June 2013
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United Republic of Tanzania: Sixth Review Under the Policy Support Instrument, Second Review Under the Standby Credit Facility Arrangement, and Request for Modification of Performance Criteria—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Tanzania.

In the context of the sixth review under the Policy Support Instrument, second review under the Standby Credit Facility arrangement, and request for modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Policy Support Instrument, Second Review Under the Standby Credit Facility Arrangement, and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on March 6, 2013, with the officials of Tanzania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 17, 2013. 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 as expressed during its June 3, 2013 discussion of the staff report that completed the request and/or review.

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

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

Letter of Intent sent to the IMF by the authorities of Tanzania*
Memorandum of Economic and Financial Policies by the authorities 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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UNITED REPUBLIC OF TANZANIA

SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, SECOND REVIEW UNDER THE STANDBY CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

May 17, 2013

KEY ISSUES

Background, outlook, and risks. Economic growth continues to be buoyant, with growth projected at about 7 percent in the medium term. In the absence of external shocks, inflation is expected to remain in the single digits. The external current account deficit is projected to moderate significantly after domestic natural gas replaces expensive liquid fuel as the main source of thermal power generation (upon completion of the gas pipeline expected in 2015), but will remain large into the medium term. The key risks to the outlook stem from pressures to increase spending in the 2013/14 budget, ambitious revenue targets, and potential delays in implementing the action plan in the power sector.

Macroeconomic and structural policies. The draft 2013/14 budget aims at further deficit reduction while preserving development and social priorities. Monetary Policy is being tightened to deliver 7 percent inflation by December 2013 from a high of 20 percent in late 2011. The authorities have developed an action plan to attain financial sustainability of the nationally-owned power utility company. Structural reforms are ongoing, though at a slower pace than envisaged.

Program implementation. All performance/assessment criteria under the program were met, but most structural benchmarks were either missed or met with delays.

Staff recommends completion of the sixth review under the PSI and the second review under the SCF arrangement, and modification of performance criteria.

Approved By
Roger Nord and Elliot Harris

A staff team consisting of Messrs. Mauro (head), Davoodi, Gigineishvili (all AFR), Ms. Mineshima (FAD), Ms. Rahman-Garrett (SPR) visited Dar es Salaam during February 21–March 6. Mr. Baunsgaard, IMF Resident Representative in Tanzania assisted the mission. Further discussions took place during the Spring meetings, joined by Ms. Ho (SPR). The mission met with Minister of Finance Mgimwa; Governor Ndulu of the Bank of Tanzania; Permanent Secretary of the Treasury, Mr. Khijjah; other senior officials; and development partners. Mr. Yamuremye (OED) participated in the discussions.

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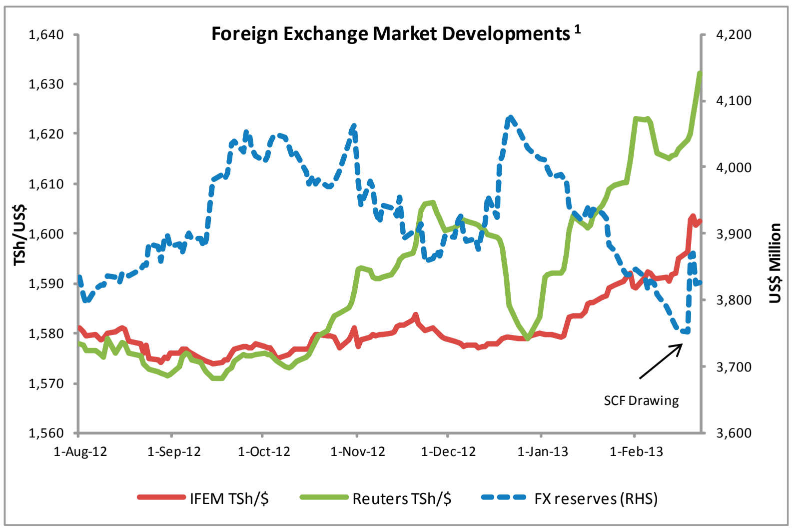
APPENDIX

RECENT DEVELOPMENTS

1. **Economic growth continues to be buoyant.** Real GDP grew by 6.9 percent in 2012 compared to 6.4 percent in 2011. Growth was driven by transport and communications, financial services, manufacturing and trade; it was supported by improved power supply.

2. **The current account deficit remains large, although it narrowed somewhat in July 2012–February 2013 compared with the previous year.** The improvement was largely driven by the trade balance: imports (especially oil) slowed down considerably and exports of traditional products such as coffee and cotton rose strongly, owing to favorable weather conditions. These factors more than offset the impact of declining gold exports and falling gold prices. Receipts from tourism also increased (Figure 1).

3. **In February 2013 the authorities drew the full accumulated amount of US$114 million under the SCF arrangement.** Incipient depreciation pressures in the foreign exchange market observed in late 2012 intensified further in mid- to late January and February 2013, as reflected in widening spreads between exchange rates in the Interbank Foreign Exchange Market (IFEM) and indicative rates quoted by banks on Reuters. Possible underlying factors include delays in disbursements of non-concessional external financing and increased foreign exchange demand to repay arrears to energy suppliers. To prevent disorderly depreciation of the Shilling, the BoT stepped up its foreign exchange interventions.



Source: Tanzanian authorities.

[1] The Interbank Foreign Exchange Market (IFEM) rate is the weighted average exchange rate for actual transactions on the IFEM. The BoT is a participant in the IFEM. The Reuters rate is the simple average of buy and sell rates quoted by commercial banks on the IFEM, and thus does not refer to actual transactions data.

Official foreign exchange reserves declined by about US$300 million from end October through mid-February and the Shilling depreciated by about 1 percent. The authorities were concerned that permitting somewhat greater depreciation—an option put forward by staff—could have engendered excessive downward momentum on the Shilling. The authorities' decision to draw was thus motivated by their desire to bolster international reserves in an effort to preserve market confidence in the Shilling. Reserves are now at a healthy level consistent with the program. In the absence of major adverse shocks and resurgence of foreign exchange pressures, the authorities have indicated that they intend to treat the next tranches of the SCF arrangement as precautionary.

4. **Headline CPI inflation has gradually returned to the single digits, but the real exchange rate has appreciated significantly.** The decline to 9.8 percent in March 2013 was facilitated by the relative stability of global food prices (particularly rice, wheat and maize) and the fall in the pace of price rises for almost all non-food product categories during the past few months. As a result, core inflation (headline CPI excluding food and fuel prices), which had hovered in the 8½–9 percent range through late 2012, dropped to 5.9 percent in March 2013 (Figure 2). With the Tanzanian Shilling trading within a 2 percentage point range against the U.S. dollar since December 2011 and inflation still well in excess of that experienced by trading partners, the real exchange rate appreciated by a cumulative 14 percent through February 2013.

5. **Reserve money was held within the program target.** Average reserve money grew by 16 percent (y-o-y) in March compared with a programmed growth of 19.7 percent. Whereas the policy rate has been kept stable at 12 percent since November 2011, the central bank's repo rate and interbank interest rates have fallen to 3½ and 4 percent respectively (from 9 percent and 15 percent in mid 2012), considerably below the inflation rate.[1] Meanwhile, private sector credit has continued to grow well above nominal GDP, though at a generally declining pace since late 2011 (Figure 3, Table 3).

6. **Fiscal performance during the first half of 2012/13 was broadly in line with the program, but unpaid domestic claims accumulated.** Tax revenues fell marginally short (by 0.2 percentage point of GDP) of the targeted increase, with underperformance of indirect taxes (i.e., VAT and excise) offsetting over-performance of direct taxes.[2] Total spending was below projections by a wider margin, despite higher-than-expected wage bill and interest payments on domestic debts. However, domestic unpaid claims rose from ½ percent of GDP at end-June 2012 to 1 percent of GDP at end-March 2013. This reflects continued challenges in public financial management (prompting the authorities to take action in this area (see MEFP ¶30) and, to a lesser extent, a delay in external non-concessional borrowing.

7. **The 2011/12 MKUKUTA Annual Implementation Report (MAIR)[3] shows progress in areas including health, higher education enrollment, and revenue collection, but challenges in poverty reduction remain**. In particular, there is further need for adequate development and infrastructure spending, especially in power generation and transportation. In line with this objective, the authorities have been using the space provided under the PSI

[1] The policy rate has a less important role in Tanzania's monetary framework, and is considered to have a smaller impact on activity and inflation, compared with Kenya or Uganda.

[2] Tax collection for the fiscal year as a whole is projected to increase by 0.6 percent of GDP compared to the 2011/12 outturn, on account of the tax policy and administration measures envisaged under the program. The shortfall in tax collections through March indicates that the envisaged increase may not fully materialize (¶ 8).

[3] Tanzania's National Strategy for Growth and Reduction of Poverty (MKUKUTA II) was launched in January 2011 (Country Report No. 11/17). The 2011/12 MAIR is available at http://www.tzonline.org/docs/mair_2011_12.pdf.

program for external non-concessional borrowing for various infrastructure projects. Development expenditure amounted to 9.4 percent of GDP in the 2012/13 budget.

PROGRAM PERFORMANCE

8. **All performance/assessment (PC/AC) criteria for end December were observed (MEFP Table 1)**. The indicative target for tax revenues for end December was not met. Preliminary data show that all indicative targets for end March were met with the exception of tax revenues and net domestic financing of the central government budget.

9. **The policy actions associated with four out of five structural benchmarks were not completed or were completed with a delay, but significant progress has been made** (MEFP ¶12–15). Preparation of a report that would prepare Tanzania for macroeconomic management of the new gas economy has gone through a deliberation process (including inputs from technical assistance), although further work is needed to arrive at a government policy. The authorities published preliminary quarterly balance of payment data in early 2013 (instead of December 2012). The organizational structure of a new Debt Management Office has been submitted, but is pending final approval by the Executive branch. The action plan to restore TANESCO's financial sustainability was delayed. In late-January 2013, TANESCO withdrew its application for a tariff adjustment. In close consultation with the World Bank, the government has now prepared an action plan that, complemented by greater clarity regarding the government's intentions regarding financing arrangements for 2012/13 and 2013/14, is deemed to meet the structural benchmark, albeit with a delay. Submission of the new VAT bill to Parliament has been reset for November 2013 instead of April 2013 to allow sufficient time for further consultation; the envisaged effective date of July 1, 2014 remains unchanged.

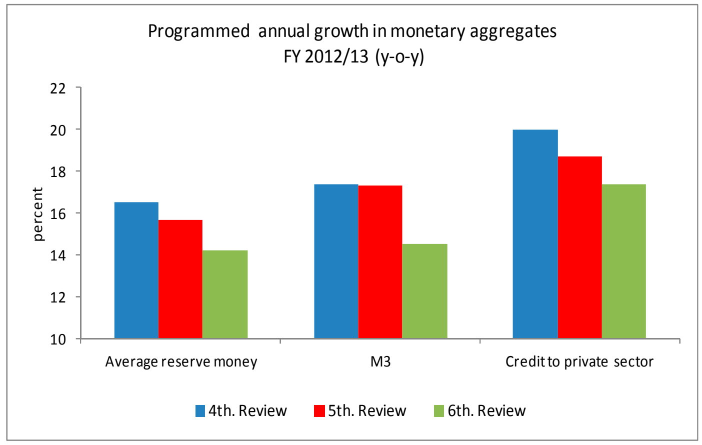
POLICY DISCUSSIONS

A. Economic Outlook

10. **The macroeconomic outlook is favorable, but vulnerabilities remain.** The economy is projected to grow at an annual pace of about 7 percent in 2013/14 and in the medium term. Under the program, fiscal and monetary policies will be geared to ensuring that domestic demand pressures do not become excessive, with further fiscal consolidation and tighter monetary policy planned in the near term. In the absence of external shocks, the baseline scenario envisages a further decline in inflation to 7 percent by December 2013 and to the authorities' medium-term objective of 5 percent a year later. The external current account deficit is projected to moderate significantly after domestic natural gas replaces expensive liquid fuel as the main source of thermal power generation (upon completion of the gas pipeline expected in 2015), but will remain large into the medium term. International reserves are targeted to strengthen gradually. Tanzania's risk of debt distress remains low, but the debt-to-GDP ratio has risen steadily over the past few years, and fiscal policy is envisaged to be set so as to ensure that the debt ratio stabilizes at about 45 percent in 2014/15.

B. Monetary, Exchange Rate and Financial Sector policies

11. The monetary program for 2012/13 was tightened to reduce headline inflation to the single digits. In light of persistent double digit inflation and sticky core inflation for almost two years (since June 2011) and ample liquidity (Figure 3), successive reviews have focused on tightening monetary policy. In the context of this review, the authorities complemented measures already taken in late 2012 (MEFP ¶7) by reducing their ceiling for average reserve money growth from 15.7 percent to 14.2 percent. With the rapid, broad-based decline in core inflation in February–March this year, the authorities expect to achieve their 9½ percent headline inflation objective comfortably by end-June 2013.



12. Monetary policy for the remainder of 2013 aims at further reducing reserve money growth to attain the authorities' objective of 7 percent inflation by end-December 2013. Accordingly, average reserve money is set to decline from 14.2 percent at end-June 2013 to 10.8 percent by end-December 2013, which would likely be accompanied by increasing real interest rates (e.g., interbank and repo rates) toward positive levels. Credit growth is also expected to slow down for the remainder of 2013 (from 17.4 percent to 15.2 percent). However, additional inflationary pressures could stem from the large wage bill increase envisaged in the draft 2013/14 budget (see ¶15). Looking ahead, the BoT is mindful of limitations of strict adherence to reserve money targeting and its implications for interest rate volatility and signaling. Preliminary work is underway on the design of a more forward looking, flexible monetary policy framework with a more active use of the policy rate (MEFP ¶37).

13. The authorities reaffirmed their commitment to a market-determined exchange rate, with interventions limited to smoothing short-term fluctuations. The authorities considered that avoiding temporary fluctuations stemming from sentiment was important to prevent irrational momentum and volatility in the market. They considered that the relative stability of the exchange rate was consistent with fundamentals and a reflection of restored market confidence. It was also felt that, as a by-product, a stable exchange rate helped in the disinflation process. In view of the large current account deficit and declining inflation, staff encouraged the authorities further to enhance exchange rate flexibility, noting that this would be an appropriate response in the event of renewed pressures on the exchange rate. The moderate tightening of monetary policy undertaken in this review for the remainder of 2013 is consistent with enhanced exchange rate flexibility.

14. The banking sector remains sound, profitable and liquid. Non-performing loans continue to decline and the increase in government domestic arrears to suppliers does not appear to have adversely affected the banking system. In light of the fast growth of mobile banking, reaching half the population, and the need to improve oversight of the sector, the BoT is in the final stages of issuing Mobile Financial Services Regulations (expected to be released by June 2013).

C. Fiscal Policies and Structural Fiscal Reforms

15. The agreed objective for the 2012/13 overall fiscal deficit has been revised from 5.5 percent of GDP to 5.8 percent of GDP. The deficit ceiling has been increased by an amount equivalent to the US$100 million (0.3 percent of GDP) IDA loan approved by the World Bank's Board in March 2013 under the First Power and Gas Sector Development Policy Operation (DPO). The DPO contains a comprehensive reform agenda to assist the authorities in strengthening medium-term sustainability of the power and gas sectors and an action plan to restore the financial viability of TANESCO (the national power utility). In this context, TANESCO's financing gap for 2012/13 was estimated at US$438 million (1.4 percent of GDP). The government has decided to transfer US$354 million to TANESCO during this fiscal year, of which TSh405 billion (US$254 million) from reallocation within the existing budget from lower priority areas. Another US$65 million were borrowed by TANESCO directly (with a government guarantee) and are thus not computed as part of the central government deficit. The remaining US$19 million will be carried forward in 2013/14 (MEFP ¶36). In line with the standing practice to ensure transparency, the details of the budget reallocations will be published in August on the website of the Ministry of Finance.

16. The 2013/14 budget—in the final stages of preparation—envisages a reduction in the overall fiscal deficit to 5 percent of GDP. That target is consistent with medium-term deficit reduction stabilizing the debt-to-GDP ratio in the next two years, maintaining a low risk of debt distress, keeping external vulnerabilities in check, and limiting the risks of a resurgence of inflation. Overall tax revenues are projected to increase by 1.5 percentage points of GDP. The government intends to introduce ambitious tax policy measures that could yield 1.2 percentage points of GDP (in excises and import duties) if fully implemented, in addition to administrative gains it projects at 0.3 percentage points of GDP. Recurrent spending is projected to increase by 1.1 percentage points of GDP, driven by a large increase in the wage bill which in turn reflects new recruitment and a higher public sector minimum wage. With unchanged electricity tariffs following the withdrawal in late January by TANESCO of its application for a tariff increase, TANESCO's 2013/14 financing needs are tentatively projected at about US$352 million (including US$19 million from 2012/13). The authorities intend to cap subsidies to TANESCO for the upcoming fiscal year at US$105 million (0.3 percent of GDP). Any remaining gap in TANESCO's finances is expected to be covered through additional revenue-enhancing measures, including higher electricity tariffs through a reinstated application (MEFP ¶37).

17. Should tax revenues turn out lower than projected, the authorities would reduce non-priority spending to achieve the same deficit target. The draft budget includes ambitious new tax measures, whose yield remains uncertain. Thus, revenue yields from tax collection will continue to be monitored on a quarterly basis (indicative target). In the event of shortfalls, the authorities have indicated their readiness to cut non-priority spending, including by delaying planned hiring (MEFP ¶22).

18. Tanzania's risk of debt distress remains low. The debt outlook suggests that the planned external non-concessional borrowing of US$700 million in 2013/14 (mainly to finance investments in two gas power plants) is consistent with medium- and long-term debt sustainability. However, this assumes further fiscal deficit reduction which may present challenges in light of infrastructure needs and expenditure pressures to facilitate growth in key sectors (including energy, transportation, and agriculture) and growing pension liabilities (MEFP ¶42); the debt outlook would also be affected by further borrowing on expensive terms and a potential weakening in long-term economic growth (Figure 4). This highlights the importance of a sound debt management strategy, a conservative approach to non-concessional borrowing, and strong capacity for public investment planning and execution in order to ensure future debt and fiscal sustainability.

19. It is commendable that the authorities have increased the amount of fiscal information made available to the public. The authorities plan to continue to publish in a timely manner the 2013/14 budget books (as submitted and as approved), on the website of the Ministry of Finance, along with the 2013/14 "Citizens' Budget." It is also welcomed that the authorities submitted the 2009/10–2011/12 fiscal accounts for the first time in the GFSM2001 format for publication in the 2012 Government Finance Statistics Yearbook.

D. Program Risks and Program Design and Monitoring Issues

20. Although the medium-term outlook remains strong, the program faces significant short-term risks:

- In the 2013/14 budget, ambitious revenue targets are based on relatively untested tax policy measures. In the event of shortfalls and difficulties in identifying sufficient expenditure cuts in lower priority areas, new arrears would likely arise. Moreover, while the authorities are committed to a 5 percent of GDP deficit target in finalizing the budget for submission to parliament, they may further internalize the recommendations of a high-level strategic initiative ("Big Results Now"), which may lead to additional measures both to reorient spending and to seek new sources of revenues.

- Additional risks to growth and the public finances also stem from the energy sector as delays in implementing the TANESCO action plan would further deteriorate its finances, and might cause power outages.

- Regarding external non-concessional borrowing in 2012/13, although the authorities are committed to meeting the cumulative ceiling of US$2,688 million through end-June 2013, they are targeting ENCB close to the ceiling and, in view of recent changes in the allocation of borrowing among various financing arrangements; care will be needed to ensure that the ceiling is not inadvertently breached.

21. The MEFP will be monitored through quantitative targets and structural benchmarks. MEFP tables 1 and 2 define the proposed program goals for the third and final review of the SCF arrangement.

22. The authorities are considering options for their future engagement with the Fund after completion of the SCF in January 2014. The authorities intend to let the PSI expire on June 3, 2013 and are committed to strong policy implementation under the SCF through its completion. Although they will assess the situation during the next months, they are considering a possible request for a new PSI beginning in January 2014, among other options.

23. The authorities are requesting modification of two performance criteria (MEFP Table 1) and resetting of a structural benchmark (MEFP Table 2):

- PC modification entailing a lower target for average reserve money for end-June 2013, to further tighten monetary policy.

- PC modification entailing a higher cumulative ENCB ceiling to apply from July 1, 2013. The current ceiling applies to the three-year period through end-June 2013 under the existing PSI.

- Resetting the structural benchmark on submission of the VAT bill to November 2013 from April 2013, to allow further consultation of stakeholders (MEFP Table 2).

STAFF APPRAISAL

24. Tanzania's economic performance remains favorable. Growth continues to be robust, and the recent decline in inflation is welcome. The authorities are encouraged to maintain prudent policies to avoid excessive domestic demand, prevent resurgence of inflation, stabilize public debt, and to enhance their efforts to reduce external vulnerabilities.

25. The planned monetary policy tightening aims at entrenching gradual disinflation. Staff welcomes the BoT's commitment to take further measures if the inflation objective is deemed out of reach and encourages the authorities to complement the current reserve money targeting framework with a more active use of the policy rate.

26. Staff recommends further enhancing the degree of exchange rate flexibility. With the current account deficit projected to remain large into the medium term, and continued vulnerability to real or financial shocks, the exchange rate should be allowed to play its important role as a shock absorber.

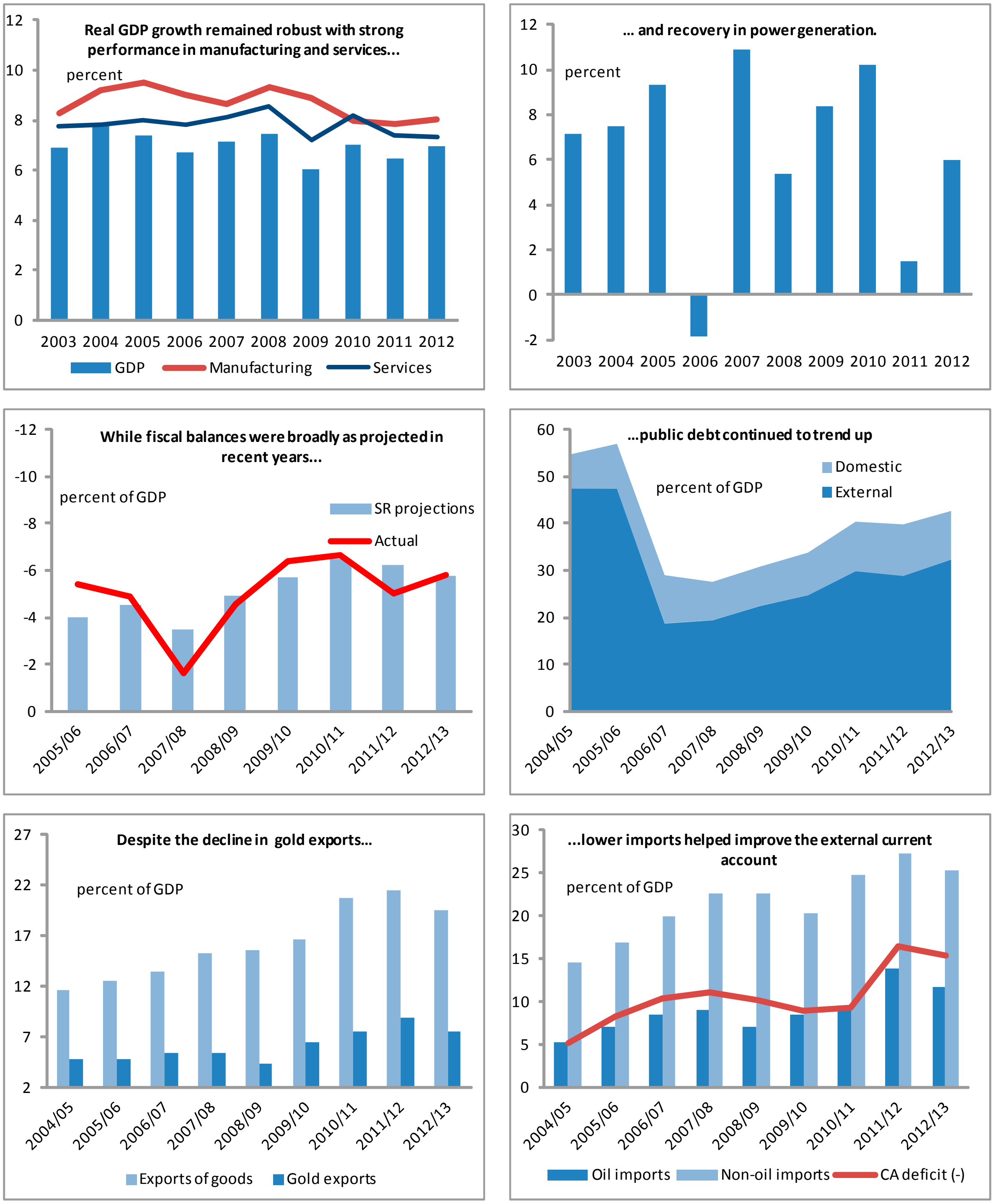
27. The fiscal deficit reduction envisaged in the draft 2013/14 budget is welcomed. The authorities are encouraged to back up the fiscal deficit target of 5 percent of GDP with strong supporting measures as the budget process is brought to completion. The reliability of revenue measures in the final budget is also especially important, to ensure that difficulties in undertaking expenditure cuts during the fiscal year do not result in arrears or a larger deficit. The authorities' commitment to reducing non-priority spending in the event of lower-than-expected revenues, and to take action to deal with domestic arrears, is welcome.

28. Implementation of the structural reform agenda needs to be reinvigorated. The envisaged structural reforms in public financial management, energy, public debt management, and statistics are key to successful implementation of the macroeconomic program. Adopting a new VAT bill that is in line with best practices with minimal exemptions in time for the 2014/15 budget is critical for sustainable revenue increases over time. Making the new debt management office operational would provide the authorities with a more reliable overview of government obligations and would facilitate decision making over government borrowing. Further progress is needed in establishing the institutional framework that will ensure that expected revenues from newly discovered gas deposits accrue to the benefit of all citizens.

29. Although the medium-term outlook remains strong, staff sees significant short-term risks to the program. Pressures to increase spending in the 2013/14 budget or difficulties in identifying spending cuts in the event of revenue shortfalls could undermine the intended fiscal consolidation or result in new arrears. Delays in implementing the action plan in the power sector would pose risks for growth and the public finances. Staff encourages the authorities to persevere with implementation in these areas.

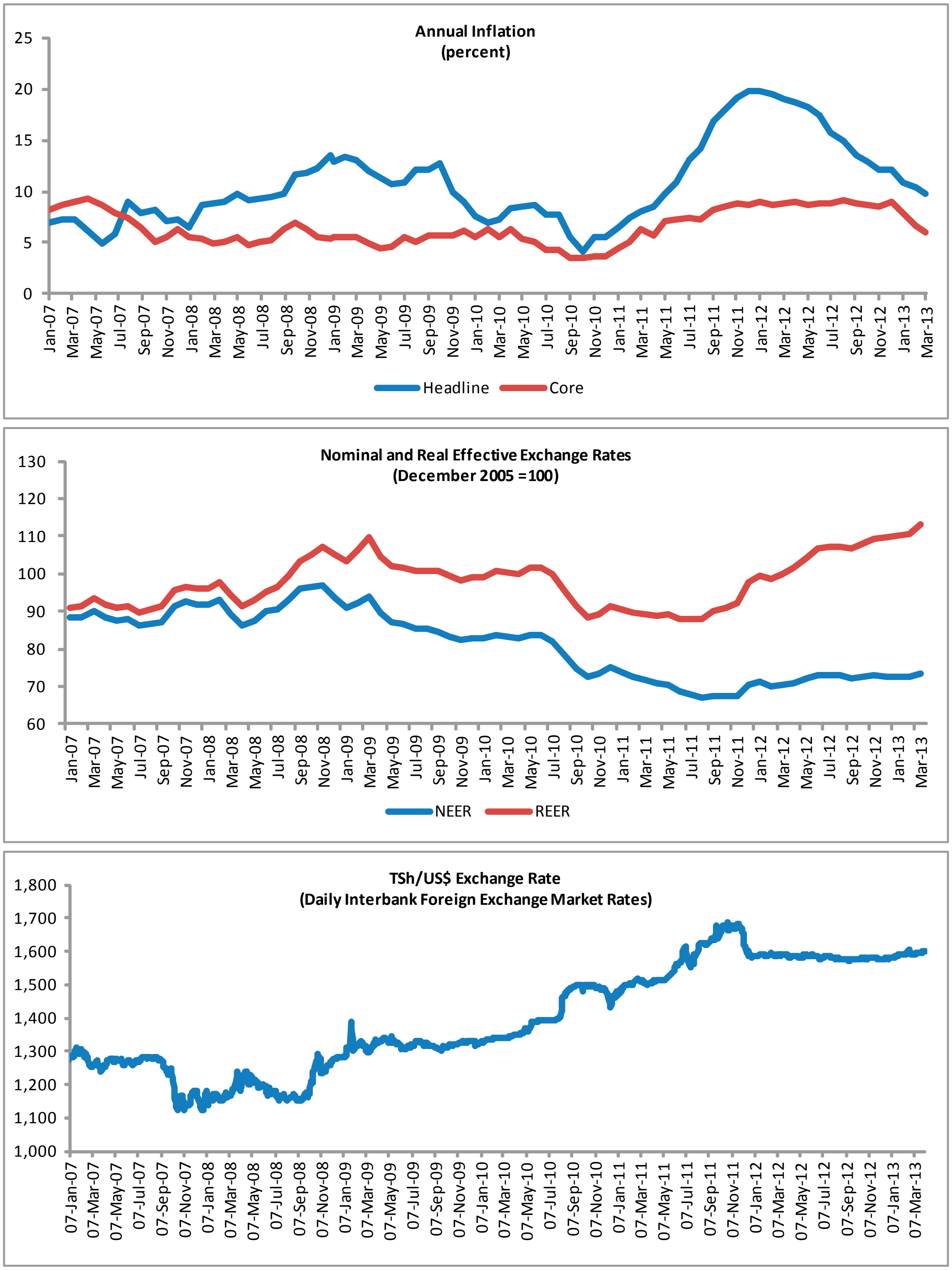
30. Staff recommends completion of the sixth review under the PSI and the second review under the SCF arrangement, modification of performance criteria on reserve money and ENCB ceiling, and resetting of a structural benchmark on the VAT bill.

Figure 1. Tanzania: Real Sector, Fiscal and External Developments



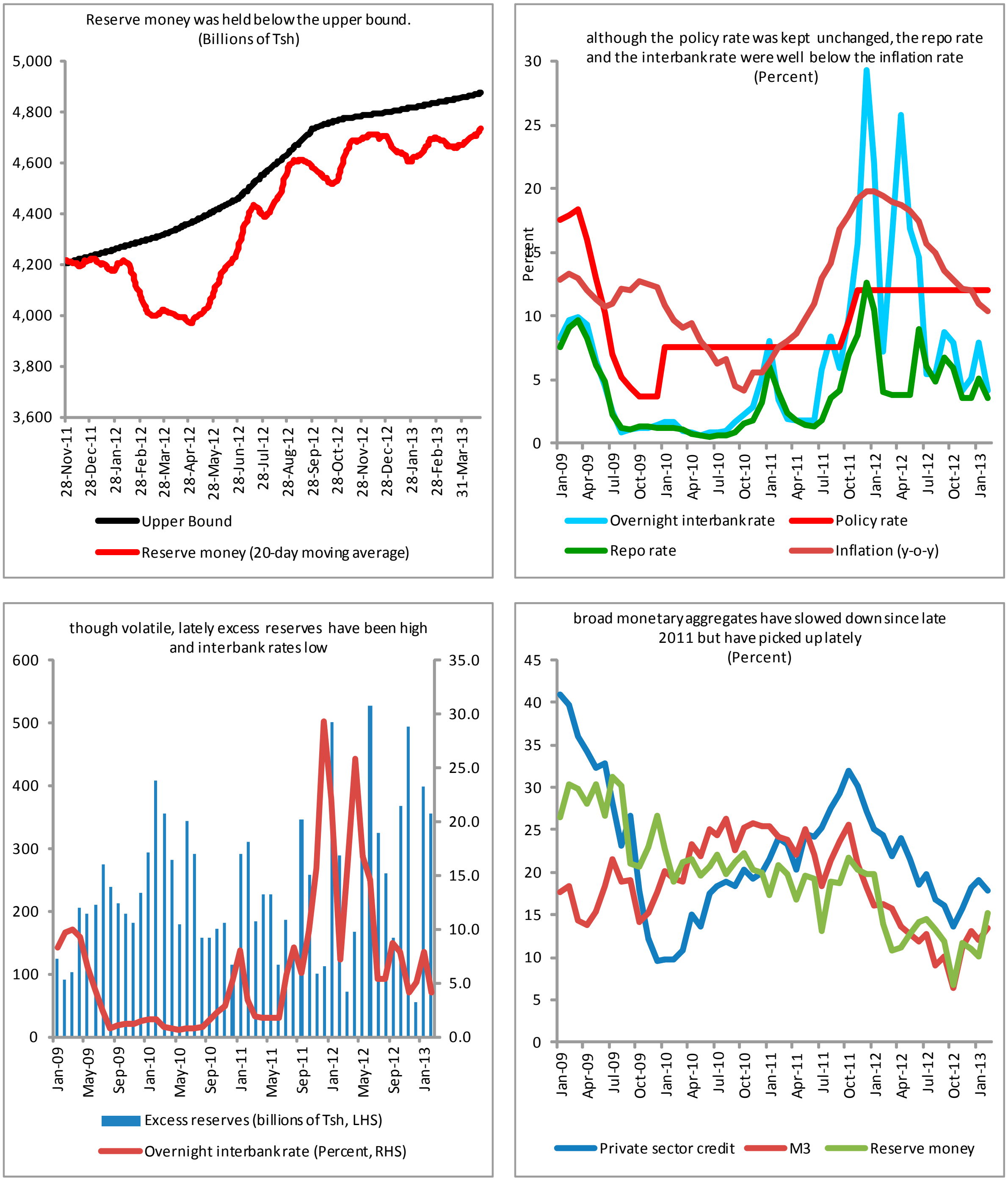
Sources: Tanzanian authorities and IMF staff calculations.

Figure 2. Tanzania: Inflation and Exchange Rate Developments



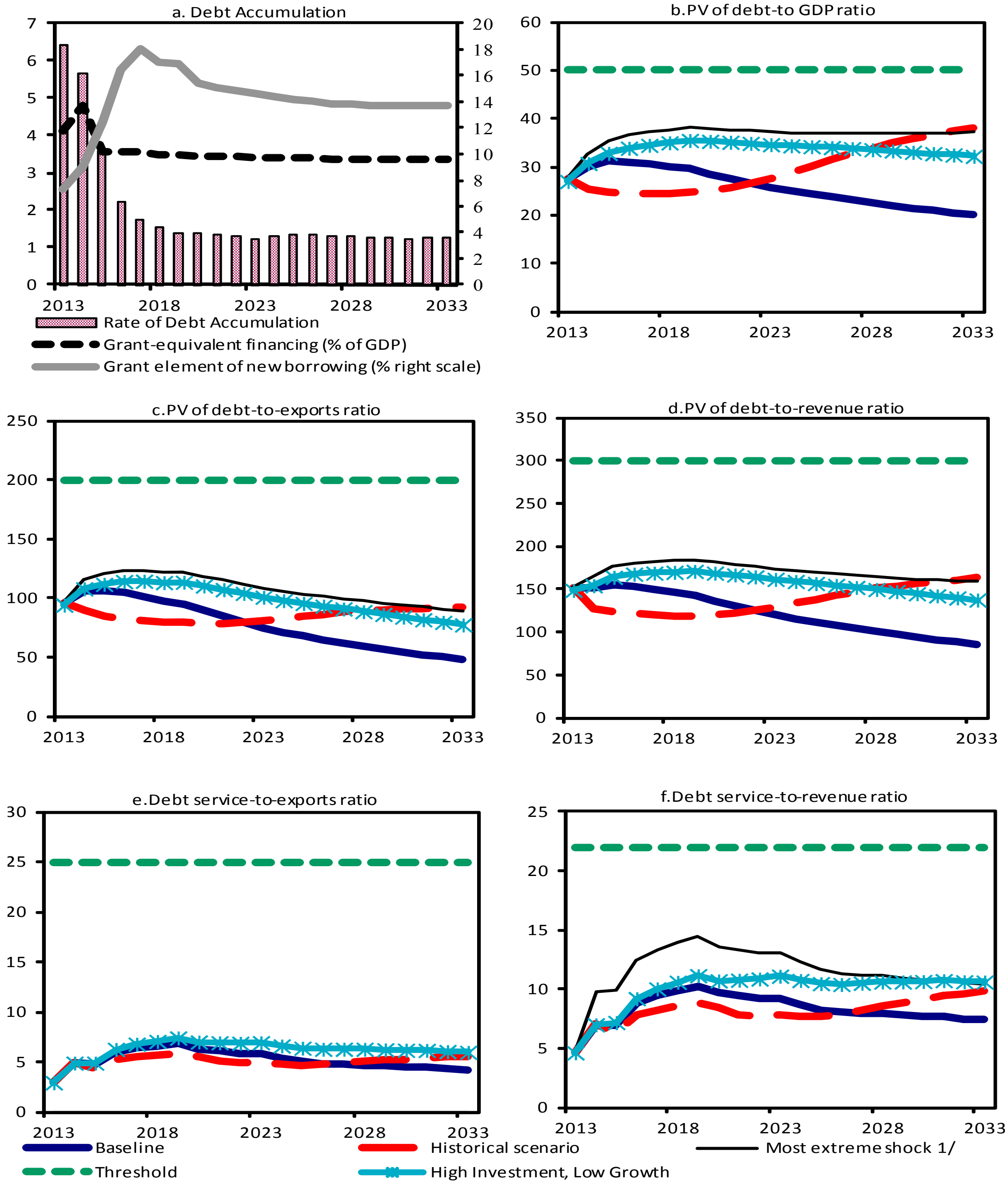
Sources: Tanzanian authorities and IMF staff calculations.

Figure 3. Tanzania: Monetary Developments



Sources: Tanzanian authorities and IMF staff estimates.

Figure 4. Tanzania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013–2033 1/ 2/

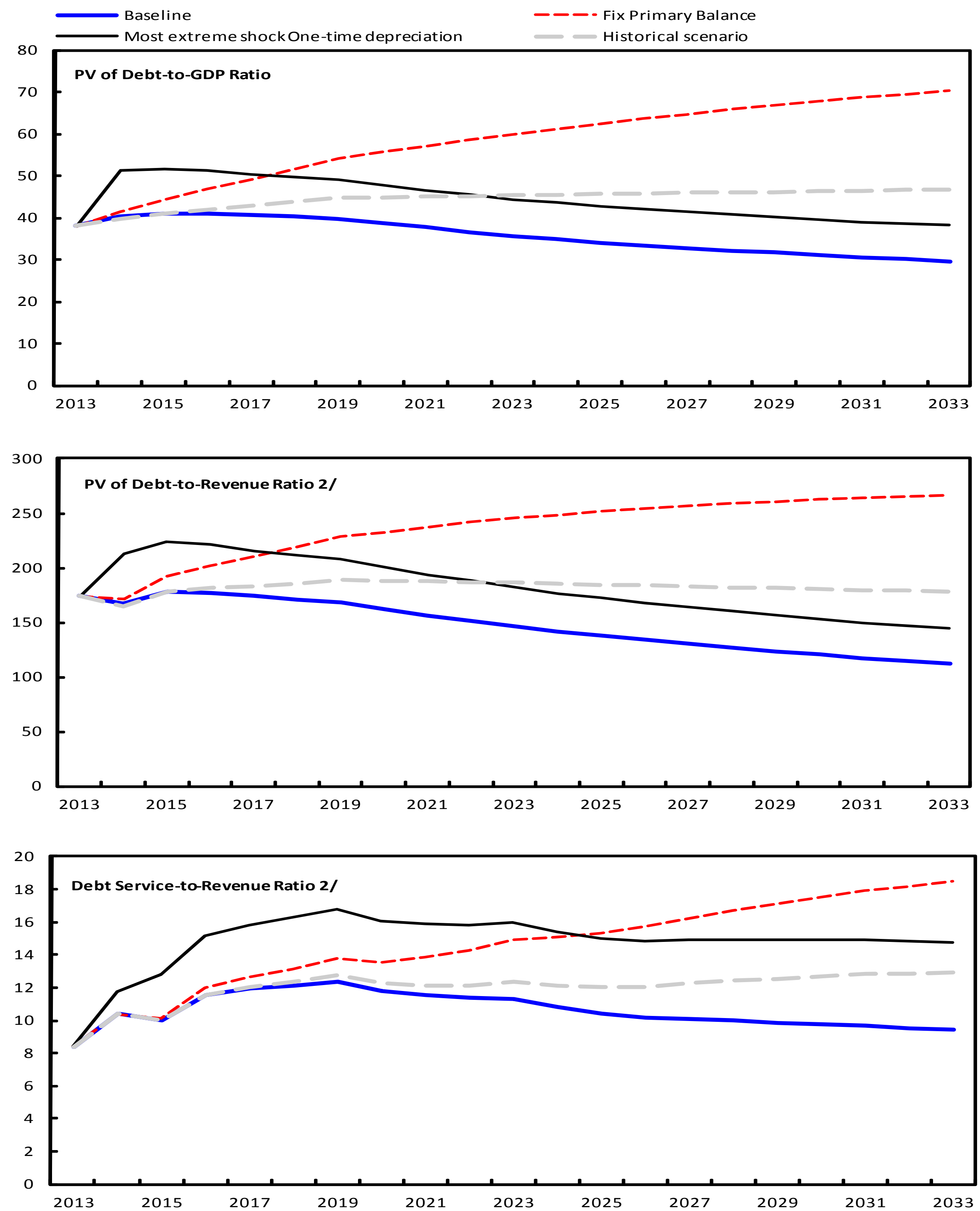


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Terms shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a High Investment, Low Growth shock and in figure f. to a One-time depreciation shock

2/ The debt outlook incorporates better-refined debt service projections.

Figure 5. Tanzania: Indicators of Public Debt Under Alternative Scenarios, 2013–2033 1/ 3/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

3/ The debt outlook incorporates better-refined debt service projections.

Table 1. Tanzania: Selected Economic and Financial Indicators, 2009/10–2015/16

	2009/10	2010/11	2011/12	2012/13		2013/14	2014/15	2015/16
				Prog.[1]	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP growth (calendar year) [2]	7.0	6.4	6.9	6.5	7.0	7.2	7.0	6.9
Real GDP growth	6.5	6.7	6.7	6.7	7.0	7.1	7.1	7.0
Consumer prices (period average)	10.5	7.0	17.8	11.4	11.6	7.2	5.3	5.0
Consumer prices (end of period)	7.2	10.9	17.4	9.5	9.5	6.0	5.0	5.0
External sector								
Export, f.o.b (in millions of U.S. dollars)	3,805	4,896	5,562	6,261	5,888	6,539	7,244	7,829
Imports, f.o.b. (in millions of U.S. dollars)	-6,596	-8,012	-10,617	-11,745	-11,000	-12,256	-12,761	-13,367
Export volume	6.7	10.8	8.8	7.4	2.0	12.6	11.1	8.2
Import volume	5.2	7.0	28.7	9.3	3.2	10.2	4.7	5.6
Terms of trade	8.5	1.9	1.5	3.5	3.4	-2.5	0.2	0.7
Nominal effective exchange rate (end of period; depreciation= -)[3]	-3.7	-17.7	7.6	…	0.6	…	…	…
Real effective exchange rate (end of period; depreciation= -)[3]	0.2	-13.7	21.4	…	6.0	…	…	…
Money and credit								
Broad money (M3)	25.1	22.0	11.8	17.3	14.5	13.0	…	…
Net foreign assets	25.3	10.2	4.0	10.9	11.7	9.7	…	…
Net domestic assets	24.9	35.8	19.2	22.6	16.8	15.6	…	…
Credit to nongovernment sector	17.6	24.3	18.5	18.7	17.4	13.9	…	…
Velocity of money (GDP/M3; average)	3.4	3.2	3.2	3.3	3.3	3.4	…	…
Treasury bill interest rate (in percent; end of period)	3.3	4.8	13.8	…	…	…	…	…
	(Percent of GDP)							
Public Finance								
Revenue (excluding grants)	15.9	16.4	17.6	18.8	18.1	19.9	20.0	20.2
Total grants	4.6	4.7	4.5	3.8	3.7	4.2	3.0	3.0
Expenditure[4]	27.5	27.0	26.2	28.1	27.6	29.1	27.1	26.6
Unidentified fiscal measures	0.0	0.0	0.0	0.0	0.0	0.0	-0.8	-0.9
Overall balance (excluding grants)[5]	-11.1	-11.3	-8.6	-9.3	-9.5	-9.2	-7.0	-6.4
Overall balance (including grants)[5]	-6.4	-6.6	-5.0	-5.5	-5.8	-5.0	-4.0	-3.5
Domestic financing	1.9	3.6	0.8	-1.7	0.2	-1.1	0.3	1.0
Domestic debt stock (end of period)[6]	9.1	10.6	11.1	9.4	10.4	10.1	9.4	9.5
Total public debt[6,7]	33.8	40.4	39.8	42.4	41.6	43.3	44.0	44.2
Savings and investment								
Resource gap (net exports of goods and services)	-11.3	-15.3	-18.1	-16.9	-16.7	-15.6	-14.0	-12.4
Investment	30.6	34.5	38.1	39.1	39.2	38.3	37.5	37.6
Government	8.4	8.5	8.9	9.2	9.1	8.9	8.6	8.2
Nongovernment[8]	22.2	26.0	29.3	29.9	30.2	29.4	28.9	29.4
Gross domestic savings	19.3	19.3	20.0	22.2	22.6	22.7	23.5	25.2
External sector								
Current account balance (excluding current transfers)	-11.7	-12.5	-18.9	-17.9	-16.0	-17.0	-14.3	-12.9
Current account balance (including current transfers)	-9.0	-9.4	-16.5	-16.2	-14.3	-15.2	-13.0	-11.7
	(Millions of U.S. dollars, unless otherwise indicated)							
Balance of payments								
Current account balance (excluding current transfers; deficit= -)	-2,684	-2,951	-4,885	-5,412	-4,837	-5,674	-5,166	-5,019
Gross official reserves (end of period)	3,483	3,610	3,797	4,061	4,233	4,501	4,810	5,127
In months of imports of goods and services (current year)	5.2	3.9	3.6	3.4	3.7	3.6	3.7	3.8
Total external debt stock (end of period; percent of GDP)[7]	28.5	33.1	34.4	39.0	35.0	36.8	37.9	37.9

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] From the fifth review under the PSI and the first review under the SCF arrangement.
[2] E.g. Calendar year corresponding to 2011/12 is 2012.
[3] The figure for 2012/13 reflects the change from July 2012 through March 2013.
[4] Including unidentified fiscal measures.
[5] Actual and preliminary data include adjustment to cash basis.
[6] Net of Treasury bills issued for liquidity management.
[7] Excludes external debt under negotiation for relief.
[8] Including change in stocks.

Table 2a. Tanzania: Central Government Operations, 2009/10–2015/16[1]
(Billions of Tanzanian Shillings)

	2009/10	2010/11	2011/12	2012/13		2013/14	2014/15	2015/16
				Prog.[7]	Proj.	Proj.	Proj.	Proj.
Total revenue	4,800	5,739	7,221	9,077	8,758	10,999	12,378	13,852
Tax revenue	4,428	5,296	6,480	8,070	7,937	9,885	11,124	12,449
Import duties	367	449	498	648	648	876	980	1,090
Value-added tax	1,390	1,531	1,975	2,457	2,309	2,722	3,088	3,483
Excises	838	1,052	1,029	1,384	1,287	1,696	1,903	2,123
Income taxes	1,334	1,660	2,247	2,732	2,835	3,351	3,765	4,206
Other taxes	499	604	732	849	858	1,240	1,389	1,548
Nontax revenue[2]	372	443	741	1,007	822	1,114	1,253	1,403
LGA	138	158	196	362	284	373	426	488
Other	234	285	545	645	537	741	827	915
Total expenditure	8,312	9,439	10,765	13,592	13,341	16,053	16,731	18,254
Recurrent expenditure	5,700	6,690	6,990	9,060	9,035	10,958	12,053	13,169
Wages and salaries	1,723	2,346	2,722	3,147	3,326	4,246	4,755	5,268
Interest payments	249	353	436	660	667	995	1,019	1,115
Domestic	208	285	345	405	478	617	558	580
Foreign[3]	41	68	91	255	189	377	461	535
Goods and services and transfers[2]	3,728	3,991	3,831	5,252	5,042	5,718	6,279	6,786
Of which: Transfers to TANESCO	…	…	…	…	564	173	…	…
Development expenditure	2,611	2,749	3,775	4,533	4,306	5,095	5,181	5,723
Domestically financed	1,005	985	1,872	2,214	2,113	2,471	2,767	3,065
Foreign (concessionally) financed	1,607	1,764	1,902	2,319	2,193	2,624	2,414	2,657
Unidentified fiscal measures[4]	0	0	0	0	0	0	-502	-637
Overall balance before grants	-3,512	-3,701	-3,543	-4,515	-4,582	-5,054	-4,353	-4,402
Grants	1,405	1,627	1,855	1,861	1,777	2,320	1,855	2,021
Program (including basket grants)[5]	924	1,062	1,021	800	825	973	928	1,028
Of which: basket grants	258	335	301	265	285	196	309	343
Project	459	566	834	1,060	952	1,347	928	994
Overall balance after grants	-2,107	-2,073	-1,688	-2,655	-2,805	-2,734	-2,498	-2,381
Adjustment to cash[6]	167	-247	-382	0	0	0	0	0
Overall balance (cash basis)	-1,940	-2,321	-2,070	-2,655	-2,805	-2,734	-2,498	-2,381
Financing	1,940	2,321	2,070	2,655	2,805	2,734	2,498	2,381
Foreign (net)	1,380	1,077	1,735	3,472	2,689	3,331	2,285	1,695
Foreign loans	1,448	1,119	1,816	3,689	2,906	3,722	2,734	2,467
Program (including basket loans)[5]	752	394	419	450	628	625	526	617
Of which: basket loans	194	221	172	233	264	236	250	293
Project	696	643	595	761	692	844	928	1,028
Nonconcessional borrowing	0	82	801	2,478	1,586	2,252	1,280	822
Of which: gas pipeline	…	…	…	1,301	368	1,149	405	…
Amortization	-68	-43	-80	-217	-217	-390	-449	-771
Domestic (net)	560	1,244	335	-817	116	-597	213	685
Of which: excluding gas pipeline	560	1244	335	484	484	552	618	685
Bank financing	585	906	74	349	99	398	618	1,091
Nonbank financing	-25	338	260	-1,166	17	-995	-405	-405
Of which: credit to TPDC (gas pipeline)	…	…	…	-1,301	-368	-1,149	-405	…
Memorandum items:								
Nominal GDP	30,253	34,913	41,125	48,385	48,264	55,228	61,842	68,523

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

[1] Fiscal year: July–June.
[2] Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.
[3] Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.
[4] Fiscal measures are treated as expenditure savings.Part of the adjustment could be through additional revenue effort.
[5] Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.
[6] Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.
[7] From the fifth review under the PSI and the first review under the SCF arrangement.

Table 2b. Tanzania: Central Government Operations, 2009/10–2015/161
(Percent of GDP)

	2009/10	2010/11	2011/12	2012/13		2013/14	2014/15	2015/16
			Prel.	Prog.[7]	Proj.	Proj.	Proj.	Proj.
Total revenue	15.9	16.4	17.6	18.8	18.1	19.9	20.0	20.2
Tax revenue	14.6	15.2	15.8	16.7	16.4	17.9	18.0	18.2
Import duties	1.2	1.3	1.2	1.3	1.3	1.6	1.6	1.6
Value-added tax	4.6	4.4	4.8	5.1	4.8	4.9	5.0	5.1
Excises	2.8	3.0	2.5	2.9	2.7	3.1	3.1	3.1
Income taxes	4.4	4.8	5.5	5.6	5.9	6.1	6.1	6.1
Other taxes	1.7	1.7	1.8	1.8	1.8	2.2	2.2	2.3
Nontax revenue[2]	1.2	1.3	1.8	2.1	1.7	2.0	2.0	2.0
LGA	0.5	0.5	0.5	0.7	0.6	0.7	0.7	0.7
Other	0.8	0.8	1.3	1.3	1.1	1.3	1.3	1.3
Total expenditure	27.5	27.0	26.2	28.1	27.6	29.1	27.1	26.6
Recurrent expenditure	18.8	19.2	17.0	18.7	18.7	19.8	19.5	19.2
Wages and salaries	5.7	6.7	6.6	6.5	6.9	7.7	7.7	7.7
Interest payments	0.8	1.0	1.1	1.4	1.4	1.8	1.6	1.6
Domestic	0.7	0.8	0.8	0.8	1.0	1.1	0.9	0.8
Foreign[3]	0.1	0.2	0.2	0.5	0.4	0.7	0.7	0.8
Goods and services and transfers[2]	12.3	11.4	9.3	10.9	10.4	10.4	10.2	9.9
Of which: Transfers to TANESCO	…	…	…	…	1.2	0.3	…	…
Development expenditure	8.6	7.9	9.2	9.4	8.9	9.2	8.4	8.4
Domestically financed	3.3	2.8	4.6	4.6	4.4	4.5	4.5	4.5
Foreign (concessionally) financed	5.3	5.1	4.6	4.8	4.5	4.8	3.9	3.9
Unidentified fiscal measures [4]	0.0	0.0	0.0	0.0	0.0	0.0	-0.8	-0.9
Overall balance before grants	-11.6	-10.6	-8.6	-9.3	-9.5	-9.2	-7.0	-6.4
Grants	4.7	5.2	5.0	3.8	3.7	4.2	3.0	3.0
Program (including basket grants)[5]	3.1	3.0	2.5	1.7	1.7	1.8	1.5	1.5
Of which: basket grants	0.9	1.0	0.7	0.5	0.6	0.4	0.5	0.5
Project	1.5	1.6	2.0	2.2	2.0	2.4	1.5	1.5
Overall balance after grants	-6.9	-5.4	-3.6	-5.5	-5.8	-5.0	-4.0	-3.5
Adjustment to cash[6]	0.6	-0.7	-0.9	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-6.3	-6.1	-4.5	-5.5	-5.8	-5.0	-4.0	-3.5
Financing	6.4	6.6	5.0	5.5	5.8	5.0	4.0	3.5
Foreign (net)	4.6	3.1	4.2	7.2	5.6	6.0	3.7	2.5
Foreign loans	4.8	3.2	4.4	7.6	6.0	6.7	4.4	3.6
Program (including basket loans)[5]	2.5	1.1	1.0	0.9	1.3	1.1	0.9	0.9
Of which: basket loans	0.6	0.6	0.4	0.5	0.5	0.4	0.4	0.4
Project	2.3	1.8	1.4	1.6	1.4	1.5	1.5	1.5
Nonconcessional borrowing	0.0	0.2	1.9	5.1	3.3	4.1	2.1	1.2
Of which: gas pipeline	…	…	…	2.7	0.8	2.1	0.7	…
Amortization	-0.2	-0.1	-0.2	-0.4	-0.4	-0.7	-0.7	-1.1
Domestic (net)	1.9	3.6	0.8	-1.7	0.2	-1.1	0.3	1.0
Of which: excluding gas pipeline	…	…	…	1.0	1.0	1.0	1.0	1.0
Bank financing	1.9	2.6	0.2	0.7	0.2	0.7	1.0	1.6
Nonbank financing	-0.1	1.0	0.6	-2.4	0.0	-1.8	-0.7	-0.6
Of which: credit to TPDC (gas pipeline)	…	…	…	-2.7	-0.8	-2.1	-0.7	…
Memorandum items:								
Domestic unpaid claims (end-period, in percent of GDP)[8]	…	1.1	0.5	…	…	…	…	…
Recurrent expenditures (percent of recurrent resources)	104	103	88	94	97	93	93	91

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

[1] Fiscal year: July–June.

[2] Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

[3] Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

[4] Fiscal measures are treated as expenditure savings. Part of the adjustment could be through additional revenue effort.

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

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

[7] From the fifth review under the PSI and the first review under the SCF arrangement.

[8] Payment claims to the government outstanding more than 90 days.

Table 3. Tanzania: Monetary Accounts, 20010–2013

	2010	2011	2012					2013					
	June	June	March	June	Sept	Dec		March		June		Sept	Dec
						Prog.[1]	Actual	Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.	Proj.
Bank of Tanzania													
Net foreign assets	3,949	4,618	4,531	4,969	5,367	5,676	5,391	5,749	5,839	5,559	5,691	5,840	6,092
Net international reserves	4,336	5,097	4,993	5,418	5,825	6,134	5,848	6,210	6,291	6,023	6,154	6,306	6,560
(Millions of U.S. dollars)	3,143	3,242	3,170	3,453	3,712	3,834	3,721	3,857	3,955	3,718	3,776	3,840	3,976
Net non-reserve foreign assets	-387	-479	-462	-449	-458	-458	-457	-461	-452	-464	-463	-466	-469
Net domestic assets	-580	-828	-650	-377	-875	-915	-865	-918	-1,123	-459	-764	-688	-891
Credit to government	-628	-188	-39	96	-423	259	-125	249	-420	-421	-350	-450	-577
Of which: Excluding counterpart of liquidity paper	581	789	681	829	310	909	794	963	773	641	768	668	541
Other items (net)	48	-640	-611	-474	-452	-1,173	-740	-1,167	-703	-39	-414	-237	-314
REPOs	-117	-54	0	-25	-15	-10	0	0	0	0	-20	-20	-20
Other items, excluding REPOs (net)	165	-586	-611	-449	-437	-1,163	-740	-1,167	-703	-39	-394	-217	-294
Of which: Credit to nongovernment sector	89	87	79	67	56	55	54	55	51	55	51	51	51
Reserve money	3,369	3,790	3,881	4,592	4,492	4,761	4,526	4,831	4,716	5,100	4,927	5,152	5,200
Currency outside banks	1,681	2,081	2,145	2,317	2,480	2,590	2,415	2,540	2,393	2,734	2,667	2,758	2,843
Bank reserves	1,689	1,709	1,736	2,274	2,012	2,171	2,111	2,291	2,323	2,366	2,260	2,394	2,357
Currency in banks	351	423	348	388	420	570	495	559	415	601	587	607	625
Deposits	1,338	1,286	1,388	1,886	1,592	1,601	1,616	1,732	1,907	1,764	1,673	1,787	1,732
Required reserves (calculated)	994	1,172	1,316	1,359	1,434	1,458	1,561	1,577	1,635	1,638	1,435	1,532	1,485
Excess reserves (calculated)	344	114	72	527	158	143	54	155	272	126	239	255	247
Memorandum items:													
Stock of liquidity paper	1,209	977	720	733	733	651	919	715	1,192	1,062	1,119	1,119	1,119
Average reserve money	3,138	3,746	4,015	4,276	4,583	4,752	4,685	4,807	4,669	4,949	4,884	5,144	5,192
Monetary Survey													
Net foreign assets	5,265	5,804	5,864	6,034	6,375	6,755	6,402	6,835	6,794	6,658	6,739	6,896	7,153
Bank of Tanzania	3,949	4,618	4,531	4,969	5,367	5,676	5,391	5,749	5,839	5,559	5,691	5,840	6,092
Commercial banks	1,316	1,186	1,332	1,065	1,008	1,080	1,011	1,086	955	1,099	1,048	1,056	1,061
Net domestic assets	4,533	6,154	7,138	7,337	7,716	8,235	8,329	8,503	8,203	9,033	8,568	8,933	9,163
Domestic credit	6,233	8,477	9,625	9,828	10,147	10,817	11,097	11,127	11,313	11,700	11,339	11,680	12,098
Credit to government (net)	713	1,618	1,918	1,696	1,566	1,896	2,090	2,014	1,979	2,038	1,795	1,795	1,718
Credit to nongovernment sector	5,520	6,859	7,708	8,131	8,580	8,921	9,008	9,114	9,334	9,662	9,544	9,885	10,380
Other items (net)	-1,700	-2,323	-2,487	-2,490	-2,430	-2,582	-2,768	-2,625	-3,110	-2,667	-2,771	-2,747	-2,935
M3	9,798	11,958	13,002	13,371	14,092	14,990	14,731	15,338	14,996	15,691	15,307	15,828	16,316
Foreign currency deposits	2,514	3,259	3,620	3,568	3,789	4,197	4,006	4,295	4,065	4,394	4,286	4,432	4,568
M2	7,284	8,699	9,381	9,803	10,302	10,793	10,725	11,043	10,932	11,298	11,021	11,396	11,747
Currency in circulation	1,681	2,081	2,145	2,317	2,480	2,590	2,415	2,540	2,393	2,734	2,667	2,758	2,843
Deposits (TSh)	5,604	6,618	7,236	7,486	7,822	8,202	8,310	8,503	8,539	8,564	8,354	8,639	8,905
Memorandum items:			(12-month percent change, unless otherwise indicated)										
M3 growth	25.1	22.0	15.7	11.8	10.1	15.1	13.1	18.0	15.3	17.3	14.5	12.3	10.8
M3 (as percent of GDP)	30.3	31.9	29.1	29.9	31.5	31.0	32.9	31.7	28.9	32.4	29.5	30.6	31.5
Private sector credit growth	17.6	24.3	21.9	18.5	16.1	17.0	18.2	18.2	21.1	18.7	17.4	15.2	15.2
Average reserve money growth	20.6	19.3	10.7	14.2	11.9	12.6	11.0	19.7	16.3	15.7	14.2	12.2	10.8
Reserve money multiplier (M3/average reserve money)	3.1	3.2	3.2	3.1	3.1	3.2	3.1	3.2	3.2	3.2	3.1	3.1	3.1
Nonbank financing of the government (net)[2]	154	338	151	260	18	107	111	120	382	135	385	100	227
Bank financing of the government (net)[2]	398	905	300	78	-130	207	394	325	283	349	99	0	-77
Bank and nonbank financing of the government (net)[2]	552	1243	450	339	-112	314	505	445	664	484	484	100	150

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

[1] From the fifth review under the PSI and the first review

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

Table 4. Tanzania: Balance of Payments, 2009/10–2015/16
(Millions of U.S. dollars, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13		2013/14	2014/15	2015/16
			Prel.	Prog.[4]	Proj.	Proj.	Proj.	Proj.
Current account	-2,047	-2,215	-4,260	-4,911	-4,319	-5,085	-4,704	-4,548
Trade balance	-2,791	-3,115	-5,055	-5,484	-5,112	-5,717	-5,517	-5,537
Exports, f.o.b.	3,805	4,896	5,562	6,261	5,888	6,539	7,244	7,829
Of which:								
Traditional agricultural products	466	697	785	814	925	1,117	1,247	1,354
Gold	1,493	1,787	2,288	2,799	2,206	2,260	2,408	2,586
Other	1,846	2,412	2,489	2,648	2,758	3,163	3,589	3,889
Imports, f.o.b	-6,596	-8,012	-10,617	-11,745	-11,000	-12,256	-12,761	-13,367
Of which: Oil	-1,937	-2,155	-3,586	-3,446	-3,534	-3,464	-3,328	-3,311
Services (net)	168	171	128	206	316	176	534	744
Of which: Travel receipts	1,197	1,315	1,472	1,628	1,643	1,831	2,090	2,309
Income (net)	-307	-265	-260	-466	-352	-504	-526	-596
Of which: Interest on public debt	-25	-46	-57	-137	-119	-228	-259	-294
Current transfers (net)	883	995	926	834	829	960	805	842
Of which: Official transfers	637	737	625	501	518	589	462	471
Capital account	514	563	778	811	730	963	705	741
Of which: Project grants[1]	451	499	715	746	665	893	631	661
Financial account	2,220	2,282	3,290	4,385	3,913	4,394	4,523	4,194
Foreign Direct Investment	988	1,009	1,633	1,793	1,721	2,279	2,592	2,766
Public Sector, net	1,068	730	1,092	2,179	1,707	2,016	1,343	996
Of which:								
Program loans	612	267	264	274	394	378	308	350
Non-concessional borrowing	0	55	505	1,571	1,016	1,363	750	466
Project loans	525	436	374	477	434	511	543	583
Scheduled amortization[2]	-15	-29	-51	-143	-136	-236	-259	-403
Commercial Banks, net	-342	371	0	0	-36	0	0	0
SDR allocation[3]	249	0	0	0	0	0	0	0
Other private inflows	257	172	566	413	521	99	588	432
Errors and omissions	-209	-530	392	0	0	0	0	0
Overall balance	478	101	200	286	324	272	524	387
Financing	-478	-101	-200	-286	-324	-272	-524	-387
Change in BoT reserve assets (increase= -)	-570	-128	-176	-282	-436	-268	-465	-317
Use of Fund credit	93	27	-23	-3	112	-3	-59	-70
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Gross official reserves (BoT)	3,483	3,610	3,797	4,061	4,233	4,501	4,810	5,127
Months of imports of goods and services (current year)	5.0	4.3	3.5	3.4	3.8	3.6	3.7	3.8
Exports (percent of GDP)	16.7	20.7	21.6	20.7	19.4	19.6	20.0	20.1
Imports (percent of GDP)	-28.9	-33.8	-41.1	-38.8	-36.3	-36.7	-35.2	-34.4
Current account deficit (percent of GDP)	-9.0	-9.4	-16.5	-16.2	-14.3	-15.2	-13.0	-11.7
Foreign program and project assistance (percent of GDP)	9.7	8.2	7.7	6.6	6.6	7.1	5.4	5.3
Nominal GDP	22,852	23,669	25,805	30,297	30,281	33,426	36,230	38,870

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] In 2009, Tanzania received SDR 147.4 million on August 28 and SDR 11.7 million on September 9 (US$249 million in total).
[4] From the fifth review under the PSI and the first review under the SCF arrangement.

Table 5. Tanzania: Financial Soundness Indicators, 2008–2012
(Percent, end of period)

			2011				2012			
	2010	2011	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Access to bank lending										
Claims on the non-government sector to GDP [1]	18.0	22.8	18.8	20.4	22.4	22.8	23.7	24.5	26.0	27.2
Claims on the private sector to GDP [1]	17.2	21.6	18.1	19.7	21.5	21.6	22.5	23.0	24.8	25.4
Capital adequacy										
Capital to risk-weighted assets	18.5	17.8	19.2	18.2	17.4	17.8	18.5	18.5	17.8	17.9
Capital to assets	10.7	10.7	11.2	10.6	10.4	10.7	11.4	12.5	10.9	10.8
Asset composition and quality										
Net loans and advances to total assets	44.2	49.4	44.8	45.9	47.3	49.4	50.0	50.4	50.0	50.0
Sectoral distribution of loans										
Trade	17.5	20.2	18.6	19.4	20.0	20.2	19.9	20.9	21.0	20.8
Mining and manufacturing	14.1	12.8	14.0	13.3	13.4	12.8	12.5	11.5	11.5	11.8
Agricultural production	13.0	13.5	13.1	13.2	14.3	13.5	12.9	11.2	13.1	11.1
Building and construction	6.1	7.8	7.7	7.4	7.8	7.8	8.7	8.9	9.1	8.9
Transport and communication	9.2	7.2	9.5	8.5	7.8	7.2	7.9	7.1	7.1	6.9
Foreign exchange loans to total loans	32.0	33.4	32.6	34.6	35.3	33.4	33.2	33.7	34.0	33.4
Gross nonperforming loans (NPLs) to gross loans	9.8	6.9	9.6	9.1	8.1	6.9	7.6	8.0	7.6	7.3
NPLs net of provisions to capital	25.9	17.5	24.6	25.4	21.7	17.5	19.0	20.7	20.0	19.0
Large exposures to total capital	108.5	96.1	95.0	110.9	122.3	96.1	125.0	117.8	113.2	137.3
Earnings and profitability										
Return on assets	2.2	2.7	3.0	3.0	3.0	2.7	3.0	2.5	2.7	2.5
Return on equity	12.1	15.1	17.8	17.9	17.2	15.1	18.0	13.2	14.5	13.2
Net interest margin	8.5	8.4	9.4	9.3	8.8	8.4	9.9	9.6	9.3	…
Noninterest expenses to gross income	54.5	55.5	52.1	53.7	54.5	55.5	52.3	67.3	53.1	69.0
Personnel expenses to noninterest expenses	40.5	42.0	44.4	43.8	42.7	42.0	45.1	42.8	43.1	42.1
Liquidity										
Liquid assets to total assets	39.5	37.0	38.8	38.2	37.6	37.0	35.1	33.7	34.5	33.8
Liquid assets to total short term liabilities	45.3	40.2	44.3	43.2	41.8	40.2	39.2	45.6	39.1	38.1
Total loans to customer deposits	58.9	64.2	59.6	61.5	63.0	64.2	65.9	68.5	67.5	68.7
Foreign exchange liabilities to total liabilities	31.9	37.0	33.3	33.9	36.0	37.0	33.9	33.6	33.9	34.5

Source: Bank of Tanzania

[1] Calendar year; end of period claims relative to annual GDP.

Table 6. Tanzania: Disbursements and Timing of Reviews Under the SCF Arrangement[1]

Date of availability [2]	Conditions	Amount (SDR millions)	Percent of quota	Amount ($m)[3]
Upon Board approval	Board approval of the arrangement	37.300	18.75	57.42
September 30, 2012	Observance of end-June 2012 performance criteria and structural benchmarks and completion of first SCF arrangement review (fifth PSI review).[4]	37.300	18.75	57.42
May 15, 2013	Observance of end-December 2012 performance criteria and structural benchmarks and completion of second SCF arrangement review (sixth PSI review).	37.300	18.75	57.42
December 1, 2013	Observance of end-June 2013 performance criteria and structural benchmarks and completion of third SCF arrangement review.	37.275	18.75	57.38
	Total	149.175	75.00	229.64

[1] Tanzania's quota is SDR 198.9 million.

[2] Financing would become available based on completion of the associated SCF arrangement reviews, which would be conducted at the same time as the PSI review.

[3] At an assumed exchange rate of US$1 = SDR 0.6496.

[4] Tanzania's PSI arrangement expires on June 3, 2013 and the SCF arrangement expires on January 5, 2014.

Appendix. Letter of Intent

Dar es Salaam
May 17, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madam Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP for the 5th review under the Policy Support Instrument (PSI) and the 1st review under the Standby Credit Facility (SCF) arrangement. It reports on recent economic developments and reviews progress in implementing the Government of the United Republic of Tanzania's economic program under the PSI and the SCF arrangement. It also sets out macroeconomic policies and structural reforms that the Government will pursue in the remaining period of 2012/13 and in 2013/14.

2. Policies have remained broadly on track. Most quantitative targets for end-December 2012 were met, though there were delays in implementation of the structural benchmarks.

3. The Government of Tanzania requests completion of the sixth review under the PSI and the second review under the SCF arrangement based on overall performance under the program and the Government's policy intentions going forward. The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of its program. We stand ready to take any further measures that may become appropriate for this purpose. In this context, we request a modification of performance criteria to reduce the growth rate of reserve money and raise the ENCB ceiling, and to extend the deadline for the structural benchmark on the submission of the VAT bill to Parliament from end-April to end-November 2013.

4. The Government will consult with the IMF at its own initiative or whenever the Managing Director of the IMF requests such a consultation before the adoption of any such measures or changes to the policies described in the attached Memorandum. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. In particular, before signing contracts we will share with Fund staff the terms of new external loans that are close to the concessionality threshold, so that their degree of concessionality can be assessed.

5. Market sentiments in the foreign exchange market have improved following improvements in the current account and disbursement of the ENCB. These factors have helped

to reduce pressure in the foreign exchange market. In this respect, the Government intends to treat the remaining tranches of SCF only as a precautionary line of credit.

6. It is expected that the third and the final review under the SCF arrangement will take place before December 31, 2013. The Government is exploring options for engagement with the IMF after the expiration of the SCF arrangement, including a possible request for a new PSI program. The Government intends to disseminate this letter, the attached MEFP and the Technical Memorandum of Understanding (TMU), 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/

Dr. William A. Mgimwa (MP)
MINISTER FOR FINANCE
UNITED REPUBLIC OF TANZANIA

/s/

Prof. Benno Ndulu
GOVERNOR, BANK OF TANZANIA
UNITED REPUBLIC OF TANZANIA

Attachments:
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the Program Supported by the PSI and the SCF arrangement.

Attachment I. Memorandum of Economic and Financial Policies

May 17, 2013

I. MACROECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Macroeconomic Development

Output and inflation

1. Economic growth remained buoyant during 2012 with a real GDP growth of 6.9 percent, within the projected range of 6.5–7.0 percent. Growth was especially strong in communication, financial intermediation, manufacturing, mining and quarrying, and construction activities.

2. Inflation continued to ease, as a result of improved food supply in the Eastern Africa region, fiscal consolidation, and tight monetary policy. Inflation has declined progressively from a peak of 19.8 percent in December 2011 to the single digits in March 2013. Core inflation (headline excluding food and energy) remained in the single digits throughout the period under review.

Fiscal performance in 2012/13

3. ***Revenues***. During the first half of 2012/13, tax collection was buoyant, but fell short of the program target by a small margin (0.2 percentage point of GDP). The main driver was direct taxes whereas indirect taxes (VAT and excises) underperformed. Among direct taxes, corporate income taxes and withholding taxes performed well, reflecting an upward adjustment of corporate profits in the mining and telecommunication sectors. Intensification of tax audits and collection of tax arrears also contributed to the good tax collection. Nontax revenue (excluding LGAs own sources) underperformed, mainly due to the delay in payments of dividends by some parastatals and delays in the implementation of newly-approved land rents.

4. ***Expenditure***. The Government maintained expenditure in line with resource availability. Recurrent expenditure was 87 percent of the budget estimate during the first half of 2012/13. Wages and salaries and domestic interest payments turned out to be higher than expected due to unexpected new hiring in the national security and larger-than-expected issuances of short-term T-bills for cash managements, but the Government managed to contain other spending. Development expenditure was also below the budget projection because of the shortfalls in disbursements of external non-concessional borrowing (ENCB) and foreign project funds. During the period, financing needs of the state-owned power utility company (TANESCO) have intensified. In order to almost close the estimated TANESCO's financing gap of US$438 million for 2012/13, Government reallocated TSh 405 billion (US$254 million). In addition, US$100

million will be transferred from the central government budget to TANESCO to further enhance the financing of the gap (see ¶36).

5. ***Foreign grants and financing.*** Total grants were higher than projected due to more-than-expected front-loading of general budget and basket grant disbursements. The Government contracted [US$1,363 million] in ENCB, of which US$1,165 million was for the gas pipeline, US$178 million for the Dar es Salaam water project, and US$20 million being the foreign currency component of a government-guaranteed loan for TANESCO (amounting in total to US$65 million).

6. ***Domestic financing***. Net domestic financing of the Government was TSh 505 billion, which was within the adjusted end-December 2012 target. The amount was used mainly to finance development projects following the shortfalls in ENCB.

Monetary policies

7. The Bank's anti-inflationary monetary policy stance adopted since the last quarter of 2011 continued to anchor inflation expectations. In continuation of this policy stance, the Bank raised the minimum reserve requirement on government deposits from 30 percent to 40 percent and reduced the prudential limit on foreign currency net open position from 10 percent to 7.5 percent of core capital in December 2012. These measures were complemented by enhanced open market operations and foreign exchange sales to mop up excess liquidity. As a result reserve money was kept within the targets throughout the period. Annual growth of broad money (M3) was 13.1 percent in December 2012 compared to the projection of 15.1 percent and credit growth was 18.2 percent. The Shilling remained relatively stable during the period, fluctuating within a range of TSh 1,574 and TSh 1,586 against the dollar.

External developments

8. During July 2012-February 2013, the current account deficit narrowed to US$2,445 million from US$3,115 million recorded in the corresponding period of the previous year. Higher exports and lower imports contributed to the improvement. Exports of traditional agricultural products such as cotton, coffee and tobacco, increased thanks to favorable weather conditions, while production and exports of industrial goods benefited from normalization of power supply. Tourism earnings also improved with the increase in international tourist arrivals. On the other hand, imports declined, most notably oil imports, which fell in value terms by 3.8 percent to US$2,435 million and in volume terms to 2.4 million metric tons from 2.9 million metric tons.

9. However, in late 2012 pressures emerged in the foreign exchange market as manifested by widening spreads between exchange rates on the Interbank Foreign Exchange Market (IFEM) and indicative rates quoted among banks on Reuters. Such pressures may be attributed to several factors, including the weakening of market sentiment, the delays in disbursements of external financing (ENCB) and increased demand for foreign exchange to repay part of arrears to

energy suppliers and road contractors. These pressures intensified further in mid to late January 2013. Meanwhile, to prevent disorderly depreciation of the shilling, the BoT stepped up its foreign exchange interventions. As a result, official foreign exchange reserves declined by about US$300 million from end October through mid-February, while net foreign assets of commercial banks declined to US$591 million at the end of February 2013 from US$643 million recorded at the end of December 2012; and the shilling stabilized somewhat. In order to preserve market confidence and bolster international reserves, the authorities decided to draw the full accumulated amount of US$114 million under the SCF arrangement.

B. Program performance

Quantitative targets

10. All quantitative performance/assessment criteria (PC/AC) under the Policy Support Instrument and the SCF arrangement for end-December 2012 were met. Net domestic financing (NDF) was TSh 504.7 billion, below the adjusted ceiling of TSh 600.0 billion. The change in net international reserves (NIR) was above the adjusted program floor by US$45.1 million and average reserve money (ARM) was 2.4 percent below the program ceiling. The continuous PC/AC on non-accumulation of external arrears was met. The continuous PC/AC on external non-concessional debt was met.

11. The indicative target for end-December 2012 on the floor of priority social spending was met with a good margin, while the target for tax revenue was missed by 0.1 percentage point of GDP.

Structural benchmarks

12. Progress has been made in preparing a report identifying steps to be taken to prepare Tanzania's macroeconomic management for the new gas economy. As a first step, the Government has begun its deliberations on managing the gas economy, drawing on the inputs of the technical assistance mission of early 2013. The recommendations of the mission were examined by the government's inter-institutional team, and further work is ongoing leading to the development of government policy in this area.

13. Progress has been made in the establishment of a Debt Management Office (DMO) under the Ministry of Finance. The duly established organizational structure of the DMO was submitted to the President's Office Public Service Management (PO-PSM) in November 2012 and is in the final stage of approval process.

14. The Government compiled and submitted to the Fund quarterly reports on government debt guarantees. The report indicates that there were no new guarantees issued during the first quarter of 2012/13 while in the second quarter the Government guaranteed 85 percent of the

US$65 million loan to TANESCO. The Government will continue to share the quarterly data with the IMF, within six weeks from the end of each quarter.

15. The BoT has started compiling quarterly Balance of Payments (BoP) statistics and the data were published in the Bank's Economic Bulletin for the Quarter ending September 2012. The action plan to restore TANESCO's financial viability was prepared in collaboration with the World Bank, and shared with the IMF. The benchmark on submission of new VAT bill to Parliament was delayed to allow sufficient time for a thorough review of the bill and public consultations with stakeholders. Instead of April, the VAT will now be presented to Parliament by end-November 2013, still in time for implementation by the start of the 2014/15 budget cycle.

Prospects for the remainder of FY2012/13

16. The Government envisages the overall fiscal deficit not to exceed 5.8 percent of GDP for the whole year 2012/13. The recently approved World Bank energy support operation loan equivalent to 0.3 percent of GDP will be on lent to TANESCO. Direct taxes are expected to continue to perform well, but the overall domestic revenue would end up being below the target due to the shortfalls in indirect taxes and nontax collection. Spending will be adjusted to available resources while protecting key expenditure items, including investment and priority social spending.

17. In March 2013, the Government raised US$600 million from international capital markets in a private placement underwritten by Standard Bank/Stanbic. The Government is committed to meeting the ENCB cumulative ceiling of US$2,688 million through end-June 2013.

II. ECONOMIC PROGRAM FOR 2013/14 AND THE MEDIUM TERM

18. The primary focus of the 2013/14 budget and the medium term is to consolidate the achievements of preceding years and achieve the aspirations of the Five Year Development Plan 2011/12-2015/16 and MKUKUTA II. GDP is projected at 7.0 percent in 2013 with prospects of picking up further, supported by the implementation of strategies/policies such as Agricultural Sector Development Program (ASDP), Southern Agricultural Corridor of Tanzania (SAGCOT), Special Economic Zones; and infrastructure development. GDP growth is expected to be driven by manufacturing, transport, storage and communications, real estate, renting & business activities; and financial intermediation.

19. Several factors point in the direction of further easing of inflationary pressures in the coming months, including tight monetary policy; fiscal consolidation; continued stability in the world market oil prices; and improved food supply in the EAC region. Based on these factors, the headline inflation is projected to decline to 9.5 percent by end-June 2013 and further to 7.0 percent by December 2013.

20. The current account balance is projected to record a deficit of 14.9 percent of GDP in 2013/14 and decline further in subsequent years, as domestic gas powered electricity generation leads to lower demand for imported petroleum products.

A. Fiscal policies for 2013/14 and medium term

21. The government's policy objectives for 2013/14 and the medium term will focus on maintaining macroeconomic stability, ensuring that spending is in line with available resources and maintaining debt sustainability by strengthening domestic revenue collection and enhancing debt management. This is in line with the overarching objective of the Five Year Development Plan I as well as MKUKUTA II of ensuring economic growth and sustainable poverty reduction.

Budget for 2013/14

22. The overall deficit after grants is projected to narrow to 5.0 percent in 2013/14. This is in line with the objective of maintaining macroeconomic stability with the creation of fiscal buffers in the medium term. The government is planning to implement tax policy measures amounting to 1.2 percent of GDP in addition to the administrative measures estimated to yield 0.3 percent of GDP. In the event of tax revenue shortfalls during the fiscal year (indicative target), the authorities stand ready to reduce non-priority expenditure, including slowing down new recruitment. The deficit will be financed through the projected concessional and non-concessional loans.

Revenues

23. Revenue is projected to increase with continued economic growth and the government's efforts to improve tax and nontax laws and administration. Subsequently, revenue to GDP ratio (including nontax revenue and local governments' own sources) is estimated at 19.9 percent of GDP in 2013/14, rising gradually over the medium term.

- **Tax**. The government will implement the following policy and administrative measures in the medium term: (i) review VAT Act Cap. 148; (ii) develop second Medium and Long term Revenue Mobilization Strategy 2013/14–2017/18; (iii) implement the TRA's fourth (4th) Corporate Plan 2013/14–2017/18; (iv) reduce tax exemptions to 1 percent of the Gross Domestic Product; (v) continue to build staff capacity in specialized sectors i.e oil and gas, coal, mining, real estates, communications, multinationals & financial services; (vi) enhance use of Electronic Fiscal Devices; (vii) widening tax base through formalization of business operating in informal sector.

- **Nontax**. The Government has started to undertake a comprehensive review of the Public Finance Act (PFA) together with reviewing consequential legislations on various public corporations, agencies and special funds, some of which collect fees, levies and duties with a view to enhancing their contributions to the Consolidated Fund. The Non tax revenue collection for 2013/14 is projected at 1.3 percent of GDP while the LGA's own sources estimate is 0.7 percent of GDP. In order to improve non tax revenue collection, the government will continue to strengthen the capacity of MDAs and LGAs to efficiently and effectively administer revenue collections.

24. The cabinet paper on the proposed Tax Administration Act was submitted to the Cabinet during the second week of March, 2013. The Act will put in place unified tax administration procedures related to, among others, taxpayers record keeping, taxpayers complains procedures against the Commissioner of TRA, and imposing of fine and penalties for compliance of tax laws. Attorney General is drafting the bill before submitting to Parliament in the financial year 2013/14.

25. The Government will introduce a new VAT Act to replace the existing VAT Act, 1998 for the purpose of modernization of VAT administration, streamlining of VAT exemptions as well as ensuring that the Act is commensurate with international best practice in VAT administration. The drafting of the new VAT Act is in progress with a draft framework of the law and respective policy paper being developed. It is expected that both internal Government consultation and comments by various stakeholders on the draft will be made before end-September, 2013 so that the VAT Bill could be submitted to the Parliament in November, 2013 for the first reading. The new VAT Act is expected to be in place by July 1, 2014.

Expenditure policies

26. Expenditure is aligned with the Medium Term National Development Plan and MKUKUTA II, which envisage scaling up the implementation of key development projects, improving social services and promoting private sector participation through public private partnership (PPP). Total expenditure is estimated at 29.3 percent of GDP in 2013/14. The increase in recurrent spending is explained by the need to finance one time expenditure related to national referendum, updating voters registry and special constitutional Assembly as well as an increase in the minimum wage. Interest payments on external debt are projected to increase from 1.4 percent of GDP in 2013/14 to 1.8 percent in 2015/16. The increase is largely attributed to repayments of external non concessional borrowing, which started in 2010/11. Domestic interest payments are projected to stabilize at around 1.1 percent in the medium term.

27. Development expenditure is estimated at 9.3 percent in 2013/14, with the main focus on strategic projects including power plants (Kinyerezi I and II), construction of roads, implementation of water projects, and rehabilitation of the central railway line.

28. The government is planning to contract and borrow external non-concessional loans of up to US$700 million in 2013/14. A large part of ENCB will be used to finance two gas power plants with additional generation capacity of 390MW. Donor-funded concessional loans are projected at 2 percent of GDP, while net domestic financing is expected to be 1 percent of GDP.

B. Public Finance Management

29. The government is committed to further strengthen the Public Finance Management (PFM) systems by continuing to implement Public Finance Management Reform Program which is in its fourth phase (PFMRP IV).

30. To improve tracking of domestic arrears, the government has been compiling data from MDAs on unpaid claims—which are yet to be verified as arrears—on a quarterly basis, and has been sharing the data with the IMF and other development partners. Unpaid claims over 90 days old amounted to TSh 490 billion as of end-March 2013, compared with TSh 197 billion at end-June 2012. The Government will develop and implement an expenditure arrears management strategy, including establishing the stock of expenditure arrears through stocktaking, verification and proper classification of the verified unpaid claims, and developing and implementing an arrears liquidation strategy. The Government's efforts to reduce domestic arrears will include the issuance of an internal financial circular re-emphasizing the requirement that all accounting officers make use of the IFMIS to enhance commitment control on all budgeted expenditures. Furthermore, the Accountant General's Department is migrating to IPSAS accrual, whereby all existing arrears will be recognized, audited, and included in the Government's financial statements, and form the basis for payments. The adoption of the IPSAS will strengthen financing plans for multi-year projects and contracting**.**

Public debt management

31. The government has decided to transform its debt management practices to be aligned with the International Sound Practice Framework for Managing Debt. This requires evolving from pure resource mobilization, debt data recording, and debt service, towards a greater emphasis on prudent management of the debt to achieve long-term objectives such as meeting the funding needs of the Government at the lowest possible cost consistent with a prudent degree of risk, and to promote development of the domestic debt market. This can only be achieved through a proper Legal and institutional framework. Therefore, the government decided to consolidate the debt management functions under a one Department as one stop centre for debt management.

32. The approval of the DMO structure will pave the way forward in revising National Debt Strategy of 2002 and amendment of the Government Loans, Guarantees and Grant Act No. 30 of 1974 as amended in 2004 as key prerequisite condition for fully operationalization of the DMO.

33. Government has decided to obtain a sovereign credit rating for Tanzania and subsequently to issue sovereign bond for financing infrastructure projects. Citigroup Global Markets Limited was selected through competitive bidding as an advisor and the rating exercise is expected to be completed early next financial year. This should improve Tanzania's access to international financial markets and enable the government to borrow at more favorable terms.

Fiscal transparency

34. In line with the continuous efforts to improve fiscal transparency, the Ministry of Finance has /published on its internet website the complete 2013/14 budget documents (Volume II–IV) as submitted to the Parliament by the first week of May 2013. The ministry will also publish the 2013/14 budget together with 2012/13 Reallocation warrants as passed by the Parliament in August 2013 and the summary 2013/14 "citizens' budget" in October 2013.

C. Power Sector

35. One of the priorities is to provide abundant supply of electricity to the economy while ensuring financial sustainability of the energy sector. For this purpose, in collaboration with the World Bank the government developed and approved an action plan for TANESCO (structural benchmark) that has been shared with the IMF. A major component of the plan is the expected large decline in the cost of power generation from 2015, when a new gas pipeline is expected to start delivering cheap natural gas from domestic fields to power plants, including two new gas-fuelled plants in Kinyerezi. The construction of these plants has been appropriated in the 2013/14 budget and will be financed by external non-concessional borrowing. At the same time, TANESCO will strengthen its operations to minimize technical losses, and improve collections and recovery of arrears from electricity users. The plan also addresses TANESCO's deficits in the interim period as follows:

36. For the fiscal year 2012/13, TANESCO's financing needs are estimated at US$438 million (including accumulated arrears to suppliers of about US$270 million). TANESCO has already contracted a government guaranteed loan of US$65 million in the domestic market, while the government reallocated an equivalent of US$254 million in the budget from lower priority areas to TANESCO. Another US$100 million will be covered by a slight increase in the budget deficit (from 5.5 percent of GDP to 5.8 percent)—the amount is equal to the World Bank loan approved by its Board on March 26 under the First Power and Gas Sector Development Policy Operation. The remaining US$19 million will be carried over into FY2013/14.

37. For 2013/14, with unchanged electricity tariffs, TANESCO's financing needs are tentatively projected at about US$352 million (including US$19 million from 2012/13), but may be different depending on hydrological conditions and other factors. Given the uncertainty, the central government budget for 2013/14 will include a direct transfer to TANESCO of US$105 million (the amount not to exceed 2.5 percent of total expenditures excluding consolidated fund services, wages and foreign financed development spending), which will be transparently reported. Any remaining financing gaps will be covered within the fiscal year by additional revenue enhancing measures, including an increase in electricity tariffs, for which TANESCO will resubmit its application to EWURA (the national utilities regulator).

D. Monetary, financial sector, and exchange rate policies

Monetary and exchange rate policies

38. The BoT intends to complement the current reserve money targeting framework with a more active use of interest rates in implementing its monetary policy. To this end, BoT has started an internal review of its existing liquidity operations and interest rate structure, to be completed by end-December 2013, as part of the process to develop an active policy rate. The BoT is continuing to enhance its expertise and benefit from technical assistance in support of these objectives.

39. Monetary policy will aim at maintaining single digit inflation and achieving not more than 7.0 percent by end-December 2013, with a view to attaining the inflation rate target of 5 percent in the subsequent years. Accordingly, the target for average reserve money growth (y-o-y) at end-June 2013 is revised from 15.7 percent in the previous MEFP to 14.2 percent, with a further reduction to 10.8 percent by end-December 2013. Credit growth is also expected to slow down from 17.4 percent in June 2013 to 15.2 percent by end-December 2013. The BoT is committed to undertaking further measures to tighten monetary policy stance in the event that the expected inflation is above the stated objectives.

40. The flexibility of the exchange rate will be further enhanced to help cushion against adverse external developments. The BoT will participate in the foreign exchange market only for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate, while continuing to increase the level of international reserves as a share of imports.

Financial sector stability and efficiency

41. Financial soundness indicators show that the banking sector remained sound and stable. As at the end of December 2012, the banking industry was well capitalized with liquidity levels above the regulatory requirements. The overall quality of the loan portfolio improved as reflected by the ratio of non-performing loans to gross loans which decreased to 7.8 percent in March 2013 from 8.3 percent in June 2012. Although the stability of the financial industry looks promising for the near future, risks remain. Thus, the BoT will continue to maintain vigilance over developments in the financial system, including monitoring compliance against the new required minimum core capital for banks. In addition, the BoT will raise Tier 1 and Tier 2 capital ratios by 2.5 percentage points by end June 2013 to conform to best practice recommended by Basel Committee for Effective Banking Supervision. The buffer is expected to support capital sustainability and reduction of dependence on bailout during crisis.

Social security system reforms

42. The Social Security Regulatory Authority (SSRA) is working closely with the Ministry of Finance to address the Government's outstanding liabilities to the Public Service Pensions Fund

(PSPF) related to the legacy of the previous pension scheme.[1] The 2013/14 budget allocates TSh 50 billion repayment of the Government's liabilities, up from TSh 30 billion in 2012/13.

43. The review of the public pension system conducted in collaboration with the World Bank has revealed that all the defined-benefit pension funds have actuarial shortfalls. The Government intends to reform pension entitlement rules to help restore actuarial balance in the funds. The SSRA is preparing new benefits guideline that harmonizes contributions rates and benefit package. Further, SSRA in collaboration with the Ministry of Labour and Employment is developing a Social Security Reform Program that outlines the Social Security Schemes (SSS) reform process. Meanwhile, the Government has approached the World Bank for a possible multi-year loan package which could provide resources to support near-term benefit payments.

Anti-money laundering policies

44. During the discussions of Financial Action Task Force's International Cooperation Review Group (ICRG) which took place in Paris, France February, 2013 on Monitored Jurisdictions which are not Making Sufficient Progress, Tanzania was considered to have taken substantive steps towards implementing its action plan. The only remaining substantive issue to be resolved in Tanzania's Action Plan relates to the adequacy of the framework to implement United Nations Security Council Resolutions (UNSCR) 1267/1373 obligations relating to identification and freezing of terrorist assets.

III. OTHER PROGRAM ISSUES

Statistical issues

45. The Ministry of Finance in collaboration with the National Bureau of Statistics has made progress in compiling fiscal accounts in Government Finance Statistics Manual (GFSM) 2001 format and submitted to the IMF for publication on January, 2013. The 2013/14 budget presented in the GFSM 2001 format will be shared with the IMF by August 2013. Meanwhile, the compilation of quarterly provisional fiscal outturns in the format will be started and shared with the IMF from the first quarter of 2013/14 with the lag of six weeks after each quarter. In the medium term the Government will continue to improve data on public sector financial and nonfinancial assets, including valuation and verification of non-financial assets.

46. The Visitors' Survey in the high and low tourist seasons, together with a survey on resident travelers and compilation of the Survey of Companies with Foreign Liabilities (SCLF) will be conducted semi-annually, starting in 2013/14.

[1] The PSPF was converted to a contributory fund, from a non-contributory scheme, on July 1, 1999. The Government remains in charge of paying pension benefits accrued before the PSPF became a contributory fund. However, no payment has been made by the Government since July 1, 2004. The World Bank estimates that the Government's outstanding liabilities to the PSPF amount to TSh 1.2 trillion (2.5 percent of GDP) as of 2012/13.

47. The Ministry of Finance in collaboration with the BoT started compiling the Gross External Debt Position (GEDP) data on a quarterly basis in September 2012 for publication in the Quarterly External Debt Statistics (QEDS) database, with a view to ensuring consistency in external debt data.

Program monitoring

48. Progress in the implementation of the policies under this program will be monitored through performance criteria (PC), indicative targets (IT), and structural benchmarks (SB) as documented in the attached tables. The third review under the SCF arrangement is expected to be completed by December 31, 2013.

MEFP Table 1. Tanzania: Quantitative Assessment Criteria (AC), Performance Criteria (PC) and Indicative Targets Under the Policy Support Instrument and Stand-by Credit Facility Arrangement
December 2012–December 2013

	December 2012				March 2013				June 2013		September 2013	December 2013
	AC/PC				Indicative Target				PC		Indicative Target	Indicative Target
	Prog [5]	Adjusted Criteria	Actual	Met?	Prog [5]	Adjusted Criteria	Preliminary	Met?	Prog [5]	Revised	Proj	Proj.
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)											
Net domestic financing of the government of Tanzania (cumulative, ceiling) [1, 2]	300	600	505	✓	400	514	664	X	484	484	100	150
Average reserve money (upper bound) [3]	4,800	4,800	4,685	✓	4,855	4,855	4,669	✓	4,999	4,933	5,195	5,244
Average reserve money target [3]	4,752				4,807				4,949	4,884	5,144	5,192
Average reserve money (lower bound) [3]	4,704				4,759				4,900	4,835	5,092	5,140
Tax revenues (floor; indicative target)[1]	3,961	3,961	3,851	X	5,968	5,968	5,734	X	8,001	8,001	2,369	4,909
Priority social spending (floor; indicative target)[1]	1,033	1,033	1,229	✓	1,550	1,550	1,765	✓	2,066	2,066	570	1,138
	(Millions of U.S. dollars; end of period)											
Change in net international reserves of the Bank of Tanzania (floor) [1, 4]	310	123	166	✓	432	361	546	✓	273	273	64	200
Accumulation of external payment arrears (continuous AC/PC ceiling)	0	0	0	✓	0	0	0	✓	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (continuous AC/PC ceiling) [6,7]	2,688	2,688	1,957	✓	2,688	2,688	2,577	✓	2,688	2,688	3,388	3,388
Memorandum item:												
Foreign program assistance (cumulative grants and loans) [1]	567	567	568		746	746	654		785	785	406	602
External nonconcessional borrowing (ENCB) disbursements to the budget [1]	429	429	39		619	619	640		737	737	167	334

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 300 billion for the U.S. dollar equivalent of a shortfall in the combined total of foreign program assistance and ENCB from the amounts shown in the memorandum item. To be adjusted downward by any ENCB disbursed for budget financing above programmed amount for the year as a whole (US$737 million for 2012/13)

[3] Assessment/performance criteria and indicative targets apply to upper bound only.

[4] Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government up to the equivalent of TSh 300 billion.

[5] From the fifth review under the PSI and the first review under the SCF arrangement.

[6] Cumulative from July 1, 2010.

[7] The modified cumulative ENCB ceiling of US$3,388 million applies from July 1, 2013.

MEFP Table 2. Structural Benchmarks for Fifth and Sixth Reviews under the PSI and First and Second Reviews under the SCF Arrangement

	Benchmark	Macroeconomic rationale	Date	¶	Status
1)	The Ministry of Finance, Planning Commission, and TRA will prepare a report identifying steps to be taken to prepare Tanzania's macroeconomic management for the new gas economy, and identifying the nature of any corresponding technical assistance needs.	Supports early preparation for major macroeconomic challenges in the years ahead.	End-April 2013	MEFP for 3rd PSI review	Not Met
2)	Establish a new Debt Management Office (DMO) in the Ministry of Finance to consolidate public debt management functions.	Seeks to ensure strong, consolidated monitoring of debt liabilities to underpin sound public debt management.	End-December 2012	36	Not Met
3)	Compile and publish full preliminary balance of payments data on a quarterly basis within 3 months of the end of the relevant quarter.	Seeks to strengthen macroeconomic and policy analysis	End-December 2012 (for data through end-Sept. 2012)	67	Met with delay
4)	Prepare an action plan to restore Tanesco's financial sustainability.	Addresses contingent fiscal liabilities by ensuring financial viability of TANESCO	End-January 2013	42	Met with delay
5)	Submit a new VAT Bill to Parliament	Improve economic efficiency and increase revenue-to-GDP ratio	End-April 2013	23	Not Met Reset to November 2013

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

May 17, 2013

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 Tanzania's program supported by the SCF arrangement and PSI, comprising the quantitative assessment criteria under the PSI arrangement; the performance criteria under the SCF arrangement; and the indicative targets and structural benchmarks jointly monitored under the SCF arrangement and PSI.

2. The principal data sources are the standardized reporting forms, 1SRF and 2SRF, as provided by the Bank of Tanzania (BoT) to the IMF, and the government debt tables provided by the Accountant General's office.

II. DEFINITIONS

Net international reserves

3. Net international reserves (NIR) of the BoT are defined as reserve assets minus reserve liabilities. The change in NIR is calculated as the cumulative change since the beginning of the fiscal year. The BoT's reserve assets, as defined in the IMF BOP manual (5th 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.

4. NIR are monitored in U.S. dollars, and for program monitoring purposes assets and liabilities in currencies other than U.S. dollars shall be converted into dollar equivalent values using the exchange rates as of June 30, 2012 (as recorded in the balance sheet of the BoT).

	US$ per currency unit
British pound	1.5607
Euro	1.2589
Japanese yen	0.0126
Australian dollar	1.5106
Canadian dollar	0.9739
Chinese yuan	0.1573
SDR	1.5106

Reserve money and reserve money band

5. Reserve money is defined as the sum of currency issued by the BoT and the deposits of Other Depository Corporations (ODCs) 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 (PSI), performance criterion (SCF), or indicative target.

Net domestic financing of the Government of Tanzania

6. 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 ODCs) and the nonbank public.

7. 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.

8. For 2012/13 and 2013/14, NDF will be measured net of any accumulation of central government claims on the Tanzania Petroleum Development Corporation (TPDC) as a result of the on-lending of an external credit to finance a gas pipeline.

Government deposits at the BoT

9. 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 payment arrears

10. External payment 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 payment arrears is continuous and applies throughout the year.

Priority social spending

11. Priority social spending comprises spending on agricultural inputs, and central government transfers to local governments for health and education.

Tax revenues

12. Tax revenues include import duties, value-added tax, excises, income tax, and other taxes.

Contracting or guaranteeing of external debt on nonconcessional terms

13. The term "external debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). 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.[1] The ceiling on external debt is continuous and applies throughout the year.

[1] 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

(continued)

14. Government debt is considered nonconcessional if the grant element is lower than 35 percent, computed using the IMF grant calculator 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 and SCF performance criterion apply not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed for which value has not been received.

Foreign program assistance and program exchange rates

15. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance (MoF) 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. Foreign program assistance is measured excluding bilateral loans in 2012/13 and 2013/14 for purposes of construction of the gas pipeline.

16. The program exchange rate for the period July 1, 2012 through June 30, 2013 is TSh/USD 1605.

III. ADJUSTERS

Net international reserves

17. The end-September 2012, end-December 2012, end-March 2013, and end-June 2013 quantitative targets for the change in the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfalls in (a) foreign program assistance and (b) external nonconcessional borrowing (ENCB) financing of the government budget in U.S. dollars (up to a limit equivalent to TSh 300 billion at the program exchange rate).

18. The shortfalls will be calculated relative to projections for foreign program assistance shown in table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania titled "Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets under the PSI and SCF arrangement". For purposes

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.

of the adjuster, ENCB is measured excluding any non-concessional financing contracted in 2012/13 and 2013/14 for purposes of the gas pipeline.

19. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 16). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

Net domestic financing

20. The end-September 2012, end-December 2012, end-March 2013, and end-June 2013 quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfalls in foreign program assistance and ENCB financing of the government budget in U.S. dollars (up to a limit of TSh 300 billion).

21. The shortfalls will be calculated relative to projections for foreign program assistance and ENCB financing shown in the Table on "Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets under the PSI and SCF arrangement" attached to the MEFP. For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in 2012/13 and 2013/14 for purposes of the gas pipeline. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 16). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

22. The limits referred to in the previous paragraph will be adjusted downward for any ENCB financing of the government budget in excess of the amount programmed for the year as a whole, indicated in the table referred to in the previous paragraph.

IV. DATA REPORTING REQUIREMENTS

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 (1SRF) and the currency composition of official foreign assets and official foreign liabilities.	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS).	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	MoF	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
Summary table of: (i) average reserve money; (ii) net domestic financing of the government;	BoT and MoF	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
(iii) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves.[1]			
Amount of payment claims outstanding of more than 30 days, 60 days, and 90 days for all government ministries. For each ministry, total claims outstanding to be divided into: (i) unverified claims; and (ii) claims verified but not yet paid.	MoF	Quarterly	4 weeks
The flash report on revenues and expenditures.	MoF	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report.[1]	MoF	Monthly	4 weeks
Monthly report on central government operations.	MoF	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and external debt service due and paid.	MoF	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoF	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 13 of the TMU during the period including terms and conditions according to loan agreements.	MoF	Quarterly	4 weeks
Report on priority social spending	MoF	Quarterly	6 weeks

[1] The MoF 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 MoF.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
June 3, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth and Final Review Under the Policy Support Instrument for Tanzania and the Second Review Under Standby Credit Facility Arrangement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review of Tanzania's performance under the Policy Support Instrument (PSI) and the second review under the Standby Credit Facility (SCF) arrangement. In February 2013, the authorities drew the full accumulated amount of US$114 million under the SCF arrangement. The authorities have indicated that going forward they intend to treat the arrangement as precautionary.

The Executive Board approved the 18-month SCF arrangement for Tanzania in July 2012 in an amount equivalent to SDR 149.175 million (about US$228 million—see Press Release No. 12/252). The PSI for Tanzania was approved by the Executive Board on June 4, 2010 (see Press Release No. 10/ 227).

Following the Executive Board's decision on Tanzania, Mr. David Lipton, Deputy Managing Director and Acting Chair, issued the following statement:

"The Tanzanian economy has continued to grow at a robust pace and the recent decline in inflation is welcome. The authorities are to be commended for their commitment to policies aimed at containing demand pressures, strengthening macroeconomic stability, and preserving a sound fiscal position.

"The planned moderate tightening of monetary policy in 2013 will support gradual disinflation. The Bank of Tanzania's (BoT) commitment to take additional measures in the event of a reemergence of inflationary pressures is welcome. Looking ahead, it would be appropriate for the BoT to complement the reserve money targeting framework with a more flexible approach to policymaking that gives a greater role to the policy interest rate. Greater exchange rate flexibility could play a useful role in the event of renewed pressures on the exchange rate.

"The deficit target equivalent to 5 percent of GDP in the fiscal year 2013/14 is consistent with the medium-term objectives of fiscal consolidation and debt stabilization. By undertaking new revenue measures, the authorities have appropriately sought to preserve critical infrastructure and social spending. The authorities' commitment to reducing non-priority spending in the event of revenue shortfalls is welcome, as is their commitment to dealing with domestic arrears and to addressing the financial difficulties of the power sector in a transparent manner.

"A priority in the months ahead will be to step up the implementation of structural reforms, particularly in modernizing the VAT regime, strengthening debt management capacity, and establishing a sound institutional and legal framework to ensure that possible future revenues from newly discovered gas deposits accrue to the benefit of all citizens."

Statement by Mr. Saho, Executive Director for United Republic of Tanzania
June 3, 2013

My Tanzanian authorities are committed to pursuing the implementation of the Policy Support Instrument (PSI) and Standby Credit Facility (SCF) arrangements in the spirit of maintaining macroeconomic stability as well as strengthening fiscal buffers and enhancing the effectiveness of monetary policy. Moreover, they are aware that maintenance of the strong economic growth momentum requires the improvement of external competitiveness, and continuing structural reforms. In this regard, the authorities will continue to focus on investing in infrastructure, developing agriculture and improving the human capital, health, and the business climate. The overall economic policy will be in line with the overarching goals of the Five Year Development Plan as well as MKUKUTA II of ensuring economic growth and sustainable poverty reduction.

Program Performance

My authorities have pursued prudent macroeconomic and structural policies within the context of the PSI and the second review under the SCF arrangement demonstrated by the strong program performance. It is against this backdrop that they request the Board's support for the completion of the sixth review under the PSI and the second review under the SCF arrangement, and modification of performance criteria. All quantitative performance/assessment criteria (PC/AC) under the PSI and the SCF arrangements for end – December 2012 were observed. The indicative target for tax revenues was missed with a small margin. Moreover, all indicative targets for end March were met with the exception of tax revenues and net domestic financing of the central government budget. Furthermore, the authorities have shown continued commitment to the structural reform agenda through ongoing implementation of structural benchmarks albeit with some delays.

The Tanzanian authorities with IMF support under the PSI and SCF have created a macroeconomic framework that has strengthened economic stability. In December 2012/January 2013, pressures emerged in the foreign exchange market due to the weakening of market sentiment, the delays in disbursements of external financing and increased demand for foreign exchange to repay part of arrears to energy suppliers and road contractors. These pressures were successfully abated by the withdrawal of the full accumulated amount under the SCF arrangement, which helped preserved market confidence and bolstered international reserves. However, my authorities, in the absence of major adverse shocks and resurgence of foreign exchange pressures, will treat the remaining balance under the SCF arrangement as precautionary.

Recent economic developments

Tanzanian's economic growth remained strong during 2012. Real GDP grew by 6.9 percent mainly driven by transport and communications, financial services, manufacturing, mining and quarrying, trade and construction activities. Inflation was subdued as a result of fiscal consolidation, tight monetary policy and the improvement of food supply in the East African region. Inflation declined from 19.8 percent in December 2011 to 9.8 percent in March 2013.

Given the Tanzanian authorities' resolve to strengthen fiscal buffers, fiscal performance during the first half of 2012/13 was broadly in line with the program objectives. On the revenue front, tax collections fell short of the program target by a small margin (0.2 percentage point of GDP) due to the underperformance of indirect taxes. On the expenditure side, the authorities maintained expenditure in line with resource availability. Current spending as well as development expenditure were below the budget projections. The financing needs of the state-owned power utility company (TANESCO) have intensified, while unpaid claims accumulated. The authorities supported by the World Bank have developed a sustainable financial plan for TANESCO and the plan to repay domestic arrears is ongoing.

My authorities remain steadfast to tackle inflation. To that end, the tighter monetary policy stance adopted since the last quarter of 2011 has continued to anchor inflation expectations. Since then, the Bank of Tanzania has raised the reserve requirement on government deposits and intensified open market operations and foreign exchange sales to withdraw excess liquidity. Consequently, reserve money was held within the program targets. Average reserve money grew by 16 percent (y-o-y) in March compared with a programmed growth of 19.7 percent. The authorities continue to be committed to a flexible exchange rate regime.

Economic policy framework for 2013/14 and the medium–term

Fiscal policies for 2013/14 and medium term

In line with their objective to maintain macroeconomic stability and rebuild fiscal buffers in the medium term, the authorities are projecting the overall deficit after grants to narrow to 5.0 percent in 2013/14. To meet this goal, the authorities will undertake revenue enhancing measures which will include strengthening the legal and institutional framework for tax collection and streamlining public expenditure. In addition, the authorities will inter alia, review the VAT Act; develop second Medium and Long Term Revenue Mobilization Strategy 2013/14 – 2017/18; implement the TRA's fourth Corporate Plan 2013/14 – 2017/18; reduce tax exemptions to 1 percent of GDP; widen the tax base and pursue a comprehensive review of the Public Finance Act.

The expenditure framework is underpinned by the Medium Term National Development Plan MKUKUTA II that is focused on the implementation of key development projects, improving social services and promoting private sector participation through public private partnerships. The Tanzanian authorities are also committed to strengthening the Public Finance Management systems by pursuing the implementation of the fourth phase of the Public Finance Management Reform Program (PFMRP IV). They will also improve the monitoring of domestic arrears to verify accuracy for developing a clearance plan.

My Tanzanian authorities are aware that debt sustainability is critical for economic growth and poverty reduction. Consequently, they have decided to align the current debt management practices with the International Sound Practice Framework for Managing Debt and as a result, the establishment of a Debt Management Office is underway. In order to facilitate resources mobilization for infrastructure projects, the authorities have decided to obtain a sovereign credit rating for the country. The implementation of the rating exercise, which is expected to be completed in the next financial year, should provide a basis for improving Tanzania's access to international financial markets.

Monetary and exchange rate policies

To enhance the effectiveness of monetary policy, the Bank of Tanzania plans to complement the current reserve money targeting framework with a more active use of the policy rate. The main goal of monetary policy will be to maintain a single digit inflation rate. The authorities target 7 percent by end – December 2013 and 5 percent in the medium term.

The Bank of Tanzania will maintain the flexibility of the exchange rate to cushion against adverse external developments. Any interventions in the foreign exchange market will be for liquidity management purposes and to smooth out short term fluctuations of the exchange rate.

Financial sector stability and anti–money laundering policies

Tanzanian's financial soundness indicators show that the banking sector remains sound and stable. At end December 2012, the banking sector was well capitalized and liquid. The overall quality of the loan portfolio improved as reflected by the ratio of non–performing loans to gross loans which decreased to 7.8 percent in March 2013 from 8.3 percent in June 2012. Even though the banking industry looks stable, profitable and liquid, the Bank of Tanzania will maintain vigilance over developments in the financial system. To this end, the central bank, in light of the fast growth of mobile banking, will improve oversight of the sector by issuing Mobile Financial Services Regulations.

Regarding anti – money laundering, the Tanzanian authorities will complete the action plan for the adequacy of the framework to implement United Nations Security Council Resolutions 1267/1373 obligations relating to identification and freezing of terrorist assets.

Energy sector policy

Infrastructure and especially energy is key for unleashing growth and poverty reduction. Therefore, one of the authorities' priorities is to provide abundant supply of electricity while ensuring financial sustainability of the energy sector. To this end, an action plan to boost the capacity of TANESCO has been developed by the authorities in collaboration with the World Bank and was shared with the IMF. It is expected that the cost of power generation will decline from 2015, when a new gas pipeline will start to deliver relatively cheap natural gas from domestic fields to power plants, including two new gas- fueled plants in Kinyerezi. The authorities are mindful that the delays in the implementation TANESCO's action plan, would further deteriorate public finances, with negative spillovers on growth and poverty reduction. To that end, the authorities will strengthen the implementation of TANESCO's action plan.

Conclusion

My Tanzanian authorities remain committed to maintaining macroeconomic stability to support strong economic growth and poverty reduction. They will strengthen fiscal policy by progressively reducing the budget deficit. Consequently, the legal framework and Tax administration will be enhanced for revenue boosting, while spending will be streamlined and focused on the main priorities. The legal and institutional framework for debt management will be reviewed in accordance with the best international practice. In addition, maintenance of low inflation will remain the principal goal of monetary policy.

My authorities recognize the achievements under the PSI and SCF. As the current PSI expires on June 3, 2013, the authorities will continue to pursue the implementation of the policy reforms under the SCF and will consider a possible request for a new PSI.