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UNITED REPUBLIC OF TANZANIA

July 2014

REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT—STAFF REPORT; AND PRESS RELEASE.

In the context of the request for a three-year Policy Support Instrument, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 16, 2014, following discussions that ended on February 25, 2014, with the officials of Tanzania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.

The following documents have been separately released.

Letter of Intent sent to the IMF by the authorities of Tanzania*
Memorandum of Economic and Financial Policies by the authorities of Tanzania*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

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UNITED REPUBLIC OF TANZANIA

REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT

June 30, 2014

KEY ISSUES

Economic background and outlook. Tanzania has enjoyed strong and stable growth, projected to remain at 7 percent next year and in the medium term. Inflation is at 6 percent, gradually converging to the authorities' 5 percent medium-term objective. The external current account deficit remains among the largest in the region, at 14 percent of GDP this year. Fiscal revenue shortfalls and overruns in domestically-financed spending led the deficit to rise to 6.8 percent of GDP in 2012/13. Revenue shortfalls in 2013/14 compared to the budget approved by parliament have prompted the authorities to undertake expenditure cuts during the fiscal year in an effort to meet their 5 percent of GDP target. Based on the debt sustainability analysis, Tanzania remains at low risk of debt distress.

Recent program engagement. Tanzania concluded its final review under a Standby Credit Facility (SCF) arrangement, together with its Article IV consultations, on April 25, 2014. The SCF expired on April 30, 2014.

Key challenges. Over the next three years, policymakers will face several challenges, including the following:

- *Step up needed investment in infrastructure while protecting critical social spending.* These objectives will need to be pursued following careful prioritization, to preserve government debt sustainability.

- *Prepare for natural gas.* If recent discoveries of sizeable offshore natural gas deposits are confirmed as commercially viable, sizable fiscal revenues would need to be managed to bring benefits to all Tanzanians.

Against this background, the authorities are requesting a three-year PSI to be in place by the start of FY2014/15. They see the PSI as an appropriate instrument to underpin the close policy dialogue with staff, provide a positive signal to donors and markets, and safeguard policy discipline.

Staff supports the authorities' request for a PSI.

Approved By
Roger Nord (AFR) and Dhaneshwar Ghura (SPR)

A staff team consisting of P. Mauro (head), N. Gigineishvili, N. Raman (all AFR), S. Kaendera (FAD), and G. Ho (SPR) visited Dar es Salaam, Dodoma and Zanzibar during, October 23–November 5, and February 12–25. Mr. Baunsgaard, IMF Resident Representative, assisted the mission. The mission met with the late Minister of Finance Mgimwa and his successor, Minister Saada Salum; Governor Ndulu of the Bank of Tanzania; Permanent Secretary of the Treasury, Mr. Likwelile; other senior officials; and development partners. Mr. Tucker (OED) participated in the discussions.

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CONTEXT

1. **The authorities' request for a new Policy Support Instrument (PSI) is underpinned by domestic ownership.**[1] The Executive Board concluded the 2014 Article IV consultation for Tanzania and the 3rd and final review of the SCF arrangement on April 25, 2014. At that time the authorities had already expressed strong interest in a new Policy Support Instrument, which they saw as an appropriate vehicle to maintain the close policy dialogue with the Fund, to provide a credible signal to donors and markets, and to safeguard policy discipline against the challenging background described below. The program has now been endorsed by the Cabinet of Ministers.

2. **During the next few years, policymakers will need to manage and meet expectations stemming from several sources, while preserving fiscal and debt sustainability:**

a. **Public investment in infrastructure is seen as key to strengthening competitiveness and removing growth bottlenecks**. The authorities' "Big Results Now" (BRN) initiative envisages ambitious infrastructure investment that, after further prioritization, needs to be fully integrated into the budget process, while safeguarding critical social expenditures.

b. **Over the next decade, Tanzania has good prospects of becoming a major producer and exporter of natural gas**. This is beginning to generate expectations that greater spending is warranted by likely future revenues. However, a final decision on whether to develop a large-scale liquefied natural gas (LNG) project using offshore gas resources may not be made by the natural gas companies until 2016, with production to begin no earlier than 2020. Beyond keeping expectations in check until such uncertainty is resolved, decisions made in the next few years on the contracts and the framework for the management of natural resources revenues will have long-term implications for whether the ensuing benefits will accrue to all citizens.

c. **Political factors may engender additional pressures to increase spending**. Uncertainties stem from the ongoing review of the constitution, including the relationship between mainland Tanzania and Zanzibar, which might have significant economic and fiscal implications. General elections will be held in October 2015, when President Kikwete's second and last term in office expires. Against this background, undertaking reforms will likely require even greater resolve.

d. **Further efforts to reduce fiscal and financial risks are made even more germane as the country begins preparatory work for entry into the East African Monetary Union.** Preparation for monetary union (scheduled for 2024) can act as a catalyst for prudent macroeconomic policies aimed at meeting the convergence criteria, and for stemming fiscal and financial risks that might otherwise spill over across member countries.

[1] This staff report accompanies the authorities' Letter of Intent and Memorandum of Economic and Financial Policies. It draws upon the recently issued Staff Report for the 2014 Article IV Consultation with Tanzania and Third Review Under the Standby Credit Facility Arrangement (Country Report No. 14/120) and its supplements. The conclusions of the earlier report remain valid.

RECENT DEVELOPMENT, OUTLOOK, AND RISKS

3. **Prudent policies and macroeconomic stabilization have underpinned the strength and resilience of Tanzania's economic performance.** Despite the global financial crisis of 2008-09, the food and fuel price shocks of 2007–08 and 2011–12, and the energy crisis of 2011, real GDP growth has proved resilient, averaging 7 percent over the past decade. Growth has been driven by services, construction and low-technology manufacturing (Figure 1); labor-intensive agriculture has lagged resulting in a persistently high unemployment and underemployment.

4. **Inflation has returned to the mid-single digits**. With the reversal of the 2011 surge in global food and fuel prices, headline inflation fell steadily from its peak of 20 percent in December 2011 to about 6 percent in April 2014 (Figure 2). Going forward, supply-side risks to inflation seem to be limited, in view of a strong harvest and stable global oil prices.

5. **A prudent monetary stance helped contain demand pressures and contributed to the gradual disinflation**. Broad money (M3) and private sector credit growth declined from more than 20 percent in 2010 and 2011 to 10 and 15 percent, respectively, by end-2013. However, key interest rates have not displayed clear trends (or provided clear guidance) in nominal terms over the past year or so, though they have risen substantially in real terms as inflation has declined. Nevertheless, an inverse relationship between interbank rates and excess reserves of commercial banks has been observed during this period.

6. **The current account deficit has been among the largest in the region for several years.** It widened from about 9 percent of GDP in 2009/10 and 2010/11 to 18 percent of GDP in 2011/12, owing to a significant surge in FDI, higher fuel prices, and one-off imports of thermal power generation equipment to offset a drop in hydro power production. In 2012/13, the current account deficit is estimated to have narrowed to 14 percent of GDP as these shocks waned and weaker gold export receipts were more than offset by a reduction in imports of goods and services. The trade balance deteriorated again during the first half of 2013/14, driven by a decline in the price of gold and large demand for oil imports for power generation. Gross international reserves amounted to US$4.62 billion at end-March 2014, equivalent to almost 4 months of current year imports of goods and services for 2013/14.

7. **The real effective exchange rate (REER) appreciated by 32 percent as of March 2014 from August 2011, when it reached its lowest level since 2000**. The nominal exchange rate has remained relatively stable, with the shilling-U.S. dollar exchange rate hovering within a narrow range during 2012 and depreciating by 3.5 percent between end-2012 and April 2014. However, a positive inflation differential relative to trade partner countries led to a real appreciation.

8. **Fiscal pressures re-emerged in 2012/13 and 2013/14.** The deficit (measured from the financing side) in 2012/13 amounted to 6.8 percent of GDP compared to the 5.5 percent envisaged under the SCF. Domestic revenues turned out below expectations, by 0.7 percent. Domestically financed spending was 0.4 percent higher than envisaged under the program. Until

recently, execution of the 2013/14 budget was facing similar challenges, owing to optimistic revenue projections. Updated projections suggest a likely shortfall in total revenues by 2 percent of GDP compared with the original budget, partly because of delays in introducing new taxes on SIM cards and bank transfers, lower gold prices, and weaker revenue buoyancy than previously assumed. To achieve the original deficit target of 5 percent, the authorities cut spending in the context of the mid-year budget review undertaken in mid-March.

9. **Weaknesses in public financial management undermine the quality and timeliness of fiscal data available to policymakers.** The three main problems are: (i) recurrence of large domestic unpaid claims (with duration above 90 days); these increased to 2 percent of GDP at end-March 2014 from 0.8 percent of GDP in June 2013; (ii) growing expenditure "floats" (estimated at 6 percent of domestically financed spending or 1.3 percent of GDP in 2012/13);[2] and considerable delay in coming close to reconciling the discrepancies between "above the line" deficit figures and the financing data. These issues point to weaknesses in budget formulation, execution and monitoring, including difficulties in aligning expenditures with available financing resources during the year.

10. **Additional firm and contingent obligations have built up in the pension system**. Sizable obligations relate to the benefits of participants in the non contributory pension system that preceeded the 1999 reform (see Country Report No. 14/120). Further obligations stem from loans provided by several pension funds to finance activities by government entities, a practice that presents fiscal transparency challenges.

11. **The macroeconomic outlook remains favorable.** Economic growth is projected at about 7 percent in the medium term. Absent major external price shocks, inflation is expected to reach the authorities' 5 percent target by mid-2014 provided that the BoT maintains its prudent monetary policy stance. Under the baseline assumption that the construction of a natural gas pipeline and gas-fired power plants is completed in 2014/15, the availability of cheaper energy would have a beneficial impact on economic growth and the current account. Nevertheless, with continued strong domestic demand and large imports related to sizable foreign direct investment, the current account deficit is projected above 10 percent of GDP in the medium term.

12. **The economy faces several risks**. Possible shocks to food and fuel prices would further weaken the current account, exert pressure on consumer prices and may necessitate additional social outlays. A sharp slowdown in China, on the other hand, would reduce prospective FDI and credit flows to Tanzania undermining key infrastructure investments and thereby future growth. This said, the most significant sources of risk relate to domestic policy implementation and include: potential fiscal slippages because of the intensification of spending; delays in the

[2] The expenditure "float" measures payment orders that were issued in a given fiscal year, but were drawn from the banking system in the following fiscal year.

construction of the gas pipeline and the power plants; and fiscal risks, especially from public enterprises.

13. **Perceived weaknesses of the business climate are significant.** Tanzania ranks poorly on various indicators of perceptions of competitiveness and governance, including those by Transparency International and the Economic Forum. Tanzania ranked 134th out of 185 countries in the World Bank's *Doing Business* 2013 indicators (for the average across all indicators), lagging behind several of its peers in the region (including Kenya, Rwanda, and Uganda). Perceptions of good governance have been further weakened by recently reported allegations of corruption in financial transactions related to IPTL (power producer). Cognizant of the obstacles to private sector development, the authorities have recently added a business environment lab to the BRN initiative. The lab has identified the following areas as most severe impediments to growth: regulations; access to land; taxation and fees; corruption; labor law and skill-set; contract enforcement, law and order. Its recommendations include legislative, institutional and regulatory changes aimed at streamlining business registration and operations, enforcing property rights, removing labor and product market rigidities, enhancing transparency, and reinforcing the rule of law.

14. **East African Community (EAC) integration is progressing, although significant challenges remain.**[3] Beyond the need to gradually converge to the agreed criteria for monetary union (fiscal deficit, government debt, inflation, and foreign exchange reserves), implementation of the protocols for customs union (signed in 2005) and the common market (2010), including the elimination of remaining non-trade barriers, is crucial to reap the full benefits of monetary union.

POLICY DISCUSSIONS

15. **The discussions focused on a macroeconomic policy framework and accompanying reforms to be implemented in the next three years**. Building on analytical findings and brainstorming sessions with the authorities in the context of the Article IV consultation, the mission and the authorities agreed on a set of coherent policies that underpin the proposed new three-year PSI and serve the authorities' medium-term objectives. These objectives are to maintain macroeconomic stability, preserve debt sustainability, and promote more equitable growth and job creation.

[3] The East African Community comprises Burundi, Kenya, Rwanda, Tanzania and Uganda.

A. Monetary and Exchange Rate Policies

16. **The monetary policy stance will aim at maintaining inflation at around 5 percent in the medium term.** To that end, in 2014/15 reserve money is projected to grow broadly in line nominal GDP. Given the expectation that financial development and inclusion would be mirrored in a gradual reduction in the M3 velocity and in a slight increase in the money multiplier, M3 is projected to increase by 15.5 percent, somewhat faster than reserve money. At the same time, financial deepening should facilitate greater availability of credit to the private sector, which the authorities view as an important factor to support economic growth.

MEFP ¶18

17. **The BoT intends to gradually modernize its monetary policy framework.** Although the authorities believe that the existing reserve money targeting has served the country well, they consider that the current framework might be reaching its limits and that a more forward-looking, interest rate-based monetary framework may be better aligned with a deeper financial system and greater private sector involvement, and may convey the stance of monetary policy more clearly. As a first step, the BoT is reviewing the functioning of the interbank money market, studying the relationship between excess reserves and short-term rates, and exploring ways to strengthen the transmission mechanism from policy interest rates to the real economy.

MEFP ¶19

18. **The BoT reiterated its commitment to a flexible exchange rate regime.** In view of the large amounts of official aid and capital inflows being channeled through the BoT and the ensuing necessary FX sales to sterilize them, the discussions focused on the relative merits of the existing system, where the BoT announces the price at which it will transact on the existing interbank foreign exchange market (IFEM) platform, and an auction mechanism (if feasible, building on the IFEM infrastructure). There was agreement that interventions should be for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate.

MEFP ¶20

19. **Tanzania intends to gradually liberalize its capital account in the coming years.** In recent years, inflows have primarily been in the form of long-term flows, mainly grants, concessional borrowing and, recently, ENCB. As part of the process toward the monetary union, member countries will have to gradually open up their capital and financial accounts, first within the EAMU and thereafter, to the rest of the world. The BoT has unveiled a gradual process to achieve this. As a first step, the authorities have allowed for freer flows of capital among EAC residents since June 2014, which they see facilitating trade, financial and investment flows within the region. The next step would be to extend this with the rest of the world by end-June 2015, in line with Tanzania's commitments under the EAC Common Market Protocol. The BoT has prioritized long-term flows as they work to build regulatory and oversight capacity. During this process, the central bank intends to maintain a number of prudential measures currently in place, including restrictions on non-residents' holdings of short-term securities and minimum holding periods. The entry of foreign

MEFP ¶12

banks into Tanzania and the emergence of a small but growing presence of Tanzanian banks abroad, also points to the urgent need to implement the proposed regulations on consolidated supervision (structural benchmark) ahead of this reform.

B. Fiscal Policy

20. **The authorities aim at balancing the debt stabilization objective with the need to invest in infrastructure and ensure adequate priority social spending**. The debt sustainability analysis (Country Report No. 14/120) shows that Tanzania remains at low risk of external debt distress and that the public debt outlook is sustainable, assuming that economic growth remains strong and that the fiscal deficit gradually declines to 4–4½ percent of GDP over the medium term. The authorities noted the difficult choices to be made in prioritizing expenditures and mobilizing additional revenues to attain the deficit reduction objective, in light of a gradual decline in grants. They emphasized that the budget is the sole and appropriate mechanism to make priorities operational, including those outlined in the recent Big Results Now initiative.

MEFP ¶24–26

21. **The 2014/15 budget targets an overall fiscal deficit equivalent to 4.9 percent of GDP.** The authorities indicated that they would persevere in their efforts to mobilize domestic revenues, including through the upcoming VAT reform. Thus, despite the decline in grants, the budget aims at a moderate reduction in the deficit compared with the 2013/14 target, while allocating resources for a modest increase in infrastructure investment as a share of GDP and at least maintaining the share of spending on priority social services.

MEFP Table 1

22. **The authorities plan to use external non-concessional borrowing to finance infrastructure projects**. Under the past SCF arrangement, the cumulative ENCB ceiling of US$3,388 million was set to permit contracting of US$700 million in 2013/14, consistent with the budget. Out of this amount about US$80 million was contracted through December 2013. Including the remaining amount allocated for 2013/14 (US$620 million), for the new PSI, the authorities intend to borrow US$2,420 million from January 2014 through June 2016, which the DSA suggests is consistent with sustainability. This includes financing for a gas-fired power plant and an airport terminal, for which the contracts are close to being finalized, and possibly (depending on prevailing market conditions) a sizeable upfront bond issuance in 2014/15 once the sovereign rating process is completed.

23. **The authorities are making progress in debt restructuring discussions with external creditors.** Staff was recently made aware of an existing stock of arrears to private external creditors stemming from the lease of planes by Air Tanzania several years ago, whose size is estimated below 0.1 percent of GDP. In line with the Fund’s Lending into Arrears (LIA) policy, the authorities have demonstrated and intend to continue good faith efforts, through frequent bilateral communication and working out a repayment plan, to reach collaborative agreement with their creditors.

C. The Financial Sector

24. **The authorities have made progress in regulatory and supervisory reform.** The Financial System Stability Assessment (FSSA) update of June 2010 recommended several actions, such as addressing data gaps to strengthen the oversight of banks, developing credit information tools to mitigate systemic credit risk, and improving the framework for dealing with banking crises. Progress to date includes collaboration committees of relevant supervisors and policymakers for effective surveillance and crisis management/resolution, as well as the establishment of a credit reference database and bureaus. A key focus of further reforms is to prepare for a deeper, more sophisticated and more internationally integrated financial sector, especially once the capital account becomes more liberalized. One Tanzanian bank has a major share of its operations offshore, which supervisors will need to monitor carefully to ensure full compliance of regulations in all the jurisdictions it operates in. The BoT is working on updating existing regulations to take recent developments and EAMU convergence criteria into account, as well as drafting new regulations to support consolidated supervision.

MEFP ¶21

D. Managing Natural Gas Reserves

25. **Tanzania is likely to become a major producer and exporter of natural gas in the medium term**. Significant offshore discoveries have been made over the last 2–3 years, and further exploration is underway. Although gas resources have not yet been declared commercially viable, estimates of discoveries indicate recoverable offshore gas resources of at least 24-26 trillion cubic feet, potentially sufficient for a four-train LNG plant (possibly as a common facility for several upstream gas fields). A final investment decision is expected at the earliest in 2016 or 2017. Total investment during the development phase could amount to US$20-40 billion, depending on the scale of the project, the largest investment ever in Tanzania, with gas production starting in the 2020s.

26. **Potentially significant revenues from natural gas could play a transformative role for the development of Tanzania, if well managed**. The authorities and the mission discussed the importance of putting in place a sound policy, legal and regulatory framework well before natural gas exploration reaches an advanced stage (Box 1 summarizes staff's advice). These will be reflected in the authorities' revised gas policy framework, which is expected to address the inter-generational policy question of natural resource wealth management, ensure integration of resource revenue in the budget framework, and institutionalize transparency and accountability of spending.

MEFP ¶36

Box 1. Features of Natural Gas Revenue Management Framework

1. The allocation between saving and spending of natural resource revenue should be guided by the macro-fiscal policy framework. In particular, the framework would aim to balance the need to (i) achieve macro stability, primarily by delinking spending from revenue volatility; (ii) strengthen long-term sustainability by savings for future generations; and (iii) accommodate some scaling-up of investments in physical and human capital.

2. An appropriate fiscal anchor or rule (one option could be a flexible rule based on the permanent income hypothesis, accommodating some scaling-up of investment spending) would link the short and medium-term fiscal policy implementation. In such a framework, the fiscal deficit in the budget (preferably the non-resource primary balance) would be set annually, consistent with the fiscal policy anchor.

3. The framework could incorporate a resource fund, which could be managed by the central bank, to transparently help account for the resource revenue, and manage the accumulation of financial assets for precautionary purposes and for future generations. In the event such a fund is set up, international best practice suggests that it should not have spending autonomy, and any financing of the budget be kept in line with the fiscal policy anchor.

4. All spending of resource revenue consistent with the fiscal policy anchor should go through the ordinary budget and PFM framework and be subject to parliamentary oversight and prioritization.

5. To ensure that such a framework can be successfully implemented, it will be important to develop the long-term revenue forecasting capacity, and reform the budget and PFM framework to integrate the natural resource revenue.

E. Structural Reforms

MEFP ¶16

27. **The VAT reform is close to completion.** Beyond modernizing the VAT regime, it aims at broadening the tax base by significantly reducing exemptions. Following the Cabinet approval of the policy document outlining the main features of the new VAT law, the draft law was submitted to Parliament in June 2014, in the proximity of parliamentary debate on the 2014/15 budget, which it is designed to support. The authorities recognize that effective implementation of the new VAT regime would require strengthening of the existing VAT administration, especially the refund mechanism, and are committed to it.

MEFP ¶23,27

28. **The authorities noted their determination to stem and ultimately reverse the increase in domestic expenditure arrears**. A high-level committee has been formed which has already identified measures to prevent the emergence of new arrears (such as a halt in new multi-year projects in some ministries) and a framework for central verification and payment of old arrears. Further steps include: more conservative revenue projections; enhanced cash flow planning; more timely and frequent validation of arrears; and greater enforcement of sanctions against officers incurring government obligations in the absence of budgetary resources. Under the umbrella of the Public Expenditure Review, the authorities and East AFRITAC have begun a survey of payment arrears as of end-

March 2014 and an analysis of further measures needed to strengthen the reporting, management, and clearance of payment arrears.

29. **The discussions on the pension system focused on the central government's obligations to the Public Service Pension Fund (PSPF) and broader pension reform.** A government task force recently completed a report assessing the magnitude of the obligations to the Public Service Pension Fund (PSPF) and loans issued from several pension funds for projects implemented by government ministries and agencies, many of which are not being fully serviced. The discussions began exploring potential modalities for addressing the outstanding liabilities. The authorities were also exploring potential parametric reforms to enhance the sustainability of the broader pension system, which consists of several funds. An option under consideration is to harmonize the parameters by implementing the same changes recently applied to one of the funds; this would make a substantial dent in the actuarial deficit of the system.

MEFP ¶37

MODALITIES OF A NEW PSI ARRANGEMENT

30. **The attached Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) detail the authorities' policy commitments under the new PSI**. Similar to the prior arrangements, the program monitoring is proposed to be based on end-June and end-December performances. The new PSI will retain all the Quantitative Performance Criteria under the SCF as Assessment Criteria and the same indicative targets (MEFP Table 1). The definitions of targets and adjustors are included in the Technical Memorandum of Understanding. Structural benchmarks (MEFP Table 2) aim at improving efficiency and increasing revenue mobilization; strengthening debt and public enterprise management; advancing PFM and pension reforms; and ensuring that the benefits of natural gas finds accrue to all Tanzanians.

STAFF APPRAISAL

31. **The proposed program aims at further strengthening Tanzania's already favorable macroeconomic performance.** The authorities are encouraged to maintain prudent macroeconomic policies in an effort to preserve public debt sustainability, consolidate the gains in reducing inflation, and reduce external vulnerabilities.

32. **Staff welcomes the authorities' intention to modernize the monetary policy framework and to keep pace with technological developments in the financial sector**. Initial preparatory steps for a transition from the current reserve money targeting framework to an interest rate based framework are welcome. In the financial sector, technological innovations (such as greater use of mobile phones for transactions and savings) and international integration are creating new opportunities for financial deepening and inclusion, but also call for speedy implementation of reforms of the financial supervision framework to reduce or manage any

ensuing vulnerabilities. A priority is to ensure effective collaboration among regulators, both domestically and with international counterparts.

33. **Greater focus on international competitiveness may be warranted**. As the economy becomes more integrated in international markets—with further opening up of the financial account and increasing foreign direct investment—more powerful external shocks and the need to foster the creation of a more diversified export sector call for enhanced attention to preserve international competitiveness. This reinforces the need for the exchange rate to fully reflect market conditions; for international reserves to increase further (in months of imports cover); for non-tariff barriers to be reduced, so as to exploit economies of scale in a larger economic area; for deregulation to curb any remaining impediments to export-oriented businesses; and for an improved business climate to attract both domestic and international investors, with special attention to improving perceptions of governance and the speed of the resolution of commercial disputes.

34. **The draft 2014/15 budget envisages an appropriate degree of fiscal deficit reduction**. To avoid the need for expenditure cuts or arrears accumulation during the fiscal year, the authorities are encouraged to ensure that revenue assumptions remain realistic through approval of the budget by parliament. Adopting a new VAT bill that is in line with best practices with minimal exemptions together with the 2014/15 budget is critical for sustainable revenue increases over time. The authorities' commitment to reducing non-priority spending in the event of lower-than-expected revenues provides further reassurance.

35. **Fiscal policy in the medium term will need to balance the competing objectives of increasing priority spending and preserving fiscal sustainability**. To that end, further deficit reduction is appropriate to stabilize the government debt/GDP ratio. Indeed, the last DSA (Country Report No. 14/120) concluded that Tanzania's public debt would not stabilize in the absence of continued fiscal consolidation, and highlighted the need to sustain fiscal consolidation efforts, to adopt a prudent approach to non-concessional borrowing, to initiate pension reforms, and to take concrete steps in improving its debt and public investment management capacity. The authorities have identified infrastructure, education, health, and essential social services as priority spending areas to foster inclusive growth. The program envisages further broadening the tax base, beyond the VAT reform, in an effort to mobilize additional revenues as a share of GDP.

36. **Improvements in public financial management are of the essence**. Higher-quality fiscal reporting is necessary for the authorities to be able to take timely measures, as well as for program monitoring. Priority areas include: a net reduction in the stock of arrears; diminished use of expenditure floats at the end of the fiscal year; and more timely compilation of fiscal outturn data consistent with financing data. The authorities' commitment to take action to deal with domestic arrears is welcome. Guidelines to prevent arrears accumulation need to be implemented and a plan is required for the gradual reduction of the existing stock, with appropriate verification and safeguards. By tracking net changes in the stock of arrears, the proposed program seeks to enhance the meaningfulness of budget implementation.

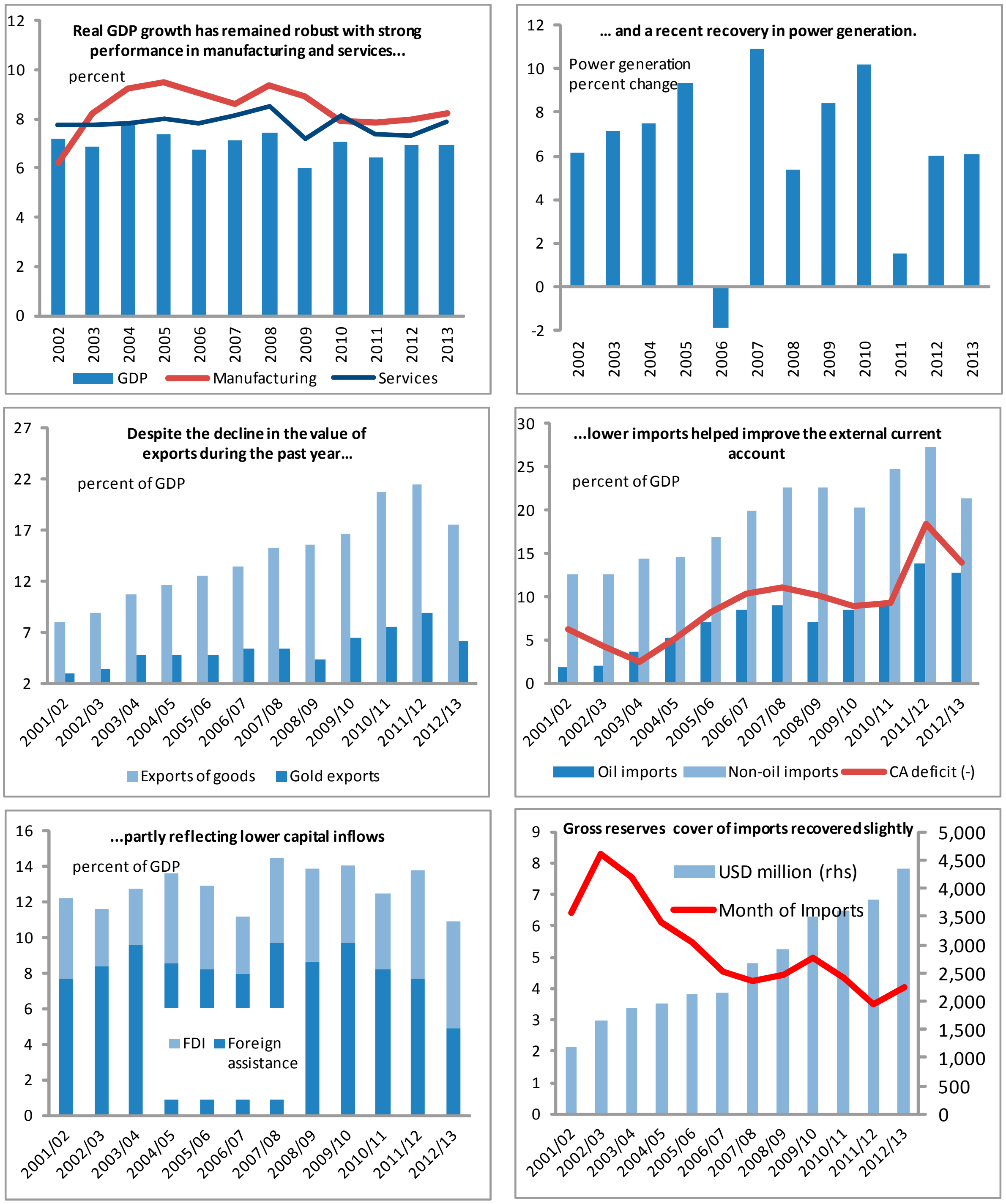
37. **More generally, there is a need to improve the monitoring and management of fiscal risks, particularly in the public enterprises**. More timely compilation and disclosure of financial information on the public enterprises is warranted. It is also important to ensure that the central government settles its obligations vis-à-vis the pension funds in a timely manner, and that pension funds are not used to finance government activities. A general stocktaking may be warranted regarding the role of the various public enterprises to ensure that, depending on their activities and circumstances, they do not pose excessive risks to the overall budget or that they remit a fair share of profits to the central government.

38. **A priority over the next few years is to set up appropriate institutional arrangements and policy frameworks to ensure that any gains from natural resources accrue to the benefit of all citizens**. This will involve establishing a clear taxation framework that retains good revenues for citizens while providing reassurance to natural gas companies that their investments will remain worthwhile; transparency in the contracts signed with private companies; a fiscal framework that smoothes the use of natural resources, facilitates gradual scaling-up of public investment, and aims at intergenerational equity; ensuring that all spending financed by natural resource revenues (including those collected by public enterprises involved in the sector) is determined and undertaken through the general budget process and is subject to the same degree of public scrutiny as that financed by other revenues.

39. **Although the medium term outlook remains strong, staff sees risks to the program**. Spending pressures and difficulties in monitoring fiscal developments in a timely and accurate manner have been a source of arrears accumulation and deviations from the budget in recent years. Moreover, following the successful reforms of the mid-1990s to mid-2000s, structural reforms have abated considerably, and recent programs have seen a mixed record on structural benchmarks. Reinvigorated implementation of structural reforms—including public financial management, energy, and statistics—will be critical to preserve macroeconomic stability and rapid economic growth.

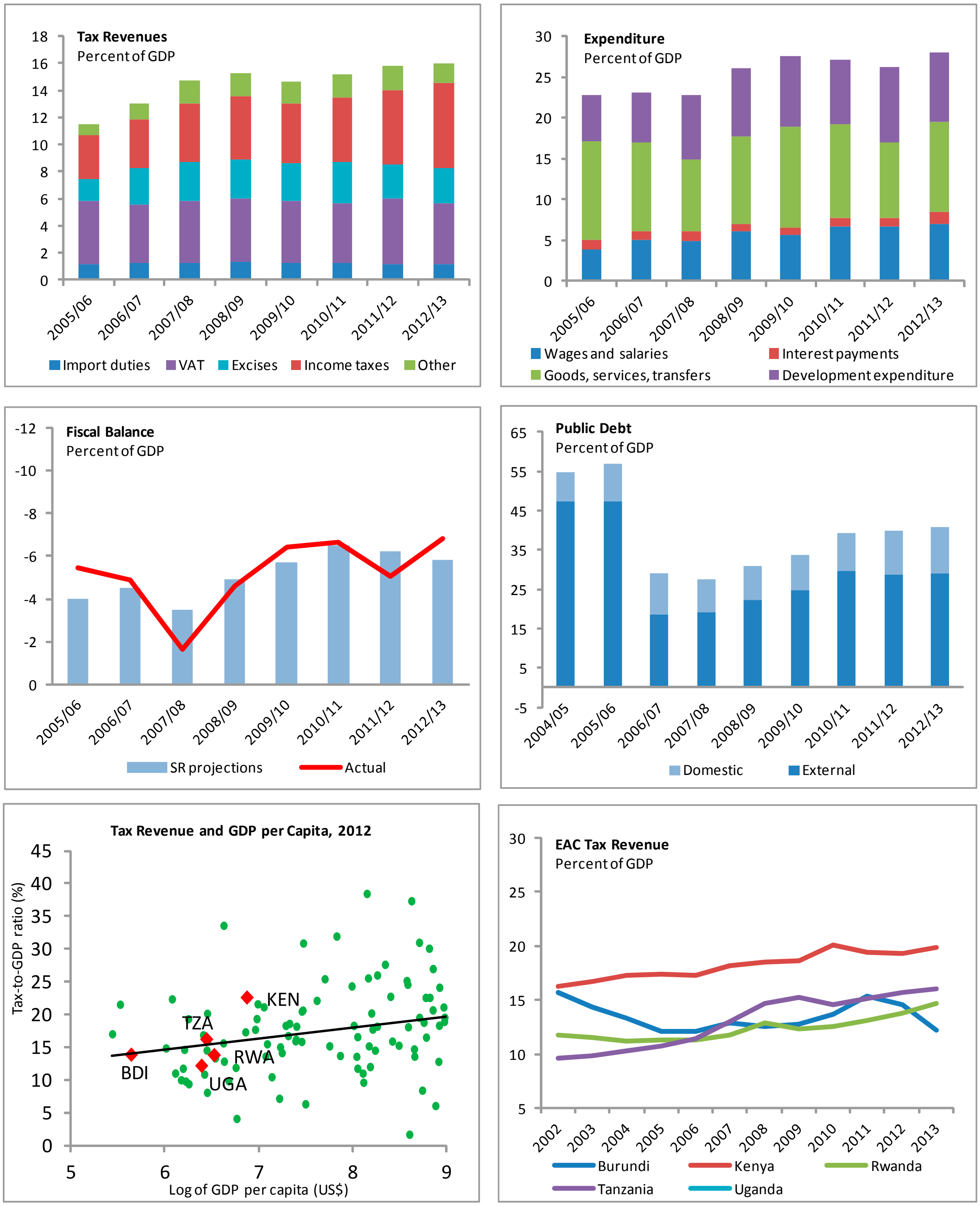
40. **Staff recommends approval of the PSI**. Consistent with that, it is recommended that the next Article IV consultation be held on a 24-month cycle.

Figure 1. Tanzania: Real Sector and External Developments



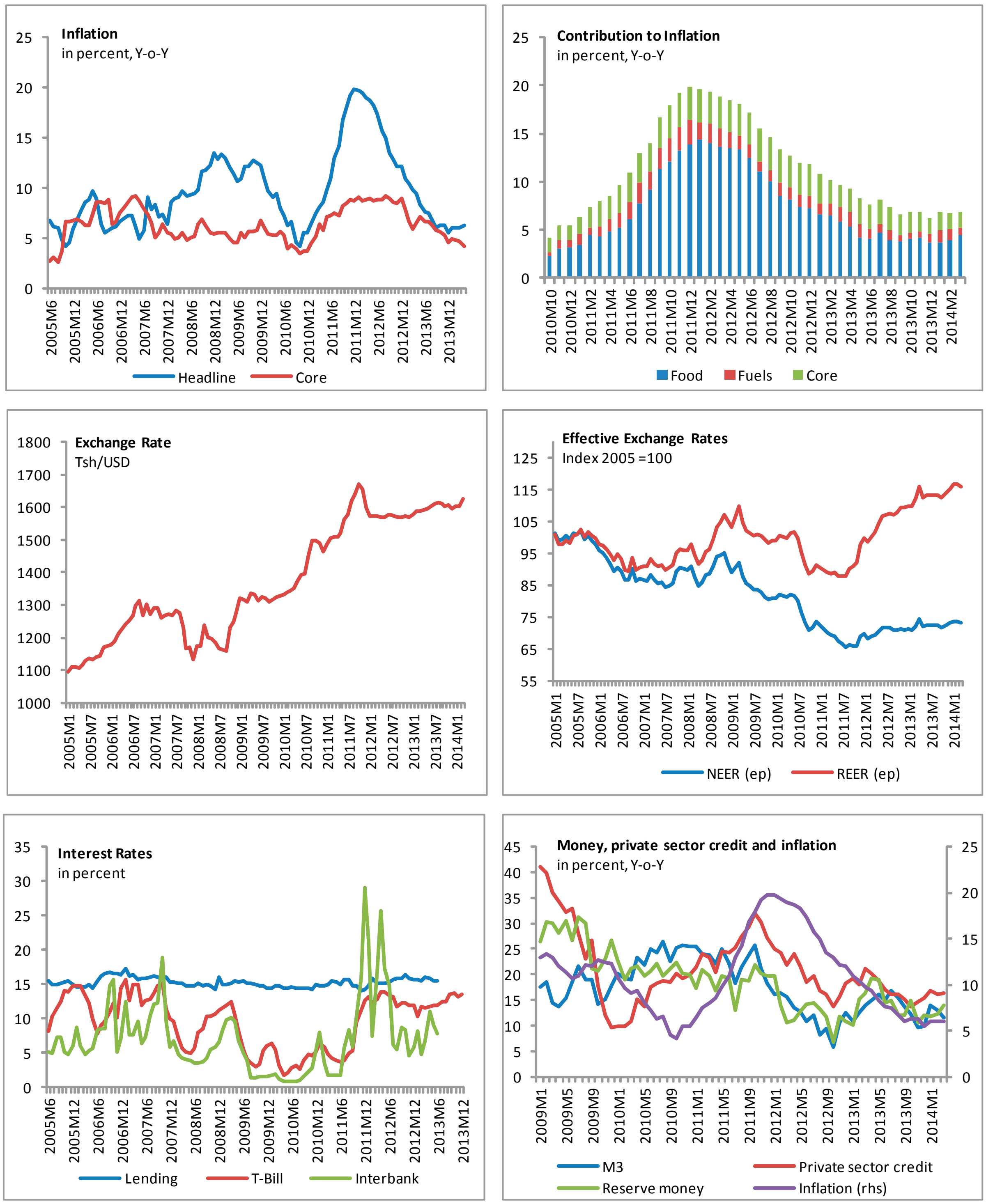
Sources: Tanzanian authorities and IMF staff calculations.

Figure 2. Tanzania: Fiscal Developments



Sources: : Tanzanian authorities and IMF staff calculations.

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

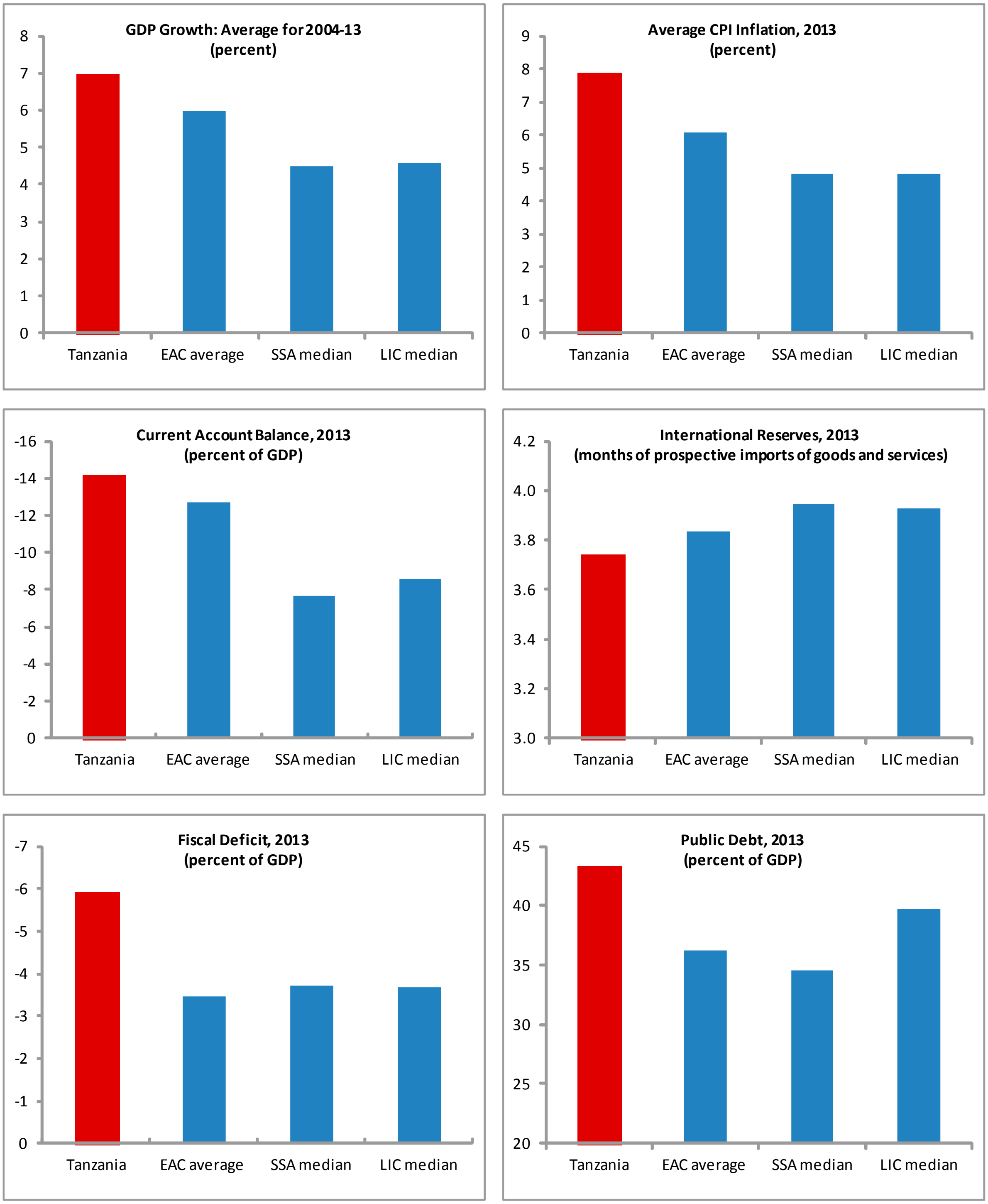


Sources: Tanzanian authorities and IMF staff calculations

Figure 4. EAC: Financial Soundness Indicators, 2009–2013
(in percent)

Source: Tanzanian authorities.
Data for 2013 are for end-December, except for Burundi, for which end-September data are shown.

Figure 5. International Comparison of Macroeconomic Fundamentals[1]



[1] EAC averages exclude Tanazania

Sources: World Economic Outlook database and Fund staff calculations

Table 1. Tanzania: Selected Economic and Financial Indicators, 2010/11–2017/18

	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
National income and prices										
Nominal GDP (in billions of TSh)	34,913	41,125	48,264	48,348	55,228	55,559	63,263	71,718	80,801	90,810
Real GDP growth (calendar year) [2]	6.4	6.9	7.0	7.0	7.2	7.2	7.0	7.1	7.0	6.8
Real GDP growth	6.7	6.7	7.0	6.9	7.1	7.1	7.1	7.1	7.0	6.9
Consumer prices (period average)	7.0	17.8	11.6	11.3	7.2	6.1	5.1	5.0	5.0	5.0
Consumer prices (end of period)	10.9	17.4	9.5	7.6	6.0	5.7	5.0	5.0	5.0	5.0
GDP deflator (period average)	8.1	10.3	…	10.0	…	7.4	6.3	5.9	5.3	5.1
External sector										
Exports, f.o.b (in billions of U.S. dollars)	4.9	5.6	5.9	5.4	6.5	5.5	6.1	6.6	7.3	7.9
Imports, f.o.b. (in billions of U.S. dollars)	8.0	10.6	11.0	10.5	12.3	11.5	12.4	13.3	14.3	15.6
Export volume	10.9	8.9	2.0	-2.2	12.6	9.6	12.7	10.7	10.6	9.1
Import volume	6.2	28.8	3.2	-2.0	10.2	10.1	9.1	8.7	8.0	8.9
Terms of trade	1.2	1.6	3.4	-1.5	-2.5	-6.9	-1.3	0.2	-0.5	0.3
Nominal effective exchange rate (end of period; depreciation= -)[3]	-17.7	6.4	0.6	1.2	…	…	…	…	…	…
Real effective exchange rate (end of period; depreciation= -)[3]	-13.7	21.5	6.0	6.1	…	…	…	…	…	…
Money and credit										
Broad money (M3)	22.0	10.9	14.5	14.9	13.0	14.5	15.5	14.8	14.1	13.8
Average reserve money	19.3	14.2	15.7	14.5	11.9	14.9	13.9	13.4	12.7	12.4
Credit to nongovernment sector	24.3	18.6	17.4	17.1	13.9	16.5	16.0	14.8	13.9	13.9
Velocity of money (GDP/M3; average)	3.2	3.2	3.3	3.3	3.4	3.4	3.3	3.3	3.3	3.2
Treasury bill interest rate (in percent; end of period)	4.8	13.8	…	13.9	…	…	…	…	…	…
	(Percent of GDP)									
Public Finance										
Revenue (excluding grants)	16.4	17.6	18.1	17.5	19.9	18.4	19.4	19.7	19.9	20.1
Total grants	4.7	4.5	3.7	3.6	4.2	3.3	2.3	3.5	3.0	3.0
Expenditure	27.0	26.2	27.6	28.0	29.1	26.9	26.7	27.2	26.9	27.2
Overall balance (excluding grants)[4]	-11.4	-8.6	-9.5	-10.5	-9.2	-8.5	-7.2	-7.5	-7.0	-7.0
Overall balance (including grants)[4]	-6.6	-5.0	-5.8	-6.8	-5.0	-5.2	-4.9	-4.0	-4.0	-4.0
Domestic financing (excluding gas pipeline financing)	3.6	0.7	1.0	2.2	1.0	1.4	0.9	0.5	0.7	0.7
Domestic debt stock (end of period)[5]	9.6	11.1	10.4	11.6	10.1	10.5	10.1	9.4	9.1	8.7
Total public debt[5,6]	39.4	39.8	41.6	40.8	43.3	41.5	42.7	42.2	42.5	42.6
Savings and investment										
Resource gap (net exports of goods and services)	-15.3	-17.6	-16.7	-15.6	-15.6	-14.8	-14.0	-12.9	-12.0	-11.4
Investment	34.5	35.5	39.2	34.4	38.3	33.4	32.1	31.5	31.5	31.6
Government	8.5	8.8	9.1	8.6	8.9	8.4	8.6	9.0	9.6	10.2
Nongovernment[7]	26.0	26.8	30.2	25.8	29.4	25.0	23.6	22.4	22.0	21.5
Gross domestic savings	19.3	18.0	22.6	18.8	22.7	18.6	18.2	18.6	19.5	20.2
External sector										
Current account balance (excluding current transfers)	-12.5	-20.8	-16.0	-15.7	-17.0	-15.7	-14.5	-13.3	-12.7	-12.2
Current account balance (including current transfers)	-9.4	-18.4	-14.3	-14.0	-15.2	-14.4	-13.4	-12.3	-11.7	-11.3
	(Billions of U.S. dollars, unless otherwise indicated)									
Balance of payments										
Current account balance (excluding current transfers; deficit= -)	-3.0	-5.4	-4.8	-4.8	-5.7	-5.4	-5.6	-5.7	-6.0	-6.3
Gross official reserves (end of period)	3.6	3.8	4.2	4.4	4.5	4.6	5.2	5.6	6.1	6.7
In months of imports of goods and services (current year)	4.3	3.5	3.8	4.1	3.6	3.9	4.0	4.1	4.2	4.2
Total external debt stock (end of period; percent of GDP)[7]	33.1	34.4	35.0	35.7	36.8	36.8	37.9	37.6	37.8	37.9

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] From the second review under the SCF arrangement.

[2] E.g. Calendar year corresponding to 2012/13 is 2013.

[3] The figure for 2012/13 reflects the change from July 2012 through June 2013.

[4] Actual and preliminary data include adjustment to cash basis.

[5] Net of Treasury bills issued for liquidity management.

[6] Excludes external debt under negotiation for relief, and domestic unpaid claims (reported in Table 2b).

[7] Including change in stocks.

Table 2a. Tanzania: Central Government Operations, 2010/2011–2017/18[1]
(Billions of Tanzanian Shillings)

	2010/11	2011/12	2012/13		2013/14			2014/15	2015/16	2016/17	2017/18
			Prog.[6]	Prel.	Prog.[6]	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	5,739	7,221	8,758	8,443	10,999	11,538	10,197	12,304	14,164	16,101	18277
Tax revenue	5,296	6,480	7,937	7,730	9,885	10,395	9,410	11,099	12,798	14,562	16548
Import duties	449	498	648	584	876	852	782	850	964	1,086	1220
Value-added tax	1,531	1,975	2,309	2,146	2,722	2,590	2,366	3,119	3,751	4,226	4749
Excises	1,052	1,029	1,287	1,258	1,696	1,909	1,609	1,832	2,076	2,339	2629
Income taxes	1,660	2,247	2,835	3,034	3,351	3,657	3,399	3,870	4,388	5,015	5727
Other taxes	604	732	858	707	1,240	1,388	1,254	1,428	1,619	1,896	2222
Nontax revenue[2]	443	741	822	713	1,114	1,142	787	1,205	1,366	1,539	1730
LGA	158	196	284	221	373	383	268	462	524	590	664
Other	285	545	537	492	741	759	519	743	842	949	1066
Total expenditure	9,439	10,765	13,341	13,543	16,053	16,708	14,926	16,881	19,540	21,773	24660
Recurrent expenditure	6,690	6,990	9,035	9,444	10,958	11,063	10,267	11,624	12,970	14,540	16395
Wages and salaries	2,346	2,722	3,326	3,350	4,246	4,246	4,336	4,871	5,522	6,222	6992
Interest payments	353	436	667	767	995	995	1,052	1,068	1,063	1,125	1318
Domestic	285	345	478	590	617	617	788	726	698	697	712
Foreign[3]	68	91	189	177	377	377	264	342	365	428	606
Goods and services and transfers[2]	3,991	3,831	5,042	5,328	5,718	5,822	4,879	5,685	6,385	7,193	8085
Of which: Transfers to TANESCO	…	…	564	401	173	273	353	…	…	…	…
Development expenditure	2,749	3,775	4,306	4,099	5,095	5,645	4,659	5,257	6,570	7,233	8265
Domestically financed	985	1,872	2,113	1,914	2,471	2,953	2,600	3,268	3,705	4,416	5054
Foreign (concessionally) financed	1,764	1,902	2,193	2,185	2,624	2,692	2,059	1,989	2,865	2,817	3211
Overall balance before grants	-3,701	-3,543	-4,582	-5,101	-5,054	-5,170	-4,729	-4,577	-5,376	-5,672	-6383
Grants	1,627	1,855	1,777	1,728	2,320	2,390	1,832	1,447	2,510	2,424	2724
Program (including basket grants)[4]	1,062	1,021	825	818	973	1,043	830	702	1,076	1,212	1362
Of which: basket grants	335	301	285	281	196	266	266	160	359	404	454
Project	566	834	952	910	1,347	1,347	1,002	745	1,434	1,212	1362
Net expenditure float[5]	-297	168	0	259	0	…	0	0	0	0	0
Statistical discrepancy	49	-517	0	-168	0	…	0	0	0	0	0
Overall balance after grants (cash basis)	-2,321	-2,038	-2,805	-3,282	-2,734	-2,780	-2,896	-3,130	-2,866	-3,248	-3,658
Financing	2,321	2,038	2,805	3,282	2,734	2,780	2,896	3,130	2,866	3,248	3658
Foreign (net)	1,077	1,735	2,689	2,579	3,331	2,808	3,247	2,946	2,515	2,671	3066
Foreign loans	1,119	1,816	2,906	2,706	3,722	3,198	3,441	3,326	3,043	3,394	3950
Program (including basket loans)[4]	394	419	628	544	625	621	624	465	574	606	681
Of which: basket loans	221	172	264	186	236	234	199	84	104	110	124
Project	643	595	692	734	844	844	591	1,000	968	1,091	1271
Nonconcessional borrowing	82	801	1,586	1,428	2,252	1,733	2,226	1,861	1,501	1,697	1998
Of which: gas pipeline	…	…	368	365	1,149	577	1,144	389	…	…	…
Amortization	-43	-80	-217	-127	-390	-390	-194	-380	-529	-723	-884
Domestic (net)	1,244	302	116	703	-597	-28	793	572	352	577	592
Of which: excluding gas pipeline	1244	302	484	1067	552	549	1938	961	352	577	592
Bank financing	1,257	-22	99	668	398	497	640	376	231	379	389
Nonbank financing	-13	324	17	35	-995	-525	153	196	121	198	203
Of which: credit to TPDC (gas pipeline)	…	…	-368	-365	-1,149	-577	-1,144	-389	…	…	…
Memorandum items:											
Nominal GDP	34,913	41,125	48,264	48,348	55,228	55,559	55,559	63,263	71,718	80,801	90,810

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

[1] Fiscal year: July–June.

[2] Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

[3] Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

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

[5] The gross expenditure float for a fiscal year Y relates to expenditures that are recorded in Y, but for which the payment is made—and thus the financing is recorded—in the following fiscal year, Y+1. The net expenditure float for fiscal year Y is the difference between the gross expenditure float for Y and the gross expenditure float for the previous fiscal year, Y-1; in other words, the net expenditure float for Y relates to expenditures recorded in Y whose financing was recorded in Y+1, minus the additional financing that occurred in Y for expenditures that were recorded in Y-1.

[6] From the second review under the SCF arrangement.

Table 2b. Tanzania: Central Government Operations, 2010/11–2017/18[1]
(Percent of GDP)

	2010/11	2011/12	2012/13		2013/14			2014/15	2015/16	2016/17	2017/18
			Prog.[6]	Prel.	Prog.[6]	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	16.4	17.6	18.1	17.5	19.9	20.8	18.4	19.4	19.7	19.9	20.1
Tax revenue	15.2	15.8	16.4	16.0	17.9	18.7	16.9	17.5	17.8	18.0	18.2
Import duties	1.3	1.2	1.3	1.2	1.6	1.5	1.4	1.3	1.3	1.3	1.3
Value-added tax	4.4	4.8	4.8	4.4	4.9	4.7	4.3	4.9	5.2	5.2	5.2
Excises	3.0	2.5	2.7	2.6	3.1	3.4	2.9	2.9	2.9	2.9	2.9
Income taxes	4.8	5.5	5.9	6.3	6.1	6.6	6.1	6.1	6.1	6.2	6.3
Other taxes	1.7	1.8	1.8	1.5	2.2	2.5	2.3	2.3	2.3	2.3	2.4
Nontax revenue[2]	1.3	1.8	1.7	1.5	2.0	2.1	1.4	1.9	1.9	1.9	1.9
LGA	0.5	0.5	0.6	0.5	0.7	0.7	0.5	0.7	0.7	0.7	0.7
Other	0.8	1.3	1.1	1.0	1.3	1.4	0.9	1.2	1.2	1.2	1.2
Total expenditure	27.0	26.2	27.6	28.0	29.1	30.1	26.9	26.7	27.2	26.9	27.2
Recurrent expenditure	19.2	17.0	18.7	19.5	19.8	19.9	18.5	18.4	18.1	18.0	18.1
Wages and salaries	6.7	6.6	6.9	6.9	7.7	7.6	7.8	7.7	7.7	7.7	7.7
Interest payments	1.0	1.1	1.4	1.6	1.8	1.8	1.9	1.7	1.5	1.4	1.5
Domestic	0.8	0.8	1.0	1.2	1.1	1.1	1.4	1.1	1.0	0.9	0.8
Foreign[3]	0.2	0.2	0.4	0.4	0.7	0.7	0.5	0.5	0.5	0.5	0.7
Goods and services and transfers[2]	11.4	9.3	10.4	11.0	10.4	10.5	8.8	9.0	8.9	8.9	8.9
Of which: Transfers to TANESCO	…	…	1.2	0.8	0.3	0.5	0.6	…	…	…	…
Development expenditure	7.9	9.2	8.9	8.5	9.2	10.2	8.4	8.3	9.2	9.0	9.1
Domestically financed	2.8	4.6	4.4	4.0	4.5	5.3	4.7	5.2	5.2	5.5	5.6
Foreign (concessionally) financed	5.1	4.6	4.5	4.5	4.8	4.8	3.7	3.1	4.0	3.5	3.5
Overall balance before grants	-10.6	-8.6	-9.5	-10.5	-9.2	-9.3	-8.5	-7.2	-7.5	-7.0	-7.0
Grants	5.2	5.0	3.7	3.6	4.2	4.3	3.3	2.3	3.5	3.0	3.0
Program (including basket grants)[4]	3.0	2.5	1.7	1.7	1.8	1.9	1.5	1.1	1.5	1.5	1.5
Of which: basket grants	1.0	0.7	0.6	0.6	0.4	0.5	0.5	0.3	0.5	0.5	0.5
Project	1.6	2.0	2.0	1.9	2.4	2.4	1.8	1.2	2.0	1.5	1.5
Net expenditure float[5]	-0.8	0.4	0.0	0.5	0.0	…	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.1	-1.3	0.0	-0.3	0.0	…	0.0	0.0	0.0	0.0	0.0
Overall balance after grants (cash basis)	-6.6	-5.0	-5.8	-6.8	-5.0	-5.0	-5.2	-4.9	-4.0	-4.0	-4.0
Financing	6.6	5.0	5.8	6.8	5.0	5.0	5.2	4.9	4.0	4.0	4.0
Foreign (net)	3.1	4.2	5.6	5.3	6.0	5.1	5.8	4.7	3.5	3.3	3.4
Foreign loans	3.2	4.4	6.0	5.6	6.7	5.8	6.2	5.3	4.2	4.2	4.4
Program (including basket loans)[4]	1.1	1.0	1.3	1.1	1.1	1.1	1.1	0.7	0.8	0.8	0.8
Of which: basket loans	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.1	0.1	0.1	0.1
Project	1.8	1.4	1.4	1.5	1.5	1.5	1.1	1.6	1.4	1.4	1.4
Nonconcessional borrowing	0.2	1.9	3.3	3.0	4.1	3.1	4.0	2.9	2.1	2.1	2.2
Of which: gas pipeline	…	…	0.8	0.8	2.1	1.0	2.1	0.6	…	…	…
Amortization	-0.1	-0.2	-0.4	-0.3	-0.7	-0.7	-0.3	-0.6	-0.7	-0.9	-1.0
Domestic (net)	3.6	0.7	0.2	1.5	-1.1	-0.1	1.4	0.9	0.5	0.7	0.7
Of which: excluding gas pipeline	…	…	1.0	2.2	1.0	1.0	3.5	1.5	0.5	0.7	0.7
Bank financing	3.6	-0.1	0.2	1.4	0.7	0.9	1.2	0.6	0.3	0.5	0.4
Nonbank financing	0.0	0.8	0.0	0.1	-1.8	-0.9	0.3	0.3	0.2	0.2	0.2
Of which: credit to TPDC (gas pipeline)	…	…	-0.8	-0.8	-2.1	-1.0	-2.1	-0.6	…	…	…
Memorandum items:											
Domestic unpaid claims (end-period, in percent of GDP)[7]	1.1	0.5	…	1.0	…	…	1.6	…	…	…	…
Recurrent expenditures (percent of recurrent resources)	103	88	97	105	93	90	95	90	87	86	85

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

[1] Fiscal year: July–June.

[2] Local Government Authorities' own revenues and the equal amount of transfers, are included starting from FY2009/10.

[3] Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

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

[5] The gross expenditure float for a fiscal year Y relates to expenditures that are recorded in Y, but for which the payment is made—and thus the financing is recorded—in the following fiscal year, Y+1. The net expenditure float for fiscal year Y is the difference between the gross expenditure float for Y and the gross expenditure float for the previous fiscal year, Y-1; in other words, the net expenditure float for Y relates to expenditures recorded in Y whose financing was recorded in Y+1, minus the additional financing that occurred in Y for expenditures that were recorded in Y-1.

[6] From the second review under the SCF arrangement.

[7] Payment claims owed by the government outstanding more than 90 days.

Table 3. Tanzania: Monetary Accounts, 2012–2015
(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2012	2013							2014				2015	
		March	June		Sept		Dec		March	June	Sept	Dec	March	June
		Act.	Prog.[1]	Act.	Prog.[1]	Act.	Prog.[1]	Act.	Prel.	Prog.	Prog.	Prog.	Prog.	Prog.
Bank of Tanzania														
Net foreign assets	5,385	5,856	5,691	5,797	5,840	6,159	6,092	6,187	6,294	6,306	6,455	6,860	7,183	7,361
Net international reserves	5,847	6,312	6,154	6,259	6,306	6,632	6,560	6,656	6,779	6,774	6,935	7,342	7,670	7,836
(Millions of U.S. dollars)	3,720	3,968	3,776	3,905	3,840	4,132	3,976	4,216	4,160	4,174	4,256	4,488	4,670	4,752
Net non-reserve foreign assets	-461	-456	-463	-462	-466	-473	-469	-468	-485	-468	-480	-482	-487	-476
Net domestic assets	-860	-1,141	-764	-879	-688	-1,068	-891	-1,160	-1,180	-622	-592	-862	-989	-904
Credit to government	-196	-581	-350	-268	-450	-489	-577	-500	-494	-13	25	-142	-207	-271
Of which: Excluding counterpart of liquidity paper	723	612	768	1,089	668	673	541	1,000	818	1,299	1,336	1,170	1,105	1,040
Other items (net)	-664	-560	-414	-611	-237	-578	-314	-660	-687	-609	-617	-720	-782	-632
REPOs	0	0	-20	-48	-20	-25	-20	-20	-33	-33	-33	-33	-33	-33
Other items, excluding REPOs (net)	-664	-560	-394	-563	-217	-553	-294	-640	-653	-576	-584	-687	-749	-599
Of which: Credit to nongovernment sector	56	53	51	52	51	52	51	57	58	58	58	58	58	58
Reserve money	4,526	4,716	4,927	4,918	5,152	5,091	5,200	5,028	5,114	5,683	5,862	5,998	6,194	6,457
Currency outside banks	2,415	2,393	2,667	2,611	2,758	2,703	2,843	2,764	2,732	2,786	2,877	2,925	3,003	3,107
Bank reserves	2,111	2,323	2,260	2,307	2,394	2,388	2,357	2,264	2,382	2,897	2,985	3,073	3,192	3,349
Currency in banks	495	415	587	420	607	483	625	561	444	520	537	546	560	580
Deposits	1,616	1,907	1,673	1,887	1,787	1,905	1,732	1,703	1,938	2,377	2,448	2,528	2,631	2,770
Required reserves	1,475	1,489	…	1,574	…	1,605	…	1,649	1,687	2,069	2,131	2,200	2,290	2,411
Excess reserves	140	419	…	313	…	301	…	54	251	308	317	328	341	359
Memorandum items:														
Stock of liquidity paper	919	1,192	1,119	1,357	1,119	1,162	1,119	1,500	1,312	1,312	1,312	1,312	1,312	1,312
Average reserve money	4,685	4,669	4,884	4,898	5,144	5,137	5,192	5,250	5,324	5,629	5,845	5,973	6,158	6,409
Monetary Survey														
Net foreign assets	6,396	6,811	6,739	6,216	6,896	6,692	7,153	6,576	6,602	6,706	6,856	7,263	7,588	7,767
Bank of Tanzania	5,385	5,856	5,691	5,797	5,840	6,159	6,092	6,187	6,294	6,306	6,455	6,860	7,183	7,361
Commercial banks	1,011	955	1,048	419	1,056	533	1,061	389	308	400	401	403	405	406
Net domestic assets	8,251	8,013	8,568	9,025	8,933	9,241	9,163	9,530	9,948	10,752	11,330	11,381	11,726	12,400
Domestic credit	11,030	11,154	11,339	11,786	11,680	12,254	12,098	12,947	13,636	14,001	14,505	15,082	15,644	16,151
Credit to government (net)	2,019	1,818	1,795	2,264	1,795	2,360	1,718	2,555	2,773	2,904	2,998	3,092	3,186	3,280
Credit to nongovernment sector	9,010	9,336	9,544	9,522	9,885	9,894	10,380	10,393	10,863	11,097	11,507	11,990	12,458	12,871
Other items (net)	-2,779	-3,141	-2,771	-2,761	-2,747	-3,013	-2,935	-3,417	-3,689	-3,249	-3,175	-3,702	-3,919	-3,751
M3	14,647	14,823	15,307	15,241	15,828	15,933	16,316	16,107	16,550	17,458	18,186	18,644	19,314	20,167
Foreign currency deposits	3,923	3,892	4,286	3,990	4,432	4,187	4,568	4,216	4,240	4,464	4,641	4,749	4,909	5,116
M2	10,725	10,932	11,021	11,251	11,396	11,746	11,747	11,891	12,310	12,994	13,545	13,895	14,404	15,051
Currency in circulation	2,415	2,393	2,667	2,611	2,758	2,703	2,843	2,764	2,732	2,786	2,877	2,925	3,003	3,107
Deposits (TSh)	8,310	8,539	8,354	8,640	8,639	9,042	8,905	9,127	9,578	10,208	10,668	10,971	11,401	11,943
Memorandum items:	(12-month percent change, unless otherwise indicated)													
M3 growth	12.5	14.0	14.5	14.9	12.3	13.6	10.8	10.0	11.6	14.5	14.1	15.8	16.7	15.5
M3 (as percent of GDP)	35.6	30.7	29.5	27.4	30.6	28.7	31.5	29.0	29.8	31.4	28.7	29.5	30.5	31.9
Private sector credit growth	18.2	21.1	17.4	17.1	15.2	15.3	15.2	15.3	16.4	16.5	16.3	15.4	14.7	16.0
Average reserve money growth	11.0	16.3	14.2	14.5	12.2	12.1	10.8	12.1	14.0	14.9	13.8	13.8	15.7	13.9
Reserve money multiplier (M3/average reserve money)	3.13	3.17	3.13	3.11	3.08	3.10	3.14	3.07	3.11	3.10	3.11	3.12	3.14	3.15
Nonbank financing of the government (net)[2]	27	265	385	401	100	3	227	115	2	153	49	98	147	196
Bank financing of the government (net)[2]	424	222	99	668	0	96	-77	291	510	640	94	188	282	376
Bank and nonbank financing of the government (net)[2]	450	487	484	1069	100	99	150	406	511	793	143	286	429	572

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

[1] From the sixth review under the PSI and the second review under the SCF arrangement.

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

[3] Prior to February 2011, calculated from total deposit liabilities of commercial banks that attract required reserves. The definition of eligible deposits was changed at the end of the SCF and projections under the program are not comparable with actual data.

Table 4. Tanzania: Balance of Payments, 2010/11–2017/18
(Millions of U.S. dollars, unless otherwise indicated)

	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Prog.[3]	Prel.	Prog.[3]	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-2,215	-4,736	-4,319	-4,290	-5,085	-4,992	-5,163	-5,281	-5,536	-5,826
Trade balance	-3,115	-5,047	-5,112	-5,091	-5,717	-6,025	-6,373	-6,690	-7,053	-7,625
Exports, f.o.b.	4,896	5,562	5,888	5,391	6,539	5,516	6,067	6,623	7,257	7,930
Traditional agricultural products	697	785	925	818	1,117	933	1,037	1,111	1,144	1,178
Gold	1,787	2,288	2,206	1,899	2,260	1,688	1,679	1,741	1,829	1,961
Other	2,412	2,489	2,758	2,674	3,163	2,895	3,351	3,771	4,284	4,791
Imports, f.o.b	-8,012	-10,609	-11,000	-10,482	-12,256	-11,541	-12,440	-13,313	-14,310	-15,555
Of which: Oil	-2,155	-3,586	-3,534	-3,923	-3,464	-4,493	-4,404	-4,203	-4,129	-4,057
Services (net)	171	88	316	548	176	781	959	1,123	1,438	1,756
Of which: Travel receipts	1,315	1,431	1,643	1,757	1,831	1,945	2,191	2,397	2,639	2,910
Income (net)	-265	-703	-352	-535	-504	-512	-561	-542	-735	-797
Of which: Interest on public debt	-46	-64	-119	-113	-228	-132	-148	-219	-250	-280
Current transfers (net)	995	926	829	787	960	764	811	828	814	840
Of which: Official transfers	737	625	518	523	589	443	429	438	446	455
Capital account	563	778	730	739	963	690	522	927	780	850
Of which: Project grants[1]	499	715	665	676	893	625	456	860	708	772
Financial account	2,282	3,414	3,913	4,142	4,394	4,570	5,220	4,873	5,310	5,634
Foreign Direct Investment	1,009	1,574	1,721	1,836	2,279	2,074	2,575	2,881	3,303	3,501
Public Sector, net	730	1,092	1,707	1,701	2,016	2,084	1,801	1,507	1,659	1,739
Program loans	267	264	394	365	378	432	284	344	354	386
Non-concessional borrowing	55	505	1,016	920	1,363	1,374	1,138	900	1,091	1,133
Project loans	436	374	434	465	511	369	611	580	637	721
Scheduled amortization[2]	-29	-51	-136	-49	-236	-89	-232	-317	-422	-501
Commercial Banks, net	371	0	-36	377	0	119	129	176	59	59
Other private inflows	172	749	521	229	99	293	715	309	290	335
Errors and omissions	-530	842	0	-134	0	0	0	0	0	0
Overall balance	101	298	324	457	272	268	578	519	554	657
Financing	-101	-298	-324	-457	-272	-268	-578	-520	-554	-657
Change in BoT reserve assets (increase= -)	-128	-275	-436	-569	-268	-268	-519	-450	-484	-587
Use of Fund credit	27	-23	112	112	-3	0	-59	-70	-70	-70
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Gross official reserves (BoT)	3,610	3,797	4,233	4,357	4,501	4,633	5,153	5,603	6,087	6,675
Months of imports of goods and services (current year)	4.3	3.5	3.8	4.1	3.6	3.9	4.0	4.1	4.2	4.2
Exports (percent of GDP)	20.7	21.6	19.4	17.6	19.6	15.9	15.7	15.4	15.4	15.4
Exports excl. gold (percent of GDP)	13.1	12.7	12.2	11.4	12.8	11.0	11.3	11.4	11.5	11.6
Imports (percent of GDP)	-33.8	-41.1	-36.3	-34.3	-36.7	-33.3	-32.2	-31.0	-30.3	-30.2
Imports excl. oil (percent of GDP)	-24.7	-27.2	-24.7	-21.4	-26.3	-20.3	-20.8	-21.2	-21.6	-22.3
Current account deficit (percent of GDP)	-9.4	-18.4	-14.3	-14.0	-15.2	-14.4	-13.4	-12.3	-11.7	-11.3
Foreign program and project assistance (percent of GDP)	8.2	7.7	6.6	6.6	7.1	5.4	4.6	5.2	4.5	4.5
Nominal GDP	23,669	25,805	30,281	30,592	33,426	34,656	38,666	42,993	47,183	51,492

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] An adjustment to the estimated outturn is made by BoT to reflect unreported project grants.
[2] Relief on some projected external debt obligations is being negotiated with a number of creditors.
[3] From the second review under the SCF arrangement.

Table 5. Tanzania: Financial Soundness Indicators, 2010–2014
(percent, end of period)

			2012				2013				2014
	2010	2011	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar[p]
Access to bank lending											
Claims on the non-government sector to GDP [1]	18.0	19.9	17.2	18.1	18.9	18.5	20.5	21.2	21.9	22.5	24.1
Claims on the private sector to GDP [1]	17.2	18.9	16.3	17.0	18.0	17.3	19.3	20.1	21.0	21.4	22.4
Capital adequacy											
Capital to risk-weighted assets	18.5	17.6	18.4	18.0	17.6	17.5	19.5	18.1	18.3	17.9	19.3
Capital to assets	10.7	10.5	11.4	11.1	10.8	10.5	11.4	10.8	10.8	11.0	11.8
Asset composition and quality											
Net loans and advances to total assets	44.2	49.2	50.0	50.4	50.0	49.7	48.6	49.0	49.2	50.8	50.8
Sectoral distribution of loans											
Trade	17.5	20.0	19.5	21.3	20.8	20.9	21.4	21.2	20.3	20.9	20.1
Mining and manufacturing	14.1	12.6	12.3	11.4	11.4	11.9	12.3	12.3	12.3	11.9	11.9
Agricultural production	13.0	13.5	12.7	11.3	12.9	11.2	11.5	11.1	11.1	9.7	10.6
Building and construction	6.1	8.2	8.6	8.9	8.9	9.0	9.1	9.2	9.3	9.4	9.5
Transport and communication	9.2	7.3	7.8	7.1	7.0	6.9	7.3	7.0	7.4	6.8	7.0
Foreign exchange loans to total loans	32.0	33.0	32.8	33.7	33.6	33.5	34.0	34.8	35.6	35.6	36.0
Gross nonperforming loans (NPLs) to gross loans	9.8	6.7	7.5	8.2	7.5	8.1	7.7	8.1	7.1	6.4	8.3
NPLs net of provisions to capital	25.9	18.8	19.1	22.7	20.1	22.5	18.0	19.1	16.8	14.3	18.0
Large exposures to total capital	108.5	141.0	117.6	118.4	113.8	143.7	125.9	139.3	135.9	89.6	129.1
Earnings and profitability											
Return on assets	2.2	2.5	3.0	2.5	2.7	2.6	2.9	2.7	2.6	2.5	3.0
Return on equity	12.1	14.5	17.0	13.4	14.4	13.9	16.0	15.1	13.9	13.1	15.5
Net interest margin	8.5	8.4	9.9	9.6	9.3	…	…	…	…	…	
Noninterest expenses to gross income	54.5	66.7	64.8	67.9	67.0	67.8	63.5	65.4	66.2	66.9	64.7
Personnel expenses to noninterest expenses	40.5	41.6	45.0	43.0	43.0	42.4	45.9	45.5	45.1	43.3	46.6
Liquidity											
Liquid assets to total assets	39.5	36.3	35.1	34.6	34.5	34.0	35.0	34.3	33.3	31.7	32.9
Liquid assets to total short term liabilities	45.3	40.1	39.0	39.3	39.1	38.4	40.2	38.4	37.0	36.3	36.4
Total loans to customer deposits	58.9	65.2	66.8	68.5	68.3	68.6	68.8	67.9	67.7	71.3	71.9
Foreign exchange liabilities to total liabilities	31.9	37.0	33.9	33.6	33.9	34.4	35.2	35.2	35.3	35.0	34.3

Source: Bank of Tanzania

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

[p] Preliminary

Appendix I. Letter of Intent

June 27, 2014

Ms. 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) accompanies Tanzania's request for a new 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 following three 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/	/s/
Saada Mkuya Salum (MP) MINISTER FOR FINANCE UNITED REPUBLIC OF TANZANIA	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 27, 2014

I. MACROECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Macroeconomic Developments and Outlook

Output and Inflation

1. **Growth.** Economic growth remained strong in 2013, at 7.0 percent compared to 6.9 percent recorded in 2012. The sectors displaying the highest growth rates were communications, financial intermediation, construction, wholesale and retail trade, and manufacturing. Overall economic growth is projected at 7.2 percent in 2014. Downside risks remain, associated with the decline in global prices of traditional exports and gold.

2. **Inflation.** During the second half of 2013, headline and core inflation declined continuously, consistent with the tight monetary policy and softening of supply side shocks. Annual headline and core inflation declined from 12.1 percent and 8.9 percent respectively in December 2012 to 5.6 percent and 4.5 percent in December 2013, but picked slightly to 6.1 percent and 4.7 percent in March 2014. Inflation is projected to reach the medium term target of 5 percent by end-2014. Upward risks stem from the increase in power tariffs, which contributed to an uptick in inflation in January 2014; the food supply situation in other EAC/SADC countries; and uncertainty in the MENA countries, which may exert upward pressure on oil prices.

External Sector Developments

3. **Current Account.** The current account recorded a deficit of US$4.7 billion in 2013 compared to a deficit of US$3.5 billion in 2012, mainly driven by the decline in the world market prices of gold and major traditional exports, coupled with higher oil import volumes. Meanwhile, services receipts continued to perform better, supported by high tourist arrivals following a steady increase in recent years. As global economic prospects remain good, exports are expected to maintain moderate increase driven by travel, manufacturing and transportation, whereas import growth is expected to remain subdued on account of the projected decline in the price of oil. Downward risks in the near term stem from the projected decline in gold prices and the continued low price of the major traditional exports, particularly cotton and coffee. The current account balance is projected to record a deficit of 14.5 percent of GDP in FY2013/14 and gradually shrink in subsequent years, as domestic gas powered electricity generation leads to lower demand for imported petroleum products.

Fiscal Performance and Financing in Fiscal Year 2012/13

4. **Fiscal Deficit**. The overall fiscal deficit of the central government amounted to 6.8 percent of GDP. Revenues turned out considerably below budget projections, and fell short of the program target by 0.6 percent of GDP. Income taxes displayed a strong performance, partly explained by enhancement of collection efforts and recovery of tax arrears. Total expenditure was higher than the program target by 0.4 percentage points of GDP. Meanwhile, the stock of domestic unpaid claims (older than 90 days) by the government rose to 1.0 percent of GDP at end-June 2013 from 0.5 percent of GDP the previous year.

5. **Foreign financing.** Net foreign financing disbursements were 0.3 percent of GDP lower than program projections mainly due to shortfall in disbursements of program and non-concessional loans. External non-concessional loan contracting during FY2012/13 was US$2,000 million, of which US$1.2 billion for the gas pipeline and US$600.5 million from international capital markets in a private placement. Cumulatively from July 1, 2010 through June 2013, the Government contracted a total of US$2,614 million.

6. **Domestic Financing.** Net domestic financing of the government budget amounted to TShs 1,069 billion, in excess of the SCF performance criterion at end June 2013 by 1.2 percent of GDP. This was largely used to offset lower revenues (0.7 percent of GDP) and finance additional domestic expenditure (0.4 percent of GDP).

7. **Government debt**. The total public debt stock stood at $14,624.9 million or 47.1 percent of GDP at the end of 2012/13. This amount consists of public external debt of $10,215.9 million, equivalent to 32.9 percent of GDP, and the balance is domestic debt. In present value terms, based on the government's own debt sustainability analysis, the public external debt to GDP ratio at the end of 2012/13 was 19.5 percent, well below the 50 percent threshold used to assess debt sustainability by the IMF and World Bank.

Monetary Policy

8. **Monetary policy stance to date.** Tight monetary policy has helped to bring down inflation. Meanwhile, the exchange rate has remained fairly stable, depreciating by an average of 3.7 percent since December 2012; short term money market rates increased somewhat. Growth of monetary aggregates was broadly in line with the SCF targets for December 2013, with M3 growing at 10.0 percent compared to the projected rate of 10.8 percent and private sector credit at 15.3 percent compared to 15.2 percent projected.

Financial Sector and Capital Account

9. **Financial soundness and development.** In 2013, the banking sector remained profitable and adequately capitalised. Core capital to total risk weighted assets was at 17.6 percent at end-2013, well above the minimum regulatory requirement of 10 percent. Non-performing loans declined to 6.5 per cent at end-2013 from 8.1 per cent at end-2012. Most commercial banks have complied with the new minimum capital requirement of TZS 15 billion (compared with the previous requirement of TZS 5 billion) ahead of the February 2015 deadline. The sector has continued to offer a wide range of products and services in the market, including branchless banking through agent banking, micro-finance and leveraging technological innovations. In addition, in September 2013, the Government launched the Enterprise Growth Market (EGM), which allows small business entities to access capital market.

10. **Portability of pensions.** Implementation of financial sector reforms continues to bear fruit. In August 2013, the Social Security Regulatory Authority (SSRA) issued guidelines on Social Security Schemes, which provide guidance on treatment of members who have been subjected to membership of more than one scheme due to changes in the conditions of employment. This will safeguard the interest of members by protecting their benefit rights acquired through different employment.

11. **East Africa Payment System** (EAPS). Tanzania, Kenya and Uganda have linked their Real Time Gross Settlement Systems to facilitate payments among the EAC countries. The EAPS went live in November 2013 between the three countries above; Rwanda and Burundi will soon join the system. EAPS is expected to enhance trade among member states, by speeding up payments using members' domestic currencies.

12. **Capital account liberalization.** Tanzania has liberalized its capital account to East African Community (EAC) residents to allow freer movement of capital within the region, to facilitate intra EAC trade, financial flows and investments. This achievement is a significant step towards the implementation of the EAC Common Market Protocol. The Government has committed to have full capital account liberalization with the rest of the world by December 2015 in line with the EAC Common Market Protocol.

13. **Anti-Money-Laundering Policies.** Tanzania has implemented the remaining action plan on United Nations Security Council Resolutions (UNSCR) 1267/1373 obligations relating to identification and freezing of terrorist assets. The Prevention of Terrorism Act was amended by Parliament in November 2013. The Prevention of Terrorism Regulations are aligned with the amendments of the parent law and provide for adequate procedures to identify and freeze terrorist assets according to UNSCR 1267/1373.

B. Program Performance Leading to Completion of the final SCF Review

14. **Quantitative performance criteria** (PCs). All quantitative PCs under the Standby Credit Facility (SCF) program for end June 2013 were met, except the ceiling on Net Domestic Financing (NDF) of the Government, which was missed by 1.2 percent of GDP. The cumulative increase in net international reserves (NIR) exceeded the program floor by a good margin. In response to the missed target on the NDF, the government undertook the following actions: (i) instituting revisions to the 2013/14 budget in the context of the mid-year budget review, including downward adjustments to the revenue projections and expenditure cuts of almost 2 percent of GDP to goods and services compared to the initial 2013/14 budget; (ii) obtaining Cabinet approval for the main features of a reform to the VAT regime, which the government will submit to Parliament by June 2014; and (iii) implementing increases in electricity tariffs averaging around 40 percent on January 1, 2014 to improve the financial position of the electricity utility (TANESCO) and to reduce the need for the budget subsidies (Para 35 of this memorandum).

15. **Indicative targets.** Most indicative targets for end-September and December 2013 were met, except for the December 2013 target on average reserve money, which was missed by a small margin, and the September and December 2013 indicative targets on revenues.

16. **Structural benchmark.** Progress was made on the VAT reform, whereby the Government will introduce a new VAT Act to replace the existing one for the purpose of broadening the tax base, reducing exemptions, and modernizing the VAT administration (including through a strengthened mechanism for VAT refunds). The benchmark on submission to parliament by November 2013 was missed. The Cabinet has approved a policy paper outlining the VAT reform, and a draft bill has been shared for comments with stakeholders. The Government is committed to sending the VAT reform bill to parliament during the May/June 2014 session, in time for approval prior to the beginning of the 2014/15 fiscal year.

II. THE ECONOMIC PROGRAM FOR 2014/15 AND THE MEDIUM TERM

17. Over the past decade good progress has been made on MDG indicators. In particular, child mortality and HIV prevalence have declined, while school enrolment increased significantly; and based on the 2011/12 Household Budget Survey the poverty headcount declined from 33.6 percent of the population in 2007 to 28.2 percent in 2011/12. This was made possible by implementing policies and reforms that strengthened macroeconomic stabilization, promoted private sector led growth, and prioritized healthcare, education and poverty reduction. Going forward the Government will continue policies that focus on poverty alleviation by sustaining broad-based growth and by providing sufficient budgetary resources to address the needs of the most vulnerable.. The Government continues to implement the five year growth and poverty reduction strategy (MKUKUTA II, July 2010-June 2015) and the Five Year Development Plan (2011/12-2015/16). As MKUKUTA II approaches its end, the Government is in the initial stages of

developing a successor strategy, and is considering ways of harmonizing MKUKUTA and the Five Year Development Plan so as to have a single guiding framework and to conserve resources.

A. Monetary and Exchange Rate Policies

18. **Monetary policy stance for 2014/15.** To safeguard against upward risks to inflation, the Bank will maintain the current stance in order to reduce second round effects of power tariff adjustment, and remain vigilant to take additional measures in the event that supply shocks resurface. Going forward, average reserve money growth is targeted at 13.9 percent for end June 2015, while M3 is projected to grow by 15.5 percent. This is estimated to give room for growth of private sector credit of 16.0 percent.

19. **Modernizing the monetary policy framework.** In the medium term, the BoT intends to move towards an interest rate based framework. Initial steps will include studying the relationship between excess reserves and short-term interest rates, and understanding and strengthening the transmission mechanism (including through a better-functioning interbank cash market). Ultimately, the BoT will begin to use its daily operations in an effort to maintain the interbank cash market rates within a pre-announced target range. One benefit of these reforms is that it will enable the BoT to send clear signals about the stance of monetary policy to the public and the markets.

20. **Exchange rate.** The flexibility of the exchange rate will be further enhanced to help cushion against adverse external developments. The BoT will participate in the foreign exchange market only for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate. The objective is to attain a minimum level of gross international reserves equivalent to 4 months of imports of goods and services at end-June 2015, in line with the Bank of Tanzania Act.

21. **Banking supervision framework.** The BoT is reviewing various regulations and developing new ones to incorporate developments in the financial sector, requirements of best practice and emerging risks arising from financial innovations. The 2008 regulations have been reviewed, taking into account EAMU harmonization criteria, and a revised version was submitted to the Attorney General's Office on 3rd June 2014. In addition, the consolidated supervision regulations were also submitted to the Attorney General's Office on the same date. Finally, the BoT is in the process of developing new regulations covering different areas including mergers and acquisitions, bank holding companies, and Islamic banking.

B. Fiscal Policies

Developments in 2013/14

22. **Implementation of the 2013/14 budget**. The government remains committed to attaining an overall deficit after grants equivalent to 5.2 percent of GDP in 2013/14. Since the beginning of the fiscal year, the Government has been withholding a portion of the budgetary

allocations, in view of shortfalls in tax revenues and foreign financing. The Cabinet has approved a reduction of expenditures in the context of its mid-year budget review.

23. **Prevention and reduction of arrears**. In an effort to stem the increase in arrears, the Government has continued to take measures, including: (i) identification, verification, and clearance of a significant portion of longstanding domestic arrears; (ii) a halt in the contracting of new multi-year projects solely financed by domestic resources in key ministries; (iii) the establishment of a high-level committee on arrears, involving representatives of the MoF, BoT, Planning Commission, Ministry of Works, and the Accountant General; and (iv) Accounting Officers have been directed to use IFMS generated local purchase orders to avoid awarding unfunded tenders. Preliminary estimates place the outstanding stock of unpaid claims (with duration above 90 days) at TSh1,098 billion at end-March 2013. The Government's objective is not to permit a further net increase in the stock of unpaid claims, and indeed to start reducing it. To that end, an allocation has been included in the budget for 2014/15, with priority to clearing the oldest arrears. In the event that tax revenues exceed the program assumptions (indicative target in Table 1), the overage will be devoted an accelerated net reduction of domestic arrears.

Budget for 2014/15 and Medium-Term Fiscal Policies

24. **Budget for 2014/15**. The Government's fiscal policy in the medium term will continue to foster economic growth and development while ensuring debt sustainability. Fiscal policy in 2014/15 is aimed at ensuring continued deficit reduction, with further gradual reduction envisaged in the coming years. The budget deficit (including grants) for 2014/15 is expected to be 4.9 percent of GDP. Budget preparation takes place against the background of declining budget support grants. A domestic effort to increase revenues is being made through the reform of the VAT and other tax laws, as well as enhanced revenue administration measures, including full application of the tax measures introduced in 2013/14. This creates space for a moderate increase in expenditures as a share of GDP (by comparison to the likely outturn in 2013/14), with a focus on development spending and an allocation for the net reduction of domestic arrears.

25. **Revenues**. Beyond the VAT reform, medium-term efforts to mobilize revenues include: (i) further build-up of staff capacity in specialized sectors (oil and gas, coal, mining, real estates, communications, multinationals & financial services); (ii) enhanced use of Electronic Fiscal Devices; (iii) widening the tax base by bringing more businesses into the formal sector; and (iv) in the context of the review of the Public Finance Act (PFA), reviewing consequential legislations on public corporations, agencies and special funds as pertaining to the collection of non-tax revenues (fees, levies and duties, and ensuing contributions to the consolidated Fund).

26. **Expenditures**. Expenditure policies, consistent with the availability of resources, continue to reflect the priorities embedded in Mkukuta II and the Five Year Development Plan, as well as the Big Results Now initiative, with the overarching objectives of sustaining growth and reducing poverty. These envisage scaling up the implementation of key development projects (e.g., power generation and transmission, agriculture and irrigation, railroads), facilitated by the Government's commitment to using external non-concessional borrowing for infrastructure projects only; and

improvement of critical social services, through targeting a minimum level of priority social spending (indicative target).

C. Public Finance Management

Management of domestic arrears

27. To safeguard the integrity of budget preparation and execution, the Government has continued to establish and verify the stock of arrears, and is developing an arrears liquidation strategy. Payment will be effected through a central budget allocation, after the IAG's verification that the arrears are genuine. Several measures have been taken to prevent further accumulation: (i) revenues have been projected at realistic levels; (ii) budget allocations for projects have been aligned with projected implementation plans; (iii) commitment controls have been strengthened by requiring MDAs to register all commitments in IFMIS, including multi-year contracts, allowances, and utility payments; (iv) efforts to improve cash forecasting and management are underway to ensure that liquidity is available to meet payment obligations as they arise. Under the umbrella of the Public Expenditure Review, with support from East AFRITAC, a survey of payment arrears as of end-March 2014 has begun and is expected to be completed before end-September, with a view to identifying further measures to strengthen the reporting, management, and liquidation strategy of payment arrears.

Public debt management

28. With technical support from the World Bank, East Afritac and the MEFMI, in September 2013, the Government conducted a debt sustainability analysis (DSA), which covers both domestic and external debt. The DSA findings are expected to serve as key inputs for the country's new Public Debt Management (PDM) Strategy that will guide the government borrowing policy going forward. The medium-term debt strategy (MTDS) was also updated in November 2013 with support from a joint IMF-World Bank technical assistance mission. On public debt legislation, the MoF has been working on the revision of the current Loans, Guarantees and Grants Act to incorporate provisions that will insure a greater control of public indebtedness growth, and limit fiscal risks stemming from contingent liabilities. The new Loan, Guarantees and Grants Act, whose draft the Government expects to finalize and submit to Cabinet by 2014/15, will include provisions for a yearly ceiling on the amount of direct public borrowing and a limit on the amount of loan guarantees Government can grant to other public entities such as Public authorities and other bodies (PA&OBs). It will also contain provisions for a greater control by MOF of those projects financed under the Public Private Partnership framework that may have fiscal implications for the Government.

Monitoring and Management of Fiscal Accounts in the Public Sector

29. **Budget documents**. To enhance fiscal transparency, the Ministry of Finance will publish on the Ministry's website the complete 2014/15 budget documents (Volumes II–IV) as submitted and approved by the Parliament by May and August, 2014 respectively. The Ministry will also

publish the 2013/14 Reallocation warrants as passed by the Parliament and the summary 2014/15 "citizens' budget" by August 30th 2014. The MoF will continue to publish these documents annually.

30. **Public enterprise financial statements**. To enhance the availability of information on public enterprises, the annual Treasury Registrar Statements transmitted to Parliament and published will be made more comprehensive by including tabular information on each parastatal's revenues, expenditures, and profits and losses (beginning with the September 2014 statements for the year ended June 30th, 2014)

31. **Guarantees**. The Government continues to compile, and to share with IMF staff, a report of all government guarantees on a semi-annual basis. The report indicates that new guarantees thus far during FY2013/14 amount to about US$ 200 million.

32. **Public Finance Legislation**. The Government is preparing an Amendment to the Public Finance Act to improve management and control of public funds, to ensure compliance with the generally accepted international accounting standards, and to harmonize legislation in this area with other Partner States of the East African Community. A Cabinet Paper for the proposed Amendment will be submitted to Cabinet in June 2014. To complement the Public Finance Act, the Government is preparing a new Budget Act that will strengthen budget formulation, scrutiny, execution, monitoring, controls, transparency, and accountability. The draft bill is expected to be tabled to the Parliament in FY2014/15.

33. **Migration to IPSAS Accrual Accounting**. The Government is committed to comply with the International Public Sector Accounting Standards (IPSAS) on accrual basis of accounting by migrating from IPSAS cash accounting system. Implementation of the five year action plan (2012/2013-2016/2017) is under way, and the Financial Statements for FY2012/13 have been completed.

34. **Program-Based Budgeting**. Efforts are under way to begin planning, authorizing, executing, and monitoring budgetary expenditures in terms of programs, with a focus on outcomes and outputs.

Fiscal Aspects of Energy and Pensions

35. **Power sector**. Significant progress was made toward restoring the financial sustainability of TANESCO (the national utilities company). The independent energy regulator, EWURA, announced an electricity tariff increase by 40 percent on average, effective January 1, 2014. A new tariff structure that periodically adjusts to inflation and changes in oil prices and the exchange rate, also became effective. During the current fiscal year, to clear part of the stock of past arrears, to cover new losses, and to repay existing loans, TANESCO borrowed an amount equivalent to US$250 million commercially (of which about US$84 million in foreign currency) and received a direct budget transfer of TSh124 billion from the World Bank's First Power and Gas Sector DPO approved in the latter part of FY2012/13. An additional US$170 million (financed

by the WB's Second DPO, the African Development Bank, and the government's own resources) is expected to be transferred to TANESCO in the current fiscal year. TANESCO is projected to become profitable starting in 2015, when the costs of power generation are projected to fall with the completion of a new gas pipeline and gas-fueled power plants.

36. **Fiscal framework for managing revenues from natural gas**. With good prospects that favorable exploration outcomes may result in major foreign direct investments in the natural gas sector over the next five years, beginning to generate budget revenue flows around the end of the decade, the Government has already developed a Natural Gas Policy and is committed to further developing a comprehensive policy and legal framework for the management of such resources. In particular, this will comprise a natural gas revenue management framework fully integrated with the budget and underpinned by a Natural Gas Revenue Fund. In this context, the Government will draft a policy on fiscal management of gas revenues (submission to cabinet: structural benchmark for December 2014). The Government will also review the fiscal regime (including tax—notably, the Income Tax Act; production-sharing; and other non-tax instruments) to ensure that it is consistent with major new investments in the sector. The Government intends to enhance transparency in all aspects of managing natural resources, including working to improve disclosure of contracts signed with natural gas companies, consistent with the standards of the Extractive Industries Transparency Initiative.

37. **Pension System**. The Government is considering options for addressing a sizable stock of outstanding liabilities to the Public Service Pension Fund, and to cover future pension obligations to pensioners who accumulated rights under the pre-1999 non-contributory system. To enhance the solvency and efficiency of the pension system more generally, and to harmonize benefits across pension schemes, the following are being explored: (i) revisiting the benefit formulas and contributions rates of all the schemes; (ii) merging the various existing pension schemes into one to improve efficiency of administration and investment; and (iii) improving investment opportunities, while complying with investment guidelines. Approval of the Harmonization Guidelines, containing the proposed reform of benefit structure and parameters for all pension funds, is envisaged by September 2014.

D. Complementary Reforms

Improving business environment in support of private sector development

38. The government agenda of competitiveness aims at, among others, attracting private investment to generate growth and employment. The agenda comprises infrastructure development, institutional and legal reforms, reduction of red tape, improving access of small and medium enterprises to credit with a view to reducing the costs of doing business. In addition, the Government has developed a policy and legal framework to support the PPP model as an option for providing long-term value and reliability to important infrastructure sectors.

39. To address impediments to the private sector development, a new "lab" on improving the business environment has been added to the Big Results Now initiative. The lab has worked on six broad priority areas: 1) realigning regulations and institutions; 2) access to land, security of tenure; 3) taxation, multiplicity of levies and fees; 4) curbing corruption; 5) labor law and skill-set; and 6) contract enforcement, law and order. The lab has recently concluded the preliminary report, which includes number of specific recommendations in each area. These recommendations are currently being carefully evaluated, prioritized and costed for the subsequent submission to the cabinet for approval.

Statistical Issues

40. The Government has made progress in compiling annual fiscal data for 2012/13 in Government Finance Statistics Manual (GFSM) 2001 format and submitted to the IMF for publication on October, 2013. Meanwhile, the compilation of quarterly provisional fiscal outturns in the format is underway. In the medium term the Government will continue to improve data on public sector financial and nonfinancial assets, including valuation and verification of non-financial assets.

41. The annual Survey of Companies with Foreign Liabilities (SCFL) was conducted from June–August 2013 to compile data for 2012. Results revealed that the level of foreign direct investment (FDI) is on the increase, recording inflows of US$1.8 billion in 2012 compared to US$1.3 billion in the preceding year. The FDI data from the survey have already been incorporated in the BOP statement. Preparations are underway to conduct the SCFL to collect FDI data for 2013. The BoT is also in the process of developing a centralised database through the BoT Data Warehouse Project, which will eliminate multiple databases and improve efficiency in statistical compilation. The project is expected to be completed by December 2017.

Program monitoring

42. Implementation of the program will be monitored through semiannual reviews based on assessment criteria (AC), indicative targets (IT) and structural benchmarks. Assessment criteria for end-June 2014, end-December 2014 and end-June 2015, and indicative targets for end-September 2014 and end-March 2015 are set as per Table 1. The first, second and third reviews under the PSI are expected to take place by December 31, 2014,_June 30, 2015, and December 31, 2015 respectively, on the basis of the assessment criteria and structural benchmarks indicated in Tables 1 and 2, attached.

MEFP Table 1. Tanzania: Quantitative Assessment Criteria (AC) and Indicative Targets(IT) Under the Policy Support Instrument, June 2014–June 2015

	June 2014	Sept. 2014	Dec 2014	March 2015	June 2015
	AC	IT	AC	IT	AC
	Proposed	Proposed	Proposed	Proposed	Proposed
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)				
Net domestic financing of the government of Tanzania (cumulative, ceiling) [1, 2]	793	143	286	429	572
Average reserve money (upper bound) [3, 6]	5,685	5,903	6,033	6,219	6,473
Average reserve money target [3, 6]	5,629	5,845	5,973	6,158	6,409
Average reserve money (lower bound) [3, 6]	5,573	5,786	5,913	6,096	6,345
Tax revenues (floor; indicative target)[1]	9,410	2,775	5,550	8,324	11,099
Priority social spending (floor; indicative target)[1]	2,200	600	1,200	1,800	2,400
	(Millions of U.S. dollars; end of period)				
Change in net international reserves of the Bank of Tanzania (floor) [1, 4, 6]	268	82	314	496	578
Accumulation of external payment arrears (continuous AC ceiling)	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (continuous AC ceiling) [5]	2,420	2,420	2,420	2,420	2,420
Memorandum item:					
Foreign program assistance (cumulative grants and loans) [1]	907	384	572	675	713
External nonconcessional borrowing (ENCB) disbursements to the budget [1]	675	225	450	675	900

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

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

[2] To be adjusted upward by up to TSh 300 billion for the U.S. dollar equivalent of a shortfall in the combined total of foreign program assistance and ENCB from the amounts shown in the memorandum item. To be adjusted downward by any ENCB disbursed for budget financing above programmed amount for the year as a whole.

[3] Assessment/performance criteria and indicative targets apply to upper bound only.

[4] 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 TSh 300 billion.

[5] The cumulative ENCB ceiling of US$2,420 million applies from January 1, 2014 through June 30, 2016.

[6] The figure for end-June 2014 is the authorities' projection and is not an AC for the purposes of the first review.

MEFP Table 2: Structural Benchmarks under the Policy Support Instrument

Measure	***Macroeconomic rationale***	***Target date***
Public Finance Management/Fiscal Risks		
Provide an allocation in the 2014/15 budget for centralized clearance of domestic arrears. Any payment from this centralized budget should be backed by a list of verified eligible creditors, in line with the priorities of a repayment strategy	To accelerate clearance of domestic expenditure arrears	June 30, 2014
Prepare and publish a fiscal risk statement or subcomponents of it (e.g., a listing of all PPP projects with their key features and information on government guarantees)	To enhance fiscal risk management	May 30, 2015
Monetary, Financial and Exchange Rate Policies		
Submit the draft regulations on consolidated supervision to Attorney General's Office.	To modernize the BoT's supervisory framework to better supervise consolidated financial firms.	June 30, 2014
Conduct a review of the relationship between the interbank cash market rates and excess reserves of commercial banks as a step to transitioning to a more interest rate-based monetary management framework.	To prepare BoT's gradual shift to a price-based monetary framework.	December 31, 2014

Measure	***Macroeconomic rationale***	***Target date***
Pension System		
Approve pension harmonization guidelines.	To limit contingent liabilities	September 2014
Prepare a plan to address the outstanding and future obligations to pre-1999 pensioners of the PSPF.	To limit contingent liabilities	June 30, 2014
Public Debt Management		
Prepare the first quarterly reports on (i) all external debt contracts signed and guaranteed by government, (ii) borrowing by public enterprises, and (iii) projected debt service on public debt.	To enhance public debt management	September, 2014
Public Enterprise Management		
Treasury Registrar to publish the audited accounts of public enterprises	To improve transparency and accountability of public enterprises	September 30, 2015
Include tabular information on each parastatal's revenues, expenditures, and profits and losses in Treasury Registrar Statements to Parliament (beginning with the September 2014 statements for the year ended June 30th, 2014)	To improve transparency and accountability of public enterprises	September 31, 2014
Managing Natural Resource Wealth		
Prepare a policy paper on natural gas revenue management framework that fully integrates with the budget.	To strengthen fiscal sustainability and improve transparency in the use of natural gas resources	March 31, 2015

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

June 27, 2014

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, 1SRF and 2SRF, as provided by the Bank of Tanzania (BoT) to the IMF, and the government debt tables provided by the Accountant General's office.

II. DEFINITIONS

Net international reserves

3. Net international reserves (NIR) of the BoT are defined as reserve assets minus reserve liabilities. 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 used as collateral or guaranteed for a third party external liability (assets not readily available). The BoT's reserve liabilities include: (i) all short-term foreign exchange liabilities to nonresidents, of original maturities less than one year; and (ii) outstanding purchases and loans from the IMF.

4. 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, 2014 (as recorded in the balance sheet of the BoT).

	US$ per currency unit
British pound	1.6649
Euro	1.3787
Japanese yen	0.0097
Australian dollar	0.9236
Canadian dollar	0.9082
Chinese yuan	0.1608
SDR	1.5456

Reserve money and reserve money band

5. 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.

Net domestic financing of the Government of Tanzania

6. Net domestic financing of the Government of Tanzania (NDF) includes financing of the budget of the central (union) government of Tanzania ("government") by the banking system (BoT and ODCs) and the nonbank public.

7. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of:

(i) loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued for the monetary policy purposes) , minus all government deposits with the BoT.

(ii) all BoT accounts receivable due from the Government of Tanzania that are not included under (i) above;

(iii) loans and advances to the government by other depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other depository corporations; and

(iv) the outstanding stock of domestic debt held outside depository corporations, 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.

8. 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.

Government deposits at the BoT

9. Government deposits at the BoT include 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.

External payment arrears

10. 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. The ceiling on external payment arrears is continuous and applies throughout the year.

Priority social spending

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

Tax revenues

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

Contracting or guaranteeing of external debt on nonconcessional terms

13. 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

14. No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). External debt will be determined on the basis of currency of denomination of the debt. Government external debt is outstanding debt owed or guaranteed by the Government of Tanzania, the Bank of Tanzania, subnational governments, and companies in which the government has at least 50 percent ownership, unless otherwise stipulated.1 The ceiling on contracting and guaranteeing external nonconcessional debt is continuous and applies throughout the year.

[1] Excluded for these purposes, except if the government offers an explicit guarantee on the debt, are: Tanzania Investment Bank; Tanzania Port Authority; Tanzania Petroleum Development Corporation, National Development Corporation; National Housing Corporation; and Tanzania Airport Authority.

15. Government debt is considered nonconcessional if the grant element is lower than 35 percent, computed using a discount rate of 5 percent. This PSI assessment criterion applies not only to debt as defined 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), but also to commitments contracted or guaranteed for which value has not been received.

Foreign program assistance and program exchange rates

16. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance (MoF) 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 as defined in paragraphs 13 and 14.

17. The program exchange rate is TSh/USD1,649.

III. ADJUSTERS

Net international reserves

18. 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 in U.S. dollars (up to a limit equivalent to TSh 300 billion at the program exchange rate).

19. The shortfalls will be calculated relative to projections for foreign program assistance shown in table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices 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..

20. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 17). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

Net domestic financing

21. The end-of-quarter quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfalls in the combined total of foreign program assistance and ENCB financing of the government budget in U.S. dollars (up to a limit of TSh 300 billion).

22. The shortfalls will be calculated relative to projections for foreign program assistance and ENCB financing shown in the Table on "Quantitative Assessment Criteria and Indicative Targets under the PSI" attached to the MEFP. For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in for the gas pipeline. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 17). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

23. The limits referred to in the previous paragraph will be adjusted downward for any ENCB financing of the government budget in excess of the amount programmed for the year as a whole, indicated in the table referred to in the previous paragraph.

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 trough 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	BoT	Monthly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
survey (2SRF and the DCS).			
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	MoF	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.[1]	BoT and MoF	Monthly	4 weeks
Amount of payment claims outstanding of more than 30 days, 60 days, and 90 days for all government ministries. For each ministry, total claims outstanding to be divided into: (i) unverified claims; and (ii) claims verified but not yet paid.	MoF/AGD	Quarterly	4 weeks
The flash report on revenues and expenditures.	MoF/AGD	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report.[1]	MoF	Monthly	4 weeks
Monthly report on central government operations.	MoF	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid.	MoF	Monthly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
Detailed central government account of disbursed donor project support grants and loans.	MoF	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.	MoF	Quarterly	4 weeks
Report on priority social spending	MoF	Quarterly	6 weeks

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

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FOR IMMEDIATE RELEASE
July16, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year Policy Support Instrument for Tanzania

The Executive Board of the International Monetary Fund (IMF) today approved a new three-year Policy Support Instrument (PSI) for Tanzania.[1] The IMF recently concluded the final review of the country's economic performance under a Standby Credit Facility (SCF) arrangement (See Press Release 14/182), together with the Article IV consultation with Tanzania on April 25, 2014 (See Press Release No. 14/227). The SCF expired on April 30, 2014.

The PSI for Tanzania aims to support the authorities' medium-term objectives. These include: the maintenance of macroeconomic stability, the preservation of debt sustainability, and the promotion of more equitable growth and job creation.

Following the Executive Board discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"Tanzania is expected to sustain its recent positive macroeconomic performance over the medium term, leading to a gradual reduction relative to Gross Domestic Product (GDP) of its still large current account deficit. This positive outlook is predicated in part on the authorities' intention to undertake further reforms to improve the investment climate and diversify the economic base.

"The current budget appropriately targets a smaller deficit than in the previous fiscal year. Going forward, the authorities will need to continue the fiscal adjustment underway while opening up room for badly needed spending on infrastructure and social services. Steps to mobilize additional revenues and improve public financial management, including by addressing domestic arrears, will be critical, in this regard. Although Tanzania remains at a low risk of debt distress, fiscal risks, including those arising from public enterprises and social security funds, need to be better monitored and managed.

[1] The PSI is an instrument of the IMF designed for low-income countries that may not need balance of payments financial support but seek to maintain a close policy dialogue with the IMF through the IMF's endorsement and assessment of their economic and financial policies. The PSI, once approved by the IMF's Executive Board, signals to donors, multilateral development banks, and markets, the strength of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm).

"Tanzania stands to benefit from potential revenues from offshore extraction of natural gas, likely to start in the early 2020s. In approving the PSI, the IMF Executive Board stressed the need for a comprehensive framework to manage natural resource wealth. Such a framework should ensure full integration of resource revenues in the budget, and institutionalize the transparency and accountability of spending decisions.

"The authorities failed to provide accurate information to the Fund with respect to the accumulation of new external arrears by the government within the context of completion of several reviews under the recent PSI. The inaccurate reporting of arrears data, associated with a government-guaranteed lease contract with a public enterprise, also gave rise to a non-complying disbursement under the SCF arrangement. However, in light of the corrective measures taken by the authorities to improve external debt management, the Executive Board maintained its overall positive assessment of Tanzania's program performance under the recent PSI and granted a waiver of non-observance of the performance criterion that gave rise to the non-complying disbursement under the SCF."

ANNEX

Recent economic developments

Tanzania has enjoyed strong and stable real GDP growth, projected at 7 percent in 2014 and in the medium term. Inflation is at 6 percent, projected to gradually converge to the authorities' 5 percent medium-term objective. The external current account deficit remains among the largest in the region, at 14 percent of GDP this year. The overall fiscal deficit in 2014/15 is projected at 4.9 percent of GDP. Based on the debt sustainability analysis, Tanzania remains at low risk of debt distress.

In the long term, the macroeconomic outlook remains favorable, based on the projected completion of a natural gas pipeline and adequate natural gas-fired power plants in 2014/15. The availability of cheaper energy is expected to benefit economic growth and the current account. Nevertheless, with continued strong domestic demand and sizable foreign direct investment, the current account deficit is projected above 10 percent of GDP in the medium term. Tanzania will need to maintain strong policies that preserve fiscal sustainability and deliver low, stable inflation, and undertake growth-enhancing structural reforms aimed at improving the business environment and the diversification of the export base.

Program Summary

Building on the achievements under the previous Fund-supported programs, Tanzania's new PSI will support the authorities' program to promote sustainable, broad-based high growth, price stability and poverty reduction. In the fiscal area, the focus will be on strengthening public finance management practices to improve efficiency and transparency of public spending, and on further broadening of the tax base, to mobilize revenues and reduce aid dependence. In addition, the PSI aims to strengthen the framework for monitoring and managing fiscal risks. Through these efforts, the program aims to provide the fiscal space to allow for infrastructure and priority social spending. The authorities have identified infrastructure, education, health, and essential social services as priority spending areas to foster inclusive growth. The program will support the authorities' efforts to ensure that potential revenues from offshore natural gas—which are likely to accrue in the 2020s—benefit all Tanzanians.

The Bank of Tanzania (BoT) will maintain the current prudent monetary policy stance in order to preserve inflation in mid-single digits. The intended modernization of the policy framework envisages a gradual move toward the use of interest rates as the main policy tool. This is expected to strengthen the BoT's ability to communicate with markets and to preserve price and financial stability. The program will also support reforms to the financial stability framework to ensure it keeps pace with rapid development in the sector, driven by the increasing sophistication of financial institutions, regional financial integration, and technological innovations such as mobile banking.

Tanzania: Selected Economic and Financial Indicators, 2010/11–2017/18

	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual percentage change (unless otherwise indicated)									
National income and prices										
Nominal GDP (in billions of TSh)	34,913	41,125	48,264	48,348	55,228	55,559	63,263	71,718	80,801	90,810
Real GDP growth (calendar year)[2]	6.4	6.9	7.0	7.0	7.2	7.2	7.0	7.1	7.0	6.8
Real GDP growth	6.7	6.7	7.0	6.9	7.1	7.1	7.1	7.1	7.0	6.9
Consumer prices (period average)	7.0	17.8	11.6	11.3	7.2	6.1	5.1	5.0	5.0	5.0
Consumer prices (end of period)	10.9	17.4	9.5	7.6	6.0	5.7	5.0	5.0	5.0	5.0
GDP deflator (period average)	8.1	10.3	…	10.0	…	7.4	6.3	5.9	5.3	5.1
External sector										
Exports, f.o.b (in billions of U.S. dollars)	4.9	5.6	5.9	5.4	6.5	5.5	6.1	6.6	7.3	7.9
Imports, f.o.b. (in billions of U.S. dollars)	8.0	10.6	11.0	10.5	12.3	11.5	12.4	13.3	14.3	15.6
Export volume	10.9	8.9	2.0	-2.2	12.6	9.6	12.7	10.7	10.6	9.1
Import volume	6.2	28.8	3.2	-2.0	10.2	10.1	9.1	8.7	8.0	8.9
Terms of trade	1.2	1.6	3.4	-1.5	-2.5	-6.9	-1.3	0.2	-0.5	0.3
Nominal effective exchange rate (end of period; depreciation= -)[3]	-17.7	6.4	0.6	1.2	…	…	…	…	…	…
Real effective exchange rate (end of period; depreciation= -)[3]	-13.7	21.5	6.0	6.1	…	…	…	…	…	…
Money and credit										
Broad money (M3)	22.0	10.9	14.5	14.9	13.0	14.5	15.5	14.8	14.1	13.8
Average reserve money	19.3	14.2	15.7	14.5	11.9	14.9	13.9	13.4	12.7	12.4
Credit to nongovernment sector	24.3	18.6	17.4	17.1	13.9	16.5	16.0	14.8	13.9	13.9
Velocity of money (GDP/M3; average)	3.2	3.2	3.3	3.3	3.4	3.4	3.3	3.3	3.3	3.2
Treasury bill interest rate (in percent; end of period)	4.8	13.8	…	13.9	…	…	…	…	…	…
	(Percent of GDP)									
Public Finance										
Revenue (excluding grants)	16.4	17.6	18.1	17.5	19.9	18.4	19.4	19.7	19.9	20.1
Total grants	4.7	4.5	3.7	3.6	4.2	3.3	2.3	3.5	3.0	3.0
Expenditure	27.0	26.2	27.6	28.0	29.1	26.9	26.7	27.2	26.9	27.2
Overall balance (excluding grants)[4]	-11.4	-8.6	-9.5	-10.5	-9.2	-8.5	-7.2	-7.5	-7.0	-7.0
Overall balance (including grants)[4]	-6.6	-5.0	-5.8	-6.8	-5.0	-5.2	-4.9	-4.0	-4.0	-4.0
Domestic financing (excluding gas pipeline financing)	3.6	0.7	1.0	2.2	1.0	1.4	0.9	0.5	0.7	0.7
Domestic debt stock (end of period)[5]	9.6	11.1	10.4	11.6	10.1	10.5	10.1	9.4	9.1	8.7
Total public debt[5,6]	39.4	39.8	41.6	40.8	43.3	41.5	42.7	42.2	42.5	42.6
Savings and investment										
Resource gap (net exports of goods and services)	-15.3	-17.6	-16.7	-15.6	-15.6	-14.8	-14.0	-12.9	-12.0	-11.4
Investment	34.5	35.5	39.2	34.4	38.3	33.4	32.1	31.5	31.5	31.6
Government	8.5	8.8	9.1	8.6	8.9	8.4	8.6	9.0	9.6	10.2
Nongovernment[7]	26.0	26.8	30.2	25.8	29.4	25.0	23.6	22.4	22.0	21.5
Gross domestic savings	19.3	18.0	22.6	18.8	22.7	18.6	18.2	18.6	19.5	20.2
External sector										
Current account balance (excluding current transfers)	-12.5	-20.8	-16.0	-15.7	-17.0	-15.7	-14.5	-13.3	-12.7	-12.2
Current account balance (including current transfers)	-9.4	-18.4	-14.3	-14.0	-15.2	-14.4	-13.4	-12.3	-11.7	-11.3
	(Billions of U.S. dollars, unless otherwise indicated)									
Balance of payments										
Current account balance (excluding current transfers; deficit= -)	-3.0	-5.4	-4.8	-4.8	-5.7	-5.4	-5.6	-5.7	-6.0	-6.3
Gross official reserves (end of period)	3.6	3.8	4.2	4.4	4.5	4.6	5.2	5.6	6.1	6.7
In months of imports of goods and services (current year)	4.3	3.5	3.8	4.1	3.6	3.9	4.0	4.1	4.2	4.2
Total external debt stock (end of period; percent of GDP)[7]	33.1	34.4	35.0	35.7	36.8	36.8	37.9	37.6	37.8	37.9
Exchange rate (period average, T Sh per U.S. dollar)	1,475	1,594		1,580		1,603	1,636	1,668		
Exchange rate (eop, T Sh per U.S. dollar)	1,572	1,569		1,603		1,623	1,649	1,687		

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] From the second review under the SCF arrangement.

[2] E.g. Calendar year corresponding to 2012/13 is 2013.

[3] The figure for 2012/13 reflects the change from July 2012 through June 2013.

[4] Actual and preliminary data include adjustment to cash basis.

[5] Net of Treasury bills issued for liquidity management.

[7] Including change in stocks.