

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative

Prepared by the African Department
(In consultation with other departments)

Approved by David Nellor and Michael T. Hadjimichael

December 8, 2005

Tanzania reached the completion point under the enhanced HIPC Initiative on November 21, 2001.

Macroeconomic Performance

1. **Status of Fund arrangement.** Tanzania currently has a PRGF arrangement with the Fund and the most recent review of the program was concluded on July 29, 2005. Preliminary data indicate that all quantitative performance criteria for the next review have been met and structural reforms are broadly on track. The next program review is expected in March 2006.
2. **Recent Macroeconomic Developments.** Macroeconomic performance since the completion point has been strong and in line with the program. Economic growth has been robust, rising to almost 7 percent per annum, inflation has remained subdued at slightly over 4 percent, and the external debt service burden fell to about 10 percent of exports. Within a sound macroeconomic framework, and supported by an effective reform of tax administration as well as increased donor aid, the authorities have significantly increased social and priority spending while maintaining foreign reserves coverage at more than 5 months of imports. Tanzania is current on its obligations to the World Bank and the African Development Bank.
3. **Summary Assessment.** Given the completion of the fourth review under the PRGF on July 29, 2005, and continued good macroeconomic performance thereafter, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Implementation of the Poverty Reduction Strategy

4. **Recent Developments.** Tanzania's second generation PRSP—the National Strategy for Growth and Reduction of Poverty—was approved by Cabinet in February 2005 and published in June 2005. Implementation arrangements will be spelt out in Tanzania's budget guidelines. The latest household survey was carried out in 2000/01. Although no recent data on Tanzania's income poverty are available, poverty simulations suggest that Tanzania's

recent growth performance is likely to have translated into a decline in income poverty. Regarding non-income dimensions of poverty, significant progress was made in access to primary education and the reduction of malnutrition and child mortality. The results of the Household Budget Survey as well as two annual Poverty and Human Development reports were published, providing continued analysis and monitoring of Tanzania's income and non-income poverty. Further strengthening Tanzania's poverty data base and monitoring capacity remains a priority and Tanzania has embarked on a review of its Poverty Monitoring System.

5. **Summary Assessment.** Given the recent track record of continued satisfactory implementation of poverty reduction policies, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Public Expenditure Management System

6. **Recent Developments.** Tanzania has made significant progress in the PEM reform process since the November 2001 completion point. Overall, Tanzania met 11 out of the 16 expenditure management benchmarks in the 2004 PEM Country Assessment and Action Plan review, up from 9 out of 15 in 2001. The government is building on the 2004 assessment in the area of budget execution and reporting, particularly through the extension of the Integrated Financial Management System to local governments. Government commitment to continued PEM reforms is evidenced by the adoption of a wide-ranging Public Financial Management Reform Program, which should ensure appropriate sequencing of reforms as well as ownership of the reforms. Budget formulation has been strengthened to provide more effective linkage between policy and resource allocations, continued efforts are being made to enhance internal audit and external audit functions, and the reform of the procurement system has reached the implementation stage.

7. **Summary Assessment.** Staff is of the view that the criterion on the quality of PEM systems to qualify for MDRI debt relief is met.

Other

8. Tanzania's data provision to the Fund is adequate for surveillance and program monitoring.

9. Tanzania is current on its obligations to the Fund.

Overall Assessment

10. Staff is of the view that all three criteria are met, and recommends that the Board determine that Tanzania qualifies for immediate debt relief under the MDRI.

Tanzania: Selected Macroeconomic Indicators, FY2000/01-05/06
(annual percent change; unless otherwise indicated)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06 (Est.)
Real GDP 1/	4.9	5.7	6.2	5.7	6.7	6.9
Inflation (e.o.p.) 1/	5.5	4.9	4.4	4.6	4.1	4.0
Real effective exchange rate	1.6	-9.5	-17.4	-8.7	-0.6	...
Broad money	17.0	22.1	22.7	18.0	25.5	26.0
Overall fiscal balance including grants (in percent of GDP)	-1.6	-1.1	-1.6	-3.5	-5.6	-5.1
Current account balance including grants (in percent of GDP)	-4.1	-4.0	-2.4	-5.8	-4.8	-7.0
Foreign exchange reserves (in months of imports)	5.3	5.9	6.6	5.7	5.6	5.4

1/ Data are on calendar-year basis. 2001/02 data are for calendar year 2001

Tanzania: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief
(in millions of U.S. dollars; unless otherwise indicated)

	2004	2005 (Est.)	2006 (Proj.)		2007 (Proj.)
			Before MDRI	After MDRI 1/	After MDRI 1/
PPG External debt	7,090.0	7,114.8	6,901.8	2,476.4 2/	2,127.1
<i>of which owed to the Fund</i>	423.0	348.5	289.7	16.3	16.3
<i>of which owed to IDA</i>	3,412.3	3,687.3	4,202.2	789.9	1,424.9
<i>of which owed to AfDF</i>	673.0	748.0	799.8	126.8	203.3
NPV of PPG external debt to exports 3/	117.7	102.2	96.5	46.4	52.3
Debt service to exports 3/	9.2	9.5	9.2	5.2	5.0
PPG External debt to GDP (in percent)	62.8	56.2	48.9	17.5	13.5
NPV of PPG external debt to GDP (in percent)	19.9	19.7	19.0	9.1	10.3

1/ Assuming delivery on January 1, 2006 for the Fund and the AfDF, and on July 1, 2006 for IDA.

2/ The amount shown includes debt relief under MDRI (US\$4,358.7 million) plus that under HIPC (US\$66.7 million).

3/ Exports of goods and services for the year under consideration.