



# UNITED REPUBLIC OF TANZANIA

July 2016

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED REPUBLIC OF TANZANIA

In the context of the Staff Report for the 2016 Article IV Consultation and Fourth Review under the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 18, 2016 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 18, 2016, following discussions that ended on April 18, 2016, with the officials of the United Republic of Tanzania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 29, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- 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\*

Selected Issues

\*Also included in Staff Report

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

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## **IMF Executive Board Completes Fourth PSI Review for Tanzania and Concludes 2016 Article IV Consultation**

On July 18, 2016, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of Tanzania's economic performance under the program supported by the Policy Support Instrument (PSI)<sup>1</sup> and also concluded the 2016 Article IV consultation<sup>2</sup> with Tanzania.

The PSI for Tanzania was approved by the Executive Board on July 16, 2014 (see [Press Release No. 14/350](#)).

Following the Board discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

“Tanzania’s macroeconomic performance has been strong under the Policy Support Instrument. Growth has remained close to 7 percent and inflation is moderate. Most quantitative program targets for end-2015 were met, while progress on structural reforms slowed due to the transition to the new government.

“The macroeconomic outlook is favorable, supported by the authorities’ ambitious development agenda, although risks are tilted to the downside. Sustaining high growth and implementing the development agenda while preserving fiscal and external sustainability will require a range of reforms. Somewhat higher fiscal deficits could be sustained for a few years while keeping a low risk of debt distress. However, creating fiscal space for higher infrastructure investment through

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<sup>1</sup> The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>). Details on Tanzania’s PSI program are available at [www.imf.org/tanzania](http://www.imf.org/tanzania).

<sup>2</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

sustained efforts to raise domestic revenue and increasing spending efficiency, particularly in public investment, is imperative.

“The implementation of the 2016/17 budget will be a first test of the authorities’ capacity to reconcile these various objectives. Careful prioritization and implementation of expenditures will be required to ensure that spending does not exceed available resources and to avoid domestic arrears accumulation.

“Despite significant progress in recent years, financial development remains low. Further development would support higher growth, as well as improve the overall effectiveness of macroeconomic policy. Beyond credit growth, financial development will require further improving access, particularly for businesses, and reducing high borrowing costs. Further development of the interbank and government debt markets is also desirable.

“Vigorous reforms will be required to foster further structural transformation of the economy. The authorities’ focus on creating a better environment for business and job creation is welcome, like the authorities’ strong drive against corruption. Improving the financial sustainability of the public electricity utility, TANESCO, is critical for the development of the energy sector. Tanzania could also benefit from the completion of the East African Community common market.”

The Executive Board also completed the 2016 Article IV Consultation with Tanzania.

Tanzania has achieved strong growth and macroeconomic stability over the past two decades. This performance was the result of market-oriented reforms and prudent macroeconomic policies. Growth has been driven by construction, services, and basic manufacturing, and the economy has become more diversified. Inflation, while still volatile, has remained moderate. Poverty has decreased but remains high (at 28.2 percent of the population, based on the national poverty line) with a large population of underemployed youth, and despite substantial progress toward the Millennium Development Goals (MDGs), Tanzania is likely to have missed about half the 2015 targets.

Growth has remained strong and inflation moderate in the past two years. Real GDP grew by 7 percent in 2015, with activity particularly buoyant in the construction, communication, finance, and transportation sectors. Inflation remained in single digits throughout 2015, averaging 5.6 percent, despite the significant exchange rate depreciation in the first half of 2015. Inflation in April 2016 was 5.1 percent, close to the authorities’ target of 5 percent. The external position recorded mixed developments. The current account deficit declined from 10.7 percent of GDP in 2013/14 to a projected 8.6 percent in 2015/16, mainly due to lower oil prices. The surpluses in the capital and financial accounts, however, narrowed due to lower donor support and foreign direct investment related to natural gas exploration. International reserve coverage is estimated to have declined somewhat to 3.6 months of prospective imports of goods and services in June

2016. The banking system appears sound overall, but there is wide variation within the system. The level of financial development has improved in recent years, though at a gradual pace.

Implementation of the 2015/16 budget has faced challenges. While the budget was built on ambitious but realistic revenue projections, it still had to be adjusted for external financing shortfalls and to make room for expenditures carried over from 2014/15 and some of the new government's priorities in education. The revised budget targets a lower overall deficit of about 3.25 percent of GDP (compared with 4.2 percent in the original budget and the program). Available information (on a cash basis) for the first three quarters suggests that this target is well within reach, reflecting a significant slowdown in the execution of capital expenditures. The stock of expenditure arrears decreased during the third quarter of the fiscal year (January- March 2016), reflecting the partial clearance of construction arrears and reversing an increase during the first two quarters.

While macroeconomic management has been able to deliver fiscal sustainability and macroeconomic stability, the quality of fiscal management deteriorated until recently in some areas (e.g., expenditure arrears control) and the pace of reform has abated in recent years. The modernization of monetary policy has made only limited progress in the past two years. The business environment remains challenging and the perception of corruption has increased substantially. As a result, program performance under the PSI has been mixed. The government's second Five-Year Development Plan (FYDP II), published in June 2016, aims to address these issues. It focuses on economic transformation through industrialization and human development. To facilitate private sector-led growth, the government aims to provide critical infrastructure and create a business environment that is conducive to job creation. The government also aims to reduce poverty by improving social services (education, health, housing, water and sanitation), enhancing income security, and promoting social protection. The plan will start being implemented with the 2016/17 budget.

### **Executive Board Assessment<sup>3</sup>**

Executive Directors commended Tanzania's strong macroeconomic performance, with high growth and low inflation, and noted that, notwithstanding some delays in the structural reform agenda, the outlook remains favorable, although downside risks and challenges persist. Against this backdrop, Directors considered the second Five Year Development Plan (FYDP II) as appropriately focused on further reducing poverty and creating a business environment that is conducive to job creation, including by addressing the infrastructure gap, improving access to finance and land, and enhancing education and job training. They underscored that preserving fiscal and external sustainability while implementing FYDP II is crucial and will require a range

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<sup>3</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

of reforms.

Directors agreed that somewhat higher fiscal deficits could be sustained for a few years while keeping a low risk of debt distress. Nevertheless, they stressed that creating fiscal space for higher infrastructure investment through sustained efforts to raise additional domestic revenue and streamline current expenditure is imperative. Directors were encouraged by the authorities' plans to strengthen tax administration and to consider further tax policy reforms. Measures to increase spending efficiency, particularly in the area of public investment, will also be needed.

Directors stressed that careful prioritization and implementation of expenditures would be required under the 2016/17 budget to ensure that spending does not exceed realistic revenue and financing projections and to avoid domestic arrears accumulation. In this context, they welcomed the authorities' intention to postpone the launch of two large investment projects until the next mid year budget review confirms the availability of revenue. Directors noted the need to strengthen fiscal risk and debt management, and welcomed ongoing efforts to better monitor and manage state owned enterprises.

Directors welcomed the Bank of Tanzania's strong commitment to monetary and price stability, but emphasized that faster implementation of reforms aimed at modernizing the monetary policy framework is needed. Noting that Tanzania could potentially enjoy large gains from further financial development, Directors welcomed the recent impressive improvements in financial inclusion among households, and encouraged increasing access to financial services for small and medium enterprises. They also recommended further developing the interbank and government debt markets, which would complement the modernization of the monetary policy framework as well as fiscal and debt management reforms.

Directors welcomed the authorities' intention to keep the exchange rate flexible, and encouraged them to rebuild international reserves gradually to counter the risks from rising recourse to international capital markets, ongoing liberalization of the financial account, and volatility in global commodity prices and financial conditions. Strengthening buffers would also bring Tanzania closer to its commitments under the prospective East African Monetary Union.

Directors underscored that the targeted high growth and structural transformation of the economy requires a rekindling of the reform agenda. In particular, they noted that improving the business environment will be critical to spur long term competitiveness and job creation, and also encouraged continued efforts to improve governance and combat corruption.

## Tanzania: Selected Economic and Financial Indicators, 2013/14–2019/20

	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
			Prog. <sup>1</sup>	Proj.				
(Annual percentage change, unless otherwise indicated)								
Output, prices and exchange rates								
Real GDP	7.1	7.0	7.0	7.1	7.2	7.0	6.8	6.6
GDP deflator	6.4	5.8	5.1	6.0	5.3	5.1	5.0	5.0
CPI (period average)	6.3	5.4	6.3	5.9	5.0	5.0	5.0	5.0
CPI (end of period)	6.4	6.1	6.1	5.0	5.0	5.0	5.0	5.0
Core inflation (end of period)	3.1	2.8	...	...	...	...	...	...
Terms of trade (deterioration, -)	-3.1	8.5	6.5	10.5	-0.2	-4.6	1.8	-0.1
Exchange rate (period average, TSh/US\$)	1,615	1,764	...	...	...	...	...	...
Real effective exchange rate (end of period; depreciation= -)	0.8	-9.5	...	...	...	...	...	...
Money and credit								
Broad money (M3)	15.8	13.1	16.0	16.0	14.5	13.7	13.6	13.4
Average reserve money	13.7	10.8	13.4	13.4	12.5	12.2	12.0	11.8
Credit to nongovernment sector	21.4	21.0	14.1	19.0	15.0	12.6	12.4	12.2
Treasury bill interest rate (in percent; end of period)	12.7	10.0	...	...	...	...	...	...
Broad money (M3, as a percent of GDP)	23.4	23.4	24.4	23.9	...	...	...	...
Non-performing loans (end of calendar year, percent of total loans) <sup>2</sup>	6.8	7.9	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
Central government budget								
Revenues and grants	15.6	14.0	15.9	15.4	17.2	16.7	16.8	17.0
<i>Of which:</i> grants	2.1	1.2	1.3	1.0	1.3	1.2	1.1	1.0
Expenditures	18.5	17.1	21.2	18.7	21.8	21.2	21.3	21.6
Current	13.7	12.8	14.8	13.6	12.1	12.4	12.6	12.7
Development	4.9	4.4	6.3	5.1	9.6	8.8	8.7	8.9
Unidentified expenditure measures <sup>3</sup>	...	...	-1.1	0.0	0.0	0.0	0.0	0.0
Overall balance <sup>4</sup>	-3.3	-3.3	-4.2	-3.3	-4.6	-4.5	-4.5	-4.5
Excluding grants <sup>4</sup>	-5.4	-4.3	-5.5	-4.2	-5.9	-5.7	-5.6	-5.6
Including net accumulation of arrears	-4.2	-4.4	-3.4	-2.3	-3.1	-4.5	-4.5	-4.5
Public debt								
Public gross nominal debt <sup>5,6</sup>	31.4	35.4	38.8	37.5	39.2	40.3	41.4	42.4
<i>of which:</i> external public debt <sup>6</sup>	23.7	27.6	30.5	29.0	30.7	31.5	32.5	33.4
Investment and savings								
Investment	30.6	30.8	31.4	29.4	33.8	33.2	33.2	33.5
Government	5.0	4.7	5.6	4.2	9.6	8.8	8.7	8.9
Nongovernment <sup>7</sup>	25.6	26.1	25.7	25.2	24.2	24.4	24.5	24.6
Gross domestic savings	18.5	22.3	23.6	21.8	25.6	25.1	25.3	25.7
External sector								
Exports (goods and services)	19.1	19.3	21.7	21.2	20.9	21.4	21.3	21.2
Imports (goods and services)	29.9	27.7	29.0	28.8	29.2	29.5	29.2	29.1
Current account balance	-10.7	-8.6	-8.3	-8.6	-9.1	-8.8	-8.6	-8.5
Excluding current transfers	-11.6	-9.2	-8.4	-8.7	-9.4	-9.1	-8.9	-8.7
Gross international reserves								
In billions of US\$	4.6	4.3	4.6	4.2	4.7	5.1	5.7	6.2
In months of next year's imports	4.2	4.0	4.0	3.6	3.6	3.7	3.8	3.9
Memorandum items								
GDP at current market prices								
Billions of Tanzanian shillings	75,336	85,291	94,867	96,806	109,278	122,833	137,709	154,206
Millions of US\$	46,636	48,353	43,968	44,895	48,347	52,660	57,304	62,293
GDP per capita (US\$)	1,008	1,024	913	932	984	1,051	1,121	1,195
Population (million)	46	47	48	48	49	50	51	52

Sources: Tanzanian authorities and IMF staff estimates and projections.

<sup>1</sup> From the third review under the Policy Support Instrument.

<sup>2</sup> E.g., calendar year corresponding to 2014/15 is 2015.

<sup>3</sup> These are the spending adjustments needed to achieve the budget deficit targets.

<sup>4</sup> Actual and preliminary data include adjustment to cash basis.

<sup>5</sup> Net of Treasury bills issued for liquidity management.

<sup>6</sup> Excludes interest payments due on external debt under negotiation for relief, and domestic unpaid claims.

<sup>7</sup> Including change in stocks.



# UNITED REPUBLIC OF TANZANIA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

June 29, 2016

### KEY ISSUES

**Recent macroeconomic performance has been strong.** Real GDP grew by 7 percent in 2015 and inflation averaged 5.6 percent. Progress in implementing past Fund policy advice, however, has been uneven. While macroeconomic management has been able to deliver fiscal sustainability and macroeconomic stability, the quality of fiscal management deteriorated in some areas until recently (e.g., significant domestic arrears accumulated up to end-2015).

**The new authorities have an ambitious development agenda.** It focuses on creating a better environment for business and job creation, including through better infrastructure, access to finance and land, and education and job training. The new authorities have also sent strong signals on their determination to reform the government and fight corruption.

**The macroeconomic outlook is favorable, but risks are tilted to the downside.** Growth would remain strong at about 7 percent in 2016 and the medium term, supported by the planned public investment scaling up. Inflation would remain close to 5 percent, assuming a tight monetary policy stance. Key risks include the tightening of global financial conditions, continued challenges to raise the required revenue and financing for the budget and the related risk of arrears, and in the medium term slow reforms that could affect potential growth.

**Sustaining high growth and implementing the development agenda while preserving fiscal and external sustainability will require a range of deep reforms.** Somewhat higher fiscal deficits could be sustained for a few years while keeping a low risk of debt distress. However, creating fiscal space for higher infrastructure investment will necessitate first and foremost sustained efforts to raise additional domestic revenue and streamline current expenditure. Reforms to increase spending efficiency, particularly in the area of public investment, will also be needed. More broadly, the targeted high growth and structural transformation of the Tanzanian economy will require a rekindling of the reform agenda.

**Performance under the PSI has been mixed.** Most end-2015 targets were met and the 2015/16 budget was adjusted as expected. Progress on structural benchmarks, however, was slowed by the transition to a new government. Understandings were reached on a fiscal stance for 2016/17 that would allow investment scaling up while preserving stability and sustainability.

**Staff recommends completion of the fourth PSI review.**



Approved By  
**Roger Nord (AFR) and  
 Catherine Pattillo  
 (SPR)**

Discussions took place in Dar es Salaam during March 10–23 and in Washington DC during April 11–18, 2016. The staff team comprised Messrs. Joly (head), Jang, Raman (all AFR), Kpodar (FAD), and Ms. Farid (SPR). Mr. Baunsgaard (Resident Representative) and Ms. Shayo and Mr. Rutachururwa (both local office economists) assisted the mission. Mr. Odonye (OED) participated in the discussions. The mission met with Minister of Finance and Planning Mpango; Minister of Energy and Minerals Muhongo; Bank of Tanzania Governor Ndulu; Permanent Secretary of the Treasury Likwelile; other senior officials; members of Parliament; and representatives of the private sector, civil society, and development partners.

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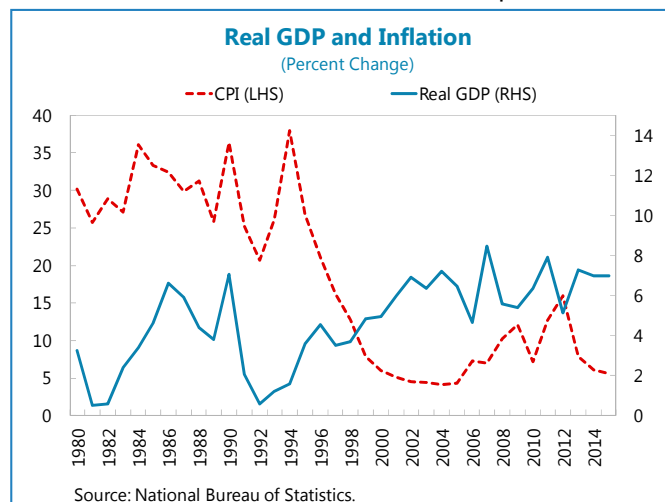
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## CONTEXT

### 1. Tanzania has achieved strong growth and macroeconomic stability over the past two decades.

This performance was the result of market-oriented reforms and prudent macroeconomic policies. Growth has been driven by construction, services, and basic manufacturing, and the economy has become more diversified. Inflation, while still volatile, has remained moderate. Poverty has decreased but remains high (at 28.2 percent of the population, based on the national poverty line) with a large population of underemployed youth, and despite substantial progress toward the Millennium Development Goals (MDGs), Tanzania is likely to have missed about half the 2015 targets (Table 1).



### 2. Progress in implementing past Fund policy advice has been mixed (Annex 1).

While macroeconomic management has been able to deliver fiscal sustainability and macroeconomic stability, the quality of fiscal management deteriorated until recently in some areas (e.g., expenditure arrears control) and the pace of reform has abated in recent years. The modernization of monetary policy has made only limited progress in the past two years. The business environment remains challenging and the perception of corruption has increased substantially. As a result, program performance under the PSI has been mixed.

### 3. The new authorities have an ambitious development and reform agenda.

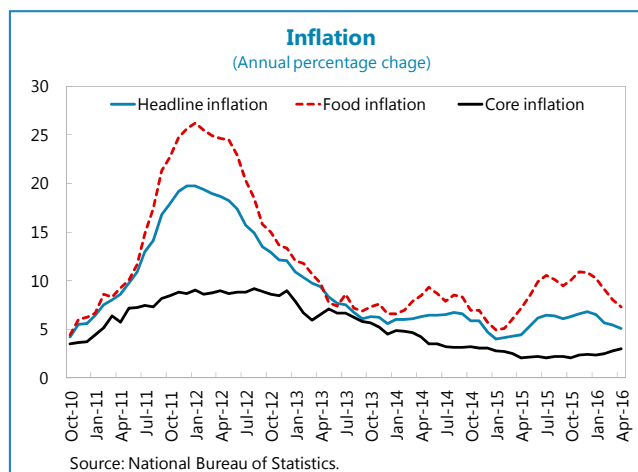
The government aims to make Tanzania a middle-income country with a development plan addressing the country's infrastructure gap and leading to inclusive growth (see below). The new authorities have also sent strong signals on their determination to reform the government, strengthen the work ethics of the public service, and fight tax evasion and corruption.

### 4. Data provision is adequate for surveillance and program monitoring.

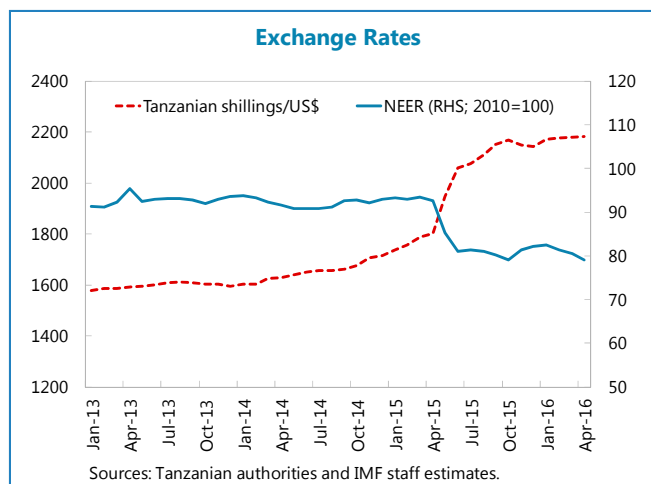
The authorities improved the national accounts and inflation data with Fund technical assistance (TA), including rebasing their benchmark years and expanding coverage. The Accountant General is also making progress on preparing consolidated financial statements for the wider public sector. The authorities intend to participate in the Enhanced General Data Dissemination Standard (e-GDDS) initiative to further enhance data dissemination practices. Staff encouraged them to expand the coverage of government finance statistics, as well as adopt the latest standards in this area.

## RECENT DEVELOPMENTS

**5. Growth has remained strong and inflation moderate.** Real GDP grew by 7 percent in 2015, with activity particularly buoyant in the construction, communication, finance, and transportation sectors. Inflation remained in single digits throughout 2015, averaging 5.6 percent, despite the significant exchange rate depreciation in the first half of 2015. Inflation in April 2016 was 5.1 percent, close to the authorities' target of 5 percent.

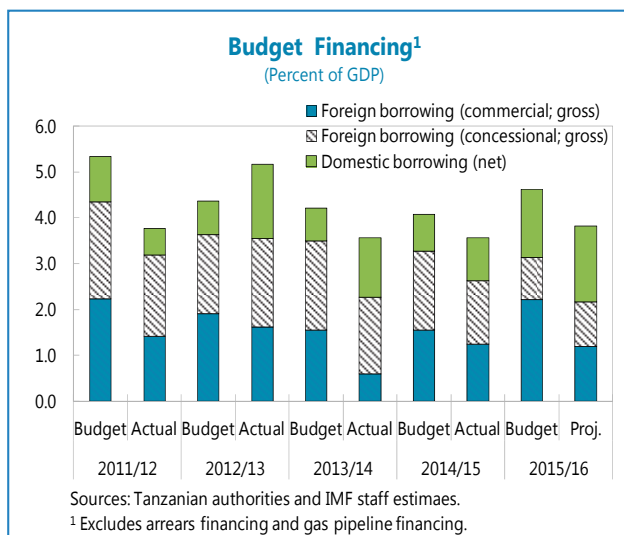
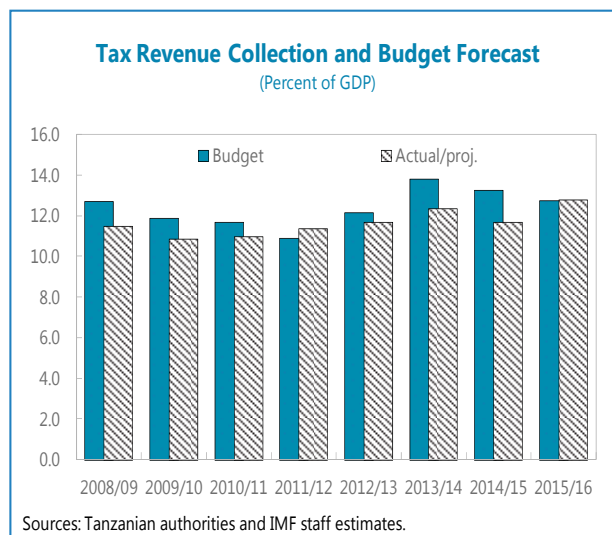


**6. The external position recorded mixed developments.** The current account deficit declined from 10.7 percent of GDP in 2013/14 to a projected 8.6 percent in 2015/16, mainly due to lower oil prices. The capital and financial account surpluses, however, have narrowed, reflecting lower donor support and lower FDI related to natural gas exploration. International reserve coverage has declined somewhat to a projected 3.6 months of imports of goods and services in June 2016, reflecting no accumulation in 2015/16 and the projected large increase in imports in 2016/17. The shilling depreciated sharply against the U.S. dollar in 2014/15 (about 25 percent) and experienced high volatility. While the shilling depreciated a bit further since mid-2015, the situation in the foreign exchange (FX) market has normalized, with improved liquidity and participation by commercial banks. Following the opening of the capital account to East African Community (EAC) investors in 2015, the authorities plan to extend the liberalization to all foreign investors.



**7. Unrealistic budgets and weak commitment controls led to the accumulation of large arrears to suppliers and pension funds in recent years.** The overall cash fiscal deficit remained relatively low in 2013/14 and 2014/15, at 3.3 percent of GDP. However, once corrected for significant budget expenditure arrears accumulation, the fiscal deficit actually was

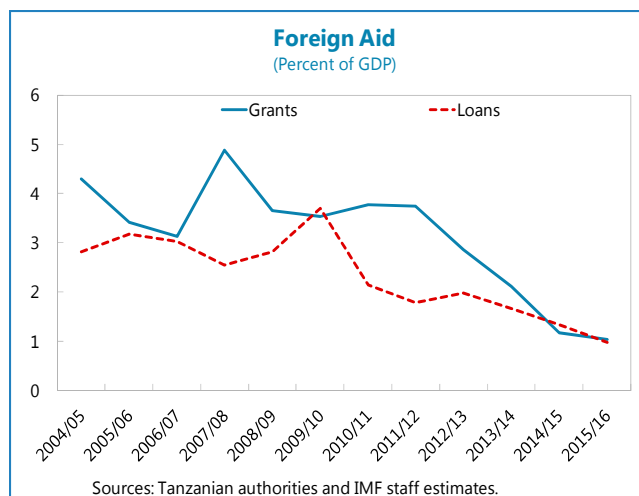
in the 4-4.5 percent of GDP range.<sup>1</sup> Budget execution in recent years was affected by unrealistically high revenue projections and financing shortfalls, which required inefficient intra-year expenditure adjustment mostly falling on investment. Delays in adjusting the budget and weak commitment controls were key factors behind the accumulation of arrears.



**8. Implementation of the 2015/16 budget has also faced challenges.** While the budget was built on ambitious but realistic revenue projections, expenditures still had to be adjusted for external financing shortfalls and to make room for expenditures carried over from 2014/15 and some of the new government’s priorities in education. The revised budget targets a lower overall deficit of about 3¼ percent of GDP (compared with 4.2 percent in the original budget and the program). Available information (on a cash basis) for the first three quarters suggests that this target is well within reach, reflecting a significant slowdown in the execution of capital expenditures. The stock of expenditure arrears decreased during the third quarter of the fiscal year (January-March 2016), reflecting the partial clearance of construction arrears and reversing an increase during the first two quarters.

<sup>1</sup> As a result, program design was changed during the third review with an assessment criterion (AC) on the overall cash fiscal deficit and a target of no accumulation of domestic expenditure arrears.

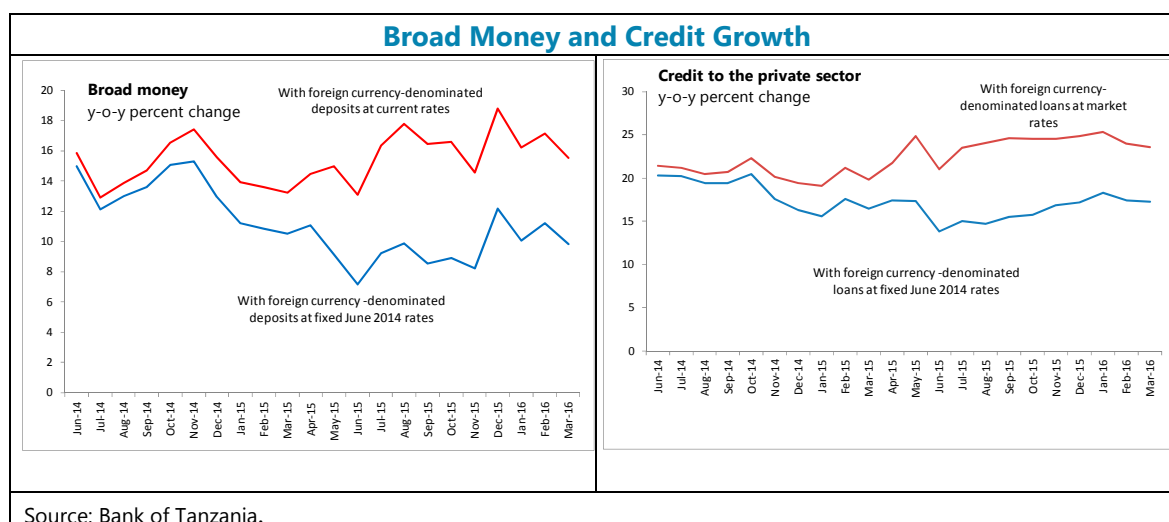
**9. While central government debt has increased to about 38 percent of GDP, debt vulnerabilities remain limited.** This increase reflects both fiscal deficits and the impact of the recent depreciation of the shilling on dollar-denominated debt. External borrowing on nonconcessional terms has increased rapidly in recent years, partly to make up for dwindling aid.



**10. The Bank of Tanzania (BoT) has successfully implemented its monetary targeting framework, but there has been little progress in moving to an interest-based framework.** Average reserve money growth has been kept within a 10–15 percent range and inflation at single digits. Once exchange rate effects are accounted for, credit and broad money growth, respectively at about 14 and 8 percent at end-April 2016, have picked up modestly.<sup>2</sup> Progress on de-dollarization, which stalled in the wake of the shilling's depreciation, has resumed.<sup>3</sup> The BoT is building forecasting and policy analysis capacity, with IMF support, and started focusing more on managing commercial banks' excess reserves, leading to less volatile interbank rates. However, the move to an interest-based framework has lagged behind, with repeated delays to introduce required reserve averaging, which is a precondition to implementing additional reforms.

<sup>2</sup> Nominal credit growth for April 2016, not corrected for the impact of the recent dollar depreciation, was about 19 percent.

<sup>3</sup> Measured at constant June 2014 exchange rates, FX deposits accounted for about 30 percent of M2 at end-April 2016 compared to a peak of 35 percent in April 2015.



## OUTLOOK AND RISKS

**11. The government's second Five-Year Development Plan (FYDP II) focuses on economic transformation through industrialization and human development.** To facilitate private sector-led growth, the new government aims to address the infrastructure gap, which remains large in Tanzania (see table below for a cross-country comparison), and create a business environment that is conducive to job creation. The government also aims to reduce poverty by improving social services (education, health, housing, water and sanitation), enhancing income security, and promoting social protection. The plan will start being implemented with the 2016/17 budget.

**Selected Quantitative and Qualitative Indicators of Infrastructure, 2010–14**

	Access to improved water source (share of population)	Access to electricity (share of population)	Electricity Generation (Kwh/capita)	Quality of roads	Quality of overall infrastructure
Tanzania	53	15	93	3	3.1
EAC	67	15	125	3.4	3.5
LIC's	67	28	215	3.1	3.2
LMIC's	86	77	1172	3.5	3.8

Sources: Country authorities, World Bank and World Economic Forum.

**12. The macroeconomic outlook is favorable.** Growth is projected to remain strong at about 7 percent in 2016, on the back of low oil prices (a positive shock for Tanzania), continued strong growth in certain sectors (e.g., services) and the scaling up of public investment. For the medium term, in the absence of a detailed quantitative macroeconomic framework for FYDP II

at the time of discussions, staff designed a baseline scenario assuming public investment scaling up. Noting that many of the authorities' priority investments would require several years to be implemented, staff assumed that capital expenditures would remain high over a few years. The investment effort would help keep growth at about 7 percent during that period; growth would then revert to its 15-year average of about 6½ percent. Inflation is expected to remain close to the authority's medium-term target of 5 percent, provided that the BoT maintains a tight monetary policy stance. The external current account deficit is projected at around 9 percent of GDP in 2016/17 and to remain elevated the medium term, as the implementation of FYDP II would lead to high capital spending and imports.

<b>Tanzania: Selected Economic Indicators</b>							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Real GDP growth (%)	7.0	7.1	7.2	7.0	6.8	6.6	6.5
Inflation (yoy, %, end-period)	6.1	5.0	5.0	5.0	5.0	5.0	5.0
Overall fiscal balance (cash basis, % of GDP)	-3.3	-3.3	-4.6	-4.5	-4.5	-4.5	-3.8
Government capital spending (% of GDP)	4.4	5.1	9.6	8.8	8.7	8.9	8.1
External current account balance (% of GDP)	-8.6	-8.6	-9.1	-8.8	-8.6	-8.5	-8.0
Gross international reserves (months of next year's imports)	4.0	3.6	3.6	3.7	3.8	3.9	4.0

Sources: Tanzanian authorities and IMF staff projections.

**13. Risks to the outlook are tilted to the downside.** Key external risks include the tightening of global financial conditions, which could result in higher financing costs and/or make external budget financing difficult, and a significant slowdown in China and other large emerging markets, which could affect external demand and the financing of key infrastructure investments and thereby growth (Annex II). Domestic risks include the possibility of fiscal slippages due to spending pressures stemming from FYDP II's implementation, continued challenges to raise the required revenue and financing for the budget, and in the medium term slow reforms that could affect potential growth.

#### **Authorities' views**

**14. The authorities broadly agreed with staff's assessment of the economy and outlook but were more optimistic about medium-term growth prospects, which would be supported by the implementation of FYDP II.** In light of large public investment needs, the government plans to mobilize additional domestic revenue and utilize public-private partnerships (PPPs) for large infrastructure projects to limit government borrowing and risks to debt sustainability.



## POLICY DISCUSSIONS

**15. Discussions revolved around how to sustain high growth and implement the new government's priorities while preserving fiscal and external sustainability.** This will require mobilizing additional domestic revenue, realigning spending priorities, and creating fiscal space for infrastructure investment, as FYDP II aims to do. At the same time, the targeted transformation of the Tanzanian economy requires administrative and institutional reforms to promote credible policy implementation, higher efficiency of public spending, deeper financial intermediation, and an improved business environment.

### A. Raising Public Investment While Mitigating Risks

#### Background

**16. The draft 2016/17 budget envisages a large increase in public investment and revenue and targets a deficit of about 4.5 percent of GDP.** The tax revenue to GDP ratio is expected to increase by about 1 percentage point, through a strengthening of tax administration and tax policy measures. The nontax revenue to GDP ratio would increase by about 1.5 percentage point, owing to higher contributions of parastatals to the budget (including a large one-off transfer on account of retained earnings) and higher efficiency in the collection of various fees. On expenditure, the draft budget proposes a large change of the composition of spending in favor of investment. Current expenditure would be contained through a hiring and nominal wage freeze and efforts to significantly reduce the cost of running the government. Capital expenditures would more than double as a share of GDP, bringing development spending to about 11 percent of GDP in 2016/17.<sup>4</sup> The budget sets aside about 1.5 percent of GDP to clear budget expenditure arrears. Higher project financing and external nonconcessional borrowing (ENCB) would help finance the investment effort and higher fiscal deficit.

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<sup>4</sup> In the draft budget, most of the increase in the public investment to GDP ratio would be made possible by higher revenue and current expenditure streamlining, with the higher deficit playing a more limited role.

<b>Key Development Projects in 2016/17 Budget</b>		
	Billions of shillings	Percent of GDP
Total development expenditure	11,821	10.8
of which; arrears clearance	1,677	1.5
Education <sup>1</sup>	898	0.8
Energy	1,056	1.0
Health <sup>1</sup>	527	0.5
Roads <sup>1</sup>	2,176	2.0
Transportation	2,496	2.3
of which: Railways	1,317	1.2
Airplanes	500	0.5
Dar es Salaam Port	342	0.3
Water <sup>1</sup>	915	0.8
Regions and local governments authorities	1,309	1.2

Source: Tanzanian authorities.  
<sup>1</sup>.Excludes projects implemented by regions and local governments.

## Staff's views

**17. To reduce the risk of further arrears accumulation and absorption capacity problems, staff recommended basing the budget on lower revenue projections.** Based on available information, staff's estimates for tax revenue and nontax revenue are below the authorities' targets by about ½ percent of GDP each.<sup>5</sup> Most of the difference is explained by the estimated impact of administrative measures. Staff underscored that excessively optimistic revenue and financing projections were one of the main reasons behind the accumulation of expenditure arrears in recent years. Staff suggested lowering revenue projections by 1 percent of GDP in the budget and treating any excess revenue, should it materialize, in a supplementary budget in the course of next year. Lowering revenue would require reducing expenditure commensurately to stick to the deficit target. Staff also noted the importance of subjecting large capital expenditures to proper cost-benefit analysis. In this regard, it expressed concerns about the envisaged purchase of planes for Air Tanzania, at a time when a strategy on what to do with the financially distressed airline has not been adopted yet. Staff otherwise strongly supported the planned reorientation of spending toward capital spending, but noted that the envisaged compression of current expenditure was very ambitious and would require broad-ranging measures and sustained efforts. Staff also stressed that the external financing assumptions were ambitious and would require overcoming the issues that have led to ENCB shortfalls in recent years.

<sup>5</sup> In staff's projection, the tax revenue ratio increases by 0.4 percentage point, half of which on account of tax policy measures presented in the draft budget, and the other half on account of tax administration measures. The nontax revenue ratio increases by 0.9 percentage point: 0.3 percentage point comes from the recording of revenue of the Tanzania Port Authority (with the corresponding spending on the expenditure side), which was not previously recorded in the budget; the increase coming from parastatals proper is about 0.8 percentage point, of which about 0.6 percentage point is the one-off contribution.

**18. The debt sustainability analysis (DSA) suggests that Tanzania could afford a somewhat higher deficit than programmed for a few years and still keep its low risk of debt distress.** In the baseline scenario designed by staff, the investment scaling up leads to higher fiscal deficits for a few years (about 4.5 percent of GDP, as in 2016/17). The completion of the main infrastructure projects would then lead to a reduction of capital expenditures, and with it of the fiscal deficit to slightly below 3 percent of GDP by 2022 consistent with regional commitments to converge toward the East African Monetary Union (EAMU). In line with its medium-term debt management strategy and ongoing discussions with the concerned creditors, Tanzania would rely more than assumed in the previous DSA on borrowing from the regular windows of the World Bank and African Development Bank, whose terms remain much more favorable than international markets', and on domestic borrowing.<sup>6</sup> Under these relatively prudent assumptions, the updated DSA suggests that while debt vulnerabilities would increase somewhat, the risk of debt distress would remain low.<sup>7</sup>

**19. Fiscal risks and debt management needs to be strengthened.** Having realistic budgets (including with regard to recurrent costs associated with capital expenditures) and contingency measures should be the first line of defense against fiscal risks. Utilizing PPPs for large infrastructure projects would reduce government borrowing but the related fiscal risks need to be carefully evaluated and reported; this would also require a strengthening of the capacity to manage PPPs. Staff supported the efforts of the authorities to better monitor and manage parastatals and encouraged further disclosure of information in this area. The publication of the Fiscal Transparency Evaluation and annual updating of the fiscal risks statement would also be welcome.

### **Authorities' views**

**20. The authorities were confident that the projected revenue increase in the draft 2016/17 budget would materialize.** They noted that the pickup in tax revenue collection from December 2015 was a sign that taxpayers took the fight against tax evasion seriously, and expected revenue buoyancy to continue. They also expected a number of tax administration measures, including the implementation of an action plan following the recent Tax Administration Diagnostic Assessment and the rollout of Electronic Fiscal Devices, to lead to a significant improvement in compliance. On nontax revenue, they reported that the increased contributions to the budget had been discussed and agreed with the concerned parastatals.

<sup>6</sup> Discussions with these two multilateral creditors are well advanced, and significant project financing was already contracted from the African Development Bank and will start disbursing in 2016/17.

<sup>7</sup> The assumptions can be seen as prudent for the following reasons: (i) the authorities might target a lower fiscal deficit than assumed in staff's scenario beyond 2016/17; (ii) the scenario does not assume a significant growth dividend from the investment scaling up; and (iii) the share of concessional financing is assumed to further decrease.

**21. The authorities reiterated their commitment to fiscal discipline and indicated that some large projects would be started only after confirmation in the mid-year budget review of adequate preparation and availability of revenue.** This would be the case, in particular, for the standard gauge railway for the “central corridor”<sup>8</sup> and the renovation of the Dar es Salaam port. They also underscored that some expenditures would be executed only if the financing could be raised. This was particularly the case for certain capital expenditures, which would be financed through project financing or PPPs. Actual spending might therefore turn out lower than budgeted, which could lead to a lower fiscal deficit than envisaged in the draft budget. The efforts to better monitor parastatals were also an attempt to better manage public resources. The commitment to strengthen debt management capacity remained intact; adoption by cabinet of the new policy and legal framework for debt management was expected by end-July 2016, with the delay of a few months from original plans only due to changes in the structure of the Ministry of Finance and Planning.

## B. Mobilizing Additional Revenue

### Background

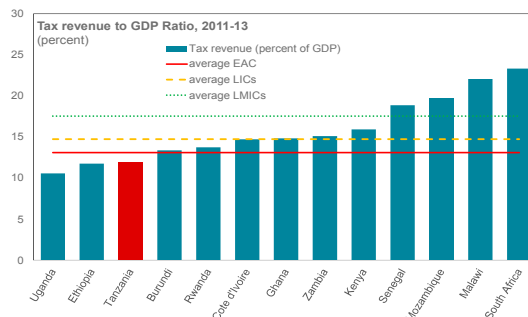
**22. Tanzania’s tax revenue, at about 13 percent of GDP in 2015/16, is low by international standards.** This reflects to a significant extent poor VAT performance. Staff analysis suggests that the tax revenue gap in Tanzania was about 4 percent of GDP in 2009–13, and assuming an unchanged tax potential would still be about 2–3 percent of GDP presently (Box 1).

#### Box 1. Tax Revenue Gap in Tanzania

**Tanzania’s tax revenue performance lags behind that of comparable countries.** Tanzania had a tax-to-GDP ratio of 11.9 percent of GDP in 2011–13, well below the average of EAC countries (13.1 percent of GDP) and that of LICs (14.7 percent of GDP). This reflects to a significant extent poor performance in VAT collection. While EAC countries collected an average of 4.4 percent of GDP in VAT revenue in 2011–13, Tanzania only managed to achieve 3.3 percent of GDP. The VAT revenue underperformance appears to be driven by a low tax productivity associated with administrative inefficiency, low taxpayer compliance, and policy gaps.

**The estimation of the tax capacity suggests that there is a considerable scope to raise revenue in the medium term.**

Using the peer analysis and the frontier approach on a sample of 32 LICs with data during 1994–2013, Tanzania’s tax capacity is estimated at 15–16 percent of GDP in 2009–13, that is about 4 percent of GDP above the average tax revenue ratio during the same period. Assuming an unchanged tax capacity, and in light of the increase in the tax revenue ratio in 2015/16, the gap has been reduced to 2–3 percent of GDP.



<sup>8</sup> The draft budget includes an allocation of close to 1 percent of GDP for the standard gauge railway project. The latter is expected to be financed mostly through a public-private partnership, with a total cost reportedly of about US\$8 billion (about 16 percent of current GDP).

**Staff's views**

**23. Raising more revenue will be critical to reconcile the government's investment priorities with fiscal sustainability.** Closing the tax revenue gap will require sustained and deep reforms, both in tax policy and tax administration. Although the new VAT law implemented from July 2015 is a good step forward, more needs to be done to further streamline exemptions and improve the refund mechanism. There is also significant revenue mobilization potential through the elimination of corporate income tax holidays and exemptions, the regular adjustment of specific excise rates, and development of property taxation. In the areas of tax administration, the need to step up reforms is pressing. Areas for policy actions include cleaning up the taxpayer registration and accounting, upgrading the IT system and strengthening compliance risk management.

**Authorities' views**

**24. The authorities agreed with the need to raise revenue collection and pointed to ongoing initiatives in this area.** FYDP II aims to increase domestic revenue by fighting tax evasion, streamlining exemptions, widening the revenue base, and strengthening the capacity of revenue collecting agencies. In the area of tax administration, a plan was prepared following the recent diagnostic mission. The authorities have also started considering tax policy reforms in a broad range of areas (including VAT, corporate income tax, excises, and property taxation), and discussions are expected to continue in the coming months before a strategy is adopted by end-2016.

## C. Enhancing Public Spending Efficiency

**Background**

**25. Weak revenue collection has affected the level of expenditure, and spending efficiency has been low in certain sectors.** Tanzania's public expenditure was below the average for LICs in recent years, with the gap being larger for investment spending. As mentioned above, weak commitment controls and unrealistic budgets in recent years have led to intra-year expenditure adjustments affecting investment and arrears accumulation. Staff analysis suggests that Tanzania performs poorly in education and investment spending efficiency while health spending efficiency appears to be in line with the average for LICs (Box 2).<sup>9</sup>

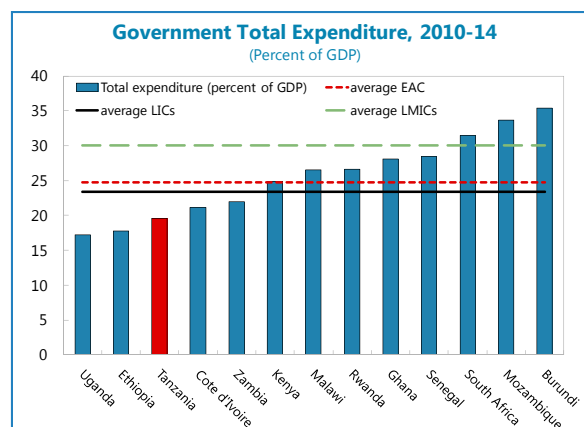
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<sup>9</sup> Average efficiency does not mean that there are no issues with the quality and availability of services, which may be affected by a range of factors. As Box 2 underscores, there is significant scope for progress, even in the health sector.

## Staff's views

### 26. Improving spending efficiency would help reduce spending pressures.

Better outcomes could be obtained with the same amount of spending. As discussed in Box 2, possible reforms include improving resource allocations in the education and health sectors and linking them to performance. Improving the efficiency of public investment becomes even more critical in a context where the authorities plan to raise capital expenditure substantially. An initial assessment of the public investment management process suggests a need to strengthen project appraisal and implementation capacity.



**27. Arrears prevention requires sustained reforms in public financial management (PFM) in addition to credible budgeting.** More realistic budgets, tighter commitment controls, and improved cash management are critical to avoid arrears accumulation and budget adjustments in the course of the fiscal year.<sup>10</sup> Staff also urged the authorities to settle arrears to pension funds as soon as possible.

## Authorities' views

**28. The authorities broadly concurred with the assessment and stressed that a number of reforms were underway.** They noted that expenditure efficiency during the implementation of FYDP I was affected by inadequate prioritization and stressed that FYDP II addressed this issue. The authorities also reported the recent launch of the comprehensive public investment management manual, which is expected to help improve the efficiency of capital expenditure. On expenditure arrears, they underscored that recent data suggest a much better outcome so far than in past years. Arrears will continue to be settled next year, thanks to significant budget allocations for this purpose. An expert has been hired to enhance the IFMIS, which will enable to track multi-year commitments over the life cycle of the budget. This will ensure proper budgeting of the required resources, and further improve the integration of the medium-term expenditure framework into the annual budget process. A new public awareness

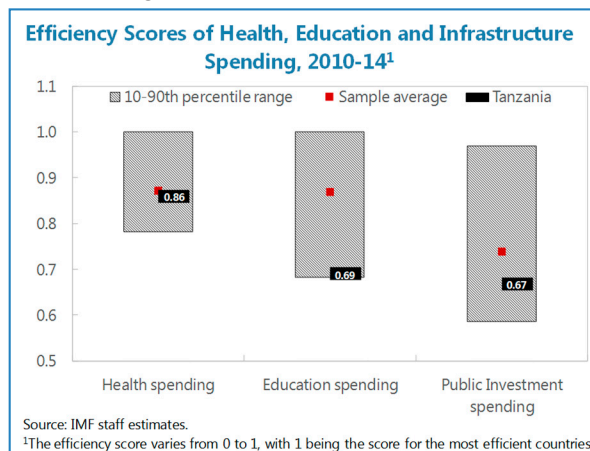
<sup>10</sup> A recent TA mission recommended improving budget credibility by cabinet committing to the fiscal framework early in the budget cycle, subjecting revenue forecasts to independent review, greater analysis and debate on selected budget items, identifying all contract commitments for the budget year and period of the medium-term expenditure framework, and presenting separately new and ongoing activities. The mission also suggested strengthening the cash flow planning process using rolling three-month cash flows and quarterly expenditure ceilings and monthly cash releases. In the area of commitment controls, the authorities should initiate a public awareness campaign notifying suppliers that orders without a system-generated order number will not be honored. A range of technical recommendations were also made to use IFMIS better and increase its coverage, including the requirement for all orders to be processed through IFMIS, with a mandatory control against commitment ceiling releases.

campaign will be launched to warn suppliers that orders not generated through IFMIS will not be honored. The settlement of arrears to pension funds has been postponed to end-2016 to ensure the legitimacy of arrears to be cleared, in light of the very large amounts involved. The principle of clearing these arrears, however, remains.

### Box 2. Benchmarking and Efficiency of Public Spending in Tanzania

**Public spending has broadly stabilized in the recent years and remained below the level of comparator countries.** A lackluster revenue performance, combined with declining donor assistance and difficulties in securing external financing, has constrained public spending growth. Further, the need to maintain fiscal discipline in the face of revenue and financing shortfalls led to expenditure cuts that fell disproportionately on capital expenditure, thus weakening the composition of spending. Total public expenditure in Tanzania stood at 19.5 percent of GDP on average in 2010–14, well below the EAC average (24.5 percent of GDP), while capital expenditure was the lowest in the region.

**There is a significant room to improve public spending efficiency.** The latter was assessed using the data envelopment analysis (DEA) approach on a sample of 34 LICs with data for the period 2010–14. The efficiency score of Tanzania for health spending is estimated at 0.86 close to the sample average, using the health-adjusted life expectancy (HALE) to measure the health outcome. Eliminating remaining inefficiencies (i.e., bringing the score to 1) could raise HALE from 53 to 60 years with the same level of spending. Using school enrollment rates as the education outcome, the efficiency of education spending in Tanzania is about a third lower than in the most efficient LICs. Similarly, Tanzania ranks low in the efficiency of public investment, with the efficiency gap estimated at about a third for overall infrastructure quality.



**Reforms to improve the allocation of resources in the health and education sectors and strengthen public investment management institutions would help Tanzania improve public spending efficiency.** In the health sector, existing reports highlight the need to align staffing of healthcare centers and the provision of drugs to demand and performance, address the shortage of skilled staff, tackle low productivity of staff and the high degree of absenteeism, and strengthen the information management system to better monitor health indicators and performance of healthcare centers. In the education sector, reducing the large disparities of students to teacher ratios across districts, improving the quality of primary education, and improving teachers' skills are essential. It is important that spending on tertiary education does not crowd out that of lower education levels, whereas student loans should be better targeted and their repayment enforced. Strengthening public investment management institutions would be critical to improve the selection, appraisal, management and evaluation of projects.

## D. Monetary and Financial Sector Policies: Promoting Growth While Preserving Stability

### Background

**29. The financial system in Tanzania is dominated by banks.**<sup>11</sup> Financial markets, on the whole, are shallow and less developed though a few markets (the interbank and foreign exchange markets) exhibit greater liquidity and depth. Banks are generally well-capitalized and profitable. However, there is wide variation within the system: a few large banks have shown strong financial performance but other banks, primarily smaller foreign-owned banks and community banks, exhibit low profitability and poor asset quality. State-owned banks also have relatively high non-performing loan (NPL) ratios. Tanzania stands out in its large number of banks (57).

**30. The level of financial development has improved in recent years, though at a gradual pace.** A broad measure of financial development suggests that the development of institutions has improved over time but that of markets has lagged. Among institutions, there has been notable improvement in access, particularly for households. The expansion of mobile money and banking is a key driver of this positive development.<sup>12</sup> While nearly two-thirds of adults now have access to formal financial services, the picture for firms is less positive: in the 2013 World Bank enterprise survey, almost 44 percent of firms in Tanzania claimed to face difficulties in accessing finance, the highest proportion in the EAC, with small and medium enterprises facing particularly acute challenges. Further, the level of financial development in Tanzania is lower than might be expected for a country at its current level of income and similar fundamentals, with market development particularly lagging. Finally, financial efficiency is relatively low in Tanzania, with for instance high lending rates.

**31. Improving financial development would likely yield higher growth and greater stability.** Based on recent cross-country empirical work done at the IMF,<sup>13</sup> Tanzania stands to benefit substantially from greater financial development. By bringing the level of development up to expected levels given Tanzania's economic and demographic characteristics, empirical estimates suggest that growth could be higher by up to 1 percent and less volatile.

**32. Improving financial market development in Tanzania would also facilitate macroeconomic policy implementation.** The monetary transmission mechanism is weak and seems to have weakened, rather than strengthened, in recent years. There appears to be little correlation between short-term (market) rates and longer-term retail rates, probably reflecting

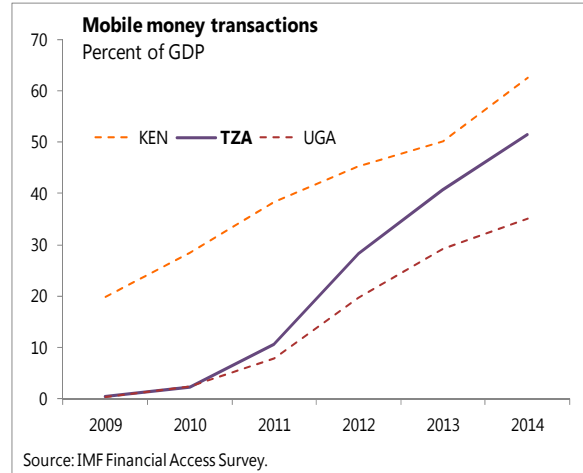
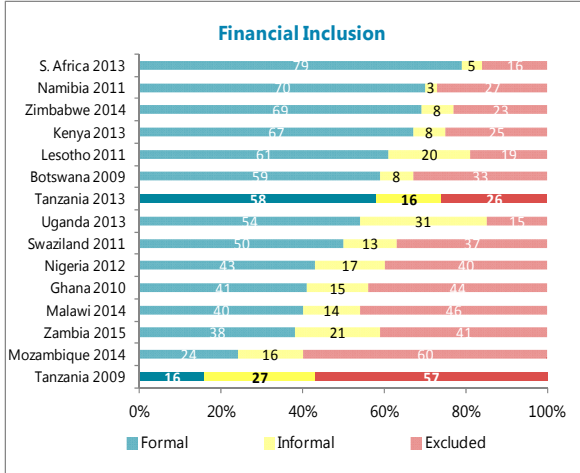
<sup>11</sup> See the Selected Issues Paper (SIP) on macro-financial issues.

<sup>12</sup> Mobile money transactions have grown rapidly in Tanzania. They amounted to nearly 52 percent of GDP in 2015, up from just 0.2 percent in 2010.

<sup>13</sup> See [Sahay, R. and others, 2015, \*Rethinking Financial Deepening: Stability and Growth in Emerging Markets\*](#) (IMF Staff Discussion Note No. 15/08) and [Chapter 3](#) of the April 2016 Regional Economic Outlook for sub-Saharan Africa.

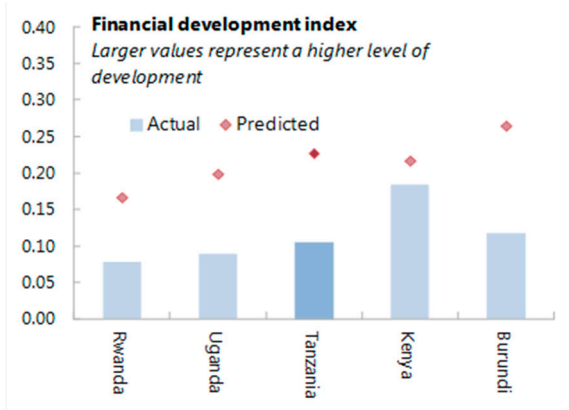


interest rate volatility in the interbank market. The lack of market development also adversely affects fiscal policy by reducing the authorities' capacity to raise domestic financing at a reasonable cost and run counter-cyclical policies in response to shocks, and raises risks such as rollover risks.

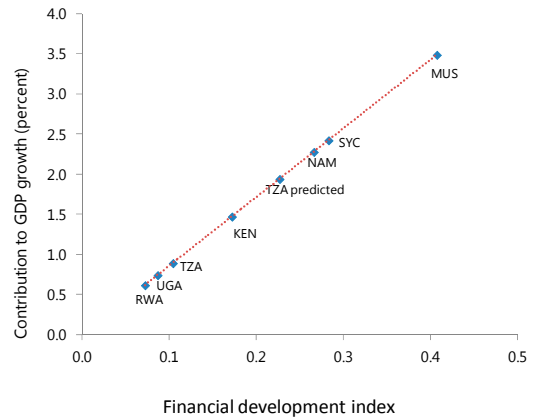


### Tanzania: Estimated Gap in Financial Development and Impact of Closing the Gap

Tanzania's level of financial development, encompassing institutions and markets, lags EAC peers as well as levels expected given its income and demographic characteristics



Closing this gap and moving from the observed level of development to that predicted by fundamentals could substantially increase growth in Tanzania



Sources: Sahay and others (2015); IMF (2016)

### Staff's views

**33. Achieving further financial development supporting growth will require prudent credit expansion and other measures.** While the short-term relationship between economic growth and credit appears relatively weak, the link may be stronger in the long run. Further, as the financial system deepens, the link is expected to strengthen. Rapid credit growth, while

likely a needed ingredient of financial development, may lead to potential vulnerabilities in the financial sector. So far, the recent rapid rise in credit appears to be well-supported by economic conditions: The credit-to-GDP ratio, while rising, has not deviated from historical trends. Nevertheless, there are developments in some sectors that bear monitoring. In particular, lending to real estate (reflecting lending to activities related to commercial properties), while small, has been growing rapidly. Further, some lending for property-related activities is not adequately captured by the data as it is classified as personal loans by commercial banks. Mortgages, which are a new and small part of overall lending, have increased in recent years. While risks appear to be contained, the BoT should monitor the situation closely and stand ready to take swift action, including imposing or adjusting prudential limits.<sup>14</sup> Beyond credit growth, financial development will require improving further access, particularly for businesses, and reducing high borrowing costs, which reflect a range of issues typically found in LICs (e.g., imperfect information and slow resolution of disputes by the judicial system).

**34. Micro- and macro-prudential oversight needs to be further strengthened, in parallel with the development of the financial system.** Moving forward with the planned increase in capital requirements may support a gradual consolidation amongst banks. Some banks continue to have high levels of NPLs. A more proactive approach is required from the supervisory authorities to work with commercial banks on reducing NPLs. The overall stability of the banking system would be enhanced by the BoT tackling more forcefully the two small banks reporting negative capital. Enhanced AML/CFT supervision of banks could help address risks from potential loss of correspondent banking relations. With regard to mobile money, the BoT should continue to work on achieving full pass-through of deposit insurance coverage for individual mobile money accounts, addressing operational risks, and stepping up contingency planning.

**35. A key first step to develop financial markets is for the BoT to further increase its emphasis on short-term interest rates.** By more directly focusing on stabilizing short-term rates, including through open market operations and implementing structural reforms (e.g., required reserve averaging, ensuring that the Lombard window can always be accessed and at a rate that does not follow short-term market fluctuations), the BoT could reduce interbank rate volatility, foster the development of the interbank market, and strengthen the interest rate channel of monetary policy transmission. The eventual move to an interest-based monetary policy would complete this process. Forecasting and policy analysis capacity needs to be further developed and integrated more systematically into the decision-making process. Further work is needed to improve liquidity forecasting at the BoT and commercial banks, for instance to better anticipate seasonal patterns in government flows, which would be helped by reducing and eventually eliminating central bank advances to the government.

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<sup>14</sup> An option, for instance, would be to bring the loan-to-value ceiling on mortgages back to 80 percent (it was recently raised to 90 percent).

Communication also needs to be further stepped up and improved, both through the regular publication of information and analyses and exchanges with market participants.

**36. Fiscal and debt management reforms could play an important role too.** Budget credibility needs to improve and to be accompanied by better cash forecasting on the part of the fiscal authorities. This will also allow the authorities to announce and stick to a bond issuance schedule, which ultimately would strengthen the government securities market. Tap sales should be phased out while transparent rules that govern the bidding process in primary auctions should be adopted. Arbitrary changes (changing or even cancelling offered amounts) should be eliminated. Greater communication with financial market participants would also help in setting the stage for a more effective government securities market.

### Authorities' views

**37. The authorities broadly shared these views and underscored that a number of the recommendations were already being implemented.** They noted that sustainable credit growth and better SME access to finance would require better and more easily available information to assess credit risks, as well as improved financial literacy, and they laid out their plans in this area. Implementation of partial reserve averaging is about to be implemented, and both the Lombard facility and the collateral framework will be reviewed with a view to improving them. With TA from the Fund, forecasting and policy analysis capacity is being strengthened. Communication with markets participants has improved significantly since mid-2015. The recommendations made to improve the functioning of the government debt market are being considered, together with the possibility of further IMF and World Bank TA to implement them.

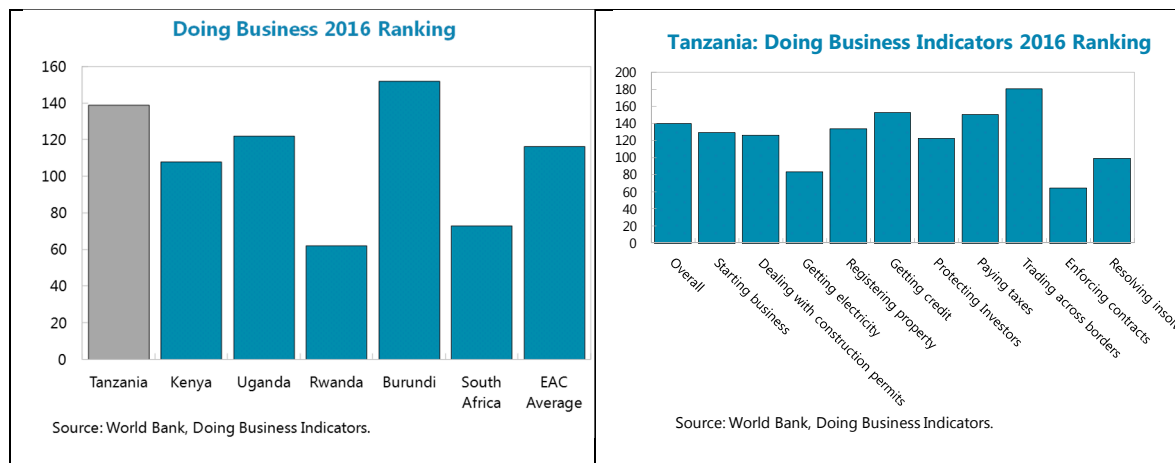
**38. Micro- and macro-prudential oversight is being strengthened.** The BoT recently concluded its pilot consolidated supervision exercise on a large domestic bank with some cross-border operations, and additional pilot exercises are being planned. Work is underway to develop a supervisory framework for community banks. The BoT intends to improve its stress-testing model and capacity. It will review the stringency of future stress tests to ensure that both baseline assumptions and tail risks are adequately explored.

## E. Growth-Enhancing Structural Reforms

### Background

**39. The business environment remains challenging.** In the 2016 World Bank's Doing Business survey, Tanzania ranks 139 out of 189 countries and lags behind its regional peers such as Kenya, Rwanda, and Uganda. Getting credit, paying taxes, and trading across borders are mentioned as the biggest issues. The perception of corruption has increased in recent years, while the perception of government effectiveness has decreased. Corruption has directly affected public finances: for instance, corruption at the Port of Dar es Salaam led to significant tax evasion and lower revenue; corruption in the private placement of a bond in 2013 increased

financing costs to the government. In addition to the possibility of potential contingent liabilities, the IPTL case and related court proceedings have also likely increased perception of risk by investors. More broadly, corruption has negatively impacted the business climate, with likely negative implications for investment and growth.<sup>15</sup>



**40. Tanzania could become a major producer and exporter of natural gas in the next decade.** Recently discovered offshore natural gas, assuming it is exploited, could lead to multi-billion dollar foreign investment in the next 5–10 years and make Tanzania one of the largest exporters of natural gas in the region by the mid-2020s. Potentially significant revenue from natural gas (whose size is highly sensitive to a number of parameters, particularly gas prices; see Selected Issues Paper) could play a critical role for the development of Tanzania, if well managed.

**41. The financial sustainability of the public electricity utility, TANESCO, has not been achieved yet, affecting its credibility as an energy purchaser.** TANESCO still has a large amount of arrears to gas and electricity suppliers (0.7 percent of GDP in early 2016). A large independent electricity producer (SONGAS) recently decided to shut down partially its operations as a result of TANESCO's inability to clear its arrears; other investment decisions could also be affected. Despite this context, TANESCO requested a small tariff decrease for the spring of 2016, and a larger one for 2017, anticipating a significant improvement in its financial situation reflecting favorable developments in its production mix.

#### Staff's views

**42. A rekindling of reform efforts will be needed to foster further structural transformation and sustain high productivity growth and investment** (Box 3). Staff supported the new government's plan to play a facilitating role for private sector-led growth, by creating a better environment for business and job creation, including through better

<sup>15</sup> The U.S. authorities' ruling concerning FBME Bank presents additional reputational risk to the effectiveness of the country's AML/CFT regime.

infrastructure (for energy and transportation in particular), access to finance and land, and education and job training. Given that over 70 percent of the population is involved in agriculture, modernizing this sector will help raise income, free labor resources for other sectors of the economy, and could foster the development of certain industries, such as food processing. Staff also argued that Tanzania could significantly benefit from the completion of the EAC common market and urged the authorities to push for the removal of non-tariff barriers in the region.

**43. Decisions will need to be made and implemented quickly to ensure the sustainability and development of the energy sector.** The investment decision has not yet been made by potential investors in the offshore gas sector, as a number of critical issues related to the legal, tax, and regulatory environment have not been resolved. Staff welcomed the new authorities' plan to re-engage with the investors to facilitate reaching the investment decision. Further improving the financial sustainability of TANESCO is critical to provide incentives for the existing producers of gas and independent power producers to expand their activities. Staff urged the authorities to finalize and implement the strategy to address TANESCO's arrears and to reconsider the planned tariff decreases until TANESCO's financial situation allows it.

**44. Staff welcomed the new authorities' strong drive against corruption.** Staff underlined that anti-corruption and anti-money laundering laws and their corresponding penalties should be fully applied to any established corruption cases. Strengthening transparency will also help reduce the incidence of corruption.

### Box 3. Productivity, Growth, and Structural Reforms 1/

Tanzania experienced macroeconomic stabilization and significant structural change over the last three decades, including two major waves of reforms, first in the mid-1980s and more importantly in the mid-1990s. Staff analysis shows that both reform waves were followed by total factor productivity (TFP) and growth spurts. Over the recent period, growth remained strong with high investments to address infrastructure gaps, but TFP growth decreased.

**Table 1. Tanzania: Basic Growth Accounts**  
(Annual average growth rates)

	1981-85	1986-90	1991-95	1996-2007	2008-14
GDP	2.3	5.5	1.8	5.6	6.4
Capital 1/	0.9	1.0	1.4	1.2	2.7
Labor 1/	3.1	2.6	2.9	2.4	2.8
TFP	-1.6	1.9	-2.5	2.0	0.9

Source: IMF staff calculations.

1/ Contributions to GDP growth.

The lower TFP performance coincided with a less strong reform drive in recent years. Certain indicators suggest that recent progress has been limited in a number of priorities areas, with even a deterioration of certain aspects of public governance (e.g., control of corruption) and overall government effectiveness. The business environment is challenging, even by regional standards.

Vigorous reforms are needed to sustain high growth and foster further structural transformation of the economy. While higher investment is welcome, particularly in a country with a low capital stock, a growth model relying mostly on capital accumulation is less durable than one also underpinned by TFP improvements. In emerging Asian countries which achieved sustained high growth, TFP growth contributed more to GDP growth than in Tanzania in recent years. There seems to be considerable room for productivity improvements through sustained structural and institutional reforms, which would support continued diversification of the economy.

**Table 2. Growth Accounts: Cross Country Comparison**  
(Annual average growth rates)

	Tanzania	Korea	China	VietNam	Thailand
	2008-14	1981-90	1991-2000	2001-07	1981-90
GDP	6.4	9.0	9.1	7.4	7.5
GDP per labor	3.4	6.3	7.9	5.1	4.3
Labor input	3.0	2.6	1.2	2.3	3.2
Human capital	1.0	0.9	1.2	1.0	0.8
Capital per labor	5.6	7.5	8.7	8.3	3.9
TFP	0.9	2.8	3.7	1.2	2.3
Per capita GDP (US\$)					
Beginning year	672	1,870	357	402	752
Ending year	1,029	6,513	954	920	1,571

Sources: IMF staff calculations; and Lee and Hong (2010).

1/ See Chapter I of the Selected Issues Paper.

## Authorities' views

**45. The authorities stressed that the growth strategy laid out in FYDP II was broadly consistent with staff's recommendations**, with its focus on further structural transformation and a facilitating role for the government in this process. With regard to the EAC integration process, they noted that the first implementation phase of the common market is currently being assessed by the regional authorities, with a view to drawing lessons for the next steps. The authorities reiterated their intention to maintain close engagement with potential investors in the offshore gas sector.

## F. Reducing External Vulnerability

### Background

**46. The external current account deficit is expected to remain high.** Tanzania has recorded large current account deficits over the past decade, financed mainly by official flows and FDI. High development and infrastructure needs are expected to continue to lead to large investment-related imports and current account deficits.

**47. Empirical analysis suggests that the exchange rate is broadly in line with fundamentals and desirable policies and that international reserves are adequate.** The EBA-lite external sustainability and real exchange rate approaches indicate that the shilling, which was last assessed in 2014 to be somewhat overvalued, is now close to equilibrium (Annex III). The EBA-lite current account approach, however, suggests that Tanzania's current account deficit is larger than the level consistent with fundamentals and desired policies, implying some overvaluation. This model, however, does not seem to capture well Tanzania's situation (including substantial imports financed by FDI), as indicated by a very large residual. Moreover, the shilling has not been under significant pressure since mid-2015. According to traditional metrics and a cost-benefit analysis, Tanzania's reserves at about 3.6 months of imports at end-June 2016 are adequate (Annex III).

### Staff's and authorities' views

**48. Staff and the authorities agreed that the real effective exchange rate had moved close to equilibrium and about the need to keep the exchange rate flexible.** However, efforts will be needed to expand the narrow export base to reduce external vulnerability. Given other countries' experiences, allowing exchange rate flexibility is critical to keeping tradable goods and services competitive. Foreign exchange market interventions should be used to smooth excessive volatility in the exchange rate, but not to resist sustained depreciation pressures when they exist. The economy is expected to be increasingly exposed to risks arising from rising recourse to international capital markets, the ongoing capital account liberalization, and commodity price fluctuations, particularly oil prices. To address these risks, further accumulation of reserves is desirable in the next few years; it would also help bring the reserves level closer to EAMU's convergence criterion of at least 4.5 months of imports.

## PROGRAM AND OTHERS ISSUES

**49. Program implementation to date.** Performance under the PSI has been mixed. Most end-2015 and end-March 2016 quantitative targets were met, and the 2015/16 budget was adjusted in line with the authorities' commitment made at the time of the third review.<sup>16</sup> Staff regretted, however, the absence of a supplementary budget to formalize it. Progress on structural benchmarks was limited (see authorities' memorandum). The delay in implementing structural reforms reflects, to a significant extent, the transition to a new government, which has involved reconsideration of a number of measures.

**50. Forward-looking part of the review.** The fiscal program had to be amended significantly from the previous review to accommodate the new authorities' priorities, as reflected in their draft 2016/17 budget (see table below). While staff would have preferred that the 2016/17 budget be based on lower revenue projections, it can support the two-step approach to its implementation, with some large projects not to be started before confirmation of readiness and availability of revenue at the time of the mid-year budget review. This approach will facilitate reaching the fiscal deficit target of about 4.5 percent of GDP while reducing the risk of arrears accumulation.<sup>17</sup> The 5<sup>th</sup> PSI review will provide an opportunity to reconsider the broader fiscal outlook (revenue, financing, and pace of expenditure implementation) and refine the medium-term scenario, based on a more detailed assessment of large infrastructure projects. It is proposed to: reschedule to end-December 2016 the two missed structural benchmarks on the clearance of arrears to pension funds, to allow for a new verification of claims by the Internal Auditor General; and modify the assessment criteria on net international reserves and the overall fiscal deficit for end-June 2016, to reflect the large expected shortfall in ENCB. New benchmarks are also proposed in the authorities' memorandum.

<sup>16</sup> The situation with regard to the two private external creditors to whom payments have been suspended while the authorities seek to establish the legitimacy of the claims remains unchanged since the 3rd review. The audit of Air Tanzania Company Limited (ATCL), which will help determine the validity of Wallis Trading Company's claim on ATCL that carries a government guarantee, was not completed at the time of discussions with staff. The authorities have not made yet a final determination on the validity of a loan contracted from Belgium in the early 2000s. These disputed claims are not considered to give rise to external arrears for program purposes at this time. Tanzania owes pre-HIPC Initiative arrears to non-Paris Club creditors which continue to be deemed away under the revised policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative and the authorities have made best efforts to resolve the arrears.

<sup>17</sup> In the proposed revised program, the main differences with the draft 2016/17 budget are that both revenue and capital expenditures are lower by about 1 percent of GDP. There is still a large investment scaling up, with the public investment to GDP ratio increasing by 4.5 percentage points from 2015/16. The required fiscal space comes from current expenditure streamlining (about 1.5 percentage points) and higher revenue (1.3 percentage points), with the remainder financed through a higher deficit (1.3 percentage points).



**Summary Fiscal Operations**  
(Percent of GDP)

	2015/16		2016/17	
	Prog.	Proj.	Proj.	Proj.
	(3rd PSI review)		(3rd PSI review)	
Revenues and grants	15.9	15.4	16.2	17.2
Tax revenue	12.9	12.8	13.1	13.2
Nontax revenue	1.7	1.7	1.6	2.6
Grants	1.3	1.0	1.5	1.3
Expenditures	21.2	18.7	19.7	21.8
Current	14.8	13.6	14.3	12.1
Development	6.3	5.1	5.3	9.6
Of which: arrears clearance	0.8	1.0	0.0	1.5
Unidentified expenditure measures	-1.1	0.0	-0.5	0.0
Overall balance (cash basis)	-4.2	-3.3	-3.0	-4.6
Foreign financing (net)	3.2	1.9	2.7	3.7
Domestic financing (net)	1.0	1.3	0.3	0.9
Overall balance including net accumulation of arrears	-3.4	-2.3	-3.0	-3.1

Sources: Tanzanian authorities and IMF staff estimates.

**51. Safeguards assessment.** An update safeguards assessment of the BoT was finalized in November 2012. The assessment found a strengthened governance and safeguards framework at the BoT. While the BoT has since implemented most of the recommendations, progress in establishing a modern internal audit function has been slow.

## STAFF APPRAISAL

**52. The macroeconomic outlook is favorable, but risks are tilted to the downside.**

Growth is projected to remain strong at about 7 percent in 2016 and the medium term, supported by the implementation of FYDP II. Inflation would remain close to the authorities' medium-term target of 5 percent, provided that the BoT maintains a tight monetary policy stance. However, there are significant risks. External current account deficits will remain high, as higher investment boosts imports. Further external risks include the tightening of global financial conditions and a significant slowdown in China and other large emerging markets. Domestic risks include the possibility of fiscal slippages due to spending pressures stemming from FYDP II's implementation, continued challenges to raise the required revenue and financing for the budget, and in the medium term slow reforms that could affect potential growth.

**53. Sustaining high growth and implementing FYDP II while preserving fiscal and external sustainability will require a range of deep reforms.**

The updated debt sustainability analysis suggests that somewhat higher fiscal deficits could be sustained for a few years while keeping a low risk of debt distress. However, creating fiscal space for higher infrastructure investment, which staff fully supports, will necessitate first and foremost sustained efforts to raise additional domestic revenue and streamline current expenditure.

Staff is encouraged by the authorities' plan to strengthen tax administration drawing on a recent diagnostic mission and to consider tax policy reforms in a broad range of areas (including VAT, corporate income tax, excises, and property taxation). Reforms to increase spending efficiency, particularly in the area of public investment, will also be needed. More broadly, the targeted high growth and structural transformation of the Tanzanian economy will require a rekindling of the reform agenda, which lost some momentum in recent years.

**54. The implementation of the 2016/17 budget will be a first test of the authorities' capacity to reconcile these various objectives.** To avoid the difficult experience of recent years, characterized by expenditure adjustments in the course of the year and domestic arrears accumulation, careful prioritization and implementation of expenditures will be required to ensure that spending does not exceed realistic revenue and financing projections. In this regard, staff welcomes the authorities' intention to postpone the launch of two large investment projects until the next mid-year budget review confirms readiness and the availability of revenue. Fiscal risks and debt management also needs to be strengthened. Having realistic budgets and contingency measures should be the first line of defense against fiscal risks. Utilizing PPPs for large infrastructure projects would reduce government borrowing but the related fiscal risks need to be carefully evaluated and reported. Ongoing efforts to better monitor and manage parastatals are welcome.

**55. Further financial development is highly desirable.** Significant progress has been made in recent years, particularly with regard to household access to the financial sector, an area where the spectacular development of mobile money has played an important role. However, the level of financial development remains below what could be expected given Tanzania's income level and characteristics. Recent empirical work suggests that further financial development would likely yield higher growth and greater stability. It would also improve the effectiveness of macroeconomic policy. Beyond credit growth, financial development will require improving further access, particularly for businesses, and reducing high borrowing costs, which reflect a range of issues typically found in LICs (e.g., imperfect information and slow resolution of disputes by the judicial system). The development of the key interbank and government debt markets is desirable and could be helped by the modernization of the monetary policy framework, fiscal and debt management reforms, and better coordination between fiscal and monetary policies.

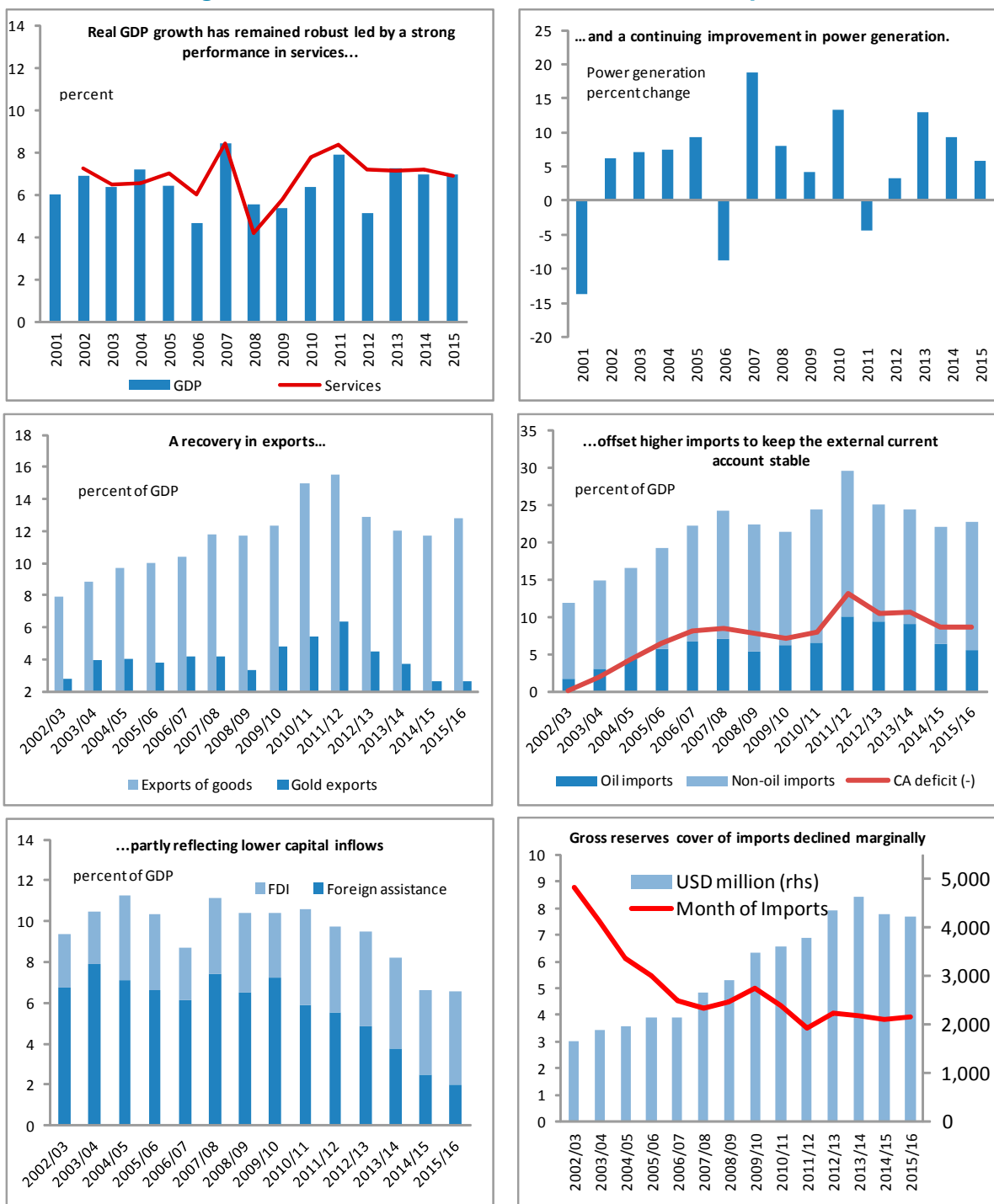
**56. Improving the business environment, which remains challenging, is also a priority.** Tanzania lags behind its regional peers in international surveys, with access to credit, paying taxes, and trading across borders mentioned as the biggest issues. The perception of corruption has increased in recent years, while that of government effectiveness has decreased. FYDP II's focus on creating a better environment for business and job creation, including through better infrastructure, access to finance and land, and education and job training, is therefore welcome, like the authorities' strong drive against corruption. Decisions will need to be made and implemented quickly to ensure the sustainability and development of the energy

sector. Finally, Tanzania could significantly benefit from the completion of the EAC common market and the removal of non-tariff barriers in the region.

**57. Although program performance to date has been mixed, staff supports the new authorities' policy orientations and commitments, the proposed modification of two assessment criteria, and recommends completion of the fourth PSI review.**

**58.** It is proposed that the next Article IV consultation be held on the standard 24-month cycle for program countries.

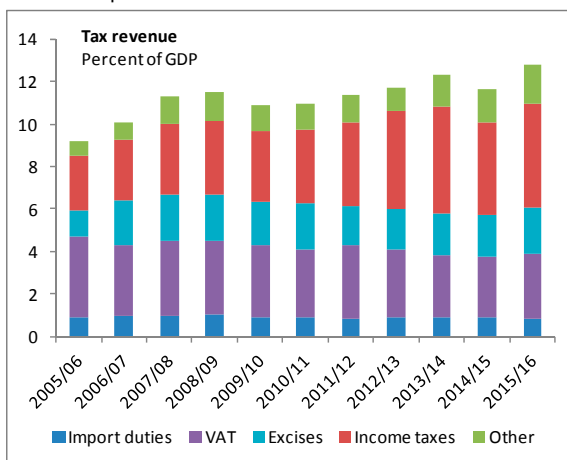
**Figure 1. Tanzania: Real and External Sector Developments**



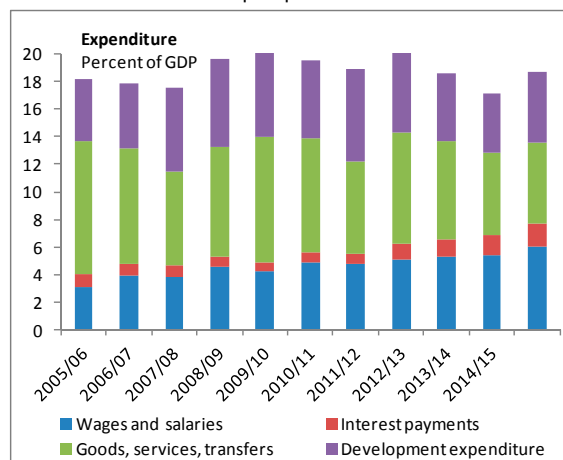
Sources: Tanzanian authorities and IMF staff calculations.

**Figure 2. Tanzania: Fiscal Developments**

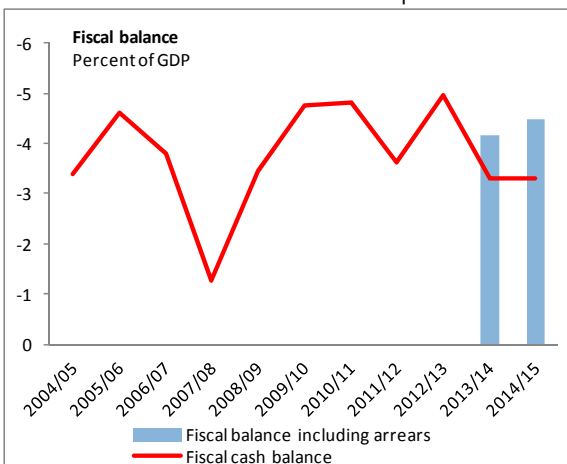
Gradual improvements in tax revenue collection ...



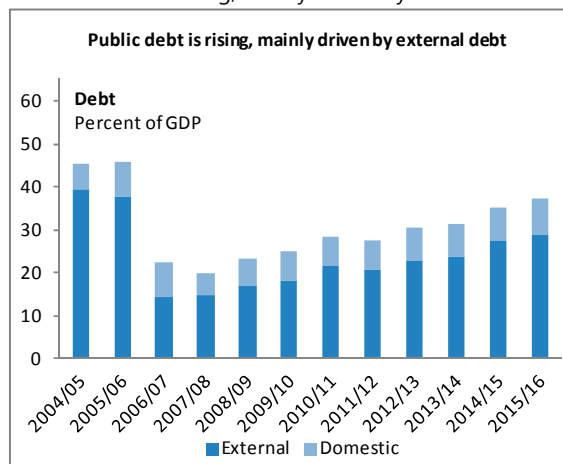
... and efforts to keep expenditure under control...



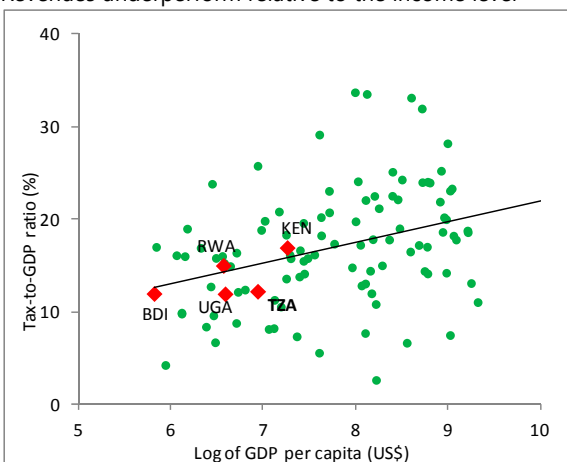
... contained the fiscal deficit to below 5 percent of GDP



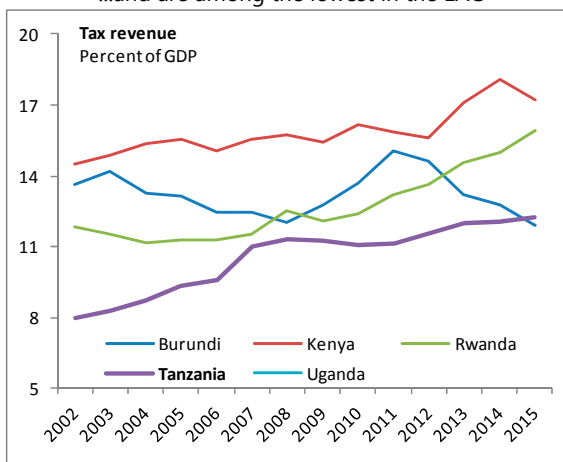
Public debt is rising, mainly driven by external debt



Revenues underperform relative to the income level



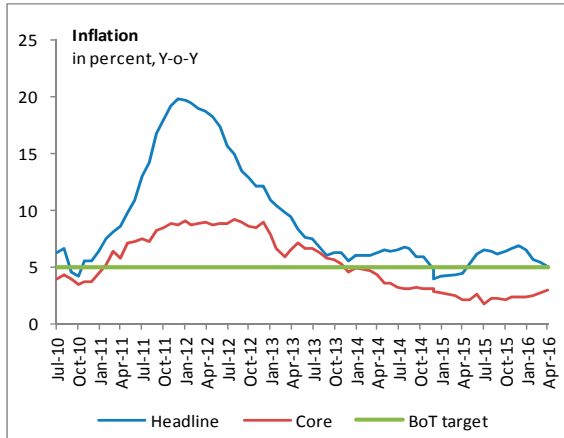
...and are among the lowest in the EAC



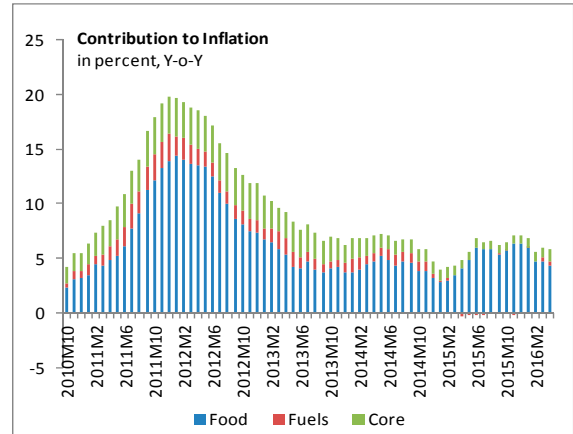
Sources: Tanzanian authorities and IMF staff calculations.

**Figure 3. Tanzania: Inflation and Monetary and Exchange Rate Developments**

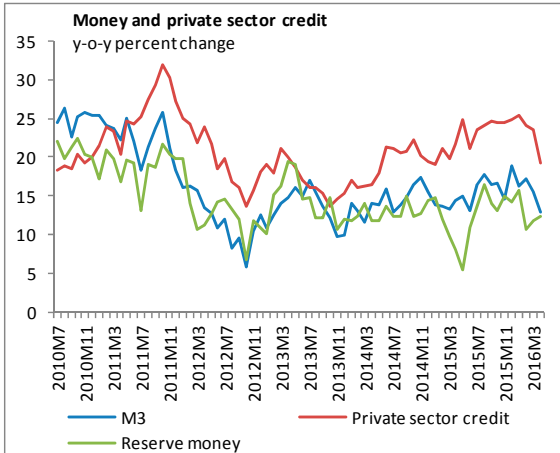
Inflation has fallen to close the authorities' target...



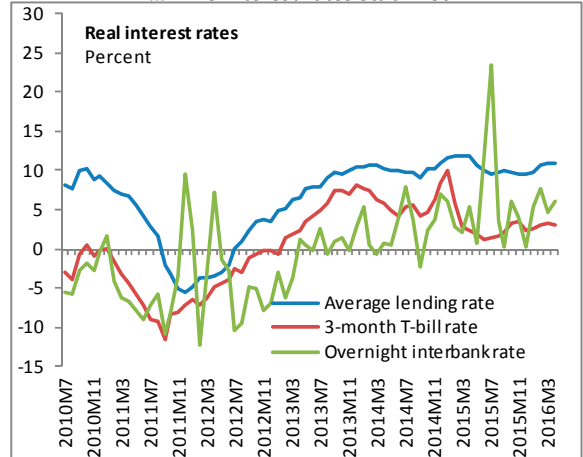
...on the back of lower food price inflation



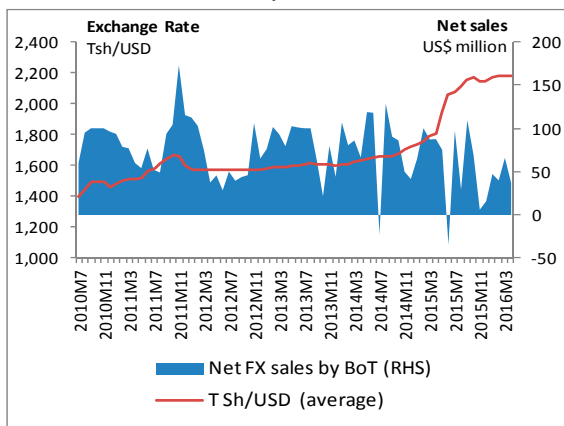
While still buoyant, money and credit slowed in April...



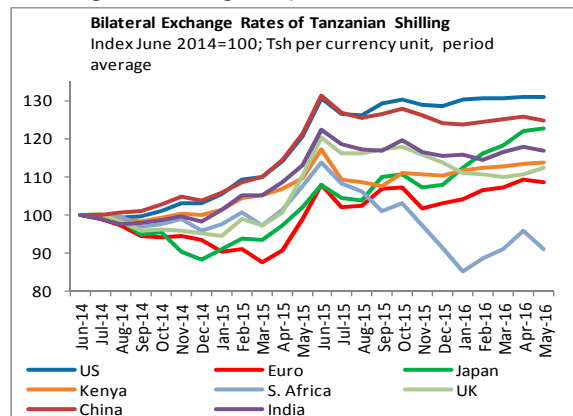
...while interest rates stabilized



BoT held net FX sales steady



Shilling stabilized against partner countries' currencies



Source: Bank of Tanzania, Bloomberg

**Table 1. Tanzania: Millennium Development Goals**

MDG	Indicator	Baseline 1990	Status (Year)	2015 target	Progress at a glance
1. Eradicate extreme poverty and hunger	1.1 Proportion of population below national poverty line (%)	39.0%	28.2% (2012)*	19.5%	Achievement unlikely
	1.8 Under-five underweight (%) (weight-for-age below - 2SD)	28.8%	15.8% (2010)**	14.4%	Achievement possible
	1.9 Under-five stunted (%) (height -for-age below - 2SD)	46.6%	42.3% (2010)**	23.3%	Achievement unlikely
2. Achieve universal primary education	2.1 Net enrollment ratio in primary education (%)	54.2%	89.7% (2013)***	100.0%	Achievement possible
3. Promote gender equality and empower women	3.1 Ratio of girls to boys in primary school	0.98	1.01 (2013)***	1.00	Achievement likely
	3.2 Ratio of girls to boys in secondary school	n.a.	0.91 (2013)***	1.00	Achievement unlikely
	3.3 Ratio of females to males in tertiary education	n.a.	0.51 (2013)***	1.00	Achievement unlikely
	3.4 Proportion of women among members of parliament (%)	n.a.	36.6% (2015)*****	50.0%	Achievement unlikely
4. Reduce child mortality	4.1 Under-five mortality rate (per 1,000 live births)	191	81 (2010)**	64	Achievement possible
	4.2 Infant mortality rate (per 1,000 live birth)	115	51 (2010)**	38	Achievement possible
	4.3 Proportion of children vaccinated against measles (%)	n.a.	84.5% (2010)**	90.0%	Achievement possible
5. Improve maternal health	5.1 Maternal mortality ratio (per 100,000 live births)	529	454 (2010)**	133	Achievement unlikely
	5.2 Proportion of births attended by skilled health personnel (%)	43.9%	50.6% (2010)**	90.0%	Achievement unlikely
6. Combat HIV/AIDS, malaria and other diseases	6.1 HIV prevalence 15-24 years (%)	6.0%	2% (2012)****	<6%	Achievement likely
7. Ensure environmental sustainable	7.8 Proportion of rural population using an improved drinking water source (%)	51.0%	44.7% (2012)****	74.0%	Achievement unlikely
	7.8 Proportion of urban population using an improved drinking water source (%)	68.0%	88.1% (2012)****	84.0%	Achievement likely
	7.9 Proportion of population with access to improved sanitation (%)	n.a.	12.3% (2012)****	n.a.	Achievement unlikely

Sources: Tanzanian authorities and World Bank.

\* Tanzania Household Budget Survey 2011/2012 (survey every 10 years)

\*\* Tanzania Demographic and Health Survey 2010 (2015 survey results to be published soon)

\*\*\* Basic Education Statistics in Tanzania 2013 and UNESCO summary

\*\*\*\* Tanzania HIV/AIDS and Malaria Indicator Survey 2011/2012

\*\*\*\*\* Inter-parliamentary Union. [http://www.ipu.org/parline-e/reports/2337\\_E.htm](http://www.ipu.org/parline-e/reports/2337_E.htm)

**Table 2. Tanzania: Selected Economic and Financial Indicators, 2013/14–2019/20**

	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
			Prog. <sup>1</sup>	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)								
<b>Output, prices and exchange rates</b>								
Real GDP	7.1	7.0	7.0	7.1	7.2	7.0	6.8	6.6
GDP deflator	6.4	5.8	5.1	6.0	5.3	5.1	5.0	5.0
CPI (period average)	6.3	5.4	6.3	5.9	5.0	5.0	5.0	5.0
CPI (end of period)	6.4	6.1	6.1	5.0	5.0	5.0	5.0	5.0
Core inflation (end of period) <sup>1</sup>	3.1	2.8	...	...	...	...	...	...
Terms of trade (deterioration, -)	-3.1	8.5	6.5	10.5	-0.2	-4.6	1.8	-0.1
Exchange rate (period average, TSh/USD)	1,615	1,764	...	...	...	...	...	...
Real effective exchange rate (end of period; depreciation= -)	0.8	-9.5	...	...	...	...	...	...
<b>Money and credit</b>								
Broad money (M3)	15.8	13.1	16.0	16.0	14.5	13.7	13.6	13.4
Average reserve money	13.7	10.8	13.4	13.4	12.5	12.2	12.0	11.8
Credit to nongovernment sector	21.4	21.0	14.1	19.0	15.0	12.6	12.4	12.2
Treasury bill interest rate (in percent; end of period)	12.7	10.0	...	...	...	...	...	...
Broad money (M3, as a percent of GDP)	23.4	23.4	24.4	23.9	...	...	...	...
Non-performing loans (end of calendar year, percent of total loans) <sup>2</sup>	6.8	7.9	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
<b>Central government budget</b>								
Revenues and grants	15.6	14.0	15.9	15.4	17.2	16.7	16.8	17.0
<i>Of which: grants</i>	2.1	1.2	1.3	1.0	1.3	1.2	1.1	1.0
Expenditures	18.5	17.1	21.2	18.7	21.8	21.2	21.3	21.6
Current	13.7	12.8	14.8	13.6	12.1	12.4	12.6	12.7
Development	4.9	4.4	6.3	5.1	9.6	8.8	8.7	8.9
Unidentified expenditure measures <sup>3</sup>	...	...	-1.1	0.0	0.0	0.0	0.0	0.0
Overall balance <sup>4</sup>	-3.3	-3.3	-4.2	-3.3	-4.6	-4.5	-4.5	-4.5
Excluding grants <sup>4</sup>	-5.4	-4.3	-5.5	-4.2	-5.9	-5.7	-5.6	-5.6
Including net accumulation of arrears	-4.2	-4.4	-3.4	-2.3	-3.1	-4.5	-4.5	-4.5
<b>Public debt</b>								
Public gross nominal debt <sup>5,6</sup>	31.4	35.4	38.8	37.5	39.2	40.3	41.4	42.4
<i>of which: external public debt<sup>6</sup></i>	23.7	27.6	30.5	29.0	30.7	31.5	32.5	33.4
<b>Investment and savings</b>								
Investment	30.6	30.8	31.4	29.4	33.8	33.2	33.2	33.5
Government	5.0	4.7	5.6	4.2	9.6	8.8	8.7	8.9
Nongovernment <sup>7</sup>	25.6	26.1	25.7	25.2	24.2	24.4	24.5	24.6
Gross domestic savings	18.5	22.3	23.6	21.8	25.6	25.1	25.3	25.7
<b>External sector</b>								
Exports (goods and services)	19.1	19.3	21.7	21.2	20.9	21.4	21.3	21.2
Imports (goods and services)	29.9	27.7	29.0	28.8	29.2	29.5	29.2	29.1
Current account balance	-10.7	-8.6	-8.3	-8.6	-9.1	-8.8	-8.6	-8.5
Excluding current transfers	-11.6	-9.2	-8.4	-8.7	-9.4	-9.1	-8.9	-8.7
Gross international reserves								
In billions of US\$	4.6	4.3	4.6	4.2	4.7	5.1	5.7	6.2
In months of next year's imports	4.2	4.0	4.0	3.6	3.6	3.7	3.8	3.9
<b>Memorandum items</b>								
GDP at current market prices								
Billions of Tanzanian shillings	75,336	85,291	94,867	96,806	109,278	122,833	137,709	154,206
Millions of US\$	46,636	48,353	43,968	44,895	48,347	52,660	57,304	62,293
GDP per capita (US\$)	1,008	1,024	913	932	984	1,051	1,121	1,195
Population (million)	46	47	48	48	49	50	51	52

Sources: Tanzanian authorities and IMF staff estimates and projections.

<sup>1</sup> From the third review under the Policy Support Instrument.<sup>2</sup> E.g. Calendar year corresponding to 2014/15 is 2015.<sup>3</sup> These are the spending adjustments needed to achieve the budget deficit targets.<sup>4</sup> Actual and preliminary data include adjustment to cash basis.<sup>5</sup> Net of Treasury bills issued for liquidity management.<sup>6</sup> Excludes interest payments due on external debt under negotiation for relief, and domestic unpaid claims (reported in Table 3b).<sup>7</sup> Including change in stocks.



**Table 3a. Tanzania: Central Government Operations, 2013/14–2019/20<sup>1</sup>**  
(Billions of Tanzanian Shillings)

	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
			Prog.	Proj.				
Total revenue	10,182	10,958	13,859	14,014	17,321	19,009	21,586	24,712
Tax revenue	9,294	9,892	12,229	12,380	14,448	16,486	18,758	21,391
Import duties	694	784	911	842	994	1,117	1,253	1,403
Value-added tax	2,189	2,439	3,075	2,902	3,521	3,958	4,575	5,354
Excises	1,509	1,671	2,051	2,157	2,493	2,803	3,142	3,673
Income taxes	3,779	3,720	4,391	4,676	5,316	6,099	6,975	7,811
Other taxes	1,124	1,279	1,800	1,802	2,123	2,509	2,813	3,150
Nontax revenue <sup>2</sup>	888	1,066	1,630	1,635	2,872	2,523	2,828	3,321
LGA	315	360	522	522	665	748	839	939
Other	573	706	1,109	1,113	2,207	1,775	1,990	2,382
Total expenditure	13,958	14,604	20,102	18,103	23,770	26,041	29,341	33,280
Recurrent expenditure	10,299	10,893	14,082	13,130	13,259	15,223	17,315	19,625
Wages and salaries <sup>7</sup>	3,969	4,618	5,722	5,854	5,706	6,413	7,328	8,206
Of which: clearance of soc. contribution arrears	...	...	150	150	...	...	...	...
Interest payments	977	1,261	1,591	1,552	1,993	2,293	2,701	3,129
Domestic	743	917	965	1,060	1,372	1,534	1,792	2,041
Foreign <sup>3</sup>	234	344	626	492	621	759	909	1,088
Goods and services and transfers <sup>7</sup>	5,352	5,015	6,770	5,724	5,561	6,516	7,287	8,290
Of which: Transfers to PSPF	...	75	252	252	342	370	396	420
Of which: Transfers to TANESCO	399	0	154	194	...	...	...	...
Of which: new expenditure on education	...	...	222	175	...	...	...	...
Development expenditure <sup>7</sup>	3,660	3,710	6,019	4,973	10,511	10,818	12,026	13,655
Domestically financed	1,855	2,265	4,401	3,453	7,393	6,969	7,675	8,903
Of which: Clearance of arrears <sup>9</sup>	...	58	773	932	1,677	...	...	...
Foreign (concessionally) financed	1,805	1,446	1,618	1,520	3,118	3,849	4,351	4,752
Unidentified expenditure measures <sup>6</sup>	...	...	-1,064	0	0	0	0	0
Overall balance before grants	-3,776	-3,646	-5,179	-4,088	-6,450	-7,032	-7,755	-8,568
Grants	1,588	1,024	1,195	927	1,423	1,445	1,511	1,565
Program (including basket grants) <sup>4</sup>	703	510	169	156	358	432	455	479
Of which: basket grants	189	128	92	81	179	242	254	267
Project	885	514	1,025	771	1,065	1,013	1,056	1,086
Net expenditure float <sup>5</sup>	-211	-184	0	0	0	0	0	0
Statistical discrepancy	-99	-1	0	0	0	0	0	0
Overall balance (cash basis)	-2,498	-2,807	-3,984	-3,161	-5,027	-5,588	-6,244	-7,003
Financing	2,498	2,807	3,984	3,161	5,027	5,588	6,244	7,003
Foreign (net)	2,271	2,634	3,056	1,860	4,057	4,038	4,747	5,405
Foreign loans	2,452	2,860	3,578	2,382	5,023	5,162	6,032	6,876
Program (including basket loans) <sup>4</sup>	734	538	560	397	497	444	466	490
Of which: basket loans	208	163	128	118	193	91	96	102
Project	524	641	373	550	1,681	2,503	2,944	3,297
Nonconcessional borrowing	1,195	1,682	2,645	1,434	2,845	2,215	2,621	3,089
Of which: gas pipeline	750	627	290	289	...	...	...	...
Amortization	-181	-227	-522	-522	-966	-1,124	-1,284	-1,471
Domestic (net)	227	173	928	1,301	970	1,550	1,497	1,599
Excluding gas pipeline	977	800	1,218	1,591	970	1,550	1,497	1,599
Bank financing	956	488	572	1,018	811	1,371	1,296	1,374
Nonbank financing	21	312	646	573	159	179	200	224
Credit to TPDC (gas pipeline)	-750	-627	-290	-289	...	...	...	...
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	-3,139	-3,794	-3,211.5	-2,229	-3,350	-5,588	-6,244	-7,003
Total public debt (in percent of GDP) <sup>8</sup>	31.4	35.4	38.8	37.5	39.2	40.3	41.4	42.4
Arrears (unpaid claims) <sup>9</sup>	1,148	2,135	1,362	1,202	...	...	...	...
Recurrent expenditures (percent of recurrent resources)	96	96	101	93	77	80	80	79
Priority social spending	2,783	2,717	2,800	2,800	3,161	3,553	3,983	4,460
Nominal GDP	75,336	85,291	94,867	96,806	109,278	122,833	137,709	154,206

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

<sup>1</sup> Fiscal year: July–June.

<sup>2</sup> Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

<sup>3</sup> Excludes interest payments on external debt obligations that are under negotiation for relief with a number of

<sup>4</sup> Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

<sup>5</sup> The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

<sup>6</sup> These are the spending adjustments needed to achieve the budget deficit targets.

<sup>7</sup> The change in 2014/15 compared to the previous year reflects reclassification of 1.5 percent of GDP from goods and services to development spending, and 0.1 percent of GDP from goods and services to wages and salaries.

<sup>8</sup> Excludes interest payments due on external debt under negotiation for relief, Treasury bills issued for monetary policy purposes, and domestic unpaid claims.

<sup>9</sup> Includes domestic expenditure arrears defined as unpaid claims that are overdue by more than 30 days for goods and services, and more than 90 days for contract works as set out in the government circular No 9 of 8th December 2014.

**Table 3b. Tanzania: Central Government Operations, 2013/14–2019/20<sup>1</sup>**  
(Percent of GDP)

	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
			Prog.	Proj.				
Total revenue	13.5	12.8	14.6	14.5	15.8	15.5	15.7	16.0
Tax revenue	12.3	11.6	12.9	12.8	13.2	13.4	13.6	13.9
Import duties	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Value-added tax	2.9	2.9	3.2	3.0	3.2	3.2	3.3	3.5
Excises	2.0	2.0	2.2	2.2	2.3	2.3	2.3	2.4
Income taxes	5.0	4.4	4.6	4.8	4.9	5.0	5.1	5.1
Other taxes	1.5	1.5	1.9	1.9	1.9	2.0	2.0	2.0
Nontax revenue <sup>2</sup>	1.2	1.2	1.7	1.7	2.6	2.1	2.1	2.2
LGA	0.4	0.4	0.6	0.5	0.6	0.6	0.6	0.6
Other	0.8	0.8	1.2	1.1	2.0	1.4	1.4	1.5
Total expenditure	18.5	17.1	21.2	18.7	21.8	21.2	21.3	21.6
Recurrent expenditure	13.7	12.8	14.8	13.6	12.1	12.4	12.6	12.7
Wages and salaries <sup>6</sup>	5.3	5.4	6.0	6.0	5.2	5.2	5.3	5.3
<i>Of which: clearance of soc. contribution arrears</i>	...	...	...	0.2	...	...	...	...
Interest payments	1.3	1.5	1.7	1.6	1.8	1.9	2.0	2.0
Domestic	1.0	1.1	1.0	1.1	1.3	1.2	1.3	1.3
Foreign <sup>3</sup>	0.3	0.4	0.7	0.5	0.6	0.6	0.7	0.7
Goods and services and transfers <sup>7</sup>	7.1	5.9	7.1	5.9	5.1	5.3	5.3	5.4
<i>Of which: Transfers to PSPF</i>	...	0.1	0.3	0.3	0.3	0.3	0.3	0.3
<i>Of which: Transfers to TANESCO</i>	0.5	0.0	...	0.2	...	...	...	...
<i>Of which: new expenditure on education</i>	...	...	...	0.2	...	...	...	...
Development expenditure <sup>6</sup>	4.9	4.4	6.3	5.1	9.6	8.8	8.7	8.9
Domestically financed	2.5	2.7	4.6	3.6	6.8	5.7	5.6	5.8
<i>Of which: Clearance of arrears<sup>8</sup></i>	...	0.1	0.8	1.0	1.5	...	...	...
Foreign (concessionally) financed	2.4	1.7	1.7	1.6	2.9	3.1	3.2	3.1
Unidentified expenditure measures <sup>6</sup>	...	...	-1.1	0.0	0.0	0.0	0.0	0.0
Overall balance before grants	-5.0	-4.3	-5.5	-4.2	-5.9	-5.7	-5.6	-5.6
Grants	2.1	1.2	1.3	1.0	1.3	1.2	1.1	1.0
Program (including basket grants) <sup>4</sup>	0.9	0.6	0.2	0.2	0.3	0.4	0.3	0.3
<i>Of which: basket grants</i>	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Project	1.2	0.6	1.1	0.8	1.0	0.8	0.8	0.7
Net expenditure float <sup>5</sup>	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-3.3	-3.3	-4.2	-3.3	-4.6	-4.5	-4.5	-4.5
Financing	3.3	3.3	4.2	3.3	4.6	4.5	4.5	4.5
Foreign (net)	3.0	3.1	3.2	1.9	3.7	3.3	3.4	3.5
Foreign loans	3.3	3.4	3.8	2.5	4.6	4.2	4.4	4.5
Program (including basket loans) <sup>4</sup>	1.0	0.6	0.6	0.4	0.5	0.4	0.3	0.3
<i>Of which: basket loans</i>	0.3	0.2	0.1	0.1	0.2	0.1	0.1	0.1
Project	0.7	0.8	0.4	0.6	1.5	2.0	2.1	2.1
Nonconcessional borrowing	1.6	2.0	2.8	1.5	2.6	1.8	1.9	2.0
<i>Of which: gas pipeline</i>	1.0	0.7	...	0.3	...	...	...	...
Amortization	-0.2	-0.3	-0.6	-0.5	-0.9	-0.9	-0.9	-1.0
Domestic (net)	0.3	0.2	1.0	1.3	0.9	1.3	1.1	1.0
Excluding gas pipeline	1.3	0.9	1.3	1.6	0.9	1.3	1.1	1.0
Bank financing	1.3	0.6	0.6	1.1	0.7	1.1	0.9	0.9
Nonbank financing	0.0	0.4	0.7	0.6	0.1	0.1	0.1	0.1
Credit to TPDC (gas pipeline)	-1.0	-0.7	...	-0.3	...	...	...	...
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	-4.2	-4.4	...	-2.3	-3.1	-4.5	-4.5	-4.5
Arrears (unpaid claims) <sup>8</sup>	1.5	2.5	1.4	1.2	...	...	...	...
Recurrent expenditures (percent of recurrent resources)	96	96	101	93	76	79	79	79
Priority social spending	3.7	3.2	3.0	2.9	2.9	2.9	2.9	2.9

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

<sup>1</sup> Fiscal year: July–June.

<sup>2</sup> Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

<sup>3</sup> Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

<sup>4</sup> Basket funds are sector-specific accounts established by the government to channel donor support to fund-

<sup>5</sup> The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

<sup>6</sup> These are the spending adjustments needed to achieve the budget deficit targets.

<sup>7</sup> The change in 2014/15 compared to the previous year reflects reclassification of 1.5 percent of GDP from goods and services to development spending, and 0.1 percent of GDP from goods and services to wages and salaries.

<sup>8</sup> Includes domestic expenditure arrears defined as unpaid claims that are overdue by more than 30 days for goods and services, and more than 90 days for contract works as set out in the government circular No 9 of 8th December 2014.

**Table 4. Tanzania: Monetary Accounts, 2013–2017**  
(Billions of Tanzania shillings, unless otherwise indicated; end of period)

	2013	2014	2015						2016				2017		
			March	June	Sept	Dec.		March	June	Sept	Dec	March	June		
						Prog. <sup>1</sup>	Prel.							Prog. <sup>1</sup>	Prel.
<b>Bank of Tanzania</b>															
Net foreign assets	6,187	6,380	6,132	7,444	7,262	7,347	7,528	7,587	7,316	8,941	8,036	8,451	8,871	9,299	9,642
Net international reserves	6,656	6,854	6,570	7,936	7,817	7,906	8,075	8,150	7,881	9,508	8,610	9,029	9,452	9,883	10,230
(Millions of U.S. dollars)	4,216	3,971	3,674	3,928	3,637	3,625	3,758	3,720	3,616	4,322	3,937	4,066	4,195	4,323	4,452
Net non-reserve foreign assets	-468	-473	-437	-493	-555	-559	-546	-563	-565	-567	-574	-578	-581	-585	-588
Net domestic assets	-1,160	-471	-545	-868	-724	-527	-695	-923	-794	-1,727	-772	-1,072	-1,183	-1,547	-1,657
Credit to government	-500	355	649	671	1,497	1,809	1,728	1,250	1,447	686	1,045	1,084	1,159	1,222	1,150
Of which: Excluding counterpart of liquidity paper	1,000	934	1,720	1,456	1,910	2,002	1,786	1,523	1,473	1,252	1,299	1,299	1,299	1,299	1,299
Other items (net)	-660	-826	-1,195	-1,539	-2,221	-2,336	-2,423	-2,172	-2,241	-2,413	-1,817	-2,156	-2,342	-2,768	-2,807
REPOs	-20	0	0	0	0	-518	0	-311	0	-408	214	-764	-586	-1,085	-323
Other items, excluding REPOs (net)	-640	-826	-1,195	-1,539	-2,221	-1,817	-2,423	-1,862	-2,241	-2,005	-2,031	-1,392	-1,756	-1,684	-2,484
Of which: Credit to nongovernment sector	57	65	81	98	103	103	134	103	141	103	140	140	140	140	140
Reserve money	5,028	5,909	5,587	6,576	6,538	6,820	6,833	6,664	6,523	7,214	7,263	7,379	7,687	7,752	7,985
Currency outside banks	2,764	3,245	3,147	3,544	3,642	3,730	3,679	3,588	3,466	3,907	3,741	3,826	3,893	3,997	4,076
Bank reserves	2,264	2,665	2,440	3,032	2,896	3,090	3,155	3,076	3,056	3,307	3,522	3,552	3,794	3,755	3,909
Currency in banks	561	584	543	552	640	535	753	539	656	578	653	763	886	821	781
Deposits	1,703	2,081	1,897	2,479	2,256	2,555	2,401	2,536	2,401	2,729	2,870	2,790	2,908	2,934	3,128
Required reserves	1,649	1,505	1,517	2,021	2,055	2,155	2,053	2,178	2,059	2,228	2,243	2,368	2,444	2,508	2,578
Excess reserves	54	576	379	458	202	400	348	359	342	502	627	422	465	426	550
Memorandum items:															
Stock of liquidity paper	1,500	579	1,071	785	413	193	59	274	26	566	254	214	140	77	149
Average reserve money	5,250	6,011	5,844	6,176	6,737	6,845	6,862	6,843	6,533	7,006	7,006	7,345	7,652	7,846	7,879
<b>Monetary Survey</b>															
Net foreign assets	6,576	6,552	6,388	8,028	8,660	8,429	8,244	8,677	7,530	10,038	8,625	9,011	9,401	9,799	10,111
Bank of Tanzania	6,187	6,380	6,132	7,444	7,262	7,347	7,528	7,587	7,316	8,941	8,036	8,451	8,871	9,299	9,642
Commercial banks	389	171	256	584	1,398	1,082	716	1,090	214	1,098	590	560	531	500	470
Net domestic assets	9,530	12,063	12,352	11,937	12,621	13,468	13,871	13,417	14,119	13,127	14,540	15,007	15,486	15,956	16,408
Domestic credit	12,947	16,064	17,312	17,697	19,284	19,463	20,374	19,616	20,969	20,082	21,368	21,920	23,043	23,900	24,672
Credit to government (net)	2,555	3,652	4,298	3,707	4,406	4,072	4,882	4,182	4,886	4,121	4,725	4,554	5,126	5,396	5,536
Credit to nongovernment sector	10,393	12,412	13,014	13,990	14,879	15,390	15,493	15,434	16,083	15,961	16,644	17,366	17,917	18,504	19,136
Other items (net)	-3,417	-4,001	-4,960	-5,760	-6,663	-5,995	-6,503	-6,199	-6,851	-6,955	-6,828	-6,913	-7,557	-7,944	-8,264
M3	16,107	18,614	18,741	19,964	21,282	21,897	22,115	22,094	21,648	23,166	23,166	24,018	24,887	25,755	26,519
Foreign currency deposits	4,216	4,697	5,057	5,663	6,425	6,562	6,335	6,752	6,161	6,914	6,257	6,294	6,332	6,370	6,407
M2	11,891	13,917	13,683	14,301	14,857	15,336	15,780	15,342	15,488	16,252	16,909	17,724	18,555	19,385	20,112
Currency in circulation	2,764	3,245	3,147	3,544	3,642	3,730	3,679	3,588	3,466	3,907	3,741	3,826	3,893	3,997	4,076
Deposits (TSh)	9,127	10,672	10,536	10,757	11,215	11,606	12,102	11,753	12,021	12,345	13,168	13,898	14,662	15,388	16,035
Memorandum items:					(12-month percent change, unless otherwise indicated)										
M3 growth	10.0	15.6	13.2	13.1	16.5	17.6	18.8	17.9	15.5	16.0	16.0	12.9	12.5	19.0	14.5
M3 (as percent of GDP) <sup>2</sup>	21.4	21.8	22.0	23.4	22.0	23.1	22.8	23.3	22.4	24.4	23.9	22.0	22.8	23.6	24.3
Private sector credit growth	15.3	19.4	19.8	21.0	24.6	24.0	24.8	18.6	23.6	14.1	19.0	16.7	15.7	15.0	15.0
Average reserve money growth	12.1	14.5	9.8	10.8	14.1	13.9	14.2	17.1	11.8	13.4	13.4	9.0	11.5	20.1	12.5
Reserve money multiplier (M3/average reserve money)	3.07	3.10	3.21	3.23	3.16	3.20	3.31	3.23	3.46	3.31	3.31	3.27	3.25	3.28	3.37
Nonbank financing of the government (net) <sup>3</sup>	91	73	231	312	69	244	136	438	417	804	573	94	241	217	159
Bank financing of the government (net) <sup>3</sup>	291	432	1,079	488	699	365	1,175	475	1,179	414	1,018	148	244	510	811
Bank and nonbank financing of the government (net) <sup>3</sup>	382	505	1,310	800	767	609	1,310	913	1,596	1,218	1,591	243	485	728	970
Foreign currency deposits (percent of M3)	26.2	25.2	27.0	28.4	30.2	30.0	28.6	30.6	28.5	29.8	27.0	26.2	25.4	24.7	24.2

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

<sup>1</sup> From the third review under the Policy Support Instrument.

<sup>2</sup> "Program" reflects new GDP data.

<sup>3</sup> Cumulative from the beginning of the fiscal year (July 1).

**Table 5. Tanzania: Balance of Payments, 2013/14–2019/20**  
(Millions of U.S. dollars, unless otherwise indicated)

	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
			Prog.	Proj	Proj.	Proj.	Proj.	Proj.
Current account	-4,985	-4,169	-3,863	-3,844	-4,417	-4,627	-4,941	-5,270
Trade balance	-5,728	-4,998	-4,779	-4,449	-4,980	-5,511	-5,986	-6,524
Exports, f.o.b.	5,619	5,661	6,416	5,750	6,169	6,785	7,290	7,857
Traditional agricultural products	836	908	1,038	927	915	1,026	1,101	1,178
Gold	1,747	1,266	1,457	1,204	1,240	1,256	1,268	1,274
Other	3,036	3,488	3,921	3,619	4,014	4,503	4,921	5,405
Imports, f.o.b.	-11,347	-10,659	-11,195	-10,199	-11,149	-12,296	-13,276	-14,380
Of which: Oil	-4,209	-3,063	-2,989	-2,492	-2,616	-3,222	-3,427	-3,714
Services (net)	648	971	938	1,051	1,009	1,252	1,437	1,634
Of which: Travel receipts	1,973	2,199	2,102	2,256	2,348	2,473	2,618	2,777
Income (net)	-648	-717	-588	-840	-901	-957	-1,012	-1,061
Of which: Interest on public debt	-128	-228	-290	-289	-313	-325	-378	-440
Current transfers (net)	744	575	567	394	455	589	620	681
Of which: Official transfers	439	277	157	59	145	172	176	180
Capital account	748	520	627	471	589	557	568	572
Of which: Project grants <sup>1</sup>	548	291	561	404	518	481	486	486
Financial account	3,947	3,838	3,675	3,382	4,344	4,628	4,988	5,338
Foreign Direct Investment	2,066	2,003	1,890	2,042	2,041	2,206	2,393	2,594
Public Sector, net	1,404	1,431	1,219	869	1,793	1,731	1,975	2,121
Program loans	451	281	214	184	220	190	194	198
Non-concessional borrowing	738	934	1,074	659	1,259	950	1,091	1,186
Project loans	324	363	173	255	744	1,073	1,225	1,332
Scheduled amortization <sup>2</sup>	-109	-148	-242	-229	-429	-482	-534	-594
Commercial Banks, net	90	-27	97	21	53	100	63	100
Other private inflows	388	432	469	450	457	590	556	524
Errors and omissions <sup>3</sup>	513	-289	0	0	0	0	0	0
Overall balance	223	-100	438	9	515	559	615	641
Financing	-223	100	-438	-9	-515	-559	-615	-641
Change in BoT reserve assets (increase= -)	-232	158	-374	54	-438	-469	-525	-553
Use of Fund credit	9	-58	-64	-63	-78	-89	-89	-87
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Gross official reserves (BoT)	4,638	4,285	4,914	4,238	4,676	5,145	5,670	6,224
Months of imports of goods and services	4.2	4.0	4.0	3.6	3.6	3.7	3.8	3.9
Exports (percent of GDP)	12.0	11.7	13.6	12.8	12.8	12.9	12.7	12.6
Exports excl. gold (percent of GDP)	8.3	9.1	10.5	10.1	10.2	10.5	10.5	10.6
Imports (percent of GDP)	-24.3	-22.0	-23.7	-22.7	-23.1	-23.3	-23.2	-23.1
Imports excl. oil (percent of GDP)	-15.3	-15.7	-17.4	-17.2	-17.6	-17.2	-17.2	-17.1
Current account deficit (percent of GDP)	-10.7	-8.6	-8.2	-8.6	-9.1	-8.8	-8.6	-8.5
Foreign program and project assistance (percent of GDP)	3.8	2.5	2.3	2.0	3.4	3.6	3.6	3.5
Nominal GDP	46,636	48,353	47,256	44,895	48,347	52,660	57,304	62,293

Sources: Tanzanian authorities and IMF staff estimates and

<sup>1</sup> An adjustment to the estimated outturn is made by BoT to reflect unreported project grants.

<sup>2</sup> Relief on some projected external debt obligations is being negotiated with a number of creditors.

<sup>3</sup> Includes valuation changes in gross reserves resulting from the exchange rate movements of the US\$

**Table 6. Tanzania: Financial Stability Indicators, 2013-16**

	2013	2014	2015				2016
			Mar	Jun	Sep	Dec	Mar <sup>P</sup>
<b>Access to bank lending</b>							
Claims on the non-government sector to GDP <sup>1</sup>	14.6	15.5	14.3	15.2	16.2	16.8	17.4
Claims on the private sector to GDP <sup>1</sup>	13.9	14.4	13.3	14.2	15.0	15.7	16.2
<b>Capital adequacy</b>							
Capital to risk-weighted assets	17.9	17.4	19.0	17.6	18.6	18.9	20.0
Capital to assets	11.0	11.2	12.1	11.2	12.1	12.0	13.0
<b>Asset composition and quality</b>							
Net loans and advances to total assets	50.8	52.9	53.3	52.8	53.5	54.6	55.1
<b>Sectoral distribution of loans</b>							
Trade	20.9	21.9	22.5	21.1	21.2	19.4	19.0
Mining and manufacturing	11.9	12.3	12.2	13.3	12.6	12.5	12.8
Agricultural production	9.3	8.6	8.3	8.5	8.1	7.6	7.6
Building and construction	4.9	5.3	5.1	4.7	4.7	4.7	4.6
Transport and communication	7.0	7.1	7.2	7.6	7.5	7.2	7.6
Foreign exchange loans to total loans	35.4	36.3	37.5	38.2	38.7	37.7	37.6
Gross nonperforming loans (NPLs) to gross loans	7.1	6.8	6.7	6.7	6.6	7.9	8.4
NPLs net of provisions to capital	15.6	16.0	14.8	16.2	14.8	18.6	18.8
Large exposures to total capital	91.2	123.2	129.6	125.8	117.4	123.3	129.2
Net open positions in foreign exchange to total capital	1.5	-2.5	-2.1	-2.2	-2.3	1.4	-1.1
<b>Earnings and profitability</b>							
Return on assets	2.5	2.5	3.3	3.0	2.8	2.6	3.5
Return on equity	12.8	12.6	17.3	15.8	14.2	12.4	18.2
Interest margin to total income	67.4	67.8	67.8	65.9	66.4	66.6	65.7
Noninterest expenses to gross income	66.9	67.2	63.9	65.1	67.4	68.4	63.2
Personnel expenses to noninterest expenses	43.4	44.2	46.8	46.0	44.9	43.8	45.5
<b>Liquidity</b>							
Liquid assets to total assets	32.3	31.0	30.6	30.4	31.0	30.6	29.1
Liquid assets to total short term liabilities	36.2	35.8	38.9	37.7	37.3	37.3	36.6
Total loans to customer deposits	71.8	74.3	76.9	76.0	77.0	78.5	82.4
Foreign exchange liabilities to total liabilities	35.0	35.7	37.6	39.8	41.6	39.6	38.8

Source: Bank of Tanzania

<sup>1</sup> Calendar year; end of period claims relative to annual GDP. Based on new GDP series.<sup>P</sup> Preliminary

## Annex I. Main Recommendations of the 2014 Article IV Consultation

Recommendations	Status
<p><b>Fiscal policy:</b> Reduce the fiscal deficit to 3¾ percent of GDP in 2013/14 and to 3 percent over the medium-term by mobilizing revenue and containing expenditure.<sup>1</sup></p>	<p>While the cash deficits were below targets in 2013/14 and 2014/15, the deficits including arrears were above targets.</p>
<p><b>Public financial management:</b> Stepped up efforts are needed, particularly in preventing arrears accumulation and improving the fiscal data. Improve the monitoring and management of fiscal risks.</p>	<p>Progress has been made in improving the accuracy and timeliness of the fiscal data, but domestic arrears have been a recurring issue. Some progress was made with more information published on parastatals and a fiscal risk statement.</p>
<p><b>Monetary policy:</b> Maintain a prudent policy stance to contain inflation and modernize the monetary policy framework. Continue to build up reserves.</p>	<p>Inflation has been in single digits, with generally prudent monetary policy. Limited progress has been made in modernizing the monetary policy framework, beyond building policy analysis and forecasting capacity. The reserve cover ratio slightly declined, despite the large improvement in the current account balance, but remained close to 4 months of imports.</p>
<p><b>Financial sector policy:</b> Strengthen banking supervision and improve the functioning of key financial markets</p>	<p>The banking supervision framework has been strengthened. Key financial markets need to be further developed and their functioning needs to improve.</p>
<p><b>Competitiveness.</b> Improve the business climate and preserve international competitiveness.</p>	<p>The shilling is now broadly in line with fundamentals. The business climate has not significantly improved in recent years.</p>
<p><b>Natural resource management.</b> Set up the appropriate institutional arrangements for natural gas development and related revenue management.</p>	<p>Progress was made with the adoption of the Petroleum Act and the Oil and Gas Revenue Management Act. A number of steps still need to be taken, however, to allow investors to make a decision on investment.</p>
<p><sup>1</sup>The targets are recalculated using the revised national accounts data released in 2015.</p>	

## Annex II. Tanzania: Risk Assessment Matrix<sup>1</sup>

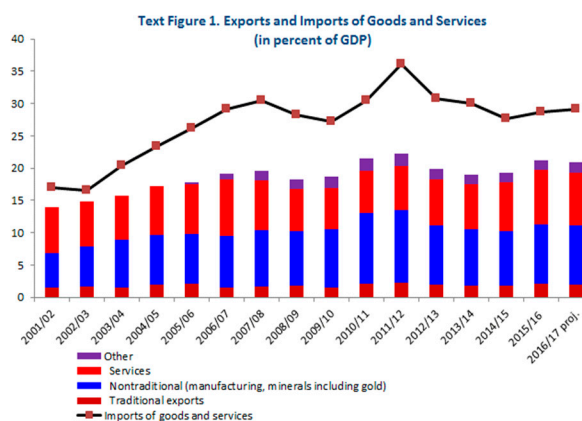
Sources of Risks	Likelihood	Potential Impact on Economy	Recommendations
<b>Domestic Risks</b>			
<b>Intensification of spending pressure arising from the new government's priorities</b>	<b>High</b>	<b>Medium.</b> This would lead to higher deficits, with likely negative implications for debt vulnerabilities and the DSA risk rating. This could also raise financing pressures, with possible implications for financing costs and crowding out of private sector credit.	Keep the deficit moderate in the next few years. Finance expenditure priorities through higher revenue mobilization (tax reform) and reprioritizing expenditure.
<b>Delay in addressing key infrastructure bottlenecks</b>	<b>Low/Medium</b>	<b>Medium.</b> Development of the energy sector is critical for reducing cost and improving availability, and ultimately to sustain high growth.	Restore TANESCO's financial position. Reprioritize spending to accommodate key infrastructure. Increase revenue mobilization (tax reform).
<b>External Risks</b>			
<b>Tighter global financial conditions</b>	<b>Medium</b>	<b>Medium.</b> The tightening of global financial conditions would lead to higher financing costs and make external budget financing more difficult, which also could put pressure on the currency.	Undertake fiscal consolidation to reduce the government's funding needs. Allow exchange rate flexibility and ensure that international reserves remain adequate.
<b>Significant China slowdown</b>	<b>Low/Medium</b>	<b>Medium.</b> A significant China slowdown could lead to lower external demand and a fall in Chinese FDI and loans for infrastructure projects, which would weaken growth prospects.	Revisit fiscal priorities to ensure that critical infrastructure projects, (particularly in the energy sector) are implemented.
<b>Reduced financial services by global /regional banks</b>	<b>Medium</b>	<b>Low to Medium.</b> Loss of correspondent banks could significantly curtail cross-border payments, especially on trade finance, and increase the cost of doing business.	Strengthen AML/CFT regimes' compliance, including close supervision of Tanzania-headquartered FBME Bank by the Bank of Tanzania.
<b>Persistently lower energy prices</b>	<b>High</b>	<b>Low.</b> Low oil prices would improve the current account balance. However, the profitability of projects in offshore natural gas is not assured at current low natural gas prices.	Resolve a number of issues related to the legal, tax, and regulatory environment for investment in the natural gas sector.
<p><sup>1</sup>The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.</p>			

## Annex III. Tanzania: External Stability Assessment

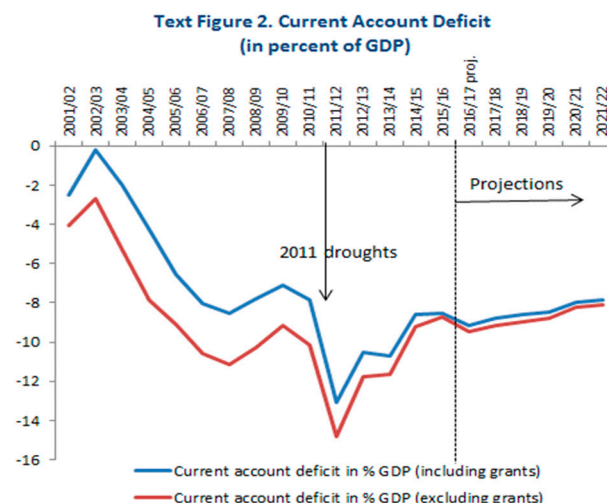
This note assesses external stability of the Tanzanian economy. Tanzania has recorded large current account deficits over the past decade, financed mainly by official flows and FDI. The real exchange rate is broadly in line with economic fundamentals, and reserves are adequate. Some further accumulation of reserves seems desirable to address risks arising from commodity price fluctuations, the gradual capital account liberalization, and rising recourse to international market financing.

### Current Account

**1. Tanzania's large current account deficit reflects structural factors.** High development and infrastructure needs (roads, railway, ports, water supply projects and energy sector) lead to large investment-related imports, while the export base remains narrow, despite the encouraging development of non-traditional exports (including light manufacturing) in recent years (Text Figure 1).



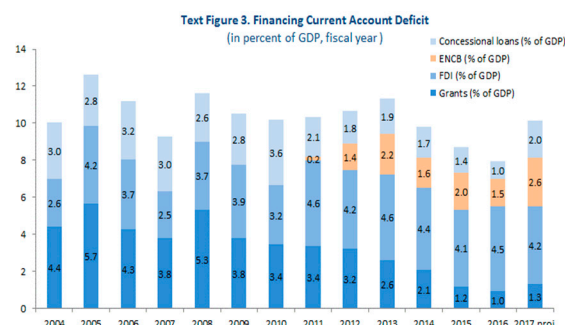
**2. Over the past decade, the current account deficit has followed a V-shape trajectory.** In 2011/12 the current account deficit widened to about 13 percent of GDP mainly because of a surge in FDI and the increased imports of oil and thermal power generation equipment to offset the drought-related hydro capacity shortages. The current account deficit declined from 10.7 percent of GDP in 2013/14 to a projected 8.6 percent in 2015/16, as lower oil prices and imports more than offset the impact of the decline of gold prices on exports. Also, with the completion of a gas pipeline and new gas-fueled power plants, imports of capital goods are projected to decline. This trend, however, will be temporarily offset by the planned public investment scaling up under the Five Year Development Plan II, with the current account deficit projected to increase a bit to 9.1 percent of GDP in 2016/17 (Text Figure 2).<sup>1</sup>



<sup>1</sup> Until commercial viability of the potentially large off-shore natural gas deposits is confirmed, the projections do not incorporate the impact of related FDI.

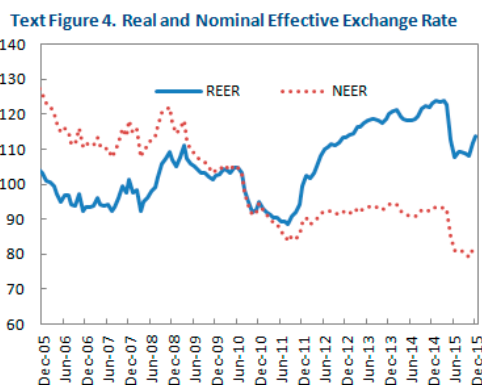


**3. The current account deficit is financed mainly by grants, FDI and government borrowing.** Given the declining trend in aid, Tanzania is relying more on FDI, project loans, and external non-concessional borrowing to finance the current account deficit (Text Figure 3). The recourse to international market financing started in 2010/11 and includes borrowing from commercial international banks and semi-concessional loans. The authorities are also considering issuing a Eurobond and are in the process of obtaining sovereign rating.



**Exchange Rate Assessment**

**4. The Tanzanian shilling depreciated sharply in 2014/15.** The depreciation against the U.S. dollar reached 25 percent in 2014/15 (Text Figure 4). While the depreciation largely reflected the global strength of the dollar, domestic factors also contributed to the volatility, such as the loosening of monetary policy in late 2014, seasonal patterns in FX inflows, delays in mobilizing external financing, and perhaps uncertainty in the run up to the elections. The situation in the FX market returned to normal in July 2015 and has remained orderly since.



**5. The recent depreciation has brought the real effective exchange rate, which was last assessed in 2014 to be somewhat overvalued, closer to equilibrium** (see Text Table 1). The results are based on the External Balance Assessment (EBA-lite) methodology<sup>2</sup> which includes three approaches: the current account model (CA), the real exchange rate model (REER), and the external sustainability (ES) approach. The current account and real exchange rate models are based on panel regressions. They provide estimated current account and exchange rate “norms”, which values are consistent with fundamentals and desirable policies. External positions are represented by the gaps between the actual current account and real exchange rate and their corresponding norms. The ES approach calculates a current account norm that would stabilize the net foreign asset (NFA) position at some benchmark level (in the present case, NFA is stabilized at its recent level).

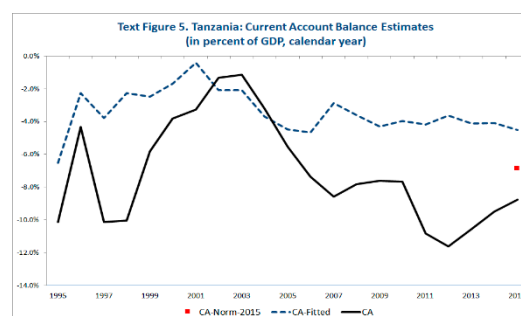
Current Account Model	12%
External Sustainability Approach	1.4%
Real Effective Exchange Rate Index Model	-8%
<b>Average</b>	<b>2%</b>

<sup>1/</sup> Positive numbers signify overvaluation.

<sup>2</sup> See IMF, 2013, “The External Balance Assessment (EBA) Methodology”, IMF Working Paper, WP/13/272.

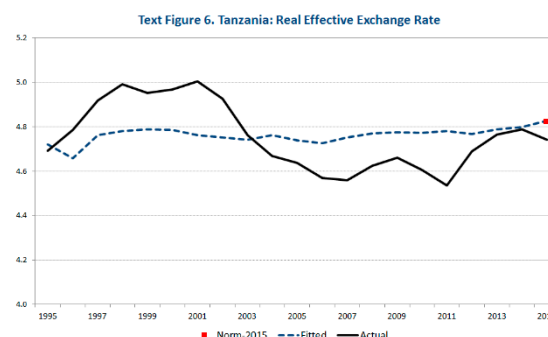
## 6. The current account approach suggests some overvaluation of the real effective exchange rate.

The CA panel regression model includes variables that are grouped into three categories: (i) policy variables that can be directly affected by policy actions; (ii) non-policy fundamentals are generally slow-moving in the absence of structural reforms; and (iii) cyclical factors capture the cyclical component in the current account.<sup>3</sup> The CA approach estimates a CA norm of -6.9 percent of GDP and a CA gap of -1.9 percent of GDP in 2015 (see Text Figure 5). The real effective exchange rate adjustment that would eliminate this difference over the medium term is then calculated using an estimated elasticity of the current account with respect to the real exchange rate. The adjustment is calculated to be between 9 and 16 percent, or an average of about 12 percent, based on an estimated elasticity between 0.12 and 0.22.<sup>4</sup>



## 7. The REER<sup>5</sup> approach suggests some undervaluation of the real effective exchange rate.

The real effective exchange rate depreciated by about 8 percent in 2015 mainly due to the fall in the nominal value of the Tanzania shilling against the currencies of its main trading partners. Based on REER model, the REER is estimated to be slightly undervalued in 2015 (Text Figure 6).



## 8. The ES approach suggests that real effective exchange rate is broadly in line with its long-run equilibrium.

The ES approach compares the projected medium-term CA with the CA level that stabilizes the external position or the NFA at a specified benchmark, specified at

<sup>3</sup> (i) *policy variables* include fiscal balance, foreign exchange intervention, private credit and capital controls, (ii) *non-policy fundamentals* include NFA, productivity, oil and gas exports, demographic indicators, real GDP growth forecast, country risk, financial center, aid and remittances, and (iii) *cyclical factors* include output gap and terms of trade.

<sup>4</sup> The average REER adjustment to eliminate the CA gap is based on the elasticity of the CA to the REER estimated by Lee et al, 2008, "Exchange Rate Assessment CGER Methodologies", *IMF Occasional Paper* No. 261 and Tokarick, S., 2010, "A Method for Calculating Export Supply and Import Demand Elasticities", *IMF Working Paper* No. 180. The Tokarick estimate of the trade balance elasticity for Tanzania is higher than CGER at 0.22.

<sup>5</sup> The panel regression model for the REER index includes variables that would affect the REER directly and indirectly through changes to the CA balance. These variables are: (i) *policy variables* include FX intervention, short-term real interest rate, private credit and capital controls, and (ii) *non-policy fundamentals* include NFA, productivity, financial home bias, terms of trade, trade openness, output gap, aid and remittances.

its recent level.<sup>6</sup> With net foreign assets at -64 percent of GDP in 2021/22, the ES approach yields an estimated current account norm of -6.8 percent of GDP and a slight overvaluation of the shilling by 1.4 percent.

### **Adequacy of International Reserves**

**9. The Fund has developed a new approach to Assess Reserve Adequacy in Credit-Constrained-Economies<sup>7</sup> (ARA-CC).** It is a useful complement to traditional approaches<sup>8</sup> and takes into account the nature of external drains on reserves and the degree of capital market access.<sup>9</sup> It assesses the adequacy of reserves for countries with limited or no access to international capital markets. Reflecting this, it primarily focuses on shocks emanating from the current account side (e.g., adverse terms of trade, remittance and aid shocks).

**10. The adequate level of reserves is derived from a cost-benefit analysis.** An algorithm is used that balances the absorption smoothing benefits of reserves in the event of adverse shocks against the opportunity cost of holding reserves taking into account country specificities. The absorption smoothing benefits of holding reserves are estimated by two empirical regressions that capture: (i) the role that reserves play in reducing the likelihood of a crisis, and (ii) the impact of reserves in reducing the severity of a crisis. To quantify the cost of holding reserves, either the external funding cost, sterilization cost or the marginal product of capital (all net of returns from holding reserves) can be used as proxies. The adequate level of reserves is estimated as the level where the additional (marginal) utility to be achieved by holding one more unit of reserves is equal to the additional (marginal) utility that must be given up (cost) in order to obtain and maintain that level of reserves.

**11. According to this approach, Tanzania's international reserves are adequate.**

Reserves at end-June 2015 stood at about 4 months of next year's imports. The reserve cover ratio is projected to be lower at 3.6 months at end-June 2016, reflecting in part higher imports in 2016/17 related to higher investment. However, a reserve cover ratio of 3.5-4 months is higher than required by traditional adequacy measures but falls short of the 4.5 months of imports used as a convergence criterion towards the East African Monetary Union (EAMU) (Text Figure 7). Using the ARA-CC approach, a level of 2.4-3.2 months of next year's imports is

<sup>6</sup> Net foreign assets are obtained from the External Wealth of Nations database ([Lane, P. and G. Milesi-Ferretti, "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004", \*Journal of International Economics\* 73, November 2007, pp. 223-250.](#)) and extended through 2017/18 using flow projections for foreign assets and liabilities.

<sup>7</sup> IMF Policy Paper, 2014, "Assessing Reserve Adequacy—Specific Proposals."

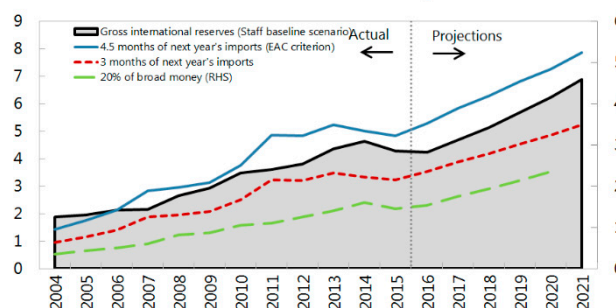
<sup>8</sup> Traditional approaches include the 3.8 months of import cover (LICs median), 42 percent broad money coverage, and 100 percent short-term debt coverage. While these methods remain useful and are simple and easy to apply, their theoretical basis may not be clear and they may not necessarily reflect country specificities and/or properly capture multiple motives for holding reserves.

<sup>9</sup> Operationally, credit constrained economies refers to countries that do not regularly borrow from the international financial markets and/or are on average rated as "less than investment grade".

adequate for precautionary purposes in order to prevent and mitigate adverse shocks. This somewhat counter-intuitive result reflects the high costs of holding reserves (assumed to be in the range of 4-5.6 percent).

**12. This approach, however, does not capture well a number of recent developments affecting Tanzania.** One of them is the recent high volatility in commodity prices, particularly oil. This suggests that reserve buffers should be higher than suggested by the ARA-CC approach. Two other important recent developments are the ongoing liberalization of the capital account and the increasing recourse to borrowing from the international capital markets, particularly in a context of declining aid trends. These developments will increase Tanzania's exposure to shifts in market sentiment, which require a higher level buffer of reserves. From these reasons, staff is of the view that further increasing the reserve cover ratio is desirable; it would also Tanzania to get closer to the convergence criterion under EAMU.

**Text Figure 7. Gross international reserves<sup>1</sup>**  
(In billions of U.S. dollars, fiscal year)



Sources: Tanzanian authorities and IMF staff calculations

<sup>1</sup> Risk-weighted measure follows the IMF Policy Paper, "Assessing Reserve Adequacy-Specific Proposals" (2014).

## Appendix 1. Letter of Intent

June 28, 2016

Mrs. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Madam Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) updates the ones from June 27, 2014, December 18, 2014, June 18, 2015, and December 24, 2015 under the Policy Support Instrument (PSI). It reports on recent economic developments and sets out macroeconomic policies and structural reforms that the Government will pursue in the coming years.

The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of its program. We stand ready to take further measures that may become appropriate for this purpose and that are in line with the Government's policy objectives.

The Government will consult with the IMF at its own initiative or whenever the Managing Director of the IMF requests such a consultation before the adoption of any such measures or changes to the policies described in the attached Memorandum. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

The Government intends to disseminate this letter, the attached MEFP and the Technical Memorandum of Understanding (TMU), as well as related Fund staff reports, and hereby authorizes the IMF to publish the same after consideration by the Executive Board.

Yours Sincerely,

/s/

Dr. Philip I. Mpango (MP)  
MINISTER FOR FINANCE AND PLANNING  
UNITED REPUBLIC OF TANZANIA

/s/

Prof. Benno Ndulu  
GOVERNOR, BANK OF TANZANIA  
UNITED REPUBLIC OF TANZANIA

Attachments

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding on Selected Concepts and Definitions Used  
in the Monitoring of the Program Supported by the PSI.

## Attachment I. Memorandum of Economic and Financial Policies June 28, 2016

### MACROECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

#### A. Recent Macroeconomic Developments and Outlook

##### Output and Prices

**1. Growth.** The economy continued to register strong growth in 2015, estimated at 7 percent. The highest growth rates were recorded in information and communication, public administration, construction, finance and insurance, and transport and storage. Growth was supported by strong export demand for manufactured products and tourism, ample credit to the private sector, and the positive income shock from lower global oil prices. In 2016, real GDP is projected to continue growing by about 7 percent. Growth would remain strong in the medium term, supported by large infrastructure investments in energy and transportation under the new five-year development plan (FYDP II).

**2. Inflation.** Headline inflation remained at single digit throughout 2015, despite the significant exchange rate depreciation in the first half of the year. This performance reflected the tightening of monetary policy in May 2015 and was helped by the general decline in global commodity prices, especially oil prices. Headline inflation averaged 5.6 percent in 2015 and stood at 5.1 percent in April 2016. Core inflation was contained at around 3 percent during the period. Inflation is expected to decrease further in the coming months and remain around the medium term target of 5 percent, helped by continued tight monetary policy, subdued global oil prices, improvement in domestic power and food supply, and stability of the Tanzanian shilling against U.S. dollar.

##### External Sector Developments

**3. Balance of Payments.** During the first half of 2015/16, the current account deficit narrowed to about US\$1.1 billion, compared to about US\$2 billion recorded in the corresponding period in 2014/15. The improvement reflected both an increase in exports of goods and services (gold, manufactured goods, transportation, and tourism) and a decline in imports by 12.5 percent (oil products, but also building and construction equipment and food products). The stock of gross official reserves amounted to US\$4.1 billion at end-December 2015. The current account is expected to improve further as the momentum of manufactured exports and receipts from tourism and transportation services continue, and the oil import bill remains low on the back of subdued global oil prices and a decline in import volumes due to usage of natural gas in power generation.

## Fiscal Performance and Financing in the First Half of 2015/16

**4. Fiscal deficit and financing.** After a few months of under-performance ahead of the elections, revenue collection picked up starting in December 2015, particularly excises and income tax revenue. The recent developments reflected renewed efforts to fight tax evasion and strengthening of tax administration. As a result, the fiscal outturn in the first half of 2015/16 was broadly in line with the program. In light of financing shortfalls, the execution of discretionary expenditure was slowed, resulting in a cash deficit of 1.7 percent of GDP. Expenditures arrears further accumulated during that period, by about 0.3 percent of GDP on a net basis.

## Monetary Policy

**5. Monetary policy stance and exchange rate developments.** Growth of broader monetary aggregates remained broadly within the program targets, with broad money supply (M3) and credit to the private sector growing at about 19 percent and 25 percent, respectively, for the year ending December 2015, and about 13 percent and 19 percent for the year ending April 2016. The shilling exchange rate experienced high volatility in the last quarter of 2014/15 but stabilized subsequently reflecting the tightening of monetary policy among other factors. Consistent with the objective of improving the conduct of monetary policy, the Bank has increased its focus on the stability of banks' free reserves, as manifested in the active use of reverse repos to prop up liquidity among banks. This has, in turn been mirrored in the stability of interbank cash market rate in the second half of 2015/16.

## Financial Sector and Capital Account

**6. Financial sector stability.** The banking sector has remained sound and stable with levels of capital and liquidity above regulatory requirements. At the end of March 2016, the ratio of core capital to total risk weighted assets and off-balance sheet exposures was 18.0 percent compared with the minimum legal requirement of 10 percent, while the ratio of liquid assets to demand liabilities stood at 36.6 percent which was well above the minimum regulatory limit of 20 percent. The quality of the banking sector's assets deteriorated, as reflected by the increase in the ratio of non-performing loans to gross loans (NPLs) to 8.3 percent from 6.7 percent recorded at the end of March 2015. The majority of banks continue to have low NPLs, i.e., below 5 percent of gross loans. The category with the highest level of NPLs was the agricultural loan sector, followed by trade sector. It remains the BoT's medium-term goal to bring the overall ratio to below the 5 percent level. In response to the increase, the BoT has directed banks with high NPL levels to formulate and implement measures to bring the ratio down, and for large banks in this group to report on a quarterly basis to the central bank on their progress. In addition, banks have been encouraged to increase their use of the existing credit reference system to reduce credit risks going forward.

**7. FBME Bank.** The bank continues to offer limited services under statutory management of the BoT. A final rule was issued by FinCEN on 25<sup>th</sup> March 2016, and will take effect on 29<sup>th</sup> July 2016. Further, liquidation proceedings against the FBME Bank's Cyprus branch are awaiting court approval following withdrawal of its license in December 2015 by the Central Bank of Cyprus. The BoT is finalizing a review of the current state of affairs of FBME Bank in light of these developments with a view of taking appropriate course of action.

**8. Financial sector development.** Credit reference bureaus are in operation and help reduce information asymmetries between lenders and borrowers, thereby enabling banks to allocate risk efficiently. In a bid to improve the financial sector, the Bank of Tanzania strengthened its supervisory and regulatory role through issuance of new Social Security Investment Guidelines of 2015, the Banking and Financial Institutions (Mortgage Finance) Regulations, 2015, and the Foreign Exchange (Bureau de Change) Regulations, 2015. The legal and regulatory framework for the National Payment Systems was enhanced by operationalizing the National Payment Systems Act 2015 in October 2015 and its accompanying regulations - Licensing and Approval Regulations 2015 and the Electronic Money Issuance Regulations 2015 (licensing of banks and non-banks and electronic money issuers). The new law and regulations are aimed at closing regulatory gaps and strengthening the legal and regulatory framework, while taking on board new developments in the sector.

**9. Capital account liberalization.** Efforts are underway by the government to lift capital account restrictions and enable participation of the rest of the world. The process of liberalizing capital account transactions was initiated in 2015 by reviewing the relevant regulations and the circular which restricted capital movements. These include the Foreign Exchange Regulations of 2014 and Foreign Exchange Circular of 1998. Draft Regulations which will permit capital and financial account transactions with the rest of the world have been prepared and are currently at an advanced stage of being approved. Draft regulations contain safeguards measures, including prudential rules like minimum holding period for debt flows to ensure orderly conditions in the market. Based on the experience from the partial capital account liberalization to the countries of the East African Community, the new regulations are expected to impose fewer restrictions, particularly with regard to the prescribed holding periods and limits on the share any issuance of government debt that can be held by any category of non-resident. The plan is to have the regulations published in the Government Gazette before end of June 2016.

## B. Program Performance

**10. Quantitative targets and structural benchmarks.** All assessment criteria and quantitative targets for end-2015 were met. The structural benchmark on producing a new medium-term debt management strategy was met and the document was published on the Ministry of Finance and Planning website by end-2015. The technical work to merge the statutory minimum reserve and clearing accounts of commercial banks with the BoT, as well as the necessary changes to the IT system required for that purpose are well-advanced. This is an important step towards implementation of the reserve averaging. The next step is to familiarize



banks with the new system before the accounts are merged and required reserve averaging is implemented. The indicative target on average reserve money for end March 2016 was met.

## **THE ECONOMIC PROGRAM FOR THE REMAINDER OF 2015/16 AND FOR 2016/17**

**11. MKUKUTA II implementation cycle ended in 2015/16, with its unfinished agenda integrated into the FYDP II.** There is encouraging progress in some of the indicators. Poverty is becoming more responsive to economic growth, with the poverty rate declining by 6.4 percentage points between 2007 and 2012 (at 28.2 percent). The Human Development Index (HDI) value for Tanzania improved to 0.521 (2014) from 0.466 (2011). Outcomes in health and education improved though at low levels. In health outcomes, for instance, the infant mortality rate declined to 43 deaths per 1000 live births in 2015 from 51 recorded in 2010; the under-five mortality rate declined from 81 deaths per 1000 live births in 2010 to 67 deaths. While the maternal mortality ratio is on the decline, it remains unacceptably still high, at 432 deaths per 100,000 live births recorded in 2012 down from 454 deaths in 2010. Access to education at all levels is also improving, though quality remains a concern. On governance and accountability performance targets, there have been improvements in the areas of public finance management, access to justice, transparency, combating corruption, as well as wider participation at local levels. Challenges remain in many aspects of access to quality social services, nutrition and food, and income securities, as well as rural development including access to affordable energy and roads. These concerns are integrated into the FYDP II agenda as core elements of the transformation process.

**12. Economic development priorities.** FYDP II, which will also be Tanzania's third poverty reduction strategy, is expected to be completed shortly and will start being implemented in 2016/17. It will focus on economic transformation through industrialization and human development. On the latter, priority will be given to improving social services (education, health, housing, water and sanitation), enhancing income security, and promoting social protection. The industrialization strategy will rely on Tanzania's comparative advantages, particularly its agricultural and mining potential, its large labor force, and its geographic location making it a natural trading and logistics hub for East Africa. The government will play a facilitating role, for instance through the provision of critical infrastructure (e.g., the rehabilitation of the central transportation corridor, the development of the ports of Dar es Salaam and Kigoma, the creation of the new one in Bagamoyo, the provision of abundant and affordable energy) and improving the business environment (including through special economic zones). Costing of the plan, and its inclusion in a medium-term macroeconomic framework closely related to the annual budget process, is still ongoing. It is expected, however, that the financing of the plan will require creating fiscal space through higher revenue mobilization and expenditure streamlining, to avoid excessive recourse to public debt. The use of Public Private Partnerships (PPPs) is also expected to implement some of the large infrastructure projects.

## A. Monetary, Exchange Rate, and Financial Sector Policies

**13. Monetary policy stance.** The money multiplier has increased in recent years, possibly on the back of financial innovations such as mobile money. It is projected to further increase, leading to a relative decline in currency in circulation, replaced by access to the formal financial system. Thus, M3 is projected to grow by 16 percent in the year ending June 2016, giving significant room for growth of credit to the private sector. The Bank will continue pursuing a prudent monetary policy during 2016/17 to keep inflation close to the 5 percent objective, with average reserve money targeted to grow at 12.5 percent. M3 and private sector credit would grow by about 15 percent.

**14. Modernizing the monetary policy framework.** In an effort to improve the functioning of the market and stability of interbank interest rates, the BoT will further enhance information sharing with commercial banks to help them better manage liquidity. The BoT will also review its collateral framework with a view to expanding the range of eligible collateral needed to access the various central bank facilities by end-July 2016. The review will consider steps that are needed to expand the range of eligible collateral from the current practice of only accepting government securities with a remaining maturity of not more than 6 months. The Lombard window will retain its role in providing emergency liquidity to banks against good collateral at penalty rates. Steps will be taken towards making the Lombard rate more predictable in order to enhance stability of the short-term interest rates. A study will be carried out by end-September 2016 to determine an approach of setting the Lombard rate in a manner that is consistent with the monetary policy stance while ensuring that the facility is not abused (new structural benchmark). The BoT is taking initial steps towards using short-term interest rate for implementation of monetary policy, which is in line with the ongoing initiatives to harmonize monetary policy operations with other EAC member states. It is expected that partial reserve averaging will be implemented by end-June 2016, which will further reduce the volatility of the interbank interest rates.

**15. Exchange rate policy.** Exchange rates will continue to be market determined, with the BoT participating in the IFEM solely for liquidity management purposes and intervening occasionally to smooth out excessive short-term volatility in the exchange rate. These operations are undertaken while being mindful of ensuring international reserves remain adequate.

**16. Financial sector development plans.** Recognizing the importance of further financial development in sustaining growth and promoting macroeconomic stability, the government and the BoT are committed to addressing a number of gaps. Sustainable credit growth will require improvements in a number of areas. Information to assess credit risks needs to be made more reliable and widely available, which will contribute to better access to finance and more efficient pricing of loans. The BoT will therefore continue to strengthen monitoring of data submitted to the Credit Reference Databank with the aim of improving relevance and reliability of information shared among lenders. To improve Small and Medium Enterprises'

(SME) access to finance, government is planning to review its SME policy, establish an SME Access to Finance Framework, digitize all transactions of enterprises, explore financing mechanism options for enterprises and establish collateral registration for SMEs. Meanwhile, an internet-based information portal for SMEs was launched on 10<sup>th</sup> March 2016 to enhance financial literacy and entrepreneurship skills among Micro and Small Medium Enterprises (MSMEs) as well as improve access to financial services and markets. The information is designed to be a one stop center for a wide range of information that small businesses require. To improve access to finance, the government has initiated the drafting of microfinance legislation that will ensure that the microfinance sector is adequately regulated and supervised. The recent success in rolling out a mobile platform that allows users to participate in capital market activities during a recent initial public offering was encouraging. A range of measures will also be considered to foster the development of the government debt market, such as: publishing a quarterly bond auction calendar including tenors (consistent with the overall borrowing plan for the fiscal year); reopening bond series to provide the market with more liquid instruments; and enhancing communication with market participants.

**17. Banking supervision framework.** The BoT is drafting guidelines to ensure effective implementation of Basel II/III requirements. Efforts are underway to review the existing guidelines on corporate governance for banking institutions, business continuity management in banking institutions, agent banking and physical security measures regulations. In addition, plans are underway to develop guidelines on mergers and acquisitions as well as guidelines on banking holding companies.

## B. Fiscal Policies

### Budget Implementation in 2015/16 and Budget Plans for 2016/17

**18. Budget implementation in 2015/16.** The 2015/16 budget was revised in early 2016 to make space for new expenditure priorities in the education sector, additional expenditures on public infrastructure projects, and some expenditures carried over from 2014/15. In addition, external financing shortfalls of about 1 percent of GDP require a downward revision to the expenditure level and a reduction of the overall deficit target to about 3¼ percent of GDP. Tax revenue projections in the revised framework are unchanged, in light of developments in the first 9 months of the fiscal year. Expenditure savings come from delaying non-priority projects and cutting goods and services spending. Parliament's budget committee was informed in April.

**19. Budget plans for 2016/17.** The 2016/17 budget will be the first one reflecting fully the new administration's priorities, as laid out in FYDP II. It will strike a balance between raising public investment to address various development needs and ensuring debt sustainability. The budget thus assumes a higher deficit of around 4.5 percent of GDP. Given the multi-year nature of the planned investments, the fiscal deficit is expected to remain elevated for a few years, before gradually declining to about 3 percent of GDP in the medium term, which is consistent with Tanzania's commitments towards the East African Monetary Union and

maintaining a low risk of debt distress. Creating fiscal space for investment will require ambitious but realistic revenue mobilization efforts. They will include a mix of tax policy and tax administration measures (see below). In addition, nontax revenue is expected to increase significantly: the annual contribution to the budget of 15 percent of revenue will be extended to 10 more parastatals; in addition, following a careful analysis of their financial position, a number of parastatals will make a one-off contribution to the budget on account of retained earnings. Finally, efficiency gains are expected in the collection of various fees. The draft budget is also built on a major shift in expenditure composition to increase the share dedicated to investment. With regard to the latter, the government intends to scale up capital expenditure to 48 percent of total expenditure compared to about 30 percent in 2015/16 budget. Consistent with our new MTDS, budget financing will increasingly rely on project financing from multilateral development banks and export credit agencies, which is more affordable than market terms. Prudent assumptions with regard to donor budget support have been used, in light of the uncertainty in this area; significant amounts of donor project financing are still expected, however. To reduce rollover risks, the government will aim at lengthening the average maturity of domestic debt.

**20. Risks and contingency measures.** The 2016/17 budget is built on the assumptions of enhanced tax compliance as well as improved tax and non-tax policy. The Government is confident that these measures will lead to much higher revenue mobilization. However, consistent with its commitment to fiscal discipline, the Government intends to start some large projects only after confirmation in the next mid-year budget review of adequate preparation and availability of revenue. This will be the case, in particular, for the standard gauge railway for the central corridor and the renovation of the Dar es Salaam port, whose combined budget allocation in 2016/17 exceeds 1 percent of GDP. Similarly, projects for which external financing has not been mobilized in the course of 2016/17 will be postponed. These measures will ensure that the 2016/17 deficit does not exceed the budget target and limit the risk of expenditure arrears.

### Revenue Mobilization

**21. Tax policy reforms.** Various analyses show that despite some improvements in recent years, Tanzania's tax revenue ratio remains relatively low, even when compared to other low-income countries. As discussed earlier, significant improvements in revenue mobilization will be critical to finance new investments and address the country's development needs in a sustainable way. Closing the revenue gap will require reforms in both tax policy and tax administration. Efforts in the tax policy area have already started with implementation of the new VAT law since July, 2015 which broadened the tax base by removing a number of exemptions. However, more reform needs to be done in this area to bring VAT revenue yield close to the regional average of about 4.5 percent of GDP in the medium term and more than 6.0 percent of GDP in the long term. The Government will prepare a tax policy strategy by end December, 2016, which will among others, explore the scope to further removal of some VAT exemptions, improvement of the VAT refund mechanism, streamlining a number of corporate

income tax holidays and exemptions, more regular indexation of specific excise duty rates by the level of inflation, and modernization of mechanism for property taxation. The Government will submit before the Parliament during the 2016/2017 Budget session a proposal to repeal section 145 of the Income Tax Act Cap 332 and substitute it with new provisions that will deal with taxation of extractive industry, including mining and petroleum taxation. The main issues, among others, will be the introduction of ring-fencing clauses which will be applicable in the extractive industry and the introduction of an additional profit tax for the industry.

**22. Tax administration reforms.** The recent assessment using the Tax Administration Diagnostic Assessment Tool (TADAT) identified a number of weaknesses, in particular in voluntary tax compliance, the integrity of the taxpayer register, the IT system and its oversight, the assessment and management of institutional risks, the processing of taxpayer accounting transactions, audit case selection, the VAT refund process and its financing, and performance monitoring practices. Our priority is to enhance TRA's IT system to improve the integrity of the taxpayer register, which is a precondition for more effective management of compliance. The introduction of the new Tax Administration System (IDRAS) by end-October 2016 (new structural benchmark) will improve the monitoring of timeliness of payments and taxpayer account balances. Finally, risk management will be strengthened, with a focus on auditing practices. Measures will also be taken to strengthen customs management, such as improving the cargo control systems in the port of Dar es Salaam, reducing dwell times through effective risk management, improving the transit management systems, and improving valuation and classification practices.

### **Fiscal Aspects of Energy**

**23. Power sector.** Recent developments in the power generation mix are expected to have a positive impact on TANESCO's financial situation. Thanks to the replenishment of water reservoirs in recent months and the completion of the gas pipeline and the Kinyerezi I power station, most of the demand is currently met from gas-fired or hydro-electric generation units, whose marginal production cost is below the average tariff. The government has also already transferred this fiscal year close to TSh 200 billion to TANESCO to clear arrears on its electricity bills. The government has also implemented a series of measures that have helped increase TANESCO's financial management and revenue collection including: installation of automatic meter reading to big customers; curbing power ghost vendor machines by changing prepaid meters coding; enforcing penalty and disconnection policy for non-paying customers; and intensifying collection efficiency through increased use of prepaid meters (including for government entities). TANESCO's financial situation, however, remains difficult, and its arrears to suppliers still stood at about US\$300 million in April 2016. To address these arrears, the government is considering engaging commercial banks that are willing and ready to pay TANESCO's creditors and convert the amount paid into a long-term loan. Due to TANESCO's limited creditworthiness, it is likely that those banks would require a government guarantee.

### **Fiscal Aspects of Pensions and Pension Reform.**

**24. Arrears to pension funds.** The Government has revisited its plan of issuance of non-cash special bond for settlement of Pensions Funds debt by extending the timing for issuance. The decision was made to allow the Internal Auditor General to conduct a thorough verification of the total outstanding debts in order to ascertain their authenticity prior to the issuance of the special bonds. The verification has started and the issuance of non-cash special bond is expected by end-December 2016.

**25. Pension reform.** The actuarial valuation exercise has been completed and discussions with stakeholders on the needed parametric reforms and merging of pensions schemes are ongoing. A special task force has been formed under the Prime Minister's Office to fast-track the merging process.

## **C. Public Finance and Debt Management**

### **Public finance and debt management**

**26. Management of domestic expenditure arrears.** As of end-December 2015, the stock of verified and unverified expenditure arrears amounted to 2.1 percent of GDP. The settlement of verified expenditure arrears (accumulated up to end-June 2014) has started. These arrears will be fully settled by the end of the fiscal year. The verification of expenditure arrears accumulated since June 2014 is well advanced in a few priority areas (e.g., ministry of works, teachers' remuneration). All arrears accumulated through end-2015 will have been verified by end-June 2016, and their settlement will be implemented with the 2016/17 budget. The budget for 2016/17 emphasizes the priority for accounting officers to clear existing arrears before entering into new commitments. As an immediate priority, commitment and expenditure control against the exchequer releases will be re-established in IFMIS by July 2016. A new public awareness campaign will be launched by end-July 2016 to warn suppliers that orders not generated through IFMIS will not be honored (new structural benchmark). The 2016/17 Budget Speech already made this point.

**27. Improving budget credibility and expenditure management.** More realistic budgets (both on the revenue and financing side) and tightening of commitment controls will be critical to avoid arrears accumulation and reduce inefficient budget adjustments in the course of the fiscal year. Expenditure and resource mobilization plans will be more closely aligned, with the borrowing plan taking into account the seasonal pattern of revenue and the expected pace of expenditure implementation. Predictability of cash releases has been a source of arrears accumulation, as exchequers could be issued but not be paid due to unanticipated shortage of resources. An expert has been hired to enhance IFMIS with a contract management module that will enable to track multi-year commitments over the life cycle of the budget. This will ensure proper budgeting of the required resources, and further improve the integration of the medium-term expenditure framework into the annual budget process.

**28. Public debt management.** The approval of the National Debt Management Policy and proposed amendments to the Government Loans, Guarantees and Grants Act Cap. 134 were deferred to incorporate changes in the structure of the Ministry of Finance and Planning. Under the new structure the responsibilities of debt management rest with the Ministry of Finance and Planning. The structure of debt management has remained the same and there are no new responsibilities which have been transferred to the Bank of Tanzania. The Bank of Tanzania remains as an Agent of the Government responsible for issuance of Government Securities. The Policy and Act were prepared with a view to strengthening management of public debt, including providing the legal underpinning for a new debt management department to effectively discharge its responsibilities. The approval of the Policy and Act by Cabinet are now expected by end-July 2016.

### **Monitoring and Management of the Public Sector**

**29.** The Office of the Treasury Registrar (OTR) will continue preparing and publishing information on each Public Institution and Statutory Corporation's (PISC) revenues, expenditures, profits and losses. An information system is being put in place, which will facilitate quarterly financial reporting by PISCs and consolidation and analysis of that information by OTR. The system is expected to be operational in the coming months, with a first quarterly report by OTR by end-September 2016 (new structural benchmark). In the meantime, PISCs have been directed to open revenue accounts with the BoT, to facilitate monitoring of their operations by OTR. An operating expenditure ceiling of 60 percent of annual gross revenue applies to PISCs that are not receiving Government transfers. For those receiving Government transfers, scrutiny of their budgets will continue. OTR is entering into Performance Contracts with each PISC's Chief Executive Officers and Board Chairpersons. Capacity will continue to be built at OTR to perform all this functions.

## **D. Other Reforms**

**30. Improving the business environment in support of economic diversification.** Establishing a conducive business environment and investment climate for the private sector to participate competitively and efficiently in economic development has been one of the Government's key agendas. In this regard, the FYDP II underscores the importance of an enabling environment for the establishment and operation of enterprises and set targets that are to be achieved in the next five years. The planned targets and interventions include a reduction in the cost of doing business through legal and regulatory reform, easing registration and license requirements in order to promote both domestic and foreign investors, enforcing property rights and legal instruments, and availability of reliable and affordable energy.

**31. Improving governance.** The Government of Tanzania recognizes corruption as a serious problem affecting social economic development of the country and therefore a number of initiatives have been taken to deal with this problem. They include the establishment of a National Anti-Corruption Strategy (NACSAP), which focuses on building systems of integrity,

accountability and transparency in public institutions. The strategy provides the framework within which public entities are required to initiate concrete measures to address corruption in their areas of jurisdiction. Currently, the Government is preparing NACSAP III which has been designed to strengthen coordination, monitoring and evaluation, devise strong ethics promotion and to have a wider stakeholders' participation in the fight against corruption. The NACSAP will benefit from initiatives underway to enhance discipline in the public service and step up the fight against corruption, including the establishment Corruption and Economic Crimes Division of the High Court.

**32. Developing the energy sector.** Further commissioning of gas-fired units in the coming years will ensure a sustained reduction of power generation costs. The resolution of TANESCO's arrears and the overall improvement in its financial situation will make it a more credible interlocutor for independent power producers, which will be required to develop production capacity, and on-shore gas providers. This will facilitate the development of on-shore gas resources, which are significant and could play a critical role in the development of energy-intensive industries. The government has resumed discussions with international companies involved in off-shore gas exploration, with a view to providing the conditions allowing them to reach an investment decision.

**33. Fostering regional integration.** Work is ongoing to implement the single customs territory, with a focus on facilitating trade along the central corridor. Customs systems have been connected, and customs officials from other EAC partner states are already present at the port of Dar es Salaam and able to clear certain goods destined to their countries. Significant progress has been made to reduce non-trade barriers, and efforts in this area will continue. An assessment of the experience with the first phase of implementation of the common market is currently undertaken at the EAC level; its conclusions will inform the next integration phase. Tanzania remains committed to the full implementation of the common market, which is consistent with the objective of making the country a trade and logistics hub for East Africa. Work to harmonize a number of policies and data is also ongoing in the context of the convergence towards EAMU.

**34. Improving Statistics.** The Government will continue its efforts to improve data quality and dissemination to facilitate economic analysis and policy making. Substantial progress has been made in improving statistics over the past few years, including rebasing their benchmark years and expanding coverage, with assistance from the IMF and donor partners. The Government will soon participate in the Enhanced General Data Dissemination Standard (e-GDDS) initiative to further enhance data dissemination practices. Fiscal data will continue to be improved, including expanding coverage to general government, and moving to GFSM2001/14 standards. The NBS will continue to improve the national accounts data, including deflators, and plan to release expenditure components of quarterly GDP later in 2016.



## PROGRAM MONITORING

**35.** Assessment criteria for end-December 2016, and indicative targets for end-September 2016, end-March 2017, and end-June 2017 are set as per Table 1. It is proposed to reschedule to end-December 2016 the two missed structural benchmarks on the clearance of arrears to pension funds, to allow for a new verification of claims by the Internal Auditor General. It is also proposed to modify the assessment criteria for NIR and the overall fiscal deficit for end-June 2016, to reflect the large expected shortfall in external financing. The fifth and sixth reviews under the PSI are expected to take place by December 31, 2016 and June 30, 2017, respectively, on the basis of the assessment criteria and structural benchmarks indicated in Tables 1 and 2, attached.

**Table 1. Tanzania: Quantitative Assessment Criteria (AC) and Indicative Targets (IT) Under the Policy Support Instrument, December 2015–June 2017**

	Dec. 2015				Mar. 2016				June 2016		Sep. 2016		Dec. 2016		Mar. 2017		June 2017	
	AC				IT				AC		IT		AC		IT		IT	
	Program	Adjusted Criteria	Actual	Met?	Program	Adjusted Criteria	Actual	Met?	Program	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed
(Billions of Tanzania Shillings; end of period, unless otherwise indicated)																		
Average reserve money (upper bound) <sup>2</sup>	6,913	6,913	6,862	✓	6,912	6,912	6,533	✓	7,076	7,076	7,418	7,729	7,925	7,958				
Average reserve money target <sup>2</sup>	6,845	...	...		6,843	...	...		7,006	7,006	7,345	7,652	7,846	7,879				
Average reserve money (lower bound) <sup>2</sup>	6,776	...	...		6,775	...	...		6,936	6,936	7,272	7,576	7,768	7,801				
Tax revenues (floor) <sup>1</sup>	5,923	5,923	5,987	✓	8,971	8,971	9,170	✓	12,229	12,229	3,385	7,086	10,672	14,448				
Priority social spending (floor; indicative target) <sup>1</sup>	1,400	1,400	1,696	✓	2,100	2,100	2,530	✓	2,800	2,800	790	1,580	2,370	3,160				
Accumulation of domestic expenditure arrears (ceiling) <sup>1,3</sup>	0	0	294	✗	0	0	44	✗	0	0	0	0	0	0				
Fiscal deficit (cumulative, floor) <sup>1,6,7</sup>	-1,992	-1,992	-1,788	✓	-2,988	-3,024	-1,883	✓	-3,984	-3,161	-1,219	-2,403	-3,650	-5,027				
(Millions of U.S. dollars; end of period)																		
Change in net international reserves of the Bank of Tanzania (floor) <sup>1,4,5</sup>	-254	-288	-76	✓	-120	-420	-260	✓	481	16	181	310	439	567				
Accumulation of external payment arrears (continuous AC ceiling) <sup>1</sup>	0	0	0	✓	0	0	0	✓	0	0	0	0	0	0				
Memorandum items:																		
Foreign program assistance (cumulative grants and loans; millions of U.S. dollars) <sup>1</sup>	173	173	140		294	294	172		257	55	160	202	378					
o.w. Program grants (millions of U.S. dollars) <sup>1</sup>	24	24	34		54	54	38		73	5	34	50	108					
External nonconcessional borrowing (ENCB) disbursements to the budget (millions of U.S. dollars) <sup>1</sup>	79	79	79		432	432	65		533	315	629	944	1,259					
Arrears to PSPF on account of the 1999 reform cleared from the beginning of fiscal year 2015/16 (billions of Tanzania shillings) <sup>1</sup>			0				0											
by the government from the beginning of fiscal year 2015/16 (billions of Tanzania shillings) <sup>1</sup>			0				0											

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

<sup>1</sup> Cumulative from the beginning of the fiscal year (July 1).

<sup>2</sup> Assessment criteria and indicative targets apply to upper bound only.

<sup>3</sup> Starting from June 2016, AC for the end of the fiscal year in June, otherwise IT.

<sup>4</sup> Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government, up to the equivalent of US\$300 million.

<sup>5</sup> Starting end-December 2015 the NIR target excludes short-term (less than 1 year) foreign exchange liabilities to residents.

<sup>6</sup> The fiscal deficit is measured on a cash basis from the financing side at the current exchange rates and is defined as a sum of (i) net domestic financing (NDF) of the Government; (ii) net external financing and (iii) privatization receipts as defined in the TMU.

<sup>7</sup> The deficits in 2015/16 and 2016/17 will be adjusted upward by the amount of arrears to PSPF on account of the 1999 reform and the amount of loans in arrears made by pension funds to government entities (recognized by the government) that were cleared during each fiscal year. The cumulative upward adjustment to the limits on the deficits in 2015/16 and 2016/17 will be capped by the total amount of arrears and loans that are recognized in the strategy to clear arrears to pension funds. The deficit will be increased by any shortfalls in foreign program grants up to a cumulative ceiling of equivalent to US\$200 million calculated at the program exchange rate.

<b>Structural Benchmarks Under the Policy Support Instrument, December 2015–June 2016</b>			
<b>Measure</b>	<b>Macroeconomic rationale</b>	<b>Target date</b>	<b>Notes</b>
<b>Public Finance Management/Fiscal Risks</b>			
Settlement of arrears to PSPF on account of 1999 reform	To address fiscal risks	End-March 2016	Not met. To be rescheduled for end-December 2016 to allow for new verification by the Internal Auditor General
Settlement of arrears to pension funds on loans made to government	To address fiscal risks	End-June 2016	Expected to be missed. To be rescheduled for end-December 2016 to allow for new verification by the Internal Auditor General
Launch a new public awareness campaign to warn suppliers that orders not generated through IFMIS will not be honored	To prevent arrears accumulation	End-July 2016	New
<b>Monetary, Financial and Exchange Rate Policies</b>			
Unify the Statutory Minimum Reserve and the clearing accounts that banks maintain at the BoT and implement partial reserve averaging for reserve requirements	To reduce excessive volatilities in short term money market interest rates.	December 31, 2015	Not met. Expected to be implemented by end-June 2016
Produce a study making recommendations on the use of foreign exchange swaps between commercial banks and banks' NOP limit.	To improve liquidity in the foreign exchange market	End-June 2016	Ongoing
Carry out a study to determine an approach of setting the Lombard rate to make it more predictable (in order to enhance stability of the short-term interest rates) while consistent with	To reduce excessive volatilities in short term money market interest rates.	End-September 2016	New

the monetary policy stance and ensuring that the facility is not abused.			
<b>Public Debt Management</b>			
Update the medium-term debt management strategy, and obtain approval by the Minister for Finance	To enhance public debt management	December 31, 2015	Met.
Government to approve the National Debt Management Policy and amendments of the Government Loans, Guarantees and Grants Act	To enhance public debt management	End-March 2016	Not met. Expected to be implemented by end-July 2016
<b>Public sector monitoring</b>			
Office of Treasury Registrar to publish first quarterly report on major Public Institution and Statutory Corporations' revenues, expenditures, and profits and losses	To improve the monitoring of parastatals and transparency	End-September 2016	New
<b>Improve revenue mobilization</b>			
Introduction of a new Tax Administration System (IDRAS)	To improve tax administration	End-October 2016	New

## **Attachment II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the Program Supported by the PSI**

**June 28, 2016**

### **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 Tanzania's program supported by the PSI, comprising the quantitative assessment criteria, the indicative targets and structural benchmarks monitored under the PSI.
2. The principal data sources are the standardized reporting forms, 1SR and 2SR, as provided by the Bank of Tanzania (BoT) to the IMF, and the government debt tables provided by the Accountant General's office.
3. The program exchange rate is TSh/USD 2,179.60.

### **II. DEFINITIONS**

#### **Net international reserves**

4. Net international reserves (NIR) of the BoT are defined as reserve assets of the BoT minus reserve liabilities of the BoT. The change in NIR is calculated as the cumulative change since the beginning of the fiscal year. 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 acquired through short-term currency swaps (maturing in less than one year) and other assets used as collateral or as guarantee for a third party external liability (assets not readily available). The BoT's reserve liabilities include: (i) all foreign exchange liabilities except government's foreign currency deposits of residual maturities more than one year; and (ii) outstanding purchases and loans from the IMF, as recorded in the financial position of Tanzania with the IMF by the Finance Department of the Fund.
5. NIR are monitored in U.S. dollars, and for program monitoring purposes assets and liabilities in currencies other than U.S. dollars shall be converted into dollar equivalent values using the exchange rates as of March 31, 2016 (as recorded in the balance sheet of the BoT).

	US\$ per currency unit
British pound	1.4404
Euro	1.1313
Japanese yen	0.0089
Australian dollar	0.7672
Canadian dollar	0.7686
Chinese yuan	0.1544
SDR	1.3988
Swedish Krona	0.1224
Kenyan Shilling	0.0099
South African Rand	0.0669

### **Reserve money and reserve money band**

6. Reserve money is defined as the sum of currency issued by the BoT and the deposits of Other Depository Corporations (ODCs) 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 for June and December serves as the assessment criterion and that for March and September, the indicative target.

### **Fiscal cash deficit of the Government of Tanzania**

7. The fiscal cash deficit of the Government (central and local governments only) will be measured on a cash basis from the financing side at the current exchange rates. The deficit is defined as the sum of: (i) net domestic financing (NDF) of the Government; (ii) net external financing and (iii) privatization receipts. Any amounts in foreign currency will be converted into Tanzanian shillings at the exchange rates as of the dates of the transactions.

- i. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of:
  - a. loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued for monetary policy purposes), minus all government deposits with the BoT, which comprise government deposits as reported in the BoT balance sheet, 1SR (including counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes) and foreign currency-denominated government deposits at the BoT (including the PRBS accounts and the foreign currency deposit account).
  - b. all BoT accounts receivable due from the Government of Tanzania that are not included under (i) above;

- c. loans and advances to the government by other domestic depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other domestic depository corporations;
  - d. loans and advances to the government, and holdings of government securities and promissory notes by other public entities (e.g. pension funds) not covered by the central government accounts; and
  - e. the outstanding stock of domestic debt held outside domestic depository corporations and other public entities, excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COBELMO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.
  - f. NDF will be measured net of any accumulation of central government claims on the Tanzania Petroleum Development Corporation (TPDC) as a result of the on-lending of an external credit to finance a gas pipeline.
- ii. Net external financing is measured on a cumulative basis from the beginning of the fiscal year and is defined as the sum of disbursements minus amortization of budget support loans, project loans, external non-concessional borrowing (ENCB) including project ENCB directly disbursed to project implementers; and any other forms of Government external debt. The term "external debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). Government external debt is understood to mean a direct, i.e. not contingent, liability to non-residents of the Government of Tanzania.
  - iii. Privatization receipts consist of net proceeds to the Government of Tanzania in connection with the sale/purchase of financial assets that are not included in NDF and the sale of intangible nonfinancial assets, such as leases and the sale of licenses with duration of 10 years or longer. For the 2015/16 budget, privatization proceeds will exclude TSh 212 billion from the sale of shares in Tanzania Breweries Limited and Tanzania Cigarette Company, which were included in non-tax revenue projections.

### **Domestic expenditure arrears**

8. Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 30 days for goods and services and more than 90 days for contract works as set out in the government's Circular No 9 of 8th December 2014. These will include payments for tax refunds, employee expenses (wages and salaries, staff claims for travel, transfer and other non-salary allowances), utilities, rents, recurrent goods and services, and construction works. Accumulation of domestic expenditure arrears is calculated as a cumulative change in the stock of expenditure arrears at the end of each quarter from the stock at the end of the previous fiscal year (June 30).

**External payment arrears**

9. External payment 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 and arrears previously accumulated and reported to the Executive Board. The ceiling on external payment arrears is continuous and applies throughout the year.

**Priority social spending**

10. Priority social spending comprises spending on agricultural inputs, and central government transfers to local governments for health and education.

**Tax revenues**

11. Tax revenues include import duties, value-added tax, excises, income tax, and other taxes.

**Arrears to pension funds**

12. Arrears to pension funds include government obligations to the Public Service Pension Fund (PSPF) on pre-1999 reform pension benefits paid on government's behalf and overdue payments on loans made by pension funds to public entities.

**Foreign program assistance**

13. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance and Planning (MoFP) through BoT accounts and accounts at other depository corporations 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 assistance does not include nonconcessional external debt.

**III. ADJUSTERS****Net international reserves**

14. The end-of-quarter quantitative targets for the change in the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfalls in (a) foreign program assistance and (b) external nonconcessional borrowing (ENCB) financing of the government budget, up to a limit of US\$300 million.

15. The shortfalls will be calculated relative to projections for foreign program assistance shown in the table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania titled "Quantitative Assessment Criteria,



and Indicative Targets under the Policy Support Instrument". For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted for the gas pipeline.

### **Fiscal cash deficit**

16. The end-of-quarter limits in 2015/16 and 2016/17 will be adjusted upward by the amount of arrears to PSPF on account of the 1999 reform cleared from the beginning of each fiscal year and the amount of loans in arrears made by pension funds to government entities and cleared by the government from the beginning of each fiscal year. The cumulative upward adjustment to the limits on the deficits in 2015/16 and 2016/17 will be capped by the total amount of arrears and loans that are recognized and taken over by the authorities at the end of the verification and reconciliation process.

17. The end-of-quarter limits will be increased by any shortfalls in foreign program grants up to a cumulative ceiling of equivalent to US\$200 million calculated at the program exchange rate (para 3).

18. The foreign program grant shortfalls will be calculated relative to projections for foreign grants shown in the table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania titled "Quantitative Assessment Criteria, and Indicative Targets under the Policy Support Instrument".

## **IV. DATA REPORTING REQUIREMENTS**

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
Daily excess reserves of commercial banks	BoT	Weekly	1 week
Daily data on transactions through IFEM by exchange rate and volume, separating BoT and commercial bank transactions	BoT	Weekly	1 week
Daily data on reserve money and its components	BoT	Daily	1-day
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices.	NBS	Annually	6 months
The quarterly national account statistics in constant prices.	NBS	Quarterly	3 months
Balance sheet of the BoT (1SRF) and the currency composition of official foreign assets and official foreign liabilities.	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS).	BoT	Monthly	4 weeks
Information on foreign currency swaps entered into with residents and non-residents, including amounts, dates on which agreements come into effect and expire, and terms of swaps.	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	MoFP	Monthly	2 weeks
External trade developments.	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators for other depository corporations.	BoT	Quarterly	6 weeks
Other depository corporation lending by activity.	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) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves. <sup>1</sup>	BoT and MoFP	Monthly	4 weeks
Amount of arrears outstanding that are overdue by more than 30 days for goods and services and more than 90 days for contract works as set out in the government's Circular No 9 of 8 <sup>th</sup> December 2014 for all government ministries.	MoFP/AGD	Quarterly	2 months
The flash report on revenues and expenditures.	MoFP/AGD	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report. <sup>1</sup>	MoFP	Monthly	4 weeks
Monthly report on central government operations.	MoFP	Monthly	6 weeks
Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid.	MoFP	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoFP	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 14 of the TMU during the period including terms and conditions according to loan agreements.	MoFP	Quarterly	4 weeks
Quarterly report on loans and advances to government by pension funds and other public entities not covered by the central government accounts	MoFP	Quarterly	4 weeks
Report on priority social spending	MoFP	Quarterly	6 weeks
<sup>1</sup> The MoFP and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the same as those reported by the Accountant General of the MoFP.			



# UNITED REPUBLIC OF TANZANIA

June 28, 2016

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

Prepared By

The African Department  
(In consultation with other departments)

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## RELATIONS WITH THE FUND

(As of May 31, 2016)

**Membership Status:** Joined: September 10, 1962;

Article VIII

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	397.80	100.00
Fund holdings of currency	338.07	84.99
Reserve Tranche Position	59.73	15.01

<b>SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	190.51	100.00
Holdings	40.20	21.10

<b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
ESF Arrangements	161.11	40.50
ECF Arrangements	0.56	0.14
SCF Arrangements	74.60	18.75

### Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
SCF	Jul 06, 2012	Apr 30, 2014	149.18	74.60
ESF	May 29, 2009	June 14, 2010	218.79	218.79
ECF <sup>1</sup>	Aug 16, 2003	Feb 26, 2007	19.60	19.60

<sup>1</sup> Formerly PRGF.

### Projected Payments to Fund<sup>1</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Principal	44.04	60.62	60.34	44.42	18.57
Charges/Interest	<u>0.04</u>	<u>0.50</u>	<u>0.35</u>	<u>0.28</u>	<u>0.16</u>
Total	<u>44.08</u>	<u>61.12</u>	<u>60.69</u>	<u>44.70</u>	<u>18.72</u>

<sup>1</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Implementation of HIPC Initiative:**

	Enhanced
Commitment of HIPC assistance	<u>Framework</u>
Decision point date	April 2000
Assistance committed	
by all creditors (US\$ Million) <sup>1</sup>	2,026.00
Of which: IMF assistance (US\$ million)	119.80
(SDR equivalent in millions)	88.95
Completion point date	November 2001
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	88.95
Interim assistance	26.68
Completion point balance	62.27
Additional disbursement of interest income <sup>2</sup>	7.45
<b>Total disbursements</b>	<b>96.40</b>

<sup>1</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

<sup>2</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

**Implementation of Multilateral Debt Relief Initiative (MDRI):**

MDRI-eligible debt (SDR Million) <sup>1</sup>	234.03
Financed by: MDRI Trust	207.00
Remaining HIPC resources	27.03

Debt Relief by Facility (SDR Million)

	<u>Eligible Debt</u>		
<u>Delivery</u>			
<u>Date</u>	<u>GRA</u>	<u>PRGF</u>	<u>Total</u>
January 2006	N/A	234.03	234.03

<sup>1</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

**Safeguards Assessments:**

An update safeguards assessment of the Bank of Tanzania (BoT) was finalized in November 2012. Previous assessments were completed in December 2003, August 2008, and November 2009. The 2012 update assessment found a strengthened governance and safeguards framework at the BoT. Its Audit Committee continued to provide an active oversight of the audit, financial reporting, and control systems. The financial statements are prepared and audited in accordance with international standards. While the BoT has implemented most of the recommendations, progress in establishing a modern internal audit function has been slow.

**Exchange Rate Arrangement:**

The currency of Tanzania is the Tanzania shilling. Tanzania's de jure exchange rate arrangement is free floating and its de facto exchange rate arrangement is classified as floating. The official exchange rate is determined in relation to the rate established in the interbank market for foreign exchange. The weighted average rate in the interbank market was TSh 2,193.43 per U.S. dollar as of June 7, 2016. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Tanzania accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from July 15, 1996.

**Article IV Consultation:**

The Executive Board concluded the last Article IV consultation on April 25, 2014 (Country Report No. 14/120).

**Technical Assistance:**

Tanzania assistance activities provided to Tanzania since 2012 are listed below.

<b>Fiscal Affairs Department (FAD)</b>	<b>Year of delivery</b>
Tax Administration Diagnostic Assessment	2016
Enhancing the Effectiveness of Commitment Controls	2015
Fiscal Transparency Evaluation	2015
Implementation of the Revised VAT Law	2015
Natural Resource Management	2015
Tax Policy	2014
PFM Legal Framework	2014
Fiscal Analysis and Reporting	2014, 2016
Internal Audit	2014
Resource Tax Administration	2014
Improving the Management and Payment of VAT Refunds	2014
Natural Gas: An Agenda of Fiscal Issues	2013

Advancing Public Financial Management Reforms	2012
Improving the Effectiveness of Tax Administration	2012, 2014–15
Mining and Gas Fiscal Regimes and VAT Reform	2012

**Monetary and Capital Markets Department (MCM)**

Insurance Supervision	2016
Debt Management and Debt Market Development	2015–16
Community Banks	2015
A Code of Conduct for FX, Money and Repo Markets	2015
Financial Stability Risk Assessment Framework	2015–16
Financial Sector Regulations	2015
Liquidity Management and Interbank Money Market	2014
Consolidated Supervision	2014–15
Basel II/III Regulations	2014–15
Pension Supervision	2014
Developing a Transitional Monetary Framework and Introducing Sukuk	2014
Medium-Term Debt Management Strategy (jointly with The World Bank)	2013
Supervisory Review of IFRS Compliance	2013
Strengthening Crisis Management Framework	2013

**Legal Department (LEG)**

Banking Law (EAC)	2015
Fiscal Law	2013–15
Natural Resources Tax	2014

**Statistics Department (STA)**

Price Statistics	2013–15
National Accounts	2013–16
Government Finance Statistics	2012, 2014–16
External Sector Statistics	2012, 2016

**Resident Representative:**

Mr. Thomas Baunsgaard has been the Resident Representative since May 2012.



## STATISTICAL ISSUES

(As at May 31, 2016)

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> <i>Data provision is adequate for surveillance and program monitoring.</i> The authorities – led by the National Bureau of Statistics (NBS) for the mainland and the Office of the Chief General Statistician (OCGS) for Zanzibar – have articulated a 5-year strategy under the Tanzania Statistical Master Plan. The Plan—a multipronged approach to improve collection and dissemination of statistics—is operationalized through a series of Annual Work Plans. The authorities will be focusing on carrying forward a number of ongoing initiatives, including ongoing efforts to update the legal framework governing statistical collection in Tanzania; improving the quality of national accounts data, especially from Zanzibar; rebasing the producer price index; and improving indicators of industrial production.</p>
<p><b>National Accounts:</b> National accounts statistics for mainland Tanzania are prepared by the NBS. Separate accounts are compiled for Zanzibar by the OCGS. The data sources for estimating national accounts by expenditure category and the indicators used to extrapolate benchmark production levels suffer from deficiencies that complicate estimation of saving-investment. The accounts are based on the 1993 System of National Accounts (1993 SNA) and are published at current and constant (2007) prices.</p>
<p><b>Price Statistics:</b> The NBS compiles a monthly consumer price index (CPI) for mainland Tanzania based on consumer expenditure in 21 urban centers. A separate price index is compiled for Zanzibar. An updated CPI with weights based on the 2011/12 HBS was released in February 2016. While the CPI basket has become more comprehensive, the geographical coverage of the index remains fairly narrow, focused on urban centers, whereas bulk of population live in rural areas. The producer price index (PPI) is compiled monthly and published quarterly and draws from surveys of business establishments with over 50 workers, with the basket based on the results of the 1999 Annual Survey of Industrial Production (ASIP). The NBS plans to improve and update the PPI, including by providing data for 2000–2006 and moving from the ISIC Rev. 2 classification to the newer ISIC Rev. 3.1. One key concern is the representativeness of the basket as it is based on a very old vintage of the ASIP.</p>
<p><b>Government Finance Statistics:</b> The authorities provide Fund missions with monthly budgetary data on central government revenue, expenditure, and financing on a timely basis. Although the underlying concepts broadly follow the Government Finance Statistics Manual 1986, the reporting differs from international standards in coverage and the treatment of lending minus repayments, and transfer payments. Coverage of data on the budgetary operations of the central government refers to Tanzania mainland only –the Ministry of Finance of Zanzibar established a unit tasked with developing a fiscal reporting framework for Zanzibar. Data for general government are not available as no information is provided on the financial position of extra-budgetary funds and local governments, although the authorities have stated their intention to produce such reports over time.</p> <p>Despite improvements in the recording of government transactions, discrepancies remain between data on government operations and financing. These discrepancies are related to the lack of a fully integrated set of accounts and inconsistencies in the delineation of the general government and its sub-sectors, differing source data, and timing differences. In addition, there appear to be gaps in the IFMIS that allow exchequers</p>

to be issued for work without corresponding entries in the Accountant General's system, leading to arrears. This primarily affects multi-year development projects, including in road construction.

The Ministry of Finance created a database of donor-funded projects in FY2001/02, the Aid Management Platform (AMP) with donor assistance. Since then, the number of foreign-financed projects reported by and channeled through the budget has increased significantly. The integrity of AMP data can be affected by late entry of data by major donors, which gives rise to discrepancies.

The government has completed the computerization of its accounting system for budgetary units. The authorities resumed reporting in the Government Finance Statistics Yearbook (GFSY); a relative consistent time series of data has been reported for 2006-2014 for inclusion in the 2015 GFSY.

**Monetary Statistics:** The monetary statistics are broadly adequate for policy and analytical purposes. In addition to monthly compilation of the Standard Report Forms (SRFs), which the BoT shares with the Fund, the authorities have also been sharing daily developments in reserve money through the program period. Key improvements going forward would be to complement the SRFs with more timely compilation of statistics for non-banks and Islamic banking. The authorities have been publishing quarterly data on financial stability, though with a lag, coinciding with the publication of the Financial Stability Report. These data are made available on a more timely basis to Fund staff.

**Balance of Payments:** The BoP data, compiled by the Bank of Tanzania, are broadly adequate for surveillance. Data for merchandise exports and imports are recorded on the basis of Customs returns and supplemented by data from mining companies and crop boards. For services transactions, the chief data sources are the financial records of depository corporations and foreign exchange bureaus, supplemented with information on merchandise trade (freight and insurance), revenue data from the TRA (other insurance), and other international service providers. Data on travel receipts are obtained from International Visitors' Exit Surveys. Current transfers, capital transfers and official financial flows are provided by donors and the Ministry of Finance. Data for direct investment income are estimated based on information obtained from the Private Capital Flow Survey (PSFS). East AFRITAC has provided assistance in international investment position statistics, and developing price and volume indices for international trade. In 2015, a DFID project was launched aiming to harmonize external sector statistics of five EAC countries over the medium term focusing on goods, services, and reserves components.

## II. Data Standards and Quality

Tanzania intends to participate in the Enhanced General Data Dissemination Standard (e-GDDS) initiative. Metadata are posted on the IMF's Dissemination Standards Bulletin Board (DSBB) and were last updated in January 2014. Tanzania is participating in the successor project to the Fund's GDDS Project for Anglophone Africa (funded by the U.K. Department for International Development (DFID)).

A mission to prepare the data module for the Report on the Observance of Standards and Codes (ROSC) was completed in October 2002. The report was published in March 2004.

Table of Common Indicators Required for Surveillance

(As of June 16, 2016)

	Date of latest observation (all dates in table use mm/dd/yy format)	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>	Memo Items	
						Data Quality – Methodological soundness <sup>8</sup>	Data Quality – Accuracy and Reliability <sup>9</sup>
Exchange rate	6/16/16	6/16/16	D,M	D,M	D,M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	4/30/16	5/27/16	D,M	D,M	M		
Reserve/Base Money	4/30/16	5/27/16	D,M	D,M	M	LO, LO, LO, LO	LO, O, O, O, LO
Broad Money	4/30/16	5/27/16	M	M	M		
Central Bank Balance Sheet	4/30/16	5/27/16	M	M	M		
Consolidated Balance Sheet of the Banking System	4/30/16	5/27/16	M	M	M		
Interest Rates <sup>2</sup>	6/9/16	6/10/16	W, M	W, M	M		
Consumer Price Index	April 2016	5/10/16	M	M	M	O, LO, O, LO	LNO, LNO, LNO, O, O
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	...	...	...	LNO, LNO, LNO, LO	LO, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	March 2016	5/17/16	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	4/30/2016	5/31/16	M	M	M		
External Current Account Balance	April 2016	5/27/16	M	M	M	LO, LO, LO, LO	LO, LNO, O, LNO, LNO
Exports and Imports of Goods and Services	April 2016	5/27/16	M	M	M		
GDP/GNP	2015	5/10/16	Q,A	Q,A	Q,A	LO, LO, LO, LO	LNO, LNO, O, LO, LO

**Table of Common Indicators Required for Surveillance (Concluded)**

Gross External Debt	4/30/16	6/3/16	M	M	M		
International Investment Position <sup>6</sup>	12/31/15	5/13/16	A	A	A		

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

<sup>8</sup> This reflects the assessment provided in the data ROSC or the Substantive Update (published on March 12, 2004 and based on the findings of the mission that took place during October 8-22, 2002) 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); not observed (NO); and not available (NA).

<sup>9</sup> Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

## JOINT WORLD BANK–FUND WORK PROGRAM, 2016

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
A. Mutual information on relevant work programs			
Key elements of World Bank work program in next 12 months	The Systematic Country Diagnostics (SCD) for Tanzania will be submitted to the Board by September 2016. The SCD will inform the new Country Partnership Framework (CPF) starting from FY17.		September 2016
	The work program will continue to concentrate on areas within the existing portfolio. Currently there are four development policy operations (DPOs) under preparation.		Continuous
	The World Bank continues to lead and facilitate the Public Expenditure Review (PER) process in Tanzania with government and six other development partners. The focus will be on domestic revenue mobilization and business environment.	Tax Workshop February 16, 2016	Continuous
	Analytical and TA work including: governance framework of extractive industries; ROSC; procurement value chain; macro-modeling TA (MACMOD); public expenditure review including revenue mobilization; urban review; poverty analysis; financial inclusion and financial sector deepening; skills; and environment and tourism; SDG monitoring.		Continuous
IMF work program in next 12 months	Fourth PSI Review and Article IV Consultation	March 2016	July 2016
	Fifth PSI Review	September 2016	January 2017

<b>Joint World Bank–Fund Work Program, 2016 (continued)</b>			
B. Requests for work program inputs			
Fund requests to Bank	1. Assessment of key infrastructure projects and sectoral programs.		Continuous
	2. Assessment of financial health of pension funds.		Continuous
	3. Assessment of the financial viability of the electricity utility.		Continuous.
	4. Inputs on the design of a social protection framework.		Continuous
	5. Inputs on sources of growth for private sector development and job creation.		Continuous
Bank requests to Fund	1. Monitoring of government contracting of non-concessional borrowing.		Continuous
	2. Monitoring of steps to strengthen corporate governance of the BoT and transition to interest-based monetary policy framework.		Continuous
	3. Sharing macro-framework updates.		Continuous
	4. Statement of fiscal risk and contingent liabilities.		Continuous
C. Agreement on joint products and missions			
Joint products in next 12 months	1. Collaborate on a joint DSA	March 2016	July 2016
	2. Continue to collaborate with other development partners on general and sector budget support, including ongoing discussions with Government about the future of the aid relationship.		
	3. Collaborate on PFM reform program in the context of multi-donor support of the Public Financial Management Reform Program and ongoing Open Government PFM DPO series from IDA.		Continuous

<b>Joint World Bank–Fund Work Program, 2016 (concluded)</b>			
	4. Collaborate on supporting the government on the gas agenda, in particular follow up on the Petroleum Act 2015 and the Oil and Gas Revenue Management Act 2015 including collaboration in the areas related to fiscal regime, fiscal rules and public investment management in the gas sector.		Continuous
	5. Jointly provide technical assistance in developing domestic debt markets, following up from the first mission conducted in December 2015.		
	6. Jointly prepare and implement TADAP-tax policy work.		



# UNITED REPUBLIC OF TANZANIA

June 28, 2016

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, AND FOURTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By  
**Roger Nord and Catherine Pattillo  
(IMF) and John Panzer (IDA)**

Prepared by the staffs of the International Monetary  
Fund and the International Development Association

<b>Risk of external debt distress:</b>	Low
<b>Augmented by significant risks stemming from domestic public and/or private external debt?</b>	No

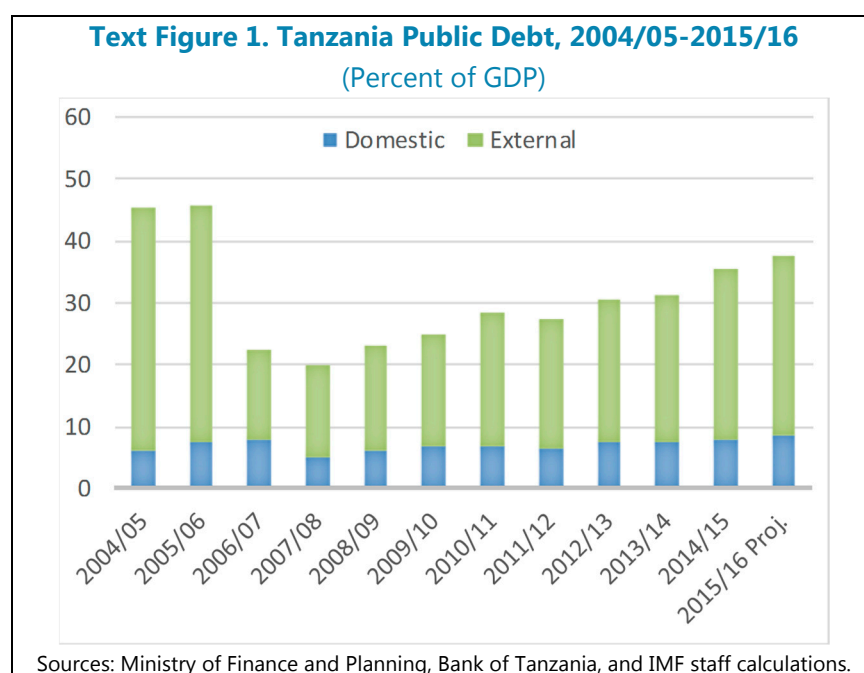
*The Debt Sustainability Analysis<sup>1</sup> (DSA) indicates that Tanzania's risk of debt distress is low. Under the baseline scenario, which assumes a scaling up of infrastructure investment, all external debt burden indicators are projected to remain below the policy-dependent thresholds. The public debt outlook also remains favorable. However, stress tests highlight vulnerabilities to exchange rate depreciation and lack of fiscal consolidation. These results highlight the need for Tanzania to continue implementing a prudent fiscal policy, with an overall deficit of about 3 percent of GDP remaining a good long-term fiscal anchor. An appropriate financing mix is also required. The increasing recourse to nonconcessional borrowing needs to be gradual and accompanied by strengthened debt management capacity and sustained reforms to public financial and investment management to preserve debt sustainability.*

<sup>1</sup> This full Debt Sustainability Analysis replaces the previous update prepared in June 2015 in the context of the second PSI Review (IMF Country Report No. 15/181). The updated three-year average Country Policy and Institutional Assessment (CPIA) rating for 2012-2014 is 3.76 and now breaches the 3.75 boundary for a strong policy performer. However, narrow breaches less than 0.05 require two consecutive years of breach to qualify for an upgrade in the policy performance category. Therefore, as in the June 2015 assessment this DSA uses the policy-dependent thresholds for medium policy performers.



## BACKGROUND AND RECENT DEVELOPMENTS

**1. The accumulation of new external public debt has been gradual but steady since debt relief was provided under the Multilateral Debt Relief Initiative.** Total public sector debt (external plus domestic public debt) gradually increased from about 20 percent of GDP in 2007/08 to an estimated 37.5 percent of GDP in 2015/16 (Text Figure 1). Most of the increase is due to public and publicly guaranteed (PPG) external debt.



**2. While Tanzania's PPG external debt is mostly concessional, borrowing on non-concessional terms has increased recently, partly due to the decline in aid from development partners.** At end-2014/15, more than two-thirds of public external debt was owed to multilateral institutions, primarily the International Development Association (IDA) and the African Development Bank (AfDB). Government borrowing from commercial sources amounted to about 30 percent of the public external debt stock at end-2014/15, against about 2 percent at end-2009/10.

**3. Domestic public debt totaled 8 percent of GDP at tend-June 2015.** Domestic debt remains dominated by medium and long-term instruments, with Treasury bonds accounting for over 50 percent of total domestic debt and an average maturity of 7 years. Commercial banks continued to hold the largest share of government domestic debt.

**4. The coverage of public debt in this DSA is restricted to central government obligations owing to data availability.** Local government debt and public enterprise debt are not captured due to lack of reliable and timely data. However, since these entities are often unable to borrow externally without a guarantee from the central government, public debt data captures partially their debt exposure. To get a comprehensive picture of government domestic debt, several

outstanding government liabilities and other contingent liabilities<sup>2</sup> currently not accounted for in the debt stock are added to the first year of projection (2015/16). These are estimated at 7.6 percent of GDP and mainly include arrears to pension funds and loans to government entities, budget expenditure arrears, TANESCO's arrears to its suppliers, and other actual or contingent liabilities.

## UNDERLYING ASSUMPTIONS

**5. To address the country's infrastructure gap, the authorities have formulated a new Five-Year Development Plan (FYDP II) with large investment in a number of areas,** including hydropower plants, roads, a standard gauge railway, the Dar es Salaam Port, and the water and transportation systems. While a significant share of this investment would be on budget, the authorities also intend to resort to public-private partnerships (PPPs) to limit government borrowing and risks to debt sustainability.

**6. The current DSA<sup>3</sup> assumes an increase in the fiscal deficit over the medium-term on account of public investment scaling up followed by gradual fiscal consolidation to maintain debt sustainability.** The baseline scenario assumes implementation of the authorities' economic and development agenda. In the absence of a detailed quantitative macroeconomic framework for the FYDP II at the time of discussions, staff explored the sustainability of a plausible medium-term investment scaling up scenario. Accordingly, the deficit is projected to increase to 4.6 percent of GDP in 2016/17 and remain at about 4.5 percent of GDP over the medium-term, before returning to slightly below 3 percent of GDP by 2022/23 consistent with regional commitments to converge toward the East African Monetary Union (EAMU) protocol. Domestic revenues are projected to increase in 2016/17 on account of expected gains from tax administration and policy measures and nontax revenue owing to higher contributions of parastatals to the budget (including a large one-off transfer on account of retained earnings) and higher efficiency in the collection of various fees. The revenue ratio is projected to further increase gradually over the medium-term, reflecting additional revenue mobilization efforts. Public investment would almost double in percent of GDP to about 9½ percent of GDP in 2016/17 and would remain high for a few years.

<sup>2</sup> Government guaranteed debt is included in total public debt stock.

<sup>3</sup> The baseline macroeconomic framework underlying the current DSA does not yet factor in the potential impact of possible future natural gas production from emerging offshore projects. Deep water exploration by major petroleum companies has confirmed large natural gas deposits but final investment decisions to construct natural gas terminals are still pending. Thereafter, the development phase would start, and it would take several additional years before commercial production and exports of LNG could begin.

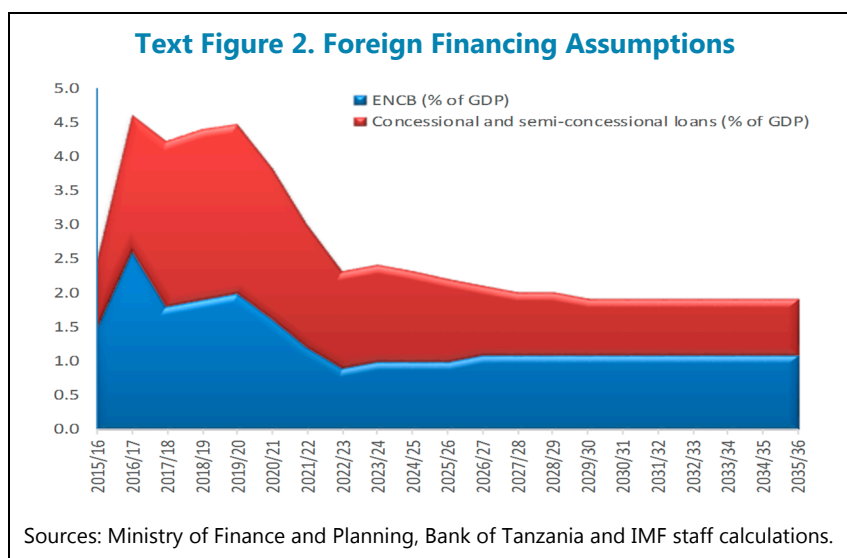
## 7. The other main macroeconomic assumptions are:

- *Growth* is projected to remain strong in the next few years (about 7 percent), reflecting the scaling up of public investment, mainly in transportation and energy infrastructure. Over the medium term, growth is assumed to revert to its 15-year average of about 6.5 percent; the agriculture sector will remain important, and continued economic transformation through industrialization, human development, and an improved business climate is expected to support economic growth in the long-run.

		2014/15	2015/16	2016/17	2017/18	2018/19	Long term (average 2020-35)
Real GDP growth (percent)	Current DSA	7.0	7.1	7.2	7.0	6.8	6.5
	Previous DSA	7.2	7.2	7.1	7.0	6.9	6.6
Inflation (average)	Current DSA	5.4	6.4	5.4	5.0	5.0	5.0
	Previous DSA	5.2	5.0	5.0	5.0	5.0	5.0
Fiscal balance (% of GDP)	Current DSA	-3.1	-3.3	-4.6	-4.5	-4.5	-2.2
	Previous DSA	-4.0	-4.2	-3.0	-3.0	-2.9	-2.4
Current account (% of GDP)	Current DSA	-8.6	-8.6	-9.1	-8.8	-8.6	-8.0
	Previous DSA	-9.5	-8.2	-7.0	-7.2	-6.9	-8.2
FDI (% of GDP)	Current DSA	4.1	4.5	4.2	4.2	4.2	4.0
	Previous DSA	4.1	4.0	4.0	4.0	4.0	4.0

- *Inflation* is projected at about 5 percent consistent with the authorities' inflation target and assuming a tight monetary stance over the medium-term.
- *The current account deficit* is expected to widen to 9.1 percent of GDP in 2016/17 and remain high at an average of 8½ percent of GDP over the medium-term, reflecting high development and infrastructure needs which will continue to lead to large investment-related imports and current account deficits.
- *Aid and FDI flows.* External grants and concessional loans are assumed to gradually decrease as a share of GDP consistent with the declining aid trends from development partners. FDI is assumed to partly finance some of the envisaged investment scaling up. Therefore, FDI inflows are expected to remain high at over 4 percent of GDP over the medium-term and then to stabilize at about 4 percent of GDP in the long-term.
- *External nonconcessional borrowing.* In line with its medium-term debt management strategy and ongoing discussions with creditors, Tanzania would rely more than assumed in the previous DSA on borrowing from the regular windows of the World Bank and African

Development Bank (whose terms remain much more favorable than available on international markets) and on domestic borrowing.<sup>4</sup> More than 50 percent of the external financing in the long term would come from nonconcessional sources (see Text Figure 2).



- *Domestic borrowing.* Net domestic borrowing would be maintained at moderate levels (about 1 percent of GDP) throughout the projection period. Real interest rate on new domestic debt would be lower than current levels, but would remain relatively high while the average maturity on domestic debt is assumed to be about seven years.

## EXTERNAL DSA

**8. All external debt burden indicators remain below indicative thresholds in the baseline scenario; however, under the most extreme stress test the external debt service-to-revenue ratio slightly breaches its threshold.** The three debt stock indicators (relative to GDP, exports and revenue) all increase slightly in the medium-term before declining below initial levels by the end of the projection period, and remain well below their policy-dependent thresholds under the baseline and all shock scenarios. The debt service-to-revenue ratio, however, increases over the medium-term and remains slightly above initial levels at the end of the projection period. Under the most extreme stress test, external debt service as a ratio to revenue slightly breaches its threshold in 2020–23 in the event of a one-time 30 percent depreciation in the nominal exchange rate. In such a borderline case the probability approach is applied to assess the risk of debt distress.<sup>5</sup> The results show that under this approach, Tanzania’s risk of debt distress remains low for all external debt indicators.

<sup>4</sup> Discussions with these two multilateral creditors are well advanced, and significant project financing was already contracted from the African Development Bank and will start disbursing in 2016/17.

<sup>5</sup> The probability approach is applied to a borderline case, which is defined as one where the largest breach or near breach falls within a 10-percent band around the threshold. It incorporates a country’s individual CPIA score and average GDP growth rate, whereas the traditional approach uses one of the three discrete CPIA values (3.25 for weak performers, 3.50 for medium performers, and 3.75 for strong performers), and an average growth rate across LICs (for

**9. A customized scenario assuming lower growth suggests limited additional debt sustainability risks compared to the baseline scenario (Figure 2).** The customized alternative scenario assuming GDP growth of 5 percent, compared to 6.5 percent in the baseline, leads to higher external debt burden indicators, but none of them breaches its threshold.

## PUBLIC DSA

**10. Public debt and debt service ratios also suggest a low level of vulnerability.** In the baseline scenario, the PV of total public debt as a share of GDP is expected to increase modestly in the next few years (to a peak of 34 percent of GDP in 2019) and then to decline gradually over time. It would therefore remain well below the DSF benchmark level of 56 percent of GDP associated with heightened public debt vulnerabilities for medium performers, and the EAMU convergence criterion of 50 percent.

**11. Stress tests confirm the importance of continued prudent fiscal policy.** Under the historical scenario, the PV of public debt would keep gradually growing and breach the EAMU convergence criterion of 50 percent of PV of debt-to-GDP ratio in 2033/34. The debt service to revenue ratio would also reach much higher levels. The most extreme shock corresponds to a 10 percent of GDP increase in debt-creating flows in 2016. It highlights the sensitivity of debt dynamics to contingent liabilities, a useful reminder in a context where the authorities plan to utilize PPPs for large infrastructure projects. The simulations also suggest that an overall deficit of about 3 percent of GDP remains an appropriate long-term fiscal anchor for Tanzania to safeguard the low risk of debt distress.

## CONCLUSION

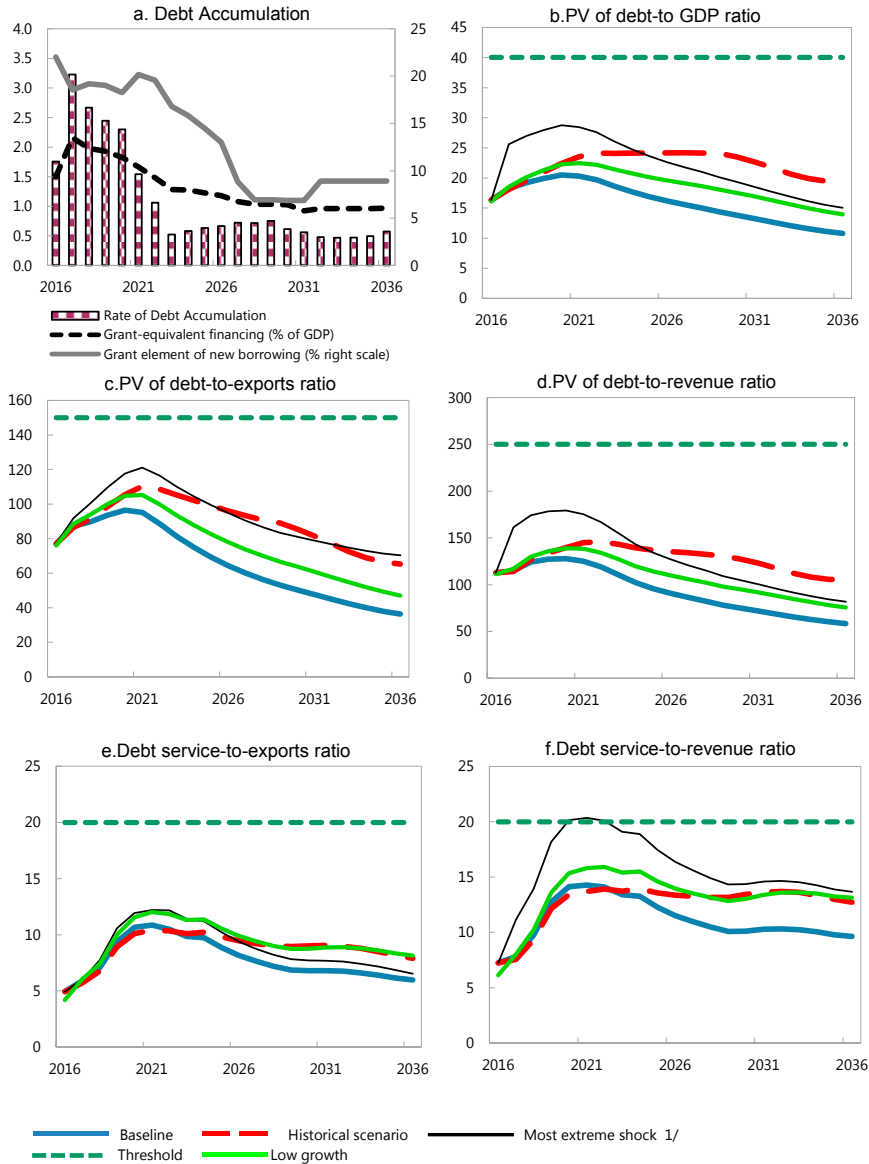
**12. Tanzania's risk of external debt distress remains low** with a baseline scenario assuming a prudent scaling up of public investment and temporarily higher fiscal deficits than in the previous DSA. However, creating fiscal space for higher infrastructure investment will necessitate sustained efforts to raise additional domestic revenue and streamline current expenditure, to avoid excessive recourse to debt. Reforms to increase spending efficiency, particularly in the area of public investment and enhancing debt management capacity, will also be needed. More broadly, the targeted high growth and structural transformation of the Tanzanian economy will require sustained efforts to tackle structural reforms.

**13. Authorities' views.** The authorities agreed with the main results of the DSA, while stressing the need to find the right balance between continued fiscal prudence and addressing Tanzania's large development needs guided by the FYDP II. The authorities' own DSA (conducted in 2015) points to the importance of improving domestic revenue collection and strengthening debt management capacity to address new risks emanating from increased rollover of maturing domestic debt, and financing public investment through external nonconcessional borrowing.

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details see the Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (SM/13/292).

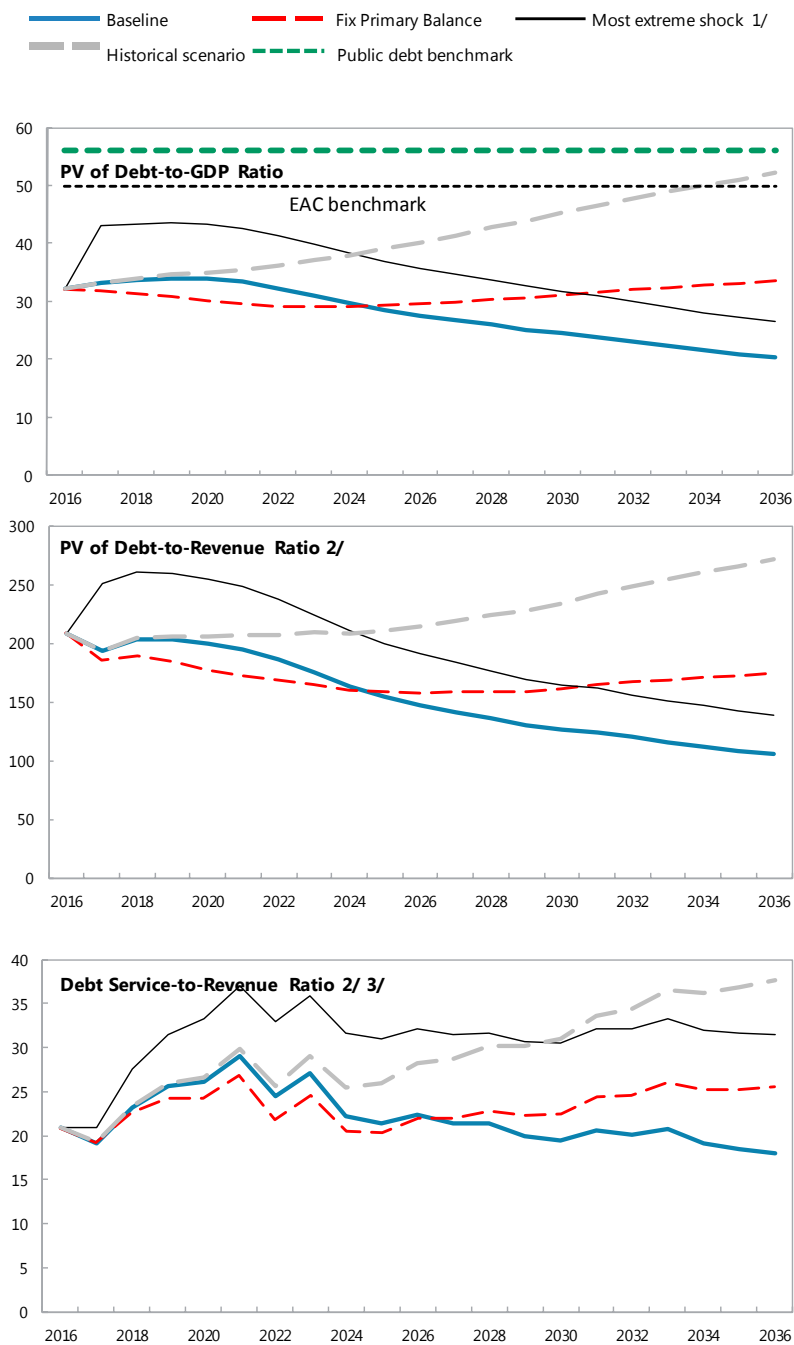
**Figure 1. Tanzania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2016–2036 1/**



Sources: Country authorities; and staff estimates and projections.

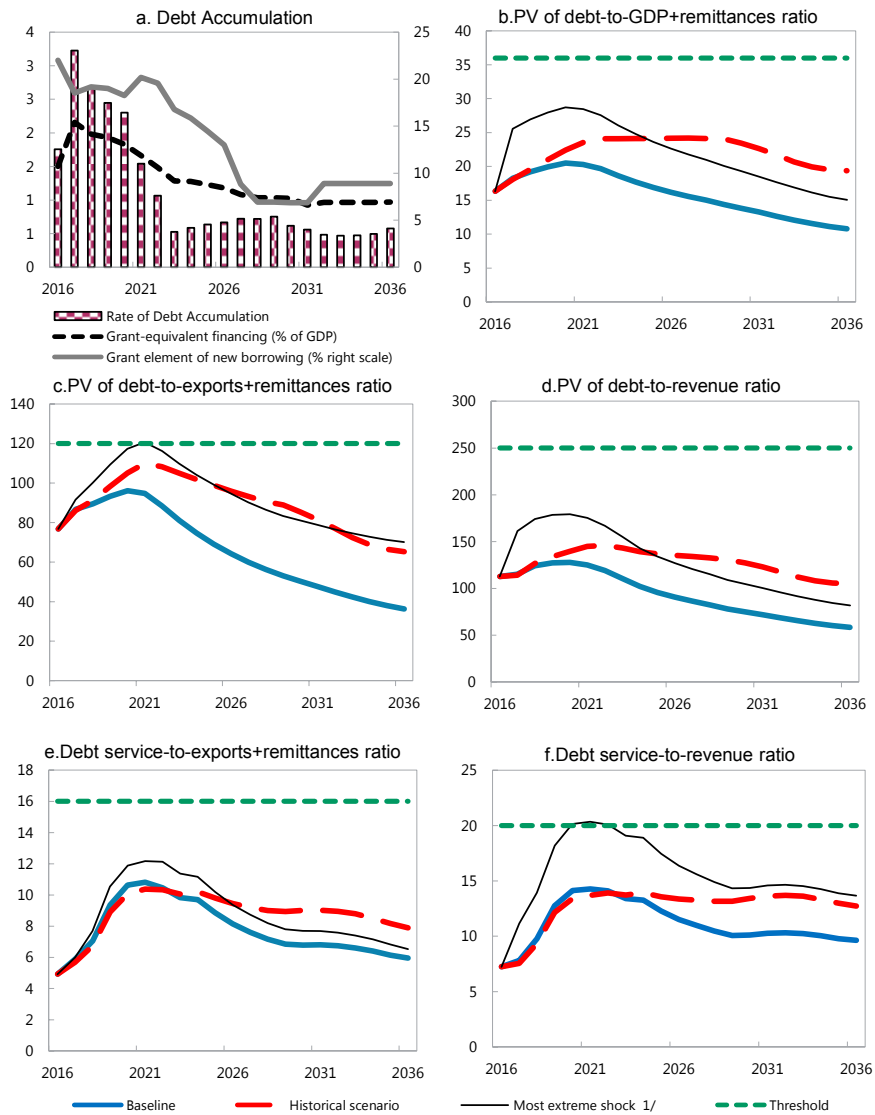
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

**Figure 2. Tanzania: Indicators of Public Debt under Alternative Scenarios, 2016–2036 1/**



Sources: Country authorities; and staff estimates and projections.  
 1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.  
 2/ Revenues are defined inclusive of grants.  
 3/ The volatile profile of debt service is due to the projected armozation for public domestic debt.

**Figure 3. Tanzania: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2016–2036 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock



**Table 1. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2013–2036 1/**  
(Percent of GDP, unless otherwise indicated)

	Actual			Historical <sup>6/</sup> Average	Standard <sup>6/</sup> Deviation	Projections						2016–2021			2022–2036	
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average	
<b>External debt (nominal) 1/</b>	<b>26.5</b>	<b>27.0</b>	<b>28.6</b>			<b>30.6</b>	<b>32.4</b>	<b>33.5</b>	<b>34.5</b>	<b>35.2</b>	<b>35.3</b>			<b>29.7</b>	<b>22.1</b>	
<i>of which: public and publicly guaranteed (PPG)</i>	22.9	23.7	22.9			24.2	26.4	27.5	28.4	29.0	29.0			23.0	14.6	
Change in external debt	2.0	0.6	1.6			1.9	1.8	1.2	0.9	0.8	0.0			-1.1	-0.4	
Identified net debt-creating flows	2.3	3.6	3.5			1.9	2.9	2.5	2.4	2.2	1.7			1.9	2.6	
<b>Non-interest current account deficit</b>	<b>10.2</b>	<b>10.4</b>	<b>8.2</b>	<b>8.7</b>	<b>2.0</b>	<b>7.9</b>	<b>8.6</b>	<b>8.1</b>	<b>7.8</b>	<b>7.6</b>	<b>7.1</b>			<b>7.0</b>	<b>7.3</b>	
Deficit in balance of goods and services	10.8	10.9	8.3			7.6	8.2	8.1	7.9	7.8	7.3			6.8	6.7	
Exports	19.9	19.1	19.3			21.2	20.9	21.4	21.3	21.2	21.3			25.1	29.7	
Imports	30.7	29.9	27.7			28.8	29.2	29.5	29.2	29.1	28.7			32.0	36.4	
Net current transfers (negative = inflow)	-1.9	-1.6	-1.2	-2.6	0.8	-0.9	-0.9	-1.1	-1.1	-1.1	-1.0			-0.8	-0.5	
<i>of which: official</i>	-1.2	-0.9	-0.6			-0.1	-0.3	-0.3	-0.3	-0.3	-0.3			-0.2	-0.1	
Other current account flows (negative = net inflow)	1.3	1.1	1.1			1.2	1.3	1.1	1.0	0.9	0.8			0.9	1.0	
<b>Net FDI (negative = inflow)</b>	<b>-4.6</b>	<b>-4.4</b>	<b>-4.1</b>	<b>-3.9</b>	<b>0.7</b>	<b>-4.5</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-4.2</b>			<b>-4.0</b>	<b>-4.0</b>	
<b>Endogenous debt dynamics 2/</b>	<b>-3.2</b>	<b>-2.4</b>	<b>-0.5</b>			<b>-1.5</b>	<b>-1.5</b>	<b>-1.4</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.2</b>			<b>-1.1</b>	<b>-0.7</b>	
Contribution from nominal interest rate	0.3	0.3	0.4			0.7	0.6	0.7	0.8	0.8	0.9			0.7	0.7	
Contribution from real GDP growth	-1.3	-1.7	-1.8			-2.2	-2.0	-2.1	-2.1	-2.1	-2.1			-1.8	-1.3	
Contribution from price and exchange rate changes	-2.2	-1.0	0.9			...	...	...	...	...	...			...	...	
<b>Residual (3-4) 3/</b>	<b>-0.3</b>	<b>-3.0</b>	<b>-1.9</b>			<b>0.0</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-1.6</b>			<b>-2.9</b>	<b>-2.9</b>	
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	
PV of external debt 4/	...	...	20.6			22.7	24.2	25.2	26.0	26.7	26.6			22.8	18.3	
In percent of exports	...	...	106.4			107.1	115.6	118.0	122.3	125.5	124.4			90.9	61.7	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>14.8</b>			<b>16.3</b>	<b>18.2</b>	<b>19.2</b>	<b>19.9</b>	<b>20.5</b>	<b>20.3</b>			<b>16.2</b>	<b>10.8</b>	
In percent of exports	...	...	76.4			77.0	87.1	89.8	93.6	96.4	95.1			64.3	36.4	
In percent of government revenues	...	...	114.9			112.8	115.1	124.1	127.2	127.8	125.1			90.7	58.6	
<b>Debt service-to-exports ratio (in percent)</b>	<b>3.6</b>	<b>3.4</b>	<b>4.3</b>			<b>7.7</b>	<b>8.6</b>	<b>9.5</b>	<b>11.9</b>	<b>13.2</b>	<b>13.4</b>			<b>10.5</b>	<b>8.2</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>2.3</b>	<b>2.9</b>	<b>3.5</b>			<b>4.9</b>	<b>5.9</b>	<b>7.1</b>	<b>9.4</b>	<b>10.7</b>	<b>10.9</b>			<b>8.2</b>	<b>6.0</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>3.6</b>	<b>4.1</b>	<b>5.2</b>			<b>7.2</b>	<b>7.8</b>	<b>9.8</b>	<b>12.8</b>	<b>14.1</b>	<b>14.3</b>			<b>11.5</b>	<b>9.6</b>	
Total gross financing need (Billions of U.S. dollars)	2.6	3.1	2.4			2.3	3.0	3.1	3.6	3.9	3.9			5.7	13.4	
Non-interest current account deficit that stabilizes debt ratio	8.2	9.8	6.6			6.0	6.8	6.9	6.9	6.9	7.0			8.0	7.6	
<b>Key macroeconomic assumptions</b>																
Real GDP growth (in percent)	6.2	7.1	7.0	6.4	0.6	7.1	7.2	7.0	6.8	6.6	6.5	6.9	6.5	6.5	6.5	
GDP deflator in US dollar terms (change in percent)	10.0	4.0	-3.1	4.8	6.0	-13.3	0.4	1.8	1.9	1.9	1.9	-0.9	2.0	1.9	2.0	
Effective interest rate (percent) 5/	1.4	1.3	1.7	1.0	0.4	2.2	2.0	2.3	2.5	2.7	2.7	2.4	2.6	3.2	2.8	
Growth of exports of G&S (US dollar terms, in percent)	4.4	6.6	5.1	12.9	8.2	1.8	6.4	11.3	8.3	8.5	9.1	7.6	12.0	10.0	11.1	
Growth of imports of G&S (US dollar terms, in percent)	-0.6	8.5	-4.3	13.9	12.7	-3.4	9.2	10.2	7.9	8.2	6.9	6.5	11.0	9.0	10.4	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	22.0	18.6	19.2	19.0	18.3	20.2	19.5	13.0	8.9	10.7	
Government revenues (excluding grants, in percent of GDP)	12.8	13.5	12.8			14.5	15.8	15.5	15.7	16.0	16.2			17.8	18.4	
Aid flows (in Billions of US dollars) 7/	1.1	1.0	0.6			0.8	1.3	1.2	1.3	1.4	1.4			1.3	2.5	
<i>of which: Grants</i>	1.1	1.0	0.6			0.4	0.6	0.6	0.6	0.6	0.6			0.9	1.9	
<i>of which: Concessional loans</i>	0.0	0.0	0.0			0.3	0.7	0.6	0.7	0.7	0.8			0.4	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.5	2.2	2.0	1.9	1.8	1.7			1.2	1.0	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			43.9	36.5	36.9	35.2	33.4	35.3			38.0	35.1	
<b>Memorandum items:</b>																
Nominal GDP (Billions of US dollars)	41.9	46.6	48.4			44.9	48.3	52.7	57.3	62.3	67.7			102.2	234.9	
Nominal dollar GDP growth	16.9	11.3	3.7			-7.2	7.7	8.9	8.8	8.7	8.6	5.9	8.6	8.6	8.7	
PV of PPG external debt (in Billions of US dollars)	...	...	6.4			7.2	8.7	10.0	11.3	12.6	13.5			16.3	25.0	
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			5.3	3.2	2.7	2.4	2.3	1.5	2.9	0.7	0.6	0.6	
Gross workers' remittances (Billions of US dollars)	0.0	0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.8			16.3	18.2	19.2	19.9	20.5	20.3			16.2	10.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	76.1			76.7	86.8	89.5	93.3	96.1	94.8			64.2	36.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.4			4.9	5.9	7.0	9.4	10.6	10.8			8.1	6.0	

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - p(1+g)] / (1+g+p+gp)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $p$  = growth rate of GDP deflator in U.S. dollar terms.

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

**Table 2. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–2036**

(Percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Estimate					Projections				
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average		2026	2036
<b>Public sector debt 1/</b>	29.7	31.4	30.6			40.3	41.5	42.2	42.6	42.8	42.2		34.6	24.2	
<i>of which: foreign-currency denominated</i>	22.9	23.7	22.9			24.2	26.4	27.5	28.4	29.0	29.0		23.0	14.6	
Change in public sector debt	2.5	1.7	-0.8			9.7	1.2	0.7	0.4	0.2	-0.6		-1.4	-0.7	
Identified debt-creating flows	1.6	1.4	4.2			9.7	1.1	0.7	0.7	0.8	0.0		-0.9	-0.2	
Primary deficit	3.8	2.0	1.6	2.8	1.2	1.7	2.9	2.7	2.6	2.5	1.7	2.3	0.4	0.4	0.4
Revenue and grants	15.4	15.6	14.0			15.4	17.2	16.7	16.8	17.0	17.1		18.7	19.2	
<i>of which: grants</i>	2.6	2.1	1.2			1.0	1.3	1.2	1.1	1.0	0.9		0.9	0.8	
Primary (noninterest) expenditure	19.2	17.6	15.6			17.1	20.1	19.4	19.3	19.5	18.8		19.2	19.6	
Automatic debt dynamics	-2.2	-1.7	1.9			0.1	-1.8	-2.0	-1.8	-1.7	-1.7		-1.3	-0.6	
Contribution from interest rate/growth differential	-1.3	-1.3	-1.3			-1.3	-2.2	-2.1	-1.9	-1.8	-1.7		-1.3	-0.6	
<i>of which: contribution from average real interest rate</i>	0.3	0.6	0.7			0.8	0.5	0.7	0.8	0.9	0.9		0.9	0.9	
<i>of which: contribution from real GDP growth</i>	-1.6	-2.0	-2.0			-2.0	-2.7	-2.7	-2.7	-2.7	-2.6		-2.2	-1.5	
Contribution from real exchange rate depreciation	-0.9	-0.3	3.2			1.4	0.4	0.0	0.1	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	1.0	0.7			7.9	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			7.6	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	1.0	0.7			0.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.9	0.3	-5.0			0.0	0.1	0.0	-0.4	-0.6	-0.6		-0.5	-0.5	
<b>Other Sustainability Indicators</b>															
<b>PV of public sector debt</b>	...	...	22.6			32.4	33.4	33.9	34.2	34.2	33.5		27.8	20.4	
<i>of which: foreign-currency denominated</i>	...	...	14.8			16.3	18.2	19.2	19.9	20.5	20.3		16.2	10.8	
<i>of which: external</i>	...	...	14.8			16.3	18.2	19.2	19.9	20.5	20.3		16.2	10.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.9	3.9	4.0			4.9	6.2	6.6	6.9	6.9	6.7		4.6	3.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	160.6			210.1	194.7	203.9	203.7	200.9	195.9		148.4	106.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	175.6			224.0	210.7	219.4	218.0	213.6	206.6		155.8	111.0	
<i>of which: external 3/</i>	...	...	114.9			112.8	115.1	124.1	127.2	127.8	125.1		90.7	58.6	
Debt service-to-revenue and grants ratio (in percent) 4/	13.8	12.1	16.8			20.9	19.2	23.2	25.6	26.1	29.1		22.3	18.1	
Debt service-to-revenue ratio (in percent) 4/	16.6	14.0	18.4			22.3	20.8	25.0	27.4	27.8	30.7		23.5	18.9	
Primary deficit that stabilizes the debt-to-GDP ratio	1.3	0.3	2.4			-8.0	1.7	2.0	2.2	2.3	2.2		1.9	1.1	
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	6.2	7.1	7.0	6.4	0.6	7.1	7.2	7.0	6.8	6.6	6.5	6.9	6.5	6.5	6.5
Average nominal interest rate on forex debt (in percent)	1.5	1.5	1.8	1.0	0.5	2.3	2.0	2.4	2.7	2.8	2.8	2.5	2.7	3.8	3.1
Average real interest rate on domestic debt (in percent)	6.2	9.5	9.4	4.1	3.8	9.4	3.3	4.0	4.7	5.2	5.6	5.4	6.4	7.2	6.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.7	-1.4	14.5	-1.4	7.8	6.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.1	6.3	5.8	9.8	2.2	6.0	5.3	5.0	5.0	5.0	5.0	5.2	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	-0.1	0.1	0.1	0.2	0.3	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	22.0	18.6	19.2	19.0	18.3	20.2	19.5	13.0	8.9	...

Sources: Country authorities; and staff estimates and projections.

1/ Gross public sector debt covers general government or non-financial public sector.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

**Table 3. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–2036**

(Percent)

	Projections							2036
	2016	2017	2018	2019	2020	2021	2026	
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	16	18	19	20	20	20	<b>16</b>	11
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	16	18	20	21	22	24	<b>24</b>	19
A2. New public sector loans on less favorable terms in 2016-2036 2	16	19	22	23	25	26	<b>24</b>	21
A3. Alternative Scenario : Low growth	16	19	20	21	22	22	<b>20</b>	14
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	16	18	19	20	21	20	<b>16</b>	11
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	16	18	21	21	22	22	<b>17</b>	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	16	18	20	21	21	21	<b>17</b>	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	16	18	19	20	21	20	<b>16</b>	11
B5. Combination of B1-B4 using one-half standard deviation shocks	16	17	18	18	19	19	<b>15</b>	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	16	26	27	28	29	28	<b>23</b>	15
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	77	87	90	94	96	95	<b>64</b>	36
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	77	86	91	99	105	110	<b>96</b>	65
A2. New public sector loans on less favorable terms in 2016-2036 2	77	92	100	110	118	121	<b>95</b>	70
A3. Alternative Scenario : Low growth	76	89	94	100	105	105	<b>78</b>	47
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	77	86	88	92	95	94	<b>63</b>	36
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	77	89	105	109	111	110	<b>73</b>	39
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	77	86	88	92	95	94	<b>63</b>	36
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	77	86	90	94	97	95	<b>64</b>	36
B5. Combination of B1-B4 using one-half standard deviation shocks	77	79	82	86	89	88	<b>60</b>	35
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	77	86	88	92	95	94	<b>63</b>	36
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	113	115	124	127	128	125	<b>91</b>	59
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	113	114	126	134	140	145	<b>135</b>	105
A2. New public sector loans on less favorable terms in 2016-2036 2	113	121	139	149	156	159	<b>134</b>	113
A3. Alternative Scenario : Low growth	111	117	130	136	139	138	<b>110</b>	76
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	113	115	125	128	129	126	<b>91</b>	59
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	113	115	134	137	137	133	<b>95</b>	58
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	113	115	128	131	132	129	<b>93</b>	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	113	114	125	128	128	125	<b>90</b>	58
B5. Combination of B1-B4 using one-half standard deviation shocks	113	106	114	117	118	116	<b>86</b>	57
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	113	161	174	178	179	175	<b>127</b>	82

**Table 3 Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–2036 (concluded)**  
(Percent)

Debt service-to-exports ratio								
<b>Baseline</b>	5	6	7	9	11	11	<b>8</b>	6
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	5	6	7	9	10	10	<b>9</b>	8
A2. New public sector loans on less favorable terms in 2016-2036 2	5	6	7	9	9	10	<b>9</b>	10
A3. Alternative Scenario : Low growth	4	6	7	10	12	12	<b>10</b>	8
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	5	6	7	9	11	11	<b>8</b>	6
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	5	6	8	11	12	12	<b>9</b>	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	5	6	7	9	11	11	<b>8</b>	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	5	6	7	9	11	11	<b>8</b>	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	7	9	10	10	<b>8</b>	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	5	6	7	9	11	11	<b>8</b>	6
Debt service-to-revenue ratio								
<b>Baseline</b>	7	8	10	13	14	14	<b>12</b>	10
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	7	8	9	12	13	14	<b>13</b>	13
A2. New public sector loans on less favorable terms in 2016-2036 2	7	8	9	12	11	13	<b>12</b>	16
A3. Alternative Scenario : Low growth	6	8	10	14	15	16	<b>14</b>	13
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	7	8	10	13	14	15	<b>12</b>	10
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	7	8	10	13	15	15	<b>12</b>	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	7	8	10	13	15	15	<b>12</b>	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	7	8	10	13	14	14	<b>12</b>	10
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	10	12	14	14	<b>11</b>	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	7	11	14	18	20	20	<b>16</b>	14
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	2	2	2	2	2	2	<b>2</b>	2

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

**Table 4. Tanzania: Sensitivity Analysis for Key Indicators of Public Debt 2016–2036**  
(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	32	33	34	34	34	34	28	20
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	32	33	34	35	35	36	40	52
A2. Primary balance is unchanged from 2016	32	32	32	31	30	30	30	34
A3. Permanently lower GDP growth 1/	32	33	34	34	35	34	29	25
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	32	34	35	36	36	36	32	28
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	32	34	36	36	36	36	30	22
B3. Combination of B1-B2 using one half standard deviation shocks	32	34	36	36	36	36	32	26
B4. One-time 30 percent real depreciation in 2017	32	40	40	40	40	39	35	31
B5. 10 percent of GDP increase in other debt-creating flows in 2017	32	43	44	44	44	43	36	27
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	210	195	204	204	201	196	148	106
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	210	195	206	207	206	207	215	273
A2. Primary balance is unchanged from 2016	210	188	190	185	178	173	158	176
A3. Permanently lower GDP growth 1/	210	195	205	205	203	199	157	133
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	210	198	212	214	213	210	171	145
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	210	201	218	217	214	208	159	114
B3. Combination of B1-B2 using one half standard deviation shocks	210	199	214	215	214	210	168	138
B4. One-time 30 percent real depreciation in 2017	210	235	242	239	234	228	185	162
B5. 10 percent of GDP increase in other debt-creating flows in 2017	210	252	262	261	256	249	192	139
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	21	19	23	26	26	29	22	18
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	21	19	23	26	27	30	28	38
A2. Primary balance is unchanged from 2016	21	19	23	24	24	27	22	26
A3. Permanently lower GDP growth 1/	21	19	23	26	26	29	23	21
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	21	19	24	26	27	31	25	23
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	21	19	24	27	28	30	24	19
B3. Combination of B1-B2 using one half standard deviation shocks	21	19	24	27	27	31	25	22
B4. One-time 30 percent real depreciation in 2017	21	21	28	32	33	37	32	32
B5. 10 percent of GDP increase in other debt-creating flows in 2017	21	19	27	32	32	35	28	23

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

**Statement by Ms. Kapwepwe, Executive Director for  
United Republic of Tanzania  
and  
Mr. Odonye, Senior Advisor to the Executive Director**

**July, 18, 2016**

**Introduction**

The Tanzanian authorities appreciate the constructive engagement and quality policy advice that they have received from the Fund, which has helped maintain overall macroeconomic stability over the years. The economy has improved remarkably, benefiting from market-oriented reforms and prudent macroeconomic policies, which have helped support economic diversification and boost growth. To anchor these achievements, the authorities have developed a medium-term development program, defined by the second Five-Year Development (FYDP II) Plan, whose formulation is expected to be completed shortly. The plan focuses on creating a better environment for business and job creation through improved infrastructure, access to finance and land, and education and skills development.

Our authorities broadly agree with the staff assessment and policy proposals, and request the Executive Board's support in completing the Fourth Review Under the Policy Support Instrument (PSI) and in concluding the 2016 Article IV Consultation.

**Macroeconomic Developments and Prospects**

Growth remained robust in 2015, at around 7 percent, buoyed by construction, services, manufacturing, and a more diversified economy. Inflation averaged 5.6 percent in 2015 and was within single digits throughout 2015, reflecting tight monetary policy. The external position strengthened, with a narrowing of the current account deficit, reflecting increased exports of goods and services, notably gold, manufactured goods, transportation, and tourism; and the positive shock from lower oil prices.

Going forward, growth is projected to remain unchanged at about 7 percent in 2016 and the medium term, predicated on sustained high levels of public investment. Inflation is expected to remain around 5 percent. The external current account deficit, projected at around 9 percent of GDP in 2016/17 is expected to further narrow in the medium-term, when the Five- Year Development Plan (FYDP II) begins to yield benefits. Progress on governance continues with the new administration's clear signal of commitment to deliver on sound public policies and governance.

## **Program Performance**

The authorities continue to demonstrate their commitment to successful implementation of the PSI program. All the assessment criteria (ACs) and indicative targets for end-2015 and end-March 2016, except for the accumulation of domestic arrears, were met. While the implementation of structural benchmarks slowed temporarily, as the country transitioned to a new administration, significant progress was made in some areas, demonstrating the authorities' commitment to structural reforms. In particular, the structural benchmark on producing a new medium-term debt management strategy was met and the document was published by end-2015. In addition, the technical work to merge the statutory minimum reserve and clearing accounts of commercial banks with the Bank of Tanzania (BoT), as well as work on the necessary changes to the IT system, is well-advanced. Given the sound progress, our authorities request that the Board approves the completion of the fourth PSI review.

## **Medium Term Macroeconomic Policies**

### ***a) Growth-Oriented Fiscal Policy***

The Tanzanian authorities remain committed to fiscal and debt sustainability as they support growth and poverty alleviation. The draft 2016/17 budget has targeted a deficit of about 4.5 percent of GDP predicated on a large increase in public investment and domestic revenue. The authorities are confident that the budget can be adequately resourced, so as to avoid expenditure arrears.

To improve on revenue mobilization, the authorities will implement various tax policy and administration reforms. In this regard, they are optimistic that enhanced policies and tax compliance will boost additional revenues. Several tax administration measures are already underway, in the context of the recent Tax Administration Diagnostic Assessment and the rollout of Electronic Fiscal Devices. These measures are expected to significantly improve tax compliance and therefore help combat tax evasion. Tax policy reforms are focused on widening revenue base and streamlining exemptions. In addition, enhanced contribution is expected from parastatals towards the budget due to higher efficiency in fee collections to strengthen non tax revenue. To ensure adequate resources, large projects will only be implemented upon confirmation of adequate preparations and availability of revenue, with postponement of those for which external financing has not been mobilized.

On expenditure, going forward the plan is to support enhanced public investment. Capital expenditure is expected to double, bringing domestic investment to about 11 percent of GDP in 2016/17. Current expenditure is to be contained through a freeze on hiring and nominal wage with efforts to reduce public sector overheads. The authorities will use public-private partnership (PPP) for large infrastructure projects to limit government borrowing and support debt sustainability. Higher project financing and external non-concessional borrowing (ENCB) would also help finance the investment effort and higher fiscal deficit.

Efforts are underway to improve efficiency in public spending. In this regard, the authorities have launched a comprehensive public investment management manual. An expert has been hired to enhance IFMIS with a contract management module aimed to strengthen controls of multi-year commitments. In addition, a new public awareness campaign has been launched to warn suppliers that orders not generated through IFMIS will not be honored. In recent development, TANESCO is receiving increasing attention to shore its financial situation and ensure self-reliance. This includes the introduction of prepaid meters designed to enforce subscriber payments and intensify collection efficiency. Earlier this year, the government paid Tsh200 billion to clear its arrears on electricity bills.

In order to support debt sustainability, the authorities are committed to strengthen public debt management regulatory and institutional framework. Despite delay in approving the National Debt Management and Amendment of Government Loans, Guarantees, and Grants Act caused by changes in the structure of the Ministry of Finance and Planning, the authorities are confident of its passage into law by end-July 2016.

#### ***b) Monetary and exchange rate policies***

The authorities are committed to prudent monetary policy to keep inflation close to objective target of 5 percent and continue to improve monetary policy operations by pushing ahead with modernization of monetary policy framework. To strengthen the Lombard facility, the collateral framework is being reviewed with a view to expanding the range of eligible instruments to access central bank facilities. In addition, measures are ongoing to make Lombard rate more predictable to enhance stability of short term interest rates. Significant progress has been made towards introducing partial reserve averaging. While the structural benchmark in this regard was not met, technical work on merging the statutory minimum reserve and clearing accounts of commercial banks with the BoT and required changes to the IT system have advanced. The ongoing Fund's support to building forecasting and policy analysis capacity is expected to further strengthen the conduct of monetary policy.

The flexible exchange framework will continue to guide foreign exchange management. Although the shilling depreciated significantly in 2014/15 on the back of lower inflows, the situation has since stabilized. Going forward, BoT is determined to retain the flexible rate and to intervene in the exchange rate market to smooth excess volatility while ensuring international reserves remain adequate.

#### ***c) Financial sector stability and development***

The banking sector remains sound and stable, with banks generally well capitalized, liquid and profitable. The majority of the banks continue to record low NPLs of less than 5 percent of gross loans, while the few others with high NPLs have been directed by BoT to take immediate steps to lower them, with the larger banks required to report more frequently on their progress. Banks are also encouraged to increasingly use the credit reference bureaus to reduce their credit risks.



Further, the BoT continues to strengthen the supervisory and regulatory framework, and has recently, concluded a pilot exercise on consolidated supervision of large domestic banks with cross-border operations. In addition, BoT has started drafting guidelines to ensure effective implementation of Basel II/III framework, and is working to improve stress test model and capacity.

The authorities are aware that financial sector development remains crucial in sustaining growth and promoting macroeconomic stability, and have resolved to further strengthen financial inclusion. To this end, the authorities are drafting microfinance legislation to ensure effective regulation and supervision of the microfinance sector. They have also rolled out mobile platform to enable users participate in capital market activities. A range of measures are also being considered to facilitate development of the government debt market.

#### ***d) Growth-Enhancing Structural Reforms***

Implementation of structural reforms continued to rank high in the government's development agenda and is necessary to sustain the country's strong growth momentum, and promote economic diversification. In this regard, the authorities focus on establishing a better environment for business and job creation, while providing durable infrastructure, and access to finance.

To improve the business environment, government aims to reduce cost of doing business through legal and regulatory reforms, easing registration and licensing requirement, enforcing property rights and legal instruments. To sustain development of energy sector, the authorities have resumed discussions with international partners involved in off-shore exploration with a view to providing conditions to allow for investment decision. Further, to enhance SME's access finance, the authorities are establishing an SME Access to Finance Framework, as well as exploring financing mechanisms for enterprises and establishing collateral registry for SMEs. An internet based information portal for SMEs was launched in March 2016, to enhance financial literacy and entrepreneurship skills for micro, small and medium enterprises.

Further, the authorities have reiterated their commitment to deliver quality public policy and governance. In this regard, the National Anti-Corruption Strategy (NACSAP) has been established focusing on building systems of integrity, accountability and transparency in public institutions.

#### ***e) Regional Cooperation***

Additionally, the authorities are also intensifying efforts towards completion of the East African Community (EAC) common market while evaluating the benefits of removing non-tariff barriers in the region. This further demonstrates the commitment of government to the cause of regional integration and need to accelerate free movement of people, goods and services within the region.

*f) Data Quality*

Data quality is receiving priority attention. Considerable progress has been made in preparing the consolidated financial statements for the wider public sector while plans are underway to subscribe to the Enhanced General Data Dissemination Standard (e-GDDS). The completion of these processes will enhance quality decision making for analysts and investors.

**Conclusion**

Tanzania's economic performance has continued to be strong through the transition period to a new administration, with growth projected to remain solid in the coming years, supported by prudent macroeconomic policies and structural reforms. With the authorities' commitment to policy and structural reform implementation, the economic program under the Fund's PSI remains broadly on track. In this regard, they request Board support in approving the completion of the Fourth PSI Review. Finally, with continued Fund engagement and support from the international community, the authorities remain committed to implementing their development agenda in order to support sustainable inclusive growth and macroeconomic stability.