UNITED REPUBLIC OF TANZANIA

2023 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILTIY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED REPUBLIC OF TANZANIA

April 2023

In the context of the 2023 Article IV Consultation and First Review under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 24, 2023, consideration of the staff report that concluded the Article IV consultation with the United Republic of Tanzania.

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 24, 2023, following discussions that ended on February 23, 2023, with the officials of the United Republic of Tanzania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 4, 2023.

- An **Informational Annex** prepared by the IMF staff.

- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

- A **Statement by the Executive Director** for the United Republic of Tanzania.

The document listed below have been or will be separately released.

Selected Issues

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.

IMF Executive Board Completes the First Review Under the Extended Credit Facility Arrangement and Concludes the 2023 Article IV Consultation with Tanzania

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the first review of the ECF Arrangement and the 2023 Article IV Consultation with Tanzania. Approval of the first review enables the immediate disbursement of SDR 113.37 million (about US$ 153 million) for budget support.

- Tanzania's economic reform program is progressing well in a challenging global economic environment and the authorities remain committed to the Extended Credit Facility Arrangement.

- Reforms focus on strengthening the economic recovery, preserving macroeconomic stability, and supporting structural reforms towards sustainable and inclusive growth.

Washington, DC – **April 24, 2023:** Today, the Executive Board of the International Monetary Fund (IMF) completed the first review of the Extended Credit Facility (ECF) Arrangement and the 2023 Article IV Consultation[1] with Tanzania. The completion of the first review allows the immediate disbursement of SDR 113.37 million (about US$ 153 million), bringing Tanzania's total access under the arrangement to about US$ 304.7 million.

Tanzania's three-year [ECF Arrangement](#) for a total access of SDR 795.58 million (200 percent of quota- about US$ 1,046.4 million at the time of program approval) was approved on July 18, 2022. The arrangement aims to support economic recovery, preserve macro-financial stability, and promote sustainable and inclusive growth. Reforms center on strengthening fiscal space to allow for much needed social spending and high-yield public investment, enhancing the monetary policy framework and improving financial sector supervision, and advancing structural reforms.

Tanzania's economic reform program is progressing. All quantitative performance criteria and indicative targets for December 2022 were met. The structural benchmarks to prepare and begin implementing a plan to clear all expenditure arrears and to submit the amendments to the Banking and Financial Institutions Act to Parliament were completed ahead of time. The structural benchmark to complete and publish the post-crisis audit of pandemic-related spending and to submit the FY2023/24 preliminary Budget to the Parliament were completed with delay

The Executive Board also concluded the 2023 Article IV consultation with Tanzania.

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Spillovers from the war in Ukraine and domestic factors have weighed on Tanzania's economic recovery from the pandemic. After a modest recovery to 4.9 percent in 2021, real GDP growth is estimated to have slowed to 4.7 percent in 2022, reflecting the impact of global economic conditions and shortfalls in rainfall. In 2023, growth is expected to recover to 5.2 percent as global commodity price shocks subside and the business environment improves.

The authorities have responded to the spillovers from the war in Ukraine with a combination of temporary fiscal support and monetary policy tightening. Although Tanzania's inflation is relatively low, partly reflecting low passthrough, the authorities responded to the recent increase in inflationary pressures with temporary fuel and fertilizer price subsidies and tightening of liquidity in the financial system. The authorities' draft budget for FY2023/24 is appropriately based on conservative revenue and expenditure projections and aims to achieve fiscal consolidation while safeguarding priority social spending.

Following the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director and acting Chair, issued the following statement:

"Tanzania's reform program supported by the Extended Credit Facility (ECF) focuses on completing the pandemic health and economic response, preserving macroeconomic stability, and addressing long-term challenges to support sustainable and inclusive growth, drawing on the government's reform priorities articulated in their Five-Year Development Plan.

"The Tanzanian authorities remain committed to their economic reform program despite a challenging global economic environment. Program performance has been strong. All quantitative performance criteria and indicative targets for December 2022 were met, and two of the three structural benchmarks for December 2022 were completed on time.

"Efforts to enhance domestic revenue mobilization and improve efficiency of expenditures will help create the fiscal space needed to finance priority investment and social spending while safeguarding debt sustainability. Strengthening public finance management and oversight of state-owned enterprises is critical to contain fiscal risks. Building on recent progress in verifying domestic arrears, the authorities should clear verified arrears and prevent accumulation of new ones by strengthening cash management and commitment controls. While Tanzania's risk of debt distress remains moderate, it is important to continue prioritizing concessional financing and ensure that fiscal risks from contingent liabilities are well-contained.

"While inflation remains below target, the Bank of Tanzania should stand ready to tighten monetary policy as needed while allowing more exchange rate flexibility against external shocks. Completing the ongoing transition to an interest rate-based monetary policy is key to enhance the effectiveness of monetary policy. Upgrading the financial supervision framework, including by implementing FSAP recommendations will help buttress financial sector stability and promote financial deepening.

"Structural reforms are essential to promote inclusive, resilient, and sustainable growth. Business reforms should focus on streamlining bureaucratic procedures, simplifying the business regulatory regime, and enhancing regulatory transparency. Implementation and enforcement of the authorities' anti-corruption strategy and establishing a risk-based AML/CFT supervisory approach would help improve governance and address deficiencies in Tanzania's AML/CFT framework. Tanzania's high vulnerability to climate change calls for increasing resilience through mitigation and adaptation policies."

Executive Board Assessment[2]

Executive Directors welcomed the authorities' policy response to the spillovers of the war in Ukraine and commended the strong performance under the ECF arrangement. While the economic recovery is expected to continue and the medium-term outlook is favorable, downside risks and uncertainties stem from global factors. In this context, the authorities' continued commitment to reforms under the program will be critical to strengthen the economic recovery, preserve macroeconomic stability, and support sustainable and inclusive growth. Continued engagement and capacity development support by the Fund and other partners remain imperative.

Directors commended the authorities' plan for fiscal consolidation starting in FY2023/24, while continuing to protect the vulnerable. They noted that creating additional fiscal space and prioritizing concessional financing will allow much needed priority investment and social spending—including on health and education to build human capital—while safeguarding debt sustainability. In this context, Directors encouraged the authorities to enhance domestic revenue mobilization; improve efficiency of expenditures, particularly public investments; strengthen public finance management and transparency, including for effective management of future gas revenues; and contain fiscal risks from SOEs. While welcoming recent progress in addressing the long-standing domestic arrears problem, Directors underscored that strengthening cash management and commitment controls will be key to prevent accumulation of new arrears. Directors also looked forward to the implementation of recommendations from the audit of pandemic-related spending.

Directors welcomed the authorities' data-dependent monetary policy and encouraged the Bank of Tanzania (BoT) to stand ready to tighten further should second-round inflation effects emerge. They noted progress in modernizing the monetary policy framework and emphasized the importance of limiting budget financing by the BoT. Directors also called for strengthening financial supervision to promote financial stability and deepening. Against the backdrop of global economic uncertainties, Directors underscored the importance of allowing more exchange rate flexibility, enhancing transparency in FX operations, and maintaining adequate reserve buffers."

Directors noted that structural reforms are essential to promote inclusive, resilient, and sustainable growth. They emphasized that streamlining bureaucratic procedures, simplifying the business regulatory regime, and enhancing regulatory transparency would support private sector development. They also underscored that implementing and enforcing the authorities' anti-corruption strategy and establishing a risk-based AML/CFT supervisory approach would help improve governance and address deficiencies. In light of Tanzania's high vulnerability to climate change, Directors called for increasing resilience through mitigation and adaptation policies supported by a broad financing strategy. They took note of the authorities' interest in the Resilience and Sustainability Facility.

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Tanzania: Selected Economic Indicators, FY2020/21-2023/24				
	2020/21 Act.	2021/22 Prel.	2022/23 Proj.	2023/24 Proj.
Output				
Real GDP growth (%)	4.9	4.8	5.0	5.7
Calendar year real GDP growth (%)[1]	4.9	4.7	5.2	6.1
Prices				
Inflation - average (%)	3.3	4.0	5.0	4.4
Central government finances				
Revenue (% GDP)	13.6	14.8	15.0	15.5
Expenditure (% GDP)	17.0	18.2	18.2	18.1
Fiscal balance (% GDP)	-3.8	-3.5	-3.1	-2.7
Public debt (% GDP)	41.3	42.0	40.9	39.2
Money and credit				
Broad money (% change)	11.7	6.5	10.7	11.0
Credit to private sector (% change)	3.6	19.4	19.8	12.0
Balance of payments				
Current account (% GDP)	-2.1	-4.6	-4.4	-3.2
Reserves (in months of imports)	4.6	4.0	3.8	4.0
External public debt (% GDP)	29.2	27.9	26.9	25.8
Exchange rate				
REER (% change)	2.6	2.3	...	...

Sources: Tanzanian authorities and Fund staff calculations.

[1]Fiscal year 2020/21 corresponds to calendar year 2021.

UNITED REPUBLIC OF TANZANIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. Spillovers from the war in Ukraine and shortfalls in rainfall stalled Tanzania's recovery from the COVID-19 pandemic. Despite fuel and fertilizer subsidies, inflation has picked up in recent months, approaching the Bank of Tanzania's target. External balances deteriorated significantly last year due in large part to spillovers from the war in Ukraine.

Program status. In July 2022, the IMF's Executive Board approved a 40-month arrangement under the Extended Credit Facility (ECF) in an amount equivalent to 200 percent of quota. The ECF program focuses on completing the pandemic health and economic response, preserving macro stability, and supporting reforms towards sustainable and inclusive growth, drawing on the government's reform priorities summarized in the authorities' Five-Year Development Plan.

Program performance. Program performance is on track. All end-December 2022 quantitative performance criteria and indicative targets were met. Two of the three structural benchmarks for December 2022 were met on time, while the post-crisis audit of pandemic-related spending was completed and published with a delay. The end-February structural benchmark on the submission of the FY2023/24 preliminary Budget to Parliament was completed with delay in April. The authorities completed the verification process of outstanding expenditure arrears as a prior action to completing the first review. Completion of the review will lead to disbursement equivalent to SDR 113.37 million, bringing total disbursements under the program to SDR 228.7 million.

Article IV consultations. There was broad agreement on near-term policy priorities to mitigate spillovers from global economic shocks, including temporary fiscal support within the program's fiscal path, monetary policy tightening as needed, and allowing exchange rate flexibility. For the medium-term priorities, discussions centered on creating fiscal space to support growth and safeguard debt sustainability; modernizing the monetary policy framework and enhancing financial supervision to safeguard macro-financial stability; and advancing structural reforms, including improving governance and the business environment

as well as developing climate adaptation and mitigation policies, to promote sustainable, resilient, and inclusive growth.

Outlook and Risks. The economy is expected to continue recovering but faces downside risks. Intensifying spillovers from the war in Ukraine, increased commodity price volatility, and an abrupt global slowdown represent the main risks in the near term. The medium-term outlook is contingent on the implementation of the authorities' reform agenda, anchored by the ECF program.

Approved By	Discussions took place in Dar es Salaam and Dodoma during February 8–23, 2023. The staff team comprised Charalambos Tsangarides (head), Ayman Alfi, Xiangming Fang, Chiara Ferrero, Melesse Minale Tashu (all AFR), Marta Spinella (SPR), Jens Reinke (Resident Representative) and Chelaus Rutachururwa (local economist). Patterson Chukwuemeka Ekeocha (OEDAE) participated in the discussions. The team met with Minister of Finance and Planning, Mwigulu Nchemba, Bank of Tanzania Governor, Emmanuel Tutuba, and other officials. Staff also held discussions with the private sector, civil society organizations, and development partners. Roberta Guarnieri and Mason Stabile (AFR) provided excellent assistance for the preparation of this report.
Catherine Pattillo (AFR) and Maria Gonzalez (SPR)	

CONTENTS

TABLES

ANNEXES

APPENDICES

CONTEXT

1.   The pandemic and spillovers from the war in Ukraine have exacerbated Tanzania's development and reform challenges. Tanzania has abundant natural resources, including gold and natural gas, and its location is a potential trade gateway for its landlocked neighbors. However, rapid population growth has kept a large share of the population below the poverty line, while human capital and infrastructure deficits have limited the country's growth potential and contained improvements in social indicators (Text Figure 1). The authorities' Third Five Year Development Plan (FYDPIII) aims to address these challenges to unleash Tanzania's economic potential and expedite progress towards becoming a middle-income country.

Text Figure 1. Development Indicators

Tanzania has enjoyed higher per capita growth than regional comparators, and weathered the pandemic well...

...but this performance has not yet translated in improvements in social indicators.

Real GDP Per Capita
(GDP per capita in constant 2015 USD; per capita growth rate in percent)

Tanzania and Comparator Income Groups
(World Development Indicators, 2006 or later)

1/Percent of population
2/At $1.90 a day (2011 PPP) (% of population)
3/Prevalence of moderate or severe food insecurity in the population (%)
4/Duration in years;
5/Rate per 1000 live births
6/SSA excludes Eritrea.

*Excludes Tanzania and South Sudan

Sources: World Development Indicators and Fund staff calculations.

2.   A 40-month ECF program with access of 200 percent of quota was approved in July 2022 to support the authorities' reform agenda. The program focuses on three key areas: (i) strengthening fiscal space to allow for much needed social spending and high-yield public investment through improved revenue mobilization and spending quality; (ii) advancing the authorities' structural reform agenda; and (iii) safeguarding macro-financial stability and improving financial deepening through enhancing the monetary policy framework and improving supervision.

RECENT ECONOMIC DEVELOPMENTS

3.   Spillovers from the war in Ukraine and domestic factors are slowing Tanzania's economic recovery from the pandemic. After decelerating to 4.8 percent in 2020, real GDP growth modestly improved to 4.9 percent in 2021. While some sectors (mining, tourism, other services) showed signs of recovery during the first three quarters of 2022, growth for the year is estimated to

have slowed to 4.7 percent, reflecting the impact of global economic conditions and shortfalls in rainfall. Despite fuel and fertilizer subsidies, inflation picked up to 4.8 percent (yoy) in February 2023 (from 3.3 percent a year earlier), approaching the Bank of Tanzania's (BoT's) 5 percent target.

4.   Improvements in domestic revenue mobilization were offset by increased development spending in FY2021/22. Domestic revenue increased by about 1 percentage points (ppts) of GDP, partly reflecting one-off corporate income tax collection from Petroleum companies (about ½ percent of GDP). However, the fiscal deficit was wider (by 0.7 ppts of GDP) than expected as a significant increase in development expenditure more than offset revenue increases.

5.   Given the underperformance of revenue collection in the current FY2022/23, spending is being rebalanced to keep the fiscal stance unchanged and preserve priority social spending. Current fiscal year revenue projections have been revised down by 0.5 ppts of GDP, reflecting shortfalls in the first half of the year (Text Table 1). These are being offset by cuts in non-priority spending, while safeguarding priority social spending and remaining within the domestic primary balance target. The fuel price subsidy, introduced to address spillovers from the war in Ukraine, was phased out in January 2023. With declining external financing, the budget deficit is financed largely from domestic sources, including financing from the BoT.

Text Table 1. Tanzania: Fiscal Developments in FY2022/23, July-December
(In Tsh billions; unless stated otherwise)

	Budget	Outturn	% change
Domestic revenue	**13,873**	**13,414**	**-3.3**
Tax revenue	11,169	10,979	-1.7
Non tax revenue	2,704	2,435	-10.0
External grants	**666**	**396**	**-40.6**
Expenditure	**17,720**	**16,127**	**-9.0**
Recurrent	10,517	9,524	-9.4
Wages and services	4,152	3,787	-8.8
Interest	1,388	1,589	14.5
Goods, services and transfers	4,978	4,148	-16.7
Development	7,203	6,603	-8.3
Locally financed	5,708	5,195	-9.0
Externally finance	1,495	1,408	-5.8
Primary balance	**-1,792**	**-1,810**	**1.0**
Overall balance	**-3,180**	**-3,398**	**6.9**
Financing	**3,180**	**3,398**	**6.9**
External, net	2,481	1,846	-25.6
Domestic, net	700	1,552	121.9
Memo:			
Domestic primary balance	*-2,459*	*-2,206*	*-10.3*
Priority social spending	*3,893*	*4,603*	*18.2*
Statistical discrepancy	*…*	*-1,068*	*…*

Sources: Tanzanian authorities and Fund staff calculations.

6.   Despite strong tourism recovery, the current account deficit deteriorated in 2022, mainly reflecting spillovers from the war in Ukraine. The current account deficit is estimated to have widened to about 5 percent of GDP in 2022, from about 3.4 percent a year earlier, as strong growth in imports (mainly in intermediate and capital goods) more than offset the increase in exports of goods and

Text Figure 2. Tourist Arrivals and Receipts
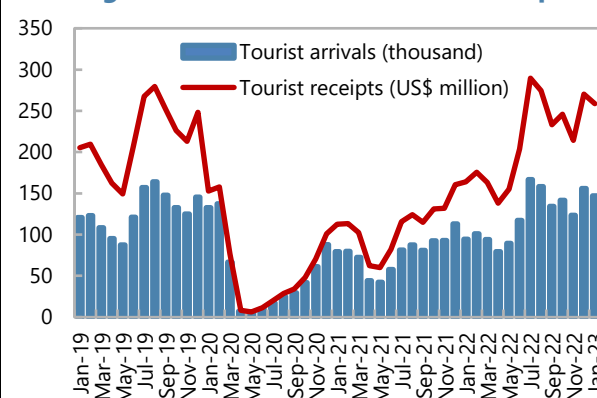
Sources: Bank of Tanzania and Fund staff calculations.

services (Table 3a). The tourism sector is recovering strongly with arrivals and receipts reaching pre-pandemic levels (Text figure 2).

7.   Inflation remains below the BoT's target, reflecting the authorities' proactive policy

response. Although Tanzania's inflation is relatively low, partly reflecting low passthrough (Annex I), the authorities res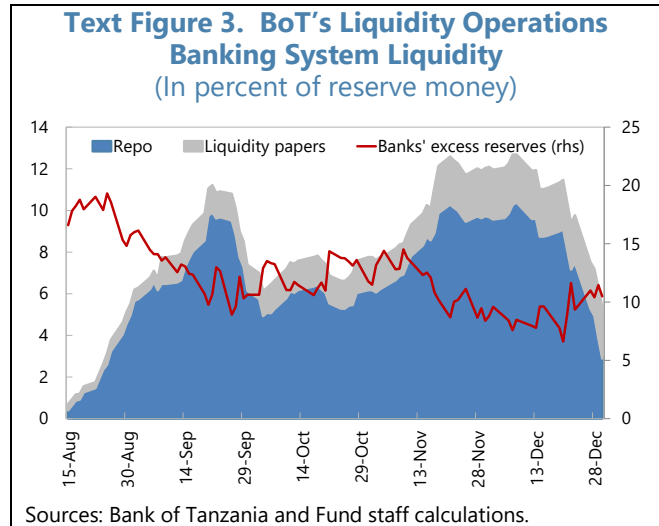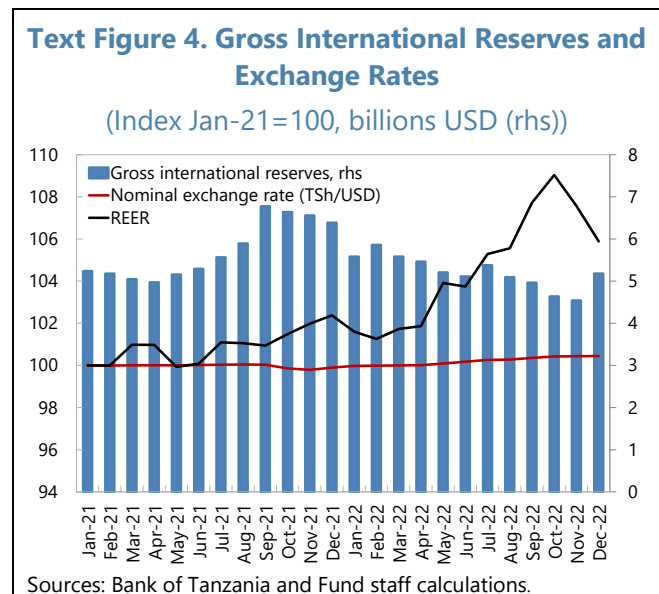ponded to the recent increase in inflationary pressures with temporary fuel and fertilizer price subsidies[1] and tightening of liquidity in the financial system. The BoT's liquidity mop-up operations (using Repo and sale of liquidity papers) helped reduce excess reserves from about 19 percent of reserve money in August to 10.5 percent by end-December (Text Figure 3). The BoT's foreign exchange sales also contributed to the liquidity mop up.

Text Figure 3. BoT's Liquidity Operations Banking System Liquidity
(In percent of reserve money)

Sources: Bank of Tanzania and Fund staff calculations.

8.   The BoT has relied on FX sales rather than exchange rate flexibility for its response to external shocks.[2] Despite recent external shocks, the Tanzanian shilling remained stable against the US dollar, depreciating only by 0.6 percent (yoy) at end-2022, while the REER appreciated by about 3.3 percent (yoy). Gross international reserves declined by US$1.2 billion to US$5.2 billion (about 4.3 months of prospective imports) at end-December 2022, largely reflecting FX sales to the government for public investment imports and external debt service (Text Figure 4). Recently, the BoT has been intervening in the interbank market with net FX sales.

Text Figure 4. Gross International Reserves and Exchange Rates
(Index Jan-21=100, billions USD (rhs))

Sources: Bank of Tanzania and Fund staff calculations.

9.   The stability of the financial sector notably improved, but some pockets of vulnerabilities persist (Table 5). The banking sector is overall well-capitalized, profitable, and liquid,

---

[1] During the first half of the current FY, the authorities provided a fuel price subsidy of Tsh 479.4 billion (about 0.3 percent of GDP), a subsidy on imported fertilizer of Tsh 50 billion, and VAT waiver on domestically produced fertilizer.

[2] Tanzania's de jure exchange rate regime is free floating. De facto, the exchange rate is classified as a stabilized arrangement (Annual Report on Exchange Arrangements and Exchange Restrictions, IMF, 2021).

although liquidity is unequally distributed among institutions (Annex II). The monetary policy easing during COVID, the post-COVID recovery, and credit facility programs to agriculture and SMEs led to a rapid private sector credit growth in 2022 (Figure 1). Credit risk, however, decreased notably as NPLs improved from 8.2 percent in 2021 to 5.8 at end-2022. Nevertheless, several vulnerabilities persist including highly concentrated credit in the retail market (e.g., personal loans). Other structural risks remain to be addressed, including high credit dollarization and loss of correspondent banking due to deficiencies in the AML/CFT framework.

10.   Tanzania's pandemic response stepped up considerably last year. The vaccination campaign, which was launched in July 2021, has stepped up in 2022. According to the authorities, as of end-2022, about 30.9 million people were fully vaccinated corresponding to about 49 percent of the total population, or 100 of the population older than 18 years.

Text Figure 5. People Fully Vaccinated
(Percent of total population)

*As of March 5, 2023.
Source: Our World In Data (www.ourworldindata.org)
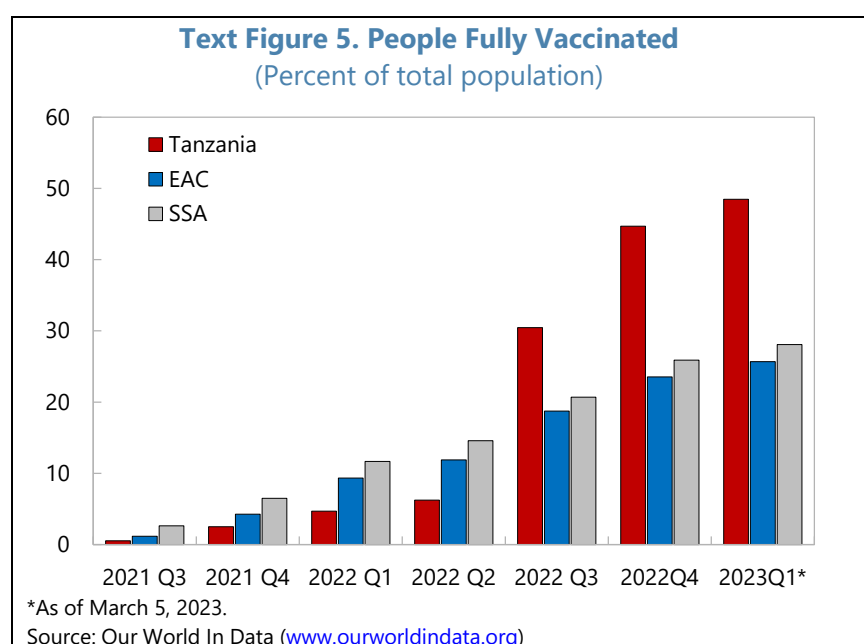
Figure 1. Overview of Recent Economic Developments

The recovery in growth is stalling due to the impact of global factors and shortfalls in rainfall...

Real GDP Growth
(Percent, y-o-y)
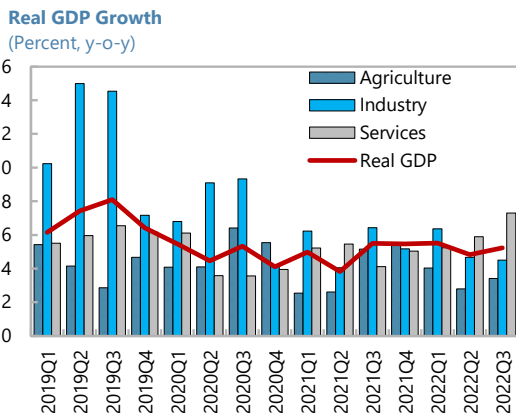
...and inflation is picking up driven by increases in food and transport prices.

Contributions to Inflation
(Percent)
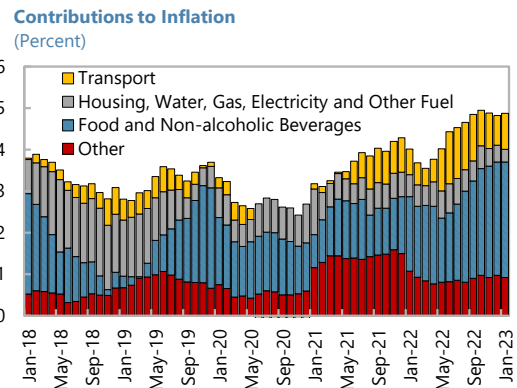
The fiscal stance remained broadly unchanged in 2021/22 as improvements in revenues were offset by increases in spending.

Recent Developments: Fiscal Sector
(Percent of GDP)
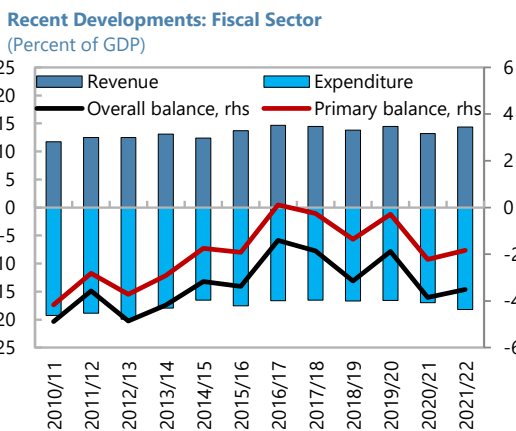
The current account deficit widened in 2021/22, reflecting deteriorations in the trade balance.

Recent Developments: External Sector
(Percent of GDP)
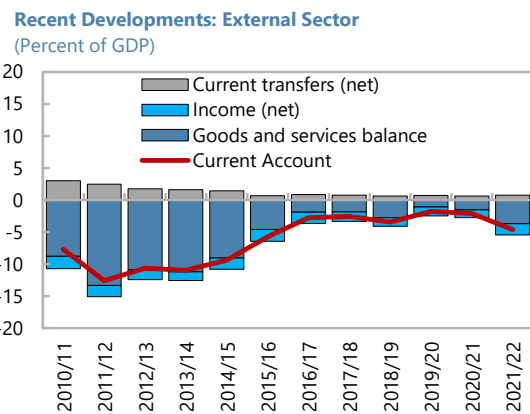
Private sector credit has grown rapidly in recent months, reflecting economic recovery and supportive policy measures...

Credit to Private Sector
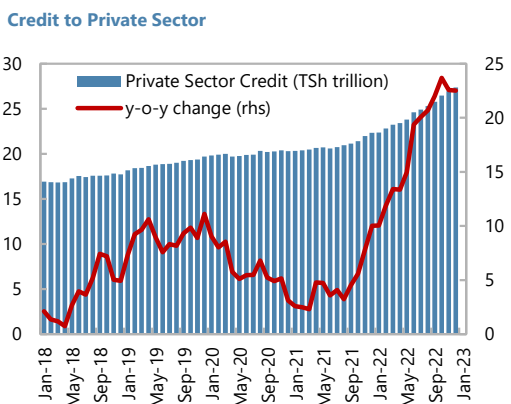
...while NPL has continued to drop from 9.8 percent in Dec 2019 to 5.8 percent at end-2022.

Non-Performing Loans
(Percent)
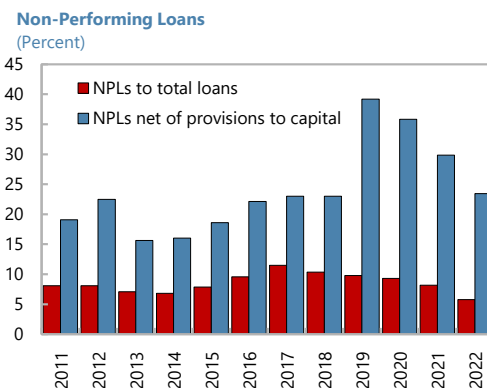
Sources: Tanzanian authorities; and IMF staff calculations and projections.

PROGRAM PERFORMANCE

11.   Program performance at end-December 2022 was on track. All quantitative performance criteria (QPC) and indicative targets (ITs) for December 2022 were met (MEFP ¶3 and Table 1). The QPC on the domestic primary balance (floor) was met after execution of projects in the second quarter of the fiscal year slowed down to offset the overrun in the first quarter. Due to delays in verifying expenditure arrears and data reporting, a prior action for the first review was set and completed on the verification of outstanding expenditure arrears.

12.   Most structural benchmarks (SBs) for December 2022 were met (MEFP Table 2). The two SBs to prepare and begin implementing a plan to clear all expenditure arrears, and to submit the amendments to the Banking and Financial Institutions Act to Parliament were completed ahead of time. The structural benchmark to complete and publish the post-crisis audit of pandemic-related spending was, however, missed and completed with a delay in February 2023. The end-February structural benchmark to submit the FY2023/24 preliminary Budget to the Parliament was also completed with delay in April.

OUTLOOK AND RISKS

13.   The economic recovery is continuing despite headwinds from the global economic environment. Growth is expected to pick up to 5.2 percent in 2023, supported by improvements in the business environment. Inflation is expected to surpass the BoT's target to reach 5.3 percent in June 2023, and then moderate to about 4.4 percent by end-FY2023/24 as commodity prices subside and due to tightening of monetary policy. The current account deficit is projected to remain elevated through 2023/24 amid the uncertain global environment. With continued improvements in revenue collections and consolidation of non-priority spending, the fiscal stance is expected to be tighter in FY2023/24.

14.   The medium-term outlook is contingent on implementation of the authorities' reform agenda, supported by the ECF program. Real GDP growth is projected to rebound to about 7 percent over the medium term assuming successful implementation of the authorities' reform agenda (Annex III). Inflation is expected to return to the BoT's target and the current account

	2020/21 Act.	2021/22 Prel.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
Real GDP	4.9	4.8	5.0	5.7	6.1	6.5	6.9	7.0
Calendar year Real GDP[1]	4.9	4.7	5.2	6.1	6.2	6.8	7.0	7.0
GDP deflator	118.1	122.5	129.5	136.4	142.6	148.8	155.7	163.3
CPI (period average)	3.3	4.0	5.0	4.4	4.0	4.0	4.0	4.0
Credit to the private sector (end of period)	3.6	19.4	19.8	12.0	12.0	12.0	12.5	12.5
Fiscal primary balance (percent of GDP)	-2.2	-1.8	-1.6	-0.7	-0.6	-0.5	-0.5	-0.5
Fiscal overall balance (percent of GDP)	-3.8	-3.5	-3.1	-2.7	-2.5	-2.5	-2.5	-2.5
Public debt (percent of GDP)	41.3	42.0	40.9	39.2	37.8	36.6	35.6	34.5
Current account balance (percent of GDP)	-2.1	-4.6	-4.4	-3.2	-3.0	-2.8	-2.7	-2.5
Reserves (months of imports)	4.6	4.0	3.8	4.0	4.2	4.3	4.4	4.4

Text Table 2. Tanzania: Selected Economic and Financial Indicators Under the ECF Program, 2020/21–2027/28

Sources: Tanzanian authorities and IMF staff estimates and projections.
[1] Fiscal year 2020/21 corresponds to calendar year 2021.

deficit is projected to moderate over the medium term as the global shocks subside and the authorities' reforms start to pay off. Enhanced revenue mobilization efforts are expected to improve the fiscal outlook (Text Table 2).

15.   Recent developments suggest good prospects for LNG production by the end of the current decade (SIP on LNG). Following a framework agreement between the government and private developers in June 2022, a Host Government Agreement is expected to be signed this year. The next step is a Final Investment Decision, which will lead to significant investment towards project construction during 2026-30 and LNG production starting in 2030.

16.   Risks to the outlook are tilted to the downside. Intensifying spillovers from the war in Ukraine, increased commodity price volatility, and an abrupt global slowdown could weigh on the near-term outlook. Risks to the medium-term outlook could include complacency in reform implementation and deepening geo-economic fragmentation and geopolitical tensions. On the positive side, realization of the LNG projects can boost Tanzania's growth potential and strengthen the fiscal and external balances (Annex III and SIP on LNG).

POLICY DISCUSSIONS

Discussions focused on policy priorities to mitigate spillovers from the war in Ukraine in the near-term and priorities to promote sustainable and inclusive private sector-led growth in the medium-term. Near-term priorities include temporary fiscal support within the program targets, monetary policy tightening as needed, allowing exchange rate flexibility, closely monitoring financial sector risks, and safeguarding macro-financial stability. Medium-term reform priorities centered on: (i) creating fiscal space to enable growth-friendly fiscal consolidation and safeguard debt sustainability; (ii) modernizing the monetary policy framework and enhancing financial supervision to safeguard macro-financial stability and promote financial deepening; and (iii) advancing structural reforms for private sector investment and sustainable and inclusive growth.

A.   Mitigating Spillovers from the War in Ukraine

17.   In line with program objectives, the FY2022/23 budget aimed to safeguard the economy against spillovers from the war in Ukraine. The authorities are providing temporary subsidies, tax reductions, and cash transfers.[3] Despite revenue shortfalls in the current fiscal year, the authorities remain committed to program targets for priority social spending and the domestic primary balance by reducing non-priority spending (¶5 and MEFP ¶9).

18.   The fiscal policy stance of the FY2023/24 draft budget is tighter than ECF program expectations (MEFP ¶10). The draft FY2023/24 budget is based on conservative revenue and expenditure projections and targets a primary deficit of 0.7 percent of GDP (tighter by 0.5 ppts of

---

[3] In addition to the price subsidies stated above, the authorities provided Tsh 229 billion in cash transfers (mostly financed by development partners) during the first half of the current FY.

GDP than ECF program projections), corresponding to a 1 ppt of GDP consolidation compared to the current fiscal year budget, expected to be achieved through improvements in revenue collections (about 0.5 ppts of GDP) and cuts in non-priority expenditure (about 0.5 ppts of GDP). Revenue is projected to increase by about 0.5 ppts of GDP to 14.9 percent, supported by new tax measures that are planned to be instituted and implemented in FY2023/24 (see below). Priority social spending will be maintained at about 6.7 percent of GDP, in line with the ECF program target (MEFP ¶22).

19.   While concurring with the authorities' conservative budget projections, staff underscores the importance of effective cash management and commitment controls. In the past, unrealistic revenue projections combined with ineffective cash management and lack of commitment controls led to accumulation of expenditure arrears. In this regard, the authorities' conservative budget projection is a step in the right direction and needs to be accompanied with effective cash management and commitment controls during budget execution to ensure that expenditure commitments are consistent with revenue outturns.

20.   Monetary policy will continue to be tuned to developments in actual and expected inflation, while allowing exchange rate flexibility to absorb external shocks (MEFP ¶14). While inflation remains below the central bank's target, the recent sharp increases in food and energy inflation could lead to second-round effects. The BoT should stand ready to tighten monetary policy further as needed to contain inflation. The EBA-Lite assessment shows that Tanzania's external position in 2022 is assessed to have been broadly in line with the level implied by fundamentals and desirable policies (Annex IV). Against the backdrop of global economic uncertainties, the BoT should allow more exchange rate flexibility since the risks to inflation are contained by the low passthrough (Annex I). While the level of international reserves is assessed to be adequate at US$5.2 billion (about 4.3 months of imports), additional buffers would help Tanzania withstand realization of potential downside risks.

21.   Close monitoring of developments in the financial sector will safeguard financial stability. The BoT should continue to enforce regulatory actions and supervision to reenforce compliance to both solvency and liquidity requirements. It is also important to carefully monitor and address the level of restructured loans which has been increasing since the second quarter of 2022, as well as monitor credit and operational risks, particularly in light of the recent rapid credit growth, and ensure that capital and provisioning buffers are adequate (Annex II).

Authorities' Views

22.   The authorities agreed with staff on the need for fiscal policy to safeguard the economy from shocks in the near term while remaining within program targets. They confirmed that the fiscal support will be temporary, and they have already phased out the fuel price subsidy as global fuel prices have stabilized. On the FY2023/24 budget, they expressed commitment to ensure that the agreed budget framework in line with program targets will be submitted to Parliament, and executed as approved by the Parliament. The BoT concurred with the need to stand

ready to tighten monetary policy further should second-round inflationary effects emerge and enhance exchange rate flexibility to cushion the economy against exogeneous shocks.

B.   Promoting Sustainable and Inclusive Private Sector-Led Growth

Creating Fiscal Space

23.   Fiscal reforms will help create the fiscal space needed to achieve growth-friendly fiscal consolidation and safeguard debt sustainability. The DSA indicates that Tanzania's risk of external debt distress remains moderate and public debt is sustainable under program reform scenario. Financing the authorities' ambitious investment agenda while maintaining debt sustainability requires fiscal consolidation that can be achieved through efforts to increase domestic revenue mobilization and strengthen public finance management (PFM).

24.   A comprehensive reform agenda is needed to realize Tanzania's revenue potential. At about 12 percent of GDP, Tanzania's tax revenue is significantly below its potential (see Annex V in [Country Report 22/269](#)) and revenues have consistently fell short of budget expectations. The authorities plan to implement tax policy and administration measures, including on indirect taxes (with estimated revenue yield of 0.3 percent of GDP), interfacing the IT system of the Revenue Authority with those of prioritized government institutions, and other administrative measures, with a combined estimated revenue yield of about 0.5 ppts of GDP a year effective in FY2023/24 (MEFP ¶21). While welcoming these measures, staff called for additional reforms to broaden the tax base, modernize tax administration, reduce compliance costs, and rationalize tax exemptions. Expediating verification and payment of VAT refunds through leveraging technology would also help clear the backlog of VAT refund arrears[4] and reduce cost of compliance for taxpayers.

25.   Improving the quality of public spending and rebalancing from capital to priority social spending will help close gaps in Tanzania's human capital. The authorities are on track with hiring 10,000 additional health workers and 15,000 school teachers to improve the provision of health and education services (MEFP ¶22). Closing the resource gaps in education and health requires sustaining these recruitments over the medium term, financed by rebalancing budget allocation, improving the efficiency of public spending, and mobilizing domestic revenues. Additional resources will also be needed to expand the coverage of the Tanzanian Social Action Fund (TASAF) program to eligible families and improve targeting.

26.   Strengthening public finance management and expanding coverage of fiscal data to systemically important SOEs will help contain fiscal risks (MEFP ¶25-29). Anchored by program targets, the authorities made progress in tackling the longstanding domestic arrears problem (Box 1). Efforts should also focus on addressing other key weaknesses in PFM, including targeting of subsidies, improving efficiency of public investments (in line with the recent PIMA and C-PIMA recommendations), improving credibility of the medium-term fiscal framework, and cash

---

[4] The authorities have made progress in reducing VAT refund arrears, which stood at Tsh 681 billion (0.4 percent of GDP) at end- December 2022, of which unpaid verified refund claims were only Tsh 22 billion.

management. Putting SOEs on a sustainable financial footing by moving towards cost-recovery pricing,[5] improved management and oversight, and enhanced transparency through publishing audited financial statements of SOEs would help contain fiscal risks (Annex V and SIP on SOEs).[6]

27.   Tanzania's risk of debt distress remains moderate. The gradual fiscal consolidation and the continued prioritization of concessional financing will help keep debt sustainable, despite increasing non-concessional loans under the program.[7] All external debt burden indicators continue to stay within the policy-determined thresholds and the present value of the public debt-to-GDP ratio is contained at around 31 percent in the baseline scenario. Agreement has been reached with the government of Libya to settle previously disputed external principal arrears of US$61.7 million in twelve equal installments. The authorities have already started to settle the arrears with three installments already paid as of February 2023. Negotiations on the payment of disputed interest penalties are continuing.[8] The authorities continue their best efforts to settle residual HIPC-related legacy external arrears.[9]

Authorities' Views

28.   The authorities acknowledged that Tanzania's revenue performance is well below potential, and additional reforms would be needed to unlock the potential. Towards this goal, a government taskforce is preparing an action plan for tax reforms based on inputs from stakeholders and recent Fund TA recommendations. They plan to formulate reform measures on the bases of the recommendations of the taskforce. The authorities also confirmed that efforts will be directed towards expediting verification of VAT refunds with the goal to clear the backlog of VAT refunds by June 2023. They also expressed commitment to implement the revised strategy for management of arrears with the objective to clearing the existing stock of arrears over the next 3 years and preventing accumulations of new arrears through PFM reforms including commitment controls. They agreed on the need to increase public spending on education, health, and other social services to improve Tanzania's human capital. Finally, the authorities concur with the need to strengthen oversight of SOEs to contain fiscal risk. They noted that the government converted about Tsh 5 trillion (2.6 percent of GDP) on-lent debt of two large SOEs to equity to help strengthen their balance sheets.

---

[5] This effort will help reduce indirect subsidies and quasi-fiscal operations. Along with the authorities' commitment to review the subsidy system and identify gaps and reform measures by December 2023 (MEFP¶24), this will also help enhance the efficiency of the subsidy system and price signals.

[6] The SIP identifies weaknesses in SOEs' balance sheets and potential fiscal risks. Reportedly, SOEs borrowing from the banking system is limited and not systemically important.

[7] The BoT provides advances to the government only as short-term overdrafts and not for long-term financing, in line with the BoT Act. Budget financing by the BoT is within the legal limits, similar to other ECA countries (MEFP¶13).

[8] The arrears stem from a US$101 million loan contracted in 1983. The outstanding amount reflects a 50 percent debt cancellation and US$40 million debt swap signed in 2005 and a 2009 addendum. Tanzania ceased payments in 2015 during the Libyan civil war.

[9] Tanzania has HIPC-related legacy arrears of about US$138.8 million with the governments of Angola, India, Iran, and Iraq, which are waiting for the bilateral comparable treatment under the HIPC framework. Based on the adequately representative Paris Club agreement, and in accordance with the Fund's policy of arrears to official creditors, these arrears are considered to be "deemed away".

Box 1. Domestic Expenditure Arrears: Stock Taking and Next Steps

Accumulation of domestic expenditure arrears are a longstanding PFM issue for the government of Tanzania (GoT).[1] Despite ongoing PFM reforms, the GoT has run domestic payment arrears exceeding 10 percent of government expenditure over the past 5 years (Figure 1, left panel). Over half of the outstanding balance of arrears in June 2021 was overdue for more than a year, and about 30 percent was overdue for more than 2 years (Figure 1, right panel). Both the payment and the verification of arrears lagged. Over two-thirds (Tsh 2.2 trillion) of the outstanding balance of arrears in June-2022 was not verified.

The authorities' ambitious infrastructure investment drive in the context of weak commitment controls contributed to accumulation of expenditure arrears. While acknowledging recent progress in setting institutional and regulatory frameworks for PFM, the 2022 Public Expenditure and Financial Accountability Assessment (PEFA) identified weaknesses in core aspects of PFM such as budget credibility, cash management, and commitment control that contributed to accumulation of expenditure arrears. The authorities' own analysis also confirms these findings. [2]

Box Figure.1 Domestic Payment Arrears
(End-June balance; includes unverified arrears)

Sources: Ministry of Finance and Planning; IMF staff calculations.
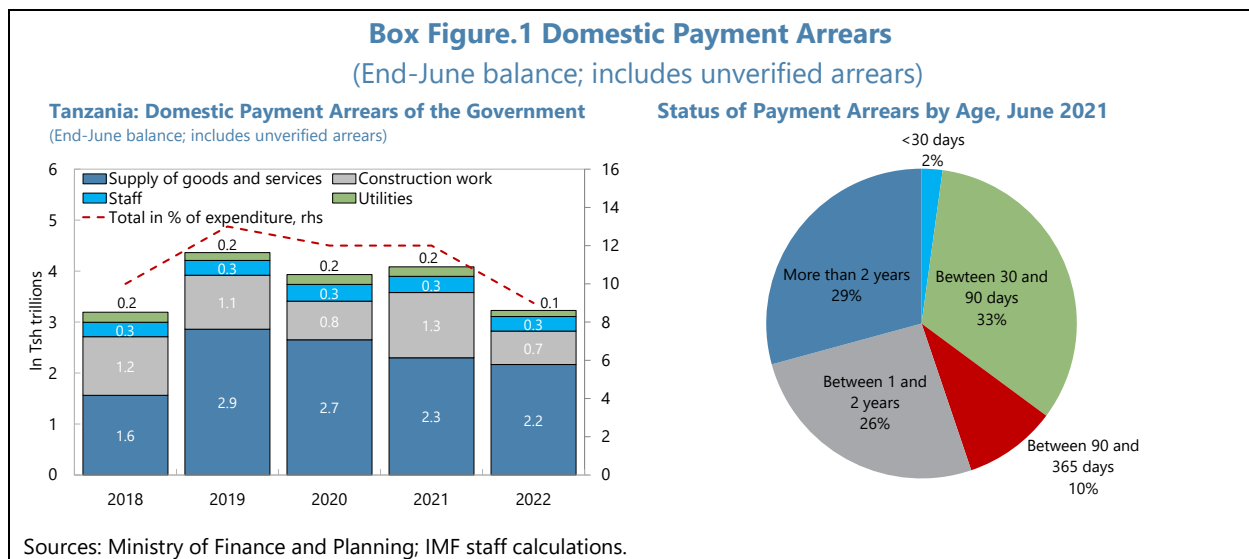
Addressing the longstanding expenditure arrears problem is a key ECF program objective. The program sets three objectives: completing verification of the outstanding arrears, preparing, and implementing a roadmap for clearing these arrears, and implementing PFM reforms to prevent accumulation of new arrears. Towards these goals, the authorities developed and started to implement a roadmap for clearance of arrears and a strategy for preventing accumulation of new arrears (December 2022 SB).[2] Verification of arrears was delayed but completed recently as a prior action for the first review. Accordingly, the stock of verified arrears stood at Tsh2 trillion in December 2022. The authorities plan to clear these arrears over the next 3 years.

Implementation of PFM reforms is key to prevent arrears recurring going forward. Near-term priorities should focus on enforcing use of the MUSE financial management system for recording and processing of arrears payments, enforcing sanctions against noncompliance of Public Finance laws and regulations, and capacity building for use of the Financial Management Information System. In the medium term, the government should implement PFM reforms, focusing on strengthening revenue forecasting, multi-year commitment controls, cash management, internal control, and risk management.

[1] Expenditure arrears are defined as unpaid claims outstanding for over 30 days for delivery of goods and services and for over 90 days for construction work.
[2] Ministry of Finance and Planning. Revised Strategy for Management of Arrears. December 2022.

Modernizing the Monetary Policy Framework and Financial Supervision

29.   **Modernizing the monetary policy framework is key to enhance monetary policy effectiveness** (MEFP ¶37). Towards this goal, the BoT needs to complete its transition to an interest-rate based monetary policy by taking remaining steps, including introduction of policy instruments, policy rates, and operating targets as well as implementation of a comprehensive communication strategy (Box 2). Finalizing and publishing the operational guidelines of the interest rate-based monetary policy framework by June 2023 (structural benchmark) is a key step. A next step is stakeholder engagement to raise awareness in the financial markets about the new monetary policy framework. Full operationalization of the interest rate-based monetary policy framework requires strengthening the analytical tools and capacity of the BoT, supporting development of financial markets, and limiting central bank financing of the budget.

30.   **Increasing exchange rate flexibility and enhancing the transparency of FX policies will help preserve macroeconomic stability.** The BoT should allow more exchange rate flexibility to absorb external shocks including from higher oil prices, and limit FX interventions to addressing disorderly market conditions and containing financial sector vulnerabilities (including from dollarization).[10] Formalizing and publishing the BoT's FX intervention policy stating its objectives, triggers, mechanisms, and modality will enhance transparency of the FX policies and efficiency of markets (MEFP ¶37).

31.   **Upgrading the financial supervision framework will promote financial sector stability and deepening** (MEFP ¶38). Advancing financial sector deepening, while buttressing financial stability requires upgrading the supervisory framework and updating the prudential policy toolkit. This includes the crisis resolution and Emergency Liquidity Assistance (ELA) frameworks; the guidelines and limits for large exposures; and the statutory minimum reserve ratio sectoral requirements. The authorities should also enhance capabilities for monitoring and enforcement of prudential guidelines, risk-based supervision, solvency stress testing, and macro-financial analysis.

Authorities' Views

32.   **The BoT reiterated its commitment to transition to an interest-based monetary policy framework by end-FY2023/24 and improve transparency of its FX intervention policy.** The BoT stated that its current FX intervention policy aims to stabilize markets, safeguard investor confidence, and preserve international reserves. The BoT also expressed commitment to continuing implementation of the FSAP recommendations to address banking sector vulnerabilities, while promoting financial deepening and inclusion.

---

[10] Credit and deposit dollarization at end-December 2022 stood at 28.9 percent and 29.4 percent, respectively (Table 5). On the other hand, net open positions in FX of the banking system were 2.5 percent of capital (Table 5), indicating that banks are long on FX, mitigating risks of balance sheet mismatches.

<div style="border: 1px solid black; padding: 10px;">

Box 2. Progress Towards Interest-Rate Rule Based Monetary Policy

The BOT is transitioning from reserve money targeting to an interest-based monetary policy framework. The BoT anticipates that the transition will progress in line with the East African Community (EAC) directives to fully harmonize all monetary policy frameworks by FY2023/24.

With the support of IMF TA, much progress has been achieved on both operational and technical capacities. On the operational side, key elements of the central bank's operational framework such as intra-day, overnight, and rediscount facilities to meet banks' liquidity needs, are in place. On the technical side, analysis of different monetary transmission channels in Tanzania provided strong support to the adaptation of the new monetary policy framework. The BoT's modelling capacity has been strengthened, with the Forecasting Policy and Analysis System and Quarterly Projections Model operationalized. The BoT also received IMF TA on modernizing its monetary policy operation framework in October 2021 and on FX intervention in September 2022.

Important steps remain for the full implementation of the new monetary policy framework (Table 1). Technically, the modeling capacity needs to be improved further to produce and communicate BoT's inflation forecasts. Operationally, further work is needed to implement a comprehensive communication strategy, which includes the publication of the framework guidelines and procedural manual that introduces the policy rate and describes policy toolkit, triggers, and modality of interventions. Drafting and publishing the BoT foreign exchange intervention (FXI) policy is also essential for FX market transparency. A formal agreement between the BoT and the Ministry of Finance and Planning for the cost sharing of liquidity management is also needed.

Box Table.1 Tanzania: Forthcoming Milestones in Monetary Policy Framework Transition

Milestone	Completion Date
Publish guidelines and procedural manual for the interest rate rule based monetary policy framework, including introduction of policy rate (SB)	Jun. 2023
Review the standing facilities framework	Jun. 2023
Complete IMF TA on FXI	Jun. 2023
Finalize and Publish FXI Policy (SB)	Dec. 2023
Assess impact of FX regulation on FX market	Apr. 2024
Complete additional IMF TA onFPAS and IT communication.	Jun. 2024
Source: IMF Staff	

</div>

Advancing Structural Reforms

33.   Structural reforms are essential to unlock Tanzania's growth potential. Resuming and advancing the authorities' structural reform agenda is one of the three key ECF program pillars. Priorities include business reforms to support private sector development, strengthening governance, and developing climate adaptation and mitigation policies.

34.   Addressing longstanding constraints to doing business will promote private sector development and productivity. Key constraints to private sector investment include excessive bureaucracy and overlapping mandates of regulatory agencies, public policy uncertainty due to

frequent changes, and limited access to finance.[11] In addition to the fiscal and financial sector reforms outlined above, structural reforms should aim to streamline bureaucratic procedures, simplify the business regulatory regime, enhance regulatory transparency, and improve public policy predictability (MEFP ¶31). Improving the quality of national data and statistics is also key to ensure the country-wide consistency of statistics and provide an accurate economic overview, enhance credibility, and improve budget forecasting, and attract investment (MEFP ¶33).

35.   Implementation and enforcement of a comprehensive anti-corruption strategy would help strengthen governance and reduce corruption vulnerabilities. Priority should be given to addressing deficiencies in the Tanzania's AML/CFT framework.[12] The legal framework was amended to include environmental crimes and tax crimes as predicate offences and to strengthen the basis to prosecute and apply criminal sanctions to persons that finance terrorism. However, more work is needed to align the legal framework with the FATF standards and improve the effectiveness of AML/CFT framework, including by adopting policy and procedures for AML/CFT risk-based supervision of banks and ensuring effective enforcement against money laundering and terrorism financing (Annex V) (MEFP ¶34). The authorities have also taken important steps to improve the anti-corruption framework in recent years, including setting up a special High Court Division for corruption and economic crimes, increasing the judiciary budget, and preparing a National Anti-Corruption Strategy and Action Plan.

Text Figure 6. Global Competitiveness Index, 2019
(Scale ranges from 0 to 100)
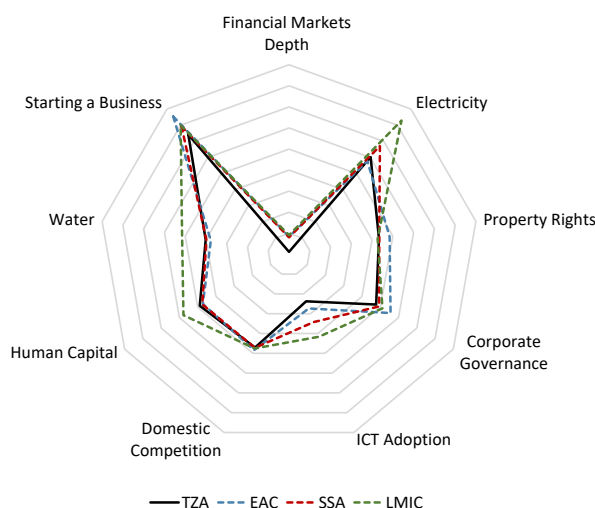
Note: GCI combines official data and survey responses from business executives on several dimensions of competitiveness. Survey based indicators reflect investors' perceptions on the business environment and should be interpreted with caution. The GCI is based on a limited number of respondents, limited geographical coverage in each country and standardized assumptions on business constraints and information availability.
Source: World Economic Forum; IMF staff calculations.

36.   Developing a climate adaptation and mitigation strategy would strengthen Tanzania's ability to cope with the impact of climate change (Box 3)**.** Tanzania is highly vulnerable to climate change and has limited ability to leverage investments to adaptation actions. This implies an urgent need for adaptation policies through building resilience and improving coping mechanisms, with important financing implications (SIP on climate) (MEFP ¶35).

---

[11] See also the World Bank's Program Document on "Tanzania First Inclusive and Resilient Growth Development Policy Financing", 2022.

[12] Tanzania is currently listed by FATF as a country with strategic AML/CFT deficiencies.

Authorities' Views

37.   The authorities concurred that improving the business environment is a pre-requisite for private sector development and more efforts are needed to attract private investment. They reiterated their commitment to addressing gaps in the AML/CFT framework and to improve technical compliance with the FATF standards. They acknowledged the need of developing climate adaption and mitigation policy and committed to improving data quality.

Box 3. Climate Change and Financing in Tanzania

Tanzania is highly vulnerable to climate change but less prepared to address its impact. Tanzania is a major food producer, and heavily depends on rain-fed agriculture, but recurrent floods and droughts are increasing in frequency and severity. The projected climate change, including longer dry spells and irregular rainfall patterns, are likely to affect the country's key economic sectors, such as agriculture, tourism, infrastructure, and energy sector (SIP on Climate Change).

In recognition of its vulnerability to climate change, Tanzania has featured climate goals in its national planning. Strengthening the systems of environmental protection and sustainable use of natural resources are among the key priorities of the Third National Development Plan (FYDPIII). Interventions include the promotion of renewable green energy technologies, and strengthening climate change adaptation and mitigation measures. The Tanzania National Climate Change Response Strategy 2021-26 (NCCRS) entails a set of adaption and mitigation interventions in major economic sectors. The authorities have started to identify (and in some cases implement) specific high-priority actions, including investment in irrigation for food production to enhance food security, strengthening key infrastructure to protect transport from disruptions caused by floods, and stepping up the campaign for rural electrification to reduce dependence on charcoal.

Box Figure 1. Climate Vulnerability and Readiness[1]

*Median
1/Readiness score has been recalculated to exclude economic readiness indicator from World Bank Doing Business Report.
Note: Light blue dots represent the SSA countries and yellow dots represent the countries whose RST request has been approved.
Source: ND-Gain Country Index database, IMF staff calculations.

Responding to climate change requires mounting spending and financing. In its updated Nationally Determined Contribution (NDC) submitted in 2021, it is estimated that the total funding required to support the implementation of climate adaptation and mitigation activities would amount to US$19.2 billion between now and 2030.

Mobilizing financing for mitigation and adaptation needs will be challenging. Effective NDC implementation calls for efficiently mobilizing domestic resources as well as additional financing from the international community. Accessing grants and concessional financing from development partners is pivotal for NDC implementation, given that the total estimated budget of US$19 billion cannot be met only with domestic resources. The Tanzanian authorities have expressed interest in the Resilience and Sustainability Trust (RST) to support its efforts to tackle climate change challenges.

PROGRAM MODALITIES AND OTHER

38.   Program modality remains unchanged. The program will continue to be monitored on a semi-annual basis through ITs, QPCs, and structural benchmarks. The QPCs and ITs have been extended to December 2023 in line with latest macro-framework projections. Policy implementation will be evaluated through review-based monitoring, considering evolving circumstances and policy needs. The ECF program financing will continue to be used as direct budget support to the Treasury and the existing MoU between the BoT and the Ministry of Finance and Planning on respective responsibilities for servicing financial obligations to the IMF has been renewed.

39.   New structural benchmarks have been set to reinforce the goals of the ECF program (MEFP Table 2). Two of the four new structural benchmarks (SBs), including submitting a proposal for indirect tax policy measures (with estimated revenue yield of 0.3 percent of GDP) in the FY2023/24 budget to Parliament by June 2023 and interfacing the Tax Revenue Authority's information technology system with those of prioritized government institutions by December 2023 will help raise additional revenue of about 0.5 ppts of GDP. The new SB on formalizing and publishing BoT's forex intervention policy (SB, Dec 2023) will improve FX policy transparency. Moreover, the establishment of the AML/CFT risk-based supervisory approach (MEFP ¶34 and Table 2) will strengthen governance and financial stability.

40.   The program is fully financed. The financing gap through March 2024 is estimated at US$805 million and is expected to be fully financed by the ECF program disbursement US$305 million and World Bank budget support US$500 million (Text Table 3). Good prospects for financing are in place for the remainder of the program, including donor financing and ECF program financial support.

Text Table 3. Tanzania: Financing Gap and Sources of Financing, 2022/23–2025/26
(Millions of US dollars)

	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
1. Financing Gap Under Program Baseline	**806**	**910**	**618**	**153**
In percent of GDP	*1.0*	*1.0*	*0.6*	*0.1*
2. Expected Budget Support	**500**	**606**	**313**	**0**
World Bank	500	500	0	0
Other donors	0	106	313	0
3. Residual Financing Gap (1-2)	**306**	**304**	**305**	**153**
4. IMF Financing	**306**	**304**	**305**	**153**
In percent of GDP	*0.4*	*0.3*	*0.3*	*0.1*
ECF (200 percent of quota)	306	304	305	153
Remaining financing gap	**0**	**0**	**0**	**0**

Sources: Tanzanian authorities; development partners; and IMF staff projections

41. **Tanzania's capacity to repay the Fund is adequate (Table 6).** With a disbursement of 200 percent of quota, outstanding credit would peak in 2025/26 at 1.5 percent of GDP (below the median of UCT-quality arrangements for LICs) or 9.6 percent of revenue (excluding grants). Annual repayments are projected to peak at 0.2 percent of GDP and 1.3 percent of government revenue in FY2030/31. Tanzania also has a good track record of IMF repayments.

42. **Safeguards assessment.** The BoT is taking steps to address the 2022 safeguards assessment recommendations to strengthen currency operations, the external audit process, and internal audit capacity. Other recommendations are in process. Key vulnerabilities include the governance arrangements, which lack independent oversight. The BOT will prepare draft amendments to the BoT Act with the support of IMF TA to strengthen governance arrangements and personal and financial autonomy and submit to government by December 2023 (MEFP ¶40).

43. **Capacity development priorities are closely aligned with program objectives.** Recent TA covered tax policy diagnostics, public investment management including with a climate module, monetary policy, and national statistics. TA will continue to support the authorities' ongoing efforts to enhance revenue collections, strengthen efficiency of public investment and natural resource management, modernize the monetary policy framework, and improve national statistics. A revised capacity development strategy was discussed with the authorities (Annex VI).

44. **Data provision.** Data provision is broadly adequate for surveillance and program monitoring, but efforts are needed to improve the quality of National Accounts, in particular consistency among the different approaches (value added, expenditure and income), and reconcile external sector data between the National Accounts and Balance of Payments statistics.

45. **Past Article IV recommendations.** The authorities have made notable progress in implementing past Article IV recommendations (Annex VII).

STAFF APPRAISAL

46. **Spillovers from the war in Ukraine and domestic factors contained growth, but the recovery from the pandemic is expected to continue.** Growth is expected to pick up starting this year and rebound to about 7 percent in the medium-term, supported by the authorities' economic reform program. Inflation is expected to stabilize within the BoT's target and the current account deficit is projected to moderate over the medium-term as the global shocks subside and the authorities' reforms start to pay off. Enhanced revenue mobilization efforts and consolidation of non-priority spending are expected to improve the fiscal outlook.

47. **The outlook faces downside risks and uncertainties.** Intensifying spillovers from the war in Ukraine, increased commodity price volatility, and an abrupt global slowdown or recession could weigh on the near-term outlook of Tanzanian economy and increase pressures on the external and fiscal positions. On the other hand, the medium-term outlook hinges on implementation of the authorities' reform agenda supported by the ECF program.

48.   Program performance has been on track. All quantitative performance criteria and indicative targets for December 2022 were met. Two of the three structural benchmarks for December 2022 were met on time, while the post-crisis audit of pandemic-related spending was completed and published with a delay. The end-February structural benchmark to submit the FY2023/24 preliminary Budget to the Parliament was completed with delay in April. The authorities completed the verification process of outstanding expenditure arrears as a prior action to completing the first review.

49.   Staff concurs with the authorities' plan for fiscal consolidation starting in FY2023/24 and underscores the importance of creating additional fiscal space in the medium term. Fiscal reforms will help create the fiscal space needed to finance priority investment and social spending while safeguarding debt sustainability. Creating additional fiscal space for much needed investment and priority social spending while safeguarding debt sustainability requires additional efforts to mobilize domestic revenues, improve the efficiency of expenditure, and contain fiscal risks. Reforms should aim at broadening the tax base, modernizing tax administration, improving the quality of spending and strengthening PFM, and containing fiscal risks.

50.   The BoT should stand ready to tighten monetary policy as needed, while allowing exchange rate flexibility. Inflation remains below the central bank's target, but the recent sharp increases in food and energy inflation could lead to second-round effects. Tanzania's external position in 2022 is assessed to have been broadly in line with the level implied by fundamentals and desirable policies and the level of international reserves is assessed to be adequate by the Fund's ARA metric. Continuing to maintain adequate level of reserves and allowing more exchange rate flexibility would help cushion the economy against external shocks.

51.   Progress in modernizing the monetary framework to an interest rate based monetary policy and strengthening financial supervision should continue. Completing the transition will require finalizing and publishing the operational guidelines; introducing policy instruments, policy rates, and operating targets; and implementing a comprehensive communication strategy. Upgrading the financial supervision framework, including by implementing FSAP recommendations and ensuring that crisis management mechanisms are in place, will help buttress financial sector stability and promote financial deepening. The BoT should operationalize and enhance its micro- and macro-prudential policies to address existing pockets of vulnerabilities in the banking sector.

52.   Structural reforms are essential to promote inclusive, resilient, and sustainable growth. Business reforms including streamlining bureaucratic procedures simplifying the business regulatory regime, and enhancing regulatory transparency are crucial to promote private sector development. Implementation and enforcement of the authorities' anti-corruption strategy and establishing a risk-based AML/CFT supervisory approach would help improve governance and address deficiencies and safeguard against de-risking in correspondent banking. Tanzania's high vulnerability to climate change calls for increasing resilience through mitigation and adaptation policy.

53.   Staff supports the authorities' requests for completion of the First Review. The next Article IV consultation is expected to be held within 24 months in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 2. Real Sector Developments

The momentum in real GDP growth has slowed down due to the impacts of COVID-19 and the war in Ukraine.

Recent Growth Trends
(Percent, y/y and q/q moving average)
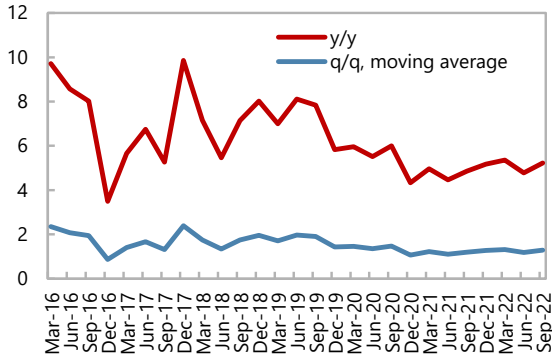
A contraction in net exports and a deceleration in private investment reduced growth in 2021.

Contributions to Real GDP
(Demand side, y-o-y percent change)
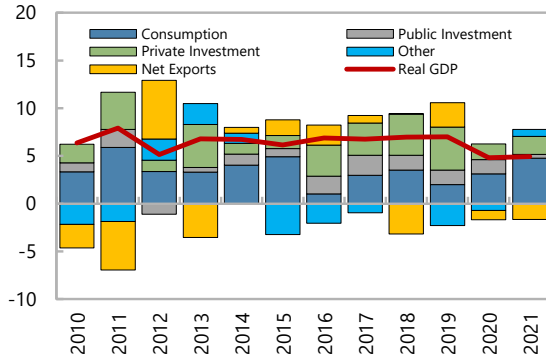
Driven by food and transport price increases, inflation picked last year.

Contributions to Inflation
(Percent)
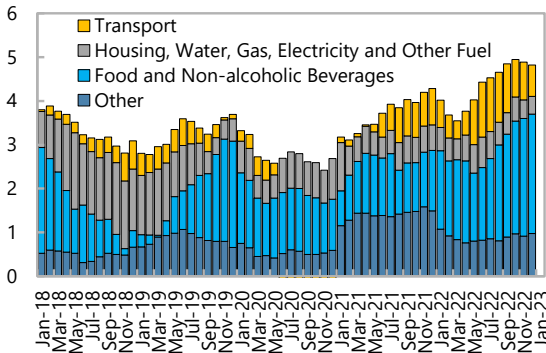
However, Tanzania's real GDP and per capita growth have been more resilient during the COVID crisis than the EAC average.

Real GDP and GDP per capita
(y-o-y percent change, PPP 2017 international dollars)
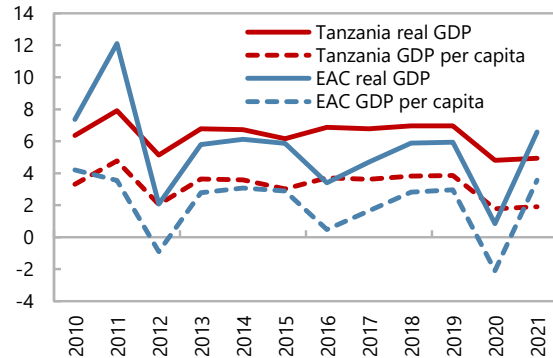
Public investment has picked up in recent years.

Investment
(Percent of GDP)
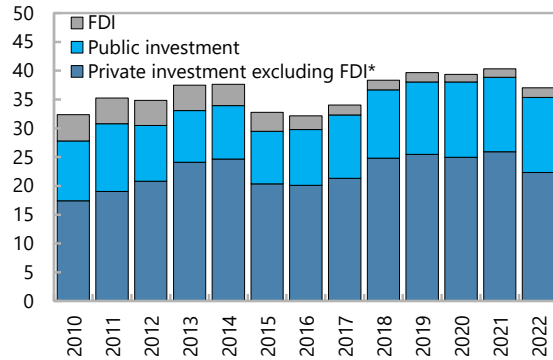
* Including changes in inventories

Despite recent increases, both headline and core inflation remained below the BoT's target.

Inflation
(y-o-y percent change)
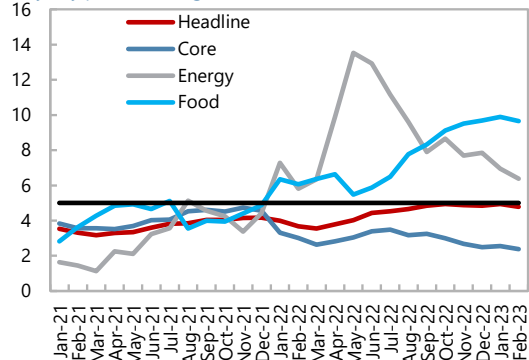
Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 3. External Sector Developments

Goods exports have grown since 2018, driven by higher exports of gold, other minerals and manufactured goods.

Composition of Goods Exports
(Millions of USD)
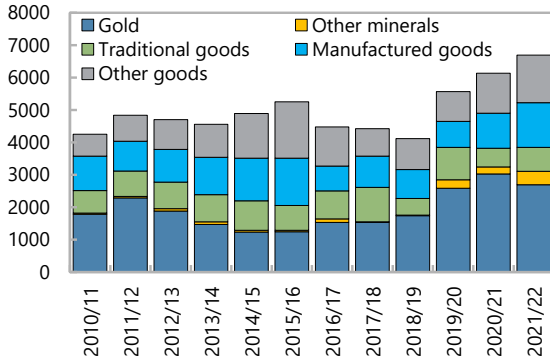
Imports grew sharply in 2021/22, in part reflecting spillovers from the impact of the war in Ukraine...

Composition of Goods Imports
(Millions of USD)
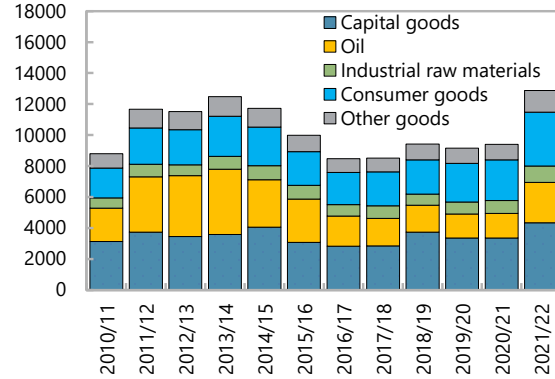
...leading to reversal of recent gains in reducing the current account deficit.

Current Account Balance Decomposition
(Percent of GDP)
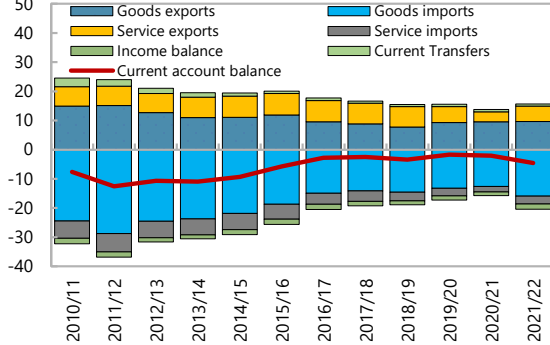
The current account deficit was financed by FDI, public-sector borrowing, and reserve assets.

Current Account Deficit and Sources of Financing
(Percent of GDP)
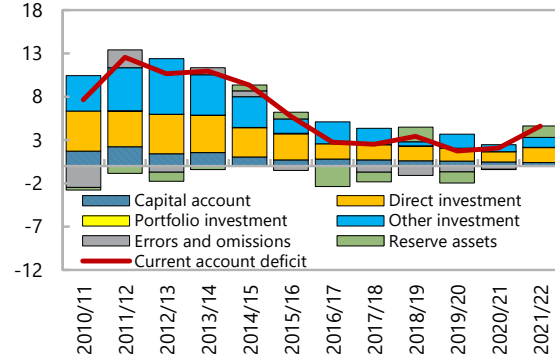
Reserves declined in 2022...

Gross International reserves
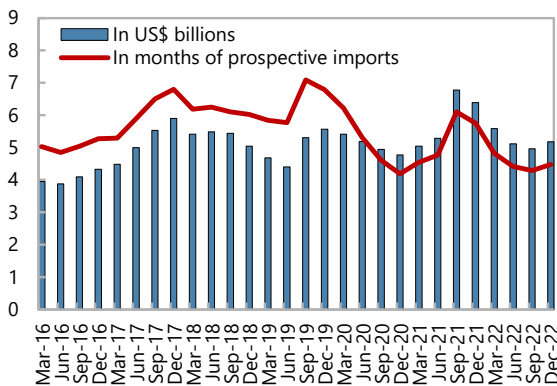
...while the real and nominal effective exchange rates appreciated.

Real and Nominal Effective Exchange Rates
(Index, 2016=100)
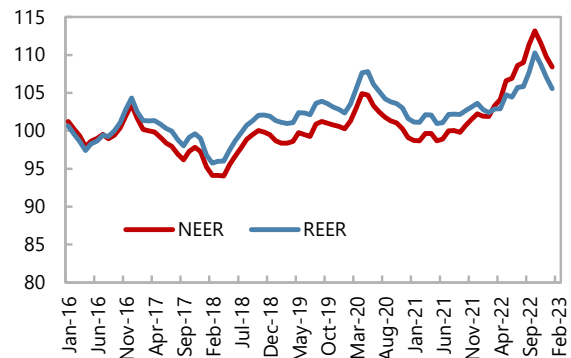
Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 4. Fiscal Sector Developments

Despite modest improvements in recent years, domestic revenue mobilization remains below potential.

Fiscal Revenues
(Percent of GDP)
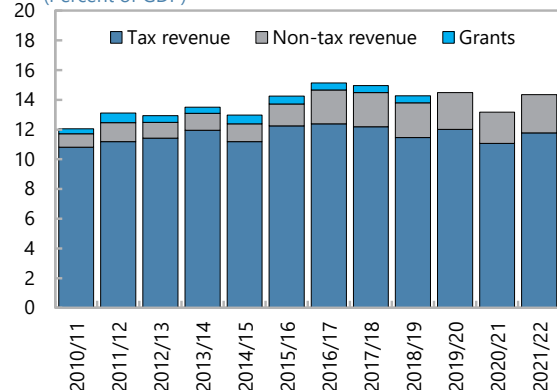
Development expenditure has been on the rise…

Development Expenditure
(Percent of GDP)
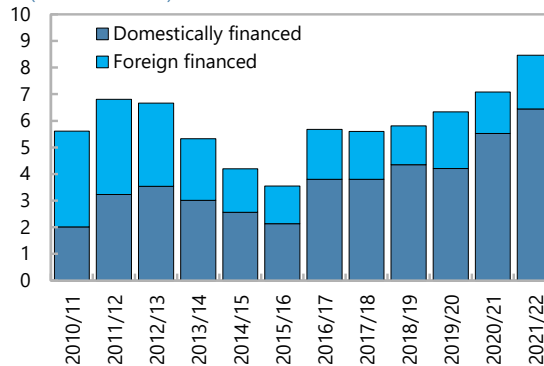
…financed in part by modest declines in recurrent expenditure.

Current Expenditure
(Percent of GDP)
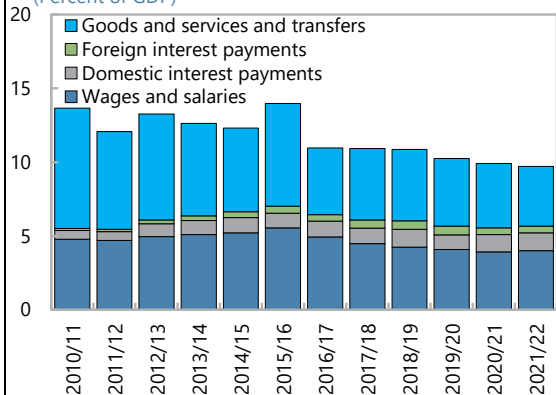
The budget deficit widened in recent years…

Overall Balance and Primary Deficit
(Percent of GDP)
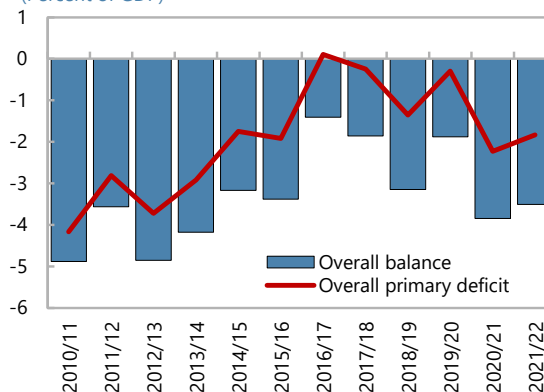
…financed increasingly by domestic sources as net external remained stable.

Sources of Financing of Overall Balance
(Percent of GDP)
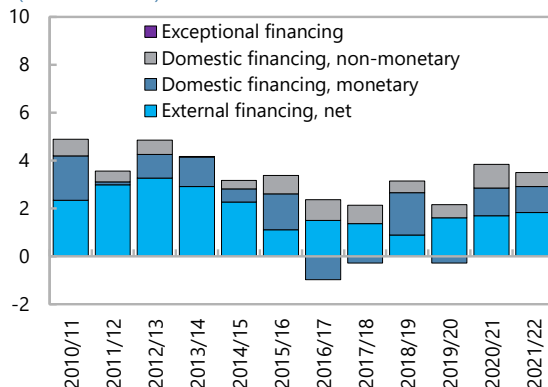
Public sector debt modestly increased lately reflecting the widening budget deficit.

Total Public Debt
(Percent of GDP)
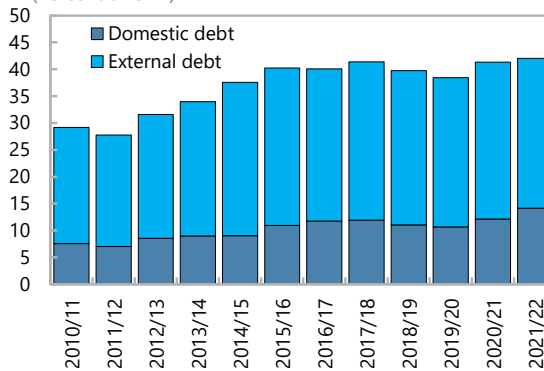
Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 5. Monetary Sector Developments

Broad money growth slowed down reflecting declining NFA....

Contributions to Broad Money Growth
(y/y percentage change)
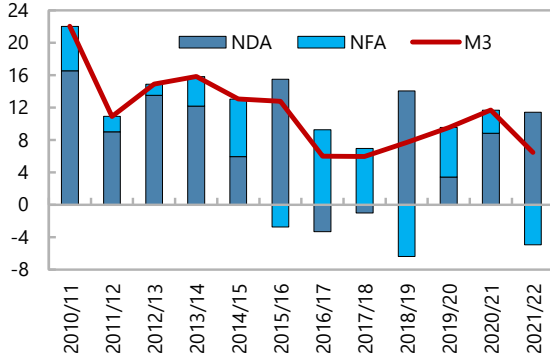
....while a pickup in credit to the private sector is contributing to the growth in the NDA.

Contributions to Net Domestic Assets
(y/y percentage change)
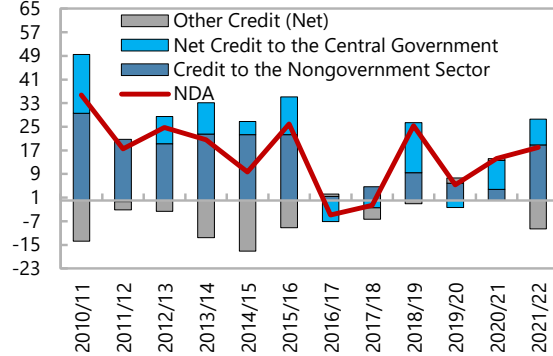
Lending and deposit rates have remained relatively stable....

Lending and Deposit Rates
(Monthly)
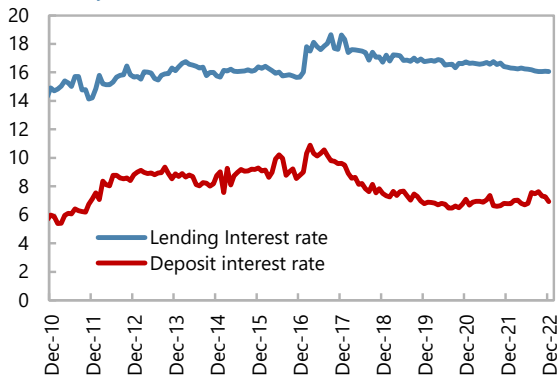
...as have money market rates.

Interest Rates
(Monthly)
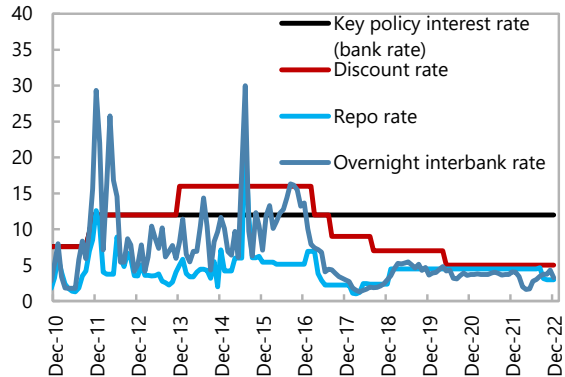
Government bond yields have fallen across the yield curve...

Government Bond Rates
(Monthly)
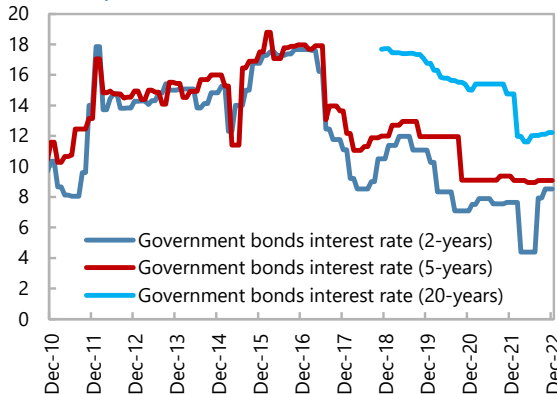
...and indicators of dollarization remain high.

Dollarization
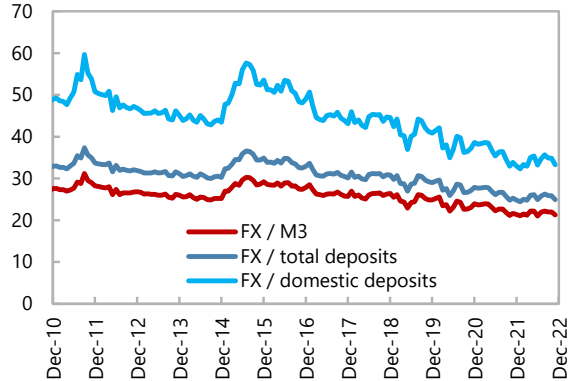
Sources: Tanzanian authorities; and IMF staff calculations.

Figure 6. Financial Sector Developments

NPLs remain elevated but have come down in recent years.

Non-Performing Loans
(Percent)
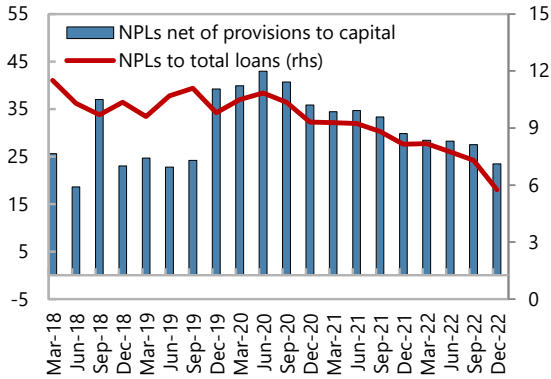
The banking sector is on aggregate well capitalized, and not over leveraged.

Capital Adequacy and Leverage
(Percent)
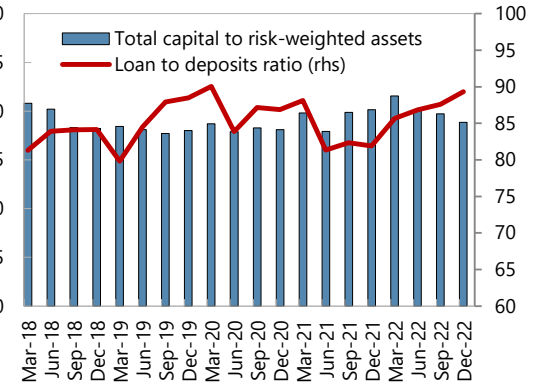
Profitability increased in recent years, while the share of interest income declined recently.

Profitability and Source of Income
(Percent of total assets)
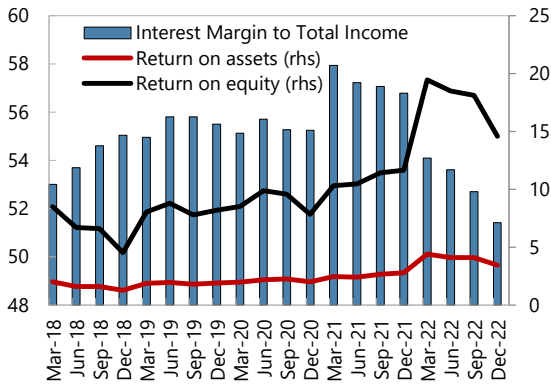
Liquidity in the sector remains adequate.

Liquid Assets Indicators
(Percent)
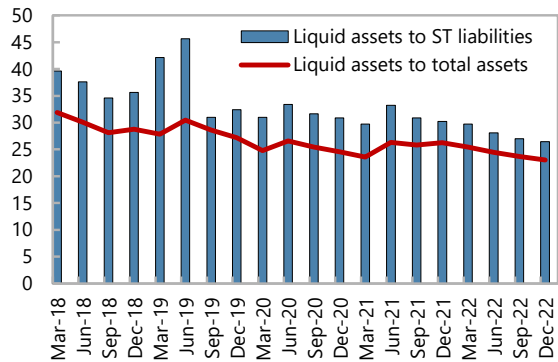
Foreign exchange risks have declined recently.

Banks Exposure to FX
(Percent of total assets)
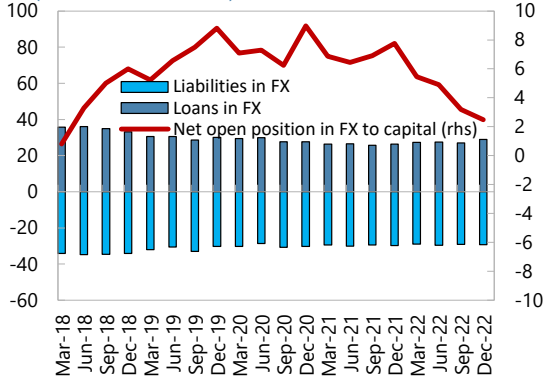
The share of loans in assets picked up recently, and large exposures have increased notably.

Asset Quality and Composition
(Number, percent of total assets)
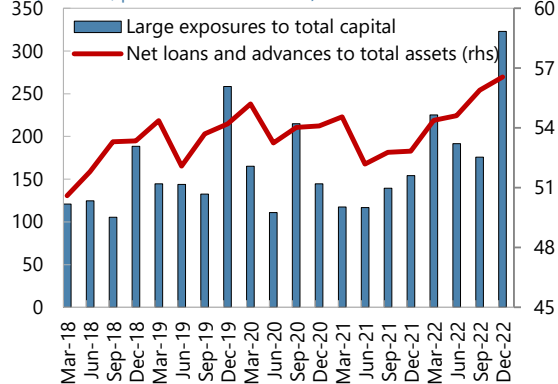
Sources: IMF Financial Soundness Indicators; and IMF staff calculations.

Table 1. Tanzania: Selected Economic Indicators, 2018/19–2027/28[1]

	2018/19 Act.	2019/20 Act.	2020/21 Act.	2021/22 Prel.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
	(Percent change, unless otherwise indicated)									
Output, Prices and Exchange Rates										
Real GDP[2]	7.0	5.9	4.9	4.8	5.0	5.7	6.1	6.5	6.9	7.0
GDP deflator	112.7	115.2	118.1	122.5	129.5	136.4	142.6	148.8	155.7	163.3
CPI (period average)[3]	3.2	3.5	3.3	4.0	5.0	4.4	4.0	4.0	4.0	4.0
CPI (end of period)[3]	3.7	3.2	3.6	4.4	5.3	4.4	4.1	4.0	4.1	4.1
Core inflation (end of period)[3]	2.8	2.4	2.4	3.1	...	...	...	...	...	...
Terms of trade (deterioration, -)	-3.4	11.8	5.0	-8.1	1.3	7.1	1.8	1.4	1.4	1.4
Exchange rate (period average, TSh/USD)	2,294	2,302	2,310	2,310	...	...	...	...	...	...
Real effective exchange rate (end of period; depreciation = -)	3.3	1.9	2.6	2.3	...	...	...	...	...	...
Money and Credit										
Broad money (M3, end of period)	7.7	9.5	11.7	6.5	10.7	11.0	11.1	11.0	11.5	12.0
Average reserve money	3.2	9.3	2.4	12.8	11.0	10.5	11.1	11.0	11.0	11.0
Credit to the private sector (end of period)	7.6	5.5	3.6	19.4	19.8	12.0	12.0	12.0	12.5	12.5
Overall T-bill interest rate (percent; end of period)	8.7	3.0	4.9	4.6	...	...	...	...	...	...
Non-performing loans (percent of total loans, end of period)	10.7	10.8	9.2	8.8	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Central Government Operations										
Revenues and grants	14.1	15.1	13.6	14.8	15.0	15.5	15.8	16.0	16.0	16.0
Of which: grants	0.3	0.6	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.5
Expenditures	16.7	16.6	17.0	18.2	18.2	18.1	18.3	18.5	18.5	18.5
Current	10.9	10.3	9.9	9.7	10.7	11.4	11.6	12.1	12.1	12.1
Development	5.8	6.3	7.1	8.5	7.5	6.8	6.6	6.4	6.4	6.4
Overall balance	-3.1	-1.9	-3.8	-3.5	-3.1	-2.7	-2.5	-2.5	-2.5	-2.5
Excluding grants	-3.5	-2.5	-4.3	-3.9	-3.7	-3.2	-3.0	-2.9	-2.9	-3.0
Primary balance	-1.4	-0.3	-2.2	-1.8	-1.6	-0.7	-0.6	-0.5	-0.5	-0.5
Excluding grants	-1.7	-0.9	-2.7	-2.3	-2.2	-1.2	-1.1	-0.9	-0.9	-0.9
Public Debt										
Gross nominal debt	39.7	38.4	41.3	42.0	40.9	39.2	37.8	36.6	35.6	34.5
of which : external debt[4]	28.7	27.7	29.2	27.9	26.9	25.8	24.6	23.0	21.6	20.4
Investment and Savings										
Investment	39.0	39.5	39.9	38.6	37.1	37.2	37.8	38.8	39.4	39.5
Government[5]	12.2	12.9	13.0	13.0	12.3	11.3	10.9	10.7	10.6	10.6
Nongovernment[6]	26.8	26.6	26.9	25.6	24.8	25.9	26.9	28.1	28.8	29.0
Domestic savings	35.6	37.8	37.8	34.0	33.0	33.8	34.8	36.0	36.7	37.0
External Sector										
Exports (goods and services)	14.8	14.8	13.0	15.0	15.3	15.3	15.4	15.4	15.4	15.4
Imports (goods and services)	17.5	15.9	14.5	18.7	18.9	17.8	17.4	17.3	17.2	17.1
Current account balance	-3.4	-1.7	-2.1	-4.6	-4.4	-3.2	-3.0	-2.8	-2.7	-2.5
Excluding current transfers	-3.5	-2.0	-2.2	-4.7	-4.5	-3.3	-3.0	-2.8	-2.7	-2.6
Gross international reserves										
In billions of U.S. dollars	4.4	5.2	5.2	5.1	5.1	5.7	6.4	7.2	8.1	8.9
of which : SDR allocation				0.5						
In months of next year's imports	5.3	6.3	4.6	4.0	3.8	4.0	4.2	4.3	4.4	4.4
Memorandum Items:										
Calendar year real GDP growth (percent)[7]	7.0	4.8	4.9	4.7	5.2	6.1	6.2	6.8	7.0	7.0
GDP at current prices										
Trillions of Tanzanian shillings	134.3	145.4	156.3	170.0	188.6	210.0	233.0	258.9	289.7	325.3
Millions of U.S. dollars	58,700	63,125	67,744	73,501	81,251	89,807	98,384	107,358	117,669	129,424
GDP per capita (in U.S. dollars)	1,057	1,104	1,151	1,212	1,301	1,396	1,485	1,574	1,675	1,789
Population (million)	55.5	57.2	58.9	60.6	62.4	64.3	66.2	68.2	70.2	72.3

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 third quarter of 2022.

[3] The inflation index uses price data collected from all 26 regional headquarters of the statistical office in Tanzania Mainland.

[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 2022.

[7] Fiscal year 2020/21 corresponds to calendar year 2021.

Table 2a. Tanzania: Central Government Operations, 2018/19–2027/28
(Trillions of Tanzanian Shillings)

	2018/19 Act.	2019/20 Act.	2020/21 Act.	2021/22 Prel.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
					(Trillions of Tanzanian Shillings)					
Total Revenue	18.5	21.1	20.6	24.4	27.2	31.4	35.6	40.2	45.0	50.5
Tax revenue	15.4	17.5	17.3	20.0	21.6	25.5	29.0	32.9	36.8	41.4
Import duties	1.2	1.3	1.3	1.5	1.7	1.9	2.3	2.7	3.0	3.4
Value-added tax	4.7	5.0	5.0	5.3	6.1	6.9	7.9	9.0	10.0	11.3
Excises	2.4	2.5	2.7	2.9	3.0	3.9	4.3	4.8	5.3	6.0
Income taxes	5.1	6.5	6.0	7.5	7.7	8.9	10.0	11.3	12.6	14.2
Other taxes	2.0	2.2	2.3	2.8	3.2	3.9	4.5	5.2	5.8	6.5
Nontax revenue	3.1	3.6	3.3	4.4	5.6	5.9	6.5	7.3	8.1	9.1
Total Expenditure	22.4	24.1	26.6	30.9	34.3	38.1	42.5	47.8	53.5	60.1
Recurrent expenditure	14.6	14.9	15.5	16.5	20.2	23.9	27.1	31.2	35.0	39.4
Wages and salaries	5.7	5.9	6.1	6.8	8.6	9.6	11.1	13.0	14.6	16.4
Interest payments	2.4	2.3	2.5	2.8	2.9	4.2	4.4	5.2	5.8	6.6
Domestic	1.6	1.5	1.8	2.0	1.8	2.8	3.0	3.2	3.7	4.3
Foreign[1]	0.8	0.8	0.7	0.8	1.1	1.4	1.4	1.9	2.1	2.3
Goods and services and transfers	6.5	6.7	6.8	6.9	8.7	10.1	11.5	13.0	14.6	16.4
Development expenditure	7.8	9.2	11.1	14.4	14.1	14.2	15.4	16.6	18.5	20.7
Domestically financed	5.8	6.1	8.6	10.9	11.4	10.9	11.9	12.7	14.1	15.9
Foreign (concessionally) financed	2.0	3.1	2.4	3.4	2.7	3.3	3.5	3.9	4.3	4.8
Grants	0.5	0.9	0.7	0.7	1.1	1.1	1.1	1.2	1.4	1.6
Program (including basket grants)[2]	0.2	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Project	0.3	0.5	0.5	0.5	1.0	1.1	1.1	1.2	1.3	1.5
Statistical Discrepancy	-0.8	-0.6	-0.7	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-4.2	-2.7	-6.0	-6.0	-5.9	-5.6	-5.8	-6.4	-7.1	-8.1
Overall balance excluding grants	-4.7	-3.7	-6.7	-6.7	-7.0	-6.7	-7.0	-7.6	-8.5	-9.6
Primary balance (cash basis)	-1.8	-0.4	-3.5	-3.1	-3.0	-1.4	-1.4	-1.2	-1.3	-1.5
Primary balance excluding grants	-2.3	-1.4	-4.2	-3.8	-4.1	-2.5	-2.6	-2.4	-2.7	-3.0
Financing	4.2	2.7	6.0	6.0	4.0	3.5	4.4	6.0	7.1	8.1
Foreign (net)	1.2	2.4	2.7	3.1	1.8	1.6	1.8	1.6	2.0	2.5
Foreign loans	2.8	4.4	5.1	5.9	4.7	4.3	4.8	5.3	5.9	6.7
Program (including basket loans)[2]	0.2	0.3	0.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Of which: basket loans	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project	1.5	2.3	1.7	2.8	1.7	2.2	2.4	2.7	3.0	3.4
Nonconcessional borrowing	1.1	1.8	3.1	1.8	3.0	2.1	2.4	2.6	2.9	3.3
Amortization	-1.6	-2.0	-2.4	-2.8	-2.9	-2.8	-3.0	-3.7	-3.9	-4.1
Domestic (net)	3.0	0.4	3.4	2.9	2.3	1.9	2.6	4.4	5.1	5.6
Bank financing	2.4	-0.4	1.8	1.8	2.0	1.7	1.9	3.1	3.7	4.0
Nonbank financing	0.7	0.8	1.6	1.0	0.2	0.2	0.7	1.3	1.4	1.6
Financing Gap	0.0	0.0	0.0	0.0	-1.9	-2.1	-1.5	-0.4	0.0	0.0
External sources of financing the gap	0.0	0.0	0.0	0.0	1.2	1.4	0.7	0.0	0.0	0.0
African Development Bank	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	1.2	1.2	0.0	0.0	0.0	0.0
Other donors	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.4	0.0	0.0
IMF-ECF	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.4	0.0	0.0
Remaining Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Domestic arrears stock (verified claims)	...	...	...	3.0	2.0	1.4	0.8	0.4	0.0	0.0
Priority social spending[3]	9.6	9.4	10.1	10.9	12.7	14.2	16.0	18.1	20.2	22.7
Nominal GDP	134.3	145.4	156.3	170.0	188.6	210.0	233.0	258.9	289.7	325.3

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] Priority social spending comprises government spending (recurrent and development) to on education, health, water, and rural roads, including transfers to local governments.

Table 2b. Tanzania: Central Government Operations, 2018/19–2027/28
(Percent of GDP)

	2018/19 Act.	2019/20 Act.	2020/21 Act.	2021/22 Prel.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
	(In percent of GDP)									
Total Revenue	13.8	14.5	13.2	14.4	14.4	14.9	15.3	15.5	15.5	15.5
Tax revenue	11.5	12.0	11.1	11.8	11.5	12.1	12.5	12.7	12.7	12.7
Import duties	0.9	0.9	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Value-added tax	3.5	3.4	3.2	3.1	3.2	3.3	3.4	3.5	3.5	3.5
Excises	1.8	1.7	1.7	1.7	1.6	1.8	1.8	1.8	1.8	1.8
Income taxes	3.8	4.5	3.8	4.4	4.1	4.2	4.3	4.4	4.4	4.4
Other taxes	1.5	1.5	1.4	1.7	1.7	1.8	1.9	2.0	2.0	2.0
Nontax revenue	2.3	2.5	2.1	2.6	3.0	2.8	2.8	2.8	2.8	2.8
Total Expenditure	16.7	16.6	17.0	18.2	18.2	18.1	18.3	18.5	18.5	18.5
Recurrent expenditure	10.9	10.3	9.9	9.7	10.7	11.4	11.6	12.1	12.1	12.1
Wages and salaries	4.2	4.1	3.9	4.0	4.6	4.6	4.8	5.0	5.0	5.0
Interest payments	1.8	1.6	1.6	1.7	1.5	2.0	1.9	2.0	2.0	2.0
Domestic	1.2	1.0	1.2	1.2	0.9	1.3	1.3	1.3	1.3	1.3
Foreign[1]	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.8	0.7	0.7
Goods and services and transfers	4.8	4.6	4.4	4.0	4.6	4.8	5.0	5.0	5.0	5.0
Development expenditure	5.8	6.3	7.1	8.5	7.5	6.8	6.6	6.4	6.4	6.4
Domestically financed	4.3	4.2	5.5	6.4	6.0	5.2	5.1	4.9	4.9	4.9
Foreign (concessionally) financed	1.5	2.1	1.6	2.0	1.4	1.6	1.5	1.5	1.5	1.5
Grants	0.3	0.6	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.5
Program (including basket grants) [2]	0.1	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Project	0.2	0.3	0.3	0.3	0.6	0.5	0.5	0.5	0.5	0.5
Statistical Discrepancy	-0.6	-0.4	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-3.1	-1.9	-3.8	-3.5	-3.1	-2.7	-2.5	-2.5	-2.5	-2.5
Overall balance excluding grants	-3.5	-2.5	-4.3	-3.9	-3.7	-3.2	-3.0	-2.9	-2.9	-3.0
Primary balance (cash basis)	-1.4	-0.3	-2.2	-1.8	-1.6	-0.7	-0.6	-0.5	-0.5	-0.5
Primary balance excluding grants	-1.7	-0.9	-2.7	-2.3	-2.2	-1.2	-1.1	-0.9	-0.9	-0.9
Financing	3.1	1.9	3.8	3.5	2.1	1.7	1.9	2.3	2.5	2.5
Foreign (net)	0.9	1.6	1.7	1.8	0.9	0.7	0.8	0.6	0.7	0.8
Foreign loans	2.1	3.0	3.2	3.5	2.5	2.1	2.0	2.0	2.0	2.0
Program (including basket loans)[2]	0.1	0.2	0.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Of which: basket loans	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project	1.1	1.6	1.1	1.7	0.9	1.1	1.0	1.0	1.0	1.0
Nonconcessional borrowing	0.9	1.3	2.0	1.1	1.6	1.0	1.0	1.0	1.0	1.0
Amortization	-1.2	-1.4	-1.6	-1.7	-1.5	-1.3	-1.3	-1.4	-1.4	-1.3
Domestic (net)	2.3	0.3	2.1	1.7	1.2	0.9	1.1	1.7	1.8	1.7
Bank financing	1.8	-0.3	1.2	1.1	1.1	0.8	0.8	1.2	1.3	1.2
Nonbank financing	0.5	0.5	1.0	0.6	0.1	0.1	0.3	0.5	0.5	0.5
Financing Gap	0.0	0.0	0.0	0.0	-1.0	-1.0	-0.6	-0.1	0.0	0.0
External sources of financing the gap	0.0	0.0	0.0	0.0	0.6	0.7	0.3	0.0	0.0	0.0
African Development Bank	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.0	0.0	0.0
Other donors	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.4	0.3	0.3	0.1	0.0	0.0
IMF-ECF	0.0	0.0	0.0	0.0	0.4	0.3	0.3	0.1	0.0	0.0
Remaining Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Total public debt	39.7	38.4	41.3	42.0	40.9	39.2	37.8	36.6	35.6	34.5
Domestic arrears stock (verified claims)	...	...	...	1.8	1.1	0.7	0.3	0.2	0.0	0.0
Priority social spending[3]	7.1	6.4	6.5	6.4	6.7	6.8	6.9	7.0	7.0	7.0

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] Priority social spending comprises central government spending (recurrent and development) on education, health, water, and rural roads, including transfers to local governments.

Table 3a. Tanzania: Balance of Payments, 2018/19–2027/28

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

	2018/19 Act.	2019/20 Act.	2020/21 Act.	2021/22 Prel.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
			(Millions of U.S. dollars, unless otherwise indicated)							
Current Account	-2,022	-1,099	-1,402	-3,389	-3,570	-2,885	-2,922	-2,999	-3,132	-3,256
Trade balance	-4,032	-2,466	-2,100	-4,616	-5,373	-5,164	-5,178	-5,498	-5,970	-6,438
Exports, f.o.b.	4,539	5,869	6,446	7,097	7,745	8,525	9,415	10,330	11,283	12,437
Traditional agricultural products	513	996	578	738	832	870	944	1,029	1,132	1,252
Gold	1,745	2,591	3,029	2,696	2,998	3,348	3,715	4,016	4,266	4,492
Other	2,281	2,281	2,839	3,663	3,915	4,307	4,757	5,286	5,884	6,692
Imports, f.o.b	-8,572	-8,335	-8,547	-11,713	-13,118	-13,689	-14,594	-15,828	-17,253	-18,875
Of which: Oil	-1,745	-1,547	-1,583	-2,606	-3,093	-2,640	-2,642	-2,696	-2,763	-2,837
Services (net)	2,423	1,798	1,070	1,917	2,451	2,877	3,212	3,529	3,887	4,252
Of which: Travel receipts	2,528	1,899	834	1,791	2,396	2,710	2,947	3,180	3,446	3,645
Income (net)	-789	-895	-823	-1,279	-1,068	-1,018	-1,376	-1,472	-1,533	-1,602
Of which : Interest on public debt	-285	-499	-264	-161	-468	-582	-815	-858	-858	-858
Current transfers (net)	376	464	452	590	419	420	421	442	484	533
Of which : Official transfers	58	192	64	81	78	79	79	55	55	55
Capital Account	368	362	313	296	584	589	594	641	694	748
Of which : Project grants[1]	304	289	221	26	511	512	513	554	601	655
Financial Account	1,281	1,972	1,363	2,137	2,166	1,969	2,467	2,954	3,374	3,423
Foreign Direct Investment	981	951	803	1,268	1,300	1,482	1,771	2,040	2,353	2,653
Public Sector, net	558	1,083	702	616	1,375	1,280	882	503	715	955
Program loans	75	79	65	-100	606	606	313	20	21	21
Non-concessional borrowing	503	906	950	783	1,307	899	1,000	1,091	1,196	1,315
Project loans	633	984	723	1,220	712	953	1,014	1,106	1,212	1,334
Scheduled amortization[2]	-653	-886	-1,035	-1,387	-1,249	-1,179	-1,445	-1,714	-1,714	-1,714
Commercial Banks, net	-63	66	-64	84	241	73	122	-360	-423	-423
Other private inflows	-194	-129	-76	-374	-751	-867	-308	771	729	237
Errors and Omissions [3]	-624	-423	-251	-29	0	0	0	0	0	0
Overall Balance	-997	812	23	-986	-821	-328	140	596	936	916
Financing	997	-814	-45	120	15	-580	-755	-747	-936	-916
Change in BoT reserve assets (increase= -)	1,082	-783	-45	120	15	-580	-755	-747	-882	-808
Use of Fund credit	-85	-32	0.0	0.0	0.0	0.0	0.0	0.0	-54	-108
Financing Gap	0	3	23	866	806	908	615	152	0	0
Exceptional financing	0	3	23	866	806	908	615	152	0	0
IMF Financing	0	0	0	566	306	302	302	152	0	0
of which: IMF ECF					306	302	302	152		
IMF RCF				566						
CCRT debt relief	0	3	23	0	0	0	0	0	0	0
World Bank	0	0	0	0	500	500	0	0	0	0
Global Fund	0	0	0	113	0	0	0	0	0	0
Other donors	0	0	0	187	0	106	313	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum Items:										
Gross official reserves (BoT)	4,402	5,185	5,230	5,110	5,095	5,675	6,431	7,178	8,060	8,868
of which: SDR allocation				543						
Months of imports of goods and services	5.3	6.3	4.6	4.0	3.8	4.0	4.2	4.3	4.4	4.4
Exports of goods (percent of GDP)	7.7	9.3	9.5	9.7	9.5	9.5	9.6	9.6	9.6	9.6
Exports excl. gold (percent of GDP)	4.8	5.2	5.0	6.0	5.8	5.8	5.8	5.9	6.0	6.1
Imports of goods and services (percent of GDP)	-17.5	-15.9	-14.5	-18.7	-18.9	-17.8	-17.4	-17.3	-17.2	-17.1
Imports of goods (percent of GDP)	-14.6	-13.2	-12.6	-15.9	-16.1	-15.2	-14.8	-14.7	-14.7	-14.6
Imports excl. oil (percent of GDP)	-11.6	-10.8	-10.3	-12.4	-12.3	-12.3	-12.1	-12.2	-12.3	-12.4
Current account deficit (percent of GDP)	-3.4	-1.7	-2.1	-4.6	-4.4	-3.2	-3.0	-2.8	-2.7	-2.5
Foreign direct investment (Percent of GDP)	1.7	1.5	1.2	1.7	1.6	1.7	1.8	1.9	2.0	2.1
Foreign program and project assistance (percent of GDP)	1.8	2.4	1.6	1.7	2.3	2.4	2.0	1.6	1.6	1.6
Nominal GDP	58,700	63,125	67,744	73,501	81,251	89,807	98,384	107,358	117,669	129,424

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 3b. Tanzania: Balance of Payments, 2018/19–2027/28
(Percent of GDP, unless otherwise indicated)

	2018/19 Act.	2019/20 Act.	2020/21 Act.	2021/22 Prel.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
				(Percent of GDP, unless otherwise indicated)						
Current Account	-3.4	-1.7	-2.1	-4.6	-4.4	-3.2	-3.0	-2.8	-2.7	-2.5
Trade balance	-6.9	-3.9	-3.1	-6.3	-6.6	-5.7	-5.3	-5.1	-5.1	-5.0
Exports, f.o.b.	7.7	9.3	9.5	9.7	9.5	9.5	9.6	9.6	9.6	9.6
Traditional agricultural products	0.9	1.6	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Gold	3.0	4.1	4.5	3.7	3.7	3.7	3.8	3.7	3.6	3.5
Other	3.9	3.6	4.2	5.0	4.8	4.8	4.8	4.9	5.0	5.2
Imports, f.o.b	-14.6	-13.2	-12.6	-15.9	-16.1	-15.2	-14.8	-14.7	-14.7	-14.6
Of which: Oil	-3.0	-2.5	-2.3	-3.5	-3.8	-2.9	-2.7	-2.5	-2.3	-2.2
Services (net)	4.1	2.8	1.6	2.6	3.0	3.2	3.3	3.3	3.3	3.3
Of which: Travel receipts	4.3	3.0	1.2	2.4	2.9	3.0	3.0	3.0	2.9	2.8
Income (net)	-1.3	-1.4	-1.2	-1.7	-1.3	-1.1	-1.4	-1.4	-1.3	-1.2
Of which : Interest on public debt	-0.5	-0.8	-0.4	-0.2	-0.6	-0.6	-0.8	-0.8	-0.7	-0.7
Current transfers (net)	0.6	0.7	0.7	0.8	0.5	0.5	0.4	0.4	0.4	0.4
Of which : Official transfers	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Capital Account	0.6	0.6	0.5	0.4	0.7	0.7	0.6	0.6	0.6	0.6
Of which : Project grants[1]	0.5	0.5	0.3	0.0	0.6	0.6	0.5	0.5	0.5	0.5
Financial Account	2.2	3.1	2.0	2.9	2.7	2.2	2.5	2.8	2.9	2.6
Foreign Direct Investment	1.7	1.5	1.2	1.7	1.6	1.7	1.8	1.9	2.0	2.1
Public Sector, net	0.9	1.7	1.0	0.8	1.7	1.4	0.9	0.5	0.6	0.7
Program loans	0.1	0.1	0.1	-0.1	0.7	0.7	0.3	0.0	0.0	0.0
Non-concessional borrowing	0.9	1.4	1.4	1.1	1.6	1.0	1.0	1.0	1.0	1.0
Project loans	1.1	1.6	1.1	1.7	0.9	1.1	1.0	1.0	1.0	1.0
Scheduled amortization[2]	-1.1	-1.4	-1.5	-1.9	-1.5	-1.3	-1.5	-1.6	-1.5	-1.3
Commercial Banks, net	-0.1	0.1	-0.1	0.1	0.3	0.1	0.1	-0.3	-0.4	-0.3
Other private inflows	-0.3	-0.2	-0.1	-0.5	-0.9	-1.0	-0.3	0.7	0.6	0.2
Errors and Omissions [3]	-1.1	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-1.7	1.3	0.0	-1.3	-1.0	-0.4	0.1	0.6	0.8	0.7
Financing	1.7	-1.3	-0.1	0.2	0.0	-0.6	-0.8	-0.7	-0.8	-0.7
Change in BoT reserve assets (increase= -)	1.8	-1.2	-0.1	0.2	0.0	-0.6	-0.8	-0.7	-0.7	-0.6
Use of Fund credit	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Financing Gap	0.0	0.0	0.0	1.2	1.0	1.0	0.6	0.1	0.0	0.0
Exceptional financing	0.0	0.0	0.0	1.2	1.0	1.0	0.6	0.1	0.0	0.0
IMF Financing	0.0	0.0	0.0	0.8	0.4	0.3	0.3	0.1	0.0	0.0
of which: IMF ECF					0.4	0.3	0.3	0.1		
IMF RCF				0.8						
CCRT debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.0	0.0	0.0
Global Fund	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other donors	0.0	0.0	0.0	0.3	0.0	0.1	0.3	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)	7.5	8.2	7.7	7.0	6.3	6.3	6.5	6.7	6.8	6.9
of which: SDR allocation				0.7						
Months of imports of goods and services	5.3	6.3	4.6	4.0	3.8	4.0	4.2	4.3	4.4	4.4
Exports of goods	7.7	9.3	9.5	9.7	9.5	9.5	9.6	9.6	9.6	9.6
Exports excl. gold	4.8	5.2	5.0	6.0	5.8	5.8	5.8	5.9	6.0	6.1
Imports of goods and services	-17.5	-15.9	-14.5	-18.7	-18.9	-17.8	-17.4	-17.3	-17.2	-17.1
Imports of goods	-14.6	-13.2	-12.6	-15.9	-16.1	-15.2	-14.8	-14.7	-14.7	-14.6
Imports excl. oil	-11.6	-10.8	-10.3	-12.4	-12.3	-12.3	-12.1	-12.2	-12.3	-12.4
Current account deficit	-3.4	-1.7	-2.1	-4.6	-4.4	-3.2	-3.0	-2.8	-2.7	-2.5
Foreign direct investment	1.7	1.5	1.2	1.7	1.6	1.7	1.8	1.9	2.0	2.1
Foreign program and project assistance	1.8	2.4	1.6	1.7	2.3	2.4	2.0	1.6	1.6	1.6
Nominal GDP (Millions of U.S. dollars)	58,700	63,125	67,744	73,501	81,251	89,807	98,384	107,358	117,669	129,424

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: Central Bank and Depository Corporations Survey, 2019–2022

| | 2019 June | 2019 Dec | 2020 June | 2020 Dec | 2021 Mar | 2021 June | 2021 Sep | 2021 Dec | 2022 Mar | 2022 Jun | 2022 Sep | 2022 Dec. |
	Act.	Act.	Act.	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	9.4	12.1	11.3	10.3	11.1	11.7	14.0	13.2	11.6	10.6	10.3	10.7
Net international reserves [1]	9.9	12.6	11.8	10.9	11.6	12.1	15.3	14.5	12.2	11.8	11.4	11.4
(Billions of U.S. dollars) [1]	4.3	5.5	5.2	4.7	5.0	5.3	6.7	6.3	5.3	5.1	5.0	4.9
Net non-reserve foreign assets	-0.4	-0.6	-0.6	-0.6	-0.5	-0.4	-1.4	-1.3	-0.6	-1.2	-1.1	-0.7
Net Domestic Assets	-1.5	-4.6	-3.0	-3.1	-3.9	-3.1	-5.9	-4.8	-3.2	-1.3	-0.8	-1.0
Net credit to government	1.6	-0.6	0.7	0.4	0.1	1.8	-0.4	0.7	0.9	2.2	3.0	2.2
Of which: Excluding counterpart of liquidity paper	2.0	-0.6	0.8	0.5	0.2	1.9	-0.3	0.8	0.9	2.2	3.0	2.2
Other items (net)	-3.2	-4.1	-3.8	-3.6	-4.1	-5.1	-5.6	-5.7	-4.2	-3.6	-3.9	-3.3
REPOs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.3
Other items, excluding REPOs (net)	-3.2	-4.1	-3.8	-3.6	-4.1	-5.1	-5.6	-5.7	-4.2	-3.6	-3.3	-3.1
Credit to other economic sectors	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Reserve Money	8.0	7.5	8.3	7.2	7.2	8.6	8.1	8.4	8.4	9.3	9.6	9.7
Currency outside banks	4.1	4.2	4.2	4.5	4.3	4.7	5.0	5.0	4.8	5.3	5.8	5.7
Bank reserves	3.8	3.2	4.1	2.7	2.9	3.9	3.1	3.4	3.6	3.9	3.7	4.0
Currency in banks	0.8	1.0	0.9	1.0	0.9	0.8	0.9	1.0	0.9	1.0	1.0	1.0
Deposits	3.0	2.2	3.1	1.7	2.0	3.0	2.3	2.4	2.7	2.9	2.7	3.0
Required reserves	2.3	2.4	2.5	2.4	2.4	2.7	2.6	2.7	2.7	2.9	3.1	3.2
Excess reserves	0.7	-0.2	0.7	-0.8	-0.4	0.4	-0.4	-0.3	0.0	0.0	-0.4	-0.2
Memorandum Items:												
Average reserve money	7.2	7.5	7.9	7.5	7.2	8.0	8.0	8.8	8.6	9.1	9.8	9.5
Depository Corporations Survey												
Net Foreign Assets	9.6	12.0	11.3	10.7	11.3	12.1	14.1	14.0	11.8	10.5	9.7	9.4
Bank of Tanzania [1]	9.4	12.1	11.3	10.3	11.1	11.7	14.0	13.2	11.6	10.6	10.3	10.7
Commercial banks	0.2	0.0	0.0	0.4	0.2	0.4	0.2	0.7	0.2	-0.1	-0.6	-1.3
Net Domestic Assets	17.6	16.3	18.6	19.2	18.9	21.2	19.0	20.6	21.9	25.0	28.0	29.1
Domestic credit	25.1	23.6	25.7	26.1	26.2	28.2	27.0	30.0	31.4	34.1	36.1	37.6
Credit to government (net)	6.2	3.9	5.8	5.8	5.8	7.6	5.8	7.7	8.2	9.5	10.3	10.2
Credit to nongovernment sector	18.9	19.7	19.9	20.3	20.5	20.6	21.1	22.3	23.2	24.6	25.8	27.4
Other items (net)	-7.5	-7.3	-7.1	-6.9	-7.4	-7.0	-7.9	-9.4	-9.5	-9.1	-8.1	-8.4
M3	27.2	28.3	29.8	29.9	30.2	33.3	33.2	34.6	33.8	35.5	37.7	38.6
Foreign currency deposits	6.2	7.0	6.6	6.9	7.2	7.7	7.5	7.5	7.2	7.9	8.4	8.2
M2	21.0	21.3	23.2	23.0	23.0	25.7	25.6	27.1	26.5	27.6	29.3	30.4
Currency in circulation	4.1	4.2	4.2	4.5	4.3	4.7	5.0	5.0	4.8	5.3	5.8	5.7
Deposits (TSh)	16.9	17.1	19.0	18.5	18.7	21.0	20.7	22.1	21.7	22.3	23.5	24.7
Memorandum Items:	(12-month percent change, unless otherwise indicated)											
M3 growth	7.7	9.6	9.5	5.7	6.8	11.7	12.7	15.5	11.9	6.5	13.6	11.6
M3 (percent of GDP)	20.3	21.1	20.5	20.6	19.3	21.3	21.2	22.1	19.9	20.9	22.2	22.7
Private sector credit growth	7.6	11.1	5.5	3.1	2.3	3.6	4.5	10.0	13.4	19.4	22.0	22.5
Private sector credit (percent of GDP)	14.0	13.5	13.7	14.0	14.1	14.2	14.5	15.4	16.0	16.9	17.7	18.8
Velocity of money (nominal GDP/ M3)	5.2	4.8	4.8	4.7	4.7	4.4	5.0	4.0	4.0	5.0	5.1	5.1
Average reserve money growth	3.2	8.2	9.3	0.4	3.0	2.4	8.6	16.6	20.6	12.8	22.3	8.1
Reserve money multiplier (M3/average reserve money)	3.8	3.8	3.8	4.0	4.2	4.1	4.1	3.9	3.9	3.9	3.8	4.1
Nonbank financing of the government (net) [2]	0.7	0.6	0.8	0.8	1.0	1.5	-1.5	-1.2	-1.1	-2.1	-3.3	-4.0
Bank financing of the government (net) [2]	2.4	-2.3	-0.4	0.0	0.0	1.8	0.0	1.9	2.4	3.7	4.5	4.4
Bank and nonbank financing of the government (net) [2]	3.0	-1.7	0.4	0.8	0.9	3.4	-1.5	0.7	1.3	1.5	1.1	0.4

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, 2019–2022

	2019				2020				2021				2022			
	Mar	June	Sept	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	(Percent, end of period)															
Capital Adequacy																
Total capital to risk-weighted assets	18.4	18.1	17.7	18.0	18.7	17.9	18.3	18.1	19.8	17.9	19.9	20.1	21.6	20.2	19.7	18.9
Total capital to total assets	13.3	12.7	12.9	13.0	13.8	12.8	13.2	13.2	13.8	12.9	12.8	13.1	14.3	13.5	13.2	12.9
Asset Composition and Quality																
Net loans and advances to total assets	54.4	52.1	53.7	54.2	55.2	53.3	54.0	54.1	54.6	52.2	52.8	52.8	54.4	54.6	55.9	56.6
Sectoral distribution of loans																
Personal	28.6	29.6	29.9	28.5	29.9	31.4	32.0	33.9	35.1	35.5	36.6	36.4	38.9	38.2	38.6	38.2
Trade	18.2	18.1	17.4	17.5	17.5	16.5	15.7	15.2	15.3	15.5	16.5	16.5	16.5	16.4	15.7	16.5
Manufacturing and mining	14.2	13.8	13.5	13.0	12.8	13.1	12.0	11.4	11.7	11.9	11.7	11.6	12.8	12.8	13.5	12.5
Agricultural production	8.5	8.7	9.0	9.4	9.0	7.9	8.4	8.5	7.9	6.8	6.6	7.1	7.6	8.3	8.2	8.7
Transport and communication	5.3	5.2	5.1	5.5	5.5	5.7	5.8	5.7	5.4	5.3	5.0	4.7	4.8	4.5	4.6	4.5
Real Estate	4.8	4.5	4.4	4.2	3.7	3.8	3.9	3.8	1.3	3.7	3.3	3.2	3.2	3.0	3.0	2.9
Building and construction	4.5	4.5	5.7	5.8	4.4	5.4	5.6	5.2	5.0	4.9	4.7	4.6	4.7	4.6	4.6	4.4
Foreign exchange loans to total loans	30.6	30.6	28.6	30.0	29.4	29.9	27.6	27.6	26.4	26.5	25.7	26.4	27.3	27.5	27.1	28.9
Non-performing loans (NPLs) to total loans	9.6	10.7	11.1	9.8	10.5	10.8	10.4	9.3	9.3	9.2	8.8	8.2	8.2	7.8	7.3	5.8
NPLs net of provisions to capital	24.7	22.8	24.2	39.2	39.9	42.9	40.7	35.8	34.4	34.7	33.3	29.9	28.4	28.2	27.5	23.5
Large exposures to total capital	144.5	143.8	132.6	258.4	165.1	110.8	215.1	144.6	117.5	116.9	139.4	154.3	225.4	191.7	175.7	323.1
Net open positions in foreign exchange to total capital	5.2	6.6	7.5	8.8	7.1	7.3	6.2	9.0	6.9	6.5	6.9	7.8	5.5	4.9	3.2	2.5
Earnings and Profitability																
Return on assets	1.9	2.0	1.8	1.9	2.0	2.2	2.3	2.0	2.5	2.4	2.7	2.8	4.4	4.1	4.1	3.5
Return on equity	8.1	8.8	7.8	8.2	8.5	9.9	9.6	7.9	10.3	10.5	11.4	11.6	19.5	18.5	18.1	14.6
Interest margin to total income	55.0	55.8	55.8	55.5	55.1	55.7	55.3	55.2	57.9	57.2	57.1	56.8	54.1	53.6	52.7	51.4
Noninterest expenses to gross income	56.4	56.7	56.7	56.4	55.2	55.1	53.4	53.7	51.7	51.7	50.9	50.0	44.5	45.2	44.2	43.7
Personnel expenses to noninterest expenses	47.9	48.8	48.0	47.9	50.8	50.4	50.0	48.9	52.6	52.1	51.9	51.9	52.8	52.1	51.9	51.4
Liquidity																
Liquid assets to total assets	27.8	30.4	28.6	27.2	24.8	26.6	25.4	24.6	23.6	26.3	25.8	26.2	25.4	24.4	23.7	23.1
Liquid assets to total short term liabilities	42.1	45.7	31.0	32.4	31.0	33.4	31.6	30.9	29.7	33.2	30.9	30.2	29.7	28.1	27.0	26.4
Total loans to customer deposits	79.8	84.5	87.9	88.5	90.1	83.9	87.2	86.9	88.1	81.4	82.4	81.9	85.7	86.8	87.6	89.3
Foreign exchange liabilities to total liabilities	32.0	30.5	33.0	30.2	30.2	28.6	30.8	30.2	29.5	30.1	29.4	29.8	29.0	29.6	29.1	29.4

Source: Bank of Tanzania

Table 6. Tanzania: Capacity to Repay, 2022/23-2031/32[1]

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
IMF Obligations Based on Existing Credit	4.7	19.2	19.1	19.1	58.9	110.3	121.7	121.7	121.7	82.0
Principal (in millions of SDRs)	0.0	0.0	0.0	0.0	39.8	91.1	102.6	102.6	102.6	62.9
Charges/interest (in millions of SDRs)	4.7	19.2	19.1	19.1	19.1	19.2	19.1	19.1	19.1	19.2
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	53.6	122.9	138.4	138.4	138.4	84.8
Charges/interest (in millions of U.S. dollars)	6.3	25.5	25.5	25.7	25.8	25.8	25.7	25.8	25.8	25.8
IMF Obligations Based on Existing and Prospective Credit	4.7	19.2	19.1	19.1	58.9	110.3	155.7	201.1	246.5	218.1
Principal (in millions of SDRs)	0.0	0.0	0.0	0.0	39.8	91.1	136.6	182.0	227.3	198.9
Charges/interest (in millions of SDRs)	4.7	19.2	19.1	19.1	19.1	19.2	19.1	19.1	19.1	19.2
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	53.6	122.9	184.3	245.4	306.6	268.2
Charges/interest (in millions of U.S. dollars)	6.3	25.5	25.5	25.7	25.8	25.8	25.7	25.8	25.8	25.8
Total IMF Existing and Prospective Obligations										
In millions of SDRs	4.7	19.2	19.1	19.1	58.9	110.3	155.7	201.1	246.5	218.1
In millions of U.S. dollars	6.3	25.5	25.5	25.7	79.4	148.7	210.0	271.2	332.4	294.1
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2
In percent of exports of goods and services	0.1	0.2	0.2	0.2	0.4	0.7	1.0	1.1	1.3	1.0
In percent of government revenue	0.1	0.2	0.2	0.2	0.4	0.7	1.0	1.1	1.3	1.0
In percent of quota	1.2	4.8	4.8	4.8	14.8	27.7	39.1	50.6	62.0	54.8
In percent of gross international reserves	0.1	0.4	0.4	0.4	1.0	1.7	2.2	2.5	2.9	2.3
IMF Credit Outstanding Based on Existing and Prospective Drawings										
In millions of SDRs	626.5	853.3	1080.0	1193.4	1153.6	1062.5	925.9	743.9	516.5	317.6
In millions of U.S. dollars	835.6	1137.3	1445.3	1603.7	1555.7	1432.9	1248.6	1003.2	696.6	428.4
In percent of GDP	1.0	1.3	1.5	1.5	1.3	1.1	0.9	0.6	0.4	0.2
In percent of exports of goods and services	6.7	8.3	9.6	9.7	8.6	7.2	5.7	4.2	2.7	1.5
In percent of government revenue	7.1	8.5	9.6	9.6	8.5	7.1	5.7	4.2	2.7	1.5
In percent of quota	157.5	214.5	271.5	300.0	290.0	267.1	232.7	187.0	129.8	79.8
In percent of gross international reserves	16.4	20.0	22.5	22.3	19.3	16.2	12.8	9.4	6.0	3.4
Net Use of IMF Credit[1]	228.7	226.7	226.7	113.4	-39.8	-91.1	-136.6	-182.0	-227.3	-198.9
Disbursements (millions of SDRs)	228.7	226.7	226.7	113.4	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of SDRs)	0.0	0.0	0.0	0.0	39.8	91.1	136.6	182.0	227.3	198.9
Disbursements (millions of U.S. dollars)	305.0	302.2	303.4	152.3	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of U.S. dollars)	0.0	0.0	0.0	0.0	53.6	122.9	184.3	245.4	306.6	268.2
Memorandum Items:										
Exports of goods and services (millions of U.S. dollars)	12,438	13,743	15,123	16,567	18,122	19,920	21,872	23,891	25,974	28,174
Government revenue (millions of U.S. dollars)	11,729	13,435	15,039	16,673	18,272	20,096	22,061	24,096	26,196	28,416
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)	530.5	530.2	532.4	534.6	536.5	536.5	536.5	536.5	536.5	536.5
Gross international reserves (millions of U.S. dollars)	5,095	5,675	6,431	7,178	8,060	8,868	9,725	10,655	11,584	12,565
GDP (millions of U.S. dollars)	81,251	89,807	98,384	107,358	117,669	129,424	142,078	155,193	168,721	183,014
SDRs per U.S. dollar [2]	0.7	0.8	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] Total access under the ECF arrangement equal to 200 percent of quota.

[2] January 2023 WEO Update GAS projections.

Table 7. Tanzania: External Financing Requirements and Sources, 2021/22–2025/26
(Millions of U.S. dollars)

	2021/22 Est.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
Financing Needs	**3,269**	**3,555**	**3,466**	**3,677**	**3,746**
Current account deficit	3,389	3,570	2,885	2,922	2,999
Reserves accumulation (+=increase)	-120	-15	580	755	747
of which: SDR allocation	543				
Financing Sources	**2,432**	**2,749**	**2,558**	**3,062**	**3,595**
Capital account	296	584	589	594	641
Financial account	2,137	2,166	1,969	2,467	2,954
of which: FDI inflow	1,268	1,300	1,482	1,771	2,040
Net Errors and Omissions	-29	0	0	0	0
Financing Gap	**866**	**806**	**908**	**615**	**152**
Additional Financing Sources	**866**	**806**	**908**	**615**	**152**
IMF (ECF)	0	306	302	302	152
IMF (RCF)	566	0	0	0	0
IMF (CCRT)	0	0	0	0	0
World Bank	0	500	500	0	0
Global Fund	113	0	0	0	0
Other donors	187	0	106	313	0
Remaining Financing Gap	**0**	**0**	**0**	**0**	**0**

Sources: Tanzanian authorities and IMF staff estimates and projections.

Table 8. Tanzania: Proposed Access and Phasing Under the ECF Program

Availability Date	Condition for Disbursement	Percentage of quota[1]	SDRs (millions)	US dollars (millions)[2]	Tsh (billions)[3]	Percent of GDP
				Disbursements		
July 18, 2022	Approval of the ECF Arrangement	29.0	115.36	152.28	350.91	0.19
March 29, 2023	Observance of the PCs for end-December 2022, continuous PCs and completion of the first review	28.5	113.37	149.66	344.87	0.18
September 29, 2023	Observance of the PCs for end-June 2023, continuous PCs and completion of the second review	28.5	113.37	149.66	344.87	0.16
March 29, 2024	Observance of the PCs for end-December 2023, continuous PCs and completion of the third review	28.5	113.37	149.66	344.87	0.16
September 27, 2024	Observance of the PCs for end-June 2024, continuous PCs and completion of the fourth review	28.5	113.37	149.66	344.87	0.15
March 27, 2025	Observance of the PCs for end-December 2024, continuous PCs and completion of the fifth review	28.5	113.37	149.65	344.86	0.15
September 26, 2025	Observance of the PCs for end-June 2025, continuous PCs and completion of the sixth review	28.5	113.37	149.65	344.86	0.13
	Total	200.0	795.58	1050.22	2420.13	1.28

Source: IMF staff projections and calculations.

[1] United Republic of Tanzania's quota is SDR 397.8 Million. Figures in percent of quota have been rounded.

[2] US dollar values use the exchange rate to SDR as of July 19, 2022 (1 SDR = 1.32007 US$).
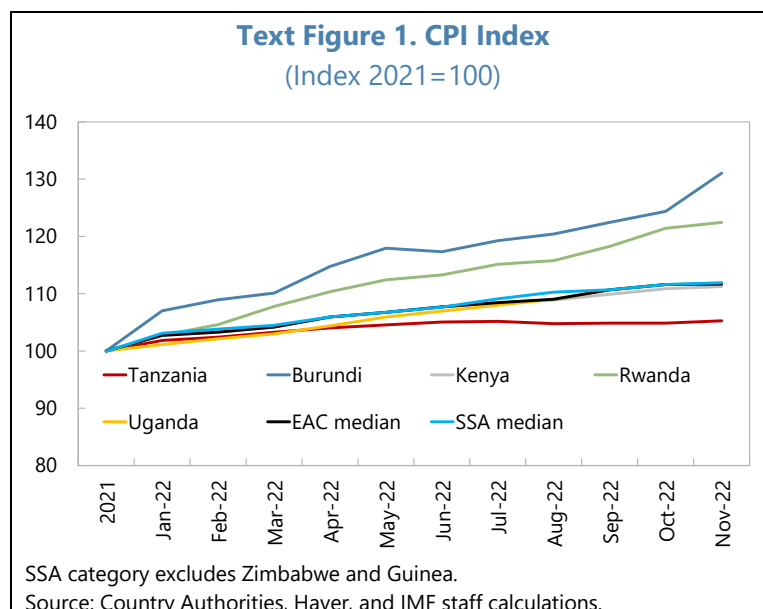
[3] Tanzanian shilling values use the exchange rate to US dollar as of July 19, 2022 (1 USD = 2,304.4 Tanzanian shillings).

Annex I. Inflation and Exchange Rate Passthrough Analysis

Headline inflation in Tanzania has recently increased close to the BoT's target of 5 percent but has remained relatively low as compared to the SSA average. Food has been the largest contributor to the recent increase, with energy, other tradables and non-tradables remaining more stable. The low contribution of non-tradables is in line with the moderate pass-through of exchange rate to inflation observed in Tanzania.

1.   Inflation in Tanzania has been rising recently, but it remains low compared to the regional comparators and SSA. Headline inflation in Tanzania has hovered above 4.5 in FY2022/23, compared to an average of 3.96 in FY2021/22, and is forecasted to increase above the BoT's target of 5 to reach 5.3 percent at the end of FY2022/23, with a forecasted average of 5 percent for FY2022/23. This is in contrast with the median for Sub-Saharan countries, which reached an estimated 9.4 in January 2023.


Text Figure 1. CPI Index
(Index 2021=100)

SSA category excludes Zimbabwe and Guinea.
Source: Country Authorities, Haver, and IMF staff calculations.

2.   The difference in trend with respect to the region is evident starting in mid-2021 (Text Figure 1). While all countries in the figure show an increase in the CPI Index in 2022, the change is more moderate for Tanzania, which shows the lowest increase in 2022 vs 2021 of the regional comparators and is below the sub-Saharan median as well.

3.   Food and non-tradables have been the largest contributors to the increase in 2022 (Text Figure 2). Increases in headline inflation over the last two

Text Figure 2. Drivers of Headline Inflation
(Contributions to inflation in percent)

*The CPI subcategories 'Personal Care, Social Protection and Miscellaneous Goods and Services' and 'Insurance and Financial Services' are respectively classified as 'Other Tradables' and 'Non-Tradables'
Sources: Haver and IMF staff calculations.

years have been driven primarily by food inflation. The second largest category is non-tradables,
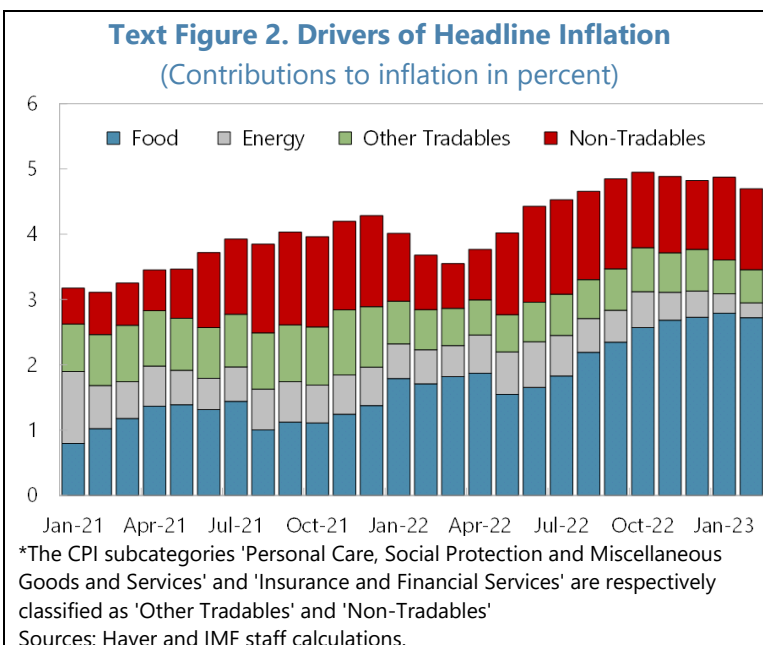
which have also increased during periods of accelerating inflation. The contribution of tradables has remained somewhat constant over the last year, and slightly decreased with respect to 2021. Energy has also had a lower contribution to inflation in the last few months.

4.   The low contribution of tradables is reflected in a moderate role of exchange rate passthrough to inflation. Previous assessments[1] of the extent of pass-through in Tanzania have found that it is moderate, around the range of 5 percent. We extend the analysis using monthly data for the period 2004M1-2022M8 estimating the following equation:

$$lnCPI_t = C + \sum_{k=1}^{n} \alpha_k lnCPI_{t-k} + \sum_{k=0}^{n} \beta_{1k} lnE_{t-k} + \sum_{k=0}^{n} \beta_{2k} lnM3_{t-k} + \sum_{k=0}^{n} \beta_{3k} lnEFAO_{t-k} + \sum_{k=0}^{n} \beta_{4k} lnLR_{t-k} + \varepsilon_t$$

where CPI_t represents the consumer price index, E_{t-k} is the TSh/US\$ exchange rate, M3 is broad money, FAO is the FAO food price index and LR the interbank lending rate. β_1 measures the short-run pass-through whereas the long-run coefficient can be estimated with $\beta = (\sum_{k=0}^{n} \beta_k)/(1 - \sum_{k=1}^{n} \alpha_k)$. Our results confirm that Tanzania has moderate pass-through, with the short-term coefficient equaling 0.08 and the long-term coefficient 0.25. This implies that a 1 percent depreciation in the TSh/US\$ exchange rate is associated to an increase in inflation by 0.08 percent after five months, and by 0.25 percent in the long run (approximately after two years).

---

[1] Adam, Kwimbere et al. (2012) estimate determinants of inflation and its components and find that a month-to-month depreciation of the nominal exchange rate of 10 percent is associated with an increase in the annualized inflation rate by around 0.5 percentage points.

Annex II. Banking and Financial Sector Developments in Tanzania

A granular analysis of bank balance sheet data reveals increased stability but also emerging risks. Two stylized stress test scenarios reveal that banks remain adequately capitalized under stress. While liquidity in the sector is highly unequally distributed, only one non-systemic bank falls below the minimum liquidity requirement. Supervisory actions helped reduce NPLs across the sector, but several small banks' NPL ratios remain above the regulatory threshold. The recent increase in restructured loans can amplify existing risks. Meanwhile, Tanzania continues to make progress on financial inclusion, but significant efforts are needed to further develop the financial sector (which broadly remains shallow with significantly low coverage) and increase financial inclusion.

Banking Sector Stability

1.   **An updated analysis of granular banking sector data, vis-à-vis their peers in the sector and regulatory benchmarks is performed.** The data used in the analysis include 44 of the 46 banks in Tanzania, with the two banks are excluded due to the acquisition of one bank by another in 2022 and the placing of the other bank under statutory management by the Bank of Tanzania for failure to comply to the minimum regulatory capital requirement. The data includes individual banks' full balance sheets, income statements, and several financial soundness indicators, as of end-December 2022.
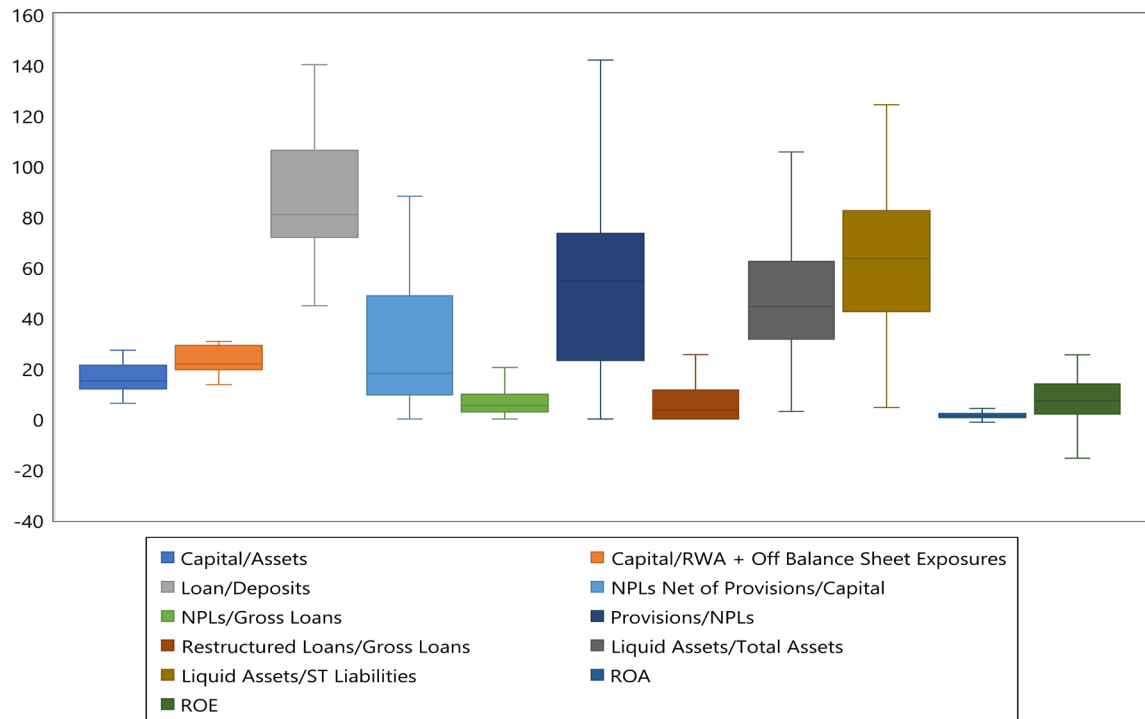
2.   **The analysis indicates significant improvements, but some risks are emerging (Figure 1).** As of end-December 2022, all banks respect the 12 percent regulatory minimum for total capital adequacy. While liquidity is highly unequally distributed between institutions, only one non-systemic bank falls below the minimum liquid asset requirement of 20 percent of short-term liabilities. Credit risk significantly improved as the median NPL ratio dropped from 6.5 percent in September 2022 to 5.1 percent by end of December 2022. As for individual banks, the ratio improved across the board, but half the institutions in the sector remain above the BoT's desired 5 percent NPL ratio benchmark. Generally, the largest institutions in the sector—accounting for about 50 percent of sector-wide assets—have among the lowest NPL portfolios, and some of the highest provisioning rates. However, one large bank's ratio of NPLs net of provisions to capital is highly elevated exceeding 100 percent which can pose a significant risk to the system.[1] Meanwhile, the dispersion of most individual bank FSIs (Text Figure 1 bottom pane) narrowed compared to end-December 2021 data (See Country Report 2022/269, Annex on Recent Financial Sector Developments and Reform Program), except for some profitability indicators. Several small institutions (which may not be systemically important) have an elevated ratio of NPLs net of provisions/capital. Restructured loans reversed their downward trend despite the pandemic recovery which poses a risk especially with the unwinding of pandemic support measures (Text Figure 1).

---

[1] Although officially classified as a large bank, this bank only accounts for 0.9 percent of system-wide assets and 0.9 percent of 2021 GDP.

Figure 1. Detailed Financial Soundness Indicators, end-December 2022

	Capital/Assets (+)	Capital/RWA (+)	Loan/ Deposits (-)	NPLs Net of Provisions/ Capital (-)	NPLs/Gross Loans (-)	Provisions/ NPLs (+)	Restructured Loans/ Gross Loans (-)	Liquid Assets/ Total Assets (+)	Liquid Assets/ ST Liabilities (+)	ROA (+)	ROE (+)
Median	15.0	21.7	80.7	18.0	5.3	54.5	3.5	44.4	63.5	1.2	7.1
TOTAL	0.15	1.68	0.83	3.19	3.09	0.22	0.08	63.1	76.7	0.0	0.0

Figure 1. Detailed Financial Soundness Indicators, end-December 2022 (concluded)

- Capital/Assets
- Capital/RWA + Off Balance Sheet Exposures
- Loan/Deposits
- NPLs Net of Provisions/Capital
- NPLs/Gross Loans
- Provisions/NPLs
- Restructured Loans/Gross Loans
- Liquid Assets/Total Assets
- Liquid Assets/ST Liabilities
- ROA
- ROE

Sources: Tanzanian authorities and IMF Staff calculations. Thresholds for each indicator are the median over all banks in the sector. Green indicates that the indicator for an individual institution is above (+) or below (-) the respective threshold. Note that B20 exited the market in June 2022, and its assets and liabilities were acquired by B13.

3.   An updated stylized sensitivity analysis scenario indicates that banking solvency significantly improved. We conduct a stylized stress test to examine the potential capital adequacy effects of restructured loans turning non-performing. Under an initial scenario, we assume that:

- Banks maintain historical provisioning rates.

- 50 percent of banks' remaining restructured loan portfolio turns non-performing.

Under a more severe scenario, we assume:

- Banks maintain historical provisioning rates.

- 75 percent of the restructured loan portfolio turns into NPLs.

Text Figure 1. Restructured Loans

Source: Bank of Tanzania
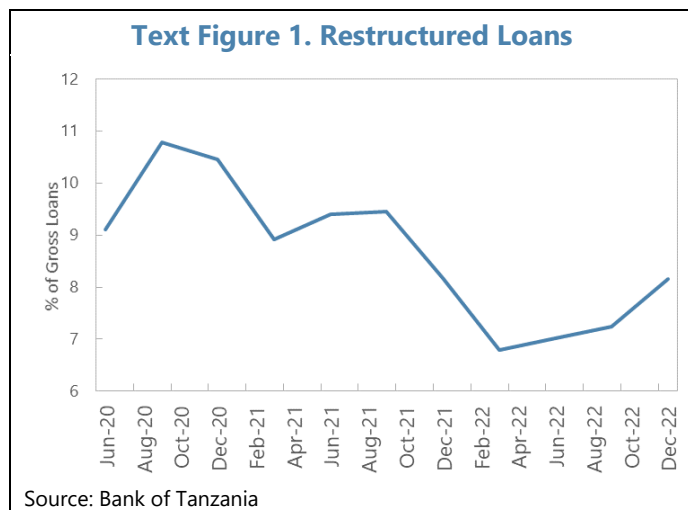
In the first scenario, the number of banks falling under the 12 percent regulatory minimum for total capital adequacy dropped from 5 banks (3 of which with negative capital) in September 2022 to only 2 banks in December 2022, accounting for only 1.1 percent of system-wide assets and 0.3 percent of

GDP (compared to 3.6 and 1 percent, respectively, in September 2022). In the second scenario, a further large, commercially owned bank (with 3.6 percent of system-wide assets, and 1 percent of 2021 GDP) would fail to meet the capital adequacy regulatory requirement.

4.   **Considering these results, the BoT should continue its commended efforts to instate the stability of the banking system.** Several regulatory actions have been enforced to improve the stability of the banking system including the placement of a small insolvent bank under statutory management, and improved supervision to re-enforce compliance to both solvency and liquidity requirements. Going forward, the BoT should carefully monitor and address the level of restructured loans which has been increasing since the second quarter of 2022. Net FX open positions should also be closely monitored given the high dollarization of the banking system.

Financial Development and Inclusion

5.   **Tanzania continues to make progress in enhancing financial inclusion.** While only just over half of the Tanzanian population has access to modern financial services, mobile payment methods are ubiquitous throughout the country. On the loan side, the authorities are working to centralize the collateral registry and expand the credit registry. Efforts to promote financial inclusion in Tanzania continue to be guided by the 2nd National Financial Inclusion Framework. The Bank of Tanzania (BoT) gives high priority to improving financial inclusion indicators and is closely monitoring progress through collecting demand-side survey data to use as a benchmark for further reform efforts.

6.   **Financial inclusion developments in Tanzania can also be seen in a cross-country context (Figure 2).** The latest available survey data indicates that account ownership amongst the adult population in Tanzania increased dramatically from 2011 to 2017. (Figure 2, top left). Whilst comparable to the sub-Saharan African average, the proportion of adults with a bank account in Tanzania remains however a little lower than in regional neighboring countries. It is also evident that financial services access has improved for the rural population in Tanzania (Figure 2, top right pane). As in the rest of the region, the reason cited most often for not having a bank account in Tanzania is insufficient funds. In Tanzania, this is followed by the cost of financial services and the distance to financial institutions. Digital payment methods are also relatively popular in Tanzania, compared with the rest of sub-Saharan Africa, although their use lags neighboring countries such as Kenya and Uganda.

Figure 2. Cross-Country Comparison of Selected Financial Inclusion Indicators

Account ownership
(Age 15+)
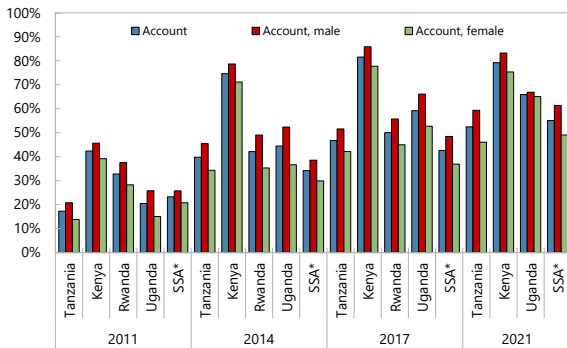
*Excluding high income. Data for Rwanda not available for 2021.
Source: Global Findex Database; and IMF staff calculations.

Account ownership, rural
(Age 15+)
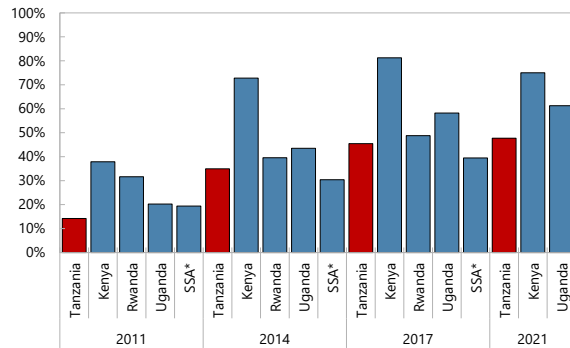
*Excluding high income. Data for Rwanda and SSA not available for 2021.
Source: Global Findex Database; and IMF staff calculations.

Reason for no account ownership
(2021, age 15+)
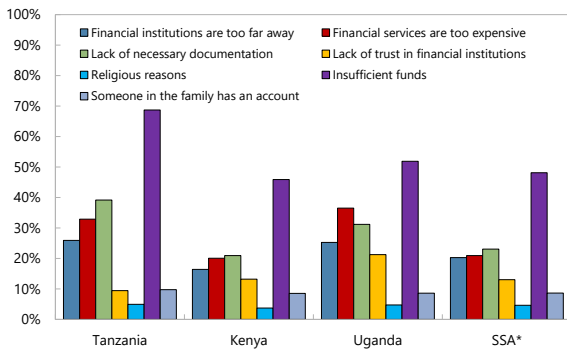
*Excluding high income. Data for Rwanda not available for 2021.
Source: Global Findex Database; and IMF staff calculations.

Made or received digital payments in the past year
(2021)
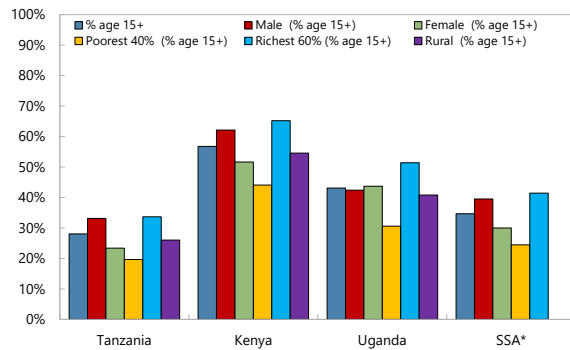
*Excluding high income. Data for Rwanda not available for 2021.
Source: Global Findex Database; and IMF staff calculations.

Mobile money account
(2021)

*Excluding high income. Data for Rwanda not available for 2021.
Source: Global Findex Database; and IMF staff calculations.

7.   The governance structure for financial inclusion is in place with responsibilities shared by both the public and the private sector. The ministry of finance and planning lays the strategic vision in its Financial Sector Development Master Plan (FSDMP) that sets the objectives, challenges, and key performance indicator for financial development and inclusion. The National C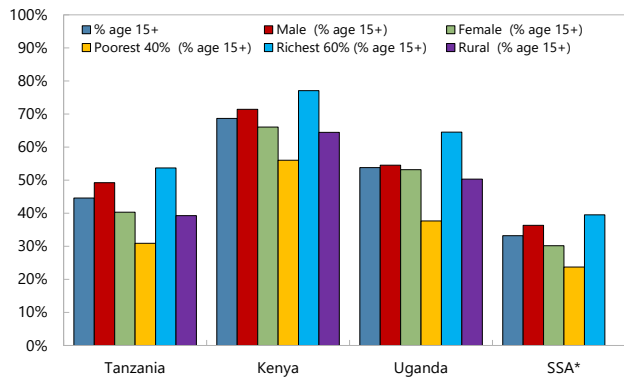ouncil for Financial Inclusion was established to operationalize the FSDMP through publication and implementation of a five-year National Financial Inclusion Framework (NFIF). The Council is a public-private sector initiative that resides in the BoT and is chaired by its governor. It is also in charge of coordinating different financial inclusion and awareness programs with relevant ministries such as the ministry of education. The second NFIF (2017 – 22) has just been concluded and its outcome is currently under assessment by the Council.

8.   Nevertheless, operationalizing the financial inclusion agenda remains a major challenge with a notably slow and lagging progress. While the institutional set-up is key, operational challenges are weighing on implementation. The second NFIF expired in 2022 and the third NFIF is not expected to be drafted and approved before the end of June 2023, at earliest. The drafted framework for financial consumer protection is yet to be approved and the financial complaint resolution is at initial stages. Importantly, collateral registry legislations and reforms, including the use of movable collaterals, a key enabler for microfinance and women/youth access to finance, remains lacking.

Text Figure 4. Selected Financial Inclusion Indicators

Source: Bank of Tanzania. 2022 are projections.

9.   Fintech initiatives are promising and can largely help deepen the market and increase financial inclusion. Fintech solutions are among the fastest growing financial development/inclusion indicators (Text Figure 4). Crypto exchanges are currently operating online in Tanzania but remain unregulated. To this end, the BoT introduced its own definition of virtual assets but has not yet developed its regulatory framework. Plans to introduce a regulatory sandbox are at nascent stages. The BoT is exploring plans to introduce a Central Bank Digital Currency (CBDC). It has communicated this to the public and examines cautiously next steps.

Text Figure 5. Financial Development Index - 2020

Source: IMF - Financial Development Index Database
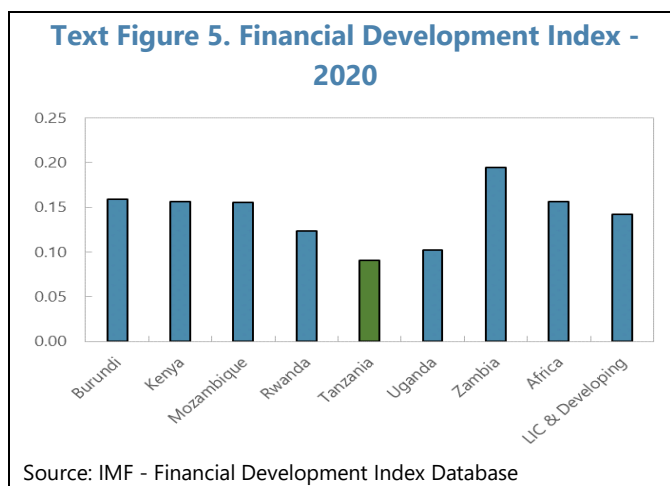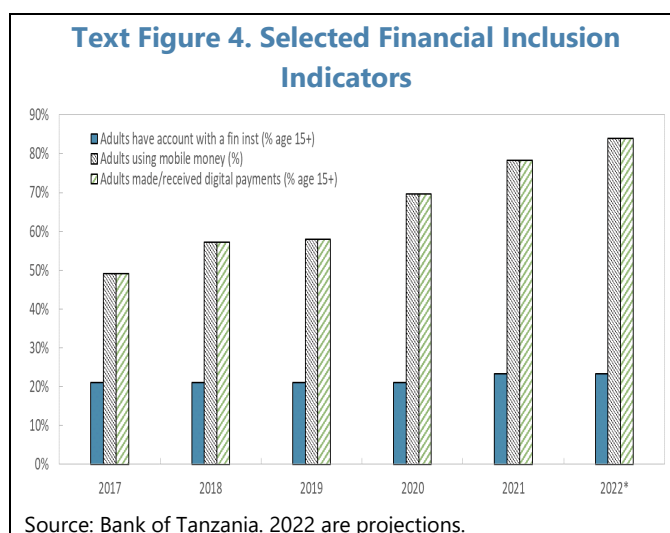
10.   Overall, the financial sector remains shallow and policies to improve financial sector development need to be stepped up. The Financial sector remain one of the least developed in the region (Text Figure 5) and significant constraints on financial services usage exist. First, many financial services products are not demand-based and are seen as not user friendly. Second, there is a lack of financial literacy amongst consumers, which is being partially addressed by the authorities through public awareness campaigns. Third, collateral access is a constraint faced particularly by women, since most females do not use formal banking services and are therefore not registered in credit reference bureaus.

Annex III. Growth Accounting and Potential Growth

A growth accounting analysis of the contributions to growth in Tanzania by factors of production and total factor productivity (TFP) identifies physical capital as the main driver of growth in recent past and highlights a slowdown in TFP after 2014. In a scenario with investments in human capital and reforms to the business environment, potential growth is estimated to reach 7 percent in the medium term, and TFP is estimated to improve to reach a yearly increase of 0.8 percent in 2028.

1.   Growth accounting is used to decompose Tanzania's GDP growth into the contribution of factors of production (capital and labor) and total factor productivity (TFP). For the case of Tanzania[1] we assume a Cobb-Douglas production function, with Y_t as total output, K_t as capital stock, L_t as quantity of labor, h_t as human capital per worker, and A_t as the total factor productivity (TFP) in period t.

$$Y_t = A_t \, K_t^\alpha (L_t h_t)^{(1-\alpha)}$$

The variables are estimated as follows:

Y_t: real GDP at constant 2017 national prices as obtained from Penn World Tables[2] from 1960 through 2019. From 2020 onwards values are projected using IMF staff growth projections.
K_t: capital stock at constant 2017 national prices (in mil. 2017US\$) from Penn World Tables until 2019.

From 2020 onwards values are estimated using the perpetual inventory method as $K_t = K_{t-1} * (1 - \delta) + I_t$, where I_t from 2020 onwards is computed as I_{t-1} times the growth rate of gross fixed capital formation from IMF staff projections.

L_t: number of persons engaged (in millions) from Penn world tables through 2019. For year 2020 onwards, level computed as $L_t = L_{t-1} * \frac{L_{t-1}}{L_{t-2}}$.
h_t: human capital index, based on years of schooling and returns to education, from Penn world tables until 2019. After 2019, computed as $h_t = h_{t-1} * \frac{h_{t-1}}{h_{t-2}}$.

The growth rate of TFP is computed as a residual, as follows:
$$\hat{A} = \hat{Y} - \alpha * \hat{K} - (1 - \alpha) * \hat{L} - (1 - \alpha) * \hat{H}$$

2.   Physical capital accumulation has been the main driver of growth, while the contribution of TFP has been decreasing recently (Figure 1 and Table 1). From the 1990s, the increase in stock of physical capital has been the main driver of growth, with the role of TFP increasing through the 2000s, but decreasing afterwards. Since 2010, growth can be mostly

---

[1] See International Monetary Fund, 2019, Ecuador—Selected Issues and Analytical Notes.

[2] Feenstra RC, Inklaar R, Timmer MP (2015). "The Next Generation of the Penn World Table." American Economic Review, 105(10), 3150–3182. http://www.ggdc.net/pwt/.

attributed to an increase in the stock of physical capital (about 4.9 percentage points (pp) contribution to growth on average between 2010-2021), with the contribution to growth of labor and human capital remaining somewhat stable (about 1.5 and 0.4 pp). The contribution of total factor productivity has been decreasing and becoming negative after 2014.

Text Figure 1. Growth Accounting 1970-2021
(Contributions to growth in percent)

Sources: Authorities, PWT v10.0 and IMF staff calculations
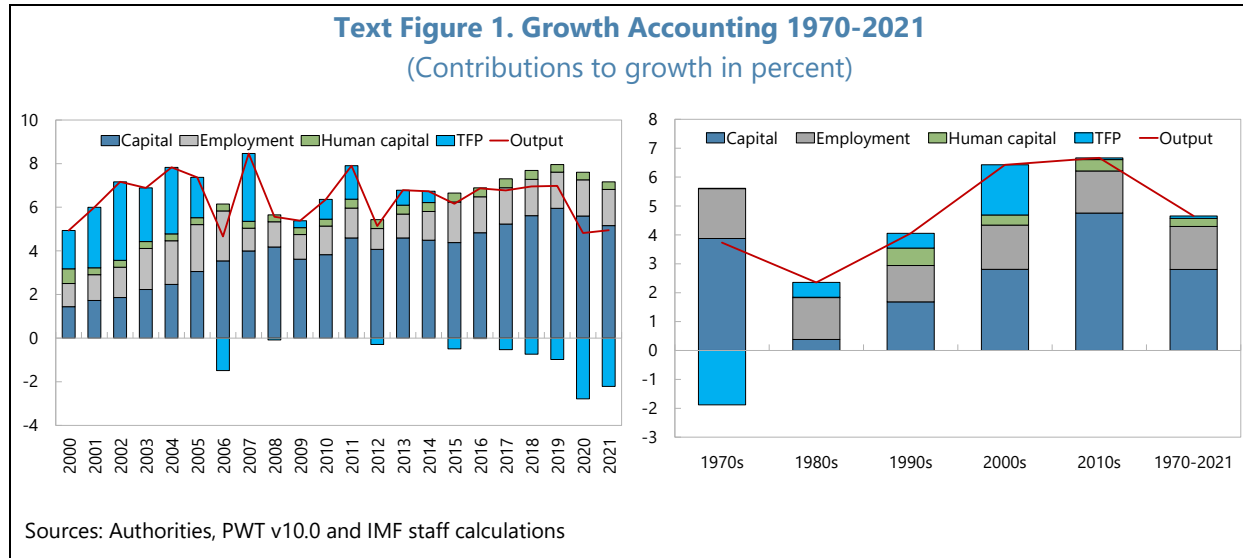
3.   The growth accounting framework can be used to analyze long-run growth forecasts and decompose potential growth. In the baseline projection (which reflects the ECF program assumptions), output growth is based on staff estimates, the TFP growth rate is computed residually, and the growth rates for capital (physical and human) and labor are computed as the growth rate of the levels (paragraph 1). Human capital is assumed to increase as a result of investments in social services, with the human capital index reaching the 55th percentile for SSA by 2028.[3]

Text Table 1. Tanzania: Growth Accounting 1970-2021
(Contributions to growth in percent)

	1970s	1980s	1990s	2000s	2010s	1970-2021
Capital	3.9	0.4	1.7	2.8	4.8	2.8
Employment	1.7	1.4	1.3	1.5	1.5	1.5
Human Capita	0.0	0.0	0.6	0.4	0.4	0.3
TFP	-1.9	0.5	0.5	1.7	0.1	0.1
Total	**3.7**	**2.4**	**4.1**	**6.4**	**6.7**	**4.7**

Sources: Authorities, PWT v10.0 and IMF staff calculations

4.   Potential growth in this scenario reaches 7 percent in the medium term.[4] Growth in human capital is expected to gradually increase from around 0.7 percent yearly in 2022 to

---

[3] The percentile has been computed using the Penn World Tables values for 2019.

[4] An estimation of the impact of LNG on potential growth is not yet feasible. First, notwithstanding recent progress in talks with investors, considerable uncertainty remains ahead of investment decisions. Second, project parameters that are needed to make a macro assessment (including the expected cost and production profile and fiscal regime) are

(continued)

1.2 percent in 2028. This increase depends on a scenario in which a higher number of teachers and educators is hired and trained starting in 2023, so that the number of students per teacher increases and average schooling, a component of the human capital indicator, increases. Total factor productivity in this scenario is reverses its path, going from an average 1.5 percent yearly decrease in the period from 2017 to 2021, to a yearly increase of 0.8 percent in 2028. The change in trajectory for productivity and the estimated GDP growth path rely on reforms to improve the business environment, including reforms to remove bureaucratic obstacles such as duplicate authorities, fees and taxes (Blueprint/Business act) and reforms to attract private investment (Business investment act).

Text Figure 2. Growth Accounting 2000-2028 in the Baseline Scenario
(Contributions to growth in percent)

Sources: Authorities, PWT v10.0 and IMF staff calculations

---
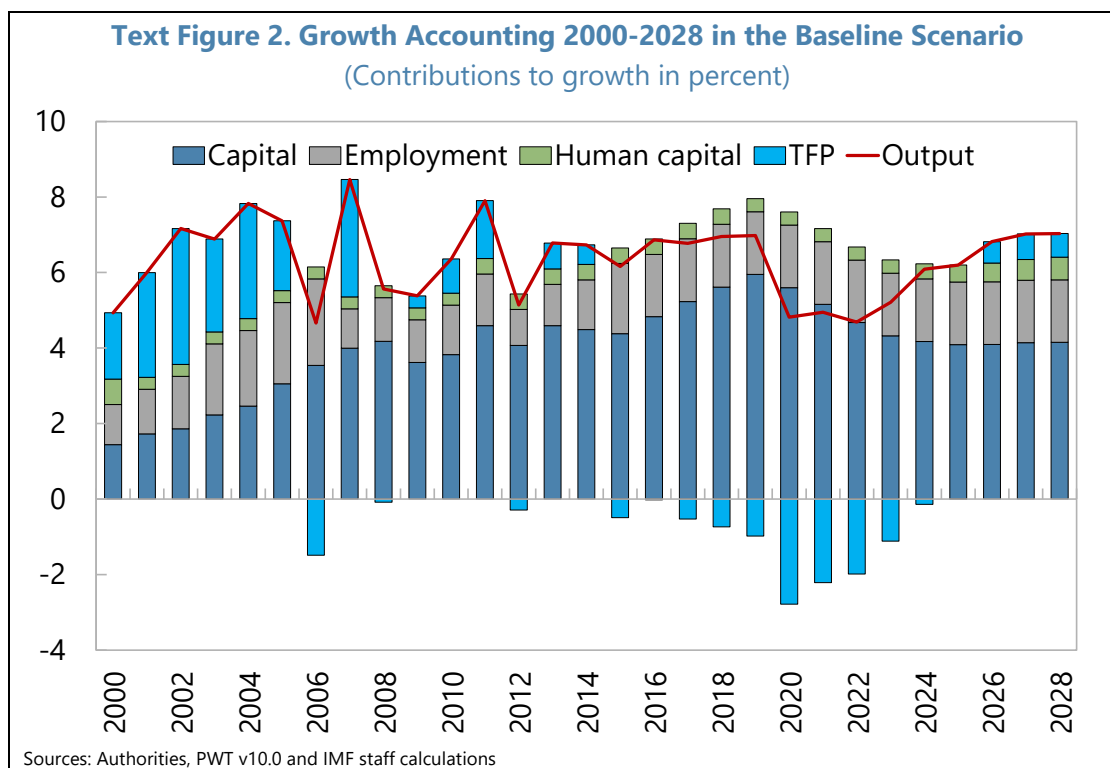
not known yet. The authorities requested TA on natural resource management, which could also provide some information for a macro assessment of the LNG impact and an estimate of the increase in potential growth.

Annex IV. External Sector Assessment

Overall Assessment: *The external position of Tanzania in 2022 is assessed to have been broadly in line with the level implied by fundamentals and desirable policies. As of end-December 2022, the level of international reserves stood at about US$5.2 billion and is assessed to be adequate by the Fund's ARA methodology, despite having declined by about US$1.2 billion from the peak of US$6.4 billion reached in December 2021, when reserves were boosted by the Fund's SDR allocation and RCF support. Since last assessment, the external position has weakened due to lingering effects of the COVID-19 pandemic and the spillovers from the war in Ukraine. The current account deficit is estimated to have widened by about1½ ppts of GDP to 5 percent in 2022. Meanwhile, the real exchange rate appreciated by about 3.7 percent (yoy) in December 2022.*

Potential Policy Responses: *More exchange rate flexibility is needed to cushion the economy against external shocks and safeguard external stability. Continued maintenance of an adequate level of reserves remains key in light of considerable uncertainties*

Current Account

Background. The current account deficit widened to 5 percent of GDP in 2022, from about 3.4 percent of GDP in 2021, as rising imports more than offset an increase in exports. However, it is expected to improve starting in 2023 as the growth of imports moderate and tourism continues to improve.

Assessment. The EBA-lite methodology shows that Tanzania's external position in 2022 was broadly in line with fundamentals and desirable policies. With an estimated CA norm of -6.2 percent of GDP[1] against a cyclically-adjusted CA of -5.4 percent of GDP,[2] the Current Account model shows CA gap of 0.8 percent of GDP which is within the margin of broadly in line with fundamentals and desirable policies. Similarly, the REER model points to an external position that is broadly in line with fundamentals and desirable policies with an estimated CA gap of 0.4.

Current Account Balance
(In percent of GDP)

Sources: Authorities; and IMF staff calculations.
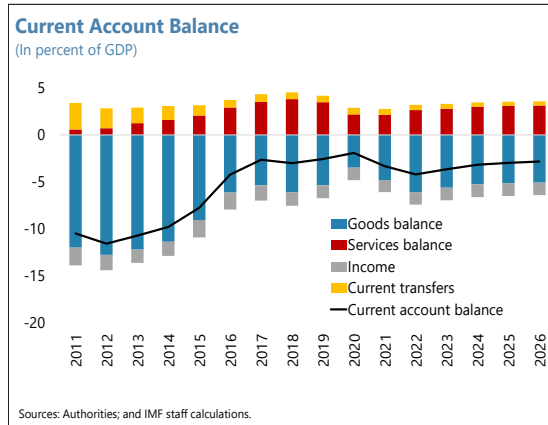
Tanzania: EBA-lite Model Results, 2022

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	-5.0	
Cyclical contributions (from model) (-)	0.3	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	-5.4	
CA Norm (from model) 2/	-6.2	
Adjusted CA Norm	-6.2	
CA Gap	0.8	0.4
o/w Relative policy gap	0.7	
Elasticity	-0.1	
REER Gap (in percent)	-9.5	-5.0

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

[1] Estimation of the norm reflects in part a desirable capital control index for Tanzania of 0.23, the average for Eastern African Community (EAC), indicating the authorities' objective of harmonizing their policies with those of the EAC.
[2] Adjustors to the underlined current account balance include cyclical contribution and impact of natural disasters, both of which are from the model. The adjustor used previously on estimated impact of the pandemic on tourism was dropped as tourism has recovered to pre-COVID levels.

Real Exchange Rate

Background. At end-2022, the Tanzanian shilling appreciated 3.3 percent (y-o-y) in real terms against a basket of currencies of trading partners, reflecting the strengthening of the U.S. dollar vis-à-vis major currencies. The pace of appreciation has increased compared to 2021 (2 percent y-o-y). The nominal effective exchange rate appreciated by about 7½ percent in December 2022, as the Tanzanian Shilling remained stable vis-à-vis the US dollar in the context of a stronger US dollar against other currencies and relatively lower inflation in Tanzania.

Assessment. The CA model indicates that the real effective exchange rate in 2022 was undervalued by about 9.5 percent, while the REER model shows a modest undervaluation of about 5 percent.

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

Sources: Authorities; and IMF staff calculations.
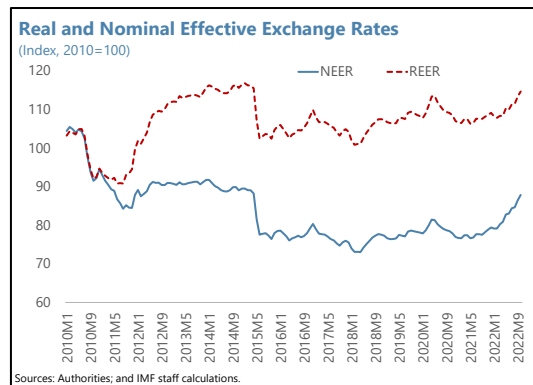
Capital and Financial Accounts: Flows and Policy Measures

Background. Historically, Tanzania's current account deficit was financed mainly by FDI, capital grants, and concessional public-sector borrowing. Lately, however, the current account deficit is financed mainly by public sector borrowing as capital grants and FDI have declined. In particular, large infrastructure projects are being financed with non-concessional public sector borrowing.

Assessment. Tanzania's relatively closed capital account regime has made its financial system less vulnerable to global financial volatilities. Going forward, FDI inflows are expected to pick up driven by improved business conditions and benefiting from a higher degree of financial integration, reflecting ECF program supported reforms.

International Reserves

Background. Tanzania's level of international reserves was boosted in 2021 by the SDR allocation (US$543 million) and emergency financing under the RCF (US$566 million). Fund lending under the ECF program helped to finance Tanzania's larger-than-expected BoP pressure resulting from the spillovers from the war in Ukraine.

Assessment. The level of international reserves in 2022 was assessed as adequate, despite the significant decline from US$6.4 billion in December 2021 to US$5.2 billion in December 2022. Reserve coverage, at 4.3 months of import, falls in the mid-range of the ARA

Gross International Reserves
(In US$ millions, and months of imports)

Sources: Authorities; and IMF staff calculations and projections.

metric (3.6 to 5.4) for credit-constrained economies, that compares the marginal costs of holding reserves against marginal benefits (see Figure below). The authorities' own lower bound of reserves' cover is 4.5 months of prospective imports of goods and services, which is consistent with the East African Monetary Union convergence criteria.
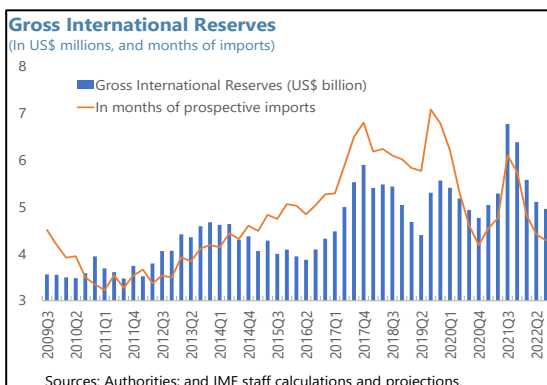
The ARA-CC approach may not fully capture potential risks. In line with previous advice, staff recommends ensuring that the level of international reserves remains higher than suggested by the ARA metric as Tanzania faces risks that are not fully captured by the model, e.g., potential risks stemming from plans to increase borrowing from financial markets, liberalization of the capital account, and high levels of dollarization in the banking system. These risks are exacerbated by the spillovers from the war in Ukraine. Tanzania also remains highly vulnerable to larger-than-expected shocks to the tourism sector, potential new increases in oil prices and sharp fall in gold prices. Should any of these risks materialize reserve coverage could fall below the ARA lower bound of 3.6 months. Given the potential extent of these additional risks, staff

Tanzania Optimal Reserves 1/
(Target range and current levels, in months of imports)

Reserves in months of imports

- Reserve Target Range: 100%-150% of Metric
- Actual reserves

8.7
7.35
6.3
5.8
5.4
4.9
4.8
4.35
4.2
3.9
3.6
3.6
3.3
3.2
3
2.9
2.6
2.4
2.2
2.0

Cost of holding reserves, in percent

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

recommends increasing current buffers to ensure a coverage of 4½-5½ months of import, which seems a more appropriate range for Tanzania.
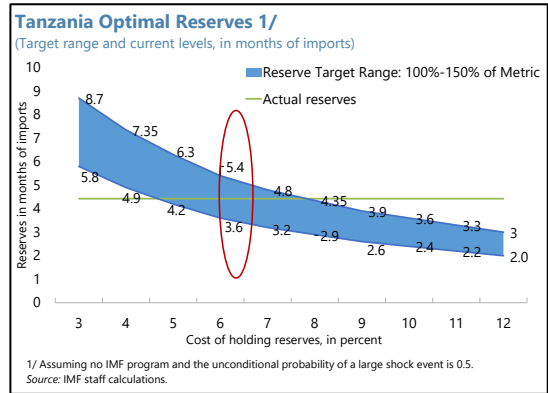
Annex V. Governance

This annex assesses Tanzania's governance and corruption vulnerabilities and ongoing efforts in addressing these vulnerabilities in the areas of fiscal, central bank operations, and AML/CFT. Weak institutions and ineffective governance processes could be a source of vulnerabilities to rent seeking and corruption, which in turn undermines trust, investment, and growth. Tanzania has a well-developed legal framework and a comprehensive strategy to support sound governance and reduce corruption vulnerabilities. However, implementation and enforcement could be strengthened further. The ECF program is an opportunity to support the authorities' reform agenda on these issues.

A. Fiscal Governance

1. Recent assessments of Tanzania's fiscal governance show comparative strengths in institutional and regulatory frameworks.[1,2] The government has a strong set of procedures to monitor and control potential threats to fiscal discipline. Legislative scrutiny of the budget works well and improvements are being recorded in internal and external audit and in most aspects of accounting and financial reporting. The PEFA also identifies procurement management and public asset management as key areas of strengths (Table 1). Similarly, the institutional designs for project selection, portfolio management and oversight, management of project implementation and monitoring of public assets are rated by the PIMA as 'high', although the effectiveness of the respective processes scores less favorably.

2. The main areas of weakness in Tanzania's fiscal governance relate to the effectiveness and efficiency of institutions. The continuing weaknesses in core aspects of public financial management (PFM)—budget credibility, cash management, commitment control—threaten to undermine the value of the improvements achieved in other areas. While the institutional design of public investment management (PIM) is generally assessed as strong, the effectiveness of these institutions, especially in project selection, portfolio management and oversight, and management of project implementation is rated as weak. High levels of expenditure arrears and weaknesses in the monitoring of arrears have been persistent problems in Tanzania.

3. A comparison of the 2017 and 2022 PEFA assessments points to significant improvements overall. Of the 31 indicators, improvement have been recorded in 12 indicators, deterioration in 3 indicators and no changes in 16 indicators. There is strong evidence of positive changes in a wide range of areas, with 4 of the 7 pillars of the PEFA framework showing net improvements. Improvements include reforms in legislation and regulations, the building of human resource capability, as well as modernization and greater integration of IT systems.

---

[1] A Public Expenditure and Financial Accountability Assessment (PEFA) and a Public Investment Management Assessment (PIMA) with a Climate (C-PIMA) module were conducted in Tanzania in 2022.

[2] Fiscal governance refers to the institutional frameworks and practices of the public sector (central government, subnational governments, and public corporations). See IMF, "Review of 1997 Guidance Note on Governance - A Proposed Framework for Enhanced Fund Engagement", April 22, 2018.

4. **Many of the weaknesses identified in the PEFA assessment could be addressed in the near term while management of public investment can be strengthened over the medium-term.** Careful attention to the format of public reports and to their timely publication could generate 'quick wins' in relation to budget documentation, public access to fiscal information, and in-year budget reports. On the other hand, the Public Investment Management Operational Manual (PIM-OM) and the related structures and procedures introduced since 2015 offer a sound basis for strengthening public investment management over the medium term.

Text Table 1. Tanzania: PFM System in 2022: Strengths, Weaknesses, Opportunities & Threats	
Strengths	**Weaknesses**
PI-6: Reporting on Central Government extra-budgetary operations **PI-10: Fiscal Risk reporting** **PI-12: Public Asset Management** **PI-13: Debt Management** **PI- 15: Fiscal Strategy** **PI-17: Budget preparation process;** **PI-18: Legislative Scrutiny of Budgets** **PI- 19: Revenue Administration** **PI-20: Accounting for Revenue;** **PI-23: Payroll Controls** **PI- 24: Procurement Management** **PI-30: External Audit** Emerging strengths/ areas improving: - PI- 27 Financial Data Integrity - PI-29 Annual Financial Reports	**PI- 1,2 & 3: Budget Credibility indicators** **PI-4 Budget Classification** **PI-5: Budget Documentation;** **PI-9: Public Access to Fiscal Information** **PI-11: Public Investment Management** **PI-16: Medium-term perspective in expenditure budgeting** **PI-21: Predictability of In-Year Resource Allocation;** **PI-22: Expenditure Arrears;** Areas where reform progress is slowing: - PI-26 Internal Audit - PI-31 Legislative Scrutiny of Audit Reports
Opportunities	**Threats**
✓ Good potential for further improvement in areas of strength to reach international best practice standards ✓ Consolidation of MUSE system should further improve financial data integrity ✓ Shift from IPSAS cash to IPSAS accruals presents an opportunity to strengthen consolidated financial statements, once new procedures are fully embedded ✓ Potential for "quick wins" on Budget documentation and Public access to Fiscal information, through careful attention to the format of reports & their timely publication. ✓ Public Investment Management Operational Manual (PIM-OM) and the related procedures offer sound basis for strengthening investment management, but significant work is needed to build capacity and establish improved processes. ✓ By re-thinking the approach to the MTEF so as to simplify formats and procedures and eliminate the activity-based focus, a re-designed MTEF could become an effective tool of strategic medium-term planning & budgeting.	➤ Continued discrepancies between Budgets and Actual Expenditures have undermined credibility of the Budget, reinforcing bad budgeting practices and a lack of confidence in the system at MDA level. ➤ An approach to cash management based on cash rationing rather than cash planning has undermined the system of commitment controls, resulting in expenditure arrears. ➤ These two problems undermine what is otherwise a strong PFM system and reduce its ability to promote the allocation of resources in line with strategic priorities and to facilitate efficient service delivery. ➤ High vacancy rates and staff turnover are slowing the pace of progress in Internal Audit. ➤ Website Publication of PAC reports is no longer regular and should be restored.

B. Central Bank and Operations

5.   **The 2022 safeguards assessment[3] found that the Bank of Tanzania (BoT) has implemented relatively good safeguards although some weaknesses were identified.** The BoT has made progress in strengthening internal audit and has maintained sound financial reporting practices. Nevertheless, vulnerabilities in the governance arrangements include lack of independent oversight and possible exposure to potential conflicts of interest. The BoT's legal framework needs to be strengthened particularly in the financial and personal autonomy, and through the establishment of a majority (non-executive) oversight board.

C. Anti-Corruption Framework

6.   **Tanzania has a comprehensive anti-corruption strategy and legislation.** Since 2016 the authorities set up a special High Court Division for corruption and economic crimes, increased the judiciary budget, and prepared the National Anti-Corruption Strategy and Action Plan 2017-22 (NACSAP). A new NACSAP under preparation, focuses on enhancing investigative capabilities, prevention strategies, and improving adherence to asset declaration of public officials.

7.   **Further strengthening the implementation and enforcement of the anti-corruption strategy and legislation is crucial.** The preparation of the 2023-28 National Anti-corruption Strategy and Action Plan (NACSAP) will focus on measures to continue progress in reducing corruption: (i) enhancing investigative and intelligence capabilities, (ii) building technological and big data capabilities to address new challenges, (iii) focusing on prevention strategies (e.g., promoting society participation in the anti-corruption campaigns, increasing public awareness of corruption, and enhancing adherence to asset declaration of public officials and the codes of conduct).

D. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

8.   **Tanzania is currently listed by the FATF as a country with strategic AML/CFT deficiencies and the authorities are committed to improving the AML/CFT framework.** The 2021 Mutual Evaluation Report (MER) by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) identified significant weaknesses in Tanzania's AML/CFT framework. Following the review, the Financial Action Task Force (FATF) categorized Tanzania as a jurisdiction with strategic AML/CFT deficiencies and included it in the list of jurisdictions under increased monitoring.[4] The authorities have taken some steps to correct the identified deficiencies through amendments to the

---

[3] Conducted in connection with the disbursements under the Rapid Credit Facility (RCF).

[4] When the FATF places a jurisdiction under increased monitoring (the so-called "grey list"), it means that the country has committed to resolve swiftly the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring. The FATF and FATF-style regional bodies (FSRBs) continue to work with the listed jurisdictions as they report on the progress achieved in addressing their strategic deficiencies. The FATF calls on these jurisdictions to complete their action plans expeditiously and within the agreed timeframes. See www.fatf-gafi.org.

legal framework to include environmental crimes and tax crimes as predicate offenses and to strengthen the basis to prosecute and apply criminal sanctions to persons who finance terrorism.

9.   Although Tanzania has made progress on some of the 2021 MER's recommended actions more work is needed to align the legal framework with FATF standards and improve the effectiveness of Tanzania's AML/CFT framework. In particular, the government will seek to amend the AML/CFT Law to enhance provisions on preventive measures, supervision of designated non-financial sectors, targeted financial sanctions, and beneficial ownership; and adopting policy and procedures for AML/CFT risk-based supervision of banks and ensuring effective enforcement against money laundering and terrorism financing. In consultation with the IMF, the authorities will establish an AML/CFT risk-based supervisory approach that assigns a supervisor for each sector (financial institutions and designated non-financial businesses and professions sector), details a template sectoral money-laundering terrorist financing risk assessment methodology, establishes a template onsite and offsite supervisory manual, and a supervisory plan for the highest risk sectors, which is an ECF program structural benchmark for December 2023.

E.   Governance Commitments Under the RCF

10.   Compliance with the governance commitments on monitoring and reporting of the expenditure connected with COVID-19 emergency financing has been strong. The authorities have published three reports of RCF spending covering Q1 (October–December 2021), Q2 (January-March, 2022), and the final report covering the entire period from October 2021 to September 2022. COVID-19 related spending can be tracked through a pandemic specific integrated financial management information system (IFMIS) under one dedicated project code number. Pandemic-related public procurement contracts and related documents (including names of the awarded companies and their beneficial owners) have been published on the Ministry of Finance and Planning website. The Comptroller and Auditor General audit of the pandemic-related spending financed with the debt relief received under the Catastrophe Containment and Relief Trust (CCRT) was published in April 2022.

11.   The audit of all pandemic-related spending was published in February 2023 (structural benchmark under the ECF program for December 2022). The audit report finds that, as of end June 2022, the MoFP disbursed Tsh 1,243 billion (96 percent of total funds) to spending agencies, leaving a remaining balance of Tsh 48 billion (4 percent) undisbursed. As of end September 2022, out of Tsh 1,243 billion disbursed, Tsh 1,100 billion (89 percent) was spent for planned activities, Tsh 142 billion (11 percent) was committed and Tsh 426 million (0.03 percent) was still unspent. The projects were implemented as planned and the funds were used to improve services in various sectors, including health, education, water supply, and tourism. However, implementation also faced some challenges, related to tax compliance and procurement procedures. In this regard, the report recommends to: (i) ensure that committed and unspent funds held by implementing agencies (Tsh 48 billion) are quickly spent for the intended purposes; and (ii) strengthen internal controls and ensure proper approval before payments, proper storage of payment vouchers and supporting documents, and compliance with tax laws when making payments.

Annex VI. Capacity Development Strategy

1.   The ECF program provides an opportunity to align Fund technical assistance (TA) with the authorities' reform agenda. Fund TA is critical to support the authorities' goal to: (i) create fiscal space through improved revenue mobilization and public finance management; (ii) advance structural reform agenda through enhancing governance and the quality of national statistics; and (iii) safeguard macro-financial stability and promote financing deepening through upgrading the monetary policy framework and improving supervision.

2.   TA activity has picked up recently following the launch of the ECF program. Over the past year, Tanzania received TA in the areas of tax policy diagnostics, public investment management including with climate module, monetary policy, and national statistics. These TAs support the authorities' ongoing effort to enhance revenue collections, strengthen efficiency of public investment, modernize their monetary policy framework, and improve national statistics.

3.   Going forward, Tanzanian CD priorities will build on recent TA and focus on areas related to ECF program objectives. The authorities agree that Tanzania's CD strategy should focus on supporting their effort to enhance revenue mobilization, PFM, governance, the monetary policy framework, and the quality of statistics compilation and dissemination (Table 1).

- *Revenue mobilization*. Follow up TA to support the authorities' effort to formulate tax policy and administrative reforms on the bases of recently provided TA on tax diagnostics.

- *Public finance management.* Support the authorities' effort to: (i) strengthen budget formulation, expenditure controls, cash management, and public investment management; and (ii) develop a fiscal framework for natural resource management with particular focus on oil and gas in order to promote sustainable use for the benefit of present and future generations.

- *Governance*. Support the authorities to: (i) amend the Bank of Tanzania (BoT) Act to strengthen governance arrangements as well as personal and financial autonomy in line with recent Safeguards Assessment recommendations; and (ii) establish AML/CFT risk-based supervisory approach to address deficiencies in Tanzania's AML/CFT framework.

- *Monetary policy and forex intervention*. Support the BoT to enhance its forex intervention policy and implement measures underpinning the ongoing transition to an interest-rate based monetary policy framework.

- *National statistics*. Support the authorities' effort to: (i) revise the percentage allocation of the revenue resulting from government budget support between the government of United Republic of Tanzania and the Revolutionary Government of Zanzibar; (ii) strengthen national accounts data by reconciling balance of payments and national accounts trade data as well as reconciling GDP by expenditure and GDP by production; and (iii) improve the quality and coverage of fiscal and public sector debt statistics and finalize the transition to *GFSM2014*.

Table 1. Tanzania's Capacity Development Priorities	
Priorities	**Objectives**
Revenue mobilization	• Formulate tax policy and administrative reforms, including by reviewing recommendations of the 2022 Tax Policy Diagnostic IMF TA. • Conduct Customs diagnostics and TADAT and follow-up to identify medium term priorities for reform to assist the authorities to develop, plan and implement a medium-term revenue strategy
Public finance management	• Improve costing, prioritization, and implementation of public investments in line with the 2022 C-PIMA TA mission recommendation. • Strengthen budget formulation, implementation, and reporting (including the medium–term budget framework, cash management, revenue forecasting and commitment controls), improve financial risk reporting and coverage, and strengthen risk and cost analysis in debt management office. • Develop fiscal framework for management of natural resource revenues
Governance	• Establish an AML/CFT risk-based supervisory approach that assigns a supervisor for each sector (financial institutions and designated non-financial businesses and professions sector), details a template sectoral money-laundering terrorist financing risk assessment methodology, establishes a template onsite and offsite supervisory manual, and a supervisory plan for the highest risk sectors. • Amend the BoT Act to strengthen governance arrangements as well as personal and financial autonomy, including addressing the issue of the composition of the Board to be comprised of a clear majority of non-executive (independent) members in line with leading practices.
Monetary and financial sector	• Improve transparency of BoT's forex intervention policy • Implement measures underpinning the ongoing transition to an interest-rate based monetary policy framework
Strengthen statistics compilation and dissemination	• Revise the percentage allocation of the fiscal revenue between the government of United Republic of Tanzania and the Revolutionary Government of Zanzibar • Improve the quality and coverage of the national accounts, prices, BOP, fiscal and debt data. • Ensure timely publication of fiscal, BOP, and debt statistics, in line with the recommendations of the e-GDDS framework implemented in 2016.

Annex VII. Tanzanian Authorities' Response to Previous Article IV Recommendations

Objectives	Actions/Measures	Progress in Implementation
Mobilize domestic revenue, improve tax administration and budget management (planning, expenditure control, transparency, and public investment)	Rationalize corporate tax holidays, ensure regular adjustments of excise rates, and remove multiple layers of taxes, fees, and levies imposed on the same goods.	Progress has been made. Tax holidays and exemptions were better aligned with international standards and most exemptions (e.g., armed forces, VAT on tourism services, income tax on shares and securities listed in the Dar es Salaam Stock Exchange) except for those on special economic zones were eliminated. Except for petroleum products, excise rates are regularly adjusted for inflation. Several overlapping taxes, fees and levies were removed, including those charged by the Tanzania Drugs and Food Agency (TFDA), the Tanzania Bureau of Standard (TBS), the Government Chemist Laboratory Authority (GCLA), and various sector ministries.
	Strengthen tax administration by repaying and preventing arrears on VAT refunds, improve the registration taxpayers and identify non-registered ones, and upgrading the IT system.	Notable progress has been made recently in repayment of arrears on VAT refunds. The process to review taxpayer registry and to remove duplications and non-existing taxpayers is ongoing, but third-party data have not yet been effectively used to regularize new taxpayers. The new Electronic Revenue Collection System (e-RCS) was launched to capture information on taxpayers and service providers to enhance revenue collection. In the IT area, the Government e-Payment Gateway System (GePGs) was developed to facilitate revenue collection, but it is yet to be applied to all non-tax revenues.
	Account for expenditure arrears on a timely basis and clear and prevent them, include all spending in IFMIS and prohibit commitments outside the system, avoid overoptimistic growth assumptions, and publish budget documents.	There are still long delays in accounting for expenditure arrears. However, the authorities have recently prepared a strategy for clearance of arrears in the context of the ECF program. The strategy aligns the definition of arrears with international practice and prohibits accumulation of new arrears. Even though verification of legacy arrears was delayed, the authorities completed the verification in March 2023 as a prior action to the first ECF review.
	Improving efficiency in public investment (project appraisal and implementation capacity), careful prioritization and implementation of spending plans, and subjecting large capital expenditures to proper cost-benefit analysis. Set up dedicated unit to manage public investments.	A public investment (PI) manual has been prepared, and a PIM unit has been established in the Ministry of Finance. However, to operationalize the PI manual, the public investment project database needs to be developed and practical tools and processes have to be established. In addition, project prioritization remains complex with a matrix comprising over 7 clusters and 27 elements which is therefore not used in practice. As a result, there are no accurate ways to assess the number of ongoing projects or the cost of commitments. To support capacity development of the new PIM unit, trainings are ongoing, supported by TA from AFE. The authorities received a combined PIMA and C-PIMA TA from the Fund recently. The National Development Plan FYPDIII highlights 17 flagship projects (that are considered to have the most significant impacts on the rest of the economy), while a recent MoF publication assesses the individual and total costs of these projects for the budget year and medium term.

Objectives	Actions/Measures	Progress in Implementation
Modernize the monetary policy framework	Improve monetary policy and develop interbank and government securities markets.	Progress has been made. The collateral framework has been expanded to include all government securities and an interbank market trading platform has been set. Some progress has been made on the monetary policy implementation side, including launching a true repo market to enhance liquidity management in preparation for the new framework.
Strengthen the financial system	Improve bank supervision, reduce NPLs, and strengthen crisis preparedness and management.	Progress has been made. The authorities have developed a time-bound action plan to implement key FSSA recommendations to strengthen the banking system. Steps have been taken to strengthen the stress testing capability of the central bank, expand data collection and enhance verification of data quality for large exposures. The supervision function is now better staffed, which will allow making use of supervisory templates and conduct targeted on site examinations. The implementation of Basel II/III has been accelerating, as well as the implementation of risk-based supervision (RBS) system and the upgrade of other supervisory processes. The BoT's crisis management framework (finalizing guidelines for Emergency Liquidity Assistance and making Financial Stability Forum operational) has also started to take shape.
Foster financial development	Improve businesses' access to credit, reduce borrowing costs (due to imperfect information, slow resolution of disputes).	Progress has been made. Rapidly growing mobile banking services have improved access to micro-credit, with the government stepping up promotion of financial literacy. Banks' access to the credit information bureaus has increased. The credit bureaus expanded borrower coverage and began to distribute credit data from retailers. A new financial consumer protection framework was introduced and the use of credit reference system in loan approvals by banks became mandatory. The authorities adopted the Microfinance Law, which empowers BOT to supervise and regulate microfinance institutions. The secured transaction law, the collateral registry and the inclusion of all credit providers in the regulatory net are still in progress.
Improve the quality and reliability of GDP data	Amend the Statistics Law to remove controls and penalties for questioning official data and producing nonofficial data. Improve sources of data on economic activity.	Little progress has been made. National accounts and balance of payments data on imports and exports are yet to be reconciled, and administrative data from the Tanzania Revenue Administration and other sources are still not being systematically incorporated in the compilation of GDP statistics. Furthermore, weaknesses remain with source data (e.g. surveys).
Long-term competitiveness and job creation	Improve the business environment, skills in the labor force, and energy sector efficiency, including the financial position of TANESCO.	Generally, limited progress on these areas. Some progress has been made in the implementation of the blueprint for regulatory reforms. However, the effort has focused on reducing or eliminating fees and levies, while most of the measures relating to permits and licenses remain to be addressed. The authorities have also prepared a National Anti-Corruption Strategy and Action Plan. On labor skills, an online system for visa and work permit applications has been introduced. Regarding TANESCO, a strategy to improve its finances and electricity supply is being implemented, including generation and connectivity projects to reduce operational costs. However, there has been limited progress to clear TANESCO's arrears with suppliers.

Annex VIII. Risk Assessment Matrix[1]

Source of risks	Likelihood	Expected impact if realized	Possible policy response
Conjunctural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**High** • Higher import bills on commodities will worsen external position, push up domestic prices and dampen economic activity. • Disrupted tourist flows and decline in tourists from long-haul destinations.	• Provide targeted fuel and food subsidies to the poor and vulnerable groups. • Enhance tourism promotion in alternative markets, including within the regional markets.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**High** • Higher food and energy prices will hurt domestic economic activity and corporate profits. • Rising prices would erode household's purchasing power and increase poverty levels.	• Ramp up domestic production of some imported commodities, including cooking oil, and wheat. • Provide targeted fiscal support as needed and avoid policies that could distort market incentives. • Tighten monetary policy if needed to combat inflation.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	**Medium**	**Medium** • Lower trade and fewer investment inflows.	• Improve business environment and competitiveness to attract more foreign investment. • Boost regional and international trade.

[1] Based on the latest G-RAM (January 2023). 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 scenarios 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.

Source of risks	Likelihood	Expected impact if realized	Possible policy response
Structural Risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium** • Disruption of trade, tourism, and investment flows. • Decline in economic activity and higher inflation.	• Improve business environment and competitiveness to attract more foreign investment. • Boost regional and international trade.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium**	**Medium** • Interruption in economic activity, loss of important data and endanger financial stability.	• Strengthen cyber security. • Ensure financial service providers frequently test the resilience of their IT systems.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**High** • Lower agriculture sector output, increase in poverty levels, need for increased development and social spending.	• Implement counter-cyclical fiscal and monetary policies, provide fiscal support as needed. • Improve economic resilience to shocks, build fiscal and external buffers. • Implement climate mitigation and adaptation policies.
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.
Delays in improving fiscal management.	**Medium**	**High** • Low public investment and weak 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 fail to create employment.	• Accelerate implementation of reforms involving experts and stakeholders to improve the business climate.

Appendix I. Letter of Intent

Dodoma, April 4, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC
USA

Dear Madam Managing Director,

The attached Memorandum of Economic and Financial Policies (MEFP) reports on recent economic developments and implementation of our economic reform program and sets out policies and structural reforms that we plan to pursue going forward. The reform program aims at helping to complete the post-COVID-19 health and economic response, preserve macroeconomic stability, and address long-term challenges to support sustainable and inclusive growth, drawing on the reform agenda and development plans envisaged in our National Third Five Year Development Plan (FYDP III). The main priorities under the program are strengthening fiscal space to allow for much-needed social spending and high-yield public investment by improving revenue mobilization and spending quality; resuming and advancing the structural reform agenda to unlock growth potential, improve the business environment and competitiveness; and enhancing financial deepening and stability, including through strengthening the monetary policy framework and improving financial sector supervision.

Our reforms have remained on track. All the end-December 2022 quantitative performance criteria (PC) and indicative targets were met. We have completed the verification of expenditure arrears as a prior action for the completion of the first review. To support our efforts, we request the completion of the first review of the arrangement under the IMF's Extended Credit Facility and the disbursement of the second disbursement in the amount equivalent to SDR 113.37 million (28.5 percent of quota). As before, IMF resources will be used for direct budget support and will be maintained in government accounts at the Bank of Tanzania. We have renewed the existing MoU between the BoT and the Ministry of Finance and Planning on respective responsibilities for servicing financial obligations to the IMF.

We consider that the policies described in the attached MEFP are adequate to achieve program objectives. We stand ready to take additional measures should they be needed to meet the objectives of the program, and we will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached memorandum, in line with Fund policies on such matters. We will provide Fund staff all the data and information needed to assess the performance of the policies, particularly those mentioned in the Technical Memorandum of Understanding.

We will continue to maintain a close policy dialogue with the IMF to preserve macroeconomic stability and strengthen Tanzania's balance of payments position. Furthermore, in line with the IMF safeguards policy, the Bank of Tanzania (BoT) commits to comply with the recommendations of the 2022 safeguards assessment of the BoT, including strengthening the legal framework to ensure independent oversight of the BoT.

We agree to the publication of this Letter of Intent and the attached Memorandum of Economic and Financial Policies for FY2022/23–FY2025/26 and Technical Memorandum of Understanding, as well as the IMF staff report related to the Article IV consultation and first review of the 40-month arrangement under the Extended Credit Facility and the Debt Sustainability Analysis, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/   /s/

Dr. Mwigulu Lameck Nchemba Madelu (MP.)   Emmanuel Mpawe Tutuba
Minister of Finance and Planning   Governor, Bank of Tanzania

Attachments (2)

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and program performance and lays out the medium-term economic objectives and the policy framework of the government of Tanzania, supported by a forty-month Extended Credit Facility (ECF) arrangement. The macroeconomic policies and structural reforms included in this MEFP are consistent with the objectives of the Third National Five-Year Development Plan 2021/22–2025/26 (FYDP III) to raise inclusive growth and become a competitive, middle-income country. The policies and reform program presented here aim to preserve macroeconomic stability, create fiscal space, and strengthen financial sector stability and development.

A. Recent Economic Developments and Program Performance

1.   The spillovers from the war in Ukraine are stalling the economy's recovery from the COVID-19 pandemic. After a modest recovery from the effects of the COVID-19 to 4.9 percent in 2021, growth is estimated to have reached 4.7 percent in 2022, reflecting the impact of global economic conditions and shortfalls in rainfall, which affected electricity production and agriculture. Despite price subsidies provided by the government on fuel, fertilizer, and improved seeds, inflation picked up to 4.9 percent (y-o-y) in January (from 4 percent a year earlier). Tourism rebounded in 2022, almost reaching pre-pandemic levels, but the current account deficit widened further as rising imports more than offset the increase in exports. After peaking at US$6.8 billion in September 2021, boosted by the RCF disbursement and SDR allocation, gross international reserves declined to US$5.2 billion in December 2022, reflecting our responses to the spillovers of the war in Ukraine. Financial sector stability is improving as a result of ongoing efforts to address legacy problems including high NPLs, but some pockets of vulnerabilities persist.

2.   Despite improvements in revenue mobilization, the fiscal deficit in FY2021/22 improved only modestly and was wider than expected at the time of ECF program approval. Domestic revenue increased by about 18.4 percent (1 percentage points of GDP) in line with ECF program projections. The overall fiscal balance was, however, wider (by 0.7 ppts of GDP) than expected as the increase in development expenditure supported by the RCF loan of US$ 567 million more-than offset revenue increases. With growth in revenues moderating during the first half of FY2022/23 (about 12.9 percent (y-o-y)), the increased priority social spending is being achieved through reallocation from non-priority spending, keeping the fiscal stance unchanged, in line with the ECF program objectives.

3.   Performance under the ECF program was strong. All quantitative performance criteria and indicative targets for December 2022 were met. The verification process of outstanding expenditure arrears has been completed as a prior action to the first review. Similarly, all structural benchmarks have been completed, although two of them were completed with delay. The Ministry of Finance and Planning prepared a plan to clear all expenditure arrears, which is published online, and is being implemented. In November 2022, Parliament approved an amendment of the Banking and Financial Institutions Act to allow compliance with the requirements of capital adequacy as a

step to migration to Basel II/III risk-based supervision standards. The post-crisis audit of pandemic-related spending was published with delay in early February 2023 and posted here. The FY2023/24 preliminary Budget draft with the statistical reclassification of transfers to HELSB and the fee-free basic education program was submitted to Parliament in April 2023.

B. Macroeconomic Program and Targets

I. Program Objectives and Outlook

4. The government is committed to continue preserving macroeconomic stability and promoting sustainable and inclusive private sector-led growth as laid out in the FYDP III. The government's vision of the future is outlined in the FYDP III priority intervention areas, which include: (i) realizing an inclusive and competitive economy by completing an ambitious public sector investment program in key infrastructure projects; (ii) deepening industrialization and service provision through interventions in diverse sectors, including tourism, construction, agriculture, manufacturing, health, and education; (iii) addressing institutional bottlenecks through streamlining business environment procedures, promoting investment and trade, consolidating business environment reforms under the umbrella of the Blueprint, addressing bottlenecks impacting investment and business conduct and simplifying business and investment processes, and boosting regional and international trade; (iv) improving human development and promoting inclusive growth through targeted interventions in education, health, water supply and sanitation, urban planning and housing, food security/nutrition, and social protection; and (v) supporting skills development to specifically target improvements in technical education, vocational training, and workforce skills to enhance the economy's productivity and competitiveness. Key FYDP III strategies are aligned with and linked directly to the relevant SDG goals.

5. The sequencing of the priorities of the ECF program are aligned with the government's reform agenda. The near-term ECF program priorities are to help complete the economic recovery from COVID-19 impacts, maintain macroeconomic stability, and help Tanzania cope with spillovers from the war in Ukraine. Based on the objectives and policies included in the FYDP III, the ECF program is also supporting reforms for sustainable and inclusive growth and addressing long-term challenges through: (i) mobilizing domestic revenue and improving spending quality to create fiscal space for much-needed investment in human and physical capital; (ii) resuming and advancing a strong structural reform agenda, improving the business environment and competitiveness, and strengthening governance and reinforcing the anti-corruption framework; and (iii) strengthening financial deepening and stability, including through enhancing the monetary policy framework and improving supervision of the financial sector. ECF program financing will help reverse the declining trend in social spending and maintain the public investment drive, while structural and fiscal reforms come into effect mobilizing revenue to sustain the increased social spending.

6. We expect the economy to continue facing headwinds from spillovers of the war in Ukraine in the near term. Growth in 2023 is expected to be about 5.2 percent, slightly lower than the 5.3 percent expected at the time of ECF program approval. Inflation is projected to increase,

reaching about 5.3 percent by the end of the current fiscal year. The current account deficit is projected to deteriorate further in the current FY amid spillovers from the war in Ukraine. The fiscal stance is expected to remain neutral, anchored by the program. Intensifying spillovers from the war in Ukraine, commodity shocks, and abrupt global slowdown or recession could weigh negatively on the near-term outlook of Tanzanian economy.

7. **Over the medium-term the program will help revitalize the economy, while safeguarding macroeconomic stability and debt sustainability.** GDP growth is expected to reach 7 percent in the medium term, driven by improvements in the business environment and pro-growth fiscal consolidation. Revenues are projected to improve by about 1½ ppts of GDP by the end of the program to accommodate an increase in spending of about ½ ppt, reducing the overall deficit below 3 percent of GDP and the primary deficit below 1 percent of GDP. The external position is expected to improve with a current account improvement of about 2 pp over the medium-term supported by a recovery in tourism and lower imports as the public investment drive eases. Reserves are expected to recover, anchored by program target, and remain above 4 months of imports in line with BoT benchmark and within the IMF's adequacy range.

II.   Program Policies and Risks to the Outlook

8. **The domestic primary balance is the fiscal policy tool to anchor public debt at a sustainable level.** This fiscal policy measure, which excludes foreign assistance aid and net interest payments, is combined with a ceiling on contracting new external debt by the central government or the BoT (in PV terms) to maintain the risk of debt distress at a moderate level, while allowing room for critical investments in human and physical capital, given sizable development needs.

9. **The current FY budget has been revised to reflect outturns so far in the year**. Revenue growth has been slower than expected, but revenue shortfalls are being offset with cuts in non-priority spending, keeping the fiscal balances in line with program targets. Priority social spending has been safeguarded from the adjustment. In the first half of FY2022/23 tax revenue performance was about 98 percent against the target. The reason for the shortfall was mainly attributed to underperformance of transaction levy on banks and mobile money transfers and excise duties on petroleum. To align expenditures with the revenue performances, the authorities are slowing down the implementation of new projects and reprioritizing expenditure while safeguarding social sector spending.

10. **The draft budget for FY2023/24, which has been submitted to Parliament in April (Structural Benchmark), is fully aligned with program objectives.** The draft budget is based on realistic revenue and expenditure projections, with the domestic primary deficit projected to narrow to 1.2 percent of GDP (QPC in Table 1). Tax revenues are projected to continue recovering and will reach about 12.1 percent of GDP in FY2023/24 supported by tax measures that are planned to be instituted and implemented in the FY2023/24 budget (paragraph 21 below). Overall spending is expected to be stabilized at about 18 percent of GDP, and the government will rebalance the composition of spending to reverse the declining trend in budgeting and execution of priority social

spending (PSS). Should revenue projections not materialize in the first half of FY2023/24, widening the primary balance deficit, the government commits to adjust the budget in accordance with Section 6 of the Appropriations Act and share with IMF staff the mid-year review report by mid-February 2024, indicating the budgetary changes to reprioritize spending in line with available resources, while protecting PSS. In the event that cuts to PSS are needed, the government commits to share with IMF staff the list of PSS that will be reduced.

11.   In line with the commitments made at the time of ECF program approval, the government has corrected the classification of two development spending items in the FY2023/24 Budget. Two spending items—i.e., transfers to HESLB and the fee-free basic education program for children (Elimu Msingi Bila Malipo)—which used to be classified as development spending in human capital (capital transfers) in the past, are now classified as current expenditure (current transfers) in the draft budget submitted to Parliament (structural benchmark) in line with the GFSM 2014.

12.   The government will continue to seek external financing mainly on concessional terms and through grants to preserve debt sustainability. Tanzania is assessed to have a moderate risk of external debt distress and will continue following a prudent debt management strategy that aims to improve this risk rating. Newly contracted public debt will favor loans offered on concessional terms, which will help improve the current risk rating and debt sustainability. However, some long-term non- and semi-concessional borrowing will be considered to support critical expenditure needs for high-yield investment projects. The government will continue the policy of avoiding all non-concessional short-term external borrowing (with original maturity of less than one year). The government also commits to maintaining a ceiling on new external debt of the central government or the BoT in present value terms as presented in the continuous Performance Criterion in Table 1, to reconcile investment and external financing needs with the goal of preserving debt sustainability.

13.   The government commits to remain well within the ceiling on government borrowing from the central bank, as specified by the BoT Act. In the FY2022/23 budget, Parliament passed an amendment which sets the limit on government borrowing from the central bank at 18 percent of the actual domestic revenue of the previous fiscal year. Prior to this, this ceiling was one-eighth of the preceding fiscal year's domestic revenue. The objective of this amendment was to harmonize the government borrowing limit in Tanzania with that of other East African Community (EAC) countries and facilitate government budget execution. To enhance monetary policy effectiveness in the context of the transition to price-based monetary policy, government borrowing from the BoT will be kept at a minimum, and well-within the limit.

14.   The Bank of Tanzania (BoT) stands ready to tighten monetary policy as needed, while allowing exchange rate flexibility to cushion the economy against external shocks. The BoT implemented a less accommodative monetary policy in the first half of FY 2022/23, geared towards maintaining low and stable prices, while safeguarding recovery of economic activities from COVID-19 pandemic and effects of the war in Ukraine. The implementation of monetary policy succeeded in keeping inflation within the BoT's target and maintaining adequate liquidity for credit expansion, while observing monetary targets of the ECF program. To tame domestic inflationary pressure

without compromising growth of the economy, the BoT cautiously reduced the rate of liquidity expansion using a mix of monetary policy instruments, including repurchase agreements (repos) and selling liquidity papers. The BoT will continue to monitor actual and expected inflation and stands ready to tighten monetary policy further as needed. It will also develop a transparent foreign exchange intervention policy, and allow more exchange rate flexibility to absorb external shocks including from higher oil prices, while intervening only to address disorderly market conditions and contain financial sector vulnerabilities. A layer of financial sector contingency measures that buttress financial stability will also be key. Non-performing loans ratio has declined to 5.8 percent in December 2022, and the BoT will continue to closely monitor financial stability and take measures to ensure nonperforming loans decline below the desired level of 5 percent. Monetary policy will continue to aim at maintaining inflation around the 5 percent target through money market operations, while maintaining adequate international reserves.

15.   The government will implement economic policies to achieve the objectives and quantitative performance targets set out in the ECF program macroeconomic framework for FY2023/24 and the medium-term. The economic reform program supported by the ECF program is aimed at mitigating the short-term economic impact of the war in Ukraine, maintaining macro-economic stability, and reviving the reform momentum to raise and sustain growth and reduce poverty. The FYDP III goal is to make Tanzania a competitive and semi-industrialized middle-income country, while at the same time strengthening human capital and assuring inclusive growth. To this end, it sets a more ambitious goal of accelerating economic growth to 8 percent in the outer years. The government will continue to discuss medium-term projections with IMF staff and stands ready to refine the medium-term macroeconomic framework in future budget laws.

16.   Considering the high uncertainty in the current environment, the government has prepared potential contingency plans if adverse scenarios materialize. An adverse growth outlook and deteriorating macroeconomic conditions could materialize. Worsening economic and financial global environment, due to the war in Ukraine, could significantly impact Tanzania's economy. Higher global oil and food prices and increased volatility in gold prices could worsen the external position and increase financing needs. Additionally, further tightening of monetary policy in advanced economies will pose challenges to the management of foreign exchange reserves and liquidity. If these risks materialize, the government's response would include: (i) exchange rate flexibility to help partly absorb further external shocks like higher commodity prices or lower tourism demand, while reserve buffers are carefully used to prevent episodes of disorderly market conditions; (ii) reprioritizing spending including infrastructure investments to help protect the most vulnerable, while safeguarding fiscal and debt sustainability; and (iii) maintaining a data-dependent monetary policy to ensure price stability. The government will ensure that higher fuel and food prices do not put at risk the financial stability of SOEs and that social protection needs are met without endangering fiscal objectives. The government will also seek additional budget support, for which keeping the IMF supported program on track would be critical.

C. Structural Reforms

17.   The structural reforms agenda will focus on improving conditions for sustainable and inclusive growth. The government will implement: (i) fiscal reforms to promote growth and safeguard debt sustainability; (ii) business environment reforms and investments in human capital and infrastructure to unlock Tanzania's growth potential; and (iii) monetary policy and financial sector reforms to ensure macro-financial stability.

III.   Fiscal Policies to Promote Growth

18.   The focus will be on three key fiscal policy areas to enhance growth while maintaining fiscal and debt sustainability. In the near-term, the priority of fiscal policy is to protect the economy from spillovers of the war in Ukraine. Over the medium term, fiscal reforms will focus on: (i) increasing domestic revenue mobilization to create fiscal space, (ii) rebalancing spending towards priority social spending, and (iii) improving the quality of spending including by reducing fiscal risks and improving public investment management to close the infrastructure gap.

Mobilizing Tax Revenue

19.   Tax policy and revenue administration efforts in FY2022/23 and during the program period are based on (i) broadening the tax base by reducing the informal sector through incentivizing more electronic declarations and electronic payments; (ii) bringing the digital economy into the tax net; (iii) controlling and reducing tax exemptions granted in the tax laws; (iv) enhancing tax administration systems; (v) enhancing human resource capacity including recruitment and training; (vi) enhancing enforcement on the issuance of electronic fiscal devices (EFD) receipts; and (vii) enhancing risk-based programming and strengthening recovery action.

20.   Over the short and medium term, the government also intends to continue to devote efforts to recover tax arrears and to expand the registration of taxpayers. Efforts will be directed towards expediting verification of VAT refunds through leveraging technology aiming to clear the backlog of VAT refunds by June 2023 and mobilizing all recoverable overdue tax debts over the duration of the program, building on measures implemented in December 2022 to enhance risk-based tax audit mechanisms. Regarding the registration of taxpayers, the government will update the taxpayer registry and streamline the process for new taxpayers, e.g., using a single point of entry for registration, regulation, and issuance of tax ID numbers by June 2023.

21.   The government commits to work towards greater rationalization of tax and customs exemptions and to better supervise the introduction of new exemptions. A recent IMF TA report identifies widespread and poorly targeted tax exemptions and inefficient tax administration as key contributors to our sub-optimal revenue performance. Against this background, the government will finalize its ongoing review of tax exemptions and prepare an action plan for rationalizing tax incentives by June 2024. The government will include a proposal in the FY2023/24 budget for indirect tax policy measures (with revenue yield of 0.3 percent of GDP) and submit to

Parliament by June 2023 (new structural benchmark) and interface the Revenue Authority's information technology system with that of prioritized government institutions by December 2023 (new structural benchmark), with a combined estimated revenue yield of 0.5 percent of GDP. To pave the way for additional structural reforms in the tax and customs system over the medium term, the government will also, with IMF TA support, conduct analyses of the Tax Administration Diagnosis Assessment Tool (TADAT) and the preparation and implementation of a Medium-Term Revenue Strategy (MTRS).

Rebalancing and Improving the Quality of Spending

22.   The government is committed to improve the quality of expenditures by rebalancing and improving spending towards priority social spending. The government is on track with hiring 10,000 additional health workers and 15,000 primary and secondary teachers to improve the quality of education and reduce the student/teacher ratio, notably in rural areas, by June 2023 (structural benchmark). The government intends to continue investing on social sectors to significantly reduce the gaps in teachers and healthcare workers and equip schools and local health facilities over the duration of the program. Towards this goal, the government will continue to recruit additional health workers and primary school teachers in FY2023/24. We have increased spending on health and education, both in levels, and as a share of GDP, with total social priority spending reaching 6.7 percent of GDP by the end of the current fiscal year. For the medium-term, we will continue increasing social priority spending in levels, with the goal of stabilizing that as ratio to GDP. The government will continue to disclose, on a quarterly basis, the amounts spent on each social sector (health, education, social transfers, among others) aiming at least at reaching the floor on social spending agreed on the program. The performance in raising and maintaining social spending is being monitored by an indicative target.

23.   A sufficiently financed education policy, a well-functioning health system and a strong safety-net are crucial to promote sustainable and equitable growth and development. The government policies to help address these issues are:

- *Increase budgetary allocations for education to expand coverage, improve quality, and reduce gender and rural-urban disparities*. It is important to increase and improve teacher training to accompany the expansion in hiring to improve the quality of education. To expand access and reduce the student teacher ratio in a cost-effective manner, some efficiency gains could be achieved by: (i) revising the construction parameters of schools to use multipurpose laboratories and in-class libraries; (ii) leveraging technology for online learning; and (iii) reallocating teachers to use them more effectively.

- *Help reduce the gender gap in educational attendance and outcomes*. This includes building and improving sanitary facilities in schools to increase girls' attendance, providing a larger share of female teachers, and supporting more gender-friendly teaching practices to promote girls' active participation in class.

- *Balance resources between primary, secondary, and tertiary education to increase the efficiency of spending.* In this regard, the government will seek to improve the public program of Higher Education Students Loans Board (HESLB) by refining the targeting mechanism for eligible students (e.g., means-testing) and further strengthening loan recovery efforts.

- *Modernize the equipment and technologies used for vocational and technical education over the medium-term.*

- *Ensure continuous consultations with the private sector on training and vocational programs and follow up on the recommendations from the National Skills Council.*

24. **Improving health and social assistance will also contribute to human capital accumulation and poverty reduction.** Continuing to support affected low-income households with cash transfers, through TASAF, will also help the economic recovery while protecting the most vulnerable. Over the medium-term, the government will focus on increasing resources for the health sector to keep up with the increasing demand for health services, and to reduce gaps in coverage. Expanding TASAF to more eligible families, while properly targeting the aid provided will help reduce poverty and inequality and protect the human capital accumulation of poor households. The government commits to review the subsidy system to identify gaps and reform measures needed to improve efficiency and targeting by December 2023.

25. **Efforts to modernize and strengthen the quality of development spending and public investment management will be intensified on the bases of IMF TA advice.** Recent IMF technical assistance mission conducted assessment of PIMA, including a climate module (C-PIMA). We will formulate reforms based on the recommendations of the final TA report. The ongoing effort is to prepare an inventory of large projects. A statement of multi-year budgetary commitments on the project inventory is expected to be completed by June 2023.

Reducing Fiscal Risks

26. **The government is engaged in taking all necessary measures to clear existing arrears and prevent them going forward.** Towards this goal, the government is continuing to implement its plan, prepared and published as part of an ECF program structural benchmark, to clear all existing verified arrears. To prevent the resurgence of expenditure arrears, the government is also preparing properly costed budget baselines and realistic revenue projections; and has amended the definition of arrears as unpaid claims over 30 and 90 days for goods and services and construction work, respectively. The government's performance in reducing the stock of expenditure arrears is being monitored by an ECF program indicative target.

27. **Improving financial information systems is one of the government priorities to strengthen budget execution and transparency, reducing fiscal risks.** To this end, the government is configuring a new functionality of the Integrated Financial Management Information System (IFMIS) to enable all commitments with approved budget allocations to be entered into the system by June 2023.

28.   The government is committed to strengthening government finance statistics and completing and expanding the coverage of budgetary and financial reports to give a more complete picture of the public sector's financial operations. The government will take steps to gradually include all public entities, in addition to the central government, in order to establish and periodically update a public sector balance sheet covering all assets and liabilities. This statistical improvement will also help the process of harmonizing and integrating fiscal statistics from Zanzibar into the General Government reporting. Furthermore, the government is adopting the provisions of the government finance statistics manual (GFSM 2014), with technical assistance from the IMF.

29.   The government is further committed to increasing transparency by publishing data related to investments made by other public entities (e.g., public enterprises and local governments) or through Public-Private Partnerships (PPPs). The monitoring of PPPs will be strengthened through their full consideration in budget documents, as well as in documents related to public debt sustainability, given their potential as contingent liabilities. Furthermore, starting in FY2022/23 the government commits to continuing to transparently publish key financial information from the audited annual financial statements of all SOEs including balance sheets, income statements, cashflows, and changes in equity in the website of the Office of Treasury Registrar.

30.   Preserving and enhancing fiscal resilience will be important to safeguard fiscal space in an uncertain external environment. In this regard, the government is committed to implement the following measures to resolve outstanding issues and reduce fiscal risks:

- Implementing the plan for the repayment of arrears on VAT refunds and continuing to implement a risk-based approach.

- Containing risks emanating from SOEs, including the national energy company (i.e., TANESCO) and the national airline (Air Tanzania). In the case of TANESCO, the government has converted Tsh 2.4 trillion on-lent loan to TANESCO into equity to improve the company's balance sheet. Further reforms are required to improve the company's financial footing by implementing a plan to clear its arrears to suppliers and the government arrears to TANESCO; enhancing the efficiency of TANESCO; and building generation capacity based on cost-benefit analysis and diversified energy sources. Discussions are ongoing between the MoFP and TANESCO to establish the modality for improving the company's financial position.

- Accelerating the verification of claims from the social security funds and proposing a plan for clearing those arrears. Parametric reforms to the public pension system have been implemented effective in July 2022 in order to safeguard the sustainability of the public pension fund.

IV.   Business Environment Reforms to Unlock Growth Potential

31.   Enhancing the business environment is essential to promote private sector development and unleash the growth potential. The government will continue to implement the Blueprint for Regulatory Reforms, emphasizing the streamlining of permits and licenses and rationalizing the number of institutions issuing them and conducting oversight. This will include

adopting and publishing a timetable to implement the key de-regulations envisaged in the Blueprint for Regulatory Reforms along with a clear delineation of responsibilities for streamlining the regulatory regime across various government entities. In October 2022, Parliament approved amendments of the 1996 National Investment Promotion Policy and the 1997 Tanzania Investment Act to improve the business climate and promote private sector investment, well ahead of plan. In addition, by June 2023, the government aims to implement 18 amendments to various laws, such as the Tanzania Communications Regulatory Authority (TCRA), the Energy and Water Utilities Regulatory Authority (EWURA), the Copyright Society of Tanzania, Tourism, and the Local Government Acts as outlined in the Blueprint Action Plan in order to improve the business environment and attract private investment. This includes, for example, amending the Local Government Act to allow one-stop centers, reducing red-tape bureaucracies, and facilitating businesses creation. Some of the fiscal reforms outlined above will also help improve the business environment: for example, addressing the longstanding issues of VAT refunds and expenditure arrears will provide liquidity, predictability, and confidence to the private sector. The government is committed to consulting and engaging with relevant stakeholders to address their concerns in the planning and implementation of reforms.

32.   The government will examine additional measures to promote private sector development. These include: (i) streamlining non-tariff trade barriers (e.g., requirements on the type, volume, or quality of imported goods) and continuing to implement a risk-based approach for all inspections; (ii) enhancing engagement with the private sector and other stakeholders in the formulation of new legislation to improve the business environment; and (iii) improving predictability in government policies.

33.   The government is committed to improving the quality of National Accounts statistics to further enhance credibility, improve budget forecasting and attract investment. The government recognizes the importance of improving the overall consistency and transparency of the national accounts statistics. The government will endeavor to regularly improve the quality of national account source data. The government will reconcile external sector data between the national accounts and the balance of payment statistics and publish revised national accounts data by June 2023 (current structural benchmark). The government is also committed to continuously update and revise national accounts statistics as source data is updated to maintain the consistency of statistics across the country and complying with the e-GDDS timely submission of data.

34.   The government will strengthen implementation and enforcement of comprehensive anti-corruption strategy and legislation. As part of the National Anti-Corruption Strategy and Action Plan 2023-28 (NACSAP), efforts will be taken towards: (i) enhancing investigative and intelligence capabilities, (ii) building technological and big data capabilities to address new challenges, (iii) focusing on prevention strategies including promotion of society participation in the anti-corruption campaigns, increasing public awareness of corruption, and enhancing adherence to asset declaration of public officials and the codes of conduct. Tanzania is currently listed by FATF as a country with strategic AML/CFT deficiencies under increased monitoring. We have taken steps to align the legal framework with the FATF standards and improve the effectiveness of the AML/CFT

framework. The government, in consultation with the IMF, will establish an AML/CFT risk-based supervisory approach that: assigns a supervisor for each sector (financial institutions and designated non-financial businesses and professions), details a template sectoral money-laundering terrorist financing risk assessment methodology, establishes a template onsite and offsite supervisory manual, and a supervisory plan for the highest risk sectors. The government also commits to resolving outstanding governance issues and will seek technical assistance from the IMF and other development partners as needed to maximize its efforts.

35.   The government seeks to develop climate adaptation and mitigation policies. Tanzania is highly vulnerable to climate change due to its dependence on rain-fed agriculture and hydroelectricity generation. We see climate change as a major challenge and are working to develop adaptation and mitigation policies. To support our efforts to address climate change challenges we will seek technical and financial support from development partners.

36.   The government has met the governance commitments in the RCF Letter of Intent. In particular, the government has published quarterly reports of RCF spending and posted online here 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) and posted here. The audit of all pandemic-related spending was published in January 2023 (structural benchmark) and is available here.

V.   Strengthening Monetary Policy and Financial Stability

37.   The BoT will continue progress towards transitioning to an interest rate-based monetary policy framework in FY2023/24 and improving transparency of its forex intervention policy. The transition, combined with new prudential tools to enhance systemic liquidity management, will help deepen financial markets. The BoT intends to implement an interest rate-based monetary policy framework in FY2023/24, in line with the harmonization of East African Community (EAC) monetary policy. As part of the monetary policy framework transition, the BoT intends to (i) further improve monetary policy communication with market participants (ii) introduce the policy rate by the time the operational guidelines are introduced (see below), publish the operational guidelines of the interest rate-based monetary policy framework, including documentation and regulation on the use of standing facilities, and the policy rate by June 2023 (structural benchmark); and (iii) implement measures to enhance collateral recovery and broaden the pool of acceptable collateral to movable collateral. We will operationalize the interest rate-based monetary policy effective in January 2024. Furthermore, the BoT will formalize and publish its forex intervention policy stating the objectives, the triggers, the mechanism and modality of the intervention by December 2023 (new structural benchmark).

38.   The BoT is committed to continue implementing the FSAP recommendations to enhance financial sector stability and mitigate near-term banking sector vulnerabilities. Key priorities include enhancing risk-based supervision and solvency stress testing capabilities; reducing NPLs and increasing provisioning (including for restructured loans), and enhancing buffers to

manage near-term liquidity, credit, and concentration risks, which will be supported by IMF technical assistance. The BoT will re-run its solvency stress test scenario and will step up monitoring and enforcement of prudential guidelines, particularly in relation to undercapitalization, NPLs and restructured loans. The BoT will also continue its efforts to operationalize the ELA framework, and enhance the risk-based supervision (RBS) framework by implementing the Basel II/III risk-based supervision standards and creating a single RBS rating system and improve AML/CFT risk-based supervision. As a first step, the Banking and Financial Institutions Act (BAFIA) has been amended to allow compliance with the requirements of capital adequacy as a step to the migration to Basel II/III risk-based supervision standards.

D.   Other Issues and Program Monitoring

39.   The government will continue to strengthen collaboration and engagement with the IMF and other development partners on the implementation of technical assistance. The government values the technical assistance received from the IMF and other partners and will strive to make headway in removing barriers to implementation, by increasing ownership of TA recommendations at the technical and managerial levels. TA provision will be instrumental for progress to address new needs and challenges arising from the implementation of the economic reform agenda under the ECF program.

40.   The government is committed to implementing the recommendations from the recently completed safeguards assessment. Strengthening the legal framework to ensure independent oversight of the BoT will be pursued. Specifically, the BoT will prepare draft amendments to the BoT Act in consultation with IMF staff to strengthen governance arrangements as well as personal and financial autonomy, including addressing the issue of the composition of the Board to be comprised of a clear majority of non-executive (independent) members in line with leading practices and submit to government by December 2023. Technical assistance will be requested to support the preparation of the draft amendment to the BoT Act to address governance concerns and improve autonomy provisions. In addition, given that IMF financing is for budget support, the existing MoU between the BoT and the Ministry of Finance and Planning on respective responsibilities for servicing financial obligations to the IMF have been revisited.

41.   The government will continue a close policy dialogue with the IMF to maintain macroeconomic stability and strengthen Tanzania's balance of payments position. The government will refrain from measures or policies that would compound our balance of payments difficulties. The government does not intend to impose new, or intensify existing, restrictions on the making of payments and transfers for current international transactions, introduce new, or intensify existing, trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

42.   While data provision is broadly adequate for surveillance and program monitoring, the government remains committed to allocate sufficient human, financial, and material resources to the production of statistics. The government will continue to support the National

Bureau of Statistics (NBS) in fulfilling its missions and counts on continued technical and financial assistance from development partners. The government will prepare and publish a plan to improve GDP statistics by enhancing key data sources (e.g., surveys on investment, employment, and production by activity) and using relevant data from the TRA by June 2024. The government will continue to collaborate with the IMF and other stakeholders to address shortcomings and strengthen data provisioning, and ensure full transparency and access to data and methods.

43.   The program will continue to be evaluated based on quantitative performance criteria and structural benchmarks (Tables 1 and 2) and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding (TMU). The second and third reviews are scheduled to be completed on or after September 29, 2023, and March 29, 2024, respectively, based on test dates for periodic performance criteria of end-June 2023 and end-December 2023, respectively.

Table 1. Tanzania: Quantitative Performance Criteria and Indicative Targets, September 2022 – December 2023
(Tsh billions, unless otherwise indicated)

	End-Sep. 2022				End-Dec. 2022				End-Mar. 2023	End-Jun. 2023	End-Sep. 2023	End-Dec. 2023
	IT-program	IT-adjusted	Actual	Status	Target	Target-adj	Actual	Status	IT	QPC	IT	QPC
Continuous Performance Criteria												
Ceiling on accumulation of new external payment arrears incurred by the central government or the BoT	0	0	0	Met	0	0	0	Met	0	0	0	0
Ceiling on the PV of new external debt contracted by the central government or the BoT (millions of U.S. dollars) 1/	5,053	5,053	36	Met	5,737	5,737	347	Met	6,436	7,057	5,053	5,737
Performance Criteria												
Floor on domestic primary balance 1/	131	11	-1,323	Not Met	-2,248	-2,575	-2,206	Met	-398	-4,376	-718	-1,510
Ceiling on net domestic assets (NDA) of the BoT 2/	-598	-623	-998	Met	-304	-739	-1,076	Met	-420	-98	-220	-287
Change in net international reserves of the Bank of Tanzania (floor, millions of U.S. dollars) 3/	-73	-573	-80	Met	-146	-646	57	Met	-219	-292	-192	-92
Indicative Targets												
Floor on priority social spending 1/	1,557	1,557	2,249	Met	3,893	3,893	4,603	Met	7,008	12,653	3,506	7,012
Ceiling on the stock of domestic arrears 1/	3,800	3,800	2,778	Met	3,552	3,552	2,325	Met	3,342	1,985	1,868	1,691
Ceiling on the newly disbursed external non-concessional borrowing by the central government or the BoT (millions of U.S. dollars) 1/	1,533	1,533	106	Met	1,631	1,631	241	Met	1,631	1,631	1,533	1,631
Memorandum Items												
Foreign assistance grants and loans (US$ mlns) 1/	196	...	175	...	1,507	...	593	...	2,328	3,551	620	1,169
VAT refunds in arrears	710	...	433	...	582	...	291	...	539	0	0	0
Expenditure arrears	3,090	...	2,345	...	2,970	...	2,033	...	2,803	1,985	1,868	1,691
Wage bill on education and health workers 1/	476	...	1,158	...	1,141	...	2,313	...	2,189	3,358	744	1,489

Sources: Tanzanian authorities; and IMF staff projections.

1/ The quarterly figures represent cumulative values from the start (July) till the end (June) of each fiscal year.

2/ December 2022 target adjusted downward for the deviation of World Bank budget support (US$150) from from projection.

3/ Cumulative change from June 2022. A positive change denotes an accumulation of net international reserves.

Note: Precise definitions of the aggregates shown and details are included in the Technical Memorandum of Understanding (TMU).

Table 2. Tanzania: Prior Actions and Structural Benchmarks Through December 2023

Reform Targets	Macroeconomic Rationale	Target Date	Status
Prior Action			
Complete the verification of outstanding expenditure arrears	Improve fiscal management and the business environment	March 31, 2023	Completed
Structural Benchmarks			
1. Prepare and begin implementing a plan to clear all expenditure arrears.	Improve fiscal management, the business environment and reduce potential for corruption	End-Dec. 2022	Met
2. Publish the operational guidelines of the interest rate-based monetary policy framework, including documentation and regulations on the use of standing facilities.	Enhance financial stability and transparency	End-Jun. 2023	Ongoing
3. Appoint additional 15,000 teachers for primary education to improve quality of education and reduce the student/teacher ratio, particularly in rural areas. And hire 10,000 additional health workers to address gaps.	Build human capital	End-Jun. 2023	Ongoing
4. Complete and publish the post-crisis audit of pandemic-related spending.	Improve fiscal management and enhancing economic governance	End-Dec. 2022	Not met
5. Reconcile national accounts (NA) and BOP external sector data and publish revised NA historical data.	Improve GDP quality and transparency	End-Jun. 2023	Ongoing
6. The BoT will submit an amendment to the Banking and Financial Institutions Act (BAFIA) to the government to allow compliance with the requirements of capital adequacy as a step to the migration to Basel II/III risk-based supervision standards.	Enhance financial stability and strengthen bank oversight	End-Dec. 2022	Met
7. Submit the FY2023/24 Preliminary Budget draft to the Parliament with the statistical reclassification of Transfers to HESLB and the fee-free basic education program.	Improve fiscal management and official statistics, and enhance economic governance and transparency	End-Feb. 2023	Not met
8. The government will include a proposal in the FY2023/24 budget for indirect tax policy measures for 0.3 percent of GDP and submit to Parliament.	Enhance revenue performance	End-Jun. 2023	Proposed
9. The Revenue Authority will interface its information technology system with that of prioritized government institutions.	Enhance revenue performance	End-Dec. 2023	Proposed
10. The BoT will formalize and publish its forex intervention policy stating the objectives, the triggers, the mechanism and modality of the intervention.	Strengthen the transparency of forex interventions	End-Dec. 2023	Proposed
11. The government, in consultation with the IMF, will establish an AML/CFT risk-based supervisory approach that: assigns a supervisor for each sector (financial institutions and designated non-financial businesses and professions), details a template sectoral money-laundering terrorist financing risk assessment methodology, establishes a template onsite and offsite supervisory manual, and a supervisory plan for the highest risk sectors.	Strengthen financial stability	End-Dec. 2023	Proposed

Attachment II. Technical Memorandum of Understanding

1.   This Technical Memorandum of Understanding (TMU) describes concepts and defines the quantitative performance criteria and indicative targets described in the Memorandum of Economic and Financial Policies (MEFP) for the financial program supported by an arrangement under the IMF's Extended Credit Facility (ECF) over the period of July 2022—September 2025.

Definitions

2.   The principal data sources are the standardized reporting forms, 1SR, 2SR, NDF table provided by the Bank of Tanzania (BoT) to the IMF, the government provisional budget execution tables provided by the Ministry of Finance and Planning (MoFP), the government debt tables provided by the Accountant General's office, and the data on the national accounts, inflation and high frequency indicators provided by the National Bureau of Statistics (NBS).

3.   The stock of all foreign assets and liabilities will be converted into the U.S. dollars at each test date using the cross-exchange rate referred to in the Text Table 1 below for the various currencies, and then converted into Tanzanian Shillings (TSh) using the program U.S. dollar-Tanzanian Shillings exchange rate for end-June 2022, unless otherwise indicated in the text.

4.   For purposes of this TMU, "external" and "domestic" shall be defined on a residency basis.

5.   Performance criteria included in the program, as defined below, refer to the new external payments arrears, new external debt contracted by the central government or the BoT, domestic primary balance, net domestic assets (NDA) and net international reserves. Performance criteria are set for end-June 2023 and end-December 2023, while indicative targets are set for end-March 2023 and end-September 2023.

6.   In addition to the specific PCs listed in paragraph 5, as for any Fund arrangement, continuous PCs also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, such continuous performance criteria covers (i) the non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) the non-introduction or modification of multiple currency practices; (iii) the non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) the non-imposition or intensification of import restrictions for balance of payments reasons. These continuous PCs, given their non-quantitative nature, are not listed in the PC table annexed to the MEFP.

Text Table 1. Program Exchange Rate and Prices (end-June 2022)	
	US$ per currency unit
British pound	1.2235
Euro	1.0568
Japanese yen	0.0073
Australian dollar	0.6999
Canadian dollar	0.7752
Chinese yuan	0.1507
SDR	1.3474
Swedish Krona	0.0969
Kenyan Shilling	0.0085
South African Rand	0.0609
Gold price	1822.85

Provision of Data to the Fund

7. The following information will be provided to the IMF staff for the purpose of monitoring the program (see Table 1 for details):

- Data with respect to all variables subject to quantitative periodic performance criteria and indicative targets will be provided to Fund staff monthly or quarterly with a lag of no more than the period specified in Table 1. The authorities will promptly transmit any data revisions to the Fund. As set out below, for continuous performance criteria, the authorities will provide the relevant data to IMF staff immediately.

- For variables assessing performance against program objectives but which are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting.

Quantitative Performance Criteria

A. External Debt

Ceiling on Accumulation of New External Payment Arrears Incurred by the Central Government or the Bank of Tanzania

8. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted by the central government or the BoT from their level at end-June 2022. External payment arrears consist of the total amount of external debt service obligations (interest and principal) of the central government and the BoT that have not been paid at the time they are due, excluding arrears on external debt service obligations pending the conclusion of debt-rescheduling arrangements and arrears previously accumulated and reported to the Executive Board. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external payment arrears it accumulates.

Ceiling on the Present Value of New External Public and Publicly Guaranteed Debt Contracted by the Central Government or the Bank of Tanzania

Definition, Coverage

9. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688- (14/107), effective June 30, 2015. A debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the government. Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

10.   External debt is any debt contracted by the central government or the BoT on both concessional and non-concessional terms with non-residents. For purposes of the program target, the measure of external debt will exclude IMF disbursements.

Concessionality

11.   For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

12.   For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD Secured Overnight Financing Rate (SOFR) is 2.7 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -140 basis points. The spread of six-month JPY LIBOR over six- month USD SOFR is -270 basis points. The spread of six-month GBP Sterling Overnight Interbank Average Rate (SONIR) over six-month USD SOFR is -60 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is 15 basis points.[1] Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six- month USD SOFR (rounded to the nearest 50 bps) will be added.

13.   A ceiling applies to the present value of external debt, newly contracted by the central government or the BoT. The ceiling applies to debt contracted for which value has not yet been received. The quantitative target does not apply to normal import-related commercial debt having a maturity of less than one year, and rescheduling agreements. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external loans it contracts, stating the conditions of these loans.

B. Fiscal Aggregates

Floor on Domestic Primary Balance

14.   A floor on domestic primary balance will apply. The domestic primary balance is defined as the overall fiscal balance of the government (central and local governments) excluding foreign assistance grants and net interest payments on public debt.

---

[1] The program reference rate and spreads are based on the average projected rate for the six-month USD SOFR over the following 5 years from the July 2022 World Economic Outlook (WEO) Update.

15. The fiscal balance is the fiscal deficit of the government measured on a cash basis from the financing side and defined as the sum of: (i) net domestic financing (NDF) of the government; (ii) net external financing; and (iii) privatization receipts. Any amounts in foreign currency will be converted into TSh at the exchange rates prevalent on the dates of the transactions.

i. NDF is calculated as the cumulative change from the beginning of each Fiscal Year, in the sum of:

   a. Loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued for monetary policy purposes), minus all government deposits with the BoT, which comprise government deposits as reported in the BoT balance sheet, 1SR (including counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes) and foreign currency-denominated government deposits at the BoT (including the PRBS accounts and the foreign currency deposit account).

   b. All BoT accounts receivable due from the government of Tanzania that are not included under item (a) above.

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

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

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

ii. Net external financing is measured on a cumulative basis from the beginning of each Fiscal Year, and is defined as the sum of disbursements minus amortization of budget support loans, project loans, external non-concessional borrowing (ENCB) including project ENCB directly disbursed to project implementers; and any other forms of Government external debt. The term "debt" will have the meaning set forth in paragraph 9 above. Government external debt is understood to mean a direct, i.e., not contingent, liability to non-residents of the government of Tanzania.

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

C.   Monetary Aggregates

Ceiling on Net Domestic Assets (NDA) of the Bank of Tanzania

16.   The target ceiling on NDA of the BoT is evaluated using the end of period stock. The NDA of the BoT are defined as the difference between reserve money and the NFA of the BoT valued in TZS using the program exchange rates as described in text Table 1. The calculation includes net credit to the government, claims on other sectors, claims on banks, other liabilities to banks, deposits and securities other than shares excluded from the monetary base, shares and other equity, and other items (net). As an illustration, at end-April 2022, using the Tanzanian shillings per US dollar exchange rate of 2,299 as of April 30, 2022, NDA of the BoT was TZSh -2,658 billion, calculated as follows:

Text Table 2. Calculating NDA of the BoT (end-April 2022)	
Net Foreign Assets	
USD millions	4,934
TZSh billions (A)	11,343
Reserve Money	
TZSh billions (B)	8,684
Net Domestic Assets	
TZSh billions = (B) - (A)	-2,658

D.   International Reserves

Change in Net International Reserves of the BoT

17.   Net international reserves (NIR) of the BoT are defined as reserve assets of the BoT minus short-term foreign currency liabilities of the BoT. The change in NIR is calculated as the cumulative change since June 30, 2022. The BoT's reserve assets, as defined in the IMF BOP Manual (6th edition) and elaborated in the reserve template of the IMF's Special Data Dissemination Standards (SDDS), include: (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps maturing in less than one year and other assets used as collateral or as guarantee for a third-party external liability (assets not readily available). The BoT's short-term foreign currency liabilities include: (i) all short-term foreign exchange

liabilities to nonresidents, except government's foreign currency deposits of residual maturities of more than one year; and (ii) outstanding purchases and loans from the IMF, as recorded in the financial position of Tanzania with the IMF by the Finance Department of the Fund, which is on the balance sheet of the BoT.

18.   NIR are monitored in U.S. dollars, and for program monitoring purposes, assets and liabilities in currencies other than U.S. dollars will be converted into dollar equivalent values using the program exchange rates as of as displayed in the text Table 1. Monetary gold will be valued in USD at the exchange rates and gold prices that prevailed on (see Table 1).

Indicative Targets

E.   Floor on priority social spending

19.   A floor on priority social spending will be set. Priority social spending is defined as central government spending (recurrent and development) for education, health, water, social safety nets (including cash transfers through Tanzania's Social Action Fund -TASAF), rural electrification, agricultural inputs, as well as for upgrading and maintenance of rural roads, including transfers to local governments for health, education, and rural water supply. The indicative target for the floor on priority social spending by the central government will be calculated cumulatively from the beginning of the fiscal year.

F.   Ceiling on the stock of domestic arrears

20.   Domestic arrears are defined as the sum of expenditure arrears and VAT refunds in arrears. A ceiling applies to the stock of domestic arrears by the government measured cumulatively from the beginning of the fiscal year in July. An unpaid bill is defined as any verified outstanding payment for more than 30 days owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes, and other deductions. For construction work an unpaid bill is defined as any verified outstanding payment for more than 90 days owed by any entity that forms part of the central government. Expenditure arrears are the total stock of unpaid bills at the end of each quarter as verified by Chief Internal Auditors. The ceiling on the stock of domestic arrears also includes unpaid VAT refunds outstanding for more than 90 days from the time the taxpayer submitted the refund claim.

G.   Ceiling on the new external non-concessional borrowing disbursed by the central government or the Bank of Tanzania

21.   For program purposes, the definition of debt is set out in paragraph 9 above. The coverage of new external non-concessional borrowing in this indicative target comprises the central

government and the central bank. The ceiling is inserted on disbursed rather than contracted new external non concessional borrowing.

22.   For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. IMF disbursements are also excluded from the indicative target.

23.   A ceiling applies to new external non-concessional borrowing disbursed by the central government or the Bank of Tanzania. The indicative target will be assessed on a cumulative basis for each test date with disbursements based on the schedule announced in the authorities' borrowing plan for debt disbursements. Any change in the disbursement schedule should be immediately reported to the IMF staff, stating the conditions of the changes in the disbursement schedule.

Memorandum Items

24.   Foreign assistance grants and loans are defined as the sum of external budget support (including IMF financing); program, project and basket grants; and concessional loans received by the Ministry of Finance and Planning (MoFP) through BoT accounts and accounts at other depository corporations. This memorandum item is calculated as the cumulative sum of the receipts from program loans and program grants since the beginning of the fiscal year.

25.   VAT refunds in arrears and expenditure arrears are defined in paragraph 20 above. They will be monitored separately as two different memorandum items to indicate transparently their respective clearance scheduling plans.

26.   The wage bill on education and health workers will be defined as the sum of budget spending on wages and salaries of public sector employees in education and health sectors— according to economic budgetary classification, including but not limited to employer pension contributions and other social security contributions, and other remunerations (such as bonus payments).

Use of Adjusters

27.   The performance criterion on the present value of newly contracted external public and publicly guaranteed debt will be adjusted in line with deviations from amounts projected. A downward adjustor is applied to cover World Bank lending projects that feature in the authorities' borrowing plan and are expected to be contracted within the program period. The size of this adjustor is limited to the value of the identified projects and should be revisited at each program review to incorporate updated information. Schedule A presents the current PV of World Bank lending projects.

Text Table 3. Schedule A: PV of Lending Projects with the World Bank[1]

(US$ million)

	2022/23				2023/24	
	Sep.	**Dec.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**
World Bank lending projects	494	560	629	689	40	737

1/ cumulative flows from July 1st of the corresponding Fiscal Year.

28. The performance criterion on the change in net international reserves will be adjusted downward by the amount (in U.S. dollars) of any shortfalls, up to a limit of US$500 million, in: (a) foreign program assistance, defined as the sum of budget support grants and loans; and (b) external non-concessional borrowing (ENCB) financing of the government budget, excluding non-concessional foreign program assistance, if any, included in (a), calculated relative to the projections shown in Schedule B below.

Text Table 4. Schedule B: Support and External Non-Concessional Borrowing for the Budget[1]

(US$ million)

	2022/23				2023/24	
	Sep.	**Dec.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**
Budget support grants	0	0	0	0	10	28
Budget support loans	0	350	350	350	0	500
External non-concessional borrowing	1,252	1,331	1,331	1,331	103	186

1/ cumulative flows from July 1st of the corresponding Fiscal Year.

29. The performance criterion on the domestic primary fiscal balance will be adjusted in line with deviations, downward (upward) by any excess (shortfall) in the amount of government domestic arrears settled, compared to those displayed in the Schedule C below which are based on the figures allocated in the Annual Budget Plan for FY 2022/23 and on the Indicative Target on the decline of the stock of domestic arrears presented in Table 1 of the MEFP.

Text Table 5. Schedule C. Payment of Domestic Arrears[1]

(TSh$ billion)

	2022/23				2023/24	
	Sep.	**Dec.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**
Payment of domestic arrears	117	365	574	730	118	294

1/ cumulative flows from July 1st of the corresponding Fiscal Year

30. The ceiling on NDA of the Bank of Tanzania will be adjusted upward (downward) by the cumulative deviation of actual from projected budget support (official external program support, shown above in Schedule B). This adjustment will be capped at the equivalent of US$500 million, evaluated at program exchange rates as described in text Table 1.

Table 1. Tanzania: Summary of Reporting Requirements			
Information	**Reporting Institution**	**Frequency**	**Submission Lag**
Consumer price index	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices	NBS	Annually	3 months
The quarterly national account statistics in constant prices	NBS	Quarterly	3 months
Daily data on reserve money and its components	BoT	Weekly	3 days
Balance sheet of the BoT (1SRF) and the currency composition of official foreign assets and official foreign liabilities	BoT	Monthly	2 weeks
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS)	BoT	Monthly	4 weeks
Information on foreign exchange cashflow, with detailed inflows and outflows (cashflow table)	BoT	Monthly	4 weeks
Information on gross reserves assets and liabilities (NIR table)	BoT	Monthly	4 weeks
Summary of stock and projections of external debt, external payment arrears, and committed undisbursed loan balances by creditor	MoFP	Quarterly	4 weeks
Yields on government securities	BoT	Monthly	1 week
Daily data on transactions through IFEM by exchange rate and volume, separating BoT and commercial bank transactions	BoT	Monthly	1 week
External trade	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	1 quarter
Standard off-site bank supervision indicators for other depository corporations, including sectoral breakdown of credit and NPLs	BoT	Quarterly	4 weeks
Financial Soundness Indicators for other depository corporations	BoT	Quarterly	4 weeks
Commercial banks interest rate structure	BoT	Monthly	4 weeks

Table 1. Tanzania: Summary of Reporting Requirements (continued)			
Information	**Reporting Institution**	**Frequency**	**Submission Lag**
The flash report on revenues and expenditures	MoFP/ACGEN	Monthly	4 weeks
The TRA monthly revenue report	TRA	Monthly	4 weeks
Report on priority social spending with the breakdown by each spending category, with quarterly budget allocation and execution	MoFP	Monthly	4 weeks
Monthly report on central government operations	MoFP	Monthly	6 weeks
The monthly domestic debt report[1]	MoFP	Monthly	4 weeks
Data on external and domestic debt by creditor; amortizations, and interest payments	MoFP	Monthly	6 weeks
Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid	MoFP	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 2 of the TMU during the period including terms and conditions according to loan agreements as well as quarterly borrowing plans during the program years	MoFP	Monthly	4 weeks
Report on loans and advances to government by pension funds and other public entities not covered by the central government accounts	MoFP	Monthly	4 weeks
Number of public sector teachers and health workers employed	MoFP	Monthly	4 weeks
Quarterly expenditure arrears verified by the Chief Internal Auditors	MoFP	Quarterly	4 weeks
Quarterly verified unpaid VAT refunds	TRA	Quarterly	4 weeks
Monthly tourist arrivals	NBS	Monthly	4weeks
Cement production and consumption (imports, exports, and production)	NBS	Quarterly	4 weeks

[1] The MoFP and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant General of the MoFP.

Table 1. Tanzania: Summary of Reporting Requirements (concluded)			
Information	**Reporting Institution**	**Frequency**	**Submission Lag**
Monthly construction inputs from index of construction material sourced from the national construction council (sand, clay and chalk, gravel and stone, lime, paints, putty and varnish etc., plastic kitchen and sanitary ware products, timber and wood products, cut stone and the like, glass, iron and steel sheets, bars, tanks and other products, other metal pipes, tubes, wire, sheets, etc., padlocks, metal mountings, soldering and welding wire, electrical wiring and fittings)	NBS	Monthly	4 weeks
Monthly electricity generation and consumption by sources of production/imports	NBS	Quarterly	4 weeks
Quarterly crop production of maize, cashew nuts, coffee, rice, wheat, cotton)	NBS	Quarterly	4 weeks
Monthly mobile phone airtime use in minutes	NBS	Monthly	4 weeks
Monthly gas consumption (volumes and values) for industry, tourism, and prisons	NBS	Monthly	4 weeks

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

April 4, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT— INFORMATIONAL ANNEX

Prepared By | The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

As of April 4, 2023

The United Republic of Tanzania and IMF

https://www.imf.org/en/Countries/TZA

The United Republic of Tanzania's Financial Position in the Fund

https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=930&date1key=2099-12-31

Exchange Rate Arrangement

The de jure exchange rate arrangement is free floating. The Bank of Tanzania (BOT) participates in the interbank foreign exchange market (IFEM) for liquidity management purposes and intervenes occasionally to smooth out short-term volatility in the exchange rate. In carrying out these operations, the Bank remains mindful of the need to maintain adequate level of international reserves within the statutory requirement. Trading in the IFEM is conducted using the Reuters trading platform in a two-way quote system. The BOT is not required to indicate two-way quotes when it participates in the interbank market. From February 2019, the shilling stabilized within a 2% band against the US dollar. Accordingly, the de facto exchange rate arrangement is classified as stabilized.

Tanzania accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from September 10,1962 and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions.

Safeguards Assessment

An updated safeguards assessment of the Bank of Tanzania (BoT) was completed in May 2022 in connection with the disbursements under the Rapid Credit Facility (RCF) approved by the IMF Executive Board in 2021. The assessment found that shortcomings in the legal structure seen in the last assessment are still evident. As a result, key gaps remain in the governance arrangements, as well as personal and financial autonomy. The BoT has made progress in strengthening internal audit and has maintained sound financial reporting practices. While the BoT has in place a relatively strong control mechanism in many areas, risks in currency operations are elevated, and the BoT is taking steps to address deficiencies in this area.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Tanzania and the World Bank

https://www.worldbank.org/en/country/tanzania

World Bank Group Projects

https://projects.worldbank.org/en/projects-operations/projects-summary?lang=en&countrycode_exact=TZ

Tanzania and the African Development Bank

https://www.afdb.org/en/countries/east-africa/tanzania

STATISTICAL ISSUES

As of April 4, 2023

A. Assessment of Data Adequacy for Surveillance
General. Data provision is broadly adequate for surveillance and program monitoring.The authorities—led by the National Bureau of Statistics (NBS) for the mainland and the Office of the Chief General Statistician (OCGS) for Zanzibar—have articulated a second 5-year strategy under the Tanzania Statistical Master Plan Phase Two (TSMP II) 2022/23 – 2026/27. The Plan is a multipronged approach to improve collection and dissemination of statistics operationalized through a series of Annual Work Plans. The authorities are focusing on carrying forward several ongoing initiatives, including ongoing efforts to strengthen the legal framework governing statistical collection in Tanzania; improving the quality of national accounts data, especially from Zanzibar; rebasing the producer price index; and improving indicators of industrial production.
National Accounts. National accounts statistics for mainland Tanzania are prepared by the NBS. Separate accounts are compiled for Zanzibar by the OCGS. The accounts are based on the 2008 System of National Accounts (2008 SNA) and are published at current and constant (2015) prices. Tanzania mainland publishes regularly the annual and quarterly GDP by production at current and constant prices. Recently, there were two missions conducted in October 2021 and October 2022. The earlier mission reviewed the use of government finance statistics in GDP compilation. The mission noted that NBS relied on government expenditures based on budget estimates and recommended to update the GDP estimation using actual expenditures from audited accounts. The second mission in 2022 was a TA mission that supported the NBS on the use of administrative data (Value Added Tax and Income Tax data) in national accounts. The NBS will use the administrative data in the next rebasing project to improve source data in national accounts and the Statistical Business Register (SBR).
Price Statistics. The NBS compiles a monthly consumer price index (CPI) for mainland Tanzania based on consumer expenditure in 21 urban centers. A separate price index is compiled for Zanzibar. An updated CPI with weights based on the 2017/2018 Household Budget Survey (HBS) was released in February 2021 (January 2021 index). Reflecting international best practices, the CPI weights reflect expenditure made by all households (urban and rural), but price data collection is restricted to urban areas. With this update, the NBS implemented the new version of the recommended classification system, the Classification of Individual Consumption According to Purpose (COICOP) 2018. The implementation of COICOP 2018 allows for a more detailed breakdown of the indexes and includes an additional major group. An AFE mission discussed the feasibility of developing a consolidated CPI that would include both mainland Tanzania and Zanzibar, but more work is needed. The NBS previously compiled and disseminated a producer price index (PPI); however, the PPI was suspended due to increasing non-response rates. AFE has been providing TA to the NBS to develop a PPI for agriculture (PPIA). Additional work is needed to improve the PPIA. Because agriculture is a key economic activity, it was selected as the first activity to re-develop the PPI. AFE will continue to support the development of the PPIA and expanding PPI coverage to include other activities.

Government Finance Statistics. The authorities provide Fund missions with monthly budgetary data on central government revenue, expenditure, and financing on a timely basis. Although the underlying concepts broadly follow the Government Finance Statistics Manual 1986 (GFSM 1986), the reporting differs from international standards in coverage and the treatment of lending minus repayments, and transfer payments. Coverage of data on the budgetary operations of the central government refers to Tanzania mainland only. Tanzania is receiving TA to help the authorities to compile annual general government data to cover all extra-budgetary units, social security funds and local government units, in the context of the convergence criteria set of the East African Monetary Union. The authorities compile draft annual data for budgetary central government broadly following the GFSM 2014 presentation but the data has not been reported for inclusion in the GFS Yearbook database. Compiling data for other general government subsectors and consolidation remains work in progress.

The President's Office, Finance and Planning of Zanzibar established a unit tasked with developing a fiscal reporting framework for Zanzibar and currently compiles annual budgetary central government data that meets the GFSM 2014 methodology. Steps are still ongoing to have Zanzibar's data consolidated with Tanzania mainland.

Despite improvements in the recording of government transactions, discrepancies remain between data on government operations and financing. These discrepancies are related to the lack of a fully integrated set of accounts and inconsistencies in the delineation of general government and its sub-sectors, differing source data, and timing differences. In addition, there appear to be gaps in the Integrated Financial Management Information System (IFMIS) that allow exchequers to be issued for work without corresponding entries in the Accountant General's system, leading to arrears and hampering transparency. This primarily affects multi-year development projects, including road construction.

The Ministry of Finance and Planning created a database of donor-funded projects in FY2020/21, known as D-Fund Management Information System. This system is intended to manage project funds which are channeled directly to implementing agencies by development partners without passing through the government exchequer systems. Since then, the number of foreign-financed project which included in the government budget has increased significantly.

Monetary Statistics. The Bank of Tanzania (BoT) reports the Standardized Report Forms (SRFs) 1SR for central bank and 2SR for other depository corporations (ODCs) for publication in the *International Financial Statistics (IFS)*. The SRFs are reported with monthly frequency, but with a long lag—the SRF 1SR has not been reported since November 2021. Expanding the coverage of the SRF 2SR to include Savings and Credit Cooperatives and advancing the BoT's work on compiling monetary statistics for other financial corporations will further help improve the compilation of monetary statistics.

Financial Sector Surveillance. The BoT has been publishing quarterly data on financial stability, though with a lag, coinciding with the publication of the Financial Stability Report. The BoT submit FSI data to STA with a lag of one quarter. Beginning December 2022, the BoT compile data based on 2019 FSI Guide, with the assistance of STA, and the data are due for submission through the Integrated Collection System. The compiled data comprises 13 core FSIs and 6 additional FSIs for deposit takers (4 FSIs for other financial corporations, and 2 FSIs for real estate markets) for

posting on the IMF's FSI website. There is need to expand FSI coverage to include insurance companies and pension funds which are quite significant in Tanzania.

The BoT used to report data until 2016 on several series and indicators of the Financial Access Survey (FAS), including mobile money and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). The BoT has already reached out to STA for technical support to resume FAS data submission.

Balance of Payments. The BOP data are compiled on a BPM6 format basis by the BoT and disseminated annually with quarterly attribution. The IIP data are reported annually. In the last years, the BoT has enhanced coverage and accuracy of the external sector statistics (ESS) following the recommendations of the last TA missions conducted in 2020 and 2021. The collection and compilation of data on foreign investment conducted through the Dar Es Salaam Stock Exchange (DSE) is a noteworthy improvement. Nevertheless, several actions are required to further improve the ESS. The BoT should focus on improving timeliness and frequency of data collection, thus enabling the dissemination of the IIP on a quarterly basis, and on participating in the IMF Coordinated Direct Investment Survey (CDIS). Further efforts should be made to achieve full consistency of financial accounts components across ESS statements..

B. Data Standards and Quality

Tanzania started participation in the Enhanced General Data Dissemination Standard (e-GDDS) initiative in July 2001 and launched its National Summary Data Page (NSDP) in November 2016. Metadata are posted on the IMF's Dissemination Standards Bulletin Board (DSBB) and were last updated in January 2014. A mission to prepare the data module for the Report on the Observance of Standards and Codes (ROSC) was completed in October 2002 and the report was published in March 2004.

Table 1. Tanzania: Table of Common Indicators Required for Surveillance (As of April 4, 2023)					
	Date of latest observation	**Date received**	**Frequency of Data**[7]	**Frequency of Reporting**[7]	**Frequency of Publication**
Exchange rate	2/28/2023	2/28/2023	D, M	D, M	D, M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	December 2022	February 2023	D, M	M	M
Reserve/Base Money	December 2022	February 2023	D, M	M	M
Broad Money	December 2022	February 2023	M	M	M
Central Bank Balance Sheet	December 2022	February 2023	M	M	M
Consolidated Balance Sheet of the Banking System	December 2022	February 2023	M	M	M
Interest Rates[2]	December 2022	February 2023	W, M	M	M
Consumer Price Index	February 2023	March 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	December 2022	February 2023	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2022	February 2023	M	M	M
External Current Account Balance	December 2022	February 2023	M	M	M
Exports and Imports of Goods and Services	December 2022	February 2023	M	M	M
GDP/GNP	2022 Q3	February 2023	Q, A	Q, A	Q, A
Gross External Debt	December 2022	February 2023	M	M	M
International Investment Position[6]	12/31/2021	9/27/2022	A	A	A

Note: All dates in the table use the mm/dd/yyyy format.
[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By	Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA).
Catherine Pattillo (AFR), Maria Gonzalez (SPR) and Manuela Francisco and Asad Alam (IDA)	

Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Some space to absorb shocks
Application of judgment	No

Tanzania's Debt Sustainability Analysis (DSA) indicates that its risk of external debt distress remains moderate. Continued lingering effects of the spillovers from the war in Ukraine have marginally weakened Tanzania's ability to service its external debt.[1] The economic recovery from the impact of the pandemic is undercut by the deteriorating global economic environment and shortfalls in rainfall. Risks remain tilted to the downside, while Tanzania has some space to absorb shocks. All external debt burden indicators continue to stay below the policy-determined thresholds under the baseline scenario. The public DSA analysis indicates that the present value of the public debt-to-GDP ratio remains contained at about 31 percent, well below the 55 percent benchmark based on Tanzania's debt carrying capacity. The DSA results signal the importance of accessing, to the extent possible, external financing on concessional terms. To maintain current fiscal and debt sustainability, in line with the IMF Extended Credit Facility (ECF) objectives, the authorities should improve revenue mobilization and public investment management, including by selecting only investment projects with clear socioeconomic payoffs.

---

[1] Tanzania's debt carrying capacity classification remains medium as in the August 2022 DSA. The composite index (CI), estimated at 2.92 is based on the October 2022 World Economic Outlook (WEO) and the 2021 World Bank Country Policy and Institutional Assessment (CPIA) data.

PUBLIC DEBT COVERAGE

1.   **The public sector debt covers central government debt, central government-guaranteed debt (i.e., excluding guaranteed debt of SOEs and local governments), and central bank debt (Text Table 1).** Public sector debt coverage is limited by the absence of granular data on all local governments and public corporations' debt. The Bank of Tanzania (BoT) currently has no outstanding debt. With assistance from development partners, the authorities are working on broadening fiscal data coverage, including on local governments and public corporations.[2] The definition of external debt is based on residency. The DSA contingent liability stress test is calibrated at 3 percent of GDP.[3] The size of the shock, although in line with the authorities' estimates of the size of potential contingent liabilities, is decidedly precautionary. Contingent liabilities include 2.8 percent of GDP in guarantees to the National Insurance Corporation and 0.2 percent of GDP non-guaranteed SOEs debt. The analysis includes in the domestic debt stock the full amount of government domestic arrears, totaling about 1.8 percent of GDP at end-FY2021/22 according to the latest data received from the authorities. Based on the authorities' strategy and in line with program conditionality, the DSA assessment reflects an accelerated schedule of arrears repayments.[4]

Text Table 1. Tanzania: Public Debt Coverage

Subsectors of the public sector	Check box
Central government	X
State and local government	
Other elements in the general government	
o/w: Social security fund	
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	X
Non-guaranteed SOE debt	

lic debt coverage and the magnitude of the contingent liability tailored stress test

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
Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
		3.0	Tsh 4.8 trillion (2.8% of GDP) for guarantees to the National Insurance Company and Tsh 0.3 trillion (0.2 percent of GDP) non-guaranteed SOEs debt as of June 2022. Source: MoFP.
SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP		
PPP	35 percent of PPP stock	0.0	
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)		8.0	

[1] The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

---

[2] The Ministry of Financing and Planning (MoFP) has a wide mandate over debt management by local governments and parastatals with weak financials: (i) the issuance of domestic debt is subject to its approval; and (ii) all external financing requires government guarantees. The central government's strong control over public sector debt limits the risk of additional, uncaptured, contingent liabilities.

[3] Revised down from the previous estimated contingent liability in the August 2022 DSA of 6.4 percent of GDP, reflecting the authorities' revised data.

[4] The outstanding balance of verified domestic arrears as of June-2022 was Tsh 3 trillion, of which Tsh 2.4 trillion was verified expenditure arrears and Tsh 0.6 trillion was VAT refund claims outstanding for more than 90 days. The authorities have recently accelerated the payment of those arrears and the ECF conditionality includes a ceiling on the stock of expenditure arrears (quarterly indicative target—IT) with a schedule of their clearance, which reflects the authorities *Revised Strategy for Management of Arrears*, as of December 2022. Domestic arrears do not impact Tanzania's DSA rating, as per the LIC DSF guidance note, around 80 percent of Tanzania's domestic arrears are verified expenditure arrears to suppliers.

BACKGROUND ON DEBT

2.   Tanzania's public and publicly guaranteed (PPG) debt remains relatively low. At the end of FY2021/22, the level of public debt stood at 43.8 percent of GDP, up from 41.3 percent in FY2020/21, largely reflecting the addition of verified domestic arrears in the FY2021/22.[5] Over the past decade, the debt to GDP ratio increased by about 15 percentage points of GDP. While domestic debt also rose over the same ten years, most of the increase came from the external debt component, which accounts for 63.7 percent of total debt at end-FY2022.

3.   External 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 71.7 percent of the stock of external public and publicly guaranteed (PPG) debt as of end-FY2021/22 (Table 1). However, in recent years, commercial borrowing has increased significantly, reaching 30.5 percent of new disbursement in FY2021/22. Due to pandemic-related increased challenges of external non-concessional borrowing, the authorities, faced by growing BoP needs, increased their financing through multilateral and official bilateral institutions, including IDA and IMF resources.[6] The BoT has currently no external debt outstanding.

4.   Domestic public debt has also increased but remains small. Domestic debt (including domestic arrears) stood at 15.9 percent of GDP at end-2021/22, of which about 26 percent accounted for short-term instruments, including domestic arrears. Commercial banks continue to hold the largest share of government debt, followed by social security funds.

MACROECONOMIC AND POLICY ASSUMPTIONS

5.   Tanzania faces development and reform challenges to fully unleash its economic potential. Tanzania has abundant natural resources (including gold and natural gas) and the potential to be a logistic hub and trade gateway for its neighbors, most of which are landlocked. However, rapid population growth in the context of institutional and structural weaknesses has kept a large share of the population below the poverty line. The authorities launched the Third Five Year Development Plan (FYDPIII), which aims to address these challenges and expedite Tanzania's progress towards becoming a middle-income country. The 40-month Extended Credit Facility (ECF) approved in July 2022 aims to support the country in facing protracted balance of payments needs associated with external shocks—the COVID-19 pandemic and the war in Ukraine—and the authorities' reform agenda, summarized in the FYDPIII. The ECF seeks to safeguard fiscal and debt sustainability, and public debt sustainability is a key program anchor.

---

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

[6] Tanzania received IMF emergency financing in FY2021/22 under the Rapid Credit Facility (RCF) for 100 percent of its quota, equal to SDR 397.8 million (about US$0.6 billion). At the beginning of fiscal year FY2022/23, the IMF Board approved a 40-month Extended Credit Facility (ECF), for a total amount of SDR 795.6 million (about US$1.1 billion). Tanzania also received US$836.8 million disbursement from IDA during FY2021/22. It also benefited from a debt service suspension under the Debt Service Suspension initiative (DSSI), see paragraph 7for details.

Table 1. Tanzania: Decomposition of Public Debt and Debt Service by Creditor, 2022-25[1]

Tanzania. Decomposition of Public Debt and Debt Service by Creditor, 2022-24[1]

	Debt Stock			Debt Service				Debt Service			
	2022			2022	2023	2024	2025	2022	2023	2024	2025
	(In US$ millions)	(Percent of total debt)	(Percent of GDP)	(In US$ millions)				(Percent of GDP)			
Total[2]	**32,141**	**100.0**	**43.8**	**3,775**	**3,502**	**2,982**	**3,035**	**5.1**	**4.3**	**3.3**	**3.1**
External	**20,459**	**63.7**	**27.9**	**1,544**	**1,319**	**1,210**	**1,175**	**2.1**	**1.6**	**1.4**	**1.2**
Multilateral creditors[3]	12,435	38.7	16.9	293	333	357	386	0.4	0.4	0.4	0.4
IMF	566	1.8	0.8	0	0	0	0	0.0	0.0	0.0	0.0
World Bank	8,533	26.5	11.6	196	235	254	275	0.3	0.3	0.3	0.3
AfDB	386	1.2	0.5	22	23	25	24	0.0	0.0	0.0	0.0
Other Multilaterals	2,950	9.2	4.0	75	75	79	86	0.1	0.1	0.1	0.1
o/w African Development Fund	2,418	7.5	3.3	34	40	42	49	0.0	0.0	0.0	0.1
o/w International Fund for Agricultural Dev.	225	0.7	0.3	17	12	12	12	0.0	0.0	0.0	0.0
Bilateral creditors	2,230	6.9	3.0	20	52	57	62	0.0	0.1	0.1	0.1
Paris Club	701	2.2	1.0	12	24	26	27	0.0	0.0	0.0	0.0
o/w France	204	0.6	0.3	6	11	12	13	0.0	0.0	0.0	0.0
o/w Japan	482	1.5	0.7	4	11	12	12	0.0	0.0	0.0	0.0
Non-Paris Club	1,529	4.8	2.1	8	28	31	35	0.0	0.0	0.0	0.0
o/w China	110	0.3	0.1	0	0	3	3	0.0	0.0	0.0	0.0
o/w Iran	78	0.2	0.1	0	8	8	8	0.0	0.0	0.0	0.0
Bonds	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Commercial creditors	5,793	18.0	7.9	1,230	934	796	727	1.7	1.2	0.9	0.7
o/w Credit Suisse AG	1,508	4.7	2.1	441	354	240	202	0.6	0.4	0.3	0.2
o/w Exim Bank China	1,558	4.8	2.1	177	171	168	164	0.2	0.2	0.2	0.2
Domestic	**11,683**	**36.3**	**15.9**	**2,231**	**2,184**	**1,771**	**1,860**	**3.0**	**2.7**	**2.0**	**1.9**
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	759	2.4	1.0	768	745	0	0	1.0	0.9	0.0	0.0
Bonds	8,586	26.7	11.7	1,463	1,439	1,771	1,860	2.0	1.8	2.0	1.9
Central bank advances	918	2.9	1.3	0	0	0	0	0.0	0.0	0.0	0.0
Domestic arrears	1,302	4.1	1.8	0	0	0	0	0.0	0.0	0.0	0.0
Loans	117	0.4	0.2	0	0	0	0	0.0	0.0	0.0	0.0
Memo Items:		0									
Collaterized debt[4]	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
o/w: Related	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
o/w: Unrelated	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Contingent liabilities	2,205	6.9	3.0								
o/w: Public guarantees (external)	0	-	0.0								
o/w: Other contingent liabilities[5]	2,205	6.9	3.0								
Nominal GDP (US$, millions)	73,501	73,501	73,501	73,501	81,251	89,807	98,384				

Source: Tanzanian Authorities & IMF Staff estimates

1/ Total debt includes domestic arrears (about 1.7 percent of GDP), which is not included in the authorities' debt statistics.

2/ Excludes public guarantees and other contingent liabilities, which are noted under memo items.

3/ "Multilateral creditors" are institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g., Lending Into Arrears).

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the join IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g., credit lines) and other explicit contingent liabilities not elsewhere classified (e.g., potential legal claims, payments resulting from

6.   The deteriorating global economic environment and shortfalls in rainfall are stalling Tanzania's economic recovery from the impact of the pandemic. After decelerating to 4.8 percent in 2020, real GDP growth modestly rebounded to 4.9 percent in 2021. While some sectors (mining, tourism, other services) showed signs of recovery during the first three quarters of CY2022, growth for the year is estimated to have slowed to 4.7 percent, reflecting the impact of global economic conditions and shortfalls in rainfall. Despite fuel and fertilizer subsidies, inflation picked up to 4.8 percent (yoy) in February 2023 (from 3.3 percent a year earlier), approaching the BoT's 5 percent target.

7.   The macroeconomic outlook hinges on protracted effects of the war in Ukraine as well as the broader policy and reform agenda under the program. The impact of the war in Ukraine on Tanzania's economy continues to be subject to considerable uncertainties, with potential downside risks. In line with the ECF, the medium- and long-term macroeconomic outlook assumes an acceleration in the implementation of the authorities' reform agenda.

- **War in Ukraine and ECF scenario.** The war in Ukraine is impacting Tanzania's economy through multiple channels. A deterioration in the terms of trade (oil, food, and fertilizer prices), and disrupted tourist flows from Russia and Ukraine have widened the current account deficit, which is expected to remain elevated. The scenario underlying this DSA reflects both the effects of the war in Ukraine and the implementation of a structural reform and development agenda under the ECF to deliver higher growth rates over the medium-term (see also Text Table 2).

- **Real GDP growth:** Real GDP growth in 2022 is estimated to have modestly slowed down to 4.8 percent due to the spillover effects of the war in Ukraine, compared to the average growth rate of 6.7 percent during 2011-2019. The DSA assumes that the GDP growth will gradually increase in the next 5 years, from 5 and 5.7 percent in 2023 and 2024, respectively, to 7 percent in 2028 (and averaging 6.2 percent during 2023-28), reflecting (i) recovery from the recent compounding shocks (COVID-19 pandemic, the war in Ukraine, and weather events), (ii) continued public investments on infrastructure and human capital, and (iii) reforms supported by the ongoing IMF program and World Bank DPOs.[7] Over the long-term, however, growth will gradually subside to about 5.5 percent (averaging 5.7 percent during 2029-42) as a result of rebalancing in investments and decreasing population growth rate (Text Table 2).

- **Inflation (CPI):** Average inflation is expected to peak at 5.0 percent in FY2022/23, and then fall back and stabilize at 4 percent over the medium-term, reflecting (i) the expected impact of plans for import substitution of goods affected by the war in Ukraine; and (ii) monetary policy

---

[7] The IMF program focuses on three key areas: (i) strengthening fiscal space to allow for much needed social spending and high-yield public investment through improved revenue mobilization and spending quality; (ii) advancing the authorities' structural reform agenda; and (iii) safeguarding macro-financial stability and improving financial deepening through enhancing the monetary policy framework and improving supervision. Critical reforms in the World Bank DPO1 aimed at improving the business climate and supporting job-creating private-sector-driven growth include investment law, mandating electronic verification of VAT refunds, improving oversight of SOEs, and expenditure arrears verification and clearance, to name a few critical ones.

tightening. Going forward, inflation will be anchored by an interest rate-based monetary policy to which the BoT is transitioning.

		Previous 10 years avg.	2023 proj.	2024 proj.	2025 proj.	2026 proj.	2027 proj.	2028 proj.	Long-term avg. (Last 15 years)[2]
Real GDP Growth	Current	6.2	5.0	5.7	6.1	6.5	6.9	7.0	5.7
(percent)	Previous	6.2	5.0	5.8	6.3	6.6	6.9	7.0	5.5
Inflation	Current	5.3	5.0	4.4	4.0	4.0	4.0	4.0	4.0
(average)	Previous	5.3	5.3	4.4	4.0	4.0	4.0	4.0	3.9
Fiscal Balance	Current	-2.7	-3.1	-2.7	-2.5	-2.5	-2.5	-2.5	-2.6
(percent of GDP)	Previous	-2.6	-3.3	-3.1	-2.7	-2.5	-2.5	-2.4	-2.1
Current Account	Current	-5.4	-4.4	-3.2	-3.0	-2.8	-2.7	-2.5	-2.5
(percent of GDP)	Previous	-5.4	-4.3	-3.5	-3.1	-2.9	-2.7	-2.5	-2.5
Exports of Good & Services	Current	16.5	15.3	15.3	15.4	15.4	15.4	15.4	15.4
(percent of GDP)	Previous	16.4	13.5	13.9	14.1	14.2	14.4	14.6	14.6
FDI	Current	2.5	1.6	1.7	1.8	1.9	2.0	2.1	2.1
(percent of GDP)	Previous	2.4	1.4	1.7	1.8	1.9	2.0	2.1	2.1

Text Table 2. Tanzania: Selected Macroeconomic Indicators, Current vs Previous DSA[1]

Sources: Tanzanian authorities; and IMF staff estimates and projections
[1] Projections refer to fiscal years. The previous DSA was conducted in the context of the ECF request (July 2022).
[2] Current projections cover the period 2023-2042, as the previous DSA.

- **Fiscal balance:** The overall fiscal deficit is projected to narrow to 3.1 percent of GDP in FY2022/23 as the authorities phase out some of the support they provided against spillovers from the war in Ukraine. The deficit is projected to moderate to about 2.5 percent of GDP over the medium term and will remain well below the 3 percent of GDP ceiling required by the convergence criterion of the East African Community in the long-term, reflecting expected improvements in revenue mobilization delivered by the reforms under the ECF coupled with a gradual decline in development spending.[8]

- **Gross financing needs:** Gross financing needs peaked at 8 percent of GDP in FY2021/22 and is projected to stabilize at about 5.5 percent of GDP over the medium term. In addition to IMF financing, the financing gap during FY2022/23-FY2025/26 is expected to be covered from other multilateral and bilateral sources including the World Bank[9] and the African Development Bank. External non-concessional borrowing (ENCB) is projected to remain below 50 percent of annual

---

[8] Fiscal structural reforms and new tax measures are expected to mobilize revenue and open fiscal space over the program period. Those include: (i) broadening the tax base through incentivizing more electronic declarations and electronic payments; (ii) bringing the digital economy into the tax net; (iii) controlling and reducing tax exemptions granted in the tax laws; (iv) enhancing tax administration systems and human resource capacity; and (v) improving risk-based programming and recovery action. The ECF conditionality also envisages efforts to recover tax arrears, expand taxpayers' registration, and improve rationalization of tax and customs exemptions. After peaking at 8.5 percent of GDP in 2021/22, development spending is projected to slowly decline to about 6.4 percent of GDP over the medium term.

[9] Tanzania First Inclusive and Resilient Growth DPO (P178156) ($500m, IDA credit tapping SUW/Regular) was approved by the World Bank Board in December 2022.

foreign financing over the next five years, while access to grants is assumed to taper. Domestic borrowing assumptions are in line with authorities' debt management strategy.

- **Current account balance:** The current account deficit is expected to remain elevated at 4.6 percent of GDP in FY2022/23. In the near term, the external position is projected to slowly recover from pandemic and war related effects starting in FY2023/24. Over the medium-term, the current account is expected to improve to about 2.7 percent of GDP as tourism recovers and the growth of imports slows down with shocks to global commodity prices subsiding.

- **Debt Service Suspension Initiative (DSSI):** According to the figures provided by creditors, Tanzania benefited from a debt service suspension estimated at around US$252 million from May 2020 to December 2021. The DSA includes a corresponding reduction in debt service of 2020 and 2021 and reflects the higher debt service over the period 2022-27 to repay the rescheduled debt.

- **Special Drawing Rights (SDR):** The authorities withdrew their entire August 2021 SDR allocation of SDR 381.3 million (USD 534 million) to boost reserves and concurrently bought US treasury bonds to optimize the Bank of Tanzania (BoT) foreign reserves management.[10] Since the withdrawn SDRs will remain on the balance sheet of the BoT—based on the 2021 Guidance Note on the SDRs' usage—the operation is not integrated in the DSA.

- **IDA projections and terms:** The new DSA assumes an IDA disbursement profile of USD 700 million in the long-term. Disbursements are projected to be higher from FY2022/23 (USD 1.24 billion) to FY27 (about USD 1.1 billion per year from FY2023/24 to FY2026/27) and incorporate, from FY2023/24 to FY2026/27 IDA 50-years credits and the recently created Shorter-Maturity Loans (SMLs). Projections for commitments use the 50-year credits for the first five years of the projection period and 12-year concessional SMLs for the IDA20 cycle, and regular IDA credit terms afterwards.

- **Debt conditionality:** Tanzania's ECF conditionality is set in compliance with the 2021 Guidance Note on Implementing the Debt Limits Policy in Fund Supported Programs. The authorities met the ECF first review targets for the quantitative performance criterion (QPC) on the PV of newly contracted external public debt (ceiling) as well as the indicative target on newly disbursed external non-concessional borrowing (ceiling).[11]

8.   The realism tools indicate that the projections are reasonable (Figure 4). The projected scaling-up of public investment is expected to yield a growth dividend somewhat in line with historical values. As the bottom-right chart of Figure 4 indicates, under the DSA assumption of a 0.15 output elasticity,

---

[10] The authorities have pursued a similar strategy for the 2009 SDR allocation following the Global Financial Crisis.

[11] Tanzania has three approved performance and policy actions (PPAs) with the World Bank to implement in FY2022/23 under the SDFP. These PPAs include a PPA to strengthen debt transparency through improving the coverage of PPG debt by including SOEs, and two PPAs on fiscal sustainability to strengthen efficiency of PIM, and efficiency of VAT refund system.

government capital is expected to contribute an average of 1.31 percentage points of the 6.1 percent growth in real GDP in the next five years. This is somewhat lower than the historical average contribution of government capital to the growth of real GDP in Tanzania.

Text Table 3. Tanzania: Summary Table on External Borrowing Plan, FY2022/23		
PPG external debt contracted or guaranteed	Volume of new debt, US million [1]	Present value of new debt, US million [1]
Sources of debt financing	**2,902**	**2,229**
Concessional debt, of which [2]	1,873	1,200
Multilateral debt	1,873	1,200
Bilateral debt	0	0
Non-concessional debt, of which [3]	1,029	1,029
Semi-concessional debt [3]	0	0
Commercial terms [4]	1,029	1,029
Use of debt financing	**2,902**	**2,229**
Infrastructure	1,991	1,641
Budget financing	911	588
Memorandum items		
Indicative projections		
Year 2	2,762	1,800-2,500
Year 3	2,630	1,750-2,400

Sources: Tanzanian authorities; and IMF staff estimates and projections.
[1] The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
[2] Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent but could be established at a higher level.
[3] Debt with a positive grant element which does not meet the minimum grant element.
[4] Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9.   **The country's debt-carrying capacity applied to this DSA is categorized as medium, as in the previous DSA.** The calculated Composite Indicator (CI) Index is 2.92 (down from 2.94 in the July 2022 DSA) based on the October 2022 WEO and the 2021 CPIA data (Text Table 4). The corresponding indicative thresholds are: (i) 40 percent for the net present value (NPV) of external debt-to-GDP ratio; (ii) 180 percent for the NPV of external debt-to-exports ratio; (iii) 15 percent for the external debt service-to-exports ratio; and (iv) 18 percent for the external debt service-to-revenue ratio. The benchmark of the PV of total public debt for medium debt-carrying capacity is 55 percent.

10.   **Besides the six standardized stress tests, there is one tailored stress test.** The tailored stress test is a market financing shock which is applied to countries with market access, such as Tanzania. It reflects: (i) a temporary increase in the cost of new commercial external borrowing, (ii) a shortening of

maturities of new external commercial borrowing, and (iii) a temporary depreciation. As those tests highlight, the combined shock of the pandemic and war in Ukraine coupled with the active policies that Tanzania is pursuing under the ECF arrangement, result in projected debt-creating flows that differ from historic developments. The residuals in the debt creating flows in 2021 and 2022 are further explained by the inclusion of domestic arrears (and relative planned repayments) in the stock of domestic debt and by cash adjustments in the authorities' fiscal execution data.

Text Table 4. Tanzania: 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	3.500	1.35	46%
Real growth rate (in percent)	2.719	5.951	0.16	6%
Import coverage of reserves (in percent)	4.052	45.051	1.83	63%
Import coverage of reserves^2 (in percent)	-3.990	20.296	-0.81	-28%
Remittances (in percent)	2.022	0.040	0.00	0%
World economic growth (in percent)	13.520	2.898	0.39	13%
CI Score			**2.92**	100%
CI rating			**Medium**	

Source: 2022 October WEO; 2021 World Bank CPIA; and IMF and World Bank staff calculations.

EXTERNAL DSA

11.   According to 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 peaks at about 16.8 percent in FY2023/24. Going forward, it is projected to steadily decline over time and remain largely below 15 percent in the outer years. Under the baseline, all external debt burden indicators continue to stay below the policy-determined thresholds, evidence of the authorities' determination to safeguard debt sustainability and their strong program ownership.[12] The DSA rating for the external risk of debt distress remains moderate as a result of breaches under some shock scenarios (see below). The significantly affected by the economic effects of the COVID-19 pandemic and of the war in Ukraine.

12.   Furthermore, several debt indicators are sensitive to shocks (Figure 1). A decline in exports is the most extreme scenario among bound tests for most 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 significantly above the threshold under the most extreme export stress test. Sustained breaches of two thresholds under the historical scenario signal relevant risks embedded in past behavior.

---

[12] In the previous DSA, under the baseline, the debt-service-to-export ratio breached the 15 percent threshold in FY24.

PUBLIC DSA

13.   The risk of overall public debt distress is assessed to be moderate, in line with the moderate risk of external debt distress rating. The PV of public debt to GDP ratio remains below the indicative benchmark under the baseline and most extreme stress scenarios. The ratio is projected to decline gradually and remain below both the benchmark associated with heightened public debt vulnerabilities and the East African Community (EAC) convergence criterion of 50 percent (Table 3 and Figure 2). Although the overall debt service to revenue ratio remains relatively high, the present value of public debt to revenue ratio declines over time which, combined with the fact that gross financing needs stabilizes around 5½ percent of GDP in the long term, indicates that debt roll-over risks remain manageable. That overall debt service to revenue ratio plateaus at the end of the forecast horizon.

14.   Bound tests indicate the criticality of sound public investment management. A one-time materialization of contingent liabilities is the most extreme scenario amongst the bound tests for all ratios, signaling the criticality of improving public investment management processes, of carefully prioritizing investment projects, and of ensuring sound public financial management (PFM). As some of the debt service on public debt has been pushed to longer maturities, domestic revenue mobilization reforms will need to target a long-term flattening of the debt service to revenue ratio. It is also paramount to continue improving the coverage and transparency of public sector debt statistics, including non-guaranteed debt, to minimize the risk of unexpected debt surprises from unaccounted contingent liabilities.

RISK RATING AND VULNERABILITIES

15.   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. The recovery from the pandemic shock is now undermined by the impact of the war in Ukraine on external demand for the country's exports, import bills (from food prices, fertilizers and fuel), and the continued need to sustain fiscal support to the population. However, the healthy level of reserves (around 4.3 months of imports at end-FY2021/22) serves as a buffer against current shocks. All external debt burden indicators remain below the policy-dependent thresholds under the baseline scenario but are breached under different shocks and stress tests. Although there has been an increase in the risk of debt distress compared to historic assessments, the current analysis shows improved ratios and trends compared to the previous vintage that used the same base-year (ECF request DSA in July 2022). However, alternative scenarios still show that a narrow export base and one-time currency depreciation could pose significant risks. These results confirm the criticality of a swift implementation of the reform agenda, and in particular of raising domestic revenue, improving public investment management, and leveraging domestic and concessional financing sources when available, while carefully selecting projects to be financed by commercial loans.

16.   Tanzania has some space to absorb shocks, reflecting its prudent fiscal policy management (Figure 5). The DSA analysis suggests that Tanzania has some policy space to absorb shocks, which is reinforced by the results of the market financing stress test (Figure 6). Most of the indicators show

improvements towards the end of the projection period. This assessment needs to be qualified taking into account Tanzania's vulnerability to exogenous shocks, which could negatively impact Tanzania's capacity to earn foreign exchange and its capacity to repay external debt.[13] The authorities will need to carefully balance their response to the shocks and public investment plans with their broader development agenda to preserve debt sustainability. Creating additional fiscal space through domestic revenue mobilization efforts and improving efficiency of public spending would help contain and improve debt vulnerabilities.

AUTHORITIES' VIEWS

17.   The authorities agreed with staff's assessment that Tanzania's risk of external debt distress remain moderate. They noted that their own DSA also show that Tanzania's risk of external debt distress is moderate. They concur with staff's recommendation on the need to create additional fiscal space to finance their investment agenda without compromising debt sustainability.

---

[13] Improvements in debt vulnerabilities vis-à-vis the previous DSA reflect more fiscal consolidation in the authorities draft FY2023/24 budget and downward revision of commercial borrowing due to tightening global financial conditions.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2023–33

PV of debt-to GDP ratio

Most extreme shock: Exports

PV of debt-to-exports ratio

Most extreme shock: Exports

Debt service-to-exports ratio

Most extreme shock: Exports

Debt service-to-revenue ratio

Most extreme shock: Exports
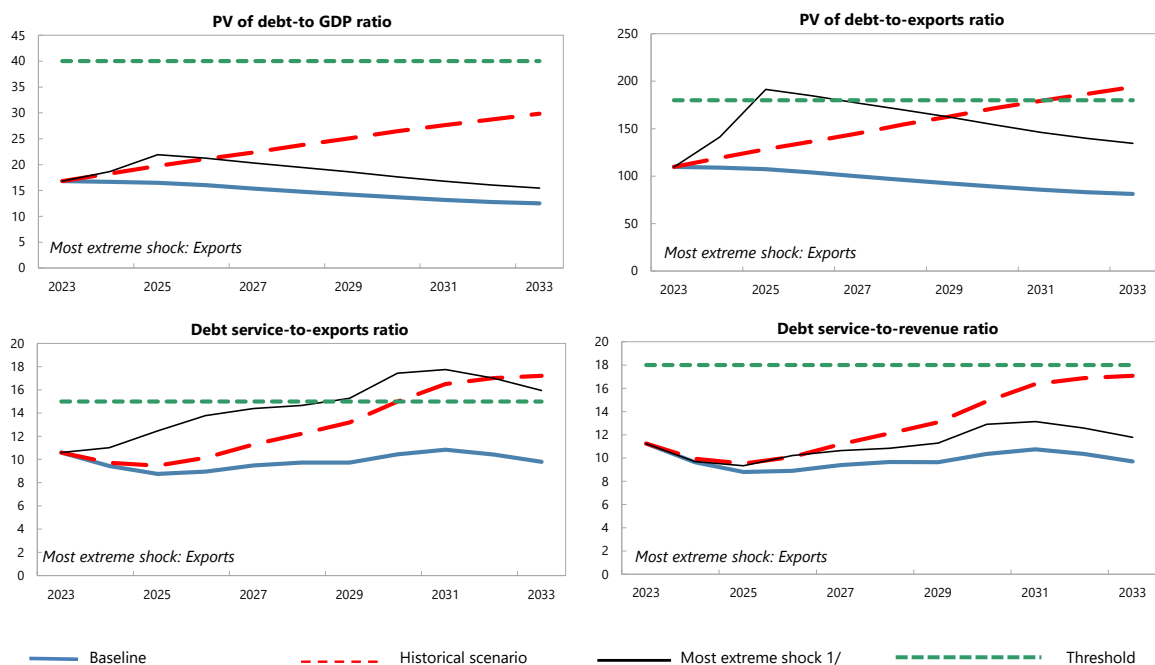
—— Baseline	- - - Historical scenario	—— Most extreme shock 1/
- - - - Threshold		

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	No	No

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	3.3%	3.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	4	4

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.

* 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: Tanzanian authorities; and IMF staff estimates and projections.

[1]The most extreme stress test is the test that yields the highest ratio in or before 2033. 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2023-2033
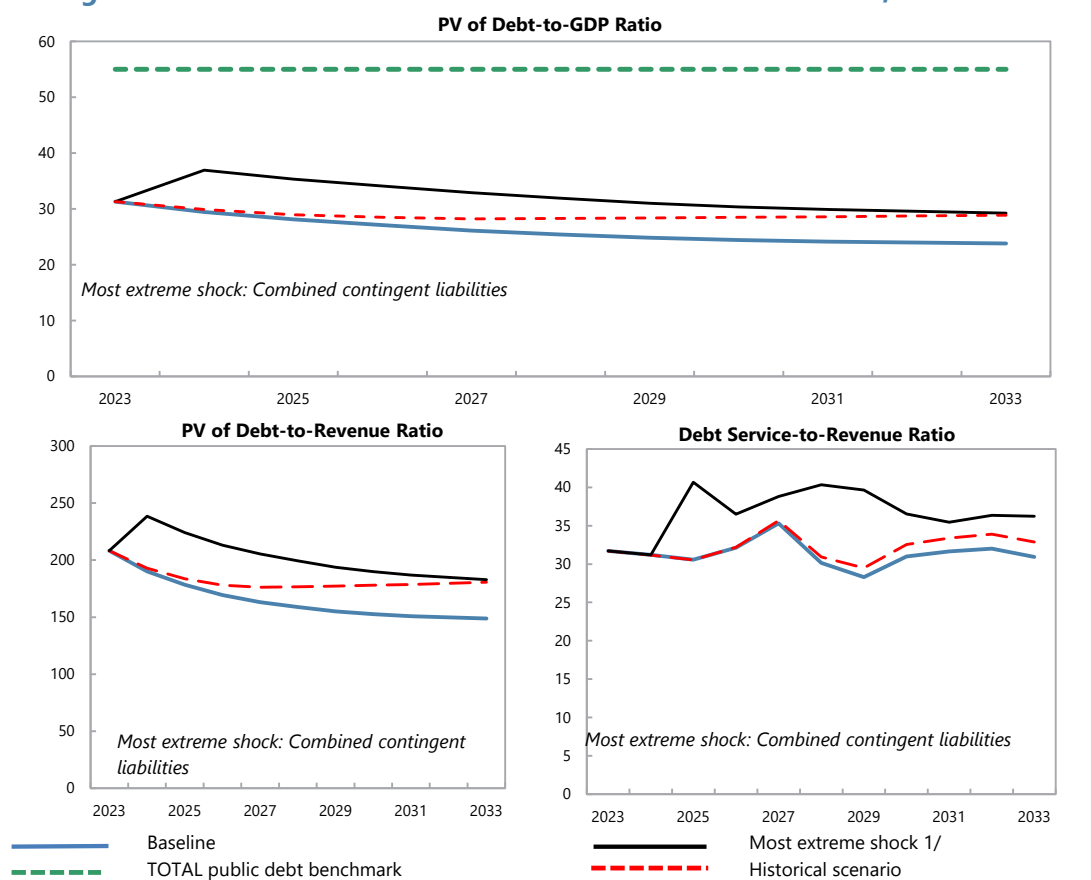
PV of Debt-to-GDP Ratio

Most extreme shock: Combined contingent liabilities

PV of Debt-to-Revenue Ratio

Most extreme shock: Combined contingent liabilities

Debt Service-to-Revenue Ratio

Most extreme shock: Combined contingent liabilities

—— Baseline	—— Most extreme shock 1/
- - - TOTAL public debt benchmark	- - - Historical scenario

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	42%	42%
Domestic medium and long-term	42%	42%
Domestic short-term	15%	15%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.3%	3.3%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.1%	6.1%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	1.3%	1.3%

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

[1]The most extreme stress test is the test that yields the highest ratio in or before 2033. 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

*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.

Figure 3. 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)
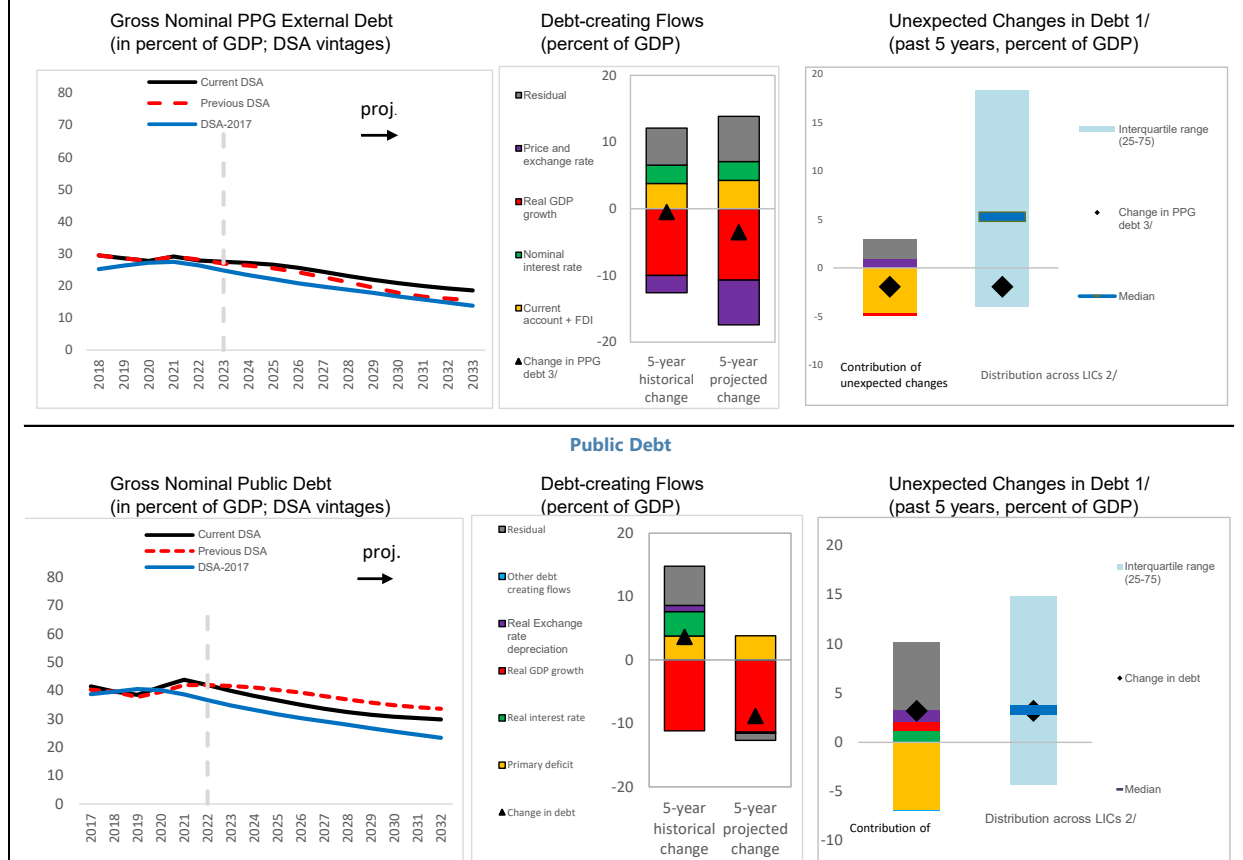
[1]Difference between anticipated and actual contributions on debt ratios.

[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. 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

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)
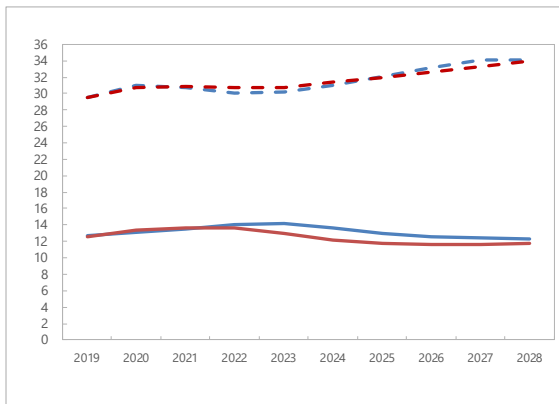
Contribution to Real GDP growth
(percent, 5-year average)
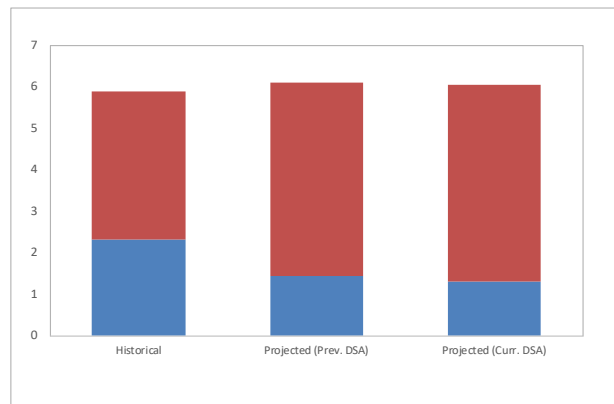
Figure 5. Qualification of the Moderate Category, 2023-2033 [1]

PV of Debt-to GDP Ratio

PV of Debt-to-Exports Ratio

Threshold

(1-X)*Threshold

(1-Y)*&Threshold

Debt Service-to-Export Ratio

Debt Service-to-Revenue Ratio

Threshold — — — Baseline ——— Limited space Some space Substantial space

Source: Country authorities; and staff estimate and projections.
[1]For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt services/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	6	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.

PV of debt-to GDP ratio

PV of debt-to-exports ratio

Debt service-to-exports ratio

Debt service-to-revenue ratio

Baseline — Market financing — Threshold
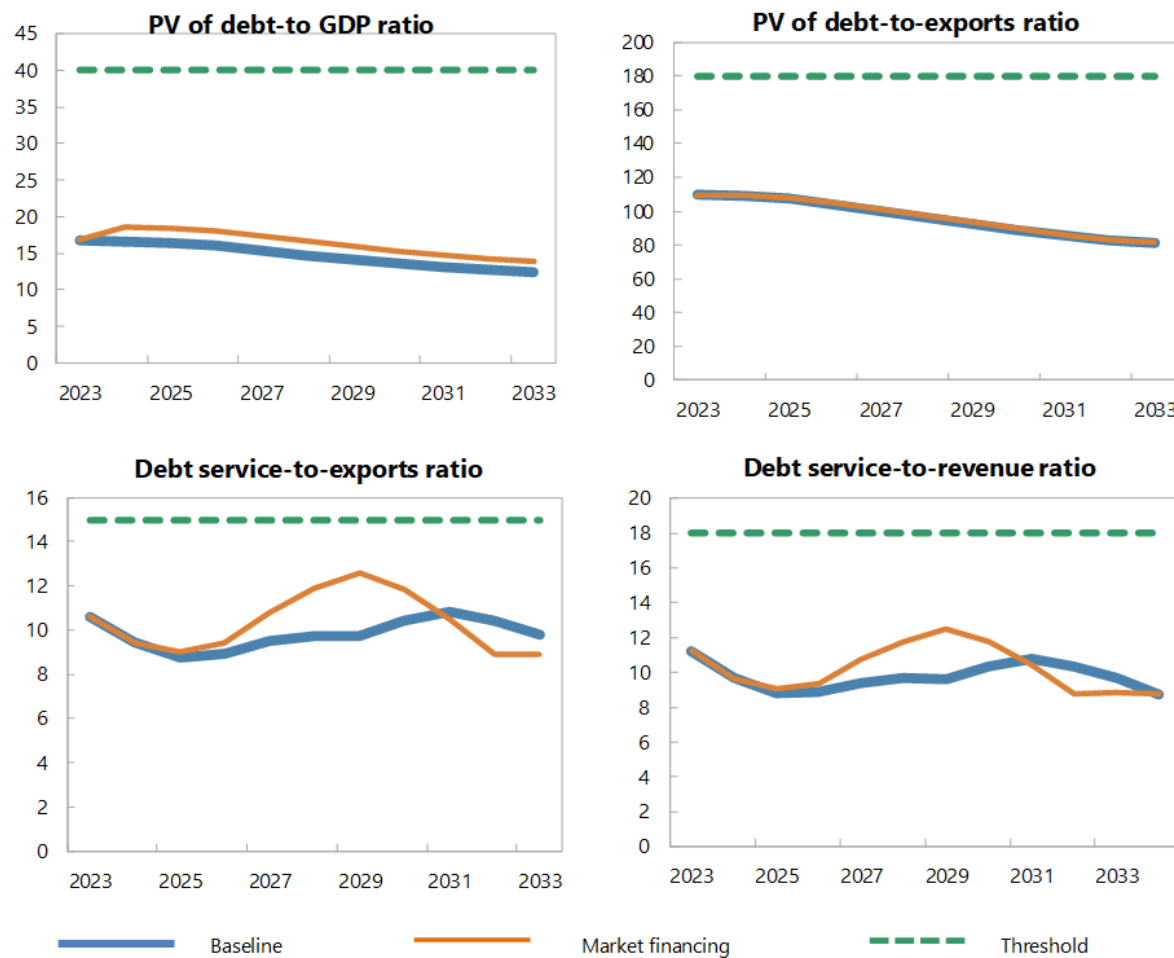
Source: Country authorities; and staff estimate and projections.

Table 2. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2022-2043

(In percent of GDP, unless otherwise indicated)

	Actual	Projections												Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
External debt (nominal) 1/	37.9	38.2	38.7	39.3	39.7	39.9	40.2	40.7	39.6	38.7	37.9	37.3	34.3	33.8	39.1
of which: public and publicly guaranteed (PPG)	27.9	27.5	27.2	26.6	25.6	24.4	23.1	21.9	20.9	20.0	19.2	18.6	15.6	27.7	23.2
Change in external debt	0.3	0.2	0.5	0.6	0.5	0.2	0.2	0.5	-1.0	-0.9	-0.8	-0.6	-0.4		
Identified net debt-creating flows	-0.1	1.1	-0.4	-1.0	-1.5	-1.8	-2.1	-2.0	-1.9	-1.7	-1.5	-1.5	-1.2	0.8	-1.3
Non-interest current account deficit	4.1	3.9	2.7	2.4	2.2	2.1	1.9	1.8	1.8	1.8	1.8	1.8	1.7	4.9	2.2
Deficit in balance of goods and services	3.7	3.6	2.5	2.0	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	4.8	2.0
Exports	15.0	15.3	15.3	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4		
Imports	18.7	18.9	17.8	17.4	17.3	17.2	17.1	17.1	17.1	17.1	17.1	17.1	17.1		
Net current transfers (negative = inflow)	-0.8	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.0	-0.4
of which: official	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	1.2	0.8	0.6	0.8	0.8	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.4	1.0	0.6
Net FDI (negative = inflow)	-1.7	-1.6	-1.7	-1.8	-1.9	-2.0	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.5	-1.9
Endogenous debt dynamics 2/	-2.4	-1.2	-1.4	-1.6	-1.8	-1.9	-1.9	-1.8	-1.6	-1.4	-1.2	-1.2	-0.9		
Contribution from nominal interest rate	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.8		
Contribution from real GDP growth	-1.7	-1.7	-2.0	-2.2	-2.3	-2.5	-2.6	-2.5	-2.3	-2.1	-2.0	-1.9	-1.7		
Contribution from price and exchange rate changes	-1.3	…	…	…	…	…	…	…	…	…	…	…	…		
Residual 3/	0.3	-0.9	0.9	1.6	1.9	2.1	2.3	2.5	0.8	0.7	0.8	0.9	0.8	0.6	1.2
of which: exceptional financing	-0.4	-0.6	-0.7	-0.3	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	16.7	16.8	16.7	16.5	16.0	15.4	14.8	14.2	13.7	13.2	12.8	12.5	11.6		
PV of PPG external debt-to-exports ratio	111.4	109.7	108.9	107.3	103.9	99.8	95.9	92.4	88.9	85.6	83.0	81.2	75.3		
PPG debt service-to-exports ratio	15.7	10.6	9.4	8.8	9.0	9.5	9.7	9.7	10.4	10.8	10.4	9.8	7.9		
PPG debt service-to-revenue ratio	16.4	11.2	9.6	8.8	8.9	9.4	9.7	9.6	10.4	10.8	10.3	9.7	8.3		
Gross external financing need (Billion of U.S. dollars)	3.8	3.6	2.7	2.5	2.4	2.5	2.5	2.7	3.2	3.5	3.7	3.8	7.7		
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.8	5.0	5.7	6.1	6.5	6.9	7.0	6.8	6.2	5.7	5.5	5.5	5.2	6.2	6.1
GDP deflator in US dollar terms (change in percent)	3.5	5.3	4.6	3.2	2.4	2.5	2.8	2.8	2.8	2.8	2.8	2.8	4.7	1.0	3.2
Effective interest rate (percent) 4/	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.8	2.0	2.0	2.1	2.1	2.4	1.7	1.8
Growth of exports of G&S (US dollar terms, in percent)	25.0	12.9	10.5	10.0	9.5	9.4	9.9	9.8	9.2	8.7	8.5	8.5	10.2	3.5	9.7
Growth of imports of G&S (US dollar terms, in percent)	39.4	12.0	4.4	6.6	8.5	9.0	9.4	10.0	9.2	8.7	8.5	8.5	10.2	1.5	8.6
Grant element of new public sector borrowing (in percent)	…	27.1	35.7	31.7	31.4	31.4	25.1	24.5	24.1	23.7	23.4	23.1	21.0	…	27.4
Government revenues (excluding grants, in percent of GDP)	14.4	14.4	15.0	15.3	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	14.6	13.7	15.4
Aid flows (in Billion of US dollars) 5/	2.1	1.7	2.3	1.7	1.6	1.7	1.3	1.4	1.4	1.5	1.5	1.6	2.8		
Grant-equivalent financing (in percent of GDP) 6/	…	1.5	1.7	1.3	1.2	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8	…	1.1
Grant-equivalent financing (in percent of external financing) 6/	…	37.5	44.6	42.2	43.7	44.4	39.2	38.8	38.0	37.7	37.4	37.2	35.5	…	40.1
Nominal GDP (Billion of US dollars)	74	81	90	98	107	118	129	142	155	169	183	199	475		
Nominal dollar GDP growth	8.5	10.5	10.5	9.6	9.1	9.6	10.0	9.8	9.2	8.7	8.5	8.5	10.2	7.2	9.5
Memorandum items:															
PV of external debt 7/	26.7	27.5	28.2	29.2	30.2	30.9	31.8	33.0	32.4	31.9	31.5	31.2	30.3		
In percent of exports	178.3	179.5	184.1	189.7	195.4	200.9	206.9	214.0	210.5	207.2	204.6	202.8	196.9		
Total external debt service-to-exports ratio	18.4	13.9	12.8	12.2	12.6	13.3	13.7	13.8	15.5	15.5	15.1	14.5	12.6		
PV of PPG external debt (in Billion of US dollars)	12.3	13.6	15.0	16.2	17.2	18.1	19.1	20.2	21.2	22.2	23.4	24.8	55.0		
(PVt-PVt-1)/GDPt-1 (in percent)		1.9	1.6	1.4	1.0	0.8	0.9	0.9	0.7	0.6	0.7	0.8	1.0		
Non-interest current account deficit that stabilizes debt ratio	3.8	3.7	2.2	1.8	1.7	1.8	1.7	1.3	2.8	2.7	2.5	2.3	2.1		

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-
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.

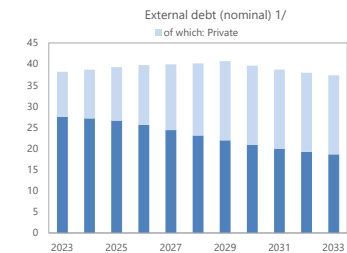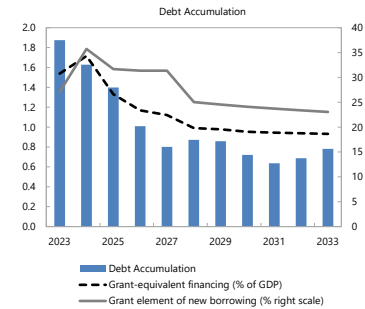| Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Debt Accumulation

- Debt Accumulation
- Grant-equivalent financing (% of GDP)
- Grant element of new borrowing (% right scale)

External debt (nominal) 1/
of which: Private

Table 3. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022-2043

	Actual						Projections							Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
Public sector debt 1/	**43.8**	**41.9**	**39.9**	**38.1**	**36.5**	**34.9**	**33.6**	**32.4**	**31.5**	**30.8**	**30.3**	**29.8**	**24.5**	**38.8**	**34.5**
of which: external debt	27.9	27.5	27.2	26.6	25.6	24.4	23.1	21.9	20.9	20.0	19.2	18.6	15.6	27.7	23.2
Change in public sector debt	2.5	-1.9	-2.0	-1.8	-1.6	-1.6	-1.4	-1.2	-0.9	-0.7	-0.5	-0.5	-0.7		
Identified debt-creating flows	**0.2**	**-1.7**	**-1.8**	**-1.4**	**-1.4**	**-1.3**	**-1.1**	**-0.9**	**-0.7**	**-0.5**	**-0.3**	**-0.3**	**-0.3**	**0.0**	**-1.0**
Primary deficit	**1.7**	**1.6**	**0.7**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**	**1.2**	**0.6**
Revenue and grants	14.8	15.0	15.5	15.8	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	15.1	14.7	15.8
of which: grants	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4		
Primary (noninterest) expenditure	16.5	16.6	16.2	16.4	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	15.5	15.9	16.4
Automatic debt dynamics	**-1.5**	**-3.4**	**-2.5**	**-2.0**	**-1.8**	**-1.7**	**-1.5**	**-1.4**	**-1.1**	**-0.9**	**-0.8**	**-0.8**	**-0.8**		
Contribution from interest rate/growth differential	-1.8	-3.4	-2.5	-2.0	-1.8	-1.7	-1.5	-1.4	-1.1	-0.9	-0.8	-0.8	-0.8		
of which: contribution from average real interest rate	0.1	-1.3	-0.3	0.3	0.5	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.5		
of which: contribution from real GDP growth	-1.9	-2.1	-2.2	-2.3	-2.3	-2.4	-2.3	-2.1	-1.9	-1.7	-1.6	-1.6	-1.3		
Contribution from real exchange rate depreciation	0.3	...	...	...	...	...	...	...	...	...	...	...	...		
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**	**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	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	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	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	0.0	0.0	0.0	0.0		
Residual	**2.3**	**-0.1**	**-0.2**	**-0.4**	**-0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.4**	**1.6**	**-0.2**
Sustainability indicators															
PV of public debt-to-GDP ratio 2/	32.6	31.3	29.5	28.1	27.1	26.1	25.4	24.8	24.4	24.1	24.0	23.8	20.6		
PV of public debt-to-revenue and grants ratio	220.6	208.3	190.2	178.5	169.3	163.1	158.8	155.1	152.7	150.8	149.8	148.9	136.6		
Debt service-to-revenue and grants ratio 3/	43.3	31.7	31.2	30.6	32.1	35.3	30.2	28.3	31.0	31.6	32.0	30.9	25.7		
Gross financing need 4/	8.1	6.4	5.5	5.4	5.6	6.1	5.3	5.0	5.4	5.5	5.6	5.4	4.3		
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.8	5.0	5.7	6.1	6.5	6.9	7.0	6.8	6.2	5.7	5.5	5.5	5.2	6.2	6.1
Average nominal interest rate on external debt (in percent)	1.7	1.4	1.5	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.1	2.7	2.7	1.8	1.7
Average real interest rate on domestic debt (in percent)	7.0	0.7	2.1	4.1	5.6	7.0	8.0	7.9	7.9	7.7	7.5	7.3	4.2	6.7	6.0
Real exchange rate depreciation (in percent, + indicates depreciation)	1.1	...	...	...	...	...	...	...	...	...	...	...	...	1.3	...
Inflation rate (GDP deflator, in percent)	3.6	5.8	5.2	4.5	4.4	4.6	5.0	5.0	5.0	5.0	5.0	5.0	6.9	4.8	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	12.6	5.7	2.7	7.6	7.0	6.9	7.0	6.8	6.2	5.7	5.5	5.5	3.6	5.5	6.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.8	3.5	2.7	2.4	2.0	2.0	1.8	1.6	1.4	1.2	1.0	0.9	1.2	-0.3	1.9
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	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/

■ of which: local-currency denominated
■ of which: foreign-currency denominated

■ of which: held by residents
■ of which: held by non-residents

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.
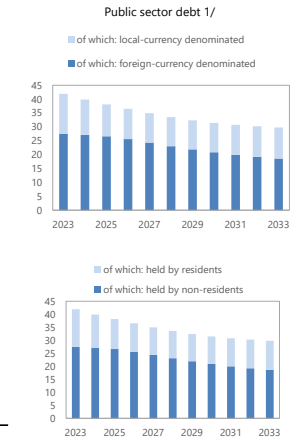
Table 4. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023-2033
(In percent)

						Projections 1/					
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	17	17	16	16	15	15	14	14	13	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	18	20	21	22	24	25	26	28	29	30
B. Bound Tests											
B1. Real GDP growth	17	17	17	16	16	15	15	14	13	13	13
B2. Primary balance	17	17	18	18	17	17	16	16	15	15	14
B3. Exports	17	19	22	21	20	19	19	18	17	16	15
B4. Other flows 3/	17	18	19	19	18	17	16	16	15	14	14
B5. Depreciation	17	21	18	17	17	16	16	15	15	14	14
B6. Combination of B1-B5	17	20	19	19	18	17	16	16	15	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	17	20	20	19	19	18	18	18	17	17	16
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	17	19	18	18	17	17	16	15	15	14	14
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	110	109	107	104	100	96	92	89	86	83	81
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	110	119	128	137	145	154	163	172	179	**187**	**194**
B. Bound Tests											
B1. Real GDP growth	110	109	107	104	100	96	92	89	86	83	81
B2. Primary balance	110	113	120	117	113	109	106	103	99	96	94
B3. Exports	110	141	**191**	**185**	177	170	162	154	146	140	135
B4. Other flows 3/	110	118	125	121	116	111	107	102	97	93	91
B5. Depreciation	110	109	93	91	87	84	81	78	76	74	74
B6. Combination of B1-B5	110	137	118	141	136	130	125	119	115	111	108
C. Tailored Tests											
C1. Combined contingent liabilities	110	128	128	125	120	119	118	114	111	108	107
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	110	109	108	105	101	97	94	90	86	83	82
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	11	9	9	9	9	10	10	10	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11	10	9	10	11	12	13	**15**	**16**	**17**	**17**
B. Bound Tests											
B1. Real GDP growth	11	9	9	9	9	10	10	10	11	10	10
B2. Primary balance	11	9	9	10	10	10	11	11	12	11	11
B3. Exports	11	11	12	14	14	15	**15**	**17**	**18**	**17**	**16**
B4. Other flows 3/	11	9	9	10	10	10	11	12	12	12	11
B5. Depreciation	11	9	9	8	9	9	9	9	10	10	9
B6. Combination of B1-B5	11	11	12	12	12	13	13	14	14	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	11	9	9	10	10	10	11	11	12	11	11
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	11	9	9	9	11	12	13	12	11	9	9
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	11	10	9	9	9	10	10	10	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11	10	10	10	11	12	13	15	16	17	17
B. Bound Tests											
B1. Real GDP growth	11	10	9	9	10	10	10	11	11	11	10
B2. Primary balance	11	10	9	10	10	10	10	11	12	11	11
B3. Exports	11	10	9	10	11	11	11	13	13	13	12
B4. Other flows 3/	11	10	9	10	10	10	11	12	12	11	11
B5. Depreciation	11	12	11	11	11	12	12	12	12	12	11
B6. Combination of B1-B5	11	10	10	10	10	11	11	12	12	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	11	10	9	10	10	10	10	11	12	11	11
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	11	10	9	9	11	12	13	12	10	9	9
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 5. Tanzania: Sensitivity Analysis for Key Indicators of Public Debt, 2023-2033

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
						Projections 1/					
PV of Debt-to-GDP Ratio											
Baseline	31	29	28	27	26	25	25	24	24	24	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	31	30	29	28	28	28	28	28	29	29	29
B. Bound Tests											
B1. Real GDP growth	31	30	29	29	28	28	27	27	27	27	27
B2. Primary balance	31	31	32	31	30	29	28	28	27	27	27
B3. Exports	31	31	33	32	31	30	29	28	28	27	27
B4. Other flows 3/	31	31	31	30	29	28	27	26	26	26	25
B5. Depreciation	31	32	29	27	25	23	21	20	19	18	17
B6. Combination of B1-B5	31	29	29	28	26	25	24	23	23	22	22
C. Tailored Tests											
C1. Combined contingent liabilities	31	37	35	34	33	32	31	30	30	30	29
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	31	30	28	27	26	26	25	25	24	24	24
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	208	190	178	169	163	159	155	153	151	150	149
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	208	193	184	178	176	177	177	178	179	180	181
B. Bound Tests											
B1. Real GDP growth	208	194	186	179	174	172	170	169	169	170	171
B2. Primary balance	208	201	204	193	186	181	177	173	171	169	168
B3. Exports	208	202	212	201	193	187	182	177	172	169	166
B4. Other flows 3/	208	199	196	186	179	174	169	165	162	160	158
B5. Depreciation	208	207	185	168	155	144	134	125	118	111	105
B6. Combination of B1-B5	208	190	187	175	166	159	152	147	143	139	136
C. Tailored Tests											
C1. Combined contingent liabilities	208	238	224	213	205	199	194	190	187	185	183
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	208	190	179	171	165	160	156	153	151	150	149
Debt Service-to-Revenue Ratio											
Baseline	32	31	31	32	35	30	28	31	32	32	31
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	32	31	31	32	36	31	29	33	33	34	33
B. Bound Tests											
B1. Real GDP growth	32	32	32	33	37	32	31	34	35	35	35
B2. Primary balance	32	31	33	36	38	34	34	36	35	35	34
B3. Exports	32	31	31	33	36	31	30	33	34	34	33
B4. Other flows 3/	32	31	31	33	36	31	29	32	33	33	32
B5. Depreciation	32	31	31	32	35	31	28	31	31	31	30
B6. Combination of B1-B5	32	30	30	33	35	30	29	31	31	31	30
C. Tailored Tests											
C1. Combined contingent liabilities	32	31	41	36	39	40	40	37	35	36	36
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	32	31	31	33	37	32	31	32	31	31	30

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.

Statement by Mr. Nakunyada and Mr. Ekeocha on Tanzania
April 24, 2023

Introduction

1. Our Tanzanian authorities appreciate the constructive engagement with Fund staff during the recent joint 2023 Article IV Consultations and First Review under the Extended Credit Facility (ECF) arrangement. They broadly share the staff's assessment of the country's macroeconomic developments, challenges, and policy priorities and welcome the informative Selected Issues Papers.

2. The Tanzanian economy weathered the shock from the COVID-19 pandemic benefitting from strong macroeconomic fundamentals. While economic activity is gradually returning to pre-pandemic levels, headwinds from adverse climate conditions, volatile commodity prices, spillovers from the ongoing conflict in Ukraine, tightening international financial conditions, and the slowdown in global trade, continue to challenge the recovery. Notwithstanding these challenges, the authorities have sustained reform efforts and kept the ECF arrangement firmly on track. They consider the Fund-supported program as an instrumental policy anchor to help ensure macroeconomic and financial stability, while safeguarding fiscal and debt sustainability, and facilitate implementation of comprehensive governance and economic reforms. As such, they are determined to ensure successful program implementation to realize the overarching objectives of the Third Five Year Development Plan (FYDPIII) geared to accelerate Tanzania's progress towards a higher Middle-Income Country status. Further, the authorities reaffirm their commitment to safeguarding macroeconomic stability, while fostering inclusive private sector- led growth to unleash the country's immense growth potential.

Program Performance

3. All quantitative performance criteria and indicative targets for December 2022 were met. Additionally, the authorities completed the process to validate outstanding expenditure arrears as a prior action for the first ECF review. Concurrently, all structural benchmarks were completed, although the structural benchmark on completion and publishing of the post-crisis audit of pandemic-related spending, was completed with a delay. Specifically, the Ministry of Finance and Planning prepared a plan to settle all expenditure arrears, published it online, and is currently being implemented. The end-February 2023 structural benchmark to submit the FY2023/24 preliminary Budget to the Parliament was also completed with a delay. Against the backdrop of strong program performance and corrective actions, the authorities request Executive Directors' support in completion of the First Review under the ECF arrangement, and conclusion of the 2023 Article IV Consultation.

Recent Economic Developments and Outlook

4. Economic growth slowed modestly from 4.9 percent in 2021 to 4.7 percent in 2022, reflecting the negative repercussions of conflict spillovers and the constraining effects of erratic rainfalls on agriculture and electricity production. Real GDP growth is, however, projected to rebound to 5.2 percent in 2023, supported by modest agricultural growth, enhancements in the businesses environment, increased mining activity, strong recovery in tourism, firming private

sector credit growth, and higher investment spending on infrastructure. Going forward, growth is forecasted to accelerate towards the medium-term average of 7 percent, with the East African Crude Oil Pipeline (EACOP) providing a significant source of foreign direct investment. In this vein, the EACOP initiatives on power projects, road network expansion, and the phased construction of cross-border railroads with Rwanda, is expected to provide strong growth impetus.

5. While Tanzania witnessed the uptick of inflation to 4.8 percent in February 2023 compared to 3.3 percent in the corresponding period last year, inflation has remained below the Bank of Tanzania's (BoT) 5 percent target. The temporary subsidies on fuel and fertilizers alongside tight liquidity conditions helped dampen inflationary pressures. Going forward, inflation is expected to decelerate to 4.4 percent by end FY 2023/24 as commodity prices subside. Reflecting the challenging external environment, the current account balance worsened on the back of an elevated energy import bill that surpassed export performance. Accordingly, external reserves are projected to remain slightly above the benchmark at 3.8 months of import cover, between 2022 and 2023.

Fiscal Policy

6. The authorities are determined to consolidate public finances to ensure fiscal and debt sustainability as articulated in the FY2023/24 budget. Greater focus will, therefore, be placed on intensifying domestic revenue mobilization efforts to create fiscal space for priority social and investment spending. To this end, government has made notable progress in broadening the tax base through improved compliance that benefited from automation initiatives. Concurrent tax policy and administration efforts will be directed towards further broadening of the tax base by incentivizing more electronic declarations and electronic payments including for informal sector players. Importantly, the authorities are making deliberate efforts to bring the digital economy into the tax net, streamline and minimize tax exemptions, and strengthen tax administration systems. Further, they continue to enforce the issuance of electronic fiscal devices (EFD) receipts, intensify the recovery of tax arrears, and broaden the registration of taxpayers. Importantly, the authorities plan to leverage digital systems to clear the backlog of VAT refunds by mid-2023.

7. To improve the quality of spending, government seeks to rebalance spending towards priority social and investment spending to support equitable growth and sustainable development. Towards this end, the authorities are deploying more resources to hiring additional teachers and health workers and remain determined to meet the associated indicative target on social spending. Meanwhile, the authorities will continue to cushion vulnerable households through targeted fertilizer subsidies designed to counter the cost-of-living crisis compounded by the conflict spillovers. Over the medium term, the strengthening of social protection will continue to rank high on the authorities' agenda, as well as the expansion of the cash-transfer program, the Tanzania Social Action Fund (TASAF). Meanwhile, medium-term capital spending will focus on accelerating industrialization and infrastructure mega-projects, which include roads, energy, ports, and railways infrastructure.

8. To safeguard debt sustainability the authorities are aligning expenditure commitments are aligned with revenue outturns. Furthermore, the authorities are committed to effective cash

management and commitment controls to avoid further buildup of expenditure arrears. They are also making determined efforts to address the fiscal risks from state-owned enterprises (SOEs) by ensuring fiscal transparency.

Monetary, Exchange Rate, and Financial Sector Policies

9. The monetary policy stance remains less accommodative following the Bank of Tanzania's (BoTs) switch from reverse repo to repo, to aggressively mop up excess liquidity and tighten monetary conditions. In this regard, the central bank continues to curtail monetary growth by ramping up repo operations to dampen inflationary pressures. The BoT stands ready to further tighten monetary policy should inflation risks, crystallize. While inflation has remained below the BoT's target ceiling of 5 percent, monetary policy actions will remain data-dependent to keep inflation within target. Further, the BoT is committed to transitioning to an interest-rate-based monetary policy framework. As such, it has taken steps to develop the operational guidelines on policy instruments, policy rate, operating targets, and the communication strategy. The BoT plans to operationalize the framework once the key stakeholders have been consulted. In addition, the BoT continues to allow exchange rate flexibility to absorb external shocks and reiterates its commitment to transparent foreign exchange intervention policies to ensure market confidence.

10. The banking sector remained adequately capitalized, liquid, and profitable throughout 2022. Notably, the deposit base has expanded, while non-performing loans have been trending down towards the desired level of 5 percent. That said, the BoT will continue to monitor financial sector developments through effective regulation and supervision to ensure compliance with solvency and liquidity requirements and address any risks from rising levels of restructured loans. In addition, the BoT is committed to monitoring the evolution of credit and operational risks, considering the recent increase in credit growth. At the same time, the authorities commit to comply with the recommendations of the 2022 safeguards assessment of the central bank, including by enhancing the legal framework to ensure independent oversight of the BoT.

Structural Reforms

11. The government is committed to reviewing existing laws to facilitate structural reforms aimed to encourage private-sector led investment and growth. To this end, government through its Blueprint for Regulatory reforms, seeks to improve the business environment. At the same time, they plan to remove regulatory challenges by focusing on conflicting or duplicative policies at the central and local government levels relating to taxes, levies, licensing, and other charges. In this regard, the December 2022 Investment Act updated rules for foreign investors registered with the Tanzania Investment Centre. New investors now have unlimited work and residence permits. Strategic investments must now create 1,000 local senior position jobs (down from 1,500), increase exports by 50 percent or reduce imports, stimulate the production of goods for economic incentives in social and economic sectors, improve employee technical skills by introducing innovative technologies to Tanzanians, and develop essential products. To buttress government commitment, the proposed LNG project designed to exploit Tanzania's 57 trillion cubic feet of proven natural gas reserves will be executed, while the construction of the EACOP will commence as planned to attract billions of dollars in foreign direct investment (FDI) and enhance growth in the medium term.

12. The Tanzanian authorities are making concerted efforts to bolster governance and anti-corruption frameworks through the activities of the Prevention and Combating of Corruption Bureau as well as the Financial Intelligence Unit. They are committed to further strengthen the government's anti-corruption policy to reduce corruption vulnerabilities and address identified AML/CFT framework deficiencies and align with FATF standards. To this end, they have updated their anti-money laundering and terrorist financing laws and have made progress in addressing some of the technical compliance deficiencies identified in the recent mutual evaluation report (MER). This led to Tanzania being re-rated in three recommendations as largely compliant and in five recommendations as compliant. The authorities have also made significant progress in meeting their RCF governance commitments on pandemic related spending.

13. The Tanzanian authorities place a high premium on efforts to address the impact of climate change, considering the country's climate vulnerabilities. In this regard, they plan to build a critical mass of climate change experts to address adaptation challenges and proactively exploit available opportunities to address both adaptation and mitigation as articulated in their national climate change strategy (2021–2026). To this end, they are strengthening their institutional capacity to tackle the impact of climate change on agricultural production, infrastructure, health, financial sector, and tourism. Considering the substantial pressure of climate related spending on the budget and potential external stability, Tanzania is interested in accessing the Resilience and Sustainability Trust (RST) to help build climate resilience.

Conclusion

14. Finally, the Tanzanian authorities reiterate their commitment to the ECF program designed to help achieve the objectives of the FYDP III. As such, they regard fiscal consolidation, monetary tightening, and structural reforms, as essential to help achieve their overall reform objectives. They will intensify fiscal consolidation in the medium term to ensure debt sustainability and create fiscal space through higher revenue mobilization and expenditure management, as well as efforts to strengthen PFM systems. They look forward to the Directors' support in conclusion of the 2023 Article IV Consultation and completion of the First Review under the ECF arrangement. The authorities also appreciate continued Fund technical and policy support as instrumental in successful program implementation.