



# UNITED REPUBLIC OF TANZANIA

February 2016

## THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UNITED REPUBLIC OF TANZANIA

In the context of the third review under the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 22, 2016, following discussions that ended on December 7, 2015, with the officials of Tanzania on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument. Based on information available at the time of these discussions, the staff report was completed on January 12, 2016.
- A **Statement by the Executive Director** for the United Republic of Tanzania.

The documents listed below have been separately released:

Letter of Intent sent to the IMF by the authorities of Tanzania\*

Memorandum of Economic and Financial Policies by the authorities of Tanzania\*

Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the Program Supported by the PSI\*

\*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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### **IMF Executive Board Completes Third PSI Review for Tanzania**

The Executive Board of the International Monetary Fund completed today the third review of Tanzania's economic performance under the program supported by the Policy Support Instrument (PSI)<sup>1</sup>.

In completing the review, the Board also approved modification of the December 2015 assessment criteria on net international reserves and tax revenue, a waiver for the missed June 2015 assessment criterion on tax revenue, and modification of program design consistent with the new debt limits policy.

The PSI for Tanzania was approved by the Executive Board on July 16, 2014 (see [Press Release No. 14/350](#)). Tanzania's program under the PSI supports the authorities' medium-term objectives. These include: the maintenance of macroeconomic stability, the preservation of debt sustainability, and the promotion of more inclusive growth and job creation.

Following the Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

“Macroeconomic performance in Tanzania remains strong and medium-term prospects are favorable. Performance under the Policy Support Instrument, however, has been mixed. While most assessment criteria for June 2015 were met, program implementation slowed ahead of the October 2015 elections.

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<sup>1</sup> The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>). Details on Tanzania's PSI program are available at [www.imf.org/tanzania](http://www.imf.org/tanzania).

“The overall deficit for 2014/15 exceeded the program target once the significant accumulation of expenditure arrears is taken into account, reflecting shortfalls in revenue and financing, and weak expenditure commitment controls. The incoming authorities have taken action to strengthen controls and sanctions against accounting officers that breach rules, in order to contain the accumulation of new arrears. The authorities also plan to complete the settlement of existing verified arrears, including those to pension funds.

“Budget implementation in 2015/16 faces challenges arising from possible shortfalls in financing and revenue, unbudgeted expenditures carried forward from 2014/15, and the need to make space for the new government’s priorities. Against this backdrop, early action to adjust the budget is welcome and will help prevent further arrears accumulation. Changes to program design will provide more flexibility in debt management and should be accompanied by continued efforts to enhance debt and public investment management capacity.

“The current monetary policy stance should bring inflation down to the authorities’ 5 percent target by the end of 2016. The use of foreign exchange intervention should be limited to liquidity management and smoothing volatility in the foreign exchange market, with higher reliance on domestic-currency instruments to address excess liquidity. Better coordination of fiscal and monetary policy would make it easier for the Bank of Tanzania to focus on its main inflation objective.

“Putting TANESCO, the power utility, on a sound financial footing is critical for the development of the energy sector, making the completion of the authorities’ strategy to address TANESCO’s arrears a priority.”



# UNITED REPUBLIC OF TANZANIA

January 12, 2016

## THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA

### KEY ISSUES

**Elections took place in October 2015 and the new authorities confirmed their commitment to the objectives of the program.** CCM, the ruling party since independence, retained a large majority in parliament, and its candidate, John Magufuli, was elected president. The new authorities have sent strong signals on their determination to reform the government, strengthen the work ethics of the public service, streamline expenditure, and fight tax evasion.

**Tanzania's macroeconomic performance remains strong.** Real GDP growth is on track to remain at about 7 percent. Inflation, which rose to 6.3 percent in October 2015, is expected to converge to the authorities' 5-percent target in 2016. The external current account deficit is projected to decrease further due to lower oil imports.

**Program implementation slowed significantly ahead of the elections.** While most assessment criteria (ACs) for June 2015 were met, the September indicative targets for tax revenue, average reserve money, and net international reserves (NIR) were missed. Revenue and financing shortfalls, together with weak commitment controls, led to the accumulation of further domestic arrears in 2014/15. Some progress was achieved in structural reforms but a number of benchmarks were missed.

**A revised budget framework for 2015/16 that closes a fiscal gap of about 1 percent of GDP has been approved by the new government.** The adjustment reflects a modest revenue shortfall, unbudgeted expenditures carried over from 2014/15, and the need to make space for the new president's priorities. Non-priority expenditures will be streamlined.

**Monetary policy was tightened in response to exchange rate volatility and will need to remain cautious.** It will need to rely more on domestic currency instruments, to allow international reserves to continue to cover 4 months of prospective imports. Coordination of monetary and fiscal policies needs to improve.

**Staff recommends completion of the third PSI review,** modification of the December 2015 ACs on NIR and tax revenue, a waiver for the missed June 2015 AC on tax revenue, and modification of program design consistent with the new debt limits policy.

**Approved By****Roger Nord (AFR) and  
Masato Miyazaki  
(SPR)**

A staff team consisting of Messrs. Joly (head), Gigineishvili, Raman (all AFR), Kpodar (FAD), and Ms. Farid (SPR) visited Dar es Salaam during September 17–30, 2015. A staff visit to complete discussions took place during December 1–7, 2015. Messrs. Baunsgaard (Resident Representative) and Rutachururwa, and Ms. Shayo (local economists) assisted the mission. The mission met with outgoing Minister of Finance Saada Mkuya Salum; Bank of Tanzania Governor Ndulu; Permanent Secretary of the Treasury Dr. Likwelile; other officials; development partners; and members of civil society.

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## BACKGROUND AND RECENT DEVELOPMENTS

1. **Parliamentary and presidential elections took place on October 25, 2015.** CCM, the ruling party since independence, retained a large majority in parliament, and its candidate, John Magufuli, was elected president. The results of the local elections for the presidency and House of Representatives in the semi-autonomous Zanzibar, however, were cancelled. A peaceful and democratic resolution of the electoral situation of Zanzibar will be critical to ensure donor support, which has declined significantly in the past two years. President Magufuli's priorities include expanding the road and rail network, boosting electricity generation and fostering the development of the natural gas sector, supporting agriculture and industrialization, and improving education and healthcare. A challenge now will be to accommodate these competing spending pressures within a limited resource envelope in the next five years.
2. **Recent macroeconomic performance remains broadly favorable.** Quarterly accounts suggest that real GDP grew by 7.2 percent in the first half of 2015, driven by construction, transport, communications and financial services. Headline inflation rose to 6.3 percent in October 2015 due to higher food price inflation and the lagged effects of the recent depreciation of the exchange rate. The external current account deficit in 2014/15 declined to 8.7 percent of GDP and turned out better than projected thanks to lower oil prices.
3. **Program implementation slowed significantly ahead of the presidential elections.** The assessment criterion (AC) on tax revenue and the indicative target (IT) on non-accumulation of suppliers arrears were the only targets missed for end-June 2015.<sup>1</sup> At end-September ITs for tax revenue, reserve money, and net international reserves (NIR) were missed. The latter reflected external financing shortfalls and the Bank of Tanzania's (BoT) higher-than-expected sales of foreign exchange (FX) in an effort to stabilize the FX market. On the structural front, delays were incurred in the implementation of most benchmarks. MEFP Tables 1-2
4. **Revenue and financing shortfalls, together with weak commitment controls, led to the accumulation of further domestic arrears.** At 3.3 percent of GDP, the fiscal cash deficit for 2014/15 was below the programmed 3.8 percent, reflecting a significant shortfall in external nonconcessional borrowing (ENCB), not fully offset by higher net domestic financing (NDF). However, this over-performance on the cash deficit excludes the large accumulation of domestic suppliers arrears (estimated at 1.1 percent of GDP) and delayed payments to pension funds and

<sup>1</sup> The situation with regard to the two external creditors to whom payments have been suspended while the authorities seek to establish the legitimacy of the claims remains unchanged since the 2<sup>nd</sup> review. An audit has been commissioned that will determine the validity of Wallis Trading Company's claim on Air Tanzania Company Limited, which carries a government guarantee. Discussions with Belgium on the validity of a loan contracted in the early 2000s have made significant progress and should allow for a final determination shortly. These disputed claims are not considered to give rise to external arrears for program purposes at this time.

on statutory contributions.<sup>2</sup> This implies that a more accurate measure of the overall fiscal deficit was in the 4½-5 percent of GDP range, suggesting significant slippage. Revenue was lower than projected by 0.3 percent of GDP because of weaker VAT and income taxes, notably on wages. The combination of a resource shortfall, the delayed adjustment of the 2014/15 budget, pre-election spending pressures, and weak commitment controls led to the arrears build-up.

**5. Revenue and financing shortfalls continued in early 2015/16.** Underperformance in VAT collection was due to challenges in the implementation of the new act. Delays in raising ENCB and domestic market financing led to a financing shortfall; NDF consisted almost entirely of advances from the central bank. In response, the execution of discretionary expenditure was slowed, allowing the cash deficit to stand at 0.9 percent of GDP in the first quarter of 2015/16. No information is available yet on the accumulation of suppliers' arrears during that period.

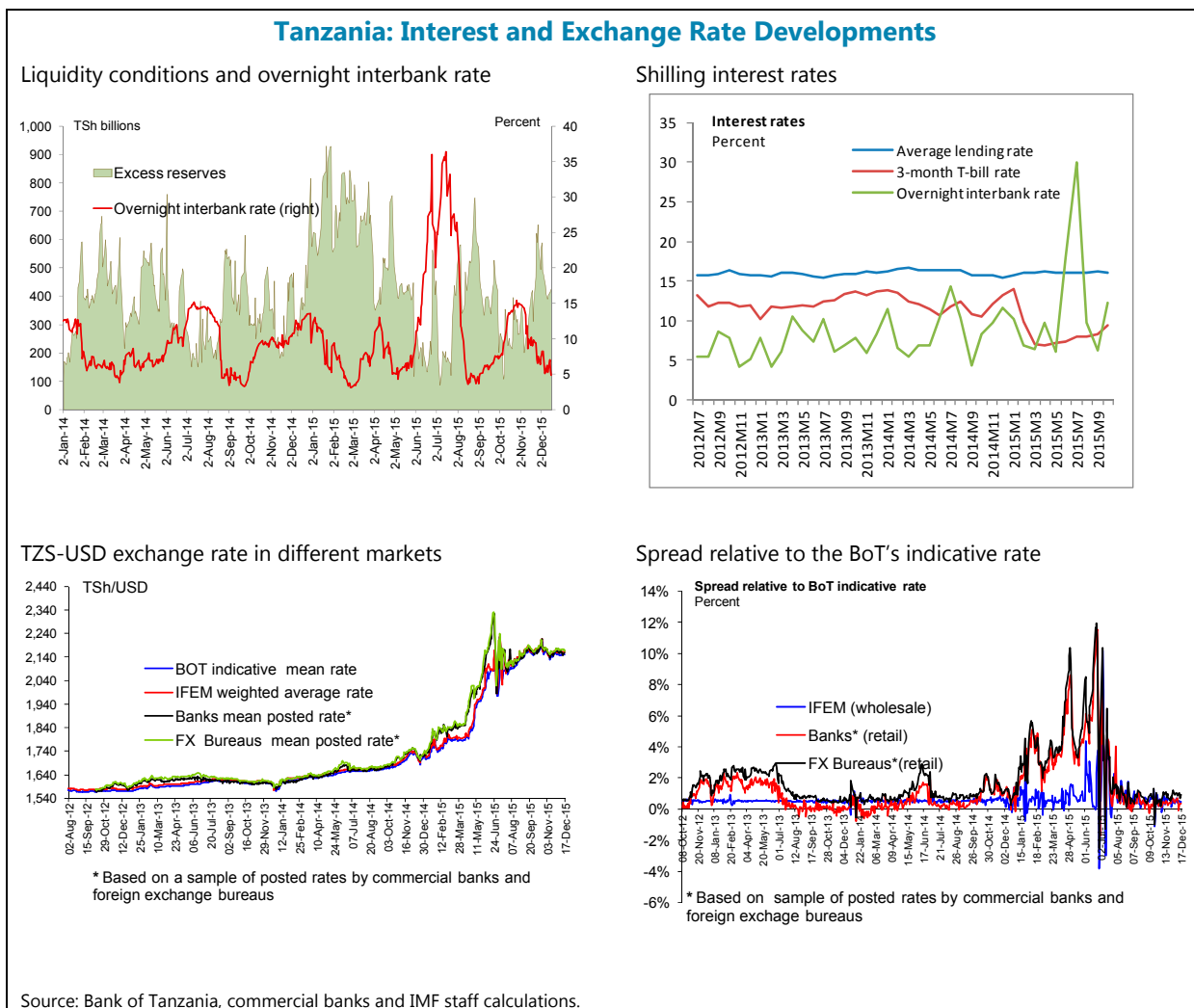
**6. The shilling experienced high volatility and depreciation in the first half of 2015, but has stabilized since July.** The depreciation against the U.S. dollar reached 25 percent in 2014/15, and the wedge between the exchange rates on the Interbank Foreign Exchange Market (IFEM) and the rates quoted by commercial banks and exchange bureaus widened considerably. While the depreciation largely reflected the global strength of the dollar, domestic factors also contributed to the volatility, such as the loosening of monetary policy in late 2014, seasonal patterns in FX inflows, delays in mobilizing external financing, and perhaps uncertainty in the run up to the elections. The BoT took steps to address the situation by: (i) further restricting the use of currency swaps between banks in February; (ii) reducing the ceiling on banks' FX net open position (NOP) to 5.5 percent of core capital in April; (iii) reversing in May the lowering of reserve requirements introduced in December 2014; and (iv) increasing sales of FX. The BoT also intensified scrutiny of transactions of a potentially "speculative" nature. The situation in the FX market returned to normal in July and has remained orderly since, with much lower volatility and the spread between the various quoted exchange rates returning close to zero; FX sales, remained higher than programmed ahead of the elections but decreased significantly after. Staff's preliminary assessment is that the recent depreciation has brought the real effective exchange rate, which was last assessed in 2014 to be somewhat overvalued, closer to equilibrium.

**7. The money market also experienced volatility.** Bank excess liquidity recorded large gyrations, which led to high volatility in the overnight interbank rate. The latter moved from a low of about 5 percent in March 2015 to a high of about 35 percent in July. Rates on T-bills, which had declined significantly in the wake of the monetary policy loosening in late 2014, did not react as strongly, reflecting the authorities' reluctance to accept higher rates on government securities. The BoT injected liquidity in mid-2015 through foreign currency swaps with several domestic commercial banks amounting to US\$152 million, which contributed to normalizing the

<sup>2</sup> Clearance of the verified pre-June 2014 suppliers arrears was also delayed: of the TSh 170 billion that was expected to be paid in 2014/15, only TSh 58 billion was cleared and the rest postponed to this fiscal year.



situation on the interbank market. Notwithstanding this volatility, monetary aggregates and credit continued to record robust growth. Broad money increased by 17 percent year-on-year at end-October and credit to the private sector rose by about 25 percent.



**8. On average, Tanzania’s banking sector remains well-capitalized and liquid**

(Table 5). Gross non-performing loans declined from 8.4 percent of gross loans at end-September 2014 to 6.6 percent at end-September 2015. The U.S. authorities have not yet completed the legal process concerning Tanzania-headquartered FBME Bank.<sup>3</sup> In the meantime, FBME Bank continues to operate under the close supervision of the BoT.

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<sup>3</sup> The U.S. Financial Crimes Enforcement Network (FinCEN) finalized its final ruling on the FBME Bank in July, effectively barring U.S. financial institutions from transacting with it. However, the shareholders succeeded in getting a preliminary injunction from the U.S. District Court for the District of Columbia, which enjoined the rule from taking effect until a final judgment is handed down. FinCEN went back to the Court and offered to reopen

(continued)

## POLICY DISCUSSIONS

### A. Economic Outlook and Risks

**9. The broad macroeconomic outlook is favorable.** Growth appears on track to reach 7 percent in 2015/16, benefitting from the positive terms-of-trade shock from lower oil prices. The pass through from the weaker currency is expected to keep inflation slightly elevated into 2016, until converging to the authority's medium-term target of 5 percent by the end of the year. The current account deficit is expected to decrease further to 8.3 percent of GDP in 2015/16 owing to lower oil prices.

**10. Risks to the program.** Program performance, and more generally the reform momentum, has decreased in the run up to the elections. While delays were recorded in the formation of a new cabinet and the new government may need some time to fully settle and prepare a detailed action plan to implement President Magufuli's priorities, both the president and Prime Minister Majaliwa sent strong signals on their determination to reform the government, strengthen the work ethics of the public service, streamline expenditure, and fight tax evasion.<sup>4</sup> A downside risk is the possibility of additional spending pressures stemming from the new administration's priorities and continued challenges to raise the required financing for the budget.

### B. Fiscal Policy

**11. Implementation of the 2015/16 budget faces challenges.** Overall revenue performance has been much better than in recent years, but the base effect from lower-than-expected revenue last fiscal year and teething problems with the implementation of the new VAT reform led to slight revenue underperformance in the first few months of the fiscal year. There is considerable uncertainty on the outlook for revenue, as the recent presidential drive to fight tax evasion could have a significant, positive impact on revenue collection. Staff's projection is based on the assumption of the authorities will meet their monthly revenue collection targets for the remainder of the fiscal year, which leads to a small downward revision to revenue projections (¼ percent of GDP compared to the program target).<sup>5</sup> Moreover, expenditure carried over from

MEFP ¶21

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its rulemaking proceedings, including to disclose unclassified, non-protected documents that supported the original finding, giving the shareholders and other interested parties up to January 26, 2016 to respond. A Final Rule will then be handed down by the end of March 2016.

<sup>4</sup> For instance, during two visits to the port of Dar es Salaam, the Prime Minister uncovered substantial tax evasion, sometimes facilitated by corrupt officials. Strong action has already been taken, for instance with the arrest, suspension, or dismissal of several top tax, customs, and port officials.

<sup>5</sup> Despite this expected revenue shortfall, the tax revenue ratio would still increase by 1.2 percentage point of GDP from 2014/15 thanks to the range of tax policy measures implemented with the 2015/16 budget.

last fiscal year will add to expenditure pressures (see ¶14). The payment of government arrears to TANESCO, the power utility, has also been accelerated. Finally, space needs to be made for new measures in favor of education. Overall additional expenditure to be accommodated is estimated at 0.7 percent of GDP.<sup>6</sup> On financing, the authorities stressed that the shortfall experienced early this fiscal year was due to election-related uncertainty and they were confident that it would be made up in the remainder of the year. They plan to raise about \$800 million in ENCB to finance the budget, in addition to project financing (Table 10), and are discussing a number of options with international banks. They are still considering a Eurobond, but will need to obtain a rating first. The projections for program assistance, which assume a process of re-engagement following the elections, continue to be held at conservative levels that reflect structural shifts among donors as they increasingly direct aid through modalities other than general budget support.

**12. In view of this, the authorities have decided to adopt a revised budget framework consistent with the deficit target of 4.2 percent of GDP.** With already significant tax policy measures implemented this fiscal year, the adjustment, amounting to approximately 1 percent of GDP, is expected to fall on non-priority expenditure. Immediate measures were taken to limit official travel to a minimum and reduce non-essential spending (e.g., spending on official functions and public celebrations have been cancelled or scaled back). Other non-priority current expenditure will be curtailed and a number of investment projects not yet started will be postponed. While specific measures are being worked out, staff stressed the importance of preserving investment as much as possible. The revised budget will include allocations for the clearance of a significant amount of arrears, including all verified arrears to suppliers accumulated before June 2014. Arrears to suppliers accumulated last fiscal year will be verified and cleared with the 2016/17 budget. As noted earlier, a large part of external financing is expected to come in the second half of the year. Should it fail to materialize, the budget would need to be adjusted again. It also makes it critical to control the pace of commitments in the coming months.

**13. In addition to more realistic budgets, arrears prevention will require further and sustained reforms in public financial management.** Strengthened commitment controls need to be reflected in the Integrated Financial Management and Information System (IFMIS). A forthcoming circular from the Ministry of Finance will specify the sanctions applicable to accounting officers breaching the rules. Longer-term efforts will be needed to address comprehensively the source of arrears, such as the lack of adequate monitoring and management of commitments related to multi-year projects, payments to utilities and recurrent contractual payments. The development of a

MEFP ¶22

<sup>6</sup> The breakdown is the following: delayed payments to pension funds (TSh 102 billion) and on statutory contributions (TSh 150 billion), lower than expected clearance last fiscal year of verified suppliers arrears (TSh 113 billion), acceleration of settlement of arrears to TANESCO (TSh 67 billion), and new initiatives in favor of education (TSh 222 billion).

centralized database to track projects through their entire life cycle, link them to the medium term expenditure framework, and support the monitoring and control of multi-annual commitments should help address this issue. The authorities requested Fund Technical Assistance to identify other measures that could help strengthen IFMIS as an instrument to align commitments with available resources.

**14. Arrears to pension funds will be cleared by end-June 2016.** The reconciliation of data on arrears to the Public Sector Pension Fund (PSPF) on account of the 1999 reform is completed. Those arrears amount to TSh 2.7 trillion (about 3 percent of GDP) and will be cleared by end-March 2016 through the issuance of bonds with maturities ranging from 3 to 20 years. With regards to loans extended in the past by the pension funds to various public entities and now in arrears, the reconciliation work is still ongoing with 3 of the 5 pension funds. The authorities expect to complete this work in the near future and to recognize these loans as government debt by issuing bonds to pension funds. They expect to complete this operation by end-June 2016. The program allows for these operations through an adjuster applying to the overall fiscal deficit. Further reforms (beyond clearance of arrears) will need to be considered in the future to ensure the long-term sustainability of pension funds. The World Bank is working on an operation to provide support in this area.

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**15. Debt management capacity urgently needs to be strengthened.** This is illustrated by a case in which the government was defrauded by a private bank colluding with then-sitting and former officials in the context of the 2013 private placement of international bonds.<sup>7</sup> While the case needs to be further investigated to establish the extent of involvement of government officials at the time, it suggests that stronger debt management capacity might have helped to raise red flags about the deal. The government therefore intends to accelerate the approval of the National Debt Management Policy and amendments to the Government Loans, Guarantees and Grants Act, which will support the operations of the recently created debt management office. Staff also urged the authorities to accelerate the process leading to a risk rating, which would allow tapping international markets through Eurobonds; with careful risk management, this

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<sup>7</sup> In February 2012, the Tanzanian government began negotiations with Stanbic Bank Tanzania Limited (ST) to raise ENCB through a sovereign note private placement. An initial proposal by ST, which quoted a fee of 1.4 percent of gross proceeds raised, was rejected by the government. However, a new proposal with a fee of 2.4 percent was later accepted by the Government, with the additional 100 basis points now to be paid to a Tanzanian company called Enterprise Growth Market Advisors Limited (EGMA) whose shareholders included several then-sitting and former government officials. As per the Collaboration Agreement between ST and EGMA, the full fee of US\$6 million was placed in EGMA's bank account, the bulk of which was subsequently withdrawn as cash within 10 days. The parent of ST, Standard Bank plc (SB), self-reported the case to the UK Serious Fraud Office (SFO) in April 2013, which was followed up by further investigations by the SFO. The parties agreed to a Deferred Prosecution Agreement, wherein the SFO agrees to suspend its indictment alleging failure to prevent bribery and SB would agree to pay fines and costs, and return the funds fraudulently obtained from the Government of Tanzania. The Tanzanian Prevention and Combating of Corruption Bureau (PCCB) has started investigations in this matter; no current or former government officials have been charged to date.

would have a number of benefits, compared to other forms of external borrowing, such as tapping a broader pool of investors (lowering the price), borrowing at fixed rates, and increasing transparency (and with it reducing the risk of corruption).

### C. Monetary and Exchange Rate Policies

**16. Monetary policy will need to remain cautious in the coming months.** With the expected inflows of program assistance and ENCB in the first half of 2016, the BoT will be able to accumulate international reserves by relying more extensively on domestic currency instruments for liquidity management purposes. Additional reserves are desirable to address higher volatility in the context of the opening of the capital account. Staff underscored that this shift in the mix of instruments might require accepting higher interest rates, including on Treasury bills and bonds. In this regard, coordination of monetary and fiscal policies needs to improve. The reluctance to accept higher interest rates on government securities early this fiscal year led to domestic financing shortfalls, which increase the risk of further arrears accumulation. There is also the perception among certain market participants that interest rates on T-bills and T-bonds at issuance cannot exceed certain levels, with the attending risk that market signals become muted. Staff shared the authorities' concern about high interest rates, but stressed that the appropriate response to this useful market signal was not to dampen it, but to reduce the government's borrowing requirements. Staff also reiterated that more systematic and higher recourse to central bank advances (within legal limits) has complicated the conduct of monetary policy.

MEFP ¶15

**17. The BoT will continue to improve its foreign exchange interventions and communications with market players.** Since mid-July, the BoT started intervening at a rate linked to real-time quotes on IFEM, rather than setting its intervention rate based on the previous day's weighted average rate. Supervisory scrutiny of banks suspected to have engaged in "speculation" was also stopped while two-way communication was stepped up. A key step forward was the revision of the IFEM Code of Conduct that clarified the role of the BoT and the expected behavior of banks. Going forward, the BoT intends to provide more timely information on liquidity conditions that would be useful for banks in understanding market conditions. The restrictions on the NOP limit and FX swaps between banks will also be re-examined, with a view to improving market liquidity. When participating in the FX market, the BoT will also clearly indicate whether it is intervening for liquidity management purposes or for smoothing the exchange rate.

MEFP ¶17

**18. Capital inflows have increased modestly since the financial account was liberalized.** Transactions involving foreigners on the Dar es Salaam Stock Exchange now account for the majority of equity transactions, though total daily trading in the market remains small. However, interest in other assets, most notably debt securities, has not taken off. The BoT reiterated its intention to extend the financial account liberalization to the rest of the world, acknowledging that a number "speed bumps", including minimum holding periods and restricting foreigners

MEFP ¶18

from participating in short-term papers would remain in place. Nonetheless, the BoT is consulting with market players to ensure that these capital flow management measures are not unduly restricting investors.

## D. Other Reforms

### 19. The draft strategy to address TANESCO's arrears to its suppliers

**envisages a combination of measures.** These arrears amounted to about  $\frac{3}{4}$  percent of GDP at end-June 2015 and are mostly related to energy purchases. The paper suggests that an important factor behind the accumulation of arrears has been the government's inability to make certain planned transfers to TANESCO in the past few years. The government (the Union's budget and Zanzibar's) also had arrears to TANESCO on its electricity bills of about TSh 240 billion at end-June 2015. The payment of these government arrears therefore is an important element of the proposed strategy, and actually started in the past few months. Other proposed measures include TANESCO's renewed efforts to collect arrears from private electricity customers, measures to improve its efficiency in revenue collection, reduce system losses, and improve the generation mix. Any residual gap would need to be addressed either through tariff action or government transfers. Staff provided comments on the draft strategy, encouraged the authorities to seek comments from the World Bank too, and urged them to finalize the plan and have it approved at the government level for implementation.

MEFP ¶125

### 20. The authorities plan to build on recent welcome steps to increase fiscal

**transparency and public sector monitoring.** The first consolidated financial statement of the government and fiscal risks statement published by the authorities are welcome steps. Staff noted that the next fiscal risks statement could usefully include more quantification of the main risks, drawing for instance on the work of the recent Fiscal Transparency Evaluation mission and the authorities' own debt sustainability analysis. Improved monitoring by the Treasury Registrar of public entities is also welcome. While understanding the need for quick and relatively crude actions to rein in the expenditures of these entities, staff encouraged the authorities to develop over time a more refined and entity-specific approach.

MEFP ¶128-29

## PROGRAM MONITORING

**21. Program design and monitoring need to be modified to address a number of issues.** As a country with a low risk of debt distress (Figures 4-6 and Tables 6-9),<sup>8</sup> Tanzania is

<sup>8</sup> The Debt Sustainability Analysis (DSA) of June 2015 was updated to confirm the low risk rating. As the main assumptions and results have not changed significantly, only the DSA Figures and Tables are appended to this report. One of the stress tests shows that the external debt service as a ratio to revenue would slightly breach the threshold. As the magnitude of the breach of the threshold is within the range permitted for the use of the

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eligible for more flexible debt conditionality under the Fund's new debt limits policy. It is therefore proposed to drop the ACs on NDF and ENCB and to introduce a new one on the overall cash fiscal deficit (measured from the financing side), while the current IT on non-accumulation of domestic expenditure arrears would be converted into an AC for June 2016. It is also proposed to modify the tax revenue and NIR ACs for December 2015, to reflect recent developments. The proposed NIR targets are consistent with gross international reserves remaining at 4 months of prospective imports in June 2016. The definition of NIR is proposed to be modified to exclude short-term FX liabilities to residents to ensure that only useable reserves are monitored and targeted in the program. Assessment criteria for June 2016 and new structural benchmarks are proposed. Finally, staff supports the authorities' request for a waiver for the missed AC on tax revenue, as the main reason for the shortfall in income tax revenue has been addressed (the authorities reverted to a centralized system of payroll tax payments, as the short-lived decentralization to ministries and agencies had led to delayed tax payments).

## STAFF APPRAISAL

**22. Tanzania's macroeconomic performance remains favorable.** Growth is projected to remain strong, at about 7 percent, while a prudent monetary policy stance is expected to ensure that inflation converges to the authorities' target of 5 percent in 2016.

**23. Program implementation slowed significantly ahead of the presidential elections.** While most ACs for June 2015 were met, the September ITs for tax revenue, average reserve money, and NIR were missed. Revenue and financing shortfalls, together with weak commitment controls, led to further accumulation of domestic arrears in 2014/15. Some progress was achieved in structural reforms but a number of benchmarks were missed. Risks to program implementation have therefore increased. However, the new authorities confirmed their commitment to the objectives of the program and its implementation. They have also sent strong signals on their determination to reform the government, strengthen the work ethics of the administration, streamline expenditure, and fight tax evasion.

**24. Staff welcomes the new authorities' early decision to address the emerging fiscal gap.** The adjustment need reflects a modest revenue shortfall, unbudgeted expenditures carried over from 2014/15, and the need to make space for the new president's priorities. Non-priority expenditures will be streamlined by about 1 percent of GDP to ensure that the overall fiscal deficit target of 4.2 percent of GDP is achieved. Early action on adjusting the budget (unlike in the past two years) will help prevent further arrears accumulation.

**25. The further accumulation of domestic arrears is highly regrettable and symptomatic of deep-rooted weaknesses that will require forceful and sustained action.** In

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probability approach, this approach is applied to assess the risk of debt distress. The results under this approach show that all external debt indicators remain comfortably below indicative thresholds.

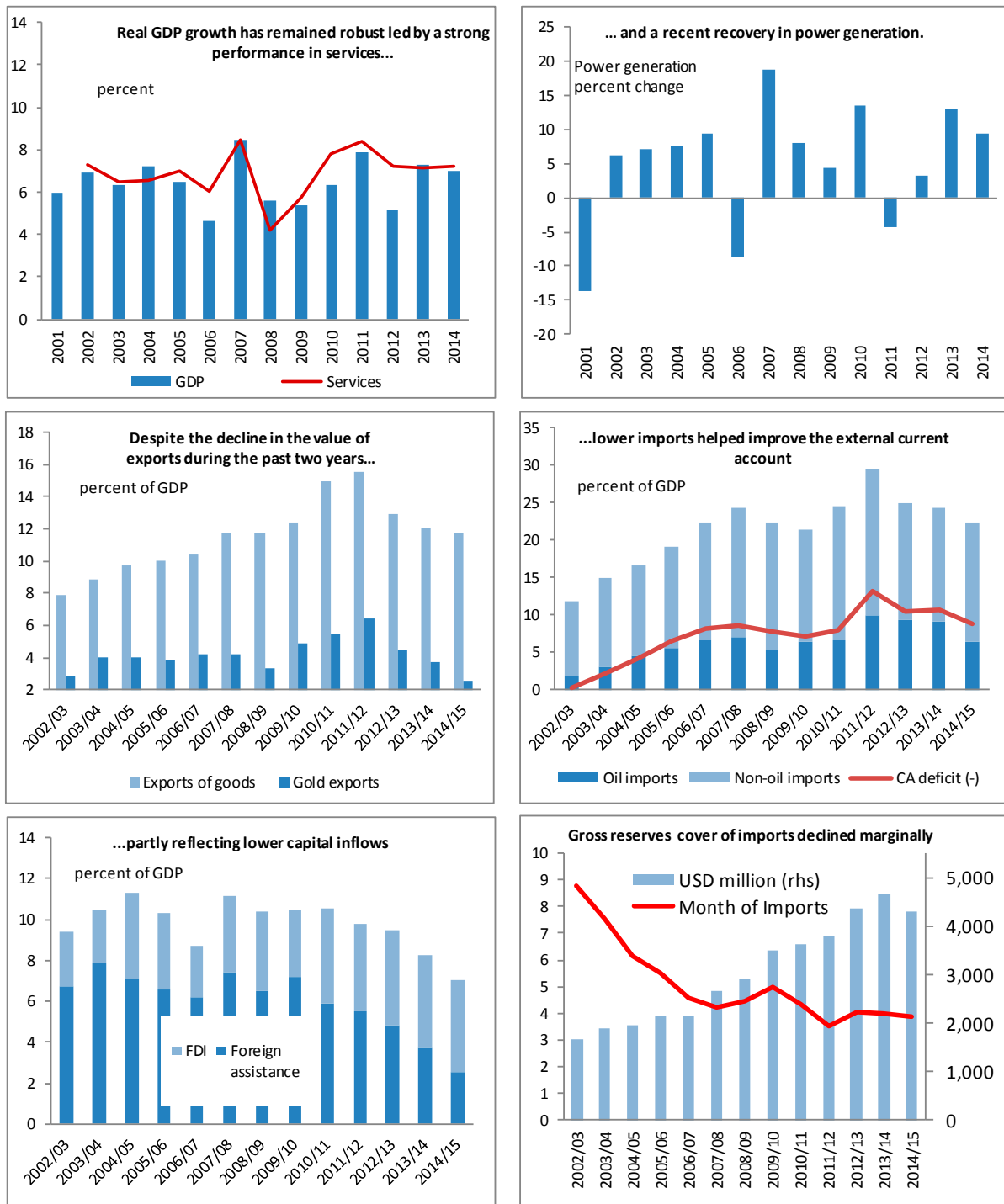
addition to more realistic budgets, both on the revenue and financing sides, arrears prevention will require further reforms in public financial management, including better monitoring and management of commitments related to multi-year projects, improvements in the coverage of and operations in IFMIS, and strict enforcement of the sanctions applicable to accounting officers. Fund TA has been requested to help address some of these issues.

**26. Monetary policy will need to remain cautious in the coming months.** It will need to rely more on domestic currency instruments, to allow the gross international reserve cover ratio to remain at 4 months of prospective imports. This shift in the mix of instruments might require accepting higher interest rates, including on T-bills and T-bonds. In this regard, coordination of monetary and fiscal policies needs to improve. The reluctance to accept higher interest rates on government securities early this fiscal year led to domestic financing shortfalls, which increase the risk of further arrears accumulation. While the authorities' concern about high interest rates is legitimate, staff is of the view that the appropriate response to this market signal is not to dampen it, but to reduce the government's borrowing requirements. Better coordination would make it easier for the BoT to focus on its main inflation objective. In conducting its operations, the BoT should avoid targeting multiple objectives, which risks blunting the effectiveness of monetary policy. Staff welcomes the recent BoT efforts to improve its FX interventions and communications with market players, which have contributed to the stabilization of the FX market in recent months.

**27. Staff recommends completion of the third PSI review based on the strength of the new authorities' commitments,** which are broadly consistent with the fiscal and monetary program targets for 2015/16 set at the time of the second PSI review. Staff recommends the modification of the December 2015 ACs on NIR and tax revenue, replacement of ACs on NDF and ENCB with a new AC on the overall cash fiscal deficit, and conversion of the IT on domestic suppliers arrears into an AC. Staff also supports the request for a waiver for the missed end-June 2016 AC on tax revenue based on corrective actions.

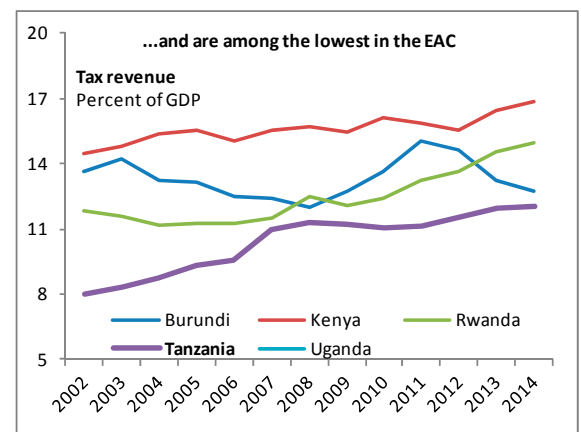
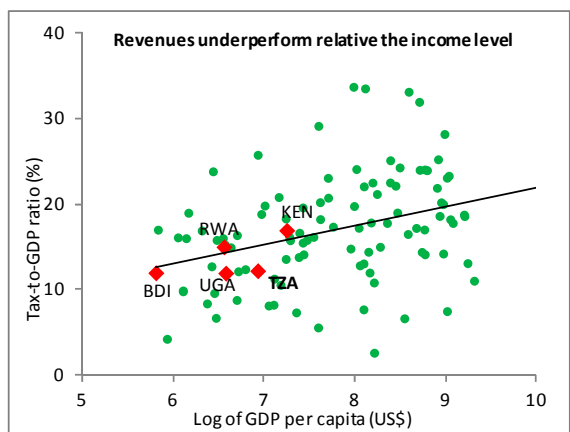
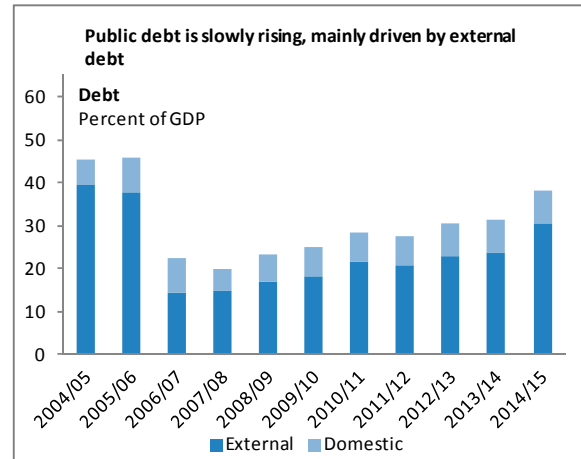
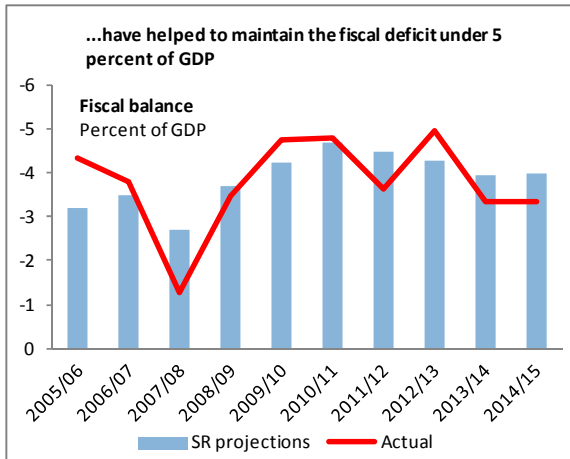
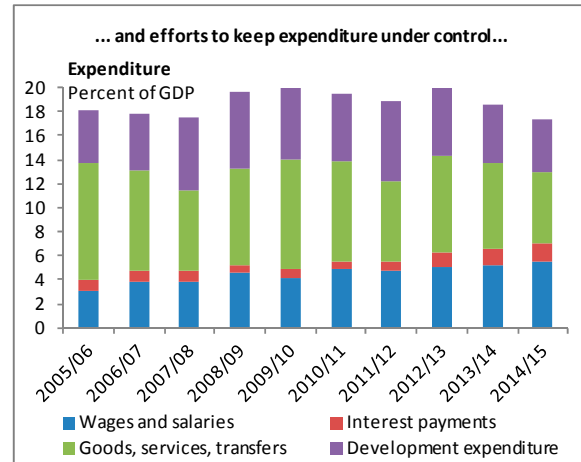
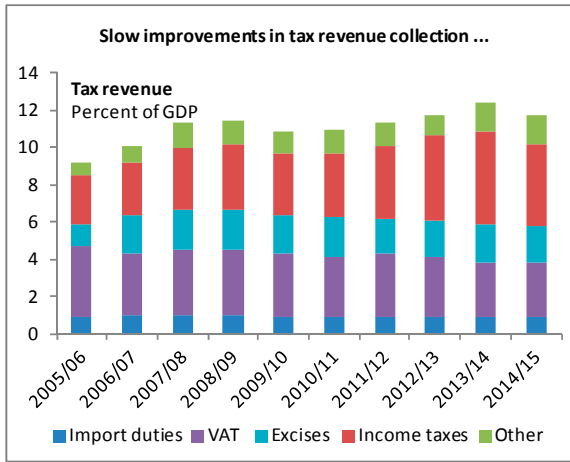


**Figure 1. Tanzania: Real Sector and External Developments**



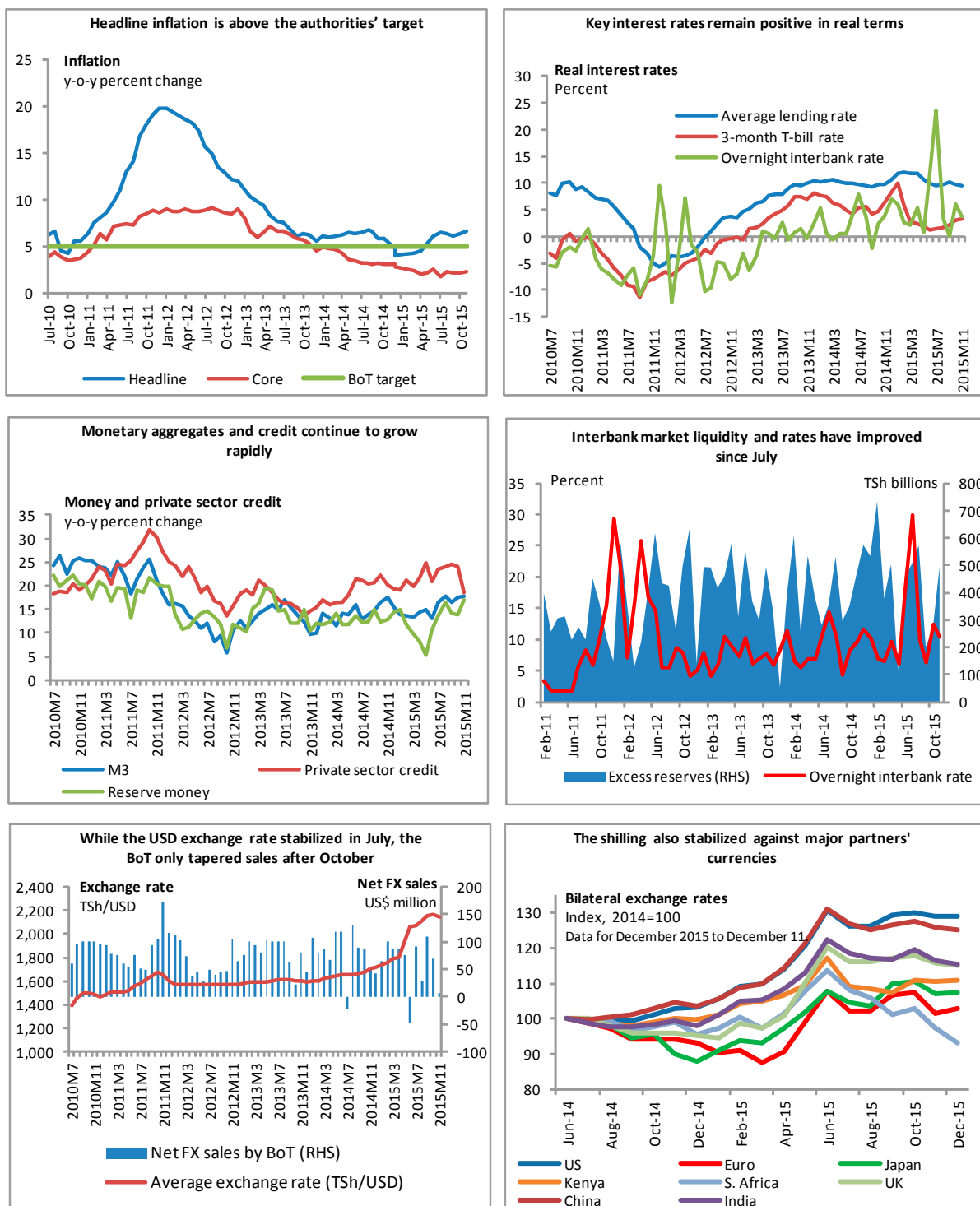
Source: Tanzanian authorities and IMF staff calculations.

**Figure 2. Tanzania: Fiscal Developments**



Source: Tanzanian authorities and IMF staff calculations.

**Figure 3. Tanzania: Monetary and Inflation Developments**



Sources: Bank of Tanzania and IMF staff calculations.

**Table 1. Tanzania: Selected Economic and Financial Indicators, 2012/13–2017/18**

	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18
			Prog. <sup>1</sup>	Est.	Prog. <sup>1</sup>	Proj.		
(Annual percentage change, unless otherwise indicated)								
Output, prices and exchange rates								
Real GDP	6.2	7.1	7.2	7.0	7.2	7.0	7.0	6.9
GDP deflator	9.2	6.2	5.2	4.9	4.3	5.1	4.7	4.7
CPI (period average)	11.3	6.3	5.2	5.4	5.0	6.1	5.3	5.0
CPI (end of period)	7.6	6.4	4.8	6.1	5.0	5.7	5.0	5.0
Core inflation (end of period) <sup>1</sup>	4.5	3.1	...	2.8	...	...	...	...
Terms of trade (deterioration, -)	-1.1	-3.1	3.5	8.5	6.8	6.5	-2.8	-2.2
Exchange rate (period average, TSh/USD)	1,580	1,615	...	1,764	...	...	...	...
Real effective exchange rate (end of period; depreciation= -)	6.3	0.8	...	-9.5	...	...	...	...
Money and credit								
Broad money (M3)	14.9	15.8	12.2	13.1	16.0	16.0	...	...
Average reserve money	14.5	13.7	9.0	10.8	13.4	13.4	...	...
Credit to nongovernment sector	17.1	21.4	17.5	21.0	14.1	14.1	...	...
Treasury bill interest rate (in percent; end of period)	13.9	12.7	...	10.0	...	...	...	...
Broad money (M3, as a percent of GDP)	23.0	23.5	23.5	23.7	24.4	24.4	...	...
Non-performing loans (end of calendar year, percent of total loans) <sup>2</sup>	7.1	6.8	...	...	...	...	...	...
(percent of GDP, unless otherwise indicated)								
Central government budget								
Revenues and grants	15.4	15.7	14.6	14.2	16.4	15.9	16.2	16.2
<i>Of which:</i> grants	2.6	2.1	1.3	1.2	1.5	1.3	1.5	1.3
Expenditures	20.5	18.6	18.6	17.3	20.6	21.2	19.7	19.7
Current	14.3	13.7	12.8	12.9	14.5	14.8	14.3	14.4
Development	6.2	4.9	5.7	4.4	6.1	6.3	5.3	5.3
Unidentified expenditure measures <sup>3</sup>	...	...	0	...	...	-1.1	-0.5	-0.5
Overall balance <sup>4</sup>	-5.0	-3.3	-4.0	-3.3	-4.2	-4.2	-3.0	-3.0
Excluding grants <sup>4</sup>	-7.6	-5.4	-5.3	-4.3	-5.7	-5.5	-4.5	-4.3
Including net accumulation of arrears	...	-4.2	...	-4.5	...	-3.4	-3.0	-3.0
Public debt								
Public gross nominal debt <sup>5,6</sup>	30.5	31.5	37.8	38.3	39.2	42.3	42.5	42.6
<i>of which:</i> external public debt <sup>6</sup>	22.9	23.8	30.2	30.5	30.9	34.1	34.8	35.4
Investment and savings								
Investment	29.5	30.7	29.1	31.1	29.3	31.4	31.7	31.5
Government	5.9	5.0	5.7	5.1	5.7	5.6	5.6	5.3
Nongovernment <sup>7</sup>	23.6	25.7	23.4	26.1	23.6	25.7	26.1	26.2
Gross domestic savings	16.6	18.3	19.3	22.4	20.9	23.6	24.4	24.6
External sector								
Exports (goods and services)	19.9	19.1	19.2	19.4	21.4	21.7	21.8	22.1
Imports (goods and services)	30.7	30.0	29.2	27.9	29.5	29.0	28.9	28.9
Current account balance	-10.5	-10.7	-9.5	-8.7	-8.2	-8.3	-7.9	-7.7
Excluding current transfers	-11.7	-11.7	-10.1	-9.3	-8.5	-8.4	-8.3	-8.1
Gross international reserves								
In billions of US\$	4.4	4.6	4.5	4.3	4.9	4.6	5.1	5.5
In months of next year's imports	3.7	4.2	3.9	4.0	4.0	4.0	4.1	4.2
Memorandum items								
GDP at current market prices								
Billions of Tanzanian shillings	66,194	75,198	84,319	84,397	94,275	94,867	106,254	118,916
Millions of US\$	41,883	46,551	48,161	47,846	47,256	43,968	47,499	51,511
GDP per capita (US\$)	923	1,006	1,020	1,013	981	913	967	1,028
Population (million)	45	46	47	47	48	48	49	50

Sources: Tanzanian authorities and IMF staff estimates and projections.

<sup>1</sup> From the second review under the Policy Support Instrument.<sup>2</sup> E.g. Calendar year corresponding to 2014/15 is 2015.<sup>3</sup> These are the spending adjustments needed to achieve the budget deficit targets in case revenue shortfalls materialize.<sup>4</sup> Actual and preliminary data include adjustment to cash basis.<sup>5</sup> Net of Treasury bills issued for liquidity management.<sup>6</sup> Excludes external debt under negotiation for relief, and domestic unpaid claims (reported in Table 2b).<sup>7</sup> Including change in stocks.

**Table 2a. Tanzania: Central Government Operations, 2012/2013–2017/18<sup>1</sup>**  
(Billions of Tanzanian Shillings)

	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18
			Prog.	Est.	Prog.	Proj.		
Total revenue	8,443	10,182	11,231	10,958	14,042	13,859	15,604	17701
Tax revenue	7,730	9,294	10,130	9,892	12,408	12,229	13,909	15804
Import duties	584	694	732	784	865	911	1,021	1142
Value-added tax	2,146	2,189	2,521	2,439	3,408	3,075	3,551	3974
Excises	1,258	1,509	1,687	1,671	1,926	2,051	2,297	2571
Income taxes	3,034	3,779	3,887	3,720	4,390	4,391	5,025	5742
Other taxes	707	1,124	1,303	1,279	1,819	1,800	2,016	2375
Nontax revenue <sup>2</sup>	713	888	1,101	1,066	1,634	1,630	1,695	1897
LGA	221	315	388	360	522	522	585	654
Other	492	573	713	706	1,112	1,109	1,110	1243
Total expenditure	13,543	13,958	15,663	14,604	19,457	20,102	20,894	23408
Recurrent expenditure	9,445	10,299	10,834	10,893	13,714	14,082	15,212	17133
Wages and salaries <sup>7</sup>	3,350	3,969	4,733	4,618	5,572	5,722	6,241	6985
Of which: clearance of soc. contribution arrears	...	...	...	...	...	150	...	...
Interest payments	767	977	1,189	1,261	1,543	1,591	2,033	2516
Domestic	590	743	847	917	965	965	1,265	1505
Foreign <sup>3</sup>	177	234	342	344	579	626	768	1010
Goods and services and transfers <sup>7</sup>	5,328	5,352	4,912	5,015	6,598	6,770	6,938	7633
Of which: Transfers to PSPF	...	...	177	75	150	252	342	370
Of which: Transfers to TANESCO	419	399	0	0	...	154	...	...
Of which: new expenditure on education	...	...	...	...	...	222	...	...
Development expenditure <sup>7</sup>	4,098	3,660	4,829	3,710	5,743	6,019	5,682	6,274
Domestically financed	1,913	1,855	3,156	2,265	4,081	4,401	3,437	3,965
Of which: Clearance of arrears <sup>9</sup>	...	...	170	58	660	773	...	...
Foreign (concessionally) financed	2,185	1,805	1,673	1,446	1,662	1,618	2,245	2,309
Unidentified expenditure measures <sup>6</sup>	...	...	...	...	0	-1,064	-514	-575
Overall balance before grants	-5,100	-3,776	-4,432	-3,646	-5,415	-5,179	-4,776	-5,131
Grants	1,728	1,588	1,075	1,024	1,431	1,195	1,588	1,569
Program (including basket grants) <sup>4</sup>	818	703	553	510	313	169	442	466
Of which: basket grants	281	189	203	128	81	92	227	239
Project	910	885	522	514	1,118	1,025	1,146	1,103
Net expenditure float <sup>5</sup>	259	-211	0	-184	0	0	0	0
Statistical discrepancy	-170	-99	0	-1	0	0	0	0
Overall balance (cash basis)	-3,284	-2,498	-3,357	-2,807	-3,984	-3,984	-3,188	-3,562
Financing	3,284	2,498	3,357	2,807	3,984	3,984	3,188	3562
Foreign (net)	2,579	2,271	3,631	2,634	2,552	3,056	2,819	3115
Foreign loans	2,706	2,452	3,996	2,860	3,035	3,578	3,456	3954
Program (including basket loans) <sup>4</sup>	544	734	520	538	547	560	501	528
Of which: basket loans	186	208	98	163	118	128	136	143
Project	734	524	850	641	345	373	736	824
Nonconcessional borrowing	1,428	1,195	2,626	1,682	2,143	2,645	2,219	2603
Of which: gas pipeline	365	750	858	627	...	290	...	...
Amortization	-127	-181	-365	-227	-483	-522	-637	-839
Domestic (net)	705	227	-274	173	1,432	928	368	447
Excluding gas pipeline	1069	977	583	800	1,432	1218	368	447
Bank financing	668	956	577	488	859	572	173	229
Nonbank financing	401	21	6	312	573	646	195	218
Credit to TPDC (gas pipeline)	-365	-750	-858	-627	...	-290	...	...
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	...	-3,139	...	-3,794	...	-3,212	-3,188	-3,562
Total public debt (in percent of GDP) <sup>8</sup>	30.5	31.5	37.8	38.3	39.2	42.3	42.5	42.60
Arrears (unpaid claims) <sup>9</sup>	506	1,148	...	2,135	...	1,362	...	...
Recurrent expenditures (percent of recurrent resources)	105	96	94	96	96	101	97	97
Nominal GDP	66,194	75,198	84,319	84,397	94,275	94,867	106,254	118,916

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

<sup>1</sup> Fiscal year: July–June.

<sup>2</sup> Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

<sup>3</sup> Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

<sup>4</sup> Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

<sup>5</sup> The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

<sup>6</sup> These are the spending adjustments needed to achieve the budget deficit targets.

<sup>7</sup> The change in 2014/15 compared to the previous year reflects reclassification of 1.5 percent of GDP from goods and services to development spending, and 0.1 percent of GDP from goods and services to wages and salaries.

<sup>8</sup> Excludes external debt under negotiation for relief and Treasury bills issued for monetary policy purposes.

<sup>9</sup> Includes domestic expenditure arrears defined as unpaid claims that are overdue by more than 30 days for goods and services, and more than 90 days for contract works as set out in the government circular No 9 of 8th December 2014.

**Table 2b. Tanzania: Central Government Operations, 2012/13–2017/18<sup>1</sup>**  
(Percent of GDP)

	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18
			Prog.	Est.	Prog.	Proj.	Proj.	Proj.
Total revenue	12.8	13.5	13.3	13.0	14.9	14.6	14.7	14.9
Tax revenue	11.7	12.4	12.0	11.7	13.2	12.9	13.1	13.3
Import duties	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Value-added tax	3.2	2.9	3.0	2.9	3.6	3.2	3.3	3.3
Excises	1.9	2.0	2.0	2.0	2.0	2.2	2.2	2.2
Income taxes	4.6	5.0	4.6	4.4	4.7	4.6	4.7	4.8
Other taxes	1.1	1.5	1.5	1.5	1.9	1.9	1.9	2.0
Nontax revenue <sup>2</sup>	1.1	1.2	1.3	1.3	1.7	1.7	1.6	1.6
LGA	0.3	0.4	0.5	0.4	0.6	0.6	0.6	0.6
Other	0.7	0.8	0.8	0.8	1.2	1.2	1.0	1.0
Total expenditure	20.5	18.6	18.6	17.3	20.6	21.2	19.7	19.7
Recurrent expenditure	14.3	13.7	12.8	12.9	14.5	14.8	14.3	14.4
Wages and salaries <sup>6</sup>	5.1	5.3	5.6	5.5	5.9	6.0	5.9	5.9
Of which: clearance of soc. contribution arrears	...	...	...	...	...	0.2	...	...
Interest payments	1.2	1.3	1.4	1.5	1.6	1.7	1.9	2.1
Domestic	0.9	1.0	1.0	1.1	1.0	1.0	1.2	1.3
Foreign <sup>3</sup>	0.3	0.3	0.4	0.4	0.6	0.7	0.7	0.8
Goods and services and transfers <sup>7</sup>	8.0	7.1	5.8	5.9	7.0	7.1	6.5	6.4
Of which: Transfers to PSPF	...	...	0.2	0.1	0.2	0.3	0.3	0.3
Of which: Transfers to TANESCO	0.6	0.5	0.0	0.0	...	0.2	...	...
Of which: new expenditure on education	...	...	...	...	...	0.2	...	...
Development expenditure <sup>6</sup>	6.2	4.9	5.7	4.4	6.1	6.3	5.3	5.3
Domestically financed	2.9	2.5	3.7	2.7	4.3	4.6	3.2	3.3
Of which: Clearance of arrears <sup>8</sup>	...	...	0.2	0.1	0.7	0.8	...	...
Foreign (concessionally) financed	3.3	2.4	2.0	1.7	1.8	1.7	2.1	1.9
Unidentified expenditure measures <sup>8</sup>	...	...	...	...	0.0	-1.1	-0.5	-0.5
Overall balance before grants	-7.7	-5.0	-5.3	-4.3	-5.7	-5.5	-4.5	-4.3
Grants	2.6	2.1	1.3	1.2	1.5	1.3	1.5	1.3
Program (including basket grants) <sup>4</sup>	1.2	0.9	0.7	0.6	0.3	0.2	0.4	0.4
Of which: basket grants	0.4	0.3	0.2	0.2	0.1	0.1	0.2	0.2
Project	1.4	1.2	0.6	0.6	1.2	1.1	1.1	0.9
Net expenditure float <sup>5</sup>	0.4	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0
Statistical discrepancy	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-5.0	-3.3	-4.0	-3.3	-4.2	-4.2	-3.0	-3.0
Financing	5.0	3.3	4.0	3.3	4.2	4.2	3.0	3.0
Foreign (net)	3.9	3.0	4.3	3.1	2.7	3.2	2.7	2.6
Foreign loans	4.1	3.3	4.7	3.4	3.2	3.8	3.3	3.3
Program (including basket loans) <sup>4</sup>	0.8	1.0	0.6	0.6	0.6	0.6	0.5	0.4
Of which: basket loans	0.3	0.3	0.1	0.2	0.1	0.1	0.1	0.1
Project	1.1	0.7	1.0	0.8	0.4	0.4	0.7	0.7
Nonconcessional borrowing	2.2	1.6	3.1	2.0	2.3	2.8	2.1	2.2
Of which: gas pipeline	0.6	1.0	1.0	0.7	...	0.3	...	...
Amortization	-0.2	-0.2	-0.4	-0.3	-0.5	-0.6	-0.6	-0.7
Domestic (net)	1.1	0.3	-0.3	0.2	1.5	1.0	0.3	0.4
Excluding gas pipeline	1.6	1.3	0.7	0.9	1.5	1.3	0.3	0.4
Bank financing	1.0	1.3	0.7	0.6	0.9	0.6	0.2	0.2
Nonbank financing	0.6	0.0	0.0	0.4	0.6	0.7	0.2	0.2
Credit to TPDC (gas pipeline)	-0.6	-1.0	-1.0	-0.7	...	-0.3	...	...
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	...	-4.2	...	-4.5	...	-3.4	-3.0	-3.0
Arrears (unpaid claims) <sup>8</sup>	0.8	1.5	...	2.5	...	1.4	...	...
Recurrent expenditures (percent of recurrent resources)	105	96	94	96	96	101	96	96

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

<sup>1</sup> Fiscal year: July–June.

<sup>2</sup> Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

<sup>3</sup> Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

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<sup>5</sup> The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

<sup>6</sup> These are the spending adjustments needed to achieve the budget deficit targets.

<sup>7</sup> The change in 2014/15 compared to the previous year reflects reclassification of 1.5 percent of GDP from goods and services to development spending, and 0.1 percent of GDP from goods and services to wages and salaries.

<sup>8</sup> Includes domestic expenditure arrears defined as unpaid claims that are overdue by more than 30 days for goods and services, and more than 90 days for contract works as set out in the government circular No 9 of 8th December 2014.

**Table 3. Tanzania: Monetary Accounts, 2013–2016**  
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2013	2014				2015						2016				
		March	June	Sept	Dec	March	June		Sept		Dec		March	June		
							Prog. <sup>1</sup>	Prel.	Prog. <sup>1</sup>	Prel.	Prog. <sup>1</sup>	Proj.		Prog. <sup>1</sup>	Proj.	Prog. <sup>1</sup>
<b>Bank of Tanzania</b>																
Net foreign assets	6,187	6,294	6,399	5,956	6,380	6,132	7,623	7,444	7,980	7,262	8,254	7,347	8,530	7,587	8,760	8,941
Net international reserves	6,656	6,779	6,891	6,433	6,854	6,570	8,208	7,936	8,547	7,817	8,802	7,906	9,023	8,150	9,364	9,508
(Millions of U.S. dollars)	4,216	4,160	4,177	3,863	3,971	3,674	4,181	3,928	4,319	3,636	4,412	3,625	4,487	3,720	4,620	4,322
Net non-reserve foreign assets	-468	-485	-492	-477	-473	-437	-585	-493	-566	-555	-548	-559	-492	-563	-604	-567
Net domestic assets	-1,160	-1,180	-751	-157	-471	-545	-1,460	-868	-1,496	-724	-1,373	-527	-1,917	-923	-1,834	-1,727
Credit to government	-500	-494	-7	627	355	649	342	671	349	1,497	467	1,809	-10	1,250	193	686
Of which: Excluding counterpart of liquidity paper	1,000	818	1,358	1,399	934	1,720	1,355	1,456	1,543	1,910	776	2,002	1,900	1,523	1,355	1,252
Other items (net)	-660	-687	-744	-783	-826	-1,195	-1,801	-1,539	-1,845	-2,221	-1,840	-2,336	-1,907	-2,172	-2,027	-2,413
REPOs	-20	-33	-20	-12	0	0	0	0	0	0	0	-518	0	-311	0	-408
Other items, excluding REPOs (net)	-640	-653	-724	-772	-826	-1,195	-1,801	-1,539	-1,845	-2,221	-1,840	-1,817	-1,907	-1,862	-2,027	-2,005
Of which: Credit to nongovernment sector	57	58	59	63	65	81	81	98	58	103	81	103	58	103	81	103
Reserve money	5,028	5,114	5,648	5,799	5,909	5,587	6,163	6,576	6,484	6,538	6,881	6,820	6,613	6,664	6,926	7,214
Currency outside banks	2,764	2,732	3,072	3,143	3,245	3,147	3,331	3,544	3,518	3,642	3,791	3,730	3,603	3,588	3,870	3,907
Bank reserves	2,264	2,382	2,576	2,656	2,665	2,440	2,833	3,032	2,965	2,896	3,090	3,090	3,010	3,076	3,056	3,307
Currency in banks	561	444	525	510	584	543	569	552	593	640	606	606	535	482	539	573
Deposits	1,703	1,938	2,051	2,146	2,081	1,897	2,263	2,479	2,372	2,256	2,484	2,555	2,528	2,536	2,483	2,729
Required reserves	1,649	1,687	1,769	1,848	1,505	1,517	1,948	2,021	1,997	2,055	2,049	2,155	2,189	2,178	2,176	2,228
Excess reserves	54	251	282	297	576	379	315	458	375	202	435	400	338	359	307	502
Memorandum items:																
Stock of liquidity paper	1,500	1,312	1,365	772	579	1,071	1,013	785	1,194	413	309	193	1,910	274	1,162	566
Average reserve money	5,250	5,324	5,572	5,905	6,011	5,844	6,071	6,176	6,430	6,737	6,845	6,845	6,791	6,843	6,887	7,006
<b>Monetary Survey</b>																
Net foreign assets	6,576	6,602	6,773	6,371	6,552	6,388	8,034	8,028	8,395	8,660	8,672	8,429	8,952	8,677	9,186	10,038
Bank of Tanzania	6,187	6,294	6,399	5,956	6,380	6,132	7,623	7,444	7,980	7,262	8,254	7,347	8,530	7,587	8,760	8,941
Commercial banks	389	308	374	415	171	256	411	584	414	1,398	418	1,082	422	1,090	426	1,098
Net domestic assets	9,530	9,948	10,884	11,903	12,063	12,352	11,784	11,937	12,538	12,621	13,071	13,468	13,093	13,417	13,808	13,127
Domestic credit	12,947	13,636	14,778	15,986	16,064	17,312	17,376	17,697	18,127	19,284	18,866	19,463	19,361	19,616	20,148	20,082
Credit to government (net)	2,555	2,773	3,219	4,043	3,652	4,298	3,796	3,707	4,011	4,406	4,226	4,072	4,441	4,182	4,655	4,121
Credit to nongovernment sector	10,393	10,863	11,559	11,943	12,412	13,014	13,580	13,990	14,116	14,879	14,641	15,390	14,920	15,434	15,492	15,961
Other items (net)	-3,417	-3,689	-3,894	-4,083	-4,001	-4,960	-5,592	-5,760	-5,589	-6,663	-5,795	-5,995	-6,268	-6,199	-6,339	-6,955
M3	16,107	16,550	17,657	18,274	18,614	18,741	19,818	19,964	20,933	21,282	21,743	21,897	22,045	22,094	22,994	23,166
Foreign currency deposits	4,216	4,240	4,415	4,553	4,697	5,057	5,338	5,663	5,628	6,425	5,835	6,562	5,905	6,752	6,148	6,914
M2	11,891	12,310	13,241	13,721	13,917	13,683	14,480	14,301	15,304	14,857	15,908	15,336	16,140	15,342	16,846	16,252
Currency in circulation	2,764	2,732	3,072	3,143	3,245	3,147	3,331	3,544	3,518	3,642	3,791	3,730	3,603	3,588	3,870	3,907
Deposits (TSh)	9,127	9,578	10,170	10,578	10,672	10,536	11,149	10,757	11,786	11,215	12,117	11,606	12,536	11,753	12,976	12,345
Memorandum items:						(12-month percent change, unless otherwise indicated)										
M3 growth	10.0	11.6	15.8	14.7	15.6	13.2	12.2	13.1	14.5	16.5	16.8	17.6	17.6	17.9	16.0	16.0
M3 (as percent of GDP) <sup>2</sup>	21.4	22.0	23.5	21.7	22.1	22.2	23.5	23.7	22.2	22.4	23.1	23.1	23.4	23.3	24.4	24.4
Private sector credit growth	15.3	16.4	21.4	20.7	19.4	19.8	17.5	21.0	18.2	24.6	18.0	24.0	14.6	18.6	14.1	14.1
Average reserve money growth	12.1	14.0	13.7	14.9	14.5	9.8	9.0	10.8	8.9	14.1	13.9	13.9	16.2	17.1	13.4	13.4
Reserve money multiplier (M3/average reserve money)	3.07	3.11	3.17	3.09	3.10	3.21	3.26	3.23	3.26	3.16	3.18	3.20	3.25	3.23	3.34	3.31
Nonbank financing of the government (net) <sup>3</sup>	91	-22	21	49	73	231	6	312	143	69	286	244	430	438	573	804
Bank financing of the government (net) <sup>3</sup>	291	510	955	824	432	1,079	577	488	215	699	430	365	645	475	859	414
Bank and nonbank financing of the government (net) <sup>3</sup>	382	488	977	873	505	1,310	583	800	358	767	716	609	1,074	913	1,432	1,218
Foreign currency deposits (percent of M3)	26	26	25	25	25	27	27	28	27	30	27	30	27	31	27	30

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

<sup>1</sup> From the second review under the Policy Support Instrument.<sup>2</sup> "Program" reflects new GDP data.<sup>3</sup> Cumulative from the beginning of the fiscal year (July 1).

**Table 4. Tanzania: Balance of Payments, 2012/13–2017/18**  
**Millions of U.S. Dollars, Unless otherwise indicated)**

	2012/13	2013/14	2014/15		2015/16		2016/17 Proj.	2017/18 Proj.
			Prog.	Prel.	Prog.	Proj.		
Current account	-4,397	-4,985	-4,568	-4,182	-3,863	-3,638	-3,747	-3,961
Trade balance	-5,084	-5,728	-5,465	-5,041	-4,779	-4,291	-4,543	-4,941
Exports, f.o.b.	5,398	5,619	5,825	5,618	6,416	5,789	6,314	6,838
Traditional agricultural products	820	836	973	908	1,038	927	978	1,091
Gold	1,899	1,747	1,349	1,228	1,457	1,173	1,171	1,207
Other	2,679	3,036	3,503	3,482	3,921	3,688	4,165	4,540
Imports, f.o.b.	-10,482	-11,347	-11,290	-10,659	-11,195	-10,079	-10,857	-11,779
Of which: Oil	-3,923	-4,209	-3,477	-3,063	-2,989	-2,366	-2,601	-3,133
Services (net)	548	648	631	971	938	1,088	1,173	1,442
Of which: Travel receipts	1,757	1,973	1,980	2,199	2,102	2,256	2,374	2,510
Income (net)	-648	-648	-415	-687	-588	-835	-975	-1,068
Of which: Interest on public debt	-113	-128	-162	-195	-290	-289	-343	-438
Current transfers (net)	787	744	681	575	567	400	597	606
Of which: Official transfers	523	439	316	277	157	65	184	189
Capital account	739	748	363	429	627	587	630	600
Of which: Project grants <sup>1</sup>	676	548	298	291	561	521	559	525
Financial account	4,360	3,947	4,503	3,838	3,675	3,449	3,646	3,920
Foreign Direct Investment	1,943	2,066	1,959	2,152	1,890	1,747	2,011	2,107
Public Sector, net	1,701	1,404	2,074	1,431	1,219	1,426	1,260	1,349
Program loans	365	451	297	281	214	260	224	229
Non-concessional borrowing	920	738	1,500	934	1,074	1,229	992	1,127
Project loans	465	324	485	363	173	173	329	357
Scheduled amortization <sup>2</sup>	-49	-109	-208	-148	-242	-236	-285	-364
Commercial Banks, net	377	90	98	-26	97	20	53	61
Other private inflows	339	388	372	282	469	256	322	402
Errors and omissions <sup>3</sup>	-245	513	-290	-185	0	0	0	0
Overall balance	457	223	8	-100	438	398	529	560
Financing	-457	-223	-8	100	-438	-398	-529	-560
Change in BoT reserve assets (increase= -)	-569	-232	44	158	-374	-335	-452	-471
Use of Fund credit	112	9	-52	-58	-64	-63	-78	-89
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Gross official reserves (BoT)	4,357	4,638	4,540	4,285	4,914	4,623	5,074	5,545
Months of imports of goods and services	3.7	4.2	3.9	4.0	4.0	4.0	4.1	4.2
Exports (percent of GDP)	12.9	12.1	12.1	11.7	13.6	13.2	13.3	13.3
Exports excl. gold (percent of GDP)	8.4	8.3	9.3	9.2	10.5	10.5	10.8	10.9
Imports (percent of GDP)	-25.0	-24.4	-23.4	-22.3	-23.7	-22.9	-22.9	-22.9
Imports excl. oil (percent of GDP)	-15.7	-15.3	-16.2	-15.9	-17.4	-17.5	-17.4	-16.8
Current account deficit (percent of GDP)	-10.5	-10.7	-9.5	-8.7	-8.2	-8.3	-7.9	-7.7
Foreign program and project assistance (percent of GDP)	4.8	3.8	2.9	2.5	2.3	2.3	2.7	2.5
Nominal GDP	41,883	46,551	48,161	47,846	47,256	43,968	47,499	51,511

Sources: Tanzanian authorities and IMF staff estimates and projections.

<sup>1</sup> An adjustment to the estimated outturn is made by BoT to reflect unreported project grants.

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

<sup>3</sup> Includes valuation changes in gross reserves resulting from the exchange rate movements of the US\$ against other currencies.



**Table 5. Tanzania: Financial Soundness Indicators, 2010–2015**  
**Percent, end of period)**

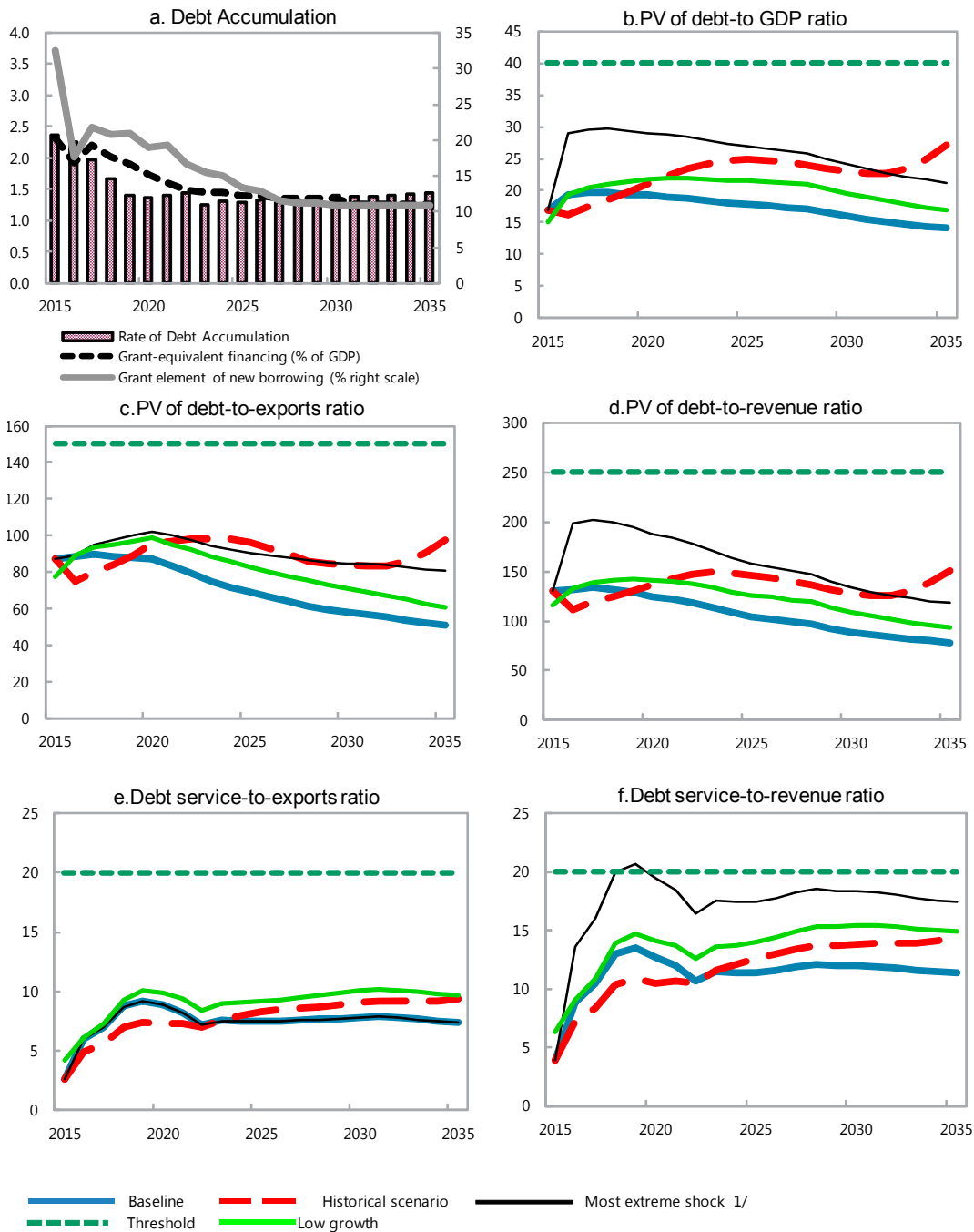
	2010	2011	2012	2013	2014				2015			
					Mar	Jun	Sep	Dec	Mar	Jun <sup>P</sup>	Sep <sup>P</sup>	
Access to bank lending												
Claims on the non-government sector to GDP <sup>1</sup>	13.4	14.3	14.3	14.9	13.5	14.4	14.9	15.5	16.4	17.4	18.5	
Claims on the private sector to GDP <sup>1</sup>	12.8	13.5	13.3	14.1	12.6	13.7	14.1	14.4	15.2	16.3	17.2	
Capital adequacy												
Capital to risk-weighted assets	18.5	17.6	17.5	17.9	19.2	17.8	18.1	17.4	19.1	17.7	18.7	
Capital to assets	10.7	10.5	10.5	11.0	11.8	11.1	11.2	11.2	12.1	11.2	12.1	
Asset composition and quality												
Net loans and advances to total assets	44.2	49.2	49.7	50.8	50.8	51.8	51.5	52.9	53.4	52.9	53.5	
Sectoral distribution of loans												
Trade	17.3	20.0	20.9	20.9	20.0	20.2	21.4	21.8	22.5	21.0	21.2	
Mining and manufacturing	13.9	12.6	11.9	11.9	11.9	12.5	12.6	12.2	12.2	13.3	12.6	
Agricultural production	12.8	13.5	11.2	9.8	10.6	10.0	9.1	9.0	8.7	9.0	8.6	
Building and construction	6.0	8.2	9.0	9.6	9.5	9.3	9.1	9.0	8.9	8.5	9.1	
Transport and communication	9.1	7.3	6.9	7.0	7.0	7.2	7.0	7.1	7.2	7.6	7.5	
Foreign exchange loans to total loans	31.6	33.0	33.5	35.4	36.0	35.9	35.8	36.4	37.6	38.4	38.9	
Gross nonperforming loans (NPLs) to gross loans	9.7	6.7	8.1	7.1	7.9	8.1	8.4	6.8	6.7	6.6	6.6	
NPLs net of provisions to capital	25.9	18.8	22.5	15.6	16.6	17.2	21.0	16.0	14.8	16.2	15.0	
Large exposures to total capital	108.5	141.0	143.7	91.2	130.0	133.6	101.8	123.0	158.5	123.7	125.0	
Net open positions in foreign exchange to total capital	-4.5	-2.4	-1.7	1.5	2.6	1.8	-2.2	-2.5	-2.1	-2.2	-2.3	
Earnings and profitability												
Return on assets	2.2	2.5	2.6	2.5	3.0	3.0	2.9	2.5	3.2	2.9	2.8	
Return on equity	12.1	14.5	13.9	12.8	15.5	15.4	15.0	12.6	16.5	15.1	13.8	
Net interest margin	8.5	8.4	...	...	...	...	...	...	...	...	...	
Noninterest expenses to gross income	65.1	66.7	67.8	66.9	64.8	65.7	66.0	67.3	63.9	65.1	67.4	
Personnel expenses to noninterest expenses	40.5	41.6	42.4	43.4	46.7	46.5	45.4	44.1	46.7	45.9	44.8	
Liquidity												
Liquid assets to total assets	39.5	36.3	34.0	32.3	32.9	31.7	32.1	30.9	30.5	30.4	31.1	
Liquid assets to total short term liabilities	45.3	40.1	38.4	36.2	36.4	35.6	37.7	35.9	39.0	37.8	37.5	
Total loans to customer deposits	59.6	65.2	68.6	71.8	71.8	73.3	72.9	74.5	77.1	76.2	77.2	
Foreign exchange liabilities to total liabilities	31.9	37.0	34.4	35.0	34.3	34.4	34.5	35.8	37.7	39.8	41.6	

Source: Bank of Tanzania

<sup>1</sup> Calendar year; end of period claims relative to annual GDP. Based on new GDP series.

<sup>P</sup> Preliminary

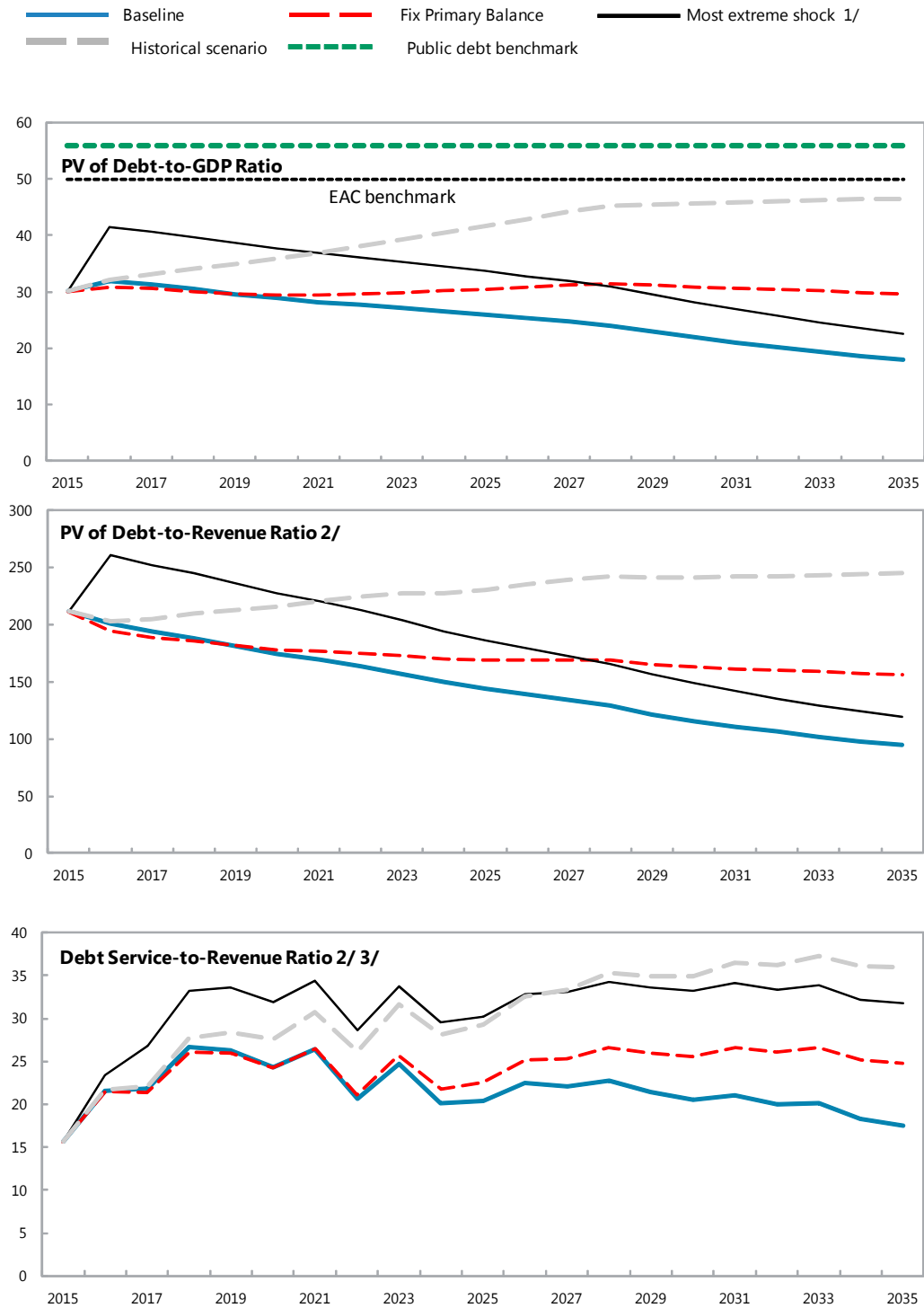
**Figure 4. Tanzania: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–2035 <sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.

<sup>1/</sup> The most extreme stress test is the test that yields the highest ratio on or before 2025. 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 One-time depreciation shock and in figure f. to a One-time depreciation shock

**Figure 5. Tanzania: Indicators of Public Debt Under Alternative Scenarios, 2015–2035** <sup>1/</sup>



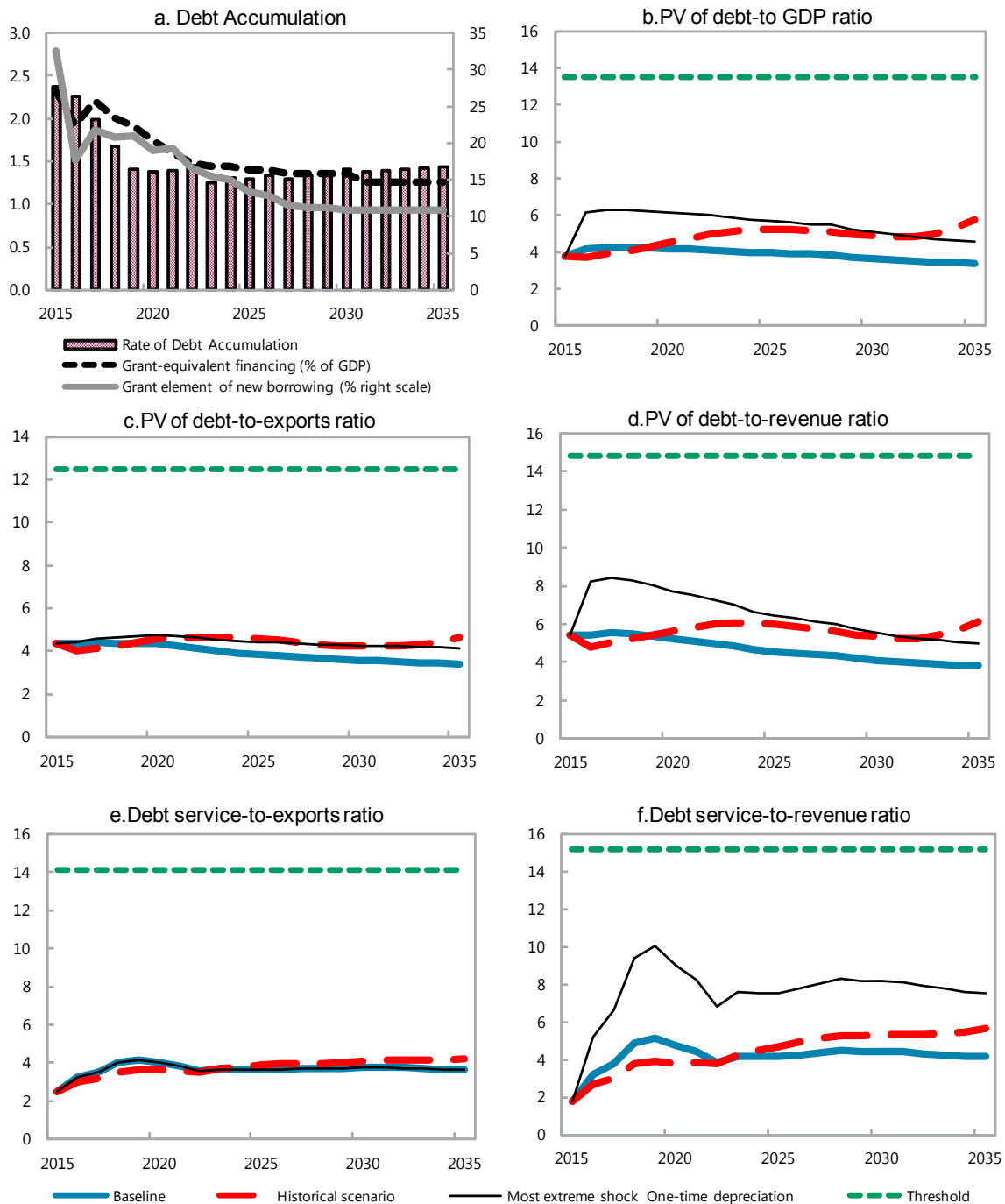
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

3/ The volatile profile of debt service is due to the projected amortization for public domestic debt.

**Figure 6. Tanzania: Probability of Debt Distress of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–2035 <sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.

<sup>1/</sup> The most extreme stress test is the test that yields the highest ratio on or before 2025. 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 One-time depreciation shock and in figure f, to a One-time depreciation shock

**Table 6. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2012–2035 1/**  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections										
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average		2025	2035	2021-2035 Average
<b>External debt (nominal) 1/</b>	<b>24.5</b>	<b>26.5</b>	<b>24.5</b>			<b>31.7</b>	<b>35.0</b>	<b>35.2</b>	<b>34.9</b>	<b>34.5</b>	<b>34.2</b>				<b>31.3</b>	<b>24.5</b>
<i>of which: public and publicly guaranteed (PPG)</i>	20.7	22.9	21.3			25.8	28.5	28.6	28.3	27.8	27.4				24.1	18.1
Change in external debt	-0.8	2.0	-2.0			7.2	3.3	0.2	-0.2	-0.4	-0.3				-0.6	-0.5
Identified net debt-creating flows	6.7	2.3	3.6			2.6	1.9	1.4	1.3	1.0	0.7				1.5	-0.2
<b>Non-interest current account deficit</b>	<b>12.9</b>	<b>10.2</b>	<b>10.4</b>	<b>8.2</b>	<b>2.5</b>	<b>8.3</b>	<b>7.7</b>	<b>7.3</b>	<b>7.0</b>	<b>6.6</b>	<b>6.3</b>				<b>6.7</b>	<b>4.4</b>
Deficit in balance of goods and services	13.8	10.8	10.9			8.5	7.3	7.1	6.8	6.3	6.1				6.4	3.7
Exports	22.3	19.9	19.1			19.4	21.7	21.8	22.1	22.1	22.0				25.9	27.7
Imports	36.1	30.7	30.0			27.9	29.0	28.9	28.9	28.3	28.1				32.3	31.4
Net current transfers (negative = inflow)	-2.6	-1.9	-1.6	-2.8	0.7	-1.2	-0.9	-1.3	-1.2	-1.1	-1.2				-0.9	-0.4
<i>of which: official</i>	-1.7	-1.2	-0.9			-0.6	-0.1	-0.4	-0.4	-0.3	-0.3				-0.2	-0.1
Other current account flows (negative = net inflow)	1.6	1.3	1.1			1.0	1.4	1.4	1.4	1.4	1.4				1.2	1.2
<b>Net FDI (negative = inflow)</b>	<b>-4.2</b>	<b>-4.6</b>	<b>-4.4</b>	<b>-3.9</b>	<b>0.7</b>	<b>-4.5</b>	<b>-4.0</b>	<b>-4.2</b>	<b>-4.1</b>	<b>-4.0</b>	<b>-4.0</b>				<b>-4.0</b>	<b>-4.0</b>
<b>Endogenous debt dynamics 2/</b>	<b>-2.0</b>	<b>-3.3</b>	<b>-2.3</b>			<b>-1.2</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-1.5</b>				<b>-1.2</b>	<b>-0.7</b>
Contribution from nominal interest rate	0.2	0.3	0.3			0.4	0.6	0.6	0.7	0.7	0.7				0.7	0.8
Contribution from real GDP growth	-1.5	-1.3	-1.7			-1.7	-2.4	-2.3	-2.2	-2.2	-2.2				-1.9	-1.4
Contribution from price and exchange rate changes	-0.7	-2.2	-1.0			...	...	...	...	...	...				...	...
<b>Residual (3-4) 3/</b>	<b>-7.5</b>	<b>-0.3</b>	<b>-5.7</b>			<b>4.6</b>	<b>1.4</b>	<b>-1.2</b>	<b>-1.6</b>	<b>-1.4</b>	<b>-1.0</b>				<b>-2.1</b>	<b>-0.3</b>
<i>of which: exceptional financing</i>	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/	...	...	16.7			22.8	25.7	26.2	26.3	26.2	26.1				25.0	20.5
In percent of exports	...	...	87.4			117.2	118.5	120.2	118.9	118.6	118.5				96.7	73.9
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>13.5</b>			<b>16.9</b>	<b>19.3</b>	<b>19.7</b>	<b>19.7</b>	<b>19.4</b>	<b>19.3</b>				<b>17.8</b>	<b>14.1</b>
<b>In percent of exports</b>	<b>...</b>	<b>...</b>	<b>70.6</b>			<b>87.0</b>	<b>88.8</b>	<b>90.1</b>	<b>88.9</b>	<b>88.1</b>	<b>87.4</b>				<b>68.9</b>	<b>50.9</b>
<b>In percent of government revenues</b>	<b>...</b>	<b>...</b>	<b>99.5</b>			<b>130.3</b>	<b>132.0</b>	<b>133.9</b>	<b>132.2</b>	<b>128.9</b>	<b>124.7</b>				<b>104.8</b>	<b>78.3</b>
<b>Debt service-to-exports ratio (in percent)</b>	<b>3.6</b>	<b>3.0</b>	<b>3.2</b>			<b>4.0</b>	<b>8.7</b>	<b>9.6</b>	<b>11.3</b>	<b>11.9</b>	<b>11.6</b>				<b>9.9</b>	<b>9.4</b>
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>1.1</b>	<b>1.9</b>	<b>2.2</b>			<b>2.6</b>	<b>6.0</b>	<b>7.0</b>	<b>8.7</b>	<b>9.2</b>	<b>8.9</b>				<b>7.5</b>	<b>7.4</b>
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>1.9</b>	<b>3.0</b>	<b>3.1</b>			<b>3.9</b>	<b>8.9</b>	<b>10.4</b>	<b>13.0</b>	<b>13.5</b>	<b>12.7</b>				<b>11.4</b>	<b>11.4</b>
Total gross financing need (Billions of U.S. dollars)	3.4	2.6	3.1			2.2	2.5	2.4	2.8	2.9	2.9				4.9	8.2
Non-interest current account deficit that stabilizes debt ratio	13.7	8.2	12.4			1.1	4.4	7.1	7.2	7.0	6.6				7.3	4.9
<b>Key macroeconomic assumptions</b>																
Real GDP growth (in percent)	6.5	6.2	7.1	6.4	0.6	7.0	7.0	7.0	6.9	6.9	6.9				6.9	6.5
GDP deflator in US dollar terms (change in percent)	2.8	10.0	3.8	5.6	5.4	-3.9	-14.1	1.0	1.4	1.6	1.2				-2.1	2.4
Effective interest rate (percent) 5/	0.9	1.4	1.3	1.0	0.3	1.9	1.8	1.9	2.0	2.1	2.1				2.0	2.5
Growth of exports of G&S (US dollar terms, in percent)	13.3	4.4	6.6	14.7	8.3	4.7	2.6	8.6	10.0	8.3	8.0				7.0	11.8
Growth of imports of G&S (US dollar terms, in percent)	29.5	-0.6	8.5	17.2	11.8	-4.3	-4.7	7.7	8.5	6.3	7.2				3.5	12.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.5	17.7	21.7	20.8	21.0	18.9				22.1	13.3
Government revenues (excluding grants, in percent of GDP)	12.6	12.8	13.5			13.0	14.6	14.7	14.9	15.1	15.4				17.0	18.0
Aid flows (in Billions of US dollars) 7/	1.2	1.1	1.0			1.1	0.9	1.1	1.1	1.2	1.2				1.4	3.7
<i>of which: Grants</i>	1.2	1.1	1.0			0.6	0.6	0.7	0.7	0.7	0.7				1.0	2.5
<i>of which: Concessional loans</i>	0.0	0.0	0.0			0.5	0.4	0.4	0.4	0.5	0.5				0.5	1.2
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.3	1.9	2.2	2.0	1.9	1.7				1.4	1.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			50.3	38.3	46.4	43.3	43.1	41.1				37.2	31.8
<b>Memorandum items:</b>																
Nominal GDP (Billions of US dollars)	35.8	41.9	46.6			47.8	44.0	47.5	51.5	55.9	60.5				92.8	270.5
Nominal dollar GDP growth	9.4	16.9	11.1			2.8	-8.1	8.0	8.4	8.6	8.2				4.7	9.0
PV of PPG external debt (in Billions of US dollars)	...	...	6.1			7.2	8.3	9.2	10.0	10.7	11.5				16.3	37.6
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			5.3	2.3	2.0	1.7	1.4	1.4				2.3	1.3
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)	...	...	13.5			16.9	19.3	19.6	19.7	19.4	19.2				17.8	14.1
PV of PPG external debt (in percent of exports + remittances)	...	...	70.3			86.7	88.5	89.8	88.6	87.8	87.1				68.8	50.8
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.2			2.6	5.9	7.0	8.7	9.2	8.8				7.5	7.4

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+g\rho)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = 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 7. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–2035**  
(in percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Estimate					Projections				
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
<b>Public sector debt 1/</b>	27.2	29.7	29.0			38.9	41.2	40.3	39.1	37.9	37.0		32.3	22.0	
<i>of which: foreign-currency denominated</i>	20.7	22.9	21.3			25.8	28.5	28.6	28.3	27.8	27.4		24.1	18.1	
Change in public sector debt	0.0	2.5	-0.7			9.9	2.3	-1.0	-1.2	-1.2	-0.9		-0.9	-0.7	
Identified debt-creating flows	-0.6	2.2	1.4			10.9	2.5	-0.6	-0.5	-0.5	-0.3		-0.5	-0.5	
Primary deficit	2.9	3.8	2.0	2.9	1.1	1.6	2.8	1.3	1.2	1.1	1.1	1.5	0.6	0.6	
Revenue and grants	15.9	15.4	15.7			14.2	15.9	16.2	16.2	16.3	16.6		18.1	19.0	
<i>of which: grants</i>	3.2	2.6	2.1			1.2	1.3	1.5	1.3	1.2	1.2		1.0	0.9	
Primary (noninterest) expenditure	18.8	19.2	17.7			15.8	18.6	17.5	17.4	17.5	17.7		18.7	19.6	
Automatic debt dynamics	-3.5	-2.2	-1.6			2.0	-0.2	-1.9	-1.7	-1.6	-1.4		-1.2	-1.1	
Contribution from interest rate/growth differential	-1.8	-1.3	-1.3			-1.1	-2.2	-2.1	-1.8	-1.7	-1.6		-1.1	-0.5	
<i>of which: contribution from average real interest rate</i>	-0.2	0.3	0.6			0.8	0.4	0.6	0.8	0.8	0.8		0.9	0.9	
<i>of which: contribution from real GDP growth</i>	-1.7	-1.6	-2.0			-1.9	-2.5	-2.7	-2.6	-2.5	-2.4		-2.0	-1.4	
Contribution from real exchange rate depreciation	-1.6	-0.9	-0.3			3.1	2.0	0.2	0.1	0.1	0.2		...	...	
Other identified debt-creating flows	0.0	0.6	1.0			7.3	0.0	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			6.2	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	0.6	1.0			1.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.6	0.4	-2.1			-1.0	-0.3	-0.4	-0.7	-0.7	-0.6		-0.3	-0.3	
<b>Other Sustainability Indicators</b>															
<b>PV of public sector debt</b>	...	...	21.2			30.0	31.9	31.3	30.5	29.6	28.9		26.0	18.0	
<i>of which: foreign-currency denominated</i>	...	...	13.5			16.9	19.3	19.7	19.7	19.4	19.3		17.8	14.1	
<i>of which: external</i>	...	...	13.5			16.9	19.3	19.7	19.7	19.4	19.3		17.8	14.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.9	5.8	3.8			3.8	6.2	4.8	5.5	5.4	5.1		4.3	3.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	135.5			211.6	201.3	193.5	187.9	181.1	174.0		144.1	94.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	156.6			231.4	218.6	213.2	204.6	196.0	187.1		152.9	99.5	
<i>of which: external 3/</i>	...	...	99.5			130.3	132.0	133.9	132.2	128.9	124.7		104.8	78.3	
Debt service-to-revenue and grants ratio (in percent) 4/	6.7	13.3	11.2			15.7	21.5	21.9	26.7	26.2	24.3		20.4	17.5	
Debt service-to-revenue ratio (in percent) 4/	8.4	16.0	13.0			17.1	23.4	24.1	29.1	28.4	26.1		21.6	18.4	
Primary deficit that stabilizes the debt-to-GDP ratio	2.9	1.3	2.7			-8.3	0.5	2.3	2.4	2.3	2.0		1.5	1.3	
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	6.5	6.2	7.1	6.4	0.6	7.0	7.0	7.0	6.9	6.9	6.9	6.9	6.5	6.5	
Average nominal interest rate on forex debt (in percent)	0.9	1.5	1.5	0.9	0.4	2.0	1.7	1.9	2.1	2.1	2.1	2.0	2.7	4.0	
Average real interest rate on domestic debt (in percent)	1.3	6.2	9.7	3.5	3.5	10.3	3.5	5.6	7.2	7.8	8.5	7.1	9.8	13.9	
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.2	-4.7	-1.2	-3.0	5.5	15.5	...	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	11.0	9.1	6.1	9.8	2.1	4.9	5.0	4.7	4.7	4.7	4.3	4.7	5.4	5.4	
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.1	0.0	0.1	0.1	0.0	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1	
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.5	17.7	21.7	20.8	21.0	18.9	22.1	13.3	10.8	

Sources: Country authorities; and staff estimates and projections.

1/ Gross public sector debt covers general government or non-financial public sector.

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 8. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035**  
(In percent)

	Projections							2035
	2015	2016	2017	2018	2019	2020	2025	
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	17	19	20	20	19	19	<b>18</b>	14
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 1/	17	16	18	19	20	21	<b>25</b>	27
A2. New public sector loans on less favorable terms in 2015-2035 2	17	19	21	22	22	23	<b>24</b>	22
A3. Alternative Scenario : Low growth	15	19	20	21	21	22	<b>21</b>	17
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	17	19	20	20	20	19	<b>18</b>	14
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	17	18	18	18	18	18	<b>17</b>	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	17	16	17	17	16	16	<b>15</b>	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	17	18	19	19	19	19	<b>17</b>	14
B5. Combination of B1-B4 using one-half standard deviation shocks	17	13	10	10	10	10	<b>12</b>	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	17	29	30	30	29	29	<b>27</b>	21
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	87	89	90	89	88	87	<b>69</b>	51
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 1/	87	75	80	84	89	96	<b>96</b>	98
A2. New public sector loans on less favorable terms in 2015-2035 2	87	89	95	97	100	102	<b>91</b>	81
A3. Alternative Scenario : Low growth	78	89	94	95	97	99	<b>83</b>	61
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	87	87	88	87	86	86	<b>68</b>	50
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	87	80	82	81	81	80	<b>65</b>	49
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	87	87	88	87	86	86	<b>68</b>	50
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	87	85	87	86	85	85	<b>67</b>	50
B5. Combination of B1-B4 using one-half standard deviation shocks	87	65	50	51	51	52	<b>49</b>	44
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	87	87	88	87	86	86	<b>68</b>	50
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	130	132	134	132	129	125	<b>105</b>	78
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 1/	130	111	119	125	131	136	<b>146</b>	151
A2. New public sector loans on less favorable terms in 2015-2035 2	130	133	141	145	146	146	<b>138</b>	124
A3. Alternative Scenario : Low growth	116	133	139	142	142	141	<b>126</b>	94
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	130	131	134	133	129	125	<b>105</b>	79
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	130	124	124	123	120	117	<b>100</b>	76
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	130	111	113	112	109	106	<b>89</b>	66
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	130	126	129	128	124	121	<b>102</b>	77
B5. Combination of B1-B4 using one-half standard deviation shocks	130	87	68	69	68	68	<b>68</b>	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	130	198	202	199	194	188	<b>158</b>	118

**Table 8. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 (continued)**

(In percent)

Debt service-to-exports ratio								
<b>Baseline</b>	3	6	7	9	9	9	<b>7</b>	7
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 1/	3	5	6	7	7	7	<b>8</b>	9
A2. New public sector loans on less favorable terms in 2015-2035 2	3	6	6	8	8	8	<b>7</b>	10
A3. Alternative Scenario : Low growth	4	6	7	9	10	10	<b>9</b>	10
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	3	6	7	9	9	9	<b>7</b>	7
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	3	6	7	8	9	8	<b>7</b>	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	3	6	7	9	9	9	<b>7</b>	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	3	6	7	9	9	9	<b>7</b>	7
B5. Combination of B1-B4 using one-half standard deviation shocks	3	6	6	7	7	6	<b>5</b>	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	3	6	7	9	9	9	<b>7</b>	7
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	4	9	10	13	13	13	<b>11</b>	11
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 1/	4	7	8	10	11	10	<b>13</b>	14
A2. New public sector loans on less favorable terms in 2015-2035 2	4	9	10	12	11	11	<b>11</b>	15
A3. Alternative Scenario : Low growth	6	9	11	14	15	14	<b>14</b>	15
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	4	9	11	13	14	13	<b>12</b>	12
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	4	9	10	13	13	12	<b>11</b>	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	4	8	9	11	12	11	<b>10</b>	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	4	9	10	13	13	12	<b>11</b>	11
B5. Combination of B1-B4 using one-half standard deviation shocks	4	7	8	9	10	8	<b>7</b>	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	4	14	16	20	21	19	<b>17</b>	17.39
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	6	6	6	6	6	6	<b>6</b>	6

Sources: Country authorities; and 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 9. Tanzania: Sensitivity Analysis for Key Indicators of Public Debt 2015–2035**

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	30	32	31	30	30	29	26	18
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	30	32	33	34	35	36	42	47
A2. Primary balance is unchanged from 2015	30	31	31	30	30	29	30	30
A3. Permanently lower GDP growth 1/	30	32	31	31	30	29	27	22
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	30	32	33	32	31	31	30	23
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	30	33	35	34	33	32	29	20
B3. Combination of B1-B2 using one half standard deviation shocks	30	33	34	34	33	33	30	23
B4. One-time 30 percent real depreciation in 2016	30	40	39	38	37	36	33	26
B5. 10 percent of GDP increase in other debt-creating flows in 2016	30	41	41	40	39	38	34	23
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	212	201	194	188	181	174	144	95
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	212	203	205	210	213	216	231	245
A2. Primary balance is unchanged from 2015	212	194	189	186	182	178	169	156
A3. Permanently lower GDP growth 1/	212	202	194	189	183	177	151	116
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	212	204	200	197	192	186	164	123
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	212	209	216	210	203	195	161	104
B3. Combination of B1-B2 using one half standard deviation shocks	212	207	212	208	202	196	169	122
B4. One-time 30 percent real depreciation in 2016	212	255	243	234	225	216	185	136
B5. 10 percent of GDP increase in other debt-creating flows in 2016	212	261	251	245	236	227	186	119
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	16	22	22	27	26	24	20	17
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	16	22	22	28	28	28	29	36
A2. Primary balance is unchanged from 2015	16	22	21	26	26	24	22	25
A3. Permanently lower GDP growth 1/	16	22	22	27	26	25	21	20
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	16	22	22	28	27	25	23	21
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	16	22	22	29	29	27	22	19
B3. Combination of B1-B2 using one half standard deviation shocks	16	22	22	28	28	27	23	21
B4. One-time 30 percent real depreciation in 2016	16	23	27	33	34	32	30	32
B5. 10 percent of GDP increase in other debt-creating flows in 2016	16	22	26	33	32	30	26	21

Sources: Country authorities; and 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.

**Table 10. Tanzania: Summary Table on External Borrowing Program**

<b>PPG external debt contracted Year 2015/16</b>	<b>Volume of new debt (USD million) 1/</b>	<b>Present value of new debt (USD million) 1/</b>
<b>Sources of debt financing</b>	<b>1254.8</b>	<b>985.3</b>
Concessional debt, of which 2/	429.7	194.4
Multilateral debt	395.7	177.2
Bilateral debt	34	17.2
Non- Concessional debt, of which 2/	825.1	790.9
Semi-concessional debt 3/	325.1	290.9
Commercial-term debt 4/	500	500
<b>Use of debt financing</b>	<b>1254.8</b>	<b>985.3</b>
Infrastructure 5/	552.3	433.5
Social Spending	185.7	144.8
Budget financing	516.8	406.93
<i>Memorandum items</i>		
Indicative projections		
Year 2: FY 2016/17	1544	231.6
Year 3: FY 2017/18	1712.3	256.8
1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.		
2/ Debt with a grant element that exceeds the minimum threshold (35 percent).		
3/ Debt with a positive grant element which does not meet the minimum grant element.		
4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.		
5/ Infrastructure projects include airport, roads, water supply, and power sector.		

## Letter of Intent

December 24, 2015

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

Dear Madam Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) updates the ones from June 27, 2014, December 18, 2014, and June 18, 2015 under the Policy Support Instrument (PSI). It reports on recent economic developments and sets out macroeconomic policies and structural reforms that the Government will pursue in the coming years. The Government requests modification of the program conditionality as described in the MEFP and a waiver for non-observance of the Assessment Criterion (AC) on tax revenue.

The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of its program. We stand ready to take further measures that may become appropriate for this purpose and that are in line with the Government's policy objectives. The Government will consult with the IMF at its own initiative or whenever the Managing Director of the IMF requests such a consultation before the adoption of any such measures or changes to the policies described in the attached Memorandum. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

The Government intends to disseminate this letter, the attached MEFP and the Technical Memorandum of Understanding (TMU), as well as related Fund staff reports, and hereby authorizes the IMF to publish the same after consideration by the Executive Board.

Yours Sincerely,

/s/

Dr. Ashatu K. Kijaji (MP)  
DEPUTY MINISTER FOR FINANCE AND PLANNING  
UNITED REPUBLIC OF TANZANIA

/s/

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

### Attachments

Memorandum of Economic and Financial Policies

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

## Attachment I. Memorandum of Economic and Financial Policies December 24, 2015

### I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

#### A. Recent Developments

##### Political developments

**1. The new government's priorities are to sustain high growth and further reduce poverty.** Sustaining high growth will involve development of railway, port, road and air infrastructure development of natural gas resources; industrialization with emphasis in manufacturing; provision of adequate power; and improved agricultural activities, which will necessitate better access to inputs and finance and resolving land disputes. Reducing poverty will require not only high growth, but also more and better jobs and better education to equip the youth with the right skills. To improve national health, the Government will ensure improved health care delivery with higher availability of clinics and hospitals across the country, better trained medical staff, an increased budget for medicine, and higher participation in the national health insurance scheme. Improving access to, and the quality of, education is equally critical; in this regard basic education will be free from primary to ordinary level secondary schools from January 2016. Increasing access to water for rural and urban population will also be priority. The government remains committed to achieving the main objectives of the PSI-supported programs. On the fiscal front, renewed efforts will be required to combat tax evasion and ensure better tax collection and reduce unnecessary expenditure to make room for social and development priorities.

##### Output and Inflation

**2. Growth.** GDP is estimated to have grown by 7.2 percent in the first half of 2015, with strong performance recorded in electricity generation (15.6 percent), information and communication (14.1 percent), transport and storage (11.1 percent), construction (11.1 percent), and financial intermediation services (11.0 percent). Economic growth is expected to remain close to 7 percent in the remainder of 2015 and in 2016, supported by vigorous growth of credit to the private sector, particularly in the services and construction activities, completion of the Kinyerezi 1 plant, which will strengthen the availability and reliability of power supply while reducing reliance on expensive generation using heavy fuel plants, and continued dynamism in financial services, notably mobile ones.

**3. Inflation.** Inflation, which was on a declining trend since September 2014, started to rise gradually beginning February 2015, increasing from 4.2 percent to 6.3 percent in October 2015. This was largely driven by supply side factors, particularly food prices, and the exchange rate depreciation in the first half of 2015, which raised the domestic cost of imports and partly offset the relief from the fall in global oil prices. Core inflation remained at around 2 percent, signaling

limited domestic demand pressures. While inflation could increase somewhat more in the coming months, due to the lagged effects of the recent depreciation, it is expected to continue to remain within single digits, helped by expected stable global oil prices as well as continued tight monetary policy. It would gradually decline in 2016/17 back to our objective of 5 percent.

### **External Sector Developments**

**4. Balance of Payments.** The current account deficit narrowed to US\$4.2 billion (or 8.7 percent of GDP) in 2014/15 compared with a deficit of about US\$5 billion in 2013/14. Gold exports continued to decline following a sustained fall in world gold prices, reducing its share in the non-traditional exports to 31 percent from 39 percent a year ago. However, this adverse development was more than offset by declining oil prices and imports and improving exports of manufactured goods, fish and fish products, tourism, and re-exports. Gross official reserves amounted to US\$4.3 billion as at end-June 2015, sufficient to cover 4 months of projected imports of goods and services. The current account deficit is projected to improve further in 2015/16, thanks to the full year impact of lower oil prices.

### **Fiscal Performance and Financing in Fiscal Year 2014/15**

**5. Execution of the 2014/15 budget.** The execution of the budget was lower than programmed resources. Budget revenue was lower than expected by 0.3 percent of GDP, on account of tax revenue, reflecting continued challenges in tax administration affecting income tax withholding on civil servants' salaries and lower corporate income tax revenue due to lower than expected gold prices. On the financing side, donor support fell slightly short of expectations. The main shortfall, however, was incurred on external nonconcessional borrowing (ENCB). Budget support ENCB fell short of target by US\$300 million, reflecting unfavorable conditions on international financial markets. Tight financing and the need to execute critical expenditure led to further accumulation of payment arrears in the second half of 2014/15 (with a total of 1.1 percent of GDP for the full year). Including arrears accumulation the overall fiscal deficit is estimated at 4.5 percent of GDP, against a program objective of 3.8 percent of GDP.

### **Monetary Policy and Exchange Rate Issues**

**6. Monetary and exchange rate developments.** Monetary aggregates remained within the program targets, with M3 growing by 13 percent in the year ending June 2015 and private sector credit by 21 percent. The shilling depreciated rapidly against the U.S. dollar particularly in April–June 2015, as demand for the dollar as a safe haven overlapped with high liquidity in the banking system, seasonally low export earnings and high repatriation of corporate dividends. The situation was further compounded by delays in the mobilization of external program financing, which likely fuelled a foreign exchange shortage psychology. During 2014/15 the shilling depreciated against the dollar by about 25 percent. To rein in inflation expectations, the Bank of Tanzania (BoT) tightened liquidity by increasing the statutory minimum reserve (SMR) ratio by two percentage points effective May 29<sup>th</sup> 2015, thus freezing about TSh 350 billion. This was

complemented by increasing the penalty margin on the Lombard facility by 300 basis points and lowering the ceiling on the foreign exchange net open position (NOP) of commercial banks from 7.5 percent to 5.5 percent of core capital. The resulting liquidity tightness was mirrored in the interbank interest rates, which exceeded 30 percent on several occasions. Currency swaps between banks and the BoT helped improve liquidity conditions, which returned to normal in August 2015. On the foreign exchange market, the monetary policy tightening and seasonally higher export earnings helped to stabilize the shilling and led to the waning of the foreign exchange shortage psychology.

**7. Recent measures to improve the functioning of markets.** Important steps have been taken to strengthen financial market operations, which is one of the prerequisite for a forward looking monetary policy framework. These include broadening the range of government securities that can be pledged by banks as collateral in accessing standby facilities at the BoT effective June 2015. The framework now includes securities which mature within 91 days to 180 days from the date of acquisition. The IFEM Code of Conduct was also recently revised to clarify a number of issues and expectations. The BoT open market operations with commercial banks are now fully collateralized.

### **Financial Sector and Capital Account**

**8. Financial sector stability.** The banking sector remains sound, liquid and adequately capitalized. Financial institutions are moving ahead of schedule in increasing capital adequacy levels to 12.5 percent and 14.5 percent for core capital and total capital, from 10 percent and 12 percent, respectively. As at the end of June 2015, 34 commercial banks (out of 37) complied with the higher capital adequacy ratios, which are expected to be met by 2017. The BoT is reviewing the Bank of Tanzania Act, Banking and Financial Institutions Act, and Foreign Exchange Act with the view to aligning them with the East African Monetary Union (EAMU) Protocol, new developments in the financial sector and international best standards.

**9. FBME Bank.** The U.S. Financial Crimes Enforcement Network (FinCEN) finalized its investigation and on 23<sup>rd</sup> July 2015 issued the Final Rule which effectively prohibits U.S. financial institutions from opening or maintaining correspondent accounts or payable through accounts for or on behalf of FBME. FBME shareholders filed a suit against FinCEN's final rule and on 27<sup>th</sup> August 2015 the United States District Court for the District of Columbia granted a preliminary injunction and enjoined the rule from taking effect until final judgment is entered. FinCEN went back to the Court and offered to reopen its rulemaking proceedings, giving the shareholders and other interested parties up to January 26, 2016 to respond before a Final Rule is handed down by the end of March 2016. In furtherance of that, the Court directed both parties to submit a joint status report no later than two weeks after FinCEN's decision. FBME continues with normal banking operations under close monitoring while the BoT is reviewing the situation with a view to determining an appropriate course of action for the FBME, including resolution options as governed by law. The BoT will continue to engage with key stakeholders, including the Central Bank of Cyprus, in addressing this situation.

**10. Consumer protection.** Commercial banks' clients from Dar es Salaam have started utilizing the Complaints Resolution Desk, which became operational in April 2015. To date 34 complaints have been registered, centered mostly on ATM fraud with a few on transaction-related issues. The BoT continues to increase public awareness on the existence of the desk and efforts are under way to extend the service up country and ensure full compliance with the guidelines for establishment of the desk by all commercial banks. The BoT has also started to implement a number of actions in line with the National Financial Inclusion Framework including putting in place a financial education strategy as well as developing the legal, regulatory and supervisory framework to enhance financial consumer protection and drafting of mobile financial services regulations following enactment of the National Payment System Act 2015 in April 2015.

**11. Capital account liberalization.** Since the further opening of the capital account, the Dar es Salaam Stock Exchange has recorded an increase in equities transactions involving non-residents. However, there have been no transactions with respect to government securities, both on the primary and secondary markets.

### **Structural issues**

**12. Natural resources sector.** About 55 TCF of natural gas has been discovered in Tanzania in recent years and more is expected as exploration activities continue. In the long term, assuming investments are made to the production phase, this could provide Tanzania with substantial revenue to fast track social and economic development and transform the living standard of Tanzanians. Nevertheless, oil and gas resources are finite and require prudent management to ensure sustainable revenue flow. The Oil and Gas Revenue Management Act of 2015 provides that revenue from oil and gas would continue to support the budget until the time when such revenue is above 3 percent of GDP. Once the revenue is above 3 percent of GDP, the excess would be transferred to the Revenue Saving Account of the Fund. Sixty percent of the designated oil and gas revenue that goes to the budget would finance strategic development expenditure. The Act provides for stabilization of government expenditure in light of inherent volatility; maintenance of orderly and reasonable growth of expenditure to ensure consistency with the absorption capacity of the economy; and avoid borrowing where the government holds financial savings. The Act also provides for monitoring of non-resource fiscal deficit to ensure that revenue efforts from non-oil and gas sources are not neglected. Further, as a way of nurturing the National Oil Company (TPDC), the Government would set aside oil and gas revenue equivalent to 0.1–1.0 percent of GDP to finance strategic investment of TPDC. Funds in the Revenue Saving Account would be used to safeguard the interest of future generation through expenditure in strategic investment including human capital development and financial savings. Lastly, the Act stipulates a comprehensive reporting mechanism to ensure transparency and Accountability of oil and gas revenues.

## B. Program Performance

**13. Quantitative targets and structural benchmarks.** All end-June 2015 quantitative targets were met, except for the assessment criterion on tax revenue and the indicative target on domestic arrears accumulation. In the structural area, the BoT established a Modeling and Forecasting Unit effective 1<sup>st</sup> September 2015, ahead of schedule. Commitment controls were strengthened with a new circular limiting commitments to cash releases; these changes, however, still need to be reflected in IFMS, which requires reprogramming of the system. Delays were incurred, however, in publishing the fiscal risks statement (done in November 2015), producing a strategy to deal with TANESCO's arrears (a draft was completed in September 2015), and publishing the audited financial statements of public enterprises on the Treasury Registrar's website (the accounts of all 80 enterprises whose audits have been completed were available online in early December 2015, out of a total of 147 public enterprises).

## II. THE ECONOMIC PROGRAM FOR 2015/16 AND THE MEDIUM TERM

**14. MKUKUTA II.** The review of MKUKUTA II implementation shows mixed results. Tanzania has made progress in many fronts including robust economic growth, reduction in child mortality, and access to primary and secondary education. However, reduction in income poverty remains a challenge, particularly in rural areas, and maternal mortality too. While access to education at all levels has improved significantly, quality remains an issue to grapple with. These challenges and others related to social services provision, rural development, governance and social protection are the unfinished agenda that will be addressed in the next Five Years Development Plan 2016/17 - 2020/21, which will be combined with the next MKUKUTA. It will focus on social economic transformation through industrialization.

### A. Monetary, Exchange Rate, and Financial Sector Policies

**15. Monetary and exchange rate policies.** In light of the recent pick-up in inflation and possible further inflationary pressures coming from the recent exchange rate depreciation and food prices, we intend to keep a tight monetary policy stance. The BoT will continue to rely actively on a mixture of instruments for liquidity management operations, while ensuring that the target on international reserves is met and treasury bills yields are reflective of market conditions. The recent depreciation of the shilling has illustrated the BoT's commitment to a flexible exchange rate regime, which is critical to help the economy cope with shocks. It has also led to a depreciation of the real effective exchange rate, which earlier was found to be somewhat overvalued. The BoT's participation in the IFEM will continue to be driven by liquidity management objectives, with only occasional interventions to smooth short-term exchange rate volatility.

**16. Modernizing the monetary policy framework.** The BoT continues to modernize its monetary policy framework by strengthening its analytical tools, reviewing the functioning of key financial markets, and capacity building on inflation forecasting. A core Forecasting and Policy Analysis System (FPAS) model that reflects the policy regime is being developed in collaboration



with the IMF and a dedicated Modeling and Forecasting Unit has been established within the BoT. An important step in the transition towards an interest rate-based framework is to stabilize the interbank interest rates, which have been volatile. This can be achieved within the reserve money targeting framework by stabilizing banks' excess reserves, which are highly correlated with interbank rates. The move to partial reserve averaging, which we intend to implement from end-2015, will also help in this respect.

**17. Improving market functioning.** The recent turmoil on the interbank and foreign exchange markets has illustrated that these markets remain shallow and can sometimes break down. The turmoil has also shown the importance of close communication between the BoT and market players, which was an important contributor to the normalization of the situation after mid-2015. The BoT therefore intends to further strengthen its communication channels with market participants, with at least monthly meetings at the technical level (in addition to existing meetings at the Governor/CEO level). These meetings will be an opportunity to convey more clearly to the markets the BoT's intentions, and for the BoT to understand better what underpins market developments. A better functioning of these markets also requires more and regular information sharing. For this purpose, by end December 2015 the BoT will share with the banks total clearing balances held at BoT with a lag of one day. This will enable banks to get a sense of liquidity conditions in the banking system. The tightening of the NOP and foreign exchange swaps between commercial banks were exceptional measures implemented at exceptional times. These will be reconsidered by end-June 2016, with a view to improving liquidity in the foreign exchange market (new structural benchmark). Finally, the Bank will continue to enhance transparency in its participation in the IFEM, including continuing to provide clear signals to the foreign exchange market to distinguish between measures aimed at liquidity management from those aimed at exchange rate-volatility smoothing. The BOT will continue to work closely with market players to ensure greater efficiency in the determination of market based interest rates. In this regard the BOT's outliers policy, which aims at ensuring that interest rates are reflective of market conditions, will continue to be communicated to markets players on regular basis.

**18. Capital account liberalization.** The recent liberalization of capital account transactions to EAC residents will be extended to the rest of the world by end-2015. While we intend to keep prudential rules such as minimum holding periods for debt inflows, we will review them to ensure that they are not overly restrictive and clarify and publish the rules for participation in the government securities market.

**19. Banking supervision framework.** The BoT has developed onsite examination procedures for consolidated supervision with the assistance of East AFRITAC and a pilot examination, involving bank supervisors and technical assistance experts took place in October 2015. The pilot examination's results will inform the implementation of the regulations going forward. To improve macroprudential surveillance, the BoT is also improving its data collection. While lending for real estate has increased rapidly, stress tests conducted by the BoT suggest that there are no systemic implications from this development owing to the small share of these loans in the overall loan portfolio. However, future developments will need to be monitored

carefully, and a pilot project to compile property prices is underway. Initially covering Dar es Salaam in 2015/16, the project will be expanded to cover price developments in other large towns in 2016/17.

## **B. Fiscal Policies**

### **Budget for 2015/16 and Medium-Term Fiscal Policies**

**20. Budget for 2015/16.** The budget has the following priorities: (i) the financing of the 2015 general elections; (ii) the completion of the ongoing capital projects; and (iii) special emphasis on development projects including rural electrification, water supply, and human capital development. This requires stepping up development expenditures, which will be financed through higher domestic revenue collection. A number of tax policy measures were implemented on July 1 for this purpose, including the railway development levy and petroleum taxes. Together with the expected impact of VAT reform, these measures are expected to lead to an increase in the tax revenue to GDP ratio by about one percentage point. The Tax Administration Act, 2015 intends to create modern, effective, fair and transparent tax administration in Tanzania by simplifying, unifying, and harmonizing tax procedures from various tax laws with a view to promoting voluntary tax compliance, fair tax governance and increasing tax revenue.

**21. Budget execution challenges and contingency measures.** Tight financing conditions on external and domestic markets have constrained the availability of resources in the first half of the fiscal year. Financing conditions should improve in the second half of the year, with the waning of the uncertainty related to the general elections, and the Government still expects to be able to raise the full programmed amount of ENCB and domestic financing. Additional expenditures have to be budgeted for new measures in favor of education, but also on account of expenditure arrears clearance, partial clearance of government arrears to TANESCO, delayed payments to the PSPF, and delayed statutory contributions (0.7 percent of GDP). Although total domestic revenue collection has not reached 100 percent of target, there has been significant improvement in collection rates and the government believes that by end of the fiscal year the budget projections will be met. At this juncture, the fiscal gap is expected to be between 0.8 and 1.2 percent of GDP. The Government will finalize the estimates by end-December based on the most recent information. Technical work is already well advanced on how the budget will be adjusted, with cuts expected to be in non-priority expenditures and postponing projects not yet started. A government decision on a revised budget along these lines is expected by early January 2016. Expenditure ceilings for MDAs will be revised accordingly in IFMS.

**22. Dealing with expenditure arrears.** Financing constraints have slowed the settlement of verified expenditure arrears, with only TSh 57 billion paid in 2014/15 (out of a stock of verified arrears as of end-June 2014 of TSh 860 billion). Our intention remains to settle these arrears in 2015/16. Arrears accumulated in 2014/15 will be verified and cleared with the 2016/17 budget. More realistic budgets (both on the revenue and financing side) and the tightening of

commitment controls will help reduce the occurrence of arrears in the future. The Government will specify the sanctions provided for in the Budget Act in a circular to be issued shortly and intend to apply them effectively to instill more discipline among accounting officers. A lack of control over multi-annual commitments related to investment projects has been a major source of arrears accumulation, as projects can be contracted which eventually commit the government to payments in excess of available funds. Section 51 of the Budget Act provides control over the multi-annual projects. Also, the Government is developing a centralized database to track projects through their entire life cycle, link them to the medium term expenditure framework and support the monitoring and control of multi-annual commitments. This database will be completed by end-March 2016. Finally, IMF technical assistance has been requested to provide advice on how to address these issues.

**23. Medium-term fiscal policy.** The recent difficulties faced in raising the requisite financing at a moderate cost to execute budgets and the ensuing accumulation of arrears point to the need to base future budgets on more conservative financing assumptions. Medium-term sustainability considerations and commitments made to the East African Community suggest that a fiscal deficit close to 3 percent of GDP remains a reasonable over the medium term.

**24. Tax reforms.** Despite recent achievements, tax revenue mobilization in Tanzania remains low by regional and international standards. This is a serious constraint on our capacity to address our development needs. The focus of revenue mobilization efforts in the short-term will be on strengthening tax administration. In line with that, the government has already taken robust action to uncover substantial tax evasion and several measures are being instituted to address administrative challenges to enhance tax revenue collection. A tax administration diagnostic mission from the IMF was requested, which will give a comprehensive picture of achievements so far and challenges ahead. The government remains committed to successful implementation of the recent VAT reform and to minimizing exemptions consistent with the VAT Act. The government is also committed to ensuring timely and full payment of VAT refunds, which are critical for the credibility of the reform. The government also reverted to the practice of withholding centrally taxes and other contributions on civil servant wages. We are working on amendments to the Income Tax Act to provide certainty about the tax rules affecting the mining and petroleum sector. In the medium term, further tax policy reforms will be needed to raise more revenue and we plan to use the coming year to explore a number of options.

### **Fiscal Aspects of Energy and Pensions**

**25. Power sector.** Over the years, TANESCO has been experiencing operational and financial difficulties due to high production cost compared to its revenue streams. As of June 30, 2015, TANESCO had accumulated arrears to its suppliers amounting to TSh 699 billion, most of which related to energy purchases. A Task Force designed a draft strategy to address these arrears consisting of a combination of measures: (i) the settlement by the government of its arrears to TANESCO amounting to TSh 239.1 billion (TSh 154 billion of which have already been paid in recent months); (ii) the collection by TANESCO of 50 percent of unpaid claims from private

customers (about TSh 58 billion); (iii) TANESCO to improve its efficiency in revenue collection from 96 to 99 percent (TSh 65 billion); (iv) diversification of generation sources to reduce costs (TSh 41 billion); (v) a reduction of system losses from 18 to 15 percent (TSh 134 billion); and (vi) the residual (TSh 162 billion) to be addressed either through tariff action or government transfers. All these measures are expected to raise the required amount by 2018. The plan still needs to be refined, including to specify the schedule of settlement, and be approved at the government level.

**26. Pensions.** Progress has been made in the reconciliation of arrears to pension funds. The arrears to the PSPF on account of the 1999 reform amount to TSh 2.7 trillion. We expect to settle them by end-March 2016 (new structural benchmark), through the issuance of non-cash bonds with maturities ranging from 3 to 20 years. Loans from three pension funds to the government have now been reconciled, while work is progressing on loans from three other pension funds (namely the PSPF, LAPF and NSSF). The Government expects to take over these loans entirely and recognize them as public debt, and will issue non-cash bonds to the pension funds in compensation by end-June 2016 (new structural benchmark). New loans to the government will not be extended until the share of these loans to total pension fund assets falls below the regulatory limit of 10 percent; this limit might be further reduced in the future. Future loans will be recorded explicitly as budget financing, with the corresponding expenditure properly recorded in the budget and fiscal reports.

### C. Public Finance and Debt Management

**27. Debt management.** Our updated debt sustainability analysis suggests that reasonable amounts of ENCB can be contracted while keeping debt vulnerabilities low, provided that fiscal policy remains prudent. The next step will be to update our medium-term debt management strategy (by end-December 2015). Once approved, the debt management division will produce by end-April 2016 a detailed borrowing plan for next fiscal year. A recent corporate malpractice case that arose in the context of a 2013 private placement, in which the government was defrauded by a private bank, illustrates the urgency to strengthen and make more transparent our debt management practices. The government will also approve by end-March 2016 the National Debt Management Policy, which will lay out the overarching principles, policy priorities, debt coverage, and institutional arrangement for effective public debt management, and amendments of the Government Loans, Guarantees and Grants Act strengthening the regulatory and institutional framework for effective debt management (new structural benchmark).

**28. Monitoring and management of parastatals.** A new information system allows the Treasury Registrar (TR) to receive financial reports from parastatals on a quarterly basis. This will allow closer monitoring of their performance. To ensure better expenditure control, TR has introduced a cap on parastatal spending of 60 percent of their revenue. This cap will be individualized when more analysis has been conducted on each parastatal's performance, and benchmarks have been developed.

**29. Transparency.** A new consolidated financial statement was published in September 2015 for the first time. It provides detailed financial information on the wider public sector for 2013-14. The Government will continue to develop this consolidated financial statement in consultation with stakeholders, in particular to address missing items and recording issues to provide a fuller picture of the government's financial position.

#### **D. Program Monitoring**

**30.** Consistent with the IMF's new debt limits policy, The Government requests that the program no longer include ceilings on ENCB and NDF. To better monitor fiscal sustainability, we propose to introduce an AC on the overall cash fiscal deficit, measured from the financing side, while the current IT on no expenditure arrears accumulation would become an AC for June 2016. With the external financing shortfall recorded in the first half of the year and higher-than-programmed foreign exchange sales, the NIR AC for end-2015 needs to be amended. The AC for tax revenue for end-December 2015 also needs to be reset, in light of recent revenue shortfalls. The Government also requests a waiver for the missed AC on tax revenue for end-June 2015. Assessment criteria for end-December 2015 and end-June 2016, and indicative targets for end-March 2016 are set as per Table 1. The fourth and fifth reviews under the PSI are expected to take place by June 2016 and December 2016 respectively, on the basis of the assessment criteria and structural benchmarks indicated in Tables 1 and 2, attached.

**Table 1. Tanzania: Quantitative Assessment Criteria (AC) and Indicative Targets (IT) Under the Policy Support Instrument, March 2015–June 2016**

	March 2015				June 2015				Sept. 2015				Dec. 2015		Mar. 2016		June 2016	
	Indicative Target				Assessment Criteria				Indicative Target				AC		IT		AC	
	Program	Adjusted Criteria	Actual	Met?	Program	Adjusted Criteria	Actual	Met?	Program	Adjusted Criteria	Actual	Met?	Program	Revised	Program	Proposed	Program	Proposed
(Billions of Tanzania Shillings; end of period, unless otherwise indicated)																		
Net domestic financing of the government of Tanzania (cumulative, ceiling) <sup>1,2</sup>	446	946	1,310	✘	583	1083	800	✓	358	858	767	✓	...	...	...	...	...	...
Average reserve money (upper bound) <sup>3</sup>	6,219	6,219	5,844	✓	6,473	6,473	6,176	✓	6,494	6,494	6,737	✘	6,913	6,913	6,859	6,912	6,955	7,076
Average reserve money target <sup>3</sup>	6,158	6,158	...		6,409	6,409	...		6,430	6,430	...		6,845	6,845	6,791	6,843	6,887	7,006
Average reserve money (lower bound) <sup>3</sup>	6,096	6,096	...		6,345	6,345	...		6,365	6,365	...		6,776	6,776	6,723	6,775	6,818	6,936
Tax revenues (floor) <sup>1</sup>	7,854	7,854	7,426	✘	10,130	10,130	9,980	✘	2,912	2,912	2,803	✘	6,120	5,923	9,250	8,971	12,408	12,229
Priority social spending (floor; indicative target) <sup>1</sup>	1,800	1,800	2,099	✓	2,400	2,400	2,717	✓	700	700	830	✓	1,400	1,400	2,100	2,100	2,800	2,800
Accumulation of domestic arrears (ceiling; AC for June 2016 only, otherwise IT) <sup>1</sup>					0	0	987	✘	0	0		✘	0	0	0	0	0	0
Fiscal deficit (cumulative, floor) <sup>1,7,8</sup>	...	...	...		...	...	...		...	...	-876		...	-1,992	...	-2,988	...	-3,984
(Millions of U.S. dollars; end of period)																		
Change in net international reserves of the Bank of Tanzania (floor) <sup>1,4,6</sup>	290	-13	-328	✘	176	-127	-31	✓	137	-166	-357	✘	231	-254	305	-120	438	481
Accumulation of external payment arrears (continuous AC ceiling) <sup>1</sup>	0	0	0	✓	0	0	0	✓	0	0	0	✓	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (continuous AC ceiling) <sup>5</sup>	2,420	2,420	934	✓	2,420	2,420	1,147	✓	2,420	2,420	1,147	✓	...	...	...	...	...	...
Memorandum item:																		
Foreign program assistance (cumulative grants and loans) <sup>1</sup>	374	374	306		613	613	571		93	93	5		186	173	278	294	371	339
o.w. Program grants <sup>1</sup>	...	...	...		...	...	...		...	...	...		...	24	...	54	...	79
External nonconcessional borrowing (ENCB) disbursements to the budget <sup>1</sup>	846	846	364		1,010	1,010	579		269	269	22		537	79	806	432	1,074	1,093

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

<sup>1</sup> Cumulative from the beginning of the fiscal year (July 1).

<sup>2</sup> To be adjusted upward by up to TSh 500 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. The 2014/15 ceiling be adjusted upward for any amount of expenditure arrears cleared during the fiscal year in excess of the budgeted amount of TSh 170 billion, and to be adjusted downward for any shortfalls compared to the same amount. The end-of-quarter limits in 2015/16 will be adjusted upward by the amount of arrears to pension funds cleared from the beginning of the fiscal year. This adjuster will be capped by the total amount of arrears identified in the strategy to clear arrears to pension funds.

<sup>3</sup> Assessment criteria and indicative targets apply to upper bound only.

<sup>4</sup> 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 US\$300 million.

<sup>5</sup> The cumulative ENCB ceiling of US\$2,420 million applies from January 1, 2014 through September 30, 2015.

<sup>6</sup> Starting end-December 2015 the NIR target excludes short-term (less than 1 year) foreign exchange liabilities to residents.

<sup>7</sup> The fiscal deficit is measured on a cash basis from the financing side at the current exchange rates and is defined as a sum of (i) net domestic financing (NDF) of the Government; (ii) net external financing and (iii) privatization receipts as defined in the TMU.

<sup>8</sup> The deficit in 2015/16 will be adjusted upward by the amount of arrears to PSPF on account of the 1999 reform and the amount of loans in arrears made by pension funds to government entities (recognized by the government) that were cleared during the fiscal year. This adjuster will be capped by the total amount of arrears identified in the strategy to clear arrears to pension funds. The deficit will be increased by any shortfalls in foreign program grants up to a cumulative ceiling of equivalent to US\$200 million calculated at the program exchange rate.

**Table 2. Structural Benchmarks and Prior Action Under the Policy Support Instrument. December 2014-December 2015**

<i>Measure</i>	<i>Macroeconomic rationale</i>	<i>Target date</i>	<i>Notes</i>
<b>Prior Action</b>			
Government decision by early January 2016 on a revised budget framework along the lines described in MEFP ¶21.			
<b>Public Finance Management/Fiscal Risks</b>			
Prepare and publish a fiscal risk statement or subcomponents of it (e.g., a listing of all PPP projects with their key features and information on government guarantees)	To enhance fiscal risk management	June 30, 2015	Not met. Statement published in November 2015
Reintroduce commitment controls in IFMS, which will prevent commitments to be made in the system that are inconsistent with budget appropriations and cash releases	To reduce the risk of arrears accumulation	September 1, 2015	Not met. A circular limiting commitments to cash releases was issued before the deadline but IFMS still needs to be reprogrammed to reflect these changes.
Prepare a strategy to address TANESCO arrears	To enhance fiscal risk management	End-September 2015	Not met. A first draft strategy was produced in September 2015, but required further work to be completed
Settlement of arrears to PSPF on account of 1999 reform	To address fiscal risks	End-March 2016	New
Settlement of arrears to pension funds on loans made to government	To address fiscal risks	End-June 2016	New

**Table 2. Structural Benchmarks and Prior Action Under the Policy Support Instrument. December 2014-December 2015 (concluded)**

<b>Monetary, Financial and Exchange Rate Policies</b>			
Unify the Statutory Minimum Reserve and the clearing accounts that banks maintain at the BoT and implement partial reserve averaging for reserve requirements	To reduce excessive volatilities in short term money market interest rates.	December 31, 2015	Ongoing
Establish a modeling and forecasting unit at BoT	To improve liquidity and inflation forecast and facilitate the shift to a price-based monetary framework	End-September 2015	Met
Produce a study making recommendations on the use of foreign exchange swaps between commercial banks and banks' NOP limit.	To improve liquidity in the foreign exchange market	End-June 2016	New
<b>Public Debt Management</b>			
Update the medium-term debt management strategy, and obtain approval by the Minister for Finance	To enhance public debt management	December 31, 2015	Ongoing
Government to approve the National Debt Management Policy and amendments of the Government Loans, Guarantees and Grants Act	To enhance public debt management	End-March 2016	New
<b>Public Enterprise Management</b>			
Treasury Registrar to publish the audited accounts of public enterprises	To improve transparency and accountability of public enterprises	September 30, 2015	Not met. The accounts of all 80 enterprises whose audits have been completed were available online in early December



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

**December 24, 2015**

### **I. INTRODUCTION**

1. The purpose of this Technical Memorandum of Understanding (TMU) is to describe concepts and definitions that are being used in the monitoring of Tanzania's program supported by the PSI, comprising the quantitative assessment criteria, the indicative targets and structural benchmarks monitored under the PSI.
2. The principal data sources are the standardized reporting forms, 1SRF and 2SRF, as provided by the Bank of Tanzania (BoT) to the IMF, and the government debt tables provided by the Accountant General's office.
3. The program exchange rate is TSh/USD 2,150.

### **II. DEFINITIONS**

#### **Net international reserves**

4. Net international reserves (NIR) of the BoT are defined as reserve assets of the BoT minus reserve liabilities of the BoT. The change in NIR is calculated as the cumulative change since the beginning of the fiscal year. The BoT's reserve assets, as defined in the IMF BOP manual (5th edition) and elaborated in the reserve template of the IMF's special data dissemination standards (SDDS), include: (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps (maturing in less than one year) and other assets used as collateral or as guarantee for a third party external liability (assets not readily available). The BoT's reserve liabilities include: (i) all foreign exchange liabilities except government's foreign currency deposits of residual maturities more than one year; and (ii) outstanding purchases and loans from the IMF.
5. NIR are monitored in U.S. dollars, and for program monitoring purposes assets and liabilities in currencies other than U.S. dollars shall be converted into dollar equivalent values using the exchange rates as of September 30, 2015 (as recorded in the balance sheet of the BoT).

	US\$ per currency unit
British pound	1.5587
Euro	1.2147
Japanese yen	0.0097
Australian dollar	0.9236
Canadian dollar	0.9082
Chinese yuan	0.1608
SDR	1.4488

### **Reserve money and reserve money band**

6. Reserve money is defined as the sum of currency issued by the BoT and the deposits of Other Depository Corporations (ODCs) with the BoT. The reserve money targets are the projected daily averages of March, June, September, and December within a symmetrical one percent band. The upper bound of the band for June and December serves as the assessment criterion and that for March and September, the indicative target.

### **Fiscal cash deficit of the Government of Tanzania**

7. The fiscal cash deficit of the Government (central and local governments only) will be measured on cash basis from the financing side at the current exchange rates. The deficit is defined as the sum of: (i) net domestic financing (NDF) of the Government; (ii) net external financing and (iii) privatization receipts. Any amounts in foreign currency will be converted into Tanzanian shillings at the exchange rates as of the dates of the transactions.

- i. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of:
  - a. loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued for monetary policy purposes), minus all government deposits with the BoT.
  - b. all BoT accounts receivable due from the Government of Tanzania that are not included under (i) above;
  - c. loans and advances to the government by other domestic depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other domestic depository corporations;
  - d. loans and advances to the government, and holdings of government securities and promissory notes by other public entities (e.g. pension funds) not covered by the central government accounts; and

- e. the outstanding stock of domestic debt held outside domestic depository corporations and other public entities, excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COBELMO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.
  - f. NDF will be measured net of 1) government deposits at the BoT, which comprises government deposits as reported in the BoT balance sheet, 1SR—including counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes, and foreign currency-denominated government deposits at the BoT, including the PRBS accounts and the foreign currency deposit account; 2) any accumulation of central government claims on the Tanzania Petroleum Development Corporation (TPDC) as a result of the on-lending of an external credit to finance a gas pipeline.
- ii. Net external financing is measured on a cumulative basis from the beginning of the fiscal year and is defined as the sum of disbursements minus amortization of budget support loans, project loans, external non-concessional borrowing (ENCB) including project ENCB directly disbursed to project implementers; and any other forms of Government external debt. The term “external debt” will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board’s Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). Government external debt is understood to mean a direct, i.e. not contingent, liability to non-residents of the Government of Tanzania.
  - iii. Privatization receipts consist of net proceeds to the Government of Tanzania in connection with the sale/purchase of financial assets that are not included in NDF and the sale of intangible nonfinancial assets, such as leases and the sale of licenses with duration of 10 years or longer. For the 2015/16 budget, privatization proceeds will exclude TSh 212 billion from the sale of shares in Tanzania Breweries Limited and Tanzania Cigarette Company, which were included in non-tax revenue projections.

### **Domestic expenditure arrears**

8. Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 30 days for goods and services and more than 90 days for contract works as set out in the government’s Circular No 9 of 8th December 2014. These will include payments for tax refunds, employee expenses (wages and salaries, staff claims for travel, transfer and other non-salary allowances), utilities, rents, recurrent goods and services, and construction works. Accumulation of domestic expenditure arrears is calculated as a cumulative change in the stock of expenditure arrears at the end of each quarter from the stock at the end of the previous fiscal year (June 30).

### **External payment arrears**

9. External payment arrears consist of the total amount of external debt service obligations (interest and principal) of the government and the BoT that have not been paid at the time they

are due, excluding arrears on external debt service obligations pending the conclusion of debt-rescheduling arrangements and arrears previously accumulated and reported to the Executive Board. The ceiling on external payment arrears is continuous and applies throughout the year.

### **Priority social spending**

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

### **Tax revenues**

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

### **Arrears to pension funds**

12. Arrears to pension funds include government obligations to the Public Service Pension Fund (PSPF) on pre-1999 reform pension benefits paid on government's behalf and overdue payments on loans made by pension funds to public entities.

### **Foreign program assistance**

13. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance (MoF) through BoT accounts and accounts at other depository corporations and is calculated as the cumulative sum, since the beginning of the fiscal year, of the receipts from (i) program loans and (ii) program grants. Program assistance does not include nonconcessional external debt.

## **III. ADJUSTERS**

### **Net international reserves**

14. The end-of-quarter quantitative targets for the change in the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfalls in (a) foreign program assistance and (b) external nonconcessional borrowing (ENCB) financing of the government budget in U.S. dollars up to a limit of US\$300 million.

15. The shortfalls will be calculated relative to projections for foreign program assistance shown in the table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania titled "Quantitative Assessment Criteria, and Indicative Targets under the Policy Support Instrument". For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted for the gas pipeline.

**Fiscal cash deficit**

16. The end-of-quarter limits in 2015/16 will be adjusted upward by the amount of arrears to PSPF on account of the 1999 reform cleared from the beginning of the fiscal year and the amount of loans in arrears made by pension funds to government entities and recognized by the government from the beginning of the fiscal year. This adjuster will be capped by the total amount of arrears and loans to be taken over identified by the authorities at the end to the reconciliation process.

17. The end-of-quarter limits will be increased by any shortfalls in foreign program grants up to a cumulative ceiling of equivalent to US\$200 million calculated at the program exchange rate (para 3).

18. The foreign program grant shortfalls will be calculated relative to projections for foreign grants shown in the table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania titled "Quantitative Assessment Criteria, and Indicative Targets under the Policy Support Instrument".

**IV. DATA REPORTING REQUIREMENTS**

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

**Table 1. Summary of Reporting Requirements**

Information	Reporting Institution	Frequency	Submission Lag
Issuance of government securities.	BoT	Bi-weekly	1 week
Yields on government securities.	BoT	Bi-weekly	1 week
Daily excess reserves of commercial banks	BoT	Weekly	1 week
Daily data on transactions through IFEM by exchange rate and volume, separating BoT and commercial bank transactions	BoT	Weekly	1 week
Daily data on reserve money and its components	BoT	Daily	1-day
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices.	NBS	Annually	6 months
The quarterly national account statistics in constant prices.	NBS	Quarterly	3 months
Balance sheet of the BoT (ISRF) and the currency composition of official foreign assets and official foreign liabilities.	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS).	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	MoF	Monthly	2 weeks
External trade developments.	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators for other depository corporations.	BoT	Quarterly	6 weeks
Other depository corporation lending by activity.	BoT	Monthly	4 weeks
Commercial banks interest rate structure.	BoT	Monthly	4 weeks
Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves. <sup>1</sup>	BoT and MoF	Monthly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
Amount of arrears outstanding that are overdue by more than 30 days for goods and services and more than 90 days for contract works as set out in the government's Circular No 9 of 8 <sup>th</sup> December 2014 for all government ministries.	MoF/AGD	Quarterly	2 months
The flash report on revenues and expenditures.	MoF/AGD	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report. <sup>1</sup>	MoF	Monthly	4 weeks
Monthly report on central government operations.	MoF	Monthly	6 weeks
Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid.	MoF	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoF	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 14 of the TMU during the period including terms and conditions according to loan agreements.	MoF	Quarterly	4 weeks
Quarterly report on loans and advances to government by pension funds and other public entities not covered by the central government accounts	MoF	Quarterly	4 weeks
Report on priority social spending	MoF	Quarterly	6 weeks

<sup>1</sup>The MoF and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant General of the MoF.

**Statement by Ms. Kapwepwe, Executive Director for United Republic of Tanzania  
and  
Ms. Ngugi and Mr. Odonye, Senior Advisors to the Executive Director**

**January 22, 2016**

On behalf of the Tanzanian authorities, we thank staff for their constructive engagement during the third review of the economic program supported by Fund-Policy Support Instrument (PSI). The program has become increasingly important in strengthening macroeconomic management and guiding key structural reforms. Notable progress has been made in implementation of the program, and following successful October 2015 general elections, the new authorities have confirmed their commitment to the objectives of the current program. The authorities prioritize fiscal sustainability in maintaining macroeconomic stability and have announced austerity measures to curb unnecessary spending, and increase revenue collection in the revised budget framework adopted in January 2016. In this regard, the authorities request the Executive Board's support for the completion of the third review of the PSI, and for the requested waiver for the missed assessment criterion and modification of assessment criteria.

**1) Program performance**

Program implementation remains on track. Most of the assessment criteria (ACs) for end-June 2015 and the indicative targets for end-September were met. However, revenue and external financing shortfalls, together with challenges related to commitment controls, saw accumulation of additional domestic arrears, and a widening of the fiscal deficit. The authorities are requesting for a waiver on the missed end-June 2015 AC on tax revenue and its modification for December 2015. Corrective actions have been taken by reverting back to centralized system of payroll tax payments to avoid the delays caused by decentralization. Going forward, the recently revised budget framework commits the authorities to deepening tax reforms to enhance revenue collection. Considerable progress was also made in implementation of the structural benchmarks albeit with some delays, and the authorities are committed to conclude the remaining components of the reforms.

**2) Recent economic developments and prospects**

Tanzania's economic performance has broadly been favorable in recent years, with a robust growth realized despite unfavorable external conditions. Although the recently announced third quarter GDP growth declined to 6.3 percent as compared to the 7.2 percent in the first half of 2015, it is expected that growth will remain at around 7 percent in 2015 and 2016. Inflation edged up to 6.6 percent and 6.8 percent in November and December 2015, respectively, an increase from 4.0 percent in January 2015. This was mainly attributed to high food inflation and the pass through effects from the depreciating shilling. It is expected that inflation will gradually decline to the objective of 5 percent in the near term.



Fiscal position deteriorated with the shortfalls in revenues, and delays in raising external non-concessional borrowing. This was mainly attributed to the delays caused by the decentralization of payroll tax payments and the unfavorable conditions on international financial markets. The new government has reverted back to the practice of withholding centrally, taxes and other contributions on civil service wages, and in addition adopted a revised budget framework 2015/16 which proposes to close a fiscal gap of about 1 percent of GDP through streamlining non-priority expenditures. It is also expected that more budget financing will be raised through ENCB.

Following the significant depreciation of the shilling experienced in early 2015, the authorities took timely measures to stabilize the exchange rate through tightening monetary policy and introducing temporary administration measures in the operations of the foreign exchange market. Further, the authorities undertook to actively coordinate monetary and fiscal policies to improve the overall macroeconomic stability objective. Foreign reserves sufficiently cover 4 months of projected imports of goods and services, and the current account balance is expected to improve further with the prevailing lower oil prices.

### **3) Medium term policies**

#### *a) Fiscal policy*

The authorities are committed to medium term fiscal sustainability in line with the East Africa Community macroeconomic convergence criterion. In this regard, they will continue to deepen tax policy and administration reforms including by implementing the VAT reforms, and making amendments to the Income Tax Act on the tax rules affecting the mining and petroleum sectors. It is also expected that additional momentum from the recent Presidential drive to fight tax evasion, will have a positive impact on revenue collection. Further, the authorities aim to reduce non-priority expenditures while preserving priority capital spending and accommodating the new government development priorities.

To settle the accumulated domestic expenditure arrears the authorities have set in motion verification and clearance processes for the 2014/15 arrears including those related to TANESCO and pension funds. In addition, to avoid further occurrences of arrears, commitment controls have been tightened and a centralized database is being developed to track projects over their entire lifecycle to support monitoring and strengthening control of multi-year commitments.

In line with effective public debt management the authorities are committed to strengthening the regulatory and institutional framework. In this regard, they are working to accelerate the approval of the National Debt Management Policy, and the amendments to the Government Loans, Guarantees and Grants Act. The authorities have also introduced a new information system to enhance monitoring of parastatals, including a cap on spending to ensure better expenditure control.

*b) Monetary and exchange rate policies*

In line with the objective of maintaining price stability, and with the heightened inflationary pressures, the authorities intend to keep a tight monetary policy to facilitate a gradual decline of inflation back to the objective of 5 percent by end 2016. Efforts to modernize the monetary policy framework are ongoing including the setting up of a Modeling and Forecasting Unit at the central bank. Further, to facilitate the transition towards an interest-rate based framework, efforts are being made to improve market functioning and strengthen BoT communication with market players.

The authorities remain committed to a flexible exchange rate regime and will only intervene in the foreign exchange market to smooth short term exchange rate volatility. In addition, BoT will provide clear signals on its objective in participating in the interbank foreign exchange market as a way to enhance transparency in the market. Further, the authorities will reexamine the temporary administrative measures introduced in the foreign exchange market by end-June 2016. With regard, to the recently liberalized capital account transactions, the authorities aim to review the prudential rules to ensure they are not overly restrictive to foreign investor participation.

*c) Financial sector*

The financial soundness indicators affirm that the banking system is liquid, adequately capitalized and profitable; already, almost all banks have increased their capital adequacy levels to the new levels ahead of schedule. Further the authorities are strengthening the bank supervision framework by developing onsite examination procedures for consolidated supervision and also improving data collection for macro-prudential surveillance.

In deepening financial inclusion and in line with the National Financial Inclusion Framework, the authorities are taking various measures, to achieve the target set of 50 percent formal access to financial services by 2016. A financial education strategy is being put in place to ensure customers are well informed. In addition to the established Complaints Resolution Desks, the authorities are also developing a regulatory and supervisory framework to enhance financial consumer protection, and create conducive environment for mobile telephony financial services.

*d) Other reforms*

Resolving TANESCO arrears remains important in returning the entity to a financially viable position. With a draft strategy to address TANESCO's arrears now prepared, the government has commenced payment of accumulated arrears of electricity bills in the past few months. Other measures proposed in the strategy to address the arrears include renewed efforts to collect arrears from private electricity customers, measures to improve efficiency in revenue collection, reduce system losses, and improve the generation mix.

#### **4) Conclusion**

The new authorities prioritize prudent macroeconomic policies and good governance and accountability in the process of strengthening economic growth and poverty reduction. Already, the authorities have demonstrated their readiness to take timely policy measures to maintain macroeconomic stability, and are committed to forge ahead with the structural reforms and strengthen institutional capacity. Furthermore, they are committed to continue their engagement with the Fund and other development partners in implementing their development agenda. In this regard, the authorities look forward to the conclusion of this third PSI review as a support to their continuing efforts to enhance macroeconomic management.