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Tanzania: 2004 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; and Public Information Notice and Press Release on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2004 Article IV consultation with Tanzania and second review under the three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the combined 2004 Article IV consultation and second review under the three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **July 3, 2004**, with the officials of Tanzania on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 7, 2004**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **August 6, 2004** updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its August 6, 2004 discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

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

Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report
Letter of Intent sent to the IMF by the authorities of Tanzania*
Memorandum of Economic and Financial Policies by the authorities of Tanzania*
Poverty Reduction Strategy Paper Progress Report
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*May also be included in Staff Report

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

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TANZANIA

Staff Report for the 2004 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs,
Legal, Monetary and Financial Systems,
Policy Development and Review, and Statistics Departments)

Approved by Siddharth Tiwari and Mark Plant

July 22, 2004

- Tanzania's sustained efforts at economic reform over the past decade have resulted in macroeconomic stability and growing resilience of the economy against adverse shocks. In spite of a drought, growth in 2003 remained above 5 percent, with year-on-year inflation below 5 percent. Program performance remains on track, as all quantitative and structural performance criteria and benchmarks through April 2004 have been observed. Presidential and parliamentary elections are scheduled for October 2005. President Mkapa is not eligible to run for a third term.

- Discussions for the 2004 Article IV Consultation and the second review under the new PRGF arrangement were held in Dar es Salaam during May 19-June 3 by a staff team comprising Messrs. Sharer (head), Treichel, Dohlman, Zhan (all AFR), Pivovarsky (FAD), Ms. Reif (PDR), and Mr. Abdi (Senior Resident Representative). The mission met with the Minister for Finance, (Mr. Mramba), the Permanent Secretaries at the Ministry of Finance (Mr. Mgonja and Mr. Lyimo), the Governor of the Bank of Tanzania (Mr. Ballali), senior officials from these and other government departments, representatives of the business, banking, and donor communities, and civil society. The mission collaborated closely with World Bank staff.

- Completion of this second review will entitle Tanzania to a disbursement of SDR 2.8 million (Table 1). The government's letter of intent (LOI) relating to this review is presented in Appendix I. Other appendices summarize Tanzania's relations with the Fund and the World Bank Group, and statistical issues. Tanzania's core economic data are generally made available on a timely basis for program monitoring purposes, but the coverage and quality of published statistics need to be improved.

- At the conclusion of the 2002 Article IV consultations on November 18, 2002, Executive Directors commended the Tanzanian authorities for their steady pursuit of sound macroeconomic and structural policies, which despite serious capacity constraints and an often adverse external environment had resulted in high growth and low inflation. They noted that the main challenge for Tanzania was to sustain high growth and reduce poverty, while lessening the dependence on external aid.

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Executive Summary

- **Tanzania's sustained efforts at economic reform over the past decade have resulted in macroeconomic stability and growing resilience of the economy against adverse shocks.** In spite of a drought, growth remained above 5 percent, with inflation below 5 percent. Program performance remains on track, as all quantitative and structural performance criteria and benchmarks through April 2004 have been observed. Presidential and parliamentary elections are scheduled for October 2005. President Mkapa is not eligible to run for a third term.

- **The macroeconomic framework targets real growth of 6.5-7.0 percent over the medium term.** Recent evidence for Tanzania's poverty elasticity of growth indicates that the targeted growth rate would be conducive to achieving the reduction in income poverty envisaged under the Millennium Development Goals (MDGs), particularly if accompanied by additional efforts to facilitate growth in rural areas. Key elements of the government's efforts to facilitate agricultural growth are (i) a review of crop boards; (ii) the reform of local government taxation, and (iii) the improvement of rural infrastructure.

- **Key parameters of the 2004/05 budget** are an increase of expenditure by some 3 percent of GDP, mostly on account of increases in priority sector expenditures, and a revenue increase of 0.6 percent of GDP, reflecting reform measures in tax policy and tax administration. The expenditure increase will be financed by an increase in donor assistance of about 2 percent of GDP, and net domestic financing of about 1 percent of GDP. The authorities argued that increases in priority expenditure, in particular in the area of health, related to importation of drugs to treat AIDS, were necessary to address emerging needs in these sectors.

- **To address possible risks to bank soundness from the rapid growth of credit,** the authorities are undertaking a review of financial sector legislation and regulations, with a view to strengthening bank supervision and facilitating the planned adoption of a risk-based supervisory framework. Furthermore, to strengthen the independence of the BoT, they are reviewing—with Fund technical assistance—the Bank of Tanzania Act 1995, and the Banking and Financial Institutions Act 1991.

- **The authorities are mindful of the continued presence of structural impediments to private sector activities, and are pursuing far-reaching structural reforms.** In addition to ongoing reforms in the areas of tax and the financial sector, the authorities continue to undertake a range of measures aimed at (i) improving public enterprise performance, particularly in the energy sector; (ii) fighting corruption and improving governance; and (iii) strengthening the legal and institutional environment for private sector activity.

I. BACKGROUND

1. **Following some 30 years of economic stagnation under a policy framework of state intervention and planning, Tanzania has, since the late 1990s, made major strides in macroeconomic stabilization and structural reform in the context of outward-looking market-oriented policies.** Economic growth has risen sharply, averaging almost 6 percent for the past three years, and is increasingly driven by improvements in total factor productivity, reflecting the effect of structural reforms on the supply side of the economy, as well as the impact of higher foreign direct investment (FDI). At the same time, inflation has declined from an average of over 30 percent during the previous two decades to below 5 percent. These achievements have been the result of sound macroeconomic policies, notably the strengthening of expenditure management through adoption of a cash management system, and more effective controls on liquidity expansion in the financial sector. Reflecting the improved fiscal stance and the deepening of the financial system, domestic savings rose over the period 1995 to 2003 from 2.4 to 9.7 percent of GDP. In parallel, the savings-investment balance improved from -17 percent to -9 percent of GDP.[1]

2. **A critical mass of structural reforms has underpinned Tanzania's strong growth performance**. Domestic marketing in the agricultural sector was liberalized, the majority of state-owned enterprises were privatized, and a market-oriented regulatory framework is being progressively put in place. The exchange system was completely liberalized for payments and transfers for current international transactions. Also, the trade regime was liberalized by reducing average tariffs and the number of tariff bands. Tanzania's sound economic policies helped it reach the completion point under the enhanced Highly Indebted Poor Countries (HIPC) Initiative in November 2001. Debt relief under this initiative has been critical in establishing debt sustainability.

3. **Consequent to the progress in macroeconomic and structural reforms, FDI flows to Tanzania have increased significantly** to an annual average of about $300 million (3 percent of GDP) during the past five years, led by a surge in investments in the mining sector and privatization. As a result, growth in the mining, manufacturing, and services sectors increased substantially, with spillover effects for construction and transportation. The impact of these FDI flows on employment, however, has been limited, as investments in the mining sector were not labor-intensive.

4. **Tanzania's sharply improved growth performance has had a notable impact on poverty**. While a comparison of 1990/91 and 2000/01 household budget surveys shows only a modest improvement in the incidence of poverty, per capita incomes fell in the first half of the 1990s, likely leading to a deepening of poverty. Thus, for poverty to have declined over

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[1] The authorities have revised GDP figures from 2001 onwards. As a result, ratios to GDP differ from those reported in previous staff reports.

the decade as a whole, the acceleration of growth in the second half of the 1990s likely had a strong poverty-reducing impact, in particular given that income distribution showed little change over the decade. This was particularly evident in Dar es Salaam, where poverty declined from 28 to 18 percent over the decade.

II. Recent Economic Developments and Performance Under the Program

5. **Real growth in 2003 is estimated at 5.6 percent, despite a drought that affected agricultural production (Table 2).** High growth reflected both continued strong performance in the manufacturing, mining and construction sectors, as well as the good performance of drought-resistant crops. [2] Nonetheless, shortfalls in the production of some food crops and the poor transportation network resulted in food insecurity for an estimated 3.5 million people.[3]

6. **The estimated overall fiscal deficit before grants for 2003/04 was below program on account of substantially higher-than-budgeted revenue collections (Tables 3 and 4).** In addition to the buoyancy of revenue in fast-growing sectors, the good performance reflected strong income tax revenue as income tax holidays expired, and higher tax receipts on petroleum imports, reflecting anti-smuggling efforts. Domestically-financed expenditure remained below budget, reflecting primarily lower interest payments on external debt. As a result, net domestic financing of the 2003/04 budget is expected to remain below the program target by 0.9 percent of GDP.

7. **Monetary developments also remained in line with the program (Tables 5 and 6).** Substantial pressures on the expansion of reserve money continued to emanate from high inflows of official donor assistance to the budget, amounting to 10.6 percent of GDP, which are mostly spent locally. Relying increasingly on sterilization of excess liquidity through the sale of foreign exchange proceeds from aid inflows, while continuing with sales of liquidity paper as needed, the BoT maintained reserve money in line with the program (Figure 1).[4] Consistent with the projected decline in velocity, broad money is expected to have grown close to 19 percent.

8. **Growth of credit to the private sector remained strong, in line with program projections, and has been broad-based.** Key factors underlying high credit growth

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[2] A government campaign to promote plantation of drought-resistant crops was apparently effective.

[3] The government addressed this situation by distributing food from the Strategic Grain Reserve (SGR), and food aid provided by donors.

[4] From July 2003-April 2004, the BoT sold (on a net basis) foreign exchange of over $275 million, as against net purchases of over $60 million over the same period in 2002/03.

(34 percent on a year-on-year basis) are summarized in Box 1. This increase in credit has so far been accompanied by an improvement in banking soundness indicators. In particular, the ratio of nonperforming loans to capital dropped from 22 percent in 2002 to 9 percent in 2003.

9. **External developments in 2003/04 were in line with projections (Tables 7-10).** The current account deficit widened by 3 percent of GDP, reflecting a substantial increase of imports. Exports rose by over 15 percent on account of strong growth of gold exports, while traditional exports continued to stagnate, reflecting mainly structural impediments (see para. 41). In March, the presidents of Kenya, Uganda, and Tanzania signed a trade protocol establishing a customs union with a three-band common external tariff (0, 10, and 25 percent) within the East African Community (EAC) and provides for the elimination of internal trade barriers within five years. Implementation of the protocol has been delayed to January 2005 to resolve outstanding technical issues.

10. **The authorities' commitment to a freely floating exchange rate has been underscored by the renewed focus on reserve money, which became a performance criterion under the current PRGF arrangement**. Reflecting strong demand for imports, the exchange rate vis-à-vis the U.S. dollar depreciated in nominal terms from 1047 at end-November 2003 to 1107 at end-June 2004 (Figure 2). In parallel, the real exchange rate depreciated towards its fundamentals, and is now broadly in line with its equilibrium level.[5]

11. **The Tanzania Revenue Authority (TRA) has made significant headway in tax reform.** Consistent with the TRA corporate plan, the coverage of the Large Taxpayer Department has doubled, additional auditors have been hired, and computer systems modernized. Also, with a view to streamlining tax administration, effective July 1, 2004, the VAT threshold was doubled, with a corresponding adjustment in the presumptive tax, and the stamp duty on receipts was repealed.

12. **Progress in financial sector reform continues.** The interministerial, interagency committee, chaired by the Governor of the BoT, established in March 2004 to oversee the reform program, held its first meeting in May 2004. As regards the privatization of the National Microfinance Bank (NMB), several reputable commercial banks have expressed interest, and a few have been pre-qualified and are expected to submit bids.

13. **There has been some progress in improving the business environment.** At end-March 2004, high-level consultations between the government and the World Bank resulted in broad agreement on a reform strategy to restore the financial sustainability of the electricity utility TANESCO. Also, cabinet is expected to approve shortly the proposed new business licensing system that substantially reduces the approval period. An update of the National Anti-corruption Strategy and Action Plan (NACSAP) and the associated assessment

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[5] The real equilibrium exchange rate has been estimated based on terms of trade, Tanzania's factor productivity relative to its trading partners, government consumption, trade openness and foreign capital flows (see Selected Issues Paper).

Box 1. Financial Sector Reform

High inflation and poor access to financial services have in the past been key factors explaining the financial sector's limited contribution to economic growth and poverty reduction. In recent years, however, macroeconomic stability and substantial financial sector reforms have had a notable impact on broadening access by ordinary Tanzanians and small- and medium-size enterprises to financial services.

The financial indicators presented in the table below demonstrate these positive developments, which have so far not given rise to concerns about banking soundness. From 1997 to 2003, the spread between weighted average lending and deposit rates declined substantially from 18.4 to 11.4 percentage points. This sharp reduction was the result of increased competition stemming from the entry of foreign banks and the privatization of a number of large state-owned commercial banks. Deposits in commercial banks, in percent of GDP, steadily grew from 13.6 percent in 1997 to 17.2 percent in 2003, primarily reflecting commercial banks' increasing efforts to open new branches. Because of the decline in lending rates, the increased availability of liquidity in the banking system, and growing confidence by the private sector, bank lending has been expanding at double digit rates since 1997. In addition, many large borrowers have switched from foreign currency loans to Tanzania Shilling-denominated loans, to avoid a currency mismatch in their balance sheet and the associated exchange rate risk. As a result, bank credit to the private sector, in percent of GDP, more than doubled in six years. In parallel, the ratio of nonperforming loans to capital declined sharply.

These developments have resulted in a narrowing of the gap of financial indicators between Tanzania and its neighbors. For example, Tanzania has surpassed Uganda in bank credit to the private sector, maintained the lead in bank deposits in percent of GDP, and considerably narrowed the gap in interest rate spreads.

Regional Comparison of Selected Indicators on Access to Financial Service (1997-2003)

	1997	1998	1999	2000	2001	2002	2003
Interest rate spread (percentage points)							
Tanzania	18.4	15.1	14.1	14.2	15.5	13.1	11.4
Kenya	13.5	11.1	12.8	14.2	13.0	13.0	12.4
Uganda	9.5	9.5	12.8	13.1	14.2	13.5	9.1
Bank credit to private sector (in percent of GDP)							
Tanzania	3.5	4.3	4.7	4.6	4.9	6.0	7.6
Kenya	29.2	26.5	27.3	26.4	22.6	21.4	20.3
Uganda	4.4	5.5	5.6	5.5	4.9	5.5	6.5
Bank deposits (in percent of GDP)							
Tanzania	13.6	12.9	12.9	13.9	15.0	16.4	17.2
Kenya	41.3	38.0	37.1	36.3	33.7	34.0	35.3
Uganda	9.4	10.8	10.7	11.9	12.2	14.8	16.1

Sources: IFS and EDDS.

of financial and human resources requirements for its implementation for 2003-05 have been finalized. There are, however, continued concerns over delays in the Prosecutor's office's response to complaints about individuals made by the Auditor General and the Prevention of Corruption Bureau. As a result, most cases involving corruption have not been effectively prosecuted.

III. Report on the Discussions

14. The discussions focused mainly on (i) the medium-term macroeconomic framework and supporting strategy; (ii) the 2004/05 budget, notably expenditure priorities and the agenda for tax and customs administration reform; (iii) the BoT's liquidity management and implications for the exchange rate and competitiveness, and (iv) structural reforms to further improve the business environment and the financial sector.

A. Macroeconomic Outlook and Poverty Reduction Strategy

15. **The macroeconomic framework targets real growth of 6.5-7.0 percent over the medium term.** In support of this target, investment is expected to grow by about 1.6 percent of GDP, reflecting ongoing reforms of the business environment and the financial sector, as well as sustained macroeconomic stability. As indicated in paragraph 4, the targeted growth rate would be conducive to achieving the rate of reduction in income poverty envisaged under the MDGs.[6] Against this background, the authorities' poverty reduction strategy that is now being updated in the context of a second full PRSP centers on agricultural development and further strengthening the business environment to boost private sector-led growth and export diversification.

16. **Key elements of the government's efforts to facilitate agricultural growth are (i) a review of crop boards; (ii) the reform of local government taxation, and (iii) the improvement of rural infrastructure.** The review of crop boards aims to identify options to reform their regulatory and revenue collection functions.[7] Furthermore, although the government has eliminated many local government nuisance taxes, reports suggest that enforcement has been inconsistent.

17. **The authorities explained that the continued lack of availability of bank credit in the agricultural sector represented an important constraint to rural development.** In this respect, and pointing to the successful experience of the export credit guarantee scheme, they noted plans for a large new development finance guarantee facility, to boost medium-

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[6] While prospects for achieving education targets are also positive, health indicators have deteriorated considerably as a result of the HIV/AIDS crisis. Table 11 provides information on the status of the MDGs.

[7] For example, the prohibition of integration of coffee producers and traders may have discouraged investment.

term lending in support of export-oriented and employment-generating investments. The staff stressed the risks to the government's fiscal position, and emphasized that any such schemes should be based on market principles, include transparent regulations and procedures, as well as appropriate risk-sharing with banks. The authorities generally agreed with this approach (LOI paras. 43 and 44) and have requested technical assistance from the Fund and Bank.

18. **Following an anticipated increase of donor assistance, from 12.1 percent of GDP in 2003/04 to 13.3 percent in 2004/05, the medium-term macroeconomic framework envisages aid flows stabilizing at about 12.5 percent of GDP over the medium term.** The authorities are cognizant that in view of the inadequacy of available domestic resources to meet the MDGs, a continuing high level of aid dependency for the foreseeable future is unavoidable, if important gains are to be made in improving people's lives. They similarly noted that, while the present high level of donor support presented a unique opportunity for Tanzania to break out of the cycle of poverty, it also posed challenges for the design of the structural reform agenda and macroeconomic management. In this context, they expressed concern over widening fiscal deficits, and considered it essential to strengthen further domestic revenue mobilization, with a view to limiting vulnerabilities from high aid dependency. They also stressed that an effective use of aid, particularly budget support, necessitated measures to enhance Tanzania's absorptive capacity by strengthening institutions. They agreed that, to limit possible adverse effects from high aid flows on competitiveness, it would be critical to complement these efforts with measures aimed at promoting imports as well as export diversification.

19. **In this respect, the authorities stressed the importance of additional donor support in the areas of agriculture and infrastructure, complementing ongoing efforts to boost education and health**. While commending the donor community for their efforts at supporting their agenda for reform of education and health, the authorities noted that Tanzania's rural economy remained severely constrained by the absence of adequate infrastructure, in particular roads, power, and water supply systems.

20. **Looking ahead to the forthcoming elections, the staff underscored the importance of preserving Tanzania's strong record of macroeconomic management and market-oriented structural reforms, and urged the authorities to reflect on a program of measures that would cement Tanzania's progress beyond the change of government.** The authorities agreed on the importance of sustaining their reform program over the medium term, and indicated that internal deliberations were ongoing as to how best to achieve this. They noted that technical assistance by the Fund with the view to strengthening the BoT's independence was an important factor in this emerging strategy. They also stressed the importance of outreach activities to broaden consensus on the direction of reforms, including an upcoming seminar for parliamentarians being planned in collaboration with the Fund.

B. Fiscal Policy for 2004/05

21. **Discussions of fiscal policy focused on the budget parameters for 2004/05, and medium-term challenges.** Specifically, the authorities will continue to focus on domestic

resource mobilization through reform of tax policy and administration and strengthening expenditure management, consistent with the objectives of the poverty reduction strategy.

22. **Key parameters of the 2004/05 program are an increase of expenditure by some 3 percent of GDP, a revenue increase of 0.6 percent of GDP, and containment of net domestic financing to 1.3 percent of GDP.**[8] Consequently, the deficit before grants and the primary balance (excluding grants and foreign-financed development expenditure) would widen by about 2 percentage points of GDP, financed largely by additional donor assistance and higher net domestic financing. The staff concurred with the authorities' view that an increase of net domestic financing requirements by about 0.5 percent of GDP, compared with the original program target, was appropriate in light of the comfortable domestic debt position, and the fact that in the past two years net domestic financing had been significantly below program limits, resulting in a buildup of government deposits with the banking system.[9]

23. **The projected significant increase in revenue is supported by a range of reform measures in the area of tax policy and tax administration, as well as a buoyant macroeconomic environment.** Key economic contributions to higher revenue are the strong growth of the manufacturing and construction sectors and a substantial increase in imports. In addition, the continuing shift of donor funding from tax exempt projects to taxable procurements and budget support, as well as an increase in PAYE collections due to the rise in civil servants' wages, will increase revenue. On the tax policy side, collections will be reinforced by the streamlining of income taxes consequent to the introduction of the new Income Tax Act, as well as the indexation of specific nonpetroleum excises. Efficiency gains in the area of tax administration will result from the reforms discussed in paragraph 11.

24. **The authorities indicated that, as the next critical area of reform, they are also in the process of adopting a strategic action plan for customs administration.** The main pillars of customs modernization would be (i) improvement of services to the trader community, notably substantially accelerating the release of shipments; (ii) reallocation of personnel resources from prerelease control of imports toward prevention and auditing; and (iii) further automation of operations to improve efficiency and reduce opportunities for corruption. To attain these objectives the customs department plans to significantly expand operating hours at the Dar es Salaam port and process all import declarations through the destination inspection agency. In addition, by January 2005, the post-clearance verification and audit unit will be strengthened through the recruitment of additional auditors, and the review of import declarations in the Long Room will be eliminated.

[8] The projections include 0.5 percent of GDP in nonbank borrowing primarily from pension funds.

[9] See Selected Issues Paper for a discussion of domestic debt in Tanzania.

25. **The authorities underscored their commitment to ongoing efforts to contain exemptions.** To this end, the draft implementing regulations for the new income tax law, expected to be approved by cabinet shortly, limit the Minister's power to grant exemptions to emergency situations, subject to prior cabinet approval. Also, the fiscal stability guarantee in the Tanzania Investment Act would be limited to five years. The authorities have furthermore established a working group to review the taxation regime for mining companies. They also noted that efforts to reduce unwarranted exemptions through the revocation of all government notices issued prior to 1997, with justifiable exemptions incorporated in the relevant tax law, have been delayed by ongoing expressions of concern by donors.

26. **The authorities expressed confidence that actual revenue collections in 2004/05 would reach 13.8 percent of GDP as indicated in the 2004/05 budget, noting that revenue had significantly exceeded projections in the budget in the past two years.** However, they concurred that the program should be based on the staff's more cautious projection of 13.5 percent of GDP.[10] They noted that overly conservative projections of revenue performance had contributed to an overly tight stance of expenditure policy, resulting in overperformance in net domestic financing. This reflected partly the mechanics of the cash budgeting system, which allowed the use of higher-than-budgeted revenue for expenditure increases only following approval of such expenditures by parliament in the context of a supplementary budget. They stressed that to the extent their revenue projections did not materialize, the authorities would constrain nonpriority expenditures to ensure that net domestic financing would be contained at the program target level.

27. **Discussions centered around the rationale of the further increase in expenditures as well as their potential implications for macroeconomic stability.** The authorities responded that key elements of the projected increase were (i) a substantial increase in priority sector expenditure; (ii) one-off outlays, particularly for the electricity sector, replenishment of the SGR, and the elections; and (iii) a higher wage bill resulting from civil service reform undertaken in collaboration with the World Bank and other donors.[11] The authorities argued that increases in priority expenditure, particularly related to AIDS, were essential. They also indicated that transfers to TANESCO would fall sharply in 2005/06 budget, reflecting the adoption of a comprehensive program of measures to reform the electricity sector. They noted that the budget also includes a further modest provision (T Sh 15 billion) for construction of a national stadium in Dar es Salaam; most of the cost of this project is expected to be funded by a donor. The budget speech also indicated that the social security fund would construct with its own resources a new parliament building under a build-lease-transfer model, which could lead to additional outlays beyond the 2004/05

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[10] The staff noted with concern that the budget 2004/05 zero-rates several items, mainly agricultural inputs, which raises administrative complexity. The staff also indicated that the EAC Customs Union could have a moderate revenue-losing impact.

[11] Main aspects of the reform are a differentiated wage increase focused on professional staff and substantial retrenchment of local government staff.

budget.[12] In light of the authorities' explanations, the staff supported the projected expenditure increase, noting that in view of the large import content of the additional expenditures, risks for macroeconomic stability and external competitiveness would be minimal. Furthermore, the staff noted that TANESCO's recently substantially improved financial performance and the strength of the reform program agreed with the World Bank, including financial targets, had put TANESCO on the path toward financial autonomy.

28. **While agreeing with the authorities on the overall budget framework, staff expressed concern over its consistency with the budget guidelines, prepared in collaboration with donors, and the extent to which expenditure allocations had been reviewed in the Public Expenditure Review (PER).** The staff noted that the budget framework outlined in the guidelines had foreseen a considerably smaller increase in revenues and expenditure than the final budget. Moreover, it noted with concern that decisions to build a national stadium and a new parliament building had not been discussed in the PER, and that the increase in expenditures in the run-up to elections could be perceived as politically motivated and undermine donors' views about the authorities' commitment to reform. The staff noted, in particular, that the construction of a new Parliament building by the social security fund set a bad precedent. The authorities responded that the process of budget formulation had not been sufficiently advanced, when budget guidelines were prepared. In particular, donor assistance and outlays required for TANESCO had not been firmed up, and the analysis of the revenue impact of key administrative reforms had not been finalized.[13] They also indicated that forthcoming consultations with donors would provide a forum for explaining the composition of expenditure increases, many of which had been urged by development partners.

29. **Staff and the authorities agreed that for the medium-term, net domestic financing would be contained at about 0.8 percent of GDP.** The authorities view this target, which is slightly higher than previously envisaged, as consistent with an appropriate macroeconomic framework and debt sustainability, and justified by greater expenditure needs to meet the objectives of the PRGF and the MDGs. Total expenditure (in percent of GDP) would remain broadly unchanged over the medium term, as the impact of higher priority sector expenditure would be offset by declines in nonpriority outlays, reflecting the one-off nature of several 2004/05 outlays. The medium-term framework assumes further revenue increases to 14 percent of GDP by 2006/07, as a result of ongoing tax administration and policy reforms as well as the buoyancy of revenue collections.

30. **Against the background of prospects for sustained increases in aid flows, the authorities and the staff agreed on the importance of the reform program to strengthen**

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[12] An assessment will be made once discussions between the Ministry of Finance and the Speaker of Parliament have been concluded.

[13] These are also reasons for the deviation of budget parameters from those contained in the PRSP Progress Report.

the transparency and accountability of expenditure management. The authorities pointed to a range of measures that were already being implemented, notably (i) the implementation of the Public Financial Management Reform Program as the main instrument for reducing fiduciary risk of budget support; (ii) the imminent revision of the procurement act, and (iii) quarterly meetings with stakeholders on spending agencies' anti-corruption plans.

C. Monetary Policy and Financial Sector Reform

31. **The BoT reiterated its commitment to a prudent conduct of monetary policy, with a view to achieving its inflation target for 2004/05 and moderately increasing official foreign reserves**. Reflecting the ongoing deepening of the financial system and broadly in line with the trend observed in recent years, velocity is projected to decline by about 10 percent. Consistent with the expected increase in money demand, the BoT will target M3 growth of 23 percent, which would allow a further increase of credit to the private sector by about 34 percent.

32. **The staff discussed with the authorities the challenges of liquidity management in the face of high foreign aid inflows.** With the government depositing foreign aid inflows in the BoT, and subsequently drawing down its deposits in local currency, these inflows tend to increase reserve money and could rekindle inflationary pressures, unless the BoT sterilizes at least part of the inflows. The authorities agreed, however, that sterilization involved difficult trade-offs. First, sterilization through foreign exchange sales could result in possible appreciation of the exchange rate, and loss of competitiveness. Second, the absorption of excess liquidity through open market operations using liquidity paper affects BoT profitability, resulting in quasi-fiscal losses, and could lead to short- and medium term increases in interest rates, given the thinness of domestic debt markets and imperfect substitutability of financial assets. The staff suggested that the prospect of continued high aid flows underscored the need for the BoT to explicitly weigh these costs in deciding how to attain a given reserve money target. The authorities agreed with this analysis and also indicated that, to the extent reserve money targets are exceeded due to a higher–than–programmed build up of foreign reserves, the BoT should be prepared to absorb excess liquidity through foreign exchange sales.

33. **Bank soundness indicators have further improved**, although the relatively high concentration to the largest borrowers and maturity mismatches relating to holdings of longer maturity government bonds gives rise to some concern. To address possible risks to bank soundness from the rapid growth of credit, the authorities are undertaking a review of financial sector legislation and regulations, with a view to strengthening bank supervision and facilitating the planned adoption of a risk-based supervisory framework. Furthermore, to strengthen the independence of the BoT, they are reviewing—with Fund technical assistance—the Bank of Tanzania Act 1995, and the Banking and Financial Institutions Act 1991.

34. **The authorities reiterated their commitment to the broad agenda for reform of the financial sector articulated in the FSAP**, which aimed at deepening the financial system to strengthen its contribution to economic growth. Following the initial meeting of the

committee that will oversee the reforms, a number of technical subcommittees were tasked to prepare and begin implementing, by end-December 2004, action plans that lay out sectoral agendas for carrying out FSAP recommendations, in line with paragraph 41 of the LOI. The staff expressed the view that sectoral action plans should be discussed during a planned workshop on implementation of the FSAP to take place later this year.[14]

35. **The authorities underscored the importance of the privatization of NMB, the largest bank in terms of deposits and branch network, as central to their strategy for enhancing access to bank lending, particularly in rural areas.** They noted that the privatization process was broadly following the originally foreseen timetable, with bidding instructions to be issued by January 2005, and the final sale planned for mid-2005. Restructuring of the state-owned People's Bank of Zanzibar (PBZ) is progressing,[15] and diagnostic studies for the restructuring of state-owned Tanzania Postal Bank and Tanzania Investment Bank are under way.

36. **Other efforts to increase access to credit include** the establishment of a new credit reference bureau by private banks and modernization of the land registry to facilitate the use of land as collateral for loans. The authorities expect these efforts to further narrow spreads and more tightly align commercial interest rates with Treasury bill yields.

37. **The safeguards assessment completed in December 2003 found that, while the BoT had a relatively strong internal control environment, some vulnerabilities existed in the external audit and financial reporting areas.** Implementation of recommendations has been slower than expected; in particular, information has not yet been provided on the status of the contractual arrangements for an audit in accordance with International Standards on Auditing.

D. External Outlook

38. **For 2004/05, the current account deficit (excluding official current transfers) is expected to widen from 10.9 to 12.6 percent of GDP,** reflecting a further substantial expansion of imports, in particular of capital and intermediate goods linked to foreign-financed projects, higher petroleum imports on account of further anti-smuggling measures, and imports of drugs for the treatment of AIDS. Traditional exports are projected to pick up only slightly, reflecting continued depressed world prices and domestic structural impediments.

39. **Over the medium term, the current account deficit (excluding official current transfers) is projected to decline slightly, as the impact of higher imports, fueled by strong growth, is offset by higher exports, notably nontraditional exports.** Gold exports

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[14] MFD will provide further technical assistance in this area.

[15] Next steps include the appointment of privatization advisors.

are projected to grow by about 10 percent annually, reflecting increased investments in the mining sector. Tourism receipts are expected to grow by about 5 percent annually. External debt projections (Table 10) indicate that Tanzania's external debt position remains sustainable.

40. **The authorities reiterated their commitment to a freely floating exchange rate, limiting interventions to smooth short-term fluctuations and managing liquidity.** They expressed some concern that foreign exchange sales to mop up liquidity could undermine competitiveness. The staff discussed with the authorities an analysis of Tanzania's export competitiveness, which indicates that the exchange rate is in line with its equilibrium level, but notes that export performance was affected significantly by structural factors, including the distortionary role of crop boards and of local government taxes, as well as lack of supporting infrastructure.

41. **Progress in regional integration continues within the framework of the EAC and continued implementation of the Southern African Development Community (SADC) tariff reduction program.** The EAC customs union is expected to lower Tanzania's average tariff by almost 2 percentage points to 12.5 percent. Pending resolution of potential conflict with other regional trade agreements, the members of the EAC have agreed that the new EAC protocol would not supersede any existing legal obligations.

42. **Debt negotiations with Japan have been partially concluded and negotiations with Brazil are proceeding.** The authorities are also seeking to broaden negotiations with non-Paris Club creditors, and in this context Bulgaria has agreed to provide relief under the HIPC framework. However, there has been little progress in discussions with other non-Paris Club creditors.

E. Structural Reforms

43. **The authorities are mindful of the continued presence of structural impediments to private sector activities, and are pursuing far-reaching structural reforms.** Recent investor surveys have identified as key obstacles to higher investment issues such as taxation, the cost of and access to financing, corruption, and infrastructure, as well as lack of labor flexibility, and poor enforcement of contracts. In addition to ongoing reforms in the areas of tax and the financial sector, the authorities are continuing to undertake measures aimed at (i) improving public enterprise performance; (ii) improving governance; and (iii) strengthening the legal and institutional environment for private sector activity.

44. **In the energy sector, which is critical for growth and the business environment, the authorities are undertaking a range of reform measures aimed at strengthening the financial sustainability of TANESCO.** In addition to authorizing TANESCO to increase tariffs on a six-monthly basis and regularizing the past indebtedness, further financial relief is expected to result from the replacement of fuel by gas to generate electricity. The authorities expressed confidence that the improvements in financial performance since the takeover of TANESCO's management by a private firm in May 2002 would continue. For the medium term, the government would continue to prepare for the utility's eventual privatization.

45. **The government noted a range of measures aimed at fighting corruption.** Importantly**,** the authorities will accelerate preparation of a new anti-corruption law, which will provide a comprehensive framework for the effective prosecution of incidents of corruption, with a view to submitting it to cabinet during the second quarter 2005. Also, the 2004/05 budget includes resources for the preparation of local government anti-corruption plans. By November 2004, a new mechanism for complaints and grievances to address unethical conduct of civil servants is expected to be designed.

46. **The authorities confirmed their commitment to further improvements in the business environment, which had already benefited from the ongoing dialogue with the business community through the Investors' Roundtable (IRT).** Priority measures include the implementation of the revised Land Act and the new business licensing system. In addition, amendments to labor laws are being prepared.

IV. Program Monitoring

47. The program will be monitored through the quantitative and structural performance criteria and benchmarks specified in Tables 2 and 4 of Appendix I.[16] Quantitative performance criteria for end-September are proposed and indicative targets for end-December 2004, end-March 2005 and end-June 2005 have been agreed. Program implementation will be assessed during the third review.

V. Staff Appraisal

48. Under the current PRGF arrangement Tanzania has continued to make substantial progress in macroeconomic stabilization and structural reform. Tight monetary and fiscal policies have resulted in low inflation, while sustained structural reforms to liberalize the economy and promote private sector activity have contributed to higher growth and a decline in poverty, albeit modest. Moreover, Tanzania's strong performance in 2003, despite the drought, demonstrates the economy's growing robustness. While attainment of MDGs in the health sector will be difficult, particularly because of the AIDS crisis, Tanzania stands a good chance—with strong policies and sustained donor support—of reaching the poverty reduction MDG's. It will be important that the benefits of economic growth lead to improved living standards for the rural population, and in this context the staff welcomes the authorities' focus on renewed efforts to promote agricultural development.

[16] Structural conditionality covers broadly the same areas as those discussed in Box 6 of Country Report 03/238. World Bank conditionality for the proposed third tranche of the PRSC credit includes measures aimed at facilitating the implementation of the Land Act, business licensing system, the reform of the crop board, as well as expenditure management, and civil service reform.

49. These achievements notwithstanding, Tanzania faces important challenges in policy implementation due to serious capacity constraints and weak institutions. Shortages of skilled civil servants and weaknesses in public administration constrain absorptive capacity. In this context, the staff welcomes the authorities' efforts to address these issues, including progress in strengthening the civil service, but urges the authorities to strengthen further these efforts with a view to facilitating the effective implementation of consistent and integrated policies.

50. The 2004/05 budget is consistent with the program's macroeconomic objectives and entails further significant reform measures in expenditure management and revenue mobilization. Nevertheless, the process of its preparation highlights the need to strengthen further the existing institutions and procedures, notably improved coherence of the budget submitted to parliament with the budget guidelines and the comprehensiveness of the PER process. Given the potential for medium-term fiscal implications of major projects, it would have been desirable that the full medium-term cost implications of all major projects, including alternative options, be reviewed in the context of the PER. The staff's view is that the costs associated with significant leasing arrangements should be included in this process.

51. The ongoing reform program of tax and customs administration and policy are central to the authorities' efforts to boost the robustness of macroeconomic stability and contain aid dependency. The authorities are to be commended for successfully implementing the challenging reform agenda articulated in the TRA corporate plan, as well as effective efforts to better control exemptions through the treasury voucher scheme, and their success in curtailing smuggling of petroleum imports. These measures have already resulted in sharply better revenue performance. The staff welcomes the authorities' ambitious plans to strengthen further customs administration. The planned improvement of services to the trader community, including expanded operating hours at the port, will also help improve the business environment.

52. The staff appreciates the challenges faced by the BoT in managing liquidity against the backdrop of continued high aid flows, notably the trade-off of higher domestic interest rates associated with open market operations and of an exchange rate appreciation and loss of competitiveness in the context of foreign exchange sales. The fact that the real exchange rate is currently broadly in line with fundamentals suggests that the adverse impact of a mild appreciation on competitiveness should be manageable. Against this background, the staff supports the authorities' intention to use foreign exchange sales to absorb excess liquidity resulting from higher-than-programmed foreign inflows.

53. Tanzania has made sound progress in financial sector reform. The simultaneous improvement of banking soundness indicators demonstrates the effectiveness of commercial banks' lending procedures as well as the strength of banking supervision. These positive developments notwithstanding, Tanzania's financial sector remains small, and access to bank credit limited. To enable the financial sector to more fully contribute to investment and growth, sustained implementation of the FSAP reform program will be critical. Therefore,

the staff welcomes the creation of the FSAP committee, and encourages the authorities to expedite the preparation and implementation of sectoral action plans.

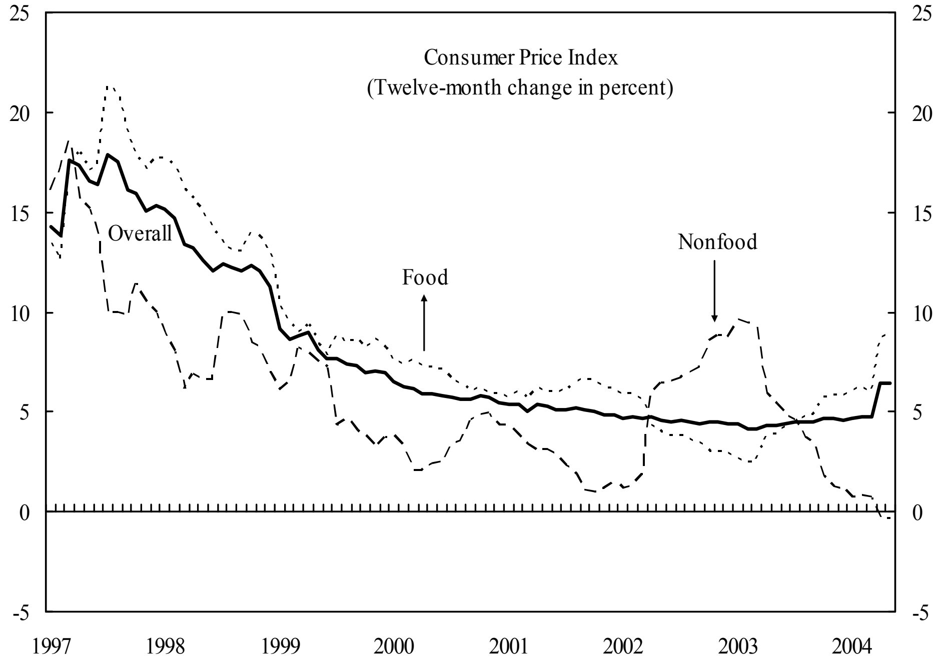
54. The authorities' commitment to improving the business environment is evident in the results from the dialogue with the business community which has already helped facilitate the amendment of the Land Act, the reform of local government taxation, and the simplification of business licensing. The staff welcomes the authorities' clear commitment to sustain this dialogue. Given severe capacity constraints, the staff urges the authorities to effectively monitor implementation of reforms. Moreover, the persistent weaknesses of the business environment will require sustained reforms, notably in the areas of infrastructure and labor skill enhancement.

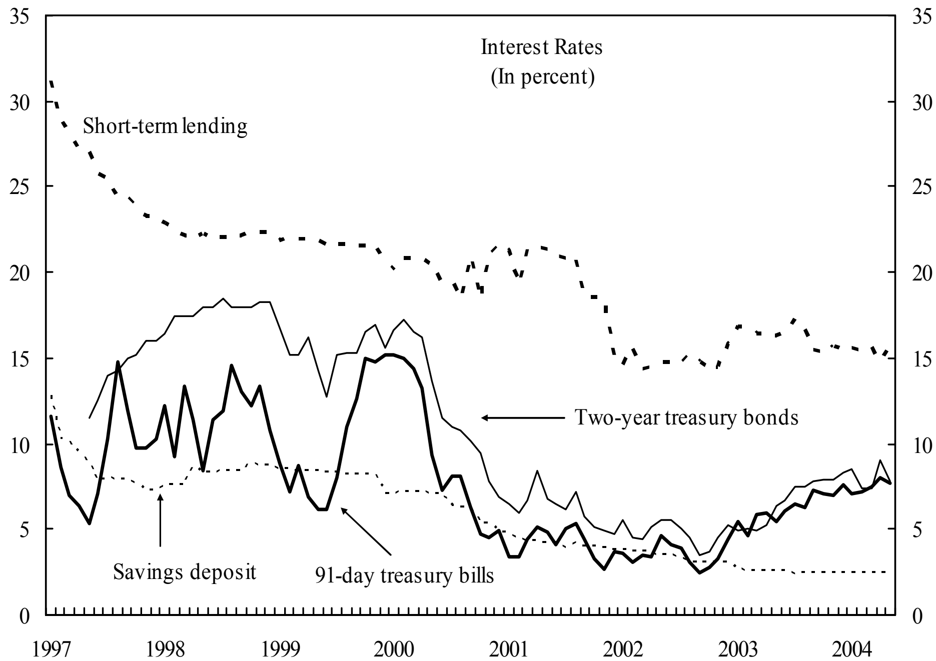
55. The quality of governance remains a serious concern that affects the business environment, and Tanzania's standing with the donor community. The staff welcomes recent efforts that demonstrate the authorities' resolve to tackle corruption. The staff remains concerned, however, about the lack of adequate follow-up by the prosecutor's office to complaints over individuals by the Auditor General and the Prevention of Corruption bureau.

56. Based on the authorities' strong record of good program implementation and their commitments in the attached letter of intent, the staff recommends that the Executive Board complete the second review under the current PRGF arrangement.

57. The staff recommends that the next Article IV consultation with Tanzania be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

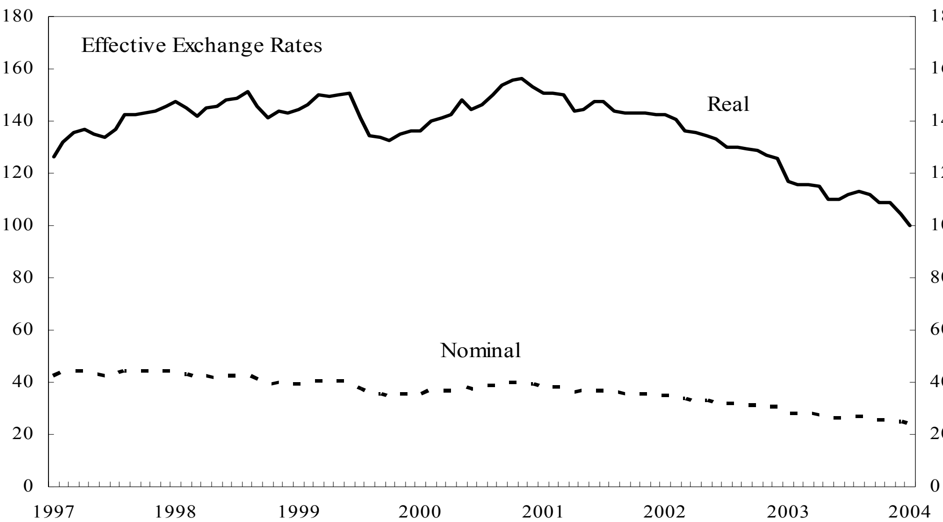
Figure 1. Tanzania: Prices and Interest Rates, January 1997- May 2004

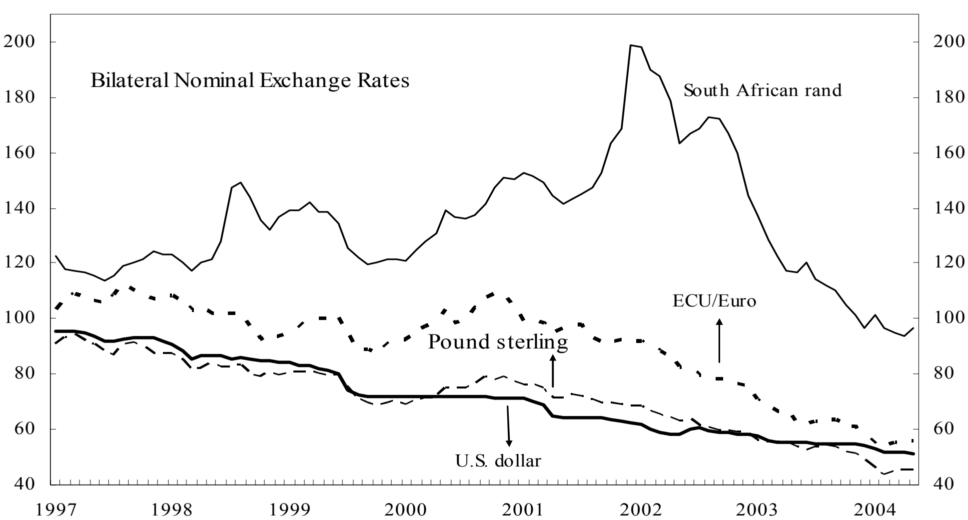




Source: Tanzanian authorities.

Figure 2. Tanzania: Exchange Rates, January 1997-May 2004
(1995=100; foreign currency per Tanzania shilling)





Source: Tanzanian authorities; and IMF Information Notice System (INS).

Table 1. Tanzania: Phasing of Performance Criteria, Reviews, and Disbursements Under the Poverty Reduction and Growth Facility (PRGF) Arrangement, 2003-06

	Expected Disbursement		
Expected Date	Millions of SDRs	Percent of quota	Event
August 2003	2.8	1.4	Effectiveness of PRGF arrangement
September 2003	...	...	Test date for quantitative performance criteria for first review
February 2004	2.8	1.4	Completion of first review
March 2004	...	...	Test date for quantitative performance criteria for second review
August 2004	2.8	1.4	Completion of second review
September 2004	...	...	Test date for quantitative performance criteria for third review
February 2005	2.8	1.4	Completion of third review
March 2005	...	...	Test date for quantitative performance criteria for fourth review
August 2005	2.8	1.4	Completion of fourth review
September 2005	...	...	Test date for quantitative performance criteria for fifth review
February 2006	2.8	1.4	Completion of fifth review
March 2006	...	...	Test date for quantitative performance criteria for sixth review
August 2006	2.8	1.4	Completion of sixth review

Source: Fund staff.

Table 2. Tanzania: Selected Economic and Financial Indicators, 2001/02-2006/07

	2001/02	2002/03	2003/04		2004/05	2005/06	2006/07
			Prog.	Est.			
	(Annual percentage change, unless otherwise indicated)						
National income and prices 1/							
Nominal GDP (market prices; billions of Tanzania shillings)	8,275	9,445	10,030	10,692	11,821	13,093	14,569
Real GDP growth (factor cost)	5.7	6.2	5.5	5.6	6.3	6.5	7.0
Real GDP per capita (market prices)	3.5	5.1	5.0	5.0	4.0	4.3	5.0
Consumer prices (period average)	5.1	4.6	4.4	4.4	5.0	4.0	4.0
Consumer prices (end of period)	4.9	4.4	4.6	4.6	4.0	4.0	4.0
External sector							
Export, f.o.b (in U.S. dollars)	840	1,010	1,141	1,173	1,276	1,453	1,590
Imports, c.i.f. (in U.S. dollars)	-1,688	-1,824	-2,352	-2,308	-2,699	-2,852	-3,178
Export volume	15.0	13.3	7.7	3.9	0.2	9.2	6.8
Import volume	2.6	0.1	14.1	17.2	10.4	0	0.5
Terms of trade	-6.0	-1.6	-0.3	3.5	2.4	-1.4	-7.6
Nominal effective exchange rate (end of period; depreciation -)	-12.3	-19.1	…	...	...	...	...
Real effective exchange rate (end of period; depreciation -)	-9.5	-17.4	…	...	...	...	...
Public finance							
Revenue (excluding grants)	12.2	16.7	15.0	18.9	16.5	13.0	13.4
Total expenditure	15.7	30.7	26.1	27.2	26.0	7.6	13.9
Recurrent expenditure	18.7	27.1	29.1	26.8	24.5	9.9	13.4
Development expenditure	1.8	71.9	17.2	28.6	30.6	1.2	15.2
Money and credit							
Broad money	22.1	22.7	19.1	19.1	23.0	…	…
Net foreign assets	31.4	46.2	11.3	23.1	13.8	…	…
Net domestic assets	4.4	-33.0	59.5	-1.3	82.4	…	…
Net credit to government	-25.1	-15.4	28.4	4.8	57.4	…	…
Credit to nongovernment sector	27.4	36.6	32.2	34.3	34.3	…	…
Velocity of money (GDP/M3; average)	5.3	5.0	4.4	4.7	4.3	…	…
Treasury bill interest rate (in percent; end of period) 2/	4.6	6.1	...	…	…	…	…
	(In percent of GDP)						
Public finance							
Revenue (excluding grants)	12.1	12.1	12.4	12.9	13.5	13.8	14.0
Total grants	4.5	6.2	6.1	6.7	6.8	6.5	6.2
Expenditure (including adjustment to cash)	17.6	19.8	22.3	22.5	25.6	24.8	25.4
Overall balance (including grants)	-1.1	-1.6	-3.8	-2.9	-5.3	-4.6	-5.1
Domestic financing 3/	-0.3	-0.4	0.7	-0.2	1.3	0.8	0.8
o/w: nonbank financing	0.4	-0.3	0.3	0.2	0.5	0	0
Savings and investment 1/							
Resource gap	-8.2	-6.2	-9.0	-9.0	-11.3	-11.6	-11.0
Investment	17.0	19.1	18.6	18.6	19.2	19.7	20.2
Government	5.6	7.6	7.4	7.4	7.6	7.8	8.0
Nongovernment 4/	11.4	11.6	11.2	11.2	11.6	11.9	12.2
Gross domestic savings	8.8	12.9	9.7	9.7	7.9	8.1	9.2
External sector							
Current account balance (excluding current transfers)	-8.4	-7.3	-11.4	-10.9	-12.6	-11.2	-11.3
Current account balance (including current transfers)	-4.0	-2.4	-5.9	-5.3	-6.9	-6.1	-6.6
	(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Current account balance (excluding current transfers; deficit -)	-783	-735	-1,194	-1,135	-1,350	-1,335	-1,502
Overall balance of payments (deficit -)	7	440	164	244	202	308	349
Gross official reserves	1,184	1,670	1,831	1,952	2,113	2,368	2,658
In months of imports of goods and nonfactor services	5.9	6.8	7.0	7.0	7.2	7.3	7.4
Exchange rate (eop, T Shillings per U.S. dollar)	947	1,047	1,115	1,115	...	...	...
Exchange rate (period average, T Shilling per U.S. dollar)	929	999	1,077	1,077	...	...	...

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

1/ Data are on calendar year basis. 2001/02 data are for calendar year 2001.
2/ Weighted-average yield of 91-, 182-, and 364-day treasury bills.
3/ Excluding new debt issued to recapitalize government-owned banks.
4/ Including change in stock.

Table 3. Tanzania: Central Government Operations, 2002/03-2006/07 1/

	2002/03	2003/04		2004/05	2005/06	2006/07
		Prog.	Est.	Prog.	Proj.	
	(In billions of Tanzania shillings, unless otherwise indicated)					
Total revenue	1,217.5	1,400.6	1,447.3	1686.4	1,905.4	2,161.5
Tax revenue	1,105.7	1,273.2	1,325.1	1546.1	1,749.6	1,988.2
Import duties	106.4	126.7	130.1	163.4	166.4	179.6
Value-added tax	424.3	498.6	494.8	605.0	663.4	743.3
Excises	187.3	223.8	216.6	236.1	295.4	343.4
Income taxes	276.0	307.6	360.4	416.5	485.6	567.4
Other taxes	111.7	116.5	123.2	125.0	138.8	154.4
Nontax revenue	111.8	127.4	122.3	140.3	155.8	173.3
Total expenditure	1,989.5	2,509.6	2,531.5	3190.9	3,433.0	3,909.0
Recurrent expenditure	1,488.6	1,922.4	1,887.1	2349.1	2,581.5	2,928.2
Wages and salaries	397.8	464.1	464.1	551.2	648.2	737.1
Interest payments	99.8	152.8	121.7	165.7	161.8	167.7
Domestic	57.0	73.6	73.6	94.9	90.1	101.8
Foreign	42.8	79.2	48.0	70.8	71.7	65.9
Goods and services and transfers	991.1	1,305.5	1,301.4	1632.3	1,771.5	2,023.4
Development expenditure	500.9	587.2	644.4	841.7	851.5	980.8
Domestically financed	95.7	140.1	136.1	233.7	236.0	238.4
Foreign financed	405.2	447.1	508.3	608.0	615.5	742.4
Adjustment to cash 2/	13.5	0.0	0.0	0.0	0.0	0.0
Overall balance before grants	-785.5	-1,109.0	-1,084.2	-1504.4	-1,527.6	-1,747.6
Grants	622.3	684.8	758.4	848.6	895.2	958.8
Program (including basket grants) 3/	293.9	378.2	386.1	441.3	447.2	467.0
Project	255.5	223.2	286.4	316.9	336.4	394.4
HIPC grant relief	72.9	83.3	85.9	90.3	111.6	97.4
Overall balance after grants	-163.2	-424.2	-325.8	-655.9	-632.4	-788.8
Financing	163.2	424.2	325.8	655.9	632.4	788.8
Foreign (net)	199.7	341.9	348.3	504.5	537.2	684.4
Foreign loans	301.1	447.1	436.4	627.5	660.3	798.8
Program (including basket loans) 3/	151.3	223.2	214.4	336.4	381.2	450.8
Project	149.7	223.8	222.0	291.1	279.1	348.0
Amortization	-101.3	-105.1	-88.1	-123.0	-123.0	-114.4
Domestic (net)	-36.3	82.7	-17.9	157.1	110.2	119.4
Bank financing	-10.3	45.8	-37.6	97.1	110.2	119.4
Nonbank financing	-26.0	36.9	19.8	60.0	0.0	0.0
Amortization of parastatal debt	-0.3	-14.4	-14.4	-15.8	-15.0	-15.0
Privatization proceeds	0.0	14.0	9.8	10.1	0.0	0.0
Memorandum items:						
Treasury vouchers	...	31.5	31.5	31.5	...	...
Primary balance (excluding grants and foreign-financed development expenditure)	-267.0	-509.1	-454.2	-730.7	-750.4	-837.4
Share of expenditures financed from foreign sources 4/	44.2	43.3	45.6	44.5	43.7	43.7
Share of current expenditures financed by foreing program assistance 5/	29.9	31.3	31.8	33.1	32.1	31.3
Ratio of recurrent expenditures to total revenues	122.3	137.3	130.4	139.3	135.5	135.5
Ratio of expenditure carryover to previous year's recurrent expenditures	6.8	5.8	...	...	...	...
Priority sector spending	973.7	1139.5	1118.2	1479.4	...	...

Table 3. Tanzania: Central Government Operations, 2002/03-2006/07 1/ (concluded)

	2002/03	2003/04		2004/05	2005/06	2006/07
		Prog.	Est.	Prog.	Proj.	
	(In percent of GDP, unless otherwise indicated)					
Total revenue	12.1	12.4	12.9	13.5	13.8	14.0
Tax revenue	11.0	11.3	11.8	12.4	12.6	12.9
Import duties	1.1	1.1	1.2	1.3	1.2	1.2
Value-added tax	4.2	4.4	4.4	4.9	4.8	4.8
Excises	1.9	2.0	1.9	1.9	2.1	2.2
Income taxes	2.7	2.7	3.2	3.3	3.5	3.7
Other taxes	1.1	1.0	1.1	1.0	1.0	1.0
Nontax revenue	1.1	1.1	1.1	1.1	1.1	1.1
Total expenditure	19.8	22.3	22.5	25.6	24.8	25.4
Recurrent expenditure	14.8	17.1	16.8	18.9	18.7	19.0
Wages and salaries	4.0	4.1	4.1	4.4	4.7	4.8
Interest payments	1.0	1.4	1.1	1.3	1.2	1.1
Domestic	0.6	0.7	0.7	0.8	0.7	0.7
Foreign	0.4	0.7	0.4	0.6	0.5	0.4
Goods and services and transfers	9.8	11.6	11.6	13.1	12.8	13.1
Development expenditure	5.0	5.2	5.7	6.8	6.2	6.4
Domestically financed	1.0	1.2	1.2	1.9	1.7	1.5
Foreign financed	4.0	4.0	4.5	4.9	4.4	4.8
Adjustment to cash 2/	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance before grants	-7.8	-9.9	-9.6	-12.1	-11.0	-11.4
Grants	6.2	6.1	6.7	6.8	6.5	6.2
Program (including basket grants) 3/	2.9	3.4	3.4	3.5	3.2	3.0
Project	2.5	2.0	2.5	2.5	2.4	2.6
HIPC grant relief	0.7	0.7	0.8	0.7	0.8	0.6
Overall balance after grants	-1.6	-3.8	-2.9	-5.3	-4.6	-5.1
Financing	1.6	3.8	2.9	5.3	4.6	5.1
Foreign (net)	2.0	3.0	3.1	4.1	3.9	4.4
Foreign loans	3.0	4.0	3.9	5.0	4.8	5.2
Program (including basket loans) 3/	1.5	2.0	1.9	2.7	2.8	2.9
Project	1.5	2.0	2.0	2.3	2.0	2.3
Amortization	-1.0	-0.9	-0.8	-1.0	-0.9	-0.7
Domestic (net)	-0.4	0.7	-0.2	1.3	0.8	0.8
Bank financing	-0.1	0.4	-0.3	0.8	0.8	0.8
Nonbank financing	-0.3	0.3	0.2	0.5	0.0	0.0
Amortization of parastatal debt	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Privatization proceeds	0.0	0.1	0.1	0.1	0.0	0.0
Memorandum items:						
Treasury vouchers	...	0.3	0.3	0.3	...	...
Primary balance (excluding grants and foreign-financed development expenditure)	-2.7	-4.5	-4.0	-6.5	-5.4	-5.4
Share of expenditures financed from foreign sources 4/	44.2	43.3	45.6	44.5	43.7	43.7
Share of current expenditures financed by foreing program assistance 5/	29.9	31.3	31.8	33.1	32.1	31.3
Priority sector spending	9.7	10.1	9.9	11.9	...	...
Public domestic debt 7/	15.2	...	15.0	15.8	...	...
Foreign grants and loans (net)	8.2	9.1	9.8	10.9	10.4	10.7
Ratio of expenditure carryover to previous year's recurrent expenditures (p	6.8	5.8	...	...	...	...
Nominal GDP (market prices, billions of Tanzania shillings)	10,069	11,257	11,257	12,457	13,831	15,391

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal years run from July to June.

2/ Unidentified financing (-)/expenditure (+). Includes expenditure carryover from the previous fiscal year.

3/ Basket funds are sector-specific accounts established by the government for channeling donor support to fund specific activities in different sectors.

4/ Defined as a ratio (in percent) of gross grant and loan inflows to a sum of total expenditures and amortization payments.

5/ Defined as a ratio (in percent) of current expenditures to a sum of program grants and loans (including basket funding).

6/ Higher-than-programmed expenditure in 2003/04 reflects the impact of larger electricity subsidies and higher-than-programmed foreign financed developm

7/ Including contingent liabilities.

Table 4. Tanzania: Central Government Expenditure on Priority Sectors, 2002/03 - 2004/05 1/

(In billions of Tanzania shillings, unless otherwise indicated)

	2002/03	2003/04		2004/05
		Prog.	Est.	Proj.
Total expenditure in priority sectors	973.7	1,139.5	1,118.2	1,479.4
(In percent of GDP)	9.7	10.1	9.9	11.9
(In percent of total expenditure)	48.9	45.4	44.2	46.4
Education	436.2	490.1	447.2	581.4
Health	186.7	210.1	213.2	290.8
Water	51.9	61.6	61.0	127.8
Agriculture (research and extension)	60.2	90.5	110.6	111.0
Lands	20.1	6.0	6.9	6.4
Roads	190.2	228.5	227.5	274.3
Judiciary	23.2	32.3	31.7	36.2
TACAIDS 2/	5.3	20.3	20.2	51.5
Recurrent expenditure in priority sectors	724.6	824.3	802.0	971.4
(in percent of GDP)	7.2	7.3	7.1	7.8
(in percent of total recurrent expenditure)	48.7	42.9	42.5	41.4
Education	422.9	460.6	417.7	501.4
Health	149.1	175.6	178.6	246.2
Water	16.5	17.5	16.8	23.5
Agriculture (research and extension)	36.0	47.7	67.9	62.9
Lands	4.8	5.4	5.3	5.7
Roads	71.9	84.5	83.5	88.2
Judiciary	18.9	24.9	24.3	28.6
TACAIDS 2/	4.5	8.1	7.9	15.0
Development expenditure in priority sectors	249.1	315.2	316.2	507.9
(in percent of GDP)	2.5	2.8	2.8	4.1
(in percent of total development expenditure)	49.7	53.7	49.1	60.3
Education	13.3	29.5	29.5	80.0
Health	37.6	34.5	34.5	44.6
Water	35.4	44.2	44.2	104.3
Agriculture (research and extension)	24.2	42.7	42.7	48.1
Lands	15.3	0.6	1.6	0.7
Roads	118.3	144.0	144.0	186.1
Judiciary	4.2	7.4	7.4	7.6
TACAIDS 2/	0.8	12.2	12.2	36.5
Memorandum items:				
Total expenditure	1,989.5	2,509.6	2,531.5	3,190.9
Recurrent expenditure	1,488.6	1,922.4	1887.1	2349.1
Development expenditure	500.9	587.2	644.4	841.7
GDP (market prices)	10,069	11,257	11,257	12,457

Sources: Ministry of Finance.

1/ Fiscal year runs from July to June.
2/ Government agency created in 2001 to coordinate AIDS-related interventions.

Table 5. Tanzania: Summary Accounts of the Bank of Tanzania, December 2003 - June 2005
(In billions of shillings, unless otherwise indicated; end of period)

	2003		2004				2004		2005	
	Dec.		Mar.		Jun.		Sep.	Dec.	Mar.	Jun.
	Prog.	Act.	Prog.	Act.	Prog.	Est.	Prog.			
Net foreign assets	1,556.7	1,589.8	1,510.9	1,570.1	1,412.6	1,570.1	1,992.1	2,042.6	1,863.3	1,868.0
Net international reserves	1,598.5	1,631.5	1,552.7	1,611.3	1,453.8	1,611.3	2,033.2	2,083.7	1,904.5	1,909.1
(in millions of U.S. dollars)	1,480.1	1,533.9	1,437.7	1,453.7	1,346.1	1,443.8	1,752.8	1,796.3	1,641.8	1,645.8
Medium- and long-term foreign liabilities	-41.8	-41.7	-41.8	-41.2	-41.2	-41.2	-41.2	-41.2	-41.2	-41.2
Net domestic assets	-730.6	-806.5	-702.6	-767.2	-600.1	-757.6	-1,117.3	-1,063.7	-903.2	-867.5
Credit to government (net, excl. liquidity paper)	-350.0	-372.8	-276.1	-303.4	-100.0	-150.0	-300.0	-200.0	-220.0	-180.0
Liquidity paper	-280.2	-333.3	-154.0	-349.0	-399.8	-473.2	-648.2	-694.6	-514.1	-518.4
Other items (net)	-100.3	-100.4	-272.5	-114.8	-100.3	-134.4	-169.1	-169.1	-169.1	-169.1
Reserve money	826.1	783.3	808.3	802.9	812.5	812.5	874.8	978.8	960.1	1,000.5
Currency outside banks	590.4	553.0	591.5	523.6	570.1	570.1	613.1	686.6	666.7	678.6
Bank reserves	235.8	230.3	216.8	279.3	242.4	242.4	261.6	292.2	293.4	321.8
Currency in banks	50.8	53.5	55.6	52.7	61.1	56.0	58.2	58.2	58.2	58.4
Deposits	184.9	176.7	161.2	226.5	181.4	186.4	203.4	234.0	235.2	263.4
Required reserves (calculated) 1/	163.1	156.8	161.0	169.0	175.2	177.7	192.1	200.8	211.4	226.1
Excess reserves (calculated)	21.9	20.0	0.2	57.5	6.2	8.7	11.3	33.2	23.7	37.3

Sources: Bank of Tanzania; and Fund staff estimates and projections.

1/ Calculated as reserve requirement times banks' deposits minus half of bank cash in vault.

Table 6. Tanzania: Monetary Survey, December 2003 - June 2005
(In billions of shillings, unless otherwise indicated; end of period)

	2003		2004		2004		2005	
	Dec.		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
	Proj.	Act.	Act.	Est.	Proj.		Proj.	
Net foreign assets	2,192.8	2,268.4	2,243.6	2,274.2	2,720.8	2,747.2	2,564.9	2,587.5
Net domestic assets	282.5	119.9	234.0	353.0	104.7	238.2	507.4	644.0
Domestic credit	670.9	684.9	818.2	1,053.4	1,044.0	1,223.9	1,312.7	1,453.5
Credit to government (net)	-142.2	-132.2	-29.8	169.2	38.7	85.6	178.4	266.3
Credit to nongovernment sector	813.0	817.1	848.0	884.2	1,005.3	1,138.3	1,134.3	1,187.2
Other items (net),	-388.4	-565.0	-584.2	-700.4	-939.3	-985.7	-805.2	-809.5
Of which : liquidity paper (issued by BOT)	-280.2	-333.3	-349.0	-473.2	-648.2	-694.6	-514.1	-518.4
M3	2,475.3	2,388.3	2,477.7	2,627.2	2,825.5	2,985.4	3,072.3	3,231.5
Foreign currency deposits	691.2	667.2	720.4	753.5	794.8	806.4	829.6	904.8
M2	1,784.1	1,721.1	1,757.2	1,873.7	2,030.6	2,178.9	2,242.6	2,326.7
Currency in circulation	590.4	553.0	523.6	570.1	613.1	686.6	666.7	678.6
Deposits (in Tanzania shillings)	1,193.7	1,168.1	1,233.6	1,303.6	1,417.5	1,492.3	1,576.0	1,648.1
Memorandum items:								
M3 growth (12-month percent change)	20.9	16.6	18.7	19.1	23.0	25.0	24.0	23.0
Foreign currency deposits (12-month percent change)	27.9	23.5	23.1	16.4	22.7	20.9	15.2	20.1
M2 growth (12-month percent change)	18.4	14.2	17.0	20.2	23.1	26.6	27.6	24.2
Credit to nongovernment sector (12-month percent change)	42.5	43.2	41.8	34.3	31.4	39.3	33.8	34.3
Reserve money (12-month percent change)	18.7	12.6	23.6	27.0	27.2	25.0	19.6	23.1
Currency/M3 (in percent)	23.9	23.2	21.1	21.7	21.7	23.0	21.7	21.0
Reserve money multiplier (M3/reserves)	3.0	3.0	3.1	3.2	3.2	3.1	3.2	3.2
Velocity of money (M3; average)	4.7	4.8	...	4.7	...	...	...	4.3
Velocity of money (M3; end-period)	4.1	4.2	...	4.3	...	...	...	3.9

Sources: Bank of Tanzania; and Fund staff estimates and projections.

Table 7. Tanzania: Balance of Payments, 2002/3-2007/8
(In millions of U.S. dollars, unless otherwise indicated)

	2002/03	2003/04		2004/05	2005/06	2006/07	2007/08
	Act.	Prog.	Est.	Prog.		Proj.	
Current account	-245.7	-619.4	-552.1	-746.3	-721.9	-881.6	-1118.9
Trade balance	-649.6	-999.0	-927.4	-1180.1	-1141.9	-1302.3	-1553.5
Exports, f.o.b.	1010.1	1141.3	1173.3	1276.5	1453.3	1590.3	1723.5
Traditional	223.7	258.2	221.2	243.7	287.6	313.6	339.8
Nontraditional	786.4	883.1	952.1	1032.8	1165.7	1276.7	1383.7
Imports, f.o.b	-1659.6	-2140.3	-2100.7	-2456.5	-2595.2	-2892.5	-3277.0
Services (net)	-52.9	-150.0	-138.3	-135.8	-161.0	-166.6	-175.9
Income (net)	-32.5	-44.5	-68.8	-34.5	-31.9	-33.1	-32.9
Of which: interest payments due	-73.5	-101.7	-124.5	-87.1	-76.1	-77.5	-76.6
o/w: interest on public debt	-62.2	-86.7	-80.4	-69.9	-56.1	-57.5	-56.2
o/w: interest on central government debt	-60.0	-73.6	-74.0	-66.2	-50.5	-51.8	-50.5
Current transfers (net)	489.3	574.1	582.5	604.0	612.9	620.4	643.5
o/w: official transfers	488.3	572.0	584.7	602.0	628.2	635.7	658.8
o/w: Program grants	290.3	353.5	364.7	380.5	385.5	402.6	420.8
o/w: HIPC Initiative relief grants	68.6	78.0	79.4	77.9	96.2	83.9	86.7
Capital account	294.5	306.2	309.7	327.9	325.0	375.0	445.0
o/w: project grants	264.4	268.9	271.1	289.3	290.0	340.0	410.0
Financial account	356.2	477.2	486.2	620.7	705.2	855.1	949.1
Direct investment	244.1	254.0	254.0	266.7	300.0	330.0	350.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	112.1	223.2	232.2	354.0	405.2	525.1	599.1
o/w: government scheduled amortization	-108.7	-114.6	-108.0	-123.2	-112.7	-109.6	-121.0
o/w: central government amortization	-102.5	-97.7	-92.9	-118.5	-101.4	-98.6	-108.9
Errors and omissions	35.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	440.2	164.0	243.9	202.3	308.2	348.6	275.2
Financing	-440.2	-164.0	-243.9	-202.3	-308.2	-348.6	-275.2
BoT reserve assets (increase, -)	-458.0	-160.9	-281.5	-161.5	-255.1	-289.4	-217.5
Use of Fund credit	4.6	-3.1	-3.1	-40.8	-53.2	-59.2	-57.7
Exceptional financing	13.2	0.0	40.7	0.0	0.0	0.0	0.0
Change in arrears (increase +) 1/	13.2	0.0	40.7	0.0	0.0	0.0	0.0
Debt rescheduled	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Gross official reserves (BoT)	1670.4	1831.3	1951.9	2113.4	2368.5	2657.9	2875.4
In months of imports of goods and services (next year)	6.8	7.0	7.0	7.2	7.3	7.4	7.5
Current account deficit (as percent of GDP)							
Excluding official current transfers	-7.3	-11.4	-10.9	-12.6	-11.2	-11.3	-11.9
Including official current transfers	-2.4	-5.9	-5.3	-6.9	-6.1	-6.6	-7.6
World Oil Price (U.S. $/barrel) 2/	26.9	25.0	31.2	32.0	29.3	27.5	26.6
Aid dependency 3/	10.1	12.0	12.1	13.3	12.5	12.5	12.5
Direct foreign investment (as percentage of GDP)	2.4	2.4	2.4	2.5	2.5	2.5	2.4
GDP 4/	10,077	10,449	10,449	10,738	11,923	13,268	14,765

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

1/ Arrears are on non-Paris Club official and commercial debt subject to rescheduling and currently under negotiation.

2/ Oil price is average of spot prices for U.K. Brent, Dubai and West Texas Intermediate. Projected oil prices are based on WEO projections.

3/ Program and Project assistance (BOP definition) as percentage of GDP.

4/ GDP numbers for Program columns have been changed to the currently revised levels for comparison purposes.

Table 8. Tanzania: Disbursements of Program Assistance, 2002/03- 2004/05 1/
(In millions of U.S. dollars)

	2002/03				2003/04					2004/05				2001/02	2002/03	2003/04	2003/04	2004/05
	Act.	Act.	Act	Act	Act	Act	Act	Prog	Est.	Proj.	Proj.	Proj.	Proj.	Act.	Act	Prog	Rev	Proj.
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	**FY**	**FY**	**FY**	**FY**	**FY**
Grants	**35.2**	**122.3**	**42.4**	**90.3**	**161.9**	**131.7**	**24.5**	**35.0**	**46.5**	**163.9**	**116.6**	**57.8**	**42.3**	**184.6**	**290.3**	**353.5**	**364.7**	**380.5**
Multilateral	0.0	0.0	0.0	42.8	32.6	39.0	0.0	0.0	0.0	0.0	36.0	0.0	0.0	46.7	42.8	61.1	71.6	36.0
EU PRBS grants 2/	0.0	0.0	0.0	42.8	0.0	39.0	0.0	0.0	0.0	0.0	36.0	0.0	0.0	33.0	42.8	29.1	39.0	36.0
EU grants for arrears' clearance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.8	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	32.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.0	32.6	0.0
Bilateral	35.2	122.3	42.4	47.5	129.3	92.8	24.5	35.0	46.5	163.9	80.6	57.8	42.3	137.8	247.4	292.4	293.1	344.5
PRBS 2/	14.7	101.5	27.3	7.1	101.1	72.1	13.4	0.0	15.0	127.0	35.8	38.4	0.0	101.8	150.5	175.9	201.6	201.2
Sweden	12.8	0.0	0.0	0.0	13.1	0.0	0.0	0.0	0.0	15.1	0.0	0.0	0.0	7.7	12.8	13.1	13.1	15.1
Netherlands	0.2	15.2	0.0	0.0	0.1	31.4	0.0	0.0	0.0	0.0	0.0	16.9	0.0	14.4	15.3	23.9	31.5	16.9
Ireland	0.0	5.9	8.3	0.0	0.0	0.0	10.3	0.0	8.9	0.0	0.0	7.0	0.0	0.0	14.2	8.9	19.2	7.0
United Kingdom	0.0	54.7	16.1	0.0	66.9	33.5	0.0	0.0	0.0	74.2	33.0	0.0	0.0	49.8	70.8	97.6	100.4	107.1
Norway	0.0	13.7	0.0	0.0	10.6	2.4	0.6	0.0	0.0	11.2	2.8	0.0	0.0	7.1	13.7	13.3	13.6	14.0
Finland	1.7	0.0	0.0	0.0	1.8	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	1.6	1.7	1.8	1.8	2.1
Denmark	0.0	11.0	0.0	0.0	6.2	4.8	0.0	0.0	0.0	7.8	0.0	3.1	0.0	11.9	11.0	10.2	11.0	11.0
Switzerland	0.0	0.0	0.0	6.1	0.0	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	5.0	6.1	0.0	0.0	6.0
Germany	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	5.8	0.0	0.0	0.0	0.0	0.0	4.7	6.1	5.8
Japan	0.0	1.0	2.9	0.0	0.4	0.0	0.0	0.0	0.0	4.9	0.0	0.0	0.0	4.2	4.0	0.4	0.4	4.9
Canada	0.0	0.0	0.0	1.0	2.1	0.0	2.3	0.0	0.0	0.0	0.0	11.4	0.0	0.1	1.0	2.1	4.4	11.4
Sectoral baskets	20.5	20.8	15.1	40.4	28.2	20.7	11.0	35.0	31.5	36.9	44.9	19.4	42.3	36.0	96.9	116.5	91.4	143.3
Belgium	0.0	0.0	0.0	0.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.3	4.3	0.0
Canada	0.3	0.3	7.4	0.0	0.0	0.0	0.0	4.7	4.7	0.0	0.0	1.9	9.5	0.1	8.0	14.7	4.7	11.4
Denmark	3.8	0.0	2.9	0.0	4.3	4.3	0.9	0.0	0.0	10.1	10.3	0.0	0.0	7.7	6.7	9.4	9.5	20.4
EU	0.0	0.0	0.0	14.0	0.0	0.0	0.0	7.6	7.6	0.0	0.0	0.0	26.7	0.0	14.0	17.6	7.6	26.7
Finland	0.0	0.0	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	2.0	2.6	1.5
Ireland	1.9	3.6	0.0	1.2	2.4	1.0	2.6	1.6	1.6	4.8	1.8	3.6	0.0	2.7	6.7	7.9	7.6	10.2
Netherlands	4.1	10.0	0.0	17.2	9.4	0.0	0.0	10.0	10.0	11.8	0.0	0.0	0.0	1.2	31.3	31.3	19.4	11.8
Norway	0.0	3.4	3.4	0.0	3.7	0.3	4.1	0.7	3.4	5.6	0.0	6.9	0.0	4.5	6.8	9.6	11.5	12.5
Sweden	0.0	0.0	0.0	6.3	0.0	5.8	0.0	9.9	4.3	0.0	12.1	1.3	4.4	4.5	6.3	10.2	10.0	17.8
Switzerland	0.0	2.0	0.5	0.0	2.2	1.4	0.0	0.5	0.0	2.9	1.5	0.0	0.0	2.3	2.5	3.7	3.7	4.4
United Kingdom	10.2	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.5	14.4	2.2	0.0	13.0	12.0	0.0	0.0	17.1
Germany	0.2	1.5	0.9	0.0	0.7	3.7	3.5	0.0	0.0	0.0	2.6	2.6	0.0	0.0	2.6	3.3	7.9	5.2
Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Italy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.2
France	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.0	0.0	0.0	0.0	2.6
Others	0.0	0.0	0.0	0.0	1.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	2.4	2.7	1.0
Loans	**2.4**	**0.0**	**45.1**	**98.3**	**102.2**	**28.6**	**30.1**	**0.0**	**40.0**	**202.0**	**0.0**	**18.0**	**70.0**	**92.2**	**145.8**	**209.6**	**200.9**	**290.0**
Multilateral	2.4	0.0	45.1	98.3	102.2	28.6	30.1	0.0	40.0	202.0	0.0	18.0	70.0	92.2	145.8	209.6	200.9	290.0
World Bank 3/	2.4	0.0	45.1	98.3	102.2	0.0	0.0	0.0	40.0	202.0	0.0	18.0	70.0	92.2	145.8	155.9	142.2	290.0
World Bank loans					100.4	0.0	0.0	0.0	40.0	192.0	0.0	0.0	0.0	92.2	145.8	155.9	140.4	192.0
World Bank basket loans					1.8	0.0	0.0	0.0	0.0	10.0	0.0	18.0	70.0	0.0	0.0	0.0	1.8	98.0
African Devlopment Bank	0.0	0.0	0.0	0.0	0.0	28.6	30.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	53.6	58.7	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total program assistance	**37.6**	**122.3**	**87.5**	**188.7**	**264.1**	**160.4**	**54.6**	**35.0**	**86.5**	**365.9**	**116.6**	**75.8**	**112.3**	**276.7**	**436.1**	**563.1**	**565.6**	**670.5**
Cumulative from beginning of fiscal year	37.6	160.0	247.4	436.1	264.1	424.5	479.1	563.1	565.6	365.9	482.5	558.2	670.5	...	...	...	...	...

Sources: Tanzanian authorities; and donors.
1/ Fiscal years run from July to June.
2/ Poverty reduction budget support.
3/ Including loan baskets.

Table 9. Tanzania: Status of HIPC Initiative Agreements by Creditor

	Debt Relief in Nominal Terms (Millions of U.S. dollars)	Agreement to Provide Relief Beyond HIPC?	Comments
Multilateral creditors			
IMF	120	n.a.	Provided grants through PRGF-HIPC Trust Fund. Average of 48 percent of debt-service payments.
AfDB/AfDF	190.7	n.a.	Debt service reduction of 80 percent annually until debt relief is delivered.
IDA/IBRD	1,157.1	n.a.	Debt-service relief of 69.1 percent and 63.6 percent on debts outstanding at end-June 1999 and 2001, respectively.
IFAD	24.5	n.a.	Reduction of 100 percent of debt -service due
BADEA	14.7	n.a.	Concessional rescheduling of the debt and reduced interest rate.
OPEC	9.8	n.a.	Concessionnal loan and restructuring of existing debt.
NDF	3.2	n.a.	Contribution to HIPC Initiative Trust Fund , to pay 100 percent debt service.
EADB	0.6	n.a.	Reduced interest rate and extension of repayment period.
EU	37.9	n.a.	Provided grants at the completion point to pay off outstanding loans.
Paris Club creditors			
Austria	31.3	Yes	Bilateral agreement for PC VII was signed on May 7, 2002.
Belgium	74.3	No	Bilateral agreement for PC VII was signed on November 29, 2002.
Brazil	0.0	Pending	Reminder letter to submit draft agreement for PC VII sent June 2, 2003. Awaiting reply.
Canada	31.1	No	Bilateral agreement for PC VII was signed on October 16, 2002.
France	89.9	Yes	Bilateral agreement for PC VII was signed on March 6, 2003.
Germany	56.2	Yes	Bilateral agreement for PC VII was signed on April 29, 2003.
Italy	132.0	Yes	Bilateral agreement for PC VII was signed on May 7, 2002.
Japan	108.9	Pending	Japan has cancelled 100% of ODA loans. They have not offered debt relief on commercial & part of bilateral debt (Japanese Food Agency) debts.
Norway	11.1	Yes	Bilateral agreement for PC VII was signed on December 5, 2002.
Netherlands	99.1	Yes	Bilateral agreement for PC VII was signed on March 17, 2002.
Russia	69.6	No	Bilateral agreement for PC VII was signed on July 18, 2003.
United Kingdom	129.2	Yes	Letter dated July 4, 2002 indicating amount of relief under PC VII.
United States	21.3	Yes	Bilateral agreement for PC VII was signed on July 4, 2002.
Non-Paris Club bilateral creditors			
Algeria	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Angola	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Bulgaria	15.1	No	Bilateral Agreement for PC comparable terms was signed on December 19, 2003.
China	37.7	n.a.	15 interest-free loans maturing December 31, 1999 cancelled.
Czech Republic	0	No	The debt has been assigned to Lazard.
Egypt	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Hungary	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Iran	0	No	Tanzanian delegation is currently conducting active negotiations.
Iraq	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Kuwait	n.a.	n.a.	Signed bilateral agreement on March 8, 2003. Rescheduled 9 pre-cutoff-date loans on concessional terms.
Libya	0	No	Tanzanian delegation is conducting active negotiations.
Romania	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
United Arab Emirate	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Yugoslavia	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Zambia	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Zimbabwe	0	No	Diminimus clause

Source: Bank of Tanzania.

Table 10. Tanzania: External Debt Indicators, 2001/02–2011/12 1/

After bilateral relief beyond the enhanced HIPC Initiative

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Debt Indicators at the HIPC Completion Point 2/											
NPV of debt-to-GDP ratio	14.2	14.7	14.8	14.8	14.9	15.1	15.1	15.1	15.0	14.9	14.9
NPV of debt-to-exports ratio 3/ 4/	105.2	112.1	115.6	117.0	117.3	117.5	116.8	116.2	115.2	114.3	114.4
NPV of debt-to-revenue ratio 5/	126.5	125.2	124.4	123.4	120.7	118.7	116.8	113.5	110.5	106.5	103.9
Debt-service-to-export ratio 6/	6.4	5.7	6.2	6.9	6.4	5.7	5.6	5.3	5.6	5.6	4.9
Debt service-to-revenue ratio 5/	8.0	6.6	7.1	7.9	7.1	6.3	6.0	5.6	5.8	5.6	4.8
Updated Debt Indicators 7/											
NPV of debt-to-GDP ratio	14.8	14.9	15.5	16.4	15.6	15.3	14.7	14.1	13.3	13.0	13.1
NPV of debt-to-exports ratio 3/ 4/	98.3	97.0	95.3	93.5	90.9	91.6	90.5	89.1	87.0	85.4	86.1
NPV of debt-to-revenue ratio 5/	122.3	123.2	120.6	120.9	113.6	109.2	105.3	100.5	87.5	85.6	85.9
Debt-service-to-export ratio 6/	6.0	4.8	5.1	5.8	5.3	4.8	4.7	4.3	4.6	4.7	4.1
Debt service-to-revenue ratio 5/	8.0	6.8	7.2	8.2	7.2	6.2	5.9	5.3	5.0	4.9	4.3
Memorandum items:					(In millions of U.S. dollars)						
NPV of debt after bilateral debt relief beyond enhanced HIPC Initiative assistance	1,386	1,501	1,621	1,758	1,866	2,036	2,177	2,311	2,432	2,552	2,722
Debt service after bilateral relief beyond enhanced HIPC Initiative assistance	90	83	97	119	119	115	122	122	138	147	137
GDP	9,378	10,077	10,449	10,738	11,923	13,268	14,765	16,430	18,284	19,615	20,844
Exports of goods and services	1,495	1,716	1,889	2,033	2,232	2,404	2,576	2,804	3,007	3,157	3,315
Exports of goods and services (3-year mvg. avg.)	1,411	1,547	1,700	1,879	2,051	2,223	2,404	2,595	2,796	2,989	3,160
Government revenue	1,134	1,219	1,343	1,454	1,643	1,863	2,067	2,300	2,779	2,982	3,168
Projected disbursements of new loans	...	315	341	389	275	418	365	348	350	354	443

Sources: Tanzanian authorities; and IMF staff estimates.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated. All years on July-June basis.
2/ Estimated in November 2001 based on end-June 2001 debt data.
3/ Based on a three-year average of exports (e.g., export average over 1999/00-2001/02 for NPV of debt-to-exports ratio in 2001/02).
4/ Assuming full delivery of HIPC Initiative assistance at end-June 2001.
5/ Revenue is defined as central government revenue, excluding grants.
6/ Based on current year exports.
7/ Estimated in June 2004 based on completion point debt data, new disbursements and other macroeconomic developments.
full delivery of enhanced HIPC Initiative assistance. It also assumes a higher level of projected new borrowing.

Table 11. Tanzania: Millennium Development Goals

	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates			
Population below $1 a day (%)	..	19.9	..	..
Poverty gap at $1 a day (%)	..	4.8	..	..
Percentage share of income or consumption held by poorest 20%	..	6.8	..	..
Prevalence of child malnutrition (% of children under 5)	28.9	30.6	29.4	..
Population below minimum level of dietary energy consumption (%)	35	49	43	..
2. Achieve universal primary education	2015 target = net enrollment to 100			
Net primary enrollment ratio (% of relevant age group)	51.4	47.7	54.4	..
Percentage of cohort reaching grade 5 (%)	78.9	81.3	..	..
Youth literacy rate (% ages 15-24)	83.1	87.1	91.1	91.6
3. Promote gender equality	2015 target = education ratio to 100			
Ratio of girls to boys in primary and secondary education (%)	95.5	96.7	100.3	..
Ratio of young literate females to males (% ages 15-24)	86.5	90.7	94.8	95.3
Share of women employed in the nonagricultural sector (%)	33.1	..	..	..
4. Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	163	164	165	165
Infant mortality rate (per 1,000 live births)	102	103	104	104
Immunization, measles (% of children under 12 months)	80	78	83	89
5. Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1,500	..
Births attended by skilled health staff (% of total)	43.9	38.2	35.8	..
6. Combat HIV/AIDS, malaria and other diseases	2015 target = halt, and begin to reverse, AIDS and other major diseases			
Prevalence of HIV, female (% ages 15-24)	..	..	8.1	..
Contraceptive prevalence rate (% of women ages 15-49)	9.5	18.4	25.4	..
Number of children orphaned by HIV/AIDS (thousands)	..	..	810	..
Incidence of tuberculosis (per 100,000 people)	..	..	344	362.7
Tuberculosis cases detected under DOTS (%)	..	61	47	43.1
7. Ensure environmental sustainability	2015 target = various			
Forest area (% of total land area)	45	..	43.9	..
Nationally protected areas (% of total land area)	..	15.6	15.6	29.8
GDP per unit of energy use (PPP $ per kg oil equivalent)	1.1	1.2	1.4	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Access to an improved water source (% of population)	38	..	68	..
Access to improved sanitation (% of population)	84	..	90	..
Access to secure tenure (% of population)	..	..	..	..
8. Develop a Global Partnership for Development	2015 target = various			
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.1	3.3	17.1	24.1
Personal computers (per 1,000 people)	..	1.7	3.6	4.2
General indicators				
Population (millions)	25.5	29.6	34.5	35.2
Gross national income (billions of $)	4.8	4.9	9.4	9.7
GNI per capita ($)	190	160	270	290
Adult literacy rate (% of people ages 15 and over)	62.9	69.2	76	77.1
Total fertility rate (births per woman)	6.3	5.7	5.3	5.0
Life expectancy at birth (years)	50.1	48.5	44.4	43.1
Aid (% of GNI)	28.8	17.1	13.7	13.2
External debt (% of GNI)	158.6	144.7	72.2	77.6
Trade (% of GDP)	50.1	59.3	39.2	40.3

Source: World Development Indicators database, April 2004

July 22, 2004

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. We recently held discussions with Fund staff on the second review of the economic programme supported by a three-year low access arrangement under the Poverty Reduction and Growth Facility (PRGF), which was approved by the Executive Board on July 28, 2003. The Government is committed to reducing the incidence of poverty in the country through the continued implementation of sound economic and financial policies necessary to maintain macroeconomic stability and achieve a higher rate of economic growth.

2. On behalf of the Government of United Republic of Tanzania, I hereby transmit the attached Memorandum of Economic and Financial Policies (MEFP), which reviews the implementation of the programme during fiscal-year 2003/04 (July-June) and describes the objectives and policies that the government intends to pursue during fiscal-year 2004/05 and over the medium term. The programme for 2003/04 has been implemented successfully and all the performance criteria and most benchmarks have been observed. I therefore request the completion of the second review and the third disbursement under the three-year PRGF arrangement. The fourth disbursement will be subject to a review expected to be completed in February 2005.

3. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the programme. In the course of implementing the 2004/05 programme, we will continue to provide the Fund with such information as the Fund may request. Tanzania will also consult with the Managing Director of the Fund on the adoption of any measures that may be appropriate, at the initiative of Tanzania, or whenever the Managing Director requests such consultation.

4. The Government of Tanzania intends to make the contents of this letter and those of the attached MEFP available to the public, and authorizes its publication and distribution together with all reports prepared by the Fund staff regarding the PRGF–supported program, subsequent to Executive Board completion of the review.

Yours sincerely,

/ss/
Basil P. Mramba (MP)
Minister for Finance

Attachment: Memorandum of Economic and Financial Policies

I. Memorandum of Economic and Financial Policies for 2004/05 and the Medium Term

A. Recent Economic Performance and Progress Under the Programme

1. The overall performance of the economy during 2003/04 was satisfactory, despite the severe drought that adversely affected food supplies and hydroelectricity generation. Preliminary National Accounts for 2003 indicate that GDP grew at 5.6 percent in 2003, and the overall annual inflation rate increased slightly from 4.4 percent in June 2003 to 6.4 percent in May 2004. The increase in the inflation rate resulted from pressure on food prices, following a protracted drought that has adversely affected food production and the sharp increase in oil prices. The increase in prices was moderated by imports of cereals and other foods.

2. The quantitative benchmarks and performance criteria on net domestic assets of the Bank of Tanzania, the net domestic financing of the Government, reserve money, and the net international reserves of the Bank of Tanzania for end March 2004 were observed with comfortable margins (Table 1). There was no accumulation of budgetary or external payments arrears, and no contracting or guaranteeing of new external debt on non-concessional terms. The structural benchmarks and performance criteria established for the period through June 2004 were observed, as described in Table 3, with the remaining benchmarks expected to be met within the envisaged time frame.

3. Overall fiscal performance during 2003/04 has also been affected by the drought, and the need to replenish food supplies through imports and to provide financial resources to enable the power company—TANESCO—to import oil to generate thermal power, following a reduction in hydroelectricity generation because of the drought. Notwithstanding drought related shocks, a significant advance was made in 2003/04 towards achieving a sustainable fiscal position. Revenue performance exceeded budget estimates with annual receipts estimated to be 3.9 percent higher-than-budgeted. The principal factors that contributed to the good performance during 2003/04 were: improvements in tax administration, particularly in the areas of income tax and VAT. More significant was the effect of measures adopted in 2003/04 to control tax evasion in the petroleum sector. With the better than projected revenue performance and a restraint on expenditure, other than priority Poverty Reduction Strategy (PRS) sectors, and drought related emergency needs, the overall budget deficit (after grants) is expected to be contained at 2.9 percent of GDP, compared with the programmed deficit of 3.8 percent of GDP. There has been improvement in budget execution and increased expenditure efficiency, both in the PRS sectors as well as in Other Charges of all Ministries, Departments and Agencies (MDAs). Government is therefore realising improvements in expenditure planning and implementation, which signal that the initial problems with understanding of the Procurement Act are lessening, while cash management of nonessential expenditure has been improved substantially.

4. Although Parliament approved a Supplementary budget in February 2004 and large expenditures for other emerging needs have been provided for, the government's recurrent expenditure was kept on track, as all MDAs experienced cuts on items such as travel allowances, seminars, workshops and purchase of vehicles. However, Government has ensured that expenditures on priority items in PRS sectors remained protected. The execution and reporting of capital expenditure financed by donors has also been improved during the fiscal year.

5. The over-performance of government fiscal operations indicates that the net domestic financing (NDF) target was met with big margin by end of 2003/04. The development partners front loaded disbursement of budget support funds in the first two quarters of the fiscal year, facilitating early allocation of funds to spending units. As a result of the better than programmed revenue, expenditure containment, and the external support broadly in line with programme estimates, the Government was able to meet its fiscal objectives for 2003/04 as agreed under the programme.

6. We have been proceeding with implementation of the planned tax policy and administration reforms. Following an extensive consultation with the stakeholders in April 2004, the Parliament approved the income tax bill, to be effective on July 1, 2004. The law will broaden the tax base and introduce self-assessment of the income tax. We have transferred tax files of additional large taxpayers to the large taxpayer department, which is being upgraded and reorganized along functional lines. Along with our decision to increase the VAT threshold from Tsh 20 to 40 million, this measure paves the way to a functional reorganization of the TRA headquarters.

7. In the area of public financial management, the Government has improved internal auditing function by putting in place audit committees, which are now operational in all MDAs. Training sessions are being conducted to sensitize the MDAs on the effective use of the committees. An internal audit manual has been finalised following stakeholders' comments, and is being published. The manual will be followed with training. A draft report on the review of internal audit staffing levels and assessment of skills and other resource requirements, has been prepared. Improvements in the National Audit Office (NAO) are underway including preparation of strategic plans with respect to core functions of departments and filling of key positions in the NAO.

8. Progress in public financial management at the local government level, includes the establishment of Local Government Authority (LGA) Tender Boards in compliance with the Local Government Regulations, 2003. In addition, a manual to assist the implementation of the Regulations has been prepared and training in Councils has been carried out. In the effort to roll out (IFMS) to LGAs, a central support mechanism for those LGAs, which are already implementing the Epicor software, has been launched and will soon be provided for all other LGAs. The fiscal years for Central and Local Governments have been integrated with effect from 2004/05 (July–June).

9. Monetary policy during 2003/04 was tightened, with broad money growth (on a year-on-year basis) decelerating to 18.7 percent at end-March 2004, from 22.7 percent at end-June 2003. Reserve money remained below the programme target throughout the three quarters ending March 2004, as the Bank of Tanzania mopped up liquidity through open market operations, including net sales of foreign exchange in the interbank foreign exchange market. With a view to improving further liquidity management and the conduct of monetary policy, the Bank of Tanzania introduced the intra-day and Lombard facilities in December 2003 to be accessible to commercial banks under the master repurchase agreements. Thus, during the first three quarters to March 2004, M2 grew by 17.0 percent, as growth in currency in circulation decelerated and corporate customers' deposits increased.

10. Credit to the private sector in domestic currency increased by 41.8 percent, fuelled in part by large corporations switching from borrowing abroad to borrowing domestically. The switching was mainly driven by the need to avoid exchange rate risks and to take advantage of reduced cost of borrowing domestically stemming from increased competition among commercial banks. Thus, the weighted average lending rate declined from 14.1 percent in June 2003 to 13.5 percent in March 2004. The weighted average deposit rate increased from 3.5 percent in June 2003 to 4.1 percent in March 2004, consistent with developments in the Treasury bills market, where the average weighted yields of all maturities increased from 6.5 percent in June 2003 to 7.6 in March 2004. Consequently, the margin between deposit and lending rates narrowed from 10.6 percentage points in June 2003 to 9.4 percentage points in March 2004. With rates ranging from 4.72 to 5.61 percent during the fiscal year through March 2004, and an inflation of about 4 percent, the 12-month time deposits rate was positive in real terms throughout the period under review.

11. Balance of payments developments during 2003/04 were largely in line with projections, recording substantial growth in both imports and nontraditional exports. However, the deterioration in the trade and current accounts was less than projected. Consequently the current account deficit is estimated at USD 552.1 million during 2003/2004, compared with the programme projection of USD 619.4 million, and from USD 245.7 million in 2002/03. The strong growth in imports (26.6 percent) was driven by an increase in the volume and the price of petroleum products and food imports. The drought experienced over most of the country reduced production of hydroelectricity and food supplies has increased imports of petroleum products for thermal power generation and food. Also, the anti-smuggling efforts resulted in an increase of the declared imports of petroleum. Growth in merchandise exports (16 percent) was characterized by an increase in non-traditional exports, particularly gold and manufactured products. Traditional exports remained depressed, although there were signs of a recovery in prices for coffee, cotton, tea and cashew nuts. Tourism receipts were higher than previously estimated. The overall balance of payments is expected to record a surplus of USD 243.9 million. Taking account of lower debt service payments and an increase in official programme loans and grants, gross international reserves reached USD 2,039.6 million in December 2003, but declined to USD 1,973.2 million by end of March 2004, the latter exceeding programme projections by USD 39.5 million.

12. The nominal exchange rate depreciated, from Tsh 1,050 per US dollar in December 2003 to Tsh 1,108.4 in March 2004; however, in real effective terms, the exchange rate remained about unchanged. Tanzania continues to maintain a freely floating exchange rate regime, with limited interventions for liquidity management and to smoothen wide fluctuations.

13. By the end of March 2004, the Government had signed bilateral agreements under Paris Club VII with all Paris Club creditors except Brazil, and some Japanese government agencies. The Government continued its efforts to negotiate with Non-Paris Club creditors for debt relief on terms comparable to those under the Enhanced HIPC framework. Recently, Bulgaria has joined Kuwait and Saudi Arabia in providing relief under the HIPC framework, and some debt relief dialogue has been initiated with India, Iran, and the Abu Dhabi Fund.

14. Government's recent progress in enhancing the environment for development of the private sector includes several initiatives. A Better Regulation Unit (BRU) has been established as a supportive unit for monitoring implementation of the Business Environment Strengthening in Tanzania (BEST) programme. The Unit is being strengthened with the newly seconded employees who have started to execute some activities under the first year plan. The recruitment of a CEO is expected by July 2004 to be followed by recruitment of the Lead advisor. A draft work plan for the Commercial Dispute Resolution (CDR) component under BEST is being finalised. As part of the proposed reforms, the designing of a new civil procedure code is underway and a draft has been circulated to stakeholders for consultation. The Business Licensing Reform has been approved by the Government following the consensus of stakeholders. The time in which to obtain a license will be reduced to two days and license fees will be reduced. The Ministry of Industries and Trade's main role is limited to assessing and administering applications. The implementation plan for Small and Medium Enterprises (SME) policy is under stakeholder consultation, and zonal workshops are ongoing. The first phase of the Labour Law Reform was approved by Parliament in April 2004. It addresses employment relations, collective labour relations, dispute resolutions, and labour market institutions. This measure will contribute to improving the environment for investment and domestic bank lending.

15. The Government has continued its effort to promote good governance in line with the Poverty Reduction Strategy and the National Anti Corruption Strategy and Action Plan (NACSAP) 2003-05. Quarterly reports are being prepared depicting progress made in the implementation of the MDAs' anti-corruption plans. There has been significant improvement in MDAs' reporting. The Good Governance Coordination Unit (GGCU) in the President's Office has commissioned work to include more quantitative and qualitative data in areas of monitoring and controlling public procurement, public finance and legal and judicial processing. This data is expected to provide guidance for future policy reform on governance. In addition, in order to ensure that complaints from the public are adequately addressed, a revision of the code of conduct for public servants has been carried out in consultation with stakeholders and has been published. Human and financial resources capacity to coordinate and implement the NACSAP is being addressed under the Public Service Reform Programme (PSRP). The Public Procurement Act, No. 3 of 2001, is due for

amendment during the current budget session of Parliament, as part of Public Financial Management Reform Programme (PFMRP).

16. The Government continues to implement the PSRP in order to improve public service delivery. This will be achieved through the Government's long-term plan of capacity building as well as pay reform which is performance-orientated. To improve public sector remuneration in line with the medium term reform programme, wages were increased by 13 percent in 2003/04. In addition, following re-evaluation in January 2004, the mechanism for Selected Accelerated Salary Enhancement (SASE) will continue in four ministries (Health, Finance, President's Office—Public Service Management, and President's Office—Planning and Privatisation). As part of performance monitoring and evaluation, the Government is implementing a range of performance based instruments including annual plans, performance budgets, service delivery surveys (SDSs) and open performance appraisals. The annual operating plans and action plans for 5 ministries and 8 executive agencies are being finalized based on self-assessment and service delivery surveys (SDSs).

II. THE MEDIUM TERM OUTLOOK AND THE PROGRAMME FOR 2004/05

A. Poverty Reduction Strategy (PRS) Review

17. The cycle of Tanzania's original Poverty Reduction Strategy Paper is now complete with the publication of the third and final Progress Report in January 2004. The report was discussed by stakeholders during the Poverty Policy Week, held in November 2003. It included results from Tanzania's second Poverty and Human Development Report (PHDR). Newly researched areas that were included in the PHDR include urban poverty, vulnerability and the geographic distribution of poverty, which is important in informing Government's policy on poverty reduction. The report emphasizes that sustained economic growth remains key for better implementation of the Poverty Reduction Strategy (PRS), particularly ensuring that the benefits from growth are realised for the poor in rural areas where the majority of the population live. Some of the main findings in the report are that constraints facing agriculture require actions with regard to financing mechanisms, investment and provision of support services; regional diversity and inequality should be addressed through appropriate budgetary allocation mechanisms as well as provision of an enabling environment for domestic and foreign investment; and for sectors like roads, more effective coordination machinery between the central and local governments in the maintenance of roads needs to be developed with clearly assigned responsibilities. Sectors like education need a greater focus on quality and public-private partnership in provision of post-primary education and in health greater focus is needed on provision of services to the rural population as well as HIV/AIDS. Furthermore, data on crosscutting issues such as vulnerable groups of society and the environment need to be further developed.

18. We are currently preparing the second cycle PRS to be finalized by the end of 2004, with the aim of updating the current PRS including, its objectives and its priority sector approach. The PRS will focus on outcomes, service delivery, growth and employment

creation and elaboration of the integration of the Millennium Development Goals into the PRS. Stakeholders' views will be incorporated through a participatory process that will involve all levels including grassroots level. Studies have been commissioned on macro-micro linkages and vulnerability, which are expected to be completed by June 2004. In addition, the findings from the Agriculture Survey, 2003 will improve income poverty assessments as will a planned second Household Budget Survey to be conducted during the second cycle of the PRS, as outlined in the Poverty Monitoring Master Plan.

19. The Tanzanian economy continues to be dominated by agriculture, which is also the source of livelihood for about 80 percent of the population. The small size of farms, inadequate use of technology, and dependency on rain are the main obstacles to meaningful transformation of the sector and the rural communities. In addition to recent reforms of land law, abolition of nuisance taxes at the local government level, and existing tax relief for agricultural inputs, the Government will take additional measures during 2004/05 aimed at attracting large scale investment in the sector. They include increasing funding for implementing the District Agricultural Development Plans (DADPs), subsidy for transportation of fertiliser in the main cereal producing regions, increased funding for agricultural research and extension services, and strengthening and rationalization of the export credit guarantee scheme.

B. Growth and Inflation Objectives

20. Real GDP growth is projected at 6.3 percent in 2004 and 6.5 percent in 2005. It is based on the expected recovery in agriculture and a further pick up in manufacturing and continued growth in manufacturing for exports, including exports of products from the Export Processing Zones and the SMEs. Following the slowdown towards end-2003, wholesale and retail trade, including tourism, are expected to expand strongly as a result of increased investment. Over the medium term, GDP growth is projected to rise to 6.9 percent in 2006 and to 7.4 percent by 2007. The annual inflation rate is projected to decline to 4.0 percent by the end of 2004/05, and stabilize at about that level over the medium term.

21. To improve statistical transparency, the Government will continue to publish reliable statistics in a timely manner. The Government recognises that the current Consumer Price Index (CPI), whose basket is based on the 1991 household survey, is outdated. A new series of CPI with a basket based on the 2002 survey will be introduced soon.

C. Fiscal Policy for 2004/05

22. Government's fiscal policy in 2004/05 and the medium term continues to be aimed at increasing the resource envelope, reducing dependency on foreign aid assistance, financing the PRS and maintaining foreign and domestic debt sustainability.

23. Tax policy in fiscal year 2004/05 will be geared towards increasing revenue yields in order that Tanzania moves forward in its aim of reducing dependency on foreign aid assistance. Following a number of tax reform measures introduced in the past year and a range of further measures, as discussed below, the programme for 2004/05 assumes a revenue to GDP ratio of 13.5 percent, compared with 12.9 percent for the estimated outturn of 2003/04. The projection has been made on a cautious basis, and we expect that, if all the reform measures are effectively implemented and our macroeconomic objectives are attained, revenue collections are likely to be closer to 14 percent of GDP. In that event, the additional receipts will be channeled to additional outlays on non-PRS priority areas, which are being tightly constrained.

24. Key policy actions being taken consistent with our tax reform programme, as detailed in previous letters to the Fund are:

- Proceeding with the reorganization of the TRA along functional lines, while substantially expanding the coverage of the Large Taxpayer Department;

- Increasing all non-petroleum specific excise tax rates by the rate of inflation;

  Increasing the VAT registration threshold from TSh 20 million per annum to TSh 40 million to improve compliance and cost effectiveness;

- Abolishing stamp duty on receipt for individuals who pay presumptive income tax and increasing the threshold for presumptive tax in a compensatory manner;

- Continuing the Treasury Voucher system as the main instrument of administering exemptions; and considering its possible expansion to donor-funded projects following consultations with development partners;

- Improving the efficiency of TRA operations through computerization, improved personnel practices including training, and improved communication with the public.

25. In addition, we are introducing the following reform measures to improve operations of the customs:

- Reducing the release times by extending the hours of operations of the customs with the simultaneous review of the release bottlenecks of other agencies;

- Improving overall revenue controls by routing all eligible imports through the destination inspection procedure, which will provide a Single Bill of Entry (SBE); enhancing the post-clearance audit and verification unit; transmitting master manifests from arriving vessels directly to customs; and creating an intelligence unit at customs;

- Further reducing the smuggling of petroleum imports, particularly by introducing flow meters at the port of entry.

26. Revenue is also expected to benefit from implementation of the new Income Tax Act, which became effective July 1, 2004. The implementing regulations for the Act provide, among other things, for the limitation of the Minister's authority to grant exemptions to emergencies and subject to approval of the cabinet. In the context of the ongoing comprehensive review of tax laws, we will submit to Parliament amendments to these laws limiting discretionary powers to grant exemptions from import and excise duties. In addition we will amend the Tanzania Investment Act so as, among other things, to limit the applicability of the fiscal stability clauses to at most five years, without contravening existing agreements. Moreover, we are reviewing the legislation governing the operations of the mining sector, including whether the existing tax regime is appropriate. Also, we will continue to license only those companies for Export Processing Zones (EPZs) that have access to preferential trade agreements, and will not add any companies to the list of strategic investors maintained by the Tanzania Investment Center.

27. Expenditure policy in 2004/05 and in the medium term aims mainly at financing the PRS and ensuring that Government's policy commitments made to various stakeholders are consistently reflected in expenditure allocations. Medium term expenditure policy continues to be in line with the PRS. In the programme for 2004/05, expenditure on PRS sectors accounts for 46 percent of total expenditure. This level of expenditure is achieved despite exceptional requirements in the energy sector and costs related to the preparation for the upcoming elections. In addition, a new formula-based recurrent expenditure allocative system has been adopted in order to facilitate greater strategic allocation of intergovernmental grants to LGAs. For 2004/05, the formula has been used to allocate resources for the health and education sectors. Local government development expenditure budgets for these sectors have also been similarly allocated.

28. Recurrent expenditure is projected at 18.9 percent of the GDP compared to 16.8 percent in fiscal year 2003/04, the increase being largely in the PRS and energy sectors. The civil service wage bill has been enhanced in 2004/05 to 4.4 percent of GDP, compared with 4.1 percent in 2003/04. In addition to allowing for new recruitments in priority sectors, the increase will move the level of the wage bill toward the medium term pay reform target of 4.8 percent of GDP. Total poverty related expenditures are projected at Tsh 1,479 billion (11.9 percent of GDP) in 2004/05, compared with 9.9 percent of GDP in 2003/04.

29. Projected foreign financing of development projects in 2004/05 continues to reflect the improvement in the reporting and recording system for donor assistance, as well as start

of some big new projects, such as the Secondary Education Development Programme, Central Corridor Road Project, and National Sports Stadium, the three of which will attract substantial foreign financing commitments in 2004/05.

30. The programme includes a provision of TSh 125 billion (gross of assistance from the World Bank's emergency power supply project) or one percent of GDP as a transfer to TANESCO to cover the deterioration in its finances resulting from the drought, higher oil prices, and the financial impact of past investment decisions taken by Government. The Government recognizes the temporary nature of the budget support to TANESCO in fiscal year 2003/04 and the urgency of helping TANESCO to achieve financial sustainability. To this end, a 4.3 percent tariff increase was implemented effective May 1, 2004. In addition, TANESCO's Board of Directors will make necessary tariff adjustments up to a maximum of 5 percent every six months, in order to cover costs. Following an agreement with stakeholders, the Government has completed the buy down of Allowance for Funds Used During Construction (AFUDC) for the Songo Songo project, which reduces TANESCO's operating costs significantly. With continued improvement in operation and financial efficiency, timely tariff adjustments, and financial support from the World Bank, TANESCO is on the way to be self-sustainable. The Government is committed to place TANESCO's finances on a sustainable basis by 2005/06, without recourse to budgetary transfers other than for external debt service.

31. Taking account of net foreign financing, donor grants, and some privatization receipts, net domestic financing for 2004/05 will be limited to TSh 157 billion, or 1.3 percent of GDP. In the medium term, Government intends to ensure that the net domestic financing ratio is contained below 0.8 percent of GDP. We believe this goal is attainable as a number of outlays this year are of a one-off nature, notably the subsidies for energy and provisions for the elections.

D. Public Expenditure Management, Expenditure Execution and Tracking

32. The cash management system for 2004/05 is expected to continue to be aided by front loading of programme assistance like in the previous year. Cash budgeting remains the main tool for managing resource releases to MDAs, with allocations to priority sectors continuing to be made on quarterly basis. The government will continue to produce its expenditure reports based on the Integrated Financial Management System (IFMS). In order to better capture foreign financed development expenditures in the IFMS, the Accountant General will ensure that MDAs submit reports on quarterly basis. In addition, the quarterly budget execution reports for 2004/05 will reflect expenditure for the priority sector items in order to improve transparency of execution at detailed levels of expenditure.

33. The government remains committed to ensuring that there is no accumulation of budgetary arrears. To this end the government will continue to monitor the payment of bills and assess the MDA's quarterly reports for any undisputed bills outstanding for more than three months.

E. Reduction of Fiduciary Risk

34. During 2004/05, the Government will focus on three reform areas in order to reduce fiduciary risk and minimize resource leakage. These include public financial management, government procurement reform, and promotion of good governance.

35. The Government seeks to secure effective and sustainable financial management systems that support an equitable delivery of public services. Such arrangements are intended to reduce and minimize resource leakages as well as strengthening accountability of public funds. Effort in this regard targets implementation of the Public Financial Management Reform Programme (PFMRP) as the main instrument for reducing fiduciary risk of budget support. In this regard, the government will consolidate and deepen implementation of the revised public financial management reform programme. The government has already appointed the programme manager—and a programme component manager prepared the interim plan of work and budget—and is finalizing procedures for establishing the programme secretariat and appointment of the program coordinator.

36. Procurement reforms include the submission to Parliament of amendments to the Procurement Act in June 2004. Following the amendments, the Central Tender Board will be transformed into a Public Procurement Regulatory Authority operating as an Executive Agency and rolling out the procurement process to MDAs thereby reducing the burden on the central agency, streamlining its functions to overseeing of procurement functions and allowing it to focus on policy reforms. The decentralisation reform will also facilitate speed in procurement by spending units. The Chairperson and Executive Secretary to the Board have been appointed and a Procurement Appeals Authority has also been established.

37. Recognising the role of good governance in the fight against poverty, the Government will increase the human and financial resources available to the Good Governance Coordination Unit (GGCU) to improve the effectiveness of its role in coordinating and implementing the NACSAP. Quarterly dialogue with stakeholders on good governance will be initiated to enhance debate on policy reforms and the quarterly reports on NACSAP implementation by MDAs. To enhance the level of anti-corruption activities at the local government level, funding for anti-corruption action plans for all LGAs is included in the 2004/05 budget to facilitate the implementation of LGAs action plans by 2005/06. The Government is also in the process of preparing a new anti-corruption law. With a view to maintaining the transparency regime, we will continue to publish all exemptions granted to companies, individuals, and NGOs under the Treasury voucher scheme.

F. Monetary Policy

38. Monetary policy objectives for the year 2004/05 will continue to be directed towards maintaining low and stable inflation, to ensure the maintenance of macroeconomic stability. The Bank of Tanzania will maintain the appropriate level of liquidity and will mop up excess liquidity, including the excess liquidity emanating from capital and aid flows. The capacity

to forecast bank liquidity on a daily basis, including developing a framework for projecting government operations on a daily basis, will be strengthened with a view to improving overall liquidity management. In this regard the operationalisation of the Tanzania Interbank Settlement System (TISS), on April 8, 2004, which enables all large taxpayers to make payments electronically and directly into the Government accounts at the BoT is expected to substantially improve the forecasting liquidity.

39. The monetary programme for 2004/05 targets reserve money to increase from Tsh 812 billion at the end of June 2004 to Tsh 1,001 billion at the end of June 2005. Accordingly, M3 is projected to grow by 23 percent, while M2 would grow by 24 percent. Growth of credit to the private sector would be 34 percent.

40. Last year, together with the IMF and the World Bank, we undertook an overall review of our financial system in the context of the FSAP. That assessment indicated that Tanzania's financial system is liquid, well-capitalized, and resilient to shocks. The system has achieved significant improvements in recent years, including the establishment of a competitive financial structure through the entry of a large number of new banks, a reduction in interest rate spreads, a substantial increase in private sector credit, and a reduction in credit to the government as a percent of overall assets of the financial system. Furthermore, these developments are underpinned by favourable indicators of bank soundness including a declining trend in non-performing assets. However, the FSAP concluded that the financial system plays a limited role in the economy and its current depth and efficiency must be improved to help support economic growth.

41. Building on this assessment, we are undertaking a comprehensive reform to remove the main obstacles to lending to private sector, deepen financial intermediation, and help develop the financial system. In March 2004, the Government established an interagency, interministerial financial sector reform committee to oversee the FSAP reform agenda. This committee is chaired by the Governor of the BoT, and includes the Permanent Secretaries for Finance of the Union and Zanzibar governments, Commissioner of Insurance, CEOs of all pension funds, and representatives of commercial banks through the Tanzania Bankers Association (TBA). The committee held its first meeting in May 2004, to establish its terms of reference, and to form technical working groups in the areas of bank supervision, financial markets, micro-finance, policy analysis, insurance, pension funds, and employment and labour. These groups will complete sector action plans by end-2004 at the latest. Implementation of each plan will begin upon completion.

42. Consistent with the FSAP findings, we have initiated efforts to enhance access, reform government-owned financial institutions, undertake legal and judicial reforms, strengthen bank regulation and supervision, promote microfinance, and take other measures consistent with our goals in this area. With a view to further improving the availability of medium-term credit to key sectors of the economy, in particular agriculture, the government is considering options to introduce a development finance guarantee facility for such credit, in partnership with commercial banks, consistent with the objective of enhancing private-sector led financial intermediation. An export credit guarantee scheme established in 2002

has proven effective in boosting credit to export-oriented sectors of the economy, and has not resulted in a weakening of the procedures for the assessment of credit worthiness of the involved commercial banks or in any recourse to government guarantees, thus far. The export credit guarantee scheme is market based and fully funded, but is not yet large enough to be transferred to an autonomous agency outside the BoT, as intended.

43. In establishing a new development finance guarantee facility, government will ensure that it: (i) operates on market principles, is fully funded, and protects public resources (ii) includes transparent regulations and procedures, particularly in the selection process for companies seeking to benefit from the guarantees, and (iii) includes appropriate risk-sharing between the government and commercial banks. With a view to establishing the new facility under best practices, the government has requested the Fund and the World Bank to provide assistance on the modalities of establishing the system as rapidly as possible, and intends to request financial assistance from development partners to provide the initial funding for a self-sustaining facility.

44. The BoT will continue to monitor the restructuring and/or privatisation of state-owned banks, including National Microfinance Bank (NMB), the Peoples Bank of Zanzibar (PBZ), Tanzania Postal Bank (TPB) and Tanzania Investment Bank (TIB). Following the expression of interest in NMB by several commercial banks, groups and associations, a number of potential investors have been pre-qualified. Information memoranda are being prepared and all pre-qualified bidders will soon have access to the data-room. We will issue final bid instructions by December 2004. The preparation for the restructuring of PBZ is at advanced stage, while the initial diagnostic studies for the restructuring of TIB and TPB have been completed.

45. After the amendment of the Land Act in February 2004, the Government will accelerate land surveys and modernize the land registry to enable commercialization of land leases and facilitate their use as collateral for bank loans. Other measures to improve access to credit include the establishment of a credit bureau by the Tanzania Bankers Association. In addition improvements will be introduced to facilitate the speedy and effective enforcement of commercial contracts.

46. To enhance the independence of the Bank of Tanzania and to modernize further the banking system, the Government will review and amend the Bank of Tanzania Act 1995 and the Banking and Financial Institutions Act 1991. It is intended that any amendments to these Acts considered necessary will be submitted to Parliament by February 2005 at the latest. During 2004/05 the BoT will put in place the regulatory and supervisory framework for microfinance institutions, following the amendments of the Banking and Financial Institutions Act, 1991 and the Bank of Tanzania Act 1995 implemented in the past two years. Under the amendments related to microfinance, the BoT is empowered to regulate and supervise the activities of all microfinance institutions, including all savings and credit societies and schemes.

47. The Banking and Financial Institutions Act, 1991 was amended in 2003 to empower Bank of Tanzania to regulate and supervise the activities of all savings and credit societies and schemes whose deposits have surpassed a specified threshold. The law was also amended to facilitate the provision of long-term finance to the productive sector, for example by allowing operation of housing finance companies. To further improve bank regulation and supervision, the BoT will continue to review all prudential regulations and circulars with a view to relaxing unduly constraining regulations and tighten loopholes, a process that is expected to be completed by December 2004. Subsequently new circulars will be issued, consistent with the revised Bank of Tanzania Act. The BoT will review the minimum core capital for non-bank financial institutions and regional banks, will also develop new prudential regulations on areas of cross border supervision and consolidated supervision, and will assist the Government in implementing anti-money laundering measures and combating financing of terrorism. The BoT also intends to work towards the adoption of a risk based supervisory framework to enhance its banking supervisory effectiveness and efficiency, and will improve its banking system information system (BSIS). The Government will continue implementing the recommendations of the Financial Action Task Force (FATF) under the East and Southern African Anti-Money Laundering Group (ESAAMLG) in order to strengthen the measures that combat anti-money laundering and financing of terrorism. During 2004/05 the Government will adopt a regulatory and supervisory framework for microfinance and will strengthen and modernize the supervisory framework for insurance companies.

G. External Sector Issues

48. On the external front, exports are expected to increase moderately to US$1,276.5 million with a continued strong performance in the mining and manufacturing sectors and a modest pick-up of traditional exports. Given the end of the drought and the projected stabilization of oil prices, a lower, albeit still strong, import growth rate is expected to push imports to about US$2,456 million. The resulting moderately higher current account deficit, offset by higher aid inflows, is expected to result in an increase in gross international reserves of US$161.5 million to US$2,113.4 million by the end of next fiscal year. The BoT will continue to allow the exchange rate to be market determined and limit their interventions to liquidity management, and smoothing out excessive fluctuations.

49. Efforts to enhance efficiency and export performance continue to be pursued by the Government through trade liberalization mainly within the framework of the East African Community (EAC) and SADC. In this regard, in March 2004 the Presidents of Kenya, Uganda and Tanzania signed a protocol for the establishment of the EAC customs union. The protocol establishes a common external tariff (CET) and substantially reduces non-tariff barriers between the member states. The member states are committed to reducing the top CET to 20 percent after 5 years. The protocol will come into force after it has been ratified by the Parliaments of the three member states. Moreover, in a move to further eliminate existing non-tariff barriers, the government is committed to phasing out the remaining suspended duties currently imposed on a limited number of imported commodities.

H. Private Sector Development

50. The Government continues in its efforts to foster private sector development. Preparation of the Private Sector Development (PSD) Strategy which mainstreams SME development is under way. Implementation of selected activities under the PSD strategy is expected to commence by November 2004. In line with the approved business license reform proposal, the Government will implement the system by initiating one-year pilot phase of the new business licensing system in Dar es Salaam starting FY 2004/05. The system is expected to limit the time it takes to obtain a license to two days. Following successful implementation of the pilot phase, the system will be rolled out country-wide.

51. Regarding reforms in Labour Law, the Government will put more efforts to operationalise the Law. Under the BEST programme, drafting is currently underway of Phase II of the labour legislation, which includes occupational safety and health, worker's compensation, and employment promotion. It is expected to be submitted to Parliament by November 2004.

Table 1. Tanzania: Quantitative Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, June 2003 - June 2004

	2003								2004				
	June		September			December			March			June	
	Estimate	Actual	Performance Criteria	Adjusted	Actual	Rev. Benchmark	Adjusted	Actual	Performance Criteria	Adjusted PC	Preliminary Actual	Rev. Benchmark	Estimate
	(In billions of shillings; end of period)												
Net domestic financing of the government of Tanzania (ceiling) 1/ 2/	-14	-36	-150	-146	-183	-267	-265	-252	-118	-60	-171	83	-18
Accumulation of budgetary arrears (ceiling; benchmark only)	0	0	0		0	0		0	0		0	0	0
Net domestic assets of the Bank of Tanzania (ceiling; benchmark only) 2/	-557	-592	-584	-580	-799	-731	-728	-832	-703	-644	-725	-600	-695
Reserve money (ceiling)	693	640	764		688	826		783	808		803	813	813
	(In millions of U.S. dollars, unless otherwise indicated; end of period)												
Net international reserves of the Bank of Tanzania (floor) 3/	1,196	1,179	1,287	1,284	1,416	1,480	1,478	1,534	1,438	1,385	1,454	1,346	1,444
Accumulation of external payments arrears (ceiling) 4/	0	0	0		0	0		0	0		0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (ceil	0	0	0		0	0		0	0		0	0	0
Memorandum item:													
Foreign program assistance (grants and loans) 1/	464	436	267		264	424		425	528		479	563	566

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the technical memorandum of understanding (TMU) attached to the government's letter of July 22, 2004.

1/ Cumulative from the beginning of the fiscal year (July 1).
2/ To be adjusted upward for the Tanzania shilling equivalent of any shortfall in foreign program assistance from the amounts shown in the memorandum item. Figures are different from BOT (NDA) in the monetary authorities' accounts, as they are adjusted for the program exchange rate.
3/ To be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item.
4/ Continuous performance criterion; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 2. Tanzania: Quantitative Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, June 2004 - June 2005

	2004				2005	
	June		September	December	March	June
	Rev. Benchmark	Estimate	Performance Criteria	Indicative targets	Indicative targets	Indicative targets
	(In billions of shillings; end of period)					
Net domestic financing of the government of Tanzania (ceiling) 1/ 2/	83	-18	-122	-63	48	157
Accumulation of budgetary arrears (ceiling; benchmark only)	0	0	0	0	0	0
Net domestic assets of the Bank of Tanzania (ceiling; benchmark only) 2/	-600	-695	-1,117	-1,064	-903	-867
Reserve money (ceiling)	813	813	875	979	960	1,001
	(In millions of U.S. dollars, unless otherwise indicated; end of period)					
Net international reserves of the Bank of Tanzania (floor) 3/	1,346	1,444	1,700	1,740	1,642	1,646
Accumulation of external payments arrears (ceiling) 4/	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (cei	0	0	0	0	0	0
Memorandum item:						
Foreign program assistance (grants and loans) 1/	563	566	366	483	558	671

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the technical memorandum of understanding (TMU) attached to the government's letter of July 22, 2004.
1/ Cumulative from the beginning of the fiscal year (July 1).
2/ To be adjusted upward for the Tanzania shilling equivalent of any shortfall in foreign program assistance from the amounts shown in the memorandum item. Figures are different from BOT (NDA) in the monetary authorities' accounts, as they are adjusted for the program exchange rate.
3/ To be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item.
4/ Continuous performance criterion; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 3. Tanzania: Structural Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, December 2003-June 2004

Measure	Date of Implementation	Status
Tax policy and administration		
Final consideration by Parliament of the new Income Tax Act, consistent with paragraph 30 of the letter of intent. 1/	April 2004	Observed
Implementation of a function-based Large Taxpayers Department that integrates VAT and income tax administration, and completion of transfer of an additional 100 large taxpayers to the LTD. 2/	June 2004	Observed
Announcement of revision of the value-added tax (VAT) threshold to reduce the number of VAT taxpayers, together with the abolition of remaining stamp duties on receipts, and revision of the threshold for the presumptive tax accordingly. 1/	June 2004	Observed
To curtail tax exemptions, no new companies will be added to the list of strategic investors maintained by the Tanzania Investment Center, and no companies will be licensed for the export processing zone, other than as specified in paragraph 47 of the letter of intent. 2/	Continuous	Partially observed
Financial sector reform		
Establishment of an interagency, interministerial financial sector reform committee to oversee FSAP reform agenda. 1/	March 2004	Observed
Introduction of short-term collateralized Lombard facility. 2/	March 2004	Observed
Governance		
Publicizing of the list of companies, individuals, and NGO's that have received tax exemptions each quarter, as specified in paragraph 31 of the letter of intent. 2/	Quarterly	Observed

1/ Performance criterion.
2/ Structural benchmark.

Table 4. Tanzania: Structural Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, July 2004-June 2005

Measure	Date of Implementation
Tax policy and administration	
Develop a plan to introduce a computerized risk management system aimed at expediting customs clearance primarily through reducing significantly the number of shipments that are physically inspected. 1/	end-December 2004
Submit to Parliament an amendment of the Tanzania Investment Act, to limit the applicability of fiscal stability clauses to at most 5 years. 1/	end-February 2005
Financial sector reform	
Issue final bid instructions for the sale of the National Microfinance Bank (NMB). 2/	end-January 2005
Submit to Parliament amendments to the Bank of Tanzania Act and the Banking and Financial Institutions Act. 2/	end-February 2005
Governance	
Draft anti-corruption strategies and action plans to be completed for all Local Government Authorities and submitted for final government approval. 1/	end-June 2005
Publicizing of the list of companies, individuals, and NGO's that have received tax exemptions each quarter under the Treasury voucher scheme. 1/	Quarterly
Promulgate the implementing regulations for the new Income Tax Act, consistent with para. 26 of the LOI. 1/	end-September 2004

1/ Structural benchmark.
2/ Performance criterion.

Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the PRGF-Supported Program

July 22, 2004

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 the quantitative performance criteria and benchmarks under the Poverty Reduction and Growth Facility (PRGF)-supported program, as laid out in Table 2 of the government's letter of intent of July 22, 2004 to which this TMU is attached.

Net international reserves

2. Net international reserves (NIR) of the Bank of Tanzania (BoT) are defined as reserve assets minus reserve liabilities. The BoT's reserve assets include (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) holdings of foreign exchange, including the Tanzanian government's Poverty Reduction Budget Support (PRBS) and foreign currency deposits at the BoT, and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guaranteed for a third-party external liability (assets not readily available). The BoT's reserve liabilities include (i) all short-term foreign exchange liabilities to nonresidents, and (ii) all liabilities to the IMF. Reserve liabilities exclude medium and long-term foreign liabilities.

Net domestic assets and reserve money

3. Net domestic assets (NDA) of the BoT are defined as the BoT's reserve money minus its net foreign assets (NFA). Reserve money is defined as the sum of currency issued by the BoT, including the vault cash of commercial banks, and the deposits of the commercial banks with the BoT. Net foreign assets (NFA) of the BoT consist of its NIR and its medium- and long-term foreign liabilities. For purposes of deriving NDA from reserve money and NFA, the latter are converted into Tanzania shillings at the program exchange rate.

Net domestic financing of the government of Tanzania

4. Net domestic financing of the Government of Tanzania (NDF) includes financing of the budget of the central (union) government of Tanzania ("government") by the banking system (BoT and commercial banks) and the nonbank public. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of (i) loans and advances to the government by the BoT (excluding liquidity paper issued by the BoT for monetary policy purposes) minus all government deposits with the BoT; (ii) loans and advances to the government by the commercial banks minus all government deposits held with the banks;

and (iii) the outstanding stock of domestic debt to nonbanks excluding: government debt issued for the recapitalization of the NBC and the NMB; 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. The items constituting NDF are provided in the attached Table 1.

Government deposits

5. Government deposits at the BoT include government deposits as reported in the BoT balance sheet, and foreign currency-denominated government deposits at the BoT, including the PRBS account and the foreign currency deposit account.

6. Government deposits with commercial banks include the new Songas liquidity facility.

External payments arrears

7. External payments 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.

Contracting or guaranteeing of external debt on nonconcessional terms

8. The term "debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)). Government debt is outstanding debt owed or guaranteed by the Government of Tanzania or the Bank of Tanzania (but does not include debt of any political subdivision or government-owned entity with separate legal personality that is not otherwise owed or guaranteed by the Government of Tanzania).

9. Government debt is considered nonconcessional if the grant element is lower than 35 percent, calculated using discount rates based on Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRR), adjusted as appropriate for different maturities. This performance criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)), but also to commitments contracted or guaranteed for which value has not been received.

Budgetary arrears

10. Budgetary arrears are defined as new arrears accumulated during the fiscal year on wages, domestic interest, and goods and services.

Foreign program assistance

11. Foreign program assistance is defined as grants and loans received by the Ministry of Finance through BoT accounts 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.

Adjusters

Net International Reserves

12. The quantitative targets for the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance, relative to projections shown in Table 2 of the government's letter of intent of July 22**,** 2004. For purposes of illustration, program adjustor calculations are shown in attached Table 2.

Net Domestic Assets

13. The quantitative limits on the BoT's net domestic assets will be adjusted upward for any shortfall in foreign program assistance in U.S. dollars, converted into Tanzania shillings at the average quarterly exchange rate (see attached Table 2).

Net Domestic Financing

14. The quantitative limits on net domestic financing of the Government of Tanzania will be adjusted upward for any shortfall in foreign program assistance in U.S. dollars, converted into Tanzania shillings at the average quarterly exchange rate (see attached Table 2).

DATA REPORTING REQUIREMENTS

For purposes of monitoring the program, the government of Tanzania will provide the data listed below.

15. Reporting of developments in relation to the program's benchmarks and performance criteria to be provided monthly:

Table of Quantitative Performance Criteria and Benchmarks (LOI, Table 2).

Table with the Structural Benchmarks and Performance Criteria (LOI, Table 4). The column of this table, labeled "Status," will be updated on a monthly basis with a view to monitor progress with the structural benchmarks and performance criteria.

16. Other data to be provided monthly, quarterly, or other frequency of compilation:

Table on priority sector expenditure targets and performance.
The balance sheet of the BoT.

The consolidated balance sheet of the commercial banks.
The monetary survey.
Commercial banks--domestic lending by borrowing sectors.
Commercial banks--interest rate structure.

The flash report on revenues and expenditures.
The TRA revenue report.
The Monthly Domestic Debt Report.
Monthly report on Central Government Operations.

The external cash flow statement, including details on payments of interest and principal on government external debt.
Exports and Imports.
Balance of payments:

The published consumer price index report of the National Bureau of Statistics (NBS).

The annual national accounts statistics in constant and current prices as prepared by the NBS.

Table 1. Tanzania: Calculation of Net Domestic Financing of the Budget
(In billions of T Sh)

1	Net bank claims on government (2+6)
2	Bank of Tanzania (Net) (3+4+5)
3	Advances
4	Securities and bills
5	Government Deposits (as reported by BoT)
6	Commercial Banks (Net) (7+8+9)
7	Advances
8	Securities and bills
9	Government Deposits
10	Adjustments to deposits (11+12+13+14)
11	NBC Special Bond
12	PRBS account 1/
13	Foreign currency deposits of the government 1/
14	Liquidity Facility
15	Deposits for budget financing (5+9-10)
16	**Net adjusted bank claims on government (1-10)**
17	Domestic Debt Report Ministry of Finance (18+19+20+21)
18	Stocks
19	Bonds
20	Treasury bills
21	Other 2/
	Less:
22	Securities held by banks
23	Other 3/
24	**Nonbank Financing of the Budget 4/ (17-22-23)**
25	**Total Domestic Financing (16+24)**
26	**Change in Net Domestic Financing**
27	From preceding quarter (item 25)
28	From end of preceding fiscal year -- June 30 (item 25)

Source: Monetary Survey and balance sheets BoT and banks; Domestic Debt Report Ministry of Finance.

1/ Adjustment to BoT balance sheet to include balances as government deposits rather than foreign liabilities.
2/ Includes duty drawback scheme, tax reserve certificates, sales agreement LAPF, and NSSF-Mabibo Hostel Agreement 2002/2012. Excludes mortgage on acquired sisal estates, compensation claims, and debt of parastatal companies assumed by the government.
3/ Includes NBC Special Bond, and debt swaps with COBELMO (Russia) and the government of Bulgaria.
4/ Nonbank financing is calculated as the residual.

Table 2. Tanzania: Calculation of the Program Adjuster
(Program for the year 2004/05)

	I. Adjustor to NIR floor
	Programmed foreign financing (in millions of U.S. dollars)
1	For the period
2	Cumulative since June 30
	Actual net foreign financing (in millions of U.S. dollars)
3	For the period
4	Cumulative since June 30
	Shortfall (-)/excess (+) (in millions of U.S. dollars)
6	For the period (3-1)
7	Cumulative since June 30 (4-2)
8	Adjuster to floor NIR (=7)
9	NIR Benchmark/performance criterion
10	**NIR Adjusted benchmark/performance criterion, floor (9-8)**
	NIR Actual
	II. Adjuster to NDF and NDA ceilings
11	Average period (qtrly) actual exchange rate (T Sh / US$)
	Shortfall (-)/excess (+) (in billions of T Sh)
12	For the period (6*11/1000)
13	Cumulative since June 30
	NDF:
14	Benchmark/performance criterion
15	**Adjusted NDF performance criterion ceiling (14-13)**
	Actual NDF
	NDA:
16	Benchmark/performance criterion
17	**Adjusted NDA benchmark ceiling (16-13)**
	Adjuster to actual NDA for different exchange rate:
18	Program exchange rate (e.o.p.)
19	Actual NIR in U.S.dollars millions (BOT)
20	in T sh. billions, at program exch. rate (18*19/1000)
21	Medium- and long-term foreign liabilities
22	Reserve money (actual)
23	**Adjusted actual NDA (22+21-20)**

Tanzania: Relations with the Fund
(As of May 31, 2004)

I. Membership Status: Joined 09/10/62; Article VIII

		SDR million	% Quota
II.	**General Resources Account:**	SDR million	% Quota
	Quota	198.90	100.00
	Fund holdings of currency	188.90	94.97
	Reserve position in Fund	10.00	5.03
III.	**SDR Department:**	SDR million	% Allocation
	Net cumulative allocation	31.37	100.00
	Holdings	0.09	0.29
IV.	**Outstanding Purchases and Loans:**	SDR million	% Quota
	Poverty Reduction and Growth Facility	288.34	144.97

V. Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	08/16/2003	08/15/2006	19.60	5.60
PRGF	04/04/2000	08/15/2003	135.00	135.00
PRGF	11/08/1996	02/07/2000	181.59	181.59

VI. Projected Obligations to Fund (without HIPC assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	18.79	38.32	46.32	46.61	42.89
Charges/interest	1.69	1.80	1.59	1.34	1.12
Total	20.48	40.12	47.91	47.95	44.01

Projected Obligations to Fund (with Board-approved HIPC assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	14.26	31.40	40.43	39.32	35.70
Charges/interest	1.69	1.80	1.59	1.34	1.12
Total	15.95	33.20	42.02	40.66	36.81

VII. Implementation of HIPC Initiative:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	Apr 2000
Assistance committed (NPV terms)[1]	end-June 1999
Total assistance (US$ million)	2,026.00
Of which: Fund assistance (SDR million)	88.95
Completion point date	11/21/01
Delivery of Fund assistance (SDR million)	
Amount disbursed	88.95
Interim assistance	26.68
Completion point balance	62.27
Additional disbursement of interest income[2]	7.45

VIII. Safeguards Assessments:

The safeguards assessment of the Bank of Tanzania (BoT), which was completed on December 5, 2003, found that, while the bank had a relatively strong internal control environment, some vulnerabilities existed, notably in the external audit and financial reporting areas. In order to mitigate these vulnerabilities, staff recommended that the BoT should: (i) contract annual external audits that are conducted in accordance with International Standards on Auditing; (ii) adopt International Accounting Standards as the financial reporting framework; (iii) establish a formal process of reconciling accounting data to the program data reported to the Fund; (iv) publish the full audited financial statements on a timely basis, within five months of the financial year's end; and (v) adopt an audit charter for the internal audit function to strengthen audit methodologies and procedures. Implementation of recommendations has been slower than expected, and the authorities are working with FIN on a revised schedule.

[1] Net present value (NPV) terms at the decision point under the enhanced framework.

[2] Under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) Initiative, an additional disbursement is made at the completion point corresponding to interest income earned on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

IX. Exchange Arrangements:

The currency of Tanzania is the Tanzania shilling. The official exchange rate is determined on the basis of the rate established in the interbank market for foreign exchange. The middle rate in terms of the U.S. dollar, the intervention currency, was T Sh l,107 per U.S. dollar as of June 30, 2004. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultation:

The most recent Article IV consultation was concluded on November 18, 2002 (Country Report No. 03/1).

XI. Technical Assistance, 2001–2004:

Departments	Timing	Form	Purpose
Fiscal Affairs	March 2001	Mission	Fiscal decentralization
	May 2001	Short-term consultant	Translation of government accounts and operationalization to the standard classifications
	October 2001	Mission	Report on Observance of Standards and Codes (ROSC) fiscal transparency module and preparation of an assessment and action plan for tracking poverty-reducing expenditure
	2001–02	Long-term consultant	Strengthening of fiscal analysis at the Ministry of Finance
	October 2002	Mission	Tax administration
	2002 – 03	Long-term consultant	Public expenditure management
	Mar. – May 2003	Peripatetic advisor	Tax administration
	April 2003	Mission	Inspection and tripartite review
	June – Sep. 2003	Long-term consultant	Public expenditure management
	Sep. – Oct. 2003	Peripatetic advisor	Tax administration
	Oct 2003	Mission	Tax administration
	November 2003	Multicountry mission	EAC tax harmonization
	April 2004	Mission	Customs administration
	July 2004	Peripatetic advisor	Tax administration
Legal	Oct. 2002 – Jan 2003	Mission	Income tax law
	July 2004	Mission with MFD	Central and commercial bank legislative reform
Monetary and Financial Systems	March 2001	Mission	Monetary policy operations
	2003-04	Long-term consultant	Banking supervision and regulation
	Feb. 2003	Mission	FSAP premission
	June 2003	Mission	Payments systems workshop
	November 2003	Mission	FSAP follow-up workshop

	January 2004	Mission	Payment system workshop
	March 2004	Mission	Accounting and Banking Supervision
	April 2004	Mission	Bank supervision- AML/CFT
	June/July 2004	Mission	BoT Accounting
Statistics	May 2002	Mission	Balance of payments statistics
	2002 – 03	Long-term consultant	Multisector statistics
	October 2002	Mission	Data ROSC
	June 2003	Mission	Government finance statistics course

XII. Resident Representative:

Mr. Ali Abdi has been the Senior Resident Representative since October 2001.

Tanzania: Relations with the World Bank Group

Partnership in Tanzania's development strategy

The government of Tanzania's development strategy is set forth in its poverty reduction strategy paper (PRSP) and further refined in the first, second and third progress reports, which were endorsed by the Bank's Board on November 27, 2001, May 29, 2003 and June 2, 2004, respectively. The PRSP focuses on three main areas of outcomes. The first is a reduction in the breadth and depth of income poverty. The outcome targets include a reduction in basic needs poverty and food poverty, with a particular focus on rural areas, where poverty is most prevalent. The second area is that of improving the quality of life and social well-being. More specifically, this entails improving human capabilities, enhancing longevity and survival, and social well-being (social inclusion and personal security), improving nutrition, and containing extreme vulnerability (mainly through safety nets). The third broad area is an environment conducive to development that can be sustained. The environment encompasses macroeconomic stability and good governance.

The IMF is supporting Tanzania's poverty reduction efforts in the context of the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Among external partners, the Fund takes the lead in the policy dialogue with the government on macroeconomic policies, including overall fiscal and monetary policy. Under the PRGF arrangement, in addition to macroeconomic targets, the Fund has agreed with the authorities on structural performance criteria relating to reforms in the areas of tax policy and administration, public debt management, financial transparency and good governance, trade policy, and financial sector development. As outlined more fully below, the Bank's support is complementing the Fund's through a focus on sectoral reforms in the context of projects and analytic work and the Poverty Reduction Support Credit (PRSC-2) covering the areas of private sector and rural development, macro-economic stability, public expenditure management, fiduciary systems, poverty monitoring, and environment.

Bank Group strategy

The current Country Assistance Strategy (CAS) for Tanzania was approved by the Bank's Board on June 15, 2000. To ensure alignment with the new PRSP, which the government intends to complete by the end of 2004, the next CAS will be presented to the Board in 2005 following the completion of a new PRSP. The focus of the current CAS is on higher economic growth, poverty reduction, and institutional reforms to improve governance. It conforms with the government's main strategy of adherence to macroeconomic stability, increased private sector participation in the economy, a renewed emphasis on rural development, and an improved delivery of social services. It also supports the government's desire to enter into new relationships with its development partners, based on the phased switching from projects to programs for more effective and efficient use of aid resources.

The Bank is providing support for the implementation of the PRS through a Poverty Reduction Support Credit and Grant (PRSC), which was approved by the Bank's Board on

May 29, 2003. The operation has been prepared in close collaboration with eleven other donors, who provide financial assistance through the Poverty Reduction Budget Support (PRBS) facility, using a joint performance assessment framework and a common review process. The focus of the PRSC/PRBS is on scaling up pro-poor growth, especially through a focus on rural development and improvements in the business environment. The PRSC/PRBS also supports the strengthening of public expenditure management and public service delivery, especially in the priority sectors for poverty reduction, and the operationalization of an appropriate monitoring and evaluation system to enhance the accountability for results and outcomes of sectoral programs. The PRSC2 is scheduled to be presented to the IDA Board during the first quarter of FY05.

IDA also provided adjustment lending through PSAC1 and implementation has been satisfactory. The last tranche of the credit in the amount of SDR 29.85 million which supported government's privatization program and reforms of the regulatory framework was disbursed in May 2004. The implementation of policy reforms agreed upon under PSAC1 and the PRSC is supported by a series of technical assistance and investment projects. These include project support to improve tax administration, reform the public sector, and develop the financial sector, including rural finance and microfinance.

In the social sectors, the Bank has approved an adjustment lending operation in support of primary education (US$150 million). The objectives of the program include improving education quality, expanding school access, and increasing school retention at the primary level. Bank support in this area has already facilitated a significant increase in primary school enrollment. The Bank contributes to the health sector multidonor "basket fund," which supports reforms of the sector and provides funding for nonwage expenditures. A multisectoral HIV/AIDS project supports Tanzania's efforts to reduce HIV transmission and mitigate the adverse consequences of AIDS. In the water sector, a project that will support technical, commercial, and financial rehabilitation of the water supply and sanitation services in Dar es Salaam was approved by the Bank's Board on May 27, 2003. A sectoral adjustment credit to support enhanced access to and quality of secondary education has been approved by the Bank's Board in June 2004.

In the agriculture sector, the Bank supports policy reforms through analytical work and the policy dialogue under the PRSC. The Bank also provides support to strengthen research and extension services. A Participatory Agricultural Development and Empowerment project credit was approved by the Bank's Board on May 27, 2003 to support investments in appropriate technologies to reduce soil fertility decline.

Efforts to improve Tanzania's infrastructure are supported through projects in the road and railway sectors, as well as an urban rehabilitation project. A credit in the amount of US$ 122 million to support (a) upgrading of strategic road links, (b) enhancing road management capacity, and (c) improving operations of Tanzanian Railways (TRC and TAZARA) is expected to be presented to the Bank's Board in April 2004. The policy dialogue focuses on the preparation of a new Road Act which will provide the basis for strengthening the policy and institutional framework for road development and maintenance.

In the power sector, the Bank has helped the government implement the Power Sector Restructuring Program. The Bank has encouraged the government to develop the domestic gas market and to generate lower-cost power through the Songo Songo Gas Development and Power Generation project. To prevent prolonged, severe electricity load-shedding due to an extended drought affecting Tanzania's predominantly hydropower system, and the consequent negative economic impact and disruption of social services, the Bank is preparing an Emergency Power Supply Credit in the amount of US$ 45 million has been approved by the Bank's Board in June 2004.

The IFC's portfolio includes investments in agriculture, agro-processing, banking and financial services, and tourism in the amount of US$37 million. Over the next three years, potential investments in the magnitude of US$20–30 million in private infrastructure and financial institutions, and to provide financing and capacity-building support to small and medium-sized Tanzanian enterprises are expected. MIGA's current exposure in Tanzania includes four guarantees in the infrastructure, telecommunications, and mining sectors totaling US$175 million gross and US$70 million net exposure.

Tanzania joined the World Bank Group in 1962. Beginning with an IDA credit for education in 1963, a total of 130 credits, 3 grants and 27 loans, totaling US$4.86 billion (US$4.3 billion from IDA) have been provided to Tanzania. Total disbursements amounted to US$4.0 billion as of May 31, 2004 (some US$3,619 million from IDA, US$355 million from the IBRD and US$ 35.0 million from IDA Grant). Currently, the portfolio comprises 27 active projects, with commitments of US$1.5 billion in all major sectors. As of May 31, 2004, the undisbursed balance for the portfolio stood at US$757 million.

Bank-Fund collaboration in specific areas

The IMF and World Bank staffs maintain a close collaborative relationship in supporting the government's structural reforms. As part of its overall assistance to Tanzania—through lending, country analytic work, and technical assistance—the Bank supports policy reforms in the following areas in collaboration with the Fund:

- **Public expenditure management.** Improvements in public expenditure management have been one of the top priorities of the Tanzanian government since 1995. The Bank, the Fund, and other donors have worked closely to provide the government the needed support for institutional and policy reforms. While the Fund is leading the dialogue on fiscal policy, the Bank is focusing on strategic resource allocation and operational efficiency of public expenditures. In the area of overall fiscal policy, the reduction of domestically financed deficits has resulted in sustained macroeconomic stability over the past five years. To enhance strategic resource allocation and operational efficiency, the Bank is supporting a government-led, participatory public expenditure review/medium-term expenditure framework (MTEF) process that has supported the strengthening and opening up of the budget process as well as the allocation of resources to pro-poor priority areas. In addition to process, support and analytical work in this area, the Bank is also supporting policy reforms through the PSAC and PRSC. Another area of Bank involvement is the fiscal decentralization process, where, in addition to ongoing analytical work, project support is planned to start in 2005 through the Local Government Support Project. The Bank and Fund collaborate closely to support institutional budget and expenditure management reforms. A recent Country Financial Assessment Analysis (CFAA), carried out in a collaboration of the Bank, other donors, and the government, an IMF Report on the Observance of Standards and Codes (ROSC), and a joint Bank/IMF assessment of capacity to track poverty-reducing expenditure have all noted the improvements in public financial management and fiduciary systems in recent years. The Bank also prepared a Country Procurement Assessment Report, which provides an agenda for strengthening procurement systems in Tanzania.

- **Tax policy and administration reform.** A relatively small and stagnant domestic revenue effort is a severe constraint on Tanzania's efforts to improve public service provision and to fully finance the implementation of the poverty reduction strategy. The Bank and the Fund have over the past few years expended significant effort to enhance the domestic revenue effort. While the Fund has taken the lead in reforms and adjustments of tax policy, the Bank has taken the lead in reforms to strengthen tax administration.

- **Financial sector reforms.** Tanzania has been engaged in far-reaching reforms of the financial sector. The Bank and the Fund have been working closely to support these policy reforms. In addition to its contribution to the policy dialogue, the Bank has provided significant technical assistance for financial sector reforms. This includes two financial institution development projects that support, respectively, the withdrawal of the government from banking and nonbanking financial institutions and the strengthening of financial sector supervision. Successful outcomes of these reforms include the privatization of Tanzania's largest bank and the entry of a fairly large number of international banks into the Tanzanian market. Other areas of Bank involvement include the reform of the capital and securities authority, reform of pension systems, and liberalization of capital accounts. Through a separate project, the Bank supports the development of rural and microfinance services. A joint Bank/Fund Financial Sector Assessment was completed in June 2003.

- **Public service reform and improved service delivery.** In recent years, the government of Tanzania, with support from the Bank and other donors, has launched a number of major initiatives to improve performance and to foster greater accountability, transparency, and integrity in the public sector. These include (i) the Public Service Reform Program, (PSRP), (ii) the Local Government Reform Program, (iii) the Public Finance Management Reform Program, (iv) the National Anti-Corruption Strategy and Action Plans for Tanzania, (v) the National Framework on Good Governance, delineating a comprehensive approach to improve governance, (vi) the establishment of a Good Governance Coordination Unit (GGCU) in the President's Office, and (vii) the launch of the Legal Sector Reform Program. Among these reforms, the PSRP plays a central role since its objective is to improve the accountability, transparency, and resource management of service delivery. The program is closely linked with other major reforms in public finance and decentralization. The PSRP aims at transforming the public service into a service that has the capacity, systems, and culture for client orientation and continuous improvement. Cooperation between the Bank and the Fund covers those areas where public sector reform has a direct impact on fiscal stability and public sector financial management.

- **Trade reforms.** The Bank and the Fund are working closely to assist Tanzania in establishing a pro-growth trade framework. While the Fund is focusing on reforms of the tariff regime, the Bank is focusing on trade expansion though its regional trade facilitation project. The Bank is also involved at the regional level in the dialogue on trade reforms in the context of the East African Community.

A. TANZANIA: Financial Relations with the World Bank Group

Statement of Loans and Credits
(As of May 31, 2004;
in millions of U.S. dollars)

	IBRD	IDA	IDA GRANT	TOTAL
Original Principal	361.03	4,372.37	127.00	4,860.40
Cancellations	5.47	231.58	0.00	237.06
Disbursed	355.55	3,619.44	35.04	4,010.04
Undisbursed	0.00	659.67	97.72	757.40
Repaid	354.43	340.36	0.00	694.80
Due	1.02	3,509.26	0.00	3,510.28
Exchange adjustment	0.44	0.00	0.00	0.44
Borrower's obligation:	1,465.00	3,509.26	0.00	3,510.72
Sold third party:	0.09	6.20	0.00	6.29
Repaid third party:	0.09	6.20	0.00	6.29
Due third party:	0.00	0.00	0.00	0.00

World Bank Desk Officer: Robert Utz, Senior Economist (202-473-0612)

Tanzania: Statistical Issues

Although adequate for program monitoring purposes, Tanzania's statistical economic and financial database remains weak, despite considerable technical assistance and recent progress in some areas. The authorities are fully cooperative in providing available data to Fund missions in a timely manner.

Tanzania has few statistical publications and no fully articulated publication policy. Little data is reported for Zanzibar. The authorities are committed to improving the production and dissemination of macroeconomic and socio-demographic statistics in the framework of the General Data Dissemination System (GDDS). In October 2000, a GDDS multisector statistics mission conducted a detailed assessment of Tanzania's statistical systems and provided guidance on statistical practices and development in the areas of national accounts, price, foreign trade, balance of payments, fiscal, monetary, and socio-demographic data. Tanzania is a participant in the GDDS; its metadata were initially posted on the IMF's Dissemination Standards Bulletin Board (DSBB) in July 2001 and last updated in September 2002, except for the fiscal sector that was updated in August 2003. A mission to prepare the data module for a Report on the Observance of Standards and Codes (ROSC) was completed (October 8-23, 2002). This report was published in March 2004.

National accounts

National accounts statistics are prepared by the National Bureau of Statistics (NBS) on the basis of data collected by its regional offices and by other government entities. There are weaknesses regarding: the data sources for compiling the estimates by expenditure category; the external sector data, and the indicators used to extrapolate benchmark production levels. These deficiencies impede the accurate estimation of the savings-investment relationship. To improve the quality of the national accounts, the authorities, with help from donors, are in the process of rebasing the national accounts from 1992 to 2001. It is expected that the new series, using data from the recent agricultural census and the 2000/01 household budget survey, will be published in the 2004/05 fiscal year.

Prices

The NBS compiles a monthly consumer price index based on consumer expenditure in 20 urban centers. Since mid-May 1996, data have been reported within three weeks after the end of the month. The authorities intend to start publishing the new consumer price index in July 2004 using new weights calculated from the 2000/01 household budget survey data. A key change will be the reduction of the weight given to food from 71.2 percent to around 55 percent. In addition, the authorities plan to publish regional price indices and to expand the producer price index series.

Government finance statistics

Although monthly data on central government revenue, expenditure, and financing are provided to Fund missions on a timely basis, concepts in use differ from the international standards in the treatment of lending minus repayments, and transfer payments. Despite improvements in the recording of government transactions, discrepancies remain between revenue and expenditure data, on the one hand, and financing data, on the other. This seems to be related to the different sources used for these data. The coverage of the central government sector in the fiscal data appears to be different from that in the monetary data. Following the creation by the Ministry of Finance, with donor assistance, of a database of donor-funded projects in 2001/02 (July-June), the amount of foreign-financed projects reported by and channeled through the budget has increased significantly. No information is yet provided on the financial position of local governments, although the authorities stated that there were plans to produce these reports.

The government has recently completed the computerization of its accounting system for budgetary units, which the authorities indicate would allow resumption of reporting in the *Government Finance Statistics (GFS) Yearbook*. However, the computerized accounting system does not provide details of the nature of development expenditure and has not yet been extended to cover the extrabudgetary units.

Monetary statistics

The October 2002 ROSC data module mission determined that the quality of monetary statistics was compromised by various methodological problems, in particular the exclusion of rural banks and nonbank deposit-taking institutions, the incomplete subdivision of the resident sector data owing to an inadequate sectorization of various accounts in the bank reporting system, the lack of market-based valuations of foreign securities, and, finally, the treatment of accrued interest in a highly aggregated manner.

To address these problems, the mission recommended that the Bank of Tanzania (BoT): (i) extend the coverage to all depository corporations; (ii) revise the bank report forms to permit for a more detailed scheme for sectorizing resident sector data; (iii) modify the bank reporting system to emphasize appropriate sectoral distinctions between various accounts; (iv) revalue foreign securities on a regular basis at market-based prices; and (v) sectorize accrued interest.

Balance of payments statistics

Foreign trade data are prepared by Fund staff missions on the basis of customs data from the BoT. The foreign trade data are compiled by the Tanzania Revenue Authority (TRA) based on customs records. A balance of payments statistics mission (May 8-21, 2002) found that there continued to be a significant under-recording of trade and that information on invisible transactions is sparse. The authorities have acknowledged these problems in their response to the ROSC report published in March 2004, and have indicated that the BoT plans to commission a joint study by the NBS and TRA to determine the magnitude of under-recorded trade and design an appropriate method of estimation. This study is expected to take place in 2005/06.

Tourism revenue is estimated on the basis of data records of the foreign international exchange transactions reporting system (ITRS). However, a Tourism Survey was recently introduced and the results are expected to be released in late 2004.

Information on official grant and loan receipts is prepared by Fund staff through contacts with official agencies. The data on current and capital transfers (grants) are estimates, based in part on data provided by the Ministry of Finance and, in part, on United Nations Development Program (UNDP) projections. Disaggregation of the data has improved, but more work is needed here and in the coverage and periodicity of data.

Data on private capital flows are presently quite weak. While some information on private banking sector flows can be derived from the monetary survey, other private capital flows are not adequately captured through the ITRS records and are reflected in "errors and omissions." However, the authorities have made commendable progress in collecting information, for the first time conducting a survey in 2000 of private capital flows and stocks, particularly foreign direct investment transactions covering direct investment income, equity capital transactions—including the noncash acquisition of equity—and intercompany loans. The authorities have also updated the registry of enterprises with foreign equity capital. The 1999 data obtained from the 2000 survey of private capital flows, which show significantly higher levels of inward direct investment than indicated in the ITRS records, has been incorporated into the balance of payments statistics beginning in late 2003. A second survey of Private Capital Flows was undertaken in late 2002, covering data for 2000 and 2001. The results of this survey are expected to become available during 2004.

Data on the gross and net official reserves of the BoT are provided monthly with a short lag and more frequently on request. Similarly, data on foreign assets and liabilities of the banking system are provided with relatively short lags.

Significant improvements in the quality of external debt data have been made in the context of the creditor reconciliation exercise under the HIPC Initiative. At present, all multilateral and Paris Club debts (accounting for about 80 percent of total external debt) have been fully reconciled. However, little progress has been made in reconciling debt owed to other bilateral and commercial creditors. Information on external debt not guaranteed by the public, mostly private sector debt, is also limited and not captured in a timely manner.

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Tanzania: Core Statistical Indicators

As of June 30, 2004

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports[1]	Current Account Balance	Overall Government Balance[2]	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	5/2004	5/2004	5/2004	5/2004	5/2004	5/2004	5/2004	4/2004	4/2004	4/2004	2003	4/2004
Date received	6/2004	6/2004	6/2004	6/2004	6/2004	6/2004	6/2004	6/2004	6/2004	6/2004	5/2004	6/2004
Frequency of data [3]	D	M	M	M	M	M	M	M	A	M	A	O
Frequency of reporting [3]	D	M	M	M	M	M	M	M	A	M	A	O
Source of data [4]	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting [5]	E	E	E	E	E	C	E	E	E	C	M	E
Confidentiality [6]	C	D	D	D	C	C	C	C	C	D	C	C
Frequency of publication [3]	D	M	M	M	M	M	M	M	A	M	A	A

1/ Based on Bank of Tanzania data.
2/ Contains only partial information on the development budget.
3/ Codes for frequency of data, frequency of reporting, and frequency of publication are the following: **D**-daily; **W**-weekly; **M**-monthly; **Q**-quarterly; **A**-annually; and **O**-other.
4/ Code for source of data is **A**-direct reporting by central bank, Ministry of Finance, or other official agency.
5/ Codes for mode of reporting are the following: **C**-cable or facsimile; **E**-electronic data transfer; and **M**-mail.
6/ Codes for confidentiality are the following: **C**-for unrestricted use; and **D**-embargoed for a specified period and thereafter for unrestricted use.

Statement by the IMF Staff Representative
August 6, 2004

This statement describes developments since the staff report was issued on July 23, 2004. These developments do not change the thrust of the staff appraisal.

Recent data indicate that economic and financial developments remained broadly in line with the program. Year-on-year inflation at end-June 2004 stood at 6.3 percent, with food price inflation at 8 percent. Reserve and broad money growth in June 2004 remained below earlier projections, largely on account of tight liquidity management by the Bank of Tanzania, while credit to the private sector continued its strong growth. The estimated budget outturn for FY 2003/04 was broadly in line with the program. Revenue exceeded projections by about 0.1 percent of GDP, largely due to higher income tax receipts, and, as a result, net domestic financing is expected to have remained below staff projections.

The nominal exchange rate of the shilling to the U.S. dollar appreciated to about TSh 1095 at the beginning of August, from TSh 1107 at end-June 2004. This reflected mainly the impact of foreign exchange sales by the Bank of Tanzania to mop up excess liquidity.

At the request of the Tanzanian authorities, a Bank/Fund technical assistance mission visited Tanzania in July to provide advice on the authorities' proposed expansion of their credit guarantee scheme. The mission stressed the importance that any such scheme operate based on market principles, include transparent regulations and procedures, consider fiscal implications, and provide for appropriate risk-sharing. The authorities welcomed the mission's contributions, and looked forward to further dialogue on this issue before finalizing their plans.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second Review Under Tanzania's PRGF Arrangement and Approves US$4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Tanzania's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 03/127). This decision will entitle Tanzania to the release of a further SDR 2.8 million (about US$4 million) under the arrangement, and will bring the total disbursements under the program to SDR 8.4 million (about US$12 million).

Following the Executive Board's discussion on Tanzania's economic performance, Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"The Tanzanian authorities are to be commended for their strong policy performance under their three-year program supported by the Fund. Economic activity continued to be robust in 2003, with GDP growth benefiting from sound economic policies and strong performance in the manufacturing, mining, and construction sectors. Inflation remains in check, though somewhat higher than programmed due to recent food shortages and higher oil prices. Donor confidence and aid flows remain high and the external current account deficit is lower than envisaged in the program, resulting in a further build-up of foreign exchange reserves.

"Looking ahead, Tanzania's main challenge is to sustain, and, if possible, further accelerate broad-based growth in a low-inflation environment, aimed at achieving a substantial reduction in poverty. This will require the pursuit of prudent macroeconomic policies, including strong liquidity management and fiscal efforts, as well as vigorous implementation of the structural reform agenda—especially in tax administration and customs, agriculture, governance, and the financial sector. Locking in reforms in advance of next year's elections is a priority.

"Consistent with these objectives, the authorities' program for 2004/05 entails significant expenditure management and revenue mobilization measures, higher priority sector expenditures, and the strengthening of capacity and institutions. The program also envisages further advancement of reforms consistent with Financial Sector Assessment Program (FSAP) recommendations, and removal of other structural impediments to growth in agriculture and other sectors. Particularly welcome are the authorities' intentions to strengthen central bank independence and financial sector efficiency, to issue final bid instructions for privatization of the National Microfinance Bank, and to limit discretionary powers to grant tax exemptions.

"The new poverty reduction strategy now under development should provide a clearer roadmap for future steps in these areas. To be effective, it should be well-prioritized, be consistent with the budget and other government activities, include strong quantitative monitoring and evaluation, and be based on dialogue involving all segments of civil society," Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/100
FOR IMMEDIATE RELEASE
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2004 Article IV Consultation with Tanzania

On August, 6, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Tanzania.[1]

Background

Tanzania has continued to maintain macroeconomic stability and to make substantial progress in structural reform. Real GDP growth has been strong, averaging almost 6 percent in the past three years, and is increasingly driven by improvements in total factor productivity. High growth reflected both the continued strong performance in the manufacturing, mining and construction sectors, as well as the solid growth in the agricultural sector. At the same time, inflation has declined from an average of over 30 percent during the previous two decades to below 5 percent at end-2003. These achievements have been the result of sound macroeconomic policies, notably the strengthening of expenditure management through adoption of a cash management system, and more effective management of liquidity by the Bank of Tanzania. In addition, sizable donor support has virtually eliminated the government's need for domestic financing in recent years.

Tanzania's sharply improved growth performance has had a notable impact on poverty. While a comparison of 1990/91 and 2000/01 household budget surveys shows only a modest improvement in the incidence of poverty, per capita incomes fell in the first half of the 1990s,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities and this PIN summarizes the views of the Executive Board.

likely leading to a deepening of poverty. Thus, for poverty to have declined over the decade as a whole, the acceleration of growth in the second half of the 1990's likely had a strong poverty-reducing impact, in particular given that income distribution showed little change over the decade. This was particularly evident in Dar es Salaam, where poverty declined from 28 to 18 percent over the decade.

These achievements notwithstanding, Tanzania's high aid dependency makes its success in macroeconomic stabilization vulnerable to sudden withdrawals of aid. Furthermore, structural impediments to higher growth, including low agricultural productivity, poor governance, and limited access to financial services persist and will need to be addressed to accelerate the rate of poverty reduction.

Economic performance in 2003 remained strong. Despite severe drought, which resulted in food insecurity in parts of the country, real GDP grew by 5.6 percent. The 12-month rate of inflation reached 6.4 percent in May 2004, largely reflecting food shortages. However, favorable agricultural output following better weather conditions in 2004 has helped to contain inflationary pressures since then.

The fiscal performance in 2003/04 was substantially better than envisaged by the budget, mainly on account of strong tax revenue collection, partly reflecting the elimination of tax holidays and partly the implementation of administrative measures to curtail petroleum smuggling.

Substantial pressures on the expansion of reserve money continued to emanate from high inflows of official donor assistance to the budget, amounting to 10.6 percent of GDP, which are mostly spent locally. Relying increasingly on sterilization of excess liquidity through the sale of foreign exchange proceeds from aid inflows, while continuing with sales of liquidity paper as needed, the BoT maintained reserve money in line with the program. Growth of credit to the private sector remained strong and has been broad-based. This increase in credit has so far not been accompanied by any deterioration in banking soundness indicators.

Since the last Article IV consultation in 2002, the real effective exchange rate has depreciated continuously and is now broadly in line with economic fundamentals. Reflecting strong demand for imports and stagnation of traditional exports, the current account deficit, excluding grants, has been widening in recent years and reached 11 percent of GDP in 2003/04. However, a steady inflow of foreign assistance, including the debt relief under the enhanced HIPC Initiative, resulted in a further increase of the reserve cover, which is currently about seven months of imports of goods and non-factor service.

Structural reforms in recent years have focused on improving the investment climate with a view to creating a conducive environment for a private sector-led economic growth. To this end, the government continued its effort to divest its holdings in strategic enterprises. Among the most significant achievements since 2002 were the leasing of DAWASA and the approval by parliament of the privatization plan for the National Microfinance Bank, the largest commercial bank in the country. To promote private sector activities, a greatly simplified business licensing system was introduced. Measures to improve governance include the implementation of the National Anti-corruption Strategy and Action Plan and the quarterly publication of all individuals, companies, and NGOs that have received tax exemptions under the treasury voucher system.

Executive Board Assessment

Executive Directors commended the authorities for the significant progress in macroeconomic stabilization and structural reform under Tanzania's PRGF-supported program, which has resulted in higher economic growth with low inflation, strengthened external position, and reduced poverty. Tanzania's strong performance in 2003, despite a drought, demonstrates the economy's growing robustness to adverse shocks.

Directors considered Tanzania's medium-term economic prospects to be favorable, provided that the authorities continue to pursue sound policies and market-oriented structural reforms. They stressed the importance of sustaining high economic growth and translating its benefits into further reduction in poverty and improved living standards for the rural population. In this context, Directors welcomed the authorities' focus on promoting agricultural development. With continued strong policies and donor support, Tanzania is in a position to make significant progress toward the Millennium Development Goals.

Directors viewed current fiscal policy as broadly consistent with medium-term fiscal sustainability. They welcomed the authorities' efforts to mobilize domestic resources through ongoing reforms of tax policy and administration, including implementation of the Tanzania Revenue Authority's Corporate Plan, steps to reduce exemptions and curtail petroleum smuggling, and improvements in customs services and administration. Such measures are essential to boost the robustness of macroeconomic stability and contain aid dependency. It was also suggested in this context that the government develop a clear long-term strategy for reducing Tanzania's dependence on external aid.

While broadly agreeing that the 2004/05 budget targets are in line with the program's objectives and development needs, Directors expressed concern about the budget process. They urged the authorities to strengthen further the existing institutions and procedures, with a view to improving the coherence of the budget submitted to parliament with the budget guidelines and ensuring the comprehensiveness of the Public Expenditure Review (PER). In particular, they underscored the need to review the full fiscal implications of major infrastructure projects, including a new parliament building and a national stadium, as well as the costs associated with leasing arrangements, in the context of the PER.

Directors supported the Bank of Tanzania's conduct of monetary policy, with the primary objective being price stability. Recognizing the challenges of liquidity management against the backdrop of continued high aid flows, they noted the trade-offs between open market operations and foreign exchange sales. In view of the fact that the real exchange rate is currently broadly in line with fundamentals, Directors supported the authorities' intention to use foreign exchange sales to absorb excess liquidity resulting from higher-than-programmed foreign inflows. They encouraged the authorities to accelerate the implementation of recommendations identified in the safeguards assessment to further reduce vulnerabilities and enhance transparency in central bank operations.

Directors commended the good progress in financial sector reform, which has contributed to a rapid increase in financial intermediation and a healthier banking system. They observed, however, that while banking soundness indicators have remained strong, the relative high concentration of loans and maturity mismatches warrant close monitoring and strengthened bank supervision. Directors were encouraged by the authorities’ commitment to the broad agenda of reforms aimed at further deepening Tanzania’s financial sector to enhance its contribution to investment and growth. They welcomed, in particular, the ongoing review of financial sector legislation and regulations, and the recent establishment of an interagency committee to accelerate the implementation of the Financial Sector Assessment Program (FSAP) recommendations. In this connection, Directors looked forward to the implementation of sectoral FSAP action plans now under development.

Directors took note of the challenges posed by capacity constraints and weak institutions for policy implementation. Shortages of skilled civil servants and weaknesses in public administration constrain absorptive capacity and generate a climate conducive to governance problems. Directors therefore welcomed reform efforts underway in these areas, including in the civil service. They urged further efforts to ensure consistent and integrated policies across all levels of government, noting that the new poverty reduction strategy (PRS) now under preparation would be helpful in this regard.

Directors urged accelerated efforts to implement structural reforms aimed at promoting private sector activity, enhancing competitiveness, and diversifying the economy while reviving traditional exports. They welcomed the recent steps taken to improve the business climate, including amendment of the Land Act, reform of local government taxation, and simplification of business licensing. Implementation of these reforms will need to be closely monitored to ensure effectiveness. In this context, Directors encouraged the authorities to maintain broad-based consultation with the business community to identify ways to further strengthen the reform agenda. It will also be essential to improve infrastructure, labor skills, and the legal and regulatory framework. Directors welcomed the authorities’ commitment to further improve public enterprise performance, particularly through a restructuring and eventual privatization of the energy sector. They stressed the importance of timely efforts to lock in reforms, in advance of next year’s elections.

Directors commended the authorities for the adoption of a national strategy and action plan to address corruption and improve governance, as well as plans for similar efforts at the local level. They urged strong implementation and coordination of these efforts. In particular, Directors urged follow-up by the Prosecutor’s Office to complaints over individuals made by the Auditor General and the Prevention of Corruption Bureau. In this regard, they stressed the importance of early finalization of a new anti-corruption law, which would provide a comprehensive framework for effective prosecution of corruption cases.

Directors were in broad agreement with the Joint Staff Assessment of Tanzania's third Poverty Reduction Strategy Paper (PRSP) Progress Report, and considered that the PRSP continues to provide a sound basis for continued Fund concessional assistance. They noted that Tanzania has made significant progress in implementing its poverty reduction strategy, and that the process now firmly forms the basis for continued government-donor dialogue.
Directors highlighted, in particular, the need to assess the impact of policy implementation over the past five years, to improve the monitoring and evaluation systems, and to strengthen the link between the PRS and the budget process. They looked forward to a full PRS update, which should aim to deliver greater prioritization and coherence of reform agendas across relevant parties.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The Staff Report for the 2004 Article IV Consultation with Tanzania is also available

Tanzania: Selected Economic Indicators, 2002/03-2003/04 1/

	2002/03	2003/04
	(Annual percentage change)	
Domestic economy 2/		
Real GDP	6.2	5.6
Consumer prices (end of period)	4.4	4.6
	(In millions of U.S. dollars) 3/	
External economy		
Exports, f.o.b.	1,010.1	1,173.3
Imports, f.o.b.	1,659.6	2,100.7
Current account (excluding official transfers)	-734.0	-1,136.8
(in percent of GDP)	-7.3	-10.9
External assistance 4/	1,020.5	1,264.0
Public external debt service paid	83.2	97.0
(in percent of exports of goods and nonfactor services)	4.8	5.1
Gross official reserves	1,670.4	1,951.9
(in months of imports of goods and nonfactor services)	6.8	7.0
Change in real effective exchange rate (in percent) 5/	-17.4	...
	(In percent of GDP)	
Financial variables		
Central government balance (including grants)	-1.6	-2.9
Change in broad money (in percent)	22.7	19.1
Change in credit to the nongovernment sector (in percent)	36.6	34.3
Interest rate (in percent) 6/	6.1	...

Sources: Tanzanian authorities; and IMF staff estimates.

1/ Fiscal years run from July to June.

2/ data are on calendar year basis; 2002/03 data are for calendar year 2002.

3/ Unless otherwise indicated.

4/ Multilateral and bilateral grants and loans (including IMF disbursements).

5/ (+) = appreciation.

6/ Weighted average of 3-, 6-, and 12-month treasury bill rate; end of period.