June 2008
IMF Country Report No. 08/178

United Republic of Tanzania: Third Review Under the Policy Support Instrument—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Tanzania

In the context of the second review under the second review under the policy support instrument with the United Republic of Tanzania, the following documents have been released and are included in this package:

- Te staff report for the Second Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on March 12, 2008, 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 May 9, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of May 28, 2008 updating information of recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its May 30, 2008 discussion of the staff report that completed the review.

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

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

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

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

UNITED REPUBLIC TANZANIA

Third Review Under the Policy Support Instrument

Prepared by the African Department
(In consultation with other departments)

Approved by David Nellor and Michael T. Hadjimichael

May 9, 2008

Discussions on the third review under the Policy Support Instrument were held in Dar es Salaam during February 27–March 12, 2008. The staff team consisted of Roger Nord (head), David Dunn, Yuri Sobolev, Samar Maziad (all AFR), Alejandro Hajdenberg (FAD), and Niko Hobdari (PDR). The team met with the Minister for Finance and Economic Affairs (MOFEA), Mr. Mkulo, the Governor of the Bank of Tanzania, Prof. Ndulu, the Permanent Secretary of MOFEA, Mr. Mgonja, other senior officials, and representatives of the private sector and international community. Mr. Robinson, the Fund's senior resident representative in Dar es Salaam, and Mr. Ndyeshobola, senior advisor to the Executive Director, participated in the discussions.

Contents Page

Executive Summary

- Staff recommends completion of the third review. The Tanzanian economy continues to perform well and the PSI-supported program remains on track with all assessment criteria for the third review met. Economic growth exceeded 7 percent in 2007 and medium-term prospects are strong.

- In the short term, Tanzania faces three key challenges: maintaining fiscal stability in the face of uncertain financing; dealing with inflationary pressures; and addressing governance weaknesses and strengthening public accountability.

- The 2008/09 budget currently under preparation faces financing uncertainty as development partners look to the government to undertake agreed steps to address governance issues. The program provides some limited room for domestic financing in case of a temporary shortfall in foreign assistance.

- Inflationary pressures in recent months reflect primarily developments in international fuel and food prices. Monetary policy will need to accommodate one-time shocks while containing broader inflationary risks with the objective of gradually bringing inflation down to its medium-term objective of 5 percent.

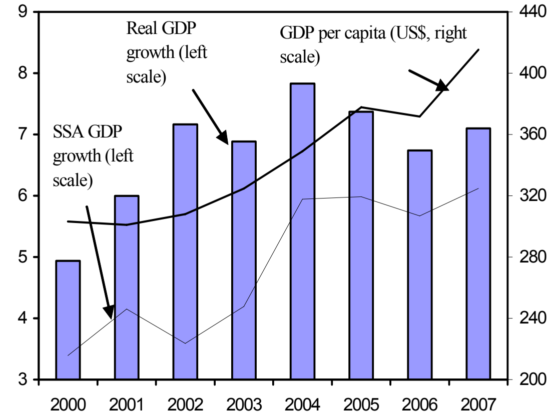
- Addressing governance weaknesses is critical to restoring confidence of both development partners and private investors. Good progress has been made so far. Further steps should include strengthening the governance of the BoT, for which the planned voluntary safeguards assessment by the Fund will be helpful.

- Looking ahead, structural and institutional reforms should aim at further raising Tanzania's growth potential. Public priorities appropriately focus on improving infrastructure and strengthening public services in health and education.

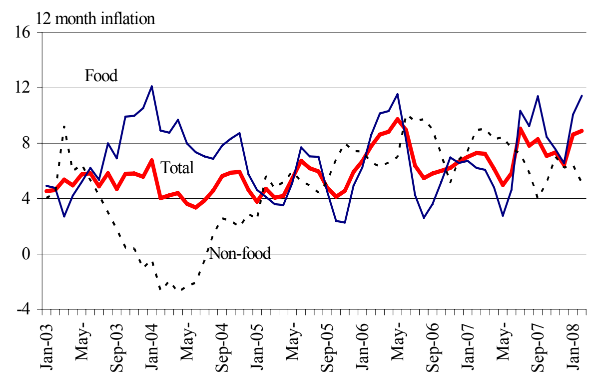
I. Economic Backdrop, Program Performance, and Outlook

1. **Tanzania's economy remains strong.** Grounded in prudent macroeconomic policies, growth averaged 7 percent during 2001-07, outpacing the average for sub-Saharan Africa. Inflation remained moderate during this period, although recent global fuel and food price increases pushed inflation to 9 percent in the first quarter of 2008. Government spending has experienced extraordinary growth since 2001, financed by a significant broadening of the revenue base and scaled-up donor assistance. By limiting government's use of domestic financing, fiscal policy helped to ease inflationary pressures and provided room for a rapid expansion of credit to the private sector. In addition, extensive debt relief and a major buildup of international reserves have reduced external vulnerabilities (Figures 1–4 and Tables 1–7).

Tanzania has achieved high growth...

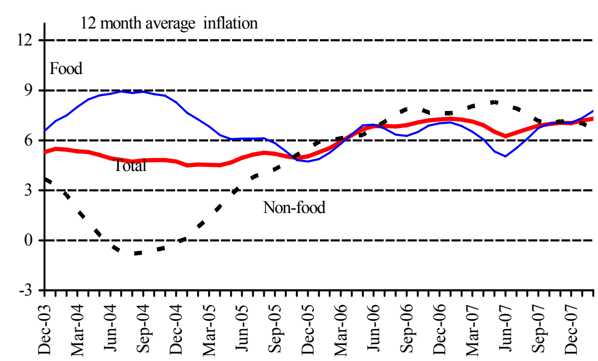


... with relatively low inflation.



2. **Tanzania's performance ranks among the best for non-oil exporting countries in sub-Saharan Africa.** In particular, macroeconomic stability has been accompanied by rapid export growth and remarkable financial deepening. Nevertheless, scope for further progress remains ample, notably in strengthening the business environment (Text Figures).

But inflation has trended higher since 2005.

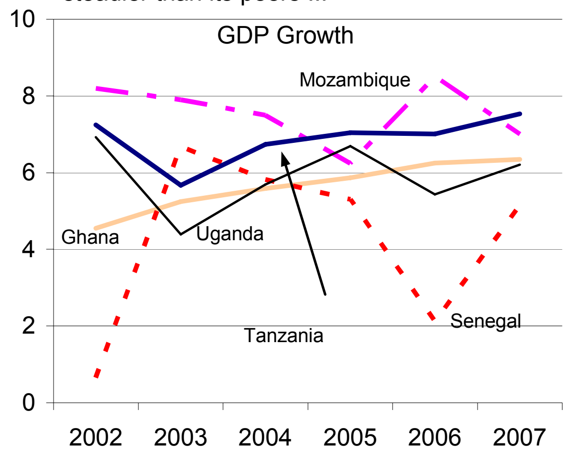


Sources: Tanzanian authorities; IMF staff estimates

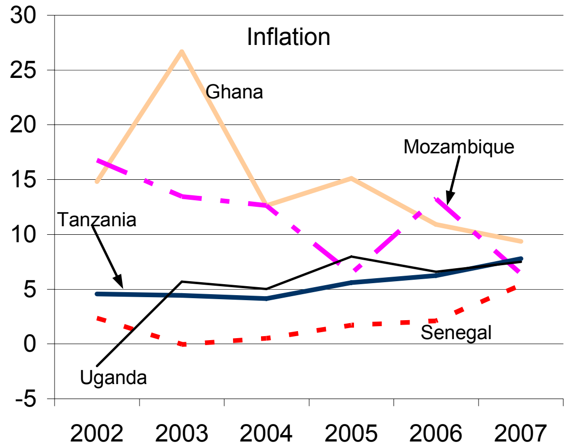
3. **Performance under the PSI program remains good.** All assessment criteria for the third review (quantitative targets for end-December 2007) were met and the structural reform program remains broadly on track (Memorandum of Economic and Financial Policies [MEFP] ¶19–22 and Tables 1 and 2).

Tanzania's Performance in Persepective

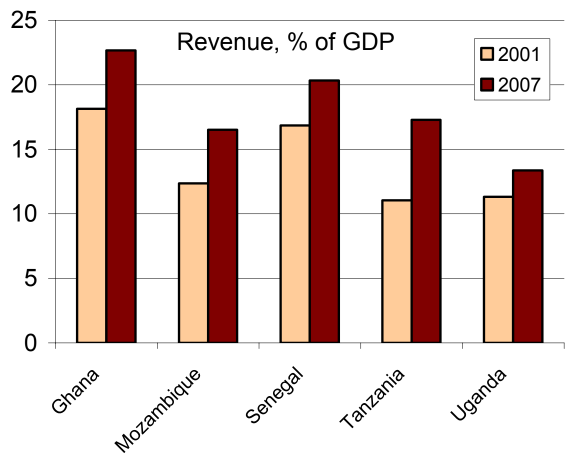
Tanzania's growth has been higher and steadier than its peers ...



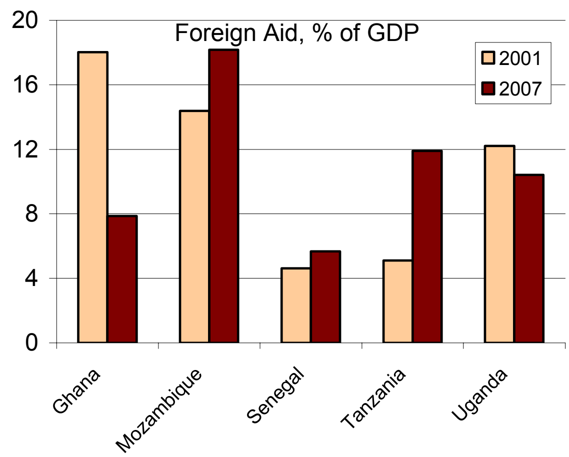
...while inflation has been lower.



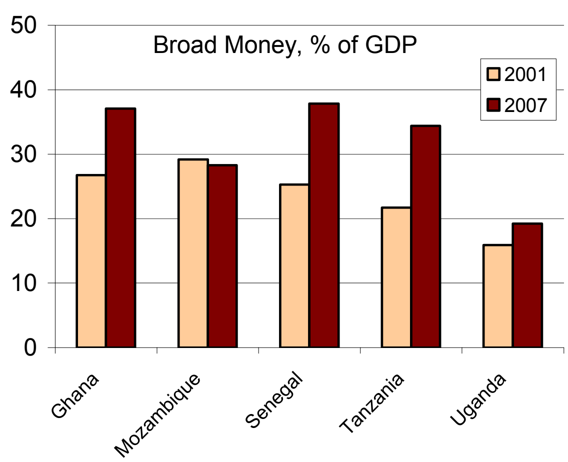
Despite improvements, Tanzania's government revenues have increased but are still below comparator countries.



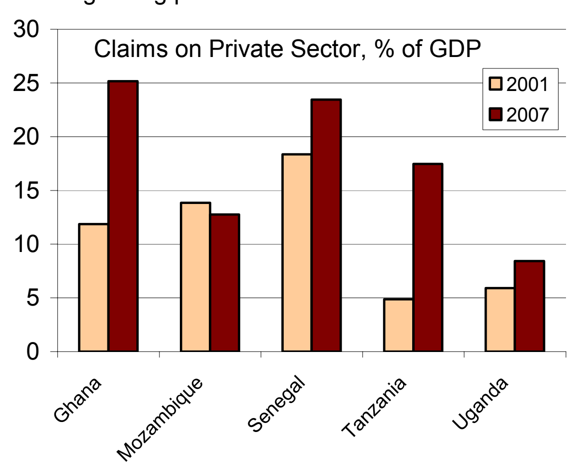
...while donor assistance has risen substantially.



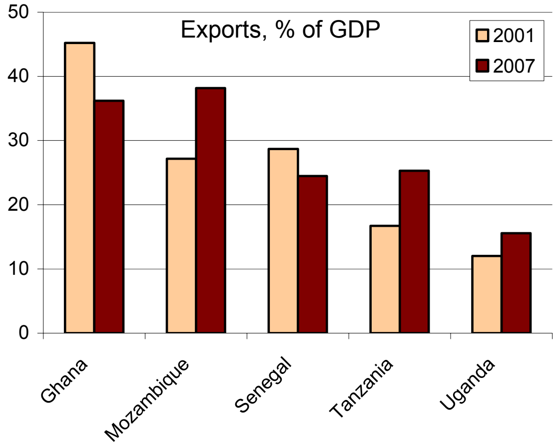
Tanzania's money growth has been very high...



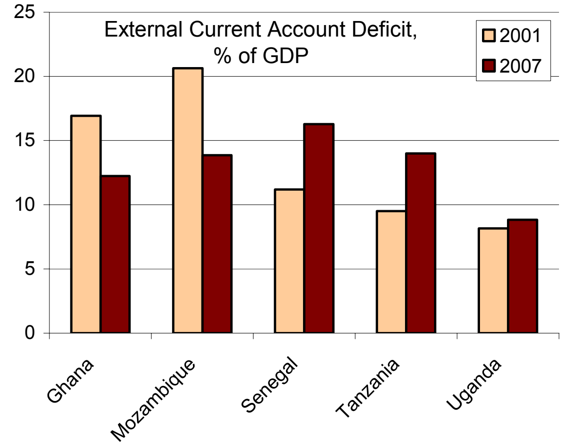
...with increased financial deepening and growing private sector credit.



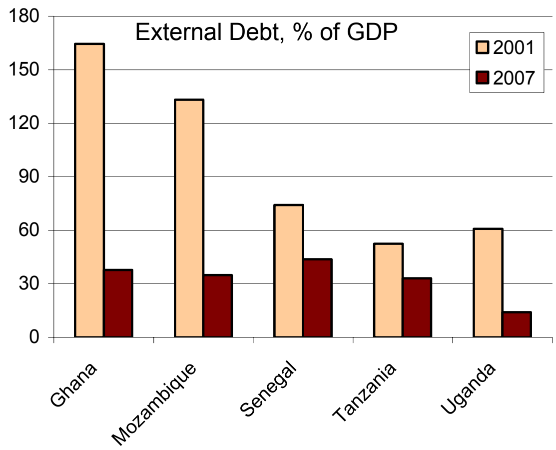
Tanzania's export performance has improved.



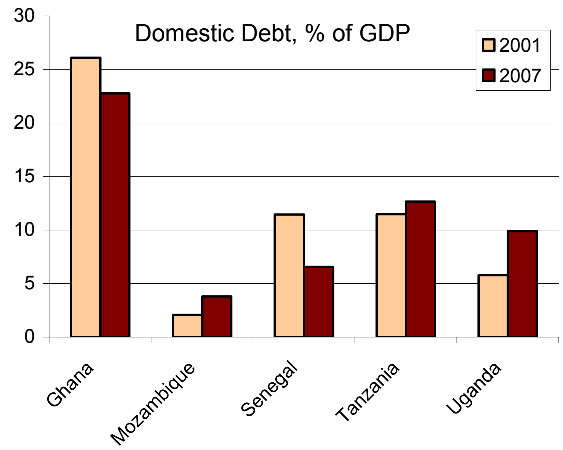
But the external current account has widened due to the growing aid-financed imports.



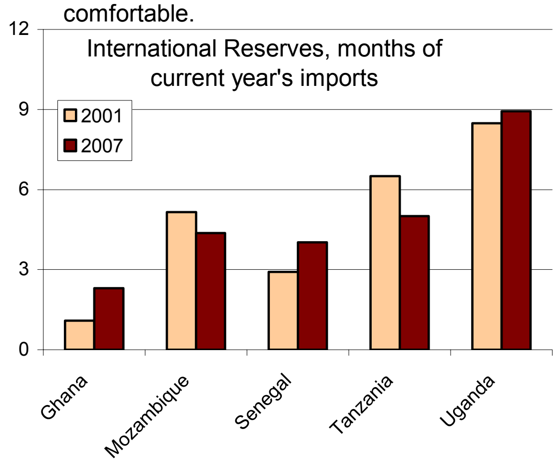
Although external debt has fallen...



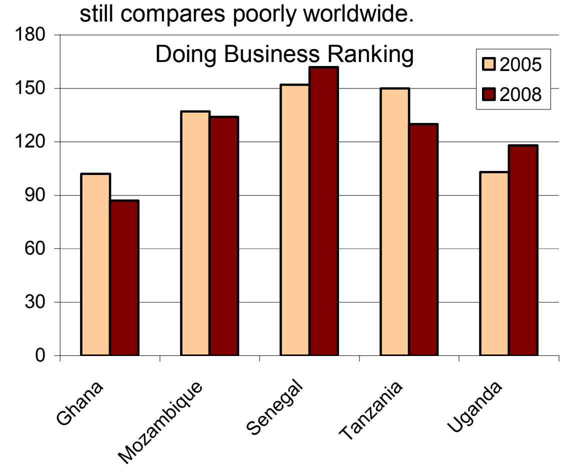
...the domestic debt burden has remained high.



Tanzania's reserve position is relatively comfortable.



The business environment has improved, but still compares poorly worldwide.



The new Social Security Bill, which would unify the regulation of pension funds, was tabled in Parliament as scheduled,[1] a three-month cash flow forecast was provided to line ministries for the first time, and an initial plan for the transfer of government deposits in commercial bank to the Bank of Tanzania (BoT) was adopted. However, the full integration of all import clearance processes has been delayed because of technical difficulties.

4. **The outlook for the Tanzanian economy is favorable.** Growth is expected to reach 7½ percent in 2007/08, rising to about 8 percent a year over the medium term. In the next few years, the public sector has an important role to play in raising the economy's growth potential by improving physical infrastructure and reducing growth bottlenecks, relying on both increased domestic revenue mobilization and continued high levels of foreign assistance. Openness toward foreign direct investment should further boost private-sector led growth over the medium term. However, this outlook is not without risk. A prolonged global economic slowdown could have a detrimental impact on Tanzania's fast-growing tourism sector and reduce foreign investment flows. Domestically, capacity constraints may become more binding if the planned infrastructure expansion fails to keep up with rising domestic demand, particularly in an environment of rapid credit growth and inflationary pressures from rising global prices. The program for 2008/09 aims at seizing the economic opportunities while containing these risks.

II. Policy Discussions and the PSI Program for 2008/09

5. **Key objectives for the PSI program in 2008/09 are to maintain macroeconomic stability while raising productivity through continued structural reform and improved public infrastructure.** Discussions focused on three main issues:

- Maintaining fiscal stability in the face of uncertain financing;
- Coping with inflationary pressures stemming from global commodity prices and continued rapid economic growth; and
- Restoring credibility and increasing public accountability following the revelation of several instances of major weaknesses in governance.

In addition, discussions covered policies to raise productivity and Tanzania's long-term growth potential, including infrastructure financing and trade policies.

[1] The legislation provides for a new, single regulator for pension funds. The BoT would have the responsibility to establish investment guidelines and monitor adherence to the guidelines.

A. Maintaining Fiscal Stability in the Face of Uncertainty

6. **The 2008/09 budget will aim at maintaining hard-won fiscal stability in the face of large spending needs and uncertain financing.** The framework for the 2008/09 budget, approved by the government, aims at lowering the overall budget deficit (before grants) from an expected 11.2 percent of GDP this year to 10.3 percent next year. Ongoing strengthening of tax administration will help consolidate the significant revenue gains made in recent years, which are expected to lift the revenue/GDP ratio to 16.2 percent of GDP, an improvement by 5 percentage points since 2002/03. However, while current spending is expected to remain broadly unchanged compared with last year's budget, the approved budget framework provides for a lower level of development expenditure (by about 1 percent of GDP), reflecting uncertainty regarding the availability of foreign financing as donors look to the government to undertake agreed steps to address governance issues. In the face of this uncertainty, the authorities intend to allow a deviation of up to about 1 percent of GDP above the zero net domestic financing norm in the event that a shortfall in donor support in 2008/09 is confirmed.[2] (MEFP ¶25-28).

7. **Tighter budget constraints highlight the need to further expand the revenue base and achieve greater efficiency and effectiveness of government spending.** The ongoing review of mining sector policies and the Tanzania Revenue Authority's (TRA) new 5-year corporate business plan, both due to be finalized in the coming months, are expected to yield significant revenue raising measures for the medium term (MEFP ¶29). On the spending side, the authorities and development partners agreed on a strengthened Public Financial Management Reform Program (MEFP ¶30). To support this effort in coordination with other donors, Fund staff, mainly through East AFRITAC, will provide technical assistance aimed at further improving the capacity to produce reliable cash-flow projections, and strengthening budget monitoring and reporting, including by assisting in the introduction of a GFS functional classification of expenditure.

B. Returning Inflation to a Downward Trajectory

8. **Building on its recent success of reining in reserve money growth, the BoT will aim to gradually bring down inflation to its medium-term objective of 5 percent.** Following the recent rise in inflation, which reflects mainly the pass-through of global food and fuel prices, year-on-year inflation is targeted to fall to 7 percent by June 2008 and to 5-5½ percent by mid-2009. To that end, the program for 2008/09 aims at a gradual tightening of the monetary stance, with the objective of reducing broad money growth from an expected 20 percent in 2007/08 to 18 percent next year (MEFP ¶31). However, should global food prices continue to rise beyond what is currently expected, monetary policy should

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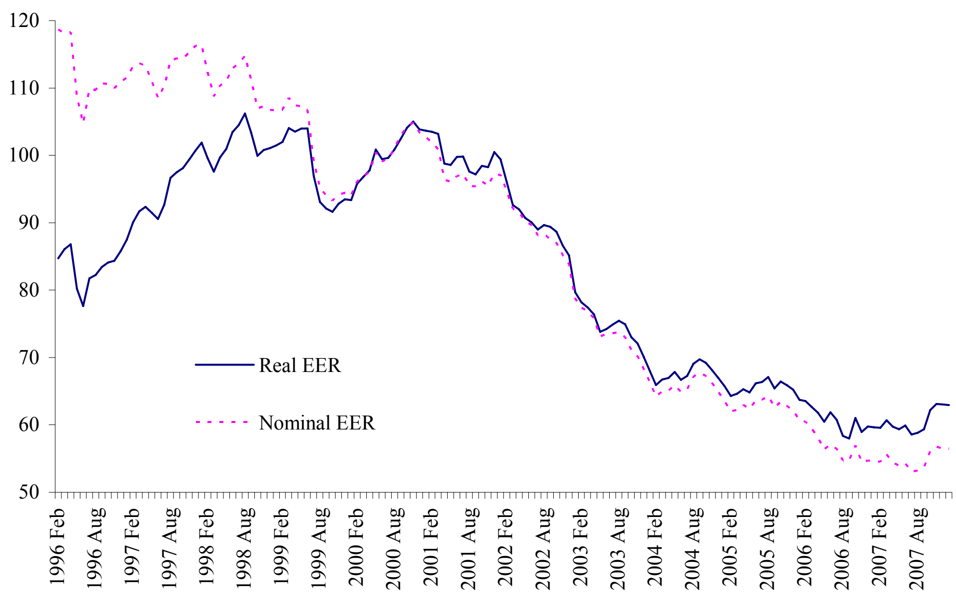
[2] Should donor support exceed conservative expectations, net domestic financing targets under the program would be correspondingly reduced.

accommodate such a rise while focusing on containing second-round effects. Under such a scenario, headline inflation would exceed currently targeted levels.

9. **Continued steadfast monetary policy implementation is the key to raising its effectiveness.** The increased reliance on foreign exchange sales for sterilization purposes and steps to improve the structure of primary auctions of government securities have contributed to a decline in T-Bill yields and a steepening of the yield curve.[3] [4] The BoT intends to strengthen further its communications with the financial sector and general public, with the objective of reinforcing its predictability and credibility, underlining that it has no predetermined path for the exchange rate. Staff analysis shows that the exchange rate is probably modestly undervalued relative to its equilibrium, mitigating concerns about the real appreciation of the shilling since mid-2007.[5] The BoT also plans to review the existing regulatory framework governing capital transactions, with the objective of adapting it to the changing needs of the Tanzanian economy and regional integration (MEFP ¶33).



[3] For background, see Ali Abbas and Yuri Sobolev, *High and Volatile Treasury Yields in Tanzania: The Role of Strategic Bidding and Auction Microstructure*, IMF Working Paper 08/81, March 2008.

[4] Lower yields, and tighter global liquidity, could lead to some reversal of the significant portfolio capital inflows observed in April-July 2007 (See Country Report 08/9 for more detail).

[5] For a an assessment of Tanzania's equilibrium real exchange rate and of factors affecting the equilibrium over the medium term, see Niko Hobdari, *Tanzania's Equilibrium Real Exchange Rate*, IMF Working Paper 08/138, May 2008.

10. **The BoT is strengthening prudential supervision in the face of continued rapid credit expansion.** With assistance from the Fund, the BoT intends to further reinforce its capacity for risk-based supervision and begin preparing quarterly financial stability reports (MEFP ¶36).

C. Increasing Public Accountability

11. **Steps are under way to address the governance shortfalls at the Bank of Tanzania.** A special audit of payments from the external payments arrears (EPA) account during 2005/06 identified payments of about US$113 million that were based on either fraudulent or nonexistent documentation. The authorities have launched a criminal investigation aimed at identifying the culprits and recovering the funds, and are implementing an action plan based on the recommendations of the special audit (Box 1).

Box 1: The Special Audit of the Bank of Tanzania

A special audit of the external payments arrears (EPA) account at the Bank of Tanzania conducted by Ernst & Young Co. on behalf of the Controller and Auditor General (CAG) was concluded in December 2007. Completion of the audit was a structural benchmark under the PSI. The audit identified serious improprieties in the management of the account. The central findings, released by the government in January 2008, were that a total of TSh 133 billion (about US$113 million) was paid under the EPA scheme during 2005/06 (July-June) to 22 local companies based on fraudulent documentation or without any supporting documentation.

Upon receiving the report, the Governor of the BoT was dismissed. Furthermore, President Kikwete announced the immediate suspension of operations under the EPA scheme until proper control procedures are established, and instructed the Attorney General, the Inspector General of Police, and the Director of the Prevention and Combating of Corruption Bureau to initiate appropriate legal proceedings against all companies and individuals involved and to recover the misappropriated funds.

Based on the recommendations of the special audit, the authorities have prepared and are implementing an action plan to strengthen the internal governance of the BoT and to improve the management of the EPA account. Steps already taken include the appointment of a new Governor and Board of Directors of the BoT. The new Director of Internal Audit reports directly to the Board, rather than only to the Governor, and the Audit Committee of the BoT is now chaired by an external member of the Board rather than the Governor to allow unencumbered scrutiny of all financial transactions.

Next steps include drawing up a detailed Memorandum of Understanding between the BoT and the Ministry of Finance specifying mutual responsibilities, covering in particular the future operation of the EPA account, and determining the scope and timetable for moving various commercial activities—such as part ownership in a gold company and various credit guarantee facilities—off the balance sheet of the BoT. In addition, the authorities will carry out a verification of the remaining EPA claims and will develop a strategy for settling any remaining legitimate obligations. These claims will be included in the public debt database, and the Debt Management Unit at the Accountant General Office will be strengthened to include monitoring of EPA transactions in accordance with regular government debt service procedures.

Finally, the authorities have referred to the recently established Anti-Money Laundering Task Force the commercial banks involved in receiving and intermediating the misappropriated EPA funds for investigation into a possible breach of the Tanzania Anti-Money Laundering Act or other banking regulations.

Beyond the recommendations of the special audit, the authorities have requested the Fund to prepare an updated safeguards assessment to assist in strengthening the BoT's internal controls and governance and plan to review the regulatory framework for AML/CFT with the assistance of the regional responsible body (MEFP ¶17 and ¶37). The BoT has also issued a tender for conducting value-for-money audits of its new premises in Dar es Salaam and Zanzibar.

12. **Strengthening public accountability is a key focus of the government's program.** The government is following up on the findings of the Public Procurement Regulatory Authority (PPRA), which has stepped up its audits of procurement agencies, with the objective of better enforcing existing regulations. Following the introduction of a reinforced legal framework, the Prevention and Combating of Corruption Bureau (PCCB) is investigating several cases of alleged grand corruption. Finally, there are ongoing efforts to strengthen the quality of public audits and ensure adequate follow-up. The new Public Audit Bill, which will be tabled in Parliament in June, could help by strengthening the authority of the National Audit Office.

D. Raising Productivity and Long-term Growth Potential

13. **Better infrastructure is critical to raising economic potential and reducing poverty.** Public infrastructure development remains a priority in the 2008/09 budget. In addition, the authorities are exploring other options for infrastructure financing, including issuing sovereign bonds denominated in foreign currency and establishing public-private partnerships (PPPs). While the present outlook for debt sustainability is relatively benign after extensive debt relief under HIPC and MDRI,[6] financing on commercial terms is inherently more risky and would require that projects yield high returns to ensure long-term debt sustainability. Similarly, effective PPPs must meet high standards of transparency and accountability. To this end, the Ministry of Finance and Economic Affairs (MOFEA) aims to strengthen its capacity to assess and manage fiscal risks, with the aim of disclosing contingent liabilities from PPPs and government guaranteed loans in the annual budget documentation (MEFP ¶40).

14. **Achieving financial viability for TANESCO remains a critical element for establishing a reliable electricity supply to support economic growth.** Although a substantial tariff increase (21.7 percent on average) approved by the independent regulator went into effect on January 1, 2008, the increase falls short of the cost recovery level requested. Consequently, TANESCO will continue to experience operational cash shortfalls, which could reach TSh 50 billion in 2008. While it is not anticipated that TANESCO will require additional budgetary subsidies in 2008/09, further steps, possibly including another tariff increase later this year, will be needed. To that end, additional cost-cutting measures at TANESCO are under consideration and a strategic plan for the power sector, aimed at promoting competition and attracting greater private investment, is under preparation (MEFP ¶38).

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[6] See the Debt Sustainability Analysis in the context of the 2007 Article IV Consultation with Tanzania (Country Report 07/246).

15. **Regional integration remains an important objective.** Negotiations within the East African Community (EAC) toward the establishment of a common market are getting under way. The five members of the EAC have also signed an interim trade agreement with the EU, replacing the expiring Cotonou Agreement, which extends free access to EU markets for most EAC products and gradually increases reciprocal access to the EAC market. Staff estimates suggest that there will be no impact on fiscal revenue in Tanzania in the short term and a marginal reduction thereafter (Box 2) (MEFP ¶39).

Box 2. Fiscal Impact of the EU-EAC Economic Partnership Agreement

An interim free trade agreement was signed in December 2007 between the EU and the East African Community (EAC) states—Burundi, Kenya, Rwanda, Tanzania and Uganda. The agreement, which replaces the trade regime set out in the ACP-EC Partnership (Cotonou) Agreement, allows for (i) 100 percent liberalization by value by the EU as of January 1, 2008 (with transition periods for rice and sugar); and (ii) 82 liberalization by value by the EAC (about 64 percent in two years, 80 percent in 15 years, and the remainder in 25 years). Main EAC exclusions comprise agricultural products, textiles and footwear.

Staff calculations indicate no revenue impact in 2008 and 2009, and only a modest gradual decline in tariff revenue starting in 2010—given that most items for which tariffs are set to be eliminated on January 1, 2010 are already duty free in the EAC countries (text figure).

Tanzania: Estimated Tariff Revenue from EU Imports, 2007-33, percent of GDP

	2007	2008	2009-13 avg.	2014-18 avg.	2019-23 avg.	2024-28 avg.	2029-33 avg.
Tariff Revenue	0.40	0.40	0.38	0.36	0.32	0.30	0.28

Source: WITS database and IMF staff calculations using latest actual data are for 2006 and assuming unchanged ratio of imports to GDP from 2006 onwards and no import substitution effects.

III. Program Monitoring

16. The quantitative assessment criteria for end-June 2008 and end-December 2008 for the fourth and fifth reviews of the PSI, respectively, are presented in Table 1 of the authorities' Memorandum of Economic and Financial Policies (MEFP) (see Appendix I, Attachment I). Table 3 of the MEFP presents the structural measures that will be monitored under the PSI. Conditionality focuses on the elements critical for the success of the program (Text Box).

Tanzania: Macroeconomic Rationale for Structural Agenda in 2008/09

Measure	Target Date of Implementation	Macroeconomic Rationale
Establish a Memorandum of Understanding between the MOFEA and the BOT setting out respective responsibilities, including cost sharing of monetary policy operations.[1]	End-September 2008	To focus the BoT's functions on core responsibilities; to explicitly account for quasi-fiscal operations under the budget; and to ensure proper incentives in the conduct of monetary policy.
Fiscal		
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous	To facilitate efficient budget execution by line ministries and liquidity management by the BoT.
Introduce a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* in the budget for 2009/10.	End-June 2009	To enhance budget planning, execution, and management, as part of the broader PFM reform program to increase the efficiency and effectiveness of government spending.
Complete the integration of the Customs and Excise Department and TISCAN's import clearance processes.	End-December 2008	To create a more enabling environment for doing business by simplifying import procedures; to enhance customs administration and revenue collection for sustainable financing of the budget.
Financial Sector		
Prepare a review of the regulatory framework governing capital and financial account transactions.	End-September 2008	To facilitate the flow of capital to finance investment; to enhance transparency of capital flows to better inform decisions on monetary and foreign exchange operations.
Prepare quarterly financial stability reports for the BOT Board, including assessments of risk-based prudential supervision.	End-September 2008	To strengthen the ability of the BOT to promote financial stability in an environment of rapid financial sector development.
Establish an operational credit reference databank.	End-June 2009	To facilitate a healthy expansion of credit to the private sector.

[1] Assessment criterion.

IV. Staff Appraisal and Risks

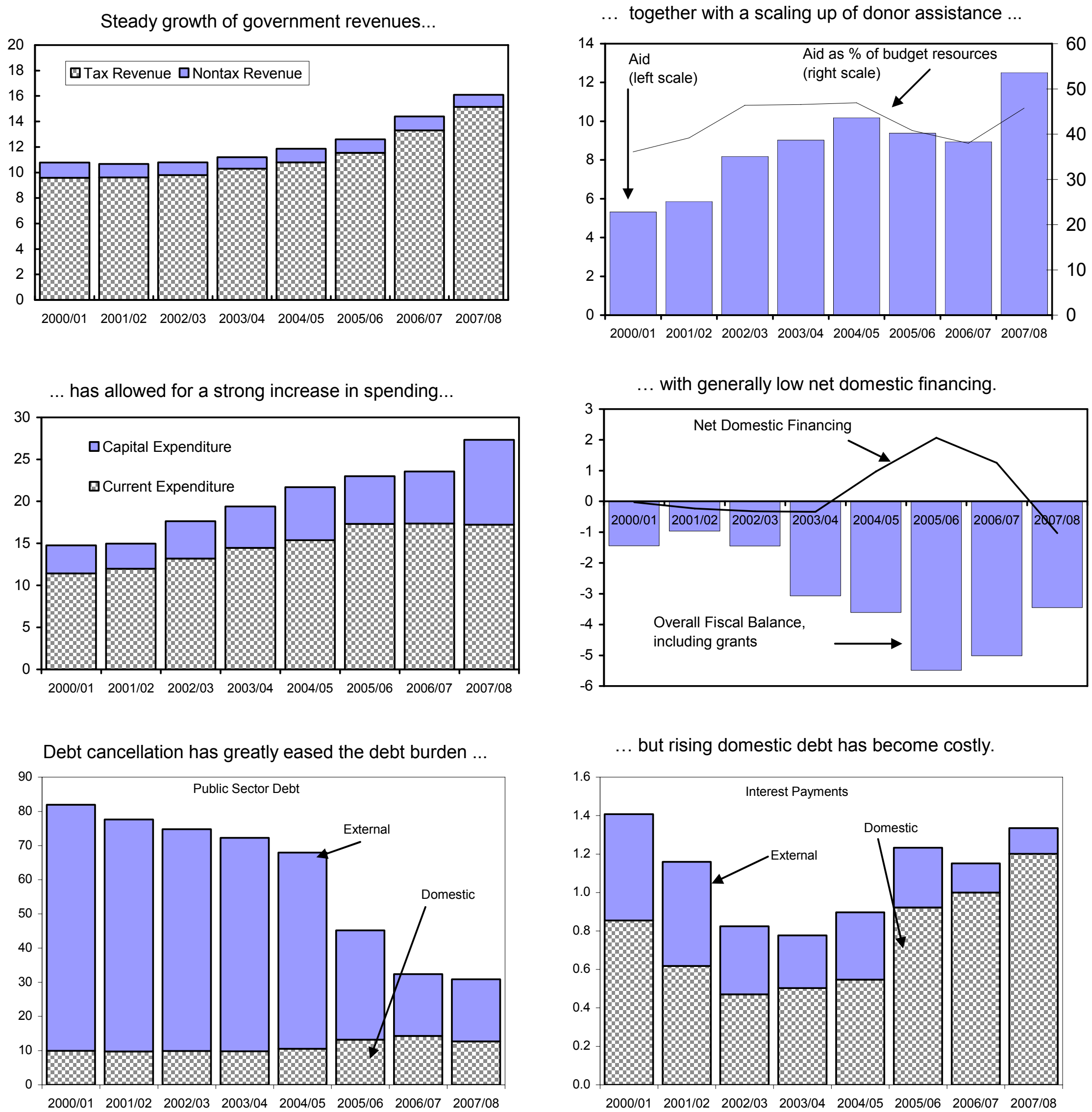
17. **Economic performance and prospects for Tanzania remain strong.** The program supported by the PSI is on track and the economic outlook remains bright. The challenge for Tanzania is to sustain this good performance to achieve durable poverty reduction. This will require maintaining the macroeconomic stability that has been the hallmark of Tanzania's success. It will also require renewed momentum in tackling second-generation structural reforms to lift Tanzania's economic growth potential.

18. **Policies will need to focus on three immediate challenges.** First, preparation of the 2008/09 budget has been complicated by uncertain donor financing. Ongoing efforts to resolve the uncertainty are welcome and the economic program for 2008/09 provides some flexibility to substitute domestic for foreign financing to ensure the continuity of critical public expenditure programs. Nevertheless, expenditure restraint will be important to cushion the impact of, possibly temporary, financing uncertainty.. Second, inflation has increased in recent months, mainly reflecting rising global food and fuel prices. But there are risks that inflationary pressures could spread in an environment of rapid credit expansion and increasingly binding growth bottlenecks. Monetary policy will need to steer a careful path between containing excess demand and providing sufficient room for continued private sector credit expansion. Third, action to address governance weaknesses at the BoT has been helpful in beginning to rebuild lost credibility. To restore confidence of both development partners and private investors, it will be important to continue with decisive implementation of the action plan to further strengthen the governance of the BoT and to maintain the focus on strengthening public accountability in Tanzania more broadly.

19. **Further raising Tanzania's growth potential is critical to reducing poverty and reaching the MDGs.** Public priorities appropriately focus on improving infrastructure and strengthening public services in health and education. Long-term sustainable growth also requires further development of the financial sector and significant improvement in the business environment and regulatory regime to attract both foreign direct investment and boost domestic entrepreneurship. Economic policies will need to strike a balance between the short and the medium term to ensure that economic and social priorities are grounded in a robust macroeconomic framework. In particular this requires adequately controlling fiscal risks, including by implementing a strong institutional framework for PPPs, and ensuring long-term debt sustainability. The economic program supported by the PSI aims at striking such a balance.

20. On this basis, staff recommends the completion of the third review of Tanzania's program under the PSI.

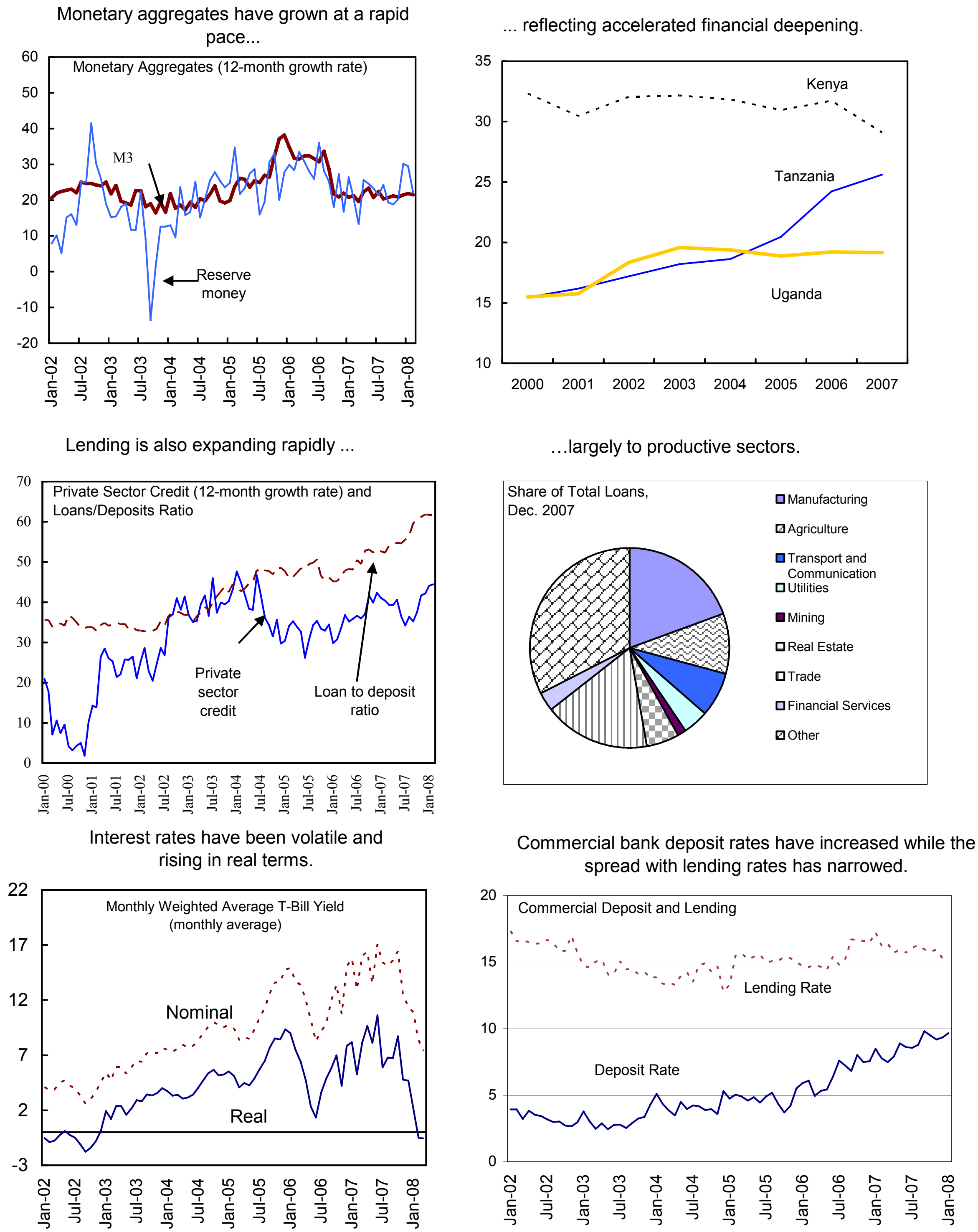
Figure 1. Tanzania: Fiscal Developments, 2000/01-2007/08 *
(Percent of GDP, unless otherwise stated)



Source: Tanzanian authorities; Fund staff estimates/projections.

* Figures for 2007/08 are program projections.

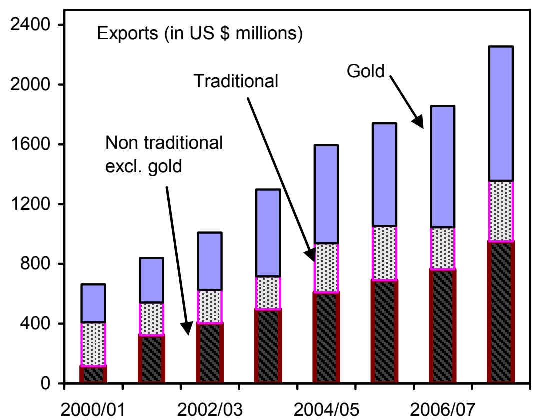
Figure 2. Tanzania: Monetary and Financial Developments



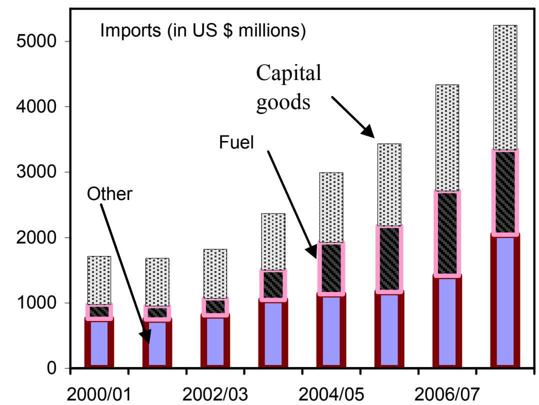
Source: Bank of Tanzania

Figure 3. Tanzania: External Sector Developments

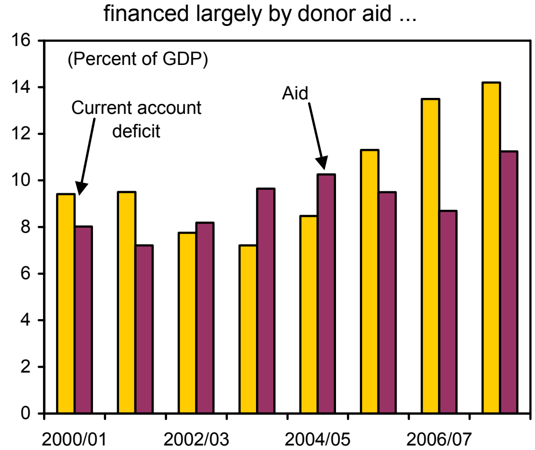
Exports have risen sharply in recent years ...



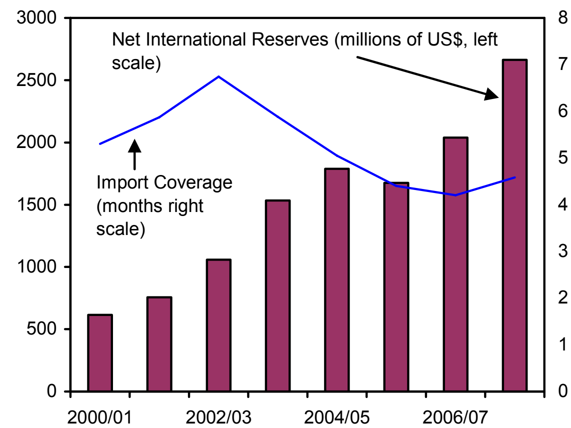
... but imports have risen even faster, driven by higher fuel costs and investment ...



... and despite a rising current account deficit financed largely by donor aid ...



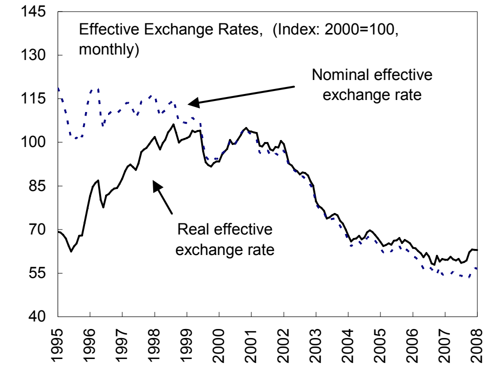
… reserves have remained ample.



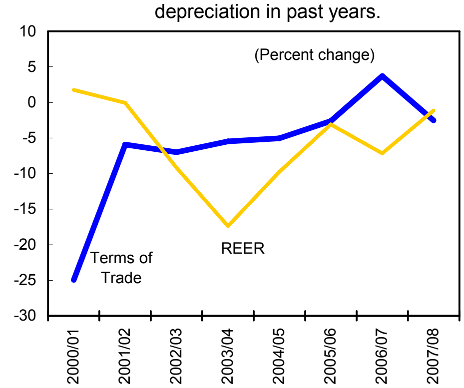
Source: Tanzania authorities; Fund staff estimates.

Figure 4. Tanzania: Exchange Rate Developments

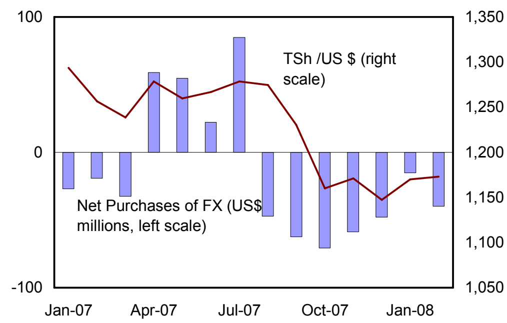
Effective exchange rate depreciation has slowed.



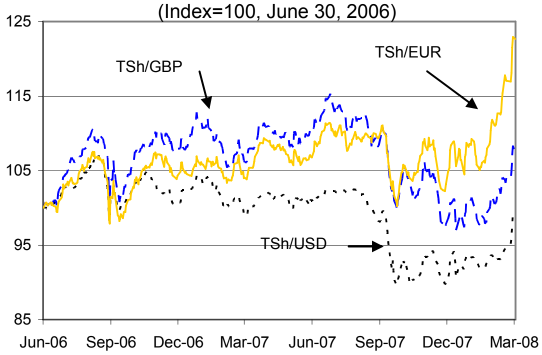
Deteriorating terms of trade contributed to depreciation in past years.



The shilling firmed recently, as the BoT resumed sales of foreign exchange.



Until recently, the shilling traded in a narrow band against the U.S. dollar, while it depreciated against other major currencies.
(Index=100, June 30, 2006)



Source: Tanzania authorities; Fund staff estimates.

Table 1. Tanzania: Selected Economic and Financial Indicators, 2005/06-2010/11

	2005/06	2006/07 Est.	2007/08 Prog.	2007/08 Proj.	2008/9 Proj.	2009/10 Proj.	2010/11 Proj.
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
Real GDP growth (calendar year, at market prices)[1]	7.4	6.7	7.1	7.3	7.8	8.0	8.0
Real GDP growth (fiscal year, at market prices)	7.0	7.0	7.3	7.5	7.9	8.0	8.0
Consumer prices (period average)	5.6	6.3	6.9	7.8	5.8	5.1	5.0
Consumer prices (end of period)	6.8	5.8	6.0	7.0	5.3	5.0	5.0
External sector							
Export, f.o.b (in U.S. dollars)	1,741	2,042	2,360	2,437	2,887	3,161	3,464
Imports, f.o.b. (in U.S. dollars)	-3,436	-4,336	-5,016	-5,250	-6,068	-6,783	-7,501
Export volume	2.5	-7.4	19.6	10.6	9.3	7.6	8.1
Import volume	3.4	19.7	9.4	6.1	12.9	14.6	12.5
Terms of trade	-2.6	3.7	-6.8	-2.5	8.9	4.3	3.1
Nominal effective exchange rate (end of period; depreciation -)[2]	-10.3	-4.9	...	4.9	...	...	...
Real effective exchange rate (end of period; depreciation -)[2]	-6.5	4.8	...	5.1	...	...	...
Money and credit							
Broad money (M3)	31.6	20.7	21.0	20.0	18.0	…	…
Net foreign assets	31.5	11.1	-3.7	-4.9	6.0	…	…
Net domestic assets	31.9	44.9	76.1	68.0	31.1	…	…
Credit to nongovernment sector	35.9	36.4	34.5	39.8	21.7	…	…
Velocity of money (GDP/M3; average)	4.7	4.0	3.6	3.8	3.7	…	…
Treasury bill interest rate (in percent; end of period)[3]	8.2	16.0	…	7.4	…	…	…
	(Percent of GDP)						
Public finance							
Revenue (excluding grants)	12.6	14.4	16.0	16.1	16.2	16.5	16.8
Total grants	5.4	5.0	7.8	7.8	5.9	6.0	5.7
Expenditure (including adjustment to cash)	23.5	24.4	27.9	27.3	26.5	26.3	26.1
Overall balance (including grants)	-5.5	-5.0	-4.1	-3.5	-4.4	-3.8	-3.6
Domestic financing	2.1	1.2	0.0	-1.0	1.0	0.0	0.0
Stock of total public debt (end of period)	67.6	41.2	…	38.1	37.5	37.8	38.2
Savings and investment[1]							
Investment	27.9	28.9	29.1	28.8	28.9	29.1	29.1
Government	6.0	8.3	8.4	9.5	8.8	8.7	8.6
Nongovernment[4]	21.9	20.6	20.7	19.3	20.1	20.4	20.5
Gross domestic savings	14.0	15.6	14.6	15.2	15.5	15.5	15.5
External sector							
Current account balance (excluding official transfers)	-11.3	-13.5	-13.7	-14.2	-13.3	-13.7	-13.7
Current account balance (including official transfers)	-7.8	-10.1	-10.0	-10.6	-10.8	-10.7	-10.9
	(Millions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Current account balance (excluding official transfers)	-1,612	-2,003	-2,370	-2,597	-2,784	-3,216	-3,599
Overall balance of payments (deficit -)	251	286	43	240	42	313	304
Gross official reserves[5]	1,863	2,153	2,349	2,394	2,436	2,749	3,051
In months of imports of goods and nonfactor services	3.9	3.8	3.9	3.6	3.3	3.3	3.3
External debt (percent of GDP)	57.7	29.7	…	29.8	29.7	31.5	33.2

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

[1] Data are on calendar year basis. For example, 2005/06 data are for calendar year 2005.
[2] Figure for 2007/08 reflects data through January 2008.
[3] Monthly weighted-average yield of 35-, 91-, 182-, and 364-day treasury bills. Figure for 2007/08 reflects data for March 2008.
[4] Including change in stocks.
[5] Actuals revised to reflect the reclassification of the settlement of US$132 million in government liabilities related to a liquidated parastatal enterprise.

Table 2. Tanzania: National Accounts, 2006-11

	2006	2007		2008		2009	2010	2011
		Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change in real terms)							
GDP at market prices								
Nominal (billions of T Sh, calendar-year basis)	17,750	20,146	20,266	22,785	23,250	26,485	29,928	33,819
Real (percentage change)	6.7	7.1	7.3	7.5	7.8	8.0	8.0	8.0
Deflator (percentage change)	4.2	6.4	6.9	5.6	7.0	5.9	5.0	5.0
Sectoral components of GDP								
Agriculture	3.9	5.0	3.9	5.2	4.0	4.2	4.5	4.6
Industry	8.5	9.2	9.0	11.2	9.9	10.4	11.1	11.3
Services	7.7	6.7	8.2	7.3	8.7	9.1	9.9	10.5
Memorandum items:	2005/06	2006/07		2007/08		2008/09	2009/10	2010/11
		Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
Nominal GDP (billions of T sh, fiscal-year basis)	16,857	18,948	19,008	21,465	21,758	24,868	28,207	31,873
Nominal GDP growth	12.6	12.4	12.8	13.3	14.5	14.3	13.4	13.0
Real GDP growth	7.0	6.9	7.0	7.3	7.5	7.9	8.0	8.0
CPI inflation (average)	5.6	6.3	6.3	6.9	7.8	5.8	5.1	5.0
CPI inflation (end period)	6.8	5.8	5.8	6.0	7.0	5.3	5.0	5.0

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

Table 3. Tanzania: Central Government Operations, 2005/06-2010/11 [1]
(Billions of Tanzania Shilling)

	2005/06	2006/07	2007/08				2008/09	2009/10	2010/11
			Prog.	Proj.	Jun-Dec[6]		Proj.	Proj.	Proj.
					Prog.	Prel.			
Total revenue	2,125	2,739	3,438	3,502	1,734	1,759	4,028	4,653	5,354
Tax revenue	1,946	2,529	3,154	3,299	1,577	1,652	3,794	4,384	5,043
Import duties	191	246	291	263	156	140	302	349	402
Value-added tax	803	832	969	1,042	490	518	1,198	1,384	1,593
Excises[2]	262	520	653	713	326	360	820	948	1,090
Income taxes	554	714	827	917	392	446	1,054	1,218	1,401
Other taxes	137	219	414	365	212	187	419	484	557
Nontax revenue	178	210	284	203	157	107	234	270	311
Total expenditure	3,873	4,475	5,998	5,948	3,170	2,884	6,583	7,415	8,306
Recurrent expenditure	2,920	3,296	3,795	3,747	2,058	1,767	4,371	4,945	5,541
Wages and salaries	657	976	1,113	1,146	561	560	1,458	1,654	1,869
Interest payments	219	216	304	276	118	81	303	258	235
Domestic	164	185	274	254	101	71	270	221	196
Foreign [2]	55	31	30	22	16	10	34	37	39
Goods and services and transfers	2,044	2,105	2,380	2,326	1,379	1,126	2,609	3,033	3,437
Of *which:* MDRI (IMF) related	0	18	7	7	...	7	0	0	0
Development expenditure	953	1,179	2,201	2,201	1,112	1,116	2,213	2,470	2,765
Domestically financed	296	504	1,012	1,012	517	413	853	1,042	1,223
Of *which:* MDRI (IMF) related	0	105	206	206	...	77	66	0	0
Foreign financed	657	675	1,188	1,188	594	704	1,360	1,428	1,542
Overall balance before grants	-1,748	-1,736	-2,558	-2,446	-1,436	-1,124	-2,555	-2,762	-2,952
Grants	911	953	1,685	1,695	1,202	979	1,465	1,697	1,816
Program (including basket grants) [3]	507	591	795	805	695	685	605	864	917
Project	328	242	684	684	342	210	793	833	899
HIPC grant relief	76	0	0	0	0	0	0	0	0
MDRI (IMF) grant relief	0	123	206	206	165	84	66	0	0
Overall balance after grants	-837	-783	-873	-751	-234	-146	-1,091	-1,065	-1,137
Adjustment to cash [4]	-87	-171	0	0	0	-202	0	0	0
Overall balance (cash basis)	-924	-954	-873	-751	-234	-348	-1,091	-1,065	-1,137
Financing	924	954	873	751	234	348	1,091	1,065	1,137
Foreign (net)	561	717	887	1,004	550	972	877	1,105	1,182
Foreign loans	669	746	946	1,025	566	985	905	1,136	1,216
Program (including basket loans) [3]	340	313	442	521	314	485	338	541	574
Project	329	433	504	504	252	500	567	595	643
Amortization	-108	-30	-59	-22	-17	-12	-28	-31	-34
Domestic (net)	349	237	0	-224	-309	-622	249	0	0
Bank financing	282	25	...	...	...	...	...	...	...
Nonbank financing	67	212	...	...	...	...	...	...	...
Amortization of parastatal debt	-19	0	-29	-29	-6	-2	-35	-40	-45
Privatization proceeds	33	0	15	0	0	0	0	0	0
Memorandum items:									
Public domestic debt (in percent of GDP) [7]	14.8	16.1	12.3	13.0	...	...	12.4	10.9	9.6
Ratio of recurrent expenditures to total revenues (percent)	137	120	110	107	119	100	109	106	103
Nominal GDP [5]	16,857	19,008	21,465	21,758	...	...	24,868	28,207	31,873

Table 3. (Cont.) Tanzania: Central Government Operations, 2005/06-2010/11 [1]
(Percent of GDP)

	2005/06	2006/07	2007/08				2008/09	2009/10	2010/11
			Prog.	Proj.	Jun-Dec [6]		Proj.	Proj.	Proj.
					Proj.	Prel.			
Total revenue	12.6	14.4	16.0	16.1	8.1	8.2	16.2	16.5	16.8
Tax revenue	11.5	13.3	14.7	15.2	7.3	7.7	15.3	15.5	15.8
Import duties	1.1	1.3	1.4	1.2	0.7	0.7	1.2	1.2	1.3
Value-added tax	4.8	4.4	4.5	4.8	2.3	2.4	4.8	4.9	5.0
Excises	1.6	2.7	3.0	3.3	1.5	1.7	3.3	3.4	3.4
Income taxes	3.3	3.8	3.9	4.2	1.8	2.1	4.2	4.3	4.4
Other taxes	0.8	1.1	1.9	1.7	1.0	0.9	1.7	1.7	1.7
Nontax revenue	1.1	1.1	1.3	0.9	0.7	0.5	0.9	1.0	1.0
Total expenditure	23.0	23.5	27.9	27.3	14.8	13.4	26.5	26.3	26.1
Recurrent expenditure	17.3	17.3	17.7	17.2	9.6	8.2	17.6	17.5	17.4
Wages and salaries	3.9	5.1	5.2	5.3	2.6	2.6	5.9	5.9	5.9
Interest payments	1.3	1.1	1.4	1.3	0.5	0.4	1.2	0.9	0.7
Domestic	1.0	1.0	1.3	1.2	0.5	0.3	1.1	0.8	0.6
Foreign [2]	0.3	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Goods and services and transfers	12.1	11.1	11.1	10.7	6.4	5.2	10.5	10.8	10.8
o/w MDRI (IMF) related	0.0	0.1	0.0	0.0	...	0.0	0.0	0.0	0.0
Development expenditure	5.7	6.2	10.3	10.1	5.2	5.2	8.9	8.8	8.7
Domestically financed	1.8	2.7	4.7	4.7	2.4	1.9	3.4	3.7	3.8
o/w MDRI (IMF) related	0.0	0.6	1.0	0.9	...	0.4	0.3	0.0	0.0
Foreign financed	3.9	3.6	5.5	5.5	2.8	3.3	5.5	5.1	4.8
Overall balance before grants	-10.4	-9.1	-11.9	-11.2	-6.7	-5.2	-10.3	-9.8	-9.3
Grants	5.4	5.0	7.8	7.8	5.6	4.6	5.9	6.0	5.7
Program (including basket grants) [3]	3.0	3.1	3.7	3.7	3.2	3.2	2.4	3.1	2.9
Project	1.9	1.3	3.2	3.1	1.6	1.0	3.2	3.0	2.8
HIPC grant relief	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI (IMF) grant relief	0.0	0.6	1.0	0.9	0.8	0.4	0.3	0.0	0.0
Overall balance after grants	-5.0	-4.1	-4.1	-3.5	-1.1	-0.7	-4.4	-3.8	-3.6
Adjustment to cash [4]	-0.5	-0.9	0.0	0.0	0.0	-0.9	0.0	0.0	0.0
Overall balance (cash basis)	-5.5	-5.0	-4.1	-3.5	-1.1	-1.6	-4.4	-3.8	-3.6
Financing	5.5	5.0	4.1	3.5	1.1	1.6	4.4	3.8	3.6
Foreign (net)	3.3	3.8	4.1	4.6	2.6	4.5	3.5	3.9	3.7
Foreign loans	4.0	3.9	4.4	4.7	2.6	4.6	3.6	4.0	3.8
Program (including basket loans) [2]	2.0	1.6	2.1	2.4	1.5	2.3	1.4	1.9	1.8
Project	2.0	2.3	2.3	2.3	1.2	2.3	2.3	2.1	2.0
Amortization	-0.6	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Domestic (net)	2.1	1.2	0.0	-1.0	-1.4	-2.9	1.0	0.0	0.0
Bank financing	1.7	0.1	...	...	...	...	...	...	...
Nonbank financing	0.4	1.1	...	...	...	...	...	...	...
Amortization of parastatal debt	-0.1	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1
Privatization proceeds	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Fiscal year: July-June.

[2] Some projected external debt obligations are under negotiation for relief with a number of creditors.

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

[4] Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.

[5] The nominal GDP series was revised upwards by about 10% in 2007. All ratios to GDP have been revised accordingly.

[6] Projections correspond to the Ministry of Finance's monthly plan.

[7] Actuals revised to reflect the reclassification of the settlement of US$132 million in government liabilities related to a liquidated parastatal enterprise.

Table 4. Tanzania: Summary Accounts of the Bank of Tanzania, 2007/08-2008/09
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2007						2008						2009	
	Jun		Sept		Dec		Mar		Jun		Sept	Dec	Mar	Jun
	Prog.	Actual	Prog.	Actual	Prog.	Prel.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets [1]	2,505	2,580	2,644	3,256	3,123	2,979	2,933	2,912	2,716	2,665	2,399	2,785	2,784	2,776
Net international reserves [1]	2,540	2,615	2,679	3,291	3,158	3,014	2,967	2,947	2,751	2,699	2,433	2,820	2,819	2,810
(Millions of U.S. dollars)	1,954	2,062	2,081	2,676	2,567	2,662	2,412	2,512	2,236	2,301	2,062	2,377	2,363	2,343
Medium- and long-term foreign liabilities	-35	-35	-35	-35	-35	-35	-35	-35	-35	-35	-35	-35	-35	-35
Net domestic assets	-832	-982	-859	-1,571	-1,198	-1,100	-967	-946	-691	-639	-219	-570	-501	-406
Credit to government [1]	-961	-981	-1,082	-1,743	-1,700	-1,554	-1,475	-1,286	-1,152	-1,205	-911	-1,241	-1,081	-1,055
Of which: Excluding liquidity paper	-200	70	-487	-552	-524	-472	-294	-155	-100	-153	241	-89	71	96
Other items (net)	129	-1	223	172	502	454	508	340	461	566	693	670	580	649
Of which: MDRI (IMF)	-149	-289	-152	-213	-167	-184	-121	-129	-74	-66	-33	0	0	0
Of which: REPOs	-35	-15	-35	-117	-10	-95	-70	-195	-100	-83	-18	-49	-134	-44
Reserve money	1,674	1,598	1,785	1,685	1,925	1,879	1,966	1,966	2,025	2,025	2,180	2,215	2,283	2,370
Currency outside banks	1,148	1,050	1,204	1,167	1,245	1,164	1,164	1,087	1,270	1,260	1,400	1,385	1,283	1,486
Bank reserves	526	549	580	518	680	715	802	879	755	766	780	829	1,001	883
Currency in banks	103	131	106	138	130	190	130	149	130	149	208	221	170	172
Deposits	423	418	474	381	550	524	672	729	625	617	573	608	831	711
Required reserves (calculated) [2]	368	348	380	363	406	371	427	421	436	422	415	444	500	500
Excess reserves (calculated)	55	69	94	17	144	153	245	308	189	194	158	164	331	211
Memorandum items:														
Stock of liquidity paper	761	1,052	595	1,191	1,176	1,082	1,181	1,131	1,052	1,052	1,152	1,152	1,152	1,152
Average reserve money	1,664	1,685	1,775	1,836	1,915	1,881	1,956	1,956	2,022	2,022	2,185	2,220	2,288	2,366

Sources: Bank of Tanzania; and Fund staff estimates and projections.

[1] Actuals revised to reflect the reclassification of the settlement of US$132 million in government liabilities related to a liquidated parastatal enterprise.

[2] Calculated as reserve requirement times banks' deposits minus half of bank cash in vault.

Table 5. Tanzania: Monetary Survey, 2007/08-2008/09
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2007						2008						2009	
	Jun		Sept		Dec		Mar		June		Sept	Dec	Mar	June
	Prog.	Actual	Prog.	Actual	Prog.	Prel.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	3,398	3,418	3,769	3,852	3,707	3,577	3,548	3,428	3,454	3,251	3,018	3,438	3,416	3,447
Bank of Tanzania [1]	2,505	2,580	2,644	3,256	3,123	2,979	2,933	2,912	2,716	2,665	2,399	2,785	2,784	2,776
Commercial banks	893	837	1,125	596	584	598	615	516	738	587	619	653	632	672
Net domestic assets	1,941	1,772	1,767	1,638	2,248	2,251	2,535	2,616	2,826	2,977	3,570	3,497	3,716	3,902
Domestic credit	2,388	2,555	2,292	2,143	2,399	2,546	2,710	2,913	3,078	3,170	3,731	3,680	3,943	4,080
Credit to government (net) [1]	134	295	-254	-435	-335	-338	-150	-60	39	11	375	45	205	235
Credit to nongovernment sector	2,254	2,260	2,546	2,578	2,734	2,884	2,860	2,973	3,039	3,159	3,357	3,635	3,738	3,845
Other items (net)	-447	-783	-525	-505	-151	-296	-175	-297	-252	-193	-161	-183	-227	-178
M3	5,339	5,190	5,537	5,490	5,955	5,828	6,083	6,044	6,280	6,228	6,588	6,935	7,132	7,349
Foreign currency deposits	1,651	1,652	1,823	1,648	1,794	1,716	1,832	1,779	1,891	1,833	1,940	2,042	2,100	2,163
M2	3,688	3,538	3,713	3,842	4,162	4,112	4,251	4,265	4,388	4,395	4,649	4,893	5,033	5,186
Currency in circulation	1,148	1,050	1,204	1,167	1,245	1,164	1,164	1,087	1,270	1,260	1,400	1,385	1,283	1,486
Deposits (Tanzania Sh)	2,540	2,489	2,509	2,676	2,917	2,948	3,087	3,178	3,119	3,135	3,249	3,508	3,750	3,699
Memorandum items:														
M3 growth (12-month percent change)	24.2	20.7	21.7	20.7	24.1	21.4	23.7	23.0	21.0	20.0	20.0	19.0	18.0	18.0
Foreign currency deposits (12-month percent change)	22.0	22.0	21.6	9.9	11.7	6.9	13.2	9.9	14.5	11.0	17.7	19.0	18.0	18.0
M2 growth (12-month percent change)	25.2	20.1	21.7	26.0	30.3	28.8	29.0	29.4	24.0	24.2	21.0	19.0	18.0	18.0
Credit to nongovernment sector (12-month percent change)	36.0	36.4	33.6	35.2	34.8	42.2	34.0	39.3	34.5	39.8	30.2	26.0	25.7	21.7
Reserve money (12-month percent change)	29.1	23.3	26.4	19.4	33.3	30.2	33.1	33.1	26.7	26.7	29.4	17.9	16.2	17.0
Average reserve money (12-month percent change)	27.8	29.4	24.2	28.5	23.0	20.8	23.3	23.3	20.0	20.0	19.0	18.0	17.0	17.0
Currency/M3 (in percent)	21.5	20.2	21.8	21.2	20.9	20.0	19.1	18.0	20.2	20.2	21.2	20.0	18.0	20.2
Reserve money multiplier (M3/reserves)	3.2	3.1	3.1	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Velocity of money (M3; average)	3.2	4.0	…	…	…	…	…	…	3.6	3.8	…	…	…	3.7
Nonbank financing of the government (net) [2]	47	212	10	24	80	10	90	50	100	60	60	60	40	50
Bank financing of the government (net) [2]	20	25	-240	-729	-474	-632	-289	-275	-100	-284	334	4	184	199
Bank and nonbank financing of the government (net) [2]	67	237	-230	-705	-394	-622	-199	-225	0	-224	394	64	224	249

Sources: Bank of Tanzania; and Fund staff estimates and projections.

[1] Actuals revised to reflect the reclassification of the settlement of US$132 million in government liabilities related to a liquidated parastatal enterprise.

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

Table 6: Financial Soundness Indicators, 2002–07
(Percent, end of calendar year)

	2002	2003	2004	2005	2006	2007
Access to bank lending						
Claims on the non-government sector to GDP [1]	6.1	9.0	9.4	12.4	15.1	17.9
Capital adequacy						
Capital to risk-weighted assets	20.6	21.0	21.2	22.0	16.3	16.2
Capital to assets	8.6	9.9	10.2	10.0	7.6	8.1
Asset composition and quality						
Total loans and advances to total assets	25.4	30.2	33.7	33.7	37.3	41.1
Sectoral distribution of loans						
Trade	22.1	23.8	22.4	23.5	18.8	17.0
Mining and manufacturing	24.4	27.3	22.2	22.0	22.5	20.0
Agricultural production	12.9	14.1	12.8	12.7	14.4	11.9
Building and construction	3.6	5.5	3.8	5.7	6.6	5.1
Transport	11.8	10.3	8.3	7.4	9.5	6.9
Foreign exchange loans	28.1	27.2	28.9	32.7	33.6	31.5
Gross nonperforming loans (NPLs) to gross loans [2]	8.3	4.5	3.5	4.9	7.3	6.3
NPLs net of provisions to gross loans [2]	3.0	3.0	2.5	4.3	4.5	4.3
Large exposures to total capital	58.2	59.3	64.1	53.3	27.3	42.3
Earnings and profitability						
Return on assets	1.8	2.1	2.9	3.3	3.9	4.7
Return on equity	20.6	20.7	28.4	33.1	37.0	29.0
Interest margin to gross income	48.0	51.5	54.8	60.9	74.9	73.7
Noninterest expenses to gross income	70.1	67.1	61.6	56.9	43.5	42.8
Personnel expenses to noninterest expenses	41.3	39.9	39.0	39.6	39.5	40.5
Trading and fee income to total income	45.2	42.3	39.1	33.6	28.9	24.2
Liquidity						
Liquid assets to total assets	58.0	56.3	53.6	55.0	48.6	48.1
Liquid assets to total short term liabilities	68.9	62.8	62.0	62.4	55.5	53.0
Total loans to customer deposits	34.0	41.2	44.4	42.4	50.1	57.5
Foreign exchange liabilities to total liabilities	34.1	36.5	34.7	34.9	38.6	34.1

Sources: Bank of Tanzania and Fund staff estimates.

[1] Calendar year; end of period claims relative to annual GDP.

[2] The increase in nonperforming loans to gross loans between 2005 and 2006 was due largely to a change in reporting standards.

Table 7. Tanzania: Balance of Payments, 2005/06-2010/11

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

	2005/06	2006/07	2007/08		2008/09	2009/10	2010/11
		Est.	Prog	Proj.	Proj.	Proj.	Proj.
Current account	-1,110	-1,495	-1,729	-1,947	-2,274	-2,499	-2,846
Trade balance	-1,695	-2,294	-2,656	-2,813	-3,181	-3,622	-4,037
Exports, f.o.b.	1,741	2,042	2,360	2,437	2,887	3,161	3,464
Of which: Traditional	364	281	407	406	479	503	534
Imports, f.o.b	-3,436	-4,336	-5,016	-5,250	-6,068	-6,783	-7,501
Services (net)	135	307	274	217	439	451	486
Income (net)	-81	-51	-22	-36	-78	-82	-86
Of which: interest payments due	-51	-22	-36	-29	-41	-41	-41
Of which: interest on public debt	-49	-21	-25	-18	-28	-31	-32
Of which: interest on central government debt [1]	-49	-21	-25	-18	-28	0	0
Current transfers (net)	531	543	675	685	547	754	791
Of which: official transfers	502	509	641	650	510	717	753
Of which: program grants	435	496	641	650	510	717	753
HIPC relief	67	13	0	0	0	0	0
Capital account	662	4,859	602	633	720	743	792
Of which: project grants	281	189	552	575	668	691	738
Debt stock reduction under MDRI (including HIPC)	336	4,621	0	0	0	0	0
Of which: HIPC	37	1,157	0	0	0	0	0
Financial account	900	-3,022	1,170	1,554	1,596	2,069	2,357
MDRI (including HIPC)	0	-4,621	0	0	0	0	0
Of which: HIPC	0	-1,157	0	0	0	0	0
Direct investment	541	653	700	738	796	884	981
Other investment	357	944	467	814	797	1,182	1,373
Of which: Program loans	293	254	357	407	285	449	471
Project loans	278	338	406	424	478	494	528
Government-scheduled amortization [1]	-87	-21	-48	-16	-23	-26	-28
Errors and omissions	-201	-56	0	0	0	0	0
Overall balance	251	286	43	240	42	313	304
Financing	-251	-286	-43	-240	-42	-313	-304
Change in BoT reserve assets (increase, -)	105	-290	-43	-240	-42	-313	-302
Use of Fund credit	-357	4	0	0	0	0	-1
Memorandum items:							
Gross official reserves (BoT) [2]	1,863	2,153	2,349	2,394	2,436	2,749	3,051
Months of imports of goods and services (next year)	3.9	3.8	3.9	3.6	3.3	3.3	3.3
Current account deficit (percent of GDP)							
Excluding official current transfers	-11.3	-13.5	-13.7	-14.2	-13.3	-13.7	-13.7
Including official current transfers	-7.8	-10.1	-10.0	-10.6	-10.8	-10.7	-10.9
Foreign program and project assistance (percent of GDP)	9.5	8.7	11.3	11.2	9.3	10.0	9.5
Foreign direct investment (percent of GDP)	3.8	4.4	4.0	4.0	3.8	3.8	3.7
Nominal GDP	14,251	14,844	17,305	18,283	20,960	23,396	26,175

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

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

[2] Actuals revised to reflect the reclassification of the settlement of US$132 million in government liabilities related to a liquidated parastatal enterprise.

APPENDIX

May 3, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

LETTER OF INTENT AND MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. The Government of Tanzania is implementing a financial and economic program supported by the Fund under the Policy Support Instrument (PSI), which was approved by the Executive Board on 16th February, 2007. We have recently discussed progress in the implementation of the programme with the Fund staff, and we hereby transmit the Memorandum of Economic and Financial Policies (MEFP), which reviews recent economic developments and progress in the implementation of our program in the first half of 2007/08, the outlook to end-June 2008, and sets out policies the Government intends to pursue in 2008/09.

2. Program implementation during the period July to December, 2007 has been satisfactory. All quantitative assessment criteria and benchmarks for end-December 2007 were met and the structural reform program remains broadly on track. Notably, the harmonization of the regulatory framework for pension funds is under way, progress has been made in drawing up a plan to transfer government deposits in commercial banks to the BoT, and the production of three-month cash flow forecasts has facilitated monetary policy operations. However, integration of the Customs' and Excise Department and Tiscan's import clearance processes has been delayed until end-2008.

3. Measures recently implemented to improve the conduct of monetary policy are yielding equally satisfactory results, with a notable decline in domestic interest rates. Following the conclusion of the Special Audit of the External Payments Arrears (EPA) account at the BoT, the Government is pursuing remedial measures, including investigation, prosecution, and recovery. In addition, the BoT is reviewing its internal controls and has requested the Fund to undertake a voluntary safeguards assessment of the BoT to assist it in strengthening its governance. The Government is accelerating implementation of the second generation of financial sector reforms, and will continue to undertake improvement of the business environment to promote investment as the prerequisites for accelerated and sustainable growth in a stable macroeconomic environment.

4. Other core reforms, especially the public service reforms and the tax and customs administration reforms, have also continued to yield good results. In line with MKUKUTA objectives, we continue to prioritise broad based growth through investment in productive infrastructure and social services, as the necessary basis for sustainable poverty reduction.

5. In support of our policies described in the MEFP, the Government requests the completion of the third review under the PSI. The Government of Tanzania believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program but it will, in consultation with the Fund, take any other appropriate measures for this purpose.

6. In the context of the PSI framework, we will regularly update the IMF on developments in the economic and financial policies, and provide the data needed for the monitoring of the programme. The Government will also consult regularly with the Fund on any relevant developments at the initiative of the Government, or the Fund. We would request that the fifth review of the PSI take place by April 30, 2009.

7. The Government of Tanzania intends to make this letter and the attached MEFP, together with Fund staff reports related to this review under the PSI, available to the public and hereby authorises the IMF to publish the same on its website once the review is completed by the Executive Board.

Yours Sincerely,

/s/
Mustafa H Mkulo (MP)
MINISTER FOR FINANCE AND ECONOMIC AFFAIRS
UNITED REPUBLIC OF TANZANIA

Attachment: Memorandum of Economic and Financial Policies.

APPENDIX—ATTACHMENT I

TANZANIA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. RECENT MACROECONOMIC DEVELOPMENTS AND PROGRESS UNDER THE PROGRAMME

Recent economic developments

1. During the year to December 2007 Tanzania continued to enjoy good economic performance, with a 7.3 percent real GDP growth estimated for 2007 compared to 6.7 percent in 2006. Particularly good performance was recorded by transport and communications (9.3 percent), mining (14 percent), construction (7.5 percent), tourism and trade (8.9 percent). During the year, the National Bureau of Statistics (NBS) revised the National Accounts series in line with the UN System of National Accounts (1993 Manual), and applied 2001 as the base year. The revision incorporates new sources of data on the production of goods and services, and introduces certain methodological changes to ensure compliance with international standards set by the United Nations Statistical Office.

2. The economy continued to experience inflationary pressures during the second half of 2007 emanating mainly from increasing energy and food prices. From 5.9 percent in June 2007, and 7.8 percent in August 2007, annual headline inflation rate eased to 6.4 percent by end December 2007 before increasing again to reach 8.9 percent in February, 2008. The government has temporarily reduced import tariffs on maize to ease any food shortages, and food prices are expected to ease in the following months.

Fiscal outturn

3. Strong domestic revenue performance continued in the first half of 2007/08, with actual collections during the six months to December 2007 being 2 percent above target and 35 percent above actual collection during the corresponding period of last year. Excise duty on petroleum products, VAT, and income tax, particularly from private companies and PAYE, exceeded targets for the period. However, nontax revenues have performed poorly (at 73 percent of the target) partly on account of a downward adjustment of some fee rates envisaged in the 2007/08 budget.

4. All major recurrent expenditure categories were below projections during the half year to December 2007, mainly on account of slow procurement and recruitment processes. Development expenditure benefited from accelerated disbursement of foreign project financing, to close above programme projections.

5. External financing of the budget during the period benefited from higher than projected programme, project, and basket loans. An AfDB programme loan carried over from

the preceding year was disbursed during the period under review, contributing to net domestic savings by Government and a higher than anticipated build up of foreign exchange reserves at the Bank of Tanzania (BoT).

6. In line with our programme to improve efficiency in the tax and customs administration, progress recorded in the first half of the year in rationalizing customs procedures include the operationalisation of the web based pre-lodgment facility of ASYCUDA^{++} (the AssyScan module) at the Julius Nyerere International Airport (JNIA), thereby covering the major import points in Dar es Salaam and potentially 80 percent of all imports. An electronic Import Declaration Form (IDF) has also been introduced in handling imports that have to go through TISCAN for processing, thereby eliminating the need for importers' and clearing agents' physical visits to TISCAN offices. Combined efforts of the Customs and Excise Department and the Large Taxpayers Department (LTD) have allowed successful implementation of the new compliant trader scheme program aimed at facilitating procedures for large importers. The LTD is also making good progress with the implementation of electronic filing and with improving the quality of audits.

7. The effort to promote transparency and accountability in the management of public resources was sustained through the Audit Committees established in all MDAs. Initially, the Committees' main focus is addressing the observations in the 2005/06 report of the National Audit Office (NAO). Spending agencies are producing quarterly reports of implementation of recommendation of Controller and Auditor General (CAG) and Public Procurement Regulatory Agency (PPRA) audits.

8. The Joint BOT-MOFEA Cash Management Committee (CMC) established to improve coordination in fiscal and monetary policy implementation has developed strategies for improving the predictability of liquidity injection from Government operations, reducing the expenditure float particularly at the end of the year, and transferring Government deposits in commercial banks.

Monetary Programme

9. Starting mid-October 2007, the BOT revised its monetary policy strategy, introducing a better mix of its instruments and broadening monetary policy transparency. The sale of Treasury bills has since been complemented with almost daily sales of small amounts of foreign exchange in the market and more active use of REPO instruments. The following month, the improved liquidity management strategy succeeded to contain average reserve money growth within its target ceiling for the first time since March 2007. Reserve money has remained on track since, while at the same time Treasury bill yields have fallen sharply. In addition to relying more on other instruments for liquidity management, the BOT enhanced competition in the market for government securities by first exercising strict discipline in limiting sales to the amounts offered for all maturities and later, beginning on

January 9, 2008, moving from a weekly to a fortnightly auction schedule for Treasury bills and a monthly schedule for bonds.

10. The BOT has maintained a flexible exchange rate policy, ensuring that it remains neutral on the level of the exchange rate. Following the announcement of its new strategy for monetary and foreign exchange operations, the Tanzanian shilling experienced an initial appreciation of about 10 percent against major currencies, but has since traded within a fairly narrow range. The modest appreciation of the shilling provided a partial cushion against the sharp rise in the price of oil and dampened imported inflation on most of consumer goods.

11. Growth of broader monetary aggregates was also kept on track during this period. Extended broad money supply (M3) grew at an average rate of 21.2 percent between July and December 2007, compared to the targeted annual growth rate of 24.1 percent for December, while broad money supply (M2) averaged 26.5 percent—partly reflecting a shift toward shilling deposits—compared to its target 30.3 percent. Despite this tighter monetary policy stance, the banking system continued to meet the strong demand of private sector credit, in line with the accelerating economic growth.

12. To support its strengthened liquidity management, the BOT has established a daily liquidity management committee chaired by the Director of Economic policy. Based on data on cheques issued by Government provided by the MOFEA, the committee forecasts and manages near term liquidity. In addition, the Governor chairs weekly liquidity management committee meetings, which are held every Monday and set objectives for the week ahead.

13. These efforts have started to pay off, including by encouraging more competition and narrower spreads at commercial banks. The overall weighted average yield on Treasury bills declined from 17.1 percent in June 2007 to 7.4 percent in March 2008, resulting in significant savings to the budget in terms of interest costs. Overall time deposit rates improved from 7.83 percent in June 2007 to 8.26 percent in December 2007, while 12-month deposit rates increased from 9.25 percent to 10.2 percent. Lending rates dropped slightly from 16 percent to 15.25 percent. Negotiated rates, which reflect the competitive cost of funds by commercial banks, responded even better. By end of December 2007, the negotiated deposit rate stood at 11.04 percent and the lending rate at 11.98 percent.

14. In a move to enhance transparency in monetary policy actions and maintain stability in financial markets, the Bank of Tanzania has introduced monthly meetings with commercial banks within a day or two after the conclusion of the Monetary Policy Committee (MPC) meetings. The first meeting was conducted in December 2007. In addition, the BOT initiated quarterly meetings with commercial banks to solicit feedback on the Bank's monetary policy performance and other regulatory issues, as well as quarterly press conferences to inform the public on economic developments.

15. External developments during the first 7 months of 2007/08 have been broadly in line with the programme, despite, an unexpected decline in gold production, and a further increase in oil prices. Goods exports grew by about 18 percent during the period, reflecting mainly a very rapid increase in manufacturing exports, and a recovery of traditional exports from last year's sharp drop due to adverse weather conditions. At the same time, imports also grew at a very rapid pace—nearly 25 percent during the first 7 months of the year—driven mainly by higher fuel costs and increased investment–related imports. As a result, between July and December 2007, the current account deficit widened to USD 938.4 million, compared with USD 589.9 million registered in the same period of the previous year, consistent with program projections for 2007/08.

16. Official and private foreign exchange inflows received during the period under review supported an increase in gross official reserves from USD 2,634.5 million to USD 2,755.2 million at end-December 2007, the equivalent of about 4½ months of next year's imports. In the same period, the nominal exchange rate of the shilling to the U.S. dollar appreciated from TZS 1,281 at end July 2007 to TZS 1,132 at end December 2007.

Governance

17. The Government continues to make progress in addressing governance issues. The Prevention and Combating of Corruption Bureau (PCCB) is actively investigating several prominent cases of alleged corruption and has presented a number of cases to the public prosecutor for legal action. The Public Audit Bill, which will be discussed in the next session of Parliament beginning in early June 2008, will further strengthen the independence of the National Audit Office. Following the completion of the special audit of the EPA Account in November 2007, the Government has developed an action plan for implementing the recommendations in the audit report. Several measures have already been taken. The President has withdrawn the appointment of the former Governor of the BOT and a criminal investigation of all involved parties is underway as well as legal procedures to recover funds. The BOT has suspended all transactions in the EPA account and has initiated disciplinary action against BOT officials involved in the initiation, processing, and approving of EPA payments. Steps have also been taken to strengthen the governance structure of the BoT, including the appointment of a new Board. In addition, the Audit Committee of the Board is now chaired by a non-executive member of the Board and the Governor no longer serves on this committee, to allow unencumbered scrutiny of all financial matters.

Energy

18. EWURA approved a 21.7 percent power tariff increase for TANESCO beginning February, 2008. While this is lower than the 40 percent increase requested by TANESCO, EWURA agreed to consider another request for a tariff increase once TANESCO completes a cost of service study and takes measures to reduce nontechnical losses, notably theft.

TANESCO is currently reviewing its financial situation in view of EWURA's ruling, and could be in a position to submit later this year another application to reach cost recovery on an operational basis. In the meantime, TANESCO is using the private emergency power generators to meet intermittent power supply deficits. The procurement of its own 145MW gas-fired generation capacity is also progressing well. The Government is also continuing with consultations with development partners to secure support for the power utility's investment budget.

Performance under the program

19. Programme implementation remains broadly on track. All quantitative assessment criteria were met for end-December 2007, and substantial progress was achieved on the structural agenda (Tables 1 and 2 annexed hereto). Three-month rolling Government cash flow forecasts have been generated by the Cash Management Committee beginning February 2008, and used by both the Expenditure Ceilings Committee of the Ministry of Finance and Economic Affairs (MOFEA) and the Monetary Policy Committee of the BOT in setting monthly targets. To further improve market operations of the Bank, the Government provides the BOT with daily lists of cheques issued, thereby enabling the bank to incorporate government payments in daily liquidity projections. The Government is also implementing a pilot application of an electronic funds transfer (EFT) module, with a view to evaluating the feasibility of adopting EFT for all its payments and eliminate the expenditure float. In addition, the government has prepared an action plan to transfer government deposits in commercial banks to the BOT to be initiated during the 2008/09 fiscal year, following thorough consultation with all stakeholders. Progress with the integration of the Customs and Excise Department and TISCAN's systems has continued, but technical reasons have prevented completing the process by end-March. We now plan to finalize the integration by the end of 2008 by which time importers will only be required to file a single import declaration (December 2008 structural benchmark).

20. In line with the programme under the second generation of financial sector reforms, a proposed financial leasing law and draft amendments to the legal and regulatory framework for the Pension Sector were submitted to Parliament in February 2008. The proposals had been developed and discussed by stakeholders and the Inter-Institutional Committee on Financial Sector Reform (IIC) during 2007. Investment Guidelines for pension funds, which would come into effect upon approval of the enabling legislation, have also been developed with technical assistance from the World Bank and in consultation with other stakeholders. In addition, significant progress is underway to strengthen the legal framework with the objective of further promoting the diversification and deepening of the financial sector. The Financial Leasing Bill, which was tabled for first reading in the November 2007 parliamentary session was approved by Parliament in April 2008 session. Progress has also been made towards the enactment of a Mortgage Finance Bill. A draft Unit of Titles Bill, as well as a draft miscellaneous Bill to amend four laws, namely, the Land Act 1999; the Land

Registration Act; the Civil Procedures Act; and the Magistrate Court Act were prepared and submitted to the Ministry of Finance and Economic Affairs. It is expected that these will be adopted by the Government by end-June 2008 for onward submission to Parliament.

21. Progress was also made toward establishing a credit reference databank, however, the end-June 2008 benchmark for completing this task will not be met. The consultant's final report and operating guidelines were submitted to the BOT recently, and the process for procuring systems is expected to begin in the next fiscal year. This process is expected to require 6-12 months, before the database would be operational.

22. With the overall programme performance on track, existing programme targets for the remainder of 2007/08 will be maintained. The fiscal position to June 2008 is expected to benefit from a good revenue outturn and higher foreign financing and result in a stronger than programmed domestic financing position providing a cushion in view of the uncertainties in foreign financing for 2008/09. Monetary and foreign exchange operations have kept international reserves and reserve money on course to meet their end-June targets as well. However, inflation targets may be slightly missed on account of growing global inflation pressures and rising food prices.

II. Programme for 2008/09

23. Looking ahead, the Government is committed to sustaining the policies and strategies that have delivered the good macroeconomic performance in the recent past.

24. Real GDP growth is projected to reach 7.8 percent in 2008 and 8.0 percent in 2009 and 2010. In addition to a steady growth in agriculture which is expected to benefit from good weather conditions in the current year, strong performance is expected to continue in the communication, construction, financial intermediation, and manufacturing sub-sectors. Accelerating the rate of growth and poverty reduction in the medium to long term will continue to be central in the programme design and implementation. A new household budget survey is expected to be completed in mid-2008 and is expected to show a tangible improvement in poverty indicators.

25. The programme for 2008/09 projects revenue at 16.2 percent of GDP, reflecting the impact of continued strengthening of tax and customs administration, and policy measures, including implementation of the adjustments to the hunting fees announced in June 2007. In addition, the Government will consider recommendations from the planned non-tax revenue study, for which a consultant is being procured. Revenue administration measures include strengthening controls over tax exemptions, taxpayer identification and registration through the block management system along with other initiatives already underway, including the expansion of electronic filing; better management of medium taxpayers through specialised units in regional offices; and continued improvement of customs processes and controls.

26. Total expenditure for 2008/09 is cautiously projected at 26.5 percent of GDP, compared to the expected 27.3 outturn in 2007/08, mainly on account of uncertainty regarding foreign financing. Expenditures directly related to specific MKUKUTA strategies are expected to be about 70 percent of the total budget. Consistent with MKUKUTA, priority continues to be placed on growth promoting expenditures, including investment in economic infrastructure, education, and health. Infrastructure investment will benefit from the implementation of the USD 698 million 5-year Tanzania Compact Programme financed by the Millennium Challenge Account (MCA) of the government of the United States. In the education sector, priority is on increasing the supply of qualified teachers and teaching materials.

27. Recurrent expenditure as a percent of GDP is projected to remain broadly at the 2007/08 level, with the Government wage bill is projected to increase by 0.6 percent of GDP to 5.9 percent of the GDP following the agreed adjustment of the minimum wage level for civil service employees and its impact on other pay scales, itself a result of the Presidential Commission on Civil Service Pay. Development expenditure is projected at 8.9 percent from 10.1 budgeted in 2007/08, reflecting the expiry of the availability of resources freed up by MDRI, and a reduced overall resource envelope.

28. Programme loans and grants are projected at 1.4 and 2.4 percent of GDP, compared to the projected 2.4 and 3.7 percent respectively in 2007/08. To partly mitigate the impact of the temporary decline in programme external financing and protect priority expenditures, the Government may have to suspend the zero domestic financing policy to raise up to 1.0 percent of GDP from domestic sources. Should additional program financing become available later in the year, net domestic financing would be reduced accordingly. On the other hand, should external budget support fall short of the budget figures, the Government would adjust spending.

29. Over the medium term, the government aims at increasing revenue collection to 20 percent of GDP. To this effect a number of initiatives are underway. The third 5-year TRA corporate business plan will be adopted in July. Priorities include: (i) continuing capacity building with large taxpayers; (ii) adopting best practices for medium taxpayers; (iii) revamping the small and micro taxpayers regimes; (iv) strengthening risk management at customs; and (v) carrying out a smooth exit from TISCAN'S contract. Preparations for the ISO certification of the Tanzania Revenue Authority continue, with an external audit for that purpose expected by end-June 2008. Finally, starting in July 2008, the TRA will take over collection of property taxes on behalf of local authorities. On the policy side, we plan to implement the recommendations of the Presidential Committee for the Review of the Mining Sector, which has now completed its report.

30. Our effort at strengthening the public financial management (PFM) systems is focused on strategic resource allocation and ensuring value for money in budget execution. Building on achievements to date, the government has adopted a revised strategy for the Public Financial Management Reform Program (PFMRP). Phase III of the PFMRP will strengthen the management of the program, will increase ownership of the reforms by the various components, and will roll out reforms beyond the MOFEA to the line ministries and local governments. The program seeks to achieve allocative efficiency by (a) ensuring aggregate fiscal discipline and accountability, (b) allocating resources in accordance with government priorities, and (c) promoting efficient service delivery through enhanced predictability and availability of medium term resources for implementing agencies (MDAs). Measures in this regard include:

a. Improving budget preparation by further aligning MKUKUTA, the MTEF, and the budget, including by reviewing the links between the Strategic Budget Allocation System and the IFMIS which will also allow tracking budget execution along the MKUKUTA Clusters;

b. Strengthening the cash (Treasury) management function to ensure efficient resource utilisation and cash flow forecasting functions, in line with the recently adopted plan to this effect;

c. Improving expenditure monitoring through the Expenditure Tracking Unit at the Treasury, the production of performance based reporting by spending agencies, and implementation of a functional classification of expenditures consistent with GFSM 2001 in the 2009/10 budget submission to Parliament (structural benchmark for June 2009);

d. Communicating with development partners to secure predictability of their contributions over the MTEF horizon (3 years rolling commitments);

e. Increasing capacity for transparent public procurement and external audits.

31. The Bank of Tanzania will continue to implement a prudent monetary policy, conducive to low and stable inflation. To this end, the BOT intends to further bolster its open market operations, rely substantially on foreign exchange sales for sterilizing liquidity, and continue to improve liquidity forecasting. Specifically, monetary policy for 2008/09 will aim to reduce M3 growth to 18 percent by end-June 2008. Reflecting some efficiency improvements in bank operations, such as those resulting from switching to a lagged basis for calculating reserve requirements, reserve money is programmed to grow at a slightly slower pace of 17 percent. Private sector credit is projected to continue its robust expansion at about 22 percent during the year, somewhat lower than in recent years, mainly reflecting

Government's domestic borrowing need arising from a possible drop off in donors' budget support.

32. The Bank of Tanzania remains committed to a flexible exchange rate policy. The Bank will continue to conduct its foreign exchange sales for sterilization operations, systematically on a daily basis, to maintain an orderly market and minimize its influence on the exchange rate.

33. The Bank of Tanzania is currently reviewing the existing regulatory framework governing capital account transactions with a view to adapting it to the needs of the Tanzanian economy. The BoT expects to complete its review by September 2008 (structural benchmark) as a basis for legal and regulatory changes in the course of 2008/09.

34. To consolidate the progress so far achieved on the predictability of the Bank's monetary policy stance, the Bank will continue to inform the market players and the general public, on a monthly and quarterly basis, respectively, on recent economic developments, the objectives and the rationale behind the adopted monetary policy stance.

35. The Government will continue to implement the broad-based second generation financial sector reforms aimed at deepening financial intermediation and broadening access to financial services. The National Social Security Bill, which was approved by Parliament in April, creates a single regulator for the pension fund sector and assigns to the BoT the responsibility of establishing investment guidelines. The BOT will act expeditiously to assess the financial health of the pension funds as a basis for finalizing the investment guidelines. Under the law, it is envisaged that the regulator will provide regular and comprehensive information to the BOT to enable it to play its role in ensuring the stability of the Tanzanian financial system.

36. The BOT will continue to build its capacity for banking supervision in 2008/09. With the planned expansion in staff, the BOT anticipates working closely with Fund technical assistance—especially through East AFRITAC—for staff training. In this regard, the Banking Supervision Department will further strengthen its risk-based assessment of bank soundness through stress testing and will initiate a series quarterly reports for BOT Board on financial sector stability (structural benchmark for September 2008).

Governance and accountability

37. The Government intends to further reinforce good governance and accountability. In particular, it is following up on the findings of the PPRA, which audited some 20 spending agencies in 2006/07 and a further 95 in 2007/08, with the objective of strengthening the capacity of procurement agencies to comply with procurement regulations. In line with its action plan responding to the recommendations of the EPA audit, the Government will carry

out a verification of the remaining EPA claims and develop a strategy for acknowledging and eventually settling the accounts legitimately due on the basis of guidelines for settlement of public debt. The BOT is also undertaking a fundamental review of its functions, with a view to identifying those that could be outsourced or hived off from the bank. A strategy for refocusing the BoT will be prepared by August 2008. We also plan to clarify the relationship between the MOFEA and the BOT regarding some of the tasks that the BOT conducts on behalf of the MOFEA, including the management of the EPA account. The BOT and MOFEA intend to establish a detailed Memorandum of Understanding setting out respective responsibilities, including cost sharing of monetary policy operations, by end-September 2008 (assessment criterion). To this end, we intend to seek assistance from the Fund. We also plan to review the regulatory framework for preventing money laundering and the financing of terrorism based on an assessment prepared by the regional body, the Eastern and Southern African Anti Money Laundering Group, in the final quarter of 2008.

Other structural reforms

38. Despite the improved hydrology and a recent award by EWURA for a power tariff increase by TANESCO, the financial situation of TANESCO remains vulnerable, in part because of the non-materialisation of a number of key cost-reducing measures in its Financial Recovery Plan (FRP), including the buy-out of the IPTL, the conversion of its plant, and refinancing of the Songas expansion. The Government will pursue TANESCO's implementation of the cost cutting measures demanded by EWURA without undue adverse impact on service delivery. Negotiations with IPTL's main creditors are underway, with a view to realizing the crucial action on TANESCO's FRP. The new Electricity Act, designed to promote competition and attract greater private investment to the sector, was passed by Parliament in April 2008.

39. Together with our other East African partners, we are initiating negotiations towards the establishment of an East African Common Market, which is the second stage of economic integration under the EAC Treaty. The EAC Member States also initialed an interim trade agreement with the European Union in the context of economic partnership agreements. Under this agreement, EAC Member States will continue to enjoy full duty free and quota free access for their goods exports to EU markets, with transitional arrangements for only rice and sugar. EU countries on the other hand will get gradually increasing free access to EAC markets over a transition period (to reach 82 percent of value for the EAC market within 25 years). There will be no fiscal revenue implications for Tanzania from this interim agreement during 2008-09, and a very marginal impact thereafter.

40. We are taking steps to strengthen our fiscal risk management practices. We will strengthen the MOFEA's capacity to adequately monitor risks stemming from different sources, with a view to preparing a statement of fiscal risks in the coming years. We are also working on the development of a framework for deployment of public private partnerships

(PPP). In this sense, efforts will be directed at ensuring value for money and clearly identifying and mitigating associated fiscal risks.

Statistics

41. The government will continue to strengthen its statistical base with the medium-term objective of subscribing to the Special Data Dissemination Standard (SDDS). To meet the urgent need for more current output data, the NBS will accelerate its work towards publishing quarterly GDP estimates in the course of 2008/09. A new household budget survey is expected to be completed by mid-2008, which will assist in revising the weights of the consumer price index. The Bank of Tanzania is working to improve private debt and portfolio flows statistics in the financial account of the balance of payments.

Conclusion

42. Implementation of the economic and financial programme approved by the Fund's Executive Board is progressing well, with substantial progress being noted on all fronts, except inflation where challenges persist. The Government, in collaboration with the Fund through policy advice, is implementing measures to address the inflationary pressures and promote efficiency of the banking sub sector. The programme for 2008/09, which will be monitored through the quantitative assessment criteria and indicative targets set forth in Table 1 and the structural assessment criterion and benchmarks shown in Tables 3, continues the focus on sustaining macroeconomic stability, increases domestic resource mobilisation, promotes pro-poor economic growth, and increases investment in core social services like education and health. The Government is confident that the development partners, including the Fund, will maintain and increase their support through financing and policy advice, especially in view of the large investment requirements in infrastructure, energy, water, and education.

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS
DAR ES SALAAM,
TANZANIA
May 2008

Table 1. Tanzania: Quantitative Assessment Criteria and Indicative Targets Under the Policy Support Instrument, 2007/08-2008/09

	2007				2008				2009	
	September		December		March	June	September	December	March	June
	Indicative Targets	Actual	Assessment Criteria	Actual	Indicative Targets	Assessment Criteria	Indicative Targets	Assessment Criteria	Indicative Targets	Indicative Targets
	(Billions of Tanzania shillings; end of period, unless otherwise indicated)									
Net domestic financing of the government of Tanzania (cumulative, ceiling) 1/ 2/	-230	-705	-300	-622	-90	0	394	64	224	249
Accumulation of budgetary arrears (ceiling; indicative target only)	0	0	0	0	0	0	0	0	0	0
Average reserve money (upper bound) 3/	1,793	1,836	1,934	1,881	1,975	2,042	2,207	2,242	2,311	2,390
Average reserve money target 3/	1,775	---	1,915	---	1,956	2,022	2,185	2,220	2,288	2,366
Average reserve money (lower bound) 3/	1,757	---	1,896	---	1,936	2,002	2,163	2,197	2,265	2,342
	(Millions of U.S. dollars; end of period)									
Net international reserves of the Bank of Tanzania (floor) 4/ 5/	1,881	2,807	2,367	2,662	2,312	2,101	1,862	2,177	2,163	2,143
Accumulation of external payments arrears (ceiling) 6/	0	0	0	0	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling) 6/	0	0	0	0	0	0	0	0	0	0
Memorandum item:										
Foreign program assistance (cumulative grants and loans) 1/	502	775	923	923	957	1057	71	545	652	795

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU) attached to the Government's letter of [_____], 2008.

1/ Cumulative from the beginning of the fiscal year (July 1).
2/ To be adjusted downward by up to T Sh 249 billion for the U.S. dollar equivalent of a surplus in foreign program assistance from the amounts shown in the memorandum item.
3/ Assessment criteria and benchmarks apply to upper bound only.
4/ Floors are set US$200 million below projected levels. Floor will be adjusted upward for any surplus in foreign program assistance from the amounts shown in the memorandum item up to the equivalent of T Sh 249 billion.
5/ Actuals revised to reflect the reclassification of the settlement of US$132 million in government liabilities related to a liquidated parastatal enterprise.
6/ Continuous assessment criterion under the PSI; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 2. Tanzania: Implementation of PSI Structural Benchmarks Through April 2008

Measure	Target Date of Implementation	Status
Fiscal		
Cash Management Unit in the Accountant General's Department and Cash Management Committee (CMC), including both MoF and BoT staff, to produce updated Government's three month rolling cash flow forecast and liquidity management plan at the end of each quarter.	Continuous, beginning end-March 2008	Initial 3-month cash-flow forecast using a modified procedure was provided to line ministries and the BoT in February 2008. In addition, BoT started receiving daily reports on cheques issued to monitor near-term liquidity.
Complete the integration of the Customs and Excise Department and TISCAN's import clearance processes.	End-March 2008	Delayed due to technical difficulties.
Adopt a plan to transfer government deposits in commercial banks to the BOT.	End-March 2008	Initial plan circulated to stakeholders.
Financial Sector		
Submit to Parliament amendments for harmonizing the regulatory framework for pension funds to allow the BoT to assume the role of the regulator and supervisor of financial aspects of pension funds.	End-February 2008	Done. Social Security Bill submitted to parliament in February 2008.
Establish the credit reference databank and its operating guidelines.	End-June 2008	Delayed. Design and information requirements approved by BoT management. Procurement and installation of systems will take place in 2008/09.

Table 3. Tanzania: PSI Assessment Criterion and Structural Benchmarks for 2008/09

Measure	Target Date of Implementation
Establish a Memorandum of Understanding between the MOFEA and the BOT setting out respective responsibilities, including cost sharing of monetary policy operations.[1]	End-September 2008
Fiscal	
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous
Introduce a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* in the budget for 2009/10.	End-June 2009
Complete the integration of the Customs and Excise Department and TISCAN's import clearance processes.	End-December 2008
Financial Sector	
Prepare a review of the regulatory framework governing capital and financial account transactions.	End-September 2008
Prepare quarterly financial stability reports for the BOT Board, including assessments of risk-based prudential supervision	End-September 2008
Establish an operational credit reference databank.	End-June 2009

[1]Assessment criterion.

APPENDIX—ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING ON SELECTED CONCEPTS AND DEFINITIONS USED IN THE MONITORING OF THE PSI-SUPPORTED PROGRAM

May 2008

I. INTRODUCTION

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

II. DEFINITIONS

Net international reserves

2. Net international reserves (NIR) of the Bank of Tanzania (BoT) are defined as reserve assets minus reserve liabilities. The source for both reserve assets and reserve liabilities is the accounting balance sheet of the BoT. The BoT's reserve assets, as defined in the IMF BOP manual (5th edition) and elaborated in the reserve template of the IMF's special data dissemination standards (SDDS), include (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guaranteed for a third party external liability (assets not readily available). The BoT's reserve liabilities include (i) all short-term foreign exchange liabilities to nonresidents, and (ii) all liabilities to the IMF. Reserve liabilities exclude medium and long-term foreign liabilities.

Reserve money and reserve money band

3. Reserve money is defined as the sum of currency issued by the BoT, including the vault cash of commercial banks, and the deposits of the commercial banks with the BoT. The reserve money targets are the projected daily averages of March, June September, and December within a symmetrical one percent band. The upper bound of the band serves as the assessment criterion or indicative target.

Net domestic financing of the Government of Tanzania

4. Net domestic financing of the Government of Tanzania (NDF) includes financing of the budget of the central (union) government of Tanzania ("government") by the banking system (BoT and commercial banks) and the nonbank public. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of (i) loans and advances

to the government by the BoT and holdings of government securities and promisory notes (including liquidity paper issued by the BoT for monetary policy purposes), minus all government deposits with the BoT (including funds from liquidity paper issued by the BoT for monetary policy purposes); (ii) starting from end-June 2008, all BoT accounts receivable on the Government of Tanzania that are not included under (i) above; (iii) loans and advances to the government by the commercial banks and holdings of government securities and promisory notes, minus all government deposits held with the banks; and (iv) the outstanding stock of domestic debt to nonbanks excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COMELCO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

Government deposits at the BoT

5. Government deposits at the BoT include government deposits as reported in the BoT balance sheet, and foreign currency-denominated government deposits at the BoT, including the PRBS accounts and the foreign currency deposit account.

External payments arrears

6. External payments arrears consist of the total amount of external debt service obligations (interest and principal) of the government and the BoT that have not been paid at the time they are due, excluding arrears on external debt service obligations pending the conclusion of debt-rescheduling arrangements.

Contracting or guaranteeing of external debt on nonconcessional terms

7. The term “debt” will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)). Government debt is outstanding debt owed or guaranteed by the Government of Tanzania or the Bank of Tanzania.

8. Government debt is considered nonconcessional if the grant element is lower than 35 percent, calculated using discount rates based on Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRR), adjusted as appropriate for different maturities. For maturities of less than 15 years, the grant element will be calculated based on 6-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This assessment criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)), but also to commitments contracted or guaranteed for which value has not been received.

Budgetary arrears

9. Budgetary arrears are defined as the sum of all verified bills that have been received by a central government spending unit or line ministry, and for which payment has not been made within 30 days during the fiscal year on wages, domestic interest, and goods and services (excluding court awards).

Foreign program assistance

10. Foreign program assistance is defined as grants and loans received by the Ministry of Finance through BoT accounts and commercial banks and is calculated as the cumulative sum, since the beginning of the fiscal year, of the receipts from (i) program loans and (ii) program grants.

Program exchange rate

11. The program exchange rate is set at the end-February 2008 exchange rate (T Sh 1,173 per U.S. dollar).

III. ADJUSTERS

Net international reserves

12. The quantitative targets for the BoT's net international reserves for the end-March 2008 and end-June 2008 test dates will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance, up to a limit of US$150 million, relative to projections shown in the Quantitative Assessment Criteria and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

Net domestic financing

13. The quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted:

- For the end-March 2008 and end-June 2008 test dates: (i) upward by a limit of up to T Sh 140 billion for the issuance of any debt instrument by the Government of Tanzania in relation to EPA transactions that took place during 2005/06 and 2006/07; (ii) downward for any recovery of EPA payments that give rise to an increase in government deposits at the BOT as defined in II.5 above; and (iii) upward for any shortfall in foreign program assistance in U.S. dollars, up to a limit of US$150 million, converted into Tanzanian shillings at the program exchange rate, relative to projections shown in the Quantitative Assessment Criteria and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

- For the end-September 2008, end-December 2008, end-March 2009, and end-June 2009 test dates: (i) downward by up to a limit of T Sh 249 billion for any overperformance in foreign program assistance evaluated at the program exchange rate relative to projections shown in the Quantitative Assessment Criteria and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania; and (ii) downward for any recovery of EPA payments that give rise to either an increase in government deposits at the BOT, as defined in II.5 above, or a reduction in the BoT's claims on the Government of Tanzania.

IV. DATA REPORTING REQUIREMENTS

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

Table 1 Summary of Reporting Requirements

Information	Reporting Institution	Frequency	Submission Lag
Issuance of government securities.	BoT	Bi-weekly	1 week
Yields on government securities.	BoT	Bi-weekly	1 week
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices	NBS	Annually	6 months
Balance sheet of the BoT	BoT	Monthly	1 week
Consolidated accounts of the commercial banks, and the monetary survey.	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	BoT	Monthly	2 weeks
External trade developments	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
Standard off-site bank supervision indicators for deposit money banks.	BoT	Quarterly	6 weeks
Commercial bank domestic lending by borrowing sector.	BoT	Monthly	4 weeks
Commercial banks interest rate structure.	BoT	Monthly	4 weeks
Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) accumulation of budgetary arrears; (iv) stock of external arrears; (v) new contracting or guaranteeing of external debt on nonconcessional terms; and (vi) net international reserves. The MFEP 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 MFEP.	BoT and MFEP	Quarterly	4 weeks
The flash report on revenues and expenditures.	MFEP	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report. As discussed above, the MFEP 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 MFEP.	MFEP	Monthly	4 weeks
Monthly report on central government operations.	MFEP	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and external debt service due and paid.	MFEP	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MFEP	Monthly	4 weeks
Statement on new loans contracted during the period including terms and conditions according to loan agreements.	MFEP	Quarterly	4 weeks

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

Third Review Under the Policy Support Instrument—Informational Annex

Prepared by the African Department

May 9, 2008

Contents Page

APPENDIX I—RELATIONS WITH THE FUND
(As of March 31, 2008)

I. Membership Status: Joined 06/10/62; Accepted the obligations of Article VIII, Sections 2, 3 and 4: 07/15/96.

II. General Resources Account:	SDR million	Percent Quota
Quota	198.90	100.00
Fund holdings of currency	188.90	94.97
Reserve position in Fund	10.00	5.03
III. SDR Department:	SDR million	Percent Allocation
Net cumulative allocation	31.37	100.00
Holdings	0.34	1.07
IV. Outstanding Purchases and Loans:	SDR million	Percent Quota
Poverty Reduction and Growth Facility Arrangements	11.20	5.63

V. Latest Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	08/16/2003	8/15/2007	19.60	19.60
PRGF	04/04/2000	08/15/2003	135.00	135.00
PRGF	11/08/1996	02/07/2000	181.59	181.59

VI. Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	**2009**	**2010**	**2011**	**2012**
Principal	--	--	0.28	1.40	1.96
Charges/interest	0.69	0.90	0.90	0.89	0.88
Total	0.69	0.90	1.18	2.29	2.84

VII. Implementation of HIPC Initiative:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	Apr 2000
Total assistance (US$ million)	2,026.00
Of which: Fund assistance (US$ million)	119.80
Completion point date	11/21/01
Delivery of Fund assistance (SDR million)	
Amount disbursed	88.95
Interim assistance	26.68
Completion point balance	62.27
Additional disbursement of interest income[1]	7.45
Total disbursements	96.40

VIII. Implementation of MDRI Assistance:

1.	Total debt relief (SDR million)[2]	234.03
	Of which: MDRI	207.00
	HIPC	27.03

2. Debt relief by facility (SDR million)

	Eligible Debt		
Delivery date	**GRA**	**PRGF**	**Total**
January 2006	N/A	234.03	234.03

[1] Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, an additional disbursement is made at the completion point that corresponds to interest income earned on amounts committed but not disbursed during the interim, calculated using the average return (during the interim period) on the investment of resources held by or for the benefit of the PRGF-HIPC Trust.

[2] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

IX. Safeguards Assessments:

Under the Fund's safeguards assessment policy, Bank of Tanzania (BoT) was subjected to an assessment with respect to the PRGF arrangement approved on August 16, 2003. A safeguards assessment of the BoT was completed on December 05, 2003 and concluded that whereas the bank had a relatively strong internal control environment, some vulnerabilities existed, notably in the external audit and financial reporting areas. Staff proposed recommendations are reported in Country Report No. 04/58. The BoT has implemented most of the recommendations of the safeguards assessment.

X. Exchange Arrangements:

The currency of Tanzania is the Tanzania shilling. The Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER, 2007) characterizes Tanzania's exchange rate regime as a managed float with no pre-determined path. The official exchange rate is determined in relation to the rate established in the interbank market for foreign exchange. The middle rate in terms of the U.S. dollar, the intervention currency, was T Sh 1,237 per U.S. dollar as of end-March, 2008. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

XI. Article IV Consultation:

The most recent Article IV consultation was concluded on June 27, 2007 (Country Report No. 07/246). The next Article IV consultation is expected to be completed in 2009.

XII. Technical Assistance

A. AFRITAC East[1]

	Area	*Focus*
2003/04	Public financial management	Intergovernmental financial relations; program budgeting
	Revenue administration	Work plan for the Tanzania Revenue Authority (TRA); Stamp Duty Act
	Financial sector regulation and supervision	Prudential supervision; AML/CFT legislation
	Monetary operations	Liquidity forecasting; monetary policy instruments; operational guidelines and procedures

[1] Unless otherwise indicate, refers to technical assistance provided to the mainland of Tanzania.

	Area	Focus
	Economic statistics	PPI; IIP; quarterly national accounts; agricultural census; industrial census; CPI; GFS
2004/05	Public financial management	Intergovernmental financial relations; program budgeting; Medium-term expenditure framework (MTEF); cash flow planning; IFMIS Zanzibar—design reform program; commitment control
	Revenue administration	Modernization of TRA; customs administration; tax policy
	Financial sector regulation and supervision	Financial sector legal framework
	Monetary operations	NPS legal and regulatory framework; liquidity management and seasonality; domestic debt market
	Economic statistics	Regional GDP; CPI; extending GDP series backwards Zanzibar—CPI
2005/06	Public financial management	Financial accountability; support to comprehensive PFM reform program; cash flow planning and management Zanzibar—commitment control
	Revenue administration	Tax administration; risk assessment and audit; IT support
	Financial sector regulation and supervision	Risk-based supervision; bank resolution; prudential regulations
	Monetary operations	NPS legal and regulatory framework; liquidity management and seasonality; domestic debt market; reserve management
	Economic statistics	Diagnostic analysis and strengthening of data weaknesses; industrial indicators; quarterly national accounts; GFS; CPI;BOP manual
2006/07	Public financial management	Cash-flow planning Zanzibar—cash management

	Area	Focus
	Revenue administration	Tax modernization program; customs reform and modernization; rationalization and integration of Customs and Tiscan Zanzibar—Modernization plan for Zanzibar Revenue Board (ZRB); large taxpayer office; tourism taxation
	Financial sector regulation and supervision	Risk-based supervision and on-site inspection; prudential regulations for new Bank and Financial Institutions Act
	Economic statistics	BOP and International Investment Position (IIP); revised CPI; PPI
2007/08	Public financial management	Capacity building for cash management
	Bank supervision	BoT – develop framework for consolidated supervision; improve off-site surveillance reports and to conduct financial analysis training; prepare Problem Bank Manual and to conduct training on its use
	Revenue administration	Multi-donor review of the Tax Modernization Project (TMP)
	Revenue administration	Support to the East African Community (EAC)
	Statistics	Price statistics - Zanzibar
	Macro-Fiscal Analysis	Assist the Policy Analysis Department of the MoF

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	2002–03	Long-term consultant	Public expenditure management
	Mar.–May 2003	Peripatetic advisor	Tax administration
	April 2003	Mission	Inspection and tripartite review
	June–Sep. 2003	Long-term consultant	Public expenditure management
	Sep.–Oct. 2003	Peripatetic advisor	Tax administration

Department	Date	Form	Purpose
	Oct 2003	Mission	Tax administration
	November 2003	Multicountry mission	EAC tax harmonization
	April 2004	Mission	Customs administration
	July 2004	Peripatetic advisor	Tax administration
	July 2004	Mission	Public Expenditure Management Assessment and Action Plan
	September 2004	Mission	Review of mining taxation
	September 2004	Mission	Tax administration (Zanzibar)
	April 2005	Mission	Customs administration
	July 2005	Mission	Improve the effectiveness of the Ministry of Finance
	Aug.- Sep. 2005	Mission	Tax administration
	Oct.–Nov. 2005	Mission	Strengthen macro fiscal analysis at the Ministry of Finance
	December 2005	Mission	Tax policy
	April 2006	Peripatetic advisor	Strengthen macro fiscal analysis in Ministry of Finance
	April - May 2006	Expert	Customs Administration
	October 2006	Mission	Customs Administration
	April 2007	Mission	Customs Administration
	May 2007	Mission	Multi donor revenue administration review (TMP)
	August 2007	Mission	Tax Administration
	August 2007	Mission	Strengthening tax administration for ZRB
	October 2007	Mission	PFMRP strategies and activities
	Oct-Nov 2007	Mission	PFM: Review of classification
Legal	March – April, 2003	Mission	Income tax law
	Sept. 2003	Mission	Income tax law
	June 2004	Mission	Income tax law
	July 2004	Mission with MFD	Central and commercial bank legislative reform
	July–November 2004	Desk review	Foreign Exchange Act, Evidence Act, Bills of Exchange Ordnance, National Payment System bill, Electronic Transactions bill
Monetary and Capital Markets	Feb. 2003	Mission	Pre-FSAP mission
	May 2003	Mission	FSAP
	November 2003	Mission	FSAP follow-up workshop
	March 2004	Mission	Accounting and banking supervision
	June 2004	Mission	BoT accounting
	July 2004	Mission	Central and commercial banking legislation reform with LEG

Department	Date	Form	Purpose
	August 2004	Mission	Financial sector reform/FSAP follow-up
	November 2004	Mission	BoT accounting
	December 2004	Mission	Second FSAP follow-up workshop
	May 2005	Mission	Financial sector reform/FSAP follow-up
	September 2005	Mission	Credit reference database and IFRS-generated reports
	January 2006	Mission	Monetary and foreign exchange operations
	January 2006	Mission	Problem bank resolution
	February 2006	Mission	Prudential regulations
	December 2006	Mission	Monetary and foreign exchange operations
	August 2007	Mission	Assessment of MCM TA implementation
	Oct-Nov 2007	Mission	Financial supervision and regulations
	December 2007	Mission	Monetary and foreign exchange operations
	April 2008	Mission	Financial stability analysis and reporting
Statistics	2002–03	Long-term consultant	Multisector statistics
	August 2003	Mission	Government finance statistics
	Jan.-Feb. 2005	Mission	Monetary statistics
	October 2005	Mission	Balance of payments statistics
	December 2005	Mission	Technical assistance evaluation
	February 2006	Mission	CPI software application
	November 2006	Mission	Monetary and financial statistics
	Oct-Nov 2007	Mission	Price statistics
	November 2007	Mission	BoP and external debt statistics
	November 2007	Mission	National accounts statistics
	January 2008	Mission	Monetary and financial statistics

XIII. Resident Representative: Mr. David O. Robinson has been the Senior Resident Representative since March 2007.

APPENDIX II—RELATIONS WITH THE WORLD BANK GROUP

Partnership in Tanzania's Development Strategy

Tanzania's development strategy is set forth in the MKUKUTA (2005-2010). It is a successor to the Poverty Reduction Strategy Paper (PRSP) that covered 2000-2004. The MKUKUTA addresses three clusters of outcomes: (i) growth and the reduction of income poverty, (ii) improving the quality of life and social well-being, and (iii) strengthening governance and accountability.

Bank Group Strategy

The Bank's Board discussed a new Country Assistance Strategy (CAS) for Tanzania on April 24, 2007. The Joint Assistance Strategy for Tanzania (JAST) comprises four parts, which collectively will serve as the World Bank Group CAS for FY07 to FY10. Part I is the national medium-term framework established by Government for managing development co-operation with its Development Partners (DPs) so as to improve the collaboration in achieving national development and poverty reduction goals. In discussion of the draft JAST, Government and DPs agreed on the need for further joint work on parts II-IV below, engaging the entire DP community and focusing on the Government's own planning process, the MTEF in particular. The appropriate balance of roles between Government and DPs in the JAST and wider planning process has been a fruitful area of dialogue, under continuing review through the Government-led JAST Working Group. Part II and Part III are the Joint Program Document (JPD) developed in consultation with Government by the Development Partners Group (DPG) as a response to Tanzania poverty reduction strategies (MKUKUTA for mainland Tanzania; MKUZA for Zanzibar) and the JAST. Part II is a joint country analysis describing Tanzania's development achievements and challenges. Part III is the joint program part, reflecting DPG planned support and aid effectiveness commitments to Tanzania over the 4 remaining years of MKUKUTA, FY07-10. The World Bank Group (WBG) Part IV describes the WBG's strategic approach and proposed program over support over the FY07-10 period (advice, analytic work and financing, both ongoing and planned). Based on the Results Matrix for all DPs in Part III, Part IV also includes a WBG specific results matrix with milestones that facilitate monitoring of progress during the FY07-10 period.

The Bank is supporting implementation of the MKUKUTA through its full range of instruments, including general and sectoral budget support, project support, analytic and advisory activities, guarantees, and equity investments by IFC.

General budget support is provided in the form of Poverty Reduction Support Credits (PRSCs), jointly with a group of 13 other donors. There is joint performance assessment and a common review process. Tanzania's first PRSP was supported through a series of three PRSCs (2003-2005). After the finalization of Tanzania's second PRSP, the Bank together with the other budget support donors developed a new Performance Assessment Framework based on Tanzania's new PRSP. Its implementation is expected to be supported by the Bank through a series of five PRSCs, the first and second of which (PRSC-4 and PRSC-5) were approved by the Bank's Board of Executive Directors on May 9, 2006 and April 24, 2007. It covers six focus areas. These are the three clusters of the MKUKUTA (i.e., growth and the reduction of income poverty, improvements of quality of life and social well being, and governance and accountability), macroeconomic stability, resource allocation and budget consistency, and public financial management. The most recent annual review of general budget support to Tanzania was held in November 2007.

In the social sectors, the Bank provides support through a sectoral development policy credit and grant for secondary education (US$150 million each), the third and last tranche (US$50million) of which is expected to be disbursed in FY07. The objectives are to improve education, expand school access, and increase retention at both primary and secondary levels. Bank support has already facilitated a significant increase in school enrollments. In April 2007, the Board approved a credit for US$42 million to support the education improvement project for Zanzibar. The objectives of the program are to improve completion on lower secondary education including achieving better examination results. This will be facilitated through construction of secondary schools, laboratories and facilities for teacher training, by providing in-service mathematics and science training to teachers, and making text books in core subjects available to all primary secondary schools in Zanzibar. After the focus on primary and secondary education, in FY08 the Bank will also support reforms of higher education and science and technology in Tanzania through a proposed credit in the amount of US$100 million. The Bank contributes to the health sector multidonor "basket fund," which supports sector reforms and funds nonwage expenditures. In July 2007, the Board approved an additional US$ 60 million to scale up the second phase Health Sector Development Project (US$ 65 million). A multisector HIV/AIDS project supports Tanzania's efforts to reduce HIV transmission and mitigate the adverse consequences of AIDS. In the water sector, one project supports technical, commercial, and financial rehabilitation of the water supply and sanitation services in Dar es Salaam. Another supports access to improved and sustained water and sanitation services in rural communities. A new Water Sector Support Program project (US$200 million) was approved by the Board in February 2007. It supports GoT's strategy for improving governance of water resources management and sustainable delivery of water supply and sanitation services. The objective of the IDA-funded Tanzania Social Action Fund (TASAF) is to enhance the capacities of communities and other stakeholders to prioritize, implement, and manage sustainable development initiatives and in the process improve socioeconomic services and opportunities. The Bank's Board approved the Tanzania Second Social Action Fund (US$150 million) on November 30, 2004, to continue the successful outcomes from TASAF-1.

In the agriculture sector, the Bank's Board approved in FY06 a project to support Tanzania's Agriculture Sector Development Program. In addition, the Participatory Agricultural Development and Empowerment Project Credit supports investments in technologies to reduce soil fertility decline.

A Forest Conservation and Management Project helps the government implement policy, particularly by building a framework for long-term sustainable management and conservation of

Tanzania's forests. The Marine and Coastal Environment Management Project, aims to strengthen the management of the marine and coastal environment. In FY09, the Bank is expected to approve the multi-country (Tanzania, Uganda, Kenya, Rwanda and Burundi) Lake Victoria Environmental Project II which aims to support regional efforts to improve management of the Lake Victoria ecosystem.

Efforts to improve Tanzania's infrastructure are supported by road and railway projects. In April 2004, the Bank's Board approved a credit of US$122 million for the Central Transport Corridor Project (CTCP) to (1) upgrade strategic road links, (2) enhance road management capacity, and (3) improve the operations of Tanzanian Railways (TRC and TAZARA). In FY08, Bank support to the transport sector is expected to continue by a credit of US$190 million for CTCP-II. The policy dialogue is now helping prepare a new Road Act, which will be the basis for strengthening the policy and institutional framework for road building and maintenance.

The Bank has also helped the government implement the Power Sector Restructuring Program. It has encouraged the government to build the domestic gas market and generate lower-cost power through the Songo Songo Gas Development and Power Generation Project, and is currently assisting the government in implementation of the Financial Recovery Plan for TANESCO and the development of a medium to long term strategy for the energy sector, which will provide the basis for further investment support. Another credit of US$105 million was approved in December 2007 to improve the quality and efficiency of the electricity service provision in the three main growth centers (Dar es Salaam, Arusha, and Kilimanjaro). A credit to improve access to ICT as part of a multi-country operation is under preparation for presentation to the Board in FY09.

The Local Government Support Project (US$150 million) is designed to strengthen fiscal decentralization, improving accountability in the use of local government resources, and improving management of intergovernmental transfers. Other project objectives are to increase access to infrastructure and services in unplanned areas of Dar es Salaam and improve revenue performance for sustainable operations and maintenance.

In December 2005, the Board approved a private sector competitiveness project to support Tanzania's efforts to create an enabling environment for its private sector and enhance its competitiveness; the focus is on micro-, small, and medium enterprises. The project will support Tanzania's Business Environment Strengthening (BEST) program, help set up computerized land and business registries, support judicial reform, and develop the financial sector.

An accountability, transparency, and integrity project was approved by the Board in May 2006. The project contributes to improved access to judicial and legal services and the accountable and transparent use of public financial resources. This will be achieved by improving the skills and systems to deliver judicial/legal services and public financial management, and strengthening the capacity of oversight institutions to perform their role. In September 2007, the Board approved a credit of US$40 million to support the second phase of the Public Sector Reform Program to enhance capacity, performance, and accountability of the government in the use of public resources and service delivery.

The International Finance Corporation's (IFC) strategic focus in Tanzania is on the financial, agribusiness, tourism, infrastructure and SME sectors. Recent activities include a US$10 million investment in Bonite Bottlers, a carbonated soft drinks manufacturer, a US$5 million Exim Bank trade facility, and a US$5 million Tier II facility to Stanbic Tanzania. At present, the Multilateral Investment Guarantee Agency (MIGA) has no exposure in Tanzania and no projects planned.

Tanzania joined the World Bank Group in 1962. Beginning with an IDA credit for education in 1963, it has received a total of US$6.9 billion (US$6.2 billion from IDA) in credits, loans and grants from the World Bank. Total disbursements amounted to US$5.7 billion as of April 30, 2008 (US$5.1 billion from IDA, US$356 million from the IBRD, and US$241 million in IDA grants). Currently, the portfolio comprises 22 active projects, with commitments of US$1.8 billion, in all major sectors; the undisbursed balance is US$1.2 billion.

Statement of Loans, Credits, and Grants (As of April 30, 2008; U.S. dollars)

	IBRD	IDA Credits	IDA Grants	Total
Original Principal	362,109,400	6,254,909,500	274,400,000	6,891,418,900
Cancellations	5,477,944	267,388,910	0	272,866,854
Disbursed	355,552,456	5,120,241,842	241,429,555	5,717,223,854
Undisbursed	0	1,182,939,225	47,295,917	1,230,235,141
Repaid	355,462,456	3,771,952,950	0	4,127,415,406
Due	0	1,746,064,073	0	1,746,064,073
Exchange Adjustment	0.01	-31434079.53	0	-31434079.52
Borrower Obligation	0	1,714,629,994	0	1,714,629,994

Source: World Bank Group

Bank-Fund collaboration in specific areas

The IMF and World Bank staffs collaborate closely in supporting Tanzania's structural reforms. As part of its assistance—through lending, country analytic work, and technical assistance—the Bank, in collaboration with the Fund, supports policy reforms in the following areas:

- **Public expenditure management.** Improvements in public expenditure management have been a top priority of the Tanzanian government since 1995. The Bank, the Fund, and other donors have worked closely to give the government needed support for institutional and policy reforms. The Fund is leading the dialogue on fiscal policy; the Bank concerns itself with strategic resource allocation and operational efficiency of public expenditures. To enhance strategic resource allocation and operational efficiency, the Bank is supporting a government-led, participatory public expenditure review/medium-term expenditure framework (MTEF) process. This effort has helped to strengthen and open up the budget process and the allocation of resources to pro-poor priority areas. The Bank is also involved in the fiscal decentralization process through analytical work and the Local Government Support Project. The Bank and the Fund work together to support institutional budget and expenditure management reforms. The annual Bank-led Public Expenditure and Financial Assessment Report (PEFAR)—the most recent one finalized in October 2007—is the main instrument for the donor community to assess progress in these areas. It also integrates the assessment of Tanzania's financial management and procurement systems, which previously had been assessed through separate Country Financial Accountability Assessment and Country Procurement Assessment Reports.

- **Tax policy and administration reform.** The Bank and the Fund have, over the past few years, cooperated closely to support the government's efforts to modernize the tax system and enhance domestic revenue collection. The Fund has taken the lead in reforms of tax policy; the Bank has taken the lead in reforms to strengthen tax administration.

- **Financial sector reforms.** Tanzania has instituted far-reaching reforms in the financial sector with strong support from both the Bank and the Fund. Besides contributing to the policy dialogue, the Bank has provided significant technical assistance for financial sector reforms, primarily through two financial institution development projects that support government withdrawal from banking and nonbanking financial institutions while strengthening financial sector supervision. Among successful outcomes of these reforms are the privatization of Tanzania's largest bank and the entry of a fairly large number of international banks into the Tanzanian market. The Bank has also been involved in reform of the capital and securities authority, reform of pension systems, and liberalization of capital accounts. Through a separate project, the Bank supports the development of rural and microfinance services. A joint Bank-Fund Financial Sector Assessment Program (FSAP) was completed in June 2003. The recommendations of the FSAP have been incorporated into a reform strategy document for the financial sector. The Bank and the Fund have been allocated specific donor responsibilities in implementing the strategy document and have been active in coordination of the implementation process, including donor coordination.

- **Public service reform and improved service delivery.** In recent years, the government of Tanzania, with support from the Bank and other donors, has launched a number of major initiatives to improve performance and increase accountability, transparency, and integrity in the public sector. Among them are (i) the Public Service Reform Program (PSRP); (ii) the Local Government Reform Program; (iii) the Public Finance Management Reform Program; (iv) the National Anti-Corruption Strategy and Action Plans for Tanzania; (v) the National Framework on Good Governance, delineating a comprehensive approach to improving governance; (vi) the establishment of a Good Governance Coordination Unit in the president's office; and (vii) the launch of the Legal Sector Reform Program. The PSRP has been central to these reforms because its objective is to improve the accountability, transparency, and resource management of service delivery. The reforms are closely linked with other major reforms in public finance and decentralization. The PSRP aims to transform public service into a service that has the capacity, systems, and culture for client orientation and continuous improvement. Cooperation between the Bank and the Fund covers those areas where public sector reform directly affects fiscal stability and public sector financial management.

- **Energy sector.** The Bank and the Fund are working closely to find ways to address the crisis in the energy sector. The Bank takes the lead in assisting the authorities with developing emergency power generation plans to alleviate power supply shortages.

- **Trade reforms.** The Bank and the Fund are working closely to help Tanzania establish a pro-growth trade program. Within the context of the Integrated Framework, the Bank led the preparation of a Diagnostic Trade Integration Study that was issued in July 2005. The Bank will carry out follow-up trade and competitiveness analytical work in the coming years, possibly through the soon–to–be-established Multi-Donor Trust Fund for Mainstreaming Trade. The Bank is working toward trade expansion though its regional trade facilitation project. It is also active at the regional level in the dialogue on trade reforms within the East African Community.

World Bank Lead Economist: Paolo Zacchia

Appendix III—Statistical Issues

Economic and financial statistics are adequate for surveillance and program monitoring purposes, but weaknesses remain despite progress in some areas and considerable technical assistance. There are few statistical publications and no fully articulated publication policy. Only limited data are reported for Zanzibar. The authorities are committed to improving the production and dissemination of macroeconomic and socio-demographic statistics through the General Data Dissemination System (GDDS). GDDS metadata were posted on the IMF's Dissemination Standards Bulletin Board (DSBB) in July 2001 and were updated in September 2007. Tanzania is participating in the SDDS and government finance statistics modules of the Fund's GDDS Project for Anglophone Africa (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries to implement plans for improvement identified in the metadata. A mission to prepare the data module for the Report on the Observance of Standards and Codes (data ROSC) was completed in October 2002, and the report was published in March 2004.

National accounts

National accounts statistics for mainland Tanzania are prepared by the National Bureau of Statistics (NBS) on the basis of data collected by its regional offices and by other government entities. Separate accounts for Zanzibar are compiled by the Office of the Chief Government Statistician for Zanzibar. The data sources for compiling the estimates for Tanzania by expenditure category, the external sector data, and the indicators used to extrapolate benchmark production levels suffer from deficiencies that complicate estimation of savings-investment. The accounts are based on the *1993 System of National Accounts* (*1993 SNA*) and are published at current and constant (2001) prices. Annual GDP estimates are also compiled at current prices for 21 regions. To improve the quality of the national accounts, the authorities, with help from donors, changed the base year of the national accounts from 1992 to 2001. The revised series are based on the Household Budget Survey (HBS) 2000/01, Integrated Labor Force Survey 2000/01 and Annual Survey of Industrial Production 1999/2000. The revised annual national accounts series were finally published in September 2007. A November 2007 East AFRITAC mission provided training and assistance in the compilation of quarterly national accounts (QNA), which have been compiled at current prices since 2001 but have not been yet released. QNA will be estimated from 2001 to 2007. Nevertheless, the series have some methodological shortcomings, and in particular suffer from poor source data in the retail and wholesale sector.

Prices

The NBS compiles a monthly consumer price index (CPI) for mainland Tanzania based on consumer expenditure in 20 urban centers, and a separate price index (urban) is compiled for Zanzibar. The CPI has, since September 2004, been compiled (retroactively to January 2003) using weights based on the 2000/01 HBS data. Key changes were a reduction in the weight given to food from 71 percent to 56 percent and an expansion of the number of products. The index excludes imputations for the price changes of owner-occupied housing. However, methodological problems that may have understated inflation led to the release of a revised CPI from September 2006, though this has not been backdated. The results of a new HBS are expected to be available in 2008, which should eventually lead to revision of the CPI weights.

Government finance statistics

The authorities provide Fund missions with monthly data on central government revenue, expenditure, and financing on a timely basis. Although the underlying concepts broadly follow the *Government Finance Statistics Manual 1986*, the reporting differs from international standards in coverage and the treatment of lending minus repayments, and transfer payments. Coverage of data on the operations of the central government refers to Tanzania mainland only – recently the Ministry of Finance of Zanzibar established a unit tasked with developing a fiscal reporting framework for Zanzibar. The data also exclude the operations of extra-budgetary units and funds. Data for general government are not available as no information is yet provided on the financial position of local governments, although the authorities have stated their intention to produce such reports.

Despite improvements in the recording of government transactions, discrepancies remain between revenue and expenditure data, on the one hand, and financing data. The discrepancies are related to the lack of a fully integrated set of accounts and the delineation of the public sector and its sub-sectors, differing source data, and timing differences.

The Ministry of Finance created a database of donor-funded projects in 2001/02 (July-June), with donor assistance. Since then, the number of foreign-financed projects reported by and channeled through the budget has increased significantly.

The government has completed the computerization of its accounting system for budgetary units. Although the authorities indicated that it would allow resumption of reporting in the *Government Finance Statistics Yearbook (GFSY)*, no data were reported for the 2007 *GFSY*. The computerized accounting system does not yet provide details about donor funded development expenditure and has not yet been extended to cover the extra-budgetary units. The authorities regularly report fiscal data for inclusion in the *IFS*.

Monetary statistics

The monetary statistics are broadly adequate for policy and analytical purposes. Nevertheless, the December 2006 and January 2008 missions confirmed earlier findings of methodological problems, such as (a) exclusion of some deposit-taking financial institutions from the institutional coverage of depository corporations survey, (b) arbitrary application of the residency criterion by the other depository corporations (ODCs), (c) inadequate subdivision of the resident sector data, (d) misclassification of certain accounting data among statistical aggregates, (e) discrepancies between reported interbank positions, (f) nontransparent treatment of repurchase agreements, and (g) key information gaps in the bank reporting system.

To address these problems, recommendations were made to improve the following definitions: net international reserves, foreign assets, foreign liabilities, loans to other resident sectors, claims on the central government, government deposits, central bank liabilities to commercial banks, and deposits included in broad money. The missions also recommended (a) introducing the standardized report forms─1SR for central bank's accounts and 2SR for ODCs' accounts to be reported to the IMF; (b) that two new schedules for reporting of data by commercial banks be introduced to fully satisfy compilation needs, in particular with respect to the sectoral breakdown and application of residency criterion in the classification of financial instruments used by the ODCs in their activities; and (c) the expansion of the ODCs to include other deposit-taking financial institutions, such as Tanzania Investment Bank, Tanzania Postal Bank, Twinga Bancorp Limited, Mufindi Community Bank, and Mwanga Community Bank.

Also, the January 2008 mission conducted a workshop for deposit-taking financial institutions that focused on the sectorization, classification, and valuation issues, as well as the procedures for reporting data to the BOT. During the workshop, in addition to two new schedules and guidelines for their completion, the banks' representatives were provided with, the lists of the public nonfinancial corporations, central government units, local government units, financial institutions, and validation tools to improve the sectoral classification and consistency of the data between the balance sheet and schedules.

Balance of payments statistics

Foreign trade data are prepared by Fund staff missions on the basis of customs data provided by the Bank of Tanzania (BOT), which in turn are compiled by the Tanzania Revenue Authority (TRA) based on customs records. A balance of payments statistics mission in May 2002 found continued and significant under-recording of trade and a dearth of information on services. The authorities acknowledged these problems in their response to the data ROSC report published in March 2004 and indicated that the BOT plans to commission a joint study by the NBS and the TRA to determine the magnitude of underrecorded trade and design an appropriate method of estimation. Re-exports are now included in trade data. Balance of payments statistics are reported annually to STA for publication in the *IFS*, along with the annual International Investment Position (IIP).

Tourism revenues are estimated using the model that was developed from the International Visitor's Exit Survey conducted in 2001. Using the model and subsequent annual surveys, estimates have been made for 2001 through 2005. Information on official grant and loan receipts is prepared by Fund staff based on contacts with official agencies. The data on current and capital transfers (grants) are estimates, based on data provided by the Ministry of Finance and United Nations Development Program projections. Disaggregation of the data has improved, but more work is needed including on the coverage and periodicity of data.

Data on private "financial" flows are scarce. Some information on private banking sector flows can be derived from the monetary survey, but private "financial" flows are not adequately captured through the International Transaction Reporting System and are largely reflected in "errors and omissions." However, the authorities have made commendable progress in collecting information on certain components. The results of the Private Capital Flows Survey for 2000 and 2004 have now been incorporated into the balance of payments and IIP accounts, which improved estimates of foreign direct investment inflows as well as dividend payments and distributed branch profits. The Private Capital Flows Survey is designed to capture information on foreign direct investment and also asks investors to report committed and projected (for the near future) direct investment flows.

Data on the gross and net official reserves of the Bank of Tanzania are provided monthly with a short lag, and are available to the Fund with higher frequency on request. Similarly, data on the foreign assets and liabilities of the banking system are provided with relatively short lags.

Significant improvements in the quality of external debt data have been made in the context of the creditor reconciliation exercise under the HIPC Initiative. At present, all multilateral and Paris Club debts (accounting for about 80 percent of total external debt) have been fully reconciled. However, less progress has been made in reconciling debt owed to other bilateral and commercial creditors. Information on external debt not guaranteed by the public sector, mostly private sector debt, is also limited and not captured in a timely manner.

East AFRITAC has provided assistance in international investment position statistics, most recently in March 2007. The missions have worked on training, questionnaires, and revised guidelines for international transaction dealers.

TANZANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF END-APRIL 2008)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality Accuracy and reliability[8]
Exchange Rates	Jan. 2008	Mar. 2008	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	February 2007	March 2007	D, M	D, M	M		
Reserve/Base Money	Jan. 2008	Mar. 2008	M	M	M	LO, LO, LO, LO	LO, O, O, O, LO
Broad Money	Jan. 2008	Mar. 2008	M	M	M		
Central Bank Balance Sheet	Jan. 2008	Mar. 2008	M	M	M		
Consolidated Balance Sheet of the Banking System	Jan. 2008	Mar. 2008	M	M	M		
Interest Rates[2]	Jan. 2008	Mar. 2008	M	M	M		
Consumer Price Index	Jan. 2008	Mar. 2008	M	M	M	O, LO, O, LO	LNO, LNO, LNO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	...	...	...	...	...	LNO, LNO, LNO, LO	LO, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	March 2007	May 2007	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	October 2007	January 2008	M	M	A		
External Current Account Balance	2006	July 2007	A	A	A	LO, LO, LO, LO	LO, LNO, O, LNO, LNO
Exports and Imports of Goods and Services	April 2007	May 2007	M	A	A		
GDP/GNP	2005	May 2006	A	A	A	LO, LO, LO, LO	LNO, LNO, O, LO, LO
Gross External Debt	June 2006	September 2006	M	M	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)..
[7] Reflects the assessment provided in the data ROSC published March 23, 2004 and based on the findings of the October 8–23, 2002 mission for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies

Statement by the IMF Staff Representative
May 28, 2008

1. **This statement summarizes developments in Tanzania since the issuance of the staff report.** The additional information does not change the thrust of the staff appraisal, although risks of lower growth and higher inflation have increased.

2. **Preliminary data indicate that the quantitative program under the PSI remains on track.** In particular, end-March indicative targets for net domestic financing, average reserve money, and net international reserves were all met by comfortable margins.

3. **Reflecting the recent surge in global food and oil prices, inflation in April rose to 9.7 percent (12-month change) from 9.0 percent in March, making it unlikely that the program target of 7 percent for June 2008 can be achieved.** The price index for food—which accounts for more than half of the consumption basket—rose by 11.6 percent (12-month change). The price index for fuel, power, and water also increased substantially to 11.3 percent in April, up from 8.3 percent in March.

4. **The recent surge in oil prices could have a significant impact on Tanzania's balance of payments.** Based on the most recent WEO oil price projections and leaving projected import volumes unchanged from those in the macroeconomic framework presented in the staff report, the balance of payments impact of the latest price increases is projected to be about 0.5 percent of GDP for 2007/08 and 1.8 percent of GDP for 2008/09 (or about 15 percent of current gross international reserves). Tanzania's strong international reserve position and flexible exchange rate policy should help it to weather the shock, although if current oil prices persist there would be increased downside risks to economic growth.

BOP Impact of Higher Oil Prices

	Staff Report		*May Revision*		*BOP Impact*	
	2007/08	*2008/09*	*2007/08*	*2008/09*	*2007/08*	*2008/09*
Oil Price Assumpition (US$/barrel)	*87.86*	*95.00*	*92.80*	*114.10*	*…*	*…*
Oil imports (US$ millions)	*1,700*	*1,856*	*1,795*	*2,230*	*95*	*374*
(Percent of GDP)	*9.3*	*8.9*	*9.8*	*10.6*	*0.5*	*1.8*

5. **Tanzania is largely self-sufficient in staple food crops and the global food price surge is not likely to have a significant balance of payments impact.** Weather conditions have been favorable in most of Tanzania so far this year and the harvest is promising. However, with the objective of preserving food security the authorities have recently extended a ban on maize exports to cover all cereals and expect to review the ban in mid-June following the completion of a food security assessment. Although it is not clear how effective the ban is, in the presence of porous borders, in view of its potential to discourage domestic production and exacerbate price pressures in neighboring countries, the staff urges the authorities to lift the ban as soon as possible.

INTERNATIONAL MONETARY FUND
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IMF Executive Board Completes the Third Review Under the Policy Support Instrument (PSI) for Tanzania

The Executive Board of the International Monetary Fund (IMF) today completed the third review under a three-year Policy Support Instrument (PSI) for Tanzania.

The PSI was approved on February 16, 2007 (see Press Release no. 07/26) and is aimed at sustaining broad-based high growth and accelerating progress in poverty reduction. To that end, the PSI supports enhancing public resource mobilization and efficiency of spending; bolstering financial sector reforms and the effectiveness of monetary policy; and improving the business climate to stimulate private sector-led growth.

Following the Board's discussion on Tanzania, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

"Tanzania's continued implementation of sound macroeconomic policies has contributed to sustained robust economic growth. High global fuel and food prices pose challenges, but Tanzania's flexible exchange rate policy, ample stock of international reserves, and a favorable near-term agricultural outlook should help to cushion the adverse effects of these shocks. Persistent high petroleum prices and slow world economic growth could, however, dampen Tanzania's economic growth prospects.

"Implementation of the government's budget in 2007/08 has been strong—again led by an impressive revenue performance. For the year ahead uncertainty about donor assistance has complicated budget preparations. While there is some scope for domestic financing to ensure continuity of critical public expenditures, greater spending restraint may also be necessary if aid flows fall significantly short of projections.

"The marked improvement in monetary and foreign exchange operations over the past several months has enhanced the predictability of the Bank of Tanzania's monetary policy and contributed to a welcome decline in yields on government securities. Looking ahead, monetary policy will need to remain vigilant to ensure that pressures from high global fuel and food prices do not spread to other sectors, while providing sufficient room for continued expansion of credit to the private sector.

"The government's focus on improving infrastructure as well as health and education services, while ensuring long-term debt sustainability, is appropriate to raise Tanzania's growth potential. To that end, there is scope for increased reliance on public-private partnerships, provided that high standards of transparency and accountability are in place to guard against fiscal risks associated with contingent liabilities.

"Recent cases of alleged fraud and corruption have raised concerns, and continued progress in strengthening governance and public accountability is paramount to restore confidence. Steps taken so far, including the action plan to implement recommendations from the special audit of the Bank of Tanzania, are encouraging. In addition, the authorities have requested a voluntary safeguards assessment of the central bank from the Fund.

"With respect to Tanzania's breach of its obligation under Article VIII, Section 5 of the Fund's Articles of Agreement to provide accurate information to the Fund, the authorities have taken appropriate remedial measures and no further action is required," Mr. Portugal said.

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. Members' performance under a PSI is reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

Statement by Peter Gakunu, Executive Director for Tanzania, and Ahmed Amani Ndyeshobola, Senior Advisor to the Executive Director
May 30, 2008

Introduction

1. The Tanzanian authorities are committed to sustaining prudent macroeconomic policies and deepening structural reforms. Economic growth exceeded 7 percent in 2007 and medium-term prospects are strong. They are thankful to the Fund for the constructive engagement and support, and are appreciative to staff for the forthright policy dialogue and advice under the program.

2. The authorities remain resolute in implementing the PSI-supported economic program. All end-December 2007 quantitative assessment criteria were observed. Implementation of all structural assessment criteria and benchmarks were on track, and program targets for the remainder of 2007/08 will be maintained. In view of the strong and good economic performance under the program the authorities request Directors' support for the completion of the third review of the PSI. They broadly agree with the thrust of the assessment in the well balanced staff report on the third review of the PSI, and will respond appropriately to the policy actions recommended.

Recent Economic Developments

3. Tanzania's impressive economic performance has been uninterruptedly sustained over the past decade, reflective of the sustained economic reforms; broad-based growth; and consistency in taking advantage of the favorable external environment. Real GDP growth is estimated at 7.3 percent in 2007 on account of good performance by transport and communications, mining, construction, tourism and trade, and manufacturing sectors, as well as stability in agricultural performance. Inflation remained within the single digit range, with headline inflation at 6.4 percent by end-December 2007, slightly above the authorities' objectives. Inflationary pressures intensified during the second half of 2007 due mainly to a surge in high oil and food prices. The authorities recognize the enormous challenges and implications of the protracted increases in the prices of these commodities on the external account and price stability in the near to medium term. Nonetheless, they are of the view that in response to measures taken to ease food shortages as well as sustained prudent fiscal and monetary policies, the inflationary spike should ease in the coming months. The authorities also call on the Fund to be more understanding by providing fiscal space and greater and timely access to the appropriate Fund facilities to enable them address the challenges of unprecedented high oil and food prices.

4. The fiscal position improved substantially during the first half of 2007/08, owing to strong revenue performance of up to 2 percent of GDP, higher than the program projections, and better than projected external financing for project and basket loans. However, major recurrent expenditure categories were below projections during the July-December 2007 period, mainly on account of slow procurement and recruitment processes. Significant savings on the budget in terms of interest costs were realized on account of a substantial fall in Treasury yields. Development expenditure benefited from accelerated disbursement of foreign project financing, to close above program projections.

5. The Bank of Tanzania (BoT) revised its monetary strategy in October 2007 by introducing a better mix of monetary policy instruments and broadening monetary policy transparency. Treasury bills have since been complemented with frequent sales of small amounts of foreign exchange in the market and more use of the repo instruments. As a result, reserve money growth has remained on track, and the Treasury bills yields have fallen sharply from 17.1 percent in June 2007 to 7.4 percent in March 2008. Despite the tighter monetary policy stance, the banking system continued to meet the strong demand of private sector credit in line with the accelerating economic growth.

6. External developments during the first half of 2007/08 were broadly in line with program targets on account of an 18 percent export growth, reflecting a strong performance in manufacturing and a recovery of traditional exports. Also, inflows of official foreign exchange and foreign direct investment (FDI) have remained strong. As a result, despite a rapid growth in imports that accounted for the widening of the current account deficit, the foreign exchange reserves level improved to 4.5 months of imports. In the same period, the nominal exchange rate of the shilling to the U.S. Dollar appreciated.

Outlook and Policies for 2008/09 and in the Medium-Term

7. Tanzania's economic performance is expected to remain strong in 2008/09 and the medium term, with real GDP growth projected to reach 7.8 percent in 2008 and 8.0 percent in 2009. Strong performance is expected to continue in the communication, construction, financial intermediation, manufacturing, and agriculture sectors. Accelerating the rate of growth and poverty reduction in the medium to long term will continue to be central in the authorities' program design and implementation. A new household survey to be completed in mid-2008 is expected to show a tangible improvement in poverty indicators. These build on the MKUKUTA (PRSP) Annual Implementation Report (MAIR) of November 2007 that showed strong progress in the achievement of some MDGs performance indicators, particularly in education and health. Notwithstanding such impressive developments, the authorities concur with staff assessment that the country faces three main challenges in the near term: maintaining fiscal stability in the face of uncertain financing; dealing with inflationary pressures; and addressing governance weaknesses and strengthening public accountability.

8. Among the authorities' main priorities, are consolidating fiscal stability, supported by continued robust revenue performance, while accommodating substantive increases in development expenditure for social and productivity-enhancing investments and strengthening the external position. The authorities are confident that these, coupled with tighter monetary policy of the BoT and the accelerated growth performance would relieve pressure on food prices and allow inflation to subside to the 5 percent target. The strong economic performance and favorable outlook notwithstanding, the authorities are conscious that they will have to consolidate macroeconomic stability to mitigate the immediate risks to their economic outlook, including inflation and revenue shortfalls; address infrastructure bottlenecks; and deepen implementation of structural reforms to sustain the high economic growth necessary to increase per capita income and reduce poverty substantially. In this connection, the authorities are determined to step up implementation of the MKUKUTA and Tanzania Vision 2025, which offers an appropriate framework for further diversification of the sources of production and exports, improvements in public finance management, and better integration in the regional and global economy.

Fiscal Policy

9. The authorities' objective is to sustain fiscal stability in the medium- to long-term. In this connection, the 2008/09 budget aims at raising revenue performance to 16.2 percent of GDP, on the basis of broadening of the tax base, strengthening of tax and customs administration, controlling tax exemptions, and improving the customs processes. Other near-term revenue reforms and measures include reforming the mining sector's fiscal and regulatory regimes; indexing specific excise duty rates; and adjusting forestry and hunting fees, the fuel levy and road user charges. The authorities are determined to further increase the revenue collection to 20 percent of GDP in the medium term mainly through measures to broaden the tax base and enhance tax collection. On the expenditure side, the authorities are taking a cautious stance due to the uncertainty of foreign financing. To this end, total expenditure is forecast at 26.5 per cent of GDP as compared to the 27.3 percent outturn expected for 2007/08. Consistent with the MKUKUTA strategies, priority continues to be placed on growth promoting expenditure, education and health.

10. Raising productivity and long-term growth through, inter alia, public infrastructure development remain a central policy objective of the authorities. The planned capital expenditure includes investments in infrastructure and social sectors, with increased allocation for infrastructure financed by the Millennium Challenge Account (MCA) and other financing options including issuing sovereign bonds and public-private partnerships (PPPs). Recurrent expenditure as a percentage of GDP is projected to remain broadly at the 2007/08 level. While the authorities are determined to maintain a zero net domestic financing

(NDF) of the budget, the projected shortfall in external financing may require a readjustment of this policy stance thereby raising up to 1.0 percent of GDP from domestic sources. NDF would be adjusted in the course of the fiscal year in response to the level of available foreign financing. The Government would also adjust spending should external budget support fall short of the budget figures. However, the Government recognizes that safeguarding such NDF objective is challenging, as it is subject to risks of revenue shortfalls. The authorities, therefore, intend to execute the budget on the basis of a prioritized expenditure plan, enabling protection of priority spending linked to increasing productivity and the achievement of the MDGs, coupled with the implementation of required internal reallocations. The authorities have made strong progress in implementing the public finance management (PFM) reform, and the Phase II of the PFM will increase ownership of the reforms by the various tiers of Government beyond the Ministry of Finance and Economic Affairs (MOFEA) to line ministries. To this end, strategic allocation of resources in accordance with government priorities and along the MKUKUTA clusters, ensuring aggregate fiscal discipline and accountability, and strengthening of expenditure tracking will enhance ownership of the PFM reform agenda.

Monetary and Financial Sector Policies

11. The BoT is committed to continue anchoring its prudent monetary policy on maintaining low and stable inflation. To this end, it has reaffirmed its determination to further bolster its open market operations, maintain a flexible exchange rate policy, rely substantially on foreign exchange sales for sterilization of liquidity, and continue to improve liquidity forecasting. In this connection, the BoT's monetary policy for 2008/09 will aim to reduce M3 growth and monitor reserve money growth. The BoT is also committed to enhance transparency of its policy stance and promote orderly financial markets. Coordination between fiscal and monetary policies will be further strengthened to increase absorption of public funds, while adequately preventing pressures on interest and exchange rates, as well as on domestic prices. In this regard, the joint Cash Management Committee (CMC) is strengthening its operations. Private sector credit is projected to continue its robust expansion to support the authorities' growth objectives. The BoT is also reviewing the existing regulatory framework governing capital account transactions with a view to adapting it to the needs of the country's economy. To consolidate progress attained on the predictability of the monetary policy stance, the BoT will continue to inform the market players and the general public, on a regular basis, on recent economic developments, and the objectives and rationale underlying the adopted monetary policy stance.

12. The authorities are committed to strengthen implementation of the second generation financial sector reforms with a view to deepening and broadening financial intermediation. To this end, they have enacted the Social Security Bill that creates a single regulator for the pension sector and assigned to the BoT the responsibility of establishing investment guidelines. The BoT has in turn made commitment to expeditiously assess the financial

health of the pension funds in preparation of the investment guidelines. The BoT will also continue to strengthen banking supervision, particularly by enhancing its capacity for risk-based assessment of bank soundness through stress testing and periodic reporting to its Board. To this end, the BoT plans to expand its staff complement and seek Fund technical assistance and staff training.

Structural reforms

13. The authorities are determined to consolidate the gains achieved on reforms, PFM, public accountability and macroeconomic stability. They are equally determined to continue improving the overall investment climate that will further facilitate private sector development, attract and retain FDI, boost domestic entrepreneurship and sustain high economic growth. In addition to vigorously pursuing prudent macroeconomic and financial policies, the authorities are resolved to deepen implementation of the reform program. Moreover, steps will be taken to strengthen the fiscal risk management practices arising from public private partnerships (PPPs), the recommendations of the special audit of the external payments arrears (EPA) account including a verification and settlement of the remaining EPA claims, and the power sector reform agenda that has been enhanced by the new Electricity Act paving the way for competition and private investment in the sector.

14. The BoT is also undertaking a fundamental review of its functions, with a view to developing and implementing a strategy for refocusing its operations in the near term. In this regard, the authorities intend to clarify the relationship between the MOFEA and the BoT regarding some of the tasks that the BoT conducts on behalf of the MOFEA, including the management of the EPA account, and cost sharing of monetary policy operations. The authorities also plan to review the regulatory framework for preventing money laundering based on an assessment by the regional body, the Eastern and Southern African Anti-Money Laundering Group. They are grateful for the Fund's timely response to their voluntary request for a safeguard's assessment and other areas of technical assistance. The Fund's technical assistance packages have enabled the authorities to make considerable progress on its reform agenda. My authorities feel that going forward they will need a wide range of technical assistance from the Fund to enable them implement more ambitious economic policies to spearhead further growth. To this end, they call on the Fund to ensure that in its implementation of its current policy on technical assistance special attention is taken to safeguard the development objectives of the country.

15. The authorities together with their East African partners are steadfast in strengthening the regional integration agenda. In this regard, they have initiated negotiations towards the establishment of an East African Common Market as a follow up to the existing East African Customs Union. The interim trade agreement with the European Union in the context of economic partnership agreements will continue to provide full duty free and quota free access for EAC goods exports to the EU markets. Nevertheless, the reciprocal nature of this

agreement signifies that in the long-term the revenue implications should be carefully assessed in the context of maintaining the country's fiscal stability and the overall program objectives. The authorities will also continue to work closely with the regional partners to formulate a coordinated approach to participate actively in the multilateral effort for a rapid and successful conclusion of the Doha Development Round.

Conclusion

16. The authorities' continued commitment to strong policies under the program has yielded strong economic results, with substantial progress on all fronts. They are aware of the need for further reforms to consolidate the progress made in order to meet the challenges posed by the current surge of inflationary pressures. In the near term, the authorities are determined to ensure that the program focuses on sustaining macroeconomic stability, increasing domestic resource mobilization, promoting pro-poor growth, and increasing investment in infrastructure and core social services like education and health. In line with MKUKUTA objectives and Tanzania Vision 2025, the authorities are determined to ensure that the sustained macroeconomic stability and deepened structural reforms for a broad-based growth provides a sound basis for poverty reduction and attainment of the MDGs. They are confident that going forward, continued engagement with the Fund and the support of the development partners through increased financing support and policy advice will enable them achieve their development goals particularly the large investment needs in infrastructure, energy, water and education.