THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE

BUDGET FOR FISCAL YEAR 2012/13

QUARTERLY ECONOMIC REVIEW AND BUDGET EXECUTION REPORT
OCTOBER- DECEMBER 2012

MARCH, 2013

SUMMARY

- *On average, the economy has grown by 7.0 percent per annum over the last ten years. Tanzania economy being less integrated with the global financial architecture also provided a degree of protection from the cascading financial turmoil which was triggered by the collapse in the US housing market and quickly engulfed Europe and several emerging economies. Real GDP in 2012 grew by 6.9 percent compared to 6.4 percent in 2011 and against the target of 6.8 percent for the period following improved power supply and enhanced industrial production.*

- *In 2012, headline inflation continued to be double digit although it slowed down continuously from a peak of 19.8 percent in December 2011 to 12.1 percent in December 2012. Despite recording positive trend, the target of 10 percent for December 2012 was missed marginally. Annual average inflation for 2012 was 16.0 percent compared to 12.7 percent in 2011 mainly associated with higher oil prices in the world market and food prices. The Government will continue to implement prudent fiscal and monetary policy measures to ensure that inflation return to single digit. Other measures will be geared toward improving food supply and electricity generation.*

- *Domestic revenue collection for the first half of 2012/was slightly below estimates while overall expenditure was aligned with available resources. During the first half of 2012/13 domestic revenue collections was 93 percent of the target. In the review period, there was improvement in the domestic revenue collection, which increased by 25.1 percent compared to collections of similar period in 2011/12. On the other hand, total expenditure during the same period was Tsh 6,023.4 billion, equivalent to 88 percent of the budget estimate while program grants and loans were 63 percent of the budget estimate. Total financing during the period was 75.7 percent of the budget estimate on account of lower than projected disbursements of project loans and non concessional loans.*

- *Consistent with measures taken by the Bank of Tanzania, coupled with strong revenue performance, all monetary and fiscal targets as contained in the Policy Support Instrument (PSI) program for the half year ending December 2012 were met except for revenue target. Net Domestic Financing (NDF) registered a drawdown of deposits of Tshs 504.7 billion, well within adjusted the ceiling for that period.*

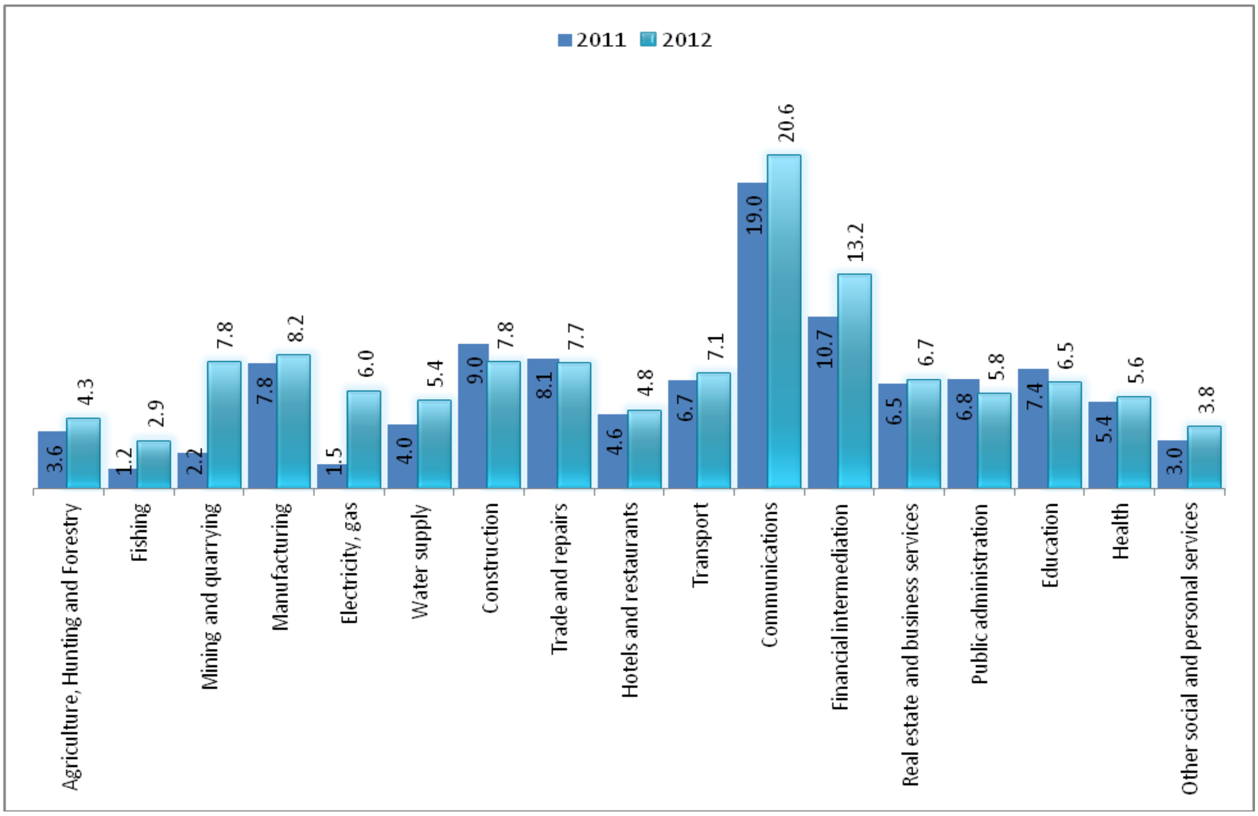
1.0 RECENT MACRO ECONOMIC PERFOMANCE

Real GDP Growth

1. Real economic growth remained resilient during 2012 despite slump in hydropower generation in the beginning of the year. Real GDP grew by 6.9 percent compared to 6.4 percent in 2011 and slightly above the projected growth of 6.8 percent (Chart 1.1). The growth emanated from improved transport and communication infrastructures; improved industrial production following concerted effort by the Government to ensure reliable power supply as well as the use of alternative sources of power by some industries; and improved agricultural performance on account of favorable weather condition as well as Government efforts to supply subsidized inputs timely. Economic activities that recorded strong/higher growth rates include communication (20.6%), financial intermediation (13.2%), manufacturing (8.2%), mining and quarrying (7.8%), and construction (7.8%). It worth note however that, despite recording high growth, communication sector account for only 2.3 percent of the overall GDP in 2012.

Chart 1: Real GDP Growth (in Percent), 2008 - 2012

Chart 2: GDP Growth 2011 -2012 (in Percent)



2. Growth in **agricultural activity** picked up to 4.3 percent in 2012 compared to a growth of 3.2 percent recorded in 2011. This was on account of improved weather condition as well as Government efforts to supply subsidized inputs timely. Production of traditional cash crops, particularly cotton tobacco and cashew nuts seem to have been boosted by lagged effect of continuous increase in world market price. Agricultural activity accounted for 24.7 percent of GDP in 2012.

3. **Communication** recorded a growth rate of 20.6 percent in 2012 compared to 19.0 percent in 2011 largely on account of rapid increase in the usage of mobile phone services. Growth in this activity has for the past decade surpassed that of all other activities by far, leading to a steady increase in its contribution to growth from 1.4 percent in 2000 to 10.2 percent in 2012. Despite this impressive increase in contribution to growth, the contribution of communication to total GDP has only increased from 1.2

percent to 2.3 percent in the same period.

4. The growth of **Financial Intermediation activity** picked up to 13.2 percent in 2012 compared to 10.7 percent in 2011. Growth in this industry has been accelerating over the past five years consistent with ongoing financial sector reforms and increased competition in the provision of financial services, particularly insurance services.

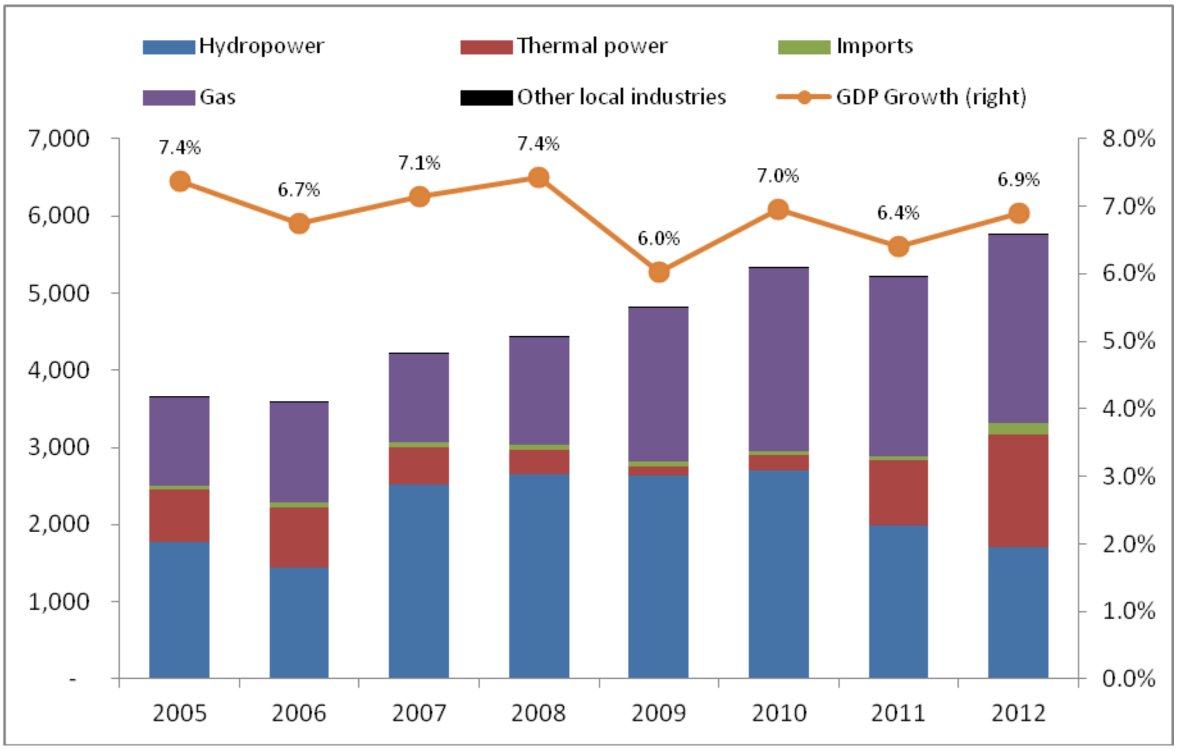
5. **Manufacturing activity** recorded a growth of 8.2 percent in 2012 compared to a growth rate of 7.8 percent in 2011. This performance was attributed to increase in industrial production of food processing, beverages, cement and metal products, as well as concerted effort by the Government to stabilize power supply coupled with the use of alternative sources of power by some industries.

6. Growth in **Mining and Quarrying activity** rose significantly to 7.8 percent in 2012 compared to a growth rate of 2.2 percent in 2011 mainly due to restart of production at Williamson Diamond Limited plant after completion of major repairs as well as increase of prices of gold and diamond in the world market. Increased construction activity in the same period also contributed to the increase in mining and quarrying.

7. The growth of **Electricity and Gas** picked up to 6.0 percent in 2012 compared to a growth rate of 1.5 percent in 2011 largely on account of increase in electricity generation, especially from thermal and gas sources. In 2012, total electricity generation (including imports) increased to 5,771.4 million kWh from 5226.0 million kWh in 2011, equivalent to an increase of 10.4 percent. Gas power generation went up to 2,433.4 million kWh in 2012 from 2,323.6 million kWh in 2011 while hydropower generation declined to 1,704 million kWh from 1,993 million kWh in 2011. In addition to increase in power generation, power transmission improved during the reference period,

owing to rehabilitation of transmission lines which reduced power losses substantially. In 2012 total imported electricity was 155 million kWh compared to 58 million kWh in 2011, equivalent to 169 percent increase. *The share of total energy generation is indicated in the pie chart below*.

Chart 3: Electricity Generation in Million kWh for the Period 2005 – 2012



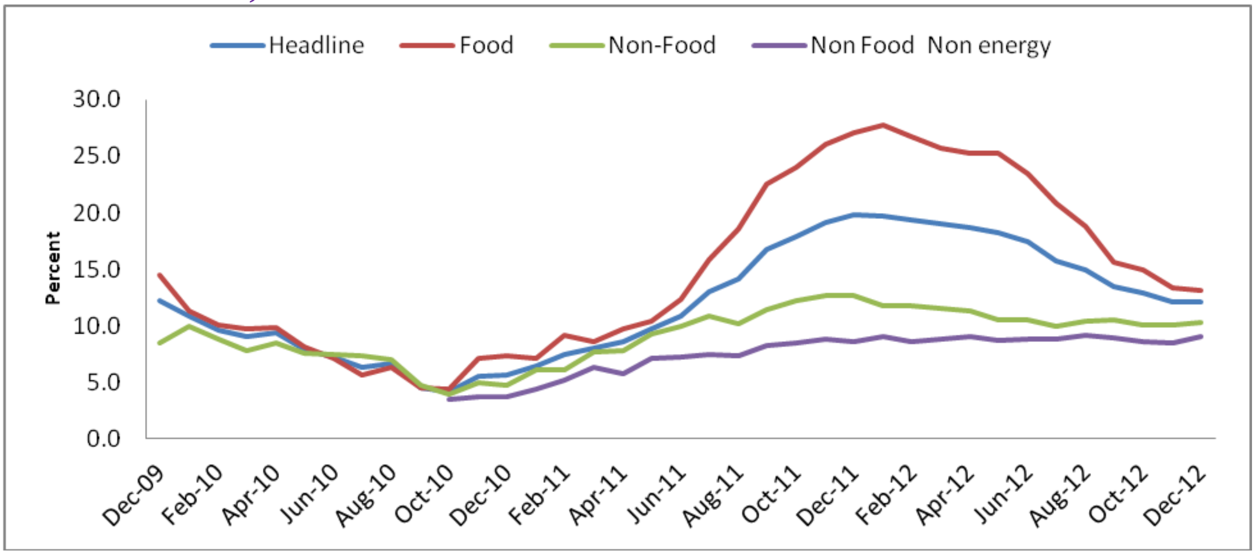
Inflation Development

8. Annual average inflation for 2012 was 16.0 percent compared to 12.7 percent in 2011 mainly associated with higher oil prices in the world market and food prices. To address this, the Government took several measures including: ensuring sufficient food supply in areas of shortage; increase the stock of NFRA; and ensure timely availability and utilization of subsidized inputs including fertilizers, pesticide and improved seeds; and addressing the energy crisis to stabilize power supply. In addition, the Bank of Tanzania raised minimum reserve requirement on government deposits from 30 percent to 40 percent effective from December 24, 2012; reduced prudential limit on foreign currency net open position from 10 percent to 7.5

percent of core capital effective from December 1, 2012; and increased the discount rate from 7.58 percent to 12.58 percent as short term measures.

9. Following those measures, annual headline inflation, which had reached a peak of 19.8 percent in December 2011, started to ease in January 2012, reaching 12.1 percent in December 2012 though was higher than the December 2012 target of 10.0 percent. The gradual decline was largely on account of improved food supply in the Eastern Africa region, prudent monetary policy stance, fiscal consolidation coupled with stability in nominal exchange rate. Food inflation decelerated from 27.1 percent in December 2011 to 13.1 percent in December 2012. Meanwhile, core inflation (excluding food and energy) remained at single digits throughout 2012, with the highest rate of 9.2 percent recorded in August 2012 due to pass through effects arising from high and volatile global oil prices.

Chart 4: Headline, Food and Non-food Inflation

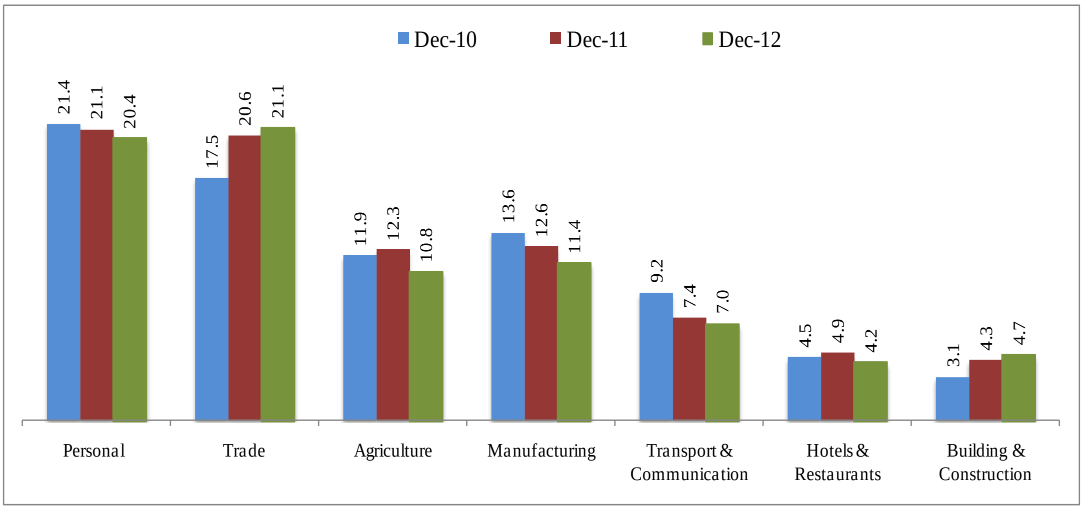


Credit to Private Sector

10. During the same period, growth of private sector credit was 18.2 percent, compared to 27.2 percent recorded in the year ending December 2011; however, the rate was higher than the projected growth of 17.0

percent. Credit growth to all major economic activities slowed down with exception of transport and communication activities. Unlike the preceding two years where largest share of outstanding credit was held in personal activities, in the year ending December 2012, most of the credit was held in trade activities, reflecting formalization of businesses and properties.

Chart 5: Shares of Commercial Banks' Credit to Selected Activities (%)

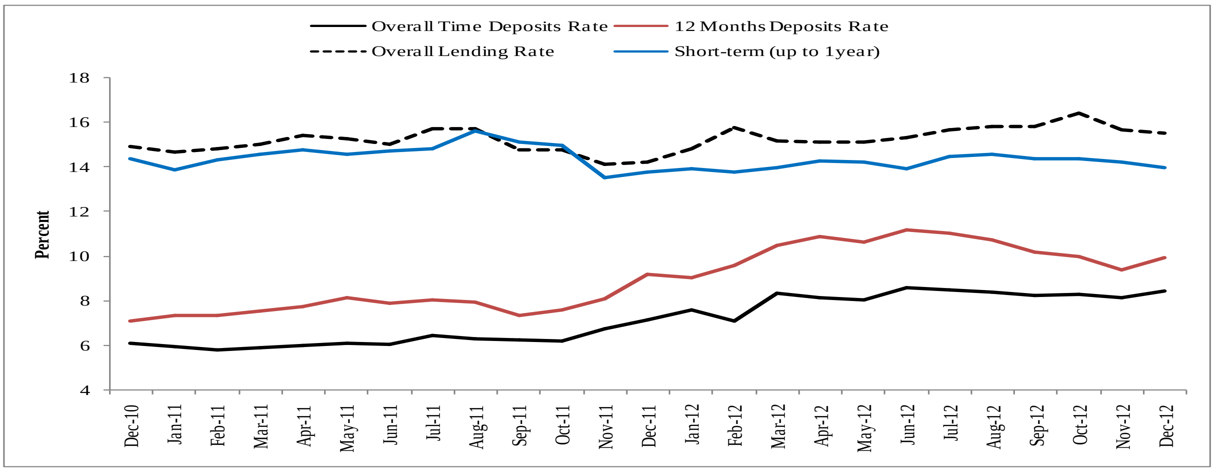


Interest Rates Development

11. On interest rates offered and charged by commercial banks, overall time deposit rate was relatively higher in the first half of 2012/13, averaging 8.32 percent compared to 6.50 percent recorded in the corresponding period of 2011/12, reflecting increase in deposit mobilization and competition amongst commercial banks. Likewise, overall lending rate registered a general rising trend to an average of 15.83 percent from 14.89 percent. During the period under review, the 12-month deposit rate averaged 10.20 percent up from 8.02 percent registered in the first half of 2011/12. On contrary, one year lending rate declined slightly to an average of 14.32 percent from 14.64. Consequently, the spread between 12-month deposit rate and one year lending rate narrowed to an average of 4.13 percent in the first half of 2012/13, compared to 6.61 percent recorded in

the corresponding period of 2011/12.

Chart 6: Selected Commercial Banks Interest Rates



Foreign Exchange Market Operations

12. The exchange rate continued to be market determined in the Inter-bank Foreign Exchange Market (IFEM), with the Bank participating in the market for liquidity management purpose and to smoothen short term fluctuations in the exchange rate, while maintaining an adequate level of gross official reserves. In the first seven months of 2012/13, transactions in the interbank foreign exchange market (IFEM) decreased to USD 726.7 million, from USD 1,391.0 million transacted in the first seven months of 2011/12. The Bank of Tanzania participated in the IFEM for liquidity management purposes by selling USD 423.4 million, compared to USD 704.6 million sold in the corresponding period in 2011/12. During the period under review, the value of a Shilling against the USD remained relatively stable, fluctuating within a range of TSHS 1,575.99 and TSHS 1,584.49, compared to TSHS 1,578.03 and TSHS 1,673.58 per USD recorded in the corresponding period in 2011/12.

External Sector Developments

13. Having widened substantially to USD 2,318.3 million, the current account deficit narrowed to USD 1,594.6 million in the first half of 2012/13 as exports of goods and services rose while imports, particularly oil declined. Exports of goods and services in the period under review amounted to USD 4,564.6 million representing an increase of 14.7 percent, which was much higher compared to an increase of only 9.7 percent recorded in the corresponding period of 2011/12. The value of exports of goods increased by 15.6 percent to USD 3,086.2 million, with most significant increases being recorded in tobacco, cotton, coffee, manufactured products and travel. Export value of manufactured goods rose by 30.5 percent to USD 538.6 million compared to USD 413.2 million recorded in the corresponding period in 2011, as power supply continued to stabilize.

14. Travel receipts rose to USD 898.3 million compared with USD 806.1 million recorded during the corresponding period in the preceding year. This development is largely attributed to an increase in tourist arrivals in recent years. During the period under review, the number of tourist arrivals increased to 429,602 compared to 405,207 reported in July - December 2011. Transportation receipts, which is the second largest category after travel went up by 14.5 percent to USD 332.7 million during the review period as a result of an increase in transit goods to the neighboring countries.

15. Import of goods and services declined by 3.9 percent to USD 6,544.1 million, during the period of July – December 2012, after having shot up by 42.8 percent in the corresponding period a year earlier. The decline which was most pronounced in the volume of oil was more of a return to trend following the upside deviation that occurred in the preceding year than anything else. The decline in value of oil reflected volume decrease as the world market price for oil rose to an average of USD 984.3 per ton from USD

973.4 in the corresponding period in 2011. Service payments amounted to USD 1,241.8 million, equivalent to 2.0 percent higher compared with the amount recorded in similar period in 2011. Almost all service categories with exception of transportation-recorded increase during the period. Transport service payments was USD 532.7 million, being 3.4 percent lower compared to July – December 2011, mainly driven by a decline in freight payments which is in line with lower goods import.

2.0 REVENUE PERFORMANCE BY CATEGORY

16. During the first half of 2012/13 domestic revenue collections was 93 percent of the target. Tax revenue collections were TSh 3,888.8 billion being 97 percent of the target. In the review period, there was improvement in the domestic revenue collection, which increased by 25.1 percent compared to collections of similar period in 2011/12.

Taxes on Imports

17. The overall collections from Import duty during the quarter amounted to TShs. 669.9 billion against the target of TShs. 687.6 billion, equivalent to a performance level of 97 percent. Collections from Import duty, Excise duty on petroleum and VAT on non petroleum imports were 88 percent, 102 percent and 102 percent respectively. For the first half of 2011/12, total collection from import duty amounted to Tshs. 1,286 billion against the target of Tshs. 1,370.7 billion equivalents to 94 percent and 17 percent increase when compared to the same period last year. The underperformances were mainly attributed to non-realization of increase in revenue, which was expected from tax reforms especially excise duty expected from oil and gas companies.

Taxes on Domestic sales

18. The taxes on domestic sales during the second quarter performed

below the targets. The actual collection for the period was Tshs. 425.3 billion against the target of collecting Tshs. 518 billion or 82 percent performance level. The excise duty and the Value Added Tax performed slightly below the target with actual collections of Tshs. 149.5 billion and Tshs. 275.7 billion as compared to the targets of Tshs. 175.6 billion and 342.4 billion or 85 percent and 81 percent respectively. In the period of July – December 2012, the actual collection was Tshs 832.6 billion being 86 percent of Tshs. 970.1 billion and 22 percent increase when compared to the same period in the preceding year.

Income Tax

19. The Income tax collection during the quarter was impressive. Actual collections amounted to TShs 800 billion compared to the target of Tshs. 720 billion which represents a performance level of 111 percent. Actual collections from PAYE, Corporate and Parastatals, and Withholding taxes were 94 percent, 131 percent and 115 percent respectively. Cumulative collection for the first half of 2012/13 was Tshs. 1,491.1 billion against the target of Tshs. 1,377.6 billion equivalent to 108 percent and an increase of 41percent when compared to the same period in 2011/12.

20. Strong performance was recorded corporate income tax and withholding tax which were higher by 25 percent and 18 percent respectively. This performance resulted mainly from upward adjustment of corporate tax (e.g. Geita Gold Mine), intensification of tax audits, increases in transactions especially dividends payment by mining companies to shareholders, which was accompanied with increase in withholding tax payment and collection of tax arrears. Underperformance of PAYE by 7 percent was due to insufficient revenue collection from the expected employment tax arising from salary adjustment from institutions and companies.

Other taxes

21. During the quarter under review, actual collections from other taxes were Tshs. 214.2 billion against the target of Tshs. 209.6 billion or 102 percent performance level. The targets were attained in the following components: Skills Development Levy 97 percent, Fuel Levy and Transit fees 105 percent and Stamp duty 83 percent. Cumulative collection for the first half of 2012/13 was Tshs. 394.1 billion which was 95 percent of the target of Tshs. 413.7 billion and 5 percent increase compared to the same period last financial year.

22. Other administrative measures that attributed to good domestic revenue performance include: close monitoring of block management system; intensified risk-based and quality tax audits; and enforcement on the use of Electronic Fiscal Devices (EFDs); windfall of capital gain realized by the then M/S BP Tanzania Ltd shareholders, increase in transactions attracting stamp duty; increase on airtime excise duty rate and indexation of excise duty for all excisable non-petroleum products.

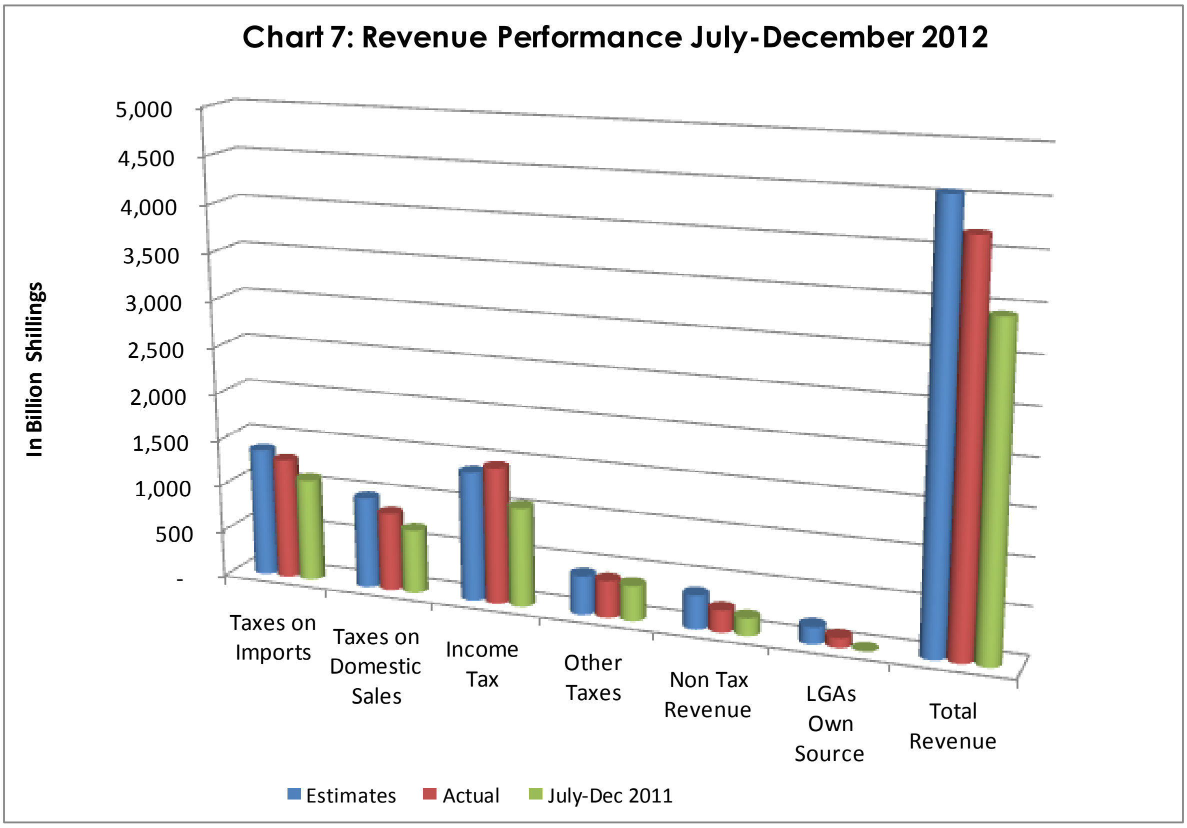
Non tax revenue

23. For the quarter under review, non-tax revenue (excluding LGAs own sources) was TShs. 107.1 billion equivalent to 58 percent of the estimate and for the first half of 2012/13, total collections from this source were Tshs. 236.2 billion against the target of Tshs. 359.4 billion equivalent to 66 percent of estimate. The underperformance of non-tax was caused by delays in payment of dividends by parastatals, non-payments of proceeds from sale of gas due to outstanding claims to TANESCO by Pan Africa Energy, delays in implementation of new approved land rent, and failure by regulatory authorities to remit 10 percent of their gross incomes to the consolidated fund as required by the Treasury Circular No. 8 and the Finance Act No. 13 of 2008.

LGAs own Source

24. Collections of LGAs own source for the first half of 2012/13 were Tshs.103.1 billion equivalent to 57 percent of the target of Tshs. 181.1 billion. The underperformance in this category was due to delay of the implementation of business license at local government level and delays in reporting of LGAs own sources.

Chart 7: Details highlighting performance by major revenue categories



3.0 EXPENDITURE BY CATEGORY

25. Total expenditure for the first half of 2012/13 was Tsh 6,023.4 billion, equivalent to 88 percent of budget estimate. The recurrent expenditure excluding CFS, for the quarter under review was Tshs 1,881 billion or 94

percent of estimates and 37 percent higher when compared to the same period a year earlier.

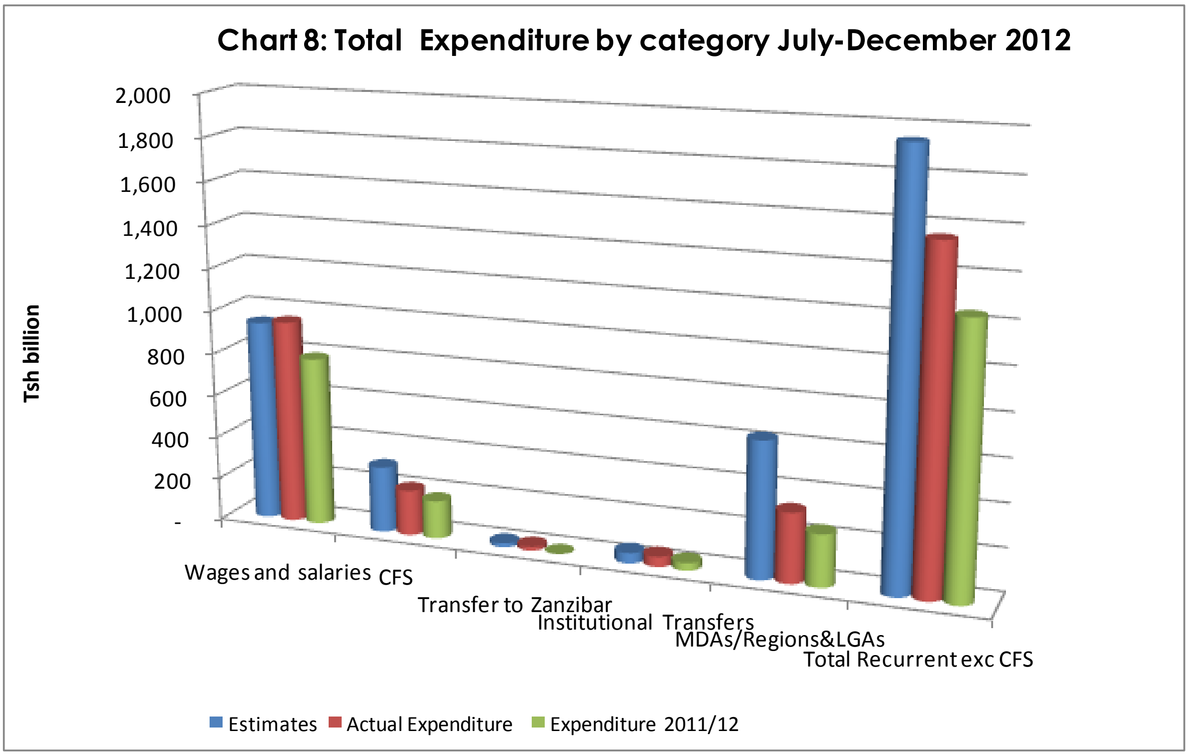
26. Government (including parastatals) wages and salaries for the second quarter was Tshs 964.1 billion which performed at 102 percent of estimates and 24 percent higher when compared to the same quarter previous year. Total payments of wages and salaries for the period of July-December, 2012 was Tshs 1,916.3 billion being 102 percent of the estimates and 22 percent higher compared to the same period last year.

27. Total development expenditure for the second quarter was TShs 1,383 billion, being 115 percent of budget estimate. Of this amount, locally financed development expenditure was Tshs 539.6 billion while foreign financed development expenditure was Tshs 625.5 billion being 86 percent and 146 percent of estimates respectively. Total development expenditure for the first half of the year was Tshs. 2004.9 billion which is 89 percent of estimate and 5 percent lower when compared to the same period the year earlier.

28. Locally financed development expenditure was Tshs 949.2 billion being 86 percent of the estimates while foreign financed development expenditure was Tshs 1,055.6 billion equivalent to 91 percent of the estimates. Foreign financed development expenditure experienced delays in disbursement of project funds as well as delays in data reporting of direct-to-project funds. Financing of local development expenditure has been through domestic borrowing and savings from recurrent spending. Fund releases for locally financed development expenditure continue to be made based on submission of certificates for most of infrastructure projects. For the period of July-December, 2012 the locally financed development expenditure was directed to finance infrastructure projects especially road and railways as well as energy sector.

29. Domestic interest payments for the second quarter amounted to TShs 127.2 billion which was 149 percent of estimates whereas foreign interest payments were Tshs 54 billion equivalent to 84 percent of estimates. Interest payments were 55 percent higher than the payments made during the same period of the 2011/12 fiscal year. When examining the performance of interest payments in totality between July-December, 2012 there was a 8 percent over performance against estimates, as well as 50 percent more compared to corresponding period of the preceding year. Nonetheless, the underperformance of foreign interest in this quarter and for the first half of 2012/13 was mainly due to delay in submission of demand note. **Annex c represents a detailed analysis of expenditure performance by categories.**

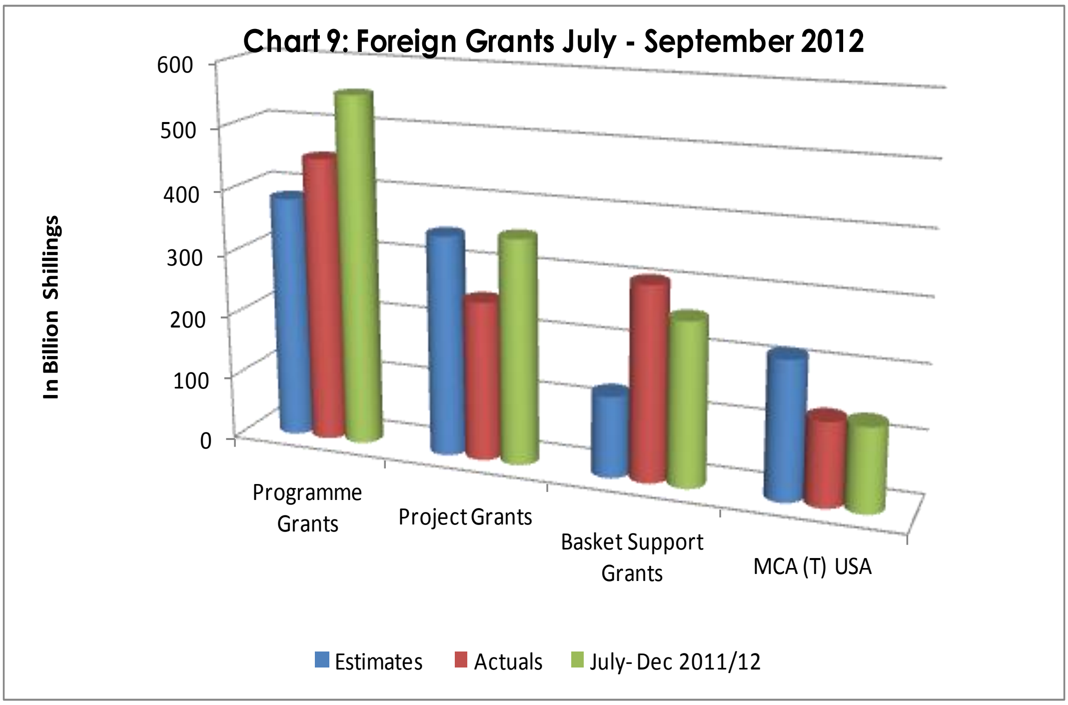
Chart 8: Expenditure performance for major categories during the period July – December 2012.



4.0 GRANTS AND FINANCING BY COMPONENT

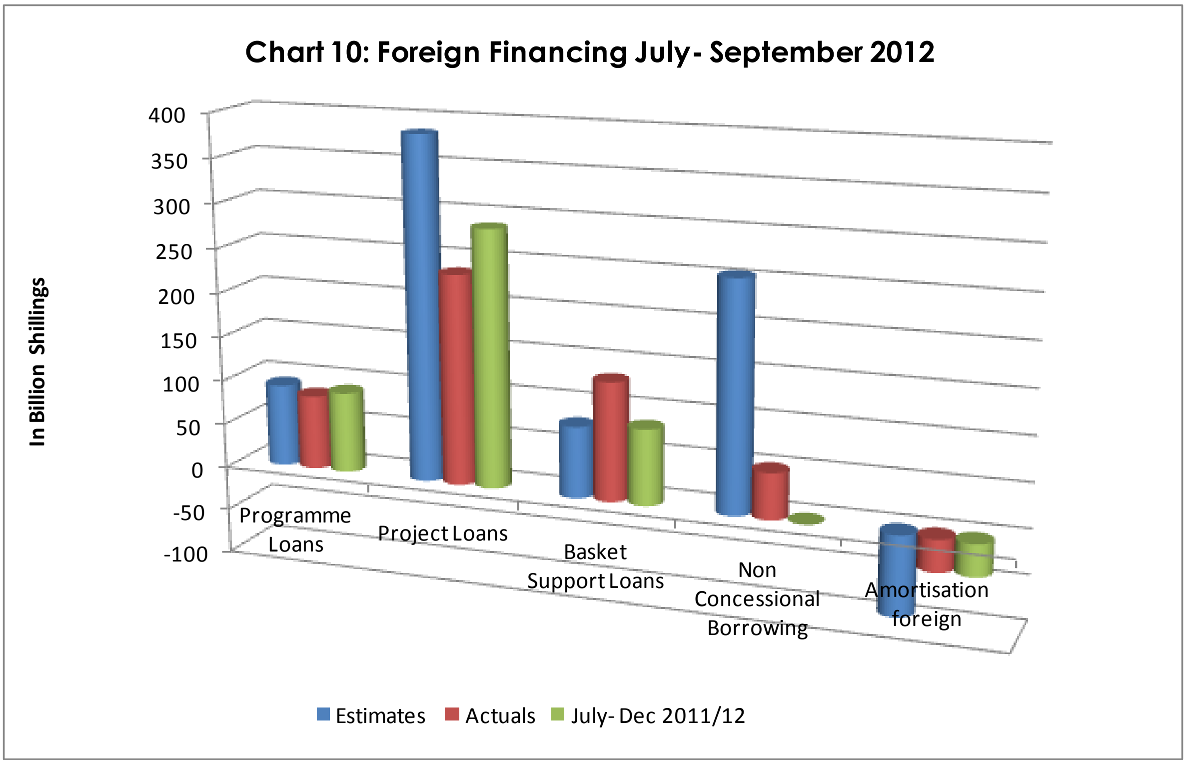
30. During the quarter under review, total grants amounted to Tshs. 620.7 billion; equivalent to 135.2 percent of the estimated Tsh 459.1 billion primarily due to earlier disbursement of basket grants and general budget support. Total grants disbursed were 78.5 percent higher than the actual amount realized in the corresponding quarter in 2011. Total grants received for the first half was Tshs. 1,138.7 being 105.7 percent of the estimates.

31. Out of the total grants received for the first half, foreign assistance in the form of General Budget Support (GBS) amounted to 450.9 billion against a year target of TShs 622.3 billion, while project and basket funds were TShs 250.9 billion and TShs 305.6 billion respectively. Total amount of project funds recorded for the first half of 2012/13 were only 36 percent of budget estimates for the year while disbursements for general budget support and basket support funds were 72 and 119 percent of the estimates respectively.



32. Total financing during the first half was 973.7 billion being 76 percent of the budget estimate on account of lower than projected disbursements of project loans and non concessional loans. Disbursements were TShs 83.3 billion for general budget support loans; TShs 235.3 billion for project; Tshs 132.6 for basket loans and Tshs 23.3 for non concessional loans, all being below their respective budget estimates. Negotiations with potential creditors for non-concessional borrowing as well as government approval process led to delays in contracting ENCB. For the first half of 2012/13, the Government contracted ENCB USD 245 million for gas pipeline and USD 178.1 million for Dar es Salaam water project. The government also signed mandate letter with Standard Bank for the loan amounting USD 600 million.

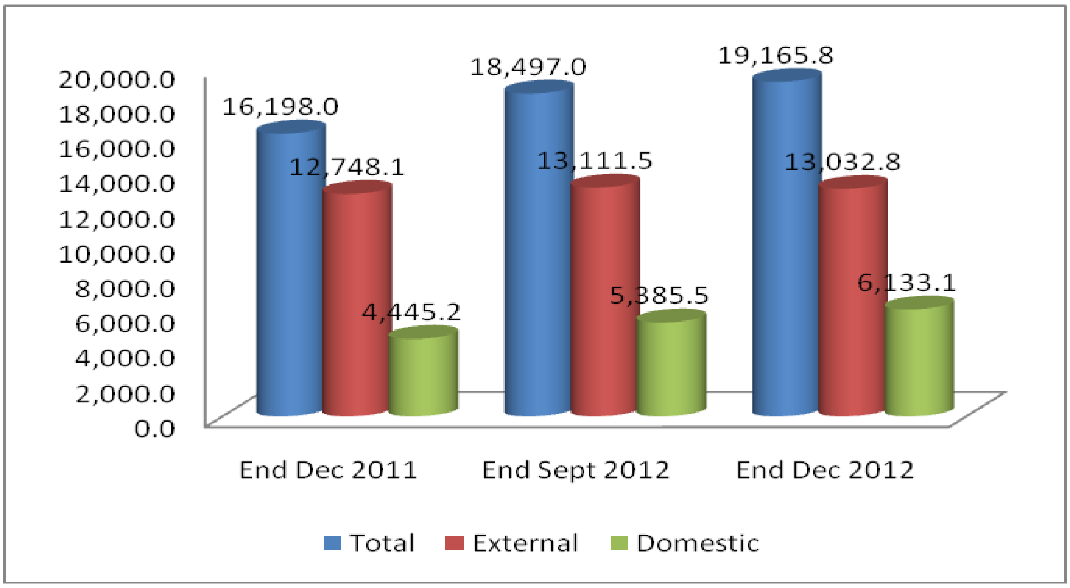
33. Total domestic financing (net) for the period of July - December 2012 was TShs 504.7 billion equivalent to 96 percent of estimate.



NATIONAL PUBLIC DEBT STOCK

34. Total Public Debt Stock, which is constituted by Central Government and Other Public Sector Debt, stood at TZS 19,165.8 billion (equivalent to USD 12,135.0 million) as at end December 2012, compared to TZS 18,496.7 billion (equivalent to USD 11,787.1 million) recorded for the quarter ending September 2012 (Chart 1). Of this amount TZS 6,133.1, billion was domestic debt and TZS 13,032.8 billion (USD 8,251.7 million) was external debt. In one-year period, Public Debt Stock increased by 15.5%, from 16,198.0 billion recorded in December 2011 to TZS 19,165.8 billion as shown in figure 5 below. During the second quarter of financial year 20011/12, the Government issued securities amounting to TZS 1,343.1 billion (out of which TZS 523.6 billion were for Treasury bills and TZS 819.5 billion for Treasury bonds) for financing the budget and rollover of matured obligations.

Chart 11: National Debt Stock



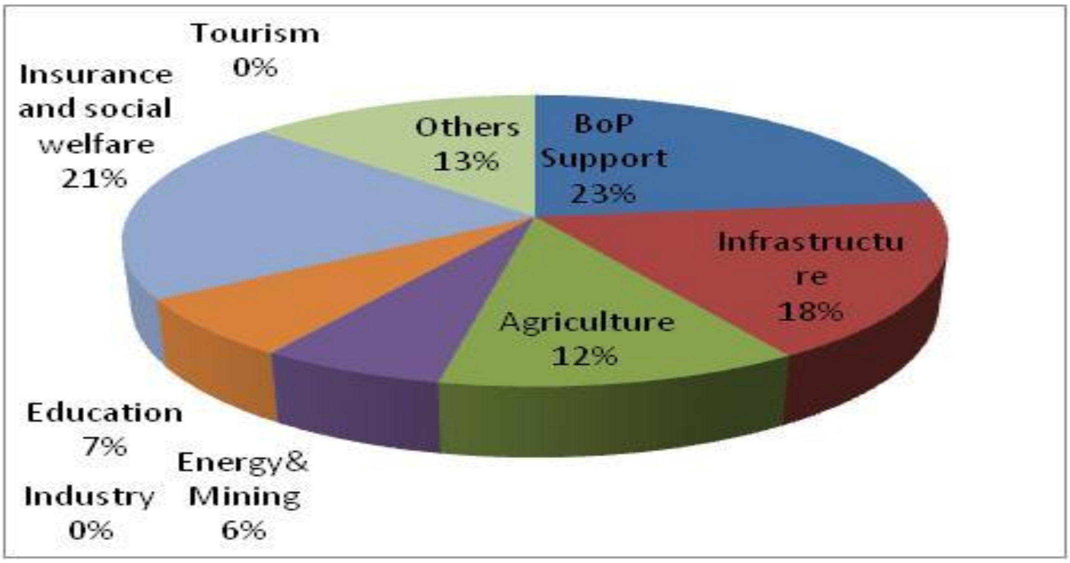
EXTERNAL DEBT STOCK

35. Total National External Debt Stock as at end December 2012 stood at USD 10,218.0 million, of which USD 8,215.5 million was Public Debt and USD

1,966.5 million was Private Sector Debt. Total Public External Debt, stood at USD 8,215.5 million comprising of Disbursed Outstanding Debt (DOD) of USD 7,447.5 million (90.3 %) and Interest Arrears of USD 804.0 million (9.7%). Total public external debt stock in USD terms decreased by 1.0% to USD 8,251.5 million (TZS 13,032 billion) from USD 8,337.5 million (TZS 13,111.5 billion) recorded at the end of the preceding quarter, largely due to new borrowings from Non Concessional Sources.

36. During the quarter ending December 2012, the sectoral break down of Disbursed Public External Debt consisted of Budget Support (USD 1,733.5 million), Infrastructure (USD 1,320.4 million), Agriculture (USD 907.2 million), Energy and Mining (USD 462.4 million), Industry (USD 2.8 million), Education (USD 490.5 million), Insurance (USD 1530 million), Tourism (USD 4.1 million) and Others (USD 996.8 million) (chart 4).The Infrastructure sector gets a comparatively larger funding from external loans because the policy of external borrowing is financing development expenditure which has a positive impact on the economy and can easily service back the debt.

Chart 12: Loan disbursement by sector during second quarter 2012



DOMESTIC DEBT STOCK

37. Domestic Debt Stock (including BoT liquidity paper) as of end of December, 2012 stood at TZS 6,133.1 billion out of which Central Government Securities outstanding amounted to TZS 5,171.4 billion and Other Public Sector Debt stood at TZS 961.7 billion. The domestic debt stock, grew by 12.2% percent equivalent to an increase of TZS 747.6 billion from TZS 5,385.5 billion recorded at the end of September, 2012. On year to year basis, the total domestic debt increased by 17.5% from TZS 4,445.2 billion in the quarter ending December 2011 to TZS 6,133.1 billion in the quarter ending December 2012. The share of Domestic Debt to total debt stock has increased from 27.4% in December 2011, 29.1% September 2012 to 32.0% in December 2012. The rise is on account of increase in Central Government Securities, which rose by 5.8% emanating from government short-term deficit financing needs and Increase in BOT liquidity paper.

DEBT SERVICE

38. Over the second quarter ending December 2012, the total debt service was TZS 543.2 billion out of which TZS 484 billion equivalent to 89.1 percent was domestic debt service while the remaining amount of TZS 59.2 billion equivalent to 10.9 percent was external. A total amount of TZ 109.2 billion was for interest payment while the remaining TZS 26.4 billion and 407.6 billion were for principal repayment and rollover for the external and domestic debts respectively. The amount of external debt service is small despite its majority share in total debt stock due to the fact that most of external debts are concessional and some of them are not serviced as a result of prevailing negotiations on relief.

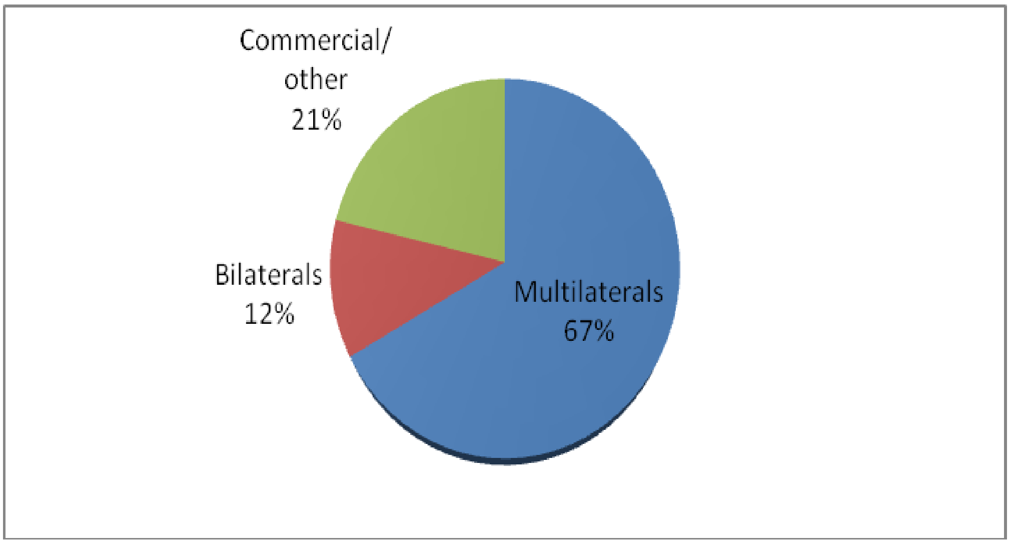
RISK INDICATORS

Cost and Risk Characteristics of Domestic Debt

39. By September 2012, most of the public domestic debt (85.9%) was still held in government securities whereby the profile of domestic debt by

instrument indicates that as at end of December, 2012 treasury bonds ranked the highest, accounting for 50.4 percent of the total debt followed by special bonds and Government stocks which accounted for 29.0 percent while treasury bills accounted for 20.6 percent. Analysis of Government securities (excluding BoT liquidity paper) by holder category shows that Commercial Banks/Non Bank Financial institutions are the leading creditors, holding 49,0 percent of the total, followed by Bank of Tanzania 29.0 percent, the institutional investors (pensions funds and insurance companies) 21.0 percent , and Individuals and other entities 1 percent (chart 5). The greater share of Treasury bonds tallies the National Debt Strategy of borrowing from long term instruments for financing development projects. The relatively low investment risk in government securities and expansion of the banking sector explains the dominance of commercial banks in securities market.

Chart 13: Domestic Debt by Holder Category



Cost and Risk Characteristics of External Debt

40. Concessional multilateral loans have been the major source of external financing. As a result, the majority of external debt (67.0 per cent) came from multilateral sources followed by commercial and export credits

debt, which accounted for 21.0 per cent, whereas bilateral constituted 12.0 per cent as at end of December 2012. Multilateral loans have been the major source of external financing owing to long grace periods, long maturities and highly fixed interest rate thus low interest rate and repayment risk. However, most of it is held in USD and EURO, exposing the debt stock to exchange rate risk due to historical trend of TZS depreciation against the major foreign currencies.

5.0 LIKELY OUTTURN

41. Given continued efforts by the Government to improve and stabilize power supply including the ongoing construction of the gas pipeline from Mtwara to Dar es Salaam and implementation of economic policies under the FYDP1, the overall performance of the economy in 2013 and beyond is expected to be buoyant. Other strategies/policies to be implemented to support the growth in the medium term include ASDP, MKUKUTA II, Southern Agricultural Corridor of Tanzania (SAGCOT), implementation of Special Economic Zones; and infrastructure development (Dar es Salaam Rapid Transport System, roads, railways, and ports). Further, continuing financial sector reforms and expansion of economic activities will drive rapid development in financial services. Expansion of regional trade in line with the implementation of EAC common market and other integration efforts. Based on those assumptions, GDP is projected to increase to 7.0 percent in 2013 and progress upwards in the medium term.

42. The Bank of Tanzania (BoT) will continue to implement its reserve money program targeting framework with a view to keeping core inflation at single digit levels. Going forward, inflation is projected to ease down to around 9.5 percent by end June, 2013. This is based on expected good rains which will improve food supply in the Eastern African region; stabilization in global oil prices and recently observed exchange rate stability.

43. The exchange rate will remain market determined and the BoT will continue to participate in the foreign exchange market for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate, while maintaining an adequate level of international reserves. However, the increase in inflation in trading partner' countries; instability in Euro capital market; increase in expenditures to cater for the importation of emergency power plants; increase in the demand for diesel to run the power

plants; delay in the disbursement of non concessional borrowing as well as grants; among others will continue to exert pressure on the USD against the Shilling.

44. With strong tax revenue collection in the first half of 2012/13 with ongoing tax administrative measures, revenue target for the full year is likely to be achieved. The target for non tax revenue and LGAs own sources may not be achieved due to delay in the introduction of business license fees by LGAs as programmed and lack of integrated and interfaced Systems of collecting non tax revenue. Thus, revenue to GDP ratio is projected at 16.7 percent in June 2013 which is within PSI target. Foreign grants and loans are expected to be below estimates due to deterioration in the external environment (Euro crisis).

45. Expenditure will be adjusted in line with available resources while protecting key expenditure items including investment spending taking into account the anticipated shortfall in foreign resources. Debt service is expected to be higher than budget estimates due to rising domestic interest rates.

46. The Government has made progress in raising funds from external non-concessional borrowing. To end June 2013, the Government is expected to meet the ENCB ceiling of USD 2,688 million by contracting the remaining balance from credit Suisse whereby the loan agreement is at the final stage.

47. The Government will continue to control the issuance of guarantees on loans to various public institutions in order to maintain public debt sustainability. The Government is committed to improving its debt monitoring capacity (including through structural benchmarks in the context of the PSI-supported program).

Annex A: Summary of Central Government Operations July - December 2012

Billion Shillings

	Budget Estimate	October - December 2012			Oct - Dec 2011/12 Actual	Year on year % change	July - December 2012			July - December 2011/12 Actual	Year on year % change
		Estimate	Actual	Percent of Estimate			Estimate	Actual	Percent of Estimate		
Total Domestic Revenue	**9,149**	**2,345**	**2,207**	**94%**	**1,798**	**23%**	**4,546**	**4,228**	**93%**	**3,437**	**23%**
Tax Revenue	8,054	2,070	2,048	**99%**	1,645	25%	4,006	3,889	**97%**	3,134	24%
Taxes on Imports	2,742	688	670	**97%**	541	24%	1,371	1,286	**94%**	1,095	17%
Taxes on Domestic Sales	1,953	518	425	**82%**	358	19%	970	833	**86%**	682	22%
Income Tax	2,794	720	800	**111%**	576	39%	1,378	1,491	**108%**	1,059	41%
Other taxes	821	210	214	**102%**	204	5%	414	398	**96%**	376	6%
Net refunds	(257)	(65)	(61)	**95%**	(35)	78%	(126)	(119)	**94%**	(78)	52%
Non tax revenue	661	184	107	**58%**	93	15%	359	236	**66%**	183	29%
Radar Refund	72	-	-				-	-			
LGAs own source	362	91	52	**57%**	60	-14%	181	103	**57%**	120	
Total Expenditure	**13,812**	**3,558**	**3,634**	102%	**2,867**	27%	**6,871**	**6,023**	**88%**	**5,174**	**16%**
Recurrent expenditure (Excl. CFS)	**7,919**	**2,002**	**1,881**	**94%**	**1,372**	**37%**	**3,946**	**3,436**	**87%**	**2,618**	**31%**
Wages & salaries(Central & Local Gov't)	3,147	779	832	**107%**	666	25%	1,588	1,656	**104%**	1,346	23%
Goods and services and Transfers	4,772	1,222	1,049	**86%**	706	12%	2,358	1,780	**75%**	1,272	8%
TRA	174	43	43	**100%**	32	38%	87	87	**100%**	63	38%
Parastatal wages	634	168	132	**79%**	112	18%	298	260	**87%**	221	18%
Retention scheme	306	87	54	**61%**	41	31%	154	110	**72%**	67	65%
Other goods and services	3,530	891	787	**88%**	521	51%	1,756	1,259	**72%**	921	37%
Development Expenditure	**4,528**	**1,204**	**1,383**	**115%**	**1,225**	**13%**	**2,264**	**2,005**	**89%**	**2,110**	**-5%**
Domestic	2,214	626	540	**86%**	403	34%	1,107	949	**86%**	993	-4%
Foreign	2,314	579	843	**146%**	823	3%	1,157	1,056	**91%**	1,116	-5%
Interest payment	**555**	**149**	**181**	**121%**	**117**	**55%**	**256**	**277**	**108%**	**184**	**50%**
Domestic	335	85	127	**149%**	97	31%	165	211	**128%**	145	46%
Foreign	220	64	54	**84%**	20	173%	92	66	**72%**	39	68%
CFS (Other)	**810**	**203**	**189**	**93%**	**153**	**24%**	**405**	**306**	**76%**	**263**	**16%**
Overall Deficit (before grants)	(4,663)	(1,214)	(1,428)	**118%**	(1,069)	34%	(2,324)	(1,795)	**77%**	(1,737)	3%
Grants	**2,009**	**459**	**621**	**135%**	**223**	178%	**1,077**	**1,139**	**106%**	**1,298**	-12%
Programme	623	113	48	**43%**	-		384	451	**117%**	554	
Project	696	174	174	**100%**	161	8%	348	251	**72%**	355	-29%
Basket grants	256	64	305	**477%**	2	12108%	128	306	**239%**	258	19%
MCA (T) - USA	434	108	94	**86%**	59	58%	217	131	**61%**	132	0%
Overall Deficit (after grants)	(2,655)	(754)	(807)	**107%**	(846)	-5%	(1,247)	(657)	**53%**	(439)	
Expenditure Float	-	-	48		(1)	-8151%	-	(302)		(184)	64%
Adjustment to cash & other items	-	0	(101)		880	-111%	-	15		(92)	-116%
Overall balance	(2,655)	(754)	(860)	**114%**	34	-2644%	(1,247)	(944)	**76%**	(714)	32%
Financing	**2,655**	**754**	**860**	**114%**	**(34)**	-2644%	**1,247**	**944**	**76%**	**714**	32%
Foreign (net)	2,171	509	243	**48%**	397	-39%	722	439	**61%**	840	-48%
Programme loans	220	92	-	**0%**	62	-100%	92	83		90	
Project loans	769	192	189	**98%**	225	-16%	385	235	**61%**	288	-18%
Basket loans	159	40	82	**206%**	77	7%	80	133	**167%**	85	57%
Non-Concessinal Borrowing	1,254	255	-	**0%**	52	-100%	255	23		413	
Amortization	(232)	(71)	(28)	**39%**	(18)	52%	(90)	(35)	**40%**	(36)	-1%
Domestic (net)	484	246	617	**251%**	(431)	-243%	525	505	**96%**	(126)	-502%
Bank Borrowing	484	246	617	**251%**	(431)	-243%	525	505	**96%**	(126)	-502%
Non-Bank Borrowing	-	-	-		-		-	-		-	
Borrowing/Roll over	1,148	277	528	**191%**	99	435%	595	834	**140%**	328	154%
Amortisation of contingent debt	-	-	-		-		-	-		-	
Domestic amortisation/Rollover	(1,148)	(277)	(528)	**191%**	(99)	435%	(595)	(834)	**140%**	(328)	154%

Source: Ministry of Finance

Annex B:

Revenue Performance July - September 2012

Billion Shillings

	Budget Estimates	October - December 2012			Oct-Dec 2011/12 Actual	Year on year % change	July - December 2012			July-Dec 2011/12 Actual	Year on year % change
		Estimates	Actual	Percent of estimate			Estimates	Actual	Percent of estimate		
Revenue (Including LGAs own sources)	**9,149.2**	**2,344.7**	**2,190.5**	**93%**	**1,797.7**	**22%**	**4,546.4**	**4,186.6**	**92%**	**3,437.3**	**22%**
Revenue (Excluding LGAs own sources)	**8,714.7**	**2,254.2**	**2,139.0**	**95%**	**1,737.7**	**23%**	**4,365.3**	**4,083.5**	**94%**	**3,317.3**	**23%**
Tax Revenue	**8,054.0**	**2,070.3**	**2,031.9**	**98%**	**1,644.8**	**24%**	**4,006.0**	**3,847.4**	**96%**	**3,134.2**	**23%**
Taxes on Imports	**2,742.1**	**687.6**	**669.9**	**97%**	**540.9**	**24%**	**1,370.7**	**1,286.0**	**94%**	**1,095.0**	**17%**
Import Duty	692.1	173.5	153.1	88%	126.2	21%	345.9	319.7	92%	256.4	25%
Petroleum	616.9	154.7	157.3	102%	131.0	20%	308.4	300.4	97%	268.2	12%
Excise	616.9	154.7	157.3	102%	131.0	20%	308.4	300.4	97%	268.2	12%
Others	1,433.1	359.4	359.6	100%	283.7	27%	716.4	666.0	93%	570.4	17%
Excise	107.4	26.9	19.7	73%	13.2	50%	53.7	35.5	66%	29.7	19%
VAT on Non-Petroleum imports	1,325.7	332.4	339.8	102%	270.5	26%	662.7	630.5	95%	540.6	17%
Taxes on Domestic Sales	**1,953.5**	**518.0**	**425.3**	**82%**	**358.3**	**19%**	**970.1**	**832.6**	**86%**	**682.1**	**22%**
Excise	672.9	175.6	149.5	85%	118.1	27%	329.3	285.2	87%	218.4	31%
Value Added Tax (VAT)	1,280.6	342.4	275.7	81%	240.2	15%	640.8	547.4	85%	463.7	18%
Income Tax	**2,793.8**	**720.0**	**783.9**	**109%**	**576.3**	**36%**	**1,377.6**	**1,453.4**	**106%**	**1,059.4**	**37%**
PAYE	1,438.5	365.6	344.5	94%	276.9	24%	719.9	668.8	93%	533.9	25%
Corporate and Parastatals	883.9	228.6	299.3	131%	198.3	51%	429.7	536.6	125%	355.9	51%
Individuals	76.4	21.7	15.3	71%	14.1	9%	36.2	30.1	83%	29.1	4%
Withholding Taxes	304.3	79.1	75.0	95%	74.0	1%	148.6	137.3	92%	113.8	21%
Rental Tax	59.7	16.3	14.4	88%	10.8	33%	28.4	31.5	111%	21.5	46%
Other Income	31.0	8.8	35.4	402%	2.1	1566%	14.7	49.2	334%	5.3	831%
Other Taxes	**821.5**	**209.6**	**214.2**	102%	**203.9**	5%	**413.7**	**394.1**	95%	**375.9**	5%
Business Skill Development Levy	161.9	41.4	40.2	97%	36.6	10%	81.8	77.1	94%	68.1	13%
Fuel Levy and transit fee	429.7	107.7	113.3	105%	107.1	6%	214.8	210.0	98%	207.8	1%
Stamp Duty	11.9	3.1	2.6	83%	3.5	-25%	6.0	0.0	0%	5.0	-100%
Departure Service Charges	40.4	10.7	10.0	93%	6.9	44%	20.6	18.5	90%	11.9	56%
Motor vehicle taxes	139.5	37.0	33.9	92%	26.0	30%	71.4	68.7	96%	52.7	30%
Treasury Voucher Cheque	37.9	9.5	6.0	63%	4.2	42%	18.9	11.6	61%	10.4	11%
Business Licence	0.3	0.1	8.2		19.5	-58%	0.1	8.2		20.1	-59%
Refunds	**-256.8**	**-64.9**	**-61.4**	**95%**	**-34.5**	**78%**	**-126.1**	**-118.8**	**94%**	**-78.1**	**52%**
Refunds - VAT	-193.5	-48.9	-59.5	122%	-18.5	221%	-94.9	-114.5	121%	-40.5	183%
Refunds - other	-63.3	-16.0	-1.9	12%	-16.0	-88%	-31.2	-4.3	14%	-37.6	-89%
Non Tax Revenue	**660.6**	**183.9**	**107.1**	**58%**	**92.9**	**15%**	**359.4**	**236.2**	**66%**	**183.1**	**29%**
Parastatal Dividends	55.3	13.8	16.1	117%	5.7	186%	27.6	23.7	86%	10.5	126%
Other Treasury collections	69.2	17.3	0.8	5%	3.9	-79%	34.6	1.1	3%	5.0	-79%
Ministries and Regions	520.2	148.8	86.6	58%	77.6	12%	289.1	204.8	71%	156.6	31%
TRA Non Tax	16.1	4.0	3.6	88%	5.8	-38%	8.0	6.5	81%	11.0	-41%
Radar Refund	72.3	0.0	0.0				0.0	0.0			
LGAs own source	**362.2**	**90.6**	**51.5**	57%	**60.0**	-14%	**181.1**	**103.1**	57%	**120.0**	-14%

Source: Ministry of Finance

Annex C

Expenditure by Category July - September 2011 (in billions of Tshs)

Billion Shillings

	Budget Estimate	October- December 2012			Oct-Dec 2011/12 Actual	Year on Year % Change	July - December 2012			July-December 2011/12 Actual	Year on Year % Change
		Estimate	Actual Expenditure	Percent of Estimate			Estimate	Actual Expenditure	Percent of Estimate		
Total Expendjture	**13,812.2**	**3,558.2**	**3,634.4**	**102%**	**2,866.6**	**27%**	**6,870.5**	**6,023.4**	**88%**	**5,174.2**	**16%**
Recurrent Expendjture (Excl. CFS)	**7,919.0**	**2,001.9**	**1,881.0**	**94%**	**1,371.8**	**37%**	**3,945.8**	**3,436.0**	**87%**	**2,617.6**	**31%**
Wages and salaries	3,147.1	779.4	831.9	**107%**	665.7	**25%**	1,588.2	1,656.1	**104%**	1,345.5	**23%**
Goods, services and transfers	**4,772.0**	**1,222.4**	**1,049.1**	**86%**	**706.1**	**49%**	**2,357.6**	**1,779.9**	**75%**	**1,272.0**	**40%**
TRA	173.9	43.5	43.5	**100%**	31.6	**38%**	86.9	86.9	**100%**	63.2	**38%**
Fuel Levy	429.7	107.7	113.3	**105%**	107.1	**6%**	214.8	210.0	**98%**	207.8	**1%**
Parastatal wages	634.0	168.2	132.2	**79%**	112.1	**18%**	297.6	260.2	**87%**	221.5	**18%**
Retention scheme	305.5	87.4	53.7	**61%**	41.0	**31%**	154.0	110.4	**72%**	66.9	**65%**
Other goods and services	**3,658.6**	**923.4**	**819.7**	**89%**	**521.4**	**57%**	**1,819.0**	**1,322.3**	**73%**	**920.5**	**44%**
Transfer to Zanzibar (BGS)	32.6	9.2	7.9	**86%**	17.2		21.4	21.2	**99%**	17.2	
Transfer to Zanzibar (PAYE)	21.0	5.3	5.3	**100%**	-		10.5	10.5	**100%**	-	
TANESCO (IPTL- Capacity Charge)	18.0	4.5	4.5	**100%**	4.5	**0%**	9.0	9.0	**100%**	9.0	**0%**
Treasury Voucher Scheme	30.0	7.5	6.8	**91%**	7.9	**-14%**	15.0	16.2	**108%**	17.3	**-7%**
Other charges	3,577.9	902.2	800.4	**89%**	491.8	**63%**	1,773.6	1,275.9	**72%**	877.0	**45%**
Development Expenditure	**4,527.8**	**1,204.1**	**1,383.0**	**115%**	**1,225.4**	**13%**	**2,263.9**	**2,004.9**	**89%**	**2,109.8**	**-5%**
Domestic	2,213.6	625.5	539.6	**86%**	402.6	**34%**	1,106.8	949.2	**86%**	993.4	**-4%**
Foreign	2,314.2	578.6	843.4	**146%**	822.7	**3%**	1,157.1	1,055.6	**91%**	1,116.4	**-5%**
o/w basket grants	255.9	64.0	304.9	**477%**	255.1	**20%**	128.0	305.6	**239%**	257.6	**19%**
o/w basket loans	159.2	39.8	62.0	**156%**	76.9	**-19%**	79.6	112.6	**141%**	84.7	**33%**
o/w MCA (T)- USA	433.6	108.4	93.6	**86%**	**72.1**	**30%**	216.8	131.4	**61%**	**131.5**	**0%**
Interest	**555.2**	**149.5**	**181.2**	**121%**	**116.6**	**55%**	**256.3**	**276.8**	**108%**	**184.1**	**50%**
Domestic	335.2	85.2	127.2	**149%**	96.8	**31%**	164.8	210.7	**128%**	144.8	**46%**
Foreign	220.0	64.3	54.0	**84%**	19.8	**173%**	91.5	66.1	**72%**	39.3	**68%**
CFS others	**810.1**	**202.8**	**189.2**	**93%**	**152.7**	**24%**	**404.5**	**305.7**	**76%**	**262.8**	**16%**

Source: Ministry of Finance

Annex D

Foreign Grants and Financing July - September 2012

Billion Shillings

	Budget Estimates	October - December 2012 Estimate	October - December 2012 Actual	October - December 2012 Percent of estimate	Oct - Dec 2011/12 Actual	Year on year % change	July -December 2012 Estimate	July -December 2012 Actual	July -December 2012 Percent of estimate	July - December 2011/12 Actual	Year on year % change
Overall deficit before grants	**(4,663.1)**	**(1,110.6)**	**(1,427.8)**	**128.6%**	**(668.0)**	113.8%	**(2,324.1)**	**(1,795.3)**	**77.2%**	**(1,736.9)**	3.4%
Grants	2,008.5	459.1	620.7	135.2%	222.9	178%	1,076.8	1,138.7	105.7%	1,297.7	-12.3%
Programme	622.5	112.6	48.2	42.8%	0.0		383.8	450.9	117.5%	553.5	-18.5%
Project	696.5	174.1	173.9	99.9%	161.0	8%	348.2	250.9	72.1%	355.1	-29.3%
Basket Support	255.9	64.0	304.9	476.6%	2.5	12108%	128.0	305.6	238.8%	257.6	18.6%
MCA(T) - USA	433.6	108.4	93.6	86.4%	59.5	58%	216.8	131.4	60.6%	131.5	-0.1%
Overall deficit after grants	**(2,654.6)**	**(651.5)**	**(807.1)**	**124%**	**-445.1**	**81%**	**(1,247.3)**	**(656.6)**	**53%**	**-439.2**	**49%**
Expenditure Float	**0.0**	**0.0**	**48.2**		**-183.0**	**-126%**	**0.0**	**-301.7**		**-183.6**	**64%**
Overall Balance	**(2,654.6)**	**(651.5)**	**(758.9)**	**116%**	**(748.2)**	**1%**	**(1,247.3)**	**(958.3)**	**77%**	**(714.4)**	**34%**
Financing	**2,654.6**	**754.4**	**859.6**	**114%**	**748.2**	**15%**	**1,247.3**	**943.7**	**76%**	**714.4**	**32%**
Foreign (net)	2,170.7	508.7	242.9	48%	443.2	-45%	722.0	439.0	61%	840.0	-48%
Programme (Loans)	220.0	92.3	0.0	0%	28.7		92.3	83.3		90.4	-8%
Project (Loans)	769.0	192.3	188.9	98%	63.0	200%	384.5	235.3	61%	287.5	-18%
Basket Support	159.2	39.8	82.0	206%	7.7		79.6	132.6	167%	84.7	57%
Non-Concessinal Borrowing	1,254.1	255.3	0.0	0%	361.2		255.3	23.3		413.2	-94%
Amortisation Foreign (outflow)	-231.6	-70.9	-28.0	39%	-17.4	61%	-89.7	-35.5	40%	-35.8	-1%
Domestic (net)	483.9	245.7	616.6	685%	305.0	2.6	525.3	504.7	96%	-125.6	-502%
Bank Borrowing	483.9	245.7	616.6	343%	315.7	95%	525.3	504.7	96%	-125.6	-502%
Non-Bank Borrowing	0.0	0.0	0.0	171%	-10.8	-100%	0.0	0.0		0.0	
Borrowing/Roll over	1,148.1	276.8	527.8	86%	229.6	130%	594.6	834.1	140%	328.3	154%
Amortisation of contingent debt	0.0	0.0	0.0	43%	0.0		0.0	0.0		0.0	
Domestic amortisation/Rollover	-1,148.1	-276.8	-527.8	43%	-229.6	130%	-594.6	-834.1	140%	-328.3	154%
Source: Ministry of Finance											