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United Republic of Tanzania: Sixth Review Under the Policy Support Instrument, First Review Under the Exogenous Shocks Facility, and Request for a Modification of Performance/Assessment Criterion—Staff Report and Press Release on the Executive Board Discussion

In the context of the Sixth Review Under the Policy Support Instrument, First Review Under the Exogenous Shocks Facility, and Request for a Modification of Performance/Assessment Criterion, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Policy Support Instrument, First Review Under the Exogenous Shocks Facility, and Request for a Modification of Performance/Assessment Criterion, prepared by a staff team of the IMF, following discussions that ended on September 26, 2009, 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 on November 13, 2009. 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 November 30, 2009, discussion of the staff report that completed the review.

The documents listed below have been 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*
Poverty Reduction Strategy Paper
Joint Staff Advisory Note on the Poverty Reduction Strategy Paper
*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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INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

Sixth Review Under the Policy Support Instrument, First Review Under the Exogenous Shocks Facility, and Request for a Modification of Performance/Assessment Criterion

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

Approved by Roger Nord and Dominique Desruelle

November 13, 2009

- **Discussions were held in Dar es Salaam during September 15–26**. The team comprised David O. Robinson (head), David Dunn, Matthew Gaertner, Yanliang Miao (all AFR), Daehaeng Kim (FAD), and Mika Saito (SPR). Discussions drew on the findings of the FSAP Update mission (September 9–23) and a Safeguards update mission (August 10–15). 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 the Treasury, Mr. Khijjah, other senior officials, and representatives of the private sector, civil society, and development partners. Mr. Ndyeshobola (OED) participated in the discussions.

- **The Executive Board approved the fifth review of the Policy Support Instrument and a 12-month arrangement under the high access component of the Exogenous Shocks Facility (ESF) in the amount of SDR 218.79 million (110 percent of quota) on May 29, 2009.** The PSI was extended through end-May 2010.

- Staff recommends the completion of the sixth review under the PSI and the first review under the ESF arrangement, based on Tanzania's performance and understandings reached on the macroeconomic program for 2009/10. All end-June 2009 quantitative performance/assessment criteria were met. The continuous PC/AC on external payments arrears was nonobserved temporarily in October by a small margin, and the obligation has since been paid. Good progress has been achieved with structural reforms. The second disbursement of SDR 39.78 million (about US$63.40 million) would become available upon completion of the ESF review.

Executive Summary

- The global financial crisis is having a significant impact on the Tanzanian economy and compounds existing policy challenges, particularly food security, poverty alleviation, and addressing the infrastructure gap. Trade and investment impacts have contributed to a slowdown in growth from 7½ percent in 2008 to a projected 5 percent in 2009.

- Fiscal and monetary easing during the second half of FY 08/09 supported aggregate demand. The fiscal deficit widened by almost 3 percent of GDP, slightly less than targeted. Monetary policy has been eased, with T-bill interest rates falling sharply, while private sector credit growth has weakened. International reserves rose, buoyed by the ESF disbursement, the SDR allocation, and donor disbursements of budget support.

- The FY 09/10 budget and June 2009 Monetary Policy Statement present an appropriate macroeconomic framework based on additional fiscal stimulus and monetary easing. The policy framework incorporates an economic rescue package containing specific interventions to support affected sectors (cotton, coffee), and protect rural livelihoods.

- There are significant risks to the macroeconomic outlook. Some leading indicators point to a nascent recovery, but it is anticipated to be gradual and is not yet reflected in private sector credit growth or tax collections. The drought affecting Northern Tanzania and infrastructure weaknesses could constrain recovery and add to inflationary pressures.

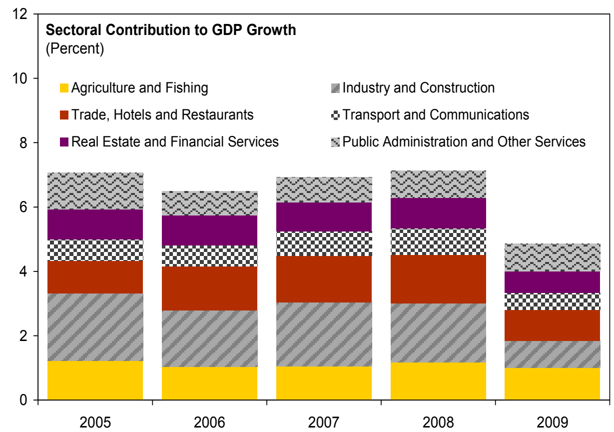
- Implementation of the FY 09/10 budget faces a number of challenges. The approved revenue targets may be difficult to achieve in the context of a slowing economy and assumptions on foreign financing appear ambitious based on current commitments. The potential financing gap—estimated at about 0.8 percent of GDP—would be largely filled by supplemental financing under discussion with the World Bank. In the event of resource shortfalls, low-priority expenditures would be curtailed. Expenditure commitments need to be closely monitored, particularly in light of the uncertain resource envelope and mounting pressures related to food security and infrastructure weaknesses.

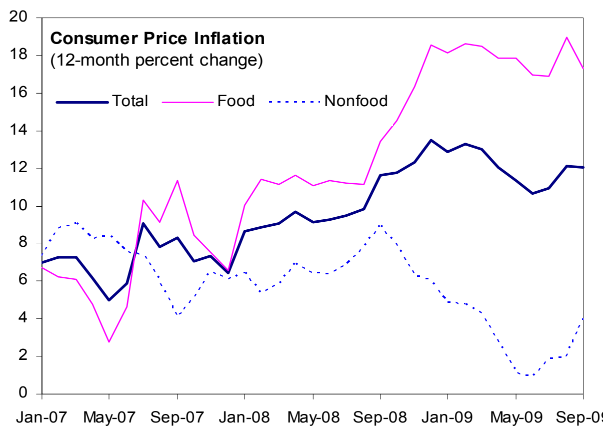
- The financial sector was not directly affected by the global crisis and remains well-capitalized and profitable. Credit risk is elevated but to date there has only been a modest increase in non performing loans. The absence of firm supervision over the pension sector remains a serious weakness that should be addressed expeditiously.

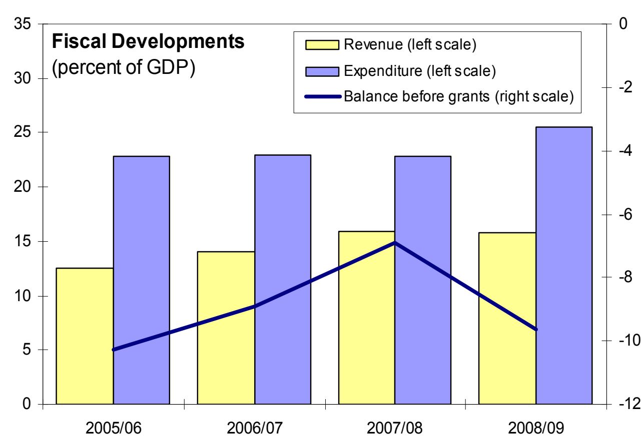
- Staff supports the request by the Tanzanian authorities for the completion of the sixth review under the PSI and first review under the ESF arrangement, and waiver of the nonobservance of the continuous PC/AC on external payments arrears due to its temporary and minor nature. The program is on track. All quantitative assessment/performance criteria for end-June were observed and there has been good progress in implementing structural reforms.

I. Recent Developments and Program Performance

1. **The global financial crisis has presented significant additional policy challenges.** While direct impacts on the banking sector have been minimal, the economy has been affected through trade (including key services such as tourism and transport), and capital flows (including FDI)—Figure 1. The economic slowdown constrains the government's ability to address the still high poverty indicators and food security concerns, while limited access to financing has curtailed options for both public and private sector investment.





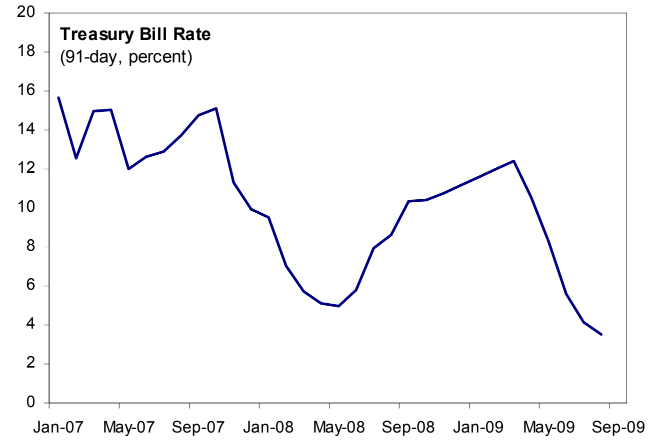


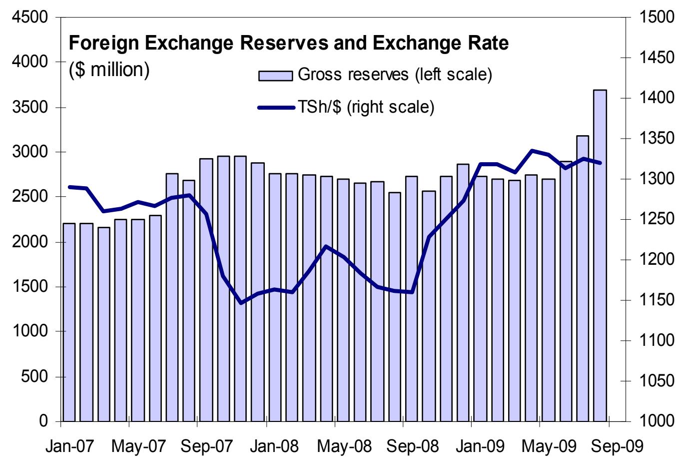
2. **Fiscal and monetary easing together have supported aggregate demand while providing a low interest rate environment with limited pressures on the foreign exchange market:**

- ***Growth has slowed, but there are early signs of green shoots emerging (Figure 2).*** Growth is expected at 5 percent in 2009, significantly below recent levels with the slowdown concentrated in mining, manufacturing, and construction. Several leading indicators point to a nascent recovery.
- ***Inflation remains high, driven by food prices,*** reflecting the impact of the drought affecting parts of Northern Tanzania and neighboring countries. Nonfood inflation remains low, largely due to lower international oil prices.
- ***The fiscal deficit widened by almost 3 percent of GDP, slightly less than targeted.*** Tax revenues increased modestly over the previous year, but fell almost 2 percent of GDP below budget. Recurrent expenditures were close to budget levels, but with a large shortfall (0.8 percent of GDP) in project financing. The deficit was financed by concessional loans and direct credits from the BoT.

- ***Monetary policy has been eased with interest rates falling sharply*** (Figure 3). Reserve money growth was in line with the program through end-June, though surged during July and August as the bunching of fiscal spending at the end of the 08/09 fiscal year was not fully absorbed. Interest rates have fallen sharply since March, as treasury-bill auction volumes were reduced and commercial banks scaled back private sector lending due to the uncertain prospects for the real economy and interest rates becoming negative in real terms.

- ***The exchange rate has been relatively stable, with international reserves rising*** buoyed by Fund disbursements, the SDR allocation, timely donor disbursements of budget support and other balance of payments inflows.





II. PROGRAM PERFORMANCE

3. **Performance under the PSI/ESF program has been good.** All end-June assessment/performance criteria were met by comfortable margins and preliminary data for end-September suggest that the program remains on track (see Table 1 of the authorities' Memorandum on Economic and Financial Policies (MEFP) Appendix I, Attachment I). The continuous PC/AC on external payments arrears was nonobserved temporarily in October due to a technical oversight that led to a small underpayment (US$0.227 million) to the World Bank on IDA loans. As soon as the authorities were made aware of the oversight, they made the additional payment. Progress has also been made on structural reforms, with two benchmarks observed and two advancing but delayed (Text Table 1). The delayed benchmarks refer to the formulation of a strategy for refocusing the BoT on its core activities—but the BoT is now implementing key components of the refocusing—and the issuance of investment guidelines for pension funds.

4. The overperformance relative to program targets reflects a weaker external shock than previously estimated and delays in implementing the fiscal stimulus. Exports, particularly of traditional agricultural crops, have held up better than anticipated at the time of the ESF request, while there have also been large unidentified inflows. Fiscal spending in

2008/09 was concentrated at the end of the fiscal year, creating a significant float that was cleared during the first quarter of FY 2009/10.

Text Table 1. Tanzania: PSI/ESF Structural Benchmarks for 2009/10

Measure	Target Date of Implementation	Macroeconomic Rationale	Status
Financial Sector			
Adopt a strategy for refocusing the Bank of Tanzania (BoT) on its core activities.	End-May 2009	To focus BoT on monetary and exchange rate policies and financial supervision and strengthen confidence.	In progress. A new corporate plan was approved to refocus the BoT. A time-bound action plan is expected by end-December. The BoT has implemented key components—divestiture of holdings in a gold processing company and closure of the External Payments Arrears account (MEFP ¶28).[1]
Issue investment guidelines for pension funds prepared by the BoT.	End-June 2009	To broaden the scope of financial regulation and strengthen BoT/ future pension fund regulator's ability to promote financial stability.	Delayed—Investment guidelines prepared but issuance awaits appointment of regulator. New actuarial studies of each of the pension funds are underway.
Prepare an updated financial stability report for the BoT Board, including assessments of risk-based prudential supervision.	End-December 2009	To strengthen BoT supervision in an environment of rapid financial sector development.	On track.
Fiscal			
Cash Management Unit (CMU) in the Accountant General's Dept. to produce three month rolling cash-flow forecast.	Continuous	To facilitate efficient budget execution by line ministries and liquidity management by the BoT.	Met.
Prepare a list of outstanding government guarantees and contingent liabilities, including debts held by parastatals.	End-September 2009	To ensure debt and fiscal sustainability and enhance transparency and monitoring of government liabilities.	Met.
Prepare a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* for the budget for 2010/11.	End-April 2010	To enhance budget planning, execution, and management, in broader PFM reform.	On track.

[1] The External Payment Arrears account relates to liabilities to domestic importers dating mostly from the mid-1980's. A series of fraudulent transactions were made from this account during 2005/06. A number of legal cases are in the courts.

Figure 1. Impact of the Global Financial Crisis on Tanzania

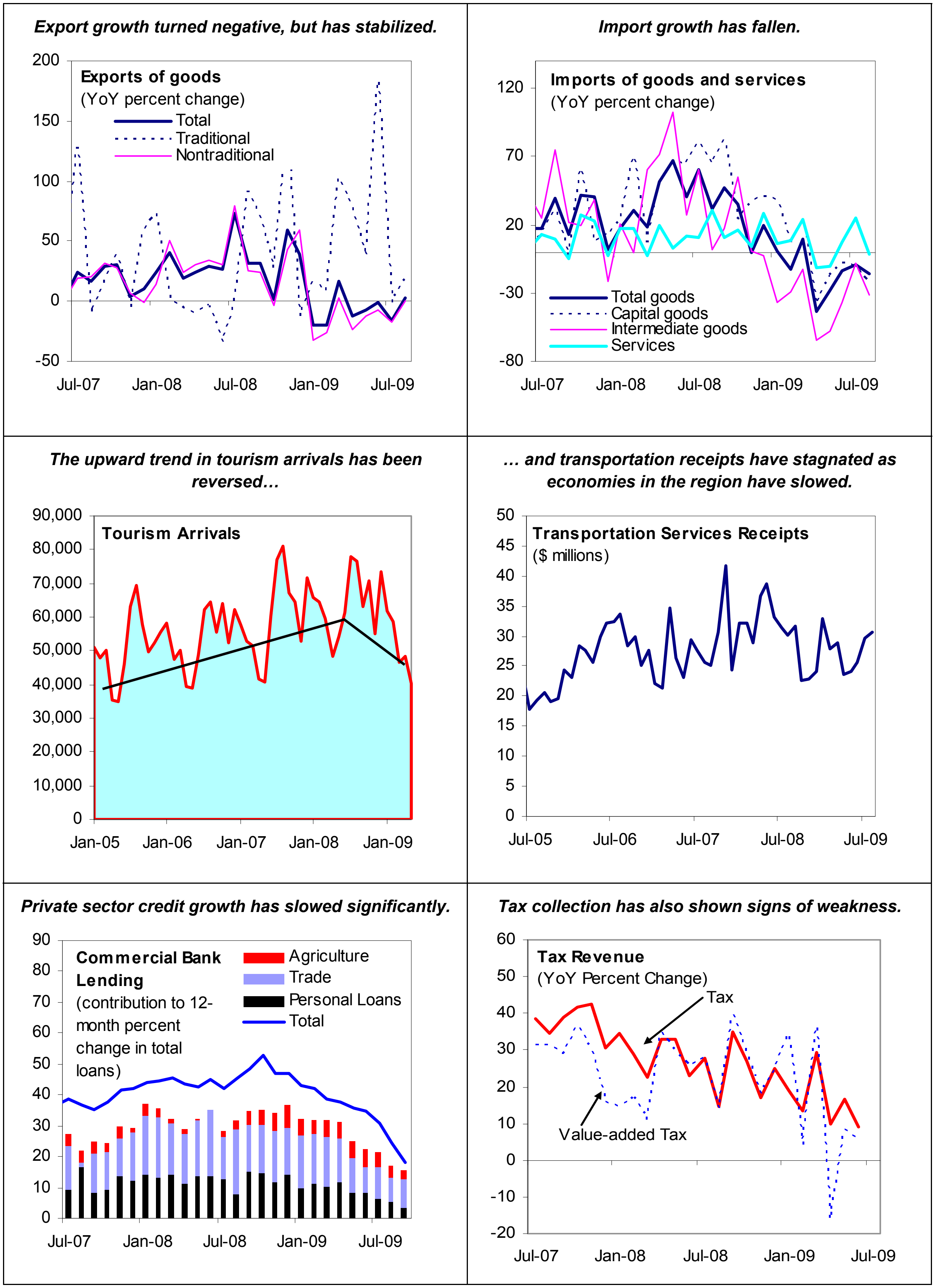
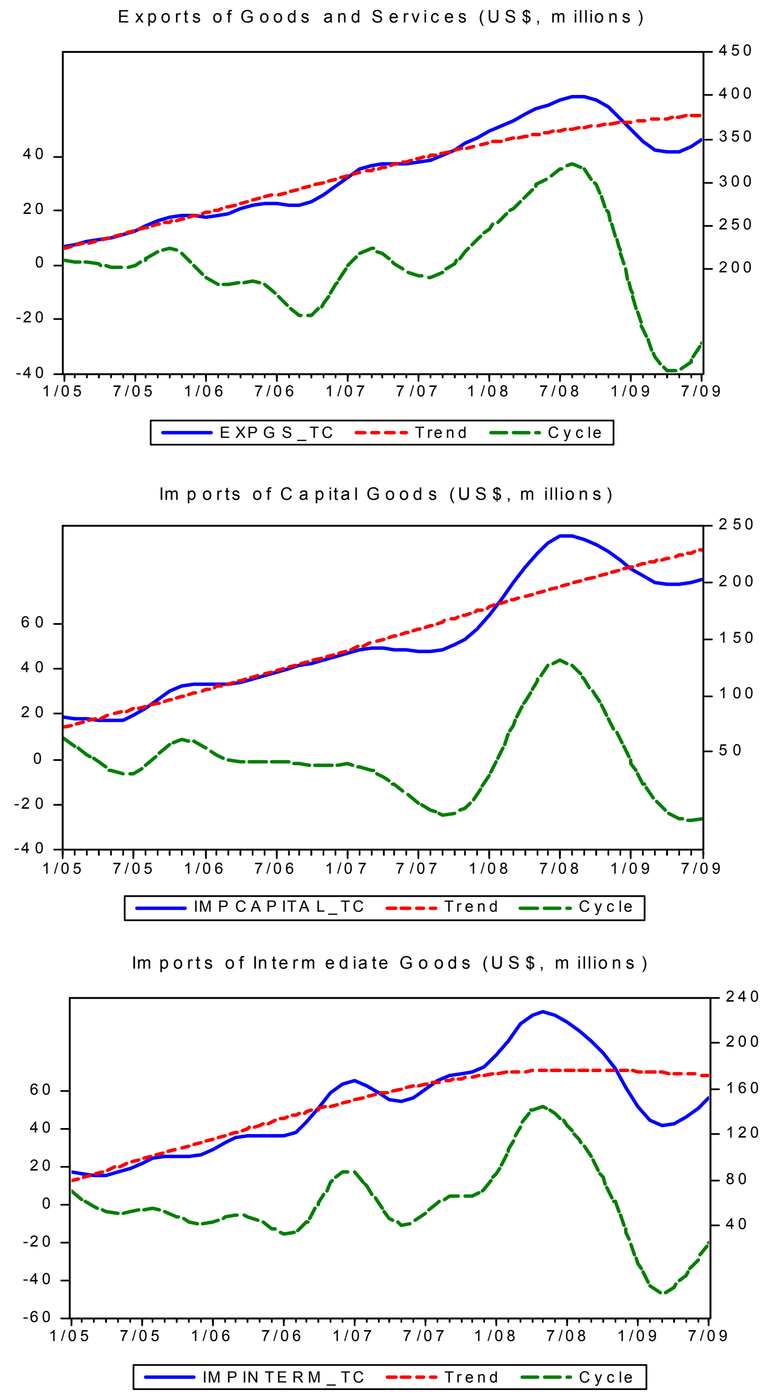


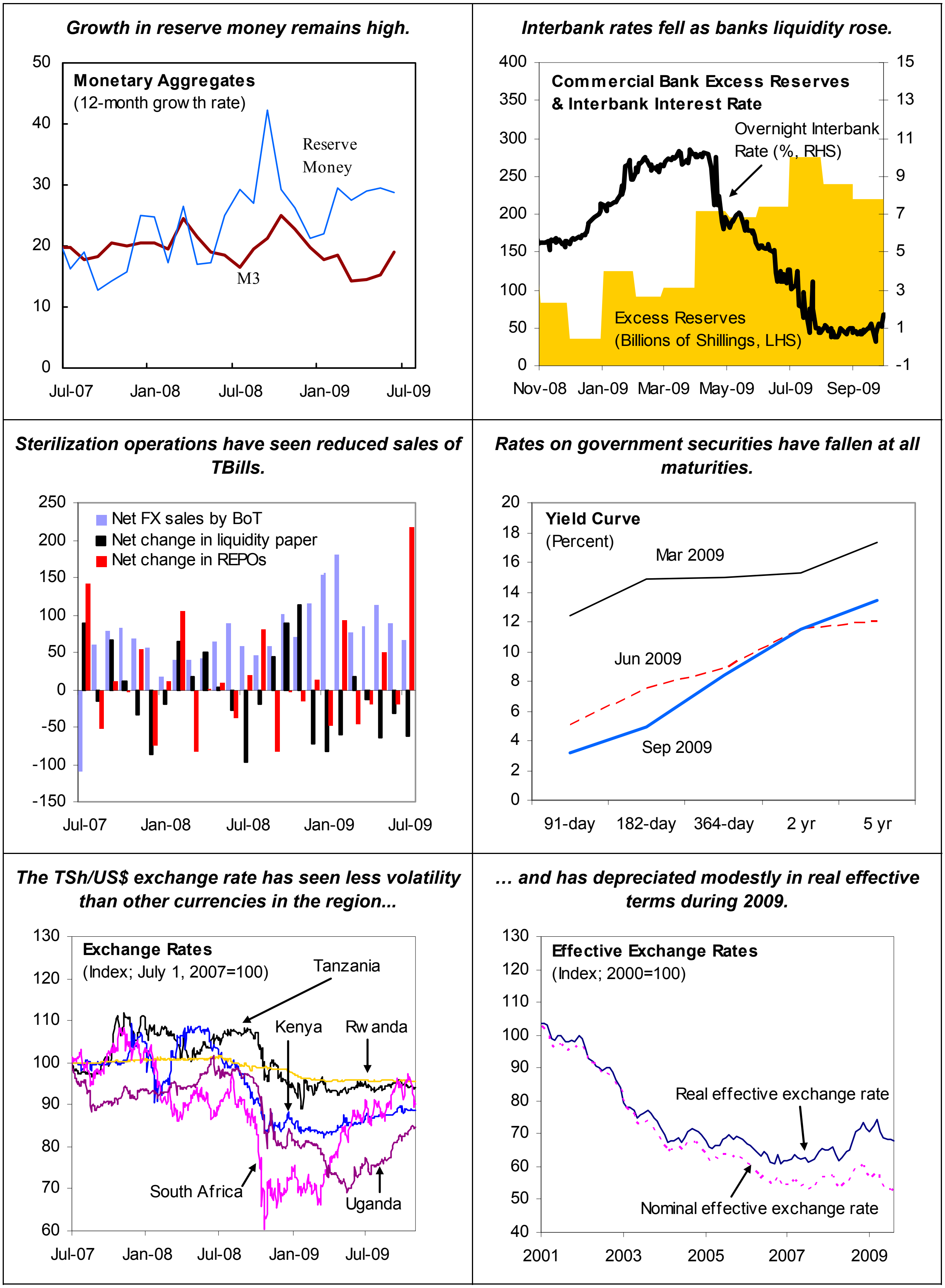
Figure 2. Green Shoots of Economic Recovery

Trend/cycle analysis of several leading indicators point to signs of an economic recovery beginning in July.



Source: Bank of Tanzania; IMF staff calculations.

Figure 3. Tanzania. Monetary and Exchange Rate Developments



III. The Policy Response: the FY 09/10 Program

Macroeconomic framework and risks

5. **Further fiscal and monetary easing, including targeted interventions laid out in the economic rescue plan, will support growth and protect vulnerable groups**. The FY 09/10 budget targets a widening in the overall deficit (before grants) by a further 2 percent of GDP, partly due to discretionary measures identified in the economic rescue plan (Box 1) to mitigate the impact of the global crisis through specific interventions to support badly affected sectors, particularly in the rural areas where poverty is concentrated. At the same time, monetary policy is envisaged to continue the current low interest rate environment and avoid a private sector credit crunch. The deficit would be financed by continued high levels of foreign financing (grants and concessional borrowing), with net domestic financing of 1.6 percent of GDP, but public debt would remain low at about 37 percent of GDP.

Box 1. Tanzania: Economic Rescue Package

On June 9, a package of measures to cushion the impact of the global crisis was announced. The key objectives are: a) to protect employment and income levels of the population; b) to ensure food security; c) to protect key investments, especially in infrastructure; and d) protect social services programs.

The package contains measures to stimulate domestic demand, and targeted support for affected sectors, especially agriculture. The key components, which were included in the approved FY09/10 budget, include:

- A cut in the VAT rate from 20 percent to 18 percent (TSh 167 bn);
- An exemption from royalty payments for diamond and tanzanite miners, for two years (TSh 5 bn);
- An expanded agricultural input subsidy program (TSh 81 bn);
- Clearance of losses incurred by agricultural cooperatives and private companies in traditional cash crop exports, principally coffee and cotton (TSh 21.9 bn);
- Price support in the cotton sector (TSh 20 bn);
- Partial government guarantees (70 percent) for restructuring of commercial loans to affected sectors—manufacturing, tourism, and agriculture. The loans, extended by domestic banks, are being restructured in bilateral negotiation between the concerned commercial banks and the lender. Total debt to be restructured estimated at TSh 270 bn, anticipated to cost government TSh 45 bn;
- A capital injection for existing credit guarantee schemes for exporters and SMEs (TSh 20 bn);
- A capital injection to the Tanzania Investment Bank to finance agriculture (TSh 20 bn);
- Expanded infrastructure investment, including roads and energy sectors.

6. **The policy stance should ensure a fairly modest slowdown in growth, but the recovery is likely to be gradual.** Driven by the large fiscal stimulus and the global economic recovery, growth is estimated at 5 percent in 2009, rising to 6 percent in 2010. Achieving a sustained acceleration of growth will require resumption of FDI inflows, reopening of global capital markets for loan syndications, addressing infrastructure constraints, and a rebound in tourism—all of which may lag a global recovery.

7. **There are substantial risks to the outlook for both growth and inflation**. The recovery in global demand remains uncertain, drought in East Africa is significantly affecting crops in parts of Northern Tanzania, as well as in neighboring countries, and existing infrastructure is under strain including the introduction of rolling electricity blackouts in October. Food price inflation remains very high, in part a reflection of the high costs of transporting food from surplus regions and some impact from prices in neighboring countries. While a favorable base effect should cushion the impact on headline inflation, it was agreed that the inflation target for end-June 2010 would be revised to 6–8 percent, depending on the severity of the drought. In light of the remaining uncertainty on the recovery from the global crisis, and uncertainties on the availability of foreign financing going forward, the SDR allocation has been saved at this juncture to provide a cushion that can be drawn down in future years.

Fiscal policy

8. **The FY09/10 budget provides substantial fiscal stimulus**. Expenditures are targeted to rise to 28.5 percent of GDP, with revenues rising slightly to 16.8 percent of GDP.[1] Education, infrastructure, and health continue to receive the largest budgetary allocations, with additional resources devoted to agriculture via an expanded input subsidy scheme and in the context of the rescue plan. Despite a reduction in the VAT rate to bring it in line with most other countries in the EAC, tax revenues are projected to rise marginally via a broadening of the tax base and removal of a series of exemptions. While the fiscal stimulus is large, key components are either time-bound (such as the various guarantee/debt restructuring schemes) or designed to advance key policy priorities such as stimulating agriculture and addressing the infrastructure gap. Going forward, there may be a need to rein in fiscal balances beyond the impact of automatic stabilizers and the reversal of certain stimulus measures, though this will be determined in the context of the development of the new poverty reduction strategy and associated medium-term resource envelope that is to be finalized early in 2010.

9. **There are some risks to the achievability of budget targets**. Staff noted that achieving improved tax compliance may be difficult in the context of a slowing economy, difficulties were being encountered in reining in tax exemptions, foreign financing appears

[1] Budget coverage has been expanded in 2009/10 to include local government revenues and expenditures (in the amount of 0.5 percent of GDP).

high relative to current commitments, and the contingency reserve limited given potential need to respond to the food situation or key infrastructure. Supplemental financing under discussion with the World Bank would largely close the possible financing shortfall (estimated at around 0.8 percent of GDP). The fiscal situation will be reviewed carefully at mid-year, and the authorities indicated that in the event of resource shortfalls, low-priority expenditures would be curtailed (MEFP ¶21).

10. **A comprehensive public financial management reform program is in place, but budget planning and execution could be strengthened further to ensure value for money**. Significant steps have been undertaken to improve public financial management, including strengthening reconciliation procedures, the closure of over 10,000 government bank accounts with balances transferred to the BoT, and preparation of the FY 09/10 budget on the economic classification on GFS (MEFP ¶7–10). However, enhancing cash-flow projection and management, more efficient procurement processes, and a stronger integration of the Medium-term Expenditure Framework (MTEF) with the annual budget process would all serve to improve the quality of public spending. In addition, staff noted that the decision to move this budget year to full accruals accounting at local governments would need strong technical support to ensure accuracy in reporting.

11. **Ensuring appropriate control over expenditure commitments is critical**. A stock (0.3 percent of GDP) of unverified claims had accumulated—principally on infrastructure but also to teachers (MEFP ¶22)—which were cleared during the first quarter of FY09/10. The government noted that payment claims are subject to a verification process prior to clearance, so that at any given time there is a stock of outstanding payments claims, but that verified claims are generally cleared promptly. Infrastructure contracts, involving multi-year commitments, create particular challenges given the relatively weak MTEF, and the recent spike in newly signed road contracts will, if implemented, significantly affect fiscal space available in future budgets. The authorities have tightened contract practices in all line ministries, as well as spending agencies, to ensure that all signed contracts should be within budgeted resources. Staff noted that the roll out of the Integrated Financial Management System to all spending agencies with the authority to enter into expenditure commitments would help achieve this objective.

Monetary and financial policies

12. **Monetary policy seeks to balance support for the economic recovery while containing inflationary pressures**. It was agreed that tightening the monetary stance at the current time would be premature, but that the high level of liquidity in the banking system at the end of the fiscal year needed to be monitored carefully. The BoT considered that the spike in liquidity was largely temporary and would be extinguished through a resumption in private sector lending activity given the low interest rate environment and as risk aversion by banks dissipated. However, there is a risk of fuelling inflation or placing pressure on the foreign exchange market, and it was agreed that the BoT would tighten monetary policy if these risks materialize (MEFP ¶25).

13. **While private credit growth has slowed sharply during 2009, the rescue package helped prevent a disruption in the flow of credit to the agriculture sector**. The BoT stressed that the write-offs and restructurings of bank debts were designed to support traders in cotton and coffee and thereby avoid a collapse of the market infrastructure which would have significantly impacted the ability of small-scale farmers to sell their crops. While the scheme was not implemented until August, commercial banks extended seasonal crop financing based on the announced support. Recognizing the potential risk of moral hazard, the BoT stressed that the package represented a very small portion of bank assets, safeguards had been put in place to ensure its transparency, and it was clearly a one-off measure.

14. **Monitoring of the financial sector has been enhanced to help preserve its stability**. While the financial system has proven resilient to the impacts of the global crisis (Box 2), the BoT has continued to elevate its monitoring activities through daily management meetings and the creation of a dedicated Financial Stability Unit.

15. **On an exceptional basis, the BoT has provided direct credit to government in order not to disrupt the shallow domestic financial markets**. Special bonds were issued in May and July to enable the financing of government spending. Staff acknowledged that it had been important not to further disrupt financial markets at the height of the crisis, but expressed concern that further direct credits—even if consistent with the reserve money program—could impinge on the future independence of the BoT and further slow the development of financial markets. It was agreed that the form of further credit to government would be kept under review, depending on the evolution of liquidity conditions (MEFP ¶23).

Safeguards Assessment

16. **Further progress has been achieved in strengthening the BoT's safeguard framework.** The August 2009 Safeguard Update mission noted that the BoT's audit and financial reporting continue to adhere to international standards, the Audit Committee had been reconstituted and a Risk Management Directorate established within the new organizational structure. Next steps include conducting a bank-wide risk assessment, further strengthening of internal audit, and finalization of a framework that governs the extension of credit to government, including through a clarification of the statutory limits. In addition, while the BoT received an unqualified opinion on its 2007/08 financial statements, the long delay in publishing these results significantly diminishes the value of the audit.

Box 2. Banking Sector Stability[1]

The banking system as a whole remains well capitalized and profitable. Capital adequacy ratios are well above prudential norms and have increased during 2009 due to a combination of a more cautious approach to lending and the impact of a change in the definition of capital. Profitability has declined slightly but remains high. Non-performing loans (NPLs) increased modestly through end-June, but then declined as the economic rescue plan was implemented.

There is substantial variation between banks in both performance and risks. Capital adequacy ratios vary significantly between banks, with three banks below the prudential limit at end-June. Rapid credit growth over the last several years combined with the slowdown in the economy has elevated risks throughout the system, particularly in institutions with portfolios that are concentrated in specific sectors. The majority of banks are exposed to large single borrowers. Standard stress tests confirm the potential vulnerability to credit risk—a risk compounded by the relatively low level of provisions.

Substantial new entry into the banking system has stretched supervisory resources with little impact on market competition. The number of deposit taking institutions increased from 36 at end-2007 to 39 at end-June 2009 with additional entities licensed but not yet operating. Despite the new entrants, the market shares of the three largest banks has risen. Raising minimum capital requirements could foster enhanced competition within the sector. In light of the increased entry of foreign banks, establishing formal cooperation agreements with home supervisors will be key.

Key components of a crisis management framework are in place, but a more comprehensive approach should be developed in line with international best practice. There is a deposit insurance scheme and a regulatory framework for bank resolution. Next steps would involve developing an explicit framework for emergency liquidity assistance and a formal systemic crisis management plan.

Tanzania: Key Financial Soundness Indicators, 2005–09

					2009		
	2005	2006	2007	2008	Mar	Jun	Sep
Capital to total assets	10.0	7.6	8.1	10.1	11.9	11.2	10.9
Tier 1 capital to risk-weighted assets	15.1	16.3	16.2	17.0	20.3	19.9	19.6
Return on assets	3.9	3.9	4.7	3.8	4.0	3.6	3.4
NPLs to total loans	4.9	6.8	6.3	6.2	7.3	7.7	6.4
NPLs to capital		21.1	22.0	22.0	22.8	24.4	17.9

Source: Bank of Tanzania

1 The box draws heavily on the preliminary findings of the FSAP mission.

IV. Program Monitoring

17. Program implementation for the remainder of the period covered by the PSI/ESF arrangement will be monitored by the quantitative assessment/performance criteria for end-December 2009 and quantitative indicative targets for end-March 2010, as presented in Table 1 of the authorities' Memorandum of Economic and Financial Policies (MEFP)

(Appendix I, Attachment I). Reflecting the authorities' decision to save the SDR allocation, the end-December floor on NIR accrual has been increased by US$249 million. Table 2 of the MEFP presents structural benchmarks that will be monitored under the PSI. These benchmarks focus on financial stability and budget transparency, which are critical for the success of the program. The second review under the ESF will take place together with the seventh PSI review and will be based on performance at end-December 2009.

V. Staff Appraisal

18. **The policy response to the global crisis has been appropriate**. Fiscal easing has produced strong support for aggregate demand, while monetary policy has delivered a low interest rate, a stable exchange rate, rising international reserves, but with persistently high inflation. The stimulus package appropriately focuses on badly hit sectors with targeted interventions to contain the impact of the global crisis and prevent disruptions to agricultural markets thereby limiting impacts on rural communities where poverty is concentrated.

19. **A nascent economic recovery is underway but there are clear risks**. Growth is anticipated to strengthen in coming months, but signs of a turnaround in private sector activity are fairly recent and have yet to translate into improvements in revenue collections. Adverse shocks also threaten the outlook—particularly the drought in East Africa, longstanding food security issues, infrastructure constraints, and the still uncertain nature of the global economic rebound. While it would clearly be premature to exit from stimulus until the recovery is more deeply entrenched, inflationary pressures need to be monitored carefully.

20. **Implementation of the approved budget faces a number of challenges and ensuring appropriate control over expenditure commitments is critical**. Reducing the VAT rate to bring it into line with most of the EAC region should create efficiency gains over the medium-term, but it will be difficult to achieve the significant compliance gains in the near-term from either the VAT or the other measures designed to broaden the tax base. A possible financing shortfall, in addition to the revenue weakness and mounting expenditure pressures, point to a need for strict control over budgetary commitments and the early identification of non-priority expenditures that could be curtailed. Further steps to enhance public financial management, including strengthened cash management, to ensure a more predictable and even flow of expenditure during the year, would assist in achieving better service delivery from available resources.

21. **The financial system has not been directly affected by the global crisis, but supervision should remain vigilant and gaps in the framework should be closed expeditiously**. The banking system appears well-capitalized and profitable with only a modest increase in NPLs, but there is substantial variation between banks and banking supervision needs to remain both vigilant and proactive. Beyond the banking system, the continued absence of a unified social security regulator remains a significant weakness while it is also key to ensure that new products—such as telephone banking and Islamic banking

products—are appropriately captured in the supervisory framework. The BoT continues to make progress in strengthening its governance framework, but more timely publication of its audited accounts would further enhance transparency.

22. **Staff recommends the completion of the sixth review under the PSI and the first review under the ESF arrangement, and waiver of the nonobservance of the continuous PC/AC on external payments arrears due to the temporary and minor nature of the nonobservance.**

Table 1. Tanzania: Selected Economic and Financial Indicators, 2006/07–2011/12

.	2006/07	2007/08	2008/09		2009/10	2010/11	2011/12
		Prel.	Prog.	Est.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
Real GDP growth (calendar year, at market prices)[1]	6.7	7.1	7.5	7.4	5.0	6.0	6.7
Real GDP growth (fiscal year, at market prices)	6.9	7.3	6.2	6.2	5.5	6.4	7.1
Consumer prices (period average)	6.3	8.4	12.0	11.8	8.0-9.0	5.2	5.0
Consumer prices (end of period)	5.8	9.3	11.0	10.7	6.0-8.0	5.0	5.0
External sector							
Export, f.o.b (in millions of U.S. dollars)	2,060	2,609	2,891	2,951	3,154	3,483	3,820
Imports, f.o.b. (in millions of U.S. dollars)	-4,336	-5,667	-5,955	-5,970	-6,070	-6,684	-7,389
Export volume	-6.6	6.2	7.3	5.7	6.2	8.6	11.5
Import volume	19.2	13.3	1.8	-0.1	8.9	6.5	8.2
Terms of trade	1.7	-7.4	14.1	10.8	7.7	-1.6	-3.7
Nominal effective exchange rate (end of period; depreciation -)	-4.9	1.8	...	-4.6	...	...	...
Real effective exchange rate (end of period; depreciation -)	-3.1	2.8	...	8.7	...	...	...
Money and credit[2]							
Broad money (M3)	20.1	18.1	22.0	19.0	21.1	…	…
Net foreign assets	12.4	4.7	2.7	15.7	-5.2	…	…
Net domestic assets	35.1	39.8	46.4	23.0	51.2	…	…
Credit to nongovernment sector	34.5	32.9	39.8	33.6	33.6	…	…
Velocity of money (GDP/M3; average)	4.1	3.9	3.7	3.7	3.5	…	…
Treasury bill interest rate (in percent; end of period)[3]	16.0	8.2	…	7.5	5.4	…	…
	(Percent of GDP)						
Public Finance							
Revenue (excluding grants)	14.1	15.9	15.8	15.9	16.5	17.0	17.3
Total grants	4.9	6.9	5.5	4.9	6.2	5.6	5.1
Expenditure (including adjustment to cash)	23.9	24.4	26.3	25.5	28.5	27.3	26.7
Overall balance (excluding grants)	-8.9	-6.9	-10.5	-9.7	-11.9	-10.3	-9.4
Domestic financing	1.2	-1.5	1.2	0.8	1.6	1.0	1.0
Stock of domestic debt (end of period)	12.8	13.4	12.5	12.0	12.0	11.8	11.5
Savings and investment[1]							
Resource gap	-13.1	-16.9	-16.9	-13.7	-12.2	-11.6	-12.1
Investment	27.6	29.6	31.8	29.8	28.4	29.4	30.6
Government	8.4	9.7	10.7	10.2	10.4	10.6	10.7
Nongovernment[4]	19.3	20.0	21.1	19.6	18.0	18.8	19.9
Gross domestic savings	14.5	12.8	14.9	16.2	16.2	17.8	18.6
External sector							
Current account balance (excluding current transfers)	-13.2	-14.1	-12.0	-13.0	-11.6	-12.2	-12.4
Current account balance (including current transfers)	-9.9	-10.6	-8.9	-9.8	-8.6	-9.1	-9.7
	(Millions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Current account balance (excluding current transfers; deficit -)	-2,005	-2,675	-2,580	-2,822	-2,760	-3,135	-3,466
Overall balance of payments (deficit -)	286	501	-132	19	174	284	286
Gross official reserves	2,157	2,660	2,766	2,925	3,277	3,559	3,842
In months of imports of goods and nonfactor services	3.6	4.2	4.4	4.5	4.6	4.5	4.4
External debt (percent of GDP)	20.5	24.8	25.1	25.1	25.3	26.7	26.8

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

[1] Data are on calendar year basis. For example, 2006/07 data are for calendar year 2006.
[2] Figures for 2008/09 reflect new series based on the Fund's *2000 Monetary and Financial Statistics Manual* .
[3] End-year (June) monthly weighted-average yield of 35-, 91-, 182-, and 364-day treasury bills. For 2009/10, figure is for August 2009.
[4] Including change in stocks.

Table 2. Tanzania: National Accounts, 2006–2014

	2006	2007	2008	2009		2010	2011	2012	2013	2014
				Prog.	Proj.	Proj.	Proj.	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	24,754	28,941	29,385	32,886	36,622	41,319	46,614	52,606
Real (percentage change)	6.7	7.1	7.4	5.0	5.0	6.0	6.7	7.5	7.4	7.5
Deflator (percentage change)	5.3	9.0	10.0	11.1	13.0	5.6	4.4	5.0	5.0	5.0
Sectoral components of GDP										
Agriculture	3.9	4.0	4.6	3.2	4.0	5.0	5.0	5.0	4.5	4.5
Industry	8.5	9.5	8.6	4.5	4.0	5.9	5.7	7.7	7.8	7.8
Services	7.7	8.0	8.5	6.0	5.9	6.5	7.9	8.5	8.6	8.6
Memorandum items:	2005/06	2006/07	2007/08	2008/09		2009/10	2010/11	2011/12	2012/13	2013/14
				Prog.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Nominal GDP (billions of T Sh, fiscal-year basis)	16,953	19,445	22,851	26,879	27,070	31,135	34,754	38,970	43,967	49,610
Nominal GDP growth	13.3	14.7	17.5	17.5	18.5	15.0	11.6	12.1	12.8	12.8
Real GDP growth	7.0	6.9	7.3	6.2	6.2	5.5	6.4	7.1	7.4	7.5
CPI inflation (average)	5.6	6.3	8.4	12.0	11.8	8.0-9.0	5.2	5.2	5.0	5.0
CPI inflation (end period)	6.8	5.8	9.3	11.0	10.7	6.0-8.0	5.0	5.0	5.0	5.0

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

Table 3. Tanzania: Central Government Operations, 2007/08–2011/12[1]
(Billions of Tanzania Shillings)

	2007/08	2008/09			2009/10		2010/11	2011/12
	Actual	Budget	Prog.	Prel.	Budget	Proj.	Proj.	Proj.
Total revenue	3,635	4,729	4,249	4,293	5,234	5,144	5,916	6,750
Tax revenue	3,359	4,485	4,053	4,044	4,856	4,776	5,464	6,196
Import duties	289	421	372	359	448	449	517	586
Value-added tax	1,042	1,256	1,231	1,231	1,400	1,371	1,577	1,788
Excises	661	932	749	762	994	955	1,099	1,246
Income taxes	984	1,393	1,229	1,229	1,499	1,484	1,707	1,935
Other taxes	383	483	473	463	515	516	594	673
Nontax revenue[3]	275	243	196	249	378	368	452	555
Total expenditure	5,217	7,139	7,058	6,907	8,862	8,862	9,504	10,421
Recurrent expenditure	3,398	4,648	4,701	4,681	6,037	6,037	6,234	6,734
Wages and salaries	1,135	1,570	1,596	1,609	1,766	1,766	1,972	2,211
Interest payments	265	282	301	243	408	408	426	425
Domestic	237	248	263	208	355	355	374	368
Foreign[2]	27	35	39	35	53	53	52	57
Goods and services and transfers[3]	1,998	2,795	2,803	2,830	3,863	3,863	3,836	4,098
of which: MDRI (IMF) related	7	0	0	0	0	0	0	0
Development expenditure	1,819	2,491	2,357	2,226	2,825	2,825	3,270	3,687
Domestically financed	567	940	864	906	968	1,000	1,419	1,768
of which: MDRI (IMF) related	114	66	66	68	131	131	0	0
Foreign financed	1,252	1,551	1,493	1,320	1,857	1,825	1,851	1,919
Overall balance before grants	-1,583	-2,411	-2,809	-2,614	-3,628	-3,718	-3,589	-3,670
Grants	1,581	1,441	1,487	1,340	2,091	1,936	1,959	1,987
Program (including basket grants)[4]	832	750	830	798	1,108	953	1,070	1,057
Project	636	625	590	462	852	852	889	930
MDRI (IMF) grant relief	114	66	66	80	131	131	0	0
Overall balance after grants	-1	-969	-1,322	-1,275	-1,537	-1,782	-1,630	-1,683
Adjustment to cash[5]	-365	0	0	60	0	0	0	0
Overall balance (cash basis)	-366	-969	-1,322	-1,215	-1,537	-1,782	-1,630	-1,683
Financing gap	0	0	0	0	0	-261	0	0
Financing	366	969	1,322	1,215	1,537	1,521	1,630	1,683
Foreign (net)	730	946	976	956	1,037	1,021	1,306	1,320
Foreign loans	775	988	1,053	984	1,091	1,077	1,390	1,421
Program (including basket loans)[4]	566	481	546	495	659	645	590	554
Project	209	507	507	489	432	432	453	477
Nonconcessional borrowing		0	0	0	0	0	348	390
Amortization	-45	-42	-77	-27	-54	-56	-85	-101
Domestic (net)	-346	0	323	214	506	506	348	390
Bank financing	…	...	...	...	…	...	...	...
Nonbank financing	…	...	...	...	…	...	...	...
Amortization of parastatal debt	-15	-37	-37	0	-21	-21	-23	-26
Privatization proceeds	0	60	60	45	15	15	0	0
Memorandum items:								
Public domestic debt (in percent of GDP)	13.3	11.7	12.5	12.0	12.2	12.0	11.8	11.5
Recurrent expenditures in pecent of total revenues	93	98	111	109	115	117	105	100
Nominal GDP	22,851	26,244	26,879	27,070	31,109	31,135	34,754	38,970

Table 3. Tanzania: Central Government Operations, 2007/08–2011/12 (continued)[1]
(Percent of GDP)

	2007/08	2008/09			2009/10		2010/11	2011/12
	Actual	Budget	Prog.	Prel.	Budget	Proj.	Proj.	Proj.
Total revenue	15.9	18.0	15.8	15.9	16.8	16.5	17.0	17.3
Tax revenue	14.7	17.1	15.1	14.9	15.6	15.3	15.7	15.9
Import duties	1.3	1.6	1.4	1.3	1.4	1.4	1.5	1.5
Value-added tax	4.6	4.8	4.6	4.5	4.5	4.4	4.5	4.6
Excises	2.9	3.6	2.8	2.8	3.2	3.1	3.2	3.2
Income taxes	4.3	5.3	4.6	4.5	4.8	4.8	4.9	5.0
Other taxes	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7
Nontax revenue[3]	1.2	0.9	0.7	0.9	1.2	1.2	1.3	1.4
Total expenditure	22.8	27.2	26.3	25.5	28.5	28.5	27.3	26.7
Recurrent expenditure	14.9	17.7	17.5	17.3	19.4	19.4	17.9	17.3
Wages and salaries	5.0	6.0	5.9	5.9	5.7	5.7	5.7	5.7
Interest payments	1.2	1.1	1.1	0.9	1.3	1.3	1.2	1.1
Domestic	1.0	0.9	1.0	0.8	1.1	1.1	1.1	0.9
Foreign[2]	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1
Goods and services and transfers[3]	8.7	10.6	10.4	10.5	12.4	12.4	11.0	10.5
of which: MDRI (IMF) related	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development expenditure	8.0	9.5	8.8	8.2	9.1	9.1	9.4	9.5
Domestically financed	2.5	3.6	3.2	3.3	3.1	3.2	4.1	4.5
of which: MDRI (IMF) related	0.5	0.3	0.2	0.3	0.4	0.4	0.0	0.0
Foreign financed	5.5	5.9	5.6	4.9	6.0	5.9	5.3	4.9
Overall balance before grants	-6.9	-9.2	-10.5	-9.7	-11.7	-11.9	-10.3	-9.4
Grants	6.9	5.5	5.5	4.9	6.7	6.2	5.6	5.1
Program (including basket grants)[4]	3.6	2.9	3.1	2.9	3.6	3.1	3.1	2.7
Project	2.8	2.4	2.2	1.7	2.7	2.7	2.6	1.8
MDRI (IMF) grant relief	0.5	0.3	0.2	0.3	0.4	0.4	0.0	0.0
Overall balance after grants	0.0	-3.7	-4.9	-4.7	-4.9	-5.7	-4.7	-4.3
Adjustment to cash[5]	-1.6	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.6	-3.7	-4.9	-4.5	-4.9	-5.7	-4.7	-4.3
Financing gap		0.0	0.0	0.0	0.0	-0.8	0.0	0.0
Financing	1.6	3.7	4.9	4.5	4.9	4.9	4.7	4.3
Foreign (net)	3.2	3.6	3.6	3.5	3.3	3.3	3.8	3.4
Foreign loans	3.4	3.8	3.9	3.6	3.5	3.5	4.0	3.6
Program (including basket loans)[4]	2.5	1.8	2.0	1.8	2.1	2.1	1.7	1.4
Project	0.9	1.9	1.9	1.8	1.4	1.4	1.3	1.2
Nonconcessional borrowing		0.0	0.0	0.0	0.0	0.0	1.0	1.0
Amortization	-0.2	-0.2	-0.3	-0.1	-0.2	-0.2	-0.2	-0.3
Domestic (net)	-1.5	0.0	1.2	0.8	1.6	1.6	1.0	1.0
Bank financing	...	...	...	...	...	...	...	...
Nonbank financing	...	...	...	...	...	...	...	...
Amortization of parastatal debt	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Privatization proceeds	0.0	0.2	0.2	0.2	0.0	0.0	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] In 2008/09, nontax revenue include the recovery from a fraudulent payment made from the government's EPA account managed by the Bank of Tanzania. Local Government Authorities' own revenues (about 0.5 percent of GDP), and the equal amount of transfers, are included starting from FY2009/10.

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

[5] Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.

Table 4. Tanzania: Summary Accounts of the Bank of Tanzania, 2008/09–2009/10
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2008			2009							2010			
	June	Sept	Dec	Mar	Jun		Sept		Dec		Mar		Jun	
					Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Net foreign assets	3,060	3,070	3,592	3,457	3,276	3,395	3,210	3,897	3,469	3,725	3,615	3,545	3,272	3,369
Net international reserves	3,120	3,127	3,655	3,525	3,338	3,458	3,601	4,288	3,854	4,110	4,001	3,931	3,660	3,758
(Millions of U.S. dollars)	2,642	2,675	2,855	2,684	2,510	2,661	2,434	3,292	2,599	3,132	2,677	2,981	2,402	2,835
Net non-reserve foreign assets	-60	-58	-63	-68	-63	-63	-391	-391	-384	-384	-386	-386	-388	-388
Net domestic assets	-980	-706	-1,316	-979	-601	-716	-371	-1,006	-489	-745	-590	-520	-63	-287
Credit to government	-1,407	-1,287	-1,480	-1,296	-1,085	-779	-670	-1,064	-813	-643	-747	-418	-308	-122
of which: Excluding counterpart of liquidity paper	-240	-191	-253	-195	-60	212	330	52	162	357	253	532	592	478
of which: MDRI (IMF)	-162	-149	-137	-134	-114	-109	-85	-107	-57	-44	-28	-11	0	0
Other items (net)	427	581	164	317	483	63	299	57	324	-103	157	-103	245	-164
REPOs	-105	-123	-120	-119	-28	-131	-79	-211	-13	-40	-137	2	-8	-19
Other items, excluding REPOs (net)	532	704	284	437	512	194	377	268	337	-63	294	-105	253	-145
of which: Credit to nongovernment sector	79	80	87	73	…	55	…	88	…	50	…	50	…	50
Reserve money[1]	2,080	2,364	2,276	2,479	2,674	2,679	2,839	2,891	2,980	2,980	3,026	3,025	3,209	3,083
Currency outside banks	1,269	1,450	1,439	1,367	1,541	1,424	1,649	1,536	1,734	1,676	1,750	1,691	1,849	1,726
Bank reserves	810	914	838	1,112	1,133	1,255	1,190	1,355	1,246	1,304	1,276	1,333	1,360	1,357
Currency in banks	182	224	272	263	262	259	280	291	295	288	298	308	314	319
Deposits	628	689	566	849	871	996	910	1,063	952	1,016	978	1,026	1,045	1,037
Required reserves (calculated)[1]	504	511	532	746	714	787	758	844	793	802	815	821	841	837
Excess reserves (calculated)	124	179	35	103	157	209	152	219	159	214	163	205	126	200
Memorandum items:														
Stock of liquidity paper	1,168	1,097	1,227	1,101	1,025	990	1,000	1,116	975	1,000	1,000	950	900	600
Average reserve money	2,054	2,350	2,318	2,497	2,648	2,602	2,833	2,846	2,979	2,979	3,058	3,058	3,178	3,078

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

[1] In January 2009 the reserve requirement on government deposits was increased to 20 percent (from 10 percent) and cash in banks was no longer counted towards required reserves. Previously, 50 percent of cash in banks was counted toward required reserves.

Table 5. Tanzania: Monetary Survey, 2008/09–2009/10
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2008			2009							2010			
	Jun	Sep	Dec	Mar	Jun		Sep		Dec		Mar		Jun	
					Prog.	Prel.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Net foreign assets	3,629	3,560	4,087	4,145	3,726	4,197	3,673	4,747	3,944	4,425	4,103	4,195	3,772	3,977
Bank of Tanzania	3,060	3,070	3,592	3,457	3,276	3,395	3,210	3,897	3,469	3,725	3,615	3,545	3,272	3,369
Commercial banks	569	490	495	688	450	802	463	850	475	700	488	650	500	608
Net domestic assets	2,983	3,533	3,372	3,488	4,341	3,669	4,959	3,942	5,131	4,685	5,215	5,122	5,909	5,547
Domestic credit	3,193	3,607	3,994	4,040	4,686	4,528	5,349	4,697	5,567	5,613	5,699	6,061	6,439	6,495
Credit to government (net)	-151	-26	-335	-370	121	62	390	79	194	257	256	482	567	528
Credit to nongovernment sector	3,344	3,633	4,329	4,410	4,564	4,467	4,959	4,618	5,373	5,355	5,443	5,578	5,872	5,968
Other items (net)	-210	-73	-622	-552	-344	-859	-391	-755	-436	-927	-484	-938	-530	-948
M3	6,612	7,093	7,459	7,634	8,067	7,866	8,632	8,689	9,075	9,111	9,317	9,317	9,680	9,524
Foreign currency deposits	1,785	1,832	1,997	2,086	2,159	2,098	2,311	2,222	2,429	2,350	2,494	2,443	2,591	2,536
M2	4,827	5,261	5,462	5,547	5,908	5,768	6,321	6,466	6,646	6,760	6,823	6,874	7,089	6,988
Currency in circulation	1,269	1,450	1,439	1,367	1,541	1,424	1,649	1,536	1,734	1,676	1,750	1,691	1,849	1,726
Deposits (Tanzania Sh)	3,557	3,811	4,024	4,181	4,367	4,344	4,672	4,930	4,912	5,084	5,073	5,183	5,240	5,262
Memorandum items:														
M3 growth (12-month percent change)	18.1	21.2	19.8	14.4	22.0	19.0	21.7	22.5	21.7	22.1	21.1	22.1	20.0	21.1
Foreign currency deposits (12-month percent change)	-0.1	2.8	9.0	3.8	20.9	17.5	26.1	21.3	21.7	17.7	21.1	17.1	20.0	20.9
M2 growth (12-month percent change)	26.6	29.3	24.4	18.9	22.4	19.5	20.1	22.9	21.7	23.8	21.1	23.9	20.0	21.2
Currency in circulation (12-month percent change)	14.3	26.1	23.8	19.8	21.4	12.2	13.7	6.0	20.5	16.5	…	23.8	…	21.2
Credit to nongovernment sector (12-month percent change)	32.9	27.2	39.0	31.2	39.8	33.6	39.6	27.1	26.7	23.7	26.2	26.5	28.7	33.6
Reserve money (12-month percent change)	25.1	42.4	21.1	27.5	28.6	28.8	20.1	22.3	30.9	30.9	23.5	22.0	20.0	15.1
Average reserve money (12-month percent change)	21.9	28.0	23.2	29.9	28.9	26.7	20.6	21.1	28.5	28.5	22.3	22.5	20.0	18.3
Currency/M3 (in percent)	22.0	23.6	22.9	21.3	22.4	21.4	22.4	21.0	22.4	21.6	22.0	21.5	22.4	21.5
Reserve money multiplier (M3/average reserve money)	3.2	3.0	3.2	3.1	3.0	3.0	3.0	3.1	3.0	3.1	3.0	3.0	3.0	3.1
Velocity of money (M3; average)	…	…	…	…	3.6	3.7	…	…	…	…	…	…	3.5	3.3
Nonbank financing of the government (net) [1]	48	-109	17	32	50	1	10	10	20	20	30	30	60	40
Bank financing of the government (net) [1]	-395	125	-184	-219	273	213	269	17	72	196	135	421	445	466
Bank and nonbank financing of the government (net) [1]	-346	16	-167	-187	323	214	279	27	92	216	165	451	505	506

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

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

Table 6. Tanzania: Balance of Payments, 2007/08-2013/14

(Millions of U.S. dollars, unless otherwise indicated)

	2007/08	2008/09		2009/10	2010/11	2011/12	2012/13	2013/14
	Act.	Prog.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-2,012	-1,906	-2,120	-2,031	-2,342	-2,708	-2,957	-3,216
Trade balance	-3,070	-3,064	-3,019	-2,916	-3,201	-3,568	-3,951	-4,357
Exports, f.o.b.	2,609	2,891	2,951	3,154	3,483	3,820	4,207	4,643
of which: Traditional	337	460	488	418	421	467	524	591
of which: Gold	921	805	825	965	1,034	1,083	1,140	1,186
Imports, f.o.b	-5,667	-5,955	-5,970	-6,070	-6,684	-7,389	-8,158	-8,999
of which: Oil	-1,683	-1,408	-1,433	-1,374	-1,599	-1,804	-2,017	-2,249
Services (net)	401	563	231	217	177	182	265	420
of which: Travel receipts	1,186	1,239	1,202	1,250	1,312	1,444	1,660	1,959
Income (net)	-28	-108	-65	-88	-137	-103	-70	-93
of which: interest payments due	-30	-54	-50	-55	-60	-59	-56	-54
of which: interest on public debt	-20	-31	-27	-35	-39	-41	-42	-42
of which: interest on central government debt [1]	-20	-31	-27	-35	-39	-41	-42	-42
Current transfers (net)	686	703	732	757	819	781	798	814
of which: program grants	663	675	703	729	794	759	774	789
Capital account	627	532	431	554	568	582	598	614
of which: project grants	570	470	369	488	498	508	518	528
Financial account	1,491	1,382	1,618	1,651	2,058	2,411	2,711	3,062
Direct investment	696	591	591	520	650	813	1,016	1,270
Other investment (including Portfolio investment)	795	791	1,027	1,131	1,408	1,598	1,695	1,792
Portfolio investment	3	3	3	3	261	283	280	275
Of which: government securities	…	…	…	…	258	280	277	272
Other investment	792	788	1,024	1,128	1,147	1,315	1,415	1,517
SDR Allocation [2]	…	…	…	249	…	…	…	…
Program loans	458	434	400	494	438	398	406	414
Project loans	419	404	391	330	336	343	350	357
Government-scheduled amortization [1]	-38	-61	-19	-43	-63	-73	-68	-79
Errors and omissions	395	-141	89	0	0	0	0	0
Overall balance	501	-132	19	174	284	286	352	460
Financing	-501	132	-19	-174	-284	-286	-352	-460
Change in BoT reserve assets (increase, -)	-501	-106	-265	-268	-282	-283	-348	-432
Use of Fund credit	0	238	246	94	-2	-3	-3	-28
Memorandum items:								
Gross official reserves (BoT) [2]	2,660	2,766	2,925	3,277	3,559	3,842	4,191	4,623
Months of imports of goods and services (next year)	4.2	4.4	4.5	4.6	4.5	4.4	4.4	4.4
Current account deficit (percent of GDP)								
Excluding official current transfers	-14.1	-12.4	-13.0	-11.6	-12.2	-12.4	-12.2	-12.0
Including official current transfers	-10.6	-9.1	-9.8	-8.6	-9.1	-9.7	-9.7	-9.6
Foreign program and project assistance (percent of GDP)	11.1	9.5	8.6	8.6	8.0	7.2	6.7	6.2
Foreign direct investment (percent of GDP)	3.7	2.8	2.7	2.2	2.5	2.9	3.3	3.8
Nominal GDP	19,017	20,836	21,628	23,724	25,783	27,980	30,586	33,464

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] Tanzania received an SDR allocation of SDR 147.4 million on August 28 and SDR 11.7 million on September 9 (total of US$249 million).

Table 7. Tanzania: Financial Soundness Indicators, 2006–2009
(Percent, end-of-calendar year)

				2009		
	2006	2007	2008	March	June	September
Access to bank lending						
Claims on the non-government sector to GDP [1]	9.2	14.4	17.9	18.2	18.7	18.8
Capital adequacy						
Capital to risk-weighted assets	16.3	16.2	17.0	20.3	19.9	19.6
Capital to assets	7.6	8.1	10.1	11.9	11.2	10.9
Asset composition and quality						
Net loans and advances to total assets	37.3	41.2	50.6	50.3	48.8	46.0
Sectoral distribution of loans						
Trade	15.2	17.0	18.5	17.3	17.6	18.5
Mining and manufacturing	18.3	20.2	14.7	14.2	13.5	11.3
Agricultural production	9.0	11.9	10.4	10.5	10.9	12.2
Building and construction	5.0	5.1	4.9	4.8	4.5	5.1
Transport and communication	7.9	6.9	7.3	7.4	9.9	9.8
Foreign exchange loans to total loans	32.0	31.4	31.8	30.9	30.3	29.3
Gross nonperforming loans (NPLs) to gross loans	6.8	6.3	6.2	7.3	7.7	6.4
NPLs net of provisions to capital	21.1	22.0	22.0	22.8	24.4	17.9
Large exposures to total capital	282.8	183.5	199.4	151.2	149.8	139.6
Earnings and profitability						
Return on assets	3.9	4.7	3.8	4.0	3.6	3.4
Return on equity	26.7	29.0	23.2	22.6	21.1	20.1
Net interest margin	74.9	73.8	76.7	74.2	73.5	72.7
Noninterest expenses to gross income	43.5	42.5	48.8	44.6	45.3	46.6
Personnel expenses to noninterest expenses	39.5	40.5	40.6	44.6	45.1	43.7
Trading and fee income to total income	27.1	25.7	26.0	29.9	26.5	--
Liquidity						
Liquid assets to total assets	48.6	48.0	37.6	36.6	37.8	41.1
Liquid assets to total short term liabilities	54.2	53.0	41.7	43.7	45.2	48.5
Total loans to customer deposits	50.1	57.6	68.4	66.9	65.6	61.2
Foreign exchange liabilities to total liabilities	38.6	33.8	32.5	31.5	31.0	29.7

Source: Bank of Tanzania

[1] Calendar year; end of period claims relative to annual GDP. For 2009, based on GDP for 2008.

Appendix I. Letter of Intent

Dar es Salaam, Tanzania
November 13, 2009

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

Dear Mr. Strauss-Kahn:

1. Tanzania's program with the Fund has progressed well under the Policy Support Instrument (PSI) and the Exogenous Shock Facility (ESF) arrangement. Sound macroeconomic policies, coupled with the adoption of fiscal stimulus and balance of payment support by the Fund (the ESF arrangement), have greatly assisted in containing shocks which would otherwise erode the hard earned macroeconomic stability. The government will continue to consolidate the achievements made while carefully monitoring the developments of the economic indicators in the wake of the global financial and economic crisis.

2. The year 2008/09 closed with all quantitative performance/assessment criteria being met with good margins, and good progress was made on the structural benchmarks. In October 2009, a small underpayment on World Bank IDA loans due to a technical oversight resulted in accumulation of arrears to the World Bank and nonobservance of the continuous PC/AC on external payments arrears. The remainder of the payment was remitted as soon as we were notified about the oversight. Thus, as the nonobservance was of a temporary nature and was promptly rectified, we are requesting a waiver for the nonobservance of the quantitative PC/AC on external payments arrears.

3. The economic indicators show that there has been fairly good performance during the first half of 2009, implying that the programme is on track. The inflationary pressures has started easing during the second half of 2008/09 and early 2009/10 in line with the general decline in global commodity prices. Nonetheless, food prices have remained relatively high, causing the inflation to linger at a double digit level.

4. Tanzanian benefited from the Fund's balance of payment support through the ESF which boosted the external position at a time when the world is experiencing a declining trend in economic growth emanating from the global financial crisis. The Government provided a countercyclical stimulus to the economy through easing of the fiscal and monetary stance over the last quarter of 2008/09. On the other hand, the value of the shilling against US Dollar remained fairly stable during the period.

5. On the area of public financial management, good progress has been made, in particular, the migration from the Government Finance Statistics (GFS) 1986 to the GFS 2001 economic classification, the establishment of an independent internal audit department

under the Ministry of Finance and Economic Affairs and the recruitment of new PFMRP coordination secretariat.

6. In view of this performance, the Government of Tanzania requests the completion of the sixth review under the PSI and the first review under the ESF arrangement, and the disbursement of the second tranche under the ESF arrangement, equivalent to SDR 39.78 million (equivalent to USD 63.4 million, at the exchange rate of October 15) as continuous support to Tanzania's balance of payments.

7. The Government of Tanzania requests that the end-December performance/assessment criteria on net international reserves be modified to reflect the significantly higher level of international reserves following the SDR allocation. Quantitative indicative targets through end-March 2010 are set out in Table 1 and the Technical Memorandum of Understanding, both attached to this letter. Structural benchmarks are set out in Table 2.

8. Following discussions and consultations with the Fund staff, I hereby transmit the letter of intent and memorandum of economic and financial policies which reviews the implementation of the programme during 2008/09 and describes the objectives and policies that the government is implementing in 2009/10 and the medium term.

9. The Government of Tanzania intends to disseminate this letter, the attached MEFP together with related Fund staff reports, and hereby authorizes the IMF to publish the same on its website after consideration by the Executive Board.

Yours Sincerely,

/s/

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

Attachment I. Tanzania: Memorandum of Economic and Financial Policies

I. RECENT MACROECONOMIC DEVELOPMENTS AND PROGRESS UNDER THE PROGRAMME

Recent economic developments

1. GDP grew by 7.4 percent in 2008, slightly higher than the 7.1 percent recorded in 2007, with the economy slowing toward the end of the year. The highest growth was recorded in communication sub-activity (20.5 percent) followed by financial intermediation (11.9 percent) and construction (10.5 percent) sub-activities. The strong performance in communication was mainly explained by increase in mobile phone subscribers and the attendant increase in sales of airtime. The strong performance of financial intermediation mirrored the effect of the ongoing financial sector reforms, strong growth in credit to the private sector and increased competition in insurance services. Despite the good performance of the economy as a whole, a notable slow down of growth was observed in mining and quarrying sub-activities which dropped to 2.5 percent from 10.7 percent in 2007.

2. The inflationary pressures that were experienced in the first half of 2008/09 began to ease in the second half, consistent with the general decline in global commodity prices, especially oil prices. Nevertheless, food inflation remained high due to lower than anticipated food production in some parts of the country, caused mainly by inadequate rains, coupled with food shortages in neighboring countries. While food inflation has remained high, the annual non-food inflation has taken a steep decline from 9.0 percent in September 2008 to 2.0 percent in August 2009. The downward movement in non-food inflation is in part associated with the general decline in global oil prices, during the period.

3. The trade balance improved largely due to bumper harvest of some export crops and a surge in export of manufactured goods, coupled with slow growth in imports of oil and other intermediate goods. The current account deficit however widened in 2008/09, on account of a slowdown in the growth of travel receipts amid the Global Financial Crisis and a sharp increase in service imports. Despite the worsening of the current account balance and a slowdown in foreign direct investment, the overall balance of payments recorded a surplus of USD 19 million, which together with disbursement of the first tranche under the Exogenous Shock Facility arrangement led to an increase of gross international reserves by USD 265 million. The level of gross official reserves at the end of June 2009 was sufficient to cover about 4.6 months of import of goods and services.

Performance under the programme

4. All PSI/ESF programme assessment/performance criteria for June 2009 were attained with good margins. Average reserve money outturn was below target by TSh 72 billion, while net domestic financing of the government budget was below the ceiling by TSh 119 billion. NIR was above target by USD 357 million. In October 2009, the continuous PC/AC on external payments arrears was nonobserved due to a technical oversight that led to

a small underpayment on World Bank IDA loans. The obligation was paid, immediately after the oversight was identified and clarified.

Fiscal out-turn for 2008/09

5. The fiscal outturn for the year ending June, 2009 was characterized by a shortfall in revenue collection relative to the budget and under-spending in foreign financed development expenditure. Total domestic revenue collection reached TSh 4,293 billion, implying an 18 percent growth over 2007/08 but a shortfall of 10 percent against budget estimate for 2008/09. The shortfall in collection was caused by impacts of the global financial crisis as well as the fact that some of the new revenue measures did not materialize. The crisis resulted into a slowdown in the expansion of economic activities and revenue collection, particularly custom duties, domestic excises, income taxes and non-tax revenues. To compensate for revenue losses and protect essential expenditures, the Government resorted to domestic borrowing amounting to TSh 323 billion, equivalent to 1.2 percent of GDP.

6. Overall recurrent expenditure was broadly in line with budget estimates, which is a significant improvement in budget execution compared to recent years. However, preliminary data indicate that development expenditure was 14.0 percent lower than budgeted due to non-disbursement of foreign project funds. Total grants were 13 percent less than budgeted primarily due to shortfall in disbursement of project grants. Monthly expenditure patterns showed that there was large expenditure at the end of the fiscal year, resulting into substantial increase in expenditure float in the first quarter of 2009/10.

Public financial management

7. The Government continues with efforts to improve management and controls of public finances at all levels. The Controller and Auditor General (CAG)'s report for the year 2007/08 indicates general improvement in the management and control of public finances particularly in Ministries and Departments. There has been significant improvement in bank reconciliation following the Public Financial Management Reform Programme (PFMRP) supported training for staff from MDAs, RAS, and sub-treasuries. Currently about 95 percent of government transactions are automatically reconciled within Epicor while the remaining transactions are dealt with through adjustment reconciliation module developed recently. During 2008/09, a total of 202 accountants and internal auditors were recruited in order to improve financial management in Local Governments. The recruitment of a new PFMRP coordination secretariat comprised of the programme coordinator, financial expert, procurement specialist and the monitoring and evaluation expert have been finalized and is now fully operational. The Government is also in the process of reviewing Public Finance Act 2001 so as to provide for the establishment of the new and independent department of internal audit outside the Accountant General's (ACGEN) Department, introduction of electronic funds transfer, clarifying the role of CAG following the enactment of the Public Audit Act in August 2008 and give more powers to the Paymaster General and the ACGEN to oversee and monitor the finances of local government authorities. The Public Finance Bill will be tabled in the November 2009 Parliamentary session.

8. As part of improving cash/liquidity management, the Government has identified 36,406 government accounts in commercial banks. An instruction to close 10,555 government bank accounts has been issued and related deposits will be shifted to the central bank by end October.

9. The Government has upgraded budget economic classification from the Government Finance Statistics (GFS) system 1986 to the GFS 2001 economic classification. Thus, the budget books for 2009/10 have been prepared in line with GFS 2001. These changes will provide a comprehensive framework suitable for analyzing and evaluating fiscal policy as well as cross country comparison. Going forward, the 2010/11 budget will be prepared in accordance with the GFS 2001 functional classification.

10. To enhance expenditure control, the Government has connected all sub-treasuries and regional secretariat offices to the main Integrated Financial Management System (IFMS) database in Dar es Salaam. This connectivity has facilitated better expenditure control and enables timely production and consolidation of systems generated reports, including the itemized monthly expenditure and revenue reports. In addition, all local government authorities are required starting this year to prepare their accounts on a full accruals basis, as required by the National Board of Accountants and Auditors (NBAA). Extensive training has been provided in support of this move which is anticipated to result in a significant improvement in the quality of accounting and reporting at the local government level.

Monetary and exchange rate policies

11. The monetary policy stance was slightly relaxed beginning the last quarter of 2008/09 in order to mitigate the downward impact of the global financial crisis on money and credit. Accordingly, the amount of liquidity papers auctioned was reduced to TSh 1,068.0 billion in the second half of 2008/09 compared TSh 1,269.3 billion in a similar period in the preceding year.

12. The reduction of government securities auctioned, coupled with slow down in expansion of credit to the private sector led to an increase in liquidity among banks driving both the inter-bank and government securities interest rates down. The overnight inter-bank rate declined from 6.3 percent in December 2008 to 0.8 percent in first half of August 2009. Likewise the Treasury bills weighted average yield dropped from 11.0 percent in December 2008 to 5.2 percent in the same period. The increase in liquidity among banks was also on account of government spending out of the proceeds from the special bond issued towards the end of the financial year.

13. In addition, the Bank of Tanzania reviewed the Lombard and discount rates with a view to making them more active instruments of monetary policy and to enhance flexibility in provision of liquidity to the economy. Beginning July 2009 the margin applied on the base rate to determine both the Lombard rate and the discount rate was changed from fixed percentage points to a proportion of the base rate implying that the points added to the base rate in order to arrive at both Lombard and discount rates will change according to the size of the base. In addition the margins were made subject to frequent review by the Monetary Policy Committee to make them more reflective of the monetary policy stance. These

changes led to a decline of the Lombard rate from 7.35 percent in June to 4.13 percent in July 2009, and a drop in the discount rate from 10.31 percent to 6.95 percent. To depict the more active role taken by the discount rate as an instrument of monetary policy, its name was also changed to Bank Rate. The Bank Rate is now changed bi-weekly.

14. Despite the change in monetary policy stance, the annual expansion of money supply continued to slowdown in the last quarter of 2008/09, partly on account of the increasingly cautious approach taken by banks in lending to the private sector, in the wake of the global financial crisis. Indeed, credit to the non-government sector rose by only 3 percent between December 2008 and July 2009. The growth of reserve money however, took an upward trend in the same period, in line with the adopted policy stance.

15. In the Interbank Foreign Exchange Market (IFEM), the exchange rate continued to be market determined, with sales of foreign exchange being mainly for liquidity sterilization purposes. The Bank made electronic dealing mandatory for all IFEM members using the Reuters platform on 1st April 2009. This move which entails submission of two way quotes by market participants has reduced exchange rate volatility and fostered market competitiveness and transparency. The value of the shilling against U.S. dollar has remained fairly stable since April 2009.

II. PROGRAMME FOR 2009/10

16. Economic activity indicators for the first two quarters of 2009 suggest that growth has been affected by the global financial crisis albeit by a lesser extent than that in advanced and middle income economies. The Government adopted the economic rescue plan, the implementation of which together with front-loading of fiscal expenditure financed by timely disbursements of GBS financing by development partners have helped to lessen the magnitude of the impact. But downside risks and an unusual degree of uncertainty remains, mainly due to a drop in FDI, the slowdown in the private sector credit growth, fiscal revenue shortfalls, and regional food supply shocks. The projection of GDP growth for 2009 remains at 5.0 percent, with a gradual recovery to 6.0 percent envisaged in 2010. In the medium term, real GDP is projected to gradually return to its long term potential to 7½ percent by 2012. Inflation in end-June 2010 is projected to be between 6.0 and 8.0 percent, depending on the severity of the ongoing drought in the region.

17. In 2009/10, the current account deficit is expected to fall. While the growth of travel receipts is expected to pick up, especially in the second half of the year as the global economy stabilizes, lower export prices in the world market and low export volumes projected for some commodities such as coffee and cotton due to unfavorable weather conditions will lead to a modest increase in exports. Imports are expected to increase, as the direct impact of the fiscal stimulus begins to surface, but FDI flows are expected to fall as the recovery of source countries takes time. The overall balance of payments is projected to continue recording surplus, mostly due to the SDR allocation, and official gross reserves remaining sufficient to cover about 5 months of import of goods and services.

Government response to the global financial and economic crisis

18. To weather the impact of the global financial crisis, the Government has began to implement the economic rescue plan. The plan's key objectives are to protect employment and income levels of the population, to ensure food security, and to protect key investments and social service programs. The plan includes loss compensation and guarantees for loan restructuring of the affected sectors, guarantees for exporters and SMEs, and expanded fertilizer subsidy program. These measures will ensure continued credit flows to the affected sectors, providing valuable protection to rural livelihoods.

19. Clear operational guidelines, including conditions of access and procedures for evaluation to ascertain eligibility and penalty in case of misreporting, have been put in place. The guidelines also specify the division of roles between various institutions involved in the execution of the plan. This operational transparency is intended to ensure the effectiveness of the rescue package, as well as the sound management of risks to public finances. The Government is aware of the potential fiscal risks associated with contingent liabilities that may result from the implementation of credit guarantee schemes.

Fiscal and monetary policies

20. The 2009/10 budget estimates domestic revenue as a percent of GDP of 16.7 percent, while expenditure is estimated to be 28.3 percent. The budget incorporates various revenue measures aiming at enhancing revenue collections through expansion of tax base and strengthening tax administration. These measures include revisions of tax rates, for example, the reduction of the VAT rate from 20 percent to 18 percent, fees and other charges under different revenue laws with a view to creating conducive business environment and simplifying tax administration. Expenditure policy is focused on, among others, mitigating the adverse impact of the financial crisis through implementation of the economic rescue plan while protecting all key priorities in the budget.

21. In light of the uncertainty surrounding the pace of the recovery of the economy as well as foreign financing flows and the time needed to fully implement a number of the measures included in the budget to enhance tax compliance, the budget resource envelope will be reevaluated at mid-year. In the event that resources fall short of budgeted amounts, expenditure savings will be identified.

22. The Government has continued to implement the Public Financial Management Reform Programme III with broad objective of improving expenditure control and thus ensuring efficiency, transparency and accountability in the spending public financial resources. Budgetary arrears which include the sum of all verified bills that have been received by the central government spending unit or line ministry, and for which payment has not been made within 30 days during the current fiscal year on wages, domestic interest and goods and services have been paid in the first quarter of fiscal year 2009/2010 and thus generally there are no outstanding budgetary arrears. All the commitments of the previous years have been cleared because the Government set aside funds in fiscal year 2009/2010 for settling these outstanding bills including infrastructure unpaid certificates and teachers salary arrears. However, regarding any outstanding commitments of previous years which have not

been received from spending units on ground of being audited by the Controller and Auditor General and also verified by other government machinery before instruction for payment is made; the MOFEA will pay promptly upon receiving such claims from ministries during the fiscal year 2009/2010. The Government will undertake a bold verification process to ensure the validity of such claims and commit payment in a timely manner once claims have been verified so as to avoid payment delay that could trigger penalties in some contracts. In most cases verification can be completed within 60 days. Further, the Paymaster General issued on September 14, 2009, a circular to all Permanent Secretaries, Independent Agencies, Regions and Local Governments repeating the legal instruction that they are not permitted to sign contracts without adequate funding. In some cases, multi-year contracts need to be signed. In line with Government policies to prioritize infrastructure expenditure, a significant expansion in road projects is envisaged, including many projects designed to support the development of an EAC wide transport network. The current year budget contains the funding needed to cover the anticipated expenditures during FY 2009/10, but additional financing, possibly through the floatation of an infrastructure bond, will be needed as these projects progress.

23. To create fiscal space for countercyclical fiscal policy, a net domestic borrowing of TSh 506 billion in 2009/10, equivalent to 1.6 percent of GDP is envisaged,. Of this amount TSh 300 billion is planned to be provided by the central bank, using the exceptional circumstances provision in the Bank of Tanzania Act. The first tranche of TSh 150 billion was provided in July, and the second tranche of TSh 150 billion will be considered in December depending on the liquidity condition in financial markets and whether exceptional circumstances still apply—the Bank of Tanzania Board approved a set of procedures for the granting of waivers of the BoT Act due to exceptional circumstances which became effective in May 2009.

24. The pressure on headline inflation will remain dominated by food subgroup with major threats coming from the fragility of food supply in the neighboring countries, as well as the uneven weather distribution within the country. The Government's efforts to ensure adequate food supply in the country, which is part of the rescue plan, are expected to contain inflationary pressures.

25. The Bank of Tanzania is targeting the growth of money supply M2 and M3 at around 21 percent for the year ending June 2010 which will be consistent with adequate supply of credit to the economy. The Bank of Tanzania is aware of the potential risk posed by high liquidity to inflation, and therefore it will remain vigilant—closely monitoring credit growth, and early signs of a possible uptick in non-food inflation or exchange rate pressure—and take appropriate policy measures to contain inflationary pressures that may emerge.

Financial sector stability

26. The second round of the impact of the global financial crisis had a limited impact on the financial stability indicators. All indicators of financial sector stability have remained strong, although nonperforming loans have risen modestly and some banks face significant exposure to large borrowers. The Government is aware of the downside risks of the crisis on the economy and is closely monitoring developments in the financial sector with a view to taking timely measures. The Bank of Tanzania continues to monitor the financial system

closely through regular supervision of the banking system and daily monitoring of selected indicators of financial sector performance with a view to spotting signs of weakness and dealing with them in a timely manner. The Bank of Tanzania has established a dedicated Financial Stability Unit that produces regular Financial Stability Reports.

27. Regarding capital account liberalization, the tentative plan for timing and sequencing of the liberalization process, which was completed in February 2009, was adopted by the Bank of Tanzania management and forwarded to the Ministry of Finance and Economic Affairs in August 2009 for further action. It is anticipated that, in line with the harmonization objectives of the EAC, the gradual liberalization of Tanzania's capital account transactions could begin in the coming year.

28. The review of the Bank of Tanzania's functions with the objective of refocusing its mission to its core activities has been completed and a strategy has been prepared and incorporated into the Bank's Corporate Plan in May 2009. As a first step, the EPA account has been closed and the decision to dissolve Mwananchi Gold Company has been made with legal steps under way. A consultant—M/s Lazard Frères—has been contracted to undertake reconciliation of the external debt under EPA. The exercise started in May 2009 and is expected to be completed after nine months. Options to hosting credit guarantee schemes are being explored.

29. Investment guidelines for pension funds, which incorporate views from stakeholders, have been drafted and will be operational, once the independent pension regulator is appointed. A budget allocation for the pension regulator has been provided and new actuarial reviews of each of the pension funds are underway.

30. Tanzania's financial sector is undergoing a comprehensive update under the joint World Bank-IMF Financial Sector Assessment Program (FSAP). The FSAP update mission found substantial progress in the development and stability of the financial sector and liquidity management and commended a number of ongoing initiatives, notably in the areas of capital account liberalization, payments systems, and access to financial services. Stress tests performed by the FSAP team found the banking system to be generally well capitalized and sound, even though there was a modest increase in non-performing loans in the wake of the global financial crisis. It is anticipated that the final report of the FSAP update will be available in time to contribute to the financial sector development strategy of the new MKUKUTA/MKUZA, which is expected to be approved in early 2010.

Statistical issues

31. The National Bureau of Statistics (NBS) has produced quarterly GDP series for the period from 2001 to the first quarter of 2009 and circulated to stakeholders for comments in August 2009. The dissemination of the final series is expected in October 2009. Finalization of the rebasing of the consumer price index is expected before the end of 2009/10.

32. The Bank of Tanzania, in collaboration with the Tanzanian Investment Center (TIC) and the NBS, continues with surveys that began in 1999 to monitor private capital flows, including foreign direct investment. The 2007 report which covers information up to 2006

will be updated to include new information from the survey that was conducted from May–September 2009. After the update, a new report (Investment Report 2009) will be prepared to include information up to 2008 and will be presented for consideration of the chief executive officers of the participating institutions before December 2009.

III. PROGRAMME MONITORING

33. Quantitative assessment criteria and performance criteria for end-December 2009 and quantitative indicative targets for end-March 2010 will monitor programme implementation under the PSI and ESF arrangement in 2009–10 (see Table 1). The Government and IMF staff also agreed on the structural benchmarks listed in Table 2. The second review under the ESF arrangement will take place at the same time as the seventh and the final PSI review.

Table 1. Tanzania: Quantitative Assessment/Performance Criteria and Indicative Targets Under the Policy Support Instrument and the Exogenous Shocks Facility, June 2009 - March 2010

	2009							2010	
	June			September		December		March	
	Assessment/ Performance Criteria		Actual	Indicative Targets	Prel.	Assessment/ Performance Criteria		Proposed Indicative Targets	
	Program	Adjusted				Current	Proposed	Current	Proposed
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)								
Net domestic financing of the government of Tanzania (cumulative, ceiling) 1/ 2/	325	333	214	279	-211	95	95	168	168
Accumulation of budgetary arrears (ceiling; indicative target only)	0	0	0	0	…	0	0	0	0
Average reserve money (upper bound) 3/	2,674	2,674	2,602	2,862	2,846	3,009	3,009	3,089	3,089
Average reserve money target 3/	2,648	…	…	2,833		2,979	2,979	3,058	3,058
Average reserve money (lower bound) 3/	2,622	…	…	2,805		2,949	2,949	3,027	3,028
Net international reserves of the Bank of Tanzania (floor) 4/	2,310	2,304	2,661	2,234	3,292	2,399	2,648	2,478	2,726
Accumulation of external payments arrears (ceiling) 5/	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
Memorandum item:									
Foreign program assistance (cumulative grants and loans) 1/	1,109	…	1,103	315	680	818	818	1,139	1,139

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 November 13, 2009.

1/ Cumulative from the beginning of the fiscal year (July 1).
2/ To be adjusted upward by up to TSh 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. 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 TSh 250 billion.
5/ Continuous PC; excludes debt-service payment arrears pending debt- rescheduling agreements. A temporary nonobservance in October 2009 was resolved on Nov. 2.

Table 2. Tanzania: PSI/ESF Structural Benchmarks for 2009/10

Measure	Target Date of Implementation	Status
Financial Sector		
Adopt a strategy for refocusing the Bank of Tanzania (BoT) on its core activities.	End-May 2009	In progress. A new corporate plan has been approved that provides for a refocusing of the BoT. A time-bound action plan is expected by end-December. In meantime, BoT has proceeded to implement key components of the refocusing (MEFP ¶28).
Issue investment guidelines for pension funds prepared by the BoT.	End-June 2009	Delayed—Issuance awaits appointment of regulator. New actuarial studies of each of the pension funds are underway.
Prepare an updated financial stability report for the BOT Board, including assessments of risk-based prudential supervision.	End-December 2009	On track.
Fiscal		
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous	Met.
Prepare a list of outstanding government guarantees and contingent liabilities, including debts held by parastatals.	End-September 2009	Met.
Prepare a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* for the budget for 2010/11.	End-April 2010	On track.

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

November 13, 2009

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 PSI assessment/ESF performance criteria and indicative targets under Tanzania's program supported by the PSI and ESF arrangement. 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 (5^{th} 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 promissory 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 promissory 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 PSI assessment/ESF performance criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)), but also to commitments contracted or guaranteed for which value has not been received.

Budgetary arrears

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 2009/10, the end-of-period program exchange rates are set at T Sh 1306 per U.S. dollar, T Sh 1312 per U.S. dollar, T Sh 1319 per U.S. dollar, and T Sh 1325 per U.S. dollar for quarters I–IV, respectively. For 2009/10, the period average program exchange rates are T Sh 1303 per U.S. dollar, T Sh 1309 per U.S. dollar, T Sh 1316 per U.S. dollar, and T Sh 1322 per U.S. dollar for quarters I–IV, respectively. For 2009/10 as a whole, the program average exchange rate is set at T Sh 1312 per U.S. dollar.

III. ADJUSTERS

Net international reserves

12. The end-December 2009 and end-March 2010 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 2009/10, relative to projections shown in the Quantitative PSI Assessment/ESF Performance Criteria and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

Net domestic financing

13. The end-December 2009 and end-March 2010 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 corresponding program annual average exchange rates, relative to projections shown in the Quantitative PSI Assessment/ESF Performance Criteria and Indicative Targets Table

attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

IV. Data Reporting Requirements

14. 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	BoT and MoFEA	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
arrears; (iv) stock of external 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

APPENDIX II: RELATIONS WITH THE FUND
(As of October 31, 2009)

I. Membership Status: Joined: September 10, 1962; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	198.90	100.00
Fund holdings of currency	188.90	94.97
Reserve Tranche Position	10.00	5.03
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	190.51	100.00
Holdings	159.18	83.55

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	159.12	80.00
PRGF Arrangements	11.20	5.63

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	May 29, 2009	May 28, 2010	218.79	159.12
PRGF	Aug 16, 2003	Feb 26, 2007	19.60	19.60
PRGF	Apr 04, 2000	Aug 15, 2003	135.00	135.00

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal		0.28	1.40	1.96	2.24
Charges/Interest	0.45	0.95	0.95	0.94	0.93
Total	0.45	1.23	2.35	2.90	3.17

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Apr 2000
Assistance committed	

by all creditors (US$ Million) [1/]	2,026.00
Of which: IMF assistance (US$ million)	119.80
(SDR equivalent in millions)	88.95
Completion point date	Nov 2001

II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	88.95
Interim assistance	26.68
Completion point balance	62.27
Additional disbursement of interest income [2/]	7.45
Total disbursements	96.40

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	234.03
Financed by: MDRI Trust	207.00
Remaining HIPC resources	27.03

II. Debt Relief by Facility (SDR Million)

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

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

An updated safeguards assessment of the Bank of Tanzania (BoT) was undertaken in August 2009. The BoT's audit and financial reporting continue to adhere to international standards, the Audit Committee had been reconstituted and a Risk Management Directorate established within the new organizational structure. Next steps include conducting a bank-wide risk assessment, further strengthening of internal audit, and finalization of a framework that governs the extension of credit to government, including through a clarification of the statutory limits.

X. Exchange Arrangements:

The currency of Tanzania is the Tanzania shilling. Under the revised classification methodology, Tanzania has a floating exchange rate arrangement. 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 1,321 per U.S. dollar as of end-October, 2009. 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 8, 2009 (Country Report No. 09/179).

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/428
FOR IMMEDIATE RELEASE
November 24, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under the Policy Support Instrument, First Review Under the Exogenous Shock Facility for Tanzania

The Executive Board of the International Monetary Fund (IMF) has completed the sixth review under a three-year Policy Support Instrument (PSI) for the United Republic of Tanzania and the first review under the Exogenous Shock Facility (ESF). The completion of the ESF review makes available a disbursement of SDR 39.78 million (US$63.40 million). The Executive Board's decision was taken on a lapse of time basis.[1]

After several years of high growth and strong macroeconomic performance, the Tanzanian economy is affected by the global economic crisis, which is compounding challenges in food security, poverty alleviation, and building infrastructure. Growth is expected to slow to a projected 5 percent in 2009, from 7.1 percent on average in the last three years. However, all assessment/performance criteria for end-June were met for the PSI/ESF review, and there has been good progress in implementing structural reforms. The authorities' forward-looking policy framework incorporates additional fiscal and monetary stimulus to support growth and there are early signs of a nascent recovery. Nevertheless, fiscal revenues remain weak and it will be important to preserve control over expenditures particularly given the need to respond to the drought in the region and address infrastructure weaknesses.

The Executive Board approved a one-year arrangement under the high access component of the ESF in the amount of SDR 218.79 million on May 29, 2009 (see Press Release No. 09/190). The PSI was originally approved on February 16, 2007 (see. Press Release No. 07/26), and has been extended through end-May 2010.

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. The ESF is designed to provide policy support and financial assistance to low-income countries facing exogenous but temporary shocks.

Tanzania, which became a member of the IMF on September 10, 1962, has a Fund quota of SDR 198.90 million.

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[1] The Executive Board takes decisions under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.