrecorded foreign trade at about US$270 million, with exports exceeding imports by US$70 million.

39 percent in 1993/94 to 63 percent in 1997/98, as well as high international prices (Appendix Table 16), contributed to the higher production.

- Tobacco production rose by 48 percent between 1993/94 and 1996/97, reflecting an increase in the producers' share of the export price from 63 percent to 84 percent over that period. Some public sector tobacco factories have been privatized and are being rehabilitated, and private traders and cooperatives have jointly undertaken efforts to find private sector substitutes for the supply of inputs and financing.

- Production of cashew nuts increased by 75 percent between 1993/94 and 1995/96. However, in 1996/97, the winding up of the Cashew Nut Improvement Programme, which provided inputs to farmers, caused a sharp fall in production. Since 1986, cashew factories have remained closed as none of the proposed leasing contracts have materialized. To address the severe input problems, the cashew sector set up a Cashew Industry Development Fund, financed from a 2 percent levy on exports, which is expected to become fully operational in 1998/99.

- Production of tea increased in several regions, although overall production has declined slightly since 1993/94. The general response of tea production to liberalization has been positive, but in some areas, processing problems arose in tea factories owned by the Tanzania Tea Authority, whose liquidity problems in 1997/98 resulted in payment problems for the farmers. The producer-to-export price ratio dropped from 24 percent in 1991/92 to only 8 percent in 1997/98. Since the liberalization of the tea industry in 1997, numerous new companies have begun blending and packing operations, which previously were under the monopoly of Tanzania Tea Blenders.

- Despite liberalization, the production of coffee has remained in the range of 40,000 tons, significantly below the estimated production potential of 70,000 tons a year. Moreover, the quality of coffee also declined, especially in the arabica-producing areas in the southern highlands. The quantitative and qualitative decline appears to have resulted from poor management of public estates, aging coffee trees, and, to some extent, reduced levels of inputs in coffee production. In addition, international prices declined sharply following a peak in 1995. The decline in production has led to considerable overcapacity in coffee-processing facilities.

10. Although the agriculture sector reforms have in general had a positive impact, a number of problems remain:

- While the removal of subsidies resulted in a more efficient allocation,[5] the collapse of the inputs credit system resulted in a decline in the use of agricultural inputs. Commercial banks continue to play a limited role in rural areas, and the National Input Trust Fund that was created by the government in 1994/95 is not operational. In order to improve access to inputs, savings associations are being promoted, the Tanzania Coffee Board has launched a voucher-based inputs credit system on a voluntary basis, and buyers of maize now extend credit.

- For tea, the structural changes have led to disruptions in marketing and a subsequent sharp decline in sales;

- A 2 percent tax on agricultural exports constituted a disincentive to exporters until it was abolished in July 1998.

- Foreign investment-based large-scale production of cotton, cashew nuts, and coffee is increasing, although property rights remain unclear. Despite the reforms, productivity in the rest of the agricultural sector remains low.

11. Following the liberalization of the marketing and transport structures of cotton, coffee, cashew nuts, and tobacco in 1994/95, the marketing boards assumed exclusively regulatory functions. Regulatory boards for tea, sisal, and pyrethrum were constituted in 1998. The marketing role of the cooperative unions focuses on the procurement of crops from individual farmers, assistance in initial processing, and price negotiations with buyers. While the number of private buyers is large, only a small number of export companies (10–15) exist.

Impact of recent climatic conditions on agriculture and transportation

12. The agricultural sector in Tanzania remains vulnerable to climatic changes. During the last few years, erratic rains in 1995/96 were followed by serious drought in 1996/97 and floods in 1997/98 caused by the El Niño phenomenon.[6] The 1996/97 drought led to a decline in the production of food crops, such as maize, wheat, and rice, and caused food shortages. The impact of the extended rains in 1997/98 on the production of food crops was mixed, as the effects of delays in the planting season and crop destruction in low-lying areas were partly offset by improved harvests of rice, potatoes, sorghum, and bananas in previously drought-stricken higher areas. Maize production also increased following the rains, and in some cotton-growing areas in northern Tanzania a shift to the production of food crops took place.

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[5]The price of fertilizer increased from T Sh 5,000 per kilogram to T Sh 11,000 per kilogram. Prior to liberalization, however, some subsidized fertilizer had been sold in informal cross-border trade, thus leaving unclear the actual decrease in the use of fertilizer.

[6]Tanzania has two rainy seasons, the "short" rains from October to December, and the "long" rains from March to May.

13. The production of cash crops, such as coffee, cashew nuts, and tobacco, was severely affected by the El Niño rains, partly because the severe disruptions to rail and road services increased the costs of agricultural inputs and basic commodities. Production volumes in 1997/98 remained approximately 25 percent lower than expected and crop quality deteriorated. Although the impact on tea production was positive, transport problems led to substantially reduced market sales and exports. The rains also caused the destruction of buildings and irrigation systems, an outbreak of crop and livestock pests, loss of livestock, and collapse of the livestock infrastructure. However, in northern Tanzania, following a 20–30 percent loss of cattle stock caused by the drought in 1997, the production of livestock and its by-products was favorably affected by the abundant water supply and pasture that resulted from the El Niño rains.

14. The low quality of the road network in Tanzania was aggravated by the prolonged heavy rains in 1997/98. Despite improvements in the road network following completion of the first phase of the 1990–96 Integrated Road Project, the overall condition of the road system remains fragile. An estimated 65 percent of roads are in poor condition, owing to insufficient maintenance and lack of controls on axle weight. Most trunk road corridors and large parts of the rural roads system were substantially damaged by the El Niño rains, which also swept away 20 bridges and seriously eroded 24 bridge approaches. The rains also severely damaged the central railway line, which remained closed until August 1998, although the Tanzania-Zambia Railway Authority line, linking Tanzania with Zambia, remained functional. Local airports were also affected, and, owing to the breakdown of other means of transport, imported goods piled up at Dar es Salaam port. Under a program for post–El Niño rehabilitation, the government gives priority to maintaining roads over building new ones.

Developments in other sectors

15. After declining by an average of about 0.5 percent a year in 1991–94, production in the manufacturing sector increased by almost 4 percent annually in 1995–97. The production of sugar gradually rebounded to the high levels prevailing at the beginning of the decade, while the local production of beer has almost tripled since 1991–92 (Appendix Table 13). Growth in the construction sector was negative or low during 1990–95 but recovered in 1996 and 1997. At the same time, domestic cement production remained fairly stable at about 650,000–750,000 tons a year from 1990 to 1996, but declined in 1997 to only 604, 000 tons.

16. Although its share in total GDP is still very small,[7] the mining sector is growing rapidly, with an output increase of 17.1 percent in 1997. This increase reflects a higher level of investment since 1996, as well as improved coverage. Tanzania has considerable potential in minerals, including gold, but until recently production was dominated by individual prospectors, who are constrained by poor technology and the lack of capital. In 1998, the government laid the basis for the promotion of additional investment in the mining sector by formulating a

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[7]Production is understated owing to extensive smuggling.

new mining policy and adopting the 1998 Mining Act. Development of a gold mine has started, and feasibility studies on two others are expected to be completed in 1998. Apart from gold and diamonds, mining also includes nickel, cobalt, and gemstones. Exploration for industrial minerals, such as soda ash, kaolin, and silicone, is at the planning stage.

17. Part of Tanzania's electricity production is hydro-generated, and the drought caused a sharp decline in production in 1997. Electricity supply improved in 1998 as the heavy rains replenished the reservoirs. The large Kihansi hydroelectric plant is expected to come on stream in 2000, and some existing thermal capacity (based on petroleum) is expected to be converted to gas once the Songo Songo offshore gas resources are developed. This new capacity is welcome as Tanzania's need for electricity is likely to rise rapidly as new mines come on stream. Meanwhile, a new thermal plant, built and operated by the Independent Power Tanzania Ltd. (IPTL) was completed in 1998. The government completed two main power lines in 1996 and 1997 and is extending the main grid to rural areas as, owing to insufficient maintenance, isolated stations in rural areas still provide irregular service.

C. Investment

18. Capital formation as a share of GDP fell from 26.2 percent in 1990/91 (July–June) to 16.1 percent in 1996/97, owing to declines in both the public and the private sectors (Appendix Tables 10 and 14). This fall reflects a lack of local matching funds for foreign-financed projects, the privatization of public enterprises, and a decline in investments by the private sector.[8] Because of the move toward a market economy and the tight budgetary situation in recent years, public consumption declined from about 20 percent of GDP in 1992 to an estimated 9 percent in 1997. The domestic savings ratio increased from -0.2 percent of GDP in 1994/95 to about 7 percent in 1997/98.

D. Inflation

19. As a result of tight monetary and fiscal policies, inflation declined from a 12-month end-of-period rate of 37.0 percent in December 1994 to 16.4 percent in June 1997, and further to 12.0 percent in June 1998 (Appendix Table 17). Initially, in 1995, the inflation rate for food[9] decreased faster than the rate for nonfood inflation, but the nonfood inflation rate (which averaged 1.6 percent per month in 1996)[10] gradually converged to the lower rate for

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[8]The decrease in investments, however, does not match other observations of developments in Tanzania; it may reflect a continuing overestimation of investment at the beginning of the period and remaining data weaknesses.

[9]Food has an excessive weight (71 percent) in the consumer price index and a revision of the basket is being prepared, pending allocation of funds.

[10]Inflation in Tanzania shows a strong seasonal pattern with low rates during the main harvest

(continued...)

food (1.1 percent monthly average). However, owing to the droughts in 1996 and 1997, in 1996/97 food prices increased to a monthly average of 1.4 percent, while nonfood prices continued to decline to a monthly average increase of 0.8 percent. During the first eight months of 1998, the average monthly rates for nonfood inflation continued to decline, except for July when, owing to the introduction of value-added taxes (VAT), prices in this category increased by 2.5 percent. As a consequence of weather conditions, the regional inflation pattern was uneven: food was abundant in food production regions where transport had broken down, while, in other locations high distribution costs resulted in shortages.

E. Zanzibar

20. Zanzibar, consisting of the islands of Nguja and Pemba, accounts for about 3 percent of the population of the Republic of Tanzania (Appendix Table 38) and 0.3 percent of the surface area. Historically, Zanzibar derived its relatively high income from the export of cloves. However, owing to increased production in its main export markets (especially Indonesia), international prices have sharply declined during the last decades. Agricultural policy now aims at promoting diversification of crops and further private investment in spice farms. Fishery is predominantly artisanal, and deepsea fishing remains at the exploration stage. Production in the three export processing zones (EPZs) remains at very low levels, and no investment in the EPZ on Pemba has yet taken place.

21. An important sector for growth in Zanzibar is tourism. Since 1986, more than 75 percent of all investment on Zanzibar has been made in tourism and tourism-related sectors, and the number of hotel beds has increased from 3,000 in 1986 to 6,000 in 1998. Capacity utilization has also increased, as the number of arrivals picked up from 22,000 in 1986 to 86,495 in 1997 and the average stay increased from four to seven days. Direct and indirect employment in tourism amounts to 10,000, with a high share of imported labor at the management level.

22. Real growth has averaged approximately 4 percent a year during 1990–98, higher than on the mainland (Appendix Table 37), while inflation has declined in line with price developments on the mainland.

III. PRIVATIZATION[11]

A. Background

23. The share of parastatals in the Tanzanian economy increased rapidly after independence in 1961, especially following the adoption of socialist policies, as announced in the

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[10](...continued)
season, April–October, and high rates from November to March.

[11]Prepared by Katrin Elborgh-Woytek.

Arusha declaration of 1967. In 1961, Tanzania had only 3 government-owned companies; however, that number rose to 43 by 1966 as the government became more active in the electricity, mining, and manufacturing sectors. After 1967, the parastatals rapidly became the dominant economic force in the country, extending from utilities to manufacturing, services, and trading. In the 1970s, the agricultural sector was largely collectivized, and producer prices were set by marketing boards. By 1988, 410 parastatals accounted for 20 percent of GDP and about two-thirds of employment in the formal industrial sector; their activity was largely controlled by sector ministries.

24. By the beginning of the 1980s, the large costs associated with the dominant role of the parastatal sector became apparent. The inefficiencies in this sector, compounded by a deteriorating external environment, contributed to a slowdown in economic growth from an average of 5 percent a year in the 1960s and 1970s to only 1 percent a year during the early 1980s, well below the population growth rate. The average capacity utilization of parastatals was estimated at about 25 percent and net losses at 8 percent of GDP in 1988/89 (July–June). In 1991, only 43 out of 220 surveyed commercial parastatals were capable of generating revenues adequate to fully service their debts. As a result, government subsidies increased from 1 percent of GDP in 1985/86 to 4 percent of GDP in 1992/93, at the same time as the parastatals built up salary arrears and arrears to commercial banks and the treasury.

B. The Parastatal Sector Reform Commission (PSRC)

25. In the context of structural adjustment, a privatization strategy was adopted in the early 1990s. Objectives of privatization policy included the government's withdrawal from majority ownership of commercial enterprises and the promotion of the private sector by creation of a framework conducive to private investment. Improved access to capital, technology, and external markets, as well as the development of a capital market, were additional objectives. The divestiture of parastatals was expected to reduce budgetary costs, increase efficiency of the productive sector, raise growth rates, and sustain employment. The role of the government was to be reduced and reoriented to the provision of social and economic infrastructure. Privatization policy aimed at creating a broad ownership of shares while retaining significant government minority stakes in large companies. Initially, the government planned to maintain its ownership of the major utility companies, but in 1997 it decided to privatize those enterprises as well.

26. In 1993, the government established the PSRC to coordinate and implement the privatization of parastatals in Tanzania. The PSRC's wide-ranging tasks comprised all aspects of the privatization, including (1) identification and evaluation of parastatal entities; (2) determination, on a case-by-case basis, of the privatization method; (3) preparation of entities for sale or liquidation; (4) implementation of the sale/liquidation; and (5) provision of policy advice to the government on privatization incentives, safety nets, and compensation packages for employees. The PSRC was established on the basis of the Public Corporations (Amendment) Act 1993 for a period of five years, with a maximum period of extension of one year. It is also

guided by the legal framework established by the Capital Markets and Securities Act, and the Banking and Financial Institutions Act. The 1993 Parastatal Privatization and Reform Master Plan formed the basis for two-year rolling action plans.

27. The PSRC has wide-ranging powers to audit and evaluate parastatals, but final decisions about privatization or liquidation are made by the cabinet. Also, the PSRC needs to consult in writing with the Ministry of Finance, the responsible line ministry, and the Attorney General before entering in agreements or transactions relating to the value, sale, or disposal of parastatals. The PSRC is also required to consult and obtain consensus and, in certain cases, clearance for key divestiture stages from other parties, such as the Office of the President, the Treasury Registrar, holding companies, and the Loans and Advances Realization Trust (LART) (see Box 1).

Box 1. The Loans and Advances Realization Trust (LART)

In 1991, LART was created for a period of five years to take over nonperforming assets of the state-owned banks and to assist in restructuring the debtor enterprises. In 1996, LART's mandate was extended to include private banks and financial institutions, and its lifespan was extended to 2000, with an option to extend it for another two years. As an autonomous government-owned institution, LART holds on behalf of the government nonperforming loans of banks and financial institutions, tries to recover the outstanding amounts, assists companies in restructuring, with the aim of facilitating repayment of the loans, and administers the Nonperforming Assets Recovery Fund. To accelerate the recovery of loans, the government established a separate LART Loans Recovery Tribunal, presided over by a high court judge, with simplified procedural rules.

Initially, 104 loans to 93 companies at a total value of T Sh 27 billion were transferred from the government-owned banks to LART. By early 1998, 91 companies had been put into receivership for liquidation and their assets taken over by LART. A total of T Sh 10.5 billion was recovered from the sale of assets, and 28 nonperforming accounts were closed. In 1996, a further T Sh 58.3 billion in nonperforming debt of the National Bank of Commerce and the Cooperative and Rural Development Bank was transferred to LART, of which it expects to recover T Sh 22.4 billion.

During the first phase, LART operated mainly as a recovery agent for the government, and most of the recoveries were made through the seizure and sale of assets. Following the amendments to the LART Act in 1996, it operates more as a general recovery agency for all banks and financial institutions. It aims to make more extensive use of the special tribunal established to induce companies to settle their debt or to accelerate the seizure of assets.

Source: LART, "Get to Know LART," Dar es Salaam, February 1998.

28. A technical committee within the PSRC determines the privatization strategy for each parastatal, depending on past operational and financial performance and the government's preferred postdivestiture shareholding, as well as on the sector, the relevant technologies, and the need to develop market access. The range of privatization options includes divestiture to company employees or management, the establishment of joint ventures, the selling of assets, sale by auction, or the placement of shares on the stock exchange. In those cases in which the government decides to maintain its ownership, privatization of management, leasing, and performance contracts are additional options.

C. Progress of the Privatization Process

29. The government of Tanzania has made considerable progress with privatization, although it is somewhat behind the original schedule.[12] Almost 60 percent of the about 400[13] parastatal entities earmarked at the beginning of the privatization process had been divested by mid-1998 (Table 2). While about 50 percent of the entities were divested through share or asset sales, 31 percent were liquidated. In four cases, divestiture involved debt-equity swaps, and one company was denationalized and returned to the previous owner in 1993. A total of 20 companies were placed under LART. In 1998, the government sold 26 percent of the shares of Tanzania Breweries Ltd. through the newly established Dar es Salaam Stock Exchange (see Section IV). Of the privatized companies, 33 percent were in agriculture or agricultural-processing industries, 31 percent were in manufacturing, and 17 percent were in the services sector. Most of the enterprises were small or medium sized, although 20 had more than 500 employees. The majority of the enterprises were sold to local investors.

Table 2. Tanzania: Parastatal Divestiture by Type of Divestiture, 1992–1997/98

	1992	1993	1994	1995/96	1996/97	1997/98	Total
Sale of shares or assets	5	18	11	24	25	38	121
Shares sold on stock exchange	0	0	0	0	0	1	1
Liquidation	0	16	17	9	11	20	73
Closure	4	5	1	3	1	0	14
Lease	2	8	5	7	1	0	23
Performance and management contracts	0	1	2	0	2	0	5
Restructured 1/	0	0	0	0	0	2	2
Total	11	48	36	43	40	61	239
Of which: placed under LART	0	11	9	0	0	0	20

Source: Parastatal Sector Reform Commission.

1/ In 1997/98, the Tanzania Tobacco Board and the Cashew Board of Tanzania were restructured from commercial enterprises to administrative and regulatory entities.

30. Although data by enterprise are not available, according to the PSRC, the financial performance of enterprises appears to have improved following privatization.[14] Transfers from

[12] According to the master plan for PSRC, published in August 1993, a total of 344 enterprises were to be divested by the end of 1998.

[13] The actual number of parastatals to be privatized changes as companies are split or merged before divestiture.

[14] One company for which postprivatization information is available is the Tanzania Cigarette Company, which was privatized in December 1995. In 1996, its gross sales increased by 27 percent and its exports by 50 percent, and dividends were more than total dividends paid

(continued...)

the budget to parastatals declined from T Sh 20 billion in 1992/93 to T Sh 7 billion in 1997/98. Privatization receipts to the budget (net of privatization costs, including retrenchment costs) amounted to T Sh 17.7 billion (0.5 percent of GDP) in 1995/96, T Sh 12.7 billion (0.3 percent of GDP) in 1996/97, and T Sh 6.5 billion (0.1 percent of GDP) in 1997/98.[15]

31. Despite this progress, a number of factors delayed the privatization process, and PSRC has requested that its mandate be extended by another year. These factors include

- delays in decisions on the divestiture strategy, especially before the elections in 1995;

- a less-than-transparent government policy on the Privatization Trust Fund, management and employee buy-out transactions, and the role of holding corporations;

- the lack of a resolution of the debt patterns of highly indebted enterprises;

- controversies over asset valuation and a nontransparent ownership structure;

- unresolved issues with respect to retrenchment and severance packages and subsequent litigation actions by unions, as statutory benefits upon redundancy are not uniform;

- lack of financing for the purchase and modernization of the enterprises following the beginning of reform of the state-owned National Bank of Commerce (NBC) in 1995; and

- in some cases, lack of interest from the private sector, related to poor maintenance of assets, technological obsolescence, the inadequate location of many enterprises, and the substantial investment needs for rehabilitation.

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[14](...continued)
out over the previous four years; meanwhile, machinery and processes were upgraded (PSRC, "1996/97 Review and Action Plan for 1997/98," Dar es Salaam, September 1997).

[15]The standard payment arrangement is that 10 percent of the contract value for a privatized company is requested as cash payment at the time the memorandum of understanding is signed. An additional 40 percent is due when the sales agreement is signed, while the remainder has to be paid within one year. A special account for privatization receipts is accessible by the Ministry of Finance only. Privatization receipts are first used to cover the privatization costs, such as retrenchment costs and liabilities of the companies to suppliers and creditors, while the remainder can be used for the government's development budget.

D. Social Aspects of Privatization

32. From the start, the government of Tanzania has attached great importance to the social aspects of the privatization process. Since its establishment, the PSRC has submitted wide-ranging recommendations to the government concerning social safety nets,[16] the treatment of displaced employees, and the broadening of share ownership. As far as the latter is concerned, in 1994 the government set up a fund to enable WAZAWA, an organization of the economically disadvantaged, to obtain loans for share purchases. Until recently, however, this fund remained inactive, owing to the absence of a stock exchange. The adoption of the Privatization Trust Fund Act in 1997 has allowed the government to sell part of its remaining shares in parastatals to WAZAWA-targeted institutions, such as unit trusts and cooperatives, and some of these shares may be sold at discounted prices. In order to facilitate wide share ownership, the Capital Markets and Securities Authority was established in 1994, leading to the establishment of the stock exchange in 1998. The PSRC also promotes the repatriation of capital by resident and nonresident Tanzanians while it studies the possibilities of share-ownership by employees.

E. Next Steps

33. The next major steps in the privatization process involve the government-owned banks (see Section VI) and the utilities. Considerable progress has now been made with the preparations for the privatization of the utilities and other large parastatal monopolies (Table 3); this progress, however, has been complicated by their size and the need to adopt regulatory frameworks.[17] The process has been supported by international consultants that have advised on best investment strategies on a case-by-case basis. Following the share offering of Tanzania Breweries, six other companies have been earmarked for initial public offerings through the Dar es Salaam Stock Exchange.[18]

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[16]In cooperation with the trade unions, PSRC developed guidelines for retrenchment benefits and modalities.

[17]The PSRC has recently classified the remaining parastatals in three categories. The privatization of "tier 1" companies, which include all large monopolies, is complex and requires the services of merchant banks and/or legal advisors. The "tier 2" category consists of 32 mostly large and medium-sized entities, economically important in their regions, which may also require the contracting out of privatization services. The "tier 3" category covers 125 medium and small-scale enterprises without significant economic impact, whose privatization will be handled directly by the PSRC.

[18]Tanzania Cigarette Company Ltd., AGIP (Tanzania) Ltd., BP (Tanzania) Ltd., Tanga Cement Company, Tanganyika Portland and Cement Company, and General Tyre (East Africa) Ltd.

Table 3. Tanzania: Status of Preparation for the Privatization of Large, Government-Owned Monopolies

Company	Description	Status
DAWASA	Dar es Salaam Water and Sanitation Authority	Interim operating arrangements (leading to long-term arrangement within five years) expected to be in place by March 1999. Changes in legislation recommended.
NASACO	National Shipping Agencies Corporation	Five companies have been formed from existing departments and will be privatized through sales of shares.
TANESCO	Tanzania Electric Supply Company Limited	TANESCO's different functions will be privatized separately, starting with distribution and supply. A draft power policy has been prepared.
TCFB	Tanzania Central Freight Bureau	TCFB is expected to become the nucleus of a maritime authority, in charge of regulating the shipping industry.
THA	Tanzania Harbours Authority	The concession arrangements for the container and grain terminals are proceeding. Work on the remaining 12 units will be spread over the next two–three years.
TIPER	Tanzanian-Italian Petroleum Refinery	The government expects to make a decision on the future of TIPER in 1999, based on the recommendations of a 1998 study of options.
TPDC	Tanzania Petroleum Development Corporation	TPDC is expected to be converted into a regulatory agency and/or exploration department of the Ministry of Energy.
TRC	Tanzania Railways Corporation	Approval by the treasury is awaited for the division of assets and liabilities.
TTCL	Tanzania Telecommunications Company Limited	Invitations to bid are expected by January 1999.

Source: Parastatal Sector Reform Commission.

IV. Civil Service Reform[19]

A. Background

34. In the 1970s and 1980s, the capacity and performance of the Tanzanian civil service declined considerably. While total civil service employment almost quadrupled between 1961 and 1993/94, real wages declined sharply, and the pay-scale became severely compressed (Tables 4 and 5). These developments, combined with deteriorating personnel management, led to a decline in staff morale, high rates of absenteeism, the departure of skilled and experienced staff, and, in general, a sharp decline in productivity and efficiency of the civil service.

Table 4. Tanzania: Civil Service Employment, 1961/62–1997/98 1/
(End of period)

	1961/62	1971/72	1981/82	1988/89	1993/94	1994/95	1995/96 2/	1996/97 3/	1997/98
Education	11,145	23,131	93,318	101,042	126,410	...	...	...	...
Health	6,300	12,400	17,036	32,650	37,705	...	...	...	...
Other	72,300	103,072	104,745	165,446	190,497	...	...	...	...
Total	89,745	138,603	215,099	299,138	354,612	315,963	287,038	285,624	270,629
Change	...	...	...	...	...	-38,649	-28,925	-1,414	14,995
Change (cumulative from 1993/94)	...	...	...	...	...	...	-67,574	-68,988	-83,983

Source: Tanzanian authorities.

1/ Fiscal years run from July to June.
2/ September 1996.
3/ December 1996

Table 5. Civil Service Real Wages, 1969–84
(In Tanzania shillings)

	Minimum Salary	Average Salary	Top Salary
1969	100	100	100
1974	135	133	56
1979	58	77	26
1984	40	31	11

Source: Tanzanian authorities.

[19]Prepared by Katrin Elborgh-Woytek.

35. In the framework of its overall structural adjustment efforts, the government's civil service reform was officially launched in July 1991. Initially, the program consisted mainly of a number of studies, undertaken with United Nations Development Program support; implementation started with the adoption of the Parastatal and Public Sector Reform Programme in 1993, supported by the World Bank.

B. The Civil Service Reform Programme (CSRP)[20]

36. Implemented by the Civil Service Department (CSD) under the Office of the President, the CSRP aimed at creating a "smaller, affordable, well-compensated, efficient, and effective performing civil service."[21] The program consisted of six components:

- retrenchment and redeployment;
- pay policy reform;
- personnel control and management;
- organization and efficiency reforms;
- capacity building and training; and
- local government reforms.

The first phase of the program (1993–96) focused on retrenchment, with a view to achieving an optimal size of the civil service. The second phase, beginning in January 1996, also addressed institutional issues, including managerial capacity, the role of the government, and organizational restructuring. The CSRP has been supported by, in addition to the World Bank, a number of multilateral and bilateral donors.[22]

Retrenchment and redeployment

37. The first round of retrenchments, launched in 1992/93, aimed at reducing the size of the civil service by 50,000 over a three-year period. In a second round that began in April 1996, the government aimed at reducing the payroll by a further 20,000 by the end of

[20]In addition to information provided by the government authorities, this section is based to a large extent on documents prepared by the authorities for various Consultative Group meetings, and Public Expenditure Review and other reports of the World Bank.

[21]United Republic of Tanzania, "Civil Service Reform Programme, An Integrated Strategy for Sustainable Restructuring and Modernization of Government," prepared for the Consultative Group meeting for Tanzania, Paris, November 17–18, 1994.

[22]Including Overseas Development Administration/U.K. Department for International Development, UNDP, Norwegian Agency for Development Cooperation (NORAD), Swedish International Development Authority (SIDA), Danish International Development Agency (DANIDA), the Netherlands, the European Union, and Switzerland.

1996/97. In July 1992, all civil service recruitment was frozen, except in the priority sectors of education, health, and internal security. Specific measures to improve recruitment controls at both central and local government levels were declared in November 1994, including a ban on the recruitment of additional nonprofessional/technical staff in education, health, and internal security, and on automatic recruitment for replacements in al sectors. As a large number of government employees were paid outside the computerized payroll by voucher payments, a total ban on voucher payment took effect in September 1995.

38. The target for the first round of retrenchment was missed by about 25 percent, despite the elimination from government payrolls of a large number of "ghost workers,"[23] because the priority sectors were excluded from the retrenchment effort and the hiring freeze. However, following the imposition of stricter controls in 1994, these sectors were also brought under control, and by June 1997 civil service employment had been reduced by almost 85,000, or 24 percent of total employment at the outset of the CSRP. Most of the retrenchment occurred in the lower-skilled employment groups.

39. For 1998/99, on the basis of organization and efficiency reviews (see paragraph 40), the government has identified an additional 7,000 civil servants for retrenchment, of whom 3,000 belong to the health sector, 3,000 to the local governments, and 1,000 to central and regional administrations. Retrenchment of 400 agricultural employees is going on with donor support. While employment in the education sector is considered adequate in the aggregate, there are significant distributional distortions, and the CSD has authorized local authorities to employ 2,300 additional teachers.

40. With the aim of reducing the hardships resulting from the process, retrenchees receive a retrenchment package and assistance in finding alternative employment. The compensation for each retrenchee includes statutory retirement benefits, salary in lieu of notice up to a maximum of 20 months of salary, transportation and luggage costs, pay in lieu of leave, and an ex gratia payment. Under the Redeployment Counseling and Skills-Training Programme, approximately 20,000 retrenchees have been counseled, and an estimated 10,000 retrenchees have been trained in the fields of their choice. Access to the training and counseling is facilitated through a voucher scheme;[24] however, counselors are available only in the urban areas. The government's Redeployment Trust Fund, established in 1995 to facilitate access of retrenchees to financing, has not yet become operational.

[23]The National Pay Day in 1994 revealed a total of 14,000 nonexistent workers on the treasury payroll.

[24]Each retrenchee receives five T Sh 500 vouchers, with each voucher giving the right of one hour of counseling. By mid-1996, about one-third of the civil service retrenchees had received vouchers valued at T Sh 100,000 for training.

41. Until the financial year 1996/97, the government financed the main part of the retrenchment budget, which amounted to the equivalent of US$50 million. Since 1996, retrenchment has been mainly donor financed in the amount of US$100 million. During 1997/98, the availability of financing was sharply reduced pending the completion of an audit of the retrenchment funds. The audit was successfully completed and donor support is expected to resume in 1998/99.

Pay policy reform

42. The pay policy reform aims to attain competitive pay levels and to improve the link between pay and performance. Initially, it focused on rationalization of the compensation system. With the 1996/97 budget, the government reduced the number of pay scales from 21 to 6 and the number of grades from 192 to 52, while incorporating half of the various allowances in the salary. In July 1996, salaries were increased by 75–250 percent; civil service pay increased by 75 percent on average in real terms during the period 1992–97. As the maximum salary was raised 233 percent more than the minimum salary, the compression ratio was reduced from 1:6.6 to 1:16. However, civil service pay remains considerably lower than in the private sector.[25] In March 1998, the government issued a paper on policy issues, options, and recommendations on further pay reform, and it is expected to adopt a new pay policy during 1998/99.

Personnel control and management

43. A main objective of the personnel control and management component of the CSRP is to reestablish control over the size of the government payroll, as inefficient personnel management and control was a major factor in the excessive growth of the government payroll up to 1993/94. In 1996, the Personnel Management and Information Unit in the CSD became operational, and, in May 1998, work on the establishment of a personnel database began. By August 1998, information on 170,000 employees had been gathered, and a new personnel and payroll system was under preparation.

Organization and efficiency reforms

44. An important part of the CSRP is a review of the tasks performed by the government ministries, with the aim of (1) promoting a government structure that focuses on its core roles and functions; and (2) improving the operations and effective delivery of public services.[26] The results of this organization and efficiency (O&E) exercise have so far been mixed. By June

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[25]From a comparative compensation survey by Coopers and Lybrand in the 1998 World Bank public expenditure review.

[26]United Republic of Tanzania, "CSRP: Strategy, Implementation Status and Forward Plan," presented to the Consultative Group meeting for Tanzania, Paris, July 1996.

1996, the diagnostic phase of the O&E review, during which the overall role, functions, and structure of the ministries were assessed, had been completed for all central ministries. However, only a few had undergone a major restructuring as a result of the review. In addition, the recommended decline in employment was below 2 percent of total employment, significantly less than anticipated.[27]

45. At a later stage of the process of restructuring ministries, the establishment of "executive agencies" was added as an alternative option. Executive agencies are government organizations that will use commercial-style financial, management, and accounting systems, and be allowed to compete with the private sector in order to improve efficiency. Executive agencies are managed by chief executives and recruited by open competition, and their staffs will transfer from the public service with new terms and conditions of employment to meet the agencies' specific needs. By end-1998, two entities, the Central Medical Stores and the Tanzania Revenue Authority (TRA), had become executive agencies.

Capacity building and training

46. The main objectives of the capacity-building program are to improve the ability of the government to build and maintain a strong civil service, improve its management and training, and introduce gender issues. To this end, the government has conducted a number of studies and organized training seminars. However, owing to the central role of the CSD and the CSRP secretariat, the capacity-building impact of the reform program has been limited.

Local government reforms

47. The objectives of the local government reform component of the CSRP are (1) to develop financially viable local government systems that are able to provide basic services, and (2) to reallocate responsibilities between the central and local governments. In the context of this reform, regional civil service functions have been reduced to coordination and the provision of technical support to local authorities, who are now in charge of managing their own personnel, including administration of salaries. The size of the regional staff of the central government has been reduced from an average of 700 to 80 per region. An agenda and strategy for reforming local government have been decided on, and a local government reform team has been established in the Office of the Prime Minister. The former responsibilities for regional and local authorities have been shifted to a newly created Ministry of Regional Administration and Local Government.

[27]One of the results of the O&E reviews was the establishment of a number of posts in each ministry, specified by salary scale. This new system will form the basis for promotions and recruitment.

C. Conclusion

48. The government has made considerable progress with the civil service reforms, but much remains to be done. While the government payroll has been significantly reduced and control over the wage bill improved, civil service salaries remain far behind those in the private sector. The O&E review has had a mixed impact on the structure of the government and on retrenchment, and local government reform is still in the beginning stages. Also, the reforms have not yet markedly improved the overall performance, including delivery of services of the government.

49. By June 1998, the first phase of the CSRP had been completed. The CSRP Secretariat at the CSD was closed and integrated into the CSD ministry. The public service management and employment policy was adopted by the cabinet in June 1998, and the next phase under the Public Sector Reform Programme 1998–2003 is to focus on capacity building and improvement of the quality of public services. This second phase will emphasize performance improvement; restructuring of ministries and private sector participation; development of executive agencies; promotion of management information systems; development of leadership, management, and governance skills; policy coordination; and monitoring and evaluation procedures.

V. Recent Developments in the Tax System[28]

A. Background

50. After falling to less than 10 percent in 1992/93, over the last five fiscal years, the ratio of Tanzania's tax revenues in relation to GDP has remained at about 11–12 percent. Tight control of expenditure since 1996 has meant that this relatively low ratio has not impeded the effort to control inflation, but the government has not had the fiscal resources to meet its budgeted expenditures. Moreover, Tanzania relies heavily on foreign financial assistance (net of external debt service). Such assistance amounted to an average of 2.5 percent of GDP in 1996/97 and 1997/98, and over the medium term Tanzania wishes to reduce its aid dependency. The ongoing tax reform effort thus has as one of its key objectives the generation of higher revenues; the fact that Tanzania has not yet achieved that objective reflects both the long gestation period of the effectiveness of new tax systems and certain ongoing weaknesses in the tax system which have yet to be addressed. This section reviews developments in tax reform and tax structure since a comprehensive 1996 review by IMF staff.[29]

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[28]Prepared by Hamid Davoodi.

[29]SM/96/267 (10/25/96) provided a long-term perspective on the decline in Tanzania's tax revenue rates. During the first decade of Tanzania's structural reforms (1986/87–1995/96), tax revenues had been on average 3 percent of GDP below their level in the prereform period

(continued...)

B. Tax Reform, 1996/97–1998/99

51. The 1996/97 budget included a number of tax reform measures. The sales tax was extended to eight additional services, the Income Tax Act was amended to increase the minimum taxable threshold and adjust the income brackets, and a number of "nuisance" taxes were abolished.[30] In addition, a number of excise taxes were raised (in the case of specific taxes to adjust for inflation), and, as a revenue measure, the stamp duty was raised by 20 percent. However, the budget also included a number of measures that were not in line with the thrust of tax reforms, including reinstatement of a 2 percent tax on traditional exports,[31] and a series of new exemptions.[32]

52. An important tax administration measure was the establishment of the TRA in July 1996. The TRA was set up as an executive agency; its objectives were to establish "a sustained revenue base to enable Tanzania to finance its recurrent and development expenditure needs without being excessively dependent on external aid" and to develop "a tax regime which is transparent, effective, and conducive to uncumbered growth of private investment and international trade."[33] The executive agency status allows the TRA to pay considerably higher wages, thus enabling it to hire and retain high quality staff. The TRA was entrusted with the task of collecting, on behalf of the government, all major taxes, including import duties, export taxes, sales, excise and income taxes, as well as the VAT (as of July 1998). It collects all taxes on mainland Tanzania, and the income tax and all taxes on imports on Zanzibar; all domestic taxes on Zanzibar (except the income tax) are collected by the Zanzibar Revenue Board, established on October 1, 1997.

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[29](...continued)
(1981/82–1985/86). The paper attributed this decline to (1) a decline in the tax base as a weak tax administration did not keep up with the structural change from an easy-to-tax public sector-dominated economy to a hard-to-tax private (and informal) sector-dominated economy; and (2) an increase in exemptions and tax evasion, despite on-going tax reform.

[30]The motor vehicle surtax, the estate duty, the video tax, the capital gains tax, and the specified building tax.

[31]In the 1998/99 budget, this tax on traditional exports was removed.

[32]Including for religious organizations from customs duty, sales tax, and stamp duty and relief from income tax for the Parastatal Pension Fund, the National Provident Fund, the Local Authority Provident Fund, the Government Employees Provident Fund, and saving and credit societies.

[33]Tanzania Revenue Authority, *"Annual Report For 1996/97,"* (Dar es Salaam: Tanzania Revenue Authority, 1998, p. 3).

53. The 1997/98 budget included a more extensive set of measures than the 1996/97 budget. At least sixteen explicit tax measures were introduced, including: (1) a reduction in the custom duty structure from seven to four bands and in the maximum duty rates from 40 percent to 30 percent; (2) as a transitional step toward introduction of the VAT, a narrowing of the dispersion of the sales tax rates from 0–30 percent to 5–25 percent, and imposing a 10 percent sales tax on most goods previously not in the tax net; (3) elimination of a further number of nuisance taxes;[34] and (4) measures to collect tax arrears on fraudulent Investment Promotion Center exemptions. In addition, the government increased petroleum taxes and the road toll (from 60 shillings to 70 shillings per liter gasoline or diesel). Improvements in tax administration occurred in four areas. First, the collection of the windfall tax on petroleum was shifted from the Tanzania Petroleum Development Corporation (TPDC) to the TRA. Second, a new preshipment inspection contract was to require the sealing of containers, thereby allowing the rationalization of customs procedures, including the establishment of a green channel for sealed containers. Third, the National Tax Appeals Board was to be activated, along with the establishment of commercial courts.[35] Fourth, an action plan was drawn up for each of the three major departments of the TRA (customs and excise, sales tax, and income tax).

54. The 1998/99 budget included the single most far-reaching measure in Tanzania's tax reform program: the introduction of the VAT on mainland Tanzania as of July 1, 1998 replaced a cumbersome and inefficient set of sales taxes.[36] In view of the uncertainties associated with the introduction of this new tax, the authorities decided to wait with further major tax reforms until the next budget, although a number of smaller tax changes were implemented, especially in customs duties and withholding taxes.[37]

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[34]The withholding tax on business insurance claims, the excess profit tax, and the single-trade transaction tax.

[35]A unified tax appeals board is to become operational in March 1999.

[36]The VAT was introduced at a single rate of 20 percent with a threshold of T Sh 20 million a year for the mainland. Zanzibar introduced the VAT as of January 1, 1999, also at a rate of 20 percent but with a threshold of T Sh 15 million a year.

[37]The introduction of the VAT required changes in a number of other taxes, such as the stamp duty, and in excises. Import duties were lowered from 20 percent or 30 percent to 5 percent on some 100 goods, mainly concerning intermediate inputs in industrial production. Duties on some motor vehicles were lowered from 30 percent to 20 percent. Some duties on imports from Common Market for Eastern and Southern Africa (COMESA) member countries, suspended previously, were reinstated when Tanzania resumed implementation of COMESA tariff preferences on July 1, 1998.

C. Tax Structure, 1996/97–1997/98

55. In its first year of operation, the TRA succeeded in increasing revenues by 34 percent, raising the tax revenue-to-GDP ratio from 11.3 percent to 12.1 percent.[38] The increase was most pronounced in import taxes, but also occurred in sales taxes and excises and in "other taxes." The increase in revenue partly reflected the collection of tax arrears, and the increase in "other taxes" is explained by the change in stamp duty rates. In 1997/98, however, the tax revenue-to-GDP ratio fell back to the 1995/96 level, owing to declines in all tax categories except "other taxes." Specific factors that contributed to this decline include: (1) transportation problems following the floods in early 1998, which caused delays in tax collections; (2) preparations for the introduction of the VAT in July 1998, leading to reduced efforts in collecting sales tax; (3) increases in the scope of exemptions from import duty during 1997/98 (see Section VII); and (4) the decrease in the maximum import duty rate in the 1997/98 budget. The increase in the revenue-to-GDP ratio of "other taxes" was mainly due to the increase in the road toll in the 1997/98 budget.

56. As a result, Tanzania's tax-to-GDP ratio remains one of the lowest in the region (Table 6). Tax revenues in Kenya are about 25 percent of GDP. Only Uganda has (slightly) lower rates than Tanzania.

Table 6. Tax Revenue-to-GDP Ratio

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Tanzania 1/	12.5	9.5	11.0	11.3	11.3	12.1	11.2
Uganda 1/	6.7	7.1	8.3	9.9	10.4	10.9	10.7
Kenya 1/	19.5	19.3	24.9	25.3	25.3	24.5	27.2
Sub-Saharan Africa 2/	15.9	15.7	16.0	15.6	15.7	...	...

Sources: Tanzanian, Kenyan, and Ugandan authorities; IMF Working Paper 97/107 (1997).

1/ Fiscal years run from July through June.
2/ Calendar years covering the period ending at the middle of the fiscal year.

57. Buoyancy ratios bring out the trends in the ratio of tax revenue to GDP over the last four years, although there are substantial fluctuations in the ratios (Table 7).[39] For 1997/98,

[38]Appendix Table 18. These ratios are lower than in the 1996 background paper (SM/96/267) because of a subsequent upward revision in GDP (see Section II).

[39]The buoyancy ratio is calculated as the percentage change in tax revenues divided by the (continued...)

the ratio for income tax on individuals and on companies in 1997/98 is about 1, but the ratio for overall income taxes is only 0.65 because of a stagnation in withholding taxes and a sharp decline in other income taxes. On taxes on imports, the elasticity of sales and excise taxes to GDP was almost 0.9 in 1997/98, but the overall buoyancy ratio for import taxes was only 0.22, reflecting the lower customs duty rates and tax losses from exemptions.

Table 7. Tanzania: Buoyancy Ratios of Central Government Tax Revenues 1/

	1992/93–1993/94	1993/94–1994/95	1994/95–1995/96	1995/96–1996/97	1996/97–1997/98
Tax revenue	1.59	1.14	1.28	1.11	0.43
Income tax	0.96	1.50	0.72	1.14	0.65
Personal tax 2/	0.77	3.26	0.71	1.88	1.11
Company tax	5.60	0.38	0.69	0.27	0.99
Other 3/	-2.21	4.36	0.80	2.16	-0.65
Payroll and manpower tax	0.57	2.90	1.50	1.20	0.97
Property tax	2.68	0.41	-0.53	-1.45	0.05
Sales and excise taxes on local goods	1.69	0.10	1.16	1.42	0.21
Import taxes	1.96	2.54	1.19	1.39	0.56
Custom duties	2.48	...	...	1.13	0.22
Sales and excise taxes	1.41	...	...	1.66	0.88
Other taxes	3.18	0.51	0.94	1.68	0.88

Source: Tanzanian authorities.

1/ The buoyancy ratio for any type of tax for a given time period is the percentage change in tax revenue divided by the percentage change in GDP for the same time period.
2/ Sum of income tax on individuals and PAYE tax.
3/ Mainly withholding taxes.

58. The shares of the different tax categories in total tax revenue changed only slightly during the last three years. The share of taxes on international trade increased from 27 percent in 1995/96 to more than 29 percent in 1997/98, owing to increases in the share of sales and excise taxes. However, the share of customs duties declined from 13.7 percent of tax revenues in 1995/96 to 13.2 percent in 1997/98. The shares of domestic sales and excise taxes, income taxes, and other taxes (mainly stamp duty and the road toll) remained at about 23–24 percent of total tax revenue.

D. Conclusion

59. Tanzania has made substantial progress in reforming its tax structure during the 1990s. Many smaller taxes have been eliminated and progress has been made in reducing and

[39](...continued)
percentage change in nominal GDP for the same time period. In other words, the buoyancy ratio is the elasticity of tax revenue with respect to nominal GDP for a given time period.

rationalizing customs duty rates. In July 1998, the VAT replaced the much more cumbersome sales tax. The establishment of the TRA in 1996 was an important step on the road to improve tax administration.

60. Despite the progress, much remains to be done. Firstly, the measures taken have not yet been able to overcome the effects of the reductions in tax rates in 1992/93 and 1995/96; the tax revenue-to-GDP ratio remains low. A major cause appears to be increasing prevalence of exemptions, especially in customs duties. Without measures, the immediate outlook is not positive as new exemptions are emerging in the VAT and in income tax as a result of exemptions provided to holders of certificates issued by the Tanzania Investment Center. Secondly, it will take time for the TRA to build-up a highly qualified staff; the TRA is addressing these issues with assistance from multilateral (World Bank) and bilateral donors. Thirdly, the reform of the tax system has not yet been completed. A number of major reforms are being prepared with the objective of further reducing the number of taxes and their complexity, and reducing statutory exemptions to a minimum. In customs duty reform, the major objectives are to simplify and rationalize the tariff system, improve its revenue productivity, and align it to the requirements of regional economic integration agreements.

VI. FINANCIAL SECTOR REFORM[40]

A. Background

61. Following the Arusha Declaration of 1967, all private commercial banks operating in mainland Tanzania were nationalized and replaced by a new state-owned bank, the National Bank of Commerce (NBC).[41] Between 1967 and 1972, four more state-owned financial institutions were established following the enactment of institution-specific acts that provided for their operation and regulation. There was no legal framework for harmonizing the activities of all financial institutions and no supervisory body for enforcing adherence to prudential standards. The government maintained interest rate controls and used state-owned banks as means of directing credit to parastatals and cooperatives. The financial institutions' disregard for asset quality, combined with an unfavorable economic environment, led to a large accumulation of nonperforming loans.

62. The deterioration of banking conditions in the 1980s prompted the establishment of a Presidential Banking Commission (Nyirabu Commission) in 1988, aimed at developing recommendations for rehabilitating the financial sector. In 1991, following the commission's report, the government of Tanzania initiated a financial sector reform program. Its goal was to

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[40]Prepared by Angeliki Kourelis.

[41]Prior to the Arusha Declaration, eight foreign private banks were operating in Tanzania. See Charles S. Kimei, *Tanzania's Financial Experience in the Postwar Period* (Uppsala: Almqvist & Wiksell International, 1987).

promote the efficient mobilization and allocation of savings through a competitive and market-based financial system. To this end, in 1991, interest rates were liberalized and the Banking and Financial Institutions Act (BFIA) was enacted. The BFIA legalized the establishment of private financial institutions and gave the Bank of Tanzania (BoT) the responsibility for licensing, regulating, and supervising banks and nonbank financial institutions. That same year, the Loans and Advances Realization Trust (LART) was created to facilitate the recovery of overdue debts transferred from state-owned financial institutions. In 1992, the Banking Supervision Department was elevated to the status of a directorate, and its staffing levels were increased. The Bank of Tanzania Act, 1995, and a series of banking laws and prudential regulations, further consolidated the BoT's supervisory authority.

63. At the commencement of financial sector reform in 1991, the country's banking sector comprised six deposit-taking financial institutions. The banks were the NBC, which enjoyed a virtual monopoly in the mainland and extended credit to parastatals and the government; the Cooperative and Rural Development Bank (CRDB), the government's main rural banking vehicle; and the People's Bank of Zanzibar (PBZ), a quasi-central bank to the government of Zanzibar. The nonbank financial institutions[42] were the Tanzania Investment Bank (TIB), which provided development finance to the industrial sector; the Tanzania Housing Bank (THB), which specialized in rural and urban housing finance; and the Tanzania Postal Bank (TPB), which mobilized deposits for investing in government securities. The entry of private banks was permitted in 1992, but the first ones—Standard Chartered and Meridien-BIAO—did not begin operations until 1994.[43]

64. Since 1996, the financial sector has expanded dramatically. In June 1998, it comprised 19 licensed commercial banks (17 operating), 9 nonbank financial institutions, 105 foreign exchange bureaus, and a number of informal intermediaries.[44] Despite the large number of nonbank financial institutions and foreign exchange bureaus, the financial system is still dominated by commercial banks. Of the 17 operating commercial banks, only three—the NBC

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[42]Nonbank financial institutions differ from banks in that they are not members of the clearinghouse and therefore are not authorized to accept deposits subject to withdrawal by check. Nonbank financial institutions are exempt from maintaining statutory minimum reserves, while banks must hold 10 percent of their total deposits with the BoT. As a result, the cost of deposits is lower for nonbank financial institutions, which allows them to offer higher deposit rates and more competitive lending rates.

[43]In mid-1995, Meridien-BIAO was taken over by the BoT in view of the failure of its parent company, and was subsequently acquired by another foreign private bank.

[44]Foreign exchange bureaus buy and sell foreign currency notes and traveler's checks at freely negotiated exchange rates. The informal intermediaries include savings, credit, and cooperative societies (SACCOs), community banks, and nongovernment organizations that provide credit to rural and urban microfinance enterprises.

(1997), the National Microfinance Bank (NMB) (the two banks created after the split of the NBC in 1997), and the PBZ—remain under government control. Combined, however, they control 40 percent of domestic credit and 55 percent of deposits (Figure 1).[45] The six largest banks—the NBC (1997), the CRDB (1996) (created upon the divestiture of the CRDB in 1996), Citibank, the NMB, Standard Chartered, and Stanbic—hold 90 percent of all assets. The market share of the remaining 11 banks, which include foreign African, as well as indigenous Tanzanian banks, is only 10 percent. Private banks operate almost exclusively in Dar es Salaam, maintain high minimum deposit balances, and lend primarily for short-term trade finance (Appendix Table 25), thus limiting their customer base to a handful of low-risk, high-value customers. Small and medium-sized urban enterprises, as well as the rural population, continue to have limited access to banking services.

B. Prudential Regulations and Supervision

65. In order to support the liberalization of the financial sector and ensure its safety and soundness, the regulatory and supervisory environment has been modernized in line with the Basle Committee's Core Principles for effective banking supervision. Before granting a license to an institution wishing to provide banking services, the Banking Supervision Directorate analyzes the soundness of its business strategy and financial position, its capital adequacy, the integrity and experience of the management, and its likely contribution to the financial development of Tanzania. Minimum core capital requirements for commencing operations (which are to be maintained at all times) are T Sh 1,000,000 for commercial banks and T Sh 500,000 for nonbank financial institutions. In order to encourage the development of the financial sector outside Dar es Salaam, the statutory minimum core capital requirement is lower for regional financial institutions.[46] Currently, the Kilimanjaro Cooperative Bank is the only regional financial institution in operation, but licenses to two more such institutions have been granted. Given the liberal entry of financial institutions in the market in the last three years, the high degree of concentration in Dar es Salaam, and the pressures on the supervisory capacity of the Banking Supervision Directorate, the BoT intends to proceed with caution in granting licenses to new financial institutions in the coming years.

66. In addition to the minimum statutory core capital requirement, the BoT requires financial institutions to maintain minimum capital adequacy ratios at all times. The capital adequacy ratios, however, differ for banks and nonbank financial institutions. Banks must hold minimum core and total capital equivalent to 6 percent and 8 percent, respectively, of their

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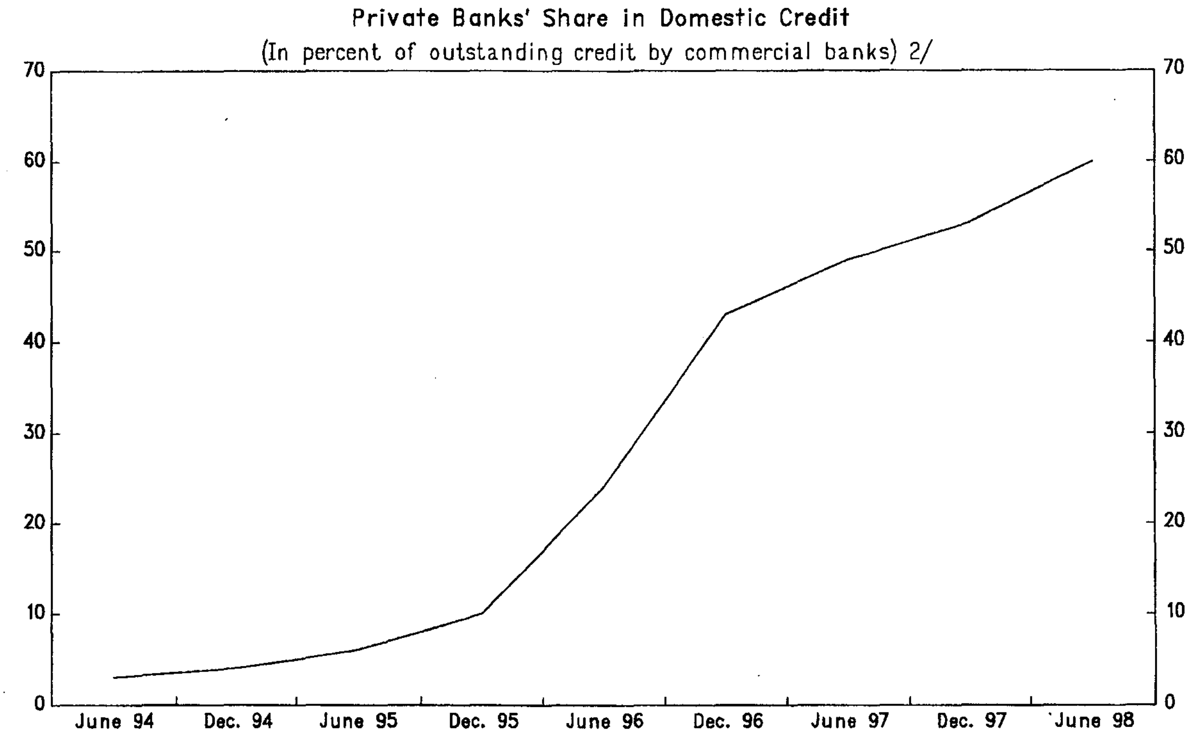
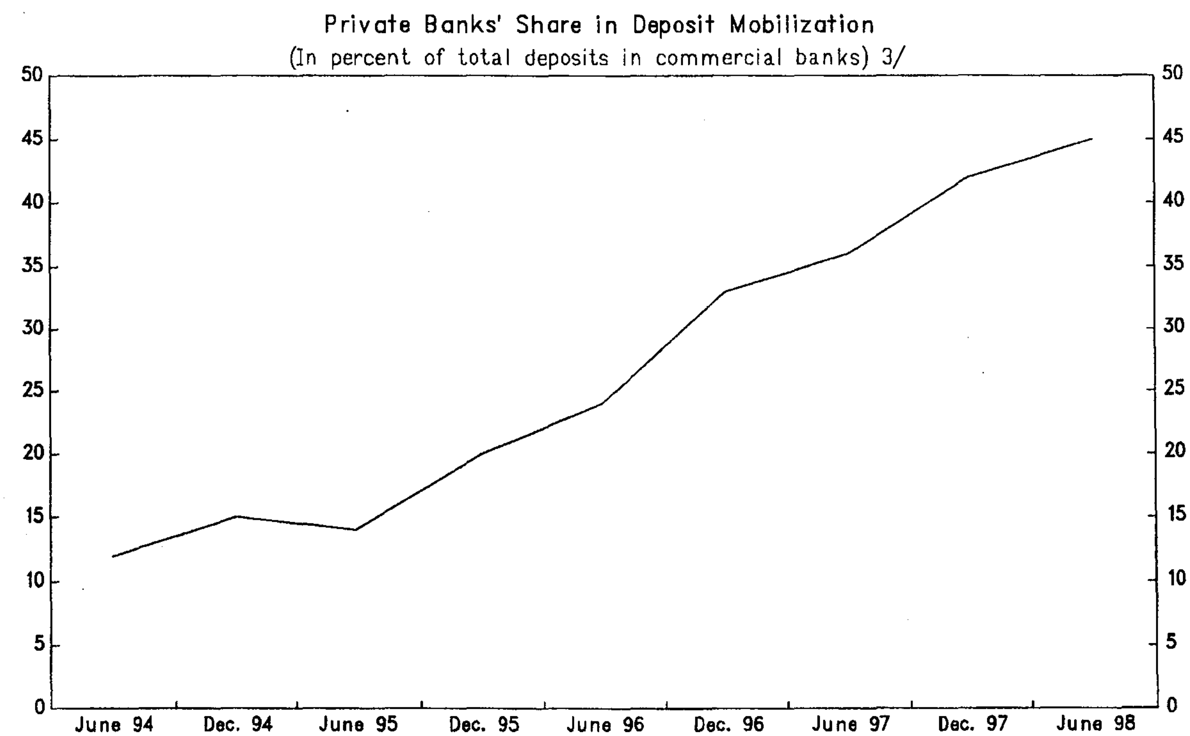
[45]The market shares are as of June 1998; loans to the government and government deposits are excluded. The PBZ controls only 4 percent of domestic credit and 2 percent of deposits.

[46]Regional financial institutions are those whose head offices are located outside Dar es Salaam. In general, they are organized as single-unit entities.

Figure 1. Tanzania: Market Share of Private Banks, June 1994-June 1998 1/





Source: Tanzanian authorities.

1/ The Cooperative and Rural Development Bank is included in the private sector beginning in December 1996.

2/ Loans to treasury are excluded from total lending.

3/ Government deposits are excluded from total deposits.

risk-weighted assets and off-balance sheet activities.[47] Nonbank financial institutions do not face a total capital requirement but must maintain minimum core capital equivalent to 8 percent of their risk-weighted assets and off-balance sheet activities, 2 percent more than banks.

67. Capital-deficient financial institutions are allowed up to three months to increase their capital and/or reduce their assets and off-balance sheet exposure. Penalties for institutions that remain capital deficient for more than 14 consecutive days include the suspension of new lending (unless they obtain prior approval from the BoT), capital expenditures, and branch expansion. Raising capital, however, is difficult, given the underdevelopment of Tanzania's capital markets.

68. In order to effectively assess the financial condition and profitability of financial institutions, the BoT requires them to submit annual, quarterly, and monthly balance sheet and income-expense statements. Only the annual financial statements, however, are required to be prepared by external auditors approved by the BoT.[48] Financial institutions are also required to publish their quarterly unaudited and annual audited financial statements in newspapers of general circulation. However, they are not required to publicly disclose their share of nonperforming assets or capital adequacy ratios.

69. The Banking Supervision Directorate performs annual (or more frequent, if needed) on-site inspections of financial institutions to assess their financial condition and performance, as well as their compliance with regulations and reliability of reporting.[49] On-site supervisors focus on assessing institutions' capital adequacy, asset quality, management effectiveness, earnings, and liquidity (the CAMEL indicators). In addition to the on-site inspections, the Banking Supervision Directorate performs off-site monitoring based on the prudential ratios provided by financial institutions. These ratios act as indicators of the institutions' financial condition and are incorporated in an early warning monitoring system, which was recently computerized.

70. If the BoT determines that a bank or nonbank financial institution operates in an imprudent manner or is in violation of the BFIA or other prudential guidelines, it is authorized

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[47]The risk-based capital standards became effective in October 1993. The weights used for calculating risk-adjusted assets and off-balance sheet exposure are defined according to the Basle Capital Accord. The Basle Committee calls for minimum risk-weighted core and total capital ratios of 4 percent and 8 percent, respectively. Core capital refers to paid-up share capital and retained earnings.

[48]This requirement is supported by a well-developed accounting profession that generally adheres to international accounting standards.

[49]In addition to capital adequacy, financial institutions must meet prudential guidelines on liquidity, credit diversification, connected lending, and foreign exchange exposure.

to take punitive and supervisory actions. Such actions may include the removal of management, injection of new capital, or the establishment of directives, such as "cease and desist" orders, requiring the bank to improve operations.

71. The rapid expansion of the financial sector in the last three years has put a strain on the supervisory capacity of the Banking Supervision Directorate. In response, the directorate continues to recruit and train supervisory staff and enhance its information technology. It is also standardizing the guidelines for on-site inspections, reviewing prudential regulations to improve adherence to the Basle Committee's Core Principles, and encouraging financial institutions to establish internal audits. The BoT is also closely cooperating with the central banks of Kenya and Uganda, the other members of the Monetary Affairs Committee of the East African Commission, in harmonizing banking supervision practices across the region.

C. Restructuring of State-Owned Financial Institutions

72. By the late 1980s, the state-owned financial institutions' poor asset quality, small capital base, and high operational costs had resulted in a large accumulation of losses.[50] As part of the financial sector reform, these institutions, and especially the NBC, were to be restructured. In its 1990 report, the Presidential Banking Commission proposed that the NBC be split into smaller institutions to facilitate its restructuring and promote competition.[51] At the time, the government chose not to split the NBC but instead to try to rehabilitate it as a single entity. From 1991 to 1994, the government's strategies were directed to achieving this aim. In 1992, it transferred some of the NBC's nonperforming loans to LART and replaced them with treasury bonds, and in a two-part transaction in 1992 and 1993 it issued bonds for the NBC's recapitalization. To reduce operating costs, 2,800 staff were retrenched in 1993 and 1994 (from over 9,000 in 1991), and 23 unprofitable branches (out of 205) were closed.

73. These measures, however, proved insufficient to improve the NBC's performance, and its financial position continued to deteriorate. In 1995, a more radical plan was adopted for the NBC's restructuring. A new board of directors was appointed, and the BoT required it to develop a plan of action for improving the bank's profitability. That business plan was the basis for a memorandum of understanding, a "cease and desist" order, between the NBC's board of directors and the Ministry of Finance, to be monitored by the BoT through the Banking Supervision Directorate. The memorandum of understanding, which was put in place in October 1995, required the NBC to break even between January and June 1996 and to improve its credit performance. In order to reach the profitability target, the NBC was to reduce operating expenses by 40 percent, increase fees and commissions by 50 percent, and attain a 2 percent net interest margin (after provisioning for loan losses). If the management

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[50]In 1991, approximately 70 percent of the NBC's loans were nonperforming (according to a Price Waterhouse study).

[51]The Presidential Banking Commission report did not consider the NBC's privatization.

failed to meet those targets, it was to suspend all lending operations, and the BoT would intervene on behalf of the shareholders. The June 1996 compliance review, which was completed in December 1996, concluded that, even though the NBC had made substantial progress in increasing its earnings, it had not broken even and its credit quality had not significantly improved.[52] Despite the government's efforts since 1990 to rehabilitate the NBC, it remained insolvent and undercapitalized, threatening the safety of the banking system.

74. In 1997, the government decided to split the NBC, an option it had rejected in 1990, and to subsequently privatize its successor entities. After considering various options, the government chose in July 1997 to split the NBC into two banks, the NBC (1997) and the NMB, and to create a holding company to manage the residual assets and liabilities of the former NBC. A condition for granting the two banks a banking license was that they agree on new memorandums of understanding with the Ministry of Finance, to be monitored by the BoT. The memorandums required that reporting be intensified and performance benchmarks on profitability and credit quality achieved until the two banks were in compliance with the capital adequacy requirements mandated by the BFIA. The board of directors of the two banks agreed to their respective memorandums in October 1997.

75. The NBC's accounts and branch network were divided between the NBC (1997) and the NMB. The NBC (1997) was to focus on corporate and large business customers, and the NMB to be transformed into a microfinance bank serving rural and urban small businesses. Both banks retained branches in the major urban centers, but most rural branches were assigned to the NMB. Within urban areas, the NBC's loans and current accounts were transferred to the NBC (1997), while the NMB maintained the savings and smaller time deposits. In rural areas, the NBC's current accounts were converted into NMB savings accounts. The NMB also retained government accounts to facilitate government payments throughout the country. Two thousand (approximately half) of the NBC's remaining employees were retrenched, and the two banks began operations on October 1, 1997 under new management teams.

76. Currently, the NBC (1997), with 35 branches at the major regional centers, offers a full range of wholesale, retail, and international banking services. It provides working capital to manufacturers, and it finances export-import activity and the marketing of cash crops. The NMB, pending its transformation into a microfinance institution, operates as a savings bank. Through its 95 branches, it provides savings and payments services to an extensive customer base. It mobilizes savings and time deposits and invests them in government securities. The NMB does not offer current accounts and has suspended all lending. In August 1998, the

[52]Between January and June 1996, the NBC reduced its operating expenses by 24 percent, recovered T Sh 27.5 billion in nonperforming loans, closed branches, and retrenched 40 percent of its staff.

government issued long-term recapitalization bonds in the amount of T Sh 69.76 billion to eliminate the financing gap in the NMB's opening (September 1997) accounts and subsequent operating losses.[53]

77. Accounting problems resulting from the split of the NBC have delayed the privatization of the NBC (1997) and the NMB, but it is proceeding according to a revised timetable. Invitations to bid for the NBC (1997) were issued in July 1998. Individual bids are to be evaluated beginning in February 1999, with negotiations to begin soon thereafter. In the case of the NMB, a private management team is to be appointed to ensure that the bank is profitable and properly managed prior its privatization and transformation into a microfinance institution. Invitations to bid for the management contract were issued in May 1998 and a manager was selected in November 1998. The activities of the NMB will remain constrained until it is recapitalized through private investors, and builds capacity according to international best practices in microlending.

78. The privatization of the NBC (1997) and the NMB is expected to enhance competition within the banking sector and reduce market fragmentation. Currently, the NBC (1997) maintains relatively high lending and low deposit rates to enhance its profitability, as mandated by its memorandum of understanding. Given its dominant position in the banking sector, its rates influence those offered by other commercial banks. As a result, the industry-wide spread between lending and deposit rates is high and deposit rates are negative in real terms, which deters financial intermediation (Appendix Table 26).[54] It is expected that, following the NBC (1997)'s privatization, interest rate spreads will decline, thus improving the mobilization of savings and the allocation of credit to the private sector.[55] The government expects that the NMB's transformation into a microfinance bank and the commencement of lending to small urban and rural enterprises will further stimulate the expansion of private sector credit (see Box 2).

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[53]As of end-June 1998, the financing gap between the claims on NMB by depositors and other creditors and its asset base was T Sh 77.6 billion. The bonds issued in August 1998 covered 90 percent of that amount, with the remaining 10 percent to be issued at the time of recapitalization or on December 31, 1998, whichever comes earlier. These bonds have maturities of 4–20 years and a variable coupon rate with a cap of 12.6 percent and a floor of 7 percent. The index for the coupon rate is the weighted average of the six-month treasury bill rate over the prior six months. Interest payments are to be made semiannually, beginning in January 1999.

[54]In November 1998, the average lending rate was 22 percent, the savings rate 8.8 percent, and inflation 12.1 percent.

[55]The establishment in 1999 of commercial courts addressing commercial and banking claims, as well as of a credit information bureau providing reliable financial and credit information, will help reduce credit risk and further stimulate lending to the private sector.

Box 2. Bank Credit to the Private Sector

The restructuring of the NBC and the CRDB adversely affected the extension of credit to the private sector. Beginning in 1993, the CRDB, as part of its restructuring, suspended all lending operations, with the exception of loans that were collateralized by cash or where credit was funded by the government or donor agencies. Under its memorandum of understanding that came into effect in October 1995, the NBC was required to improve its credit performance and profitability by June 1996 or suspend its lending operations. During 1995/96 (July–June), the NBC and the CRDB combined wrote off loans equivalent to T Sh 112 billion (the exact breakdown between private and nongovernment public sectors is not available). Since by June 1996 the NBC had not satisfied the conditions of its memorandum of understanding, it was required to suspend its lending operations. Despite the NBC's lending freeze during 1996/97, credit to the private sector increased by 7 percent reflecting the resumption of lending by the CRDB (1996)—the entity that succeeded the CRDB. After the split of the NBC in October 1997, the NBC (1997) resumed lending to its existing borrowers in performing status. Furthermore, during 1997/98, private banks expanded credit aggressively, especially in the areas of mining and manufacturing, trade and transportation (Appendix Table 25). The combination of the resumption of lending by the NBC (1997) and the strong expansion of credit by the private banks, brought about a 70 percent increase in private sector credit during 1997/98 (Appendix Table 22).

79. Of the remaining state-owned financial institutions, the THB was closed in mid-1995 and the CRDB divested in 1996.[56] The delays associated with the privatization of the NBC (1997) and the NMB have postponed the restructuring of the remaining financial institutions. TIB is to be transformed into a merchant bank and has ceased all new lending pending its privatization. The PBZ remains undercapitalized and burdened by nonperforming assets; the government of Zanzibar intends to restructure and privatize it in 1999 with the assistance of the World Bank.

D. Developments in the Financial Markets

80. At the commencement of financial sector reform in 1991, there were no capital or money markets, and foreign exchange controls limited current and capital account transactions. Government bonds and treasury bills were the only securities issued that were held by the state-owned insurance company, the National Insurance Corporation (NIC), the two state-owned pension funds—the National Provident Fund (NPF) and the Parastatal Pension Fund (PPF)—and the state-owned financial institutions. Since the early 1990s, however, substantial progress has been made in developing the money, capital, and foreign exchange markets.[57]

81. The BoT introduced treasury bill auctions in August 1993. Currently, the BoT sells treasury bills of 91-, 182-, and 364-day maturities in the primary market through weekly auctions. Since May 1996, the BoT has issued 91-day treasury bills as its own paper, which it

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[56]The majority shareholder of the CRDB (1996) is the Danish International Development Agency (DANIDA).

[57]Further improvements in the payments system will enhance the efficiency of financial markets.

uses for open market operations, and the government uses the 182- and 364-day treasury bills to finance its deficit. The secondary market for government bills is still at an early stage of development. The introduction of an automated book-entry system and a primary dealership arrangement for government securities in December 1998 should facilitate its development.

82. In July 1997, the BoT introduced a repurchase agreement facility, through which it sells long-term government notes to commercial banks for repurchase at 7- and 14-day maturities. Transactions in repurchase agreements provide the BoT with an additional instrument to conduct open market operations.[58] In November 1998, the BoT established a financing facility to assist commercial banks in meeting seasonal demand for agricultural credit. The duration of the facility is up to three months, with government securities serving as collateral.[59]

83. The interbank market in domestic currency was established in July 1997 and has become increasingly active. The volume of transactions in April 1998 was T Sh 9.6 billion, but by July 1998 it had increased to more than T Sh 18 billion.[60] A change in the minimum reserve requirement, announced in May 1998, was in part responsible for the fast growth in the volume of interbank transactions. Beginning in June 1998, banks had to maintain their statutory reserves for both domestic and foreign deposits in Tanzania shillings, while previously they could hold them in either currency. Many banks, especially foreign ones, had to borrow in the interbank market to meet their statutory reserve requirement. In November 1998, the volume of interbank transactions had grown to T Sh 71.2 billion (14 percent of banks' domestic currency deposits). The maturities are primarily overnight or up to three days, but longer maturities are also available. The introduction of a book-entry system in December 1998 should further stimulate the development of the interbank market.

84. In order to promote the development of capital markets and encourage greater private sector participation, the Capital Markets and Securities Act was enacted in 1994. It provided for the establishment of the Capital Markets and Securities Authority (CMSA), which began operations in 1995, to develop the institutional and regulatory framework for capital market institutions and the stock exchange. In April 1998, the Dar es Salaam Stock Exchange

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[58]Currently, this facility operates only to absorb liquidity. By early 1999, however, the BoT intends to start using it to both absorb and inject liquidity. Open market transactions under repurchase agreements have the advantage of being reversible at short notice.

[59]During 1998/99, T Sh 3 billion has been set aside for this facility. The interest rate charged will be the latest four-week average of the 91-day treasury bills plus a premium (of up to 200 basis points).

[60]The interbank market is not collateralized. Data on interbank transactions were first recorded in April 1998.

commenced operations with the trading of shares of the Tanzania Oxygen Co. Ltd.[61] In May 1998, the government offered for sale 26 percent of its shares in Tanzania Breweries Ltd. (TBL) through an initial public offering in the stock exchange. By early 1999, the government intends to sell to the public half of its shares in AGIP (Tanzania) Ltd., making it the third company to be listed on the stock exchange. More public companies are to be privatized through initial public offerings in 1999 once they meet the listing requirements. In order to broaden the market, the government has announced that two-year treasury bonds will be listed on the stock exchange by early 1999.[62]

85. Pension and insurance funds provide the only major collective investment schemes. The deregulation of the insurance industry commenced with the enactment of the Insurance Act in October 1996, which called for the establishment of a supervisory board responsible for the industry's regulation. The National Insurance Board was instituted in May 1998. In July 1998, three private insurance funds began operations, and by October 1998 there were nine registered insurance funds: eight private ones and the state-owned NIC.

86. Tanzania's pension funds remain under government control. Four pension funds are currently operating: the National Social Security Fund (NSSF), for private sector employees;[63] the PPF, for parastatal employees; the Government Employees' Provident Fund (GEPF), for central government employees; and the Local Authority Pension Fund (LAPF), for local government employees. The pension system is mandatory; both employees and employers contribute a fraction of the salary.[64]

87. Following the enactment of the Foreign Exchange Act in 1992, which provided for the establishment of foreign exchange bureaus and allowed residents to hold foreign currency deposits with domestic banks, controls on foreign exchange transactions have gradually been eased.[65] Since 1993, when foreign exchange auctions were introduced, exchange rates have floated independently. The BoT, however, periodically intervenes to smooth fluctuations and to increase official international reserves. In June 1994, the Interbank Foreign Exchange

[61]Its shares were floated to the public in late 1997.

[62]The two-year treasury bonds were introduced in May 1997 and are sold through weekly auctions. The proceeds are used to repay government bonds with higher interest rates held by the BoT. As of November 1998, the value of outstanding two-year treasury bonds is approximately T Sh 63 billion.

[63]In 1997, the NPF was converted into the NSSF.

[64]The employees' contribution ranges from 5 to 10 percent (depending on the pension fund) and the employers' from 10 to 15 percent.

[65]Residents are not allowed to hold foreign currency accounts abroad. Financial intermediaries may maintain foreign exchange exposures of up to 20 percent of their core capital.

Market (IFEM) was established. Transactions in the IFEM determine the official exchange rate. Since 1996, foreign exchange bureaus have been prohibited from participating in the IFEM and are limited to over-the-counter transactions at freely negotiated rates. The differential between the official and the bureaus' exchange rate, however, continues to decline.[66]

VII. TRADE POLICY REFORM[67]

A. Background

88. In the late 1960s, Tanzania embarked on an import-substituting development strategy based on the concept of "socialism with self-reliance" articulated in the 1967 Arusha Declaration. This strategy had, among its key economic objectives, the promotion of heavy industry and the achievement of self-sufficiency in food production. Two main instruments were employed in the implementation of that strategy: (1) a series of ambitious investment programs, embodied in five-year plans, targeted mainly at the expansion of the capital-intensive industrial sector and infrastructural projects; and (2) a set of large public enterprises that dominated most industries, had legal monopolies in the pricing, marketing, and processing of agricultural crops, and, that by the mid-1970s, had become the major importers and exporters in the country.

89. Throughout the 1970s, the government used trade restrictions as key tools to support their development priorities. Producers of export cash crops (mainly coffee, cashew nuts, sisal, tea, and tobacco), traditionally the main source of export earnings, had to sell their products to marketing parastatals, which offered prices well below world prices. Exporters of other, "nontraditional" exports had to surrender most of their foreign exchange earnings, and were subjected to a cumbersome and nontransparent system of export permits, which required them to obtain a license for each consignment and effectively gave individual ministries the right to regulate a wide range of exports on an ad hoc basis. Similarly, on the import side, all imports were regulated through administrative allocations of foreign exchange and an import licensing system, both of which became increasingly restrictive toward the end of the 1970s as foreign exchange earnings declined.

90. Producers of export cash crops were faced with procurement prices that declined steadily both in relation to the consumer price index and to world prices, reflecting the appreciating real exchange rate, the increasing operating inefficiency of the marketing boards, and the government's policy of inducing a shift in the pattern of agricultural production in favor of food crops. Tanzania also experienced exogenous problems such as drought and declining terms of trade. The overall result was that the output of export crops fell by about

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[66]The end-October 1998 official exchange rate was 675 Tanzania shillings per U.S. dollar, and the bureaus' selling exchange rate was 682 Tanzania shilling per U.S. dollar.

[67]Prepared by Oussama Kanaan.

50 percent in per capita terms in the 1970–82 period, and the share of food production in agricultural output increased. Other (nontraditional) exports also experienced a sharp contraction during this period, owing to the pervasive administrative restrictions imposed on most exports. The falling export earnings were soon reflected in foreign exchange shortages, and the consequent curtailment in imports of intermediate goods and raw materials led to sharp cutbacks in production, especially in the highly import-dependent industrial sector, and to a deterioration in the country's infrastructure.

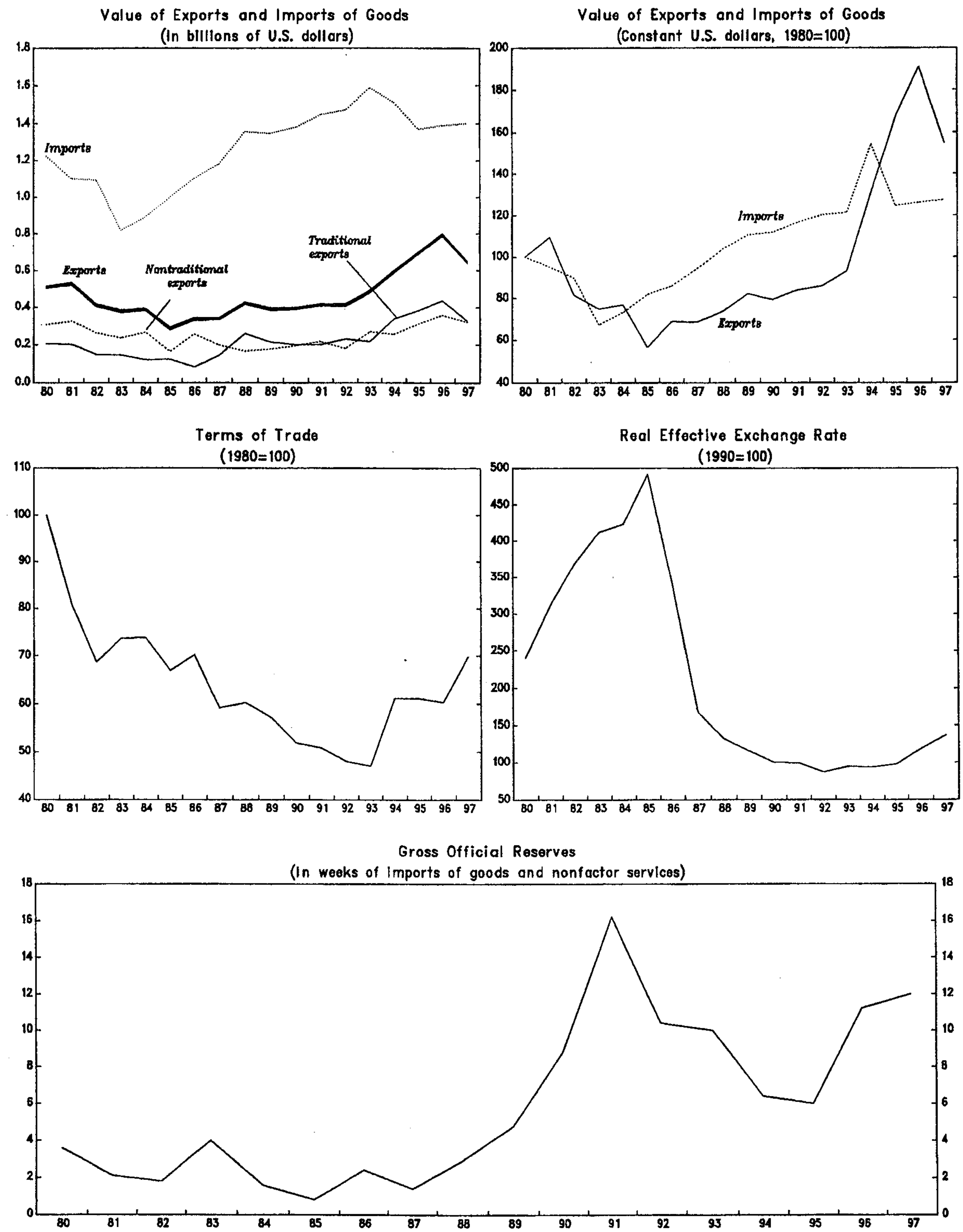
91. The exposure of the tradable sector to a distorted incentive structure and its consequent contraction led to a deterioration in the fiscal position. The contraction of the international trade base led to an erosion in revenue and a major change in its structure, with the share of import duties in total budgetary revenue falling from 22 percent in 1969/70 (July–June) to 11 percent in 1979/80. Revenues were becoming increasingly dependent on transfers from public enterprises, whose profitability was being undermined by import shortages and rising operating costs. On the expenditure side, subsidies and transfers to public enterprises accelerated sharply, and essential expenditure on operations and maintenance had to be restrained, leading to a degradation of the country's capital stock and infrastructure. The rising fiscal imbalances were a major source of inflationary pressures and gave rise to an accumulation of external payments arrears and increased reliance on external borrowing.

B. Trade Liberalization

92. Tanzania continued to suffer from significant financial imbalances throughout the early 1980s, and the external situation continued to be precarious, with recurrent foreign exchange shortages and a heavy reliance on balance of payments support. In the 1980–85 period, the real effective exchange rate increased by a yearly average of about 16 percent and real exports declined by a yearly average of about 10 percent (Figure 2). Large imbalances in the country's fiscal and external accounts emerged, reflected in a fall in gross official reserves to the equivalent of less than one week of imports by end-1985. There was a general recognition by mid-1980s that important factors underlying the unsatisfactory economic performance were the overly restrictive external trade policies and the consequent adverse effects on the export performance. To address these issues, the Economic Recovery Program included as an important component the reinvigoration of the export sector through the elimination of cost-price distortions and important import liberalization measures.

93. One important objective of the reform program was to reverse the contraction in exports that had been witnessed since the mid-1970s. A key to reaching this objective lay in raising the profitability of cash crops by introducing multiple channels for marketing crops, as greater profits would allow farmers to receive a higher share of proceeds from export sales. Although the government attempted various plans to restructure the marketing boards and improve their efficiency, including through the replacement of parastatals by "cooperatives" that had some flexibility in setting producer prices, a complete dismantling of their monopsonistic power did not occur until 1994, when regulations were issued allowing private sector competition in the marketing and processing of cash crops.

Figure 2. Tanzania: Trade Indicators, 1980-97



Source: Tanzanian authorities.

94. Restrictions on the export of nontraditional crops were also slowly relaxed, as a scheme allowing exporters to retain an increasing share of their export proceeds to finance their import requirements was introduced in 1985/86. By 1993/94, the system of export licensing, including for traditional crops, was abolished, the requirement of registration of exporting companies eliminated, and surrender requirements were no longer imposed. By 1996, the only remaining export restrictions consisted of a 2 percent tax on traditional exports (including minerals) and a ban on the export of scrap metal, both of which were fully abolished in 1997–98.[68]

95. The gradual recovery in exports led to a steady relaxation in the foreign exchange constraint and facilitated the liberalization of imports. An important step in this regard was the marked reduction in the tariff burden in 1988 through a rationalization of import tariff rates, reflected in a reduction in the trade-weighted average tariff rate to 23 percent from 35 percent in 1986. The reduction in the tariff burden was complemented by two key liberalization measures in 1988–90: (1) the introduction of an open general license (OGL) system, under which import licenses were provided automatically for eligible imports; and (2) the creation of the Own Funds Facility (OFF), under which import licenses were provided freely to importers using their own foreign exchange resources for specified imports. The scope of these facilities remained limited, however, until a major intensification of liberalization efforts in 1991–93 eliminated all administrative allocations of foreign exchange and abolished the system of import licensing.[69]

96. The steady relaxation of trade restrictions was supported by strong macroeconomic stabilization measures, which induced a substantial fall in inflation, as well as by steps to correct the misalignment in the exchange rate, which led to an average annual depreciation of the real effective exchange rate of about 10 percent in 1986–97.[70] Reflecting the increasingly favorable incentives to exporters, the average annual rate of growth of commodity exports increased steadily in real terms from negative levels in 1980–85 to 4 percent in 1986–91, and to 14 percent in 1992–97. This rise, in turn, contributed to the steady relaxation of the foreign

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[68]An export duty on scrap metal remains in effect. The only other export restriction, in line with international standards, is an export ban on specified goods for reasons of health, security, or preservation of the national heritage.

[69]By 1990, imports under the OGL accounted for only 20 percent of all commodity imports, while those under the OFF accounted for another 30 percent. The list of eligible imports allowed under the OGL became gradually less restrictive; meanwhile, by 1992 only a small number of luxury items were not eligible for importation under the facility. The negative list was abolished in 1993/94.

[70]Since Tanzania accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement in July 1996, it has maintained an exchange system free of restrictions on payments and transfers for current international transactions.

exchange constraint, as evidenced by the increase in gross official reserves from an average of two weeks of imports in 1980–85 to seven in 1986–91, and to nine in 1992–97. This buildup allowed a rebound in commodity imports, which, after the sharp contraction in 1980–85 rose by a yearly average of about 4 percent in real terms in 1986–97. The rapid expansion in trade and the associated economic recovery took place despite a continued deterioration in the terms of trade, which declined at an average yearly rate of 6 percent during 1986–91, about the same rate as during the previous five-year period (Figure 2).

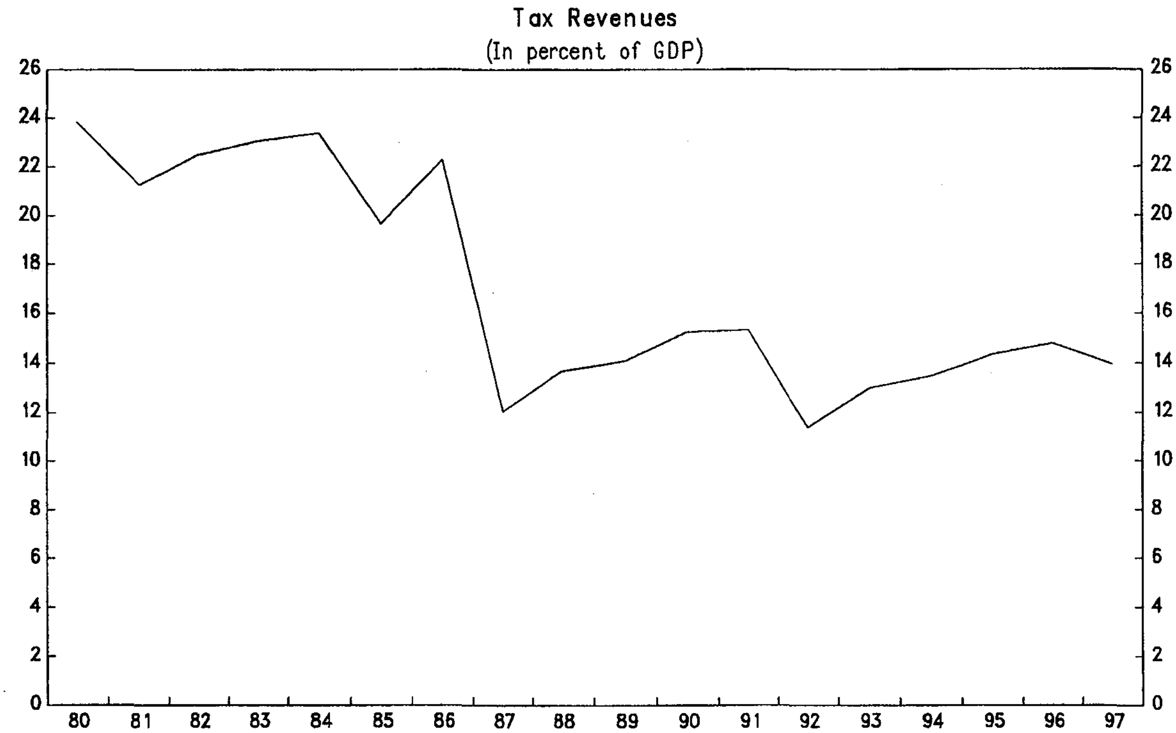
97. The liberalization of imports slowed markedly in 1993/94 as emerging fiscal imbalances led the authorities to resort to increases in customs duty rates (in both fiscal years 1993/94 and 1994/95) to compensate for shortfalls in domestic tax revenues. This slowdown reflected to an important extent the steady erosion of the tax-to-GDP ratio, as well as the increased dependence of tax revenue on trade taxes.

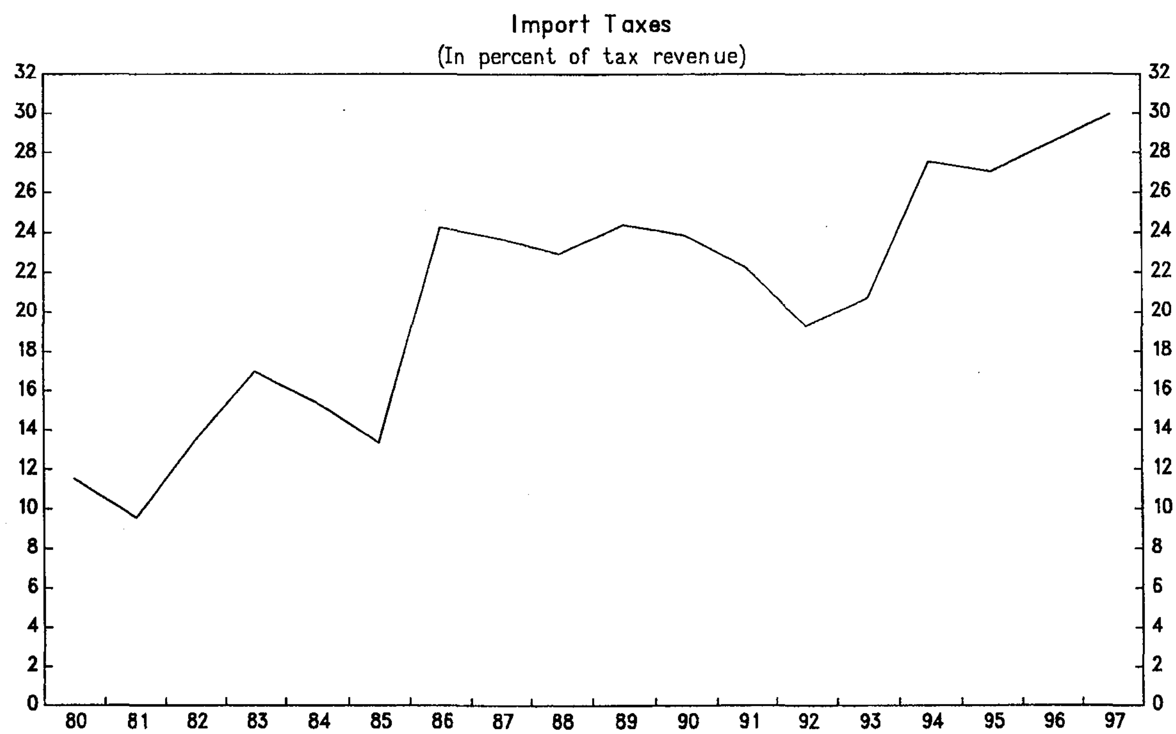
98. The sweeping exchange and trade liberalization measures had a pronounced effect on the level and composition of budgetary revenues through the following key channels: (1) the removal of agricultural price controls and the liberalization in marketing arrangements significantly shifted agricultural income from marketing boards to small farmers; (2) the liberalization measures led to a rapid growth of the informal sector; and (3) the economic weight of public enterprises, which were previously subject to frequent and discretionary increases in taxation, was reduced substantially. The shift in income from the public sphere to farmers, small enterprises, and the informal sector, which, owing to weaknesses in tax administration and a narrow tax base, was in large part outside the tax base, was responsible for a fall in tax revenue as a share of GDP from about 22 percent in 1980–85 to about 14 percent in 1986–91 (Figure 3).

99. One particular cause of the erosion of the tax-to-GDP ratio was that decreases in tax rates, including tariff rates, were not accompanied by adequate improvements in tax and customs administration or by a reduction in the scope of exemptions. While the tax ratio was gradually being eroded, the composition of tax revenue also became increasingly dependent on trade taxes. The liberalization of the trade and exchange system induced a rapid growth in imports and thus in customs duties, while revenue from domestic taxes, in particular from sales and income taxes, was falling. As a result, the share of import taxes in total tax revenue reversed its earlier decline, from an average of about 14 percent in 1980–85 to 23 percent in 1986–91, and 27 percent in 1992–97 (Figure 3).

100. Thus both the erosion of the total tax ratio and the increased weight of trade taxes in total revenue led the authorities to delay further reductions in tariff rates until measures were put in place that improved tax and customs administration, reduced the scope of exemptions, and broadened the domestic tax base. The implementation of the latter measures has in recent years continued to represent a key challenge in the trade reform area.

Figure 3. Tanzania: Tax Shares, 1980-97





Source: Tanzanian authorities.

C. Recent Measures and Remaining Challenges in Trade Reform

101. Tanzania's trade reform program has in recent years been largely molded by its efforts to fulfill the ambitious trade liberalization objectives set out in the context of the Cross-Border Initiative (CBI).[71] The CBI has involved common targets and timetables for its members, notably with regard to (1) reducing import tariff rates and the number of tariff bands; (2) improving the transparency of the import tax system, notably by minimizing the scope of exemptions and incorporating all duties and charges on imports into the tariff schedule; (3) rationalizing the import tax burden by applying duty rates that increase with the degree of processing of the imported goods; (4) eliminating nontariff barriers; (5) removing export restrictions; and (6) granting intraregional tariff preferences. This section examines Tanzania's recent trade reform efforts and discusses the steps that are still needed to eliminate trade-related distortions, employing as a useful benchmark the goal of satisfying the CBI objectives.

102. An important objective of Tanzania's trade reform efforts is the reduction of the overall import tax burden, with a view to minimizing allocation inefficiencies and improving export incentives. The only remaining nontariff barriers are restrictions on petroleum product imports, reflecting physical constraints in port facilities; these are expected to be resolved by end-1999.[72] Progress in reducing tariff rates has been steady in recent years: the weighted-average tariff rate was gradually lowered from 25 percent in 1993/94 to 20 percent in 1997/98, while the maximum rate was reduced from 40 percent to 30 percent.[73] The authorities are considering the possibility of a further reduction in tariff rates, including the lowering of the maximum rate to 25 percent and the adoption of three nonzero bands, with the tariffs distributed so as to yield a trade-weighted average import tariff of no more than 15 percent, in line with the CBI targets. The extent of progress achieved since 1986 in relaxing trade restrictions can be assessed by employing the IMF's trade restrictiveness index,

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[71]The Cross-Border Initiative "Concept Paper" was adopted in August 1993 by 14 countries (Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe). Each participant in the CBI was required to submit a "letter of CBI policy," which lays out the program of action it intends to implement to reach the CBI objectives.

[72]Restrictions on petroleum product imports have been gradually relaxed. Prior to 1997, the Tanzania Petroleum Development Corporation (TPDC) had a monopoly on petroleum products importation. Partial liberalization was undertaken in April 1997 through the introduction of a competitive bidding system for monthly shipments. Liberalization of petroleum prices is expected by February 1999, while full liberalization of imports is expected at the time the refinery is privatized or closed at end-1999.

[73]In the same period, the simple average tariff (across tariff lines) was reduced from 30 percent to 24 percent.

which is estimated to have fallen from 10 prior to 1986 to 8 in 1993/94, and to 7 in 1997/98; a further decline to 3 is projected if the trade measures specified in the 1998/99 budget are implemented (see Box 3).

Box 3. Measuring Tanzania's Trade Reform Efforts Using the IMF's Overall Trade Restrictiveness Index

The progress achieved since the mid-1980s in reducing the degree of restrictiveness of the trade regime can be assessed by using the IMF's overall trade restrictiveness index (OTRI). The OTRI classifies the overall restrictiveness of a country's trade regime according to the restrictiveness of the import tariff regime, as measured by the average unweighted nominal tariff level; the restrictiveness of nontariff barriers (NTBs) is classified by measuring the share of trade or production that is covered by NTBs.[1]

In the period 1980–86, NTBs covered over 50 percent of imports, and the unweighted average tariff rate was over 40 percent. Those rates placed Tanzania in the "restrictive" category with regard to the NTB regime, as well as with respect to the tariff burden, thus yielding the maximum OTRI rating of 10. By 1993/94, after the intensification of import liberalization and the removal of export restrictions, NTBs covered about 15 percent of total imports, thus yielding the category of moderate for the NTB regime; meanwhile, the average tariff rate was 30 percent, still in the restrictive category. This yielded an OTRI of 8. In 1997/98, the average tariff level was reduced to 24 percent, thus placing the tariff burden rating in the "relatively restrictive" category. The NTB rating remained at the moderate level, as the remaining restrictions on petroleum imports, which represented about 10 percent of total imports, generated an OTRI of 7.

The implementation of the import liberalization measures envisaged for 1999, notably the reduction in tariff rates to reach the CBI targets (yielding a simple tariff average of between 15 percent and 20 percent), would place the tariff burden in the moderate category; the elimination of restrictions on petroleum imports would place the NTB regime in the "open" category, resulting in an OTRI of 3.

[1]For details of the methodology by which the OTRI is calculated, see Robert Sharer and others, *Trade Liberalization in IMF-Supported Programs,* World Economic and Financial Surveys (Washington: IMF, 1998).

103. The reduction in the overall import tax burden, as described above, will have positive effects on resource allocation in the economy overall, notably by reducing the discriminatory effects of the cost-price incentive structure vis-à-vis the export sector. However, one important issue that also needs to be addressed relates to the uneven level of effective protection implied by the tariff structure, which induces allocation inefficiencies *within* the import-substituting sector. The current tariff structure imposes relatively high rates on raw materials and intermediate inputs, and low rates on finished goods, which implies an unduly heavy implicit tax burden on producers of finished goods (notably, consumer goods). In addition to its adverse effects on allocation efficiency within the industrial sector, the distorted tariff structure contributes to the pervasive use of exemptions on imported inputs to partially compensate for the heavy import tax burden on these goods—a practice that has negative implications for the transparency of the tariff structure and for budgetary revenue.

104. The scope of exemptions or partial remission of import duties has been increasing in recent years, with the ratio of exemptions to total import taxes assessed (including

exemptions) rising from 24 percent in 1993 (calendar year) to 30 percent in 1996/97, and to 48 percent in 1997/98. Exemptions and remissions are in line with the provisions of the investment code, granted to holders of certificates issued by the Tanzania Investment Centre (TIC); they are also granted on public sector imports, and imports used in foreign-financed projects and by nonprofit organizations. Reflecting the uneven tariff burden discussed above, the bulk of the exemptions has been focused on industrial inputs, with a relatively small share on processed consumer goods. For example, in 1997/98 the ratio of revenue forgone through exemptions to import taxes assessed was 13 percent for processed food, compared with a ratio of 55 percent for exemptions on imports of capital goods and raw materials.[74]

105. A key factor inhibiting the reduction in tariff levels toward the CBI targets has been concern about a consequent loss in budgetary revenues. The adverse impact on revenue can, however, be offset if the reduction in rates is accompanied by a marked reduction in the scope of the exemptions described above, through the following measures: (1) correcting the uneven import tax burden among goods by applying rates that increase according to the degree of processing;[75] (2) eliminating exemptions on public sector imports, which is likely to yield savings as a result of the reduced diversion of imported goods to nonpublic purposes; and (3) eliminating exemptions and introducing an exemption control system whereby the import taxes are paid for by tax credit checks issued by the treasury.[76]

106. The transparency of the tariff system has improved through the incorporation of all duties and charges into the tariff schedule, as envisaged under the CBI agreement. However, imports of alcoholic beverages and tobacco are still subject to higher excise tax rates than those domestically produced. While the authorities view this discriminatory treatment as necessary in view of budgetary pressures, the measure grants a high degree of protection to the alcohol and tobacco sectors and raises the effective rate of import taxation, further adversely affecting allocation efficiency.[77]

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[74]These results are based on technical studies prepared by Fund staff at the request of the Tanzanian authorities.

[75]A notable improvement in the efficiency of the exemption system affecting TIC-related imports was introduced in the 1998/99 budget, as a list of capital goods eligible for exemptions under the Investment Act was promulgated that was in line with the international Harmonized System of Customs Classification, thus providing a clear and objective basis for the classification of imports as capital goods.

[76]Such an exemption control system for foreign-financed imports is in use in a number of countries in sub-Saharan Africa, including Benin, Burkina Faso, Chad, Mauritania, Senegal, and Togo.

[77]The differential treatment of imports through nontariff measures is also inconsistent with the rules of the World Trade Organization, of which Tanzania has been a member since 1995.

107. In line with the CBI framework, the Common Market for Eastern and Southern Africa (COMESA) treaty, and the East African Cooperation Agreement (EACA), Tanzania has adopted a strategy of promoting intraregional integration that is consistent with multilateral liberalization. One of the key targets set out in these agreements is the implementation of a schedule of preferential tariffs on intraregional trade.[78] Although Tanzania adopted a preferential tariff schedule granting COMESA members a preferential tariff margin of 20 percent in 1996/97, this measure was reversed in the context of the 1997/98 budget, and again readopted with the 1998/99 budget.[79]

108. The competitiveness of export manufactures has been adversely affected by delays in refunding exporters for taxes on imported inputs used in export production. Such delays have had an especially harmful effect on the profitability of exporters in view of the distorted tariff structure, which imposes relatively high rates on raw materials and intermediate inputs. The current shortcomings in the duty drawback system are currently being addressed through: (1) the establishment of a special budget to ensure that payments of duty drawbacks are made in full and with minimal lag time; and (2) development of an effective drawback control system in the Customs Department with simplified and transparent procedures, which ensures that drawback rates are periodically updated to reflect changes in prices, duties, and taxes affecting exporters.

109. With most direct cost-price distortions affecting the export sector now largely eliminated, the authorities have been focusing on the reduction of high transportation costs to exporters arising from a weak physical infrastructure, including the dilapidated state of transport routes that link farmers to outlets to external markets. The authorities' strategy also aims to promote the growth of the export sector through the following steps: (1) strengthening the legal and regulatory framework affecting investors in the export sector; (2) developing effective mechanisms to control smuggling and corruption; (3) developing a strategy to

[78]According to the CBI agreement, imports from member countries are to be taxed at rates not exceeding 10 percent of the maximum tariff rates (referred to as the "preference margin") by October 1997 and 0 percent by October 1998. The schedule under the COMESA treaty targets a preference margin of 20 percent by 1998 and 0 percent by 2000. The EAC (including Kenya, Tanzania, and Uganda) agreement encourages member countries to commit to an even more ambitious schedule than under the CBI and COMESA agreements.

[79]Tanzania has also taken steps to facilitate intraregional land-based trade, notably through the adoption of COMESA's system of Harmonized Road Transit Charges and the introduction of the common Road Customs Transit Document.

exploit the commercial potential of international agreements; (4) improving the quality of information on international market conditions available to Tanzanian exporters; and (5) ensuring that export development is consistent with sound environmental policy.

110. Substantial progress has been achieved in the harmonization of trade policies between Zanzibar and the mainland of Tanzania, notably the elimination of discrepancies between the two tariff schedules in 1998. Moreover, the following steps are currently being undertaken in Zanzibar: (1) the implementation of the VAT; (2) improving the coordination between the ministries of finance of Tanzania and Zanzibar in setting the criteria and eligibility for granting exemptions; and (3) the harmonization of fees for the preshipment inspection services between Zanzibar and the mainland of Tanzania.

D. Conclusion

111. Several important lessons can be drawn from Tanzania's experience in trade liberalization. First, the prevalence of a restrictive trade regime, and the associated cost-price distortions, represented an important factor underlying the economic deterioration in the 1970s and early 1980s. The gradual phasing out of trade restrictions since the mid-1980s played a key role in the revival of the export sector, the recovery and rationalization of imports, and the relaxation of the foreign exchange constraint. Second, the liberalization process, in the absence of adequate improvements in tax administration and a broadening of the tax base, was associated with an erosion in tax revenue and an increased reliance of that revenue on trade taxes. These developments in turn, slowed the pace of import liberalization and tariff rationalization. Today, an important objective of Tanzania's trade reform efforts is the fulfillment of the ambitious goals set under regional arrangements, notably the CBI. One central goal is the reduction in the import tax burden, with a view to further improving export incentives and raising allocation efficiency. It is important, however, to avoid the recurrence of past episodes of reversals in trade reform owing to fiscal constraints. The recent implementation of the VAT, by broadening the tax base and improving the efficiency of the tax system, represents an important step toward the prevention of such reversals. Efforts should now focus on improving tax and customs administration and on minimizing the scope of tariff exemptions.

Table 8. Tanzania: Gross Domestic Product at Constant 1992 Prices, 1990–97 1/

	1990	1991	1992	1993	1994	1995	1996	1997 Est.
	(In millions of Tanzania shillings, unless otherwise indicated)							
Agriculture, forestry, fishing, and hunting	324,054	337,617	339,062	349,346	357,648	381,140	398,117	403,947
Manufacturing	107,008	109,002	104,589	105,244	105,042	106,750	111,894	117,489
Mining and quarrying	11,226	12,536	13,503	14,608	16,803	18,768	20,579	24,097
Electricity and water	18,029	20,026	19,766	19,937	20,329	21,578	23,977	24,514
Construction	58,916	53,732	57,293	47,153	47,744	38,706	42,353	46,588
Trade, hotels, and restaurants	198,611	203,575	202,207	201,370	203,684	210,813	218,105	229,010
Transportation and communications	56,453	57,963	66,191	66,256	66,875	70,833	71,597	75,099
Public administration	73,361	77,258	81,670	75,690	74,006	69,338	69,338	70,725
Financial and business services	69,122	69,224	72,209	76,599	78,423	77,343	75,994	84,743
Other services	32,534	33,918	35,749	37,189	38,781	40,425	42,135	44,282
Imputed bank service charge	-53,639	-54,431	-56,992	-63,767	-68,805	-65,090	-58,581	-72,327
Total monetary GDP	895,676	920,419	935,247	929,626	940,528	970,605	1,015,509	1,048,167
Agriculture, forestry, fishing, and hunting	260,016	267,304	273,340	282,076	287,071	301,198	310,624	322,150
Construction	11,100	11,332	11,567	11,802	12,039	12,277	12,515	12,753
Owner–occupied dwellings	52,446	54,076	55,761	57,504	59,305	61,167	63,064	65,019
Total nonmonetary GDP	323,562	332,712	340,668	351,382	358,415	374,642	386,203	399,922
Total GDP (at factor cost)	1,219,238	1,253,131	1,275,915	1,281,008	1,298,943	1,345,247	1,401,712	1,448,089
Net taxes	115,038	108,789	93,958	105,389	109,179	113,152	122,964	130,210
Total GDP (at market prices)	1,334,275	1,361,920	1,369,874	1,386,396	1,408,121	1,458,400	1,524,675	1,578,299
	(In percent of GDP at factor cost)							
Agriculture, forestry, fishing, and hunting	26.6	26.9	26.6	27.3	27.5	28.3	28.4	27.9
Manufacturing	8.8	8.7	8.2	8.2	8.1	7.9	8.0	8.1
Mining and quarrying	0.9	1.0	1.1	1.1	1.3	1.4	1.5	1.7
Electricity and water	1.5	1.6	1.5	1.6	1.6	1.6	1.7	1.7
Construction	4.8	4.3	4.5	3.7	3.7	2.9	3.0	3.2
Trade, hotels, and restaurants	16.3	16.2	15.8	15.7	15.7	15.7	15.6	15.8
Transportation and communications	4.6	4.6	5.2	5.2	5.1	5.3	5.1	5.2
Public administration	6.0	6.2	6.4	5.9	5.7	5.2	4.9	4.9
Financial and business services	5.7	5.5	5.7	6.0	6.0	5.7	5.4	5.9
Other services	2.7	2.7	2.8	2.9	3.0	3.0	3.0	3.1
Imputed bank service charge	-4.4	-4.3	-4.5	-5.0	-5.3	-4.8	-4.2	-5.0
Monetary GDP	73.5	73.4	73.3	72.6	72.4	72.2	72.4	72.4
Nonmonetary GDP	26.5	26.6	26.7	27.4	27.6	27.8	27.6	27.6
Total GDP (at factor cost)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(Annual change in percent)							
Agriculture, forestry, fishing, and hunting	6.7	4.2	0.4	3.0	2.4	6.6	4.5	1.5
Manufacturing	4.1	1.9	-4.0	0.6	-0.2	1.6	4.8	5.0
Mining and quarrying	16.5	11.7	7.7	8.2	15.0	11.7	9.6	17.1
Electricity and water	7.9	11.1	-1.3	0.9	2.0	6.1	11.1	2.2
Construction	37.7	-8.8	6.6	-17.7	1.3	-18.9	9.4	10.0
Trade, hotels, and restaurants	7.4	2.5	-0.7	-0.4	1.1	3.5	3.5	5.0
Transportation and communications	0.5	2.7	14.2	0.1	0.9	5.9	1.1	4.9
Public administration	2.1	5.3	5.7	-7.3	-2.2	-6.3	0.0	2.0
Financial and business services	0.7	0.1	4.3	6.1	2.4	-1.4	-1.7	11.5
Other services	5.2	4.3	5.4	4.0	4.3	4.2	4.2	5.1
Imputed bank service charge	2.7	1.5	4.7	11.9	7.9	-5.4	-10.0	23.5
Monetary GDP	7.1	2.8	1.6	-0.6	1.2	3.2	4.6	3.2
Nonmonetary GDP	3.8	2.8	2.4	3.1	2.0	4.5	3.1	3.6
Total GDP (at factor cost)	6.2	2.8	1.8	0.4	1.4	3.6	4.2	3.3

Source: Tanzanian authorities.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.

Table 9. Tanzania: Gross Domestic Product at Current Prices, 1990–97 1/

	1990	1991	1992	1993	1994	1995	1996	1997 Est.
				(In millions of Tanzania shillings)				
Agriculture, forestry, fishing, and hunting	195,863	273,028	339,062	425,300	530,081	746,186	931,724	1,085,698
Manufacturing	70,472	88,720	104,589	120,479	157,445	200,525	254,326	295,272
Mining and quarrying	6,525	8,840	13,503	19,062	26,170	35,190	38,511	53,515
Electricity and water	11,701	17,509	19,766	36,770	39,304	60,347	65,800	74,599
Construction	38,381	42,795	57,293	59,278	78,732	83,177	99,871	149,824
Trade, hotels, and restaurants	120,793	153,468	202,207	244,644	318,940	417,626	493,572	562,760
Transportation and communications	40,775	49,272	66,191	98,207	131,670	159,771	193,946	219,393
Public administration	45,294	56,155	81,670	111,496	140,877	171,551	200,913	...
Financial and business services	60,615	60,642	72,209	111,436	153,362	170,263	209,392	248,832
Other services	18,532	24,324	35,749	47,766	63,837	83,850	99,963	111,288
Imputed bank service charge	-47,279	-44,675	-56,992	-94,207	-117,706	-113,187	-136,957	-138,244
Total monetary GDP	561,672	730,078	935,247	1,180,231	1,522,712	2,015,299	2,451,061	3,003,382
Agriculture, forestry, fishing, and hunting	153,418	203,359	273,340	348,170	425,902	572,274	726,551	918,065
Construction	7,067	9,292	11,567	14,772	20,059	26,252	32,377	38,299
Owner–occupied dwellings	37,849	46,864	55,761	64,591	156,651	182,817	242,570	321,854
Total nonmonetary GDP	198,334	259,515	340,668	427,533	602,612	781,343	1,001,498	1,278,218
Total GDP (at factor cost)	760,006	989,593	1,275,915	1,607,764	2,125,324	2,796,642	3,452,559	4,281,600
Net taxes	70,687	96,680	93,958	117,774	173,542	223,859	315,083	421,859
Total GDP (at market prices)	830,693	1,086,273	1,369,873	1,725,538	2,298,866	3,020,501	3,767,642	4,703,459
				(In percent of GDP at factor cost)				
Agriculture, forestry, fishing, and hunting	25.8	27.6	26.6	26.5	24.9	26.7	27.0	25.4
Manufacturing	9.3	9.0	8.2	7.5	7.4	7.2	7.4	6.9
Mining and quarrying	0.9	0.9	1.1	1.2	1.2	1.3	1.1	1.2
Electricity and water	1.5	1.8	1.5	2.3	1.8	2.2	1.9	1.7
Construction	5.1	4.3	4.5	3.7	3.7	3.0	2.9	3.5
Trade, hotels, and restaurants	15.9	15.5	15.8	15.2	15.0	14.9	14.3	13.1
Transportation and communications	5.4	5.0	5.2	6.1	6.2	5.7	5.6	5.1
Public administration	6.0	5.7	6.4	6.9	6.6	6.1	5.8	...
Financial and business services	8.0	6.1	5.7	6.9	7.2	6.1	6.1	5.8
Other services	2.4	2.5	2.8	3.0	3.0	3.0	2.9	2.6
Imputed bank service charge	-6.2	-4.5	-4.5	-5.9	-5.5	-4.0	-4.0	-3.2
Monetary GDP	73.9	73.8	73.3	73.4	71.6	72.1	71.0	70.1
Nonmonetary GDP	26.1	26.2	26.7	26.6	28.4	27.9	29.0	29.9
Total GDP (at factor cost)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
				(Annual change in percent)				
Agriculture, forestry, fishing, and hunting	20.3	39.4	24.2	25.4	24.6	40.8	24.9	16.5
Manufacturing	43.2	25.9	17.9	15.2	30.7	27.4	26.8	16.1
Mining and quarrying	27.9	35.5	52.7	41.2	37.3	34.5	9.4	39.0
Electricity and water	54.0	49.6	12.9	86.0	6.9	53.5	9.0	13.4
Construction	92.4	11.5	33.9	3.5	32.8	5.6	20.1	50.0
Trade, hotels, and restaurants	40.6	27.1	31.8	21.0	30.4	30.9	18.2	14.0
Transportation and communications	39.6	20.8	34.3	48.4	34.1	21.3	21.4	13.1
Public administration	34.4	24.0	45.4	36.5	26.4	21.8	17.1	...
Financial and business services	41.7	0.0	19.1	54.3	37.6	11.0	23.0	18.8
Other services	27.8	31.3	47.0	33.6	33.6	31.4	19.2	11.3
Imputed bank service charge	31.1	-5.5	27.6	65.3	24.9	-3.8	21.0	0.9
Monetary GDP	35.4	30.0	28.1	26.2	29.0	32.3	21.6	22.5
Nonmonetary GDP	18.5	30.8	31.3	25.5	41.0	29.7	28.2	27.6
Total GDP (at factor cost)	30.5	30.2	28.9	26.0	32.2	31.6	23.5	24.0

Source: Tanzanian authorities.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.

Table 10. Tanzania: Gross Domestic Product and Expenditure at Constant 1992 Prices, 1990–97 1/

	1990	1991	1992	1993	1994	1995	1996	1997 Est.
				(In millions of Tanzania shillings)				
Gross domestic product (at market prices)	1,334,276	1,361,920	1,369,873	1,386,397	1,408,122	1,458,399	1,524,676	1,578,299
Final consumption	1,346,597	1,404,035	1,402,211	1,392,642	1,392,591	1,425,247	1,447,375	1,444,699
Private	1,109,651	1,131,487	1,133,195	1,153,760	1,172,307	1,222,530	1,278,489	1,309,988
Public	236,946	272,548	269,016	238,882	220,284	202,717	168,886	134,711
Investment	340,256	380,107	373,043	330,795	334,830	285,558	278,147	279,314
Gross fixed capital formatio	336,639	376,461	369,368	327,090	331,096	281,794	274,353	275,489
Change in inventories	3,617	3,646	3,675	3,705	3,734	3,764	3,794	3,825
Net exports 2/	-352,577	-422,222	-405,381	-337,040	-319,299	-252,406	-200,846	-145,714
Exports 3/	154,381	94,732	133,714	264,259	255,560	357,837	360,388	257,052
Imports	506,958	516,954	539,095	601,299	574,859	610,243	561,234	402,766
				(In percent of GDP)				
Final consumption	100.9	103.1	102.4	100.5	98.9	97.7	94.9	91.5
Private	83.2	83.1	82.7	83.2	83.3	83.8	83.9	83.0
Public	17.8	20.0	19.6	17.2	15.6	13.9	11.1	8.5
Investment	25.5	27.9	27.2	23.9	23.8	19.6	18.2	17.7
Gross fixed capital formatio	25.2	27.6	27.0	23.6	23.5	19.3	18.0	17.5
Change in inventories	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Net exports 2/	-26.4	-31.0	-29.6	-24.3	-22.7	-17.3	-13.2	-9.2
Exports 3/	11.6	7.0	9.8	19.1	18.1	24.5	23.6	16.3
Imports	38.0	38.0	39.4	43.4	40.8	41.8	36.8	25.5

Sources: Tanzanian authorities; and Fund staff estimates.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.
2/ Includes goods and nonfactor services.
3/ Includes unrecorded trade and statistical discrepancy.

Table 11. Tanzania: Gross Domestic Product and Expenditure at Current Prices, 1990–97 1/

	1990	1991	1992	1993	1994	1995	1996	1997 Est.
				(In millions of Tanzania shillings)				
Gross domestic product (at market prices)	830,693	1,086,273	1,369,873	1,725,538	2,298,866	3,020,501	3,767,642	4,703,459
Final consumption	835,357	1,092,850	1,402,211	1,779,886	2,325,477	2,995,157	3,565,401	4,411,503
Private	687,706	887,124	1,133,195	1,445,366	1,931,976	2,532,842	3,130,072	3,997,940
Public	147,651	205,726	269,016	334,520	393,501	462,315	435,329	413,563
Investment	216,909	286,072	373,043	433,548	566,660	597,792	627,237	749,291
Gross fixed capital formation	213,984	282,427	369,368	429,546	561,819	591,936	620,597	743,651
Change in inventories	2,925	3,645	3,675	4,002	4,841	5,856	6,640	5,640
Net exports 2/	-221,573	-292,649	-405,381	-487,896	-593,271	-572,448	-424,996	-457,335
Exports 3/	89,559	72,764	133,714	335,315	409,609	681,292	778,522	750,961
Imports	311,132	365,413	539,095	823,211	1,002,880	1,253,740	1,203,518	1,208,296
				(In percent of GDP)				
Final consumption	100.6	100.6	102.4	103.1	101.2	99.2	94.6	93.8
Private	82.8	81.7	82.7	83.8	84.0	83.9	83.1	85.0
Public	17.8	18.9	19.6	19.4	17.1	15.3	11.6	8.8
Investment	26.1	26.3	27.2	25.1	24.6	19.8	16.6	15.9
Gross fixed capital formation	25.8	26.0	27.0	24.9	24.4	19.6	16.5	15.8
Change in inventories	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Net exports 2/	-26.7	-26.9	-29.6	-28.3	-25.8	-19.0	-11.3	-9.7
Exports 3/	10.8	6.7	9.8	19.4	17.8	22.6	20.7	16.0
Imports	37.5	33.6	39.4	47.7	43.6	41.5	31.9	25.7

Sources: Tanzanian authorities; and Fund staff estimates.

1/ The data reflect recent revisions to the national accounts by the Bureau of Statistics.
2/ Includes goods and nonfactor services.
3/ Includes unrecorded trade and statistical discrepancy.

Table 12. Tanzania: Production and Purchases of Principal Export and Food Crops, 1990/91–1997/98 1/
(In thousands of tons)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Est.
Food crops								
Production								
Maize	2,332.0	2,111.0	2,282.0	2,159.0	2,567.0	2,668.0	2,376.0	2,726.0
Paddy	405.7	240.5	417.0	614.0	723.0	565.0	535.0	548.0
Wheat	83.7	80.0	78.0	59.0	75.0	84.0	78.0	88.0
Cassava	1,566.0	1,818.0	1,700.0	1,415.0	1,492.0	1,478.0	1,611.0	1,532.0
Export crops								
Marketing board purchases								
Coffee	37.6	52.2	56.3	48.5	43.5	50.3	42.0	43.5
Cotton	40.5	76.5	68.8	48.4	44.0	84.2	84.5	69.6
Tea	18.1	19.5	21.3	22.4	24.0	25.0	18.5	19.9
Cashew nuts	28.7	41.2	42.3	46.6	63.4	81.7	67.0	75.0
Tobacco	6.1	16.5	23.3	24.0	18.3	28.0	35.4	33.0
Sisal	35.5	36.0	24.3	30.5	25.5	43.0	30.0	30.0
Pyrethrum	1.5	1.8	2.2	2.4	2.4	2.0	0.6	1.3

Source: Tanzanian authorities.

1/ Crop years vary.

Table 13. Tanzania: Production of Selected Manufactured Commodities, 1990–97

Commodity	Unit	1990	1991	1992	1993	1994	1995	1996	1997 Est.
Consumer goods									
Sugar	Metric tons (thousands)	107.0	125.3	117.0	120.5	97.5	88.0	104.1	116.1
Cigarettes	Pieces (millions)	3.7	3.8	3.9	3.9	3.4	3.7	3.7	4.7
Beer	Liters (millions)	45.0	50.0	45.1	57.0	56.8	111.2	125.1	148.3
Soft drinks	Liters (millions)	...	66.9	76.3	80.2	109.3	...	...	...
Textiles	Square meters (millions)	58.4	85.2	30.2	60.3	21.4	12.3	33.4	42.7
Shoes	Pairs (millions)	0.3	0.3	0.2	0.5	0.9	...	...	...
Intermediate goods									
Cement	Tons (thousands)	664.0	1,023.2	680.0	749.0	686.0	796.3	725.8	604.0
Rolled steel	Tons (thousands)	9.1	15.4	13.4	7.0	7.0	1.6	4.8	13.7
Iron sheets	Tons (thousands)	15.8	23.7	25.8	25.8	22.9	18.3	6.4	15.2
Aluminum	Tons (thousands)	2.5	2.5	2.9	3.2	2.7	1.1	0.4	0.1
Fertilizer	Tons (thousands)	17.4	...	...	...	...	...	...	...
Petroleum products	Tons (thousands)	453.0	482.3	55.9	348.0	340.0	398.0	336.3	313.0
Sisal ropes	Tons (thousands)	14.3	17.7	29.7	24.8	21.3	17.3	11.2	4.9
Paints	Liters (millions)	2.0	2.8	2.5	2.1	2.0	3.2	5.2	4.9
Packaging materials	Tons (thousands)	4.0	...	3.6	...	...	...	...	...

Source: Tanzanian authorities.

Table 14. Tanzania: Gross Capital Formation by Public and Private Sectors, 1987/88–1996/97 1/

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
	(In billions of Tanzania shillings)									
Gross fixed capital formation	76.3	96.8	163.1	248.2	325.9	399.5	495.7	576.9	612.9	670.5
Public sector fixed capital formation	38.2	59.2	77.2	91.3	110.8	127.6	133.2	119.6	118.5	148.3
Central government	5.7	6.0	6.4	11.8	24.5	42.5	55.9	41.7	21.9	38.2
Public enterprises 2/	32.5	53.2	70.8	79.6	86.3	85.0	77.3	77.9	96.6	110.2
Private sector fixed capital formation 3/	38.0	37.6	85.9	156.9	215.1	271.9	362.5	457.3	494.4	522.2
Changes in stocks 4/	1.9	2.2	2.6	3.3	3.7	3.8	4.4	5.3	6.2	6.6
Total capital formation	78.1	99.0	165.7	251.5	329.6	403.3	500.1	582.2	619.2	677.2
	(In percent of GDP)									
Gross fixed capital formation	18.2	17.0	22.3	25.9	26.5	25.8	24.6	22.0	18.2	15.9
Public sector fixed capital formation	9.1	10.4	10.5	9.5	9.0	8.2	6.6	4.7	3.4	3.5
Central government	1.4	1.1	0.9	1.2	2.0	2.7	2.8	1.6	0.6	0.9
Public enterprises 2/	7.8	9.3	9.7	8.4	7.0	5.5	3.8	2.9	2.8	2.7
Private sector fixed capital formation 3/	9.1	6.6	11.7	16.2	17.5	17.6	18.0	17.2	14.7	12.4
Changes in stocks 4/	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Total capital formation	18.7	17.4	22.6	26.2	26.8	26.1	24.9	22.2	18.4	16.1

Source: Tanzanian authorities.

1/ Fiscal years run from July to June.
2/ Includes nonprofit organizations.
3/ Includes rural noncommercial construction.
4/ Includes only livestock.

Table 15. Tanzania: Analysis of the Savings-Investment Relationship, 1990–97

(At current prices)

	1990	1991	1992	1993	1994	1995	1996	1997
				(In millions of Tanzania shillings)				
Gross domestic product (at market prices)	830,693	1,086,273	1,369,874	1,725,535	2,298,866	3,020,499	3,767,643	4,703,459
Monetary (at factor costs)	561,672	730,078	935,247	1,180,229	1,522,712	2,015,298	2,451,061	3,003,382
Nonmonetary (at factor costs)	198,334	259,515	340,668	427,532	602,613	781,342	1,001,498	1,278,218
Indirect taxes and subsidies	70,687	96,680	93,959	117,774	173,541	223,859	315,084	421,859
Final consumption	835,357	1,092,850	1,402,211	1,779,886	2,325,477	2,995,157	3,565,401	4,411,503
Government	147,651	205,726	269,016	334,520	393,501	462,315	435,329	413,563
Private	687,706	887,124	1,133,195	1,445,366	1,931,976	2,532,842	3,130,072	3,997,940
Investment	216,910	286,073	373,043	433,547	566,660	597,751	640,555	713,783
Government	7,357	16,151	32,904	52,170	59,682	23,727	20,087	56,280
Private	209,553	269,922	340,139	381,377	506,978	574,024	620,468	657,503
Gross fixed capital formation (excluding s	213,985	282,428	369,368	429,545	561,819	591,895	633,915	707,143
Public sector	86,832	95,852	125,841	129,265	137,191	101,980	135,013	161,625
Central government	7,357	16,151	32,904	52,170	59,682	23,727	20,087	56,280
Public enterprises	78,961	78,775	91,665	74,773	75,074	75,618	111,555	101,839
Institutions 1/	514	926	1,272	2,322	2,435	2,635	3,371	3,506
Private sector 2/	127,153	186,576	243,527	300,280	424,628	489,915	498,902	545,518
Changes in stocks	2,925	3,645	3,675	4,002	4,841	5,856	6,640	6,640
Total capital formation (excluding stocks)	216,910	286,073	373,043	433,547	566,660	597,751	640,555	713,783
Net exports of goods and non-factor servic	-221,574	-292,650	-405,380	-487,898	-593,271	-572,409	-438,313	-421,827
Exports	89,559	72,764	133,714	335,315	409,609	681,292	778,522	750,961
Imports	311,133	365,414	539,094	823,213	1,002,880	1,253,701	1,216,835	1,172,788
Domestic savings	-4,664	-6,577	-32,337	-54,351	-26,611	25,342	202,242	291,956
Government	0	5,616	-32,509	-58,907	-56,090	-48,409	8,724	47,473
Private	-4,664	-12,193	172	4,556	29,479	73,751	193,518	244,483
				(In percent of GDP)				
Final consumption	100.6	100.6	102.4	103.1	101.2	99.2	94.6	93.8
Government	17.8	18.9	19.6	19.4	17.1	15.3	11.6	8.8
Private	82.8	81.7	82.7	83.8	84.0	83.9	83.1	85.0
Investment	26.1	26.3	27.2	25.1	24.6	19.8	17.0	15.2
Government	0.9	1.5	2.4	3.0	2.6	0.8	0.5	1.2
Private	25.2	24.8	24.8	22.1	22.1	19.0	16.5	14.0
Gross fixed capital formation	25.8	26.0	27.0	24.9	24.4	19.6	16.8	15.0
Public sector	10.5	8.8	9.2	7.5	6.0	3.4	3.6	3.4
Central government	0.9	1.5	2.4	3.0	2.6	0.8	0.5	1.2
Public enterprises	9.5	7.3	6.7	4.3	3.3	2.5	3.0	2.2
Institutions 1/	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Private sector 2/	15.3	17.2	17.8	17.4	18.5	16.2	13.2	11.6
Changes in stocks	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Total capital formation	26.1	26.3	27.2	25.1	24.6	19.8	17.0	15.2
Domestic savings	-0.6	-0.6	-2.4	-3.1	-1.2	0.8	5.4	6.2
Government	0.0	0.5	-2.4	-3.4	-2.4	-1.6	0.2	1.0
Private	-0.6	-1.1	0.0	0.3	1.3	2.4	5.1	5.2
Resource balance	-26.7	-26.9	-29.6	-28.3	-25.8	-19.0	-11.6	-9.0

Sources: National Bureau of Statistics; and Fund staff projections.

1/ Includes nonprofit organizations.
2/ Includes rural noncommercial construction.

Table 16. Tanzania: Producer Prices for Selected Food and Export Crops, 1990/91–1997/98 1/
(In Tanzania shillings per kilogram)

	1990/91	1991/92	1992/93 2/	1993/94	1994/95	1995/96	1996/97	1997/98 Est.
Food crops 3/								
Maize	13.0	41.1	55.5	64.4	59.1	71.6	80.2	96.2
Paddy	26.0	54.3	91.4	106.6	83.0	...	123.0	147.6
Wheat	32.0	65.0	98.9	140.5	159.3	156.4	185.9	200.8
Cassava	6.0	...	...	...	44.2	...	...	...
Sorghum millet	31.5	42.3	72.7	71.5	152.0	229.8	110.2	132.2
Export crops								
Cashew nuts	110.0	137.0	125.0	270.0	350.0	330.0	250.0	300.0
Cotton AR 4/	41.0	70.0	60.0	80.0	120.0	205.0	205.0	240.0
Cotton BR 4/	14.0	22.0	17.0	35.0	51.6	70.0	80.0	90.0
Coffee (arabica)	155.0	230.0	231.0	400.0	931.0	987.0	612.9	707.0
Tea	28.0	40.0	40.0	45.0	50.0	50.0	55.0	60.0
Tobacco (flue)	117.0	245.0	295.0	384.0	564.4	568.3	683.9	729.0
Tobacco (fire)	91.0	168.0	203.0	243.0	353.6	455.4	551.8	552.0
Pyrethrum	120.0	230.0	230.0	230.0	250.0	300.0	300.0	300.0

Source: Tanzanian authorities.

1/ Crop years vary.
2/ From 1992/93 onward, producer prices have been set by individual cooperatives in collaboration with the National Bank of Commerce.
3/ These prices have been decontrolled since 1991/92. For 1992/93 and 1993/94, the reported prices are estimates made by the Marketing Development Bureau (MDB) of prevailing open market prices.
4/ Grade A and Grade B cotton, roller ginned.

Table 17. Tanzania: National Consumer Price Index, 1990–98

Period Index	General Index	Food	Drinks and Tobacco	Rents	Fuel, Light, and Water	Clothing and Footwear	Furniture and Utensils	Household Operations	Personal Care and Health	Recreation and Enter-tainment	Trans-porta-tion	Edu-cation	Miscellaneous Goods and Services
	(December 1994 = 100)												
Weights	100.0	64.2	2.5	4.9	7.6	9.9	1.4	3.4	1.3	0.7	4.1	0.0	0.0
1990	34.5	33.2	39.4	25.1	34.0	42.4	41.7	41.8	52.1	19.2	35.2	...	...
1991	44.4	43.8	43.7	30.5	41.4	51.1	52.2	48.8	67.0	26.6	47.3	...	...
1992	54.1	53.1	56.7	35.7	51.0	62.7	63.4	67.7	76.2	38.9	52.2	...	...
1993	67.8	63.8	70.9	40.1	70.4	81.5	73.6	74.8	112.2	62.8	74.5	...	...
1994	90.2	88.8	91.5	94.3	92.0	95.2	93.4	95.7	95.3	93.9	95.2	100.0	100.0
Weights 1/	100.0	71.2	4.4	3.9	4.7	3.7	2.5	1.5	2.2	1.2	1.2	1.5	2.0
1995	115.8	115.1	114.6	106.7	126.5	114.2	114.4	120.1	102.4	113.6	126.7	143.3	118.6
1996	140.1	138.6	143.1	137.4	166.1	136.3	144.1	138.7	118.2	129.5	162.4	160.6	131.0
1997	169.0	169.2	154.6	168.2	212.3	153.9	166.0	147.8	138.8	147.2	206.9	185.7	150.4
	(Percentage change from corresponding period in previous year)												
1992 Mar.	25.4	25.5	39.0	37.8	17.1	31.7	17.7	43.8	24.6	41.3	12.2	...	...
June	19.7	16.9	40.1	18.2	27.5	23.6	21.6	46.8	12.3	35.7	11.6	...	...
Sep.	21.6	22.6	21.1	18.2	25.0	17.0	21.2	31.6	2.7	44.4	5.9	...	...
Dec.	21.4	20.7	22.4	0.0	23.3	20.1	25.2	44.6	17.0	61.9	12.3	...	...
1993 Mar.	20.8	19.3	22.3	0.0	28.6	12.9	17.5	28.6	28.7	45.3	35.8	...	...
June	31.6	30.0	17.6	8.1	17.9	23.1	7.3	8.0	16.4	43.4	36.5	...	...
Sep.	22.2	19.4	29.2	20.4	23.2	35.9	10.0	19.5	19.2	69.6	38.4	...	...
Dec.	26.1	22.9	30.7	20.4	36.1	32.1	21.8	-13.4	5.0	80.5	56.2	...	...
1994 Mar.	32.5	32.7	28.4	172.0	41.6	30.6	25.7	12.1	-1.7	57.2	30.4	...	...
June	30.3	34.4	32.0	151.6	46.3	23.8	36.2	29.3	108.0	374.4	42.6	...	...
Sep.	36.3	37.1	28.6	132.6	54.9	15.8	38.4	30.5	9.5	48.4	35.2	...	...
Dec.	37.0	42.2	32.1	132.6	38.9	16.1	22.4	15.2	14.4	26.7	15.1	...	...
1995 Mar.	36.4	37.7	22.1	7.2	56.8	14.1	22.5	22.9	7.7	35.0	39.6	...	...
June	29.5	29.5	22.4	9.4	27.8	17.8	22.6	22.4	3.3	20.8	24.3	...	...
Sep.	27.4	29.8	26.9	7.3	23.5	20.4	20.6	29.8	8.0	17.1	30.8	...	...
Dec.	21.8	20.9	24.7	9.4	34.9	23.5	20.0	23.5	6.9	18.7	35.7	...	...
1996 Mar.	25.3	27.0	27.6	16.8	18.0	29.6	28.8	20.1	13.9	13.9	21.7	17.6	18.6
June	23.9	23.7	35.0	26.5	37.0	19.7	28.0	16.4	16.7	15.8	26.1	8.9	12.4
Sep.	18.3	16.6	21.9	36.3	39.9	15.9	24.9	10.1	13.5	11.2	34.7	10.0	2.7
Dec.	16.8	14.8	18.0	34.7	31.7	14.4	22.8	15.7	17.6	15.3	27.3	12.1	9.4
1997 Mar.	17.5	17.2	12.5	28.0	27.3	13.4	17.0	7.9	18.6	17.2	29.9	11.9	9.1
June	16.4	17.5	2.7	14.2	24.9	19.2	8.2	8.5	16.0	3.3	21.7	15.0	9.8
Sep.	16.1	18.9	4.0	8.9	12.8	11.0	9.5	4.1	12.7	8.9	18.6	8.1	11.3
Dec.	15.4	17.7	3.8	13.9	20.1	4.1	8.5	0.6	7.4	6.3	12.9	10.3	9.5
1998 Mar.	13.4	16.1	2.9	9.3	10.4	2.3	7.6	0.9	2.6	1.9	9.3	8.0	4.5
June	12.0	11.9	5.8	8.9	14.0	-1.9	8.6	0.9	2.9	7.1	9.4	4.9	5.2

Source: Bureau of Statistics.

1/ Following the household budget survey, the consumer price index has since January 1995 been calculated with a new set of weights.

Table 18. Tanzania: Central Government Operations, 1990/91–1997/98 1/

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
	Actual							Prel. act.
	(In billions of Tanzania shillings)							
Total revenue	133.2	173.6	164.1	242.4	331.2	448.3	572.1	619.1
Tax revenue	118.3	153.4	146.4	220.4	299.9	383.8	514.6	566.1
Taxes on imports and exports	31.5	38.6	31.6	50.2	91.2	121.2	174.2	180.7
Sales and excise taxes on local goods	45.0	57.9	46.1	70.4	72.6	104.7	141.7	140.5
Income taxes	32.4	40.1	45.5	58.5	86.6	112.3	134.2	149.8
Other taxes	9.4	16.7	23.2	41.2	49.4	45.6	64.5	95.2
Nontax revenue	15.0	20.2	17.7	22.1	31.3	64.6	57.5	52.9
Total expenditure and net lending 2/	151.9	194.9	305.1	370.9	487.8	595.9	638.7	765.2
Recurrent expenditure	135.4	162.3	240.3	284.0	401.9	474.6	528.4	567.9
Wages and salaries	35.1	37.5	57.9	77.9	111.5	156.1	199.2	218.8
Interest payments	20.0	23.7	39.4	51.5	89.7	112.6	111.1	115.9
Domestic	9.8	10.6	23.0	31.7	57.7	77.7	73.5	50.6
Foreign	10.2	13.1	16.4	19.8	32.0	34.9	37.6	65.3
Other goods and services and transfers	80.3	101.1	143.0	154.6	200.7	205.9	218.1	233.0
Development expenditure and net lending	16.5	32.6	64.7	74.7	86.0	121.4	110.3	197.4
Overall balance before grants (checks issued)	-18.6	-21.3	-140.9	-128.5	-156.6	-147.6	-66.6	-146.2
Grants	22.9	32.8	58.3	76.9	53.7	74.6	152.4	156.4
Program	...	28.0	29.3	43.8	21.2	32.6	75.0	38.3
Project	...	4.8	29.0	33.1	32.5	42.0	77.4	118.0
Overall balance after grants (checks issued)	4.3	11.5	-82.6	-51.6	-102.9	-73.0	85.8	10.2
Adjustment to cash and other items (net) 3/	-8.8	-1.9	6.6	-47.8	-29.3	-27.2	-7.0	-1.1
Overall balance (checks cleared)	-4.5	9.6	-76.0	-99.3	-132.2	-100.2	78.8	9.1
Financing	4.5	-9.6	76.0	99.3	132.2	100.2	-78.8	-9.1
Foreign (net)	8.9	22.7	29.4	47.8	23.0	-40.8	-20.1	50.0
Foreign loans	30.0	51.6	62.3	87.4	64.3	5.5	34.0	106.1
Program loans	28.6	44.4	50.0	64.4	30.9	1.6	21.4	65.8
Development project loans	1.4	7.2	12.3	22.9	33.4	3.9	12.6	40.3
Amortization	-21.1	-28.9	-32.8	-39.6	-41.4	-46.3	-54.2	-56.1
Domestic (net)	-4.4	-32.3	46.6	40.6	87.9	110.6	-31.5	-22.1
Bank	-11.5	-36.5	43.1	14.0	57.0	91.5	-18.4	-47.9
Nonbank	7.2	4.2	3.5	26.6	30.9	19.1	-13.1	25.8
Privatization	0.0	0.0	0.0	0.0	0.0	17.7	12.7	6.5
Change in arrears	0.0	0.0	0.0	11.0	21.3	12.8	-39.9	-43.5
Government recurrent savings (checks issued)	-2.1	11.3	-76.2	-41.6	-70.6	-26.2	43.7	51.2
	(In percent of GDP, unless otherwise indicated)							
Total revenue	16.0	14.1	10.6	12.0	12.5	13.2	13.5	12.3
Tax revenue	14.2	12.5	9.5	11.0	11.3	11.3	12.1	11.2
Nontax revenue	1.8	1.6	1.1	1.1	1.2	1.9	1.4	1.0
Total expenditure and net lending 2/	18.2	15.9	19.7	18.4	18.3	17.6	15.1	15.2
Recurrent expenditure	16.3	13.2	15.5	14.1	15.1	14.0	12.5	11.2
Wages and salaries	4.2	3.1	3.7	3.9	4.2	4.6	4.7	4.3
Interest payments	2.4	1.9	2.5	2.6	3.4	3.3	2.6	2.3
Other goods and services and transfers	9.6	8.2	9.2	7.7	7.5	6.1	5.1	4.6
Development expenditure and net lending	2.0	2.7	4.2	3.7	3.2	3.6	2.6	3.9
Overall balance before grants (checks issued)	-2.2	-1.7	-9.1	-6.4	-5.9	-4.3	-1.6	-2.9
Grants	2.7	2.7	3.8	3.8	2.0	2.2	3.6	3.1
Overall balance after grants (checks issued)	0.5	0.9	-5.3	-2.6	-3.9	-2.2	2.0	0.2
Adjustment to cash and other items (net) 3/	-1.1	-0.2	0.4	-2.4	-1.1	-0.8	-0.2	0.0
Overall balance (checks cleared)	-0.5	0.8	-4.9	-4.9	-5.0	-3.0	1.9	0.2
Financing	0.5	-0.8	4.9	4.9	5.0	3.0	-1.9	-0.2
Foreign (net)	1.1	1.8	1.9	2.4	0.9	-1.2	-0.5	1.0
Domestic (net)	-0.5	-2.6	3.0	2.0	3.3	3.3	-0.7	-0.4
Bank	-1.4	-3.0	2.8	0.7	2.1	2.7	-0.4	-0.9
Nonbank	0.9	0.3	0.2	1.3	1.2	0.6	-0.3	0.5
Change in arrears	0.0	0.0	0.0	0.5	0.8	0.4	-0.9	-0.9
Memorandum items:								
Primary deficit (before grants; checks issued)	0.1	0.2	-6.6	-3.8	-2.5	-1.0	1.0	-0.6
Government recurrent savings (checks issued)	-0.2	0.9	-4.9	-2.1	-2.7	-0.8	1.0	1.0
Military expenditure (in billions of Tanzania shillings)	16.0	26.4	25.2	17.4	35.9	52.1	53.5	68.9
GDP (in billions of Tanzania shillings) 4/	958.5	1,228.1	1,547.7	2,012.2	2,659.7	3,394.1	4,235.6	5049.6

Sources: Tanzanian authorities; and staff estimates.

1/ Fiscal years run from July to June.
2/ As of 1997/98, development expenditure and net lending are on a checks-issued basis.
3/ Difference between the overall deficit on a checks-issued basis and the total financing, which reflects expenditure based on checks cleared by the Bank of Tanzania. This difference is due to the change in the check float at the end of the fiscal year and in unrecorded expenditure.
4/ Based on the newly revised national account estimates.

Table 19. Tanzania: Central Government Revenue, 1991/92–1997/98 1/

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
	Actual						Prel. act.
	(In millions of Tanzania shillings)						
Total revenue	173,566	164,110	242,447	331,240	448,339	572,052	619,082
Tax revenue	153,356	146,420	220,359	299,900	383,752	514,589	566,123
Income taxes	40,143	45,455	58,505	86,684	112,261	134,152	149,788
PAYE (pay-as-you-earn)	4,900	8,144	10,404	23,548	26,895	38,358	47,821
Individuals 2/	1,932	2,592	2,819	3,546	5,488	9,118	9,769
Companies	9,412	14,332	38,400	43,044	51,290	54,690	65,073
Withholding tax	1,023	467	5,658	14,581	17,460	20,391	20,779
Capital gains	108	127	130	485	335	105	...
Shipping tax	454	553	595	797	723	330	324
Transport tax	367	401	409	568	632	954	1,215
Other	21,947	18,839	90	115	9,438	9,236	4,807
Payroll or manpower taxes	1,690	2,149	2,515	4,858	6,874	8,922	10,586
Payroll tax	1,584	1,748	2,308	4,377	6,122	8,515	10,586
Training levy	106	401	207	481	752	407	...
Taxes on property	345	494	891	1,009	862	553	558
Land rent	183	269	294	387	366	...	...
Estate duty	12	9	12	13	16	6	...
Motor vehicle transfer tax	150	216	585	609	480	547	558
Consumption taxes on goods and services (local)	60,385	49,407	74,455	76,847	111,358	137,017	142,588
Sales tax on local goods	31,045	28,198	43,730	51,272	60,668	67,053	61,734
Excise tax on local goods	26,839	17,919	26,658	21,372	43,983	61,925	78,785
Entertainment tax	42	19	24	1	0	0	...
Business licenses	479	736	766	886	1,412	1,985	...
Other licenses	206	253	115	38	64	65	11
Motor vehicle registration tax	72	211	407	694	1,219	1,457	1,368
Motor vehicle licenses	629	707	810	477	1,377	949	689
Hotel levy	1,073	1,364	1,945	2,107	2,635	3,583	...
Import duties	38,617	31,637	50,230	91,249	121,242	163,043	180,662
Customs duties	21,103	16,288	28,404	...	61,271	78,374	81,751
Sales tax on imports	13,817	12,929	19,525	...	33,829	54,909	76,445
Excise tax on imports	3,697	2,420	2,301	...	26,142	29,760	22,466
Other taxes	12,176	17,278	33,763	39,293	31,155	70,049	81,940
Stamp duty	6,195	8,201	11,348	14,175	18,176	30,578	32,926
Road toll	3,689	...	15,413	22,184	28,329	31,157	36,703
Others 3/	2,292	9,077	7,002	2,934	2,970	8,314	12,311
Nontax revenue	20,210	17,690	22,088	31,340	64,587	57,536	52,960
Dividends 4/	9,338	7,406	6,725	7,624	15,243	18,313	5,512
Other 5/	10,872	10,284	15,363	23,716	49,344	39,223	47,449
	(In percent of tax revenue)						
Income taxes	26.2	31.0	26.5	28.9	29.3	26.1	26.5
Payroll or manpower taxes	1.1	1.5	1.1	1.6	1.8	1.7	1.9
Taxes on property	0.2	0.3	0.4	0.3	0.2	0.1	0.1
Consumption taxes (local)	39.4	33.7	33.8	25.6	29.0	26.6	25.2
Of which: sales and excise taxes	37.7	31.5	31.9	24.2	27.3	25.1	24.8
Import duties	25.2	21.6	22.8	30.4	31.6	31.7	31.9
Other	7.9	11.8	15.3	13.1	8.1	13.6	14.5

Source: Tanzanian authorities.

1/ Fiscal years run from July to June.
2/ Includes single-trade transaction tax.
3/ Obtained as a residual.
4/ Includes dividends by the Bank of Tanzania.
5/ Includes collections by treasury, other ministries and regions, and appropriations-in-aid.

Table 20. Tanzania: Budgetary Transfer Payments, 1990/91–1997/98 1/
(In millions of Tanzania shillings)

	1990/91	1992/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
				Actual				Prel. act.
Total transfer payments	23,812	30,458	49,482	50,852	46,626	38,780	31,052	48,033
Transfers to parastatals	7,006	6,723	19,926	15,444	5,920	3,000	2,200	7,000
Transfers to crop authorities for debt settlement	2,254	1,418	2,129	3,619	3,820	0	0	0
Other transfers to public enterprises 2/	3,203	2,275	690	1,026	1,500	1,000	0	0
Strategic Grain Reserve management	618	2,130	4,002	0	100	1,000	1,800	4,000
Financial assistance to parastatals	931	900	13,105	10,799	500	1,000	400	3,000
Other domestic transfers	15,555	22,636	27,804	33,888	39,425	34,061	30,982	36,610
Urban and district councils 3/	4,733	4,662	3,740	9,892	9,935	10,305	2,447	4,171
University of Dar es Salaam	2,004	3,250	3,711	3,864	4,434	5,005	6,373	4,896
Sokoine University	666	1,417	1,210	1,767	2,136	1,721	2,299	2,696
Other educational institutions	545	637	1,200	3,958	5,278	5,671	5,726	3,271
Agricultural institutions	398	702	831	450	197	278	340	400
Natural resources	102	123	154	111	262	248	175	...
Industrial research and development	244	173	489	311	358	382	243	...
Health services	3,229	4,887	6,001	7,526	14,742	8,422	9,365	11,402
Political parties	1,717	2,248	0	0	0	0	1,708	3,540
Other	1,917	4,537	10,468	6,009	2,083	2,029	2,306	6,234
Transfers abroad	1,251	1,099	1,752	1,520	1,281	1,719	317	4,424
Memorandum items:								
Total transfer payments (in percent of GDP)	2.5	2.5	3.2	2.5	1.8	1.1	0.7	1.0
Of which: transfers to urban and district councils (in percent of other transfers)	30.4	20.6	13.5	29.2	25.2	30.3	7.9	11.4

Sources: Tanzanian authorities; and Fund staff estimates.

1/ Fiscal years run from July to June.
2/ Includes estimated arrears on repayments of import support counterpart funds.
3/ Excluding salaries and wages for urban and district councils; for 1996/97, allocations for medical drugs of T Sh 5,200 million were centrally administered by the Ministry of Health.

Table 21. Tanzania: Central Government Debt and Debt-Service Payments, 1992/93–1997/98 1/

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
			Actual			Est.
			(In millions of Tanzania shillings)			
Total government domestic debt 2/	111,204	167,532	320,613	528,798	702,117	605,726
Treasury bills	4,738	4,738	41,320	117,572	208,009	114,656
Stocks and bonds	64,823	120,551	235,039	411,226	494,108	491,070
Other (advances)	41,643	42,243	44,254	0	0	0
Total government expenditure (including amortization)	340,000	411,971	538,754	642,200	705,900	856,177
Debt payments	74,355	92,585	140,568	162,796	187,764	221,011
Domestic	25,081	33,163	67,237	82,161	95,993	103,918
Interest payments	22,976	31,725	57,700	77,696	73,477	50,499
Amortization	2,105	1,438	9,537	4,465	22,516	53,419
Foreign	49,274	59,422	73,331	80,635	91,771	117,093
Interest payments	16,438	19,799	31,961	34,293	37,596	44,672
Amortization	32,836	39,623	41,370	46,342	54,175	72,421
			(In percent)			
Memorandum items:						
Debt payments/total outlays	21.9	22.5	26.1	25.3	26.6	25.8
Interest payments	11.6	12.5	16.6	17.4	15.7	11.1
Amortization	10.3	10.0	9.4	7.9	10.9	14.5
Domestic debt service	7.4	8.0	12.5	12.8	13.6	12.1
Foreign debt service	14.5	14.4	13.6	12.6	13.0	13.7
Debt service/GDP	4.8	4.6	5.3	4.8	4.6	5.4
Domestic debt/GDP 3/	7.2	8.3	12.1	15.6	17.1	17.3

Sources: Tanzanian authorities; and Fund staff estimates.

1/ Fiscal years run from July to June.
2/ Outstanding debt as of June 30 of the previous year.
3/ Comparison of debt at the end of the previous fiscal year with GDP in current fiscal year.

Table 22. Tanzania: Monetary Survey, June 1993–June 1998

	1993	1994	1995	1996	1997	1997	1997	1998	1998
			June			Sep.	Dec.	Mar.	June
					(In millions of Tanzania shillings)				
Foreign assets (net)	36,482	79,362	138,634	205,285	372,876	354,648	398,993	439,437	410,228
Bank of Tanzania	20,762	26,559	10,467	-4,481	125,249	133,542	170,241	196,012	165,589
Deposit money banks	15,721	52,803	128,167	209,766	247,627	221,106	228,752	243,424	244,639
Domestic assets (net)	341,471	440,198	546,733	591,663	587,541	629,865	621,568	595,002	640,586
Domestic credit	324,828	414,274	474,219	434,885	417,549	461,088	422,434	432,159	438,344
Claims on the government (net)	96,256	155,141	212,149	305,906	287,547	281,131	239,457	244,202	239,665
Claims on other public sector 1/	134,447	88,356	90,462	25,463	18,839	23,817	20,677	20,030	9,987
Claims on the private sector 1/	94,125	170,777	171,608	103,517	111,163	156,140	162,300	167,927	188,692
Other items (net)	16,643	25,924	72,514	156,778	169,992	168,777	199,133	162,842	202,242
Broad money	321,482	467,586	638,511	744,177	879,963	903,542	927,069	924,266	947,394
Currency in circulation	99,875	128,199	187,342	219,173	256,915	270,685	287,877	268,821	272,667
Demand deposits	91,386	133,745	150,936	164,391	215,706	204,978	205,992	216,476	208,975
Quasi money 2/	130,220	205,642	300,233	360,613	407,341	427,879	433,200	438,969	465,752
Medium-term foreign liabilities	49,521	43,227	39,981	44,192	43,865	43,853	43,852	43,852	43,587
Valuation account	6,950	8,748	6,875	8,579	36,590	37,119	49,640	66,321	59,833
Memorandum items:					(Change as percent of previous period broad money)				
Net foreign assets	-6.1	13.3	12.7	10.4	22.5	14.4	13.2	17.3	4.2
Net domestic assets	51.0	30.7	22.8	7.0	-0.6	4.3	2.6	2.3	6.0
Domestic credit	40.5	27.8	12.8	-6.2	-2.3	-0.2	-1.8	-0.6	2.4
Claims on the government	19.3	18.3	12.2	14.7	-2.5	-6.0	-6.9	-6.6	-5.4
Claims on other public sector 1/	10.0	-14.3	0.5	-10.2	-0.9	-0.4	-0.5	-0.3	-1.0
Claims on the private sector 1/	11.2	23.8	0.2	-10.7	1.0	6.2	5.6	6.2	8.8
Other items (net)	10.5	2.9	10.0	13.2	1.8	4.5	4.4	2.9	3.7
Broad money	43.9	45.4	36.6	16.5	18.2	16.1	13.3	15.1	7.7
Currency in circulation	11.0	8.8	12.6	5.0	5.1	3.8	3.7	4.3	1.8
Demand deposits	11.4	13.2	3.7	2.1	6.9	2.8	1.8	3.9	-0.8
Quasi money 2/	21.5	23.5	20.2	9.5	6.3	9.6	7.9	6.9	6.6
Medium-term foreign liabilities	-0.2	-2.0	-0.7	0.7	0.0	0.0	0.0	0.0	0.0
Valuation account	1.3	0.6	-0.4	0.3	3.8	2.7	2.6	4.5	2.6

Source: Bank of Tanzania.

1/ The decline in 1996 reflects the write-off of T Sh 112 billion in nonperforming loans by the National Bank of Commerce and the Cooperative and Rural Development Bank. The precise breakdown of these loans between the private and "other public" sectors is not available.

2/ Time, savings, and foreign exchange deposits.

Table 23. Tanzania: Summary Accounts of the Bank of Tanzania, June 1993–June 1998
(In millions of Tanzania shillings)

	1993	1994	1995 June	1996	1997	1997 Sep.	1997 Dec.	1998 Mar.	1998 June
Foreign assets (net)	20,762	26,559	10,467	-4,481	125,249	133,542	170,241	196,012	165,589
SDR holdings	....	226	47	312	2,846	1	67	214	187
Foreign exchange (net)	83,717	118,534	126,083	89,627	199,977	245,081	304,714	333,937	293,751
Gold reserves	24,336	21,491	17,929	17,596	19,186	18,938	19,284	20,548	20,618
Net IMF position	-87,291	-113,692	-133,592	-112,016	-96,760	-130,478	-153,824	-158,688	-148,967
Domestic assets (net)	226,780	189,904	298,150	329,776	292,207	304,259	288,190	275,118	317,957
Domestic credit	105,467	45,331	115,217	96,866	60,518	64,383	25,103	14,933	14,154
Net claims on the government	41,162	45,331	109,762	91,411	55,906	59,772	20,492	10,322	9,543
Claims on the government	80,243	95,906	160,692	156,457	138,647	133,771	119,638	109,978	100,052
Government deposits	-39,081	-50,575	-50,930	-65,045	-82,742	-73,998	-99,145	-99,655	-90,508
Claims on commercial banks	64,305	...	5,454	5,454	4,612	4,611	4,611	4,611	4,611
Other items (net)	121,313	144,573	182,933	232,910	231,689	239,875	263,087	260,185	303,803
Reserve money	119,918	164,489	261,760	272,524	337,002	356,829	364,940	360,960	380,126
Currency issued	105,874	133,851	197,701	232,623	276,861	299,420	314,487	291,511	296,539
Commercial bank deposits	14,044	30,638	64,060	39,901	60,140	57,409	50,453	69,449	83,587
Medium-term foreign liabilities	49,520	43,227	39,981	44,192	43,865	43,853	43,852	43,852	43,587
Blocked accounts	56,153	39,590	33,217	32,459	32,459	32,459	32,459	32,459	32,459
National Bank of Commerce deposits (against external payments arrears)	-6,633	3,637	6,764	11,733	11,406	11,394	11,393	11,393	11,128
Valuation account	78,104	8,748	6,875	8,579	36,590	37,119	49,640	66,321	59,833

Source: Bank of Tanzania.

Table 24. Tanzania: Summary Accounts of Domestic Money Banks, June 1993–June 1998
(In millions of Tanzania shillings)

	1994	1995	1996	1997	1997	1997	1998	1998
	June				Sep.	Dec.	Mar.	June
Foreign assets (net)	52,803	128,167	209,766	247,627	221,106	228,752	243,424	244,639
Foreign assets	55,763	147,253	213,189	251,058	227,078	233,556	246,610	247,510
Foreign liabilities	-2,959	-19,086	-3,423	-3,431	-5,971	-4,804	-3,185	-2,871
Domestic assets (net)	286,583	323,002	315,238	375,420	411,750	410,440	412,021	430,088
Reserves	36,653	67,409	53,602	80,816	76,017	59,710	72,523	117,095
Domestic credit	369,057	364,460	343,473	361,643	401,316	401,942	421,837	428,800
Net claims on government	109,810	102,387	214,494	231,641	221,359	218,965	233,880	230,122
Claims on government	119,037	135,693	231,441	256,210	252,444	247,392	257,486	249,785
Government deposits	-9,227	-33,306	-16,947	-24,569	-31,085	-28,427	-23,606	-19,663
Claims on other public sector 1/	88,356	90,462	25,463	18,839	23,817	20,677	20,030	9,987
Marketing boards	3,070	15,891	2,456	831	813	782	720	839
Cooperatives	36,636	35,023	5,546	4,015	6,389	4,454	3,388	2,959
Industrial and commercial parastatals	48,650	39,549	17,461	13,993	16,615	15,440	15,922	6,189
Claims on private sector 1/	170,891	171,610	103,516	111,163	156,140	162,300	167,927	188,692
Other items (net)	-119,126	-108,866	-81,837	-67,040	-65,582	-51,213	-82,340	-115,807
Demand deposits	133,745	150,936	164,391	215,706	204,978	205,992	216,476	208,975
Time and savings deposits	135,654	188,299	218,586	260,584	257,708	266,485	269,998	288,538
Foreign currency deposits	69,988	111,934	142,026	146,758	170,171	166,716	168,971	177,214

Source: Bank of Tanzania.

1/ See footnote 1 of Table 22.

Table 25. Tanzania: Commercial Bank Domestic Lending by Sectors, June 1994–June 1998

	1994	1995	1996	1997	1998
			June		
			(In millions of Tanzania shillings)		
Total 1/ 2/	270,377	270,355	134,907	134,585	201,412
Public administration	11,129	8,283	5,927	7,350	5,050
Agricultural production	22,915	13,691	10,441	11,037	12,218
Mining and manufacturing	58,964	50,819	38,681	32,961	54,081
Building and construction	7,825	2,599	3,112	4,589	5,159
Transportation	10,619	4,517	6,950	9,301	19,773
Tourism	5,309	2,929	968	1,780	2,153
Marketing of agricultural produce	61,964	41,058	7,290	5,233	3,518
Export of agricultural produce	7,825	4,044	3,542	2,278	2,961
Trade in capital goods	2,515	97	8	19	17
All other trade	62,243	42,298	27,842	24,189	49,115
Specified financial institutions	1,956	3,391	156	1,749	1,743
Other	17,113	96,629	29,990	34,099	45,624
			(In percent of total)		
Public administration	4.1	3.1	4.4	5.5	2.5
Agricultural production	8.5	5.1	7.7	8.2	6.1
Mining and manufacturing	21.8	18.8	28.7	24.5	26.9
Building and construction	2.9	1.0	2.3	3.4	2.6
Transportation	3.9	1.7	5.2	6.9	9.8
Tourism	2.0	1.1	0.7	1.3	1.1
Marketing of agricultural produce	22.9	15.2	5.4	3.9	1.7
Export of agricultural produce	2.9	1.5	2.6	1.7	1.5
Trade in capital goods	0.9	0.0	0.0	0.0	0.0
All other trade	23.0	15.6	20.6	18.0	24.4
Specified financial institutions	0.7	1.3	0.1	1.3	0.9
Other	6.3	35.7	22.2	25.3	22.7

Source: Bank of Tanzania.

1/ See footnote 1 of Table 22.

2/ Owing to reporting weaknesses, the total differs from the sum of claims on the private and "other public" sectors (Table 22).

Table 26. Tanzania: Structure of Interest Rates of Financial Institutions, June 1994–June 1998
(In percent; end of period)

	1994	1995	1996	1997	1998
			June		
Bank of Tanzania					
Discount rate 1/	53.0	51.7	23.3	11.4	17.2
Commercial banks					
Savings deposit rates					
Low	22.0	15.0	8.0	2.0	5.0
High	26.0	27.0	16.0	11.5	11.5
Time deposit rates					
3-6 month					
Low	15.5	15.5	5.0	2.0	4.8
High	30.0	35.0	34.0	12.0	11.0
9-month					
Low	16.5	25.0	8.0	5.5	5.5
High	35.0	34.0	32.0	11.0	11.0
12-month					
Low	28.0	26.0	10.5	6.0	7.0
High	29.5	35.0	20.0	13.5	13.5
Short-term lending rates 2/					
Low	27.7	27.7	30.0	21.0	15.0
High	39.0	45.0	39.0	30.0	25.0
Medium and long-term lending rates					
Low	24.0	31.0	30.0	24.0	20.0
High	39.0	40.0	30.0	30.0	32.0

Source: Bank of Tanzania.

1/ Effective November 1994, the discount rate is determined by the average yield on treasury bills plus 5 percentage points.

2/ Maximum one year.

Table 27. Tanzania: Balance of Payments, 1993/94–1997/98 1/

(In millions of U.S. dollars, unless otherwise indicated)

	1993/94	1994/95	1995/96	1996/97	1997/98
				Estimates	
Trade account	-1,104.6	-916.8	-674.4	-594.2	-756.7
Exports, f.o.b.	485.9	592.9	695.9	793.6	644.9
Traditional	...	361.4	407.8	410.0	325.5
Nontraditional	...	231.6	288.1	383.6	319.4
Imports, c.i.f.	-1,590.5	-1,509.7	-1,370.3	-1,387.8	-1,401.6
Services (net)	-436.2	-147.6	-287.3	-273.5	-392.9
Receipts	368.8	511.2	472.0	519.7	525.1
Payments	-805.0	-658.8	-759.3	-793.2	-918.0
Interest	-153.8	-139.4	-143.6	-140.8	-185.4
Other services	-651.2	-519.4	-615.7	-652.4	-732.6
Private transfers (net)	465.0	17.5	19.9	25.7	30.0
Current account (excluding official transfers)	-1,075.8	-1,047.0	-941.9	-842.0	-1,119.6
Official transfers (net)	633.5	525.0	581.4	689.9	668.7
Project financing	...	474.8	523.8	567.1	580.1
Program financing	...	50.2	57.6	122.8	88.6
Current account (including official transfers)	-442.3	-522.0	-360.5	-152.2	-450.9
Capital account	256.6	299.2	191.2	171.5	318.2
Loan inflow	210.6	271.6	320.2	360.0	421.9
Official project financing	...	179.7	214.6	293.4	314.1
Official program financing	...	51.2	67.6	35.4	73.6
Other loans	...	40.7	38.0	31.1	34.3
Amortization 2/	-361.3	-322.3	-354.4	-317.0	-217.9
Direct investment	63.0	104.1	134.1	150.0	165.0
Errors and omissions	344.3	245.8	91.3	-21.5	-50.9
Overall balance	-185.7	-222.8	-169.3	19.3	-132.7
Financing	185.7	222.8	169.3	-19.3	132.7
Change in net foreign assets (increase -)	-107.0	-46.3	-80.7	-272.1	-0.7
Bank of Tanzania (increase -)	9.7	32.6	24.6	-207.7	-29.5
Gross reserves	-11.7	51.2	15.0	-220.4	-60.8
Use of Fund credit	-10.2	-15.9	-22.2	48.5	12.5
Purchases	0.0	0.0	0.0	72.7	48.4
Repurchases	-10.2	-15.9	-22.2	-24.2	-36.0
Other (net)	31.6	-2.7	31.8	-35.8	18.8
Commercial banks (increase -)	-116.7	-78.9	-105.3	-64.4	28.8
Arrears (increase +) 3/	292.7	269.1	250.0	-1,025.2	79.1
Debt relief 4/	...	...	...	1,277.9	54.3
Memorandum items:					
Reserve stock (Bank of Tanzania)	306.3	255.1	240.1	460.5	502.5
(in months of imports of goods and nonfactor services)	2.5	1.6	1.5	2.8	3.0
Current account deficit 5/					
Excluding official transfers	-30.5	-21.1	-16.2	-12.0	-14.2
Including official transfers	-12.5	-10.5	-6.2	-2.2	-5.7
Debt service due/exports 6/	...	43.5	44.6	36.9	36.4
Debt service paid/exports 6/	...	19.1	23.2	17.7	17.1

Sources: Tanzanian authorities; and Fund staff estimates and projections.

1/ Fiscal years run from July to June.

2/ Includes amounts due to all creditors (excluding IMF) before debt rescheduling and debt relief.

3/ In 1996/97, reduction of arrears granted by the Paris Club.

4/ January 21, 1997 Paris Club rescheduling agreement, including assumed implementation of a bilateral agreement with Russia, in 1998/99, involving an up-front discount of 80 percent on all Russian claims and a flow rescheduling on Naples terms.

5/ In percent of GDP.

6/ In percent of exports of goods and services (including debt service to IMF).

Table 28. Tanzania: Value, Unit Value, and Volume Indices of Exports and Imports, and Terms of Trade, 1990/91–1997/98 1/

(On the basis of U.S. dollar data; 1992/93 = 100)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Est.
Value								
Exports	92.3	97.4	100.0	101.5	123.8	145.3	165.7	134.7
Imports	92.8	96.9	100.0	108.1	102.7	93.1	94.3	95.2
Unit value								
Exports	100.4	103.3	100.0	94.5	118.5	111.4	107.0	112.9
Imports	93.6	98.3	100.0	102.7	100.9	101.6	98.7	90.1
Volume								
Exports	91.6	94.6	100.0	107.3	104.4	130.4	154.9	116.9
Imports	98.9	98.5	100.0	108.0	101.7	88.8	89.2	91.7
Terms of trade	107.9	105.8	100.0	94.5	117.5	109.7	108.4	125.3

Sources: Tanzanian authorities; and Fund staff estimates.

1/ Fiscal years run from July to June.

Table 29. Tanzania: Value, Volume, and Unit Values of Principal Exports, 1990–97
(Value in millions of U.S. dollars; volume in thousands of metric tons; unit values in U.S. dollars per kilogram) 1/

	1990	1991	1992	1993	1994	1995	1996	1997
Coffee								
Value	83.8	77.3	59.5	87.6	115.4	142.6	136.1	117.4
Volume	61.1	52.5	50.7	67.0	44.0	48.0	61.7	46.6
Unit value	1.4	1.5	1.2	1.3	2.6	3.0	2.2	2.5
Cotton								
Value	74.6	63.3	97.6	65.3	105.1	120.2	125.3	116.5
Volume	46.2	38.7	72.8	57.5	60.0	70.9	81.9	77.3
Unit value	1.6	1.6	1.3	1.1	1.8	1.7	1.5	1.5
Sisal								
Value	4.0	2.2	1.3	2.1	5.1	6.3	5.3	8.5
Volume	7.7	4.8	4.1	4.6	7.2	11.3	8.9	13.7
Unit value	0.5	0.5	0.3	0.5	0.7	0.6	0.6	0.6
Tea								
Value	21.5	21.7	22.4	23.1	39.5	23.4	22.5	30.1
Volume	14.9	17.6	20.4	18.8	21.7	21.6	22.0	20.4
Unit value	1.5	1.2	1.1	1.2	1.8	1.1	1.0	1.5
Tobacco								
Value	10.6	16.7	27.2	15.9	20.6	27.1	49.2	12.9
Volume	5.9	8.6	12.7	9.5	15.4	17.1	24.9	6.2
Unit value	1.8	2.0	2.1	1.7	1.3	1.6	2.0	2.1
Cashew nuts								
Value	5.6	16.7	23.5	22.4	51.2	64.0	97.8	73.4
Volume	7.4	19.4	29.3	35.8	65.0	75.6	118.4	100.8
Unit value	0.8	0.9	0.8	0.6	0.8	0.9	0.8	0.7
Subtotal (value)	199.9	197.9	231.5	216.5	336.9	383.6	436.2	358.8
Other principal exports (value)								
Petroleum products	11.2	7.3	10.6	9.0	5.5	11.0	15.8	12.4
Minerals	27.0	44.0	40.8	38.8	30.0	44.9	55.9	92.8
Manufactured goods	103.6	70.3	64.2	52.9	77.0	109.2	127.1	172.0
Other	60.3	41.6	49.9	50.1	70.0	134.3	133.0	81.2
Subtotal (value)	202.0	163.2	165.5	150.7	182.5	277.6	331.8	358.4
Grand total (value)	402.0	361.1	397.0	367.2	519.3	661.2	768.0	717.2
Memorandum item:								
Tanzania shillings per U.S. dollar (average)	195.1	219.2	297.7	405.3	509.6	574.8	580.0	618.3

Source: Tanzanian authorities.

1/ Unit values are obtained from value and volume figures.

Table 30. Tanzania: Composition of Exports, 1990–97

(In percent of total exports, f.o.b.)

	1990	1991	1992	1993	1994	1995	1996	1997
Traditional exports	50.0	55.0	59.0	59.0	64.9	55.4	56.8	50.0
Coffee	20.0	22.0	15.0	24.0	22.2	20.6	17.7	16.4
Cotton	19.0	18.0	24.0	18.0	20.2	17.4	16.3	16.2
Sisal	1.0	1.0	1.0	1.0	1.0	0.9	0.7	1.2
Tea	5.0	6.0	6.0	6.0	7.6	3.4	2.9	4.2
Tobacco	3.0	5.0	7.0	4.0	4.0	3.9	6.4	1.8
Cashew nuts	2.0	3.0	6.0	6.0	9.9	9.2	12.7	10.2
Nontraditional exports	50.0	45.0	41.0	41.0	35.1	44.6	43.2	50.0
Petroleum products	4.0	2.0	3.0	2.0	1.1	1.6	2.1	1.7
Minerals	7.0	1.0	10.0	11.0	5.8	6.5	7.3	12.9
Manufactured products	22.0	21.0	16.0	14.0	14.8	15.8	16.5	24.0
Other nontraditional	17.0	21.0	12.0	14.0	13.5	20.7	17.3	11.3

Source: Tanzanian authorities.

Table 31. Tanzania: Destination of Exports, 1990–97

(In percent)

	1990	1991	1992	1993	1994	1995	1996	1997
European Union	55.3	52.9	45.9	46.0	39.9	34.9	42.0	28.8
United Kingdom	11.5	8.8	7.9	7.6	5.6	5.7	6.1	5.2
Germany	17.6	16.2	11.0	10.4	9.1	9.6	9.8	9.5
Netherlands	8.0	5.8	4.7	4.5	4.5	5.2	4.9	5.6
Belgium	2.6	5.8	8.0	7.4	7.2	2.2	7.4	1.1
Italy	4.3	3.4	3.3	3.0	1.6	1.5	1.7	1.7
Other	11.3	13.0	11.1	13.1	11.9	10.7	12.1	5.7
United States	4.1	3.8	2.6	2.6	2.7	3.2	2.9	3.0
Canada	0.3	0.3	0.5	0.3	0.2	0.4	0.4	0.2
Japan	4.5	5.4	6.9	8.2	8.1	8.5	8.8	8.4
India	6.7	8.2	8.1	8.7	9.6	8.4	10.3	9.3
Hong Kong S.A.R.	4.3	2.5	2.5	0.9	2.1	2.2	2.3	3.0
China, People's Republic of	0.8	0.1	0.1	0.2	1.5	1.3	1.6	2.4
Singapore	3.0	3.6	2.7	1.8	2.3	2.0	2.5	2.0
Kenya	1.4	1.6	1.6	1.7	1.7	1.6	1.7	1.8
Zambia	0.2	0.3	0.3	0.7	0.5	0.5	0.5	1.4
Burundi	0.2	0.9	4.0	2.4	0.9	0.9	2.5	0.5
Other	19.2	20.3	24.7	26.5	30.4	36.1	24.5	39.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Tanzanian authorities; and Fund staff estimates.

Table 32. Tanzania: Value of Principal Imports, 1990–97

(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
Capital goods	598.8	558.8	719.4	537.3	656.5	554.2	501.0	496.3
Transport and equipment	184.2	258.8	348.3	335.2	242.3	209.7	202.7	187.39
Building and construction	200.0	64.1	120.4	47.1	107.5	49.2	42.5	31.8
Machinery	214.6	235.9	250.7	155.0	306.7	295.3	255.8	277.12
Intermediate goods	547.2	336.4	253.7	203.5	290.0	609.0	531.0	490.4
Oil	195.0	182.9	101.8	99.4	149.0	193.8	158.4	187.01
Crude oil	110.0	...	...	...	79.8	115.2	69.9	93.49
Petroleum products	85.0	...	...	...	69.2	78.6	88.5	93.52
Fertilizers	8.5	26.0	16.0	8.8	11.7	11.8	23.3	19.37
Industrial raw materials	343.7	127.6	135.9	95.3	129.7	403.4	349.3	284
Consumer goods	215.7	205.4	392.3	308.9	359.5	377.7	361.8	351.0
Textile and apparel	32.8	20.6	...	...	...	...	...	...
Food and foodstuffs	63.1	0.8	48.7	67.2	127.5	44.2	52.7	57.85
Other consumer goods	119.8	184.0	343.6	241.7	232.0	333.5	309.1	293.19
Unclassified imports	1.8	88.4	160.2	131.6	199.5	0.0	15.0	0.0
Total	1,363.5	1,190.0	1,525.6	1,181.3	1,505.5	1,540.9	1,408.8	1,337.7

Source: Tanzanian authorities.

Table 33. Tanzania: Composition of Imports, 1990–97

(In percent of total imports, f.o.b.)

	1990	1991	1992	1993	1994	1995	1996	1997
Capital goods	44.0	47.0	47.0	45.0	44.0	36.0	36.0	37.1
Transport and equipment	14.0	22.0	23.0	28.0	16.0	14.0	14.0	14.0
Building and construction	15.0	5.0	8.0	4.0	7.0	3.0	3.0	2.4
Machinery	16.0	20.0	16.0	13.0	20.0	19.0	18.0	20.7
Intermediate goods	40.0	28.0	17.0	17.0	19.0	39.0	38.0	36.7
Of which : oil imports	14.0	15.0	7.0	8.0	10.0	13.0	11.0	14.0
Consumer goods	16.0	17.0	26.0	26.0	24.0	25.0	26.0	26.2
Unclassified imports	0.0	7.0	11.0	11.0	13.0	0.0	0.0	0.0

Source: Tanzanian authorities.

Table 34. Tanzania: Sources of Imports, 1990–97
(In percent)

	1990	1991	1992	1993	1994	1995	1996	1997
European Community	54.8	44.9	40.6	39.5	31.7	28.0	33.3	27.2
United Kingdom	16.0	12.5	10.9	13.7	9.6	9.7	10.4	9.2
Germany	8.4	7.0	8.9	6.5	5.6	3.6	6.1	3.2
Netherlands	4.3	5.5	2.9	3.0	2.3	2.2	2.5	2.4
Belgium	2.6	3.0	3.9	3.5	3.6	3.1	3.8	2.2
Italy	9.7	8.0	5.3	4.6	4.6	3.7	5.0	4.6
Other	13.8	9.0	8.6	8.2	5.9	5.8	5.6	5.6
United States	3.9	3.3	2.7	2.8	3.7	4.4	4.0	3.6
Canada	1.6	1.5	1.0	0.5	0.3	0.6	0.4	0.9
Japan	10.1	9.5	8.6	9.4	6.3	7.2	6.8	5.5
India	2.6	4.6	4.2	5.3	5.3	4.7	5.7	7.7
Hong Kong S.A.R.	1.7	2.2	2.3	2.7	2.5	2.4	2.7	1.8
China, People's Republic of	2.0	2.7	8.5	2.9	5.0	4.9	5.4	4.6
Kenya	2.9	3.2	2.9	7.8	8.5	9.1	6.8	11.6
Switzerland	1.3	0.7	0.8	0.6	0.7	0.5	0.7	0.2
Australia	0.1	0.6	0.4	0.4	0.2	0.4	...	0.1
Thailand	1.9	2.3	2.8	3.2	3.0	3.0	1.6	...
Other	17.0	24.5	25.1	24.9	32.9	34.7	32.7	36.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Tanzanian authorities.

Table 35. Tanzania: Services Account of the Balance of Payments, 1990–97
(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
Service receipts	140.1	127.1	155.6	290.2	494.0	589.3	495.8	522.3
Freight and insurance	11.8	7.1	10.8	6.8	4.1	3.5	5.5	14.3
Transportation	23.2	28.6	30.2	5.9	0.4	23.3	46.5	47.3
Travel	45.4	32.6	48.3	232.9	330.9	439.6	328.0	337.3
Communication	...	...	...	...	...	8.9	20.8	15.1
Education	0.0	0.0	1.9	0.9	...	...	...	...
Investment income	4.3	6.4	8.2	19.3	14.0	15.5	36.1	43.3
Other services	55.4	52.4	56.2	24.4	144.6	98.5	58.9	65.0
Service payments	-303.8	-318.0	-373.3	-386.2	-793.4	-884.6	-801.5	-855.7
Transportation	-7.9	-7.2	-1.2	-13.6	-17.8	-31.3	-41.7	-42.5
Travel	-16.1	-18.2	-72.6	-214.2	-273.8	-337.9	-358.5	-415.6
Education	-3.2	-3.4	-9.6	-12.9	...	...	...	...
Investment income	-235.5	-222.4	-233.5	-42.5	-135.3	-142.1	-143.1	-176.6
Other payments	-41.1	-66.8	-56.4	-103.0	-366.5	-165.8	-170.9	-129.9
Government services	...	...	...	...	...	-207.5	-87.3	-91.1
Services (net)	-163.7	-190.9	-217.7	-95.9	-299.4	-295.3	-305.7	-333.4

Sources: Tanzanian authorities; and Fund staff estimates.

Table 36. Tanzania: Social and Demographic Indicators

	Latest Single Year			Same Region/ Income Group	
	1970–75	1980–85	1990–96	Sub-Saharan Africa	Low-income countries
Population					
Total population, midyear (millions)	15.9	21.8	30.5	...	...
Growth rate (percent annual average)	3.1	3.2	2.8	2.8	1.6
Urban population (percent of population)	10.1	17.6	24.9	31.1	28.6
Total fertility rate (births per woman)	6.8	6.7	5.6	5.7	3.2
Agriculture (percent of labor force)	88.0	85.0	84.0	65.0	67.0
Income/consumption distribution					
Share of income or consumption (in percent of income or consumption)					
Lowest quintile	5.0	...	6.9	...	...
Highest quintile	53.0	...	45.4	...	...
Poverty indicators					
Percent of population below poverty line	...	64.6	50.5	...	...
Depth 1/	...	35.8	34.2	...	...
Total poverty gap (billions of U.S. dollars)	...	1.21	0.31	...	...
Social indicators					
Public expenditure (in percent of GDP)					
Health	...	...	2.4	...	...
Education	...	3.4	3.6	...	...
Gross primary school enrollment rate (in percent of age group)					
Total	53	75	70	71	105
Male	62	76	71	77	112
Female	44	74	69	64	98
Pupil-teacher ratio (pupils per teacher)					
Primary	54	34	37	40	39
Secondary	20	19	19	...	20
Access to health care (persons)					
Population per physician	22,540	28,271	...	...	...
Population per nurse	3,403	7,988	...	...	...
Population per hospital bed	...	768	981	1,316	1,034
Access to safe water (in percent of population)					
Total	39.0	...	49.0	47.0	53.0
Urban	...	...	65.0	...	...
Rural	36.0	...	45.0	...	...
Immunization rate (in percent under 12 months)					
Measles	...	66	75	60	77
Diphtheria	...	67	79	58	80
Child malnutrition (percent under 5 years)	...	...	28	...	42
Life expectancy at birth (in years)					
Total	46	51	51	52	63
Male	45	...	49	51	62
Female	48	...	52	54	64
Mortality					
Infant (per thousand live births)	125	98	86	92	69
Under 5 (per thousand live births)	...	...	144	157	104
Adult (15–59)	...	...			
Male (per 1,000 population)	...	...	485	433	244
Female (per 1,000 population)	...	...	417	359	211
Maternal (per 100,000 live births)	...	...	748	...	...

Source: World Bank, World Development Indicators, February 1997.

1/ Percent of poverty line income required to bring everyone below the poverty line up to it.

Table 37. Zanzibar: Selected Economic Indicators, 1990–97

	1990	1991	1992	1993	1994	1995	1996	1997
				(Annual percentage change)				
Real GDP growth	3.4	4.8	3.0	3.3	3.5	3.7	6.3	4.9
Consumer price index (Base: 1991 = 100)	...	100.0	24.0	23.2	22.9	28.8	18.7	12.7
				(In millions of U.S. dollars)				
Balance of payments								
Exports	16.2	28.2	5.5	5.3	3.5	6.0	5.5	6.0
Imports	28.7	25.0	67.3	46.0	56.3	92.1	43.4	48.0
				(In millions of Tanzania shillings)				
Government finance 1/								
Total revenue 2/	10,878.9	6,948.9	9,021.9	12,534.9	13,617.0	19,147.0	19,808.0	37,286.0
Recurrent revenue	4,059.9	6,948.9	8,250.9	8,376.9	13,101.0	19,067.0	17,155.0	37,286.0
Total expenditure	-11,652.5	-19,314.0	-24,361.0	-21,312.0	-27,268.0	-13,893.0	-19,833.0	-38,394.0

Source: Tanzanian authorities.

1/ Fiscal year beginning in July.
2/ Including grants.

Table 38. Zanzibar: Social and Demographic Indicators, 1997

Population characteristics	
Total population (thousands)	828
Population under age 15 (thousands)	389
Birth rate (per 1,000)	49
Life expectancy (years)	48
Population growth (percent)	3.0
Health, food, and nutrition	
Infant mortality (per 1,000)	100
Persons per physician	16,000
Education	
Literacy rate (in percent of population)	70
Primary enrollment (in percent of total children of primary school age)	81.2
Secondary enrollment (in percent of total children of secondary school age)	14

Source: Zanzibar authorities.

Table 39. Tanzania: Summary of the Tax System as of July 1998
(All amounts in Tanzania shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on net income and profits			
1.1 Taxes on individuals (Income Tax Act 1973)	The tax is on the global income of all residents and on the Tanzanian-source income of nonresidents. Partnership income is based on the remuneration payable to the partner and on the partner's share of the total partnership income. Returns and assessment are separate for spouse. Employment income includes wages and salaries, leave and sick pay, fees, commissions, entertainment allowance, severance pay, employer-paid life insurance premium to other than approved pension fund; and benefits in kind, unless exempted. Individuals are also chargeable in respect of gains or profits from business, dividends, interest, rents, and premium paid for the use or occupation of property.	Exemptions: Diplomatic and consular agents of foreign governments; foreign source payments to technical assistance officials and employees; disability pensions; education grants to public employees; bank interest up to T Sh 150,000; and any person or income exempted by the Minister of Finance. Relief: Premium to any insurance company in respect of a life policy equal to 5 percent of monthly salary but subject to a maximum amount of T Sh 400.	See rates below

Monthly taxable income	Rates payable
0–20,000	0
20,001–50,000	7.5 % over 20,000
50,001–80,000	2,250 + 10% over 50,000
80,001–110,000	5,250 + 12.5% over 80,000
110,001–140,000	9,000 + 15% over 110,000
140,001–200,000	13,500 + 17.5% over 140,000
200,001–300,000	24,000 + 20% over 200,000
300,001–400,000	44,000 + 22.5% over 300,000
400,001–500,000	66,500 + 25% over 400,000
500,001–600,000	91,500 + 27.5% over 500,000
600,001–700,000	119,000 + 30% over 600,000
700,000+	149,000 + 35% over 700,000

Withholding rates	Percent
Residents	
Transport	4.00
Interest	15.00 (0% in Tanzania Investment Centre (TIC) cases)
Dividends	15.00 (10% in TIC cases)
Goods and services	2.00
Insurance	7.50
Rent	5.00

Table 39. Tanzania: Summary of the Tax System as of July 1998
(All amounts in Tanzania shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
			Withholding rates — Percent Nonresidents Interest — 15.00 (0% in TIC cases) Dividends — 20.00 (10% in TIC cases) Royalties and fees — 20.00 Rents: aircraft — 10.00 other — 20.00 Pension, annually — 15.00 Taxes withheld at source are available for setoff against taxes charged in assessments raised on resident taxpayers, whereas such taxes are final charges in respect of nonresident taxpayers and on dividend income. Similar treatment (i.e., final charges) given for withholding tax on rent, dividend, and interest for residents.
1.2 Corporation tax	The tax is on the global income of resident corporations and on the Tanzanian -source income of nonresident corporations. Income includes gains or profits from business, dividend and interest, royalties, rents, and premium paid for the use or occupation of property.	Exemptions: Income certified as exempt by the Minister of Finance; income of an approved pension fund; dividends received by a resident corporation holding 75 percent or more of the shares of the paying corporation; and ecclesiastical, charitable, or educational institutions. Deductions: Ordinary and necessary expenses; research expenses; research and development expenditures; depreciation (buildings, 4 percent; hotels, 6 percent; machinery, 12.5–37.5 percent); and investment allowance (20 percent) on specified construction and machinery. Losses carried forward to the following year. Mining companies and enterprises granted certificate of incentives by TIC are allowed 100 percent writeoff of all expenditure immediately, including a provision by a mining company of funds for defrayment of future expenses for land restoration.	Category — Percent Residents — 30.0 Nonresidents — 30.0 Mining — 30.0 Corporative society — 25.0

Table 39. Tanzania: Summary of the Tax System as of July 1998
(All amounts in Tanzania shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2. Payroll or manpower taxes			
2.1 Housing levy (enacted 10/21/85)	The tax is on the gross wage bill of employers with four or more employees. Gross wage bill includes wages, salaries, leave pay, sick pay, and fees, as well as commissions, bonuses, gratuity, and any other subsistence, traveling, and entertainment allowance paid by the employer. Employer-provided housing is valued as under Income Tax Act, Section 5, Subsection 3. The tax is not deducted from employee's pay.	Government: The Minister of Finance may, by order in the gazette, exempt an employer from all or any of the provisions.	4 percent of gross wage bill.
2.2. VETA levy	Same base as for the housing levy is used; revenues are earmarked for vocational training institutions of government.		2 percent of gross wage bill
3. Taxes on property			
3.1 Land rent	The tax is levied on the user of any land who has the acceptance right to the land.	Ujamaa villages; government estates. The Minister of Finance has the discretion to exempt any category of lands.	Category – Rate Agricultural land – T Sh 3 per acre Pastoral land – T Sh 1 per acre Urban land – 22.5 percent of economic value
3.2 Motor vehicle transfer tax	The tax is payable by the transferee on acquiring a vehicle from the transfer.	Discretionary exemptions may apply.	T Sh 55,000.
3.3 Car benefit tax	A commercial company that is not service oriented and does not get a government subsidy can be taxed.		T Sh 100,000 per vehicle owned per annum.

Table 39. Tanzania: Summary of the Tax System as of July 1998
(All amounts in Tanzania shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Domestic taxes on goods and services			
4.1 Value-added tax (VAT)	The tax is levied on domestically manufactured products on such services as telephone, electricity, and on food charges in designated hotels and restaurants.	Reliefs and exemptions: Statutory exemptions, e.g., central government, religious, diplomatic, educational institutions, etc. Exports or goods used in the manufacture of an exported item are zero rated and claims on input tax are allowed. Some supplies are also zero-rated and claims on input tax is allowed. Some supplies are also zero rated. Exempted items do not claim refunds.	20 percent.
4.2 Excise tax. The tax is levied on luxury manufactured products, e.g., alcoholic beverages, spirits, cigarettes, cosmetics, and petroleum products.	Discretionary exemptions may apply.	Excisable goods are subject to a duty rate of 30 percent, except for alcoholic beverages, spirits, cigarettes, and petroleum products, which carry only specific excise duty.	
4.3 Taxes to use goods or perform activities			
4.3.1 Business licenses	There are annual fees on specified businesses and professions. These include commission, clearing and forwarding, and shipping agents; banking, insurance, air transport, and manufacturing operations; tourist hotels, exporters, importers, and wholesale traders; building contractors, providers of postal and railway services; specified professions; and regional trading companies, cooperatives, and district development corporations.		The rates are specific and can vary according to whether the operation is a principal or a subsidiary, as shown by the following examples:

	Principal	Subsidiary
Clearing and forwarding agent	300,000	200,000
Banking		
Local banks	800,000	600,000
Foreign banks	$5,000	$3,200
Bureaux de change	600,000	400,000
Tourist hotel 50,000 plus 800 plus 800 per room	50,000 per room	
Nontourist hotel plus 2,000 per room	80,000 plus 12,000 per room	80,000

Table 39. Tanzania: Summary of the Tax System as of July 1998
(All amounts in Tanzania shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
			Insurance Local insurer 1,000,000 600,000 Foreign insurer \$3,000 \$3,000 Airport Transport Local 1,000,000 1,000,000 Foreign \$1,000 \$500 Broker Trade broker 300,000 100,000 Postal services 300,000 200,000 Telecommunications services 300,000 100,000
4.3.2 Motor vehicle	These consist of registration tax, road tolls, foreign motor vehicle permits, and foreign commercial vehicle licenses.		Tolls: Fuel (super or regular petrol—T Sh 70 per liter) Transit licenses: US\$6 on vehicles of up to three (3) axles per 100 kms. US\$60 is charged for foreign motor vehicle permit for up to three months or US\$20 for up to a month. Registration: Effective 3/1/94, the rate is T Sh 95,000 (irrespective of the CC) per registration of a motor vehicle, and T Sh 32,000 for motorcycles. Driving licenses: T Sh 5,000 to T Sh 10,000.
5. Taxes on international transactions			
5.1 Import duties	These duties are levied on the c.i.f. value of imports.	Statutory exemptions are granted to diplomatic corps, foreign government projects, and religious, educational, and charitable institutions.	The tariff schedule is basically ad valorem for most items; with intermediate and capital goods subject to a rate of 5 o r 10 percent. Most other items are taxed at a rate of 30 percent. There are five rate bands: 0, 5, 10, 20, and 30 percent.
5.2 Exercise duty	Duty is levied on the c.i.f. value of imports, including import duty on the products.	Discretionary exemptions may apply.	The rate is 30 percent, and specific duties are levied on alcoholic beverages, tobacco, and petroleum products.
5.3 VAT	The tax on imported products is based on the c.i.f. value of the product, including import duty and excise duty (if any) on the products.	Discretionary exemptions may apply.	20 percent.

Table 39. Tanzania: Summary of the Tax System as of July 1998
(All amounts in Tanzania shillings)

Tax	Nature of Tax	Exemptions and Deductions	Rates
6. Other taxes			
6.1 Stamp duty	This is a duty levied on receipts. It is paid either by affixing a stamp to receipt or by paying on return in accordance with a "composition agreement." The receipt based on stamp duty is not applicable to VAT-registered traders.		With no composition agreement: Stamps are affixed to each invoice according to a table, approximately on the level of 4 percent on receipts. With composition agreement: 1.2 percent. Petroleum products: 0.24 percent.
6.2 Port charges			
(i) Airport	Charges apply to resident and nonresident passengers.	Transit passengers and infants are exempted.	Residents: T Sh 2000 per domestic trip only. Nonresidents: US$20.
(ii) Port	Charges apply to resident and nonresident passengers.	Transit passengers and infants are exempted.	Residents: T Sh 500 per trip. Nonresidents: US$5 per trip.

Source: Tanzanian authorities.