INTERNATIONAL MONETARY FUND

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UNITED REPUBLIC OF TANZANIA

June 2024

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR EXTENSION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REPHASING OF ACCESS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED REPUBLIC OF TANZANIA

In the context of the Third Review Under the Extended Credit Facility Arrangement, Request for Extension of the Extended Credit Facility Arrangement and Rephasing of Access, and Request for an Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board. .
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 20, 2024, following discussions that ended on May 17, 2024, 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 June 7, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **World Bank Assessment Letter for the Resilience and Sustainability Facility**.
- A **Statement by the Executive Director** for the United Republic of Tanzania.

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 24/228

IMF Executive Board Completes the Third Review of Extended Credit Facility Arrangement and Approves an Arrangement under the Resilience and Sustainability Facility for the United Republic of Tanzania

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the third review of the Extended Credit Facility (ECF) for Tanzania, allowing for an immediate disbursement of about US$ 149.4 million (SDR 113.37 million) for budget support.
- The Executive Board also approved a 23-month arrangement under the Resilience and Sustainability Facility (RSF) of about US$ 786.2 million (SDR 596.7 million) to support Tanzania's efforts to build resilience to climate change.
- Performance under Tanzania's economic reform program supported by the ECF remained strong. The authorities are committed to continue implementing reforms to preserve macro-financial stability, strengthen the economic recovery, and promote sustainable and inclusive growth.

Washington, DC – **[June 20, 2024]:** The Executive Board of the International Monetary Fund (IMF) completed the third review of the Extended Credit Facility Arrangement (ECF) 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 third review allows the immediate disbursement of about US$ 149.4 million (SDR 113.37 million), bringing Tanzania's total access under the ECF to about US$ 606.4 million (SDR 455.47). The Executive Board also approved a six-month extension of the ECF to May 2026 and a rephasing of access to give sufficient time to the authorities to implement their reform agenda and realize the program's key objectives. The ECF aims to preserve macroeconomic stability, strengthen the economic recovery, and promote a sustainable and inclusive growth.

The Executive Board also approved Tanzania's request for an arrangement under the Resilience and Sustainability Facility (RSF) of about US$786.2 million (SDR 596.7 million,150 percent of quota). The RSF will support Tanzania's ambitious reform efforts to implement climate policy reforms that address risks and challenges associated with climate change and enhance the resilience of the Tanzanian economy. The RSF duration will coincide with the period remaining under the ECF, as extended (May 2026).

Tanzania's economic reform program remained strong. All end-December 2023 quantitative performance criteria and indicative targets were met. The authorities' structural reform agenda is progressing well, having met two of the three structural benchmarks for end-December 2023 and a structural benchmark for end-January 2024 on time, reflecting their commitment to the reform agenda.

After slowing down in 2022, economic growth rebounded in 2023. Inflation remained well-within the Bank of Tanzania's target. A growth-friendly fiscal consolidation is underway and is

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USA

expected to continue through FY2024/25. The current account deficit is narrowing, reflecting fiscal consolidation, easing commodity prices, and tight external financing conditions.

The economic recovery is expected to gain momentum going forward but faces headwinds from the unfavorable global economic environment. Near-term policy priorities include allowing exchange rate flexibility and implementation of fiscal consolidation as envisaged in the budget, while preserving priority social spending. The medium-term outlook is positive subject to steadfast implementation of the authorities' reform agenda, anchored by the ECF.

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

"Tanzania's performance under the reform program supported by the Extended Credit Facility (ECF) has been strong. The program focuses on strengthening the economic recovery, preserving macroeconomic stability, and supporting sustainable and inclusive growth. The authorities' strong commitment to their reform agenda will remain important amid downside risks.

"The ongoing growth-friendly fiscal consolidation will help buttress fiscal and debt sustainability. Efforts should be geared toward enhancing domestic revenue mobilization and strengthening cash management and commitment controls. Strengthening public financial and investment management will help contain fiscal risks and improve the efficiency of public investment. Closing gaps in Tanzania's human and social development will require prioritizing social spending.

"A flexible and market clearing exchange rate system and a transparent FX intervention policy are key to addressing ongoing pressures in the FX market. The recent issuance of the FX intervention policy and the revised Interbank Foreign Exchange Market code of conduct are important steps in this regard. In line with the policy, FX interventions should be limited to addressing disorderly market conditions while maintaining adequate foreign exchange reserves. The Bank of Tanzania's plan to publish the results of its FX auctions will enhance transparency.

"The recent launch of the interest rate-based monetary policy is an important step toward enhancing the effectiveness of monetary policy. Going forward, the Bank of Tanzania should strengthen its ability to align the operational target with the policy rate and develop the interest rate transmission channel. Launching a comprehensive communication strategy, strengthening the analytical tools and capacity of the central bank, and supporting the development of money markets would also be important steps. Upgrading the financial supervision framework, including by implementing FSAP recommendations, will help to buttress financial sector stability and promote financial deepening and inclusion. Completing the remaining steps 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.

"The Resilience and Sustainability Facility (RSF) will support the authorities' effort to implement macro-critical climate reforms and strengthen the resilience of Tanzania's economy to climate change. Reforms supported by the RSF will aim to enhance governance and coordination of climate change policies, strengthen disaster risk management, mainstream climate policies in budget and investment planning, align sectoral climate policies with national policies and commitments, and enhance supervision of financial sector climate-related risks. The RSF can help catalyze official technical and financial assistance and private sector financing.”

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

June 7, 2024

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR EXTENSION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REPHASING OF ACCESS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context and outlook. Economic growth is recovering from the impact of the unfavorable global economic environment and domestic factors. Growth is expected to continue strengthening, supported by improvements in the business environment and subsiding global commodity prices. Inflation is projected to remain within the central bank's target range. Growth-friendly fiscal consolidation is underway, anchored by the ECF arrangement, and the current account deficit is narrowing reflecting fiscal consolidation, easing commodity prices, and tight external financing conditions. The medium-term outlook is positive contingent on implementation of the authorities' reform agenda, anchored by the ECF arrangement. Climate change poses a major threat, as Tanzania is highly vulnerable but not well-prepared to address the effects of climate change.

Performance under the ECF arrangement. All quantitative performance criteria (QPC), continuous QPCs, and indicative targets (ITs) for end-December 2023 were met. Two of the three structural benchmarks (SBs) for end-December 2023 (integrating the IT of the Revenue Authority with prioritized government agencies and formalizing and publishing the BoT's FX intervention policy) and the SB for end-January 2024 (issue a revised Interbank Foreign Exchange Market (IFEM) code of conduct) were met. Despite notable progress, the SB on establishing an AML/CFT risk-based supervisory approach was not met due to delays in designating the real estate sector supervisor and issuance of a supervisory manual for the Trust sector. The authorities aim to complete the remaining steps by September 2024. All indicative targets for end-March 2024 were met.

ECF extension request. The authorities request a six-month extension of the ECF arrangement to May 2026 and rephasing of access. The extension is warranted to ensure sufficient time to complete key reforms, including domestic revenue mobilization, public investment management and business reforms.

Request for access under the RSF arrangement. The proposed RSF arrangement with access of 150 percent of quota (SDR 596.7 million) will support the authorities' effort to implement macro-critical climate reforms, focusing on: (i) enhancing governance and coordination of climate change policies; (ii) strengthening the disaster risk management (DRM) framework; (iii) mainstreaming climate policies in budgeting and public investment planning; (iv) aligning sectoral climate policies with national policies and commitments; and (v) enhancing supervision of financial sector climate-related risks.

Approved By
Catherine Pattillo (African Department) and Peter Dohlman (Strategy Policy Review Department)

Discussions took place in Dodoma and Dar es Salaam during May 2–17, 2024. The staff team comprised Charalambos Tsangarides (Head), Melesse Tashu, Farayi Gwenhamo, Leni Hunter, and Sunwoo Lee (AFR), Agustin Velasquez (SPR), Katja Funke (FAD), Berit Lindholdt-Lauridsen (MCM), Sebastian Acevedo (Resident Representative), and Chelaus Rutachururwa (local economist). Dickson Lema (OEDAE) participated in the discussions. Mr. Verhagen and Ms. Cadario from the Global Center on Adaptation (GCA) joined some meetings virtually. 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. Ignacio Gutierrez and Mason Stabile (AFR) provided excellent assistance for the preparation of this report.

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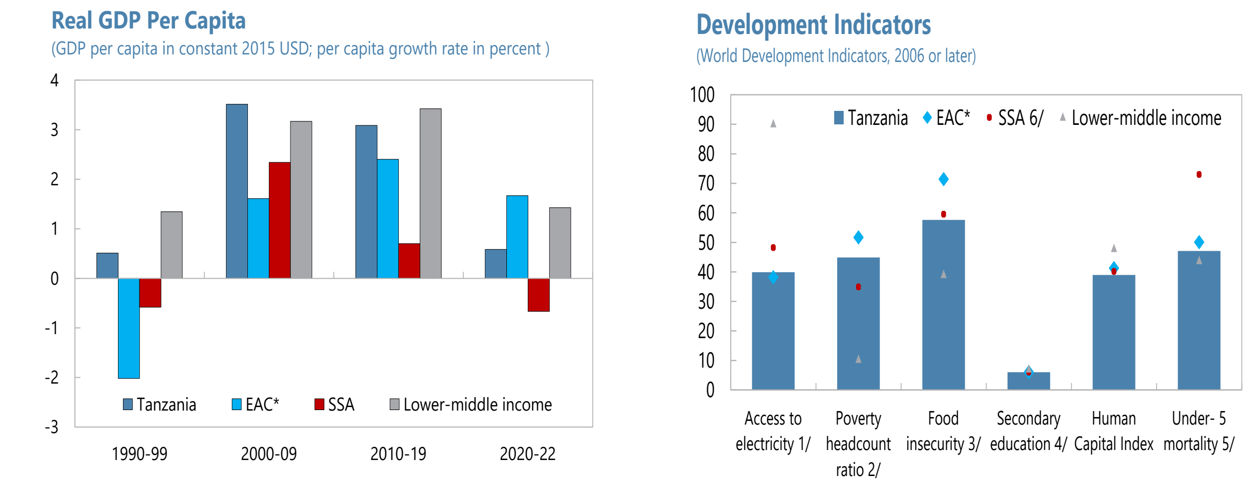
CONTEXT

1. **Tanzania faces long-term development challenges and needs sustained efforts to unleash its economic potential.** 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). Tanzania is highly vulnerable to climate change with floods and drought events becoming more frequent and more severe, but the country is not well prepared to deal with its impacts.

Text Figure 1. United Republic of Tanzania and Comparators: Growth and Development Indicators:



* Excludes Tanzania and South Sudan

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

Sources: World Development Indicators and Fund staff calculations.

2. **A 40-month ECF 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) strengthening fiscal space to allow for much needed social spending and high-yield public investment through improved revenue mobilization and spending quality; (ii) advancing the authorities' structural reform agenda; and (iii) safeguarding macro-financial stability and advancing financial deepening through enhancing the monetary policy framework and improving financial supervision. The IMF Board concluded the second review of the ECF arrangement in December 2023.

3. **The authorities have requested support under the Resilience and Sustainability Facility (RSF) arrangement to help address climate-related risks and challenges.** The RSF would increase concessional financing and help substitute more expensive domestic financing and support the

authorities' efforts to implement macro-critical climate investments and reforms and help catalyze finance for climate adaptation and mitigation.

RECENT ECONOMIC DEVELOPMENTS

4. Economic activity is picking up despite challenges from the unfavorable global economic environment and domestic factors. Real GDP growth picked up to 5.1 percent in 2023, from 4.7 percent in 2022, on the back of strong growth in agriculture, mining, and financial services. At 3.1 percent (yoy) in April, headline inflation remained within BoT's target although core inflation ticked up to 3.9 percent (yoy).

5. Fiscal consolidation is underway in the current fiscal year in line with Budget projections and ECF program objectives. Shortfalls in revenues in the first 9 months of the fiscal year were offset by delays in non-priority expenditure, while safeguarding priority social spending. Domestic revenue collections fell short of budget expectations by 6.4 percent due to underperformance of non-tax revenues, and only about half of expected external grants were received.[1] These shortfalls were offset by adjustments to spending, and the overall fiscal and the domestic primary deficits were in line with Budget and program projections (Text Table 1).

Text Table 1. United Republic of Tanzania: Fiscal Developments, FY2023/24Q1–Q3
(Trillions of Shillings)

	Budget	Outturn	Outturn/Budget (%)
Domestic revenue	**23,533**	**22,028**	**93.6**
Tax revenue	18,967	18,380	96.9
Non tax revenue	4,566	3,648	79.9
External grants	**881**	**454**	**51.5**
Expenditure	**28,881**	**27,064**	**93.7**
Recurrent	17,527	15,519	88.5
Wages and services	6,692	6,224	93.0
Interest	3,378	2,965	87.8
Goods, services and transfers	7,456	6,330	84.9
Development	11,354	11,545	101.7
Locally financed	8,820	8,916	101.1
Externally finance	2,534	2,629	103.8
Primary balance	**-1,089**	**-1,527**	**140.3**
Domestic primary balance	***-1,969***	***-1,980***	**100.6**
Overall balance	**-4,467**	**-4,492**	**100.6**
Financing	**4,467**	**4,492**	**100.6**
External, net	2,964	3,483	117.5
Domestic, net	1,503	1,008	67.1
Memo:			
Priority social spending	*10,267*	10,576	103.0
Statistical discripancy	...	*91*	...

Sources: Ministry of Finance and Fund staff calculations.

6. Tanzania's risk of debt distress remains moderate. The gradual fiscal consolidation and the continued prioritization of concessional financing will help keep debt sustainable. All external debt burden indicators continue to stay within the policy-determined thresholds and the present value of the public debt-to-GDP ratio is contained at around 35 percent in the baseline scenario, well below the 55 percent benchmark based on Tanzania's debt carrying capacity (see the DSA report). Tanzania has residual HIPC-related legacy external arrears with Angola, Iran, Iraq, and Libya. Principal arrears to the Libyan government have already been settled and discussions are ongoing

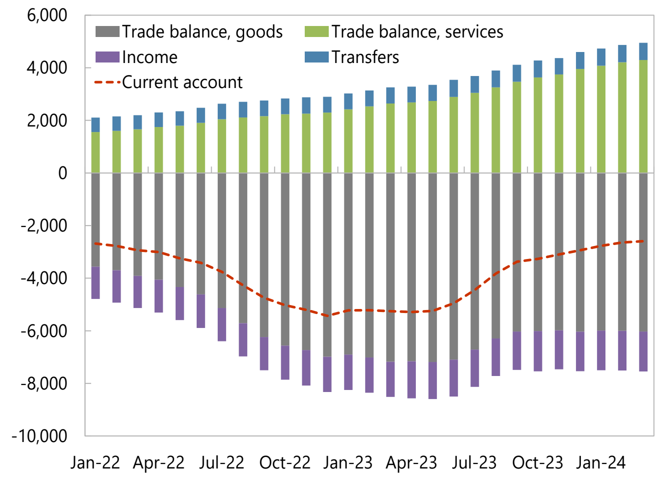
[1] Shortfalls in non-tax revenues are attributed to lower collections from mining companies, SOEs dividends, and fees and rents.

on disputed interest arrears. The government of Tanzania also signed a debt settlement agreement, in January 2024, with the Islamic Republic of Iran to repay the outstanding arrears of US$77.7 mn., semi-annually in five years starting in FY2023/24. The Tanzanian authorities have continued their best efforts to engage the remaining creditors and get resolutions on the arrears.[2]

7. **The current account deficit is narrowing, reflecting improvements in exports of services and a slowdown in imports of goods (Text Figure 2).** After widening significantly in FY2022/23, the current account deficit improved significantly in the first 9 months of FY2023/24, reflecting a rapid growth of exports of services (27.3 percent yoy) and a slowdown in imports of goods (-6 percent yoy). The latter reflects a decline in imports of consumer goods, possibly reflecting FX shortages, and subsiding global commodity prices, which led to lower import bills for fuel and fertilizer. The level of gross international reserves stood at US$5.2 billion (about 3.8 months of imports) in May 2024, compared to about US$4.7 billion a year earlier, and is assessed as adequate by the ARA metric.

Text Figure 2. United Republic of Tanzania: Current Account Balance

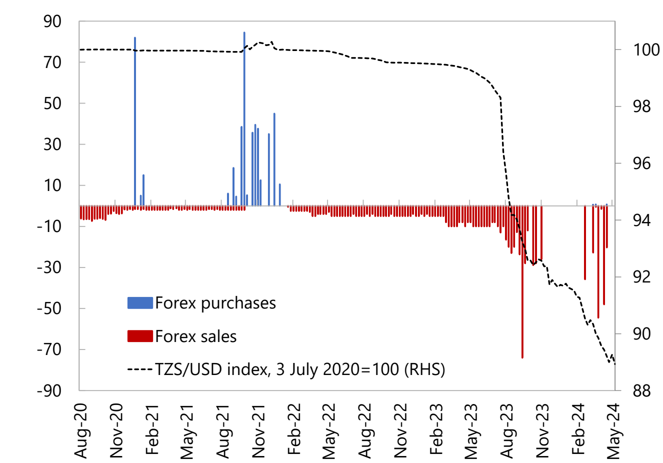
(USD Millions, 12-months Rolling MA)



Sources: Bank of Tanzania and Fund staff calculations.

Text Figure 3. United Republic of Tanzania: FXI and the Exchange Rate

(USD Millions, Weekly)



Sources: Bank of Tanzania and Fund staff calculations. TZS/USD index declines show depreciation.

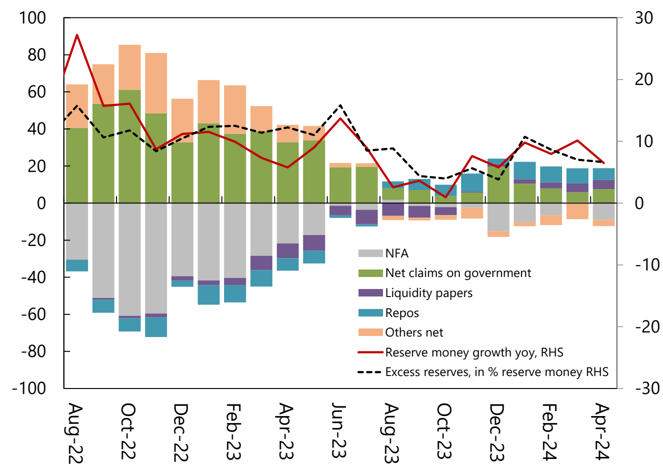
8. **Pressures in the FX market have re-emerged after easing in the fourth quarter of last year.** A widening current account deficit in 2022 and in the first half of 2023 led to emergence of pressures in the FX market in mid-2023. The BoT initially responded with heavy interventions in the interbank foreign exchange market (IFEM) and administrative measures while keeping the exchange rate stable.

[2] These arrears are considered to be "deemed away" based on the adequately representative Paris Club agreement and in accordance with the Fund's policy of arrears to official creditors.

More exchange rate flexibility[3] and limited interventions by the BoT along with improvements in the current account deficit led to a modest pickup in the IFEM towards the end of 2023 (Text Figure 3).[4] However, FX market pressures have re-emerged this year, with anecdotes of persisting FX shortages and parallel market transactions. The IFEM has been largely inactive, while the BoT has recently implemented sizable FXI mainly through auctions.[5]

9. The BoT's Monetary Policy Committee (MPC) tightened monetary policy in April, citing lingering inflation pressures. The BoT launched its new interest rate based monetary policy framework in January, initially setting the Central Bank Rate (CBR) at 5.5 percent. The MPC increased the CBR to 6 percent in April, adopting a moderately tight stance in response to increases in core inflation, and complementing efforts to ease pressures in the FX market. Interest rates in the interbank and Treasury bill markets rose over the past year, reflecting lagged effects of liquidity withdrawal and the tighter monetary policy stance. The BoT has been largely successful in keeping the 7-day interbank rate within 200bp of the CBR, in accordance with the new framework (Box 1). However, the 7-day rate has occasionally exceeded CBR+200bp due to temporary cash shortages in a few small banks. Partly in response to pressures in the cash market, the BoT allowed reserve money growth to rise, reversing the significant growth decline in 2023.

Text Figure 4. United Republic of Tanzania: Reserve Money and Excess Liquidity
(Contributions to Growth of M0, Unless Stated Otherwise)



Sources: Bank of Tanzania and Fund staff calculations.

10. The financial sector remains broadly stable with some pockets of vulnerabilities persisting (Table 5). Overall, the banking sector is well-capitalized and profitable. Asset quality indicators improved in March 2024 compared to a year earlier, with a decrease in the NPL ratio to 4.3 percent, from 5.8 percent. At the same time, private sector credit growth eased significantly to 15.7 percent yoy in March 2024, from 23 percent a year earlier, due to tighter monetary conditions. Banking system profits were strong in March, with RoA and RoE of 5.9 percent and 27.9 percent,

[3] The Tanzanian shilling depreciated 7.4 percent vis-à-vis the US$ in the second half of 2023, compared to 0.8 percent depreciation in the first half. At the same time, the nominal and real effective exchange rates appreciated by 1.4 percent and 2.1 percent yoy, respectively.

[4] After selling US$353.9 million to markets during July-October 2023, the BoT did not intervene during November-December of last year. FX interventions resumed this year when BoT sold US$183.3 million and bought US$2.1 million largely via auctions in the IFEM during February-April.

[5] Tanzania maintains one exchange restriction subject to Article VIII, Section 2(a), which pre-dates the program, arising from the requirement that residents use letters of credit for forex payments for transit cargoes. The two multiple currency practices previously identified were eliminated on February 1, 2024, in accordance with the new MCP policy.

respectively. However, the FSI for the ratio of the net open position to total capital turned negative in March, to -0.3 percent, due to letters of credit and off-balance sheet items. Performance is varied across banks, with large banks (two of which represent nearly half of system assets) continuing to perform well while weaknesses persist in some smaller banks. High credit concentration, financial dollarization, and deficiencies in the AML/CFT framework remain key vulnerabilities.

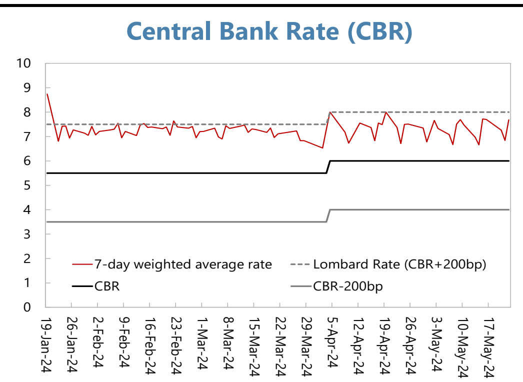
Box 1. United Republic of Tanzania: Transition to the Interest Rate-Based Monetary Policy Framework

The BoT transitioned from monetary targeting to an interest rate-based monetary policy framework in January. The transition is a significant milestone, in line with Tanzania's commitment to harmonize its monetary policy framework under the East African Monetary Union (EAMU) Protocol. Under the new framework the BoT sets the policy interest rate, the Central Bank Rate (CBR), to maintain price stability. The CBR is approved by the Monetary Policy Committee (MPC) of the Board of Directors. The MPC meets quarterly and issues statements to communicate its decisions to the general public. The BoT plans to publish the schedule for MPC meetings and announcement dates (end-June SB, MEFP ¶38).

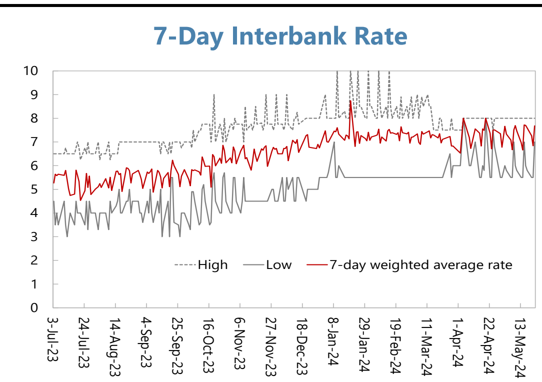
Further steps are needed to continue developing the new framework and monetary policy effectiveness. The new framework sets the 7-day interbank rate as the operating target variable, which the BoT aims to align with +/-200bp of the CBR using its monetary policy instruments and standing facilities.[1] However, the 7-day interbank rate has been close to the top of the +/- 200bp band and has occasionally exceeded CBR+200bp (¶8,15). To improve the operation of monetary policy under the new framework, the BoT should:

- Address segmentation in the interbank cash market with ongoing support from Frontclear.
- Ensure that the Lombard facility provides an effective ceiling for the 7-day interbank rate, at the Lombard rate of CBR+200bp, while continuing to ensure the BoT does not expose itself to credit risk.
- Continue to ensure that liquidity conditions are consistent with aligning the 7-day interbank rate to the CBR within the +/- 200bp corridor, based on liquidity forecasts.
- Continue to strengthen modelling capacity to produce and communicate inflation forecasts.
- Continue to enhance monetary policy communications and conduct outreach (¶21).

While the +/-200bp corridor may be appropriate during the introductory phase of the new framework, the corridor should be narrowed over time. The IMF stands ready to provide technical assistance as needed.



Sources: Bank of Tanzania.



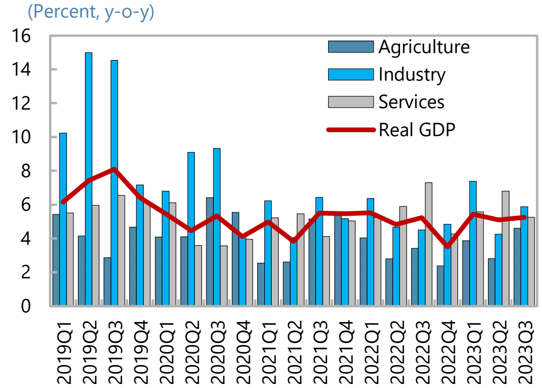
Sources: Bank of Tanzania.

[1] For additional details see the BoT's "Guidelines for monetary policy framework" (June 2023).

Figure 1. United Republic of Tanzania: Overview of Recent Economic Developments

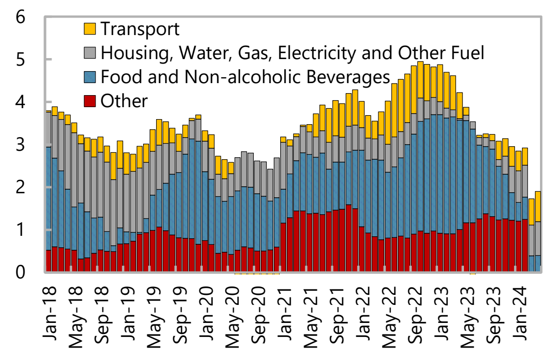
After slowing down in 2022, growth is picking up on the back of recovery in industry and services sectors…

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



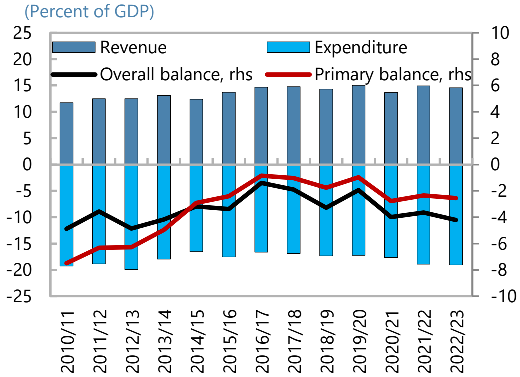
…and inflation has decelerated reflecting the authorities' policy responses and moderation in commodity prices.

Contributions to Inflation
(Percent)



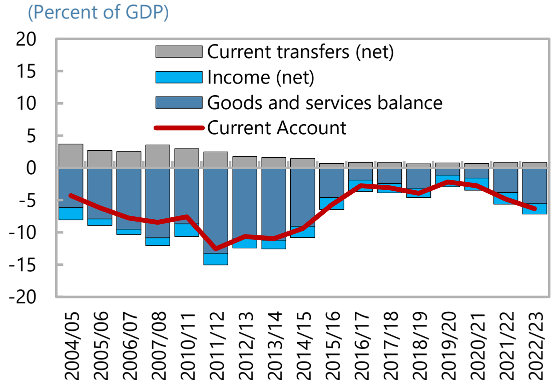
The fiscal deficit widened in FY2022/23 due to lower-than-expected non-tax revenues.

Recent Developments: Fiscal sector
(Percent of GDP)



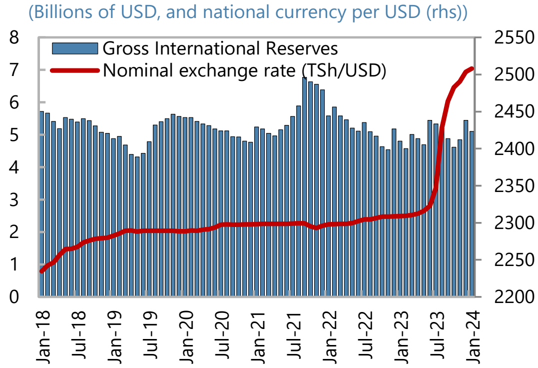
… so did the current account deficit, reflecting deteriorations in the trade balance.

Recent Developments: External Sector
(Percent of GDP)



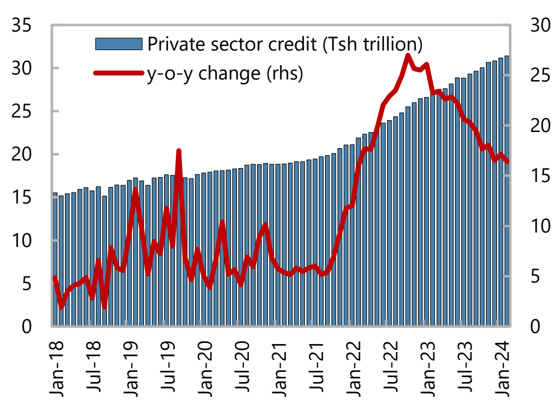
The level of international reserves increased modestly while the Tanzanian shilling depreciated vis-à-vis the US

Recent Developments: International Reserves
(Billions of USD, and national currency per USD (rhs))



Private sector credit growth is moderating.

Credit to Private Sector



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

OUTLOOK AND RISKS

11. **The economic recovery is expected to strengthen, and the medium-term outlook is positive contingent on implementation of the authorities' reform agenda.** Growth is projected to pick up to 5.4 (Annex V) and 6.0 percent in 2024 and 2025, respectively, supported by improvements in the business environment and subsiding global commodity prices. It is projected to rebound to about 6½ percent over the medium-term assuming successful implementation of the authorities' reform agenda. Inflation is expected to remain below the BoT's 5 percent target and enhanced revenue mobilization efforts are expected to improve the fiscal outlook (Text Table 2). 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.

Text Table 2. United Republic of 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	5.7	6.2	6.4	6.5
Calendar year Real GDP[1]	4.8	4.7	5.1	5.4	6.0	6.3	6.5	6.5
GDP deflator	114.3	118.3	124.0	130.1	136.0	141.9	148.5	155.8
CPI (period average)	3.3	4.0	4.6	3.1	3.8	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	12.2	12.1
Domestic primary balance (percent of GDP)	-2.3	-1.9	-2.2	-0.7	-0.4	-0.3	-0.3	-0.3
Fiscal overall balance (percent of GDP)	-4.0	-3.6	-4.3	-2.8	-3.0	-2.8	-2.7	-2.7
Public debt (percent of GDP)	42.7	43.6	45.7	47.7	46.7	45.6	44.2	42.8
Current account balance (percent of GDP)	-2.8	-4.9	-6.5	-4.3	-3.7	-3.5	-3.1	-2.7
Reserves (months of imports)	4.6	3.6	4.0	3.8	4.2	4.3	4.3	4.3

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

12. **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 address pressures in the FX market, and a poorly executed scale up of public investment projects could weigh negatively on the near-term outlook. (Annex I) Risks to the medium-term outlook include complacency in reform implementation and spillovers from deepening geoeconomic fragmentation. On the positive side, realization of the LNG project could boost investment and growth.[6]

[6] As part of the National Five-Year Development Plan, the authorities foresee a multi-billion, currently estimated at US$42 billion, investment on building the LNG plant and the associated infrastructure for exports. Negotiations between the Tanzanian government and a consortium of private investors have recently resumed, after stalling since mid-2023.

POLICY DISCUSSIONS

A. ECF Arrangement

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. Persistence of pressures in the FX market underscore the importance of ensuring exchange rate flexibility and reviving the interbank FX exchange market. Medium-term reform priorities continue to center on creating fiscal space, modernizing the monetary policy framework and financial supervision, and advancing structural reforms.

Safeguarding Macro-Financial Stability

13. To address re-emerging FX pressures, the BoT should allow exchange rate flexibility and take additional steps to revive the IFEM. If left unaddressed, re-emerging pressures in the FX market could undermine Tanzania's hard-earned macro-financial stability. The issuance of the FXI policy and the revised IFEM code of conduct (both completed ECF SBs) were important steps in the right direction to support market liquidity and foster price discovery. The BoT should encourage banks and bureau de changes to trade at market clearing exchange rates, and conduct FXI in accordance with the new policy while maintaining adequate foreign exchange reserves.[7] Publishing the results of the BoT's forex auctions, and allocating FX based on competitive criteria, will enhance the transparency of forex interventions (MEFP ¶12). The mission called for the BoT to step up its outreach and communication efforts to ensure that market participants fully understand the FXI policy and the revised IFEM code of conduct.

14. Shortfalls in revenues in the current fiscal year are being offset by adjustments in non-priority spending. In December 2023, the Ministry of Finance issued a Circular instructing line Ministries to slowdown spending in line with available resources. Consequently, the authorities identified non-priority spending on capital projects and goods and services to be adjusted to safeguard ECF program targets for the domestic primary balance consolidation of 1.3 percent of GDP (to 1.3 percent of GDP), clearance of arrears, and priority social spending.

15. Plans to continue fiscal consolidation through FY2024/25 will help buttress fiscal sustainability. The draft budget for FY2024/25 envisages a fiscal consolidation of 0.5 percent of GDP in the domestic primary balance, achieved primarily through domestic revenue mobilization. Primary expenditure is projected to remain stable in percent of GDP with adjustments to non-priority spending offsetting the 0.3 percent of GDP increase in priority social spending (PSS). Other priority areas include intensifying efforts for timely completion of ongoing strategic investment projects, preparations for this year's local government election and the 2025 general election, and clearance of arrears to contractors and service providers. In light of recurring revenue

[7] The new FXI policy states that foreign exchange intervention by the BoT is intended to address disorderly market conditions and contain excessive fluctuations in the exchange rate and increase the level of international reserves to reduce external vulnerability and improve access conditions to external funding.

underperformance, the mission underscored the importance of stepping up revenue mobilization efforts (see below) and strengthening cash management and commitment controls to ensure that spending is consistent with resource availability. Prioritizing completion of ongoing projects while postponing execution of new projects for which external financing is not secured and limiting central bank financing would also help ease the pressure on the FX market.

16. The BoT should improve the functioning of the interbank cash market and standing facilities to ensure that the target interbank rate remains close to the policy rate. Following the launch of the new monetary policy framework, the BoT injected liquidity through reverse repo to alleviate temporary cash shortages which caused a few small banks to borrow unsecured in the interbank cash market at relatively high rates, pushing the 7-day interbank market rate to the upper band of the corridor. The BoT should ensure that liquidity conditions are consistent with aligning the 7-day interbank rate with the CBR, and continue to improve the functioning of the interbank cash market through ongoing technical support from Frontclear.[8] The BoT should also ensure that banks have access to a sufficient supply of collateral to use the intraday Lombard facility when needed. While the +/- 200bp corridor between CBR and the target rate is appropriate during the introductory phase of the new framework, the corridor needs to narrow over time.

17. Continued close monitoring of developments in the financial sector and enforcement of regulatory requirements would help contain emerging risks and vulnerabilities. Given ongoing pressures in the FX market, the BoT should continue actively monitoring and engaging with banks on market risk. While remaining within the +/- 10 percent regulatory limit, the recent decline in banks' NOP underscores the need for closer monitoring of exposures to FX risk. The BoT should closely monitor credit and operational risks, particularly in light of the relatively high credit growth during 2022-23 and ensure compliance with both solvency and liquidity requirements. Continuing implementation of FSAP recommendations in key priority areas is also important, including increasing provisioning and enhancing buffers to manage liquidity, credit, and concentration risks.

Promoting Sustainable and Inclusive Private Sector-Led Growth

Creating Fiscal Space

18. Fiscal reforms are key to create fiscal space and safeguard debt sustainability. Financing Tanzania's large human capital needs, and the authorities' ambitious investment agenda while maintaining debt sustainability requires stepping up efforts to increase domestic revenue mobilization and strengthen public finance management.[9]

19. An ambitious revenue reform agenda is needed to realize Tanzania's revenue potential. At about 12 percent of GDP in 2022/23, Tanzania's tax revenue is significantly below its

[8] Frontclear is a development finance company that supports development of money markets through: (i) credit guarantees to cover counterparty credit risk in repo, derivative and securities lending transactions; and (ii) technical assistance to build the required skills, regulatory frameworks, and market infrastructure.

[9] The authorities' FYDPIII outlines an ambitious public investment agenda including in the areas of transport, energy, and human capital.

estimated potential, and revenue performance has continued to fall below budget expectations. 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. Piecemeal tax policy measures such as the recently introduced excise duty on cement, beer, cigarettes, and gambling machines, have proven to be insufficient to address these gaps. The mission called for more ambitious fiscal structural and policy reforms including revenue reform measures, drawing from the 2022 tax diagnostics TA report and the forthcoming medium-term revenue strategy (end-June SB, ¶20). Towards this goal, the authorities are taking initial steps by including revenue measures that will yield 0.5 percent of GDP per year in the FY2024/25 draft budget framework (new SB, ¶20). Income tax exemptions provided to export processing zones and special economic zones will be repealed by June 2025 (new SB, MEFP¶20).

20. Closing Tanzania's human capital and social development 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 increasing the allocation of funds to education and health, both in levels and in percent of GDP, and stepping up efforts to improve not only the coverage but also the quality of the services (MEFP ¶22).[10] Sufficient resources should also be allocated to expand the Tanzanian Social Action Fund (TASAF) program to eligible families,[11] financed by domestic revenue mobilization, improving the efficiency of spending, and rebalancing budget allocation from low priority infrastructure projects. Completing the ongoing review of the subsidy system (MEFP ¶24) and addressing efficiency gaps would help improve the targeting and coverage of social safety net programs.

21. Strengthening PFM and public investment management will help contain fiscal risks and improve the efficiency of public investments. PFM reforms should aim at tackling long-standing domestic arrears problems, weaknesses in cash management and commitment controls, and inefficiency of public investments. To improve the efficiency of public investment management and strengthen the credibility of the medium-term fiscal framework, the authorities will amend the 2023 Planning Commission Act, by end-June 2025, to explicitly require appraisal of public investment projects, including climate change impact assessments, before they are included in the budget (new SB, MEFP¶25). Starting in the FY2025/26 budget, the budget document will also include, for each ongoing public investment project: (i) total estimated project costs, (ii) previous budget years' actual spending, (iii) estimated spending in the current budget year, (iv) committed

[10] While increasing in shilling amounts, spending on education is projected to decline by 0.1 percentage points of GDP and that on health is projected to remain unchanged as a share of GDP in the FY2024/25 draft budget due to the need for rehabilitation and rebuilding of rural roads (also part of priority social spending) damaged by recent floods.

[11] Currently, TASAF supports only households who are under the extreme poverty line (8 percent of total households) and 20 percent of total households who are under the poverty line are not covered by any social safety net program.

expenditure for the next budget year, (v) estimated spending and contractual commitments for the two outer years, and (vi) the balance of funding required to complete the project (MEFP¶25).

Modernizing the Monetary Policy Framework and Financial Supervision

22. The introduction of the new interest rate-based monetary policy framework is key to enhance monetary policy effectiveness, but further steps are needed to complete the transition. The new policy framework is a welcome step and key to improving monetary policy effectiveness. As part of the new framework, the BoT issues a MPC press release that explains the decision, publishes the monetary policy report and communicates monetary policy decisions through meetings with CEOs of banks and media. Building on these steps, efforts should be geared towards improving the BoT's ability to align the operational target with the policy rate and develop the interest rate transmission channel. Launching a comprehensive communication strategy, strengthening the analytical tools and capacity of the BoT, and supporting the development of financial markets would also help enhance the effectiveness of the new policy framework. 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 MPC meetings, noting in the schedule the announcement dates for any monetary policy decisions taken by the MPC (end- June SB, MEFP ¶38).

23. Building on recent progress, the BoT should continue efforts to upgrade the regulatory and supervision framework. Advancing financial sector deepening, while buttressing financial stability requires upgrading the supervisory framework and strengthening the prudential policy toolkit. The BoT is enhancing its capabilities for monitoring and enforcement of prudential guidelines, risk-based supervision, stress testing, climate-related risk analysis, and macro-financial analysis. The mission underscored the need for further progress on implementing the FSAP recommendations, including the crisis management and the emergency liquidity assistance frameworks, enhancing the macroprudential toolkit by incorporating appropriate FX risk management tools, and the guidelines and limits for large exposures. In line with the FSAP recommendations, the BoT should enhance the prudential framework to reduce FX liquidity vulnerabilities, by implementing a liquidity coverage ratio denominated in FX and, conditional on EAC harmonization, reserve requirements in FX. The amendment of the Banking and Financial Institutions Act in June 2023, 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 (SB, MEFP¶39).

24. The authorities are implementing policies to promote financial inclusion. 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 are drafting a Secured Transactions Act that allows collateral recovery and broadens the pool of acceptable collateral to movable collateral, which will be submitted to Parliament by September 2024 (SB, MEFP ¶40).

Advancing Structural Reforms

25. Structural reforms are crucial to unlock Tanzania's growth potential towards sustainable and inclusive growth. Key reform priorities include streamlining business regulations, enforcing anti-corruption regulations, and strengthening the AML/CFT framework.

- **Improving the business environment.** Structural reforms should aim at removing obstacles to foreign investment, streamlining bureaucratic procedures, simplifying the business regulatory regime, enhancing regulatory transparency, and improving public policy predictability. Preparing and publishing a timetable for implementation of key de-regulations envisaged in the Blueprint for Regulatory Reforms along with a clear delineation of responsibilities among government entities (new SB, MEFP¶32) would pave the way for streamlining of business regulations. Improving the quality of national data and statistics together with timely dissemination of these data would be key to ensure the country-wide consistency of statistics and provide an accurate economic overview, enhance credibility, improve budget forecasting, and attract investment.
- **Governance and anti-corruption.** The authorities have taken important steps to improve governance and anti-corruption frameworks, including by setting up a special High Court Division for corruption and economic crimes, increasing the judiciary budget, and preparing a revised (phase IV) National Anti-Corruption Strategy and Action Plan. The mission underscored the importance of addressing outstanding corruption vulnerabilities and governance issues in line with the authorities' program commitment (MEFP, ¶35).
- **AML/CFT framework.** Efforts are underway to align the legal framework with the FATF standards and improve its effectiveness,[12] including by adopting policies and procedures for AML/CFT risk-based supervision and ensuring effective enforcement against money laundering and terrorism financing (MEFP, ¶36).

B. RSF Arrangement: Addressing Climate Change Challenges

26. Tanzania is highly vulnerable to climate change which poses significant risks to its macroeconomic, fiscal, and social development. Rising temperature is resulting in rainfall pattern changes—with floods and drought events (accounting for almost 80 percent of all natural disasters in the last four decades) becoming more frequent and more severe—and sea level rise (Annex III). Individual climate-related events have caused economic costs estimated at more than 1 percent of GDP per year and occur regularly, reducing long-term growth, and affecting millions of people and livelihoods and key economic sectors including agriculture, tourism, livestock, fisheries, and

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

transport and infrastructure. Climate change also poses significant risks to food security and public health; and increases inequality. In the absence of reform measures, climate-related disasters could create sizable BoP pressures. Floods and droughts could negatively affect tourism and agricultural production, which constitute major sources of FX earnings. Reconstruction of infrastructure damaged by floods and sea level rises could also result in a significant increase in imports and deterioration of the external balances.

27. The authorities have launched ambitious initiatives to reduce vulnerabilities and increase climate resilience, but gaps remain. The authorities updated Nationally Determined Contribution (NDC) in 2021 sets Tanzania's GHG emission reduction target of 30-35 percent below its business-as-usual (BAU) emission level by 2030. The country's national climate-related ambitions are grounded in the National Climate Change Response Strategy (2021-26) and the National Disaster Management Strategy (2022-2027); and their forthcoming long-term developmental plan (Vision 2050) and the National Adaptation Plan (NAP) are expected to include long-term climate policy and strategic priorities. Diagnostic assessments of Tanzania's climate policies (including the C-PIMA and the Climate Policy Diagnostics (CPD) TA missions, and the World Bank's CCDR) point to key gaps in policy frameworks, institutions, and implementation (Annex III).

28. The RSF will support the authorities' effort to implement macro-critical climate reforms and enhance their economic resilience and sustainability. The RSF will contribute to Tanzania's prospective BOP stability by supporting the authorities' efforts to address climate change challenges, focusing on: (i) enhancing governance and coordination of climate change policies; (ii) strengthening the disaster risk management (DRM) framework; (iii) mainstreaming climate policies in budgeting and public investment planning; (iv) aligning sectoral climate policies with national policies and commitments; and (v) enhancing supervision of financial sector climate-related risks (Text Table 3).

Reform Area 1: Enhancing Governance and Coordination of Climate Change Policies

29. Establishing efficient climate change management requires formalizing the institutional framework and establishing common climate scenarios. A well-designed institutional framework provides a clear structure that motivates and enables all actors to effectively play their roles towards the common national goal. This could be achieved by amending the Environmental Management Act to clearly define the roles and responsibilities for all stakeholders and a coordination mechanism that ensures consistency of climate policies between levels of government and across sectors (RM1, MEFP¶46). To develop a common understanding of the implications of climate change and to create climate change awareness, the authorities will prepare and publish common climate scenarios and vulnerability maps; and take climate vulnerabilities into account in land use planning and civil construction design (RM2, MEFP¶46).

Reform Area 2: Strengthening the Disaster Risk Management Framework

30. Developing a disaster risk financing framework and a unified multi-hazard early warning system could strengthen Tanzania's disaster risk management. While Tanzania has a robust disaster risk management policy, a comprehensive national disaster risk financing strategy is needed to provide an implementation roadmap for investments and resource mobilization towards better disaster prevention, readiness, and response and integration into sectoral plans and policies. Towards this goal, the authorities will develop and implement a disaster risk financing (DRF) framework, with technical support from the Fund, taking into account the efficient use of risk retention and transfer, and ex-ante and ex-post DRF, based on a DRF needs assessment including for social protection by end-March 2025 (RM3, MEFP¶48). This will be complemented with efforts to develop a multi-hazard early warning system, building on existing sectoral systems and introducing an integrated data and information system (MEFP¶48).

31. Tanzania's social safety nets program could be made more climate shock responsive. The targeting model of TASAF— which established the Productive Social Safety Net Program (PSSN) and is currently under Phase II of its implementation— is limited to the poorest households, who are under the extreme poverty line. Phase III of the PSSN, which is currently under discussion, is expected to add more emphasis on helping poor households to cope with climate-related challenges and disaster risks. The RSF will support the authorities in enhancing the adaptability of TASAF to respond to climate-related shocks. More specifically, the authorities will expand the PSSN register to include households that may fall under the extreme poverty line when climate-related shocks materialize (RM4; MEFP¶49). The sequencing of the expansion of the register should take a risk-based approach, starting with areas that are at highest risk of natural disasters, taking into account the information provided by vulnerability maps.

Reform Area 3: Mainstreaming Climate in Budget and Investment Planning

32. Conducting climate-related assessment at a project level is a prerequisite for mainstreaming climate issues in budgeting and public investment planning. The authorities' operational manual for public investment management (PIM-OM) requires all Ministries, Departments, Agencies, and Local Governments initiating projects to prepare project documents that include details of climate change impact assessments.[13] These requirements are not, however, enforced. To address the gap, the authorities will amend the Environmental Impact Assessment (EIA) regulation to require climate impact and climate vulnerability assessments for large projects and all climate relevant projects at all stages of project appraisal (RM5, MEFP¶50). With technical support from the IMF, the operational manual for public investment management (PIM-OM) will also be revised to provide better guidance on how to comply with the requirements (MEFP¶50). Project appraisals of the relevant projects should include a traffic light-based assessment of climate vulnerability and climate implications. Starting in the FY2025/26 budget, the Budget document will include climate assessment outcomes of all climate-relevant projects approved for budget financing (RM6; MEFP¶50). Fiscal risks associated with climate change and natural disasters could be significant and warrant an in-depth assessment. In this regard, the MoF will include assessment of

[13] The operational manual requires that projects need to adhere to the Environmental Policy (2021) and Environmental Management Act (2004), and the project assessment should take into account benefits from reducing emissions and environmental conservation and costs from increased emissions and environmental degradation.

natural disaster related fiscal risks in the budget document starting with the FY2025/26 budget (RM7, MEFP¶51).

Reform Area 4: Aligning Sectoral Policies with National Commitments

33. Achieving the authorities' ambitious climate mitigation goals requires ensuring that sectoral climate policies are mutually consistent and aligned with national climate commitments. The RSF will support the authorities to develop a long-term power sector plan that is aligned with climate mitigation goals and coordinated with the long-term plans of other sectors, including agriculture and water (RM8, MEFP¶52). Establishing and implementing a methodology for adjusting electricity tariffs to the cost-recovery rates (reflecting operational and capital cost of the energy transition), while protecting poor and vulnerable groups, (RM9, MEFP¶52) would facilitate the authorities' energy transition plan. Similarly, introducing an environmental tax on domestic consumption of sources of carbon emissions (including coal and natural gas), while protecting poor and vulnerable groups, would help reduce GHG emissions (RM10, MEFP¶52). In addition to their climate change benefits, these measures could also improve public finances and enhance debt sustainability.

34. Measures to reduce deforestation would be key to achieving the authorities' climate mitigation goals. Land use, land use change, and forestry accounted for 46 percent of Tanzania's GHG emissions in 2021. For this reason, the National Forest Implementation Strategy (2021/22–2031/32) aims to reduce the deforestation rate by 70 percent by 2031. Implementation of the strategy, however, faces challenges due to limited application and lack of enforcement of consistent land-use planning, with village related land use expanding into forest areas due to lack of agreed use of village land areas and missing demarcations. To address these challenges and support their deforestation reduction goals, the authorities will ensure that village land is clearly defined and efficiently used in line with the population's needs by finalizing and adopting the 'Guidelines for Integrated and Participatory Village Land Use Planning, Management and Administration in Tanzania - 3rd Edition' and issuing a Notice to formally require implementation of the Guideline in all villages across the country (RM12, MEFP¶53). Introduction of a Payment for Environmental Services (PES) scheme would also help incentivize forest conservation and restoration programs (MEFP¶53) although financing of such programs remains a challenge.

35. Sustainable management of water resources, in coordination with other sectoral policies, is key to climate adaptation policy. Hydropower and irrigation are the largest sources of water demand, highlighting the water-energy-food nexus and the need for integrated planning. Tanzania's water sector framework is well established with a good foundation of water policy and integrated water resource planning. A water pricing mechanism is in place aiming at covering the cost of water service provision and providing performance incentives mainly targeted at the expansion and availability of services. To reflect climate considerations in urban water management, the authorities will identify and integrate climate policy-related key performance indicators (KPIs) in the water utilities' business plans and conditional tariff structure (RM11; MEFP¶54).

Reform Area 5: Enhancing Supervision of Climate Related Risks to the Financial System

36. The RSF aims to support the authorities' ongoing effort to strengthen financial sector resilience to climate related risks. The BoT issued guidelines on assessment of climate-related financial risks management in 2022. Implementation of the guidelines has, however, been hampered by lack of data and limited capacity. With technical support from the Fund, the BoT will create a repository of climate-related data for assessment of climate-related risks (RM13, MEFP¶55). This will be complemented with annual qualitative assessment of climate-related risks, focusing on key transmission channels, to financial system stability starting in CY2025 (RM14; MEFP¶55). Improving climate disclosures will help management of climate-related financial risks and enable market participants to identify climate-related opportunities, thereby developing green financial markets. To this end, the authorities will finalize and publish the ongoing work on sustainable financing framework, aligned with Tanzania's NDC, which will help expansion of green financial instruments and channel long-term market-based financing for climate-related investment (MEFP¶55).

PROGRAM PERFORMANCE AND MODALITIES AND OTHER ISSUES

37. Program performance at end-December 2023 was strong. All performance criteria, including the continuous performance criteria, and indicative targets were met. Two of the three structural benchmarks (SBs) for end-December 2023 (integrating the IT of the Revenue Authority with prioritized government agencies and formalizing and publishing the BoT's FX intervention policy) and the SB for end-January 2024 (issue a revised IFEM code of conduct) were met. The SB on establishing an AML/CFT risk-based supervisory approach was not met due to delays in designating the real estate sector supervisor and issuance of a supervisory manual for the Trust sector. The authorities aim to issue the manual by end-June and designate the Real Estate Regulatory Authority as the real estate sector supervisor by end-September (MEFP, ¶36). All indicative targets for end-March 2024 were met and the authorities reported good progress towards end-June targets.

38. To continue the structural reform momentum, the authorities agreed to set four new structural benchmarks (MEFP Table 2). These structural benchmarks aim to enhance revenue mobilization efforts, strengthen efficiency of public investment management, and streamline business regulations. The authorities reaffirmed their commitment to the reform program and continued close engagement with the Fund through information sharing and technical assistance.

39. A 6-month extension of the ECF-supported program to May 2026 and a rephasing of disbursements are proposed (Table 8). The extension is needed to ensure sufficient time to complete key reforms in domestic revenue mobilization and business regulation; and will also allow sufficient time to complete the proposed RSF reform measures.

Text Table 3. United Republic of Tanzania: RSF Reform Areas and Reform Measures

Reform Areas	4th ECF Review	5th ECF Review	6th ECF Review	7th ECF Review
Climate change governance and coordination	**RM1**. Amend the Environmental Management Act to clearly define the institutional framework for climate change related policies.	**RM2**. Prepare and publish common climate scenarios and vulnerability maps; and include in the legal framework for land use planning and civil construction design a requirement to take the so identified climate vulnerabilities into account in land use planning and civil construction design.		
Disaster risk management and social safety nets		**RM3.** Develop and implement a Disaster Risk Financing (DRF) framework, taking into account the efficient use of risk retention and transfer, and ex-ante and ex-post DRF, based on a DRF needs assessment including for social protection.	**RM4**. Expand the Productive Social Safety Net (PSSN) register to include households who could fall under the extreme poverty line if climate and disaster risks materialize.	
Mainstreaming climate in budget formulation and investment planning	**RM5**. Ammend the Environmental Impact Assessment regulation to require climate impact and climate vulnerability assessments for large projects and all climate relevant projects at all stages of project appraisal.	**RM6.** Include the outcome of climate assessments of all climate-relevant projects in the Budget document submitted to Parliament, starting in the FY2025/26 budget. **RM7.** Starting in the FY2025/26 Budget, include assessment of natural disaster related fiscal risks in the budget document.		
Aligning sectoral policies to national climate commitments			**RM8**. Present and implement a long-term power sector plan that is aligned with climate mitigation goals and coordinated with the long-term plans of other sectors, including water and agriculture. **RM10**. Apply an environmental tax on domestic consumption of sources of carbon emissions (including coal and natural gas) tailored to Tanzania's circumstances and in line with IMF technical assistance and consistent with Tanzania's commitment under the NDC.	**RM9**. To support energy transition plans: (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and investment cost of the energy transition); and (ii) establish and implement a methodology for adjusting electricity tariffs to the identified cost-recovery rates, with transparent periodic adjustments while protecting poor and vulnerable groups. **RM11**. Identify and integrate climate policy-related key performance indicators (KPIs) in the existing conditional tariff structure and business plans of the water utilities. **RM12**.The National Land Use Planning Commission finalizes and adopts the Guidelines for Integrated and Participatory Village Land Use Planning, Management and Administration in Tanzania - 3rd Edition and issues a Government Notice to formally require its implementation in all villages across the country.
Monitoring and supervision of climate-related risks to the financial sector			**RM13**. Create a repository of climate-related data to support assessment of climate-related risks by supervised financial institutions and BoT.	**RM14.** The BoT will publish, on an annual basis, its analysis of climate risks in the financial system, including an assessment of the key transmission channels, starting in CY2025.

40. **Program modalities remain unchanged.** The program will continue to be monitored on a semi-annual basis through ITs, QPCs, and structural benchmarks, with new QPCs and ITs proposed for June 2025. 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.

41. Proposed access and phasing. Tanzania meets the RSF eligibility criteria based on its per capita GNI, and it is a Group A country for the purpose of interest charges. An access level of 150 percent quota (SDR 596.7 million) is proposed based on the authorities' ambitious reforms and staff's assessment that: (i) the RMs proposed under the RSF are strong; (ii) Tanzania's debt is sustainable, with adequate capacity to repay (see below), and the ECF is on-track underpinned by high-quality policies and strong reform ownership by the authorities. The ECF will support a stable macroeconomic environment in which RSF-supported reforms can be effective and provide sufficient time for RSF-supported reform implementation.

42. Use of RSF resources and modalities. RSF access will substitute for more expensive domestic budget financing and will help build buffers to strengthen Tanzania's ability to face climate-related shocks. From the balance of payment standpoint, RSF disbursements increase international reserves by the disbursement amounts in 2024 and 2025, respectively. Reform implementation under the proposed 23-month RSF-supported program will be monitored by four semiannual reviews, taking place concurrently with the ECF reviews (Text Table 3 and Table 10).

43. The program is fully financed through June-2025. There are firm commitments in place over the 12 months immediately following the completion of the review and there are good prospects for additional financing for the remainder of the program. The financing gap for FY2024/25 is projected at about US$540 million and is expected to be financed by the ECF arrangement disbursement (SDR 226.74 million, about US$301 million) and the World Bank (US$239 million) (Text Table 4). The total financing gap, before ECF arrangement financing, for FY2022/23-FY2025/26 is estimated at US$2,372 million and is being covered by donor financing, including the ECF arrangement.

Text Table 4. United Republic of 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**	**877**	**540**	**151**
In percent of GDP	*1.0*	*1.1*	*0.7*	*0.2*
2. Expected Budget Support	**500**	**575**	**239**	**0**
World Bank	500	500	239	0
Other donors	0	75	0	0
3. Residual Financing Gap (1-2)	**304**	**302**	**301**	**151**
4. IMF Financing	**304**	**302**	**301**	**151**
In percent of GDP	*0.4*	*0.4*	*0.4*	*0.2*
ECF (200 percent of quota)	304	302	301	151
Remaining financing gap	**0**	**0**	**0**	**0**

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

44. Capacity to Repay. Tanzania's capacity to repay the Fund is adequate and the authorities' track record of servicing IMF debt is strong (Table 6 and Figure 7). Total obligations to the Fund peak at 0.2 percent of GDP (1 percent of exports of goods and services or 3.2 percent of gross FX reserves) in FY2030/31. Total Fund credit outstanding is within the interquartile range for PRGT borrowing countries, peaking in FY2025/2026 at SDR 1.8 billion, equivalent to 2.7 percent of GDP (14.7 percent of exports of goods and services or about 31.2 percent of gross FX reserves). The risk of debt distress is assessed to be moderate and mitigated by good program performance, and the debt outlook is expected to remain sustainable.

45. Safeguards assessment. The BoT is making progress in implementing the 2022 safeguards assessment recommendations including in areas such as audit committee oversight, external audit, and currency operations. Other aspects including draft amendments to the BoT Act to strengthen governance arrangements and autonomy are progressing slowly (SB, MEFP¶57).

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

47. Capacity development and collaboration with other partners. Staff coordinated with the World Bank, other development partners (DPs) and the Global Center on Adaptation (GCA) to establish policy priorities under the RSF and foster synergies. Coordination with the World Bank focused on alignment with the CCDR assumptions and providing TA support in the areas of disaster risk financing, social safety nets, and power sector reforms. An assessment letter on the authorities' climate policies in the context of the RSF was provided by the World Bank. The GCA provided inputs and advice to refine adaptation policies. Other DPs, including the AfDB, Agence Française de Développement, EU, GIZ, Japan International Cooperation Agency, USAID, UNDP, UNICEF, and World Food Program are also actively involved in providing technical assistance on climate-related policy reforms and expressed interest in supporting the reform agenda under the RSF.

STAFF APPRAISAL

48. The economy is recovering from the impact of the unfavorable global economic environment and domestic factors. After slowing down to 4.7 percent in 2022, real GDP growth picked up to 5.1 percent in 2023. Inflation remains within the central bank's target and a growth-friendly fiscal consolidation is underway. After widening significantly in FY2022/23, the current account deficit is narrowing, reflecting strong growth of exports and a slowdown in imports. The outlook is favorable with growth expected to pick up further over the medium term supported by improvements in the business environment and subsiding global commodity prices, and inflation to remain within the BoT's target. Enhanced revenue mobilization efforts and consolidation of non-priority spending are expected to improve the fiscal outlook. The current account deficit is projected to continue moderating reflecting the ongoing fiscal consolidation, subsiding commodity prices, and the reform implementation.

49. The outlook faces downside risks and uncertainties. Intensification of regional conflicts, increased commodity price volatility, an abrupt global slowdown or recession, natural disasters related to climate change, failure to address pressures in the FX market, and a 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. On the positive side, realization of the LNG project could boost investment and growth.

50. Performance under the ECF arrangement remained strong. All performance criteria, including the continuous performance criteria, and indicative targets for end-December 2023 were met. Two of the three structural benchmarks for end-December 2023 (integrating the IT of the Revenue Authority with prioritized government agencies and formalizing and publishing the BoT's FX intervention policy) and the SB for end-January 2024 (issue a revised IFEM code of conduct) were met. The SB on establishing an AML/CFT risk-based supervisory approach was not met due to delays in designating the real estate sector supervisor and issuance of a supervisory manual for the Trust sector. The authorities aim to complete remaining steps by September 2024. All indicative targets for end-March 2024 were met.

51. Addressing pressures in the FX market requires allowing the exchange rate to clear markets and enhancing the transparency of FX interventions. The issuance of the FXI policy and the revised IFEM code of conduct were important steps in the right direction to support market liquidity and foster price discovery. In line with the new FXI policy, FX interventions should be limited to addressing disorderly markets while maintaining adequate foreign exchange reserves. Publishing the results of the BoT's forex auctions will enhance the transparency of forex interventions. The BoT should step up its outreach and communication efforts to ensure that market participants fully understand the FXI policy and the revised IFEM code of conduct and trade at market clearing exchange rates.

52. The authorities' ongoing effort to achieve growth-friendly fiscal consolidation is an important step towards ensuring fiscal sustainability. The draft budget for FY2024/25 envisages continued fiscal consolidation, achieved primarily through domestic revenue mobilization. In light of recurring revenue underperformance, cash management and commitment controls should be strengthened to ensure that execution of spending is consistent with resource availability. Prioritizing completion of ongoing projects while postponing execution of new projects for which external financing is not secured and limiting central bank financing would also help ease the pressure on the FX market. Reforms to enhance domestic revenue mobilization and strengthen public finance management will help create fiscal space and safeguard debt sustainability.

53. The launch of the new interest rate-based monetary policy framework is an important milestone, but further efforts are needed to improve the effectiveness monetary policy. Efforts should be geared towards improving the BoT's ability to align the operational target with the policy rate and develop the interest rate transmission channel. Launching a comprehensive communication strategy, strengthening the analytical tools and capacity of the BoT, and supporting the development of financial markets would help enhance the effectiveness of the new policy framework. The BoT's plan to revise and publish the schedule for the monetary policy committee meetings would also help 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.

54. Upgrading the financial supervision and regulatory frameworks would help promote financial sector stability and deepening. The BoT should continue implementation of FSAP recommendations, including the crisis management and the emergency liquidity assistance frameworks, enhancing the macroprudential toolkit by incorporating appropriate FX risk management tools, and the guidelines and limits for large exposures. Operationalizing and enhancing the BoT's micro- and macro-prudential policies would help address existing pockets of vulnerabilities in the banking sector.

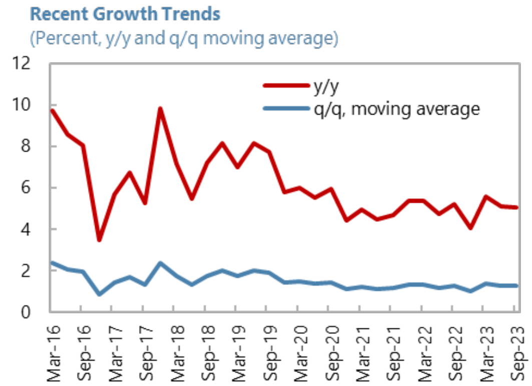
55. Structural reforms are essential to promote inclusive, resilient, and sustainable growth. Structural reforms aimed at removing obstacles to foreign investment, streamlining bureaucratic procedures, simplifying the business regulatory regime, enhancing regulatory transparency, and improving public policy predictability 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.

56. The authorities are committed to implementing macro-critical climate reforms to enhance economic resilience and sustainability. To this end, the authorities have presented a strong and comprehensive package of reforms and have requested support under the Resilience and Sustainability Facility (RSF) to help implement the reforms. Staff encourages the authorities to leverage the RSF for other official and private financing to support their climate mitigation and adaptation efforts.

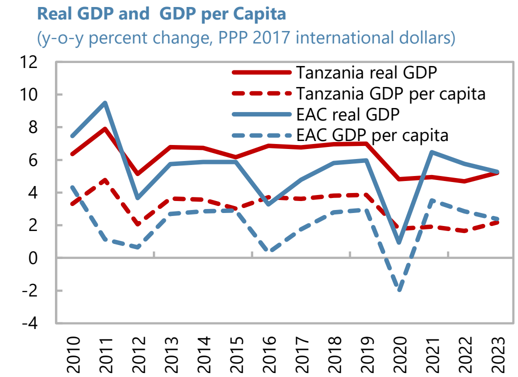
57. Staff supports the authorities' request for extension of the ECF arrangement and the rephasing of access, the completion of the third review under the ECF arrangement, and the authorities' request for a 23-month arrangement under the RSF.

Figure 2. United Republic of Tanzania: Real Sector Developments

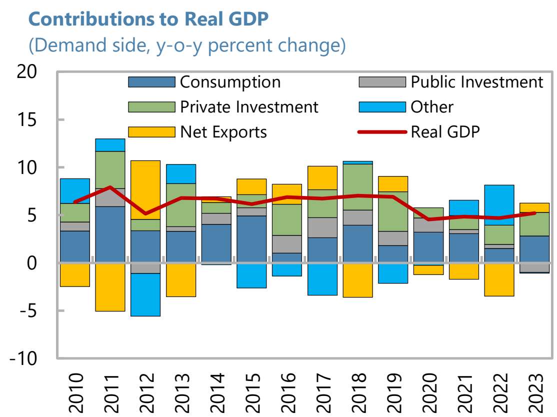
Growth is picking up after a slowdown in 2022 due to the impact of global factors and shortfalls in rainfall.



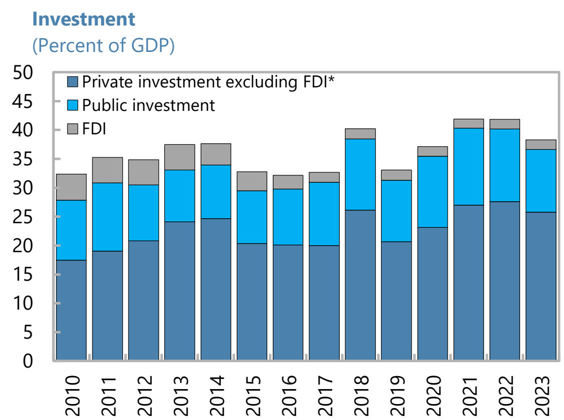
Tanzania's performance in real GDP and per capita growth has been largely better than the EAC averages.



Deteriorations in in net exports reduced growth in 2022.

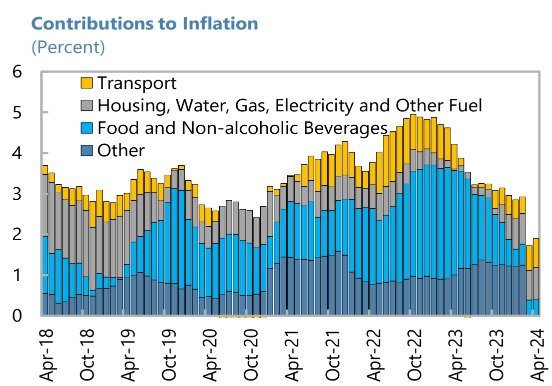


Private investment is picking up while public investment is moderating.

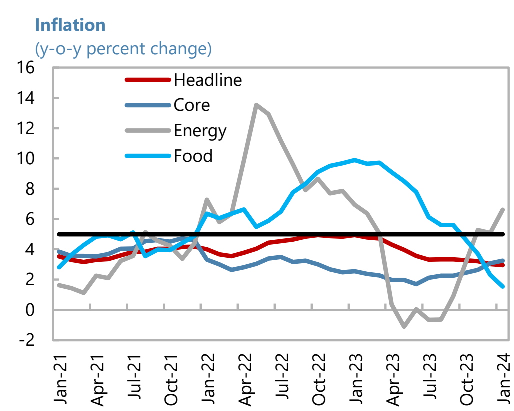


* Including changes in inventories

Driven by the slowdown in food and transport prices, inflation has moderated in recent months...



.... and both headline and core inflation remained well below the BoT's target.

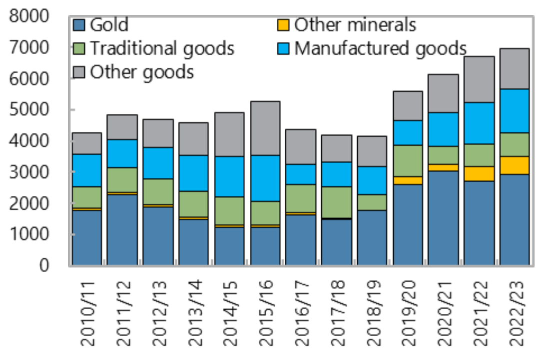


Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 3. United Republic of Tanzania: External Sector Developments

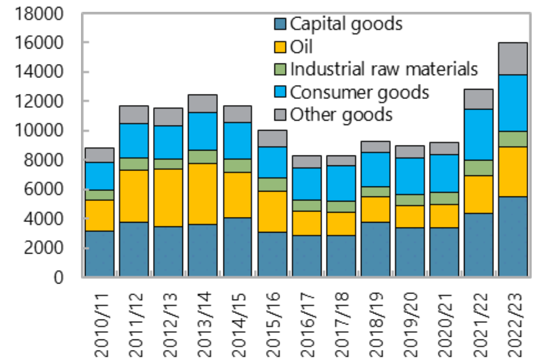
The growth of goods exported moderated in FY2022/23 due to subdued external demand...

Composition of Goods Exports
(Millions of USD)



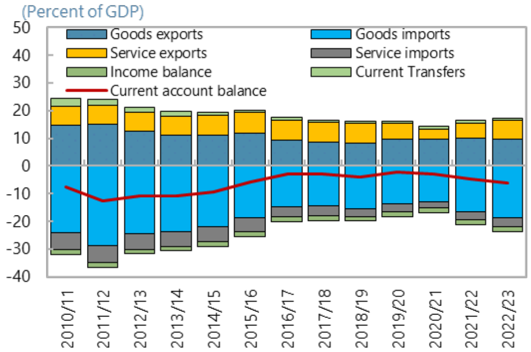
... while imports of goods grew sharply, in part reflecting spillovers from the impact of the war in Ukraine...

Composition of Goods Imports
(Millions of USD)



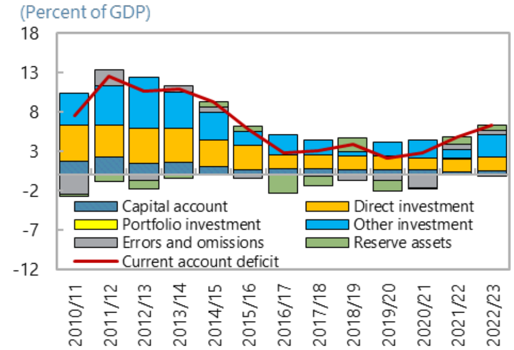
.... leading to reversal of recent gains in reducing the current account deficit.

Current Account Balance Decomposition
(Percent of GDP)



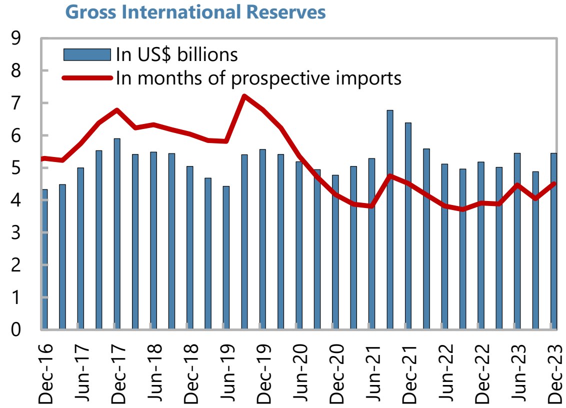
The current account deficit was financed by public and private sector borrowing.

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



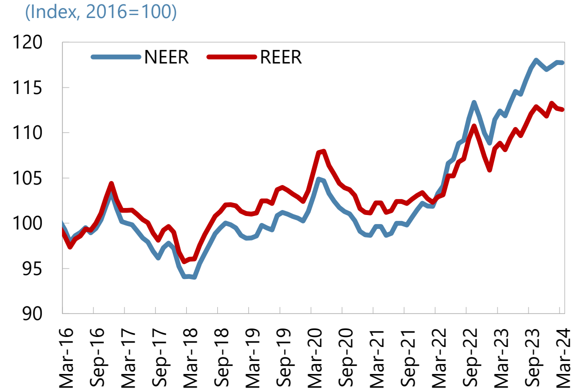
Reserves have increased modestly ...

Gross International Reserves



.... while the real and nominal effective exchange rates appreciated.

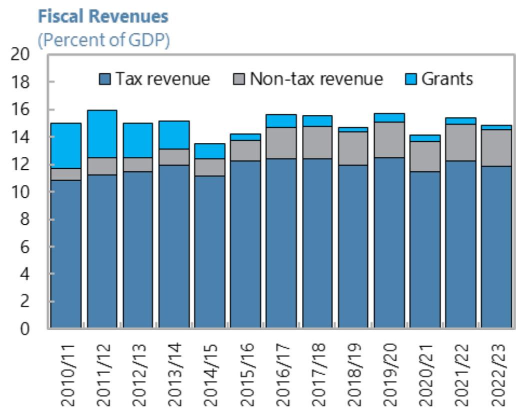
Real and Nominal Effective Exchange Rates
(Index, 2016=100)



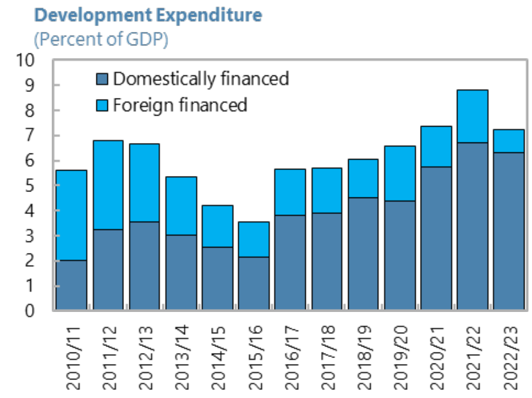
Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 4. United Republic of Tanzania: Fiscal Developments

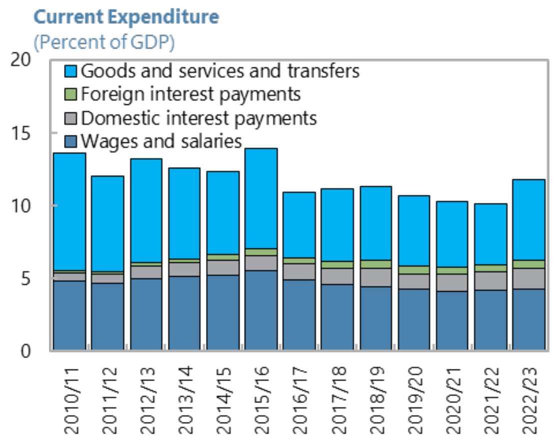
Domestic revenue mobilization remains below potential.



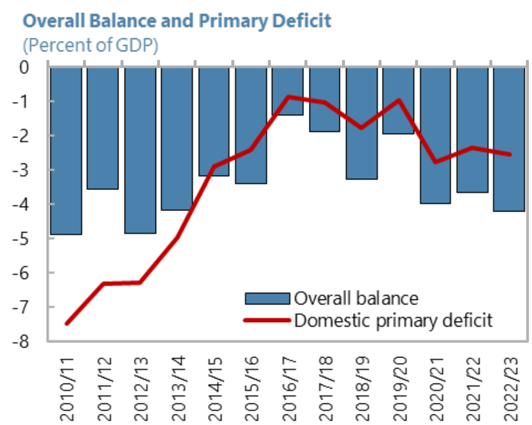
After rising in recent years, development expenditure slowed down in FY2022/23…



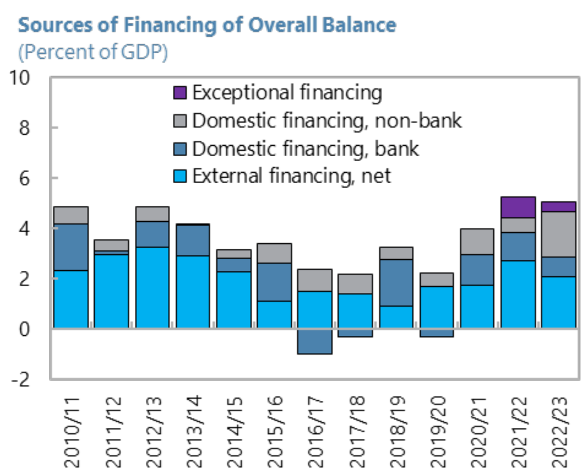
…. while recurrent expenditure increased.



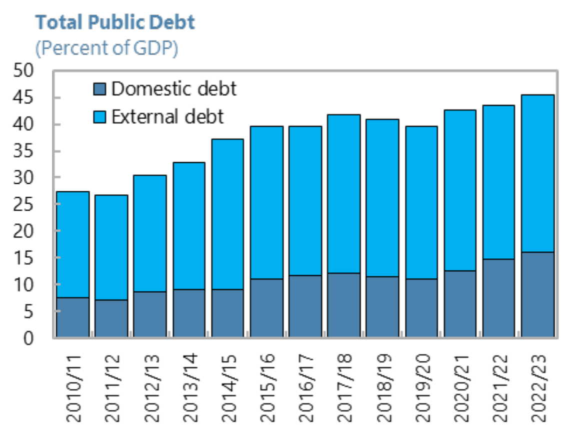
The budget deficit widened in recent years…



…. financed increasingly by domestic sources.



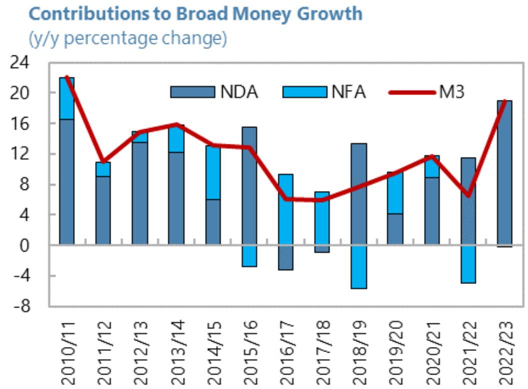
Public sector debt modestly increased lately reflecting the widening budget deficit.



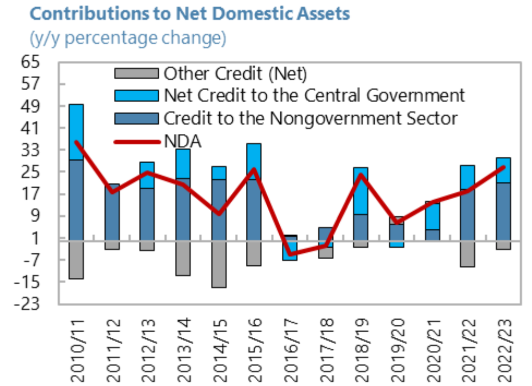
Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 5. United Republic of Tanzania: Monetary Developments

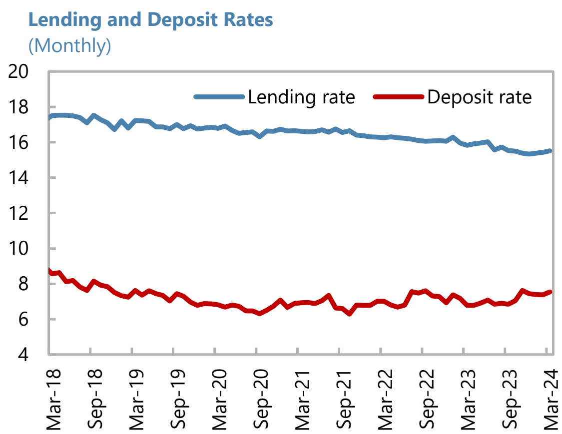
Broad money growth picked up at end-June 2023 reflecting growth of NDA ....



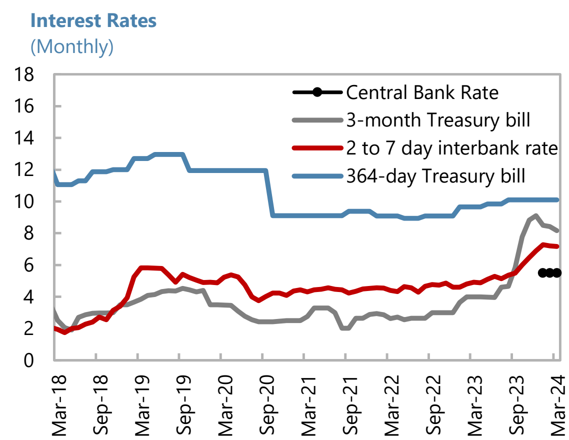
.... with pickup in credit to the private sector contributing to the growth in the NDA.



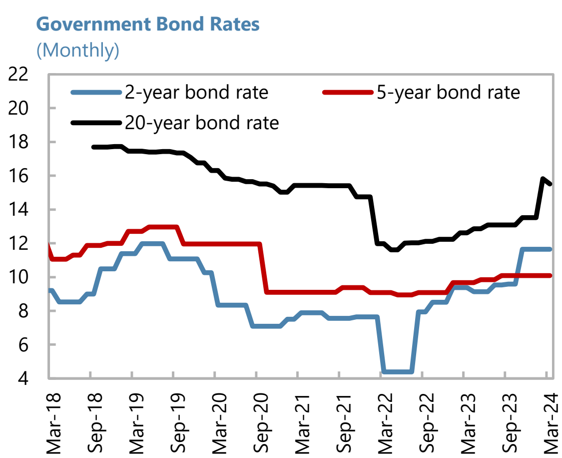
Lending and deposit rates have remained relatively stable



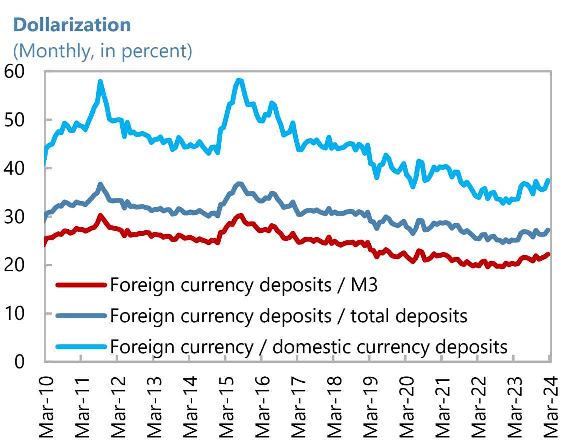
.... while money market rates increased recently.



Government bond yields have picked up....



.... and dollarization remains significant.

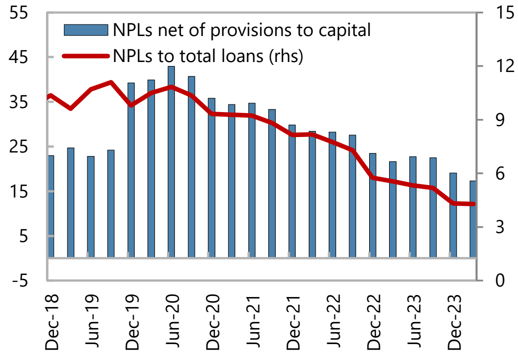


Sources: Tanzanian authorities; and IMF staff calculations.

Figure 6. United Republic of Tanzania: Financial Soundness Indicators

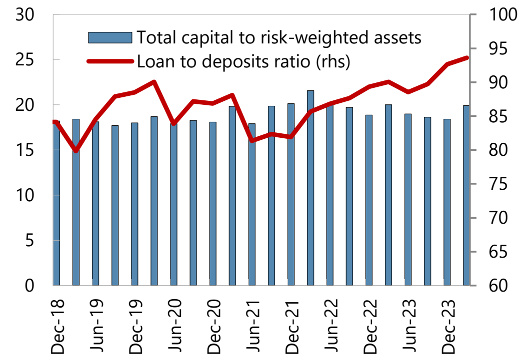
NPLs have come down in recent years.

Non-Performing Loans
(Percent)



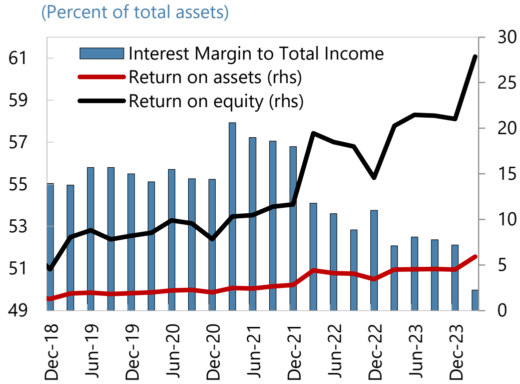
Leverage has increased, but the banking sector on aggregate remains well capitalized.

Capital Adequacy and Leverage
(Percent)



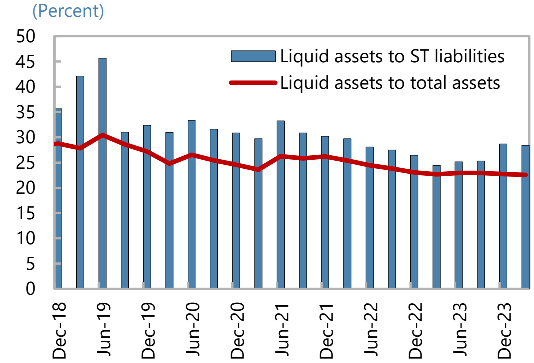
Profitability increased in recent years, while the share of interest income declined.

Profitability and Source of Income
(Percent of total assets)



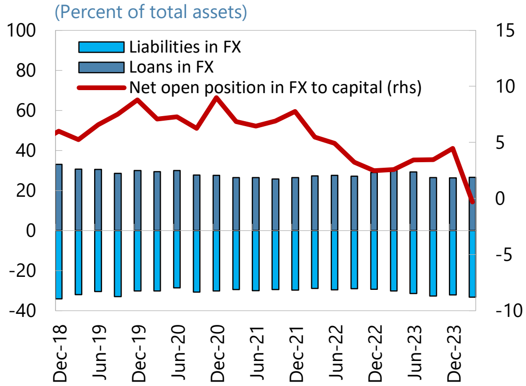
Liquidity in the sector remains adequate.

Liquid Assets Indicators
(Percent)



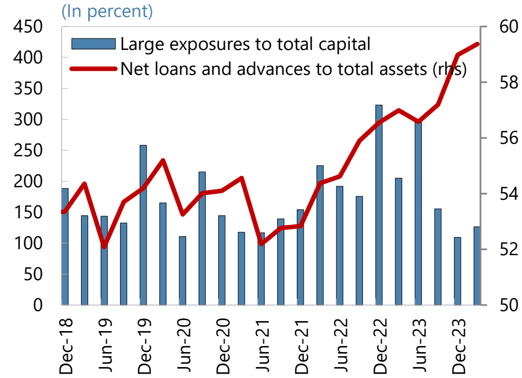
Net open FX positions remained within the prudential limit.

Banks Exposure to FX
(Percent of total assets)



The share of loans in assets picked up recently while large exposures declined.

Large Exposures and Net Loans and Advances
(In percent)



Sources: IMF Financial Soundness Indicators; and IMF staff calculations.

Table 1. United Republic of Tanzania: Selected Economic Indicators, 2019/20–2028/29[1]

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Act.	Act.	Act.	Est.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)											
Output, Prices and Exchange Rates												
Real GDP[2]	5.7	4.7	4.8	4.9	5.3	5.3	5.8	5.7	6.2	6.4	6.5	6.5
GDP deflator	111.1	114.3	118.3	124.0	131.1	130.1	137.0	136.0	141.9	148.5	155.8	163.6
CPI (period average)[3]	3.5	3.3	4.0	4.6	4.0	3.1	4.0	3.8	4.0	4.0	4.0	4.0
CPI (end of period)[3]	3.2	3.6	4.4	3.6	4.0	3.2	4.0	4.0	4.0	4.0	4.0	4.0
Core inflation (end of period)[3]	2.4	2.4	3.1	3.1	...	...	...	...	...	...	...	...
Terms of trade (deterioration, -)	11.5	4.9	-8.0	-0.7	3.7	4.1	0.5	3.1	2.7	2.7	2.7	2.7
Exchange rate (period average, TSh/USD)	2,290	2,298	2,298	2,310	...	...	...	...	...	...	...	...
Real effective exchange rate (end of period; depreciation = -)	3.8	-4.7	3.7	6.1	...	...	...	...	...	...	...	...
Money and Credit												
Broad money (M3, end of period)	9.5	11.7	6.5	18.8	11.0	11.0	11.1	11.1	11.1	11.5	12.0	12.0
Average reserve money	9.3	2.4	12.8	8.1	10.5	10.5	11.0	11.0	11.0	11.0	11.0	11.0
Credit to the private sector (end of period)	5.6	5.8	22.1	22.2	16.0	16.0	12.5	12.5	12.2	12.2	12.1	12.1
Overall T-bill interest rate (percent; end of period)	3.0	4.9	4.6	6.5	...	...	...	...	...	...	...	...
Non-performing loans (percent of total loans, end of period)	10.8	9.2	7.8	5.3	...	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)											
Central Government Operations												
Revenues and grants	15.7	14.1	15.4	14.9	16.3	15.9	16.5	16.1	16.4	16.5	16.5	16.5
Of which: grants	0.7	0.5	0.4	0.3	0.6	0.6	0.5	0.3	0.4	0.4	0.4	0.4
Expenditures	17.2	17.6	18.9	19.2	19.0	18.7	19.2	19.1	19.2	19.2	19.2	19.2
Current	10.7	10.3	10.1	11.9	11.9	12.0	12.2	12.3	12.5	12.5	12.5	12.4
Development	6.6	7.3	8.8	7.3	7.1	6.7	7.0	6.7	6.7	6.7	6.7	6.7
Overall balance	-1.9	-4.0	-3.6	-4.3	-2.8	-2.8	-2.6	-3.0	-2.8	-2.7	-2.7	-2.7
Excluding grants	-2.6	-4.5	-4.1	-4.6	-3.4	-3.4	-3.1	-3.3	-3.2	-3.1	-3.1	-3.1
Primary balance	-0.3	-2.3	-1.9	-2.2	-0.7	-0.7	-0.6	-0.4	-0.3	-0.3	-0.3	-0.3
Excluding grants	-1.0	-2.8	-2.3	-2.6	-1.3	-1.3	-1.1	-0.7	-0.7	-0.7	-0.7	-0.7
Public Debt												
Gross nominal debt	39.8	42.7	43.6	45.7	47.0	47.7	45.0	46.7	45.6	44.2	42.8	41.5
of which : external debt[4]	28.7	30.1	28.8	29.6	31.7	32.2	30.1	31.9	31.1	29.5	28.0	26.6
Investment and Savings												
Investment	35.2	39.6	41.9	39.9	38.7	38.4	39.2	39.1	39.7	39.9	39.9	40.0
Government[5]	11.6	12.9	12.9	11.7	11.1	10.7	10.9	10.6	10.7	10.6	10.6	10.6
Nongovernment[6]	23.6	26.7	29.0	28.2	27.6	27.7	28.3	28.5	29.1	29.3	29.3	29.3
Domestic savings	33.0	36.8	37.0	33.1	33.9	33.8	35.2	35.3	36.3	36.9	37.2	37.5
External Sector												
Exports (goods and services)	15.3	13.4	15.5	16.7	17.4	17.2	17.7	17.9	17.9	17.9	17.8	17.8
Imports (goods and services)	16.4	15.0	19.3	22.2	21.3	20.6	20.6	20.2	20.2	19.9	19.7	19.5
Current account balance	-2.2	-2.8	-4.9	-6.5	-4.6	-4.3	-3.9	-3.7	-3.5	-3.1	-2.7	-2.5
Excluding current transfers	-2.5	-2.9	-5.0	-6.6	-4.7	-4.4	-4.0	-3.8	-3.6	-3.2	-2.8	-2.6
Gross international reserves												
In billions of U.S. dollars	5.2	5.2	5.1	5.4	5.5	5.2	5.9	6.3	7.0	7.5	8.3	9.0
of which : SDR allocation			0.5									
In months of next year's imports	6.3	4.6	3.6	4.0	3.9	3.8	3.9	4.2	4.3	4.3	4.3	4.3
Memorandum Items:												
Calendar year real GDP growth (percent)[7]	4.5	4.8	4.7	5.1	5.5	5.4	6.0	6.0	6.3	6.5	6.5	6.5
GDP at current prices												
Trillions of Tanzanian shillings	140.0	150.8	163.4	179.7	199.9	198.5	221.0	219.4	243.0	270.5	302.4	338.2
Millions of U.S. dollars	61,085	65,669	71,046	76,650	79,526	79,523	82,865	82,681	89,242	97,408	106,745	117,052
GDP per capita (in U.S. dollars)	1,068	1,115	1,171	1,228	1,237	1,237	1,251	1,249	1,308	1,387	1,476	1,571
Population (million)	57.2	58.9	60.6	62.4	64.3	64.3	66.2	66.2	68.2	70.2	72.3	74.5

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] Fiscal year (July-June).

[2] Based on GDP by production.

[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. United Republic of Tanzania: Central Government Operations, 2019/20–2028/29

(Trillions of Tanzanian Shillings)

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Act.	Act.	Act.	Prel.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Trillions of Tanzanian Shillings)							
Total Revenue	21.1	20.6	24.4	26.2	31.4	30.5	35.4	34.6	38.9	43.5	48.7	54.4
Tax revenue	17.5	17.3	20.0	21.4	25.5	25.1	28.9	28.2	31.9	35.7	39.9	44.6
Import duties	1.3	1.3	1.5	1.6	1.9	1.9	2.3	2.3	2.5	2.8	3.1	3.5
Value-added tax	5.0	5.0	5.3	6.2	6.9	6.6	7.9	7.5	8.5	9.7	10.8	12.1
Excises	2.5	2.7	2.9	2.9	3.9	3.9	4.3	4.3	4.9	5.5	6.1	6.9
Income taxes	6.5	6.0	7.5	7.6	8.9	8.9	10.0	10.0	11.0	12.3	13.7	15.3
Other taxes	2.2	2.3	2.8	3.1	3.9	3.8	4.5	4.2	4.9	5.5	6.1	6.8
Nontax revenue	3.6	3.3	4.4	4.8	5.9	5.4	6.5	6.4	7.0	7.8	8.8	9.8
Total Expenditure	24.1	26.6	30.9	34.4	38.1	37.2	42.4	41.8	46.6	52.0	58.0	64.8
Recurrent expenditure	14.9	15.5	16.5	21.4	23.9	23.9	27.0	27.1	30.3	33.8	37.7	42.1
Wages and salaries	5.9	6.1	6.8	7.7	9.6	9.6	11.0	10.6	12.3	13.6	15.2	17.1
Interest payments	2.3	2.5	2.8	3.7	4.2	4.2	4.5	5.6	6.0	6.5	7.3	8.0
Domestic	1.5	1.8	2.0	2.6	2.8	2.8	3.0	3.1	3.3	3.6	4.0	4.6
Foreign[1]	0.8	0.7	0.8	1.0	1.4	1.4	1.5	2.4	2.7	3.0	3.2	3.5
Goods and services and transfers	6.7	6.8	6.9	10.0	10.1	10.1	11.5	10.9	12.0	13.6	15.2	17.0
Development expenditure	9.2	11.1	14.4	13.1	14.2	13.3	15.4	14.8	16.3	18.2	20.3	22.7
Domestically financed	6.1	8.6	10.9	11.4	10.9	10.0	11.9	11.1	12.3	13.7	15.3	17.1
Foreign (concessionally) financed	3.1	2.4	3.4	1.7	3.3	3.3	3.5	3.6	4.0	4.5	5.0	5.6
Grants	0.9	0.7	0.7	0.6	1.1	1.1	1.1	0.7	0.9	1.0	1.1	1.2
Program (including basket grants)[2]	0.4	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.3	0.3	0.3	0.3
Project	0.5	0.5	0.5	0.5	1.1	0.9	1.1	0.6	0.6	0.7	0.8	0.9
Statistical Discrepancy	-0.6	-0.7	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.7	-6.0	-6.0	-7.7	-5.6	-5.6	-5.8	-6.5	-6.8	-7.4	-8.3	-9.2
Overall balance excluding grants	-3.7	-6.7	-6.7	-8.3	-6.7	-6.7	-6.9	-7.2	-7.7	-8.4	-9.4	-10.4
Primary balance (cash basis)	-0.4	-3.5	-3.1	-4.0	-1.4	-1.4	-1.4	-0.9	-0.8	-0.9	-1.0	-1.1
Primary balance excluding grants	-1.4	-4.2	-3.8	-4.6	-2.5	-2.5	-2.5	-1.6	-1.7	-1.9	-2.1	-2.3
Financing	2.7	6.0	6.0	7.7	3.2	3.4	4.2	5.1	6.4	7.4	8.3	9.2
Foreign (net)	2.4	2.7	3.1	3.1	1.6	1.6	1.8	3.3	3.8	2.7	3.1	3.7
Foreign loans	4.4	5.1	5.9	6.0	4.3	4.3	4.8	6.8	7.7	6.9	7.6	8.4
Program (including basket loans)[2]	0.3	0.3	1.3	1.9	0.0	0.0	0.0	1.0	1.2	0.0	0.0	0.0
Of which: basket loans	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Project	2.3	1.7	2.8	1.1	2.2	2.2	2.4	2.9	3.4	3.8	4.2	4.7
Nonconcessional borrowing	1.8	3.1	1.8	3.0	2.1	2.1	2.4	3.0	3.1	3.2	3.3	3.7
Amortization	-2.0	-2.4	-2.8	-2.9	-2.8	-2.8	-3.0	-3.5	-3.9	-4.3	-4.5	-4.7
Domestic (net)	0.4	3.4	2.9	4.6	1.7	1.8	2.4	1.7	2.6	4.7	5.2	5.5
Bank financing	-0.4	1.8	1.8	1.4	1.7	1.7	1.9	1.4	2.1	3.4	3.7	3.8
Nonbank financing	0.8	1.6	1.0	3.2	0.0	0.1	0.5	0.3	0.5	1.4	1.5	1.7
Financing Gap	0.0	0.0	0.0	0.0	-2.3	-2.2	-1.6	-1.4	-0.4	0.0	0.0	0.0
External sources of financing the gap	...	...	...	...	1.6	1.5	0.8	0.6	0.0	0.0	0.0	0.0
African Development Bank	...	...	...	...	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	...	...	...	...	1.3	1.3	0.0	0.6	0.0	0.0	0.0	0.0
Other donors	...	...	...	...	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Residual financing gap	...	...	...	...	0.8	0.8	0.8	0.8	0.4	0.0	0.0	0.0
IMF-ECF	...	...	...	...	0.8	0.8	0.8	0.8	0.4	0.0	0.0	0.0
Remaining Financing Gap	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Domestic arrears stock (verified claims)	...	...	3.0	1.9	1.4	1.4	0.8	0.8	0.4	0.0	0.0	0.0
Priority social spending[3]	8.4	8.3	10.9	10.6	13.0	13.0	15.5	15.0	17.0	18.9	21.2	23.7
Nominal GDP	140.0	150.8	163.4	179.7	199.9	198.5	221.0	219.4	243.0	270.5	302.4	338.2

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. United Republic of Tanzania: Central Government Operations, 2019/20–2028/29

(Percent of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Act.	Act.	Act.	Est.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP)											
Total Revenue	15.0	13.7	14.9	14.6	15.7	15.4	16.0	15.8	16.0	16.1	16.1	16.1
Tax revenue	12.5	11.5	12.3	11.9	12.7	12.6	13.1	12.9	13.1	13.2	13.2	13.2
Import duties	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Value-added tax	3.6	3.3	3.3	3.4	3.5	3.3	3.6	3.4	3.5	3.6	3.6	3.6
Excises	1.8	1.8	1.8	1.6	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0
Income taxes	4.6	4.0	4.6	4.2	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Other taxes	1.6	1.5	1.7	1.7	1.9	1.9	2.0	1.9	2.0	2.0	2.0	2.0
Nontax revenue	2.6	2.2	2.7	2.7	2.9	2.7	2.9	2.9	2.9	2.9	2.9	2.9
Total Expenditure	17.2	17.6	18.9	19.2	19.0	18.7	19.2	19.1	19.2	19.2	19.2	19.2
Recurrent expenditure	10.7	10.3	10.1	11.9	11.9	12.0	12.2	12.3	12.5	12.5	12.5	12.4
Wages and salaries	4.2	4.1	4.2	4.3	4.8	4.8	5.0	4.8	5.0	5.0	5.0	5.0
Interest payments	1.6	1.7	1.7	2.0	2.1	2.1	2.0	2.5	2.5	2.4	2.4	2.4
Domestic	1.0	1.2	1.3	1.5	1.4	1.4	1.3	1.4	1.4	1.3	1.3	1.4
Foreign[1]	0.6	0.5	0.5	0.6	0.7	0.7	0.7	1.1	1.1	1.1	1.1	1.0
Goods and services and transfers	4.8	4.5	4.2	5.6	5.1	5.1	5.2	4.9	4.9	5.0	5.0	5.0
Development expenditure	6.6	7.3	8.8	7.3	7.1	6.7	7.0	6.7	6.7	6.7	6.7	6.7
Domestically financed	4.4	5.7	6.7	6.3	5.5	5.1	5.4	5.1	5.1	5.1	5.1	5.1
Foreign (concessionally) financed	2.2	1.6	2.1	1.0	1.6	1.7	1.6	1.7	1.7	1.7	1.7	1.7
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	0.7	0.5	0.4	0.3	0.6	0.6	0.5	0.3	0.4	0.4	0.4	0.4
Program (including basket grants)[2]	0.3	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Project	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3
Statistical Discrepancy	-0.4	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.9	-4.0	-3.6	-4.3	-2.8	-2.8	-2.6	-3.0	-2.8	-2.7	-2.7	-2.7
Overall balance excluding grants	-2.6	-4.5	-4.1	-4.6	-3.4	-3.4	-3.1	-3.3	-3.2	-3.1	-3.1	-3.1
Primary balance (cash basis)	-0.3	-2.3	-1.9	-2.2	-0.7	-0.7	-0.6	-0.4	-0.3	-0.3	-0.3	-0.3
Primary balance excluding grants	-1.0	-2.8	-2.3	-2.6	-1.3	-1.3	-1.1	-0.7	-0.7	-0.7	-0.7	-0.7
Financing	1.9	4.0	3.6	4.3	1.6	1.7	1.9	2.3	2.6	2.7	2.7	2.7
Foreign (net)	1.7	1.8	1.9	1.7	0.8	0.8	0.8	1.5	1.6	1.0	1.0	1.1
Foreign loans	3.1	3.4	3.6	3.3	2.2	2.2	2.2	3.1	3.2	2.6	2.5	2.5
Program (including basket loans)[2]	0.2	0.2	0.8	1.0	0.0	0.0	0.0	0.4	0.5	0.0	0.0	0.0
Of which: basket loans	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project	1.6	1.1	1.7	0.6	1.1	1.1	1.1	1.3	1.4	1.4	1.4	1.4
Nonconcessional borrowing	1.3	2.1	1.1	1.7	1.1	1.1	1.1	1.4	1.3	1.2	1.1	1.1
Amortization	-1.4	-1.6	-1.7	-1.6	-1.4	-1.4	-1.3	-1.6	-1.6	-1.6	-1.5	-1.4
Domestic (net)	0.3	2.2	1.7	2.6	0.8	0.9	1.1	0.8	1.1	1.8	1.7	1.6
Bank financing	-0.3	1.2	1.1	0.8	0.8	0.9	0.9	0.7	0.9	1.3	1.2	1.1
Nonbank financing	0.6	1.0	0.6	1.8	0.0	0.1	0.2	0.1	0.2	0.5	0.5	0.5
Financing Gap	0.0	0.0	0.0	0.0	-1.2	-1.1	-0.7	-0.7	-0.2	0.0	0.0	0.0
External sources of financing the gap	...	...	...	...	0.8	0.7	0.4	0.3	0.0	0.0	0.0	0.0
African Development Bank	...	...	...	...	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	...	...	...	...	0.6	0.6	0.0	0.3	0.0	0.0	0.0	0.0
Other donors	...	...	...	...	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Residual financing gap	...	...	...	...	0.4	0.4	0.4	0.4	0.2	0.0	0.0	0.0
IMF-ECF	...	...	...	...	0.4	0.4	0.4	0.4	0.2	0.0	0.0	0.0
Remaining Financing Gap	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Total public debt	39.8	42.7	43.6	45.7	47.0	47.7	45.0	46.7	45.6	44.2	42.8	41.5
Domestic arrears stock (verified claims)	...	...	1.8	1.1	0.7	0.7	0.4	0.4	0.2	0.0	0.0	0.0
Priority social spending[3]	6.0	5.5	6.7	5.9	6.5	6.6	7.0	6.9	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. United Republic of Tanzania: Balance of Payments, 2019/20–2028/29

(Millions of U.S. Dollars, Unless Otherwise Indicated)

	2019/20 Act.	2020/21 Act.	2021/22 Act.	2022/23 Est.	2023/24 2nd Rev.	2023/24 Proj.	2024/25 2nd Rev.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.	2028/29 Proj.
(Millions of U.S. dollars, unless otherwise indicated)												
Current Account	-1,320	-1,811	-3,467	-4,956	-3,652	-3,398	-3,252	-2,914	-3,062	-3,037	-2,925	-2,976
Trade balance	-2,466	-2,100	-4,616	-7,094	-6,435	-6,152	-6,061	-5,481	-5,863	-6,075	-6,281	-6,649
Exports, f.o.b.	5,869	6,447	7,097	7,352	7,989	7,786	8,490	8,929	9,655	10,671	11,782	13,053
Traditional agricultural products	996	578	738	752	801	1,047	867	1,075	1,164	1,277	1,413	1,567
Gold	2,591	3,025	2,692	2,909	3,154	3,067	3,372	3,842	4,102	4,459	4,778	5,076
Other	2,281	2,843	3,668	3,690	4,034	3,672	4,251	4,012	4,390	4,934	5,592	6,410
Imports, f.o.b	-8,335	-8,547	-11,713	-14,446	-14,424	-13,938	-14,552	-14,410	-15,519	-16,745	-18,063	-19,702
Of which: Oil	-1,547	-1,583	-2,606	-3,399	-3,131	-3,045	-3,104	-3,117	-3,070	-3,050	-3,078	-3,162
Services (net)	1,798	1,070	1,904	2,894	3,333	3,443	3,658	3,662	3,807	4,029	4,297	4,590
Of which: Travel receipts	1,899	834	1,778	2,945	3,170	3,251	3,360	3,375	3,506	3,639	3,776	3,917
Income (net)	-1,115	-1,234	-1,329	-1,403	-957	-1,195	-1,252	-1,743	-1,670	-1,713	-1,762	-1,815
Of which : Interest on public debt	-499	-264	-161	-452	-520	-205	-692	-960	-858	-858	-858	-858
Current transfers (net)	464	452	574	647	407	507	403	647	664	722	821	898
Of which : Official transfers	192	64	81	85	79	71	79	83	87	88	95	100
Capital Account	362	398	295	285	546	492	541	348	370	396	421	448
Of which : Project grants[1]	289	306	26	219	469	424	460	275	294	315	339	366
Financial Account	2,216	2,514	2,221	4,811	2,248	1,802	2,500	2,762	2,728	3,216	3,329	3,354
Foreign Direct Investment	1,081	988	1,151	1,532	1,312	1,431	1,492	1,488	1,696	1,948	2,188	2,400
Public Sector, net	1,199	1,110	817	2,087	1,128	604	732	921	677	788	957	1,197
Program loans	79	65	-100	609	607	0	312	0	0	0	0	0
Non-concessional borrowing	1,016	1,375	787	2,248	814	825	887	1,119	1,142	1,138	1,177	1,273
Project loans	989	727	1,226	483	863	875	899	1,083	1,249	1,363	1,494	1,638
Scheduled amortization[2]	-886	-1,056	-1,197	-1,252	-1,156	-1,096	-1,365	-1,281	-1,714	-1,714	-1,714	-1,714
Commercial Banks, net	66	-64	84	504	73	137	122	39	-134	-87	142	142
Other private inflows	-129	482	-374	687	-266	-370	155	313	490	567	42	-385
Errors and Omissions [3]	-447	-1,078	265	-608	0	0	0	0	0	0	0	0
Overall Balance	812	23	-686	-468	-859	-1,104	-211	195	36	576	826	826
Financing	-812	-23	686	-336	-51	227	-405	-735	-187	-576	-826	-826
Change in BoT reserve assets (increase= -)	-783	-45	120	-336	-51	227	-405	-1,099	-640	-522	-718	-718
Use of Fund credit	-32	0	566	0.0	0.0	0.0	0.0	364	453	-54	-108	-108
O/w RSF	…	…	…	…	…	…	…	364	453	…	…	…
CCRT debt relief	3	23	…	…	…	…	…	…	…	…	…	…
Financing Gap	0	0	0	804	910	877	615	540	151	0	0	0
Exceptional financing	…	…	…	804	910	877	615	540	151	0	0	0
IMF Financing	…	…	…	304	304	302	304	301	151	0	0	0
of which: IMF ECF	…	…	…	304	304	302	304	301	151			
Debt relief	…	…	…	0	0	0	0	0	0	0	0	0
World Bank	…	…	…	500	500	500	0	239	0	0	0	0
Global Fund	…	…	…	0	0	0	0	0	0	0	0	0
Other donors	…	…	…	0	106	75	312	0	0	0	0	0
Residual financing gap	…	…	…	0	0	0	0	0	0	0	0	0
Memorandum Items:												
Gross official reserves (BoT)	5,185	5,230	5,110	5,446	5,497	5,219	5,902	6,318	6,958	7,480	8,198	8,915
of which: SDR allocation			543									
Months of *prospective* imports of goods and services	6.3	4.6	3.6	4.0	3.9	3.7	3.9	4.2	4.2	4.2	4.2	4.2
Exports of goods (percent of GDP)	9.6	9.8	10.0	9.6	10.0	9.8	10.2	10.8	10.8	11.0	11.0	11.2
Exports excl. gold (percent of GDP)	5.4	5.2	6.2	5.8	6.1	5.9	6.2	6.2	6.2	6.4	6.6	6.8
Imports of goods and services (percent of GDP)	-16.4	-15.0	-19.3	-22.2	-21.3	-20.6	-20.6	-20.5	-20.4	-20.2	-19.9	-19.8
Imports of goods (percent of GDP)	-13.6	-13.0	-16.5	-18.8	-18.1	-17.5	-17.6	-17.4	-17.4	-17.2	-16.9	-16.8
Imports excl. oil (percent of GDP)	-11.1	-10.6	-12.8	-14.4	-14.2	-13.7	-13.8	-13.7	-13.9	-14.1	-14.0	-14.1
Current account deficit (percent of GDP)	-2.2	-2.8	-4.9	-6.5	-4.6	-4.3	-3.9	-3.5	-3.4	-3.1	-2.7	-2.5
Foreign direct investment (Percent of GDP)	1.8	1.5	1.6	2.0	1.7	1.8	1.8	1.8	1.9	2.0	2.1	2.1
Foreign program and project assistance (percent of GDP)	2.5	1.8	1.7	1.8	2.5	1.7	2.1	1.7	1.8	1.8	1.8	1.8
Nominal GDP	61,085	65,669	71,046	76,650	79,526	79,523	82,865	82,681	89,242	97,408	106,745	117,051

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. United Republic of Tanzania: Balance of Payments, 2019/20–2028/29

(Percent of GDP, Unless Otherwise Indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Act.	Act.	Act.	Est.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)											
Current Account	-2.2	-2.8	-4.9	-6.5	-4.6	-4.3	-3.9	-3.5	-3.4	-3.1	-2.7	-2.5
Trade balance	-4.0	-3.2	-6.5	-9.3	-8.1	-7.7	-7.3	-6.6	-6.6	-6.2	-5.9	-5.7
Exports, f.o.b.	9.6	9.8	10.0	9.6	10.0	9.8	10.2	10.8	10.8	11.0	11.0	11.2
Traditional agricultural products	1.6	0.9	1.0	1.0	1.0	1.3	1.0	1.3	1.3	1.3	1.3	1.3
Gold	4.2	4.6	3.8	3.8	4.0	3.9	4.1	4.6	4.6	4.6	4.5	4.3
Other	3.7	4.3	5.2	4.8	5.1	4.6	5.1	4.9	4.9	5.1	5.2	5.5
Imports, f.o.b	-13.6	-13.0	-16.5	-18.8	-18.1	-17.5	-17.6	-17.4	-17.4	-17.2	-16.9	-16.8
Of which: Oil	-2.5	-2.4	-3.7	-4.4	-3.9	-3.8	-3.7	-3.8	-3.4	-3.1	-2.9	-2.7
Services (net)	2.9	1.6	2.7	3.8	4.2	4.3	4.4	4.4	4.3	4.1	4.0	3.9
Of which: Travel receipts	3.1	1.3	2.5	3.8	4.0	4.1	4.1	4.1	3.9	3.7	3.5	3.3
Income (net)	-1.8	-1.9	-1.9	-1.8	-1.2	-1.5	-1.5	-2.1	-1.9	-1.8	-1.7	-1.6
Of which : Interest on public debt	-0.8	-0.4	-0.2	-0.6	-0.7	-0.3	-0.8	-1.2	-1.0	-0.9	-0.8	-0.7
Current transfers (net)	0.8	0.7	0.8	0.8	0.5	0.6	0.5	0.8	0.7	0.7	0.8	0.8
Of which : Official transfers	0.3	0.1	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	0.4	0.4	0.7	0.6	0.7	0.4	0.4	0.4	0.4	0.4
Of which : Project grants[1]	0.5	0.5	0.0	0.3	0.6	0.5	0.6	0.3	0.3	0.3	0.3	0.3
Financial Account	3.6	3.8	3.1	6.3	2.8	2.3	3.0	3.3	3.1	3.3	3.1	2.9
Foreign Direct Investment	1.8	1.5	1.6	2.0	1.7	1.8	1.8	1.8	1.9	2.0	2.1	2.1
Public Sector, net	2.0	1.7	1.1	2.7	1.4	0.8	0.9	1.1	0.8	0.8	0.9	1.0
Program loans	0.1	0.1	-0.1	0.8	0.8	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Non-concessional borrowing	1.7	2.1	1.1	2.9	1.0	1.0	1.1	1.4	1.3	1.2	1.1	1.1
Project loans	1.6	1.1	1.7	0.6	1.1	1.1	1.1	1.3	1.4	1.4	1.4	1.4
Scheduled amortization[2]	-1.4	-1.6	-1.7	-1.6	-1.5	-1.4	-1.6	-1.5	-1.9	-1.8	-1.6	-1.5
Commercial Banks, net	0.1	-0.1	0.1	0.7	0.1	0.2	0.1	0.0	-0.2	-0.1	0.1	0.1
Other private inflows	-0.2	0.7	-0.5	0.9	-0.3	-0.5	0.2	0.4	0.5	0.6	0.0	-0.3
Errors and Omissions [3]	-0.7	-1.6	0.4	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	1.3	0.0	-1.0	-0.6	-1.1	-1.4	-0.3	0.2	0.0	0.6	0.8	0.7
Financing	-1.3	0.0	1.0	-0.4	-0.1	0.3	-0.5	-0.9	-0.2	-0.6	-0.8	-0.7
Change in BoT reserve assets (increase= -)	-1.3	-0.1	0.2	-0.4	-0.1	0.3	-0.5	-1.3	-0.7	-0.5	-0.7	-0.6
Use of Fund credit	-0.1	0.0	0.8	0.0	0.0	0.0	0.0	0.4	0.5	-0.1	-0.1	-0.1
O/w RSF	...	...	...	...	...	...	...	0.4	0.5	...	...	...
CCRT debt relief	0.0	0.0										
Financing Gap	0.0	0.0	0.0	1.0	1.1	1.1	0.7	0.7	0.2	0.0	0.0	0.0
Exceptional financing	...	...	...	1.0	1.1	1.1	0.7	0.7	0.2	0.0	0.0	0.0
IMF Financing	...	...	...	0.4	0.4	0.4	0.4	0.4	0.2	0.0	0.0	0.0
of which: IMF ECF	...	...	...	0.4	0.4	0.4	0.4	0.4	0.2	...	...	...
Debt relief	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	...	...	...	0.7	0.6	0.6	0.0	0.3	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	0.0
Other donors	...	...	...	0.0	0.1	0.1	0.4	0.0	0.0	0.0	0.0	0.0
Residual financing gap	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Gross official reserves (BoT)	8.5	8.0	7.2	7.1	6.9	6.6	7.1	7.6	7.8	7.7	7.7	7.6
of which: SDR allocation			0.8									
Months of *prospective* imports of goods and services	6.3	4.6	3.6	4.0	3.9	3.7	3.9	4.2	4.2	4.2	4.2	4.2
Exports of goods	9.6	9.8	10.0	9.6	10.0	9.8	10.2	10.8	10.8	11.0	11.0	11.2
Exports excl. gold	5.4	5.2	6.2	5.8	6.1	5.9	6.2	6.2	6.2	6.4	6.6	6.8
Imports of goods and services	-16.4	-15.0	-19.3	-22.2	-21.3	-20.6	-20.6	-20.5	-20.4	-20.2	-19.9	-19.8
Imports of goods	-13.6	-13.0	-16.5	-18.8	-18.1	-17.5	-17.6	-17.4	-17.4	-17.2	-16.9	-16.8
Imports excl. oil	-11.1	-10.6	-12.8	-14.4	-14.2	-13.7	-13.8	-13.7	-13.9	-14.1	-14.0	-14.1
Current account deficit	-2.2	-2.8	-4.9	-6.5	-4.6	-4.3	-3.9	-3.5	-3.4	-3.1	-2.7	-2.5
Foreign direct investment	1.8	1.5	1.6	2.0	1.7	1.8	1.8	1.8	1.9	2.0	2.1	2.1
Foreign program and project assistance	2.5	1.8	1.7	1.8	2.5	1.7	2.1	1.7	1.8	1.8	1.8	1.8
Nominal GDP (Millions of U.S. dollars)	61,085	65,669	71,046	76,650	79,526	79,523	82,865	82,681	89,242	97,408	106,745	117,051

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. United Republic of Tanzania: Central Bank and Depository Corporations Survey, 2019–2024

	2019		2020		2021		2022				2023				2024
	June	Dec	June	Dec	June	Dec	Mar	Jun	Sep	Dec.	Mar	Jun	Sep	Dec.	Mar
	Act.	Act.	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	12,079	11,982
Net international reserves [1]	9,934	12,632	11,836	10,884	12,143	14,496	12,213	11,761	11,429	11,409	11,564	12,666	12,055	13,364	13,607
(Millions of U.S. dollars) [1]	4,339	5,521	5,152	4,735	5,282	6,309	5,313	5,104	4,952	4,941	5,003	5,440	4,858	5,342	5,314
Net non-reserve foreign assets	-513	-569	-577	-575	-442	-1,276	-634	-1,176	-1,081	-677	-1,313	-1,333	-1,409	-1,285	-1,625
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	-1,979	-1,796
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	2,123	1,631
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	2,230	1,904
Credit to other economic sectors	136	141	137	122	112	111	113	107	101	102	100	135	95	115	124
Claims on other depository corporations	516	258	90	299	161	221	65	352	144	163	229	310	354	538	374
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	-4,756	-3,925
REPOs	0	0	0	0	0	0	0	0	-589	-275	-756	-125	-15	0	0
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	-4,756	-3,925
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	10,100	10,186
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	6,486	6,326
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	3,613	3,860
Currency in banks	823	1,026	931	1,001	846	1,001	880	1,024	1,012	1,039	972	1,031	1,057	1,169	953
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	2,445	2,907
Required reserves	1,529	1,524	1,421	1,414	1,448	1,485	1,542	1,566	1,719	1,797	1,851	1,942	1,981	2,059	2,191
Excess reserves	1,496	695	1,728	359	1,578	885	1,194	1,361	1,020	1,001	1,053	1,716	436	385	715
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	10,184	10,535
Depository Corporations Survey															
Net Foreign Assets	9,815	12,035	11,289	10,723	12,145	13,966	11,816	10,504	9,701	9,438	8,697	10,455	10,122	11,302	11,635
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	12,079	11,982
Commercial banks	394	-29	30	414	444	747	237	-81	-647	-1,295	-1,554	-878	-525	-777	-347
Net Domestic Assets	17,426	16,279	18,552	19,198	21,189	20,592	21,936	24,996	27,983	29,143	30,416	31,730	33,020	32,700	32,892
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	43,411	44,215
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	11,354	10,943
Claims on other financial corporations	978	733	814	713	852	816	453	578	575	573	663	667	683	758	769
Claims on state and local governments	57	78	70	80	84	49	46	46	45	58	57	55	54	53	51
Claims on non-financial public enterprises	527	1,236	728	668	325	410	400	364	348	298	270	258	427	428	460
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	30,819	31,991
Other items (net)	-7,648	-7,311	-7,145	-6,942	-7,025	-9,438	-9,511	-9,057	-8,072	-8,415	-8,724	-9,856	-9,567	-10,711	-11,323
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	44,003	44,527
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	10,001	10,397
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	34,002	34,130
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	6,486	6,326
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	27,515	27,804
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	14.1	13.8
M3 (percent of GDP)	21.1	20.2	21.3	19.8	22.1	21.1	20.7	21.7	21.0	21.5	21.8	23.5	21.7	22.2	22.4
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	16.5	15.7
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	16.1	14.9	15.5	16.1
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	15.6	13.1	12.3
Velocity of money (nominal GDP/ M3)	5.0	5.2	5.0	5.2	5.0	5.1	4.9	4.8	5.1	5.0	4.8	4.6	4.9	4.8	4.6
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	7.4	12.0
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	4.3	4.2
Nonbank financing of the government (net) [2]	188	2,783	2,549	1,080	636	578	692	1,004	30	827	1,352	2,168	583	1,038	1,816
Bank financing of the government (net) [2]	2,383	-2,319	-405	23	1,805	73	609	1,846	821	725	1,144	2,291	45	-397	-807
Bank and nonbank financing of the government (net) [2]	2,571	464	2,144	1,103	2,441	651	1,301	2,850	852	1,552	2,497	4,459	628	642	1,008

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. United Republic of Tanzania: Financial Soundness Indicators, 2019–2024

	2019				2020				2021				2022				2023				2024
	Mar	June	Sept	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	June	Sept	Dec	Mar
									(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	20.0	19.0	18.6	18.4	19.9
Total capital to total assets	13.3	12.7	12.9	13.0	13.8	12.8	13.2	13.2	13.8	12.9	12.8	13.1	14.3	13.5	13.2	12.9	13.7	12.6	12.5	12.6	13.9
Asset Composition and Quality																					
Net loans and advances to total assets	54.4	52.1	53.7	54.2	55.2	53.3	54.0	54.1	54.6	52.2	52.8	52.8	54.4	54.6	55.9	56.6	57.0	56.6	57.2	59.0	59.4
Sectoral distribution of loans																					
Personal	28.6	29.7	29.9	28.8	30.3	31.8	33.0	34.3	35.6	35.9	37.0	36.8	38.9	38.2	38.6	38.2	38.3	37.5	38.1	37.2	37.6
Trade	18.2	18.2	17.5	17.8	17.7	16.6	15.9	15.4	15.4	15.8	16.8	16.7	16.5	16.4	15.7	16.8	15.9	16.3	15.4	13.6	13.5
Manufacturing and mining	14.2	13.9	13.5	13.2	13.1	13.4	12.3	11.7	12.0	12.2	12.0	11.8	12.8	12.8	13.5	12.1	11.9	11.8	11.6	11.9	11.9
Agricultural production	8.5	8.7	9.0	9.6	9.2	8.2	8.5	8.7	8.2	7.0	6.8	7.3	7.6	8.3	8.2	8.6	8.7	9.5	10.4	10.2	10.3
Transport and communication	5.3	5.2	5.1	5.6	5.6	5.8	6.0	5.8	5.5	5.4	5.1	4.8	4.8	4.5	4.6	4.5	4.5	4.5	4.4	4.3	4.4
Real Estate	4.8	4.5	4.4	4.2	3.7	3.9	3.8	3.8	3.7	3.7	3.4	3.2	3.2	3.0	3.0	2.8	2.5	2.3	2.3	2.5	2.5
Building and construction	4.5	4.6	5.8	5.9	6.0	5.6	5.8	5.4	5.2	5.0	4.8	4.6	4.7	4.6	4.6	4.4	4.4	4.5	4.6	4.5	4.3
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	26.5	26.3	26.6
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	5.2	4.3	4.3
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	27.6	23.5	21.6	22.7	22.5	19.1	17.3
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	155.4	109.2	126.3
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	3.5	4.5	-0.3
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	4.6	4.5	5.9
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	18.0	14.6	20.3	21.5	21.4	21.0	27.9
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	52.8	53.8	52.1	52.5	52.4	52.1	50.0
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	44.4	43.7	41.1	41.0	40.8	40.4	36.5
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	51.7	51.4	52.7	51.1	50.2	49.4	50.0
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	23.8	23.1	22.7	22.9	22.9	22.8	22.6
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	27.5	26.4	24.4	25.1	25.3	28.7	28.4
Total loans to customer deposits	79.8	84.5	87.9	88.5	90.1	83.9	87.2	86.9	88.1	81.4	82.4	81.9	85.7	86.8	87.7	89.3	90.1	88.5	89.7	92.7	93.6
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	32.8	32.2	33.3

Source: Bank of Tanzania.

Table 6. United Republic of Tanzania: Indicators of Fund Credit, Baseline Scenario (PRGT & RSF Arrangements)

(In Millions of SDRs, Unless Otherwise Indicated)

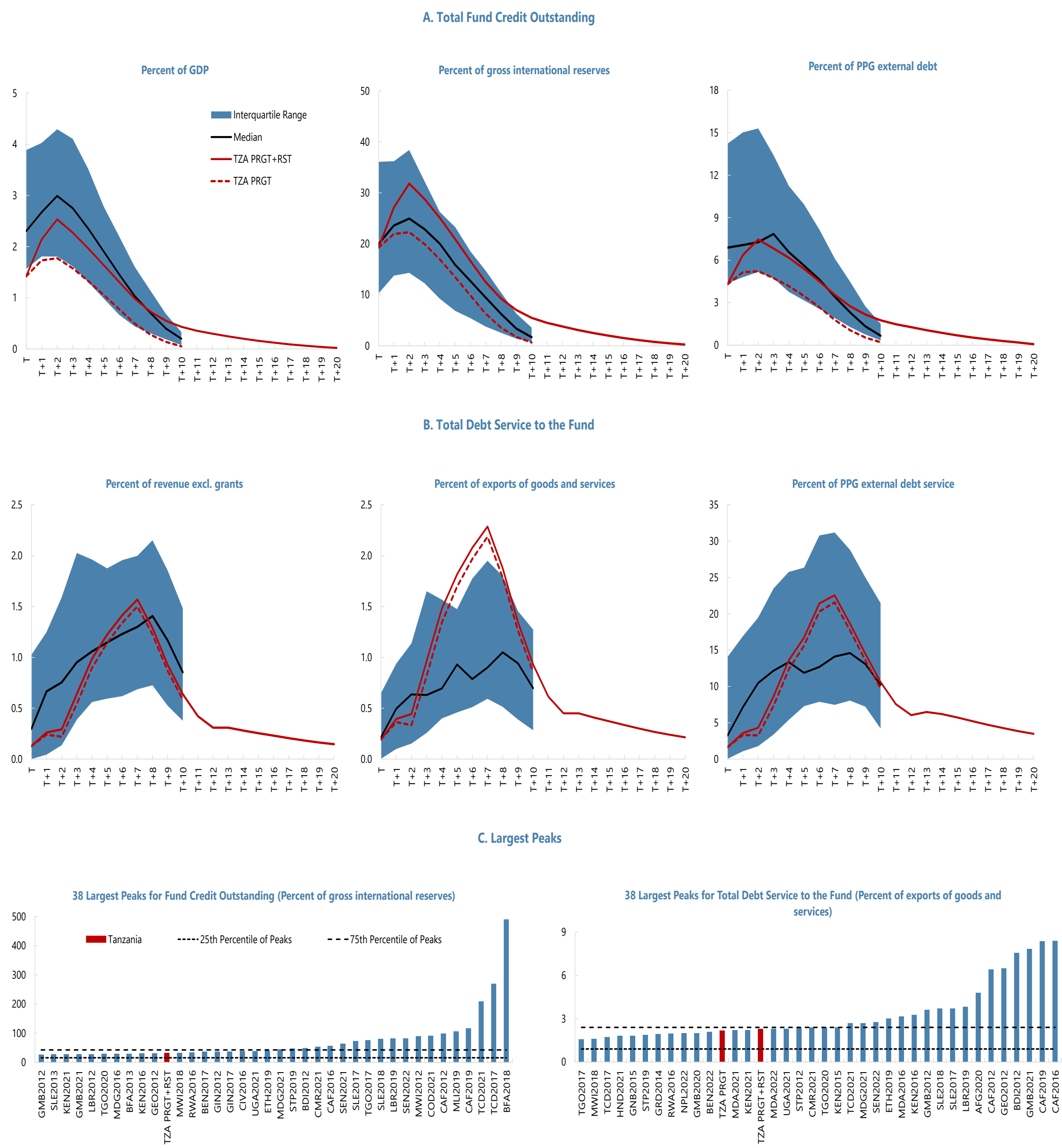
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42	2042/43	2043/44	2044/45	2045/46
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)	23.0	23.4	23.4	63.2	114.6	160.0	171.4	171.4	131.7	80.3	34.8	23.4	23.5	23.4	23.4	23.4	23.5	23.4	23.4	23.4	23.5	23.4	23.4
Principal	0.0	0.0	0.0	39.8	91.1	136.6	148.0	148.0	108.2	56.9	11.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	23.0	23.4	23.4	23.4	23.5	23.4	23.4	23.4	23.5	23.4	23.4	23.4	23.5	23.4	23.4	23.4	23.5	23.4	23.4	23.4	23.5	23.4	23.4
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)	23.0	24.9	31.8	76.6	128.0	173.4	218.8	258.5	235.8	184.4	138.9	97.8	87.7	95.1	93.8	92.5	91.2	89.8	88.5	87.1	85.8	80.2	49.3
Principal	0.0	0.0	0.0	39.8	91.1	136.6	182.0	221.7	198.9	147.6	102.0	60.9	51.1	59.7	59.7	59.7	59.7	59.7	59.7	59.7	59.7	55.4	25.6
PRGT	0.0	0.0	0.0	39.8	91.1	136.6	182.0	221.7	198.9	147.6	102.0	56.7	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.3	34.1	59.7	59.7	59.7	59.7	59.7	59.7	59.7	59.7	55.4	25.6
Charges and interest	23.0	24.9	31.8	36.8	36.9	36.8	36.8	36.8	36.9	36.8	36.8	36.8	36.6	35.5	34.2	32.8	31.6	30.1	28.8	27.5	26.2	24.7	23.8
Total Obligations Based on Existing and Prospective Credit																							
Millions of SDRs	23.0	24.9	31.8	76.6	128.0	173.4	218.8	258.5	235.8	184.4	138.9	97.8	87.7	95.1	93.8	92.5	91.2	89.8	88.5	87.1	85.8	80.2	49.3
Millions of U.S. dollars	30.5	33.0	42.3	102.2	171.2	231.9	292.6	345.7	315.3	246.5	185.7	130.8	117.3	127.2	125.5	123.7	122.0	120.0	118.3	116.5	114.8	107.2	66.0
Percent of exports of goods and services	0.2	0.2	0.2	0.4	0.7	0.8	0.9	1.0	0.9	0.6	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Percent of debt service	0.6	0.7	0.8	1.8	2.6	3.5	9.3	9.5	8.3	6.1	4.3	2.9	2.4	2.5	2.3	2.1	1.9	1.7	1.5	1.4	1.3	0.9	0.5
Percent of GDP	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	0.6	0.5	0.6	1.4	2.1	2.6	3.0	3.2	2.7	1.9	1.3	0.9	0.7	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.2
Percent of quota	7.7	8.3	10.6	25.7	43.0	58.3	73.6	86.9	79.3	62.0	46.7	32.9	29.5	32.0	31.5	31.1	30.7	30.2	29.7	29.3	28.9	26.9	16.6
Principal																							
PRGT	0.0	0.0	0.0	10.0	22.9	34.3	45.7	55.7	50.0	37.1	25.6	14.2	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	8.6	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	13.9	6.4
Outstanding Fund Credit Based on Existing and Prospective Credit																							
Millions of SDRs	853.3	1335.7	1790.1	1750.3	1659.2	1522.5	1340.6	1118.9	920.0	772.4	670.4	609.4	558.3	498.7	439.0	379.3	319.7	260.0	200.3	140.6	81.0	25.6	0.0
PRGT	853.3	1080.0	1193.4	1153.6	1062.5	925.9	743.9	522.2	323.3	175.7	73.7	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	255.7	596.7	596.7	596.7	596.7	596.7	596.7	596.7	596.7	596.7	592.4	558.3	498.7	439.0	379.3	319.7	260.0	200.3	140.6	81.0	25.6	0.0
Millions of U.S. dollars	1131.0	1773.4	2382.9	2334.0	2218.7	2035.9	1792.6	1496.2	1230.2	1032.9	896.4	814.9	746.6	666.8	587.0	507.2	427.4	347.6	267.9	188.1	108.3	34.2	0.0
Percent of exports of goods and services	8.3	11.7	14.7	13.2	11.5	9.6	7.8	5.9	4.5	3.5	2.8	2.3	1.9	1.6	1.3	1.0	0.8	0.6	0.4	0.3	0.1	0.0	0.0
Percent of debt service	31.3	50.4	57.9	53.4	44.9	41.2	76.0	55.2	43.5	34.2	27.8	24.3	20.9	17.5	14.3	11.4	8.8	6.6	4.7	3.0	1.6	0.4	0.0
Percent of GDP	1.4	2.1	2.7	2.4	2.1	1.7	1.4	1.1	0.8	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Percent of gross international reserves	21.7	28.1	34.2	31.2	27.1	22.8	18.2	13.9	10.5	8.1	6.5	5.4	4.6	3.8	3.1	2.4	1.9	1.4	1.0	0.6	0.3	0.1	0.0
Percent of quota	2.8	4.5	6.0	5.9	5.6	5.1	4.5	3.8	3.1	2.6	2.3	2.0	1.9	1.7	1.5	1.3	1.1	0.9	0.7	0.5	0.3	0.1	0.0
PRGT	214.5	271.5	300.0	290.0	267.1	232.7	187.0	131.3	81.3	44.2	18.5	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	64.3	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	148.9	140.4	125.4	110.4	95.4	80.4	65.4	50.4	35.4	20.4	6.4	0.0
Net Use of Fund Credit (millions of SDRs)																							
Disbursements and purchases	226.7	482.5	454.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	0.0	39.8	91.1	136.6	182.0	221.7	198.9	147.6	102.0	60.9	51.1	59.7	59.7	59.7	59.7	59.7	59.7	59.7	59.7	55.4	25.6
Memorandum Items:																							
Exports of goods and services (millions of U.S. dollars)	13,674	15,121	16,187	17,640	19,252	21,104	23,099	25,340	27,522	29,892	32,465	35,260	38,296	41,593	45,174	49,064	53,563	59,056	65,420	72,102	79,306	87,435	96,398
Debt service (millions of U.S. dollars)	3,617	3,518	4,112	4,372	4,938	4,945	2,359	2,711	2,825	3,022	3,221	3,351	3,580	3,814	4,092	4,446	4,846	5,289	5,738	6,234	6,797	8,944	9,861
Nominal GDP (millions of U.S. dollars)	79,523	82,681	89,242	97,408	106,745	117,051	128,145	139,621	151,642	164,697	178,877	194,278	211,005	229,172	248,903	270,332	295,123	325,392	360,453	397,271	436,966	481,755	531,135
Gross International Reserves (millions of U.S. dollars)	5,219	6,318	6,958	7,480	8,198	8,915	9,832	10,789	11,718	12,727	13,823	15,013	16,306	17,709	19,234	20,890	22,806	25,145	27,854	30,700	33,767	37,228	41,044
Average exchange rate: SDR per U.S. dollars	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
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	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8

Source: IMF staff calculations.

Note: RST financing terms according to Group A.

Figure 7. United Republic of Tanzania: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(In Percent of the Indicated Variable)



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Table 7. United Republic of 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.	Act.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.
Financing Needs	**3,347**	**5,291**	**3,703**	**3,171**	**3,656**	**3,650**	**3,249**
Current account deficit	3,467	4,956	3,652	3,398	3,252	2,914	3,062
Reserves accumulation (without RSF; +=increase)	-120	336	51	-227	405	735	187
of which: SDR allocation	543	...	...	...	...	...	...
Financing Sources	**3,082**	**5,095**	**2,793**	**2,294**	**3,041**	**3,109**	**3,099**
Capital account	295	285	546	492	541	348	370
Financial account	2,221	4,811	2,248	1,802	2,500	2,762	2,728
of which: FDI inflow	1,151	1,532	1,312	1,431	1,492	1,488	1,696
Use of Fund credit	566						
Net Errors and Omissions	265	-608	0	0	0	0	0
Financing Gap	**0**	**804**	**910**	**877**	**615**	**540**	**151**
Additional Financing Sources	**0**	**804**	**910**	**877**	**615**	**540**	**151**
IMF (ECF)	...	304	304	302	304	301	151
World Bank	...	500	500	500	0	239	0
Global Fund	...	0	0	0	0	0	0
Other donors	...	0	106	75	312	0	0
Remaining Financing Gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**
RSF disbursement	...	...	...	...	...	364	453
Reserve accumulation (with RSF)	...	...	...	...	...	1,099	640

Sources: Tanzanian authorities and IMF staff estimates and projections.

Table 8. United Republic of Tanzania: Proposed Access and Phasing Under the ECF Arrangement

		Disbursements				
Availability Date	Condition for Disbursement	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	151.70	372.03	0.21
March 29, 2023	Observance of the PCs for end-December 2022, continuous PCs and completion of the first review	28.5	113.37	152.60	374.23	0.21
September 29, 2023	Observance of the PCs for end-June 2023, continuous PCs and completion of the second review	28.5	113.37	149.97	367.79	0.18
March 29, 2024	Observance of the PCs for end-December 2023, continuous PCs and completion of the third review	28.5	113.37	149.97	367.79	0.18
September 27, 2024	Observance of the PCs for end-June 2024, continuous PCs and completion of the fourth review	28.5	113.37	149.97	367.79	0.17
March 27, 2025	Observance of the PCs for end-December 2024, continuous PCs and completion of the fifth review	28.5	113.37	149.97	367.78	0.17
September 26, 2025	Observance of the PCs for end-June 2025, continuous PCs and completion of the sixth review	14.3	56.68	74.98	183.89	0.08
March 29, 2026	Observance of the PCs for end-December 2025, continuous PCs and completion of the seventh review	14.3	56.69	75.00	183.92	0.08
	Total	200.0	795.58	1052.42	2580.93	1.26

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] Future US dollar values use the exchange rate to SDR as of September 6, 2023 (1 SDR = 1.3228 US$).

[3] Tanzanian shilling values use the exchange rate to US dollar as of September 6, 2023 (1 USD = 2,452.4 Tanzanian shillings).

Table 9. United Republic of 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	**2,571**	**1,941**
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/]	741	741
Semi-concessional debt [3/]	0	0
Commercial terms [4/]	741	741
Use of debt financing	**2,571**	**1,941**
Infrastructure	1,658	1,353
Budget financing	913	588
Memorandum items		
Indicative projections		
Year 2	3,005	1,800-2,500
Year 3	2,736	1,750-2,400

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

Table 10. United Republic of Tanzania: Proposed Schedule of Disbursement Under the RSF Arrangement, 2024–26

Date of availability	Disbursement amount (in millions of SDR)	(in percent of quota) [1/]	Conditions (implementation of RMs)
December 1, 2024	42.62	10.7	Implementation of RM1
December 1, 2024	42.62	10.7	Implementation of RM5
June 1, 2025	42.62	10.7	Implementation of RM2
June 1, 2025	42.62	10.7	Implementation of RM3
June 1, 2025	42.62	10.7	Implementation of RM6
June 1, 2025	42.62	10.7	Implementation of RM7
October 31, 2025	42.62	10.7	Implementation of RM4
October 31, 2025	42.62	10.7	Implementation of RM8
October 31, 2025	42.62	10.7	Implementation of RM10
October 31, 2025	42.62	10.7	Implementation of RM13
April 30, 2026	42.62	10.7	Implementation of RM9
April 30, 2026	42.62	10.7	Implementation of RM11
April 30, 2026	42.62	10.7	Implementation of RM12
April 30, 2026	42.64	10.7	Implementation of RM14
Total	**596.70**	**150.0**	

[1/]Tanzania's quota is SDR 397.80 million.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact if Realized	Possible Policy Response
Conjunctural Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase 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, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, 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 cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering 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.

[1] Based on the latest G-RAM (February 2024). The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Likelihood	Expected Impact if Realized	Possible Policy Response
		Structural Risks	
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**Medium** • Disruptions in trade and investment flows.	• Improve business environment and competitiveness to attract more foreign investment. • Strengthen regional integration.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) 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.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**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. • Implement climate adaptation policies.
A hurried scaling-up of large infrastructure projects.	**High**	**High** • Pressure on the FX market • Low return on public investments and higher public debt vulnerability.	• Pace execution of projects in line with FX funding availability • Improve costing, evaluation, and prioritization of projects.
Failure to address FX market pressures	**Medium**	**High** • Distortions and misallocation of resources, weakening economic activity.	• Allow exchange the rate to be flexible and clear markets. • Supportive fiscal and monetary policy measures
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.

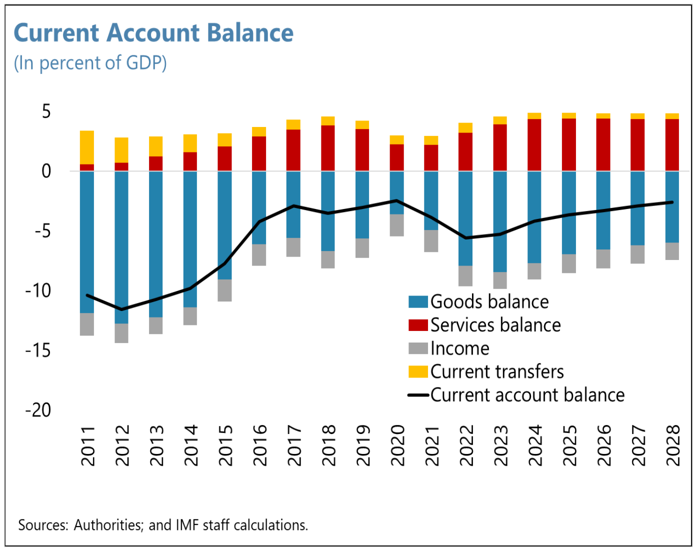
Annex II. External Sector Assessment[1]

Overall Assessment: *The external position of Tanzania in 2023 was broadly in line with the level implied by fundamentals and desirable policies. As of end-December 2023, the level of international reserves stood at US$5.5 billion and is assessed to be adequate by the Fund's ARA metric. Since the last assessment, the external position strengthened due to a higher growth of exports (mainly exports of services) compared to imports. The current account deficit is estimated to have narrowed to 5.3 percent in 2023, from 5.7 percent in 2022. Meanwhile, the real exchange rate depreciated by about 0.5 percent in 2023.*

Potential Policy Responses: *Exchange rate flexibility is needed to cushion the economy against external shocks and clear possible FX shortages in the market. Continued maintenance of an adequate level, and possible accumulation of reserves to create buffers remains key in light of considerable uncertainties in global developments.*

Current Account

Background. The current account deficit contracted to 5.3 percent of GDP in 2023, from 5.7 percent of GDP in 2022, as rising exports more than offset the increase in imports. This marks a recovery of the current accounts since the deficit widened due to the Covid-19 shock. The current account deficit is expected to continue improving in 2024 and decline to about 2.5 percent over the medium-term.



Assessment. The EBA-lite methodology shows that Tanzania's external position in 2023 was in line with fundamentals and desirable policies. With an estimated CA norm of -6.1 percent of GDP[1] against a cyclically adjusted CA of -5.6 percent of GDP[2], the Current Account model shows CA gap of 0.5 percent of GDP which is in line with fundamentals and desirable policies. The REER model also points to an external position that is in line with fundamentals and desirable policies with an estimated CA gap of 0.7.

[1] Estimation of the norm reflects in part a desirable capital control index for Tanzania of 0.23, the average for the Eastern African Community (EAC) countries, indicating the authorities' objective of harmonizing their policies with those of the EAC.

[2] Adjustors to the underlined current account balance include cyclical contribution and impact of natural disasters, both of which are from the model. The adjustor used previously on estimated impact of the pandemic on tourism was dropped as tourism has recovered to pre-COVID levels.

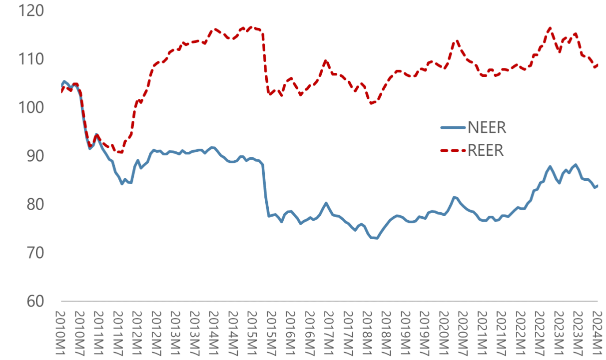
[1] Due to data constraints, the External Sector Assessment does not include an assessment of the position and trajectory of Tanzania's Foreign Assets and Liabilities.

Real Exchange Rate

Background. On average during 2023, the Tanzanian shilling depreciated 0.5 percent in real terms against a basket of currencies of trading partners, reflecting the depreciation of the Tanzanian shilling against (8.5 percent) together with the strengthening of the U.S. dollar vis-à-vis major currencies. The nominal effective exchange rate depreciated by about 3 percent in 2023. Since 2020, the real exchange rate has cumulatively depreciated by about 4 percent, reflecting the impact of the COVID-19 shock on the balance of payments.

Real and Nominal Effective Exchange Rates

(Index, 2010=100)



Sources: Authorities; and IMF staff calculations.

Assessment. The CA model estimates the real exchange rate gap midpoint at 4.4 percent of GDP in 2023. Based on the employed current account elasticity of -0.12, the real exchange rate is assessed to be broadly in line with fundamentals when the gap midpoint lies within the +/-8.3 percent interval range— this is the case for the exchange rate gap midpoint based on the CA model. The real exchange rate gap midpoint based on the REER model is slightly larger, at 6.1 percent of GDP (partially driven by a high real interest rate in the rest of the world), and also falls within the +/- 8.3 percent interval. Overall, staff assesses the real exchange rate to be broadly in line with fundamentals and desirable policies.

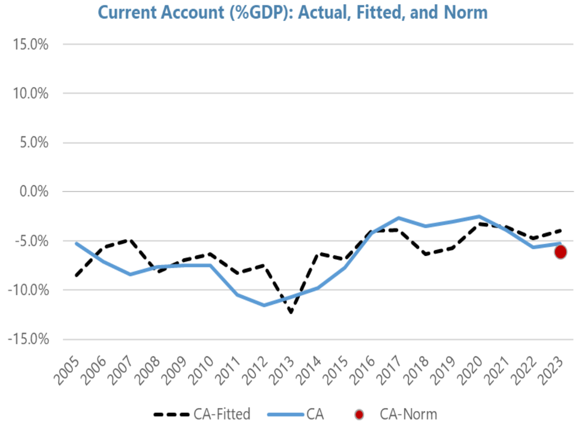
Tanzania: EBA-lite Model Results, 2023

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-5.3**	
Cyclical contributions (from model) (-)	0.3	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-5.6**	
CA Norm (from model) 2/	**-6.1**	
Adjusted CA Norm	**-6.1**	
CA Gap	**0.5**	**0.7**
o/w Relative policy gap	1.9	
Elasticity	-0.1	
REER Gap (in percent)	**-4.4**	**-6.1**

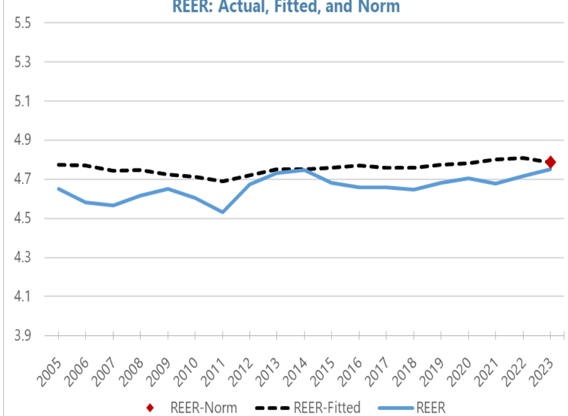
1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Current Account (%GDP): Actual, Fitted, and Norm



REER: Actual, Fitted, and Norm



Capital and Financial Accounts: Flows and Policy Measures

Background. Historically, Tanzania's current account deficit was financed mainly by FDI, capital grants, and concessional public-sector borrowing. In recent years, however, the current account deficit has been financed mainly by public sector borrowing, as capital grants and FDI slowed down.

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

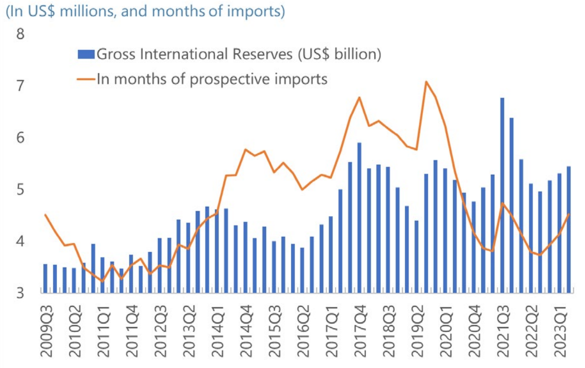
FX Intervention and Reserves Level

Background. At US$5.5 billion at end-December 2023, the level of international reserves is assessed to be adequate. Reserves coverage, at around 4 months of imports and 7 percent of GDP, falls closer to the mid-range of the ARA metric (3.4 to 5.1) for credit-constrained economies, that compares the marginal costs of holding reserves against marginal benefits (see Figure below).

Assessment. The ARA metric models an indicative adequate level of reserves. Nonetheless, other risks faced by Tanzania may not be fully captured by the model, such as borrowing from international financial markets, opening the capital account, currency risks in the banking system, among others. For these reasons, a higher level of international reserves than suggested by the ARA metric would be optimal for Tanzania. In this regard, the BoT should conduct FXI in accordance with the new FXI policy, which states that foreign exchange intervention by the Bank is intended to address disorderly market conditions and contain excessive fluctuations in the exchange rate; and increase the level of international reserves to reduce external vulnerability and improve access conditions to external funding.

Gross International Reserves

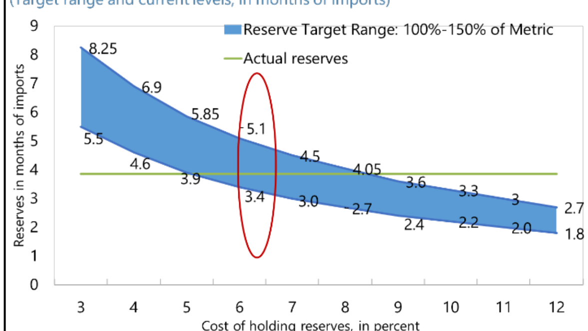
(In US$ millions, and months of imports)



Sources: Authorities; and IMF staff calculations and projections.

Tanzania Optimal Reserves 1/

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



1/ Assuming no IMF program and unconditional probability of a large shock event of 0.5.

Source: IMF staff calculations.

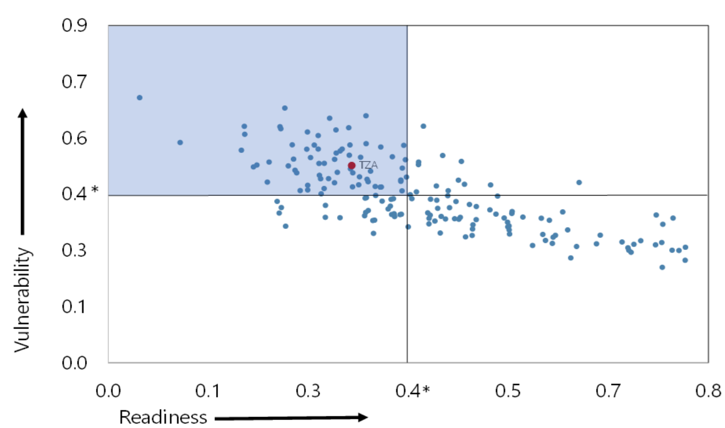
Annex III. United Republic of Tanzania's Challenges from Climate Change and Policy Priorities

Tanzania is highly vulnerable to climate change but has low readiness in dealing with its impact. 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 and enhance resilience collaborating closely with development partners. Despite this progress, diagnostic assessments identify key areas of challenges, including in policy frameworks and implementation. Support under the RSF, underpinned by strong reform measures, will help address these challenges and deepen and expand the authorities' efforts to address climate change to meet policy commitments on mitigation and adaptation, and help catalyze other sources of finance.

A. Tanzania's Exposure to Climate Change

1. **Tanzania is highly vulnerable to climate change but less prepared to deal with its impacts.** Tanzania is the 45th most vulnerable country to climate change among 182 assessed in the ND-GAIN Country index and the 58th least prepared to leverage investments to adaptation actions among 192 assessed. The high vulnerability score and low readiness score of Tanzania places it in the upper-left quadrant of the matrix for global sample, suggesting the greater adaptation needs and less preparation.

Annex III. Figure 1. ND-Gain Country Index: Vulnerability and Readiness Score for all Countries, 2021



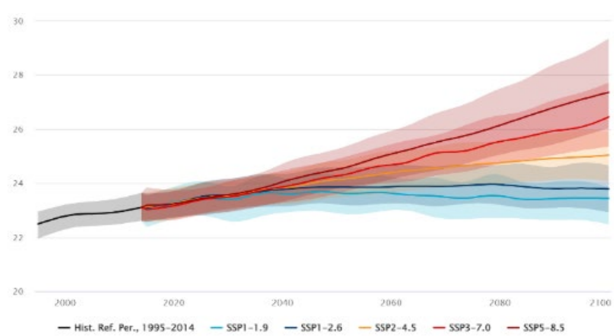
Source: IMF-adapted ND-GAIN Country Index, IMF Climate Change Indicators Dashboard.

2. **Tanzania's exposure to climate change is through temperature rise, rainfall pattern changes— with floods and drought events becoming more frequent and more severe—and sea level rise.** Average annual temperature increased by about 1°C over the past century, accompanied by increased frequency and intensity of floods, droughts, and storms, (Annex III, Figure 3). Meanwhile, sea level rise on the Tanzanian coast amounted to about 3 millimeters per annum over the past decades, impacting several coastal cities through increased coastal erosion, destruction of mangroves, infrastructural damages, intrusion of sea water into freshwater wells and crop fields and destruction of human settlements. Floods accounted for about two thirds of all natural disasters over the past four decades, increasing from an average of 0.8 flooding events per

year during 1980–2010, to 1.8 per year during 2011–22. The frequency of floods in Tanzania increased by 45 percent during 2010–20, compared to a decrease of 14 and 15 percent in SSA and the rest of world respectively. Droughts were the second most prevalent disaster and the main source of disruption for the population in the past four decades (for example, 10 percent of the population was affected by droughts in 2006). It is estimated that 70 per cent 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, IMF, 2023. Tanzania's vulnerability to climate change is also exacerbated by local environmental issues, including destruction of coral reefs and mangroves increasing vulnerability to floods and sea level rise; deforestation and unsustainable water use increasing vulnerability to draughts and floods.

3. **Climate change is projected to further increase Tanzania's exposure, including from increased frequency and intensity of droughts and floods.** While climate change projections have some degree of uncertainty, several studies and models, project that Tanzania will likely experience higher temperature, increased duration of heat waves and dry spells, increased frequency and intensity of heavy rains, and rising sea levels. Based on multi-model ensembles used by the World Bank for Tanzania's climate projections, Tanzania is expected to face a range of 0.4–4.3°C increase of mean temperature by the end of the century relative to the 1995–2014 baseline (see World Bank Climate Change Knowledge Portal). The IPCC (2022) report on Africa indicated that, at 2°C of global warming above pre-industrial levels, mean annual temperatures in East Africa are projected to be on average 1.1°C warmer than the 1994–2005 average. Consequently, heavy rainfall events are projected to increase while drought frequency, duration and intensity will likely increase in Tanzania and other countries in East Africa.

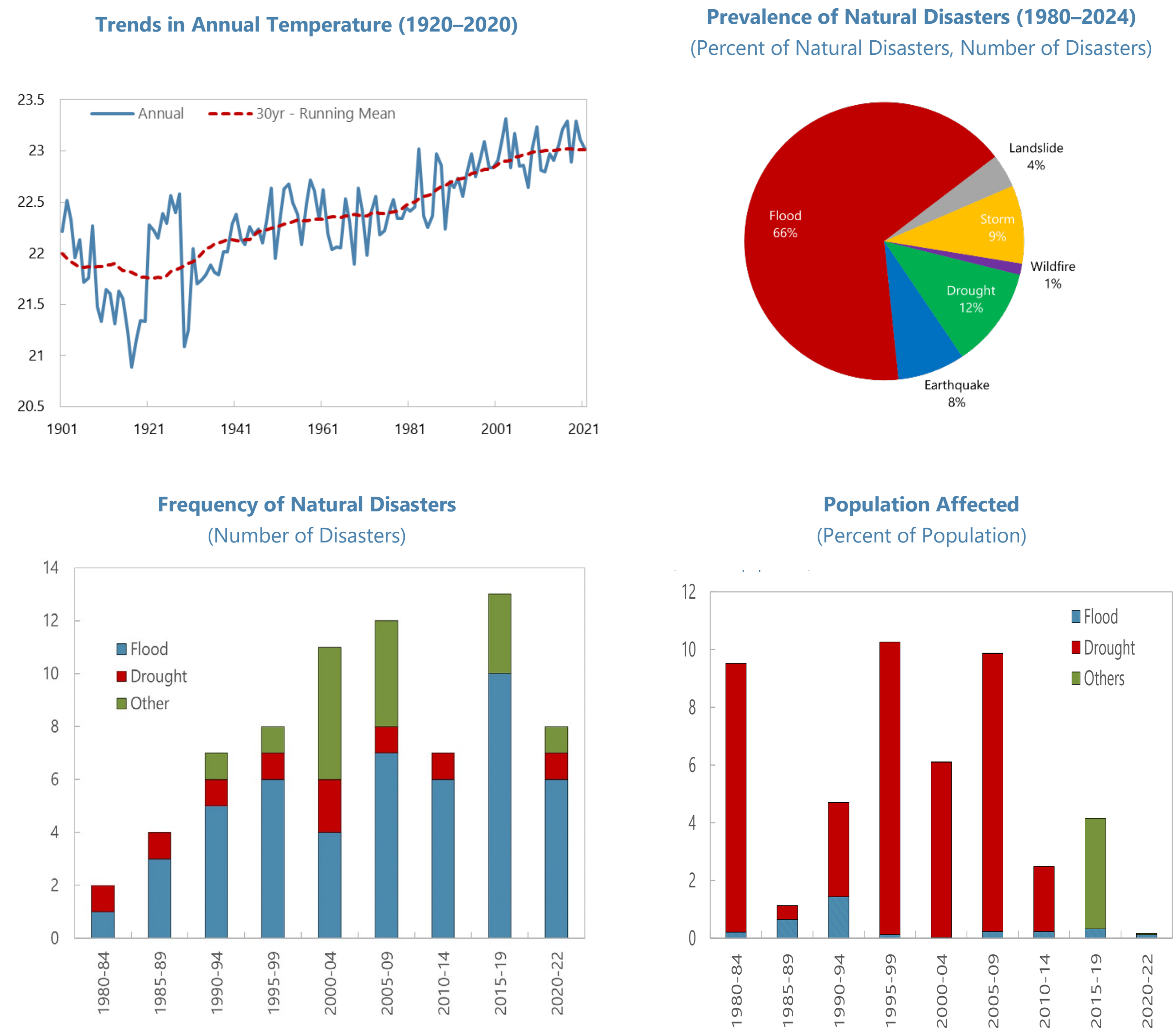
Annex III. Figure 2. United Republic of Tanzania: Projected Mean Temperature (1995–2014), Multi-Model Ensemble



Source: World Bank Climate Knowledge Portal

4. **The Tanzanian economy is vulnerable to climate change given the high exposure of key economic sectors.** Individual climate-related events have caused economic costs estimated at more than 1 percent of GDP per year, and occur regularly, reducing long-term growth and affecting millions of people and livelihoods (Watkiss et al. (2011)). The projected climate change outlined above is expected to increase the adverse economic impact of natural disasters. The IMF's April 2020 SSA Regional Economic Outlook (REO) finds that the potential impact of climate change on growth is larger and longer lasting in SSA than in the rest of the world, reflecting the region's lower resilience and coping mechanisms, and its dependence on rain-fed agriculture. The REO estimates that economic activity in a given month can shrink by 1 percent when the average temperature is 0.5°C above that month's 30-year average. In Tanzania, the key economic sectors exposed to climate change include:

Annex III. Figure 3. United Republic of Tanzania: Temperature Rise and Prevalence of Natural Disasters[1]



Source: EM-DAT, and IMF Staff Calculations
1/ EM-DAT defines a disaster as a situation or event which overwhelms local capacity, necessitating a request to the national or international level for external assistance; an unforeseen and often sudden event that causes great damage, destruction, and human suffering.

- **Agriculture.** Tanzania has a large and diverse agricultural sector, encompassing traditional export crops (coffee, tea, cashew, sisal, etc.), a booming horticulture export sector, a cattle and meat sector, commercial production of staples (maize, other grains) for domestic and regional markets, and subsistence farming. The agriculture sector accounts for about 25 percent of GDP and employs 75–80 percent of the workforce in the country (USAID, 2018). However, about 80 percent of agricultural production comes from low-input smallholder farms which are predominantly rainfed and prone to droughts. Only about 1.5 percent of national crop land suitable for irrigation is irrigated, while the national crop land area exposed to at least one drought per year will increase in response to global warming (BMZ and GIZ, 2021).

- **Tourism.** The tourism sector contributes about 17.5 percent of the Tanzania's GDP and 25 percent of foreign currency earnings. Climate change affects a wide range of environmental resources that are critical for tourists' attractions, such as wildlife, biodiversity, and water levels and quality. Incidents that can deter tourists, such as high temperatures, extreme precipitation, infectious disease, wildfires, increased wildlife mortality due to shortage of water and pasture, insects, destruction of coral reefs due to global warming and waterborne pests. There is a risk that shrinking of rangelands for livestock could increase incentives for encroachment on wildlife habitats, increasing vulnerability of the tourism sector and deteriorate provision of other eco-system services. The melting of Mount Kilimanjaro ice cap is said to have impacted affected tourism negatively.[1]
- **Livestock.** The livestock sector contributes about 7 percent of the Tanzania's GDP. The sector is central to the livelihood of rural Tanzanians, particularly pastoralists whose livelihoods are wholly or partially dependent on livestock. However, most of the livestock are concentrated in the semi-arid areas which are more suitable for livestock than food and cash crops cultivation but more prone to climate change effects. Changes in the mean temperature and rainfall, and the increased variability of rainfall have resulted in the prolonged length of dry seasons and increased severity of periodic droughts that reduce availability of water and pastures. This also causes shrinking of rangelands.
- **Fisheries.** The fisheries sector contributes 1.8 percent of the Tanzania's GDP and provides about 35 percent of rural employment. Fishing is a crucial source of livelihood for fishing communities in Tanzania's inland and coastal areas, but it is severely threatened by climate change. The rise in sea levels and increase in the lake and ocean temperatures, associated with global warming, lead to destruction of coral reefs which is a critical habitat for fish in the coastal environments. This drives fish species into deeper waters. Sedimentation in freshwaters is also negatively affecting fisheries in freshwater bodies by destroying fish breeding and feeding sites.
- **Transport and infrastructure.** Sea level rises, and increased frequency and intensity of floods are associated with significant destruction of infrastructure in Tanzania. This includes severe damages to road, bridges, water dams, railway, electricity poles, drainage networks, water supply, and human settlements. For instance, the 2019 Tanga flood is estimated to have caused direct infrastructural damages and losses amounting to US$19 million, affecting critical infrastructure such as water supply system, electricity networks, roads and bridges, schools, hospitals and residential buildings, and various equipment. In 2011, heavy rains in Morogoro caused flooding which destroyed six bridges, several roads, and several human settlements. In Dar es Salaam, infrastructure assets with the value of US$5.3 billion are increasingly at risk from flooding and sea level rise (USAID, 2018; Tanzania, 2014). In the energy sector, electricity provision relies heavily on hydropower, which dominates the

[1] See 2012 Guidelines for integrating climate change adaptation into national sectoral policies, plans and programs of Tanzania.

country's generation capacity but failed to deliver to their potential during several low rainfall years. The government is planning to reach universal access to electricity by 2030, with 25 percent of the access to be provided by off-grid solutions. This will require a sustainable management of water resources to support stable hydro-based electricity generation. In addition, the country's long-term power sector plan needs to be aligned with climate mitigation goals and coordinated with the long-term plans of other sectors, including water and agriculture.

5. **Climate change also poses significant risks to food security and public health and increases inequality.** Tanzania's heavy reliance on increasingly unreliable rainfall poses high risks to food security and nutrition. Without adaptation measures, both floods and droughts could negatively affect future food security in Tanzania via lower crop production and higher post-harvest losses. For SSA, with every event of flood or drought, there is an estimated increase in food insecurity of 5–20 percentage points (IMF, 2020). Climate change is also exacerbating already high inequality in Tanzania, as poorer households are the most adversely impacted. About half of the population lives below the poverty line and depends on weather-sensitive activities such as rain-fed agriculture, herding, and fishing for their livelihoods. Limited financial buffers and low levels of education and health care impede their ability to adapt to adverse consequences of climate change, raising vulnerabilities to food insecurity and income losses (IMF, 2020). The Productive Social Safety Net Program (PSSN) under the Tanzania Social Action Fund (TASAF) is currently targeted to the poorest households only. Currently, the unified register of beneficiaries only captures the poorest households but does not include low-income climate-vulnerable households, which could fall under the poverty line in case of a disaster. Expanding the coverage of the social registry and preparing mechanisms that would allow to provide well targeted one-off or temporary support to vulnerable households affected by a disaster would make the system more shock responsive. A transparent and well-designed mechanism can also be used to channel emergency support from donors, ensuring appropriate coverage and minimizing overlaps. As far as public health is concerned, more frequent floods and heavy rain have caused diseases such as diarrheal and malaria to spread, both leading causes of death in Tanzania. While aggressive health programs have reduced malaria morbidity and mortality in recent years, new cases are emerging in the previously malaria-free highlands due to climate changes. Rising temperatures are also expected to result in more frequent heat-related mortality, and increased flooding threatens further outbreaks of waterborne diseases.

6. **Deforestation exacerbates Tanzania's vulnerability to climate change.** Tanzania has a relatively high rate of deforestation compared to other countries in the world, driven largely by demographic change and the resulting demand for agricultural land and for domestic cooking fuel (FAO 2020, Global Forest Watch). It is estimated that 80-90 percent of households use biomass—mainly wood and charcoal—as their main source of domestic fuel (The Potential and Optimal Strategies for Charcoal Sub-sector Development in Tanzania, 2019) which has adverse implications for climate and increases health risks due to air pollution. Biomass fuel use has been linked to Acute Respiratory Infections (ARI) in children in Tanzania.[2] Deforestation exacerbates land degradation due

[2] Kilabuko and Nakai (2007).

to a higher risk of damage from floods and droughts, less ability to absorb water, and more exposure to erosion. The establishment of large plantations of water-intensive crops, such as sugar cane, in semi-arid and climate-sensitive areas further contribute to vulnerability.

B. Tanzania's Climate Change Strategy

Legal and Institutional Framework

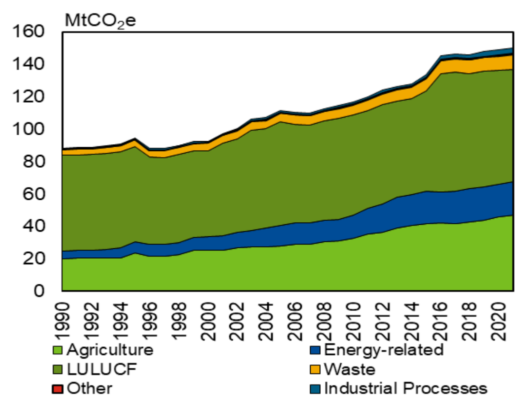
7. **Tanzania is a signatory of the Paris Climate Agreement and made strong commitments in the 2021 updated Nationally Determined Contribution (NDC) to reduce vulnerabilities and increase climate resilience.** Despite its small contribution to the global emissions, Tanzania has committed to a robust climate mitigation goal. Tanzania's total GHG emissions grew by 70 percent to 151 million tons of CO2 equivalent (MtCO2e) between 1990 and 2021, figure 4. On a per capita basis, Tanzania's GHG emissions of 2.4 tons CO2e are below the global average of about 6.6 tons. The agriculture and forestry sectors are the largest contributors to Tanzania's GHG emissions, mainly due to deforestation, figure 4. The NDC submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in 2021, sets Tanzania's GHG emission reduction target of 30-35 percent below its business-as-usual (BAU) emission level by 2030 (including mainland Tanzania and Zanzibar). The low ambition scenario, a 30 percent reduction, would result in approximately 138 million tons of carbon dioxide equivalent (MtCO2e) lower the BAU scenario by 2030, whereas the high ambition scenario, a 35 percent reduction, would result in approximately 153 MtCO2e lower than the BAU scenario by 2030. The country's national climate-related ambitions are grounded in the National Climate Change Response Strategy (2021–26), which lays out a set of adaption and mitigation interventions in major economic sectors to strengthen climate change resilience and reduce greenhouse gas emissions. The Five-Year Development Plan (FYDP) III lays the medium-term national development plan across all economic sectors, including climate actions to improve mitigation and adaptation, and to promote renewable energy. The National Disaster Management Strategy (2022–27) provides an institutional framework, across levels of government, for disaster risk management and loss reduction and it is integrated into FYDP III. The authorities forthcoming long-term developmental plan, Vision 2050, which will succeed Vision 2025, is expected to include long-term climate policy and strategic priorities. Furthermore, the authorities are also developing the National Adaptation Plan (NAP) which will articulate the country's adaptation activities to address the current and anticipated adverse effects of climate change, including investment plans.

8. **While the 2004 Environmental Management Act (EMA) and associated regulations provide the legal basis for Tanzania's climate change management policies and actions, the institutional framework has gaps.** The EMA requires different sectors to address climate change in their undertakings. It empowers the sectors to undertake various environmental roles and responsibilities that are relevant to their core functions. It also defines the roles and responsibilities of some of the institutions involved in climate actions, including the Minister responsible for the environment, the National Environmental Advisory Committee (NEAC), the National Environment Management Council (NEMC), sectoral ministries, regional and local governments. Furthermore, the

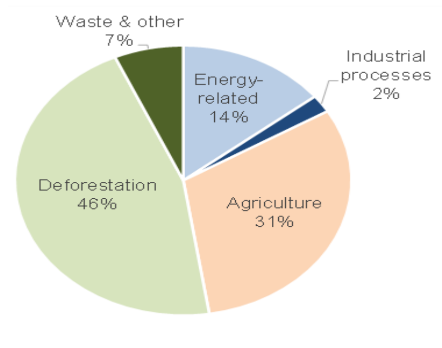
Vice President's Office (VPO) responsible for Union and the Environment is the National Designated Authority (NDA) under the UNFCCC framework and tasked with overseeing the overall implementation of the NDC. The government has also established a National Climate Change Steering Committee (NCCSC) and a National Climate Change Technical Committee (NCCTC). The NCCSC is responsible for advising, guiding and coordinating implementation of the NDC while the NCCTC provides technical advice for the NDA implementation. According to the IMF CPD, while Tanzania has some elements of an enabling institutional framework for managing climate change, there is a need to clearly define the roles and responsibilities for all stakeholders and a coordination mechanism that ensures consistency of climate policies between levels of government and across sectors by amending the Environmental Management Act.

Annex III. Figure 4. United Republic of Tanzania: GHG Emissions

GHG Emissions 1990-2021



Emissions by Sector, 2021



Source: IMF Climate Change Indicators Dashboard and IMF Staff Calculations using CPAT

9. Coverage and mainstreaming of climate change management at sectoral level varies across sectors. While the agriculture sector strategies reflect the government's plans for promoting climate smart agriculture practices, the policies and strategies of other sectors key to climate change management, including, energy, water, and land management make very limited reference to the government's mitigation commitments and adaptation ambitions, (IMF Climate Policy Diagnosis 2024). The authorities are currently updating some sectoral plans and strategies, including energy sector, to address the gaps.

Annex III. Table 1. United Republic of Tanzania: Climate Change Strategies and Institutions[1]

Key Strategies and Plans	
Institutions	**Climate Related Responsibilities**
Updated Nationally Determined Contribution (2021)	Pursuant to Article 4 of the Paris Agreement, Tanzania submitted its updated NDC in 2021 and communicated the commitments towards 2030 in the context of the objectives of the Paris Agreement to hold the increase of the global average temperature to well below 2C above pre-industrial levels while pursuing efforts to limit the increase to 1.5C. The updated NDC covers all key sectors that contribute to the country's mitigation efforts, as well as on the adaptation agenda.
National Climate Change Response Strategy (2021–26)	The National Climate Change Response Strategy (NCCRS) was published in 2021 tandem with the updated NDC. The NCCRS covers the period of 2021-2026 and presents climate actions across sectors to deliver the NDC objectives. The NCCRS includes detailed measures and investments, implementation arrangement, resource mobilization, and the monitoring and evaluation of the NCCRS.
Five Year Development Plan III (2021/22–2025/26)	The Five-Year Development Plan III (FYDP III) is the medium-term national development plan. The FYDP III covers the period of 2021/22–2025-26 and integrates climate change considerations among the guiding principle of Tanzania's development strategy.
National Environmental Master Plan for Strategic Interventions (2022–32)	National Environmental Master Plan for Strategic Interventions (2022–32) was published in 2022 and covers the period of 2022-32. The overall objective of the master plan is to guide strategic and coordinated environmental interventions at all levels, based on spatial variation of environmental challenges and intervention options.
The National Disaster Management Strategy (2022–27)	In line with the 2022 Disaster Management Act, the authorities developed the National Disaster Management Strategy (2022-2027), accompanied the National Disaster Preparedness and Response Plan (2022) and other instruments. These instruments set the institutional framework for disaster risk management and reduction across levels of government and to be integrated into the country's FYDP.
National Adaptation Plan (NAP) (forthcoming)	The NAP will articulate the country's adaptation activities to address the current and anticipated adverse effects of climate change, including adaptation investment plans.
Tanzania Vision 2050 (forthcoming)	The Government of Tanzania is developing next long-term development strategy of the country, Vision 2050, which will succeed the current Vision 2025 and the Long-Term Perspective Plan 2011/12-2025/26. The Vision 2050 is expected to include an emphasis on long-term climate policy and strategic priorities.
National Energy Transition Strategy	Expected to outline the country's energy transition strategy.

Annex III. Table 1. United Republic of Tanzania: Climate Change Strategies and Institutions (concluded)

Institutions	Climate Related Responsibilities
National Climate Change Steering Committee	The National Climate Change Steering Committee (NCCSC) has been established, chaired by the Permanent Secretary of the Vice President's Office, to ensure coordinated actions across various sectors and institutions. The National Climate Change Technical Committee (NCCTC) has also been established, chaired by the Director of Environment, with the role of providing technical advice to the NCCSC.
Sector Ministries	In the NDC context, line ministries contribute sectoral targets and programs to the national climate strategy, as well as incorporate climate policy targets and goals into their strategies and action plans. Line ministries play a critical role in the development and implementation of climate-relevant infrastructure projects and climate-related rules and regulations.
Ministry of Finance (MoF), Planning Commission	The MoF, jointly with the Planning Commission, play a critical role in climate-related public investment planning and budgeting processes by coordinating with sector ministries in the implementation of the PIM process and provides relevant guidelines. MoF is the counterpart institution for external financing of public investment projects and responsible for disaster risk financing.
Tanzania Meteorological Authority (TMA)	Tanzania meteorological authority provides weather and climate and other related services.
Tanzania National Carbon Monitoring Center (NCMC)	NCMC is responsible for reporting on Tanzania's carbon stocks and their changes as well as coordinating the Government's National processes for GHGs measurement, reporting and verification (MRV).
Vice President's Office, Union and Environment	The Vice President's Office, Union and Environment, is responsible for overseeing the implementation of climate related activities and the NDC at the national level. The VPO leads the development of the NDC and the NCCRS, and coordinate with other ministries on their implementation. The VPO is also responsible for the coordination and communication with the UNFCCC.
The Prime Minister's Office (PMO) Disaster Management Division	The PMO Disaster Management Division is responsible for coordinating disaster risk management and humanitarian services across stakeholders including government Ministries, Departments and Agencies (MDAs, Regional Secretariats (RSs), Local Government Authorities (LGAs) and Public Institutions and International partners.

[1] IMF Technical Report, "Tanzania: Public Investment Management Assessment with Climate Module.

Policies to Improve Resilience to Climate Change

10. **The government aims to improve resilience to climate change through adaptation and mitigation actions outlined in various policy documents including the 2021 NDC and the National Climate Change Response Strategy.** On the adaptation side, policies aim to address vulnerabilities in all sectors that are exposed to climate change including agriculture and livestock, tourism, water, energy and others (Annex III, Table 2). In addition to the specific sectors, adaptation actions also aim to address cross-cutting issues such as enhancing disaster risk management, enhancing gender equity and youth involvement in climate change adaptation, and building national capacity for costs analysis of climate actions and climate modelling. On the mitigation side, Tanzania aims to prioritize actions in four mitigation sectors namely energy, transport, forestry, and waste sectors in order to achieve its decarbonization ambitions set in the 2021 NDC. While the

agricultural sector policies focus on adaptation, their implementation would contribute towards reducing GHG emissions from the sector.

Annex III. Table 2. United Republic of Tanzania: Adaptation and Mitigation Actions

Sector	Priority Adaptation Sectors
Agriculture	• Upscaling the level of improvement of agricultural land and water resources management. • Increasing productivity in an environmentally sustainable way through, inter alia, climate-smart agriculture interventions. • Promoting accessible mechanisms for smallholder farmers against climate related shocks, including crop insurances. • Strengthening agricultural research and development. • Strengthening knowledge systems, extension services and agricultural infrastructure to target climate actions, including using climate services and local knowledge
Tourism	• Promoting climate resilient tourism. • Enhance tourism toward a sustainable coastal protection and marine conservation
Livestock	• Promoting local and modern climate resilience knowledge for sustainable pasture and rangeland management systems and practices. • Enhancing climate resilience livestock infrastructures and services. • Promoting accessible mechanisms for livestock keepers against climate related shocks, including livestock insurances. • Enhancing livestock productivity through climate-smart interventions.
Forestry	• Enhancing participatory sustainable forest and wildlife management and protection. • Safeguarding the ecosystem services, including through the promotion of alternative livelihood options to forest dependent communities. • Strengthening forestry research and development to promote resilience to climate stress.
Energy	• Promoting climate resilient energy systems. • Exploring options for energy diversification. • Promoting climate-smart rural electrification.
Coastal, Marine Environment and Fisheries	• Strengthening management of coastal and marine resources and monitoring systems. • Promoting sustainable livelihood diversification for coastal communities. • Improving early warning systems of both sea level rise impacts and extreme weather events. • Increasing productivity in an environmentally sustainable way through inter alia climate-smart fisheries and aquaculture interventions. • Promoting accessible mechanisms for small-holder fishers and farmers against climate related shocks, including insurances. • Strengthening fisheries and aquatic resources research and development. • Strengthening extension services and technologies for fisheries and aquaculture development. • Enhancing area-based management systems for sustainable blue economy.

Annex III. Table 2. United Republic of Tanzania: Adaptation and Mitigation Actions (continued)

Water, Sanitation, and Hygiene	• Promoting climate smart integrated water resources management including supporting water resources governance. • Promoting sustainable waste management and innovations. • Promoting investment for climate-resilient Water Sanitation and Hygiene (WASH) infrastructure s, technologies and services. • Enhance the implementation and monitoring of climate resilience of water.
Health	• Promoting climate resilient public health system. • Financing capacity building on climate change and health, management of health determinants and improving surveillance and reporting systems. • Strengthen preparedness and readiness to control and management of climate related health risks, • Increase safe treatment and disposal of healthcare waste in all healthcare setting from 40 percent to 70 percent to reduce carbon footprint.
Infrastructure	• Strengthening early warning system and weather forecasting and dissemination. • Promoting climate proofing of existing and new infrastructure across sectors. • Enhancing Disaster management and Planning Resilient Settlement. • Promoting climate proofing of existing and new infrastructure across sectors. • Propose and Operationalize adaptation option for roads, bridges, housing and transport infrastructures.
Sector	**Mitigation Sectors**
Energy	• Exploring options for improved clean power interconnection with neighboring countries. • Promoting clean technologies for power generation and diverse renewable sources such as geothermal, wind, hydro, solar and bioenergy • Expanding the use of natural gas for power production, cooking, transportation, and thermal services through improvement of natural gas supply systems throughout the country. • Promoting climate-smart rural electrification, including development of micro and mini-grid renewable generation for improved rural electrification. • Reducing the consumption of charcoal in urban and rural areas by promoting affordable alternative energy sources through a regulation policy for charcoal production and us
Transport	• Promoting low emission transport systems through deployment of mass rapid transport system and investments in rail, maritime and road infrastructures, including high quality transport system and expansion/scaling up of BRT infrastructures. • Promoting the use of renewable (clean) energy in transportation systems. • Introduction and promotion of Non-Motorized Transport system and facilities and networks in both mega cities and metropolitan cities by 2030
Forestry	• Enhancing and upscaling implementation of participatory forest management programs. • Facilitating effective and coordinated implementation of actions that will enhance the contribution from the entire forest sector. • Promote nationwide forest landscape restoration programs and initiatives.

Annex III. Table 2. United Republic of Tanzania: Adaptation and Mitigation Actions (concluded)	
Waste Management	• Promoting environmentally sound waste management practices that support reuse, reduce, and recycle. • Promoting waste-to-energy technology.
Source: Tanzania NDC (2021), Climate Adaptation Country Compact	

Cost of Climate Mitigation and Adaptation Policies

11. Recurring natural disasters have a significant macroeconomic cost. Natural disasters are expected to affect the economy through five main channels: damages to public and private capital, a temporary productivity loss, a decline in public investment efficiency, and loss of credit worthiness. Government balances are expected to deteriorate as reduced output lowers revenue, and government spending increases due to transfers to affected population and to address reconstruction needs (which also worsen BoP balances). Debt sustainability risks rise following a climate disaster because of deteriorating fiscal balances and increases in public debt.

Annex III. Figure 5. United Republic of Tanzania: DIGNAD Model Simulations (Baseline, Adaptation Investment and PIE)

Source: Staff calculations, DIGNAD model simulations.

12. Investment in climate adaptation infrastructure can strengthen Tanzania's economic resilience against natural disasters. Tanzania's public investment increased significantly in the last decade, peaking at about 8.8 percent of GDP in FY2021/22 and now stabilizing around 7 percent of GDP, reflecting flagship infrastructure projects such as hydropower, railway and roads. Despite these major investments, infrastructure damages from climate-related natural disasters are still very high. Using the IMF's DIGNAD model tailored to the Tanzanian economy we analyze the impact of public adaptation investment on economic growth and debt sustainability in various scenarios (see Annex IV). Simulations in Figure 5 investigate the impact of a natural disaster shock for three investment scenarios prior to the disaster: (i) baseline, with investment in (standard) non-resilient infrastructure, (ii) adaptation, with investment in more expensive, disaster-resilient infrastructure, and (iii) adaptation scenario with additional reforms to enhance public investment efficiency (PIE). Investing in adaptation infrastructure can improve Tanzania's economic resilience against natural disasters, limiting the post-disaster economic losses, recovery costs, and the rise in public debt. Reforms that improve public investment efficiency can further enhance the resilience of infrastructure, boost these benefits, and reduce the growth-debt tradeoff.

13. Investments for climate action are very costly and Tanzania's estimated financing needs are enormous. The 2021 NDC estimates that cost of implementing climate policies at $19.2 billion (which translates to about 4 percent of GDP per year until 2030), out of which $9.9 billion is for adaptation.[3] According to the IMF climate policy diagnostic Technical Assistance, Tanzania's adaptation strategies have relied heavily on public sector policy and investment and the need to promote greater private sector participation is crucial.

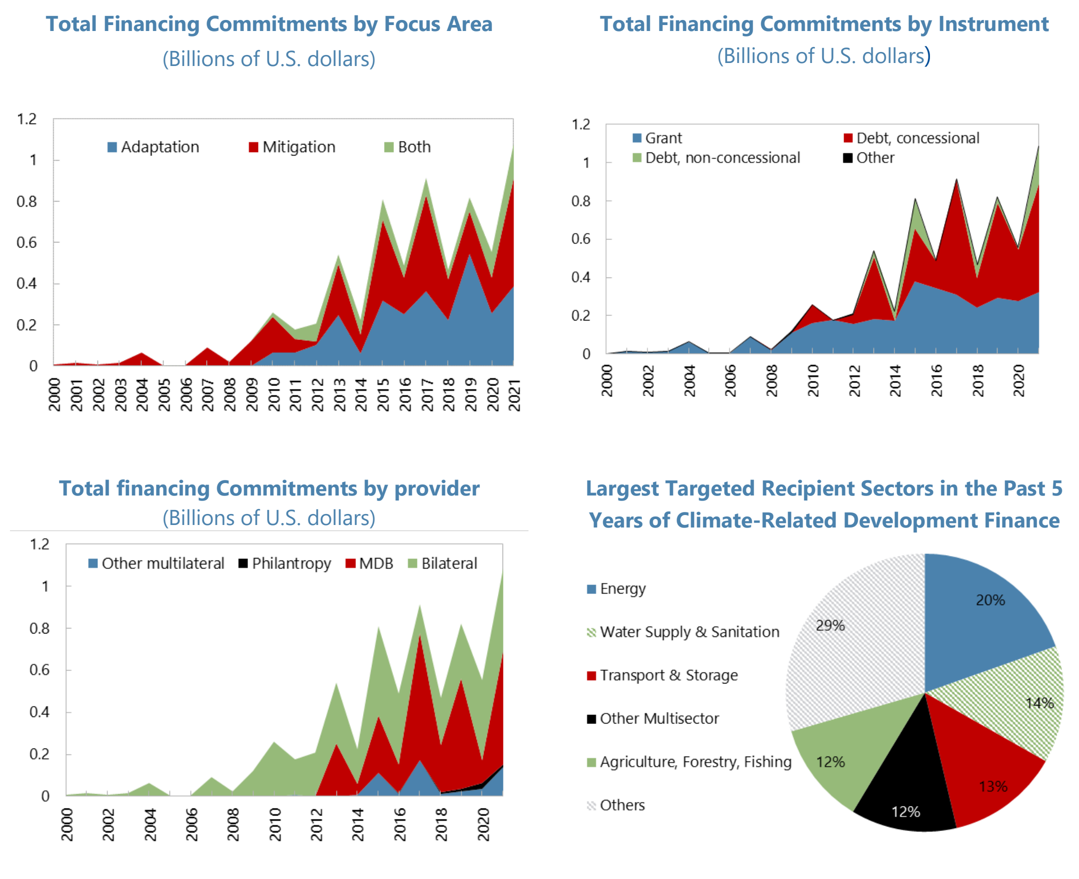
14. The proactive use of market-based climate finance could provide additional resources for climate financing. The Water Green Bond recently issued by Tanga UWASA[4] illustrates how Tanzania can mobilize private climate finance by greening its funding strategy, e.g., the Alternative Project Financing Strategy. A green or sustainability finance policy by the government underpinned by a green or sustainability bond framework will signal a clear green strategy and help raise green funding through the capital market. Similarly, the development of long-term investment plans for priority sectors specifically focusing on increasing the role of private sector, similar to the initiative in Rwanda, can help address an important market barrier to private investments by creating a pipeline of climate projects. Expansion of green financial instruments will help channel long-term market-based financing for climate-related investment. In addition, improved climate disclosures, and green taxonomies or equivalent approaches, would help manage climate financial risks and develop green financial markets.

[3] According to the Authorities' Adaptation Compact, of the $19.2 billion NDC budget, $9.9 billion is envisaged for adaptation, allocated to the major sectors as follows: 70 percent for energy, 6.6 percent for health, 6.3 percent for tourism, 6.3 percent for agriculture and livestock and 2 percent for forestry.

[4] There is a growing interest in sustainable instruments. Last year, two major commercial banks issued sustainable bonds adding up to US$700 million. The recent Tanga UWASA green bond issuance worth TZS 53.12 billion was oversubscribed, with 35 percent of the issuance bought by international investors. The authorities are planning to develop a sovereign sustainable finance framework in the next fiscal year with the aim to issue a labeled bond in a year or two.

15. Mobilizing financing for the implementation of Tanzania's mitigation and adaptation policies will require a concerted effort. Effective implementation of the NDC will require mobilization of domestic resources, including through higher private sector participation, and financing from the international community. According to the OECD's DAC database, Tanzania is among the top recipients of climate-related development finance in SSA, with commitments amounting to about US$6.1 billion of commitments over a 10-year period from 2012–21, Annex III, Figure 4. These funds are composed of grants (44 percent) and debt instruments (56 percent), of which 84 percent is concessional. The committed funds were focused on mitigation (41 percent), adaptation (45 percent), and multiple focus (14 percent) in the energy, water supply and sanitation, transport, agriculture, and other sectors (Figure 6). To meet Tanzania's climate finance requirements in full, substantial financial resources need to be mobilized and accessing grants and concessional financing from development partners is pivotal. Tanzania can also leverage financing from the Green Climate Fund (GCF) given that one domestic bank is accredited to the GCF.

Annex III. Figure 6. United Republic of Tanzania: Adaptation and Mitigation Financing Commitments



Source: OECD and IMF Staff Calculations.

C. Strategies Under the RSF-Supported Program

15. The Tanzanian authorities have requested 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. Diagnostic analyses conducted by Fund teams—including the December 2022 Public Investment Management Assessment with a climate module (C-PIMA), a Selected Issues Paper (SIP) under the 2023 Article IV Consultation covering climate issues, and a Climate Policy Diagnosis undertaken by the Fiscal Affairs Department of the IMF in February 2024—identified Tanzania's vulnerability to climate change and the efforts taken by the authorities, as well as some gaps in policy frameworks, institutions, and implementation. By helping build resilience to future climate related shocks, the RSF would help support reforms to address these challenges and catalyze additional donor support. Key areas of these challenges can be grouped in five key areas:

- **Climate governance and national coordination.** Effective implementation of climate policies is hindered by weak national coordination and management of climate change policies, and lack of cross sector coordination. There is no common view on climate change and there is a need to enhance appreciation of the long-term nature of climate challenge. The link between national strategies and authorities' commitments at the international level, and the sectoral plans is limited.
- **Disaster Risk Management (DRM).** Effective implementation of DRM policy faces challenges of inadequate funding and gaps in social protection and early warning system.
- **Climate change consideration in budgets and investment planning.** Budget formulation and public investment planning do not adequately take into account climate change considerations.
- **Lack of alignment of sectoral policies with national commitments.** The energy sector, forestry sector and land use policies are not fully aligned with Tanzania's NDC decarbonization commitments.
- **Financial sector climate-related risks monitoring.** The monitoring of financial sector climate-related risks is limited, due to data and capacity constraints.

16. Additional efforts are needed to address the identified gaps in climate change and policies and meet the authorities' ambitious climate goals. Reform measures (RMs) underpinned by the diagnostics aim to deepen and expand the authorities' efforts to address identified challenges and help catalyze other sources of finance. RMs are focused around five reform objectives:

- **Strengthen governance and national coordination of climate change policies.** Proposed RMs reforms aim to strengthen governance of climate change policy including by establishing common understanding of the long-term challenge from climate change, ensuring consistency between national and sectoral plans and commitments, and clearly define the institutional framework for coordinating climate change related policies across government agencies.

- **Enhance disaster risk management and social safety net programs.** Proposed RMs help enhance disaster risk reduction and management, build resilience to natural disasters and climate change, strengthen social protection against climate risks and natural disasters, and ensure adequate funding for DRM.
- **Mainstream climate issues in budget formulation and investment planning.** RMs focus on mainstreaming climate change in Budget formulation and public investment planning (project appraisal, selection, and evaluation); and strengthening public investment and infrastructure resilience to climate change; and include climate-related fiscal risk statements in Budget.
- **Align sectoral policies to national climate commitments.** Proposed RMs help strengthen mitigation and resilience through energy efficiency and transition with a view to achieve the government's mitigation commitments. In the energy sector, this will entail developing a long-term power sector plan that is aligned with climate mitigation goals and coordinated with the long-term plans of other sectors, including water and agriculture. For the water sector, managing competing demands on the resource, including for WASH, irrigation, and hydropower is important. In the energy sector, introducing an environmental tax on the domestic consumption of the sources of carbon emissions, including coal and gas, as proposed under RM10, would help reduce GHG emissions and improve public finances and enhance debt sustainability**.** In this regard, the IMF CPAT tool is used to illustrate the expected impact of introducing a USD 5 per tCO2 carbon price imposed in 2025 and increasing linearly to USD 25 per tCO2 by 2030 on coal and natural gas—the two fuels with very low effective tax rates in various sectors in Tanzania (Box 1). The illustrative results show that energy-related CO2 emissions would fall between 5 and 6 percent compared to the baseline in 2030. The revenues collected compared to the baseline could reachUSD 0.4–0.7 billion depending on passthrough constraints in the power sector. Regarding the distributional effects of the carbon tax, government transfers to vulnerable households, using 30 percent of the revenue raised, would alleviate the tax burden on poor households. Under RM10, IMF TA is envisaged to help the authorities determine the level of environmental taxes consistent with Tanzania's decarbonization commitments in the NDC, taking into account other sectoral mitigation efforts.
- **Strengthen monitoring of financial sector climate-related risks.** Proposed RMs aim at supporting the authorities' efforts to foster financial sector resilience to climate related risks. In addition, measures also seek to enhance climate finance mobilization given the significant resources needed for climate action.

Annex III. Box 1. United Republic of Tanzania: Illustration of the Impact of Environmental Tax on Domestic Sources of Carbon Emissions

The illustrative analysis models the impact of a USD 5 per tCO2 carbon price imposed in 2025 and increasing linearly to USD 25 per tCO2 by 2030 on coal and natural gas—the two fuels with very low effective tax rates in various sectors. IMF TA is envisaged under RM 10 to help to the authorities in ascertaining the level of environmental tax consistent with Tanzania's NDC commitments. The scenarios in this analysis differ in terms of effectiveness of the modelled carbon price:

- **No Cost Pass-through.** In the first scenario, we assume that the pass-through of carbon price is limited for existing power plants, and that TANESCO will be bound in the future to similar obligations for all upcoming projects. This is an extreme scenario and provides the lower bound for estimating the impact of carbon pricing on energy-related emissions.
- **Full Cost Pass-through.** In the second scenario, we assume that only existing generation assets will be protected from the carbon price by previous agreements, while all future power plants will face a full carbon price on the inputs.

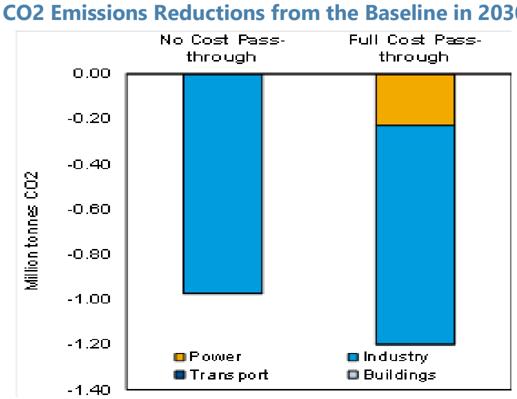
Impact on emissions. Energy-related CO2 emissions would fall between 5 and 6 percent compared to the baseline in 2030. Cumulatively, energy-related CO2 emissions in 2025-2030 would reduce by 3.4–3.7 MtCO2 relative to baseline.

Impact on revenues and GDP. Cumulatively over 2025–30, the revenues collected compared to the baseline could reach USD 0.4–0.7 billion depending on passthrough constraints in the power sector. In absence of revenue recycling policies, potential negative impact on GDP growth on Tanzania under a USD 25 per tCO2 is 0.04 and 0.1 percentage points relative to baseline in 2030. Including revenue recycling offsets is estimated to increase GDP growth by 0.1 to 0.2 percentage points in 2030, more than offsetting negative GDP impacts from the pricing component of the policy.

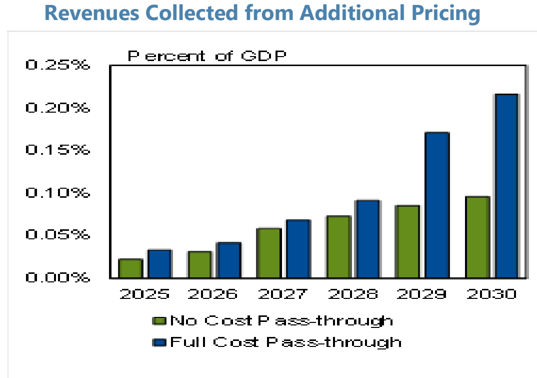
Distributional impact. Carbon pricing imposes a burden on an average household of between 0.1 to 0.2 percent of consumption for the higher pass-through scenario. Providing 30 percent of revenues to the lowest four income deciles as cash transfers and using the remaining revenues for public investment will make poorer households significantly better off (positive impact in decile 1 consumption will be between 1.3-2.9 percent).

Prices. Weighted average coal and natural gas prices would increase by 45 to 92 percent and 11 to 17 percent, respectively, compared to the 2030 baseline. Coal, however, is an intermediate input used by firms rather than directly consumed by households. With the alleviation of power pricing constraints, electricity prices are expected to be only 3 percent higher than in the baseline in 2030. However, these prices would increase significantly as planned coal generation plants come online in the latter half of the decade. By 2035, electricity prices could increase 13 percent compared to baseline. Carbon pricing would also lead to increases in industrial output prices, especially in transport and energy-intensive, trade-exposed (EITE) industries.

CO2 Emissions Reductions from the Baseline in 2030

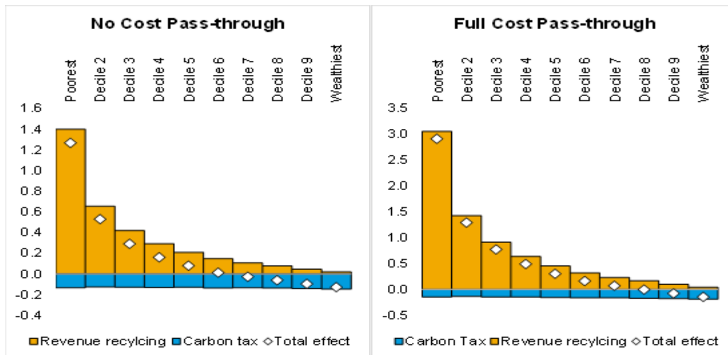


Revenues Collected from Additional Pricing



Annex III. Box 1. United Republic of Tanzania: Illustration of the Impact of Environmental Tax on Domestic Sources of Carbon Emissions (concluded)

Distributional Impacts After Revenue Recycling in 2030



Energy Prices by Scenario in 2030

Fuel	Unit	Baseline	No Cost Pass-through	% change	Full Cost Pass-through	% change
Coal	USD per gigajoule (GJ)	2.58	3.74	45%	4.96	92%
Natural gas	USD per gigajoule (GJ)	6.71	7.41	11%	7.82	17%
Electricity	USD per kwh	0.06	0.06	0%	0.06	3%

Summary Table

Scenario	No Cost Pass-through
Energy-related CO_2 emissions reduction in 2030, % to a BAU	5.0
Cumulative CO_2 emissions reductions in 2024-2030, MtCO2	3.4
Additional fiscal revenues raised in 2030, % of GDP	0.1
Cumulative additional fiscal revenues raised in 2024-2030, bn USD	0.4
Impact on GDP growth in 2030, percentage points deviation from the BAU growth	0.03
Electricity price increase in 2030, percent from the BAU price	0
Pure abatement costs, % of GDP	-0.01
Domestic co-benefits (transport, air pollution, climate), % of GDP	0.2

Source: IMF Staff Calculations using the Climate Policy Assessment Tool (CPAT).

D. Collaboration with Development Partners

17. The authorities have reached out to development partners (DPs), including the Fund, for financial and TA assistance. The IMF undertook the climate policy diagnosis (CPD) TA which underpinned the formulation of the reform measures under the RSF. The World Bank conducted a Country Climate and Development Report (CCDR) for Tanzania and is supporting Public Finance Management (PFM) and climate sensitive public investment management. Reforms to strengthen Disaster Risk Management (DRM), including through social protection, have been supported by various DPs including the World Bank and United Nations agencies such as WFP and UNICEF. The EU is supporting the authorities in the development of a sustainable finance taxonomy and development of a green bond framework to facilitate mobilization of climate finance. Several DPs are supporting reforms in the energy sector including clean cooking initiatives to reduce reliance on biomass including charcoal supported by the UK's FCDO and other power sector areas supported by the EU, USAID, AFD, JICA and UNDP. Lastly, the Swedish agency (SIDA) is supporting the authorities' efforts in the implementation and assessment of the Environmental Management Act, and Norway is working with the government on land use planning. GIZ (Germany) supports water sector reforms and climate-sensitive water resources management to improve drinking water supply and sanitation.

18. Several development partners are considering financial support for climate actions. On the multilateral side, the World Bank is considering a Catastrophe Deferred Drawdown Option (Cat DDO) which is a contingent financing line that provides immediate liquidity following a natural disaster, and/or health-related event. The AfDB is considering financing under the Climate Action Window which provides funds earmarked for climate-related adaptation action (75 percent), Mitigation actions (15 percent) and Technical Assistance (10 percent). The EU is also providing budget support for local government to implement climate adaptation projects.

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Annex IV. Macro-Fiscal Implications of Climate Change Adaptation in the United Republic of Tanzania: DIGNAD Simulations

This annex applies the Debt, Investment, Growth, and Natural Disasters (DIGNAD) model to illustrate Tanzania's vulnerabilities to climate change, and the benefits of ex-ante adaptation investment on key macroeconomic variables. The results show that investing in adaptation infrastructure can improve Tanzania's economic resilience against a natural disaster shock limiting post-disaster economic losses, recovery costs, and increases in public debt. Reforms that improve public investment efficiency and domestic resource mobilization can further boost the benefits of investing in adaptation and enhances long term debt sustainability.[1]

1. **The Debt, Investment, Growth, and Natural Disasters (DIGNAD) model is a dynamic general equilibrium model designed to analyze the impact of investing in climate-resilient capital on economic growth and debt sustainability under various scenarios.** The DIGNAD model (Marto, Papageorgiou, and Klyuev, 2018) accounts for climate shocks by assuming that natural disasters affect the economy through five channels: (i) damages to public capital; (ii) damages to private capital; (iii) a temporary productivity loss; (iv) reduced public investment efficiency; and (v) a loss in creditworthiness.[2] Additionally, it assesses debt sustainability risks following a natural disaster and evaluates the effects of ex-ante policies, such as investing in climate-resilient infrastructure versus non-resilient infrastructure and building fiscal buffers. The model also considers public investment inefficiency and limitations posed by absorptive capacity constraints. The model captures the challenges of closing infrastructure gaps in developing countries that frequently face natural disasters and captures the linkages between public investment, growth, and debt, such as the investment- growth nexus, the fiscal adjustment, and the private sector response.

2. **The model is tailored to the Tanzania's economy.** The model's steady state aligns the level of standard capital infrastructure investment with projected values for FY2023/24, amounting to about 7 percent of GDP and its efficiency is set at 45 percent based on Tanzania's 2023 C-PIMA report. The initial public debt value is calibrated using FY2023 debt to GDP ratio at around 46.6 percent of GDP. All other parameters defining the standard and resilient infrastructure are in line with Marto, Papageorgiou and Klyuev (2018).

3. **To illustrate the macro-fiscal implications of climate change adaptation and reforms for Tanzania, a natural disaster is simulated to occur under the following scenarios.**

- **Scenario 1: *Baseline.*** This scenario assumes that pre-disaster, the authorities scale-up public investment in standard infrastructure by 1 percent of GDP per year above the steady-state levels of 7 percent of GDP, for five years, starting in 2025. This is financed by a

[1] Prepared by Farayi Gwenhamo (AFR) and Azar Sultanov (RES).

[2] The analysis is conducted by calibrating the DIGNAD model and the DIGNAD toolkit by Aligishiev, Ruane and Sultanov (2023).

combination of grants, external concessional debt, and domestic debt (Annex IV, Table 1). A natural disaster is simulated to occur in year 6 resulting in a 4 percentage points decline in GDP growth relative to the steady state. Post-disaster reconstruction costs are assumed to be financed equally by grants and external concessional loans (reflecting the authorities' conservative approach to external borrowing).[3]

Annex IV, Table 1. United Republic of Tanzania: Investment Financing Assumptions
(Percent of GDP)

Source	2025	2026	2027	2028	2029
Grants	0.25	0.25	0.25	0.25	0.25
Concessional external debt	0.50	0.50	0.50	0.50	0.50
Domestic debt	0.25	0.25	0.25	0.25	0.25
Total	1.00	1.00	1.00	1.00	1.00

- **Scenario 2: *Adaptation Investment.*** This scenario assumes that the authorities scale-up public investment but this time instead of standard infrastructure, they invest in climate-resilient infrastructure by the same magnitude of 1 percent of GDP, per year, for 5 years starting in 2025. Assumptions about financing pre-disaster public investment and post-disaster recovery are the same as the baseline scenario.
- **Scenario 3: *Adaptation Investment plus reforms to enhance public investment efficiency.*** The scenario assumes the same adaptation investment, financing assumptions and timing of natural disaster as scenario 2. In addition to the public investment scale-up in resilient infrastructure, the government implements public investment management reforms. These reforms are assumed to increase Tanzania's public investment efficiency (PIE) from 45 percent to 61 percent, the SSA average.

4. DIGNAD simulations illustrate that investing in adaptation capital and enhancing public investment efficiency would increase Tanzania's resilience to natural disasters. The effects, shown in Annex IV, Figure 1, operate through the following channels:

- ***Growth and private investment.*** The pre-disaster scaling up of public investment crowds in private investment and increases output in all scenarios but in different scales. The increase is larger under the adaptation scenario compared to the baseline because adaptation infrastructure has higher returns and depreciates slower and crowds in more private capital. When the disaster hits in year 6, it reduces output (relative to the steady state level) in the short term under all three scenarios reflecting permanent damages to public infrastructure; permanent damages to private capital; and temporary losses of productivity. The GDP decline (4 percentage points, relative to steady state) is, however, higher under the baseline scenario, compared to about 2.4 percentage points under the adaptation scenario. Private investment is also more resilient under the adaptation scenario because adaptation

[3] Past events, such as the 2005/06 drought, caused economic losses of at least 1 percent of GDP (Watkiss *et al* (2011)) and Tanzania's National Climate Change Response Strategy (2021–26) indicates that economic costs of climate change impacts in Tanzania could make up to 1–2 percent of GDP per year by 2030. The DIGNAD analysis assumes an illustrative extreme natural disaster shock with an impact of 4 percentage points GDP decline.

investment mitigates damages and losses, raises returns to private investment, and spurs output growth. Scenario 3 with PIE improvements highlight that GDP and private investment increase by more pre-disaster relative to the other scenarios, boosted by the higher efficiency of public investment which allows more adaptation infrastructure to be built with the same amount of investment. This also implies that post-disaster recovery costs are lower, and recovery is faster. Over the long run, GDP under the scenario with adaptation investment and higher PIE stabilizes at a higher level compared to other scenarios due to crowding in private investment, higher productivity, and mitigated impact of natural disasters.

Annex IV, Figure 1. United Republic of Tanzania: DIGNAD Simulation Results for Baseline, Adaptation Investment and PIE

Source: Staff calculations, DIGNAD model simulations.

- *Public debt and fiscal deficit.* The natural disaster shock implies a spike in the fiscal deficit due to reconstruction costs, regardless of the type of infrastructure. Nonetheless, adaptation infrastructure results in lower repair costs as damages are expected to be relatively low, which, in turn, leads to a lower fiscal deficit; debt increases much less after the disaster strikes. Moreover, unlike the standard investment scenario, the debt level stabilizes more quickly over the medium- and long-term due to smaller and less persistent output losses and smaller reconstruction needs. Consequently, in relative terms, adaptation infrastructure is associated with lower public debt in the long-term compared to the baseline scenario. With higher PIE, less spending is required to finance the recovery from the disaster which yields more favorable debt dynamics.
- *Private consumption*. Investment in resilient infrastructure potentially helps mitigate the impact of disasters on households' welfare. In line with GDP changes, during the investment period before the shock hits, private consumption tends to increase more under the adaptation investment scenario compared to the baseline scenario. The post-shock decline in private consumption tends to be lower under the adaptation scenario compared to the baseline scenario.

5. A second simulation considers the situation where adaptation investment is financed by mobilizing domestic revenue mobilization, for all the three scenarios in the first simulation. We assume that government relies on domestic revenue mobilization (DRM) instead of domestic debt to finance the quarter of the investments in resilient infrastructure (together with grants and concessional debt as in Annex IV, Table 1), as well as the post disaster reconstruction. DRM is more favorable for the debt dynamics to the extent that it reduces the government borrowing needs (Figure 2). However, the impact on private household consumption is expected to be less favorable, which suggests carefully investigating and addressing potential distributional impacts. The effects operate through the following channels:

- *Fiscal deficit and public debt.* In the DRM scenarios, the overall increase in the deficit is lower post-disaster, and the fiscal deficit stabilizes at a lower level in the long run. Correspondingly, public debt increases by less and falls faster following the disaster.
- *Growth and private investment:* The effect on the path of GDP is small, given that reconstruction follows a similar path in either case. However, the impact on private investment growth is less favorable in this scenario compared to debt financing one.
- *Private consumption*: While DRM enhances fiscal and debt sustainability, consideration is needed to address the impact on households' consumption which is likely to decrease in response to higher taxes and less disposal income available to households.

6. The DIGNAD simulation results suggest that investment in adaptation infrastructure would increase Tanzania's resilience to natural disasters. Scaling up climate-resilient public investment would result in a higher public debt initially, if financed by debt either external commercial or concessional or domestic debt, but these investments would mitigate impact of a climate shock on the economy, as well as reduce post-disaster reconstruction costs. Results also suggest that increasing public investment efficiency would further help limiting the impact of a natural disaster shock, rebuilding costs and, thus, improve public debt dynamics over the reconstruction period. Given the limited fiscal space, public investment management reforms are key to achieving resilience to natural disasters stemming from climate change. In addition, domestic resource mobilization would help alleviate the growth-debt trade-off, but care should be taken to address the any negative impact of DRM might have on household consumption. To the extent that DRM is driven by higher labor and/ or consumption taxes, household disposal income would be reduced. Where DRM affects poor households, there would be a need to address this, say through targeted transfers.

Annex IV, Figure 2. United Republic of Tanzania: DIGNAD Simulation Results for Domestic Resource Mobilization Impact

Source: Staff calculations, DIGNAD model simulations.

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Annex V. Nowcasting the United Republic of Tanzania's Growth[1]

1. **Nowcasting economic growth using high frequency indicators complements the use of official growth data, which are typically published less frequently or with delays.** Introduced in Scott and Varian (2014)[2], the Bayesian Structural Time Series (BSTS) model is a time series nowcasting and forecasting tool that allows the flexible incorporation of trend, seasonality, and regression effects in its state space form. The model can be particularly useful when dealing with a large set of available indicators and offers a more tractable variable selection.

2. **The model consists of observational and state equations and has two key features: the use of Kalman filters for estimation and the "Spike and Slab" method for variable selection.** The use of Kalman filter adds to the flexibility of the model and helps dealing with irregularity of the response variable. The Spike and Slab method assigns a positive probability to the *prior* belief that an individual coefficient is exactly zero. This probability is updated upon observing the fitted data during the estimation process and thereby determines the chance of a particular indicator being included as a regressor, generating sparsity in the model.

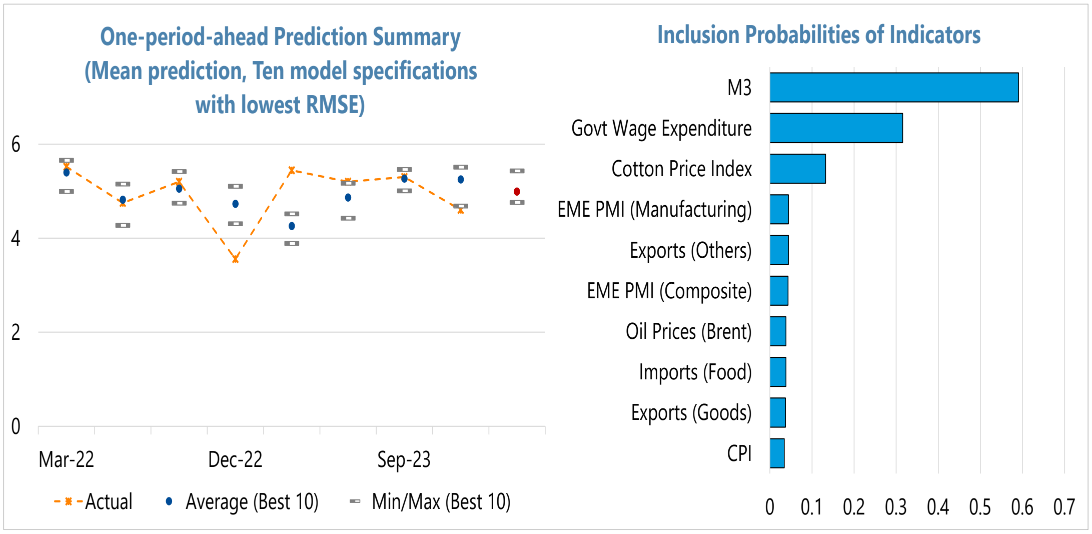
3. **The BSTS model is applied to nowcast and forecast Tanzania's economic growth in the first half of 2024.** Model specifications with different trend and model size assumptions are tested and evaluated using the out-of-sample Root Mean Square Error (RMSE), calculated using one-period ahead prediction errors for an expanding window of $N=8$ quarters. Given a dataset with length T, the model generates one-period ahead predictions at period t=T-n for each n=N, …,0, using actual data available up to period t. The left panel of Figure 1 illustrates the nowcast output for 2024 Q1 from the model specification with the lowest out-of-sample RMSE values. The ten best performing model specifications estimate 5.0 percent growth in 2024 Q1 on average, which is about a 0.4 percentage point pick up from the growth in 2023 Q4. High frequency indicators available as of end-March and the best estimate of 2024 Q1 growth are used as inputs to forecast 2024 Q2 growth following similar process. The model specifications with the lowest RMSE values estimate a further increase to 5.2 percent in 2024 Q2.

4. **The inclusion probability of variables provides useful insight into the most relevant predictors of growth.** The right panel displays the inclusion probabilities of the indicators for the model specification with the lowest RMSE. Inclusion probability shows the most likely predictors of growth among the high frequency indicators included as potential regressors. The three indicators with highest inclusion of probability collectively reflect the government's fiscal and monetary stance, price developments, and external factors, with broad money (M3) being the indicator most likely to be included among 33 included indicators.

[1] The analysis is based on "Nowcasting Tanzania's growth Using Bayesian Structural Time Series Model", Country Note (forthcoming).

[2] See Scott and Varian (2014) "Predicting the Present with Bayesian Structural Time Series", International Journal of Mathematical Modelling and Numerical Optimization. 4–23.

Annex V. Figure 1. United Republic of Tanzania: Nowcast Results for 2024 Q1 and Q2 Growth



Sources: Staff calculations using data provided by 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' goal to: (i) create fiscal space through improved revenue mobilization and public finance management; (ii) advance structural reform agenda through enhancing governance and the quality of national statistics; and (iii) safeguard macro-financial stability and promote financing deepening through upgrading the monetary policy framework and improving supervision.

2. TA activity has picked up recently following the launch of the ECF arrangement. Since late 2022, Tanzania received TA in the areas of tax policy diagnostics, public investment management including with climate module, monetary policy, national statistics, and climate policy diagnostics. These TAs support the authorities' ongoing effort to enhance revenue collections, strengthen efficiency of public investment, modernize their monetary policy framework, improve national statistics, and strengthen their climate policy frameworks.

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 (Annex VI, Table 1).

- *Revenue mobilization*. Follow up TA to support the authorities' effort to prepare medium-term revenue strategy (MTRS) and formulate tax policy and administrative reforms on the basis of recently provided TA on tax diagnostics.
- *Public finance management*. Support the authorities' effort to: (i) strengthen budget formulation, expenditure controls, cash management, and public investment management; and (ii) develop a fiscal framework for natural resource management with particular focus on oil and gas in order to promote sustainable use for the benefit of present and future generations.
- *Climate*. Support the authorities' effort to: (i) strengthen climate sensitive PFM and PIM; (ii) develop disaster risk financing framework and make the social safety net program responsive to natural disasters; (iii) formulate and implement environmental tax on domestic consumption of sources of carbon emissions; and (iv) create a repository of climate-related data to support assessment of climate-related risks.
- *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 FX intervention*. Support the BoT to enhance its FX 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) strengthen national accounts data by reconciling GDP by expenditure and GDP by production, as they deviate by 2 percent of

2022 GDP; (ii) 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*; (iii) 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; 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.

Annex VI. Table 1. United Republic of Tanzania's Capacity Development Priorities, 2024–26

Priorities	Objectives
Revenue mobilization	• Prepare MTRS, drawing from the recommendations of the 2022 Tax Policy Diagnostic IMF TA • Formulate tax policy and administrative reforms based on the MTRS. • Conduct Customs diagnostics and TADAT and follow-up to identify medium term priorities for reform to assist the authorities to develop, plan and implement a medium-term revenue strategy
Public finance management	• Improve costing, prioritization, and implementation of public investments in line with the 2022 C-PIMA TA mission recommendation. • Strengthen budget formulation, implementation, and reporting (including the medium–term budget framework, cash management, revenue forecasting and commitment controls), improve financial risk reporting and coverage, and strengthen risk and cost analysis in debt management office. • Develop fiscal framework for management of natural resource revenues
Climate	• Climate sensitive PFM and PIM • Disaster risk financing and social safety nets • Carbon taxation • Monitoring of climate-related financial sector risks
Governance	• Establish an AML/CFT risk-based supervisory approach that assigns a supervisor for each sector (financial institutions and designated non-financial businesses and professions sector), details a template sectoral money-laundering terrorist financing risk assessment methodology, establishes a template onsite and offsite supervisory manual, and a supervisory plan for the highest risk sectors. • Amend the BoT Act to strengthen governance arrangements as well as personal and financial autonomy, including addressing the issue of the composition of the Board to be comprised of a clear majority of non-executive (independent) members in line with leading practices.
Monetary and financial sector	• Improve transparency of BoT's FX 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.

Annex VII. Banking and Financial Sector Developments in the United Republic of Tanzania

Granular banking sector data and sensitivity analysis indicates Tanzania's banking system remains stable. However, uneven performance across banks continues to reflect pockets of vulnerability.

1. The banking system remains well-capitalized and indicators of asset quality improved. Capital ratios remained stable, with a capital adequacy ratio of 19.9 percent as of end-March 2024. The ratio of liquid assets to short-term liabilities increased over CY 2023 and stayed above the regulatory minimum (20 percent). The NPL ratio was 4.3 percent in March 2024, remaining below the BoT's 5 percent following a steady improvement from a peak of 12.5 percent in 2017.[1] The system continues to be significantly dollarized, with the share of (on-balance sheet) total assets and liabilities denominated in foreign currency at 35.8 percent and 33.3 percent, respectively (Figure 1). However, the FSI for the net open position to total capital was negative, at -0.3 percent in March 2024, due to letters of credit and other off-balance sheet items. While banks remain within the NOP regulatory limit (of +/- 10 percent), the negative NOP FSI indicates increased exposure to exchange rate risk.

2. End-December 2023 granular banking sector data indicates an uneven performance across banks. All banks remained above the 12 percent regulatory minimum capital adequacy ratio, and all but one bank met the regulatory minimum liquidity ratio. Profitability and asset quality indicators are highly dispersed among the banks (Figure 1). The mean NPL ratio declined in end-December relative to end-June,[2] and was below the BoT's 5 percent benchmark for most banks. However, the NPL ratio remained elevated for a few small banks with below 1 percent market share of assets. A few small banks recorded negative return on equity and return on assets, of which most had less than 1 percent market share of assets and one had less than 3 percent market share of assets.

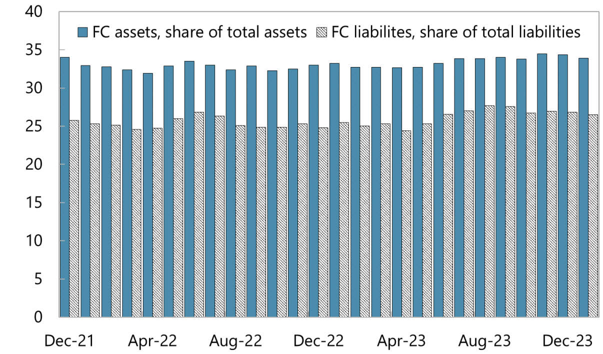
3. Stylized sensitivity analysis using end-December data showed limited exposure of the banking sector to capital risk. Under the two scenarios of sensitivity analysis, 50 and 75 percent of banks' restructured loan portfolios were assumed to turn non-performing, respectively, to examine potential capital adequacy effects. Both scenarios assumed that all banks have a provisioning rate of 25 percent for the new NPLs. Three and four banks fell below the 12 percent regulatory minimum capital adequacy ratio in each scenario, respectively, two of which had less than 1 percent market share of assets and the other two was with less than 2 percent market share of assets as of end-December 2023.

[1] In 2021, the BoT issued a circular (FA.178/461/01/02) that prohibits banks with either a cost-to-income (CIR) ratio above 55 percent or an NPL ratio above 5 percent from paying dividends and bonuses.

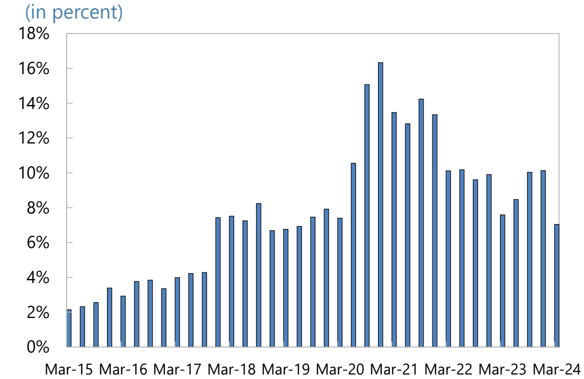
[2] Calculated as weighted means, weighted by market asset shares.

Annex VII. Figure 1. United Republic of Tanzania: Banking Sector Indicators

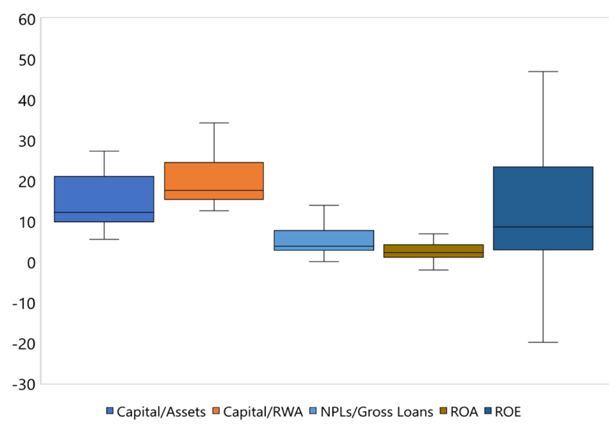
Banking system foreign currency (FC) assets and liabilities
(In percent)

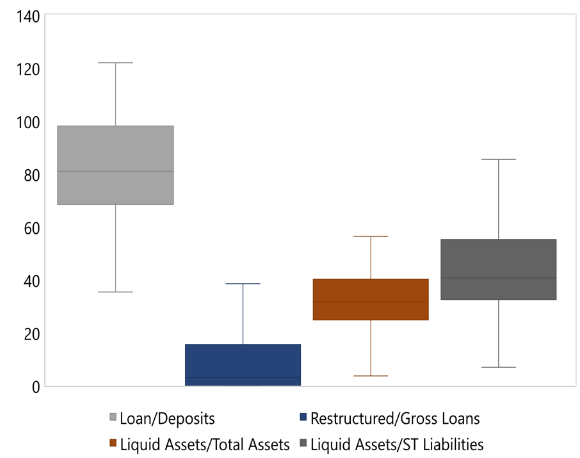


Restructured loans as a share of total gross loans
(in percent)

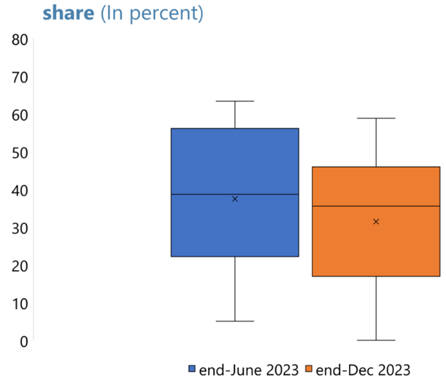


Distribution of Bank-level Indicators, end-December 2023 (in percent)

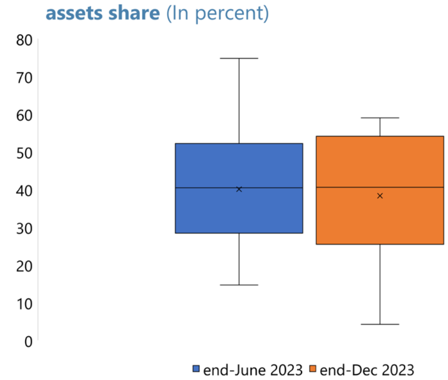




FC loans to gross loans, banks above 1 percent assets share (In percent)



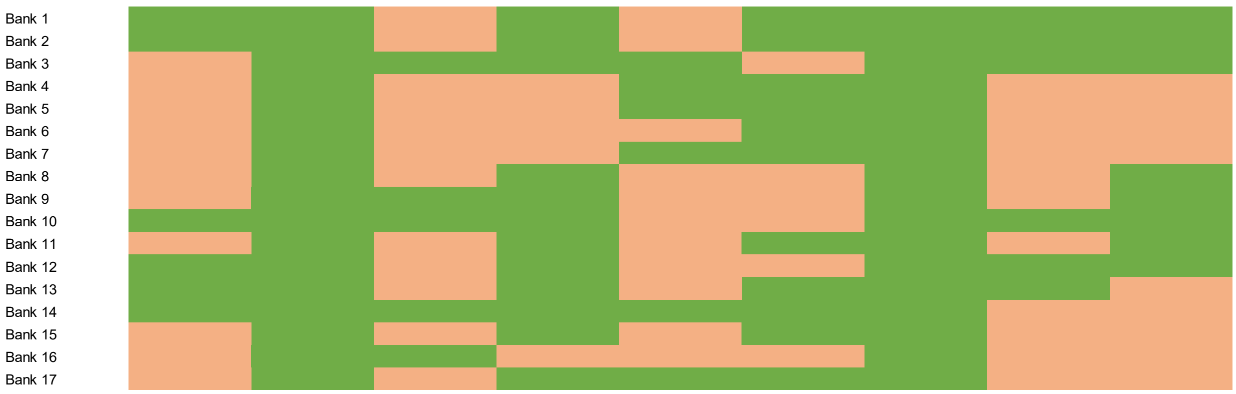
FC liabilities to total liabilities, banks above 1 percent assets share (In percent)



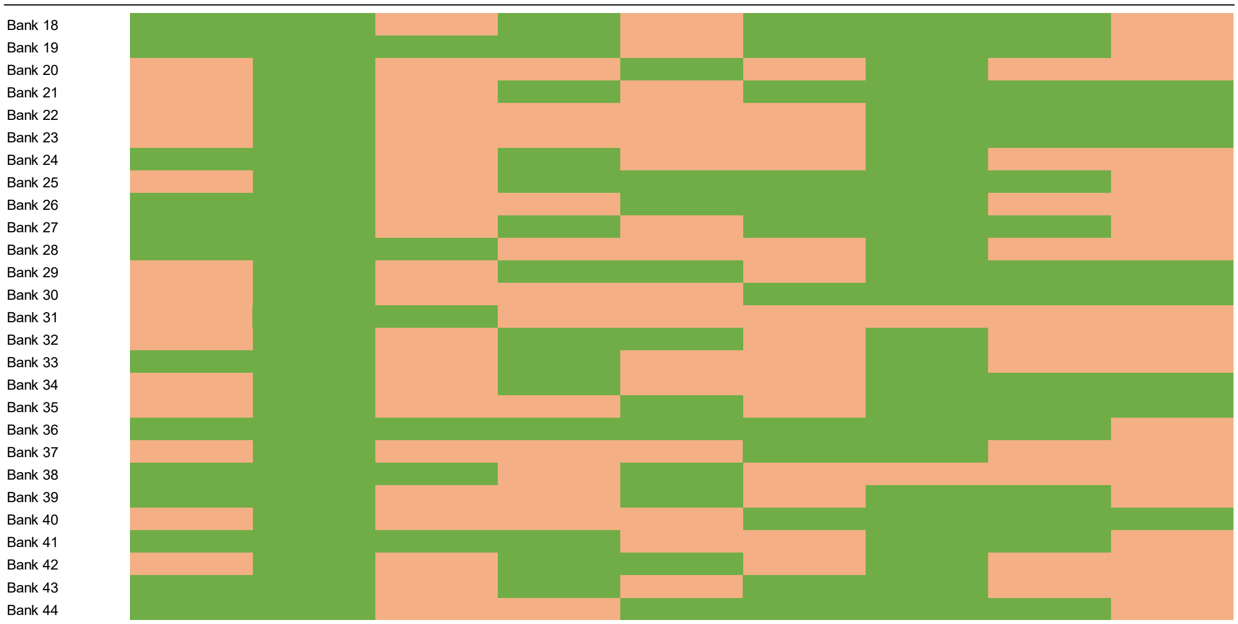
Sources: Tanzanian authorities and IMF staff calculations.

Annex VII. Figure 2. United Republic of Tanzania: Anonymized Bank-Level Indicators, End-December 2023

	Capital/ Assets	Capital/ RWA	Loan/ Deposits	NPLs/Gross Loans	Restructured / Gross Loans	Liquid Assets/ Total Assets	Liquid Assets/ ST Liabilities	Return on Assets (ROA)	Return on Equity (ROE)
Threshold 1	> Mean	> 12	< Mean	< 5	< Mean	> Mean	> 20	> Mean	> Mean
Threshold 2	< Mean	< 12	> Mean	> 5	> Mean	< Mean	< 20	< Mean	< Mean
Banks with greater than 1 percent market share of assets:									
Mean	12.3	18.1	90.1	3.9	7.3	30.0	38.0	4.8	22.5



	Capital/ Assets	Capital/ RWA	Loan/ Deposits	NPLs/Gross Loans	Restructured / Gross Loans	Liquid Assets/ Total Assets	Liquid Assets/ ST Liabilities	Return on Assets (ROA)	Return on Equity (ROE)
Banks with less than 1 percent market share of assets:									
Mean	15.4	24.5	112.0	8.4	10.3	32.4	50.2	1.5	11.1



	Capital/ Assets	Capital/ RWA	Loan/ Deposits	NPLs/Gross Loans	Restructured / Gross Loans	Liquid Assets/ Total Assets	Liquid Assets/ ST Liabilities	Return on Assets (ROA)	Return on Equity (ROE)
Total	12.6	18.4	92.7	4.3	7.7	30.2	37.8	4.5	21.0

Sources: Tanzanian authorities and IMF staff calculations.

Note: Due to bank-level data restrictions, liquidity ratios may not adhere to the exact definition per standard FSI calculation guidelines and hence not match the data shown in Table 5.

Appendix I. Letter of Intent

Dodoma, June 7. 2024

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

Dear Madam Managing Director,

We would like to thank the IMF for its support under the Extended Credit Facility (ECF) arrangement, which has helped our macroeconomy remain stable and economic growth to recover despite continued global and climate change related challenges. Supported by the ECF arrangement, we have been able to implement reforms that: (i) helped the economy to recover from the impacts of the pandemic and the war in Ukraine; (ii) preserved macroeconomic stability despite continued global economic and climate change-related challenges; and (iii) 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). Our reform program will continue to focus on: (i) strengthening fiscal space to allow for much-needed social spending and high-yield public investment by improving revenue mobilization and spending quality; (ii) resuming and advancing the structural reform agenda to unlock growth potential, improve the business environment and competitiveness; and (iii) enhancing financial deepening and stability, including through, strengthening the monetary policy framework and improving financial sector supervision.

Performance of the reform program under the ECF arrangement remained strong. All end-December 2023 quantitative performance criteria (QPC) and indicative targets (ITs) were met. Two of the three structural benchmarks (SBs) for end-December 2023 (integrating the IT of the Revenue Authority with prioritized government agencies and formalizing and publishing the BoT's FX intervention policy) and the SB for end-January 2024 (issue a revised IFEM code of conduct) were met. Despite concerted efforts and notable progress, the SB on establishing an AML/CFT risk-based supervisory approach has not been met. Efforts are continuing to ensure its completion by end-September 2024. All indicative targets for end-March 2024 were also met.

To support our continued reform efforts, we request a six-month extension to May 2026 and rephasing of access of the ECF arrangement, which will give us sufficient time to complete key reforms, including domestic revenue mobilization, public investment management and business reforms. We also request completion of the third review of the arrangement under the IMF's Extended Credit Facility, and the disbursement of the fourth tranche 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.

Climate change poses significant risks to our goal of achieving a sustainable and inclusive growth. Frequent flooding and drought events, caused by climate change, have reduced long-term economic growth and affected millions of lives and livelihoods. In the absence of reform measures, climate change caused disasters could create sizable BoP pressures through their negative impact on tourism and agriculture, which constitute major sources of forex earnings for the Tanzanian economy. Reconstruction of infrastructure damaged by floods and rise in sea level could also result in a significant increase in imports and deterioration of the external balances.

Reducing vulnerabilities and strengthening resilience to climate change is a top priority for the Government of Tanzania. Towards this goal, we have launched ambitious national and sectoral level initiatives that featured climate adaptation and mitigation policies. Given our capacity and financial constraints, however, we need the support of our development partners to help us strengthen and execute these initiatives. For this reason, the Government of Tanzania requests access to a 23-month arrangement under the Resilience and Sustainability Facility for an amount of SDR 596.70 million (150 percent of quota) to implement Reform Measures (RMs), as presented in Table 3 of the attached Memorandum of Economic and Financial Policies (MEFP). The RMs aim to: (i) enhance governance and coordination of climate change policies; (ii) strengthen the disaster risk management (DRM) framework; (iii) mainstream climate policies in budgeting and public investment planning; (iv) align sectoral climate policies with national policies and commitments; and (v) enhance supervision of financial sector climate-related risks. The RSF resources will help support the government's ongoing efforts to address climate change challenges and enhance Tanzania's prospective BoP stability.

The attached MEFP reports on recent economic developments and implementation of our economic reform program and sets out policies and reforms that we plan to pursue going forward supported by the ECF and RSF arrangements. The MEFP, which supplements the memorandum signed on November 27, 2023, presents economic and financial policies and climate reforms that the government intends to implement during 2024–26 and defines QPCs, ITs, and SBs through end-June 2025 and RMs through end-May 2026. Disbursements under the ECF arrangement will be subject to observance of the performance criteria and SBs shown in Tables 1 and 2 and disbursements under the RSF will be subject to implementation of RMs as presented in Table 3 of the attached MEFP.

We consider the policies described in the attached MEFP as 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 and RMs, particularly those mentioned in the Technical Memorandum of Understanding.

We will continue to maintain a close policy dialogue with the IMF to preserve macroeconomic stability and strengthen Tanzania's balance of payments position and to implement the RSF arrangement**.** We will also consult in advance of any revisions to the RMs contained in the MEFP, in accordance with the Fund's policies on such consultations, and provide information to the IMF in connection with our progress in implementing the RMs and achieving their objectives, which is linked to the disbursement schedule under the RSF. Furthermore, in line with the IMF safeguards policy, the Bank of Tanzania (BoT) commits to comply with the recommendations of the 2022 safeguards assessment of the BoT, including strengthening the legal framework to ensure independent oversight of the BoT.

We agree to the publication of this Letter of Intent and the attached Memorandum of Economic and Financial Policies for FY2022/23–FY2025/26 and Technical Memorandum of Understanding, as well as the IMF staff report related to the third review and request for extension and rephase of access under the 40-month Extended Credit Facility arrangement, and request for an arrangement under the RSF, after approval by the Executive Board of the IMF.

Sincerely yours,

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

Dar Es Salaam, June 7, 2024

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the Extended Credit Facility (ECF) arrangement and lays out the medium-term economic objectives and the policy framework of the government of Tanzania, supported by the ECF and Resilience and Sustainability Facility (RSF) arrangements. 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); namely, 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, strengthen financial sector stability and development, and build resilience to climate change related shocks.

RECENT ECONOMIC DEVELOPMENT AND PERFORMANCE UNDER THE ECF ARRANGEMENT

1. The growth of our economy is recovering from the impacts of COVID-19 pandemic and the war in Ukraine. After slowing down to 4.7 percent in 2022, reflecting the impact of global economic conditions and shortfalls in rainfall, real GDP growth picked up to 5.1 percent in 2023. Our policy responses to the global economic shocks contained inflation under the BoT's 5 percent target. After deteriorating significantly to 6.5 percent of GDP in FY2022/23, the current account deficit is expected to narrow to about 4.3 percent of GDP in FY2023/24, on the back of strong growth of exports and a slowdown in the growth of imports. Against the backdrop of emerging pressures in the forex markets, interventions by the Bank of Tanzania (BoT) provided much-needed liquidity and stabilized markets. The level of our international reserves remained adequate at US$5.2 billion in May 2024. Financial sector remains stable on account of sound macroeconomic and business environment, but with some pockets of vulnerabilities.

2. We are implementing a growth friendly fiscal consolidation in line with the approved budget for FY2023/24. At about 94 percent of budget estimates, domestic revenues fell short of expectations during the first 9 months of the FY. In particular, non-tax revenue collections were only 80 percent of budget estimates, owing to declines in mineral production and collection of land rent. Tax revenues also missed the target by about 2 percent, reflecting declines in the value of imported commodities as well as increased costs of productions, which affected VAT collections. These shortfalls were offset by cuts in non-priority spending, while safeguarding priority social spending and clearance of expenditure arrears, to ensure that the domestic primary deficit is in line with budget and program target.

3. Reform implementation under the ECF arrangement remained strong. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2023 were met. Our structural reform agenda is progressing well, with all but one of the structural benchmarks (SBs) for end-December 2023 and end-January 2024 completed on time. As of end-December 2023, the Tanzania Revenue Authority IT system was integrated with 55 prioritized government agencies. The

Bank of Tanzania (BoT) formalized and published its FX intervention policy in December 2023 and issued a revised IFEM code of conduct in January 2024. Despite concerted efforts and notable progress, the SB on establishing an AML/CFT risk-based supervisory approach was not completed, pending designation of the real estate sector supervisor and the supervisory manual for the Trust sector, and efforts are continuing to complete it by end-September 2024. All indicative targets for end-March 2024 were met.

MACROECONOMIC PROGRAM AND REFORMS UNDER THE ECF ARRANGEMENT

A. Program Objectives and Outlook

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

5. The sequencing of the priorities of the ECF program are aligned with the government's reform agenda. The near-term ECF program priorities are to safeguard macroeconomic stability 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, inclusive, and resilient 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 is helping to reverse the declining trend in social spending and maintain priority public investment, while structural and fiscal reforms come into effect mobilizing revenue to sustain the increased social spending.

6. **We expect the economic recovery to continue regaining momentum.** Growth is estimated to reach 5.4 percent in 2024 and pick up further to about 6 percent in 2025. Inflation is projected to remain within the BoT's target range. The current account deficit is expected to continue narrowing in the next fiscal year as the growth of imports slows down. The draft budget for FY2024/25 envisages continued fiscal consolidation in line with 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.

7. **Over the medium-term, successful implementation of our reform agenda will support growth, and safeguard 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.

B. Macroeconomic Policies and Risks to the Outlook

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

9. **The government is committed to implementing the fiscal consolidation plan envisaged in the FY2024/25 draft budget.** The draft budget is based on more realistic revenue and expenditure projections, with the domestic primary deficit projected to narrow to 0.7 percent of GDP (QPC in Table 1). Tax revenues are expected to continue recovering and will reach about 12.9 percent of GDP in FY2024/25 supported by tax measures that are proposed to Parliament (paragraph 20 below). Overall spending is expected to be stabilized at about 19.2 percent of GDP, and the government will rebalance the composition of spending to meet the target for priority social spending (PSS) (paragraph 22 below). Should revenue projections not materialize in the first half of FY2024/25, widening the primary balance deficit and/or 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 a revised budget by mid-February 2025, 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.

10. 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.

11. 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 collected revenues 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 price-based monetary policy, government borrowing from the BoT will be kept at a minimum, and well-within the limit.

12. The BoT is committed to enhancing exchange rate flexibility to cushion the economy against external shocks. After easing in the fourth quarter of 2023, pressures in the forex market re-emerged in the first half of 2024, reflecting seasonal factors in forex inflows. The exchange rate depreciated faster by historical standards,[1] and the BoT stepped in to provide liquidity in the interbank market and ensure orderly market conditions through auctions. Going forward, exchange rate flexibility will increasingly be the first line of defense against external shocks, while FX interventions will be limited to addressing disorderly market conditions. To enhance the transparency of forex interventions in line with the FX intervention policy, when conducting FX auctions, the BoT commits to continue transacting FX in pre-announced amounts based on competitive price-based criteria, aligned with best practices, accepting the market-clearing price to sell the desired volume. In addition, the BoT will start publishing the results of its forex auctions on the same day, on its website, effective in the beginning of June 2024. The published information will include the number of bids received and allotted, total value of bids accepted, amount on offer and allotted, highest bid rate received and accepted, lowest bid rate allocated, and the weighted average rate. The level of international reserves will be maintained at a comfortable level as a buffer against external shocks.

13. The BoT is taking measures to address forex liquidity pressures, revitalize the forex market, and ensure price discovery that allows a market-clearing exchange rate system. In

[1] Tanzanian shilling depreciated by about 11 percent yoy at end-April 2024 (about 3 percent since end-December 2023).

January, the BoT published 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 and market players. It also published its FX intervention policy in December 2023 to enhance transparency. We see continued improvements in the wholesale FX markets activity, supported by the new FX Code of Conduct and the FXI policy. Notwithstanding these improvements, the IFEM trading activities remain limited; and the parallel market still persists. To revitalize the forex markets and ensure a market-clearing exchange rate system, the BoT will continue to encourage market participants to trade at a market-clearing exchange rate in the interbank and retail markets.

14. The BoT will continue to closely monitor monetary and financial sector developments and take necessary steps to safeguard macro-financial stability. In January, the BoT launched its new interest rate monetary policy framework, setting the Central Bank Rate (CBR) to 5.5 percent. At its meeting in April, the BoT Monetary Policy Committee (MPC) raised the CBR to 6 percent to contain emerging inflationary pressures. The BoT will continue to calibrate its monetary policy to maintain low and stable prices, while safeguarding the recovery of economic activities from the impacts of global economic shocks and unfavorable weather conditions. The financial sector remains broadly stable albeit with pockets of vulnerabilities. The BoT will continue closely monitoring developments in the financial sector and enforce prudential requirements.

15. The government will continue to implement economic policies to achieve the objectives and quantitative performance targets set out in the ECF program macroeconomic framework for FY2024/25 and the medium-term. Our economic reforms supported by the ECF program aim to mitigate the short-term economic impacts of unfavorable global economic conditions, maintain macro-economic stability, and improve the business environment 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 and physical capital and achieving inclusive growth. To this end, it sets an 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.

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

C. Structural Reforms

17. The structural reform agenda will continue to 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 and physical capital to unlock Tanzania's growth potential; and (iii) monetary policy and financial sector reforms to ensure macro-financial stability and promote financial deepening.

FISCAL POLICIES TO PROMOTE GROWTH

18. We will focus 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 FY2024/25 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

19. Tax policy and revenue administration efforts in FY2024/25 and during the program period are based on: (i) broadening the tax base by reducing the informal sector through incentivizing more electronic declarations and electronic payments; (ii) bringing the digital economy into the tax net; (iii) controlling and reducing tax exemptions granted in the tax laws; (iv) enhancing tax administration systems; (v) enhancing human resource capacity including recruitment and training; (vi) enhancing enforcement on the issuance of electronic fiscal devices (EFD) receipts; and (vii) enhancing risk-based programming and strengthening recovery action.

20. To realize Tanzania's revenue potential, the government will launch an ambitious revenue reform agenda anchored on a Medium-Term Revenue Strategy (MTRS). Tanzania's tax revenue is significantly below its potential, and revenue performances have continued to fall below budget expectations. A 2022 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, we are preparing a Medium-Term Revenue Strategy (MTRS) along with its implementation plan, which will be launched by end-June (structural benchmark). The FY2024/25 draft budget framework proposed to Parliament includes revenue measures that will yield 0.5 percent of GDP per year (new structural benchmark). We are also finalizing a review of tax exemptions with an action plan for rationalizing tax incentives. Income tax exemptions provided to export processing zones and special economic zones will be repealed by June 2025 (new structural benchmark). To enhance transparency of tax exemptions, we will start publishing an annual report on tax expenditures starting in the current FY (end-June structural benchmark). The interfacing of the Revenue Authority's information technology system with that of prioritized government institutions (end-December 2023 structural benchmark) is expected to improve the efficiency of tax administrations, the government.

21. The government 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 30) 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.

Rebalancing and Improving the Quality of Spending

22. The government is committed to improving 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 are committed to increase spending on health and education, both in levels, and as a share of GDP, with total social priority spending reaching TZS 13 trillion (about 6.6 percent of GDP) in the current fiscal year and TZS 15 trillion (about 6.9 percent of GDP) in FY2024/25. We will continue increasing social priority spending in levels and as percent of GDP, with the goal of stabilizing it at 7 percent of GDP over the medium-term. The government will continue to disclose, on a quarterly basis, the amounts spent on each social sector (health, education, social transfers, among others) aiming at least at reaching the floor on social spending agreed on the program. The performance in raising and maintaining social spending is being monitored by an indicative target.

23. A sufficiently financed education policy, a well-functioning health system and a strong safety-net are crucial to promote sustainable and equitable growth. 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.*

24. Improving health and social assistance will also contribute to human capital accumulation and poverty reduction. Continuing to support eligible 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 enhance 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.

25. We will strengthen public finance management (PFM) and the efficiency of public investments, drawing from recommendations of the IMF TA on Public Investment Management Assessment with Climate Module (C-PIMA). To this end, the Planning Commission Act of 2023 will be amended to explicitly require appraisal of public investment projects, including climate change impact assessments, before they are included in the budget, by end-June 2025 (new structural benchmark). Starting in the FY2025/26 budget, the budget document will also include, for each ongoing public investment project: (i) total estimated project costs, (ii) previous budget years' actual spending, (iii) estimated spending in the current budget year, (iv) committed expenditure for the next budget year, (v) estimated spending and contractual commitments for the two outer years, and (vi) the balance of funding required to complete the project. 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 March 2025.

Reducing Fiscal Risks

26. The government is engaged in taking all necessary measures to clear existing arrears and prevent their accumulation 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.

27. Improving financial information systems is one of the government priorities to strengthen budget execution and transparency and reduce fiscal risks. To this end, the government has configured a new functionality of the Integrated Financial Management Information System (IFMIS), which enabled all commitments with approved budget allocations to be reflected into the system.

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

29. We are 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. As of mid-May, 17 of the 34 SOEs have already published their FY2022/23 financial reports; and financial reports of the remaining SOEs will be published by end-June.

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

- *Implementing the plan for the repayment of arrears on VAT refunds and continuing to implement a risk-based approach*. To expedite the verification of VAT arrears, the Ministry of Finance is submitting to Parliament 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 (end-June 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.

BUSINESS ENVIRONMENT AND GOVERNANCE REFORMS TO UNLOCK GROWTH POTENTIAL

31. To improve the business environment and promote private sector development, the government is reviewing and amending the business regulatory frameworks. 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 percent to 10 percent; and amendment of the PPP Act allowed international arbitration and granted tax incentives to PPP projects.

32. While effectively implementing the revised regulatory frameworks, we will review and revise the BLUEPRINT. The government will prepare and publish a timetable for implementation of key de-regulations envisaged in the Blueprint for Regulatory Reforms along with a clear delineation of responsibilities among government entities by end-December 2024 (new structural benchmark). 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.

33. 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.

34. We are committed to improve 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.

35. 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 are being made 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.

36. 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 amendments of the AML/CFT Laws from 2022, we requested re-rating on technical compliance and were upgraded on 9 FATF recommendations. Tanzania has currently submitted its request for re-rating on 13 Recommendations for the next ESAAMLG Council of Ministers meeting, August/September 2024. We are making progress on implementing the FATF Action Plan to strengthen effectiveness, and in April 2024 Tanzania submitted its 3rd Cycle Report for the FATF Plenary in June. 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). We continue our efforts to complete the two pending items on developing RBS Manual for Trusts and enactment of Real Estate Regulatory Authority Act to designate RERA as the real estate sector supervisor by end-September 2024.

37. 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.

STRENGTHENING MONETARY POLICY AND FINANCIAL STABILITY

38. The BoT will continue to strengthen the new interest rate-based monetary policy framework. The adoption of the interest rate-based monetary policy framework, combined with new macroprudential tools to enhance systemic liquidity management, will help improve monetary policy transmission. As part of the new monetary policy framework, the BoT published the monetary policy communication strategy in February 2024. BoT also issues MPC press release that explains the decision, publishes the Monetary Policy Report and communicates monetary policy decisions through meetings with CEOs of banks and media. Efforts are underway to further improve monetary policy communication with market participants and the general public. 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 publish the schedule for the MPC meetings, noting in the schedule the announcement dates for any monetary policy decisions taken by the MPC, by end-June (structural benchmark).

39. 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 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/III in October 2023. The BoT will enhance the current two-tier assessment) framework by creating a single risk-based rating system by December 2024 (structural benchmark) and improve AML/CFT risk-based supervision.

40. 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 are drafting a secured transactions Act that allows collateral recovery and broadens the pool of acceptable collateral to movable collateral, which will be submitted to Parliament by September 2024 (structural benchmark).

REFORM MEASURES TO ADDRESS CLIMATE CHALLENGES

41. Climate change poses significant risks to Tanzania's economic and social developments. Climate change has adversely affected lives, livelihoods, and economic activity through changing precipitation patterns, flooding, drought, water/sea-level rise, and saltwater intrusion. Key economic sectors including agriculture, tourism, livestock, fisheries, and transport and infrastructure are particularly vulnerable to such extreme conditions. Economic costs of such events are estimated at more than 1 percent of GDP per year and occur regularly, reducing long-term growth, and claiming many lives and property. Climate change also poses significant risks to food security, public health, and equity. In the absence of reform measures, climate related disasters could create sizable BoP pressures through adverse impacts on tourism and agriculture production, which are the major sources of FX earnings for Tanzania, and increased imports associated with reconstruction of infrastructure damaged by floods and rise in sea level as well as those associated with losses due to drought.

42. The government has launched ambitious initiatives to address climate change related challenges. As Party to the Paris Climate Agreement, Tanzania made strong commitments in 2021 through its Nationally Determined Contribution (NDC) to reduce vulnerabilities and increase climate resilience. Although Tanzania's contribution to global emission is small,[2] in its NDC, Tanzania commits to reduce GHG emission by 30–35 percent by 2030, compared to its business-as-usual (BAU) emission level. The low ambition scenario (30 percent reduction in emissions) and the high ambition scenario (35 percent reduction in emissions) would result in reductions of emissions by approximately 138 million tons and 153 million tons, respectively, of carbon dioxide equivalent (MtCO2e) relative to BAU scenario. The National Climate Change Response Strategy (2021–26) and the National Disaster Management Strategy (2022-2027) set out Tanzania's national climate-related ambitions. The government is also preparing its long-term developmental plan (Vision 2050) and the National Adaptation Plan (NAP), which will include long-term climate policy and strategic priorities.

43. The implementation of our initiatives and policies faces key institutional and implementation challenges. Recent diagnostic assessments of our climate policies by the IMF (the

[2] Tanzania's per capita GHG emissions is 2.4 tons CO2e, which is well below the global average of about 6.6 tons.

C-PIMA and the Climate Policy Diagnostics TA missions) and the World Bank (Country Climate and Development Report) identified challenges in five key areas:

- *Climate governance and national coordination.* Effective implementation of climate policies is hindered by weaknesses in the coordination and management of climate change policies across sectors and levels of government.
- *Disaster Risk Management (DRM).* Effective implementation of DRM policy faces challenges of inadequate funding and gaps in social protection and early warning systems.
- *Climate change consideration in budgets and investment planning.* Public investment planning and budget formulation do not adequately take into account climate change considerations.
- *Lack of alignment of sectoral policies with national commitments.* The energy sector, water sector, land-use, and forestry sector policies are not fully aligned with Tanzania's NDC decarbonization commitments.
- *Financial sector climate-related risks monitoring.* The monitoring of financial sector climate-related risks is limited, due to data and capacity constraints.

44. The RSF will support our effort to address climate policy challenges and implement reforms to enhance the resilience and sustainability of our economy. The government is committed to address climate change challenges, focusing on: (i) enhancing governance and coordination of climate change policies; (ii) strengthening the disaster risk management (DRM) framework; (iii) mainstreaming climate policies in public investment planning and budgeting; (iv) strengthening the alignment of sectoral climate policies with national policies and commitments; and (v) enhancing supervision of financial sector climate-related risks.

Reform Area 1: Enhancing Governance and Coordination of Climate Change Policies

45. The government has established a legal and institutional framework for managing climate change, but gaps remain. Coordination and management of climate change are stipulated under section 75 of the Environmental Management Act (EMA) (2004) which mandates the Minister responsible for the environment to address climate change and its impacts by, among others: (i) issuing guidelines to sector ministries and other public institutions; and (ii) requiring sector ministries and independent government departments to put in place strategies and action plans. In the context of its engagement with the UNFCCC, the government has established an institutional arrangement to coordinate and implement the NDC, where the Vice President's Office (VPO) oversees the implementation of the NDC and the National Designated Authority (NDA); the National Climate Change Steering Committee (NCCSC) guides coordination and implementation; and the National Climate Change Technical Committee (NCCTC) provides technical advice to the NCCSC and NDA. These arrangements are not integrated into the EMA, which serve as the legal basis for our climate change management. The institutional arrangements have not also been fully operationalized, causing challenges to the mainstreaming of climate issues and the coordination of sectoral plans with national climate objectives and across sectors and levels of government. Climate change sensitive policy making and decision taking is further hampered by inadequate detailed information on current implications of climate related hazards and expected future implications of climate change.

46. The government will upgrade the institutional framework for climate policies and establish common climate scenarios to ensure efficient climate change policy management. To this end, we will amend the Environmental Management Act to clearly define the roles and responsibilities of all stakeholders related to climate change by end-November 2024 (RM1). This will be supported by regulations establishing a coordination mechanism that ensures consistency of climate policies across sectors and between levels of government, which will be reflected in the updated guidelines on Mainstreaming Climate Change into sectoral plans, budget, and programs. To develop a common understanding of the implications of climate change and to create climate change awareness, we will prepare and publish common climate scenarios and vulnerability maps; and include in the legal framework for land use planning and civil construction design a requirement to take climate vulnerabilities into account in land use planning and civil construction design, by end-March 2025 (RM2). The ongoing Climate Vulnerability Assessment in nine sectors including water, fisheries, health, human settlements, coastal and marine, infrastructure, tourism and livestock will also inform climate change sensitive policy making.

Reform Area 2: Strengthening the Disaster Risk Management Framework

47. We have a robust Disaster Risk Management (DRM) policy, but it faces implementation challenges. The 2022 Disaster Management Act lays a legal foundation for our DRM policy. The DRM agenda is also well integrated into the FYDP III and the NDC, and a government-wide response mechanism is in place under the coordination of the Disaster Risk Management Department of the Prime Minister's Office. Effective implementation of our DRM policy, however, requires: (i) shifting focus from relief and response toward risk reduction and prevention strategies; (ii) ensuring adequate funding for implementation; (iii) integrating DRM into sectoral plans and policies; and (iv) strengthening the link between DRM and social protection.

48. The government plans to develop a disaster risk financing framework and a unified multi-hazard early warning system. Ensuring that financial resources are readily available to respond to disasters as they occur enables a timely response, reduces the opportunity costs of ad hoc resource reallocation, and improves the effectiveness of disaster risk management. To this end, we will develop and implement a disaster risk financing (DRF) framework, with technical support from the IMF, taking into account the efficient use of risk retention and transfer, and ex-ante and ex-post DRF, based on a DRF needs assessment including for social protection by end-March 2025 (RM3). This will be complemented by an effort to develop a multi-hazard early warning system, building on existing sectoral systems, and introducing an integrated data and information system.

49. Our social safety nets program will be revised to be more responsive to climate shocks. Our Productive Social Safety Net (PSSN) Program currently focuses on supporting those affected by extreme poverty. The next phase of the program (Phase III) will add more emphasis on supporting poor households affected by natural disaster and climate-related shocks. To enable us to reach vulnerable households when they are affected by a natural disaster, the PSSN register will be expanded to include poor households who could fall under extreme poverty when disaster risks materialize (RM4, end-September 2025). The sequencing of the expansion of the register will take a risk-based approach, starting with areas that are at highest risk of natural disasters, taking into account the information provided by vulnerability maps. This will allow us to channel well-targeted temporary disaster relief in a timely manner to the most vulnerable people.

Reform Area 3: Mainstreaming Climate in Budget and Investment Planning

50. Mainstreaming climate change in public investment planning and budgeting is a top priority for the government. To this end, the Environmental Impact Assessment (EIA) regulation will be amended to require climate impact and climate vulnerability assessments for large projects and all climate relevant projects at all stages of project appraisal (RM5, end-November 2024). The regulation will require that project assessment should take into account benefits from reducing emissions and environmental conservation and costs from increased emissions and environmental degradation. All Ministries, Departments, Agencies, and Local Governments initiating projects will be required to assess climate implications and climate vulnerabilities when preparing project documents in line with the Environmental Policy (2021) and EMA. The operational manual for public investment management (PIM-OM) will be revised to provide guidance on how to comply with these requirements. Project appraisals of the relevant projects will include a traffic light-based assessment of climate impact and climate vulnerability. The government will also embark on developing detailed methodology for climate impact assessment. Starting in the FY2025/26 budget, the Budget document will include climate assessment outcomes of all climate-relevant projects approved for budget financing (RM6, end-May 2025). The government will request technical assistance from the IMF to support these efforts.

51. We will start conducting and publishing, annually, natural disaster related fiscal risks. Natural disasters have had a significant impact on public assets and finances. Better understanding the potential impact of natural disasters on public finances will help us create awareness and accountability and support the mobilization of additional resources for disaster risk financing. In this regard, will include assessment of natural disaster related fiscal risks in the budget document starting with the FY2025/26 budget (RM7, end-May 2025).

Reform Area 4: Aligning Sectoral Policies with National Commitments

52. Efforts will be geared to ensuring that sectoral climate policies are mutually consistent and aligned with national climate commitments. We will develop and start implementing a long-term power sector plan that is aligned with climate mitigation goals and coordinated with the long-term plans of other sectors, including agriculture and water by end-September 2025 (RM8). To support our energy transition plans and to ensure that critical investments needed for energy transition will be funded sustainably, we will determine the cost-recovery rate for the provision of electricity (fully reflecting operational and investment cost, including for energy transition), and establish and start implementing a methodology for adjusting electricity tariffs to the identified cost-recovery rates, with transparent periodic adjustments while protecting poor and vulnerable groups by end-March 2026 (RM9). To allow sufficient time for establishing the methodology for adjusting electricity tariffs, the cost of services assessment and determination of cost-recovery rate will be completed by March 2025. These measures will be critical for our energy sector reform plans and to ensure the financial sustainability of our power sector and enhancing prospects for important private sector investment in power generation, which will be critical for achieving our transition objectives. To help reduce GHG emissions in line with our NDC commitments, we will apply an environmental tax on domestic consumption of sources of carbon emissions (including coal and natural gas) tailored to Tanzania's circumstances and in line with IMF technical assistance (RM10, end-September 2025). In addition to their climate change benefits, these measures could also help improve public finances and enhance debt sustainability.

53. Reducing deforestation is one of the key climate mitigation goals for the government. According to IMF data, land use, land use change, and forestry accounted for 46 percent of Tanzania's GHG emissions in 2021. For this reason, the National Forest Implementation Strategy (2021/22-2031/32) aims to reduce the deforestation rate by 70 percent by 2031. Implementation of the strategy, however, faces challenges due to limited application and lack of enforcement of consistent land-use planning. To address these challenges and support our deforestation goal, the government will finalize and adopt the 'Guidelines for Integrated and Participatory Village Land Use Planning, Management and Administration in Tanzania - 3rd Edition' and will issue a Notice to formally require implementation of the Guideline in all villages across the country (RM12, end-March 2026). The implementation of the guidelines will be monitored based on a Land Use Planning Compliance Manual, which the government will issue together with the Guidelines for Land Use Planning. This measure will be accompanied by efforts to develop and implement a strategy for funding Payment of Forest Ecosystem Service (PES) in the Forest Sector.

54. Sustainable management of water resources, in coordination with other sectoral policies, is an important component of our climate adaptation policy. Hydropower and irrigation are the largest sources of water demand, highlighting the water-energy-food nexus and the need for integrated planning. We have a well-established water sector framework with a good foundation of water policy and integrated water resource planning. A conditional water tariff framework, which enables the regulatory body to approve water tariffs conditional on attaining certain key performance indicators (KPIs) related to financial performance, is in place. While KPIs included in the current water tariff structure focus on the expansion of access to water and on the financial performance of our urban water utilities, going forward we will include KPIs to further encourage the efficient use and management of our scarce water resources. To this end, we will identify and integrate climate policy-related KPIs in the water utilities' business plans and conditional tariff structure by end-March 2026 (RM11).

Reform Area 5: Enhancing Supervision of Climate Related Risks to the Financial System

55. The BoT will take measures to strengthen financial sector resilience to climate related risks. The BoT issued guidelines on assessment of climate-related financial risks management in 2022. Implementation of the guidelines has, however, been hampered by lack of data and limited capacity. In this regard, the BoT will create a repository of climate-related data for assessment of climate-related risks by end-September 2025 (RM13). The climate data repository will match the location of certain hazards (for example, floods and droughts), to the location of banks' exposures (for example, loans and collateral). The BoT will also conduct and publish, on an annual basis, a qualitative assessment of climate-related risks, focusing on key transmission channels, to financial system stability starting in CY2025 (RM14). Improved climate disclosures and green taxonomies would help manage climate financial risks and develop green financial markets. To this end, we will finalize and publish the ongoing work on sustainable financing framework, aligned with Tanzania's NDC, which will help expansion of green financial instruments and channel long-term market-based financing for climate-related investment.

PROGRAM MONITORING AND OTHER ISSUES

56. 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.

57. 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 draft amendment to the BoT Act is being finalized and will be submitted to Parliament (end-June structural benchmark) 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. 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.

58. 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.

59. 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 finalize and publish the 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.

60. The ECF program will continue to be evaluated based on quantitative performance criteria, indicative targets, and structural benchmarks (MEFP, 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 sixth review is scheduled to be completed on or after September 26, 2025, based on the test date for periodic performance criteria of end-June 2025. Under the RSF, monitoring will be done by means of the reform measures, which are presented in Table 3 of the MEFP.

Table 1. United Republic of Tanzania: Quantitative Performance Criteria and Indicative Targets, June 2023 – June 2025

(Tsh billions, unless otherwise indicated)

	2023												2024							2025	
	End-June				End-Sep. IT				End-December				End-Mar. IT								
	Target	Target-adj	Actual	Status	IT	IT-adj	Actual	Status	Target	Target-adj	Actual	Status	IT	IT-adj	Actual	Status	End-Jun. Target	End-Sep. IT	End-Dec. Target	End-Mar. IT	End-Jun. 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	Met	0	0	0	Met	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 (millions of U.S. dollars) 1/	7,057	7,057	3,932	Met	5,053	5,053	31	Met	5,737	5,737	531	Met	5,737	5,737	1,226	Met	6,500	3,000	5,500	5,500	6,500
Performance Criteria																					
Floor on domestic primary balance 1/	-4,376	-4,634	-4,606	Met	-718	-828	-363	Met	-1,510	-1,561	-1,464	Met	-1,969	-2,033	-1,980	Met	-2,537	-695	-1,105	-1,359	-1,614
Ceiling on net domestic assets (NDA) of the BoT	-98	-916	-636	Not met	-220	-206	-380	Met	-287	-392	-1,592	Met	-86	-44	-913	Met	566	272	337	457	657
Change in net international reserves of the Bank of Tanzania (floor, millions of U.S. dollars) 2/	-292	-292	449	Met	-192	-301	-88	Met	-92	-92	433	Met	-42	-42	270	Met	8	58	108	208	308
Indicative Targets																					
Floor on priority social spending 1/	12,653	12,653	10,574	Not met	3,506	3,506	3,274	Not Met	7,012	7,012	7,251	Met	10,267	10,267	10,576	Met	13,023	3,076	8,551	11,793	15,034
Ceiling on the stock of domestic arrears 1/	1,985	1,985	2,028	Not met	1,868	1,868	1,801	Met	1,691	1,691	1,684	Met	1,544	1,544	1,524	Met	1,397	1,247	1,097	947	797
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	1,498	Met	1,533	1,533	0	Met	1,631	1,631	144	Met	1,631	1,631	474	Met	1,631	1,500	1,600	1,600	1,600
Memorandum Items																					
Foreign assistance grants and loans (US$ mlns) 1/	3,551	3,551	2,235	...	620	620	257	...	1,169	1,169	1,511	...	1,647	1,647	2,133	...	2,160	516	1,231	1,480	2,015
VAT refunds in arrears	0	0	121	...	0	0	0	...	0	0	0	...	0	0	0	...	0	0	0	0	0
Expenditure arrears	1,985	1,985	1,907	...	1,868	1,868	1,801	...	1,691	1,691	1,684	...	1,544	1,544	1,524	...	1,397	1,247	1,097	947	797
Wage bill on education and health workers 1/	3,358	3,358	4,658	...	744	744	1,273	...	1,489	1,489	2,559	...	2,942	2,942	3,833	...	4,844	1,259	2,519	3,060	5,038

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. United Republic of Tanzania: Structural Benchmarks Through June 2025

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	Met
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	Met
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	Not met
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	Ongoing
13. Prepare a medium-term revenue strategy (MTRS) with an implementation plan and submit to Cabinet for approval	Enhance revenue performance	End-Jun. 2024	Ongoing
14. Begin preparation and publication of annual report on tax expenditures and their budget implications	Strengthen fiscal transparency	End-Jun. 2024	Ongoing

Table 2. United Republic of Tanzania: 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	Met
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	Ongoing
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	Ongoing
18. Enhance the risk-based supervision (RBS) framework by creating a single RBS rating system.	Enhance financial stability	End-Dec. 2024	Ongoing
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	Ongoing
Proposed Structural Benchmarks			
20. Submit to Parliament a draft amendment to the Planning Commission Act 2023 that explicitly requires appraisal of public investment projects, including climate change impact assessments, before they are included in the budget.	Strengthen public investment management	End-Jun. 2025	New
21. Submit to Parliament revenue measures with net positive revenue yield of 0.5 percent of GDP a year.	Enhance revenue performance	End-Jun. 2024	New
22. Repeal income tax exemptions provided to export processing zones and special economic zones.	Enhance revenue performance	End-June. 2025	New
23. Prepare and publish a timetable for implementation of key de-regulations envisaged in the Blueprint for Regulatory Reforms along with a clear delineation of responsibilities among government entities.	Streamline business regulations	End-Dec. 2024	New

Table 3. United Republic of Tanzania: Proposed RSF Reform Measures, 2024–26

Key Challenge	Reform Measure	Tentative Date	Diagnostic Reference	RM Expected Outcome	IMF CD Input	Development Partner Role	Development Partner Role
National coordination and management of climate change is incomplete and not able to ensure cross sector coordination; no common national view on climate change; and limited appreciation of long-term nature of climate challenge.	**RM1.** Amend the Environmental Management Act to clearly define the institutional framework for climate change related policies.	30-Nov-24	IMF CPD	The Environmental Management Act amended to establish the institutional framework and grant the VPO a legal mandate for coordinating and monitoring the government's climate policy formulation and implementation.			The World Bank under the fortcoming CAT DDO is supporting the revision of EMA to anchor a carbon trading mechanism. SIDA (Sweden) is supporting the authorities' efforts in the implementation and assessment of the Environmental Management Act.
	RM2. Prepare and publish common climate scenarios and vulnerability maps; and include in the legal framework for land use planning and civil construction design a requirement to take the so identified climate vulnerabilities into account in land use planning and civil construction design.	31-Mar-25	IMF CPD	Common climate scenarios and vulnerability maps published and disseminated; Circular issued requiring use of the scenarios and maps in project appraisal, land use planning, and construction design issued.		Global Center on Adaptation TA	The GCA would apply its experience in developing hazard risk maps to support the Tanzanian authorities in developing risk maps for floods, land-slides and droughts. The World Bank, in the context of the CAT DDO engaged in vulnarability risk assessments for Zanzibar and Dar Es Salaam and could assist the authorities in exapnding this work to vulnerable parts of Tanzania's territory.
Effective implementation of disaster risk management policy faces challenges of inadequate funding and gaps in social protection and early warning system.	**RM3.** Develop and implement a Disaster Risk Financing (DRF) framework, taking into account the efficient use of risk retention and transfer, and ex-ante and ex-post DRF, based on a DRF needs assessment including for social protection.	31-Mar-25	IMF CPD and C-PIMA	Issuance of DRF legal and policy framework, taking into account the efficient use of risk retention and transfer, and ex-ante and ex-post DRF; and/or adequate provision in budget.	IMF TA in collaboration with the World Bank		The World Bank is working to arrange for a CAT DDO, which would support DRF. In addition, reforms under the CAT DDO will aim to strengthen the financing arrangements of the Disaster Risk Fund, a key component of DRF.
	RM4. Expand the Productive Social Safety Net (PSSN) register to include households who could fall under the extreme poverty line if climate and disaster risks materialize.	30-Sep-25	IMF CPD	The Productive Social Safety Net (PSSN) register expanded to include at least 5 percent of households who could fall under the extreme poverty line when climate and disaster risks materialize.		The World Bank and WFP TA	The World Bank and WFP are cooperating to support the authorities with the design, implementation, and financing of the PSSN program. Expansion of the coverage of the register and shock responsive benefit design are envisaged for the next phase of the PSSN program and will be supported by the Bandk and the WFP.
Budget formulation and public investment planning do not adequately take into account climate change considerations; and climate related fiscal risks not assessed.	**RM5**. Ammend the Environmental Impact Assessment regulation to require climate impact and climate vulnerability assessments for large projects and all climate relevant projects at all stages of project appraisal.	30-Nov-24	IMF C-PIMA	The Environmental Impact Assessment regulation ammended requiring climate impact and climate vulnerability assessments for large projects and all climate relevant projects at all stages of project appraisal.	IMF TA		
	RM6. Include the outcome of climate assessments of all climate-relevant projects in the Budget document submitted to Parliament, starting in the FY2025/26 budget.	31-May-25	IMF C-PIMA	Proposed budget for FY2025/26 includes climate assessment outcomes of all climate-relevant projects.	IMF TA		
	RM7. Starting in the FY2025/26 Budget, include assessment of natural disaster related fiscal risks in the budget document.	31-May-25	IMF C-PIMA	The FY2025/26 draft Budget includes assessment of natural disaster related fiscal risks.	IMF TA		

Table 3. United Republic of Tanzania: Proposed RSF Reform Measures, 2024–26 (concluded)

Key Challenge	Reform Measure	Tentative Date	Diagnostic Reference	RM Expected Outcome	IMF CD Input	Development Partner Role	Development Partner Role
Energy, water, forestry, and land use policies are not fully aligned with Tanzania's NDC decarbonization commitments; limited synergy among sectoral plans.	**RM8**. Present and implement a long-term power sector plan that is aligned with climate mitigation goals and coordinated with the long-term plans of other sectors, including water and agriculture.	30-Sep-25	IMF CPD	Power sector plan consistent with energy transition goals and other sectoral plan prepared and started to be implements.		The World Bank TA	The World Bank has a long-standing engagement, supporting energy sector related policy discussions and activities in Tanzania, including for power sector transition.
	RM9. To support energy transition plans: (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and investment cost of the energy transition); and (ii) establish and implement a methodology for adjusting electricity tariffs to the identified cost-recovery rates, with transparent periodic adjustments while protecting poor and vulnerable groups.	31-Mar-26	AFR team assessment in consultation with the WB	Cost-recovery electricity tariff rates determined; methodology for adjusting electricity tariffs to the identified cost-recovery rates, with transparent periodic adjustments, while protecting poor and vulnerable groups established and published online; and implementation of the new tariff adjustment begins.		The World Bank TA	The World Bank has undertaken some economic and financial assessments of the energy sector and engaged with the authorities on supporting a cost-of-service assessment for the national power company. Other development partners including AFD, EU, JICA, and USAID are also providing assistance in this area.
	RM10. Apply an environmental tax on domestic consumption of sources of carbon emissions (including coal and natural gas) tailored to Tanzania's circumstances and in line with IMF technical assistance and consistent with Tanzania's commitment under the NDC.	30-Sep-25	IMF CPD	Environmental tax on domestic consumption of sources of carbon emissions (including coal and natural gas) formulated and applied in line with IMF technical assistance and consistent with Tanzania's commitment under the NDC.	IMF TA		
	RM11. Identify and integrate climate policy-related key performance indicators (KPIs) in the existing conditional tariff structure and business plans of the water utilities.	31-Mar-26	IMF CPD	Key climate policy related KPIs identified and integrated to the conditional water tariff setting.	IMF TA		GIZ (Germany) supports water sector reforms and climate-sensitive water resources management to improve drinking water supply and sanitation.
	RM12.The National Land Use Planning Commission finalizes and adopts the Guidelines for Integrated and Participatory Village Land Use Planning, Management and Administration in Tanzania - 3rd Edition and issues a Government Notice to formally require its implementation in all villages across the country.	31-Mar-26	IMF CPD and the authorities' inputs	The Guidelines for Integrated and Participatory Village Land Use Planning, Management and Administration in Tanzania - 3rd Edition finalized and a Government Notice issued to formally require its implementation in all villages across the country.			
Monitoring of financial sector climate-related risk is limited.	**RM13.** Create a repository of climate-related data to support assessment of climate-related risks by supervised financial institutions and BoT.	30-Sep-25	AFR team assessment in consultation with the WB	A repository of climate-related database created to support assessment of climate-related risks by supervised financial institutions and BoT.	IMF TA		
	RM14. The BoT will publish, on an annual basis, its analysis of climate risks in the financial system, including an assessment of the key transmission channels, starting in CY2025.	31-Mar-26	AFR team assessment in consultation with the WB	BoT publishes annual report for CY2025, including a qualitative analysis focusing on key transmission channels of climate risks in the financial system.	IMF TA		

Attachment II. Technical Memorandum of Understanding

Dar Es Salaam, June 7, 2024

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 – March 2026.

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 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. United Republic of Tanzania: 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 2025, while indicative targets are set for end-March 2025.

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 cover: (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.

Concessionally

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. United Republic of Tanzania: 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 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

[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.

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 as of end_June 2022 (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. United Republic of Tanzania: 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.	Mar.	Jun.
World Bank lending projects	494	560	629	689	40	274	588	769	55	55	331	525

[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. United Republic of Tanzania: 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.	Mar.	Jun.
Budget support grants	0	0	0	0	10	28	104	106	3	16	37	82
Budget support loans	0	350	350	350	0	500	500	607	259	273	279	279
External non-concessional borrowing	1,252	1,331	1,331	1,331	103	186	348	699	0	186	509	935

[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. United Republic of Tanzania: 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.	Mar.	J
Payment of domestic arrears	238	692	692	1,109	118	294	441	588	150	300	450	[illegible]

[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.

RSF Reform Measures

31. Preparation of climate scenarios and vulnerability maps (RM2). The common climate scenarios will be developed for 2030, 2050, and 2080. The hazard maps will be based on the climate scenarios and will cover flood, landslide, and drought risks.

32. Expanding Productive Social Safety Net (PSSN) register (RM4). The coverage of the PSSN register will be expanded by adding at least another 5 percent of the population. The expansion will be targeting the population under the poverty line, prioritizing registration based on vulnerability to natural disaster risks.

33. Large projects and climate relevant projects (RM 5 and 6). 'Large projects' refer to projects with total project cost of US$50 million or above and 'climate-relevant projects' refer to all investment projects and policies related to energy, transport, water, agriculture, forestry, and land-use planning/management.

Table 1. United Republic of 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. United Republic of 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. United Republic of 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

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

June 7, 2024

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR EXTENSION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REPHASING OF ACCESS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS

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

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

Tanzania's Debt Sustainability Analysis (DSA) indicates that its risk of external debt distress remains moderate. Economic recovery is expected to strengthen, and the medium-term outlook is positive, contingent on implementation of the authorities' reform agenda. Tanzania has some space to absorb shocks and risks are tilted to the downside. All external debt burden indicators continue to stay below the policy-determined thresholds under the baseline scenario. The public DSA analysis indicates that the present value of the public debt-to-GDP ratio remains contained at about 35 percent, well below the 55 percent benchmark based on Tanzania's debt carrying capacity.[2] *The DSA results signal the importance of accessing, to the extent possible, external financing on concessional terms. To maintain current fiscal and debt sustainability, in line with the IMF Extended Credit Facility (ECF) objectives, the authorities should improve revenue mobilization and public investment management, including by selecting only investment projects with clear socioeconomic payoffs. Building resilience to climate change is also important to preserve debt sustainability amid climate change effects.*

[1] This DSA was prepared based on the Joint Bank-Fund Low-Income Country Debt Sustainability Analysis (LIC-DSA) methodology.

[2] Tanzania's debt carrying capacity classification remains medium as in the April 2023 DSA. The composite index (CI), estimated at 2.89 is based on the October 2023 World Economic Outlook (WEO) and the 2022 World Bank Country Policy and Institutional Assessment (CPIA) data.

PUBLIC DEBT COVERAGE

1. The public sector debt covers central government debt, central government-guaranteed debt (i.e., excluding non-guaranteed debt of SOEs and local governments), and central bank debt (Text Table 1). Public sector debt coverage is limited by the absence of granular data on all local governments and public corporations' debt. The Bank of Tanzania (BoT) currently has no outstanding debt. The authorities are working on broadening fiscal data coverage, including on local governments and public corporations.[3] The definition of external debt is based on residency. The DSA contingent liability stress test captures public sector exposure to SOEs, calibrated at 3 percent of GDP, reflecting the authorities' estimated size of contingent liabilities, including 2.8 percent of GDP in guarantees to the National Insurance Corporation [4] and 0.2 percent of GDP non-guaranteed SOEs debt. The contingent stress test also includes default minimum value of 5 percent of GDP for a financial markets shock, incorporated in the LIC DSA, representing the average cost to the government of a financial crisis in LICs.

Text Table 1. United Republic of Tanzania: Public Debt Coverage

Public Debt Coverage

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

Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	3.0	Tsh 4.8 trillion (2.8% of GDP) for guarantees to the National Insurance Company and Tsh 0.3 trillion (0.2 percent of GDP) non-guaranteed SOEs debt as of June 2023. Source: MoFP.
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		8.0	

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

[3] The Ministry of Finance (MoF) has a wide mandate over debt management by local governments and all parastatals: (i) the issuance of domestic debt is subject to its approval; and (ii) all external borrowing requires government guarantees or consent (implicit guarantee). MoF has information on debt stocks of public corporations and local governments and currently working on compiling data on debt flows (debt service). The central government's strong control over public sector debt limits the risk of additional, uncaptured, contingent liabilities.

[4] The guarantee to NIC is a contingent liability because it is not for debt but for NIC's insurance coverage for the construction of a major dam for hydroelectricity generation.

The DSA includes in the domestic debt stock the full amount of government verified domestic arrears, totaling about 1.1 percent of GDP at end-FY2022/23, and incorporates implementation of the authorities' domestic arrears clearance strategy.[5] The authorities are continuing to engage external creditors to get resolutions on external arrears and to reach agreements on disputed amounts.[6]

BACKGROUND ON DEBT

2. Tanzania's public and publicly guaranteed (PPG) debt remains relatively low. At the end of FY2022/23, the level of public debt stood at 45.7 percent of GDP (46.7 percent of GDP including domestic arrears), up from 43.6 percent in FY2021/22, largely reflecting the government borrowing to finance a wider than expected fiscal deficit in FY2022/23.[7] Over the past decade, the debt to GDP ratio increased by about 13 percentage points of GDP. While domestic debt also rose over the same ten years, most of the increase came from the external debt component, which accounts for 63.3 percent of total debt at end-FY2022/23.

3. External non-concessional borrowing has increased in recent years to finance the public infrastructure agenda. Multilateral and official bilateral creditors continue to be the major financiers, accounting for about 72.5 percent of the stock of external public and publicly guaranteed (PPG) debt as of end-FY2022/23 (Text Table 2). However, in recent years, commercial borrowing has increased significantly, reaching 30.5 percent of total new external disbursement in FY2022/23. Due to pandemic-related increased challenges of external non-concessional borrowing, the authorities, faced by growing BoP needs, increased their financing through multilateral and official bilateral institutions, including IDA and IMF resources.[8] The BoT has currently no external debt outstanding.

4. Domestic public debt has also increased but remains small. Domestic debt (including domestic arrears) stood at 17.2 percent of GDP at end of FY2022/23, of which about 28 percent accounted for short-term instruments, including domestic arrears. As of end-March 2024, government bonds and T-bills constituted 77.7 percent and 8.8 percent of total government domestic debt respectively, jointly making up 86.5 percent of total domestic public debt. Most of the domestic debt stock is held is by commercial banks with a share of 33.1 percent, followed by social security funds with holdings of 26.7 percent. On the

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[5] The outstanding balance of verified domestic arrears as of June-2023 was Tsh 1.9 trillion, consisting of verified expenditure arrears. There were no VAT refund claims outstanding for more than 90 days at end-June 2023. The authorities have accelerated the clearance of arrears in line with the ECF conditionality that includes a ceiling on the stock of expenditure arrears (quarterly indicative target—IT) with a schedule of their clearance, and reflects the authorities *Revised Strategy for Management of Arrears*, as of December 2022. Domestic arrears do not impact Tanzania's DSA rating, as per the LIC DSF guidance note, around 80 percent of Tanzania's domestic arrears are verified expenditure arrears to suppliers.

[6] The authorities have cleared principal arrears and are in discussion with the Libyan government to settle disputed interest arrears.

[7] All the figures and tables in the DSA follow the fiscal year; for example, year 2023 corresponds to FY2022/23.

[8] Tanzania received IMF emergency financing in FY2021/22 under the Rapid Credit Facility (RCF) for 100 percent of its quota, equal to SDR 397.8 million (about US$0.6 billion). At the beginning of fiscal year FY2022/23, the IMF Board approved a 40-month Extended Credit Facility (ECF), for a total amount of SDR 795.58 million (about US$1.1 billion). Tanzania also received US$836.8 million disbursement from IDA during FY2021/22. It also benefited from a debt service suspension under the Debt Service Suspension initiative (DSSI).

domestic interest rates, the overall T-Bills interest rate rose significantly over the past 12 months from 5.8 percent in March 2023 to 11.7 percent at end-March 2024. Treasury bond yields also increased but at a slower pace compared with T-bills interest rates—in the year to March 2024, the 5-year bond interest rate increased by about 40bp while the 2-year, 15-year and 20-year bonds increased by between 2 and 2.9 percentage points.

Text Table 2. United Republic of Tanzania: Decomposition of Public Debt and Debt Service by Creditor, 2023/25[1]

	Debt Stock 1/			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ millions)	*(Percent of total debt)*	*(Percent of GDP)*	*(In US$ millions)*			*(Percent of GDP)*		
Total[2]	**36,075**	**100.0**	**46.7**	**3,821**	**3,676**	**3,678**	**5.0**	**4.6**	**4.4**
External	**22,828**	**63.3**	**29.6**	**1,627**	**1,210**	**1,175**	**2.1**	**1.5**	**1.4**
Multilateral creditors[3]	14,346	39.8	18.6	355	357	386	0.5	0.4	0.5
IMF	838	2.3	1.1	0	0	0	0.0	0.0	0.0
World Bank	9,845	27.3	12.8	240	254	275	0.3	0.3	0.3
AfDB	558	1.5	0.7	38	25	24	0.0	0.0	0.0
Other Multilaterals	3,105	8.6	4.0	77	79	86	0.1	0.1	0.1
o/w African Development Fund	2,525	7.0	3.3	38	42	49	0.0	0.1	0.1
o/w International Fund for Agricultural I	216	0.6	0.3	12	12	12	0.0	0.0	0.0
Bilateral creditors	2,214	6.1	2.9	72	57	62	0.1	0.1	0.1
Paris Club	656	1.8	0.8	25	26	27	0.0	0.0	0.0
o/w France	260	0.7	0.3	13	12	13	0.0	0.0	0.0
o/w Japan	383	1.1	0.5	10	12	12	0.0	0.0	0.0
Non-Paris Club	1,558	4.3	2.0	48	31	35	0.1	0.0	0.0
o/w China	101	0.3	0.1	0	3	3	0.0	0.0	0.0
o/w Iran	78	0.2	0.1	0	8	8	0.0	0.0	0.0
Bonds	0	0.0	0.0	0	0	0	0.0	0.0	0.0
Commercial creditors	6,268	17.4	8.1	1,199	796	727	1.6	1.0	0.9
o/w Credit Suisse AG	1,218	3.4	1.6	424	240	202	0.6	0.3	0.2
o/w Exim Bank China	1,368	3.8	1.8	193	168	164	0.3	0.2	0.2
Domestic	**13,248**	**36.7**	**17.2**	**2,195**	**2,466**	**2,502**	**2.9**	**3.1**	**3.0**
Held by residents, total	13,248	36.7	17.2	2,194.7	2,466	2,502	2.9	3.1	3.0
Held by non-residents, total	0	0.0	0.0	0	0	0	0.0	0.0	0.0
T-Bills	915	2.5	1.2	749	841	854	1.0	1.1	1.0
Bonds	9,581	26.6	12.4	1,446	1,625	1,649	1.9	2.0	2.0
Loans	117	0.3	0.2	0	0	0	0.0	0.0	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	2,299	6.4	3.3	…	…	…	…	…	…
o/w: Public guarantees (external)	0	0.0	0.0	…	…	…	…		
o/w: Other contingent liabilities[5]	2,299	6.4	3.0	…	…	…	…		

Sources: 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, and other instruments related).

MACROECONOMIC AND POLICY ASSUMPTIONS

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

6. Tanzania's economic activity is picking up despite challenges from the unfavorable global economic environment and domestic factors. After decelerating to 4.7 percent in CY2022, real GDP growth is estimated to have rebounded to 5.1 percent in CY2023, on the back of strong growth in mining, manufacturing, and financial services. Inflation decelerated to 3.1 percent (yoy) in April 2024, after peaking at 4.9 percent (yoy) in January 2023, reflecting the authorities' policy response (temporary subsidy now phased out) and subsiding commodity prices and the slowdown in food inflation to 1.4 percent in April 2024 from the peak of 9.1 percent in April 2023.

7. The macroeconomic outlook is contingent on implementation of the authorities' reform agenda, supported by the ECF arrangement.

- **Real GDP growth.** Real GDP growth is projected to pick up to 5.4 and 6.0 percent in CY2024 and CY2025, respectively, supported by improvements in the business environment and subsiding global commodity prices. In the medium term, GDP growth is projected to continue increasing, stabilizing at 6.5 percent until CY2029, reflecting (i) continued public investments in infrastructure and human capital, and (ii) reforms supported by the ongoing IMF program and World Bank DPOs.[9] Over the long-term, however, growth will gradually subside to about 5.5 percent (averaging 5.5 percent during CY2030-44) as a result of rebalancing in investments and decreasing population growth rate (Text Table 3).

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

Text Table 3. United Republic of Tanzania: Selected Macroeconomic Indicators, Current vs Previous DSA[1]

		Previous 10 years avg.	2024 proj.	2025 proj.	2026 proj.	2027 proj.	2028 proj.	2029 proj.	Long-term avg. (Last 15 years)1
Real GDP Growth	Current	6.1	5.3	5.7	6.2	6.4	6.5	6.5	5.5
(percent)	Previous	6.2	5.7	6.1	6.5	6.9	7.0	6.8	5.5
Inflation	Current	5.3	3.1	3.8	4.0	4.0	4.0	4.0	4.0
(average)	Previous	5.3	4.4	4.0	4.0	4.0	4.0	4.0	4.0
Fiscal Balance	Current	-2.8	-2.8	-3.0	-2.8	-2.7	-2.7	-2.7	-2.7
(percent of GDP)	Previous	-2.7	-2.7	-2.5	-2.5	-2.5	-2.5	-2.5	-2.6
Current Account	Current	-5.6	-4.3	-3.5	-3.4	-3.1	-2.7	-2.5	-2.5
(percent of GDP)	Previous	-5.4	-3.2	-3.0	-2.8	-2.7	-2.5	-2.5	-2.5
Exports of Good & Services	Current	16.7	17.2	18.3	18.1	18.1	18.0	18.0	18.1
(percent of GDP)	Previous	16.5	15.3	15.4	15.4	15.4	15.4	15.4	15.4
FDI	Current	2.5	1.8	1.8	1.9	2.0	2.1	2.1	2.1
(percent of GDP)	Previous	2.5	1.7	1.8	1.9	2.0	2.1	2.1	2.1
Memorandum Items:									
Calendar Year GDP Growth	Current	6.1	5.4	6.0	6.3	6.5	6.5	6.5	5.5

Sources: Tanzanian authorities; and IMF staff estimates and projections

[1] Projections refer to fiscal years, unless stated otherwise. The previous DSA was conducted in the context of the First Review under the ECF and 2023 Art. IV Consultation (April 2023).

[2] Current projections cover the period 2024-2044 and long-term average covers 2030–44

- **Inflation (CPI).** Average inflation is expected to decelerate to 3.1 percent in FY2023/24, and then and stabilize at 4 percent over the medium-term, anchored by the BOT's recently launched interest rate-based monetary policy framework.
- **Fiscal balance.** Fiscal consolidation is underway in FY2023/2024 in line with budget projections and ECF program objectives. The overall fiscal deficit is projected to narrow to 2.8 percent of GDP in FY2023/24 from 4.3 percent of GDP reached in FY2022/23 (about 1 percent of GDP higher than budgeted for FY22/23 due to shortfalls in non-tax revenues). Growth friendly fiscal consolidation is expected to continue in FY2024/25 and the medium term. In the long term, the fiscal deficit is expected to remain well below the 3 percent of GDP ceiling required by the convergence criterion of the East African Community, reflecting expected improvements in revenue mobilization delivered by the reforms under the ECF coupled with a gradual decline in development spending.[10]

[10] Fiscal structural reforms and new tax measures are expected to mobilize revenue and open fiscal space over the program period. These include broadening the tax base with moderate tax rates, modernizing tax administration, reducing compliance costs, rationalizing tax exemptions, and encouraging business formality. After peaking at 8.8 percent of GDP in 2021/22, development spending is projected to slowly decline to about 6.6 percent of GDP over the medium term.

- **Gross financing needs.** Gross financing needs reached 8.1 percent of GDP in FY2023/24 and are projected to stabilize at about 5.4 percent of GDP over the medium term. In addition to IMF financing, the financing gap during FY2023/24-FY2026/27 is expected to be covered from other multilateral sources including the World Bank[11] and the African Development Bank. External non-concessional borrowing (ENCB) is projected to remain below 50 percent of annual foreign financing over the next five years, while access to grants is assumed to taper. Domestic borrowing assumptions are in line with authorities' debt management strategy.
- **Current account balance.** The current account deficit is expected to narrow to 4.3 percent of GDP in FY2023/24 from 6.5 percent of GDP reached in FY2022/23, reflecting a rapid growth of exports of services (which grew by 27.3 percent in the first 9 months of the FY2023/24) driven by continued rebound in tourism and a slowdown in imports of goods (which declined by 3.4 percent in the 12 months ending in December 2023). The slowdown in imports of goods reflects subsiding global commodity prices, which led to lower import bills for fuel and fertilizer, as well as a decline in imports of consumer goods. Over the medium-term, the current account deficit is expected to improve to about 2.5 percent of GDP as the global shocks subside and the authorities' reforms start to pay off. Projected exports are more favorable compared to the previous DSA (April 2023), reflecting higher global price of gold (which makes up about 40 percent of total export basket) and higher prospects of services exports due to more arrivals of international tourists.
- **Debt Service Suspension Initiative (DSSI).** According to the figures provided by authorities, Tanzania benefited from a debt service suspension estimated at around US$174.5 million from May 2020 to December 2021. The debt service in the DSA for 2022–27 reflects the resumption of rescheduled debt service.
- **Special Drawing Rights (SDR).** The authorities withdrew their entire August 2021 SDR allocation of SDR 381.3 million (USD 534 million) to boost reserves and concurrently bought US treasury bonds to optimize the Bank of Tanzania (BoT) foreign reserves management.[12] Since the withdrawn SDRs will remain on the balance sheet of the BoT—based on the 2021 Guidance Note on the SDRs' usage—the operation is not integrated in the DSA.
- **IDA projections and terms.** The new DSA assumes an IDA disbursement forecast of approximately USD 2 billion per year over the period FY2023/24 to FY2026/27 and about USD 1.4 billion in the long-term. Disbursements from FY2023/24 onward incorporate IDA 50-years credits and the recently created Shorter-Maturity Loans (SMLs). The estimates for FY25–28 do not include any DPOs under IDA21 cycle which may increase the disbursements during the period.
- **Debt conditionality.** Tanzania's ECF conditionality is set in compliance with the 2021 Guidance Note on Implementing the Debt Limits Policy in Fund Supported Programs. The

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

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

quantitative performance criterion (QPC) on the PV of newly contracted external public debt (ceiling) and the indicative target on newly disbursed external non-concessional borrowing (ceiling) are consistent with a moderate risk of external debt distress (i.e., ensure compliance of the relevant thresholds). The authorities met the test date targets for the second and third ECF Reviews.[13]

Text Table 4. United Republic of Tanzania: Summary Table on 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	**2,571**	**1,941**
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/]	741	741
Semi-concessional debt [3/]	0	0
Commercial terms [4/]	741	741
Use of debt financing	**2,571**	**1,941**
Infrastructure	1,658	1,353
Budget financing	913	588
Memorandum items		
Indicative projections		
Year 2	3,005	1,800-2,500
Year 3	2,736	1,750-2,400

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

- **Climate-related investments.** The authorities' ambitions on climate-related actions are articulated in Tanzania's 2021 Nationally Determined Contributions (NDC). The NDC's estimated budget is $19.2 billion (which translates to about 4 percent of GDP per year until 2030), of which $9.9 billion is envisaged for climate adaptation in key sectors. These ambitions are not incorporated in the baseline macroeconomic framework, as the authorities are working on the details (see Annex III). Consequently, the DSA uses the tailored natural disaster stress test to analyze the potential impact of climate change shocks on debt dynamics, complemented by the analysis using the DIGNAD model.

[13] Tanzania successfully implemented Performance and Policy Actions (PPAs) with the World Bank in FY2022/23 under the SDFP. These PPAs include a PPA to strengthen debt transparency through improving the coverage of PPG debt by including SOEs, and two PPAs on fiscal sustainability to strengthen efficiency of PIM, and efficiency of VAT refund system. Three PPAs were approved for FY2023/24 which strengthen debt transparency and fiscal sustainability through actions on borrowing authorization, the Annual Borrowing Plan, Planning and Budget Guidelines introducing climate change items, and capacitating the Tax Ombudsman.

8. **The realism tools indicate that the projections are reasonable (Figure 7).** The projected increase in public investment is expected to yield a growth dividend somewhat in line with historical values. As the bottom-right chart of Figure 7 indicates, under the DSA assumption of a 0.15 output elasticity, government capital is expected to contribute an average of 1.2 percentage points of the 6 percent growth in real GDP in the next five years. This is somewhat lower than the historical average contribution of government capital to the growth of real GDP in Tanzania. Projected real GDP growth in 2024 and 2025 is higher than what is implied by the size of fiscal consolidation at different fiscal multipliers, Figure 7 top-right chart, reflecting positive impacts on growth of improvements in the business climate, supported by the ECF program, on private sector activity.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. **The country's debt-carrying capacity applied to this DSA is categorized as medium, same as in the previous DSA.** The calculated Composite Indicator (CI) Index is 2.89 (text table 5), down from 2.92 in the April 2023 DSA (Text Table 6), based on the October 2023 WEO and the 2022 CPIA data. The corresponding indicative thresholds are: (i) 40 percent for the net present value (NPV) of external debt-to-GDP ratio; (ii) 180 percent for the NPV of external debt-to-exports ratio; (iii) 15 percent for the external debt service-to-exports ratio; and (iv) 18 percent for the external debt service-to-revenue ratio. The benchmark of the PV of total public debt for medium debt-carrying capacity is 55 percent.

10. **In addition to the six standardized stress tests, the DSA carries out the tailored market financing shock stress test.** This is applied to countries with market access, such as Tanzania. It reflects: (i) a temporary increase in the cost of new commercial external borrowing, (ii) a shortening of maturities of new external commercial borrowing, and (iii) a temporary depreciation. The residuals in the debt creating flows in 2023 and 2024 are explained by the inclusion of domestic arrears (and relative planned repayments) in the stock of domestic debt.

Text Table 5. United Republic of Tanzania: Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.483	1.34	46%
Real growth rate (in percent)	2.719	5.974	0.16	6%
Import coverage of reserves (in percent)	4.052	41.004	1.66	58%
Import coverage of reserves^2 (in percent)	-3.990	16.813	-0.67	-23%
Remittances (in percent)	2.022	0.037	0.00	0%
World economic growth (in percent)	13.520	2.889	0.39	14%
CI Score			2.89	100%
CI rating			**Medium**	

Sources: 2023 October WEO; 2022 World Bank CPIA; and IMF and World Bank staff calculations.

Text Table 6. United Republic of Tanzania: CI Index

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.89	Medium 2.92	Medium 2.94

Sources: IMF and World Bank staff calculations.

EXTERNAL DSA

11. **According to the baseline projections and borrowing assumptions, Tanzania's risk of external debt distress is assessed as moderate**. The present value of the PPG external debt-to-GDP ratio peaks at about 20.3 percent in FY2025/26. Going forward, it is projected to steadily decline over time and remain largely around 15 percent in the outer years. Under the baseline, all external debt burden indicators continue to stay below the policy-determined thresholds, reflecting continued economic recovery from the spillovers effects of the COVID-19 pandemic and intensification of regional conflicts and the authorities' determination to safeguard debt sustainability and their strong program ownership. The DSA rating for the external risk of debt distress remains moderate as a result of breaches under some shock scenarios (Figure 3).

Several debt indicators are sensitive to shocks (Figure 3). A decline in exports is the most extreme scenario shock on bound tests for the three ratios (PV of debt-to-exports, PV of debt-to-GDP and the debt service- to-exports), reflecting the sensitivity of the Tanzanian economy to a narrowing of its exports base. This is especially noticeable for the debt service- to- exports ratio which breaches the threshold under the most extreme exports stress test. A one-time depreciation is the most extreme shock on bounds tests for one ratio (debt service-to -revenue) reflecting the composition of the public debt portfolio which is about 63 percent external debt and would be impacted by an exchange rate shock.

PUBLIC DSA

12. **The risk of overall public debt distress is assessed to be moderate, in line with the moderate risk of external debt distress rating.** The PV of public debt-to-GDP ratio remains below the indicative benchmark under the baseline and most extreme stress scenarios. The ratio is projected to decline gradually and remain below both the benchmark associated with heightened public debt vulnerabilities (55 percent) and the East African Community (EAC) convergence criterion of 50 percent (Table 2 and Figure 4). The overall debt service to revenue ratio is projected to decline from 47 percent in FY2024 to about 25 by 2034 and to decline to around 21 percent in the outer years. At the same time the present value of public debt- to-revenue ratio is expected to decline from 223 in FY2024 to 149 in FY2034. Combined with the fact that gross financing needs are expected to stabilize around 5 percent of GDP in the long term, this, indicates that debt roll-over risks remain manageable.

13. **Bound tests indicate the criticality of sound public finance management (PFM) and public investment management.** A one-time materialization of contingent liabilities is the most extreme scenario amongst the bound tests for all ratios, excluding the natural disaster stress test (discussed later). This signals the criticality of ensuring sound PFM and improving public investment management processes, including carefully prioritizing investment projects, figure 4. As some of the debt service on public debt has been pushed to longer maturities, domestic revenue mobilization reforms will need to ensure a long-term flattening of the debt service to revenue ratio. It is also paramount to continue improving the coverage and transparency of public sector debt statistics, including non-guaranteed debt of SOEs, to minimize the risk of unexpected debt surprises from unaccounted contingent liabilities.

CLIMATE CHANGE VULNERABILITIES

14. **Tanzania is highly vulnerable to climate change and key economic sectors are exposed.** Rising temperature has resulted in rainfall pattern changes—with floods and drought events becoming more frequent and more severe—and sea level rise. Average annual temperature increased by about 1ºC over the past century, accompanied by increased frequency and intensity of floods, droughts, and storms. Meanwhile, sea level rise on the Tanzanian coast amounted to about 3 millimeters per annum over the past decades, causing coastal erosion, destruction of mangroves, infrastructural damages, intrusion of sea water into freshwater wells and crop fields, and destruction of human settlements. Floods accounted for about two thirds of all natural disasters over the past four decades, followed by droughts which accounted for 12 percent. Key economic sectors affected by climate change include agriculture, tourism, livestock, fisheries, and transport and infrastructure. Climate change also poses significant risks to food security, public health and increases inequality.

15. **Recurring natural disasters have a significant macroeconomic cost.** Natural disasters tend to affect economies through some or all of the five main channels: public capital damages private capital damages, a temporary productivity loss, a decline in public investment efficiency, and loss of credit worthiness. Government balances are expected to deteriorate as reduced output lowers revenue, and government spending increases due to transfers to affected population and post-disaster reconstruction needs (which also worsen BoP balances). Debt sustainability risks could rise following a climate disaster because of deteriorating fiscal balances and increases in public debt. In Tanzania, past climate-related natural disasters, such as the 2005/06 drought, are estimated to have caused damages of up to 1 percent of GDP Watkiss *et al* (2011). Given the projected future increase in the intensity and frequency of natural disasters, exposure of key economic sectors such as agriculture, water, energy, tourism, and wildlife could increase. In this regard, the Tanzania's National Climate Change Response Strategy, NCCRS (2021–26), indicates that economic costs of climate change impacts in Tanzania could reach up to 1 to 2 percent of GDP per year by 2030.

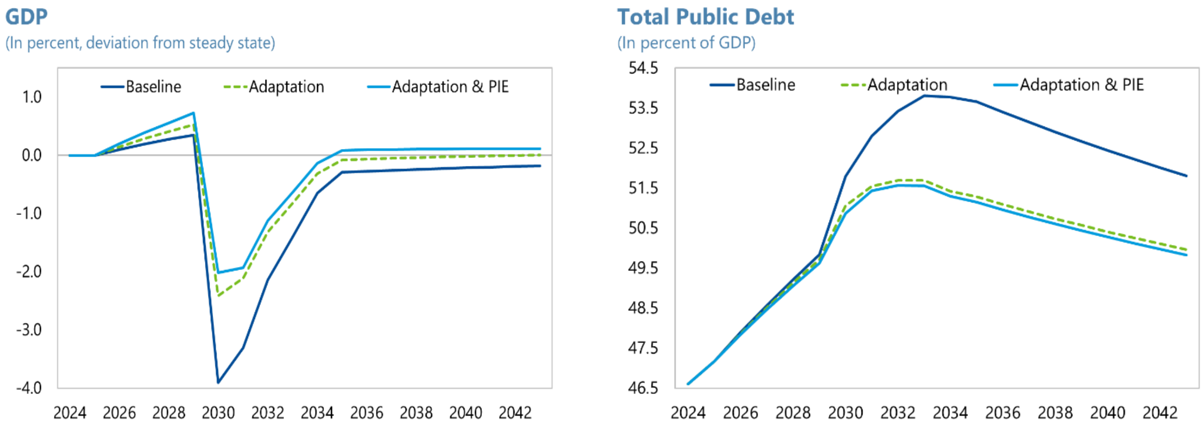
16. **A customized DSA natural disaster tailored stress test is carried out to examine the impact of a hypothetical natural disaster shock on public debt sustainability (Figure 5).** The stress test is set to illustrate the impact of a very extreme, once in a lifetime natural disaster which is assumed to cause a 4 percent decline in real GDP. This hypothetical scenario is twice the size of potential economic costs, per year, from natural disasters discussed in the NCCRS (2021-2026). In addition, the stress test assumes a one-

off increase in PPG external debt by 6 percent of GDP, contracted by the government to fund post-disaster reconstruction and humanitarian needs, and 3.5 percent shock on exports growth. While the PV of total public debt-to GDP remains below benchmark of 55 percent of GDP under the natural disaster stress test, the natural disaster becomes the most extreme shock for two out of the three debt indicators namely the PV of debt-to-GDP and the PV of debt-to-revenue ratio. The PV of debt-to-GDP increases to 41 percent by 2025 and the PV of debt-to-revenue ratio increases to 256 by 2025. These results highlight the adverse effects of climate-related natural disasters on debt dynamics, necessitating the need for actions to address climate change vulnerabilities in order to safeguard long-term debt sustainability.

17. Illustrative modeling scenarios suggest that Tanzania would benefit from investments in resilient infrastructure and greater revenue mobilization to mitigate the negative effect of natural disasters on debt sustainability. Complementary analysis using the IMF's Debt Investment Growth Natural Disasters (DIGNAD) model for a similar one-off extreme shock to the one described in the previous paragraph under DSA tailored natural disaster stress test, shows the adverse impact on GDP and public debt.[14] Three scenarios are considered for the shock simulated to hit the country in 2030 and cause real GDP to decline by of 4 percent relative to steady state: (i) the baseline scenario where public investment is in standard infrastructure which is not resilient to natural disasters; (ii) the adaptation scenario where the authorities scale-up public investment in climate-resilient infrastructure; and (iii) the adaptation and public investment efficiency (PIE) scenario where, in addition to the adaptation scenario in (ii), the government implements public investment management reforms that raise public investment efficiency. Investing in natural disaster resilient infrastructure (adaptation infrastructure) and implementing reforms that improve PIE can boost Tanzania's economic resilience against a natural disaster shock. This will limit post-disaster economic losses, recovery costs, and increases in public debt (Figure 1). In addition, a separate simulation assumes that the government relies on domestic revenue mobilization (DRM) instead of domestic debt to partly finance investments in resilient infrastructure and post disaster reconstruction under the three scenarios above. The results show that DRM can further boost the benefits of investing in adaptation and enhances long term debt sustainability (Figure 2). The illustrative DIGNAD results complement the DSA but they are not incorporated into the baseline macroeconomic framework.

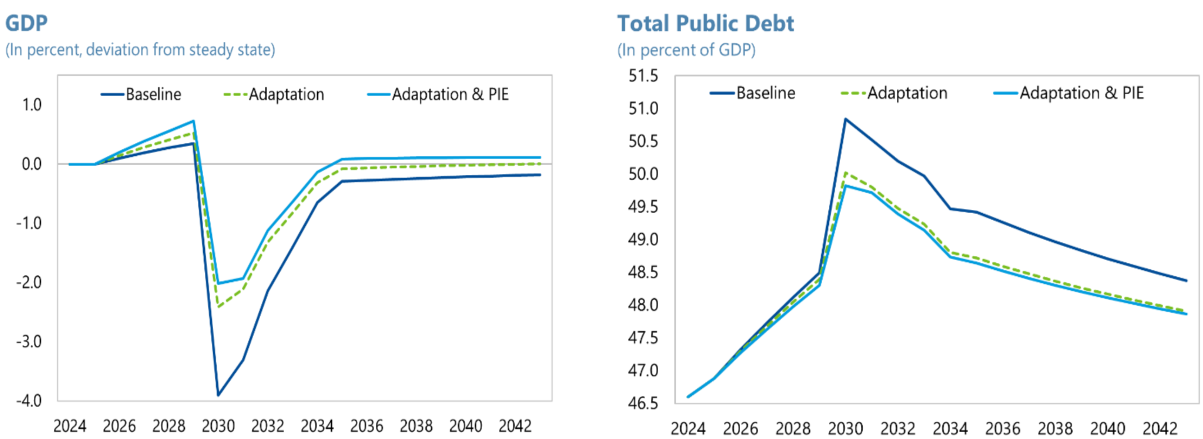
[14] For the full presentation of the DIGNAD results see Annex IV in the Staff Report for the Third Review under ECF and Request for an Arrangement under the Resilience and Sustainability Facility.

Figure 1. United Republic of Tanzania: DIGNAD Simulation Results for Baseline, Adaptation Investment, and PIE[1]



Source: Staff calculations, DIGNAD model simulations.
See IMF Staff Report, Annex IV for a full description of the simulations.

Figure 2. United Republic of Tanzania: DIGNAD Simulation Results for Domestic Resource Mobilization Impact



Source: Staff calculations, DIGNAD model simulations.
See Staff Report Annex IV for a full description of the simulations.

RISK RATING AND VULNERABILITIES

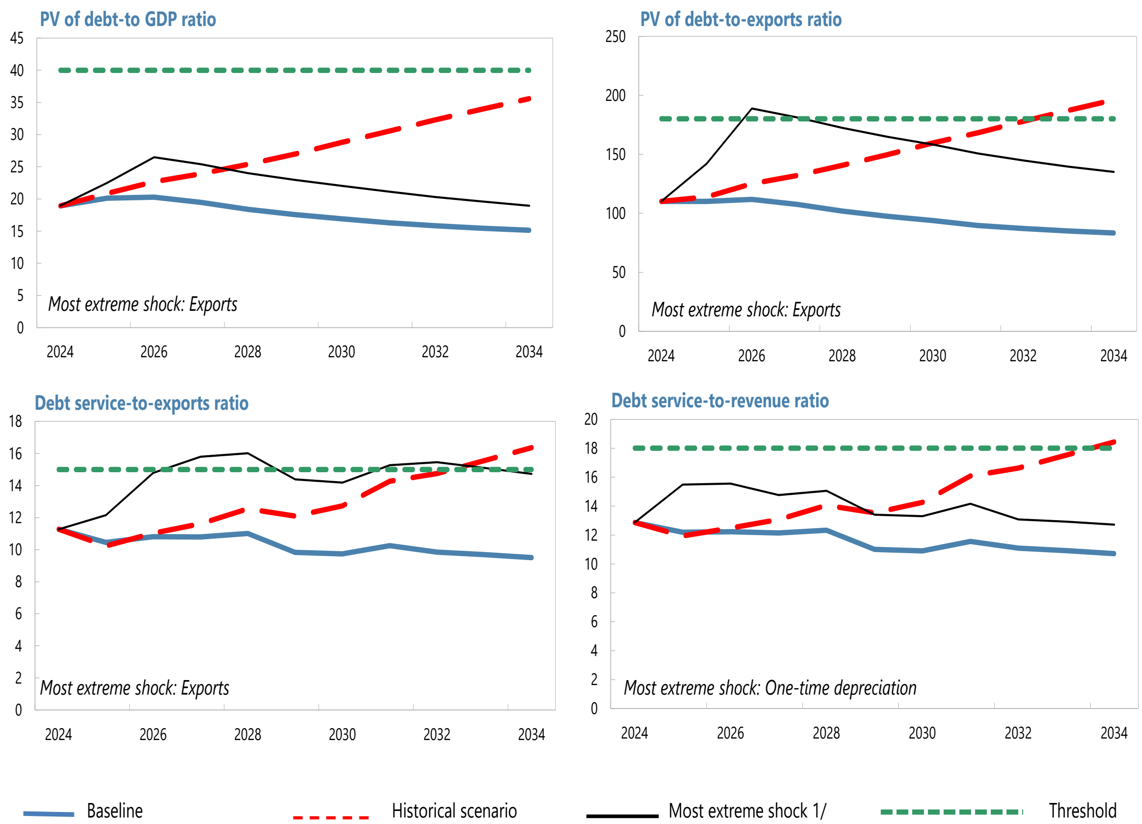
18. The DSA indicates that the external and the overall risk of debt distress for Tanzania are moderate. All external debt burden indicators remain below the policy-dependent thresholds under the baseline scenario. Compared to the previous DSA (April 2023), all baseline debt burden indicators are higher reflecting higher debt stock and debt service projections. There are breaches of the threshold for the debt service-to-exports ratio and PV of debt-to-exports ratio under stress tests. The magnitude of the breach is however lower compared to the previous DSA (April 2023) reflecting a better path of exports. The alternative scenarios show that a narrow export base, one-time currency depreciation and one-off extreme natural disaster pose risks to debt sustainability. These results confirm the criticality of a swift implementation of the reform agenda, and in particular of raising domestic revenue, improving public investment management, and leveraging domestic and concessional financing sources when available, while carefully selecting projects to be financed by commercial loans. There is also a need to build resilience to natural disasters by implementing reforms to address gaps in adaptation and mitigation, including under the RSF.

19. Tanzania has some space to absorb shocks, reflecting its prudent fiscal policy management (Figure 8). The DSA analysis suggests that Tanzania has some policy space to absorb shocks, which is reinforced by the results of the market financing stress test (Figure 9). Most of the indicators show improvements towards the end of the projection period. This assessment needs to be qualified taking into account Tanzania's vulnerability to exogenous shocks, such as climate-related natural disasters, which could negatively impact Tanzania's capacity to earn foreign exchange and its capacity to repay external debt. The authorities will need to carefully balance their response to the shocks and public investment plans with their broader development agenda to preserve debt sustainability. Creating additional fiscal space through domestic revenue mobilization efforts and improving efficiency of public spending would help contain and improve debt vulnerabilities.

AUTHORITIES' VIEWS

20. The authorities agreed with staff's assessment that Tanzania's risk of external debt distress remain moderate. They concur with staff's recommendation that maintaining the moderate risk of debt distress is important to safeguard Tanzania's macroeconomic stability. In this regard, they saw the need to maintain prudent borrowing, improve revenue mobilization and enhancing public investment management, including by selecting only investment projects with clear socioeconomic payoffs. They noted the adverse impact of climate change shocks on the economy and debt dynamics and the importance of climate actions to address gaps in adaptation and mitigation.

Figure 3. United Republic of Tanzania: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2024–34



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	Yes	Yes
Commodity price	n.a.	n.a.
Market financing	No	No

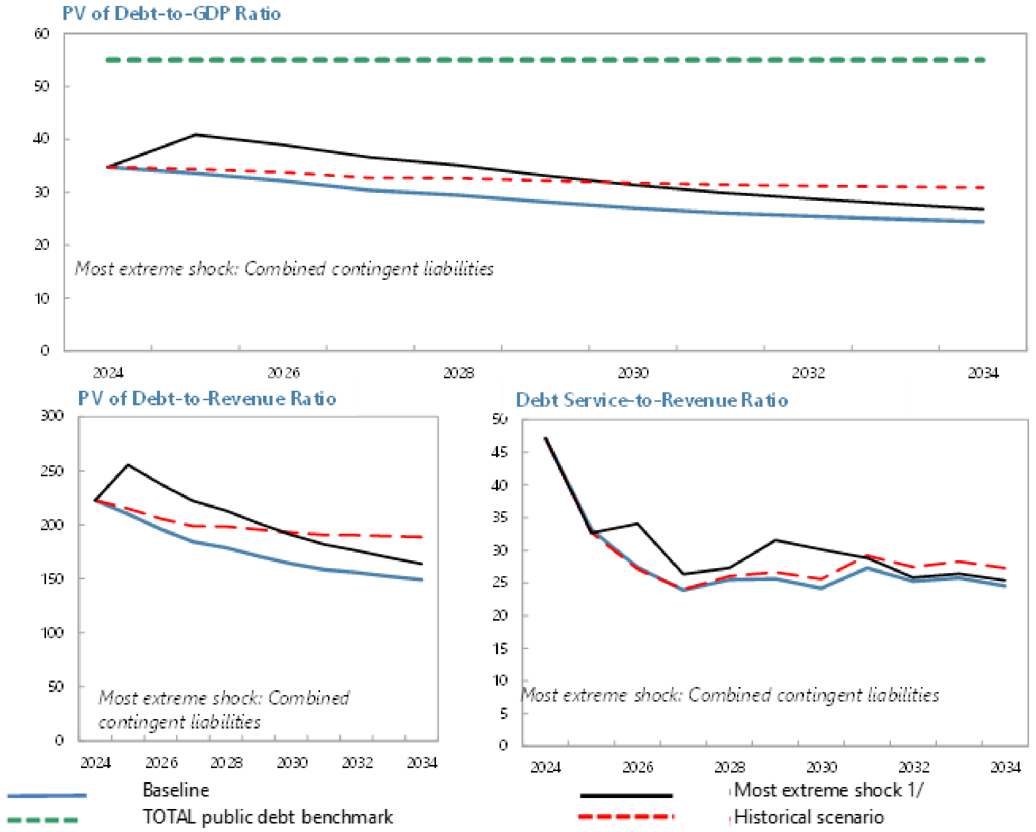
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	5	5

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

Sources: Tanzanian authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 4. United Republic of Tanzania: Indicators of Public Debt Under Alternative Scenarios, 2024–34



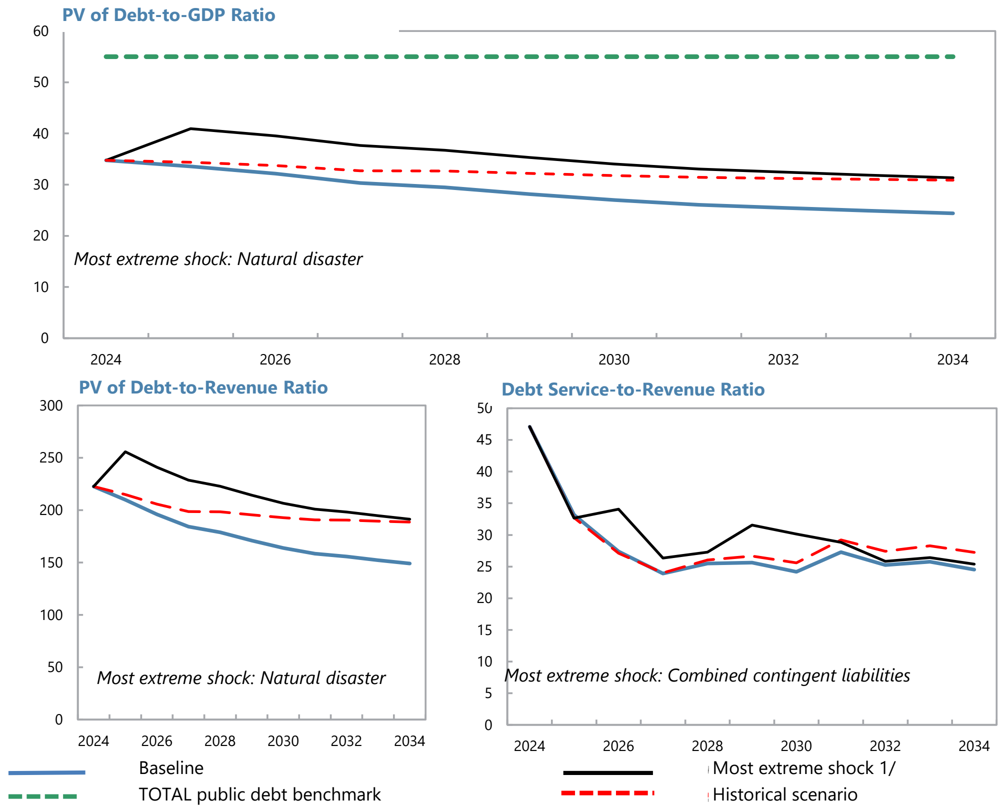
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	61%	61%
Domestic medium and long-term	29%	29%
Domestic short-term	10%	10%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	7.0%	7.0%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	6.2%	6.2%

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

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 5. United Republic of Tanzania: Indicators of Public Debt Under Alternative Scenarios, 2024–34—Natural Disaster Stress Test



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	61%	61%
Domestic medium and long-term	29%	29%
Domestic short-term	10%	10%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	7.0%	7.0%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	6.2%	6.2%

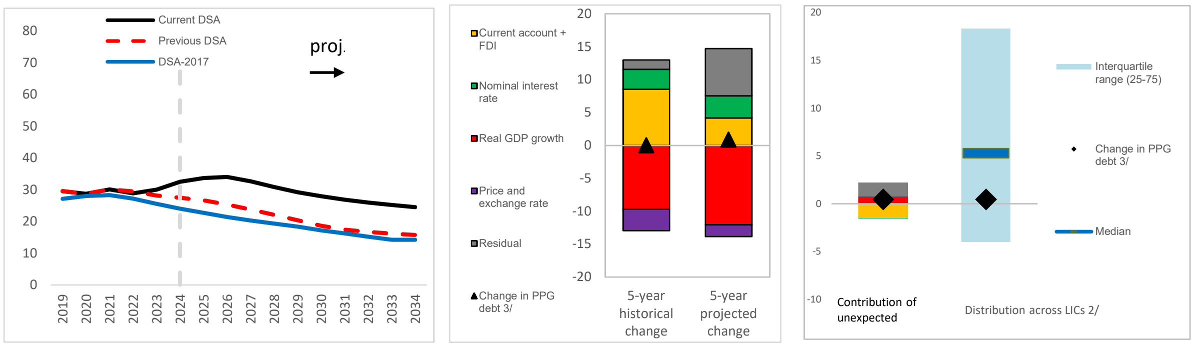
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Tanzanian authorities; and IMF staff estimates and projections

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

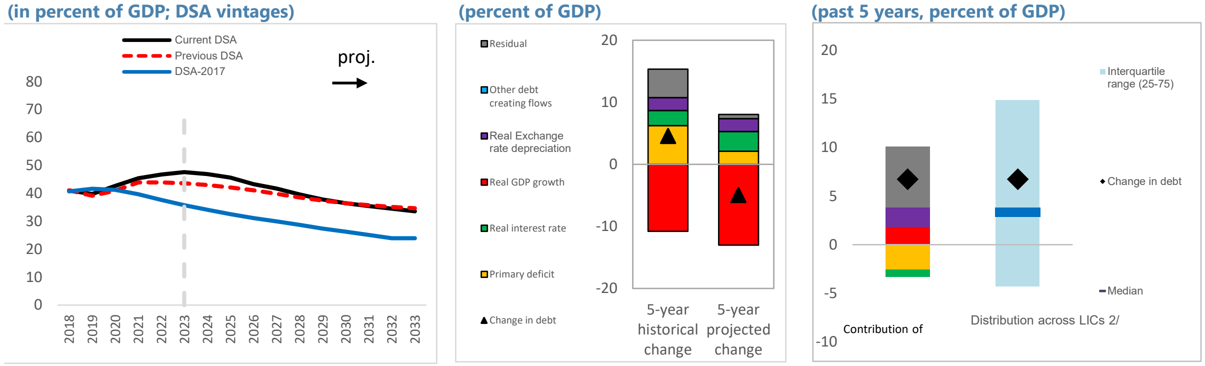
Figure 6. United Republic of Tanzania: Drivers of Debt Dynamics—Baseline Scenario

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



Public debt

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



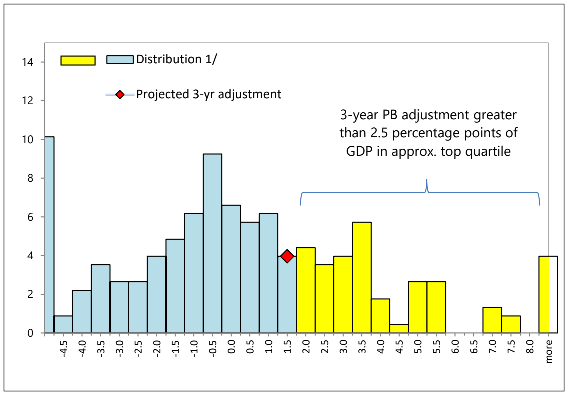
[1] Difference between anticipated and actual contributions on debt ratios.

[2] Distribution across LICs for which LIC DSAs were produced.

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

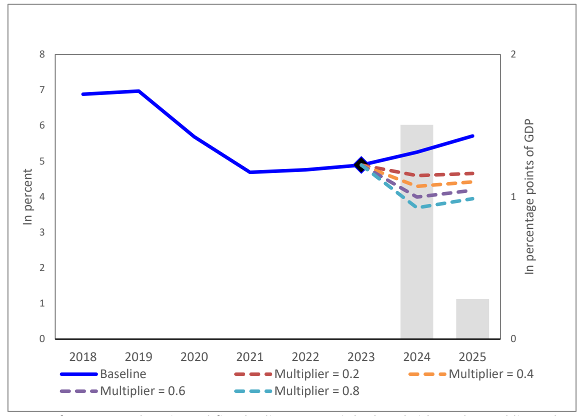
Figure 7. United Republic of Tanzania: Realism Tools

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



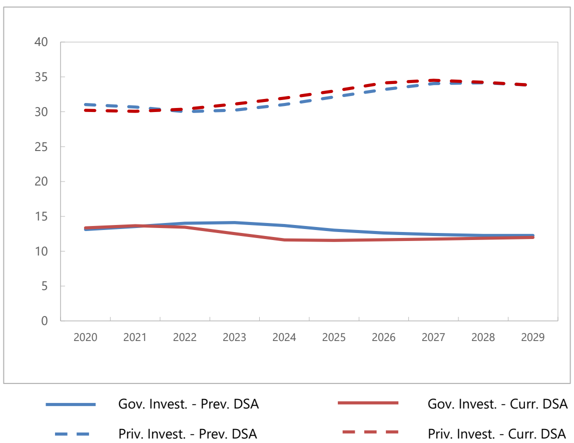
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

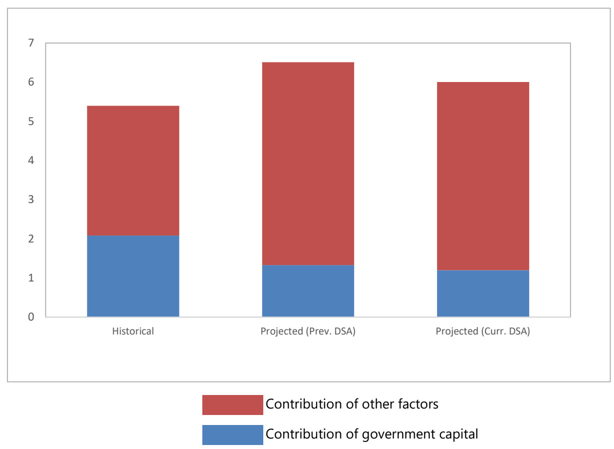
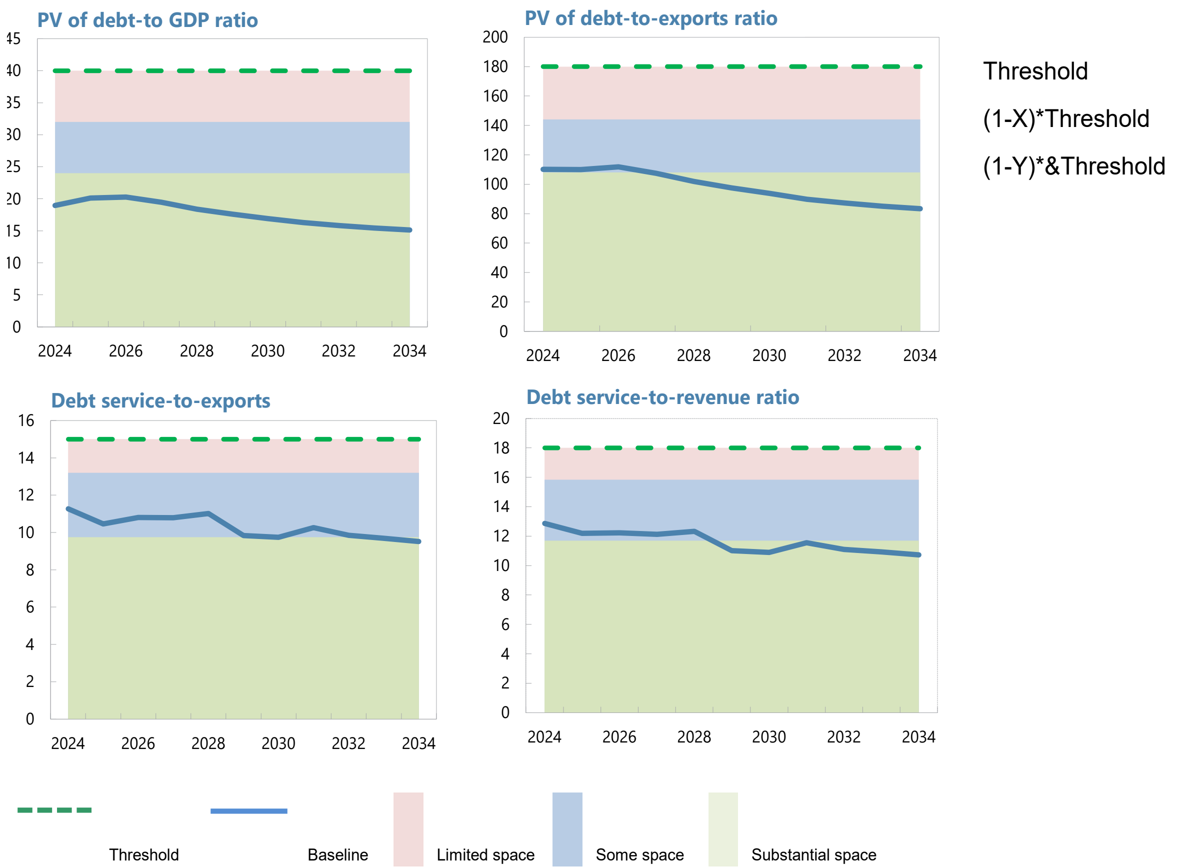


Figure 8. United Republic of Tanzania: Qualification of the Moderate Category, 2024–34[1/]



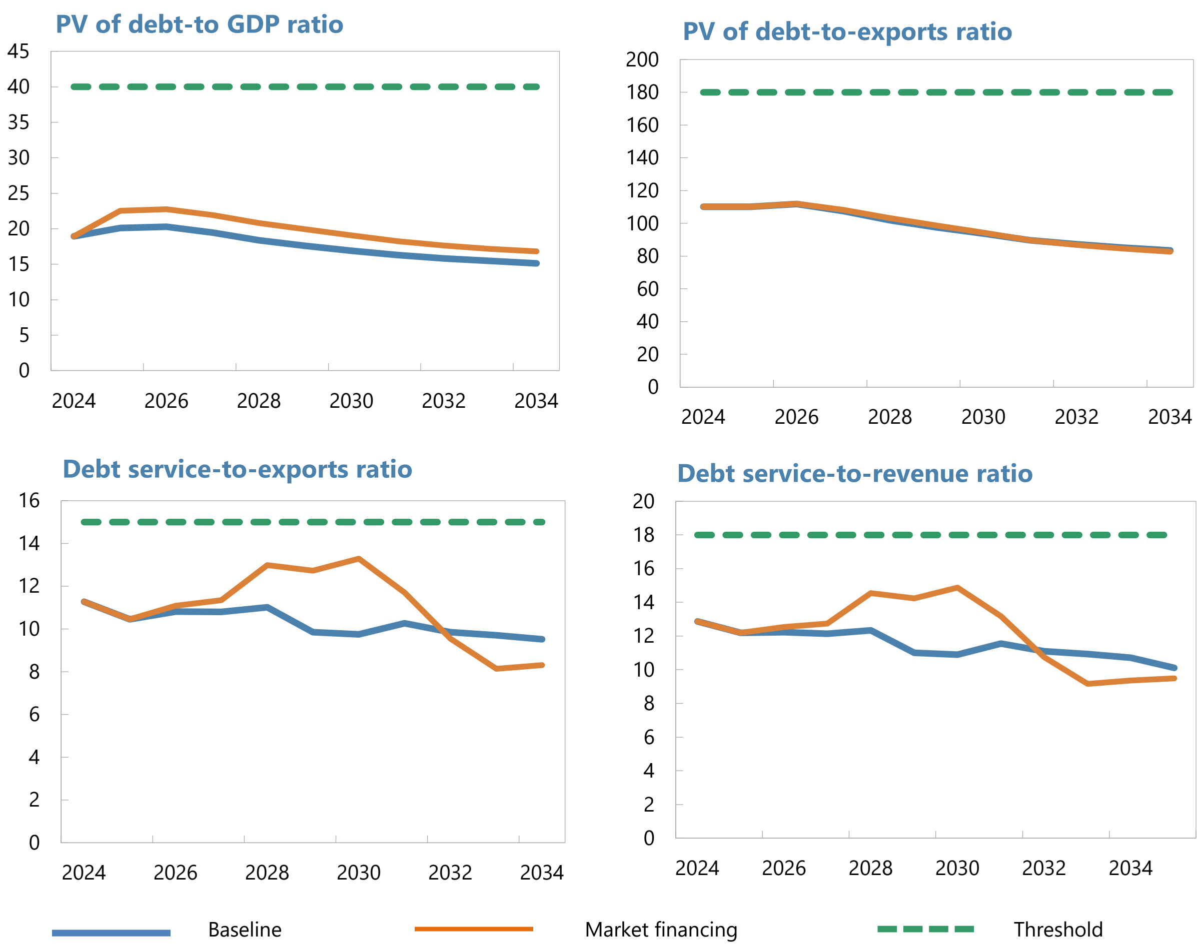
Sources: Country authorities; and staff estimates and projections.

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

Figure 9. United Republic of Tanzania: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	8	n.a.
Breach of benchmark	No	n.a.
Potential heightened liquidity needs	Moderate	

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



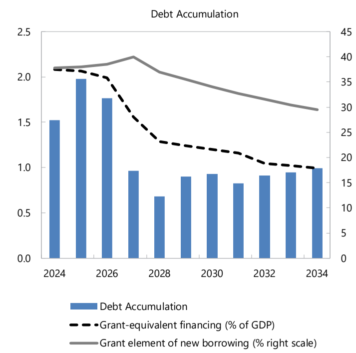
Source: Country authorities; and staff estimate and projections.

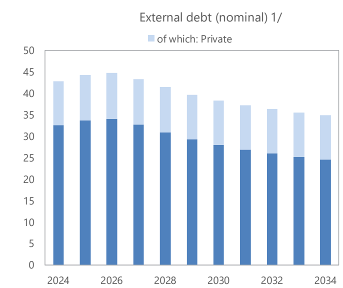
Table 1. United Republic of Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2023-44

(In percent of GDP, unless otherwise indicated)

	Actual	Projections												Average 8/	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2044	Historical	Projections
External debt (nominal) 1/	**39.7**	**42.7**	**44.2**	**44.7**	**43.3**	**41.4**	**39.6**	**38.3**	**37.2**	**36.3**	**35.5**	**34.8**	**30.2**	**35.8**	**39.8**
of which: public and publicly guaranteed (PPG)	**30.0**	**32.5**	**33.7**	**34.0**	**32.6**	**30.9**	**29.2**	**27.9**	**26.8**	**26.0**	**25.2**	**24.5**	**19.8**	**28.9**	**29.4**
Change in external debt	0.4	3.0	1.5	0.5	-1.4	-1.9	-1.8	-1.3	-1.1	-0.9	-0.8	-0.7	-0.4		
Identified net debt-creating flows	**1.6**	**0.5**	**-0.6**	**-1.0**	**-1.5**	**-1.9**	**-2.0**	**-1.8**	**-1.6**	**-1.5**	**-1.4**	**-1.4**	**-1.0**	**1.0**	**-1.3**
Non-interest current account deficit	**5.7**	**3.6**	**2.9**	**2.7**	**2.6**	**2.0**	**2.0**	**1.8**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**4.6**	**2.2**
Deficit in balance of goods and services	5.5	3.4	2.2	2.3	2.1	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	**4.4**	**2.1**
Exports	16.7	17.2	18.3	18.1	18.1	18.0	18.0	18.0	18.1	18.1	18.1	18.1	18.1		
Imports	22.2	20.6	20.5	20.4	20.2	19.9	19.8	19.9	20.0	20.0	20.0	20.0	20.0		
Net current transfers (negative = inflow)	-0.8	-0.6	-0.8	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	**-0.9**	**-0.8**
of which: official	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	1.1	0.8	1.5	1.1	1.2	0.9	1.1	0.7	0.6	0.6	0.6	0.6	0.6	**1.1**	**0.9**
Net FDI (negative = inflow)	**-2.0**	**-1.8**	**-1.8**	**-1.9**	**-2.0**	**-2.1**	**-2.1**	**-2.1**	**-2.1**	**-2.1**	**-2.1**	**-2.1**	**-2.1**	**-2.3**	**-2.0**
Endogenous debt dynamics 2/	**-2.1**	**-1.3**	**-1.7**	**-1.8**	**-2.1**	**-1.8**	**-2.0**	**-1.6**	**-1.3**	**-1.1**	**-1.1**	**-1.1**	**-0.6**		
Contribution from nominal interest rate	0.7	0.7	0.6	0.7	0.6	0.7	0.5	0.7	0.8	0.8	0.7	0.7	0.7		
Contribution from real GDP growth	-1.8	-2.0	-2.3	-2.5	-2.6	-2.6	-2.5	-2.3	-2.1	-1.9	-1.8	-1.8	-1.4		
Contribution from price and exchange rate changes	-1.1	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**-1.2**	**2.6**	**2.1**	**1.5**	**0.1**	**0.0**	**0.1**	**0.5**	**0.5**	**0.6**	**0.6**	**0.7**	**0.5**	**0.4**	**0.9**
of which: exceptional financing	-0.7	-0.7	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators															
PV of PPG external debt-to-GDP ratio	**18.1**	**18.9**	**20.1**	**20.3**	**19.5**	**18.4**	**17.6**	**16.9**	**16.3**	**15.8**	**15.4**	**15.1**	**13.7**		
PV of PPG external debt-to-exports ratio	**108.7**	**110.2**	**110.0**	**111.8**	**107.5**	**101.9**	**97.5**	**93.8**	**89.7**	**87.2**	**85.1**	**83.4**	**75.4**		
PPG debt service-to-exports ratio	**13.3**	**11.3**	**10.5**	**10.8**	**10.8**	**11.0**	**9.8**	**9.7**	**10.3**	**9.8**	**9.7**	**9.5**	**8.2**		
PPG debt service-to-revenue ratio	**15.0**	**12.9**	**12.2**	**12.2**	**12.1**	**12.3**	**11.0**	**10.9**	**11.6**	**11.1**	**10.9**	**10.7**	**9.8**		
Gross external financing need (Billion of U.S. dollars)	4.7	3.1	2.7	2.7	2.7	2.3	2.3	2.3	2.5	2.6	2.8	3.0	6.2		
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.9	5.3	5.7	6.2	6.4	6.5	6.5	6.3	5.8	5.5	5.5	5.5	5.0	**6.0**	**5.9**
GDP deflator in US dollar terms (change in percent)	2.9	-1.4	-1.6	1.7	2.6	2.9	3.0	2.9	2.9	2.9	2.9	2.9	4.8	**0.1**	**2.0**
Effective interest rate (percent) 4/	2.0	1.8	1.5	1.8	1.4	1.9	1.3	2.0	2.2	2.2	2.2	2.2	2.7	**1.7**	**1.9**
Growth of exports of G&S (US dollar terms, in percent)	16.1	7.0	10.6	7.1	9.0	9.1	9.6	9.5	9.7	8.6	8.6	8.6	10.0	**4.9**	**8.8**
Growth of imports of G&S (US dollar terms, in percent)	23.8	-3.5	3.4	7.7	7.9	7.9	9.1	10.0	9.7	8.6	8.6	8.6	10.0	**4.0**	**7.1**
Grant element of new public sector borrowing (in percent)	...	37.8	38.0	38.5	40.0	37.0	35.5	34.0	32.7	31.5	30.5	29.5	23.1	**...**	**35.0**
Government revenues (excluding grants, in percent of GDP)	14.8	15.1	15.7	16.0	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	15.1	**14.1**	**16.0**
Aid flows (in Billion of US dollars) 5/	2.0	2.5	2.3	2.3	2.1	1.8	1.8	1.8	1.9	1.8	1.8	1.8	2.4		
Grant-equivalent financing (in percent of GDP) 6/	...	2.1	2.1	2.0	1.6	1.3	1.2	1.2	1.2	1.0	1.0	1.0	0.8	**...**	**1.4**
Grant-equivalent financing (in percent of external financing) 6/	...	45.2	41.9	43.5	46.5	44.9	43.6	42.2	41.0	38.0	37.1	36.2	30.4	**...**	**41.8**
Nominal GDP (Billion of US dollars)	77	80	83	89	97	107	117	128	140	152	165	179	437		
Nominal dollar GDP growth	7.9	3.7	4.0	7.9	9.2	9.6	9.7	9.5	9.0	8.6	8.6	8.6	10.0	**6.1**	**8.0**
Memorandum items:															
PV of external debt 7/	27.8	29.1	30.7	31.0	30.1	28.9	27.9	27.3	26.6	26.2	25.8	25.5	24.0		
In percent of exports	166.8	169.3	167.9	170.6	166.2	160.2	154.9	151.3	146.7	144.2	142.1	140.4	132.4		
Total external debt service-to-exports ratio	14.6	12.5	11.7	12.1	12.0	12.2	11.1	11.3	11.8	11.3	11.2	11.0	9.7		
PV of PPG external debt (in Billion of US dollars)	13.9	15.1	16.6	18.1	19.0	19.6	20.6	21.7	22.7	24.0	25.4	27.1	59.8		
(PVt-PVt-1)/GDPt-1 (in percent)		1.5	2.0	1.8	1.0	0.7	0.9	0.9	0.8	0.9	0.9	1.0	1.2		
Non-interest current account deficit that stabilizes debt ratio	5.3	0.6	1.4	2.2	4.0	3.9	3.9	3.1	2.8	2.5	2.5	2.4	2.2		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

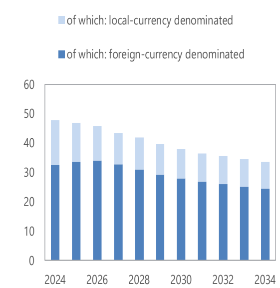
Table 2. United Republic of Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2023-44

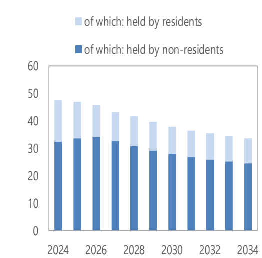
(In percent of GDP, unless otherwise indicated)

	Actual	Projections												Average 6/	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2044	Historical	Projections
Public sector debt 1/	46.7	47.6	46.9	45.7	43.3	41.8	39.6	37.8	36.5	35.5	34.5	33.6	25.3	41.0	40.3
of which: external debt	29.6	32.5	33.7	34.0	32.6	30.9	29.2	27.9	26.8	26.0	25.2	24.5	19.8	28.9	29.4
Change in public sector debt	1.3	0.9	-0.7	-1.2	-2.4	-1.5	-2.2	-1.8	-1.4	-1.0	-1.0	-0.9	-0.3		
Identified debt-creating flows	0.2	-1.2	-1.5	-1.6	-1.9	-1.6	-0.6	-1.3	-1.0	-0.7	-0.7	-0.7	-0.4	0.0	-1.2
Primary deficit	2.0	0.7	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.0	0.4
Revenue and grants	15.2	15.6	16.0	16.4	16.5	16.5	16.5	16.5	16.5	16.4	16.4	16.4	15.3	14.9	16.3
of which: grants	0.3	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2		
Primary (noninterest) expenditure	17.1	16.3	16.4	16.7	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	15.7	16.0	16.7
Automatic debt dynamics	-1.7	-1.9	-1.9	-1.9	-2.2	-2.0	-0.9	-1.7	-1.4	-1.2	-1.1	-1.1	-0.8		
Contribution from interest rate/growth differential	-1.7	-1.9	-1.9	-1.9	-2.2	-2.0	-0.9	-1.7	-1.4	-1.2	-1.1	-1.1	-0.8		
of which: contribution from average real interest rate	0.4	0.5	0.7	0.8	0.6	0.7	1.6	0.7	0.7	0.7	0.7	0.7	0.5		
of which: contribution from real GDP growth	-2.1	-2.3	-2.6	-2.7	-2.8	-2.6	-2.5	-2.4	-2.1	-1.9	-1.8	-1.8	-1.2		
Contribution from real exchange rate depreciation	0.0	...	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.1	2.1	0.7	0.4	-0.5	0.1	-1.6	-0.4	-0.4	-0.3	-0.3	-0.2	0.0	1.5	0.0
Sustainability indicators															
PV of public debt-to-GDP ratio 2/	35.2	34.8	33.6	32.1	30.3	29.5	28.1	27.0	26.1	25.5	24.9	24.4	19.3		
PV of public debt-to-revenue and grants ratio	232.0	222.6	209.8	196.0	184.2	178.9	171.0	164.0	158.5	155.7	152.2	149.1	125.8	-33%	
Debt service-to-revenue and grants ratio 3/	40.0	47.1	33.2	27.4	23.9	25.5	25.6	24.2	27.3	25.2	25.8	24.5	19.9	-48%	
Gross financing need 4/	8.1	8.1	5.7	4.8	4.3	4.5	4.6	4.3	4.8	4.6	4.7	4.4	3.6		
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.9	5.3	5.7	6.2	6.4	6.5	6.5	6.3	5.8	5.5	5.5	5.5	5.0	6.0	5.9
Average nominal interest rate on external debt (in percent)	2.2	1.8	1.5	1.9	1.3	1.9	1.2	1.9	2.2	2.3	2.2	2.3	3.0	1.9	1.9
Average real interest rate on domestic debt (in percent)	4.8	3.5	5.6	6.5	6.7	6.6	6.8	6.9	7.0	7.0	7.0	7.0	5.1	7.0	6.4
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	...	...	...	...	...	...	...	...	...	...	...	...	2.6	...
Inflation rate (GDP deflator, in percent)	4.7	4.9	4.7	4.5	4.6	4.9	5.0	5.0	5.0	5.0	5.0	5.0	6.8	4.1	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	4.7	2.4	4.8	7.3	6.9	6.5	6.5	6.3	5.8	5.5	5.5	5.5	3.7	5.2	5.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.7	-0.2	1.1	1.5	2.7	1.9	2.5	2.1	1.7	1.4	1.4	1.3	0.8	-0.5	1.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. United Republic of Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–34

	Projections 1/										
	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
PV of debt-to GDP ratio											
Baseline	19	20	20	19	18	18	17	16	16	15	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	19	21	23	24	25	27	29	31	32	34	36
B. Bound Tests											
B1. Real GDP growth	19	20	21	20	19	18	17	17	16	16	16
B2. Primary balance	19	21	23	22	20	19	18	18	17	16	16
B3. Exports	19	22	26	25	24	23	22	21	20	20	19
B4. Other flows 3/	19	21	22	22	20	19	19	18	17	17	16
B5. Depreciation	19	26	23	22	21	20	19	19	18	18	18
B6. Combination of B1-B5	19	23	23	22	21	20	19	18	18	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	19	24	24	23	22	21	20	19	19	18	17
C2. Natural disaster	19	24	24	24	23	22	22	21	21	21	20
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	19	23	23	22	21	20	19	18	18	17	17
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	110	110	112	107	102	98	94	90	87	85	83
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	110	114	125	132	141	150	160	168	178	**187**	**196**
B. Bound Tests											
B1. Real GDP growth	110	110	112	107	102	98	94	90	87	85	83
B2. Primary balance	110	115	127	122	114	109	104	99	95	91	87
B3. Exports	110	142	**189**	**181**	172	165	158	151	145	140	135
B4. Other flows 3/	110	116	124	119	113	108	104	99	96	93	91
B5. Depreciation	110	110	100	96	91	87	84	80	79	77	76
B6. Combination of B1-B5	110	135	121	138	131	125	121	115	111	108	106
C. Tailored Tests											
C1. Combined contingent liabilities	110	133	136	130	123	119	115	110	105	101	98
C2. Natural disaster	110	132	137	133	127	125	123	119	117	116	114
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	110	110	112	108	103	99	94	90	87	85	83
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	11	10	11	11	11	10	10	10	10	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	11	10	11	12	13	12	13	14	15	**16**	**16**
B. Bound Tests											
B1. Real GDP growth	11	10	11	11	11	10	10	10	10	10	10
B2. Primary balance	11	10	11	12	12	11	10	11	11	10	10
B3. Exports	11	12	15	**16**	**16**	14	14	**15**	**15**	**15**	15
B4. Other flows 3/	11	10	11	11	11	10	10	11	11	10	10
B5. Depreciation	11	10	11	10	11	9	9	10	9	9	9
B6. Combination of B1-B5	11	12	13	13	14	12	12	13	12	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	11	10	12	12	12	11	11	11	11	10	10
C2. Natural disaster	11	11	12	12	12	11	11	12	11	11	11
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	11	10	11	11	13	13	13	12	10	8	8
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	13	12	12	12	12	11	11	12	11	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	13	12	12	13	14	14	14	16	17	18	**18**
B. Bound Tests											
B1. Real GDP growth	13	12	13	12	13	11	11	12	11	11	11
B2. Primary balance	13	12	12	13	13	12	11	12	12	11	11
B3. Exports	13	12	13	14	14	12	12	13	13	13	13
B4. Other flows 3/	13	12	13	13	13	11	11	12	12	12	11
B5. Depreciation	13	15	16	15	15	13	13	14	13	13	13
B6. Combination of B1-B5	13	13	13	13	13	12	12	13	12	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	13	12	13	13	13	12	12	12	12	11	11
C2. Natural disaster	13	12	13	13	13	12	12	13	12	12	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	13	12	13	13	15	14	15	13	11	9	9
Threshold	18	18	18	18	18	18	18	18	18	18	18

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

Table 4. United Republic of Tanzania: Sensitivity Analysis for Key Indicators of Public Debt, 2024–34

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	35	34	32	30	29	28	27	26	25	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	35	34	34	33	33	32	32	31	31	31	31
B. Bound Tests											
B1. Real GDP growth	35	34	33	32	31	29	28	27	27	26	26
B2. Primary balance	35	35	36	34	33	31	29	28	27	26	25
B3. Exports	35	36	38	36	35	33	32	31	30	29	28
B4. Other flows 3/	35	35	34	32	31	30	29	28	27	26	26
B5. Depreciation	35	36	33	29	27	24	22	19	18	16	14
B6. Combination of B1-B5	35	33	33	31	29	27	25	24	22	21	20
C. Tailored Tests											
C1. Combined contingent liabilities	35	41	39	37	35	33	31	30	29	28	27
C2. Natural disaster	35	41	40	38	37	35	34	33	32	32	31
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	35	34	32	30	30	28	27	26	25	25	24
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	223	210	196	184	179	171	164	158	156	152	149
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	223	215	206	199	198	195	193	191	191	189	189
B. Bound Tests											
B1. Real GDP growth	223	214	203	192	186	178	171	166	163	160	157
B2. Primary balance	223	220	221	206	198	187	177	169	163	157	151
B3. Exports	223	224	232	219	212	202	194	187	182	176	171
B4. Other flows 3/	223	217	209	197	191	183	175	169	165	161	157
B5. Depreciation	223	228	201	179	164	147	132	119	108	97	87
B6. Combination of B1-B5	223	210	204	188	177	165	154	144	137	129	122
C. Tailored Tests											
C1. Combined contingent liabilities	223	256	238	222	213	201	191	182	176	170	164
C2. Natural disaster	223	256	241	229	223	214	207	201	198	195	191
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	223	210	196	185	180	172	165	158	155	152	148
Debt Service-to-Revenue Ratio											
Baseline	47	33	27	24	25	26	24	27	25	26	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	47	33	27	24	26	27	26	29	27	28	27
B. Bound Tests											
B1. Real GDP growth	47	33	28	24	26	26	25	28	26	26	25
B2. Primary balance	47	33	29	26	26	27	27	29	26	26	24
B3. Exports	47	33	28	25	27	27	25	29	27	28	26
B4. Other flows 3/	47	33	28	24	26	26	25	28	26	27	25
B5. Depreciation	47	32	29	25	26	26	24	26	25	24	23
B6. Combination of B1-B5	47	31	27	25	25	25	24	27	24	24	23
C. Tailored Tests											
C1. Combined contingent liabilities	47	33	34	26	27	32	30	29	26	26	25
C2. Natural disaster	47	34	34	27	29	32	31	31	29	30	29
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	47	33	28	25	28	29	28	29	25	24	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

June 7, 2024

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR EXTENSION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REPHASING OF ACCESS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

1. **While economic growth in Tanzania has been impressive, with an annual average of over 6 percent per year since 2000, the country faces stubbornly high levels of poverty coupled with vulnerability to climate shocks.** In the recent decade, Tanzania has experienced a weakening poverty-to-growth elasticities, one of the world's lowest. In addition to the weak growth-poverty reduction nexus, 27.7 percent of the population and 29.4 percent of the poor population are exposed to at least one climate risk.[1] The vulnerable households are not well positioned to cope with repeated exposure to climate shocks or simultaneous exposure to multiple shocks, such as droughts, floods, and heat waves. Targeted support to cope with climate change will need to address the spatial differentiation in exposure and vulnerability.[2]

2. **Despite being highly vulnerable to climate-induced natural disasters, Tanzania holds significant potential to enhance its capacity and preparedness to address climate shocks.** In 2021, Tanzania was ranked 45th most vulnerable country to climate change and 151st out of 191 among those most ready to cope with climate change.[3] Most climate models predict increases in temperature in Tanzania, with wide-ranging impacts across its varied topography and economy. A range of climate models forecast that Tanzania's mean temperature will

[1] WB staff estimates, derived using the hazard, exposure, and vulnerability framework and utilizing probabilistic hazard and population data, together with household survey data.

[2] Same as footnote #2.

[3] 2021, Notre Dame Global Adaptation Initiative index (ND-GAIN Index)

increase in each decade relative to baseline conditions, with average temperatures peaking by the 2050s under very low emission scenarios (SSP1-1.9, SSP2-2.6) and temperature will continue to increase under higher emission scenarios. Spatial and temporal variability in precipitation is expected to grow with the warming trend. Rainfalls will decrease during dry seasons and increase during wet seasons, leading to higher risks for droughts and floods. This will have significant negative implications for the country's agriculture, nature-based tourism, timber production and aquaculture, infrastructure, public health, and ecosystems due to these sectors' sensitivity to shifts in temperature and precipitation.

3. **Tanzania's exposure to climate change risks will only worsen because of the underlying vulnerability, temperature increase, and precipitation variability that causes floods and droughts.** Tanzania is naturally flood-prone, but it will become more so with increased variability in precipitation, with nearly all urban municipalities impacted by intense rainfall events during rainy seasons and more than 45,000 people exposed, on average, to flood annually. About 4.8 million people are estimated to be directly affected by drought in the country (Rudari et al., 2019). In 2018, floods in Dar es Salaam alone cost $100 million (approximately 0.2 percent of GDP). The primarily rain-fed agriculture and extensive livestock sectors are vulnerable to drought events. For example, a 2009 drought event was linked to the death of over 600,000 livestock in the Arusha region (MHCDGEC 2018). Extensive agriculture and livestock production has continued to expand to cope with shocks at the expense of forests and unsustainable soil and water exploitation, creating a vicious cycle of reduced resilience to future climate shocks and increased greenhouse gas (GHG) emissions. Estimates of the direct and indirect costs of climate change-related disruptions to Tanzania's transport infrastructure are expected to increase over time due to impacts on trade and labor mobility. Vulnerability is highest in the extreme northwest, the greater Dar es Salaam area, and south of the Lukuledi River Basin. Annual damages for the overall transport infrastructure are approximately $70 million. Tanzania's hydropower plants, an essential part of Tanzania's current and future generation mix, are vulnerable to hydrological changes and climate extremes exacerbated by climate change.

4. **Despite being highly vulnerable to climate-induced natural disasters, Tanzania holds significant potential to enhance its capacity and preparedness to address climate shocks.** In 2021, Tanzania was ranked 45th most vulnerable country to climate change and 151st out of 191 among those most ready to cope with climate change. Most climate models predict increases in temperature in Tanzania, with wide-ranging impacts across its varied topography and economy. A range of climate models forecast that Tanzania's mean temperature will increase in each decade relative to baseline conditions, with average temperatures peaking by the 2050s under very low emission scenarios (SSP1-1.9, SSP2-2.6) and temperature will continue to increase under higher emission scenarios. Spatial and temporal variability in precipitation is expected to grow with the warming trend. Rainfalls will decrease during dry seasons and increase during wet seasons, leading to higher risks for droughts and floods. This will have significant negative implications for the country's agriculture, nature-based tourism, timber production and aquaculture, infrastructure, public health, and ecosystems due to these sectors' sensitivity to shifts in temperature and precipitation.

5. **The financial sector, dominated by the banking sector, is exposed to climate risks.** Financial sector assets constitute around 40 percent of GDP, and the industry is dominated by the banking sub-

sector, which contributes about 70 percent of the total assets, with the remaining 30 percent of the assets in the insurance, pension funds, and capital market sub-sectors. Bank credit is exposed to sectors that are vulnerable to climate risks, such as trade (16.5 percent), manufacturing (10 percent), and agriculture (8.6 percent) sectors. The incentive mechanisms to scale lending to the agriculture sector could further increase exposure to climate physical risks. Financial sector institutions also place substantial assets in real estate, a sector that could be highly vulnerable to climate change.

B. Government Policies and Commitments for Climate Change Adaptation and Priority Areas to Strengthen Resilience

6. **The Government of Tanzania's NDC commits to adaptation measures that can significantly reduce the risks of climate-related disasters.** Measures range from universal access to safe and clean water to reducing the impact of sea level rise on islands and coastal communities, infrastructure, and ecosystems. The aim is to integrate climate action into development planning at all levels. The NDC includes measures related to agriculture, livestock, forestry, energy, coastal, marine environment and fisheries, water, sanitation and hygiene, tourism, health, infrastructure, disaster risk reduction, gender mainstreaming, capacity building, research and systematic observation, and technology development and transfer. The National Climate Change Response Strategy (2021–2026) envisages enhancing the mainstreaming of climate change into policies, plans, and budgets; facilitating NDC implementation and monitoring; enhancing research, public awareness, education, and capacity building on climate change; and facilitating resource mobilization for climate change adaptation.

7. **Several sectoral policies have elements of climate adaptation.** The National Agriculture Policy 2013 aims to enhance agricultural resilience by promoting climate-smart farming practices, improving water management, introducing drought-tolerant crops, and supporting sustainable land management techniques. The National Livestock Policy of 2006 includes promoting appropriate forage conservation practices for dry season feeding and strengthening the Livestock Early Warning System (LEWS) for disaster management and impending forage shortage. The National Water Policy of 2002 advocates conserving water sources via Integrated Water Resources Management (IWRM) to ensure water sources are effectively used and conserved. The National Disaster Management Strategy, 2022, intends to strengthen national disaster resilience through inclusive, comprehensive and integrated Disaster Risk Management measures. The government has developed policies and strategies focusing on early warning systems, improved emergency response mechanisms, and community-based adaptation approaches to enhance resilience against climate-related disasters.

8. **The Tanzania Climate Change Adaptation Compact presents key areas to address the impacts of climate change.** One of these includes strengthening climate change governance because climate change requires significant coordination among government departments, but there is inadequate evidence of or resource support for joint efforts, shared responsibilities, and cooperative planning. Stronger institutional coordination would help strengthen and improve cross-government collaboration. Another area aims to enhance climate information and early warning systems. More could be done to build the capability of the Tanzania Meteorology Authority, line ministries, and local authorities to coordinate climate services to support sectoral planning, programs, and emergency preparedness and response and ensure

that the limited climate risk information is expanded and made freely accessible by the public, such as through digital technologies.

C. Government Policies and Commitments for Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

9. While Tanzania contributed only 0.31 percent of global emissions in 2019, through its NDC, it commits to reducing GHG emissions economy-wide between 30 and 35 percent relative to the business as usual (BAU) scenario by 2030. This commits the government to reducing from 138 to 153 million tonnes of carbon dioxide equivalent (MtCO2e) gross emissions, depending on the baseline efficiency improvements. The country identified four priority mitigation sectors in its NDC— forestry, energy, transport, and waste management.

10. Reversing deforestation and forest degradation will be crucial to meeting Tanzania NDC commitments, as it could counterbalance increased GHG emissions from economic growth and structural transformation, especially during the transition period. In 2020, Tanzania had more than 45 million hectares of forest and over 14 million hectares of wooded land, reflecting a 14.7 and 30.5 percent decline in these land covers since 2000, respectively, due to deforestation and forest degradation. Between 2015 and 2020, there was a net change in the forest area of approximately 474,000 hectares, resulting in estimated annual emissions of 43.74 million tonnes of carbon dioxide equivalent (MtCO2e), +/- 5.34 MtCO2e, according to Tanzania's Forest Reference Emission Level.[4] For forests to contribute to NDC targets, the country will need to change its use of unsustainably obtained biomass, the dominant form of cooking fuel. This would also benefit human health and labor supply, as cleaner and more efficient cooking fuel sources would be adopted.

11. Tanzania aims to reduce GHG emissions from the energy sector by 10–20 percent by 2030 compared to the business-as-usual (BAU) scenario of 138–153 MtCO2e gross emissions while increasing electricity generation capacity (IEA 2019). In 2021, total energy supply was primarily from biofuels and waste (77.3 percent), oil (13.9 percent), natural gas (5.9 percent), and coal[5] (1.9 percent). As of December 2023, Tanzania's total installed electricity generation capacity is 1,938.35 megawatts (MW)—1,872 MW on the main grid and 39.3 MW on isolated grids—and peak demand is 1,431.6 MW. The electricity generation mix includes natural gas (64 percent), hydropower (30.6 percent), heavy fuel oil (4.7 percent), and biomass (0.6 percent). Tanzania's energy sector will need to balance expanding demand with its NDC commitments to reduce emissions. Abundant hydro, solar, wind, and geothermal resources can play a key role in the country's sustainable economic development and meeting its national and international climate change goals. Tanzania aims to increase its share of renewable energy generation in the energy mix to 78 percent (28.5 GW hours) by 2030, including large hydropower.

12. Emissions from the transportation sector will also need to be reduced as it currently emits 6.78 million tons of GHGs yearly, making it the third largest GHG-contributing sector, after

[4] This is an underestimation as it does not include emissions from forest degradation.

[5] While representing a modest share, coal supply increased by 706 percent, and bituminous coal production by 1136 percent, between 2000 and 2021.

agriculture, land-use change, and forestry. As in other countries, the emissions reduction potential of various sustainable transport alternatives in Tanzania ranges from 1 to 2.5 percent (under an aspirational electrification scenario, annual transport emissions can be reduced up to 37.4 percent). Investing in high-capacity buses could help reduce the use of private transportation, lowering emissions from private two- to four-wheeled vehicles. Investing in nonmotorized transportation (NMT) infrastructure while also making efforts to lower emissions from motorized transport would help put cities on a low-carbon transport path. Also, maintaining a low-carbon footprint in the logistics sector could help the country meet its emissions reduction targets.

13. Improved solid waste management will be key in achieving the NDC as it is one of the least developed urban services and a significant source of GHG emissions. From 2010 to 2020, emissions from the waste sector in Tanzania increased from 4.78 MTCO2e to 6.38 MTCO2e. Sanitary landfill and waste collection rates are low, at only 40 percent in Dar es Salaam and much less in most secondary cities. Solid waste disposal is Dar es Salaam's fifth highest-emitting subsector, and the city action plan commits to achieving at least a 30 percent reduction in GHG emissions compared to BAU by 2030 and carbon neutrality by 2050.

D. Other Challenges and Opportunities

14. As part of the efforts to promote more robust institutional and governance arrangements, there is a need to mainstream climate change considerations in core government systems. Tanzania does not have comprehensive data on climate-relevant spending to enable the government to make informed decisions and prioritize climate investments. The current budget legislation (Budget Act No. 11 of 2015) does not comprehensively integrate climate change considerations into core public financial management tools and processes. There is a need to integrate climate change practices through a comprehensive approach that spans budgeting, monitoring and evaluation, financial reporting, and expenditure tracking. Integrating climate change considerations into all public infrastructure projects is also key to ensuring that public investments contribute to building low-carbon and climate-resilient infrastructure. Although the Ministry of Finance has established a procedure that mandates all projects being implemented by government institutions consider climate aspects and issues and has introduced climate consideration in the project selection and implementation in the Public Investment Management Operational Manual (PIM-OM), there is also room to strengthen the legal and regulatory requirement for the government to address climate change policy throughout the lifecycle of investment and not only during the project stage. Further, green procurement practices are yet to be integrated into procurement processes and requirements in Tanzania.

15. Strengthening institutional coordination for climate change will be critically important to making progress on the climate change agenda. The institutional coordination for the climate change agenda is currently too fragmented. For example, the MoF oversees climate finance, the Vice President's Office is in charge of setting policies, and the President Office Planning Commission oversees climate change consideration in public investment projects, while the President Office Regional Administration and Local Government are primarily the implementers of measures on the ground. A functional coordination mechanism will require a high-level one-stop center for climate change agenda and budget support to implement the climate change commitments.

16. Strengthening the financial sector's resilience to climate risks will also be essential for effective climate action. The financial sector, dominated by the banking sector, is exposed to climate risks, and the capacity to identify price risks remains weak. In collaboration with the regulators, the financial sector will need to continue to strengthen its capacity in identifying and pricing risks. Measures related to governance and strategy, climate risk screening and management, and market transparency could help address financial sector risks. Key measures on governance and strategy include setting up an inter-ministerial taskforce, setting up internal governance within financial sector authorities, deepening capacity building and training with banks and other financial institutions, building financial literacy, and developing a roadmap for greening the financial sector.

E. World Bank Engagement

17. Ongoing engagement. The World Bank has an active portfolio of financing and technical assistance to help Tanzania implement its climate commitments. The Bank provides financing through a mix of project finance and budget support. The climate elements in the World Bank's portfolio span a range of key sectors, from agriculture to education, social protection, energy, transport, financial access, and urbanization (see list of projects in Table 1).

18. Planned engagement. The World Bank is preparing several projects with significant climate elements, including the blue economy, livestock, and social safety net projects. A Development Policy Financing (DPF), with a catastrophe deferred-drawdown option (Cat DDO), is being prepared in Tanzania. It is expected to be presented to the World Bank Board by the end of the calendar year 2024. For the Cat DDO, the government is committing to an ambitious program of institutional, regulatory, and policy reforms critical for climate and disaster resilience – to protect lives and livelihoods and reduce the fiscal impacts of natural shocks.

Table 1. United Republic of Tanzania: Approved and Active Operations Producing More Than 20 Percent Climate Co-Benefits

FY	Project ID	Project Name	Instrument	Climate Co-Benefit
FY 20	P169165	Tanzania Productive Social Safety Net Project II	IPF	38.33%
FY21	P166415	Higher Education for Economic Transformation Project	IPF	22.12%
FY21	P165128	Boosting Inclusive Growth for Zanzibar: Integrated Development Project	IPF	45.01%
FY21	P164920	Tanzania Roads to Inclusion and Socioeconomic Opportunities (RISE) Project	IPF	53.54%
FY21	P169561	Zanzibar Energy Sector Transformation and Access Project	IPF	55.90%
FY22	P171189	Tanzania Cities Transforming Infrastructure & Competitiveness Project	IPF	45.85%
FY22	P165660	Tanzania Transport Integration Project	IPF	29.99%
FY23	P179701	Productive Social Safety Net Project II – Additional Financing	IPF	21.15%
FY23	P177128	Sustainable Rural Water Supply and Sanitation Program- Additional Financing	PforR	60.10%
FY23	P169425	Msimbazi Basin Development Project	IPF	83.95%
FY23	P177140	Additional Financing: TZ- Rural Electrification Expansion Project	PforR	92.67%
FY24	P500471	Financial Access for Sustainable and Transformational (FAST) Growth Project	IPF	31.52%
FY24	P180298	Dar es Salaam Metropolitan Development Project Phase 2	IPF	69.54%
FY24	P179631	Tanzania Accelerating Sustainable and Clean Energy Access Transformation in Eastern and Southern Africa Project	PforR	79.82%
FY24	P176682	Second Tanzania Intermodal and Rail Development Project	IPF	97.61%

Statement by Willie Nakunyada, Executive Director for the United Republic of Tanzania, and Dickson Lema, Advisor to Executive Director
June 20, 2024

Introduction

1. Our Tanzanian authorities appreciate the constructive engagement with the Fund and broadly share the thrust of staff's appraisal and policy priorities.

2. The Tanzanian economy is experiencing a strong growth recovery in the aftermath of the COVID-19 pandemic. Nevertheless, strong headwinds from adverse climate events and conflict spillovers from the region and beyond, continue to challenge the attainment of a more accelerated growth recovery. Notwithstanding the difficult domestic and external environment, the authorities have underlined their reform credentials by implementing bold measures that helped stabilize macroeconomic conditions and lay solid foundations for durable growth. The authorities' strong performance under the Extended Credit Facility (ECF) arrangement, which provides an important policy anchor, is also envisaged to help realize the objectives of the Third Five-Year Development Plan (FYDP III) 2021/22–2025/26. Presently, they are pressing ahead with fiscal consolidation efforts to create space for priority social and investment spending, alongside sustained monetary tightening to further entrench price stability. At the same time, they are advancing structural reforms to unleash the economy's enormous growth potential. Further, recognizing the far-reaching socio-economic effects of climate change, the authorities are directing their efforts towards building climate resilience and look forward to continued Fund support.

Program Performance

3. All continuous performance criteria, quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2023 were met, as well as all ITs for end-March 2024. Similarly, all structural benchmarks (SBs) were met, except the one on AML/CFT risk-based supervisory approach. That said, the authorities have now completed one of the two remaining AML/CFT reforms (the development of a risk-based supervisory manual for the Trust sector) and are on course to complete the last one (the designation of the real estate sector supervisor) by September 2024. Considering the strong program performance and corrective measures being undertaken to address the

remaining reforms, the authorities seek Executive Directors' support in completing the third review under the ECF arrangement. In addition, they request a six-month extension of the ECF arrangement and rephasing of access, as well as an arrangement under the Resilience and Sustainability Facility (RSF) to support their policy efforts to build climate resilience.

Economic Developments and Outlook

4. Real GDP growth firmed-up from 4.7 percent in 2022 to 5.1 percent in 2023, benefitting from increased activity in agriculture, mining, financial services, and construction sectors. Nevertheless, the outlook remains dominated by downside risks from regional conflicts, geo-economic fragmentation, commodity price volatility, climate related disasters, and dollar liquidity constraints affecting the foreign exchange market. Despite these downside risks, economic recovery is expected to further strengthen to 5.4 percent in 2024, and 6.0 percent in 2025, supported by policy reforms in train, improvements in the business environment, and moderating global commodity prices. Moreover, the potential boost from the realization of the LNG project could enhance investment and growth.

5. Inflation decelerated from 3.8 percent in 2023 to 3.1 percent in April 2024, reflecting tight monetary conditions and moderation in commodity prices, supported by improved food supply. Looking ahead, inflation is expected to remain within the target range of 3–5 percent in the near-term. Meanwhile, the current account deficit is expected to narrow in 2023/24 and beyond, owing to the slowdown in merchandise imports and increases in services exports. Nonetheless, risks to the current account persist, owing to the potential increase in oil prices related to OPEC+ supply cuts planned for 2024, as well as an anticipated pick-up in global demand. This notwithstanding, the level of international reserves remained adequate at 3.8 months of import cover in May 2024.

Fiscal Policy and Debt Management

6. Fiscal consolidation continues to rank high on the authorities' agenda to address revenue shortfalls and control expenditure, while preserving priority social and investment spending. To this effect, the authorities aim to enhance revenue mobilization through broadening the tax base, taxing the digital economy, and controlling tax exemptions. They are also making determined efforts to launch an ambitious reform agenda anchored on a Medium-Term Revenue Strategy (MTRS), while strengthening administration of non-tax revenue. Concurrently, the authorities are improving spending efficiency by reallocating resources to priority social expenditures, safeguarding essential services, while adjusting non-priority expenditures to address attendant fiscal challenges.

7. The authorities attach high prominence on strengthening Public Financial Management (PFM) and efficiency of public investments, drawing from recommendations of the C-PIMA conducted in December 2022. Accordingly, they plan to amend the 2023 Planning Commission Act to enforce appraisal of public investment projects, including climate change impact assessment prior to their inclusion in the budget. They also intend to enhance transparency of on-going public investment projects in the budget starting in FY2025/26. To avoid accumulation of domestic arrears, the authorities commit to

implementing their plan to clear existing arrears, enhance cash management and commitment controls. Relatedly, they are preparing properly costed budget and revenue estimates, and improving the appraisal of public investment projects, including climate change impact assessments.

8. To strengthen budget execution, transparency, and accountability, the authorities have integrated the budget system into the accounting system (Integrated Financial Management Information System (IFMIS)). In this vein, they are reflecting all commitments with approved budget allocation to reduce fiscal risks. The authorities are also committed to submitting to Parliament in June 2024 a draft amendment to the VAT Act to expedite the verification and payment of VAT arrears, while rationalizing tax incentives. In addition, they are enhancing transparency by publishing data related to investments made by public entities and strengthening the monitoring of Public-Private Partnerships (PPPs) to effectively manage contingent liabilities. Concurrently, they are enhancing the transparency of public enterprises by mandating the publication of annual audited financial statements by State-Owned Enterprises (SOEs).

9. To ensure debt sustainability and foster fiscal resilience, the authorities are prioritizing concessional financing to ensure the effective management of the country's debt. Importantly, the medium-term debt strategy continues to anchor the public borrowing strategy mainly through reliance on grants and concessional resources to safeguard debt sustainability. Overall, the public debt remains sustainable with a moderate risk of debt distress. Going forward, the authorities commit to depend on long-term non- and semi-concessional borrowing, in line with the program ceiling, to support critical high-yield public investment projects while preserving fiscal and debt sustainability.

Monetary and Exchange Rate Policies

10. The sustained tightening of monetary conditions helped to moderate inflation, including managing the second-round effects of currency depreciation. Moreover, the Bank of Tanzania (BoT) has made notable progress in modernizing its monetary policy framework and enhancing transparency in monetary policy operations and communication. Accordingly, the BoT transitioned from monetary targeting to an interest rate-based monetary policy framework to strengthen monetary policy effectiveness. To further improve the transmission of monetary policy actions, the BoT prioritizes deepening the money market operations, supported by effective liquidity forecasting and management, underpinned by a robust communication strategy. To this end, the BoT is making efforts to improve transparency through publication of clear MPC press releases, with explanations of the underlying basis for the decisions. At the same time, the BoT remains committed to a data-dependent monetary policy to anchor inflation expectations.

11. The BoT continues to refine its foreign exchange (FX) intervention policy to manage exchange rate fluctuations, while supplying forex liquidity in the market mainly through auctions. The authorities attach top priority to maintaining a market clearing exchange rate and remain committed to revitalizing the Interbank Foreign Exchange Market (IFEM) to allow more exchange rate flexibility and help absorb external shocks. Nonetheless, the current global uncertainty pose challenges of scarcity of dollar liquidity in the market, exerting undue pressure on the exchange rate. That said, the FX

Intervention (FXI) Policy published in December 2023 and IFEM Code of Conduct published in January 2024 are envisaged to enhance transparency and foster price discovery in FX operations, while limiting interventions to smoothening of disorderly market conditions.

Financial Sector Policies

12. The banking sector remains sound, resilient, and profitable with adequate capital and liquidity buffers, but the authorities remain attentive to the remaining pockets of vulnerabilities. Non-performing loans improved to 4.3 percent in March 2024, lower than the BoT's threshold of not more than 5 percent. The BoT is supporting the development of financial markets to promote financial sector stability. The authorities are also broadening the macroprudential toolkit, strengthening risk-based supervision, enhancing stress testing, and leveraging IMF and World Bank expertise in building capacity on climate related risk mitigating measures. Relatedly, the authorities are pressing ahead with the implementation of the FSAP recommendations to complement financial sector stability. To further enhance monitoring and evaluation of the financial sector performance, the authorities are developing an integrated financial sector database that will involve the banking sector, insurance, capital markets, social security, and microfinance sector. To bolster sources of long-term financing and support the green initiatives, the authorities are developing a sovereign sustainable financing securities framework that will facilitate development of instruments such as sovereign green, blue, social, and sukuk bonds.

13. The authorities are making progress in implementing policies to promote financial inclusion. They launched the Tanzania Instant Payment Systems (TIPS), the national switch, in March 2024. Essentially, the TIPS is expected to enhance efficiency amongst digital financial service providers, promote usage of electronic payments, increase effectiveness in retail payment systems and support oversight capabilities. Moreover, the approved SMEs Financing Strategy (2023/24–2028/29) is expected to improve the policy, legal and regulatory environment for SMEs' access to finance. Additionally, the ongoing implementation of the 2023–2028 National Financial Inclusion Framework is expected to improve access to formal financial services by women, youths, disadvantaged SMEs groups, persons with disabilities, and smallholder farmers. The authorities are also pressing ahead with other initiatives under the Financial Sector Development Master Plan 2020/21- 2029/30, and rollout of National Identification Numbers and National Financial Education Program to further boost access and usage of financial services, improve the quality of products and services, and reduce informality. The Secured Transaction Law, expected to be submitted to Parliament in September 2024, will broaden the pool of acceptable collateral to movable assets to accommodate more unbanked communities to access formal financial services.

Structural and Governance Reforms

14. The authorities attach a high premium on structural and governance reforms designed to improve the business environment, and support private sector development consistent with the objectives of the FYDP III. Specifically, the authorities are determined to prepare and publish a timetable for implementation of key de-regulations envisaged in the

Blueprint for Regulatory Reforms (BLUEPRINT) along with a clear delineation of responsibilities among government entities by end December 2024. Relatedly, a revised BLUEPRINT alongside an action plan will be developed by end 2025/26, in consultation with all stakeholders to address all concerns in the planning and implementation of reforms.

15. As part of the National Anti-Corruption Strategy and Action Plan 2023–2028 (NACSAP), the authorities took steps to enhance investigative and intelligence capabilities, build technological and big data capabilities, and focus on prevention strategies and anti-corruption campaigns. Additionally, they are tackling governance vulnerabilities by increasing public awareness of corruption and enhancing adherence to asset declaration by public officials and the codes of conduct.

16. The authorities have made progress towards addressing the identified deficiencies in the AML/CFT framework, in line with the FATF Action Plan. In April 2024, they submitted a 3rd Cycle of Report for the FATF Plenary in June 2024. They are determined to complete the remaining AML/CFT reform on the enactment of Real Estate Regulatory Authority (RERA) Act to designate RERA as the real estate sector supervisor by September 2024.They are also taking steps to strengthen governance and central bank autonomy by amending the BoT Act, Cap. 197, as guided by the 2022 IMF Safeguards Assessment recommendations.

Building Climate Resilience

17. The authorities reaffirm their unwavering commitment to reducing greenhouse gas emissions by 30-35% by 2030 in line with the National Determined Contribution (NDC). To this end, they are pursuing reform measures informed by the National Climate Change Response Strategy, National Disaster Management Strategy, and recent climate policy assessments by the IMF and World Bank. The authorities consider IMF's C-PIMA, the Climate Policy Diagnostics (CPD), and the World Bank's CCDR as critical inputs for climate adaptation and mitigation policies. They have reached out to various development partners to support their climate reform efforts.

18. Our authorities aim to reduce deforestation by 70 percent by 2031, promoting the use of natural gas for clean cooking and enforcing land use planning strategies. This reflects the significance of deforestation which contributes about 46 percent of the country's GHG emissions in 2021. In addition, they are leveraging Fund technical support to strengthen the existing Disaster Risk Management policy linked to long-term development plans (FYDP III) and make it part of the sectoral plans and policies, while ensuring adequate funding. They also commit to broadening coverage of social safety nets to support vulnerable households affected by extreme poverty as well as those who could fall under extreme poverty when catastrophic weather events materialize.

19. To address rising costs of addressing weather shocks, the authorities are amending the Environmental Impact Assessment (EIA) regulation to enforce climate impact and climate vulnerability assessment for all climate relevant public investment at all stages of project appraisal. Additionally, they plan to publish natural disaster-related fiscal risks to evaluate their impact on public resources and improve awareness, accountability, and

management of climate shocks. The power sector masterplan is at an advanced stage of development and focuses on renewable energy sources like geothermal, solar, and wind.

Conclusion

20. Our Tanzanian authorities reaffirm their strong commitment to program objectives. They consider reforms under the ECF as vitally important in guiding policies and reforms under the FYDP III, needed to preserve macroeconomic stability and build resilience, while sustaining fiscal and debt sustainability. In this context, they place a high premium on rebuilding policy buffers, containing inflation within target, ensuring exchange rate flexibility, while preserving infrastructure development and priority social spending. These reform initiatives would be further bolstered by access to the RSF and continued support from the Fund and other development partners. The authorities look forward to continued Fund technical and policy support to realize their reform objectives and place the economy onto an accelerated growth trajectory, to uplift living standards and progress on their development path.