INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/13

UNITED REPUBLIC OF TANZANIA

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT

January 2017

In the context of the Fifth Review Under the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 28, 2016, with the officials of the United Republic of Tanzania on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument. Based on information available at the time of these discussions, the staff report was completed on December 21, 2016.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Tanzania*
Memorandum of Economic and Financial Policies by the authorities of Tanzania*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/03
FOR IMMEDIATE RELEASE
January 9, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Fifth Review Under the Policy Support Instrument for Tanzania

On January 9, 2017, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Tanzania's economic performance under the program supported by a three-year Policy Support Instrument (PSI).[1] The Board's decision was taken on a lapse of time basis.[2]

In completing the review, the Board also granted waivers for the non-observance of the end-June 2016 assessment criteria on the overall fiscal deficit and the non-accumulation of domestic expenditure arrears on the grounds that the slippages were minor. The PSI for Tanzania was approved by the Board on July 16, 2014 (see Press Release No. 14/350).

Tanzania's macroeconomic performance remains strong. Economic growth was robust during the first half of 2016 and is projected to remain at about 7 percent this fiscal year. Inflation came down below the authorities' target of 5 percent and is expected to remain close to the target, while the external current account deficit was revised down on account of lower imports of capital goods. Nevertheless, there are risks that could adversely affect economic growth going forward, arising from the currently tight stance of macroeconomic policies, the slow pace of credit growth that may become protracted, slow implementation of public investment, and private sector uncertainty about the government's new economic strategies.

---

[1] The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm). Details on Tanzania's PSI program are available at www.imf.org/tanzania.

[2] The Executive Board takes decisions without a meeting when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Program performance was broadly satisfactory and most assessment criteria for June 2016 and all indicative targets for September 2016 were met. While progress in structural reforms identified under the program has been generally slow, the authorities have recently stepped up efforts to advance them. These include measures taken to strengthen public financial and debt management, modernize the monetary policy framework, and improve monitoring of parastatal enterprises. The authorities have committed to further reforms in these areas.

The current tight macroeconomic conditions should be addressed by loosening the short-term policy stance, in line with program targets. After recording a small fiscal surplus in July-September, the government is committed to stepping up budget implementation, particularly in public investment, including by mobilizing external financing. Monetary policy should be eased to address the tight liquidity situation and support credit to the private sector. The Bank of Tanzania's steps in this regard are appropriate, but will need to be fine-tuned when the planned fiscal spending materializes. The increase in international reserves recorded since the beginning of the fiscal year is a welcome step to gradually rebuild buffers.

The authorities are implementing an ambitious development and reform agenda over the medium term, as described in their recently-released second Five-Year Development Plan. The strong drive against corruption and tax evasion has led to higher fiscal revenues, which, if sustained, will provide a good foundation for the envisaged scaling up of infrastructure investment, starting with the 2016/17 budget. The Plan also envisages a significant structural transformation of the economy by nurturing human development. Full involvement of all stakeholders in policy design and implementation—including importantly the private sector—will be crucial.

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

December 21, 2016

KEY ISSUES

Tanzania's macroeconomic performance remains strong. Economic growth was strong during the first half of 2016 and is projected to remain at about 7 percent this fiscal year. Inflation came down below the authorities' target of 5 percent and is expected to remain close to the target. There are downside risks to economic growth, however, stemming from the currently tight stance of macroeconomic policies, the slow pace of implementation of public investment, and private sector uncertainty about the government's new economic strategies.

Program performance under the PSI was broadly satisfactory. Most assessment criteria for June 2016 and all indicative targets for September were met. While progress in structural reforms identified under the program has been generally slow, the authorities have recently stepped up efforts to advance them.

The authorities are implementing an ambitious development and reform agenda. They continue to push their strong drive against corruption and tax evasion, leading to higher fiscal revenues. The government has started implementing the second Five-Year Development Plan, which envisages a significant structural transformation of the economy by addressing the infrastructure gap and nurturing human development. The Plan started being implemented with the 2016/17 budget, which includes a large increase in capital spending and targets an overall fiscal deficit of 4.5 percent of GDP.

The short-term policy stance will need to be loosened somewhat in line with program targets. After recording a small fiscal surplus in July-September, the government is committed to step up budget implementation, particularly in public investment, including by mobilizing external financing. Monetary policy should be loosened to address the tight liquidity situation and support credit to the private sector.

Staff recommends completion of the fifth review under the PSI.

Approved By
Roger Nord (AFR) and Daria Zakharova (SPR)

A staff team consisting of Messrs. Villafuerte (head), Jang, Raman (all AFR), Tapsoba (FAD), and Iizuka (SPR) visited Dodoma and Dar es Salaam during October 18–28, 2016. Messrs. Mukhopadhyay (Resident Representative) and Rutachururwa, and Ms. Shayo (local economists) assisted the mission. Mr. Nord (AFR) joined the mission at its conclusion and Mr. Odonye (OED) participated in the discussions. The mission met with Minister of Finance and Planning Mpango; Bank of Tanzania Governor Ndulu; Permanent Secretary of the Treasury James; other senior officials; members of Parliament; development partners; and representatives of the private sector and civil society.

CONTENTS

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE 4

POLICY DISCUSSIONS 6

A. Economic Development Plan and Poverty Reduction 6
B. Economic Outlook and Risks 7
C. Fiscal Policy 8
D. Monetary and Financial Sector Policies 10
E. Other Reforms 12

PROGRAM MONITORING 13

STAFF APPRAISAL 13

FIGURES
1. Real Sector and External Developments 15
2. Fiscal Developments 16
3. Monetary and Inflation Developments 17

TABLES
1. Selected Economic and Financial Indicators, 2014/15–2019/20 18
2a. Central Government Operations, 2014/15–2019/20 19
2b. Central Government Operations, 2014/15–2019/20 (Percent of GDP) 20
3. Monetary Accounts, 2014–2017 21
4. Balance of Payments, 2014/15–2019/20 22
5. Financial Soundness Indicators, 2012–2016 23
6. Millennium Development Goals 24

APPENDIX

Letter of Intent ____ 25
Attachment I. Memorandum of Economic and Financial Policies _______________ 26
Attachment II. Technical Memorandum of Understanding_____________________ 39

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **The new administration is implementing an ambitious development and reform agenda.** Since assuming office in November 2015, President Magufuli has continued to push his signature anti-corruption drive, and unveiled ambitious plans to scale up public investment and foster the country's structural transformation. The government has strengthened controls to rein in unproductive spending and has taken a more centralized and deliberate approach to decision-making which has slowed down the implementation of the government's agenda.

2. **Macroeconomic performance has remained strong.** Real GDP expanded by 6.7 percent in the first half of 2016, driven by mining, transport, communications and financial services. Headline inflation declined to 4.5 percent in October 2016, below the authorities' target of 5 percent. The external current account deficit is estimated to have declined substantially in 2015/16, relative to 2014/15 and the last staff report's projection, to 5.6 percent of GDP, mainly owing to lower capital goods imports. Gross international reserves stood at US$4.1 billion in September (3.5 months of prospective imports). The Tanzanian shilling has been stable against the U.S. dollar in 2016.

3. **Program implementation has been broadly satisfactory, particularly in terms of macroeconomic policy management.** Most quantitative assessment criteria (ACs) for end-June 2016 were met,[1] but the criteria on the overall fiscal deficit and the accumulation of domestic expenditure arrears were missed by small margins (0.2 percent of GDP and 0.1 percent of GDP, respectively). Staff supports waivers for the non-observance of the missed ACs on the grounds that the slippages were minor. All indicative targets for end-September 2016 were met.

4. **However, progress with structural reforms has been limited.** While 4 out of 5 structural benchmarks (SBs) for the fifth PSI review were not met, the authorities have taken a number of intermediate steps and are expected to implement some specific actions by end-2016. For instance, banks' net open foreign exchange (FX) position limit was raised (¶7) and the study on FX swaps is expected to be completed by end-December. In addition, there was progress on previously-missed benchmarks. Banks' statutory minimum reserve and clearing accounts were unified in June, partial reserve averaging will be implemented in January, and amendments to the Government Loans, Guarantees and Grants Act (GLGGA) were submitted to Parliament in

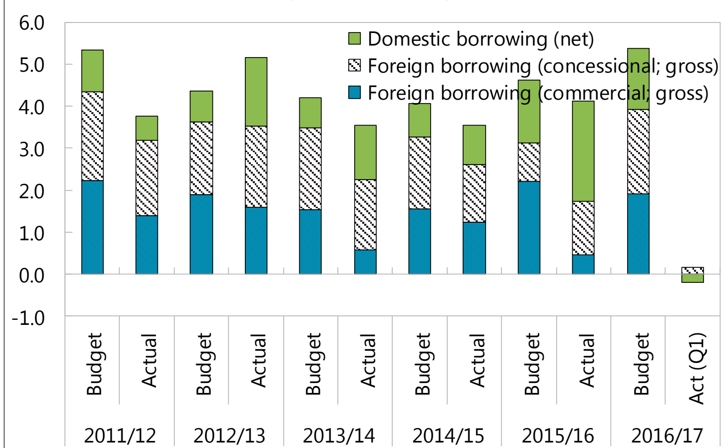
[1] With regard to the claims made by two private external creditors, the government has settled one claim which was upheld by courts in the U.K., while the status of the claim by Wallis Trading arising from government guarantees provided to Air Tanzania Company Limited (ATCL) remains unchanged since the 3rd PSI review. The audit of ATCL, which will help determine the validity of the claim on ATCL, was not completed at the time of discussions with staff. The authorities have not yet made a final determination on the validity of a loan contracted from Belgium in the early 2000s. These disputed claims are not considered to give rise to external arrears for program purposes at this time. Tanzania owes pre-HIPC Initiative arrears to non-Paris Club creditors which continue to be deemed away under the revised policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative and the authorities have made best efforts to resolve the arrears.

November. To avoid incurrence of new domestic payment arrears, the authorities have also enhanced commitment controls (¶17).

5. The 2015/16 budgetary outcomes were marked by external financial shortfalls and a continuous decline in grants (Table 2). The overall cash fiscal deficit was 3.5 percent of GDP in 2015/16, slightly above the 3.3 percent of GDP deficit recorded in 2014/15 and targeted under the program, mainly reflecting an overrun in goods and services and a shortfall in nontax revenue collection from parastatals. Tax revenue increased substantially in 2015/16, broadly in line with program expectations. External financing shortfalls, however, required adjustments in development expenditure (0.6 percent of GDP lower than programmed). Financing shortfalls coupled with weak commitment controls led to a slight increase in the stock of domestic payment arrears (0.1 percent of GDP) despite efforts to settle sizable amounts owed to construction companies.

6. Budget execution in early 2016/17 has been slower than expected, largely on account of ongoing external financing shortfalls. The 2016/17 budget and the program envisage large increases in capital spending and revenue, and an overall fiscal deficit of 4.6 percent of GDP. Budget execution in the first quarter (July-September) was slower than expected, resulting in a surplus of 0.3 percent of GDP. Tax revenue was broadly in line with the program, but nontax revenue collections, particularly from parastatals, were lower than programmed. Spending, particularly capital spending, was low due to external financing shortfalls and delays in spending authorizations.

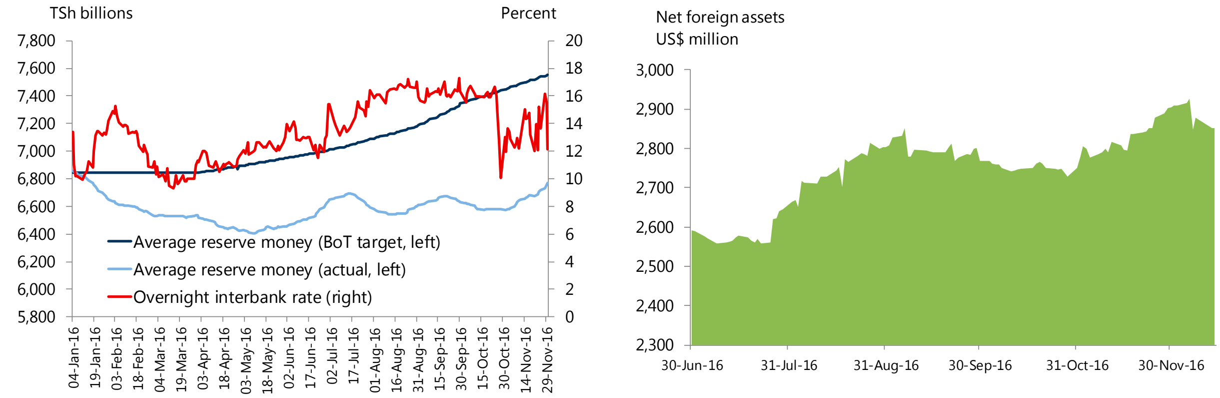
Text Figure 1. Tanzania: Budget Financing[1]
(Percent of GDP)



Sources: Tanzanian authorities and IMF staff estimaes.
[1] Excludes arrears financing and gas pipeline financing.

7. Monetary policy has been tighter-than-programmed since early 2016. Annual growth in average reserve money (ARM), the Bank of Tanzania's (BoT) operational target, has consistently undershot targets throughout the year, due to lower liquidity injections from fiscal operations (text figure). As a consequence, interbank rates were elevated and both M3 and private sector credit growth have continued slowing to 2.5 percent (year-on-year) and 10.3 percent respectively at end-October (Figure 3). In response to the tight liquidity conditions, the BoT has stepped up liquidity injections, primarily through reverse repos, FX purchases, and FX swaps with commercial banks. As a result, interbank rates stabilized and even declined somewhat from end-October, while foreign assets held by the BoT have increased despite shortfalls in foreign financing (text figure).

Text Figure 2. Tanzania: Reserve Money, Interbank Rates and Net Foreign Assets of the BoT



Source: Bank of Tanzania.

8. **While banks exhibit high capital and liquidity ratios, nonperforming loans (NPLs) have risen.** The banking sector is well-capitalized, liquid, and profitable on average (Table 5). However, NPLs rose from 6.7 to 8.7 percent of total loans in the year up to June 2016, reflecting large increases in NPLs to the manufacturing and real estate sectors, though the stock is largest in the agriculture sector. The BoT put a small state-owned bank, Twiga Bancorp, under administration at the end of October for not meeting capital standards. Options for resolving the bank are still being formulated.[2] The net open position (NOP) limit on FX for commercial banks was restored to its previous level of 7.5 percent of core capital effective September 1, 2016, having been lowered to 5.5 percent in May 2015. This should give banks greater flexibility to manage their FX exposure and improve liquidity in the FX market.

POLICY DISCUSSIONS

A. Economic Development Plan and Poverty Reduction

9. **Performance under the Second National Strategy for Growth and Reduction of Poverty (2010–15) and the first Five-Year Development Plan (2011/12–15/16) was broadly positive.**[3] Growth was strong averaging almost 7 percent over the period, driven by construction and services. Despite substantial progress toward the Millennium Development Goals (MDGs), however, Tanzania is likely to have missed about half the 2015 targets (Table 6). The poverty rate, even as it declined, remained high at 28.2 percent of the population (based on the national poverty line) with a large population of underemployed youth. Access to education and health indicators

[2] FBME Bank, which is headquartered in Tanzania but with 90 percent of its operations in Cyprus, was named as being of primary money laundering concern by the U.S. authorities in July 2014. Since the legal process involving the shareholders and the U.S. authorities has not yet been resolved, FBME continues to operate under the BoT's close supervision. In addition to challenges to the U.S. ruling, its shareholders are contesting actions taken by the Central Bank of Cyprus to wind up its operations there.

[3] Tanzania's poverty reduction strategy and development plan were merged into one document in the current FYDP.

improved overall, although there were only modest gains in some indicators such as maternal mortality.

10. Tanzania's second Five-Year Development Plan, 2016/17–2020/21 (FYDP II) provides the road map to middle-income status envisioned in the Tanzania Development Vision 2025. The theme of FYDP II is "Nurturing Industrialization for Economic Transformation and Human Development." The industrialization strategy relies on Tanzania's comparative advantages, particularly its agricultural and mining potential, large labor force, and geographic location making it a natural trading and logistics hub for East Africa. To facilitate private sector-led growth, the government aims to address the infrastructure gap, which remains large in Tanzania, and create a business environment that is conducive to job creation. The government also aims to reduce poverty by improving social services, enhancing income security, and promoting social protection. In light of large investment needs, the government plans to mobilize domestic revenue and utilize public-private partnerships (PPPs) for large infrastructure projects to limit government borrowing. Staff is of the view that FYDP II is broadly in line with the government's vision of transforming the economy to sustain high growth and poverty reduction. (MEFP ¶8)

11. The authorities are continuing to update a macroeconomic framework for the implementation of FYDP II, together with ongoing costing and feasibility studies of key projects. In this context, it was agreed that the medium-term baseline scenario presented in the last staff report continues to be relevant under the PSI-supported arrangement. The baseline scenario assumes a public investment scaling up, with the overall fiscal deficit increasing to about 4.5 percent of GDP over the medium term, before converging back to slightly below 3 percent of GDP in line with regional commitments towards the East African Monetary Union. That scenario allows Tanzania to maintain its low risk of debt distress rating as indicated in the most recent Debt Sustainability Analysis (DSA).[4]

B. Economic Outlook and Risks

12. The macroeconomic outlook is favorable. Growth is expected to remain at about 7 percent in 2016/17, supported by continued strong growth in services and scaling-up of public investment.[5] Inflation is expected to remain close to the authorities' target of 5 percent, provided that the BoT maintains the monetary policy stance in the program. The external current account deficit is projected to increase to 7½ percent of GDP as the implementation of FYDP II will lead to higher capital spending and imports. Nevertheless, with larger projected inflows of project loans and external nonconcessional borrowing (ENCB), gross international reserves are expected to rise to US$4.6 billion (3.8 months of prospective imports of goods and services)

---

[4] See Tanzania—Staff Report on the 2016 Article IV Consultation and Fourth Review Under the Policy Support Instrument (EBS/16/63).

[5] While private sector credit growth is expected to slow in 2016/17, the weak macrofinancial linkages suggest the impact on GDP growth would be muted. See Tanzania: Selected Issues Paper—Macrofinancial Issues (SM/16/207).

Text Table. Tanzania: Selected Economic Indicators

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Real GDP growth (%)	7.0	7.0	6.9	7.0	6.9	6.7	6.5
Inflation (yoy, %, end-period)	6.1	5.5	5.0	5.0	5.0	5.0	5.0
Overall fiscal balance (cash basis, % of GDP)	-3.3	-3.5	-4.6	-4.6	-4.5	-4.5	-3.7
Government capital spending (% of GDP)	4.4	4.5	9.7	8.8	8.7	8.9	8.1
External current account balance (% of GDP)	-9.8	-5.6	-7.5	-7.5	-7.4	-7.4	-6.8
Gross international reserves							
(months of next year's imports)	4.5	3.5	3.8	3.9	4.1	4.2	4.3

Sources: Tanzanian authorities and IMF staff projections.

13. Immediate risks to the program and the outlook are mainly related to fiscal policy implementation. These include (i) weaker economic activity and tight liquidity conditions with a sluggish budget execution linked to external financing shortfalls; and (ii) further accumulation of domestic arrears if financing for the public investment program does not materialize and commitment controls are not enforced. Additionally, a prolonged slowdown in private sector credit growth could impact economic activity. Also, adverse effects due to a slowdown in Europe or China, which are major trade and investment partners, or further global financial market turbulence remain concerns. Discussions centered on mitigating those risks and adjusting policies to sustain strong economic growth, taking into account Tanzania's not fully-liberalized capital account.

C. Fiscal Policy

14. The 2016/17 budget envisages a scaling-up of capital spending and targets a deficit of 4.6 percent of GDP. Capital expenditures are budgeted to more than double to about 11 percent of GDP, accommodated by restraint on recurrent spending, higher revenues, and a larger deficit financed by higher project financing and ENCB. In line with program targets, the government remains committed to delay the start of two large public investment projects (amounting to more than 1 percent of GDP) until revenue outcomes are assessed in the second half of 2016/17. (MEFP ¶17)

15. Implementation of the 2016/17 budget faces challenges, mainly due to external financing shortfalls. The government recorded a fiscal surplus of 0.3 percent of GDP in July-September, compared to a programmed (and historical average) deficit of about 1 percent of GDP. Tax revenue during the first quarter slightly exceeded program expectations, though below the authorities' more ambitious target. Nontax revenue underperformed, mostly on account of shortfalls in contributions from parastatals. The authorities remain confident that the budgeted nontax revenue will materialize, as the shortfalls are mainly due to the need for parastatals to wait for the past retained earnings placed in government securities and term deposits to mature before transferring the agreed amounts to the government. Efforts to rein in unproductive spending resulted in lower-than-envisaged spending on goods and services and transfers, while capital projects implementation was slower than expected due to shortfalls in external financing. The authorities expect the pace of capital spending to pick up in the remainder of the fiscal year. As the programmed revenue is expected to materialize and the authorities are making efforts to mobilize external financing, changes to the programmed targets are not proposed at this juncture. The mid-year budget review in early 2017 will provide an opportunity to assess whether the revenue, spending, and financing plans for the remainder of the year remain in line with the targeted fiscal deficit of 4.6 percent of GDP. (MEFP ¶16–17)

16. External financing plans need to be firmed up soon to facilitate budget implementation. Grants and net external financing disbursements during the first quarter fell short of program expectations by about 0.3 and 0.8 percent of GDP, respectively. The authorities have stepped up contacts with development partners to speed up the disbursement of project and budget support financing. They plan to raise about US$900 million in ENCB to finance the budget through syndicated loans with international banks and the issuance of a Eurobond in the last quarter of this fiscal year. To that effect, the authorities are engaged in discussing a contract with rating agencies to obtain a sovereign rating. Staff discussed with the authorities the pros and cons of various financing options and associated risks. Given considerable uncertainty on the outlook of external financing, staff stressed the importance of aligning expenditure commitments with available resources to prevent arrears accumulation.

17. Arrears prevention requires sustained reforms in public financial management (PFM). The accumulation of new arrears more than offsetting the settlement of old ones in 2015/16 suggests difficulties in expenditure control and cash management. To address this, the authorities launched a public awareness campaign by announcing in the 2016/17 budget speech that only payment orders to suppliers that are generated through the IFMS will be honored (structural benchmark). A Treasury circular was also issued to that effect in July 2016. Staff welcomed the authorities' efforts to strengthen commitment controls through IFMS and to enforce the Budget Act and associated circulars and regulations, including the sanctions applicable to accounting officers breaching those provisions. In addition to realistic budgeting, further efforts are needed to improve the forecasting of cash flows and align commitments with available resources to prevent the recurrence of arrears.

18. Public investment and debt management need to be strengthened. Staff welcomes the authorities' plans to improve the efficiency of public investment, including through better budgeting to ensure rigorous feasibility studies and timely delivery of projects while preventing arrears incurrence. The authorities' commitment to improve the transparency and availability of PPP-related information, together with the decision to strengthen the public-private partnership (PPP) facilitation fund are also encouraging. However, in light of the envisaged scale-up of PPP projects aimed at reducing government borrowing, staff stressed their potential fiscal risks,[6] urging the authorities to finalize the ongoing amendment of the PPP Act aimed at moving the PPP Centre back from the Prime Minister's office to the Ministry of Finance and Planning. The authorities

[6] Four projects considered to be implemented under PPPs are currently at the feasibility study stages with no information yet on their size: Dar–Chalinze toll road, Phase I of the extension of the Dar es Salaam Rapid Transit, Kinyerezi III gas fired electricity generation plant, and manufacturing of pharmaceuticals and medical supplies.

submitted amendments to the Government Loans, Guarantees and Grants Act (GLGGA) to Parliament in November (previously-missed structural benchmark), and continues to engage with staff to strengthen the Act ahead of its final two readings in February 2017. However, the approval of the National Debt Management Policy (NDMP), which was a part of the same structural benchmark, is no longer being pursued. This was done to align Tanzania's debt management practices with those of other EAC members, who do not have such a document in place. Instead, the authorities intend to incorporate the operational elements of the NDMP in other documents, including the revised GLGGA and its associated regulations, and the Medium-term Debt Management Strategy. (MEFP ¶23, 26–27)

19. Arrears to pension funds will be cleared by February 2017. The ongoing verification of arrears to the PSPF and other pension funds as well as Cabinet approval of a strategy for settlement of the arrears is expected to be completed by end-2016. The verification so far resulted in a substantial decline in the stock of arrears to the PSPF by 0.6 percent of GDP to 2.1 percent of GDP. The government plans to issue non-cash bonds to settle the verified stocks of arrears by mid-February 2017. The program allows for these operations through an adjustor to the overall fiscal deficit. The authorities are also working in cooperation with the World Bank and the International Labor Organization on parametric reform options, aimed at ensuring the long-term sustainability of the pension funds. The options include the harmonization of pension formula across the funds and the merging of some of the funds. (MEFP ¶21)

20. The 2017/18 budget guidelines envisage a deficit of about 4 percent of GDP. The revenue and expenditure targets are about 1 percent of GDP higher than envisaged under the PSI. The staff and the authorities have not had an opportunity to discuss the specific measures underlying the revenue estimates. The guidelines indicate that to have realistic budgets, these preliminary revenue and expenditure estimates will be revisited to incorporate assessment of the mid-year budget review in early 2017, recommendations of the Task Force on Tax Reforms, and development partners' latest commitments.

21. The authorities continue to work on enhancing fiscal transparency and public sector monitoring. Staff supported the authorities' continued efforts to better monitor and manage parastatals and looked forward for the publication of a first quarterly report on major parastatals' revenues, expenditures, and profits/losses, albeit with a delay (structural benchmark).
The publication of the recent Fiscal Transparency Evaluation would also be welcome. (MEFP ¶28)

D. Monetary and Financial Sector Policies

22. Monetary policy implementation is being hampered by a tight fiscal stance in early 2016/17. Under-execution of the budget has resulted in the fiscal sector being a net drain on liquidity, which should be partially reversed when the government executes its borrowing and spending plans as the year unfolds. A key associated challenge for the BoT is to strengthen open market operations to effectively provide the needed liquidity. In this context, the BoT is exploring options to bolster its toolkit, including expanding the range of eligible collateral for its operations and reviewing the design of the reverse repo instrument. Staff agreed that steps taken to inject liquidity were appropriate and reforms to strengthen the monetary toolkit go in the right direction. (MEFP ¶9-10)

23. Addressing market impediments is critical to lowering high real interest rates. Tanzania has had persistently high real interest rates, which reflect a number of macroeconomic and market development issues.[7] There has been improvement in targeting excess reserves of commercial banks, which has reduced the volatility of the overnight interbank interest rate. The next step is to ensure that the interbank rate is consistent with the policy rate when it is introduced, thereby strengthening the monetary transmission mechanism. Improved coordination with fiscal policy, especially cash forecasting of the budget, would also enable the BoT to better tailor its monetary responses to changes in liquidity. Increasing the pool of investors by enlarging the range of eligible collaterals to access the BoT's facilities and windows, and removing barriers to foreign participation in auctions would raise demand and likely lower rates. Finally, the authorities should build on recent improvements in market communication by issuing an auction calendar for the year, including the anticipated size of issues, and implementing it.

24. The BoT announced that it intends to move to an interest rate-based framework in early 2017. Efforts undertaken to stabilize excess reserves and to merge the statutory reserves and clearing accounts of commercial banks are useful first steps, which will be bolstered with the implementation of partial reserve averaging in January. Other aspects of the reform program—integrating a forward-looking analytical and forecasting framework into the monetary policy formulation process, improving the operation of the interbank money market, including by encouraging repo arrangements between banks in line with international best practice, and reforms to ensure the BoT's standing facilities and liquidity windows are transparently and predictably available—need to be accelerated. Such a framework will also require increasingly greater exchange rate flexibility, especially given the intention to further liberalize the capital account (MEFP, ¶12). In this context, the rise in international reserves since the start of the fiscal year is welcome as part of a strategy to gradually rebuild buffers. (MEFP ¶10)

25. The BoT is focused on dealing with rising NPLs and strengthening financial sector supervision. An analysis at the individual bank level suggests that the aggregate NPL numbers mask considerable variation. At the end of 2015, 27 of the 49 banks for which data are available had NPL ratios above the BoT's 5-percent target and this has likely risen since. However, capital levels generally exceed regulatory minimums, including in many banks with high NPLs, providing buffers and giving banks the opportunity to address problems on their own. Still, the BoT has asked banks with NPL ratios exceeding its target to take steps to bring them down gradually and to strengthen their credit standards. The minimum levels of core and total capital will be raised by 2.5 percentage points to 12.5 percent and 14.5 percent, respectively, by August 2017. While there are plans to increase the number of bank examiners, the government's strict expenditure control measures, including a hiring freeze, are posing difficulties to this goal. On advancing macroprudential surveillance, the BoT intends to revitalize the Tanzania Financial Stability Forum

[7] See EBS/16/63 and SM/16/207 for more details.

(TFSF) by ensuring it meets every quarter as set out in its terms of reference. While the TFSF only met twice between 2014 and 2015, this year it already met in September, with the next meeting scheduled for December 2016. (MEFP ¶13)

E. Other Reforms

26. The government's strong drive against corruption is welcome. The anti-corruption drive has resulted in higher fiscal revenues and uncovered fraudulent expenditures. After addressing problems in the revenue authority, customs, and Dar es Salaam port, the government has started purging "ghost workers" from employee rolls in government agencies. A similar review of student loans uncovered "ghost students" fraudulently receiving higher education loans. Staff supported these initiatives and other efforts to strengthen customs and tax administration to deal with corruption and tax evasion, including through electronic fiscal devices. Staff noted that AML/CFT tools could also be used as part of a comprehensive approach to take the authorities' anti-corruption drive forward. (MEFP ¶30)

27. Improving the business environment will require a multi-pronged approach. The FYDP II envisages a series of broad interventions to that effect (¶10) and the government has undertaken some other specific measures in the recent past, including making business registration and licensing more transparent, facilitating land transactions, increasing the coverage of private credit bureaus, and digitizing court procedures and case management in commercial cases at the High Court (MEFP ¶15). Sustained progress will require the full involvement of all stakeholders, including importantly the private sector, in the design of policy initiatives. Indeed, the private sector believes that a lack of timely communication of government strategies is affecting their decision-making process.

28. The government is committed to enhancing the sustainability of electricity provision. The current development plan envisages the construction of more power plants at Kinyerezi to be fueled by natural gas produced onshore. This would allow an expansion of electricity generation, with an increased share of gas-powered generation (about 40 percent currently) and reduced costs to TANESCO. To improve TANESCO's financial position, a tariff increase would be put in place as soon as in January 2017, arrears to energy providers would be settled, and an organizational restructuring would be implemented with support from the World Bank. The restructuring would include measures to enhance revenue collection and reduce system losses. Finally, a mechanism would be introduced to centrally pay government electricity bills to TANESCO through the Ministry of Finance and Planning. (MEFP ¶20)

29. The authorities have recently implemented the Enhanced General Data Dissemination System (e-GDDS) to enhance data dissemination practices. The new National Summary Data Page on the National Bureau of Statistics' website provides users with easy access to macroeconomic and financial data as well as socio-demographic data, together with an advance release calendar. The e-GDDS should also facilitate further improvement in data quality. (MEFP ¶31–32)

PROGRAM MONITORING

30. No changes to quantitative targets under the program are proposed. Staff and the authorities agreed to keep original assessment criteria for December 2016 and indicative targets for March and June 2017 in light of available data and projected implementation of fiscal and monetary policies. The two end-December structural benchmarks on the clearance of arrears to pension funds are being revised to allow for the ongoing verification of claims by the Internal Auditor General to be completed by end-2016 and the actual settlement of liabilities by mid-February 2017. The preparation of an operational plan to implement an interest rate corridor and completion of a review of BoT's collateral framework are added as structural benchmarks for the first quarter of 2017. Staff supports waivers for the missed end-June 2016 ACs on the overall fiscal deficit and the non-accumulation of domestic expenditure arrears on the grounds that the slippages (0.2 percent of GDP and 0.1 percent of GDP, respectively) were minor. (MEFP ¶7, 33)

STAFF APPRAISAL

31. Tanzania's macroeconomic outlook remains favorable. GDP growth is projected to remain strong at about 7 percent. There are, however, downside risks to economic growth in the short-term stemming from the current tight stance of fiscal and monetary policies and the slow pace of implementation of public investment. Inflation is expected to remain close to the authorities' target of 5 percent.

32. Program implementation has been broadly satisfactory in terms of macroeconomic policy management. In fact, most ACs for June 2016 and all the ITs for September were met; two ACs for June 2016 were missed only by small margins.

33. The pace of structural reforms need to pick up. While four out of five of the structural benchmarks under the program were not met within their established timelines, the authorities have recently made significant efforts to implement them, particularly on enhancing monetary policy instruments and the public debt management framework.

34. Staff welcomes the authorities' ambitious reform and development agenda. They continue to push their strong drive against corruption and tax evasion, leading to higher fiscal revenues. The government has started implementing the second Five-Year Development Plan, which envisages a significant structural transformation of the economy by addressing the infrastructure gap and nurturing human development. Full involvement of all stakeholders in policy design and implementation—including importantly the private sector—will be crucial.

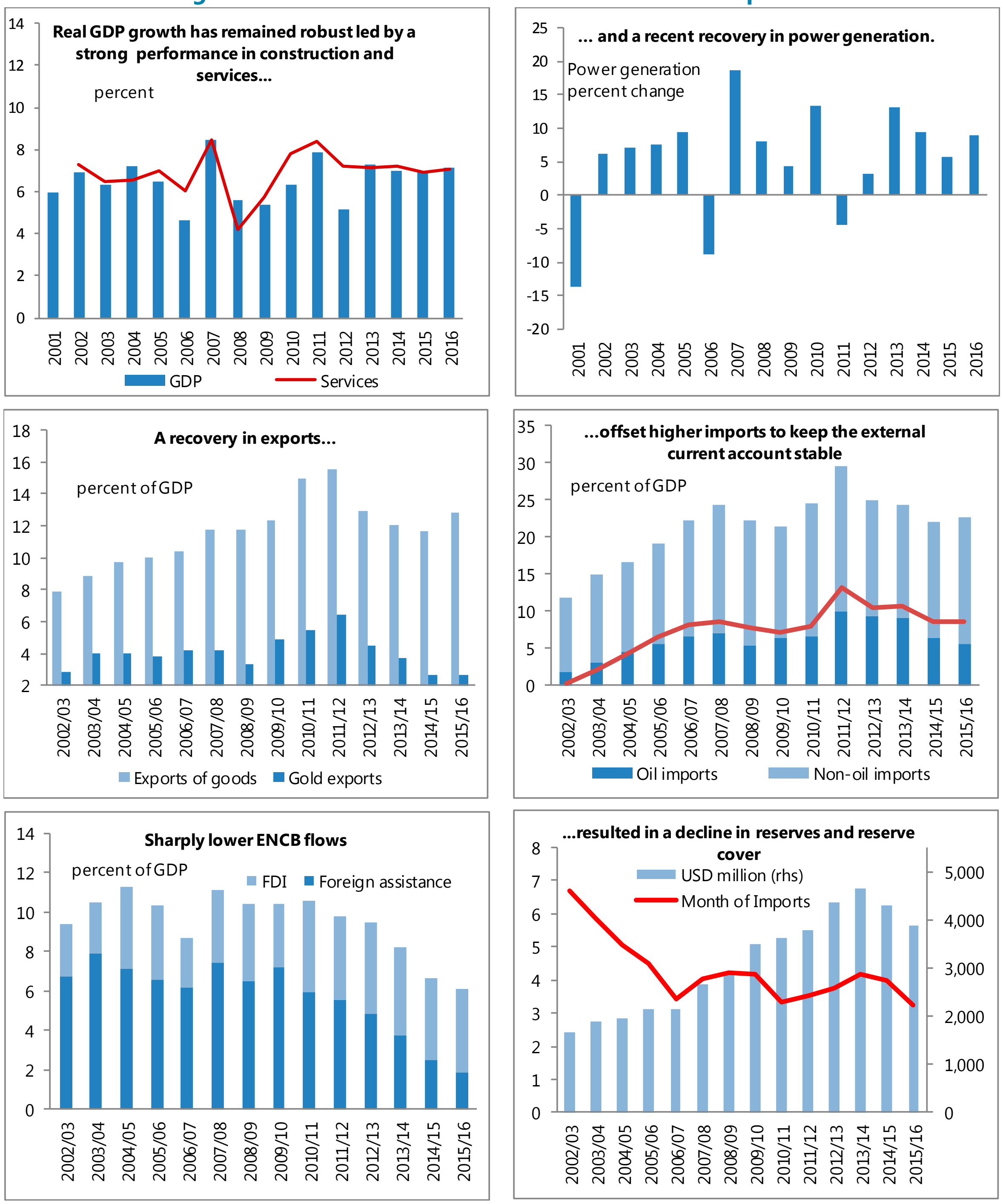
35. Fiscal policy implementation needs to be strengthened. After slow budget execution early in the year, the authorities have stepped up the pace of budget implementation, particularly in public investment, and external financing mobilization, which will support economic growth. Until the external financing plans have been firmed up, the authorities are encouraged to implement the budget prudently by aligning expenditure commitments with available resources to prevent new arrears accumulation. In this regard, staff welcomes the authorities' continued commitment to delay the start of two large public investment projects until revenue outcomes are assessed in the mid-year budget review. Ongoing efforts to rein in unproductive spending are welcome, and various budget financing options and associated risks need to be carefully evaluated.

36. Ongoing efforts to address domestic arrears and strengthen public financial management are welcome. Recurrence of domestic arrears undermines the budget process and negatively affects the private sector. The authorities' efforts include operating with a realistic budget, a public awareness campaign, strict enforcement of sanctions on officers violating rules, and continued reforms in cash flow management and commitment controls through IFMIS, including of multi-year projects. While utilizing PPPs for infrastructure projects would reduce government borrowing, the related fiscal risks need to be closely monitored and reported. The ongoing verification of arrears claims has reduced the arrears stock substantially. Staff encourages the authorities to complete the settlement of the arrears to pension funds by early 2017. Continued efforts to better monitor and manage parastatals are welcome.

37. The BoT is appropriately working to address the tight liquidity situation. With credit growth slowing and inflation below target, there is scope for further easing though this needs to be fine-tuned when fiscal spending increases. The key challenge is to consider options to strengthen the tools available, especially for open market operations. The intention to move to an interest rate-based monetary framework in 2017 is welcome, but key reforms to put in place a forward-looking monetary policy framework and modernize monetary operations need to be accelerated. These include integrating the forecasting and policy analysis capacity—which is being developed with Fund technical assistance—into the monetary policy formulation process; reforms that improve the functioning of domestic financial markets; expanding the range of eligible collateral used in the BoT's operations; and improving coordination with fiscal policy.

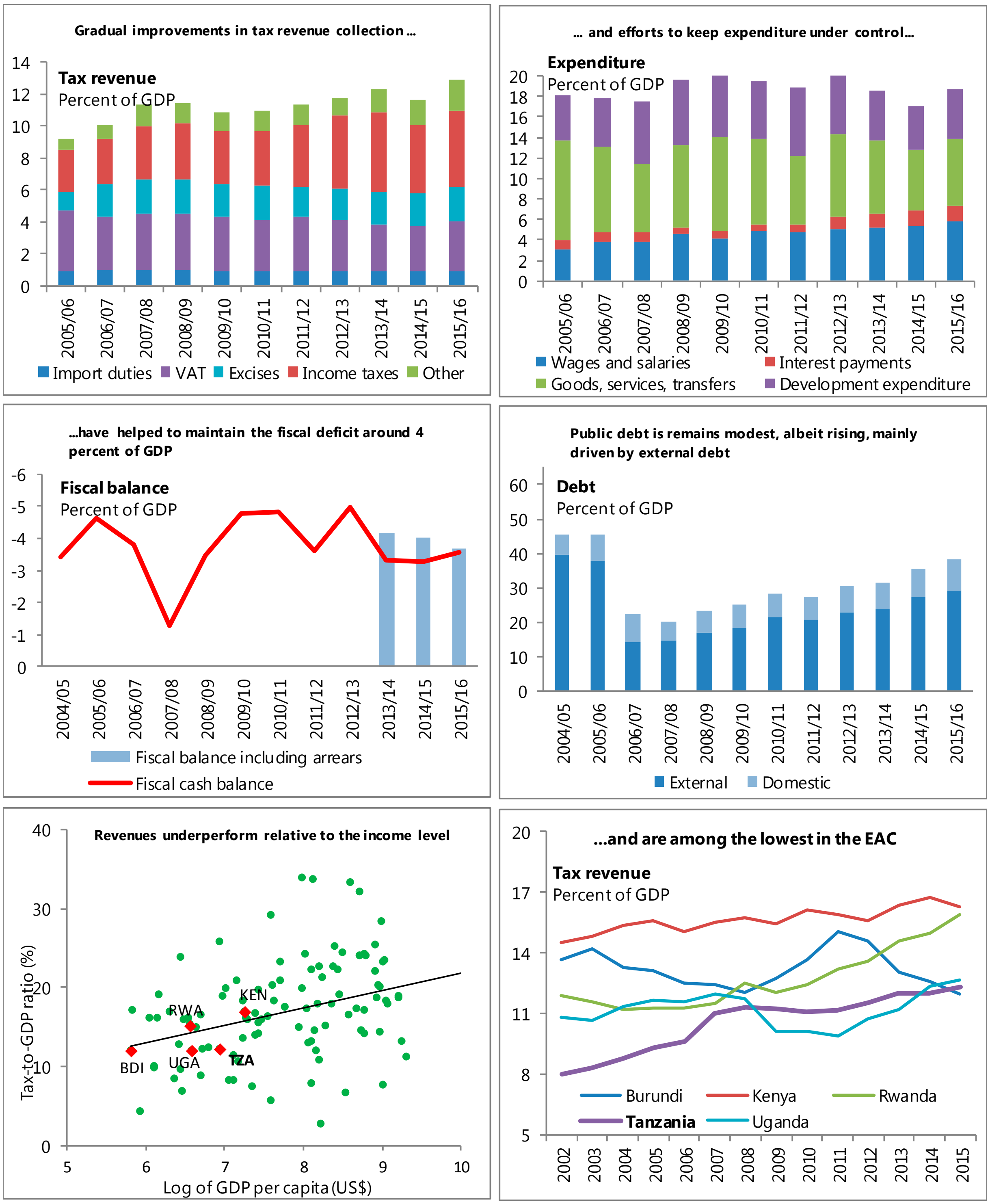
38. Staff recommends completion of the fifth review under the PSI. Staff also supports waivers for the non-observance of the end-June 2016 assessment criteria on the overall fiscal deficit and the non-accumulation of domestic expenditure arrears on the grounds that the slippages were minor.

Figure 1. Tanzania: Real Sector and External Developments



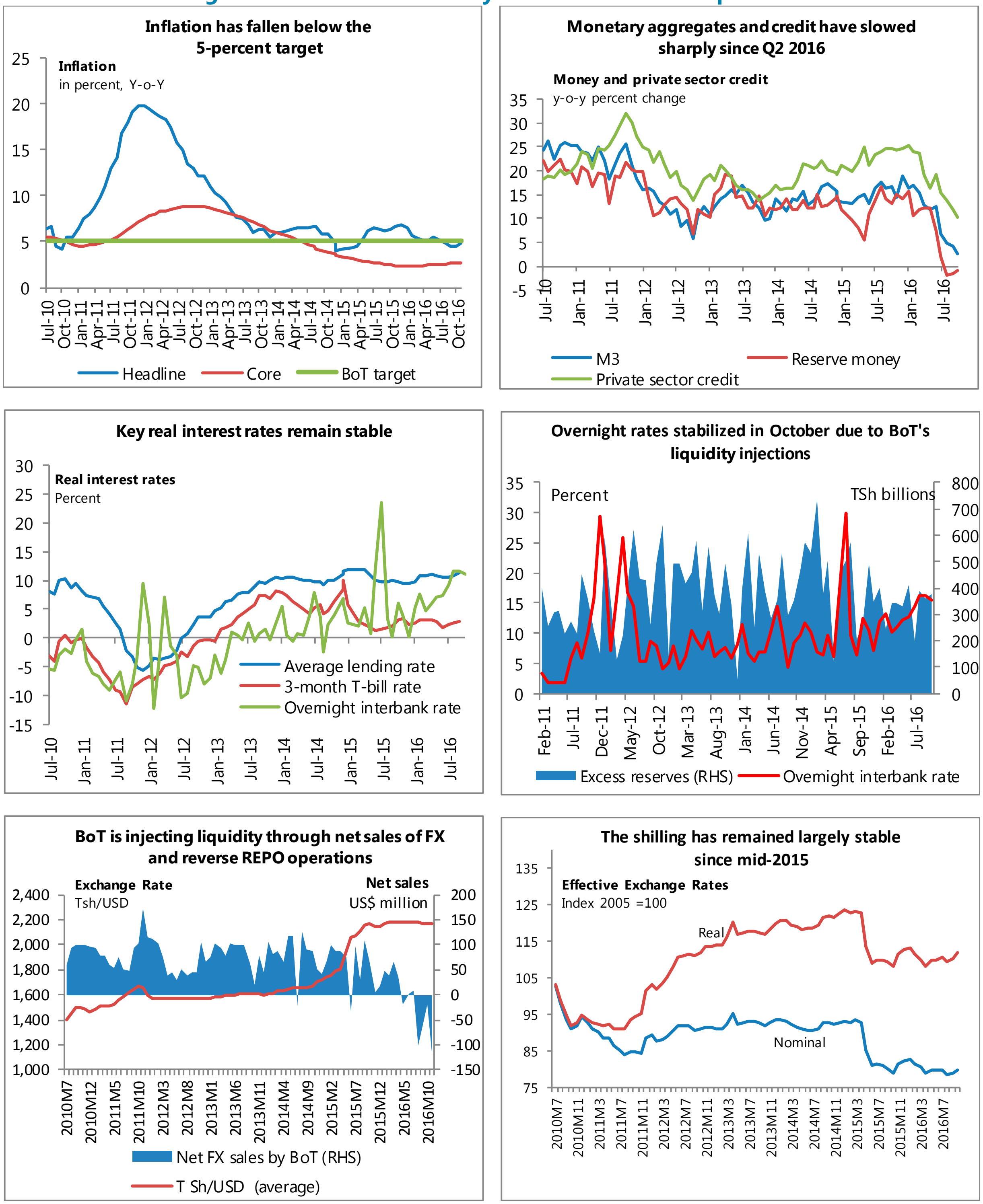
Source: Tanzanian authorities and IMF staff calculations.

Figure 2. Tanzania: Fiscal Developments



Source: Tanzanian authorities and IMF staff calculations.

Figure 3. Tanzania: Monetary and Inflation Developments



Sources: Bank of Tanzania and IMF staff calculations.

Table 1. Tanzania: Selected Economic and Financial Indicators, 2014/15–2019/20

	2014/15	2015/16		2016/17		2017/18	2018/19	2019/20
		Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.	Proj.	Proj.
	(Annual percent of GDP, unless otherwise indicated)							
Output, prices and exchange rates								
Real GDP	7.0	7.1	7.0	7.2	6.9	7.0	6.9	6.7
GDP deflator	5.8	6.0	6.1	5.3	5.3	5.1	5.1	5.0
CPI (period average)	5.4	5.9	6.0	5.0	4.9	5.0	5.0	5.0
CPI (end of period)	6.1	5.0	5.5	5.0	5.0	5.0	5.0	5.0
Core inflation (end of period)	2.2	...	3.0	...	...	...	...	...
Terms of trade (deterioration, -)	0.8	10.5	3.1	-0.2	-1.3	-1.9	-0.4	0.4
Exchange rate (period average, TSh/USD)	1,764	...	2,156	...	...	...	...	...
Real effective exchange rate (end of period; depreciation= -)	-8.2	...	1.1	...	...	...	...	...
Money and credit								
Broad money (M3)	13.1	16.0	12.5	14.5	12.3	13.9	13.6	13.4
Average reserve money	10.8	13.4	7.2	12.5	12.0	12.2	12.0	11.8
Credit to nongovernment sector	21.0	19.0	19.1	15.0	10.5	12.2	13.1	14.2
Treasury bill interest rate (in percent; end of period)	10.0	...	15.1	...	...	...	...	...
Broad money (M3, as a percent of GDP)	23.4	23.9	23.2	...	...	...	...	...
Non-performing loans (end of calendar year, percent of total loans	7.9	...	...	...	...	...	...	...
	(percent of GDP, unless otherwise indicated)							
Central government budget								
Revenues and grants	14.0	15.4	14.9	17.2	17.1	16.5	16.6	16.9
Of which: grants	1.2	1.0	0.5	1.3	1.3	1.1	1.1	1.0
Expenditures	17.1	18.7	18.3	21.8	21.7	21.1	21.2	21.4
Current	12.8	13.6	13.9	12.1	12.0	12.3	12.4	12.6
Development	4.4	5.1	4.5	9.6	9.7	8.8	8.7	8.9
Unidentified expenditure measures[3]	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance[4]	-3.3	-3.3	-3.5	-4.6	-4.6	-4.6	-4.5	-4.5
Excluding grants[4]	-4.3	-4.2	-4.0	-5.9	-5.9	-5.7	-5.6	-5.5
Including net accumulation of arrears	-4.0	-2.3	-3.7	-3.1	-3.0	-4.6	-4.5	-4.5
Public debt								
Public gross nominal debt[5,6]	35.4	37.5	37.7	39.2	39.2	40.2	41.2	42.1
of which: external public debt[6]	27.6	29.0	28.4	30.7	30.0	30.7	31.6	32.5
Investment and savings								
Investment	30.8	29.4	28.2	33.8	33.4	32.7	32.7	33.0
Government	4.5	4.2	3.5	9.6	9.7	8.8	8.7	8.9
Nongovernment[7]	26.3	25.2	24.7	24.2	23.7	23.9	24.0	24.1
Gross domestic savings	22.9	21.8	24.0	25.6	26.8	26.3	26.3	26.6
External sector								
Exports (goods and services)	18.4	21.2	21.1	20.9	20.6	20.7	20.8	20.6
Imports (goods and services)	27.6	28.8	25.3	29.2	27.2	27.1	27.2	27.1
Current account balance	-9.8	-8.6	-5.6	-9.1	-7.5	-7.5	-7.4	-7.4
Excluding current transfers	-10.4	-8.7	-5.7	-9.4	-7.8	-7.8	-7.7	-7.7
Gross international reserves								
In billions of US$	4.3	4.2	3.9	4.7	4.6	5.2	5.8	6.4
In months of next year's imports	4.5	3.6	3.5	3.6	3.8	3.9	4.1	4.2
Memorandum items								
GDP at current market prices								
Billions of Tanzanian shillings	85,291	96,806	96,794	109,278	109,006	122,547	137,676	154,185
Millions of US$	48,353	44,895	44,891	48,347	49,084	53,354	58,195	63,285
GDP per capita (US$)	1,024	932	932	984	999	1,065	1,139	1,214
Population (million)	47	48	48	49	49	50	51	52

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] From the fourth review under the Policy Support Instrument.

[2] E.g. Calendar year corresponding to 2014/15 is 2015.

[3] These are the spending adjustments needed to achieve the budget deficit targets.

[4] Actual and preliminary data include adjustment to cash basis.

[5] Net of Treasury bills issued for liquidity management.

[6] Excludes external debt under negotiation for relief, and domestic unpaid claims.

[7] Including change in stocks.

Table 2a. Tanzania: Central Government Operations, 2014/15–2019/20[1]

(Billions of Tanzanian shillings)

	2014/15	2015/16		2016/17		2017/18	2018/19	2019/20
		Prog.[2]	Prel.	Prog.[2]	Proj.	Proj.	Proj.	Proj.
Total revenue	10,958	14,014	13,907	17,321	17,149	18818	21416	24524
Tax revenue	9,892	12,380	12,411	14,448	14,384	16415	18717	21347
Import duties	784	842	923	994	1,016	1143	1284	1438
Value-added tax	2,439	2,902	2,960	3,521	3,579	4023	4658	5448
Excises	1,671	2,157	2,123	2,493	2,450	2754	3094	3619
Income taxes	3,720	4,676	4,600	5,316	5,218	5988	6865	7688
Other taxes	1,279	1,802	1,805	2,123	2,121	2507	2816	3154
Nontax revenue[3]	1,066	1,635	1,496	2,872	2,765	2402	2699	3177
LGA	360	522	426	665	665	748	840	941
Other	706	1,113	1,070	2,207	2,100	1654	1859	2236
Total expenditure	14,604	18,103	17,760	23,770	23,623	25845	29141	33051
Recurrent expenditure	10,893	13,130	13,420	13,259	13,076	15023	17109	19388
Wages and salaries [4]	4,618	5,854	5,627	5,706	5,706	6414	7344	8225
Of which: clearance of soc. contribution arrears	...	150	150	...	...	...	...	...
Interest payments	1,261	1,552	1,486	1,993	1,810	2091	2463	2855
Domestic	917	1,060	1,010	1,372	1,197	1338	1556	1765
Foreign[5]	344	492	477	621	613	754	907	1091
Goods and services and transfers [4]	5,015	5,724	6,306	5,561	5,561	6517	7302	8308
Of which: Transfers to PSPF	75	252	0	342	342	370	396	420
Of which: Transfers to TANESCO	0	194	0	...	...	...	...	...
Of which: new expenditure on education	...	175	131	...	...	...	...	...
Development expenditure [4]	3,710	4,973	4,340	10,511	10,547	10,822	12,032	13,663
Domestically financed	2,265	3,453	2,905	7,393	7,437	6,956	7,677	8,906
Of which: Clearance of arrears [5]	58	932	958	1,677	1,701	...	...	...
Foreign (concessionally) financed	1,446	1,520	1,435	3,118	3,109	3,866	4,355	4,757
Unidentified expenditure measures	...	0	0	0	0	0	0	0
Overall balance before grants	-3,646	-4,088	-3,853	-6,450	-6,474	-7,027	-7,725	-8,527
Grants	1,024	927	495	1,423	1,451	1,371	1,491	1,544
Program (including basket grants)[6]	510	156	86	358	386	358	432	455
Of which: basket grants	128	81	86	179	199	186	250	263
Project	514	771	409	1,065	1,065	1,014	1,059	1,090
Net expenditure float[7]	-184	0	102	0	0	0	0	0
Statistical discrepancy	-1	0	-172	0	0	0	0	0
Overall balance (cash basis)	-2,807	-3,162	-3,428	-5,027	-5,023	-5,656	-6,234	-6,983
Financing	2,807	3,162	3,428	5,027	5,023	5656	6234	6983
Foreign (net)	2,634	1,860	1,418	4,057	4,004	4022	4678	5313
Foreign loans	2,860	2,382	1,974	5,023	4,970	5172	6005	6846
Program (including basket loans)[8]	538	397	453	497	494	508	489	514
Of which: basket loans	163	118	162	193	165	165	97	102
Project	641	550	778	1,681	1,681	2502	2949	3302
Nonconcessional borrowing	1,682	1,434	743	2,845	2,796	2162	2567	3029
Of which: gas pipeline	627	289	289	...	...	...	...	...
Amortization	-227	-522	-556	-966	-966	-1150	-1327	-1532
Domestic (net)	173	1,301	2,010	970	1,019	1,634	1,556	1,670
Excluding gas pipeline	800	1,591	2,299	970	1019	1634	1556	1670
Bank financing	488	1,018	1,522	811	562	1088	943	982
Nonbank financing	312	573	777	159	486	546	613	687
Credit to TPDC (gas pipeline)	-627	-289	-289	...	...	...	...	...
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	-3,391	-2,229	-3,538	-3,350	-3,322	-5,656	-6,234	-6,983
Total public debt (in percent of GDP)[9]	35.4	37.5	37.7	39.2	39.2	40.2	41.2	42.1
Arrears (unpaid claims)[5]	1,732	1,202	1,842	...	...	...	...	...
Recurrent expenditures (percent of recurrent resources)	96	93	96	76	75	79	79	78
Priority social spending	2,717	2,800	3,396	3,161	3,825	4,300	4,830	5,410
Nominal GDP	85,291	96,806	96,794	109,278	109,006	122,547	137,676	154,185

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

[1] Fiscal year: July–June.

[2] From the fourth review under the Policy Support Instrument.

[3] Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

[4] The change in 2014/15 compared to the previous year reflects reclassification of 1.5 percent of GDP from goods and services to development spending, and 0.1 percent of GDP from goods and services to wages and salaries.

[5] Includes domestic expenditure arrears defined as unpaid claims that are overdue by more than 30 days for goods and services, and more than 90 days for contract works as set out in the government circular No 9 of 8th December 2014.

[6] Excludes interest payments on external debt obligations that are under negotiation for relief with a numbe

[7] The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

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

[9] Excludes external debt under negotiation for relief and Treasury bills issued for monetary policy purposes.

Table 2b. Tanzania: Central Government Operations, 2014/15–2019/20[1]

(Percent of GDP)

	2014/15	2015/16		2016/17		2017/18	2018/19	2019/20
		Prog.[2]	Prel.	Prog.[2]	Proj.	Proj.	Proj.	Proj.
Total revenue	12.8	14.5	14.4	15.8	15.7	15.4	15.6	15.9
Tax revenue	11.6	12.8	12.8	13.2	13.2	13.4	13.6	13.8
Import duties	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Value-added tax	2.9	3.0	3.1	3.2	3.3	3.3	3.4	3.5
Excises	2.0	2.2	2.2	2.3	2.2	2.2	2.2	2.3
Income taxes	4.4	4.8	4.8	4.9	4.8	4.9	5.0	5.0
Other taxes	1.5	1.9	1.9	1.9	1.9	2.0	2.0	2.0
Nontax revenue[3]	1.2	1.7	1.5	2.6	2.5	2.0	2.0	2.1
LGA	0.4	0.5	0.4	0.6	0.6	0.6	0.6	0.6
Other	0.8	1.1	1.1	2.0	1.9	1.3	1.3	1.4
Total expenditure	17.1	18.7	18.3	21.8	21.7	21.1	21.2	21.4
Recurrent expenditure	12.8	13.6	13.9	12.1	12.0	12.3	12.4	12.6
Wages and salaries [4]	5.4	6.0	5.8	5.2	5.2	5.2	5.3	5.3
Of which: clearance of soc. contribution arrears	…	0.2	0.2	…	…	…	…	…
Interest payments	1.5	1.6	1.5	1.8	1.7	1.7	1.8	1.9
Domestic	1.1	1.1	1.0	1.3	1.1	1.1	1.1	1.1
Foreign[5]	0.4	0.5	0.5	0.6	0.6	0.6	0.7	0.7
Goods and services and transfers [4]	5.9	5.9	6.5	5.1	5.1	5.3	5.3	5.4
Of which: Transfers to PSPF	0.1	0.3	0.0	0.3	0.3	0.3	0.3	0.3
Of which: Transfers to TANESCO	0.0	0.2	0.0	…	…	…	…	…
Of which: new expenditure on education	…	0.2	0.1	…	…	…	…	…
Development expenditure [4]	4.4	5.1	4.5	9.6	9.7	8.8	8.7	8.9
Domestically financed	2.7	3.6	3.0	6.8	6.8	5.7	5.6	5.8
Of which: Clearance of arrears [5]	0.1	1.0	1.0	1.5	1.6	…	…	…
Foreign (concessionally) financed	1.7	1.6	1.5	2.9	2.9	3.2	3.2	3.1
Unidentified expenditure measures	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance before grants	-4.3	-4.2	-4.0	-5.9	-5.9	-5.7	-5.6	-5.5
Grants	1.2	1.0	0.5	1.3	1.3	1.1	1.1	1.0
Program (including basket grants)[6]	0.6	0.2	0.1	0.3	0.4	0.3	0.3	0.3
Of which: basket grants	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Project	0.6	0.8	0.4	1.0	1.0	0.8	0.8	0.7
Net expenditure float[7]	-0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-3.3	-3.3	-3.5	-4.6	-4.6	-4.6	-4.5	-4.5
Financing	3.3	3.3	3.5	4.6	4.6	4.6	4.5	4.5
Foreign (net)	3.1	1.9	1.5	3.7	3.7	3.3	3.4	3.4
Foreign loans	3.4	2.5	2.0	4.6	4.6	4.2	4.4	4.4
Program (including basket loans)[8]	0.6	0.4	0.5	0.5	0.5	0.4	0.4	0.3
Of which: basket loans	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1
Project	0.8	0.6	0.8	1.5	1.5	2.0	2.1	2.1
Nonconcessional borrowing	2.0	1.5	0.8	2.6	2.6	1.8	1.9	2.0
Of which: gas pipeline	0.7	0.3	0.3	…	…	…	…	…
Amortization	-0.3	-0.5	-0.6	-0.9	-0.9	-0.9	-1.0	-1.0
Domestic (net)	0.2	1.3	2.1	0.9	0.9	1.3	1.1	1.1
Excluding gas pipeline	0.9	1.6	2.4	0.9	0.9	1.3	1.1	1.1
Bank financing	0.6	1.1	1.6	0.7	0.5	0.9	0.7	0.6
Nonbank financing	0.4	0.6	0.8	0.1	0.4	0.4	0.4	0.4
Credit to TPDC (gas pipeline)	-0.7	-0.3	-0.3	…	…	…	…	…
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	-4.0	-2.3	-3.7	-3.1	-3.0	-4.6	-4.5	-4.5
Domestic unpaid claims (end-period)[5]	2.0	1.2	1.9	…	…	…	…	…
Recurrent expenditures (percent of recurrent resources)	96	93	96	76	75	79	79	78
Priority social spending	3.2	2.9	3.5	2.9	3.5	3.5	3.5	3.5

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

[1] Fiscal year: July–June.

[2] From the fourth review under the Policy Support Instrument.

[3] Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

[4] The change in 2014/15 compared to the previous year reflects reclassification of 1.5 percent of GDP from goods and services to development spending, and 0.1 percent of GDP from goods and services to wages and salaries.

[5] Includes domestic expenditure arrears defined as unpaid claims that are overdue by more than 30 days for goods and services, and more than 90 days for contract works as set out in the government circular No 9 of 8th

[6] Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

[7] The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

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

[9] Excludes external debt under negotiation for relief and Treasury bills issued for monetary policy purposes.

Table 3. Tanzania: Monetary Accounts, 2014–2017

(Billions of Tanzania shillings, unless otherwise indicated; end of period)

	2014	2015				2016							2017			
		March	June	Sept	Dec.	March	June		Sept		Dec		March		June	
						Act.	Prog.[1]	Act.	Prog.[1]	Prel.	Prog.[1]	Proj.	Prog.[1]	Proj.	Prog.[1]	Proj.
Bank of Tanzania																
Net foreign assets	6,380	6,132	7,444	7,262	7,528	7,316	8,036	7,146	8,451	7,694	8,871	8,002	9,299	8,158	9,642	9,215
Net international reserves [2]	6,854	6,570	7,936	7,817	8,075	7,881	8,610	7,758	9,029	8,260	9,452	8,574	9,883	8,734	10,230	9,796
(Millions of U.S. dollars) [2]	3,971	3,674	3,928	3,637	3,758	3,616	3,937	3,560	4,066	3,797	4,195	3,895	4,323	3,922	4,452	4,329
Net non-reserve foreign assets	-473	-437	-493	-555	-546	-565	-574	-612	-578	-566	-581	-572	-585	-577	-588	-582
Net domestic assets	-471	-545	-868	-724	-695	-794	-772	-373	-1,072	-1,075	-1,183	-818	-1,547	-983	-1,657	-1,664
Credit to government	355	649	671	1,497	1,728	1,447	1,045	1,545	1,084	1,352	1,159	1,831	1,222	2,590	1,150	2,816
Of which: Excluding counterpart of liquidity paper	934	1,720	1,456	1,910	1,786	1,473	1,299	1,642	1,299	1,432	1,299	1,897	1,299	2,642	1,299	2,867
Other items (net)	-826	-1,195	-1,539	-2,221	-2,423	-2,241	-1,817	-1,919	-2,156	-2,426	-2,342	-2,650	-2,768	-3,573	-2,807	-4,480
REPOs	0	0	0	0	0	0	214	0	-764	0	-586	-322	-1,085	-868	-323	-1,514
Other items, excluding REPOs (net)	-826	-1,195	-1,539	-2,221	-2,423	-2,241	-2,031	-1,919	-1,392	-2,426	-1,756	-2,328	-1,684	-2,705	-2,484	-2,965
Of which: Credit to nongovernment sector	65	81	98	103	134	141	140	135	140	121	140	121	140	121	140	121
Reserve money	5,909	5,587	6,576	6,538	6,833	6,523	7,263	6,773	7,379	6,619	7,687	7,184	7,752	7,175	7,985	7,551
Currency outside banks	3,245	3,147	3,544	3,642	3,679	3,466	3,741	3,740	3,826	3,672	3,893	3,631	3,997	3,824	4,076	3,984
Bank reserves	2,665	2,440	3,032	2,896	3,155	3,056	3,522	3,033	3,552	2,947	3,794	3,552	3,755	3,350	3,909	3,567
Currency in banks	584	543	552	640	753	656	653	633	763	623	886	804	821	752	781	733
Deposits	2,081	1,897	2,479	2,256	2,401	2,401	2,870	2,400	2,790	2,324	2,908	2,748	2,934	2,598	3,128	2,833
Required reserves	1,505	1,517	2,021	2,055	2,053	2,059	2,243	1,985	2,368	1,966	2,444	2,190	2,508	2,285	2,578	2,414
Excess reserves	576	379	458	202	348	342	627	415	422	359	465	558	426	313	550	419
Memorandum items:																
Stock of liquidity paper	579	1,071	785	413	59	26	254	97	214	80	140	65	77	52	149	51
Average reserve money	6,011	5,844	6,176	6,737	6,862	6,533	7,006	6,624	7,345	6,636	7,652	7,034	7,846	7,252	7,879	7,418
Monetary Survey																
Net foreign assets	6,552	6,388	8,028	8,660	8,244	7,530	8,625	7,472	9,011	7,737	9,401	8,090	9,799	8,290	10,111	9,393
Bank of Tanzania [2]	6,380	6,132	7,444	7,262	7,528	7,316	8,036	7,146	8,451	7,694	8,871	8,002	9,299	8,158	9,642	9,215
Commercial banks	171	256	584	1,398	716	214	590	326	560	44	531	88	500	133	470	178
Net domestic assets	12,063	12,352	11,937	12,621	13,871	14,119	14,540	14,991	15,007	14,458	15,486	15,545	15,956	16,014	16,408	15,829
Domestic credit	16,064	17,312	17,697	19,284	20,374	20,969	21,368	21,889	21,920	21,340	23,043	22,950	23,900	24,161	24,672	24,193
Credit to government (net)	3,652	4,298	3,707	4,406	4,882	4,886	4,725	5,229	4,554	4,717	5,126	6,391	5,396	7,091	5,536	5,791
Credit to nongovernment sector	12,412	13,014	13,990	14,879	15,493	16,083	16,664	16,660	17,366	16,623	17,917	16,559	18,504	17,070	19,136	18,401
Other items (net)	-4,001	-4,960	-5,760	-6,663	-6,503	-6,851	-6,828	-6,898	-6,913	-6,883	-7,557	-7,406	-7,944	-8,147	-8,264	-8,363
M3	18,614	18,741	19,964	21,282	22,115	21,648	23,166	22,463	24,018	22,195	24,887	23,634	25,755	24,304	26,519	25,222
Foreign currency deposits	4,697	5,057	5,663	6,425	6,335	6,161	6,257	6,312	6,294	6,275	6,332	6,331	6,370	6,388	6,407	6,445
M2	13,917	13,683	14,301	14,857	15,780	15,488	16,909	16,151	17,724	15,920	18,555	17,303	19,385	17,916	20,112	18,778
Currency in circulation	3,245	3,147	3,544	3,642	3,679	3,466	3,741	3,740	3,826	3,672	3,893	3,631	3,997	3,824	4,076	3,984
Deposits (TSh)	10,672	10,536	10,757	11,215	12,102	12,021	13,168	12,412	13,898	12,248	14,662	13,672	15,388	14,092	16,035	14,793
Memorandum items:	(12-month percent change, unless otherwise indicated)															
M3 growth	15.6	13.2	13.1	16.5	18.8	15.5	16.0	12.5	12.9	4.3	12.5	6.9	19.0	12.3	14.5	12.3
M3 (as percent of GDP) [3]	21.8	22.0	23.4	22.0	22.8	22.4	23.9	23.2	22.0	20.4	22.8	21.7	23.6	22.3	24.3	23.1
Private sector credit growth	19.4	19.8	21.0	24.6	24.8	23.6	19.0	19.1	16.7	11.7	15.7	6.9	15.0	6.1	15.0	10.5
Average reserve money growth	14.5	9.8	10.8	14.1	14.2	11.8	13.4	7.2	9.0	-1.5	11.5	2.5	20.1	11.0	12.5	12.0
Reserve money multiplier (M3/average reserve money)	3.10	3.21	3.23	3.16	3.22	3.31	3.31	3.39	3.27	3.34	3.25	3.36	3.28	3.35	3.37	3.40
Nonbank financing of the government (net) [4]	73	231	312	69	136	417	573	777	94	299	241	-805	217	-573	159	486
Bank financing of the government (net) [4]	432	1,079	488	699	1,175	1,179	1,018	1,522	148	-512	244	1,162	510	1,862	811	562
Bank and nonbank financing of the government (net) [4]	505	1,310	800	767	1,310	1,596	1,591	2,299	243	-213	485	357	728	1,289	970	1,048
Foreign currency deposits (percent of M3)	25.2	27.0	28.4	30.2	28.6	28.5	27.0	28.1	26.2	28.3	25.4	26.8	24.7	26.3	24.2	25.6
Foreign exchange liabilities to residents (Millions of U.S. dollars)			152.3	84.3	50.0	7.0		54.0		89.5		9.0		7.0		4.0

Sources: Bank of Tanzania and IMF staff estimates and projections.

[1] From the fourth review under the Policy Support Instrument.

[2] Includes short-term (less than 1 year) foreign exchange liabilities to residents.

[3] "Program" reflects new GDP data.

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

Table 4. Tanzania: Balance of Payments, 2014/15–2019/20

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

	2014/15	2015/16		2016/17		2017/18	2018/19	2019/20
		Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.	Proj.	Proj.
Current account	-4,752	-3,844	-2,522	-4,417	-3,659	-4,002	-4,281	-4,685
Trade balance	-5,276	-4,449	-3,061	-4,980	-4,185	-4,517	-4,976	-5,355
Exports, f.o.b.	5,384	5,750	5,781	6,169	6,248	6,793	7,388	8,045
Traditional agricultural products	908	927	763	915	773	869	930	992
Gold	1,237	1,204	1,243	1,240	1,337	1,386	1,408	1,420
Other	3,239	3,619	3,775	4,014	4,138	4,537	5,050	5,633
Imports, f.o.b	-10,659	-10,199	-8,842	-11,149	-10,433	-11,309	-12,364	-13,400
Of which: Oil	-3,063	-2,492	-2,803	-2,616	-2,872	-3,407	-3,720	-3,980
Services (net)	807	1,051	1,183	1,009	948	1,083	1,240	1,266
Of which: Travel receipts	2,010	2,256	2,212	2,348	2,297	2,415	2,550	2,696
Income (net)	-859	-840	-976	-901	-906	-1,042	-1,059	-1,128
Of which: Interest on public debt	-170	-289	-214	-313	-276	-366	-383	-448
Current transfers (net)	575	394	333	455	485	474	514	532
Of which: Official transfers	277	59	31	145	166	146	174	178
Capital account	427	471	320	589	590	557	568	573
Of which: Project grants[2]	363	404	257	518	523	484	491	490
Financial account	3,373	3,382	2,093	4,344	3,837	4,144	4,446	4,787
Foreign Direct Investment	1,639	2,042	1,063	2,041	1,383	1,761	2,212	2,564
Public Sector, net	1,403	869	673	1,793	1,822	1,681	1,977	2,118
Program loans	281	184	207	220	222	221	207	211
Non-concessional borrowing	934	659	331	1,259	1,272	941	1,085	1,180
Project loans	363	255	361	744	757	1,089	1,246	1,355
Scheduled amortization[3]	-175	-229	-226	-429	-429	-571	-561	-629
Commercial Banks, net	-26	21	142	53	274	327	151	-15
Other private inflows	358	450	216	457	359	375	105	121
Errors and omissions [4]	651	0	-253	0	0	0	0	0
Overall balance	-301	9	-362	515	769	699	733	675
Financing	301	-9	362	-515	-769	-699	-733	-675
Change in BoT reserve assets (increase= -)	353	54	415	-438	-685	-615	-648	-591
Use of Fund credit	-52	-63	-53	-78	-84	-84	-84	-84
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Gross official reserves (BoT)	4,285	4,238	3,870	4,676	4,556	5,170	5,819	6,410
Months of imports of goods and services	4.5	3.6	3.5	3.6	3.8	3.9	4.1	4.2
Exports (percent of GDP)	11.1	12.8	12.9	12.8	12.7	12.7	12.7	12.7
Exports excl. gold (percent of GDP)	8.6	10.1	10.1	10.2	10.0	10.1	10.3	10.5
Imports (percent of GDP)	-22.0	-22.7	-19.7	-23.1	-21.3	-21.2	-21.2	-21.2
Imports excl. oil (percent of GDP)	-15.7	-17.2	-13.5	-17.6	-15.4	-14.8	-14.9	-14.9
Current account deficit (percent of GDP)	-9.8	-8.6	-5.6	-9.1	-7.5	-7.5	-7.4	-7.4
Foreign program and project assistance (percent of GDP)	2.7	2.0	1.9	3.4	3.4	3.6	3.6	3.5
Nominal GDP	48,353	44,895	44,891	48,347	49,084	53,354	58,195	63,285

Sources: Tanzanian authorities and IMF staff estimates and

[1] From the fourth review under the Policy Support Instrument.

[2] An adjustment to the estimated outturn is made by BoT to reflect unreported project grants.

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

[4] Includes valuation changes in gross reserves resulting from the exchange rate movements of the US$

Table 5. Tanzania: Financial Soundness Indicators, 2012–2016

(Percent, end of period)

	2012	2013	2014	2015 Mar	2015 Jun	2015 Sep	2015 Dec	2016 Mar[p]	2016 Jun[p]
Access to bank lending									
Claims on the non-government sector to GDP [1]	14.2	14.6	15.5	14.3	15.2	16.2	16.8	17.4	18.0
Claims on the private sector to GDP [1]	13.2	13.9	14.4	13.3	14.2	15.0	15.7	16.2	16.9
Capital adequacy									
Capital to risk-weighted assets	17.5	17.9	17.4	19.0	17.6	18.6	18.9	20.0	19.2
Capital to assets	10.5	11.0	11.2	12.1	11.2	12.1	12.0	13.0	12.7
Asset composition and quality									
Net loans and advances to total assets	49.7	50.8	52.9	53.3	52.8	53.5	54.6	55.1	56.2
Sectoral distribution of loans									
Trade	20.9	20.9	21.9	22.5	21.1	21.2	19.4	19.0	19.4
Mining and manufacturing	11.9	11.9	12.3	12.2	13.3	12.6	12.5	12.8	12.7
Agricultural production	10.7	9.3	8.6	8.3	8.5	8.1	7.6	7.6	7.4
Building and construction	4.7	4.9	5.3	5.1	4.7	4.7	4.7	4.6	4.6
Transport and communication	6.9	7.0	7.1	7.2	7.6	7.5	7.2	7.6	7.4
Foreign exchange loans to total loans	33.5	35.4	36.3	37.5	38.2	38.7	37.7	37.6	36.7
Gross nonperforming loans (NPLs) to gross loans	8.1	7.1	6.8	6.7	6.7	6.6	7.9	8.4	8.7
NPLs net of provisions to capital	22.5	15.6	16.0	14.8	16.2	14.8	18.6	18.8	21.0
Large exposures to total capital	143.7	91.2	123.2	129.6	125.8	117.4	123.3	129.2	128.6
Net open positions in foreign exchange to total cap	-1.7	1.5	-2.5	-2.1	-2.2	-2.3	1.4	-1.1	1.4
Earnings and profitability									
Return on assets	2.6	2.5	2.5	3.3	3.0	2.8	2.6	3.5	3.0
Return on equity	13.9	12.8	12.6	17.3	15.8	14.2	12.4	18.2	15.4
Interest margin to total income	65.6	67.4	67.8	67.8	65.9	66.4	66.6 ..	65.7	68.0
Noninterest expenses to gross income	67.8	66.9	67.2	63.9	65.1	67.4	68.4	63.2	64.7
Personnel expenses to noninterest expenses	42.4	43.4	44.2	46.8	46.0	44.9	43.8	45.5	45.3
Liquidity									
Liquid assets to total assets	34.0	32.3	31.0	30.6	30.4	31.0	30.6	29.1	30.4
Liquid assets to total short term liabilities	38.4	36.2	35.8	38.9	37.7	37.3	37.3	36.6	37.0
Total loans to customer deposits	68.6	71.8	74.3	76.9	76.0	77.0	78.5	82.4	85.8
Foreign exchange liabilities to total liabilities	34.4	35.0	35.7	37.6	39.8	41.6	39.6	38.8	37.8

Source: Bank of Tanzania

[1] Calendar year; end of period claims relative to annual GDP. Based on new GDP series.

[p] Preliminary

Table 6. Tanzania: Millennium Development Goals

MDG	Indicator	Baseline 1990	Status (Year)	2015 target	Progress at a glance
1. Eradicate extreme poverty and hunger	1.1 Proportion of population below national poverty line (%)	39.0%	28.2% (2012)[1]	19.5%	Achievement unlikely
	1.8 Under-five underweight (%) (weight-for-age below - 2SD)	28.8%	15.8% (2010)[2]	14.4%	Achievement possible
	1.9 Under-five stunted (%) (height -for-age below - 2SD)	46.6%	42.3% (2010)[2]	23.3%	Achievement unlikely
2. Achieve universal primary education	2.1 Net enrollment ratio in primary education (%)	54.2%	89.7% (2013)[3]	100.0%	Achievement possible
3. Promote gender equality and empower women	3.1 Ratio of girls to boys in primary school	0.98	1.03 (2015)[3]	1.00	Achieved
	3.2 Ratio of girls to boys in secondary school	n.a.	1.09 (2015)[3]	1.00	Achieved
	3.3 Ratio of females to males in tertiary education	n.a.	0.51 (2013)[3]	1.00	Achievement unlikely
	3.4 Proportion of women among members of parliament (%)	n.a.	36.6% (2015)[5]	50.0%	Achievement unlikely
4. Reduce child mortality	4.1 Under-five mortality rate (per 1,000 live births)	191	67 (2015)[2]	64	Not achieved
	4.2 Infant mortality rate (per 1,000 live birth)	115	43 (2015)[2]	38	Not achieved
	4.3 Proportion of children vaccinated against measles (%)	n.a.	84.5% (2010)[2]	90.0%	Achievement possible
5. Improve maternal health	5.1 Maternal mortality ratio (per 100,000 live births)	529	432 (2012)[2]	133	Achievement unlikely
	5.2 Proportion of births attended by skilled health personnel (%)	43.9%	50.6% (2010)[2]	90.0%	Achievement unlikely
6. Combat HIV/AIDS, malaria and other diseases	6.1 HIV prevalence 15-24 years (%)	6.0%	2% (2012)[4]	<6%	Achievement likely
7. Ensure environmental sustainable	7.8 Proportion of rural population using an improved drinking water source (%)	51.0%	44.7% (2012)[4]	74.0%	Achievement unlikely
	7.8 Proportion of urban population using an improved drinking water source (%)	68.0%	88.1% (2012)[4]	84.0%	Achievement likely
	7.9 Proportion of population with access to improved sanitation (%)	n.a.	12.3% (2012)[4]	n.a.	Achievement unlikely

Sources: Tanzanian authorities and World Bank.

[1] Tanzania Household Budget Survey 2011/2012 (survey every 10 years)

[2] Tanzania Demographic and Health Survey 2015

[3] Basic Education Statistics in Tanzania 2015 and UNESCO summary

[4] Tanzania HIV/AIDS and Malaria Indicator Survey 2011/2012

[5] Inter-parliamentary Union. http://www.ipu.org/parline-e/reports/2337_E.htm

Appendix I. Letter of Intent

December 20, 2016

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

Dear Madam Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) updates the ones from June 27, 2014, December 18, 2014, June 18, 2015, December 24, 2015, and June 28, 2016 under the Policy Support Instrument (PSI). It reports on recent economic developments and sets out macroeconomic policies and structural reforms that the Government will pursue in coming years.

The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of its program. We stand ready to take further measures that may become appropriate for this purpose and that are in line with the Government's policy objectives.

The Government will consult with the IMF at its own initiative or whenever the Managing Director of the IMF requests such a consultation before the adoption of any such measures or changes to the policies described in the attached Memorandum. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

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

Yours Sincerely,

/s/

Dr. Philip I Mpango (MP),
Minister of Finance and Planning
United Republic of Tanzania

/s/

Prof. Benno Ndulu,
Governor, Bank of Tanzania
United Republic of Tanzania

Attachments

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

Attachment I. Memorandum of Economic and Financial Policies December 20, 2016

Macroeconomic Developments and Program Performance

A. Recent Macroeconomic Developments and Outlook

Output and Prices

1. **Growth.** Real GDP is estimated to have grown by 6.7 percent in the first half of 2016 compared to 5.7 percent recorded in the similar period in 2015. The fastest growth rates were recorded in transport and storage (17.4 percent), mining and quarrying (13.7 percent), financial and insurance activities (13.0 percent), information and communication (13 percent), public administration (8.7 percent), manufacturing (8.3 percent), and education (8 percent). Leading economic indicators point to a sustained strong GDP growth in 2016, which suggests the targeted growth rate of 7.2 percent in 2016 is within reach. The overall performance of the economy in 2016 and beyond will be also supported by continued improvement in power supply and implementation of infrastructural projects under the 2nd Five Year Development Plan.

2. **Inflation.** Headline inflation slowed to 4.5 percent in October 2016, while core inflation remained subdued at 2.4 percent. Inflation is projected to remain around the medium term target of 5 percent in the near-term, helped by the monetary policy stance, subdued global oil prices, improvement in domestic power and food supply, and continued stability of the Tanzanian shilling against the U.S. dollar.

External Sector Developments

3. **Balance of Payments.** During 2015/16, the current account deficit narrowed to about US$2,522 million, equivalent to 5.6 percent of GDP compared to about US$4,752 million (9.8 percent of GDP) in 2014/15. This development was largely explained by an increase in exports of goods and services—particularly tourism, manufactured goods and gold—coupled with a decline in the value of imports by 15.1 percent which occurred mostly in capital goods, oil, food and food stuff. The stock of gross official reserves amounted to US$3,870.3 million at the end of June 2016, and increased to US$ 4,050.5 million at the end of October 2016. The current account deficit is projected at around 7.5 percent of GDP in 2016/17 in light of the projected increase in imports, particularly capital goods, that offsets the impact of the increase in exports. The pick-up in imports is supported by the anticipated sizeable investments in infrastructure including construction of the central railway, and revamping of marine transportation and the national airline.

Fiscal Performance and Financing in 2015/16

4. **Fiscal deficit and financing.** The overall fiscal deficit of the central government on a cash basis was 3.5 percent of GDP in FY 2015/16, slightly above the program target of 3.3 percent of GDP, mainly reflecting overruns in spending on goods and services and shortfalls in non-tax revenue from parastatals. Most major categories of tax revenue showed good performance, with the exception of domestic excises, which only rose slightly compared to the preceding year. The overall growth of major tax revenue items reflects both the strong growth in the tax base driven by economic growth and improvements in tax administration and policy. These included broadening the tax base by bringing into the tax register taxpayers outside the tax net, improved management and recovery of tax arrears, enhanced use of custom integrated system (TANCIS) to facilitate clearing process as well as improved cargo management activities at Dar es Salaam port and other ports of entry. Major policy reforms implemented during the year include the introduction of railway development, reform of petroleum and fuel levy as well as review of the East African Community Common External Tariff. Development expenditure was lower than expected, mainly due to shortfalls in foreign project funds as well as in external non-concessional borrowing (ENCB). The government resorted to higher domestic borrowing to offset part of the shortfall in external financing. The stock of verified domestic unpaid claims (older than 90 days for construction, and 30 days for goods and services and others) by the government increased by about Tsh 110 billion (0.1 percent of GDP) between end-June 2014/15 and end-June 2015/16.

Monetary Policy

5. **Monetary policy stance and exchange rate developments.** Average reserve money rose by 7.2 percent compared with the target of 13.4 percent in the year ending June 2016. Nevertheless, growth in key monetary and credit aggregates remained broadly within the program targets, with broad money supply (M3) and credit to the private sector growing at about 12.5 percent and 19.1 percent, respectively, for the year ending June 2016. This was due to the increase in money multiplier associated with greater use of mobile financial services, improvement in financial services delivery, and introduction of new financial products by banks. The moderate growth rate in average reserve money was sustained through the first four months of 2016/17, which led to a deceleration in M3 and private sector credit growth to 2.5 percent and 10.3 percent, respectively, in the year ending October 2016. The slow growth in the monetary base reflected tighter-than-programmed fiscal spending amid a significant increase in domestic budgetary revenue. The BoT continued to closely monitor the trend in banks' free reserves and participated actively in the interbank cash market to provide liquidity to banks through reverse repos, purchases of foreign exchange in the market, and the continued use of foreign exchange swaps. This contributed to the stability of interbank cash market rate, particularly toward the end of 2015/16 and the first quarter of 2016/17.

Financial Sector

6. **Financial sector stability.** The performance of the banking sector continued to be satisfactory with the industry levels of capital and liquidity remaining above regulatory requirements. At the end of June 2016, the ratio of core capital to total risk weighted assets and off-balance sheet exposures was 17.2 percent compared with the minimum legal requirement of 10 percent, while the ratio of liquid assets to demand liabilities stood at 37 percent, well above the minimum regulatory limit of 20 percent. However, the quality of the banking sector's assets deteriorated, as reflected by the increase in the NPLs to 8.7 percent from 6.6 percent recorded at the end of June 2015. The sectors with the highest level of NPLs were agriculture, trade and manufacturing. The BOT's medium-term goal is to bring the overall NPL ratio to below 5 percent. In response to the increase, the BoT has directed banks with high NPLs to formulate and implement measures to bring the ratio to at most 5 percent. Most banks have committed to take more aggressive measures in the recovery of non-performing loans; strengthening internal credit process and risk management by improving credit analysis including usage of credit reference bureau reports and monitoring processes; and renegotiating some of the repayment terms to provide more affordable and flexible repayment plans. It is expected that execution of the plans will be completed within two years ending July 2018. Banks are required to submit quarterly progress reports, which will be used by the BoT to monitor banks' progress in reducing NPLs. In addition, the BoT will review implementation of the plans during on-site examination of respective banks, and will determine appropriate course of action depending on the status and position of each particular bank. These may include suspending respective banks from issuance of new loans and requiring them to put more emphasis on loans recovery.

B. Program Performance

7. **Quantitative targets** and **structural benchmarks.** All assessment criteria and quantitative targets for end June 2016 were met, except the assessment criteria on fiscal deficit which was missed by a small margin, as well as the non-accumulation of domestic expenditure arrears. On structural benchmarks, the government launched a new public awareness campaign through its June 2016 budget speech, warning suppliers that orders generated outside the IFMS will not be honored. However, implementation of other structural benchmarks due to be implemented during the review period faced challenges. Nevertheless, the government has since taken strong actions to remedy the situation. Clearance of arrears to pension funds was delayed to allow an intensive verification exercise by the Internal Auditor General, and is now expected by mid-February 2017 (new benchmark). The study on the NOP limit was carried out, which culminated in the revision of NOP limit from ±5.5 percent of core capital to ±7.5 percent effective 1st September 2016. The study on foreign exchange swaps, and the study to determine an approach of setting the Lombard rate to make it more predictable, are in progress and are expected to be completed by December 2016. On previously missed benchmarks, the statutory minimum reserve (SMR) and clearing accounts of commercial banks were merged in June 2016 as expected; currently banks can utilize any excess reserves over and above the required SMR without prior approval by the BoT. However, the second part of the benchmark – to implement partial reserve averaging – was delayed due to the process of identifying the system changes needed to implement the framework. This has since been completed and the framework will be operational from January 2017. Similarly, revisions to the Government Loans, Grants and

Guarantees Act (GLGGA) were approved by the Cabinet and submitted to Parliament for its first reading in November. The government is no longer pursuing revisions to the National Debt Management Policy. However, salient portions of the draft shared with the IMF will be incorporated in both the revised GLGGA and the updated Medium-Term Debt Strategy.

The Economic Program for 2016/17

8. The National Five Year Development Plan 2016/17 to 2020/21 (FYDP II) is the second in the series of three FYDPs that will implement the Long Term Perspective Plan 2011/12–2025/26 for attaining the Tanzania Development Vision 2025 goals of transforming Tanzania into semi-industrialized middle income country. The main focus in the medium term will be to build a foundation for industrialization that will spur economic growth and human development. Therefore, interventions outlined in the plan are grouped into four categories. These are: interventions for fostering economic growth and industrialization (e.g., establishment of special economic zones/export processing zones, industrial parks and logistics centers); interventions for fostering human development (e.g., education and capacity development and strengthening health system); interventions aiming at creating enabling environment for business and enterprises to thrive (e.g., maintaining macroeconomic stability, provision of adequate infrastructure and services and reducing the cost of doing business); and interventions aiming at ensuring the plan is implemented effectively (e.g., designing and instituting a robust monitoring and evaluation framework).

A. Monetary, Exchange Rate, and Financial Sector Policies

9. **Monetary policy stance.** Since the start of 2016/17, a major shift has been recorded in the drivers of change in average reserve money, coupled with a gradual rise in the money multiplier, which turned out to be higher than program estimates. Average reserve money is expected to pick up once foreign program assistance and ENCB are disbursed and fiscal spending increases. Structural improvements are expected to continue with improvements in financial service delivery and expansion of mobile financial services, and the introduction of new financial products. Thus, average reserve money is targeted to grow by 12.0 percent in 2016/17, which should see M3 expand by 12.3 percent during the year. This projection, however, depends on the full execution of the budget as planned and sustained stability in the external environment. Should the situation change, monetary policy will adjust appropriately to maintain price stability and support sustainable growth.

10. **Modernizing the monetary policy framework.** In an effort to modernize the conduct of monetary policy from quantity to price based, the BoT is working on a framework for institutionalizing the interbank cash market (IBCM) rate as the operational target. This is also in line with the broader commitment to harmonize monetary policy frameworks among the EAC partner states under the East African Monetary Union Protocol. In this framework, the IBCM rate will be anchored within a band bounded by the BoT lending rate on the upper side and BoT deposit rate on the lower side. The standing facilities will have their interest rates tied to the policy rate, which will be the mid-point of the band, with a penal margin. As part of the process, the BoT has focused more on stability of the banks' free reserves that has contributed to stability in the IBCM rate. This has helped to improve predictability of the impact of monetary policy actions. The BoT is reviewing the collateral framework with a view to expanding the range of eligible government securities to include securities with longer maturities than the current practice of accepting papers with a remaining maturity of not more than 6 months. Meanwhile, the BoT is continuing to develop a forecasting and policy analysis system (FPAS), and an action plan for adoption of the system has been prepared. The FPAS is expected to be formally integrated into the monetary policy formulation process by the end of 2018.

11. Exchange rate policy. Exchange rates will continue to be market-determined, with the BoT participating in the IFEM solely for liquidity management purposes and intervening occasionally to smooth out excessive short-term volatility in the exchange rate. Such operations will be taken without compromising the objective of keeping an adequate level of international reserves.

12. Capital account liberalization. The plan to open the capital account to the rest of the world will now be implemented in December 2016. The delay was due to longer than expected consultative process with stakeholders on the draft regulations.

13. Addressing the increase in NPLs and efforts to enhance financial stability. Recognizing the importance of further financial development in sustaining growth and promoting macroeconomic stability, the government and the BoT are committed to addressing a number of gaps. Information to assess credit risks needs to be made more reliable and widely available, which will contribute to better access to finance and more efficient pricing of loans. This will also help to address the challenge of rising non-performing loans. The BoT will therefore continue to monitoring the data submitted to the Credit Reference Databank with the aim of improving relevance and reliability of information shared among lenders. The BoT is also drafting guidelines to ensure effective implementation of Basel II/III requirements. Efforts are underway to review the existing guidelines on corporate governance for banking institutions, business continuity management in banking institutions, agent banking and physical security measures regulations. In addition, plans are underway to develop guidelines on mergers and acquisitions as well as guidelines on banking holding companies.

14. Improving access to finance and the development of government debt market. To improve Small and Medium Enterprises' (SME) access to finance, the government is planning to review its SME policy, establish an SME Access to Finance Framework, digitize all transactions of enterprises, explore financing mechanism options for enterprises and establish collateral registration for SMEs. Meanwhile, an internet-based information portal for SMEs was launched on 10th March 2016 to enhance financial literacy and entrepreneurship skills among Micro and Small Medium Enterprises (MSMEs) as well as improve access to financial services and markets. The information portal is designed to be a one-stop center for a wide range of information that small businesses require. To improve access to finance, the government has initiated the drafting of microfinance legislation that will ensure that the microfinance sector is adequately regulated and supervised. The recent success in rolling out a mobile platform that allows users to participate in capital market activities during a recent initial public offering was encouraging. A range of measures will also be considered to foster the development of the government debt market, such as: publishing a quarterly bond auction calendar including tenors; reopening bond series to provide the market with more liquid instruments; and enhancing communication with market participants.

15. Improving the business environment in support of economic diversification. The government has introduced the following reforms, starting from FY2015/16:

(i) The Business Registration and Licensing Agency (BRELA) has introduced online name search and name registration services since July 1st, 2015, eliminating the need for manual searches. Entrepreneurs are now able to conduct business name searches online as well as acquire company name clearances in just half a day. The fees schedule, payment services, and all relevant forms for starting a business are also now more transparently available, having been posted online at http://ors.brela.go.tz.

(ii) A Customer Services Center to facilitate land transactions was set up in 2014, providing complete and accurate information on property transfer procedures, services available, and the fee structure. Since July 2015, this is being done using a digital format to improve transparency. In addition, the government is working to speed up the enquiry, verification and valuation process related to land registration and ownership.

(iii) TANESCO has reduced the time to obtain an electricity connection to a maximum of 30 days through the Tariff Adjustment Order 2016, which came in force on 1st April 2016.

(iv) Private credit bureaus have increased their coverage from about 5 percent of the adult population in 2015 to 6.9 percent as of June, 1, 2016 mainly due to increased coverage of credit-providing entities other than banks such as the Higher Education Students Loan Board.

(v) The commercial division of the High Court introduced an electronic case management system, and digitized court procedures to enhance the transparency and efficiency of the judiciary in 2014. This will be rolled out to other courts as soon as possible. The judiciary is also working on fast-tracking land disputes, with the aim of settling disputes within 6 months of the first hearing.

B. Fiscal Policies

Budget Implementation in 2016/17

16. Budget implementation in the first quarter of 2016/17. Tax revenue in the first quarter was broadly in line with expectations on account of tax policy and administration measures, including the removal of exemptions in tourism and financial services sectors, the roll out and stronger enforcement of electronic fiscal devices, the establishment of tax centers in the Dar es Salaam region and the cleansing of the taxpayer register. Non-tax revenue collection was below expectations, mostly on account of shortfalls in contributions from parastatals. Recurrent spending was broadly in line with projections, while capital projects implementation was slower than expected due to shortfalls in external financing.

17. Budget plans for the remainder of 2016/17. To achieve the annual target for tax revenue, the Government will (i) ensure effective use of electronic systems and devices in revenue collection, so as to increase efficiency and minimize revenue losses; (ii) keep broadening the tax base, including bringing the informal sector into the tax net; (iii) further streamlining tax

exemptions; and (iv) strengthening tax compliance through frequent inspections at the ports, airports, and border posts. Despite the shortfall in non-tax revenue collection during the first quarter, the government remains confident that the annual target remains within reach.
The government is planning to borrow external non-concessional loans of 2.6 percent of GDP in 2016/17, for which preparations are well-advanced. Donor-funded concessional loans are expected to stabilize as per budget, while the government's net domestic financing is expected to be equivalent to 0.9 percent of GDP. In order to preserve the fiscal deficit target of 4.6 percent of GDP under the PSI and announced in the budget speech, the Government reiterates its commitment to only start implementation of two large public investment projects (amounting to more than 1 percent of GDP) in the second half of FY 2016/17 once the mid-year budget review confirms the adequacy of available resources. Should additional downside risks to financing materialize, the Government undertakes to identify additional spending measures to meet the targeted deficit and prevent further accumulation of expenditure arrears.

Revenue Mobilization

18. Revenue policy reforms. The government is steadfastly working toward increasing domestic revenue collection through tax reform efforts. These efforts include broadening the tax base through further formalizing economic activities, encouraging the growth of small and medium businesses. The government is also geared towards further streamlining tax incentives and the proliferation of levies and taxes.

19. Tax administration reforms. Tax administration interventions will be geared towards strengthening tax compliance management, with a view to improving tax revenue collection. This objective will be achieved through building a comprehensive taxpayer communication strategy; simplifying presumptive taxpayer scheme; implementing an e-Single Window for port and cross border stations, which will provide a single platform for processing clearance documents; and strengthening management and controls at Dar es Salaam port and other ports of entry. Implementation of the second phase of Authorized Economic Operators' scheme for compliant traders is another initiative to fasten the process of clearing goods for compliant traders. Other interventions will consist of implementing the Integrated Domestic Revenue Administration System (IDRAS); developing and implementing a multi-year compliance strategy and plan; establishing a database for information exchanges; and building capacity in tax administration of specialized areas.

Fiscal Aspects of Energy

20. Power sector. Following discoveries and development of natural gas infrastructure, including completion of the natural gas pipeline from Mtwara to Dar es Salaam, a large share of power generation (1,358MW) comes currently from natural gas (607MW). The government aims at constructing more power plants at Kinyerezi to expand production there from 150 MW to up to 700 MW. This shift in power generation sources, coupled with the retirement of the Emergency Power Plant, are expected to reduce costs to TANESCO. To put TANESCO on a sustainable financial footing, the company has applied the sector regulator (EWURA) for a tariff review that would be effective from January, 2017. In addition, the company is looking at financing options to liquidate arrears to energy creditors. Over the longer term, TANESCO's organizational structure will be reviewed in order to improve efficiency in its operations.

The company aims at improving efficiency in revenue collection from the current 96 percent to 99 percent by 2018 thanks to the roll out of prepayment meters (LUKU) to most customers and the installation of Automatic Meter Readers (AMR) to monitor the consumption of large power consumers. Furthermore, the payment of government electricity bills will be executed centrally through the Ministry of Finance and Planning. Finally, TANESCO will target a reduction in system losses from the current 18.1 percent to 15.1 percent by 2018. All these objectives should be achieved while TANESCO continues to connect more customers, helping to achieve a growth of electricity sales by 8 percent by 2018.

Fiscal Aspects of Pensions

21. Arrears to pension funds. The Government has revisited its plan of issuance of non-cash special bond for settlement of Pensions Funds debt by extending the timing for issuance. The decision was made to allow the Internal Auditor General to conduct a thorough verification of the total outstanding debts in order to ascertain their authenticity and to obtain the approval of the strategy to clear arrears by Cabinet prior to the issuance of the special bonds. The verification has been completed on all liabilities from PSPF while work is progressing on loans from other pension funds. The issuance of non-cash special bond with maturities ranging from 3 to 20 years is expected by mid-February 2017 (new structural benchmark).

C. Public Finance and Debt Management

Public finance and debt management

22. Management of domestic expenditure arrears. As of June 2016, the stock of verified and validated expenditure arrears according to the PSI definition amounted to Tsh 1.84 trillion, equal to 1.9 percent of GDP. The settlement of expenditure arrears in 2015/16 amounted to Tsh 958.1 billion equal to 1 percent of GDP. This amount constituted payments of Tsh 706.4 billion for Roads, Tsh 194 billion for Government entities' arrears to TANESCO, Tsh 20.1 billion for Local Government Authorities' (LGAs) teachers' claims, Tsh 10.2 billion for Police suppliers and staff claims, and Tsh 27.4 billion for contractual liabilities in other MDAs. In line with the allocation in the budget, the government plans to settle verified domestic arrears amounting to Tsh 1.7 trillion (about 1.5 percent of GDP) in 2016/17, of which Tsh 0.6 trillion under the Treasury (Vote 21), Tsh 0.8 trillion for roads certificates-related arrears through the Ministry of Works, Tsh 200 billion for water projects through the Ministry of Water, and Tsh 85 billion for MSD through the Ministry of Health. The Government also instructed all accounting officers during the budget process to set aside funds in their Budget to settle arrears under their Ministries.

23. To prevent a further accumulation of expenditure arrears, the Government is embarking on the improvement of budgeting systems, the use of more efficient cash management techniques, and the enforcement of the enacted Budget Act No.11 of 2015 (that provides the legal framework to the budget and expenditure management) as well as various circulars and instructions issued by the Paymaster General (PMG) on prevention of accumulation of expenditure arrears. The latter include provisions for the efficient use of IFMS and local purchase orders (LPOs) generated through IFMS.

24. Improving budget credibility and expenditure management. In 2016/17, the Government is implementing a new upgraded budget system whereby, among other things, will improve budget realism and expenditure efficiency. More comprehensive performance-based criteria for resources allocation will be developed. The budget module will enhance the Medium-Term Expenditure Framework (MTEF) and enable to track multi-year commitments over the projects' life cycle.

25. The government also takes note of the East AFRITAC Technical Assistance (TA) recommendations on improving cash management and forecasting, aligning resources mobilization to expenditures and continuing to enforce the enacted Budget Act No.11 of 2015 that provides a legal framework to the budget and expenditure management. In line with FYDP II, the government addresses the issues of expenditure efficiency, including through better prioritization of available resources. The government public investment management manual (PIM) is expected to improve the efficiency of capital expenditure. Currently the government is conducting awareness training on the use of PIM across the country.

26. Strengthening public investment management framework. The government is initiating a number of measures aimed at improving the implementation of public investment projects. These measures include: (i) proper budgeting for ongoing projects, in order to ensure their timely delivery and without arrears incurrence; (ii) improving PPP projects selection, approval and implementation, by providing sufficient resources for conducting rigorous feasibility studies; (iii) enhancing awareness on PPP processes by making more transparent and readily available to key stakeholders all information related to PPP projects; (iv) strengthening the PPP facilitation fund to create an enabling environment for investment; (v) establishing a robust PPP monitoring and evaluation framework; (vi) finalizing the ongoing amendment of the 2014 amended PPP Act, to bring the PPP unit from the Prime Ministry back to the Ministry of Finance. The Government will also ensure that fiscal risks are well-managed at every stage of the PPP process: inception, conduct of feasibility studies, procurement, construction, and operations.

27. Public debt management. To ensure that the risk of debt distress continues to remain low, the government is updating the Debt Sustainability Analysis taking into consideration an increase in the fiscal deficit over the medium term on account of financing major projects in FYDP II and subsequently updating the Medium-Term Debt Strategy. The proposed amendment of Government Loans, Guarantees and Grants Act CAP 134 was tabled in the November 2016 Parliamentary session and is expected to be discussed during the February 2017 Parliamentary session. The proposed amendment addresses major issues for prudent debt management in Tanzania. The bill requires the Government to conduct risk assessments on institutions that are eligible under the law to receive government guarantees or participate in on-lending arrangements. In addition, the bill recognizes the medium term debt strategy (MTDS) as the policy tool for managing the costs and risks of debt, replacing the National Debt Strategy (NDS) of 2002 which was more qualitative. The National Debt Management Committee will retain its key role in conducting analysis and advising the Minister of Finance and Planning on all matters related to domestic and foreign borrowing.

28. Monitoring and Management of the Public Sector. To ensure that Public Institutions and Statutory Corporations, as a pillar of the public sector, contribute significantly to the development plans, a total of Tsh 311 billion was estimated to be collected from 23 Institutions which are required to contribute 15 percent of their gross income for FY 2016/17. During the first quarter of the fiscal year a total of Tsh 60.4 billion was collected out of Tsh 77.9 billion estimated to be collected in that period. In order to ensure that targets are met, the following measures are ongoing: analysis of Annual Financial Statements; review of quarterly reports; and expenditure tracking after the analysis of quarterly reports. During this year, expenditure tracking will focus on the 23 Institutions which are contributing to the Consolidated Fund.

D. Other Reforms

29. Improving Statistics. The Enhanced General Data Dissemination System (e-GDDS) will be implemented through Open Data Platform (ODP) and the National Summary Data Page (NSDP). The e-GDDS will enable Tanzania to improve data dissemination practice, enhance transparency, timeliness and facilitate evidence based policy decisions. In addition, implementation of the e-GDDS will provide an opportunity for Tanzania to advance to the Special Data Dissemination Standard. Dissemination of macroeconomic and socio-economic data through the NSDP will provide easy access to information and act as one stop centre for national and international data users.

30. The Government of Tanzania is committed to continue working with the International Monetary Fund and other international organizations to improve production and dissemination of official statistics for informed decisions. The Ministry of Finance and Planning, Bank of Tanzania and National Bureau of Statistics have made the NSDP public on 24thNovember, 2016 through the National Bureau of Statistics' website (www.nbs.go.tz).

Program Monitoring

31. Assessment criteria for end-December 2016 and indicative targets for end-March and June 2017 are set as per Table 1. The sixth review under the PSI is expected to take place by June 30, 2017 on the basis of the assessment criteria and structural benchmarks indicated in Tables 1 and 2, attached.

Table 1. Tanzania: Quantitative Assessment Criteria (AC) and Indicative Targets (IT) Under the Policy Support Instrument, March 2016–June 2017

	Mar. 2016				June 2016				Sep. 2016				Dec. 2016	Mar. 2017	June 2017
	IT				AC				IT				AC	IT	IT
	Program[1]	Adjusted Criteria	Actual	Met?	Program[2]	Adjusted Criteria	Actual	Met?	Program[2]	Adjusted Criteria	Actual	Met?	Program[2]	Program[2]	Program[2]
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)														
Average reserve money (upper bound) [4]	6,912	6,912	6,533	✓	7,076	7,076	6,624	✓	7,418	7,418	6,636	✓	7,729	7,925	7,958
Average reserve money target [4]	6,843	…	…		7,006	…	…		7,345				7,652	7,846	7,879
Average reserve money (lower bound) [4]	6,775	…	…		6,936	…	…		7,272				7,576	7,768	7,801
Tax revenues (floor)[3]	8,971	8,971	9,170	✓	12,229	12,229	12,411	✓	3,385	3,385	3,455	✓	7,086	10,672	14,448
Priority social spending (floor; indicative target)[3]	2,100	2,100	2,530	✓	2,800	2,800	3,396	✓	790	790	881	✓	1,580	2,370	3,160
Accumulation of domestic expenditure arrears (ceiling)[3, 5]	0	0	44	×	0	0	110	×	0	0	…	?	0	0	0
Fiscal balance (cumulative, floor)[3, 8, 9]	-2,988	-3,020	-1,883	✓	-3,161	-3,230	-3,428	×	-1,219	-1,219	326	✓	-2,403	-3,650	-5,027
	(Millions of U.S. dollars; end of period)														
Change in net international reserves of the Bank of Tanzania (floor) [3, 6, 7]	-120	-420	-253	✓	16	-284	-241	✓	181	-119	171	✓	310	439	567
Accumulation of external payment arrears (continuous AC ceiling)[3]	0	0	0	✓	0	0	0	✓	0	0	0	✓	0	0	0
Memorandum ıtems:															
Foreign program assistance (cumulative grants and loans; millions of U.S. dollars)[3]	294	294	171		257	257	247		55	55	43		160	202	378
o.w. Program grants (millions of U.S. dollars)[3]	54	54	40		73	73	41		5	5	43		34	50	108
External nonconcessional borrowing (ENCB) disbursements to the budget (millions of U.S. dollars)[3]	432	432	65		533	533	210		315	315	15		629	944	1,259
fiscal year 2015/16 (billions of Tanzania shillings)[3]			0				0								
Amount of loans in arrears made by pension funds to government entities and recognized by			0				0								

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

[1] From the third review under the Policy Support Instrument.

[2] From the fourth review under the Policy Support Instrument.

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

[4] Assessment criteria and indicative targets apply to upper bound only.

[5] Starting from June 2016, AC for the end of the fiscal year, otherwise IT.

[6] Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government up to the equivalent of US$300 million.

[7] Starting end-December 2015 the NIR target excludes short-term (less than 1 year) foreign exchange liabilities to residents.

[0] The fiscal deficit is measured on a cash basis from the financing side at the current exchange rates and is defined as a sum of (i) net domestic financing (NDF) of the Government; (ii) net external financing and (iii) privatization receipts as defined in the TMU.

[9] The deficit in 2015/16 will be raised by the amount of arrears to PSPF on account of the 1999 reform and the amount of loans in arrears made by pension funds to government entities (recognized by the government) that were cleared during the fiscal year. This adjuster will be capped by the total amount of arrears identified in the strategy to clear arrears to pension funds. The deficit will be increased by any shortfalls in foreign program grants up to a cumulative ceiling of equivalent to US$200 million calculated at the program exchange rate.

Table 2. Tanzania: Structural Benchmarks Under the Policy Support Instrument, July 2016–March 2017

Measure	***Macroeconomic rationale***	***Target date***	***Status***
Public Finance Management/Fiscal Risks			
Settlement of arrears to PSPF on account of 1999 reform	To address fiscal risks	End-December 2016	Expected to be missed. Verification of arrears by the Internal Auditor General and Cabinet approval of paper recognizing the debt and setting out strategy for settlement are to be completed by end-December 2016. Issuance of non-cash bonds for settlement will be specified as a new benchmark (see below).
Settlement of arrears to pension funds on loans made to government	To address fiscal risks	End-December 2016	
Launch a new public awareness campaign to warn suppliers that orders not generated through IFMS will not be honored	To prevent arrears accumulation	End-July 2016	Met. The 2016/17 budget speech warned suppliers that orders not generated through IFMS will not be honored, and a Treasury circular was issued in July 2016 to that effect.
Issuance of non-cash bonds in settlement of arrears to PSPF on account of the 1999 reforms as well as to all pension funds on loans made to the government.	To address fiscal risks	February 15, 2017	Proposed new benchmark
Monetary, Financial and Exchange Rate Policies			
Produce a study making recommendations on the use of foreign exchange swaps between commercial banks and banks' NOP limit.	To improve liquidity in the foreign exchange market	End-June 2016	Not met. The NOP limit was raised back to 7.5 percent of core capital effective September 1, 2016, and the study on the use of FX swaps is expected to be completed by end-December 2016.
Carry out a study to determine an approach of setting the Lombard rate to make it more predictable (in order to enhance stability of the short-term interest rates) while consistent with the monetary policy stance and ensuring that the facility is not abused.	To reduce excessive volatilities in short term money market interest rates.	End-September 2016	Not met. With the decision to make more active use of a policy rate in guiding monetary policy from 2017, the BoT proposes to link the Lombard rate to the policy rate. The focus now is in clarifying operational issues involved in the shift to interest rate targeting.

Table 2. Tanzania: Structural Benchmarks Under the Policy Support Instrument, July 2016–March 2017 (concluded)

Prepare for the approval by the Bank of Tanzania's management, an operational plan to implement an interest rate corridor, describing the width of the corridor, the market interest rate that is to be targeted, and how open market operations are to be conducted.	To modernize the monetary policy framework	End-February 2017	Proposed new benchmark.
Complete a review of the Bank of Tanzania's collateral framework, with the aim of accepting government securities of all maturities as eligible collateral for accessing the BoT's standing facilities and windows. The review will include proposals on calculating the discount on securities, and discuss a timeline for implementation.	To modernize the monetary policy framework, and promote development of the government debt securities market	End-March 2017	Proposed new benchmark.
Public sector monitoring			
Office of Treasury Registrar to publish first quarterly report on major Public Institution and Statutory Corporations' revenues, expenditures, and profits and losses	To improve the monitoring of parastatals and transparency	End-September 2016	Not met. The template of information was posted on the Treasury Registrar's website in late October. The thirty largest parastatals will start providing data using this template starting in the third quarter of fiscal year 2016/17.
Improve revenue mobilization			
Introduction of a new Tax Administration System (IDRAS)	To improve tax administration	End-October 2016	Not met. Three prior tenders to procure IDRAS failed and the fourth tender is underway, with expectations of an award being made in early 2017. The new system is expected to take three years to be fully implemented.

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

December 20, 2016

Introduction

1. The purpose of this Technical Memorandum of Understanding (TMU) is to describe concepts and definitions that are being used in the monitoring of Tanzania's program supported by the PSI, comprising the quantitative assessment criteria, the indicative targets and structural benchmarks monitored under the PSI.

2. The principal data sources are the standardized reporting forms, 1SR and 2SR, as provided by the Bank of Tanzania (BoT) to the IMF, and the government debt tables provided by the Accountant General's office.

3. The program exchange rate is TSh/USD 2,179.60.

Definitions

Net international reserves

4. Net international reserves (NIR) of the BoT are defined as reserve assets of the BoT minus reserve liabilities of the BoT. The change in NIR is calculated as the cumulative change since the beginning of the fiscal year. The BoT's reserve assets, as defined in the IMF BOP manual (5th edition) and elaborated in the reserve template of the IMF's special data dissemination standards (SDDS), include: (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps maturing in less than one year and other assets used as collateral or as guarantee for a third party external liability (assets not readily available). The BoT's reserve liabilities include: (i) all foreign exchange liabilities except government's foreign currency deposits of residual maturities more than one year; and (ii) outstanding purchases and loans from the IMF, as recorded in the financial position of Tanzania with the IMF by the Finance Department of the Fund.

5. NIR are monitored in U.S. dollars, and for program monitoring purposes assets and liabilities in currencies other than U.S. dollars shall be converted into dollar equivalent values using the exchange rates as of March 31, 2016 (as recorded in the balance sheet of the BoT).

	US$ per currency unit
British pound	1.4404
Euro	1.1313
Japanese yen	0.0089
Australian dollar	0.7672
Canadian dollar	0.7686
Chinese yuan	0.1544
SDR	1.3988
Swedish Krona	0.1224
Kenyan Shilling	0.0099
South African Rand	0.0669

Reserve money and reserve money band

6. Reserve money is defined as the sum of currency issued by the BoT and the deposits of Other Depository Corporations (ODCs) with the BoT. The reserve money targets are the projected daily averages of March, June, September, and December within a symmetrical one percent band. The upper bound of the band for June and December serves as the assessment criterion and that for March and September, the indicative target.

Fiscal cash deficit of the Government of Tanzania

7. The fiscal cash deficit of the Government (central and local governments only) will be measured on a cash basis from the financing side at the current exchange rates. The deficit is defined as the sum of: (i) net domestic financing (NDF) of the Government; (ii) net external financing and (iii) privatization receipts. Any amounts in foreign currency will be converted into Tanzanian shillings at the exchange rates as of the dates of the transactions.

i. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of:

   a. loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued for monetary policy purposes), minus all government deposits with the BoT, which comprise 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).

   b. all BoT accounts receivable due from the Government of Tanzania that are not included under (i) above;

c. loans and advances to the government by other domestic depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other domestic depository corporations;

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

e. the outstanding stock of domestic debt held outside domestic depository corporations and other public entities, excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COBELMO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

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

ii. Net external financing is measured on a cumulative basis from the beginning of the fiscal year and is defined as the sum of disbursements minus amortization of budget support loans, project loans, external non-concessional borrowing (ENCB) including project ENCB directly disbursed to project implementers; and any other forms of Government external debt. The term "debt" will have the meaning set forth in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board's Decision No. 15688-(14/107), adopted December 5, 2014. Government external debt is understood to mean a direct, i.e. not contingent, liability to non-residents of the Government of Tanzania.

iii. Privatization receipts consist of net proceeds to the Government of Tanzania in connection with the sale/purchase of financial assets that are not included in NDF and the sale of intangible nonfinancial assets, such as leases and the sale of licenses with duration of 10 years or longer.

Domestic expenditure arrears

8. Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 30 days for goods and services and more than 90 days for contract works as set out in the government's Circular No 9 of 8th December 2014. These will include payments for tax refunds, employee expenses (wages and salaries, staff claims for travel, transfer and other non-salary allowances), utilities, rents, recurrent goods and services, and construction works. Accumulation of domestic expenditure arrears is calculated as a cumulative change in the stock of expenditure arrears at the end of each quarter from the stock at the end of the previous fiscal year (June 30).

External payment arrears

9. External payment arrears consist of the total amount of external debt service obligations (interest and principal) of the government and the BoT that have not been paid at the time they are due, excluding arrears on external debt service obligations pending the conclusion of debtrescheduling arrangements and arrears previously accumulated and reported to the Executive Board. The ceiling on external payment arrears is continuous and applies throughout the year.

Priority social spending

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

Tax revenues

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

Arrears to pension funds

12. Arrears to pension funds include government obligations to the Public Service Pension Fund (PSPF) on pre-1999 reform pension benefits paid on government's behalf and overdue payments on loans made by pension funds to public entities.

Foreign program assistance

13. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance and Planning (MoFP) through BoT accounts and accounts at other depository corporations and is calculated as the cumulative sum, since the beginning of the fiscal year, of the receipts from (i) program loans and (ii) program grants. Program assistance does not include nonconcessional external debt.

Adjusters

Net international reserves

14. The end-of-quarter quantitative targets for the change in the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfalls in (a) foreign program assistance and (b) external nonconcessional borrowing (ENCB) financing of the government budget, up to a limit of US$300 million.

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

Fiscal cash deficit

16. The end-of-quarter limits in 2015/16 and 2016/17 will be adjusted upward by the amount of arrears to PSPF on account of the 1999 reform cleared from the beginning of the fiscal year, and the amount of loans in arrears made by pension funds to government entities and cleared by the government from the beginning of the fiscal year. The cumulative upward adjustment to the limits on the deficits in 2015/16 and 2016/17 will be capped by the total amount of arrears and loans that are recognized and taken over by the authorities at the end of the verification and reconciliation process.

17. The end-of-quarter limits will be increased by any shortfalls in foreign program grants up to a cumulative ceiling of equivalent to US$200 million calculated at the program exchange rate (para 3).

18. The foreign program grant shortfalls will be calculated relative to projections for foreign grants shown in the table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania titled "Quantitative Assessment Criteria, and Indicative Targets under the Policy Support Instrument".

Data Reporting Requirements

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

Table 1. Summary of Reporting Requirements

Information	Reporting Institution	Frequency	Submission Lag
Issuance of government securities.	BoT	Bi-weekly	1 week
Yields on government securities.	BoT	Bi-weekly	1 week
Daily excess reserves of commercial banks	BoT	Weekly	1 week
Daily data on transactions through IFEM by exchange rate and volume, separating BoT and commercial bank transactions	BoT	Weekly	1 week
Daily data on reserve money and its components	BoT	Daily	1-day
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices.	NBS	Annually	6 months
The quarterly national account statistics in constant prices.	NBS	Quarterly	3 months
Balance sheet of the BoT (1SRF) and the currency composition of official foreign assets and official foreign liabilities.	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS).	BoT	Monthly	4 weeks
Information on foreign currency swaps entered into with residents and non-residents, including amounts, dates on which agreements come into effect and expire, and terms of swaps.	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	MoFP	Monthly	2 weeks
External trade developments.	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators for other depository corporations.	BoT	Quarterly	6 weeks
Other depository corporation lending by activity.	BoT	Monthly	4 weeks
Commercial banks interest rate structure.	BoT	Monthly	4 weeks

Table 1. Summary of Reporting Requirements (concluded)

Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves.[1]	BoT and MoFP	Monthly	4 weeks
Amount of arrears outstanding that are overdue by more than 30 days for goods and services and more than 90 days for contract works as set out in the government's Circular No 9 of 8th December 2014 for all government ministries.	MoFP/AGD	Quarterly	2 months
The flash report on revenues and expenditures.	MoFP/AGD	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report.[1]	MoFP	Monthly	4 weeks
Monthly report on central government operations.	MoFP	Monthly	6 weeks
Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid.	MoFP	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoFP	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 14 of the TMU during the period including terms and conditions according to loan agreements.	MoFP	Quarterly	4 weeks
Quarterly report on loans and advances to government by pension funds and other public entities not covered by the central government accounts	MoFP	Quarterly	4 weeks
Report on priority social spending	MoFP	Quarterly	6 weeks

[1]The MoFP 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 MoFP.