

International Monetary Fund

[United Republic of Tanzania](#) and the IMF

United Republic of Tanzania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Press Release:
[IMF Executive Board Completes First PSI Review for Tanzania](#)
January 7, 2015

December 18, 2014

[Country's Policy Intentions Documents](#)

E-Mail Notification
[Subscribe](#) or [Modify](#) your subscription

The following item is a Letter of Intent of the government of United Republic of Tanzania which describes the policies that United Republic of Tanzania intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of United Republic of Tanzania, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Letter of Intent

December 18, 2014

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madam Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) updates the one from June 27, 2014 under the Policy Support Instrument (PSI). It reports on recent economic developments and sets out macroeconomic policies and structural reforms that the Government will pursue in the following three years.

The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of its program. We stand ready to take further measures that may become appropriate for this purpose and that are in line with the Government's policy objectives. The Government will consult with the IMF at its own initiative or whenever the Managing Director of the IMF requests such a consultation before the adoption of any such measures or changes to the policies described in the attached Memorandum. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

The Government intends to disseminate this letter, the attached MEFP and the Technical Memorandum of Understanding (TMU), as well as related Fund staff reports, and hereby authorizes the IMF to publish the same after consideration by the Executive Board.

Yours Sincerely,

/s/

Saada Mkuya Salum (MP)
MINISTER FOR FINANCE
UNITED REPUBLIC OF TANZANIA

/s/

Prof. Benno Ndulu
GOVERNOR, BANK OF TANZANIA
UNITED REPUBLIC OF TANZANIA

Attachments

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding on Selected Concepts and Definitions Used
in the Monitoring of the Program Supported by the PSI.

Attachment I. Memorandum of Economic and Financial Policies December 18, 2014

I. MACROECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Macroeconomic Developments and Outlook

Output and Inflation

1. **Growth.** Economic growth remained robust in the first half of 2014, backed by strong growth in transport and communication, financial intermediation and electricity. The economy is projected to sustain strong growth momentum (about 7 percent in 2014 and 2015), supported by ongoing investments in roads, electricity and gas, and good weather conditions. The slow recovery of the global economy, in particular the euro area, and a further decline in gold prices remain the main risk affecting the economy's external environment.

2. **Inflation.** Headline inflation stood at 5.9 percent y-o-y in October 2014, marking a turnaround from the general upward trend since January 2014. Food inflation was 7.1 percent in October 2014 and energy inflation 11.6 percent. Core inflation remained subdued at 3.2 percent, thanks to prudent fiscal and monetary policies. Inflation is expected to remain in the single digits, helped by abundant food supply coupled with stable global oil prices. However ongoing geopolitical tensions in the Middle East are a risk to oil prices.

External Sector Developments in Fiscal Year 2013/14

3. **Current Account.** The current account deficit stabilized at 13.5 percent of GDP. Gold exports were affected by lower gold prices, but non-traditional exports continued to exhibit good performance, increasing by almost 17 percent. Lingering problems in the Euro zone continue to pose risks to global growth, which could in turn subdue demand for our exports, including tourism. Imports are likely to soften in line with projected decline in oil prices and lower oil imports, once the new gas pipeline is completed.

Fiscal Performance and Financing in Fiscal Year 2013/14

4. **Fiscal Deficit.** The overall fiscal deficit of the central government declined from 6.7 percent of GDP in FY2012/13 to 4.4 percent of GDP. Revenues turned out below program targets, with shortfalls observed in all revenue categories except in income taxes. VAT underperformance reflected larger than anticipated refunds, in particular to the mining sector, and weaker tax compliance, reflecting in part resistance by some traders in using electronic fiscal devices. Income tax, however, over-performed thanks to a windfall from the taxation of capital gains in a large transaction in the gas sector. Total expenditure was lower than programmed on account of a lower wage bill (reflecting delayed recruitment and promotions), transfers to

TANESCO, and under-execution of capital expenditure. Meanwhile, the stock of domestic unpaid claims (older than 90 days) by the government rose to about 2 percent of GDP at end-September 2014 from 0.9 percent of GDP the previous year.

5. Financing. External non-concessional loans contracted during 2013/14 to finance the budget amounted to US\$348 million including, US\$200 million from Credit Suisse and €113.7 million from HSBC for the ongoing Dar es Salaam International Airport-Terminal III project. An additional US\$83 million was contracted from a bank syndicate led by Citi Bank (guarantee to TANESCO). Actual disbursement through end-June 2014 was US\$738 million, out of which US\$464 million was for the gas pipeline project and US\$274 million for other development projects. Net domestic financing of the government budget was TSh 977 billion. The amount was used partly to finance development projects following the observed shortfall in ENCB and foreign program assistance.

Monetary Policy

6. Monetary policy stance. Growth in monetary aggregates was broadly within targets for end-June 2014, with M3 growing at an annual rate of about 16 percent and credit to the private sector by about 21 percent. The Shilling remained fairly stable although some mild pressure was observed in April-May 2014. Overall, the Shilling depreciated against the U.S. dollar by about 4 percent in the year to September 2014.

Financial Sector and Capital Account

7. Financial sector stability. The banking system remained well capitalized, profitable and liquid. However, the ratio of non-performing loans (NPLs) to gross loans deteriorated from 7.1 percent in September 2013 to 8.5 percent in September 2014, mainly on account of poor performance of large corporates in manufacturing, trade and agricultural sub sectors. Deterioration has also been noted in some banks' portfolio of SME and personal loans.

8. FBME Bank. On 15th July 2014 FBME Bank Limited, a Tanzania licensed bank with two branches in Cyprus, was named as a bank of primary money laundering concern by the US Financial Crimes Enforcement Network (FinCEN) with a proposed action to stop the bank's access to the US financial system. Following the FinCEN notice, the Central Bank of Cyprus (CBC) took over management of the two FBME branches in Cyprus on 18th July 2014. On 21st July 2014, the Bank of Tanzania placed FBME's Tanzania operations under close targeted supervision and on 24th July 2014 the bank was put under BOT's Statutory Management. Thanks to this prompt reaction, the rest of the banking system in Tanzania has remained stable and unaffected. The BOT has taken all necessary steps to protect domestic depositors' money in the FBME. BOT continues to strengthen its AML/CFT supervisory framework which includes, among other objectives, ensuring a detailed assessment of AML/CFT compliance.

9. Financial sector development.

- Mobile payment services have continued to grow, reaching an increasing share of the population. Recent innovations include linkages between telecommunication companies and banks offering micro-savings and micro-credit products, thereby enabling the unbanked population to have access to savings and credit services. While interoperability and public awareness of the mobile payment services has continuously attracted more customers to use the product, observing “know your customer” requirements will continue to be given emphasis in line with the National Payment System Bill that has been approved by the Cabinet.
- In an effort to expedite payments and minimize fraud incidences related to cheques, the Government has successfully connected all its sub-treasuries to its main system. The next step involves connecting stand-alone government ministries and government agencies to the system. This process commenced in August 2014.
- The BoT has developed a Bureau de Change Management System, which enables the BoT to receive real time data from bureau de change through Electronic Fiscal Devices (EFDs). Pilot testing of the system is underway and it is expected that the system will go live by December 2014. The system is expected to enhance efficiency in monitoring the operations of Bureaux de change and their compliance with applicable laws and regulations, including AML/CFT.

10. Capital account liberalization. Following the liberalization of capital account transactions implemented in May 2014, the BoT has finalized operational guidelines to ensure smooth implementation of the amended regulations. This has paved the way for residents of EAC countries to participate in primary auctions and subsequently secondary trading of securities issued by the Government with maturity of one year and above. Meanwhile, BoT has enhanced the Government Securities System (GSS) to allow participation of non-residents through licensed Central Depository Participant (CDP). The monitoring and reporting framework has also been strengthened to allow capturing of the capital flows data through Banking Supervision Information System (BSIS). Tanzanians are now allowed to invest in other EAC countries.

Pension Reform

11. The Social Security Regulatory Authority has already issued 9 guidelines to enforce good governance and improve performance of the pension sector. In July, 2014 SSRA issued new rules for the harmonization of pension benefits across the five defined benefits pension funds (NSSF, PSPF, PPF, LAPF and GEPPF), thereby meeting the program’s structural benchmark for end-September 2014. The issued rules do not apply to the existing members of the PSPF and LAPF prior 1st July 2014. This reform reduced the annual accrual rate from 2.22 to 2.07 percent, commutation factors reduced from 50 percent to 25 percent, and the income measure used to calculate pensions (the average of the three highest salaries in the 10 years preceding retirement

instead of last salary). These measures will ensure fairness for beneficiaries across pension funds and improve the actuarial situation of the pension system.

B. Program Performance

12. Quantitative targets for end-June and end-September. All quantitative assessment criteria (AC) under the PSI arrangement for end-June 2014 were met. The continuous AC on external arrears was not met, as the tight financial situation early in the fiscal year did not allow making full payments to a private creditor. Discussions with this creditor are going on well for a revised payment schedule. The indicative target for tax revenue at end-June was missed. Most indicative targets for September 2014 were missed, due to exceptional circumstances. First, large shortfalls in program assistance and non-concessional borrowing were experienced, which the adjusters on net international reserves (NIR) and net domestic financing (NDF) could not fully address. Second, revenue collection was below the target. Third, the government decided in July to frontload domestically-financed capital expenditure more than envisaged under the program. This was facilitated through the conversion of liquidity papers into financing papers, with the corresponding release of blocked deposits at the BoT. The liquidity thus injected in the economy was partly mopped up through net sales of foreign exchange. As a result, NIR ended up below, and NDF above, their respective adjusted targets for end-September. The target for average reserve money, however, was almost met (missed by only TSh 1.2 billion).

13. Structural benchmarks. The BoT submitted the draft regulations on consolidated supervision to the Attorney General's Office in June 2014 and the regulations have subsequently been gazetted on 22nd August 2014 under GN No. 286 to 298. The 2014/15 budget includes an allocation of TSh 195 billion to start the clearance of domestic arrears. A plan to address outstanding and future liabilities to pre-1999 PSPF beneficiaries was delayed to allow for a more comprehensive plan to address all government arrears to pensions (para 27). The first quarterly report on debt was completed in November 2014 and tabular information on parastatals was published by the Treasury Registrar in November 2014.

II. THE ECONOMIC PROGRAM FOR 2014/15 AND THE MEDIUM TERM

14. Poverty reduction strategy. Tanzania's development agenda is guided by the Development Vision 2025 and implemented through the poverty-reduction strategy (MKUKUTA II) and the five-year development plan (FYDP). The next annual implementation report on MKUKUTA II will be completed by end-November 2014. MKUKUTA II comes to an end in June 2015 while the FYDP ends in June 2016. The government intends to extend the life of MKUKUTA II by one year so that the life of MKUKUTA II will end June 2016 in line with the FYDP. This will facilitate the harmonization of the MKUKUTA and FYDP documents from mid-2016 and also ensure alignment with the electoral cycle.

A. Monetary, Exchange Rate, and Financial Sector Policies

15. Monetary policy stance for 2014/15. The current monetary policy stance remains appropriate to reach the objective of 5 percent inflation rate by mid-2015. The targets for end-June 2015 for the growth in average reserve money (about 15 percent) and M3 (about 16 percent), will give room for growth of credit to the private sector of about 20 percent. To address seasonal liquidity needs while meeting quarterly average reserve money targets, the BoT will build sufficient buffers over the course of each quarter.

16. Modernizing the monetary policy framework. A retreat for the BoT's Board of Directors was organized to discuss the reforms towards a price-based monetary policy framework. Improvements in the BoT's macro-economic modeling and forecasting capacity is being implemented, with the help of the IMF. A study is also being undertaken to understand better the relationship between interbank market rates and banks' excess reserves. The BoT will unify the statutory minimum reserve (SMR) and the clearing accounts that banks maintain at the BoT and implement partial reserve averaging for reserve requirements by end-April 2015 (new structural benchmark). These reforms are expected to help reduce the volatility of interbank market rates.

17. Coordination of monetary policy and fiscal policy. In an environment of uncertain external financing and relatively shallow domestic financial market, the conversion of liquidity papers into financing papers has proved a convenient instrument to address temporary budget financing needs. However, further conversions are not expected this fiscal year. Going forward, recourse to conversion will be reduced to a minimum by aligning more closely the phasing of budget financing with the desired pattern for expenditure execution.

18. Exchange rate. The exchange rate will continue to be driven by market forces, with the BoT participating in the foreign exchange market for liquidity management purposes and to smooth out excessive short-term fluctuations in nominal exchange rate. The BoT's net sales in the foreign exchange market will be consistent with the targets of net international reserves (NIR). Recent deviations from the program path for NIR reflected to a significant extent delays in donor financing and nonconcessional borrowing; they are expected to be corrected in the coming months as the financing situation normalizes. Given recent developments towards realization of ENCB and program assistance, we request a downward revision to the end-December 2014 NIR target, and a slight upward revision to the end-June 2015 NIR target (reflecting higher ENCB over the entire year, see paragraph 31) as shown in Table 1.

19. Capital account liberalization. Having liberalized the capital account with the EAC, the government intends to extend the liberalization to the rest of the world by end-2015 drawing lessons from the EAC experience.

20. Banking supervision and resolution framework. The recent difficulties with FBME Bank underscore the urgency of conducting supervision on a consolidated basis and deepening the collaboration with foreign supervisors. Currently, BoT is developing the consolidated supervision

framework, and has already issued consolidated supervision regulations and entered into memorandum of understanding (MoUs) with other regulators and foreign central banks. Draft off-site and on-site procedures have been prepared and the plan is to conduct pilot consolidated examination beginning year 2015 with full implementation by 2017. The next step is to build capacity of examiners in consolidated supervision; in this regard, the IMF is providing technical assistance to train BoT staff. Financial supervisors, both at the BoT and the Financial Intelligence Unit (FIU), the AML/CFT authority, are also strengthening the AML/CFT compliance framework in FBME Bank following a joint inspection. Over the medium term, the FIU is aiming to increase the number of compliance officers and strengthen the capacity in other regulatory agencies to carry out AML/CFT oversight, including the BoT and the Gaming Board.

21. FBME continues to be under BoT's statutory management, while awaiting FinCEN's final position on the activities of the bank. Upon this final position, the BoT will take appropriate actions on the future of the bank.

B. Fiscal Policies

Budget for 2014/15 and Medium-Term Fiscal Policies

22. Budget for 2014/15. The public investment effort is expected to remain substantial in FY2014/15, in particular to develop key transportation and energy infrastructure. About TSh 2.1 trillion has been allocated to finance projects included in the Big Results Now (BRN) Initiative, with a major focus on road infrastructure, energy and minerals, water including irrigation projects, education, transport and agriculture. The wage bill is expected to increase as a share of GDP, reflecting the full-year impact of recruitments in the previous fiscal year, planned additional recruitment in priority sectors and a general pay increase. For this purpose, the minimum monthly wage was raised from TSh 240,000 to TSh 265,000 in July 2014. The approval and implementation of the new VAT law, including a more effective and better funded VAT refund system, and the continuation of revenue administration reforms will contribute to strengthen revenue. The 2014/15 budget targets a deficit of 4.9 percent of GDP, in line with the program.

23. Downside risks and corrective measures. Revenue projections underpinning the 2014/15 budget have been reconsidered recently in light of final revenue outturns last fiscal year and recent developments in revenue collection. Both point to the need to revise revenue projection downwards, particularly for the income tax, by about 1 percent of GDP. Budget implementation is also affected by delays in contracting non-concessional borrowing and the disbursement of donor financing. The Parliament has pronounced itself on the special audit of the Controller and Auditor General on the IPTL case, and resolutions have been made and submitted to Government. The Government will study each one of them and ensure it addresses them. This is expected to pave the way for full disbursement of donor financing by end-June 2015. Given these developments, if revenue trends continue, both revenue and expenditure will be revised downwards during the mid-year budget review to reach the deficit target. The Cabinet will deliberate upon the mid-year report and direct that line ministries take measures to align

expenditures with expected revenue flows. The review will be completed as soon as possible, to facilitate adjustment, and its outcome will be shared with Fund staff, including the revised expenditure allocations for MDAs. Expenditure measures will preserve BRN priority areas. In light of these risks, prudent execution of the budget is in order until the mid-year review. Expenditure execution has already been slowed significantly, since the budget operates on a cash availability basis. To address the uncertainty related to the timing of GBS resumption, an increase in the cap to the NDF adjuster (and NIR adjuster) is requested (from TSh 300 to TSh 500 billion).

24. Medium-term fiscal policies. In the medium term, the Government will focus on allocating resources into strategic areas and projects to ensure public resources are invested in a manner consistent with the priorities outlined in the MKUKUTA II and FYDP, including by giving priority to the projects identified under the BRN. With increasing reliance on market financing, the government will contain fiscal deficits to reasonable levels and ensure that public debt continue to be sustainable. In addition, the EAMU Protocol requires that fiscal deficits (including grants) be eventually reduced to well below to 3 percent, to maintain space for fiscal maneuver in case of need. We therefore intend to continue reducing the fiscal deficit gradually beyond FY2014/15.

Fiscal Aspects of Energy

25. Power sector. The financial situation of TANESCO has improved significantly in 2014 in the wake of the January 2014 tariff increase. Thanks also to support from development partners, the level of arrears has decreased. Arrears, however, remain sizeable and affect the status of TANESCO as credible off-taker for gas supplies from TPDC. These arrears will be addressed by the current initiative of TANESCO paying creditors on weekly basis as well as ongoing implementation of the Electricity Supply Industry (ESI) Reform Strategy and road map approved by the Government on 30th June 2014. TANESCO is also in the process of phasing out emergency power plants. In July 2014, Symbion Plants with 150MW was phased out without lowering the reliability of power supply delivery. Restructuring of TANESCO will be implemented gradually such that unbundling of generation segment will be done by December 2017, while unbundling of distribution from transmission segment by June 2021. The outcome of unbundling is expected to be an improvement in the efficiency of TANESCO and thus eliminating the need for Government subsidies to TANESCO.

26. Fiscal framework for managing revenues from natural gas. Work is ongoing on designing a macroeconomic and fiscal policy framework that will govern the overall use of natural resource revenues, should Tanzania become a major gas producer; procedures to ensure the revenues and associated expenditures are fully integrated and managed within the budget process; and reporting requirements to ensure transparency in the use of the natural resources. A draft policy paper on these issues will be prepared and submitted to Cabinet by end-March 2015.

Fiscal Aspects of Pensions

27. Pension reform. A strategy is expected to be adopted by Cabinet by end-February 2015 to address government arrears to pension funds and further improve the sustainability of the funds (new benchmark). These arrears have arisen first from liabilities related to pre-1999 reform PSPF beneficiaries. Second, arrears have been incurred on loans provided by pension funds to various public entities with a government guarantee, or directly to the government. The practice of extending such loans, which were not properly documented or recorded in the budget, was stopped more than two years ago following the issuance of Investments Guidelines in May 2012 by SSRA and BoT. Accordingly, such financing will not resume until the pension funds' loan exposure to the government drops below 10 percent of their assets. Any future lending will be properly recorded as government financing, and the corresponding expenditures will also be recorded in the fiscal accounts. The strategy will propose modalities for the settlement of arrears (e.g., rescheduling, securitization) and future budget will explicitly take into account the servicing of these debts (including the part of the loans recognized as government debt and not yet in arrears). The strategy will also propose options for addressing the future liabilities related to pre-1999 reform PSPF beneficiaries, taking into account the interests of beneficiaries and taxpayers. Any remaining annual fiscal obligations that have to be taken over by the government will be explicitly budgeted, starting next fiscal year.

C. Public Finance and Debt Management

Management of domestic arrears

28. Arrears monitoring. There is still uncertainty regarding the exact amount of existing arrears, reflecting the need to improve the monitoring system. In this regard, the Paymaster General (PMG) will issue a new Circular on the reporting of payment arrears and the provision of training to concerned government staff. The Circular will include, among others, a clear definition of arrears, an extension of the reporting coverage (e.g. arrears on tax refunds and debt service), an additional aging category to identify arrears of more than one year, documentation requirements, including a proof that a claim was registered in the IFMS, and a requirement that internal auditors in MDAs prescreen the arrears data before submission to the Ministry of Finance. The issuance of new circular is a proposed new structural benchmark for end-December 2014.

29. Arrears verification and settlement. To accelerate the settlement of arrears, verification is being carried out centrally for all outstanding arrears as of end 30th June, 2014. A report with the conclusions of the verification process will be produced by end-February 2015 and will be shared with IMF staff (proposed new benchmark). Settlement of these verified arrears will be effected in 2014/15 and 2015/16 budget. Arrears for construction work are expected to be addressed first during the current fiscal year. To allow for arrears clearance, we request that the NDF target for 2014/15 be adjusted upward by the amount of arrears cleared. The size of the adjustor will be based on a report produced by the CAG by end-September 2015 verifying the settlement of arrears. For FY 2015/16, arrears clearance will be transparently included in the

budget and fiscal space will be opened up to accommodate clearance of the remaining arrears and report similarly produced by CAG after the clearance.

30. Arrears prevention. Our PFM framework will be strengthened through the adoption by June 2015 of an amended Public Finance Act and a new Budget Act. These bills will expand the coverage of the PFM legal framework, remove conflicting and ambiguous requirements, codify PFM practices, and strengthen enforcement. The Government will strengthen its capacity for revenue forecasts to enhance the realism of the budget. To this end, technical support from the IMF and others will be sought whenever necessary. Furthermore, robust administrative measures will be put in place to improve compliance and revenue collection. All local purchase orders (LPOs) will be made through the Integrated Financial Management System (IFMS), and outreach to suppliers will be conducted to ensure that they accept only IFMS-generated LPOs. Cash management and forecasting and the fund release process will be strengthened. The Ministry of Finance will only release funds to MDAs, RSs and LGAs upon submission of monthly budget execution reports.

Public debt management

31. The decision to establish a Debt Management Department within the Ministry of Finance was made in May 2014. A Cabinet Paper on the National Debt Management Policy and amendments of the Government Loans, Guarantees and Grants Act Cap. 134 are being prepared with a view to strengthening management of public debt, including providing the legal underpinning for a new debt management department to effectively discharge its responsibilities. In addition to a project loan of \$292 million to finance the Kinyerezi II power plant, the Government envisages to contract two non-concessional loans at floating rates to finance the budget. These loans are expected to amount to \$800 million, with \$600 million likely to be disbursed by the third quarter. The first quarterly report on debt will be published by end-2014. Subsequent reports will be published within a month following the end of each quarter.

Monitoring and Management of Fiscal Accounts in the Public Sector

32. Public sector monitoring. The Government has started to scrutinize the budget for public sector to ensure prudent financial management. All public institutions that collect revenue will have their budgets reviewed and approved by the Paymaster General and all excess funds will be deposited into the Government Consolidated Fund. To improve transparency, the Treasury Registrar will publish at least once a year in tabular format updated information on parastatals' revenues, expenditures, and profits and losses.

33. Budget Act and Public Finance Act. A Budget Act is being prepared for expected adoption by the end of FY2014/15. The Budget Act will provide specific detailed guidance in matters relating to Budget. Some of the issues intended to be covered include planning component, revenues and expenditures. The new law is expected to address gaps in existing laws, instill budget discipline and credibility and put in place a legal framework that considers different aspects of the budget and the process as well as recognizing the legal roles and

responsibility of different key stakeholders. The Public Finance Act, 2001 (as revised in 2004) is under review in order to incorporate sections which were not in the current Act and also to increase Transparency and Accountability of Public Funds which include: The preparation of financial statements using International Public Sector Accounting Standards (IPSAS), Management of Government Assets, Internal Auditor General's Issues, Electronic Payments etc.

D. Other Reforms

Statistical Issues

34. Revised national accounts. The National Bureau of Statistics released revised national accounts statistics in October 2014. The revised estimates, base year 2007, are based on a number of benchmark surveys conducted in recent years, including the 2007/08 Agriculture Survey; 2007 Household Budget Survey; 2006 Integrated Labor Force Survey; 2007 and 2008 Annual Surveys of Industrial Production; and 2007 Survey of Non-Government Organizations. In addition, extensive use has been made of administrative data, especially from the value-added tax system. The level for the revised GDP is 27.8 percent higher than the old GDP, 2001 base year. The structure of the economy is broadly unchanged with agriculture being the largest sector (23.8 percent) followed by trade (10.1 percent), construction (9.6 percent) and manufacturing (7.6 percent). The new data are being carefully analyzed and will be used in the PSI's macroeconomic framework from the next review.

35. Other statistical improvements. During 2013/14 international visitors exit surveys were undertaken. Data derived from the surveys were incorporated in the BOP statement. The BoT also continued to conduct annual Surveys of Companies with Foreign Liabilities (SCFL) to collect and analyze data on foreign private investment. Currently, fieldwork is ongoing to collect FDI data for 2013 and preliminary results of the SCFL are expected before end of 2014.

Program monitoring

36. Assessment criteria for end-December 2014 and end-June 2015, and indicative targets for end-March 2015 are set as per Table 1. The changes reflect adjustments to program targets prompted by the revisions to external financing and the shortfall of tax revenues relative to the projections in 2013/14 and the first quarter of the fiscal year. The second and third reviews under the PSI are expected to take place by June 30, 2015 and December 31, 2015, respectively, on the basis of the assessment criteria and structural benchmarks indicated in Tables 1 and 2, attached.

MEFP Table 1. Tanzania: Quantitative Assessment Criteria (AC) and Indicative Targets(IT) Under the Policy Support Instrument, June 2014–June 2015

	June 2014				Sept. 2014				Dec 2014		March 2015		June 2015	
	Assessment Criteria				Indicative Target				Assessment Criteria		Indicative Target		Assessment Criteria	
	Program	Adjusted Criteria	Preliminary	Met?	Program	Adjusted Criteria	Preliminary	Met?	Program	Revised	Program	Revised	Program	Revised
(Billions of Tanzania Shillings; end of period, unless otherwise indicated)														
Net domestic financing of the government of Tanzania (cumulative, ceiling) ^{1,2}	793	1093	977	✓	143	443	873	✗	286	864	429	446	572	29
Average reserve money (upper bound) ^{3,6}	5,685	5,685	5,572	✓	5,903	5,903	5,905	✗	6,033	6,033	6,219	6,219	6,473	6,473
Average reserve money target ³	5,629				5,845				5,973	5,973	6,158	6,158	6,409	6,409
Average reserve money (lower bound) ³	5,573				5,787				5,913	5,913	6,096	6,096	6,345	6,345
Tax revenues (floor; indicative target) ¹	9,410	9,410	9,294	✗	2,775	2,775	2,401	✗	5,550	5,105	8,324	7,854	11,099	10,661
Priority social spending (floor; indicative target) ¹	2,200	2,200	2,783	✓	600	600	718	✓	1,200	1,200	1,800	1,800	2,400	2,400
(Millions of U.S. dollars; end of period)														
Change in net international reserves of the Bank of Tanzania (floor) ^{1,4,6}	268	86	198	✓	82	-100	-270	✗	314	-235	496	290	578	608
Accumulation of external payment arrears (continuous AC ceiling) ¹	0	0	0	✓	0	0	15	✗	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (continuous AC ceiling) ⁵	2,420	2,420	354	✓	2,420	2,420	354	✓	2,420	2,420	2,420	2,420	2,420	2,420
Memorandum item:														
Foreign program assistance (cumulative grants and loans) ¹	907	907	853		384	384	112		572	202	675	374	713	755
External nonconcessional borrowing (ENCB) disbursements to the budget ¹	675	675	274		225	225	15		450	149	675	846	900	1,147

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

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

² To be adjusted upward by up to TSh 500 billion for the U.S. dollar equivalent of a shortfall in the combined total of foreign program assistance and ENCB from the amounts shown in the memorandum item. To be adjusted downward by any ENCB disbursed for budget financing above programmed amount for the year as a whole. To be adjusted upward by the full amount of domestic arrears cleared during the fiscal year.

³ Assessment/performance criteria and indicative targets apply to upper bound only.

⁴ Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government up to the equivalent of TSh 500 billion.

⁵ The cumulative ENCB ceiling of US\$2,420 million applies from January 1, 2014 through June 30, 2016.

⁶ The program figure for end-June 2014 is the authorities' projection and is not an AC for the purposes of the first review.

MEFP Table 2: Structural Benchmarks under the Policy Support Instrument

<i>Measure</i>	<i>Macroeconomic rationale</i>	<i>Target date</i>	<i>Status</i>
Public Finance Management/Fiscal Risks			
Provide an allocation in the 2014/15 budget for centralized clearance of domestic arrears. Any payment from this centralized budget should be backed by a list of verified eligible creditors, in line with the priorities of a repayment strategy	To accelerate clearance of domestic expenditure arrears	June 30, 2014	Met
Prepare and publish a fiscal risk statement or subcomponents of it (e.g., a listing of all PPP projects with their key features and information on government guarantees)	To enhance fiscal risk management	June 30, 2015	
Paymaster General (PMG) to issue a new Circular requiring quarterly reporting of payment arrears to include a clear definition of arrears, an extension of the reporting coverage (e.g. arrears on tax refunds and debt service), an additional aging category to identify arrears of more than one year, documentation requirements, including a proof that a claim was registered in the IFMS, and a requirement that internal auditors in MDAs prescreen the arrears data before submission to the Ministry of Finance.	To enhance monitoring of arrears	December 31, 2014	New benchmark
Prepare a report on verification of arrears as of end-June 2014 that covers all ministries, departments and agencies.	To accelerate settlement of arrears	February 28, 2015	New benchmark

<i>Measure</i>	<i>Macroeconomic rationale</i>	<i>Target date</i>	<i>Status</i>
Monetary, Financial and Exchange Rate Policies			
Submit the draft regulations on consolidated supervision to Attorney General's Office.	To modernize the BoT's supervisory framework to better supervise consolidated financial firms.	June 30, 2014	Met
Conduct a review of the relationship between the interbank cash market rates and excess reserves of commercial banks as a step to transitioning to a more interest rate-based monetary management framework.	To prepare BoT's gradual shift to a price-based monetary framework.	December 31, 2014	
Unify the Statutory Minimum Reserve and the clearing accounts that banks maintain at the BoT and implement partial reserve averaging for reserve requirements	To reduce excessive volatilities in short term money market interest rates.	April 30, 2015	New benchmark

<i>Measure</i>	<i>Macroeconomic rationale</i>	<i>Target date</i>	<i>Status</i>
Pension System			
Approve pension harmonization guidelines.	To limit contingent liabilities	September 2014	Met
Prepare a plan to address the outstanding and future obligations to pre-1999 pensioners of the PSPF.	To limit contingent liabilities	June 30, 2014	Not met. The MoF has expanded the scope of the work to address outstanding government obligations to all the pension funds. A strategy is expected to be prepared by end-February 2015.
Prepare and adopt a strategy to address government arrears to pension funds	To improve the sustainability of the funds	February 28, 2015	New benchmark
Public Debt Management			
Prepare the first quarterly report on (i) all external debt contracts signed and guaranteed by government, (ii) borrowing by public enterprises, and (iii) projected debt service on public debt.	To enhance public debt management	September 30, 2014	Not met. The report was produced in November, but did not include information on borrowing by public enterprises and debt service projections. The authorities plan to address these shortcomings before publication by end-December.

<i>Measure</i>	<i>Macroeconomic rationale</i>	<i>Target date</i>	<i>Status</i>
Public Enterprise Management			
Treasury Registrar to publish the audited accounts of public enterprises	To improve transparency and accountability of public enterprises	September 30, 2015	
Include tabular information on each parastatal's revenues, expenditures, and profits and losses in Treasury Registrar Statements to Parliament (beginning with the September 2014 statements for the year ended June 30 th , 2014)	To improve transparency and accountability of public enterprises	September 30, 2014	Not met. Implemented with delay. The report was published in November.
Managing Natural Resource Wealth			
Prepare a draft policy paper on natural gas revenue management framework that fully integrates with the budget.	To strengthen fiscal sustainability and improve transparency in the use of natural gas resources	March 31, 2015	

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

December 18, 2014

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 Tanzania's program supported by the PSI, comprising the quantitative assessment criteria, the indicative targets and structural benchmarks monitored under the PSI.
- 2.** The principal data sources are the standardized reporting forms, 1SRF and 2SRF, as provided by the Bank of Tanzania (BoT) to the IMF, and the government debt tables provided by the Accountant General's office.

II. DEFINITIONS

Net international reserves

- 3.** Net international reserves (NIR) of the BoT are defined as reserve assets minus reserve liabilities. The change in NIR is calculated as the cumulative change since the beginning of the fiscal year. 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, of original maturities less than one year; and (ii) outstanding purchases and loans from the IMF.
- 4.** NIR are monitored in U.S. dollars, and for program monitoring purposes assets and liabilities in currencies other than U.S. dollars shall be converted into dollar equivalent values using the exchange rates as of March 31, 2014 (as recorded in the balance sheet of the BoT).

	US\$ per currency unit
British pound	1.6649
Euro	1.3787
Japanese yen	0.0097
Australian dollar	0.9236
Canadian dollar	0.9082
Chinese yuan	0.1608
SDR	1.5456

Reserve money and reserve money band

5. Reserve money is defined as the sum of currency issued by the BoT and the deposits of Other Depository Corporations (ODCs) 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 for June and December serves as the assessment criterion and that for March and September, the indicative target.

Net domestic financing of the Government of Tanzania

6. 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 ODCs) and the nonbank public.

7. 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 promissory notes (including liquidity paper issued for the monetary policy purposes) , minus all government deposits with the BoT.

(ii) all BoT accounts receivable due from 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 promissory notes, minus all government deposits held with other depository corporations;

(iv) loans and advances to the government, and holdings of government securities and promissory notes by other public entities (e.g. pension funds) not covered by the central government accounts; and

(v) 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 COBELMO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

8. NDF will be measured net of any accumulation of central government claims on the Tanzania Petroleum Development Corporation (TPDC) as a result of the on-lending of an external credit to finance a gas pipeline.

Government deposits at the BoT

9. 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 payment arrears

10. External payment 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. The ceiling on external payment arrears is continuous and applies throughout the year.

Priority social spending

11. Priority social spending comprises spending on agricultural inputs, and central government transfers to local governments for health and education.

Tax revenues

12. Tax revenues include import duties, value-added tax, excises, income tax, and other taxes.

Contracting or guaranteeing of external debt on nonconcessional terms

13. The term “external debt” will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board’s Decision

14. No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). External debt will be determined on the basis of currency of denomination of the debt. Government external debt is outstanding debt owed or guaranteed by the Government of Tanzania, the Bank of Tanzania, subnational governments, and companies in which the

government has at least 50 percent ownership, unless otherwise stipulated.¹ The ceiling on contracting and guaranteeing external nonconcessional debt is continuous and applies throughout the year.

15. Government debt is considered nonconcessional if the grant element is lower than 35 percent, computed using a discount rate of 5 percent. This PSI assessment criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed for which value has not been received.

Foreign program assistance and program exchange rates

16. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance (MoF) 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 assistance does not include nonconcessional external debt as defined in paragraphs 13 and 14.

17. The program exchange rate is TSh/USD1,649.

III. ADJUSTERS

Net international reserves

18. The end-of-quarter quantitative targets for the change in the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfalls in (a) foreign program assistance and (b) external nonconcessional borrowing (ENCB) financing of the government budget in U.S. dollars (up to a limit equivalent to TSh 500 billion at the program exchange rate).

19. The shortfalls will be calculated relative to projections for foreign program assistance shown in table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania titled "Quantitative Assessment Criteria, and Indicative Targets under the Policy Support Instrument". For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted for the gas pipeline..

20. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 17). The cumulative shortfall will be the sum of all

¹ Excluded for these purposes, except if the government offers an explicit guarantee on the debt, are: Tanzania Investment Bank; Tanzania Port Authority; Tanzania Petroleum Development Corporation, National Development Corporation; National Housing Corporation; and Tanzania Airport Authority.

quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

Net domestic financing

21. The end-of-quarter quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfalls in the combined total of foreign program assistance and ENCB financing of the government budget in U.S. dollars (up to a limit of TSh 500 billion).

22. The shortfalls will be calculated relative to projections for foreign program assistance and ENCB financing shown in the Table on “Quantitative Assessment Criteria and Indicative Targets under the PSI” attached to the MEFP. For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in for the gas pipeline. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 17). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

23. The limits referred to in the previous paragraph will be adjusted downward for any ENCB financing of the government budget in excess of the amount programmed for the year as a whole, indicated in the table referred to in the previous paragraph.

24. The end-2014/15 limit will be adjusted upward by the full amount of domestic arrears cleared during the fiscal year as confirmed by the report from the CAG, to be prepared no later than September 30, 2015.

IV. DATA REPORTING REQUIREMENTS

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
Daily excess reserves of commercial banks	BoT	Weekly	1 week
Daily data on transactions through IFEM by exchange rate and volume, separating BoT and commercial bank transactions	BoT	Weekly	1 week

Information	Reporting Institution	Frequency	Submission Lag
Daily data on reserve money and its components	BoT	Daily	1-day
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices.	NBS	Annually	6 months
The quarterly national account statistics in constant prices.	NBS	Quarterly	3 months
Balance sheet of the BoT (1SRF) and the currency composition of official foreign assets and official foreign liabilities.	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS).	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	MoF	Monthly	2 weeks
External trade developments.	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators 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) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves. ¹	BoT and MoF	Monthly	4 weeks
Amount of payment claims outstanding of more than 30 days, 60 days, and 90 days for all government ministries. For each ministry, total claims outstanding to be divided into: (i) unverified claims; and (ii) claims verified but not yet paid.	MoF/AGD	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
The flash report on revenues and expenditures.	MoF/AGD	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report. ¹	MoF	Monthly	4 weeks
Monthly report on central government operations.	MoF	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid.	MoF	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoF	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 14 of the TMU during the period including terms and conditions according to loan agreements.	MoF	Quarterly	4 weeks
Monthly report on loans and advances to government by pension funds and other public entities not covered by the central government accounts	MoF	Monthly	4 weeks
Report on priority social spending	MoF	Quarterly	6 weeks

¹The MoF 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 MoF.