June 2005
IMF Country Report No. 05/181

United Republic of Tanzania: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criterion and Modification of Performance Criteria—Staff Report; Press Release; and Statement by the Executive Director for the United Republic of Tanzania

In the context of the third review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of performance criterion and modification of performance criteria with the United Republic of Tanzania, the following documents have been released and are included in this package:

- the staff report for the third review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of performance criterion and modification of performance criteria prepared by a staff team of the IMF, following discussions that ended on November 18, 2004, 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 February 10, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board as expressed during the February 23, 2005 discussion of the staff report that completed the review and requests.

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

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

Letter of Intent sent to the IMF by the authorities of the United Republic of Tanzania*
Memorandum of Economic and Financial Policies by the authorities of the United Republic of Tanzania*
*May also be included in Staff Report

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

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Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criterion and Modification of Performance Criteria

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Monetary and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by David Nellor and Michael T. Hadjimichael

February 10, 2005

- **Discussions for the third review under the Poverty Reduction and Growth Facility (PRGF) were held in Dar es Salaam during November 3-18, 2004** by a staff team comprising Messrs. Sharer (head), Treichel, Dohlman (all AFR), Verhoeven (FAD), Ms. Reif (PDR), and Mr. Abdi (Senior Resident Representative). The mission met with the Minister for Finance (Mr. Mramba), the Permanent Secretaries for Finance (Mr. Mgonja and Mr. Lyimo), the Governor of the Bank of Tanzania (BoT) (Mr. Ballali), other senior government officials, and representatives of the business, banking, and donor communities. At the end of its stay, the mission was received by President Mkapa.

- **The program remains on track, with all end-June indicative targets and most end-September quantitative performance criteria and indicative targets met (Appendix I, Tables 1-3).** Net domestic financing of the government has remained below the program targets consistent with continued strong fiscal performance. The end-September reserve money target (performance criterion) was met, but targets for net international reserves (performance criterion) and net domestic assets (indicative target) were missed mainly as a result of larger-than-projected foreign payments. The end-September structural benchmark on promulgating implementing regulations for the new Income Tax Act was met with a slight delay to allow additional time for stakeholder review.

- **Completion of this third review will entitle Tanzania to a disbursement of SDR 2.8 million (Table 1).** The government's letter of intent (LOI) relating to this review is presented in Appendix I. Other appendices summarize Tanzania's relations with the Fund and the World Bank Group and outline statistical issues. Tanzania's three-year PRGF arrangement was approved on July 28, 2003, but in effect since August 16, 2003, in the amount of SDR 19.6 million (10 percent of quota).

- **At the completion of the second review under the PRGF arrangement and discussions on the 2004 Article IV consultation on August 6, 2004, Executive Directors commended the authorities for the satisfactory implementation of the program** and for significant progress in macroeconomic stabilization and structural reform resulting in higher growth, low inflation, a stronger external position, and reduced poverty. Directors agreed that medium-term prospects were favorable and stressed the importance of translating high growth into further poverty reduction. While commending the authorities for improved revenue performance, they expressed some concern about the budget process, notably the comprehensiveness of the Public Expenditure Review. They stressed that structural reforms, particularly in energy, the financial sector, and governance, should be intensified to promote private sector development and strengthen competitiveness.

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List of Acronyms

BEST	Business Environment Strengthening in Tanzania
BFIA	Banking and Financial Institutions Act
BoT	Bank of Tanzania
CAS	Country Assistance Strategy
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
DFGF	Development Finance Guarantee Facility
EAC	East African Community
EPZ	Export Processing Zone
FSAP	Financial Sector Assessment Program
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
IAS	International Accounting Standards
IFMS	Integrated Financial Management System
ISA	International Standards on Auditing
IRT	Investors' Roundtable
ITRS	International Exchange Transactions Reporting System
LGA	Local Government Authorities
LOI	Letter of Intent
LTD	Large Taxpayer Department
MDA	Ministries, Departments, and Agencies
MEFP	Memorandum of Economic and Financial Policies
MTEF	Medium-Term Expenditure Framework
NBS	National Bureau of Statistics
NGO	Non-Government Organization
NMB	National Microfinance Bank
NSGRP	National Strategy for Growth and Reduction of Poverty
PFMRP	Public Financial Management Reform Program
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Plan
PSRP	Public Service Reform Program
ROSC	Report on Observance of Standards and Codes
SADC	Southern African Development Community
TANESCO	Tanzania Electric Supply Company
TASAF	Tanzania Social Action Fund
TJAS	Tanzania Joint Assistance Strategy
TRA	Tanzania Revenue Authority
VAT	Value-Added Tax

Executive Summary

- **Tanzania's macroeconomic performance has remained strong.** Real growth rose to 6.3 percent in 2004, with annual inflation below 5 percent. However, given its low economic base and capacity constraints, Tanzania will need to sustain high growth, low inflation, and a steady pace of structural reforms for many years to come in order to reduce poverty significantly.

- **Program objectives for the remainder of 2004/05 are fully achievable**, but modest risks remain, particularly the vulnerability of the economy to unpredictable rainfall and pressures for more direct intervention by the government to address poverty alleviation, particularly in the run-up to the October 2005 elections. Tanzania is also subject to terms of trade shocks (e.g., agricultural products) which can have magnified effects on the poor.

- **Tanzania's fiscal strategy remains focused on enhancing domestic resource mobilization and the quality of spending to support its poverty reduction goals.** The authorities are pushing ahead with significant reforms of revenue administration, budget transparency and accountability, and public expenditure management. The program for 2004/05 allows for higher spending in priority areas and for higher investment.

- **The principal challenge for monetary policy continues to be liquidity management in the face of high foreign aid inflows to the budget**. The BoT has consistently met liquidity targets, but with some difficulties, including pressure on interest and exchange rates.

- **A comprehensive financial sector action plan, tied to the Financial Sector Assessment Program (FSAP) recommendations, is nearing completion** and has been well received by stakeholders. It focuses on key structural impediments in the financial sector, which has grown rapidly in recent years but still plays a relatively small role in the economy. The strengthening of central bank autonomy and bank supervision (key measures to ring-fence progress leading up to the elections) are already well advanced. The authorities intend to implement their new Development Finance Guarantee Facility (DFGF) with strong governance and appropriate risk-sharing.

- **The authorities are finalizing the National Strategy for Growth and Reduction of Poverty (NSGRP), their second poverty reduction strategy paper**. It adopts an outcome-oriented approach (e.g., growth and income poverty reduction) and addresses such key issues as a lack of access to credit, structural impediments to agriculture and exports, and poor infrastructure.

- **The staff supports the authorities' requests** for a waiver for the nonobservance of the end-September performance criterion on net international reserves due to the temporary one-off nature of the shortfall and continued adequacy of reserves, for a modification of structural performance criteria related to amendments of banking laws, and for completion of the third review under the current PRGF arrangement.

I. Recent Economic Developments and Performance Under the Program

1. **Tanzania's macroeconomic performance in 2004 continued to evolve broadly in line with the program (Table 2).** Real gross domestic product (GDP) growth is estimated at 6.3 percent, driven by a recovery in agriculture and strong growth in construction, manufacturing, mining, and tourism. Annual inflation is below 5 percent, in line with program projections (Figure 1 and Table 2),[1] despite higher utility prices and petroleum price increases.

2. **Tanzania has sustained the strong fiscal performance that has characterized its adjustment efforts in recent years (Tables 3 and 4).** The 2003/04 (fiscal year ending June) outturn was broadly as envisaged at the time of the second review (Country Report No. 04/285), with lower expenditures offsetting shortfalls in foreign program assistance.[2] For the first quarter of 2004/05, continued vigorous efforts by the Tanzania Revenue Authority (TRA) to implement its ongoing reform program, notably to intensify audits and reduce tax evasion, generated revenues that were 9 percent above program expectations. Aggregate expenditure was in line with program projections, notwithstanding an unexpectedly large check float of 2003/04 expenditures into 2004/05, as spending on nonpriority goods and services was restrained to offset the impact on the financing requirement. In aggregate, the end-September performance criterion on net domestic financing was observed by a small margin.

3. **Tanzania's 2003/04 actual current account deficit was slightly larger than envisaged at the time of the second program review,** because of slightly higher than estimated imports and some disbursement delays in the last quarter. For the first quarter of 2004/05, oil imports were somewhat lower than projected because the installation of flow meters at customs caused a temporary disruption. Exports performed robustly, with a modest recovery of traditional exports and continued strong growth in the nontraditional sector, including gold and tourism. Aid inflows were slightly below expectations (Tables 7 and 8). The East African Community (EAC) customs union protocol established a common tariff regime, and progressive elimination of all tariffs on trade within the EAC was initiated on January 1, 2005.[3]

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[1] In September 2004, the National Bureau of Statistics adopted revised consumer price index weights based on the 2000/01 household budget survey. Key changes included a reduction in the weight for food from 71 percent to 56 percent.

[2] This reflects a check float equivalent to 1.1 percent of GDP.

[3] Tanzania and Uganda will take up to five years to fully phase out tariffs on goods from Kenya. The EAC customs union has three external tariff bands: 0, 10, and 25 percent. Tanzania's average tariff rate is expected to fall by about 2 percentage points to 12.5 percent.

4. **The Tanzania shilling (T Sh) appreciated against the U.S. dollar, from T Sh 1,107 at end-June to T Sh 1,043 by end-December 2004 (Figure 2).** In real terms, the exchange rate remained broadly in line with its real equilibrium level.[4] Export competitiveness continues to be hampered by structural factors, particularly poor infrastructure.

5. **Thus far in 2004/05, monetary policy has been consistent with the program goals (Tables 5 and 6), amid significant challenges for liquidity management.** M3 growth (12-month) through September accelerated somewhat over the same period last year, but remained slightly below projections owing to lower-than-expected deposit growth. Substantial expansionary pressures on reserve money continued, mainly emanating from the high level of donor inflows of 11.8 percent of GDP in 2003/04. The BoT met the end-September ceiling on reserve money by squeezing liquidity toward the end of the quarter through stepped-up sales of government paper, higher-than-projected sales of foreign exchange, and other measures (such as repos). On account of increased sterilization operations, as well as continued strong private sector credit demand, interest rates on 91-day treasury bills rose to 10.1 percent by end-September from 7.7 percent at end-June.

6. **The end-September performance criterion on net international reserves was not observed,[5] although the shortfall was largely temporary and Tanzania's official reserve position remained strong.** The $174 million (10 percent) shortfall in net international reserves occurred mainly as a result of larger-than-projected one-off external payments by the government[6] and higher-than-programmed foreign exchange sales.

7. **The pace of core structural reforms accelerated in the areas of tax policy and administration and the financial sector.** On the fiscal side, the implementing regulations for the new Income Tax Act, which include limits on the Minister of Finance's discretionary authority to grant exemptions, were promulgated (structural benchmark), albeit with a brief delay. The TRA continued to expand coverage in the Large Taxpayer Department (LTD) and to improve audit procedures. Within customs, a new plan to modernize the administration has been initiated with initial reforms focusing on protection of the revenue base and trade facilitation (such as shortening clearance times). Separately, the new Public Procurement

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[4] See Selected Issues Papers (Country Report No. 04/284) for a discussion of the real exchange rate equilibrium level.

[5] Consequently, the benchmark on net domestic assets was also missed.

[6] These include BoT payments for construction of its expanded headquarters and a government buydown of debt on behalf of TANESCO which resulted in significant cuts in TANESCO's operating costs.

Act, approved in November 2004, is expected to improve efficiency by decentralizing procurement and establishing the Public Procurement Regulatory Authority.

8. **The authorities' draft financial sector reform implementation plan, linked to the FSAP agenda, was presented at** a December 2004 workshop (and was well received by stakeholders). The plan focuses on key structural impediments in the financial sector, which has grown rapidly in recent years but still has a relatively small role in the economy. Some elements of the plan are already being implemented. Preparations to partially privatize the National Microfinance Bank (NMB) by mid-2005 remain on track, with final bid instructions issued in January 2005 (a structural performance criterion).[7] In addition, the draft amendments to the BoT Act and the Banking and Financial Institutions Act (BFIA)—to provide greater central bank autonomy and accountability and to modernize the financial sector regulatory framework—have been prepared and have been submitted to stakeholders for review.[8]

9. **The authorities also made progress in other priority areas of structural reform, including in the energy sector and the business environment.** In the energy sector, the TANESCO expatriate management team's contract was extended through 2006, which is expected to further improve the utility's financial performance and prepare it for privatization. The gas-powered Songo Songo electricity plant came online in September, supplying cheaper, more reliable power. However, critically low water levels in dams have reduced hydropower output, and the power distribution network is weak. Thus, action to improve the performance of the sector remains critical.[9] Separately, in the context of their program for Business Environment Strengthening for Tanzania, the authorities have prepared draft legislation to simplify the business licensing process.

II. Report on the Discussions

10. The discussions centered mainly on (i) the authorities' efforts to accelerate economic growth, employment, and poverty reduction; (ii) prospects for meeting fiscal targets for

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[7] NMB has the largest number of branches of any commercial bank in Tanzania and is one of the largest in terms of assets. Its most actively growing loan product is loans to micro- and small-enterprises, though salary loans (consumer, school fees, other business) remains its largest loan category.

[8] During the December workshop, there was an active discussion on the pros and cons of reinstituting development banks in Tanzania.

[9] The Investors' Roundtable—which has been a major forum for dialogue with the business community—has identified high cost and unreliable energy as an important impediment to investment.

2004/05 and beyond and progress on tax and expenditure reforms; (iii) monetary policy and liquidity management in the context of large aid inflows; and (iv) progress in financial sector and other structural reforms (including credit guarantees).

A. Macroeconomic Outlook and Poverty Reduction Strategy

11. **The program projections for real GDP growth in Tanzania of 6.3 percent in 2004 and 6.5 percent for 2005 remain appropriate**, provided that rainfall is normal and energy sector problems are managed effectively.[10] Assuming no significant changes in the outlook for food and oil prices, the authorities' goal of containing annual inflation to 4.0 percent also appears attainable.

12. **The authorities remain focused on accelerating growth and reducing poverty, particularly in rural areas.** They agreed that the progress of recent years remains fragile, with many challenges remaining, and that meeting the Millennium Development Goals (Table 11) and making other deep and comprehensive inroads against poverty will require continued macroeconomic stability and steady implementation of ambitious structural reforms over the long term. Such efforts would merit the continued strong support of the donor community, which will be critical to Tanzania's adjustment efforts for many years.[11]

13. **In this context, the authorities are finalizing their second poverty reduction strategy paper, the five-year NSGRP.** The draft strategy adopts an outcome-based approach (in contrast to the priority sector spending approach under the first PRSP) in three major areas: (i) growth and reduction of income poverty, (ii) improved quality of life and social well-being, and (iii) good governance and accountability. Some of the specific constraints to growth and poverty reduction targeted in the NSGRP are poor infrastructure, limited access to credit, structural impediments to agriculture and exports (such as inefficient crop boards, cumbersome business licensing requirements, substandard technology, and local nuisance taxes), and generally low productivity and capacity constraints. The draft strategy envisages the private sector as the engine of growth. It utilizes a macroeconomic framework that is broadly consistent with the PRGF and is expected to go to cabinet for approval in February and thereafter to parliament. The staff viewed the draft NSGRP as an impressive and ambitious effort and suggested that it could be further enhanced in areas such as costing

[10] Past droughts have reduced hydropower output and hurt agricultural production, with negative implications for growth and, to a lesser extent, the budget (emergency food purchases and energy subsidies) and the balance of payments.

[11] Tanzania is projected to receive net foreign inflows to the budget equivalent to 10.8 percent of GDP in 2004/05. Preliminary estimates in the draft NSGRP and also by the UN Millennium Project (www.unmillenniumproject.org) suggest that significant increases in donor inflows going forward will be necessary to achieve Tanzania's goals. Effective use of higher donor inflows will probably require further improvements in absorptive capacity.

and prioritization. The authorities indicated that they plan to address costing and prioritization in preparing annual budgets and the Medium-Term Expenditure Framework (MTEF).

14. **The authorities expressed their resolve at the highest levels to maintain steady, prudent policies leading up to the October 2005 presidential and parliamentary elections.** In this context, they provided an update on their efforts to ring-fence reforms, including by: (i) submitting amendments to the BoT Act and the BFIA to parliament following consultations with stakeholders, and (ii) reviewing the Public Finance Act and regulations—with FAD technical support—to make them consistent with the new Public Procurement Act and other recent reforms.

B. Fiscal Policy

15. **The goals of the authorities' fiscal strategy are to enhance domestic resource mobilization and improve the quality, monitorability, and efficiency of spending to support Tanzania's growth and poverty reduction strategy.** Consistent with these overall objectives, the program for 2004/05 allows for higher spending in priority areas and investment and one-off current spending for energy sector reform, replenishment of the strategic grain reserve, and national elections. This spending will be financed by higher domestic revenues, additional donor resources, and a modest increase in domestic financing (Table 3). The latter was considered appropriate in light of the government's comfortable debt position, the manageable macroeconomic impact, and the fact that net domestic financing in the previous two years was significantly below program limits, resulting in a buildup of government deposits with the BoT.

16. **The staff agreed with the authorities that the 2004/05 program target for budgetary revenues of 13.5 percent of GDP would be exceeded.** The initial program projections were cautious because of the uncertain yield of the tax administration reforms that continue to underpin efforts to increase revenues. The sharp and broad-based increase in first-quarter revenues (which were 25.4 percent above the first quarter outturn of the previous year), continued buoyant economic activity, and the acceleration of tax and customs administration reforms point to an increase in the program target for revenues to about 14 percent of GDP, compared with 12.9 percent of GDP in 2003/04. In the absence of a need to adjust their programmed fiscal stance, the authorities and the staff agreed that the additional revenues would be used to relax the tight constraint on spending in nonpriority sectors, including building rehabilitation and transportation.[12] Thus, domestic financing remains at 1.3 percent of GDP. The program estimate for net foreign financing (including grants) is unchanged at 10.8 percent of GDP, but with higher grants in lieu of concessional loans.

[12] As noted in Country Report No. 04/285, it was agreed at the outset of the 2004/05 program that any additional revenues would be allocated in this manner.

17. **The staff's tentative outlook for 2005/06 and the medium term is positive, but the need for consistent, prudent fiscal policy remains.** The 2005/06 budget will be relieved from this year's one-off spending obligations, donor inflows seem likely to be at least as high as in 2004/05, and domestic revenues should remain buoyant. With this favorable economic outlook, the staff noted there may be scope for correcting for tax distortions and lowering selected tax rates to boost the supply response of the economy without interrupting the upward trend in revenue. The government noted strong pressures to reduce the 20 percent value-added tax (VAT) rate to levels prevailing in EAC partner countries, particularly in the run-up to the elections. The staff cautioned against any significant reduction in the VAT, which would be costly and have a relatively limited impact on Tanzania's business climate. The authorities committed to hold the line on imprudent tax cuts and sustain the revenue mobilization effort.

18. **The authorities are pushing ahead with revenue administration reforms.** The staff and the authorities concurred that sustained revenue growth through broadening the tax base and improving tax policy administration and efficiency was central to the authorities' medium-term adjustment strategy and to eventually reducing reliance on donor financing. Major success has been achieved in this area, particularly during the past two years, reflecting strong political commitment, excellent implementation efforts by the TRA, and coordinated technical assistance from the Fund, the Bank, and Tanzania's major bilateral donors (Box 1). But the ratio of revenue to GDP is still low by regional standards, and more needs to be done. The immediate priorities are: (i) further expanding the coverage of the LTD to at least 250 companies by end-June 2005 (structural benchmark); (ii) continuing the reorganization of TRA along functional lines; (iii) improving the efficiency of TRA operations; (iv) completing the quality assurance review of customs reforms by end-June 2005 (structural benchmark); (v) introducing risk management tools in customs; (vi) reducing import shipment release times; and (vii) improving overall controls on custom revenues.

19. **The authorities agreed that exemptions and excessive investment incentives have, in the past, eroded the tax base and need to be contained, even though they recognize them as useful for promoting investment in appropriate circumstances**. The staff and the authorities agreed that administrative controls on exemptions should be maintained, including the continued publication of the list of tax exemption beneficiaries under the Treasury Voucher scheme (quarterly structural benchmark). The government intends to submit to parliament amendments to the Tanzania Investment Act by end-February 2005, including a limit of five years on the applicability of fiscal stability clauses under the Act (structural benchmark). These amendments would put a maximum time limit on investor exemptions from any revisions to the tax code that would result in higher tax obligations to

Box 1. Tanzania—Achievements in Reform of Revenue Mobilization

The recent improvement in Tanzania's tax performance stems from improvements in both revenue policy and tax administration. Tax revenue increased by 1.6 percent of GDP between 1999/00 and 2003/04, and is projected to increase another 1 percentage point in 2004/05 (Table 3). This sharp improvement has been achieved without any increase in key tax rates. Under the previous PRGF arrangement, Tanzania improved the tax system, including by introducing the Taxpayer Identification Number system in 2000, and establishing the LTD in 2001. The current program has significantly deepened these reforms. In particular:

- The adoption of a corporate plan in July 2003 provided a roadmap for comprehensive re-organization and streamlining of the tax administration, including computerization and training, supported by the World Bank and bilateral donors.

- The introduction of the Treasury Voucher system in 2003 to administer exemptions of NGOs curtailed substantially the abuse of existing exemptions.

- The adoption of the new Income Tax Law based on self assessment enhanced the legislative framework for collecting income taxes by closing loopholes and broadening the tax base.

In 2004, the authorities adopted additional substantial reforms which bode well for revenue mobilization in the future:

- With the 2004/05 budget, the stamp tax was eliminated and the VAT threshold raised, freeing up resources for activities with high revenue yield, such as VAT audits of larger companies.
- The expansion (to 200 taxpayers) and integration along functional lines of the LTD in mid-2004 strengthened the administration of taxpayers with high revenue potential.
- The reorganization of TRA headquarters along functional lines moved forward (regional offices are to be restructured in early 2005).

the investor. The authorities will also maintain existing limits on Export Processing Zone (EPZ) licenses (MEFP, para. 22) until Tanzania's legal framework has been adjusted in line with the trade protocol on the EAC customs union.[13]

20. **The authorities have strengthened the budget guideline process to (i) address weaknesses in budget preparation; and (ii) strengthen the transparency and accountability of the budget** (MEFP, para. 23). The staff noted the concerns of Executive Directors and donors about the lack of comprehensiveness, specifically large infrastructure projects such as the new parliament building, in the Public Expenditure Review (PER) process which is conducted in collaboration with donors. The authorities pointed out that donors were interested in poverty-reducing sectors, but they agreed on the need for a more transparent budget process for other spending. Toward that end, the internal budget guideline process has been strengthened to review line ministries' spending plans comprehensively in the MTEF, with clear links planned to the NSGRP, and on the basis of identifiable outcomes. The staff supported those efforts while noting that it would take some time to develop fully.

21. **The authorities also agreed to take further steps to strengthen public expenditure management** (MEFP, para. 23). The large and volatile check float and the carrying forward of large idle balances in government accounts complicates fiscal and monetary management. The authorities are working to address these issues, including by strengthening cash management projections.

C. Monetary Policy and Financial Sector Issues

22. **The authorities reiterated their commitment to conduct monetary policy prudently, consistent with the program's macroeconomic objectives.** In this context, they discussed with the staff their reserve money path. Given strong private sector demand for credit, the absence of inflationary pressures, continued buoyant economic conditions, and a reassessment of the money multiplier, the staff agreed with the BoT that a modest increase in the targeted growth of reserve money would be supportive of growth and was not likely to pose undue risks to inflation. The authorities' updated financial program envisages slightly higher ceilings on reserve money (Table 5). Because of the higher-than-expected foreign exchange payments in the first quarter of 2004/05, the path for net international reserves has been adjusted downwards. This change still implies additional sales of foreign exchange during the year, as well as continued strong import cover. Projected M3 growth by end-June 2005 has been raised slightly upwards, and velocity is projected to decline, consistent with

[13] The authorities also intend to amend the Act governing EPZs, to raise the minimum exports (as percentage of total production) of participating companies from the current 70 percent to the 80 percent level mandated by the trade protocol.

the ongoing deepening of the financial system and broadly in line with the trend observed in recent years (Table 6).[14]

23. **The authorities and the staff agreed that the principal challenge in implementing monetary policy continues to be liquidity management in the face of high foreign aid inflows.** In sterilizing excess liquidity related to these inflows, the authorities have relied primarily on sales of government paper and foreign exchange. Sterilization through sales of government paper can lead to increases in short- and medium-term interest rates because of the thinness of domestic debt markets and imperfect substitutability of financial assets. This in turn can crowd out the private sector and drive up the government's interest payments. Sterilization through foreign exchange sales can cause the exchange rate to appreciate, with a possible loss of competitiveness. The staff noted that the BoT has balanced the costs of liquidity management more effectively over the past several quarters by relying more on foreign exchange sales, and urged further reliance on such sales. The authorities agreed to consider this, depending on market conditions. The staff and the authorities also discussed ways to smooth reserve money management, including through better liquidity forecasting. The BoT noted plans to continue working with East AFRITAC to strengthen projections of liquidity-injecting government expenditures and the implementation of quantitative intervention targets. The staff and the BoT also discussed the impact of higher liquidity management costs on BoT profitability. The BoT is currently responsible for paying interest on government paper used for liquidity management,[15] which, together with significant capital outlays, is adversely affecting its profitability. The staff urged the authorities to develop arrangements regarding the treatment of the interest costs of intervention that do not impede liquidity management.

24. **The staff and the authorities discussed the timing and key elements of the financial sector implementation plan** (MEFP, paras. 28-30). Though the plan will be finalized and submitted to the government for approval by end-May (structural benchmark), the staff urged early movement in high priority areas. Key goals of the plan include broadening access to financial services, strengthening financial markets and supervision, and managing excess liquidity. Discussions focused on two key near-term reforms: amendments to banking legislation and the NMB privatization. The authorities confirmed their intent to submit amendments to the BoT Act and the BFIA to parliament by end-February. However, subsequent to the discussions in Dar es Salaam, they informed the staff that delays in discussion of the amendments with the Zanzibar authorities would delay submission of the amendments to parliament until its April 2005 session and that to this end they would request a modification of the program performance criteria. The BoT Act amendments will boost the BoT's legal autonomy and accountability by among other things strengthening its Board's decision-making role and expanding the number of deputy governors. The proposed BFIA

[14] The staff also noted the progress made on the safeguards recommendations (Appendix II).

[15] These costs could reach about 0.4 percent of GDP in 2004/05.

amendments will clarify the scope of regulatory and supervisory authority and provide for a prompt corrective action framework. Regarding privatization of the NMB, the authorities indicated that five pre-qualified bidder groups have been identified and the preferred bidder would be selected by end-June (structural performance criterion).

25. **The staff discussed with the authorities the broad parameters of the scheme to provide credit guarantees for medium-term development finance** (MEFP, para. 31). The authorities agreed to limit the total volume of government credit guarantees under their DFGF, which will partially guarantee private bank loans to recipient firms, to about 0.8 percent of GDP.[16] They further agreed that the DFGF will operate on market principles, be appropriately funded from the budget, protect public resources, include transparent governance, be cofinanced with interested regional development bank partners, and provide for appropriate risk-sharing with commercial banks.[17] The authorities expressed their optimism that the DFGF would promote successful, viable development-oriented projects, and would help diffuse political pressure for new development banks.

D. External Sector Policies and Prospects

26. **The staff expects the 2004/05 current account deficit to remain in line with projections (Table 7)**. The impact of higher oil prices has been offset thus far by lower-than-programmed oil imports. Projections for aid inflows are now slightly higher than envisaged at 13.5 percent of GDP.

27. **The authorities indicated that they will continue to use foreign exchange interventions to smooth out unduly large exchange rate fluctuations and to manage liquidity, with no predetermined path for the exchange rate.** They continued to express concerns about the potential loss of export competitiveness tied to efforts to mop up liquidity with foreign exchange sales. The staff believes that the exchange rate remains in line with its equilibrium level and that a potential appreciation should be weighed against the costs of alternative means to manage liquidity, particularly higher interest rates. The mission also reiterated the importance of removing structural impediments to exports, including by improving information technology, increasing labor flexibility, minimizing distortionary taxes, and reducing the costs of transport, energy and telecommunications.

28. **The mission and the authorities discussed regional integration efforts within the frameworks of the EAC, the Southern African Development Community (SADC), and**

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[16] This includes one partial guarantee already committed for a company expected to provide considerable employment in a low-income rural area.

[17] The World Bank is working with the authorities on the design and modalities of the DFGF. The Bank and the Fund have provided several rounds of technical assistance for this facility and for a more modest scheme for small and medium-size enterprises.

the Common Market for Eastern and Southern Africa (COMESA).[18] The authorities noted that EAC members are continuing to review potential inconsistencies between obligations under each framework and that the new EAC protocol will not supercede any preexisting obligations. The staff encouraged the authorities to seek reductions over time in EAC external tariffs, so as to minimize the risk of trade diversion. The authorities also discussed plans to explore further EAC integration, including through a possible monetary union down the line. The staff cautioned that the preconditions for an effective monetary union do not seem to be in place.[19]

29. **Tanzania signed a debt relief agreement with India under the HIPC framework. Debt negotiations with Japan, Brazil, and non Paris Club creditors continue, but progress remains slow.** The staff encouraged renewed efforts to seek commitments from holdouts (Table 9). While Tanzania's external debt position is sustainable (Table 10), the staff emphasized the need for ongoing prudent external debt management.

E. Structural Reforms

30. **The authorities highlighted efforts to reduce structural impediments to private sector led growth and investment.** The staff agreed that the authorities can take steps to address areas of concern to the business community, including poor infrastructure, red tape, access to credit, land management, and expensive and unreliable energy. The authorities emphasized, in particular, measures to boost agricultural production and exports. They are contemplating multiyear reforms to address inefficiencies in crop boards and are reviewing rural infrastructure needs, as well as reforms of local government taxation. The authorities are also moving ahead with anticorruption efforts, including (i) plans to submit a new anticorruption law to the cabinet by mid-2005 that will, among other things, enhance the effectiveness with which corruption is prosecuted; and (ii) the preparation of local government anticorruption action plans—the financial requirements for implementing these plans will be considered during the drafting of the 2005/06 budget framework.

31. **The authorities are taking steps to reform the critical energy sector,** recognizing that Tanzania's extremely limited energy-generation capacity (only 7 percent of the population has access to electric power) significantly constrains growth. Despite low water levels at hydropower dams and technical difficulties in renovating a major plant, the authorities are implementing their emergency power plan. Tariff rates have been increased, and no additional subsidies are envisaged.

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[18] Tanzania is a member of SADC, while Uganda and Kenya are members of COMESA.

[19] AFR provided detailed feedback on this issue to the EAC Secretariat in November 2004.

III. Program Monitoring

32. The program will be monitored through quantitative and structural performance criteria and benchmarks specified in Tables 1-3 of Appendix I. Quantitative performance criteria for end-March 2005 are proposed, and understandings have been reached on indicative targets for end-June, based on the revised fiscal, external, and monetary outlook. One new structural performance criterion is being proposed–government approval and announcement of the preferred bidder for the NMB by end-June 2005–and understandings have been reached on three new structural benchmarks. The fifth disbursement will be subject to the fourth review, expected to be completed by end-August 2005, based on the conditions set forth in Tables 1 and 3 of the attached MEFP. Conditions for disbursements during the third year of the arrangement will be determined in the context of the fourth review.

IV. Staff Appraisal

33. **Tanzania has sustained its strong performance of recent years in the context of adopting market-oriented, outward-looking policies.** During 2004/05, it has made further strides in enhancing the robustness of macroeconomic stability and addressing key impediments to growth. Strong monetary and fiscal policies have resulted in low inflation, higher revenues, and better-targeted expenditures. Structural reforms in key areas such as tax administration, public expenditure, and the financial sector have been accelerated and are yielding tangible benefits.

34. **Despite these recent successes, Tanzania continues to face major challenges.** It remains a very poor country with serious capacity constraints, weak institutions, and heavy reliance on donor inflows. To address these issues and make deeper inroads against poverty, and improve the lives of all Tanzanians, the authorities will need to maintain macroeconomic stability and steadily implement ambitious structural reforms for many years. In this connection, improving the economy's absorptive capacity will also be essential. There are also modest near-term risks. Growth, poverty, and inflation (and to a lesser extent the budget and the balance of payments) are sensitive to weather conditions (lack of rain) and terms of trade shocks. There are pressures on the government to intervene directly in the economy to create jobs and alleviate poverty; these pressures may be accentuated in the run-up to the October elections. The staff therefore welcomes the authorities' commitment to resist such pressures and to sustain key reforms that will reinforce progress.

35. **To meet its full potential for boosting growth and reducing poverty, the NSGRP should be more effectively integrated with other activities**. The staff views the authorities' plans to integrate the NSGRP with the budget as a critical step. The NSGRP should also be well coordinated with parallel structural reforms in the energy, trade, and the financial sectors. Improvements in these three areas, along with NSGRP proposals for improving the business environment and governance, will be important for generating growth-enhancing investment. Continued high levels of donor support will also be important in achieving Tanzania's goals.

36. **The staff applauds the authorities' impressive progress in mobilizing domestic resources**. Based on the implementation of the TRA corporate plan, efforts to control tax exemptions, and buoyant revenues, Tanzania's prospects for a strong sustained revenue performance are favorable. The staff supports plans to expand recent reforms, including by further enlarging the LTD, completing the quality assurance review of the Customs Enforcement Division reforms, continuing the reorganization of the TRA along functional lines, and limiting fiscal stability clauses. Such actions will be critical for achieving the authorities' goal of further increasing the revenue-to-GDP ratio over the medium term, which would generate resources needed to boost growth and reduce poverty and also to reduce Tanzania's high level of aid dependence. In this context, the staff believes there is some scope for correcting tax distortions and lowering selected tax rates to boost the supply response of the economy.

37. **Continued efforts to enhance the quality of spending and improve its allocation between sectors will also be critical.** In addition to boosting social sector outlays, the authorities are implementing important new internal budget guidelines. Once fully implemented, they will improve transparency and accountability, assist in multiyear spending plans, and provide more effective links to the NSGRP. The staff welcomes these efforts, as well as steps to strengthen public expenditure management.

38. **The staff fully supports the proposed revisions to the monetary program.** The risk of higher inflation from the modest upward adjustment in the reserve money path for the remainder of 2004/05 is small, given the strong private sector demand for credit, the absence of inflationary pressure, and a reassessment of the money multiplier. As would normally be the case for an economy undergoing rapid structural changes and monetary deepening, the staff believes it is important to actively review reserve money targets in Tanzania so as not to unnecessarily constrain growth. The staff also believes that the reasons underlying the missed end-September target for net international reserves are well-grounded and limited to one-off items, and that reserve levels remain adequate.

39. **Liquidity pressures from aid flows continue to present challenges to monetary policy.** The BoT should be commended for both meeting its reserve money targets, and for its increased flexibility in using a fuller range of options to mop up liquidity. This flexibility has helped better distribute the impact on interest rates and the exchange rate. This effort needs to be sustained, with continued emphasis on foreign exchange sales, together with efforts to improve liquidity forecasting. Close cooperation between the BoT and the Finance Ministry to improve forecasts of the government's net financing requirements will be essential. The staff also encourages the authorities to develop arrangements for treating the interest costs of intervention that will not impede liquidity management. More generally, the issues of liquidity management must be addressed through sustained efforts to improve Tanzania's absorptive capacity and remove impediments to growth. This must remain the authorities' highest priority.

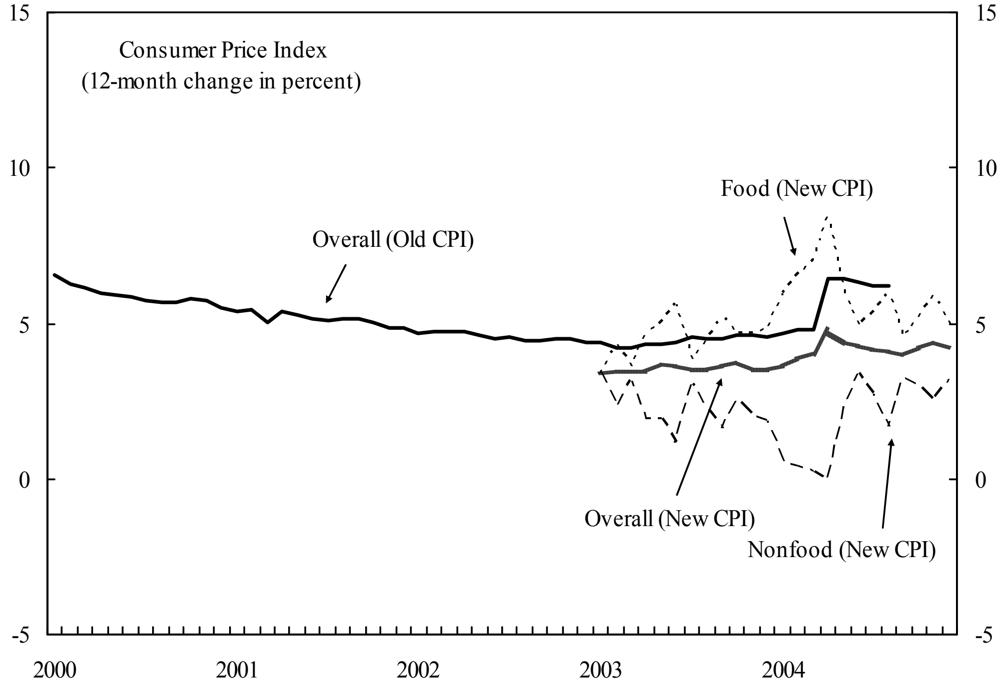
40. **The staff welcomes the ambitious financial sector implementation plan now being finalized.** Tanzania's financial sector has grown rapidly in recent years, reflecting strong competition and structural reforms. Moreover, the system is well supervised and has strong financial soundness indicators. However, as the FSAP noted, this sector is small, and large portions of the economy, notably agriculture, work with little formal credit. The privatization of the NMB is a critical step to sustain the strong progress under way. Sound management of the financial sector will also be underpinned by the amendments to the BoT Act and the BFIA. Delays in submission of these amendments to parliament until its April 2005 session rather than February 2005, as had been intended, is unfortunate but underlines the authorities' commitment to full consultation with key stakeholders. The staff therefore supports the authorities' request for modification of the performance criteria to reflect this delay.

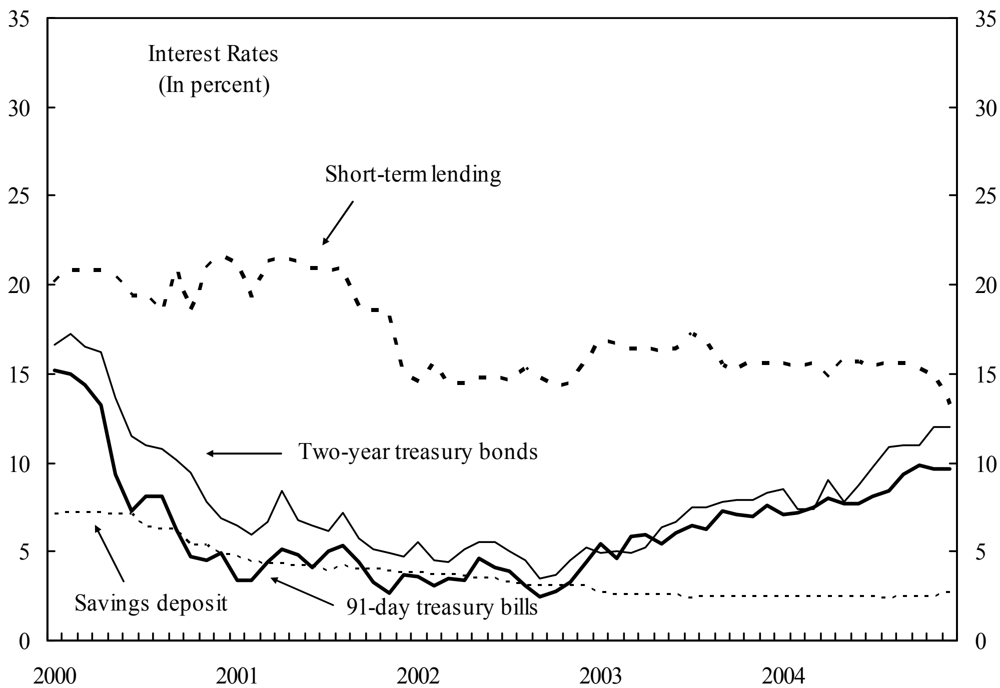
41. **The authorities are finalizing plans to implement a development-oriented credit guarantee scheme.** The staff welcomes their commitment to a modest, transparent, appropriately financed facility with strong governance and appropriate risk-sharing. The staff urges the authorities to refrain from policies that involve more direct government participation in development finance, particularly policies that would formally reinstitute development banks.

42. **Tanzania is making strides in improving the business climate and should further strengthen these efforts.** Land reform, simplification of local taxation and business licensing requirements, anticorruption efforts, and a reduction in structural impediments to bank lending have improved Tanzania's standing among investors. Nonetheless, investment is not yet increasing at the rate that is needed to materially reduce unemployment and poverty. Sustained efforts in such areas as energy, infrastructure, trade facilitation, and governance are also needed.

43. **Based on the authorities' continued strong record of overall good program implementation, their commitments in the attached letter of intent, as well as the temporary one-off nature of the net international reserves shortfall and continued adequacy of reserves, the staff recommends approval of the authorities' request for a waiver for the nonobservance of the quantitative performance criterion on net international reserves, a modification of structural performance criteria, and completion of the third review under the current PRGF arrangement.**

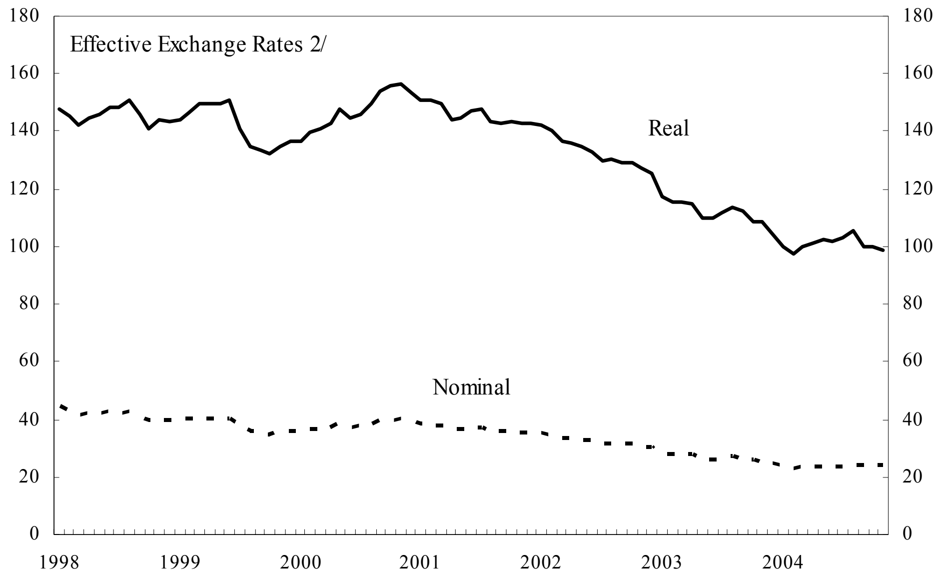
Figure 1. Tanzania: Prices and Interest Rates, January 2000-December 2004

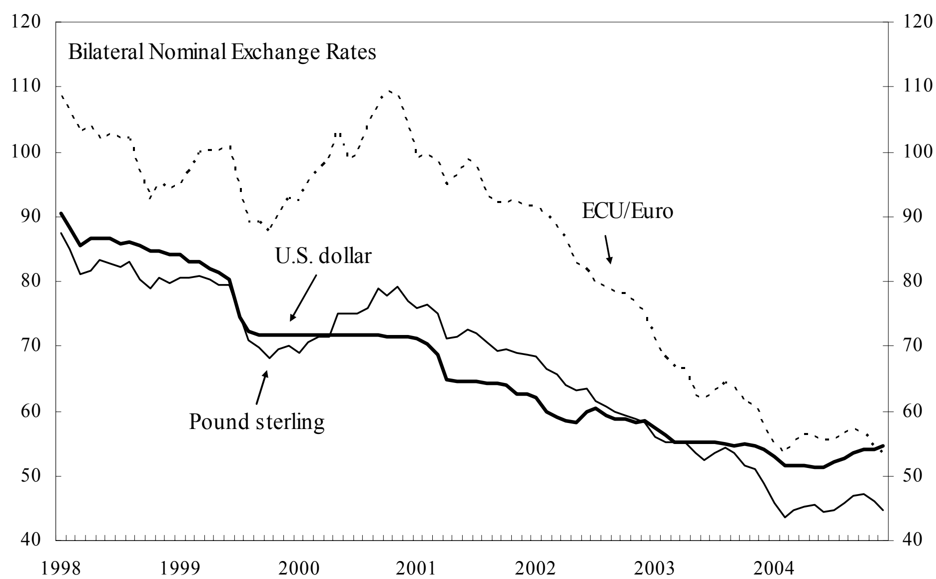




Source: Tanzanian authorities.

Figure 2. Tanzania: Exchange Rates, January 1998-December 2004
(1995=100; foreign currency per Tanzania shilling) 1/





Source: Tanzanian authorities; and IMF Information Notice System (INS).

1/ A positive movement represents an appreciation of the T Shilling.

2/ Nominal and real effective exchange rate information up to November 2004.

Table 1. Tanzania: Proposed Schedule of Disbursements Under the Poverty Reduction and Growth Facility Arrangement, 2003-06

Date	Disbursement Schedule		Event
	Millions of SDRs	Percent of quota	
August 2003	2.8	1.4	Effectiveness of PRGF arrangement
End-September 2003	...	...	Test date for quantitative performance criteria for first review
February 2004	2.8	1.4	Completion of first review
End-March 2004	...	...	Test date for quantitative performance criteria for second review
August 2004	2.8	1.4	Completion of second review
End-September 2004	...	...	Test date for quantitative performance criteria for third review
February 2005	2.8	1.4	Completion of third review
End-March 2005	...	...	Test date for quantitative performance criteria for fourth review
August 2005	2.8	1.4	Completion of fourth review
End-September 2005	...	...	Test date for quantitative performance criteria for fifth review
February 2006	2.8	1.4	Completion of fifth review
End-March 2006	...	...	Test date for quantitative performance criteria for sixth review
August 2006	2.8	1.4	Completion of sixth review

Source: Fund staff.

Table 2. Tanzania: Selected Economic and Financial Indicators, 2002/03-2004/05

	2002/03	2003/04	2004/05	
			Prog.	Proj.
	(Annual percentage change, unless otherwise indicated)			
National income and prices 1/				
Nominal GDP (market prices; billions of Tanzania shillings)	9,445	10,692	11,821	11,821
Real GDP growth (factor cost)	6.2	5.6	6.3	6.3
Real GDP per capita (market prices)	5.1	5.0	4.0	4.0
Consumer prices (period average) 2/	4.6	4.4	5.0	4.2
Consumer prices (end of period) 2/	4.4	4.6	4.0	4.0
External sector				
Export, f.o.b (in U.S. dollars)	1,010	1,174	1,276	1,289
Imports, c.i.f. (in U.S. dollars)	-1,824	-2,368	-2,699	-2,738
Export volume	17.1	6.1	0.2	-0.6
Import volume	1.1	13.9	10.4	6.2
Terms of trade	-3.9	-3.9	2.4	1.4
Nominal effective exchange rate (end of period; depreciation -)	-19.1	-10.6	...	...
Real effective exchange rate (end of period; depreciation -)	-17.4	-7.1	...	...
Public finance				
Revenue (excluding grants)	16.7	18.9	16.5	20.2
Total expenditure	30.7	25.5	27.8	28.6
Recurrent expenditure	27.1	25.6	24.5	27.2
Development expenditure	71.9	24.9	30.6	33.0
Money and credit				
Broad money	22.7	18.0	23.0	23.5
Net foreign assets	46.2	16.8	13.8	15.8
Net domestic assets	-33.0	24.3	82.4	60.6
Net credit to government	-15.4	-51.8	57.4	124.7
Credit to nongovernment sector	36.6	46.7	34.3	30.2
Velocity of money (GDP/M3; average)	4.8	4.7	4.3	4.3
Treasury bill interest rate (in percent; end of period) 3/	6.1	7.7	…	…
	(In percent of GDP)			
Public finance				
Revenue (excluding grants)	12.1	12.9	13.5	14.0
Total grants	6.2	6.2	6.8	7.7
Expenditure (including adjustment to cash)	19.8	22.2	25.6	25.8
Overall balance (including grants)	-1.6	-2.9	-5.2	-4.3
Domestic financing 4/	-0.4	-0.4	1.3	1.3
of which: nonbank financing	-0.3	0.4	0.5	0.5
Savings and investment 1/				
Resource gap	-6.2	-9.0	-11.3	-11.7
Investment	19.1	18.6	19.2	19.2
Government	7.6	7.4	7.6	7.6
Nongovernment 5/	11.6	11.2	11.6	11.6
Gross domestic savings	12.9	9.7	7.9	7.5
External sector				
Current account balance (excluding current transfers)	-7.3	-11.3	-12.6	-12.6
Current account balance (including current transfers)	-2.4	-5.9	-7.0	-5.9
	(In millions of U.S. dollars, unless otherwise indicated)			
Balance of payments				
Current account balance (excluding current transfers; deficit -)	-735	-1,177	-1,350	-1,380
Overall balance of payments (deficit -)	440	162	201	220
Gross official reserves	1,670	1,878	2,113	2,058
In months of imports of goods and nonfactor services	6.6	6.6	7.2	6.8
Exchange rate (eop, Tanzania Shillings per U.S. dollar)	1,047	1,115	...	...
Exchange rate (period average, Tanzania Shilling per U.S. dollar)	999	1,077	...	...

Sources: Tanzanian authorities; and Fund staff estimates and projections.
1/ Data are on calendar year basis; 2002/03 data are for calendar year 2002.
2/ Projection for 2004 is for inflation under the new CPI index.
3/ Weighted-average yield of 91-, 182-, and 364-day treasury bills.
4/ Excluding new debt issued to recapitalize government-owned banks.
5/ Including change in stock.

Table 3. Tanzania: Central Government Operations, 2002/03-2004/05 1/

	2002/03	2003/04		2004/05	
		Prog.	Actual	Prog.	Proj.
	(In billions of Tanzania shillings, unless otherwise indicated)				
Total revenue	1,217.5	1,400.6	1,447.3	1,686.4	1,739.3
Tax revenue	1,105.7	1,273.2	1,325.1	1,546.1	1,599.0
Import duties	106.4	126.7	130.1	163.4	141.7
Value-added tax	424.3	498.6	494.8	605.0	615.3
Excises	187.3	223.8	216.6	236.1	243.2
Income taxes	276.0	307.6	360.4	416.5	458.3
Other taxes	111.7	116.5	123.2	125.0	140.6
Nontax revenue	111.8	127.4	122.3	140.3	140.3
Total expenditure	1,989.5	2,509.6	2,496.0	3,190.9	3,210.9
Recurrent expenditure	1,488.6	1,922.4	1,870.3	2,349.1	2,379.0
Wages and salaries	397.8	464.1	464.1	551.2	551.2
Interest payments	99.8	152.8	120.3	165.7	170.5
Domestic	57.0	73.6	73.6	94.9	94.9
Foreign	42.8	79.2	46.6	70.8	75.5
Goods and services and transfers	991.1	1,305.5	1,286.0	1,632.3	1,657.4
Development expenditure	500.9	587.2	625.7	841.7	831.9
Domestically financed	95.7	140.1	136.1	233.7	233.7
Foreign financed	405.2	447.1	489.6	608.0	598.2
Adjustment to cash 2/	13.5	0.0	-22.1	0.0	30.5
Overall balance before grants	-785.5	-1,109.0	-1,026.5	-1,504.4	-1,502.2
Grants	622.3	684.8	695.1	848.6	963.1
Program (including basket grants) 3/	293.9	378.2	370.9	441.3	561.2
Project	255.5	223.2	246.7	316.9	311.8
HIPC grant relief	72.9	83.3	77.4	90.3	90.2
Overall balance after grants	-163.2	-424.2	-331.4	-655.9	-539.1
Financing	163.2	424.2	331.4	655.9	539.1
Foreign (net)	199.7	341.9	375.7	504.5	387.7
Foreign loans	301.1	447.1	461.1	627.5	522.9
Program (including basket loans) 3/	151.3	223.2	218.3	336.4	236.4
Project	149.7	223.8	242.9	291.1	286.4
Amortization	-101.3	-105.1	-85.4	-123.0	-135.2
Domestic (net)	-36.3	82.7	-44.3	157.1	157.1
Bank financing	-10.3	45.8	-83.7	97.1	97.1
Nonbank financing	-26.0	36.9	39.4	60.0	60.0
Amortization of parastatal debt	-0.3	-14.4	-14.4	-15.8	-15.8
Privatization proceeds	0.0	14.0	9.8	10.1	10.1
Memorandum items:					
Treasury vouchers	...	31.5	31.5	31.5	31.5
Primary balance (excluding grants and foreign-financed development expenditure)	-267.0	-509.1	-438.8	-730.7	-703.0
Share of expenditures financed from foreign sources 4/	44.2	43.3	44.8	44.5	44.4
Share of current expenditures financed by foreign program assistance 5/	29.9	31.3	31.5	33.1	33.5
Public domestic debt 6/	15.2	...	15.0	15.8	15.8
Ratio of recurrent expenditures to total revenues (percent)	122.3	137.3	129.2	139.3	136.8
Ratio of expenditure carryover to previous year's recurrent expenditures	6.8	5.8	...	...	...
Priority sector spending	973.7	1,139.5	1,113.5	1,486.3	...

Table 3. Tanzania: Central Government Operations, 2002/03-2004/05 1/ (concluded)

	2002/03	2003/04		2004/05	
		Prog.	Actual	Prog.	Proj.
	(In percent of GDP, unless otherwise indicated)				
Total revenue	12.1	12.4	12.9	13.5	14.0
Tax revenue	11.0	11.3	11.8	12.4	12.8
Import duties	1.1	1.1	1.2	1.3	1.1
Value-added tax	4.2	4.4	4.4	4.9	4.9
Excises	1.9	2.0	1.9	1.9	2.0
Income taxes	2.7	2.7	3.2	3.3	3.7
Other taxes	1.1	1.0	1.1	1.0	1.1
Nontax revenue	1.1	1.1	1.1	1.1	1.1
Total expenditure	19.8	22.3	22.2	25.6	25.8
Recurrent expenditure	14.8	17.1	16.6	18.9	19.1
Wages and salaries	4.0	4.1	4.1	4.4	4.4
Interest payments	1.0	1.4	1.1	1.3	1.4
Domestic	0.6	0.7	0.7	0.8	0.8
Foreign	0.4	0.7	0.4	0.6	0.6
Goods and services and transfers	9.8	11.6	11.4	13.1	13.3
Development expenditure	5.0	5.2	5.6	6.7	6.7
Domestically financed	1.0	1.2	1.2	1.9	1.9
Foreign financed	4.0	4.0	4.3	4.8	4.8
Adjustment to cash 2/	0.1	0.0	-0.2	0.0	0.2
Overall balance before grants	-7.8	-9.9	-9.1	-12.0	-12.1
Grants	6.2	6.1	6.2	6.8	7.7
Program (including basket grants) 3/	2.9	3.4	3.3	3.5	4.5
Project	2.5	2.0	2.2	2.5	2.5
HIPC grant relief	0.7	0.7	0.7	0.7	0.7
Overall balance after grants	-1.6	-3.8	-2.9	-5.2	-4.3
Financing	1.6	3.8	2.9	5.2	4.3
Foreign (net)	2.0	3.0	3.3	4.0	3.1
Foreign loans	3.0	4.0	4.1	5.0	4.2
Program (including basket loans) 3/	1.5	2.0	1.9	2.7	1.9
Project	1.5	2.0	2.2	2.3	2.3
Amortization	-1.0	-0.9	-0.8	-1.0	-1.1
Domestic (net)	-0.4	0.7	-0.4	1.3	1.3
Bank financing	-0.1	0.4	-0.7	0.8	0.8
Nonbank financing	-0.3	0.3	0.4	0.5	0.5
Amortization of parastatal debt	0.0	-0.1	-0.1	-0.1	-0.1
Privatization proceeds	0.0	0.1	0.1	0.1	0.1

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal year runs from July to June.
2/ Unidentified financing (-)/expenditure (+). Includes expenditure carryover from the previous fiscal year.
3/ Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities in different sectors.
4/ Defined as a ratio (in percent) of gross grant and loan inflows to a sum of total expenditures and amortization payments.
5/ Defined as a ratio (in percent) of current expenditures to a sum of program grants and loans (including basket funding).
6/ Including contingent liabilities, largely consisting of non-guaranteed parastatal debt. See Country Report No. 04/284.

Table 4. Tanzania: Central Government Expenditure on Priority Sectors, 1999/2000-2004/05 1/
(In billions of Tanzania shillings, unless otherwise indicated)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Budget
Total expenditure in priority sectors	418.6	499.7	761.9	973.7	1,113.5	1,486.3
In percent of GDP	6.1	6.5	8.8	9.7	11.1	14.8
In percent of total expenditure	35.8	39.3	52.1	48.9	44.6	46.3
Education	218.0	254.9	344.9	436.2	428.4	589.0
Health	81.2	100.7	142.1	186.7	216.2	290.4
Water	14.5	18.3	32.5	51.9	61.0	126.5
Agriculture (research and extension)	21.6	19.1	31.9	60.2	117.3	109.1
Lands	4.2	5.1	8.1	20.1	6.5	6.4
Roads	70.8	92.5	179.6	190.2	231.0	274.9
Judiciary	8.3	9.2	18.8	23.1	32.7	36.1
TACAIDS 2/	0.0	0.0	4.0	5.3	20.3	53.8
Recurrent expenditure in priority sectors	285.4	351.7	497.6	724.6	788.6	976.5
In percent of GDP	4.2	4.6	5.8	7.2	7.0	7.8
In percent of total recurrent expenditure	35.3	35.6	42.5	48.7	42.2	41.0
Education	158.9	189.2	282.1	422.9	397.3	509.3
Health	53.9	70.3	90.9	149.1	180.3	244.4
Water	5.4	8.1	15.5	16.5	17.9	23.7
Agriculture (research and extension)	13.7	10.3	17.2	36.0	69.1	63.6
Lands	3.4	4.2	7.4	4.8	5.8	5.7
Roads	42.2	60.7	65.7	71.9	86.6	88.5
Judiciary	7.9	8.8	14.8	18.9	24.8	28.6
TACAIDS 2/	0.0	0.0	4.0	4.5	6.8	12.7
Development expenditure in priority sectors	133.2	148.0	264.2	249.1	324.9	509.8
In percent of GDP	1.9	1.9	3.1	2.5	3.0	3.0
In percent of total development expenditure	37.0	51.7	90.7	49.7	51.8	51.8
Education	59.1	65.7	62.8	13.3	31.1	79.8
Health	27.3	30.4	51.2	37.6	35.9	45.9
Water	9.1	10.1	17.0	35.4	43.1	102.9
Agriculture (research and extension)	7.9	8.7	14.7	24.2	48.2	45.5
Lands	0.8	0.9	0.7	15.3	0.8	0.7
Roads	28.6	31.7	113.9	118.3	144.4	186.3
Judiciary	0.4	0.4	4.0	4.2	7.9	7.5
TACAIDS 2/	0.0	0.0	0.0	0.8	13.5	41.1
Memorandum items:						
Total expenditure 3/	1,167.5	1,272.8	1,462.8	1,989.5	2,496.0	3,210.9
Recurrent expenditure	807.6	986.6	1,171.4	1,488.6	1,870.3	2,379.0
Development expenditure	359.9	286.3	291.3	500.9	625.7	831.9
HIPC Initiative debt relief	51.6	141.2	116.8	72.9	77.4	74.7
In percent of GDP	0.8	1.8	1.4	0.7	0.7	0.6
GDP (market prices)	6,850	7,727	8,627	10,069	11,257	12,457

Sources: Tanzania, Ministry of Finance.

1/ Fiscal year runs from July to June.
2/ Government agency created in 2001 to coordinate AIDS-related interventions.
3/ Excludes clearance of domestic arrears and recapitalization of banks.

Table 5. Tanzania: Summary Accounts of the Bank of Tanzania, December 2003 - June 2005
(In billions of Tanzania shillings, unless otherwise indicated; end of period)

	2003		2004						2005			
	Dec.		Jun.		Sep.		Dec.		Mar.		Jun.	
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Est.	Prog.	Proj.	Prog.	Proj.
Net foreign assets	1,556.7	1,589.8	1,412.6	1,492.7	1,992.1	1,552.4	2,042.6	1,799.8	1,863.3	1,752.7	1,868.0	1,804.0
Net international reserves	1,598.5	1,631.5	1,453.8	1,533.9	2,033.2	1,592.0	2,083.7	1,839.4	1,904.5	1,792.3	1,909.1	1,843.6
In millions of U.S. dollars	1,480.1	1,533.9	1,346.1	1,385.2	1,752.8	1,501.3	1,796.3	1,585.7	1,641.8	1,545.1	1,645.8	1,589.3
Medium- and long-term foreign liabilities	-41.8	-41.7	-41.2	-41.1	-41.2	-39.6	-41.2	-39.6	-41.2	-39.6	-41.2	-39.6
Net domestic assets	-730.6	-806.5	-600.1	-692.3	-1,117.3	-688.8	-1,063.7	-799.6	-903.2	-768.8	-867.5	-776.0
Credit to government (net, excl. liquidity paper)	-350.0	-372.8	-100.0	-206.6	-300.0	-294.9	-200.0	-230.0	-220.0	-200.0	-180.0	-180.0
Liquidity paper (issued by BoT)	-280.2	-333.3	-399.8	-380.2	-648.2	-371.2	-694.6	-423.8	-514.1	-423.0	-518.4	-450.2
Other items (net)	-100.3	-100.4	-100.3	-105.5	-169.1	-22.8	-169.1	-145.8	-169.1	-145.8	-169.1	-145.8
Reserve money	826.1	783.3	812.5	800.4	874.8	863.6	978.8	1,000.2	960.1	983.9	1,000.5	1,028.0
Currency outside banks	590.4	553.0	570.1	590.4	613.1	644.9	686.6	702.9	666.7	682.4	678.6	700.8
Bank reserves	235.8	230.3	242.4	210.0	261.6	218.7	292.2	297.3	293.4	301.5	321.8	327.2
Currency in banks	50.8	53.5	61.1	53.6	58.2	60.2	58.2	62.6	58.2	62.6	58.7	62.6
Deposits	184.9	176.7	181.4	156.4	203.4	158.5	234.0	234.8	235.2	238.9	263.2	264.6
Required reserves (calculated) 1/	163.1	156.8	175.2	174.5	192.1	185.0	200.8	196.2	211.4	206.5	226.0	220.1
Excess reserves (calculated)	21.9	20.0	6.2	-18.1	11.3	-26.5	33.2	38.5	23.7	32.5	37.2	44.6

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

1/ Calculated as reserve requirement times banks' deposits minus half of bank cash in vault.

Table 6. Tanzania: Monetary Survey, December 2003-June 2005
(In billions of Tanzania shillings, unless otherwise indicated; end of period)

	2003		2004						2005			
	Dec.		Jun.		Sep.		Dec.		Mar.		Jun.	
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Est.	Prog.	Proj.	Prog.	Proj.
Net foreign assets	2,192.8	2,268.4	2,057.4	2,158.0	2,720.8	2,282.2	2,747.2	2,577.0	2,564.9	2,477.7	2,587.5	2,500.0
Net domestic assets	282.5	119.9	569.8	444.9	104.7	513.7	238.2	401.2	507.4	582.2	644.0	714.6
Domestic credit	670.9	684.9	1,077.7	1,043.9	1,044.0	981.2	1,223.9	1,092.8	1,312.7	1,273.0	1,453.5	1,432.6
Credit to government (net)	-142.2	-132.2	207.4	77.9	38.7	-46.1	85.6	9.0	178.4	79.5	266.3	175.0
Credit to nongovernment sector	813.0	817.1	870.3	966.0	1,005.3	1,027.3	1,138.3	1,083.8	1,134.3	1,193.5	1,187.2	1,257.6
Other items (net),	-388.4	-565.0	-507.9	-599.0	-939.3	-467.5	-985.7	-691.6	-805.2	-690.8	-809.5	-718.0
Of which: liquidity paper (issued by BoT)	-280.2	-333.3	-399.8	-380.2	-648.2	-371.2	-694.6	-423.8	-514.1	-423.0	-518.4	-450.2
M3	2,475.3	2,388.3	2,627.2	2,602.9	2,825.5	2,796.0	2,985.4	2,978.2	3,072.3	3,059.9	3,231.5	3,214.6
Foreign currency deposits	691.2	667.2	734.4	746.6	794.8	816.1	806.4	870.0	829.6	937.3	904.8	931.5
M2	1,784.1	1,721.1	1,892.8	1,856.3	2,030.6	1,979.9	2,178.9	2,108.2	2,242.6	2,122.6	2,326.7	2,283.1
Currency in circulation	590.4	553.0	570.1	590.4	613.1	644.9	686.6	702.9	666.7	682.4	678.6	700.8
Deposits (in Tanzania shillings)	1,193.7	1,168.1	1,322.7	1,265.9	1,417.5	1,335.0	1,492.3	1,405.4	1,576.0	1,440.3	1,648.1	1,582.4
Memorandum items:												
M3 growth (12-month percent change)	20.9	16.6	19.1	18.0	23.0	21.7	25.0	24.7	24.0	23.5	23.0	23.5
Foreign currency deposits												
(12-month percent change)	27.9	23.5	13.5	15.4	22.7	26.0	20.9	30.4	15.2	30.1	20.1	24.8
M2 growth (12-month percent change)	18.4	14.2	21.4	19.1	23.1	20.0	26.6	22.5	27.6	20.8	24.2	23.0
Credit to nongovernment sector												
(12-month percent change)	42.5	43.2	32.2	46.7	31.4	34.3	39.3	32.6	33.8	40.8	34.3	30.2
Reserve money (12-month percent change)	18.7	12.6	27.0	25.1	27.2	25.5	25.0	27.7	19.6	22.5	23.1	28.4
Currency/M3 (in percent)	23.9	23.2	21.7	22.7	21.7	23.1	23.0	23.6	21.7	22.3	21.0	21.8
Reserve money multiplier (M3/reserves)	3.0	3.0	3.2	3.3	3.2	3.2	3.1	3.0	3.2	3.1	3.2	3.1
Velocity of money (M3; average)	4.7	4.8	4.4	4.7	...	...	...	...	...	...	4.3	4.3
Velocity of money (M3; end-period)	4.1	4.2	4.0	4.3	...	...	...	...	...	...	3.9	3.9

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

Table 7. Tanzania: Balance of Payments, 2002/03–2007/08

(In millions of U.S. dollars, unless otherwise indicated)

	2002/03	2003/04	2004/05		2005/06	2006/07	2007/08
	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.
Current account	-245.7	-620.3	-747.3	-647.3	-784.9	-802.7	-1,016.9
Trade balance	-649.6	-980.5	-1,181.0	-1,203.2	-1,227.6	-1,266.3	-1,511.8
Exports, f.o.b.	1,010.1	1,174.5	1,275.5	1,288.8	1,458.6	1,594.9	1,728.1
Traditional	223.7	214.9	243.7	245.0	290.4	315.2	341.1
Nontraditional	786.4	959.6	1,031.8	1,043.9	1,168.2	1,279.7	1,387.1
Imports, f.o.b	-1,659.6	-2,155.0	-2,456.5	-2,492.0	-2,686.2	-2,861.2	-3,240.0
Services (net)	-52.9	-128.8	-135.8	-144.7	-124.5	-127.7	-120.1
Income (net)	-32.5	-68.1	-34.5	-32.3	-31.9	-33.1	-33.0
Of which: interest payments due	-73.5	-124.5	-87.1	-87.1	-76.1	-77.5	-76.6
interest on public debt	-62.2	-80.4	-69.9	-69.9	-56.1	-57.5	-56.2
interest on central government debt	-60.0	-73.0	-66.2	-66.2	-50.5	-51.8	-50.5
Current transfers (net)	489.3	557.1	604.0	732.9	599.1	624.5	648.0
Of which: official transfers	488.3	550.9	602.0	724.8	614.4	639.8	663.4
program grants	290.3	338.3	380.5	501.9	388.6	406.3	424.9
HIPC Initiative relief grants	68.6	71.8	77.9	79.0	79.0	83.9	86.7
Capital account	294.5	309.7	327.9	329.6	325.0	375.0	445.0
Of which: project grants	264.4	271.1	289.3	289.3	290.0	340.0	410.0
Financial account	356.2	493.3	620.7	538.0	714.6	855.1	949.1
Direct investment	244.1	254.0	266.7	263.0	300.0	330.0	350.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	112.1	239.3	354.0	275.0	414.6	525.1	599.1
Of which: Program Loans	145.8	204.4	290.0	207.2	328.6	318.6	388.6
Project Loans	122.0	207.3	251.0	251.0	250.0	250.0	300.0
Of which: government scheduled amortization	-108.7	-108.0	-123.2	-123.2	-112.7	-109.6	-121.0
central government amortization	-102.5	-97.0	-118.5	-118.5	-101.4	-98.6	-108.9
Errors and omissions	35.1	-20.3	0.0	0.0	0.0	0.0	0.0
Overall balance	440.2	162.4	201.3	220.2	254.7	427.5	377.2
Financing	-440.2	-162.4	-201.3	-220.2	-254.7	-427.5	-377.2
BoT reserve assets (increase, -)	-458.0	-207.6	-160.5	-179.5	-201.5	-368.3	-319.4
Use of Fund credit	4.6	-3.1	-40.8	-40.8	-53.2	-59.2	-57.7
Exceptional financing	13.2	48.3	0.0	0.0	0.0	0.0	0.0
Change in arrears (increase +) 1/	13.2	48.3	0.0	0.0	0.0	0.0	0.0
Debt rescheduled	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Gross official reserves (BoT)	1,670.4	1,878.0	2,112.4	2,057.6	2,259.1	2,627.4	2,946.9
In months of imports of goods and services (next year)	6.6	6.6	7.2	6.8	7.1	7.4	7.8
Current account deficit (in percent of GDP)							
Excluding official current transfers	-7.3	-11.3	-12.6	-12.6	-11.6	-10.8	-11.3
Including official current transfers	-2.4	-5.9	-7.0	-5.9	-6.6	-6.0	-6.9
World oil price (in U.S. dollars per barrel) 2/	26.9	33.7	32.0	40.6	40.5	37.1	35.5
Aid dependency 3/	10.1	11.8	13.3	13.5	12.4	12.6	12.5
Net aid flows (as a percent of GDP)	8.6	10.5	11.5	11.7	11.0	11.6	12.0
Direct foreign investment (in percent of GDP)	2.4	2.4	2.5	2.4	2.5	2.5	2.4
GDP 4/	10,077	10,464	10,738	10,915	11,923	13,268	14,765

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

1/ Arrears are on non-Paris Club official and commercial debt subject to rescheduling and currently under negotiation.

2/ Oil price is average of spot prices for U.K. Brent, Dubai, and West Texas Intermediate.

3/ Program and project assistance (BOP definition) in percent of GDP.

4/ GDP number for 2003/04 column was changed to the actual (officially revised) level for comparison purposes.

Table 8. Tanzania: Disbursements of Program Assistance, 2003/04- 2004/05 1/

(In millions of U.S. dollars)

	2004/05								2003/04	2004/05	
	Prog. Sep.	Act. Sep.	Prog. Dec.	Est. Dec.	Prog. Mar.	Proj. Mar.	Prog. Jun.	Proj. Jun.	Act. **FY**	Prog. **FY**	Proj. **FY**
Grants	163.9	280.4	116.6	121.4	57.8	57.8	42.3	42.3	338.3	380.5	501.9
Multilateral	0.0	128.6	36.0	0.0	0.0	0.0	0.0	0.0	71.6	36.0	128.6
EU PRBS grants 2/	0.0	38.3	36.0	0.0	0.0	0.0	0.0	0.0	39.0	36.0	38.3
EU grants for arrears' clearance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	90.3	0.0	0.0	0.0	0.0	0.0	0.0	32.6	0.0	90.3
Bilateral	163.9	151.8	80.6	121.4	57.8	57.8	42.3	42.3	266.7	344.5	373.3
PRBS 2/	127.0	122.0	35.8	70.7	38.4	38.4	0.0	0.0	192.7	201.2	231.1
Sweden	15.1	15.8	0.0	0.0	0.0	0.0	0.0	0.0	13.1	15.1	15.8
Netherlands	0.0	0.0	0.0	18.1	16.9	16.9	0.0	0.0	31.5	16.9	35.0
Ireland	0.0	0.0	0.0	0.0	7.0	7.0	0.0	0.0	10.3	7.0	7.0
United Kingdom	74.2	81.9	33.0	33.0	0.0	0.0	0.0	0.0	100.4	107.1	114.9
Norway	11.2	11.4	2.8	2.8	0.0	0.0	0.0	0.0	13.6	14.0	14.2
Finland	2.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0	1.8	2.1	2.2
Denmark	7.8	0.0	0.0	10.8	3.1	3.1	0.0	0.0	11.0	11.0	13.9
Switzerland	6.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	6.0	6.0
Germany	5.8	6.2	0.0	0.0	0.0	0.0	0.0	0.0	6.1	5.8	6.2
Japan	4.9	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.4	4.9	4.5
Canada	0.0	0.0	0.0	0.0	11.4	11.4	0.0	0.0	4.4	11.4	11.4
Sectoral baskets	36.9	29.8	44.9	50.8	19.4	19.4	42.3	42.3	74.0	143.3	142.2
Belgium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.4	0.0	0.0
Canada	0.0	0.0	0.0	0.0	1.9	1.9	9.5	9.5	0.0	11.4	11.4
Denmark	10.1	5.2	10.3	10.3	0.0	0.0	0.0	0.0	9.5	20.4	15.5
EU	0.0	0.0	0.0	1.9	0.0	0.0	26.7	26.7	0.0	26.7	28.6
Finland	0.0	0.0	1.5	1.5	0.0	0.0	0.0	0.0	2.6	1.5	1.5
Ireland	4.8	4.8	1.8	1.8	3.6	3.6	0.0	0.0	6.0	10.2	10.2
Netherlands	11.8	9.3	0.0	0.0	0.0	0.0	0.0	0.0	9.4	11.8	9.3
Norway	5.6	0.6	0.0	4.0	6.9	6.9	0.0	0.0	8.1	12.5	11.5
Sweden	0.0	7.3	12.1	12.1	1.3	1.3	4.4	4.4	5.8	17.8	25.1
Switzerland	2.9	2.6	1.5	1.5	0.0	0.0	0.0	0.0	3.7	4.4	4.1
United Kingdom	0.5	0.0	14.4	14.4	2.2	2.2	0.0	0.0	0.0	17.1	16.6
Germany	0.0	0.0	2.6	2.6	2.6	2.6	0.0	0.0	7.9	5.2	5.2
Japan	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0
Italy	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.2	0.2
France	0.7	0.0	0.7	0.7	0.7	0.7	0.7	0.7	0.0	2.6	2.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	2.7	1.0	1.0
Loans	202.0	60.2	0.0	38.0	18.0	39.0	70.0	70.0	204.4	290.0	207.2
Multilateral	202.0	60.2	0.0	38.0	18.0	39.0	70.0	70.0	204.4	290.0	207.2
World Bank 3/	202.0	60.2	0.0	38.0	18.0	39.0	70.0	70.0	145.7	290.0	207.2
World Bank Loan	192.0	60.2	0.0	21.0	0.0	21.0	0.0	0.0	143.9	192.0	102.2
World Bank Baskets Loan	10.0	0.0	0.0	17.0	18.0	18.0	70.0	70.0	1.8	98.0	105.0
African Devlopment Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	58.7	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total program assistance	365.9	340.6	116.6	159.4	75.8	96.8	112.3	112.3	542.8	670.5	709.0
Cumulative from beginning of fiscal year	365.9	340.6	482.5	500.0	558.2	596.8	670.5	709.0	...	...	...
Memo items											
Total including HIPC/Interim assistance	385.3	360.0	136.1	178.6	95.2	118.0	131.7	131.5	614.5	748.4	788.0
Of which: HIPC	19.5	19.4	19.5	19.2	19.5	21.2	19.5	19.2	71.8	77.9	79.0
IMF	2.6	2.0	2.6	2.6	2.6	2.8	2.6	2.6	11.7	10.4	10.1
IDA	14.4	10.6	14.4	15.9	14.4	13.0	14.4	16.0	46.4	57.5	55.4
AfDB	2.5	4.9	2.5	0.2	2.5	4.4	2.5	0.1	13.5	10.0	9.5
Others	0.0	2.0	0.0	0.5	0.0	1.0	0.0	0.5	0.2	0.0	4.0

Sources: Tanzanian authorities; and donors.

1/ Fiscal years run from July to June.

2/ Poverty reduction budget support.

Table 9. Tanzania: Status of HIPC Initiative Agreements by Creditor

Creditor	Debt Relief in Nominal Terms (Millions of U.S. dollars)	Agreement to Provide Relief Beyond HIPC?	Comments
Multilateral			
IMF	120	n.a.	Provided grants through PRGF-HIPC Trust Fund. Average of 48 percent of debt-service payments.
AfDB/AfDF	190.7	n.a.	Debt-service reduction of 80 percent annually until debt relief is delivered.
IDA/IBRD	1,157.1	n.a.	Debt-service relief of 69.1 percent and 63.6 percent on debts outstanding at end-June 1999 and 2001, respectively.
IFAD	24.5	n.a.	Reduction of 100 percent of debt-service due
BADEA	14.7	n.a.	Concessional rescheduling of the debt and reduced interest rate.
OPEC	9.8	n.a.	Concessionnal loan and restructuring of existing debt.
NDF	3.2	n.a.	Contribution to HIPC Initiative Trust Fund, to pay 100 percent debt service.
EADB	0.6	n.a.	Reduced interest rate and extension of repayment period.
EU	37.9	n.a.	Provided grants at the completion point to pay off outstanding loans.
Paris Club			
Austria	31.3	Yes	Bilateral agreement for PC VII was signed on May 7, 2002.
Belgium	74.3	No	Bilateral agreement for PC VII was signed on November 29, 2002.
Brazil	0.0	Pending	Reminder letter to submit draft agreement for PC VII sent June 2, 2003. Awaiting reply.
Canada	31.1	No	Bilateral agreement for PC VII was signed on October 16, 2002.
France	89.9	Yes	Bilateral agreement for PC VII was signed on March 6, 2003.
Germany	56.2	Yes	Bilateral agreement for PC VII was signed on April 29, 2003.
Italy	132.0	Yes	Bilateral agreement for PC VII was signed on May 7, 2002.
Japan	108.9	Pending	Cancelled 100 percent of ODA loans; has not offered debt relief on commercial and part of bilateral debt (Japanese Food Agency) debts.
Norway	11.1	Yes	Bilateral agreement for PC VII was signed on December 5, 2002.
Netherlands	99.1	Yes	Bilateral agreement for PC VII was signed on March 17, 2002.
Russia	69.6	No	Bilateral agreement for PC VII was signed on July 18, 2003.
United Kingdom	129.2	Yes	Letter dated July 4, 2002, indicating amount of relief under PC VII.
United States	21.3	Yes	Bilateral agreement for PC VII was signed on July 4, 2002.
Non-Paris Club bilateral			
Algeria	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Angola	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Bulgaria	15.1	No	Bilateral Agreement for PC comparable terms was signed on December 19, 2003.
China	37.7	n.a.	Fifteen interest-free loans maturing December 31, 1999, canceled.
Czech Republic	0	No	The debt has been assigned to Lazard.
Egypt	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Hungary	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Iran, Islamic Rep. of	0	No	Tanzanian delegation is currently conducting active negotiations.
Iraq	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Kuwait	n.a.	n.a.	Signed bilateral agreement on March 8, 2003. Rescheduled 9 pre-cutoff-date loans on concessional terms.
Libya, Arab Jamahiriya	0	No	Tanzanian delegation is conducting active negotiations.
Romania	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
United Arab Emirates	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Yugoslavia	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Zambia	0	No	Request letter for debt relief under PC VII terms sent April 17, 2002. Awaiting reply.
Zimbabwe	0	No	Diminimus clause.

Source: Bank of Tanzania.

Table 10. Tanzania: External Debt Indicators, 2001/02–2011/12 1/
(After bilateral relief beyond the enhanced HIPC Initiative)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Debt indicators at the HIPC completion point 2/											
NPV of debt-to-GDP ratio	14.2	14.7	14.8	14.8	14.9	15.1	15.1	15.1	15.0	14.9	14.9
NPV of debt-to-exports ratio 3/ 4/	105.2	112.1	115.6	117.0	117.3	117.5	116.8	116.2	115.2	114.3	114.4
NPV of debt-to-revenue ratio 5/	126.5	125.2	124.4	123.4	120.7	118.7	116.8	113.5	110.5	106.5	103.9
Debt-service-to-export ratio 6/	6.4	5.7	6.2	6.9	6.4	5.7	5.6	5.3	5.6	5.6	4.9
Debt service-to-revenue ratio 5/	8.0	6.6	7.1	7.9	7.1	6.3	6.0	5.6	5.8	5.6	4.8
Updated debt indicators 7/											
NPV of debt-to-GDP ratio	20.7	20.7	21.4	21.8	21.0	20.1	19.3	18.3	17.2	16.8	16.2
NPV of debt-to-exports ratio 3/ 4/	137.6	135.1	130.9	124.7	120.2	117.9	116.4	113.7	110.4	108.6	105.5
NPV of debt-to-revenue ratio 5/	171.2	171.5	166.1	160.9	152.6	143.0	137.7	130.5	112.9	110.2	106.5
Debt-service-to-export ratio 6/	6.0	4.8	5.1	4.2	4.8	4.9	4.6	4.2	4.2	4.2	4.1
Debt service-to-revenue ratio 5/	8.0	6.8	7.2	5.9	6.6	6.4	5.9	5.1	4.6	4.5	4.3
Memorandum items:					(In millions of U.S. dollars)						
NPV of debt after bilateral debt relief beyond enhanced HIPC Initiative assistance	1,941	2,090	2,235	2,377	2,507	2,665	2,846	3,002	3,138	3,287	3,373
Debt service after bilateral relief beyond enhanced HIPC Initiative assistance	90	83	97	88	109	120	122	118	128	135	137
GDP	9,378	10,077	10,464	10,915	11,923	13,268	14,765	16,430	18,284	19,615	20,844
Exports of goods and services	1,495	1,716	1,911	2,092	2,254	2,437	2,647	2,838	3,044	3,196	3,356
Exports of goods and services (3-year mvg. avg.)	1,411	1,547	1,707	1,906	2,085	2,261	2,446	2,641	2,843	3,026	3,198
Government revenue	1,134	1,219	1,345	1,478	1,643	1,863	2,067	2,300	2,779	2,982	3,168

Sources: Tanzanian authorities; and IMF staff estimates.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated. All years on July-June basis.
2/ Estimated in November 2001 based on end-June 2001 debt data.
3/ Based on a three-year average of exports (e.g., export average over 1999/00-2001/02 for NPV of debt-to-exports ratio in 2001/02).
4/ Assuming full delivery of HIPC Initiative assistance at end-June 2001.
5/ Revenue is defined as central government revenue, excluding grants.
6/ Based on current year exports.
7/ Estimated in January 2005 based on completion point debt data, new disbursements and full delivery of enhanced HIPC Initiative assistance. Changes in NPV from last staff report are the result of updated exchange rates and discount rates.

Table 11. Tanzania: Millennium Development Goals, 1990-2002

	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates			
Population below $1 a day (percent)	..	19.9	..	..
Poverty gap at $1 a day (percent)	..	4.8	..	..
Percentage share of income or consumption held by poorest 20 percent	..	6.8	..	..
Prevalence of child malnutrition (percent of children under 5)	28.9	30.6	29.4	..
Population below minimum level of dietary energy consumption (percent)	35	49	43	..
2. Achieve universal primary education	2015 target = net enrollment to 100			
Net primary enrollment ratio (percent of relevant age group)	51.4	47.7	54.4	..
Percentage of cohort reaching grade 5 (percent)	78.9	81.3	..	..
Youth literacy rate (percent ages 15-24)	83.1	87.1	91.1	91.6
3. Promote gender equality	2015 target = education ratio to 100			
Ratio of girls to boys in primary and secondary education (percent)	95.5	96.7	100.3	..
Ratio of young literate females to males (percent ages 15-24)	86.5	90.7	94.8	95.3
Share of women employed in the nonagricultural sector (percent)	33.1	..	..	..
4. Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	163	164	165	165
Infant mortality rate (per 1,000 live births)	102	103	104	104
Immunization, measles (percent of children under 12 months)	80	78	83	89
5. Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1,500	..
Births attended by skilled health staff (percent of total)	43.9	38.2	35.8	..
6. Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS and other major diseases			
Prevalence of HIV, female (percent ages 15-24)	..	..	8.1	..
Contraceptive prevalence rate (percent of women ages 15-49)	9.5	18.4	25.4	..
Number of children orphaned by HIV/AIDS (thousands)	..	..	810	..
Incidence of tuberculosis (per 100,000 people)	..	..	344	362.7
Tuberculosis cases detected under Direction of Trade Statistics (percent)	..	61	47	43.1
7. Ensure environmental sustainability	2015 target = various			
Forest area (percent of total land area)	45	..	43.9	..
Nationally protected areas (percent of total land area)	..	15.6	15.6	29.8
GDP per unit of energy use (PPP dollars per kg oil equivalent)	1.1	1.2	1.4	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Access to an improved water source (percent of population)	38	..	68	..
Access to improved sanitation (percent of population)	84	..	90	..
Access to secure tenure (percent of population)	..	..	..	..
8. Develop a Global Partnership for Development	2015 target = various			
Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..
Fixed-line and mobile telephones (per 1,000 people)	3.1	3.3	17.1	24.1
Personal computers (per 1,000 people)	..	1.7	3.6	4.2
General indicators				
Population (millions)	25.5	29.6	34.5	35.2
Gross national income (billions of U.S. dollars)	4.8	4.9	9.4	9.7
GNI per capita (U.S. dollars)	190	160	270	290
Adult literacy rate (percent of people ages 15 and over)	62.9	69.2	76	77.1
Total fertility rate (births per woman)	6.3	5.7	5.3	5.0
Life expectancy at birth (years)	50.1	48.5	44.4	43.1
Aid (percent of GNI)	28.8	17.1	13.7	13.2
External debt (percent of GNI)	158.6	144.7	72.2	77.6
Trade (percent of GDP)	50.1	59.3	39.2	40.3

Source: http://www.developmentgoals.org.

February 10, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

LETTER OF INTENT

AND MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. The Government of the United Republic of Tanzania is implementing a financial and economic programme under a three-year low access arrangement under the Fund's Poverty Reduction and Growth Facility (PRGF). Following discussions we held recently with the Fund staff, on behalf of the Government I hereby transmit the attached Memorandum of Economic and Financial Policies (MEFP), which reviews recent economic developments and progress in the implementation of the 2004/05 programme supported by the PRGF arrangement, and sets out policies the Government intends to pursue during the remainder of the fiscal year.

2. Progress under the 2004/05 programme has been satisfactory. All, except for one quantitative performance criterion and one quantitative benchmark for end September 2004 were observed. The Bank of Tanzania Net International Reserves (NIR) (performance criterion) and Net Domestic Assets (NDA) (benchmark) targets for end-September 2004 were missed on account of more than the projected foreign exchange outflows, driven by higher-than-projected external payments for oil imports and public sector obligations. Also one structural benchmark, namely the issuing of Regulations under the Income Tax Act 2004 was not met in time due to the need to consult with stakeholders, just as was done with the law itself. The regulations were issued in October, 2004. In this regard, we are seeking a waiver of the non-observance of the quantitative performance criterion, and completion of the third review under the PRGF arrangement, and the consequent disbursement of the fourth loan in an amount equivalent to SDR 2.8 million. Due to delays in discussion of the amendments of the Bank of Tanzania Act and the Banking and Financial Institutions Act with the

Zanzibar authorities, we request a modification of the performance criteria for the fifth disbursement under the arrangement, as explained in para. 28 of the MEFP. The fifth disbursement will be subject to the fourth review expected to be completed by end-August 2005, based on the conditions set forth in Tables 1 and 3 of the attached MEFP. Conditions for disbursements during the third year of the arrangement will be determined also at the time of the fourth review.

3. The Government reaffirms its commitment in pursuit of maintenance of macroeconomic stability, including monetary and fiscal policies, as well as structural reforms especially in tax administration, strengthening of the financial sector, and improving governance. The Government believes that the policies and measures described in the attached MEFP are adequate to achieve the objectives of the 2004/05 programme. We will continue to provide the Fund with the required information to assess progress in implementing the programme and will also consult with the Fund on the adoption of any measures that may be appropriate at the initiative of Tanzania or the Fund.

4. The Government of Tanzania intends to make the contents of this letter and those of the attached MEFP available to the public and authorizes its publication on the IMF website, together with Fund staff reports on the third review under the PRGF, once the Executive Board completes the review.

Yours sincerely,

/s/

Basil P. Mramba (MP)

Minister for Finance

Attachment: Memorandum of Economic and Financial Policies.

Memorandum of Economic and Financial Policies for the Balance of 2004/05 and the Medium Term

I Recent Economic Developments and Progress Under the Programme:

1. During 2003/04, the economy recorded satisfactory performance, with 5.6 percent growth during calendar year 2003 despite the severe drought that affected agriculture and energy sectors, and a sharp rise in petroleum prices at the world market. In 2004, agricultural production is expected to recover, on account of improved weather conditions, and there is a noticeable improvement in mining, construction, transportation, communications, manufacturing, trade and tourism activities. Manufacturing for exports, including Export Processing Zones and SMEs continues to pick up. On the basis of the overall performance of the economy during the first three quarters of 2004, the projected real GDP growth of 6.3 percent under the programme in 2004 is achievable.

2. Inflation increased from 4 percent at end June 2003 to 6.5 percent at end June 2004 on account of higher than normal food prices due to drought conditions and higher oil prices, but has since fallen. Based on the newly adopted consumer price index discussed below, the headline inflation reached the highest level of 4.7 percent in April 2004, with annual food inflation peaking at 8.4 percent. However, recovery in food production, owing to favourable weather helped to contain inflationary pressures since then. Headline inflation eased to 4.0 percent in the year to September 2004, with food inflation slowing to 4.6 percent. Developments in non-food (underlying) inflation were largely influenced by changes in prices of fuel and power, which contributed to an increase in non-food prices to 3.2 percent in the year ending September 2004.

3. Consistent with the commitment to publishing reliable statistics in a timely manner, the government has introduced the new series of Consumer Price Index (CPI) whose basket is based on the 2000/01 household budget survey. The change is on account of commodity market prices movements over time and changes in the composition of the basket of goods and services consumed by a typical household

4. The fiscal programme in 2003/04 was also affected by the drought, and a supplementary budget was approved by Parliament in February 2004 partly for the replenishment of food supplies from imports, and to provide support to

TANESCO for generation of the more costly thermo electricity instead of hydro power. Otherwise, budget execution in 2003/04 was better than anticipated. Domestic revenue was 4 percent above budget estimates mainly due to positive performance in income and petroleum taxes' which were 13.7 percent above the collections in 2002/03. Actual expenditure in 2003/04 improved compared to 2002/03, with higher execution on account of frontloading of budget support funds by donors. In this regard, original plans to use Ministries, Departments, and Agencies' (MDAs) expenditure cuts as a source of finance in the Supplementary Budget were not applied to PRS priority sectors due to good revenue performance, better than expected external resources, and further savings in other areas of the budget. In the year to June 2004, net domestic financing resulted in a build up of TShs 44.3 billion in government bank deposits, in contrast to a TShs 106 billion drawdown projected under the programme.

5. Improvement was also recorded in expenditure management and efficiency during 2003/04. Whereas expenditure execution was slow in the first two quarters of 2002/03, it was relatively higher in the first two quarters of 2003/04, reducing the problem of expenditure accumulation in the fourth quarter. This was facilitated by the continued quarterly allocations for PRS priority sectors, frontloading of the majority of budget support funds (received by the end of the second quarter, allowing early cash releases to spending MDAs), and improvements in the understanding of the Procurement Act 2001 by MDAs facilitated by procurement training and experience. The early utilisation of cash releases to MDAs is expected to be further improved following the amendments to the Public Procurement Act, passed by Parliament in November 2004. These include the decentralization of tendering process to MDAs and transforming the Central Tender Board into a Regulatory Authority. But, there are still notable weaknesses in expenditure management, especially with respect to management of cash spending. As a result, in 2003/04 the net accumulation of uncashed government checks was TSh 50 billion (0.4 percent of GDP), with the check float totaling TSh 137 billion (1.2 percent of GDP) at the end of the year.

6. In the first quarter of the current fiscal year, overall budgetary performance was broadly in line with budget estimates. Revenue collections during the first quarter exceeded projections by about 5.5 percent largely due to higher collections from VAT on imports and income taxes. Actual collections during the first quarter reflect a 26 percent nominal growth over the corresponding period last year. The improvement in tax revenue collection comes partly as a result of ongoing reforms of tax policy and administration, reduction of tax exemptions and improvements in customs services and administration. On the other hand, there has been significant improvement in expenditure management and efficiency, both in priority sectors, as well as in other charges of all MDAs. Total

recurrent expenditure amounted to TShs 499 billion and was 80 percent of budget estimates, while the execution of domestically financed spending was at 84 percent. Cumulative net domestic financing of the budget in July – September 2004 was in line with programme ceiling; Government had a build up of deposits of TShs 105 billion, against an adjusted programme target of a TShs 94 billion.

7. Reform of the tax system continues to be on track. The new Income Tax law became effective on 1st July, 2004 and the regulations for its application were effected in October 2004. The regulations provide for, among other things, the limitation of the Minister's authority to grant exemptions to emergencies and subject to prior approval of the Cabinet. The Government is also currently considering recommendations from a recently completed consultancy on the review of other tax laws, including rationalisation of the administration provisions of different tax laws as part of our ring-fencing agenda. Similarly, TRA is implementing second generation reforms promulgated in its Corporate Plan for 2003/04 – 2007/08. Following recommendation of a Fund mission on Customs reform, and assistance from a resident technical assistance team of Customs experts, significant reforms have been initiated in the customs administration. These include the commencement of destination inspection based on risk based examination of entries and establishment of post clearance audit teams. The Large Taxpayers Department, which now serves 200 taxpayers, is also being strengthened through recruitment of staff with the requisite skills and reorganisation on functional basis. Following the changes made in the VAT structure, notably the increase of the threshold for registration, and the repeal of Stamp Duty on receipts, preparations have begun for reorganisation of TRA headquarters and regional offices on functional lines.

8. Implementation of the Public Financial Management Reform Programme (PFMRP) has begun, following the appointment of the Programme Manager and Coordinator, and completion of a memorandum of understanding with the participating donors. This shall be the main vehicle for rolling out the benefits of consolidated accounting and expenditure control to effective budgeting and cash management. As a precautionary measure, an IFMS disaster recovery site has also been implemented. Problems associated with the capturing of project funds persisted during the year 2003/04, and discussions to ensure that development partners channel the resources through the government system are underway. In this regard, the Government continues to urge development partners to adopt general budget support as their preferred instrument for aid delivery. The fiscal years for local and central governments have been harmonised (July to June) with effect from this year in order to improve planning for financing service delivery at the local level.

9. During the fiscal quarter to September 2004, monetary policy stance tightened amidst strong credit growth. Monetary policy implementation during the quarter was challenged by substantial upward pressures on reserve money emanating from high inflows of official donor assistance to the budget, largely unanticipated expenditure float from 2003/04, and low demand for liquidity sterilization instruments at prevailing interest rates. Reflecting active liquidity management by the Bank of Tanzania (BOT), reserve money amounted to TShs 863.6 billion, by end September 2004 and was under the programme ceiling. Broad money supply (M3) grew by 21.7 percent in the year through September 2004, while M2 grew by 20 percent. Currency in circulation increased significantly due to high demand for cash to finance seasonal crop marketing transactions following a relatively good crop harvest in 2004, and bank deposits rose largely on account of a boost in exports proceeds, coupled with foreign inflows and increased credit creation following expansion of economic activities in the country.

10. Credit to the private sector remained strong, reaching an annual growth rate of 47 percent at end June 2004, but slowed to about 34 percent at end September 2004, following repayment of some matured loans. The sustained high level of credit to the private sector is attributed to increased competition in the banking sector; the increase in the number of credit-worthy borrowers; and the ongoing efforts by the Government and the private sector to improve the business environment, including the amendment of the Land Act, 1999 to facilitate the use of land as collateral. The ratio of banks' credit to the private sector improved from 6.1 percent of GDP in June 2003, to 8.6 percent in September 2004, reflecting continued expansion in economic activities in the country.

11. The tightened liquidity management led to more upward pressure on interest rates with the average lending rates rising from 14.2 percent at end June 2004 to 14.9 percent at end September 2004. Likewise time deposit rates rose from an average of 4.3 percent in June 2004 to 4.6 percent in September 2004, in line with the increase in weighted average yields (WAY) of treasury bills. Overall WAY rose from 7.8 percent in June 2004 to 9.6 percent in September 2004. The margin between 1-year lending rate and 12-month deposit rate narrowed from 10.0 percentage points in June 2004 to 9.5 percentage points in September 2004. With the current inflation rate of 4.0 percent registered in September 2004, annual deposit and lending rates were positive in real terms.

12. External sector performance improved during the quarter under review. Balance of payments developments were characterized by modest recovery of traditional exports, strong growth in non-traditional exports, and improvements in

tourism activities. The import bill was lower than expected as the installation of flow meters temporarily disrupted oil imports. As a consequence, the trade account deficit narrowed.

13. A steady inflow of foreign assistance during July –September 2004, coupled with HIPC debt relief, resulted in the increase in official gross reserves to US$ 2,003 million from about US$ 1,878 million at end-June 2004, which is equivalent to about 7.5 months of imports of goods and non-factor services. The nominal exchange rate of the shilling to the U.S. dollar appreciated from TShs 1,107 at end-June 2004 to TShs 1,060 at end-September 2004. This reflected mainly the impact of foreign exchange sales by the Bank to mop up excess liquidity at the time when market conditions reflected an abundant supply of foreign currency in the economy coming from export proceeds, tourism receipts (peak season), and official inflows.

14. During the quarter, the Government continued negotiations with Non-Paris Club bilateral creditors for debt relief on terms comparable to those under the Enhanced HIPC framework. During this quarter, India joined Bulgaria and Kuwait in confirming relief under the HIPC framework, in respect of government –to-government debt, and dialogue is underway with the Abu Dhabi Fund, Libya, and Iran. Contacts with Brazil have not yielded any results yet. To consolidate achievements already recorded in the debt management area, we have carried out a review of the institutional capacity for implementing the National Debt Strategy 2000, and are working with the Eastern and Southern Africa Macroeconomic and Financial Management Institute (MEFMI) to develop an inter-institutional capacity building programme for this purpose.

15. The Government has continued to improve the business environment and consolidate the benefits already obtained from the on-going dialogue with the business community through the Tanzania National Business Council (TNBC) and Investors' Roundtable (IRT). Preparation of the Private Sector Development (PSD) Strategy, incorporating a focus on the SMEs and drawing from several sectoral policy documents, is under way. Implementation on a pilot basis of selected activities under the PSD strategy, commenced in November 2004. Following successful implementation of the pilot phase, the system will be rolled out to other parts of the country. Recognising that business licensing is a regulatory rather than revenue raising instrument, the Government eliminated business licence fees for small businesses and limited it to TShs 20,000 for others The government has also adopted a strategy for business licence reform and a draft law based on the strategy and expected to limit the time to obtain a license to only two days will be presented to Parliament by end-April 2005. Ongoing work include a review of sectoral licensing laws with a view to bringing them in line

with the strategy. Furthermore, preparatory work for the registration of businesses and assets held in the informal sector has been initiated, with the objective of legalising rights over such assets and promote the informal sector's access to credit.

16. The Government continues to implement the Public Service Reform Programme (PSRP) in order to improve public service delivery. This will be achieved through the Government's long-term plan of capacity building as well as implementing a performance-orientated pay reform. In this regard the Selected Accelerated Salary Enhancement (SASE) scheme continues to be implemented in four ministries (Health, Finance, President's Office–Public Service Management, and President's Office – Planning and Privatisation). As part of performance monitoring and evaluation, the Government is implementing a range of performance based instruments including annual plans, performance budgets, service delivery surveys (SDSs) and open performance appraisals.

II The Programme for the remainder of 2004/05 and the Medium Term Outlook.

A. Successes and Challenges of the PRS

17. The Government remains highly committed to poverty reduction. The first PRS has been in operation for three years. The most tangible gains have been in primary education where nine out of ten children of school age are now enrolled in primary schools. A clear policy decision was to get more children into school system and then address the issue of quality through better teacher training, strengthening of school administration, curriculum development and examination systems. A major secondary education development programme was launched in June 2004, to improve the intake of primary school leavers which is currently only 30 percent. In other poverty indicators the picture is mixed. Reducing poverty in rural areas remains the most difficult challenge. The Government recognizes that given that 80 percent of the poor live in the rural areas, growth of the rural economy is critical. Long-term growth lies in economic diversification, better physical infrastructure and transformation of the agricultural sector. These are addressed in the new national strategy for growth and reduction of poverty, as described below.

B. The national strategy for growth and the reduction of poverty (NSGRP) and medium term macroeconomic objectives

18. Following the completion of the implementation period of the first Poverty Reduction Strategy (PRS) and publication of the final PRS Monitoring Report early 2004, a new National Strategy for Growth and Reduction of Poverty (NSGRP) focusing on sustainable economic growth and reduction of income poverty, social wellbeing, and governance, is being prepared and already at an advanced stage. To maintain the national consensus in the fight against poverty, the NSGRP was presented at a National Poverty Policy Week, November 1-4, 2004, and will be discussed at the regions level before being submitted for approval by the Government. In this respect, all government agencies, civil society representatives, non-governmental organisations, development partners and private sector players, contributed their views during the drafting process.

19. The NSGRP focuses on three core areas as instrumental to poverty reduction in the period 2005-10. These are Growth of the Economy and Reduction of Income Poverty; Improvement of Quality of Life and Social Wellbeing; and Governance and Accountability. Key to higher growth and reduced poverty will be continued sound economic management and the improvement of food availability. Quality of life and social wellbeing will benefit from a special focus on equitable access for boys and girls to quality primary and secondary education, and better availability of clean and safe water. Governance and accountability will be addressed through more equitable allocation of resources, the protection of the rights of the poor and of vulnerable groups and the improvement of personal and material security.

C. Fiscal Policy and Public Resource Management

20. During the remainder of the fiscal year and in the medium term, the Government is committed to continue the pursuit of sound macroeconomic policies, including prudent monetary and fiscal policies in a manner consistent with the macroeconomic objectives under the programme, and strengthening implementation capacity of government institutions, particularly at the local government level, and to facilitate and ensure the achievement of both quantitative and structural targets articulated under the programme.

21. Revenue is expected to continue performing as projected for the remainder of the year. We will continue to enhance domestic resource mobilisation through close monitoring of the tax policy reforms and strengthening the tax administration. In view of the recent reforms in the local governments' taxation

area, we will carry out a study and develop a strategy for local government financing. Efforts to modernise the tax administration will continue to be based on the TRA Corporate Plan. As outlined in previous letters, this includes:

(i) Reorganisation of the TRA along functional lines, and strengthening the Large Taxpayer Department (LTD) after the recent doubling of its coverage to 200 taxpayers, including through deepening the integration of systems to make self-assessment fully functional and through the strengthening of the audit function. Moreover, we intend to further expand the coverage of the LTD to 250 companies by end-June 2005;

(ii) Continuing the Treasury Voucher system as the main instrument of administering exemptions. In this connection, we do not intend to grant any new discretionary tax concessions to investors, including through any expansion of the list of strategic investors maintained by the Tanzania Investment Center. In the event any such tax concessions are made, they will be implemented entirely through the Treasury Voucher system. We will also continue publication of details of beneficiaries from the scheme on the Government and Ministry of Finance websites;

(iii) Improving the efficiency of TRA operations through computerisation, improved personnel practices including training, and improved communication with the public.

(iv) Introducing risk management tools in the Customs administration, and reducing the release times by extending the hours of operations of the customs with the simultaneous review of the release bottlenecks of other agencies;

(v) Complete by June 2005 the quality assurance review of the Customs and Excise Department reforms under the TRA's second corporate plan, including an update of the action plan focusing on post-clearance auditing and compliance;

(vi) Improving overall customs revenue controls through the recently introduced destination inspection procedure; enhancing the post-clearance audit and verification unit; transmitting master manifests from arriving vessels directly to customs; and creating an intelligence unit at customs;

(vii) Maintaining surveillance on the handling of petroleum imports, consistent with the taxation at source and introduction of flow meters at the port of entry to eliminate taxation by estimation.

22. The review of the Tanzania Investment Act is ongoing. We intend to submit to Parliament by February 2005 an amendment to the Act to, among other things, limit the applicability of the fiscal stability clause to at most five years. We also intend to revise the Act governing Export Processing Zones (EPZs) consistent with the trade protocol on the EAC customs union. In the meantime, we will maintain our current policies on restricting EPZ licenses to those companies that have access to preferential trade agreements.

23. Improving expenditure management will remain a priority for the year and in the medium term, particularly by improving the linkage between the budget and the NSGRP. The Budget Guidelines and MTEF for 2005/06 – 2007/08 will include an explicit disaggregation of resources allocated for NSGRP and non-NSGRP expenditures, and reflect the shift from sector to outcome focus in the strategy. Expenditure management is also being strengthened by monitoring more closely the expenditure float and building capacity for better projecting of monthly expenditure requirements. Furthermore, the Government will strengthen the transparency and accountability of expenditure management, consistent with the objectives of the poverty reduction strategy, by rolling out the IFMS to eligible Local Government Authorities and recruitment and training of accounting staff and capacity building at the local government level. Furthermore, the process is underway to amend Authorities' Financial Memorandum to reflect the requirements of the Public Finance Act (PFA) and the New Public Procurement Act, 2004. In view of the new Public Procurement Act 2004, we also intend to review the Public Finance Act 2001 and regulations, with the aim of achieving consistency between the law and the reformed current practices, and effect the penalty and surcharge provisions of the Public Finance Act. Also, improved software is being installed and training has started for the extension of IFMS to another 18 Local Authorities in accordance with the revised strategy and plan of the IFMS Implementation and Coordination Committee (IICC). The Public Financial Management Reform Programme will continue to be used as the main instrument for reducing the fiduciary risk of budget support. Also, the new Public Procurement Act, 2004 passed by Parliament in November, 2004 is expected to improve expenditure efficiency by decentralising procurement decisions and establishing the Public Procurement Regulatory Authority.

24. In line with its National Debt Strategy, the Government is committed to not contracting non-concessional external debt, while continuing with negotiations with the remaining Paris Club and non-Paris Club bilateral creditors for comparable debt relief. Priority in this area is being given to improving the capacity for evaluation of borrowing and guarantee applications from MDAs, and consolidation of debt data including contingent liabilities.

D. Monetary policies and financial sector reforms

25. Monetary Policy objectives for the year 2004/05 will continue to be directed towards maintaining low and stable inflation, to ensure macroeconomic stability, through maintenance of the appropriate level of liquidity. Recognizing the challenges of liquidity management against the backdrop of continued high aid flows, the Bank of Tanzania will put in place measures to ensure that the evolving liquidity situation does not re-ignite inflation. The measures will include improving the efficacy of the existing monetary policy instruments, undertaking policy-oriented research to identify appropriate policy responses to challenges of monetary policy, improving liquidity forecasting framework, including a framework for projecting government budgetary flows, and improving the internal forecasting and review procedures of the BOT regarding domestic and foreign exchange market operations. Liquidity management will also be facilitated by the operationalisation of the Tanzania Interbank Settlement System (TISS), which enables all large taxpayers to make payments electronically and directly into the Government accounts at the BOT.

26. Taking into account stronger-than-expected expansion of credit to the private sector and in the absence of inflationary pressures, the monetary programme for 2004/05 is being revised to target a growth of 23.5 percent for M3, compared with 23 percent previously envisaged. In view of the lower-than-projected multiplier, this targeted growth of M3 would be consistent with a growth of reserve money of 28 percent, as compared with 23 percent targeted earlier. Given the absence of inflationary pressures, we believe that this revised monetary programme is consistent with our annual inflation target.

27. During the remainder of 2004/05 and in the medium term, the Government will implement a broad-based second generation financial sector reform based partly on the FSAP recommendations, aimed at optimising financial sector contribution to investment and growth of the economy. To this end, the Inter-Institutional Committee for implementing the recommendations of the Financial Sector Reform Programme (FSRP) has prepared an Implementation Action Plan. This plan was shared with stakeholders. The Inter-Institutional Committee will finalize this document for it to be submitted to government by May 2005 for consideration.

28. The role and operations of the BOT will be critical to the effective reform of the financial sector, and more generally to sustain sound macroeconomic and financial policies. In this respect, the Government is reviewing the Bank of Tanzania Act and the Banking and Financial Institutions Act with a view to modernizing the regulatory framework of the Central Bank. Our reforms in this

area are consistent with best practices of SADC harmonisation of the legal and operational framework for the financial sector in the region. Consistent with these principles, to safeguard the autonomy of the Bank of Tanzania, and further strengthen the effectiveness of its operations, the government will submit to Parliament revisions to the BOT Act that aim at enhancing the Bank's autonomy and its governance structures, as well as the transparency and accountability of its operations. Specifically, the amendments to the Act to be submitted to Parliament will include a strengthening of the Board's role as the BOT's decision-making body, a strengthening of the accountability of the Bank for conduct of monetary policy, and an increase in the number of Deputy Governors. As indicated in our letter of July 22, 2004, it had been intended to submit the amendment to the Bank of Tanzania Act, together with the amendment to the Banking and Financial Institutions Act (discussed in the para. 29 below), to parliament by end-February 2005. However, delays in discussion of the amendments with the Zanzibar authorities have delayed submission of the acts to parliament. The government will submit these amendments to parliament by April 30, 2005.

29. While the current Banking and Financial Institutions Act (BFIA) already covers many important areas for establishing a satisfactory framework for bank supervision, the Government considers it necessary to amend it with a view to clarifying the scope of regulatory and supervisory authority, and providing for the establishment of a prompt corrective action framework. To this end, we will submit by end-April 2005 amendments to Parliament, together with amendments to the BoT Act, that, among others, incorporate into the Act a clear set of objectives for banking operations.

30. The restructuring of the National Microfinance Bank (NMB) is at an advanced stage of implementation. The final bid instructions were issued in January 2005, as envisaged in the program. Furthermore, we expect that the preferred bidder will be selected, approved by government, and announced by end-June 2005. The Government is pursuing the divestiture of the bank as part of its strategy for improving efficiency in the sector.

31. As noted in the MEFP of July 22, 2004, the government has been considering options to further improve the availability of medium-term credit to key sectors of the economy. In addition to its developmental objective, this strategy aims at increasing the economy's absorption capacity. To this end, the government intends to introduce credit guarantee schemes under both a Small and Medium Size Enterprises (SME) guarantee facility and a Development Finance Guarantee Facility (DFGF), and is receiving assistance from the Bretton Woods Institutions for the design of these schemes. We are mindful of the risks of

undermining the progress made to date in private financial sector intermediation. However, we believe that the acceleration of structural reforms in the financial sector, particularly improved commercial dispute resolution, wil ensure that the schemes will become redundant over the medium-term. The government will ensure that they (i) operate on market principles, are appropriately funded from the budget, and protect public resources; (ii) include transparent governance; and (iii) provide for appropriate risk-sharing with commercial banks. With a view to starting the scheme on a prudent basis, we will limit the total volume of new guaranteed credit under the DFGF to TSh 50 billion, (excluding a credit guarantee already agreed).

32. The external sector is expected to continue benefiting from increased exports due to strong performance in the mining and manufacturing sectors, and a pick-up of traditional exports following a good harvest of agricultural crops particularly cotton. On the other hand, high oil prices and increased growth of imports of intermediate and capital goods are expected to slightly widen the trade deficit. The overall reserves position is expected to remain around 7 months of import of goods and non-factor services. The BOT will continue to allow the exchange rate to be market determined and limit their interventions to liquidity management, and smoothing out excessive fluctuations.

33. The Government's strategy for trade liberalization is being implemented mainly within the framework of the East African Community (EAC) and SADC. In this regard, the EAC Customs Union Protocol was ratified by Parliament in November 2004 and preparations for its implementation are underway. The protocol establishes a common external tariff (CET) and substantially reduces non-tariff barriers between the member states, and will come into force after being ratified by the Parliaments of all the three member states.

E. Structural Reforms

34. To facilitate the development of the private sector, the Government will strengthen the Better Regulation Unit (BRU), and implement the Business Environment Strengthening in Tanzania (BEST) programme, and continue dialogue with the private sector players through the Tanzania National Business Council (TNBC) and the Investors' Round Table (IRT). We will also continue with reforms aimed at enhancing productivity and profitability in the agriculture sector in order to attract private investments from both local and foreign investors. The key areas of focus will be: provision of readily available land for large scale agriculture, provision of well-targeted incentives for investments in agricultural technology, completion of the ongoing review of the role of crop boards, reform of local government taxation of agricultural produce, and improvement of the

rural infrastructure. Ongoing work on the strategic plan for operationalisation of the Land Act and Village Land Act is also expected to be finalised before June 2005.

35. In recognition of the employment creation and export potential of the sector, additional resources are being channelled to the agriculture sector to support implementation of the District Agricultural Development Plans (DADPs). For the medium term, the government is examining options for promoting the availability of bank credit to the agricultural sector as a measure to remove an important constraint to rural development and poverty reduction in a manner consistent with the second generation reforms of the financial sector.

36. To further consolidate achievements in the area of governance, the government is preparing a new anti-corruption law, to provide among others, a comprehensive framework for the effective prosecution of incidents of corruption. Drafting of the strategies and action plans is in progress and will be completed for all Local Government Authorities (LGAs) and submitted for final government approval by end-June 2005. In addition, resources have been provided in the current year's budget for the preparation of anti-corruption plans by all Local Government Authorities (LGAs). Furthermore, a new mechanism for complaints and grievances on unethical conduct of civil servants will be put in place before end of 2004.

37. The government is also addressing the issue of efficient and expedient commercial dispute resolution through implementation of the Commercial Dispute Resolution component of BEST. Work plans and budgets for all priority activities have been developed and consultations on management structures are underway with key institutions including the Ministry of Justice and Constitutional Affairs, the Judiciary (Commercial Court Division) and the Law Reform Commission. Actual implementation of reforms will take off during the 2005/2006 financial year in line with procedures for direct exchequer disbursements to the legal sector implementing agencies. Priority activities include reform of the Civil Procedure Code which affects the effectiveness of many other commercial and other legislation.

Table 1. Tanzania: Quantitative Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, June 2004 - June 2005

	2004							2005			
	June		September			December		March		June	
	Rev. benchmark	Actual	Performance criteria	Adjusted	Actual	Indicative targets	Rev. estimate	Indicative targets	Performance criteria	Indicative targets	Rev. benchmark
	(In billions of shillings; end of period)										
Net domestic financing of the government of Tanzania											
(ceiling) 1/ 2/	105	-44	-122	-94	-105	-63	-36	48	48	157	157
Accumulation of budgetary arrears (ceiling; benchmark only)	0	0	0	0	0	0	0	0	0	0	0
Net domestic assets of the Bank of Tanzania											
(ceiling; benchmark only) 2/	-578	-655	-1,117	-1,089	-838	-1,064	-800	-903	-769	-867	-776
Reserve money (ceiling)	813	800	875	875	864	979	1,000	960	984	1,001	1,028
	(In millions of U.S. dollars, unless otherwise indicated; end of period)										
Net international reserves of the Bank of Tanzania (floor) 3/	1,326	1,385	1,700	1,675	1,501	1,740	1,586	1,642	1,545	1,646	1,589
Accumulation of external payments arrears (ceiling) 4/	0	0	0	0	0	0	0	0	0	0	0
Contracting or guaranteeing of external debt on											
nonconcessional terms (ceiling	0	0	0	0	0	0	0	0	0	0	0
Memorandum item:											
Foreign program assistance (grants and loans) 1/	563	543	366	--	341	483	499	558	596	671	709

Source: Tanzanian authorities and IMF staff estimates and projections.

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the technical memorandum of understanding (TMU) attached to the government's letter of July 22, 2004.

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

2/ To be adjusted upward for the Tanzania shilling equivalent of any shortfall in foreign program assistance from the amounts shown in the memorandum item. Figures are different from BoT (NDA) in the monetary authority are. adjusted for the program exchange rate.

3/ To be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item.

4/ Continuous performance criterion; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 2. Tanzania: Structural Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, July 2004-June 2005

Measure	Date of Implementation	Status
Tax policy and administration		
Develop a plan to introduce a computerized risk-management system aimed at expediting customs clearance primarily through reducing significantly the number of shipments that are physically inspected. 1/	End-December 2004	Observed.
Submit to Parliament an amendment of the Tanzania Investment Act, to limit the applicability of fiscal stability clauses to at most five years. 1/	End-February 2005	Revision of Tanzania Investment Act in progress, subject to discussions with stakeholders.
Financial sector reform		
Issue final bid instructions for the sale of the National Microfinance Bank (NMB). 2/	End-January 2005	Observed.
Submit to Parliament amendments to the Bank of Tanzania Act and the Banking and Financial Institutions Act. 2/	End-April 2005	Revised to end-April due to delays in concluding discussions with stakeholders. Modification of performance criteria requested.
Governance		
Draft anticorruption strategies and action plans to be completed for all Local Government Authorities and submitted for final government approval. 1/	End-June 2005	On track; draft guidelines have been prepared and will be issued to local government authorities following discussions with stakeholders.
Publicizing of the list of companies, individuals, and NGOs that have received tax exemptions each quarter under the Treasury Voucher scheme. 1/	Quarterly	Observed.
Promulgate the implementing regulations for the new Income Tax Act, consistent with para. 26 of the LOI. 1/	End-September 2004	Regulations were made effective as of October 1, 2004.

1/ Structural benchmark.

2/ Performance criterion.

Table 3. Tanzania: Structural Performance Criteria and Benchmarks Under the Poverty Reduction and Growth Facility Arrangement, July 2004-June 2005

Measure	Date of Implementation
Tax policy and administration	
Expand the coverage of the Large Taxpayer Department to 250 taxpayers. 1/	End-June 2005
Complete the quality assurance review of the Customs and Excise Department reforms under the TRA's second corporate plan, including an updating of the action plan focusing on post-clearance auditing and compliance. 1/	End-June 2005
Submit to parliament an amendment of the Tanzania Investment Act, to limit the applicability of fiscal stability clauses to at most five years. 1/	End-February 2005
Financial sector reform	
Government approval and announcement of preferred bidder for National Microfinance Bank (NMB). 2/	End-June 2005
Submit to Parliament amendments to the Bank of Tanzania Act and the Banking and Financial Institutions Act. 2/	End-April 2005 3/
Finalize and submit to government the Financial Sector Reform Implementation Action Plan. 1/	End-May 2005
Governance	
Draft anticorruption strategies and action plans to be completed for all local government authorities and submitted for final government approval. 1/	End-June 2005
Publicizing of the list of companies, individuals, and NGOs that have received tax exemptions each quarter under the Treasury voucher scheme. 1/	Quarterly

1/ Structural benchmark.
2/ Performance criterion.
3/ The authorities have requested a delay from end-February to end-April 2005.

Tanzania: Relations with the Fund
(As of December 31, 2004)

I. **Membership Status:** Joined 09/10/62; Article VIII

II. **General Resources Account:**	SDR million	Percent Quota
Quota	198.90	100.00
Fund holdings of currency	188.90	94.97
Reserve position in Fund	10.00	5.03

III. **SDR Department:**	SDR million	Percent Allocation
Net cumulative allocation	31.37	100.00
Holdings	0.05	0.15

IV. **Outstanding Purchases and Loans:**	SDR million	Percent Quota
Poverty Reduction and Growth Facility	272.35	136.93

V. **Financial Arrangements:**

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	08/16/2003	08/15/2006	19.60	8.40
PRGF	04/04/2000	08/15/2003	135.00	135.00
PRGF	11/08/1996	02/07/2000	181.59	181.59

VI. **Projected Obligations to Fund (without HIPC assistance)**
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	**2006**	**2007**	**2008**	**2009**
Principal	38.32	46.32	46.61	42.89	36.65
Charges/interest	1.97	1.76	1.51	1.29	1.09
Total	40.29	48.08	48.12	44.18	37.74

Projected Obligations to Fund (with Board-approved HIPC assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	**2006**	**2007**	**2008**	**2009**
Principal	31.40	40.43	39.32	35.70	31.59
Charges/interest	1.97	1.76	1.52	1.29	1.09
Total	33.37	42.20	40.84	36.98	32.68

VII. Implementation of HIPC Initiative:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	Apr 2000
Assistance committed (NPV terms)[1]	end-June 1999
Total assistance (US$ million)	2,026.00
Of which: Fund assistance (SDR million)	88.95
Completion point date	11/21/01
Delivery of Fund assistance (SDR million)	
Amount disbursed	88.95
Interim assistance	26.68
Completion point balance	62.27
Additional disbursement of interest income[2]	7.45

VIII. Safeguards Assessments:

The safeguards assessment of the Bank of Tanzania (BoT), which was completed on December 5, 2003, found that, while the bank had a relatively strong internal control environment, some vulnerabilities existed, notably in the external audit and financial reporting areas. In order to mitigate these vulnerabilities, staff recommended that the BoT: (i) contract annual external audits that are conducted in accordance with International Standards on Auditing (ISA); (ii) adopt International Accounting Standards (IAS) as the financial reporting framework; (iii) establish a formal process of reconciling accounting data to the program data reported to the Fund; (iv) publish the full audited financial statements on a timely basis, within five months of the financial year's end; and (v) adopt an audit charter for the internal audit function to strengthen audit methodologies and procedures. The 2003/04 financial statements were audited by a local auditor, TAC—using ISA standards though TAC is not itself fully IAS compliant—and were published with a brief delay. To ensure full ISA and IAS compliance in the audit of the 2004/05 financial statements, the authorities have selected Deloitte and Touche, Johannesburg, to conduct a joint audit with the TAC. The BoT will hold a new three-year external ISA/IAS compliant audit tender by early September covering the 2005/06, 2006/07, and 2007/08 financial years. The BoT board has adopted IAS as its financial reporting framework, and a reconciliation process was recently adopted.

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[1] Net present value (NPV) terms at the decision point under the enhanced framework.

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

IX. Exchange Arrangements:

The currency of Tanzania is the Tanzania shilling. The official exchange rate is determined on the basis of the rate established in the interbank market for foreign exchange. The middle rate in terms of the U.S. dollar, the intervention currency, was T Sh l,043 per U.S. dollar as of end-December 2004. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultation:

The most recent Article IV consultation was concluded on August 6, 2004 (Country Report No. 04/285).

XI. Technical Assistance, 2001–05:

Department	Date	Form	Purpose
Fiscal Affairs	March 2001	Mission	Fiscal decentralization
	May 2001	Short-term consultant	Translation of government accounts and operationalization to the standard classifications
	October 2001	Mission	Report on Observance of Standards and Codes (ROSC) fiscal transparency module and preparation of an assessment and action plan for tracking poverty-reducing expenditure
	2001–02	Long-term consultant	Strengthening of fiscal analysis at the Ministry of Finance
	October 2002	Mission	Tax administration
	2002–03	Long-term consultant	Public expenditure management
	Mar.–May 2003	Peripatetic advisor	Tax administration
	April 2003	Mission	Inspection and tripartite review
	June–Sep. 2003	Long-term consultant	Public expenditure management
	Sep.–Oct. 2003	Peripatetic advisor	Tax administration
	Oct 2003	Mission	Tax administration
	November 2003	Multicountry mission	EAC tax harmonization
	April 2004	Mission	Customs administration
	July 2004	Peripatetic advisor	Tax administration
	July 2004	Mission	Public Expenditure Management Assessment and Action Plan
	September 2004	Mission	Review of mining taxation
	September 2004	Mission	Tax administration (Zanzibar)
Legal	Oct. 21–Nov. 2, 2002	Mission	Income tax law
	March 17–April 3, 2003	Mission	Income tax law
	Sept. 15–27, 2003	Mission	Income tax law
	June 6–13, 2004	Mission	Income tax law

	July 2004	Mission with MFD	Central and commercial bank legislative reform
	July–November 2004	Desk review	Foreign Exchange Act, Evidence Act, Bills of Exchange Ordnance, National Payment System bill, Electronic Transactions bill
Monetary and Financial Systems	March 2001	Mission	Monetary policy operations
	June 2001	Mission	Public debt and domestic market management
	2001–2002	General Advisor	General advice to the BoT
	Feb. 2003	Mission	Pre-FSAP mission
	May 2003	Mission	FSAP
	November 2003	Mission	FSAP follow-up workshop
	March 2004	Mission	Accounting and banking supervision
	June 2004	Mission	BoT accounting
	July 2004	Mission	Central and commercial banking legislation reform with LEG
	August 2004	Mission	Financial sector reform/FSAP follow-up
	November 2004	Mission	BoT accounting
	December 2004	Mission	Second FSAP follow-up workshop
Statistics	May 2002	Mission	Balance of payments statistics
	2002–03	Long-term consultant	Multisector statistics
	October 2002	Mission	Data ROSC
	June 2003	Mission	Government finance statistics course
	January 2005	Mission	Monetary statistics

XII. Resident Representative:

Ms. Lelde Schmitz took over the Senior Resident Representative position from Mr. Ali Abdi in January 2005.

Tanzania: Relations with the World Bank Group

Partnership in Tanzania's Development Strategy

The government of Tanzania's development strategy is set forth in its Poverty Reduction Strategy Paper (PRSP) and further refined in the first, second, and third progress reports, which were endorsed by the Bank's Board on November 27, 2001, May 29, 2003 and June 2, 2004, respectively. The PRSP focuses on three main areas of outcomes. The first is a reduction in the breadth and depth of income poverty. The outcome targets include a reduction in basic needs poverty and food poverty, with a particular focus on rural areas, where poverty is most prevalent. The second area is that of improving the quality of life and social well-being. More specifically, this entails improving human capabilities, enhancing longevity and survival, and social well-being (social inclusion and personal security), improving nutrition, and containing extreme vulnerability (mainly through safety nets). The third broad area is an environment conducive to development that can be sustained. This environment encompasses macroeconomic stability and good governance. The government of Tanzania is currently finalizing the draft of the new poverty reduction strategy (National Strategy for Growth and Reduction of Poverty, NSGRP), in consultation with stakeholders, including development partners and civil society. The new strategy is expected to be completed by early 2005. The central objective of the new NSGRP will be to achieve faster, more equitable, and sustainable growth. It will also stress governance and accountability in the use of public resources and monitoring and evaluation to enhance the strategy's outcome-oriented focus.

The IMF is supporting Tanzania's poverty reduction efforts in the context of the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Among external partners, the Fund takes the lead in the policy dialogue with the government on macroeconomic policies, including overall fiscal and monetary policy. Under the PRGF arrangement, in addition to macroeconomic targets, the Fund has agreed with the authorities on structural performance criteria relating to reforms in the areas of tax policy and administration, public debt management, financial transparency and good governance, trade policy, and financial sector development. As outlined more fully below, the Bank's support is complementing the Fund's through a focus on sectoral reforms in the context of projects and analytic work and the various phases of the Poverty Reduction Support Credit (currently PRSC-2) covering private sector and rural development, macroeconomic stability, public expenditure management, fiduciary systems, poverty monitoring, and environment.

Bank Group Strategy

The Bank's Board approved the current Country Assistance Strategy (CAS) for Tanzania on June 15, 2000. The World Bank will prepare a new Tanzania Joint Assistance Strategy (TJAS) together with other development partners following the completion of the NSGRP to ensure alignment with the government's strategy. The TJAS is expected to be presented to the Board in FY2006. The focus of the current CAS is on higher economic growth, poverty reduction, and institutional reforms to improve governance. It conforms with the government's main strategy of adherence to macroeconomic stability, increased private sector participation in the economy, a renewed emphasis on rural development, and an improved delivery of social services. It also supports the government's desire to enter into new relationships with its development partners, based on the phased switching from projects to programs for more effective and efficient use of aid resources.

The Bank is providing support for the implementation of the Poverty Reduction Strategy through a series of Poverty Reduction Support Credits and Grants (PRSC). The first PRSC (total US$132 million, of which US$32 million in grants) was approved by the Bank's Board on May 29, 2003. The operation has been prepared in close collaboration with 11 other donors, who provide financial assistance through the Poverty Reduction Budget Support (PRBS) facility, using a joint performance assessment framework and a common review process. The focus of the PRSC/PRBS is on scaling up pro-poor growth, especially through a focus on rural development and improvements in the business environment. The PRSC/PRBS also supports strengthening public expenditure management and public service delivery, especially in the priority sectors for poverty reduction, and putting in place a system to ensure that sectoral programs are accountable for their results. The second phase of the PRSC (PRSC-2; US$150 million, of which US$90 million in grants) was approved by the IDA Board on July 29, 2004.

IDA also provided adjustment lending through PSAC1, and implementation has been satisfactory. The last tranche of the credit in the amount of US$40 million, which supports the government's privatization program and reforms of the regulatory framework, was disbursed in May 2004. The implementation of policy reforms agreed upon under PSAC1 and the PRSC is supported by a series of technical assistance and investment projects. These include project support to improve tax administration, reform the public sector, and develop the financial sector, including rural finance and microfinance.

In the social sectors, the Bank has approved adjustment lending operations for primary education between October 2001 and October 2004 and, most recently, secondary education (US$150 million each). The objectives include improving education, expanding school access, and increasing school retention at the primary and secondary levels. Bank support in this area has already facilitated a significant increase in school enrollment rates. The Bank contributes to the health sector multidonor "basket fund," which supports reforms of the sector and provides funding for nonwage expenditures. A multisector HIV/AIDS project supports Tanzania's efforts to reduce HIV transmission and mitigate the adverse consequences of AIDS. In the water sector, one project supports technical, commercial, and financial rehabilitation of the water supply and sanitation services in Dar es Salaam. Another project supports access to improved and sustained water and sanitation services in rural communities in Tanzania. The objective of the IDA-funded Tanzania Social Action Fund (TASAF) is to increase and enhance the capacities of communities and other stakeholders to prioritize, implement, and manage sustainable development initiatives and, in the process, improve socioeconomic services and opportunities. The Bank's Board approved the Tanzania Second Social Action Fund (US$150 million) on November 30, 2004, as a follow-up to continue with the successful outcomes from TASAF-1.

In the agriculture sector, the Bank supports policy reforms through analytical work and the policy dialogue under the PRSC. The Bank also supported the country's efforts to strengthen research and extension services from January 1998 to June 2004. A Participatory Agricultural Development and Empowerment Project Credit was approved by the Bank's Board in May 2003 to support investments in appropriate technologies to reduce soil fertility decline. A Forest Conservation and Management Project assists the government in policy implementation, in particular by developing a framework for the long-term sustainable management and conservation of Tanzania's forest resources. Another project, covering Tanzania, Uganda, and Kenya, aims at improving management of the Lake Victoria ecosystem.

Efforts to improve Tanzania's infrastructure are supported through projects in the road and railway sectors, as well as through an urban rehabilitation project. In April 2004, the Bank's Board approved a credit in the amount of US$122 million to (1) upgrade strategic road links, (2) enhance road management capacity, and (3) improve the operations of Tanzanian Railways (TRC and TAZARA). The policy dialogue focuses on the preparation of a new Road Act, which will provide the basis for strengthening the policy and institutional framework for road development and maintenance.

In the power sector, the Bank has helped the government implement the Power Sector Restructuring Program. It has encouraged the government to develop the domestic gas market and to generate lower-cost power through the Songo Songo Gas Development and Power Generation Project. Since 2003, an extended drought has caused electricity load-shedding in Tanzania's predominantly hydropower system. The Bank's Board approved an Emergency Power Supply Credit in the amount of US$45 million in June 2004.

Another recently approved project is the Local Government Support Project (US$52 million), which aims to strengthen fiscal decentralization, improve accountability in the use of local government resources, and improve the management of intergovernmental transfer systems. In addition, the project's objectives are to increase access to infrastructure and services in unplanned areas of Dar es Salaam and improve revenue performance for sustainable operations and maintenance.

The IFC's committed portfolio in Tanzania as of November 30, 2004, stood at US$26.4 million. IFC's investments are in agribusiness, manufacturing, tourism and finance. In the micro, small, and medium enterprise sector, a joint IDA/IFC program is expected to go to the Board in FY2005. MIGA's outstanding portfolio in Tanzania, as of June 30, 2004, consists of one contract of guarantee for the Bulhanhulu gold mine, with a US$89 million gross exposure, of which MIGA's net exposure is US$19.4 million.

Tanzania joined the World Bank Group in 1962. Beginning with an IDA credit for education in 1963, a total of 137 credits, 7 grants and 27 loans, totaling US$5.4 billion (US$5.1 billion from IDA) have been provided to Tanzania. Total disbursements amounted to US$4.4 billion as of November 30, 2004 (US$3,853.7 million from IDA, US$355.6 million from the IBRD, and US$169.7 million IDA grant). Currently, the portfolio comprises 25 active projects, with commitments of US$1.7 billion in all major sectors. As of November 30, 2004, the portfolio's undisbursed balance stood at US$994 million.

Statement of Loans, Credits, and Grants
(As of November 30, 2004; in millions of U.S. dollars)

	IBRD	IDA	IDA Grant	TOTAL
Original Principal:	361.03	4,784.47	274.40	5,419.90
Cancellations:	5.48	231.59	0.00	237.07
Disbursed:	355.55	3,853.68	169.75	4,378.98
Undisbursed:	0.00	877.78	116.36	994.14
Repaid:	355.90	370.77	0.00	726.67
Due:	-0.44	3,870.36	0.00	3,869.92
Exchange Adjustment:	441,526.00	0.00	0.00	441,526.00
Borrower's Obligation:	0.00	3,870.36	0.00	3,870.36
Sold 3rd Party:	0.09	6.20	0.00	6.29
Repaid 3rd Party:	0.09	6.20	0.00	6.29
Due 3rd Party:	0.00	0.00	0.00	0.00

Source: World Bank Group

Bank-Fund collaboration in specific areas

The IMF and World Bank staffs maintain a close collaborative relationship in supporting the government's structural reforms. As part of its overall assistance to Tanzania—through lending, country analytic work, and technical assistance—the Bank supports policy reforms in the following areas in collaboration with the Fund:

- **Public expenditure management.** Improvements in public expenditure management have been one of the top priorities of the Tanzanian government since 1995. The Bank, the Fund, and other donors have worked closely to provide the government the needed support for institutional and policy reforms. While the Fund is leading the dialogue on fiscal policy, the Bank is focusing on strategic resource allocation and operational efficiency of public expenditures. In the area of overall fiscal policy, the reduction of domestically financed deficits has resulted in sustained macroeconomic stability over the past five years. To enhance strategic resource allocation and operational efficiency, the Bank is supporting a government-led, participatory public expenditure review/medium-term expenditure framework (MTEF) process. This effort that has supported the strengthening and opening up of the budget process as well as the allocation of resources to pro-poor priority areas. In addition to process, support, and analytical work in this area, the Bank is also supporting policy reforms through the PSAC and the PRSC. Another area of Bank involvement is the fiscal decentralization process, where, in addition to ongoing analytical work, project support is planned to start in 2005 through the Local

Government Support Project. The Bank and the Fund collaborate closely to support institutional budget and expenditure management reforms. A recent Country Financial Assessment Analysis (CFAA), in which the Bank, other donors, and the government collaborated; an IMF Report on the Observance of Standards and Codes (ROSC); and a joint Bank-IMF assessment of capacity to track poverty-reducing expenditure have all noted the improvements in public financial management and fiduciary systems in recent years. The Bank also prepared a Country Procurement Assessment Report, which provides an agenda for strengthening procurement systems in Tanzania.

- **Tax policy and administration reform.** The Bank and the Fund have, over the past few years, cooperated closely to support the government's efforts to modernize the tax system and to enhance the domestic revenue collection. While the Fund has taken the lead in reforms and adjustments of tax policy, the Bank has taken the lead in reforms to strengthen tax administration. As a result, the ratio of revenue to GDP ratio has increased in recent years, an outcome that is important to Tanzania's efforts to improve public service provision and fully finance the implementation of the poverty reduction strategy.

- **Financial sector reforms.** Tanzania has instituted far-reaching reforms in the financial sector. The Bank and the Fund have been working closely to support these policy reforms. In addition to contributing to the policy dialogue, the Bank has provided significant technical assistance for financial sector reforms. This includes two financial institution development projects that support, respectively, the withdrawal of the government from banking and nonbanking financial institutions and the strengthening of financial sector supervision. Successful outcomes of these reforms include the privatization of Tanzania's largest bank and the entry of a fairly large number of international banks into the Tanzanian market. Other areas of Bank involvement include the reform of the capital and securities authority, reform of pension systems, and liberalization of capital accounts. Through a separate project, the Bank supports the development of rural and microfinance services. A joint Bank-Fund Financial Sector Assessment was completed in June 2003.

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

- **Trade reforms.** The Bank and the Fund are working closely to assist Tanzania in establishing a pro-growth trade framework. While the Fund is focusing on reforms of the tariff regime, the Bank is focusing on trade expansion though its regional trade facilitation project. The Bank is also involved at the regional level in the dialogue on trade reforms in the context of the East African Community.

World Bank Senior Country Economist: Robert Utz (202-473-0612)

TANZANIA: STATISTICAL ISSUES

The Tanzanian authorities cooperate fully in providing available data to Fund missions in a timely manner. Moreover, Tanzania's economic and financial database is adequate for program-monitoring purposes, but remains weak despite considerable technical assistance and progress in some areas. Tanzania has few statistical publications and no fully articulated publication policy. Only limited data are reported for Zanzibar. The authorities are committed to improving the production and dissemination of macroeconomic and socio-demographic statistics in the framework of the General Data Dissemination System (GDDS). In October 2000, a GDDS multisector statistics mission assessed Tanzania's statistical systems and provided guidance on statistical practices and development in the areas of national accounts, price, foreign trade, balance of payments, fiscal, monetary, and sociodemographic data. Tanzania's GDDS metadata were initially posted on the IMF's Dissemination Standards Bulletin Board (DSBB) in July 2001 and last updated in May 2004. A mission to prepare the data module for a Report on the Observance of Standards and Codes (data ROSC) was completed in October 2002, and the report was published in March 2004.

National accounts

National accounts statistics are prepared by the National Bureau of Statistics (NBS) on the basis of data collected by its regional offices and by other government entities. But the data sources for compiling the estimates by expenditure category, the external sector data, and the indicators used to extrapolate benchmark production levels are deficient. These deficiencies impede the accurate estimation of the savings-investment relationship. To improve the quality of the national accounts, the authorities, with help from donors, are changing the base year of the national accounts to 2001 from 1992. It is expected that the new series, using data from the recent agricultural census and the 2000/01 household budget survey, will be published in the 2004/05 fiscal year.

Prices

The NBS compiles a monthly consumer price index (CPI) based on consumer expenditure in 20 urban centers. Since mid-May 1996, data have been reported within three weeks of the end of the month. In September 2004, the authorities began publishing the new CPI (retroactive to January 2003) using new weights calculated from the 2000/01 household budget survey data. Key changes are a reduction of the weight given to food from 71 percent to 56 percent and an expansion of the number of products. In addition, the authorities plan to publish regional price indices and expand the producer price index series.

Government finance statistics

Although the authorities provide Fund missions with monthly data on central government revenue, expenditure, and financing on a timely basis, the underlying concepts differ from international standards in the treatment of lending minus repayments and transfer payments. Despite improvements in the recording of government transactions, discrepancies remain between revenue and expenditure data, on the one hand, and financing data, on the other. The discrepancies seem to be related to the different sources used for these data. The coverage of the central government sector in the fiscal data appears to be different from that in the monetary data. Following the creation by the Ministry of Finance, with donor assistance, of a database of donor-funded projects in 2001/02 (July-June), the amount of foreign-financed projects reported by and channeled through the budget has increased significantly. No information is yet provided on the financial position of local governments, although the authorities stated that there were plans to produce these reports.

The government has completed the computerization of its accounting system for budgetary units, which the authorities indicate would allow resumption of reporting in the *Government Finance Statistics (GFS) Yearbook*. However, the computerized accounting system does not yet provide details about development expenditure and has not yet been extended to cover the extrabudgetary units.

Monetary statistics

The October 2002 data ROSC mission determined that the quality of monetary statistics was compromised by various methodological problems, in particular the exclusion of rural banks and nonbank deposit-taking institutions from the institutional coverage, the incomplete subdivision of the resident sector data owing to an inadequate sectorization of various accounts in the bank reporting system, the lack of market-based valuations of foreign-currency-denominated securities, and, finally, the treatment of accrued interest in a highly aggregated manner.

To address these problems, the mission recommended that the Bank of Tanzania (BoT): (i) extend the coverage of monetary statistics to include all depository corporations; (ii) revise the bank report forms to permit a more detailed scheme for sectorizing resident data; (iii) modify the bank reporting system to emphasize appropriate sectoral distinctions between various accounts; (iv) revalue foreign-currency-denominated securities on a regular basis at market-based prices; and (v) sectorize accrued interest. The status of the implementation of these recommendations is currently being reviewed by STA.

Balance of payments statistics

Foreign trade data are prepared by Fund staff missions on the basis of customs data from the BoT, which in turn are compiled by the Tanzania Revenue Authority (TRA) based on customs records. A balance of payments statistics mission in May 2002 found that there continued to be a significant underrecording of trade and that information on invisible transactions was sparse. The authorities have acknowledged these problems in their response to the data ROSC report published in March 2004 and have indicated that the BoT plans to commission a joint study by the NBS and the TRA to determine the magnitude of underrecorded trade and design an appropriate method of estimation. This study is expected to take place in 2005/06.

Tourism revenue is estimated on the basis of data records of the foreign international exchange transactions reporting system (ITRS). However, a tourism survey was recently introduced, and the results are expected to be released in 2004/05. The authorities intend to use the survey results to improve the reporting of revenue (this is expected to increase the reported level of tourism receipts).

Information on official grant and loan receipts is prepared by Fund staff through contacts with official agencies. The data on current and capital transfers (grants) are estimates, based in part on data provided by the Ministry of Finance and, in part, on United Nations Development Program projections. Disaggregation of the data has improved, but more work is needed here and in the coverage and periodicity of data.

Data on private capital flows are presently quite weak. While some information on private banking sector flows can be derived from the monetary survey, other private capital flows are not adequately captured through the ITRS records and are reflected in "errors and omissions." However, the authorities have made commendable progress in collecting information, for the first time conducting a survey in 2000 of private capital flows and stocks, particularly foreign direct investment transactions covering direct investment income, equity capital transactions—including the noncash acquisition of equity—and intercompany loans. The authorities have also updated the registry of enterprises with foreign equity capital. The 1999 data obtained from the 2000 survey of private capital flows, which show significantly higher levels of inward direct investment than indicated in the ITRS records, have been incorporated into the balance of payments statistics since late 2003. A second survey of private capital flows was undertaken covering data for 2000 and 2001. The results of this survey are expected to become available during 2004/05, and the authorities are actively considering how to use them to improve the reporting of foreign direct investment.

Data on the gross and net official reserves of the BoT are provided monthly with a short lag and more frequently on request. Similarly, data on the foreign assets and liabilities of the banking system are provided with relatively short lags.

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

Tanzania: Core Statistical Indicators

As of January 25, 2005

	Exchange Rates	Inter-national Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Con-sumer Price Index	Exports/ Imports[1]	Current Account Balance	Overall Govern-ment Balance[2]	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	12/2004	12/2004	12/2004	12/2004	11/2004	12/2004	11/2004	11/2004	6/2004	9/2004	2003	7/2004
Date received	1/2005	1/2005	1/2005	1/2005	12/2004	1/2005	12/2004	1/2005	8/2004	11/2004	11/2004	8/2004
Frequency of data [3]	D	M	M	D/M	M	M	M	M	A	M	A	M
Frequency of reporting [3]	D	M	M	M	M	M	M	M	A	M	A	M
Source of data [4]	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting [5]	E	E	E	E	E	E	E	E	E	C	M	E
Confidentiality [6]	C	C	D	D	C	C	C	C	C	D	C	C
Frequency of publication [3]	D	M	M	D/M	M	M	M	M	A	M	A	A

Source: Tanzanian authorities.

1/ Based on Bank of Tanzania data. Daily reserve money is received on an intermittent basis.
2/ Contains only partial information on the development budget.
3/ Codes for frequency of data, frequency of reporting, and frequency of publication are the following: **D**-daily; **W**-weekly; **M**-monthly; **Q**-quarterly; **A**-annually; and **O**-other. Daily reserve money is received on an intermittent basis.
4/ Code for source of data is **A**-direct reporting by central bank, Ministry of Finance, or other official agency.
5/ Codes for mode of reporting are the following: **C**-cable or facsimile; **E**-electronic data transfer; and **M**-mail.
6/ Codes for confidentiality are the following: **C**-for unrestricted use; and **D**-embargoed for a specified period and thereafter for unrestricted use.

Press Release No. 05/41
FOR IMMEDIATE RELEASE
February 24, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under Tanzania's PRGF Arrangement and Approves US$ 4.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the third review of Tanzania's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 03/127.) The completion of the review enables a further release of an amount equivalent to SDR 2.8 million (about US$4.2 million) under the arrangement, and will bring the total disbursements under the program to the equivalent of SDR 11.2 million (about US$17 million).

The Board also granted a waiver for the nonobservance of the end-September 2004 performance criterion on net international reserves, due to the temporary nature of the deviation, and modified a structural performance criteria related to amendments of banking laws.

Following the Executive Board's discussion on Tanzania's economic performance on February 23, 2005, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"The Tanzanian authorities deserve much credit for maintaining a strong macroeconomic performance under their PRGF-supported program. The country has made further strides in enhancing macroeconomic stability and addressing key impediments to growth through the accelerated pursuit of structural reforms. This strong performance also reflects the broad ownership of the country's reform program. Despite these successes, Tanzania will need to sustain its reform efforts in the areas of energy, infrastructure, trade facilitation, governance, fiscal management, and financial sector reform to make deeper inroads against poverty. The draft National Strategy for Growth and Reduction of Poverty appropriately focuses on policies to improve the business and investment environment, and its outcome-based approach and intended links with the budget are welcome.

"While impressive progress has been made in revenue mobilization, continued efforts to generate domestic resources will provide critical support to growth and poverty reduction, and will help lower Tanzania's high level of aid dependence over the medium term. The authorities plan to further develop the reform agenda in this area, including by continuing the reorganization of the Tanzania Revenue Authority and further strengthening its Large Taxpayer Department.
They will also continue efforts to improve public expenditure management, and the quality of spending and its allocation among sectors.

“Liquidity pressures arising from high aid inflows continue to present challenges to monetary policy. The Bank of Tanzania’s (BoT) effort to meet its reserve money targets and to use a fuller range of options to mop up liquidity are commendable. This effort should be sustained, with continued emphasis on foreign exchange sales, and arrangements for ensuring that liquidity management does not undermine the financial position of the central bank. Close cooperation between the BoT and the Finance Ministry will also be important. More generally, the issues of liquidity management must be addressed through sustained efforts to improve Tanzania’s absorptive and institutional capacity.

“The ambitious financial sector implementation plan currently being finalized is an important framework for further improvements, particularly with regard to the provision of credit to larger portions of the economy, notably agriculture. Swift implementation of the amendments to banking sector legislation and the privatization of the National Microfinance Bank will help sustain the progress in the financial sector. It will also be important that the authorities remain committed to ensuring that the development-oriented credit guarantee scheme is of limited size, transparent, and appropriately financed with strong governance, and refrain from policies that involve more direct government participation in development finance,” Mr. Carstens said.

Statement by Peter J. Ngumbullu, Executive Director for United Republic of Tanzania and Joseph L. Masawe, Senior Advisor to Executive Director
February 23, 2005

Introduction

1. The Tanzanian authorities express their appreciation for the continuous support they have received from the Fund and thank management and staff for their close collaboration and support to the authorities' development efforts. They believe that their engagement with the Fund has been very productive, contributing positively towards improving the macroeconomic environment in Tanzania. The authorities are also thankful to the international community for their support to the ongoing development agenda.

2. Tanzania continues to enjoy a stable macroeconomic environment and a rapidly growing economy, following comprehensive economic recovery measures implemented by the authorities. Since the 1990s, Tanzania has consistently been making positive achievements in macroeconomic stabilization, as the authorities continue with implementation of broad structural reforms and market based policies. The reforms resulted in overall increase in total factor productivity, with real GDP growth being maintained at around 6 percent and inflation kept below 5 percent.

Recent Macroeconomic Developments

3. Real GDP growth is estimated to have grown by 6.3 percent during 2004, compared to 5.6 percent in 2003, originating mainly from strong growth in agriculture, construction, mining and tourism. Recovery in food production owing to good weather helped to contain headline inflation below 5 percent, in line with program projections.

4. Fiscal performance during 2003/04 was strong, with budget execution being better than projected. Good performance in income and petroleum taxes enabled the revenue target to be exceeded by 4 percent. Actual expenditure was higher, relative to last year, but within the budget, due to better than expected external resources and savings by the government on other non-priority expenditures. During the year, budget execution also recorded significant progress, as ministries, departments and agencies got used to the new procurement Act passed by the parliament last year. The new Act is aimed at improving the government procurement process, through decentralized decisions and establishment of a public procurement regulatory authority. The strong fiscal performance has been sustained over the first quota of 2004/05, with revenues being 9 percent above target. Aggregate expenditure was also broadly in line with program targets with net domestic financing of the government performance criterion being observed.

5. Monetary policy remained broadly on track, despite significant liquidity management challenges. Because of increased sterilization operations to meet liquidity targets and increased demand for credit by the private sectors, treasury bill interest rates rose by about 2½ percentage points to around 10 percent per annum. Liquidity operations brought money supply growth to programmed levels, facilitating achievements of targets for end-September 2004.

6. On the external sector front, performance of exports was robust, following recovery of traditional exports and continued good performance of non-traditional exports, especially gold and tourism. This was possible despite structural impediments, which continue to hamper exports and an appreciation of the Tanzanian shilling by about 9 percent in nominal terms, between June and December 2004.

Performance under the Program

7. Progress under the 2004/05 program has been satisfactory, with all quantitative benchmarks being observed, except one performance criterion and one benchmark. The BOT's Net International Reserves (NIR) performance criterion and Net Domestic Assets (NDA) benchmark could not be met on account of higher than programmed foreign exchange outflows to pay for petroleum imports following increases in world oil prices. This shortfall however was only temporary and Tanzania's external reserves position remains strong. One structural benchmark on issuing of regulations under the Income Tax Act was also not observed, but the regulations were issued in October 2004. The delay was due to the need to consult with stakeholders, as was with the law itself.

Macroeconomic Policies for 2005 and Medium-Term Outlook

8. The Tanzanian authorities remain committed to policies aimed at facilitating a high level of growth, which is necessary for poverty reduction. Given developments in the economy, we are optimistic that the projected real GDP growth of 6.5 percent and overall inflation target of 4.0 percent for the year are achievable. However progress towards attainment of MDGs remains slow, given the challenges facing the implementation of the laid down strategies. The authorities recognize that over 80 percent of the population live in rural areas, where they depend on agriculture. In view of this reality, the development strategy for the medium and long-term remains focused towards transforming agriculture and improving rural infrastructure. These priorities are addressed in the National Strategy for Growth and Reduction of Poverty (NSGRP) for 2005 to 2010, following completion of a three-year implementation period of the first PRS. The NSGRP is being prepared through a participatory process focusing on medium and long-term issues of growth, economic diversification, structural reforms, improved infrastructure and transforming the agricultural sector.

Fiscal Policy

9. The authorities remain committed to prudent fiscal polices. While revenue performance is expected to remain strong, measures aimed at strengthening revenue collection, through structural reforms and modernization of tax administration will continue to be implemented. In this connection, the government will ensure that the new corporate plan for the Tanzania Revenue Authority (TRA) continues to be implemented, while the Tanzania Investment Act will be amended to minimize revenue loss through tax exemptions. Similarly, expenditure management will be strengthened by improving the linkage between the budget and the NSGRP, while ensuring improved governance, transparency and accountability.

Monetary and Financial Sector Policies

10. Monetary policy objectives will continue to be directed towards maintaining a stable and low level inflation, which is important for macroeconomic stability. The Bank of Tanzania (BOT) will implement measures that will improve the efficacy of the current monetary policy instruments, so as to improve its conduct of monetary policy. This is particularly important, given the continued high aid inflows and the associated liquidity pressure in the economy.

11. Improvement of financial intermediation remains critical to the Tanzanian economy. The authorities intend to implement reforms aimed at enhancing the role of the financial system in growth promotion. The recommendations of the recently conducted FSAP workshop in Dar es Salaam will be an important input in achieving this objective. Recognizing the important role of the Bank of Tanzania in effective reform of the financial sector, amendments to the BOT and Banking and Financial Institutions Acts will be submitted to Parliament this year, with a view to clarifying the scope of regulatory and supervisory powers of the central bank and enhance its independence and accountability. As part of the strategy to improve the efficiency of the financial sector, restructuring of the National Microfinance bank is proceeding well and measures aimed at privatizing the bank are at an advanced stage.

Structural Reforms

12. While reforms in the tax policy and financial sector have been accelerated, further reforms aimed at enhancing productivity especially in the agricultural sector, while fostering investment will be implemented. Also the ongoing review on the role of crop boards and reforms in local government taxation of the agricultural sector will be stepped up. Recognizing the limited energy generation capacity of the country, the authorities will undertake reforms in the energy sector, to increase the availability of energy, especially electricity, to the majority of the population and at affordable rates.

Concluding Remarks

13. Since the 1990s, Tanzania has consistently implemented broad based structural reforms and moved towards market-based policies. These measures have resulted in a sustained high level of growth, which is important for poverty reduction. However, despite this impressive performance, there remain several challenges, which must be addressed in order to meet the MDGs and other economic and social development objectives.

14. Tanzanian authorities remain committed to policies aimed at deepening the reform, which is key in facilitating a high level of growth. It is recognized that over 80 percent of Tanzanians are poor rural agricultural producers, whose future development highly depends upon transforming agriculture and improving rural infrastructure. It is for this reason that the new NSGRP intends to put more emphasis on attaining a sustainable growth level, which is necessary for the reduction of income poverty and hence, improvement in social well-being of the majority of the people.

15. Tanzania will have an opportunity for its people to once again, exercise their democratic rights, in electing a new government and a new parliament end of this year. The coming elections will be the third elections under the multi-party system in Tanzania. The authorities have made all the necessary preparations, particularly putting in place mechanisms that will ensure free and fair elections. As we look forward to a new government in Tanzania, it is noteworthy to point out that while the government has always played the leading role in the reform process, the strength of the reforms in Tanzania has been derived from the broad ownership, participation and support by all Tanzanians.

16. Given the very satisfactory performance and the commitment of the authorities in implementing prudent macroeconomic policies and a credible reform agenda, they are requesting for waiver of the missed performance criterion, modification of structural performance criteria and completion of the third review, under the current PRGF arrangement.