June 2009
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United Republic of Tanzania: 2009 Article IV Consultation, Fifth Review Under the Policy Support Instrument, Request for a Twelve-Month Arrangement Under the Exogenous Shocks Facility, and Request for an Extension of the Policy Support Instrument—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for United Republic of Tanzania

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2009 Article IV consultation with the United Republic of Tanzania, the fifth review under the Policy Support Instrument, a request for a twelve-month arrangement under the Exogenous Shocks Facility, and a request for an extension of the Policy Support Instrument, the following documents have been released and are included in this package:

- The staff report for the combined 2009 Article IV Consultation, Fifth Review Under the Policy Support Instrument, Request for a Twelve-Month Arrangement Under the Exogenous Shocks Facility and Request for an Extension of the Policy Support Instrument prepared by a staff team of the IMF, following discussions that ended on March 31, 2009, with the officials of the United Republic of Tanzania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 15, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its May 29, 2009, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangements, respectively.

- A statement by the Executive Director for the United Republic of Tanzania.

The documents listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of the United Republic of Tanzanai*
Memorandum of Economic and Financial Policies by the authorities of the United Republic of Tanzanai *
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

Staff Report for the 2009 Article IV Consultation, Fifth Review Under the Policy Support Instrument, Request for a Twelve-Month Arrangement Under the Exogenous Shocks Facility, and Request for an Extension of the Policy Support Instrument

Prepared by the African Department
(In consultation with other departments)

Approved by Saul Lizondo and Dominique Desruelle

May 15, 2009

Discussions on the 2009 Article IV consultation, the fifth review under the Policy Support Instrument, and the request for an arrangement under the ESF were held in Dar es Salaam during March 17–31, 2009 and concluded in Washington during April 22–24, 2009. The staff team consisted of Roger Nord (head), David Dunn, Stéphane Roudet (all AFR), Daehaeng Kim (FAD), Bozena Radzewizc-Bak (MCM), and Mika Saito (SPR). The team met with the Minister for Finance and Economic Affairs (MOFEA), Mr. Mkulo, the Governor of the Bank of Tanzania, Prof. Ndulu, the Permanent Secretary of MOFEA, Mr. Khijjah, other senior officials, members of Parliament, and representatives of the private sector, civil society, and development partners. Mr. Robinson, the Fund's senior resident representative in Dar es Salaam, and Mr. Ndyeshobola, senior advisor to the Executive Director, participated in the discussions. The staff in the resident representative's office provided valuable support to the mission.

Tanzania joined the Fund on June 10, 1962, and accepted the obligations of Article VIII, Sections 2, 3 and 4 on July 15, 1996. Tanzania maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Tanzania maintains a floating exchange rate regime.

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Executive Summary

- The global economic and financial crisis is having a significant impact on the Tanzanian economy. Falling traditional crop exports and tourist arrivals and a contraction of foreign direct investment are projected to lead to a slowdown in real GDP growth to 4–5 percent in 2009, from 7½ percent in 2008. A gradual recovery is expected over the medium term, but there are downside risks. Inflation, which has risen over the past year in the wake of the food and fuel price shock, is expected to recede in the coming months.

- Staff recommends completion of the fifth review of the PSI. All but one quantitative assessment criteria were observed and there was good progress on the structural agenda. Staff recommends a waiver for the nonobservance of the December 2008 ceiling on government's net domestic financing, which was narrowly missed.
- In the short term, Tanzania's low level of public debt provides valuable fiscal space to allow some widening of the budget deficit to counter the impact of the global crisis on the Tanzanian economy. Falling inflationary expectations also provide some room for monetary easing.

- Over the medium term, it will be important that the available fiscal space is used judiciously, notably to improve much-needed public infrastructure. A sound debt management strategy and strong expenditure management are essential to ensure value for money. Staff proposed developing a medium-term fiscal policy framework that allows greater flexibility while ensuring macroeconomic stability.

- The banking system remains sound but is vulnerable to credit risk resulting from the economic slowdown. The authorities have taken steps to maintain financial sector stability, including comprehensive and regular analysis of risks to the sector. However, the absence of firm supervision over pension fund activities remains a serious shortcoming, and the rapid establishment of the new regulator is a top priority.

- Tanzania's balance of payments is under pressure and reserves are declining. Nevertheless, the risk of external debt distress remains low and the exchange rate is broadly in line with economic fundamentals. Improved infrastructure and further progress with the structural agenda, together with its flexible exchange rate policy, will help maintain international competitiveness.

- Staff endorses the request by the Tanzanian authorities for support under the Exogenous Shock Facility with access up to 110 percent of quota (218 million SDR). Tanzania's strong performance over the past several years, including under the current three-year PSI (approved in February 2007), has positioned the country to meet the challenges posed by the global crisis.

I. BACKGROUND—A DECADE OF ROBUST ECONOMIC GROWTH[1]

1. **Tanzania sustained high rates of broad-based economic growth with generally low inflation over the past decade.** Real GDP growth averaged about 7 percent a year during 2000–08, with substantial contributions from the mining, manufacturing, construction, and services sectors (Figures 1–6). However, growth in agriculture—which still accounts for the largest share of GDP and provides a livelihood for the majority of the population, including the country's poorest households—has lagged (at about 4 percent a year). Inflation was kept solidly in check for much of this period, but accelerated in 2008 (13.5 percent at end year), driven mainly by lagged effects of the spike in international food and fuel prices,[2] and more recently, by adverse regional food supply shocks. In contrast, nonfood inflation remained modest (5.8 percent).

2. **Sound macroeconomic policies and far-reaching structural reforms, together with a favorable global environment and debt relief, provided the foundation for this successful outcome.** A major expansion in government spending in line with poverty reducing priorities was financed in equal parts by rising government revenues and substantial donor assistance. By limiting government's domestic borrowing requirement, fiscal policy helped to contain inflationary pressures over the years and avoided crowding out credit to the private sector by the financial sector, which in turn expanded strongly. Monetary policy accommodated the significant deepening of financial intermediation during this period. In addition, extensive debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative, coupled with falling domestic debt, greatly reduced Tanzania's public debt burden. Critical areas of structural reforms included privatization—which was instrumental in reducing financial imbalances of the broader public sector—and liberalization of trade and the financial and foreign exchange markets. Noteworthy improvements in public financial management were also achieved, including Tanzania's becoming the first country in the region to employ a computer-based integrated financial management system (IFMS), but progress on the comprehensive public financial management reform program (PFMRP) has since slowed.

3. **External vulnerabilities were greatly reduced.** Official international reserves increased to well over US$2½ billion in recent years (about 4 months of imported goods and services), but are projected to decline moderately in 2009 and 2010. Merchandise exports grew at a rapid pace, including in new industries such as gold mining and manufacturing, while tourism and freight services (for the transshipment of goods to and from the port in Dar es Salaam to Tanzania's land-locked neighbors) also became important foreign exchange

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[1] See *Tanzania: The Story of an African Transition* (IMF, 2009).

[2] See "Impact of Rising International Food and Fuel Prices on Inflation in EAC Countries", in Rwanda and Uganda—Selected Issues (Country Report No. 09/36).

earners. Import growth was also high, leading to a widening of the current account deficit, which was financed not only by large amounts of donor assistance, but increasingly from foreign direct investment (FDI) and, most recently, large syndicated foreign loans to major Tanzanian corporations put together by local branches of international banks.[3]

4. **Despite the strong macroeconomic performance, progress on poverty reduction has been mixed.** Preliminary data from the 2007 Household Budget Survey (HBS) show substantial improvements in education and health outcomes, a significant increase in household assets, and improved residences.[4] Nonetheless, they also indicate that the incidence of poverty has declined only modestly since 2000-01 (from 35.6 percent of the population to 33.4 percent), implying an increase in the absolute number of Tanzanians living in poverty (Table 1).

II. Performance under the PSI Program

5. **Performance under the PSI has been broadly satisfactory.** Four reviews have been completed since the PSI was approved in February 2007. The program remains on track. All but one of the quantitative assessment criteria were met for end-December 2008 (test date for the fifth review). In particular, the floor for net international reserves was met by a wide margin and the reserve money program was brought back on track. The ceiling on government's net domestic financing (NDF) was missed by a small margin, mainly reflecting the revenue shortfall arising from the slowing economy (see Table 1 of the authorities' Memorandum of Economic and Financial Policies (MEFP) Appendix I, Attachment I). Good progress was also achieved on the structural agenda (Text Table 1).

[3] The pipeline of these syndications exceeded US$500 million as of mid-2008.

[4] The HBS report can be found at http://www.nbs.go.tz/.

Text Table 1. Tanzania: Status of PSI Structural Agenda for 2008/09

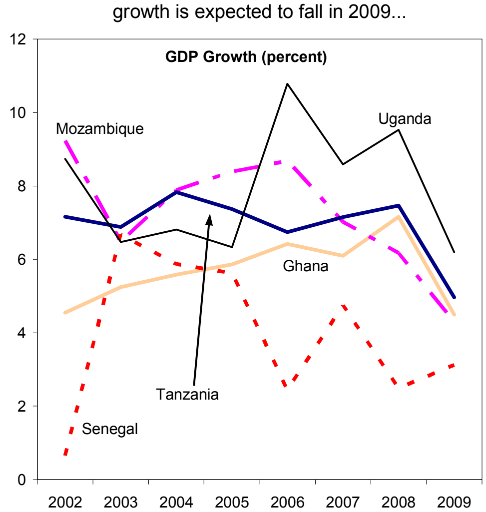
Measure	Target Date of Implementation	Status
Financial Sector		
Adopt a strategy for refocusing the Bank of Tanzania on its core activities.[1]	End-May 2009	Strategy is part of the new BoT corporate plan. To be discussed by BoT Board shortly.
Issue investment guidelines for pension funds prepared by the Bank of Tanzania.	End-March 2009	Recruitment of Director of the new regulator is underway. Guidelines to be issued shortly afterwards.
Prepare an action plan for the liberalization and improved monitoring of capital account transactions.	End-March 2009	Met.
Prepare quarterly financial stability reports for the BOT Board, including assessments of risk-based prudential supervision.	End-December 2008	Met.
Establish an operational credit reference databank.	End-June 2009	Delayed. Recruitment of long-term advisor underway.
Fiscal		
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous	Met.
Introduce a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* in the budget for 2009/10.	End-June 2009	Delayed to next budget cycle.
Complete the integration of the Customs and Excise Department and TISCAN's import clearance processes.	End-December 2008	Implemented in March 2009.

[1] Assessment criterion. Request pending for conversion to a benchmark.

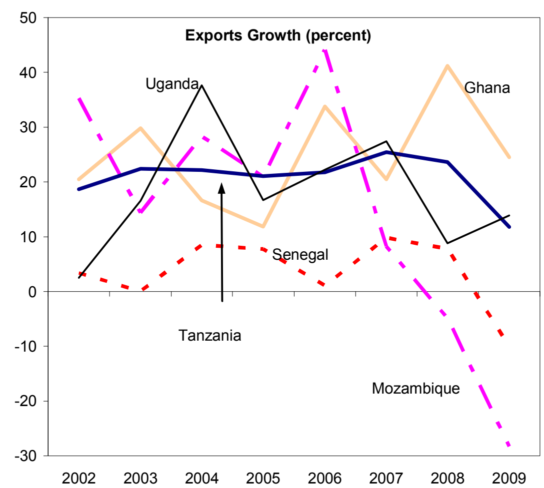
III. The Current Context—The Impact of the Global Economic and Financial Crisis

6. **The global financial crisis (GFC) and recession have begun to have a significant impact on Tanzania.** Weakened demand for exports of goods and services—notably traditional cash crops, tourism, and transportation—and a contraction of foreign investment and syndicated loans are hitting key sectors of the economy (see charts below). Real GDP growth in 2009 is projected to drop sharply to 4–5 percent, and downside risks remain (Tables 2–8). Moreover, Tanzania's recovery from this economic slowdown is likely to be gradual, as demand for its exports and foreign investment are expected to lag behind a global recovery. The sharp drop in international commodity prices is expected to contribute to lower inflation in the near future, particularly as food shortages in the region are resolved. Indeed, headline inflation has begun to subside (13.0 percent in March 2009), while nonfood inflation continues on a downward path (4.3 percent in March).

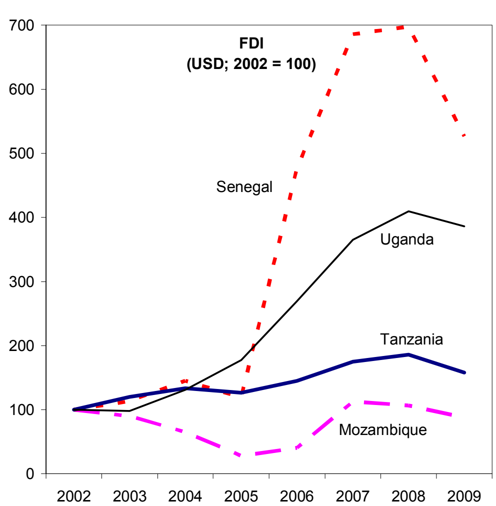
As for other countries in the region, Tanzania's growth is expected to fall in 2009...



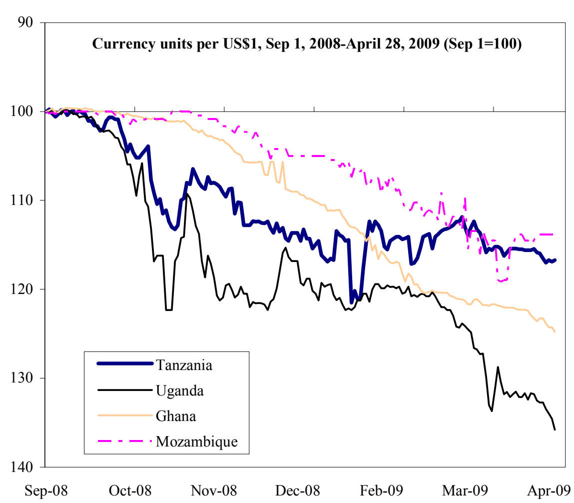
…driven by a drop in export growth...



…and lower FDI...



As other sub-Saharan currencies, the Tanzanian Shilling has weakened against the U.S. dollar.



7. **The economic slowdown has led to slippages in government revenues.** After five years of robust growth, revenues have stagnated (relative to GDP) and are falling well short of the budget target. For 2008/09 (July–June), the shortfall is expected to reach TSh 480 billion (nearly 2 percent of GDP). Program assistance from development partners in 2008/09 is now expected to exceed budget projections (by 0.4 percent of GDP), which would partially offset the revenue shortfall. For 2009/10, revenue growth is projected to remain soft.

8. **The Tanzanian financial system was not directly affected by the GFC, but second round effects are likely to increase pressures on banks and other financial institutions.** Currently, banks are well-capitalized and are not exposed to toxic assets in the global financial centers (Table 9). Non-performing loans have remained at a low level. However, as the economy slows down and international commodity prices and demand for traditional exports fall, non-performing loans are likely to increase (Box 1). Banks are particularly exposed to personal loans and crop financing, both of which are likely to suffer during a downturn. Credit risk is compounded by a large credit concentration. Other financial institutions, such as the rapidly-growing and inadequately supervised pension funds, could also be affected by a deterioration in the quality of their assets. In addition, as large foreign banks experience financial difficulties, there is a risk that they try to repatriate funds from their Tanzanian subsidiaries or curtail their local operations by selling their assets.

Tanzania. Selected Financial Sector Indicators

	2006	2007	2008
Capital adequacy			
Capital / risk-weighted assets	16.3	16.2	14.9
Asset quality			
Non-performing loans (net of provisions) to gross loans	6.8	6.3	6.2
Sectoral distribution of loans			
Agriculture	…	11.9	10.4
Mining and manufacturing	…	20.3	14.7
Trade	…	17.0	18.5
Tourism, Hotels, and Restaurants	…	4.3	4.9
Personal[1]	…	16.2	19.9
Earnings and profitability			
Return on assets	3.9	4.7	3.8
Return on equity	26.7	29.0	23.1
Liquidity			
Liquid assets / total assets	48.6	48.0	37.6
Liquid assets to short term liabilities	54.2	53.0	41.7

Source: Bank of Tanzania

[1] End-September for 2008.

9. **The balance of payments is under pressure and international reserves have declined.** The positive effects from the collapse in international oil prices and strong gold prices have been more than offset by lower receipts from falling exports of other goods and services and reduced capital inflows. There was some depreciation pressure on the exchange rate against the U.S. dollar in late 2008 and early 2009, but in nominal effective terms, the shilling remained fairly stable, partly reflecting actions by the Bank of Tanzania (BoT) to smooth adjustments in the foreign exchange market with stepped up volumes of its regular sales of foreign exchange for sterilization purposes. Compared with other currencies in the region, the Tanzanian shilling remained relatively strong, and has appreciated in real effective terms during this period.

Box 1. Tanzania: Impact of the Global Financial Crisis on the Financial Sector

As the crisis persists there are clear risks of enhanced pressures on the financial system. These include:

- **The likely increase of credit risk for banks.** As Tanzania is hit by the global recession, the economy slows down, and commodity prices and demand for traditional and mining exports collapse, NPLs are likely to increase. Some cotton, coffee, and gem stones exporters are already experiencing debt servicing difficulties. Banks also appear to be exposed to personal loans, which have grown at a fast pace in recent years and now account for about one fifth of total credit allocation. Stress tests conducted by staff show that, in spite of being well capitalized, banks would be affected by a rapid deterioration in their loan portfolios. In addition, credit risk is compounded by a large credit concentration.
- **Difficulties experienced by foreign parent banks.** As foreign banks—which account for about 51 percent of the banking system's assets—experience financial difficulties, there is a risk that they will repatriate funds from their Tanzanian subsidiaries or curtail local operations by selling their assets. Local depositors could also lose confidence in a foreign bank creating a potentially rapid withdrawal of deposits.
- **Exacerbation of financial weaknesses of nonbank institutions.** The pension sector accounts for over one fifth of financial sector assets, but is not effectively supervised. Available actuarial studies point to financial weaknesses in some funds. A number of insurance companies are also experiencing difficulties and require rapid recapitalization. Although these structural underlying weaknesses were not caused by the financial crisis, the latter could exacerbate them.

The authorities are well aware of these risks and have already taken steps to mitigate them, but staff stressed a number of areas where further progress could be made. The BoT has strengthened its monitoring of the financial sector. It now holds daily meetings to discuss developments in the banking system and has launched a survey to capture banks' potential exposure to vulnerable sectors. Staff proposed the following additional measures to help limit the impact of the crisis:

- **Pursuing efforts to strengthen monitoring of banks' soundness.** Data collection on NPLs could be more frequent and data quality enhanced. Commercial banks could be encouraged to improve their oversight of credit risk and to adopt a more conservative approach for collateral valuations.
- **Enhancing contingency plans.** The bank resolution framework could to be reviewed to ensure it is fully operational in times of stress. Arrangements to provide emergency liquidity could also be made more efficient, potentially by broadening the scope of paper accepted as collateral and reducing costs related to it.
- **Improving financial sector supervision.** Take a comprehensive approach to financial sector stability assessment to include all types of institutions.
- **Enhancing supervision of pension funds**. Put in place the regulator, issue investment guidelines and undertake comprehensive audits as required under the legal framework that became effective in November.
- **Intensifying cross-border coordination between host country and home country supervisors** to avoid transmitting stress from one institution to another.

IV. Policy Framework—Near-Term Stimulus and Medium-Term Support for Economic Growth

10. **The near- and medium-term macroeconomic policy stance aims to minimize the immediate downside risks to the Tanzanian economy, while enabling a gradual non-inflationary recovery to strong economic growth.** Policies aim at returning real GDP growth to 7½ percent a year in 2012 and beyond, while reducing inflation to the authorities' medium-term objective of 5 percent by the end of 2010. A scaling up of infrastructure investment over the medium term and structural reforms to improve the business environment are critical elements of the policy framework. With a view toward achieving a greater reduction in poverty, government programs will particularly target raising agricultural productivity. After narrowing in 2008/09, the external current account deficit (excluding grants) is projected to widen temporarily in 2009/10 (to about 13 percent of GDP), before returning to a gradual downward path over the medium term. With the aid of resources from the Fund, gross international reserves are expected to withstand the current external shock and maintain a comfortable level of import coverage (nearly 4 months of imported good and services).

A. Counter-Cyclical Fiscal and Monetary Policy

11. **The Tanzanian authorities have taken immediate actions to minimize the adverse effects of the current economic slowdown, beginning with a moderate fiscal stimulus.** For 2008/09, the government will aim to execute spending largely as budgeted, despite the projected revenue shortfall. As a result, government's NDF is expected to reach 1.2 percent of GDP in the current year, compared with the original budget target of zero NDF. A further fiscal easing is anticipated in the budget for 2009/10, scheduled to be submitted to parliament in mid-June. The government is expected to initiate in the coming year a medium-term plan for scaling up infrastructure investment. Given the present difficulty of accessing external financing, however, the government will once again need to resort to NDF (1.6 percent of GDP). Over the two fiscal years, the total fiscal stimulus is projected to reach about 4 percent of GDP—about 2 percentage points of GDP more than was previously planned.[5] Staff agreed with this fiscal stance, noting that the magnitude of the stimulus struck an appropriate balance between elevating public sector demand without creating excessive crowding out effects.

12. **In parallel, monetary policy will be eased modestly.** Relief from regional food supply shocks—notably improved local rains—and subdued global price pressures point to a benign outlook for near-term inflation. In this context, the BoT sees scope for increasing the

[5] Measured by the increase in the overall fiscal deficit before grants between 2007/08 and 2009/10.

growth target for broad money by a couple of percentage points (to 22 percent in 2008/09 and 20 percent in 2009/10). Although higher levels of NDF are anticipated, credit to the private sector is still projected to expand by at a rapid pace in 2008/09 and 2009/10. To achieve these objectives, the BoT will continue to rely on regular sales of foreign exchange, rather than net increases in liquidity paper, to sterilize domestic liquidity.[6] The mission agreed with the authorities that the benign outlook for inflation provided room for easing, but urged vigilance since inflationary expectations could quickly return. The BoT assured staff that they stand ready to assume a tighter monetary stance to extinguish inflationary pressures, if necessary.

B. Effective Use of Fiscal Space to Raise Growth and Reduce Poverty

13. **Tanzania's track record of sound macroeconomic policies has created the fiscal space to allow not only a more expansionary near-term response to the economic slowdown, but also a greater role for government spending in raising productivity over the medium and longer term.**[7] The authorities expressed the need for a significant boost in infrastructure spending—such as, to build up the transportation network and expand the power grid—as well as programs focused on directly raising the incomes of the poor—such as, fertilizer subsidies for small farmers. In this context, discussions focused on three main elements of fiscal policy: (i) developing a rules-based medium-term fiscal policy framework (MTFPF) that provides greater flexibility, while ensuring macroeconomic stability; (ii) strengthening public financial management; and (iii) managing risks and financing options.

14. **Tanzania's low level of public debt suggests that the government could embark a major expansion of infrastructure investment without jeopardizing sustainability.** It was agreed that although the yearly zero-NDF ceiling of the past served Tanzania well in maintaining macroeconomic stability and fostering private sector financial intermediation, it constrained countercyclical policies and limited the financing of investment. Staff discussed options for a rules-based MTFPF, which could: (i) extend the commitment to stability over a longer time horizon; (ii) help define the fiscal space available for more infrastructure spending consistent with fiscal sustainability; (iii) provide more flexibility for countercyclical policy; and (iv) facilitate regional convergence and economic integration (Box 2). The authorities agreed that going forward, such a framework would be appropriate for Tanzania and could be further developed in the context of the ongoing preparations of the update of Tanzania's poverty reduction strategy (MKUKUTA) scheduled to be finalized by February 2010.

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[6] Government securities for liquidity management purposes.

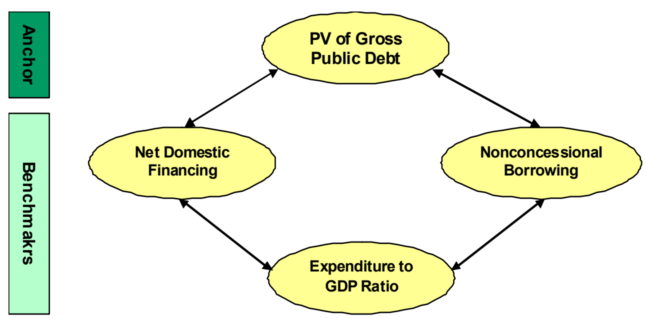
[7] See Teresa Ter-Minassian, Richard Hughes, and Alejandro Hajdenberg, *Creating Sustainable Fiscal Space for Infrastructure: The Case of Tanzania*, IMF Working Paper (WP/08/256), November 2008.

Box 2: A Medium-Term Fiscal Policy Framework for Tanzania

A fiscal policy rule is generally defined as a mechanism placing durable constraints on fiscal discretion through numerical limits on budgetary aggregates. In practice, fiscal policy is typically anchored around (i) budget balances or their cyclical variants; (ii) total or specific categories of spending; (iii) revenue or tax rate; and (iv) and public debt. A monitoring and enforcement procedure, including an explicit cost of deviation from the targets, is also an essential part of a fiscal rule.

The design of a policy rule faces important trade-offs between targets, and it varies widely across countries, reflecting country-specific circumstances and the priority of policy objectives. For instance, while a public debt ceiling can help fend off a debt sustainability problem with more flexibility, short-term policy credibility and discipline may not be ensured since adjustments can always be postponed until the ceiling becomes binding. To relax this credibility-flexibility trade-off, combinations of targets are often used in practice, but this should not cost the operational simplicity and transparency of a rule.

Having previously endured the consequences of excessive borrowing and the resulting high interest payments that constrain other essential spending, the importance of avoiding the reaccumulation of unsustainable public debt is well understood in Tanzania. This suggests that medium-term fiscal policy could be guided by a "Diamond Rule", which consists of a fiscal anchor and three complementary benchmarks.



The primary medium-term anchor would be the present value (PV) of gross public debt. Although it is very difficult to pin down a desirable debt-to-GDP ratio, it is reasonable to maintain the PV of the public debt below 40 percent of GDP, which was roughly the average debt-to-GDP ratio in emerging market economies at end-2008. Three additional benchmarks would serve to prevent a rapid buildup of fiscal vulnerabilities within the debt ceiling: (i) a limit on net domestic financing in a single year (say, 2½ percent of GDP), (ii) a limit on nonconcessional borrowing (also 2½ percent of GDP), and (iii) a limit on the change in the ratio of spending to GDP (say, 3 percent of GDP).

Simulations show that an increase of infrastructure spending by 1½ percentage points of GDP from the current level over 10 years could be consistent with the Diamond Rule under a reasonable set of assumptions on growth, inflation, financing costs and the growth-enhancing effect of infrastructure investment.* However, the simulation also confirms that the growth-enhancing effect of public investment and access to low-cost financing are critical for debt sustainability. This highlights that Tanzania should also: (i) explore low-cost financing for infrastructure investment; and (ii) further improve expenditure policy to maximize the growth impact of the investment, particularly on investment project selection, execution, and monitoring.

* See *A Rule-Based Medium-Term Fiscal Policy Framework for Tanzania*, by Daehaeng Kim and Mika Saito, IMF Working Paper (forthcoming).

15. **To ensure high returns and value for money, the authorities are taking steps to reinvigorate implementation of the comprehensive public financial management reform program (PFMRP).** An extensive training program for line ministry and spending agency staff, including local governments, is underway to improve cash-flow projections and compliance with IFMS controls. This is expected to significantly improve budget execution. In addition, the mapping of accounts for the GFS economic classification, and later the functional classification, on the IFMS is planned during 2009/10. Enforcement of procurement laws continues to improve and, to address under execution of development spending, steps are being taken to shorten the processing time of government contracts. With good results, parliamentary oversight has been strengthened by the review of the audit reports prepared by the Controller and Auditor General. The mission welcomed these steps, but also urged the authorities to better integrate the medium-term expenditure framework with annual budget preparations, particularly in the context of moving toward a MTFPF.

16. **The authorities are looking to employ a variety of methods to finance scaled-up investment, including public-private partnerships (PPPs) and non-concessional domestic and sovereign borrowing.** Although the external environment is currently constraining investment and financing opportunities, the authorities agreed that efforts would be well placed by preparing the institutional and regulatory framework and capacity to ensure fiscal sustainability and the quality of spending. In particular, they intend to strengthen debt management.[8] To harness the private sector as a partner for infrastructure development, the authorities are also taking steps to create a PPP control unit. Assessment of fiscal risks will become increasingly important as alternative methods are used to undertake infrastructure investment. The mission recommended, as a first step toward building capacity for assessing fiscal risks, that government develop a comprehensive and transparent list of contingent liabilities, such as implicit and explicit government debt guarantees. The authorities agreed that this would be useful and intends to have such a list completed early in 2009/10.

C. Structural Reforms to Enhance Growth and Poverty Reduction, and External Sustainability

Financial sector reform and strengthened supervision

17. **The Second Generation Financial Sector Reform Program aims to broaden access to financial services, while ensuring the soundness of the financial system.** Progress has been achieved with the legal framework needed for establishing an effective system for mortgage financing by the set of laws approved by parliament in late 2008, and

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[8] At the time of the 2008 Annual Meetings, the authorities requested technical assistance under the joint IMF-World Bank program for offering assistance in developing medium-term debt management strategies. A mission is expected to take place by end-2009.

corresponding regulations are under preparation. The authorities' other priorities include developing a credit reference system and the recapitalization of the Tanzania Investment Bank, including a window for agricultural lending that would complement the already active role the private sector financial system plays (MEFP ¶27). In consultation with stakeholders, the authorities have also developed a plan for easing capital and financial account restrictions, which aims at preparing the ground for steps toward liberalizing such flows in line with the harmonization of these policies among the members of the East African Community (MEFP ¶28).

18. **Further steps to strengthen and enhance financial sector supervision are being taken.** The Bank of Tanzania produced an initial financial stability report for internal discussion and have initiated risk-based assessments of financial institutions and an early-warning system to spot signs of weakness. In addition, the authorities recognize the critical importance of having an effective system in place for financial supervision of the rapidly growing pension funds. The new Social Security Act was passed by Parliament in April 2008, providing the legal basis for the creation of a single regulator and giving the BoT the authority to establish investment guidelines. It is anticipated that investment guidelines will be issued by mid-2009, once the new regulator has been set up, and a complete actuarial assessment of the funds will begin shortly (MEFP ¶29). The mission welcomed this progress and urged the authorities to expedite the finalization of regulations and recruitment of the necessary officials for the new regulator.

Private Sector Development

19. **Tanzania's ranking in the Word Bank's *Doing Business Indicators* points at continued weaknesses in the business environment.** Key areas of concern include construction permits and hiring constraints. Recently steps have been taken to shorten the waiting time for imports at the main port in Dar es Salaam, but still the capacity and efficiency of the port are constraining. In addition, the electricity supply is limited and, at times, unreliable. The authorities' focus on building up infrastructure would help to address several impediments to private sector development.

External Sustainability

Medium-term outlook for the balance of payments

20. **Despite the stress of the current global crisis, the medium-term outlook for Tanzania's balance of payments is favorable.** Tanzania's exports of goods and services are expected to have a healthy, though gradual, recovery to the pre-crisis growth of recent years. Moreover, the government's programs to increase agricultural productivity and build up infrastructure—particularly on the seaport and transportation networks—bode well not only for traditional export crops, but also for resuming strong growth of earnings from regional freight services. A rebound in tourism will likely lag behind the global recovery. While

import growth is also projected to pick up, the external current account deficit is expected to narrow moderately after the effects of the crisis have passed. On the financing side, FDI is also expected to lag behind the global economic recovery, but is expected to resume strongly, together with the large syndicated loans to Tanzanian corporations. As a result, official international reserves are projected to eventually rebuild over the medium term.

Exchange rate in line with economic fundamentals

21. **The Tanzanian shilling is assessed to be broadly in line with economic fundamentals.** Using three CGER methodologies, the shilling was found to be about in equilibrium or slightly overvalued. The equilibrium real exchange rate approach suggests a larger overvaluation, however, applying this methodology to Tanzania has limitations as discussed in WP/08/138.

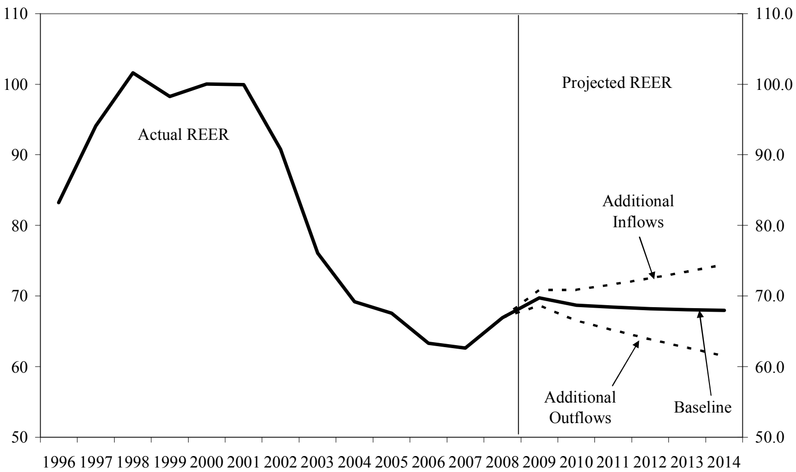
	Macroeconomic Balance [1/]	Equilibrium Real Exchange Rate	External Sustainability [2/]
Current account norm	-10.1	...	-8.5
Current account projection	-10.4	...	-8.8
CA gap	0.4	...	0.3
Elasticity [3/]	0.5	...	0.5
Real exchange rate gap [4/]	0.7	11.5	0.6

[1/] The current account projection is for 20013/14.
[2/] The current account reported are non-interest portions only. The projection is for 2008/09.
[3/] Elasticity is the upper bound used in WP/08/138.
[4/] Movement in real exchange rate needed to close the gap between norm and projection.

22. **These assessments are sensitive to the projections of capital and financial inflows such as FDI, external borrowing, and donor assistance.** If the current global economic and financial crisis is prolonged, these flows could diminish significantly, suggesting a depreciation of the real equilibrium, and vice versa. A sensitivity exercise indicates that the real exchange rate could appreciate or depreciate approximately 8½ percent over the next five years, as a result of additional financing inflows or outflows.[9]

[9] Based on additional capital inflows (or outflows) of 1 percentage point of GDP a year.

Tanzania: Estimated REER Under Baseline and Alternative Scenarios



Low risk of debt distress

23. **Tanzania's risk of debt distress is low.**[10] At present, the government continues to limit its external borrowing to resources that are available on concessional terms. Looking ahead, however, significant financing will be required to address Tanzania's development needs. In addition to donor assistance and concessional loans, the government will also consider borrowing from both domestic and external sources on non-concessional terms in the future. Reflecting such a development, the outlook for Tanzania's debt sustainability would still be benign. Non-concessional borrowing would cause debt indicators to rise modestly over the medium-term, but they would remain well below the thresholds and resume a downward path over the long term. Although only partial information is presently available on contingent liabilities, it does not appear that they would significantly alter these results.[11] Standard sensitivity analysis also suggest that there is little risk of debt distress. Alternative downside scenarios (less donor assistance and low-growth/low-return on investment) result in some deterioration in debt indicators, but generally reinforce the positive assessment of Tanzania's debt sustainability. In discussions with the authorities, staff agreed that the debt sustainability analysis supports the view that there is indeed fiscal space for additional borrowing to finance investment, but cautioned that a sound debt management strategy and quality analysis of projects are necessary for successfully stepping up investment spending.

[10] See Joint World Bank/IMF Debt Sustainability Analysis for Tanzania (See Supplement). The DSA results are inclusive of the proposed ESF disbursements.

[11] The authorities intend to compile a complete list of government guarantees and contingent liabilities by September 2009.

Safeguards Assessment

24. **Further progress has been achieved toward implementing the recommendations of the voluntary safeguards assessment update completed in 2008, although there have been delays (Box 3).** The external audit of the Bank of Tanzania for 2007/08 yielded an unqualified opinion, however, the financial statements have not yet been published. The BoT's Board will shortly discuss its 2009/10 corporate plan that, among other objectives, would set an agenda for greater focus on core activities, as recommended (MEFP ¶30). In conjunction with the proposed ESF arrangement below, a further update will be conducted before the time of the first review.

Box 3. Tanzania. Implementation of Recommendations of the 2008 Voluntary Safeguards Assessment

The Bank of Tanzania continued to implement the recommendations of the IMF Safeguards Assessment Mission issued in June 2008. Among those implemented include:

- Audit quality review by a concurring partner.
- Formal agreement on the modalities for the selection of audit firm subcontracted to conduct audits.
- Majority composition of non-executive directors in the audit committee.
- Draft year end procedures prepared awaiting review by Internal Audit Directorate (IAD) and external auditors.
- MOU agreed between the MOFEA and the BoT. (The MOU clarifying government obligations to the BoT was signed on December 4, 2008 and agreed upon outstanding obligations were settled on December 10, 2008.)
- The 2007/08 external audit of the BoT has been completed and submitted to the MOFEA. It is expected to be submitted to Parliament shortly by the MOFEA.
- Capacity building in IAD has commenced by hiring 10 new staff as well as phasing in risk based internal auditing on pilot basis in FY 2008/09.
- The process of hiring a consulting firm to conduct a comprehensive risk assessment is advancing (World Bank granted "no objection" on the TORs).
- A draft policy on whistle-blowing has been prepared awaiting Board approval.

Statistics

25. **Economic policy making during the current economic crisis is complicated by weak economic data.** With the help of Fund/AFRITAC technical assistance, the authorities have stepped up efforts to develop quarterly national accounts and more timely higher frequency economic indicators (MEFP ¶31). And the recently revised monetary and financial statistics (MFS) framework has become fully operational. Serious weaknesses in the collection of balance of payments data, however, still need to be addressed, particularly in the areas of income flows, both official and private transfers, and investment flows (MEFP ¶32).

V. REQUEST FOR ESF ARRANGEMENT

26. **The global economic and financial crisis constitutes a sudden shock that is seriously affecting Tanzania's balance of payments.** Beginning in early 2009 traditional exports and tourism have turned sharply downward. Cotton prices have declined by 26 percent over the past year and tourist arrivals are estimated to have fallen by about one-third in the first quarter of 2009. Foreign direct investment, which reached US$700 million in 2007/08 (3.7 percent of GDP), and was expected to increase this year, is now projected to fall below US$600 million as international investors, notably in the mining and energy sectors, scale back their plans. In calendar years, the larger part of the direct balance of payments effect of the shock is expected to be felt in 2009, followed by a still significant deterioration in 2010 (Text Table). The negative impact of the shock is mitigated by lower international oil prices. Beyond the direct effects of the external shock, the fiscal stimulus in 2009 and 2010 is expected to increase import demand (by about US$100 million), but this would largely be offset by other items, most notably additional donor assistance (about US$220 million)—mainly from a front-loading of the World Bank's 3-year schedule of disbursements under IDA 15. Taking into account these various factors, the net impact is a significant deterioration of the balance of payments. Gross international reserves are projected to fall by US$256 million in 2009 and a further US$89 million in 2010 (Table 8).

Impact of External Shocks on the BOP[1]

(Millions of U.S. dollars)

	2009	2010	2009-10
Aggregate direct impact of external shocks	-254	-78	-332
Traditional exports	-32	-12	-44
Gold exports, net of income outflow	-83	59	-24
Oil imports	139	-54	84
Travel receipts	-181	-51	-232
FDI	-97	-19	-116
Fiscal stimulus	-86	-13	-99
Other, residual	-103	78	-25
Change in overall balance, excluding donor assistance	-443	-13	-456
Donor assistance, including projects	39	180	219
Change in overall balance, including donor assistance[2]	-404	167	-237
Memorandum			
Change in stock of gross reserves before ESF	-256	-89	-345

[1] Change from the previous year. Column for 2009-10 is sum of annual changes.
[2] Reflects a narrowing of the overall deficit in 2010.

27. **A substantial loss of international reserves would curtail the authorities ability to implement supportive fiscal and monetary policies to cushion the impact of the global crisis on Tanzania.** Moreover, risks remain tilted to the downside. Bolstering reserves will provide the necessary room for maneuver in the face of uncertainty.[12]

28. **In the staff's judgment, Tanzania is eligible for a one-year arrangement under the ESF, with access of 110 percent of quota (SDR 218.79 million or about US$325 million) to be made available in three drawings (80 percent of quota, 20 percent, and 10 percent of quota).** Tanzania's economic program under the PSI remains

[12] In the absence of support under the ESF, the coverage of gross international reserves is projected to slip to about 3½ months of imported goods and services.

fully on track and the policies envisaged for 2009/10 are adequate to address the economic downturn that Tanzania is facing. Falling reserves in 2009 and 2010 are indicative of a sizeable external shock and a balance of payments need that the support under the ESF would help to address. In view of the nature of the shock, which is concentrated in 2009, front loading the disbursements is consistent with the need. Tanzania's track record of solid performance under the PSI and sound policy framework looking forward ensures that Fund resources would be used effectively. In addition, Tanzania has ample capacity to repay the Fund and the risk of debt distress would remain low (Table 10 and Section IV.C above).

Proposed Disbursements Under the ESF

	Expected Timing	Amount of Disbursement (In percent of quota)	(In millions of SDR)
Upon Board approval of ESF	May-09	80	159.12
Upon completion of the first review	Oct-09	20	39.78
Upon completion of the second review	Apr-10	10	19.89

VI. Program Monitoring

29. Program implementation under the PSI and ESF arrangement in 2009–10 will be monitored by the quantitative assessment criteria and performance criteria for end-June 2009 and end-December 2009 and quantitative indicative targets for end-September 2009 and end-March 2010, as presented in Table 1 of the authorities' Memorandum of Economic and Financial Policies (MEFP) (Appendix I, Attachment I). Table 2 of the MEFP presents structural benchmarks that will be monitored under the PSI. These benchmarks focus sound fiscal and debt management, financial stability, and the institutional framework for monetary and exchange rate policies, which are critical for the success of the program (Text Table 2). The first and second reviews under the ESF will take place at the same time as the sixth and seventh PSI reviews (by end-October 2009 and end-April 2010), respectively, and will be based on performance as of the end-June and end-December 2009 test dates, respectively.

30. In agreement with the authorities, staff requests that the assessment criterion for end-May 2009 regarding the adoption of a strategy for refocusing the BoT on its core activities, be converted into a structural benchmark under the PSI.

Text Table 2. Tanzania: Macroeconomic Rationale for Structural Benchmarks in 2009/10

Measure	Target Date of Implementation	Macroeconomic Rationale
Financial Sector		
Adopt a strategy for refocusing the Bank of Tanzania (BoT) on its core activities.[1]	End-May 2009	To strengthen confidence in the BoT and focus BoT on monetary and exchange rate policies and financial supervision.
Issue investment guidelines for pension funds prepared by the BoT.	End-June 2009	To broaden the scope of financial sector regulation and strengthen the ability of the BoT and the future pension fund regulator to promote financial stability.
Prepare an updated financial stability report for the BOT Board, including assessments of risk-based prudential supervision.	End-December 2009	To strengthen the ability of the BoT to promote financial stability in an environment of rapid financial sector development.
Fiscal		
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous	To facilitate efficient budget execution by line ministries and liquidity management by the BoT.
Prepare a list of outstanding government guarantees and contingent liabilities, including debts held by parastatals.	End-September 2009	To ensure debt and fiscal sustainability and enhance transparency and monitoring of government liabilities.
Prepare a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* for the budget for 2010/11.	End-April 2010	To enhance budget planning, execution, and management, as part of the broader PFM reform program to increase the efficiency and effectiveness of government spending.

[1] PSI assessment criterion. Request pending for conversion to a benchmark.

VII. Staff Appraisal and Risks

31. **The global financial crisis will have a significant impact on Tanzania.** Growth is expected to fall to 4–5 percent in 2009, compared with 7–7½ percent in recent years, and key sectors of the economy, including cash crops and tourism, face a severe downturn. Both the fiscal and the external positions are expected to weaken in 2009–10.

32. **Strong fundamentals provide Tanzania with some room for maneuver.** The broadening of the domestic revenue base, a decline in public debt levels, and an effective monetary policy in recent years, now provide scope for fiscal and monetary easing in the short term. The planned scaling up of infrastructure spending in 2009–10 should be maintained.

33. **But short-term policies must not jeopardize Tanzania's hard-won economic stability.** This means that fiscal stimulus should remain consistent with long-term fiscal sustainability, monetary easing should not put at risk medium-term price stability, and international reserve losses should be moderate, consistent with external stability.

34. **The banking sector is sound, but is vulnerable in some areas.** Banks are well-capitalized and there is no indication that they are directly exposed to the toxic debt that has caused havoc in global financial centers. But the economic slow-down will raise banks' credit risk, notably through their exposure to export crop financing and personal loans, which have been growing rapidly in recent years. Welcome steps have already been taken to raise supervisory standards, but more can be done to broadening monitoring to all financial institutions, and reinforce cross-border coordination between host country and home country supervisors.

35. **The absence of firm supervision over pension fund activities remains a serious shortcoming.** Pension funds continue to grow rapidly, with total assets approaching one-quarter of those held by banks. It is imperative to accelerate progress in this area to avoid a serious risk of asset impairment and an inability of pension funds to meet their obligations once pensions become due.

36. **Preserving and indeed raising Tanzania's medium-term growth potential must remain paramount.** Key priorities to that end must be to raise agricultural productivity and improve Tanzania's ailing infrastructure. This will require significant financing, including from the public sector. Non-concessional sources of financing are not a first resort, but are likely needed to address the infrastructure gap.

37. **Scaling up public spending is not an end in itself: there is need to raise the return on public spending.** Strong public financial management is critical to ensuring that public spending is as effective as possible to avoid the re-accumulation of unsustainable public debt. Important steps have already been taken, for example to strengthen budgeting and public procurement practices. But more can and should be done to raise value for money. In particular, responding decisively to the recommendations of the public audits by the National Audit Office will help raise both accountability and the quality of public spending.

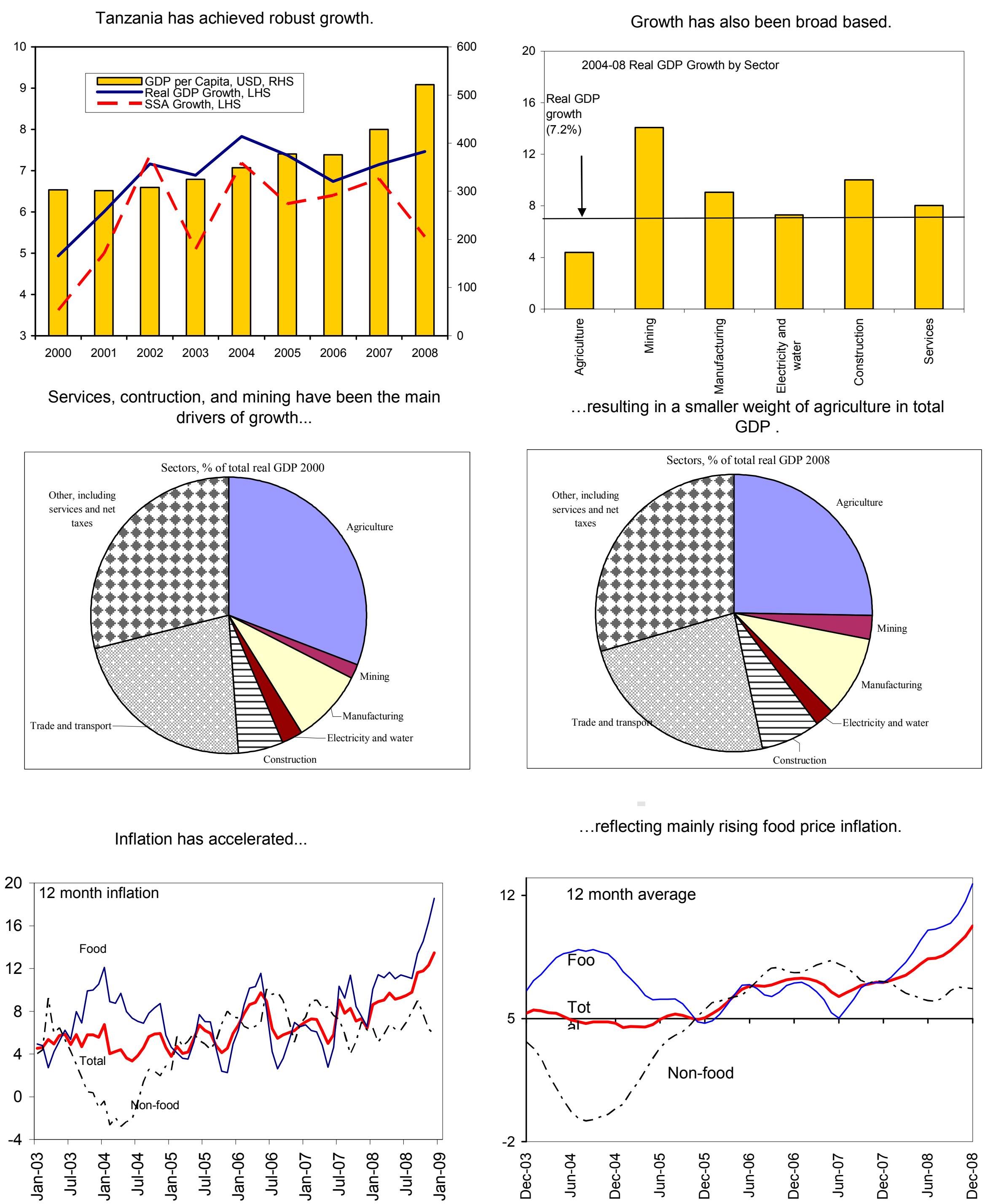
38. **Tanzania's outlook is good, but not without risks.** A deeper, and more prolonged global downturn will exacerbate the problems faced by the export and tourism sectors. Foreign direct investment, especially in the mining sector, is also likely to suffer more if the global financial crisis is long-drawn. And the fiscal sustainability of a sustained scaling up of public spending requires continued robust economic growth. The importance of ensuring that

public spending is effective in generating a high social and economic return cannot be overstated.

39. **Staff recommends the completion of the fifth review under the PSI and approval of Tanzania's request for access under the ESF**. Staff also recommends a waiver for the nonobservance of the assessment criterion on the ceiling on net domestic financing for end-December 2008, which was missed by a small margin.

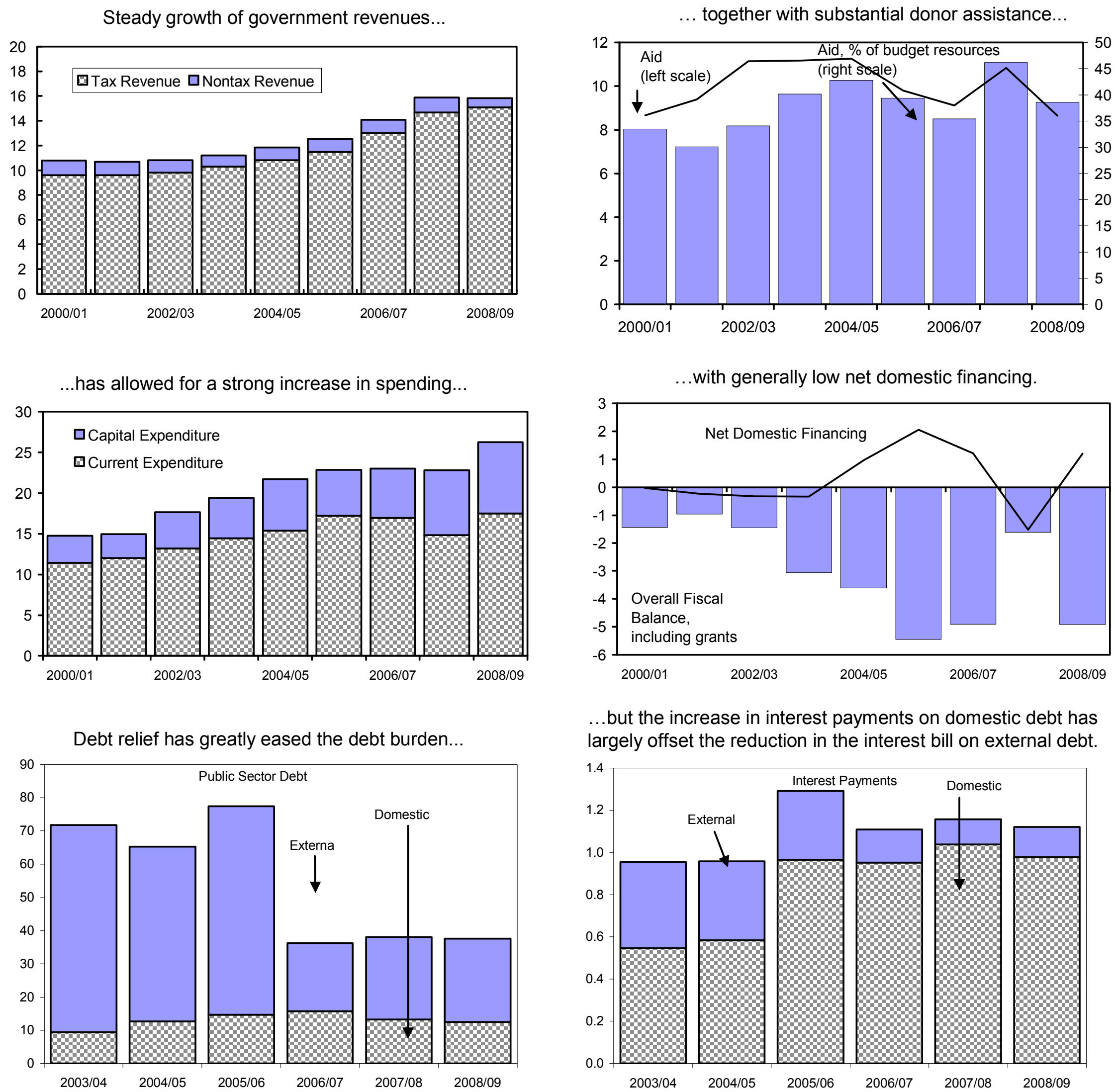
40. It is expected that the next Article IV consultation with Tanzania will place within 24 months, in line with the Board decision on consultation cycles in program countries.

Figure 1. Tanzania: Growth and Inflation



Sources: Tanzanian authorities; IMF staff estimates;

Figure 2. Tanzania: Fiscal Developments, 2000/01–2008/09 *
(Percent of GDP, unless otherwise stated)

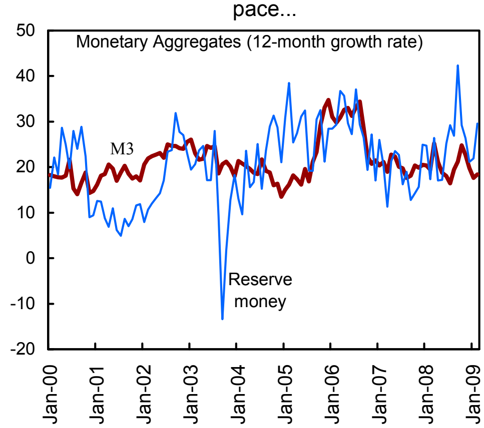


Source: Tanzanian authorities; Fund staff estimates/projections.

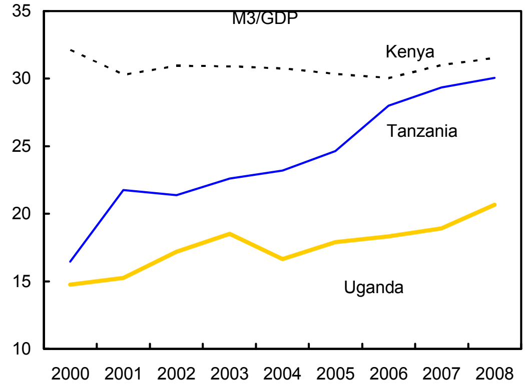
* Figures for 2008/09 are projections.

Figure 3. Tanzania: Monetary and Financial Developments

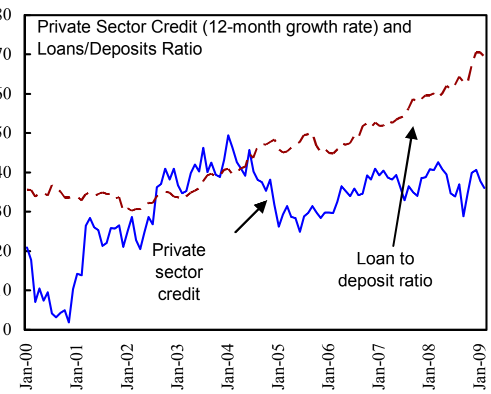
Monetary aggregates have grown at a rapid pace...



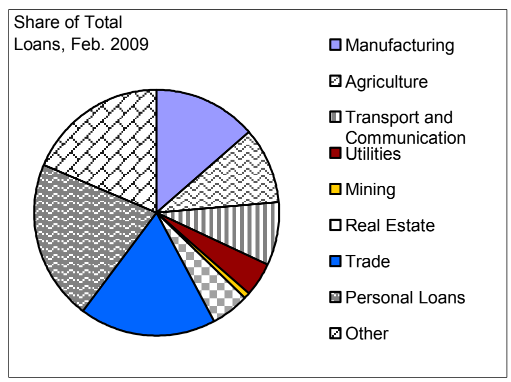
... reflecting strong financial deepening.



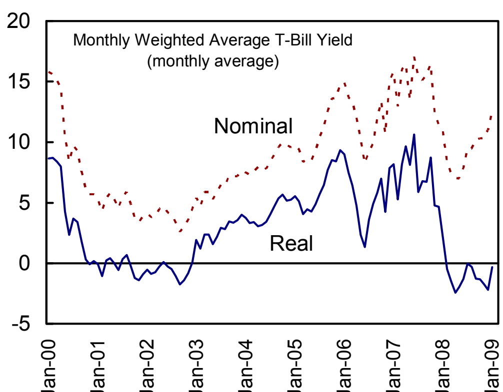
Lending is also expanding rapidly...



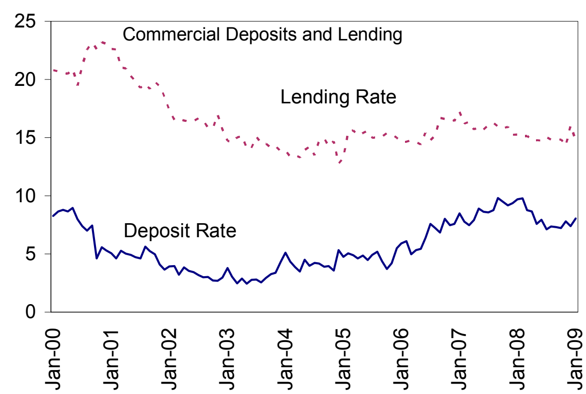
...both to productive sectors and households.



T-bill yields have begun to increase, but have turned negative in real terms.

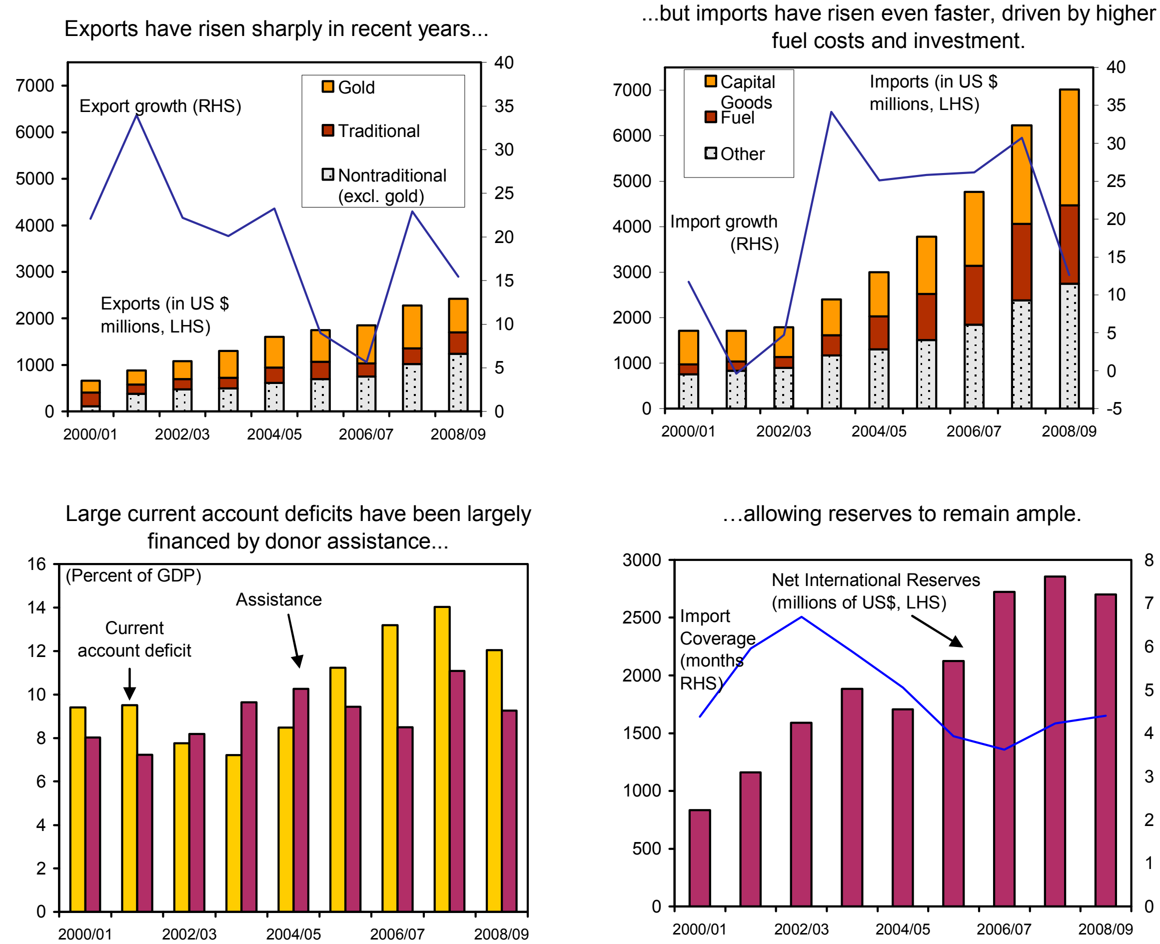


Commercial bank deposit rates have recently fallen, leading to a wider spread with lending rates.



Source: Bank of Tanzania

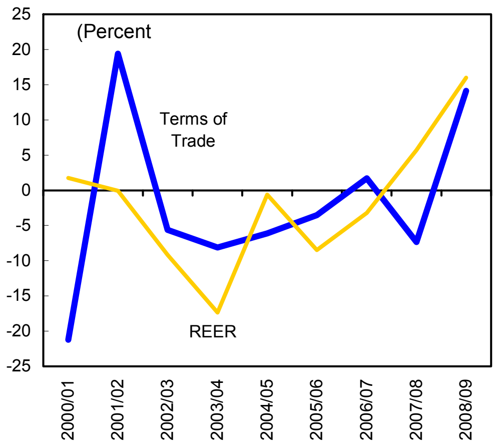
Figure 4. Tanzania: External Sector Developments



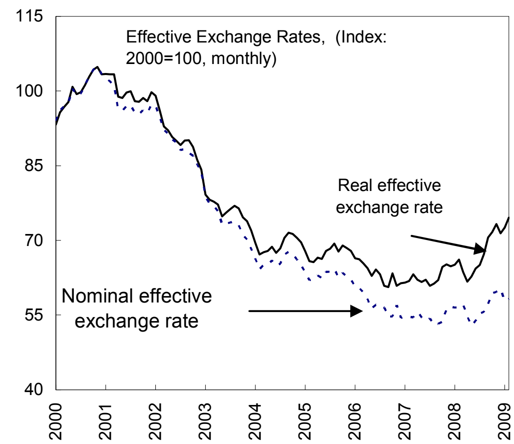
Source: Tanzania authorities; Fund staff estimates.

Figure 5. Tanzania: Exchange Rate Developments

Deteriorating terms of trade contributed to depreciation in 2001–07...



…but the real effective exchange rate has appreciated in the past two years.



Source: Tanzania authorities; Fund staff estimates.

Figure 6. Tanzania's Performance in Perspective

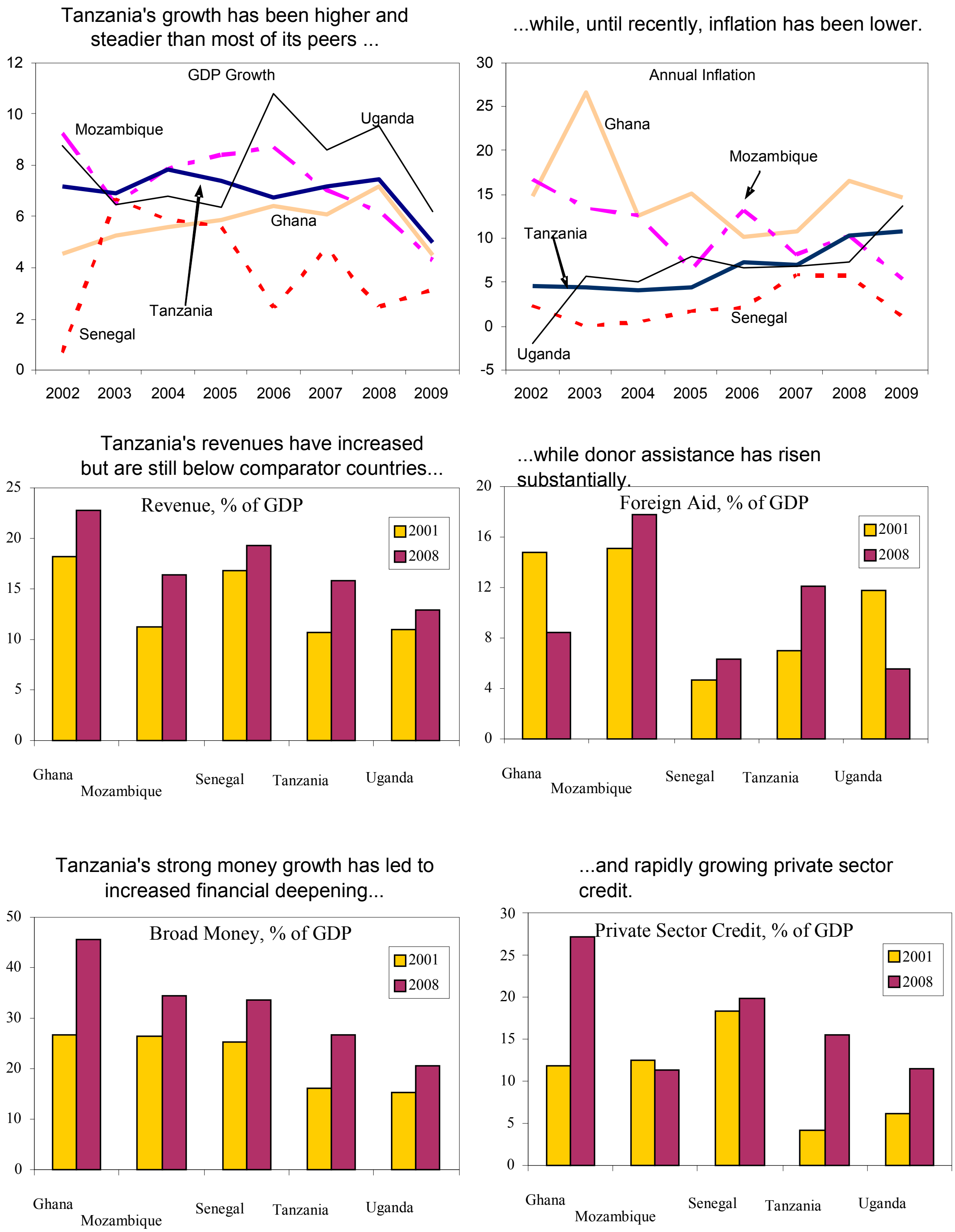
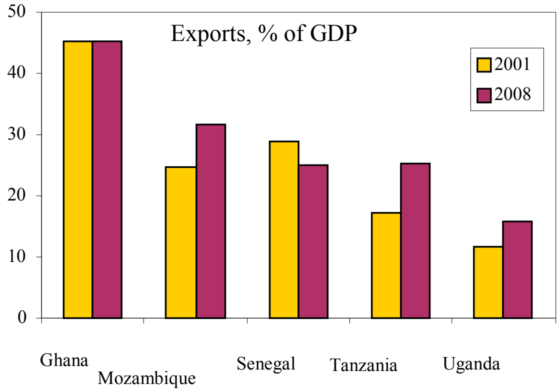
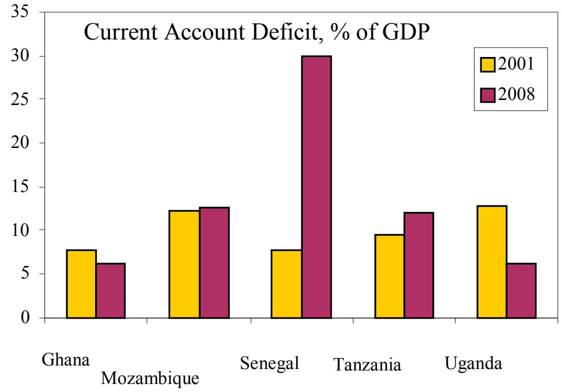


Figure 6. Tanzania's Performance in Perspective (cont.)

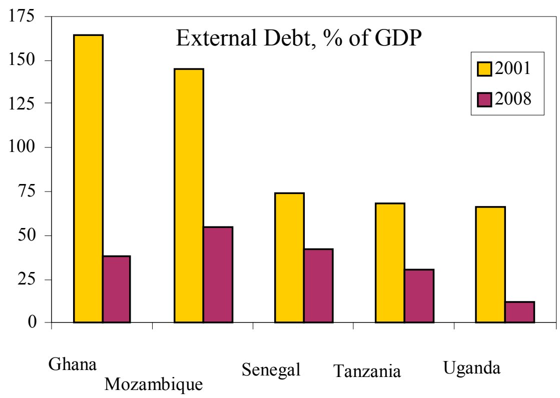
Tanzania's export performance has improved.



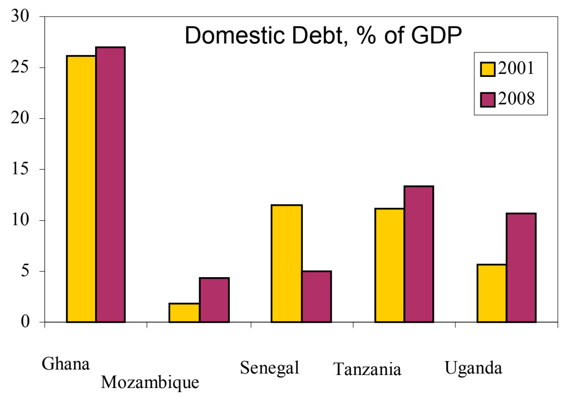
But the external current account has widened due to the growing aid-financed imports.



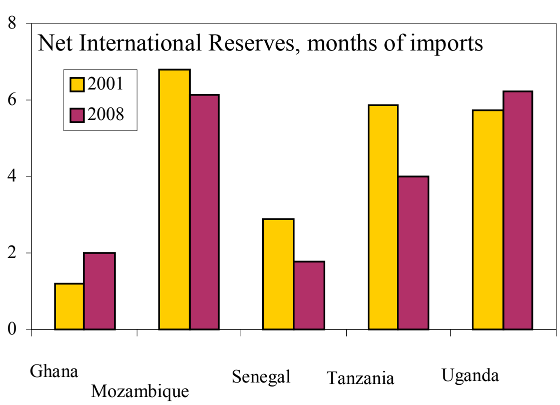
External debt has fallen...



…but domestic debt has increased.



Tanzania's reserve position is relatively comfortable.



The business environment has improved, but still compares poorly worldwide.

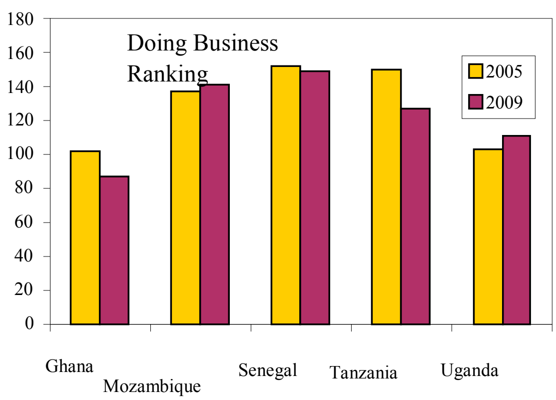


Table 1. Tanzania. MDG Indicators

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	*87*	86	85	*84*
Employment to population ratio, ages 15-24, total (%)	*77*	*77*	74	*72*
Income share held by lowest 20%	*7.4*	..	7.3	..
Malnutrition prevalence, weight for age (% of children under 5)	*25.1*	*26.9*	*25.3*	*16.7*
Poverty headcount ratio at national poverty line (% of population)	*38.6*	..	*35.6*	33.4
Prevalence of undernourishment (% of population)	*37*	*50*	..	..
Vulnerable employment, total (% of total employment)	..	..	*11*	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	*78*	..	*76*	..
Literacy rate, youth male (% of males ages 15-24)	*86*	..	*81*	..
Persistence to last grade of primary, total (% of cohort)	..	..	74	*83*
Primary completion rate, total (% of relevant age group)	46	*57*	*55*	85
Total enrollment, primary (% net)	..	..	53	*98*
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	..	*18*	16	30
Ratio of female to male enrollments in tertiary education	*19*	..	*15*	48
Ratio of female to male primary enrollment	*98*	..	99	98
Ratio of female to male secondary enrollment	*77*	..	*82*	..
Ratio of young literate females to males (% ages 15-24)	*90*	..	*94*	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	*45.4*	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	80	78	78	*93*
Mortality rate, infant (per 1,000 live births)	102	100	88	*74*
Mortality rate, under-5 (per 1,000)	161	159	141	*118*
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*131*	132	*123*
Births attended by skilled health staff (% of total)	*53*	*47*	*44*	*43*
Contraceptive prevalence (% of women ages 15-49)	*10*	*18*	*25*	*26*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*950*
Pregnant women receiving prenatal care (%)	*62*	*50*	*49*	*78*
Unmet need for contraception (% of married women ages 15-49)	*28*	*24*	*22*	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	*53*	*58*
Condom use, population ages 15-24, female (% of females ages 15-24)	..	*6*	*10*	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	*22*	*26*	..
Incidence of tuberculosis (per 100,000 people)	178	271	339	*312*
Prevalence of HIV, female (% ages 15-24)	..	..	..	0.9
Prevalence of HIV, total (% of population ages 15-49)	..	..	*7.0*	6.2
Tuberculosis cases detected under DOTS (%)	..	57	49	*46*
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	*6.2*	..
CO2 emissions (kg per PPP $ of GDP)	0.1	0.2	0.1	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Forest area (% of land area)	47	..	42	*40*
Improved sanitation facilities (% of population with access)	35	35	34	*33*
Improved water source (% of population with access)	49	50	53	*55*
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	46	29	30	*46*
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	31.3	17.2	11.8	*2.0*
Internet users (per 100 people)	0.0	*0.0*	0.1	1.0
Mobile phone subscribers (per 100 people)	0.0	0.0	0.3	20.4
Telephone mainlines (per 100 people)	0.3	0.3	0.5	0.6
Other				
Fertility rate, total (births per woman)	6.1	5.8	5.7	*5.3*
GNI per capita, Atlas method (current US$)	190	160	260	400
GNI, Atlas method (current US$) (billions)	4.8	4.9	8.9	16.3
Gross capital formation (% of GDP)	26.1	19.8	17.6	*16.7*
Life expectancy at birth, total (years)	51	49	49	*52*
Literacy rate, adult total (% of people ages 15 and above)	*59*	..	*69*	..
Population, total (millions)	25.5	29.9	33.8	40.4
Trade (% of GDP)	50.1	65.6	41.0	*49.7*

Source: World Development Indicators database
Figures in italics refer to periods other than those specified.

Table 2. Tanzania: Selected Economic and Financial Indicators, 2006/07–2011/12

	2006/07	2007/08 Prel.	2008/09 Prog	2008/09 Proj.	2009/10 Proj.	2010/11 Proj.	2011/12 Proj.
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
Real GDP growth (calendar year, at market prices)[1]	6.7	7.1	7.5	7.5	5.0	5.7	7.2
Real GDP growth (fiscal year, at market prices)	6.9	7.3	7.7	6.2	5.3	6.4	7.3
Consumer prices (period average)	6.3	8.4	8.3	12.0	7.7	5.2	5.0
Consumer prices (end of period)	5.8	9.3	6.8	11.0	6.0	5.0	5.0
External sector							
Export, f.o.b (in millions of U.S. dollars)	2,060	2,609	2,887	2,891	2,860	2,961	3,187
Imports, f.o.b. (in millions of U.S. dollars)	-4,336	-5,667	-6,068	-5,955	-5,841	-6,001	-6,276
Export volume	-6.6	6.2	9.3	7.3	-1.2	2.1	9.3
Import volume	19.2	13.3	12.9	1.8	7.4	-2.5	1.7
Terms of trade	1.7	-7.4	8.9	14.1	9.7	-3.8	-4.2
Nominal effective exchange rate (end of period; depreciation -)[2]	-4.9	3.9	...	7.3	...	...	...
Real effective exchange rate (end of period; depreciation -)[2]	-3.2	5.7	...	16.0	...	...	...
Money and credit[3]							
Broad money (M3)	20.1	18.1	18.0	22.0	20.0	…	…
Net foreign assets	12.2	4.6	6.0	2.7	1.2	…	…
Net domestic assets	36.3	41.0	31.1	46.4	36.6	…	…
Credit to nongovernment sector	36.2	34.7	21.7	39.8	28.7	…	…
Velocity of money (GDP/M3; average)	4.1	3.9	3.7	3.7	3.5	…	…
Treasury bill interest rate (in percent; end of period)[4]	16.0	8.2	…	13.3	…	…	…
	(Percent of GDP)						
Public Finance							
Revenue (excluding grants)	14.1	15.9	18.0	15.8	16.3	16.8	17.1
Total grants	4.9	6.9	5.5	5.5	5.7	5.5	5.1
Expenditure (including adjustment to cash)	23.9	24.4	27.2	26.3	27.2	27.7	26.8
Overall balance (excluding grants)	-8.9	-6.9	-9.4	-10.5	-10.9	-10.9	-9.7
Domestic financing	1.2	-1.5	0.0	1.2	1.6	1.0	1.0
Stock of domestic debt (end of period)	12.8	13.4	11.7	12.5	12.6	12.2	11.9
Savings and investment[1]							
Resource gap	-13.1	-16.9	-12.8	-16.9	-15.9	-15.6	-14.7
Investment	27.6	29.6	32.6	31.8	30.8	31.9	32.9
Government	8.4	10.0	9.5	10.7	11.6	12.2	12.0
Nongovernment[5]	19.3	19.7	23.1	21.1	19.2	19.7	20.9
Gross domestic savings	14.5	12.8	19.8	14.9	14.9	16.3	18.3
External sector							
Current account balance (excluding current transfers)	-13.2	-14.0	-13.0	-12.0	-12.6	-12.3	-11.2
Current account balance (including current transfers)	-9.9	-10.6	-10.1	-8.9	-9.3	-8.8	-8.0
	(Millions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Current account balance (excluding current transfers; deficit -)	-2,005	-2,675	-2,871	-2,580	-2,844	-2,996	-2,968
Overall balance of payments (deficit -)	286	501	144	-132	-108	-84	168
Gross official reserves	2,157	2,660	2,793	2,766	2,748	2,663	2,829
In months of imports of goods and nonfactor services	3.6	4.2	3.7	4.4	4.2	3.9	3.9
External debt (percent of GDP)	20.5	24.8	29.3	25.1	25.3	26.7	26.8

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

[1] Data are on calendar year basis. For example, 2005/06 data are for calendar year 2005.
[2] Figures for 2008/09 reflect change up to February 2009.
[3] Figures for 2008/09 reflect new series based on the Fund's *2000 Monetary and Financial Statistics Manual*.
[4] End-year (June) monthly weighted-average yield of 35-, 91-, 182-, and 364-day treasury bills. For 2008/09, figure is for March 2009.
[5] Including change in stocks.

Table 3. Tanzania: National Accounts, 2006–2014

	2006	2007	2008	2009		2010	2011	2012	2013	2014
			Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
			(Annual percentage change in real terms)							
GDP at market prices										
Nominal (billions of T Sh, calendar-year basis)	17,941	20,948	24,817	28,100	28,941	32,343	36,389	41,069	46,348	52,323
Real (percentage change)	6.7	7.1	7.5	8.0	5.0	5.7	7.2	7.5	7.5	7.5
Deflator (percentage change)	5.3	9.0	10.2	7.2	11.1	5.8	5.0	5.0	5.0	5.0
Sectoral components of GDP										
Agriculture	3.9	4.0	3.7	4.1	3.2	5.0	5.0	5.0	4.5	4.5
Industry	8.5	9.5	9.4	10.9	4.5	4.7	7.1	7.8	7.9	8.0
Services	7.7	8.0	8.8	8.9	6.0	6.3	8.2	8.5	8.6	8.6
Memorandum items:	2005/06	2006/07	2007/08	2008/09		2009/10	2010/11	2011/12	2012/13	2013/14
			Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Nominal GDP (billions of T sh, fiscal-year basis)	16,953	19,445	22,883	26,244	26,879	30,642	34,366	38,729	43,709	49,336
Nominal GDP growth	13.3	14.7	17.7	15.8	17.5	14.0	12.2	12.7	12.9	12.9
Real GDP growth	7.0	6.9	7.3	7.7	6.2	5.3	6.4	7.3	7.5	7.5
CPI inflation (average)	5.6	6.3	8.4	8.3	12.0	7.7	5.2	5.2	5.0	5.0
CPI inflation (end period)	6.8	5.8	9.3	6.8	11.0	6.0	5.0	5.0	5.0	5.0

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

Table 4. Tanzania: Central Government Operations, 2005/06–2011/12 [1]
(Billions of Tanzania Shilling)

	2005/06	2006/07	2007/08	2008/09		2009/10	2010/11	2011/12
	Actual	Actual	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue	2,125	2,739	3,635	4,729	4,249	4,997	5,776	6,625
Tax revenue	1,946	2,529	3,359	4,485	4,053	4,644	5,329	6,074
Import duties	191	246	289	421	372	426	492	561
Value-added tax	803	832	1,042	1,256	1,231	1,411	1,630	1,858
Excises[2]	262	520	661	932	749	858	992	1,131
Income taxes	554	714	984	1,393	1,229	1,408	1,627	1,855
Other taxes	137	219	383	483	473	542	626	714
Nontax revenue	178	210	275	243	196	352	447	551
Total expenditure	3,873	4,475	5,217	7,192	7,058	8,343	9,509	10,371
Recurrent expenditure	2,920	3,296	3,398	4,701	4,701	5,389	5,755	6,234
Wages and salaries	657	976	1,135	1,570	1,596	1,775	1,991	2,244
Interest payments	219	216	265	282	301	437	441	438
Domestic	164	185	237	248	263	389	386	378
Foreign [2]	55	31	27	35	39	47	55	60
Goods and services and transfers	2,044	2,105	1,998	2,848	2,803	3,177	3,323	3,552
of which: MDRI (IMF) related	0	18	7	0	0	0	0	0
Development expenditure	953	1,179	1,819	2,491	2,357	2,955	3,754	4,137
Domestically financed	296	504	974	1,359	1,260	1,742	2,470	2,783
of which: MDRI (IMF) related	0	105	114	66	66	114	0	0
Foreign financed	657	675	845	1,132	1,098	1,212	1,284	1,354
Overall balance before grants	-1,748	-1,736	-1,583	-2,464	-2,809	-3,347	-3,733	-3,745
Grants	911	953	1,581	1,441	1,487	1,760	1,898	1,973
Program (including basket grants) [3]	507	591	832	750	830	994	1,207	1,245
Project	328	242	636	625	590	652	691	728
HIPC grant relief	76	0	0	0	0	0	0	0
MDRI (IMF) grant relief	0	123	114	66	66	114	0	0
Overall balance after grants	-837	-783	-1	-1,022	-1,322	-1,587	-1,836	-1,772
Adjustment to cash [4]	-87	-171	-365	0	0	0	0	0
Overall balance (cash basis)	-924	-954	-366	-1,022	-1,322	-1,587	-1,836	-1,772
Financing	924	954	366	1,022	1,322	1,587	1,836	1,772
Foreign (net)	561	717	730	946	976	1,124	1,539	1,438
Foreign loans	669	746	775	988	1,053	1,202	1,628	1,544
Program (including basket loans) [3]	340	313	566	481	546	642	691	531
Project	329	433	209	507	507	560	594	626
Sovereign borrowing				0	0	0	344	387
Amortization	-108	-30	-45	-42	-77	-79	-89	-106
Domestic (net)	349	237	-346	53	323	505	344	387
Bank financing	127	25	…	...	...	...	...	...
Nonbank financing	222	212	…	...	...	...	...	...
Amortization of parastatal debt	-19	0	-15	-37	-37	-42	-47	-53
Privatization proceeds	33	0	0	60	60	0	0	0
Memorandum items:								
Public domestic debt (in percent of GDP)	14.8	16.1	13.3	11.7	12.5	12.6	12.2	11.9
Ratio of recurrent expenditures to total revenue	137	120	93	98	111	108	100	94
Nominal GDP [5]	16,953	19,445	22,883	26,244	26,879	30,642	34,366	38,729

Table 4. Tanzania: Central Government Operations, 2005/06–2011/12 (continued)[1]
(Percent of GDP)

	2005/06	2006/07	2007/08	2008/09		2009/10	2010/11	2011/12
	Actual	Actual	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue	12.5	14.1	15.9	18.0	15.8	16.3	16.8	17.1
Tax revenue	11.5	13.0	14.7	17.1	15.1	15.2	15.5	15.7
Import duties	1.1	1.3	1.3	1.6	1.4	1.4	1.4	1.4
Value-added tax	4.7	4.3	4.6	4.8	4.6	4.6	4.7	4.8
Excises	1.5	2.7	2.9	3.6	2.8	2.8	2.9	2.9
Income taxes	3.3	3.7	4.3	5.3	4.6	4.6	4.7	4.8
Other taxes	0.8	1.1	1.7	1.8	1.8	1.8	1.8	1.8
Nontax revenue	1.1	1.1	1.2	0.9	0.7	1.2	1.3	1.4
Total expenditure	22.8	23.0	22.8	27.4	26.3	27.2	27.7	26.8
Recurrent expenditure	17.2	17.0	14.8	17.9	17.5	17.6	16.7	16.1
Wages and salaries	3.9	5.0	5.0	6.0	5.9	5.8	5.8	5.8
Interest payments	1.3	1.1	1.2	1.1	1.1	1.4	1.3	1.1
Domestic	1.0	1.0	1.0	0.9	1.0	1.3	1.1	1.0
Foreign [2]	0.3	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Goods and services and transfers	12.1	10.8	8.7	10.9	10.4	10.4	9.7	9.2
o/w MDRI (IMF) related	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Development expenditure	5.6	6.1	7.9	9.5	8.8	9.6	10.9	10.7
Domestically financed	1.7	2.6	4.3	5.2	4.7	5.7	7.2	7.2
o/w MDRI (IMF) related	0.0	0.5	0.5	0.3	0.2	0.4	0.0	0.0
Foreign financed	3.9	3.5	3.7	4.3	4.1	4.0	3.7	3.5
Overall balance before grants	-10.3	-8.9	-6.9	-9.4	-10.5	-10.9	-10.9	-9.7
Grants	5.4	4.9	6.9	5.5	5.5	5.7	5.5	5.1
Program (including basket grants) [3]	3.0	3.0	3.6	2.9	3.1	3.2	3.5	3.2
Project	1.9	1.2	2.8	2.4	2.2	2.1	2.0	1.9
HIPC grant relief	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI (IMF) grant relief	0.0	0.6	0.5	0.3	0.2	0.4	0.0	0.0
Overall balance after grants	-4.9	-4.0	0.0	-3.9	-4.9	-5.2	-5.3	-4.6
Adjustment to cash [4]	-0.5	-0.9	-1.6	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-5.5	-4.9	-1.6	-3.9	-4.9	-5.2	-5.3	-4.6
Financing	5.5	4.9	1.6	3.9	4.9	5.2	5.3	4.6
Foreign (net)	3.3	3.7	3.2	3.6	3.6	3.7	4.5	3.7
Foreign loans	3.9	3.8	3.4	3.8	3.9	3.9	4.7	4.0
Program (including basket loans) [2]	2.0	1.6	2.5	1.8	2.0	2.1	2.0	1.4
Project	1.9	2.2	0.9	1.9	1.9	1.8	1.7	1.6
Nonconcessional borrowing				0.0	0.0	0.0	1.0	1.0
Amortization	-0.6	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
Domestic (net)	2.1	1.2	-1.5	0.2	1.2	1.6	1.0	1.0
Bank financing	0.8	0.1	...	...	...	...	...	...
Nonbank financing	1.3	1.1	...	...	...	...	...	...
Amortization of parastatal debt	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Privatization proceeds	0.2	0.0	0.0	0.2	0.2	0.0	0.0	0.0

Sources: Ministry of Finance; Bank of Tanzania; and Fund staff projections.
[1] Fiscal year: July-June.
[2] Some projected external debt obligations are under negotiation for relief with a number of creditors.
[3] Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.
[4] Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.
[5] The nominal GDP series was revised upwards by about 10% in 2007. All ratios to GDP have been revised accordingly.

Table 5. Tanzania: Summary Accounts of the Bank of Tanzania, 2008/09–2009/10
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2008						2009						2010	
	Jun		Sept.		Dec		Mar		Jun		Sept	Dec	Mar	Jun
	Act.[1]	Revised Data	Prel.[1]	Revised Data	Prog.	Act.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	2,966	3,120	2,928	3,127	3,268	3,655	3,326	3,523	3,385	3,338	3,273	3,532	3,678	3,334
Net international reserves	3,001	3,120	2,963	3,127	3,268	3,655	3,326	3,523	3,385	3,338	3,273	3,532	3,678	3,334
(Millions of U.S. dollars)	2,541	2,642	2,535	2,675	2,758	2,855	2,772	2,710	2,786	2,510	2,434	2,599	2,677	2,402
Net non-reserve foreign assets	-35	0	-35	0	0	0	0	0	0	0	0	0	0	0
Net domestic assets	-886	-1,040	-564	-764	-968	-1,379	-996	-1,073	-967	-664	-434	-552	-652	-125
Credit to government	-1,163	-1,407	-958	-1,287	-1,502	-1,480	-1,501	-1,448	-1,428	-1,085	-670	-813	-747	-308
of which: Excluding counterpart of liquidity paper	4	-240	139	-191	-414	-253	-364	-347	-240	-60	330	162	253	592
of which: MDRI (IMF)	…	-162	…	-149	-130	-137	-98	-131	-99	-114	-85	-57	-28	0
Other items (net)	277	367	394	524	533	101	505	375	461	421	236	261	95	182
of which: REPOs	-106	-105	-123	-123	-50	-120	-113	-90	-25	-28	-79	-13	-137	-8
of which: MDRI (IMF)	-162	…	-149	…	…	…	…	…	…	…	…	…	…	…
Reserve money[2]	2,080	2,080	2,364	2,364	2,300	2,276	2,330	2,450	2,418	2,674	2,839	2,980	3,026	3,209
Currency outside banks	1,272	1,269	1,453	1,450	1,397	1,439	1,372	1,396	1,511	1,541	1,649	1,734	1,750	1,849
Bank reserves	807	810	911	914	903	838	958	1,054	907	1,133	1,190	1,246	1,276	1,360
Currency in banks	179	182	222	224	203	272	215	237	203	262	280	295	298	314
Deposits	628	628	689	689	700	566	743	817	703	871	910	952	978	1,045
Required reserves (calculated)[2]	420	504	426	511	492	532	517	683	537	714	758	793	815	841
Excess reserves (calculated)	208	124	263	179	208	35	226	134	167	157	152	159	163	126
Memorandum items:														
Stock of liquidity paper	1,168	1,168	1,097	1,097	1,088	1,227	1,138	1,101	1,188	1,025	1,000	975	1,000	900
Average reserve money	2,049	2,054	2,350	2,350	2,320	2,318	2,350	2,500	2,438	2,648	2,833	2,979	3,058	3,178

Sources: Bank of Tanzania; and Fund staff estimates and projections.

[1] Figures reflect monetary surevy data covering the banking system, which was previously used for program monitoring. Beginning in December 2008, program monitoring will be based on data that covers a broader set of deposit taking institutions consistent with the Fund's *2000 Monetary and Financial Statistics Manual.*
[2] In January 2009 the reserve requirement on government deposits was increased to 20 percent (from 10 percent) and cash in banks was no longer counted towards required reserves. Previously, 50 percent of cash in banks was counted toward required reserves.

Table 6. Tanzania: Monetary Survey, 2008/09–2009/10
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2008						2009						2010	
	June		Sept		Dec		Mar		June		Sept	Dec	Mar	June
	Act.[1]	Revised Data	Prel.[1]	Revised Data	Prog.	Act.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	3,553	3,689	3,445	3,617	3,932	4,150	3,938	3,998	3,995	3,788	3,736	4,007	4,165	3,834
Bank of Tanzania	2,966	3,120	2,928	3,127	3,268	3,655	3,326	3,523	3,385	3,338	3,273	3,532	3,678	3,334
Commercial banks	587	569	517	490	663	495	612	475	610	450	463	475	488	500
Net domestic assets	2,813	2,923	3,376	3,476	3,386	3,309	3,667	3,695	3,885	4,279	4,896	5,068	5,152	5,846
Domestic credit	3,247	3,114	3,695	3,526	3,457	3,907	3,703	4,082	4,054	4,686	5,349	5,567	5,699	6,439
Credit to government (net)	-22	-151	-119	-26	-355	-335	-315	-231	-201	121	390	194	256	567
Credit to nongovernment sector	3,269	3,265	3,815	3,552	3,812	4,242	4,018	4,313	4,255	4,564	4,959	5,373	5,443	5,872
Other items (net)	-434	-191	-319	-51	-71	-598	-36	-387	-169	-407	-453	-499	-546	-593
M3	6,366	6,612	6,821	7,093	7,318	7,459	7,605	7,693	7,881	8,067	8,632	9,075	9,317	9,680
Foreign currency deposits	1,737	1,785	1,770	1,832	2,127	1,997	2,212	2,059	2,076	2,159	2,311	2,429	2,494	2,591
M2	4,629	4,827	5,051	5,261	5,190	5,462	5,393	5,634	5,805	5,908	6,321	6,646	6,823	7,089
Currency in circulation	1,272	1,269	1,453	1,450	1,397	1,439	1,372	1,396	1,511	1,541	1,649	1,734	1,750	1,849
Deposits (Tanzania Sh)	3,357	3,557	3,599	3,811	3,793	4,024	4,021	4,238	4,293	4,367	4,672	4,912	5,073	5,240
Memorandum items:														
M3 growth (12-month percent change)	22.7	18.1	24.2	21.2	17.7	19.8	14.6	15.3	19.3	22.0	21.7	21.7	21.1	20.0
Foreign currency deposits (12-month percent change)	5.1	-0.1	7.4	2.8	16.3	9.0	12.3	2.5	16.6	20.9	26.1	21.7	21.1	20.0
M2 growth (12-month percent change)	30.8	26.6	31.5	29.3	18.2	24.4	15.6	20.7	20.3	22.4	20.1	21.7	21.1	20.0
Credit to nongovernment sector (12-month percent change)	44.6	34.7	48.0	28.9	26.4	40.7	23.1	32.2	30.3	39.8	39.6	26.7	26.2	28.7
Reserve money (12-month percent change)[1]	30.1	25.1	40.3	42.4	22.4	21.1	19.9	26.0	16.3	28.6	20.1	30.9	23.5	20.0
Average reserve money (12-month percent change)[1]	21.6	21.9	28.0	28.0	23.3	23.2	22.3	30.5	19.0	28.9	20.6	28.5	22.3	20.0
Currency/M3 (in percent)	20.0	22.0	21.3	23.6	19.1	22.9	18.0	18.1	19.2	22.4	22.4	22.4	22.0	22.4
Reserve money multiplier (M3/average reserve money)[1]	3.1	3.2	2.9	3.0	3.2	3.2	3.2	3.1	3.2	3.0	3.0	3.0	3.0	3.0
Velocity of money (M3; average)	3.9	…	…	…	…	…	…	…	3.6	3.6	…	…	…	3.5
Nonbank financing of the government (net)[2]	-30	48	202	-109	30	17	40	30	50	50	10	20	30	60
Bank financing of the government (net)[2]	-317	-395	-97	125	-204	-184	-164	-80	-50	273	269	72	135	445
Bank and nonbank financing of the government (net)[2]	-346	-346	105	16	-174	-167	-124	-50	0	323	279	92	165	505

Sources: Bank of Tanzania; and Fund staff estimates and projections.

[1] Figures reflect monetary survey data covering the banking system, which was previously used for program monitoring. Beginning in December 2008, program monitoring will be based on data that covers a broader set of deposit taking institutions consistent with the Fund's *2000 Monetary and Financial Statistics Manual.*

[2] Cumulative from the beginning of the fiscal year (July 1).

Table 7. Tanzania: Balance of Payments, 2007/08–2013/14

(Millions of U.S. dollars, unless otherwise indicated)

	2007/08	2008/09		2009/10	2010/11	2011/12	2012/13	2013/14
	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-2,012	-2,240	-1,906	-2,108	-2,142	-2,114	-2,331	-2,420
Trade balance	-3,070	-3,403	-3,064	-2,982	-3,040	-3,089	-3,419	-3,705
Exports, f.o.b.	2,609	3,187	2,891	2,860	2,961	3,187	3,284	3,548
of which: Traditional	337	432	460	369	379	422	471	529
of which: Gold	921	...	805	963	993	1,031	1,073	1,114
Imports, f.o.b	-5,667	-6,590	-5,955	-5,841	-6,001	-6,276	-6,702	-7,253
Of which: Oil	-1,683	-1,833	-1,408	-1,406	-1,517	-1,740	-1,951	-2,175
Services (net)	401	608	563	252	185	258	326	512
Of which: Travel receipts	1,186	...	1,239	1,053	1,001	1,101	1,211	1,453
Income (net)	-28	-100	-108	-141	-166	-159	-133	-140
Of which : interest payments due	-30	-51	-54	-55	-60	-59	-56	-54
Of which : interest on public debt	-20	-28	-31	-35	-39	-41	-42	-42
Of which : interest on central government debt [1]	-20	-28	-31	-35	-39	-41	-42	-42
Current transfers (net)	686	655	703	762	880	876	895	913
Of which : official transfers	663	631	675	735	855	854	871	888
Of which : program grants	663	631	675	735	855	854	871	888
HIPC relief	0	0	0	0	0	0	0	0
Capital account	627	588	532	578	593	608	624	641
Of which : project grants	570	526	470	512	524	534	545	556
Debt stock reduction under MDRI (including HIPC)	0	0	0	0	0	0	0	0
Of which: HIPC	0	0	0	0	0	0	0	0
Financial account	1,491	1,796	1,382	1,423	1,465	1,674	1,964	2,244
MDRI (including HIPC)	0	0	0	0	0	0	0	0
Of which: HIPC	0	0	0	0	0	0	0	0
Direct investment	696	802	591	502	553	663	829	1,036
Other investment (including Portfolio investment)	795	994	791	920	912	1,011	1,135	1,208
Portfolio investment	3	3	3	3	247	269	245	215
Of which: government securities	…	…	…	…	243	266	242	212
Other investment	792	991	788	917	666	743	891	993
Program loans	458	405	434	473	489	364	371	379
Project loans	419	427	404	440	450	459	469	478
Government-scheduled amortization [1]	-38	-33	-61	-58	-63	-73	-68	-79
Errors and omissions	395	0	-141	0	0	0	0	0
Overall balance	501	144	-132	-108	-84	168	258	465
Financing	-501	-144	132	108	84	-168	-258	-465
Change in BoT reserve assets (increase, -)	-501	-144	-106	18	85	-167	-256	-463
Use of Fund credit	0	0	238	89	-1	-2	-2	-3
Memorandum items:								
Gross official reserves (BoT)	2,660	2,793	2,766	2,748	2,663	2,829	3,085	3,548
Months of imports of goods and services (next year)	4.2	3.7	4.4	4.2	3.9	3.9	4.0	4.3
Current account deficit (percent of GDP)								
Excluding official current transfers	-14.2	-13.0	-12.4	-13.0	-12.8	-11.6	-11.4	-10.8
Including official current transfers	-10.7	-10.1	-9.1	-9.7	-9.1	-8.2	-8.3	-7.9
Foreign program and project assistance (percent of GDP)	11.2	9.0	9.5	9.9	9.9	8.6	8.0	7.5
Foreign direct investment (percent of GDP)	3.7	3.6	2.8	2.3	2.4	2.6	3.0	3.4
Nominal GDP	18,877	22,091	20,836	21,820	23,500	25,640	28,068	30,754

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

[1] Relief on some projected external debt obligations is being negotiated with a number of creditors.

Table 8. Tanzania: Balance of Payments, 2008–2010 [1]

(Millions of U.S. dollars, unless otherwise indicated)

				Change Relative to the Previous Year						
				2009			2010			
	2008 Act.	2009 Proj.	2010 Proj.	Δ in value	Δ in price	Δ in volume	Δ in value	Δ in price	Δ in volume	Cumulative
Current account	-1911	-2041	-2125	-130			-84			-214
Trade balance	-3061	-3023	-3011	38			12			
Exports, f.o.b.	2750	2875	2910	125			35			
***Of which:* Traditional** [2]	418	386	374	**-32**	**-42**	**10**	**-12**	**8**	**-20**	**-44**
***Of which:* Gold** [2]	917	890	978	**-27**	**67**	**-94**	**88**	**8**	**80**	**61**
Imports, f.o.b	-5811	-5898	-5921	-87			-23			
Of which: Nonoil	-4265	-4491	-4460	-226			31			
***Of which:* Oil** [4]	-1546	-1407	-1462	**139**	**297**	**-159**	**-54**	**85**	**-139**	**84**
Services (net)	524	374	219	-150			-155			
***Of which:* Travel receipts**	1259	1078	1027	**-181**			**-51**			**-232**
Income (net)	-68	-124	-153	**-56**			**-29**			**-85**
Current transfers (net)	694	733	821	38			88			126
Of which: Program grants	669	719	821							
Capital account	580	555	585	-25			30			6
Financial account	1436	1230	1451	-206			220			14
***Of which:* Direct investment**	643	547	528	**-97**			**-19**			**-116**
Of which: Program loans	446	453	481	7			28			35
Errors and omissions	43	0	0							
Overall balance	148	-256	-89							
Memorandum items:										
Gross official reserves (end-December)	2,873	2,616	2,527	**-256**			**-89**			**-345**
Aggregate impact of external shocks [3]				**-254**			**-78**			**-332**

[1] Calendar figures computed by averaging two relevant fiscal year figures unless otherwise specified.

[2] Monthly export data already available were used to calculate the 2008 figures.

[3] The sum of the items in bold.

[4] Lag effects in the downward price movements are assumed.

Table 9: Financial Soundness Indicators, 2003–08
(Percent, end of calendar year)

	2003	2004	2005	2006	2007	2008
Access to bank lending						
Claims on the non-government sector to GDP [1]	5.4	8.8	9.0	11.3	13.9	17.0
Capital adequacy						
Capital to risk-weighted assets	21.0	15.4	15.1	16.3	16.2	14.9
Capital to assets	9.9	10.2	10.0	7.6	8.1	9.1
Asset composition and quality						
Total loans and advances to total assets	30.2	33.7	33.7	37.3	41.2	50.7
Sectoral distribution of loans						
Trade	23.8	22.4	23.5	15.2	17.0	18.5
Mining and manufacturing	27.3	22.2	22.0	18.3	20.3	14.7
Agricultural production	14.1	12.8	12.7	9.0	11.9	10.4
Building and construction	5.5	3.8	5.7	5.0	5.1	4.9
Transport	10.3	8.3	7.4	7.9	6.9	7.2
Foreign exchange loans to total loans	27.2	28.6	32.4	32.0	31.4	31.8
Gross nonperforming loans (NPLs) to gross loans	4.5	3.5	4.9	7.3	6.3	6.3
NPLs net of provisions to gross loans [2]	3.0	2.5	4.3	6.8	6.3	6.2
NPLs net of provisions to capital	…	…	…	21.1	22.0	25.2
Large exposures to total capital	59.3	64.1	53.3	282.8	183.5	227.3
Earnings and profitability						
Return on assets	2.1	3.1	3.9	3.9	4.7	3.8
Return on equity	20.7	22.3	26.3	26.7	29.0	23.1
Interest margin to gross income	51.5	60.7	65.6	70.6	72.5	71.3
Noninterest expenses to gross income	67.1	53.3	48.4	43.5	42.5	48.8
Personnel expenses to noninterest expenses	39.9	39.0	39.6	39.5	40.5	41.9
Trading and fee income to total income	42.3	39.1	33.6	28.9	24.2	…
Liquidity						
Liquid assets to total assets	56.3	50.7	52.5	48.6	48.0	37.6
Liquid assets to total short term liabilities	62.8	58.4	60.1	54.2	53.0	41.7
Total loans to customer deposits	41.2	46.3	43.7	50.1	57.6	68.4
Foreign exchange liabilities to total liabilities	36.5	34.7	34.9	38.6	33.8	32.6

Sources: Bank of Tanzania; and Fund staff estimates.

[1] Calendar year; end of period claims relative to annual GDP. For 2008, based on projected GDP.

[2] The increase in nonperforming loans to gross loans between 2005 and 2006 was due largely to a change in reporting standards.

Table 10. Tanzania: Indicators of Capacity to Repay the Fund[1]

							Projection							
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Fund obligations based on existing credit														
(in millions of SDRs)														
Principal	0.0	0.3	1.4	2.0	2.2	2.2	2.0	0.8	0.3	0.0	0.0	0.0	0.0	11.2
Charges and interest	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	1.7
credit														
(in millions of SDRs)														
Principal	0.0	0.3	1.4	2.0	2.2	18.2	35.8	44.6	44.0	43.8	27.9	10.0	0.0	230.0
Charges and interest	0.6	1.1	1.3	1.3	1.3	1.2	1.1	0.9	0.7	0.5	0.3	0.0	0.0	10.2
Total obligations based on existing and prospective credit														
In millions of SDRs	0.6	1.3	2.7	3.2	3.5	19.4	36.9	45.5	44.7	44.2	28.1	10.0	0.0	
In millions of US$	1.0	2.0	4.1	4.9	5.4	29.8	57.0	70.6	69.6	69.1	44.1	15.7	0.0	
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.1	0.5	0.8	1.0	0.9	0.8	0.5	0.1	0.0	
In percent of debt service[2]	1.8	3.3	5.2	4.4	3.2	12.3	16.0	15.3	12.9	12.1	7.2	2.5	0.0	
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0	
In percent of Gross International Reserves	0.0	0.1	0.2	0.2	0.2	0.9	1.7	1.9	1.7	1.6	0.9	0.3	0.0	
In percent of quota	0.3	0.7	1.3	1.6	1.8	9.7	18.5	22.9	22.5	22.2	14.1	5.0	0.0	
Outstanding Fund credit														
In millions of SDRs	170.3	229.7	228.3	226.4	224.1	206.0	170.2	125.6	81.6	37.8	10.0	0.0	0.0	
In millions of US$	257.6	348.5	347.8	346.4	344.4	317.7	263.5	195.2	127.2	59.2	15.6	0.0	0.0	
In percent of exports of goods and services	5.1	7.2	7.1	6.5	6.2	5.2	3.9	2.6	1.6	0.7	0.2	0.0	0.0	
In percent of debt service[2]	476.9	578.7	445.6	309.9	203.8	131.4	74.1	42.2	23.6	10.3	2.6	0.0	0.0	
In percent of GDP	1.2	1.5	1.4	1.3	1.2	1.0	0.8	0.5	0.3	0.1	0.0	0.0	0.0	
In percent of Gross International Reserves	10.2	14.4	14.9	13.8	12.5	9.9	7.8	5.3	3.2	1.4	0.3	0.0	0.0	
In percent of quota	85.6	115.5	114.8	113.8	112.7	103.5	85.6	63.1	41.0	19.0	5.0	0.0	0.0	
Net use of Fund credit (in millions of SDRs)	159.1	59.4	-1.4	-2.0	-2.2	-18.2	-35.8	-44.6	-44.0	-43.8	-27.9	-10.0	0.0	-11.2
Disbursements	159.1	59.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	218.8
Repayments	0.0	0.3	1.4	2.0	2.2	18.2	35.8	44.6	44.0	43.8	27.9	10.0	0.0	230.0
Memorandum items:														
Exports of goods and services (in millions of US$)	5,055	4,849	4,930	5,290	5,532	6,075	6,739	7,390	8,103	8,885	9,742	10,682	11,713	
Debt service (in millions of US$)[2]	54	60	78	112	169	242	355	463	538	573	613	635	683	
Nominal GDP (in millions of US$)	21,411	22,547	24,343	26,551	29,032	31,775	34,260	37,511	41,071	44,746	48,557	52,431	56,614	
Gross International Reserves (in millions of US$)	2,528	2,420	2,335	2,501	2,757	3,220	3,394	3,690	4,012	4,363	4,744	5,158	5,608	
Quota (millions of SDRs)	198.9	198.9	198.9	198.9	198.9	198.9	198.9	198.9	198.9	198.9	198.9	198.9	198.9	

Sources: IMF staff estimates and projections.

[1] ESF disbursements of SDR 159.12 million (80 percent of quota) upon approval, June 2009; SDR 39.78 million (20 percent of quota) upon completion of the first review, October 2009; and SDR 19.89 million (10 percent of quota) upon completion of the second review, April 2010; in total SDR 218.79 million (110 percent of quota) during 2009-10.

[2] Total debt service includes IMF repayments.

APPENDIX I. LETTER OF INTENT

May 11, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. Tanzania has continued to benefit from support by the Fund under the Policy Support Instrument (PSI). The implementation of programme under the PSI has progressed well with sound macroeconomic policies that have contributed to a sustainable high economic growth. The government seeks to consolidate these achievements and explore more initiatives to further promote growth and reduce poverty.

2. During the first half of the fiscal year (July–December 2008), performance under the programme has been good. All but one of the quantitative assessment criteria for end-December 2008 were met and good progress was achieved on the structural benchmarks. The floor on net international reserves was met by a wide margin, while reserve money was held in check. However, net domestic financing of the Government slightly exceeded its ceiling (by less than 0.1 percent of GDP).

3. The economic performance during 2008 was good despite the continued pressures from energy and food prices, as well as the global financial and economic crisis. Some challenges were encountered in the implementation of monetary policy, primarily on account of high inflation and rapid expansion of credit to private sector. Nominal exchange rate remained fairly stable, while interest rates on Treasury securities began to edge upwards in recent months, partly reflecting a tighter stance of monetary policy and the thinness of the financial market.

4. However, the Tanzanian economy is now slowing down, driven by the worsening external environment. To mitigate the adverse impact of the global financial crisis, the Government has taken initiatives, in consultation with Fund staff, that will provide a countercyclical stimulus to the economy, including an easing of the fiscal and monetary stance over the second half of the current fiscal year; but the scope for supportive policies is curtailed by a projected fall in reserves resulting from the sudden deterioration of Tanzania's external environment. Indeed, beginning in early 2009, receipts from traditional exports, tourism, and gem stones exports have started to decline. Foreign direct investment and other foreign inflows are now projected to decline in 2009, leading to a projected deterioration in the balance of payments.

5. Against this background, the government of Tanzania requests access to the Exogenous Shock Facility (ESF) under the High Access Component. This request is for a 12-month ESF arrangement in an amount of 110 percent of quota, the equivalent of SDR 218.79 million (about USD 328 million), to be disbursed in three tranches. In order to ensure full consistency between the PSI and the ESF-supported programme, the government also requests an extension of the PSI until May 29, 2010. We would request that the seventh review of the PSI take place by April 30, 2010.

6. Following discussions and consultations with the Fund staff, I hereby transmit the letter of intent and memorandum of economic and financial policies which reviews the implementation of the programme during the first half of 2008/09 and describes the objectives and policies that the government intends to pursue during the remainder of the fiscal year and 2009/10 and over the medium term, including to respond, in a sustainable manner, to the exogenous shock that has affected Tanzania.

7. The Government of Tanzania is confident that the policies set forth in the attached MEFP are adequate to achieve the objectives of its programme but it will, in further consultation with the Fund, take any appropriate measures for this purpose. We will regularly update the Fund on developments in our economic and financial policies, and provide the data needed for the monitoring of the programme. In addition, the Government will consult regularly with the Fund on any relevant developments at the initiative of the Government or the Fund.

8. The Government of Tanzania intends to disseminate this letter and the attached MEFP as well as related Fund staff reports, and hereby authorizes the IMF to publish the same on its website after consideration by the Executive Board.

Yours Sincerely,

/s/

Mustafa H. Mkulo (MP)
MINISTER FOR FINANCE AND ECONOMIC AFFAIRS
UNITED REPUBLIC OF TANZANIA

Attachments:
I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the PSI-Supported Programme and Twelve-Month Arrangement under the ESF

Attachment I. Tanzania: Memorandum of Economic and Financial Policies

May 11, 2009

I. Recent Macroeconomic Developments and Progress Under the Programme

Recent economic developments

1. Tanzania continued to record impressive economic performance in 2008, with an estimated real GDP growth of 7.5 percent, up from 7.1 percent in 2007. Good performance was recorded in industry and construction (9.6 percent) and services (8.9 percent) particularly in real estate and business services sub-activities. As Tanzania cannot be insulated from the impact of the current global financial and economic crisis, the government has formed a Task Force to monitor and advise on effects of the crisis and measures to mitigate them.

2. The economy continued to experience inflationary pressures that had arisen from the lagged effects of soaring world commodity prices earlier in the year, compounded by severe food supply shocks in the region, and poor short rains in some areas of Tanzania in the last quarter of 2008. As a result, annual inflation rose to 13.5 percent in December 2008, driven by food inflation of 18.6 percent. Non-food inflation, however, was held to just 6.0 percent. The recent easing of global fuel prices, as well as sustained prudent fiscal and monetary policies, are expected to lead to a downward trajectory in inflation in the coming months.

Performance under the programme

3. Performance was good under the PSI programme during this period. All but one of the quantitative assessment criteria for the fifth review of the PSI were met (end-December 2008 test date). Despite larger than programmed sales of foreign exchange, the target for net international reserves was met, and the reserve money programme was brought back on track, after several months of excess liquidity. Shortfalls in government revenues, however, resulted in net domestic financing slightly missing its target. Government registered a net build up of deposits by TZS 167 billion compared to TZS 174 billion that was envisaged in the programme (see Appendix Table 1). Good progress was also achieved under the programme's structural agenda.

Near-Term Fiscal Policies

4. During the first half of 2008/09, the fiscal outturn was characterized by lower performance against targets, although overall foreign inflows were in line with budget estimates. Total revenue collection was 93 percent of budget projections during the period. While shortfalls were mainly in PAYE; excise duties; and import duty, good performance was recorded in the Value Added Tax. Despite the shortfall, revenue collection in the first half of 2008/09 was 23 percent higher than in the corresponding period of the preceding fiscal year.

5. Total expenditure during July–December 2008 was also below budget estimates, in line with the resource envelope. Disbursement of budget support over the period was slightly higher than projected, but incurred some delays and was mainly received during the second quarter of the

year. Total expenditure end June 2009 is projected to be inline with available resources and incorporates TZS. 53 billion from supplementary budget of February 2009, which allocated TZS. 40 billion for fertilizer subsidies; TZS. 10 billion for livestock development and TZS. 3 billion for TIB recapitalization.

6. Budget support for the whole fiscal year is projected to be higher than the amount budgeted due to new disbursements that were not anticipated in the budget. Project and basket funds are expected to remain within estimates. The additional disbursements of donor grants will offset part of the domestic revenue shortfall, but the government still expects recourse to domestic borrowing of about 1.2 percent of GDP. The higher than programmed deficit spending is expected to have some stimulus effects on the economy.

Public Financial Management

7. Progress has been made in strengthening public financial management systems in order to improve management of public resources and enhance accountability at all levels. This involved establishment of oversight units for procurement and audit in all MDAs; strengthening of the three Parliamentary public accounts committees; creating a Public Procurement Policy Unit at the MoFEA and introducing audit committees in MDAs and LGAs. A separate independent internal audit department—which will report directly to the Paymaster General—is in the process of being established in the Ministry of Finance and Economic Affairs, with the objective of enhancing its independence and accountability.

8. In ensuring efficiency, effectiveness, transparency, and accountability in the use of public financial resources the Government is implementing the Public Financial Management Reform Programme III (PFMRP III) after the completion of the review of PFMRP II strategic plan. The objective of PFMRP III is to improve planning and budgeting tools, including integrating the MTEF and IFMS.

9. As for cash flow management, the Cash Management Unit continues to prepare the three month rolling cash flow forecasts. Efforts have been made to enhance the capacity of the Cash Management Unit, line Ministries and other spending agencies to improve the forecasts, expenditure planning, and implementation. This will also facilitate liquidity forecasting for monetary and fiscal policies. Moreover, MoFEA and the BoT have agreed that, the monthly meetings which are held by the Ministry to determine the resource envelope and expenditure ceilings shall be conducted after the MPC meetings, so as to incorporate the net fiscal flows projected under the monetary plan. Particularly during periods of large fiscal liquidity injections, such as the run-up to the end of the fiscal year, the MoFEA and BoT staff will coordinate closely to ensure that shocks to liquidity can be anticipated and contained.

Monetary and Exchange Rate Policies

10. Monetary developments in the first quarter of 2008/09 were characterized by acceleration in the expansion of credit to the private sector and mounting inflationary pressures. In response to these developments, the Bank of Tanzania increased reserve requirements on central government deposits from 10 percent to 20 percent and abolished acceptance of 50 percent of vault cash as an

eligible component of the minimum reserves effective January 2009. These changes were also aimed at limiting the liquidity impact of the idle central government balances in commercial banks. Consequently, the level of commercial banks' minimum reserve balances at the Bank of Tanzania increased by about TShs 140 billion, while expansion of credit and money supply slowed down.

11. In line with the tightening of monetary policy, interest rates on government securities increased gradually in 2008/09, while the shilling began to weaken against the US dollar in October 2008, after having gained value for about a year. The weakening of the shilling reflected the initial market reaction to global financial crisis which was compounded by activities of speculators who purchased dollars on anticipation of further depreciation.

12. The BoT continued to maintain a flexible exchange rate, while engaging in foreign exchange sales for sterilization purposes. During the first half of 2008/09, the BoT enhanced its foreign exchange sales in a bid to calm the market against speculations of negative impact of the global financial and economic crisis. Throughout the period under review, gross international reserves were maintained above USD 2.7 billion. Going forward, foreign exchange transactions by the Bank will be limited to IFEM counterparties with Reuter's electronic dealing system to enhance transparency and competitive trading. Following the inception of online monitoring of all banks' foreign exchange transactions, the BoT will closely monitor, among others, the activities of hedge funds.

II PROGRAMME FOR 2009/10 AND IN THE MEDIUM TERM

13. The economic recession in the developed world is likely to feed into the Tanzanian economy in a number of ways. Based on the macroeconomic projections and policy targets for the period 2009/10–20011/12, real GDP growth is expected to slip to 5.0 percent in 2009 from 7.5 percent in 2008; and begin to recover in 2010. However, the sharp decline in oil import prices provides some relief to these adverse economic effects, while minimal exposure to the toxic assets that have plagued global financial markets has insulated the financial sector from the acute shocks seen in more advanced economies. Although inflation has remained high (13.3 percent in February) because of elevated food prices, non-food inflation declined to just under 5 percent. It is expected that headline inflation will come down later in 2009, as food supplies improve.

14. In spite of the lower oil import bill, the worsening external environment will lead to a deterioration of the balance of payments. Receipts from traditional exports, tourism, and gem stones exports have already begun to slow down, while sources of foreign financing for private investment—FDI and syndicated loans—have begun to dry up.

15. Efforts are being made to ensure that the negative impacts of the global financial and economic crisis are not spread much in the real sector. Among measures that the Government intends to undertake include: ensure food sufficiency, financial stability through daily monitoring of the banking system, strengthening Infrastructural development, promoting domestic tourism and increasing productivity in economic sectors.

Fiscal and monetary policies

16. The 2009/10 budget will aim to continue to provide some stimulus to the economy. The government will also continue to strengthen domestic resource mobilization in the medium term. Areas under consideration include changes to the fiscal regime of the mining sector; non tax revenue; and tax exemptions. Revenue to GDP ratio is projected to rise to 16.3 percent in 2009/10 and further to 17.1 percent by 2011/12. Meanwhile, total expenditure is projected to increase to 27.5 percent of GDP in 2009/10 and maintained broadly at that level through 2011/12. The need to meet infrastructural challenges will imply net domestic financing of 1.6 percent of GDP in 2009/10 and non-concessional financing, from both domestic and foreign sources, of up to 2 percent of GDP over the medium term.

17. The government will continue to implement the Medium Term Pay Policy (MTPP) with a focus on, among others, enhancing salary levels so as to retain the staff while continuing to attract highly qualified ones. Incentives will also be made to attract staffing in the most under served areas especially under education and health sectors. The medium term projection indicates that wages will be around 5.6 percent of GDP in 2009/10, and gradually edge upwards to 6.0 percent for the remaining period.

18. The Government is in the process of approving the Medium Term Public Investment Plan (MPIP), which is expected to be operational in 2009/10. The plan seeks to consolidate the achievements so far attained in growth and economic management by scaling up public investments, particularly in strategic areas. More specifically, the focus of the Plan over the next five years will be in the following investment priority areas: rehabilitation and construction of new transport and communication infrastructure (railways, road, ports) to make Tanzania a transportation hub and international trade gateway; generation, transmission and distribution of low cost energy to attract efficiency seeking industrial and commercial investment capital; rehabilitation and development of new irrigation infrastructure to attain food self sufficiency and make Tanzania a grain reserve and source of industrial feedstock in the region; effective utilization of the country's mineral wealth and leverage its gain for the development of infrastructure; and improvement of the current labour force to acquire the necessary skills for technological and industrial revolution. The Government's medium-term fiscal framework is consistent with the MPIP and the Government expects to contribute 40 percent of overall finance of the Plan.

19. In order to accelerate infrastructural development, the Government in collaboration with other stakeholders, plans to organize an infrastructure round-table to take stock of transport, water, and energy infrastructure; lay out strategies for reducing port congestion in Dar es Salaam port; and assess financing gap and propose alternative financing options.

20. The government seeks to promote Public Private Partnership (PPP) as a way of raising the efficiency of financing the compelling demand for infrastructure development. This will increase participation of the private sector in the implementation of infrastructure projects, while ensuring fair sharing of risks associated with such projects. Following agreement on a broad policy

framework for PPPs in early 2008, we expect a detailed PPP policy, including the establishment of a dedicated PPP unit, to be approved by the Government by end-June 2009.

21. With regard to MKUKUTA implementation, the first phase of MKUKUTA is coming to an end in June 2010. Currently the Government is in the process of reviewing MKUKUTA and results from the review will form the basis for designing and implementing the second phase.

22. The Government continues to monitor closely public debt developments. In October 2008 debt sustainability analysis was conducted, and the results from the exercise reveal that the external debt is sustainable. The Government will continue to finance development projects mainly through concessional borrowing. The Government is undertaking a detailed analysis of contingent liabilities, including those arising from government guarantees. A detailed list is expected to be ready by end-September 2009.

23. With the objective of further improving cash management, effective 1st July 2009, all government payments in excess of TSh 10 million will be made through TISS (Tanzanian Interbank Settlement System), which will reduce the expenditure float and improve the predictability of the liquidity impact of government transactions.

24. Efforts are underway to implement the IMF's Government Finance Statistics Manual (GFSM) 2001. As a first step, we plan to introduce an economic classification of expenditure. A migration path has been prepared for incorporating GFSM 2001 in the Integrated Financial Management System (IFMS) and a bridge table will map the budgets submitted by MDAs, Regions and LGAs that are still in GFSM 1986 format. Therefore budget books for 2009/10 will include an economic classification consistent with GFSM 2001. As a second step, we plan to introduce a functional classification of expenditure, which should be ready for the 2010/11 budget.

25. The weak aggregate demand, resulting from the global financial crisis and the prospects for continued low inflation provides a scope for easing monetary policy in the second half 2008/09 and 2009/10. Accordingly, the Bank of Tanzania will reduce the volume of liquidity papers and continue to complement sale of government securities with foreign exchange sales. Consistent with the BoT's primary objective of maintaining price stability, this will also help to reduce pressure on interest rates and provide the market with foreign exchange at the time of scarcity. The Bank will also explore the option of using discount and Lombard rates more actively by altering their respective penal margins—which have so far been fixed—to reflect the monetary policy stance. The Bank of Tanzania will, however, monitor inflation closely and make appropriate adjustments to monetary targets, should inflationary pressures re-emerge.

Financial Sector Stability

26. The impact of the current financial crisis on the capital and financial markets has so far been subdued, mainly on account of the low level of intergration with international markets. All indicators of financial sector stability have remained strong. The Government is aware of the downside risks of the crisis on the economy and is closely monitoring developments in the financial sector with a view to taking timely measures. The BoT has stepped up its regular

supervision of the banking system. An early warning system has been set up, using selected indicators of financial sector performance on daily basis to spot signs of weakness.

27. The BOT continues to coordinate the implementation of the Second Generation Financial Sector Reform programme. With regard to the credit reference system, the Terms of Reference have been developed for procurement of a consultant who will assist in the establishment of the credit reference databank. Credit reference bureau regulations and licensing guidelines are in the approval process. Meanwhile, the Government is reviewing the recommendation of the consultant on how best to transform Tanzania Investment Bank into a Development Finance Institution with a window for lending to agricultural and industrial sectors. On credit guarantee schemes, work is in progress by a consultant to determine the future structure and modus operandi of the schemes outside the Bank of Tanzania.

28. A review of the legal and regulatory framework of capital and financial account transactions was completed and shared with stakeholders. Their comments and suggestions contributed to the development of a tentative plan for timing and sequencing of capital account liberalization, which was completed in February 2009. The focus now will be laying the foundation for implementing the plan. In addition,, the review of the Bank of Tanzania's functions with the objective of refocusing its mission to its core activities has been completed and a strategy has been prepared to be incorparated into the Bank's Corporate Plan by the end of May 2009.

29. With regard to financial supervision of pension funds, the new Social Security (Regulatory Authority) Act became effective on 1st November 2008. The Ministry of Labor, Employment, and Youth Development is presently finalizing the regulations and in the process of recruiting a CEO of the Regulatory Authority, with the expectation of completing both steps by end-June 2009. Immediately thereafter, the BoT, in consultation with the regulator, will issue investment guidelines for the pension funds.

30. The Bank continued to implement the recommendations of the IMF Safeguards Assessment Mission issued in June 2008. Among those implemented include: audit quality review by a concurrent partner, formal agreement on the modalities for the selection of audit firm subcontracted to conduct audits, majority composition of non-executive directors in the audit committee, draft year end procedures prepared awaiting review by Internal Audit Directorate (IAD) and external auditors, MOU agreed between the MOFEA and the Bank. The MOU was signed on December 4th, 2008 and outstanding obligations settled on 10th December, 2008. The 2007/08 external audit of the BoT has been completed and submitted to the MOFEA. It is expected to be submitted to Parliament by the MOFEA by end-June 2009. Also, capacity building in IAD has commenced by hiring 10 new staff as well as phasing in risk based internal auditing on pilot basis in FY 2008/09. On engaging a consulting firm to conduct a comprehensive risk assessment, following the submission of the TORs "no objection" has been granted by the World Bank to initiate a process to hire a consultant. Finally, a draft policy on whistle-blowing has been prepared awaiting Board approval.

Statistical issues

31. The National Bureau of Statistics (NBS) has produced Tanzania Statistical Master Plan for 2008/09–2012/13 with the aim of strengthening production of core statistics. The recent HBS results will be used to revise and rebase the national accounts, and this will improve GDP and CPI data. The NBS has produced quarterly GDP series from 2001 to 2007. The dissemination of 2001 to 2008 series is expected in July 2009. On BOP statistics, the BoT in collaboration with other participating institutions will continue to conduct annual surveys on departing international visitors in order to improve tourism statistics. Meanwhile, the Government is looking into ways to improve the collection of statistics on foreign remittances to complement the current sources of such information.

32. The Bank of Tanzania, in collaboration with the Tanzanian Investment Center (TIC) and the NBS, continues with surveys that began in 1999 to monitor private capital flows, including foreign direct investment. The 2007 report which covers 2006/07 information is now ready for presentation to chief executive officers of the participating institutions, before being published by June 2009. The survey for 2009, which will cover information through 2007/08, is expected to begin in May 2009 and published by June 2010.

III PROGRAMME MONITORING

33. Quantitative assessment criteria and performance criteria for end-June 2009 and end-December 2009 and quantitative indicative targets for end-September 2009 and end-March 2010 will monitor programme implementation under the PSI and ESF arrangement in 2009–10 (see Table 1). The government and IMF staff also agreed on the structural benchmarks listed in Table 2. The first and second reviews under the ESF will take place at the same time as the sixth and seventh PSI reviews respectively.

Table 1. Tanzania: Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets Under the PSI and the ESF, 2008/09–2009/10

	2008						2009						2010
	June		September		December		March		June		September	December	March
	Actual	Revised Data 1/	Actual	Revised Data 1/	Program Assessment Criteria	Prel.	Program Indicative Targets	Proj.	Program Assessment Criteria	Proposed Assessment/Performance Criteria	Proposed Indicative Targets	Proposed Assessment/Performance Criteria	Proposed Indicative Targets
	(Billions of Tanzania shillings; end of period, unless otherwise indicated)												
Net domestic financing of the government of Tanzania (cumulative, ceiling) 2/ 3/	-346	-346	105	16	-174	-167	-124	-50	0	323	279	95	168
Accumulation of budgetary arrears (ceiling; indicative target only)	0	0	0	0	0	0	0	0	0	0	0	0	0
Average reserve money (upper bound) 4/	2,054	2,054	2,350	2,350	2,343	2,318	2,374	2,500	2,463	2,674	2,862	3,009	3,089
Average reserve money target 4/	---	---	---	---	2,320	---	2,350	---	2,438	2,648	2,833	2,979	3,058
Average reserve money (lower bound) 4/	---	---	---	---	2,297	---	2,327	---	2,414	2,622	2,805	2,949	3,028
	(Millions of U.S. dollars; end of period)												
Net international reserves of the Bank of Tanzania (floor) 5/	2,541	2,642	2,535	2,675	2,559	2,855	2,573	2,710	2,587	2,310	2,234	2,399	2,478
Accumulation of external payments arrears (ceiling) 6/	0	0	0	0	0	0	0	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling) 6/	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum item:													
Foreign program assistance (cumulative grants and loans) 2/	1,122	1,122	264	289	550	751	777	1,045	1,036	1,109	315	818	1,139

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU) attached to the Government's letter of May 11, 2009.

1/ Revised data are based on the Standard Reporting Forms covering a broader set of deposit taking institutions, in line with the Fund's *2000 Monetary and Financial Statistics Manual*.
2/ Cumulative from the beginning of the fiscal year (July 1).
3/ To be adjusted upward by up to T Sh 250 billion for the U.S. dollar equivalent of a shortfall in foreign program assistance from the amounts shown in the memorandum item.
4/ Assessment criteria (performance criteria) and indicative targets apply to upper bound only.
5/ Floors are set US$200 million below projected levels. Floor will be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item up to the equivalent of T Sh 250 billion.
6/ Continuous assessment criterion under the PSI and continuous performance criterion under the ESF; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 2. Tanzania: PSI/ESF Structural Benchmarks for 2009/10

Measure	**Target Date of Implementation**
Financial Sector	
Adopt a strategy for refocusing the Bank of Tanzania on its core activities.	End-May 2009
Issue investment guidelines for pension funds prepared by the Bank of Tanzania.	End-June 2009
Prepare an updated financial stability report for the BOT Board, including assessments of risk-based prudential supervision.	End-December 2009
Fiscal	
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous
Prepare a list of outstanding government guarantees and contingent liabilities, including debts held by parastatals.	End-September 2009
Prepare a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* for the budget for 2010/11.	End-April 2010

Attachment II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the PSI-Supported Programme and Twelve-Month Arrangement under the ESF

May 11, 2009

I. Introduction

1. The purpose of this Technical Memorandum of Understanding (TMU) is to describe concepts and definitions that are being used in the monitoring of the quantitative assessment criteria, performance criteria, and indicative targets under Tanzania's programme supported by the PSI and ESF arrangement. The principal data source is the standardized reporting forms, 1SR and 2SR, as provided by the Bank of Tanzania to the IMF, and the government debt tables provided by the Accountant General's office.

II. Definitions

Net international reserves

2. Net international reserves (NIR) of the Bank of Tanzania (BoT) are defined as reserve assets minus reserve liabilities. The BoT's reserve assets, as defined in the IMF BOP manual (5^{th} edition) and elaborated in the reserve template of the IMF's special data dissemination standards (SDDS), include (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guaranteed for a third party external liability (assets not readily available). The BoT's reserve liabilities include (i) all short-term foreign exchange liabilities to nonresidents, and (ii) all liabilities to the IMF. Reserve liabilities exclude medium- and long-term foreign liabilities.

Reserve money and reserve money band

3. Reserve money is defined as the sum of currency issued by the BoT, including the vault cash of commercial banks, and the deposits of the commercial banks with the BoT. The reserve money targets are the projected daily averages of March, June, September, and December within a symmetrical one percent band. The upper bound of the band serves as the assessment/performance criterion or indicative target

Net domestic financing of the Government of Tanzania

4. Net domestic financing of the Government of Tanzania (NDF) includes financing of the budget of the central (union) government of Tanzania ("government") by the banking system (BoT and other depository corporations) and the nonbank public. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of (i) loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued by the BoT for monetary policy purposes), minus all government deposits with the BoT; (ii) all BoT accounts receivable on the Government of Tanzania that are not included under (i) above; (iii) loans and advances to the government by other depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other depository corporations; (iv) all ODC accounts receivable on the Government of Tanzania that are not included under (iii) above; and (v) the outstanding stock of domestic debt held outside depository corporations excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COMELCO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

Government deposits at the BoT

5. Government deposits at the BoT include government deposits as reported in the BoT balance sheet (1SR), which includes counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes, and foreign currency-denominated government deposits at the BoT, including the PRBS accounts and the foreign currency deposit account.

External payments arrears

6. External payments arrears consist of the total amount of external debt service obligations (interest and principal) of the government and the BoT that have not been paid at the time they are due, excluding arrears on external debt service obligations pending the conclusion of debt-rescheduling arrangements.

Contracting or guaranteeing of external debt on nonconcessional terms

7. The term "debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)). Government debt is outstanding debt owed or guaranteed by the Government of Tanzania or the Bank of Tanzania.

8. Government debt is considered nonconcessional if the grant element is lower than 35 percent, calculated using discount rates based on Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRR), adjusted as

appropriate for different maturities. For maturities of less than 15 years, the grant element will be calculated based on 6-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This assessment/performance criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)), but also to commitments contracted or guaranteed for which value has not been received.

Budgetary arrears

9. Budgetary arrears are defined as the sum of all verified bills that have been received by a central government spending unit or line ministry, and for which payment has not been made within 30 days during the fiscal year on wages, domestic interest, and goods and services (excluding court awards).

Foreign programme assistance

10. Foreign programme assistance is defined as budget support and basket grants and loans received by the Ministry of Finance and Economic Affairs (MoFEA) through BoT accounts and accounts at other depository corporations and is calculated as the cumulative sum, since the beginning of the fiscal year, of the receipts from (i) programme loans and (ii) programme grants.

Programme exchange rate

11. For 2008/09, the end-of-period programme exchange rate is set at T Sh 1330 per U.S. dollar for quarter IV. For 2009/10, the end-of-period programme exchange rates are set at T Sh 1345 per U.S. dollar, T Sh 1359 per U.S. dollar, and T Sh 1374 per U.S. dollar for quarters I–III, respectively. For 2008/09, the period average programme exchange rate is set at T Sh 1315 per U.S. dollar for quarter IV. For 2009/10, the period average programme exchange rates are T Sh 1337 per U.S. dollar, T Sh 1352 per U.S. dollar, and T Sh 1366 per U.S. dollar for quarters I–III, respectively. For 2008/09 and 2009/10 as a whole, the programme average exchange rates are set at T Sh 1255 per U.S. dollar and T Sh 1359 per U.S. dollar, respectively.

III. ADJUSTERS

Net international reserves

12. The end-June, end-September, and end-December 2009 and end-March and end-June 2010 quantitative targets for the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign programme assistance in U.S. dollars, up to a limit of T Sh 250 billion, converted into U.S. dollars at the programme average exchange rate, for the end-quarter test dates in 2008/09 and 2009/10, relative to

projections shown in the Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

Net domestic financing

13. The end-June, end-September and end-December 2009 and end-March and end-June 2010 quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfall in foreign programme assistance in U.S. dollars, up to a limit of T Sh 250 billion, evaluated using the corresponding programme annual average exchange rates, relative to projections shown in the Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

IV. DATA REPORTING REQUIREMENTS

14. For purposes of monitoring the programme, the Government of Tanzania will provide the data listed in Table 1 below.

Table 1 Summary of Reporting Requirements

Information	Reporting Institution	Frequency	Submission Lag
Issuance of government securities.	BoT	Bi-weekly	1 week
Yields on government securities.	BoT	Bi-weekly	1 week
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices	NBS	Annually	6 months
Balance sheet of the BoT (1SR)	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SR and the DCS).	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	BoT	Monthly	2 weeks
External trade developments	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for deposit money banks and for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators for deposit money banks and for other depository corporations	BoT	Quarterly	6 weeks
Other depository corporation lending by activity.	BoT	Monthly	4 weeks
Interest rate structure of other deposit institutions.	BoT	Monthly	4 weeks
Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) accumulation of budgetary arrears; (iv) stock of external arrears; (v) new contracting or guaranteeing of external debt on nonconcessional terms; and (vi) net international reserves. The MoFEA and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant	BoT and MoFEA	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
General of the MoFEA.			
The flash report on revenues and expenditures.	MoFEA	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report. As discussed above, the MoFEA and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant General of the MoFEA.	MoFEA	Monthly	4 weeks
Monthly report on central government operations.	MoFEA	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and external debt service due and paid.	MoFEA	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoFEA	Monthly	4 weeks
Statement on new loans contracted during the period including terms and conditions according to loan agreements.	MoFEA	Quarterly	4 weeks

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

Joint World Bank/IMF Debt Sustainability Analysis

Prepared by the staffs of the International Development Association and International Monetary Fund

Approved by Carlos Braga and Sudhir Shetty (World Bank) and Saul Lizondo and Dominique Desruelle (IMF)

May 15, 2009

Tanzania's risk of debt distress is low. Extensive debt relief in recent years greatly reduced the external debt burden and the long-term outlook under the baseline scenario is benign, even taking into account some non concessional borrowing to help finance a stepping up of government investment spending on infrastructure over the medium term. Sensitivity analysis based on standardized shocks support the conclusion that the risk of debt distress is low going forward. Alternative downside scenarios illustrate, however, that debt indicators would be sensitive to significantly less donor assistance or lower long-term growth. This highlights the importance of a sound debt management strategy and quality evaluation of infrastructure projects to ensure healthy rates of return on investment.

Background

1. **Tanzania has sustained high rates of broad-based economic growth with generally low inflation over the past decade.** Real GDP growth averaged about 7 percent a year during 2000–08. Inflation was kept solidly in check for much of this period, but accelerated in 2008 (13.5 percent at end year), driven mainly by lagged effects of the spike in international food and fuel prices,[1] and more recently, by adverse regional food supply shocks. In contrast, nonfood inflation remained modest (5.8 percent). Strong growth in tax revenues over the past 5 years, together with substantial donor support has enabled government spending to expand at a rapid pace with only limited recourse to domestic financing. Tanzania also achieved a large buildup in official international reserves, partly

[1] See "Impact of Rising International Food and Fuel Prices on Inflation in EAC Countries", in Rwanda and Uganda—Selected Issues (Country Report No. 09/36).

reflecting solid export growth over the years. As of end-2008, gross international reserves stood at about US$2.8 billion (more than 4 months of imports of goods and services).

2. **Tanzania has benefited from extensive debt relief under the HIPC Initiative and, more recently, the Multilateral Debt Relief Initiative (MDRI).** As of end-June 2008, Tanzania's public external debt stood at US$3.7 billion (20.9 percent of GDP), compared with US$7.2 billion (53.4 percent of GDP) at end-June 2006, before MDRI went into effect (Table 1).[2] Multilateral debt accounts for about one-half of the total external debt. Tanzania's public domestic debt increased from TSh 2.5 trillion (14.5 percent of GDP) at end-June 2006 to TSh 3.3 trillion (14.3 percent of GDP) at end-June 2008, about half of which was short-term Treasury bills (Table 2). Tanzania is classified as a strong performer according to the three-year moving average index of the World Bank's Country Performance and Institutional Assessment (CPIA).

Medium- to Long-Term Macroeconomic and Financing Assumptions

3. **The baseline scenario assumes that the Tanzanian economy gradually recovers from the current slowdown caused by the global economic and financial crisis** (Table 3)**.** After falling to 4-5 percent in 2009 (or 5.3 percent in 2009/10), real GDP growth is projected to increase gradually to 7.5 percent in 2012/13,[3] driven partly by a stepping up of government spending on infrastructure investment (by 2 percentage points of GDP) sustained over the medium term. Growth is assumed to remain at 7.5 percent for 5 years, before gradually declining to a long-run growth rate of 6 percent by 2019/20 and beyond, as the positive growth impact of the stepped-up infrastructure investment diminishes. Inflation (GDP deflator) is also projected to decelerate to the Bank of Tanzania's (BoT) medium-term objective of 5 percent by 2011/12—as the impact of high food and fuel prices subsides[4]—and then remain unchanged through 2028/29. Reflecting the projected path of CPI inflation, the annual average real exchange rate is projected to appreciate modestly in 2009/10 and 2010/11 and is then assumed to be constant throughout the remainder of the projection period. Both the export and import price index deflators are assumed to grow at 2 percent a year. In addition, the income elasticity used for export and import projections are 1.25 and 1.1,

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[2] The debt stock excludes the estimated amount of interest arrears of about US$560 million, which are expected to be canceled upon conclusion of formal agreements on HIPC debt relief. Most of these arrears are associated with bilateral debt. It also excludes the undisbursed committed debt of US$2.3 billion.

[3] Tables and Figures are in fiscal years (July-June). For example, 2009 refers to fiscal year 2009/10.

[4] Inflation accelerated over the past year (13.0 percent in March 2009), driven mainly by lagged effects of the spike in international food and fuel prices, and more recently by adverse regional food supply shocks. Nonfood inflation has however declined over the past year (4.3 percent in March 2009).

respectively, which contributes to a gradual narrowing of the external current account deficit over the long term, and a gradual increase in national saving (both private and public).

4. **To finance the additional infrastructure spending, the baseline incorporates additional domestic and external borrowing on non concessional terms.** Given the difficulty of accessing foreign credit markets during the current crisis, initially the additional borrowing is obtained from domestic sources (total projected net domestic finance (NDF) is 1.2 percent of GDP in 2008/09 and 1.6 percent of GDP in 2009/10). Thereafter, the additional borrowing needs (2 percent of GDP in 2010/11–2014/15) are assumed to be evenly split between domestic and foreign financing. The terms of domestic and foreign financing are assumed as follows: interest on new domestic borrowing is 12 percent (with automatic rollover of debt) and interest on foreign borrowing is 9 percent (with 1 year grace period and 10 year maturity).[5] The elevated infrastructure investment is reflected in an initial increase in development spending from 8.8 percent of GDP in 2008/09 to 10.9 percent of GDP in 2010/11. After that, development spending falls to about 10.5 percent of GDP on average during 2011/12-2014/15.[6] Following the period of stepped-up spending, public investment returns to about 9 percent of GDP for the rest of projection period. The baseline also accounts for annual maintenance cost of 5 percent of the total value of the accumulated additional infrastructure spending, which reaches about 0.2 percent of GDP in 2014/15, before gradually declining relative to GDP over the remainder of the projection period. These maintenance costs are added to recurrent costs.

5. **Government revenues are assumed to increase—albeit more gradually than in recent years—while external grants decline.** Roughly in line with the Tanzania Revenue Authority's objective, government revenues are assumed to rise from 16 percent of GDP in 2009/10 to about 20 percent of GDP by 2017/18 and remain at this level. External grants are assumed to decline from 6 percent of GDP in 2009/10 to 4.5 percent of GDP by 2014/15 and remain at that level. Foreign concessional loans (in U.S. dollar terms) are assumed to grow at 4 percent a year. As a result, concessional loans fall from 4 percent of GDP in 2009/10 to 1.5 percent of GDP by 2028/29, representing a gradual reduction in Tanzania's aid dependency. Any residual financing need is assumed to be met initially from domestic borrowing up to a ceiling of 2.5 percent of GDP for NDF as a whole, with the remaining residual being met by foreign non concessional borrowing.

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[5] An interest parity between domestic and foreign borrowing is assumed only for new borrowing. Debt service figures on existing public sector debt (both domestic and foreign) are provided by the authorities.

[6] After 2010/11, it is expected that resources from MDRI that were available for pro-poor development spending will be exhausted, which explains the drop in development spending in the subsequent period.

External Debt Sustainability

6. **Tanzania's external debt level is low.** Tanzania's total external debt declined from US$7.7 billion, or 57.3 percent of GDP at end-June 2006, to US$4.5 billion, or 24.8 percent of GDP at end-June 2008 (Table 4). In PV terms, the public sector component of this debt stood at about 10½ percent of GDP at end-June 2008, or 45 percent of exports.[7] Public external debt service is around 1.7 percent of exports of goods and services. All these indicators are significantly below the indicative debt-burden thresholds that apply to Tanzania.

7. **Looking ahead, Tanzania's risk of external debt distress continues to be low.**[8] Even with substantial non concessional borrowing over the medium term in the baseline scenario, debt follows a benign path—rising gently over the medium term and then declining over the long term (Figure 1). An increase in non concessional external borrowing of about 1 percent of GDP a year for 5 years would lead to an accumulated total of about US$1.5 billion of outstanding non concessional debt by end-2014/15.[9] Total external debt would increase from 25 percent of GDP in 2007/08 to 27 percent in the medium-term, but would then fall to about 20 percent of GDP by the end of projection period. The PV of public external debt would increase from about 10½ percent of GDP to 15½ percent of GDP in the medium-term, but would then decline to about 7 percent of GDP. The standard alternative scenarios and bound tests indicate that Tanzania's external debt will remain sustainable under the individual defined shocks and their combination (Table 5 and Figure 1).[10] For all these cases, debt and debt-service indicators remain below thresholds for a low-income country DSA. As such, Tanzania is classified as "low risk" of debt distress.

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[7] The PV of debt is calculated after factoring in all the debt relief, including HIPC debt relief for which the final agreements on delivery have yet to be signed.

[8] Based on the 3-year average of the World Bank's Country Policy and Institutional Assessment Index, Tanzania is classified as a "strong performer". Its thresholds therefore are: 50 percent of NPV of debt-to-GDP ratio, 200 percent of NPV of debt-to-exports ratio, 300 percent of debt-to-revenue ratio, 25 percent of debt service-to-exports ratio, and 35 percent of debt service-to-revenue ratio.

[9] An increase in non concessional external borrowing also reduces the grant element schedule during the medium-term (Figure 1).

[10] Scenario A1 (key variables at historical averages) yields debt and debt-service indicators that are generally below those of the baseline scenario, suggesting that the baseline's economic assumptions (notably for real GDP growth, external current account deficit, and foreign direct investment) are conservative relative to past performance. Scenario A2 assumes a 2 percentage point increase in the interest rate on new borrowing, but does not lead to a substantial deterioration of the indicators. Bound tests are based on 7-year averages and standard deviations. Because of some discontinuities in the data the staffs did not use the standard 10-year historical period.

8. **An alternative Tanzania-specific downside scenario** (A3 in Table 5)**, indicates that Tanzania's future external debt sustainability is sensitive to the assumptions on real GDP growth and donor support.** Assuming annual real GDP growth of 6.0 percent over the projection period (i.e., the stepping up of investment over the next several years has no positive impact on real GDP growth above the assumed long-term growth rate), while leaving the baseline path of non-interest government spending unchanged in nominal terms, would imply a significant increase in debt indicators over time. If this lower growth scenario were to be coupled with grants falling as a share of GDP (more detail described below), the PV of external public debt-to-GDP ratio increases to 42 percent over the projection period. Indeed, the debt service indicators would generally approach the indicative thresholds towards the end of projection period. This highlights the importance of a sound debt management strategy—and possible fiscal adjustment—and quality evaluation of infrastructure projects to ensure healthy rates of return on investment.

Fiscal Sustainability

9. **Including domestic debt in the analysis, indicators continue to suggest a benign outlook for public debt and fiscal sustainability.** In the baseline scenario, the PV of public debt rises from 25½ percent to 30 percent of GDP over the medium-term, before falling to about 14 percent of GDP by the end of projection period (Table 6). The bound tests and alternative scenarios generally support the assessment that Tanzania's debt outlook is benign (Table 7 and Figure 2). For example, alternative scenario A3 (permanently lower GDP growth) suggests that the PV of public debt would reach about the same level in the medium-term before falling to about 18 percent of GDP by the end of projection period. While debt indicators are indeed sensitive to real GDP growth, all indicators suggest that debt remains sustainable.

10. **Taking into account contingent liabilities does not cause a significant deterioration to the debt indicators, although information is lacking on the full extent of such liabilities.** Based on partial information, current contingent liabilities are estimated to be about TSh 365 billion, or 1.2 percent of GDP, mainly reflecting the guaranteed debt of the government-owned electricity company (TANESCO). The bound test B5 shows only a modest increase in the debt indicators in 2009/10, at which the recognition of these contingent liabilities are assumed. As full information on the size of contingent liabilities become available, however, the sensitivity analysis may become less benign.

11. **The public sector debt sustainability is also dependent on donor support.** In the baseline, grants were assumed to remain at 4.5 percent of GDP during the medium- and long-term. If grants were to grow at the same rate as foreign loans (i.e., 4 percent a year in U.S. dollar terms), the grants would fall from 4.5 percent to 2.4 percent of GDP by 2028/29. This would turn the primary surplus of 0.7 percent of GDP under the baseline into primary deficit of 1.4 percent by 2028/29. Replacing concessional loans and grants with non concessional

borrowing (evenly split between domestic and foreign financing) increases the PV of public debt-to-GDP ratio over time. The alternative Tanzania-specific downside scenario (A4 in Table 7) presents a case where the falling grants are combined with low growth (i.e., no return on investment). Under this scenario, the PV of public debt would reach 86 percent of GDP in 2028/29, of which the external debt portion would be 42 percent of GDP, below the relevant threshold. The debt service-to-revenue ratio would reach 71 percent, if no fiscal adjustments were to take place for the entire projection period.

Concluding remarks

12. **Tanzania's risk of debt distress is low.** Based on the debt sustainability analysis, there appears to be room for an increase in debt, even on non concessional terms, to finance a stepping up of infrastructure investment over the medium term. Tanzania's debt indicators are sensitive to a number of parameters, but in general the downside scenarios and standard sensitivity analysis support the assessment of a low risk of debt distress. Nevertheless, a sound debt management strategy and quality evaluation of investment projects are essential conditions for maintaining debt and fiscal sustainability. For example, should key variables such as donor support or real GDP growth deteriorate excessively, government spending would have to adjust to maintain sustainability.

Table 1. TANZANIA: External Debt Developments
(Millions of U.S. dollars, unless otherwise indicated)

	2004 2004/2005	2005 2005/2006	2006 2006/2007	2007 2007/2008
Overall Total Debt Committed	8345.1	8638.8	5212.4	6776.3
Disbursed Outstanding Debt (DOD)	6799.5	6971.1	3442.3	4483.1
Undisbursed Debt	1545.6	1667.7	1770.1	2293.2
Disbursed Debt by Creditor Category	6799.5	7733.9	3442.3	4483
Multilateral Debt	4626.3	5459.6	1772.6	2620.2
Bilateral Debt	1502.3	1506.2	910.5	934.1
Commercial Debt	416.4	462.2	437.3	617.9
Export credits	254.5	305.9	321.9	310.8
Disbursed Debt by Debtor Category	6799.5			
Central Government	5830.5	6724.5	2692	3582.5
Parastatal Companies	477.5	450	167.8	156.3
Private Sector	491.5	559.5	582.5	744.4
Total Debt (incl. Interest Arrears) by Creditor Category	8134.8	8994.0	4660.9	5846.5
Multilateral Debt	4649.7	5481.6	1800.3	2620.3
Bilateral Debt	2321.1	2190.2	1446.6	1545.4
Commercial Debt	750.1	835.1	877.3	1135.6
Export credits	413.9	487.1	536.7	545.1
Total Debt (excl. Interest Arrears) by Debtor Category				
Public Sector	6308.0	7174.5	2859.8	3738.8
Private Sector	491.5	559.5	582.5	744.4

Sources: Tanzanian authorities

Table 2. TANZANIA: Public Domestic Debt Developments
(Billions of Tanzania Shilling)

	2004 2004/05	2005 2005/06	2006 2006/07	2007 2007/08
Total Domestic Debt Stock	1701	2456	3228	3265
Short term (T-bills) 1/	919	1351	1769	1606
Medium term (Bonds)	781	1105	1459	1659

Sources: Tanzanian authorities

1/ Includes BOT Liquidity Papers.

Table 3. TANZANIA: Key Assumptions in the Baseline and Country-Specific Downside Scenarios

	Baseline	Low growth and grants falling
Real GDP growth rate 1/	At 5.3 percent (2009/10); increases to 7.5 percent (2012/13); remains at 7.5 percent (2013/14-2016/17); falls to 6 percent (2019/20); remains at 6 percent (2020/21-2028/29).	At 5.3 percent (2009/10); increases to 6.0 percent (2010/11); remains at 6.0 percent (2011/12-2028/29).
Inflation (GDP deflator)	5 percent (2011/12-28/29).	
Infrastructure investment	1 percent (NDF only) (2009/10); 2 percent (NDF and external borrowing) (2010/11-2014/15).	
Development spending	At 8.8 percent (2008/09); increases to 10.9 percent (2010/11); after MDRI, it falls to (on average) 10.5 percent (2011/12-2014/15); falls to 9 percent (2015/16) after the elevated investment period; remains at 9 percent (2017/18-2028/29).	
Maintenance costs	5 percent of total borrowing, or about additional 0.2 percent of GDP to noninterest recurrent costs.	
Interest rates 2/	12 percent (new domestic borrowing); 9 percent (new external borrowing).	
Domestic revenue (as a percent of GDP)	At 16 percent (2009/10); increases to 20 percent (2017/18); remains at 20 percent (2018/19-2028/29).	
Grants (as a percent of GDP)	At 6 percent (2009/10); falls to 4.5 percent (2014/15); remains at 4.5 percent (2015/16-2028/29).	At 6 percent (2009/10); falls to 4.5 percent (2014/15); continues to fall to 2.4 percent (2028/29).
Foreign (concessional) loans (as a percent of GDP)	4 percent (2009/10); falls to 1.5 percent (2028/29).	

1/ Includes the effect of infrastructure investment.

2/ A real interest parity is assumed.

Table 4.Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average 0	Standard Deviation	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average
	2005/06	2006/07	2007/08			2008/09	2009/10	2010/11	2011/12	2012/13	2013/14		2018/19	2028/29	
External debt (nominal) 1/	**57.3**	**20.5**	**24.8**			**25.1**	**25.3**	**26.7**	**26.8**	**26.9**	**26.9**		**23.2**	**20.1**	
o/w public and publicly guaranteed (PPG)	53.4	16.6	20.9			21.6	21.9	23.0	23.3	23.5	23.5		18.7	11.7	
Change in external debt	4.6	-36.8	4.3			0.3	0.2	1.4	0.0	0.1	0.0		-0.8	-0.1	
Identified net debt-creating flows	1.7	2.3	2.7			3.4	5.8	3.6	2.2	2.1	1.4		1.1	-0.6	
Non-interest current account deficit	**7.4**	**9.7**	**10.3**	**6.4**	**2.8**	**8.8**	**9.2**	**8.6**	**7.8**	**7.7**	**7.3**		**7.0**	**6.5**	6.9
Deficit in balance of goods and services	10.9	13.0	14.0			11.7	12.1	11.7	10.6	10.6	10.0		9.1	8.0	
Exports	21.8	24.5	23.6			23.6	21.5	20.3	20.0	19.1	19.2		20.2	23.4	
Imports	32.7	37.4	37.6			35.3	33.6	32.0	30.6	29.7	29.2		29.3	31.4	
Net current transfers (negative = inflow)	-3.7	-3.5	-3.6	-3.4	0.6	-3.3	-3.4	-3.6	-3.3	-3.1	-2.9		-2.3	-1.6	-2.1
o/w official	-3.0	-3.3	-3.5			-3.2	-3.3	-3.5	-3.2	-3.0	-2.8		-2.2	-1.5	
Other current account flows (negative = net inflow)	0.2	0.2	-0.1			0.4	0.5	0.6	0.4	0.2	0.1		0.1	0.1	
Net FDI (negative = inflow)	**-3.8**	**-4.3**	**-3.7**	**-3.8**	**0.3**	**-2.8**	**-2.2**	**-3.3**	**-3.5**	**-3.7**	**-3.9**		**-4.4**	**-6.0**	-4.9
Endogenous debt dynamics 2/	**-1.9**	**-3.0**	**-4.0**			**-2.7**	**-1.2**	**-1.7**	**-2.0**	**-2.0**	**-1.9**		**-1.4**	**-1.1**	
Contribution from nominal interest rate	0.4	0.2	0.2			0.1	0.1	0.2	0.2	0.3	0.4		0.4	0.4	
Contribution from real GDP growth	-3.6	-3.8	-1.2			-1.4	-1.3	-1.5	-1.8	-1.8	-1.8		-1.4	-1.1	
Contribution from price and exchange rate changes	1.3	0.5	-3.0			-1.4	0.0	-0.4	-0.4	-0.5	-0.5		-0.4	-0.4	
Residual (3-4) 3/	**2.9**	**-39.1**	**1.7**			**-4.5**	**-5.6**	**-2.6**	**-2.6**	**-2.4**	**-1.8**		**-2.3**	**0.1**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.5			14.5	15.2	16.9	17.5	18.3	18.9		17.1	15.5	
In percent of exports	...	...	61.5			61.5	70.8	83.1	87.8	95.6	98.5		84.7	66.4	
PV of PPG external debt	**...**	**...**	**10.6**			**11.0**	**11.7**	**13.1**	**14.1**	**14.8**	**15.4**		**12.6**	**7.1**	
In percent of exports	**...**	**...**	**44.9**			**46.6**	**54.6**	**64.7**	**70.5**	**77.7**	**80.6**		**62.3**	**30.2**	
In percent of government revenues	**...**	**...**	**66.8**			**69.6**	**72.0**	**78.1**	**82.2**	**85.2**	**87.2**		**62.2**	**35.0**	
Debt service-to-exports ratio (in percent)	**4.4**	**2.0**	**4.2**			**4.5**	**3.6**	**3.8**	**3.5**	**4.1**	**4.9**		**7.4**	**6.6**	
PPG debt service-to-exports ratio (in percent)	**4.3**	**1.1**	**1.7**			**1.1**	**1.2**	**1.6**	**2.1**	**3.0**	**4.0**		**6.3**	**4.8**	
PPG debt service-to-revenue ratio (in percent)	**7.6**	**1.9**	**2.6**			**1.6**	**1.6**	**1.9**	**2.5**	**3.3**	**4.3**		**6.2**	**5.5**	
Total gross financing need (Billions of U.S. dollars)	0.7	0.9	1.4			1.5	1.7	1.5	1.3	1.4	1.4		2.0	2.2	
Non-interest current account deficit that stabilizes debt ratio	2.8	46.5	6.0			8.5	9.0	7.3	7.7	7.6	7.3		7.8	6.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.0	6.9	7.3	7.1	0.3	6.2	5.3	6.4	7.3	7.5	7.5	6.7	6.5	6.0	6.4
GDP deflator in US dollar terms (change in percent)	-2.4	-0.9	16.9	2.0	7.3	5.9	0.0	1.4	1.6	1.7	1.8	2.1	1.9	1.9	1.8
Effective interest rate (percent) 5/	0.8	0.3	1.1	0.8	0.3	0.4	0.5	0.7	0.9	1.3	1.5	0.9	2.0	2.1	2.0
Growth of exports of G&S (US dollar terms, in percent)	11.7	19.1	21.0	18.1	9.4	12.4	-4.1	1.9	7.3	4.6	9.8	5.3	9.2	9.7	9.7
Growth of imports of G&S (US dollar terms, in percent)	22.2	21.5	25.8	19.2	9.1	5.6	0.3	2.7	4.3	6.2	7.5	4.4	8.7	8.7	8.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	51.4	56.2	32.5	24.7	21.9	19.1	34.3	35.2	26.6	31.1
Government revenues (excluding grants, in percent of GDP)	12.5	14.1	15.9			15.8	16.3	16.8	17.1	17.4	17.7		20.2	20.2	19.9
Aid flows (in Billions of US dollars) 7/	0.8	0.7	1.3			1.2	1.8	1.8	1.7	1.8	1.8		2.6	5.4	
o/w Grants	0.8	0.7	1.3			1.2	1.3	1.3	1.4	1.4	1.4		2.2	4.7	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.5	0.5	0.4	0.4	0.4		0.5	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.0	7.1	6.5	5.7	5.3	4.9		5.0	4.8	4.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			83.8	87.2	76.2	75.5	73.5	71.3		84.8	85.3	83.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.3	15.2	19.0			21.4	22.5	24.3	26.6	29.0	31.8		48.6	104.6	
Nominal dollar GDP growth	4.4	6.0	25.4			12.4	5.3	8.0	9.1	9.3	9.4	8.9	8.5	8.0	8.3
PV of PPG external debt (in Billions of US dollars)			2.0			2.4	2.6	3.2	3.7	4.3	4.9		6.1	7.4	
(PVt-PVt-1)/GDPt-1 (in percent)						1.8	1.4	2.4	2.2	2.2	2.1	2.0	0.3	0.1	0.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 5.Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections							
	2008 2008/09	2009 2009/10	2010 2010/11	2011 2011/12	2012 2012/13	2013 2013/14	**2018** **2018/19**	2028 2028/29
PV of debt-to GDP ratio								
Baseline	11	12	13	14	15	15	**13**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	11	8	7	6	6	7	**5**	11
A2. New public sector loans on less favorable terms in 2008-2028 2	11	12	14	16	17	19	**18**	16
A3. Tanzania-Specific Downside Scenario : Low growth and grants falling 7/	11	12	13	14	16	17	21	42
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	11	12	13	14	15	15	**12**	7
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	11	9	7	8	9	10	**9**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	11	12	15	16	17	17	**14**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	11	11	13	14	15	15	**12**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	11	7	4	5	7	8	**7**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	11	17	19	20	21	22	**18**	10
PV of debt-to-exports ratio								
Baseline	47	55	65	70	78	81	**62**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	47	35	33	32	33	34	**23**	47
A2. New public sector loans on less favorable terms in 2008-2028 2	47	58	69	78	90	97	**90**	67
A3. Tanzania-Specific Downside Scenario : Low growth and grants falling 7/	47	55	65	72	81	87	103	181
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	47	55	65	70	78	80	**62**	30
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	47	38	29	35	41	44	**36**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	47	55	65	70	78	80	**62**	30
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	47	52	64	70	77	80	**62**	30
B5. Combination of B1-B4 using one-half standard deviation shocks	47	29	14	20	25	29	**25**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	47	55	65	70	78	80	**62**	30
PV of debt-to-revenue ratio								
Baseline	70	72	78	82	85	87	**62**	35
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	70	47	40	38	36	37	**23**	55
A2. New public sector loans on less favorable terms in 2008-2028 2	70	76	83	91	98	105	**90**	77
A3. Tanzania-Specific Downside Scenario : Low growth and grants falling 7/	70	72	78	84	89	94	103	209
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	70	71	77	81	84	86	**61**	34
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	70	57	43	49	54	58	**43**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	70	76	88	93	96	98	**70**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	70	68	78	82	85	87	**62**	35
B5. Combination of B1-B4 using one-half standard deviation shocks	70	46	23	31	37	43	**34**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	70	103	112	117	122	124	**88**	50

Table 5.Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	1	1	2	2	3	4	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	1	1	1	1	2	2	**3**	4
A2. New public sector loans on less favorable terms in 2008-2028 2	1	1	2	2	3	3	**6**	7
A3. Tanzania-Specific Downside Scenario : Low growth and grants falling 7/	1	1	2	2	3	4	10	27
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	1	1	2	2	3	4	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	1	1	1	1	2	2	**4**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	1	1	2	2	3	4	**6**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	1	1	1	2	3	4	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	0	1	2	**3**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	1	1	2	2	3	4	**6**	5

Debt service-to-revenue ratio

Baseline	2	2	2	2	3	4	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	2	2	1	1	2	2	**3**	4
A2. New public sector loans on less favorable terms in 2008-2028 2	2	2	2	2	3	4	**6**	8
A3. Tanzania-Specific Downside Scenario : Low growth and grants falling 7/	2	2	2	2	3	5	10	32
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	2	2	2	2	3	4	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	2	2	1	1	2	3	**5**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	2	2	2	3	4	5	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	2	2	2	2	3	4	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	1	0	1	3	**4**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	2	2	3	4	5	6	**9**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	16	16	16	16	16	16	**16**	16

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.
7/ Assumes that real GDP growth remains at 6 percent during the medium- and long-term. It also assumes that grants (in US dollars) grow at 4 percent during 2015-29.

Table 6.Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2005 2005/06	2006 2006/07	2007 2007/08			2008 2008/09	2009 2009/10	2010 2010/11	2011 2011/12	2012 2012/13	2013 2013/14	2008-13 Average	2018 2018/19	2028 2028/29	2014-28 Average
Public sector debt 1/	71.6	38.7	35.2			35.4	35.7	36.5	36.5	36.9	37.5		30.3	18.6	
o/w foreign-currency denominated	53.4	16.6	20.9			21.6	21.9	23.0	23.3	23.5	23.5		18.7	11.7	
Change in public sector debt	7.1	-33.0	-3.5			0.2	0.3	0.7	0.1	0.4	0.6		-2.1	-0.6	
Identified debt-creating flows	0.8	-9.9	-3.9			1.0	1.7	2.2	1.4	1.5	1.5		-1.4	-0.2	
Primary deficit	3.6	2.7	-1.2	1.3	1.5	3.8	3.8	4.1	3.4	3.4	3.3	3.6	-0.6	-0.7	-0.2
Revenue and grants	17.9	19.0	22.8			21.3	22.0	22.3	22.2	22.2	22.1		24.7	24.7	
of which: grants	5.4	4.9	6.9			5.5	5.7	5.5	5.1	4.8	4.4		4.5	4.5	
Primary (noninterest) expenditure	21.5	21.7	21.6			25.1	25.8	26.4	25.6	25.6	25.4		24.2	24.1	
Automatic debt dynamics	-2.6	-12.7	-2.8			-2.6	-2.1	-1.8	-2.0	-1.9	-1.7		-0.8	0.5	
Contribution from interest rate/growth differential	-5.1	-5.8	-3.6			-2.1	-1.6	-1.8	-2.1	-1.9	-1.7		-0.9	0.5	
of which: contribution from average real interest rate	-0.9	-1.2	-1.0			0.0	0.2	0.4	0.4	0.6	0.8		1.1	1.6	
of which: contribution from real GDP growth	-4.2	-4.7	-2.6			-2.0	-1.8	-2.2	-2.5	-2.5	-2.6		-2.0	-1.1	
Contribution from real exchange rate depreciation	2.5	-6.9	0.8			-0.5	-0.5	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-0.2	0.0	0.0			-0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2	0.0	0.0			-0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.3	-23.0	0.5			-0.8	-1.3	-1.5	-1.3	-1.1	-1.0		-0.7	-0.4	
Other Sustainability Indicators															
PV of public sector debt	37.7	37.8	25.6			25.7	26.1	27.0	27.8	28.7	29.9		24.3	14.1	
o/w foreign-currency denominated	19.5	15.8	11.3			11.9	12.2	13.6	14.5	15.3	15.9		12.8	7.2	
o/w external	19.5	15.8	11.3			11.9	12.2	13.6	14.5	15.3	15.9		12.8	7.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	14.6	14.4	12.6			11.6	12.2	12.5	11.7	11.8	12.1		8.5	5.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	210.7	198.9	112.2			120.5	118.1	121.1	125.0	129.6	135.0		98.3	57.2	
PV of public sector debt-to-revenue ratio (in percent)	301.1	268.2	161.0			162.6	159.7	160.9	162.2	165.0	168.8		120.1	69.9	
o/w external 3/	155.5	111.9	71.1			75.4	74.8	80.7	84.9	87.9	89.9		63.1	35.5	
Debt service-to-revenue and grants ratio (in percent) 4/	10.9	7.6	6.2			8.6	8.1	7.5	7.6	8.7	10.3		11.7	11.8	
Debt service-to-revenue ratio (in percent) 4/	15.6	10.2	8.9			11.7	11.0	9.9	9.8	11.0	12.8		14.3	14.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-3.5	35.7	2.3			3.6	3.4	3.3	3.4	3.1	2.7		1.5	0.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.0	6.9	7.3	6.5	1.3	6.2	5.3	6.4	7.3	7.5	7.5	6.7	6.5	6.0	6.4
Average nominal interest rate on forex debt (in percent)	0.8	0.3	1.0	0.8	0.3	-0.2	0.1	0.3	0.7	1.2	1.6	0.6	2.2	2.7	2.2
Average real interest rate on domestic debt (in percent)	1.5	0.1	-3.9	-0.6	2.4	2.2	4.0	5.2	5.3	6.1	7.3	5.0	9.1	22.5	13.3
Real exchange rate depreciation (in percent, + indicates depreciation)	5.6	-14.1	5.4	1.4	8.4	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.8	7.2	9.7	6.5	2.8	10.6	8.2	5.4	5.0	5.0	5.0	6.5	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	51.4	56.2	32.5	24.7	21.9	19.1	34.3	35.2	26.6	31.1

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

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

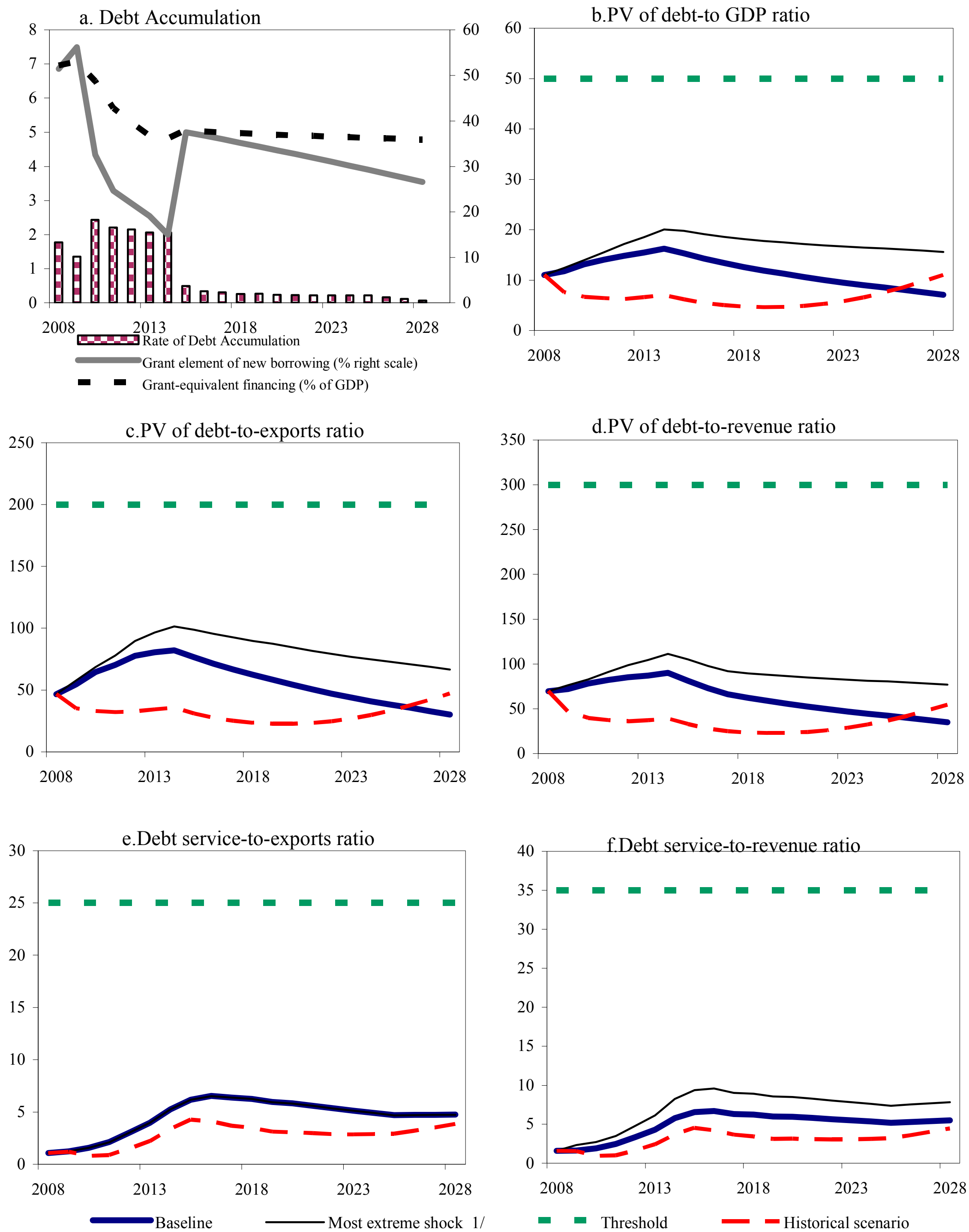
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 7.Tanzania: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2018/19	2028/29
PV of Debt-to-GDP Ratio								
Baseline	26	26	27	28	29	30	24	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	23	21	20	18	18	16	26
A2. Primary balance is unchanged from average of 2008 and 2009	26	23	21	20	18	17	14	24
A3. Permanently lower GDP growth 3/	26	26	27	28	29	30	25	18
A4. Tanzania-Specific Downside Scenario : Low growth and grants falling 4/	26	26	27	29	31	34	43	86
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	26	25	26	26	27	28	20	5
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	26	25	25	26	27	28	22	11
B3. Combination of B1-B2 using one half standard deviation shocks	26	24	23	23	24	24	16	0
B4. One-time 30 percent real depreciation in 2009	26	31	31	32	32	34	29	24
B5. 1.2 percent of GDP increase in other debt-creating flows in 2009	26	27	28	29	30	31	26	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	120	118	121	125	130	135	98	57
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	120	105	95	89	84	80	63	107
A2. Primary balance is unchanged from average of 2008 and 2009	120	106	95	88	82	77	57	99
A3. Permanently lower GDP growth 3/	120	118	121	126	130	136	102	73
A4. Tanzania-Specific Downside Scenario : Low growth and grants falling 4/	120	118	122	129	139	152	180	378
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	120	116	117	119	122	126	82	19
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	120	115	112	116	121	126	89	45
B3. Combination of B1-B2 using one half standard deviation shocks	120	109	103	105	108	111	66	0
B4. One-time 30 percent real depreciation in 2009	120	139	139	142	146	152	117	98
B5. 1.2 percent of GDP increase in other debt-creating flows in 2009	120	124	127	131	136	141	104	66
Debt Service-to-Revenue Ratio 2/								
Baseline	9	8	7	8	9	10	12	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	8	6	4	3	3	1	19
A2. Primary balance is unchanged from average of 2008 and 2009	9	8	6	4	3	2	0	17
A3. Permanently lower GDP growth 3/	9	8	7	8	9	10	12	15
A4. Tanzania-Specific Downside Scenario : Low growth and grants falling 4/	9	8	7	8	9	12	22	71
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	9	8	7	7	8	9	9	4
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	9	8	7	6	7	9	10	9
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	7	5	5	6	6	0
B4. One-time 30 percent real depreciation in 2009	9	8	8	9	10	12	17	23
B5. 1.2 percent of GDP increase in other debt-creating flows in 2009	9	8	8	9	10	11	13	14

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth remains at 5.3 percent during the medium- and long-term (no boost in growth from the infrastructure investment).
2/ Revenues are defined inclusive of grants.
3/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
4/ Assumes that real GDP growth remains at 6 percent during the medium- and long-term. It also assumes that grants (in US dollars) grow at 4 percent during 2015-29.

Figure 1. Tanzania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-2028 1/

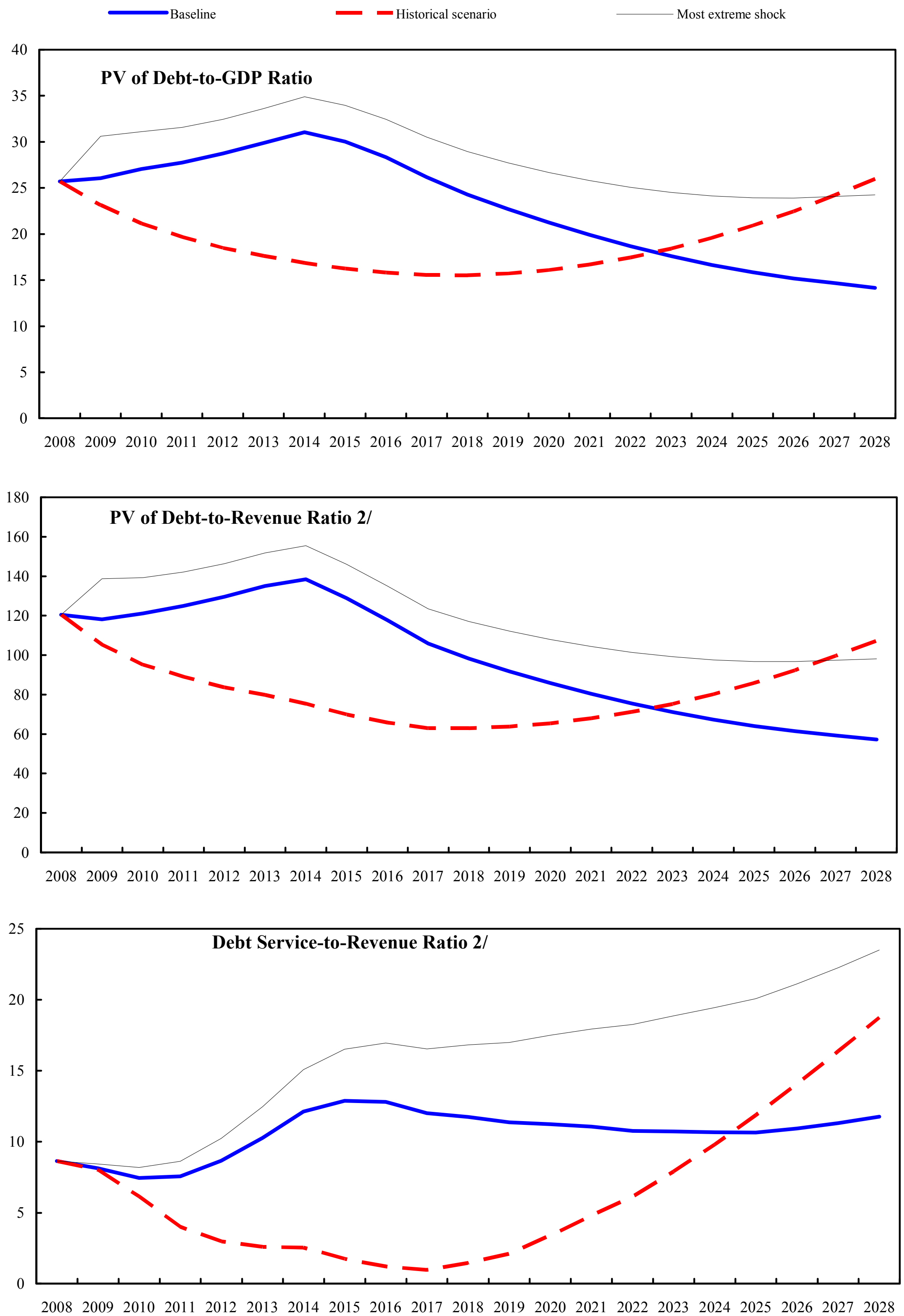


Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a Terms shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Growth shock and in picture f. to a One-time depreciation shock

2/ Assumes that real GDP growth remains at 6 percent during the medium- and long-term. It also assumes that grants (in US dollars) grow at 4 percent during 2015-29.

Figure 2.Tanzania: Indicators of Public Debt Under Alternative Scenarios, 2008-2028 1/



Sources: Country authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2018.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

**Staff Report for the 2009 Article IV Consultation,
Fifth Review Under the Policy Support Instrument,
Request for a Twelve-Month Arrangement under the Exogenous Shocks Facility,
and Request for an Extension of the Policy Support Instrument**

Informational Annex

Prepared by the African Department

May 15, 2009

Contents Page

APPENDIX I: RELATIONS WITH THE FUND
(As of March 31, 2009)

I. Membership Status: Joined 06/10/62; Accepted the obligations of Article VIII, Sections 2, 3 and 4: 07/15/96.

	SDR million	Percent Quota
II. General Resources Account:		
Quota	198.90	100.00
Fund holdings of currency	188.90	94.97
Reserve position in Fund	10.00	5.03

	SDR million	Percent Allocation
III. SDR Department:		
Net cumulative allocation	31.37	100.00
Holdings	0.04	0.13

	SDR million	Percent Quota
IV. Outstanding Purchases and Loans:		
Poverty Reduction and Growth Facility Arrangements	11.20	5.63

V. Latest Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	08/16/2003	2/26/2007	19.60	19.60
PRGF	04/04/2000	08/15/2003	135.00	135.00
PRGF	11/08/1996	02/07/2000	181.59	181.59

VI. Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	**2010**	**2011**	**2012**	**2013**
Principal	--	0.28	1.40	1.96	2.24
Charges/interest	0.16	0.19	0.18	0.18	0.17
Total	0.16	0.47	1.58	2.14	2.41

VII. Implementation of HIPC Initiative:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	Apr 2000
Total assistance (US$ million)	2,026.00
Of which: Fund assistance (US$ million)	119.80
Completion point date	11/21/01
Delivery of Fund assistance (SDR million)	
Amount disbursed	88.95
Interim assistance	26.68
Completion point balance	62.27
Additional disbursement of interest income[1]	7.51
Total disbursements	96.46

VIII. Implementation of MDRI Assistance:

1.	Total debt relief (SDR million)[2]	234.03
	Of which: MDRI	207.00
	HIPC	27.03

2. Debt relief by facility (SDR million)

	Eligible Debt		
Delivery date	**GRA**	**PRGF**	**Total**
January 2006	N/A	234.03	234.03

[1] Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, an additional disbursement is made at the completion point that corresponds to interest income earned on amounts committed but not disbursed during the interim, calculated using the average return (during the interim period) on the investment of resources held by or for the benefit of the PRGF-HIPC Trust.

[2] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

IX. Safeguards Assessments:

A safeguards assessment of the Bank of Tanzania (BoT) was completed on December 05, 2003 and a voluntary update assessment was finalized on August 22, 2008. The update assessment was conducted at the request of the authorities and found that the BoT's 2006/07 financial statements comply with International Financial Reporting Standards and have been audited in accordance with International Standards on Auditing. Recent steps have been taken to strengthen the BoT's oversight framework, the internal audit function, and the control system, but risks remain. The assessment recommends further strengthening of the mandate and independence of the Audit Committee, revamping the internal audit function, implementation of an internationally recognized control framework, and measures to improve transparency on accounting, audit and control matters. An update assessment will be conducted in conjunction with the proposed ESF.

X. Exchange Arrangements:

The currency of Tanzania is the Tanzania shilling. Under the revised classification methodology, Tanzania has a floating exchange rate arrangement. The official exchange rate is determined in relation to the rate established in the interbank market for foreign exchange. The middle rate in terms of the U.S. dollar, the intervention currency, was T Sh 1,314 per U.S. dollar as of end-March, 2009. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

XI. Article IV Consultation:

The most recent Article IV consultation was concluded on June 27, 2007 (Country Report No. 07/246).

XII. Technical Assistance

A. AFRITAC East[1]

	Area	*Focus*
2003/04	Public financial management	Intergovernmental financial relations; program budgeting
	Revenue administration	Work plan for the Tanzania Revenue Authority (TRA); Stamp Duty Act
	Financial sector regulation and supervision	Prudential supervision; AML/CFT legislation
	Monetary operations	Liquidity forecasting; monetary policy instruments; operational guidelines and procedures
	Economic statistics	PPI; IIP; quarterly national accounts; agricultural census; industrial census; CPI; GFS
2004/05	Public financial management	Intergovernmental financial relations; program budgeting; Medium-term expenditure framework (MTEF); cash flow planning; IFMIS Zanzibar—design reform program; commitment control
	Revenue administration	Modernization of TRA; customs administration; tax policy
	Financial sector regulation and supervision	Financial sector legal framework
	Monetary operations	NPS legal and regulatory framework; liquidity management and seasonality; domestic debt market
	Economic statistics	Regional GDP; CPI; extending GDP series backwards Zanzibar—CPI
2005/06	Public financial management	Financial accountability; support to comprehensive PFM reform program; cash flow planning and management

[1] Unless otherwise indicate, refers to technical assistance provided to the mainland of Tanzania.

	Area	Focus
		Zanzibar—commitment control
	Revenue administration	Tax administration; risk assessment and audit; IT support
	Financial sector regulation and supervision	Risk-based supervision; bank resolution; prudential regulations
	Monetary operations	NPS legal and regulatory framework; liquidity management and seasonality; domestic debt market; reserve management
	Economic statistics	Diagnostic analysis and strengthening of data weaknesses; industrial indicators; quarterly national accounts; GFS; CPI;BOP manual
2006/07	Public financial management	Cash-flow planning
		Zanzibar—cash management
	Revenue administration	Tax modernization program; customs reform and modernization; rationalization and integration of Customs and Tiscan
		Zanzibar—Modernization plan for Zanzibar Revenue Board (ZRB); large taxpayer office; tourism taxation
	Financial sector regulation and supervision	Risk-based supervision and on-site inspection; prudential regulations for new Bank and Financial Institutions Act
	Economic statistics	BOP and International Investment Position (IIP); revised CPI; PPI
2007/08	Public financial management	Capacity building for cash management
	Bank supervision	BoT – develop framework for consolidated supervision; improve off-site surveillance reports and to conduct financial analysis training; prepare Problem Bank Manual and to conduct training on its use BoT – comprehensive review of the Bank of Tanzania's implementation of risk-based supervision.
	Revenue administration	Multi-donor review of the Tax Modernization Project (TMP)

	Area	Focus
	Revenue administration	Support to the East African Community (EAC)
	Statistics	Price statistics - Zanzibar
	Macro-Fiscal Analysis	Assist the Policy Analysis Department of the MoF
2008/09	Statistics	CPI (Mainland and Zanzibar)
		Quarterly National Accounts

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	2002–03	Long-term consultant	Public expenditure management
	Mar.–May 2003	Peripatetic advisor	Tax administration
	April 2003	Mission	Inspection and tripartite review
	June–Sep. 2003	Long-term consultant	Public expenditure management
	Sep.–Oct. 2003	Peripatetic advisor	Tax administration
	Oct 2003	Mission	Tax administration
	November 2003	Multicountry mission	EAC tax harmonization
	April 2004	Mission	Customs administration
	July 2004	Peripatetic advisor	Tax administration
	July 2004	Mission	Public Expenditure Management Assessment and Action Plan
	September 2004	Mission	Review of mining taxation
	September 2004	Mission	Tax administration (Zanzibar)
	April 2005	Mission	Customs administration
	July 2005	Mission	Improve the effectiveness of the Ministry of Finance
	Aug.- Sep. 2005	Mission	Tax administration
	Oct.–Nov. 2005	Mission	Strengthen macro fiscal analysis at the Ministry of Finance
	December 2005	Mission	Tax policy
	April 2006	Peripatetic advisor	Strengthen macro fiscal analysis in Ministry of Finance
	April - May 2006	Expert	Customs Administration
	October 2006	Mission	Customs Administration
	April 2007	Mission	Customs Administration
	May 2007	Mission	Multi donor revenue administration review (TMP)
	August 2007	Mission	Tax Administration
	August 2007	Mission	Strengthening tax administration

Department	Date	Form	Purpose
			for ZRB
	October 2007	Mission	PFMRP strategies and activities
	Oct-Nov 2007	Mission	PFM: Review of classification
Legal	March – April, 2003	Mission	Income tax law
	Sept. 2003	Mission	Income tax law
	June 2004	Mission	Income tax law
	July 2004	Mission with MFD	Central and commercial bank legislative reform
	July–November 2004	Desk review	Foreign Exchange Act, Evidence Act, Bills of Exchange Ordnance, National Payment System bill, Electronic Transactions bill
Monetary and Capital Markets	Feb. 2003	Mission	Pre-FSAP mission
	May 2003	Mission	FSAP
	November 2003	Mission	FSAP follow-up workshop
	March 2004	Mission	Accounting and banking supervision
	June 2004	Mission	BoT accounting
	July 2004	Mission	Central and commercial banking legislation reform with LEG
	August 2004	Mission	Financial sector reform/FSAP follow-up
	November 2004	Mission	BoT accounting
	December 2004	Mission	Second FSAP follow-up workshop
	May 2005	Mission	Financial sector reform/FSAP follow-up
	September 2005	Mission	Credit reference database and IFRS-generated reports
	January 2006	Mission	Monetary and foreign exchange operations
	January 2006	Mission	Problem bank resolution
	February 2006	Mission	Prudential regulations
	December 2006	Mission	Monetary and foreign exchange operations
	August 2007	Mission	Assessment of MCM TA implementation
	Oct-Nov 2007	Mission	Financial supervision and regulations
	December 2007	Mission	Monetary and foreign exchange operations
	April 2008	Mission	Financial stability analysis and reporting

Department	Date	Form	Purpose
	August 2008	Mission	Foreign Exchange Operations
	January 2009	Mission	Financial stability analysis and reporting
Statistics	2002–03	Long-term consultant	Multisector statistics
	August 2003	Mission	Government finance statistics
	Jan.-Feb. 2005	Mission	Monetary statistics
	October 2005	Mission	Balance of payments statistics
	December 2005	Mission	Technical assistance evaluation
	February 2006	Mission	CPI software application
	November 2006	Mission	Monetary and financial statistics
	Oct-Nov 2007	Mission	Price statistics
	November 2007	Mission	BoP and external debt statistics
	November 2007	Mission	National accounts statistics
	January 2008	Mission	Monetary and financial statistics
	September 2008	Mission	Monetary and financial statistics

XIII. Resident Representative: Mr. David O. Robinson has been the Senior Resident Representative since March 2007.

Appendix II: Tanzania— Joint Bank-Fund Work Program
May 2009–May 2010

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
A. Mutual information on relevant work programs			
Key elements of World Bank work program in next 12 months	In conjunction with the multi-donor Joint Assistance Strategy for Tanzania (JAST), Poverty Reduction Support Credits to enhance productivity and competitiveness, effective delivery of social services, public sector management, and human development issues.		June 2009
	The work program will continue to concentrate on areas within the existing portfolio: primary, secondary, and higher education; health sector development; water and sanitation; social action fund; agriculture; forestry; environment; road and railway infrastructure; power sector restructuring; fiscal decentralization; private sector competitiveness; and public sector reform.		Continuous
	Analysis of the micro-impediments to shared-growth, with a focus on rural areas.		August 2009
	Public Expenditure Review with the focus on rapid budget analysis.		November 2009
IMF work program in next 12 months	Article IV and Fifth PSI Review	March 2009	May 2009
	Sixth PSI Review	September 2009	November 2009
	Seventh PSI Review	March 2010	May 2010

B. Requests for work program inputs			
Fund request to Bank	1. Assessment of key infrastructure projects and sectoral programs.		Continuous
Bank requests to Fund	1. Monitoring of government contracting of non-concessional borrowing.		Continuous
	2. Monitoring of steps to strengthen corporate governance of the BoT.		Continuous
	3. Sharing macro-framework updates		Continuous
	4. Statement of fiscal risk and contingent liabilities		October 2009
C. Agreement on joint products and missions			
Joint products in next 12 months	1. Collaborate on the Joint DSA.	March 2009	May 2009
	2. Collaborate on financial sector reform program (FSAP).	September 2009	November 2009
	3. Collaborate together with other development partners on the annual review of general budget support.	November 2009	November 2009
	4. Collaborate on PFM reform program in the context of multi-donor support of the Public Financial Management Reform Program.		Continuous

APPENDIX III—TANZANIA—STATISTICAL ISSUES APPENDIX

As of May 7, 2009

I. Assessment of Data Adequacy for Surveillance

General: *Data provision is adequate for surveillance and program monitoring purposes.* Progress was made toward the adoption of the broader reporting forms for monetary/financial sector data and toward the subscription to SDDS. However, weaknesses remain in some areas. There are few statistical publications and no fully articulated publication policy. Only limited data are reported for Zanzibar. E.AFRITAC and other donors provides extensive assistance in strengthening statistics; the Tanzanian Statistical Master Plan provides a comprehensive basis for enhancing quality and timeliness of data; and a national panel survey has been initiated which will provide more regular information on living standards.

National Accounts: National accounts statistics for mainland Tanzania are prepared by the National Bureau of Statistics (NBS). Separate accounts are compiled for Zanzibar by the Office of the Chief Government Statistician for Zanzibar. The data sources for estimating national accounts by expenditure category and the indicators used to extrapolate benchmark production levels suffer from deficiencies that complicate estimation of saving-investment. The accounts are based on the *1993 System of National Accounts* (*1993 SNA*) and are published at current and constant (2001) prices. To improve the quality of the national accounts changed the base year of the national accounts from 1992 to 2001. The revised series were published in September 2007. They are based on the Household Budget Survey (HBS) 2000/01, the Integrated Labor Force Survey 2000/01, and the Annual Survey of Industrial Production 1999/2000. The results of a new HBS, which were released in 2008 (http://www.nbs.go.tz/HBS/Main_Report2007.htm). The authorities intend to use them as a base to revise the national account weights.

East AFRITAC has been providing training and assistance in the compilation of quarterly national accounts (QNA), a key element for subscribing to SDDS. QNA at current prices since 2001 have been compiled, but not yet released. As per the annual national accounts, the series suffer from weaknesses regarding source data.

Prices: The NBS compiles a monthly consumer price index (CPI) for mainland Tanzania based on consumer expenditure in 20 urban centers. A separate price index is compiled for Zanzibar. The mainland CPI has, since September 2004, been compiled (retroactively to January 2003) using weights based on the 2000/01 HBS data. The methodology was revised in September 2006, but the CPI series have not been backdated.

The price index calculated by the latest HBS points to significantly higher inflation than recorded in CPI. However, the HBS index is a very narrow basket of food items with a couple of nonfood items and excludes for example consumer durables where prices have fallen. The discrepancies do though point to key weaknesses in the statistical database—CPI is calculated fairly narrowly on the basis of urban centers whereas bulk of population live in rural areas. The NBS intends to rebase the CPI in light of the HBS results.

Government finance statistics: The authorities provide Fund missions with monthly data on central government revenue, expenditure, and financing on a timely basis. Although the underlying concepts broadly follow the *Government Finance Statistics Manual 1986*, the reporting differs from international standards in coverage and the treatment of lending minus repayments, and transfer payments. Coverage of data on the operations of the central government refers to Tanzania mainland only – recently the Ministry of Finance of Zanzibar established a unit tasked with developing a fiscal reporting framework for Zanzibar. The data also exclude the operations of extra-budgetary units and funds. Data for general government are not available as no information is yet provided on the financial position of local governments, although the authorities have stated their intention to produce such reports.

Despite improvements in the recording of government transactions, discrepancies remain between revenue and expenditure data, on the one hand, and financing data. The discrepancies are related to the lack of a fully integrated set of accounts and the delineation of the public sector and its sub-sectors, differing source data, and timing differences.

The Ministry of Finance created a database of donor-funded projects in 2001/02 (July-June), with donor assistance. Since then, the number of foreign-financed projects reported by and channeled through the budget has increased significantly.

The government has completed the computerization of its accounting system for budgetary units. Although the authorities indicated that it would allow resumption of reporting in the *Government Finance Statistics Yearbook (GFSY)*, no data were reported for the 2007 *GFSY*. The computerized accounting system does not yet provide details about donor funded development expenditure and has not yet been extended to cover the extra-budgetary units. The authorities regularly report fiscal data for inclusion in the *IFS*.

Monetary statistics: The monetary statistics are broadly adequate for policy and analytical purposes. Nevertheless, the December 2006 and January 2008 missions confirmed earlier findings of methodological problems, such as (a) exclusion of some deposit-taking financial institutions from the institutional coverage of depository corporations survey, (b) arbitrary application of the residency criterion by the other depository corporations (ODCs), (c) inadequate subdivision of the resident sector data, (d) misclassification of certain accounting data among statistical aggregates, (e) discrepancies between reported interbank positions, (f) nontransparent treatment of repurchase agreements, and (g) key information gaps in the bank reporting system.

To address these problems, recommendations were made to improve the following definitions: net international reserves, foreign assets, foreign liabilities, loans to other resident sectors, claims on the central government, government deposits, central bank liabilities to commercial banks, and deposits included in broad money. The missions also recommended (a) introducing the standardized report forms─1SR for central bank's accounts and 2SR for ODCs' accounts to be reported to the IMF; (b) that two new schedules for reporting of data by commercial banks be introduced to fully satisfy compilation needs, in particular with respect to the sectoral breakdown and application of residency criterion in the classification of financial instruments used by the ODCs in their activities; and (c) the expansion of the ODCs to include other deposit-taking financial institutions, such as Tanzania Investment Bank, Tanzania Postal Bank, Twinga Bancorp Limited, Mufindi Community Bank, and Mwanga Community Bank.

Balance of payments statistics: Foreign trade data are prepared by Fund staff missions on the basis of customs data provided by the Bank of Tanzania (BOT), which in turn are compiled by the Tanzania Revenue Authority (TRA) based on customs records. A balance of payments statistics mission in May 2002 found continued and significant under-recording of trade and a dearth of information on services. The authorities acknowledged these problems in their response to the data ROSC report published in March 2004 and indicated that the BOT plans to commission a joint study by the NBS and the TRA to determine the magnitude of underrecorded trade and design an appropriate method of estimation. Re-exports are now included in trade data. Balance of payments statistics are reported annually to STA for publication in the *IFS*, along with the annual International Investment Position (IIP).

Tourism revenues are estimated using the model that was developed from the International Visitor's Exit Survey conducted in 2001. Information on official grant and loan receipts is prepared by Fund staff based on contacts with official agencies. The data on current and capital transfers (grants) are estimates, based on data provided by the Ministry of Finance and United Nations Development Program projections. Disaggregation of the data has improved, but more work is needed including on the coverage and periodicity of data.

Data on private "financial" flows are scarce. Some information on private banking sector flows can be derived from the monetary survey, but private "financial" flows are not adequately captured through the International Transaction Reporting System and are largely reflected in "errors and omissions." However, the authorities have made commendable progress in collecting information on certain components. The results of the Private Capital

Flows Survey for 2000 and 2004 have now been incorporated into the balance of payments and IIP accounts, which improved estimates of foreign direct investment inflows as well as dividend payments and distributed branch profits. The Private Capital Flows Survey is designed to capture information on foreign direct investment and also asks investors to report committed and projected (for the near future) direct investment flows.

Data on the gross and net official reserves of the Bank of Tanzania are provided monthly with a short lag, and are available to the Fund with higher frequency on request. Similarly, data on the foreign assets and liabilities of the banking system are provided with relatively short lags.

Significant improvements in the quality of external debt data have been made in the context of the creditor reconciliation exercise under the HIPC Initiative. At present, all multilateral and Paris Club debts (accounting for about 80 percent of total external debt) have been fully reconciled. However, less progress has been made in reconciling debt owed to other bilateral and commercial creditors. Information on external debt not guaranteed by the public sector, mostly private sector debt, is also limited and not captured in a timely manner.

East AFRITAC has provided assistance in international investment position statistics, most recently in March 2007. The missions have worked on training, questionnaires, and revised guidelines for international transaction dealers.

II. Data Standards and Quality

Subscriber to the Fund's General Data Dissemination System (GDDS). GDDS metadata were posted on the IMF's Dissemination Standards Bulletin Board (DSBB) in July 2001 and were updated in September 2007. Tanzania is participating in the SDDS and government finance statistics modules of the Fund's GDDS Project for Anglophone Africa (funded by the U.K. Department for International Development (DFID)).

A mission to prepare the data module for the Report on the Observance of Standards and Codes (ROSC) was completed in October 2002. The report was published in March 2004.

TANZANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF END-APRIL 2009)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Memo Items: Data Quality Accuracy and reliability[8]
Exchange Rates	May 2009	May. 2009	D, M	D, M	D, M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March 2009	April 2009	D, M	D, M	M		
Reserve/Base Money	May 2009	May 2009	D, M	D, M	M	LO, LO, LO, LO	LO, O, O, O, LO
Broad Money	March 2009	April 2009	M	M	M		
Central Bank Balance Sheet	March 2009	April 2009	M	M	M		
Consolidated Balance Sheet of the Banking System	March 2009	April 2009	M	M	M		
Interest Rates[2]	March 2009	April 2009	M	M	M		
Consumer Price Index	March 2009	April 2009	M	M	M	O, LO, O, LO	LNO, LNO, LNO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	...	...	...	...	...	LNO, LNO, LNO, LO	LO, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	March 2009	April 2009	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	February 2009	March 2009	M	M	M		
External Current Account Balance	February 2009	March 2009	M	M	M	LO, LO, LO, LO	LO, LNO, O, LNO, LNO
Exports and Imports of Goods and Services	February 2009	March 2009	M	M	M		
GDP/GNP	2008	May 2009	A	A	A	LO, LO, LO, LO	LNO, LNO, O, LO, LO
Gross External Debt	February 2009	March 2009	M	M	M		
International Investment Position	2007	…	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)..
[7] Reflects the assessment provided in the data ROSC published March 23, 2004 and based on the findings of the October 8–23, 2002 mission for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 09/72
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June 2, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with The United Republic of Tanzania

On May 29, 2009 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Tanzania.[1]

Background

Tanzania sustained high rates of broad-based economic growth with generally low inflation over the past decade. Real GDP growth averaged about 7 percent a year during 2000–08, with substantial contributions from the mining, manufacturing, construction, and services sectors. Inflation was kept solidly in check for much of this period, but accelerated in 2008 (13.5 percent at end-year), driven mainly by lagged effects of the spike in international food and fuel prices and adverse regional food supply shocks. In contrast, nonfood inflation remained modest (5.8 percent). Sound macroeconomic policies and structural reforms, together with a favorable global environment and debt relief, provided the foundation for this successful outcome.

Despite the strong macroeconomic performance, progress on poverty reduction was mixed. There were substantial improvements in education and health outcomes, a significant increase in household assets, and improved residences. Nonetheless, the incidence of income poverty has declined only modestly.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The current global financial crisis and recession have begun to have a significant impact on Tanzania in 2009. Weakened demand for exports of goods and services—notably traditional cash crops and tourism—and a contraction of foreign investment are hitting key sectors of the economy. Real GDP growth is expected to drop to 4-5 percent this year, and downside risks remain. Moreover, Tanzania's recovery from this economic slowdown is likely to be gradual, as demand for its exports and foreign investment are expected to lag behind a global recovery.

The economic slowdown has weakened government revenue performance. After five years of robust growth, revenues have stagnated (relative to GDP) and are falling well short of the budget target in the current fiscal year (July–June). To maintain expenditures as budgeted, the overall fiscal deficit (before grants) is expected to widen to 10½ percent of GDP in 2009/10, providing some fiscal stimulus to the economy. The economic slowdown is also expected to affect the financial system. While banks are currently well-capitalized and non-performing loans have remained at a low level, credit risk is likely to increase. The balance of payments is also under pressure, as the positive effects from the decline in international oil prices and strong gold prices have been more than offset by lower receipts from falling exports of other goods and services and reduced capital inflows.

Executive Board Assessment

Executive Directors commended the Tanzanian authorities for a good track record of sound macroeconomic policies and structural reforms. This strong performance has helped to sustain high rates of economic growth with generally low inflation for several years, as well as create sufficient fiscal space to allow for policy actions to help counter the impact of the current global economic crisis. A broadening in the domestic revenue base, together with substantial donor assistance, allowed for a strong increase in government spending over the past decade, particularly on programs to reduce poverty. Directors were concerned, however, that despite some important gains, progress in poverty reduction has been mixed.

Directors noted that the global financial crisis is having a serious impact on Tanzania. Real GDP growth is expected to fall significantly in 2009, as key sectors of the economy, including exported cash crops and tourism, face a severe downturn. Cutbacks in foreign direct investment and other financing will also weaken aggregate demand. Directors agreed that the authorities' expansionary fiscal and monetary policies in the current situation are appropriate to cushion the effects of the crisis on Tanzania. At the same time, they emphasized that short-term policies must not jeopardize Tanzania's hard-won economic stability. Fiscal stimulus should remain consistent with long-term fiscal and debt sustainability, monetary easing should not put at risk medium-term price stability, and international reserve losses should be contained, consistent with external stability. In this context, Directors encouraged the authorities to make progress in strengthening their medium-term fiscal policy framework.

Directors observed that the banking sector is sound but vulnerabilities remain in some areas. Banks are well capitalized and non-performing loans remain at a low level. Nonetheless, the economic slowdown will raise banks' credit risks, notably through their exposure to export crop financing and personal loans, which have been growing rapidly in recent years. Welcomed steps have already been taken to raise supervisory standards, but more can be done to broaden monitoring to all financial institutions, and reinforce cross-border coordination between host country and home country supervisors. Directors stressed the crucial importance of having an effective system in place for financial supervision of the rapidly growing pension funds, and encouraged the authorities to accelerate progress in this area.

Executive Directors stressed the importance of raising Tanzania's medium-term growth potential, underpinned by continued implementation of structural reforms. They welcomed the ongoing preparations for the update of the national poverty reduction strategy (MKUKUTA), and agreed with the authorities' key priorities to raise agricultural productivity and improve Tanzania's ailing infrastructure. This will require further improvements in the revenue base as well as significant financing, including from the public sector. Concessional financing remains the preferred funding source, consistent with medium-term debt sustainability.

Directors emphasized that strong public financial management is critical to ensuring that public spending is as effective as possible and to avoiding the re-accumulation of unsustainable public debt. Important steps have already been taken, for example to strengthen budgeting and public procurement practices, but further scope remains to raise value for money.

Tanzania: Selected Economic and Financial Indicators, 2006/07–2010/11

	2006/07	2007/08	2008/09	2009/10	2010/11
		Prel.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Real GDP growth (calendar year, at market prices)[1]	6.7	7.1	7.5	5.0	5.7
Real GDP growth (fiscal year, at market prices)	6.9	7.3	6.2	5.3	6.4
Consumer prices (period average)	6.3	8.4	12.0	7.7	5.2
Consumer prices (end of period)	5.8	9.3	11.0	6.0	5.0
External sector					
Export, f.o.b (in millions of U.S. dollars)	2,060	2,609	2,891	2,860	2,961
Imports, f.o.b. (in millions of U.S. dollars)	-4,336	-5,667	-5,955	-5,841	-6,001
Export volume	-6.6	6.2	7.3	-1.2	2.1
Import volume	19.2	13.3	1.8	7.4	-2.5
Terms of trade	1.7	-7.4	14.1	9.7	-3.8
Nominal effective exchange rate (end of period; depreciation -)[2]	-4.9	3.9	5.6	...	...
Real effective exchange rate (end of period; depreciation -)[2]	-3.2	5.7	15.1	...	...
Money and credit[3]					
Broad money (M3)	20.1	18.1	22.0	20.0	…
Net foreign assets	12.2	4.6	2.7	1.2	…
Net domestic assets	36.3	41.0	46.4	36.6	…
Credit to nongovernment sector	36.2	34.7	39.8	28.7	…
Velocity of money (GDP/M3; average)	4.1	3.9	3.7	3.5	…
Treasury bill interest rate (in percent; end of period)[4]	16.0	8.2	11.0	…	…
	(Percent of GDP)				
Public Finance					
Revenue (excluding grants)	14.1	15.9	15.8	16.3	16.8
Total grants	4.9	6.9	5.5	5.7	5.5
Expenditure (including adjustment to cash)	23.9	24.4	26.3	27.2	27.7
Overall balance (excluding grants)	-8.9	-6.9	-10.5	-10.9	-10.9
Domestic financing	1.2	-1.5	1.2	1.6	1.0
Stock of domestic debt (end of period)	12.8	13.4	12.5	12.6	12.2
Savings and investment[1]					
Resource gap	-13.1	-16.9	-16.9	-15.9	-15.6
Investment	27.6	29.6	31.8	30.8	31.9
Government	8.4	10.0	10.7	11.6	12.2
Nongovernment[5]	19.3	19.7	21.1	19.2	19.7
Gross domestic savings	14.5	12.8	14.9	14.9	16.3
External sector					
Current account balance (excluding current transfers)	-13.2	-14.0	-12.0	-12.6	-12.3
Current account balance (including current transfers)	-9.9	-10.6	-8.9	-9.3	-8.8
	(Millions of U.S. dollars, unless otherwise indicated)				
Balance of payments					
Current account balance (excluding current transfers; deficit -)	-2,005	-2,675	-2,580	-2,844	-2,996
Overall balance of payments (deficit -)	286	501	-132	-108	-84
Gross official reserves	2,157	2,660	2,766	2,748	2,663
In months of imports of goods and nonfactor services	3.6	4.2	4.4	4.2	3.9
External debt (percent of GDP)	20.5	24.8	25.1	25.3	26.7

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

[1] Data are on calendar year basis. For example, 2005/06 data are for calendar year 2005.
[2] Figures for 2008/09 reflect change up to March 2009.
[3] Figures for 2008/09 reflect new series based on the Fund's *2000 Monetary and Financial Statistics Manual*.
[4] End-year (June) monthly weighted-average yield of 35-, 91-, 182-, and 364-day treasury bills. For 2008/09, figure is for April 2009.
[5] Including change in stocks.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$336 Million Exogenous Shocks Facility Arrangement for Tanzania and Completes Fifth Review Under the Policy Support Instrument

The Executive Board of the International Monetary Fund (IMF) today approved a 12-month, SDR 218.79 million (about US$336 million) arrangement for Tanzania under the Fund's Exogenous Shocks Facility (ESF) to cushion the country from the effects of the global economic crisis. The first disbursement amounting to SDR 159.12 million (about US$244 million) is immediately available.

The IMF financing will bolster Tanzania's foreign reserves and support its balance of payments, which have been undermined by a 26-percent fall in the price for cotton, a major export, and by a severe downturn in tourism and foreign direct investment.

The ESF is designed to provide policy support and financial assistance to low-income countries facing exogenous but temporary shocks. It is available to countries eligible for the Poverty Reduction and Growth Facility (PRGF)—the IMF's main instrument for financial assistance to low-income countries—but that do not have a PRGF-supported program in place. Financing terms are equivalent to a PRGF arrangement and are more concessional than under other IMF emergency lending facilities.

The IMF's Executive Board also completed the fifth review under Tanzania's Policy Support Instrument (PSI), in which Fund staff work with the authorities to design effective economic programs without a formal financing arrangement.

Following the Executive Board's discussion of Tanzania, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Tanzania's track record of sound macroeconomic policies and structural reforms over the past decade has helped to sustain high rates of economic growth with generally low inflation. However, despite some important gains, progress in poverty reduction has been mixed.

"The global financial crisis is having a serious impact on Tanzania. Real GDP growth is expected to fall significantly in 2009, as key sectors of the economy, including exported cash crops and tourism, face a severe downturn and cutbacks in foreign investment weaken aggregate demand. The authorities' expansionary fiscal and monetary policies in the current situation are appropriate to cushion the effects of the crisis. But short-term policies must not jeopardize Tanzania's hard-won economic stability, which requires containment of inflationary pressures and long-term fiscal sustainability.

"The banking sector is sound, but vulnerabilities remain in some areas. Banks are well capitalized and non-performing loans remain at a low level. But the economic slowdown will raise banks' credit risk, and the steps already taken to raise supervisory standards need to be reinforced, especially for the fast-growing pension funds.

"Raising Tanzania's medium-term growth potential must remain paramount. The ongoing preparations for the update of the national poverty reduction strategy (MKUKUTA) scheduled to be completed in early 2010 are timely and welcome. Key priorities include raising agricultural productivity and improving Tanzania's ailing infrastructure, which will require significant financing. Concessional financing remains the preferred funding source, consistent with medium-term debt sustainability. Strong public financial management will be critical to ensuring value for money and to avoiding the re-accumulation of unsustainable debt," Mr. Portugal said.

Statement by Samuel P.O. Itam, Executive Director for United Republic of Tanzania May 29, 2009

Introduction

1. My Tanzanian authorities have persevered with prudent macroeconomic policies and deepened structural reforms inspite of the challenging external environment. Reflecting this stance, they remain confident that the impacts of the external shocks that have dampened economic growth and worsened balance of payments will be reversed in the medium-term as appropriate measures are implemented and the external environment improves. To meet the short-term balance of payments needs, Tanzania is requesting a twelve-month arrangement under the high access component of the ESF. My authorities are thankful to the Fund for the constructive engagement and support, and appreciate staff's forthright policy dialogue and advice under the program supported by the PSI.

2. At end-December 2008, all the quantitative assessment criteria were observed, with the exception of the ceiling on government's net domestic financing, which was narrowly missed. Further, implementation of structural benchmarks was broadly on track, and program targets for 2009 are expected to be achieved. In view of the strong performance under the program, the authorities request Directors' support for the completion of the fifth review of the PSI and the associated waiver.

Recent economic developments

3. Tanzania's impressive economic performance, that had been uninterrupted over the past decade reflective of the continuous economic reforms, is now threatened by the adverse effects of the global economic slowdown. Real GDP growth, that was 7.5 percent in 2008 on account of strong performance in the key economic sectors, is now estimated to decline significantly to 4-5 percent in 2009 as a result of a severe external shock on Tanzania's exports. Deterioration in the external environment has generated significant pressures on the country's balance of payments. International reserves have since declined substantially as a result of falling exports and reduced capital inflows.

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4. The fiscal outturn in 2008/09 reflects the challenges the country is facing. Revenue is estimated to stagnate relative to GDP, resulting in a budgetary shortfall of 2 percent of GDP. This is despite consistent efforts to broaden the tax base, implement structural reforms expeditiously, and strengthen customs and tax administration. Though the authorities are determined to sustain the level of spending under the major recurrent expenditure categories, the revenue shortfall may impact on the overall budget execution. However, lower rates of treasury bills yields continued to generate significant interest cost savings, and development expenditure has benefited from accelerated disbursement of foreign project financing. Hence, the deterioration in the overall fiscal balance is expected to be only about 1 percentage point of GDP over the program target.

5. The monetary framework of the Bank of Tanzania (BoT) has continued to be guided by its strategy that includes a mix of policy instruments for sterilization of liquidity and broadening of monetary policy transparency. To that end, treasury bills and bonds auctions were complemented

with frequent sales of foreign exchange and increased use of repo instruments. As a result, reserve money growth remained on track, and the Treasury bills yields remained at their lowest levels. Despite the tighter monetary policy stance, the banking system continued to meet the strong demand for private sector credit. Inflation, which had edged up in 2008 due to the surge in global food and fuel prices, is expected to moderate in response to declining global prices, and sustained prudent fiscal and monetary policies.

6. The country's financial system has remained resilient to the global financial crisis, mainly due to its limited exposure and well supervised and capitalized banks. However, the exposure of the banking system to trade financing (crops, horticulture, and other products) and personal loans poses significant risks from the effects of the economic downturn. The high proportion of foreign owned banks in the banking system also poses additional risks in terms of the potential for curtailing operations by these banks as economic uncertainties and the global financial crisis persist.

Policy response

7. On the fiscal front, the authorities have opted for a small fiscal stimulus in order to minimize the adverse effects of the current economic slowdown, but remain committed to a near- and medium-term macroeconomic framework that aims at minimizing the downside risks, and restoring growth to its previous trajectory. To achieve these objectives, measures are to sustain budgetary spending levels for the 2008/09 financial year, scale-up investment in infrastructure to shore-up economic growth, and deepen structural reforms to improve the business environment. To maintain spending at the budgeted levels and to boost spending on infrastructure and programs that directly raise agricultural productivity, the fiscal anchor will be shifted from a net domestic finance of zero to a modest 1.2 percent of GDP. The authorities will take additional fiscal stimulus measures in the context of the 2009/10 budget to further address the second-round effects of the global economic crisis, support the recovery of the economy and implement their poverty reducing policies. While aiming at providing adequate fiscal stimulus in light of the country's low level of public debt, the authorities are mindful of the need to maintain debt sustainability and overall macroeconomic stability.

8. These fiscal measures will be further supported by the easing of the stance of monetary policy. This will facilitate maintenance of credit to the private sector at the current levels for the medium-term. To achieve the objective of anchoring its monetary policy on low and stable inflation, the BoT will further bolster its open market operations, maintain a flexible exchange rate policy, rely substantially on foreign exchange sales for sterilization of liquidity, and continue to improve liquidity forecasting. The BoT is also committed to maintain the transparency of its policy stance and promote orderly financial markets. Coordination between fiscal and monetary policies will be further strengthened to obtain an appropriate policy mix for liquidity management and to anchor inflation expectations and increase absorption of public funds, while minimizing interest rate and exchange rate
volatility.

9. The scaling up of investments in infrastructure and social sectors is part of the overall strategy to raise productivity and long-term growth. Increased allocations will be financed by the

resources from development partners and other financing options including sovereign bonds, public-private partnerships (PPPs), and domestic borrowing. To this end, the authorities are preparing a medium-term public investment program (MPIP) to guide its investment in infrastructure, with particular focus on transportation, energy and water sectors. As indicated earlier, the authorities are particularly mindful of the potential fiscal and debt sustainability implications of the various financing options, and, to that end, projects to be included in the MPIP shall be based on detailed economic and social impact appraisals. Further, debt management will be strengthened to handle exotic debt instruments (PPPs, bonds, etc.).

10. The gains achieved so far on structural reforms will be consolidated. In particular progress on PFM, financial sector, public accountability and macroeconomic stability are to be accelerated. Also, the authorities are determined to continue improving the overall investment climate that will further facilitate private sector development, attract and retain FDI, boost domestic entrepreneurship and sustain high economic growth. In addition to prudent macroeconomic and financial policies, the implementation of the reform program will be deepened. The capacities of procurement units in all ministries and the public debt management units in all institutions are being strengthened to deal adequately with the evolving environment.

11. The BoT is also undertaking a fundamental review of its core functions, with a view to developing and implementing a strategy for refocusing its operations in the near term. In this regard, the review of the existing regulatory framework governing capital account transactions has been completed and, on this basis, the BoT has prepared an action plan for a gradual and realistic liberalization of capital account transactions. The authorities are especially mindful that capital account restrictions have, thus far, sheltered the economy from the inherent shocks but remain open to benefit from the experiences of the successful liberalizers.

12. The authorities are committed to strengthen implementation of the second-generation financial sector reforms with a view to deepening and broadening financial intermediation. To this end, they have implemented a number of measures including enacting the Social Security Bill that creates a single Social Security Regulatory Authority for the pension sector and assigned to the BoT the responsibility of establishing investment guidelines, and a legal framework for mortgage financing. In preparation of the guidelines, the BoT has made commitment to expeditiously assess the financial health of the pension funds, and has prepared an initial financial stability report.

Conclusion

13. The authorities' continued commitment to strong policies under the program has yielded robust economic performance, with substantial progress on all fronts, but most of these are now under threat from the impact of the global financial and economic crisis. They are aware of these risks and have responded appropriately with a mix of modest fiscal stimulus and monetary policy easing, as well as further reforms to consolidate the progress. In the near term, the authorities are determined to ensure that the program focuses on sustaining macroeconomic stability, enhancing domestic resource mobilization, promoting broad-based and pro-poor growth, and increasing investment in infrastructure and core MDG clusters. In line with the MKUKUTA objectives and Tanzania Vision 2025, the authorities are determined to ensure that the economy returns to its

growth trajectory in the near- to medium-term. Going forward, continued engagement with the Fund and the support of development partners will enable the achievement of Tanzania's development goals, including poverty reduction and the MDGs. The authorities will continue to assess the impact of the global economic crisis on their economy with a view to sharpening responses.