



# UNITED REPUBLIC OF TANZANIA

## REQUEST FOR DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST; PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED REPUBLIC OF TANZANIA

June 2020

In the context of the Request for Debt Relief under the Catastrophe Containment and Relief Trust, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 10, 2020, following discussions that ended on May 14, 2020 with the officials of the United Republic of Tanzania on economic developments and policies underpinning the IMF debt relief under the Catastrophe Containment and Relief Trust. Based on information available at the time of these discussions, the staff report was completed on June 4, 2020.
- A **Statement by the Executive Director** for the United Republic of Tanzania.

The document listed below has been or will be separately released.

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**Washington, D.C.**



## IMF Executive Board Approves \$14.3 Million Debt Relief to the United Republic of Tanzania Under the Catastrophe Containment and Relief Trust

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved debt relief under the Catastrophe Containment and Relief Trust to provide US\$14.3 million over the next 4 months, and potentially up to US\$25.7 million over the next 23 months.
- IMF debt service relief will help free up resources for public sector health needs and other emergency spending, as well as mitigate the balance of payments shock resulting from the pandemic.
- Given the risks ahead, it would be important to ensure close cooperation with multilateral organizations and donors and ensure sufficient budget allocations on health and other priority spending.

**Washington, DC – June 10, 2020** The Executive Board of the International Monetary Fund (IMF) today approved a grant under the IMF's Catastrophe Containment and Relief Trust (CCRT) to cover Tanzania's debt service falling due to the IMF from today to October 13, 2020, the equivalent of US\$14.3 million. Additional relief covering the period from October 14, 2020 to April 13, 2022 will be granted subject to the availability of resources in the CCRT, potentially bringing total relief on debt service to the equivalent of about US\$25.7 million. The debt service relief will contribute to alleviate Tanzania's balance of payment needs stemming from the COVID-19 pandemic.

The pandemic has weakened near-term macroeconomic prospects for Tanzania. The country is facing a drastic reduction in tourism receipts, budget pressures, and a projected deceleration of GDP growth from over 6 percent to 4 percent in the current fiscal year and to 2.8 percent in the upcoming fiscal year (the fiscal year ends in June).

Following the Executive Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Chair, issued the following statement:

"The COVID-19 pandemic is having an adverse economic impact on Tanzania, creating exceptional fiscal and balance of payments needs. The authorities have implemented containment measures and avoided an economic lockdown. They remain vigilant to the risk of spiraling infections and uncertainty surrounding the pandemic.

"The IMF's debt service relief under the Catastrophe Containment and Relief Trust will free up public resources to help address the pandemic. The authorities are committed to using the additional resources for their intended purposes and in a transparent manner, including through ex-post audits of COVID-related spending. To deal with the remaining risks, it will be important to safeguard appropriate funding for health and other priority social spending in the FY2020/21 budget, as well as ensure close cooperation with the World Health Organization, multilateral agencies, and donors.

“Looking ahead, structural reforms remain crucial to support a robust economic recovery. The focus includes addressing arrears on VAT refunds and government expenditures, enhancing human capital and the business environment, and improving the affordability of bank credit.”

*More information:*

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)

<https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

IMF Executive Board calendar

<https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>



# UNITED REPUBLIC OF TANZANIA

## REQUEST FOR DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST

June 4, 2020

Approved By

**Analisa Fedelino (AFR)  
and Maria Gonzalez (SPR)**

An IMF team consisting of Messrs. Gelbard (head), Acevedo, Mses. Radzewicz-Bak, and Wiradinata (all AFR), and Mr. Reinke (resident representative) held discussions with the Tanzania authorities by videoconference on April 23, 24, May 4, 5, 13, and 14, 2020. Ms. Attey's help with the production of the report is gratefully acknowledged.

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*Tanzania faces exceptional balance of payments needs resulting from the impact of COVID-19 and has requested support under the Catastrophe Containment window of the CCRT. At present, there is no IMF-supported program.*

## STAFF APPRAISAL

**1. Health impact of COVID-19.** As of May 8, 509 cases and 21 deaths have been reported. Since then, the authorities have not reported new cases or deaths and there is no information regarding the number of tests conducted. As in other countries, the data may significantly underestimate the true figure owing to lack of data on testing and deaths at home. In March, the authorities banned large gatherings (except for worship), suspended attendance to schools and educational institutions, cancelled international flights, and mandated the wearing of face masks in Dar Es Salaam. Some of these restrictions began to be lifted in late May, as the authorities considered that the situation is under control. Thus far, there has been no evidence of a major worsening or a health crisis as the hospital system does not seem to have been overwhelmed although the risk of spiraling infections remains.

**2. Economic impact.** COVID-19 is having an adverse economic impact on Tanzania, mainly through external channels. These include the collapse of international travel (tourism accounts for 15 percent of GDP and 35 percent of export receipts), lower activity in the hospitality and food service sectors, and a slowdown in the economies of the Tanzania's main trading partners. While there is uncertainty about the extent of the impact (data as of March 2020 do not show a deterioration in economic conditions), these factors will become more prominent in coming months as the tourism high season was expected to begin in June. Moreover, should the number of COVID-19 cases and deaths intensify, the health system will be under severe pressure and more sectors of the economy will be affected. Real GDP growth is expected to fall to about 4 percent this fiscal year (ending in June) and further decelerate to less than 3 percent next year compared to the pre-crisis projection of nearly 6 percent. At present, the baseline macroeconomic projections assume that the health impact is contained and that the economic impact is mainly felt through the external sector with limited implications for the rest of the economy (Tanzania has not, contrary to other countries, imposed a lockdown on the economy). However, given the uncertainties about the effects of the pandemic, downside risks to growth are pronounced. In the baseline, foreign reserves will also be under pressure and are projected to decline by nearly 25 percent reducing the import coverage from 5.2 months at end-2019/20 to 3.7 months at end-2020/21 (if exceptional financing is not secured to help close the financing gap, the reserve coverage would fall to 3.2 months of imports). In FY2019/20, the fiscal revenue loss due to COVID-19 is estimated to be 0.1 percentage points of GDP relative to pre-COVID projections; this decline may not be pronounced thanks to higher gold receipts. The overall spending envelope is constrained in FY2019/20 by available financing and remains unchanged relative to pre-COVID projections, as the authorities indicated that they will use contingency reserves and reallocate funds from other spending categories to increase health spending by at least US\$8.4 million. This amount is consistent with the authorities' current assessment that the health impact of the crisis

will not be sizable and that effects will come through economic spillovers. Regarding FY2020/21, fiscal revenues are projected to fall by about 0.6 percentage points of GDP, while spending needs could rise (relative to pre-COVID projections) by about 0.4 percentage points owing to additional spending on health and other measures that may be required to protect small businesses and the poor.. This would lead to fiscal and balance of payments financing gaps in the order of US\$693 million (1 percent of GDP),<sup>1</sup> and the authorities have submitted a request for emergency financial support from the IMF under the RCF/RFI. Such support is expected to have a catalytic effect on other multilateral support and grants from donors. The Fund's emergency request and support by development partners are currently under discussion.<sup>2</sup>

3. **Macroeconomic policies.** The Bank of Tanzania reduced the discount rate from 7 percent to 5 percent, lowered minimum reserve requirements from 7 percent to 6 percent, increased the daily limits of mobile money transactions, and will provide regulatory flexibility to banks for loan restructuring operations. In FY2019/20, and compared to pre-COVID projections, revenues are somewhat lower and public spending higher. The authorities granted VAT and customs duties exemptions to medical equipment supplies, expedited the repayment of expenditure arrears, and allocated increased spending to health and social protection. For FY 2020/21, the authorities are currently planning for an 8.8 percent increase in priority social spending. While these amounts are insufficient, the authorities are expected to scale them up together with higher spending on social protection and possible support for small business as soon as additional external financing is secured.

4. **Staff appraisal.** Staff supports Tanzania's request for debt relief under the CCRT. Tanzania meets the income threshold with GNI per capita of US\$1,020, below the threshold of US\$1,175, and staff assesses that it faces exceptional BOP needs stemming from the impact of COVID-19. Considering current financing constraints and the authorities' plans to seek external support to deal with the consequences of COVID-19, staff considers that Tanzania is pursuing appropriate macroeconomic policies, although there are several risks. The authorities have committed to audits of external support for COVID-related spending and are also working to implement some governance measures, especially the AML/CFT framework and the repayment of expenditure arrears. In the coming year, beyond the measures directly aimed at mitigating the impact of COVID-19, the staff encourages the authorities to proceed with plans and staff recommendations related to arrears on VAT refunds and government expenditures, improvements in the business environment, and reforms to increase bank lending and lower interest rates.

5. **Health and economic risks are on the downside.** As in most countries, there are uncertainties about the extent of the outbreak and a possible second wave of infections that would not only require a stronger public health response but would also negatively impact

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<sup>1</sup> The financing gaps are included in the baseline projections in tables 1 and 2, but not in the authorities' budget plan for FY 2020/21 because the budget needs to be fully financed and remaining financing requirements are not secured.

<sup>2</sup> The specific amounts and exact list of agencies and donors are in the initial phase of discussions; they may comprise the Fund, the WB, the AfDB, the EU, as well as other donors.

economic activity. In addition, donor support might not materialize on time or as needed, which would require a much greater fiscal effort to open space for COVID-related spending. In this regard, the staff urges the authorities to ensure enough increases in budget allocations in the FY2020/21 budget to mitigate risks and maintain close cooperation with the World Health Organization, other multilateral agencies, and donors.

6. **Upcoming debt service.** Tanzania has debt service to the Fund of SDR 10.3 million falling due in the initial period of debt service relief up to October 13, 2020. The debt service falling due in the 24 months from April 14, 2020 amounts to SDR 18.6 million.

**Table 1. Tanzania: Selected Economic Indicators, 2016/17–2023/24<sup>1</sup>**

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent change, unless otherwise indicated)								
<b>Output, prices and exchange rates</b>								
Real GDP <sup>2</sup>	6.8	6.9	6.6	4.0	2.8	4.9	6.3	6.5
CPI (period average)	5.3	4.3	3.2	3.6	3.9	4.2	4.5	5.0
CPI (end of period)	5.4	3.4	3.7	3.6	4.1	4.4	4.7	4.7
Core inflation (end of period)	1.9	1.6	3.4	...	...	...	...	...
Terms of trade (deterioration, -)	0.0	-6.9	-3.4	11.6	9.1	-0.6	0.1	-0.3
Exchange rate (period average, TSh/USD)	2,199	2,251	2,294	...	...	...	...	...
Real effective exchange rate (end of period; depreciation = -)	1.9	-1.6	3.3	...	...	...	...	...
<b>Money and credit</b>								
Broad money (M3, end of period)	6.0	6.0	7.7	9.5	10.0	12.4	13.5	14.5
Average reserve money	1.1	4.0	3.2	7.0	7.5	10.2	11.6	12.4
Credit to the private sector (end of period)	1.3	4.0	7.6	7.5	7.8	10.4	12.2	13.9
Overall T-bill interest rate (percent; end of period)	7.6	5.6	8.7	...	...	...	...	...
Non-performing loans (percent of total loans, end of period)	10.6	10.3	10.7	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
<b>Central government operations</b>								
Revenues and grants	15.6	15.2	13.8	14.3	14.1	14.4	14.6	14.9
<i>Of which:</i> grants	1.0	0.8	0.3	0.4	0.4	0.3	0.2	0.2
Expenditures	16.6	16.5	16.3	16.5	17.7	17.5	17.4	17.5
Current	10.2	10.4	10.0	10.4	11.0	11.1	11.4	11.5
Development	6.4	6.1	6.2	6.1	6.7	6.4	6.0	5.9
Overall balance	-1.4	-1.9	-3.1	-2.3	-3.5	-3.1	-2.8	-2.5
Excluding grants	-2.0	-2.0	-2.8	-2.7	-3.9	-3.4	-3.0	-2.8
<b>Public debt</b>								
Gross nominal debt <sup>3</sup>	37.0	38.2	38.1	37.2	38.9	39.5	39.2	38.5
<i>of which:</i> external debt <sup>4</sup>	28.3	29.4	28.0	26.8	26.9	26.1	25.1	23.7
<b>Investment and savings</b>								
Investment	33.2	36.6	38.0	37.4	37.7	37.3	36.7	36.6
Government <sup>5</sup>	10.4	11.4	11.6	11.8	12.3	12.1	11.5	11.2
Nongovernment <sup>6</sup>	22.8	25.2	26.4	25.6	25.4	25.2	25.2	25.4
Domestic savings	30.4	33.8	34.5	34.5	31.9	33.7	35.2	35.6
<b>External sector</b>								
Exports (goods and services)	16.9	15.9	14.4	14.3	11.1	13.4	13.8	14.1
Imports (goods and services)	18.7	17.8	17.1	16.2	15.8	15.7	15.2	15.0
Current account balance	-2.7	-2.8	-3.5	-2.9	-5.8	-3.6	-2.7	-2.1
Excluding current transfers	-3.0	-3.0	-3.6	-3.2	-6.1	-3.8	-2.8	-2.2
Gross international reserves								
In billions of U.S. dollars	5.0	5.5	4.4	4.7	3.5	3.5	4.1	4.6
In months of next year's imports	6.1	6.4	5.0	5.1	3.7	3.5	3.8	4.0
<b>Memorandum items:</b>								
GDP at current prices								
Trillions of Tanzanian shillings	114	124	138	151	162	178	198	220
Millions of U.S. dollars	51,500	55,040	60,099	65,278	68,990	73,493	79,321	85,908
GDP per capita (in U.S. dollars)	985	1,021	1,082	1,142	1,172	1,212	1,270	1,336
Population (million)	52.3	53.9	55.5	57.2	58.9	60.6	62.4	64.3

Sources: Tanzanian authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year (July-June).<sup>2</sup> Historical figures are based on official data up to the third quarter of 2019.<sup>3</sup> Excludes liquidity management papers and domestic arrears.<sup>4</sup> Excludes external debt under negotiation for relief.<sup>5</sup> Includes investments made by parastatals and other public sector institutions.<sup>6</sup> Historical figures are based on official data up to 2018.



Table 2. Tanzania: Balance of Payments, 2016/17–2023/24

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
(Millions of U.S. dollars, unless otherwise indicated)								
Current account	-1,398	-1,528	-2,077	-1,925	-4,021	-2,652	-2,135	-1,796
Trade balance	-2,775	-2,898	-4,054	-3,160	-3,602	-3,500	-3,339	-3,408
Exports, f.o.b.	4,932	4,867	4,537	5,653	5,508	6,189	6,764	7,418
Traditional agricultural products	866	1,056	518	1,026	923	1,026	1,164	1,260
Gold	1,532	1,545	1,745	2,220	2,450	2,633	2,793	2,967
Other	2,534	2,266	2,274	2,407	2,134	2,530	2,807	3,191
Imports, f.o.b.	-7,707	-7,765	-8,591	-8,813	-9,110	-9,689	-10,103	-10,826
Of which: Oil	-1,943	-1,801	-1,746	-1,484	-1,177	-1,319	-1,497	-1,636
Services (net)	1,829	1,889	2,421	1,959	367	1,813	2,248	2,581
Of which: Travel receipts	2,231	2,317	2,488	1,996	605	1,848	2,057	2,274
Income (net)	-907	-953	-820	-1,071	-1,136	-1,389	-1,523	-1,622
Of which: Interest on public debt	-232	-300	-285	-389	-380	-582	-650	-671
Current transfers (net)	455	434	376	347	350	424	479	653
Of which: Official transfers	152	140	58	133	158	144	97	97
Capital account	423	397	223	293	322	320	223	235
Of which: Project grants <sup>1</sup>	334	302	159	196	135	139	146	153
Financial account	2,209	1,978	1,440	1,914	1,901	2,322	2,519	2,183
Foreign Direct Investment	901	996	992	804	827	1,139	1,388	1,632
Public Sector, net	671	622	558	729	833	623	693	492
Program loans	116	33	75	85	47	180	180	180
Non-concessional borrowing	476	655	503	1,004	1,290	1,239	1,004	586
Project loans	588	651	633	497	525	486	445	513
Scheduled amortization <sup>2</sup>	-483	-685	-652	-856	-1,030	-1,282	-937	-787
Commercial Banks, net	291	-77	-63	-151	-167	-131	-131	-131
Other private inflows	346	438	-47	531	408	691	570	190
Errors and omissions <sup>3</sup>	-31	-220	-584	0	0	0	0	0
Overall balance	1,203	628	-997	281	-1,798	-9	607	621
Financing	-1,203	-628	997	-284	1,105	9	-607	-621
Change in BoT reserve assets (increase= -)	-1,128	-545	1,082	-252	1,130	11	-605	-529
Use of Fund credit	-75	-83	-85	-32	-24	-2	-2	-92
Financing gap	0	0	0	3	693	0	0	0
Exceptional financing	0	0	0	3	23	0	0	0
CCRT debt relief <sup>4</sup>	0	0	0	3	23	0	0	0
Residual financing gap	0	0	0	0	670	0	0	0
Memorandum items:								
Gross official reserves (BoT)	5,000	5,484	4,402	4,654	3,524	3,513	4,118	4,647
Months of imports of goods and services	6.1	6.4	5.0	5.1	3.7	3.5	3.8	4.0
Exports of goods and services (percent of GDP)	16.9	15.9	14.4	14.3	11.1	13.4	13.8	14.1
Exports of goods (percent of GDP)	9.6	8.8	7.5	8.7	8.0	8.4	8.5	8.6
Exports excl. gold (percent of GDP)	6.6	6.0	4.6	5.3	4.4	4.8	5.0	5.2
Imports of goods and services (percent of GDP)	-18.7	-17.8	-17.1	-16.2	-15.8	-15.7	-15.2	-15.0
Imports of goods (percent of GDP)	-15.0	-14.1	-14.3	-13.5	-13.2	-13.2	-12.7	-12.6
Imports excl. oil (percent of GDP)	-11.2	-10.8	-11.4	-11.2	-11.5	-11.4	-10.8	-10.7
Current account deficit (percent of GDP)	-2.7	-2.8	-3.5	-2.9	-5.8	-3.6	-2.7	-2.1
Foreign direct investment (Percent of GDP)	1.7	1.8	1.7	1.2	1.2	1.6	1.8	1.9
Foreign program and project assistance (percent of GDP)	2.3	2.0	1.5	1.4	1.3	1.3	1.1	1.1
Nominal GDP	51,500	55,040	60,099	65,278	68,990	73,493	79,321	85,908

Sources: Tanzanian authorities and IMF staff estimates and projections.

<sup>1</sup> The Bank of Tanzania adjusts the estimated outturn to reflect information on project grants provided by ministries.

<sup>2</sup> Relief on some external debt obligations is being negotiated with a number of creditors.

<sup>3</sup> Includes valuation changes in gross reserves resulting from changes in exchange rates among major currencies.

<sup>4</sup> Corresponding to scheduled debt service to the IMF from May 29, 2020 to October 13, 2020. The grant for the debt service falling due in the 18 months from October 14, 2020 is subject to the availability of resources under the CCRT.

**Table 3. Tanzania: Debt Service to the IMF, 2020–22**

As of May 15, 2020 (In SDR)

<b>Concept</b>	<b>Original Disbursement Date</b>	<b>Due Date</b>	<b>Total Amount</b>	<b>Eligible for CCR Debt Relief</b>	<b>Debt Relief as % of Quota</b>	<b>Debt Relief as Cum. % of Quota</b>
PRGT Repayment (ESF-HAC)	14-Jun-10	12-Jun-20	1,989,000	1,989,000	0.500	0.500
PRGT Repayment (SCF)	19-Feb-13	19-Aug-20	8,288,889	8,288,889	2.084	2.584
PRGT Repayment (SCF)	19-Feb-13	19-Feb-21	8,288,888	8,288,888	2.084	4.667
<b>Total</b>			<b>18,566,777</b>	<b>18,566,777</b>	<b>4.667</b>	<b>4.667</b>

## Appendix I. Letter of Intent

THE UNITED REPUBLIC OF TANZANIA  
**MINISTRY OF FINANCE AND PLANNING**

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In reply please quote:

**Ref. No: CMB.445/624/01**



Treasury Square Bid.  
18 Jakaya Kikwete Road

P.O. Box 2802

**40468 DODOMA**

TANZANIA.

**27<sup>th</sup> May, 2020**

Ms. Kristalina Georgieva,  
Managing Director, International Monetary Fund  
700 19<sup>th</sup> St.  
NW, Washington DC 20431, USA

Dear Ms. Georgieva,

### **RE: LETTER OF INTENT- CCRT REQUEST**

The Covid-19 pandemic is having a negative impact on our economy. We are experiencing a deceleration in economic activity and exceptional balance of payments needs arising from the pandemic. The emerging balance of payments needs, that will be mostly felt in the fiscal year starting in July, is projected to be on the order of US\$696 Million (1 percent of GDP and 12.6 percent of our end-March official external reserves).

To date we have (509) confirmed cases and (21) deaths and as in other countries, our ability to track the outbreak has been affected by insufficient capacity to test and deaths at homes, sometimes away from medical facilities. Our response to the crisis is as follows:

- (i) Constrained fiscal revenues and higher spending needs have led to significant budget pressures. On health spending, we already spent an additional shilling 19.5 billion in FY 2019 / 20 to mitigate the impact of COVID-19;
- (ii) In the FY20/ 21 budget, we are seeking to create budgetary space for these and other outlays to support economic activity and protect the poor by suspending our curtailing non-essential outlays. To that extent we have increased budgetary allocation for priority social sectors by 8.8 percent from the likely outturn of shillings 5,534.1 billion in 2019/2020 to shillings 6,022.1 billion 2020/ 21.

The increase will serve to purchase medical equipment and supplies, improve medical facilities, and hire additional medical personnel;

- (iii) The Government will ensure that COVID-19 intervention are fully financed. And we are requesting financial support from the IMF and donors to meet the emerging financing gap and remain committed to ensure fiscal and debt sustainability;
- (iv) To ensure the appropriate use of funds spent on fighting COVID-19, the office of the Auditor General in consultation with the relevant partners providing funding will undertake and publish an ex-post audit of COVID-19 related spending; and
- (v) Lastly, in order to provide liquidity and support economic activity we reduced the discount rate and reserve requirements and will support banks' loan restructuring operations if justified on a case-by case basis. We are monitoring closely our balance of payments position and will ensure enough flexibility in the exchange rate to help absorb the shock and contain the financing gap.

Against this backdrop we hereby request grant assistance under the Catastrophe Containment window of the Catastrophe Containment and Relief Trust (CCRT) to cover our debt service to the IMF falling due in the 24-month period from April 14, 2020 to April 13, 2022 or as much as available from resources. This debt relief will free up some budgetary resources to address public health needs and help contain the balance of payments needs resulting from the pandemic.

We are working closely with IMF staff to maintain macroeconomic stability and we are in discussions to obtain additional financial support by accessing emergency financing facilities. We are confident that strong IMF support to our country will help catalyze wider support from other development partners. Lastly, we authorize the IMF to publish this letter and Board documents related to this request for debt relief from the CCRT.

As we thank you for your continued support and cooperation, please accept the assurances of our highest consideration.

/s/

Dr. Philip I. Mpango (MP)  
**MINISTEROFFINANCEANDPLANNING**

/s/

Prof. Florens Luoga  
**GOVERNOR, BANK OF TANZANIA**

**Statement by Mr. Mahlinza, Executive Director for the United Republic of Tanzania,  
Mr. Odone, Alternate Executive Director, and Mr. Jappah, Senior Advisor to  
June 10, 2020**

**I. Introduction**

1. Our Tanzanian authorities appreciate the Fund's support for their request for debt relief under the Catastrophic Containment Relief Trust (CCRT). They consider the relief as critical to freeing up public resources to address public health needs and help contain the balance of payments needs resulting from the COVID-19 pandemic.
2. Tanzania has had relatively high economic growth over the last decade, averaging 6-7 percent a year. However, the outbreak of the COVID-19 pandemic threatens to reverse the performance, with a significant growth impact in FY20/21. The contraction in tourism and exports occasioned by the suspension of international travel, lower activity in hospitality services, and economic slowdown in major trading partners, have created exceptional fiscal and balance of payments needs. Against this background, the authorities request debt service relief under the CCRT in the amount of SDR 18.6 million to cover repayments to the Fund, falling due in 24 months from April 14, 2020. In parallel, the authorities are engaging the Fund to secure additional support by accessing emergency financing facilities. To ensure transparency and accountability in the use of COVID-related expenditure, the authorities have committed to undertake a post-audit of COVID-19 spending and to publish the letter of request for debt-relief under the CCRT.

**II. Impact of the Pandemic**

3. While the health system continues to cope with a relatively mild human impact of COVID-19, a prolonged crisis may place a strain on capacity. Nonetheless, budgetary pressures from constrained fiscal revenues and increased spending to mitigate the impact of COVID-19 have increased. Tourism, which constitutes 35 percent of export receipts, has been severely hit by the temporary containment

measures. Consequently, GDP growth is expected to register significant deceleration in FY19/20 and thereafter. Looking ahead, the growth effects of the pandemic are expected to be more pronounced during the peak of the tourism season starting in June. Fiscal revenues are also expected to decline by 0.6 percent of GDP in FY20/21, while spending is expected to increase owing to additional health needs and support to vulnerable households and firms.

4. On the external sector front, the decline in international commodity prices, coupled with the collapse in tourism and export receipts is expected to create balance of payments needs for FY 20/21. The deterioration in external sector performance will result in a fall in foreign exchange reserves from 5.2 months of import cover in FY19/20 to 3.7 months in FY20/21. The combined balance of payments and fiscal financing needs are projected to be US\$693 million (1 percent of GDP) for FY20/21.

### **III. Policy Response**

5. Following the first confirmed case in March 2020, the authorities took immediate steps to contain the pandemic and mitigate its impact on the economy and the vulnerable population. Key measures include restriction on large gathering, temporary closure of academic institutions and non-essential businesses, and the suspension of international air travel.
6. Our authorities attach importance to reducing the effects of the COVID-19 disease on public health. In this regard, they have reallocated funds under the FY19/20 budget to increase spending on health and social protection needs, equivalent to \$8.4 million. They have waived VAT and customs duties on medical equipment supplies; and prioritized the settlement of arrears to the business sector. They have earmarked a higher budgetary allocation (approximately 8.8 percent) for priority social spending, including on health and social protection in FY20/21. The government remains committed to undertake additional measures, should the pandemic continue for an extended period.
7. The Bank of Tanzania (BoT) has implemented several measures to ease liquidity conditions in the monetary sector, including a reduction in the discount rate. They have also reduced reserve requirements to enhance credit to the private sector. The BoT stands ready to help banks deploy regulatory flexibility for loan restructuring, where it is warranted. At the same time, they will continue to pursue strong oversight of these measures to ensure financial sector stability.
8. In addition to the immediate measures aimed at mitigating the impact of COVID-19, the authorities intend to strengthen budget planning and expenditure control as well as tax administration, while improving public investment management. Plans are also advancing to address arrears as well as the delays in VAT refunds, alongside improvements in the business environment. The authorities are also

implementing various governance measures, including in the context of the AML/CFT framework.

#### **IV. Conclusion**

9. Our Tanzanian authorities look forward to Executive Directors' favorable consideration of their request for debt relief under the CCRT. They remain confident that Fund support will create the much-needed fiscal space to help alleviate strains on the fiscal position. Finally, they value Fund's support and look forward to further engagement to help address their medium-term macroeconomic objectives.