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September 2021

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED REPUBLIC OF TANZANIA

In the context of the Requests for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 7, 2021, following discussions that ended on July 16, 2021, with the officials of the United Republic of Tanzania on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on August 20, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the United Republic of Tanzania.

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.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$567.25 Million in Emergency Support to Tanzania to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The COVID-19 outbreak has led to the collapse of the tourism sector and amplified the need for significant financing to tackle the health and economic effects of the pandemic.
- The IMF approved US$567.25 million in emergency financial assistance under the Rapid Credit Facility and Rapid Financing Instrument to support the authorities' efforts in responding to the pandemic by adressing the urgent health, humanitarian, and economic costs. The resources are also expected to play a catalytic role in their efforts to mobilize additional support from development partners.
- The authorities also commit to strengthening governance and transparency to ensure that the financial resources are efficiently spent on addressing the crisis.

Washington, DC – **September 7, 2021:** The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of SDR132.6 million (US$189.08 million) under the Rapid Credit Facility (RCF) and a purchase equivalent to SDR265.2 million (US$378.17 million) under the Rapid Financing Instrument (RFI), a total of SDR397.8 million (US$567.25 million or 100 percent of quota). This emergency financing will help finance Tanzania's urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic.

Tanzania's economic outlook has deteriorated due to the impact of the COVID-19 pandemic. With the collapse in tourism in the wake of travel restrictions, the economy reportedly decelerated to 4.8 percent growth in 2020, and growth is expected to remain subdued in 2021.Tanzania faces an urgent balance of payment need of about 1.5 percent of GDP as the authorities implement a comprehensive plan to mitigate the effects of the pandemic and preserve macroeconomic stability in the face of a reported third wave of the virus.

The disbursement under the RCF and purchase under the RFI will help finance the interventions needed to mitigate the severe socio-economic impacts of the pandemic and help catalyze support from development partners. The authorities have indicated that they are committed to pursuing economic policies appropriate for addressing the impact of the pandemic and are committed to strengthening coordination and transparency to ensure that RCF and RFI resources are spent on fighting the pandemic. These measures include publishing reports of RCF and RFI resources spent and undertaking a post-crisis audit of all pandemic-related spending.

Following the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Chair, issued the following statement:

"The COVID-19 pandemic has negatively impacted Tanzania's macroeconomic outlook, and the health and wellbeing of its population. Growth decelerated in 2020 and is expected to remain subdued in 2021, increasing poverty and negatively affecting employment. Tanzania's risk of external and public debt distress increased to moderate, mainly due to the pandemic's effect on tourism exports. Tanzania's macroeconomic outlook hinges on satisfactorily addressing the pandemic, but significant downside risks remain due to uncertainties surrounding the course of the pandemic.

"The authorities are implementing a comprehensive pandemic response plan—Tanzania COVID-19 Socioeconomic Response Plan (TCRP) —to address the fallout of the COVID-19 shock. Tanzania requires urgent financial assistance to implement the plan and avert the severe health, social and economic consequences of a reported third wave of the virus. Emergency support under the Rapid Credit Facility and Rapid Financing Instrument will substantially contribute to filling immediate external financing needs and help catalyze donor support. Temporarily loosening macroeconomic and financial policies will mitigate the pandemic's adverse impact, by deploying a vaccination campaign, increasing health and social spending, and supporting the private sector. Prioritizing the health response, strengthening coordination and transparency to ensure that funds received are spent on fighting the pandemic, and regularly and transparently reporting epidemiological data will be critical for the plan's success.

"Maintaining fiscal and debt sustainability, and preserving financial stability, while supporting the economy, will also be important. Closely monitoring the banking system's health in light of increased banking sector vulnerabilities will be key.

"Once the crisis abates, the authorities appropriately intend to resume implementing reforms to achieve sustainable and inclusive growth. Their broader policy and reform agenda includes fiscal reforms to avoid domestic arrears and pay tax refunds on time, increasing support for education and health spending, and improvements to the business climate."

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)

https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar

https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

August 20, 2021

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic has negatively impacted Tanzania's macroeconomic outlook, and negatively impacted its population's health and well-being. Tourism collapsed in the wake of travel restrictions, the economy reportedly decelerated to 4.8 percent growth in 2020, and growth is expected to remain subdued in 2021. The previous government downplayed the presence of the COVID-19 virus in Tanzania and the impact of the pandemic in the country, and budgeted insufficient resources to address the health and economic crisis. This has left the new administration of President Hassan with an enormous and urgent challenge to tackle the COVID-19 pandemic. The new administration is implementing comprehensive plans to immediately address the pandemic, resulting in an urgent balance of payments need.

Request for Fund support. The authorities are seeking financial assistance under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) to address the urgent balance of payments needs to tackle the health and economic effects of the pandemic. Given the infeasibility of quickly putting a UCT-quality program in place in the short-term, the authorities are seeking financial assistance under the exogenous shocks window of the RCF and under the RFI. The authorities' plans will mitigate risks to fiscal and debt sustainability and are supported by the authorities' prudent fiscal track record. The authorities are requesting a disbursement of SDR132.6 million under the RCF (33.33 percent of quota) and a purchase under the RFI of SDR265.2 million (66.67 percent of quota), totaling SDR 397.8 million (US$566 million), equivalent to 100 percent of quota. Fund support is expected to catalyze additional financing from development partners, which the authorities are actively seeking.

Staff supports the authorities' request. Staff assesses that Tanzania meets the eligibility criteria for the RCF and RFI as it faces an urgent BOP need triggered by the COVID-19 shock expected to be resolved within 12 months without major policy changes, that, if not addressed, would result in immediate and severe economic disruption. Public debt is sustainable and capacity to repay the Fund is adequate. Staff supports the authorities' request for a disbursement under the RCF and a purchase under the RFI to be used by the authorities as direct budget support to provide space for the needed interventions to mitigate the severe socio-economic impact of the pandemic. The authorities have indicated that they are committed to pursuing economic policies appropriate for addressing the impact of the pandemic and that they will identify adequate monitoring mechanisms to ensure that RCF/RFI resources are spent in the prescribed fashion.

Macroeconomic policies. The authorities have prepared a comprehensive response plan to address the COVID-19 emergency. In their attached letter of intent (LOI) the authorities commit to increasing health spending and implementing the vaccination plan to contain the outbreak and save lives. They also commit to increasing priority social spending to protect the most vulnerable, to supporting the recovery in the tourism sector and in SMEs, and to expedite the clearance of domestic verified arrears. The authorities also commit to strengthening governance and transparency to ensure that the disbursement under the RCF and purchase under the RFI is efficiently spent on addressing the crisis. Staff supports a temporary widening of the fiscal deficit to address the health crisis and mitigate its socioeconomic impact, including the purchase and deployment of vaccines. As the crisis subsides, the authorities remain committed to maintaining debt sustainability and implementing growth-supporting reforms. External buffers and more exchange rate flexibility can be used to absorb the COVID-19 shock as needed. Monetary policy will continue to be accommodative to help the economic recovery by ensuring adequate liquidity to support credit while preserving financial stability.

Approved By
Catherine Pattillo (AFR) and Maria Gonzalez (SPR)

The staff team comprised Charalambos Tsangarides (Head), Sebastian Acevedo, Xiangming Fang, Ursula Wiriadinata, and Cameron McLoughlin (all AFR), Jens Reinke (Resident Representative) and Chelaus Rutachururwa (local economist). The team held remote technical discussions with teams from the Ministry of Finance and the Bank of Tanzania on June 15, 16, 25 and July 16, 2021. Discussions with the Ministry of Finance Permanent Secretary Emmanuel M. Tutuba, Deputy Permanent Secretary Adolf H. Ndunguru, Deputy Central Bank Governors Dr. Yamungu M. Kayandabila and Bernard Y. Kibesse, and other senior officials were held by teleconference during August 11-12, 2021. Executive Director Ita Mannathoko and Bernard Jappah (OED) participated in the discussions.

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BACKGROUND

1. **For most of the pandemic,Tanzania left the health and economic effects of COVID-19 largely unattended.** The local presence of the virus was denied, and the impact of the pandemic in the country was downplayed. As a result, the government did not provide sufficient resources to address the health crisis, and support affected economic sectors and households. While the government did impose restrictions on movement and gatherings earlier in the pandemic, these were lifted in June 2020. The government stopped reporting COVID-19 data in May 2020 (at that time, COVID-19 cases stood at 509 and fatalities at 21), and chose not to sign up for the COVAX facility. The official response also undermined confidence in the country's testing capacity and fomented doubts about the benefits of vaccines.

2. **In April 2021, former Vice President Samia Suluhu Hassan, became President of Tanzania, following the passing of President Magufuli**. The new administration took a different stance towards the pandemic, acknowledging the presence of COVID-19 and promising to address it. The new administration also began to reopen the space for civil society engagement and participation, emphasizing the importance of free speech, while signaling a more collaborative approach with private sector and foreign investors.

3. **President Hassan's administration has sought to tackle the COVID-19 crisis directly by following a science-based approach.** The new administration quickly issued science-based pandemic guidelines, including wearing of masks and the use of personal protective equipment for healthcare workers. An Expert Committee was also formed to review the situation and advise on a strategy to fight the pandemic. The Committee's published report indicated that Tanzania had already gone through two major waves of the pandemic and is currently vulnerable to a third wave, and recommended to reporting pandemic data, and signing up for the COVAX facility. The government recently joined COVAX, and the vaccination campaign, and related spending, started in late July, with 250,000 people alredy receiving the Johnson and Johnson vaccine. While, to date, the government has not published COVID-19 figures, the President during a speech to mark her 100 days in office announced that Tanzania recorded 100 new COVID-19 cases since the third wave broke out.

4. **The response to the pandemic has been hindered by legacy issues and institutional inertia.** Although President Hassan took office on March 19, it was not until April 30th that she was elected leader of the Chama Cha Mapinduzi (CCM) party, allowing her to consolidate the needed support to start moving her agenda forward. By then, the budget process that began in January was well under way, constraining the new administration's ability to updated policy priorities, including adequate resources to tackle COVID-19. As a result, the FY2021/22 budget, approved on June 25 projects a tightening of almost 1 percent of GDP relative to the FY2020/2021 budget (slightly less if compared to the likely outturn), and a flat health sector budget of 1.2 percent of GDP, with little space to address much needed pandemic spending. Overall, priority social spending is budgeted to increase by about ½ percent of GDP (mainly on education and rural roads), while social protection will decline by 0.1 percent of GDP compared to last year's budget.

5. The authorities have requested emergency Fund financial assistance through the RCF and RFI. The RCF and RFI financing will help Tanzania to mount an appropriate response to the pandemic by adressing the urgent health, humanitarian, and economic costs in the face of the ongoing third COVID wave. Resources will be directed to strengthen the health sector, including purchasing equipment to test, treat, and manage the COVID-19 crisis. RCF and RFI financing will also help the government provide much-needed support to the tourism sector that has been hard-hit by travel restrictions and decreased demand, and to low-income households hit hard by the pandemic.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Recent Developments

6. The authorities report that the economy grew 4.8 percent in 2020. According to the government, the main contributions to growth last year came from construction (1.3 pp), agriculture (1.2 pp), and transport and storage (0.6 pp), helped by the absence of lockdowns. However, various economic indicators (Figure 1) suggest that a robust 4.8 percent growth is unlikely. The number of tourist arrivals (travel receipts) in 2020 collapsed by 60 percent (73 percent), a significant drag on growth as the sector is estimated to contribute (directly and indirectly) about 10 percent of GDP. Public expenditure, which accounts for about a fifth of the economy, declined by more than 9 percent in real terms (compared to 14 percent growth in 2019 and 7 percent average growth over the 2016-19 period). Credit to the private sector in 2020 declined slightly in real terms (-0.2 percent) compared to 7 percent growth in 2019 and 5 percent average growth in the 2016-2019 period. Other indicators, including electricity generation (which contracted by 4.3 percent), imports of capital goods (declined 13 percent), and tax collection (VAT, excises and other taxes declined by 0.5, 2.2 and 3.7 percent, respectively) also point to a much lower growth rate for 2020. Inflation remained stable at around 3.3 percent throughout the pandemic despite an accommodative monetary policy (see below), indicating some slack in the economy.

7. The pandemic and the associated slowdown in economic activity have increased poverty and negatively affected employment. The World Bank estimates that poverty increased by about 1 million people in 2020 to about 27.1 percent, of which 0.6 million was due to the pandemic-induced growth deceleration.[1] They also estimate, based on the COVID-19 Business Pulse Survey (COV-BPS), that in June 2020 alone about 140,000 formal jobs were lost, and some 2.2 million nonfarm informal workers suffered income losses. During a second COV-BPS survey in December 2020, 14 percent of firms reported to have laid off workers in the previous month, and another 12 percent reduced working hours or pay of formal workers. Even those that remained employed experienced lower incomes. In Dar Es Salaam, almost 10 percent of family business owners reported no revenue, while 42 percent saw declining revenues.

[1] Based on the national poverty line of US$1.35 per person per day in purchasing power parity terms. See https://www.worldbank.org/en/country/tanzania/overview.

8. The fiscal position deteriorated due to a revenue shortfall and spending pressures to continue the government's public infrastructure drive. The overall fiscal deficit is expected to have widened to 2.5 percent of GDP by end-FY2020/21 due to a decline in revenues of about 1.2 percent of GDP and a reduction in grants of 0.3 percent of GDP. The government offset some of the fall in revenues with cuts to current spending of ½ percent of GDP, while accelerating the pace of development spending to 7 percent of GDP compared to 6.5 in the previous year.[2] After a sharp contraction in development spending in calendar year 2020, there has been a significant pickup in spending in the first five months of 2021 (51 percent y-o-y). The government's response to the health and economic crisis caused by the pandemic included only 0.3 percent of GDP to COVID-related spending in FY2020/21, of which about 0.2 percent of GDP covered revenue shortfalls in public sector tourism institutions, while insignificant amounts were allocated to prevention, containment, and management of the pandemic.[3]

9. The current account balance was adversely affected by the pandemic in FY2020/21, although commodity price movements moderated the impact. Tourism receipts for the year are estimated to have declined by about 55 percent while traditional goods exports (coffee, cotton, and tobacco) are estimated to have declined by around 40 percent (y-o-y), due to weak external demand and lower global prices. Nonetheless, higher gold exports and a lower fuel import bill helped cushion the external shock from the pandemic. Imports of services are also projected to decline by a quarter due to lower demand for travel and transportation, helping offset some of the decline of inbound tourists. Overall, the current account deficit is estimated to have widened to 1.9 percent of GDP in FY2020/21, up from 1.6 percent of GDP in FY2019/20.

10. Gross international reserves declined but remain at a healthy level, helped by debt relief and external financing. International reserves saw a steep decline of over US$400 million since end-2019, to US$5.2 billion in June 2021 (or 5.1 months of prospective imports), above the government's threshold of 4 months. The current level of reserves falls comfortably within the 3.8-5.7 months range suggested by the Assessment of Reserve Adequacy in Credit-Constrained-Economies metric (Appendix I). The moderate impact on reserves was helped by debt relief under the CCRT, the suspension of debt service under the DSSI, budget support from the EU, and project loans from IFIs.

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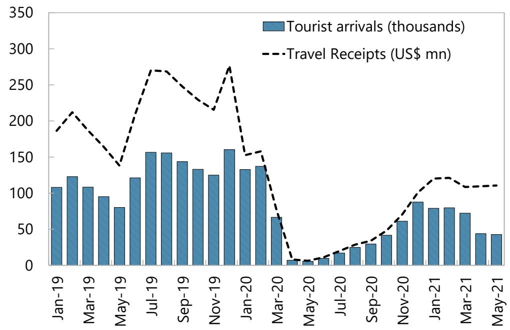
[2] Development spending mainly comprises infrastructure investments in the Standard Gauge Railway, the Rufiji hydroelectric power plant, and other transportation and electrification projects.

[3] The government transferred funds to the Tanzania National Parks Authority (TANAPA), Ngorongoro Conservation Area Authority (NCAA) and Tanzania Wildlife Management Authority (TAWA) to cover revenue shortfalls for operational costs. The CCRT debt relief provided by the IMF helped finance the transfers for these institutions.

Figure 1. Tanzania: Impact of the Crisis on Recent Economic Indicators

Tourism collapsed in 2020, and its recovery has been slow

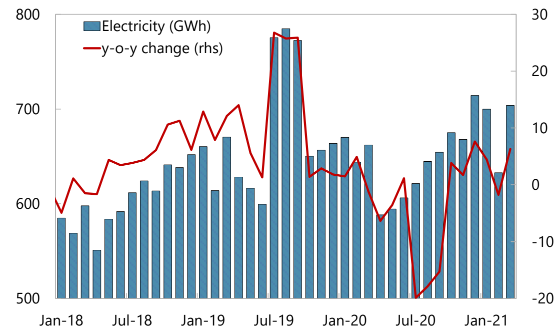
Tourism Inflows



Sources: Bank of Tanzania, National Bureau of Statistics; and IMF staff calculations.

Electricity generation also fell sharply in mid-2020 but has recovered since then

Electricity Generation

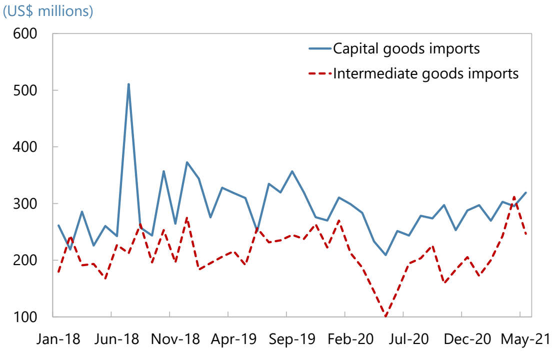


Sources: National Bureau of Statistics; and IMF staff calculations.

Capital and intermediate goods imports fell sharply during the pandemic

Selected Imports

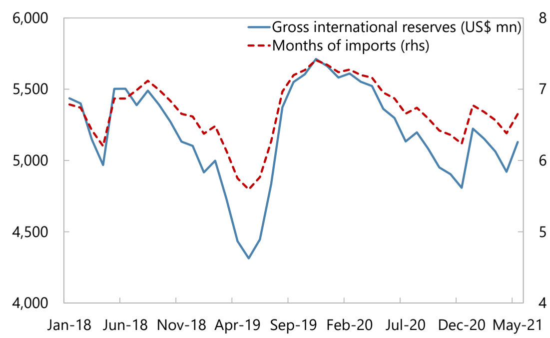
(US$ millions)



Sources: Bank of Tanzania; and IMF staff calculations.

Reserves have been on a declining trend since 2020Q1

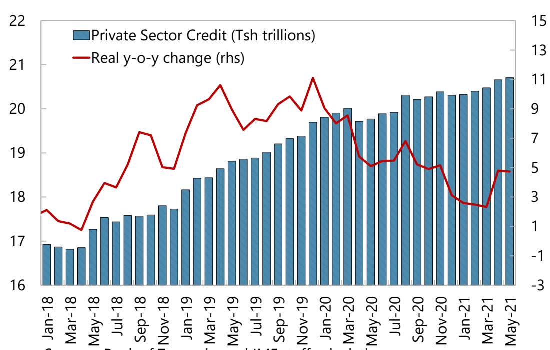
International Reserves



Sources: Bank of Tanzania; and IMF staff calculations.

Private sector credit growth decelerated following the pandemic, but has started to recover

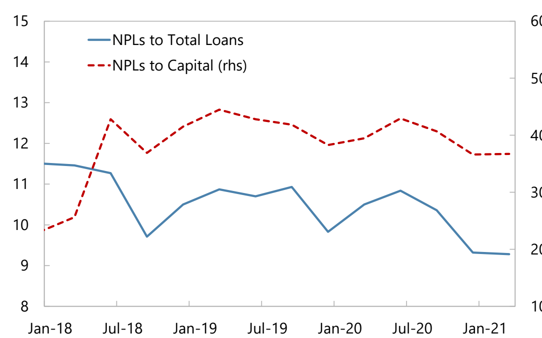
Credit to Private Sector



Sources: Bank of Tanzania; and IMF staff calculations.

The economic downturn is expected to heighten Tanzania's already elevated NPLs

Non-Performing Loans



Sources: Bank of Tanzania; and IMF staff calculations.

11. The pandemic has led to a significant slowdown in the growth of credit to private sector in 2020, while the full impact on the financial sector remains to be seen. Nominal credit growth to the private sector declined from about 11 percent in December 2019 to 2.3 percent in March 2021, but lending activity has started to recover, increasing by 3.6 percent (y-o-y) in June. After reaching a peak of 10.8 percent in June 2020, the NPL ratio fell to 9.2 percent in June 2021. Other FSIs, including capital adequacy and liquidity ratios, also indicate that conditions in the banking system are broadly stable relative to the pre-COVID period. However, the full impact of the pandemic on the banking sector health, including on NPLs, is yet to be seen as the BoT has provided regulatory flexibility on loan restructuring in wake of the pandemic that allows for delays in NPLs recognition and required loan-loss provision (see paragraph 17).

B. Outlook and Risks

12. The macroeconomic outlook hinges on the extent of changes to COVID-19 policies as well as the broader policy and reform agenda. Conditional on satisfactory implementation of the authorities' Tanzania COVID-19 Socioeconomic Response Plan (TCRP, Box 1), growth is expected to recover to 4 percent in 2021 and further pick up to about 5½ percent in the following years.[4] If economic reforms announced by the new administration and the envisaged improvements in the business climate materialize, then medium-term growth could reach 6 percent. Inflation is expected to remain contained at around 3½ percent, supported by appropriate monetary policies that have anchored inflation expectations in the 3½-4 percent range. After a widening of the current account deficit to accommodate the urgent response to the pandemic, the deficit is projected to hover around 3 percent of GDP over the medium-term as the tourism sector slowly recovers. Similarly, the fiscal deficit will increase in FY2021/22 to about 3.9 percent of GDP to cover COVID- related spending returning to below 3 percent of GDP over the medium-term.

13. Tanzania is facing an urgent balance of payments need as the government is implementing a comprehensive plan (TCRP) to tackle the COVID-19 shock, while the external position is expected to deteriorate further in 2021/22. Emergency imports of medicines, testing materials, and protective equipment are urgently needed to respond to the third wave of the pandemic. Acquiring and distributing vaccines are top priorities, which also require an expansion of vaccine deployment infrastructure.

[4] Staff considers that recent real GDP growth figures in 2020 do not properly reflect the implied deceleration in activity suggested by other indicators, and estimates growth in 2020 to be substantially lower than the 4.8 percent reported by the government. Staff projects growth to rebound in 2021 to about 4 percent. Therefore, the macroeconomic framework shows a break between historic and projected growth beginning with FY2021/22.

Tourism receipts are expected to remain well below pre-crisis levels, and the projected increase in oil and other commodity prices will increase the import bill and partly offset earnings from gold exports. Consequently, the current account deficit is expected to deteriorate by about 2½ percent of GDP to 4.5 percent in 2021/22. Staff estimates an immediate balance of payment (BOP) financing need of US$1.1 billion (1.5 percent of GDP, Text Table 1) that, if not addressed, would result in severe economic disruption. The RCF disbursement and RFI purchase will contribute to closing the BOP gap and help catalyze further financial support from development partners.[5] The urgent BOP need is expected to be resolved within 12 months.

Text Table 1. Tanzania: Balance of Payments
(in millions of U.S. dollars)

	2020/21 Estimates		2021/22 RCF/RFI baseline	
	US$	% of GDP	US$	% of GDP
Current account	**-1,280**	**-1.9**	**-3,229**	**-4.5**
Exports of goods and services	8,854	13.3	9,646	13.4
of which:				
Gold	3,051	4.6	3,349	4.7
Travel receipts	874	1.3	1,699	2.4
Imports of goods and services	-9,739	-14.6	-12,324	-17.2
of which:				
Oil	-1,577	-2.4	-1,861	-2.6
Emergency imports[1]			-850	
Capital and financial account	**1,676**	**2.5**	**2,667**	**3.7**
of which:				
Direct investment	803	1.2	898	1.3
Foreign program and project assistance	944	1.4	1,458	2.0
Overall balance	24	0.0	-561	-0.8
BOP financing gap	**23**	**0.0**	**1,104**	**1.5**
Potential financing sources	**23**	**0.0**	**1,104**	**1.5**
IMF use of fund resources: RCF/RFI[2]	23	0.03	566	0.8
Reserves drawdown (excl. SDR allocation)[3]	0	0.0	238	0.3
Global Fund	0	0.0	113	0.2
Unidentified donors	0	0.0	187	0.3
Remaining financing gap	0	0.0	0	0.0

Sources: Tanzanian authorities and IMF staff estimates and projections.
[1] Medical equipement, medications and vaccines.
[2] In 2020/21 it reflects debt relief under the CCRT.
[3] The SDR allocation of US$543 million is included in the baseline (see Table 3). Accounting for the SDR allocation reseves in 2021/22 will increase by US$305 million.

14. The absence of urgent financial assistance, including from the RCF disbursement and RFI purchase, could have severe health, social, and economic consequences for Tanzania. The country is reportedly experiencing the third wave and new variants (with surges currently experienced in neighboring countries and in sub-Saharan Africa). Delays in the deployment of the vaccination campaign could also have a devastating impact on the tourism sector and derail its slow recovery, as Tanzania may be deemed as an unsafe destination thus falling behind vis-à-vis other destinations. These potential dire consequences for health and economic stability are further exacerbated by likely delays in vaccine rollout due to available global vaccine supplies and logistical constraints.

[5] The Global Fund is providing US$113 million in grants to support Tanzania's COVID-19 response, of which US$108 million will be directed to the government. The authorities are in discussions with the EU, Sweden, Denmark and Norway about their possible support for the TCRP. In 2020 the authorities received a grant of €37.33 million as budget support through European Union COVID-19 Response Package, a US$15.2 million grant from Sweden under the COVID-19 Response Support Program, and a US$3.8 million grant from the World Bank's Pandemic Emergency Financing Facility Project. In addition, the government received concessional loans of US$52 million from the African Development Bank, and US$40 million from South Korea to fight the pandemic. In July 2021, the authorities also received a donation of 1 million vaccines doses from the United States through COVAX. In addition, EU member countries, the United Nations Economic Commission for Africa (UNECA), and the African Union have committed to supply COVID-19 vaccines, although the exact quantities have not yet been announced.

15. The fiscal deficit is expected to widen in FY2021/22 to accommodate the health and economic response to the pandemic (Box 1)**.** Although the budget approved last June envisages a deficit tightening in FY2021/22, the authorities are committed to incorporating the COVID-19 response, supported by RCF and RFI resources and donors, into a supplementary budget (see paragraph 20) implying a deficit increase to 3.9 percent of GDP. The authorities intend to direct the disbursement under the RCF and purchase under the RFI for direct budget support (Text Table 2). The government plans to hire about 1,000 new health workers to relieve pressure in testing and treatment of COVID-19 patients and to deploy the vaccination campaign, which started in late-July. The government will also spend about 1 percent of GDP in goods, services, and transfers to address the pandemic. Most of this spending will be directed to the health, and tourism sectors, and includes transfers to Zanzibar of 0.3 percent of GDP which will help finance the health response and provide support for the tourism and agricultural sectors in the archipelago. The government also plans to continue subventions to public sector institutions in the tourism sector affected by revenue shortfalls, to expedite the clearance of domestic verified arrears, and to provide support to SMEs affected by the pandemic (see Box Table 1). The government is also expected to push ahead with their ambitious infrastructure investment program, which is expected to accelerate in FY2021/22 to 7.4 percent of GDP. Although revenues are projected to start recovering this fiscal year, the rise in spending will increase the deficit to 3.9 percent of GDP, and will open a financing gap of about 1 percent of GDP that will be covered by the RCF and RFI financing (0.8 percent of GDP), and other donors. Domestic financing, primarily from the banking sector, is expected to increase by about 0.7 percent of GDP, which could crowd-out private sector lending.

Text Table 2. Tanzania: Central Government Operations
(Trillions of Tanzanian Shillings)

	2020/21 Estimates		2021/22 RCF/RFI baseline	
	Tsh	% of GDP	Tsh	% of GDP
Total revenue	**20.6**	**13.4**	**22.8**	**13.6**
Tax revenue	17.3	11.2	18.9	11.3
Nontax revenue	3.4	2.2	3.9	2.3
Total expenditure	**25.2**	**16.3**	**30.1**	**17.9**
Recurrent expenditure	14.4	9.3	17.6	10.5
Wages and salaries	6.1	4.0	7.0	4.2
Of which: COVID-19 spending	0.04	0.03	0.02	0.01
Interest payments	2.6	1.7	3.1	1.9
Goods and services and transfers	5.7	3.7	7.5	4.5
Of which : COVID-19 spending	0.0	0.0	1.7	1.0
Development expenditure	10.8	7.0	12.4	7.4
Grants	0.7	0.4	0.7	0.4
Overall balance	**-3.9**	**-2.5**	**-6.6**	**-3.9**
Financing	**3.9**	**2.5**	**5.3**	**3.2**
Foreign (net)	2.5	1.6	2.4	1.4
Domestic (net)	1.4	0.9	2.9	1.7
Financing gap			**1.3**	**0.8**
RCF/RFI financing			1.3	0.8
Remaining financing gap			0.0	0.0

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

16. Financial assistance under the RCF and RFI will make a substantial contribution to filling immediate external needs. The disbursement to the central bank of SDR397.8 million (US$566 million, 0.8 percent of GDP) will close about 50 percent of the external financing gap in FY2021/22. The authorities are actively seeking additional budget support from development partners (about 1 percent of GDP), and the RCF and RFI are expected to play a catalytic role in this effort. In the absence of additional budget support (including RCF and RFI financing) in FY2021/22, the external financing gap will be closed with a further drawdown of international official reserves, equivalent to about 1 percent of GDP. This would leave reserve coverage at 5 months of imports, including the new SDR allocation. While the 5-month import coverage is assessed as adequate based on ARA metrics, Tanzania remains highly vulnerable to larger-than-expected shocks to the tourism sector and adverse movements in commodity prices. Should any of these risks materialize, reserves would likely fall quickly below the lower bound of 3.8 months (Annex II).[6]

Box 1. Tanzania COVID-19 Socioeconomic Response Plan

The Tanzanian Government prepared the Tanzania COVID-19 Socioeconomic Response Plan (TCRP), expected to be published in mid-September. The TCRP encompasses the National Deployment and Vaccination Plan (NDVP) which details the authorities plans to vaccinate 20 percent of the population with support of the COVAX facility, and the National COVID-19 Response Plan, which covers the broader health sector strategy to bring the pandemic in Tanzania under control. The TCRP also addresses financing needs in other areas, such as tourism, education, water, and social protection (see Box Table 1). The TCRP estimates that some US$1.6 billion (or 2.2 percent of GDP) are needed in FY2021/22 to cover Tanzania's response to COVID-19, of which about 36 percent is expected to be financed by the RCF and RFI.

Box Table 1. Fiscal Response to Fight the COVID-19 Pandemic[1]
(US$ million)

	Estimated costs	
	US$ (m)	% of GDP
Health	387.7	0.5
National Deployment and Vaccination Plan	189.0	0.3
National COVID-19 Response Plan	198.6	0.3
Verified Arrears	231.1	0.3
Transfers to Zanzibar	215.3	0.3
Tourism	192.2	0.3
Support to SMEs	169.0	0.2
Water	137.3	0.2
Education	84.8	0.1
Coordination and Administration	57.5	0.1
Social Protection	35.6	0.05
Youth, women and disabled empowerment	34.9	0.05
Agriculture Inputs Subsidies	21.6	0.03
Total	**1,567.0**	**2.2**

Sources: Tanzanian authorities; and IMF staff calculations.
[1] The Tanzania COVID-19 Socio-Economic Recovery Plan (TCRP) encompasses health and socioeconomic response of the government. The authorities health plans are detailed in the National Deployment and Vaccination Plan (NDVP) and the National COVID-19 Response Plan (NCRP). See Text Table 4 for details.

The National Deployment and Vaccination Plan (NDVP) extensively details the vaccine rollout. The plan includes the delivery strategy for priority populations, logistics and supply chain management, safety monitoring, and a communication strategy to encourage vaccine uptake. The NDVP foresees a budget of about US$189 million (or about 0.3 percent of GDP) to inoculate 20 percent of the population in FY2021/22 (an additional 40 percent would be vaccinated in 2022-24 at an estimated cost of US$439 million), with the Tanzanian government expected to cover the lion's share of the costs for supply chain management under the rollout strategy (Box Table 2). It is however envisaged that international partners will provide technical assistance, will finance other elements of the vaccine rollout, such as regulatory preparedness, planning and coordination, and monitoring and evaluation, as well as providing vaccines. Budget allocations for vaccine delivery and supply chain management appear to be sufficient for delivering the two vaccine doses. The plan, however; does not include the funds needed for the government to procure the vaccines for the 4 percent of the priority population group, which serves as a copayment of the 16 percent covered by COVAX. The additional financing required for this may be in the order of about US$40 million. The ceremonial launch of the vaccine rollout took place in the first week of August 2021, and spending on the vaccination deployment has already started.

[6] Without the new SDR allocation (US$543 million), reserves would fall by about $187 million (0.3 percent of GDP) in FY2021/22 (Text Table 1). In addition, if the RCF and RFI did not materialize then reserves would fall by about 1 percent of GDP.

Box 1. Tanzania COVID-19 Socioeconomic Response Plan (concluded)

The National COVID-19 Response Plan (NCRP) develops the overall health strategy of the government to address the pandemic. The NCRP incorporates stakeholder inputs and collaboration, including from development partners and experts and maintains continuity of essential health services. It is designed to tackle the emergence of new variants; address the need for Tanzania to comply with EAC health protocols; and strengthen subnational response and mitigation measures to stop community transmission. Actions are envisaged across twelve pillars, including rapid response operations; epidemiological surveillance; control at the point of entry; and a strengthening of laboratory capacity to address the need to increase the number of testing facilities and decentralize virus surveillance efforts. It is estimated that it will costs about US$198 million (or 0.3 percent of GDP) to implement the plan over the period June 2021 to June 2022.

Box Table 2. National COVID-19 Response Plan and National Deployment and Vaccination Plan

	US$ (m)
National Deployment and Vaccination Plan (NDVP)	**189.0**
Supply chain management	180.8
Vaccine safety monitoring	2.4
Human resource and training	1.6
Vaccine delivery	1.5
Vaccine acceptance and uptake	1.3
Other activities[1]	1.4
National COVID-19 Response Plan (NCRP)	**198.6**
Case management, IPC and WASH[2]	84.9
Logistics and operational support	41.8
Laboratory and diagnostics	26.0
RCCE and MHPSS[3]	19.7
Other activities[4]	26.3

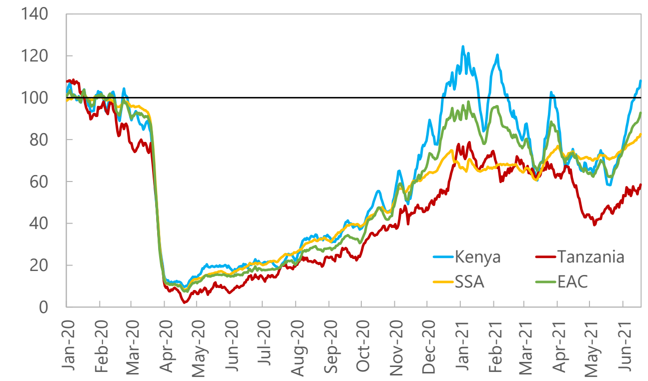
Sources: Tanzanian authorities; and IMF staff calculations.
[1] Includes surveillance, regulatory preparedness,monitoring and evaluation, and post introduction evaluation.
[2] Infection Prevention and Control, and Water Sanitation and Hygiene.
[3] Risk Communication & Community Engagement , and Mental Health and Psychosocial Support.
[4] Includes research, coordination, point of entry, mantaining essential health services, and surveillance.

In addition to the health response, the TCRP also addresses urgent needs in other areas. The plan allocates about 1.6 percent of GDP to the response outside of the health sector. Tourism, water, and education are key priority areas for the government, as well as providing support to SMEs and clearing spending arrears to provide additional liquidity to the private sector (Box Table 1). In the tourism sector, in addition to providing budget support (in the form of transfers) to cover operational costs of the Tanzania National Parks Authority (TANAPA), Ngorongoro Conservation Area Authority (NCAA) and Tanzania Wildlife Management Authority (TAWA), the government also plans to invest in supporting and enforcing businesses adherence to international health and safety standards, as well as working on product development and diversification, and on strengthening tourism marketing and promotion. The government also seeks to expand and improve access to water for frequent and proper hand washing as part of basic frontline efforts against the pandemic. In this regard the plan will provide water access points in rural areas with limited distribution, build water kiosk and hand wash basins in highly populated public, and improve water supply infrastructure to increase water availability in urban and rural areas. As for education, the plan includes providing all schools and educational institutions with hand washing stations, hand sanitizers and cleaning disinfectants, and building more classrooms and dormitories to reduce class size and improve social distancing. The TCRP also includes US$35 million (about 0.05 percent of GDP) to add about 300.000 households just above the income threshold into the government's cash transfer program, which would increase coverage by about a third.

17. The impact of the COVID-19 pandemic on Tanzania's economy continues to be subject to considerable uncertainties, with significant downside risks on the horizon. Health, economic, and political risks dominate. The third wave of the virus and/or new coronavirus variants might prolong the COVID-19 pandemic and worsen the impact on Tanzania's external demand and domestic activity. Resumption of travel restrictions by source markets, or a delayed vaccine roll-out could undermine the slow recovery in tourism and add to external pressures. International flight data suggest that the tourism recovery in Tanzania will likely be more protracted than in sub-Saharan Africa and the EAC-region, due to Tanzania's prolonged pandemic denial and reluctance to publish COVID-19 data. If sufficient resources fail to materialize to fully finance the authorities' health response to the pandemic, including the vaccination plan, the economic recovery will be in peril. A slow vaccination campaign poses a significant risk to the tourism sector recovery and would also leave Tanzania susceptible to new virus waves with potentially severe health, social and economic consequences. Higher-than-anticipated oil prices or lower gold prices would worsen the external positions and increase financing needs. Furthermore, a slow economic recovery could compromise support for the new administration and undermine confidence in the authorities' ability to change policy direction and implement reforms. In case downside scenarios materialize the authorities could drawdown reserves, use the new SDR allocation (see below), or prioritize spending including delaying investments in large infrastructure projects. This would open space to cushion some of the BOP and fiscal needs.

International Flight Arrivals

(Index, Jan. 2020 = 100)



Sources: FlightRadar24; and IMF staff calculations.

POLICY ISSUES AND DISCUSSIONS

18. The authorities are implementing mitigation measures and temporarily loosening macroeconomic and financial policies to mitigate the pandemic's adverse impact. The BoT eased monetary conditions early in response to the pandemic. In particular, the BoT reduced the discount rate from 7 percent to 5 percent, lowered minimum reserve requirements from 7 percent to 6 percent, reduced the collateral haircut on government securities from 10 percent to 5 percent for securities of less-than-one-year maturity and from 40 percent to 20 percent for longer-term securities, and increased mobile money's daily transaction and balance limits. The BoT also provided regulatory flexibility to banks for loan restructuring operations on a case-by-case basis. Specifically, they enabled banks to restructure loans up to four times, compared to the pre-pandemic limit of two times, mostly in the form of maturity extensions allowing for a lower debt service and/or a suspension in debt service. The regulatory flexibility was adopted by most banks and has been used in about 11 percent of the total banking sector credit to the private sector as of June 2021. The loans are mainly from the sectors most affected by the COVID-19 pandemic such as trade (18 percent), hotels and restaurants (15 percent), transport and communication (12 percent), manufacturing (6 percent), and tourism (4 percent). Loan restructuring activities are expected to continue, especially on the tourism and hospitality sectors as they continue to be affected by the pandemic. Staff supports the BoT's decision to temporarily loosen monetary and financial policies to help mitigate the impact of the pandemic.

19. The pandemic has increased banking sector's vulnerabilities. As discussed in the 2018 Financial System Stability Assessment (FSAP), some weaknesses in the financial system pre-date the pandemic including large NPLs and arrears, insufficient loan loss provision, undercapitalized banks, and high balance sheet dollarization; the pandemic is expected to exacerbate these weaknesses. The BoT expects NPLs to increase over time and peak when the regulatory flexibility on loan restructuring expires in two-to-three years (from May 2020). The authorities are encouraged to begin an earlier and gradual phase out of the regulatory flexibility as the economy recovers. In the worst-case scenario assuming all the restructured loans turn into NPLs, the NPL-to-total loan ratio would increase by 10 percentage points to around 20 percent. Staff recommended a closer monitoring of the banking system's health, encouraging banks to promptly re-classify loans, and build provisions, and ensuring adequate liquidity provision. In addition, staff recommended that the BoT enhances communication to explain the rationale for the monetary policy loosening and the normalization plans

20. The fiscal stance in FY2021/22 will be relaxed to increase COVID-related spending. Although the budget only envisages a deficit of 1.8 percent of GDP, the authorities are expected to submit a supplementary budget to Parliament in February 2022, after the mid-year review in January, to reflect the additional spending to address the pandemic, which would result in a deficit of about 3.9 percent of GDP.[7] The authorities response plan, the TCRP, estimates costs of about 2.2 percent of GDP, of which only 0.3 percent of GDP was included in the FY2021/22 budget. The RCF and RFI will finance about a third (0.8 percent of GDP) of the plan, which leaves about 1 percent of GDP of the plan unfunded; although the authorities have indicated that they are in discussions with donors to finance this spending there are no firm commitments at this time (except for the Global Fund support of US113 million). Hence, if all the required financing were to materialize then the fiscal deficit in FY2021/22 would increase to about 4.9 percent of GDP.

21. The authorities' proposed allocation of RCF and RFI resources for the TCRP combined with the relatively large unidentified financing in the plan pose considerable risks. The authorities intend to allocate only about a third of the RCF and RFI resources for the health response (including the vaccination plan), leaving about half of the COVID-19 health financing unidentified. If the additional financing fails to materialize Tanzania would be left vulnerable to the spread of the virus, and the economic recovery would falter. In the event that additional financing fails to materialize the authorities committed to reallocate and prioritize health spending to directly tackle the pandemic and bring it under control and support the economic recovery. The authorities also

[7] The authorities have already commenced TCRP-related spending on the vaccination deployment. Tanzania's budget framework allows the rephasing and reprioritization of spending to attend the most urgent needs from the pandemic first, while the supplementary budget will support an overall broadening of the spending for the whole fiscal year.

committed that the use of RCF and RFI funds will be directed exclusively to the COVID-19 pandemic response and that they will adhere to strict procurement practices to buy vaccines and use international mechanisms such as COVAX for this purpose.

22. The authorities are committed to strengthening coordination and transparency to ensure that funds received are spent on addressing the crisis and mitigate risks of corruption. The government has committed to ensuring that the financial assistance received is used for health expenditure to fight the pandemic, and to providing support to affected households and economic sectors (LOI, Appendix III). The government is committing to publishing reports of RCF and RFI funds spent on the website of the Ministry of Finance, which will include the list of financial transfers, all pandemic related public procurement contracts and related documents, including the names of the awarded companies and their beneficial owners, as well as information on all other pandemic related spending. A post-crisis audit of all pandemic-related spending covered by the TCRP during FY2021/22 will be completed by December 2022. In addition, the government is taking the following measures:

- Creating pandemic-specific Integrated Financial Management Information Systems (IFMIS) codes to track RCF and RFI spending, and funding
- Publishing quarterly reports of RCF and RFI spending within one month after the quarter ends, indicating the use of funds, and how they are helping fight the pandemic.
- Creating a subledger account under the Treasury Single Account to maintain the RCF and RFI resources, which will facilitate reconciliation of the COVID-19 spending financing sources.

23. Once the crisis abates, the authorities are committed to continuing reforms to raise and sustain inclusive growth. The authorities commit not to incur new spending arrears, and to pay tax refunds on time. Furthermore, they plan to clear the backlog of domestic and tax refunds in a timely manner, and to use a risk-based approach in the review of tax refund and spending arrears claims. The authorities also plan to implement the measures and recommendation in the action plan of the Blueprint for Regulatory Reform to enhance the business environment in Tanzania, with particular emphasis on licenses, and permits to reduce red tape. The authorities also intend to increase support for priority social spending areas, particularly in education and health. Finally, the authorities plan to go ahead with the transition to an interest-rate based framework to improve monetary policy communication and transmission.

24. The authorities are keen to resume closer engagement with the Fund. The authorities have indicated their interest in closer engagement with the Fund. They are also considering restarting discussions on a longer-term Fund-supported arrangement once the crisis abates. The RCF and RFI could also be useful for building a track record for a UCT-quality arrangement.

ACCESS, MODALITIES, AND CAPACITY TO REPAY

25. The authorities intend to use the proposed disbursement under the Fund's Rapid Credit Facility equivalent to SDR132.6 million (33.33 percent of quota) and a purchase under the Rapid Financing Instrument equivalent to SDR265.2 million (66.67 percent of quota), totaling SDR397.8 million (US$566 million), equivalent to 100 percent of quota, as direct budget support. The disbursement/purchase, which amounts to 0.8 percent of GDP, will provide much needed financial support to address urgent balance of payments needs to address the health and economic consequences of the COVID-19 pandemic. The urgent nature of the needs, and the fact that the new administration has recently taken power, would make it very difficult to implement an upper credit tranche-quality economic program in the short term. Staff supports the authorities' request for a disbursement under the RCF and a purchase under the RFI, to be used by the authorities as direct budget support, given the difficulties in mobilizing alternative sources of financing. The authorities have indicated that they are committed to pursuing appropriate economic policies to address the impact of the pandemic and that they will identify adequate monitoring mechanisms to ensure that RCF and RFI resources are spent in the prescribed fashion.

26. Tanzania's risk of debt distress increased to moderate for both external and overall public debt (see Debt Sustainability Analysis). Despite the impact of the COVID-19 pandemic, borrowing has been kept under control reflected in a small increase in the public debt to GDP ratio, which is expected to peak close to 40 percent in FY2021/22. The increase in the risk of debt distress rating was mainly due to the pandemic's effect on tourism exports, which has weakened Tanzania's ability to service its external debt and has left the country with limited space to absorb shocks, and to the lower debt burden thresholds that correspond to the new medium debt carrying capacity classification. During FY2020/21, both the CCRT and the DSSI provided much needed space (about 0.1 percent of GDP combined, or about 10 percent of external debt service) for the authorities to address some of the challenges emanating from the pandemic. DSSI resources helped support priority social spending in the face of revenue shortfalls, while CCRT resources helped cover operational costs at some public sector institutions in the tourism sector (see paragraph 8).

27. SDR allocation. The new general SDR allocation equivalent to US$650 billion (about SDR 456 billion) effective on August 23 resulted in an allocation of SDR 381.27 million (about US$543 million) for Tanzania. The authorities intend to use their allocation to increase reserves. In case additional budget financing fails to materialize, some of the SDR allocation could be used in a transparent manner to meet the financing gap without undermining domestic and external debt sustainability and financial stability.

28. The capacity to repay the Fund remains adequate. A disbursement of 100 percent of quota would result in Fund exposure to Tanzania of 0.8 percent of GDP. Annual repayments are projected to peak at 0.2 percent of GDP and 1.4 percent of government revenue in FY2025/26 (Table 6). Currently, Tanzania has no outstanding credit to the Fund.

29. A safeguards assessment of the Bank of Tanzania will be needed. The authorities are committed to undergo a safeguards assessment of the central bank that would need to be completed before Executive Board approval of any subsequent arrangement to which the safeguards policy applies, and to provide Fund staff with the necessary BoT's audit reports and authorize the external auditors of the central bank to hold discussions with staff.

30. As resources will be redirected by the central bank to the Treasury, a Memorandum of Understanding (MoU) between the central bank and the government will be signed. The MoU will specify (i) the maintenance of a specific subledger account under the Treasury Single Account to receive IMF resources; and (ii) the respective roles and responsibilities between the BoT and the Ministry of Finance for servicing financial obligations to the IMF.

STAFF APPRAISAL

31. The pandemic has had a significant impact on Tanzania's economy and its people. Growth in 2020 is likely to have decelerated more sharply than what the national accounts report, and although the recovery is underway growth in 2021 will remain subdued (at about 4 percent) and vulnerable to significant downside risks. The collapse in tourism widened the current account deficit, and the economic deceleration left the government with revenue shortfalls and large spending needs to address the COVID-19 pandemic. Risks abound, particularly the risk that the government will not be able to secure sufficient financing to fight the pandemic. A slow vaccination rollout could derail the incipient tourism recovery and leave the country vulnerable to further virus waves or new variants with potential dire consequences for health and economic stability.

32. The country is facing an urgent external financing need to address the COVID-19 pandemic. Tanzania faces an immediate balance of payments need of about 1.5 percent of GDP to address the impact of COVID-19, that, if not addressed, would result in immediate and severe economic disruption. The country is also experiencing simultaneous fiscal pressures.

33. The new administration is responding to the health and economic challenges created by the pandemic. The government will ramp up health spending to provide adequate protective equipment to health workers, expand testing and treatment facilities, and hire nurses and doctors to alleviate pressures stemming from the third wave and support the vaccination deployment campaign. The authorities also plan to provide support to the tourism sector that suffered the brunt of the crisis, and to Zanzibar whose economy is highly dependent on tourism. The government also plans to expand its cash transfer program to households just above the income threshold.

34. Staff supports the authorities' immediate priorities to mitigate the impact of the pandemic and preserve macroeconomic stability. Staff supports the temporary loosening of macroeconomic and financial policies to accommodate the measures undertaken against the impacts of the pandemic. A supplementary budget, in line with this objective will be prepared after the mid-year review in January 2022 and will be presented to Parliament in February. The authorities have already initiated the immediate response to the crisis, relying on the flexibility to reprioritize spending availed to them by their budget framework.

35. Staff supports Tanzania's request for a disbursement under the Rapid Credit Facility in the amount of SDR132.6 million (33.33 percent of quota) and a purchase under the Rapid Financing Instrument equivalent to SDR265.2 million (66.67 percent of quota), totaling SDR397.8million (US$566 million), equivalent to 100 percent of quota. Staff supports the RCF disbursement and RFI purchase based on the urgent balance of payments need triggered by the COVID-19 shock and the authorities' existing and prospective policies to address this external shock. The proposed support will help catalyze additional financing from development partners and close the immediate external needs. Given the large fiscal financing needs to respond to the COVID-19 emergency, staff supports the authorities' request for a disbursement under the RCF and a purchase under the RFI, to be used by the authorities as direct budget support. While the risks to the outlook remain substantial, Tanzania's track record and commitment to fiscal prudence are mitigating factors. Tanzania is assessed at moderate risk of external and overall debt distress and its capacity to repay the Fund remains adequate.

Table 1. Tanzania: Selected Economic Indicators, 2016/17–2023/24 [1]

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)									
Output, prices and exchange rates										
Real GDP[2]	6.8	6.9	7.0	5.9	4.4	4.6	5.3	5.7	5.9	6.0
GDP deflator	108.9	111.2	112.8	114.3	117.2	121.7	126.5	131.5	136.8	142.3
CPI (period average)	5.3	4.3	3.2	3.5	3.2	3.4	3.5	3.5	3.5	3.5
CPI (end of period)	5.4	3.4	3.7	3.2	3.2	3.4	3.5	3.5	3.5	3.5
Core inflation (end of period)	2.4	1.6	3.0	2.3	…	…	…	…	…	…
Terms of trade (deterioration, -)	0.0	-6.8	-3.4	11.6	6.4	-1.6	3.6	1.3	1.3	1.0
Exchange rate (period average, TSh/USD)	2,199	2,251	2,294	2,302	2,310	…	…	…	…	…
Real effective exchange rate (end of period; depreciation = -)	1.9	-1.6	3.3	1.9	2.6	…	…	…	…	…
Money and credit										
Broad money (M3, end of period)	6.0	6.0	7.7	9.5	11.6	8.3	9.2	9.6	10.0	10.1
Average reserve money	1.1	4.0	3.2	9.3	2.4	12.4	9.5	9.9	10.0	10.5
Credit to the private sector (end of period)	1.3	4.0	7.6	5.5	3.6	7.4	8.8	9.2	9.4	9.5
Overall T-bill interest rate (percent; end of period)	7.6	5.6	8.7	3.0	4.9	…	…	…	…	…
Non-performing loans (percent of total loans, end of period)	10.6	10.3	10.7	11.1	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)									
Central government operations										
Revenues and grants	15.6	15.2	14.1	15.3	13.8	14.0	14.7	14.9	14.9	14.9
Of which: grants	1.0	0.8	0.3	0.7	0.4	0.4	0.4	0.4	0.4	0.3
Expenditures	16.6	16.5	16.6	16.3	16.3	17.9	17.7	17.8	17.8	17.5
Current	10.2	10.4	10.3	9.8	9.3	10.5	10.1	10.3	10.4	10.5
Development	6.4	6.1	6.4	6.5	7.0	7.4	7.6	7.5	7.4	7.0
Overall balance	-1.4	-1.9	-3.1	-1.4	-2.5	-3.9	-2.9	-2.9	-2.9	-2.6
Excluding grants	-2.0	-2.0	-2.9	-1.7	-3.0	-4.3	-3.3	-3.2	-3.3	-3.0
Public debt										
Gross nominal debt[3]	40.0	41.4	39.7	38.7	39.1	39.9	39.2	38.4	37.6	36.5
of which: external debt[4]	28.3	29.5	28.6	28.0	28.2	28.0	27.1	25.5	24.0	22.4
Investment and savings										
Investment	33.2	36.3	39.0	39.8	38.1	37.7	38.8	38.9	38.9	38.7
Government[5]	10.4	11.4	12.3	13.0	13.8	14.5	14.8	14.8	14.4	13.9
Nongovernment[6]	22.8	24.9	26.8	26.8	24.3	23.2	24.0	24.1	24.4	24.8
Domestic savings	30.4	33.8	35.5	38.2	36.2	33.2	35.3	35.8	36.0	36.0
External sector										
Exports (goods and services)	16.8	15.9	14.8	14.9	13.3	13.4	13.6	13.9	14.2	14.5
Imports (goods and services)	18.7	17.7	17.6	15.9	14.6	17.2	16.0	16.1	16.1	16.2
Current account balance	-2.8	-2.5	-3.5	-1.6	-1.9	-4.5	-3.3	-3.1	-2.8	-2.7
Excluding current transfers	-3.1	-2.8	-3.6	-1.9	-2.0	-4.6	-3.4	-3.2	-2.9	-2.7
Gross international reserves										
In billions of U.S. dollars	5.0	5.5	4.4	5.2	5.2	5.5	6.2	6.7	7.4	8.1
of which: SDR allocation						0.5				
In months of next year's imports	6.2	6.4	5.3	6.4	5.1	5.4	5.5	5.6	5.7	5.8
Memorandum items:										
Calendar year real GDP growth (percent)[7]	6.8	7.0	7.0	4.8	4.0	5.1	5.5	5.8	6.0	6.0
GDP at current prices										
Trillions of Tanzanian shillings	114	124	134	144	154	168	183	202	222	245
Millions of U.S. dollars	51,500	54,963	58,755	62,607	66,812	71,833	77,210	83,032	89,459	96,454
GDP per capita (in U.S. dollars)	985	1,020	1,058	1,095	1,135	1,185	1,236	1,291	1,351	1,414
Population (million)	52.3	53.9	55.5	57.2	58.9	60.6	62.4	64.3	66.2	68.2

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] Fiscal year (July-June).

[2] Historical figures are based on official data up to the fourth quarter of 2020.

[3] Excludes liquidity management papers and domestic arrears.

[4] Excludes external debt under negotiation for relief.

[5] Includes investments made by parastatals and other public sector insitutions.

[6] Historical figures are based on official data up to 2020.

[7] Fiscal year 2017/18 corresponds to calendar year 2018.

Table 2. Tanzania: Central Government Operations, 2016/17–2025/26

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Trillions of Tanzanian Shillings)									
Total revenue	16.6	17.9	18.5	21.0	20.6	22.8	26.4	29.4	32.4	35.7
Tax revenue	14.1	15.1	15.4	17.5	17.3	18.9	21.9	24.5	27.0	29.8
Import duties	1.0	1.1	1.2	1.3	1.2	1.3	1.7	1.8	2.0	2.2
Value-added tax	3.9	4.4	4.7	5.0	5.0	5.4	6.4	7.1	7.8	8.6
Excises	2.1	2.2	2.4	2.5	2.6	2.8	3.4	3.7	4.1	4.5
Income taxes	4.8	5.2	5.1	6.5	6.2	6.9	7.9	9.0	9.9	10.9
Other taxes	2.2	2.2	2.0	2.2	2.2	2.4	2.6	2.9	3.2	3.5
Nontax revenue	2.6	2.9	3.1	3.6	3.4	3.9	4.4	4.9	5.4	5.9
Total expenditure	18.9	20.5	22.4	23.5	25.2	30.1	32.4	35.9	39.6	42.9
Recurrent expenditure	11.6	12.9	13.8	14.2	14.4	17.6	18.5	20.7	23.2	25.7
Wages and salaries	5.6	5.5	5.7	5.9	6.1	7.0	8.0	8.7	9.6	10.6
Of which: COVID-19 related spending	...	...	...	...	0.0	0.0	...	...	...	...
Interest payments	1.7	2.0	2.4	2.3	2.6	3.1	3.8	4.4	5.0	5.6
Domestic	1.2	1.3	1.6	1.5	1.9	1.8	2.1	2.5	2.9	3.4
Foreign[1]	0.5	0.7	0.8	0.8	0.7	1.3	1.7	1.9	2.1	2.2
Goods and services and transfers	4.3	5.3	5.7	6.0	5.7	7.5	6.7	7.6	8.6	9.5
Of which: COVID-19 related spending	...	...	...	...	0.0	1.7	...	...	...	...
Of which: Clearance arrears[1]	...	...	...	0.3	0.2	0.2	0.2	...	...	...
Development expenditure	7.3	7.6	8.6	9.3	10.8	12.4	13.9	15.2	16.4	17.2
Domestically financed	5.1	5.4	6.6	6.8	8.7	9.7	11.1	12.3	13.5	14.3
Of which: Clearance of arrears[1]	0.9	1.2	0.2	0.5	0.4	0.6	0.6	...	...	...
Foreign (concessionally) financed	2.1	2.2	2.0	2.5	2.2	2.7	2.7	2.8	2.9	2.9
Overall balance before grants	-2.3	-2.5	-3.9	-2.5	-4.6	-7.3	-6.0	-6.5	-7.2	-7.2
Grants	1.1	0.9	0.5	1.0	0.7	0.7	0.7	0.7	0.8	0.8
Program (including basket grants)[2]	0.4	0.4	0.2	0.5	0.2	0.3	0.2	0.2	0.2	0.2
Project	0.7	0.6	0.3	0.6	0.5	0.4	0.5	0.5	0.6	0.6
Net expenditure float[3]	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-0.4	0.0	-0.8	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.6	-2.3	-4.2	-2.0	-3.9	-6.6	-5.3	-5.8	-6.4	-6.5
Financing	1.6	2.3	4.2	2.0	3.9	6.6	5.3	5.8	6.4	6.5
Foreign (net)	1.7	1.7	1.2	1.6	2.5	3.6	3.0	1.9	2.2	2.3
Foreign loans	2.6	3.0	2.8	3.6	4.8	6.1	5.7	4.9	5.3	5.6
Program (including basket loans)[2]	0.3	0.1	0.2	0.2	0.2	1.5	1.7	1.9	2.1	2.3
Of which: RCF-RFI						1.3				
Project	1.1	1.5	1.5	1.6	1.4	1.5	1.5	1.5	1.4	1.3
Nonconcessional borrowing	1.2	1.5	1.1	1.8	3.1	3.0	2.5	1.5	1.8	2.0
Amortization	-0.9	-1.3	-1.6	-2.0	-2.3	-2.4	-2.7	-2.9	-3.1	-3.3
Domestic (net)	-0.1	0.6	3.0	0.4	1.4	2.9	2.3	3.9	4.2	4.2
Bank financing	-1.1	-0.3	2.4	-0.4	0.1	1.2	0.5	1.8	2.0	1.7
Nonbank financing	1.0	0.9	0.7	0.8	1.4	1.7	1.8	2.0	2.2	2.4
Memorandum items:										
Total public debt (in percent of GDP)[4]	40.0	41.4	39.7	38.7	39.1	39.9	39.2	38.4	37.6	36.5
Arrears (unpaid claims)[1, 5]	2.0	2.2	3.1	...	...	...	...	...	...	...
Priority social spending[6]	4.3	4.4	4.6	4.9	5.3	6.3	6.8	7.5	8.3	9.0
Rationalization/Reprioritization of spending	...	...	...	...	...	...	...	...	...	...
Nominal GDP	113.6	123.9	134.5	144.2	154.4	167.6	183.4	201.6	222.1	244.9

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

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

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

[3] 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.

[4] Excludes external debt under negotiation for relief and liquidity management papers.

[5] For 2016/17 and 2017/18, the stock of arrears includes only verified and accepted arrears, while for 2018/19 the data show unverified arrears.

[6] Priority social spending comprises central government transfers (recurrent and development) to local governments for education, health, water, and rural road maintenance.

Table 2. Tanzania: Central Government Operations, 2016/17–2025/26 (concluded)

	2016/17 Act.	2017/18 Act.	2018/19 Act.	2019/20 Act.	2020/21 Est.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
					(In percent of GDP)					
Total revenue	14.7	14.5	13.8	14.6	13.4	13.6	14.4	14.6	14.6	14.6
Tax revenue	12.4	12.2	11.4	12.1	11.2	11.3	12.0	12.2	12.2	12.2
Import duties	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9	0.9	0.9
Value-added tax	3.5	3.6	3.5	3.5	3.3	3.3	3.5	3.5	3.5	3.5
Excises	1.9	1.8	1.8	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Income taxes	4.3	4.2	3.8	4.5	4.0	4.1	4.3	4.4	4.4	4.4
Other taxes	1.9	1.8	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Nontax revenue	2.3	2.3	2.3	2.5	2.2	2.3	2.4	2.4	2.4	2.4
Total expenditure	16.6	16.5	16.6	16.3	16.3	17.9	17.7	17.8	17.8	17.5
Recurrent expenditure	10.2	10.4	10.3	9.8	9.3	10.5	10.1	10.3	10.4	10.5
Wages and salaries	4.9	4.5	4.2	4.1	4.0	4.2	4.3	4.3	4.3	4.3
Of which: COVID-19 related spending	…	…	…	…	0.0	0.0	…	…	…	…
Interest payments	1.5	1.6	1.8	1.6	1.7	1.9	2.1	2.2	2.2	2.3
Domestic	1.1	1.1	1.2	1.0	1.2	1.1	1.1	1.2	1.3	1.4
Foreign[1]	0.4	0.5	0.6	0.6	0.5	0.8	0.9	1.0	0.9	0.9
Goods and services and transfers	3.8	4.3	4.2	4.1	3.7	4.5	3.7	3.8	3.9	3.9
Of which: COVID-19 related spending	…	…	…	…	0.0	1.0	…	…	…	…
Of which: Clearance of arrears [1]	…	…	…	0.2	0.1	0.1	0.1	…	…	…
Development expenditure	6.4	6.1	6.4	6.5	7.0	7.4	7.6	7.5	7.4	7.0
Domestically financed	4.5	4.4	4.9	4.7	5.6	5.8	6.1	6.1	6.1	5.8
Of which: Clearance of arrears [1]	0.8	1.0	0.2	0.3	0.3	0.4	0.3	…	…	…
Foreign (concessionally) financed	1.9	1.8	1.5	1.7	1.4	1.6	1.5	1.4	1.3	1.2
Overall balance before grants	-2.0	-2.0	-2.9	-1.7	-3.0	-4.3	-3.3	-3.2	-3.3	-3.0
Grants	1.0	0.8	0.3	0.7	0.4	0.4	0.4	0.4	0.4	0.3
Program (including basket grants) [2]	0.3	0.3	0.1	0.3	0.1	0.2	0.1	0.1	0.1	0.1
Project	0.6	0.5	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Net expenditure float[3]	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-0.3	-0.5	-0.6	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.4	-1.9	-3.1	-1.4	-2.5	-3.9	-2.9	-2.9	-2.9	-2.6
Financing	1.4	1.9	3.1	1.4	2.5	3.9	2.9	2.9	2.9	2.6
Foreign (net)	1.5	1.4	0.9	1.1	1.6	2.2	1.6	1.0	1.0	0.9
Foreign loans	2.3	2.4	2.1	2.5	3.1	3.6	3.1	2.4	2.4	2.3
Program (including basket loans)[2]	0.2	0.1	0.1	0.1	0.1	0.9	0.9	0.9	0.9	0.9
Of which: RCF-RFI						0.8				
Project	1.0	1.2	1.1	1.1	0.9	0.9	0.8	0.7	0.7	0.5
Nonconcessional borrowing	1.1	1.2	0.9	1.3	2.0	1.8	1.4	0.7	0.8	0.8
Amortization	-0.8	-1.1	-1.2	-1.4	-1.5	-1.5	-1.5	-1.4	-1.4	-1.3
Domestic (net)	-0.1	0.5	2.3	0.3	0.9	1.7	1.3	1.9	1.9	1.7
Bank financing	-1.0	-0.3	1.8	-0.3	0.1	0.7	0.3	0.9	0.9	0.7
Nonbank financing	0.9	0.8	0.5	0.5	0.9	1.0	1.0	1.0	1.0	1.0
Memorandum items:										
Total public debt [4]	40.0	41.4	39.7	38.7	39.1	39.9	39.2	38.4	37.6	36.5
Arrears (unpaid claims) [1, 5]	1.8	1.8	2.3	…	…	…	…	…	…	…
Priority social spending[6]	3.8	3.5	3.4	3.4	3.4	3.8	3.7	3.7	3.7	3.7
Rationalization/Reprioritization of spending	…	…	…	…	…	…	…	…	…	…

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

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

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

[3] 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.

[4] Excludes external debt under negotiation for relief and liquidity management papers.

[5] For 2016/17 and 2017/18 the stock of arrears includes only verified and accepted arrears, while for 2018/19 the data show unverified arrears.

[6] Priority social spending comprises central government transfers (recurrent and development) to local governments for education, health, water, and rural road maintenance.

Table 3. Tanzania: Balance of Payments, 2016/17–2025/26

	2016/17 Act.	2017/18 Act.	2018/19 Act.	2019/20 Act.	2020/21 Est.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
	(Millions of U.S. dollars, unless otherwise indicated)									
Current account	-1,423	-1,392	-2,078	-1,008	-1,280	-3,229	-2,570	-2,583	-2,525	-2,581
Trade balance	-2,801	-2,894	-4,130	-2,567	-2,129	-4,268	-3,965	-4,376	-4,760	-5,219
Exports, f.o.b.	4,906	4,852	4,543	5,869	6,458	6,599	6,905	7,374	7,926	8,552
Traditional agricultural products	866	1,056	513	996	578	702	764	824	890	963
Gold	1,532	1,545	1,745	2,591	3,051	3,349	3,439	3,596	3,825	4,050
Other	2,508	2,251	2,284	2,281	2,828	2,547	2,701	2,954	3,210	3,539
Imports, f.o.b	-7,707	-7,746	-8,672	-8,435	-8,587	-10,866	-10,869	-11,751	-12,686	-13,771
Of which: Oil	-1,943	-1,781	-1,748	-1,556	-1,577	-1,861	-1,841	-1,800	-1,784	-1,790
Services (net)	1,829	1,898	2,465	1,989	1,245	1,590	2,104	2,585	3,086	3,575
Of which: Travel receipts	2,231	2,317	2,528	1,899	874	1,699	2,019	2,481	2,966	3,424
Income (net)	-907	-830	-789	-895	-831	-978	-1,150	-1,240	-1,307	-1,396
Of which: Interest on public debt	-232	-300	-285	-327	-138	-561	-718	-791	-834	-886
Current transfers (net)	457	434	376	464	436	427	440	449	456	458
Of which: Official transfers	152	140	58	192	63	73	78	79	79	48
Capital account	423	397	368	362	313	313	330	349	370	393
Of which: Project grants[1]	334	302	304	289	221	244	258	272	289	307
Financial account	2,209	1,999	1,281	1,972	1,363	2,354	2,855	2,817	2,821	2,927
Foreign Direct Investment	901	955	981	951	803	898	1,004	1,162	1,342	1,543
Public Sector, net	671	622	558	1,083	702	1,181	740	214	244	199
Program loans	116	33	75	85	47	180	180	180	180	180
Non-concessional borrowing	553	655	503	1,175	1,077	1,288	1,053	618	725	782
Project loans	511	651	633	709	613	660	637	615	582	529
Scheduled amortization[2]	-483	-685	-653	-886	-1,035	-1,047	-1,130	-1,200	-1,244	-1,292
Commercial Banks, net	291	-119	-63	66	-64	-93	-95	-113	-117	-117
Other private inflows	346	542	-194	-129	-76	-75	1,206	1,554	1,352	1,302
Errors and omissions [3]	-6	-377	-569	-577	-372	0	0	0	0	0
Overall balance	1,203	628	-997	749	24	-561	615	584	666	738
Financing	-1,203	-628	997	-751	-47	-305	-615	-584	-666	-738
Change in BoT reserve assets (increase= -)	-1,128	-545	1,082	-783	-47	-305	-615	-584	-666	-738
Use of Fund credit	-75	-83	-85	32	0	0	0	0	0	0
Financing gap	0	0	0	3	23	866	0	0	0	0
Exceptional financing	0	0	0	3	23	866	0	0	0	0
of which: IMF RCF-RFI	0	0	0	0	0	566	0	0	0	0
CCRT debt relief	0	0	0	3	23	0	0	0	0	0
Global Fund	0	0	0	0	0	113	0	0	0	0
Unidentified donors	0	0	0	0	0	187	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Gross official reserves (BoT)	5,000	5,484	4,402	5,185	5,231	5,536	6,151	6,734	7,400	8,138
of which: SDR allocation						543				
Months of imports of goods and services	6.2	6.4	5.3	6.4	5.1	5.4	5.5	5.6	5.7	5.8
Exports of goods and services (percent of GDP)	16.8	15.9	14.8	14.9	13.3	13.4	13.6	13.9	14.2	14.5
Exports of goods (percent of GDP)	9.5	8.8	7.7	9.4	9.7	9.2	8.9	8.9	8.9	8.9
Exports excl. gold (percent of GDP)	6.6	6.0	4.8	5.2	5.1	4.5	4.5	4.6	4.6	4.7
Imports of goods and services (percent of GDP)	-18.7	-17.7	-17.6	-15.9	-14.6	-17.2	-16.0	-16.1	-16.1	-16.2
Imports of goods (percent of GDP)	-15.0	-14.1	-14.8	-13.5	-12.9	-15.1	-14.1	-14.2	-14.2	-14.3
Imports excl. oil (percent of GDP)	-11.2	-10.9	-11.8	-11.0	-10.5	-12.5	-11.7	-12.0	-12.2	-12.4
Current account deficit (percent of GDP)	-2.8	-2.5	-3.5	-1.6	-1.9	-4.5	-3.3	-3.1	-2.8	-2.7
Foreign direct investment (Percent of GDP)	1.7	1.7	1.7	1.5	1.2	1.3	1.3	1.4	1.5	1.6
Foreign program and project assistance (percent of GDP)	2.2	2.0	1.8	2.0	1.4	1.6	1.5	1.4	1.3	1.1
Nominal GDP	51,500	54,963	58,755	62,607	66,812	71,833	77,210	83,032	89,459	96,454

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] The Bank of Tanzania adjusts the estimated outturn to reflect information on project grants provided by ministries.

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

[3] Includes valuation changes in gross reserves resulting from changes in exchange rates among major currencies.

Table 3. Tanzania: Balance of Payments, 2016/17–2025/26 (concluded)

	2016/17 Act.	2017/18 Act.	2018/19 Act.	2019/20 Act.	2020/21 Est.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
	(Percent of GDP, unless otherwise indicated)									
Current account	-2.8	-2.5	-3.5	-1.6	-1.9	-4.5	-3.3	-3.1	-2.8	-2.7
Trade balance	-5.4	-5.3	-7.0	-4.1	-3.2	-5.9	-5.1	-5.3	-5.3	-5.4
Exports, f.o.b.	9.5	8.8	7.7	9.4	9.7	9.2	8.9	8.9	8.9	8.9
Traditional agricultural products	1.7	1.9	0.9	1.6	0.9	1.0	1.0	1.0	1.0	1.0
Gold	3.0	2.8	3.0	4.1	4.6	4.7	4.5	4.3	4.3	4.2
Other	4.9	4.1	3.9	3.6	4.2	3.5	3.5	3.6	3.6	3.7
Imports, f.o.b	-15.0	-14.1	-14.8	-13.5	-12.9	-15.1	-14.1	-14.2	-14.2	-14.3
Of which: Oil	-3.8	-3.2	-3.0	-2.5	-2.4	-2.6	-2.4	-2.2	-2.0	-1.9
Services (net)	3.6	3.5	4.2	3.2	1.9	2.2	2.7	3.1	3.4	3.7
Of which: Travel receipts	4.3	4.2	4.3	3.0	1.3	2.4	2.6	3.0	3.3	3.6
Income (net)	-1.8	-1.5	-1.3	-1.4	-1.2	-1.4	-1.5	-1.5	-1.5	-1.4
Of which: Interest on public debt	-0.4	-0.5	-0.5	-0.5	-0.2	-0.8	-0.9	-1.0	-0.9	-0.9
Current transfers (net)	0.9	0.8	0.6	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Of which: Official transfers	0.3	0.3	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.0
Capital account	0.8	0.7	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.4
Of which: Project grants[1]	0.6	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Financial account	4.3	3.6	2.2	3.1	2.0	3.3	3.7	3.4	3.2	3.0
Foreign Direct Investment	1.7	1.7	1.7	1.5	1.2	1.3	1.3	1.4	1.5	1.6
Public Sector, net	1.3	1.1	0.9	1.7	1.1	1.6	1.0	0.3	0.3	0.2
Program loans	0.2	0.1	0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.2
Non-concessional borrowing	1.1	1.2	0.9	1.9	1.6	1.8	1.4	0.7	0.8	0.8
Project loans	1.0	1.2	1.1	1.1	0.9	0.9	0.8	0.7	0.7	0.5
Scheduled amortization[2]	-0.9	-1.2	-1.1	-1.4	-1.5	-1.5	-1.5	-1.4	-1.4	-1.3
Commercial Banks, net	0.6	-0.2	-0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other private inflows	0.7	1.0	-0.3	-0.2	-0.1	-0.1	1.6	1.9	1.5	1.3
Errors and omissions [3]	0.0	-0.7	-1.0	-0.9	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance	2.3	1.1	-1.7	1.2	0.0	-0.8	0.8	0.7	0.7	0.8
Financing	-2.3	-1.1	1.7	-1.2	-0.1	-0.4	-0.8	-0.7	-0.7	-0.8
Change in BoT reserve assets (increase= -)	-2.2	-1.0	1.8	-1.3	-0.1	-0.4	-0.8	-0.7	-0.7	-0.8
Use of Fund credit	-0.1	-0.2	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0
of which: IMF RCF-RFI	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0
CCRT debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Global Fund	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Unidentified donors	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross official reserves (BoT)	9.7	10.0	7.5	8.3	7.8	7.7	8.0	8.1	8.3	8.4
of which: SDR allocation						0.8				
Months of imports of goods and services	6.2	6.4	5.3	6.4	5.1	5.4	5.5	5.6	5.7	5.8
Exports of goods and services	16.8	15.9	14.8	14.9	13.3	13.4	13.6	13.9	14.2	14.5
Exports of goods	9.5	8.8	7.7	9.4	9.7	9.2	8.9	8.9	8.9	8.9
Exports excl. gold	6.6	6.0	4.8	5.2	5.1	4.5	4.5	4.6	4.6	4.7
Imports of goods and services	-18.7	-17.7	-17.6	-15.9	-14.6	-17.2	-16.0	-16.1	-16.1	-16.2
Imports of goods	-15.0	-14.1	-14.8	-13.5	-12.9	-15.1	-14.1	-14.2	-14.2	-14.3
Imports excl. oil	-11.2	-10.9	-11.8	-11.0	-10.5	-12.5	-11.7	-12.0	-12.2	-12.4
Current account deficit	-2.8	-2.5	-3.5	-1.6	-1.9	-4.5	-3.3	-3.1	-2.8	-2.7
Foreign direct investment	1.7	1.7	1.7	1.5	1.2	1.3	1.3	1.4	1.5	1.6
Foreign program and project assistance	2.2	2.0	1.8	2.0	1.4	1.6	1.5	1.4	1.3	1.1

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] The Bank of Tanzania adjusts the estimated outturn to reflect information on project grants provided by ministries.

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

[3] Includes valuation changes in gross reserves resulting from changes in exchange rates among major currencies.

Table 4. Tanzania: Monetary Accounts, 2016–2021

	2016	2017	2018	2019		2020		2021	
	June	June	June	June	Dec	June	Dec	Mar	June
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
	(Trillions of Tanzania shillings, unless otherwise indicated; end of period)								
Bank of Tanzania									
Net foreign assets	7.2	10.0	11.5	9.4	12.1	11.3	10.3	11.1	11.5
Net international reserves [1]	7.8	10.6	12.1	10.0	12.7	11.9	10.9	11.6	12.0
(Billions of U.S. dollars) [1]	3.6	4.8	5.3	4.4	5.5	5.2	4.8	5.0	5.2
Net non-reserve foreign assets	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-0.4
Net domestic assets	-0.4	-3.2	-4.4	-1.5	-4.6	-3.0	-3.1	-3.9	-3.0
Credit to government	1.6	-0.7	-1.1	1.6	-0.6	0.7	0.4	0.1	1.8
Of which: Excluding counterpart of liquidity paper	1.7	-0.1	-0.5	2.0	-0.6	0.7	0.4	0.1	1.8
Other items (net)	-2.1	-2.6	-3.4	-4.3	-4.1	-3.9	-3.6	-4.1	-4.8
REPOs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items, excluding REPOs (net)	-2.1	-2.6	-3.4	-4.3	-4.1	-3.9	-3.6	-4.1	-4.8
Credit to nongovernment sector	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0
Reserve money	6.8	6.8	7.1	8.0	7.5	8.3	7.2	7.2	8.6
Currency outside banks	3.7	3.6	3.9	4.1	4.2	4.2	4.5	4.3	4.7
Bank reserves	3.0	3.2	3.2	3.8	3.2	4.1	2.7	2.9	3.9
Currency in banks	0.6	0.7	0.7	0.8	1.0	0.9	1.0	0.9	0.8
Deposits	2.4	2.5	2.5	3.0	2.2	3.1	1.7	2.0	3.0
Required reserves	2.0	2.0	2.1	2.3	2.4	2.5	2.4	2.4	2.7
Excess reserves	0.4	0.4	0.4	0.7	-0.2	0.7	-0.8	-0.4	0.4
Memorandum items:									
Average reserve money	6.6	6.7	7.0	7.2	7.5	7.9	7.5	7.2	8.0
Monetary Survey									
Net foreign assets	7.5	9.6	11.2	9.8	12.0	11.3	10.7	11.3	12.0
Bank of Tanzania [1]	7.2	10.0	11.5	9.4	12.1	11.3	10.3	11.1	11.5
Commercial banks	0.3	-0.4	-0.3	0.4	0.0	0.0	0.4	0.2	0.4
Net domestic assets	15.0	14.3	14.1	17.4	16.3	18.5	19.2	18.9	21.3
Domestic credit	21.9	21.0	21.4	25.1	23.6	25.7	26.1	26.2	28.2
Credit to government (net)	5.2	4.2	3.8	6.2	3.9	5.8	5.8	5.8	7.6
Credit to nongovernment sector	16.7	16.9	17.5	18.9	19.7	19.9	20.3	20.5	20.6
Other items (net)	-6.9	-6.7	-7.3	-7.6	-7.3	-7.2	-6.9	-7.4	-6.9
M3	22.5	23.9	25.3	27.2	28.3	29.8	29.9	30.2	33.3
Foreign currency deposits	6.3	6.2	6.3	6.2	7.0	6.6	6.9	7.2	7.7
M2	16.2	17.7	19.0	21.0	21.3	23.2	23.0	23.0	25.6
Currency in circulation	3.7	3.6	3.9	4.1	4.2	4.2	4.5	4.3	4.7
Deposits (TSh)	12.4	14.1	15.0	16.9	17.1	19.0	18.5	18.7	20.9
Memorandum items:	(12-month percent change, unless otherwise indicated)								
M3 growth	12.8	6.0	6.0	7.7	9.6	9.5	5.7	6.8	11.6
M3 (percent of GDP)	22.2	21.0	20.4	20.3	21.1	20.7	20.7	19.5	21.6
Private sector credit growth	19.0	1.3	4.0	7.6	11.1	5.5	3.1	2.3	3.6
Private sector credit (percent of GDP)	16.4	14.9	14.2	14.0	13.7	13.8	14.1	14.2	14.3
Velocity of money (nominal GDP/ M3)	4.7	5.0	5.1	5.2	4.7	4.8	4.6	4.4	4.4
Average reserve money growth	7.2	1.1	4.0	3.2	8.2	9.3	0.4	3.0	2.4
Reserve money multiplier (M3/average reserve money)	3.4	3.6	3.6	3.8	3.8	3.8	4.0	4.2	4.1
Nonbank financing of the government (net) [2]	0.8	1.0	0.9	0.7	0.6	0.8	0.8	1.0	1.6
Bank financing of the government (net) [2]	1.5	-1.1	-0.3	2.4	-2.3	-0.4	0.0	0.0	1.8
Bank and nonbank financing of the government (net) [2]	2.3	-0.1	0.6	3.0	-1.7	0.4	0.8	0.9	3.4

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

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

[2] In trillions of Tanzanian shillings; cumulative from the beginning of the fiscal year (July 1).

Table 5. Tanzania: Financial Soundness Indicators, 2016–2021

	2016		2017		2018		2019				2020				2021	
	Jun	Dec	Jun	Dec	Jun	Dec	Mar	June	Sept	Dec	Mar	Jun	Sep	Dec	Mar	Jun
	(Percent, end of period)															
Capital adequacy																
Total capital to risk-weighted assets	19.2	19.0	18.3	20.5	20.2	18.2	18.4	18.1	17.7	18.0	18.7	17.9	18.3	18.1	19.8	17.9
Total capital to total assets	12.7	13.5	13.0	13.2	13.2	13.8	13.3	12.7	12.9	13.0	13.8	12.8	13.2	13.2	13.8	12.9
Asset composition and quality																
Net loans and advances to total assets	56.1	55.6	53.4	51.0	51.8	53.4	54.4	52.1	53.7	54.2	55.2	53.3	54.0	54.1	54.6	52.2
Sectoral distribution of loans																
Personal	20.1	18.6	18.8	20.1	27.3	28.2	28.6	29.6	29.9	28.5	29.9	31.4	32.0	33.9	35.1	35.5
Trade	18.8	20.9	21.6	20.4	20.5	18.9	18.2	18.1	17.4	17.5	17.5	16.5	15.7	15.2	15.3	15.5
Manufacturing and mining	11.8	12.2	13.5	12.8	12.8	14.4	14.2	13.8	13.5	13.0	12.8	13.1	12.0	11.4	11.7	11.9
Agricultural production	7.4	6.9	7.3	7.0	6.7	5.6	8.5	8.7	9.0	9.4	9.0	7.9	8.4	8.5	7.9	6.8
Transport and communication	7.5	7.4	5.8	6.0	5.9	7.1	5.3	5.2	5.1	5.5	5.5	5.7	5.8	5.7	5.4	5.3
Real Estate	4.5	5.1	5.0	5.0	5.4	5.0	4.8	4.5	4.4	4.2	3.7	3.8	3.9	3.8	1.3	3.7
Building and construction	4.5	4.6	4.7	5.2	4.9	3.8	4.5	4.5	5.7	5.8	4.4	5.4	5.6	5.2	5.0	4.9
Foreign exchange loans to total loans	36.7	36.0	36.7	35.8	36.0	33.1	30.6	30.6	28.6	30.0	29.4	29.9	27.6	27.6	26.4	26.5
Non-performing loans (NPLs) to total loans	8.7	9.6	10.6	11.5	10.3	10.4	9.6	10.7	11.1	9.8	10.5	10.8	10.4	9.3	9.3	9.2
NPLs net of provisions to capital	21.1	22.1	22.1	23.0	18.6	23.0	24.7	22.8	24.2	39.2	39.9	42.9	40.7	35.8	34.4	34.7
Large exposures to total capital	128.5	109.6	117.4	113.6	124.6	188.5	144.5	143.8	132.6	258.4	165.1	110.8	215.1	144.6	117.5	116.9
Net open positions in foreign exchange to total capital	1.4	-1.9	1.5	2.0	3.3	6.0	5.2	6.6	7.5	8.8	7.1	7.3	6.2	9.0	6.9	6.5
Earnings and profitability																
Return on assets	3.0	2.3	2.3	1.4	1.6	1.3	1.9	2.0	1.8	1.9	2.0	2.2	2.3	2.0	2.5	2.4
Return on equity	15.3	10.7	10.4	5.9	6.7	4.5	8.1	8.8	7.8	8.2	8.5	9.9	9.6	7.9	10.3	10.5
Interest margin to total income	68.1	69.7	52.8	52.0	53.7	55.0	55.0	55.8	55.8	55.5	55.1	55.7	55.3	55.2	57.9	57.2
Noninterest expenses to gross income	64.7	67.6	51.5	52.2	54.6	56.2	56.4	56.7	56.7	56.4	55.2	55.1	53.4	53.7	51.7	51.7
Personnel expenses to noninterest expenses	45.4	44.7	45.5	44.6	45.7	45.0	47.9	48.8	48.0	47.9	50.8	50.4	50.0	48.9	52.6	52.1
Liquidity																
Liquid assets to total assets	30.4	28.7	30.6	32.6	30.1	28.8	27.8	30.4	28.6	27.2	24.8	26.6	25.4	24.6	23.6	26.3
Liquid assets to total short term liabilities	37.1	35.1	38.1	40.3	37.6	35.6	42.1	45.7	31.0	32.4	31.0	33.4	31.6	30.9	29.7	33.2
Total loans to customer deposits	85.7	86.3	83.1	81.2	83.9	84.2	79.8	84.5	87.9	88.5	90.1	83.9	87.2	86.9	88.1	81.4
Foreign exchange liabilities to total liabilities	37.8	37.4	36.0	35.4	34.8	34.2	32.0	30.5	33.0	30.2	30.2	28.6	30.8	30.2	29.5	30.1

Source: Bank of Tanzania

Table 6. Tanzania: Capacity to Repay, 2021/22-2030/31

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
IMF obligations based on existing credit	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Principal (in millions of SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges/interest (in millions of SDRs)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges/interest (in millions of U.S. dollars)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IMF obligations based on existing and prospective credit	3.3	2.9	2.9	102.1	134.0	46.7	26.6	26.6	26.6	26.6
Principal (in millions of SDRs)	0.0	0.0	0.0	99.5	132.6	46.4	26.5	26.5	26.5	26.5
Charges/interest (in millions of SDRs)	3.3	2.9	2.9	2.7	1.4	0.2	0.1	0.1	0.1	0.1
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	147.9	197.7	69.2	39.5	39.5	39.5	39.5
Charges/interest (in millions of U.S. dollars)	4.7	4.2	4.3	4.0	2.1	0.4	0.1	0.1	0.1	0.1
Total IMF existing and prospective obligations										
In millions of SDRs	3.3	2.9	2.9	102.1	134.0	46.7	26.6	26.6	26.6	26.6
In millions of U.S. dollars	4.7	4.2	4.3	151.8	199.8	69.5	39.7	39.7	39.7	39.7
In percent of GDP	0.0	0.0	0.0	0.2	0.2	0.1	0.0	0.0	0.0	0.0
In percent of exports of goods and services	0.0	0.0	0.0	1.2	1.4	0.5	0.2	0.2	0.2	0.2
In percent of government revenue	0.0	0.0	0.0	1.2	1.4	0.5	0.2	0.2	0.2	0.2
In percent of quota	0.8	0.7	0.7	25.7	33.7	11.7	6.7	6.7	6.7	6.7
In percent of gross international reserves	0.1	0.1	0.1	2.1	2.5	0.8	0.4	0.4	0.3	0.3
IMF credit outstanding (end of period)										
In millions of SDRs	397.8	397.8	397.8	298.4	165.8	119.3	92.8	66.3	39.8	13.3
In millions of U.S. dollars	577.3	583.7	588.1	443.6	247.1	177.9	138.4	98.8	59.3	19.8
In percent of GDP	0.8	0.8	0.7	0.5	0.3	0.2	0.1	0.1	0.0	0.0
In percent of exports of goods and services	6.0	5.6	5.1	3.5	1.8	1.2	0.8	0.6	0.3	0.1
In percent of government revenue	5.9	5.3	4.9	3.4	1.8	1.2	0.8	0.6	0.3	0.1
In percent of quota	100.0	100.0	100.0	75.0	41.7	30.0	23.3	16.7	10.0	3.3
In percent of gross international reserves	10.4	9.5	8.7	6.0	3.0	2.0	1.4	0.9	0.5	0.2
Net use of IMF credit[1]	0.0	0.0	0.0	-99.5	-132.6	-46.4	-26.5	-26.5	-26.5	-25.5
Disbursments (millions of SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases (millions of SDRs)	0.0	0.0	0.0	99.5	132.6	46.4	26.5	26.5	26.5	26.5
Disbursments (millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Repayments and repurchases (millions of U.S. dollars)	0.0	0.0	0.0	147.9	197.7	69.2	39.5	39.5	39.5	39.5
Memorandum items:										
Exports of goods and services (millions of U.S. dollars)	9,646	10,467	11,536	12,715	13,976	15,183	16,485	17,813	19,205	20,706
Government revenue (millions of U.S. dollars)	9,788	11,102	12,100	13,036	14,055	15,229	16,628	17,968	19,372	20,885
Quota (millions of SDRs)	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8
Quota (millions of U.S. dollars)	577.3	583.7	588.1	591.4	593.0	593.0	593.0	593.0	593.0	593.0
Gross international reserves (millions of U.S. dollars)	5,536	6,151	6,734	7,400	8,138	9,017	9,790	10,579	11,405	12,296
GDP (millions of U.S. dollars)	71,833	77,210	83,032	89,459	96,454	104,502	113,460	122,605	132,184	142,511
SDRs per U.S. dollar [2]	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

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

[1] Assumes access of 100 percent of quota as one-time disbursment in September 2021, of which 1/3 is provided by the RCF and 2/3 by the RFI.

[2] WEO GAS projections, dated April 21, 2021.

Table 7. Tanzania: External Financing Requirements and Sources, 2020/21–2025/26

(Millions of U.S. dollars)

	2020/21 Est.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
Financing needs	**1,326**	**3,533**	**3,185**	**3,167**	**3,191**	**3,320**
Current account deficit	1,280	3,229	2,570	2,583	2,525	2,581
Reserves accumulation (+=increase)	47	305	615	584	666	738
of which: SDR allocation		543				
Financing sources	**1,676**	**2,667**	**3,185**	**3,167**	**3,191**	**3,320**
Capital account	313	313	330	349	370	393
Financial account	1,363	2,354	2,855	2,817	2,821	2,927
Net errors and omissions	-372	0	0	0	0	0
Financing gap 1/	**23**	**866**	**0**	**0**	**0**	**0**
Additional financing sources	**23**	**866**	**0**	**0**	**0**	**0**
IMF (RCF-RFI)	0	566	0	0	0	0
IMF (CCRT)	23	0	0	0	0	0
Global Fund	0	113	0	0	0	0
Unidentified donors	0	187	0	0	0	0
Remaining financing gap	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Tanzanian authorities and IMF staff estimates and projections.

1/ Financing gap in this table is different from the one in Text Table 1, as the financing gap in Text Table 1 includes $238 million reserves drawdown without the SDR allocation.

Appendix I. External Balance Assessment

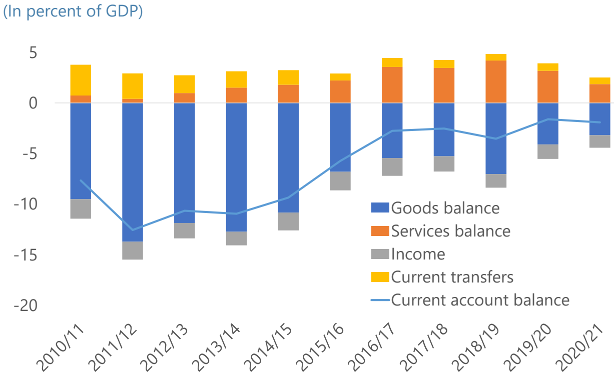
Tanzania's external position in 2020 is assessed to have been substantially stronger than the level implied by fundamentals and desirable policies, consistent with its relatively better economic performance, over the last year, compared to peers. International reserves also remained above the adequate level as estimated by the ARA methodology. Going forward, the external positions are expected to deteriorate significantly as the continuing COVID-19 pandemic is triggering an urgent balance of payments need. The upcoming new SDR allocation and RCF and RFI financing would substantially help close the balance of payments gap and prop-up reserves.

Current Account

1. Background. Tanzania's current account balance deteriorated in 2020/21 as the pandemic hit the tourism sector hard. Tanzania's current account deficit is estimated to widen to 1.9 percent of GDP in 2020/21 compared to 1.6 percent of GDP in 2019/20, mainly because of the collapse in tourism receipts, though strong gold exports and a lower oil import bill moderated the adverse impact. The current account deficit is expected to widen further to 4.5 percent of GDP in 2021/22 due to the continued impact of the COVID-19 shock and emergency imports needed to respond to the third wave of the virus. Staff estimates a balance of payment (BOP) financing needs of US$1.1 billion (1.5 percent of GDP) in 2021/22 (Text Table 1).

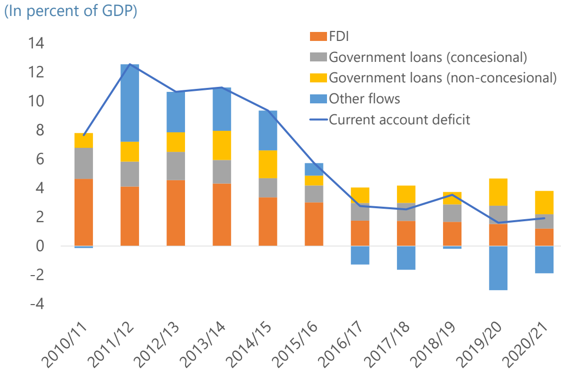
2. The pattern of financing of the current account has been shifting from donor-based to market based. In earlier years, the large current account deficit was financed mainly by FDI, grants, and concessional public-sector borrowing. More recently, both grants and FDI have declined, reflecting an uncertain and weak business environment. Increasingly, large infrastructure projects are being financed with non-concessional public sector borrowing (see the DSA for more details on the financing assumptions).

Current Account Balance
(In percent of GDP)



Sources: Authorities; and IMF staff calculations.

Financing of Current Account Balance
(In percent of GDP)



Sources: Authorities; and IMF staff calculations.

3. Assessment. The External Balance Assessment-lite (EBA-lite) methodology suggests the external positions is substantially stronger than what is implied by fundamentals and desirable policies. Based on the Current Account (CA) model, the cyclically adjusted CA is -2.3 percent of GDP in 2020 and the CA norm is -4.8 percent of GDP. This indicates a current account gap of 2.5 percent of GDP in 2020, after including adjustors to the current account for the temporary impact of the pandemic on tourism and oil imports.[1] The REER model has implied a CA gap of 2.2 in 2020. Both analyses suggest that the external position is substantially stronger than the norm, which values are consistent with fundamentals and desirable policies.

Tanzania: Model Estimates for 2020 (in percent of GDP)

	CA model	REER model
CA-Actual	**-2.0**	
Cyclical contributions (from model) (-)	-0.6	
COVID-19 adjustor (+) 1/	-0.9	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-2.3**	
CA Norm (from model) 2/	**-4.8**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.8**	
CA Gap	**2.5**	**2.2**
o/w Relative policy gap	2.3	
Elasticity	-0.13	
REER Gap (in percent)	**-19.2**	**-17.0**

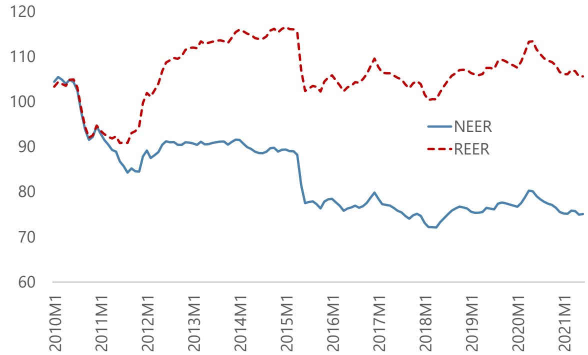
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil balances (-0.3 percent of GDP) and on tourism (-0.6 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Exchange Rate Assessment

4. Background. The Tanzanian shilling depreciated 11 percent in real terms (more than 20 percent in nominal terms), largely in response to the strengthening of the U.S. dollar vis-à-vis major currencies in 2015. The real exchange rate has remained relatively stable since then, supported by prudent macroeconomic policies. The average real effective exchange rate appreciated by about 2 percent in 2020.

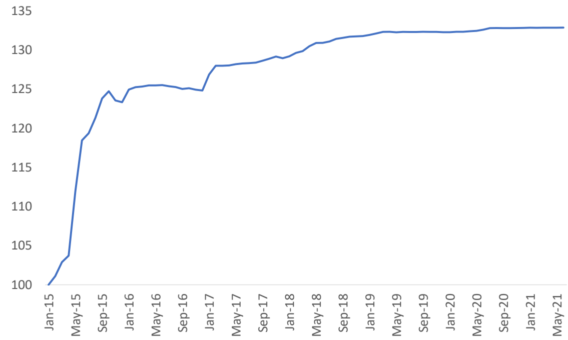
[1] The temporary component of tourism is computed as the difference in trade balances between 2019 and 2020. The temporary component of the change in the oil balance is estimated as the difference between the change in the forecasted oil balance for 2020 and 2025 in the macro-framework and the same in the January 2020 WEO (before the Covid-19 shock).

Real and Nominal Effective Exchange Rates
(Index, 2010=100)



Sources: Authorities; and IMF staff calculations.

Exchange Rate of the Tanzanian Shilling Versus US Dollar
(Index, January 2015 = 100)

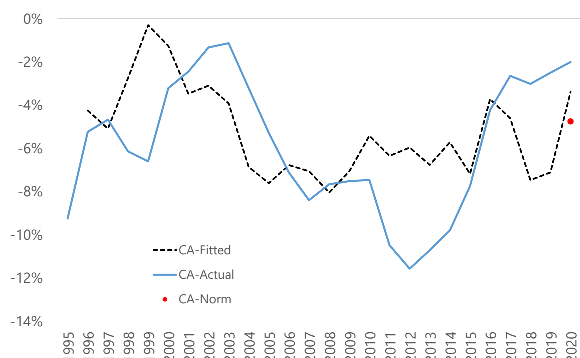


Sources: Authorities; and IMF staff calculations.

5. **Assessment.** The model indicates an undervaluation of the real effective exchange rate.

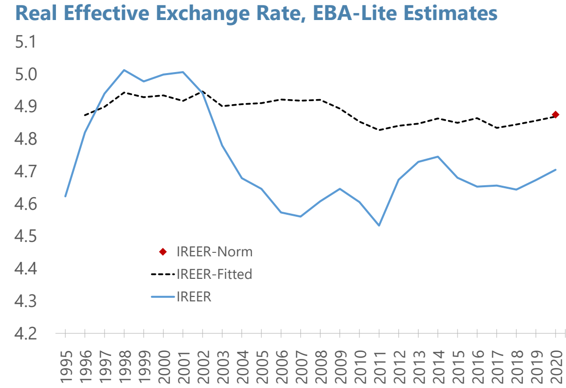
- The current account approach indicates that the real effective exchange rate is undervalued. Using the elasticity of the trade balance to changes in the REER of -0.13, this methodology suggests that the Tanzanian shilling would need to appreciate by 19 percent in real terms for the CA to match the fitted value of the regression.
- The REER approach also points to an undervaluation of the real exchange rate. It suggests that the Tanzanian real exchange rate would need to appreciate by 17 percent to reach the norm.

Current Account Balance, EBA-Lite Estimates
(Percent of GDP)



Sources: IMF staff calculations.

Real Effective Exchange Rate, EBA-Lite Estimates



Sources: IMF staff calculations.

6. **The undervaluation of the real exchange rate is consistent with the relatively better economic performance of Tanzania in 2020.** The economy grew 4.8 percent in 2020, much better than the regional average of -1.9 percent in sub-Saharan Africa, as Tanzania's non-lockdown policy helped support non-tradable sector (e.g. trade, services, etc.) and informal sector activity, which contributed to the undervaluation of the real exchange rate.

7. **Going forward, it will be important to ensure exchange rate flexibility.** Exchange rate flexibility can help as a shock absorber (although, recently, reserves have served as the effective shock absorber). While the authorities continue with their efforts to move towards an interest rate-based monetary policy framework, a combination of active bank liquidity management relying on

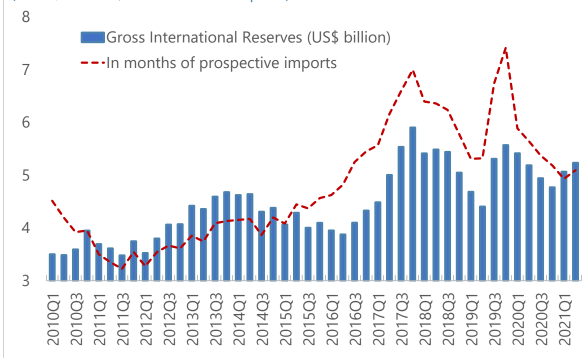
open market operations and opportunistic FX interventions aimed at building up reserve buffers (market conditions permitting) will help stabilize real exchange rate developments.

Reserve Adequacy

8. Background. Tanzania's international reserves declined in 2020 due to the pandemic hit. International reserves were US$5.2 billion in June 2021 or 5.1 months of prospective imports, US$400 million down from its end-of-2019 level of US$5.6 billion as tourism receipts collapsed in 2020. The debt relief under the CCRT, suspension of debt service under the DSSI, and budget support from the EU, and program loans from IFIs helped mitigate the impact on reserves.

Gross International Reserves

(In US$ millions, and months of imports)

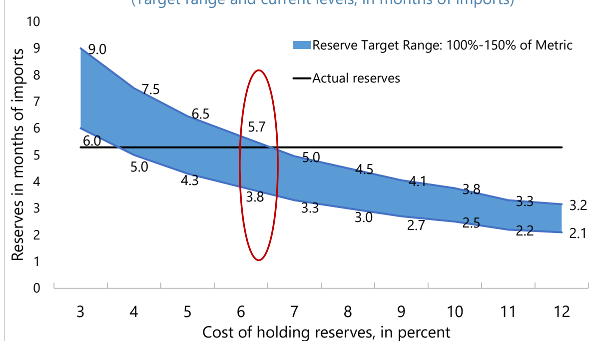


Sources: Authorities; and IMF staff calculations and projections.

9. Assessment. Tanzania's current international reserves are assessed adequate, though the projected reserves in FY2021/22 are subject to uncertainties. Current reserve coverage is around 5.1 months, above the government's threshold of 4 months, as well as the lower bound of 3.8 month from an ARA model for credit-constrained economies that compares the marginal costs of holding reserves against marginal benefits (see Figure).[2]

Tanzania Optimal Reserves 1/

(Target range and current levels, in months of imports)



1/ Assuming no IMF program and the unconditional probability of a large shock event is 0.5.
Source: IMF staff calculations.

10. The projected level of reserves in FY2021/22 is supported by the new SDR allocation (US$543 million) and RCF and RFI financing (US$566 million). The new SDR allocation and the RCF and RFI financing would create room for essential and urgent spending to mitigate the impact of the pandemic and catalyze additional donor resources, while helping to close balance of payments gaps and maintain reserve adequacy. Without the SDR and the RCF and RFI financing, international reserves are expected to fall to US$4.4 billion (4.3 months of import coverage), along with a worsening external position. The upcoming new SDR allocation would boost reserves to US$4.9 billion, while the RCF and RFI financing would further increase reserves to US$5.5 billion, equivalent to 5.4 month of import coverage).

[2] For Tanzania, the relevant approach is the Assessment of Reserve Adequacy in Credit-Constrained-Economies (ARA-CC) which is used for countries with limited access to international capital markets (see IMF (2014), "Assessing Reserve Adequacy—Specific Proposals.", *IMF Policy Paper)*. The assessment seeks to find the "optimal" level of reserves that maximize the net benefit of holding reserves in terms of crisis prevention from large shocks against the opportunity cost of holding additional reserves (in the exercise, the "optimal" level of reserves is higher if the costs of borrowing are lower and the exchange rate is less flexible).

Tanzania's Projected Reserves in 2021/22

	Gross international reserves (USD, millions)	Gross international reserves (in months of imports)
W/O new SDR allocation or RCF/RFI	4,427	4.3
With new SDR allocation	4,993	4.9
With new SDR allocation and RCF/RFI	5,536	5.4

11. The ARA-CC approach may not fully capture all risks—if such risks materialize, reserves cover could likely fall below the lower bound. As discussed in previous external sector assessments, staff recommends keeping international reserves about 50 percent higher than the level suggested by the ARA metric as Tanzania faces more risks than the ones factored in the model for example, plans for higher borrowing from financial markets and to liberalize the capital account, and the high level of dollarization in the banking system. These risks are even more exacerbated in the context of COVID-19 related uncertainties, calling for an even higher level of reserves than the model advises. Besides the common risks of the pandemic, Tanzania remains highly vulnerable to larger-than-expected shocks to the tourism sector, including the third wave of outbreak that could hit the country badly, a resumption of travel restrictions by source markets, or a delayed vaccine roll-out. Reserve coverage risks could also arise should oil prices rise higher than anticipated or gold prices fall sharply. Should any of these risks materialize, reserves coverage would likely fall below the lower bound of 3.8 months. In this regard, staff considers that 5½-6 months of import coverage is a more appropriate range.

Appendix II. Risk Assessment Matrix[1]

Source of risks	Likelihood	Expected impact if realized	Possible policy response
Conjunctural shocks and scenarios			
Uncontrolled COVID-19 local outbreaks and subpar/volatile growth in affected countries. Outbreaks in slow-to-vaccinate countries force new lockdowns. Policy response to cushion the economic impact is constrained by limited policy space and financial tightening.	High	High • Collapse in Tanzania's tourism receipts and other key exports. • Key domestic businesses offering services in tourism and related industries will face solvency problems.	• Accelerate targeted government fiscal and financial interventions to support domestic businesses (stimulus and safety nets) and the health response to the pandemic in line with the National Deployment and Vaccination Plan (NDVP) and the National COVID-19 Response Plan (NCRP). • Prioritize health and public infrastructure projects with high fiscal multipliers and value-for-money. • Collect and communicate key health data on the pandemic to inform decisions and reassure the public. • Continue mobilizing the international community to provide support.
Global resurgence of the COVID-19 pandemic.	Medium		
Disorderly transformations. COVID-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks.	Medium	High • Economic uncertainty will deepen and the reforms envisaged by the new government will be at risks. • Suboptimal policymaking would adversely affect growth, poverty levels, and external and fiscal balances.	• Increase the access and benefits, improve targeting of existing social safety nets. • Bring forward measures to create jobs and improve business climate. • Pursue tax reforms including improving tax administration to broaden tax base.
Increased inflation expectations in the U.S. leads to rising core yields and risk premia.	Medium	Medium • Higher cost of external financing will worsen fiscal balances, debt vulnerabilities, and capital outflows.	• Adopt revenue mobilization measures and re-prioritize expenditures. • Exchange rate flexibility.

[1] Based on the latest G-RAM (June 2021). The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Appendix II. Risk Assessment Matrix (concluded)

Source of risks	Likelihood	Expected impact if realized	Possible policy response
Conjunctural shocks and scenarios			
Rising commodity prices amid bouts of volatility.	Medium	Medium • High cost of infrastructure projects and production costs in general due to higher oil prices will hurt domestic economic activity and corporate profits.	• Include contingency spending plans in fiscal framework and strengthen food security programs. • Apply counter-cyclical fiscal and monetary policies, provide fiscal support as needed, and avoid policies that could distort market incentives. • Exchange rate flexibility.
Structural Risks			
Cyber-attacks	Medium	Medium Interruption in economic activity, loss of important data and financial resources.	• Ensure financial service providers frequently upgrade their IT systems.
Higher frequency and severity of natural disasters related to climate change.	Medium	Medium • Lower agriculture sector output, higher unemployment, higher infrastructure and social spending.	• Apply counter-cyclical fiscal and monetary policies, provide fiscal support as needed, and avoid policies that could distort market incentives. • Include contingency spending plans in fiscal framework and strengthen food security programs.
Delays in improving fiscal management.	Medium	High • Low return of public investment and low growth.	• Implement fiscal structural reforms to improve tax administration and policy and expenditure management.
Delays in implementing key structural reforms.	Medium	High • Subpar medium-term growth and job creation.	• Accelerate implementation of reforms, involving experts and stakeholders, to improve the business climate (including revising legislation) and attract foreign investment.
A hurried scaling-up of large infrastructure projects.	Medium	Medium • Low return on public investments, insufficient priority spending, and higher public debt vulnerability.	• Implement all provisions of the Public Investment Management Manual and improve costing, evaluation, and prioritization of projects.

Appendix III. Letter of Intent

Dodoma, Tanzania

August 20, 2021

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Madame Managing Director:

1. Our country has been hit by the COVID-19 pandemic. After the first COVID-19 case was reported in Tanzania in March 2020, the country has gone through two major waves of the pandemic and is beginning to experience a third one. A Special Committee has been formed to study and make recommendations as a response to the virus spread. Currently, we are adopting the Special Committee recommendations on the improvement of health facilities to manage and minimize COVID-19 cases, rolling out vaccination to our people, and increasing public awareness. We are also committed to start, by end-September 2021, to regularly and transparently report and disseminate critical information on the pandemic (testing, cases, deaths, etc.) to the WHO and the public at least weekly.

2. While our economy showed resilience to the COVID-19 shock at the beginning, facilitated by limited lockdowns, the prolonged pandemic effects are beginning to show. The weakening in external demand and domestic economic activity has hindered our traditional exports, tourism receipts, and revenue collection. The slowdown in economic activity is expected to have increased poverty and unemployment. We estimate that real GDP grew by 4.8 percent in 2020, well below our pre-pandemic projection of 6.9 percent, and we expect economic performance to remain subdued growing at 4 percent in 2021. The tourism sector, our main source of foreign exchange earnings, has in the recent past been severely hit by the COVID-19 pandemic, with the number of international tourist arrivals more than halved in 2020. The external position is expected to further deteriorate in the near term, following the need for emergency imports to procure COVID-19 testing machines, vaccines, and other medical supplies. Furthermore, as the pandemic continues to evolve, tourism receipts are expected to remain well below pre-crisis levels; while the projected increase in oil and other commodity prices will increase the import bill, partly offsetting the windfall gain from gold exports.

3. Against this background we are experiencing an urgent balance of payments financing need of US$1.1 billion (1.5 percent of GDP) in 2021/22. The shortfall in tax revenues due to the pandemic, implementation of country's COVID-19 response plan to address the health and economic crisis, and deployment of the vaccination campaign are expected to widen the overall fiscal deficit to 3.9 percent of GDP in 2021/22, causing a fiscal financing gap of 0.8 percent of GDP.

Given that the budget for 2021/22 only envisages a deficit of 1.8 percent of GDP that leaves little space to tackle the pandemic, we are committed to presenting to parliament a supplementary budget in February 2022 after the mid-year review to properly account for all necessary pandemic spending.

4. We request emergency financing emergency financial support from the IMF of SDR 132.6 million (33.33 percent of quota) under the Rapid Credit Facility (RCF) and SDR 265.2 million (66.67 percent of quota) under the Rapid Financing Instrument (RFI), totaling SDR 397.8 million (100 percent of our quota), which we intend to use as direct budget support to address our urgent balance of payments needs triggered by the COVID-19 shock. We are also confident that IMF financial support to Tanzania will help catalyze additional support from development partners to respond to the crisis. We intend to use the proposed RCF disbursement and RFI purchase as direct budget support to address our urgent financing needs and provide the needed fiscal space to implement our targeted measures to respond to the health crisis and mitigate the socioeconomic impact. We also commit to continue to actively seek additional support from other development partners.

5. We have set up a comprehensive policy agenda to respond to the COVID-19 emergency and mitigate its socioeconomic impact. A comprehensive response plan—Tanzania COVID-19 Socioeconomic Response and Recovery Plan (TCRP) is being finalized and scheduled to be published by mid-September 2021—to address the COVID-19 emergency and mitigate its impact on our people and the economy. Our fiscal policy is geared towards responding to the COVID-19 emergency by scaling-up health spending to contain the virus spread and save lives, starting vaccine acquisition and the deployment of a vaccination campaign, strengthening social safety nets to protect vulnerable households, providing support for the tourism sector, and increasing the priority spending on education and water sectors. In parallel, our monetary policy has been loosened to ameliorate the pandemic's impact. The Bank of Tanzania (BoT) has reduced the discount rate from 7 percent to 5 percent, lowered minimum reserve requirements from 7 percent to 6 percent. Moreover, the BoT has provided regulatory flexibility for banks to support liquidity and credit provision to the economy. We are committed to preserving financial stability while ensuring adequate liquidity to support credit to the economy.

6. We commit to ensuring the appropriate use, monitoring, and reporting of COVID-19 related spending. We will ensure that the financial assistance received is used for health expenditure to fight the pandemic and to provide support to affected households and economic sectors. We will create pandemic-specific Integrated Financial Management Information Systems (IFMIS) codes to track RCF and RFI spending. Starting in September 2021, we also commit to publish quarterly reports of RCF and RFI spending within one month after the quarter ends on the website of the Ministry of Finance, as well as the list of financial transfers, all pandemic related public procurement contracts and related documents, including the names of the awarded companies and their beneficial owners, as well as information on all other pandemic related spending. This website will be easily accessible and searchable, and will include the contact details of Tanzania's relevant agencies in charge of receiving whistleblowers' reporting about potential conflict of interest and corruption. In addition, we commit to completing and publishing a post-crisis audit of pandemic-related spending by December 2022. We

also reiterate our commitment to publish the ongoing audit of the COVID-19 related spending financed with the debt relief received under the IMF's Catastrophe Containment and Relief Trust (CCRT) by April 2022.

7. In line with IMF safeguards policy, we reiterate the BoT's commitment to undergo a safeguards assessment which would need to be completed before Executive Board approval of any subsequent arrangement. We will provide Fund staff with the necessary central bank audit reports and authorize the BoT's external auditors to hold discussions with staff. Furthermore, as we request the RCF disbursement and RFI purchase to be made available as budget support, we will sign a Memorandum of Understanding between the Ministry of Finance and the BoT clarifies respective responsibilities for servicing financial obligations to the IMF. Moreover, we do not intend to introduce or intensify exchange and trade restrictions, multiple currency practices, and other measures or policies that would exacerbate balance of payments difficulties.

8. Once the crisis abates, we intend to continue reforms to raise and sustain inclusive growth. We commit not to incur new spending arrears, and to pay tax refunds on time. Furthermore, we plan to clear the backlog of domestic and tax refunds in a timely manner, and to use a risk-based approach in the review of tax refund and spending arrears claims. We also remain committed to maintaining fiscal and debt sustainability. We plan to implement the measures and recommendations in the action plan of the Blueprint for Regulatory Reform to enhance the business environment in Tanzania, with particular emphasis on licenses, and permits to reduce red tape. We also intend to increase support for priority social spending areas, particularly in education and health. Finally, we plan to go ahead with the transition to interest-rate based framework to improve monetary policy communication and transmission.

9. Looking ahead, we plan to continue the close collaboration with the IMF. We look forward to benefiting from the Fund's policy advice, technical assistance, and as needed, further financial assistance to support, as we implement policies to preserve macroeconomic stability and broader economic reforms to promote sustainable and inclusive growth.

10. We authorize the IMF to publish this Letter of Intent and the staff report for the request for a disbursement under the RCF and a purchase under the RFI after approval by the Executive Board of the IMF.

Sincerely yours,

/s/	/s/
Dr. Mwigulu Lameck Nchemba	Prof. Florens D.A.M. Luoga
Minister of Economy and Finance	Governor Bank of Tanzania
Tanzania	

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

August 20, 2021

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Catherine Pattillo (AFR), Maria Gonzalez (SPR) and Marcello Estevão and Asad Alam (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA).[1]

Tanzania Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Moderate risk tool, limited space to absorb shocks*
Application of judgment	No

The Debt Sustainability Analysis (DSA) indicates that Tanzania's risk of external debt distress has increased to moderate, mainly due to the effects of the pandemic on exports, which has weakened Tanzania's ability to service its external debt, and to the lower debt burden thresholds that correspond to the new medium debt carrying capacity classification.[2, 3] Tanzania's macroeconomic conditions have been resilient despite the COVID-19 shock. Although uncertainty is high, and risks are tilted to the downside, the macroeconomic outlook is stable. The results of the external DSA show that, with the exception of a one-off breach in the debt service to exports ratio caused by the collapse in tourism receipts due to the pandemic, all external debt burden indicators continue to remain below the policy-determined thresholds under the baseline. However, in the short-term Tanzania has limited space to absorb shocks, and the ongoing effect of the pandemic on the tourism sector is highly uncertain.

[1] Prepared by the IMF and the World Bank. This DSA follows the [Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries](), February 2018.

[2] This Debt Sustainability Analysis (DSA) replaces the previous joint IMF/IDA DSA prepared in March 2019 in the context of the last Article IV Consultation (The Country Report was not published).

[3] Under the revised Debt Sustainability Framework for Low-Income Countries, Tanzania's Composite Indicator is 2.92 based on the April 2021 WEO and the 2019 World Bank's CPIA, corresponding to a medium debt carrying capacity.

The public DSA analysis shows that the present value of the public debt-to-GDP ratio remains contained at around 30 percent, well below the 55 percent threshold. The results of the DSA underscore the importance of accessing, to the extent possible, external financing on concessional terms. Also, to maintain fiscal and debt sustainability, the authorities should improve public investment management and proceed only with investment projects with clear socioeconomic payoffs. Finally, it will be important to continue improving the coverage and transparency of public sector debt statistics, including non-guaranteed debt.

A. Background

1. Tanzania's public and publicly guaranteed (PPG) debt remains relatively low. At the end of FY 2019/20, the level of public debt stood at 38.8 percent of GDP, down from 41.4 percent in 2017/18.[4] However, over the past decade the debt to GDP ratio increased by more than 13 percent of GDP. While domestic debt rose over the period, most of the increase was related to external debt which accounts for 73 percent of the total debt.[5]

2. Non-concessional borrowing has increased in recent years to finance the public infrastructure agenda. Multilateral and official bilateral creditors continue to be the major financiers, accounting for about 70 percent of the stock of external PPG debt as of end-FY2019/20. However, in recent years, commercial borrowing as a share of new disbursement has increased to about 50 percent, and in FY2020/21 it is expected to reach 68 percent, as the authorities borrowed US$1.3 billion through commercial loans to finance the Standard Gauge Railway project.

3. Domestic public debt has also increased but remains small. Domestic debt stood at 10.8 percent of GDP at end-FY2019/20, with about a fifth of that stemming from short-term instruments. Commercial banks continue to hold the largest share of government debt, followed by pension funds. If government arrears were counted as part of the domestic debt stock, the above figure would increase further by about 3 percent of GDP.[6]

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

1	**The country's coverage of public debt**	The central government, central bank, government-guaranteed debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	3.6	Includes known contingent liabilities
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			8.6	

[4] All the figures and tables in the DSA follow the fiscal year (July-June). In the figures and tables, for example the year 2021 corresponds to FY2020/21.

[5] The government fully settled external arrears to Wallis Trading in July 2021 and with Belgium in October 2019, while discussions to settle arrears with Libya are ongoing.

[6] It was estimated that at end-2017/18, government arrears to pension funds and TANESCO's arrears to its suppliers, amounted to about 3.1 percent of GDP.

4. The public sector debt covers central government debt, central government-guaranteed debt, and central bank debt. Owing to data constraints, the coverage of the public sector debt is limited. With assistance from development partners, the authorities have been working on broadening the coverage of the fiscal data, including local governments and public corporations. The Ministry of Financing and Planning has a wide mandate over debt management, as any domestic debt issuance by local governments and parastatals with weak financials is subject to its approval, and all external financing requires government guarantees.[7, 8]

B. Macroeconomic and Policy Assumptions

5. The macroeconomic outlook is stable, but hinges on the extent of changes to COVID-19 policies as well as the broader policy and reform agenda. The impact of the COVID-19 pandemic on Tanzania's economy continues to be subject to considerable uncertainties, with significant downside risks on the horizon. The third wave of the virus and/or new coronavirus variants might prolong the COVID-19 pandemic and worsen the impact on Tanzania's external demand and domestic activity. Resumption of travel restrictions by source markets, or a delayed vaccine roll-out could undermine the slow recovery in tourism and add to external pressures. Conditional on satisfactorily implementation of the authorities' National Tanzania COVID-19 Socioeconomic Response Plan (see main text), growth is expected to recover to 4 percent in 2021 and further pick up over the medium-term. The medium- and long-term macroeconomic outlook assumes a moderate and steady implementation of the authorities' reform agenda. Scarring from the COVID-19 pandemic is expected to have a persistent negative impact on Tanzania. In particular, the tourism sector is not anticipated to fully recover over the medium-term.

- **Real GDP growth:** GDP growth is projected at 4½–5½ percent in the medium- and long-term. The authorities project higher medium-term growth in the order of 7 percent, but in staff's view such a robust level of potential growth is not warranted. Despite the impetus from the new administration of President Hassan, the past reform implementation track record, the poor business climate over the last few years that will take time to recover from, and the lasting effects of the pandemic suggest a slightly more moderate rate of growth.

- **Inflation (CPI):** CPI inflation is projected at about 3½ percent over the medium-term, in line with the authorities' inflation target, and with current trends that seemed to have anchored inflation expectations at around 3½.

- **Fiscal balance:** The overall fiscal deficit is projected to increase temporarily to 3.9 percent of GDP to accommodate about 1 percent of GDP in COVID-related spending in FY2021/22. The deficit will linger close to 3 percent of GDP over the medium-term reflecting the authorities'

[7] The contingent liability stress test is calibrated to 3.6 percent of GDP. The shock is estimated to include the arrears to pension funds and TANESCO's arrears to suppliers (see footnote 6), and 0.5 percent of GDP that local governments and public non-financial corporations had in outstanding loans from banks at end-March 2021. The central government's strong control over public sector debt limits the risk of other uncaptured contingent liabilities.

[8] Tanzania's PPP capital stock is relatively small and represents a very small risk, hence it is not considered as part of the stress test.

ambitious infrastructure plans to close development gaps in energy and transportation.[9] As revenues recover over time from their hit during the pandemic, the long-term fiscal deficit is projected to remain below the 3 percent of GDP ceiling required by the convergence criterion of the East African Community.

- **Gross financing needs:** Gross financing needs are projected to peak in FY2021/22 at about 7.2 percent of GDP and remain at 6¾ percent of GDP over the medium term. External non-concessional borrowing (ENCB) is projected to remain above 40 percent of annual foreign financing over the next five years, while access to grants is assumed to taper. Compared with the previous DSA, the current one includes higher projected disbursements from the World Bank of about US$500 million per year over the medium-term.

- **Current account balance:** In FY2020/21 tourism receipts declined by 55 percent (or almost 2 percent of GDP) as travel froze across the world, but the balance of payments proved resilient as higher gold exports, and lower oil imports helped offset the decline in tourism. The current account deficit is estimated to widen to 4.½ percent of GDP in FY2021/22 as imports of medical equipment, medicines and vaccines pick-up steam to fight the pandemic.[10] As exports of tourism services slowly improve over the medium-term, the current account deficit is expected to narrow to about 3 percent of GDP. However, over the next five years exports are projected to be on average about 1½ percent of GDP lower than in the last DSA (Text Table 1), which is reflected in a deterioration of key debt burden indicators (see below). FDI inflows are expected to remain subdued over the medium-term at about 1½ percent of GDP.

- **Debt Service Suspension Initiative (DSSI):** Tanzania benefited from the DSSI in FY2020/21 to the tune of US$102 million from the Exim Bank of China (US$99.5 million) and the French Development Agency (US$2.6 million).[11] Consequently, the DSA includes a corresponding reduction in debt service payments in 2021, and reflects the higher debt service over the period 2022-27 to repay the rescheduled debt.

6. The first realism tool suggests some small changes in the decomposition of debt-creating flows (Figure 3). The decomposition of debt-creating flows indicates that the projected contribution of the current account deficit and FDI flows will have a higher impact on external debt dynamics. Similarly, lower growth and the impact of an increase in nominal interest rates will contribute to higher debt accumulation compared to historical drivers. For the total public

[9] Development spending is projected to peak at 7.4 percent of GDP in 2022/23 and then slowly decline to about 6.5 percent of GDP over the long run.

[10] The reluctance of the previous government to acknowledge and confront the extent of the pandemic has left the current administration with a weak foundation to tackle the health crisis. The new administration of President Hassan plans to rapidly implement an aggressive plan to contain the spread of the virus, which requires a significant increase in imports for the health sector.

[11] The Tanzanian government has also received debt relief from South Korea, Japan, Belgium and Austria, but the total amount to be rescheduled will be determined after concluding bilateral agreements. The Tanzanian authorities have not yet requested to participate in the second DSSI extension.

debt, higher primary deficits, and a lower growth rate than in the past, will be key drivers of debt-creating flows.

Text Table 1. Selected Macroeconomic Indicators, Current vs Previous DSA[1]

		2020	2021 proj.	2022 proj.	2023 proj.	2024 proj.	2025 proj.	2026 proj.	Long-term Last 15 years[2]
Real GDP growth	Current	5.9	4.4	4.6	5.3	5.7	5.9	6.0	5.1
(percent)	Previous	4.1	4.3	4.6	4.9	4.9	4.7	4.5	4.5
Inflation	Current	3.5	3.2	3.4	3.5	3.5	3.5	3.5	3.5
(average)	Previous	4.1	4.8	5.0	5.0	5.0	5.0	5.0	5.0
Fiscal Balance	Current	-1.0	-2.5	-3.9	-2.9	-2.9	-2.9	-2.6	-2.7
(percent of GDP)	Previous	-2.8	-3.2	-3.4	-3.5	-3.5	-3.5	-3.4	-2.4
Current Account	Current	-1.6	-1.9	-4.5	-3.3	-3.1	-2.8	-2.7	-2.6
(percent of GDP)	Previous	-4.2	-4.4	-4.7	-4.7	-4.6	-4.4	-4.5	-4.3
Exports of Good & Services	Current	14.9	13.3	13.4	13.6	13.9	14.2	14.5	14.5
(percent of GDP)	Previous	14.9	15.2	15.4	15.6	15.8	16.3	16.5	16.8
FDI	Current	1.5	1.2	1.3	1.3	1.4	1.5	1.6	1.7
(percent of GDP)	Previous	1.7	1.7	1.6	1.6	1.8	2.0	2.1	2.5

Sources: Tanzanian authorities; and IMF staff estimates and projections

[1] The previous DSA was conducted in the context of the 2019 Article IV Consultation (The Country Report was not published).

[2] For the current projections it covers the period 2027-2041, and for the previous DSA the period 2026-2040.

7. The other realism tools indicate that the projections are reasonable (Figure 4). The projected scaling-up of public investment is expected to yield a growth dividend in line with historical factors. This will be supported by the authorities' intentions to improve the business environment and public investment management. The authorities also expect to enact reforms to support financial intermediation and the development of domestic markets, which, in turn, will allow for additional levels of domestic financing.

8. The country's debt-carrying capacity applied in this DSA is categorized as medium. The calculated Composite Indicator (CI) Index is 2.92 based on the April 2021 WEO and the 2019 World Bank's CPIA, corresponding to a medium debt carrying capacity. The CI is lower than the 3.07 in the 2019 Article IV DSA, which corresponded to a strong debt carrying capacity. The corresponding indicative thresholds are: 40 percent for the net present value (NPV) of external debt-to-GDP ratio; 180 percent for the NPV of debt-to-exports ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio. The benchmark of the PV of total public debt for medium debt-carrying capacity is 55 percent.

Text Table 2. Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.539	1.36	47%
Real growth rate (in percent)	2.719	5.108	0.14	5%
Import coverage of reserves (in percent)	4.052	42.413	1.72	59%
Import coverage of reserves^2 (in percent)	-3.990	17.989	-0.72	-25%
Remittances (in percent)	2.022	0.043	0.00	0%
World economic growth (in percent)	13.520	3.078	0.42	14%
CI Score			2.92	100%
CI rating			Medium	

Source: IMF staff calculations, based on the April 2021 WEO and 2019 CPIA.

C. External DSA

9. **Based on the baseline projections and borrowing assumptions, Tanzania's risk of external debt distress is assessed as moderate**. The present value of the PPG external debt-to-GDP ratio is projected to peak at about 19 percent in 2022 and remain below the corresponding threshold. The debt service-to-export ratio has a one-off marginal breach of the 15 percent threshold in 2022 under the baseline (Figure 1), and would have also breached it in 2021 if it wasn't for the debt rescheduling of US$102 million in FY2020/21 under the DSSI. Due to the different scenario breaches (see below), the DSA rating for the external risk of debt distress is assessed as moderate. The change compared to the low risk rating in the last DSA is mainly due to the collapse of tourism exports during the COVID-19 pandemic, and the lower debt burden thresholds that correspond to the new medium debt carrying capacity classification

10. **Furthermore, a number of debt indicators are sensitive to shocks** (Figure 1). A decline in exports is the most extreme scenario among bound tests for half of the ratios, confirming the sensitivity of the Tanzanian economy to a narrowing of its exports base, as the one experienced with the COVID-19 shock. This is especially conspicuous for the debt service to exports ratio, which is projected to remain elevated, and in breach of the threshold, under this shock. A one-time 30 percent depreciation shock is the biggest impact on the debt service-to-revenue ratio and results in a one-off breach. The shocks underscore the importance of enhancing revenue mobilization and seeking concessional loans where possible. Furthermore, the historical scenario breaches two thresholds, highlighting the risks of past behavior.

11. **Tanzania has limited space to absorb shocks due to the effect of the pandemic on tourism exports** (Figure 5). The debt-service to export ratio suggests that over the medium-term Tanzania has limited space to absorb shocks, but over the long-term Tanzania will regain some space to absorb shocks, and that towards the end of the projection period it would have substantial space. There are two countervailing factors that qualify this assessment; on the one hand Tanzania has and is projected to maintain healthy levels of reserves above 5 months of imports, but on the other hand the ongoing effect of the pandemic on the tourism sector is highly uncertain and could continue to worsen the capacity of the country to earn foreign exchange, which then serves to pay down debt.[12] Given the relatively large fiscal

[12] The new SDR allocation will increase reserves to about 5.6 month of imports, providing more space for Tanzania to absorb possible shocks.

needs (about 1 percent of GDP) to fight the pandemic, the government will need to carefully balance their COVID-19 response with their broader development agenda to preserve debt sustainability.

D. Public DSA

12. The risk of overall public debt distress is assessed as moderate, in line with the moderate risk of external debt distress rating. Under the baseline scenario, the PV of public debt remains below the indicative threshold under the baseline and most extreme stress scenario and is expected to increase modestly in the medium-term and peak at 30.5 percent of GDP in 2022. After that, the ratio is projected to decline gradually and continue to remain below both the threshold associated with heightened public debt vulnerabilities and the EAC convergence criterion of 50 percent (Figure 2).

13. Bound tests indicate the importance of public investment management. A one-time materialization of contingent liabilities is the most extreme scenario among bound tests for all the ratios, highlighting again the importance of improving public investment management processes and the proper prioritization of investment projects, as well as proper public financial management processes. It will also be important to improve the coverage and transparency of public sector debt statistics, including non-guaranteed debt, to minimize the risk of unexpected debt surprises.

E. Conclusions

14. The DSA indicates that the external and the overall risk of debt distress for Tanzania are moderate. The pandemic's devastating effect on tourism inflows brought to light Tanzania's vulnerability to export shocks that threaten its capacity to service external debt. However, the healthy level of reserves of 5 months of imports serves as a significant buffer against these types of shocks. Other than a marginal breach in the debt service-to-export ratio, all other external debt burden indicators remain below the policy-dependent thresholds under the baseline scenario, but are breached under different shocks and stress tests, highlighting the increase in risk of debt distress since the last DSA. In particular, a narrow export base and one-time depreciation pose risks. The results highlight the importance of raising domestic revenue, improving public investment management, and leveraging concessional financing sources when available, while carefully selecting projects to be financed by commercial loans.

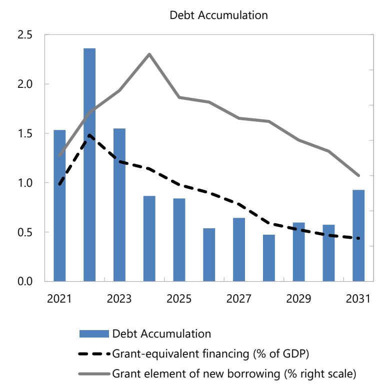
15. Authorities' views. The authorities agreed on the economic outlook and risks and indicated economic growth will be supported by their ambitious public investment program. On the overall assessment, the authorities agreed with the characterization of Tanzania's risks of debt distress and noted their intention to maintain prudent debt management policies and to undertake debt sustainability analysis every year. They plan to continue prioritizing borrowing on concessional terms, including seeking financing from export credit agencies, while carefully venturing to non-concessional sources for projects of significant importance to the economy. To anchor fiscal consolidation in the long-term, the authorities reiterated their commitment to the EAC guidelines. The authorities also indicated that they are currently preparing a report on contingent liabilities that will help broaden the perimeter of debt covered, which is expected to be completed by end-2021.

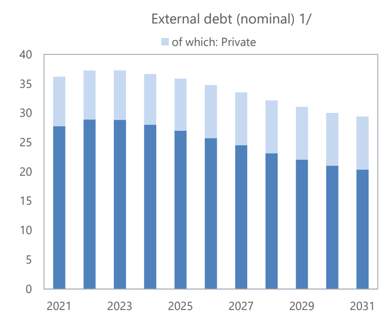
Table 1. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2020-2041

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	36.1	36.2	37.3	37.3	36.7	35.9	34.8	29.4	23.6	31.2	34.0
of which: public and publicly guaranteed (PPG)	28.0	27.8	28.9	28.8	28.0	27.0	25.7	20.4	14.6	26.3	25.2
Change in external debt	-1.3	0.2	1.0	0.0	-0.6	-0.8	-1.1	-0.6	-1.2		
Identified net debt-creating flows	-2.2	-0.8	1.7	0.2	-0.3	-0.7	-0.9	-0.5	0.3	1.7	-0.4
Non-interest current account deficit	1.0	1.2	3.8	2.7	2.5	2.2	2.1	2.1	2.5	6.2	2.3
Deficit in balance of goods and services	0.9	1.3	3.7	2.4	2.2	1.9	1.7	1.6	1.8	6.5	1.9
Exports	14.9	13.3	13.4	13.6	13.9	14.2	14.5	14.5	14.4		
Imports	15.9	14.6	17.2	16.0	16.1	16.1	16.2	16.2	16.2		
Net current transfers (negative = inflow)	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-1.4	-0.5
of which: official	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	0.9	0.6	0.7	0.9	0.9	0.8	0.9	1.0	1.2	1.1	0.9
Net FDI (negative = inflow)	-1.5	-1.2	-1.3	-1.3	-1.4	-1.5	-1.6	-1.7	-1.7	-3.1	-1.5
Endogenous debt dynamics 2/	-1.7	-0.8	-0.9	-1.2	-1.3	-1.4	-1.4	-0.9	-0.6		
Contribution from nominal interest rate	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.6		
Contribution from real GDP growth	-2.1	-1.5	-1.5	-1.8	-2.0	-2.0	-2.0	-1.4	-1.1		
Contribution from price and exchange rate changes	-0.2	...	...	...	...	...	...	...	...		
Residual 3/	0.9	0.9	-0.7	-0.2	-0.3	-0.1	-0.2	-0.1	-1.4	-0.3	-0.2
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	17.6	17.9	18.8	19.0	18.5	17.9	17.1	14.2	11.9		
PV of PPG external debt-to-exports ratio	117.6	135.1	140.4	140.0	132.8	126.0	118.1	97.7	82.4		
PPG debt service-to-exports ratio	13.4	14.4	15.1	13.0	12.8	13.4	14.5	10.9	14.8		
PPG debt service-to-revenue ratio	13.7	14.3	14.9	12.2	12.2	13.1	14.5	10.8	14.9		
Gross external financing need (Billion of U.S. dollars)	1.3	1.7	3.7	2.9	2.8	2.8	2.9	3.5	10.5		
Key macroeconomic assumptions											
Real GDP growth (in percent)	5.9	4.4	4.6	5.3	5.7	5.9	6.0	5.0	5.0	6.6	5.3
GDP deflator in US dollar terms (change in percent)	0.7	2.2	2.8	2.1	1.8	1.7	1.7	2.7	5.0	1.0	2.3
Effective interest rate (percent) 4/	1.6	2.0	2.0	1.8	1.8	1.9	1.7	1.6	2.5	1.7	1.8
Growth of exports of G&S (US dollar terms, in percent)	7.7	-5.3	8.9	8.5	10.2	10.2	9.9	7.8	9.4	5.3	7.6
Growth of imports of G&S (US dollar terms, in percent)	-4.0	-1.9	26.5	0.0	8.1	8.0	8.6	7.8	10.5	2.6	8.2
Grant element of new public sector borrowing (in percent)	...	17.9	24.0	27.1	32.2	26.1	25.4	15.0	5.9	...	22.9
Government revenues (excluding grants, in percent of GDP)	14.6	13.4	13.6	14.4	14.6	14.6	14.6	14.7	14.3	13.3	14.4
Aid flows (in Billion of US dollars) 5/	1.2	0.7	1.1	1.2	1.2	0.9	0.9	0.7	0.9		
Grant-equivalent financing (in percent of GDP) 6/	...	1.0	1.5	1.2	1.1	1.0	0.9	0.4	0.3	...	0.9
Grant-equivalent financing (in percent of external financing) 6/	...	28.0	30.6	34.9	41.1	35.7	34.5	20.4	11.6	...	30.4
Nominal GDP (Billion of US dollars)	63	67	72	77	83	89	96	143	311		
Nominal dollar GDP growth	6.6	6.7	7.5	7.5	7.5	7.7	7.8	7.8	10.2	7.6	7.8
Memorandum items:											
PV of external debt 7/	25.6	26.4	27.2	27.4	27.1	26.8	26.1	23.2	20.8		
In percent of exports	171.6	199.0	202.6	202.2	195.2	188.3	180.4	159.9	144.4		
Total external debt service-to-exports ratio	17.3	19.5	19.6	17.0	16.5	16.8	17.6	13.7	17.5		
PV of PPG external debt (in Billion of US dollars)	11.0	12.0	13.5	14.7	15.3	16.0	16.5	20.2	36.9		
(PVt-PVt-1)/GDPt-1 (in percent)		1.5	2.4	1.5	0.9	0.8	0.5	0.9	0.5		
Non-interest current account deficit that stabilizes debt ratio	2.4	1.1	2.8	2.7	3.1	3.0	3.2	2.8	3.7		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

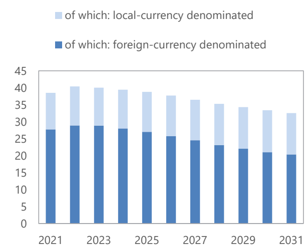
Table 2. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-2041

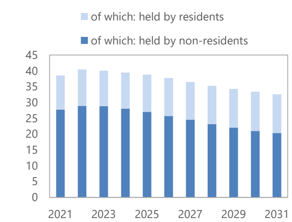
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	38.8	38.5	40.4	40.0	39.5	38.8	37.7	32.6	26.6	36.0	37.0
of which: external debt	28.0	27.8	28.9	28.8	28.0	27.0	25.7	20.4	14.6	26.3	25.2
Change in public sector debt	-0.8	-0.2	1.9	-0.4	-0.6	-0.7	-1.1	-0.8	-0.9		
Identified debt-creating flows	-1.5	-0.5	0.9	-0.5	-0.7	-0.8	-1.1	-0.7	-0.5	-0.1	-0.6
Primary deficit	-0.6	0.9	2.1	0.8	0.7	0.7	0.4	0.2	0.2	1.4	0.6
Revenue and grants	15.3	13.8	14.0	14.7	14.9	14.9	14.9	14.8	14.4	14.9	14.7
of which: grants	0.7	0.4	0.4	0.4	0.4	0.4	0.3	0.1	0.1		
Primary (noninterest) expenditure	14.7	14.7	16.1	15.6	15.6	15.6	15.2	15.0	14.6	16.3	15.3
Automatic debt dynamics	-0.9	-1.3	-1.2	-1.4	-1.4	-1.4	-1.4	-0.9	-0.7		
Contribution from interest rate/growth differential	-1.0	-1.3	-1.2	-1.4	-1.4	-1.4	-1.4	-0.9	-0.7		
of which: contribution from average real interest rate	1.2	0.3	0.5	0.7	0.7	0.8	0.8	0.7	0.6		
of which: contribution from real GDP growth	-2.2	-1.6	-1.7	-2.0	-2.2	-2.2	-2.2	-1.6	-1.3		
Contribution from real exchange rate depreciation	0.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.7	0.2	1.0	0.2	0.1	0.1	0.0	-0.1	-0.4	1.4	0.1
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	28.4	28.7	30.5	30.4	30.1	29.9	29.3	26.5	24.0		
PV of public debt-to-revenue and grants ratio	185.3	207.8	217.3	205.9	201.6	200.3	196.6	179.4	166.9		
Debt service-to-revenue and grants ratio 3/	37.7	39.0	37.1	37.4	35.8	39.3	42.4	43.3	47.8		
Gross financing need 4/	5.2	6.2	7.3	6.4	6.0	6.5	6.7	6.6	7.1		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	5.9	4.4	4.6	5.3	5.7	5.9	6.0	5.0	5.0	6.6	5.3
Average nominal interest rate on external debt (in percent)	2.2	1.6	1.8	1.9	2.0	2.1	2.1	2.3	4.0	1.6	2.1
Average real interest rate on domestic debt (in percent)	8.7	7.4	7.5	7.0	7.5	7.3	7.1	5.3	2.8	4.6	6.5
Real exchange rate depreciation (in percent, + indicates depreciation)	0.6	...	...	...	...	...	...	...	...	0.6	...
Inflation rate (GDP deflator, in percent)	1.0	2.6	3.7	4.0	4.0	4.0	4.0	5.0	7.3	6.8	4.3
Growth of real primary spending (deflated by GDP deflator, in percent)	5.1	4.1	14.8	1.9	6.1	5.6	3.6	4.7	2.6	3.6	5.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.2	1.1	0.2	1.2	1.3	1.3	1.4	1.0	1.1	0.4	1.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

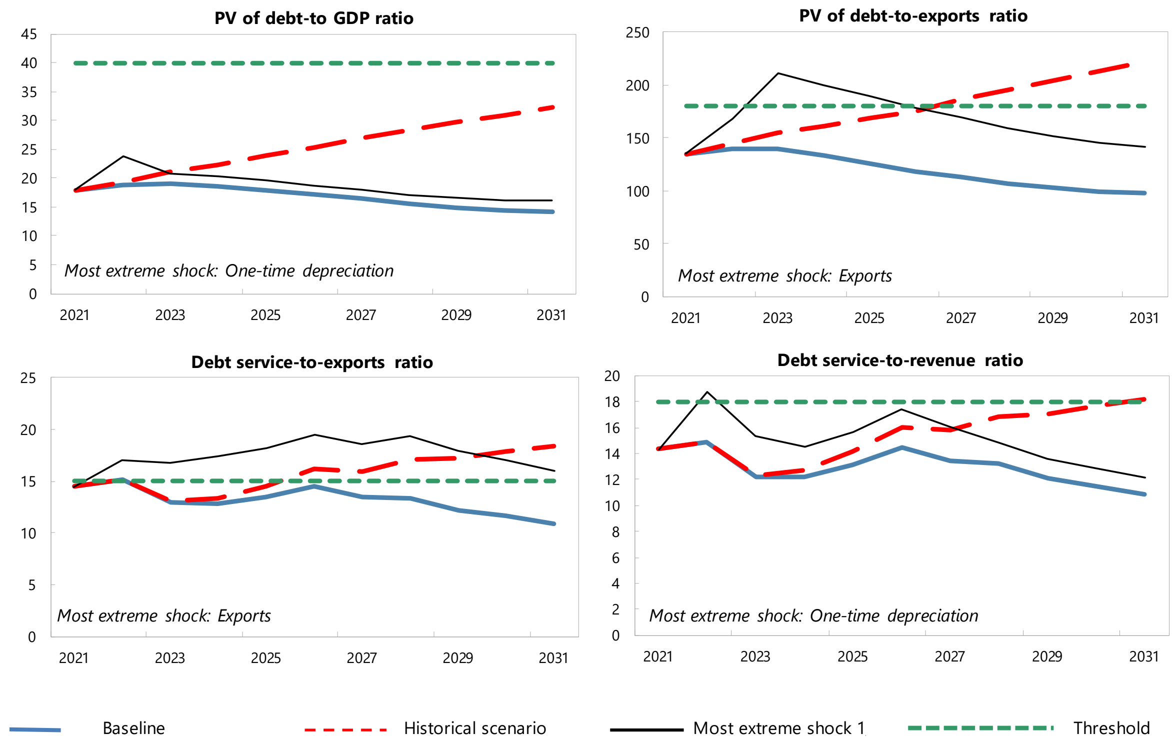
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Tanzania: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2021–31



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

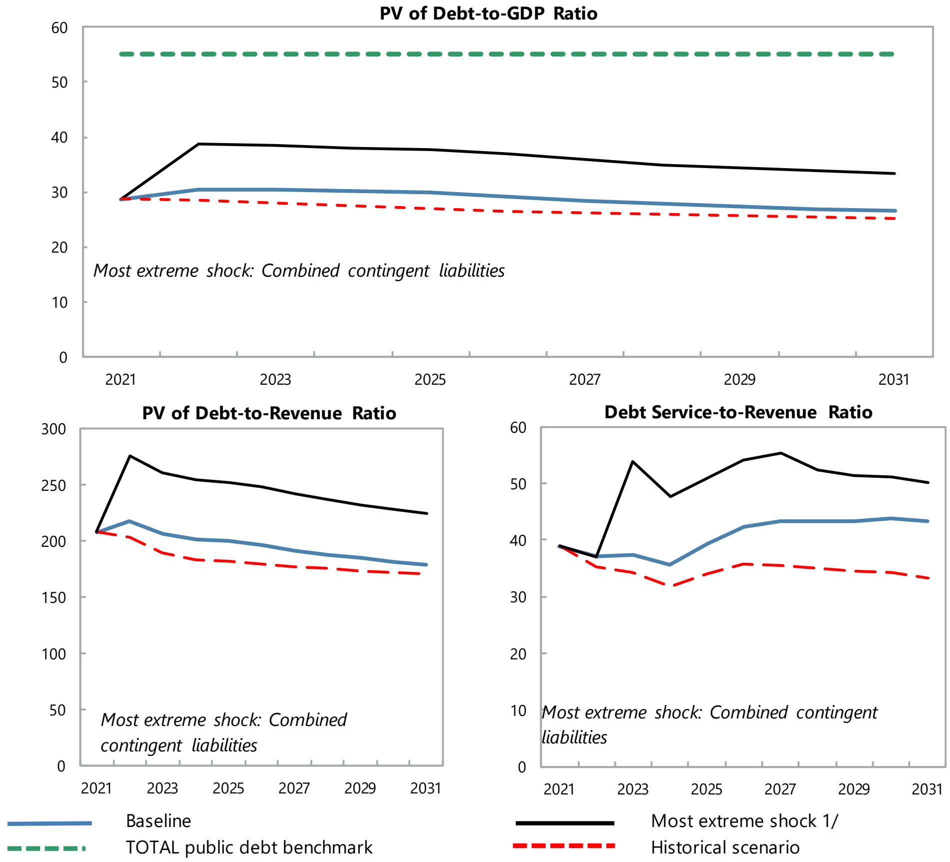
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	4	4

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Tanzania: Indicators of Public Debt Under Alternative Scenarios, 2021-2031



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	38%	38%
Domestic medium and long-term	49%	49%
Domestic short-term	14%	14%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.6%	6.6%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	1.7%	1.7%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021-2031

(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	18	19	19	18	18	17	16	16	15	14	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	18	19	21	22	24	25	27	28	30	31	32
B. Bound Tests											
B1. Real GDP growth	18	19	19	19	18	17	17	16	15	15	14
B2. Primary balance	18	19	20	20	19	19	18	17	17	16	16
B3. Exports	18	20	23	22	22	21	20	19	18	17	16
B4. Other flows 3/	18	21	23	22	21	21	20	18	18	17	16
B5. Depreciation	18	24	21	20	20	19	18	17	17	16	16
B6. Combination of B1-B5	18	22	21	21	20	19	18	17	17	16	16
C. Tailored Tests											
C1. Combined contingent liabilities	18	22	23	22	22	22	21	20	20	19	19
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	135	140	140	133	126	118	113	107	103	99	98
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	135	144	155	161	168	175	**186**	**195**	**205**	**213**	**222**
B. Bound Tests											
B1. Real GDP growth	135	140	140	133	126	118	113	107	103	99	98
B2. Primary balance	135	144	149	143	136	129	124	119	115	111	109
B3. Exports	135	169	**211**	**200**	**190**	178	170	160	152	145	141
B4. Other flows 3/	135	155	168	159	151	142	135	127	121	115	112
B5. Depreciation	135	140	122	116	110	103	98	94	91	88	88
B6. Combination of B1-B5	135	166	151	166	157	147	140	132	127	121	119
C. Tailored Tests											
C1. Combined contingent liabilities	135	162	166	161	156	149	146	141	137	134	133
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	14	**15**	13	13	13	15	13	13	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	14	**15**	13	13	14	**16**	**16**	**17**	**17**	**18**	**18**
B. Bound Tests											
B1. Real GDP growth	14	**15**	13	13	13	15	13	13	12	12	11
B2. Primary balance	14	**15**	13	13	14	15	14	14	13	13	12
B3. Exports	14	**17**	**17**	**17**	**18**	**19**	**19**	**19**	**18**	**17**	**16**
B4. Other flows 3/	14	**15**	14	14	14	**15**	**15**	**15**	14	14	13
B5. Depreciation	14	**15**	13	12	13	14	13	12	11	10	10
B6. Combination of B1-B5	14	**16**	**16**	**15**	**16**	**17**	**17**	**16**	**15**	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	14	**15**	14	14	15	**16**	15	15	14	13	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	14	15	12	12	13	14	13	13	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	14	15	12	13	14	16	16	17	17	18	**18**
B. Bound Tests											
B1. Real GDP growth	14	15	12	12	13	15	14	13	12	12	11
B2. Primary balance	14	15	12	13	13	15	14	14	13	12	12
B3. Exports	14	15	13	13	14	15	15	15	14	13	13
B4. Other flows 3/	14	15	13	13	14	15	15	15	14	13	13
B5. Depreciation	14	**19**	15	15	16	17	16	15	14	13	12
B6. Combination of B1-B5	14	16	13	13	14	16	15	15	14	13	12
C. Tailored Tests											
C1. Combined contingent liabilities	14	15	13	13	14	16	15	14	13	13	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Tanzania: Sensitivity Analysis for Key Indicators of Public Debt, 2021-2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of Debt-to-GDP Ratio										
Baseline	29	31	30	30	30	29	29	28	27	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	29	29	28	27	27	27	26	26	26	25	25
B. Bound Tests											
B1. Real GDP growth	29	31	31	31	31	30	30	29	29	29	28
B2. Primary balance	29	32	33	33	33	32	31	30	30	29	29
B3. Exports	29	32	34	34	33	33	32	31	30	29	29
B4. Other flows 3/	29	32	34	34	33	33	32	31	30	29	29
B5. Depreciation	29	33	32	30	29	27	25	24	23	21	20
B6. Combination of B1-B5	29	30	30	29	29	28	27	26	26	25	25
C. Tailored Tests											
C1. Combined contingent liabilities	29	39	38	38	38	37	36	35	34	34	33
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	208	217	206	202	200	197	192	188	185	182	179
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	208	204	190	184	182	179	177	175	174	172	171
B. Bound Tests											
B1. Real GDP growth	208	219	210	207	207	204	201	198	196	194	192
B2. Primary balance	208	228	226	221	219	215	210	206	202	199	196
B3. Exports	208	227	232	226	224	220	214	208	203	198	194
B4. Other flows 3/	208	231	232	226	224	220	214	208	203	198	194
B5. Depreciation	208	239	216	203	194	183	172	161	152	144	136
B6. Combination of B1-B5	208	215	204	194	191	187	182	179	175	172	169
C. Tailored Tests											
C1. Combined contingent liabilities	208	276	261	255	253	248	242	237	232	228	225
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	39	37	37	36	39	42	43	43	43	44	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	39	35	34	32	34	36	36	35	35	34	33
B. Bound Tests											
B1. Real GDP growth	39	37	38	37	41	44	45	45	46	46	46
B2. Primary balance	39	37	40	41	44	47	48	48	47	47	47
B3. Exports	39	37	38	37	40	43	45	45	45	46	45
B4. Other flows 3/	39	37	38	37	40	43	45	45	45	46	45
B5. Depreciation	39	37	39	36	40	43	43	43	43	43	42
B6. Combination of B1-B5	39	36	36	36	39	41	43	43	42	43	42
C. Tailored Tests											
C1. Combined contingent liabilities	39	37	54	48	51	54	55	52	51	51	50
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

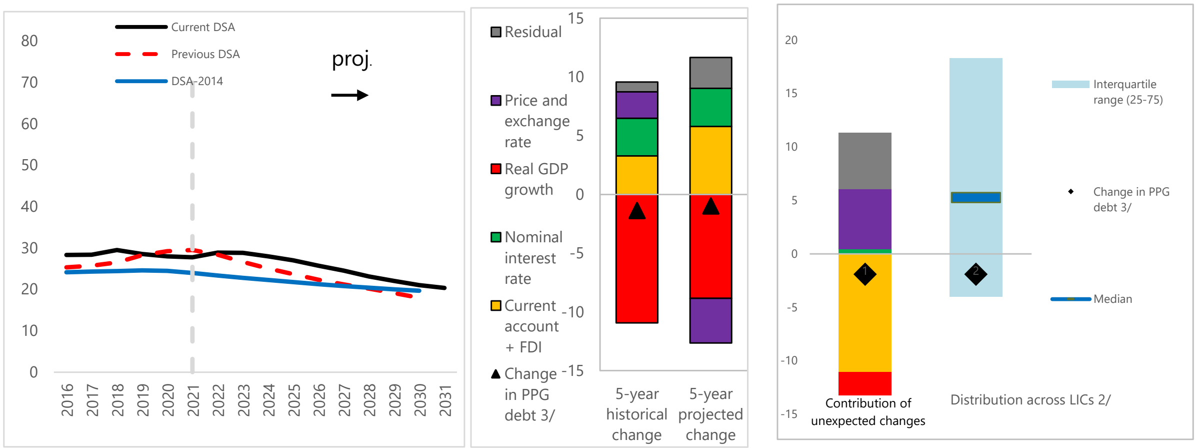
1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

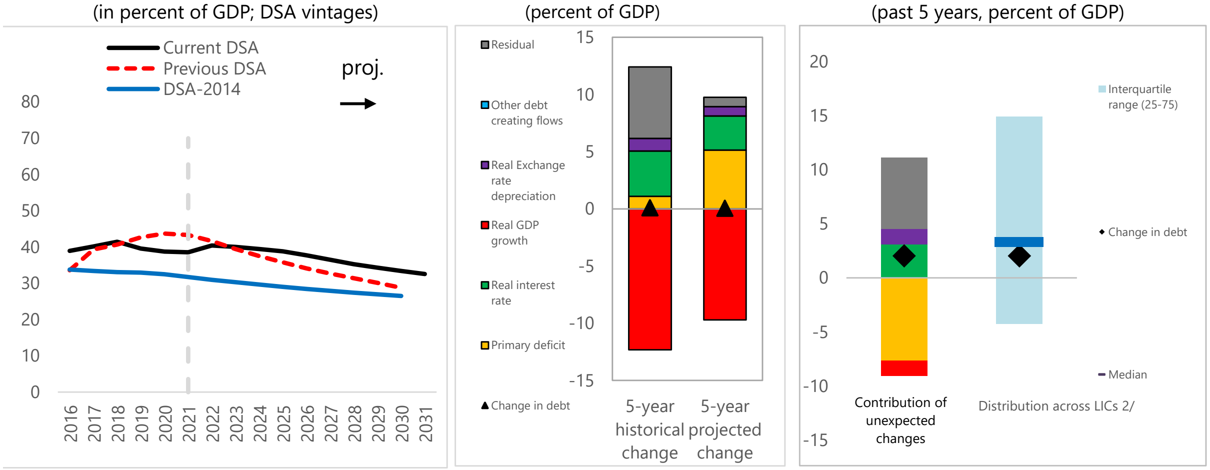
Figure 3. Tanzania: Drivers of Debt Dynamics - Baseline Scenario

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



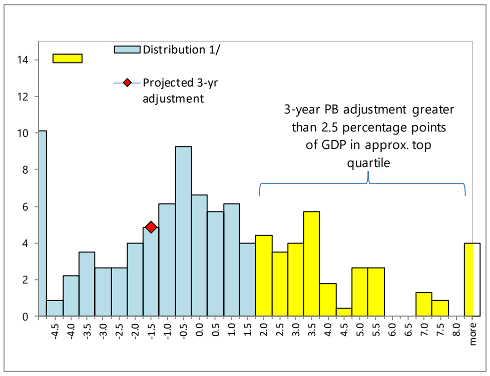
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

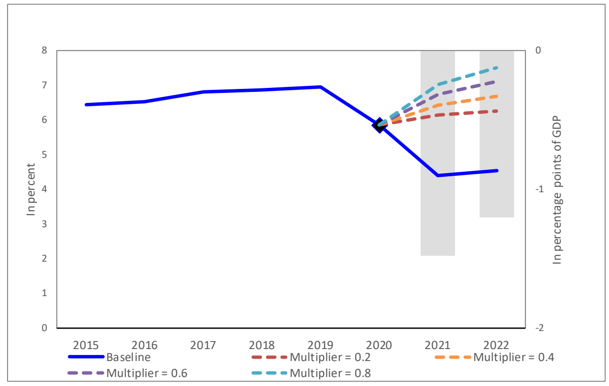
Figure 4. Tanzania: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



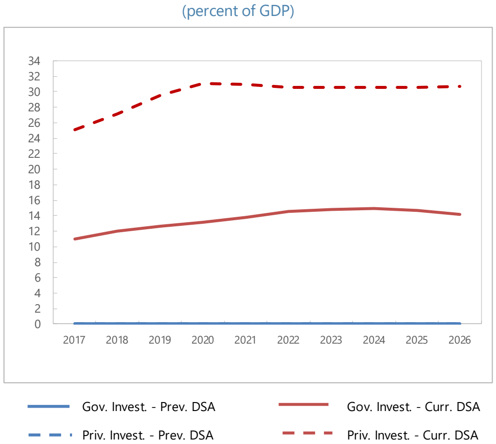
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

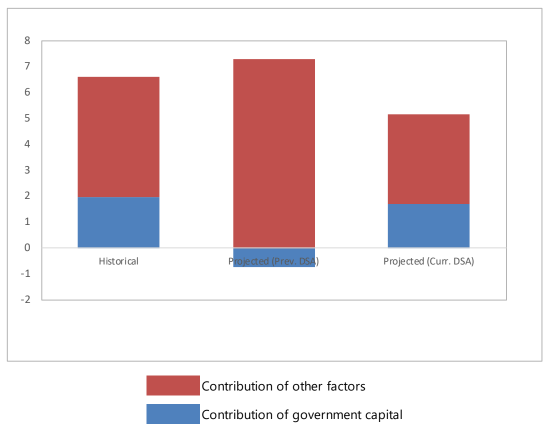


Figure 5. Tanzania: Qualification of the Moderate Category, 2021-2031 1/

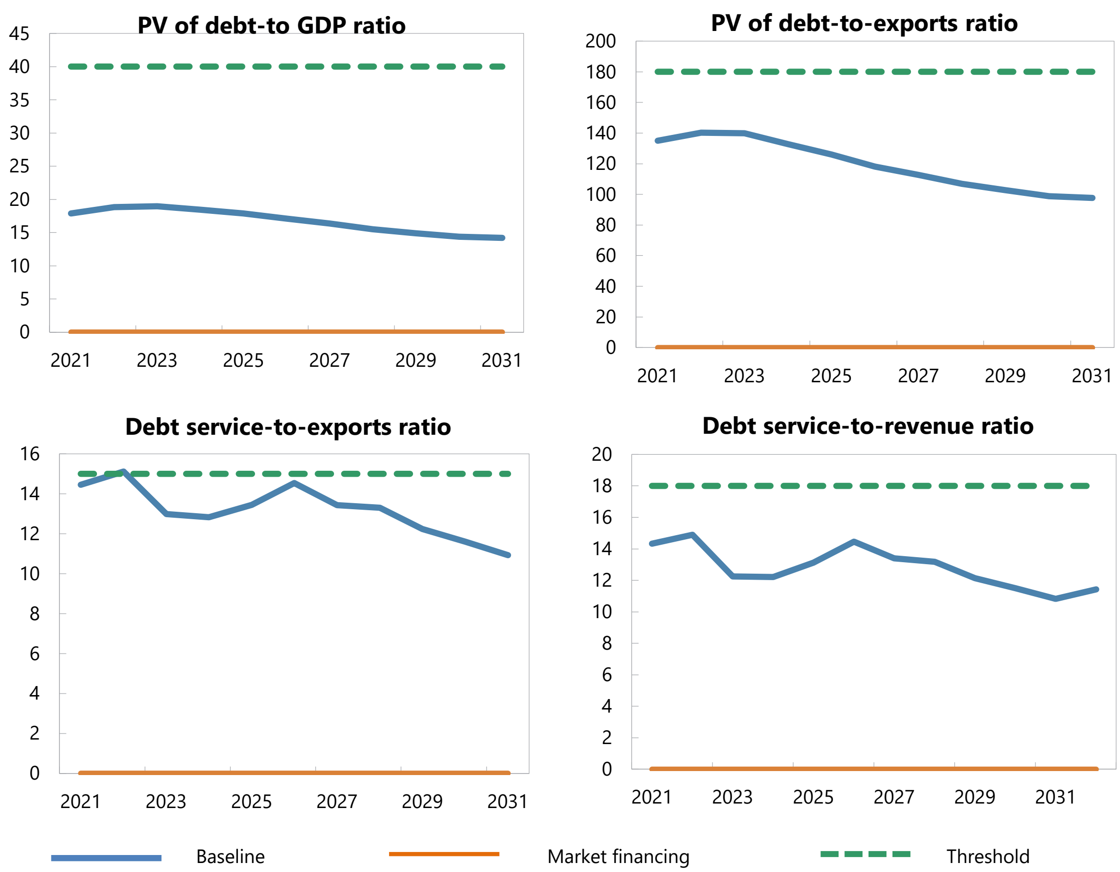
Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Tanzania: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	7	n.a.
Breach of benchmark	No	n.a.
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Statement by Ms. Ita Mannathoko,
Executive Director for the United Republic of Tanzania,
and Mr. Bernard Jappah, Senior Advisor to Executive Director
September 7, 2021

With the third wave of the pandemic now underway in Tanzania, the authorities face ongoing impacts from the global health crisis. The new administration has shifted to a more direct response to the pandemic under the Tanzania COVID-19 Socio-economic Response and Recovery Plan (TCRP) and is re-engaging donors and partners to bolster this endeavor. Support from development partners is vital, as the global crisis has constrained exports and public finances, inhibiting the authorities' ability to effect priority spending in a timely manner. Among other things, resource constraints continue to impact vaccine acquisition and administration adversely, as well as the authorities' ability to contain scarring and protect vulnerable sectors, posing significant downside risk to the recovery.

I. Introduction

1. Our Tanzanian authorities wish to thank Fund management and staff for the constructive engagement. They broadly agree with staff's assessment and policy recommendations and view the Fund's emergency support as critical to unlock essential additional donor financing.

2. The COVID-19 pandemic continues to exact a heavy toll on Tanzania with severe socio-economic consequences. As a result, hard-won gains made on the socio-economic and poverty reduction fronts over the last decade, have been reversed. The global pandemic's negative impact on growth and associated shortfalls in fiscal and export revenues have created urgent fiscal and balance of payment needs which, if not addressed, would result in immediate and severe economic disruption. As noted by staff, without urgent financial assistance, there could be severe health, social, and economic impacts for the country. Furthermore, with a significant share of the COVID-19 health financing required for the Tanzania COVID-19 Socioeconomic Response Plan (TCRP) as yet unidentified, the catalytic role of IMF emergency facilities will be important to back the authorities'

current discussions with donors on additional financing needed to support the TCRP and contain risks to welfare and the economy, while backing macroeconomic stability.

3. Against this background, the authorities seek Directors' support for a disbursement under the exogenous shocks window of the Rapid Credit Facility (RCF) equivalent to 33.33 percent of quota, and a purchase under the Rapid Financing Instrument (RFI) equivalent 66.67 percent of quota; with the two totaling SDR 397.8 million. This will support existing and prospective policies to address the shock and place the economy on a sustainable growth path. Tanzania has lower public debt ratios than many of its comparators and its debt is sustainable. Capacity to repay the Fund remains adequate, and in line with Fund policy, the central bank has committed to undergo a safeguards assessment in time for any subsequent arrangements.

4. As affirmed in their letter of intent, the authorities commit to ensuring the appropriate use, monitoring, and reporting of COVID-19 related spending. They will use the resources for health expenditure to fight the pandemic and to provide support to affected households and economic sectors. A dedicated TSA sub-account for COVID funds has been created and pandemic-specific Integrated Financial Management Information Systems (IFMIS) codes will be used to track RCF and RFI spending. Quarterly reports of RCF and RFI spending will be published within one month of the end of each quarter on the Ministry of Finance website, which will also host pandemic related public procurement contracts, including the names of the awarded companies and their beneficial owners. A post-crisis audit will be completed and published online. The authorities are also committed to reporting on COVID developments, including testing, cases, and deaths, from quarter 4, 2021.

II. Effects of the COVID-19 pandemic

5. The country is in the third wave of the pandemic, induced by new variants, with the unprecedented impact continuing to adversely affect vulnerable and low-income groups, amidst limited economic support and constrained provision of essential health services as demand outweighs supply. Alongside the sizable impacts on tourism, traditional exports and jobs reflected in the staff report, World Bank reporting also shows increased poverty. All this highlights the need to prioritize spending on health, education, tourism, small and medium sized enterprises (SMEs), and social safety net programs.

6. Despite the buffer provided by higher gold prices and gold export receipts – including during the initial partial containment in response to earlier waves, prolonged pandemic effects are now beginning to show in the economy. Pandemic-induced shocks have slowed GDP growth significantly, mainly on account of weakened external demand, global travel restrictions and the disruption to trade links and market access. The tourism sector, a primary source of foreign exchange earnings, saw the number of international tourist arrivals more than halved in 2020. The steep decline in gross international reserves, declining tourism receipts, subdued export performance and elevated health requirements are thus expected to lead to significant deterioration of the external sector position in 2020/21 and 2021/22. In the near term, emergency imports of COVID-19

testing machines, vaccines, and other medical supplies alongside rising oil import prices, are likely to add to the deterioration of the external position. The fiscal position has also deteriorated against the backdrop of revenue declines alongside elevated health spending needs. The authorities' efforts at re-prioritization and re-allocation of budgetary resources have reached their limit.

7. In the financial sector, the pandemic increased the banking sector's prior vulnerabilities highlighted in the 2018 FSAP. Among other things, the pandemic led to a significant slowdown in the growth of credit to the private sector in 2020, alongside rising non-performing loans (NPLs), with the NPL ratio peaking at 10.4 percent in June 2020. The pandemic may exacerbate weaknesses such as insufficient loan loss provision, undercapitalized banks, and high balance sheet dollarization. The full impact of the pandemic on the banking sector will only be evident once the regulatory flexibility on loan restructuring provided by the central bank in the wake of the pandemic, that allows for delays in NPL recognition and required loan-loss provision, is lifted.

III. Pandemic Response

8. A Special Committee was established to advise the government on appropriate steps to tackle the crisis, following which the authorities developed an overarching policy framework; the Tanzania COVID-19 and Social-Economic Response and Recovery Program (TCRP)**,** to guide the management of the pandemic and stimulate economic activity. The TCRP includes a National Development and Vaccination Plan and a National COVID-19 Response Plan, and outlines key interventions in health, education, water and sanitation, tourism, support to SMEs, and social protection. Priority is given to tourism (including in Zanzibar), given the sector's contribution to foreign exchange receipts alongside growth, jobs, and poverty reduction.

9. In the health sector the authorities have, among other things, taken steps to strengthen detection and surveillance capabilities, and their infection prevention and control capacity, while establishing the basis for an effective vaccination roll-out campaign. They plan to vaccinate 20 percent of the population in 2021 and an additional 40 percent in 2022. Following receipt of over 1 million doses of the Johnson and Johnson vaccine, a vaccination drive spearheaded by Her Excellency President Hassan was launched. Alongside vaccine doses distributed to health posts across the country, the authorities' communication strategy seeks to address any public perception issues related to the vaccine. Our authorities, in collaboration with development partners, also continue to implement the second Productive Social Safety Net (PSSN-II), aimed at improving targeted poor households' access to income earning opportunities and social services. The authorities are committed to increasing the coverage of the PSSN over and above the current active beneficiaries' level.

10. Accommodative macroeconomic and financial policies are intended to moderate the fallout from the pandemic and support the recovery. To support private sector activity, the government waived duty on raw materials used by local manufacturers of health-related materials; expedited the verification and settlement of business sector claims and

arrears; continued to reserve 10 percent of local governments' gross revenues for women, youth, and people with disabilities, who are the most vulnerable to pandemic impacts; and settled wages and other charges for institutions in the hospitality industry which is heavily impacted by the crisis (TCRP, August 2021, p.31). Given the limited allocations in the current budget for health and emergency spending, a supplementary budget will be tabled with Parliament in February 2022, following the mid-year review of the current year's budget. The supplementary budget will cater for increased demand for COVID-related spending, which has not been fully provided for in the current budgetary allocation.

11. The Bank of Tanzania (BoT) acted promptly to limit the impact of the pandemic on the financial sector and ensure adequate liquidity in the system. The BoT discount rate was reduced from 7 to 5 percent; while the statutory minimum reserve requirement was lowered from 7 to 6 percent; and a special loan facility was introduced in July 2021 to banks and other financial institutions for on-lending to the private sector. Besides aiming to scale up credit to the private sector, this facility sought to lower market interest rates, increase liquidity, boost economic activities, and in so doing, help hasten the recovery.

12. BoT also relaxed the policy limiting the number of loan restructurings, with maturity extensions enabling lower debt service and /or temporary suspension in debt service. These temporary measures apply to those sectors most impacted by the crisis. Cognizant that the duration of the pandemic could raise NPLs, and considering pre-COVID vulnerabilities, the central bank has stepped up financial regulatory oversight and will closely monitor the banking sector's health. Among other things, it requires financial entities to strengthen their credit underwriting practices. The authorities are committed to preserving financial stability while ensuring adequate liquidity to support credit to the economy.

IV. Post Crisis and Medium-Term Policy Measures

13. The central bank will review the existing framework to cater to developments in the banking sector and enforce the mandatory use of credit reports from credit reference bureaus. The authorities will begin to phaseout regulatory forbearance as the non-gold economy shows signs of sustained recovery.

14. The Tanzania Development Vision 2025 encapsulates the broad development goals under the pillars of high-quality livelihood, good governance and the rule of law, and a strong and competitive economy. These pillars reflect the authorities' vision and the aspiration for sustainable and shared growth, underpinned by investment in human and physical capital. While they continue to navigate the pandemic, therefore, public policy remains geared towards realizing the broad objectives articulated in the development plan. Structural reforms will continue, including those guided by the *Blueprint for Regulatory Reforms to Improve the Business Environment (2018).* The Blueprint aims to address structural gaps, including contract enforcement to improve the business environment, and articulates the fair allocation of resources to all citizens. As the crisis wanes, a renewed focus on these objectives can be expected.

V. Conclusion

15. The authorities value Fund support and its catalytic role, as they seek financing to meet priority spending needs. They remain committed to implementing polices that engender sustainable and shared growth. They appreciate the Fund's engagement and technical support, and look forward to Directors' favorable consideration of their request for emergency financing under the RCF and RFI**.** This support will boost current efforts to get past the crisis and lay the groundwork for more structured longer-term engagement if needed, with the IMF, helping the authorities implement policies to preserve macroeconomic stability and pursue broader economic reforms to promote sustainable and inclusive growth.