



# Tanzania: Recent Economic Developments and Outlook

Presentation at REPOA

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# UNITED REPUBLIC OF TANZANIA

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STAFF REPORT ON THE 2014 ARTICLE IV CONSULTATION, THE THIRD REVIEW UNDER THE STANDBY CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

## KEY ISSUES

**Background, outlook, and risks.** Economic growth is projected to remain strong at 7 percent next year and in the medium term. Inflation is at 6 percent, gradually converging to the authorities' 5 percent medium term objective. The external current account deficit remains among the largest in the region, at 14 percent of GDP this year. Fiscal revenue shortfalls and overruns in domestically-financed spending led the deficit to rise to 6.8 percent of GDP in 2012/13. Revenue shortfalls in 2013/14 compared to the budget approved by parliament have prompted the authorities to undertake expenditure cuts during the fiscal year in an effort to meet their 5 percent of GDP target. Based on the debt sustainability analysis, Tanzania remains at low risk of debt distress. A major upside risk for the long term, not yet incorporated in the baseline projections, relates to sizable finds of offshore natural gas that, if confirmed as commercially viable, could bring in large revenues during the next decade.

**Program implementation.** All performance criteria under the program were met, except a sizable breach of the performance criterion on net domestic financing at end-June 2013. The structural benchmark on submission to parliament of the VAT reform for November 2013 was missed. The authorities have taken corrective measures.

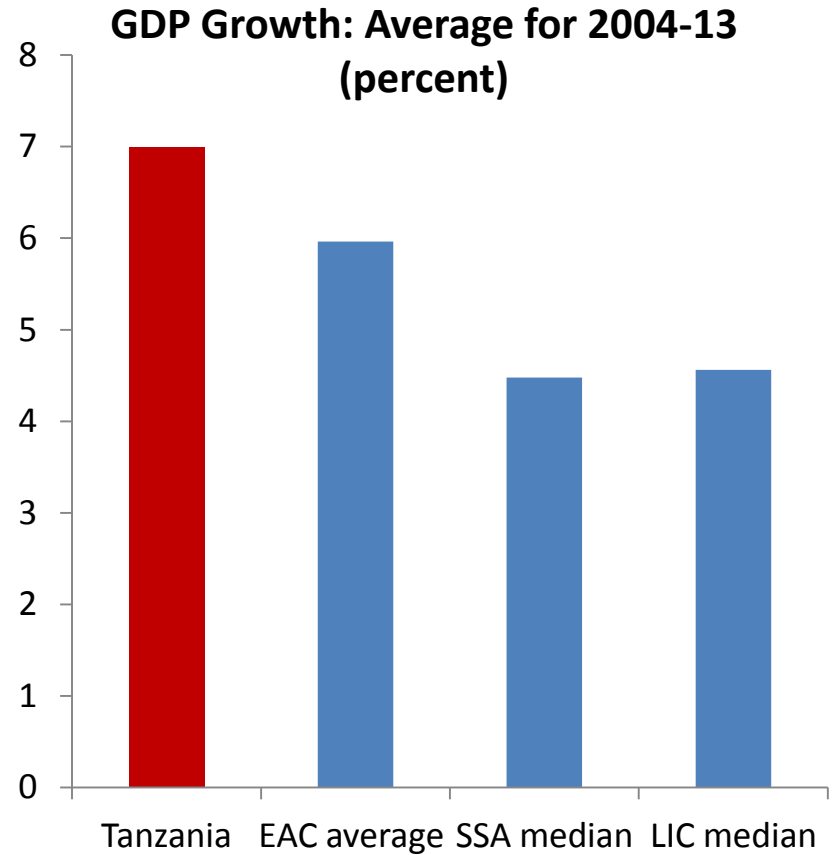
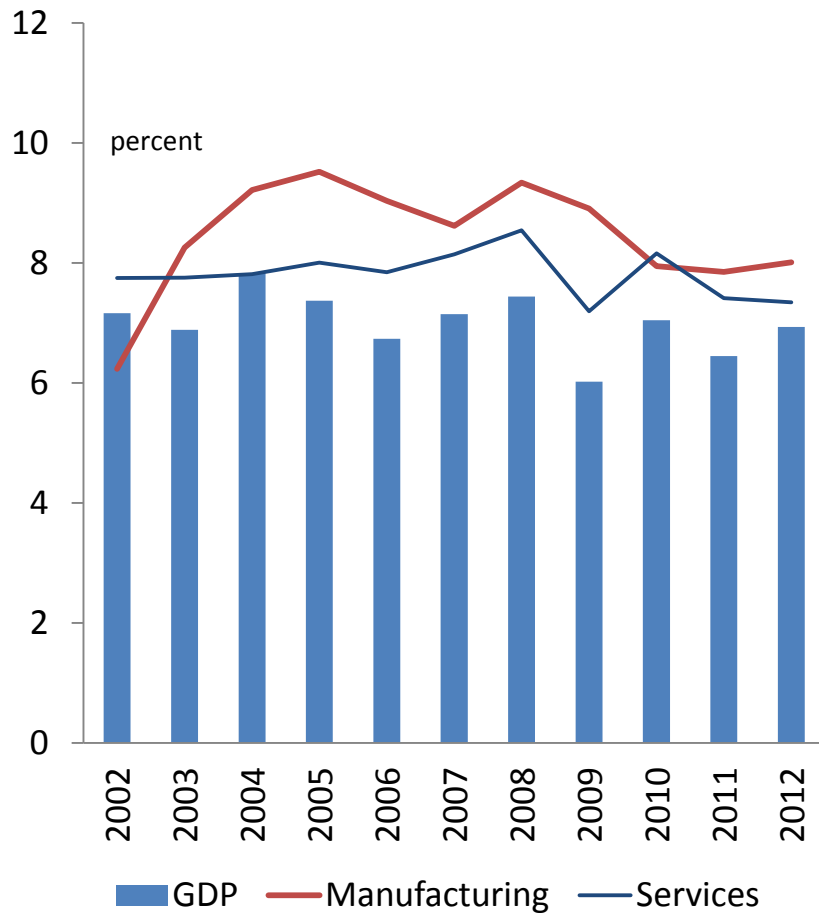
**Macroeconomic and structural policies.** Preparations for the draft 2014/15 budget are under way. A VAT reform aimed at improving efficiency and reducing exemptions is ready for submission to parliament prior to the beginning of the new fiscal year. A priority in the next few years is to establish the institutional and policy framework to ensure that, if natural gas revenues materialize, they will bring benefits to all Tanzanians.

**Staff recommends** completion of the third (and final) review under the SCF arrangement and approval of the authorities' requests for a waiver for nonobservance of a performance criterion and for completion of the financing assurances review.

# Overview

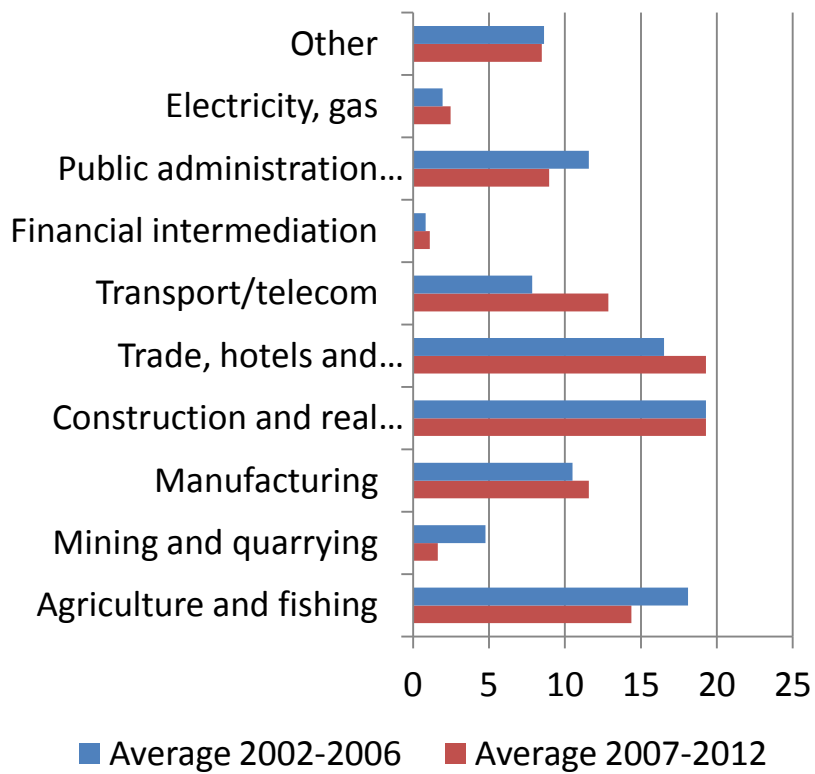
- I. Recent economic developments in Tanzania
- II. Economic outlook for Tanzania
- III. Key policy recommendations from the 2014 IMF Article IV consultation

# Economic growth has remained robust with strong performance in manufacturing and services

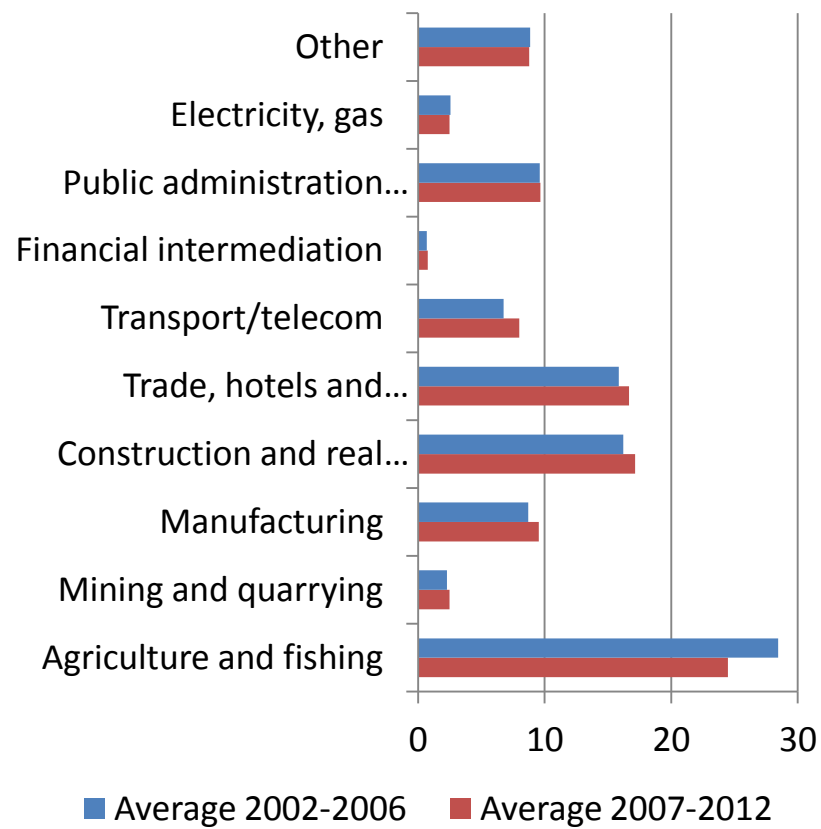


# Slower agricultural growth has led to a gradual structural shift to services, construction, and manufacturing

**Tanzania: Contribution to growth, in percent**



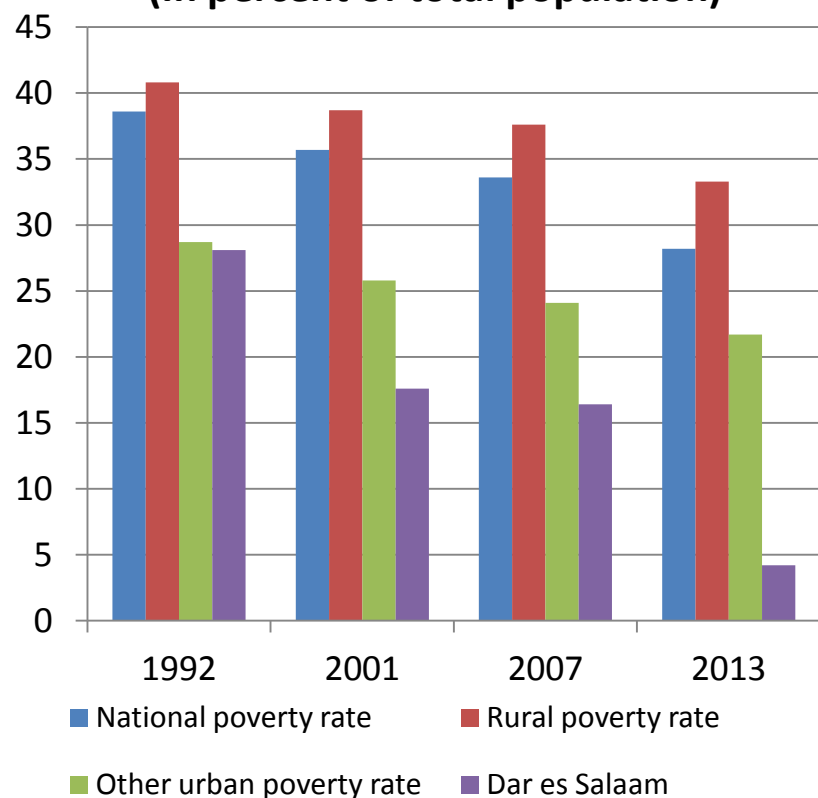
**Tanzania: Share of GDP, in percent**



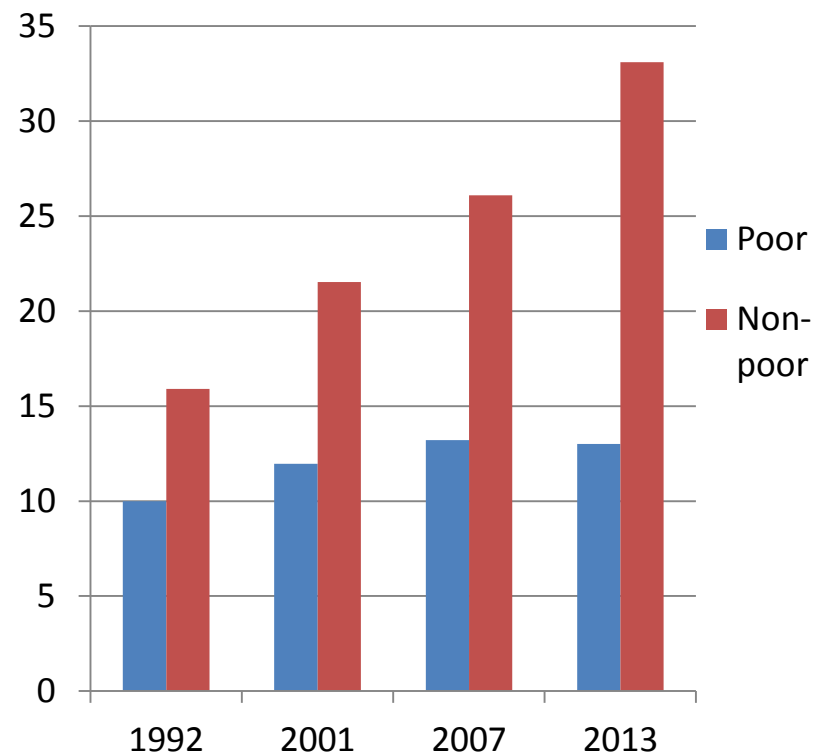
Note: The contribution to growth is derived from the sector GDP share times the sector growth rate.

The decline in the poverty rate has been modest (and urban) but millions have been lifted out of poverty

**Tanzania: Poverty Rate  
(In percent of total population)**



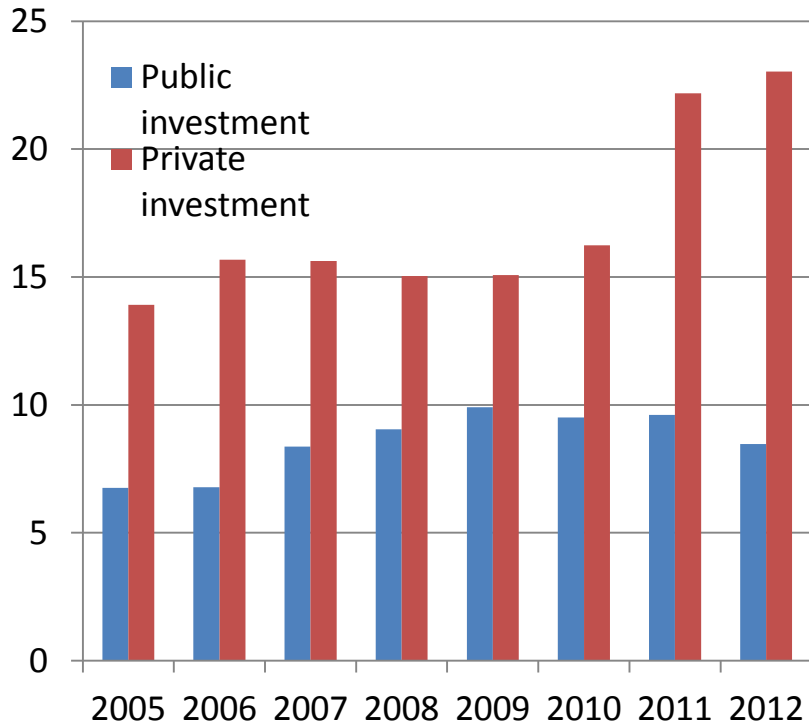
**Tanzania: Poor and Non-poor  
(In millions of people)**



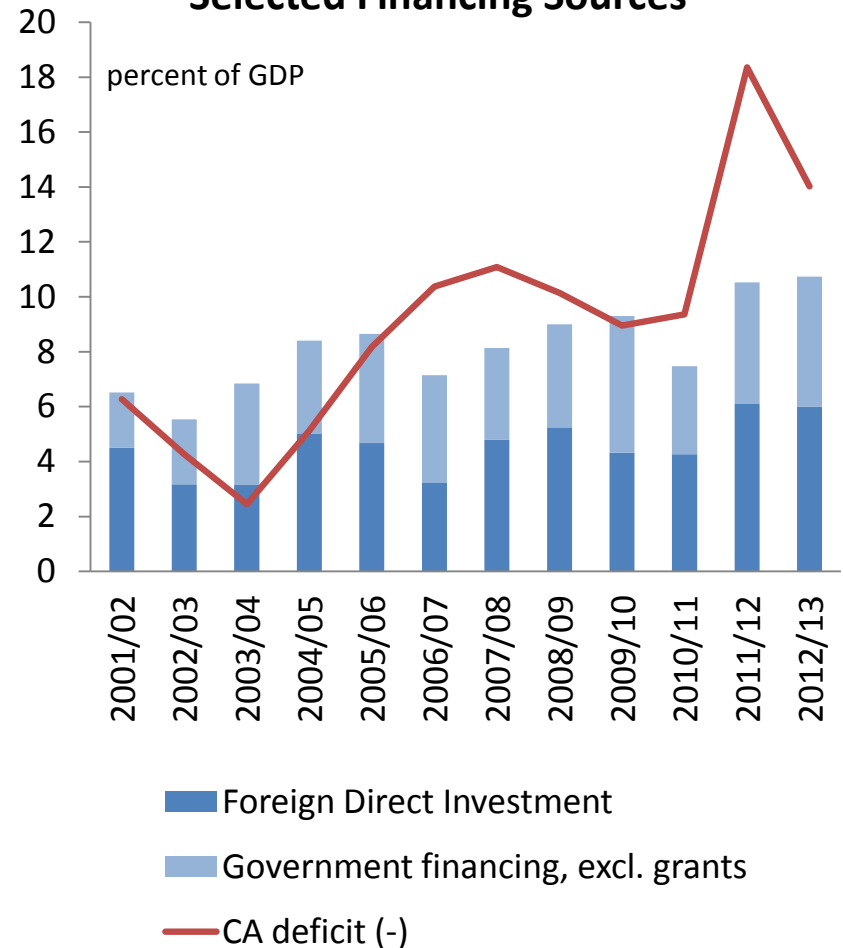
Caution: Due to methodological differences the 2013 data are not fully comparable to earlier years. The absolute population data are estimates prepared by IMF staff.

Growth has been underpinned by higher investment, contributing to a wider external current account deficit

**Tanzania: Public and Private Investment**  
(In percent of GDP)

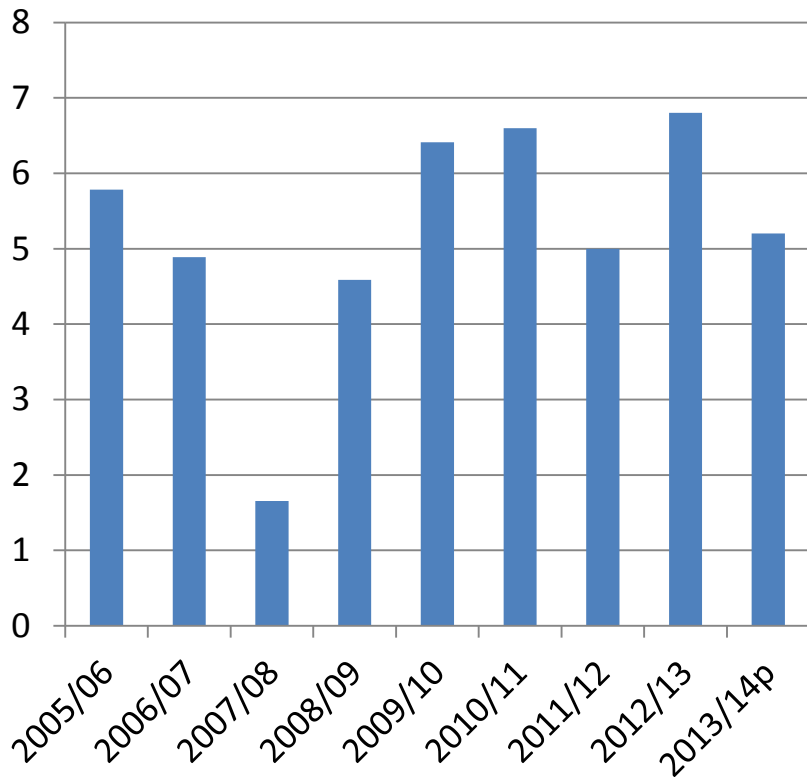


**External Current Account and Selected Financing Sources**

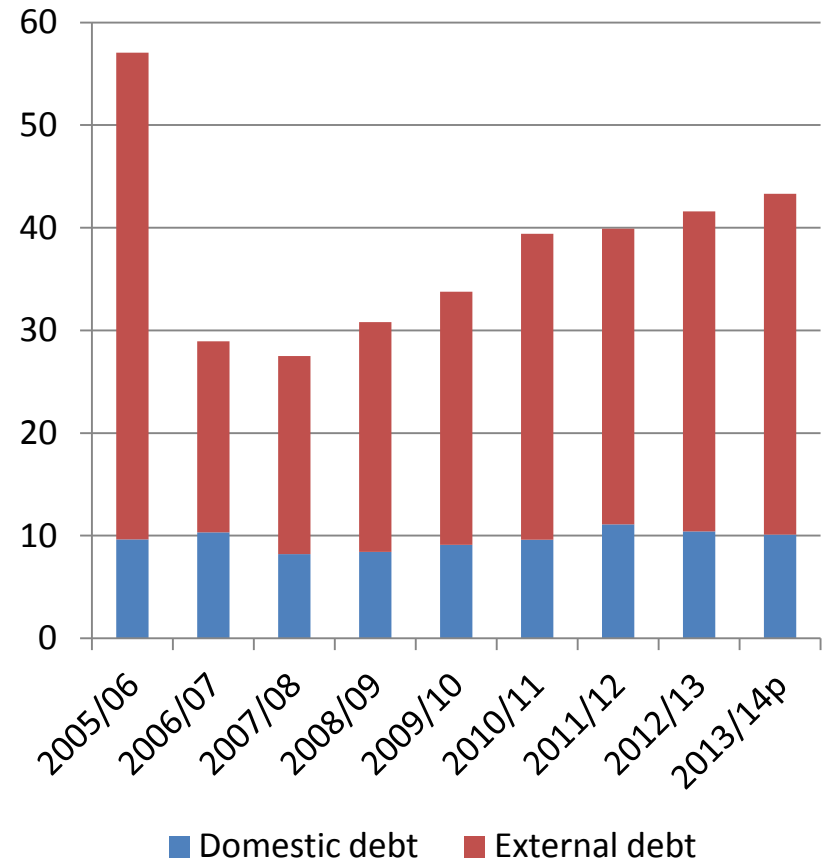


# The larger fiscal deficits financed by increased borrowing, including external non-concessional loans

**Tanzania: Fiscal Deficit  
(in percent of GDP)**



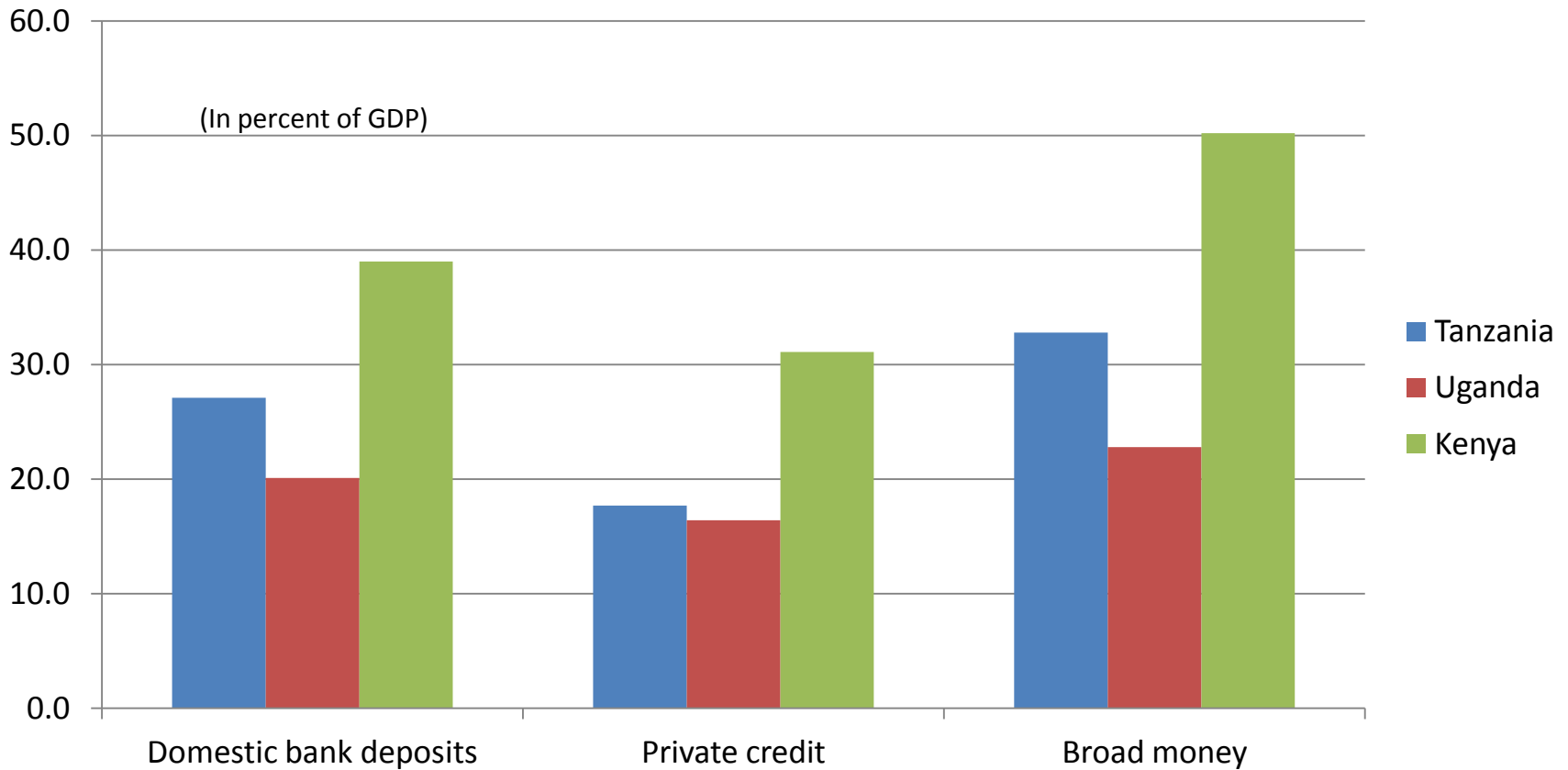
**Tanzania: Public Debt  
(in percent of GDP)**





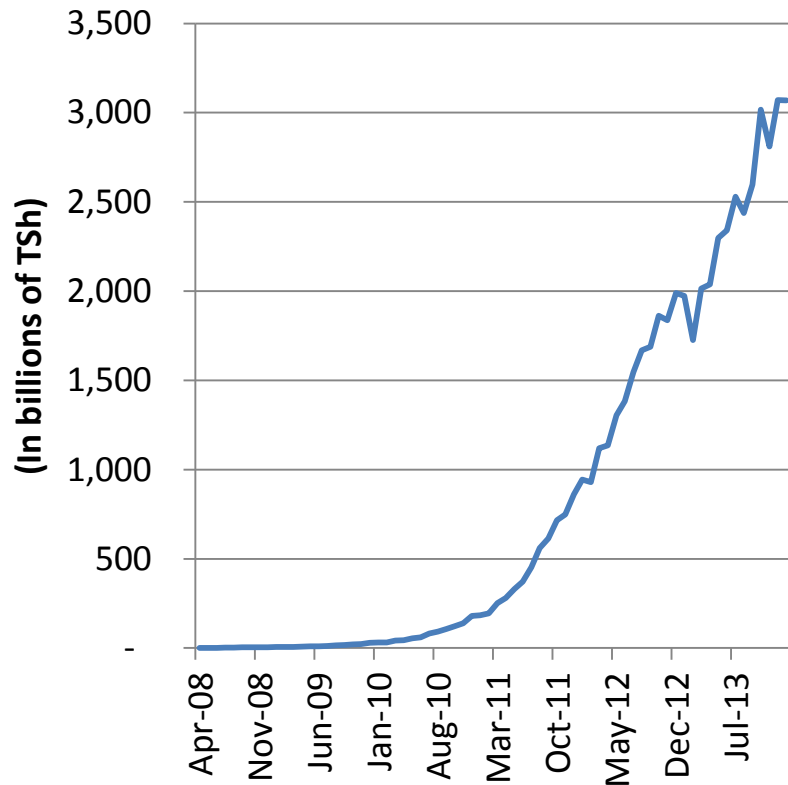
# The financial and monetary sector remains relatively thin...

**Selected EAC countries: Indicators of Financial and Monetary Depth, 2012**

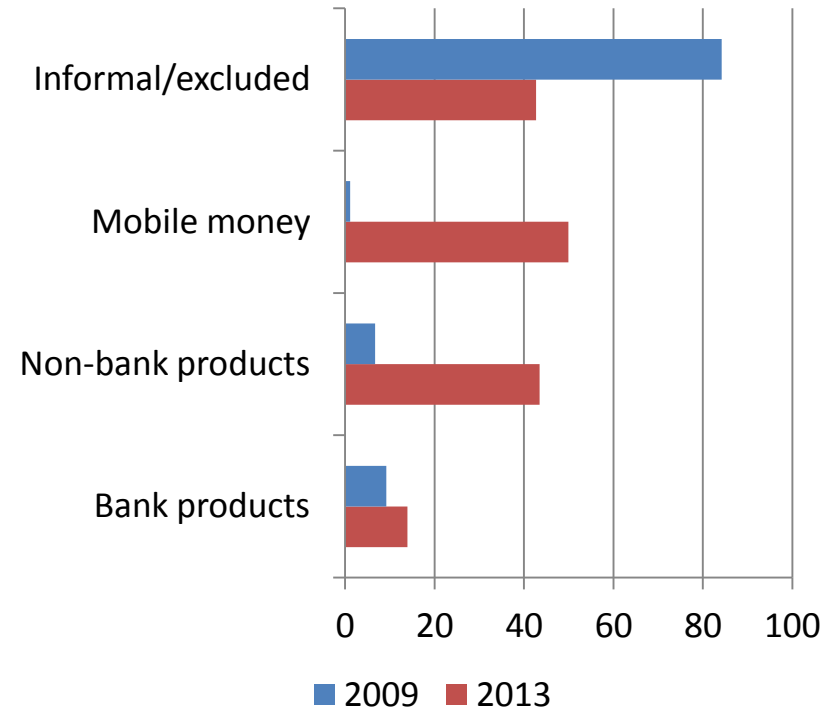


# ...but financial access is improving led by the mobile money revolution

**Tanzania: Mobile Money Payments  
(Value of monthly payments)**



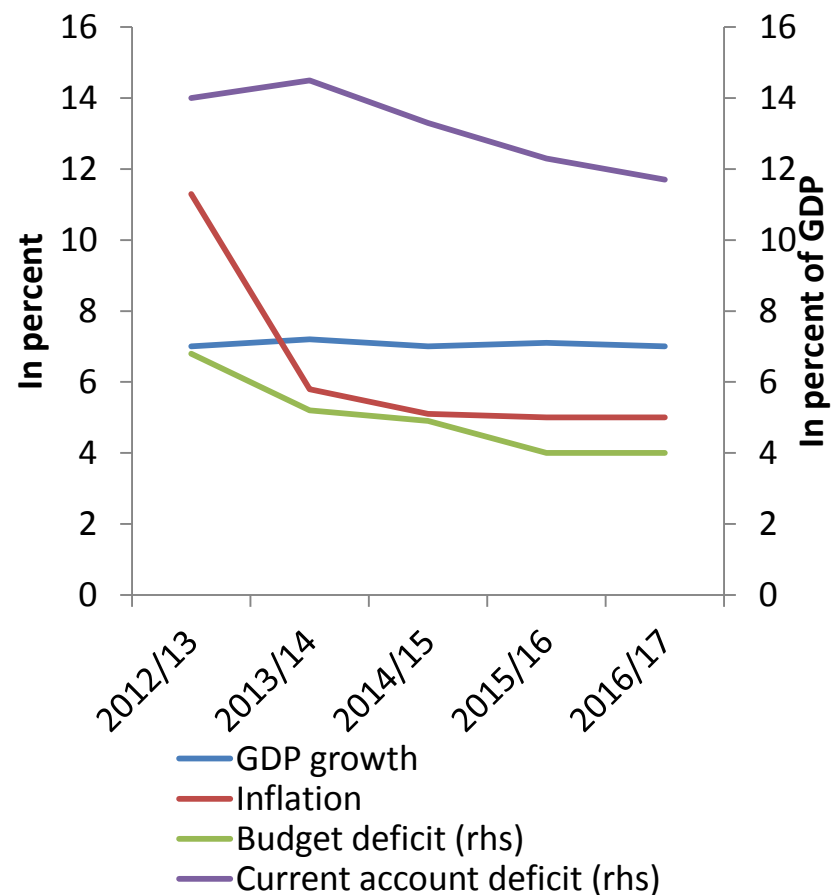
**Tanzania: Financial access on mainland  
(in percent of adult population)**



## II. The Economic outlook remains favorable...

- Economic growth projected at 7 percent in the medium term
- Inflation is projected to reach 5 percent by mid-2014
- The budget deficit is targeted at 4 percent of GDP over the medium term to stabilize debt
- With a new gas pipeline and gas-fired power plants under construction, cheaper energy will have a beneficial impact on growth and the current account

Tanzania: Medium-term Economic Outlook



# ...although the economic outlook is vulnerable to risks

- Shocks to food and fuel prices → higher inflation and social and budget impact
- If a sharp economic slowdown in China → lower exports; and FDI and credit slowdown impacting investment
- Domestic policy implementation → fiscal policy pressure
  - pre-election spending;
  - delays in construction of gas pipeline and power plants;
  - fiscal risks (public enterprises, public-private partnerships and government guarantees, contingent liabilities)

### III. Key IMF policy recommendations (2014 Article IV Consultation)

- Preserve macroeconomic stability to ensure continued strong growth
- Take fiscal policy action to preserve fiscal sustainability (revenue mobilization and expenditure prioritization) and strengthen public financial management
- Improve the monitoring and management of fiscal risks
- Improve the business environment
- Set up appropriate policy and institutional arrangements to ensure that gains from natural gas accrue to the benefit of all citizens
- Modernize the frameworks for monetary policy and financial supervision