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2014 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE STANDBY CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—STAFF REPORT; PRESS RELEASES; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED REPUBLIC OF TANZANIA

In the context of the 2014 Article IV Consultation, the Third Review Under the Standby Credit Facility Arrangement, Request for a Waiver for Nonobservance of a Performance Criterion, and Financing Assurances Review, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 25, 2014, following discussions that ended on February 25, 2014, with the officials of the United Republic of Tanzania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 10, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Press Releases** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its April 25, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- A **Statement by the Executive Director** for the United Republic of Tanzania.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the United Republic of Tanzania*
Selected Issues

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

April 10, 2014

STAFF REPORT ON THE 2014 ARTICLE IV CONSULTATION, THE THIRD REVIEW UNDER THE STANDBY CREDIT FACILTY ARRANGEMENT, REQUEST FOR A WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Background, outlook, and risks. Economic growth is projected to remain strong at 7 percent next year and in the medium term. Inflation is at 6 percent, gradually converging to the authorities' 5 percent medium term objective. The external current account deficit remains among the largest in the region, at 14 percent of GDP this year. Fiscal revenue shortfalls and overruns in domestically-financed spending led the deficit to rise to 6.8 percent of GDP in 2012/13. Revenue shortfalls in 2013/14 compared to the budget approved by parliament have prompted the authorities to undertake expenditure cuts during the fiscal year in an effort to meet their 5 percent of GDP target. Based on the debt sustainability analysis, Tanzania remains at low risk of debt distress. A major upside risk for the long term, not yet incorporated in the baseline projections, relates to sizable finds of offshore natural gas that, if confirmed as commercially viable, could bring in large revenues during the next decade.

Program implementation. All performance criteria under the program were met, except a sizable breach of the performance criterion on net domestic financing at end-June 2013. The structural benchmark on submission to parliament of the VAT reform for November 2013 was missed. The authorities have taken corrective measures.

Macroeconomic and structural policies. Preparations for the draft 2014/15 budget are under way. A VAT reform aimed at improving efficiency and reducing exemptions is ready for submission to parliament prior to the beginning of the new fiscal year. A priority in the next few years is to establish the institutional and policy framework to ensure that, if natural gas revenues materialize, they will bring benefits to all Tanzanians.

Staff recommends completion of the third (and final) review under the SCF arrangement and approval of the authorities' requests for a waiver for nonobservance of a performance criterion and for completion of the financing assurances review.

Approved By
Roger Nord (AFR) and Dhaneshwar Ghura (SPR)

A staff team consisting of P. Mauro (head), N. Gigineishvili, N. Raman (all AFR), S. Kaendera (FAD), and G. Ho (SPR) visited Dar es Salaam, Dodoma and Zanzibar during August 26–30, October 23–November 5, and February 12–25. Mr. Baunsgaard, IMF Resident Representative, assisted the mission. The mission met with the late Minister of Finance Mgimwa and his successor, Minister Saada Salum; Governor Ndulu of the Bank of Tanzania; Permanent Secretary of the Treasury, Mr. Likwelile; other senior officials; members of Parliament; representatives of the private sector and academia; and development partners. Mr. Tucker and Mr. Yamuremye (OED) participated in the discussions.

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CONTEXT

1. **Prudent policies and macroeconomic stabilization have underpinned the strength and resilience of Tanzania's economic performance over the past decade.** Despite the global financial crisis of 2008-09, the food and fuel price shocks of 2007–08 and 2011–12, and the energy crisis of 2011, real GDP growth has proved resilient, averaging 7 percent over the past decade. The poverty headcount in mainland Tanzania declined from 33.6 percent of the population in 2007 to 28.2 percent in 2011/12, but remained relatively high in rural areas, where job creation was insufficient to absorb a young and growing labor force.[1] Macroeconomic performance under the three-year Policy Support Instrument (PSI, July 2010–June 2013) and the Standby Credit Facility (SCF, July 2012–April 2014) has been broadly satisfactory. Box 1 presents a summary of Tanzania's policy response to the key recommendations in the 2011 Article IV consultation.

2. **During the next few years, policymakers will need to manage and meet expectations stemming from three main sources, while preserving fiscal and debt sustainability:**

a. **Public investment in infrastructure is seen as key to strengthening competitiveness and removing growth bottlenecks**. The authorities' "Big Results Now" (BRN) initiative envisages ambitious infrastructure investment that, after further prioritization, needs to be fully integrated into the budget process, while safeguarding critical social expenditures.

b. **Over the next decade, Tanzania has good prospects of becoming a major producer and exporter of natural gas**. This is beginning to generate expectations that greater spending is warranted by likely future revenues. However, a final decision on whether to develop a large-scale liquefied natural gas (LNG) project using offshore gas resources may not be made by the natural gas companies until 2016, with production to begin no earlier than 2020. Beyond keeping expectations in check until such uncertainty is resolved, decisions made in the next few years on the contracts and the framework for the management of natural resources revenues will have long-term implications for whether the ensuing benefits will accrue to all citizens.

c. **Political factors may engender additional spending pressures**. Uncertainties stem from the ongoing review of the constitution, including the relationship between mainland Tanzania and Zanzibar, which might have significant economic and fiscal implications. General elections will be held in October 2015, when President Kikwete's second and last term in office expires. Against this background, undertaking reforms will likely require even greater resolve.

[1] In the 2011/12 Household Budget Survey, poverty was estimated at 33.6 percent in rural areas, 4.2 percent in Dar es Salaam, and 21.7 percent in other urban areas. The results of the 2007 and 2011/12 surveys are not fully comparable, owing to methodological changes.

RECENT DEVELOPMENT, OUTLOOK, AND RISKS

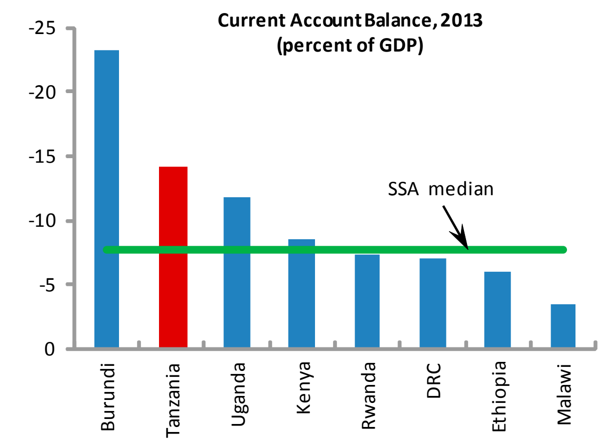
3. **The broad-based nature of economic growth has contributed to its resilience.** Growth has been driven by services, construction and low-technology manufacturing (Figure 1); labor-intensive agriculture has lagged resulting in a persistently high unemployment and underemployment. In 2011 real growth declined to 6.4 percent partly because of significant power shortages caused by a slump in hydro generation. As the authorities quickly restored power supply by procuring thermal generation capacity from the private sector, growth recovered in 2012 and has remained at about 7 percent since then.

4. **Tanzania has experienced significant economic transformation since the 1990s.** The share of agriculture in output declined from 32 percent in 1998 to 23 percent in 2012, giving way to higher value-added manufacturing and services. The decline in the share of agriculture in non-gold exports of goods and services was even more marked, from 49 percent to 13 percent over the same period. This diversification of the economy was facilitated by subsequent waves of reforms from the mid-1980s to the mid-2000s aimed at reducing the role of the state in the economy, market liberalization, and policy modernization (Annex I). The pace of reforms, however, seems to have abated in recent years.

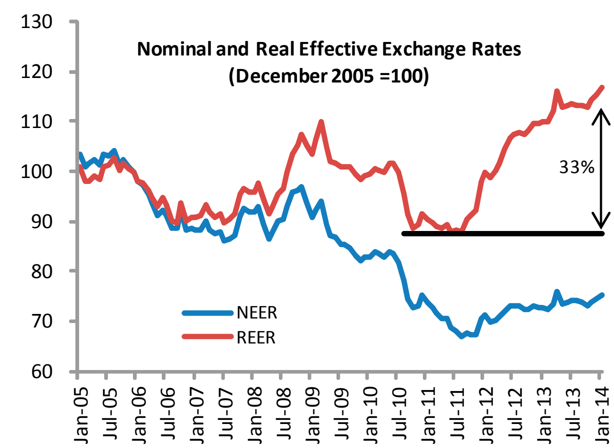
5. **Inflation has returned to the mid-single digits**. With the reversal of the 2011 surge in global food and fuel prices, headline inflation fell steadily from its peak of 20 percent in December 2011 to 5.6 percent in December 2013 (Figure 2). In January and February 2014, headline inflation picked up slightly to about 6 percent, in part reflecting a direct one-off impact of the near 40 percent average increase in power tariffs starting January 1 (see ¶13). Going forward, supply-side risks to inflation seem to be limited, in view of a strong harvest and stable global oil prices; the monetary stance is projected to contain demand pressures.

6. **A deliberate slowdown in the key monetary aggregates has contributed to gradual disinflation.** Consistent with a tightening of reserve money targets, both broad money (M3) and private sector credit growth declined from more than 20 percent in 2010 and 2011 to 10 and 15 percent, respectively, by end-2013. Interbank, Treasury bill, and other key interest rates have not displayed clear trends (or provided clear guidance) in nominal terms over the past year or so, but they have risen substantially in real terms as inflation has declined. The disinflation has also benefitted from the broad stability of the nominal exchange rate against the U.S. dollar, which hovered within a narrow range during 2012 and depreciated by 3 percent between January 2013 and February 2014.

7. **The current account deficit has been among the largest in the region for several years.** It widened from about 9 percent of GDP in 2009/10 and 2010/11 to 18 percent of GDP in 2011/12, owing to a significant surge in FDI, higher fuel prices, and one-off imports of thermal power generation equipment to offset the drought-induced drop in hydro power capacity.[2] In 2012/13, the current account deficit is estimated to have narrowed to 14 percent of GDP as these shocks waned and weaker gold export receipts were more than offset by a reduction in imports of goods and services. The trade balance deteriorated again during the first half of 2013/14, driven by a decline in the price of gold and large demand for oil imports for power generation. Gross international reserves amounted to US$4.67 billion at end-December 2013, equivalent to almost 4 months of current year imports of goods and services for 2013/14.



8. **The real effective exchange rate (REER) appreciated by 33 percent as of January 2014 from August 2011, when it reached its lowest level since 2000**. The appreciation stemmed from a positive inflation differential relative to trade partner countries. The central estimate obtained by staff using a variety of econometric approaches suggests that the shilling is somewhat overvalued, though these findings need to be interpreted with caution in light of the rapid transformation of the economy, including large current and prospective flows of FDI and possible large natural gas exports in the future (Annex II).



[2] The authorities' efforts to more fully capture repatriated profits by FDI companies in the income balance resulted in upward revisions to the current account deficits in 2011/12 and 2012/13, by 2 percent of GDP and 0.5 percent of GDP respectively.

Box 1. Response to the 2011 Article IV Consultation's Key Recommendations

Mobilize domestic resources. Tax revenues as a share of GDP are projected at 16.2 percent in 2013/14 compared with 15.2 percent in 2010/11, continuing an upward trend experienced for the past few years. The increase has stemmed primarily from strong growth, improved compliance, and tax measures in the 2013/14 budget. Going forward, reductions in tax exemptions are expected via the upcoming VAT reform.

Reduce overall expenditure while safeguarding priority spending. The budget deficit was lower than programmed in 2011/12, but expenditure overruns led to a higher-than-programmed deficit and a breach of the net domestic financing performance criterion at end-June 2013. Expenditure pressures also pose a risk for executing the 2013/14 budget. Priority spending has been preserved.

Improve public financial management. Domestic arrears have been a recurring issue. Stricter enforcement of spending commitment controls and better tracking of multi-year contractual obligations would be warranted.

Enhance prioritization of public investment. The "Big Results Now" initiative has identified key strategic priorities. Further prioritization will be needed as this initiative is integrated into the budget process.

Strengthen debt management processes. The debt management office is not yet operational. The Ministry of Finance published an updated Medium Term Debt Management Strategy in November 2013 (available at www.mof.go.tz).

In monetary policy, be vigilant to the impact of rising food and energy prices. Following the 2011 Article IV Consultation, a major shock materialized, leading to higher inflation in the region. Monetary policy tightening and the unwinding of the shock have led to a gradual decline in inflation; the authorities' medium term target of 5 percent is within reach.

Follow up on the 2010 FSAP Update recommendations. See Section C.

9. **Fiscal pressures re-emerged in 2012/13 and 2013/14, leading to program slippages.** Data yet to be finalized indicate that the deficit (measured from the financing side) in 2012/13 amounted to 6.8 percent of GDP compared to the 5.5 percent envisaged under the program.[3] Domestic revenues turned out below expectations, by 0.7 percent of GDP, mostly owing to underperforming VAT. Domestically financed spending was 0.4 percent of GDP higher than envisaged under the program. As a result, the performance criterion on net domestic financing was breached by 1.2 percent of GDP. Meanwhile total public debt rose to 40.8 percent of GDP at end-June 2013.

10. **Optimistic revenue projections are posing challenges in the execution of the FY2013/14 budget**. The budget approved by Parliament for 2013/14 envisages a 5 percent of GDP deficit, but assumes revenues (and expenditures) that are 1 percent of GDP higher than indicated in the May 2013 staff report (IMF Country Report No. 13/166). Updated projections

[3] The deficit target had been revised to 5.8 percent of GDP to permit a transfer to TANESCO, which was facilitated by an IDA budget support operation (First Power and Gas Sector DPO). While the World Bank disbursed the funds before the end of FY2012/13, the transfer to TANESCO occurred in early FY2013/14.

suggest a likely shortfall in total revenues by 2 percent of GDP compared with the budget, partly because of delays in introducing new taxes on SIM cards and bank transfers, lower gold prices, and weaker revenue buoyancy than previously assumed. Parliament in December replaced the SIM card tax with a further increase in excise duty on airtime by 2.5 percent. To achieve the original deficit target in the wake of revenue shortfalls, the authorities restricted spending for "other charges" in August, October and November, and introduced deeper spending cuts in the context of the mid-year budget review undertaken in mid-March.

11. **Weaknesses in public financial management undermine the quality and timeliness of fiscal data available to policymakers.** The three main problems are: (i) recurrence of large domestic unpaid claims (with duration above 90 days); these increased to 1.6 percent of GDP at end-December 2013 from 0.5 percent of GDP in June 2012; (ii) growing expenditure "floats" (estimated at 6 percent of domestically financed spending or 1.3 percent of GDP in 2012/13);[4] and considerable delay in coming close to reconciling the discrepancies between "above the line" deficit figures and the financing data. These issues point to weaknesses in budget formulation, execution and monitoring, including difficulties in aligning expenditures with available financing resources during the year.

12. **Additional firm and contingent obligations have built up in the pension system**. Firm obligations relate to the benefits of participants in the non contributory, pre-1999-reform system (Box 2). Contingent obligations stem from loans provided by several pension funds to finance activities by government entities, a practice that presents fiscal transparency challenges.

13. **Significant progress was achieved in addressing financial difficulties of the energy sector**. The independent energy regulator, EWURA, announced an electricity tariff increase by about 40 percent (on average) effective January 1, 2014. Analytical work done by the World Bank suggests that this is a significant step toward restoring the financial viability of TANESCO (the national power utility), and will substantially strengthen the company's financial situation in 2014. To cover the losses for the current fiscal year and to clear the stock of the past arrears, TANESCO borrowed an amount equivalent to US$250 million commercially (with a sizable government guarantee) and received a direct budget transfer of about US$220 million (which was facilitated by budget financing from the World Bank and African Development Bank). TANESCO is also undertaking measures to improve collections and recovery of arrears and to minimize losses due to power theft. TANESCO's financial situation is expected to further improve in 2015, with completion of a new natural gas pipeline and gas-fueled power plants leading to a decline in power generation costs. Realizing the benefits of the increased pipeline capacity will also require that the Tanzania Petroleum Development Corporation and the investors in the existing gas fields come to a final agreement on new gas supply contracts.

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[4] The expenditure "float" measures payment orders that were issued in a given fiscal year, but were drawn from the banking system in the following fiscal year.

Box 2. Fiscal Obligations Stemming from the Pension System

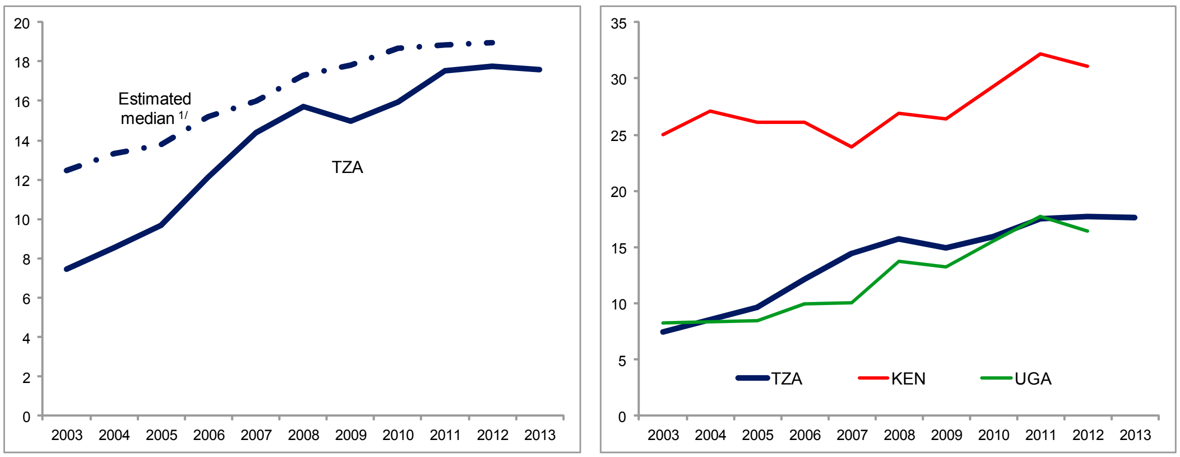
Prior to July 1999, the pension scheme for civil servants was non-contributory and pension benefits were all paid from the budget. The system was transformed to a contributory Public Service Pension Fund (PSPF) in July 1999. During a five- year transition period (July 1999–June 2004), the budget paid all pension benefits. Although the government was expected to cover benefits associated with the pre-July 1999 scheme beyond the transition period, the PSPF has been paying retirees on behalf of the Government. Based on World Bank estimates, by December 2012, the government owed TSh 1.2 trillion (about 2 percent of GDP) to the PSPF. A 2010 actuarial valuation estimates the full pre-1999 public sector liabilities at TSh 4 trillion (about 7 percent of GDP). In addition, the financial position of the PSPF is fragile, in part reflecting delayed reimbursements from the government. Ultimately, the central government is responsible for the pension obligations to civil servants. Further, the actuarial deficit arising from the broader pension sector, including several other public and private sector pensions also gives rise to substantial contingent liabilities.

14. **Credit to the private sector continues to expand in an environment of financial system stability.** The rate of growth of credit to the private sector in nominal terms has declined compared with its peak in 2010, but remains strong at 15.3 percent y-o-y through December 2013, broadly in line with nominal GDP growth. Credit to the private sector as a share of GDP stood at 17.6 percent in 2013, having almost converged to the median share for a group of comparator countries selected on the basis of level of development and other characteristics (see chart below). Strong credit growth has not come at the expense of financial stability. In its March 2013 Financial Stability Report, the BoT concluded that the banking system remains well capitalized: the ratio of capital to total risk-weighted assets was 18.2 percent in December 2013 (December 2012: 17.5 percent; statutory minimum: 10 percent). Risks are receding: non-performing loans declined to 6.5 percent of total loans in December 2013 from 8.1 percent the previous year, though this remains above the regulators' comfort level of 5 percent. To further mitigate risks, the BoT has increased the number of supervisors, enhanced banks' framework for financial reporting, and implemented more updated stress-testing methodologies.

15. **Performance under the SCF arrangement has been mixed.** All of the end-June quantitative performance criteria were met except for the ceiling on net domestic financing, breached by 1.2 percent of GDP. The indicative target on tax revenue collection was missed by 0.4 percent of GDP in June and September and by 0.8 percent of GDP in December. The end-December indicative target on reserve money was missed by a small margin (0.1 percent of GDP). The structural benchmark on the submission of the VAT reform bill to Parliament was further delayed from end-November to May 2014, to allow broader consultation with stakeholders. At the request of the authorities, the program was extended to April 30, 2014 (from its original expiration date of January 5, 2014). This allowed them sufficient time to implement measures envisaged under the program for completion of the third SCF review. The authorities are requesting a waiver for the nonobservance of the performance criterion on NDF at end-June 2013 on the basis that they have: (i) instituted revisions to the 2013/14 budget in the context of the mid-year budget review, including downward adjustments to the revenue projections and expenditure cuts of almost 2 percent of GDP to goods and services compared to the initial

2013/14 budget; (ii) obtained Cabinet approval for the main features of a reform to the VAT reform, which the government plans to submit to Parliament in May 2014; and (iii) as noted in ¶13, implemented increases in electricity tariffs on January 1, 2014 to improve the financial position of TANESCO and to reduce the need for the budget subsidies. The NDF target was met at end-December 2013.

Credit to the private sector (percent of GDP)



1/ Statistical estimate of the expected median value of credit to the private sector as a share of GDP generated by the FinStats tool created by the World Bank. The tool selects a peer group based on the level of economic development, population, demographic characteristics, the global cycle and other special characteristics (e.g., whether the country is an oil exporter or an offshore financial center) and provides the median values of each indicator for the peer group.

Sources: Tanzania authorities, World Bank, IMF staff estimates.

16. **The macroeconomic outlook remains favorable.** Economic growth is projected at about 7 percent in the medium term. Absent major external price shocks, inflation is expected to reach the authorities' 5 percent target by mid-2014 provided that the BoT maintains its prudent monetary policy stance. Under the baseline assumption that the construction of a natural gas pipeline and gas-fired power plants is completed in 2014/15, the availability of cheaper energy would have a beneficial impact on economic growth and the current account. Nevertheless, with continued strong domestic demand and sizable foreign direct investment, the current account deficit is projected above 10 percent of GDP in the medium term.

17. **The economy faces several risks** (see Risk Assessment Matrix, Table 6). Possible shocks to food and fuel prices would further weaken the current account, exert pressure on consumer prices and may necessitate additional social outlays. A sharp slowdown in China, on the other hand, would reduce prospective FDI and credit flows to Tanzania undermining key infrastructure investments and thereby future growth. This said, the most significant sources of risk relate to domestic policy implementation and include: potential fiscal slippages because of the intensification of pre-election spending; delays in the construction of the gas pipeline and the power plants; and the fiscal risks described below (see Box 4 in particular).

18. **The long-term outlook will be influenced by the business climate and its impact on investment**. There seems to be considerable room for improvement through structural and institutional reforms. In the 2013 survey of the World Bank Group's 'Doing Business' indicators, Tanzania ranks 134 out of 185 countries (for the average across all indicators) and lags behind several of its peers in the region (including Kenya, Rwanda, and Uganda). In particular, speeding up the resolution of commercial disputes and rendering tax policy more predictable are perceived as priorities by several entrepreneurs and financial market participants. In response, the authorities have set up a "BRN laboratory" focused on improving the business climate.

19. **East African Community (EAC) integration is progressing, although significant challenges remain.**[5] On November 30, 2013, the Heads of States of all five EAC countries signed a joint protocol outlining the process toward EAC Monetary Union, with the introduction of the common currency envisaged for 2024. Convergence criteria were agreed for inflation, foreign exchange reserves, and fiscal variables (Box 3). Implementation of the protocols for customs union (signed in 2005) and the common market (2010), including the elimination of remaining non-trade barriers, is crucial to reap the full benefits of monetary union.

Box 3. Macroeconomic Convergence Criteria under the EAC Monetary Union Protocol

The EAC single currency is expected to be introduced by 2024 by member states that comply with four primary convergence criteria, complemented by three non-binding, indicative convergence criteria that will serve as early warning indicators:

Primary convergence criteria

(i) ceiling on headline inflation of 8 percent
(ii) fiscal deficit (including grants) ceiling of 3 percent of GDP
(iii) ceiling on gross public debt of 50 percent of GDP in NPV terms
(iv) reserve cover of 4.5 months of imports

Indicative criteria:

(i) core inflation ceiling of 5 percent
(ii) fiscal deficit (excluding grants) ceiling of 6 percent of GDP
(iii) tax- to-GDP ratio of 25 percent

POLICY DISCUSSIONS

20. **The discussions focused on informing a macroeconomic policy framework for the next few years**. The analysis of macroeconomic economic developments and of policies undertaken in the context of the Fund-supported program was aimed at shaping a set of policies whereby the authorities would continue to aim at fostering growth while maintaining macroeconomic stability and debt sustainability.

[5] The East African Community comprises Burundi, Kenya, Rwanda, Tanzania and Uganda.

A. Monetary and Exchange Rate Policies

21. **The stance of monetary policy is consistent with the authorities' objective to keep inflation at around 5 percent in the medium term.** The authorities indicated that they would aim at entrenching actual and expected inflation at their medium-term objective. To that end, the authorities envisage reserve money growth around that of nominal GDP. This, in turn, is projected to result in a moderate increase in broad money (M3), given the expectation that financial development and inclusion would be mirrored in a gradual reduction in the velocity of M3. At the same time, they saw financial deepening, with greater availability of credit to the private sector, as an important factor to support economic growth (see section C below).

22. **The BoT intends to gradually modernize its monetary policy framework.** Although the authorities believe that the existing reserve money targeting framework has served the country well, they are contemplating a gradual transition to a more forward-looking monetary policy with more flexible operational targets and greater reliance on interest rates. The authorities consider that an interest rate-based monetary framework may be better aligned with a deeper financial system with greater private sector involvement, and may convey the stance of monetary policy more clearly. The BoT is reviewing the functioning of key financial markets, including the interbank market, and exploring ways to strengthen the transmission mechanism from policy interest rates to the real economy. Among its initial steps, the BoT is analyzing the existing links between market interest rates and key monetary aggregates.

23. **The BoT reiterated its commitment to a flexible exchange rate regime.** The authorities pointed to the enhanced flexibility observed over the past year. In view of the large amounts of official aid and capital inflows being channeled through the BoT and the ensuing necessary FX sales to sterilize them, the discussions focused on the relative merits of the existing system, where the BoT announces the price at which it will transact on the existing interbank foreign exchange market (IFEM) platform, and an auction mechanism (if feasible, building on the IFEM infrastructure). There was agreement that interventions should be for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate. The authorities also noted that the relative importance of the organized market should not be overestimated, in view of the even larger volume of foreign exchange transactions that occur outside of the market, including sizeable banks' dealings with their customers. The BoT indicated its intention to gradually increase reserves as a share of imports.

B. Fiscal Policy

24. **The authorities aim at balancing the debt stabilization objective with the need to invest in infrastructure and ensure adequate priority social spending**. The debt sustainability analysis (DSA) shows that Tanzania remains at low risk of external debt distress and that the public debt outlook is sustainable, assuming that economic growth remains strong and that the fiscal deficit gradually declines to 4–4½ percent of GDP over the medium term. The authorities noted the difficult choices to be made in prioritizing expenditures and mobilizing additional

revenues to attain the deficit reduction objective, in light of a gradual decline in grants. They emphasized that the budget is the sole and appropriate mechanism to make priorities operational, including those outlined in the recent Big Results Now initiative.

25. **Budget preparations for 2014/15 are under way.** The authorities indicated that they would persevere in their efforts to mobilize domestic revenues, including through the upcoming VAT reform. Thus, despite the decline in grants, the budget would aim at a moderate reduction in the deficit compared with the 2013/14 target, while allocating resources for a modest increase in infrastructure investment as a share of GDP and at least maintaining the share of spending on priority social services. The authorities noted that, in view of recent experience, they would strive to maintain revenue projections at realistic levels, so as to avoid the need for expenditure compression during budget execution. They also indicated that the budget would include modest allocations for the benefits of pensioners covered by the pre-1999 reform non-contributory system and for the clearance of longstanding domestic arrears through a centralized process of verification and payment. The discussions also addressed the merits of allocating potential one-off revenues (such as capital gains tax revenues arising from a sale of participation rights in offshore production sharing agreements between two companies) to clearing existing arrears.

26. **Consistent with the favorable debt outlook, the authorities planned external non-concessional borrowing to finance infrastructure projects**. Under the current SCF arrangement, the ENCB ceiling of US$3,388 million (cumulative from July 2010) was set to permit contracting of US$700 million this fiscal year, consistent with the budget. Out of the allocated amount, US$84 million have been contracted as of February 2014 (the foreign currency portion of a commercial loan contracted by TANESCO). The authorities indicated that they plan to use the remaining amount under the ceiling to finance infrastructure projects, including a gas-based power plant and an airport terminal—both would be implemented over a number of years. The financing contracts for these loans are close to being finalized. More generally, the authorities intend to explore a greater role for the private sector, including PPPs, to finance and undertake infrastructure investment. The authorities also noted the importance of being able to contract additional non-concessional financing—potentially including a sizable upfront bond issuance—during the two months prior to the beginning of the next fiscal year, to avoid delays in executing infrastructure projects. Staff concurred, in view of the positive DSA results, while noting the carry costs involved in pre-financing.

27. **The authorities are making progress in debt restructuring discussions with external creditors**. Since the last review, staff was made aware of an existing stock of arrears to private external creditors stemming from the lease of planes by Air Tanzania several years ago, whose size is estimated well below 0.1 percent of GDP. In line with the Fund’s Lending into Arrears (LIA) policy, the authorities have demonstrated and intend to continue good faith efforts, through frequent bilateral communication and working out a repayment plan, to reach collaborative agreement with their creditors.

28. **Disclosure and management of fiscal risks is limited, despite their macroeconomic relevance.** Fiscal risks are generally defined as the possibility of deviations of fiscal outcomes from baseline projections. Information regarding some of the most macro-economically relevant fiscal risks is not yet readily available to policymakers or the public (Box 4).

Box 4. Monitoring and Managing Fiscal Risks in Tanzania

Key fiscal risks in Tanzania stem from the following sources.

Macroeconomic shocks. The fiscal implications of potential changes in macroeconomic variables could be significant: in particular, a prolonged decline in the currently high rate of economic growth would considerably worsen debt dynamics. Nevertheless, the debt sustainability analysis suggests that the magnitude of the impact is manageable and is not much different from peers. The DSA prepared and published by the authorities is a helpful start in informing the public about the fiscal implications of macroeconomic shocks.

Offshore natural gas. If the presence of commercial quantities of off-shore natural gas is confirmed, large revenues could start accruing to the budget by the end of the decade. On the other hand, the fiscal position would deteriorate if government expenditures were to increase substantially in the expectation of higher revenues from natural gas, and these later turned out to be short of expectations.

Public enterprises. Despite major privatization waves during the past two decades, PEs still play a major role. The government has ownership in 215 PEs (including regulatory and policy making bodies) and its shareholdings are valued at US$8.6 billion (TSh 14 trillion). At end June 2013, total outstanding government loans to PEs amounted to 1 percent of GDP and total guarantees were another 1 percent of GDP. Annually parliament receives a comprehensive list of public enterprises and other government agencies, and information on state ownership, guaranteed loans, budget transfers to and dividend payments by PEs. More detailed financial data (balance sheets and income statements) are being collected by the Treasury Registrar but not shared with parliament or the public. Disclosure of more comprehensive information on PEs would allow policy makers to gauge (i) the importance of PEs in achieving public policy objectives; (ii) the need for subsidies, and (iii) the extent to which dividends paid by the PEs are commensurate with their profits and operations. As natural resources gain importance, the financial situation of PEs involved in the sector will merit even further disclosure of information.

Public-private partnerships and guarantees. In recent years, guarantees issued by the central government have been relatively limited and have been generally disclosed. Public-private partnerships have also seen little activity, though prospectively this could be an important area as new projects emerge.

Government obligations that may not be captured in the fiscal accounts. This includes, for example, off-budget spending by Ministries, Departments and Agencies (MDAs) financed by pension funds to construct hospitals, universities, and other projects which were not funded within the budget framework; in several instances, the MDAs are not servicing the debt obligations. This weakens transparency; moreover, the ensuing obligations will eventually need to be recognized as central government debt.

C. The Financial Sector

29. **Financial sector development and economic growth have been mutually reinforcing.** Indicators of financial development show that Tanzania's experience is similar to other countries in the region, though there is scope for further progress given the country's level

of development. In response, the authorities have focused on fostering financial stability to engender confidence in the system, allowing the private sector to leverage on innovations such as mobile banking that enhance financial inclusion. Indeed, indicators of credit availability and financial inclusion display an upward trend. The growth in mobile banking transactions has been especially rapid, rising from TSh 25.2 billion in 2008 to TSh28.9 trillion in 2013. The authorities and private sector agents see these developments as supporting investment, economic efficiency, and output growth. In order to support the prudent expansion of mobile banking and money platforms, the authorities are working on regulations to ensure financial stability. A new Payments System Act has been drafted to make the BoT's supervisory role over mobile payment platforms more explicit, and is expected to be tabled at the next parliamentary session.

Indicators of Financial Development

	Tanzania		Kenya	Uganda
	Actual	Expected median[1/]		
Access				
Accounts per thousand adults, commercial banks	186.7	165.6	662.3	194.4
Number of branches per 100,000 adults, commercial banks	2.2	3.2	5.5	2.6
Depth/Size				
Domestic bank deposits (percent of GDP)	27.1	25.0	39.0	20.1
Private credit (percent of GDP)	17.7	19.0	31.1	16.4
External position				
Consolidated foreign claims of BIS-reporting banks (percent of GDP)	11.3	6.4	11.2	7.9
Stability				
Private credit to deposits (percent)	65.5	69.8	79.6	81.7
Liquid assets (percent of deposits and short-term funding)	27.4	32.6	-	35.4

[1/] Statistical estimates of the expected median value of the financial development indicators are generated by the FinStats tool created by the World Bank. The tool selects a peer group based on the level of economic development, population, demographic characteristics, the global cycle and other special characteristics (e.g., whether the country is an oil exporter or an offshore financial center) and provides the median values of each indicator for the peer group.

Note: The data refer to 2012.

Sources: Tanzanian authorities, World Bank.

30. **The authorities have made progress in regulatory and supervisory reform.** The Financial System Stability Assessment (FSSA) update of June 2010 recommended several actions, such as addressing data gaps to strengthen the oversight of banks, developing credit information tools to mitigate systemic credit risk, and improving the framework for dealing with banking crises. Progress to date includes collaboration committees of relevant supervisors and

policymakers for effective surveillance and crisis management/resolution, as well as the establishment of a credit reference database and bureaus. Further reforms are under way (Box 5).

31. **Tanzania has substantially addressed its Action Plan agreed with FATF to address weaknesses in its AML/CFT framework**. The last action item under the plan agreed with the Financial Action Task Force (FATF)—a set of amendments to legal provisions to strengthen provisions to seize terrorist assets—received its final parliamentary reading in November 2013 and was duly enacted in mid-December.[6] Regulations to make the revisions operational were issued soon thereafter. Tanzania may be removed from the list of jurisdictions that are subject to FATF's monitoring process after an on-site visit by FATF to confirm implementation of the reforms.[7] To make the AML/CFT framework more efficient, the authorities are also undertaking a national assessment to identify the key risks. Ultimately, this will make it possible to adopt a more flexible set of measures, in order to target resources more effectively and apply preventive measures that are commensurate to the nature of risks.

D. Managing Natural Gas Reserves

32. **Tanzania is likely to become a major producer and exporter of natural gas in the medium term**. Significant offshore discoveries have been made over the last 2–3 years, and further exploration is underway. Although gas resources have not yet been declared commercially viable, estimates of discoveries indicate recoverable offshore gas resources of at least 24-26 trillion cubic feet, potentially sufficient for a four-train LNG plant (possibly as a common facility for several upstream gas fields). A final investment decision is expected at the earliest in late 2015 or 2016. Total investment during the development phase could amount to US$20-40 billion, the largest investment ever in Tanzania, with gas production starting after 2020.

33. **Potentially significant revenue from natural gas could play a transformative role for the development of Tanzania, if well managed**. The authorities and the mission discussed the importance of putting in place a sound policy, legal and regulatory framework well before natural gas exploration reaches an advanced stage. These will be reflected in the authorities' revised gas policy framework, which is expected to address the inter-generational policy question of natural resource wealth management, ensure integration of resource revenue in the budget framework and institutionalize transparency and accountability of spending. Decisions made in the next few years on the contracts and the general fiscal framework will have long term implications for whether the benefits of likely revenues from newly discovered offshore natural gas will accrue to all citizens. Removing policy uncertainty about the fiscal regime would facilitate the final investment decision (see Selected Issues Paper).

[6] The Action Plan can be found at http://www.esaamlg.org/userfiles/NATIONAL_AML_STRATEGY_TANZANIA.pdf.

[7] The latest FATF statement on *Improving Global AML/CFT Compliance: on-going process – 14 February 2014* can be found at http://www.fatf-gafi.org/media/fatf/documents/statements/Public-Statement-14-February-2014.pdf

Box 5. Status of Recommendations from the June 2010 FSSA Update

The June 2010 FSSA Update recommendations, covering both bank and non-bank financial sector participants, include proposals to strengthen capital standards in banks; improve credit information systems; create a crisis management framework; develop avenues for long-term financing, including capital markets; and improve international cooperation with financial regulators, both in the region and elsewhere. The authorities have made progress in all these areas.

A high-level group, known as the Tanzania Financial Stability Forum (FSF), comprising all financial regulators and other key official stakeholders was established in March 2013 to monitor developments in the financial sector with a view to preserving financial stability. Meeting at least once every quarter, the group will guide the implementation of macro and microprudential measures in response to risks, and formulate and implement crisis management measures. The FSF had its first meeting in November 2013, at which members discussed possible options for a stress testing and crisis management framework for non-banks.

Other key developments in regulatory and supervisory policy:

- The BoT set up a credit reference database and licensed two firms to act as credit reference bureaus, with a third application pending.
- The Social Security Regulatory Authority was established in March 2011 and is now the primary regulator of pension funds.
- Minimum capital requirements for commercial banks were raised to TSh 25 billion in February 2014 (TSh 5 billion previously), which most banks have met. The capital adequacy ratios will be further raised from March 2014 by 2.5 percentage points to 12.5 percent for Tier-1 capital and 14.5 percent for total capital.
- The BoT has entered into information sharing and other cooperative arrangements with financial regulators in members of the EAC, Comoros, Cyprus, Nigeria, South Africa and Zimbabwe, with ongoing discussions with additional countries.
- The authorities are setting out a framework for consolidated supervision of more complex financial firms, including amendments to the legal provisions that allow regulators to increase oversight of bank holding companies. Draft regulations to support this have been prepared and the authorities envisage being able to submit them for gazetting by June 2014.
- In line with EAC agreements, further opening of the capital account to investors from other EAC members is envisaged by end-June 2014, extending this to the rest of the world by December 2015.

The main operational improvements include:

- To improve transparency and communication, the BoT has started publishing semi-annual financial stability reports. As part of this, it is improving data collection, including through surveys of credit officers, households and corporates.
- To address capacity and organizational challenges in banking supervision, the BoT has hired 15 new supervisors since 2010, and training has been stepped up.
- To further improve the supervision process, greater use of technology, including automated submission of reports by banks to the BoT, has started.

Further work is needed to:

- *Improve the frequency and timeliness of data.* The BoT's financial stability reports are issued with some delay (March 2013 is the latest issue available, with September currently in preparation). The publication schedule is being aligned with that of FSF meetings, thereby enhancing timeliness.
- *Improve the stress-testing framework.* Fund TA, including to expand stress-testing to pension funds, is being provided.
- *Bolster the deposit insurance fund.* Efforts to enhance the operational independence of the Deposit Insurance Board by transforming it into a full-fledged Deposit Insurance Corporation are underway.

E. Structural Reforms

34. **The authorities have prepared a draft new VAT law that would improve efficiency and help to mobilize revenues**. Beyond modernizing the VAT, the reform is aimed at broadening the tax base by significantly reducing exemptions. A policy document outlining the main features of the law has been approved by Cabinet. The authorities indicated that the draft law, which incorporates initial rounds of stakeholders' comments, would likely be submitted to Parliament in May 2014, in the proximity of parliamentary debate on the 2013/14 budget, which it is designed to support. They agreed that effective implementation of the new VAT regime would require strengthening the existing VAT administration, especially the refund mechanism.

35. **The authorities noted their determination to stem and ultimately reverse the increase in domestic expenditure arrears**. They noted that a high-level committee has already identified measures to prevent the emergence of new arrears (such as a halt in new multi-year projects in some ministries) and a framework for central verification and payment of old arrears. Further steps being explored included: more conservative revenue projections; enhanced cash flow planning; more timely and frequent validation of arrears; and greater enforcement of sanctions against officers incurring government obligations in the absence of budgetary resources.

36. **The discussions on the pension system focused on the central government's obligations to the Public Service Pension Fund (PSPF) and broader pension reform.** A government task force recently completed a report assessing the magnitude of the obligations to the Public Service Pension Fund (PSPF). The discussions began exploring potential modalities for addressing the outstanding liabilities. The authorities were also exploring potential parametric reforms to enhance the sustainability of the broader pension system, which consists of several funds. An option under consideration is to harmonize the parameters by implementing the same changes recently applied to one of the funds; this would make a substantial dent in the actuarial deficit of the system.

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37. **Preserving macroeconomic stability is essential for continued strong growth.** Tanzania's buoyant economic growth and its recent return to moderate inflation are to be attributed, in no small part, to generally prudent macroeconomic policies. Yet, vulnerabilities may be building up, with mounting pressures for additional fiscal expenditures and a large current account deficit. Moreover, following the successful reforms of the mid-1990s to mid-2000s, the appetite for further reform seems to have abated somewhat, perhaps with the rapid growth itself instilling a sense that the current situation is adequate to deliver strong economic performance. In the years ahead, to support continued rapid growth and to ensure that its benefits are widely shared, leading to poverty reduction, policymakers will need to address both longstanding and new challenges.

38. **In the fiscal area, policy action will be needed to preserve fiscal sustainability.** Pressures to increase spending reflect genuine needs in areas that may be expected to foster inclusive growth. Priority areas identified by the authorities include infrastructure, education, health, and essential social services. Meanwhile, a declining trend in grants has made deficit reduction more challenging. The need to finance additional spending while reducing the fiscal deficit has occasionally led to optimistic revenue assumptions, as evidenced during the current fiscal year. The near term priority for 2013/14 is to contain expenditures within the limits set in the mid-year review and to make further efforts in revenue administration in order to contain the deficit at about 5 percent of GDP. In 2014/15 and subsequent fiscal years, efforts will be needed to mobilize additional revenues, beginning with the VAT reform, while ensuring that revenue assumptions are realistic, so as to eschew the accumulation of new arrears and to avoid abrupt expenditure cuts during budget execution.

39. **Improving public financial management remains a priority**. In particular, guidelines to prevent arrears accumulation need to be implemented and a plan is required for the gradual reduction of the existing stock, with appropriate verification and safeguards. More generally, the accuracy and timeliness of fiscal data is necessary for better informed policymaking. Priority areas include: a net reduction in the stock of arrears; diminished use of expenditure floats at the end of the fiscal year; and more timely compilation of fiscal outturn data consistent with financing data.

40. **A key challenge will be to set up appropriate institutional arrangements to ensure that any gains from natural resources accrue to the benefit of all citizens.** In the next few years, this will involve establishing a clear taxation framework that retains good revenues for citizens while providing reassurance to natural gas companies that their investments will remain worthwhile; transparency in the contracts signed with private companies; a fiscal framework that smoothes the use of natural resources and aims at intergenerational equity; ensuring that all spending financed by natural resource revenues (including those collected by public enterprises involved in the sector) is determined and undertaken through the general budget process and is subject to the same degree of public scrutiny as that financed by other revenues.

41. **More generally, there is a need to improve the monitoring and management of fiscal risks.** Although the baseline trajectory of public debt remains sustainable, significant fiscal risks may not be captured in the current headline central government deficit and debt data. Some sources of fiscal risks relate to possible macroeconomic shocks, such as a halt in the exceptional economic growth performance experienced during the past decade. Other risk sources stem from the need to improve the quality and timeliness of information on the fiscal accounts for both the central government and other public sector entities. In particular, more timely compilation and disclosure of improved information on the public enterprises' profit and loss accounts would be warranted. Some public enterprises are profitable and carry implicit guarantees, yet they contribute little central government revenues; others are loss-making and periodically require transfers. It is also important to ensure that the central government settles its obligations vis-à-vis the pension funds in a timely manner, and that pension funds are not used

to finance government activities. Disclosure and management of fiscal risks will become even more important as member countries prepare to enter the East African monetary union, to reduce vulnerabilities for both individual countries and the union as a whole.

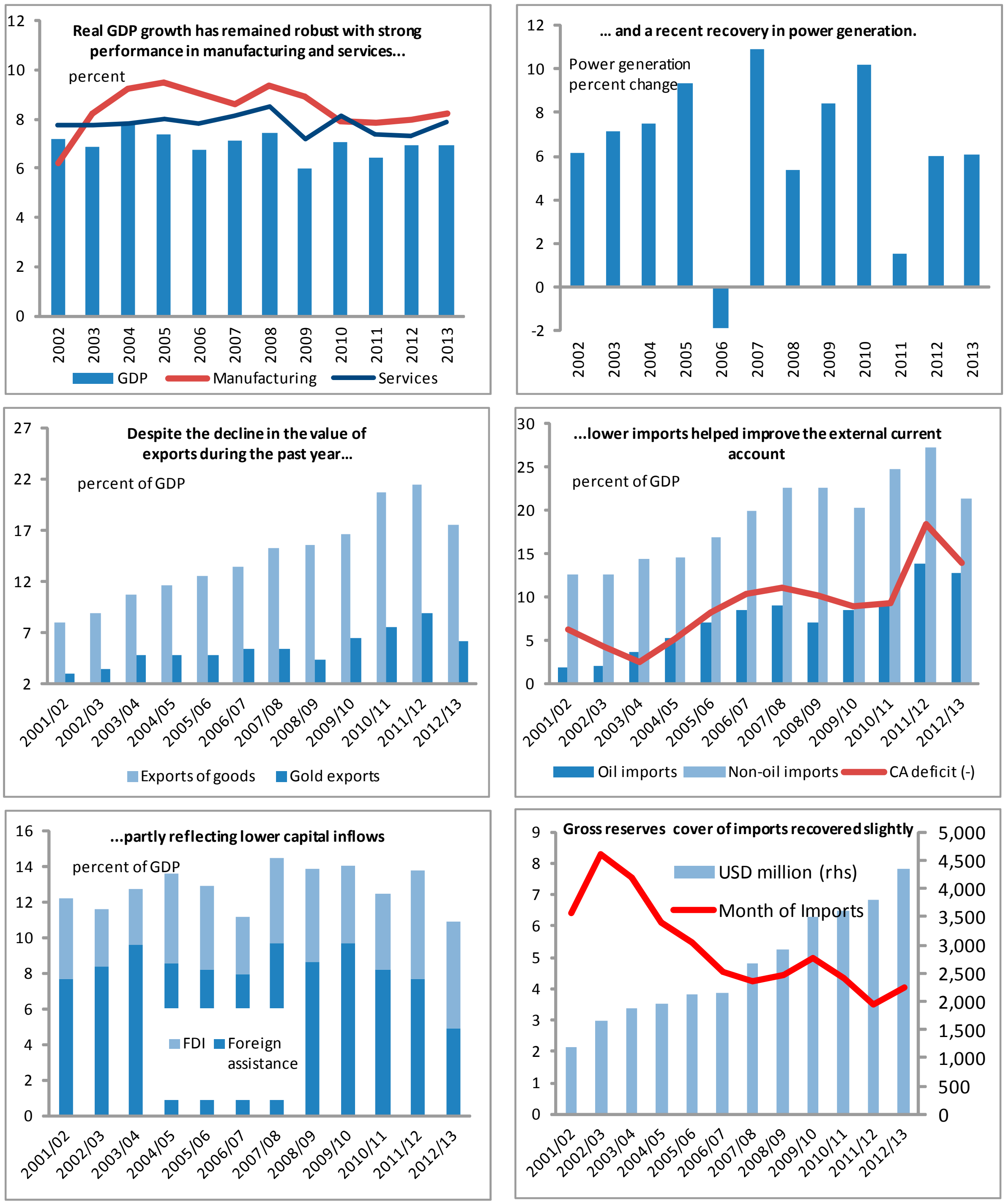
42. **Greater focus on international competitiveness may be warranted**. As the economy becomes ever more integrated in international markets—with further opening up of the financial account and increasing foreign direct investment—more powerful external shocks and the need to foster the creation of a more diversified export sector call for enhanced attention to preserve international competitiveness. This reinforces the need for the exchange rate to fully reflect market conditions; for non-tariff barriers to be reduced, so as to exploit economies of scale in a larger economic area; for deregulation to curb any remaining impediments to export-oriented businesses; and for an improved business climate to attract both domestic and international investors. Indeed, the fuller establishment of export-oriented businesses in a wide range of economic sectors before offshore natural gas comes on stream would facilitate public discourse and economic policy choices that reflect a more diversified set of interests in the years ahead.

43. **The frameworks for monetary policy and financial supervision will need to keep pace with the economy's modernization and its growing international integration**. Initial steps toward a monetary policy framework centered on a greater role for interest rates appropriately include the analysis of the relationship between interest rates and the monetary aggregates, and enhanced focus on developments in interest rates as an indication of the current stance of monetary policy. The authorities are also encouraged to review the functioning of the foreign exchange market and to consider moving to a more modern auction system. In the financial sector, technological innovations and international integration are creating new opportunities for financial deepening and inclusion, but also call for speedy implementation of reforms of the financial supervision framework to reduce or manage any ensuing vulnerabilities. A priority is to ensure effective collaboration among regulators, both domestically and with international counterparts.

44. **The authorities' resolve to meet these challenges has been evident in their policy actions**. Indeed, the authorities have addressed previous slippages in the program (¶15 and Appendix 1). On the basis of actions taken, staff supports the authorities' requests for a waiver for nonobservance of a performance criterion and completion of the last review under the SCF and for completion of the financing assurances review.

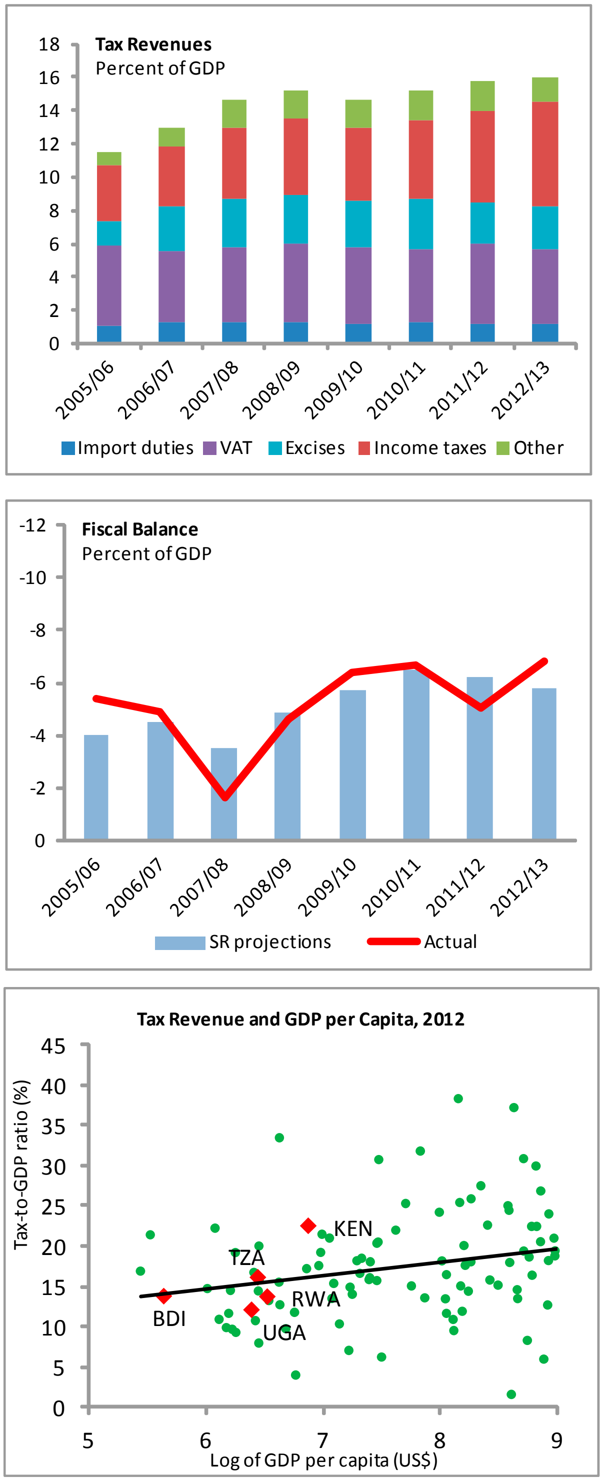
45. **It is recommended that the next Article IV consultation with Tanzania be held on a 12-month cycle.**

Figure 1. Tanzania: Real Sector and External Developments



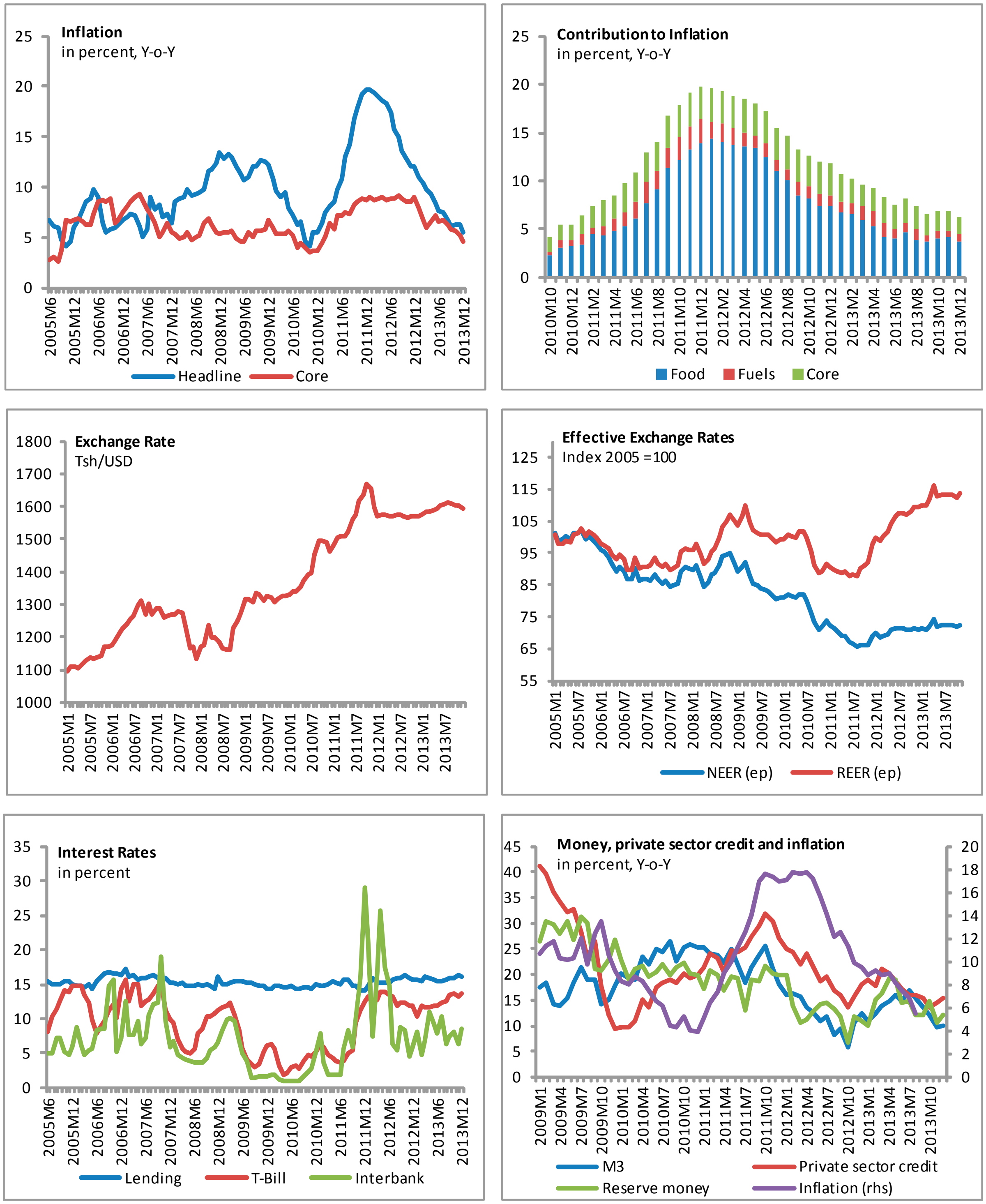
Sources: Tanzanian authorities and IMF staff calculations.

Figure 2. Tanzania: Fiscal Developments



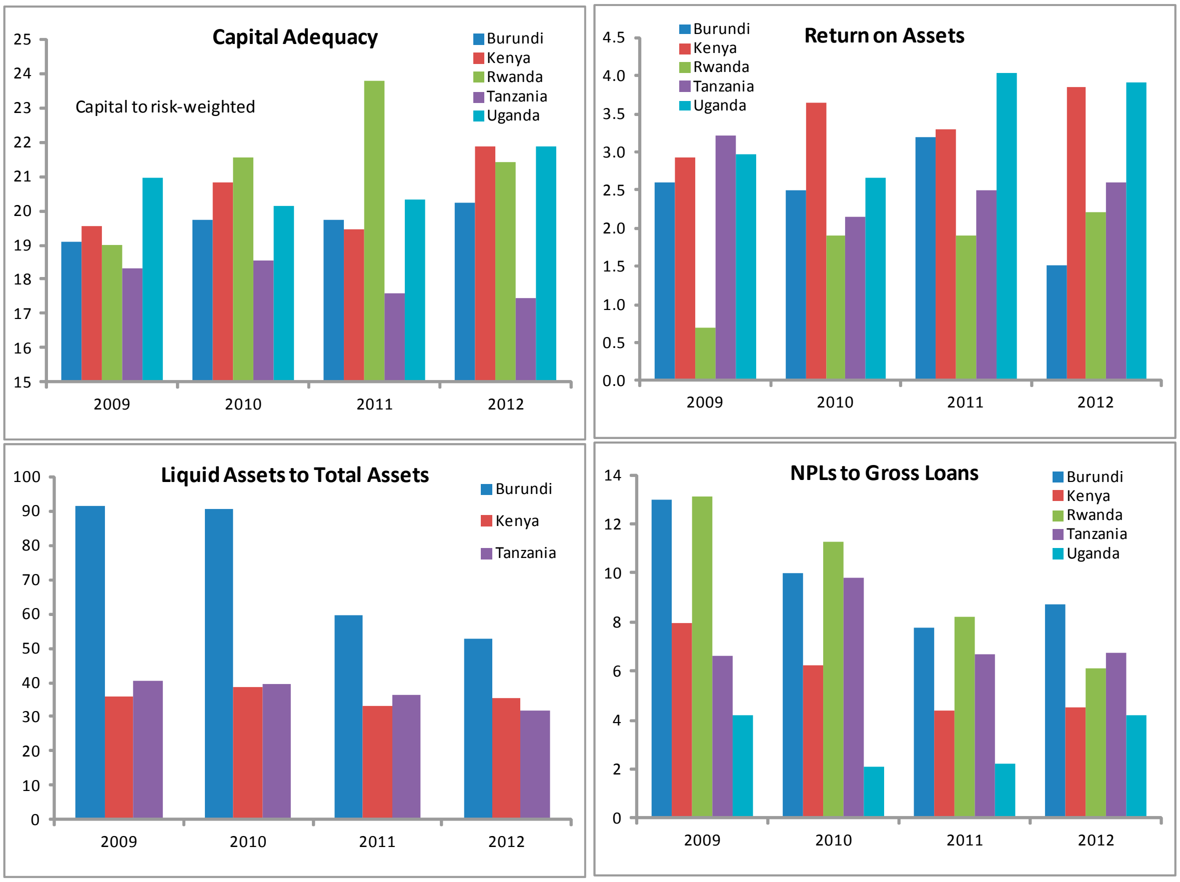
Sources: : Tanzanian authorities and IMF staff calculations.

Figure 3. Tanzania: Inflation, Exchange Rate and Monetary Developments



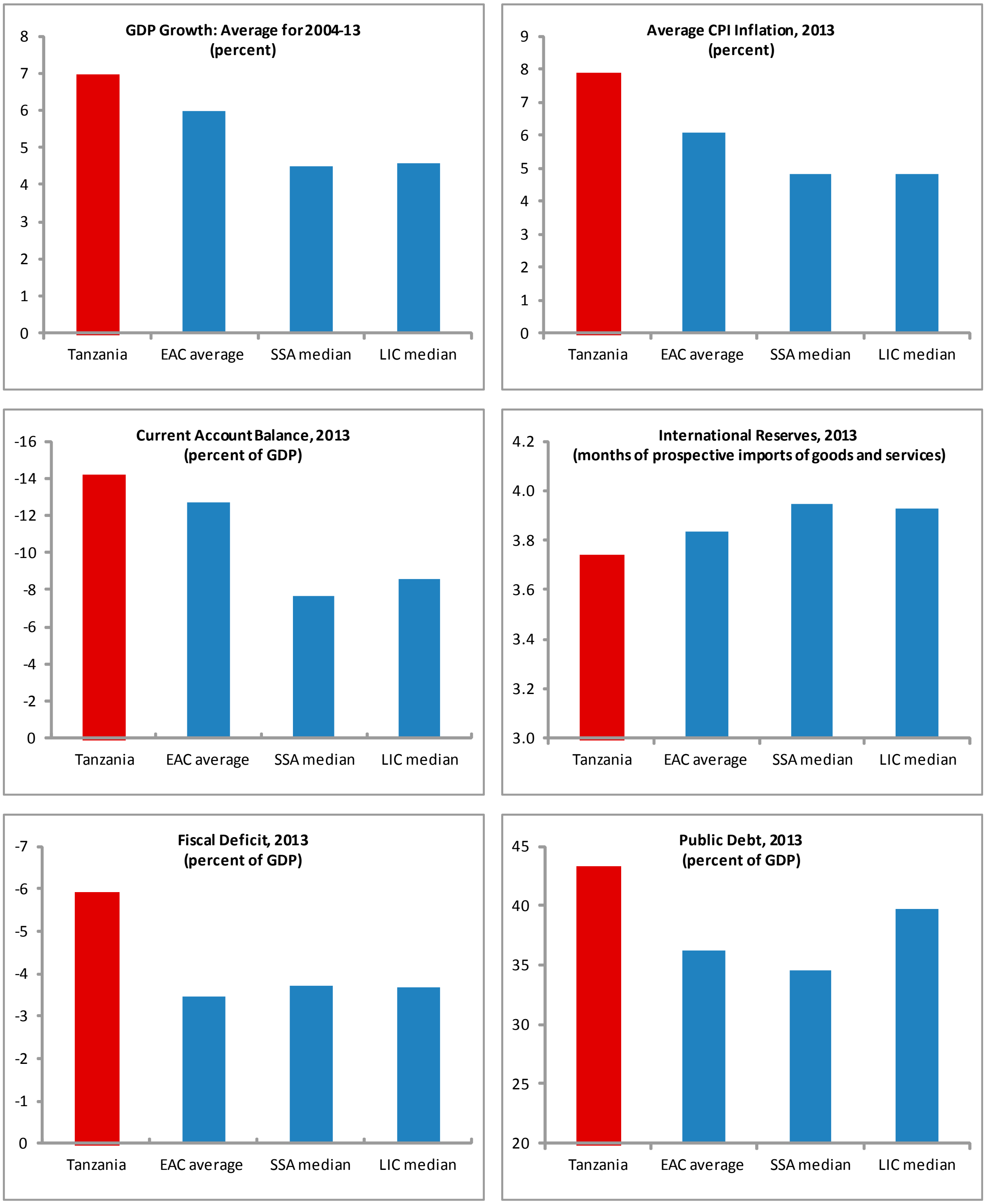
Sources: Tanzanian authorities and IMF staff calculations

Figure 4. EAC: Financial Soundness Indicators, 2009–2012
(in percent)



Source: Tanzanian authorities.

Figure 5. International Comparison of Macroeconomic Fundamentals[1]



[1] The EAC averages exclude Tanzania.

Sources: World Economic Outlook database and Fund staff calculations.

Table 1. Tanzania: Selected Economic and Financial Indicators, 2010/11–2017/18

	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
National income and prices										
Nominal GDP (in billions of TSh)	34,913	41,125	48,264	48,348	55,228	55,559	63,263	71,718	80,801	90,810
Real GDP growth (calendar year) [2]	6.4	6.9	7.0	7.0	7.2	7.2	7.0	7.1	7.0	6.8
Real GDP growth	6.7	6.7	7.0	6.9	7.1	7.1	7.1	7.1	7.0	6.9
Consumer prices (period average)	7.0	17.8	11.6	11.3	7.2	5.8	5.1	5.0	5.0	5.0
Consumer prices (end of period)	10.9	17.4	9.5	7.6	6.0	5.0	5.0	5.0	5.0	5.0
GDP deflator (period average)	8.1	10.3	…	10.0	…	7.4	6.3	5.9	5.3	5.1
External sector										
Exports, f.o.b (in billions of U.S. dollars)	4.9	5.6	5.9	5.4	6.5	5.5	6.1	6.6	7.3	7.9
Imports, f.o.b. (in billions of U.S. dollars)	8.0	10.6	11.0	10.5	12.3	11.5	12.4	13.3	14.3	15.6
Export volume	10.9	8.9	2.0	-2.2	12.6	9.7	12.7	10.7	10.6	9.1
Import volume	6.2	28.8	3.2	-2.0	10.2	10.1	9.1	8.7	8.0	8.9
Terms of trade	1.2	1.6	3.4	-1.5	-2.5	-6.9	-1.3	0.2	-0.5	0.3
Nominal effective exchange rate (end of period; depreciation= -)[3]	-17.7	6.4	0.6	1.2	…	…	…	…	…	…
Real effective exchange rate (end of period; depreciation= -)[3]	-13.6	21.5	6.0	6.1	…	…	…	…	…	…
Money and credit										
Broad money (M3)	22.0	10.9	14.5	14.9	13.0	14.5	15.5	14.8	14.1	13.8
Average reserve money	19.3	14.2	15.7	14.5	11.9	14.9	13.9	13.4	12.7	12.4
Credit to nongovernment sector	24.3	18.6	17.4	17.1	13.9	16.6	14.4	14.6	13.5	16.3
Velocity of money (GDP/M3; average)	3.2	3.2	3.3	3.3	3.4	3.4	3.3	3.3	3.3	3.2
Treasury bill interest rate (in percent; end of period)	4.8	13.8	…	13.9	…	…	…	…	…	…
	(Percent of GDP)									
Public Finance										
Revenue (excluding grants)	16.4	17.6	18.1	17.5	19.9	18.6	19.3	19.5	19.5	19.5
Total grants	4.7	4.5	3.7	3.4	4.2	3.4	3.2	3.5	3.0	3.0
Expenditure[4]	27.0	26.2	27.6	27.8	29.1	27.2	27.4	27.1	26.5	26.6
Overall balance (excluding grants)[5]	-11.4	-8.6	-9.5	-10.3	-9.2	-8.7	-8.1	-7.5	-7.0	-7.0
Overall balance (including grants)[5]	-6.6	-5.0	-5.8	-6.8	-5.0	-5.2	-4.9	-4.0	-4.0	-4.0
Domestic financing (excluding gas pipeline financing)	3.6	0.8	1.0	2.2	1.0	1.1	1.0	0.5	0.7	0.7
Domestic debt stock (end of period)[6]	9.6	11.1	10.4	11.6	10.1	10.1	9.8	9.2	8.9	8.5
Total public debt[6,7]	39.4	39.8	41.6	40.8	43.3	41.2	42.2	41.9	42.2	42.3
Savings and investment										
Resource gap (net exports of goods and services)	-15.3	-17.6	-16.7	-15.6	-15.6	-14.8	-14.0	-12.9	-12.0	-11.4
Investment	34.5	35.5	39.2	34.4	38.3	33.4	32.1	31.5	31.5	31.6
Government	8.5	8.7	9.1	8.6	8.9	8.5	8.5	8.4	8.3	8.3
Nongovernment[8]	26.0	26.8	30.2	25.8	29.4	24.9	23.6	23.1	23.2	23.3
Gross domestic savings	19.3	18.0	22.6	18.8	22.7	18.6	18.2	18.6	19.5	20.2
External sector										
Current account balance (excluding current transfers)	-12.5	-20.8	-16.0	-15.7	-17.0	-15.7	-14.5	-13.3	-12.7	-12.2
Current account balance (including current transfers)	-9.4	-18.4	-14.3	-14.0	-15.2	-14.5	-13.3	-12.3	-11.7	-11.3
	(Billions of U.S. dollars, unless otherwise indicated)									
Balance of payments										
Current account balance (excluding current transfers; deficit= -)	-3.0	-5.4	-4.8	-4.8	-5.7	-5.4	-5.6	-5.7	-6.0	-6.3
Gross official reserves (end of period)	3.6	3.8	4.2	4.4	4.5	4.6	5.2	5.6	6.2	6.8
In months of imports of goods and services (current year)	4.3	3.5	3.8	4.1	3.6	3.9	4.0	4.1	4.2	4.3
Total external debt stock (end of period; percent of GDP)[7]	33.1	34.4	35.0	35.7	36.8	36.9	37.8	37.5	37.6	37.8

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] From the sixth review under the PSI and the second 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 June 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, and domestic unpaid claims (reported in Table 2b).

[8] Including change in stocks.

Table 2a. Tanzania: Central Government Operations, 2010/2011–2017/18[1]
(Billions of Tanzanian Shillings)

	2010/11	2011/12	2012/13		2013/14			2014/15	2015/16	2016/17	2017/18
			Prog.[6]	Prel.	Prog.[6]	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	5,739	7,221	8,758	8,443	10,999	11,538	10,197	12,200	14,009	15,784	17739
Tax revenue	5,296	6,480	7,937	7,730	9,885	10,395	9,410	11,099	12,762	14,378	16159
Import duties	449	498	648	584	876	852	782	850	964	1,086	1220
Value-added tax	1,531	1,975	2,309	2,146	2,722	2,590	2,366	3,119	3,715	4,185	4703
Excises	1,052	1,029	1,287	1,258	1,696	1,909	1,609	1,832	2,076	2,339	2629
Income taxes	1,660	2,247	2,835	3,034	3,351	3,657	3,399	3,870	4,388	4,943	5556
Other taxes	604	732	858	707	1,240	1,388	1,254	1,428	1,619	1,824	2050
Nontax revenue[2]	443	741	822	713	1,114	1,142	787	1,101	1,248	1,406	1580
LGA	158	196	284	221	373	383	268	378	428	483	542
Other	285	545	537	492	741	759	519	723	819	923	1037
Total expenditure	9,439	10,765	13,341	13,543	16,053	16,708	14,926	17,463	19,410	21,456	24124
Recurrent expenditure	6,690	6,990	9,035	9,444	10,958	11,063	10,267	11,951	13,362	15,070	16889
Wages and salaries	2,346	2,722	3,326	3,350	4,246	4,246	4,336	4,871	5,522	6,222	6992
Interest payments	353	436	667	767	995	995	1,052	1,066	1,071	1,134	1327
Domestic	285	345	478	590	617	617	788	726	706	706	721
Foreign[3]	68	91	189	177	377	377	264	340	365	428	606
Goods and services and transfers[2]	3,991	3,831	5,042	5,328	5,718	5,822	4,879	6,015	6,768	7,714	8570
Of which: Transfers to TANESCO	…	…	564	401	173	273	353	…	…	…	…
Development expenditure	2,749	3,775	4,306	4,099	5,095	5,645	4,659	5,511	6,048	6,386	7234
Domestically financed	985	1,872	2,113	1,914	2,471	2,953	2,600	2,887	3,095	3,476	3919
Foreign (concessionally) financed	1,764	1,902	2,193	2,185	2,624	2,692	2,059	2,624	2,953	2,910	3316
Overall balance before grants	-3,701	-3,543	-4,582	-5,101	-5,054	-5,170	-4,729	-5,263	-5,400	-5,672	-6385
Grants	1,627	1,855	1,777	1,728	2,320	2,390	1,832	2,133	2,510	2,424	2724
Program (including basket grants)[4]	1,062	1,021	825	818	973	1,043	830	821	1,076	1,212	1362
Of which: basket grants	335	301	285	281	196	266	266	279	359	404	454
Project	566	834	952	910	1,347	1,347	1,002	1,312	1,434	1,212	1362
Net expenditure float[5]	-297	168	0	259	0	…	0	0	0	0	0
Statistical discrepancy	49	-550	0	-168	0	…	0	0	0	0	0
Overall balance after grants (cash basis)	-2,321	-2,070	-2,805	-3,282	-2,734	-2,780	-2,896	-3,130	-2,890	-3,248	-3,660
Financing	2,321	2,070	2,805	3,282	2,734	2,780	2,896	3,130	2,890	3,248	3660
Foreign (net)	1,077	1,735	2,689	2,579	3,331	2,808	3,247	2,870	2,515	2,671	3066
Foreign loans	1,119	1,816	2,906	2,706	3,722	3,198	3,441	3,249	3,043	3,394	3950
Program (including basket loans)[4]	394	419	628	544	625	621	624	533	574	606	681
Of which: basket loans	221	172	264	186	236	234	199	179	192	203	228
Project	643	595	692	734	844	844	591	855	968	1,091	1271
Nonconcessional borrowing	82	801	1,586	1,428	2,252	1,733	2,226	1,861	1,501	1,697	1998
Of which: gas pipeline	…	…	368	365	1,149	577	1,144	389	…	…	…
Amortization	-43	-80	-217	-127	-390	-390	-194	-380	-529	-723	-884
Domestic (net)	1,244	335	116	703	-597	-28	-351	260	375	578	594
Of which: excluding gas pipeline	1244	335	484	1068	552	549	793	649	375	578	594
Bank financing	1,259	10	99	668	398	497	556	357	207	318	327
Nonbank financing	-15	324	17	35	-995	-525	238	292	169	260	267
Of which: credit to TPDC (gas pipeline)	…	…	-368	-365	-1,149	-577	-1,144	-389	…	…	…
Memorandum items:											
Nominal GDP	34,913	41,125	48,264	48,348	55,228	55,559	55,559	63,263	71,718	80,801	90,810

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

[5] The gross expenditure float for a fiscal year Y relates to expenditures that are recorded in Y, but for which the payment is made—and thus the financing is recorded—in the following fiscal year, Y+1. The net expenditure float for fiscal year Y is the difference between the gross expenditure float for Y and the gross expenditure float for the previous fiscal year, Y-1; in other words, the net expenditure float for Y relates to expenditures recorded in Y whose financing was recorded in Y+1, minus the additional financing that occurred in Y for expenditures that were recorded in Y-1.

[6] From the sixth review under the PSI and the second review under the SCF arrangement.

Table 2b. Tanzania: Central Government Operations, 2010/11–2017/18[1]
(Percent of GDP)

	2010/11	2011/12	2012/13		2013/14			2014/15	2015/16	2016/17	2017/18
			Prog.[6]	Prel.	Prog.[6]	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	16.4	17.6	18.1	17.5	19.9	20.8	18.4	19.3	19.5	19.5	19.5
Tax revenue	15.2	15.8	16.4	16.0	17.9	18.7	16.9	17.5	17.8	17.8	17.8
Import duties	1.3	1.2	1.3	1.2	1.6	1.5	1.4	1.3	1.3	1.3	1.3
Value-added tax	4.4	4.8	4.8	4.4	4.9	4.7	4.3	4.9	5.2	5.2	5.2
Excises	3.0	2.5	2.7	2.6	3.1	3.4	2.9	2.9	2.9	2.9	2.9
Income taxes	4.8	5.5	5.9	6.3	6.1	6.6	6.1	6.1	6.1	6.1	6.1
Other taxes	1.7	1.8	1.8	1.5	2.2	2.5	2.3	2.3	2.3	2.3	2.3
Nontax revenue[2]	1.3	1.8	1.7	1.5	2.0	2.1	1.4	1.7	1.7	1.7	1.7
LGA	0.5	0.5	0.6	0.5	0.7	0.7	0.5	0.6	0.6	0.6	0.6
Other	0.8	1.3	1.1	1.0	1.3	1.4	0.9	1.1	1.1	1.1	1.1
Total expenditure	27.0	26.2	27.6	28.0	29.1	30.1	26.9	27.6	27.1	26.6	26.6
Recurrent expenditure	19.2	17.0	18.7	19.5	19.8	19.9	18.5	18.9	18.6	18.7	18.6
Wages and salaries	6.7	6.6	6.9	6.9	7.7	7.6	7.8	7.7	7.7	7.7	7.7
Interest payments	1.0	1.1	1.4	1.6	1.8	1.8	1.9	1.7	1.5	1.4	1.5
Domestic	0.8	0.8	1.0	1.2	1.1	1.1	1.4	1.1	1.0	0.9	0.8
Foreign[3]	0.2	0.2	0.4	0.4	0.7	0.7	0.5	0.5	0.5	0.5	0.7
Goods and services and transfers[2]	11.4	9.3	10.4	11.0	10.4	10.5	8.8	9.5	9.4	9.5	9.4
Of which: Transfers to TANESCO	…	…	1.2	0.8	0.3	0.5	0.6	…	…	…	…
Development expenditure	7.9	9.2	8.9	8.5	9.2	10.2	8.4	8.7	8.4	7.9	8.0
Domestically financed	2.8	4.6	4.4	4.0	4.5	5.3	4.7	4.6	4.3	4.3	4.3
Foreign (concessionally) financed	5.1	4.6	4.5	4.5	4.8	4.8	3.7	4.1	4.1	3.6	3.7
Overall balance before grants	-10.6	-8.6	-9.5	-10.5	-9.2	-9.3	-8.5	-8.3	-7.5	-7.0	-7.0
Grants	5.2	5.0	3.7	3.6	4.2	4.3	3.3	3.4	3.5	3.0	3.0
Program (including basket grants)[4]	3.0	2.5	1.7	1.7	1.8	1.9	1.5	1.3	1.5	1.5	1.5
Of which: basket grants	1.0	0.7	0.6	0.6	0.4	0.5	0.5	0.4	0.5	0.5	0.5
Project	1.6	2.0	2.0	1.9	2.4	2.4	1.8	2.1	2.0	1.5	1.5
Net expenditure float[5]	-0.8	0.4	0.0	0.5	0.0	…	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.1	-1.3	0.0	-0.3	0.0	…	0.0	0.0	0.0	0.0	0.0
Overall balance after grants (cash basis)	-6.6	-5.0	-5.8	-6.8	-5.0	-5.0	-5.2	-4.9	-4.0	-4.0	-4.0
Financing	6.6	5.0	5.8	6.8	5.0	5.0	5.2	4.9	4.0	4.0	4.0
Foreign (net)	3.1	4.2	5.6	5.3	6.0	5.1	5.8	4.5	3.5	3.3	3.4
Foreign loans	3.2	4.4	6.0	5.6	6.7	5.8	6.2	5.1	4.2	4.2	4.4
Program (including basket loans)[4]	1.1	1.0	1.3	1.1	1.1	1.1	1.1	0.8	0.8	0.8	0.8
Of which: basket loans	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Project	1.8	1.4	1.4	1.5	1.5	1.5	1.1	1.4	1.4	1.4	1.4
Nonconcessional borrowing	0.2	1.9	3.3	3.0	4.1	3.1	4.0	2.9	2.1	2.1	2.2
Of which: gas pipeline	…	…	0.8	0.8	2.1	1.0	2.1	0.6	…	…	…
Amortization	-0.1	-0.2	-0.4	-0.3	-0.7	-0.7	-0.3	-0.6	-0.7	-0.9	-1.0
Domestic (net)	3.6	0.8	0.2	1.5	-1.1	-0.1	-0.6	0.4	0.5	0.7	0.7
Of which: excluding gas pipeline	…	…	1.0	2.2	1.0	1.0	1.4	1.0	0.5	0.7	0.7
Bank financing	3.6	0.0	0.2	1.4	0.7	0.9	1.0	0.6	0.3	0.4	0.4
Nonbank financing	0.0	0.8	0.0	0.1	-1.8	-0.9	0.4	0.5	0.2	0.3	0.3
Of which: credit to TPDC (gas pipeline)	…	…	-0.8	-0.8	-2.1	-1.0	-2.1	-0.6	…	…	…
Memorandum items:											
Domestic unpaid claims (end-period, in percent of GDP)[7]	1.1	0.5	…	1.0	…	…	1.6	…	…	…	…
Recurrent expenditures (percent of recurrent resources)	103	88	97	105	93	90	95	94	91	91	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] Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

[5] The gross expenditure float for a fiscal year Y relates to expenditures that are recorded in Y, but for which the payment is made—and thus the financing is recorded—in the following fiscal year, Y+1. The net expenditure float for fiscal year Y is the difference between the gross expenditure float for Y and the gross expenditure float for the previous fiscal year, Y-1; in other words, the net expenditure float for Y relates to expenditures recorded in Y whose financing was recorded in Y+1, minus the additional financing that occurred in Y for expenditures that were recorded in Y-1.

[6] From the sixth review under the PSI and the second review under the SCF arrangement.

[7] Payment claims owed by the government outstanding more than 90 days.

Table 3. Tanzania: Monetary Accounts, 2012–2015
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2012	2013							2014				2015	
		March	June		Sept		Dec		March	June	Sept	Dec	March	June
		Act.	Prog.[1]	Act.	Prog.[1]	Act.	Prog.[1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Bank of Tanzania														
Net foreign assets	5,385	5,856	5,691	5,797	5,840	6,159	6,092	6,187	6,298	6,306	6,456	6,862	7,186	7,364
Net international reserves	5,847	6,312	6,154	6,259	6,306	6,632	6,560	6,656	6,773	6,774	6,936	7,344	7,673	7,840
(Millions of U.S. dollars)	3,720	3,968	3,776	3,905	3,840	4,132	3,976	4,216	4,231	4,174	4,256	4,489	4,671	4,754
Net non-reserve foreign assets	-461	-456	-463	-462	-466	-473	-469	-468	-475	-468	-480	-482	-487	-476
Net domestic assets	-860	-1,141	-764	-879	-688	-1,068	-891	-1,160	-899	-622	-593	-864	-992	-907
Credit to government	-196	-581	-350	-268	-450	-489	-577	-500	-534	-511	-532	-552	-573	-593
Of which: Excluding counterpart of liquidity paper	723	612	768	1,089	668	673	541	1,000	966	989	969	948	928	907
Other items (net)	-664	-560	-414	-611	-237	-578	-314	-660	-365	-111	-61	-312	-419	-314
REPOs	0	0	-20	-48	-20	-25	-20	-20	-20	-20	-20	-20	-20	-20
Other items, excluding REPOs (net)	-664	-560	-394	-563	-217	-553	-294	-640	-345	-91	-41	-292	-399	-294
Of which: Credit to nongovernment sector	56	53	51	52	51	52	51	57	57	57	57	57	57	57
Reserve money	4,526	4,716	4,927	4,918	5,152	5,091	5,200	5,028	5,399	5,683	5,862	5,998	6,194	6,457
Currency outside banks	2,415	2,393	2,667	2,611	2,758	2,703	2,843	2,764	2,660	2,767	2,858	2,905	2,982	3,086
Bank reserves	2,111	2,323	2,260	2,307	2,394	2,388	2,357	2,264	2,738	2,916	3,005	3,093	3,212	3,370
Currency in banks	495	415	587	420	607	483	625	561	496	516	533	542	557	576
Deposits	1,616	1,907	1,673	1,887	1,787	1,905	1,732	1,703	2,242	2,400	2,472	2,551	2,656	2,795
Required reserves (calculated)	1,561	1,635	1,435	1,716	1,532	1,753	1,485	1,750	2,063	2,208	2,274	2,348	2,443	2,571
Excess reserves (calculated)	54	272	239	171	255	152	247	-47	179	192	197	204	212	223
Memorandum items:														
Stock of liquidity paper	919	1,192	1,119	1,357	1,119	1,162	1,119	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Average reserve money	4,685	4,669	4,884	4,898	5,144	5,137	5,192	5,250	5,366	5,629	5,845	5,973	6,158	6,409
Monetary Survey														
Net foreign assets	6,396	6,811	6,739	6,216	6,896	6,692	7,153	6,576	6,693	6,706	6,857	7,265	7,591	7,770
Bank of Tanzania	5,385	5,856	5,691	5,797	5,840	6,159	6,092	6,187	6,298	6,306	6,456	6,862	7,186	7,364
Commercial banks	1,011	955	1,048	419	1,056	533	1,061	389	394	400	401	403	405	406
Net domestic assets	8,251	8,013	8,568	9,025	8,933	9,241	9,163	9,530	9,948	10,752	11,329	11,379	11,723	12,397
Domestic credit	11,030	11,154	11,339	11,786	11,680	12,254	12,098	12,947	13,638	13,917	14,416	14,988	15,545	15,904
Credit to government (net)	2,019	1,818	1,795	2,264	1,795	2,360	1,718	2,555	2,799	2,820	2,909	2,998	3,087	3,177
Credit to nongovernment sector	9,010	9,336	9,544	9,522	9,885	9,894	10,380	10,393	10,839	11,097	11,507	11,990	12,458	12,727
Other items (net)	-2,779	-3,141	-2,771	-2,761	-2,747	-3,013	-2,935	-3,417	-3,689	-3,164	-3,086	-3,609	-3,822	-3,507
M3	14,647	14,823	15,307	15,241	15,828	15,933	16,316	16,107	16,641	17,458	18,186	18,644	19,314	20,167
Foreign currency deposits	3,923	3,892	4,286	3,990	4,432	4,187	4,568	4,216	4,348	4,552	4,733	4,843	5,007	5,218
M2	10,725	10,932	11,021	11,251	11,396	11,746	11,747	11,891	12,293	12,905	13,453	13,801	14,306	14,948
Currency in circulation	2,415	2,393	2,667	2,611	2,758	2,703	2,843	2,764	2,660	2,767	2,858	2,905	2,982	3,086
Deposits (TSh)	8,310	8,539	8,354	8,640	8,639	9,042	8,905	9,127	9,633	10,138	10,595	10,896	11,324	11,862
Memorandum items:	(12-month percent change, unless otherwise indicated)													
M3 growth	12.5	14.0	14.5	14.9	12.3	13.6	10.8	10.0	12.3	14.5	14.1	15.8	16.1	15.5
M3 (as percent of GDP)	35.6	30.7	29.5	27.4	30.6	28.7	31.5	29.0	30.0	31.4	28.7	29.5	30.5	31.9
Private sector credit growth	18.2	21.1	17.4	17.1	15.2	15.3	15.2	15.3	16.1	16.5	16.3	15.4	14.9	14.7
Average reserve money growth	11.0	16.3	14.2	14.5	12.2	12.1	10.8	12.1	14.9	14.9	13.8	13.8	14.8	13.9
Reserve money multiplier (M3/average reserve money)	3.13	3.17	3.13	3.11	3.08	3.10	3.14	3.07	3.10	3.10	3.11	3.12	3.14	3.15
Nonbank financing of the government (net)[2]	27	265	385	401	100	3	227	92	437	238	73	146	219	292
Bank financing of the government (net)[2]	424	222	99	668	0	96	-77	291	536	556	89	179	268	357
Bank and nonbank financing of the government (net)[2]	450	487	484	1069	100	99	150	382	973	793	162	324	487	649

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

[1] From the sixth review under the PSI and the second review

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

Table 4. Tanzania: Balance of Payments, 2010/11–2017/18
(Millions of U.S. dollars, unless otherwise indicated)

	2010/11	2011/12	2012/13		2013/14		2014/15		2015/16	2016/17	2017/18
			Prog.[4]	Prel.	Prog.[4]	Proj.	Prog.[4]	Proj.	Proj.	Proj.	Proj.
Current account	-2,215	-4,736	-4,319	-4,290	-5,085	-5,010	-4,704	-5,161	-5,278	-5,532	-5,822
Trade balance	-3,115	-5,047	-5,112	-5,091	-5,717	-6,024	-5,517	-6,371	-6,688	-7,050	-7,621
Exports, f.o.b.	4,896	5,562	5,888	5,391	6,539	5,517	7,244	6,069	6,625	7,260	7,933
Traditional agricultural products	697	785	925	818	1,117	933	1,247	1,037	1,111	1,144	1,178
Gold	1,787	2,288	2,206	1,899	2,260	1,688	2,408	1,679	1,741	1,829	1,961
Other	2,412	2,489	2,758	2,674	3,163	2,895	3,589	3,353	3,773	4,287	4,794
Imports, f.o.b	-8,012	-10,609	-11,000	-10,482	-12,256	-11,541	-12,761	-12,440	-13,313	-14,310	-15,555
Of which: Oil	-2,155	-3,586	-3,534	-3,923	-3,464	-4,493	-3,328	-4,404	-4,203	-4,129	-4,057
Services (net)	171	88	316	548	176	781	534	960	1,124	1,439	1,758
Of which: Travel receipts	1,315	1,431	1,643	1,757	1,831	1,945	2,090	2,191	2,397	2,639	2,910
Income (net)	-265	-703	-352	-535	-504	-519	-526	-561	-542	-735	-797
Of which: Interest on public debt	-46	-64	-119	-113	-228	-139	-259	-148	-219	-250	-280
Current transfers (net)	995	926	829	787	960	752	805	811	828	814	840
Of which: Official transfers	737	625	518	523	589	431	462	429	438	446	455
Capital account	563	778	730	739	963	690	705	868	927	780	850
Of which: Project grants[1]	499	715	665	676	893	625	631	802	860	708	772
Financial account	2,282	3,414	3,913	4,142	4,394	4,588	4,523	4,873	4,908	5,344	5,667
Foreign Direct Investment	1,009	1,574	1,721	1,836	2,279	2,074	2,592	2,575	2,881	3,303	3,501
Public Sector, net	730	1,092	1,707	1,701	2,016	2,133	1,343	1,754	1,507	1,660	1,739
Program loans	267	264	394	365	378	512	308	326	344	354	386
Non-concessional borrowing	55	505	1,016	920	1,363	1,374	750	1,138	900	1,091	1,133
Project loans	436	374	434	465	511	369	543	523	580	637	721
Scheduled amortization[2]	-29	-51	-136	-49	-236	-121	-259	-232	-317	-422	-501
Commercial Banks, net	371	0	-36	377	0	119	0	129	176	59	59
SDR allocation[3]	0	0	0	0	0	0	0	0	0	0	0
Other private inflows	172	749	521	229	99	263	588	414	344	323	369
Errors and omissions	-530	842	0	-134	0	0	0	0	0	0	0
Overall balance	101	298	324	457	272	268	524	580	558	592	695
Financing	-101	-298	-324	-457	-272	-268	-524	-580	-558	-592	-695
Change in BoT reserve assets (increase= -)	-128	-275	-436	-569	-268	-266	-465	-522	-488	-523	-626
Use of Fund credit	27	-23	112	112	-3	-2	-59	-59	-70	-70	-70
Financing gap	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Gross official reserves (BoT)	3,610	3,797	4,233	4,357	4,501	4,632	4,810	5,153	5,641	6,164	6,789
Months of imports of goods and services (current year)	4.3	3.5	3.8	4.1	3.6	3.9	3.7	4.0	4.1	4.2	4.3
Exports (percent of GDP)	20.7	21.6	19.4	17.6	19.6	15.9	20.0	15.7	15.4	15.4	15.4
Exports excl. gold (percent of GDP)	13.1	12.7	12.2	11.4	12.8	11.0	13.3	11.4	11.4	11.5	11.6
Imports (percent of GDP)	-33.8	-41.1	-36.3	-34.3	-36.7	-33.3	-35.2	-32.2	-31.0	-30.3	-30.2
Imports excl. oil (percent of GDP)	-24.7	-27.2	-24.7	-21.4	-26.3	-20.3	-26.0	-20.8	-21.2	-21.6	-22.3
Current account deficit (percent of GDP)	-9.4	-18.4	-14.3	-14.0	-15.2	-14.5	-13.0	-13.3	-12.3	-11.7	-11.3
Foreign program and project assistance (percent of GDP)	8.2	7.7	6.6	6.6	7.1	5.6	5.4	5.4	5.2	4.5	4.5
Nominal GDP	23,669	25,805	30,281	30,592	33,426	34,656	36,230	38,666	42,993	47,183	51,492

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 sixth review under the PSI and the second review under the SCF arrangement.

Table 5. Tanzania: Financial Soundness Indicators, 2010–2013
(percent, end of period)

			2012				2013			
	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	19.9	17.2	18.1	18.9	18.5	20.5	21.2	21.9	23.0
Claims on the private sector to GDP [1]	17.2	18.9	16.3	17.0	18.0	17.3	19.3	20.1	21.0	21.9
Capital adequacy										
Capital to risk-weighted assets	18.5	17.6	18.4	18.0	17.6	17.5	19.5	18.1	18.3	18.2
Capital to assets	10.7	10.5	11.4	11.1	10.8	10.5	11.4	10.8	10.8	11.1
Asset composition and quality										
Net loans and advances to total assets	44.2	49.2	50.0	50.4	50.0	49.7	48.6	49.0	49.2	50.9
Sectoral distribution of loans										
Trade	17.5	20.0	19.5	21.3	20.8	20.9	21.4	21.2	20.3	21.0
Mining and manufacturing	14.1	12.6	12.3	11.4	11.4	11.9	12.3	12.3	12.3	12.0
Agricultural production	13.0	13.5	12.7	11.3	12.9	11.2	11.5	11.1	11.1	9.9
Building and construction	6.1	8.2	8.6	8.9	8.9	9.0	9.1	9.2	9.3	9.7
Transport and communication	9.2	7.3	7.8	7.1	7.0	6.9	7.3	7.0	7.4	7.1
Foreign exchange loans to total loans	32.0	33.0	32.8	33.7	33.6	33.5	34.0	34.8	35.6	35.6
Gross nonperforming loans (NPLs) to gross loans	9.8	6.7	7.5	8.2	7.5	8.1	7.7	8.1	7.1	6.5
NPLs net of provisions to capital	25.9	18.8	19.1	22.7	20.1	22.5	18.0	19.1	16.8	14.3
Large exposures to total capital	108.5	141.0	117.6	118.4	113.8	143.7	125.9	139.3	135.9	137.5
Earnings and profitability										
Return on assets	2.2	2.5	3.0	2.5	2.7	2.6	2.9	2.7	2.6	2.6
Return on equity	12.1	14.5	17.0	13.4	14.4	13.9	16.0	15.1	13.9	13.1
Net interest margin	8.5	8.4	9.9	9.6	9.3	…	…	…	…	…
Noninterest expenses to gross income	54.5	66.7	64.8	67.9	67.0	67.8	63.5	65.4	66.2	66.9
Personnel expenses to noninterest expenses	40.5	41.6	45.0	43.0	43.0	42.4	45.9	45.5	45.1	43.4
Liquidity										
Liquid assets to total assets	39.5	36.3	35.1	34.6	34.5	34.0	35.0	34.3	33.3	31.6
Liquid assets to total short term liabilities	45.3	40.1	39.0	39.3	39.1	38.4	40.2	38.4	37.0	36.5
Total loans to customer deposits	58.9	65.2	66.8	68.5	68.3	68.6	68.8	67.9	67.7	71.4
Foreign exchange liabilities to total liabilities	31.9	37.0	33.9	33.6	33.9	34.4	35.2	35.2	35.3	35.1

Source: Bank of Tanzania

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

Table 6. Tanzania: Risk Assessment Matrix[1]				
Likelihood	**Shock**	**Vulnerabilities**	**Potential Impact**	**Policy Response**
Medium	Intensification of pre-election spending pressures.	Lack of fiscal restraint ahead of 2015 elections.	Medium: Fiscal slippages would result in higher deficit and borrowing that could weaken fiscal consolidation efforts and undermine debt sustainability. It could also crowd out critical infrastructure and social spending.	Budget spending should be closely monitored and fiscal slippages addressed promptly.
Medium	Delays in construction of the natural gas pipeline and the gas power plants.	Power outages would likely resume; need to subsidize TANESCO further.	Medium: The energy infrastructure projects are critical for reducing cost of power generation and ensuring uninterrupted power supply. Power outages would weaken growth and the subsidies to TANESCO would crowd out critical social and capital expenditures.	Electricity tariffs should be raised to cost recovery levels and adjusted periodically to reflect changing prices of inputs. Alternatively, lower priority spending should be identified in the budget to make room for temporary subsidies and allow gradual tariff adjustment.
Medium	Sharp slowdown in growth in China	Decline in Chinese FDI and loans, which have become an important source of financing for infrastructure projects.	Medium: As infrastructure investment is seen as key to removing bottlenecks to growth, delays in funding would weaken growth potential.	The fiscal priorities would have to be revisited to ensure that critical infrastructure projects, especially in the energy sector, are implemented.
Medium	Sustained decline in commodity prices triggered by deceleration of global demand and coming-on-stream excess capacity (medium-term)	A considerable decline in natural gas prices could reduce incentives for investment in the natural gas exploration.	Low: The exchange rate and international reserves would come under moderate pressure. Lower FDI would partly be offset by lower imports.	Greater exchange rate flexibility would help maintain external stability and limit reserve losses.
Low	Prolonged border tensions with neighbors and/or terrorist attacks	Instability would affect investment and growth.	Medium: Growth prospects could be dampened by a loss of confidence and a slump in investment, budget revenues decline, and balance of payments pressures emerge from lost exports and tourism.	Greater exchange rate flexibility would reduce external pressures, complemented by monetary tightening to limit pressures on reserves and the exchange rate. Automatic fiscal stabilizers should be allowed to operate; cuts in lower priority spending would help to preserve fiscal sustainability.
Low	Food price increase caused by supply shocks in the region	With food accounting for almost half of the consumption basket, the shock would cause inflation and hit the poor.	Medium: Pressures on inflation and demands for higher subsidies may emerge.	Careful monitoring of second-round effects on inflation and readiness to tighten monetary policy to counter pressures on core inflation. Targeted social assistance would cushion the impact on poor, but administrative capacity would be a challenge.

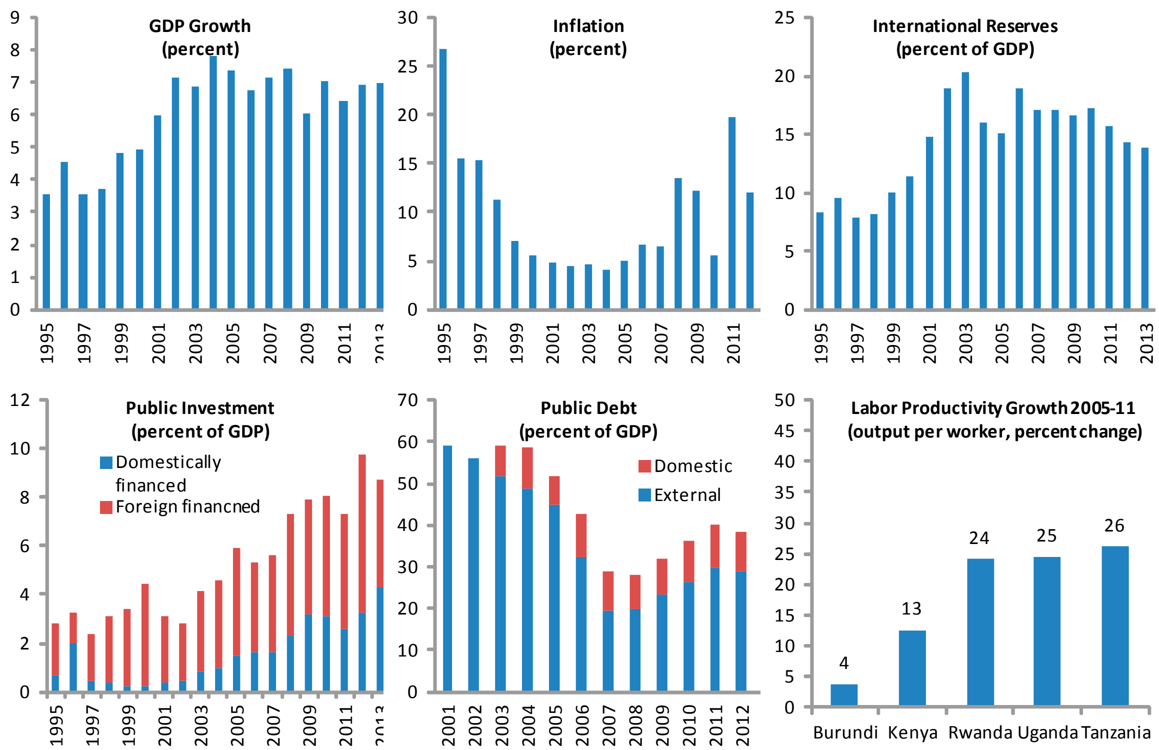
Likelihood	Shock	Vulnerabilities	Potential Impact	Policy Response
High	Side-effects from global financial conditions: surges in global financial market volatility (related to UMP exit), leading to economic and fiscal stress, and constraints on country policy settings.	While Tanzania's financial system is relatively closed, it is integrating rapidly into the global system, particularly as EAC integration deepens.	Low: Banks' loss of access to foreign exchange could lead to disruptive effects on FX liquidity and the ability to cover external obligations, including the current account deficit.	Ensure reserves remain adequate, and where feasible, to gradually raise them. The BoT could also consider loosening banks' net open positions to allow them to build their own FX reserves.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non mutually exclusive risks may interact and materialize jointly.

Annex I. Economic Diversification and Growth: Tanzania's Experience[1]

1. **From the turn of the millennium, economic performance in Tanzania has improved significantly** (Figure 1)**.** Growth accelerated markedly, from an average of 3 percent during the 1990s to an average of 6.9 percent during 2001–2012, with per-capita GDP more than doubling since 2000. The economy stabilized, as inflation fell from double to single digits, international reserves increased, and the public debt burden declined substantially (partly thanks to increased foreign aid and debt relief under the HIPC initiative and MDRI in the mid-2000s). Average labor productivity increased by 50 percent in the last decade,[2] and the productivity growth was among the fastest in the region in 2005–11.

Figure 1. Macroeconomic Stabilization



Source: Country authorities and IMF staff estimates.

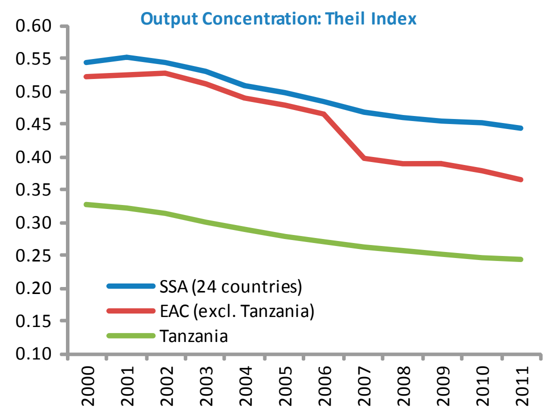
2. **Tanzania experienced a significant economic transformation since the 1990s**. Its successful diversification away from low value-added agriculture to higher value-added manufacturing and services was likely fostered by macroeconomic stabilization and waves of comprehensive policy and structural reforms that began in the mid-1980s, and accelerated from the mid-1990s to the mid-2000s. These reforms reduced the role of the state in the

[1] Prepared by Nikoloz Gigineishvili.

[2] Growth in labor productivity is measured as the percentage change in output per worker (in constant prices). The results should be interpreted with particular caution given the weak quality of labor market statistics.

economy and offered fertile grounds for the private sector development, especially in gold mining, manufacturing, tourism, and the financial sector, attracting significant FDI. They covered a broad range of areas including exchange, price and trade liberalization, tax and public finance reforms, introduction of a modern monetary policy and the liberalization of the financial sector, reforms of the public sector and privatization of SOEs, and the onset of regional integration (Box 1). In response, donor support was also scaled up, which helped increase public investment and alleviate poverty.

3. **Tanzania's output concentration decreased steadily over the past decade**. Using the Theil index[3] to measure output concentration, Tanzanian economy appears more diversified than its peers in the EAC and the SSA (the higher value of the Theil index implies more concentration). Among the EAC countries, only Uganda was more diversified than Tanzania in 2011; Apart from Uganda, in the whole sample of twenty five SSA countries, Tanzania fell behind of only middle-income countries - Lesotho, Mauritius, Namibia, and Zambia.



4. **The share of agriculture in total output declined from 30 percent in 2000 to 23 percent in 2011 (Figure 2).** Even as the share of agriculture in output and exports declined, the sector itself diversified. Output of high-volume cash crops, such as cotton and coffee, continued to grow, but smaller-volume crops such as cashew nuts, tobacco, and tea grew faster. In addition, agricultural production reoriented toward the domestic market to meet the demands of a rapidly growing population.

[3] The Theil index is calculated as $T=\frac{1}{n}\sum_{k=1}^{n}\frac{x_k}{X}ln(\frac{x_k}{X})$, where $X=\frac{1}{n}\sum_{k=1}^{n}x_k$ and x_k is the share of the sector k in total output. The calculation is based on new IMF in-house database, compiled using information on the sectoral composition of GDP provided by the country authorities to IMF country desks. The dataset contains value added series in constant prices for 12 economy-wide sectors in Africa for the period of 2000–2011. The 12 sectors include agriculture (including forestry and fishing), mining and quarrying, manufacturing, utilities (electricity and water), construction, trade and repairs, hotels and restaurants, transportation and communication, financial intermediation, real estate and business activities, public administration, and other. FISIM and net taxes are excluded. The share of each sector is calculated as a ratio of the value added of a given sector to the sum of all 12 sectors. For some countries, data were not available for all 12 sectors.

Box 1. Overview of Tanzania's Policy and Structural Reforms

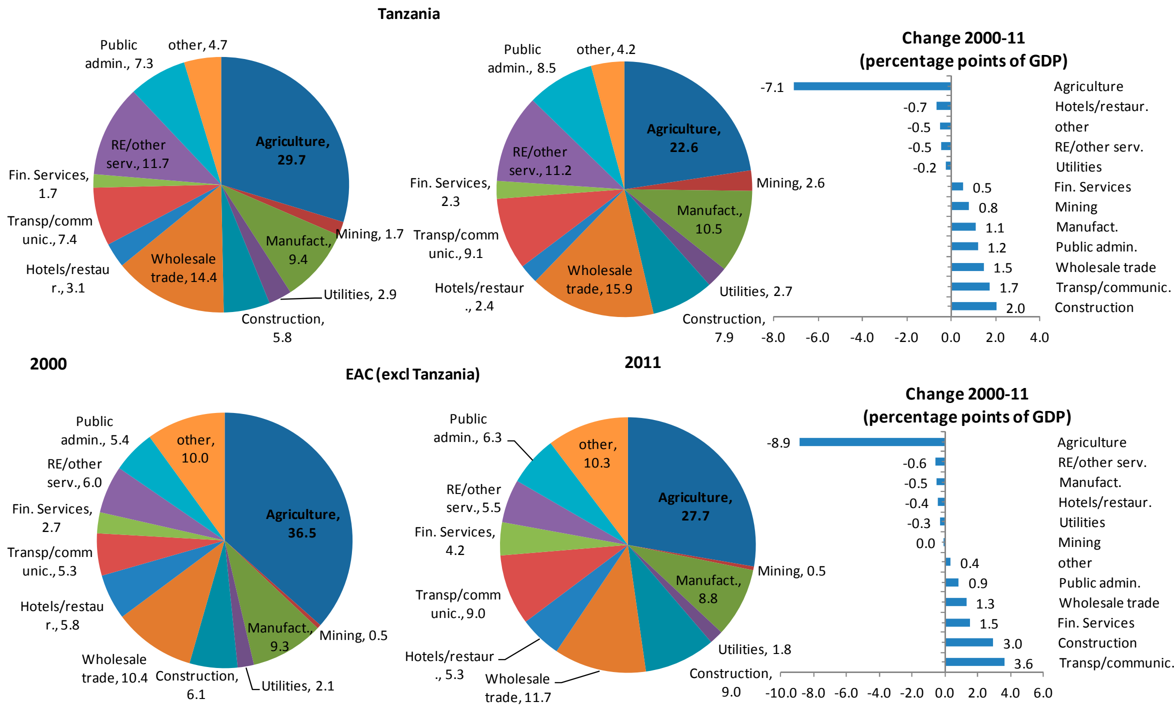
Reforms of the socialist economy began in the mid-1980s in response to weak growth, high inflation, and a balance of payments crisis (Edwards, 2012; Nord et al, 2009). With the launch of the Economic Recovery Program in 1986, the exchange regime was gradually liberalized to eliminate overvaluation that penalized exporters, first by the introduction of a crawling peg in 1986 and subsequently by full exchange rate unification in 1993, eliminating restrictions on current account transactions and on holdings of foreign currency. In parallel, export and import procedures were simplified, and tariff and non-tariff trade barriers reduced. By 1991 domestic price controls had also been lifted on almost all products (more than 400 prices were regulated in 1990), except for petroleum and public utilities. Further, the private sector was allowed to replace state owned marketing boards (state monopolies), some of underperforming parastatals restructured, and a comprehensive privatization program launched in 1993.

However, reform efforts were derailed in the early 1990s, leading to another episode of weak performance (as well as declining donor support). Eventually, beginning in 1996, the market reform efforts resumed with stronger national ownership. By 2003 most of manufacturing and commercial parastatals have been restructured, liquidated or transferred to private ownership, while non-commercial entities merged into government bodies. To strengthen the business environment, since 2002 business licensing and registration were simplified, labor policies reformed, and property rights strengthened. In the financial sector foreign banks were allowed to enter Tanzanian market from 1992, while state-owned banks were restructured and privatized, or liquidated. Management of public finances was also strengthened through tax policy reforms, including the introduction of VAT in 1998, and improved tax administration. In addition, increased public investment in infrastructure including in the energy sector, has provided a platform for productivity growth in the private sector and expansion of exports.

5. **During the same period, manufacturing, construction and services have increased their shares in the economy (Figure 2).** Growth in manufacturing was driven primarily by small-scale production aimed at the domestic and regional markets.[4] Growth was even faster in construction and non-tradable services such as domestic trade and transport. This reflects partly the liberalization of food crop marketing and subsequent replacement of the underdeveloped distribution system of the previous planned economy by private traders, but also spillover effects from tourism and manufacturing.

[4] The Annual Survey of Industrial Production 2008, conducted by Tanzania's National Bureau of Statistics, reports that 88 percent of manufacturing enterprises employ less than 5 workers, and 97 percent employ less than 10 workers.

Figure 2. Output Composition 2000–11 (percent)



6. **The mining sector—which consists mainly of gold mining—also has grown rapidly, though it remained small.** Supported by FDI, its volume expanded from 1.6 percent of output in 2000 to 2.7 percent in 2007 and declined again slightly to 2.3 percent by 2012. On the other hand, in value terms gold has become the single largest export commodity, growing from zero in 2000 to nearly 9 percent of GDP and 40 percent of total exports of goods in 2012, making Tanzania the fourth largest gold exporter in Africa. Growing investments in the sector and the expansion of gold export receipts, however, was largely driven by rapidly rising gold prices, which rose by over 450 percent.

7. **With rapid output growth, exports have also expanded and diversified.** Overall exports of goods and nonfactor services (GNFS) excluding gold have grown from 12 percent of GDP in 1998 to 20 percent in 2012. Manufacturing exports have grown rapidly, from 3 percent of non-gold GNFS exports to 19 percent (and rose by 3 percentage points of GDP), while traditional exports (coffee, tea, cotton, cashew nuts, tobacco, sisal, cloves) declined from 31 percent to 17 percent of non-gold GNFS exports.

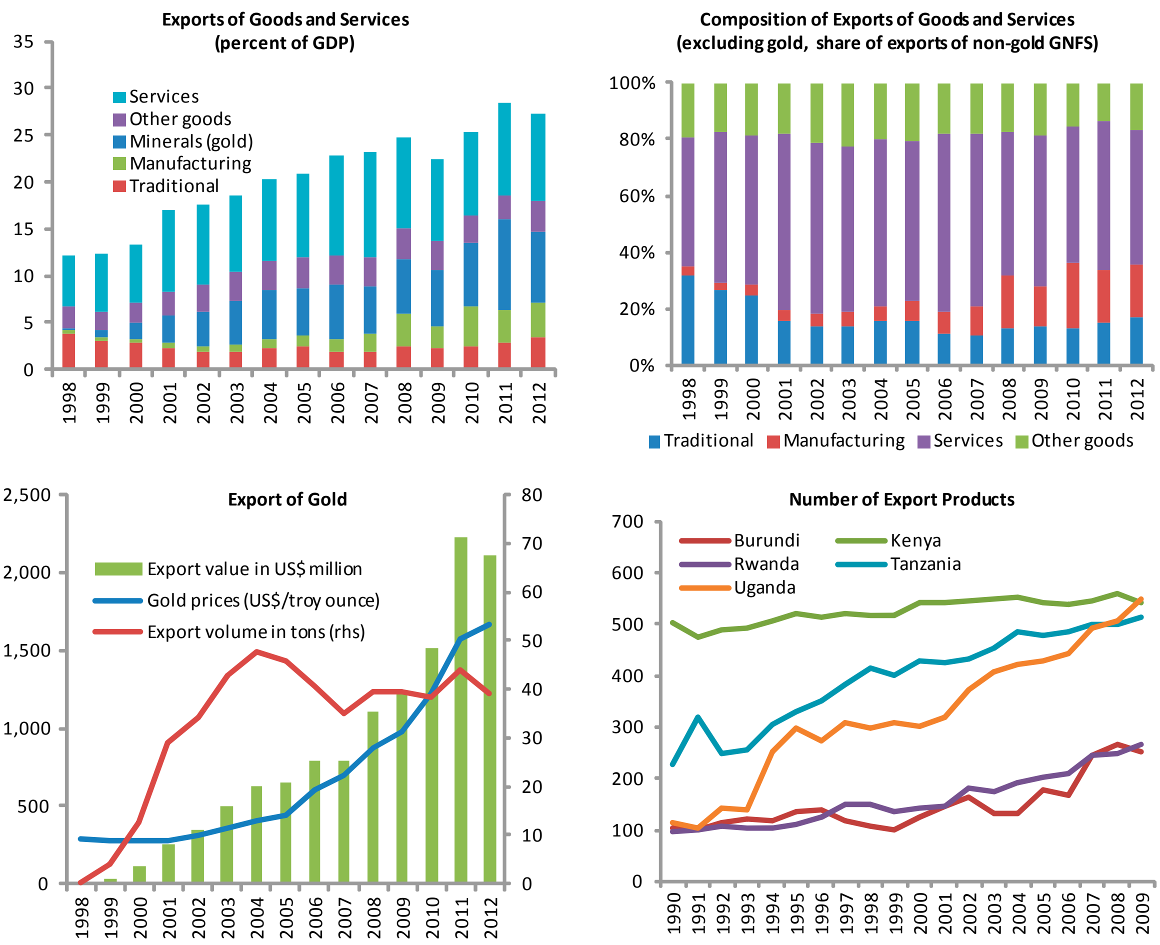
8. **The sheer number of export products has increased substantially**. The number of distinct products exported by Tanzania rose from about two hundred in 1990 to more than five hundred in 2009.[5] Of these, the number of manufacturing products increased from about 130

[5] The product disaggregation is at the 4-digit level of Standard International Trade Classification (SITC) Revision 1.

to more than three hundred. The picture remains broadly unchanged even when the analysis is restricted to the distinct products with export revenues exceeding US$1 million.

9. **With the changing product structure of exports, the geography of Tanzania's trade has also changed.** The share of the EU as a main trade partner declined considerably and new partners emerged. Most importantly this reflects the emergence of gold as a significant source of exports, accounting for a large share of trade with Switzerland and China. At the same time, Tanzania's regional trade also increased, especially with the EAC and South Africa.

Figure 3. Export of Goods and Services



Source: Country authorities, WEO, and Fund staff estimates.

Lessons and Challenges

10. **The Tanzanian economy has diversified noticeably in the past decade.** The broad economic liberalization over the past two decades has yielded significant benefits in terms of growth and diversification. External factors, such as rising commodity prices, have also supported investment in new industries and the expansion of output and exports.

11. **Nevertheless, Tanzania is a low income country with high unemployment and large productivity gap compared with more advanced peers.** To achieve a higher level of development, it will therefore need to sustain its recent growth rates, while increasing the share of manufacturing in output, and further broadening of trade. This will require significant upgrading of physical infrastructure, investments in human capital, and improving the business environment, where Tanzania ranks poorly.[6] In particular, speeding up the resolution of commercial disputes and rendering tax policy more predictable are perceived as priorities by several entrepreneurs and financial market participants.

12. **However, Tanzania's economy may experience another commodity boom.** If the presence of commercial quantities of off-shore gas is confirmed in the near future, the country is likely to receive multi-billion dollar foreign investments in the coming years and become one of the largest exporters of natural gas in the region by 2020. Such a development might quickly lift output, but would also make production and exports dominated by commodities. Tanzania will then face significant policy challenges that are common to many resource-rich countries.[7] To avoid loss of competitiveness in other tradables and sustain growth of the manufacturing sector, which is a key ingredient to achieving a middle-income status, additional reforms are needed to strengthen the business environment, remove the remaining non-tariff barriers, and harmonize regional norms and investment rules to develop and fully exploit comparative advantages within and outside the region.

[6] The World Bank Group's Doing Business Survey ranks Tanzania 134 out of 185 economies in 2013, behind Kenya and Uganda and considerably behind Rwanda.

[7] For detailed discussions of macroeconomic and policy implications of the natural gas sector see Selected Issues Paper 'Tanzania: Fiscal Implications of Offshore Natural Gas and Options for Macro-Fiscal Management'.

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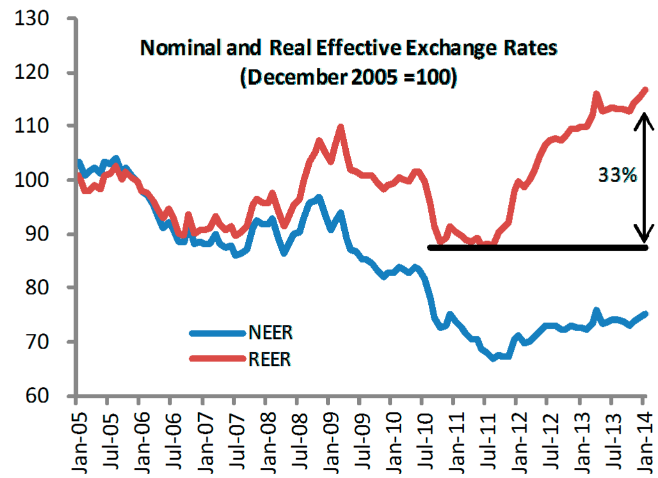
Annex II. Tanzania: Exchange Rate Assessment[1]

1. **The real effective exchange rate (REER) appreciated by 33 percent as of January 2014 from August 2011, when it reached its lowest level since 2000**. The nominal effective rate (NEER) remained fairly stable over the same period. Real appreciation stemmed from a large positive inflation differential relative to trade partner countries. Meanwhile, the terms of trade remained broadly unchanged. The improvement in relative productivity by 3-4 percent was insufficient to offset the loss of competitiveness from the exchange rate appreciation.



2. **Model-based analysis suggests that the shilling is somewhat overvalued compared to what is implied by fundamentals (Table 1)**. The results are based on several complementary methodologies, similar to those proposed by the IMF's Consultative Group on Exchange Rate Issues (CGER)[2], extended to emerging and developing economies (Vitek, 2013).[3] These include macroeconomic balance (MB), external sustainability (ES), purchasing power parity (PPP), and equilibrium real exchange rate (ERER) approaches. In addition, staff estimated an alternative specification of the macroeconomic balance approach by adding foreign direct investments to the list of explanatory variables.

Table 1. Tanzania: Exchange Rate Misalignment[1]

Method	
Macro Balance	25
External Sustainability	25
Purchasing Power Parity	17
Equilibrium REER	2
Average	17

[1] Positive numbers signify overvaluation

3. **The MB and the ES approaches calculate the exchange rate misalignment as the percent change in the real exchange rate that is needed to close a gap between the current account 'norm' and the underlying current account**. In both cases, the 'norm' is determined by economic fundamentals, and is assumed not to be a direct function of the

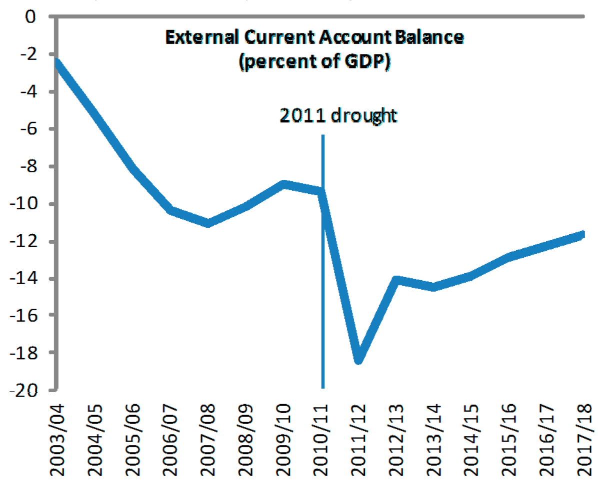
[1] Prepared by Nikoloz Gigineishvili

[2] Lee, J, et al., 2008, "Exchange Rate Assessments: CGER Methodologies", IMF Occasional paper 261.

[3] Francis Vitek, 2013, "Exchange Rate Assessment Tools for Advanced, Emerging and Developing Economies", unpublished. This toolkit includes a database from 1973 to present for 184 countries, including LICs covered by WEO, and panel regression models estimated using generalized method of moments.

real exchange rate.[4] The underlying current account, on the other hand, is defined as a medium-term equilibrium level of the current account (stripped of the temporary and cyclical factors). It is assumed to be driven by external trade (exports and imports), which in turn is a direct function of the real exchange rate. The exchange rate adjustment that is required to bring the underlying current account to its norm is then calculated using trade balance elasticities.

4. **The underlying current account for Tanzania is equated to its medium term projection in 2017/18**. In 2011/12 the current account deficit widened to about 18 percent of GDP mainly because of a surge in FDI and the increased imports of oil and thermal power generation equipment to offset the drought-related hydro capacity shortages. With the completion of the gas pipeline and new gas-fueled power plants, imports of capital goods are projected to decline. Demand for oil imports is also expected to moderate once cheaper natural gas from domestic fields becomes the major source of power generation. Subsequently, the current account deficit is expected to gradually narrow to 11½ percent of GDP in 2017/18, when all the above temporary factors are phased out. The current account deficit projection for 2017/18 is assumed to be its medium-term equilibrium.[5]



5. **The elasticity of the trade balance with respect to the real effective exchange rate is obtained from two alternative sources - the CGER and Tokarick (2010)**.[6] Assuming that gold exports, which in 2012/13 accounted for about 35 percent of total goods exports and is priced in US dollars, has unit elasticity to the exchange rate, the CGER yields the trade balance elasticity of 0.16.[7] The Tokarick estimate of the trade balance elasticity for Tanzania is slightly higher at 0.22.

6. **The results of the MB approach are presented in Table 2**. The current account norms were calculated using two specifications—the benchmark model, which uses coefficients obtained by Vitek (2013), and an alternative model estimated by staff, which also includes FDI as an explanatory variable to capture the impact of FDI-related imports on the

[4] In the MB approach, the current account norm is determined by steady state levels of savings and investments in the medium term, whereas in the ES it is obtained as the current account balance that stabilizes the country's net foreign assets at a desired level.

[5] Until commercial viability of potentially large off-shore natural gas deposits is confirmed, the projections do not incorporate the impact of related foreign direct investments.

current account. The models imply current account norms of -5.8 and -8.2 percent of GDP respectively compared to the underlying current account balance of -11.6 percent of GDP. These gaps, combined with the elasticities above, suggest overvaluation of the shilling in the range of 15.7–36.2 percent.

Table 2. Tanzania: Macroeconomic Balance Approach [1]

	Variables	Coefficients		Coefficient*Variable	
	2017/18	Benchmark	with FDI	Benchmark	with FDI
	1	2	3	=1*2	=1*3
Population growth rate (rel. to trading partners)	0.02	-0.099	-0.096	-0.002	-0.002
Relative income (rel. to trading partners)	-2.60	0.005	0.003	-0.012	-0.007
Per capita GDP growth (rel. to trading partners)	0.01	-0.039	-0.018	0.000	0.000
Oil balance	-0.08	0.172	0.232	-0.014	-0.018
Fiscal balance (rel. to trading partners)	-0.03	0.070	0.058	-0.002	-0.002
Net foreign Assets	-0.64	0.033	0.024	-0.021	-0.015
Aid inflows	0.03	-0.195	-0.140	-0.006	-0.004
Foreign direct investment	0.07	-	-0.657	-	-0.045
Constant	1.00	-0.002	0.011	-0.002	0.011
Current Account Norm (% of GDP)				-5.8	-8.2
Underlying Current Account (% of GDP)				-11.6	-11.6
Current account gap (underlying - norm)				-5.8	-3.5
Trade balance elasticity					
CGER				-0.16	-0.16
Tokarik				-0.22	-0.22
REER misalignment ('+'=overvaluation)					
CGER elasticity = -0.16				**36.2**	**21.6**
Tokarick elasticity = -0.22				**26.4**	**15.7**
Macroeconomic balance approach average [2]				**24.9**	

[1] All variables are expressed in decimals. The current account norm is converted in percent by multiplying by 100
[2] Average of four estimates: (i) benchmark model and CGER elasticity; (ii) benchmark model and Tokatick elasticity; (iii) benchmark with FDI model and CGER elasticity; and (iv) benchmark with FDI model and Tokarick elasticity.

[6] Tokarick, Stephen, 2010, "A Method for Calculating Export Supply and Import Demand Elasticities", IMF Working paper WP/10/180.

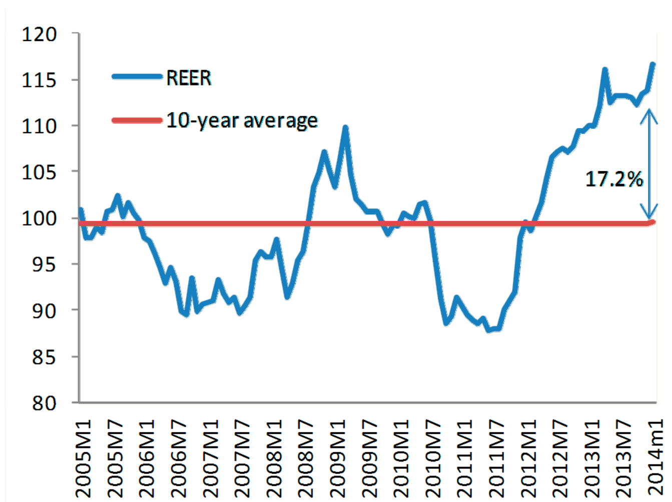
[7] The elasticity of the trade balance with respect to the real effective exchange rate is obtained as follows: $\epsilon_x \frac{X-X_g}{GDP} - \frac{X_g}{GDP} - (\epsilon_m - 1)\frac{M}{GDP}$, where export elasticity $\epsilon_x = 0.71$, import elasticity $\epsilon_m = 0.92$, X and M are exports and imports of goods and services respectively, and X_g is export of gold. By dropping the assumption about unit elasticity of gold exports, the trade balance elasticity becomes 0.15.

7. **The ES approach yields similar overvaluation.**[8] With nominal GDP growth projected at 12 percent and net foreign assets[9] at -64 percent of GDP in 2017/18, the ES methodology yields an estimated current account norm of -7.1 percent of GDP and overvaluation of the shilling by 21–28 percent.

Table 3. Tanzania: External Sustainability Approach

	2017/18
Nominal GDP growth, %	12
Net foreign assets, % GDP	-64
NFA stabilizing CA norm, % GDP	**-7.1**
Underlying Current Account (% of GDP)	-11.6
Current account gap (underlying - norm)	-4.6
REER misalignment ('+'=overvaluation)	
CGER elasticity = -0.16	**28**
Tokarick elasticity = -0.22	**21**
External Sustainability approach average	**25**

8. **The PPP approach suggests an overvaluation of the shilling by about 17 percent.** This approach assumes long-term stationarity of the real effective exchange rate and calculates misalignment as a percentage deviation of the real effective exchange rate from its long-term average. The long-term average was calculated from monthly data for the last 10 years (January 2004-December 2013).



9. **Finally, the ERER approach implies overvaluation of the shilling by almost 2 percent (Table 4).** Unlike the MB and the ES, the ERER models the medium-term equilibrium real exchange rate as a direct function of a set of economic fundamentals. The

[8] The current account that stabilizes net foreign assets can be expressed as: $ca_n = \frac{g}{1+g} nfa$, where ca_n is the current account norm, g is nominal GDP growth in steady state, and *nfa* is the steady state level of net foreign assets. (see Vitek, 2013; or Lee, J, and others., 2008).

[9] Net foreign assets are obtained from the External Wealth of Nations database (Lane, P. and Milesi-Ferretti, G.M 2011), and extended through 2017/18 using flow projections for foreign assets and liabilities.

panel regression is estimated using country-specific fixed effects, and the misalignment is then obtained as a percent deviation of the actual REER from its estimated equilibrium level. The country-specific intercept is derived by equating average ERER (i.e. fitted values from the regression) with the actual average REER for the last 10 years, which implicitly assumes that the average misalignment over the sample period is zero. As can be seen from the regression output below, by far the largest determinant of the equilibrium real exchange rate is relative productivity, a variable that is particularly prone to measurement error, especially for developing countries with relatively weak statistics regarding labor market variables.

Table 4. Tanzania: Equilibrium Real Exchange Rate Approach

	Variables 2017/18	Coefficients	Coefficient*Variable
	1	2	=1*2
Terms of Trade	-0.037	0.154	-0.01
Relative productivity	-2.720	0.282	-0.77
Relative government consumption	0.026	0.778	0.02
Initial NFA	-0.640	0.032	-0.02
Remittance inflows	-0.002	0.596	0.00
Constant	1.000	0.880	0.88
Equilibrium Real Exchange Rate (log)			0.10
Log(REER)			0.12
Deviation from Equilibrium % , (+ =overvaluation)			**1.9**

Appendix I. Letter of Intent

Dar es Salaam
Tanzania

March 27, 2014

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

Dear Madam Lagarde:

The Government of Tanzania requests completion of the last review under the SCF arrangement based on overall performance under the program. In doing so, we request a waiver for the nonobservance of the end-June 2013 performance criterion on net domestic financing, which was breached by 1.2 percent of GDP primarily to offset the revenue shortfalls.

All quantitative indicative targets for September and December 2013 were met with the exception of the floor on tax revenues (addressed through the mid-year budget review), and a marginal breach of the reserve money ceiling in December. A structural benchmark for end-November 2013on VAT reform was also missed.

In order to meet our deficit target of about 5 percent of GDP for 2013/14; the Government took the following corrective measures: (i) on March 20, 2014, in the context of the mid-year budget review, Cabinet approved revisions to the 2013/14 budget, including downward adjustment to the revenue projections and expenditure cuts; (ii) the Cabinet also approved a policy document outlining the main features of the VAT reform, which the Government plans to submit to Parliament in May 2014; and (iii) to improve TANESCO's financial position and reduce the need for the budget subsidies, electricity tariffs were raised by 40 percent on average starting January 1, 2014.

The Government intends to treat the remaining tranches of the SCF arrangement on a precautionary basis. The Government will continue to maintain close policy dialogue with the Fund. It intends to disseminate this letter and the related Fund staff report, and hereby authorizes the IMF to publish the same on its website after consideration by the Executive Board.

Yours Sincerely,

/s/

Hon. Saada Mkuya Salum (MP)
MINISTER FOR FINANCE
UNITED REPUBLIC OF TANZANIA

/s/

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

Table 1. Quantitative Performance Criteria (PC) and Indicative Targets Under the Stand-by Credit Facility Arrangement June–December 2013

	Standby Credit Facility											
	June 2013				September 2013				December 2013			
	Performance Criteria				Indicative Target				Indicative Target			
	Prog [5]	Adjusted Criteria	Preliminary	Met?	Prog [6]	Adjusted Criteria	Preliminary	Met?	Prog [6]	Adjusted Criteria	Preliminary	Met?
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)											
Net domestic financing of the government of Tanzania (cumulative, ceiling) [1, 2]	484	484	1,069	X	100	400	99	✓	150	450	382	✓
Average reserve money (upper bound) [3]	4,947	4,947	4,898	✓	5,195	5,195	5,137	✓	5,244	5,244	5,250	X
Average reserve money target [3]	4,898				5,144				5,192			
Average reserve money (lower bound) [3]	4,849				5,093				5,140			
Tax revenues (floor; indicative target)[1]	8,001	8,001	7,785	X	2,369	2,369	2,166	X	4,909	4,909	4,486	X
Priority social spending (floor; indicative target)[1]	2,066	2,066	2,273	✓	570	570	708	✓	1,138	1,138	1,321	✓
	(Millions of U.S. dollars; end of period)											
Change in net international reserves of the Bank of Tanzania (floor) [1, 4]	273	309	597	✓	64	-125	223	✓	200	11	310	✓
Accumulation of external payment arrears (continuous PC ceiling)	0	0	0	✓	0	0	0	✓	0	0	0	✓
Contracting or guaranteeing of external debt on nonconcessional terms (continuous PC ceiling) [7,8]	2,688	2,688	2,614	✓	3,388	3,388	2,688	✓	3,388	3,388	2,768	✓
Memorandum item:												
Foreign program assistance (cumulative grants and loans) [1]	785	785	878		406	406	283		602	602	539	
External nonconcessional borrowing (ENCB) disbursements to the budget [1]	737	737	679		167	167	78		334	334	78	

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

[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] From the sixth review under the PSI and the second review under the SCF arrangement.

[7] The ceiling through December 2013 is cumulative from July 1, 2010.

[8] The cumulative ENCB ceiling of US$3,388 million through December 2013 applies from July 1, 2013.

Table 2. Structural Benchmarks 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	Improves economic efficiency and increase revenue-to-GDP ratio	End-November 2013	23	Not Met Measure Delayed to May 2014

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

April 11, 2014

STAFF REPORT ON THE 2014 ARTICLE IV CONSULTATION, THE THIRD REVIEW UNDER THE STANDBY CREDIT FACILTY ARRANGEMENT, REQUEST FOR A WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW — INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

(As of February 28, 2014)

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	190.51	100.00
Holdings	151.62	79.59

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	218.79	110.00
ECF Arrangements	4.48	2.25
SCF Arrangements	74.60	37.51

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SCF	Jul 06, 2012	Apr 30, 2014	149.18	74.60
ESF	May 29, 2009	June 14, 2010	218.79	218.79
ECF[1]	Aug 16, 2003	Feb 26, 2007	19.60	19.60

[1] Formerly PRGF.

Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	17.31	43.73	44.60	60.62	60.34
Charges/Interest	0.04	0.90	0.79	0.63	0.44
Total	17.35	44.63	45.39	61.24	60.77

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR Million)

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

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

Safeguards Assessments:

Safeguards assessments of the Bank of Tanzania (BoT) were completed in December 2003, August 2008, November 2009, and November 2012. The 2012 assessment found that governance and safeguards framework at the BoT had been strengthened. The BoT's Audit Committee continued to provide an active oversight of audit, financial reporting and control systems, and that BoT's financial statements are prepared in accordance with international standards and published. Key areas for improvement identified in the assessment include strengthening the BoT Board's oversight role in decisions to provide credit to the government, and reducing the BoT's involvement non-core activities such as the provision of credit guarantees.

Exchange Rate Arrangement:

The currency of Tanzania is the Tanzania shilling. Tanzania de jure exchange rate arrangement is free floating and its de facto exchange rate arrangement is classified as floating. The official exchange rate is determined in relation to the rate established in the interbank market for foreign exchange. The weighted average rate in the interbank market was TSh 1,638.27 per U.S. dollar as of March 20, 2014. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Tanzania accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from July 15, 1996.

Article IV Consultation:

The most recent Article IV consultation was concluded on March 16, 2011 (Country Report No. 11/105).

Technical Assistance:

Tanzania assistance activities provided to Tanzania since 2012 are listed below.

	Year of delivery
Fiscal Affairs Department (FAD)	
Improving the Management and Payment of VAT Refunds	2014
Natural Gas: An Agenda of Fiscal Issues	2013
Advancing Public Financial Management Reforms	2012
Improving the Effectiveness of Tax Administration	2012
Mining and Gas Fiscal Regimes and VAT Reform	2012

Monetary and Capital Markets Department (MCM)	
Developing a Transitional Monetary Framework and Introducing Sukuk	2014
Medium-Term Debt Management Strategy (jointly with The World Bank)	2013
Supervisory Review of IFRS Compliance	2013
Strengthening Crisis Management Framework	2013
Legal Department (LEG)	
Fiscal Law	2013
Statistics Department (STA)	
Price Statistics	2013
National Accounts	2013
Government Finance Statistics	2012
External Sector Statistics	2012

Resident Representative:

Mr. Thomas Baunsgaard has been the Resident Representative since May 2012.

STATISTICAL ISSUES APPENDIX

(as at March 31, 2014)

I. Assessment of Data Adequacy for Surveillance
General: *Data provision is adequate for surveillance and program monitoring purposes.* The authorities – led by the National Bureau of Statistics (NBS) for the mainland and the Office of the Chief General Statistician (OCGS) for Zanzibar – have articulated a 5-year strategy under the Tanzania Statistical Master Plan. The Plan – a multipronged approach to improve collection and dissemination of statistics – is operationalized through a series of Annual Work Plans. For FY13/14, the authorities will be focusing on carrying forward a number of ongoing initiatives, including ongoing efforts to update the legal framework governing statistical collection in Tanzania; improving the quality of national accounts data, especially from Zanzibar; rebasing the producer price index; and improving indicators of industrial production.
National Accounts: National accounts statistics for mainland Tanzania are prepared by the NBS. Separate accounts are compiled for Zanzibar by the OCGS. The data sources for estimating national accounts by expenditure category and the indicators used to extrapolate benchmark production levels suffer from deficiencies that complicate estimation of saving-investment. The accounts are based on the 1993 System of National Accounts (1993 SNA) and are published at current and constant (2001) prices. East AFRITAC has been providing training and assistance in the compilation of quarterly national accounts (QNA), a key element for subscribing to SDDS. QNA at current prices since 2001 have been compiled, and were released in the publication for the first quarter of 2009.
Price Statistics: The NBS compiles a monthly consumer price index (CPI) for mainland Tanzania based on consumer expenditure in 21 urban centers. A separate price index is compiled for Zanzibar. The mainland CPI uses weights based on the 2007 HBS data and with 2010 as the base year. While the CPI basket has become more comprehensive, the geographical coverage of the index remains fairly narrow, focused on urban centers, whereas bulk of population live in rural areas. The producer price index (PPI) is compiled monthly and published quarterly and draws from surveys of business establishments with over 50 workers, with the basket based on the results of the 1999 Annual Survey of Industrial Production (ASIP). The NBS will be working on improving the PPI, including by providing data for 2000-2006 and moving from the ISIC Rev. 2 classification to the newer ISIC Rev. 3.1. One key concern is the representativeness of the basket as it is based on a very old vintage of the ASIP.
Government Finance Statistics: The authorities provide Fund missions with monthly data on central government revenue, expenditure, and financing on a timely basis. Although the underlying concepts broadly follow the Government Finance Statistics Manual 1986, the reporting differs from international standards in coverage and the treatment of lending minus repayments, and transfer payments. Coverage of data on the operations of the central government refers to Tanzania

mainland only –the Ministry of Finance of Zanzibar established a unit tasked with developing a fiscal reporting framework for Zanzibar. The data also exclude the operations of extra-budgetary units and funds. Data for general government are not available as no information is yet provided on the financial position of local governments, although the authorities have stated their intention to produce such reports.

Despite improvements in the recording of government transactions, discrepancies remain between revenue and expenditure data, on the one hand, and financing data. The discrepancies are related to the lack of a fully integrated set of accounts and the delineation of the public sector and its sub-sectors, differing source data, and timing differences. In addition, there appear to be gaps in the IFMIS that allow exchequers to be issued for work without corresponding entries in the Accountant General's system, leading to arrears. This primarily affects multi-year development projects, including in road construction.

The Ministry of Finance created a database of donor-funded projects in FY2001/02, the Aid Management Platform (AMP) with donor assistance. Since then, the number of foreign-financed projects reported by and channeled through the budget has increased significantly. The integrity of AMP data can be affected by late entry of data by major donors, which can give rise to discrepancies.

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

Monetary Statistics: The monetary statistics are broadly adequate for policy and analytical purposes. In addition to monthly compilation of the Standard Report Forms (SRFs), which the BoT shares with the Fund, the authorities have also been sharing daily developments in reserve money through the program period. Key improvements going forward would be to complement the SRFs with more timely compilation of statistics for non-banks and Islamic banking. The authorities have been publishing quarterly data on financial stability, though with a lag, coinciding with the publication of the Financial Stability Report. These data are made available on a more timely basis to Fund staff.

Balance of Payments: The BoP data, compiled by the Bank of Tanzania, are broadly adequate for surveillance. Data for merchandise exports and imports are recorded on the basis of Customs returns and supplemented by data from mining companies and crop boards. For services transactions, the chief data sources are the financial records of depository corporations and foreign exchange bureaus, supplemented with information on merchandise trade (freight and insurance), revenue data from the TRA (other insurance), and other international service providers. Data on travel receipts are obtained from International Visitors' Exit Surveys. Current transfers, capital transfers and official financial flows are provided by donors and the Ministry of Finance. Data for direct investment

income are estimated based on information obtained from the Private Capital Flow Survey (PSFS). East AFRITAC has provided assistance in international investment position statistics, and developing price and volume indices for international trade.	
II. Data Standards and Quality	
Tanzania subscribes to the General Data Dissemination Standard (GDDS). GDDS metadata were posted on the IMF's Dissemination Standards Bulletin Board (DSBB) in July 2001 and were updated in January 2014. Tanzania is participating in the successor project to the Fund's GDDS Project for Anglophone Africa (funded by the U.K. Department for International Development (DFID)).	A mission to prepare the data module for the Report on the Observance of Standards and Codes (ROSC) was completed in October 2002. The report was published in March 2004.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	Date of latest observation (all dates in table use dd/mm/yy format)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange rate	31/3/14	1/4/14	D,M	D,M	D,M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	31/1/14	28/2/14	D,M	D,M	M		
Reserve/Base Money	31/1/14	28/2/14	D,M	D,M	M	LO, LO, LO, LO	LO, O, O, O, LO
Broad Money	31/1/14	28/2/14	M	M	M		
Central Bank Balance Sheet	31/1/14	28/2/14	M	M	M		
Consolidated Balance Sheet of the Banking System	31/12/13	28/2/14	M	M	M		
Interest Rates[2]	31/1/14	28/2/14	M	M	M		
Consumer Price Index	28/2/14	10/3/14	M	M	M	O, LO, O, LO	LNO, LNO, LNO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]			...	...	...	LNO, LNO, LNO, LO	LO, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	31/1/14	28/3/14	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	31/1/14	28/3/14	M	M	M		
External Current Account Balance	31/12/13	28/3/14	M	M	M	LO, LO, LO, LO	LO, LNO, O, LNO, LNO
Exports and Imports of Goods and Services	28/2/14	28/3/14	M	M	M		

GDP/GNP	31/12/12 (A) 31/3/13 (Q)	31/10/13 31/8/13	Q,A	Q,A	Q,A	LO, LO, LO, LO	LNO, LNO, O, LO, LO
Gross External Debt	31/12/13	28/3/14	M	M	M		
International Investment Position[6]	31/12/12	...	A	A	A		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on March 12, 2004 and based on the findings of the mission that took place during October 8-22, 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

JOINT WORLD BANK–FUND WORK PROGRAM, 2014

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual information on relevant work programs		
Key elements of World Bank work program in next 12 months	The progress report of the current WBG Country Assistance Strategy (CAS) is under preparation and is expected to be discussed at the Board in May/June 2014.		May/June 2014
	The work program will continue to concentrate on areas within the existing and new lending portfolio: agriculture; agribusiness development; regional fishery; power and gas (various); private sector development; urban; education; higher education and science and technology; health sector development; productive safety net; minerals; water; open government and public financial management.		Continuous
	The World Bank continues to lead and facilitate the Public Expenditure Review (PER) process in Tanzania with government and six other development partners. The focus for FY2015 will be on rapid budget analysis (RBA) as well as specific studies on non-tax revenue and retention schemes; tax incentives; PPPs; analysis of arrears; and contingent liabilities and pensions.		April 2014 (tax incentives study) July 2014 (non-tax revenues, arrears, contingent liabilities, pensions), November 2014(RBA, PPPs)
	Tanzania Pension Reform (non-lending TA, conducted in conjunction with the PER contingent liabilities work) will involve follow-up analysis relating to the PER pension liabilities modeling; formulation of proposed action plan for the reform of the sector; a technical note on the structure, harmonization and merger of social security funds in Tanzania.		July 2014

	The first operation of the new open government/public financial management DPO series is expected to cover PFM issues such as cash management, public investment management and procurement, from a perspective of improving value for money in service delivery.		By December 2014
	The Third Power and Gas Sector Development Operation (last operation of the series)		March 2015 or before
	Country Economic Memorandum (CEM) with the main theme on productive jobs.		2014
IMF work program in next 12 months	Third SCF Review and Article IV Consultation	February 2014	April 2014
	First PSI Review	September 2014	November/ December 2014
B. Requests for work program inputs			
Fund requests to Bank	1. Assessment of key infrastructure projects and sectoral programs.		Continuous
	2. Assessment of financial health of pension funds.		Continuous
	3. Assessment of the financial viability of the electricity utility.		Continuous.
	4. Inputs on the design of a social protection framework.		Continuous
	5. Inputs on sources of growth for private sector development and job creation.		Continuous
Bank requests to Fund	1. Monitoring of government contracting of non-concessional borrowing.		Continuous
	2. Monitoring of steps to strengthen corporate governance of the BoT		Continuous
	3. Sharing macro-framework updates.		Continuous
	4. Statement of fiscal risk and contingent liabilities.		Continuous

C. Agreement on joint products and missions			
Joint products in next 12 months	1. Collaborate on a joint DSA	February 2014	March 2014
	2. Jointly with other development partners, collaborate on the annual review of general budget support (GBS AR 2014).	Early 2014	Early 2014
	3. Collaborate on PFM reform program in the context of multi-donor support of the Public Financial Management Reform Program.		Continuous
	4. Collaborate on a joint Bank-Fund TA project on enhancing the implementation of a medium-term debt management strategy.	November 2013	2014
	5. Collaborate on supporting the government in its implementation of its Roadmap for Natural Gas Development in Tanzania (adopted in October 2013), which builds on the report of the Gas Sector Scoping Mission undertaken by the Bank, Fund, African Development Bank and bilateral donors in 2012, including collaboration in the areas related to fiscal regime and public investment management in the gas sector.		Continuous

UNITED REPUBLIC OF TANZANIA

STAFF REPORT ON THE 2014 ARTICLE IV CONSULTATION, THE THIRD REVIEW UNDER THE STANDBY CREDIT FACILTY ARRANGEMENT, REQUEST FOR A WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

April 11, 2014

Approved By
Roger Nord and Dhaneshwar Ghura (IMF) and Marcelo Giugale and Jeffrey D. Lewis (World Bank)

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

Risk of external debt distress:	Low
Augmented by significant risks stemming from domestic public and/or private external debt?	No

Tanzania continues to face a low risk of debt distress based on the external debt sustainability analysis (DSA). The external debt outlook improves as a result of an increase in the discount rate, but this is partly offset by (i) a slower pace of fiscal deficit reduction and (ii) a shift in the long-term composition of external financing towards more non-concessional loans. While the baseline public debt outlook remains favorable, continued fiscal consolidation is critical. In addition, recognizing the outstanding pension and other liabilities has an impact on the level of public debt. The baseline numerical analysis in this DSA does not take into account prospects related to natural gas resources whose scale, while potentially favorable, remains uncertain. These results highlight the need for Tanzania to sustain fiscal consolidation efforts, to adopt a conservative approach to non-concessional borrowing, to promptly address pension-related liabilities, and to further improve its debt management capacity.[1]

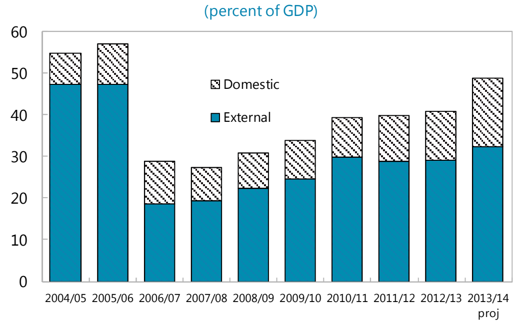
[1] This DSA replaces the previous one prepared in June 2012. Tables and figures are in fiscal years (July-June). For example, 2013 refers to fiscal year 2012/13. Under the Country Policy and Institutional Assessment (CPIA), Tanzania is rated as a strong performer, with an average rating of 3.73 during 2010-12. Although the average CPIA score is slightly below the boundary for strong performance category (3.75), the performance rating remains strong since this is the first year of breaching the boundary and the breach is less than 0.5.

BACKGROUND

1. **Tanzania's public and publicly guaranteed (PPG) external debt as a share of GDP has steadily crept upwards in recent years** (text figure, left panel). Since the Multilateral Debt Relief Initiative (MDRI) in 2006/07, which reduced the external debt-to-GDP ratio from 47 percent to 19 percent, PPG external debt (excluding arrears under negotiation for relief) has increased to about 29 percent of GDP at end-June 2013, or 17 percent of GDP in present value terms using a 5 percent discount rate[2]. Total public sector debt (external plus domestic) stood at about US$12.4 billion or 40.9 percent of GDP at end-June 2013, rising from a low of 27.5 percent at end-June 2008.

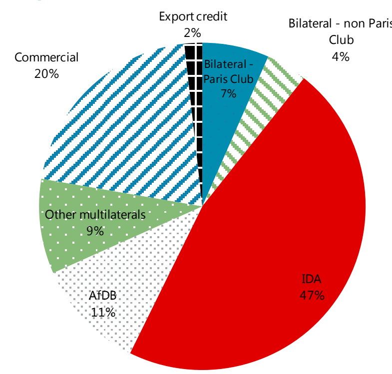
Tanzania: Public Debt

(percent of GDP)



Sources: Ministry of Finance, Bank of Tanzania, and IMF staff calculations.
Note: 2013/14 projection of domestic debt includes a one-off adjustment for recognizing outstanding domestic liabilities, including past-due pension obligations, guarantees for public enterprises, and domestic expenditure arrears.

Composition of PPG External Debt, June 2013



Sources: Ministry of Finance, Bank of Tanzania, and IMF staff calculations.
Note: Excludes arrears to non-Paris Club creditors under negotiation for relief.

2. **The majority of Tanzania's PPG external debt is still concessional, but borrowing on non-concessional terms has increased in recent years** (text figure, right panel). At end-June 2013, more than two-thirds of total public external debt was owed to multilateral institutions, of which the International Development Association (IDA) and the African Development Bank (AfDB) constitute the largest creditors. Government borrowing from commercial sources amounted to about 20 percent of the total stock at end-June 2013, having risen rapidly from about 2 percent at end-June 2010. In February 2013, Tanzania raised US$600 million from international capital markets in a private placement transaction.[3] Tanzania is currently in the process of obtaining its sovereign risk rating, which would facilitate future Eurobond issuance.

3. **Domestic public debt stood at 12 percent of GDP at end-June 2013**, and mostly consisted of Treasury bonds. Domestic public debt is held primarily by commercial banks (39 percent), the Bank of Tanzania (35 percent), and pension funds and insurance companies (23 percent). Private external debt has risen in recent years to about 5 percent of GDP in 2012/13, though there is considerable uncertainty regarding private external debt data.

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[2] The discount rate was increased to 5 percent as of October 2013. See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" (SM/13/292).

[3] This is an amortizing bond with a maturity of seven years, and was priced at 600 basis points over 6-month LIBOR at the time of issuance. The amortizing feature helps reduce rollover risks, whereas the floating interest rate on the bond implies increased exposure to changing interest rates.

4. The current DSA only covers central government debt. Owing to data limitations, borrowing by local governments and most public enterprises is excluded, thus potentially understating the total debt level. The external public debt stock includes the foreign currency portion of commercial loans contracted by the state-owned power utility TANESCO[4]. For the purpose of the current DSA, the domestic public debt stock incorporates starting in 2013/14 several outstanding government liabilities that have yet to be formally recognized as debt (but that were included in the DSA published by the MoF), amounting to about Tsh4 trillion or 7 percent of GDP. These include outstanding liabilities to the Public Service Pension Fund (Tsh1160 billion)[5], outstanding unpaid domestic claims (Tsh892 billion)[6], government guarantees for public enterprises (Tsh912 billion), and other actual liabilities arising from past PPP transactions, court orders, and explicit government guarantees.[7]

5. Stock-flow adjustments have accounted for a sizeable portion of the rise in Tanzania's public debt in recent years. A decomposition of annual change in gross public debt shows that stock-flow residuals averaged 2.4 percent of GDP over 2008-13, peaking at 5.2 percent of GDP in 2011. The primary fiscal deficit also made a sizable contribution to the debt ratio increase. The interest-growth differential (i.e., the difference between effective interest rates[8] and output growth rates) was considerably negative, reflecting the still-high concessionality of the debt stock, thereby slowing the pace of the debt ratio increase.

Stock Flow Adjustments

(percent of GDP)

Sources: IMF staff calculations.

6. The authorities continue to make progress in upgrading their debt management capacity. With technical support from the World Bank and the East African MEFMI, the MoF conducted a debt sustainability assessment in September 2013. The authorities' medium-term debt strategy (MTDS) was also updated in November 2013 with support from a joint IMF-World Bank technical assistance mission. Both the DSA and the MTDS report have been published on the MoF's web site, and are expected to serve as key inputs that will guide the government's borrowing policy going forward. There is an ongoing process to put into operation a centralized debt management office (DMO), housed at the MoF, that will bring together the fragmented debt management functions.

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[4] TANESCO borrowing in foreign currency amounts to about US$20 million in 2012/13 and US$84 million in 2013/14.

[5] Estimate from the government's verification exercise, and consistent with estimates by the World Bank and the Genesis Report. Contingent liabilities arising from financial weakness of the broader pension sector can be substantially higher.

[6] Unpaid claims of duration above 90 days, estimated as of end-December 2013. Ministries with large claims include Works, Health, Education, Agriculture, Home Affairs, and Defense.

[7] In addition, the government has significant multi-year commitments arising from existing contracts, especially in the road sector, which are not included in the DSA.

[8] Effective interest rates are computed by dividing total interest payments by last period's debt stock.

Selected Macroeconomic Indicators, Current vs. Previous DSA

	2014	2015	2016	Long term 1/
Real GDP growth (percent)				
Current DSA	7.1	7.1	7.1	7.0
Previous DSA	6.9	7.1	7.1	7.5
Fiscal balance (% GDP)				
Current DSA	-5.2	-4.9	-4.0	-3.0
Previous DSA	-4.5	-3.9	-3.4	-2.6
Current account balance (% GDP)				
Current DSA	-14.5	-13.8	-12.9	-10.2
Previous DSA	-12.5	-12.2	-11.9	-9.8
Net FDI (% GDP)				
Current DSA	6.0	6.7	6.7	6.1
Previous DSA	6.1	6.0	5.9	5.8

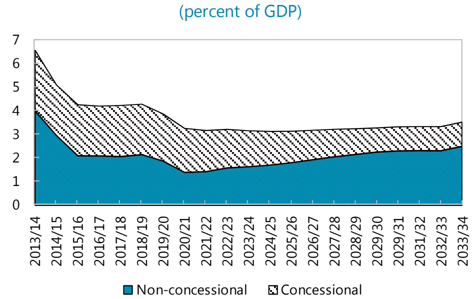
1/ Defined as the last 15 years of the projection period. For the current DSA, the long term covers the period 2020-34, whereas for the previous DSA it covered 2018-32.

UNDERLYING ASSUMPTIONS

7. Compared with the previous DSA, the current assessment is based on a somewhat slower pace of fiscal deficit reduction (text table). This reflects Tanzania's need to increase growth-supporting infrastructure investments while maintaining a sustainable debt outlook. The deficit is projected to narrow gradually to 4 percent of GDP by 2015/16, and to further decline to 3 percent of GDP in 2020/21 and thereafter in line with the convergence criteria agreed under the East African Monetary Union (EAMU) protocol. Domestic revenues (excluding grants) are projected to grow from 18 percent of GDP in 2012/13 to over 23 percent of GDP by 2033/34, consistent with economic development and Tanzania's tax potential. External grants are assumed to decline gradually, from 3.4 percent of GDP in 2013/14 to 2 percent of GDP in the long term.

8. The composition of external borrowing is assumed to gradually shift toward non-concessional debt, consistent with a reduction in aid dependency as the economy matures. External non-concessional borrowing (ENCB) is expected to pick up in 2013/14, due in part to a US$558 million projected disbursement of the gas pipeline loan[9], and in part to debt contracted to finance new infrastructure projects.[10] Beyond 2013/14, the assumption is that total gross foreign financing would consist of about half ENCB and half concessional (program and project) loans in the medium term. Thereafter,

Foreign Financing Assumptions
(percent of GDP)



[9] This is part of a US$920 million loan from China EXIM Bank, contracted in 2012/13, to build a new gas pipeline that would bring low-cost natural gas from shallow water offshore reserves to the Dar es Salaam area.

[10] Contracted ENCB is projected at US$700 million in 2013/14, consistent with the second review under the SCF arrangement.

ENCB would gradually become the more prominent financing source, reaching about 70 percent of total foreign financing requirements by 2033/34.

9. **Other macroeconomic assumptions remain broadly similar to the previous DSA** (see Box 1 for detail). Real GDP is assumed to keep growing by 7 percent annually over the projection period, with continued strong capital accumulation. The external current account (CA) is projected to gradually improve over the medium term as the availability of gas-based power generation reduces the need for oil imports, and to stabilize at a still-large deficit of 10 percent of GDP.

Box 1. Key DSA Assumptions

- **Growth, inflation, exchange rate.** Real GDP growth is projected to remain at 7 percent over the medium and long term. Inflation would converge to the Bank of Tanzania's medium-term target of 5 percent, yielding a nominal growth rate of about 12 percent per annum. The Tanzanian shilling is projected to depreciate against the USD by 3 percent annually in the medium and long run, due to the inflation differential between Tanzania and the US.
- **Exports and imports.** Export and import values are assumed to grow at 11 and 10 percent annually in the long term, respectively.
- **Fiscal deficit.** The fiscal deficit is projected to decline to 4 percent of GDP by 2015/16, and further to 3 percent of GDP from 2020/21 onwards. Revenues excluding grants are assumed to grow from 18 percent of GDP to 23 percent of GDP by 2033/34.
- **Aid and FDI flows.** External grants are assumed to gradually decline to 2 percent of GDP by 2033/34. Foreign concessional loans (program and project loans) would slowly decline to 1 percent of GDP in the long term. Concessional loans are assumed to continue to come primarily from multilateral creditors (IDA, AfDB, etc.) in the medium term, but would then be increasingly provided by bilateral – particularly non-Paris Club – creditors, whose financing terms are not as favorable. After a slight increase due to further offshore natural gas explorations, net FDI inflows would stabilize at an average of 6.1 percent of GDP in the long term.
- **Domestic borrowing.** Net domestic financing is kept at a maximum of about 1 percent of GDP throughout the projection period. New domestic debt is assumed to carry a real interest rate of 10 percent with average maturity of seven years, consistent with recent experience.
- **External non-concessional borrowing.** ENCB is assumed to finance about half of the gross foreign financing requirement up to 2019/20 before gradually gaining importance over concessional sources, reaching 2.5 percent of GDP by 2033/34. The grant element of new borrowing is projected to decline considerably over the long run. New external commercial borrowing is assumed to be provided by a combination of export credit agencies (ECA) and commercial banks (syndicated loans), with the latter source becoming more prominent in the long run. Consistent with prevailing market conditions, ECA loans have an average interest rate of 4 percent with a 15-year maturity, whereas syndicated loans carry a higher average interest rate (7 percent) and shorter maturity (7 years).

10. The current DSA includes a government pension liability in the 2013/14 domestic public debt stock. The government currently has Tsh1.16 trillion (about 2.1 percent of GDP) of past-due payment liabilities it owes to PSPF for pension benefits related to the pre-1999 noncontributory scheme.[11] Although the authorities have acknowledged the outstanding liability and budget for partial repayment each year, the liability has not been formally recorded in the fiscal accounts and thus was not part of the domestic debt stock. This DSA assumes that recognition of this liability (and several other actual liabilities) occurs in 2013/14, resulting in a one-off increase in the 2013/14 public debt stock.[12] Moreover, in interpreting the fiscal deficit assumptions that underlie this DSA (and the related policy effort to meet such assumptions), it is important to keep in mind the flow of future expenditure obligations (estimated at 0.5 percent of GDP per year in the medium term, gradually slowing down thereafter) to cover the pension benefits of pensioners in the pre-1999 system as a part of the deficit.

11. The current DSA incorporates better-refined projections of debt service on existing external debts. The assessment uses individual loan information provided by the authorities, reflecting their process of upgrading the debt database and debt monitoring capacity. Future debt service obligations are projected for each loan, then aggregated into several representative instruments (e.g., by creditor type and lending terms).

12. The discount rate is currently set at 5 percent, compared to 4 percent used in the previous DSA.

EXTERNAL DSA

13. All PPG external debt burden indicators remain comfortably below indicative thresholds in the baseline scenario (Figure 1 and Table 1). Under the baseline assumptions, the present value (PV) of public external debt expressed as a share of GDP increases slightly from 20 percent in 2014 to a peak of 23 percent in 2019, before gradually declining to about 19 percent by the end of the projection period. Debt service indicators are projected to rise gradually over time, reflecting the long-maturity nature of concessional loans which make up the majority of the existing external debt stock, as well as the increasing weight placed on new commercial borrowing.

14. The outlook for the external debt ratios remains favorable under standard stress tests (Figure 1 and Tables 3a-b). All debt burden indicators remain safely below their respective risk thresholds. However, stress tests show that external debt dynamics would be adversely affected in the event of a one-time 30 percent depreciation in the nominal exchange rate. The PV of external debt expressed as a share of exports is sensitive to a shock to financing terms, in which the interest rate on new public sector borrowing

[11] The figure is based on the government's estimation. Until June 30, 1999, the PSPF was a noncontributory pension scheme, with all benefits paid from the budget. The PSPF was transformed into a contributory defined benefit scheme on July 1, 1999, but benefits continued to be paid from the budget during a 5-year transition period (until June 30, 2004). From July 1, 2004 onwards, the PSPF has been paying pension benefits related to the pre-1999 scheme on behalf of the government, for which it has not been reimbursed.

[12] Correspondingly, for the purpose of this DSA, the fiscal accounts show an increase in domestic financing (below the line). As a result of this one-off stock adjustment, domestic debt reported in the DSA is higher than in staff projections.

increases by 200bps. In addition, the external debt outlook would become less favorable in the event of a permanent growth shock, whereby real GDP growth is lower at 5 percent (2 percentage points below the baseline).

15. Compared to the previous DSA, the favorable impact of the higher discount rate prevails over the adverse effects of changes to the projected fiscal deficit and financing assumptions. Slower fiscal consolidation leads to more debt accumulation, assumed to be financed with increasingly non-concessional external debt. (The assumed concessionality of new external borrowing continues to decline over the projection period, as can be seen by the declining grant element—Figure 1, top left panel). However, the increase in the discount rate to 5 percent reduces the present value of external PPG debt by about 2 percent of GDP on average.

PUBLIC DSA

16. Indicators of overall public debt (external plus domestic) and debt service do not point to significant vulnerabilities related to the level of domestic debt (Figure 2 and Table 2). In the baseline scenario, the PV of total public debt expressed as a share of GDP and revenues is expected to decline gradually over time. The PV of public debt peaks at about 36.3 percent of GDP in 2014, when various outstanding government liabilities are recognized, but remains well below the benchmark level of about 75 percent associated with heightened public debt vulnerabilities for strong performers.[13] The path of public debt is also consistent with the authorities' objective under the EAMU protocol of keeping the public debt-to-GDP ratio (in PV terms) below 50 percent.

17. Stress tests indicate that the sustainable public debt path hinges on continued fiscal consolidation. In a scenario assuming that the primary deficit (as a percent of GDP) remains at the projected 2014 level over the entire projection period, the PV of public debt would keep growing to 51.5 percent of GDP by 2034. This scenario highlights the critical importance of reducing fiscal deficits to prevent excessive debt buildup. Fiscal consolidation in the medium term may present challenges for the authorities in light of infrastructure needs and expenditure pressures to facilitate growth in key sectors (e.g., energy, transportation, and agriculture), as well as growing pension obligations and the upcoming general election in 2015. The most extreme shock corresponds to a 10 percent of GDP increase in debt-creating flows in 2015, which would capture some of the government implicit contingent liabilities and/or non-central government borrowing that is not included in the DSA. The amount of known contingent liabilities arising from pension obligations and government guarantees (about 9 percent of GDP) is broadly in line with the magnitude of shock assumed by the standardized stress test.

18. Growing pension obligations present a challenge to be met in order to preserve public debt sustainability. The DSA shows that recognizing the outstanding liability to PSPF has a noticeable impact on the public debt ratio. In the absence of a reimbursement for past benefit payments, PSPF is now in a

[13] See Revisiting the Debt Sustainability Framework for Low-Income Countries for a discussion of public debt benchmarks. Tanzania is still considered a strong performer as their CPIA score of 3.73 breaches the 3.75 threshold slightly for the first time. The public debt benchmark for medium performers is 56 percent of GDP.

fragile financial position. Moreover, pension obligations related to the pre-1999 scheme will continue to accrue and are ultimately a spending obligation of the government. More broadly, the actuarial deficit across the pension sector (consisting of several pension funds) gives rise to further liabilities. This highlights the need for the government to address its outstanding pension liabilities, budget for future payments related to the pre-1999 scheme, and undertake parametric pension reforms to improve the funds' financial positions.

POTENTIAL IMPACT OF NATURAL GAS RESOURCES

19. The baseline macroeconomic framework underlying the current DSA does not yet factor in the potential impact of possible future natural gas production from emerging offshore large-scale projects. Recent deep water exploration by major petroleum companies has confirmed large natural gas deposits. Public information released by the companies exploring for natural gas indicates that there are recoverable gas resources of at least 23-26 trillion cubic feet (TCF), although there remains significant uncertainty about exact reserve estimates. There is potential for the reserve estimates to increase further given the substantial exploration activities underway (although gas reserves are likely to remain significantly smaller than those of neighboring Mozambique). While exploration and appraisal are well underway, the final investment decisions to construct liquefied natural gas (LNG) terminals have not yet been made. (Such decisions are currently expected to be made in 2016.) Thereafter, the development phase would start, and it would take several years before commercial production and exports of LNG could begin. Similarly, significant fiscal revenues would not materialize for at least a decade from today.

20. If natural gas prospects were to materialize, the impact on debt sustainability would depend on a variety of factors. The development phase (until about 2020/21) would see a significant deterioration of the external current account, given the import-intensive nature of LNG projects. The extent of the deterioration depends on the scale of the projects, e.g., whether it would be a two-train or four-train LNG plant. The larger CA deficit would be financed by a combination of FDI inflows and public sector external borrowing depending on the government's decision on how to manage natural gas resources, i.e., whether gas-related investments would be led by the private or public sector.[14] A temporary increase in the fiscal deficit and public debt buildup is therefore possible in the medium term. Once LNG commercial production comes online (possibly in the early 2020s), natural gas exports would pick up significantly, alleviating pressures on the current account (by how much depends on the commercially viable amount, the portion earmarked for domestic consumption, and prevailing global natural gas prices— which are particularly volatile). The fiscal impact would build up gradually, with tax yields initially mitigated by deductions on investments. The overall long-term impact would likely be highly beneficial, with potentially large fiscal receipts from gas revenues (Box 2), thereby reducing public sector borrowing needs and enhancing debt sustainability. A more precise DSA scenario incorporating LNG developments will be

[14] The government's natural gas policy, which was adopted in October 2013, envisaged a more central role for the national oil and gas company, TPDC (Tanzania Petroleum Development Corporation), across the upstream, midstream, and downstream sectors. Tanzania is working to finalize gas-related policies and regulations, which will be encompassed in a new Gas Master Plan, the downstream-focused Natural Gas Act, and a new petroleum policy which will cover the upstream sector.

developed when commercially viable natural gas resources are known with greater confidence and when there is reasonable certainty that the development of a large scale gas project will go ahead.

Box 2. Offshore Natural Gas: Resources, Investment, and Fiscal Impact

Tanzania has made significant offshore gas discoveries during the last two years. The resource discoveries have been made by two groups of international petroleum companies that are still conducting exploration and appraisal; neither has yet declared the gas discoveries to be commercial. A final investment decision is expected at the earliest in late 2016, with production potentially commencing after 2020. The latest estimates indicate that there are total recoverable gas resources amounting to 23-26 trillion cubic feet (tcf). A rule of thumb is that 10-12 tcf of gas reserves is the minimum required for a two-train liquefied natural gas (LNG) plant.

This box presents estimates of the possible investment and fiscal impact of an LNG project applying a model developed for Tanzania by the IMF's Fiscal Affairs Department (FAD). With uncertainty about gas reserves, project cost and gas prices, the fiscal regime, and potential government equity participation, these are illustrative estimates, not forecasts.

Investment impact

The investment impact of an LNG project will be significant, ranging from US$20-40 billion depending on the scale of the project.[1] Two-thirds of the development cost relate to pipelines and liquefaction facilities. During the development phase (possibly from 2018 to 2021), the sizeable investment will widen the current account deficit and temporarily boost growth. The fiscal impact during the development phase will depend on policy decisions regarding state participation in a project. As an illustration, if the government were to take a 15 percent equity share in the downstream of a large LNG project, the government's contribution to total development cost could be close to US$4.5 billion.

Fiscal revenue impact

Given the project uncertainty, and that the fiscal regime likely will evolve further, through either contractual negotiations or general reforms, it is only possible to simulate the fiscal impact under specific assumptions rather than make firm projections. The fiscal revenue impact would be highly beneficial. At full production, annual revenue collections by the government reach between US$3 billion and US$6 billion in the two different project simulations. These would have a transformational impact on the debt outlook, as by way of comparison today's public debt stock amounts to $12.4 billion. Most of the fiscal revenues would originate from the upstream, reflecting the higher effective tax rate and the assumption that the downstream will be regulated as a public utility. The fiscal regime is a hybrid combining royalty and income tax with production sharing. The largest revenue stream comes from production sharing, highlighting the importance of treating production sharing as any other source of fiscal revenue which should be paid to the Treasury and not retained by the national oil company.

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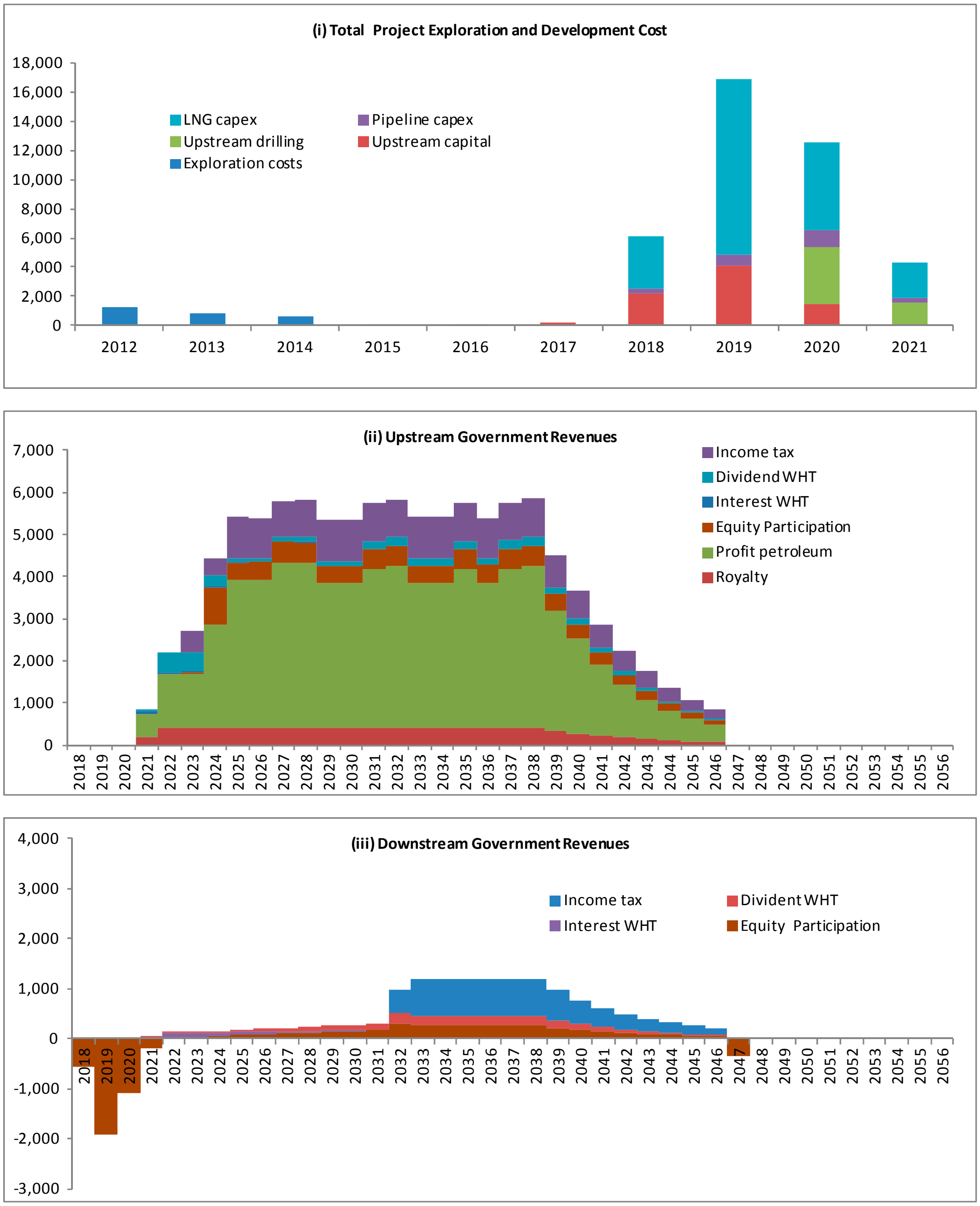
[1] Simulations have been done for two project sizes: a two-train liquefaction plant with capacity for annual production of 10 million metric tons of LNG and a four-train plant producing 20 million metric tons per year.

Box Figure. Tanzania: LNG Gas Fiscal Simulations[1/]



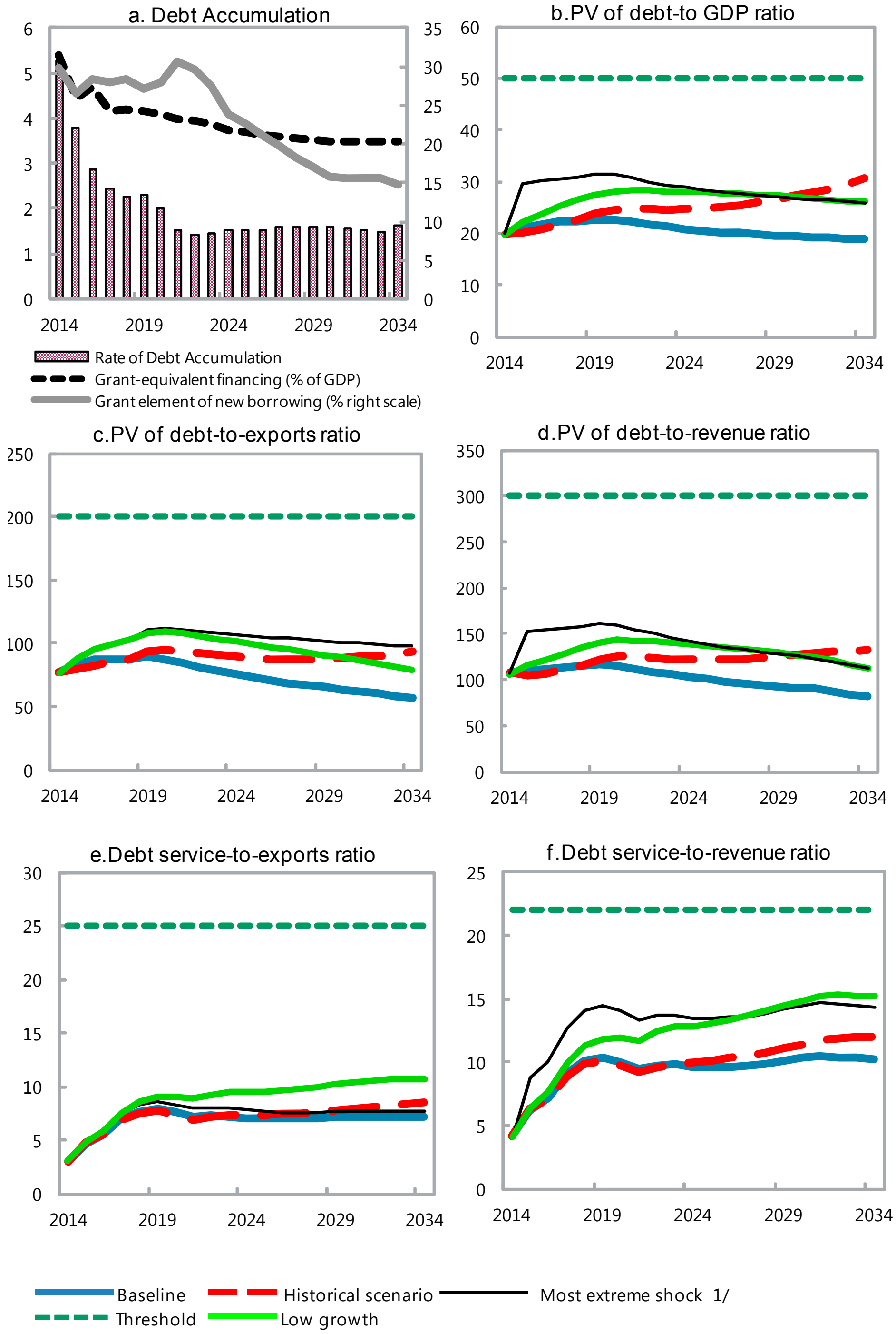
Source: IMF staff estimates

1/ Simulations of a four-train LNG plant with annual capacity of 20 mmt using total gas resources of 24 tcf over the life of the project.

CONCLUSION

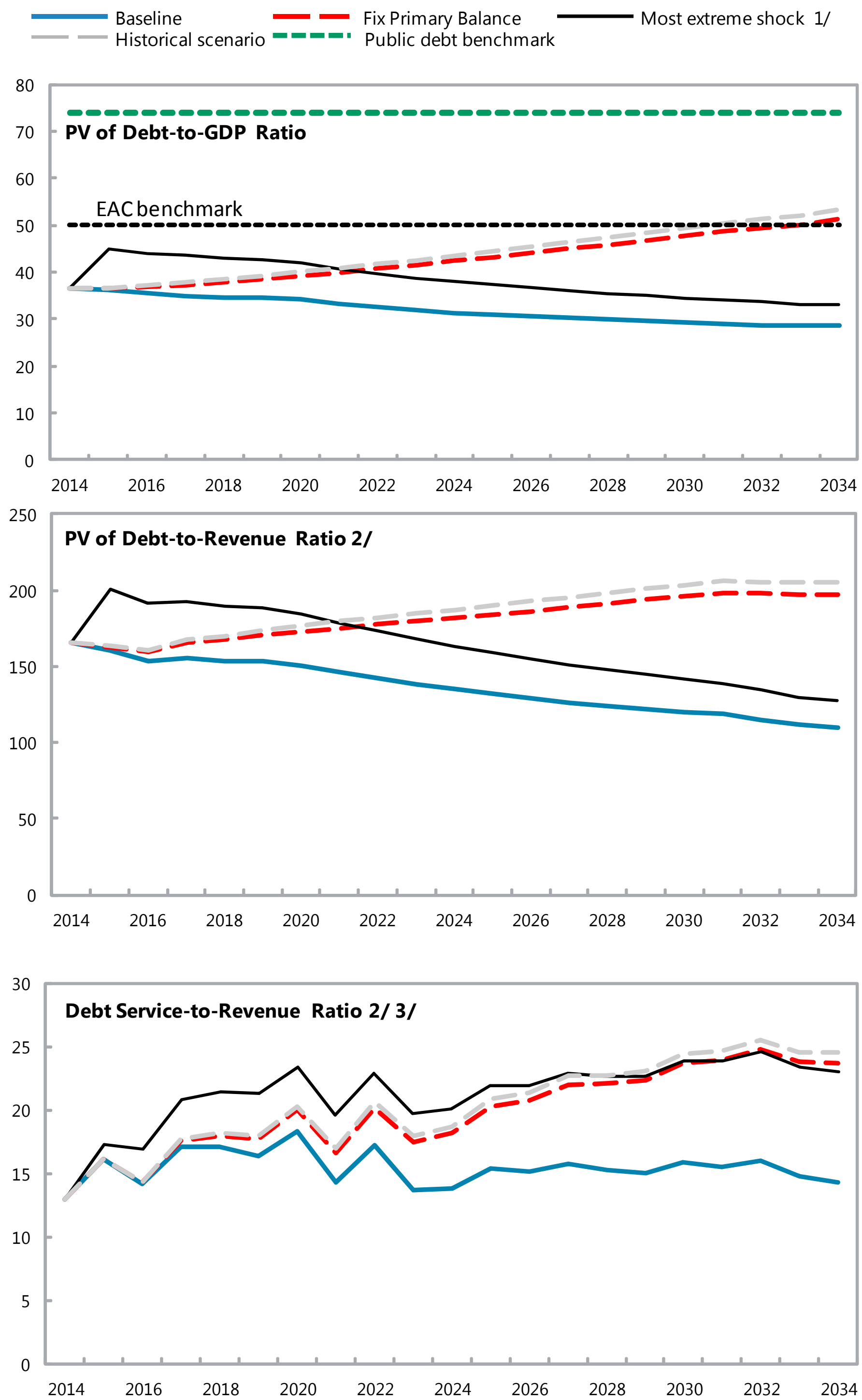
21. Tanzania continues to face a low risk of external debt distress and low risks from domestic public debt, but continued prudent policies are needed to preserve debt sustainability. Compared with the June 2012 DSA, the higher discount rate has a positive impact on the debt outlook, although this is partially offset by the assumption of a slower pace of fiscal deficit reduction and the assumed gradual reduction in the concessionality of external borrowing. While the public sector debt outlook remains favorable in the baseline, the public DSA, which only covers central government debt, shows that Tanzania's public debt would not stabilize in the absence of continued fiscal consolidation. The rising share of non-concessional borrowing would increase the average interest rate as well as potential exposure to interest rate fluctuations (if it took the form of variable rate loans) and rollover risks (if it took the form of Eurobond issuance with a lumpy repayment profile). Another challenge stems from government obligations related to the civil service pension sector, as well as yet-to-be-captured borrowing by local governments and public enterprises. Moreover, adverse shocks to economic growth, financing terms, or the exchange rate would significantly worsen the debt dynamics. A major upside risk relates to potentially large revenues from natural gas finds, which however would materialize only a decade from now. These results highlight the need for Tanzania to sustain fiscal consolidation efforts, to adopt a prudent approach to non-concessional borrowing, to initiate pension reforms, and to take concrete steps in improving its debt and public investment management capacity.

Figure 1. Tanzania: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2014–2034[1/]



Sources: Tanzanian authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation

Figure 2. Tanzania: Indicators of Public Debt Under Alternative Scenarios, 2014-2034[1]



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

3/ The volatile profile of debt service is due to the projected armotization for public domesti

Table 1. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2011–2034[1]

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2014-2019			2020-2034
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	**35.1**	**34.0**	**34.3**			**36.8**	**37.8**	**38.0**	**38.3**	**38.5**	**38.7**		**35.7**	**31.0**	
of which: public and publicly guaranteed (PPG)	29.8	28.8	29.2			32.0	33.0	33.3	33.6	33.7	33.9		30.7	25.6	
Change in external debt	5.6	-1.1	0.2			2.6	0.9	0.2	0.3	0.2	0.2		-0.7	-0.2	
Identified net debt-creating flows	4.1	9.4	2.7			6.3	4.4	3.3	2.4	2.2	1.8		2.2	1.1	
Non-interest current account deficit	**9.1**	**18.1**	**13.7**	**9.5**	**4.4**	**13.9**	**12.8**	**11.7**	**11.1**	**10.6**	**10.1**		**9.8**	**8.2**	9.3
Deficit in balance of goods and services	12.4	19.2	14.8			15.1	14.0	12.9	11.9	11.4	10.8		10.0	8.0	
Exports	29.8	31.0	27.2			25.6	25.5	25.1	25.4	25.7	25.4		27.7	32.8	
Imports	42.2	50.2	42.1			40.8	39.5	38.0	37.3	37.1	36.2		37.7	40.8	
Net current transfers (negative = inflow)	-4.2	-3.6	-2.6	-3.9	0.6	-2.2	-2.0	-1.9	-1.7	-1.6	-1.5		-1.1	-0.5	-0.9
of which: official	-3.1	-2.4	-1.7			-1.2	-1.0	-0.9	-0.9	-0.8	-0.8		-0.5	-0.2	
Other current account flows (negative = net inflow)	0.9	2.5	1.4			1.0	0.8	0.6	0.8	0.8	0.8		0.8	0.7	
Net FDI (negative = inflow)	**-4.3**	**-6.1**	**-6.0**	**-4.7**	**1.0**	**-6.0**	**-6.7**	**-6.7**	**-7.0**	**-6.8**	**-6.7**		**-6.0**	**-6.0**	-6.1
Endogenous debt dynamics 2/	**-0.8**	**-2.6**	**-5.0**			**-1.6**	**-1.7**	**-1.7**	**-1.7**	**-1.7**	**-1.6**		**-1.5**	**-1.2**	
Contribution from nominal interest rate	0.2	0.3	0.4			0.5	0.6	0.7	0.7	0.8	0.8		0.8	0.8	
Contribution from real GDP growth	-1.9	-2.2	-2.0			-2.1	-2.3	-2.4	-2.4	-2.4	-2.4		-2.3	-2.0	
Contribution from price and exchange rate changes	0.9	-0.7	-3.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.5**	**-10.5**	**-2.5**			**-3.7**	**-3.5**	**-3.0**	**-2.1**	**-2.0**	**-1.5**		**-2.9**	**-1.2**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	22.2			24.7	25.9	26.4	26.8	27.1	27.4		25.8	24.2	
In percent of exports	...	...	81.7			96.2	101.5	105.2	105.7	105.3	108.1		93.3	73.8	
PV of PPG external debt	**...**	**...**	**17.2**			**19.9**	**21.2**	**21.7**	**22.1**	**22.4**	**22.6**		**20.9**	**18.8**	
In percent of exports	**...**	**...**	**63.2**			**77.5**	**83.0**	**86.5**	**87.2**	**86.9**	**89.3**		**75.4**	**57.4**	
In percent of government revenues	**...**	**...**	**98.5**			**107.1**	**109.7**	**111.1**	**113.2**	**114.4**	**115.9**		**102.8**	**81.8**	
Debt service-to-exports ratio (in percent)	**4.0**	**2.4**	**3.0**			**4.6**	**6.3**	**7.2**	**8.6**	**9.2**	**9.6**		**8.6**	**8.6**	
PPG debt service-to-exports ratio (in percent)	**1.0**	**1.3**	**1.9**			**3.0**	**4.7**	**5.6**	**7.0**	**7.6**	**7.9**		**7.1**	**7.2**	
PPG debt service-to-revenue ratio (in percent)	**1.9**	**2.3**	**3.0**			**4.1**	**6.2**	**7.2**	**9.0**	**10.0**	**10.3**		**9.6**	**10.2**	
Total gross financing need (Billions of U.S. dollars)	1.4	3.3	2.6			3.2	3.0	2.9	2.9	3.2	3.3		5.3	10.4	
Non-interest current account deficit that stabilizes debt ratio	3.5	19.2	13.4			11.4	11.9	11.4	10.8	10.4	9.9		10.5	8.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.7	6.7	6.9	7.0	0.3	7.1	7.1	7.1	7.0	6.9	6.9	7.0	6.9	7.0	6.9
GDP deflator in US dollar terms (change in percent)	-3.0	2.2	10.8	3.4	6.2	5.8	4.2	3.9	2.5	2.1	2.1	3.4	2.1	2.0	2.1
Effective interest rate (percent) 5/	0.9	0.9	1.3	0.9	0.2	1.7	1.9	2.0	2.1	2.2	2.2	2.0	2.3	3.0	2.5
Growth of exports of G&S (US dollar terms, in percent)	22.8	13.3	4.3	15.4	7.8	6.7	11.0	9.3	10.9	10.7	7.5	9.4	11.0	11.0	11.0
Growth of imports of G&S (US dollar terms, in percent)	19.5	29.5	-0.6	19.5	12.1	9.8	8.1	7.0	7.5	8.7	6.3	7.9	10.0	10.0	10.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.9	26.6	28.4	28.0	28.4	27.1	28.1	23.9	14.8	21.0
Government revenues (excluding grants, in percent of GDP)	16.4	17.6	17.5			18.6	19.3	19.5	19.5	19.5	19.5		20.3	23.0	21.0
Aid flows (in Billions of US dollars) 7/	1.1	1.2	1.0			1.9	1.8	2.2	2.2	2.4	2.6		3.5	7.6	
of which: Grants	1.1	1.2	1.0			1.2	1.2	1.5	1.4	1.5	1.7		2.6	6.2	
of which: Concessional loans	0.0	0.0	0.0			0.7	0.6	0.7	0.7	0.8	0.9		0.9	1.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.4	4.5	4.7	4.2	4.2	4.2		3.7	3.5	3.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			54.1	54.5	60.8	58.0	58.1	57.1		60.9	53.8	58.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	23.7	25.8	30.6			34.7	38.7	43.0	47.2	51.5	56.2		86.7	207.8	
Nominal dollar GDP growth	3.6	9.0	18.6			13.3	11.6	11.2	9.7	9.1	9.1	10.7	9.1	9.1	9.1
PV of PPG external debt (in Billions of US dollars)			5.2			6.8	8.1	9.2	10.3	11.3	12.5		17.8	38.5	
(PVt-PVt-1)/GDPt-1 (in percent)						5.3	3.8	2.9	2.5	2.3	2.3	3.2	1.5	1.6	1.6
Gross workers' remittances (Billions of US dollars)	0.0	0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	17.2			19.9	21.1	21.7	22.1	22.3	22.6		20.8	18.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	62.9			77.2	82.7	86.2	86.9	86.6	89.0		75.2	57.3	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	1.9			3.0	4.7	5.6	6.9	7.6	7.9		7.0	7.1	

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–2034

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	40.4	39.8	41.3			48.7	47.9	47.0	46.5	46.0	45.8		41.2	35.3	
of which: foreign-currency denominated	29.8	28.8	29.2			32.0	33.0	33.3	33.6	33.7	33.9		30.7	25.6	
Change in public sector debt	6.6	-0.6	1.4			7.4	-0.8	-1.0	-0.5	-0.5	-0.1		-0.9	-0.1	
Identified debt-creating flows	5.1	-1.1	1.9			7.3	-0.1	-1.0	-0.4	-0.2	-0.1		-0.8	-0.2	
Primary deficit	5.6	4.0	5.2	3.7	1.6	3.6	3.2	2.4	2.5	2.6	2.6	2.8	1.7	1.6	1.7
Revenue and grants	21.1	22.1	20.8			22.0	22.4	23.0	22.5	22.5	22.5		23.3	26.0	
of which: grants	4.7	4.5	3.4			3.4	3.1	3.5	3.0	3.0	3.0		3.0	3.0	
Primary (noninterest) expenditure	26.7	26.0	26.0			25.6	25.6	25.5	25.0	25.1	25.1		25.0	27.5	
Automatic debt dynamics	-0.5	-5.1	-3.8			-3.4	-3.8	-3.4	-2.9	-2.8	-2.7		-2.5	-1.8	
Contribution from interest rate/growth differential	-2.2	-2.9	-2.3			-2.3	-3.0	-3.0	-2.8	-2.8	-2.7		-2.5	-1.8	
of which: contribution from average real interest rate	-0.1	-0.4	0.3			0.5	0.2	0.2	0.2	0.2	0.2		0.3	0.5	
of which: contribution from real GDP growth	-2.1	-2.5	-2.6			-2.7	-3.2	-3.2	-3.1	-3.0	-3.0		-2.7	-2.3	
Contribution from real exchange rate depreciation	1.7	-2.2	-1.5			-1.1	-0.8	-0.4	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.6			7.1	0.5	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			5.5	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.6			1.6	0.5	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.5	0.6	-0.5			0.2	-0.7	0.0	-0.1	-0.2	0.0		-0.1	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	29.2			36.5	36.1	35.4	35.0	34.6	34.6		31.4	28.6	
of which: foreign-currency denominated	...	...	17.2			19.9	21.2	21.7	22.1	22.4	22.6		20.9	18.8	
of which: external	...	...	17.2			19.9	21.2	21.7	22.1	22.4	22.6		20.9	18.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.1	6.5	7.5			6.4	6.8	5.7	6.4	6.4	6.3		4.9	5.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	140.3			166.0	161.0	153.6	155.3	153.6	153.3		134.7	110.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	167.5			196.8	186.9	181.1	179.1	177.1	176.9		154.5	124.2	
of which: external 3/	...	...	98.5			107.1	109.7	111.1	113.2	114.4	115.9		102.8	81.8	
Debt service-to-revenue and grants ratio (in percent) 4/	6.9	11.3	10.9			13.0	16.1	14.2	17.1	17.0	16.4		13.8	14.3	
Debt service-to-revenue ratio (in percent) 4/	8.9	14.2	13.0			15.4	18.7	16.7	19.7	19.6	18.9		15.8	16.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	4.5	3.8			-3.9	4.0	3.4	3.0	3.0	2.7		2.6	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.7	6.7	6.9	7.0	0.3	7.1	7.1	7.1	7.0	6.9	6.9	7.0	6.9	7.0	6.9
Average nominal interest rate on forex debt (in percent)	0.9	0.9	1.5	0.8	0.3	1.7	1.9	2.1	2.2	2.2	2.3	2.0	2.3	3.2	2.6
Average real interest rate on domestic debt (in percent)	2.1	-1.0	2.8	2.6	2.2	4.0	1.4	1.4	1.7	1.6	1.5	1.9	1.8	3.0	2.2
Real exchange rate depreciation (in percent, + indicates depreciatior	7.7	-8.0	-5.7	-1.2	6.7	-4.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.1	10.4	9.9	8.1	1.5	7.3	6.3	5.9	5.3	5.1	5.1	5.8	5.1	5.0	5.1
Growth of real primary spending (deflated by GDP deflator, in percer	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	29.9	26.6	28.4	28.0	28.4	27.1	28.1	23.9	14.8	...

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

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

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

3/ Revenues excluding grants.

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

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

Table 3a. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	20	21	22	22	22	23	**21**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	20	20	21	22	23	24	**25**	31
A2. New public sector loans on less favorable terms in 2014-2034 2	20	22	24	25	27	28	**30**	32
A3. Alternative Scenario : Low growth	20	22	24	25	26	27	**28**	26
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	20	21	22	22	22	22	**21**	19
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	20	22	23	23	24	24	**21**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	20	22	25	25	25	26	**23**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	20	23	24	24	25	25	**22**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	20	23	25	25	25	26	**23**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	20	29	30	31	31	31	**29**	26
PV of debt-to-exports ratio								
Baseline	78	83	87	87	87	89	**75**	57
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	78	79	83	85	88	94	**89**	93
A2. New public sector loans on less favorable terms in 2014-2034 2	78	87	95	100	103	110	**107**	97
A3. Alternative Scenario : Low growth	77	87	95	99	102	108	**101**	79
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	78	82	86	86	86	88	**74**	56
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	78	88	97	97	96	98	**81**	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	78	82	86	86	86	88	**74**	56
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	78	88	97	97	96	98	**80**	57
B5. Combination of B1-B4 using one-half standard deviation shocks	78	86	90	90	89	91	**75**	56
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	78	82	86	86	86	88	**74**	56
PV of debt-to-revenue ratio								
Baseline	107	110	111	113	114	116	**103**	82
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	107	104	106	111	115	121	**122**	133
A2. New public sector loans on less favorable terms in 2014-2034 2	107	115	122	129	136	143	**146**	139
A3. Alternative Scenario : Low growth	106	115	122	129	135	140	**138**	113
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	107	109	111	112	114	115	**102**	81
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	107	112	118	120	120	122	**105**	81
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	107	117	126	128	129	131	**116**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	107	117	124	125	126	127	**109**	82
B5. Combination of B1-B4 using one-half standard deviation shocks	107	119	128	129	130	131	**114**	88
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	107	153	154	157	158	160	**142**	113

Table 3b. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (concluded)

(In percent)

	Projectins							
	2014	2015	2016	2017	2018	2019	2014	2034
Debt service-to-exports ratio								
Baseline	3	5	6	7	8	8	**7**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	3	5	5	7	7	8	**7**	8
A2. New public sector loans on less favorable terms in 2014-2034 2	3	5	5	6	6	6	**7**	9
A3. Alternative Scenario : Low growth	3	5	6	8	9	9	**9**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	3	5	6	7	8	8	**7**	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	3	5	6	8	8	9	**8**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	3	5	6	7	8	8	**7**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	3	5	6	7	8	8	**8**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	3	5	6	7	8	8	**7**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	3	5	6	7	8	8	**7**	7
Debt service-to-revenue ratio								
Baseline	4	6	7	9	10	10	**10**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	4	6	7	9	10	10	**10**	12
A2. New public sector loans on less favorable terms in 2014-2034 2	4	6	6	8	8	8	**9**	13
A3. Alternative Scenario : Low growth	4	6	8	10	11	12	**13**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	4	6	7	9	10	10	**10**	10
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	4	6	7	9	10	11	**10**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	4	7	8	10	11	12	**11**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	4	6	7	10	11	11	**10**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	4	6	8	10	11	11	**11**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	4	9	10	13	14	14	**13**	14
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	13	13	13	13	13	13	**13**	13

Sources: Tanzania authorities; and IMF staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Tanzania: Sensitivity Analysis for Key Indicators of Public Debt 2014-2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	37	36	35	35	35	35	31	29
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	37	37	37	38	38	39	44	53
A2. Primary balance is unchanged from 2014	37	36	37	37	38	38	42	51
A3. Permanently lower GDP growth 1/	37	36	35	35	35	35	32	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	37	36	36	36	35	35	33	31
B2. Primary balance is at historical average minus one standard deviations in 2015-201	37	38	40	39	39	39	35	31
B3. Combination of B1-B2 using one half standard deviation shocks	37	37	39	38	38	38	34	31
B4. One-time 30 percent real depreciation in 2015	37	44	42	41	40	40	37	36
B5. 10 percent of GDP increase in other debt-creating flows in 2015	37	45	44	43	43	43	38	33
PV of Debt-to-Revenue Ratio 2/								
Baseline	166	161	154	155	154	153	135	110
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	166	163	161	167	170	174	187	206
A2. Primary balance is unchanged from 2014	166	162	159	165	167	170	182	197
A3. Permanently lower GDP growth 1/	166	161	154	156	154	155	138	120
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	166	162	156	158	157	157	141	119
B2. Primary balance is at historical average minus one standard deviations in 2015-201	166	170	173	175	172	171	149	119
B3. Combination of B1-B2 using one half standard deviation shocks	166	167	167	169	168	167	148	121
B4. One-time 30 percent real depreciation in 2015	166	195	183	183	179	177	157	139
B5. 10 percent of GDP increase in other debt-creating flows in 2015	166	201	191	193	190	189	163	127
Debt Service-to-Revenue Ratio 2/								
Baseline	13	16	14	17	17	16	14	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	16	14	18	18	18	19	25
A2. Primary balance is unchanged from 2014	13	16	14	18	18	18	18	24
A3. Permanently lower GDP growth 1/	13	16	14	17	17	16	14	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	13	16	14	17	17	17	14	15
B2. Primary balance is at historical average minus one standard deviations in 2015-201	13	16	15	19	19	18	15	15
B3. Combination of B1-B2 using one half standard deviation shocks	13	16	15	18	19	18	15	16
B4. One-time 30 percent real depreciation in 2015	13	17	17	21	21	21	20	23
B5. 10 percent of GDP increase in other debt-creating flows in 2015	13	16	17	22	21	20	17	17

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Press Release No. 14/182
FOR IMMEDIATE RELEASE
April, 25, 2014

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

IMF Executive Board Concludes Third Review of an Arrangement Under the Standby Credit Facility with Tanzania

The Executive Board of the International Monetary Fund (IMF) today concluded the third and final review of an arrangement under the Standby Credit Facility (SCF)[1] with Tanzania. The SCF was approved in July 2012 (see Press Release No. 12/252). In February 2013, the authorities drew the full accumulated amount of US$114 million under the SCF arrangement through that date. No drawings have been made since then, and the authorities have indicated that they do not intend to make further drawings on the arrangement, which expires on April 30, 2014.

The Board also concluded the 2014 Article IV consultation; a press release will be issued separately.

Following the Executive Board discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, said:

"The Tanzanian authorities are to be commended for the broadly satisfactory implementation of their economic program supported by the Fund's Standby Credit Facility. Prudent macroeconomic policies have delivered buoyant economic growth and successful disinflation.

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[1] The SCF supports low-income countries that have reached broadly sustainable macroeconomic positions, but may experience episodic, short-term financing and adjustment needs, including those caused by shocks. The SCF supports countries' economic programs aimed at restoring a stable and sustainable macroeconomic position consistent with strong and durable growth and poverty reduction. It also provides policy support and can help catalyze foreign aid. (See http://www.imf.org/external/np/exr/facts/scf.htm.) Details on Tanzania's SCF are available at www.imf.org/tanzania

“Preserving macroeconomic stability is essential for continued strong growth. Yet, vulnerabilities may be building up, with pressures for additional fiscal expenditures and a large current account deficit. To safeguard the sustainability of the public finances, improved public financial management is a priority, going forward.

“A key objective for the remainder of this fiscal year is to contain expenditures within the limits set in the mid-year budget review and to strengthen revenue administration. Looking ahead, efforts will be needed to mobilize additional revenues, beginning with the VAT reform, while ensuring that revenue assumptions are realistic, so as to eschew the accumulation of new arrears and to avoid abrupt expenditure cuts during budget execution.

“A crucial medium-term challenge will be to set up appropriate institutional arrangements to ensure that the benefits from the exploitation of natural gas fields accrue to all Tanzanians. This will involve establishing a fair taxation regime, transparent contracts with the companies involved, and a framework to manage resource wealth that promotes inter-generational equity and is fully integrated with the budget process.

Tanzania is becoming increasingly interconnected with the global economy and greater focus on international competitiveness is warranted. Accordingly, the exchange rate should fully reflect market conditions, and a variety of reforms need to be undertaken to dismantle remaining impediments to trade, including infrastructure bottlenecks, and improve the business climate.”

Press Release No. 14/227
FOR IMMEDIATE RELEASE
May 15, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with Tanzania

On April 25, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Tanzania and completed the third and final review of the country's performance under an economic program supported by a Standby Credit Facility arrangement (see Press Release No. 14/182).

Economic growth in Tanzania is projected to remain strong at 7 percent next year and in the medium term. Inflation is at 6 percent, gradually converging to the authorities' 5 percent medium term objective. The external current account deficit remains among the largest in the region, at 14 percent of GDP this year. Fiscal revenue shortfalls and overruns in domestically-financed spending led the deficit to rise to 6.8 percent of GDP in 2012/13. Revenue shortfalls in 2013/14 compared to the budget approved by parliament have prompted the authorities to undertake expenditure cuts during the fiscal year in an effort to meet their 5 percent of GDP deficit target. Based on the debt sustainability analysis, Tanzania remains at low risk of debt distress. A major opportunity for the long term, not yet incorporated in the baseline projections, relates to sizable finds of offshore natural gas that, if confirmed as commercially viable, could generate significant exports and government revenues during the 2020s.

Executive Board Assessment[2]

Executive Directors commended the skilful macroeconomic management that has delivered rapid growth, falling inflation, and continued poverty reduction in the context of Fund-supported economic programs. Noting risks to the outlook and remaining vulnerabilities, Directors encouraged the authorities to consolidate the gains so far by stepping up efforts to improve the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

policy frameworks, reconstitute buffers, and push ahead with structural reforms in a variety of areas.

To safeguard the sustainability of the public finances, Directors recommended containing public spending within the limit of the mid-term budget review, while addressing poverty alleviation and the large infrastructure deficit through careful expenditure prioritization. They also encouraged the authorities to intensify revenue mobilization, including through accelerated VAT reforms. More broadly, Directors agreed that the achievement of fiscal targets would benefit from further improvements in public financial management, which would prevent the recurrence of arrears and facilitate their resolution. It would also be important to improve the quality and dissemination of fiscal data.

Directors commended the Bank of Tanzania for reducing inflation to the mid-single digits and preserving financial stability. Looking ahead, they advised to further strengthen prudential oversight, including as regards the regime against money-laundering and the financing of terrorism. Directors also welcomed the central bank’s intention to transition to an interest rate-based monetary policy framework, and encouraged a review of the foreign exchange market to promote greater transparency and efficiency.

Directors took note of the staff’s assessment that the Tanzanian shilling appears to be somewhat overvalued in real effective terms, but agreed that Tanzania’s ongoing structural transformation amplifies the uncertainty surrounding such assessment. They nonetheless considered that the persistently high external current account deficit points to the need to boost external competitiveness through enhanced exchange rate flexibility as well as additional reforms to reduce implements to trade, promote financial deepening, and improve the business climate.

Noting that the recent offshore discoveries of natural gas could present a major opportunity for Tanzania, Directors recommended establishing over the medium-term transparent institutional frameworks for natural gas taxation and wealth management with a view to fostering good governance and inter-generational equity.

Table 1. Tanzania: Selected Economic and Financial Indicators, 2010/11–2017/18

	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
National income and prices										
Nominal GDP (in billions of TSh)	34,913	41,125	48,264	48,348	55,228	55,559	63,263	71,718	80,801	90,810
Real GDP growth (calendar year) [2]	6.4	6.9	7.0	7.0	7.2	7.2	7.0	7.1	7.0	6.8
Real GDP growth	6.7	6.7	7.0	6.9	7.1	7.1	7.1	7.1	7.0	6.9
Consumer prices (period average)	7.0	17.8	11.6	11.3	7.2	5.8	5.1	5.0	5.0	5.0
Consumer prices (end of period)	10.9	17.4	9.5	7.6	6.0	5.0	5.0	5.0	5.0	5.0
GDP deflator (period average)	8.1	10.3	...	10.0	...	7.4	6.3	5.9	5.3	5.1
External sector										
Exports, f.o.b (in billions of U.S. dollars)	4.9	5.6	5.9	5.4	6.5	5.5	6.1	6.6	7.3	7.9
Imports, f.o.b. (in billions of U.S. dollars)	8.0	10.6	11.0	10.5	12.3	11.5	12.4	13.3	14.3	15.6
Export volume	10.9	8.9	2.0	-2.2	12.6	9.7	12.7	10.7	10.6	9.1
Import volume	6.2	28.8	3.2	-2.0	10.2	10.1	9.1	8.7	8.0	8.9
Terms of trade	1.2	1.6	3.4	-1.5	-2.5	-6.9	-1.3	0.2	-0.5	0.3
Nominal effective exchange rate (end of period; depreciation= -)[3]	-17.7	6.4	0.6	1.2	...	...	...	...	...	...
Real effective exchange rate (end of period; depreciation= -)[3]	-13.6	21.5	6.0	6.1	...	...	...	...	...	...
Money and credit										
Broad money (M3)	22.0	10.9	14.5	14.9	13.0	14.5	15.5	14.8	14.1	13.8
Average reserve money	19.3	14.2	15.7	14.5	11.9	14.9	13.9	13.4	12.7	12.4
Credit to nongovernment sector	24.3	18.6	17.4	17.1	13.9	16.5	14.7	14.5	13.2	16.2
Velocity of money (GDP/M3; average)	3.2	3.2	3.3	3.3	3.4	3.4	3.3	3.3	3.3	3.2
Treasury bill interest rate (in percent; end of period)	4.8	13.8	...	13.9	...	...	...	...	...	...
	(Percent of GDP)									
Public Finance										
Revenue (excluding grants)	16.4	17.6	18.1	17.5	19.9	18.4	19.3	19.5	19.5	19.5
Total grants	4.7	4.5	3.7	3.6	4.2	3.3	3.4	3.5	3.0	3.0
Expenditure[4]	27.0	26.2	27.6	28.0	29.1	26.9	27.6	27.1	26.6	26.6
Overall balance (excluding grants)[5]	-11.4	-8.6	-9.5	-10.5	-9.2	-8.5	-8.3	-7.5	-7.0	-7.0
Overall balance (including grants)[5]	-6.6	-5.0	-5.8	-6.8	-5.0	-5.2	-4.9	-4.0	-4.0	-4.0
Domestic financing (excluding gas pipeline financing)	3.6	0.8	1.0	2.2	1.0	1.4	1.0	0.5	0.7	0.7
Domestic debt stock (end of period)[6]	9.6	11.1	10.4	11.6	10.1	10.5	10.2	9.5	9.2	8.8
Total public debt[6,7]	39.4	39.8	41.6	40.8	43.3	41.4	42.5	42.1	42.4	42.5
Savings and investment										
Resource gap (net exports of goods and services)	-15.3	-17.6	-16.7	-15.6	-15.6	-14.8	-14.0	-12.9	-12.0	-11.4
Investment	34.5	35.5	39.2	34.4	38.3	33.4	32.1	31.5	31.5	31.6
Government	8.5	8.8	9.1	8.6	8.9	8.5	8.6	8.6	8.6	8.7
Nongovernment[8]	26.0	26.8	30.2	25.7	29.4	24.9	23.5	22.9	22.9	
Gross domestic savings	19.3	18.0	22.6	18.8	22.7	18.6	18.2	18.6	19.5	20.2
External sector										
Current account balance (excluding current transfers)	-12.5	-20.8	-16.0	-15.7	-17.0	-15.7	-14.5	-13.3	-12.7	-12.2
Current account balance (including current transfers)	-9.4	-18.4	-14.3	-14.0	-15.2	-14.5	-13.3	-12.3	-11.7	-11.3
	(Billions of U.S. dollars, unless otherwise indicated)									
Balance of payments										
Current account balance (excluding current transfers; deficit= -)	-3.0	-5.4	-4.8	-4.8	-5.7	-5.4	-5.6	-5.7	-6.0	-6.3
Gross official reserves (end of period)	3.6	3.8	4.2	4.4	4.5	4.6	5.2	5.6	6.2	6.8
In months of imports of goods and services (current year)	4.3	3.5	3.8	4.1	3.6	3.9	4.0	4.1	4.2	4.3
Total external debt stock (end of period; percent of GDP)[7]	33.1	34.4	35.0	35.7	36.8	36.7	37.6	37.3	37.5	37.7

Sources: Tanzanian authorities and IMF staff estimates and projections

[1] From the sixth review under the PSI and the second 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 June 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, and domestic unpaid claims (reported in Table 2b).
[8] Including change in stocks.

Statement by Mr. Saho, Executive Director for United Republic of Tanzania
April 25, 2014

Introduction

The Tanzanian authorities have demonstrated a track record of sound macroeconomic policy implementation, which has culminated in robust economic growth and a stable macroeconomic environment. The judicious implementation of a Fund-supported Policy Support Instrument (PSI) (June 2010–June 2013) and the current 18-month Standby Credit Facility (SCF) arrangement has laid a solid foundation to sustain the growth momentum, improve the country's external competitiveness, maintain price stability, and rebuild fiscal buffers. Overall economic policy, going forward, will focus on the scaling-up of investments in infrastructure and key productive sectors, preserving macroeconomic stability and addressing the underlying structural impediments to growth, consistent with the key national and regional objectives set out in their poverty reduction strategy (the Mkukuta II), the Five Year Development Plan, and the East African Community (EAC) protocols.

Performance under the SCF arrangement has been broadly satisfactory since the inception of the program in July 2012, reflecting the authorities' adherence to prudent macroeconomic policies and commitment to deepen structural reforms. In view of the continued strong performance—with all but one quantitative PC for end-June 2013 met together with most indicative targets for end-September and December 2013, and the significant progress achieved in implementing the structural reform agenda—my authorities request Directors' support for the completion of the third and final review under the SCF arrangement. In this context, they request a waiver for the nonobservance of the performance criterion on net domestic financing, breached in the authorities' bid to ensure continued financing of critical development projects in the face of shortfalls in foreign financing and domestic revenue mobilization.

The Tanzanian authorities appreciate the constructive engagement and policy dialogue with staff in their effort to address the daunting socio-economic challenges and create an environment conducive to supporting their development agenda. They value highly the support of the Fund Management and Executive Directors, and consider the staff report informative, well balanced, and an important source of meaningful policy advice.

Recent economic developments and prospects

The Tanzanian economy continues to register strong economic growth, estimated at 7.0 percent in 2013. Growth has been largely broad-based, driven by increased activity in the agriculture, transport and communications, trade, real estate and business services, and manufacturing sectors. Overall economic growth is projected at 7.2 percent in 2014. The inflation environment remains benign, with headline and core inflation declining during the second half of 2013, on account of tight monetary policy and reduced supply side bottlenecks. Annual headline and core inflation were 5.6 percent and 4.5 percent, respectively, in December 2013 down from 12.1 percent and 8.9 percent in December 2012.

Fiscal management, in FY2012/13, was challenged by dwindling external budgetary support, optimistic revenue projections, and weaknesses in public financial management systems. While total expenditures were contained within program targets, the shortfall in domestic revenue mobilization relative to budget projection and the program target resulted in a higher-than-anticipated fiscal deficit, breaching the overall deficit target of 5.5 percent of GDP by 0.3 percent. In spite of efforts to address the accumulation of domestic arrears, the stock increased over the year by 0.5 percent to 1.0 percent of GDP at end-June 2013.

The Bank of Tanzania (BoT) has maintained a tight monetary policy stance, culminating in a decline in key monetary aggregates, with broad money (M3) and private sector credit growth in line with end-December 2013 program targets. Inflation expectations have been effectively anchored and, as highlighted inter alia, inflation has continued to trend downwards. The exchange rate has remained fairly stable, supporting the disinflationary path. The banking sector has remained profitable and adequately capitalized. Financial soundness indicators are robust, with most commercial banks fulfilling the new statutory minimum capital requirement. The portfolio of non-performing loans shrunk steadily from 8.1 percent at end- 2012 to 6.5 percent at end-2013. Effort to improve loan quality and minimize default was bolstered by the establishment of credit reference bureaus.

Medium-term policies and outlook

Fiscal policy

My authorities have continued to pursue prudent fiscal policy aimed at promoting economic growth, enhancing service delivery and improving the socio-economic welfare of the populace, all within the ambit of macroeconomic stability and fiscal sustainability. To this end, they will seek to strike an appropriate balance between their objectives of promoting inclusive growth and preserving macroeconomic stability. To achieve these objectives, they intend to pursue a path of gradual but sustained deficit reduction, culminating in the attainment of the 3 percent of GDP stipulated under the East African Monetary Union (EAMU) protocol. Expenditure restraints and enhanced domestic revenue mobilization would form centerpiece of their medium term fiscal strategy.

On expenditures, the authorities intend to contain recurrent spending, including on the wage bill, while focusing on priorities outlined in the Mkukuta II and the Five Year Development Plan. The strengthening of the public financial management systems will also be vigorously pursued to improve budget execution, including curbing the recurring issue of accumulation of domestic arrears. In the meantime, prompt action is being taken to clear a sizeable portion of longstanding arrears, including by earmarking a portion of potential capital gains taxes on the sale of offshore natural gas exploration rights. To help prevent further build-up of new arrears, a moratorium has been imposed on the contracting of new domestically-financed multi-year projects and a high-level committee comprising key government entities established to provide oversight.

On the revenue front, the authorities are committed to expediting implementation of VAT reforms, with a view to modernize the VAT administration, broaden the tax base and streamline the scope of tax exemptions. Key tax legislations will also be revised in line with international best practices.

Monetary and exchange rate policy

My authorities aim to maintain a tight monetary policy stance with the objective to further reduce inflation to the BoT's policy target of 5 percent in the medium term. To achieve this objective, the BoT will set its policy rate consistent with the envisaged disinflationary path. The authorities will remain vigilant and closely monitor risks to inflation, including those arising from regional supply shocks and domestic energy prices. The array of monetary policy instruments at the Bank's disposal will be expanded, the sterilization of excess liquidity complemented by more active foreign exchange sales, and the liquidity forecasting and management framework further strengthened. In addition, the authorities will undertake to better understand the channels through which monetary policy impulses are transmitted through the real economy, with a view to gradually transit to an interest rate-based monetary policy framework. They will continue to rely on Fund technical advice and practical operational guidance to ensure a smooth transition.

On the exchange rate, the BoT reaffirms its commitment to a market determined exchange rate regime, and considers it an important safeguard against exogenous shocks. To this end, interventions in the foreign exchange market will be limited to liquidity management and to smoothen out short-term fluctuations in the exchange rate. The BoT will also seek to attain a healthy level of gross international reserves, consistent with the statutory requirement of its Act. In the spirit of the EAC common market protocols, the capital account will be fully liberalized by December 2015 to allow for freer movement of capital within the community and with the rest of the world.

Financial sector stability

My authorities have preserved the stability of the financial sector and promoted its further deepening. While financial soundness indicators have been favorable and the banking sector adequately capitalized, the BoT's efforts at reinforcing the bank supervisory and regulatory framework will be unrelenting. Consequently, the authorities will continue to sharpen financial stability monitoring tools and enhance the bank stress-testing framework, with technical assistance from the Fund. In addition, the authorities are in the process of developing a framework for consolidated supervision. They also plan to build on the progress in addressing the weaknesses in the country's AML/CFT framework by undertaking a national assessment of potential risks and proffering appropriate policy measures to mitigate these risks.

Structural reforms

My authorities are committed to implementing far-reaching structural reforms to complement their sound macroeconomic policies, with a view to achieve a more broad-based growth, create employment opportunities and reduce poverty.

Recent offshore discoveries of substantial natural gas reserves, if found to be commercially viable, have the potential to lead to the structural transformation of the Tanzanian economy. Mindful of this immense opportunity, my authorities have initiated a process of developing an appropriate fiscal framework that ensures efficient management of prospective revenues from natural gas. A natural gas policy has already been adopted and, with donor support, a comprehensive policy and regulatory framework is being developed. Drafting of a policy paper on fiscal management of gas revenues and amendments to the Income Tax Act incorporating mining and petroleum taxation are expected going forward.

Restoring the financial viability of the national power utilities company (TANESCO) remains a major preoccupation of my authorities going forward. Implementation of an average 40 percent increase in electricity tariff, with effect from January 1, 2014, underscores their commitment to achieving this goal and ensuring more efficient service delivery. Given the recent progress in addressing its financial obligations, and with the expected realization of external donor funding, the profitability of TANESCO is expected to be restored over the medium term.

Development of the private sector will constitute an important component of the country's economic program for FY2014/15 and the medium term. Efforts to improve the business environment will focus on addressing the huge infrastructure deficit, strengthening the institutional and legal framework for doing business, and enhancing access to credit. Effective implementation of the Mkukuta II is to continue up to end-June 2015. Subsequently, review of the Mkukuta II process is to be undertaken and a successor poverty reduction strategy developed.

Conclusion

My Tanzanian authorities remain committed to pursuing sound macroeconomic policies and implementing far-reaching structural reforms to promote a more inclusive and balanced growth and address the high level of unemployment, within a stable macroeconomic environment. In this regard, they intend requesting Board approval of a successor PSI in the months ahead, following a process of extensive internal consultations to ensure broad ownership and political buy-in of the proposed economic and financial policies. They expect a new program to be effectively aligned with the policy objectives set out in their medium-term macroeconomic framework.