Building for the Future

Understanding Tanzania's 2017/2018 National Budget

June 2017

PwC insight and analysis

Highlights based on speeches made by the Minister for Finance and Planning on 8 June 2017

We hope that you will find this newsletter helpful, and look forward to your comments

In this bulletin

Commentary

Tanzania's strong economic performance was the launch pad for the Budget speech given by the Minister for Finance on 8 June 2017. He cited both the World Bank's April 2017 Economic Update ("Tanzania's economic performance continues to rank among the highest in the region") and the IMF's World Economic Outlook Database (listing Tanzania amongst the top five African countries for economic growth).

However, recent World Bank and IMF publications have also highlighted the need for more effective public-private dialogue to help improve business confidence. It was therefore encouraging to see explicit acknowledgement in the speech of concerns in relation to the liquidity squeeze, business failures and diminishing private sector confidence. Reference was made to the deterioration in the non-performing loans ratio (10.9% in March 2017, as compared to 8.3% in March 2016), as well as measures to restore liquidity including a lowering of the Bank of Tanzania discount rate (from 16% to 12% from March 2017) and lowering of the Statutory Minimum Reserve (from 10% to 8% from April 2017). Particularly reassuring was the restatement of the Government's recognition of the private sector as the engine of economic growth, and a commitment to ensure effective dialogue through various fora. Of course, "the proof of the pudding will be in the eating"!

Revenue collection statistics for the nine months to March 2017 (as disclosed in a speech to the Parliament in May) show a shortfall against budget of 5.4% (and an increase on prior year of 14.9%). However, tax refunds for the 9 months to March 2017 totaled only TZS 95bn (as compared to TZS 530bn in the period to March 2016, and TZS 575bn budgeted) – reflecting the downturn in VAT refund payments. If the collection statistics are adjusted for the impact of diminished refunds, the shortfall against budget is 9.2% (and the increase on prior year is only 9.6%). A concern for exporters will be that there was no reference in the speech as to measures to catch up on the backlog of VAT refunds.

Of the three departments of the Tanzania Revenue Authority, the best growth in the period to March 2017 was by the Domestic Revenue ("DR") 21.6%, followed by Customs and Excise 11.1%, and Large Taxpayers Department ("LTD") at 2.9%. DR's growth is indicative of some success in widening the tax net, albeit DR revenues still only account for about 20% of total revenues. On the other hand the LTD statistic is an indicator of the challenges faced by the large consumer businesses against the climate of a tight consumer wallet; in addition, the much diminished oil and gas exploration activity will also have had an adverse impact.

> Government's recognition of the private sector as the engine of economic growth, and a commitment to ensure effective dialogue through various fora.

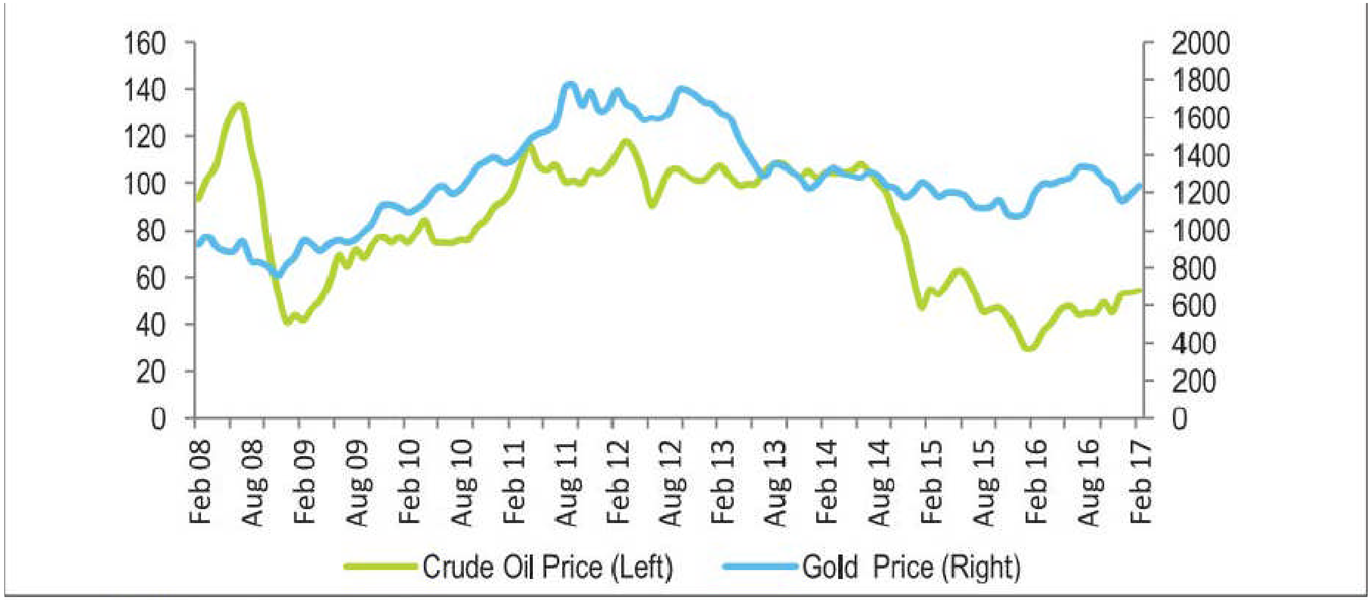
Collection statistics for the first six months to December 2016 show a drop in overall indirect tax revenues from telecoms, alcohol and tobacco products. These sectors had argued strongly for a freeze on fixed excise duties – but instead these have increased by 5%, to adjust for inflation. Again, a reduction in the ad valorem excise duty for Tanzania's mobile telecommunications sector – whose taxes on turnover total 39.5% of turnover, are amongst

the highest in Africa[1] – would have been a great tonic, particularly for the new / prospective new shareholders in these entities (now subject to a mandatory listing requirement).

Another sector subject to mandatory listing is the mining sector. The Budget speech introduced a major change for this sector by way of a new requirement for exported minerals to be inspected by and cleared through special clearing houses, at a charge of 1% of the mineral value.

[1] According to the GSM Association

On a practical level, once added to the 4% royalty and 0.3% local service levy, this will take turnover based taxes / charges to 5.3%. A significant macroeconomic benefit in relation to this sector, as highlighted by the World Bank's April 2017 report, is the cushion that gold revenues provide against trade shocks – in particular, in relation to the cost of oil imports.



Source: World Bank Commodity Prices.

In his speech, the Minister noted that significant development funds had been released during the period for road construction, power generation projects, the standard gauge railway, aircraft acquisitions, rural water supply, and health and education. The Minister also acknowledged that loans were used to finance development projects but provided various statistics to indicate that the country was well within its borrowing capacity.

The Minister also emphasized the Government's focus on expenditure control. He also noted that some progress had been made in making payments of Government arrears, but that nevertheless the stock of overall arrears had increased in the period to December 2016. The backlog in such arrears has been highlighted as a concern in recent World Bank and IMF publications.

One change that will imbue confidence, not least as an illustration of the Government's willingness to listen, and if necessary change course, is the introduction of VAT zero rating of ancillary transport services. This change will help ensure the competitiveness of Tanzania's ports – previously at threat due to irrecoverable VAT costs otherwise suffered by non-resident users of the port.

Overall there were no dramatic tax changes announced in the speech – though we await the detail in the Finance Bill. Instead the key focus for the coming year is on more effective tax administration (especially leveraging technology) and widening the tax net (in particular, more formalization of the informal sector, and more effective taxation of real property).

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Direct and payroll taxes

Skills and Development Levy (SDL)

Last year the SDL rate was reduced from 5% to 4.5%. There was an expectation that the Minister might introduce a further cut of 0.5% or even 1% this year. Unfortunately this has not been the case and SDL remains at 4.5%.

Income tax

Taxation of individuals

There is no change to tax bands, tax rates or tax thresholds. The threshold for the top marginal rate of tax (TZS 720,000 per month) was last increased in 2008.

Reduced Corporate Income Tax (CIT) rate for assemblers of vehicles, tractors and fishing boats

Reduction of the CIT rate for new assemblers of vehicles, tractors and fishing boats from 30% to 10% for the first five (5) years from commencement of operations to encourage manufacturers.

Whilst this is a welcome initiative, the question arises as to whether the reduced rate should not apply for a longer period – not least because of the likelihood that the assemblers might make tax losses during the initial years particularly once tax depreciation on initial capital

expenditure is considered. An alternative approach might be to apply the reduced rate to the first five years of taxable profits.

Non-commercial vehicles qualifying amount

The amount qualifying for capital allowances in respect of "non-commercial" vehicles has been increased from TZS 15m to TZS 30m, in order to reflect the impact of the depreciation of the shilling. The TZS 15m has remained unchanged since 2004 when the Income Tax Act, 2004 was introduced.

Alternative Minimum tax (AMT)

An amendment is made to remove a contradiction in different parts of the Income Tax Act, 2004 as regards the timeframe for application of AMT to taxpayers with unrelieved losses – in particular, to make clear that the reference period is three (3) consecutive years rather than five (5).

Withholding taxes

5% withholding tax - small scale miners

A 5% (final) withholding tax has been introduced on the market value of minerals for small scale miners. It is unclear how this tax will apply in terms of the timing, the mechanism by which the market value will be determined and how this tax will be collected.

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Indirect taxes

Value Added Tax (VAT)

Ancillary transport services

Until 30 June 2015, ancillary transport services in relation to goods in transit through United Republic of Tanzania ("URT") attracted VAT at the rate of 0%.

From 1 July 2015 under the new VAT Act 2014, the definition of international transport services excludes ancillary transport services. This meant that ancillary transport services attracted VAT at the standard rate of 18%. This was a contentious matter as the VAT was charged to non residents who are not VAT registered in URT and consequently could not claim input VAT. Therefore this was an added cost to their business.

The reintroduction of VAT at the rate of 0% on ancillary transport services in relation to goods in transit through URT will therefore reduce the costs incurred by recipients of goods in the land locked countries when using our ports and also make our ports more competitive.

Amendment to the existing exemptions

Extension of exemption on unprocessed edible eggs (HS code 0407.29.00) to include fertilized eggs for incubation

The current exemption was only applicable to unprocessed edible eggs rendering other eggs to be subject to VAT at standard rate of 18%. This change brings fertilized eggs for incubation into the exemption.

The measure intends to promote growth of the poultry subsector by reducing incubation costs

Introduction of new VAT exemptions

Locally produced compounded animal feeds under HS Code 2309.

Animal feeds will now not attract VAT. The measure intends to contribute to the growth of the sub-sector by reducing cost of procurement of such feeds.

Machinery and plant used in edible oil, textile, leather and pharmaceutical (including veterinary) industries.

Procurement and importation of machinery and plant (to be identified under their respective HS Codes) to be used in the above industries are now exempt.

The measure intends to promote investments in small, medium and large scale industries.

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Excise Duty

5% excise duty increase on specific non-petroleum excisable products

The fixed tariffs on non-petroleum excisable products (except locally produced water, fruit juices and spirits) including alcohol, soft drinks and tobacco have been increased by 5% to adjust for inflation.

Decrease of Excise duty on locally produced fruit juices and wines

Duty has been decreased for the locally produced fruit juices and wine produced with domestic grapes content exceeding 75 percent.

Excise duty on spirits

Excise duty remains constant at TZS 3,315 per litre for locally produced spirits while imported spirits increase to 3,481 per litre (a 5% increase for inflation).

Summary of changes

A summary of changes on excise duty rates (other than fuel) is attached at Appendix 1

Excise duty on Fuel

The Minister has proposed an increase of TZS 40 per litre in the excise duty on fuel as below:

	Old rate per litre (TZS)	New rate Per litre (TZS)
Petrol (Motor Spirit and Premium)	339	379
Diesel (Gas Oil)	215	255
Kerosene (IK)	425	465

The measure is intended to compensate for the loss of revenue resulting from the abolishing of annual motor vehicle license fee.

Motor vehicle license fees

An increase in the Motor Vehicle License Fee on first registration (see appendix)

Abolishment of annual motor vehicle license fee and tax amnesty for unpaid fees.

Appendix

New Excise Duty rates

Goods	Old Rate TZS	New Rate TZS
Soft drinks (non-alcoholic beverages, not including fruit or vegetable juices)	58 per ltr	61 per ltr
Imported water including mineral waters containing added sugar or other matter of flavor	58 per ltr	61 per ltr
Locally produced fruit juice	9.5 per ltr	9 per ltr
Imported fruit juices	210 per ltr	221 per ltr
Beers made from 100% local un-malted cereals	429 per ltr	450 per ltr
Other beers made from malt	729 per ltr	765 per ltr
Non-alcoholic beer (including energy drinks and non-alcoholic beverages)	534 per ltr	561 per ltr
Wine produced with domestic grapes content exceeding 75 percent	202 per ltr	200 per ltr
Wine produced with more than 25 percent imported grapes	2,236 per ltr	2,349 per ltr
Imported spirits	3,315 per ltr	3,481 per ltr

Motor vehicle license fees on first registration

Engine capacity in cc	Old rate	New rate	Increase
501 cc to 1500 cc	150,000	200,000	50,000
1501 cc to 2500 cc	200,000	250,000	50,000
Above 2501 cc	250,000	300,000	50,000

New Excise Duty rates

Goods	Old Rate TZS	New Rate TZS
Locally produces spirits	3,315 per ltr	3,315 per ltr
Cigarettes without filter tip and containing domestic tobacco more than 75 percent	11,854 per thousand cigarettes	12,447 per thousand cigarettes
Cigarettes with filter tip and containing domestic tobacco more than 75 percent	28,024 per thousand cigarettes	29,425 per thousand cigarettes
Cut rag or cut filler	25,608 per kilogram	26,888 per kilogram
Other cigarettes	50,700 per thousand cigarettes	53,235 per thousand cigarettes
Cigar	30%	30%

Summary of fuel taxes on diesel and petrol

		Revision	
	01/07/15 to 30/06/16	01/07/2017	Increase
	TZS / litre	TZS / litre	
Excise - diesel	215	255	40
Excise - petrol	339	379	40
Road Toll	313	313	0
Petroleum Levy	100	100	0
Total taxes - diesel	628	668	40
Total taxes - petrol	752	792	40
Diesel - in US$	0.31	0.29	
Petrol – in US$	0.38	0.36	
Exchange Rate	1970	2230	

Local Government Finance Act

Reducing Produce Cess charged by Local Government Authorities

Produce Cess is proposed to reduce from 5% to 3% on cash crops and from 5% to 2% for food crops. The Cess will also not be applied on transportation of crops of less than 1 ton from one Local Government Authority to another. This measure is intended to increase the income earned by farmers when selling their crops and stimulate agricultural production.

Flat rate of Property Tax for un-valued properties

For houses which have not been valued, a flat rate of TZS 10,000 for a normal house and TZS 50,000 per each floor of a story house will be payable.

Increase in amount of fine for non-compliance with the Local Government Finance Act.

The fine imposed on persons who fail to comply with the Local Government Finance Act has been increased from not more than TZS 50,000 and 12 months sentence, to between TZS 200,000 and TZS 1,000,000 or between 12 months and 2 years imprisonment sentence.

Removal of Service Levy on Guest Houses

The Minister has proposed to remove service levy of 0.3% on turnover which is imposed on guest house operations which are already subjected to Hotel Levy of 10% on the charges payable by guests.

Customs Duty

The Council of Finance Ministers from the East African Countries had their pre-budget Consultations on 6 May 2017 and agreed to pass various changes to the East African Community Common External Tariff (CET) and the East African Community Customs Management Act 2004 (EACCMA 2004). These changes are focused on industrialisation for job creation and shared prosperity.

The changes relevant to Tanzania are summarised in Appendix 2.

Other taxes

Introduction of Clearance fee of 1% on export of minerals

Direct exportation of minerals will no longer be allowed, instead the Government will establish clearing houses at international airports, mining areas and other appropriate areas where minerals will be verified and issued export permit before being exported.

The Government will impose a clearing fee of 1% of the value of minerals.

Customs Duty – CET Changes

Decrease in customs duty rates

1. Duty remission on Linear Alkyl Benzen Sulphuric Acid (LABSA) falling under HS Codes 3402.11.00, 3402.12.00 and 3402.19.00 at duty rate of 0% from 10% for one year. The measure is intended to promote the cottage industry - particularly the stand alone soap manufacturing industries as this is an input used by soap manufacturers.
2. Granting duty remission on inputs falling under HS Code 7228.20.00 and applying duty rate of 0% instead of 25% or USD 200 per metric ton whichever is higher for manufacturers of leaf spring. The measure is to take into account the adverse effect on manufacturers of leaf spring due to the introduction of import duty of 25% or USD 200 per metric ton whichever was higher on their raw materials. The duty remission measure is therefore intended to protect domestic production of iron and steel products against unfair competition from imported products while at the same time these are raw materials to manufacturers of leaf spring.
3. Granting duty remission on inputs for use in the assembly of equipment specifically designed for use by disabled persons at 0%. This measure is intended to promote manufacturing of these essential equipment within the region and therefore expected to increase employment.
4. Granting duty remission on inputs for use in the assembly and construction of ships at 0%. This measure is intended to provide relief to the assemblers and promote the fishing industry, marine transport and job creation.
5. To extend application of the rate of 0% to examination answer sheets by changing the wording of tariff code 4911.99.20 to include these items.

Customs Duty – CET Changes

Stay of duty

1. Staying the remission on wheat grain falling under HS Codes 1001.99.10 and 1001.99.90 and applying duty rate of 10% instead of 35% for one year. The measure takes into account the fact that the region has no adequate capacity to produce wheat to meet the demand.

2. Continuing to grant duty remission on CKD kits for motorcycles at a duty rate of 10% instead of 25% for one year. This measure is taken in order to continue promoting local motorcycle assembling in the EAC region while awaiting a team of experts in the region to develop a list of exclusion and inclusion on CKD motorcycle assembly under duty remission and develop the regulation so that the assembly includes locally manufactured inputs.

3. To extend stay of application of the EAC CET rate of 25% on Crude Palm Oil falling under HS Code 1511.10.00 and applying 10% for one year. This measure is intended to continue supporting the production of oil seeds and growth of edible oil industries in the country.

4. Staying of application of EAC CET rate and instead applying a duty rate of 25% or USD 250 per metric ton whichever is higher on flat-rolled products of iron or non-alloy steel falling under HS Codes 7210.41.00, 7210.49.00, 7210.61.00, 7210.69.00, 7210.70.00, 7210.90.00, 7212.30.00, 7212.40.00, 7212.50.00 and 7212.60.00 for one year. This is aimed at protecting the domestic industries against cheap products from outside the region.

5. Granting stay of application of EAC CET rate of 0% on aluminium structures of HS Codes 7610.90.00 and instead apply duty rate of 25% for one year. This measure is intended to harmonise duty rates of similar articles of base metal i.e. steel and aluminium.

6. To continue stay of application of EAC CET rate and instead applying a duty rate of 25% or USD 200 per metric ton whichever is higher on steel rods and bars and hot-rolled angles, sections falling under HS Codes 7213.10.00, 7213.20.00, 7214.10.00, 7214.20.00, 7214.30.00; 7214.91.00, 7214.99.00, 7216.10.00, 7216.21.00, 7216.22.00 and 7216.50.00 for one year. This is also aimed at protecting the domestic industries against cheap products from outside the region. Furthermore it is expected to promote further investment and increase employment.

7. Granting stay of application of EAC CET rate and instead applying a duty rate of 10% or USD 125 per metric ton whichever is higher on flat-rolled products of iron or non-alloy steel, with a width of 600 mm or more, cold rolled or cold reduced falling under HS Codes 7209.15.00, 7209.16.00, 7209.17.00, 7209.18.00, 7209.25.00, 7209.26.00, 7209.27.00, 7209.28.00, 7209.90.00, for one year. This is aimed at protecting domestic industries from entry of cheap imports from outside the EAC region.

8. Continuing to provide duty remission at duty rate of 0% on inputs for manufacturers of "air filters" in the region. The measure is aimed at supporting the local manufacturers of the products in the region and creating employment.

9. Granting stay of application of EAC CET rate of 0% on gypsum powder falling under HS Code 2520.20.00 and applying a duty rate of 10% for one year. This measure is aimed at protecting the local producers and promoting production of gypsum powder by using locally available raw materials.

10. To grant stay of application on the reduction of remission level on sugar for industrial use under HS Code 1701.99.10 and applying a duty rate of 10% instead of 100%.

11. Granting stay of application of EAC CET rate of 10% on Electronic Fiscal Devices (EFDs) falling under HS Code 8470.50.90 and apply duty rate of 0% for one year. This is to encourage the use of electronic devices for accounting of VAT for efficient management control in areas of sales analysis and stock control system.

12. To extend the stay of application of the EAC CET rate and apply a duty rate of 25% instead of 10% on paper products falling under HS Codes 4804.11.00, 4804.19.90, 4804.21.00, 4804.29.00, 4804.31.00, 4804.39.00, 4804.41.00, 4804.51.00, 4804.59.00, 4805.11.00, 4805.12.00, 4805.19.00, 4805.24.00, 4805.25.00, 4805.30.00, 4805.91.00 and 4805.92.00 for one year. This measure is intended to protect the local producers of these products and promote production of papers in the region

Customs Duty – EACCMA 2004 Changes

Increase in the amount of fine for making or using false documents

1. Amendment on section 203 of the EACCMA 2004 to increase the fine from USD 10,000 to USD 20,000 or 50% of the dutiable value, whichever is higher. The intention is to put a deterrent measure on offences (such as false documents, false declarations, fraudulent evasion of payment of taxes, etc.) as the current fine of USD 10,000 does not appear to be punitive.

2. Section 218 of the EACCMA 2004 will be amended to give powers of restoration of seized items to Commissioner of Customs instead of EAC Council of Ministers.

Amendment of the 5th Schedule to the EACCMA 2004

The following changes will be made to Paragraph B of the 5th Schedule to the EACCMA 2004:

- Deleting paragraph 25 in order to remove import duty exemption on Compact Fluorescent Bulbs (CFL) and Light Emitting Bulbs (LED) on the basis that these are finished products.
- Amending paragraph 30 to include distribution of Oil and Gas. This measure is intended to provide import duty exemption on projects of Heated Crude Oil Pipeline implemented by Partner States Governments.

Opening of an escrow account from July 2017

The Government is planning to open an Escrow Account from July 2017 to ease the refund of additional import duty of 15% of F.O.B value paid by importers of sugar for industrial use. This is aimed at ensuring that the refund is paid on time.

Other matters

Policy and administrative measures

- In order to strengthen revenue collection and curb leakages, the government will use the already in place "Government Electronic Payment Gateway System" in all the Ministries, Government Departments and Institutions;
- The government has launched Electronic Revenue Collection System (e-RCS)- as a new system for revenue collection to be used with effect from this financial year. The system will be managed by TRA, TCRA and ZRB;
- TRA will continue to collect property tax (for valued and un valued houses). A flat rate to be used for un valued properties i.e (TZS 10,000 per normal house and TZS 50,000 per each floor of storey house). For the valued properties, the property rate to be determined by Ministry of Finance and Planning;
- Official identification to be provided to the small, informal business by issuing identity cards;
- Emphasis on continuous enforcement for the use of Electronic Fiscal Device (EFDs) by all businesses;
- The government to open an escrow account starting July 2017 to ease refund of additional import duty of 15% of F.O.B paid by importers of sugar for industrial use to facilitate timely payment of refunds; and
- The government to restrict direct exportation of minerals from mines instead establish clearing houses at international airports, mining areas responsible to issue export permit before exportation of minerals.

The Economy

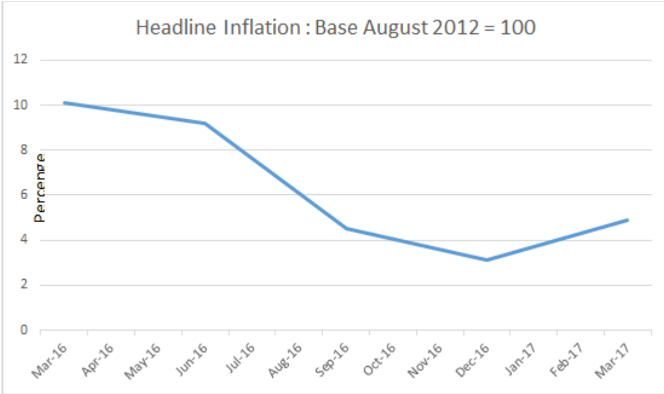
Real GDP – Tanzania

The economy of Tanzania has continued to register high economic growth with average real GDP growth rate in 2016 of 7.0%, the same as in 2015 and 2014, albeit below the projected 7.2%. Some economic activities fell short of projected targets, whilst others surpassed their targets, as set out in the table below:

SECTOR	*ACTUAL*		*BUDGET*
Agriculture	2.1%	↓	2.9%
Trade and Maintenance	6.7%	↓	7.8%
Food and Accommodation	3.7%	↓	8.0%
Administrative services	2.1%	↓	6.3%
Information and Technology	13.0%	↑	12.1%
Transportation and Storage	11.8%	↑	8.0%
Mining and Quarrying	11.5%	↑	9.2%
Manufacturing	7.8%	↑	6.7%

Inflation – Tanzania

In 2016, the inflation rate averaged 5.2% compared to 5.6% in 2015. The decline is largely being attributed to: the downward trend of world market petroleum products' prices, stability of domestic food prices and effective implementation of fiscal and monetary policies. By April 2017 inflation had slightly increased to 6.4%, but was



still within the target range of between 5% and 8%. The increase was a consequence of the delayed rainy season and related impact on food prices. Following improved rainfall, inflation is expected to decline during the rest of 2017.

Interest Rates – Tanzania

During 2016, interest rates on deposits and loans in commercial banks declined compared to previous years. Interest rates for time deposits declined from an average of 9.3% to an average of 8.8%. In addition, interest rates for one year deposits declined from an average of 11.2% in 2015 to 11.0% percent in 2016. Likewise, interest rates for time loans of up to a year declined from an average of 14.2% to 12.9%. This trend was driven by an increase in competition among banks. As a result, the interest rate differential for a year term deposits and loans decreased to 1.8% in 2016 in comparison to 3.1% in 2015. In December 2016, interest rates in the interbank money market averaged 13.5%, in comparison to 7.3% in 2015. Interest rates on Government securities also fell to an average of 15.1% in December 2016 from 18.3% recorded during December 2015.

Regional Economic Performance

Real GDP – EAC

A trend of declining economic growth rates was recorded for the East African Community (EAC), with a decline from 6.5% in 2015 to 5.3% in 2016. This decline was mainly due to the continued fall in commodity prices and weak global economic growth and demand. Notwithstanding, the EAC remained ahead of other African regional groupings in terms of economic growth. The trajectory growth rate for the region is 5.7% and 6.0% in 2017 and 2018 respectively. This forecast takes into consideration growth boosting initiatives being undertaken towards revitalisation of business environment, for example, establishing dedicated industrial parks for textiles, leather products, agricultural products, and pharmaceuticals promotions.

Inflation – EAC

Inflation rates in EAC member countries have generally remained at single digit levels during 2016. The average inflation rate for Burundi was 5.6%, 6.3% for Kenya, 7.1% for Rwanda, 5.2% for Tanzania and 5.4% for Uganda. The inflation momentum continued during the first quarter of 2017, whereby in March 2017, it reached 21.1% in Burundi, 10.28% in Kenya, 13.0% in Rwanda, and 6.4% in Tanzania and Uganda.

External Trade

In 2016, balance in trade in goods and services between Tanzania and the rest of the world improved compared to 2015 driven by a reduction in the value of imports.

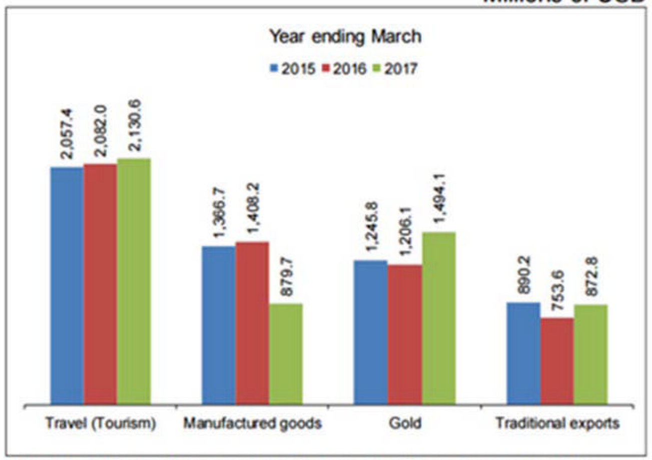
The April 2017 Bank of Tanzania monthly report shows exports of goods and services in the year ending 31 March 2017 as 3% lower than the year ending March 2016. The major decline was in manufactured goods, and to a small extent in non-traditional exports; otherwise earnings from travel (mainly tourism) remained fairly unchanged. On the other hand the export value of gold, which dominates non-traditional exports rose by 23.9%.

The April 2017 Bank of Tanzania report also highlights that imports of goods and services declined in the year ending March 2017 following a fall in the value of oil imports, consumer goods, and capital goods particularly transport equipment, as well as building and construction material. The decline in oil imports, which reduced by 16.2%, reflected lower oil prices as volumes remained broadly the same. Payments for services declined by 22.2% following a decline in travel, transportation and other services payments.

SECTOR	2015/16	2014/15	% Change
	TZS 'bn	TZS 'bn	
Imports	10.7	12.5	-14.0%
Exports	9.3	8.9	4.1%

Chart 4.1: Export Performance of Selected Goods and Services

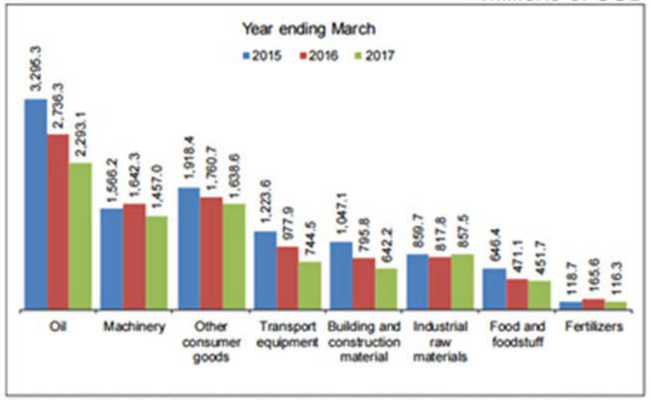
Millions of USD



Source: Bank of Tanzania, Tanzania Revenue Authority.

Chart 4.5: Performance of Goods Import

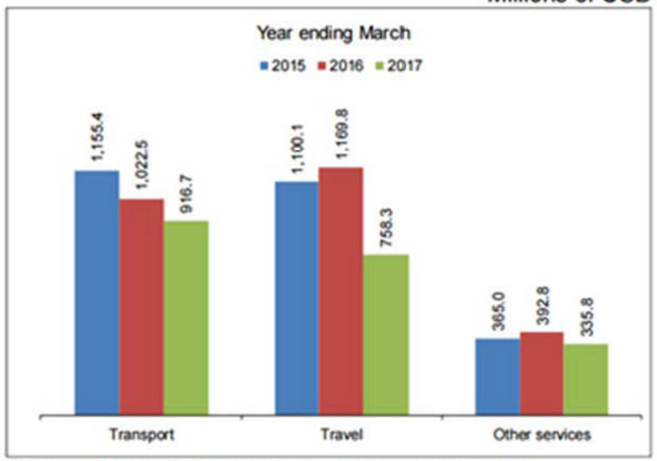
Millions of USD



Source: Bank of Tanzania and Tanzania Revenue Authority

Chart 4.6: Services Payments

Millions of USD



Source: Bank of Tanzania and commercial banks

Past performance 2016/2017

Revenue/Collections

Total resources mobilized during the period between July 2016 and April 2017 amounted to Tzs 20,711 billion, equivalent to 70.1% of annual target of Tzs 29,540 billion. These were mobilized from the following sources:

- Tax revenue amounted to Tzs 11,645 billion, equivalent to 77.1% of the annual target of Tzs 15,105 billion;
- Non tax amounted to Tzs 1,611 billion, equivalent to 59.8% of the annual target of Tzs 2,693 billion;
- LGAs own source was Tzs 399 billion, equivalent to 60.0% of the annual target of collecting Tzs 665 billion;
- Loans from domestic sources were Tzs 4,716 billion, equivalent to 87.7% of annual target of Tzs 5,374 billion; and
- Disbursement of grants and external concessional loans were Tzs 2,340 billion, equivalent to 65.0% of the annual Development Partners' commitment of Tzs 3,601 billion for the 2016/17 budget.

Collections by Department	Total	Total	Total	Variance	Variance
9 months to 31 March 2017	2015/16	2016/17	2016/17	2016/17	2016/17
	Actual	Budget	Actual	Prior Yr	Budget
	TZS bn	TZS bn	TZS bn	%	%
Customs & Excise	3,944	4,635	4,382	11%	-5%
Large Taxpayer Dept	4,051	4,846	4,167	3%	-14%
Domestic Revenue Dept	1,786	2,321	2,172	22%	-6%
	9,781	**11,802**	**10,721**	**10%**	**-9%**
Less: Refunds and transfers	(530)	(575)	(95)	-82%	-83%
	9,252	**11,227**	**10,626**	**15%**	**-5%**
	Source - MoF speech to Parliament - May 2017				

In 2016/17 budget, the Government planned to borrow Tzs 2,101 billion from non-concessional sources to finance development projects but this could not be raised due to constraints in the international financial market. However, the Government is in the final stage of negotiations with lenders and USD 500 million is expected by June, 2017.

Expenditure

Development expenditure

During the period ending April 2017, the Government released Tzs 20,037 billion to Ministries, Independent Departments, Regional Secretariats, and Local Government Authorities. Out of this, Tzs 15,481 billion was for recurrent expenditure, equivalent to 87.4% of the annual target and while Tzs 4,556 billion was for development expenditure, equivalent to 38.5% of the annual target of Tzs 11,821 billion. The amount released for development projects includes Tzs 3,648 billion local funds and Tzs 908 billion foreign funds. However, part of foreign funds earmarked for development were not captured in expenditure mainly due to a time lag in accounting for the actual value of the funds directly disbursed to projects since some of the Development Partners continue to operate this item outside the Government exchequer system.

Some of the areas accorded priority in the release of development funds during the period under review are listed below.

Area	Priority Focus Areas that received development funds	Allocation TZS 'bn
Roads	Construction and maintenance of regional and district roads (Road Funds)	676
Roads	Roads construction projects (incl. payment of contractors and consultants)	540
Power	Power generation projects, improving transmission lines and rural electrification	422
Education	Higher education students loans	393
Rail	Advance payment for first phase construction of the Standard Gauge Railway (SGR) from Dar es Salaam to Morogoro	300
Air	Acquisition of two aircraft and advance payment of four other aircrafts	235
Water	Improvement of water supply in rural and urban areas	186
Health	Improving health services delivery at all levels	171
Health	Procurement of medicines, medical equipment and reagents	156

The 2017/2018 Budget Objectives and Targets

Macroeconomic policy

Based on macroeconomic objectives and targets, priority for 2017/18 will be on flagship projects earmarked in the National Development Plan 2017/18. These projects are expected to deliver higher multiplier effects as envisaged in Tanzania Development Vision 2025 and the plan itself. Most of these projects were initiated in 2016/17, and therefore will be undertaken as ongoing projects.

In this regard, the following projects will be implemented:

- Construction of the central railway line to standard gauge;
- Reviving Air Tanzania Company Limited by acquiring four new aircraft;
- Iron ore and coal mining projects in Liganga and Mchuchuma;
- Establishment of special economic zones;
- Liquified Natural Gas (LNG) plant; and
- Mkulazi Sugarcane Plantation and sugar factory

Revenue policies for 2017/18

The Government is committed to increase and strengthen domestic revenue collections by pursuing the following policies:

- Continuing to emphasize the effective use of electronic devices and systems in revenue collection to contain revenue leakages;
- Continue to widen the tax base including formalization of the informal sector to capture it into the tax net;
- Improve collection and strengthen management of non-tax revenue;
- Continue with mass valuation of properties to increase property tax revenue;
- Formalizing land ownership with a view of increasing revenue; and
- Continue with control measures to minimize abuse of tax exemptions.

Expenditure policies for 2017/18

In 2017/18, the Government will continue to allocate funds in priority areas to ensure effective implementation of the Annual Development Plan (ADP). The Government will sustain financial discipline in order to realize the value for money. In implementing this initiative, the Government will carry out the following: .

- Ensure that all commercially viable public entities are operating profitably without depending on Government subvention;
- Ensure that all contracts with Government entities (Ministries, Independent Departments and Agencies; Regional Secretariats, Local Government Authorities and Public Entities) are expressed in Tanzania shillings to minimize Government exposure to fiscal risks, unless the contracts involve foreign transactions;
- Continue to control cost arising from public utilities, coupled with the use of cost saving technologies;
- Continue to ensure that salaries are paid to only eligible employees; and
- Application of ICT to facilitate communications in the Government undertakings

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