INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/425

UNITED REPUBLIC OF TANZANIA

December 2023

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED REPUBLIC OF TANZANIA

In the context of the 2023 Second 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 December 13, 2023, consideration of the staff report that concluded the Second Review under the Extended Credit Facility with the United Republic of Tanzania.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2023, following discussions that ended on November 3, 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 December 1, 2023.
- A **Statement by the Executive Director** for the United Republic of Tanzania.

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

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

International Monetary Fund
Washington, D.C.

© 2023 International Monetary Fund

PRESS RELEASE

PR23/444

IMF Executive Board Completes Second Review Under the Extended Credit Facility Arrangement for the United Republic of Tanzania and Approves US$150.5 million Disbursement.

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the second review of the Extended Credit Facility Arrangement for Tanzania, allowing for an immediate disbursement of about US$ 150.5 million for budget support.
- Tanzania's economic reform program is broadly on track. The authorities remain committed to reforms supported by the Extended Credit Facility Arrangement, which aim to preserve macro-financial stability, strengthen the economic recovery, and support structural reforms towards sustainable and inclusive growth.
- Economic growth is expected to pick up starting in 2023 but faces headwinds from the unfavorable global economic environment.

Washington, DC – **December 13, 2023:** Today, the Executive Board of the International Monetary Fund (IMF) completed the second review of the Extended Credit Facility (ECF) Arrangement for Tanzania, which was approved in July 2022 (see press release 22/265) 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. The completion of the second review allows the immediate disbursement of SDR 113.37 million (about US$ 150.5 million), bringing Tanzania's total access under the arrangement to about US$ 455.3 million.

The arrangement aims to support economic recovery, preserve macro-financial stability, and promote sustainable and inclusive growth. Reforms center on strengthening fiscal space, enhancing the monetary policy framework and strengthening financial sector supervision, and advancing structural reforms.

Tanzania's economic reform program is broadly on track. Most end-June 2023 quantitative performance criteria and indicative targets were met. The authorities' structural reform agenda is progressing well, with all end-June 2023 structural benchmarks completed on time, reflecting their commitment to the reform agenda.

After slowing down in 2022, growth is expected to rebound in 2023 but the unfavorable global economic environment and domestic factors continue to weigh on Tanzania's economic recovery. Inflation has moderated and is within the Bank of Tanzania's target. The fiscal deficit was wider than expected in FY2022/23, largely reflecting shortfalls in revenue collections, but the authorities are committed to implementing the fiscal consolidation envisaged in the FY2023/24 budget. A wider current account deficit for FY2022/23 and tighter external financial conditions resulted in pressures in the foreign exchange market.

The economic recovery is expected to regain momentum going forward but faces headwinds from the unfavorable global economic environment. Near-term policy priorities include exchange rate flexibility combined with tightening of local currency liquidity and fiscal consolidation, while preserving priority social spending. The medium-term outlook is positive subject to steadfast implementation of the authorities' reform agenda, anchored by the ECF arrangement.

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

"Tanzania's ECF-supported program focuses on strengthening the economic recovery, preserving macroeconomic stability, and supporting sustainable and inclusive growth. The authorities remain committed to their reform program, despite an unfavorable global economic environment. Performance under the ECF has been broadly on track.

"The fiscal consolidation envisaged in the budget will help buttress fiscal sustainability. Efforts to enhance domestic revenue mobilization and improve spending efficiency are important to create fiscal space, finance priority investment and social spending, and safeguard debt sustainability. Further, closing gaps in Tanzania's human and social development will require prioritizing social spending during budget planning and execution. Strengthening public financial management and oversight of state-owned enterprises will help contain fiscal risks.

"A coordinated macroeconomic policy response is necessary to address pressures in the foreign exchange market. The authorities' response to the emerging foreign exchange market pressures has focused on interventions and regulatory measures. Addressing the root causes of imbalances calls for a more comprehensive policy response that includes exchange rate flexibility, fiscal consolidation, and continued tightening of local currency liquidity.

"Continuing efforts to modernize the monetary policy framework and complete the ongoing transition to an interest rate-based monetary policy are key to enhance the effectiveness of monetary policy. Upgrading the financial supervision framework, including by implementing FSAP recommendations, will help to buttress financial sector stability and promote financial deepening. Measures to align Tanzania's legal framework with FATF standards will improve the effectiveness of the AML/CFT framework.

"Structural reforms are essential to promote inclusive, resilient, and sustainable growth. Business reforms should focus on streamlining bureaucratic procedures, simplifying the regulatory regime, and enhancing regulatory transparency. Implementation and enforcement of the authorities' anti-corruption legislation and strategies is central to enhancing governance. Tanzania's high vulnerability to climate change calls for continued efforts to increase resilience through mitigation and adaptation policies."

UNITED REPUBLIC OF TANZANIA

December 1, 2023

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context. The unfavorable global economic environment and domestic factors continue to weigh on Tanzania's economic recovery. Growth rebounded during the first half of 2023 but is expected to slowdown in the second half amid headwinds from a weak global outlook and forex liquidity shortages. Inflation has moderated and is now well within the Bank of Tanzania's target. The fiscal deficit was wider than expected in FY2022/23, largely reflecting shortfalls in revenue collections. A wide current account deficit for FY2022/23 and tighter external financial conditions resulted in pressures in the foreign exchange market.

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 arrangement focuses on safeguarding macroeconomic stability in the face of global economic shocks and supporting reforms towards sustainable and inclusive growth, drawing on the government's reform priorities summarized in the authorities' Third Five-Year Development Plan. The first review of the arrangement was approved by the Board in April 2023.

Program performance. Program performance is broadly on track, and most QPCs and ITs for end-June 2023 were met. The QPC on net domestic assets (ceiling) was technically missed when adjusted for extra budget support vis-à-vis program projections. The BoT is committed to strengthening its liquidity management tools to ensure that it responds swiftly to sterilize unanticipated liquidity shocks. The IT on priority social spending (floor) was missed due to delays in disbursement of external grants and concessional loans, higher debt service payments, and clearance of more expenditure arrears. The authorities will conduct a mid-year budget review and cut lower-priority spending, if needed, to safeguard current FY program targets for priority social spending. Despite clearing more expenditure arrears than planned, the IT on the stock of domestic arrears (ceiling) was missed due to delays in the receipt of supporting documentation for VAT refund claims. The authorities requested modifying the definition of VAT refund arrears to exclude claims for which incomplete information was submitted by taxpayers: and committed to reducing the timeline for VAT refund payments as

a new structural benchmark. The authorities' structural reform agenda is progressing well, with all structural benchmarks for end-June 2023 completed on time. Program targets were extended to end-December 2024 and new structural benchmarks were proposed through end-December 2024.Completion of the review will lead to disbursement equivalent to SDR 113.37 million, bringing total disbursements under the program to SDR 342.1 million.

Request. The authorities request a waiver for non-observance of the end-June performance criterion on net domestic assets based on corrective measures they are taking, which aim to strengthen the BoT's ability to respond more swiftly to the impact of autonomous factors on local currency liquidity.

Outlook and Risks. In the near term, economic growth is expected to regain momentum but faces headwinds from the unfavorable global external environment including subdued global growth, tight financing conditions, and increased commodity price volatility. Other downside risks include intensification of regional conflicts, an abrupt global slowdown or recession, natural disasters related to climate change, failure to arrest forex market imbalances, and hurried scale-up of public investment projects. The medium-term outlook is positive subject to steadfast implementation of the authorities' reform agenda, anchored by the ECF arrangement.

Approved By
Catherine Pattillo (AFR) and Peter Dohlman (SPR)

Discussions took place in Dar es Salaam and Dodoma during October 23-November 3, 2023. The staff team comprised Charalambos Tsangarides (head), Xiangming Fang, Farayi Gwenhamo, Leni Hunter, Sunwoo Lee, Melesse Tashu (all AFR), Marta Spinella (SPR), Sebastian Acevedo (Resident Representative), and Chelaus Rutachururwa (local economist). Dickson Lema (OEDAE) participated in the discussions. The team met with Minister of Finance, Mwigulu Nchemba, Bank of Tanzania Governor, Emmanuel Tutuba, and other officials. Staff also held discussions with the private sector and development partners. Roberta Guarnieri and Mason Stabile (AFR) provided excellent assistance for the preparation of this report.

CONTENTS

ANNEXES

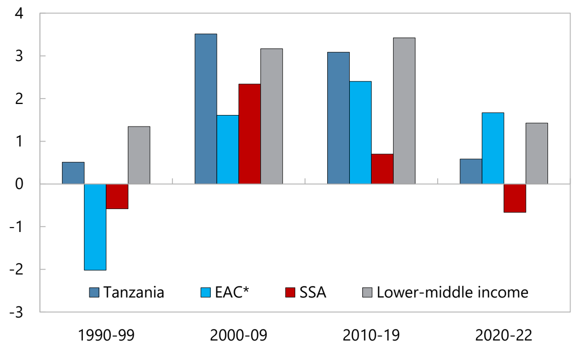
APPENDIX

CONTEXT

1. Tanzania faces long-term development challenges. Tanzania has enjoyed 20 years of strong growth, but rapid population growth in the context of institutional and structural weaknesses has kept a large share of the population below the poverty line. Human capital and infrastructure deficits have also limited the country's growth potential (Text Figure 1).

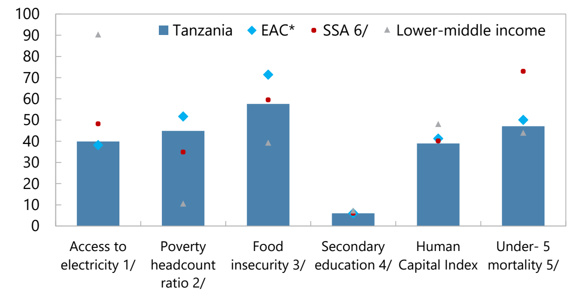
Text Figure 1. Growth and Development Indicators: Tanzania and Comparators

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



*Excludes Tanzania and South Sudan

Development Indicators
(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. The authorities' Third Five-Year Development Plan (FYDPIII) addresses development challenges to unleash the country's potential. The authorities' reform agenda envisaged in FYDPIII aims to elevate Tanzania's economy to middle-income status through safeguarding macroeconomic stability, investing in infrastructure and human capital, easing institutional bottlenecks, deepening industrialization, and promoting investment and trade.

3. A 40-month ECF arrangement 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) creating fiscal space and preserving debt sustainability through improved revenue mobilization and spending quality; (ii) improving the business environment and governance through advancing the authorities' structural reform agenda; and (iii) safeguarding macro-financial stability and advancing financial deepening through upgrading the monetary policy and supervisory frameworks.

RECENT ECONOMIC DEVELOPMENTS

4. The unfavorable global economic environment and domestic factors continue to weigh on Tanzania's economic recovery. After modestly rebounding to 4.9 percent in 2021, real GDP growth weakened to 4.7 percent in 2022. Growth was 5.3 percent (yoy) in the first half of 2023, but it is expected to slowdown in the second half amid headwinds from a weak global outlook and forex liquidity shortages. After peaking at 4.9 percent (yoy) in January 2023, inflation decelerated to 3.2 percent in October, well below the BoT's 5 percent target, reflecting the authorities' policy response (temporary fuel and fertilizer subsidies) and subsiding commodity prices.

5. The fiscal deficit was wider than expected in FY22/23, largely reflecting shortfalls in revenue collections. Non-tax revenues fell short of budget expectations by about 14 percent due to the negative impact of reductions in government fees and levies approved in the FY2022/23 Budget.[1] The impact of these measures was underestimated in last year's budget, and the authorities introduced new fees and levies in the FY2023/24 budget to offset the impact of those measures. Spending on goods, services and transfers overran the revised budget by 15.6 percent due to reallocation of resources to local governments and extra–budgetary units, provision of medical assistance, and payments of expenditure arrears. Consequently, the overall fiscal and the domestic primary deficit were wider than expected by about 1 and 0.3 ppts of GDP, respectively (Table 2b).[2] Given the shortfall in external financing, the deficit was largely financed by domestic borrowing, including from the BoT.[3]

Text Table 1. Tanzania: Fiscal Developments, 2022/23
(Trillions of Shillings)

	Budget (rev.)	Outturn	Outturn/Budget (%)
Domestic revenue	**27.2**	**26.2**	**96.4**
Tax revenue	21.6	21.4	99.0
Non tax revenue	5.6	4.8	86.2
External grants	**1.1**	**0.6**	**54.1**
Expenditure	**34.3**	**34.4**	**100.5**
Recurrent	20.2	21.4	105.9
Wages and services	8.6	7.7	88.8
Interest	2.9	3.7	128.2
Goods, services and transfers	8.7	10.0	115.6
Development	14.1	13.1	92.8
Locally financed	11.4	11.4	99.8
Externally finance	2.7	1.7	63.4
Domestic primary balance	**-4.1**	**-4.6**	**111.0**
Overall balance	**-5.9**	**-7.7**	**130.0**
Financing	**5.9**	**7.7**	**130.0**
External, net	3.7	3.1	84.2
Domestic, net	2.3	4.6	204.5
Memo:			
Priority social spending	*12.7*	*10.6*	83.6
Statistical discripancy	*0.0*	*-0.1*	…

Source: Ministry of Finance and Fund staff calculations.

6. The external balance deteriorated markedly in FY2022/23 as rapid growth of imports outpaced that of exports. Despite tourism recovery surpassing pre-COVID highs, the current account deficit widened to 6.3 percent of GDP from 4.6 percent a year earlier, as goods imports grew more rapidly than exports, reflecting the impact of the war in Ukraine (fuel and fertilizer) and stepped-up construction of key public infrastructure projects (capital goods). The current account deficit was largely financed by public and private sector external borrowing (Text Figure 2). The level

[1] These measures were taken as part of the implementation of the Blueprint for regulatory reforms to improve the business environment.

[2] The significant widening of the overall balance reflects higher than projected interest payments and shortfalls in external grants.

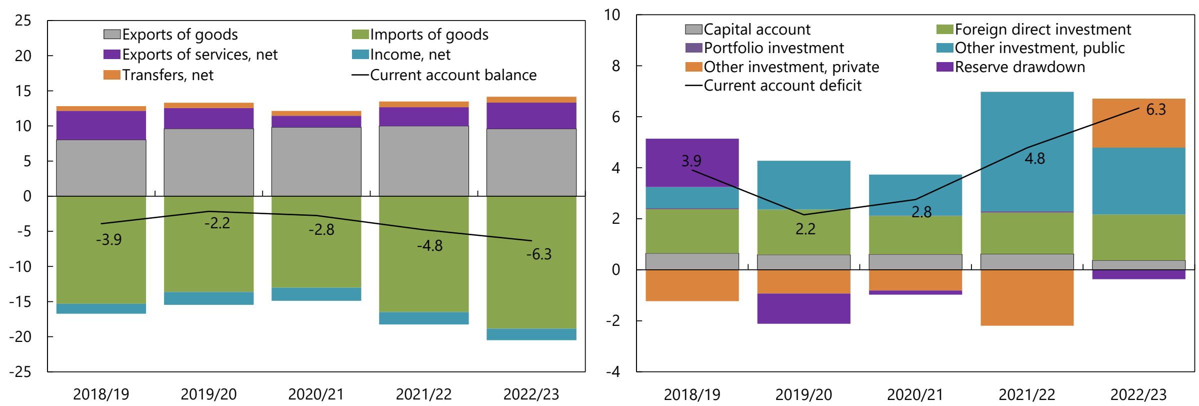
[3] BoT financing of the budget in FY2022/23 amounted to 4.8 percent of government revenues, up from 1.6 percent in FY2021/22. The outstanding balance of net BoT claims on the government (excluding government securities held for liquidity management purposes) stood at about 12.6 percent of FY2022/23 budgeted revenue, against the legal limit of 18 percent.

of international reserves stood at US$4.9 billion (about 3½ months of imports) in October, assessed as adequate by the Fund's ARA metric.

Text Figure 2. Current Account Balance

(In percent of GDP)

(a) Key Drivers (b) Sources of Finance

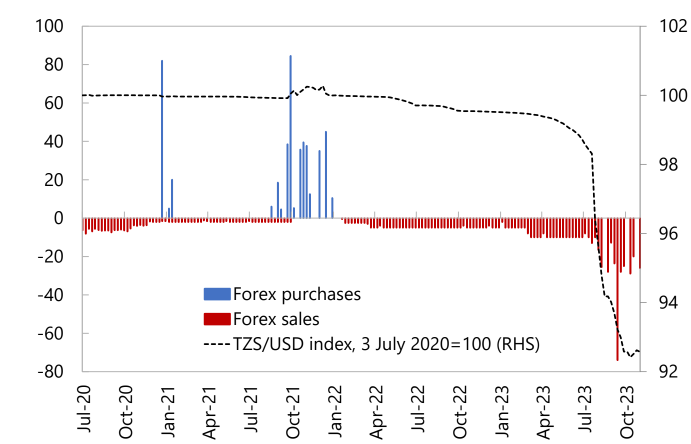


Sources: Bank of Tanzania and Fund staff calculations.

7. **A widening current account deficit resulted in growing pressures in the forex market.** Despite the pressure, the Tanzanian shilling depreciated only 1 percent (yoy) vis-à-vis the USD in June 2023.[4] The exchange rate depreciated by 7.2 percent between end-June and end-October, yielding an 8 percent depreciation yoy, while the BoT increased its forex sales in the market.[5] The interbank forex market has become inactive with the BoT being the only seller, and anecdotal evidence suggests unmet forex demand at the official exchange rate. The unmet forex needs have reportedly led to the emergence of parallel forex markets, mainly in border areas, but the size of these markets and the spread between the parallel and official market rates are estimated to be small. Data and

Text Figure 3. Forex Interventions and the Exchange Rate

(US$ million, weekly)



Sources: Bank of Tanzania and Fund staff calculations.

[4] At the same time, the nominal and real effective exchange rates appreciated by 6 percent each, as the currencies of trading partners depreciated faster vis-à-vis the US dollar.

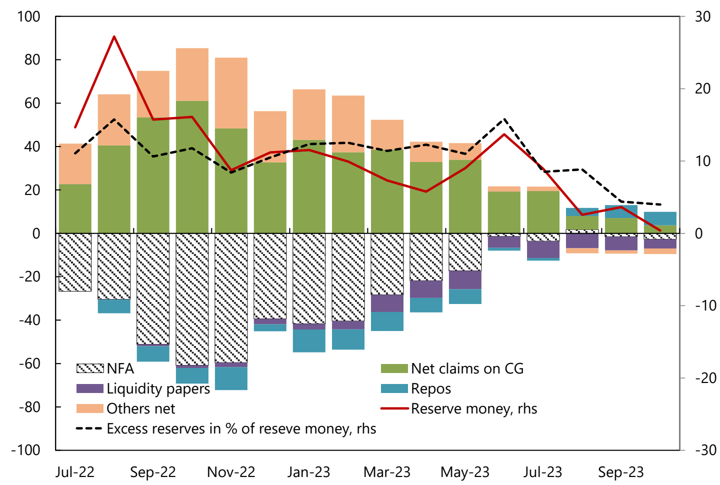
[5] Total forex sales by the BoT during July-October amounted to US$349 million, higher than total forex sales for the entire FY2022/23 of US$332 million.

discussions with the authorities and market participants point to easing of the forex pressure lately and the BoT has reduced the pace of its interventions in the market.

8. Banks' holding of excess reserves is declining, reflecting the BoT's effort to tighten liquidity. To address inflationary pressures and rapid growth of credit to the private sector, the BoT launched a liquidity mop-up operation (sale of liquidity papers and repos) in August 2022. Despite significant contraction of net foreign assets and continued repos, the financial system remained liquid in FY2022/23, with banks' excess reserves averaging 12 percent of reserve money, reflecting significant monetary financing of the budget. Since July, however, reserve money growth and banks' holding of excess reserves have declined significantly as the BoT reduced its net claims against the government.

Text Figure 4. Drivers of Reserve Money and Banks' Excess Reserves

(Contributions to yoy reserve money growth in percent, unless stated otherwise)



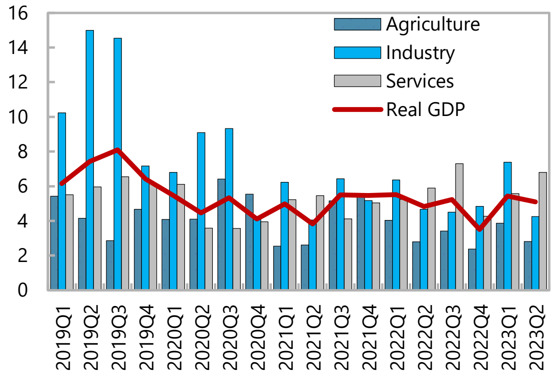
Sources: Bank of Tanzania and Fund staff calculations.

9. The financial sector remains broadly stable with pockets of vulnerabilities persisting in some areas (Table 5). Overall, the banking sector is well-capitalized, profitable and liquid, although performance is uneven across banks. Credit risk continued to improve with NPLs decreasing to 5.2 percent in September 2023, from 7.3 percent a year earlier. The ratio of restructured loans to gross loans stabilized to 7.4 percent in June 2023 (from 8.2 percent in December 2022). Nevertheless, rapid credit growth, high credit concentration, financial dollarization, and loss of correspondent banking related to deficiencies in the AML/CFT framework remain key vulnerabilities.

Figure 1. Overview of Recent Economic Developments

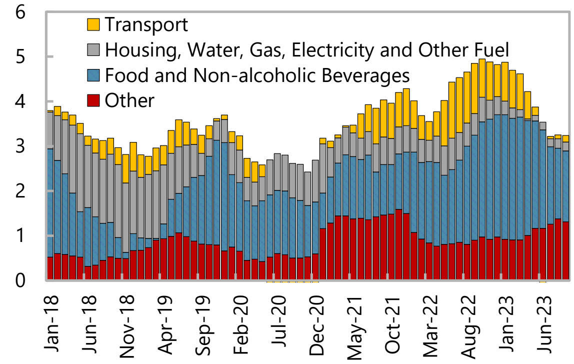
The recovery in growth is stalling due to the impact of global factors and shortfalls in rainfall…

Real GDP Growth
(Percent, y-o-y)



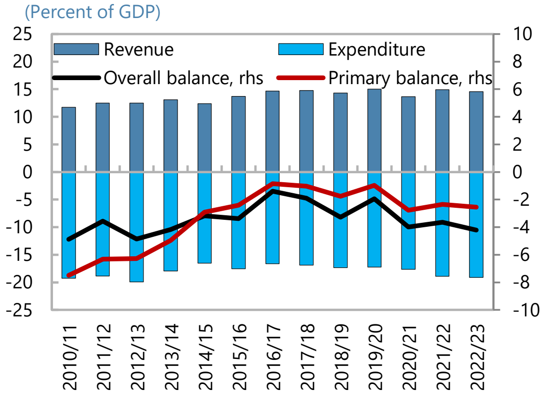
…and inflation has moderated.

Contributions to Inflation
(Percent)



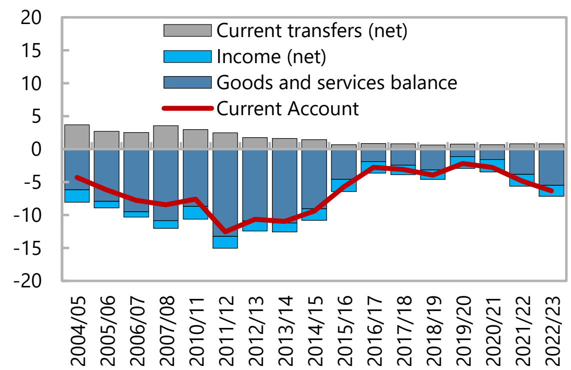
The fiscal deficit widened due to lower-than-expected non-tax revenues.

Recent Developments: Fiscal Sector
(Percent of GDP)



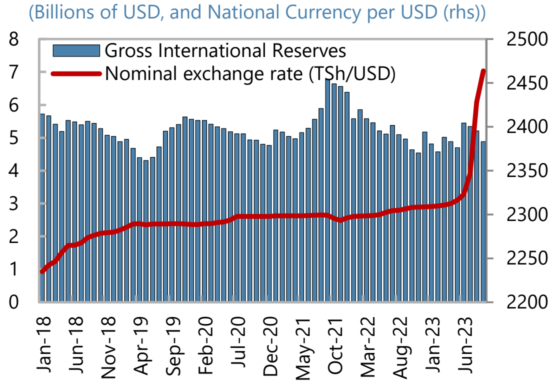
… and the current account deficit widened, reflecting deteriorations in the trade balance.

Recent Developments: External Sector
(Percent of GDP)



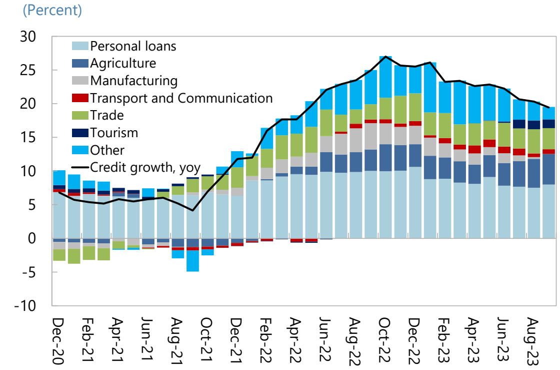
The level of international reserves increased modestly while the exchange rate depreciated recently.

Recent developments: International Reserves
(Billions of USD, and National Currency per USD (rhs))



Private sector credit growth modestly moderated but remained high.

Private Sector Credit Growth, Contributions by Sector
(Percent)



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

PROGRAM PERFORMANCE

11. Program performance at end-June 2023 was broadly on track. The continuous performance criteria on the accumulation of new external arrears and the PV of new external debt contracted by the government (both ceilings), the QPCs on the domestic primary balance (floor)[6] and change in NIR (floor), and the indicative target on newly disbursed external non-concessional borrowing (ceiling) were met. The QPC on net domestic assets (ceiling) was missed when adjusted for the excess budget support vis-à-vis program projections. The IT on priority social spending (floor) was missed due to delays in disbursement of external grants and concessional loans earmarked for health sector projects, higher debt service payments, and higher clearance of expenditure arrears. Although the authorities cleared more expenditure arrears than planned, the IT on the stock of domestic arrears (ceiling) was missed due to delays in receiving supporting documentation from taxpayers for verification of VAT refund claims.

12. The authorities are taking corrective measures against missed targets. The BoT is strengthening its liquidity management tools to ensure that it responds swiftly to sterilize unanticipated liquidity shocks and ensure the QPC on net domestic assets is met (MEFP ¶13). Based on these corrective measures, the authorities request a waiver for non-observance of the end-June performance criterion on net domestic assets. The Ministry of Finance committed to conduct a mid-year budget review in February 2024 and cut lower-priority spending, if needed, to safeguard the program targets for priority social spending. They also agreed to publish the amount of funds allocated to the broad areas of priority social sectors defined in the Technical Memorandum of Understanding in the revised mid-year budget. To prevent factors beyond the authorities' control from affecting program performance on domestic arrears, the definition of VAT refund arrears is proposed to be modified to exclude refund claims for which complete information has not been submitted by taxpayers. At the same time, the authorities agreed to amend the VAT Act to reduce the time required to process VAT refunds from 90 days to 30 days (new SB, MEFP ¶31).

13. All structural benchmarks (SBs) for end-June 2023 were met. The FY2023/24 budget included a proposal (approved by Parliament) for indirect tax policy measures with estimated revenue yield of 0.3 percent of GDP. In May, the BoT published the operational guidelines of the interest-rate based monetary policy framework. The authorities recruited 16,915 teachers and 12,674 health workers in FY2022/23. The National Bureau of Statistics reconciled National Accounts and BoP external sector data and published the revised data for 2017-2022.[7]

[6] Although the domestic primary deficit was wider than program projections, the QPC was met due to the adjustment for the excess amount of domestic arrears settled by the government vis-à-vis program projections (Schedule C of the TMU).

[7] The reconciliation resulted in revisions in the National Accounts and BoP external sector data for 2017-2022. As a result, ratios-to-GDP for the associated macroeconomic indicators have been revised.

OUTLOOK AND RISKS

14. The economic recovery is continuing. Growth is projected to pick up, albeit at a slower pace, reaching 5 and 5.5 percent in 2023 and 2024, respectively, supported by improvements in the business environment and subsiding global commodity prices.[8] Inflation is projected to remain well within the BoT's 5 percent target. Growth-friendly fiscal consolidation takes hold starting in FY2023/24, anchored by the ECF arrangement. The current account deficit is projected to narrow reflecting fiscal consolidation, easing commodity prices, and tight external financing conditions.

15. The medium-term outlook is contingent on steadfast implementation of the authorities' reform agenda, supported by the ECF arrangement. Real GDP growth is projected to rebound to about 6½ percent over the medium-term assuming successful implementation of the authorities' reform agenda, supported by the ECF arrangement. Inflation is expected to remain 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 are expected to improve the fiscal outlook (Text Table 2).

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

	2020/21 Act.	2021/22 Act.	2022/23 Prel.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
Real GDP	4.7	4.8	4.9	5.3	5.8	6.2	6.4	6.5
Calendar year Real GDP[1]	4.8	4.7	5.0	5.5	6.0	6.3	6.5	6.5
GDP deflator	114.3	118.3	124.4	131.1	137.0	142.9	149.5	156.9
CPI (period average)	3.3	4.0	4.6	4.0	4.0	4.0	4.0	4.0
Credit to the private sector (end of period)	3.6	19.4	21.3	16.0	12.5	12.2	12.1	12.1
Domestic primary balance (percent of GDP)	-2.3	-1.9	-2.2	-0.7	-0.6	-0.5	-0.5	-0.5
Fiscal overall balance (percent of GDP)	-4.0	-3.6	-4.3	-2.8	-2.6	-2.6	-2.6	-2.7
Public debt (percent of GDP)	42.7	43.6	45.5	47.0	45.0	43.5	42.1	40.7
Current account balance (percent of GDP)	-2.8	-4.8	-6.3	-4.6	-3.9	-3.6	-3.1	-2.7
Reserves (months of imports)	4.6	3.6	3.9	3.9	3.9	4.0	4.1	4.1

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

16. Risks to the outlook are tilted to the downside. Intensification of regional conflicts, increased commodity price volatility, an abrupt global slowdown or recession, natural disasters related to climate change, failure to arrest emerging forex market imbalances, and poorly executed scale-up of public investment projects could weigh negatively on the near-term outlook. Risks to the medium-term outlook include complacency in reform implementation and spillovers from deepening geoeconomic fragmentation (Annex I).

[8] The near-term and medium-term growth projections have been revised down reflecting the impacts of forex liquidity shortages for 2023, and slower global recovery and tighter global financial conditions for 2024 and the medium-term. Projected growth has been revised from 5.2 to 5.0 percent for 2023, from 6.1 to 5.5 percent for 2024, and from 7 to 6.5 percent for the medium- term.

17. If executed as planned, the LNG project constitutes a medium to long-term upside potential for the Tanzanian economy. Following a framework agreement in June 2022, the government and private developers continue to negotiate a Host Government Agreement (HGA). After signing and parliamentary review of the HGA, more preparatory work is needed for the next step (the Final Investment Decision), which could lead to significant investment towards project construction (estimated at about US$42 billion) and LNG production for exports and domestic consumption.

POLICY DISCUSSIONS

Discussions focused on policy priorities to safeguard macro-financial stability in the near-term and promote sustainable and inclusive private sector-led growth in the medium-term. Emerging forex pressures underscore the importance of safeguarding macro-financial stability through coordinated macroeconomic policy response (exchange rate flexibility, fiscal consolidation, and monetary policy tightening) in the near term. Medium-term reform priorities continue to center on creating fiscal space, modernizing the monetary policy framework and financial supervision, and advancing structural reforms.

A. Safeguarding Macro-financial Stability

18. A coordinated macroeconomic policy response is needed to address the forex pressures. If not arrested promptly, the forex pressures could create macroeconomic imbalances and undermine Tanzania's hard-earned macro-financial stability. The authorities' response so far focused on forex interventions and regulatory measures to enhance liquidity in the market. The BoT increased its daily forex sales to the market from US$1 million to US$2 million in March 2023 and issued directives aimed at enhancing liquidity in the forex market while mitigating spillovers from neighboring countries (MEFP ¶14). [9] While these measures may provide temporary relief to the market, addressing the root causes of the forex imbalances calls for a more comprehensive and coordinated policy response that includes exchange rate flexibility while maintaining adequate buffers, fiscal consolidation focusing on limiting spending on FX intensive projects, and continued tightening of local currency liquidity.

19. The BoT should allow exchange rate flexibility, while limiting forex interventions to address disorderly market conditions. The BoT is committed to efforts to revive the forex markets and ensure price discovery that allows a market-clearing exchange rate system, including by: (i)

[9] Three measures subject to Article VIII, Sections 2(a) and 3 that pre-date the program have been identified: (i) an exchange restriction arising from the requirement that residents use letters of credit for forex payments for transit cargoes; (ii) an MCP arising from the use of a one-day lagged exchange rate for the BOT's forex transactions with the government, where such rate is not derived from transactions representative of the forex market, in the absence of a mechanism to prevent a spread of more than two percent with the prevailing retail market rate; and (iii) an MCP arising from the requirement that transactions in the retail market over a certain threshold—currently USD 1 million—be traded within the interbank prevailing quoted rates, absent a mechanism to prevent a spread of more than 2 percent with the prevailing retail rate. These measures were introduced before the approval of the ECF arrangement.

issuing a revised interbank forex market Code of Conduct adopting international best practices and the "FX Global Code" by end-January 2024 (new SB); and (ii) encouraging banks and bureau de changes to trade at a market clearing exchange rate in the interbank and retail markets to attract foreign exchange flows back to the formal market (MEFP ¶14). The BoT will also formalize and publish its foreign exchange intervention policy by December 2023 (SB, MEFP ¶13).

20. If executed as planned, the fiscal consolidation envisaged in the current year's budget will help buttress fiscal sustainability. In line with program objectives, the FY2023/24 budget aims at fiscal consolidation, to be achieved through revenue mobilization, while rebalancing spending to priority social spending.[10] In light of continued revenue underperformance, the authorities should adhere to program targets in budget execution through effective cash management and commitment controls to ensure that spending is consistent with revenue outturns. The authorities plan to conduct a mid-year budget review and reprioritize spending, as needed, to safeguard priority social spending. Moderating execution of new public sector projects that are not financed by earmarked foreign funds and limiting central bank financing of the budget could also help ease pressure in the forex market.

21. Continuing with liquidity mop-up operations will help curb demand for forex and contain the growth of private sector credit. The liquidity mop-up operations in FY2022/23 were not sufficient to reduce excess liquidity in local currency and the growth of credit to the private sector because of offsetting factors from central bank financing of the budget. Fiscal consolidation envisaged in the current fiscal year budget should be complemented with liquidity mop-up operations with a net effect of tightening local currency liquidity in the money markets. In addition to moderating the growth of credit, this will help alleviate the forex pressure through restraining the supply of local currency and the demand for foreign currency.

22. Continued implementation of the FSAP recommendations and close monitoring of financial sector developments are needed to contain emerging risks and vulnerabilities. The BoT should continue to enforce regulatory actions and supervision to ensure compliance with both solvency and liquidity requirements. It is important to continue monitoring of credit and operational risks particularly in light of the recent rapid credit growth and restructured loans (Annex II), and implementation of FSAP recommendations. Key priorities include enhancing risk-based supervision and stress-test capabilities, reducing NPLs and increasing provisioning, and enhancing buffers to manage liquidity, credit, and concentration risks.

B. Promoting Sustainable and Inclusive Private Sector-Led Growth

Creating Fiscal Space

23. Fiscal reforms will help create fiscal space and safeguard debt sustainability. Tanzania's risk of external debt distress remains moderate and public debt is sustainable under the program-

[10] The budget envisaged a fiscal consolidation of 1 ppts of GDP. Due to the wider-than-expected domestic primary deficit in FY2022/23, however, the consolidation effectively becomes 1.3 ppts of GDP.

supported reform scenario (DSA, Country Report EBS/23/36).[11] Financing the authorities' ambitious investment agenda outlined in the FYDPIII while maintaining debt sustainability requires stepping up efforts to increase domestic revenue mobilization and strengthen public finance management.

24. A comprehensive reform agenda is needed to realize Tanzania's revenue potential. At 11.9 percent of GDP in 2022/23, Tanzania's tax revenue is significantly below its potential (Country Report EBS/22/269). A 2022 Fund TA on tax system diagnostics found that widespread and poorly targeted tax exemptions and inefficient tax administration contributed to the country's weak revenue performance. To address these challenges, the authorities took initial steps in the FY2023/24 budget by introducing excise duties on cement, beer, cigarettes, and gambling machines, and launching administrative measures to improve efficiency (MEFP ¶22). To pave way for further revenue enhancing measures, the authorities: (i) will finalize the ongoing review of tax exemptions and prepare an action plan for rationalizing them by June 2024; (ii) begin preparing and publishing an annual report on tax expenditures and their budget implications starting in June 2024 (new SB); and (iii) prepare a medium-term revenue strategy along with its implementation plan, drawing from the 2022 TA Report on Tax System Diagnostics, by end-June 2024 (new SB, MEFP ¶22).

25. Closing Tanzania's human capital and social developments gaps requires prioritizing social spending during budget allocation and execution. Notwithstanding stepped-up recruitment of health workers and teachers, total priority social spending including on health and education fell short of budget targets in FY2022/23. Closing gaps in Tanzania's health and education outcomes requires sustaining the recruitments over the medium term and allocating sufficient funding to improve not only the coverage but also the quality of the services. Sufficient resources should also be allocated to expand the Tanzanian Social Action Fund (TASAF) program to eligible families, financed by domestic revenue mobilization, improving the efficiency of spending, and rebalancing budget allocation from low priority infrastructure projects.

26. Strengthening PFM and expanding coverage of fiscal data to include systemically important SOEs will help contain fiscal risks. PFM reforms should aim to tackle long-standing domestic arrears problems, weaknesses in cash management and commitment controls, and inefficiency of public investments. In this regard, the mission welcomed the authorities' commitment to strictly enforce the sanction regime against unauthorized spending commitments, with clear personal penalties (MEFP ¶27). Additional measures are needed to improve targeting of subsidies, efficiency of public investment management in line with the recently completed PIMA TA recommendations, credibility of the medium-term fiscal framework, cash management and commitment controls, and oversight of SOEs.

[11] The DSA remains unchanged since the 2023 Article IV consultations and first ECF arrangement review there are no significant changes in economic circumstances and borrowing assumptions (Table 9). [12] Tanzania is currently listed by FATF as a jurisdiction under increased monitoring, and actively working with the FATF to address strategic deficiencies in its regime to counter money laundering, terrorist financing, and proliferation financing.

Modernizing the Monetary Policy Framework and Financial Supervision

27. Modernizing the monetary policy framework is key to improving monetary policy effectiveness. The publication of the operational guidelines of the interest rate-based monetary policy framework set the foundation for the transition to the new monetary policy framework. Several steps remain including, implementing a comprehensive communication strategy, strengthening the analytical tools and capacity of the BoT, and supporting the development of financial markets (Text Table 3). To better align the monetary policy process with key data releases and ensure sufficient time for an iterative process to produce the forecasts and policy recommendations, the BoT plans to revise and publish the schedule for the monetary policy committee meetings, noting in the schedule the announcement dates for any monetary policy decisions taken by the MPC, by end-June 2024 (new SB, MEFP ¶40).

Text Table 3. Tanzania: Forthcoming Milestones in Monetary Policy Framework Transition

Milestone	Recommended timeframe
Publish the operational guidelines of the interest rate-based monetary policy framework, including including documentation and regulations on the use of standing facilities (SB)	Jun. 2023, completed
Complete IMF TA on FXI	Dec. 2023, in progress
Publish monetary policy interest rate	Jan. 2024
Finalize and publish FXI policy (SB)	Dec. 2023
Assess impact of FX regulation on FX market	Apr. 2024
Complete additional IMF TA on FPAS and inflation targeting communication	Jun. 2024
Review the standing faciliites framework	Dec. 2024

Source: IMF staff.

28. Upgrading the financial supervision and regulatory frameworks will promote financial sector stability and deepening. Advancing financial sector deepening, while buttressing financial stability requires upgrading the supervisory framework and strengthening the prudential policy toolkit. This includes the crisis resolution and the emergency liquidity assistance frameworks, the guidelines and limits for large exposures, and the statutory minimum reserve ratio requirements. The authorities are making efforts to enhance capabilities for monitoring and enforcement of prudential guidelines, risk-based supervision, solvency stress testing, and macro-financial analysis. The amendment of the Banking and Financial Institutions Act in June, and issuance of capital adequacy, liquidity management, and prompt corrective action Regulations in line with Basel II/III in October 2023 are key steps towards migration to Basel II/III risk-based supervision standards. The BoT commits to enhance the risk-based supervision (RBS) framework by creating a single RBS rating system by December 2024 (new SB, MEFP ¶41).

29. The authorities are implementing policies to promote financial inclusion (Annex III). Survey results from Finscope indicate steady progress in financial inclusion, with the share of the adult population having access to bank or other formal financial services increasing from 65 percent in 2017 to 76 percent in 2023. Building on this progress, the National Financial Inclusion Framework

2023- 2028 aims to ensure that all adults and businesses have access to and use a broad range of affordable and high-quality financial products and services. Supportive efforts to promote financial inclusion include the ongoing rollout of the National Identification Number, the National Financial Education Program, as well as increased mobile phone access. To further enhance financial inclusion, the authorities will draft a Secured Transactions Act that allows collateral recovery and broadens the pool of acceptable collateral to movable collateral and submit to Parliament by September 2024 (new SB, MEFP ¶42).

Advancing Structural Reforms

30. Structural reforms are essential to unlock Tanzania's growth potential towards sustainable and inclusive growth. Resuming and advancing structural reforms is a key ECF arrangement pillar and is also aligned with the FYDPIII. Priorities should include: (i) streamlining business regulations; (ii) enforcing anti-corruption legislation and strategies; (iii) strengthening the AML/CFT framework; and (iv) implementing climate adaptation and mitigation polices.

31. Streamlining business regulations will help improve the business environment and promote private sector development. 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. The authorities are reviewing and amending business regulatory frameworks with the objective to streamline permits and licenses and rationalize the number of institutions issuing them and conducting oversight (MEFP ¶32 & ¶33). 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, improve budget forecasting, and attract investment.

32. The authorities have taken important steps to improve anti-corruption frameworks, but more efforts are needed to strengthen enforcement. Recently, the authorities setup a special High Court Division for corruption and economic crimes, increased the judiciary budget, and prepared a National Anti-Corruption Strategy and Action Plan (NACSAP). Within NACSAP, efforts should be geared towards: (i) enhancing investigative and intelligence capabilities; (ii) building technological and big data capabilities to address new challenges; and (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. The authorities are committed to resolving outstanding corruption vulnerabilities and governance issues, including with technical assistance from the Fund and other development partners (MEFP ¶36).

33. The authorities are taking steps to align their legal framework with the FATF standards and improve the effectiveness of the AML/CFT framework.[12] In consultation with the Fund, the

[12] Tanzania is currently listed by FATF as a jurisdiction under increased monitoring, and actively working with the FATF to address strategic deficiencies in its regime to counter money laundering, terrorist financing, and proliferation financing.

authorities are establishing 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 (MEFP ¶37). Progress has been, however, limited, and effective coordination among responsible government institutions is needed to address remaining gaps.

34. The authorities are seeking technical and financial assistance to help them develop climate adaptation and mitigation policies. Tanzania is highly vulnerable to climate change but has limited readiness to deal with its impact (Annex IV). This implies an urgent need for adaptation and mitigation policies through building resilience and improving coping mechanisms, such as by promoting investment in irrigation for food production, strengthening key infrastructure, and reducing charcoal dependence. To support their efforts to address climate change challenges, the authorities are seeking technical and financial support from development partners, including potential access to the Fund's RSF in the future.

PROGRAM MODALITIES

35. Program modalities remain unchanged. The program will continue to be monitored on a semi-annual basis through ITs, QPCs, and structural benchmarks, with tQPCs and ITs extended to December 2024. The ECF arrangement 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.

36. To maintain momentum on the reform program, the authorities agreed to set eight new structural benchmarks (MEFP Table 2). These structural benchmarks aim to enhance revenue mobilization efforts, strengthen fiscal transparency, support forex market developments, enhance the monetary policy framework, strengthen governance, and foster financial sector deepening and stability. The authorities reaffirmed their commitment to the reform program and continued close engagement with the Fund through information sharing and technical assistance.

37. The authorities' FYDPIII (FY2021/22–2025/26) meets the Poverty Reduction and Growth Strategy (PRGS) requirements (Annex V). The plan was developed in consultation with stakeholders, including the World Bank, and focuses on key priorities that are consistent with program objectives, including human capital development, inclusive growth, and poverty reduction.

38. The program is fully financed for the next 12 months with good prospects of full financing for the remainder of the arrangement. The financing gap for FY2023/24 is estimated at US$910 million and is expected to be fully financed by the ECF arrangement disbursement (SDR 226.74 million, about US$304 million), World Bank budget support (US$500 million), and support from AfDB (US$106 million) (Text Table 4). The financing gap for the first half of FY2024/25 is estimated at about US$300 million and is expected to be financed by the ECF arrangement disbursement (SDR 113.37 million, about US$152 million) and other donors (US$148 million). The total financing gap, before ECF arrangement financing, for FY2022/23-FY2025/26 is estimated at US$2,482 million and is projected to be covered by donor financing, including the ECF arrangement. Good prospects for financing are in place for the remainder of the program, including donor financing and ECF arrangement financial support.

Text Table 4. Tanzania: Financing Gap and Sources of Financing, 2022/23–2025/26

(Millions of US dollars)

	2022/23 Prel.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
1. Financing Gap Under Program Baseline	**804**	**910**	**615**	**153**
In percent of GDP	*1.0*	*1.1*	*0.7*	*0.2*
2. Expected Budget Support	**500**	**606**	**312**	**0**
World Bank	500	500	0	0
Other donors	0	106	312	0
3. Residual Financing Gap (1-2)	**304**	**304**	**304**	**153**
4. IMF Financing	**304**	**304**	**304**	**153**
In percent of GDP	*0.4*	*0.4*	*0.4*	*0.2*
ECF (200 percent of quota)	304	304	304	153
Remaining financing gap	**0**	**0**	**0**	**0**

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

39. Tanzania's capacity to repay the Fund is adequate, but subject to downside risks (Table 6). With a disbursement of 200 percent of quota, outstanding credit would peak in 2025/26 at 1.8 percent of GDP (remaining below the median of UCT-quality arrangements for LICs) or 11.1 percent of revenue (excluding grants). Annual repayments are projected to peak at 0.2 percent of GDP and 1.5 percent of government revenue in FY2030/31. Downside risks could emerge from slow implementation of revenue mobilization reforms, a rapidly increasing path of external debt service and continued FX shortages. Risks are mitigated by the authorities' ownership of the reform agenda and good track record of IMF repayments.

40. The 2022 safeguards assessment found that the BoT has made progress in strengthening internal audit and maintained sound financial reporting practices. However, progress in implementing the safeguards recommendations has been slow. Key vulnerabilities remain in the governance arrangements, which lack independent oversight. To strengthen governance arrangements and personal and financial autonomy, the authorities are drafting amendments to the BoT Act, which will be submitted to Parliament by end-June 2024 (new SB, MEFP ¶44).

41. Capacity development priorities are aligned with program objectives (Annex VI). Recent Fund TA covered issues of taxation, PIMA including with a climate module, monetary policy, financial supervision, Government Finance Statistics, Public Sector Debt Statistics and National Accounts statistics. Ongoing Fund TA focus on areas related to program objectives.

STAFF APPRAISAL

42. **The unfavorable global economic environment and domestic factors continue to weigh on Tanzania's economic recovery.** After a modest recovery in 2021, growth was held back in 2022 while the current account deficit and the fiscal deficit deteriorated in FY2022/23. Forex market imbalances emerged as a result of the widening current account deficit and tight global financial conditions. Going forward, growth is expected to regain momentum, supported by the authorities' economic reform program. Inflation is expected to remain within the BoT's target and the current account deficit is projected to moderate over the medium-term reflecting fiscal consolidation, easing commodity prices, and the authorities' reform program. Enhanced revenue mobilization efforts and consolidation of non-priority spending are expected to improve the fiscal outlook.

43. **The outlook faces downside risks and uncertainties.** Intensification of regional conflicts, increased commodity price volatility, an abrupt global slowdown or recession, failure to arrest emerging forex market imbalances, natural disasters related to climate change, and poorly executed scale up of public investment projects could weigh negatively on the near-term outlook. The medium-term outlook hinges on steadfast implementation of the authorities' reform agenda supported by the ECF arrangement. The LNG project is a medium to long-term upside potential for the Tanzanian economy.

44. **Program performance at end-June 2023 was broadly on track.** All quantitative performance criteria for end-June 2023, except the QPC on net domestic assets, were met. The QPC on net domestic assets was missed due to the adjustment for the excess budget support vis-à-vis program projections. The authorities request a waiver of non-observance of the end-June 2023 QPC on net domestic assets based on corrective measures undertaken by the BoT. The indicative target on newly disbursed external non-concessional borrowing was met, but those on priority social spending and the stock of domestic arrears were missed, due to higher-than-expected debt service and delays in receiving documentation from taxpayers for VAT refund claims, respectively. The authorities made commitments to take corrective measures against missed ITs. The structural reform agenda is progressing well, with all end-June 2023 structural benchmarks met.

45. **A coordinated macroeconomic policy response is needed to address emerging forex imbalances.** The BoT should allow more exchange rate flexibility and ensure that the exchange rate responds to market conditions and cushions the economy against external shocks. BoT should also continue its efforts to revive the forex markets, return to a market-clearing exchange rate system, and continue to maintain an adequate level of reserves while limiting forex interventions only to avoiding disorderly market conditions. These measures should be accompanied by fiscal consolidation and tightening of local currency liquidity.

46. **If executed as planned, the fiscal consolidation envisaged in the FY2023/24 budget will help buttress fiscal sustainability.** Recent revenue underperformance lead to slippages in deficit targets and accumulation of expenditure arrears. It is important to adhere to program projections in

budget execution through effective cash management and commitment controls. Moderating new public sector projects that are not financed by earmarked foreign funds and limiting central bank financing of the budget will also help complement efforts to contain pressures in the forex market. Reforms to enhance domestic revenue mobilization and strengthen public finance management will help create fiscal space and safeguard debt sustainability.

47. Continuing with liquidity mop-up operations will help contain the rapid growth of private sector credit and curb demand for forex. The liquidity mop-up operations launched by the BoT in FY2022/23 were not sufficient to absorb the excess liquidity in the financial system and contain the rapid growth of private sector credit. Continued liquidity mop-up operations will moderate the growth of private sector credit and alleviate pressures in the forex market.

48. Modernizing the monetary framework is key to improving the effectiveness of monetary policy. Recent progress in the transition to an interest rate-based monetary policy framework is welcome and must continue for the remaining steps to complete the transition. Such steps include implementation of a comprehensive communication strategy, strengthening the analytical tools and capacity of the BoT, and supporting the development of financial markets. Enhancing exchange rate flexibility and strengthening the transparency of the BoT's forex intervention policy will also help complement the transition to the new framework.

49. Upgrading the financial supervision and regulatory frameworks would help promote financial sector stability and deepening. The BoT should continue implementation of FSAP recommendations, including transition to Basel II/III risk-based supervision standards and establishing crisis resolution and emergency liquidity assistance frameworks. The BoT should also operationalize and enhance its micro- and macro-prudential policies to address existing pockets of vulnerabilities in the banking sector.

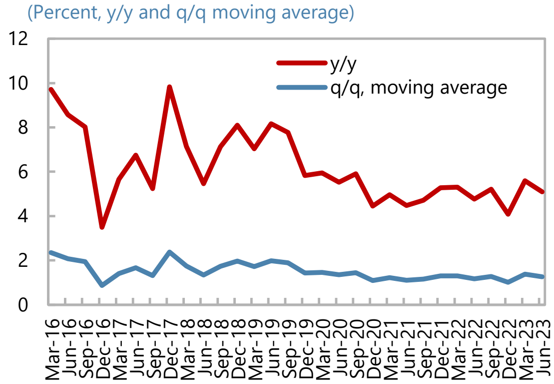
50. Structural reforms are essential to promote inclusive, resilient, and sustainable growth. Business reforms including streamlining bureaucratic procedures, simplifying the business regulatory regime, and enhancing regulatory transparency are crucial to promote private sector development. Implementation 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 policies.

51. Staff supports the authorities' requests for completion of the Second Review and the requested waiver of non-observance of the end-June 2023 QPC on net domestic assets.

Figure 2. Real Sector Developments

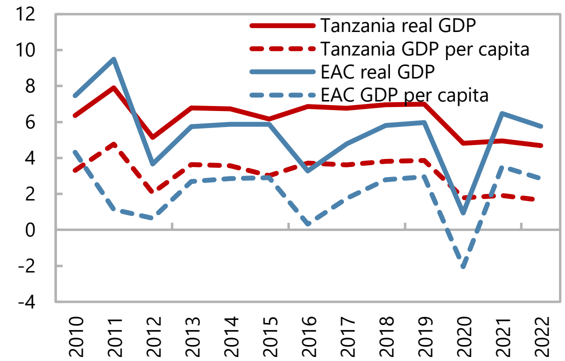
The momentum in real GDP growth has slowed down due to the impacts of COVID-19 and the war in Ukraine.

Recent Growth Trends
(Percent, y/y and q/q moving average)



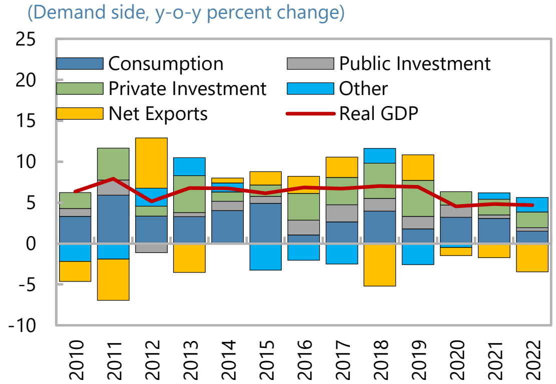
However, Tanzania's real GDP and per capita growth have been more resilient during the COVID crisis than the EAC average.

Real GDP and GDP per Capita
(y-o-y percent change, PPP 2017 international dollars)



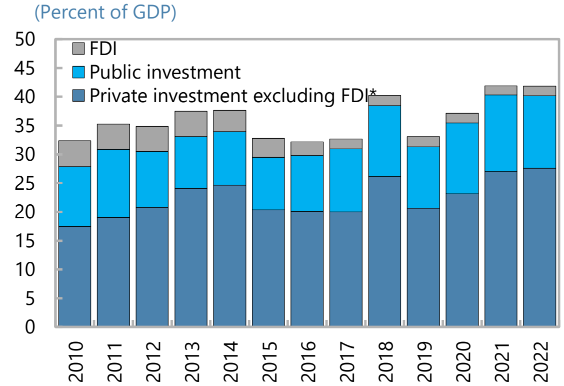
A contraction in net exports reduced growth in 2022.

Contributions to Real GDP
(Demand side, y-o-y percent change)



Private investment recovered in recent years.

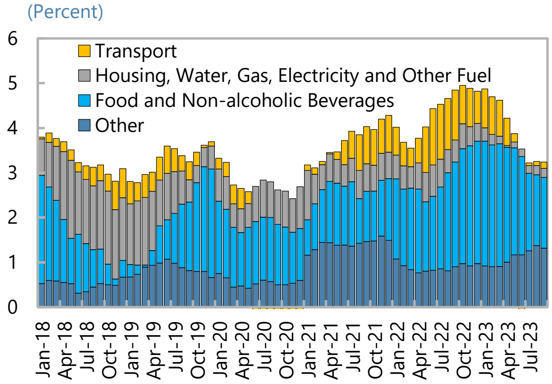
Investment
(Percent of GDP)



* Including changes in inventories

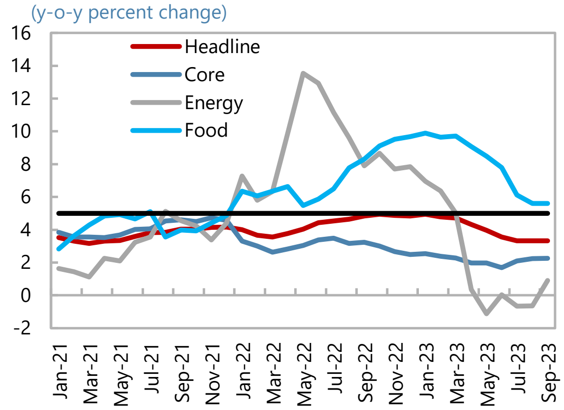
After picking up last year driven by food and transport price increases, inflation has moderated.

Contributions to Inflation
(Percent)



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

Inflation
(y-o-y percent change)

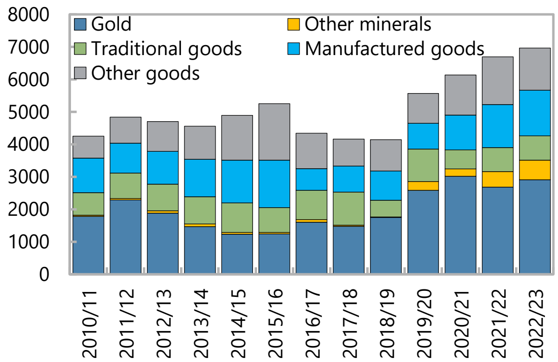


Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 3. External Sector Developments

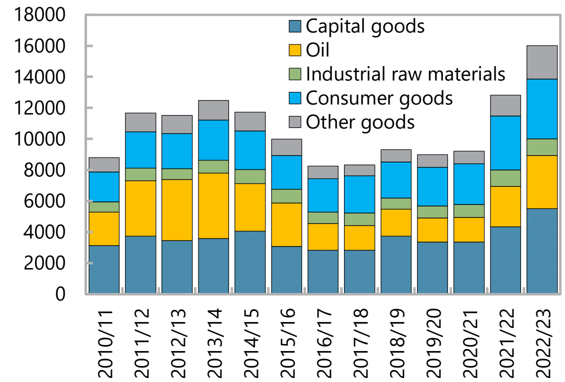
Goods exports have grown since 2018, driven by higher exports of gold, other minerals and manufactured goods.

Composition of Goods Exports
(Millions of USD)



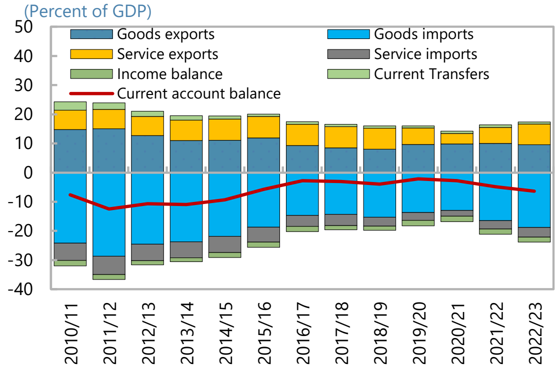
Imports grew sharply in 2022/23, in part reflecting spillovers from the impact of the war in Ukraine…

Composition of Goods Imports
(Millions of USD)



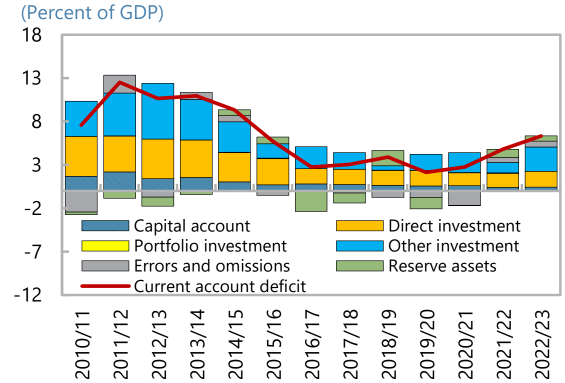
…leading to reversal of recent gains in reducing the current account deficit.

Current Account Balance Decomposition
(Percent of GDP)



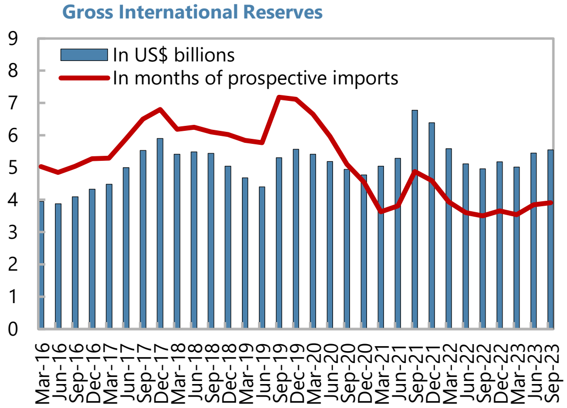
The current account deficit was financed largely by public and private sector borrowing (other investment).

Current Account Deficit and Sources of Financing
(Percent of GDP)



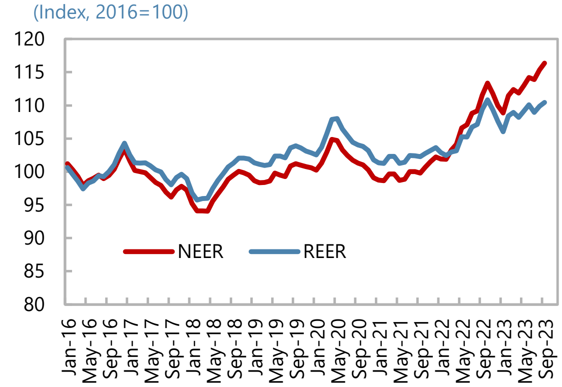
After declining in 2022, international reserves stabilized…

Gross International Reserves



…while the real and nominal effective exchange rates appreciated.

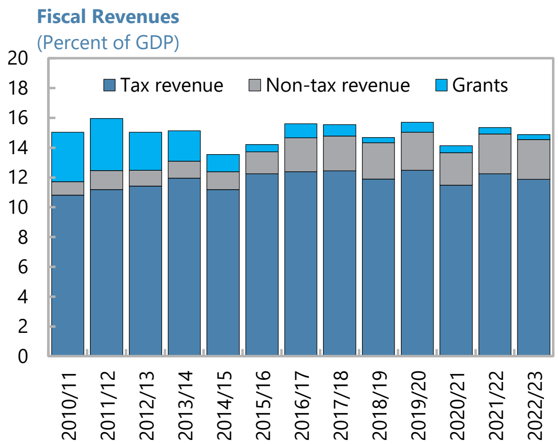
Real and Nominal Effective Exchange Rates
(Index, 2016=100)



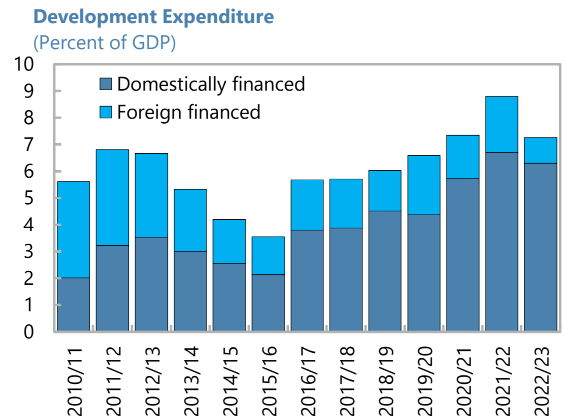
Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 4. Fiscal Sector Developments

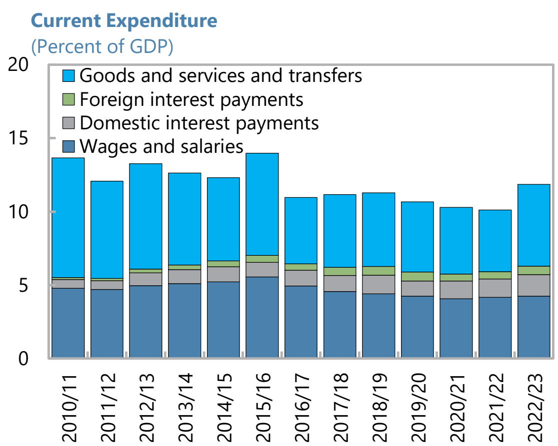
Domestic revenue mobilization remains below potential.



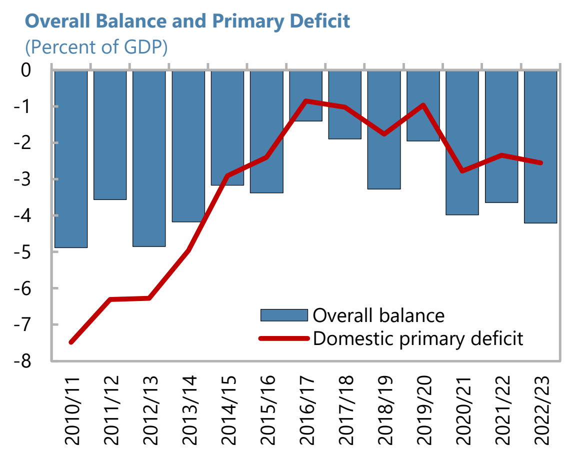
After rising in recent years, development expenditure moderated last year…



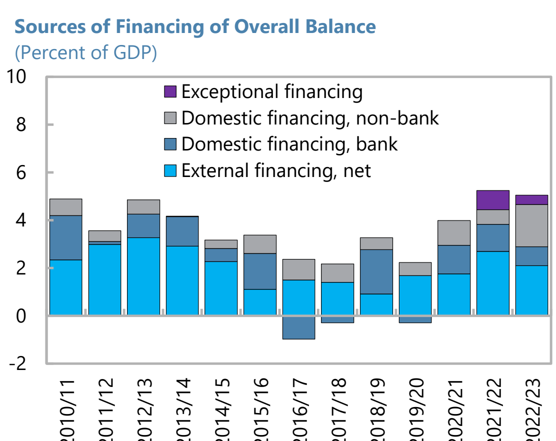
…while recurrent expenditure picked up.



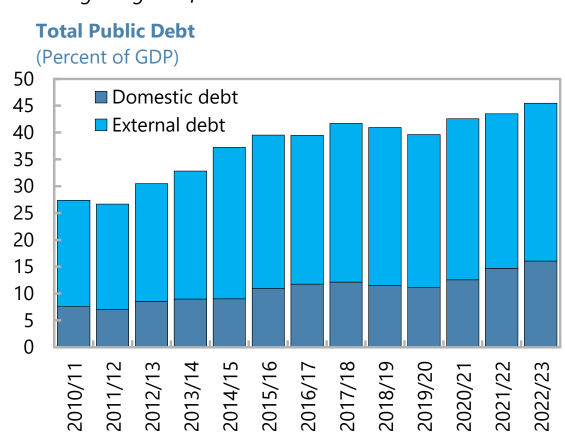
The budget deficit widened in recent years…



…financed increasingly by domestic sources as net external declined.



Public sector debt modestly increased lately reflecting the widening budget deficit.

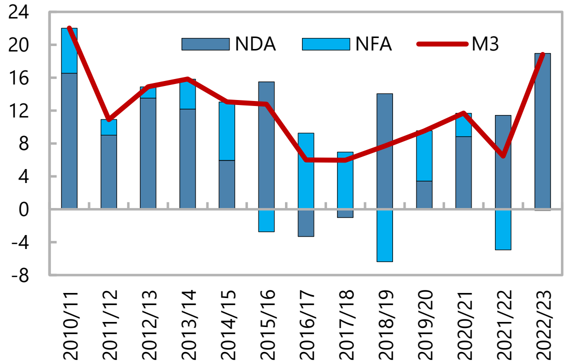


Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 5. Monetary Sector Developments

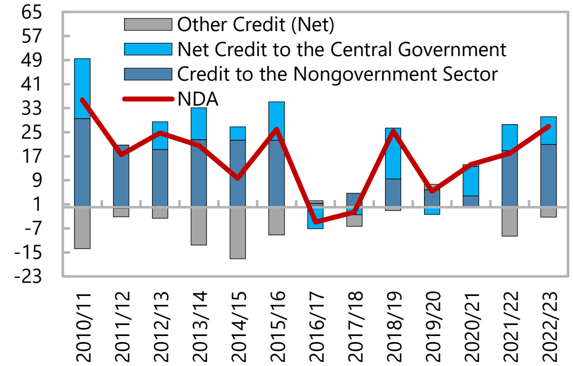
Broad money growth picked up reflecting the growth of NDA….

Contributions to Broad Money Growth
(y/y percentage change)



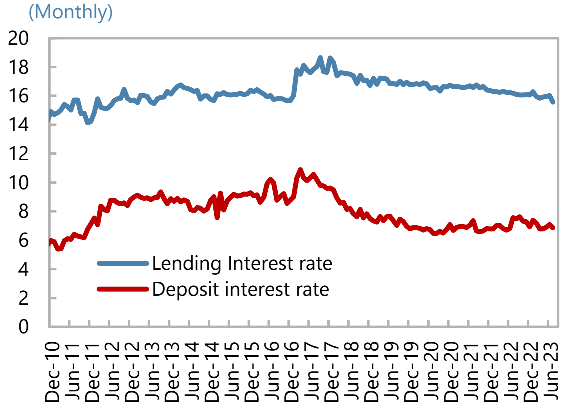
….driven by a pickup in BoT lending to the government.

Contributions to Net Domestic Assets
(y/y percentage change)



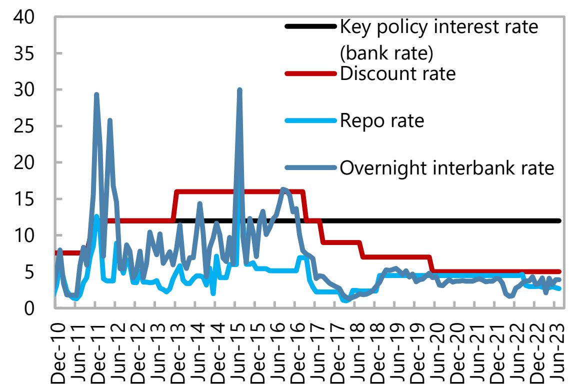
Lending and deposit rates have remained relatively stable….

Lending and Deposit Rates
(Monthly)



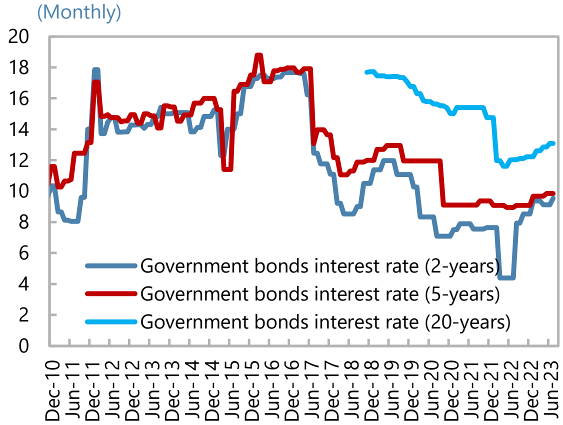
…as have money market rates.

Interest Rates
(Monthly)



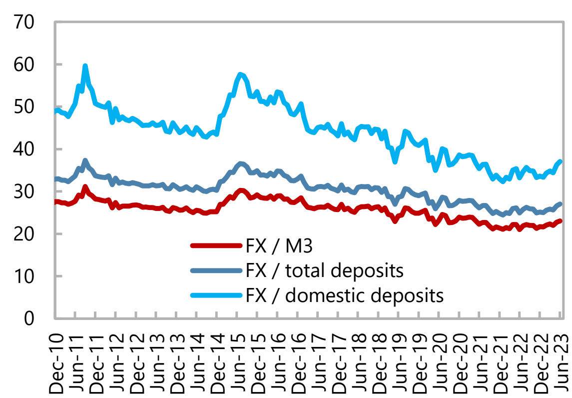
Government bond yields picked up recently across the yield curve…

Government Bond Rates
(Monthly)



…and indicators of dollarization remain high.

Dollarization

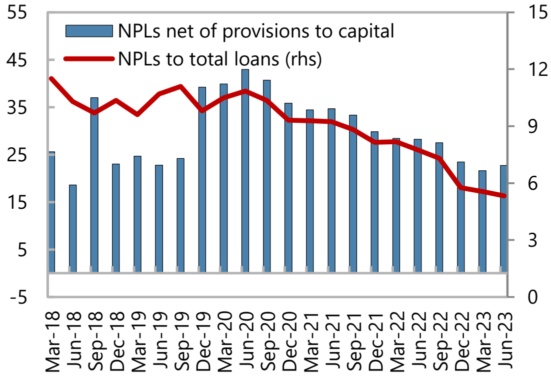


Sources: Tanzanian authorities; and IMF staff calculations.

Figure 6. Financial Sector Developments

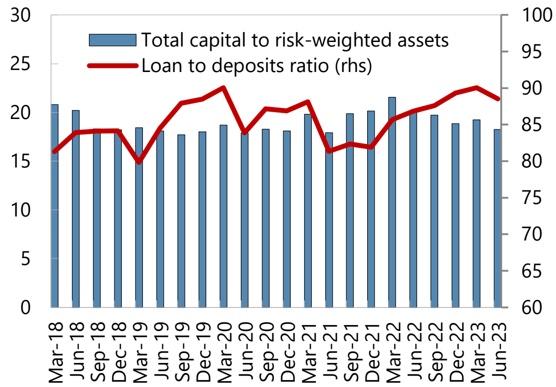
NPLs remain elevated but have come down in recent years.

Non-Performing Loans
(Percent)



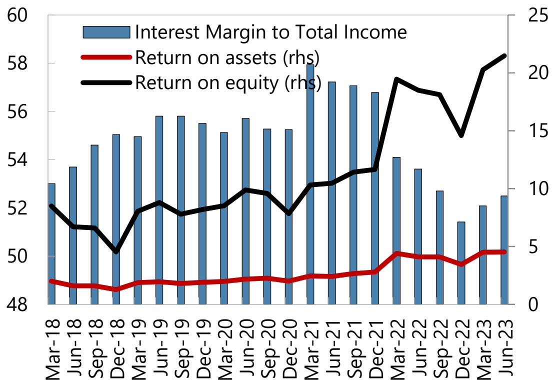
The banking sector is on aggregate well capitalized, and not over leveraged.

Capital Adequacy and Leverage
(Percent)



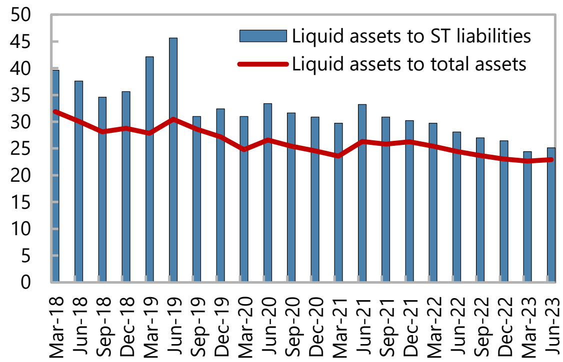
Profitability increased in recent years, while the share of interest income declined recently.

Profitability and Source of Income
(Percent of total assets)



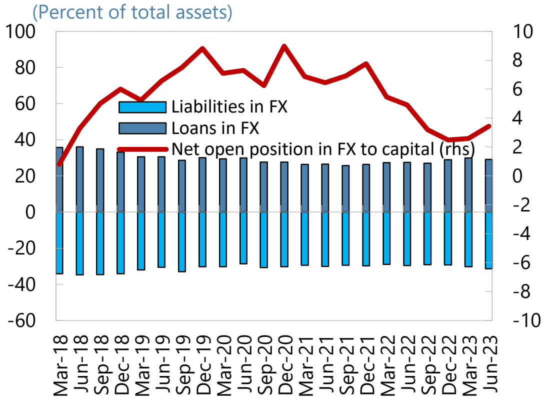
Liquidity in the sector remains adequate.

Liquid Assets Indicators
(Percent)



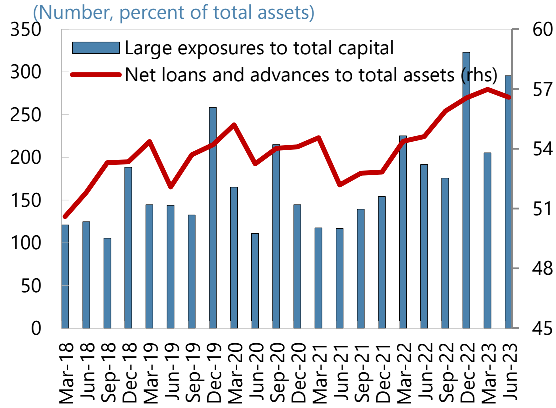
Foreign exchange risks have declined recently.

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	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	Act.	Act.	1st Rev.	Prel.	1st Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)											
Output, Prices and Exchange Rates												
Real GDP[2]	7.0	5.7	4.7	4.8	5.0	4.9	5.7	5.3	5.8	6.2	6.4	6.5
GDP deflator	108.5	111.1	114.3	118.3	129.5	124.4	136.4	131.1	137.0	142.9	149.5	156.9
CPI (period average)[3]	3.2	3.5	3.3	4.0	5.0	4.6	4.4	4.0	4.0	4.0	4.0	4.0
CPI (end of period)[3]	3.7	3.2	3.6	4.4	5.3	3.6	4.4	4.0	4.0	4.0	4.0	4.0
Core inflation (end of period)[3]	2.8	2.4	2.4	3.1	...	3.1	...	...	...	...	...	...
Terms of trade (deterioration, -)	-2.9	11.6	5.0	-8.1	1.3	-0.7	7.1	3.7	0.5	2.2	2.2	2.2
Exchange rate (period average, TSh/USD)	2,282	2,290	2,298	2,298	...	2,310	...	...	...	...	...	...
Real effective exchange rate (end of period; depreciation = -)	3.7	3.8	-4.7	3.7	...	6.1	...	...	...	...	...	...
Money and Credit												
Broad money (M3, end of period)	7.7	9.5	11.7	6.5	10.7	18.8	11.0	11.0	11.1	11.1	11.5	12.0
Average reserve money	3.2	9.3	2.4	12.8	11.0	8.1	10.5	10.5	11.0	11.0	11.0	11.0
Credit to the private sector (end of period)	7.2	5.6	5.8	22.1	19.8	22.2	12.0	16.0	12.5	12.2	12.1	12.1
Overall T-bill interest rate (percent; end of period)	8.7	3.0	4.9	4.6	...	6.5	...	...	...	...	...	...
Non-performing loans (percent of total loans, end of period)	10.7	10.8	9.2	7.8	...	5.3	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)											
Central Government Operations												
Revenues and grants	14.7	15.7	14.1	15.4	15.0	14.9	15.5	16.3	16.5	16.6	16.6	16.6
Of which: grants	0.4	0.7	0.5	0.4	0.6	0.3	0.5	0.6	0.5	0.5	0.5	0.5
Expenditures	17.3	17.2	17.6	18.9	18.2	19.1	18.1	19.0	19.2	19.2	19.3	19.3
Current	11.3	10.7	10.3	10.1	10.7	11.8	11.4	11.9	12.2	12.5	12.6	12.6
Development	6.0	6.6	7.3	8.8	7.5	7.3	6.8	7.1	7.0	6.7	6.7	6.7
Overall balance	-3.3	-1.9	-4.0	-3.6	-3.1	-4.3	-2.7	-2.8	-2.6	-2.6	-2.6	-2.7
Excluding grants	-3.6	-2.6	-4.5	-4.1	-3.7	-4.6	-3.2	-3.4	-3.1	-3.1	-3.2	-3.2
Primary balance	-1.4	-0.3	-2.3	-1.9	-1.6	-2.2	-0.7	-0.7	-0.6	-0.5	-0.5	-0.5
Excluding grants	-1.8	-1.0	-2.8	-2.3	-2.2	-2.6	-1.2	-1.3	-1.1	-1.0	-1.0	-1.0
Public Debt												
Gross nominal debt	41.1	39.8	42.7	43.6	40.9	45.5	39.2	47.0	45.0	43.5	42.1	40.7
of which : external debt[4]	29.6	28.7	30.1	28.9	26.9	29.5	25.8	31.7	30.1	28.0	26.0	24.2
Investment and Savings												
Investment	36.5	35.2	39.6	41.9	37.1	40.1	37.2	38.7	39.2	39.7	39.7	39.4
Government[5]	11.5	11.6	12.9	12.9	12.3	11.8	11.3	11.1	10.9	10.7	10.6	10.6
Nongovernment[6]	25.0	23.6	26.7	29.0	24.8	28.3	25.9	27.6	28.3	29.0	29.1	28.8
Domestic savings	32.6	33.0	36.8	37.1	33.0	33.4	33.8	33.9	35.2	36.1	36.6	36.7
External Sector												
Exports (goods and services)	15.2	15.3	13.4	15.5	15.3	16.7	15.3	17.4	17.7	17.7	17.7	17.7
Imports (goods and services)	18.4	16.4	15.0	19.3	18.9	22.1	17.8	21.3	20.6	20.2	19.7	19.4
Current account balance	-3.9	-2.2	-2.8	-4.8	-4.4	-6.3	-3.2	-4.6	-3.9	-3.6	-3.1	-2.7
Excluding current transfers	-4.0	-2.5	-2.9	-4.9	-4.5	-6.4	-3.3	-4.7	-4.0	-3.7	-3.2	-2.8
Gross international reserves												
In billions of U.S. dollars	4.4	5.2	5.2	5.1	5.1	5.4	5.7	5.5	5.9	6.4	7.1	7.9
of which : SDR allocation				0.5								
In months of next year's imports	5.3	6.3	4.6	3.6	3.8	3.9	4.0	3.9	3.9	4.0	4.1	4.1
Memorandum Items:												
Calendar year real GDP growth (percent)[7]	6.9	4.5	4.8	4.7	5.2	5.0	6.1	5.5	6.0	6.3	6.5	6.5
GDP at current prices												
Trillions of Tanzanian shillings	129.3	140.0	150.8	163.4	188.6	180.3	210.0	199.9	221.0	244.8	272.5	304.6
Millions of U.S. dollars	56,786	61,085	65,669	71,046	81,251	76,787	89,807	79,526	82,865	89,935	98,396	108,293
GDP per capita (in U.S. dollars)	1,023	1,068	1,115	1,171	1,301	1,230	1,396	1,237	1,251	1,319	1,401	1,497
Population (million)	55.5	57.2	58.9	60.6	62.4	62.4	64.3	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	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	Act.	Act.	1st Rev.	Prel.	1st Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Trillions of Tanzanian Shillings)											
Total Revenue	18.5	21.1	20.6	24.4	27.2	26.2	31.4	31.4	35.4	39.4	43.9	49.1
Tax revenue	15.4	17.5	17.3	20.0	21.6	21.4	25.5	25.5	28.9	32.2	35.9	40.1
Import duties	1.2	1.3	1.3	1.5	1.7	1.6	1.9	1.9	2.3	2.5	2.8	3.2
Value-added tax	4.7	5.0	5.0	5.3	6.1	6.2	6.9	6.9	7.9	8.9	9.9	11.1
Excises	2.4	2.5	2.7	2.9	3.0	2.9	3.9	3.9	4.3	4.7	5.3	5.9
Income taxes	5.1	6.5	6.0	7.5	7.7	7.6	8.9	8.9	10.0	11.0	12.3	13.7
Other taxes	2.0	2.2	2.3	2.8	3.2	3.1	3.9	3.9	4.5	5.0	5.6	6.2
Nontax revenue	3.1	3.6	3.3	4.4	5.6	4.8	5.9	5.9	6.5	7.2	8.0	9.0
Total Expenditure	22.4	24.1	26.6	30.9	34.3	34.4	38.1	38.1	42.4	47.1	52.5	58.8
Recurrent expenditure	14.6	14.9	15.5	16.5	20.2	21.4	23.9	23.9	27.0	30.6	34.2	38.3
Wages and salaries	5.7	5.9	6.1	6.8	8.6	7.7	9.6	9.6	11.0	12.7	14.2	15.8
Interest payments	2.4	2.3	2.5	2.8	2.9	3.7	4.2	4.2	4.5	5.2	5.9	6.7
Domestic	1.6	1.5	1.8	2.0	1.8	2.6	2.8	2.8	3.0	3.2	3.8	4.4
Foreign[1]	0.8	0.8	0.7	0.8	1.1	1.0	1.4	1.4	1.5	1.9	2.1	2.3
Goods and services and transfers	6.5	6.7	6.8	6.9	8.7	10.0	10.1	10.1	11.5	12.7	14.1	15.8
Development expenditure	7.8	9.2	11.1	14.4	14.1	13.1	14.2	14.2	15.4	16.5	18.3	20.4
Domestically financed	5.8	6.1	8.6	10.9	11.4	11.4	10.9	10.9	11.9	12.6	14.0	15.6
Foreign (concessionally) financed	2.0	3.1	2.4	3.4	2.7	1.7	3.3	3.3	3.5	3.8	4.3	4.8
Grants	0.5	0.9	0.7	0.7	1.1	0.6	1.1	1.1	1.1	1.2	1.4	1.5
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	0.1	0.1
Project	0.3	0.5	0.5	0.5	1.0	0.5	1.1	1.1	1.1	1.2	1.3	1.5
Statistical Discrepancy	-0.8	-0.6	-0.7	-0.2	0.0	-0.1	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	-7.7	-5.6	-5.6	-5.8	-6.4	-7.2	-8.2
Overall balance excluding grants	-4.7	-3.7	-6.7	-6.7	-7.0	-8.3	-6.7	-6.7	-6.9	-7.6	-8.6	-9.7
Primary balance (cash basis)	-1.8	-0.4	-3.5	-3.1	-3.0	-4.0	-1.4	-1.4	-1.4	-1.2	-1.3	-1.5
Primary balance excluding grants	-2.3	-1.4	-4.2	-3.8	-4.1	-4.6	-2.5	-2.5	-2.5	-2.5	-2.7	-3.0
Financing	4.2	2.7	6.0	6.0	4.0	7.7	3.5	3.2	4.2	6.0	7.2	8.2
Foreign (net)	1.2	2.4	2.7	3.1	1.8	3.1	1.6	1.6	1.8	0.9	1.4	1.9
Foreign loans	2.8	4.4	5.1	5.9	4.7	6.0	4.3	4.3	4.8	5.3	5.9	6.6
Program (including basket loans)[2]	0.2	0.3	0.3	1.3	0.0	1.9	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	0.0	0.0
Project	1.5	2.3	1.7	2.8	1.7	1.1	2.2	2.2	2.4	2.7	3.0	3.3
Nonconcessional borrowing	1.1	1.8	3.1	1.8	3.0	3.0	2.1	2.1	2.4	2.6	2.9	3.3
Amortization	-1.6	-2.0	-2.4	-2.8	-2.9	-2.9	-2.8	-2.8	-3.0	-4.3	-4.5	-4.7
Domestic (net)	3.0	0.4	3.4	2.9	2.3	4.6	1.9	1.7	2.4	5.1	5.9	6.3
Bank financing	2.4	-0.4	1.8	1.8	2.0	1.4	1.7	1.7	1.9	3.6	4.5	4.8
Nonbank financing	0.7	0.8	1.6	1.0	0.2	3.2	0.2	0.0	0.5	1.5	1.4	1.5
Financing Gap	0.0	0.0	0.0	0.0	-1.9	0.0	-2.1	-2.3	-1.6	-0.4	0.0	0.0
External sources of financing the gap	…	…	…	…	1.2	…	1.4	1.6	0.8	0.0	0.0	0.0
African Development Bank	…	…	…	…	0.0	…	0.2	0.3	0.0	0.0	0.0	0.0
World Bank	…	…	…	…	1.2	…	1.2	1.3	0.0	0.0	0.0	0.0
Other donors	…	…	…	…	0.0	…	0.0	0.0	0.8	0.0	0.0	0.0
Residual financing gap	…	…	…	…	0.7	…	0.7	0.8	0.8	0.4	0.0	0.0
IMF-ECF	…	…	…	…	0.7	…	0.7	0.8	0.8	0.4	0.0	0.0
Remaining Financing Gap	…	…	…	…	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Domestic arrears stock (verified claims)	…	…	…	3.0	1.9	1.9	1.3	1.4	0.8	0.4	0.0	0.0
Priority social spending[3]	7.7	8.4	8.3	10.9	12.7	10.6	14.2	13.0	15.5	17.2	19.1	21.4
Nominal GDP	129.3	140.0	150.8	163.4	188.6	180.3	210.0	199.9	221.0	244.8	272.5	304.6

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	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	Act.	Act.	1st Rev.	Prel.	1st Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
					(In percent of GDP)							
Total Revenue	14.3	15.0	13.7	14.9	14.4	14.6	14.9	15.7	16.0	16.1	16.1	16.1
Tax revenue	11.9	12.5	11.5	12.3	11.5	11.9	12.1	12.7	13.1	13.2	13.2	13.2
Import duties	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Value-added tax	3.7	3.6	3.3	3.3	3.2	3.4	3.3	3.5	3.6	3.6	3.6	3.6
Excises	1.8	1.8	1.8	1.8	1.6	1.6	1.8	1.9	1.9	1.9	1.9	1.9
Income taxes	3.9	4.6	4.0	4.6	4.1	4.2	4.2	4.4	4.5	4.5	4.5	4.5
Other taxes	1.6	1.6	1.5	1.7	1.7	1.7	1.8	1.9	2.0	2.0	2.0	2.0
Nontax revenue	2.4	2.6	2.2	2.7	3.0	2.7	2.8	2.9	2.9	2.9	2.9	2.9
Total Expenditure	17.3	17.2	17.6	18.9	18.2	19.1	18.1	19.0	19.2	19.2	19.3	19.3
Recurrent expenditure	11.3	10.7	10.3	10.1	10.7	11.8	11.4	11.9	12.2	12.5	12.6	12.6
Wages and salaries	4.4	4.2	4.1	4.2	4.6	4.2	4.6	4.8	5.0	5.2	5.2	5.2
Interest payments	1.9	1.6	1.7	1.7	1.5	2.0	2.0	2.1	2.0	2.1	2.2	2.2
Domestic	1.3	1.0	1.2	1.3	0.9	1.5	1.3	1.4	1.3	1.3	1.4	1.4
Foreign[1]	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8
Goods and services and transfers	5.0	4.8	4.5	4.2	4.6	5.6	4.8	5.1	5.2	5.2	5.2	5.2
Development expenditure	6.0	6.6	7.3	8.8	7.5	7.3	6.8	7.1	7.0	6.7	6.7	6.7
Domestically financed	4.5	4.4	5.7	6.7	6.0	6.3	5.2	5.5	5.4	5.2	5.1	5.1
Foreign (concessionally) financed	1.5	2.2	1.6	2.1	1.4	0.9	1.6	1.6	1.6	1.6	1.6	1.6
Unidentified expenditure measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.4	0.7	0.5	0.4	0.6	0.3	0.5	0.6	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	0.0	0.0
Project	0.2	0.3	0.3	0.3	0.6	0.3	0.5	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	0.0	0.0
Overall balance (cash basis)	-3.3	-1.9	-4.0	-3.6	-3.1	-4.3	-2.7	-2.8	-2.6	-2.6	-2.6	-2.7
Overall balance excluding grants	-3.6	-2.6	-4.5	-4.1	-3.7	-4.6	-3.2	-3.4	-3.1	-3.1	-3.2	-3.2
Primary balance (cash basis)	-1.4	-0.3	-2.3	-1.9	-1.6	-2.2	-0.7	-0.7	-0.6	-0.5	-0.5	-0.5
Primary balance excluding grants	-1.8	-1.0	-2.8	-2.3	-2.2	-2.6	-1.2	-1.3	-1.1	-1.0	-1.0	-1.0
Financing	3.3	1.9	4.0	3.6	2.1	4.3	1.7	1.6	1.9	2.4	2.6	2.7
Foreign (net)	0.9	1.7	1.8	1.9	0.9	1.7	0.7	0.8	0.8	0.4	0.5	0.6
Foreign loans	2.1	3.1	3.4	3.6	2.5	3.3	2.1	2.2	2.2	2.2	2.2	2.2
Program (including basket loans)[2]	0.1	0.2	0.2	0.8	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: basket loans	0.0	0.1	0.1	0.0	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	0.6	1.1	1.1	1.1	1.1	1.1	1.1
Nonconcessional borrowing	0.9	1.3	2.1	1.1	1.6	1.7	1.0	1.1	1.1	1.1	1.1	1.1
Amortization	-1.2	-1.4	-1.6	-1.7	-1.5	-1.6	-1.3	-1.4	-1.3	-1.8	-1.7	-1.5
Domestic (net)	2.3	0.3	2.2	1.7	1.2	2.6	0.9	0.8	1.1	2.1	2.2	2.1
Bank financing	1.8	-0.3	1.2	1.1	1.1	0.8	0.8	0.8	0.9	1.5	1.7	1.6
Nonbank financing	0.5	0.6	1.0	0.6	0.1	1.8	0.1	0.0	0.2	0.6	0.5	0.5
Financing Gap	0.0	0.0	0.0	0.0	-1.0	0.0	-1.0	-1.2	-0.7	-0.2	0.0	0.0
External sources of financing the gap	...	...	...	...	0.6	...	0.7	0.8	0.4	0.0	0.0	0.0
African Development Bank	...	...	...	...	0.0	...	0.1	0.1	0.0	0.0	0.0	0.0
World Bank	...	...	...	...	0.6	...	0.6	0.6	0.0	0.0	0.0	0.0
Other donors	...	...	...	...	0.0	...	0.0	0.0	0.4	0.0	0.0	0.0
Residual financing gap	...	...	...	...	0.4	...	0.3	0.4	0.4	0.2	0.0	0.0
IMF-ECF	...	...	...	...	0.4	...	0.3	0.4	0.4	0.2	0.0	0.0
Remaining Financing Gap	...	...	...	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Total public debt	41.1	39.8	42.7	43.6	40.9	45.5	39.2	47.0	45.0	43.5	42.1	40.7
Domestic arrears stock (verified claims)	...	...	...	1.8	1.0	1.1	0.6	0.7	0.4	0.2	0.0	0.0
Priority social spending[3]	6.0	6.0	5.5	6.7	6.7	5.9	6.8	6.5	7.0	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	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	Act.	Act.	1st Rev.	Prel.	1st Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of U.S. dollars, unless otherwise indicated)											
Current Account	-2,221	-1,320	-1,811	-3,417	-3,570	-4,863	-2,885	-3,652	-3,252	-3,248	-3,024	-2,957
Trade balance	-4,133	-2,466	-2,100	-4,616	-5,373	-7,100	-5,164	-6,435	-6,061	-6,193	-6,333	-6,662
Exports, f.o.b.	4,563	5,869	6,447	7,097	7,745	7,370	8,525	7,989	8,490	9,261	10,150	11,217
Traditional agricultural products	508	996	578	738	832	752	870	801	867	953	1,053	1,168
Gold	1,754	2,591	3,025	2,692	2,998	2,909	3,348	3,154	3,372	3,680	3,958	4,244
Other	2,301	2,281	2,843	3,668	3,915	3,708	4,307	4,034	4,251	4,628	5,138	5,804
Imports, f.o.b	-8,696	-8,335	-8,547	-11,713	-13,118	-14,470	-13,689	-14,424	-14,552	-15,454	-16,483	-17,880
Of which: Oil	-1,731	-1,547	-1,583	-2,606	-3,093	-3,418	-2,640	-3,131	-3,104	-3,079	-3,072	-3,077
Services (net)	2,342	1,798	1,070	1,904	2,451	2,889	2,877	3,333	3,658	3,968	4,346	4,763
Of which: Travel receipts	2,482	1,899	834	1,778	2,396	2,943	2,710	3,170	3,360	3,570	3,794	4,029
Income (net)	-806	-1,115	-1,234	-1,279	-1,068	-1,292	-1,018	-957	-1,252	-1,468	-1,528	-1,597
Of which : Interest on public debt	-285	-499	-264	-161	-468	-452	-582	-520	-692	-858	-858	-858
Current transfers (net)	376	464	452	574	419	641	420	407	403	446	492	540
Of which : Official transfers	58	192	64	81	78	85	79	79	79	85	85	85
Capital Account	368	362	398	295	584	352	589	546	541	580	626	674
Of which : Project grants[1]	304	289	306	26	511	280	512	469	460	494	535	583
Financial Account	1,281	2,216	2,514	2,031	2,166	3,520	1,969	2,248	2,500	3,024	3,164	3,150
Foreign Direct Investment	981	1,081	988	1,151	1,300	1,378	1,482	1,312	1,492	1,709	1,968	2,220
Public Sector, net	558	1,199	1,110	627	1,375	1,165	1,280	1,128	732	245	428	642
Program loans	75	79	65	-100	606	609	606	607	312	20	21	21
Non-concessional borrowing	499	1,016	1,375	787	1,307	1,304	899	814	887	963	1,053	1,159
Project loans	637	989	727	1,226	712	483	953	863	899	976	1,068	1,176
Scheduled amortization[2]	-653	-886	-1,056	-1,387	-1,249	-1,231	-1,179	-1,156	-1,365	-1,714	-1,714	-1,714
Commercial Banks, net	-63	66	-64	84	241	510	73	73	122	-360	-423	-423
Other private inflows	-194	-129	482	-374	-751	467	-867	-266	155	1,431	1,190	710
Errors and Omissions [3]	-425	-447	-1,078	405	0	522	0	0	0	0	0	0
Overall Balance	-997	812	23	-686	-821	-468	-328	-859	-211	356	766	866
Financing	997	-812	-23	686	15	-336	-580	-51	-405	-509	-766	-866
Change in BoT reserve assets (increase= -)	1,082	-783	-45	120	15	-336	-580	-51	-405	-509	-712	-759
Use of Fund credit	-85	-32	0	566	0.0	0.0	0.0	0.0	0.0	0.0	-54	-108
CCRT debt relief		3	23									
Financing Gap	0	0	0	0	806	804	908	910	615	153	0	0
Exceptional financing	…	…	…	…	806	804	908	910	615	153	0	0
IMF Financing	…	…	…	…	306	304	302	304	304	153	0	0
of which: IMF ECF	…	…	…	…	306	304	302	304	304	153		
IMF RCF	…	…	…	…								
Debt relief	…	…	…	…	0	0	0	0	0	0	0	0
World Bank	…	…	…	…	500	500	500	500	0	0	0	0
Global Fund	…	…	…	…	0	0	0	0	0	0	0	0
Other donors	…	…	…	…	0	0	106	106	312	0	0	0
Residual financing gap	…	…	…	…	0	0	0	0	0	0	0	0
Memorandum Items:												
Gross official reserves (BoT)	4,402	5,185	5,230	5,110	5,095	5,446	5,675	5,497	5,902	6,411	7,123	7,881
of which: SDR allocation				543								
Months of imports of goods and services	5.3	6.3	4.6	3.6	3.8	3.9	4.0	3.9	3.9	4.0	4.1	4.1
Exports of goods (percent of GDP)	8.0	9.6	9.8	10.0	9.5	9.6	9.5	10.0	10.2	10.3	10.3	10.4
Exports excl. gold (percent of GDP)	4.9	5.4	5.2	6.2	5.8	5.8	5.8	6.1	6.2	6.2	6.3	6.4
Imports of goods and services (percent of GDP)	-18.4	-16.4	-15.0	-19.3	-18.9	-22.1	-17.8	-21.3	-20.6	-20.2	-19.7	-19.4
Imports of goods (percent of GDP)	-15.3	-13.6	-13.0	-16.5	-16.1	-18.8	-15.2	-18.1	-17.6	-17.2	-16.8	-16.5
Imports excl. oil (percent of GDP)	-12.3	-11.1	-10.6	-12.8	-12.3	-14.4	-12.3	-14.2	-13.8	-13.8	-13.6	-13.7
Current account deficit (percent of GDP)	-3.9	-2.2	-2.8	-4.8	-4.4	-6.3	-3.2	-4.6	-3.9	-3.6	-3.1	-2.7
Foreign direct investment (Percent of GDP)	1.7	1.8	1.5	1.6	1.6	1.8	1.7	1.7	1.8	1.9	2.0	2.1
Foreign program and project assistance (percent of GDP)	1.9	2.5	1.8	1.7	2.3	1.9	2.4	2.5	2.1	1.8	1.7	1.7
Nominal GDP	56,786	61,085	65,669	71,046	81,251	76,787	89,807	79,526	82,865	89,935	98,396	108,293

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	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	Act.	Act.	1st Rev.	Prel.	1st Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)											
Current Account	-3.9	-2.2	-2.8	-4.8	-4.4	-6.3	-3.2	-4.6	-3.9	-3.6	-3.1	-2.7
Trade balance	-7.3	-4.0	-3.2	-6.5	-6.6	-9.2	-5.7	-8.1	-7.3	-6.9	-6.4	-6.2
Exports, f.o.b.	8.0	9.6	9.8	10.0	9.5	9.6	9.5	10.0	10.2	10.3	10.3	10.4
Traditional agricultural products	0.9	1.6	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1
Gold	3.1	4.2	4.6	3.8	3.7	3.8	3.7	4.0	4.1	4.1	4.0	3.9
Other	4.1	3.7	4.3	5.2	4.8	4.8	4.8	5.1	5.1	5.1	5.2	5.4
Imports, f.o.b	-15.3	-13.6	-13.0	-16.5	-16.1	-18.8	-15.2	-18.1	-17.6	-17.2	-16.8	-16.5
Of which: Oil	-3.0	-2.5	-2.4	-3.7	-3.8	-4.5	-2.9	-3.9	-3.7	-3.4	-3.1	-2.8
Services (net)	4.1	2.9	1.6	2.7	3.0	3.8	3.2	4.2	4.4	4.4	4.4	4.4
Of which: Travel receipts	4.4	3.1	1.3	2.5	2.9	3.8	3.0	4.0	4.1	4.0	3.9	3.7
Income (net)	-1.4	-1.8	-1.9	-1.8	-1.3	-1.7	-1.1	-1.2	-1.5	-1.6	-1.6	-1.5
Of which : Interest on public debt	-0.5	-0.8	-0.4	-0.2	-0.6	-0.6	-0.6	-0.7	-0.8	-1.0	-0.9	-0.8
Current transfers (net)	0.7	0.8	0.7	0.8	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5
Of which : Official transfers	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Account	0.6	0.6	0.6	0.4	0.7	0.5	0.7	0.7	0.7	0.6	0.6	0.6
Of which : Project grants[1]	0.5	0.5	0.5	0.0	0.6	0.4	0.6	0.6	0.6	0.5	0.5	0.5
Financial Account	2.3	3.6	3.8	2.9	2.7	4.6	2.2	2.8	3.0	3.4	3.2	2.9
Foreign Direct Investment	1.7	1.8	1.5	1.6	1.6	1.8	1.7	1.7	1.8	1.9	2.0	2.1
Public Sector, net	1.0	2.0	1.7	0.9	1.7	1.5	1.4	1.4	0.9	0.3	0.4	0.6
Program loans	0.1	0.1	0.1	-0.1	0.7	0.8	0.7	0.8	0.4	0.0	0.0	0.0
Non-concessional borrowing	0.9	1.7	2.1	1.1	1.6	1.7	1.0	1.0	1.1	1.1	1.1	1.1
Project loans	1.1	1.6	1.1	1.7	0.9	0.6	1.1	1.1	1.1	1.1	1.1	1.1
Scheduled amortization[2]	-1.1	-1.4	-1.6	-2.0	-1.5	-1.6	-1.3	-1.5	-1.6	-1.9	-1.7	-1.6
Commercial Banks, net	-0.1	0.1	-0.1	0.1	0.3	0.7	0.1	0.1	0.1	-0.4	-0.4	-0.4
Other private inflows	-0.3	-0.2	0.7	-0.5	-0.9	0.6	-1.0	-0.3	0.2	1.6	1.2	0.7
Errors and Omissions[3]	-0.7	-0.7	-1.6	0.6	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-1.8	1.3	0.0	-1.0	-1.0	-0.6	-0.4	-1.1	-0.3	0.4	0.8	0.8
Financing	1.8	-1.3	0.0	1.0	0.0	-0.4	-0.6	-0.1	-0.5	-0.6	-0.8	-0.8
Change in BoT reserve assets (increase= -)	1.9	-1.3	-0.1	0.2	0.0	-0.4	-0.6	-0.1	-0.5	-0.6	-0.7	-0.7
Use of Fund credit	-0.2	-0.1	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
CCRT debt relief		0.0	0.0									
Financing Gap	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.1	0.7	0.2	0.0	0.0
Exceptional financing	...	...	...	...	1.0	1.0	1.0	1.1	0.7	0.2	0.0	0.0
IMF Financing	...	...	...	...	0.4	0.4	0.3	0.4	0.4	0.2	0.0	0.0
of which: IMF ECF	...	...	...	...	0.4	0.4	0.3	0.4	0.4	0.2		
IMF RCF	...	...	...	...								
Debt relief	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	...	...	...	...	0.6	0.7	0.6	0.6	0.0	0.0	0.0	0.0
Global Fund	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other donors	...	...	...	...	0.0	0.0	0.1	0.1	0.4	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
Memorandum Items:												
Gross official reserves (BoT)	7.8	8.5	8.0	7.2	6.3	7.1	6.3	6.9	7.1	7.1	7.2	7.3
of which: SDR allocation				0.8								
Months of imports of goods and services	5.3	6.3	4.6	3.6	3.8	3.9	4.0	3.9	3.9	4.0	4.1	4.1
Exports of goods	8.0	9.6	9.8	10.0	9.5	9.6	9.5	10.0	10.2	10.3	10.3	10.4
Exports excl. gold	4.9	5.4	5.2	6.2	5.8	5.8	5.8	6.1	6.2	6.2	6.3	6.4
Imports of goods and services	-18.4	-16.4	-15.0	-19.3	-18.9	-22.1	-17.8	-21.3	-20.6	-20.2	-19.7	-19.4
Imports of goods	-15.3	-13.6	-13.0	-16.5	-16.1	-18.8	-15.2	-18.1	-17.6	-17.2	-16.8	-16.5
Imports excl. oil	-12.3	-11.1	-10.6	-12.8	-12.3	-14.4	-12.3	-14.2	-13.8	-13.8	-13.6	-13.7
Current account deficit	-3.9	-2.2	-2.8	-4.8	-4.4	-6.3	-3.2	-4.6	-3.9	-3.6	-3.1	-2.7
Foreign direct investment	1.7	1.8	1.5	1.6	1.6	1.8	1.7	1.7	1.8	1.9	2.0	2.1
Foreign program and project assistance	1.9	2.5	1.8	1.7	2.3	1.9	2.4	2.5	2.1	1.8	1.7	1.7
Nominal GDP (Millions of U.S. dollars)	56,786	61,085	65,669	71,046	81,251	76,787	89,807	79,526	82,865	89,935	98,396	108,293

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, 2019–2023

	2019		2020		2021		2022				2023		
	June	Dec	June	Dec	June	Dec	Mar	Jun	Sep	Dec.	Mar	Jun	Sep
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
	(Billions of Tanzania shillings, unless otherwise indicated; end of period)												
Bank of Tanzania													
Net Foreign Assets	9,421	12,063	11,259	10,309	11,701	13,219	11,578	10,585	10,348	10,733	10,251	11,333	10,647
Net international reserves [1]	9,864	12,632	11,836	10,884	12,143	14,496	12,213	11,761	11,429	11,409	11,564	12,666	12,055
(Millions of U.S. dollars) [1]	4,308	5,521	5,152	4,735	5,282	6,309	5,313	5,104	4,952	4,941	5,003	5,440	4,858
Net non-reserve foreign assets	-443	-569	-577	-575	-442	-1,276	-634	-1,176	-1,081	-677	-1,313	-1,333	-1,409
Net Domestic Assets	-1,457	-4,597	-2,956	-3,139	-3,133	-4,812	-3,196	-1,308	-776	-997	-1,015	-483	-703
Net credit to government	1,649	-645	731	368	1,826	741	898	2,217	2,998	2,231	2,179	2,840	2,695
Of which: Excluding counterpart of liquidity paper	1,980	-574	850	471	1,866	763	930	2,264	3,118	2,470	2,887	3,386	3,418
Credit to other economic sectors	136	141	137	122	112	111	113	107	101	102	100	135	95
Claims on other depository corporations	516	258	90	299	161	221	65	352	144	163	229	310	354
Other items (net)	-3,759	-4,351	-3,914	-3,929	-5,232	-5,885	-4,272	-3,984	-4,019	-3,493	-3,522	-3,767	-3,847
REPOs	0	0	0	0	0	0	0	0	-589	-275	-756	-125	-15
Other items, excluding REPOs (net)	-3,759	-4,351	-3,914	-3,929	-5,232	-5,885	-4,272	-3,984	-3,430	-3,217	-2,767	-3,642	-3,832
Reserve Money	7,964	7,466	8,302	7,169	8,568	8,407	8,382	9,277	9,572	9,736	9,236	10,851	9,944
Currency outside banks	4,121	4,222	4,232	4,501	4,700	5,012	4,769	5,334	5,849	5,709	5,371	6,161	6,476
Bank reserves	3,843	3,245	4,071	2,669	3,868	3,395	3,613	3,943	3,723	4,027	3,865	4,689	3,468
Currency in banks	823	1,026	931	1,001	846	1,001	880	1,024	1,012	1,039	972	1,031	1,057
Deposits	3,019	2,218	3,139	1,667	3,022	2,394	2,733	2,918	2,712	2,988	2,893	3,659	2,411
Required reserves	2,321	2,368	2,481	2,437	2,665	2,724	2,750	2,905	3,091	3,213	3,326	3,526	3,719
Excess reserves	699	-150	658	-770	357	-330	-17	13	-379	-225	-433	133	-1,308
Memorandum Items:													
Average reserve money	7,186	7,490	7,852	7,523	8,037	8,773	8,640	9,063	9,789	9,481	9,402	9,797	10,388
Depository Corporations Survey													
Net Foreign Assets	9,626	12,035	11,289	10,723	12,145	13,966	11,816	10,504	9,701	9,438	8,697	10,455	10,122
Bank of Tanzania [1]	9,421	12,063	11,259	10,309	11,701	13,219	11,578	10,585	10,348	10,733	10,251	11,333	10,647
Commercial banks	205	-29	30	414	444	747	237	-81	-647	-1,295	-1,554	-878	-525
Net Domestic Assets	17,615	16,279	18,552	19,198	21,189	20,592	21,936	24,996	27,983	29,143	30,416	31,730	33,020
Domestic credit	25,074	23,589	25,697	26,140	28,215	30,031	31,447	34,053	36,055	37,557	39,140	41,586	42,587
Credit to government (net)	6,213	3,894	5,808	5,831	7,613	7,686	8,222	9,460	10,281	10,185	10,604	11,751	11,795
Claims on other financial corporations	978	733	814	713	852	816	453	578	575	573	663	667	683
Claims on state and local governments	57	78	70	80	84	49	46	46	45	58	57	55	54
Claims on non-financial public enterprises	527	1,236	728	668	325	410	400	364	348	298	270	258	427
Claims on non-financial private sector	17,300	17,648	18,276	18,848	19,341	21,069	22,326	23,605	24,807	26,443	27,545	28,855	29,628
Other items (net)	-7,459	-7,311	-7,145	-6,942	-7,025	-9,438	-9,512	-9,057	-8,072	-8,415	-8,724	-9,856	-9,567
M3	27,241	28,313	29,842	29,921	33,334	34,558	33,752	35,500	37,684	38,580	39,113	42,185	43,141
Foreign currency deposits	6,239	7,033	6,630	6,888	7,678	7,470	7,247	7,878	8,362	8,201	8,618	9,591	9,716
M2	21,002	21,280	23,212	23,033	25,655	27,088	26,505	27,622	29,322	30,379	30,495	32,594	33,425
Currency in circulation	4,121	4,222	4,232	4,501	4,700	5,012	4,769	5,334	5,849	5,709	5,371	6,161	6,476
Deposits (TSh)	16,881	17,058	18,980	18,532	20,955	22,076	21,736	22,288	23,473	24,670	25,124	26,432	26,949
Memorandum Items:	(12-month percent change, unless otherwise indicated)												
M3 growth	7.7	9.6	9.5	5.7	11.7	15.5	11.9	6.5	13.6	11.6	15.9	18.8	14.5
M3 (percent of GDP)	21.1	20.2	21.3	19.8	22.1	21.1	20.7	21.7	20.9	21.4	21.7	23.4	21.6
Private sector credit growth	7.2	7.7	5.6	6.8	5.8	11.8	17.7	22.1	24.9	25.5	23.4	22.2	19.4
Private sector credit (percent of GDP)	12.9	12.6	13.1	12.5	12.8	12.9	13.7	14.4	13.8	14.7	15.3	16.0	14.8
Private sector credit growth, inflation-adjusted	3.4	3.7	2.4	3.5	2.2	7.3	13.6	16.9	19.2	19.7	17.8	18.0	19.4
Velocity of money (nominal GDP/ M3)	5.0	5.2	5.0	5.2	5.0	5.1	4.9	4.8	5.2	5.0	4.9	4.7	5.0
Average reserve money growth	3.2	8.2	9.3	0.4	2.4	16.6	20.6	12.8	22.3	8.1	8.8	8.1	6.1
Reserve money multiplier (M3/average reserve money)	3.8	3.8	3.8	4.0	4.1	3.9	3.9	3.9	3.8	4.1	4.2	4.3	4.2
Nonbank financing of the government (net) [2]	654	631	782	764	1,546	-1,227	-1,113	-802	-3,328	-2,825	-2,299	-1,484	-5,360
Bank financing of the government (net) [2]	2,383	-2,319	-405	23	1,805	1,878	2,414	3,652	4,473	4,377	4,796	5,943	5,987
Bank and nonbank financing of the government (net) [2]	3,037	-1,687	377	788	3,352	651	1,301	2,850	1,145	1,552	2,497	4,459	628

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 billions of Tanzanian shillings; cumulative from the beginning of the fiscal year (July 1).

Table 5. Tanzania: Financial Soundness Indicators, 2019–2023

	2019				2020				2021				2022				2023	
	Mar	June	Sept	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	June
	(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	19.3	18.2
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	13.7	12.6
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	57.0	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	38.6	38.3
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	16.0	16.2
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	12.0	11.7
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	8.7	9.1
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	4.5	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	2.6	2.3
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	4.4	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	30.0	29.2
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	5.6	5.3
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	21.6	22.7
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	205.2	295.7
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	2.6	3.4
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	4.5	4.5
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	20.3	21.5
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	52.1	52.5
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	41.1	41.0
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	52.7	51.1
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	22.7	22.9
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	24.4	25.1
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	90.1	88.5
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	30.3	31.4

Source: Bank of Tanzania

Table 6. Tanzania: Capacity to Repay, 2023/24-2033/34[1]

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
IMF Obligations Based on Existing Credit	11.7	23.5	23.6	63.3	114.7	148.8	148.9	148.9	109.1	57.7	23.6
Principal (in millions of SDRs)	0.0	0.0	0.0	39.8	91.1	125.3	125.3	125.3	85.5	34.2	0.0
Charges/interest (in millions of SDRs)	11.7	23.5	23.6	23.6	23.6	23.5	23.6	23.6	23.6	23.5	23.6
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	53.9	123.5	169.9	169.9	169.9	115.9	46.4	0.0
Charges/interest (in millions of U.S. dollars)	15.7	31.7	31.9	31.9	32.0	31.9	31.9	31.9	32.0	31.9	31.9
IMF Obligations Based on Existing and Prospective Credit	11.7	23.5	23.6	63.3	114.7	160.2	205.6	250.9	222.5	171.1	125.6
Principal (in millions of SDRs)	0.0	0.0	0.0	39.8	91.1	136.6	182.0	227.3	198.9	147.6	102.0
Charges/interest (in millions of SDRs)	11.7	23.5	23.6	23.6	23.6	23.5	23.6	23.6	23.6	23.5	23.6
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	53.9	123.5	185.2	246.7	308.2	269.6	200.0	138.3
Charges/interest (in millions of U.S. dollars)	15.7	31.7	31.9	31.9	32.0	31.9	31.9	31.9	32.0	31.9	31.9
Total IMF Existing and Prospective Obligations											
In millions of SDRs	11.7	23.5	23.6	63.3	114.7	160.2	205.6	250.9	222.5	171.1	125.6
In millions of U.S. dollars	15.7	31.7	31.9	85.9	155.5	217.1	278.6	340.1	301.6	231.9	170.2
In percent of GDP	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1
In percent of exports of goods and services	0.1	0.2	0.2	0.5	0.8	1.0	1.2	1.3	1.1	0.8	0.5
In percent of government revenue	0.1	0.2	0.2	0.5	0.9	1.1	1.3	1.5	1.2	0.8	0.6
In percent of quota	2.9	5.9	5.9	15.9	28.8	40.3	51.7	63.1	55.9	43.0	31.6
In percent of gross international reserves	0.3	0.5	0.5	1.2	2.0	2.5	2.9	3.3	2.7	1.9	1.3
IMF Credit Outstanding Based on Existing and Prospective Drawings											
In millions of SDRs	853.3	1080.0	1193.4	1153.6	1062.5	925.9	743.9	516.5	317.6	170.1	68.0
In millions of U.S. dollars	1143.8	1455.4	1614.8	1563.7	1440.2	1255.0	1008.3	700.2	430.6	230.5	92.2
In percent of GDP	1.4	1.8	1.8	1.6	1.3	1.1	0.8	0.5	0.3	0.1	0.0
In percent of exports of goods and services	8.3	9.9	10.1	9.0	7.5	6.0	4.4	2.8	1.6	0.8	0.3
In percent of government revenue	9.4	11.0	11.1	9.9	8.3	6.5	4.8	3.0	1.7	0.8	0.3
In percent of quota	214.5	271.5	300.0	290.0	267.1	232.7	187.0	129.8	79.8	42.8	17.1
In percent of gross international reserves	20.8	24.7	25.2	22.0	18.3	14.4	10.7	6.8	3.8	1.9	0.7
Net Use of IMF Credit[1]	226.7	226.7	113.4	-39.8	-91.1	-136.6	-182.0	-227.3	-198.9	-147.6	-102.0
Disbursements (millions of SDRs)	226.7	226.7	113.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of SDRs)	0.0	0.0	0.0	39.8	91.1	136.6	182.0	227.3	198.9	147.6	102.0
Disbursements (millions of U.S. dollars)	303.9	305.6	153.4	0.0	0.0	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	53.9	123.5	185.2	246.7	308.2	269.6	200.0	138.3
Memorandum Items:											
Exports of goods and services (millions of U.S. dollars)	13,851	14,702	15,940	17,388	19,119	21,090	23,173	25,342	27,651	30,171	32,920
Government revenue (millions of U.S. dollars)	12,160	13,276	14,489	15,852	17,451	19,225	21,123	23,100	25,205	27,502	30,008
Quota (millions of SDRs)	397.8	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)	533.2	536.1	538.3	539.2	539.2	539.2	539.2	539.2	539.2	539.2	539.2
Gross international reserves (millions of U.S. dollars)	5,497	5,902	6,411	7,123	7,881	8,690	9,457	10,342	11,284	12,313	13,435
GDP (millions of U.S. dollars)	79,526	82,865	89,935	98,396	108,293	119,299	131,082	143,351	156,415	170,669	186,223
SDRs per U.S. dollar [2]	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	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] August 2023 WEO Update GAS projections.

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

	2021/22	2022/23		2023/24		2024/25	2025/26
	Act.	1st Review	Prel.	1st Review	Proj.	Proj.	Proj.
Financing Needs	**3,297**	**3,555**	**5,198**	**3,466**	**3,703**	**3,656**	**3,757**
Current account deficit	3,417	3,570	4,863	2,885	3,652	3,252	3,248
Reserves accumulation (+=increase)	-120	-15	336	580	51	405	509
of which: SDR allocation	543						
Financing Sources	**2,892**	**2,749**	**3,873**	**2,558**	**2,793**	**3,041**	**3,604**
Capital account	295	584	352	589	546	541	580
Financial account	2,031	2,166	3,520	1,969	2,248	2,500	3,024
of which: FDI inflow	1,151	1,300	1,378	1,482	1,312	1,492	1,709
Use of Fund credit	566						
Net Errors and Omissions	405	0	522	0	0	0	0
Financing Gap	**0**	**806**	**804**	**908**	**910**	**615**	**153**
Additional Financing Sources	**0**	**806**	**804**	**908**	**910**	**615**	**153**
IMF (ECF)	...	306	304	302	304	304	153
IMF (RCF)	...	0	0	0	0	0	0
IMF (CCRT)	...	0	0	0	0	0	0
World Bank	...	500	500	500	500	0	0
Global Fund	...	0	0	0	0	0	0
Other donors	...	0	0	106	106	312	0
Remaining Financing Gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Tanzanian authorities and IMF staff estimates and projections.

Table 8. Tanzania: Access and Phasing Under the ECF Arrangement

Availability Date	Condition for Disbursement	Disbursements				
		Percentage of quota[1]	SDRs (millions)	US dollars (millions)[2]	Tsh (billions)[3]	Percent of GDP
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).

Table 9. Tanzania: External Borrowing Plan, FY2023/24

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	**2,530**	**1,900**
Concessional debt, of which 2/	1,830	1,200
Multilateral debt	1,830	1,200
Bilateral debt	0	0
Non-concessional debt, of which 3/	700	700
Semi-concessional debt 3/	0	0
Commercial terms 4/	700	700
Use of debt financing	**2,530**	**1,900**
Infrastructure	1,617	1,312
Budget financing	913	588
Memorandum items		
Indicative projections		
Year 2	2,432	1,800-2,500
Year 3	2,132	1,700-2,400

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.

Table 10. Tanzania: Decomposition of Public Debt and Debt Service by Creditor, 2022/23

	Debt Stock 1/			Debt Service	
	(In US$ millions)	*(Percent of total debt)*	*(Percent of GDP)*	*(In US$ millions)*	*(Percent of GDP)*
Total[2]	**36,075**	**100.0**	**46.6**	**3,821**	**5.0**
External	**22,828**	**63.3**	**29.5**	**1,626**	**2.1**
Multilateral creditors[3]	14,346	39.8	18.5	355	0.5
IMF	838	2.3	1.1	0	0.0
World Bank	9,845	27.3	12.7	240	0.3
AfDB	558	1.5	0.7	38	0.0
Other Multilaterals	3,105	8.6	4.0	77	0.1
o/w African Development Fund	2,525	7.0	3.3	37	0.0
o/w International Fund for Agricultural Dev.	216	0.6	0.3	12	0.0
Bilateral creditors	2,214	6.1	2.9	72	0.1
Paris Club	656	1.8	0.8	25	0.0
o/w France	260	0.7	0.3	13	0.0
o/w Japan	383	1.1	0.5	10	0.0
Non-Paris Club	1,558	4.3	2.0	48	0.1
o/w China	101	0.3	0.1	0	0.0
o/w Iran	78	0.2	0.1	0	0.0
Bonds	0	0.0	0.0	0	0.0
Commercial creditors	6,268	17.4	8.1	1,199	1.6
o/w Credit Suisse AG	1,218	3.4	1.6	424	0.6
o/w Exim Bank China	1,368	3.8	1.8	193	0.3
Domestic	**13,248**	**36.7**	**17.1**	**2,195**	**2.9**
Held by residents, total	13,248	36.7	17.1	2,195	2.9
Held by non-residents, total	0	0.0	0.0	0	0.0
T-Bills	915	2.5	1.2	749	1.0
Bonds	9,581	26.6	12.4	1,446	1.9
Central bank advances	1,816	5.0	2.3	0	0.0
Domestic arrears	820	2.3	1.1	0	0.0
Loans	117	0.3	0.2	0	0.0
Memo Items:					
Collaterized debt[4]	0	0.0	0.0	...	...
o/w: Related	0	0.0	0.0	...	...
o/w: Unrelated	0	0.0	0.0	...	...
Contingent liabilities	2,304	6.4	3.0	...	...
o/w: Public guarantees (external)	0	0.0	0.0	...	...
o/w: Other contingent liabilities[5]	2,304	6.4	3.0	...	...

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 PPP arrangements).

Annex I. 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, FDI and financial flows, and payment systems, and lead to refugee flows.	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.	• Allow exchange rate flexibility • 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, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	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.	• Allow exchange rate flexibility • 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 downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	Medium	Medium • Lower trade flows and fewer investment inflows from China.	• Improve business environment and competitiveness to attract more foreign investment. • Boost regional and international trade.
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and	High	Medium • Disruptions in trade and investment flows.	• Improve business environment and competitiveness to attract

[1] Based on the latest G-RAM (July 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
Conjunctural Risks			
weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.			more foreign investment. • Strengthen regional integration.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies 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.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	Medium	Medium • 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. • Include contingency spending plans in fiscal framework and strengthen food security programs.
Failure to address forex market imbalances.	Medium	High • Worsening imbalances in the forex market could lead to distortions and misallocation of resources, thereby weakening economic activity.	• Allow the exchange rate to be flexible enough to clear forex markets and cushion the economy against external shocks. • Supportive fiscal (consolidation) and monetary (tightening) policy responses
Poorly executed scaling-up of large infrastructure projects.	High	High • Pressure on the forex market • Low return on public investments, insufficient priority spending, and higher public debt vulnerability.	• Pace execution of projects in line with forex funding availability • Implement all provisions of the Public Investment Management Manual and improve costing, evaluation, and prioritization of projects.
Delays in implementing key 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.

Annex II. Banking and Financial Sector Developments

Updated analysis of bank balance sheet data and the team's sensitivity analysis reveals increased stability but continued areas of vulnerability, in line with the analysis presented in Country Report 23/153.

1. The banking system is well-capitalized and profitable but remains subject to persistent vulnerabilities. The NPL ratio declined to 5.3 percent in June 2023, from 7.8 percent a year earlier, indicating an improvement in credit risk (Table 5). Capital ratios have remained stable in recent years, and the liquidity ratio remains above the regulatory minimum. However, key vulnerabilities remain, including rapid credit growth, dollarization, and risk of loss of correspondent bank relationships relating to deficiencies in the AML/CFT framework.

2. Granular banking sector data shows mixed performance and vulnerabilities among banks (Figure 1). The NPL ratio was above BoT's 5 percent benchmark for around half of the banks (Figure 1a). The mean ROE fell to 11.4 percent in June 2023, from 18.5 percent in December 2022, for banks with market share of assets above 1 percent (representing around 90 percent of system assets). The mean liquid assets to short-term liabilities ratio for these banks declined to 38 percent in June 2023, from 81 percent in December 2022. One bank (accounting for less than 1 percent of system assets) is below the regulatory minimum for both capital adequacy and liquidity. Another small bank also fell below the 20 percent minimum ratio for liquid assets to short-term liabilities. Indicators for profitability, provisioning, and liquidity, are highly dispersed among the banks.

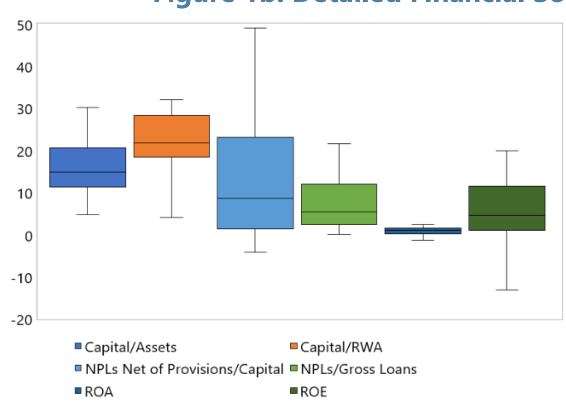
3. An updated stylized sensitivity analysis using end-June data found continued risk among some banks, but an improvement relative to end-December 2022. The sensitivity analysis considered two scenarios to examine potential capital adequacy effects of restructured loans turning non-performing. The first and second scenarios assumed that 50 percent and 75 percent of banks' restructured loan portfolios turned non-performing, respectively. All banks were assumed to have a provisioning rate of 25 percent for the new NPLs. Based on these assumptions, two banks are below the 12 percent regulatory minimum capital adequacy ratio in the first scenario, and two banks are below the threshold in the second scenario. Compared to the results reported in Country Report 23/153 based on end-December 2022 data with the same assumptions used previously, one bank fewer was below the minimum capital requirement in each of the two scenarios.

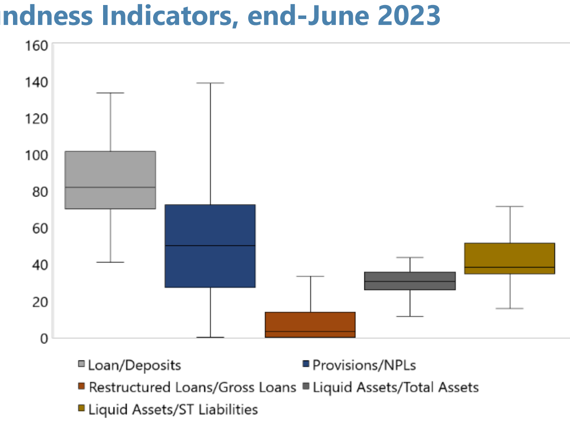
Figure 1a. Detailed Financial Soundness Indicators, end-June 2023

	Capital/ Assets	Capital/ RWA	Loan/ Deposits	NPLs Net of Provisions/ Capital	NPLs/Gross Loans	Provisions/ NPLs	Restructured/ Gross Loans	Liquid Assets/ Total Assets	Liquid Assets/ ST Liabilities	Return on Assets (ROA)	Return on Equity (ROE)
Threshold 1	> Mean	> 12	< Mean	< Mean	< 5	> Mean	< Mean	> Mean	> 20	> Mean	> Mean
Threshold 2	< Mean	< 12	> Mean	> Mean	> 5	< Mean	> Mean	< Mean	< 20	< Mean	< Mean
Banks with greater than 1 percent market share of assets:											
Mean	13.7	21.0	83.4	6.3	4.8	82.9	6.6	30.8	37.7	1.5	11.4
B1											
B6											
B7											
B12											
B13											
B15											
B17											
B18											
B23											
B25											
B33											
B35											
B36											
B37											
B38											
B41											
Banks with less than 1 percent market share of assets:											
Mean	20.3	33.0	112.3	21.5	9.2	49.7	10.9	33.4	55.5	0.6	3.3
B2											
B3											
B4											
B5											
B8											
B9											
B10											
B11											
B14											
B16											
B19											
B21											
B22											
B24											
B26											
B27											
B28											
B29											
B30											
B31											
B32											
B34											
B39											
B40											
B42											
B43											
B44											
B45											
TOTAL	14.4	21.7	82.0	7.3	5.3	66.5	7.3	31.1	36.7	1.5	10.1

Sources: Tanzanian authorities and IMF Staff calculations. B20 exited the market in June 2022.

Figure 1b. Detailed Financial Soundness Indicators, end-June 2023





Note: Box and whisker plots show quartiles and omit outliers. Capital/RWA is the ratio of capital to risk-weighted assets plus off-balance sheet exposures.

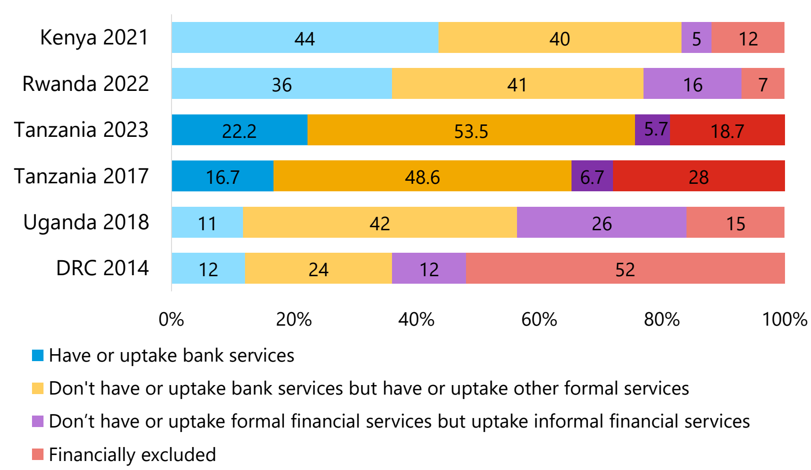
Sources: Tanzanian authorities and IMF Staff calculations.

Annex III. Financial Inclusion

This annex takes stock of efforts to raise financial inclusion, drawing on the 2023 Finscope report for Tanzania and the IMF's Financial Access Survey. The annex reviews progress made towards increased financial inclusion and discusses areas for development and ongoing initiatives.

1. Tanzania's formal financial inclusion[1] increased to 76 percent in 2023 (from 65 percent in 2017), but the level of financial exclusion remains high relative to peers, according to recent survey data from Finscope. The improvement in financial inclusion is largely due to the significant increase in mobile money uptake, which reached 72 percent in 2023 (an increase of 12 ppts since 2017). In contrast, Tanzania's share of respondents using bank services remained low at 22 percent in 2023, with the increase of 5 ppts since 2017 mainly driven by banking services that are accessible via mobile phones. The share of "excluded" respondents has declined (from 28 percent in 2017) but remained high at 18.7 percent in 2023. These findings are echoed in the IMF's Financial Access Survey data (Figure 1), which shows that the uptake of mobile money and the number of agent outlets of commercial banks have increased. While the number of depositors with commercial banks has increased significantly in 2022 (by 17 ppts), the number of borrowers and loan accounts remain low, in line with Tanzania's early stage of financial deepening relative to peer countries.

Figure 1. Finscope Survey: Uptake of Financial Services
(In percent of survey respondents)



Source: Finscope Tanzania (2023)

2. Although gender and rural-urban gaps in financial inclusion have narrowed, financial exclusion continues to disproportionately affect the young and rural populations. The gap between rural and urban levels of financial inclusion narrowed across all measures reported by Finscope. The share of financially excluded adults in rural areas declined by about 11 ppts between 2017 and 2023, narrowing the rural-urban gap in financial exclusion by 7 ppts, from 20.1 to 12.9 ppts. Rural access to financial services (living within 5km radius of a financial access point) increased from 78 percent to 83 percent, and urban access increased from 91 percent to 100 percent between

[1] Formal financial inclusion is defined as the share of respondents who have or uptake bank or other formal financial services. Nonbank formal financial services include insurance, saving and credit cooperative organizations, microfinance institutions, remittance companies, mobile money, and community microfinance groups.

2017 and 2023. There was a significant decline in female exclusion from 30 percent to 19.4 percent and formal financial inclusion gender gap has narrowed from 10 ppts to 3 ppts between 2017 and 2023, but the banking gender gap (about 9 ppts) has remained almost unchanged. However, of the Finscope respondents classified as financially excluded, around half were aged between 16 and 25 years, and 77 percent are in rural areas. The financially excluded respondents listed perceived lack of income and awareness as main barriers to formal financial services uptake.

3. Work to develop the payment system infrastructure will help reduce the predominance of cash-based transactions, which remains a barrier to financial inclusion. More than 80 percent of Finscope respondents received their income through cash and made most of their payments in cash. Among the 55 percent of respondents who have engaged in a remittance transaction, nearly all – about 90 percent – made the transfers through mobile money. However, only 33 percent of respondents have used mobile money to make a payment or purchase goods. Uptake of digital airtime purchase has increased to 12 percent of Finscope respondents (from 3 percent), and rent payments made by phone increased to 5 (from 1 percent). The Tanzania Instant Payment System (TIPS) is intended to reduce cash transactions, by facilitating interoperability between payment infrastructures and lowering the cost of mobile transactions. The Bank of Tanzania has been onboarding financial service providers onto TIPS from January 2022 through July 2023.

4. Various other efforts are underway to overcome barriers to access and are starting to yield results. The rollout of national identity cards and increased mobile phone ownership have helped to lower barriers to access. The uptake of the National Identification Number (NIN) significantly increased from 10 percent of Finscope respondents in 2017 to 57 percent in 2023. Overall, more than 80 percent of respondents hold a form of ID which is required by all formal financial service providers to fulfill Know-Your-Customer requirements. Mobile phone ownership also increased by 12 ppts, from 63 percent of respondents in 2017 to 75 percent in 2023. However, gender, urban-rural, and age gaps in mobile phone ownership were observed: 61 percent of youths (aged 16 to 24 years), 71 percent of women, and 69 percent of respondents in rural areas own a mobile phone, compared with 80 percent of men, and 85 percent of respondents in urban areas, and 75 percent of all Finscope respondents.

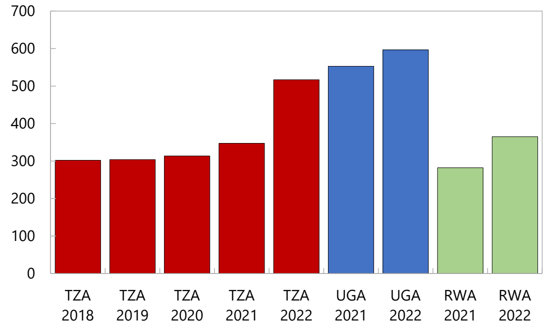
5. A secured transactions law is being developed by the authorities to expand the use of formal financial services. Land is a key form of collateral, but land ownership is particularly limited for women and youth, and only 15 percent of all Finscope respondents reported having documentation of land ownership. The National Financial Inclusion Framework (NFIF) notes the need to facilitate the development of a secured transactions law and develop a collateral registry for movable assets. The authorities have commenced work towards a secured transactions Act that allows collateral recovery and broadens the pool of acceptable collateral to movable collateral, to facilitate access to finance in Tanzania.

6. Significant challenges remain, but the Tanzanian authorities and private sector are working together to improve financial inclusion. The National Council for Financial Inclusion was established to operationalize the Financial Sector Development Master Plan, through publication 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 the Governor. The third NFIF was released in August, and identifies many opportunities to improve financial inclusion, including continued rollout of national identity cards, rural electrification, development of microfinance, transaction infrastructure, and others. Improving financial literacy is a key focus. Initiatives described in the National Financial Education Programme 2021/22 to 2025/26 include Financial Services Week, integration of financial education in the national education curriculum, and other forms of outreach and awareness building programs.

Figure 2. Financial Inclusion and Development

The number of depositors with commercial banks has increased…

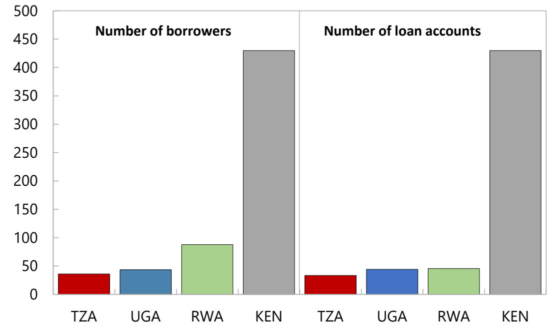
Number of Depositors with Commercial Banks
(Number of depositors per 1,000 adults)



Sources: IMF Financial Access Survey.

…but the number of borrowers and loan accounts remain low

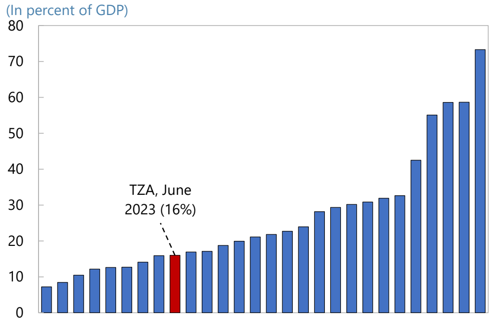
Borrowers and Loan Accounts with Commercial Banks, 2022
(Number of borrowers and loan accounts per 1,000 adults)



Sources: IMF Financial Access Survey.

…in line with relatively early stage of financial deepening

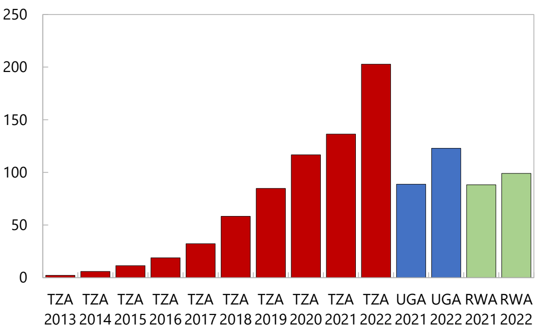
Sub-Saharan Africa: Private Credit-to-GDP
(In percent of GDP)



Sources: IMF International Financial Statistics; WEO.
Note: For countries other than Tanzania, end-December 2022 figures were used.

By contrast, agent outlets of commercial banks has increased…

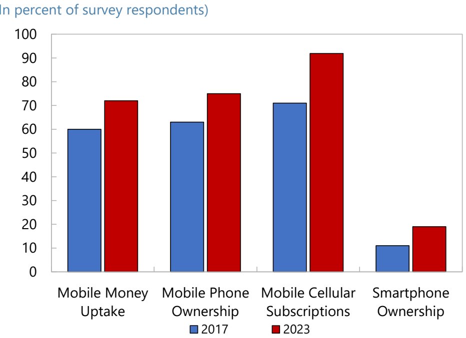
Non-branch Retail Agent Outlets of Commercial Banks
(Number of outlets per 100,000 adults)



Sources: IMF Financial Access Survey.

… and uptake of mobile money has risen.

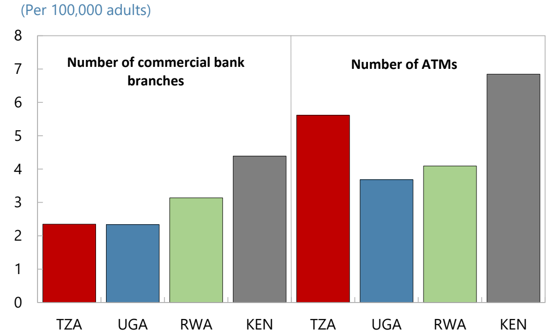
Fincope Survey: Mobile Money Uptake
(In percent of survey respondents)



Sources: Finscope Tanzania (2023); World Bank World Development Indicators.

The number of commercial bank branches and ATMs is similar to peer countries

Number of Commercial Bank Branches and ATMs, 2022
(Per 100,000 adults)



Sources: IMF Financial Access Survey.

Sources: Finscope Tanzania (2023); IMF Financial Access Survey.

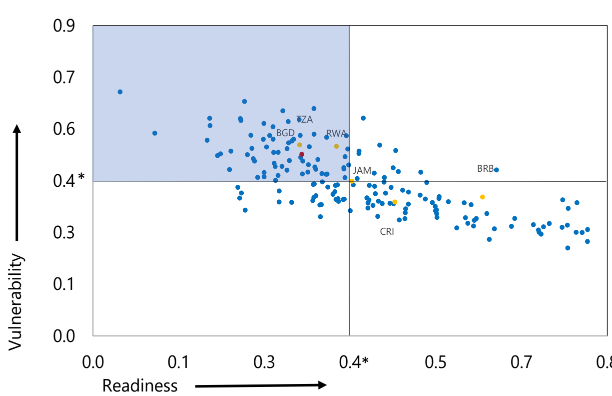
Annex IV. Building Resilience to Climate Change

Tanzania is highly vulnerable to climate change but has low readiness in dealing with its impacts. Given the widespread impact of climate change in Tanzania, the authorities' national plans feature climate goals in their planning and efforts are ongoing to update and strengthen the strategies and institutions to address climate change. The authorities are working on a comprehensive strategy to address climate risks and enhance resilience, focusing on mitigation and adaptation, collaborating closely with development partners. Potential future support under the Resilience and Sustainability Facility (RSF), underpinned by strong (ongoing) diagnostics and reform measures, would deepen and expand their efforts and help catalyze other sources of finance.

1. **Tanzania is highly vulnerable to climate change but has low readiness in dealing with its impacts.**[1] The 2021 Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index, ranks Tanzania 45th most vulnerable out of 185 assessed countries and the 58th least prepared to leverage investments to adaptation actions among the 192 assessed countries.[2] The high vulnerability score and low readiness score of Tanzania places it in the upper-left quadrant of the ND-GAIN Matrix, Figure 1. This implies a pressing need for investment and innovations to improve readiness and a great urgency for action. In the matrix for sub-Saharan Africa (SSA) countries, Tanzania is at the intersection of the median of vulnerability and readiness.

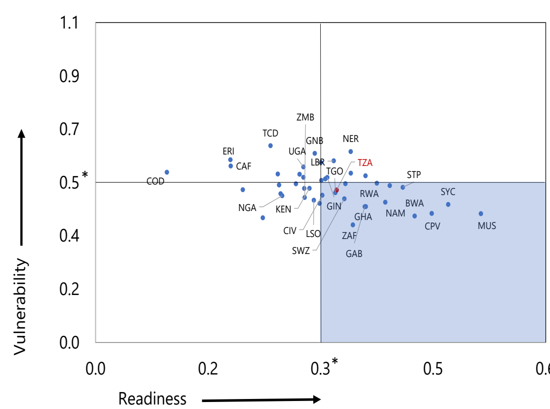
Figure 1. ND-Gain Country Index: Vulnerability and Readiness Score

All Countries, 2021



* Median
Sources: ND-Gain Country Index database, and staff calculations.
Note: Light blue dots represent the SSA countries and yellow dots represent the countries whose RST request has been approved.

SSA Countries, 2021



* Median
Source: ND-Gain Country Index database, and staff calculations.

[1] Country Report EBS/23/36 and Selected Issues "Building Resilience to Climate Change" presents a comprehensive analysis of the state of Tanzania's vulnerability to and readiness in dealing with climate change.

[2] According to the readiness score in the 2021 ND-GAIN index, Tanzania is ranked as the 40th least prepared to leverage investments to adaptation actions among the 192 countries assessed. Staff recalculates the readiness score to exclude the economic readiness indicator from the World Bank's Doing Business Report. Based on the new score, Tanzania is ranked as the 58th least prepared.

2. The impact of climate change is widespread in Tanzania with floods and drought events becoming more frequent and more severe. Climate change is severely affecting agriculture, water resources, marine and coastal zones, public health, human settlements, energy sector, infrastructure, biodiversity, ecosystem services and the macroeconomy. It is estimated that 70 percent of natural disasters in Tanzania are climate change related and the country is among the top ten countries in sub-Saharan Africa with the highest frequency of natural disasters including floods, droughts and epidemics. In the agriculture sector, as Tanzania is a major food producer and heavily depends on rain-fed farming, the increasing frequency and severity of floods and droughts negatively impact agriculture productivity and food production. In this regard, the 2022 African IPCC[3] report observes that temperatures and drought frequency have increased in the region, and future global warming will negatively affect food systems in Africa by shortening growing seasons and increasing water stress. Furthermore, it predicts increased flooding in East Africa under a 1.5°C global warming scenario. In Tanzania, there is also a strong link between climate change and poverty in Tanzania given that over 70 percent of the population depends on natural resources for livelihood.

3. Tanzania's national plans feature climate goals, with ongoing efforts to update and strengthen the strategies and institutions to address climate change.[4] 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) and the 2021 updated Nationally Determined Contribution (NDC) lay out a set of adaption and mitigation interventions in major economic sectors. Recent updates include the launching, in early-2023, of the National Disaster Management Strategy (2022-2027) and the National Disaster Preparedness and Response Plan to help improve coordination of disaster management.

4. The authorities are working on actions to address mitigation, adaptation, PFM, and climate finance, collaborating closely with development partners. They are coordinating with the World Bank on Tanzania's upcoming Country Climate and Development Report (CCDR) which will provide recommendations on prioritizing the most impactful actions to reduce greenhouse gas (GHG) emissions and boost adaptation, while delivering on broader development goals. They are also considering the policy recommendations from the recent IMF TA on Public Investment Management (PIMA) with a climate module C-PIMA, which provided recommendations in the form of a sequenced and prioritized action plan to support the implementation of green and resilient infrastructure. They have also expressed interest in the IMF's Climate Policy Diagnostic TA to support the identification of mitigation and adaptation measures. The authorities are also leveraging support

[3] Climate Change 2022: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) Report.

[4] See Country Report EBS/23/36 for a discussion of Tanzania's climate change strategies and Institutions in detail.

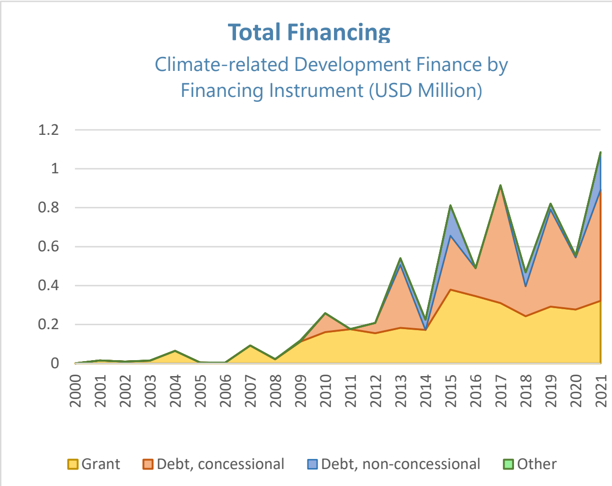
from other DPs such as the United Nations and bilateral partners, including on disaster management.[5]

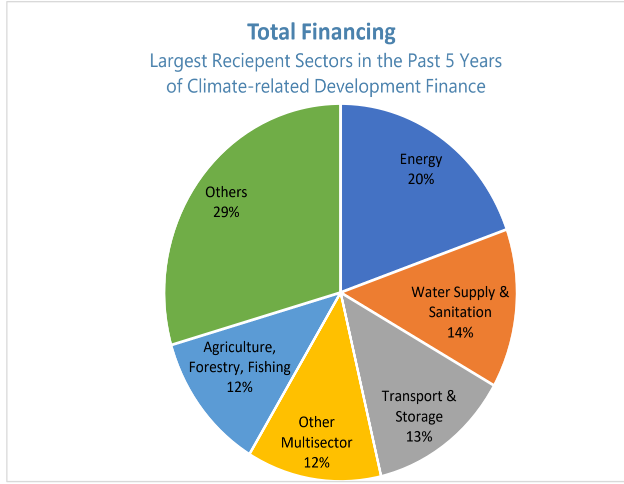
5. The financial resources required to address climate change are enormous as laid out in Tanzania's Nationally Determined Contribution (NDC). In the country's updated NDC submitted in 2021, it is estimated that the total funding required to support the implementation of climate adaptation and mitigation activities would amount to US$19.2 billion between now and 2030. The NDC notes that Tanzania needs international support beyond domestic resources for NDC implementation.

6. Mobilizing financing for mitigation and adaptation needs will be require concerted efforts. 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. According to the OECD's DAC database, Tanzania is among the top recipients of climate-related development finance in SSA, attracting an estimated US$6.1 billion of commitments over a 10-year period from 2012-2021. These funds are predominantly grants (44 percent) and debt instruments (56 percent), of which 84 percent is concessional. The climate focus of these funds committed were mitigation (41 percent), adaptation (45 percent), and multiple focus (14 precent) mainly in the energy, water supply and sanitation, transport, agriculture, and other sectors (Figure 2). Nonetheless, additional resources are needed to meet Tanzania's climate finance requirements. The Tanzanian authorities have requested to initiate discussions for support under the Resilience and Sustainability Facility arrangement to help advance their efforts to tackle climate change challenges, explore synergies to strengthen policies, and help catalyze additional sources of climate finance.

[5] For example, the AfDB Climate Action Window will avail funds earmarked for climate-related adaptation (75%), Mitigation (15%) and Technical Assistance (10%). SIDA is supporting Tanzania's implementation of the Environmental Management Act.

Figure 2. Climate-Related Development Finance Flows- 2000-2021





Source: OECD's DAC Data

Annex V. Poverty Reduction and Growth Strategy

This Annex summarizes the authorities' Third National Five-Year Development Plan (FYDPIII) covering the period FY2021/22–2025/26, which represents Tanzania's Poverty Reduction and Growth Strategy (PRGS). The PRGS is well-aligned with the ECF and has also been assessed positively by the World Bank.

1. **Tanzania adopted a Poverty Reduction and Growth Strategy (PRGS) with the development of the Third National Five-Year Development Plan (FYDPIII).** The FYDPIII seeks to strengthen Tanzania's progress towards becoming a competitive, semi-industrialized, middle-income country while at the same time strengthening human capital and assuring inclusive growth. The FYDPIII outlines strategic interventions, development programs, and projects to enable the realization of its objectives, and help attain the Tanzania Development Vision 2025 goals and targets (Figure 1). The FYDPIII also aims to address the fallout of the COVID-19 pandemic and climate-change related natural disasters on the Tanzanian economy, with its key strategies aligned with the relevant SDG goals. The FYDPIII informs planning across all economic sectors and is consistent with other national planning documents, including the National Financial Inclusion Framework, the National Strategy for Gender Development, the Tanzania National Climate Change Response Strategy 2021-26, and the National Environmental Master Plan for Strategic Interventions (2022–2032). Development of the FYDPIII followed a thorough evaluation of progress achieved in earlier development plans (FYDPI and FYDPII), and a series of stakeholder consultations including with the private sector, civil society, NGOs, and development partners.

2. **The FYDPIII envisages an ambitious set of implementation outcomes (Table 1).** Specifically, the authorities aim to accelerate economic growth to average above 8 percent over the medium term; improve the business environment, public revenues, and exports; reduce poverty; improve the human development index; and reduce mortality.

3. **Several priority intervention areas identified to help achieve the FYDPIII's objectives.** Underpinned by macroeconomic stability, realizing an inclusive and competitive economy entails:

- **Completing an ambitious ongoing public sector investment program** in key infrastructure projects to support market access and ease social service delivery.

- **Deepening industrialization and service provision** through interventions in diverse sectors, including tourism, construction, agriculture, manufacturing, health, and education, with an emphasis on protecting the environment and promoting financial inclusion and the digital economy.

- **Addressing institutional bottlenecks** through streamlining business environment procedures.

- **Investing and promoting trade**, to consolidate business environment reforms under the umbrella of the Blueprint, address bottlenecks impacting investment and business conduct and simplify business and investment processes and boost regional and international trade.

- **Improving human development** through targeted interventions in education, health, water supply and sanitation, urban planning and housing, food security/nutrition, and social protection.

- **Developing skills** to specifically target improvements in technical education, vocational training, and workforce skills to enhance the economy's productivity and competitiveness.

4. Tanzania's objectives and policies under the IMF-supported Extended Credit Facility (ECF) are anchored by the FYDPIII. The 40-month Extended Credit Facility (ECF) approved in July 2022 is designed to support the authorities' efforts towards achieving their objectives under the FYDPIII. Specifically, the ECF focuses on three key priority areas that are closely aligned with the FYDPIII pillars. First, strengthening fiscal space to allow for much needed social spending and high-yield public investment, through improved revenue mobilization and spending quality. Second, resuming and advancing the authorities' structural reform agenda, improving the business environment and competitiveness. Third, strengthening financial deepening and stability, including through enhancing the monetary framework and improving supervision.

5. The FYDPIII's ambitious scope is reflected in the plan's large resource envelope and ambitious infrastructure investments. There are several infrastructure flagship projects deemed critical because of their potential large positive multiplier effects on the rest of the economy. The plan's financing needs over its five-year lifespan is estimated at Tsh 15 tn (about US$50bn or 70 percent of GDP). Two-thirds of the plan's financing is expected to come from public resources (85 percent of which are to be raised domestically), with the remainder to be financed by the private sector (split evenly between domestic and foreign private sources). .

6. A mid-point review of FYDPIII is planned for end-2024. The FYDPIII implementation has reached a mid-point and progress on the flagship projects is at different stages. Some key projects in the energy and transport sectors are almost nearing completion. The review is an opportunity for the authorities to take stock and set the path forward, taking into account their priorities and the macroeconomic environment.

Figure 1. FYDPIII Conceptual Framework

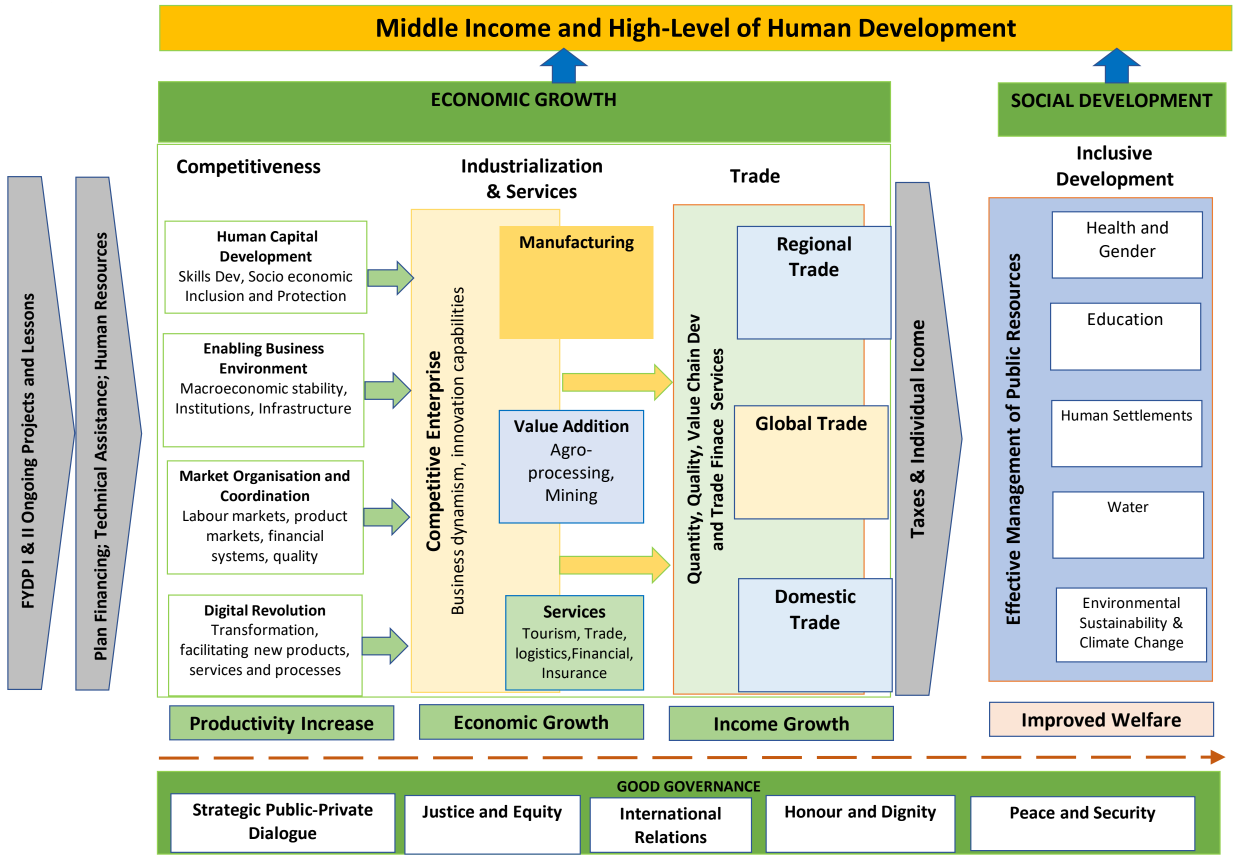


Table 1. Tanzania: Selected FYDPIII Socio-Economic Targets

	2019/20	2025/26
GDP Growth	5.2	8.0
Inflation Rate	3.3	4.4
Domestic Revenue / GDP	14.7	16.9
Tax Revenue / GDP	12.9	14.4
Budget Deficit (%)	-2.6	≤ -3.0
Public Debt (% of GDP)	27.9	28.2
Extended Broad Money Growth	≥ 10	≥ 10
Foreign Reserves (mnoths of imports)	≥ 4	≥ 4
Human Development Index	0.57	0.6
Proportion of the Population below the Basin Need Poverty Line (National)	26.4 (2018)	22
Infant Motality Rate per 1,000 births	36	30
Share of Exports in GDP	16.1	28

Source: Source: Tanzanian authorities.

Annex VI. Capacity Development Strategy

1. The ECF arrangement provides an opportunity to align Fund technical assistance (TA) with the authorities' reform agenda. Fund TA is critical to support the authorities' goals 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 arrangement. 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 arrangement 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 basis of recently provided TA on tax diagnostics and management of natural gas revenues.
- *Public finance management.* Support the authorities' effort to: (i) strengthen budget formulation, expenditure controls, cash management, and public investment management; and (ii) enhance effectiveness of public investments.
- *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, as they deviate by 2 percent of 2022 GDP; (iii) improve the quality and coverage of fiscal and public sector debt statistics, including extra-budgetary units, social security funds and local government units as well as integrating

fiscal statistics from Zanzibar, and finalize the transition to *GFSM2014*; and (iv) develop producer price indexes for agriculture and construction to improve national accounts volume estimates for these activities, which contribute to about 40 percent of GDP.

Table 1. Tanzania: 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. • Develop fiscal framework for management of natural resource revenues
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.
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 its governance as well as personal and financial autonomy, including addressing the issue of the composition of the Board which should comprise 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. • To enhance data transparency, ensure timely compilation and dissemination of prices, labor market indicators, industrial production, fiscal statistics, BOP, international investment position, international reserves, and debt statistics, in line with the recommendations of the e-GDDS framework implemented in 2016. • Develop producer price indexes for agriculture and construction to improve national accounts volume estimates for these activities.

Appendix I. Letter of Intent

Dodoma, November 27, 2023

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

Dear Madam Managing Director,

1. **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.

2. **Our reforms have remained on track. Most of the end-June 2023 quantitative performance criteria (QPC) and indicative targets (ITs) were met**. The QPC on net domestic assets was technically missed when adjusted for the excess budget support vis-à-vis program projections. The BoT is strengthening its liquidity management tools to mitigate recurrence of such problems going forward. The ITs on priority social spending and stock of domestic arrears were also missed, due to higher-than-expected debt service and delays in receipt of documentation from taxpayers for verification of VAT refund claims, respectively. All structural benchmarks for end-June 2023 were met. To support our continued reform efforts, we request a waiver of non-observance of the end-June QPC on net domestic asset, completion of the second review of the arrangement under the IMF's Extended Credit Facility, and the disbursement of the third 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 on respective responsibilities for servicing financial obligations to the IMF.

3. 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.

4. 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.

5. 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 second review of the 40-month arrangement under the Extended Credit Facility, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/

Dr. Mwigulu Lameck Nchemba Madelu (MP.)
Minister of Finance

/s/

Emmanuel Mpawe Tutuba
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. Deteriorating global conditions stalled our 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 slowed down to 4.7 percent in 2022, reflecting the impact of global economic conditions and shortfalls in rainfall, which affected agricultural production. Our policy responses, including temporary fuel and fertilizer subsides, contained inflation under the BoT's 5 percent target. Tourism rebounded strongly in FY2022/23, surpassing pre-pandemic levels, but the current account deficit widened significantly as rising imports more than offset the increase in exports. This has created significant forex pressures in the economy, forcing the BoT to increase its forex interventions to provide much-needed liquidity and stabilize markets. The level of our international reserves remained adequate at US$4.9 billion in October 2023. Financial sector stability is improving as a result of ongoing efforts to address legacy problems including high NPLs, but some pockets of vulnerabilities remain.

2. The fiscal deficit for FY2022/23 was wider than expected largely due to shortfalls in revenue collections and external grants. The reduction of administrative fees and levies approved in the FY2022/23 budget, as part of the implementation of the Blueprint for regulatory reforms, had a more negative impact on non-tax revenues than we expected. External grants also fell short of expectations. Expenditure on goods and services was larger than budgeted due to reallocation of resources to local governments and extra–budgetary units, provision of medical assistance, and payment of arrears. Consequently, the domestic primary deficit was wider-than-expected by about 0.4 ppts of GDP. The excess deficit was financed from domestic sources, including T-bill issuances and borrowing from the BoT.

3. The ECF program remained on track. Most quantitative performance criteria and indicative targets for end-June 2023 were met. The QPC on net domestic assets (ceiling) was technically missed when adjusted for extra budget support vis-à-vis program projections. The BoT is committed to strengthening its liquidity management tools to ensure that it responds swiftly to sterilize unanticipated liquidity shocks. The IT on priority social spending (floor) was missed due to delays in disbursement of external grants and concessional loans earmarked for health sector projects, higher debt service payments, and higher clearance of expenditure arrears. In light of continued underperformance in revenue collections, the government will conduct a mid-year budget review in February 2024 and cut lower-priority spending, if needed, to ensure that the program targets for priority social spending are met. Although the government cleared more expenditure arrears than planned, the IT on the stock of domestic arrears (ceiling) was missed due to delays in receipt of documents from taxpayers for verification of VAT refund claims. For this reason, we are requesting a modification of the definition of VAT refund arrears to exclude refund claims for which complete information has not been submitted by taxpayers. At the same time, we are committed to taking additional steps to expedite the VAT refund process (paragraph 31).

4. Our structural reform agenda is progressing well, with all structural benchmarks for end-June 2023 completed on time. The FY2023/24 budget included a proposal (approved by Parliament) for indirect tax policy measures with estimated revenue yield of 0.3 percent of GDP. In June, the BoT published the operational guidelines of the interest-rate based monetary policy framework. The authorities recruited 16,915 teachers and 12,674 health workers in FY2022/23. The National Bureau of Statistics reconciled National Accounts and BoP external sector data and published the revised data for 2017-2022.[1]

B. Macroeconomic Program and Targets

I. Program Objectives and Outlook

5. 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.

6. 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 safeguard macroeconomic stability

[1] The reconciliation resulted in revisions in the National Accounts and BoP external sector data for 2017-2022. As a result, ratios-to-GDP for the associated macroeconomic indicators have been revised.

and help Tanzania cope with global economic shocks. 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.

7. We expect the economic recovery to regain momentum subject to potential headwinds from the global economy. Growth is estimated to be about 5 percent in 2023 and projected to pick up further to about 5½ percent in 2024. Inflation is projected to remain within the BoT's target range. The current account deficit is expected to narrow in the current fiscal year as the growth of imports slows down. Fiscal consolidation is underway in line with the budget and program targets. Intensification of geopolitical conflicts, increased commodity price volatility, abrupt global slowdown or recession, and natural disasters related to climate change could weigh negatively on the near-term outlook of Tanzanian economy.

8. Over the medium-term, the program will help revitalize the economy while safeguarding macroeconomic stability and debt sustainability. GDP growth is expected to reach about 6½ percent in the medium-term, driven by successful implementation of the reforms in FYDP III including improvements in the business environment and productive sectors. A fiscal consolidation of 1½ percent of GDP (measured by the domestic primary balance) is envisaged by the end of the program, expected to be achieved through additional revenue mobilization while stabilizing expenditures in percent of GDP. The external position is expected to improve over the medium-term supported by a recovery in tourism and moderation of growth of imports as the public investment drive eases. Anchored by program targets, the level of international reserves will remain within the IMF's adequacy range.

II. Program Policies and Risks to the Outlook

9. 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.

10. The government is committed to implementing the fiscal consolidation plan envisaged in the current FY budget. The budget is based on more realistic revenue and expenditure projections, with the domestic primary deficit projected to narrow to 1.3 percent of GDP (QPC in

Table 1). Tax revenues are expected to continue recovering and will reach about 12.7 percent of GDP in FY2023/24 supported by tax measures that are being implemented (paragraph 22 below). Overall spending is expected to be stabilized at about 19 percent of GDP, and the government will rebalance the composition of spending to meet the target for priority social spending (PSS). Should revenue projections not materialize in the first half of FY2023/24, widening the primary balance deficit and compromising the PSS target, 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. The amount of funds allocated to the broad areas of priority social sectors, as defined in the Technical Memorandum of Understanding, will be published as an Annex to the revised mid-year budget. To complement measures targeted at easing pressures in the forex market (paragraph 13) and considering the tightening of global financial markets, the government is reviewing its public investment plan with the objective to postpone new projects for which forex financing has not been earmarked.

11. 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.

12. 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.

13. The Bank of Tanzania (BoT) is committed to allowing exchange rate flexibility to cushion the economy against external shocks. The widening current account deficit and tightening of global financial conditions led to shortages in the forex market in recent months. The BoT stepped up its forex intervention to ensure adequate supply of forex to the market, while allowing the exchange rate to depreciate faster. During July-October, the BoT supplied US$353.9 million, while the exchange rate depreciated 8 percent (yoy) in end-October (compared to the 1 percent depreciation recorded in the entire FY2022/23), which contributed to the narrowing of the spread between the interbank and retail rate in the forex market. Going forward, forex interventions will be limited to addressing disorderly market conditions while the exchange rate will be allowed to be flexible to cushion the economy against external shocks. Towards this goal, the BoT has already reduced the frequency and amount of forex interventions. The BoT will also enhance the transparency of its foreign exchange intervention policy by formalizing and publishing its forex intervention policy stating the objectives, the triggers, the mechanism and modality of the intervention by December 2023 (structural benchmark). The level of international reserves will be maintained at a comfortable level as a buffer against external shocks.

14. The BoT is taking measures to address forex liquidity pressures, revive the forex markets, ensure price discovery that allows a market-clearing exchange rate system. In May, the BoT issued directives[2] aimed at enhancing liquidity in the forex market while mitigating spillovers from neighboring countries. The BoT also issued circulars, in June and October, to limit dollarization, safeguard and foster macroeconomic stability, and enhance FX liquidity. To revive the forex markets and return to a market-clearing exchange rate system, the BoT will review and publish a revised "Interbank Foreign Exchange Market (IFEM) Code of Conduct", adopting international best practices following the "FX Global Code" and in consultation with IMF staff by end-January 2024 (new structural benchmark). In the meantime, the BoT will issue a Circular, announcing that a new IFEM Code of Conduct will be issued in January and indicating the intention to review the guidance on minimum or maximum rates or spreads and the sanction regime. Furthermore, the BoT in its communication and engagement with market participants will encourage banks and bureau de changes to trade at a market clearing exchange rate in the interbank and retail markets to attract foreign exchange flows back to the formal market.

15. The BoT will continue to closely monitor financial sector developments and take necessary steps to safeguard macro-financial stability. The BoT implemented a less accommodative monetary policy in 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. To tame domestic inflationary pressure without compromising growth of the economy, the BoT cautiously tightened liquidity using a mix of monetary policy instruments, including repurchase agreements (repos) and selling liquidity papers. The BoT will continue to monitor developments in the financial sector and tighten liquidity conditions as needed to ensure that the growth of credits is consistent with financial stability objectives and to ease demand for forex. Non-performing loans ratio declined to 5.2 percent in September 2023, and the BoT will continue to take measures to ensure nonperforming loans decline

[2] These directives: (i) relaxed the limit for forex transactions in the retail market to be traded within the interbank prevailing quoted rates from US$250 thousands to US$1 million per transaction; (ii) increased net open position limits from 7.5 percent to 10 percent of core capital; (iii) prohibited forex trading with international brokers that are not licensed in Tanzania; (iv) reminded dealers to strictly observe KYC requirements; and (v) required all L/Cs for transit cargos to be funded by forex mobilized from respective destination countries.

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.

16. 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 impacts of regional conflicts, maintaining macro-economic stability, and reviving the reform momentum to raise and sustain growth and reduce poverty. The goal of FYDP III is to make Tanzania a competitive and semi-industrialized middle-income country, while at the same time enhancing human capital and achieving inclusive growth. To this end, it sets a more ambitious goal of accelerating and sustaining economic growth. 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 projections.

17. 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 intensification of regional conflicts, 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, tight financial market conditions 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

18. 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 and governance 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 and promote financial deepening.

I. Fiscal Policies to Promote Growth

19. 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 safeguard macro-financial stability through implementation of the fiscal consolidation program envisaged in the FY2023/24 budget. Over the medium term, fiscal reforms will focus on: (i) increasing domestic revenue mobilization, (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

20. **Tax policy and revenue administration efforts in FY2023/24 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.

21. **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 amending the VAT Act (paragraph 31) and leveraging technology 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 has updated the taxpayer registry and streamlined the process for new taxpayers, e.g., using a single point of entry for registration, regulation, and issuance of tax ID numbers.

22. **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 also begin preparing and publishing annual report on tax expenditures and their budget implications starting in June 2024 (new structural benchmark). To improve the efficiency of tax administrations, the government will interface the Revenue Authority's information technology system with that of prioritized government institutions by December 2023 (structural benchmark). To pave the way for additional structural reforms in the tax and customs system over the medium term, the government will also prepare, and submit to Cabinet for approval, a Medium-Term Revenue Strategy (MTRS) along with its implementation plan by end-June 2024 (new structural benchmark).

Rebalancing and Improving the Quality of Spending

23. **The government is committed to improve the quality of expenditures by rebalancing and improving spending towards priority social spending.** In FY2022/23, the government hired 12,674 additional health workers and 16,915 primary and secondary teachers to promote access to

health and education, notably in rural areas. 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, we have increased spending on health and education, both in levels, and as a share of GDP, with total social priority spending reaching TZS 13 trillion (about 6.5 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 it at 7 of 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.

24. 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*. The expansion in hiring of teachers will be accompanied by increases and improvements in teacher training 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.*

25. 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 is conducting a comprehensive review of the subsidy system, including direct and indirect subsidies, with the objective to identify gaps and reform measures needed to improve efficiency and targeting by December 2024.

26. 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. Effective implementation of these recommendations will require capacity building. We are conducting a mid-point review of the FYDPIII with the objective to assess implementation progress and take stock of large projects and publish a statement of multi-year budgetary commitments with the project inventory by June 2024.

Reducing Fiscal Risks

27. 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. To strengthen commitment controls in budget execution, the government will strictly enforce the sanction regime against unauthorized spending commitments, with clear personal penalties, as specified in the Budget Act (2015) and the Treasury Circular No. 2 (2022/23). The government's performance in reducing the stock of expenditure arrears is being monitored by an ECF program indicative target.

28. 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 December 2023.

29. 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.

30. 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. To enhance transparency of public enterprises, the government has issued a circular mandating all SOEs to publish their annual audited financial statements starting in FY2022/23, by April of the following FY.

31. 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. To expedite the verification of VAT arrears, the Ministry of Finance will submit to Parliament, by end-June 2024, a draft amendment to the VAT Act requiring that legitimate VAT refunds are paid by the end of the month following the month in which the VAT refund was filed (new structural benchmark).

- 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, in FY2022/23, 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 Ministry of Finance 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.

II. Business Environment and Governance Reforms to Unlock Growth Potential

32. The government is reviewing and amending the business regulatory frameworks with the objective to improve the business environment and promote private sector development. 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, in June 2023, the government implemented 16 amendments of laws guided by the Blueprint for Regulatory Reform (BLUEPRINT) to improve the business environment and attract private investment. These include the Immigration Act, the Land Rent Act, the Mining Act, the Local Government Finance Act, the Value Added Tax Act, the Tax Administration Act, the Local Government Act, and the PPP Act Amendment of the Value Added Tax

Act increased the VAT registration threshold from 100 million shillings to 200 million shillings; amendment of the Mining Act exempted refineries from paying inspection fee of 1 percent; amendment of the Land Rent Act reduced the premium charge from 0.5 percent of the land value to 0.25 percent and reduced land rent registration fees from 20% to 10%; and amendment of the PPP Act allowed international arbitration and granted tax incentives to PPP projects.

33. **While effectively implementing the revised regulatory frameworks, the next step is to review and revise the BLUEPRINT.** The government will continue to implement the reforms envisaged in the BLUEPRINT, emphasizing the streamlining of permits and licenses and rationalizing the number of institutions issuing them and conducting oversight. To continue strengthening the regulatory framework and improving the business environment, the government plans to review and revise the BLUEPRINT along with an action plan by end-FY2025/2026, in consultation with relevant stakeholders to address their concerns in the planning and implementation of reforms.

34. **In line with the BLUEPRINT, 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.

35. **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 external sector data between the national accounts and the balance of payment statistics has been reconciled and the revised national accounts data for 2017-22 has been published as per the government's commitment towards end-June 2023 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.

36. **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. 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.

37. **We are taking steps to align our legal framework with the FATF standards and improve the effectiveness of the AML/CFT framework.** Tanzania is currently listed by FATF as a country

with strategic AML/CFT deficiencies under increased monitoring. Following the amendment of the AML/CFT Acts in 2022, we requested an upward revision of the ratings on technical compliance for 9 FAFT recommendations. In September 2023, the 23rd assembly of the ESAAMLG Council of Ministers approved the ratings revisions. We also submitted to FATF a progress report on measures to address low ratings in effectiveness in July 2023, and the FATF Plenary in October 2023 confirmed progress on Immediate Outcome 3 and 4.The government, in consultation with the IMF, is establishing 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 (structural benchmark for December 2023).

38. 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. In this regard, we are closely coordinating with the World Bank on the upcoming Country Climate and Development Report. We have also requested for the Climate Policy Diagnostic TA from the IMF to help identify climate adaptation and mitigation measures.

39. 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.

III. Strengthening Monetary Policy and Financial Stability

40. The BoT will continue progress towards transitioning to an interest rate-based monetary policy framework in FY2023/24. The transition, combined with new macroprudential tools to enhance systemic liquidity management, will help deepen financial markets. The BoT intends to implement an interest rate-based monetary policy framework in the current FY, in line with the harmonization of East African Community (EAC) monetary policy. As part of the monetary policy framework transition, the BoT published the operational guidelines of the interest rate-based monetary policy framework in June 2023. Efforts are underway to further improve monetary policy communication with market participants. To better align the monetary policy process with key data releases and ensure sufficient time for an iterative process to produce the forecasts and policy recommendations, the BoT will revise and publish the schedule for the monetary policy committee meetings, noting in the schedule the announcement dates for any monetary policy decisions taken by the MPC, by end-June 2024 (new structural benchmark). Monetary policy decision announcements will be accompanied by a published monetary policy committee (MPC) meeting statement or press release that explains the decision. The release date of the MPC meeting statement or press release will be indicated in the schedule.

41. 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 capacities in risk-based supervision, solvency stress testing, and climate related risks; 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 continues to run its quarterly top-down and bottom-up stress testing to assess the resilience of the financial system to potential shocks. In addition, BoT is and stepping-up monitoring and enforcement of prudential guidelines, particularly in relation to undercapitalization, NPLs and restructured loans. 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. The BoT issued new Capital Adequacy, Liquidity Management, and Prompt Corrective Action Regulations in line with Basel II/II in October 2023. It has also prepared its AML/CFT risk-based supervision manual in August. The BoT will enhance the risk-based supervision (RBS) framework by creating a single RBS rating system by December 2024 (new structural benchmark) and improve AML/CFT risk-based supervision.

42. The government is implementing policies to promote financial inclusion. Survey results from Finscope indicate steady progress, with formal financial inclusion reported at 76 percent in 2023, compared to 65 percent in 2017. Building on this progress, the National Financial Inclusion Framework 2023- 2028 (NFIF) aims to ensure that all adults and businesses have access to and use a broad range of affordable and high-quality financial products and services, to improve their financial well-being and living standard. In addition to the NFIF, the Tanzania Development Vision 2025 and the Financial Sector Development Master Plan 2020/21- 2029/30 guide our financial inclusion policies. Implementation of these policies involves a public-private sector partnership under a National Council, which include Ministries, Regulatory Authorities, Agencies, financial service providers, and consumers' associations with the BoT serving as secretariat. Efforts to promote financial inclusion are supported by the ongoing rollout of the National Identification Number, the National Financial Education Program, as well as increased mobile phone access. To further enhance financial inclusion, we will draft a secured transactions Act that allows collateral recovery and broadens the pool of acceptable collateral to movable collateral and submit to Parliament by September 2024 (new structural benchmark).

D. Other Issues and Program Monitoring

43. 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.

44. The government is committed to implementing the recommendations from the safeguards assessment completed in 2022. Strengthening the legal framework to ensure independent oversight of the BoT will be pursued. Specifically, the BoT is preparing 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, which will be submitted to Parliament by June 2024 (new structural benchmark). In addition, given that IMF financing is for budget support, the existing MoU between the BoT and the Ministry of Finance on respective responsibilities for servicing financial obligations to the IMF have been revisited.

45. 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.

46. 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.

47. 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 fourth and fifth reviews are scheduled to be completed on or after September 27, 2024, and March 27, 2025, respectively, based on test dates for periodic performance criteria of end-June 2024 and end-December 2024, respectively.

Table 1. Tanzania: Quantitative Performance Criteria and Indicative Targets, March 2023 – December 2024

(Tsh billions, unless otherwise indicated)

	2023										2024			
	End-March				End-June									
	IT	IT- adj.	Actual	Status	Target	Target-adj	Actual	Status	End-Sep. IT	End-Dec. Target	End-Mar. IT	End-Jun. Target	End-Sep. IT	End-Dec. Target
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	0	0
Ceiling on the PV of new external public and publicly guaranteed debt contracted by the central government or the Bank of Tanzania	6,436	6,436	1,974	Met	7,057	7,057	3,932	Met	5,053	5,737	5,737	6,500	3,000	5,500
Performance Criteria														
Floor on domestic primary balance 1/	-398	-249	-2,950	Not met	-4,376	-4,634	-4,606	Met	-718	-1,510	-1,969	-2,537	-695	-1,105
Ceiling on net domestic assets (NDA) of the BoT	-420	-857	-1,189	Met	-98	-916	-636	Not met	-220	-287	-86	566	272	337
Change in net international reserves of the Bank of Tanzania (floor, millions of U.S. dollars) 2/	-219	-719	-83	Met	-292	-292	449	Met	-192	-92	-42	8	58	108
Indicative Targets														
Floor on priority social spending 1/	7,008	7,008	7,436	Met	12,653	12,653	10,574	Not met	3,506	7,012	10,267	13,023	3,076	8,551
Ceiling on the stock of domestic arrears 1/	3,342	3,342	2,591	Met	1,985	1,985	2,028	Not met	1,868	1,691	1,544	1,397	1,247	1,097
Ceiling on the newly disbursed external non-concessional borrowing by the central government or the BoT (millions of U.S. dollars) 1/	1,631	1,631	815	Met	1,631	1,631	1,498	Met	1,533	1,631	1,631	1,631	1,500	1,600
Memorandum Items														
Foreign assistance grants and loans (US$ mlns) 1/	2,328	...	1,570	...	3,551	3,551	2,235	...	620	1,169	1,647	2,160	317	709
VAT refunds in arrears	539	...	490	...	0	0	121	...	0	0	0	0	0	0
Expenditure arrears	2,803	...	2,101	...	1,985	1,985	1,907	...	1,868	1,691	1,544	1,397	1,247	1,097
Wage bill on education and health workers 1/	2,189	...	3,464	...	3,358	3,358	4,658	...	744	1,489	2,942	4,844	1,259	2,519

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/ 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 2024

Reform Targets	Macroeconomic Rationale	Target Date	Status
Existing 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. Complete and publish the post-crisis audit of pandemic-related spending.	Improve fiscal management and enhancing economic governance	End-Dec. 2022	Not met
3. 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
4. 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
5. 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	Met
6. 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	Met
7. Reconcile national accounts (NA) and BOP external sector data and publish revised NA historical data.	Improve GDP quality and transparency	End-Jun. 2023	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	Met
9. The Revenue Authority will interface its information technology system with that of prioritized government institutions.	Enhance revenue performance	End-Dec. 2023	Ongoing
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	Ongoing
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	Ongoing
Proposed Structural Benchmarks			
12. Submit to Parliament draft amendment to the VAT Act, requiring that legitimate VAT refunds are paid by the end of the month following the month in which the VAT refund was filed.	Enhance revenue administration efficiency	End-Jun. 2024	New
13. Prepare a medium-term revenue strategy (MTRS) with an implementation plan and submit to Cabinet for approval	Enhance revenue performance	End-Jun. 2024	New
14. Begin preparation and publication of annual report on tax expenditures and their budget implications	Strengthen fiscal transparency	End-Jun. 2024	New

Table 2. Tanzania: Prior Actions and Structural Benchmarks Through December 2024 (concluded)

Reform Targets	Macroeconomic Rationale	Target Date	Status
15. Review and publish a revised "Interbank Foreign Exchange Market (IFEM) Code of Conduct", adopting international best practices following the "FX Global Code" and in consultation with IMF staff	Support forex market development	End-Jan. 2024	New
16. Revise and publish the schedule for the monetary policy committee meetings, noting in the schedule the announcement dates for any monetary policy decisions taken by the MPC	Enhance the monetary policy framework	End-Jun. 2024	New
17. 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 Parliament	Strengthen governance of the BoT	End-Jun. 2024	New
18. Enhance the risk-based supervision (RBS) framework by creating a single RBS rating system.	Enhance financial stability	End-Dec. 2024	New
19. Draft a secured transactions Act that allows collateral recovery and broadens the pool of acceptable collateral to movable collateral and submit to Parliament.	Foster financial deepening and promote financial inclusion	End-Sep. 2024	New

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 (MoF), 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.

Text Table 1. Program Exchange Rate and Prices (end-June 2022)

Currency	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

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 2024 and end-December 2024, while indicative targets are set for end-March 2024 and end-September 2024.

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.

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.

[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.

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.

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.[2] 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

[2] The definition of short-term foreign currency liabilities of the BoT has been modified to include short-term forex liabilities to residents in line with best practices. The definition of reserve assets has also been modified to remove 'exclusion of assets acquired through short-term currency swaps' as these are already excluded from the NIR on the liability side.

authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to 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 foreign exchange liabilities to nonresidents and residents, including the government's foreign currency deposits, with residual maturities of less 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 which include: (i) VAT refund claims for which adequate information has been submitted by the taxpayer but not processed by the authorities within 90 days from the time the taxpayer submitted the refund claim; and (ii) VAT refund claims that have been processed but not paid by the authorities within 90 days from the time the taxpayer submitted the

refund claim. Refund claims for which complete information has not been submitted by taxpayers are not considered as outstanding unpaid VAT refund claims.

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 MoF 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				2024/25	
	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
World Bank lending projects	494	560	629	689	40	274	588	769	88	321

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				2024/25	
	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Budget support grants	0	0	0	0	10	28	104	106	106	123
Budget support loans	0	350	350	350	0	500	500	607	607	627
External non-concessional borrowing	1,252	1,331	1,331	1,331	103	186	348	699	699	966

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				2024/25	
	Sep.	**Dec.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**
Payment of domestic arrears	238	692	692	1,109	118	294	441	588	150	300

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
Daily retail foreign exchange rate and volumes transacted in banks and in bureau de changes	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
BoT's foreign exchange liabilities to residents and non-residents due in the next 12 months	BoT	Monthly	4 weeks
Foreign exchange swaps: outstanding balance and new contracts with amounts, contract date, maturity dates	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	MoF	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

Table 1. Tanzania: Summary of Reporting Requirements (continued)

Information	Reporting Institution	Frequency	Submission Lag
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
The flash report on revenues and expenditures	MoF/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	MoF	Monthly	4 weeks
Monthly report on central government operations	MoF	Monthly	6 weeks
The monthly domestic debt report[1]	MoF	Monthly	4 weeks
Data on external and domestic debt by creditor; amortizations, and interest payments	MoF	Monthly	6 weeks
Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid	MoF	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	MoF	Monthly	4 weeks
Report on loans and advances to government by pension funds and other public entities not covered by the central government accounts	MoF	Monthly	4 weeks
Number of public sector teachers and health workers employed	MoF	Monthly	4 weeks
Quarterly expenditure arrears verified by the Chief Internal Auditors	MoF	Quarterly	6 weeks
Quarterly verified unpaid VAT refunds	TRA	Quarterly	4 weeks
Monthly tourist arrivals	NBS	Monthly	4weeks

[1] The MoF 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 MoF.

Table 1. Tanzania: Summary of Reporting Requirements (concluded)			
Information	**Reporting Institution**	**Frequency**	**Submission Lag**
Cement production and consumption (imports, exports, and production)	NBS	Quarterly	4 weeks
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

Statement by Mr. Nakunyada and Mr. Lema on United Republic of Tanzania

December 13, 2024

Introduction

1. On behalf of our Tanzanian authorities, we thank staff for their constructive engagement and Fund management for their support. The authorities broadly share the thrust of the staff's appraisal and assessment of policy priorities.

2. The economy of Tanzania continues to recover from the repercussions of compounding shocks, but headwinds from the unfavorable global economic conditions continue to challenge attainment of an accelerated growth recovery. Specifically, tight financial conditions, volatile commodity prices, and adverse climate events have dampened the post-pandemic recovery momentum. This notwithstanding, the authorities have persevered with reforms under the Extended Credit Facility (ECF) arrangement that has acted as a policy anchor designed to help achieve the key objectives of the Five-Year Development Plan Phase III (FYDP III). The FYDP III is aimed at strengthening the economic recovery, safeguarding macro-financial stability, investing in infrastructure and human capital, building a competitive and industrial economy with strong institutions, reducing poverty, and promoting investment and trade. Importantly, the authorities are determined to remain on a fiscal consolidation path to ensure debt sustainability, alongside an appropriately tight monetary policy to firmly anchor inflation expectations, and structural reforms geared to promote inclusive, green, and durable growth.

Program Performance

3. All continuous performance criteria, and quantitative performance criteria (QPCs) for end June 2023 were met, except the ceiling on net domestic assets (NDA). The QPC on NDA was technically missed when adjusted for the excess budget support. Meanwhile, the indicative target (IT) on NDA for end September 2023 was met. All structural benchmarks for end June 2023 were met. That said, the IT on priority social spending was missed due to delays in disbursement of program assistance earmarked for health sector projects, higher debt service repayments, and clearance of arrears. Similarly, the IT on the stock of domestic arrears was missed due to delays in the receipt of required documents from taxpayers for verification of VAT refund claims.

4. The authorities have since promptly followed through with remedial measures on the missed targets. Specifically, the Bank of Tanzania (BOT) is strengthening the liquidity management toolkit to address unanticipated shocks on NDA, while closely monitoring government budget allocation in favour of priority social sectors. Meanwhile amendments to the VAT Act are underway to ensure swift refund of verified arrears. **Against this background, the authorities seek Executive Directors support in completing the Second Review under the ECF arrangement and associated waivers.**

Recent Economic Developments and Outlook

5. Real GDP growth is projected to recover from 4.7 percent in 2022 to 5.0 percent in 2023. The recovery in the first half of 2023 yielded an average of 5.3 percent, underpinned by improvements in the business environment, implementation of key policies and structural reforms enshrined in the development blueprints, with support from the IMF and the World Bank. Looking ahead, GDP growth is projected to firm up to 5.5 percent in 2024 and average 6.5 percent in the medium term, conditioned on effective implementation of policy reforms under the ECF program. That said, authorities consider the ECF Program package and associated reforms as critical to enhance the economy's resilience to shocks.

6. Inflation remained low and stable, at an average of 3.3 percent in the 2023Q1 and 3.2 percent in October 2023, anchored by adequate food supply and prudent policies. While inflation is projected to increase modestly in 2023/24, owing to high global oil prices, currency depreciation and climate related effects, it is expected to remain below the medium-term target of 5 percent. That said, the authorities are closely monitoring inflation dynamics and stand ready to make appropriate policy adjustments to restore price stability.

7. The current account deficit widened from 4.6 percent of GDP in 2021/22 to 6.3 percent of GDP in 2022/23, due to higher imports. Nonetheless, the authorities are implementing measures to boost exports, alongside import substitution initiatives and efforts to promote mineral exports and tourism related activities. Accordingly, the current account balance is projected to remain sustainable in the medium-term, with the deficit narrowing over time as growth in imports is expected to moderate while exports for agricultural crops, minerals, tourism, and manufactured goods are estimated to increase. Meanwhile, gross international reserves remain adequate, at about 4 months of import cover in November 2023. Going forward, reserves are projected to increase due to the expected bumper harvest of traditional exports, as well as the projected increase in the production of gold and graphite, and tourism activities. Moreover, the envisaged Liquefied Natural Gas (LNG) project is expected to boost foreign direct investments (FDIs) over the medium-term.

Fiscal Policy and Debt Management

8. The authorities remain committed to fiscal consolidation to ensure fiscal and debt sustainability. As such, the authorities are determined to enhance growth while placing public finances on a sustainable footing, and have based the 2023/24 budget on more realistic revenue and expenditure projections. Going forward, the authorities are directing their efforts towards strengthening domestic revenue mobilization, while preserving priority social and human capital development spending. Further, they are enhancing spending efficiency to improve the quality of public expenditure including by reducing fiscal risks and improving public investment management. The authorities are also committed to rebalance the composition of spending to meet the target of priority social spending and primary balance, should projected revenues fall short.

9. The authorities are implementing measures to boost fiscal buffers by broadening the tax base and enhancing tax administration. To this end, they are incentivizing more electronic declarations and payments; bringing the digital economy into the tax net; controlling and reducing tax exemptions granted in the tax laws; and preparing an action plan for rationalizing tax incentives. Concurrently, they are enhancing tax administration systems; strengthening

human resource capacity including by recruitment and training; enforcing the issuance of electronic fiscal devices (EFD) receipts; and enhancing risk-based programming. Further efforts are underway to recover tax arrears, expand the registration of taxpayers, and amend the VAT Act to facilitate and expedite verification of VAT refunds to reduce turnaround times. The authorities will prepare and publish annual reports on tax expenditures and their budget implications starting in June 2024. Furthermore, the Revenue Authority's information technology system will be interfaced with that of prioritized public institutions to improve the efficiency of tax administration. To pave the way for additional structural reforms in the tax and customs system, the authorities are preparing a Medium-Term Revenue Strategy (MTRS) along with its implementation plan which will be ready by end-June 2024.

10. The authorities are leveraging technology across the ministries, departments, and agencies (MDAs) to strengthen expenditure tracking and controls and avoid accumulation of arrears. To this end, they are configuring a new functionality of the Integrated Financial Management Information System (IFMIS) to enable all commitments with approved budget allocations, to be processed through the system by end December 2023.

11. To preserve debt sustainability, the authorities will continue to rely more on grant and concessional resources alongside prudent debt management practices, even as the overall risk of debt distress is considered moderate. Meanwhile, the debt issuance calendar guided by the Medium-Term Debt Strategy and program ceiling will continue to anchor the government borrowing strategy with preference for concessional loans to safeguard debt sustainability.

Monetary and Exchange Rate Policies

12. To manage liquidity and achieve inflation objectives, the Bank of Tanzania (BOT) sustained a gradual monetary tightening stance since July 2023. To this end, the central bank scaled up repo sales and issuance of treasury securities for liquidity management and foreign exchange operations. That said, the market experienced a shortage of US dollar liquidity, owing to tight global financial conditions, amid rising public infrastructure demand, which created pressure in the forex market. Against this background, the BOT intervened by selling more US dollars and committed to sustain orderly foreign exchange market operations. In addition, they are developing the foreign exchange intervention policy to strengthen the transparency of forex operations in the country which is expected to be published by end December 2023.

13. The authorities are determined to sustain a tight monetary policy stance for the remainder of 2023/24 to cushion the economy from the effects of rapid depreciation of the shilling and anchor inflation expectations. They are also planning to adopt a forward-looking monetary policy framework by January 2024, using short-term interest rates to guide monetary policy decisions. Further, they have already set up key supportive financial market infrastructure and model designed to support the new monetary policy framework. Presently, they are advancing capacity building efforts geared to fine tune the model benefitting from Fund technical support. Parallel efforts are also underway to ensure effective communication of monetary policy decisions and better anchor market expectations.

14. The exchange rate remained broadly stable in 2022/23 despite the widening current account deficit and tightening global financial conditions. However, in the first quarter of 2023/24, the

economy experienced dollar liquidity shortages in the interbank foreign exchange market (IFEM), and the shilling registered a record sharp depreciation. The authorities intervened to support the supply of US dollar liquidity in the market and facilitate balance of payment transactions, and the exchange rate pressure has since receded. The situation is expected to fully normalize benefitting from the seasonal exports of traditional crops, gold, coupled with proceeds from booming tourism activities. To cushion the economy against external shocks, the authorities commit to tighten shilling liquidity, limit forex interventions to address disorderly market conditions; and take measures to stimulate activities in the forex market for effective price discovery and intermediation of liquidity in the market. These measures will be complemented by efforts to unlock additional sources of forex through import substitution and gold purchase program. The authorities are also reviewing the Interbank Foreign Exchange Market (IFEM) code of conduct, borrowing a leaf from the "FX Global Code" and agreed regional benchmarks in the East African Community (EAC).

Financial Sector Policies

15. While the banking sector remains sound, resilient, with adequate capital and liquidity, as well as robust growth in deposits and assets, the authorities remain attentive to near term vulnerabilities. Asset quality improved with non-performing loans improving from 7.3 percent in September 2022 to 5.2 percent in September 2023 which is close to the 5 percent threshold. The authorities commit to implement the remaining FSAP recommendations to enhance financial sector stability. Meanwhile, bank's credit underwriting standards have been strengthened to address credit risks, monitor credit granting process, and any misconduct by staff. The authorities are also enhancing the monitoring and enforcement of prudential guidelines. At the same time, they are amending legal and regulatory framework to allow compliance with capital adequacy requirements in transition to Basel II/III risk-based supervision standards and enhance AML-CFT risk-based supervision framework.

16. The authorities are committed to implement policies to promote financial inclusion. In this context, they are intensifying efforts towards the development of Tanzania Instant Payment Systems (TIPS), implementation of the 2023–2028 National Financial Inclusion Framework, Tanzania Development Vision 2025, and the Financial Sector Development Master Plan 2020/21–2029/30. They are also prioritizing the rollout of National Identification Numbers to further improve access and usage of financial services and improve the quality of products and services. Relatedly, they are developing the legal instrument designed to broaden the pool of acceptable collateral including movable assets to further enhance financial inclusion.

Structural, Governance Reforms, and Climate Adaptation

17. The authorities are implementing measures to strengthen governance and improve the business environment to foster private sector development in line with the FYDP III objectives. In this regard, a Comprehensive National Anti-Corruption Strategy and Action Plan 2023–2028 (NACSAP) is under implementation to enhance investigative and intelligence skills, while developing prevention strategies, increasing public awareness of corruption and adherence to asset declaration by public officials. Further, a special High Court Division for corruption and economic crimes has been established to enforce the rule of law and good governance. Amendments to various laws aimed to address bureaucratic business procedures are at an advanced stage to facilitate the implementation of the Action Plan on the Blueprint for

Regulatory Reforms. In June 2023, several amendments to various Laws were effected to reduce red-tape and facilitate business creation. In addition, the authorities are implementing reforms to enhance oversight, accountability, transparency, and performance of state-owned enterprises (SOEs) which will help to boost non-tax revenue. In this context, a circular mandating all SOEs to publish annual audited financial statements starting in 2022/23 by April 2024, has been issued.

18. To strengthen correspondent banking relations and financial integrity, the authorities are enhancing the AML/CFT regulatory framework across different sectors. In this regard, they have taken steps to address identified AML/CFT deficiencies, while aligning the legal framework with the FATF standards. At the same time, the authorities are in close consultation with the IMF to advance the AML/CFT risk-based supervisory approach that will assign a supervisor for each financial institution and designated non-financial businesses and professions. Additionally, this approach details a template sectoral money-laundering terrorist financing risk assessment methodology, establishes a template onsite and offsite supervisory manual, as well as a supervisory plan for the highest risk sectors. Meanwhile, the banking sector AML/CFT risk-based supervision manual and regulations have been issued as part of the implementation of Basel II/III with a moratorium of 18 months for migration.

19. Considering the country's susceptibility to climate shocks, the authorities are taking several measures to safeguard rain fed agriculture and hydroelectricity generation. In this context, the authorities are developing various climate adaptation and mitigation policies across sectors, including investing in irrigation schemes for sustainable agriculture and food production, strengthening key infrastructure, and reducing charcoal dependence and promote use of natural gas. As such, the National Determined Contribution (NDC) has been developed to identify adaptation and mitigation needs. Further, the authorities have developed the Environmental Master Plan to guide the management of the environment in different sectors to minimize the impact of climate change, including by boosting adaptation. Relatedly, they are working on the recommendations of IMF technical assistance on climate to modernize and strengthen the quality of development spending and public investment management (PIMA), including a C-PIMA climate module.

20. Further, the authorities are in the process of reviewing the Carbon Trading Regulation and Environmental Management Act. Meanwhile, the National Adaptation Plan is under preparation, which will help to mobilize climate change financing across sectors and expected to be published by 2024. The adaptation Plan to combat desertification is also under development. Considering sizable demands for climate related spending and the tight fiscal space, the authorities expressed interest in accessing Fund resources under the Resilience and Sustainability Facility (RSF). Presently, the authorities are working in collaboration with the World Bank in preparing the Country Climate and Development Report (CCDR), expected to be published by May 2024. The CCDR will prioritize the most impactful actions to reduce greenhouse gas (GHG) emissions and boost adaptation, while delivering on the country's broader development goals. In addition, Fund TA on Climate Policy Diagnostic would be essential to support adaptation and mitigation measures.

21. To strengthen the pension system, the authorities accelerated the verification of claims from social security funds and developed a plan to clear them. Parametric reforms were also

undertaken in July 2022 to ensure sustainability of the pension scheme. Furthermore, the authorities are committed to continue implementation of the recommendations of the safeguard assessment, to strengthen the legal framework and ensure independent oversight of the BOT.

Conclusion

22. Our Tanzania authorities remain committed to implementation of policies and reforms articulated in the ECF program and FYDP III to strengthen the economic recovery, safeguard macro-financial stability, and support a resilient, sustainable, and inclusive growth. To this end, they will sustain fiscal consolidation efforts, ensure exchange rate flexibility combined with monetary policy tightening, while preserving priority social spending. Over the medium-term, the authorities' reform priorities will center on creating fiscal space to support social spending and infrastructure development, modernizing the monetary policy framework and financial supervision, and advancing structural reforms. The reform efforts will be advanced with close technical and financial support from the Fund and other development partners. The authorities look forward to the Executive Directors' support in completing the Second Review under the ECF Arrangement.