Tanzania and the IMF

A Brief History

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From Independence to the 1980s

- Tanzania became a member of the IMF in 1962
- First borrowed from the IMF in 1974 under the Oil Facility
- But buffeted by external shocks and poor domestic economic policies, the economy deteriorated sharply between 1970-85 (chart 1).

First Steps: The Reforms of 1986-95

Supported by successive IMF arrangements, with committed financial support of $445 million.

Key objectives were:

- Removing state price and production controls, and encouraging private sector development;
- Liberalizing trade and gradually unifying the exchange rate;
- Strengthening public financial management;

However, weak financial discipline remained the Achilles heel of the economy (chart 2) .

The Success Story: 1996-2006

Implementation of comprehensive reform program supported by three consecutive PRGFs under which the IMF disbursed $400 million in concessional loans.

- Key objectives:
  - Achieve macroeconomic stabilization.
  - Accelerate private sector led growth.
- Main achievements:
  - High and rising real economic growth, sound public finances, single-digit inflation (chart 3), comfortable foreign reserves, sustainable external debt position (chart 4).
  - Stronger revenue mobilization and public financial management.
  - Stronger and diversified financial sector.
  - Improved business environment.

Improving revenue mobilization

- Considerable improvement in revenue performance achieved through tax and customs administration reform to improve compliance and broaden the tax base without raising key tax rates:
  - Operationalization of TRA
  - Introduction of VAT
  - Introduction of Taxpayer Identification Number
  - Establishment of Large Taxpayers Department
  - Modernization of Customs and Excise Department
  - Adoption of Income Tax Law
  - Elimination of discretionary exemptions.

Strengthening public financial management

- Implementation of civil service reform
- Introduction of cash budgeting and Integrated Financial Management System
- Prioritization of expenditures within the Public Expenditure Review Process
- Adoption of Medium Term Expenditure Framework
- Implementation of Strategic Budget Allocation System
- Strengthened transparency and accountability of the budget

Building a sound financial sector

- The state monopoly system dominated by the National Bank of Commerce providing directed credit to loss-making parastatals was transformed into a fully private commercial banking system open to foreign participation.
- Rapidly rising private sector credit was a major factor in improving growth performance of the economy.

	1998	2006
Number of operational commercial banks	7	23
Credit to private sector, percent of GDP	4	12
Nonperforming loans, percent of total loans	23	7

Improving the business environment

- Privatization and parastatal sector reform
- Creation of market oriented regulatory framework
- Establishment of EAC Customs Union
- Strengthened governance
- Elimination of a number of nuisance taxes

PSI and challenges ahead

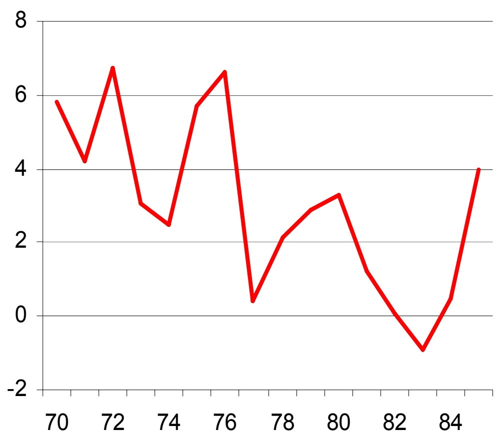
- Staying the course – maintain macroeconomic stability and accelerate growth.
- Addressing remaining structural bottlenecks (physical infrastructure, lack of skilled labor).
- Increasing the financial sector contribution to growth - facilitating increased medium- and long-term lending while minimizing fiscal risks.
- Enhancing revenue mobilization and efficiency of public spending.
- Further improving the business environment.

End of Presentation

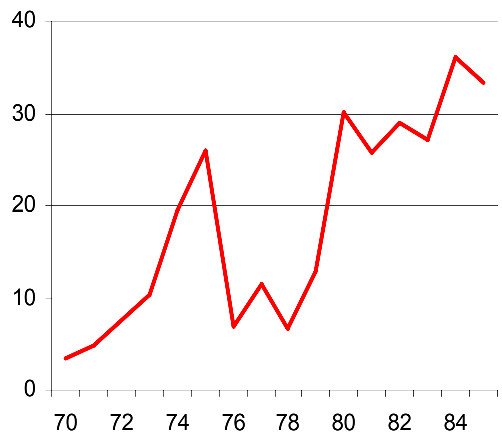
I - Economic decline during 1970-85:

deteriorating growth, rising inflation, depletion of foreign reserves, buildup of external debt and accumulation of payments arrears.

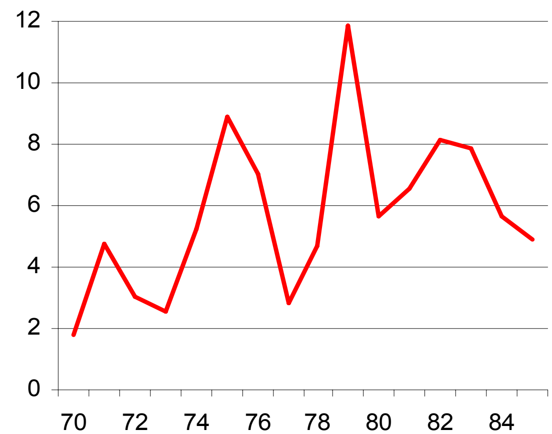
Real GDP Growth, %



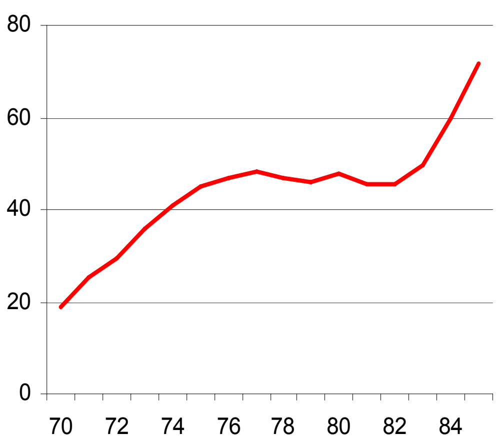
Inflation, %



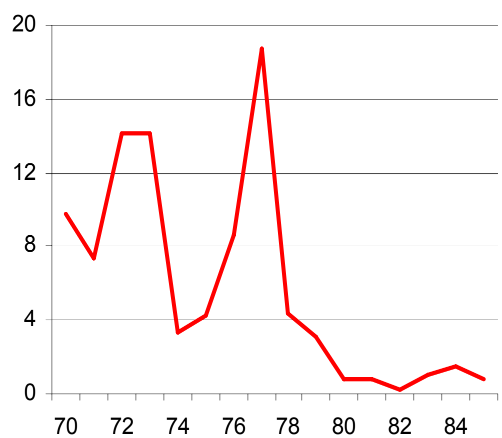
Fiscal Deficits, % of GDP



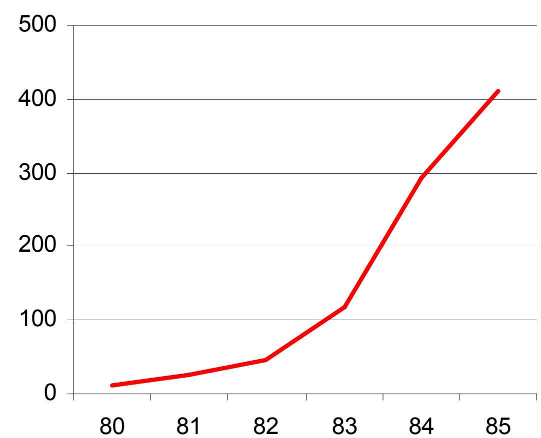
External Debt, % of GDP



Foreign Reserves, wks of imports



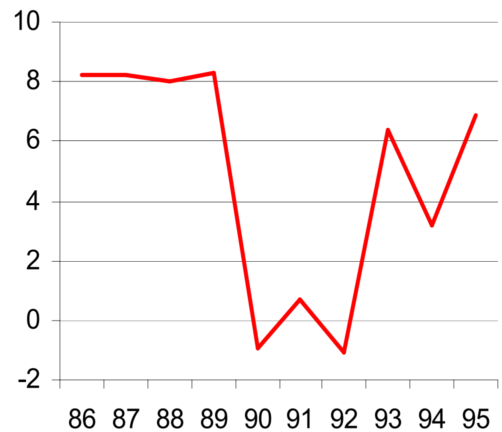
External Arrears, US millions



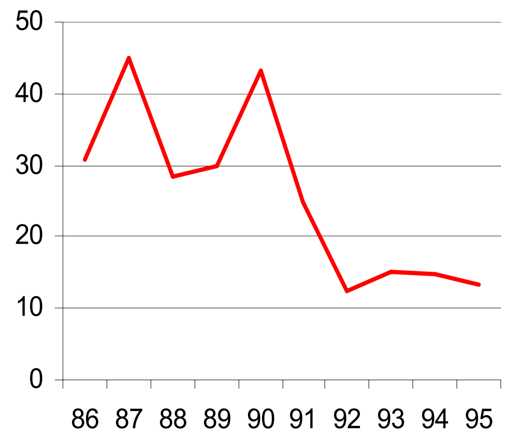
II - Weak financial discipline during 1986-95:

Budget deficits and directed credit to loss-making state enterprises financed by printing money frustrated stabilization attempts.

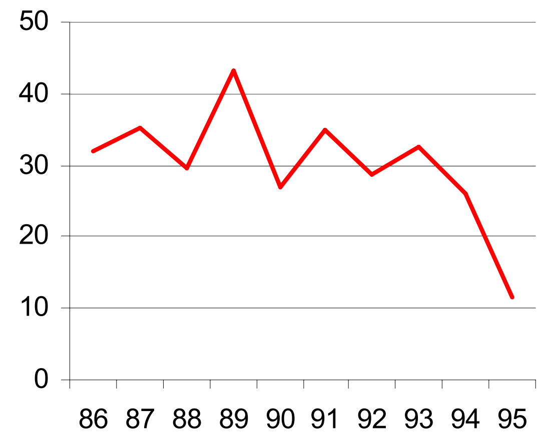
Fiscal Deficits, % of GDP



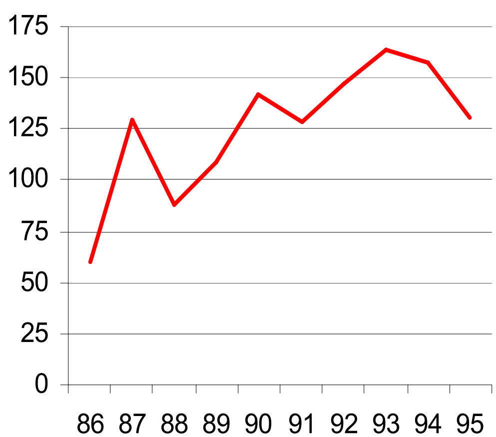
Credit to Public Sector, % GDP



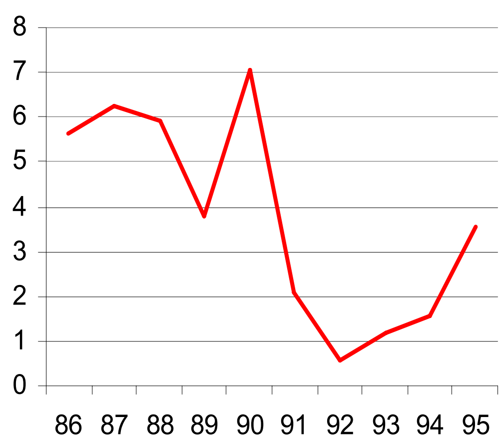
M2 Growth, %



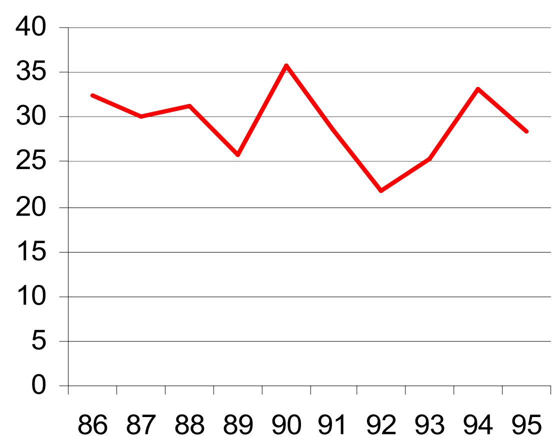
External Debt, % of GDP



Real GDP Growth, %



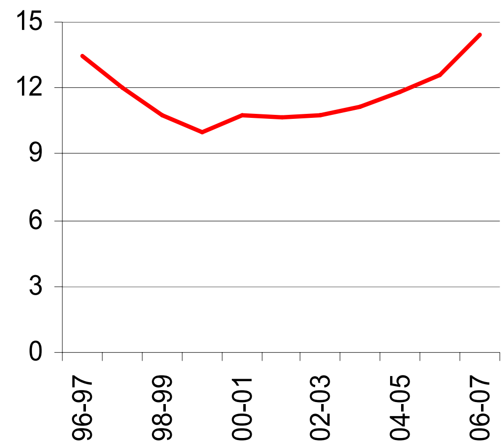
Inflation, %



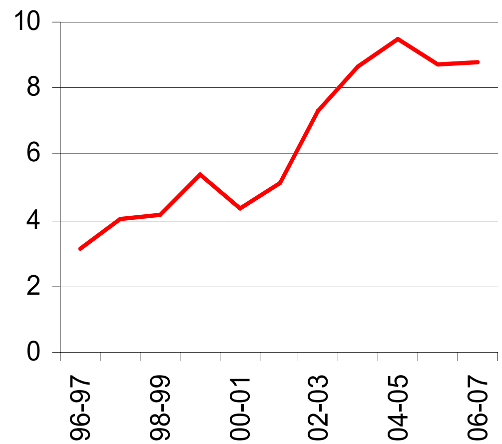
III - Restoring macroeconomic stability

Steady revenue growth, together with higher donor aid, allowed for a strong increase in public spending without recourse to domestic financing and improvement in growth and inflation performance

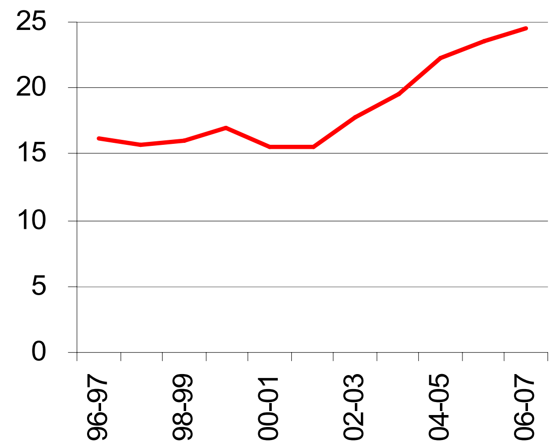
Revenue, % of GDP



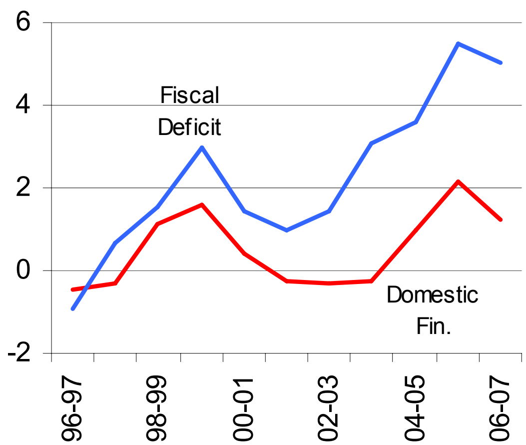
External Financing, % GDP



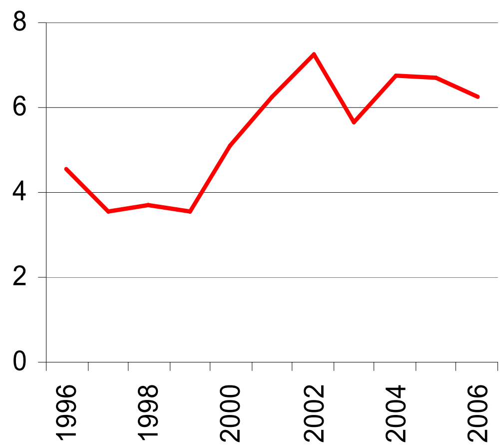
Expenditures, % of GDP



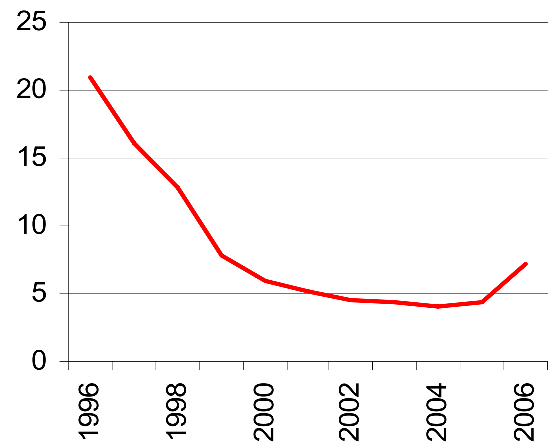
Domestic Financing, % of GDP



Real GDP Growth, %



Inflation, %



IV - Achieving comprehensive debt relief

Sustainable external debt position was restored following debt relief under the HIPC and MDRI which reduced the debt stock by $3.7 billion.