December 2010
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United Republic of Tanzania: First Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Staff Report; Press Release on the Executive Board Discussion.

In the context of the first review under the policy support instrument and request for modification of assessment criteria, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria, prepared by a staff team of the IMF, following discussions that ended on October 12, 2010, 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 November 11, 2010. 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 Press Release summarizing the views of the Executive Board.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the United Republic of Tanzania*
Memorandum of Economic and Financial Policies by the authorities of the United Republic of Tanzania*
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

First Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria

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

Approved by Saul Lizondo and Dominique Desruelle

November 11, 2010

- **Fund relations:** A new 3-year PSI-supported program was approved by the Executive Board on June 4, 2010. An Exogenous Shocks Facility (ESF) arrangement, approved by the Executive Board on May 29, 2009 for SDR 218.79 million (110 percent of quota), expired on June 18, 2010 with the final disbursement of SDR 19.89 million.

- **Staff team:** Martine Guerguil (head), Laure Redifer, Matthew Gaertner (all AFR), Daehaeng Kim (FAD), Chris Papageorgiou (SPR), and John Wakeman-Linn (senior resident representative).

- **Discussions:** Discussions were held in Dar es Salaam during September 15–29 and in Washington, DC during October 6–12. The team met with the Minister for Finance and Economic Affairs, Mr. Mkulo, the Governor of the Bank of Tanzania, Professor Ndulu, the Permanent Secretary of the Treasury, Mr. Khijjah, other senior officials, and representatives of the private sector, civil society, and development partners. Mr. Ndyeshobola (OED) participated in the discussions.

- **Review:** Staff recommends completion of the first review under the PSI and modification of the end-December 2010 assessment criteria. All end-June assessment criteria were met, and good progress was achieved in implementing structural reforms.

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Executive Summary

- The Tanzanian economy performed better than expected in face of adverse shocks, growing at 6½ percent in the fiscal year ending June 2010, due in part to the PSI-supported government economic rescue plan. All quantitative assessment criteria for June 2010 were observed, and structural reforms are advancing at a good pace.

- The program for the current fiscal year balances increases in the provision of needed public services, including investment to improve road infrastructure, against risks of crowding out as the recovery in private sector activity takes hold. With a cap on the use of domestic financing by the government, public spending will be carefully prioritized to protect key social and investment outlays. The authorities are committed to use non-concessional external borrowing judiciously, in the framework of a sound debt management strategy and a well-crafted public investment plan. To that end, strengthening investment and debt management processes is a priority.

- Structural reforms will continue to support financial deepening and enhanced public financial management. Over the medium term, maintaining social gains and the growth momentum will require more wide-ranging fiscal changes, with the objectives of both stepping up domestic revenue mobilization and increasing spending efficiency.

- Staff recommend completion of the first review and modification of the end-December 2010 assessment criteria.

I. Introduction

1. **Tanzania's economy performed strongly over the past decade.** Growth averaged 6.8 percent per annum, inflation remained moderate, tax revenue mobilization increased, and the external position strengthened. These favorable results enabled the authorities to design a far-ranging counter-cyclical policy response to the recent external shocks, including targeted fiscal stimulus of over 2 percent of GDP, complemented by a supportive monetary stance. The IMF supported these efforts through a high access ESF arrangement, disbursing SDR 218.79 million (110 percent of quota).

2. **At the same time, Tanzania has made commendable progress towards its MDGs**, with roughly half expected to be achieved by 2015. At the MDG summit in September, 2010, Tanzania received special recognition for its achievements in education, with net enrollment for primary schooling reaching 98 percent in 2006, almost double the rate of 1999, and very close to the MDG target of 100 percent.

3. **The Executive Board approved a new 3-year PSI for Tanzania on June 4, 2010.** The PSI program supports efforts to reduce poverty combined with stepped-up growth-enhancing infrastructure investment while maintaining a stable macroeconomic environment (Box 1). These objectives are aligned with the recently-approved new poverty reduction and growth strategy (MKUKUTA II).

4. **The first review of Tanzania's second PSI is taking place against the backdrop of general elections held on October 31, 2010.** President Kikwete won by a large margin (61 percent of the vote) and his CCM party (in power since independence in 1961) maintained its parliamentary majority. Tanzania has a strong tradition of peaceful elections and smooth transition between governments. The authorities have confirmed their continued commitment to the PSI program, and a new Cabinet is expected to be appointed by the end of the year.

Box 1. Key Objectives of the PSI

The current PSI is supporting implementation of the new MKUKUTA, while helping to preserve macroeconomic stability and contain fiscal and financial vulnerabilities. Specifically, the PSI-supported program aims to:

- Implement a macroeconomic program to support a recovery of growth, while maintaining a strong fiscal position, low inflation, and low risk of debt distress;
- create additional fiscal space for infrastructure investment, critical for accelerated growth, and to provide spending needed to support social sector gains; and
- broaden access to financial services through capital market development while preparing for East African Community (EAC) integration.

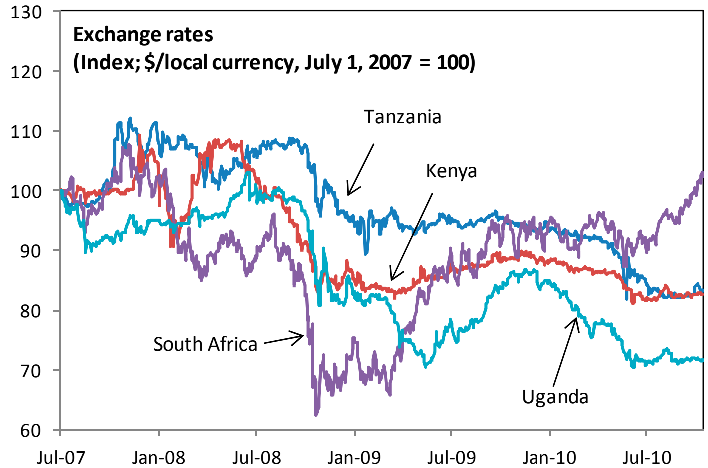
II. Recent Developments

5. **Macroeconomic outcomes in FY2009/10 were generally better than expected.**[1] GDP growth, at 6.5 percent, was above forecasts mainly due to a rebound in agriculture by year-end as weather conditions improved, continued expansion in the mining sector, and the impact of the government's economic rescue plan and public investment program. Inflation abated to 7.2 percent year-on-year in June 2010 (from 12.2 percent in December) due to lower food prices after more favorable weather conditions boosted local crops. Financial indicators remained sound overall, in spite of a late uptick in non-performing loans, mostly reflecting a modest increase in delinquency on personal loans. The external position strengthened under the combined influence of growing exports (noticeably gold but also travel receipts) and large foreign financing inflows, including from the Fund. International reserves grew to just over 5 months of imports by end-June 2010.

6. **Fiscal policy was eased to support domestic demand.** Public outlays grew to 27½ percent of GDP, largely on the heels of a 1½ percentage point increase in counter-cyclical current spending. Public investment also expanded, although execution of foreign-financed projects fell short of forecasts due to later-than-expected commencement of large projects financed by the U.S. Millennium Challenge Account. With revenues declining to slightly less than 16 percent of GDP and grants, particularly project grants, significantly below expectations, the fiscal deficit (after grants) widened to 6.9 percent of GDP, or 1.2 percentage point above program. The shortfall was covered by higher-than-projected foreign concessional borrowing and additional recourse to domestic financing.

7. **Monetary policy remained accommodative throughout the year.** In spite of very low interest rates, banks continued to hold to high excess reserves through most of the fiscal year and private credit growth only showed signs of a modest rebound in the last quarter (to an annual rate of 16.7 percent in June, up from 9 percent in December, but still well below the 30 percent rates recorded in previous years). The exchange rate remained stable during

[1] The fiscal year starts July 1.



most of the year but depreciated by nearly 10 percent over April-September, partly as counterpart to the appreciation of the U.S. dollar, whose effects were felt throughout the region. Low domestic interest rates as well as higher demand for foreign assets from banks (largely in response to a technical change in the calculation of the limit on their net open foreign exchange positions) also contributed to the depreciation.[2]

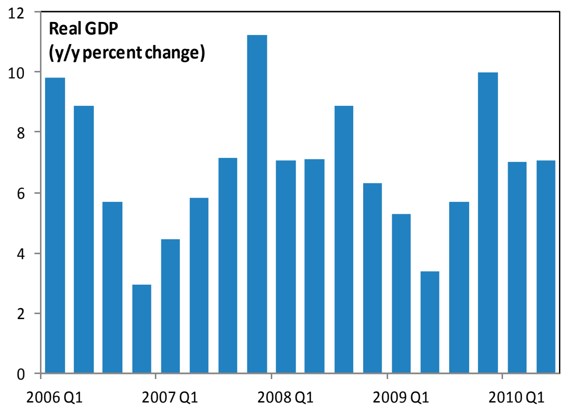
8. **There are indications that economic activity continued firming up in the first months of FY2010/11.** Private sector credit growth strengthened to 18.3 percent (year-on-year) in September while excess bank reserves declined sharply and interest rates began to edge up. Gold export proceeds are rising fast, boosted by high prices as well as increasing volumes, while manufacturing exports and tourism receipts have also shown signs of stronger growth. Inflation fell further to 4.5 percent, a five-year low, by end-September because of slower food inflation and a leveling off of energy prices.

9. **A substantial fiscal financing gap has emerged.** The Parliament-approved FY2010/11 budget relies on ambitious revenue targets to fund an expansion of current and domestically-financed development spending beyond the levels originally contemplated in the PSI. Tax revenue collection in the first quarter of the fiscal year increased broadly in line with the rebound in activity, but reached only 88 percent of the budget target. The shortfall was compounded by delays in foreign aid disbursements and large cash needs to cover expenses incurred at the end of the previous fiscal year. To close the gap, the authorities constrained non-priority current spending well below budgeted levels and used temporary advances from the central bank. As a result, average reserve money growth accelerated to 21.3 percent (year-on-year) in September, while broad money growth rose to 22.6 percent.

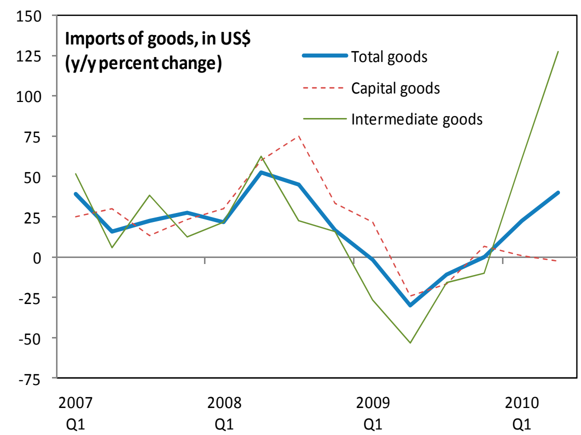
[2] In late 2009, the Bank of Tanzania (BoT) broadened the definition of off-balance sheet foreign liabilities included in the calculation of banks' foreign exchange positions. This change provided scope for banks to increase their foreign assets while staying within the net open position limit (which remained unchanged at 20 percent of capital).

Figure 1. Real Sector Developments

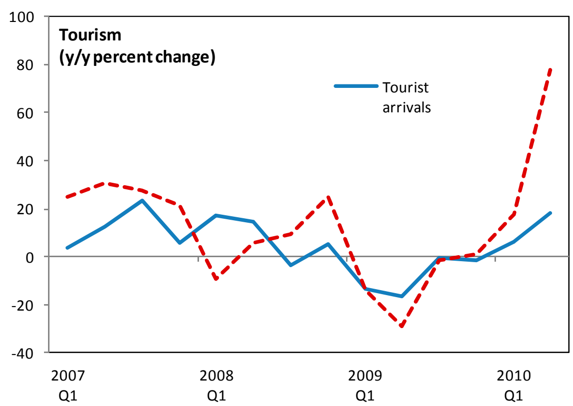
Real GDP growth is picking up from the slowdown in the first half of 2009…



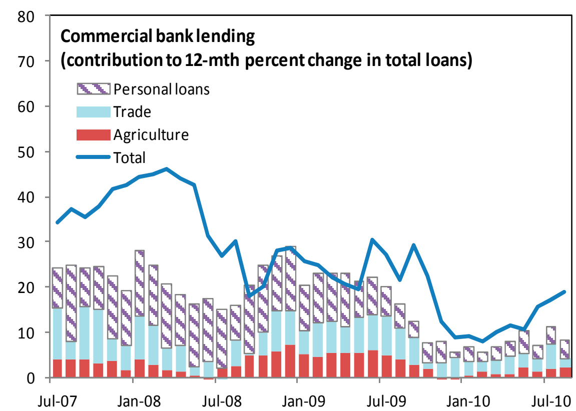
…in line with the recovery in import growth....



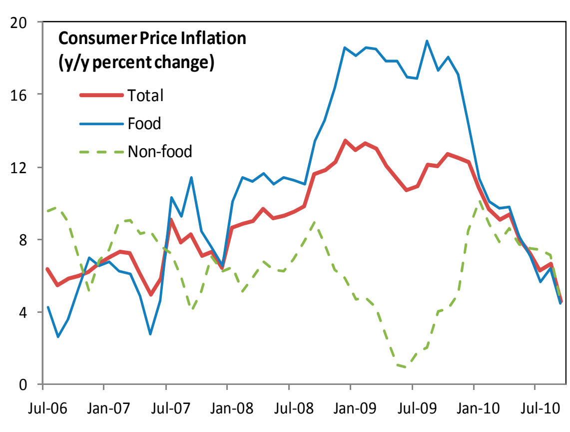
…a rebound in the tourism sector …



…and a gradual increase in private sector credit growth.



Inflation has declined as food and energy prices have moderated …



…while reserve coverage remains comfortable.

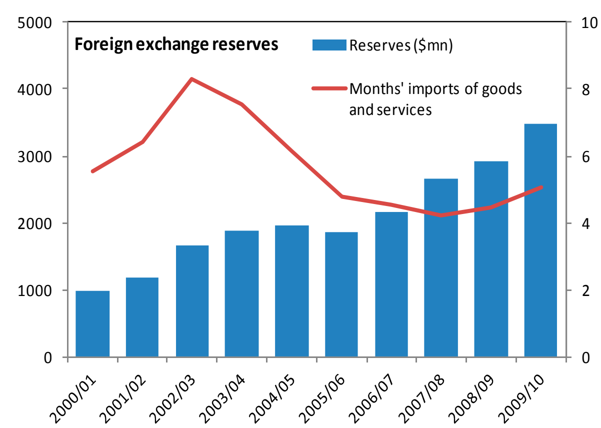
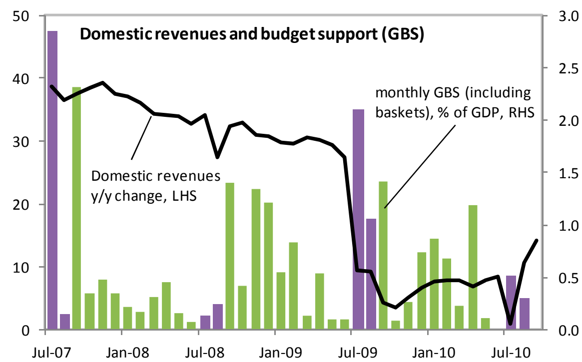
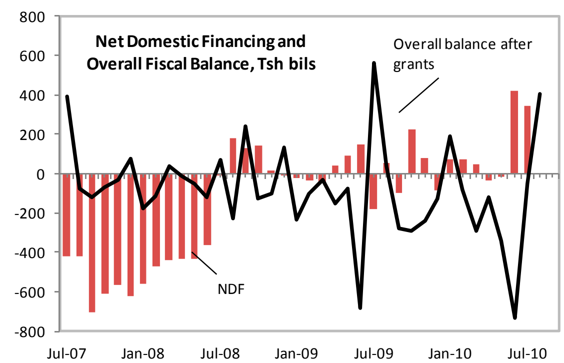


Figure 2. Recent Fiscal and Monetary Developments

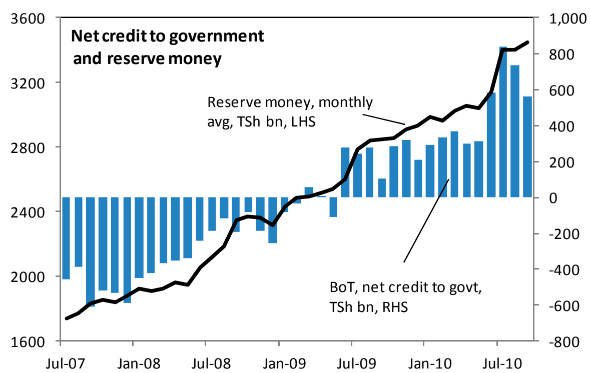
Revenue gains are lower and budget support is down in the first two months…



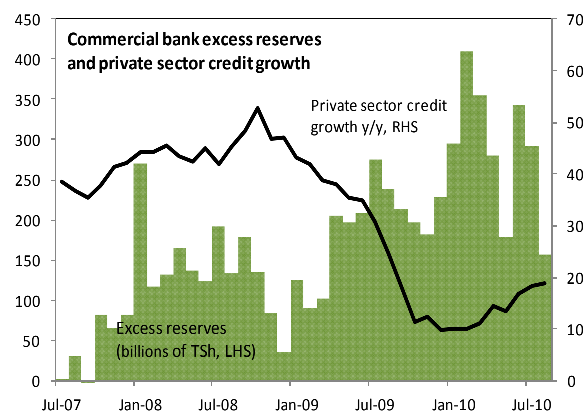
… compensated for by use of NDF and sharp spending adjustment.



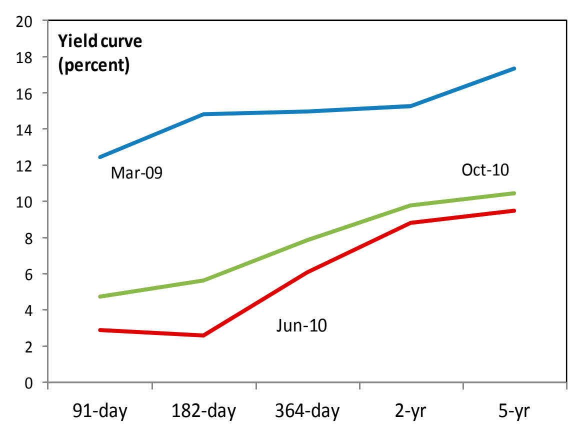
Credit to the central government from the BoT pushed up reserve money from July…



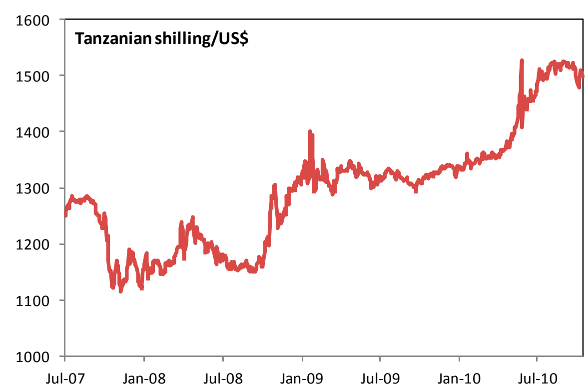
..while a pick up in private sector credit growth is mirrored by a drop in excess reserves in commercial banks.



Interest rates on government securities are inching up…



…while the Tanzania schilling has stabilized after a bout of depreciation against the US$.



III. Program Performance

10. **All quantitative assessment criteria for end-June were met.** Net international reserves were comfortably above target, reflecting a stronger-than-expected external performance. Net domestic financing (NDF), adjusted for the shortfall on program assistance, was well within its limit. Reserve money growth was close to its upper range, reflecting fiscal cash flow constraints at the end of the year. There are indications, however, that as a result of revenue shortfalls and short-term cash needs, reserve money and NDF are likely to exceed their end-September indicative ceilings.

11. **Important progress was registered on the structural reform front.** All but two of the seven structural benchmarks for end-June were met, and one benchmark for end-December was met early (Table 8).

- *In the fiscal area,* procedures for collecting data on outstanding payment obligations were established (an end-June benchmark) and a PPP unit was established in the Ministry of Finance and Economic Affairs (an end-December benchmark).
- *Financial sector reforms* also advanced, including with the long-awaited appointment of a pension fund regulator, increased required bank contributions to the Deposit Insurance Fund, submission of the first Financial Stability Report and establishment of a data collection and reporting system for pension funds. Investment guidelines for pension funds remain however to be issued (all end-June benchmarks).
- *Approval of MKUKUTA II* was delayed to early October, beyond the end-June test date, to leave space for a comprehensive consultation and review process. However, the FY2010/11 budget already includes MKUKUTA-supporting spending and parts of the strategy have already begun being implemented. Approval of the National Social Protection Framework (an end-June structural benchmark) has been delayed for consideration by the new government.

IV. Policy Discussions

12. **The outlook for the Tanzanian economy is positive.** Staff project growth to reach 7 percent in FY10/11, with a pick up to pre-crisis levels of 7.5 percent by FY12/13. Staff simulations suggest that Tanzania remains vulnerable to adverse weather shocks, fluctuations in commodity prices, particularly gold, and declines in donor assistance. Over the longer term, maintaining high growth rates will hinge on stepped-up investment to fill critical infrastructure gaps and better integration with the regional and global economies, including to attract foreign capital and investment.

13. **The objectives of the recently finalized MKUKUTA II are well aligned with policy priorities under the PSI.** MKUKUTA II retains the central pillars of its predecessor (growth and reduction of income poverty; improvement of quality of life and social

well-being, and governance and accountability) but complements them with a greater emphasis on growth-enhancing infrastructure development, particularly for agriculture, as poverty is concentrated in rural areas. Staff will explore with the new government in the context of the next review how to build even closer links between the implementation of MKUKUTA II and the structural agenda supported by the PSI.[3]

14. **The authorities reiterated their commitment to maintain macroeconomic stability in the transition to a new government and beyond.** They pointed out that Tanzania has a strong record of prudent fiscal and monetary policies, including through periods of political transition. They reaffirmed their intent to work diligently to meet the new PSI targets and more broadly to implement policies aimed at consolidating Tanzania's considerable achievements in terms of stability, growth and welfare.

A. Near-Term Fiscal and Monetary Policies

15. **The FY10/11 budget continues the expansionary trend initiated in FY2008/09 in response to adverse shocks.** Current spending is budgeted to increase to 20 percent of GDP from somewhat less than 19 percent in FY2009/10, while development (investment) outlays are set at 11 percent of GDP, an increase of almost 2 percentage points of GDP over FY2009/10. Full execution of the budget would result in an increase in the overall fiscal deficit (after grants) from 7 percent to 7½ percent of GDP.

16. **The FY2010/11 budget is underfinanced.** External budget support is projected at about US$1 billion, in line with donors' commitments. Tax revenue is expected to rise with the unfolding recovery, together with newly-introduced measures to strengthen tax administration and limit leakages (¶23 of the MEFP). However, staff view the scope for such increases as limited in the absence of more encompassing tax policy measures. Against that background, the revenue-to-GDP ratio is projected to increase to 16.3 percent of GDP, close to its pre-crisis level but 1½ percentage point below its budget target.

17. **The scope for additional NDF is limited.** Tighter liquidity and rising interest rates, in the context of relatively shallow and illiquid capital markets, suggest that there is little scope for raising NDF beyond agreed program parameters without putting excessive upward pressure on interest rates and crowding out private sector credit, or alternatively igniting inflationary pressures and undermining investors' confidence. The authorities agreed that it would be prudent to cap NDF at 1 percentage point of GDP, as agreed in the original PSI framework. This more modest level would also leave some margins to make up for possible shortfalls in budget support if they were to materialize.

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[3] MKUKUTA is the Kiswahili acronym for Tanzania's poverty reduction and growth strategy. A Joint Staff Advisory Note (JSAN) is expected to be circulated to the Executive Boards of the Bank and the Fund in early 2011. Discussions in the Fund would be concurrent with the 2nd PSI review.

18. **Agreement was reached on a fiscal program that balances increases in the provision of needed public services against the risks of private sector crowding out as the recovery takes hold.** Reining in fiscal expenditure is necessary to avoid sharp increases in interest rates and help rebuild the policy buffers that will be needed to mitigate future downturns. At the same time, investment spending must expand to allow the prompt execution of ongoing infrastructure projects, mainly in the transportation sector roads. The still nascent private sector recovery and high degree of uncertainty in the global outlook also justify a gradual fiscal retrenchment path. The fiscal deficit (after grants) would remain at 7 percent of GDP, financed for the most part by foreign borrowing, both on concessional and nonconcessional terms.

19. **To that end, and taking into consideration the likely revenue shortfall, the authorities committed to scale back spending (with respect to budget) by about 1½ percent of GDP.** They would use their cash budgeting procedures in a judicious way, protecting spending in priority areas such as social programs and infrastructure development (¶24 of the MEFP). The authorities pointed out that such has been their practice when faced with similar financing shortfalls, including as recently as the previous fiscal year.

20. **Most of the cuts with respect to budget levels are to fall on non-priority current spending.** An expansion of the wage bill is unavoidable if gains in education and health are to be maintained, to finance new hires and retain and attract qualified staff. Hiring difficulties may however limit its growth for the remainder of the fiscal year. The authorities agreed there was scope to curtail and rationalize spending in non-priority areas (such as travel outlays, administrative expenses and office supplies), also in light of expiring measures under last year's economic rescue plan, with a view to bringing transfers and unspecified current spending down to 11½ percent of GDP, broadly in line with its pre-crisis level.

21. **Even with those cuts, the government's cash flow is projected to remain very tight through December.** Expenses related to the organization of presidential and legislative elections cannot be compressed but will subside from November. Budget support disbursements, in contrast, are likely to be bunched in the second half of the fiscal year, while the tax intake is expected to continue picking up in a gradual manner, as tax enhancement measures take hold. In that context, it was agreed that a relaxation of the end-December NDF assessment criterion was reasonable. With subsequent foreign inflows and continued spending compression, NDF will be brought down in the second half of the fiscal year to meet the annual program target. The mission strongly recommended a rebalancing of NDF toward more issuance of market-based securities, preferably in the longer maturities, as continued use of central bank advances and other forms of direct central bank credit could threaten the authorities' hard-won policy credibility.

22. **Monetary policy will continue to provide appropriate liquidity while carefully monitoring inflationary pressures.** Reserve money is targeted to grow by 20 percent, slightly below last year's rate, which—combined with a much slower rate of growth of credit

to the government—should allow for a rebound in private sector credit growth to 22 percent (¶28 of the MEFP). Recent data suggest that private demand growth has not exerted pressure on domestic prices. In addition, oil price projections and good local harvests are consistent with the maintenance of moderate increases in headline inflation. With continued strong government demand and a recovery in private demand, interest rates should maintain their gradual upward trend. Staff advised the authorities to stand ready to adjust their monetary stance were demand pressures to build up in the future.

23. **The exchange rate will continue to float.** The shilling has stabilized against the US$ after a sudden depreciation due in large part to temporary factors. The depreciation has had little impact on inflation. The authorities intend to continue their regular sales of foreign exchange to smooth out the impact of foreign aid inflows (¶29 of the MEFP). With the strong expansion of exports and capital inflows in recent years, foreign exchange sales by the BoT account for a declining share of overall foreign exchange transactions. In this context, staff advised the authorities to consider modifications to the operational modalities of interbank foreign exchange market, with the aim of increasing the involvement of commercial banks on both sides of the market, in line with recent technical assistance recommendations.

B. Expanding the Public Sector's Capacity to Borrow and Spend Wisely

24. **The financial and fiscal implications of nonconcessional external financing should be assessed carefully.** The authorities reiterated their intention to make full use of the nonconcessional borrowing limit agreed under the PSI (US$1.5 billion over three years) to fund their investment plans.[4] Workshops organized in Dar es Salaam and Washington to discuss the pros and cons of various financing alternatives (including a possible Eurobond) confirmed that the range of options is broad but access as well as assessment modalities may be complex and lengthy (Box 2). The authorities aim to use such options for well-designed, growth-enhancing infrastructure projects. If financing cannot be secured on reasonable terms, they committed to pursue other avenues for preserving infrastructure spending to the extent possible, including through additional adjustment of non-priority recurrent spending (¶24 and 26 of the MEFP).

25. **Strengthening the public sector's capacity for investment planning and execution is a clear priority.** The quality and efficiency of public investment depends on

[4] The staffs' latest debt sustainability analysis (IMF Country Report No. 10/173) concludes that this amount of non-concessional borrowing should not jeopardize long-term sustainability, although it contributes to a faster increase in debt service indicators and the results are sensitive to growth outcomes. The authorities have agreed to extend the coverage of the nonconcessional borrowing limit to the whole of the public sector, excluding 11 state-owned enterprises whose operations are commercially profitable and financially independent from the central government, and are thus able to borrow for their own business operations without any explicit or implicit guarantee from the government. These enterprises are listed in Appendix I, Attachment II (Technical Memorandum of Understanding).

systematic and uniform project appraisal, the transparency and consistency in project selection, and their prioritization in line with national development goals. Formal processes with uniform methodology should be systematically used for appraising, selecting and monitoring projects. Best practices suggest that public investment plans be clearly prioritized, shielded from political interference, and reviewed within the budgeting framework, with the Ministry of Finance and Economic Affairs (MoFEA) assuming a clear gate-keeping role. The establishment of a PPP unit in MoFEA is an important step in that direction. The authorities are also strengthening oversight over other investment decisions that would further increase the quality of the investment screening process. Technical assistance from donors, including through staff training, is urgently needed in this area.

Box 2. Scaling up Public Investment: Borrowing Smart to Spend Smart

Tanzania's infrastructure gaps constrain growth in the country as well as in its neighbors. In light of Tanzania's geographical advantage, addressing constraints in transportation, water and power generation and telecommunications would unleash growth in the country, and also in the region.

Non-traditional sources can be tapped for large-scale infrastructure investment. Assistance from development partners will remain the primary source of external financing, but cannot be expected to cover significantly higher investment needs.

To ensure growth returns from investment, the authorities need to bolster significantly their capacity to "borrow smart and spend smart." In addition to revamping existing institutional processes and building up skills for investment and debt management, experts in and outside the IMF and lessons drawn from experiences in Africa and other regions highlight the following key points:

- ***Look beyond traditional financing options.*** A broad range of financing options is available. Eurobonds and commercial bank loans are only two of them. Collateralized project financing, partial equity schemes, sukuks, and credit enhancement and partial guarantee schemes could also be usefully considered.

- ***Prevent leakages.*** Borrowing should be closely tailored to actual financial needs (size and timing) to minimize costs and avoid diversion of funds for unintended purposes. Project returns should be considered in tandem with the explicit and implicit long-term obligations from more expensive financing. Moreover, tendencies to allow financing offers to drive the agenda should be resisted.

- ***Choose public-private partnerships (PPPs) discriminately.*** PPPs have a number of merits, such as project management and operational flexibility, but must be chosen carefully, on the basis of value for money, with a strong "gateway process" for weeding out low return or risky projects. The analysis should take into account affordability on a net present value basis, implicit fiscal risks, and be compared explicitly to public sector provision of the service.

- ***Non-financial factors matter.*** Enhancing the investment climate and addressing opaque regulatory frameworks, poor planning and barriers to regional trade would help attract private sector resources, which are available and seeking new investment opportunities.

26. **Remaining weaknesses in debt management capacity must be promptly addressed.** The authorities have taken steps to strengthen debt management processes. They have undertaken a new debt sustainability analysis that confirms, even after incorporating contingent liabilities, that Tanzania's debt remains sustainable (¶27 of the MEFP). However, institutional and technical weaknesses remain. Underlying debt data are not readily available, and organizational responsibilities remain fractious. Technical assistance from the Bank and the Fund have offered pragmatic advice and a follow-up mission in December 2010 will provide further guidance on defining a comprehensive medium-term debt strategy, including nonconcessional options. To incorporate the results of this TA, it is proposed to postpone by three months (to end-March 2011) the structural benchmark on development of a Medium-Term Debt Strategy, now due for end-December 2010**.**

27. **Public financial management must be enhanced for the public sector to spend efficiently.** The authorities and staff discussed steps to further tighten commitment controls and strengthen the budget process. Progress is being made in establishing quarterly reports on outstanding claims of spending agencies to ensure more accurate monitoring of their actual spending. A first report is expected before year end (an end-December benchmark). Staff stressed that continued diligence, as well as strong political commitment, is needed to contain line ministries' spending commitments within budget. In addition, annual budget cycles should be more closely integrated into a transparent, realistic medium-term expenditure and borrowing plan.

C. Financial Sector Deepening and Other Structural Reforms

28. **Financial reforms are proceeding.** The BoT raised banks' minimum capital requirements and, drawing from FSAP recommendations, is taking steps to improve data collection and develop a systemic crisis management framework. Staffing capacity for data verification and analysis and risk-based supervision inspections is being bolstered (largely through targeted training), and detailed contingency plans are being developed, together with an explicit framework for systemic emergency liquidity assistance (an end-March 2011 structural benchmark). Progress is also ongoing in strengthening internal audit procedures (¶33 of the MEFP)

29. **Sustained efforts are needed to establish an effective oversight of pension funds.** The recent appointment of a regulator is a significant step forward, together with the establishment of regular data reporting procedures. Pension fund investment guidelines have been drafted by the central bank, but the authorities requested to reset the related structural benchmark (originally due by end-June 2010) to end-March 2011, to allow incorporation of information from World Bank audits of the pension funds that will become available in the interim (¶32 of the MEFP). Staff noted the importance of ensuring that the regulatory agency becomes operational as quickly as possible: pension funds currently account for 20 percent of financial sector assets and are actively engaged in lending activities with banks and the

government, but there is little monitoring of their financial position and the extent to which they pose a contingent fiscal risk for the government.

30. **The authorities and staff discussed the prospects for financial and economic integration in the context of the EAC.** The authorities remain concerned about the possible impact of volatile capital flows, given the small size of the local capital market, but recognize that it will be difficult to sustain high growth rates on the basis of limited domestic resources. There is growing interest, in particular, in tapping regional markets to finance infrastructure projects. The authorities are defining a roadmap to gradually remove capital controls and develop a regional capital market over a period of 5 years, in line with Tanzania's commitments in the EAC (¶34 of the MEFP). Improving the business climate, improving the institutional infrastructure and strengthening the monitoring of cross-border flows are important complementary objectives in this area.

31. **Finalization of the National Social Protection Framework will await the new government.** Consensus has been reached, following extensive consultation and review, on a draft proposal but final approval had to be delayed to the post-election period (¶22 of the MEFP); it is proposed to reset the related structural benchmark to end-March 2011. The National Social Protection Framework aims at bringing together under a national, comprehensive umbrella the largely piecemeal mechanisms for targeted support to the poor that are now in place, to enhance coordination and speed up delivery; it is expected to facilitate progress toward meeting the income poverty MDGs. Staff noted the importance of mobilizing appropriate budgetary resources to finance the comprehensive implementation of the framework, including systematic targeted assistance to the most vulnerable.

32. **Progress is being registered in the statistical and fiscal accounting areas.** A number of measures have been taken to improve the tracking and monitoring of public expenditure.[5] The benchmark to develop an index of priority social spending is on track to be met by end-December. Plans to extend the coverage of Tanzania Inter-bank Settlement System (TISS) should reduce the expenditure float. Efforts to update inflation statistics are advancing on schedule. The new CPI basket (based on the 2007 household budget survey) is expected to be released in November (¶36 of the MEFP); the new basket will facilitate computation of a core inflation measure. The authorities request a short extension (to end-March 2011) of the related structural benchmark to allow for further consultation on the development of a harmonized core inflation index within the EAC.

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[5] In particular, fiscal statistics from FY09/10 have been aligned with the economic classification of the GFS 2001 Manual and annual accounts are now following the International Public Sector Accounting Standards (IPSAS) format.

D. Medium-Term Fiscal Challenges

33. **Tanzania faces important fiscal challenges over the medium term.** With rapid population growth, demand for public services is expanding quickly in both the social and infrastructure areas. Tax collection in recent years has not kept pace with spending needs, and recurrent spending has consumed an increasing portion of non-earmarked budgetary resources (domestic revenues and external budget support) (Figure 3). As budget support is unlikely to keep growing at the same rapid rates as in recent years, strong emphasis will have to be put on stepping up domestic revenue mobilization and increasing spending efficiency. Staff sees both issues as top items for the new government's policy agenda.

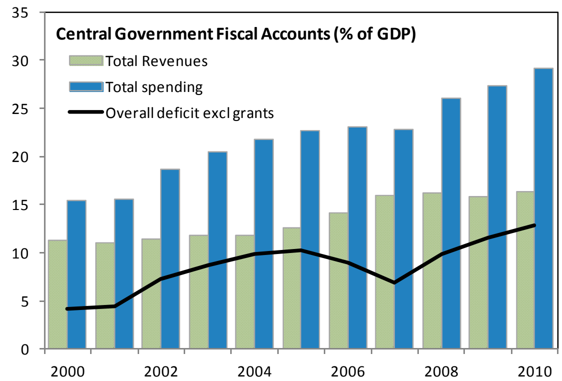
34. **There is scope to increase domestic revenue mobilization.** The tax revenue-to-GDP ratio has risen notably in the past decade, mostly thanks to administrative improvements and economic liberalization, but remains well below potential. The authorities are pursuing a number of administrative measures to bring more of the informal sector into the tax base, including through introducing national ID cards (¶25 of the MEFP). While more may be possible through better enforcement, tax policy measures—including measures to sharply reduce exemptions—are needed to expand the tax base and step up domestic revenue collection meaningfully. The authorities are also exploring changes in the mining taxation regime that would balance the government's ability to recoup windfalls from rising commodity prices with the maintenance of appropriate investment incentives (Box 3). They have requested Fund TA to review and update past recommendations to enhance revenue.

35. **Investment financing must rely to a larger degree on domestic revenue.** As current outlays absorb the near totality of non-earmarked budget revenue and budget support, domestically-financed investment become more reliant on more expensive, less predictable sources. Investment execution can be vulnerable to cuts, reducing its continuity and growth-enhancing impact. Staff support the authorities' goal to increase the share of domestic revenue in investment financing (¶20 of the MEFP). As a general rule, staff recommend capping current spending at a given level (e.g., 90 percent) of non-earmarked budget revenue.

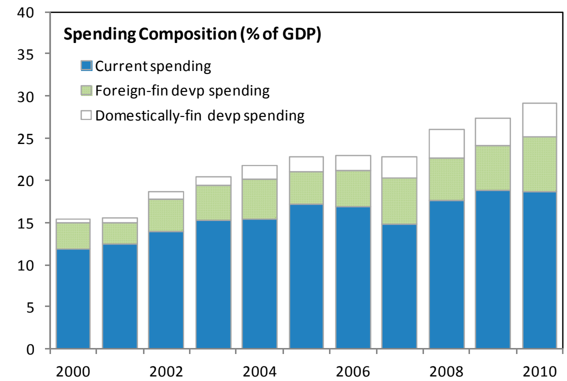
36. **There is a need to rationalize public spending.** Expenditure in certain categories, such as salaries or "other" goods and services, has increased sharply in the past two years. The wage bill has risen from 3½ percent of GDP in FY2002/03 to 6.3 percent in the FY2010/11 budget (over 40 percent of tax revenue), due to a combination of wage hikes and new hires. The wage bill only accounts for part of public compensation outlays, as it does not include per diems, allowances, and other benefits. Maintaining recent gains in education and health will require more teachers and health workers, putting further pressure on the future wage bill. Against that background, the government may want to revisit its compensation policy with a view to making it more transparent and rule-based. More broadly, there would be benefits in establishing regular processes to assess the efficiency and relevance of different elements of current spending. Ongoing efforts to improve fiscal reporting could provide a useful stepping stone in this regard.

Figure 3. Longer-Term Fiscal Developments

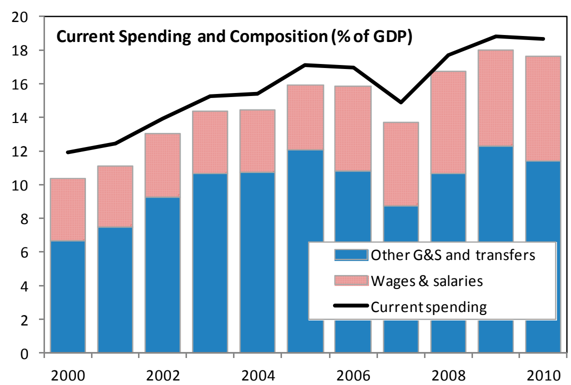
Revenue gains are slowing, while spending continues to increase…



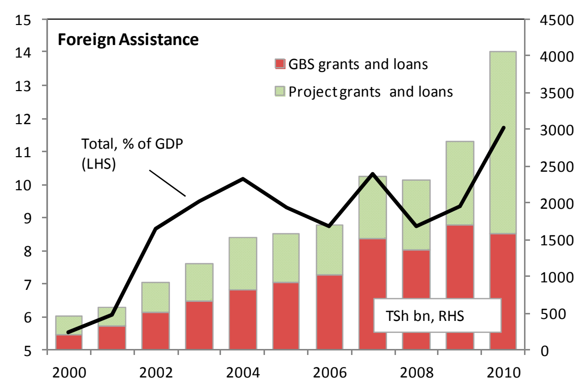
…reflecting in part strong investment spending in recent years.



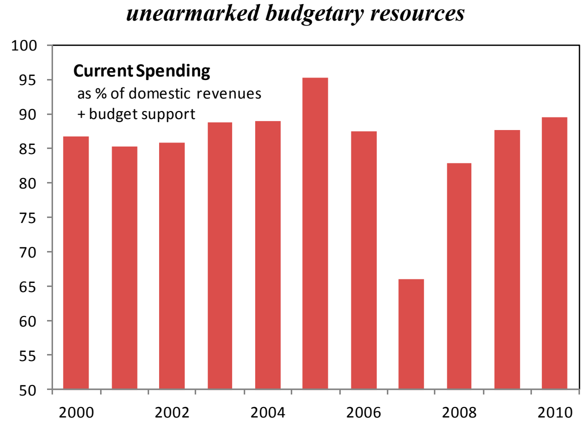
…and growing current spending.



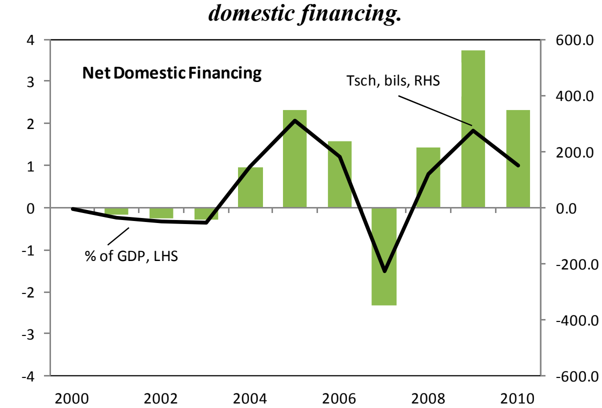
Budget support is also stalling as a share of foreign assistance...



…with current spending absorbing a growing share of unearmarked budgetary resources

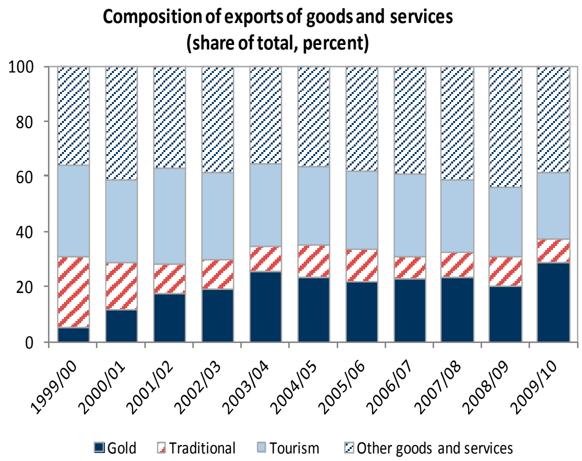


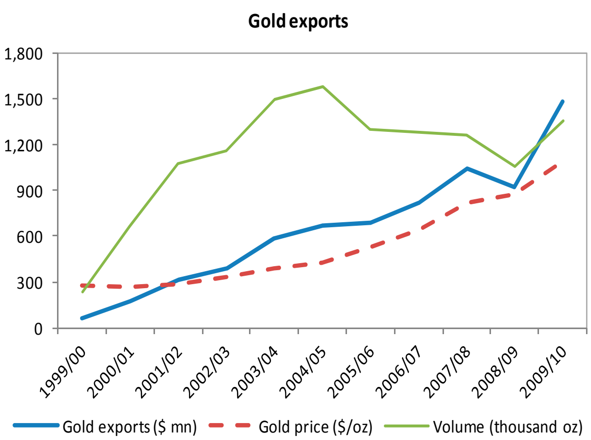
…and fiscal financing gaps requiring more recourse to net domestic financing.



Box 3. Export-led Growth: A "Golden" Opportunity for Tanzania

The composition of Tanzania's export base has shifted significantly over the past decade. While exports have not been one of the driving forces behind Tanzania's strong growth performance over the last decade—at just 25 percent of GDP in 2009/10 they remain relatively low—the share of the mining sector has grown dramatically. Gold exports, which were almost nonexistent as recently as 2000, now account for nearly a third of total exports of goods and services. Gold exports amounted to US$1.5 billion in 2009/10, making Tanzania the fourth largest gold exporter in Africa after South Africa (US$6.3 billion), Ghana (US$2.6 billion) and Mali (US$2.0 billion). At the same time, the traditional exports that were the basis of the colonial economy—such as cotton, coffee, and tea—have fallen from a quarter of total foreign sales in 1999/2000 to less than ten percent.





The dramatic rise in gold exports reflects in large part the sharp run-up in prices over the past five years, with gold prices more than doubling since the end of 2005. In addition, after declining in recent years due to operational problems at several mines, export volumes rose by nearly a third in 2009/10 as a large new mine began operations. Production is expected to rise further over the next several years as earlier mines return toward capacity and recent investments in new production begin to come on stream. In addition to gold, there has been considerable exploration in nickel, uranium, and oil and natural gas, all of which are believed to have significant potential.

The impact of the development of the gold sector on tax receipts has been relatively modest thus far, reflecting in part the recovery of initial investment costs. Government revenues from the mining sector are increasing fast, however, and significant revenues are expected to be collected during the next 5–7 years, as most of the large mines have reached or are approaching their break-even point. The production of the existing mines is projected to start to decline from 2020, and new investments will be required to sustain this sector in the long term. As the authorities consider revisions to the current mining tax regime, it will be important to balance securing a larger share of the rents, particularly when prices are high, with ensuring adequate incentives for continued exploration and production.

V. Program Monitoring

37. **The quantitative assessment criteria and structural benchmarks for end-December 2010 and end-June 2011 (the second and third review of the PSI) are presented in the authorities' Memorandum of Economic and Financial Policies (MEFP) (Attachment I to the Letter of Intent).** The assessment criteria (Table 3 of the MEFP) were derived from the assessment criteria for end-December 2010 established at the time of PSI approval, adjusted for the changes in economic conditions. Specifically, the end-December NDF target has been raised to take into account the government's intra-year cash flow constraints, but the end-June 2011 remains unchanged; the targets on international reserves and reserve money have been marginally adjusted to take into account their actual levels as of end-June 2010. Table 4 of the MEFP presents the structural measures that are being proposed to be monitored under the PSI for the reminder of FY2010/11.

VI. Staff Appraisal

38. **Tanzania weathered the recent adverse shocks relatively well.** Thanks in part to supportive fiscal and monetary policies, the economy has performed better than expected, and growth, after a relatively modest dip, looks headed for a steady rebound while inflation is expected to remain low.

39. **Continued widening of the fiscal deficit could undermine the unfolding recovery.** The authorities are committed to contain and carefully prioritize public spending to limit private sector crowding out while supporting an increase in infrastructure spending and maintaining priority social spending.

40. **Further strengthening of investment and debt management processes is an urgent priority.** Borrowing decisions must be made within the framework of a sound debt management strategy and a carefully prioritized public investment plan to ensure high returns in terms of growth and productivity and limit fiscal risks. The capacity to assess the fiscal and financial implications of alternative investment financing options must be further strengthened. Tighter commitment controls are also required to ensure that investment projects yield the intended economic returns.

41. **The momentum of structural reforms should be maintained.** Staff welcome the recent progress, particularly in the financial area. Following the recent appointment of a social security regulator, additional steps are urgently required to make the regulator operational and put in place a comprehensive regulatory framework for pension fund activities. Fiscal structural reforms should focus on the alignment of budget implementation with policy priorities, controlling commitments beyond the budget, and improving expenditure tracking.

42. **More wide-ranging fiscal policy reforms are called for over the medium term.** Tax policy measures as well as spending rationalization are needed to respond to the growing

demand for public services while maintaining a stable macroeconomic environment. Fiscal consolidation will also help restore policy buffers so that they can be used to ring-fence the impact of potential future adverse shocks.

43. **The PSI-supported program is on track and staff recommend completion of the first review and modification of the assessment criteria for end-December 2010.** All quantitative assessment criteria have been met, structural reforms are advancing at a good pace, and the authorities remain committed to maintaining macroeconomic stability.

Table 1. Tanzania: Selected Economic and Financial Indicators, 2007/08–2012/13

.	2007/08	2008/09	2009/10		2010/11		2011/12	2012/13
			Prog.[5]	Prel.	Prog.[5]	Proj.	Proj.	Proj.
			(Annual percentage change, unless otherwise indicated)					
National income and prices								
Real GDP growth (calendar year)[1]	7.1	7.4	5.5	6.0	6.2	7.0	7.2	7.5
Real GDP growth (fiscal year)	7.3	6.7	5.8	6.5	6.5	7.1	7.4	7.5
Consumer prices (period average)	8.4	11.8	10.6	10.5	5.8	5.8	5.1	5.0
Consumer prices (end of period)	9.3	10.7	8.0	7.2	5.0	5.5	5.0	5.0
External sector								
Export, f.o.b (in millions of U.S. dollars)	2,916	3,268	3,216	3,794	3,826	4,269	4,674	5,162
Imports, f.o.b. (in millions of U.S. dollars)	-6,021	-6,220	-6,149	-6,570	-6,996	-7,549	-8,016	-8,674
Export volume	6.2	8.3	6.6	5.8	10.3	7.7	9.2	9.5
Import volume	9.3	10.3	6.0	4.9	6.4	10.1	4.9	6.7
Terms of trade	3.4	7.6	8.2	8.6	-2.6	0.1	-0.9	-0.5
Nominal effective exchange rate (end of period; depreciation -)	2.3	-3.7	...	-3.8	...	...	...	...
Real effective exchange rate (end of period; depreciation -)	3.7	6.3	...	1.1	...	...	...	...
Money and credit								
Broad money (M3)	18.1	18.5	21.6	25.1	21.0	20.2	…	…
Net foreign assets	4.7	15.8	13.1	25.3	13.4	17.0	…	…
Net domestic assets	39.8	21.7	31.2	25.0	28.5	23.8	…	…
Credit to nongovernment sector	32.9	33.1	14.1	16.7	21.3	22.2	…	…
Velocity of money (GDP/M3; average)	3.7	3.7	3.3	3.4	3.3	3.2	…	…
Treasury bill interest rate (in percent; end of period)[2]	7.8	7.0	…	4.5	…	…	…	…
			(Percent of GDP)					
Public Finance								
Revenue (excluding grants)	15.9	16.2	15.8	15.8	16.3	16.3	16.6	16.9
Total grants	6.9	5.1	6.3	4.6	4.9	5.8	5.2	4.9
Expenditure	22.8	26.1	27.7	27.4	27.1	29.1	27.7	26.8
Overall balance (excluding grants)[3]	-6.9	-9.9	-12.0	-11.6	-10.8	-12.8	-11.0	-9.9
Overall balance (including grants)[3]	0.0	-4.8	-5.7	-6.9	-5.9	-7.0	-5.8	-5.1
Domestic financing	-1.5	0.8	1.6	1.8	1.0	1.0	1.0	1.0
Stock of domestic debt (end of period)	13.3	12.2	11.9	13.1	11.7	12.4	11.9	11.5
Savings and investment[1]								
Resource gap	-16.9	-13.6	-12.1	-11.9	-11.3	-11.9	-12.0	-10.9
Investment	29.6	29.8	27.8	29.0	28.0	29.1	29.2	29.1
Government	7.2	8.2	10.3	8.6	10.6	9.0	8.7	8.4
Nongovernment[4]	22.5	21.6	17.5	20.4	17.4	20.0	20.5	20.7
Gross domestic savings	12.8	16.1	15.7	17.0	16.7	17.2	17.2	18.2
External sector								
Current account balance (excluding current transfers)	-14.6	-13.5	-11.5	-11.2	-11.7	-13.4	-12.4	-11.8
Current account balance (including current transfers)	-11.1	-10.2	-8.3	-8.4	-9.3	-10.5	-9.9	-9.4
			(Millions of U.S. dollars, unless otherwise indicated)					
Balance of payments								
Current account balance (excluding current transfers; deficit -)	-2,774	-2,833	-2,695	-2,539	-2,994	-3,078	-3,129	-3,269
Gross official reserves	2,660	2,930	3,461	3,483	3,755	3,774	3,989	4,151
In months of imports of goods and services (current year)	4.2	4.5	5.2	5.1	5.0	4.8	4.8	4.6
External debt (percent of GDP)	30.7	34.1	26.6	31.3	29.5	32.6	32.3	31.7

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] Data are on calendar year basis. For example, 2007/08 data are for calendar year 2007.
[2] End-year (June) monthly weighted-average yield of 35-, 91-, 182-, and 364-day treasury bills.
[3] Does not include adjustment to cash basis.
[4] Including change in stocks.
[5] From the seventh review under the previous PSI, based on previous GDP projection.

Table 2a. Tanzania: Central Government Operations, 2007/08–2012/13 [1]
(Billions of Tanzania Shillings)

	2007/08	2008/09	2009/10		2010/11		2011/12	2012/13
			Prog.[6]	Proj.[7]	Budget	Proj.	Proj.	Proj.
Total revenue	3,635	4,293	4,933	4,800	6,176	5,652	6,554	7,593
Tax revenue	3,359	4,044	4,577	4,428	5,639	5,223	6,056	6,980
Import duties	289	359	390	367	466	443	514	592
Value-added tax	1,042	1,231	1,467	1,390	1,861	1,629	1,889	2,177
Excises	661	762	876	838	1,063	988	1,146	1,320
Income taxes	984	1,229	1,338	1,334	1,642	1,574	1,825	2,103
Other taxes	383	463	505	499	606	589	683	787
Nontax revenue[2]	275	249	356	372	538	430	498	613
Total expenditure	5,217	6,907	8,685	8,312	10,770	10,093	10,911	12,048
Recurrent expenditure	3,398	4,681	5,946	5,700	6,951	6,464	7,087	7,835
Wages and salaries	1,135	1,609	1,774	1,723	2,205	2,164	2,486	2,833
Interest payments	265	243	367	249	364	354	568	725
Domestic	237	208	314	208	235	278	345	376
Foreign[3]	27	35	53	41	129	76	223	349
Goods and services and transfers[2]	1,998	2,830	3,805	3,728	4,381	3,946	4,034	4,276
of which: MDRI (IMF) related	7	0	…	…	…	…	…	…
Development expenditure	1,819	2,226	2,739	2,611	3,819	3,629	3,824	4,213
Domestically financed	567	906	968	1,005	1,366	1,366	1,578	1,796
of which: MDRI (IMF) related	114	68	131	22	…	…	…	…
Foreign financed	1,252	1,320	1,770	1,607	2,453	2,263	2,246	2,417
Overall balance before grants	-1,583	-2,614	-3,752	-3,512	-4,593	-4,441	-4,357	-4,455
Grants	1,581	1,340	1,972	1,405	2,021	2,008	2,070	2,184
Program (including basket grants)[4]	832	798	989	924	853	969	1,018	1,070
of which: basket grants	206	194	231	258	222	285	307	323
Project	636	462	641	439	899	770	819	861
MDRI (IMF) grant relief	114	68	131	22	…	…	…	…
MCA funding	0	12	211	20	269	269	233	254
Overall balance after grants	-1	-1,275	-1,780	-2,107	-2,573	-2,432	-2,287	-2,271
Adjustment to cash[5]	-365	60	0	167	0	0	0	0
Overall balance (cash basis)	-366	-1,215	-1,780	-1,940	-2,573	-2,432	-2,287	-2,271
Financing gap	0	0	0	0	0	0	0	0
Financing	366	1,215	1,780	1,940	2,573	2,432	2,287	2,271
Foreign (net)	730	956	1,280	1,380	1,943	2,056	1,892	1,822
Foreign loans	775	984	1,324	1,448	1,985	2,104	2,045	2,018
Program (including basket loans)[4]	566	495	892	752	446	608	478	502
of which: basket loans	201	163	255	194	256	246	143	191
Project	209	489	432	696	808	692	743	789
Nonconcessional borrowing	0	0	0	0	731	804	823	727
Amortization	-45	-27	-44	-68	-42	-48	-152	-196
Domestic (net)	-363	214	506	560	600	347	395	449
Bank financing	-346	214	466	585	…	297	355	399
Nonbank financing	…	…	40	-25	…	50	40	50
Amortization of parastatal debt	-15	0	-21	-9	0	0	0	0
Privatization proceeds	0	45	15	10	30	30	0	0
Memorandum items:								
Public domestic debt (in percent of GDP)	13.3	12.2	11.9	13.1	13.1	12.4	11.9	11.5
Recurrent expenditures in pecent of total revenues	93	109	121	119	113	114	108	103
Nominal GDP	22,865	26,497	31,299	30,354	34,750	34,652	39,455	44,895

Sources: Ministry of Finance; Bank of Tanzania; and IMF staff projections.

[1] Fiscal year: July–June.

[2] In 2008/09, nontax revenue include the recovery from a fraudulent payment made from the government's EPA account managed by the Bank of Tanzania. Local Government Authorities' own revenues (about 0.5 percent of GDP), and the equal amount of transfers, are included starting from FY2009/10.

[3] Some projected external debt obligations are under negotiation for relief with a number of creditors.

[4] Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

[5] Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.

[6] From the seventh review under the previous PSI, based on previous GDP projection.

[7] Based on revised GDP.

Table 2b. Tanzania: Central Government Operations, 2007/08–2012/13 [1]
(Percent of GDP)

	2007/08	2008/09	2009/10		2010/11		2011/12	2012/13
			Prog.[6]	Proj.[7]	Budget	Proj.	Proj.	Proj.
Total revenue	15.9	16.2	15.8	15.8	17.8	16.3	16.6	16.9
Tax revenue	14.7	15.3	14.6	14.6	16.2	15.1	15.3	15.5
Import duties	1.3	1.4	1.2	1.2	1.3	1.3	1.3	1.3
Value-added tax	4.6	4.6	4.7	4.6	5.4	4.7	4.8	4.8
Excises	2.9	2.9	2.8	2.8	3.1	2.9	2.9	2.9
Income taxes	4.3	4.6	4.3	4.4	4.7	4.5	4.6	4.7
Other taxes	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.8
Nontax revenue[2]	1.2	0.9	1.1	1.2	1.5	1.2	1.3	1.4
Total expenditure	22.8	26.1	27.7	27.4	31.0	29.1	27.7	26.8
Recurrent expenditure	14.9	17.7	19.0	18.8	20.0	18.7	18.0	17.5
Wages and salaries	5.0	6.1	5.7	5.7	6.3	6.2	6.3	6.3
Interest payments	1.2	0.9	1.2	0.8	1.0	1.0	1.4	1.6
Domestic	1.0	0.8	1.0	0.7	0.7	0.8	0.9	0.8
Foreign[3]	0.1	0.1	0.2	0.1	0.4	0.2	0.6	0.8
Goods and services and transfers[2]	8.7	10.7	12.2	12.3	12.6	11.4	10.2	9.5
of which: MDRI (IMF) related	0.0	0.0	…	…	…	…	…	…
Development expenditure	8.0	8.4	8.7	8.6	11.0	10.5	9.7	9.4
Domestically financed	2.5	3.4	3.1	3.3	3.9	3.9	4.0	4.0
of which: MDRI (IMF) related	0.5	0.3	0.4	0.1	…	…	…	…
Foreign financed	5.5	5.0	5.7	5.3	7.1	6.5	5.7	5.4
Overall balance before grants	-6.9	-9.9	-12.0	-11.6	-13.2	-12.8	-11.0	-9.9
Grants	6.9	5.1	6.3	4.6	5.8	5.8	5.2	4.9
Program (including basket grants)[4]	3.6	3.0	3.2	3.0	2.5	2.8	2.6	2.4
of which: basket grants	0.9	0.7	0.7	0.9	0.6	0.8	0.8	0.7
Project	2.8	1.7	2.0	1.4	2.6	2.2	2.1	1.9
MDRI (IMF) grant relief	0.5	0.3	0.4	0.1	…	…	…	…
MCA funding	0.0	0.0	0.7	0.1	0.8	0.8	0.6	0.6
Overall balance after grants	0.0	-4.8	-5.7	-6.9	-7.4	-7.0	-5.8	-5.1
Adjustment to cash[5]	-1.6	0.2	0.0	0.6	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.6	-4.6	-5.7	-6.4	-7.4	-7.0	-5.8	-5.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	1.6	4.6	5.7	6.4	7.4	7.0	5.8	5.1
Foreign (net)	3.2	3.6	4.1	4.5	5.6	5.9	4.8	4.1
Foreign loans	3.4	3.7	4.2	4.8	5.7	6.1	5.2	4.5
Program (including basket loans)[4]	2.5	1.9	2.8	2.5	1.3	1.8	1.2	1.1
of which: basket loans	0.9	0.6	0.8	0.6	0.7	0.7	0.4	0.4
Project	0.9	1.8	1.4	2.3	2.3	2.0	1.9	1.8
Nonconcessional borrowing	0.0	0.0	0.0	0.0	2.1	2.3	2.1	1.6
Amortization	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.4	-0.4
Domestic (net)	-1.6	0.8	1.6	1.8	1.7	1.0	1.0	1.0
Bank financing	-1.5	0.8	1.5	1.9	…	0.9	0.9	0.9
Nonbank financing	…	…	0.1	-0.1	…	0.1	0.1	0.1
Amortization of parastatal debt	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.2	0.0	0.0	0.1	0.1	0.0	0.0

Sources: Ministry of Finance; Bank of Tanzania; and IMF staff projections.

[1] Fiscal year: July–June.

[2] In 2008/09, nontax revenue include the recovery from a fraudulent payment made from the government's EPA account managed by the Bank of Tanzania. Local Government Authorities' own revenues (about 0.5 percent of GDP), and the equal amount of transfers, are included starting from FY2009/10.

[3] Some projected external debt obligations are under negotiation for relief with a number of creditors.

[4] Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

[5] Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.

[6] From the seventh review under the previous PSI, based on previous GDP projection.

[7] Based on revised GDP.

Table 3. Tanzania: Monetary accounts, 2007/08 - 2010/11
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2007/08	2008/09	2009/10		2010/11	
			Prog.[2]	Act.	Prog.[2]	Proj.
Bank of Tanzania						
Net foreign assets	3,060	3,401	3,736	3,949	4,258	4,857
Net international reserves	3,120	3,464	4,156	4,336	4,691	5,307
(Millions of U.S. dollars)	2,642	2,666	3,079	3,143	3,374	3,435
Net non-reserve foreign assets	-60	-63	-420	-387	-433	-450
Net domestic assets	-980	-723	-494	-580	-416	-995
Credit to government	-1,407	-712	-622	-628	-537	-494
of which: Excluding counterpart of liquidity paper	-240	278	478	581	503	606
Other items (net)	427	-11	128	48	121	-501
REPOs	-105	-131	-110	-117	-97	-120
Other items, excluding REPOs (net)	532	120	238	165	218	-380
of which: Credit to nongovernment sector	79	40	101	89	101	92
Reserve money[1]	2,080	2,678	3,242	3,369	3,841	3,862
Currency outside banks	1,269	1,424	1,628	1,680	1,887	1,974
Bank reserves	810	1,255	1,614	1,689	1,954	1,888
Currency in banks	182	259	334	351	442	424
Deposits	628	996	1,280	1,338	1,513	1,463
Required reserves (calculated)[1]	504	787	926	994	1,101	1,334
Excess reserves (calculated)	124	209	354	344	411	129
Memorandum items:						
Stock of liquidity paper	1,168	990	1,100	1,209	1,040	1,100
Average reserve money	2,054	2,602	3,161	3,138	3,746	3,766
Monetary Survey						
Net foreign assets	3,629	4,203	4,749	5,266	5,384	6,162
Bank of Tanzania	3,060	3,401	3,736	3,949	4,258	4,857
Commercial banks	569	802	1,013	1,316	1,126	1,305
Net domestic assets	2,983	3,629	4,814	4,536	6,186	5,617
Domestic credit	3,193	4,580	5,642	5,908	7,038	7,358
Credit to government (net)	-151	128	528	713	837	1,009
Credit to nongovernment sector	3,344	4,452	5,114	5,195	6,201	6,349
Other items (net)	-210	-951	-828	-1,372	-853	-1,741
M3	6,612	7,832	9,563	9,801	11,570	11,779
Foreign currency deposits	1,785	2,064	2,486	2,522	3,031	3,004
M2	4,827	5,768	7,076	7,279	8,538	8,775
Currency in circulation	1,269	1,424	1,628	1,680	1,887	1,974
Deposits (TSh)	3,557	4,344	5,449	5,599	6,651	6,801
Memorandum items:	(12-month percent change, unless otherwise indicated)					
M3 growth	18.1	18.5	21.6	25.1	21.0	20.2
M3 (as percent of GDP)	28.9	29.6	30.6	32.3	33.1	34.0
Private sector credit growth	32.9	33.1	14.5	16.7	21.3	22.2
Average reserve money	21.9	26.7	21.5	20.6	18.5	20.0
Reserve money multiplier (M3/average reserve money)	3.2	3.0	3.0	3.1	3.0	3.0

Sources: Bank of Tanzania and IMF staff estimates and projections.

[1] 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.

[2] From the seventh review under the previous PSI.

Table 4. Tanzania: Summary Accounts of the Bank of Tanzania, 2009/10–2010/11
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2009		2010				2011	
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.
Net foreign assets	3,902	3,845	3,911	3,997	4,360	4,503	4,939	4,857
Net international reserves	4,293	4,234	4,230	4,336	4,797	4,945	5,385	5,307
(Millions of U.S. dollars)	3,295	3,224	3,180	3,143	3,233	3,262	3,518	3,435
Net non-reserve foreign assets	-391	-389	-319	-339	-437	-442	-446	-450
Net domestic assets	-1,012	-836	-791	-627	-926	-890	-1,228	-995
Credit to government	-1,011	-965	-808	-628	-493	-414	-752	-494
of which: Excluding counterpart of liquidity paper	105	210	367	581	462	586	598	606
Other items (net)	-1	129	17	1	-433	-476	-476	-501
REPOs	-211	-20	-109	-117	-106	-134	-117	-120
Other items, excluding REPOs (net)	210	149	126	118	-328	-341	-359	-380
of which: Credit to nongovernment sector	88	100	87	89	92	92	92	92
Reserve money[1]	2,890	3,009	3,120	3,369	3,433	3,613	3,710	3,862
Currency outside banks	1,519	1,567	1,542	1,680	1,858	1,993	1,954	1,974
Bank reserves	1,371	1,442	1,578	1,689	1,576	1,621	1,756	1,888
Currency in banks	308	330	299	351	395	399	391	424
Deposits	1,063	1,112	1,279	1,338	1,181	1,222	1,365	1,463
Required reserves (calculated)[1]	850	884	924	994	1,023	1,070	1,214	1,334
Excess reserves (calculated)	213	229	355	344	158	152	151	129
Memorandum items:								
Stock of liquidity paper	1,116	1,176	1,175	1,209	955	1,000	1,350	1,100
Average reserve money	2,846	2,936	3,026	3,138	3,451	3,523	3,647	3,766

Sources: Bank of Tanzania and IMF staff estimates and projections.

[1] In January 2009 the reserve requirement on government deposits was increased to 20 percent (from 10 percent) and vault cash in banks was no longer counted towards required reserves. Previously, 50 percent of vault cash in banks was counted toward required reserves.

Table 5. Tanzania: Monetary Survey, 2009/10–2010/11
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2009		2010				2011	
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.
Net foreign assets	4,869	4,940	4,918	5,266	5,506	5,708	6,201	6,162
Bank of Tanzania	3,902	3,845	3,847	3,949	4,360	4,503	4,939	4,857
Commercial banks	967	1,095	1,071	1,316	1,147	1,204	1,262	1,305
Net domestic assets	3,575	3,841	4,158	4,536	4,842	5,136	5,038	5,617
Domestic credit	4,557	4,865	5,273	5,908	6,697	6,803	6,760	7,358
Credit to government (net)	-27	128	418	713	1,273	1,158	929	1,009
Credit to nongovernment sector	4,584	4,736	4,855	5,195	5,424	5,645	5,831	6,349
Other items (net)	-982	-1,024	-1,115	-1,372	-1,855	-1,667	-1,722	-1,741
M3	8,443	8,780	9,075	9,801	10,349	10,844	11,239	11,779
Foreign currency deposits	2,137	2,182	2,201	2,522	2,732	2,874	2,922	3,004
M2	6,306	6,598	6,874	7,279	7,617	7,970	8,317	8,775
Currency in circulation	1,519	1,567	1,542	1,680	1,858	1,993	1,954	1,974
Deposits (Tanzania Sh)	4,787	5,031	5,332	5,599	5,759	5,978	6,362	6,801
Memorandum items:								
M3 growth (12-month percent change)	19.0	17.7	18.9	25.1	22.6	23.5	23.8	20.2
Credit to private sector (12-month percent change)	26.2	9.4	10.1	16.7	18.3	19.2	20.1	22.2
Average reserve money (12-month percent change)	21.1	26.7	21.2	20.6	21.3	20.0	20.5	20.0
Nonbank financing of the government (net) [1]	-65	-2	-102	-25	…	20	30	50
Bank financing of the government (net) [1]	-155	0	290	585	…	445	216	297
Bank and nonbank financing of the government (net) [1]	-221	-2	187	560	…	465	246	347

Sources: Bank of Tanzania and IMF staff estimates and projections.

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

Table 6. Tanzania: Balance of Payments, 2007/08–2012/13
(Millions of U.S. dollars, unless otherwise indicated)

	2007/08	2008/09	2009/10		2010/11		2011/12	2012/13
			Prog.[4]	Act.	Prog.[4]	Proj.	Proj.	Proj.
Current account	-2,114	-2,130	-1,950	-1,916	-2,383	-2,426	-2,480	-2,607
Trade balance	-3,105	-2,952	-2,933	-2,777	-3,171	-3,279	-3,342	-3,513
Exports, f.o.b.	2,916	3,268	3,216	3,794	3,826	4,269	4,674	5,162
of which:								
Traditional agricultural products	412	510	441	457	506	549	601	664
Gold	1,041	925	1,124	1,482	1,301	1,693	1,858	2,009
Imports, f.o.b	-6,021	-6,220	-6,149	-6,570	-6,996	-7,549	-8,016	-8,674
of which: Oil	-1,683	-1,485	-1,471	-1,911	-1,797	-2,287	-2,411	-2,619
Services (net)	397	163	277	237	273	229	333	428
of which: Travel receipts	1,190	1,163	1,322	1,239	1,454	1,353	1,501	1,672
Income (net)	-92	-75	-71	-36	-132	-68	-162	-227
of which: interest on public debt	-35	-28	-27	-31	-91	-51	-142	-216
Current transfers (net)	686	734	778	660	647	692	691	705
Of which: official transfers	659	703	745	623	612	651	649	662
Capital account	680	379	706	608	683	724	736	760
of which: project grants[1]	551	317	640	545	653	691	671	690
Financial account	1,466	1,306	1,591	1,672	1,994	1,994	1,959	2,008
Foreign Direct Investment	491	408	510	424	700	445	478	590
Public Sector, net	724	719	962	1,104	1,237	1,347	1,207	1,128
of which:								
Program loans	458	400	670	612	443	403	305	311
Non-concessional borrowing					525	525	525	450
Project loans	174	387	325	520	331	450	474	488
Scheduled amortization[2]	-38	-21	-33	-29	-63	-32	-97	-121
Commercial Banks, net	21	-9	-140	-320	-60	100	50	50
SDR allocation[3]	0	0	249	249	0	0	0	0
Other private inflows	230	188	10	216	117	103	225	240
Errors and omissions	469	463	0	113	0	0	0	0
Overall balance	500	18	347	478	295	292	215	161
Financing	-500	-18	-347	-478	-295	-292	-215	-161
Change in BoT reserve assets (increase, -)	-501	-264	-441	-570	-295	-292	-215	-161
Use of Fund credit	1	246	94	93	0	0	0	0
Memorandum items:								
Gross official reserves (BoT)	2,660	2,930	3,461	3,483	3,755	3,774	3,989	4,151
Months of imports of goods and services (current year)	4.2	4.5	5.2	5.1	5.0	4.8	4.8	4.6
Exports (percent of GDP)	15.3	15.6	13.7	16.7	15.0	18.5	18.6	18.6
Imports (percent of GDP)	-31.6	-29.7	-26.2	-29.0	-27.4	-32.8	-31.9	-31.2
Current account deficit (percent of GDP)	-11.1	-10.2	-8.3	-8.4	-9.3	-10.5	-9.9	-9.4
Foreign program and project assistance (percent of GDP)	9.7	8.6	10.1	10.1	8.0	9.5	8.3	7.7
Nominal GDP	19,028	20,956	23,510	22,695	25,526	23,038	25,160	27,795

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] An adjustment to the estimated outturn is made by BoT to reflect unreported project grants.
[2] Relief on some projected external debt obligations is being negotiated with a number of creditors.
[3] Tanzania received SDR 147.4 million on August 28 and SDR 11.7 million on September 9 (equivalent to US$249 million in total).
[4] From the seventh review under the previous PSI.

Table 7. Tanzania: Quantitative Assessment Criteria and Indicative Targets, June–September 2010

	June			September	
	Assessment Criteria	Adjusted Criteria	Actual	Indicative Targets	Actual
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)				
Net domestic financing of the government of Tanzania (cumulative, ceiling) [1,2]	506	746	560	250	…
Average reserve money (upper bound) [3]	3,193	3,193	3,138	3,406	3,451
Average reserve money target [3]	3,161				
Average reserve money (lower bound) [3]	3,129				
	(Millions of U.S. dollars; end of period)				
Net international reserves of the Bank of Tanzania (floor) [4]	3,079	2,899	3,143	3,061	3,233
Accumulation of external payments arrears (ceiling)	0	0	0	0	…
Contracting or guaranteeing of external debt on nonconcessional terms (continuous ceiling) [5]	0	0	0	525	0
Memorandum item:					
Foreign program assistance (cumulative grants and loans) [1]	1,416	…	1,236	329	…

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

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

[2] To be adjusted upward by up to TSh 250 billion for the U.S. dollar equivalent of a shortfall in foreign program assistance from the amounts shown in the memorandum item.

[3] Assessment criteria and benchmarks apply to upper bound only.

[4] 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 TSh 250 billion.

[5] To be used exclusively for infrastructure investment projects. Continuous assessment criteria; ceiling applies throughout the year.

Table 8. Tanzania: Structural Benchmarks for FY 2010/11

Measure	Target Date	Status
Poverty Reduction Strategy		
Adoption of MKUKUTA II by Cabinet.	End-June, 2010	Met with delay.
Approval by new Government of a new National Social Protection Framework.	End-June, 2010	Not met. Proposed as an to end-March, 2011 benchmark.
Financial Sector		
Appoint Head of Social Security Regulatory Agency and issue investment guidelines for pension funds.	End-June, 2010	Partly met with delay. The Regulator was appointed in September, but investment guidelines have not yet been issued. The benchmark for investment guidelines is proposed as an end-March 2011 benchmark, so results of World Bank audits can be taken into account.
Introduce data collection and reporting system for pension funds.	End-June, 2010	Met.
Submit Financial Stability Report to the BoT Board.	End-June, 2010	Met.
Notification to banks to increase contributions to the Deposit Insurance Fund.	End-June, 2010	Met.
Establish framework for emergency liquidity assistance beyond day-to-day liquidity management and tools.	End-March, 2011	In progress.
Fiscal		
Debt management: Prepare a Medium-Term Debt Strategy consistent with resource needs under the new PRS and reflecting contingent liabilities.	End-December, 2010	In progress. Proposed as an end-March 2011 benchmark to incorporate results of additional Fund-Bank TA in December.
Establish a PPP unit within the MoFEA.	End-December, 2010	Met.
Develop an index for monitoring priority social spending.	End-December, 2010	In progress.
Collect data, on a quarterly basis, on payment claims outstanding over 30, 60, and 90 days in Ministries of Infrastructure, Health, and Home Affairs. End-June data to be provided by end-September.	End-June, 2010	Met.
Statistics		
Develop core inflation index.	End-December, 2010	In progress. Proposed as an end-March 2011 benchmark in order to incorporate new CPI basket and additional consultation with EAC members.

Table 9. Tanzania: Financial Soundness Indicators, 2006–2010
(Percent, end of calendar year)

				2009				2010	
	2006	2007	2008	Mar	Jun	Sep	Dec	Mar	Jun
Capital adequacy									
Capital to risk-weighted assets	16.3	16.2	17.0	20.3	17.8	19.6	18.3	20.5	19.4
Capital to assets	7.6	8.1	10.1	11.6	10.6	10.9	10.9	11.9	11.0
Asset composition and quality									
Net loans and advances to total assets	37.3	41.2	50.6	50.3	48.8	46.0	46.3	45.2	44.8
Sectoral distribution of loans									
Trade	15.2	17.0	18.5	17.3	17.6	18.5	18.8	18.3	18.0
Mining and manufacturing	18.3	20.2	14.7	14.2	13.5	11.3	12.0	13.3	15.4
Agricultural production	9.0	11.9	10.4	10.5	10.9	12.2	10.2	10.2	11.3
Building and construction	5.0	5.1	4.9	4.8	4.5	5.1	5.0	4.9	5.6
Transport and communication	7.9	6.9	7.3	7.4	9.9	9.8	9.2	8.9	10.1
Foreign exchange loans to total loans	32.0	31.4	31.8	30.9	30.4	29.3	28.5	29.1	32.1
Gross nonperforming loans (NPLs) to gross loans [1]	6.8	6.3	6.2	7.3	7.7	6.4	6.6	7.0	7.2
NPLs net of provisions to capital	21.1	22.0	22.0	23.5	25.8	46.0	17.6	15.4	17.3
Large exposures to total capital [2]	282.8	183.5	199.4	155.4	197.2	139.6	54.4	93.7	161.5
Earnings and profitability									
Return on assets	3.9	4.7	3.8	4.0	3.6	3.4	3.2	2.7	2.9
Return on equity	26.7	29.0	23.2	22.6	21.2	20.1	18.4	15.3	16.4
Net interest margin	74.9	73.8	76.7	74.2	73.5	72.7	73.3	73.2	74.8
Noninterest expenses to gross income	43.5	42.5	48.8	44.6	45.3	46.6	47.6	53.5	52.5
Personnel expenses to noninterest expenses	39.5	40.5	40.6	44.6	45.2	43.7	42.6	43.6	42.5
Trading and fee income to total income	27.1	25.7	26.0	29.9	26.5				
Liquidity									
Liquid assets to total assets	48.6	48.0	37.6	36.5	37.8	41.1	40.5	40.5	40.7
Liquid assets to total short term liabilities	54.2	53.0	41.7	43.8	45.2	48.5	46.5	47.1	46.8
Total loans to customer deposits	50.1	57.6	68.4	66.9	65.5	61.2	61.6	60.0	59.1
Foreign exchange liabilities to total liabilities	38.6	33.8	32.5	31.5	31.1	29.7	29.7	29.1	30.5

Source: Bank of Tanzania

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

[2] Indicator for loan concentration increased sharply in 2006 because of improved data collection. The indicator is however below the prudential norm of 800%, which is consistent with Basle standards.

Letter of Intent

November 4, 2010

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 policy advice from the Fund under the Policy Support Instrument (PSI). Good progress has been made during the implementation of the programme under the PSI and the Exogenous Shock Facility (ESF), which was concluded in June 2010. The programme under the current PSI, which was approved in June 2010, will continue to monitor the progress, whereby Tanzania is committed to maintaining sound policies aimed at consolidating the achievements realized in macroeconomic stability and implementing strategies geared towards accelerating growth and poverty reduction.

2. Performance against PSI targets remained on track with all quantitative assessment criteria for end-June 2010 being met, some with comfortable margins. Meanwhile, good progress has been made in implementing the structural reform program. All except two benchmarks due for end-June 2010 have been met, and one benchmark due for end-December 2010 was met early. The government requests re-phasing of the benchmarks pertaining to the National Social Protection Framework and issuance of pension fund investment guidelines to end-March 2011.

3. Based on the projected world economic outlook and the preliminary economic performance during the first two quarters, real GDP growth is expected to rebound to 7.0 percent in 2010 compared to 6.0 percent attained in 2009. The economy is projected to strengthen further as ongoing reforms and the public investment efforts yield fruit, with GDP growth at an average rate above 7 percent over the medium term.

4. There has been a notable decline in headline inflation, which dropped from 12.7 percent in October 2009 to 4.5 percent in September 2010, primarily due to decline in food inflation, which constitutes the largest share in the consumer basket.

5. The Government's main policy objectives for FY10/11 is to sustain the macroeconomic stability through implementation of appropriate fiscal and monetary policies, aimed at stimulating economic activities benefiting from the rebound in global economy. However, growing spending needs for infrastructure and maintaining social gains, particularly in education, put pressure on the resource envelope. The implementation of the budget will continue to be on cash basis, thereby ensuring that recurrent expenditure execution is aligned with the resource availability, while protecting development spending. Over the medium term, the government will continue to focus among other priority areas on infrastructure and agriculture geared towards accelerating economic growth and poverty

reduction in line with MKUKUTA II. The government will also aim at increasing domestic revenue collection and developing debt management and investment capacity to tap new financing sources and use them well.

6. The Government will cautiously assess the terms of nonconcessional borrowing, to ensure that they are consistent with medium-term fiscal sustainability, and will also strive to ensure funds from any such borrowing are used efficiently for high-priority infrastructure investments. If such financing is not available under appropriate terms, the government will still aim at maintaining, to the extent possible, domestically-financed infrastructure spending.

7. Following discussions and consultations with the Fund staff, I hereby transmit this letter of intent and the attached Memorandum of Economic and Financial policies and the Technical Memorandum of Understanding, which reviews the implementation of the programme during the fiscal year 2009/10 and describes the objectives and policies that the government intends to pursue during the fiscal year 2010/11 and over the medium term.

8. The Government of Tanzania requests the conclusion of the first review under the new PSI and the modification of the assessment criteria for end-December 2010, following good performance in programme implementation and appropriate policy intentions for the medium term.

9. The Government of Tanzania is confident that the policies set forth in the attached MEFP are adequate to achieve the objectives of its programme and 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.

10. 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:
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Tanzania: Memorandum of Economic and Financial Policies

I. Recent Macroeconomic Developments

1. Tanzania, like many other economies in the world, suffered from the effects of the global financial crisis (GFC). The impact was manifested in a number of areas including foreign direct investment, export of goods, growth of credit to private sector and government revenue collection. In addition, the economy was affected by drought and floods that occurred in some parts of the country in 2008–2009. Nonetheless, the overall macroeconomic performance remained strong during 2009 with real GDP growing at 6.0 percent, slightly higher than the revised projection of 5.5 percent. The growth in 2009 was however lower than the 7.4 percent recorded in 2008, resulting from a slowdown in all economic activities except Communication, Education, and Electricity and gas. The growth of GDP in Tanzania was much higher than the average growth of 2.2 percent in Sub-Saharan Africa economies in 2009. This reflects the resilience of Tanzania's economy, which is partly attributed to the sustained economic reforms that have increased efficiency in economic activities over the past two decades, coupled with policy measures taken to mitigate the impact of the GFC.

2. The economy continued to experience inflationary pressures in 2009, primarily due to food supply shortages and a rebound in world oil prices. The average annual headline inflation rate rose to 12.1 percent in 2009, from 10.3 percent recorded in 2008, driven mostly by food inflation that increased to an average of 17.5 percent from 12.7 percent in the same period. The food supply shortages were caused by, among other reasons, drought in some parts of the country and neighbouring countries exacerbated by transport bottlenecks that caused higher distribution costs. Following favourable weather conditions in the 2009/10 crop season, food supply improved, leading to a downward trend in inflation from 12.7 percent in October 2009 to 4.5 percent in September 2010.

3. The trade deficit of the balance of payments in 2009/10 recorded a decline following higher growth in exports which offset the impact of an increase in the import bill. The value of goods and services exports in 2009/10 increased largely due to improved performance of gold exports and travel receipts. The volume of gold exports increased to 36.3 tons in 2009/10 from 28.4 tons in 2008/09, while the world market price increased to USD 1,094.2 from USD 873.6 per troy ounce in the same period. Despite a recovery of export prices in the global market, the value of traditional exports went down following a decline in the export volumes of all traditional cash crops as a result of a decline in domestic production. During the period under review, imports recorded a modest increase partly on account of an increase in value of oil imports associated with the increase of oil prices in the world market as the global economy recovers. Improvement in the trade account led to a reduction in current account deficit to USD 1,915.4 million in 2009/10, from a deficit of USD 2,130.0 million recorded in the preceding year. The current account deficit (excluding current transfers) was equivalent to 11.2 percent of GDP compared to 13.5 percent of GDP in 2008/09. The overall balance of payments recorded a surplus of USD 477.6 million, largely due to the improvement in the current account and allocation of Special Drawing Rights (SDR). This development, coupled with disbursement of funds for balance of payments support under the Exogenous Shock Facility arrangement led to an increase in gross official reserves to USD 3,482.6 million at the end of June 2010 from USD 2,929.8 million recorded at end June

2009. The official reserves at the Bank were sufficient to cover about 5.1 months of imports at the end of June 2010.

Performance under the program

4. Performance against PSI targets remained on track with all quantitative assessment criteria for June 2010 being met (Table 1). In particular, average reserve money closed at TShs. 3,138.5 billion, being within the band of TShs. 3,192.6 billion and TShs. 3,129.0 billion, while Net International Reserves (NIR) amounted to USD 3,143.3 million, being above the adjusted floor target of USD 2,896.3 million by USD 247.0 million. The good performance in NIR was partly explained by the allocation of SDR. Net domestic financing of the government was TShs. 559.8 billion, being below the adjusted ceiling of TShs. 746.1 billion by TShs. 186.3 billion.

5. Good progress has been made in implementing the structural benchmarks (Table 2). All except two benchmarks have been met. The government requests re-phasing of the two benchmarks pertaining to the National Social Protection Framework and to issuance of pension fund investment guidelines to March 2011. The end-December 2010 benchmark to establish a PPP unit has already been met.

Fiscal policy

6. Central Government operations for fiscal year FY09/10 experienced a shortfall in domestic revenue collections against budget targets. Total domestic revenue collection excluding revenue generated by Local Government Authorities (LGAs) in 2009/10 was TShs. 4,662 billion, 91.5 percent of budget estimate of TShs. 5,096 billion, partly due to the impact of the GFC that led to slower growth in taxable activities in the economy. In addition, non-tax revenue was further affected by postponement of the implementation of some revenue measures that were announced in the budget, including new charges in residency permits, visas, immigration fees and fire service charges. Implementation of these measures was postponed to avoid affecting adversely tourism activities at the onset of the global financial and economic crisis. They will be considered during FY11/12 budget preparation. The budget for FY09/10 had, for the first time, included projected revenue generated by LGAs amounting to TShs 138 billion. Efforts are being made to obtain data on LGAs' budgetary operations and it is expected that the strengthening of the public financial management (PFM) at LGAs will facilitate collection of data from that level.

7. Total expenditure for FY09/10 (excluding expenditure from LGAs' own revenues) was within available resources, reaching TShs. 8,174 billion or 92 percent of the budget estimates. Development spending for FY09/10 was 8.6 percent of GDP compared to 8.4 percent in 2008/09, while recurrent spending was 18.8 percent compared to 17.7 percent. Adjustment needs were largely accommodated by reprioritization of goods and services. Foreign financed development expenditure was 87.0 percent of the estimate, mainly on account of shortfall in disbursements of project funds. Domestic and foreign interest payments were below the estimates due to decline of domestic interest rates and un-concluded Paris Club negotiations with Brazil and Spain, for which debt service had been included in the projections.

8. Total grants for the year FY09/10 were TShs. 1,405.3 billion, equivalent to 67 percent of the estimate for the year, and an increase of 5 percent when compared with TShs. 1,339.6 billion recorded in the preceding year. The lower than projected grants were partly due to a shortfall in disbursement of project funds. During this period, total financing was TShs. 1,939.6 billion, out of which net domestic financing was TShs. 559.8 billion, which is 1.9 percent of GDP. Some development partners frontloaded their programme assistance, which had been initially planned for the FY10/11 budget, to complement government efforts in mitigating the adverse impact of the global financial crisis on the economy. However, overall program assistance fell short of forecasts. Against that background, agreed net domestic financing was increased to provide additional support to uninterrupted implementation of policies set in MKUKUTA.

9. The Government continued to implement the economic rescue plan in FY09/10, which was targeted at protecting employment and income, food security and investment in key infrastructural and social services, from the adverse effects of the global financial crisis. The provisions for loan rescheduling, loss compensation and enhancement of the SMEs and Export Credit Guarantee schemes helped to leverage banks' confidence in lending, which kept credit to the private sector growing, albeit at a slower rate. The plan also helped to maintain smooth implementation of power projects, while additional domestic borrowing helped fill the Government revenue gap for smooth execution of Government commitments in 2008/09 and 2009/10.

MKUKUTA

10. Good progress was made during implementation of MKUKUTA I, with overall macroeconomic stability remaining on track. Regarding improving quality of life and social well being, significant achievements were recorded in many of the set targets. For example, expansion of social services is encouraging, whereas enrolment at all levels of education improved significantly, almost surpassing the set targets. As it was noted globally during the MDGs Summit in New York in September 2010, Tanzania was awarded a certificate for performance toward the MDG enrolment target in education, which is on track, and likely to be achieved by 2015. The preliminary data from Tanzania Demographic and Health Survey 2009/10 indicates that there was a decline in infant and child mortality rates. In addition, the data indicates a decline in maternal mortality rates, from 578 women per 100,000 live births in 2004/05 to 454 in 2009/10. Water supply services have also improved, with the proportion of the population with access to clean and safe water in rural areas increasing from 53.1 percent in 2005 to 58.7 percent in 2009; and from 74 percent in 2005 to 84 percent in 2009 in urban areas. Progress is encouraging with regard to efforts to improve governance and accountability. Systems for public financial management, which include auditing, procurement and budgeting, are in place and functioning well. Democratic processes, including citizen's engagement and participation on matters of their concern, are improving; and the percentage of women holding higher positions has increased. Efforts to curb corruption and instil a culture of integrity have been also intensified under National Anti-Corruption Strategy and Action Plan (NACSAP). All these are under the auspices of the core public reform programmes. The review of the MKUKUTA I performance and analysis of the challenges during the implementation (2005/06-2009/10) has provided major inputs during the design of MKUKUTA II.

Public financial management

11. The Government has made good progress in strengthening public financial management, both at central and local Government level, to ensure that public resources are utilized efficiently and effectively. The Government introduced the economic classification of Government statistics in 2009/10 in line with the GFS 2001 Manual, and annual accounts are now being prepared using the International Public Sector Accounting Standards (IPSAS) format, which facilitates improved expenditure tracking and monitoring. Further, the Government has adopted the functional classification of budget items, and budget books for fiscal year 2010/11 were prepared in line with Classification of Functions of Government (COFOG). This is an important step towards developing a matrix for monitoring public expenditure by functions, particularly in priority social sector spending (an end-December 2010 structural benchmark under the PSI).

12. The Government has begun making some payments through Tanzania Inter-bank Settlement System (TISS), effectively from July 2010, which is expected to address the problem of expenditure float. Amendments to the Public Finance Act, 2004 (Cap 348) were passed by the Parliament in July 2010, which among others, provided for the establishment of a centralized independent Internal Audit Department. The process is underway for the department to be operational before the end of 2010/11. Further, other amendments to Cap 348 empowered the Treasury through the Accountant General to control the use of public funds in Local Authorities. Efforts have been made to enhance the capacity of the cash management unit (CMU), the staff of line Ministries, Independent Departments and other spending agencies (MDAs) in order to improve in-year cash flow projection. These MDAs have been trained on how to prepare cash flows based on their action plans and procurement plans. The exercise was piloted in nine MDAs and will be monitored during the implementation of 2010/11 budget in terms of quarterly cash releases from Treasury against cash flow plans.

13. The Government continued to strengthen commitment control and expenditure tracking and monitoring. In this regard, the Ministry of Finance and Economic Affairs (MoFEA) has issued a circular No. 8 of 2009/10 to all MDAs directing them to prepare and submit, by end September 2010, a detailed schedule of outstanding payment claims as at the end of June 2010. As of end September 2010, MDAs had submitted their schedules and the compilation exercise is being undertaken to come up with a comprehensive list of outstanding payment claims (an end-December benchmark). This will now be an ongoing process that will require all MDAs to submit the same on quarterly basis. The process is expected to facilitate monitoring of expenditure development to enable a more accurate projection of cash flow needs and smooth implementation of monetary policy.

14. In July 2010, the Parliament approved the Public Private Partnership (PPP) Act, which will govern the PPP arrangements. The Act specifies the scope of PPP operations and the role of various stakeholders. The Law established the administrative arrangements between various players within the Government, including the Tanzania Investment Centre, Ministry of Finance and Economic Affairs (MoFEA), MDAs, LGAs and public bodies who are the ultimate owners of the PPP projects on behalf of the Government. A PPP Unit has been established at MoFEA to manage associated fiscal risks, in advance of the end-

December 2010 PSI deadline. The PPP strategy and regulatory framework are being developed to implement the Law.

15. The Controller and Auditor General's report indicated that there has been significant improvement in audited reports with an increase in unqualified (clean) audit opinions from 70 percent in 2007/08 to 86 percent in 2008/09, while qualified audit opinions decreased from 26 percent to 11 percent and adverse opinions decreased from 5 percent to 3 percent. Further, the National Audit Office carried out audit of the Integrated Financial Management System (IFMS) and some recommendations from the report have been included in the fiscal year 2010/11 for implementation. MoFEA has classified the agreed recommendations into short, medium and long term and some short term issues have already been acted upon.

16. The Government has been taking measures to strengthen management of public corporations and institutions with a view to improve efficiency, productivity and revenue collections in order to reduce the burden on government budget. The amendments to the Public Corporations Act, CAP 257 and Treasury Registrar (Powers and Functions Act) CAP 370 were passed by Parliament in April 2010 to empower the Office of the Treasury Registrar to be an autonomous authority. This will enable the Treasury Registrar to oversee management and operations of public corporations and institutions. Relevant steps have been taken including developing the institutional framework (organizational structure), which has already been approved. Currently regulations are being developed and other institutional arrangements will follow to operationalize the authority.

Monetary and exchange rate policies

17. Monetary policy for FY09/10 was designed to accommodate the countercyclical fiscal measures adopted to address the adverse effects of the GFC. Monetary targets were revised upwards in line with the program agreed under the PSI arrangement. In addition, the Bank rate and Lombard rate were reviewed downwards with a view to making them more active instruments of monetary policy and to enhance flexibility in provision of liquidity to the economy. The annual growth rate of the extended broad money supply was 25.1 percent at end-June 2010, compared with 18.5 percent recorded at end-June 2009, while that of the broad money supply was 26.2 percent compared with 19.5 percent, partly reflecting an increase in net foreign assets of the banking system. Despite these developments, average reserve money remained within the PSI program target.

18. Notwithstanding the relaxed monetary policy stance pursued during the period, the growth of credit to the private sector remained significantly lower than in the preceding years. This was explained by the cautious approach adopted by banks, following the global economic downturn and other associated risks. The sluggish growth of credit to private sector was mirrored by a sharp increase in net foreign assets of banks and demand for Treasury securities. Credit to the private sector grew by 16.7 percent in the year ending June 2010, compared with the growth rate of 33.1 percent recorded in the year ending June 2009, whereas net foreign assets holdings by banks registered an annual growth rate of 64.2 percent, up from 40.8 percent recorded in the same period. The Bank of Tanzania maintained moderate tender sizes of Treasury securities consistent with the monetary policy stance,

which, coupled with slowdown in credit to the private sector, led to a build up in liquidity among banks and a significant decline in money market interest rates.

19. Despite the high liquidity among banks, the shilling value against US dollar remained fairly stable during the first nine months of 2009/10—largely due to a moderate import bill, coupled with the Bank of Tanzania's regular sales of US dollars in the interbank foreign exchange market for liquidity management purposes. However, towards the end of the year the Shilling depreciation against the US dollar accelerated, largely due to strengthening of the US dollar against major currencies across the world.

II. Programme for 2010/11 and in the Medium term

20. During 2010/11 and in the medium term, the government will continue to focus on sustaining macroeconomic stability through implementation of prudent monetary and fiscal policies. This includes enhancing efficiency in the use of public funds with particular emphasis on potential areas for accelerating growth for poverty reduction. This will be made possible through government commitment to scale up investment, particularly in infrastructure, and Government intention to increase the share of domestic revenue in development spending. Economic activity is expected to pick up in the medium term, with real GDP growth returning to 7 percent in 2010 and increasing further to above 7 percent in the medium term. Meanwhile, with the assumptions that the food supply improves and fuel prices stabilize, the inflation rate is expected to continue exhibiting a downward trend, reaching 5.5 percent by June 2011 and remaining around 5.0 percent in the medium term.

MKUKUTA

21. MKUKUTA II was approved in mid-October (an end-June 2010 benchmark), somewhat delayed due to comprehensive consultation processes, which involved MKUKUTA I study reviews, involvement of different stakeholders at different levels and review of the second draft of MKUKUTA II through the national consultative workshop in June 2010. However, spending plans to support MKUKUTA II objectives were included in the FY10/11 budget, and are already underway. MKUKUTA II focuses on accelerating pro-poor growth in a sustainable manner drawing experience from the implementation of MKUKUTA I. The new strategy will ensure that there is adequate prioritization and coordination of policies; emphasis on harnessing PPP potentials; and aligning various reform processes with the strategy. Among the priorities identified, agriculture has been accorded higher priority and will be scaled up under the Kilimo Kwanza initiative. Agriculture as a growth driver supports the majority of the poor rural population and has the potential of lifting the majority of the population out of poverty. Besides agriculture, infrastructure also plays an important role in economic growth by attracting private investment, linking markets and ensuring timely delivery of services. Priorities within MKUKUTA will be given special attention while maintaining progress made in education and health with specific focus on improving the quality of social service delivery.

22. The National Social Protection Framework (NSPF, an end-June 2010 benchmark) has been developed and is expected to be approved by end March 2011. There were some delays in the approval due to extensive consultation processes, which included building consensus

on key issues with key stakeholders. Final approval will be considered by the new government. NSPF is developed to improve coordination and speed up the implementation of policies and measures on social protection designed to improve the lives of the extremely poor and most vulnerable groups in line with MKUKUTA II priorities. It establishes guidelines for stakeholders involved in the planning, funding, and provision of social protection measures in Tanzania. NSPF provides a mechanism for collective state-led measures implemented by the government and its partners – the private sector, civil society, religious groups, communities, and development partners. It identifies measures to protect the extremely poor and vulnerable groups such as: orphans and children; people with disabilities; the elderly; people living with HIV & AIDS and long term illnesses; vulnerable women; former inmates and people disabled by accidents, wars and conflicts. It is expected that the implementation of social protection interventions will foster the achievement of MKUKUTA II and MDGs targets.

Fiscal policies

23. The 2010/11 budget included plans to scale up spending to build up infrastructure as well as maintaining social gains, particularly in education and health. This spending was to be financed by a rebound in domestic revenue, continued program and project assistance, and access to external nonconcessional borrowing. However, domestic revenue collection, although recovering from last year's low levels, is expected to be around 16.3 percent of GDP in 2010/11, below the budgeted level. Domestic revenue collection in the first two months (July, and August) of FY2010/11 has underperformed in almost all categories, prompting new efforts to strengthen administration and limit tax leakages including: (i) strengthening block management; (ii) implementation of electronic fiscal devices for VAT registered taxpayer; (iii) strengthening and intensifying audit; (iv) strengthen large taxpayers' units in the Domestic Revenue Department; (vi) monitoring of declarations and physical examination of goods in Customs; (vii) revenue tracking; (viii) enforcement in collection of tax arrears; and (ix) managing performance in order to improve operational efficiency.

24. Total expenditure is estimated at 29.1 percent of GDP in 2010/11. Development spending would rise to 10.5 percent of GDP while current spending would reach 18.7 percent of GDP, somewhat below budget. The implementation of the budget will continue to be on a cash basis, thereby ensuring that recurrent expenditure execution is aligned with the resource availability. The government is committed to protect spending in key priority areas, in particular development expenditures and will reduce and reschedule spending in other areas as needed to ensure that the PSI targets are met. If access to nonconcessional external financing were to fall short of projections, the government will seek to rearrange spending so as to maintain, to the extent possible, a high level of domestically-financed development outlays. The projects will be further scrutinised to ensure that they contain activities of development nature.

25. In the medium term, the Government will continue to strengthen domestic resource mobilization with the view to scaling up investment needs while containing the growth in the level of recurrent spending. This involves widening the tax base and bringing the informal sector into the tax net. The measures to enhance revenue collection include: (i) harmonization of taxpayers' registration database; (ii) implementation of properties and businesses

formalization programme; (MKURABITA); (iii) implementation of the national identity cards project; and (iv) implementation of physical postal codes in the block management system (BMS). In addition policy measures and administrative efforts will be considered to manage and control tax exemptions to bring tax efficiency rates in line with the region. Tax measures will also take into account the impact of harmonization on tax collection under the East Africa Community.

26. Borrowing decisions will be made within the framework of a sound debt management strategy and a public investment management process to help maximize returns on investments. The government will continue to rely primarily on concessional borrowing to finance its scaling up of spending to address critical infrastructure gaps. The government reasserts its commitment to use the programmed domestic financing of 1 percent of GDP each year and nonconcessional external financing of up to USD1.5 billion over the three-year PSI period to address infrastructure needs. For the nonconcessional financing, negotiations are in progress with various banks and financial institutions. The government is scrutinizing the proposals to identify possible candidates to raise the total borrowing of USD 525 million without endangering fiscal or debt sustainability-in line with the PSI programme. In addition, the government will cautiously evaluate and use nonconcessional borrowing for key infrastructure projects designed to ensure efficiency gains. The projects to be implemented include those aimed at increasing capacity for energy generation, and construction and rehabilitation of roads and railways that are critical for improving the integration of transportation networks within the country and in the region. It is also expected that in the medium term, more infrastructure projects will be developed through the Public Private Partnership (PPP) arrangements.

27. The government is in the process of procuring consultancy services on sovereign credit rating, which will facilitate issuance of Euro bond when needs arise. Tanzania conducted its own Debt Sustainability Analysis (DSA) using the joint IMF-World Bank Debt Sustainability Framework (DSF) which quantified and incorporated nonconcessional borrowing and contingent liabilities, including those arising from government guarantees. The analysis indicated that Tanzania's public debt is expected to remain sustainable. The DSA report is expected to be published by end December 2010. Meanwhile, the Government has adopted the Medium Term Debt Strategy (MTDS) tool in May 2010 for conducting the MTDS. Technical assistance is expected in December to assist government to prepare a draft new MTDS. Completion is expected by March 2011, and the government requests a re-phasing of the related structural benchmark to that date to incorporate the technical assistance. The Government will continue to control the issuance of guarantees on loans to various public institutions in order to maintain sustainability of the public debt.

Monetary policies

28. During FY10/11, monetary policy will be directed towards maintaining an appropriate level of liquidity in the economy to contain inflation and provide enough room for recovery of credit to the private sector. In addition, the Bank's liquidity windows namely Intraday Loan Facility (ILF), Lombard and discount window will remain open for banks in need of liquidity. The commencement of government payments through the Tanzania Inter-bank Settlement System (TISS) is expected to reduce government expenditure float and hence improve predictability of government budgetary flows. During the financial year

2010/11, the Bank is targeting annual growth rate of average reserve money of 20 percent and broader monetary aggregates, M2 and M3 at 20.6 percent and 20.2 percent, respectively. These monetary targets give room for credit to private sector to grow by 22.3 percent in the year ending June 2011. Potential risks to sustaining low inflation could be an increase in world oil prices and insufficient rainfall.

29. The exchange rate will remain market determined and the Bank of Tanzania will participate in the foreign exchange market with the main objective of liquidity management and strengthening oversight in the market. The Bank will remain vigilant in ensuring orderly developments in the money market and safety in payment systems to preserve financial stability.

Financial sector stability

30. The Bank of Tanzania remains committed to ensure stability and soundness of the financial sector. In this regard, the Bank will spearhead the establishment of a coordinated framework of all financial services regulators by establishing a financial regulators forum to assume joint responsibility of safeguarding the stability of the financial system, and coordinating crisis management and resolution. It will also establish a framework for emergency liquidity assistance to banks beyond day-to-day liquidity management and tools (an end-March 2011 structural benchmark). Meanwhile, measures have been taken to raise the minimum capital requirement for commercial banks from TShs 5.0 billion to TShs 15.0 billion. To this effect, the Bank has forwarded a draft order to the Attorney General in August 2010, which will be published in the Government Gazette. Three years have been provided for the existing banks to comply with the new capital requirement, while newly established banks will be required to comply with the new regulation. Regarding deposit insurance, the Minister for Finance and Economic Affairs approved an increase in the maximum insurance cover from TShs 500,000 to TShs 1,500,000 per depositor per bank effective May 2010 and the Government Notice to that effect was published in June 2010 (a structural benchmark under the PSI). In addition, the Premium Assessment Rate payable by banks to Deposit Insurance Fund has been increased from 0.1 percent to 0.5 percent of the average total deposit liabilities through the Government Notice also published in June 2010. Members of the deposit insurance fund have already complied with the new requirements.

31. The financial sector in Tanzania continues to strengthen following the ongoing Second Generation Financial Sector Reform programme. For the banking sector as a whole, financial indicators were sound as of end-June 2010. Progress has been made in the establishment of a credit reference system. The credit reference and licensing guidelines were finalized and gazetted in May 2010. The procurement process for a consultant to assist in the establishment of this credit reference databank is ongoing. Regarding improving access to long term development finance, the Government has approved a framework which will allow the Tanzania Investment Bank to operate as a Development Finance Institution with a window for lending to the agricultural sector became operational in July 2010. With regard to relocation of credit guarantee schemes that are currently operated by the Bank of Tanzania on behalf of Government, a draft report on the structure and mode of operation of the schemes are being reviewed by the Bank.

32. Following the enactment of new Social Security (Regulatory Authority) Act in November 2008, the Ministry of Labour, Employment, and Youth Development finalized regulations to implement the law. The National Social Security Authority has been formed and the CEO of the Authority was appointed in September 2010. The process of preparing and issuing investment guidelines for the pension funds, in consultation with the regulator, is expected to be completed by March 2011 in order to take into account the findings of recent World Bank audits. Procurement of a consultant to conduct actuarial valuation for all pension funds is in the final stages and the engagement of the consultant is expected to be done by December 2010. Meanwhile, the BoT has adopted the IMF Standard Reporting Format for other financial institutions that will be used to capture data from the pension funds. A template was prepared and shared with the pension funds and the insurance regulator and training on how to fill the information is expected by end March 2011.

33. The Bank continued to implement the recommendations of the IMF Safeguards Assessment Mission of August 2009. The Consultant on corporate-wide risk assessment commenced work in August 2010 and is expected to complete the exercise in six months. With regard to building capacity for internal audit staff, technical evaluation of tender offers from the consultants has been finalized and short listed firms forwarded to the World Bank for No Objection. With World Bank's No Objection, the next phase will be to evaluate the financial proposals prior to selecting the consultant. Regarding Bank of Tanzania's 2009/10 financial statements, external auditors conducted an interim audit on the accounts of the first nine months, in May 2010. The 2009/10 draft financials have already been prepared and reviewed by the Directorate of Internal Audit and the Management. It is expected that the Audited financial statements will be adopted by the Board before the end of December 2010.

34. The Bank has reconvened a team of experts to draw a roadmap towards full liberalization of the capital account transactions in Tanzania. The team will work with experts from the Capital Markets and Securities Authority, the Dar es Salaam Stock Exchange and other relevant institutions. In the roadmap, an action plan for removal of each restriction will be developed to ensure that the existing restrictions are eliminated in the period of five years (up to 2015), in line with Tanzania's commitment under the EAC Common Market Protocol. The removal process will be gradual and driven by the achievement in the areas of risk management capacity as well as addressing the preconditions of liberalizing capital account transactions.

35. The Bank understands the need to develop capacity for monitoring capital flows, particularly the short-term ones, in order to manage the process. The Bank also intends to strengthen and foster development of financial and capital markets including developing risk hedging instruments such as debentures. In addition, the Bank is planning to build capacity for the development of market-based fiscal and monetary instruments for managing capital flows in the country. The measures are intended to safeguarding financial stability, improving financial intermediation, promoting long-term finance and deepening financial access.

Statistical issues

36. Revision of the composition of the consumer basket is being finalized by the National Bureau of Statistics (NBS) on the basis of results from 2007 household budget survey (HBS) and the new CPI series are expected to be published by November 2010. NBS has improved the CPI compilation methodology from arithmetic mean to geometric in the production of elementary indices basing on the International recommendations. All item indices will continue using the modified Laspeyers formula. The new series will facilitate computation of core inflation which excludes supply-side effects/products with most volatile prices to provide a better assessment of monetary policy measures. The Government requests a re-phasing of this benchmark to end-March 2011, so that the core inflation series can take into account the new CPI basket and further consultations within the EAC. The NBS will also produce the harmonized consumer price index for SADC/COMESA member states from January 2011. Pilot indices will be available from November 2010. The harmonised CPI (HCPI) for SADC/COMESA member states will be implemented in phases with the first one being launched in January 2011; NBS has met all the requirements to comply with the first phase regulations.

III. Programme Monitoring

37. Progress in the implementation of the policies under this program will be monitored through assessment criteria (ACs), indicative targets (IT), and structural benchmarks (SBs) detailed in the attached Tables 3 and 4 and through semi-annual reviews. Assessment criteria are proposed for end-December 2010 and end-June 2011, to be monitored respectively at the second and third reviews. The second review is expected to be completed by end-May 2011 and the third review by end-December 2011. The attached Technical Memorandum of Understanding—which is an integral part of this Memorandum—contains definitions and adjustors.

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS
DAR ES SALAAM,
TANZANIA

November 4, 2010

Table 1. Tanzania: Quantitative Assessment Criteria and Indicative Targets, June - September 2010

	June			September	
	Assessment Criteria	Adjusted Criteria	Actual	Indicative Targets	Actual
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)				
Net domestic financing of the government of Tanzania (cumulative, ceiling) [1 2]	506	746	560	250	…
Average reserve money (upper bound) [3]	3,193	3,193	3,138	3,406	3,451
Average reserve money target [3]	3,161				
Average reserve money (lower bound) [3]	3,129				
	(Millions of U.S. dollars; end of period)				
Net international reserves of the Bank of Tanzania (floor) [4]	3,079	2,899	3,143	3,061	3,233
Accumulation of external payments arrears (ceiling)	0	0	0	0	…
Contracting or guaranteeing of external debt on nonconcessional terms (continuous ceiling) [5]	0	0	0	525	0
Memorandum item:					
Foreign program assistance (cumulative grants and loans) [1]	1,416	…	1,236	329	…

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

[1] Cumulative from the beginning of the fiscal year (July 1).
[2] To be adjusted upward by up to TSh 250 billion for the U.S. dollar equivalent of a shortfall in foreign program assistance from the amounts shown in the memorandum item.
[3] Assessment criteria and benchmarks apply to upper bound only.
[4] 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 TSh 250 billion.
[5] To be used exclusively for infrastructure investment projects. Continuous assessment criteria; ceiling applies throughout the year.

Table 2. Tanzania: Structural Benchmarks for FY 2010/11

Measure	Target Date	Status
Poverty Reduction Strategy		
Adoption of MKUKUTA II by Cabinet.	End-June, 2010	Met with delay.
Approval by new Government of a new National Social Protection Framework.	End-June, 2010	Not met. Proposed as an to end-March, 2011 benchmark.
Financial Sector		
Appoint Head of Social Security Regulatory Agency and issue investment guidelines for pension funds.	End-June, 2010	Partly met with delay. The Regulator was appointed in September, but investment guidelines have not yet been issued. The benchmark for investment guidelines is proposed as an end-March 2011 benchmark, so results of World Bank audits can be taken into account.
Introduce data collection and reporting system for pension funds.	End-June, 2010	Met.
Submit Financial Stability Report to the BoT Board.	End-June, 2010	Met.
Notification to banks to increase contributions to the Deposit Insurance Fund.	End-June, 2010	Met.
Establish framework for emergency liquidity assistance beyond day-to-day liquidity management and tools.	End-March, 2011	In progress.
Fiscal		
Debt management: Prepare a Medium-Term Debt Strategy consistent with resource needs under the new PRS and reflecting contingent liabilities.	End-December, 2010	In progress. Proposed as an end-March 2011 benchmark to incorporate results of additional Fund-Bank TA in December.
Establish a PPP unit within the MoFEA.	End-December, 2010	Met.
Develop an index for monitoring priority social spending.	End-December, 2010	In progress.
Collect data, on a quarterly basis, on payment claims outstanding over 30, 60, and 90 days in Ministries of Infrastructure, Health, and Home Affairs. End-June data to be provided by end-September.	End-June, 2010	Met.
Statistics		
Develop core inflation index.	End-December, 2010	In progress. Proposed as an end-March 2011 benchmark in order to incorporate new CPI basket and additional consultation with EAC members.

Table 3. Tanzania: Quantitative Assessment Criteria and Indicative Targets Under the Policy Support Instrument, December 2010 - June 2011

		2011	
	December	March	June
	Proposed Assessment Criteria	Proposed Indicative Targets	Proposed Assessment Criteria
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)		
Net domestic financing of the government of Tanzania (cumulative, ceiling) [1 2]	465	246	347
Average reserve money (upper bound) [3]	3,558	3,683	3,804
Average reserve money target [3]	3,523	3,647	3,766
Average reserve money (lower bound) [3]	3,488	3,610	3,729
	(Millions of U.S. dollars; end of period)		
Net international reserves of the Bank of Tanzania (floor) [4]	3,262	3,518	3,435
Accumulation of external payments arrears (ceiling)	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (continuous ceiling) [5]	525	525	525
Memorandum item:			
Foreign program assistance (cumulative grants and loans) [1]	643	1,020	1,055

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

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

2 To be adjusted upward by up to TSh 250 billion for the U.S. dollar equivalent of a shortfall in foreign program assistance from the amounts shown in the memorandum item.

3 Assessment criteria and benchmarks apply to upper bound only.

4 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 TSh 250 billion.

5 To be used exclusively for infrastructure investment projects. Continuous assessment criteria; ceiling applies throughout the year.

Table 4. Tanzania: Structural Benchmarks for the Remainder of FY 2010/11

Measure	Target Date	Macro Criticality and Status
Poverty Reduction Strategy		
Approval by Government of a new National Social Protection Framework.	End-March, 2011	Provides a reliable and comprehensive social safety net targeted to the most vulnerable.
Financial Sector		
Issuance of investment guidelines for pension funds.	End-March, 2011	Mitigates risk to the financial system and public finances of large, unregulated pension funds (accounting for 25 percent of financial sector assets)
Establish framework for emergency liquidity assistance beyond day-to-day liquidity management and tools.	End-March, 2011	Provides mechanism for expedited handling of liquidity problems with systemic implications. In progress. An outline of financial crisis management framework has already been prepared.
Fiscal		
Debt management: Prepare a Medium-Term Debt Strategy consistent with resource needs under the new PRS and reflecting contingent liabilities.	End- March, 2011	Critical for ensuring sustainability of the government's borrowing strategy and for facilitating broader access to capital markets. In progress. Re-phased to end March 2011 so that the input from a Bank/Fund TA mission in December can be incorporated.
Develop an index for monitoring priority social spending.	End-December, 2010	Facilitates monitoring the implementation of social spending. In progress. The Government has adopted the functional classification of budget items and budget books for fiscal year 2010/11 were prepared in line with COFOG, which will enable monitoring of spending by economic functions.
Prepare a report on payment claims outstanding over 30, 60, and 90 days in Ministries of Infrastructure, Health, and Home Affairs for end-June, 2010.	End-December, 2010	Enables a more accurate monitoring of the fiscal situation, and facilitates better projections of cash flow needs and smoother implementation of monetary policy.
Statistics		
Develop core inflation index.	End-March, 2011	Provides more meaningful indicator to guide monetary policy. In progress. Revision of the composition of the Consumer Basket is being finalized by the National Bureau of Statistics.

Attachment II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the PSI-Supported Program

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 PSI assessment criteria and indicative targets under Tanzania's program supported by the PSI arrangement. The principal data sources are 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, of original maturities less than one year; and (ii) outstanding purchases and loans from the IMF.

Reserve money and reserve money band

3. Reserve money is defined as the sum of currency issued by the BoT and the deposits of 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 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 commercial banks) 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 due from 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; and (iv) 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 COBELMO (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 -including 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. The ceiling on external payments arrears is continuous and applies throughout the year.

Contracting or guaranteeing of external debt on nonconcessional terms

7. The term “external debt” will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt. External debt will be determined on the basis of currency of denomination of the debt. Government external debt is outstanding debt owed or guaranteed by the Government of Tanzania, the Bank of Tanzania, subnational governments, and companies in which the government has at least 50 percent ownership, unless otherwise stipulated.[6] The ceiling on external debt is continuous and applies throughout the year.

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 PSI assessment criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt, but also to commitments contracted or guaranteed for which value has not been received.

Foreign program assistance and program exchange rates:

9. Foreign program 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) program loans and (ii) program grants. Program assistance does not include nonconcessional external debt as defined in paragraphs 7 and 8.

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[6] Excluded for these purposes, except if the government offers an explicit guarantee on the debt, are: Tanzania Investment Bank; Tanzania Port Authority; Tanzania Petroleum Development Corporation; Dar es Salaam Rapid Transport Authority; Economic Processing Zones Authority; National Development Corporation; Small Industries Development Organization; National Housing Corporation; National Identity Authority; Dar es Salaam Water and Sewage Authority; and Tanzania Airport Authority.

10. Foreign program assistance and program exchange rates for the period July 1, 2010 through June 30, 2011 are:

	Q1 End-Sept	Q2 End-Dec	Q3 End-Mar	Q4 End-June	Annual
Cumulative Program assistance (US$ millions)	334	643	1020	1055	
Tsh/US$ average	1447.1	1508.6	1532.2	1537.7	1504.1
Tsh/US$ end of period	1501.3	1515.9	1530.4	1545.0	

III. ADJUSTERS

Net international reserves

11. The end-June, end-September, end-December 2010 and end-March 2011 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 program assistance in U.S. dollars (up to a limit of TSh 250 billion, with each quarterly shortfall converted from U.S. dollars to Tanzanian shillings using that quarter's program average exchange rate. The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings up to the date of assessment), relative to projections shown in the Quantitative PSI Assessment 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

12. The end-June, end-September, end-December 2010 and end-March 2011 quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfall in foreign program assistance in U.S. dollars (up to a limit of TSh 250 billion), relative to projections shown in the Quantitative PSI Assessment Criteria and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using that quarter's program average exchange rate. The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings up to the date of assessment.

IV. Data Reporting Requirements

13. For purposes of monitoring the program, 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
The quarterly national account statistics in constant prices.	NBS	Quarterly	3 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 other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators for other depository corporations.	BoT	Quarterly	6 weeks
Other depository corporation lending by activity.	BoT	Monthly	4 weeks
Commercial banks interest rate structure.	BoT	Monthly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag

Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves.[1]	BoT and MoFEA	Quarterly	4 weeks
Amount of payment claims outstanding of more than 30 days, 60 days, and 90 days in the Infrastructure, Health and Home Affairs ministries. For each ministry, total claims outstanding to be divided into: (i) unverified claims; and (ii) claims verified but not yet paid.	MoFEA	Quarterly	3 months
The flash report on revenues and expenditures.	MoFEA	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report.[1]	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 external loans contracted and guarantees provided by the entities listed in paragraph 7 of the TMU during the period including terms and conditions according to loan agreements.	MoFEA	Quarterly	4 weeks

[1] 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.

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

First Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Informational Annex

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

November 11, 2010

- **Relations with the Fund.**
- **Joint Bank-Fund Work Program**. Describes Bank-Fund collaboration from September 2010–September 2011.

Contents Page

APPENDIX I. TANZANIA: RELATIONS WITH THE FUND

(As of September 30, 2010)

I. Membership Status: Joined: September 10, 1962; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	198.90	100.00
Fund holdings of currency	188.90	94.97
Reserve Tranche Position	10.00	5.03
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	190.51	100.00
Holdings	158.36	83.12

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	218.79	110.00
ECF Arrangements	10.92	5.49

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	May 29, 2009	June 14, 2010	218.79	218.79
ECF[1]	Aug 16, 2003	Feb 26, 2007	19.60	19.60
ECF[1]	Apr 04, 2000	Aug 15, 2003	135.00	135.00

[1] Formerly PRGF.

VI. Projected Payments to Fund[2]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal		1.40	1.96	2.24	18.15
Charges/Interest	0.02	0.10	0.67	0.66	0.65
Total	0.02	1.50	2.63	2.90	18.80

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Apr 2000
Assistance committed	
by all creditors (US$ Million)[1]	2,026.00
Of which: IMF assistance (US$ million)	119.80
(SDR equivalent in millions)	88.95
Completion point date	Nov 2001
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	88.95
Interim assistance	26.68
Completion point balance	62.27
Additional disbursement of interest income[2]	7.45
Total disbursements	96.40

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. DRI-eligible debt (SDR Million)[1]	234.03
Financed by: MDRI Trust	207.00
Remaining HIPC resources	27.03

II. Debt Relief by Facility (SDR Million)

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

[1] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

Safeguards assessments of the Bank of Tanzania (BoT) were completed in December 2003, August 2008, and November 2009. The 2009 assessment found that, while the BoT had taken steps to strengthen its safeguards framework, risks remained due to delays in implementing certain priority recommendations from the 2008 voluntary assessment. The external audit and financial reporting continued to comply with international standards, but the audited results were published with significant delays. The assessment recommended a bank-wide risk assessment, outlined steps needed to modernize the internal audit function, and proposed measures to enhance transparency of financial, control and compliance matters. In January 2010, the BoT published its audited financial statements for the year ended June 30, 2009. The implementation of other measures is in progress.

X. Exchange Rate Arrangement:

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 1,500 per U.S. dollar as of end-September, 2010. 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 8, 2009 (Country Report No. 09/179).

XII. Resident Representative:

Mr. John Wakeman-Linn has been the Senior Resident Representative since August 2010.

APPENDIX II: TANZANIA—JOINT BANK-FUND WORK PROGRAM SEPTEMBER 2010–SEPTEMBER 2011

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	Poverty Reduction Support Credits (PRSC-8) to support policy reforms to enhance productivity and competitiveness, improve effectiveness of service delivery, public sector management including PFM, and human development issues through budget support. Implementation completion and result (ICR) report to be prepared for PRSC4-8 series after PRSC-8 delivery.		September 2010
	The work program will continue to concentrate on areas within the existing and new lending portfolio: primary, secondary, and higher education; health sector development; water and sanitation; social action fund; agriculture; natural resource management including minerals ; environment; road and railway infrastructure; power sector restructuring; housing finance; statistical capacity; urban; fiscal decentralization; private sector competitiveness; and public sector reform. Increasing regional portfolio in agriculture, health, power, and environment.		Continuous
	Public expenditure review with the focus on rapid budget analysis (RBA); Public Investment Management (PIM) Assessment; and Public Expenditure and Financial Accountability Report (PEFAR) with new content on service delivery.		November 2010 (RBA); April 2011 (PIM Assessment); and May 2011 (PEFAR)
	Poverty Assessment In-depth Analysis		Early 2011 with internal review mid December 2010
IMF work program in next 12 months			
	First PSI Review	September 2010	October 2010

	Second PSI Review and Article IV Consultation	March 2011	May 2011
	Third PSI Review	September 2011	November 2011

B. Requests for work program inputs			
Fund request to Bank	1. Assessment of key infrastructure projects and sectoral programs.		Continuous
	2. Assessment of financial health of pension funds		Continuous
	3. Inputs on the design of a social protection framework		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		Continuous
C. Agreement on joint products and missions			
Joint products in next 12 months			
	1. Collaborate on JSAN following approval of the new Poverty Reduction Strategy.	November 2010	February 2011
	2. Collaborate on provision of TA for updating the country's medium term debt strategy	December 2010	February 2011
	3. Collaborate together with other development partners on the annual review of general budget support.	Early 2011	Early 2011
	4. Collaborate on PFM reform program in the context of multi-donor support of the Public Financial Management Reform Program.		Continuous
	5. Collaborate on a joint DSA	March 2011	April 2011

Press Release No. 10/468
FOR IMMEDIATE RELEASE
December 3, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Policy Support Instrument for Tanzania

The Executive Board of the International Monetary Fund (IMF) has completed the first review under a three-year Policy Support Instrument (PSI) for the United Republic of Tanzania. The Executive Board's decision was taken on a lapse of time basis.[1]

The Tanzanian economy performed better than expected in face of adverse shocks, growing at 6½ percent in the fiscal year ending June 2010, due in part to the PSI-supported government economic rescue plan. All quantitative assessment criteria for June 2010 were observed, and structural reforms are advancing at a good pace.

The program for the current fiscal year balances increases in the provision of needed public services, including investment to improve road infrastructure, against risks of crowding out as the recovery in private sector activity takes hold. Public spending will be carefully prioritized to protect key social and investment outlays. The authorities are committed to use non-concessional external borrowing judiciously, in the framework of a sound debt management strategy and a well-crafted public investment plan. To that end, strengthening investment and debt management processes is a priority. Structural reforms will also continue to support financial deepening and enhanced public financial management. Over the medium term, maintaining social gains and the growth momentum will require more wide-ranging fiscal changes, with the objectives of both stepping up domestic revenue mobilization and increasing spending efficiency.

The Executive Board approved a new three year PSI on June 4, 2010 (see Press Release No. 10/227), upon expiration of the previous PSI and completion of the second and final review under a 12-month high access arrangement (SDR 218.79 million) under the Exogenous Shocks Facility, aimed at providing temporary balance of payments support in dealing with the global crisis (see Press Release No. 09/190).

[1] The Executive Board takes decisions under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. A country's performance under a PSI is reviewed bi-annually.