



Economic Policy Objectives and Challenges in Tanzania

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Policy Support Instrument

- A framework for engagement with successful reformers among low-income countries
- A non-financial instrument
- But: Of equal strength as IMF lending facilities
 - Assessment criteria and benchmarks
 - Fixed review schedule



PSI Objectives

- ❑ Goal: Raise Growth and Reduce Poverty (MKUKUTA)
- ❑ Four policy objectives for 2007 – 09:
 - ❑ Maintaining macroeconomic stability
 - ❑ Durably strengthening public finances
 - ❑ Accelerating financial sector reform
 - ❑ Improving the business environment



Maintaining macroeconomic stability

- ❑ Achieving higher growth, while maintaining low and stable inflation ([*Chart 1: growth and inflation, 2000-07*](#))
 - ❑ Inflation: BoT target of 5% over the medium term
 - ❑ Budget Deficit: Zero net domestic financing
 - ❑ Foreign Exchange Reserves: Four months of imports
 - ❑ External Debt: less than 30% of GDP ([*Chart2: Debt/GDP Ratios, 2000 – 07*](#))



Durably strengthening public finances

- ❑ Reduce aid dependency by enhancing domestic revenue mobilization ([*Chart 3: Foreign Aid/GDP Ratio, 2000 – 07*](#))
 - ❑ Raise revenue/GDP ratio by 4 percentage points
 - ❑ Combination of tax increases and strengthening administration by the TRA
- ❑ Increase impact of public spending
 - ❑ Spending allocation to promote growth ([*Chart 4: composition of spending*](#))
 - ❑ Better public financial management



Accelerating financial sector reform

- ❑ Improve access to financial services ([*Chart 5: Evolution of loans and deposits*](#))
- ❑ Strengthen prudential regulations and oversight, including over pension funds
- ❑ Encourage the development of a diversified and vibrant financial system



Improving the business environment

- ❑ Ease regulatory burden ([*Chart 6: Doing Business Indicators*](#))
- ❑ Reduce infrastructure bottlenecks
 - ❑ Financial viability of TANESCO
- ❑ Strengthen governance and improve transparency
 - ❑ PCCB
 - ❑ NASCAP



Policy Challenges

- Tanzania faces three main policy challenges:
 - Monetary Policy: Delivering low inflation while promoting high growth
 - Fiscal Policy: Guarding against fiscal risks and avoiding a new debt trap
 - Accelerating growth: Addressing sectoral bottlenecks



Monetary policy

- ❑ Manage large capital inflows
 - ❑ Raising interest rates: impact on growth and cost of sterilization
 - ❑ Exchange rate appreciation: impact on competitiveness
- ❑ Monetary Policy Framework
 - ❑ Monetary targeting or Inflation targeting
 - ❑ Improving the transparency of monetary policy



Fiscal Risks

- ❑ Debt management: Maintain low debt burden
- ❑ Contingent Liabilities:
 - ❑ Government Guarantee Schemes
 - ❑ Pension Liabilities
 - ❑ Public-Private Partnerships

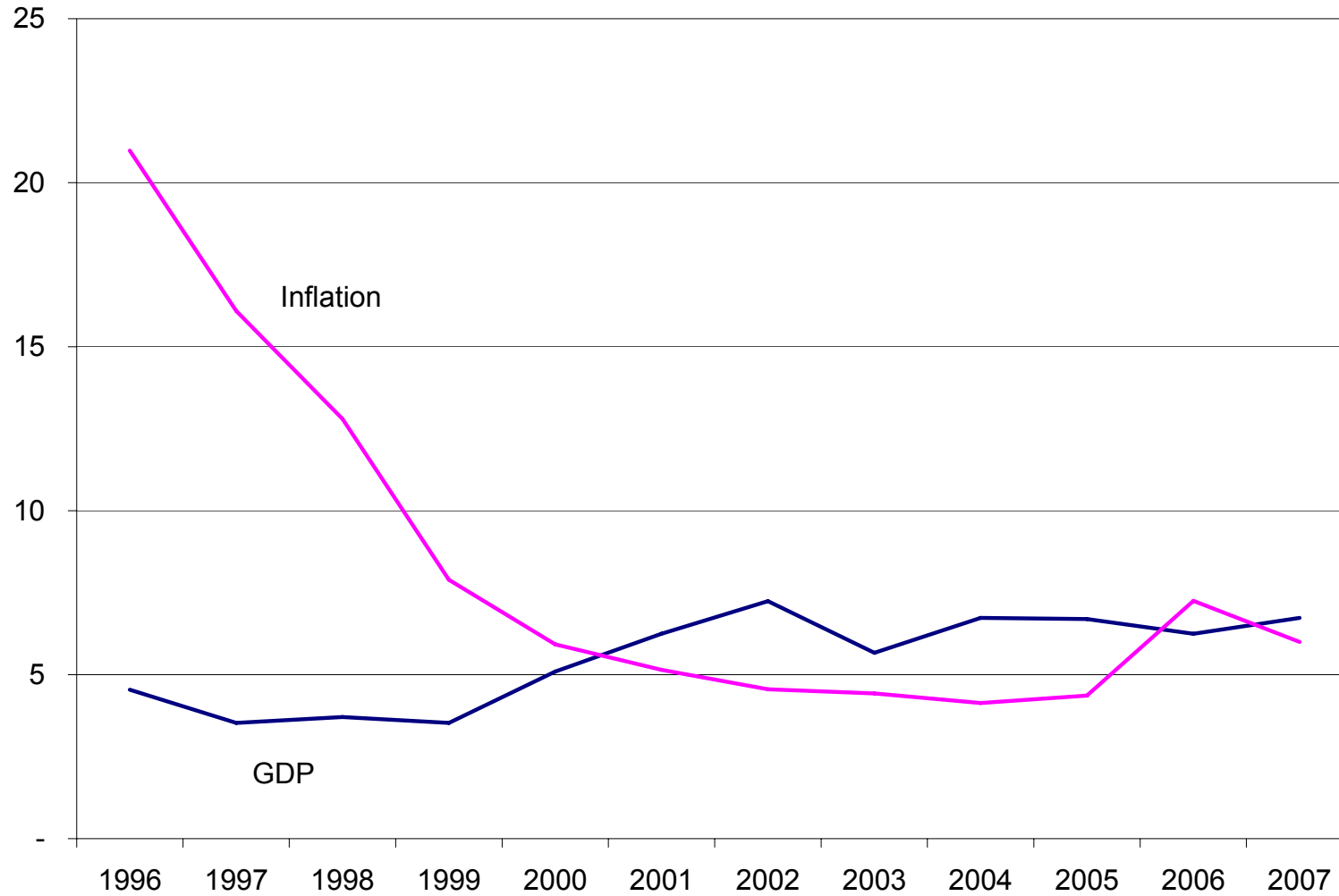


Accelerating Growth

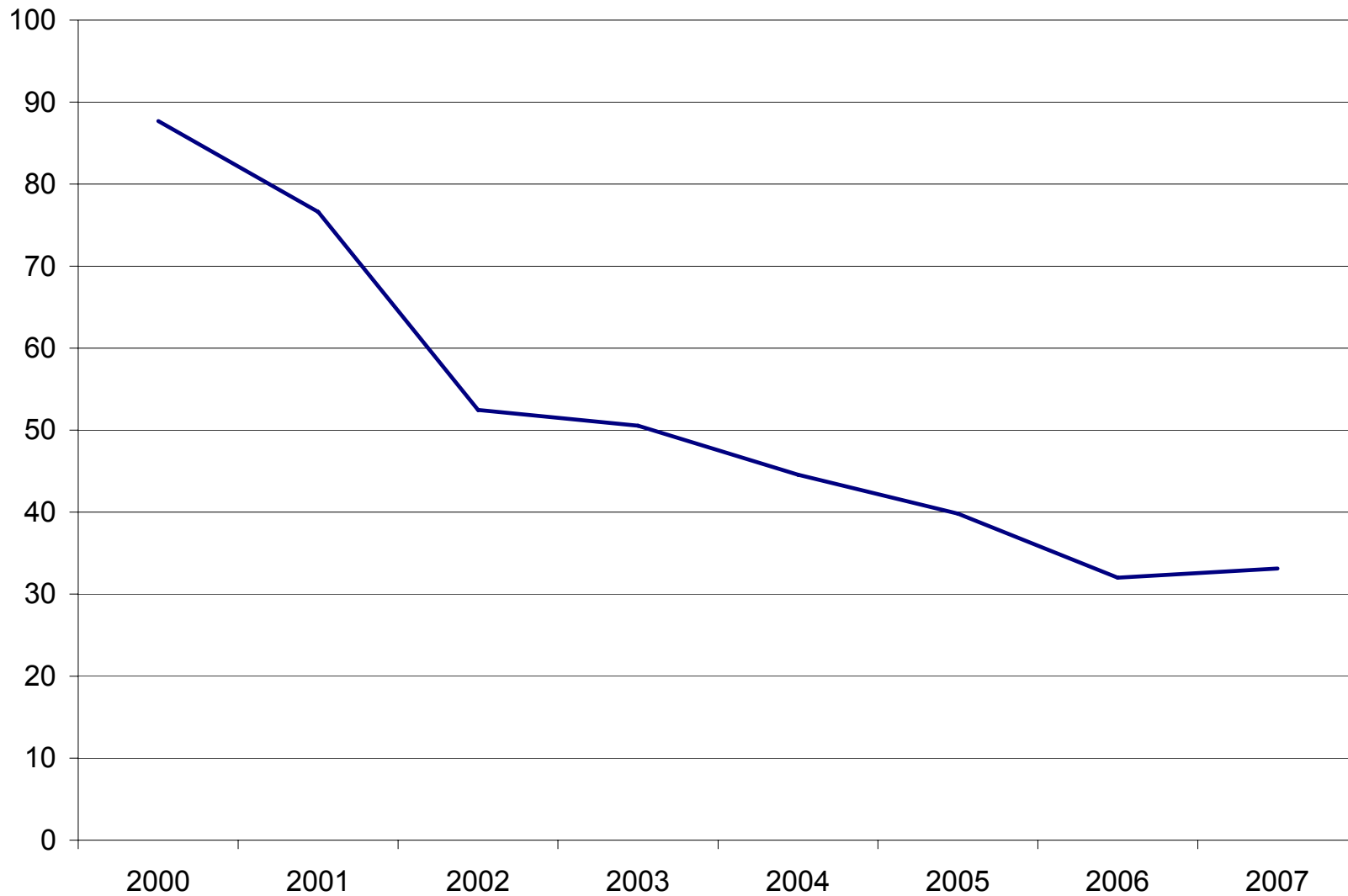
- Addressing Sectoral Bottlenecks
 - Energy sector
 - Infrastructure development
 - Business Environment
 - Governance



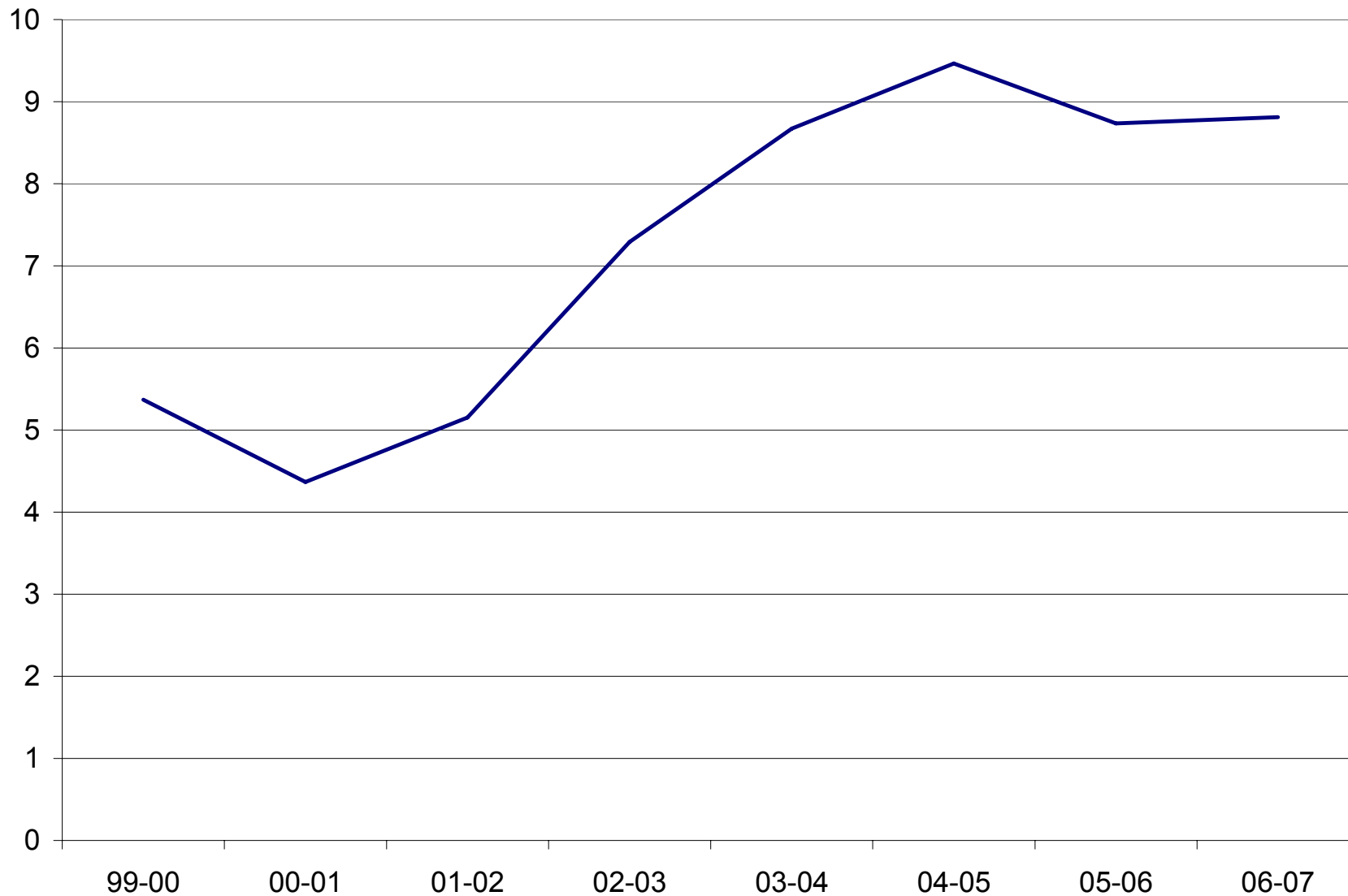
GDP Growth & Inflation

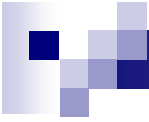


External Debt, % of GDP

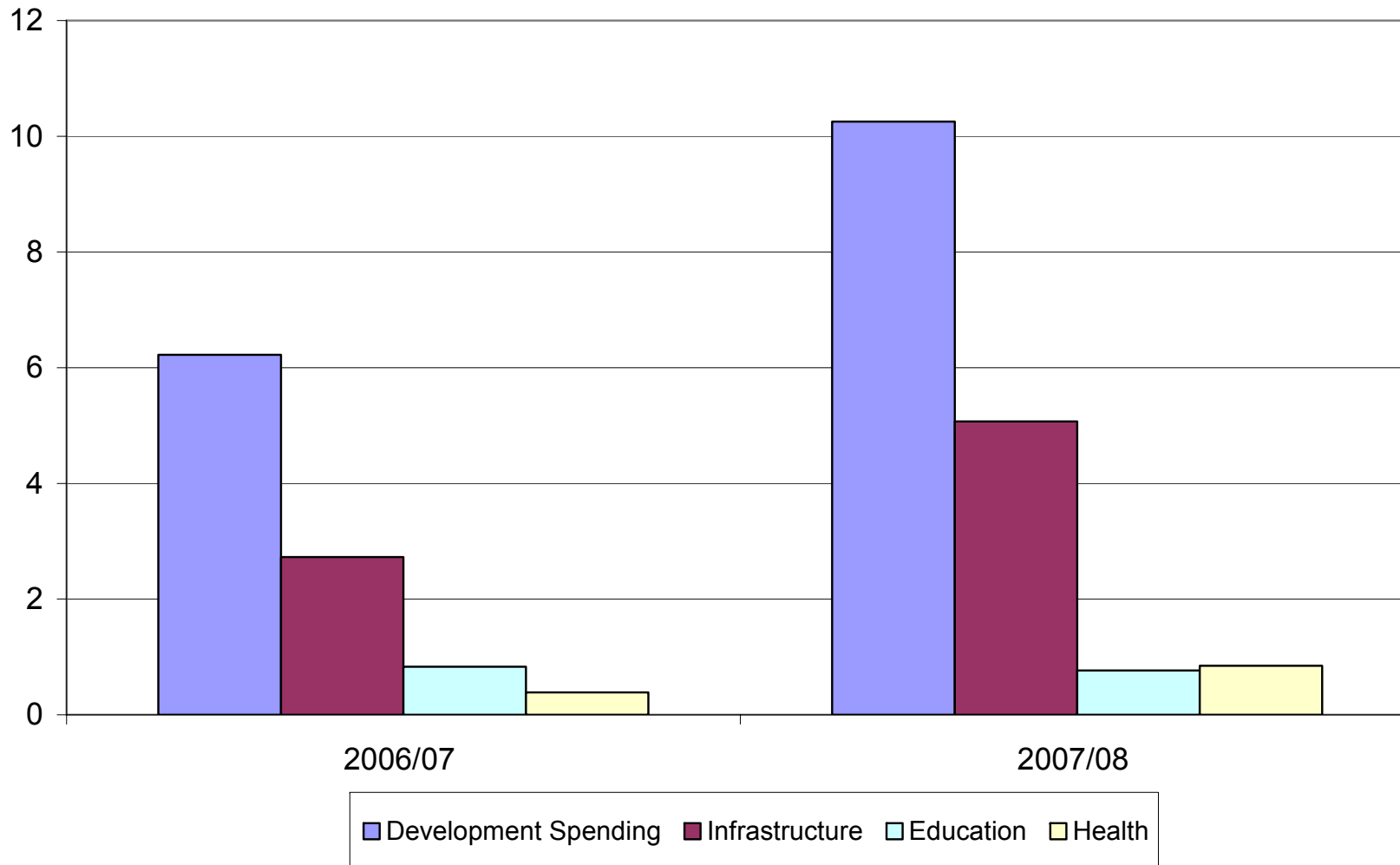


External Financing, % of GDP

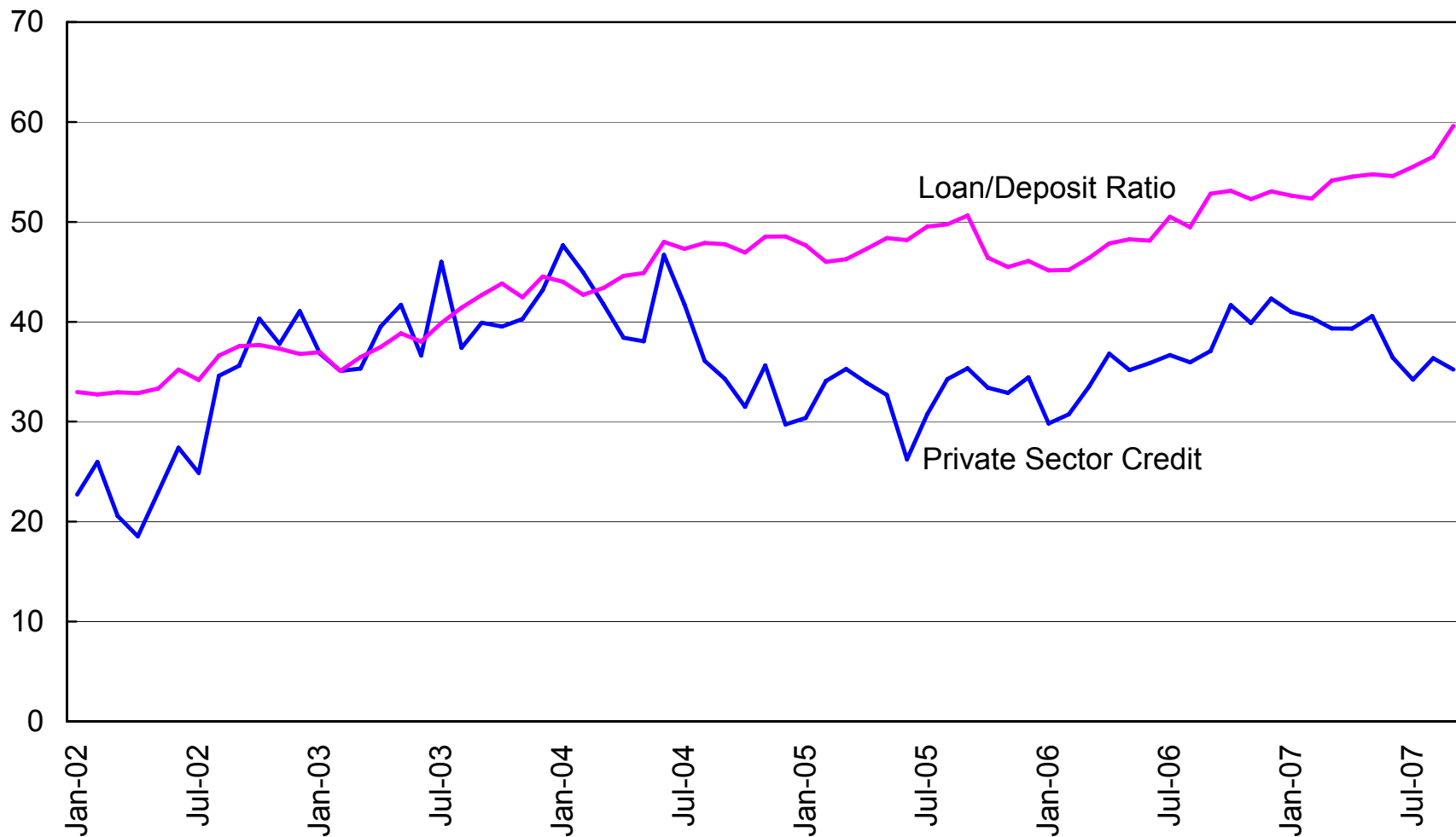




Composition of Spending



Evolution of Loans and Deposits



Doing Business

