

**United Republic of Tanzania: Fourth Review Under the Policy Support Instrument—
Staff Report; Press Release on the Executive Board Discussion; and Statement by the
Executive Director for United Republic of Tanzania**

In the context of the fourth review under the Policy Support Instrument with the United Republic of Tanzania, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended September 19, 2008, with the officials of the United Republic of Tanzania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed December 5, 2008. 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 Press Release, summarizing the views of the Executive Board as expressed during its December 19, 2008 discussion of the staff report that completed the review.
- A statement by the Executive Director for the United Republic of Tanzania.

The documents listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of the United Republic of Tanzania*

Memorandum of Economic and Financial Policies by the authorities of the United Republic of Tanzania*

Technical Memorandum of Understanding*

*Also 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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UNITED REPUBLIC OF TANZANIA

Fourth Review Under the Policy Support Instrument

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

Approved by David Nellor and Dominique Desruelle

December 5, 2008

Discussions on the fourth review under the Policy Support Instrument were held in Dar es Salaam during September 9–19, 2008. The staff team consisted of Roger Nord (head), Michael Atingi-Ego, David Dunn, Stéphane Roudet (all AFR), Alejandro Hajdenberg (FAD), and Niko Hobdari (SPR). The team met with the Minister for Finance and Economic Affairs (MOFEA), Mr. Mkulo, the Governor of the Bank of Tanzania, Prof. Ndulu, the Permanent Secretary of MOFEA, Mr. Mgonja, other senior officials, and representatives of the private sector, civil society, and development partners. Mr. Robinson, the Fund's senior resident representative in Dar es Salaam, and Mr. Ndyeshobola, senior advisor to the Executive Director, participated in the discussions. The staff in the resident representative's office provided valuable support to the mission.

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Executive Summary

- The Tanzanian economy continues to perform well and economic growth exceeded 7 percent in 2007/08 (July–June). Inflation has risen to 11.8 percent by October 2008, mainly reflecting the surge in global food and fuel prices, but is expected to begin to recede. Poverty indicators have improved, although progress is slower than hoped in some areas. The outlook for 2009 is for continued robust growth, but the current global environment poses serious downside risks.
- Staff recommends completion of the fourth review. Despite some slippages, there has been good progress on the PSI-supported program. Staff recommends waivers for the nonobservance of two assessment criteria: the June ceiling on average reserve money, which was narrowly missed; and the signing of a memorandum of understanding between the Ministry of Finance and Economic Affairs (MoFEA) and the Bank of Tanzania (BoT) delineating responsibilities in the areas of liquidity management and financial operations, which was implemented with a delay.
- Monetary policy should seize the opportunity to return inflation to its 5 percent medium-term target. Falling world food and fuel prices will help, but the Bank of Tanzania also needs to strengthen liquidity management. Better coordination with the fiscal authorities and decisive steps to mop up liquidity, including through rising interest rates when necessary, are key steps in that direction.
- Fiscal policy should be supportive of disinflation. The zero net domestic financing target remains a useful and transparent fiscal anchor, and any signs that revenue may fall short should be accompanied by expenditure restraint.
- Refocusing the Bank of Tanzania on its core tasks of monetary policy and financial supervision, and clearly delineating its responsibilities vis-à-vis the Ministry of Finance and Economic Affairs, are key steps toward restoring the credibility and effectiveness of the central bank. The recommendations from the recent voluntary safeguards assessment will assist the Bank of Tanzania in strengthening its internal governance and controls.
- Improving public infrastructure is critical to raising Tanzania's long-term growth potential. However, in considering financing options any recourse to non-concessional financing sources will require a careful evaluation of economic returns to avoid a re-accumulation of unsustainable public debt.
- In the financial sector, priorities should be to broaden access to financial services while ensuring stable institutions. Strengthening prudential supervision of the fast-growing pension funds is especially important. Gradual capital account liberalization, consistent with regional harmonization objectives, will also help attract longer-term sources of savings.

I. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **Against a turbulent external environment, the Tanzanian economy has continued to achieve solid growth, although inflation has increased.**¹ Real GDP growth is estimated to have reached 7.3 percent in 2007/08 (July–June), with strong performances across most sectors (MEFP ¶1). Inflation, however, broke into double digits in September (11.6 percent), its highest level since the late 1990s. Beyond the lagged impact of the sharp rise in global food and fuel prices earlier in the year, a rapid expansion in liquidity driven by a surge in government spending added to inflation pressures (Text Figures).²

2. **Tanzania’s financial and foreign exchange markets have remained broadly stable during the global crisis.** Treasury bill yields have been steady in recent months, even though the interbank rates have increased somewhat. Bank lending to the private sector has continued unabated,³ but anecdotal evidence suggests the direct lending by foreign syndicates is slowing. Despite some volatility in October, the shilling has remained relatively strong, appreciating by about 15 percent in real effective terms in the first ten months of 2008. The Bank of Tanzania (BoT) notched up its daily sales of foreign exchange (mainly for sterilization operations) on the interbank foreign exchange market in October, but overall trading volumes were only moderately higher than usual. Despite delays in disbursements of budget support by some donors, the BoT’s gross international reserves stood at nearly US\$2.6 billion as of end-October 2008 (equivalent to about 4 months of imports of goods and services), only slightly lower than the stock at end-June.

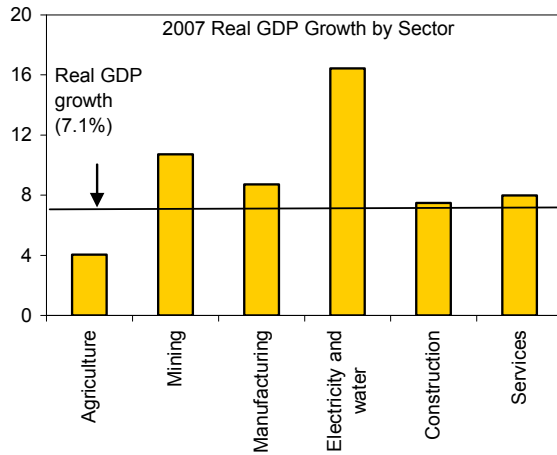
3. **Performance under the PSI program has been broadly on track, but with some delays.** All quantitative assessment criteria for the fourth review (for end-June 2008) were met, with the exception of the ceiling on average reserve money, which was narrowly missed (by 0.6 percent). The targets for government’s net domestic financing (NDF) and official net international reserves were met by wide margins. Progress was made on the structural reform program. After some delay, the memorandum of understanding to delineate the respective responsibilities of the BoT and Ministry of Finance and Economic Affairs (MoFEA) in the areas of liquidity management and financial operations was signed in December (assessment criterion for September 2008). The BoT completed a review of capital account

¹ For information on longer-term economic trends and a cross-country comparison of Tanzania’s economic performance, see Figures 1–6 and Tables 1–7.

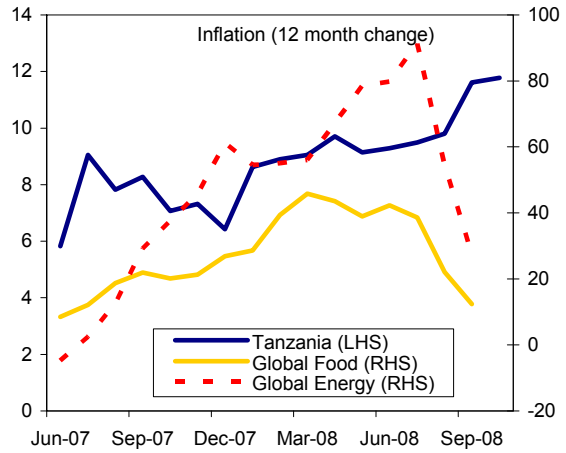
² See “Impact of Rising International Food and Fuel Prices on Inflation in EAC Countries”, in Rwanda and Uganda—Selected Issues.

³ In addition, in August/September, an initial public offering of the government’s shares in a commercial bank was oversubscribed by a large margin (TSh 170 billion).

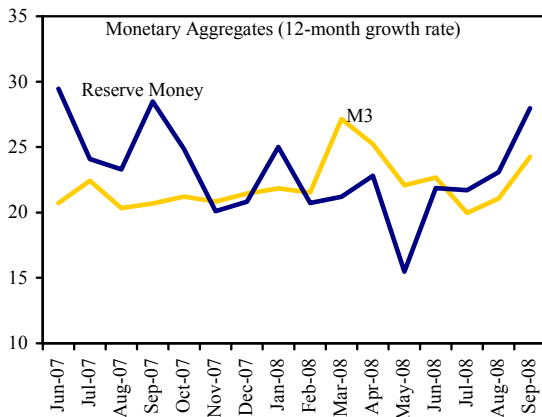
GDP growth has been broad-based...



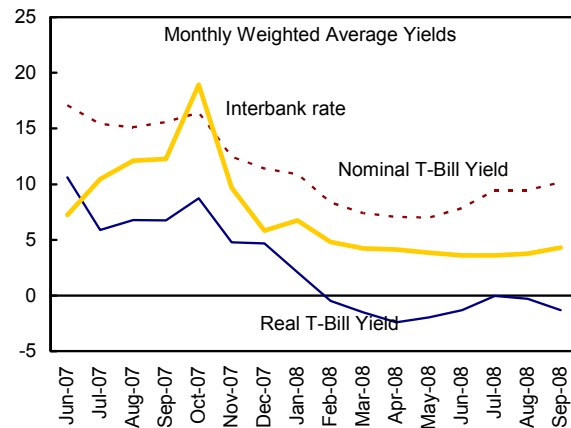
...but inflation has been rising, largely reflecting the lagged impact of global food and fuel prices.



Both reserve and broad money growth have risen sharply since mid-2008.

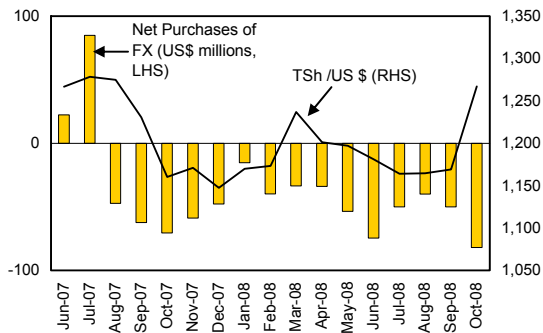
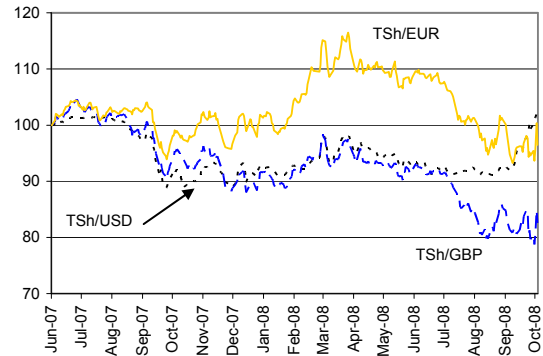


T-Bill and interbank yields have not kept pace with inflation.

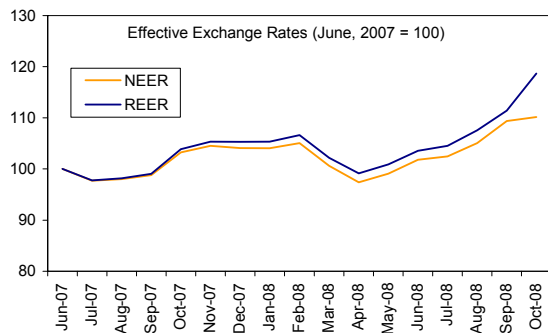


Source: Tanzania authorities; Fund staff estimates.

The Shilling depreciated against the dollar in October...

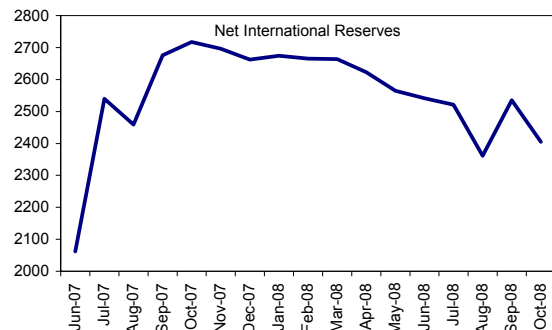
...but firmed up against other major currencies.
(Index=100, June 29, 2007)

In real and nominal effective terms, the shilling appreciated about 15 percent over the past year.



Source: Tanzania authorities; Fund staff estimates.

International reserves stand at a comfortable level.



regulations, which will form the basis for an action plan for capital account liberalization, but the target date for the initial quarterly financial stability report has been moved back three months. The government's rolling three-month cash-flow projections have been produced regularly (Letter of Intent and MEFP Tables 1 and 2).

II. OUTLOOK AND RISKS FOR TANZANIA'S ECONOMY

4. **The outlook for Tanzania's economy remains favorable**, and economic growth is projected to reach 7½-8 percent per year over the medium term. Moreover, the sharp retreat in world oil prices from their recent record highs provides a stimulus to the domestic economy in the current year. Together with falling food prices, there is a genuine opportunity to scale back inflation back toward the BoT's medium-term objective of 5 percent.

5. **But the current worldwide economic slowdown and global financial crisis pose serious downside risks.** A worldwide recession would set back Tanzania's fast growing tourism and export sectors, while cutbacks in foreign financing—notably direct investment and the pipeline of syndicated loans for major Tanzanian corporations—are a threat to

business investment. As a result, real GDP growth could slip by 1–1½ percentage points in the near term with some lingering effects over the medium term (Text Table 1).¹ Lower growth would dampen government revenues, suggesting that the current path of spending would lead to widening fiscal deficits and a financing gap. Moreover, while there are no indications that banks are directly exposed to global financial turmoil, there are indirect risks, including potential credit risk if the financial position of major borrowers deteriorates. In particular, the rapid pace of credit growth and the high share of foreign currency-denominated loans suggest that banks could be vulnerable to a sharp economic downturn.

Text Table 1. Tanzania: Selected Economic Indicators Under Alternative Scenarios

	2008/09	2009/10	2010/11
Baseline scenario			
Real GDP growth	7.7	8.0	8.0
GDP deflator	7.5	5.6	4.6
Overall fiscal balance (including grants, percent of GDP)	-3.7	-3.2	-3.1
Current account balance (including grants, percent of GDP)	-10.1	-10.1	-10.2
Overall balance of payments (including grants, percent of GDP)	0.7	1.1	1.3
Alternative scenario ¹			
Real GDP growth	6.5	6.5	7.5
GDP deflator	7.1	5.4	4.7
Overall fiscal balance (including grants, percent of GDP)	-4.2	-3.9	-3.8
Current account balance (including grants, percent of GDP)	-9.1	-8.5	-9.4
Overall balance of payments (including grants, percent of GDP)	1.4	2.6	2.3

¹ The alternative scenario assumes that the deterioration in the global economic and financial environment leads to lower demand for Tanzania's exports and tourism services and a slowdown in foreign investment in Tanzania. It is based on the latest WEO projections (October 30, 2008), which assume average international oil prices of about US\$68 per barrel, compared with US\$100.5 per barrel under the baseline scenario.

6. There has been some progress in the fight against poverty in recent years, but more is needed. Preliminary data from the 2007 household budget suggest moderate reductions in the incidence of income poverty in both rural and urban areas and there have been some improvements in the delivery of education and health services. While further analysis of the data is needed, it is clear that achieving the Millennium Development Goals will require well-directed and highly effective programs to step up poverty reduction (MEFP, ¶10–11).

¹ To a large extent, however, the lack of liquid domestic financial markets and capital account restrictions have sheltered Tanzania from the current turmoil in portfolio investment and capital flight.

III. POLICY DISCUSSIONS AND THE ECONOMIC PROGRAM FOR 2008/09

7. **Key objectives for 2008/09 are to strengthen macroeconomic stability while raising productivity through continued structural reform and improved public infrastructure.** Discussions focused on three main issues:

- Maintaining sound fiscal policy to anchor macroeconomic stability;
- Restoring low inflation by improving liquidity management; and
- Increasing public accountability and restoring confidence in Tanzania's institutions.

In addition, discussions covered policies to raise Tanzania's long-term growth potential, including infrastructure financing, second generation financial sector reforms, and gradual capital account liberalization.

A. Maintaining Sound Fiscal Policy

8. **The zero NDF ceiling, as targeted in the 2008/09 budget, remains a useful and transparent fiscal anchor, which will help reduce inflation and minimize crowding out of the private sector.** In light of the current downside risks, it also strikes a welcome balance by providing a modest stimulus relative to the fiscal performance in 2007/08 (the budgeted overall fiscal deficit before grants widens to 9.2 percent of GDP, compared with the outturn of 7.0 percent of GDP in 2007/08). However, the 2008/09 budget relies on an ambitious revenue increase (by 2 percentage points of GDP), to be achieved mainly through administrative gains, to help pay for a sharp rise in spending. Despite the impressive track record of the Tanzania Revenue Authority (TRA) and the implementation of its new 5-year corporate plan, there is a risk that the revenue target will not be met. The authorities are committed to maintaining the zero NDF target (MEFP ¶30–34). The mission underlined that this would imply curbing expenditures should revenues fall short and urged the authorities to formulate contingency plans ahead of time.

9. **Strengthening budget execution—and public financial management more generally—continues to be a key element of the reform agenda that is needed to achieve greater effectiveness of government spending.** In 2007/08, under-execution of government spending amounted to 2½ percentage points of GDP,² despite a surge in spending at the end of the fiscal year. Addressing capacity constraints in budget execution will be critical for the effective implementation of the government's ambitious infrastructure investment program, while ensuring value-for-money. This will require more rapid implementation of the

² Excluding foreign-financed projects.

government's comprehensive Public Financial Management Reform Program (PFMRP) (MEFP ¶35).³

B. Restoring Low Inflation

10. **Quickly returning inflation back to single-digit rates is a high priority; the dramatic turnaround in global food and fuel prices provides an opportunity to accomplish this goal.** An easing of monetary policy correctly aimed to accommodate the first-round impact of the global surge in food and fuel prices through the first half of 2008. But additional liquidity injections arising from increased government spending at the end of the 2007/08 fiscal year and the substantial float carried over into the first quarter of 2008/09, combined with other extraordinary expenditures,⁴ were excessive and proved difficult to mop up (MEFP ¶17). Going forward, while the reversal in global commodity prices eases pressure on headline inflation, the program targets a restrained monetary stance that should help to contain core inflation as well.⁵ Provided fiscal policy is supportive, there is also room for a healthy expansion of credit to the private sector (MEFP ¶37–38).

11. **The recent difficulties with liquidity management that contributed to rising inflation need to be addressed.** Through East AFRITAC, the Fund has provided technical assistance on liquidity forecasting, but the authorities also need to further strengthen coordination between the BoT and the MoFEA to ensure that liquidity management remains on track even during episodes of unusually strong seasonality effects and extraordinary spending. Here, striving to continuously improve near-term cash-flow projections is key. Since September, growth of reserve money has begun to decline through increased use of foreign exchange sales by the BoT and other liquidity management instruments.

C. Increasing Public Accountability

12. **There has been continued progress in strengthening public accountability.** Over the past year, Parliament's investigations into cases of major fraud have resulted in resignations of high-level officials. In addition, as of early November, the criminal investigation of the external payments arrears (EPA) account fraud had recovered about half of the stolen funds, and several criminal cases have been filed. At the BoT, key governance bodies, the Board and its Audit Committee, have been reconstituted and the financial statements and external audit now adhere to international standards. The recent decision of

³ Mainly through East AFRITAC, Fund staff provides technical assistance in the area of cash-flow projections and strengthening budget monitoring and reporting, including a GFS functional classification of expenditure.

⁴ A lump-sum payment for a substantial retroactive wage increase was made to civil servants in late August.

⁵ In light of the larger-than-expected decline in global commodity prices in recent weeks a stronger mopping up of liquidity may be warranted. This consideration will need to be weighed in with prevailing economic and financial conditions when monetary targets are revisited at the time of the next PSI review.

Tanzania to join the Extractive Industries Transparency Initiative also represents a welcome step toward strengthening public accountability (MEFP ¶48).

13. **A voluntary safeguards assessment of the BoT was completed in August 2008.** The assessment found that steps have been taken to restore the control integrity at the BoT, but risks remain. The assessment made a series of recommendations to further improve oversight, put in place a robust control model, and restore transparency of accounting and control matters (Box 1). The authorities were in broad agreement with these recommendations and intend to incorporate them in the BoT's forthcoming corporate plan (MEFP ¶39–40). A key step will be the adoption of a strategy to refocus the BoT on its core activities of monetary policy and financial supervision.

Box 1. Tanzania: Safeguards Assessment of the Bank of Tanzania

A safeguards assessment of the BoT found that steps have been taken to strengthen the central bank's oversight, audit, and control systems, but risks remain. The assessment highlighted the value of the external audit mechanism, which had been strengthened following the 2003 safeguards assessment. Among the problems identified:

- Oversight of audit and control matters has been weak, resulting in control overrides and an impairment of assets. While the reconstitution of the Board and its Audit Committee is a step in the right direction, further strengthening of the Audit Committee is necessary.
- Building capacity and restoring the credibility of internal audit is needed, but will take time.
- Procurement and some accounting controls are in need of improvement.
- The BoT's 2006/07 financial statements and the external audit comply with international standards, but the audit was finalized with a significant delay.

Rebuilding the control culture needs to be comprehensive and will take time. The 2008 assessment made a series of recommendations to: (i) ensure unhindered oversight of all accounting, audit, and control matters; (ii) modernize the internal audit function; (iii) implement an internationally recognized control model; and (iv) restore full and timely transparency on all accounting, audit, and control matters.

D. Raising Productivity and Long-Term Growth Potential

14. **Tanzania has extensive infrastructure needs that require significant financing.** The mission discussed with the authorities a number of aspects that should be taken into account when considering financing options (Box 2). In particular, the mission stressed that while the present outlook for debt sustainability is relatively benign after extensive debt relief

Box 2. Financing Infrastructure

The scale of the infrastructure challenge in Tanzania makes it critical that the authorities explore all available options for creating fiscal space. Nonconcessional external borrowing is more expensive and would imply greater risks for the economy. Compared with concessional flows, borrowing on commercial terms would lead to a deterioration of public and external debt sustainability. Borrowing externally on commercial terms would also create higher refinancing and debt service risks. Lower-risk avenues should therefore be considered first.⁶

All financing alternatives should be explored with a view to selecting an option that reduces risks and safeguards resources.

- *First, efforts should be made to create fiscal space without incurring any debt.* This can be done by encouraging greater private participation, better prioritizing expenditure, and further improving domestic revenue mobilization.
- *If additional borrowing is envisaged, the various possible financing options should be compared with a view to limiting risks and safeguarding resources.* Maximizing inflows and impact of foreign aid and concessional finance should be a priority. The authorities could also deepen and boost the efficiency of domestic capital markets in order to raise more funds from the domestic markets. This could also be facilitated by allowing foreign investors to purchase local currency government securities (see paragraph 16).
- *If the authorities choose to borrow externally on nonconcessional terms, efforts should be made to choose a financing option with a reasonable risk profile.* Among these financing options, there is a range of possibilities entailing different levels of risk. Should the authorities contemplate accessing international capital market, careful attention should be given to the size, maturity, and structure of the bond, as these characteristics can have a substantial impact on debt sustainability and debt service capacity.

Access to nonconcessional external borrowing should therefore be assessed in the context of an overall medium-term debt management strategy. The authorities should carefully weigh this financing strategy against alternatives. In doing so, they should assess the current debt position and scenarios for future debt dynamics based on different assumptions for key macroeconomic and financial variables. This should be done based on government and balance of payments' financing needs, in line with the medium-term budgetary and macroeconomic frameworks. The implications of nonconcessional external borrowing for Tanzania's asset management and monetary and exchange rate policies should also be considered.

These aspects underline the need to strengthen debt and asset management practices. In spite of significant debt relief in the past few years, Tanzania's National Debt Strategy does not seem to have been updated since 2002, suggesting capacity constraints in the area of debt management. These should be addressed in advance of any decision to borrow externally on commercial terms. More generally, the authorities should move towards a more integrated assets/liabilities management framework.

⁶ See also Teresa Ter-Minassian, Richard Hughes, and Alejandro Hajdenberg, *Creating Sustainable Fiscal Space for Infrastructure: The Case of Tanzania*, IMF Working Paper (WP/08/256), November 2008.

under HIPC and MDRI,⁷ financing on commercial terms is inherently more risky and would require that projects yield high returns to ensure long-term debt sustainability. The authorities agreed that their first priority should be to seek additional concessional financing sources. However, should sufficient concessional financing be unavailable, they would consider alternative options. To that end, they are preparing a policy and legal framework for Public-Private Partnerships (PPPs) and seeking their first sovereign credit rating (MEFP ¶¶44–45).

15. **While there has been much progress with financial deepening in recent years, access to financial services and long-term financing remains limited.** The authorities' Second Generation Financial Sector Reform Program aims to address these issues, including legal reforms to enable mortgage lending, financial supervision and investment guidelines for pension funds, and the establishment of a credit reference database. In discussions with the authorities, the mission was supportive of these efforts, stressing in particular the urgency for making progress with supervision and prudential norms for the rapidly growing pension funds to ensure financial stability. More generally, with technical assistance from the Fund, the BoT intends to further reinforce its capacity for risk-based supervision and begin preparing quarterly financial stability reports covering both banks and nonbank financial institutions (MEFP ¶43).

16. **Discussions also focused on the authorities' intentions to gradually liberalize capital account transactions.** Despite the current global financial crisis, the authorities emphasized the long-term contribution to growth of a more liberal capital account regime—which is also consistent with the ongoing harmonization within the EAC. Moreover, experience had shown that current regulations were difficult to enforce and may encourage evasion. The BoT's recent review of capital account regulations will constitute the basis for an action plan for further liberalization, which the authorities aim to prepare over the next six months. The priority will be to begin liberalizing longer-term foreign investment in domestic securities, such as government bonds, while strengthening data monitoring and reporting (MEFP ¶42).

IV. PROGRAM MONITORING

17. The quantitative assessment criteria for end-December 2008 and end-June 2009 for the fifth and sixth reviews of the PSI, respectively, are presented in Table 1 of the authorities' Memorandum of Economic and Financial Policies (MEFP) (see Appendix I, Attachment I).⁸

⁷ See the Debt Sustainability Analysis (DSA) in the context of the 2007 Article IV Consultation with Tanzania (Country Report No. 07/246). The DSA will be updated in early 2009, at the time of the next Article IV Consultation.

⁸ The proposed end-December 2008 assessment criteria have been revised from those that were established at the time of the third PSI review.

Table 3 of the MEFP presents the structural measures that will be monitored under the PSI. Conditionality focuses on the elements critical for the success of the program (Text Table 2).

Text Table 2. Tanzania: Macroeconomic Rationale for Structural Agenda in 2008/09

Measure	Target Date of Implementation	Macroeconomic Rationale
Financial Sector		
Adopt a strategy for refocusing the Bank of Tanzania (BoT) on its core activities. ¹	End-May 2009	To strengthen confidence in the BoT and focus BoT on monetary and exchange rate policies and financial supervision.
Issue investment guidelines for pension funds prepared by the BoT.	End-March 2009	To broaden the scope of financial sector regulation and strengthen the ability of the BoT and the future pension fund regulator to promote financial stability.
Prepare an action plan for the liberalization and improved monitoring of capital account transactions.	End-March 2009	To facilitate the flow of capital to finance investment; to enhance transparency of capital flows; to better inform decisions on monetary and foreign exchange operations.
Prepare quarterly financial stability reports for the BoT Board, including assessments of risk-based prudential supervision.	End-December 2008	To strengthen the ability of the BoT to promote financial stability in an environment of rapid financial sector development.
Establish an operational credit reference databank.	End-June 2009	To facilitate a healthy expansion of credit to the private sector.
Fiscal		
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous	To facilitate efficient budget execution by line ministries and liquidity management by the BoT.
Introduce a functional classification of expenditures consistent with the IMF's <i>Government Financial Statistics Manual 2001</i> in the budget for 2009/10.	End-June 2009	To enhance budget planning, execution, and management, as part of the broader PFM reform program to increase the efficiency and effectiveness of government spending.
Complete the integration of the Customs and Excise Department and TISCAN's import clearance processes.	End-December 2008	To create a more enabling environment for doing business by simplifying import procedures; to enhance customs administration and revenue collection for sustainable financing of the budget.

¹ Assessment criterion

V. STAFF APPRAISAL

18. **The Tanzanian economy has continued to perform strongly in 2008.** Economic growth is estimated to have accelerated to 7½ percent, thanks to a good harvest and continued strong performance in other sectors. Inflation has risen, largely on account of the surge in international food and fuel prices, but is expected to abate as global inflationary pressures subside. The program supported by the PSI remains broadly on track, although there have been some slippages.

19. **But the global financial crisis and world economic slowdown pose serious downside risks.** So far, any contagion from global financial turmoil would appear to have been limited. But looking ahead, the tourism and export sectors are vulnerable to weaker demand, and sources of foreign financing could dry up with adverse effects on investment and medium-term growth. Tanzania's strong fundamentals, including low debt levels and ample international reserves, provide some welcome protection. But economic policies will need to be flexible, ready to react to adverse shocks should they occur. The banking sector remains sound, but prudential supervision needs to be vigilant to financial sector vulnerabilities to global turmoil.

20. **Monetary policy should seize the opportunity to return inflation to its medium-term target.** Falling international food and fuel prices will help. But the Bank of Tanzania also needs to strengthen liquidity management and regain control over monetary aggregates. Better coordination with the fiscal authorities and decisive steps to mop up liquidity, including through rising interest rates when necessary, are key steps in that direction.

21. **Successful disinflation also requires a supportive fiscal policy stance.** The unanticipated surge in spending in the first quarter of 2008/09 exerted severe pressure on liquidity management. Moreover, the ambitious revenue target may be difficult to achieve, especially if economic growth begins to slow down. Staff supports the authorities' zero net domestic financing target, which remains a useful and transparent fiscal anchor, and any signs that revenue may fall short should be accompanied by expenditure restraint.

22. **Increasing public accountability is paying dividends and needs to be continued.** National oversight mechanisms have been successful in identifying and addressing instances of waste and fraud during the past year. The Bank of Tanzania has taken numerous steps to strengthen internal governance and controls, although much remains to be done, and the recommendations of the Fund's safeguards assessment will prove very useful to that end. Refocusing the BoT on its core tasks of monetary policy and financial supervision, and clearly delineating its responsibilities vis-à-vis the Ministry of Finance and Economic Affairs, are key steps toward restoring the credibility and effectiveness of the central bank.

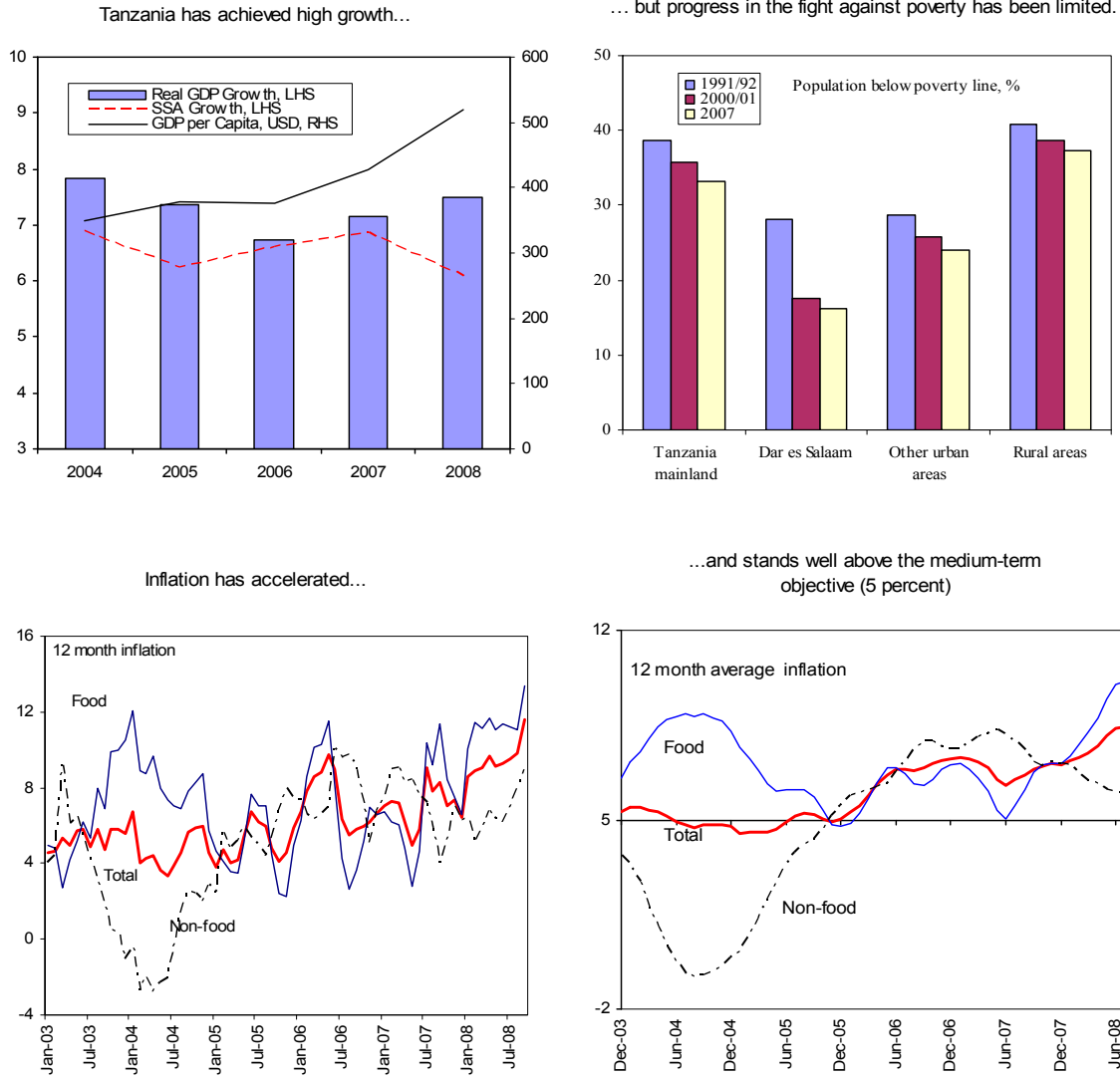
23. **Further raising Tanzania's growth potential is critical for a greater reduction in poverty.** The recent household budget survey suggests that there has been moderate progress in Tanzania's fight against poverty. Needs are enormous and all available financing should

be mobilized to step up infrastructure investment and strengthen public services in health and education. However, resources will remain scarce and there is a need to ensure scrupulous value for money in public spending. In particular, any recourse to non-concessional financing requires a careful evaluation of economic returns to avoid a re-accumulation of expensive public debt.

24. **Long-term sustainable growth also requires further development of the financial sector.** Priorities should be to broaden access to financial services, a key objective of the second generation financial sector reform program, including by establishing credit reference bureaus. Gradual capital account liberalization, consistent with regional harmonization objectives, will also help attract longer-term sources of savings. To this end, the authorities intend to develop an appropriate sequencing of measures. The authorities' emphasis on maintaining financial stability is also well placed. Important steps in this area are the appointment of the single regulator of the fast-growing pension funds, supported by BoT-approved investment guidelines, and the preparation of regular financial stability reports by the BoT.

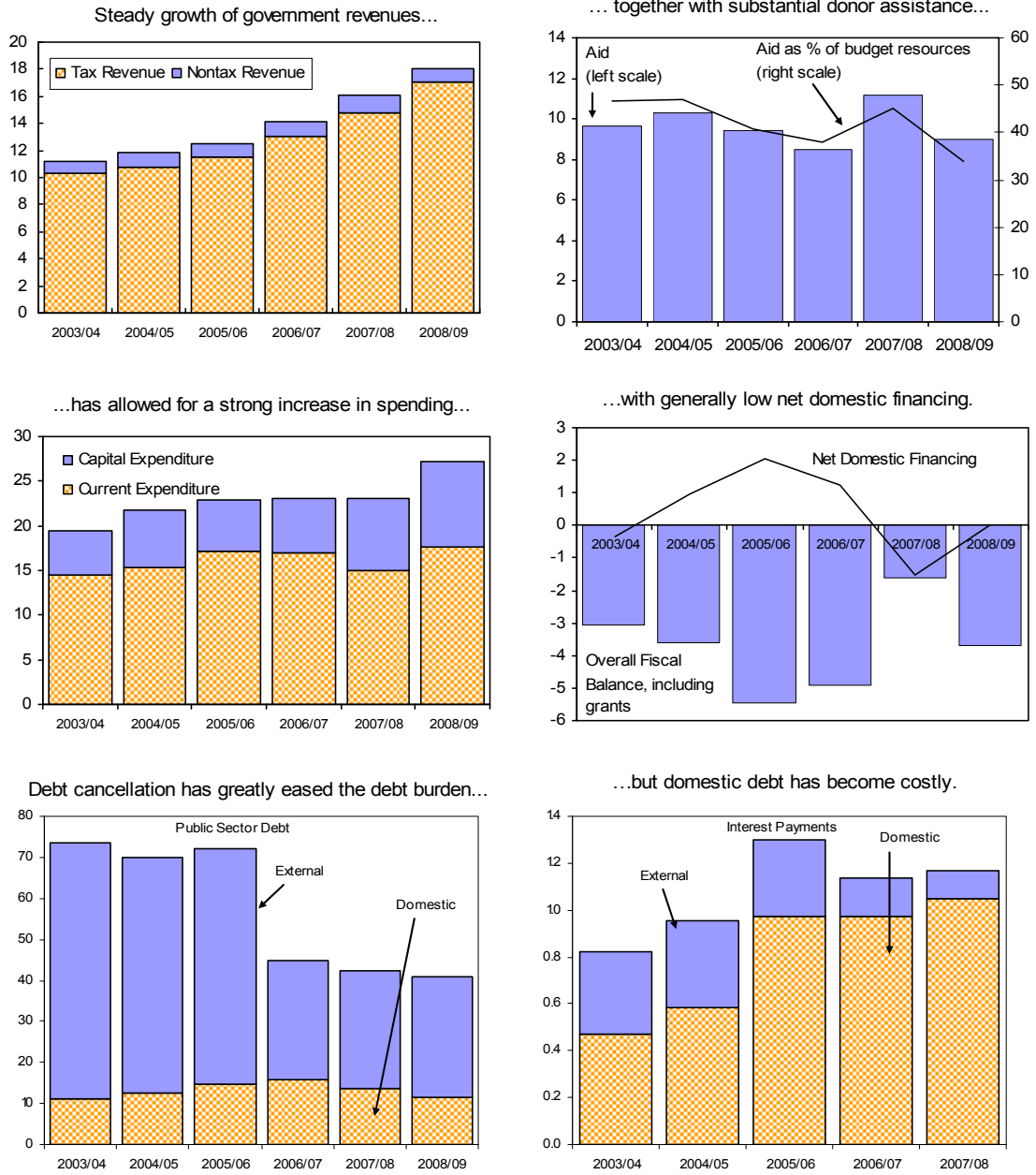
25. **On balance, staff recommends the completion of the fourth review of Tanzania's program under the PSI.** It also recommends waivers for the nonobservance of two assessment criteria. The end-June 2008 ceiling on average reserve money was missed by a small margin and steps have since been taken to regain control over monetary aggregates. The signing of a MoU between the MoFEA and the BoT by end-September 2008 was delayed, but took place in early December.

Figure 1. Tanzania: Growth, Inflation, and Poverty



Sources: Tanzanian authorities; IMF staff estimates;

Figure 2. Tanzania: Fiscal Developments, 2000/01-2008/09 *
(Percent of GDP, unless otherwise stated)

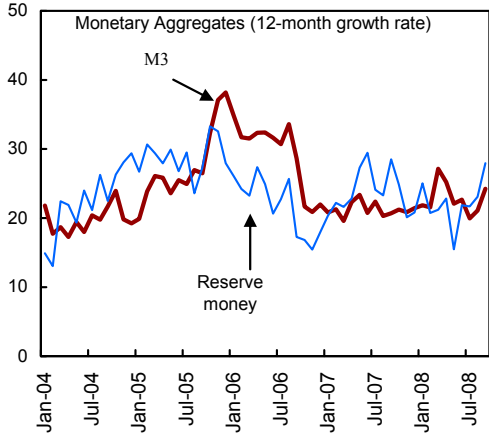


Source: Tanzanian authorities; Fund staff estimates/projections.

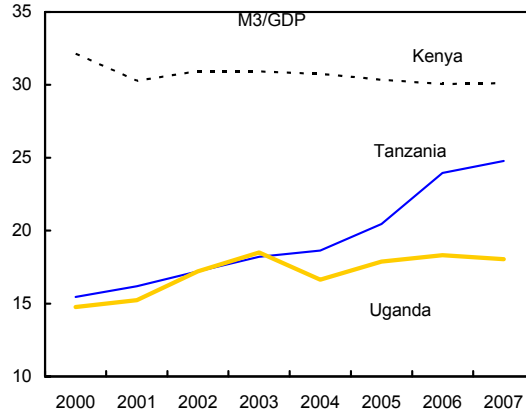
* Figures for 2008/09 are projections.

Figure 3. Tanzania: Monetary and Financial Developments

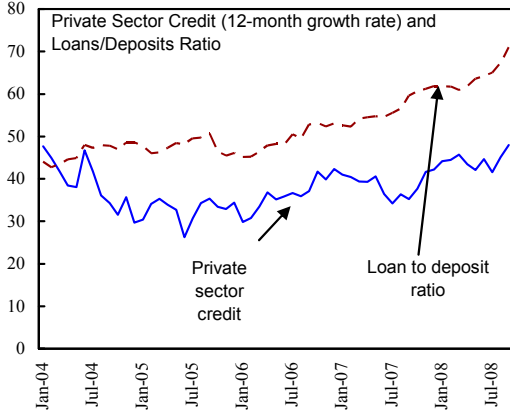
Monetary aggregates have grown at a rapid pace...



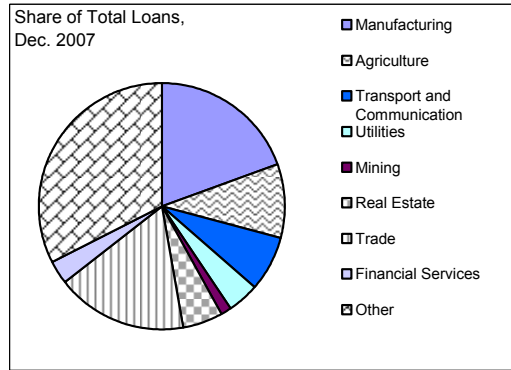
... reflecting strong financial deepening.



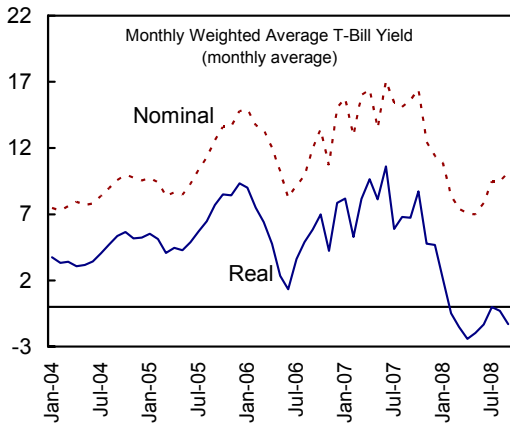
Lending is also expanding rapidly...



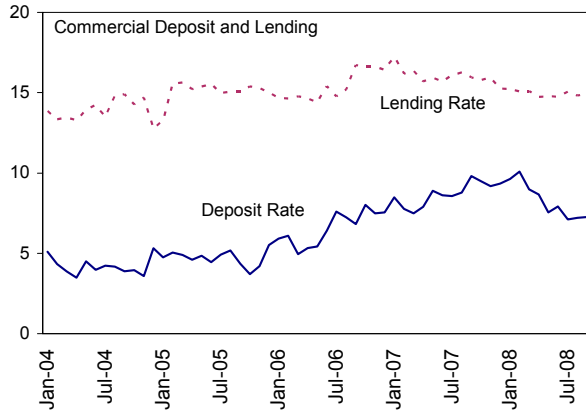
... largely to productive sectors.



T-bill yields have begun to increase, but have turned negative in real terms.

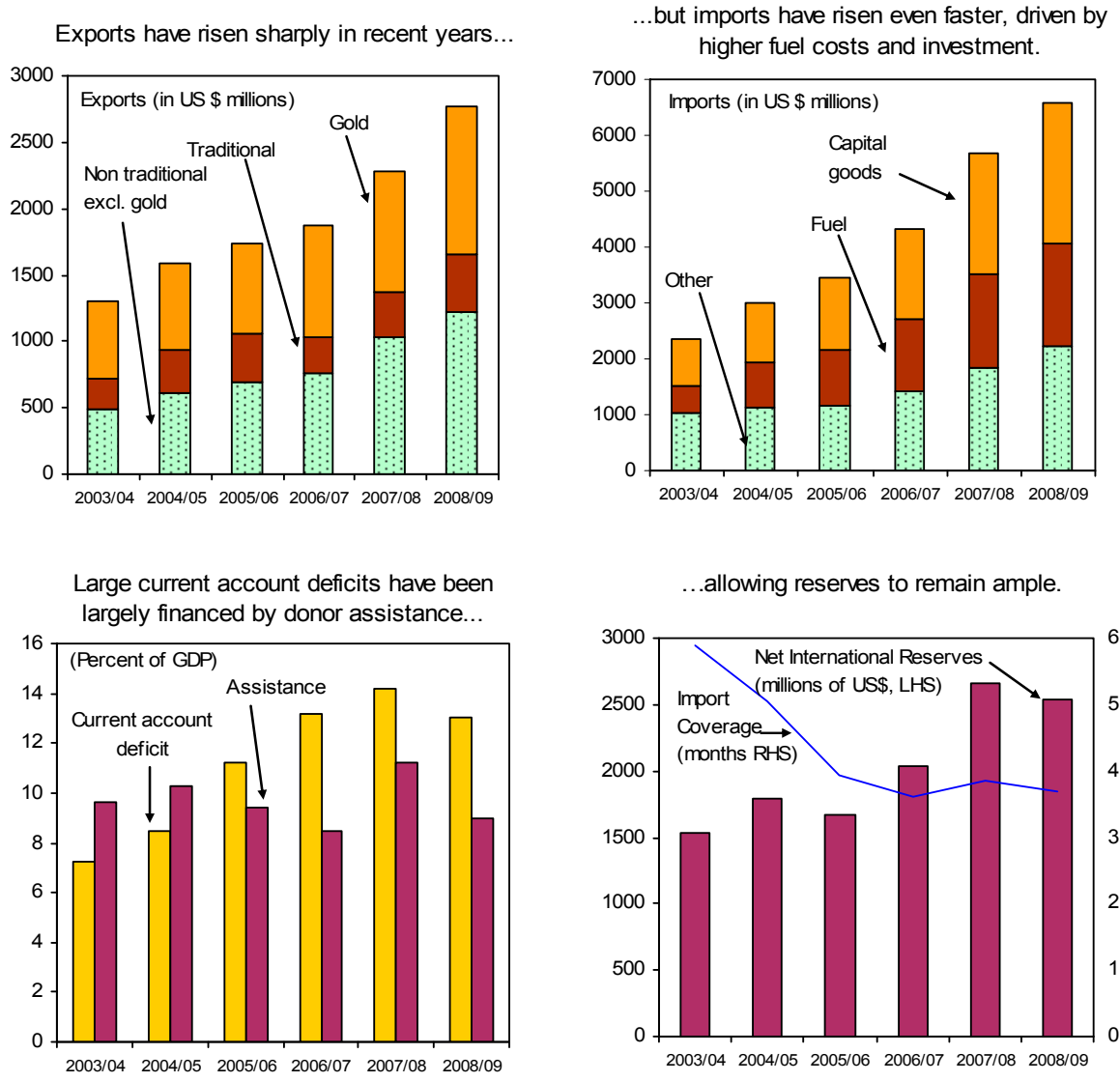


Commercial bank deposit rates have recently fallen, leading to a wider spread with lending rates.



Source: Bank of Tanzania

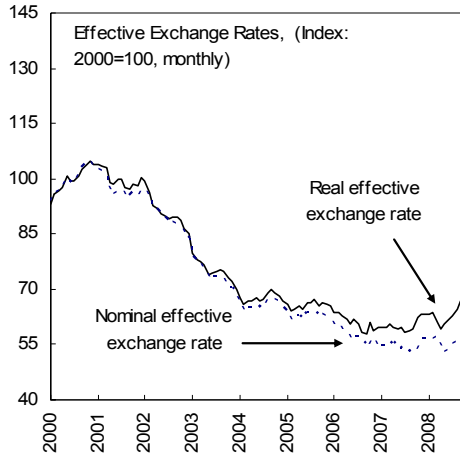
Figure 4. Tanzania: External Sector Developments



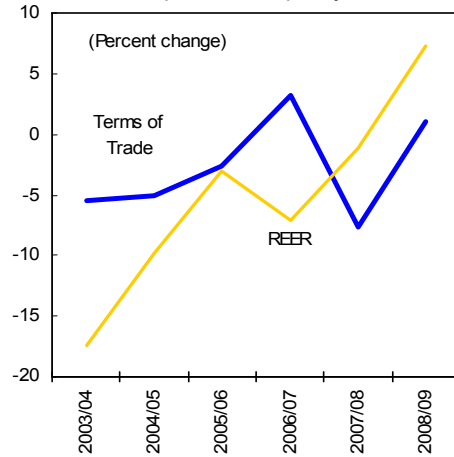
Source: Tanzania authorities; Fund staff estimates.

Figure 5. Tanzania: Exchange Rate Developments

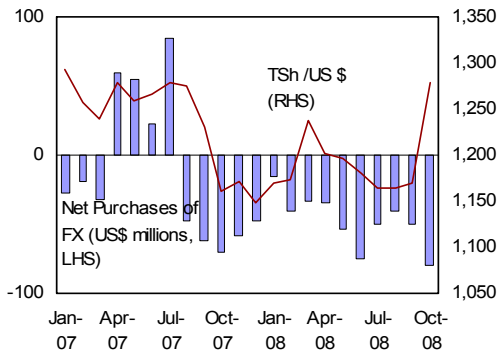
Effective exchange rate depreciation has slowed.



Deteriorating terms of trade contributed to depreciation in past years.

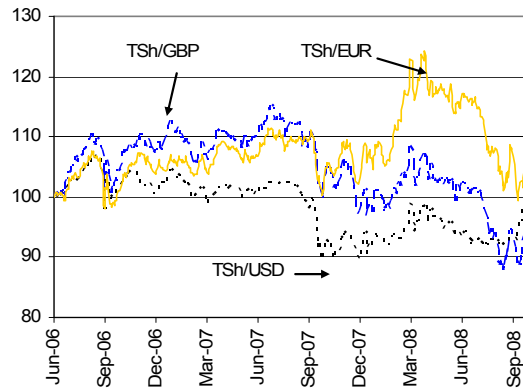


The shilling recently depreciated against the U.S. dollar, in a context of heightened risk aversion related to the global financial crisis.



However, the shilling firmed up against other major currencies.

(Index=100, June 30, 2006)



Source: Tanzania authorities; Fund staff estimates.

Figure 6. Tanzania's Performance in Perspective

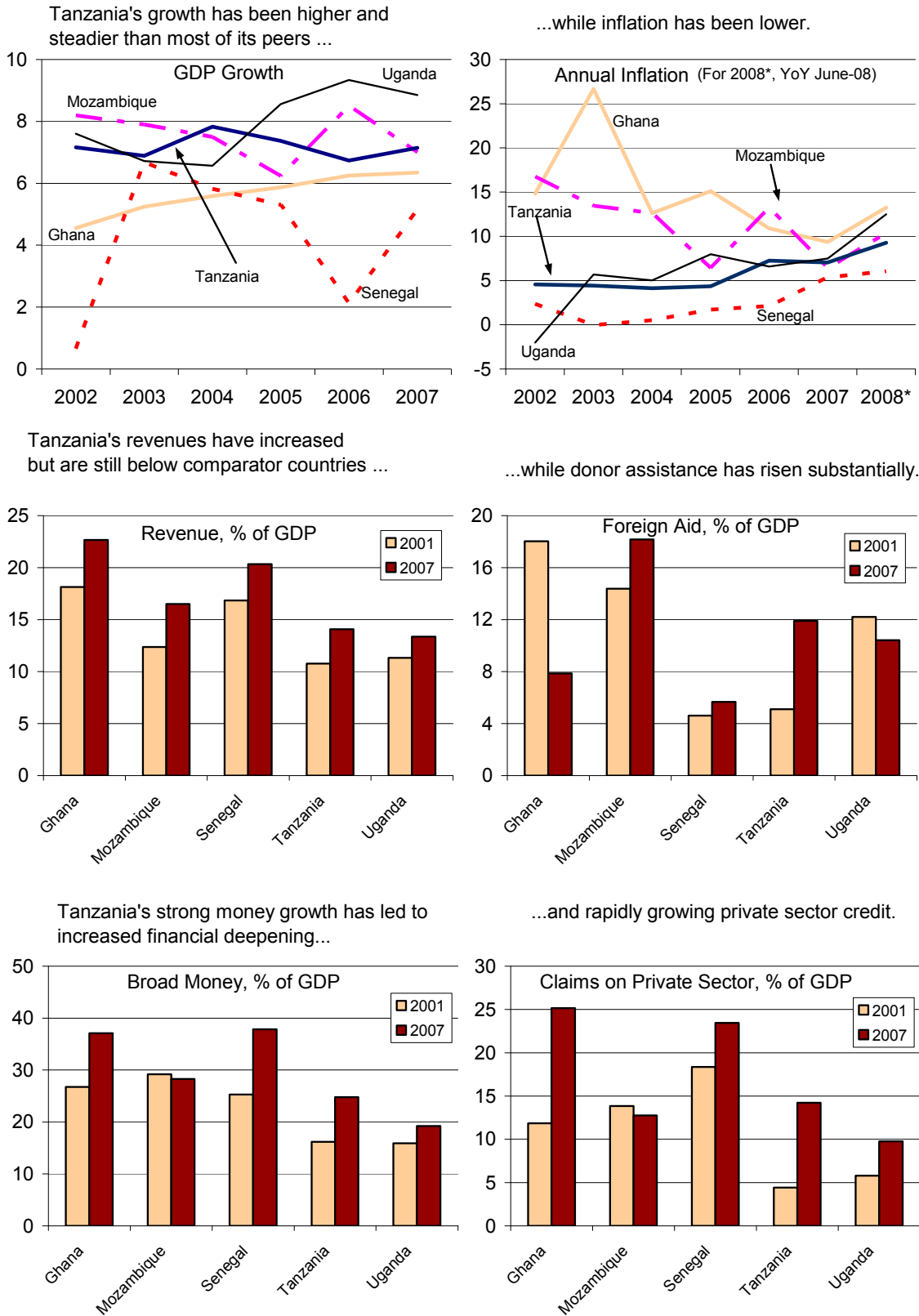
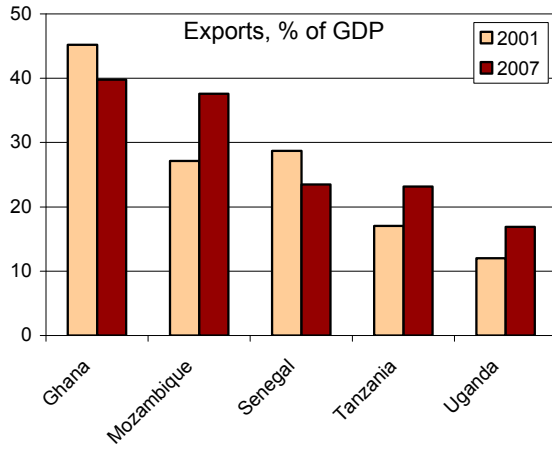
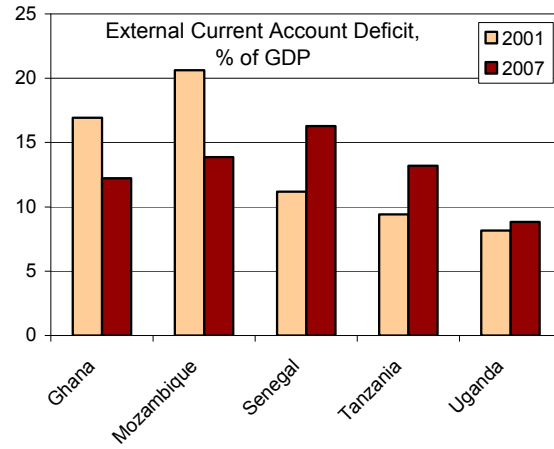


Figure 6. Tanzania's Performance in Perspective (cont.)

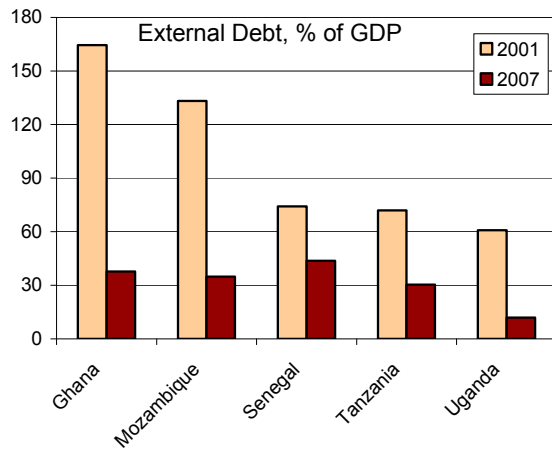
Tanzania's export performance has improved.



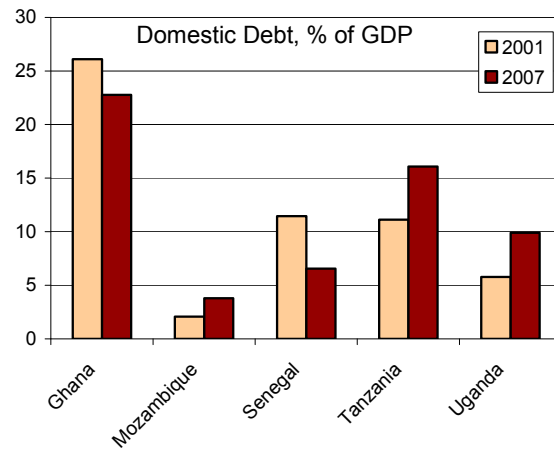
But the external current account has widened due to the growing aid-financed imports.



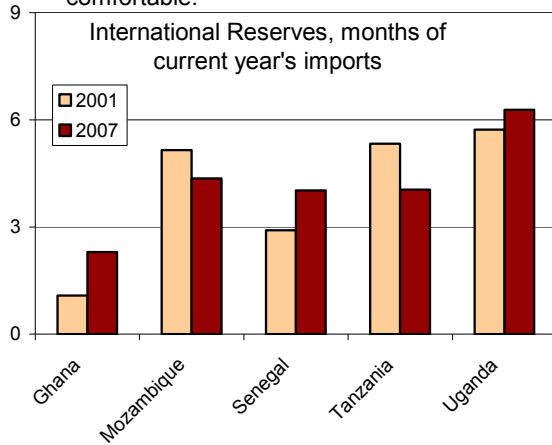
Although external debt has fallen...



...the domestic debt burden has remained high.



Tanzania's reserve position is relatively comfortable.



The business environment has improved, but still compares poorly worldwide.

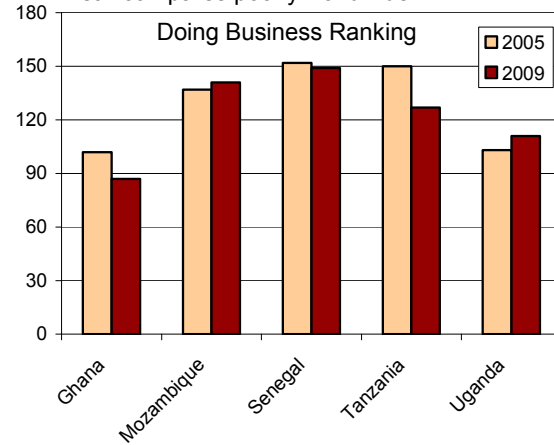


Table 1. Tanzania: Selected Economic and Financial Indicators, 2006/07-2010/11

	2005/06	2006/07	2007/08		2008/09		2009/10 Proj.	2010/11 Proj.
			Prog	Est.	Prog	Proj.		
(Annual percentage change, unless otherwise indicated)								
National income and prices								
Real GDP growth (calendar year, at market prices) ¹	7.4	6.7	7.3	7.1	7.8	7.5	8.0	8.0
Real GDP growth (fiscal year, at market prices)	7.0	6.9	7.5	7.3	7.9	7.7	8.0	8.0
Consumer prices (period average)	5.6	6.3	7.8	8.4	5.8	8.3	5.4	5.0
Consumer prices (end of period)	6.8	5.8	7.0	9.3	5.3	6.8	5.0	5.0
External sector								
Export, f.o.b (in U.S. dollars)	1,741	2,060	2,437	2,609	2,887	3,187	3,412	3,575
Imports, f.o.b. (in U.S. dollars)	-3,436	-4,336	-5,250	-5,679	-6,068	-6,590	-7,168	-7,772
Export volume	2.5	-6.6	10.6	6.9	9.3	13.1	8.7	7.2
Import volume	3.4	19.1	6.1	12.6	12.9	9.3	10.3	8.9
Terms of trade	-2.6	3.2	-2.5	-7.7	8.9	1.0	4.4	2.9
Nominal effective exchange rate (end of period; depreciation -)	-10.3	-5.6	...	1.8	...	...	...	...
Real effective exchange rate (end of period; depreciation -)	-6.5	-3.2	...	3.6	...	...	...	...
Money and credit ²								
Broad money (M3)	31.6	20.7	20.0	22.7	18.0	19.3	...	...
Net foreign assets	31.5	11.1	-4.9	4.0	6.0	8.3	...	...
Net domestic assets	31.9	44.9	68.0	58.7	31.1	33.1	...	...
Credit to nongovernment sector	35.9	36.4	39.8	44.6	21.7	30.3	...	...
Velocity of money (GDP/M3; average)	4.7	4.1	3.8	3.9	3.7	3.6	...	...
Treasury bill interest rate (in percent; end of period) ³	8.2	16.0	7.4	8.2	...	...	...	...
(Percent of GDP)								
Public Finance ⁴								
Revenue (excluding grants)	12.5	14.1	16.1	16.0	16.2	18.0	18.5	18.7
Total grants	5.4	4.9	7.8	7.0	5.9	5.5	5.5	4.9
Expenditure (including adjustment to cash)	23.4	23.9	27.3	24.6	26.5	27.2	27.2	26.7
Overall balance (including grants)	-5.5	-4.9	-3.5	-1.6	-4.4	-3.7	-3.2	-3.1
Domestic financing	2.1	1.2	-1.0	-1.5	1.0	0.0	0.0	0.0
Stock of domestic debt (end of period)	14.7	15.7	...	13.5	...	11.7	9.9	8.8
Savings and investment ¹								
Resource gap	-13.8	-13.1	-13.6	-13.4	-13.5	-12.8	-13.0	-13.1
Investment	27.6	29.6	28.8	31.8	28.9	32.6	32.9	32.7
Government	5.9	7.2	9.5	8.8	8.8	9.5	9.5	9.3
Nongovernment ⁵	21.7	22.5	19.3	23.0	20.1	23.1	23.4	23.5
Gross domestic savings	13.9	16.6	15.2	18.4	15.5	19.8	19.9	19.6
External sector								
Current account balance (excluding current transfers)	-11.2	-13.2	-14.2	-14.2	-13.3	-13.0	-13.0	-13.0
Current account balance (including current transfers)	-7.7	-9.9	-10.6	-10.7	-10.8	-10.1	-10.1	-10.2
(Millions of U.S. dollars, unless otherwise indicated)								
Balance of payments								
Current account balance (excluding current transfers; deficit -)	-1,612	-2,005	-2,597	-2,675	-2,784	-2,871	-3,154	-3,478
Overall balance of payments (deficit -)	251	286	240	479	42	144	264	341
Gross official reserves	1,863	2,153	2,394	2,649	2,436	2,793	3,057	3,397
In months of imports of goods and nonfactor services	3.9	3.6	3.6	3.8	3.3	3.7	3.7	3.7
External debt (percent of GDP)	57.4	29.1	29.8	28.8	29.7	29.3	31.5	33.9

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

¹ Data are on calendar year basis. For example, 2005/06 data are for calendar year 2005.² Figures for 2008/09 reflect new series based on the Fund's 2000 *Monetary and Financial Statistics Manual*.³ Monthly weighted-average yield of 35-, 91-, 182-, and 364-day treasury bills.⁴ 2008/09 projections are based on budget submission. Medium term projections are based on the 2007/08 preliminary outturn.⁵ Including change in stocks.

Table 2. Tanzania: National Accounts, 2006-2011

	2006	2007	2008		2009		2010	2011
		Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.
(Annual percentage change in real terms)								
GDP at market prices								
Nominal (billions of T Sh, calendar-year basis)	17,941	20,948	23,250	24,389	26,485	28,100	31,743	35,857
Real (percentage change)	6.7	7.1	7.8	7.5	8.0	8.0	8.0	8.0
Deflator (percentage change)	5.3	9.0	7.0	8.9	5.9	7.2	5.0	5.0
Sectoral components of GDP								
Agriculture	3.9	4.0	4.0	4.6	4.2	4.1	4.1	4.2
Industry	8.5	9.5	9.9	9.2	10.4	10.9	10.8	10.3
Services	7.7	8.0	8.7	8.4	9.1	8.9	8.8	8.9
<i>Memorandum items:</i>								
	2005/06	2006/07	2007/08		2008/09		2009/10	2010/11
		Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.
Nominal GDP (billions of T sh, fiscal-year basis)	16,953	19,445	21,758	22,669	24,868	26,244	29,922	33,800
Nominal GDP growth	13.3	14.7	14.5	16.6	14.3	15.8	14.0	13.0
Real GDP growth	7.0	6.9	7.5	7.3	7.9	7.7	8.0	8.0
CPI inflation (average)	5.6	6.3	7.8	8.4	5.8	8.3	5.4	5.0
CPI inflation (end period)	6.8	5.8	7.0	9.3	5.3	6.8	5.0	5.0

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

Table 3. Tanzania: Central Government Operations, 2005/06-2010/11 ¹
(Billions of Tanzania Shilling)

	2005/06	2006/07	2007/08		2008/09		2009/10	2010/11
	Actual	Actual	Prog.	Prel.	Prog.	Revised Prog.	Proj.	Proj.
Total revenue	2,125	2,739	3,502	3,635	4,028	4,729	5,540	6,307
Tax revenue	1,946	2,529	3,299	3,359	3,794	4,485	5,196	5,868
Import duties	191	246	263	289	302	421	494	562
Value-added tax	803	832	1,042	1,042	1,198	1,256	1,472	1,675
Excises ²	262	520	713	661	820	932	1,092	1,243
Income taxes	554	714	917	984	1,054	1,393	1,632	1,858
Other taxes	137	219	365	383	419	483	565	644
Nontax revenue	178	210	203	275	234	243	344	439
Total expenditure	3,873	4,475	5,948	5,217	6,583	7,139	8,142	9,010
Recurrent expenditure	2,920	3,296	3,747	3,398	4,371	4,648	5,279	5,837
Wages and salaries	657	976	1,146	1,135	1,458	1,570	1,790	2,022
Interest payments	219	216	276	265	303	282	259	262
Domestic	164	185	254	237	270	248	198	188
Foreign ²	55	31	22	27	34	35	61	74
Goods and services and transfers	2,044	2,105	2,326	1,998	2,609	2,795	3,230	3,553
of which: MDRI (IMF) related	0	18	7	7	0	0	0	0
Development expenditure	953	1,179	2,201	1,819	2,213	2,491	2,863	3,173
Domestically financed	296	504	1,012	974	853	1,359	1,640	1,852
of which: MDRI (IMF) related	0	105	206	114	66	66	100	0
Foreign financed	657	675	1,188	845	1,360	1,132	1,223	1,321
Overall balance before grants	-1,748	-1,736	-2,446	-1,583	-2,555	-2,411	-2,601	-2,703
Grants	911	953	1,695	1,581	1,465	1,441	1,646	1,669
Program (including basket grants) ³	507	591	805	832	605	750	872	940
Project	328	242	684	636	793	625	675	729
HIPC grant relief	76	0	0	0	0	0	0	0
MDRI (IMF) grant relief	0	123	206	114	66	66	100	0
Overall balance after grants	-837	-783	-751	-1	-1,091	-969	-955	-1,034
Adjustment to cash ⁴	-87	-171	0	-378	0	0	0	0
Overall balance (cash basis)	-924	-954	-751	-379	-1,091	-969	-955	-1,034
Financing	924	954	751	379	1,091	969	955	1,034
Foreign (net)	561	717	1,004	730	877	946	997	1,082
Foreign loans	669	746	1,025	775	905	988	1,077	1,162
Program (including basket loans) ³	340	313	521	566	338	481	529	570
Project	329	433	504	209	567	507	548	592
Amortization	-108	-30	-22	-45	-28	-42	-80	-81
Domestic (net)	349	237	-224	-336	249	0	0	0
Bank financing	127	25	...	...	...	...	...	...
Nonbank financing	222	212	...	...	...	...	...	...
Amortization of parastatal debt	-19	0	-29	-15	-35	-37	-42	-48
Privatization proceeds	33	0	0	0	0	60	0	0
<i>Memorandum items:</i>								
Public domestic debt (in percent of GDP)	14.8	16.1	13.0	13.5	12.4	11.7	9.9	8.8
Ratio of recurrent expenditures to total revenue	137	120	107	93	109	98	95	93
Nominal GDP ⁵	16,857	19,010	21,758	22,669	24,868	26,244	29,922	33,800

Table 3. Tanzania: Central Government Operations, 2005/06-2010/11 (continued)¹
(Percent of GDP)

	2005/06	2006/07	2007/08		2008/09		2009/10	2010/11
	Actual	Actual	Prog.	Prel.	Prog.	Revised Prog.	Proj.	Proj.
Total revenue	12.6	14.4	16.1	16.0	16.2	18.0	18.5	18.7
Tax revenue	11.5	13.3	15.2	14.8	15.3	17.1	17.4	17.4
Import duties	1.1	1.3	1.2	1.3	1.2	1.6	1.7	1.7
Value-added tax	4.8	4.4	4.8	4.6	4.8	4.8	4.9	5.0
Excises	1.6	2.7	3.3	2.9	3.3	3.6	3.6	3.7
Income taxes	3.3	3.8	4.2	4.3	4.2	5.3	5.5	5.5
Other taxes	0.8	1.1	1.7	1.7	1.7	1.8	1.9	1.9
Nontax revenue	1.1	1.1	0.9	1.2	0.9	0.9	1.2	1.3
Total expenditure	23.0	23.5	27.3	23.0	26.5	27.2	27.2	26.7
Recurrent expenditure	17.3	17.3	17.2	15.0	17.6	17.7	17.6	17.3
Wages and salaries	3.9	5.1	5.3	5.0	5.9	6.0	6.0	6.0
Interest payments	1.3	1.1	1.3	1.2	1.2	1.1	0.9	0.8
Domestic	1.0	1.0	1.2	1.0	1.1	0.9	0.7	0.6
Foreign ²	0.3	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Goods and services and transfers	12.1	11.1	10.7	8.8	10.5	10.6	10.8	10.5
of which: MDRI (IMF) related	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Development expenditure	5.7	6.2	10.1	8.0	8.9	9.5	9.6	9.4
Domestically financed	1.8	2.7	4.7	4.3	3.4	5.2	5.5	5.5
of which: MDRI (IMF) related	0.0	0.6	0.9	0.5	0.3	0.3	0.3	0.0
Foreign financed	3.9	3.6	5.5	3.7	5.5	4.3	4.1	3.9
Overall balance before grants	-10.4	-9.1	-11.2	-7.0	-10.3	-9.2	-8.7	-8.0
Grants	5.4	5.0	7.8	7.0	5.9	5.5	5.5	4.9
Program (including basket grants) ³	3.0	3.1	3.7	3.7	2.4	2.9	2.9	2.8
Project	1.9	1.3	3.1	2.8	3.2	2.4	2.3	2.2
HIPC grant relief	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI (IMF) grant relief	0.0	0.6	0.9	0.5	0.3	0.3	0.3	0.0
Overall balance after grants	-5.0	-4.1	-3.5	0.0	-4.4	-3.7	-3.2	-3.1
Adjustment to cash ⁴	-0.5	-0.9	0.0	-1.6	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-5.5	-5.0	-3.5	-1.6	-4.4	-3.7	-3.2	-3.1
Financing	5.5	5.0	3.5	1.6	4.4	3.7	3.2	3.1
Foreign (net)	3.3	3.8	4.6	3.2	3.5	3.6	3.3	3.2
Foreign loans	4.0	3.9	4.7	3.4	3.6	3.8	3.6	3.4
Program (including basket loans) ²	2.0	1.6	2.4	2.5	1.4	1.8	1.8	1.7
Project	2.0	2.3	2.3	0.9	2.3	1.9	1.8	1.8
Amortization	-0.6	-0.2	-0.1	-0.2	-0.1	-0.2	-0.3	-0.2
Domestic (net)	2.1	1.2	-1.0	-1.5	1.0	0.0	0.0	0.0
Bank financing	0.8	0.1	...	...	...	...	...	...
Nonbank financing	1.3	1.1	...	...	...	...	...	...
Amortization of parastatal debt	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Privatization proceeds	0.2	0.0	0.0	0.0	0.0	0.2	0.0	0.0

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

¹ Fiscal year: July-June.

² Some projected external debt obligations are under negotiation for relief with a number of creditors.

³ Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

⁴ Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.

⁵ The nominal GDP series was revised upwards by about 10% in 2007. All ratios to GDP have been revised accordingly.

Table 4. Tanzania: Summary Accounts of the Bank of Tanzania, 2007/08-2008/09
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2008										2009			
	March		June		June	September		December		March	June			
	Prog.	Act.	Prog.	Act.	New Base ¹	Prog.	Prel.	Prog.	Revised Prog. ¹	Prog.	Revised Prog. ¹	Prog.	Revised Prog. ¹	
Net foreign assets	2,933	3,260	2,665	2,966	3,120	2,399	2,928	2,785	3,268	2,784	3,326	2,776	3,385	
Net international reserves (Millions of U.S. dollars)	2,967 2,412	3,294 2,664	2,699 2,301	3,001 2,541	3,120 2,642	2,433 2,062	2,963 2,535	2,820 2,377	3,268 2,758	2,819 2,363	3,326 2,772	2,810 2,343	3,385 2,786	
Medium- and long-term foreign liabilities	-35	-35	-35	-35	0	-35	-35	-35	0	-35	0	-35	0	
Net domestic assets	-967	-1,316	-639	-886	-1,040	-219	-564	-570	-968	-501	-996	-406	-967	
Credit to government of which: Excluding liquidity paper of which: MDRI (IMF)	-1,475 -294 ...	-1,206 -62 ...	-1,205 -153 ...	-1,163 4 ...	-1,407 -240 -162	-911 241 ...	-958 139 ...	-1,241 -89 ...	-1,502 -414 -130	-1,081 71 ...	-1,501 -364 -98	-1,055 96 ...	-1,428 -240 -99	
Other items (net) of which: MDRI (IMF) of which: REPOs	508 -121 -70	-110 -187 -131	566 -66 -83	277 -162 -106	367 ... -105	693 -33 -18	394 -149 -123	670 0 -49	533 ... -50	580 0 -134	505 ... -113	649 0 -44	461 ... -25	
Reserve money	1,966	1,944	2,025	2,080	2,080	2,180	2,364	2,215	2,300	2,283	2,330	2,370	2,418	
Currency outside banks	1,164	1,143	1,260	1,272	1,269	1,400	1,453	1,385	1,397	1,283	1,372	1,486	1,511	
Bank reserves	802	801	766	807	810	780	911	829	903	1,001	958	883	907	
Currency in banks	130	183	149	179	182	208	222	221	203	170	215	172	203	
Deposits	672	618	617	628	628	573	689	608	700	831	743	711	703	
Required reserves (calculated) ²	427	419	422	420	420	415	426	444	492	500	517	500	537	
Excess reserves (calculated)	245	199	194	208	208	158	263	164	208	331	226	211	167	
<i>Memorandum items:</i>														
Stock of liquidity paper	1,181	1,144	1,052	1,168	1,168	1,152	1,097	1,152	1,088	1,152	1,138	1,152	1,188	
Average reserve money	1,956	1,922	2,022	2,049	2,049	2,185	2,350	2,220	2,320	2,288	2,350	2,366	2,438	

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

¹ Data reflect new series based on the Fund's 2000 *Monetary and Financial Statistics Manual*.

² Calculated as reserve requirement times banks' deposits minus half of bank cash in vault.

Table 5. Tanzania: Monetary Survey, 2007/08-2008/09
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2008										2009			
	March		June		June	September		December		March		June		
	Prog.	Act.	Prog.	Act.	New Base ¹	Prog.	Prel.	Prog.	Revised Prog. ¹	Prog.	Revised Prog. ¹	Prog.	Revised Prog. ¹	
Net foreign assets	3,548	3,926	3,251	3,553	3,689	3,018	3,445	3,438	3,932	3,416	3,938	3,447	3,995	
Bank of Tanzania	2,933	3,260	2,665	2,966	3,120	2,399	2,928	2,785	3,268	2,784	3,326	2,776	3,385	
Commercial banks	615	666	587	587	569	619	517	653	663	632	612	672	610	
Net domestic assets	2,535	2,322	2,977	2,813	2,919	3,570	3,376	3,497	3,386	3,716	3,667	3,902	3,885	
Domestic credit	2,710	3,168	3,170	3,247	3,114	3,731	3,695	3,680	3,457	3,943	3,703	4,080	4,054	
Credit to government (net)	-150	58	11	-22	-151	375	-119	45	-355	205	-315	235	-201	
Credit to nongovernment sector	2,860	3,110	3,159	3,269	3,265	3,357	3,815	3,635	3,812	3,738	4,018	3,845	4,255	
Other items (net)	-175	-846	-193	-434	-195	-161	-319	-183	-71	-227	-36	-178	-169	
M3	6,083	6,248	6,228	6,366	6,608	6,588	6,821	6,935	7,318	7,132	7,605	7,349	7,881	
Foreign currency deposits	1,832	1,845	1,833	1,737	1,781	1,940	1,770	2,042	2,127	2,100	2,212	2,163	2,076	
M2	4,251	4,403	4,395	4,629	4,827	4,649	5,051	4,893	5,190	5,033	5,393	5,186	5,805	
Currency in circulation	1,164	1,143	1,260	1,272	1,269	1,400	1,453	1,385	1,397	1,283	1,372	1,486	1,511	
Deposits (Tanzania Sh)	3,087	3,260	3,135	3,357	3,557	3,249	3,599	3,508	3,793	3,750	4,021	3,699	4,293	
<i>Memorandum items:</i>														
M3 growth (12-month percent change)	23.7	27.1	20.0	22.7	...	20.0	24.2	19.0	17.7	18.0	14.6	18.0	19.3	
Foreign currency deposits (12-month percent change)	13.2	14.0	11.0	5.1	...	17.7	7.4	19.0	16.3	18.0	12.3	18.0	16.6	
M2 growth (12-month percent change)	29.0	33.6	24.2	30.8	...	21.0	31.5	19.0	18.2	18.0	15.6	18.0	20.3	
Credit to nongovernment sector (12-month percent change)	34.0	45.7	39.8	44.6	...	30.2	48.0	26.0	26.4	25.7	23.1	21.7	30.3	
Reserve money (12-month percent change)	33.1	31.6	26.7	30.1	...	29.4	40.3	17.9	22.4	16.2	19.9	17.0	16.3	
Average reserve money (12-month percent change)	23.3	21.2	20.0	21.6	...	19.0	28.0	18.0	23.3	17.0	22.3	17.0	19.0	
Currency/M3 (in percent)	19.1	18.3	20.2	20.0	...	21.2	21.3	20.0	19.1	18.0	18.0	20.2	19.2	
Reserve money multiplier (M3/reserves)	3.1	3.3	3.1	3.1	...	3.0	2.9	3.1	3.2	3.1	3.2	3.1	3.2	
Velocity of money (M3; average)	...	...	3.8	3.9	...	...	...	...	...	...	...	3.7	3.6
Nonbank financing of the government (net) ²	199	-194	284	-30	...	60	202	60	30	40	40	50	50	
Bank financing of the government (net) ²	-289	-236	-284	-317	...	334	-97	4	-204	184	-164	199	-50	
Bank and nonbank financing of the government (net) ²	-90	-430	0	-346	...	394	105	64	-174	224	-124	249	0	

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

¹ Data reflect new series based on the Fund's 2000 *Monetary and Financial Statistics Manual*.

² Cumulative from the beginning of the fiscal year (July 1).

Table 6: Financial Soundness Indicators, 2003–08
(Percent, end of calendar year) ¹

	2003	2004	2005	2006	2007	2008
Access to bank lending						
Claims on the non-government sector to GDP ²	5.4	7.6	8.9	11.3	13.8	16.5
Capital adequacy						
Capital to risk-weighted assets	21.0	21.2	22.0	16.3	16.2	15.4
Capital to assets	9.9	10.2	10.0	7.6	8.1	9.1
Asset composition and quality						
Total loans and advances to total assets	30.2	33.7	33.7	37.3	41.1	47.5
Sectoral distribution of loans						
Trade	23.8	22.4	23.5	18.8	17.0	15.9
Mining and manufacturing	27.3	22.2	22.0	22.5	20.0	14.5
Agricultural production	14.1	12.8	12.7	14.4	11.9	11.6
Building and construction	5.5	3.8	5.7	6.6	5.1	6.3
Transport	10.3	8.3	7.4	9.5	6.9	7.6
Foreign exchange loans						
Foreign exchange loans	27.2	28.9	32.7	33.6	31.5	28.8
Gross nonperforming loans (NPLs) to gross loans ²						
Gross nonperforming loans (NPLs) to gross loans ²	4.5	3.5	4.9	7.3	6.3	6.3
NPLs net of provisions to gross loans ³						
NPLs net of provisions to gross loans ³	3.0	2.5	4.3	4.5	4.3	...
Large exposures to total capital						
Large exposures to total capital	59.3	64.1	53.3	27.3	42.3	...
Earnings and profitability						
Return on assets	2.1	2.9	3.3	3.9	4.7	3.8
Return on equity	20.7	28.4	33.1	37.0	29.0	22.7
Interest margin to gross income	51.5	54.8	60.9	74.9	73.7	76.5
Noninterest expenses to gross income	67.1	61.6	56.9	43.5	42.8	49.0
Personnel expenses to noninterest expenses	39.9	39.0	39.6	39.5	40.5	41.9
Trading and fee income to total income	42.3	39.1	33.6	28.9	24.2	...
Liquidity						
Liquid assets to total assets	56.3	53.6	55.0	48.6	48.1	41.3
Liquid assets to total short term liabilities	62.8	62.0	62.4	55.5	53.0	45.5
Total loans to customer deposits	41.2	44.4	42.4	50.1	57.5	67.9
Foreign exchange liabilities to total liabilities	36.5	34.7	34.9	38.6	34.1	29.7

Sources: Bank of Tanzania; and Fund staff estimates.

¹ For 2008, reflects data for September.

² Calendar year; end of period claims relative to annual GDP. For 2008, based on projected GDP.

³ The increase in nonperforming loans to gross loans between 2005 and 2006 was due largely to a change in reporting standards.

Table 7. Tanzania: Balance of Payments, 2005/06-2010/11
(Millions of U.S. dollars, unless otherwise indicated)

	2005/06	2006/07	2007/08		2008/09		2009/10	2010/11
	Act.	Est.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.
Current account	-1,110	-1,496	-1,947	-2,012	-2,274	-2,240	-2,447	-2,736
Trade balance	-1,695	-2,276	-2,813	-3,070	-3,181	-3,403	-3,757	-4,198
Exports, f.o.b.	1,741	2,060	2,437	2,609	2,887	3,187	3,412	3,575
Of which: Traditional	364	281	406	339	479	432	453	481
Imports, f.o.b	-3,436	-4,336	-5,250	-5,679	-6,068	-6,590	-7,168	-7,773
Of which: Oil	-1,010	-1,298	...	-1,683	...	-1,833	-1,830	-1,871
Services (net)	135	307	217	401	439	608	691	769
Income (net)	-81	-58	-36	-28	-78	-100	-113	-76
Of which: interest payments due	-51	-26	-29	-30	-41	-51	-75	-86
Of which: interest on public debt	-49	-22	-18	-20	-28	-28	-49	-58
Of which: interest on central government debt ¹	-49	-22	-18	-20	-28	-28	-49	-58
Current transfers (net)	531	530	685	686	547	655	732	769
Of which: official transfers	502	509	650	663	510	631	708	743
Of which: program grants	435	496	650	663	510	631	708	743
HIPC relief	67	13	0	0	0	0	0	0
Capital account	662	4,859	633	627	720	588	615	648
Of which: project grants	281	189	575	570	668	526	548	576
Debt stock reduction under MDRI (including HIPC)	336	4,621	0	0	0	0	0	0
Of which: HIPC	37	1,157	0	0	0	0	0	0
Financial account	900	-3,105	1,554	1,628	1,596	1,796	2,097	2,429
MDRI (including HIPC)	0	-4,621	0	0	0	0	0	0
Of which: HIPC	0	-1,157	0	0	0	0	0	0
Direct investment	541	653	738	712	796	802	890	988
Other investment	357	860	814	914	797	991	1,203	1,437
Of which: Program loans	293	254	407	458	285	405	430	451
Project loans	278	338	424	419	478	427	445	468
Government-scheduled amortization ¹	-87	-21	-16	-38	-23	-33	-65	-64
Errors and omissions	-201	28	0	235	0	0	0	0
Overall balance	251	286	240	479	42	144	264	341
Financing	-251	-286	-240	-479	-42	-144	-264	-341
Change in BoT reserve assets (increase, -)	105	-290	-240	-479	-42	-144	-264	-340
Use of Fund credit	-357	4	0	0	0	0	0	-1
<i>Memorandum items:</i>								
Gross official reserves (BoT)	1,863	2,153	2,394	2,649	2,436	2,793	3,057	3,397
Months of imports of goods and services (next year)	3.9	3.6	3.6	3.8	3.3	3.7	3.7	3.7
Current account deficit (percent of GDP)								
Excluding official current transfers	-11.2	-13.2	-14.2	-14.2	-13.3	-13.0	-13.0	-13.0
Including official current transfers	-7.7	-9.9	-10.6	-10.7	-10.8	-10.1	-10.1	-10.2
Foreign program and project assistance (percent of GDP)	9.4	8.5	11.2	11.2	9.3	9.0	8.8	8.4
Foreign direct investment (percent of GDP)	3.8	4.3	4.0	3.8	3.8	3.6	3.7	3.7
Nominal GDP	14,332	15,185	18,283	18,865	20,960	22,091	24,299	26,727

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

¹ Relief on some projected external debt obligations is being negotiated with a number of creditors.

² Arrears are on non-Paris Club official and commercial debt subject to rescheduling.

Appendix I. Letter of Intent

Dar Es Salaam
Tanzania

December 3, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. Implementation of the financial and economic program supported by the Fund under the Policy Support Instrument (PSI) and implemented by the Government of Tanzania continued successfully during January to June 2008. We have recently held detailed discussions with the Fund Staff regarding progress in all areas of the programme. I hereby transmit the Memorandum of Economic and Financial Policies (MEFP) developed after consultations with the staff, and which reviews progress in the implementation of our program, economic developments in the second half of 2007/08, and the outlook to June 2009. The Memorandum also sets out the economic and financial policies that the Government intends to pursue in the medium term.

2. Program implementation during the period January to June, 2008 was broadly on track; With one exception, all quantitative assessment criteria and benchmarks for end-June, 2008 were met. Similarly, the broad structural reform program, which is aimed at raising Tanzania's growth potential and therefore sustainably reduce poverty, moved forward. A memorandum of understanding between the Ministry of Finance and Economic Affairs and the Bank of Tanzania was adopted, albeit with a small delay (assessment criterion for end-September). The preparation of the first quarterly financial stability report by the Bank of Tanzania (structural benchmark for end-September) was also delayed and postponed to end-December. The reform programme is anchored on our growth and poverty reduction strategy (MKUKUTA) which prioritises broad based growth through investment in productive infrastructure and social services.

3. Other core reforms, especially the tax and customs administration reforms, the local government reforms, the legal sector reforms and public service reforms, have also continued at a good pace.

4. Despite mounting exogenous shocks emanating from the protracted surge of international oil and foods prices, the conduct of monetary policy continued to yield good results, with inflation contained within single digit and low domestic interest rates. The Government is accelerating implementation of the second generation financial sector reforms, and improving the business environment to promote investment as the prerequisites for accelerated and sustainable growth in a stable macroeconomic environment. The voluntary safeguards assessment of the Bank of Tanzania (BoT) by the Fund, which was completed in August 2008, validated the steps already taken and

provided valuable input for the BoT's strategy to strengthen its internal governance as reflected in the its corporate plan.

5. Notably, the harmonization of the regulatory framework for pension funds is underway, and the Social Security (Regulatory Authority) Act of 2008 came into effect on 1st November, 2008. Progress has also been made in planned transfer of government deposits in commercial banks to the BoT, and cash management generally.

6. The Government of Tanzania is confident that the policies set forth in the attached MEFP are adequate to achieve the objectives of its programme but it will, in consultation with the Fund, take any other appropriate measures for this purpose. The Government therefore requests the Board to support these policies as described in the MEFP by completing the fourth review under the PSI arrangement. We would request that the sixth review of the PSI take place by October 31, 2009.

7. In the context of the PSI framework, we will regularly update the IMF on developments in our economic and financial policies, and provide the data needed for the monitoring of the programme. The Government will also consult regularly with the Fund on any relevant developments at the initiative of the Government, or the Fund.

8. The Government of Tanzania intends to make this letter and the attached MEFP, together with Fund staff reports related to this review under the PSI, available to the public and hereby authorises the IMF to publish the same on its website once the review is completed by the Executive Board.

Yours Sincerely,

/ s /

Mustafa H Mkulo (MP)
MINISTER FOR FINANCE AND ECONOMIC AFFAIRS
UNITED REPUBLIC OF TANZANIA

Attachments: Memorandum of Economic and Financial Policies.
Technical Memorandum of Understanding

Appendix I. Attachment I. Tanzania: Memorandum of Economic and Financial Policies

December 3, 2008

I. RECENT MACROECONOMIC DEVELOPMENTS AND PROGRESS UNDER THE PROGRAMME

Recent economic developments

1. During the year to June 2008, the economy was subject to external pressures emanating from high global fuel and food prices but good performance continued, with a 7.3 percent real GDP growth estimated for 2007/08 compared to 6.9 percent in 2006/07. The transport and communications (10.1. percent), mining (9.8 percent), construction (9.4 percent), and tourism and trade (8.7 percent) sectors continued to reflect particularly good performance. The inflationary pressures experienced in the second half of 2007, mainly due to high global oil prices, were sustained during the half year to June 2008. From 5.8 in June 2007, end of period annual inflation increased to 9.3 percent in June, 2008¹.

Fiscal outturn

2. Tanzania continued to experience strong fiscal performance during 2007/08 with domestic revenue, and programme support, exceeding projections for the year to June 2008. Income Tax (especially PAYE and corporate income tax) and VAT performed particularly well. The overall outturn for the year reflects a 33 percent increase over actual collections during the preceding year. Although posting a good 31 percent growth, non-tax revenue performed below expectations.

3. All major categories of expenditure during the year to June 2008 were below projections, mainly on account of slow procurement. Implementation of foreign financed projects, which had benefited from accelerated disbursement in the first half of the year, closed at 71 percent of projections for the year. Nevertheless, expenditure on priority social services continued to benefit from the strong fiscal position, with timely disbursements made against the backdrop of the continued observance of the cash budget system.

4. The combination of above-target revenue and foreign financing on one hand, and below-projection expenditure on the other contributed to net domestic savings by the Government and a higher than anticipated build up of foreign exchange reserves at the BoT.

Tax Reforms:

5. Building on the success of recent measures to broaden the tax base, the Tanzania Revenue Authority (TRA) scaled up its block management and physical surveys programme, and registered an additional 57,011 taxpayers during the 2007/08 fiscal year.

¹ Period average inflation for 2007/08 was 8.4 percent, from 6.3 percent in 2006/07.

In furtherance of the already implemented integration of tax and customs post-clearance audits, TRA is strengthening the ITAX audit and debt management modules as part of a programme to build integrated capacity for tax law enforcement. Large Taxpayers Units (LTUs) to cater for medium sized taxpayers have been established in nine tax regional offices of the Domestic Revenue Department—accounting for the bulk of tax collection—building on the experience of the Large Taxpayers’ Department (LTD)². The modernisation programme has been accelerated too, with 273 traders trained on e-filing during the fiscal year and 112 domestic tax returns submitted electronically by taxpayers in the pilot districts. Following successful piloting of a Quality Management System in the LTD since December 2006, TRA has rolled over to an enterprise-wide implementation of the system after an independent auditing firm recommended TRA’s ISO certification.

6. Customs reform continued to focus on increasing capacity for trade facilitation, and interfacing operations with domestic revenue operations. Progress with the integration of the Customs and Excise Department’s and TISCAN’s systems has continued, and is scheduled for completion by the end of 2008 by which time importers will only be required to file a single import declaration (December 2008 structural benchmark). In addition, the plan prepared for a successful transition from private contractors in customs (TISCAN and NECOR) is being implemented as planned.

Public Financial Management

7. The Government remains committed to the strengthening of the planning and budget management systems and processes to achieve MKUKUTA desired results. The priority in this regard is to ensure consistency of the annual and medium term budgets with MKUKUTA through, among others, integrating MKUKUTA objectives and targets in the strategic plans (SP) and budgets of the various implementing institutions. The Government has continued to customise further the Strategic Budget Allocation System (SBAS) tool for facilitating complex resource allocation between votes and cross-cutting MKUKUTA cluster strategies. The focus has been also on updating the budget module in IFMS for accommodating new requirements of capturing MTEF objectives and targets as well as MKUKUTA elements. The capacity building for strengthened public financial management is coordinated under the Public Financial Management Reform Programme (PFMRP) and supported by several donors.

8. The Government and the BoT have signed a Memorandum of Understanding setting out the respective responsibilities on sharing the costs of sterilization as well as the clearance of outstanding claims regarding historical sterilization costs. The MoU stipulates an explicit sharing formula for the cost of sterilization going forward, providing for quarterly transfers from government to the BoT. The division of labour on debt management is guided by the Government (Loans, Guarantees, and Grants) Act 1974 as amended in 2003. Capacity building for all institutions involved in debt management is being scaled up in preparation for increased financing from non-traditional sources, including through international bond markets, for scaled up investment in infrastructure.

9. The Audit Committees established in all MDAs continued to monitor action addressing the observations of the Controller and Auditor General (CAG). Spending

² Ilala, Temeke, Kinondoni, Arusha, Mbeya, Mwanza, Kilimanjaro, Tanga and Morogoro.

agencies are producing quarterly reports of implementation of recommendations of Controller and Auditor General (CAG) and Public Procurement Regulatory Agency (PPRA) audits. The National Audit office (NAO) and PPRA are evaluating the actions taken in the context of subsequent audit work.

Poverty Reduction

10. The recently released preliminary results of the 2007 Household Budget Survey (HBS) indicate that the incidence of poverty declined from 35.7 percent in 2001 to 33.3 percent in 2007. Acquisition of consumer durables has increased beyond expectation. Ownership of radios, bicycles, telephones, and mosquito nets has increased very substantially, with ownership for some of these increasing several fold. It is also noteworthy that the share of food in total household spending has declined by 5 percent. Improvement is reported in primary and secondary school enrolment and attendance, adult literacy, and housing. While the proportion of sick people consulting a health provider was more or less constant since 2001, a higher proportion of respondents reported satisfaction with services in public health facilities, and fewer reported lack of drugs at health facilities generally. However, the proportion of the population with access to piped water declined from 39 percent to 34 percent (against a 2-points increase in access to water from any other protected source), and access to grid electricity remains limited especially for rural communities. Although reflecting a recovery from a shrinkage of the banked population during the initial phase of reforms in the sector (when banks closed branches, new banks imposed high minimum balance conditions, and formal employment opportunities declined following privatisation of most public enterprises), access to financial services remains low, with only 17.8 percent of the households having a bank account or access to an informal savings group compared to 23.1 percent and 10.0 percent in 1991 and 2001 respectively.

11. Given the priority accorded to the provision of basic social services in our poverty reduction strategies hitherto, these results indicate the need for scaling up both the amount and quality of investment in the sectors in order to protect the gains already achieved. This will in turn require increased mobilisation of resources from both domestic and foreign sources, and scaling up investment in the productive sectors in order to accelerate growth and ensure sustainable expansion of the domestic resource base. Once completed, the HBS results will constitute an important input in the preparation of the third growth and poverty reduction strategy in 2009.

Monetary Programme

12. The Bank of Tanzania continued with the monetary policy strategy adopted since October 2007 whereby the policy instrument mix was changed with a view to reducing over-reliance on government securities, which had caused excessive increase in real interest rates on the securities amidst depreciating shilling. The Bank also continued with the reduced frequency of Treasury bills and bonds auctions introduced in January 2008. These measures improved competition and contributed to a substantial reduction in interest rates on government securities and a strengthening of the shilling. However, the change in frequency of auctions caused a temporary mismatch between the timing of redemption and new issues, which made liquidity management less effective during the first half of 2008.

13. The Bank also intensified the use of REPOs for monetary policy. The BOT continued to make small but steady sales of foreign exchange in the IFEM to sterilize aid-related liquidity injections, while maintaining neutrality on the exchange rate. Owing to the sharp increase in government expenditure towards the end of the financial year and sizeable redemption of government securities, the PSI criterion for average reserve money for June 2008 was missed by TZS 12 billion (0.6 percent).

14. Reflecting the high liquidity pressure towards the end of the fiscal year, the growth of extended broad money supply reached 22.7 percent in 2007/08, slightly higher than the PSI target of 20 percent. Meanwhile, a shift into shilling holdings which was induced by the weakening of the dollar in the first quarter of 2008, coupled with higher than programmed increase in credit to the private sector, pushed the growth of the broad money supply (M2) up to 30.8 percent in the year to June 2008, which was well above the program target of 24.2 percent. The decline in interest rates on government securities in the second half of 2007/08 drove banks into more lending to the private sector. This coincided with an unprecedented huge amount of syndicated loans which together led to 44.6 percent annual expansion of credit. This growth was much higher than the provision of 39.8 percent made in the PSI program.

15. Interest rates on treasury bills declined from 11.4 percent in December 2007 to 7.0 percent in May 2008 before picking up slightly to 7.8 percent and 10.2 percent in June and September 2008, respectively. Reflecting the decrease in interest rates on the government securities, overall bank lending interest rates took a downward trend from 15.3 percent in December 2007 to a minimum of 14.7 percent in April before rising to 14.9 percent in September 2008. The overall time deposit rate on the other hand, registered a continuous decline from 8.3 percent to 6.2 percent in the same period.

16. The Bank of Tanzania continued with the monthly meetings with chief executive officers of commercial banks introduced in December 2007. The meetings, which occur within a day or two after the conclusion of the Monetary Policy Committee (MPC) meetings, have proved to be a useful instrument for soliciting feedback from the banks who are the key counterparts of implementation of monetary policy. In addition, the Bank continued with quarterly meetings with press to inform the public on economic developments and explain the Bank's monetary policy stance.

17. In an effort to deal with the rapid expansion of credit and money supply, the BOT imposed a 10 percent minimum reserve requirement on government deposits beginning in June 2008. This measure is intended to restrain the banks' credit creation capacity based on government deposits. In the first quarter of 2008/09, monetary aggregates expanded at a rapid pace reaching a growth rate of 24.2 percent for M3, and 31.5 percent for M2 during the year ending September 2008. The rapid growth was in line with the annual expansion of credit to the private sector that soared to record high of 48 percent.

18. The current account deficit widened in 2007/08 but remained largely financed by FDI and concessional donor assistance. External developments in 2007/08 were characterized by a 27 percent increase in the U.S. dollar value of goods exports against an increase of 31 percent in goods imports, which led to further widening of the deficit in the merchandise trade. Growth in the value of goods was explained mainly by remarkable increase in manufactured exports and strong performance in the volume of traditional exports, particularly cotton. The increase in the volume of traditional exports is partly associated with recovery from last year's sharp drop due to adverse weather conditions.

The sharp increase in imports of goods was driven mainly by higher fuel costs and the continued increase in imports of capital goods. As a result, the current account deficit widened to USD 2012 million, compared with USD 1496 million registered in 2006/07.

19. Despite the widening of the current account deficit, net flows in the capital and financial accounts led to an increase in gross official reserves from USD 2,153.4 million at the end of June 2007 to USD 2,648.5 million at end-June 2008, equivalent to about 4.4 months of projected current year imports of goods and services. In the same period, the nominal exchange rate of the shilling to the U.S. dollar appreciated from an average of TZS 1,281.9 in 2006/07 to an average of TZS 1,185.9 in 2007/08.

20. A Bill for the establishment of an independent regulator of social security schemes was discussed and passed by the Parliament in the April 2008 session. The Law gives BOT powers to regulate the financial aspects of the Social Security schemes. The Social Security (Regulatory Authority) Act, 2008 was assented by the President of United Republic of Tanzania on 6th June, 2008 and came into effect on 1st November 2008. Meanwhile the draft Investment guidelines for pension funds have been prepared by BOT. The draft Investment guidelines are waiting for the Pension Funds Regulator to be operational. The BOT is making internal arrangements needed for supervision, regulation of financial aspects and monitoring investment guidelines.

21. The Bank of Tanzania completed its review of the existing regulatory framework governing capital account transactions in September 2008 (structural benchmark) as a basis for legal and regulatory changes in the course of 2008/09.

22. The BOT has continued to take measures to improve its internal operations. All transactions under the EPA account have remained suspended. Disciplinary actions have been taken against BOT officials involved in the transactions. The internal audit function has been strengthened, including by reducing the number of Executive Board Members in the internal audit committee to one. The Bank is also in the process of commissioning M/S Lazard Frères to review the status of EPA operations and find ways to deal with the remaining claims.

Infrastructure

23. Investment in economic infrastructure continues to receive special priority in resource allocation. Consistent with the MKUKUTA objective of reducing the cost of production and enhancing market access for rural producers, the government is accelerating implementation of its roads construction programme, with support from various development partners. To address constraints that resulted in slow implementation of some projects in the past, more emphasis is now being placed on the technical capacity of potential contractors of infrastructure relative to the financial bids. The Procurement Units in Ministries are also being strengthened, and the Government has decided to move oversight responsibility over the procurement cadre and function from the Ministry of Infrastructure Development to the Ministry of Finance and Economic Affairs whereby the newly created position of a Director for Procurement Policy at the Ministry of Finance and Economic Affairs Ministries is expected to increase attention on efficient procurement in MDAs. Moreover, Ministries have been required to strengthen coordination of sector-wide expenditure plans and the related procurement, and ensure that Annual Procurement Plans are prepared as required under the Public Procurement Act. The Expenditure Tracking

Unit in the Ministry of Finance will continue monitoring implementation of projects, and recommend ways to expedite implementation.

24. In the energy sector, the national power utility company (TANESCO) continued to strengthen its management and governance, and has reverted to sustainable operational cash flow. Installation of TANESCO's own 100MW gas-fired plant has been completed and the capacity became available in September 2008. Procurement of another 45MW of internal gas-fired generation capacity is also progressing well. These measures, together with the coming to end of the emergency power contracts procured at the height of the drought in 2006, are expected to strengthen TANESCO's financial position substantially in the medium term.

Performance under the program

25. Programme implementation remains broadly on track. With the exception of the assessment criterion on reserve money, all quantitative assessment criteria for end-June, 2008 were met and substantial progress was achieved on the structural agenda (Tables 1 and 2 annexed hereto). The use of three-month rolling Government cash flow forecasts which the Cash Management Committee had generated since February 2008 was disrupted in the early months of 2008/09 because of uncertainty on the disbursement of foreign financing and a tight domestic markets situation. This has since restarted after confirmation of the disbursement schedule of external financing. The Cash Management Unit in the Accountant General's Department initiated training for the staff of Ministries and Departments in order to ensure preparation of quality cash projections. In addition, the Government provides the BOT with daily lists of cheques issued, thereby enabling the bank to incorporate government payments in daily liquidity projections. The process of transferring Government balances from commercial banks to the BOT is ongoing after establishing an updated list of the respective accounts, and on the basis of which the relevant stakeholders are consulting. The Accountant General Department continued the pilot application of an electronic funds transfer (EFT) module aimed at evaluating the feasibility of adopting EFT for all Government payments and eliminate the expenditure float.

26. Good progress was made in the second generation financial sector reform program. The Social Security (Regulatory Authority) Act, an important milestone in the reform of the financial sector and especially the pensions' sub sector, was passed by Parliament in April, 2008, and became operational in November, 2008. The Act provides for the establishment of a unified regulatory framework for the pensions subsector, and for the issuance of investment guidelines for all registered social security schemes by the Bank of Tanzania. The Financial Leasing Bill, which was tabled for first reading in the November 2007 parliamentary session was approved by Parliament in April 2008 session and became operational in July 2008. Progress has also been made towards the enactment of a Mortgage Finance Bill and toward establishing a credit reference databank. The government has adopted a policy paper on mortgage finance. It is expected that the Unit Titles Bill together with the Miscellaneous Amendments bill be submitted to the Parliament in November 2008. The regulations guiding the licensing and operations of the credit reference bureaus have been sent to the Attorney General's Chambers for review.

27. With the overall programme performance on track, implementation for the coming period will focus on mitigation of the adverse international economic environment on domestic macroeconomic policies, and on implementation of the core reforms as

stipulated in the programme. Fiscal policies will therefore continue monitoring revenue and foreign financing developments carefully, and remain vigilant to implement correction measures as necessary to maintain overall macroeconomic stability. Monetary and foreign exchange operations shall target keeping international reserves and reserve money on course to meet revised inflation targets.

Governance

28. The agenda to strengthen governance, guided by the second National Anticorruption Strategy and Action Plan (NACSAP II), is progressing well. The capacity of the Prevention and Combating of Corruption Bureau (PCCB) is being strengthened through recruitment, training and equipping. The Public Audit Bill, which widens the mandate and auditing scope of the Controller and Audit General (CAG) to include environmental, forensic and performance audits and further strengthens the independence of the National Audit Office became operational in July, 2008. Efforts are also underway to enhance the efficiency of the judiciary through appointment of more judges and magistrates, and an enhanced financial budget. Implementation of the Government action plan on the recommendations of the special audit on the management of the external payments areas is also well advanced and on track. Consistent with the commitment to follow up on the findings of its procurement audits, the PPRA directed audited institutions to prepare and submit action plans for addressing the observed discrepancies as a basis for subsequent monitoring. A government-supported programme to train investigative journalists is also bearing results, as evidenced by increasingly bold reporting of corruption cases in the local media.

II PROGRAM FOR 2008/09 AND IN THE MEDIUM TERM

29. Despite vulnerabilities from the volatile international economic outlook, the economy is expected to continue to perform well. Real GDP growth for the year to June 2009 is projected at 7.7 percent compared to 7.3 percent for the year to June 2008. On a calendar year basis, double digit real growth is expected to be sustained during 2008 and 2009 from the communications, mining and quarrying, construction, financial intermediation, and trade and repairs subsectors, thereby lifting real GDP growth to 7.5 percent in 2008, 8 percent in 2009 and 2010. Inflation is expected to decline to 6.8 percent by June 2009, as pressures from global oil and food prices abate. This is somewhat higher than the 5.3 percent initially projected, reflecting the lagged pass-through of international commodity prices.

30. The programme for 2008/09 projects domestic revenue at 17.1 percent of GDP, reflecting the impact of continued strengthening of tax and customs administration, and policy measures. Legislative changes to the fiscal regime of the mining sector based on the recommendations of the Presidential Committee on the Mining Sector have been prepared and will be presented to Parliament in the February, 2009. A consultancy service for a study on increasing non tax revenue will be completed during the year and its recommendations feed into the next budget cycle. In addition, the Government is reviewing all principal and subsidiary legislations on tax exemptions with a view to eliminating those that have outlived their objectives. In the 2008/09 budget, the Government announced measures to tighten controls over tax exemptions enjoyed by NGOs by, among others, requiring them to demonstrate annually what programmes are implemented and the public benefits that arose from those programmes.

31. The Government has adopted the Third TRA Corporate Plan, and implementation begun in July, 2008. The plan, which targets a doubling of nominal revenue collections under baseline macro assumptions over the next five years, aims at consolidating the institution development gains and integration of operations established under the Second Corporate Plan. Specifically, the plan prioritises: (i) building capacity for handling large taxpayers; (ii) adopting best practises for the medium and small taxpayers; (iii) building capacity at customs to ensure a smooth exit from the TISCAN's contract, as well as strengthening risk management at Customs; and (iv) maintaining favourable ISO Certification of TRA's operations.

32. Total expenditure is projected to increase significantly in 2008/09 from 22.9 percent of GDP in 2007/08 to 27.2 percent, mainly on account of increased development spending, increase in the wage bill, as well as expenditure on goods and services. The wage bill is high partly due to the retroactive payment of salary increases for civil servants. Expenditures directly related to specific MKUKUTA strategies constitute about 72 percent of the total budget. Consistent with MKUKUTA, priority continues to be placed on growth promoting expenditures, including investment in economic infrastructure, education, and health. In the education sector, priority is on increasing the supply of qualified teachers and teaching materials. In order to accelerate improvements on the health indicators, the government has adopted a Primary Health Development Programme the implementation of which commenced with the budget for 2008/09.

33. The wage bill is projected to be 6 percent of GDP in 2008/09, compared to 5 in 2007/08, following a partial implementation of the recommendations of the Presidential Commission on Civil Service Pay. The Government remains committed to implementing civil service pay reforms in order to enhance efficiency while safeguarding macroeconomic fundamentals and the competitiveness of the economy. In the medium term, government wage bill is projected to stabilise at the 2008/09 level relative to GDP, consistent with the foreseen central government's commitment to raise salaries for employees, new recruitments and adjustments for inflation.

34. The government remains committed to targeting zero net domestic financing, as reflected in the 2008/09 budget. However, should foreign program assistance fall short of the anticipated level, the government may seek recourse to net domestic financing of up to T Sh 250 billion (about 1 percent of GDP).

35. Public Financial Management reforms continue to take hold, with primary priority on enhancing strategic resource allocation and ensuring value for money in budget execution. These reforms are being implemented and monitored jointly with other stakeholders (including development partners) through the revised strategy for the Public Financial Management Reform Program (PFMRP). The program seeks to achieve allocative efficiency by (a) ensuring aggregate fiscal discipline and accountability, (b) allocating resources in accordance with government priorities, and (c) promoting efficient service delivery through enhanced predictability and availability of medium term resources for implementing agencies (MDAs). In this regard, the Government has adopted the Public Expenditure and Financial Accountability (PEFA) tool as the principal guiding framework and Monitoring and Evaluation tool for gauging progress in PFM reforms. Reforms are being implemented in the areas of aligning MKUKUTA, the MTEF, and the budget; strengthening the Treasury management function; expenditure monitoring through the Expenditure Tracking Unit; capacity for transparent public procurement and external

audits. The government is also consulting with development partners with a view to enhancing in year and medium term (3 – 5 years) predictability of aid.

36. Following the recent admission of new members to the East African Community, preparations are underway for their implementation of the Customs Union obligations, including the Common External Tariff and internal tariff elimination by January 2010. The original Members of the Community have also each established National Committees for addressing non-tariff barriers (NTBs) as they get identified. The revenue implications of these developments have been fully anticipated in the budget frame. Negotiations on an EAC Common Market have also commenced, with a view to accelerating the integration of the regional economies. The EAC Member States also jointly initialled an Economic Partnership Agreement with the European Union whereby the EAC Member States will continue to enjoy full duty free and quota free access for their goods exports to EU markets. The temporary export ban on maize, which was imposed in early 2008 in the face of extraordinary circumstances, has now been lifted.

37. Monetary policy will remain focused on bringing inflation down to the medium term target of around 5 percent. In view of the recent developments in inflation, which partly manifested the first round impact of high world prices of oil and food, the target for June 2009 has been slightly revised up to 6.8 percent. This is based on the assumption of average weather conditions and a lagged effect of the recent increase of the world price of oil. Consistent with these assumptions, monetary policy will aim at reducing the growth of M3 to 20 percent and that of M2 to 21 percent by end-June 2009. The expansion of credit to private sector is projected to slow down to 30 percent.

38. The BOT remains committed to a flexible exchange rate policy. Accordingly, the Bank's involvement in the foreign exchange market will be mainly for liquidity sterilization purposes and it will constitute a steady supply of small amounts so as to minimize its influence on the exchange rate.

39. The Bank is also undertaking a fundamental review of its functions, so as to re-focus its mission on its core activities of monetary policy and financial supervision. This will include reviewing tasks that the Bank undertakes on behalf of the government. Following this review, a strategy for refocusing the Bank will be prepared and incorporated in BOT's corporate plan to be adopted by end-May 2009.

40. Following the conclusion of the voluntary Safeguards assessment mission from the Fund in June 2008, the Bank is implementing measures, in the context of its corporate plan, aimed at strengthening its internal financial controls. The BOT is strengthening the internal audit function by reinforcing its capacity and independence. Extensive recruitment and training is already underway. To ensure compliance with the requirements of the Public Procurement Act, a Procurement Management Unit has been established within the Bank. The corporate plan has also provided for reviewing the risk profile in the BOT operations and implement a strategy to mitigate risks. Measures aimed at the enhancement of checks and balances and capacity building in International Financial Reporting Standards (IFRS) in the Directorate of Finance and are also being implemented. The preparation of the 2007/08 external audit was speeded up: the audit report is expected to be completed by mid November 2008, and thereafter approved by the BOT Board. The final report will be submitted to the MOFEA by end-November 2008.

41. The Bank is also committed to continue with enhancement of its communication with the financial market players and the general public. To this end the Bank will continue with the monthly and quarterly meetings for CEOs of banks and the quarterly meetings for the press, where economic developments and the justification of the monetary policy stance will be presented and discussed.

42. The government intends to revise the regulatory framework governing capital account transactions with a view to reaping the benefits of further integration with the world economy and preparing for further harmonization with its EAC partners. Based on its recent review, the BOT will prepare an action plan setting out the different steps to further liberalize capital account transactions. This action plan, which will be completed by end-March 2009, will be based on the following principles: (i) the approach will be gradual in order to avoid any disruptive capital flows—starting with the liberalization of inflows; (ii) it will draw on experiences of other countries; and (iii) the necessary legislative and regulatory changes will be implemented with a view to ensuring harmonization of all relevant regulations. In the meantime, the BOT will strengthen its capacity to monitor capital flows and associated risks, including by widening the coverage of data collection.

43. Further financial sector development is a critical ingredient for long-term growth. Ongoing legal reforms in the context of the second-generation financial sector reforms will provide a welcome boost to the residential mortgage market. The new, single regulator for the pension fund sector became effective since 1st November, 2008, and the Bank of Tanzania is in the process of issuing the investment guidelines for pension funds. In providing financial oversight over the pension funds, the Bank of Tanzania has started to collect regular financial information from pension funds. These will be integrated in its quarterly financial stability reports. The BoT now expects its first financial stability report to be ready for internal discussion by end-December 2008.

44. The Government is seeking to scale up infrastructure investment, which is a prerequisite for long-term economic growth in Tanzania. The Government is therefore preparing a medium term public investment program (MPIP) to guide its investment in infrastructure, with particular focus on transportation, energy, and water sectors. The projects included in the MPIP shall be based on detailed economic and social impact evaluation. In addition to an enhanced allocation from the general budget, investment in transportation and other infrastructure is an important element on the agenda of the dialogue with development partners, including among others the USD 698 million 5-year Tanzania Compact Programme financed by the Millennium Challenge Account (MCA) of the government of the United States.

45. The government's first priority is to seek additional concessional financing sources. However, should sufficient concessional financing be unavailable, the government will consider alternative options. A policy and legal framework for Public - Private Sector Partnerships (PPPs) is expected to be completed within this fiscal year. While targeting increased participation of the private sector in the implementation of infrastructure projects, the proposed PPP framework will ensure fair sharing of risks associated with such projects. Government Departments are generally expected to drive the process in their respective sectors, having regard to centrally established guidelines on the process, and requisite control mechanisms from the Ministry of Finance and Economic Affairs. Preparations are also underway to seek a sovereign credit rating in preparation for a possible issue of a sovereign bond on the international debt market. To ensure that any

nonconcessional financing is consistent with long-term fiscal sustainability, the MOFEA is strengthening its debt management capacity.

Other structural reforms

46. Following the recent further divestiture of the National Microfinance Bank (NMB) through sale of its 21 percent shares in the bank, the Government will focus on the reform of the remaining three state-owned banks. The Tanzania Investment Bank (TIB), designated as the national development financial institution, will be strengthened to provide long term financing for growth enhancing projects in agriculture, manufacturing, tourism, and other sectors. The consultants engaged to determine the best way TIB can be transformed into a development finance Institution, and have submitted their draft report which was discussed by stakeholders on 9th September 2008. The consultants have finalized their report, awaiting appropriate action by the Government. In tandem, a Rural Financing Strategy that aims at ensuring access to financial services for the rural population is expected to be adopted before the end of 2008/09.

47. Implementation of the new Electricity Act is also expected to be fully on course before the end of the year, after finalisation of the Regulations thereunder. The Act provides for more competition in the power sector by opening up to private generation, provides for the strengthening and specific functions for TANESCO, establishes frameworks to ensure rural electrification and better regulation of the sector, and promotes regional cooperation in the power sector through regional interconnection. As part of its ongoing financial restructuring, TANESCO is expected to complete a cost-of-service study and a study on technical and commercial losses by end-March 2009. The Government will continue to monitor TANESCO's implementation of the cost cutting measures in order to ensure appropriate pricing of electricity without undue adverse impact on service delivery.

Governance and accountability

48. Good governance and accountability, an important pillar of MKUKUTA, will continue to be reinforced through the strengthening of public participation in the monitoring of public affairs. In this regard, Government is enhancing expenditure tracking capacity at the local level through training of communities to analyse budget information. The PCCB is also being strengthened through additional human and financial resources, and expansion of its office network to the district level. Coordination of the core public sector reforms, recently strengthened through creation of a Reforms Coordination Unit in the Office of The Chief Secretary, is also being priority in the governance agenda. To increase capacity in public procurement, the PPRA will follow up to ensure that all tenders are published publicly as required by law, and that the results of the tenders are made public. To facilitate this, the PPRA has established a website and a Procurement journal. Tanzania is also scheduled for mutual evaluation by the Eastern and Southern African Anti Money Laundering Group (ESAAMLG) in November, 2008.

Statistical Issues

49. The government intends to further strengthen its statistical base. In the first place, the National Bureau of Statistics, assisted by development partners, has initiated a revision of the CPI weights, in light of the recent Household Budget Survey (HBS). In addition, the NBS will use the HBS results to revise and rebase the national accounts and will

strengthen their reliability by improving the source data. The ultimate objective is to produce quarterly national accounts, a step necessary to meet the government's objective of subscribing to the Special Data Dissemination Standard (SDDS). In addition, the BoT is upgrading its monetary and financial statistics (MFS) to conform with the IMF's 2000 MFS Manual. The new integrated financial sector data base will be extended to nonbank financial institutions, including pension funds and insurance companies.

Conclusion

50. Against a very challenging external environment, Tanzania has continued to record good progress in implementing its economic and financial programme with the policy support from the Fund. Inflation remains as the main challenge in our pursuit of accelerating growth, reducing poverty, and meeting the MDGs. The programme for 2008/09 and beyond, which will be monitored through the quantitative assessment criteria and indicative targets set forth in Table 1 and the structural assessment criterion and benchmarks shown in Tables 3, will continue to especially focus on addressing the inflationary pressures and increase factor productivity through growth enhancing investment. The Government is confident that the development partners, including the Fund, will maintain and increase their support through financing and policy advice, especially in view of the large investment requirements in the infrastructure for transportation, energy, water, and education.

**MINISTRY OF FINANCE AND ECONOMIC AFFAIRS,
DAR ES SALAAM,
TANZANIA.
December, 2008**

Table 1. Tanzania: Quantitative Assessment Criteria and Indicative Targets Under the Policy Support Instrument, 2007/08-2008/09

	2008								2009				
	March		June		September			December		March		June	
	Indicative Targets	Actual	Assessment Criteria	Actual	Indicative Targets	Adjusted Indicative Targets	Prel.	Program Assessment Criteria	Proposed Assessment Criteria	Program Indicative Targets	Proposed Indicative Targets	Program Indicative Targets	Proposed Assessment Criteria
	(Billions of Tanzania shillings; end of period, unless otherwise indicated)												
Net domestic financing of the government of Tanzania (cumulative, ceiling) 1/ 2/	-90	-430	0	-336	394	167	105	64	-174	224	-124	249	0
Accumulation of budgetary arrears (ceiling; indicative target only)	0	0	0	0	0	0	0	0	0	0	0	0	0
Average reserve money (upper bound) 3/	1,975	1,916	2,042	2,054	2,207	2,207	2,350	2,242	2,343	2,311	2,374	2,390	2,463
Average reserve money target 3/	1,956	---	2,022	---	2,185	2,185	---	2,220	2,320	2,288	2,350	2,366	2,438
Average reserve money (lower bound) 3/	1,936	---	2,002	---	2,163	2,163	---	2,197	2,297	2,265	2,327	2,342	2,414
	(Millions of U.S. dollars; end of period)												
Net international reserves of the Bank of Tanzania (floor) 4/	2,312	2,663	2,101	2,541	1,862	1,862	2,535	2,177	2,559	2,163	2,573	2,143	2,587
Accumulation of external payments arrears (ceiling) 5/	0	0	0	0	0	0	0	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling) 5/	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Memorandum item:</i>													
Foreign program assistance (cumulative grants and loans) 1/	957	1,039	1,057	1,122	71	---	264	545	550	652	777	795	1,036

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 December 3, 2008.

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

2/ For the 2008/09 program, to be adjusted downward by up to T Sh 249 billion for the U.S. dollar equivalent of a surplus in foreign program assistance from the amounts shown in the memorandum item.

For the 2008/09 proposed revised program, to be adjusted upward by up to T Sh 250 billion for the U.S. dollar equivalent of a shortfall in foreign program assistance from the amounts shown in the memorandum item.

3/ Assessment criteria and benchmarks apply to upper bound only.

4/ Floors are set US\$200 million below projected levels. For the 2008/09 proposed revised program floor will be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item up to the equivalent of T Sh 250 billion.

5/ Continuous assessment criterion under the PSI; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 2. Tanzania: Implementation of PSI Structural Program through November 2008

Measure	Target Date of Implementation	Status
<p>Establish a Memorandum of Understanding between the MOFEA and the BOT setting out respective responsibilities, including cost sharing of monetary policy operations. 1/</p> <p>Fiscal</p> <p>Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.</p> <p>Introduce a functional classification of expenditures consistent with the IMF's <i>Government Financial Statistics Manual 2001</i> in the budget for 2009/10.</p> <p>Complete the integration of the Customs and Excise Department and TISCAN's import clearance processes.</p>	<p>End-September 2008</p> <p>Continuous</p> <p>End-June 2009</p> <p>End-December 2008</p>	<p>MoU was signed in December 2008.</p> <p>Done.</p> <p>On track. MoFEA has received technical assistance for mapping expenditures.</p> <p>On track. TRA is implementing an alternative to TISCAN, which is expected to be completed by end-December 2008.</p>
<p>Financial Sector</p> <p>Prepare a review of the regulatory framework governing capital and financial account transactions.</p> <p>Prepare quarterly financial stability reports for the BOT Board, including assessments of risk-based prudential supervision</p> <p>Establish an operational credit reference databank.</p>	<p>End-September 2008</p> <p>End-September 2008</p> <p>End-June 2009</p>	<p>Done.</p> <p>Delayed until December 2008.</p> <p>On track. BoT to request technical assistance to complete the task.</p>

1/ Assessment criterion.

Table 3. Tanzania: PSI Assessment Criterion and Structural Benchmarks for 2008/09

Measure	Target Date of Implementation
Financial Sector	
Adopt a strategy for refocusing the Bank of Tanzania on its core activities. ¹	End-May 2009
Issue investment guidelines for pension funds prepared by the Bank of Tanzania.	End-March 2009
Prepare an action plan for the liberalization and improved monitoring of capital account transactions.	End-March 2009
Prepare quarterly financial stability reports for the BOT Board, including assessments of risk-based prudential supervision.	End-December 2008
Establish an operational credit reference databank.	End-June 2009
Fiscal	
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous
Introduce a functional classification of expenditures consistent with the IMF's <i>Government Financial Statistics Manual 2001</i> in the budget for 2009/10.	End-June 2009
Complete the integration of the Customs and Excise Department and TISCAN's import clearance processes.	End-December 2008

¹ Assessment criterion

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

December 3, 2008

I. INTRODUCTION

1. The purpose of this Technical Memorandum of Understanding (TMU) is to describe concepts and definitions that are being used in the monitoring of the quantitative assessment criteria and indicative targets under the Tanzania's PSI-supported program. The principal data source is the standardized reporting forms, 1SR and 2SR, as provided by the Bank of Tanzania to the IMF, and the government debt tables provided by the Accountant General's office.

II. DEFINITIONS

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, as defined in the IMF BOP manual (5th edition) and elaborated in the reserve template of the IMF's special data dissemination standards (SDDS), include (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets 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.

Reserve money and reserve money band

3. 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. The reserve money targets are the projected daily averages of March, June, September, and December within a symmetrical one percent band. The upper bound of the band serves as the assessment criterion or indicative target.

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 and holdings of government securities and promisory notes (including liquidity paper issued by the BoT for monetary policy purposes), minus all government deposits with the BoT; (ii) all BoT accounts receivable on the Government of Tanzania that are not included under (i) above; (iii) loans and advances to the government by other depository corporations and holdings of government securities and promisory notes, minus all government deposits held with other depository corporations; and (iv) the outstanding stock of domestic debt held outside depository corporations excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COMELCO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

Government deposits at the BoT

5. Government deposits at the BoT include government deposits as reported in the BoT balance sheet, 1SR, (including counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes), and foreign currency-denominated government deposits at the BoT, including the PRBS accounts and the foreign currency deposit account.

External payments arrears

6. 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

7. 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.

8. 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. For maturities of less than 15 years, the grant element will be calculated based on 6-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This assessment 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

9. Budgetary arrears are defined as the sum of all verified bills that have been received by a central government spending unit or line ministry, and for which payment has not been made within 30 days during the fiscal year on wages, domestic interest, and goods and services (excluding court awards).

Foreign program assistance

10. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance and Economic Affairs (MoFEA) through BoT accounts and accounts at other depository corporations and is calculated as the cumulative sum, since the beginning of the fiscal year, of the receipts from (i) program loans and (ii) program grants.

Program exchange rate

11. For 2008/09, the end-of-period program exchange rates are set at T Sh 1185 per U.S. dollar, T Sh 1200 per U.S. dollar, and T Sh 1215 per U.S. dollar for quarters II–IV, respectively. The period average program exchange rates are set at T Sh 1177 per U.S. dollar, T Sh 1192 per U.S. dollar, and T Sh 1208 per U.S. dollar for quarters II–IV, respectively. For 2008/09 as a whole, the program average exchange rate is set at T Sh 1188 per U.S. dollar.

III. ADJUSTERS

Net international reserves

12. The end-December 2008, end-March 2009, and end-June 2009 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 in U.S. dollars, up to a limit of T Sh 250 billion, converted into U.S. dollars at the program average exchange rate, for the end-quarter test dates in 2008/09, relative to projections shown in the Quantitative Assessment Criteria and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania.

Net domestic financing

13. The end-December 2008, end-March 2009, and end-June 2009 quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfall in foreign program assistance in U.S. dollars, up to a limit of T Sh 250 billion, evaluated using the program average exchange rate, relative to projections shown in the Quantitative Assessment Criteria and Indicative Targets Table attached to the applicable

14. Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

IV. DATA REPORTING REQUIREMENTS

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

Table 1 Summary of Reporting Requirements

Information	Reporting Institution	Frequency	Submission Lag
Issuance of government securities.	BoT	Bi-weekly	1 week
Yields on government securities.	BoT	Bi-weekly	1 week
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices	NBS	Annually	6 months
Balance sheet of the BoT (1SR)	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SR and the DCS).	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	BoT	Monthly	2 weeks
External trade developments	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for deposit money banks and for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators for deposit money banks and for other depository corporations	BoT	Quarterly	6 weeks
Other depository corporation lending by activity.	BoT	Monthly	4 weeks
Commercial banks interest rate structure.	BoT	Monthly	4 weeks
Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) accumulation of budgetary arrears; (iv) stock of external	BoT and MoFEA	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
arrears; (v) new contracting or guaranteeing of external debt on nonconcessional terms; and (vi) net international reserves. The MoFEA and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant General of the MoFEA.			
The flash report on revenues and expenditures.	MoFEA	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report. As discussed above, the MoFEA and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant General of the MoFEA.	MoFEA	Monthly	4 weeks
Monthly report on central government operations.	MoFEA	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and external debt service due and paid.	MoFEA	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoFEA	Monthly	4 weeks
Statement on new loans contracted during the period including terms and conditions according to loan agreements.	MoFEA	Quarterly	4 weeks

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

Fourth Review Under the Policy Support Instrument—Informational Annex

Prepared by the African Department

December 5, 2008

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APPENDIX I: RELATIONS WITH THE FUND
(As of October 31, 2008)

I. Membership Status: Joined 06/10/62; Accepted the obligations of Article VIII, Sections 2, 3 and 4: 07/15/96.

II. General Resources Account:	<u>SDR million</u>	<u>Percent Quota</u>
Quota	198.90	100.00
Fund holdings of currency	188.90	94.97
Reserve position in Fund	10.00	5.03

III. SDR Department:	<u>SDR million</u>	<u>Percent Allocation</u>
Net cumulative allocation	31.37	100.00
Holdings	0.26	0.82

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>Percent Quota</u>
Poverty Reduction and Growth Facility Arrangements	11.20	5.63

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>
PRGF	08/16/2003	2/26/2007	19.60	19.60
PRGF	04/04/2000	08/15/2003	135.00	135.00
PRGF	11/08/1996	02/07/2000	181.59	181.59

VI. Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	--	--	0.28	1.40	1.96
Charges/interest	<u>0.24</u>	<u>0.65</u>	<u>0.65</u>	<u>0.65</u>	<u>0.64</u>
Total	0.24	0.65	0.93	2.05	2.60

VII. Implementation of HIPC Initiative:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	Apr 2000
Total assistance (US\$ million)	2,026.00
<i>Of which:</i> Fund assistance (US\$ million)	119.80
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 ¹	7.51
Total disbursements	96.46

VIII. Implementation of MDRI Assistance:

1.	Total debt relief (SDR million) ²	234.03
	Of which: MDRI	207.00
	HIPC	27.03
2.	Debt relief by facility (SDR million)	

	Eligible Debt		
Delivery date	GRA	PRGF	Total
January 2006	N/A	234.03	234.03

¹ Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, an additional disbursement is made at the completion point that corresponds to interest income earned on amounts committed but not disbursed during the interim, 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.

² The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

IX. Safeguards Assessments:

A safeguards assessment of the Bank of Tanzania (BoT) was completed on December 05, 2003 and an update assessment was finalized on August 22, 2008. The update assessment was conducted at the request of the authorities and found that the BoT's 2006/07 financial statements comply with International Financial Reporting Standards and have been audited in accordance with International Standards on Auditing. Recent steps have been taken to strengthen the BoT's oversight framework, the internal audit function, and the control system, but risks remain. The assessment recommends further strengthening of the mandate and independence of the Audit Committee, revamping the internal audit function, implementation of an internationally recognized control framework, and measures to improve transparency on accounting, audit and control matters.

X. Exchange Arrangements:

The currency of Tanzania is the Tanzania shilling. The Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER, 2007) characterizes Tanzania's exchange rate regime as a managed float with no pre-determined path. The official exchange rate is determined in relation to 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 1,279 per U.S. dollar as of end-October, 2008. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

XI. Article IV Consultation:

The most recent Article IV consultation was concluded on June 27, 2007 (Country Report No. 07/246). The next Article IV consultation is expected to be completed in 2009.

XII. Technical Assistance

A. AFRITAC East³

	<i>Area</i>	<i>Focus</i>
2003/04	Public financial management	Intergovernmental financial relations; program budgeting
	Revenue administration	Work plan for the Tanzania Revenue Authority (TRA); Stamp Duty Act
	Financial sector regulation and supervision	Prudential supervision; AML/CFT legislation
	Monetary operations	Liquidity forecasting; monetary policy instruments; operational guidelines and procedures
	Economic statistics	PPI; IIP; quarterly national accounts; agricultural census; industrial census; CPI; GFS
2004/05	Public financial management	Intergovernmental financial relations; program budgeting; Medium-term expenditure framework (MTEF); cash flow planning; IFMIS
	Revenue administration	Zanzibar—design reform program; commitment control Modernization of TRA; customs administration; tax policy
	Financial sector regulation and supervision	Financial sector legal framework
	Monetary operations	NPS legal and regulatory framework; liquidity management and seasonality; domestic debt market
	Economic statistics	Regional GDP; CPI; extending GDP series backwards Zanzibar—CPI
2005/06	Public financial management	Financial accountability; support to comprehensive PFM reform program; cash flow planning and management

³ Unless otherwise indicate, refers to technical assistance provided to the mainland of Tanzania.

	<i>Area</i>	<i>Focus</i>
	Revenue administration	Zanzibar—commitment control Tax administration; risk assessment and audit; IT support
	Financial sector regulation and supervision	Risk-based supervision; bank resolution; prudential regulations
	Monetary operations	NPS legal and regulatory framework; liquidity management and seasonality; domestic debt market; reserve management
	Economic statistics	Diagnostic analysis and strengthening of data weaknesses; industrial indicators; quarterly national accounts; GFS; CPI;BOP manual
2006/07	Public financial management	Cash-flow planning
	Revenue administration	Zanzibar—cash management Tax modernization program; customs reform and modernization; rationalization and integration of Customs and Tiscan
		Zanzibar—Modernization plan for Zanzibar Revenue Board (ZRB); large taxpayer office; tourism taxation
	Financial sector regulation and supervision	Risk-based supervision and on-site inspection; prudential regulations for new Bank and Financial Institutions Act
	Economic statistics	BOP and International Investment Position (IIP); revised CPI; PPI
2007/08	Public financial management	Capacity building for cash management
	Bank supervision	BoT – develop framework for consolidated supervision; improve off-site surveillance reports and to conduct financial analysis training; prepare Problem Bank Manual and to conduct training on its use
		BoT – comprehensive review of the Bank of Tanzania’s implementation of risk-based supervision.
	Revenue administration	Multi-donor review of the Tax Modernization Project (TMP)

	<i>Area</i>	<i>Focus</i>
	Revenue administration	Support to the East African Community (EAC)
	Statistics	Price statistics - Zanzibar
	Macro-Fiscal Analysis	Assist the Policy Analysis Department of the MoF
2008/09	Statistics	CPI (Mainland and Zanzibar) Quarterly National Accounts

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	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
	July 2004	Mission	Public Expenditure Management Assessment and Action Plan
	September 2004	Mission	Review of mining taxation
	September 2004	Mission	Tax administration (Zanzibar)
	April 2005	Mission	Customs administration
	July 2005	Mission	Improve the effectiveness of the Ministry of Finance
	Aug.- Sep. 2005	Mission	Tax administration
	Oct.–Nov. 2005	Mission	Strengthen macro fiscal analysis at the Ministry of Finance
	December 2005	Mission	Tax policy
	April 2006	Peripatetic advisor	Strengthen macro fiscal analysis in Ministry of Finance
	April - May 2006	Expert	Customs Administration
	October 2006	Mission	Customs Administration
April 2007	Mission	Customs Administration	
May 2007	Mission	Multi donor revenue administration review (TMP)	
August 2007	Mission	Tax Administration	
August 2007	Mission	Strengthening tax administration	

Department	Date	Form	Purpose
	October 2007	Mission	for ZRB
	Oct-Nov 2007	Mission	PFMRP strategies and activities PFM: Review of classification
Legal	March – April, 2003	Mission	Income tax law
	Sept. 2003	Mission	Income tax law
	June 2004	Mission	Income tax law
	July 2004	Mission with MFD	Central and commercial bank legislative reform
	July–November 2004	Desk review	Foreign Exchange Act, Evidence Act, Bills of Exchange Ordinance, National Payment System bill, Electronic Transactions bill
Monetary and Capital Markets	Feb. 2003	Mission	Pre-FSAP mission
	May 2003	Mission	FSAP
	November 2003	Mission	FSAP follow-up workshop
	March 2004	Mission	Accounting and banking supervision
	June 2004	Mission	BoT accounting
	July 2004	Mission	Central and commercial banking legislation reform with LEG
	August 2004	Mission	Financial sector reform/FSAP follow- up
	November 2004	Mission	BoT accounting
	December 2004	Mission	Second FSAP follow-up workshop
	May 2005	Mission	Financial sector reform/FSAP follow- up
	September 2005	Mission	Credit reference database and IFRS- generated reports
	January 2006	Mission	Monetary and foreign exchange operations
	January 2006	Mission	Problem bank resolution
	February 2006	Mission	Prudential regulations
	December 2006	Mission	Monetary and foreign exchange operations
	August 2007	Mission	Assessment of MCM TA implementation
	Oct-Nov 2007	Mission	Financial supervision and regulations
	December 2007	Mission	Monetary and foreign exchange operations
	April 2008	Mission	Financial stability analysis and reporting
Statistics	2002–03	Long-term consultant	Multisector statistics
	August 2003	Mission	Government finance statistics

Department	Date	Form	Purpose
	Jan.-Feb. 2005	Mission	Monetary statistics
	October 2005	Mission	Balance of payments statistics
	December 2005	Mission	Technical assistance evaluation
	February 2006	Mission	CPI software application
	November 2006	Mission	Monetary and financial statistics
	Oct-Nov 2007	Mission	Price statistics
	November 2007	Mission	BoP and external debt statistics
	November 2007	Mission	National accounts statistics
	January 2008	Mission	Monetary and financial statistics

XIII. Resident Representative: Mr. David O. Robinson has been the Senior Resident Representative since March 2007.

**APPENDIX II: TANZANIA-- JOINT BANK-FUND WORK PROGRAM,
NOVEMBER 2008--OCTOBER 2009**

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
A. Mutual information on relevant work programs			
Key elements of World Bank work program in next 12 months	In conjunction with the multi-donor Joint Assistance Strategy for Tanzania, (JAST), Poverty Reduction Support Credits to enhance productivity and competitiveness, effective delivery of social services, public sector management, and human development issues.		November 2008 and June 2009
	The work program will continue to concentrate on areas within the existing portfolio: primary, secondary, and higher education; health sector development; water and sanitation; social action fund; agriculture; forestry; environment; road and railway infrastructure; power sector restructuring; fiscal decentralization; private sector competitiveness; and public sector reform.		Continuous
	Public Expenditure Review with the focus on rapid budget analysis.		November 2008
	Study on infrastructure, trade, and growth.		March 2009
	Series of policy notes on selected labor market issues including job quality, employment creation, constraints to raising productivity in the informal sector, the effects of the ongoing institutional reforms.		March 2009
	Investment Climate Assessment.		December 2008
		Technical assistance for the preparation and analysis of a panel household survey.		October / November 2008
	Analysis of public infrastructure spending.		Continuous
IMF work program in next 12 months	Fourth Review under PSI	September 2008	December 2008
	Article IV and Fifth Review under PSI	February 2009	May 2009
	Sixth Review under PSI	September 2009	Dec. 2009

B. Requests for work program inputs			
[Fund request to Bank]	1. Sharing background analytical papers for the preparation of the Accelerated Food Security Program project		May 2009
[Bank request to Fund]	1. Monitoring of government contracting of non-concessional borrowing.		Continuous
	2. Monitoring of steps to strengthen corporate governance of the BoT.		Continuous
	3. Sharing updated macro-framework.		Continuous
C. Agreement on joint products and missions			
Joint products in next 12 months	1. Collaborate on rapid poverty assessment.	September 2008	December 2008
	2. Collaborate on the Joint DSA.	February 2009	May 2009
	3. Collaborate on PFM reform in the context of the comprehensive reform program supported by several donors.		Continuous
	4. Collaborate on financial sector reform program.		Continuous

Appendix III—Statistical Issues

Economic and financial statistics are adequate for surveillance and program monitoring purposes, but weaknesses remain despite progress in some areas and considerable technical assistance. There are few statistical publications and no fully articulated publication policy. Only limited data are reported for Zanzibar. The authorities are committed to improving the production and dissemination of macroeconomic and socio-demographic statistics through the General Data Dissemination System (GDDS). GDDS metadata were posted on the IMF's Dissemination Standards Bulletin Board (DSBB) in July 2001 and were updated in September 2007. Tanzania is participating in the SDDS and government finance statistics modules of the Fund's GDDS Project for Anglophone Africa (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries to implement plans for improvement identified in the metadata. A mission to prepare the data module for the Report on the Observance of Standards and Codes (data ROSC) was completed in October 2002, and the report was published in March 2004.

National accounts

National accounts statistics for mainland Tanzania are prepared by the National Bureau of Statistics (NBS) on the basis of data collected by its regional offices and by other government entities. Separate accounts for Zanzibar are compiled by the Office of the Chief Government Statistician for Zanzibar. The data sources for compiling the estimates for Tanzania by expenditure category, the external sector data, and the indicators used to extrapolate benchmark production levels suffer from deficiencies that complicate estimation of savings-investment. The accounts are based on the *1993 System of National Accounts (1993 SNA)* and are published at current and constant (2001) prices. Annual GDP estimates are also compiled at current prices for 21 regions. To improve the quality of the national accounts, the authorities, with help from donors, changed the base year of the national accounts from 1992 to 2001. The revised series are based on the Household Budget Survey (HBS) 2000/01, Integrated Labor Force Survey 2000/01 and Annual Survey of Industrial Production 1999/2000. The revised annual national accounts series were finally published in September 2007. A November 2007 East AFRITAC mission provided training and assistance in the compilation of quarterly national accounts (QNA), which have been compiled at current prices since 2001 but have not been yet released. QNA will be estimated from 2001 to 2007. Nevertheless, the series have some methodological shortcomings, and in particular suffer from poor source data in the retail and wholesale sector.

Prices

The NBS compiles a monthly consumer price index (CPI) for mainland Tanzania based on consumer expenditure in 20 urban centers, and a separate price index (urban) is compiled for Zanzibar. The CPI has, since September 2004, been compiled (retroactively to January 2003) using weights based on the 2000/01 HBS data. Key changes were a reduction in the weight given to food from 71 percent to 56 percent and an expansion of the number of products. The

index excludes imputations for the price changes of owner-occupied housing. However, methodological problems that may have understated inflation led to the release of a revised CPI from September 2006, though this has not been backdated. The results of a new HBS are expected to be available in 2008, which should eventually lead to revision of the CPI weights.

Government finance statistics

The authorities provide Fund missions with monthly data on central government revenue, expenditure, and financing on a timely basis. Although the underlying concepts broadly follow the *Government Finance Statistics Manual 1986*, the reporting differs from international standards in coverage and the treatment of lending minus repayments, and transfer payments. Coverage of data on the operations of the central government refers to Tanzania mainland only – recently the Ministry of Finance of Zanzibar established a unit tasked with developing a fiscal reporting framework for Zanzibar. The data also exclude the operations of extra-budgetary units and funds. Data for general government are not available as no information is yet provided on the financial position of local governments, although the authorities have stated their intention to produce such reports.

Despite improvements in the recording of government transactions, discrepancies remain between revenue and expenditure data, on the one hand, and financing data. The discrepancies are related to the lack of a fully integrated set of accounts and the delineation of the public sector and its sub-sectors, differing source data, and timing differences.

The Ministry of Finance created a database of donor-funded projects in 2001/02 (July-June), with donor assistance. Since then, the number of foreign-financed projects reported by and channeled through the budget has increased significantly.

The government has completed the computerization of its accounting system for budgetary units. Although the authorities indicated that it would allow resumption of reporting in the *Government Finance Statistics Yearbook (GFSY)*, no data were reported for the 2007 *GFSY*. The computerized accounting system does not yet provide details about donor funded development expenditure and has not yet been extended to cover the extra-budgetary units. The authorities regularly report fiscal data for inclusion in the *IFS*.

Monetary statistics

The monetary statistics are broadly adequate for policy and analytical purposes. Nevertheless, the December 2006 and January 2008 missions confirmed earlier findings of methodological problems, such as (a) exclusion of some deposit-taking financial institutions from the institutional coverage of depository corporations survey, (b) arbitrary application of the residency criterion by the other depository corporations (ODCs), (c) inadequate subdivision of the resident sector data, (d) misclassification of certain accounting data among

statistical aggregates, (e) discrepancies between reported interbank positions, (f) nontransparent treatment of repurchase agreements, and (g) key information gaps in the bank reporting system.

To address these problems, recommendations were made to improve the following definitions: net international reserves, foreign assets, foreign liabilities, loans to other resident sectors, claims on the central government, government deposits, central bank liabilities to commercial banks, and deposits included in broad money. The missions also recommended (a) introducing the standardized report forms—1SR for central bank's accounts and 2SR for ODCs' accounts to be reported to the IMF; (b) that two new schedules for reporting of data by commercial banks be introduced to fully satisfy compilation needs, in particular with respect to the sectoral breakdown and application of residency criterion in the classification of financial instruments used by the ODCs in their activities; and (c) the expansion of the ODCs to include other deposit-taking financial institutions, such as Tanzania Investment Bank, Tanzania Postal Bank, Twinga Bancorp Limited, Mufindi Community Bank, and Mwanga Community Bank.

Also, the January 2008 mission conducted a workshop for deposit-taking financial institutions that focused on the sectorization, classification, and valuation issues, as well as the procedures for reporting data to the BOT. During the workshop, in addition to two new schedules and guidelines for their completion, the banks' representatives were provided with the lists of the public nonfinancial corporations, central government units, local government units, financial institutions, and validation tools to improve the sectoral classification and consistency of the data between the balance sheet and schedules.

Balance of payments statistics

Foreign trade data are prepared by Fund staff missions on the basis of customs data provided by the Bank of Tanzania (BOT), which in turn are compiled by the Tanzania Revenue Authority (TRA) based on customs records. A balance of payments statistics mission in May 2002 found continued and significant under-recording of trade and a dearth of information on services. The authorities acknowledged these problems in their response to the data ROSC report published in March 2004 and indicated that the BOT plans to commission a joint study by the NBS and the TRA to determine the magnitude of underrecorded trade and design an appropriate method of estimation. Re-exports are now included in trade data. Balance of payments statistics are reported annually to STA for publication in the *IFS*, along with the annual International Investment Position (IIP).

Tourism revenues are estimated using the model that was developed from the International Visitor's Exit Survey conducted in 2001. Using the model and subsequent annual surveys, estimates have been made for 2001 through 2005. Information on official grant and loan receipts is prepared by Fund staff based on contacts with official agencies. The data on

current and capital transfers (grants) are estimates, based on data provided by the Ministry of Finance and United Nations Development Program projections. Disaggregation of the data has improved, but more work is needed including on the coverage and periodicity of data.

Data on private “financial” flows are scarce. Some information on private banking sector flows can be derived from the monetary survey, but private “financial” flows are not adequately captured through the International Transaction Reporting System and are largely reflected in “errors and omissions.” However, the authorities have made commendable progress in collecting information on certain components. The results of the Private Capital Flows Survey for 2000 and 2004 have now been incorporated into the balance of payments and IIP accounts, which improved estimates of foreign direct investment inflows as well as dividend payments and distributed branch profits. The Private Capital Flows Survey is designed to capture information on foreign direct investment and also asks investors to report committed and projected (for the near future) direct investment flows.

Data on the gross and net official reserves of the Bank of Tanzania are provided monthly with a short lag, and are available to the Fund with higher frequency on request. Similarly, data on the 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, less progress has been made in reconciling debt owed to other bilateral and commercial creditors. Information on external debt not guaranteed by the public sector, mostly private sector debt, is also limited and not captured in a timely manner.

East AFRITAC has provided assistance in international investment position statistics, most recently in March 2007. The missions have worked on training, questionnaires, and revised guidelines for international transaction dealers.

TANZANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF END-APRIL 2008)

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶	Memo Items:	
						Data Quality – Methodological soundness ⁷	Data Quality Accuracy and reliability ⁸
Exchange Rates	Jan. 2008	Mar. 2008	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	February 2007	March 2007	D, M	D, M	M		
Reserve/Base Money	Jan. 2008	Mar. 2008	M	M	M	LO, LO, LO, LO	LO, O, O, O, LO
Broad Money	Jan. 2008	Mar. 2008	M	M	M		
Central Bank Balance Sheet	Jan. 2008	Mar. 2008	M	M	M		
Consolidated Balance Sheet of the Banking System	Jan. 2008	Mar. 2008	M	M	M		
Interest Rates ²	Jan. 2008	Mar. 2008	M	M	M		
Consumer Price Index	Jan. 2008	Mar. 2008	M	M	M	O, LO, O, LO	LNO, LNO, LNO, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	...	...	...	...	...	LNO, LNO, LNO, LO	LO, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	March 2007	May 2007	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	October 2007	January 2008	M	M	A		
External Current Account Balance	2006	July 2007	A	A	A	LO, LO, LO, LO	LO, LNO, O, LNO, LNO
Exports and Imports of Goods and Services	April 2007	May 2007	M	A	A		
GDP/GNP	2005	May 2006	A	A	A	LO, LO, LO, LO	LNO, LNO, O, LO, LO
Gross External Debt	June 2006	September 2006	M	M	A		

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)..

⁷Reflects the assessment provided in the data ROSC published March 23, 2004 and based on the findings of the October 8–23, 2002 mission for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁸Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies



Press Release No. 08/337
FOR IMMEDIATE RELEASE
December 22, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Fourth Review Under the Policy Support Instrument (PSI) for Tanzania

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review under the three-year Policy Support Instrument (PSI) for Tanzania.

The PSI was approved on February 16, 2007 (see [Press Release no. 07/26](#)) and is aimed at sustaining broad-based high growth and accelerating progress in poverty reduction. To that end, the PSI supports enhancing public resource mobilization and efficiency of spending; bolstering financial sector reforms and the effectiveness of monetary policy; and improving the business climate to stimulate private sector-led growth.

On completing the review, the Executive Board also approved waivers for the nonobservance of two assessment criteria: the end-June ceiling on average reserve money, and the signing of a memorandum of understanding between the Ministry of Finance and Economic Affairs (MoFEA) and the Bank of Tanzania (BoT) delineating responsibilities in the areas of liquidity management and financial operations, which was implemented with a delay.

Following the Board's discussion on Tanzania, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

“The Tanzanian authorities continue to implement sound macroeconomic policies. Strong fundamentals—including low public debt and ample international reserves—will help Tanzania cope with the current global economic downturn and volatile commodity prices. Nevertheless, downside risks remain, and the authorities must remain vigilant, developing contingency plans.

“The fiscal stance for 2008/09 provides an appropriate modest stimulus, while retaining the target of zero net domestic financing, which is supportive of monetary policy. The revenue target is ambitious, and the authorities will need to exercise expenditure restraint in the event of a revenue shortfall.

“While the recent drop in global commodity prices will help bring inflation down, monetary control needs to be strengthened to return inflation to the authorities’ medium-term objective. In this regard, the recent agreement between the Ministry of Finance and Economic Affairs and the Bank of Tanzania on their respective roles and responsibilities will help improve liquidity forecasting and management.

“The banking sector has fared well, but prudential regulation and supervision need to be strengthened, especially in the context of plans to gradually liberalize the capital account of the balance of payments. Strengthening oversight over the rapidly-growing pension funds is particularly important.

“Recent improvements in governance and public accountability are welcome, including the decisive actions taken to investigate and prosecute wrong-doers in the external payments arrears fraud case. The Bank of Tanzania should continue to improve its internal control mechanisms, drawing on the recommendations of the IMF’s safeguards assessment report. The Bank of Tanzania’s plans to re-focus its attention on its core tasks of monetary policy and financial supervision are important.

“Maintaining high economic growth is critical to accelerate poverty reduction in Tanzania and make decisive progress toward the Millennium Development Goals. Higher infrastructure investment is needed to support growth, but care should be taken to achieve value for money and avoid a re-accumulation of unsustainable public debt,” Mr. Portugal said.

**Statement by Samuel P. O. Itam, Executive Director for
United Republic of Tanzania
December 19, 2008**

Introduction

1. Against a challenging external environment, Tanzania has maintained prudent macroeconomic policies and deepened structural reforms. Reflecting this stance, economic growth has been strong and medium-term prospects remain very good. The authorities are thankful to the Fund for the constructive engagement and support, and appreciate staff's forthright policy dialogue and advice under the program.
2. The authorities remain resolute in implementing the PSI-supported economic program. All end-June 2008 quantitative assessment criteria were observed, with the exception of the ceiling on the average reserve money, which was narrowly missed. Further, implementation of structural benchmarks was broadly on track, and program targets for 2008/09 are expected to be achieved. In view of the strong performance under the program, the authorities request Directors' support for the completion of the fourth review of the PSI and the associated waivers.

Recent economic developments

3. Tanzania's impressive economic performance has been uninterrupted over the past decade, reflective of the economic reforms already undertaken, broad-based growth, and resilience to external shocks so far. Real GDP growth is estimated at 7.3 percent in 2007/08 on account of strong performance by transport and communications, mining, construction, tourism and trade, and manufacturing and agriculture sectors. Inflation, which had remained in single digits over the review period, edged up to 11.8 percent in October due to intense pressures emanating from a protracted surge in oil and food prices. Recognizing the implications of protracted increases in the prices of these commodities on the external account and price stability in the near to medium term, the authorities took appropriate measures to mitigate the impact. The prudent monetary policy framework allowed a pass-through of the oil price increases. Nonetheless, the authorities are of the view that the recent easing of global fuel and food prices, as well as sustained prudent fiscal and monetary policies, would lead to inflation resuming its downward trajectory in the coming months.

4. The fiscal outturn in 2007/08 continued to reflect marked improvements. Revenue outturn for 2007/08 was 33 percent higher than in the previous year on account of the broadened tax base, expeditious implementation of structural reforms, and strengthening of the customs and tax administration. Also, major recurrent expenditure categories were below projections, mainly on account of slow procurement processes. Lower rates of treasury yields continued to generate significant interest costs savings on the budget. Development expenditure benefited from accelerated disbursement of foreign project financing, though overall performance was below program expectations.

5. The monetary framework of the Bank of Tanzania (BoT) continued to be guided by its strategy that includes a mix of policy instruments for sterilization of liquidity and broadening of monetary policy transparency. To that end, treasury bills and bond auctions were complemented with frequent sales of small amounts of foreign exchange in the market to sterilize liquidity injections and increased use of the repo instruments. As a result, reserve money growth largely remained on track, and the Treasury bills yields remained at their lowest levels since March 2008. However, due to the seasonality effects of the end-of-the-financial-year increase in government expenditure and sizable redemption of government securities, the program's assessment criterion for average reserve money for June 2008 was missed by 0.6 percent. Despite the tighter monetary policy stance, the banking system continued to meet the strong demand for private sector credit.

6. External developments during 2007/08 were broadly in line with program targets on account of the 27 percent export growth in dollar terms, reflecting both a strong performance in manufacturing and traditional exports. Inflows of official foreign aid and foreign direct investment (FDI) remained strong. As a result, despite a rapid growth in imports that accounted for the widening of the current account deficit, the foreign exchange reserves level at end-June 2008 rose to the equivalent of 4.4 months of imports. In the same period, the nominal exchange rate of the shilling to the U.S. dollar appreciated.

Outlook and policies

7. Tanzania's economic performance is expected to remain strong in 2008/09 and the medium term. Growth could, however, slow down in the near term due to the adverse effects of the protracted global economic and financial crisis on exports, tourism, the financial sector and capital inflows. Accelerating the rate of growth and poverty reduction in the medium to long term will continue to be central in the authorities' program design and implementation. A recently completed household budget survey shows tangible improvement in income generation and education but mixed performance in others.

8. Notwithstanding such impressive developments, the authorities concur with staff assessment that the country faces challenges in many fronts. Among the authorities' main priorities, are consolidating fiscal stability, supported by continued robust revenue performance, while accommodating substantive increases in development expenditure for infrastructure and MDG clusters and strengthening the external position. The authorities are confident that these - coupled with tighter monetary policy, the accelerated growth performance, and easing of global fuel and food prices - would allow inflation to subside to

the 6.8 percent target by June 2009. Further, the authorities are determined to step up implementation of diversification of the economy and exports, address infrastructure bottlenecks, and improve economic governance in line with the MKUKUTA (PRSP) and Tanzania Vision 2025.

Fiscal policy

9. The 2008/09 budget aims at raising the revenue performance further by broadening the tax base, strengthening tax and customs administration, and reducing tax exemptions. Other near-term revenue measures include reforming the mining sector's fiscal and regulatory regimes; reviewing the non-tax revenue base and the tax exemption regime; and further strengthening the Tanzania Revenue Authority (TRA) to more effectively handle large taxpayers. On the expenditure side, the authorities will continue giving priority to the MDG clusters (72 percent of total budget) and growth promoting economic infrastructure.

10. Raising productivity and long-term growth through, *inter alia*, public infrastructure development remains a central policy objective of the authorities. The planned capital expenditure includes investments in infrastructure and social sectors, with increased allocation financed by the resources from development partners and other financing options including sovereign bonds, public-private partnerships (PPPs), and domestic borrowing. To this end, the authorities are preparing a medium-term public investment program (MPIP) to guide its investment in infrastructure, with particular focus on transportation, energy and water sectors. They are particularly mindful of the potential fiscal and debt sustainability implications of the various financing options, and, to that end, projects to be included in the MPIP shall be based on detailed economic and social impact appraisal. In this regard, the authorities appreciate the policy advice by staff, the World Bank, and the African Development Bank.

Monetary and financial sector policies

11. The BoT is committed to continue anchoring its monetary policy on low and stable inflation. To this end, the BoT will further bolster its open market operations, maintain a flexible exchange rate policy, rely substantially on foreign exchange sales for sterilization of liquidity, and continue to improve liquidity forecasting. The BoT is also committed to maintain the transparency of its policy stance and promote orderly financial markets. Coordination between fiscal and monetary policies will be further strengthened to obtain an appropriate policy mix for liquidity management and anchor inflation expectation. Furthermore, such coordination will help increase absorption of public funds, while minimizing interest rate and exchange rate volatility, as well as pressures on domestic prices. The BoT has completed the review of the existing regulatory framework governing capital account transactions and, as a result, will be preparing an action plan for a gradual and realistic liberalization of the capital account transactions. The authorities are especially mindful that capital account restrictions have, thus far, sheltered the economy from the inherent shocks. They, however, remain open to benefit from the wealth of experiences of the successful liberalizers.

12. The authorities are committed to strengthen implementation of the second-generation financial sector reforms with a view to deepening and broadening financial intermediation. To this end, they have enacted the Social Security Bill that creates a single Social Security Regulatory Authority for the pension sector and has assigned to the BoT the responsibility of establishing investment guidelines. The BoT has in turn made commitment to expeditiously assess the financial health of the pension funds in preparation of the guidelines.

Structural reforms

13. The authorities are determined to consolidate the gains achieved on reforms, in particular those on PFM, financial sector, public accountability and macroeconomic stability. They are equally determined to continue improving the overall investment climate that will further facilitate private sector development, attract and retain FDI, boost domestic entrepreneurship and sustain high economic growth. In addition to vigorously pursuing prudent macroeconomic and financial policies, the authorities are resolved to deepen implementation of the reform program. They are, in this regard, building the capacities of the procurement units in all ministries and the public debt management units in all institutions.

14. The BoT is also undertaking a fundamental review of its core functions, with a view to developing and implementing a strategy for refocusing its operations in the near term. In this regard, the authorities have clarified, through an Memorandum of Understanding (MoU), the relationship between the Minister of Finance and Economic Affairs (MOFEA) and the BoT regarding some of the tasks that the BoT conducts on behalf of the MOFEA, including the management of the External Payments Arrears (EPA) account, and cost sharing of monetary policy operations. Implementation of the action plan to address the recommendations of the special audit of the EPA is progressing unabated. The authorities also plan to implement expeditiously the recommendations of the voluntary safeguards assessment and other areas of technical assistance.

15. The authorities together with their East African partners are steadfast in strengthening the regional integration agenda. In this regard, they have initiated negotiations towards the establishment of an East African Common Market as a follow up to the existing East African Customs Union. The interim trade agreement with the European Union in the context of economic partnership agreements will continue to provide full duty free and quota free access for EAC goods exports to the EU markets.

Conclusion

16. The authorities' continued commitment to strong policies under the program has yielded robust economic results, with substantial progress on all fronts. They are aware of the need for further reforms to consolidate the progress made in order to meet the challenges posed by the current surge of inflationary pressures and the potential adverse impacts of the global financial turmoil and economic slowdown. In the near term, the authorities are determined to ensure that the program focuses on sustaining macroeconomic stability, increasing domestic resource mobilization, promoting pro-poor growth, and increasing

investment in infrastructure and core MDG clusters. In line with the MKUKUTA objectives and Tanzania Vision 2025, the authorities are determined to ensure that the macroeconomic stability and deepened structural reforms for a broad-based growth provides a sound basis for poverty reduction and attainment of the MDGs. They are confident that going forward, continued engagement with the Fund – particularly on wide range of technical assistance - and the support of development partners through increased financing support and policy advice will enable them achieve their development goals.