IMF Country Reports 18/11

Republic of Tanzania: Seventh Review Under the Policy Support Instrument-Press Release; Staff Report

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/11

UNITED REPUBLIC OF TANZANIA

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT

January 2018

In the context of the Seventh Review Under the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on December 12, 2017, with the officials of the United Republic of Tanzania on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument. Based on information available at the time of these discussions, the staff report was completed on December 22, 2017.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.

The document listed below has been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Tanzania*

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No.18/01
FOR IMMEDIATE RELEASE
January 11, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh PSI Review for Tanzania

On January 10, 2018, the Executive Board of the International Monetary Fund completed the seventh and last review of Tanzania's economic performance under a program supported by the Policy Support Instrument (PSI).[1] The decision was made without a Board meeting[2] and included the granting of waivers for the non-observance of the end-June 2017 assessment criteria on the floor of tax revenues and the ceiling of domestic expenditure arrears on the grounds that the slippage was minor and in light of the articulation of corrective measures, respectively.

The PSI for Tanzania was approved by the Board on July 16, 2014 (see Press Release No. 14/350). The program was subsequently extended to January 15, 2018. Tanzania's program under the PSI aims at maintaining macroeconomic stability and promoting a more inclusive growth. It supports the authorities' objectives on reforms to strengthen public finance management, improve efficiency and transparency of public spending, and move to an interest rate-based monetary policy framework.

Tanzania's recent economic performance has been mixed and the outlook is subject to emerging risks. Although GDP data point to continued strong growth, other high frequency data suggest a weakening of economic activity. Tax revenue collections are lower than expected and credit growth has stagnated reflecting in part banks' rising nonperforming loans (NPLs). Inflation remains moderate, and international reserves have increased substantially.

---

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

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

There are downside risks to economic growth in the short term stemming from slow budget implementation, a challenging business environment, and private sector concerns about authorities' enforcement of rules.

Program performance under the PSI has been broadly satisfactory. Most quantitative targets for June and September 2017 were met. While progress in structural reforms has been mostly slow, efforts have been boosted to advance them.

Macroeconomic policies will need to be closely coordinated. After recording a small fiscal surplus in July-September against a programmed deficit, the government is planning to step up budget implementation, particularly in development spending. The monetary policy stance and liquidity forecasting and management will need to be closely coordinated with fiscal developments.

Strong growth and job creation are needed to address high poverty and a large underemployed youth population. Infrastructure gaps and the business climate have also become increasingly challenging and require response. Sustained reforms will be needed to achieve the strong private sector-led growth envisioned by the government's development plan. Budget credibility and implementation need to be improved and arrears prevented. Additional domestic revenue needs to be mobilized through tax policy and administration reforms, while improving the functioning of the VAT refunds system. Addressing the high stock of NPLs is a priority to reduce financial sector vulnerabilities and revive credit growth.

INTERNATIONAL MONETARY FUND

UNITED REPUBLIC OF TANZANIA

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

December 22, 2017

KEY ISSUES

Tanzania's economic program supported by the 2014–18 PSI has been marked by relatively strong macroeconomic performance, but uneven implementation of structural reforms.

Recent economic performance has been mixed. Although GDP data point to continued strong growth, other high frequency data indicate a weakening of economic activity. Tax revenue collections are lower than expected and credit growth has stagnated reflecting in part banks' rising nonperforming loans (NPLs). Inflation remains moderate, and international reserves have increased substantially.

Program performance under the PSI has been broadly satisfactory. Most quantitative targets for June and September 2017 were met. While progress in structural reforms has been mostly slow, efforts have been boosted to advance them.

Macroeconomic policies will need to be closely coordinated. After recording a small fiscal surplus in July-September against a programmed deficit, the government is planning to step up budget implementation, particularly in development spending. The monetary policy stance and liquidity forecasting and management will need to be closely coordinated with fiscal developments.

Significant challenges remain. Strong growth and job creation are needed to address high poverty and a large underemployed youth population. There are large infrastructure gaps, and the business climate has become increasingly challenging. Sustained reforms will be needed to achieve strong growth led by the private sector as aimed in the government's development plan. Budget credibility and implementation need to be improved and arrears prevented. Additional domestic revenue needs to be mobilized through tax policy and administration reforms, while improving the functioning of the VAT refunds system. Addressing the high stock of NPLs is a priority to reduce financial sector vulnerabilities and revive credit growth.

Staff recommends completion of the seventh review under the PSI.

Approved By
Roger Nord (AFR) and Daria Zakharova (SPR)

A staff team consisting of Mr. Villafuerte (head), Mr. Jang, Ms. Radzewicz-Bak (all AFR), Mr. Tapsoba (FAD) and Mr. Iizuka (SPR) visited Dodoma and Dar es Salaam during September 21–27 and November 30–December 12, 2017. Messrs. Mukhopadhyay (Resident Representative) and Rutachururwa, and Tarimo (local economists) assisted the mission. Mses. Attey and Tenison provided administrative and research support. Messrs. Odonye and Nakunyada (OED) participated in the discussions. The mission met with Minister of Finance and Planning Mpango; Bank of Tanzania Governor Ndulu; other senior officials; development partners; and representatives of the private sector and civil society.

CONTENTS

APPENDICES

BACKGROUND

1. **The Tanzanian authorities' economic program supported by the 2014–18 PSI arrangement has been marked by relatively strong macroeconomic performance, but uneven implementation of structural reforms (Text Table 1).**[1] Fiscal revenue and deficit outturns have been broadly in line with program targets and Tanzania has maintained a low risk of debt distress. Progress has been made in improving the accuracy and timeliness of the fiscal data, but domestic payment arrears have been a recurring issue. The Bank of Tanzania (BoT) has successfully carried out a reserve money targeting framework, holding inflation at single digit levels. International reserves have remained at adequate levels. The level of financial development has improved in recent years, though at a gradual pace.

Text Table 1. Tanzania: Performance Under the Current PSI Arrangement

	Assessment Criteria (ACs) and Indicative Targets (ITs)		Structural Benchmarks	
	Met	Missed	Met	Missed
First PSI Review	6	1 (tax revenue)	3	3
Second Review	6	1 (tax revenue)	3	2
Third Review	6	2 (domestic arrears, tax revenue)	1	4
Fourth Review	6	1 (domestic arrears)	3	1
Fifth Review	5	2 (domestic arrears, fiscal balance)	1	4
Sixth Review	5	2 (domestic arrears, tax revenue)	2	3
Seventh Review	5	2 (domestic arrears, tax revenue)	1 (and 2 are in progress)	1

2. **With the current arrangement coming to an end in January 2018, significant challenges remain.** Strong growth and job creation are needed to address high poverty, a large population of underemployed youth, and a sharply rising population. There are large infrastructure gaps and the business climate has become increasingly challenging. Budget credibility and

[1] The PSI arrangement was originally scheduled to expire in July 2017, but upon the authorities' request it was extended for additional six months i.e. until January 15, 2018.

implementation need to be improved. Domestic revenue needs to be mobilized through tax policy and administration reforms in the face of declining external aid flows.

3. **The authorities have requested a successor nonfinancial arrangement.** Discussions on key elements that could underpin a successor arrangement are underway. Thus, this PSI review focuses on performance under the current PSI and broad policy directions.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

4. **Macroeconomic performance has been mixed, with various indicators suggesting a reduced growth rate of economic activity**. While the official GDP data point to a strong macroeconomic performance—with real GDP growth reportedly at 6¾ percent (yoy) in the first half of 2017—other high frequency data suggest much weaker economic activity.[2] Headline inflation remains close to the BoT's 5 percent target, and core inflation (excluding food and energy) subdued at around 2 percent. The external current account deficit halved to about 3 percent of GDP in 2016/17. While exports and imports have, both declined, imports fell sharply driven by a decline in capital goods, oil, and travel services. Active foreign exchange (FX) operations and external borrowing in June allowed international reserves to strengthen to 5.2 months of import coverage at end-2016/17, much higher than the 2.4-3.2 months of import coverage required by traditional reserve adequacy measures.[3]

5. **Program implementation has been broadly satisfactory.** Most assessment criteria (AC) and indicative targets (IT) for end-June 2017 were met.[4] The AC on tax revenue was missed (again) by a small margin (0.1 percent of GDP) due to shortfalls in excises. Staff supports a waiver for non-observance of this AC on the grounds that the breach was minor. Based on unverified arrears' figures, the AC on the accumulation of domestic payment arrears for the end of the fiscal year 2016/17 (FY2016/17) was missed by a large margin (about 1.6 percent of GDP).[5] Staff supports a waiver for non-observance of this AC on the basis of corrective actions being taken to prevent further incurrence of arrears, including under a World Bank Development Policy Operation (DPO).

[2] For instance, a decline in private sector credit, a sharp increase in nonperforming loan ratios, weaknesses in tax revenue collections would suggest a deceleration in economic growth. Technical assistance (TA) from the East AFRITAC is assisting the authorities in addressing weaknesses in national accounts' compilation, which is likely to lead to downward revisions to the published growth number for the first half of 2017.

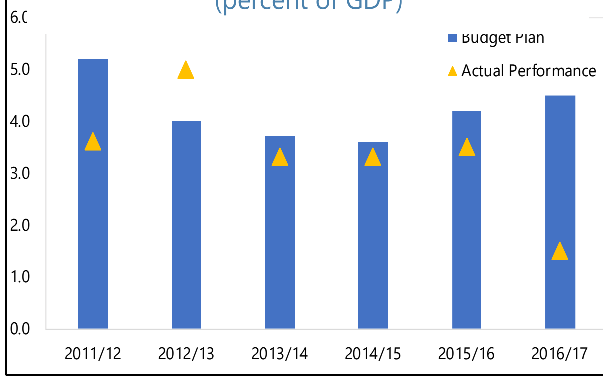
[3] IMF Country Report No. 16/253, "Staff Report for the 2016 Article IV Consultation and Fourth Review Under the Policy Support Instrument."

[4] Longstanding external arrears claims made by Wallis Trading and Belgium, and a claim from a private engineering company that obtained a judiciary order to seize a purchased plane in Canada on account of an international arbitration award continue to be disputed by the authorities pending an internal validation process.

[5] The June 2017 figure is not fully comparable with the June 2016 one, since the latter was audited and verified by the Internal Auditor General. Reportedly, one third of arrears' claims at the end of 2015/16 were found to be unsubstantiated. Furthermore, a preliminary analysis of the unaudited arrear claims shows that about half of their increase relates to claims older than two years, i.e., not attributable to FY2016/17. The Audit General Department has been also tasked to verify VAT refund claims since FY2016/17, which puts a burden on that department without the allocation of additional resources. Verification of half of the arrear claims, including the larger ones, is slated to be completed by end-March 2018 and the remainder by June 2018.

Those actions aim at producing a strategy paper by end-January 2018 on clearance of existing arrears and prevention of new arrears, including through strengthening the commitment control system (process all commitments through the Integrated Financial Management Information System (IFMIS), refrain from committing new projects without assurance of availability of funds; impose sanctions on accounting officers that authorize the supply of goods and services for the government without Local Purchase Orders generated from the IFMIS), improving revenue forecasting based on realistic macroeconomic assumptions, and enhancing cash and debt management. Most ITs for end-September 2017 were met. The structural benchmark (SB) on the settlement of arrears to pension funds was not met, but the authorities prepared a draft bill to merge various pension schemes and review the formula for calculating pension benefits, a positive development that has been long overdue. Three SBs, set to facilitate the timely transition to an interest-rate based monetary policy framework are expected to be implemented in the coming weeks (see ¶19).

Text Figure 1. Overall Fiscal Deficit
(percent of GDP)



6. **Budget execution in FY2016/17 was slower than expected**. The overall fiscal deficit on a cash basis was 1.5 percent of GDP in 2016/17, below a revised program target of 3 percent of GDP and an initially programmed target of 4.6 percent of GDP. The lower deficit reflected a slow budget execution, particularly of development projects, due to a more centralized and deliberate approach to decision-making and delays in external financing and project preparation and implementation. Total revenue was broadly in line with the program, although weaker underlying collections were offset by much lower-than-expected payments of VAT refunds.[6] Excise collections were lower than initially programmed, owing to reduced consumption of various goods. Late disbursement of external loans and slow budget execution led to a substantial buildup of government deposits with the BoT, some of which remain earmarked to specific projects.

7. **Budgetary execution in early FY2017/18 suggest that last year's pattern has yet to be reversed.** Revenue was lower than programmed in the first quarter (July–September) by 0.3 percent of GDP mainly reflecting continued underperformance of excises as well as delays in implementing some of the revenue-enhancing measures adopted in the 2017/18 budget. Spending execution, particularly for development projects, continued to be slow leading to an overall fiscal surplus of 0.2 percent of GDP against a programmed deficit of 0.8 percent of GDP.

8. **Monetary conditions have continued to be tighter than programmed.** Average reserve money, the BoT's operational target, has consistently undershot targets, declining by

[6] Only Tsh 58 billion in VAT refunds were paid in 2016/17, compared with Tsh 570 billion in 2015/16 owing to broad and protracted audits of related claims.

1.5 percent (yoy) in October. Broad money growth also remained low at 6 percent (yoy) in October. The under-execution of fiscal spending has been a factor behind the tighter-than-programmed domestic liquidity conditions. In response, the BoT reduced the minimum reserve requirement on private deposits (from 10 to 8 percent), gradually lowered its discount rate (from 16 to 9 percent), and stepped up its liquidity injection operations. These actions have reduced the overnight interbank rate substantially. However, high and rising NPLs, combined with a weak business environment, continue to constrain private sector credit, which declined for the second consecutive month by 1.5 percent (yoy) in October.

9. **The situation in the banking sector has deteriorated.** Non-performing loans (NPLs) have continued to increase to 12.5 percent of total loans in September from 9.1 percent a year ago. Asset quality has deteriorated in almost all economic sectors, particularly in trade, manufacturing, transport, and communication. The increasing NPLs reduced banks' profits, which declined to 2 percent of assets and 8.7 percent of equity in September, the lowest levels since 2007. Although system-wide indicators point to a relatively high average capital adequacy ratio, there has been a sizable reduction in capitalization ratios particularly in community banks. Twiga Bancorp, which remains under BoT statutory management since October 2016, will be merged with another bank soon. FBME Bank and Mbinga Community Bank were handed over to the Deposit Insurance Board for liquidation.

POLICY DISCUSSIONS

A. Economic Development Plan

10. **Tanzania's second Five-Year Development Plan, 2016/17–2020/21 (FYDP II) aims at economic transformation through industrialization and human development**. The industrialization strategy seeks to capitalize on Tanzania's comparative advantages, particularly its agricultural and mining potential, and geographic location making it a natural trading and logistics hub for East Africa. To facilitate private sector-led growth, the government aims to maintain macroeconomic stability, address a large infrastructure gap, combat corruption, and create a business environment conducive to job creation. Considering large investment needs, the government plans to mobilize more domestic revenue and use public-private partnerships (PPPs) for large infrastructure projects to limit government borrowing.

11. **Significant public investment is planned over the coming years.** Major projects include the standard gauge railway linking Dar es Salaam with Mwanza, the 2100 MW Stiegler's Gorge hydro power project, the Bagamoyo port development, and the Hoima-Tanga pipeline linking Uganda's Lake Albert oil fields to the Tanzanian port of Tanga. Timelines and financing modalities are not yet fully decided, and it was agreed that the medium-term scenario presented in the previous staff report continues to be relevant and will guide the authorities' public investment plans. Thus, the baseline scenario assumes that the overall fiscal deficit would increase to about 4½ percent of GDP for a few years, before converging back to below 3 percent of GDP as major public investment projects are completed and in line with regional commitments toward the planned East African Monetary Union. That scenario allows Tanzania to maintain its low risk of debt distress rating as indicated in the accompanied debt sustainability analysis (DSA) update.

B. Macroeconomic Outlook and Risks

12. **The macroeconomic outlook remains generally favorable over the medium term (Text Table 2).** Assuming a successful implementation of the planned scaling-up of capital spending and an improved business environment, GDP growth could remain at around 6–7 percent in 2017/18 and over the medium term. Inflation is expected to remain close to the authorities' target of 5 percent, provided that the BoT maintains a sound monetary policy stance. The overall fiscal deficit path is projected to accommodate the scaling up of capital spending while ensuring that the risk of debt distress remains low. As the implementation of FYDP II will lead to higher capital spending and imports, the external current account deficit is projected to widen to about 5 percent of GDP in 2017/18, and to around 5.5 percent over the medium-term. Nonetheless, with larger projected inflows of project loans and external nonconcessional borrowing (ENCB), international reserves are expected to remain at an adequate level of about 4½ months of prospective imports over the medium term.

Text Table 2. Tanzania: Selected Economic Indicators

	2015/16	2016/17	2017/18 proj.	2018/19 proj.	2019/20 proj.	2020/21 proj.
Real GDP growth (%)	7.0	6.0	6.2	6.5	6.8	6.7
Inflation (yoy, %, end-period)	5.5	5.4	5.0	5.0	5.0	5.0
Overall fiscal balance (cash basis, % of GDP)	-3.5	-1.5	-4.2	-4.6	-4.6	-3.7
Government capital spending (% of GDP)	4.5	6.7	8.6	8.9	9.0	8.2
External current account balance (% of GDP)	-6.5	-2.7	-4.8	-5.8	-6.0	-5.4
Gross international reserves (in months of next year's imports)	4.8	5.2	4.9	4.6	4.7	4.7

Sources: Tanzanian authorities and IMF staff estimates and projections.

13. **The outlook is subject to considerable risks.** Downside risks are related to the poor business environment and a continued slow execution of infrastructure spending. The deteriorated perceptions regarding the business climate may become a drag on economic activity by failing to unlock new investment opportunities and deterring private sector participation in the major infrastructure projects. A continued low rate of execution of public infrastructure spending would have a negative impact on economic activity in the near term and reduce the growth potential going forward. Additionally, a prolonged slowdown in private sector credit growth could affect economic activity. Externally, tighter global financial conditions could also complicate budget financing through an increase in financing costs. On the upside, a better economic/political environment in neighboring countries can lead to a recovery in manufacturing exports and trans-shipment activities. Discussions centered on mitigating downside risks and adjusting policies to sustain robust and inclusive growth over the medium term.

C. Fiscal Policy

14. **The government is targeting a budget deficit of close to 4 percent of GDP in 2017/18.** Capital spending was originally budgeted at about 10 percent of GDP. However, given concerns about budgetary revenue projections, at the time of the sixth review the authorities agreed to delay some development projects amounting to 1.2 percent of GDP until the mid-year budget review assessment in early 2018. Updated staff projections suggest a 1.6 percent of GDP revenue shortfall relative to budget targets on account of optimistic revenue yields for budgeted measures, slippages in their implementation, and a slowdown in aggregate demand. In that context, staff recommended to confirm the expenditure cuts originally identified and to increase domestic financing to cover for the revenue shortfall this fiscal year. Capital spending would still increase from 6.7 to about 8½ percent of GDP between 2016/17 and 2017/18.

15. **Implementation of the 2017/18 budget is expected to pick up, mainly in development expenditure execution.** Staff noted the need to enhance budget execution given a slow implementation of development spending in the first few months of this fiscal year. The authorities responded that development spending will accelerate in the coming months thanks to the drawdown of proceeds from the US$500 million Credit Suisse loan secured in June–August and other large earmarked government deposits at the BoT. Staff recommended stepping up investment project preparation and implementation, firming up budget financing plans soon, and moving away from the practice of earmarking resources for spending which reduces flexibility in managing budgetary resources. The authorities agreed with those recommendations and noted that carrying out the new Development Cooperation Framework agreed with development partners should help ensure timely disbursements of budget and project assistance.

Text Table 3. Tanzania: Summary Fiscal Operations
(Percent of GDP)

	2016/17		2017/18			
	Annual		Q1		Annual	
	Rev. Prog.	Est.	Prog.	Est.	Prog.	Proj.
Total revenue	15.3	15.4	3.7	3.4	15.4	14.8
Tax revenue	13.0	13.0	3.1	2.9	13.2	12.7
Nontax revenue	2.3	2.4	0.6	0.4	2.2	2.2
Total expenditure	19.1	17.4	4.7	3.7	20.1	19.9
Recurrent expenditure	11.2	10.7	2.4	2.3	11.2	11.3
Development expenditure	7.9	6.7	2.3	1.4	8.9	8.6
Grants	0.9	1.0	0.2	0.2	0.8	0.8
Statistical discrepancy	0.0	-0.3	0.0	0.3	0.0	0.0
Overall Balance	-2.9	-1.5	-0.8	0.2	-3.9	-4.2
Financing	2.9	1.5	0.8	-0.2	3.9	4.2
Foreign (net)	1.9	1.6	0.4	0.3	2.5	2.5
Domestic (net)	1.0	-0.1	0.5	-0.5	1.5	1.7

Sources: Tanzanian authorities and IMF staff projections

16. **The 2018/19 budget guidelines target a deficit of about 2½ percent of GDP, compared with a deficit of 4½ percent of GDP envisaged under the current PSI.** The revenue target is about ¾ percent of GDP higher than in the current baseline scenario, but the expenditure

target is about 1½ percent of GDP lower because the budget guidelines do not yet incorporate some major investment projects in the absence of fully-identified financing arrangements. Staff stressed the importance of budgeting based on realistic revenue projections and that although the reorientation of spending from current to development spending is welcome, this should not lead to lower delivery of essential public services needed to meet the FYDP II human capital development objective.[7] The authorities agreed with those views.

17. **Further fiscal structural reforms are needed.** Discussions on specific measures to be taken are ongoing in the following areas, with which the authorities mostly agreed as they were included in the medium-term budget guidelines:

- **Budget credibility and domestic arrears.** The credibility of the budget is negatively affected by the continued incurrence of domestic payment arrears stemming from unrealistic revenue and financing projections behind too large budgetary spending envelopes and weak commitment controls. Plans to settle the stock of domestic arrears in a medium-term context need to be developed.

- **Tax administration and policy.** Meeting the country's development needs while safeguarding fiscal sustainability hinges heavily on raising domestic revenue mobilization in a business-friendly manner through a combination of tax administration and policy measures. Tax administration can be strengthened through risk-based compliance analyses and audits, while the tax base can be broadened by streamlining tax exemptions and simplifying the tax system.

- **Public investment management.** Given Tanzania's development needs and constrained resources, improving investment spending efficiency and project appraisal and selection would help reduce spending pressure. The public investment management (PIM) manual needs to be fully enforced to ensure rigorous feasibility and costing studies. Considering the envisaged scale-up of PPP projects, the proposed amendments to the PPP Act should be completed soon to clarify institutional responsibilities, and the framework for assessing, reporting, and managing fiscal risks arising from PPP projects should be further strengthened.

- **Debt management capacity** needs to be strengthened to ensure that debt recording and payments are done in a timely manner considering disputed external arrears and government guarantees provided, including to agricultural loans. Public debt has risen to 38 percent of GDP at end-2016/17 from 21 percent a decade ago.

D. Monetary and Exchange Rate Policies

18. **Monetary policy will need to be vigilant in the face of an expected recovery in public spending.** The tight fiscal policy stance and an easing of monetary policy, the government and commercial banks have contributed to a substantial increase in deposits at the BoT. Going forward,

[7] Despite substantial progress towards the MDGs, Tanzania is likely to have missed about half of the 2015 targets.

government spending is expected to pick up, particularly on large infrastructure projects. Sizable liquidity injections from fiscal operations may complicate monetary policy management and increase the volatility in short-term interest rates, thus reinforcing the need for close policy coordination between the BoT and the minister of finance on liquidity forecasting and government spending plans. Further liquidity injection operations by the BoT should be avoided considering the current level of excess reserves, while the stalled private sector credit growth should be addressed by financial and structural policy measures, rather than by further easing of the monetary policy stance.

19. **The authorities continue with their plans to transition to an interest rate-based monetary policy framework.** A migration towards short-term interest rates as the operational target for monetary policy is planned for early 2018, and good progress has been made in implementation of three structural benchmarks for the seventh PSI review, aimed to support this transition. The BoT has prepared a draft code of conduct that lays out principles for interbank cash market operations under the new policy regime. The BoT has also finalized the review of the existing collateral framework for its lending facilities and decided to expand eligible collateral to all government securities. In addition, the BoT will launch an electronic platform for interbank money market transactions in January, once the current testing of the platform is finalized. The platform is expected to help banks assess market liquidity, improve pricing, and enhance the transparency of interbank transactions. Staff noted, however, that the implementation of the new monetary policy framework will rely on open market operations as a key instrument (along with standing facilities and reserve requirements) in managing systemic liquidity. This will require developing a good grasp of the monetary transmission mechanism.

20. **The new monetary policy framework will require greater exchange rate flexibility**. The exchange rate has remained broadly stable in both nominal and real effective terms since early 2016.[8] Over the last year, currency appreciation pressures stemming from a sharp fall in the current account deficit have been offset by the BoT's net purchases of foreign exchange as part of its operations to inject liquidity to the system. As a result, and together with a slow execution of key infrastructure projects, gross international reserves have increased considerably to over 5 months of import coverage. Given the high level of financial dollarization, staff recommended maintaining international reserves at about 4½ months of prospective imports rather than the earlier target of 4 months of imports. Tanzania's de facto exchange rate arrangement was reclassified to stabilized from floating, while the de jure arrangement remains classified as free floating.[9] Staff stressed that, in the context of transitioning to an interest-rate based monetary policy framework, greater exchange rate flexibility should be allowed, while the unsterilized foreign exchange operations should be gradually phased out. To support interbank market development, the BoT may also consider to widen the Net Open Position (NOP) limit from current 7.5 percent, as recommended by an MCM technical assistance mission in 2014.

---

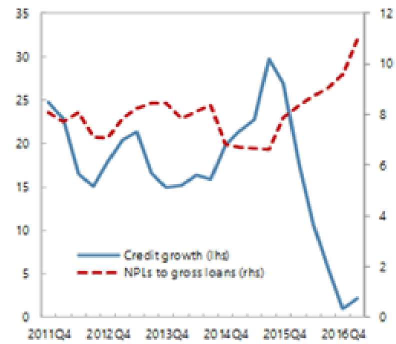
[8] The 2016 Article IV consultation report indicates that the exchange rate was broadly in line with fundamentals. A full external stability assessment will be provided in the next Article IV staff report.

[9] See the 2017 AREAER Report for Tanzania (http://www.elibrary-areaer.imf.org/Pages/Reports.aspx)

E. Financial Sector Policies

21. **The BoT continues its efforts to address high NPLs and strengthen financial sector supervision.** The provision of credit to the private sector has declined, as banks are coping with deteriorating asset quality. Increasing NPLs are exerting pressure on banks' earnings and will likely affect their capital adequacy and liquidity negatively. The BoT is monitoring the situation closely and has requested affected banks to intensify their loan recovery, including via foreclosures and the establishment of bad bank units in each individual bank, and tighten lending standards. A few banks have also decided to write off a large portion of NPLs and increase provisioning. In June 2017, the BoT introduced a requirement to seek information on potential borrowers' credit score from credit reference bureaus. As credit risk has become significant, the BoT should consider undertaking frequent thematical on-site reviews (with focus on credit and concentration risks) to better assess drivers of NPLs in individual banks, and the adequacy of individual bank's provisions and capital. Expediting the implementation of Basel II capital requirements should also help, as it would allow the regulator to set capital adequacy ratios based on individual risk assessments.

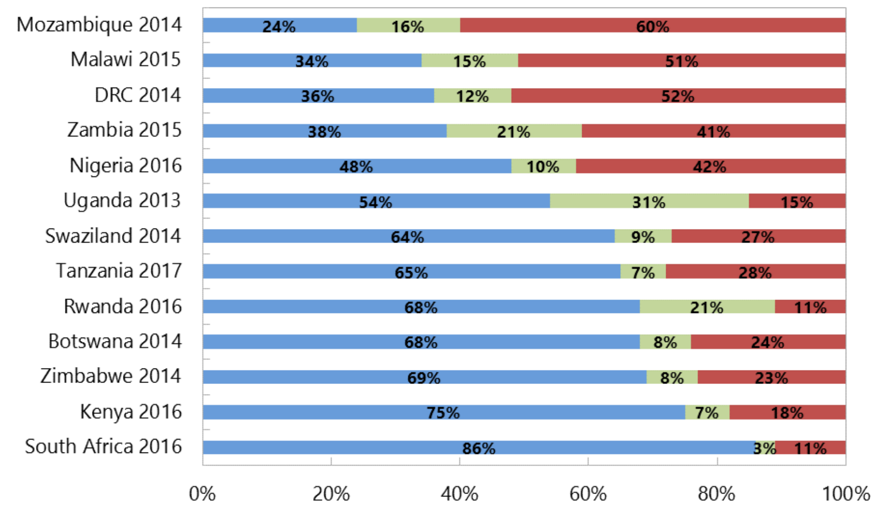
Text Figure 2. Credit Growth and NPLs



22. **The BoT is taking active measures to address the financial difficulties of some banks, including community banks.** Although community banks account for only a small share of total financial sector assets, potential shocks to the financial system could be exacerbated by their cross-institutional linkages with larger banks. Although community banks cater to special financing needs of their communities, bold actions are required to ensure the viability of all banks, avoid contagion, and safeguard public interest. The BoT instructed six undercapitalized community banks to comply with the minimum capital requirement by end-2017, and encouraged them to consider consolidation through establishing a Federation of Community Banks to increase the scale of operations and reduce operating costs. An upcoming joint IMF-World Bank's Financial Sector Assessment Program (FSAP) for Tanzania should provide further inputs for the authorities' financial sector reform agenda, including on how to ensure the viability of financial institutions.

23. **Financial inclusion has improved considerably, but affordability of bank credit for small and medium-sized enterprises (SMEs) remains an issue.** Tanzania has made significant progress in financial inclusion, particularly for households, thanks to the rapid expansion of mobile money and banking. While over 65 percent of adults now have access to formal financial services, further improving access by women to financial services will be important, and the picture for SMEs remains less bright. Among the EAC countries, the percentage of SMEs claiming difficulties in accessing bank credit is the highest (44 percent), while the cost of financing remains prohibitive for smaller companies. To provide affordable credit to SMEs, staff suggested to continue to address structural issues such as strengthening the functioning of the credit information system and improving access to collateral.

Text Figure 3. Financial Inclusion in Tanzania and Sub-Saharan African Countries



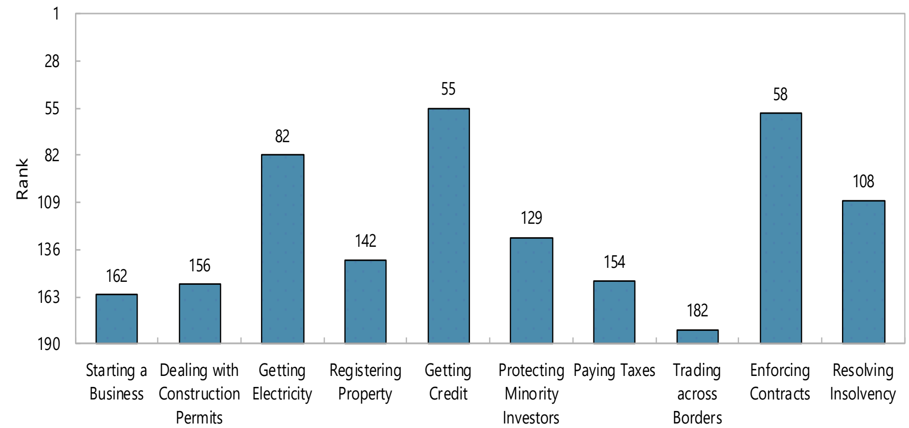
Source: Finscope 2017.

F. Business Environment and Governance

24. **Improving the business climate is critical and requires a multi-pronged approach.** FYDP II aims to create a business climate conducive to private sector-led growth and industrialization. In the 2018 World Bank's Doing Business survey, Tanzania ranks 137 out of 190 countries, lagging its regional peers. Trading across borders, paying taxes, and starting a business are mentioned as the biggest obstacles. Staff welcomed the government's enhanced dialogue and engagement with the private sector in policy design and implementation. However, some recent events[10] have increased private sector concerns about heavy-handed and arbitrary enforcement of rules, increasing uncertainty, and negatively affecting private investment. To improve the business climate, staff underlined the importance of addressing the government's domestic arrears and VAT refunds issues quickly. The authorities stated their intention to pay those liabilities, but that they needed to make sure that the claims were genuine. Staff also encouraged the authorities to implement measures under the World Bank's proposed development policy operation to increase the efficiency in trade logistics (e.g., a national electronic single window system), eliminate unnecessary permits and licenses, and improve an online business registration system.

[10] These include, for example, an export ban on mineral concentrates, heavy-handed changes to the mining laws, and the delayed repayment of VAT refunds.

Text Figure 4. Tanzania: Doing Business 2018 Rankings



Source: World Bank *Doing Business 2018*

25. **Efforts have been made to address the problems of the public electricity utility (TANESCO), but a comprehensive strategy needs to be developed to put it on a sustainable footing.** TANESCO has a large amount of arrears to gas and electricity suppliers (0.8 percent of GDP in early 2017). TANESCO has continued to pay Tanzania Petroleum Development Corporation (TPDC) Tsh 4.5 billion weekly for TPDC's bill for gas delivery to TANESCO as agreed between the two companies. Staff stressed the importance of the financial sustainability of TANESCO to achieve its credibility as an energy purchaser and facilitate the development of Tanzania's energy sector. The ongoing financial assessment of TANESCO by Ernst & Young and the Controller and Audit General needs to be accelerated to develop a comprehensive strategy to put TANESCO on a sustainable financial footing.

26. **The government's campaign against corruption is welcome.** The government has developed the National Anti-Corruption Strategy and Action Plan III (NACSAP III), which focuses on promotion of transparency and accountability in both the public and private sectors, effective enforcement of anti-corruption measures particularly in public procurement and revenue collection, and capacity building of watchdogs and oversight institutions. To facilitate the public's oversight of its operations, the government plans to introduce a public expenditure tracking system. Staff supported the authorities' continued efforts to better monitor parastatals, including through the regular publication of major parastatals' financial reports on the Treasury Registrar's website. Anti-money laundering (AML) tools could also be mobilized to assist anticorruption efforts, including by ensuring that banks apply adequate preventive measures on accounts of politically exposed persons.

27. **Further improvements in data quality are needed to facilitate economic analysis and policy formulation.** The authorities' efforts to improve the quality of the GDP data and external sector statistics, including on trade and FDI, are welcome but need to be accelerated to fully

implement the recommendations of TA missions. Staff also recommended adopting the GFSM 2014 format for fiscal tables in line with international best practice.[11]

28. **Capacity development remains an important priority for Tanzania**. Staff and the authorities agreed that priority capacity development areas include public financial and debt management; tax policy and administration; implementation of an interest rate-based monetary framework; bank supervision and regulations; and GDP and BOP statistics (Appendix II summarizes the Fund's capacity development for Tanzania).

STAFF APPRAISAL

29. **Tanzania's 3½-year PSI arrangement has been marked by strong macroeconomic management and outcomes, but uneven implementation of structural reforms.** Revenue and deficit outturns have been broadly in line with program targets. Tanzania has maintained a low risk of debt distress. The BoT has successfully carried out a reserve money targeting framework, holding inflation at single digit levels. International reserves have remained at comfortable levels.

30. **Significant challenges remain.** Strong growth and job creation are needed to address high poverty and a large underemployed youth population. There are large infrastructure gaps, and the business climate has become increasingly challenging, despite the government's announced aim to facilitate private sector-led growth in the second Five-Year Development Plan.

31. **Recent economic performance has been mixed and the outlook is subject to considerable risks.** Although the official GDP data point to strong growth, other high frequency data indicate much weaker economic activity. There are downside risks to economic growth in the short term stemming from slow budget implementation, a challenging business environment, and private sector concerns about heavy-handed and arbitrary enforcement of rules.

32. **Fiscal policy implementation and budget credibility need to be strengthened.** After slow budget execution last fiscal year and early in this fiscal year, the government plans to step up budget implementation, particularly in development spending. Budget financing plans need to be firmed up soon. Various assumptions in the 2018/19 budget guidelines need to be revisited to ensure realistic budgeting based on realistic revenue and expenditure projections. The reorientation of spending from current to development spending is welcome, but this should not lead to lower delivery of essential public services required to meet the FYDP II human capital development objective.

33. **The BoT's efforts to facilitate a smooth transition to an interest rate-based monetary framework are welcome.** Good progress has been made in implementation of the three structural benchmarks for the seventh review—expansion of eligible collateral, introduction of an electronic platform, and issuance of operational guidelines for banks—which are aimed to support this transition. Monetary policy will need to be vigilant in the face of an expected recovery in public spending. Greater exchange rate flexibility will be needed as Tanzania transitions to its new monetary policy framework.

[11] This staff report includes this reporting format for the first time (Tables 2c-d).

34. **Addressing financial sector vulnerabilities is a priority.** The sustained rise in NPLs should be urgently tackled to revive credit growth, and high NPLs have also a negative impact on banks' earnings and capital positions. The BoT's efforts to resolve several unviable community banks are welcome. An upcoming FSAP should provide guidance for the authorities' financial sector development and reform agenda.

35. **An acceleration in structural reforms is needed to improve the business climate and governance.** The authorities' campaign against corruption is welcome. To create a business climate conducive to private sector-led growth as aimed for in the FYDP II, urgent efforts are required to address private sector concerns, including by reducing government's domestic arrears, quickly finalizing the validation of VAT refunds, and tackling high business costs.

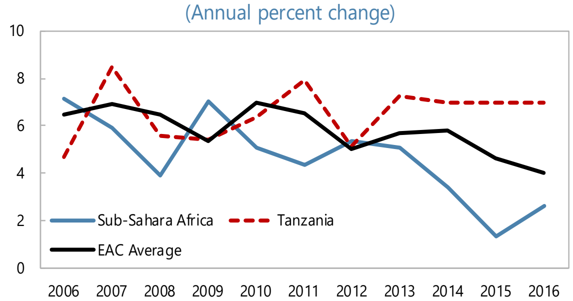
36. **Further improvements in data quality are needed to facilitate economic analysis and policy formulation.** The authorities' efforts to improve the quality of the GDP data and external sector statistics are welcome, but need to be accelerated.

37. **Staff recommends completion of the seventh review under the PSI**. Staff also supports a waiver for the non-observance of the end-June 2017 assessment criteria on tax revenues and domestic arrears on the grounds that the slippage was minor and in light of the articulation of corrective measures, respectively.

Figure 1. Tanzania: Real Sector and External Developments

Economic growth has been robust in the past years …

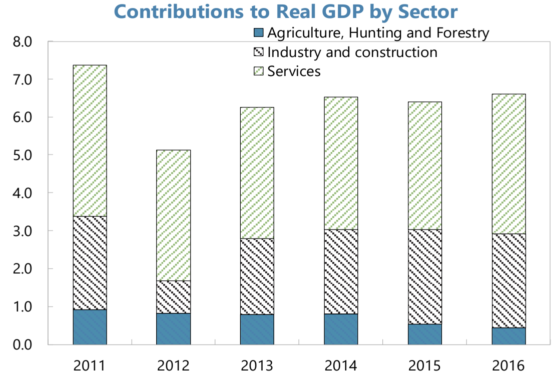
Real GDP Growth, 2006-2017
(Annual percent change)



Source: IMF World Economic Outlook Database

…with strong performance in services and construction….

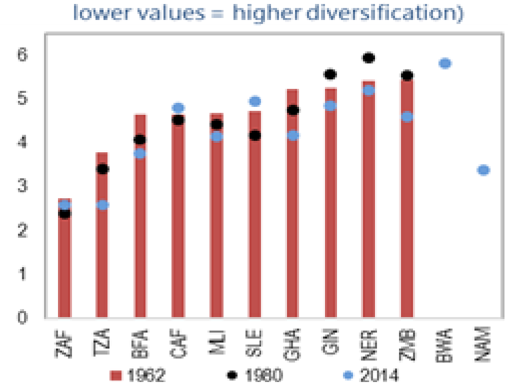
Contributions to Real GDP by Sector



Sources: IMF Staff calculations

Tanzania is among the most diversified commodity-exporting countries in Sub-Saharan Africa…

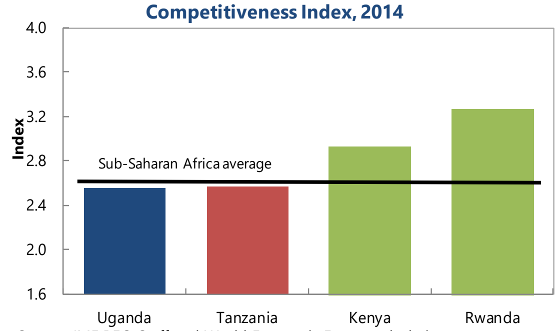
Goods Export Diversification: Other resource-intensive countries (Thiel index; lower values = higher diversification)



Source: REO IMF Staff calculations

…but its competitiveness remains below its peers.

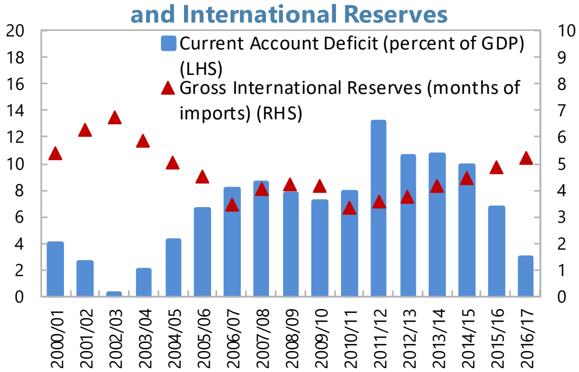
Tanzania and other EAC countries: Global Competitiveness Index, 2014



Source: IMF REO Staff and World Economic Forum calculations
Note: Countries with higher values are more competitive.

The current account deficit has halved due to a sharp decline in imports …

Current Account Deficit and International Reserves



Sources: Bank of Tanzania and IMF Staff

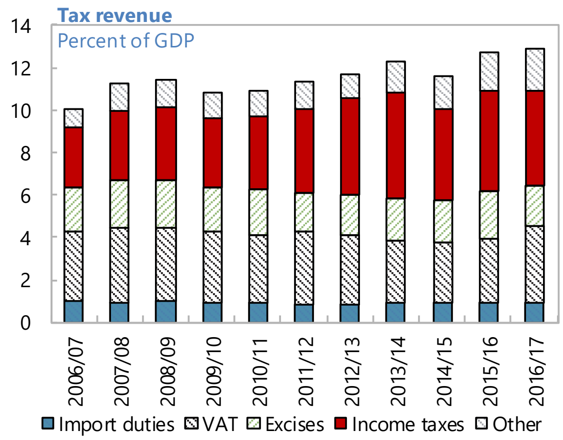
…while active FX operations and external borrowing have allowed to increase international reserves.

International Reserves and Months of Imports

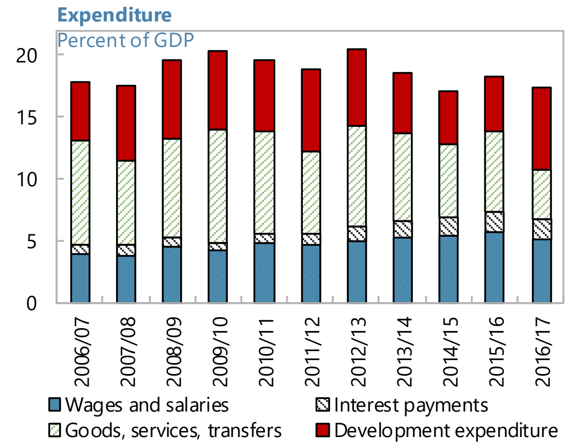
Source: Tanzanian authorities and IMF Staff calculations, unless otherwise indicated.

Figure 2. Tanzania: Fiscal Developments

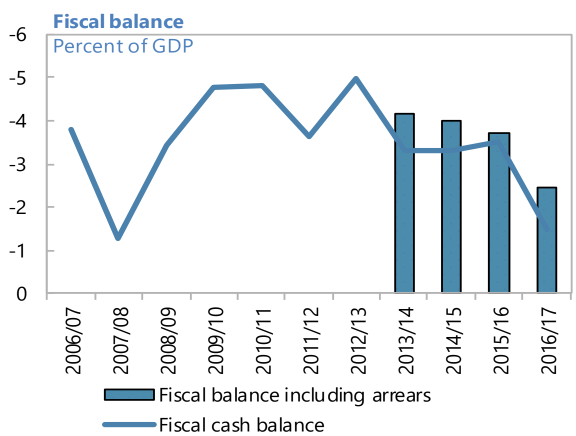
Tax collection has stalled.



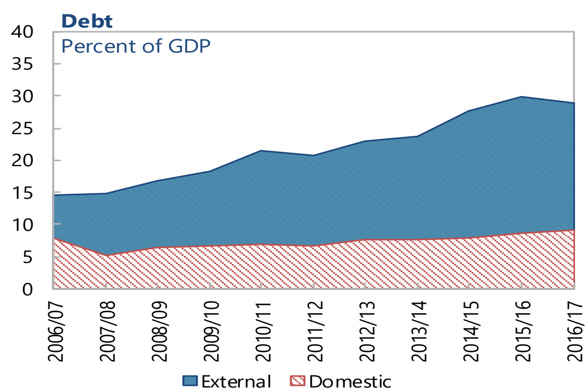
But budget implementation slowed substantially in FY16/17....



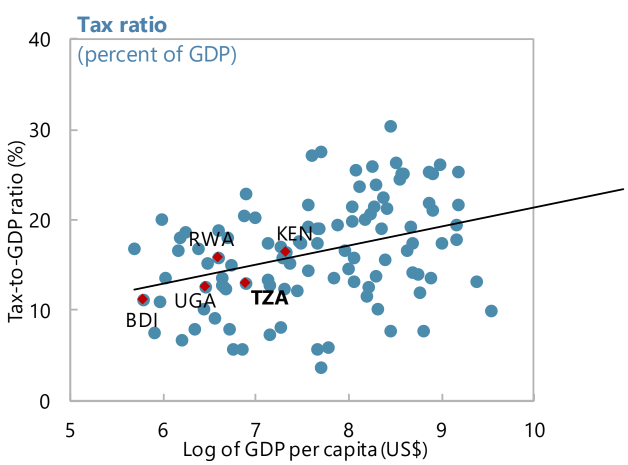
...resulting in a lower fiscal deficit.



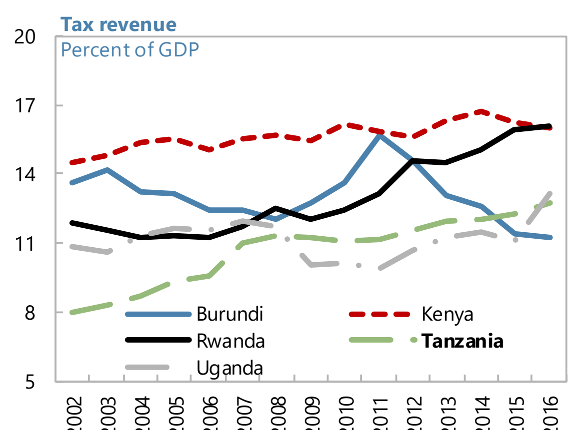
Public debt remains modest, albeit raising, mostly driven by external debt.



Revenues underperform relative to the income level...



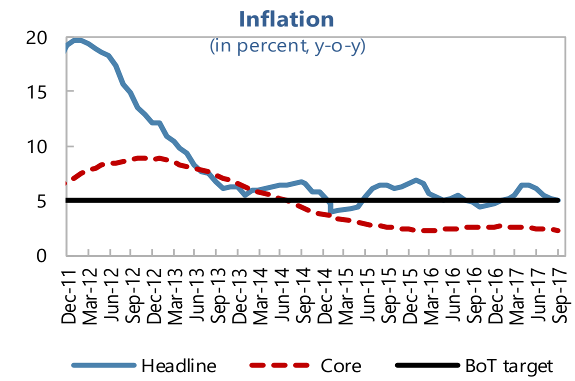
...and are among the lowest in the EAC.



Source: Tanzanian authorities and IMF Staff calculations, unless otherwise indicated.

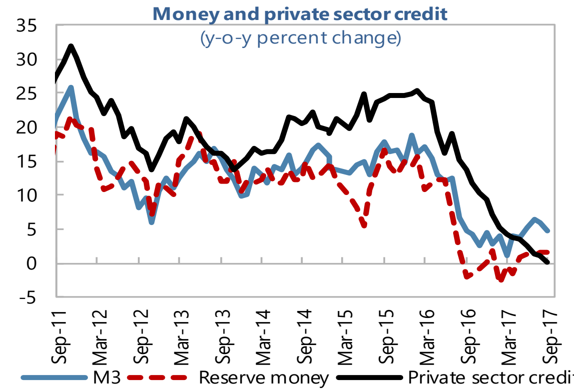
Figure 3. Tanzania: Inflation, Exchange Rate, and Monetary Developments

Inflation remains contained around the BoT's medium-term target ….

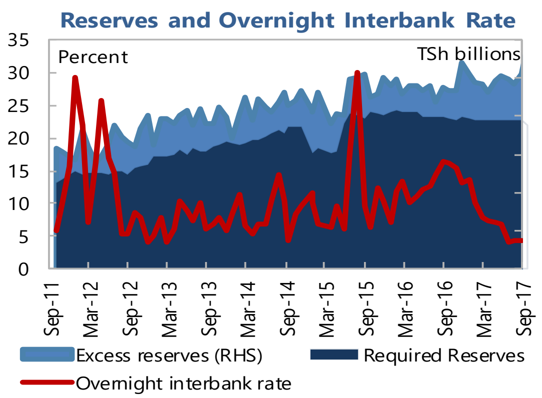


Source: Bank of Tanzania and IMF staff calculations

…while monetary aggregates and credit have slowed down sharply.

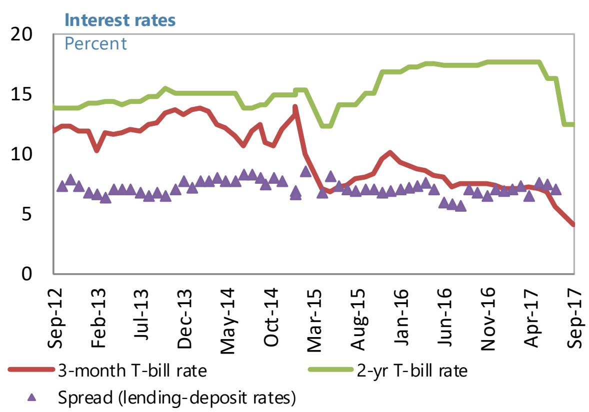


Overnight rates have declined significantly….

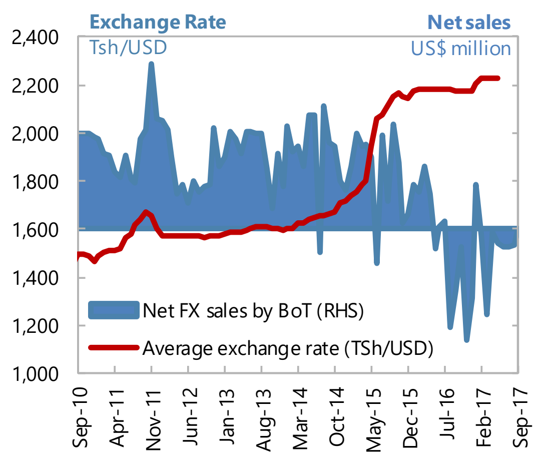


Sources: Bank of Tanzania and IMF staff calculations

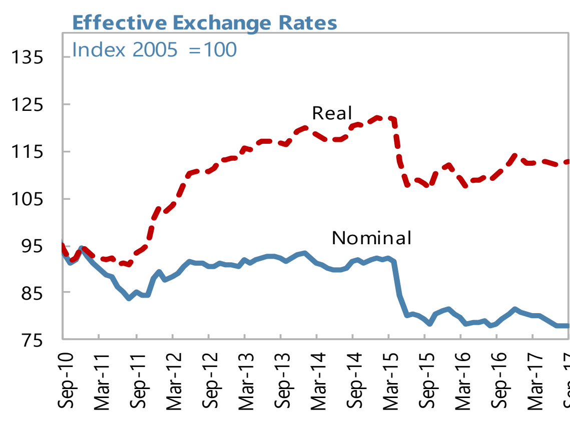
With some key T-bills and T-bonds rates gradually following.



The BOT intervened mostly on the buy side …



…with the real exchange rate broadly mirroring developments in the nominal rate….

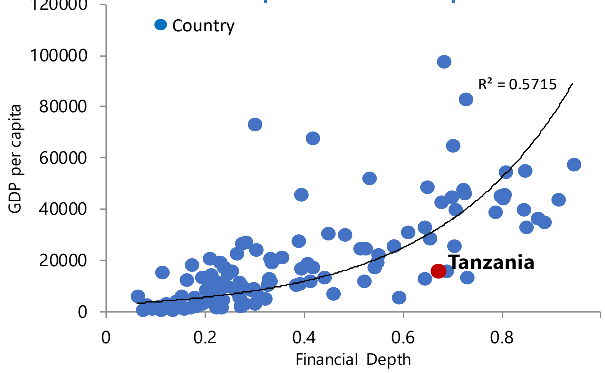


Source: Tanzanian authorities and IMF Staff calculations, unless otherwise indicated.

Figure 4. Tanzania: Financial Sector Developments

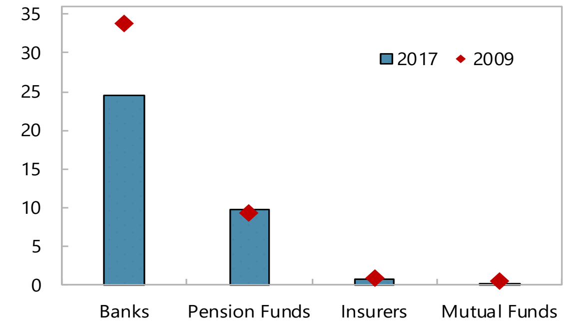
Tanzania's financial sector depth, measured by access to financial services, is higher than in counties with similar income levels.

Financial Depth and GDP Per Capita [1, 2]



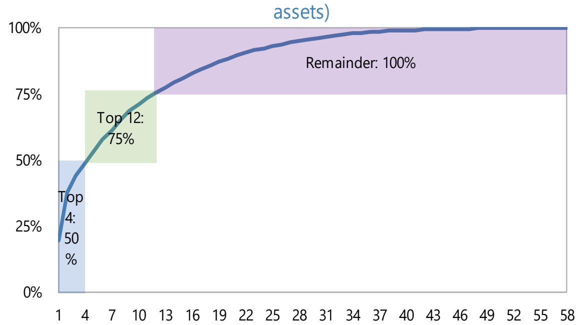
The system is largely dominated by commercial banks, but its assets have declined over time.

Structure of the Financial Sector (percent of GDP)



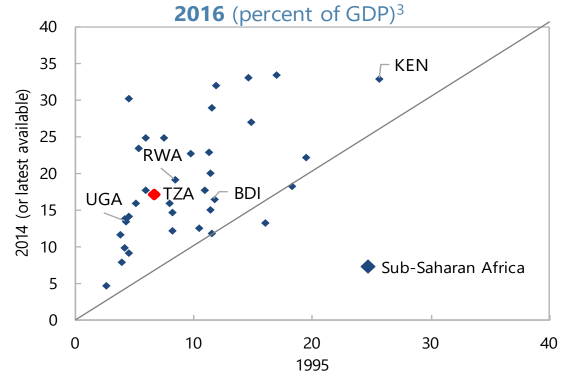
Bank concentration remains significant, with 4 largest banks accounting for 50 percent of total bank assets.

Bank Assets Concentration (percent of total assets)



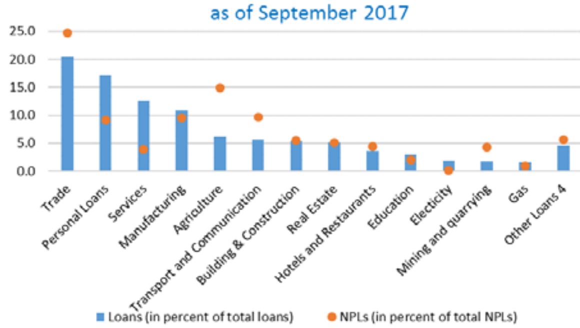
Bank lending to non-government sector has improved over time, but recently stalled at around 17 percent of GDP.

Credit to the Private Sector 1995 versus 2016 (percent of GDP)[3]



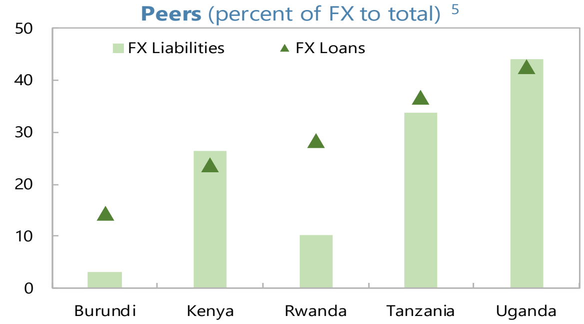
Bank credit portfolio have been impacted by rapidly increasing NPLs in trade, manufacturing, and transport and communication, while remained high in agriculture.

Sectoral Distribution of Credit and NPLs, as of September 2017



Financial dollarization, measured by foreign currency deposits and loans in commercial banks, remains higher than in other peers.

Financial Dollarization: Tanzania and EAC Peers (percent of FX to total) [5]



Source: Bank of Tanzania, and IMF staff calculations, unless otherwise indicated.
[1] Based on a sample of 141 countries.
[2] Source : Findex 2012, Sahay et al (2015).
[3] Source: REO 2014 and IMF calculations.
[4] Note: Other loans include tourism, health, fishing, forest, financial intermediaries, water, leasing, and hunting.
[5] Source: Financial Soundness Indicators.

Table 1. Tanzania: Selected Economic and Financial Indicators, 2015/16–2020/21

	2015/16	2016/17		2017/18	2018/19	2019/20	2020/21
	Act.	Prog.[1]	Est.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change, unless otherwise indicated)						
Output, prices and exchange rates							
Real GDP	7.0	6.2	6.0	6.2	6.5	6.8	6.7
GDP deflator	6.7	5.2	5.1	5.0	5.0	5.0	5.0
CPI (period average)	6.0	5.4	5.3	5.0	5.0	5.0	5.0
CPI (end of period)	5.5	5.8	5.4	5.0	5.0	5.0	5.0
Core inflation (end of period)	3.0	...	1.9	...	...	...	...
Terms of trade (deterioration, -)	2.2	-3.4	0.9	-3.5	0.2	2.3	-2.9
Exchange rate (period average, TSh/USD)	2,156	...	2,199	...	...	...	...
Real effective exchange rate (end of period; depreciation= -)	1.0	...	3.2	...	...	...	...
Money and credit							
Broad money (M3)	12.5	10.5	6.3	7.9	10.8	12.6	14.0
Average reserve money	7.2	8.2	1.1	5.9	7.8	8.1	8.2
Credit to nongovernment sector	19.1	6.5	1.2	4.4	8.0	11.3	15.0
Treasury bill interest rate (in percent; end of period)	15.1	...	7.6	...	...	...	...
Broad money (M3, as a percent of GDP)	23.1	...	22.0	...	...	...	...
Non-performing loans (percent of total loans)	128.5	...	117.4	...	...	...	...
	(Percent of GDP, unless otherwise indicated)						
Central government budget							
Revenues and grants	14.8	16.2	16.4	15.7	16.2	16.5	16.5
Of which: grants	0.5	0.9	1.0	0.8	1.1	1.1	0.9
Expenditures	18.3	19.1	17.4	19.9	20.8	21.0	20.3
Current	13.8	11.2	10.7	11.3	11.9	12.0	12.1
Development	4.5	7.9	6.7	8.6	8.9	9.0	8.2
Unidentified measures[2]	...	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance[3]	-3.5	-2.9	-1.5	-4.2	-4.6	-4.6	-3.7
Excluding grants[3]	-4.0	-3.8	-2.1	-5.0	-5.7	-5.6	-4.7
Including net accumulation of arrears	-3.6	...	...	...	...	...	...
Public debt							
Public gross nominal debt[4,5]	38.5	37.3	38.1	38.9	40.2	41.3	41.3
of which: external public debt[5]	29.7	28.4	29.0	29.0	30.1	30.7	31.0
Investment and savings							
Investment	24.7	30.1	27.3	28.1	30.0	30.2	29.5
Government	4.0	6.4	6.7	7.8	8.9	9.0	8.2
Nongovernment[6]	20.8	23.7	20.6	20.2	21.1	21.2	21.3
Gross domestic savings	23.7	26.2	25.9	24.7	26.0	25.9	25.7
External sector							
Exports (goods and services)	19.9	19.6	18.1	18.0	18.2	18.5	18.7
Imports (goods and services)	25.3	23.5	19.5	21.3	22.2	22.8	22.5
Current account balance	-6.5	-4.9	-2.7	-4.8	-5.8	-6.0	-5.4
Excluding current transfers	-6.6	-5.3	-3.0	-5.1	-6.1	-6.3	-5.7
Gross international reserves							
In billions of US$	3.9	4.5	5.0	5.3	5.6	6.1	6.8
In months of next year's imports	4.8	4.0	5.2	4.9	4.6	4.7	4.7
Memorandum items							
GDP at current market prices							
Billions of Tanzanian shillings	97,304	108,700	108,351	120,822	135,110	151,512	169,746
Millions of US$	45,128	49,304	49,265	53,655	58,552	63,758	69,365
GDP per capita (US$)	937	1,004	998	1,062	1,136	1,212	1,293
Population (million)	48.2	49.1	49.4	50.5	51.6	52.6	53.6

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] From the sixth review under the Policy Support Instrument.

[2] These are the revenue/spending adjustments needed to achieve the budget deficit targets.

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

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

[5] Excludes external debt under negotiation for relief, and domestic unpaid claims.

[6] Including change in stocks.

Table 2a. Tanzania: Central Government Operations, 2015/16–2020/21[1]

(Billions of Tanzanian Shillings)

	2015/16	2016/17		2017/18		2018/19	2019/20	2020/21
	Act.	Prog.[2]	Prel.	Prog.[2]	Proj.	Proj.	Proj.	Proj.
Total revenue	13,907	16,656	16,640	18,781	17,940	20,331	23,330	26477
Tax revenue	12,411	14,185	14,055	16,075	15,323	17,406	19,897	22631
Import duties	923	982	998	1,175	1,063	1,188	1,333	1493
Value-added tax	2,960	3,904	3,915	4,290	4,260	4,899	5,721	6410
Excises	2,123	2,225	2,102	2,542	2,251	2,517	2,974	3332
Income taxes	4,600	4,781	4,830	5,423	5,442	6,221	6,976	7986
Other taxes	1,805	2,294	2,211	2,646	2,307	2,580	2,893	3411
Nontax revenue[3]	1,496	2,471	2,585	2,706	2,616	2,926	3,433	3846
LGA	426	532	512	687	598	669	750	840
Other	1,070	1,939	2,073	2,018	2,018	2,257	2,682	3005
Total expenditure	17,760	20,803	18,890	24,582	24,035	28,078	31,857	34417
Recurrent expenditure	13,420	12,215	11,617	13,673	13,673	16,032	18,188	20487
Wages and salaries	5,627	5,843	5,599	6,276	6,276	7,154	8,022	8987
Of which: clearance of soc. contribution arrears	150	…	…	…	…	…	…	…
Interest payments	1,486	1,678	1,715	1,803	1,803	2,641	3,043	3548
Domestic	1,010	1,216	1,216	1,130	1,130	1,793	2,020	2333
Foreign[4]	477	462	500	673	673	847	1,023	1214
Goods and services and transfers	6,306	4,694	4,302	5,594	5,594	6,238	7,123	7952
Of which: Transfers to PSPF	0	342	…	370	370	396	420	442
Of which: Transfers to TANESCO	0	…	…	…	…	…	…	…
Of which: new expenditure on education	131	…	…	…	…	…	…	…
Development expenditure	4,340	8,588	7,273	10,909	10,362	12,047	13,669	13,930
Domestically financed	2,905	6,249	5,141	8,298	7,750	7,519	8,685	8,948
Of which: Clearance of arrears [4]	958	1,677	…	1,800	1,800	…	…	…
Foreign (concessionally) financed	1,435	2,338	2,131	2,611	2,611	4,528	4,985	4,982
Overall balance before grants	-3,853	-4,147	-2,250	-5,801	-6,095	-7,747	-8,527	-7,940
Grants	495	1,007	1,092	998	998	1,502	1,598	1,581
Program (including basket grants)[5]	86	368	359	344	344	447	508	530
Of which: basket grants	86	186	169	201	201	208	256	264
Project	409	639	733	653	653	1,055	1,090	1,052
Net expenditure float[6]	102	0	-60	0	0	0	0	0
Statistical discrepancy	-172	0	-377	0	0	0	0	0
Unidentified measures	…	…	0	0	0	0	0	0
Overall balance (cash basis)	-3,428	-3,140	-1,594	-4,804	-5,098	-6,245	-6,929	-6,359
Financing	3,428	3,140	1,594	4,804	5098	6245	6929	6359
Foreign (net)	1,390	2,034	1,732	2,990	2990	4524	4559	4868
Foreign loans	1,946	2,923	2,805	4,173	4173	6271	7041	7200
Program (including basket loans)[7]	453	384	257	1,153	1153	792	746	1335
Of which: basket loans	162	118	105	355	355	334	352	494
Project	778	1,395	1,294	1,402	1402	2930	3286	3172
Nonconcessional borrowing	715	1,144	1,254	1,618	1618	2549	3009	2693
Of which: gas pipeline	261	29	27	0	…	…	…	…
Amortization	-556	-889	-903	-1,183	-1183	-1747	-2482	-2332
Domestic (net)	2,038	1,106	-138	1,813	2,108	1,721	2,370	1,490
Excluding gas pipeline	2,299	1,135	-111	1,813	2108	1721	2370	1490
Bank financing	1,522	-22	-1057	1,088	1238	1048	1266	753
Nonbank financing	777	1,156	946	726	870	673	1105	737
Credit to TPDC (gas pipeline)	-261	-29	-27	0	…	…	…	…
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	-3,538	…	…	…	…	…	…	…
Total public debt (in percent of GDP)[8]	38.5	37.3	38.1	38	38.9	40.2	41.3	41.3
Arrears (unpaid claims)[4]	1,842	…	…	…	…	…	…	…
Recurrent expenditures (percent of recurrent resources)	96	73	69	72	76	78	77	77
Priority social spending	3,396	3,161	3,405	3,718	3,718	4,158	4,662	5,223
Nominal GDP	97,304	108,700	108,351	122,012	120,822	135,110	151,512	169,746

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

[1] Fiscal year: July–June.

[2] From the sixth review under the Policy Support Instrument.

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

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

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

[6] The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

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

[8] Excludes external debt under negotiation for relief and Treasury bills issued for monetary policy purposes.

Table 2b. Tanzania: Central Government Operations, 2015/16–2020/21[1]
(Percent of GDP)

	2015/16	2016/17		2017/18		2018/19	2019/20	2020/21
	Act.	Prog.[2]	Prel.	Prog.[2]	Proj.	Proj.	Proj.	Proj.
Total revenue	14.3	15.3	15.4	15.4	14.8	15.0	15.4	15.6
Tax revenue	12.8	13.0	13.0	13.2	12.7	12.9	13.1	13.3
Import duties	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Value-added tax	3.0	3.6	3.6	3.5	3.5	3.6	3.8	3.8
Excises	2.2	2.0	1.9	2.1	1.9	1.9	2.0	2.0
Income taxes	4.7	4.4	4.5	4.4	4.5	4.6	4.6	4.7
Other taxes	1.9	2.1	2.0	2.2	1.9	1.9	1.9	2.0
Nontax revenue[3]	1.5	2.3	2.4	2.2	2.2	2.2	2.3	2.3
LGA	0.4	0.5	0.5	0.6	0.5	0.5	0.5	0.5
Other	1.1	1.8	1.9	1.7	1.7	1.7	1.8	1.8
Total expenditure	18.3	19.1	17.4	20.1	19.9	20.8	21.0	20.3
Recurrent expenditure	13.8	11.2	10.7	11.2	11.3	11.9	12.0	12.1
Wages and salaries	5.8	5.4	5.2	5.1	5.2	5.3	5.3	5.3
Of which: clearance of soc. contribution arrears	0.2	...	...		...	...	...	...
Interest payments	1.5	1.5	1.6	1.5	1.5	2.0	2.0	2.1
Domestic	1.0	1.1	1.1	0.9	0.9	1.3	1.3	1.4
Foreign[5]	0.5	0.4	0.5	0.6	0.6	0.6	0.7	0.7
Goods and services and transfers	6.5	4.3	4.0	4.6	4.6	4.6	4.7	4.7
Of which: Transfers to PSPF	0.0	0.3	...	0.3	0.3	0.3	0.3	0.3
Of which: Transfers to TANESCO	0.0	...	...	...	...	...	...	...
Of which: new expenditure on education	0.1	...	...	...	...	...	...	...
Development expenditure	4.5	7.9	6.7	8.9	8.6	8.9	9.0	8.2
Domestically financed	3.0	5.7	4.7	6.8	6.4	5.6	5.7	5.3
Of which: Clearance of arrears[4]	1.0	1.5	...	1.5	1.5	...	...	...
Foreign (concessionally) financed	1.5	2.2	2.0	2.1	2.2	3.4	3.3	2.9
Overall balance before grants	-4.0	-3.8	-2.1	-4.8	-5.0	-5.7	-5.6	-4.7
Grants	0.5	0.9	1.0	0.8	0.8	1.1	1.1	0.9
Program (including basket grants)[5]	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Of which: basket grants	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Project	0.4	0.6	0.7	0.5	0.5	0.8	0.7	0.6
Net expenditure float[6]	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-0.2	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Unidentified measures	...	...	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-3.5	-2.9	-1.5	-3.9	-4.2	-4.6	-4.6	-3.7
Financing	3.5	2.9	1.5	3.9	4.2	4.6	4.6	3.7
Foreign (net)	1.4	1.9	1.6	2.5	2.5	3.3	3.0	2.9
Foreign loans	2.0	2.7	2.6	3.4	3.5	4.6	4.6	4.2
Program (including basket loans)[7]	0.5	0.4	0.2	0.9	1.0	0.6	0.5	0.8
Of which: basket loans	0.2	0.1	0.1	0.3	0.3	0.2	0.2	0.3
Project	0.8	1.3	1.2	1.1	1.2	2.2	2.2	1.9
Nonconcessional borrowing	0.7	1.1	1.2	1.3	1.3	1.9	2.0	1.6
Of which: gas pipeline	0.3	0.0	0.0	0.0	...	...	...	...
Amortization	-0.6	-0.8	-0.8	-1.0	-1.0	-1.3	-1.6	-1.4
Domestic (net)	2.1	1.0	-0.1	1.5	1.7	1.3	1.6	0.9
Excluding gas pipeline	2.4	1.0	-0.1	1.5	1.7	1.3	1.6	0.9
Bank financing	1.6	0.0	-1.0	0.9	1.0	0.8	0.8	0.4
Nonbank financing	0.8	1.1	0.9	0.6	0.7	0.5	0.7	0.4
Credit to TPDC (gas pipeline)	-0.3	...	0.0	0.0	...	...	...	...
Memorandum items:								
Overall fiscal balance incl. net arrears accumulation	-3.6	...	...	...	...	...	...	...
Domestic unpaid claims (end-period)[4]	1.9	...	...	...	...	...	...	...
Recurrent expenditures (percent of recurrent resource:	96	73	69	72.0	76	78	77	77
Priority social spending	3.5	2.9	3.1	3.0	3.1	3.1	3.1	3.1

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

[1] Fiscal year: July–June.

[2] From the sixth review under the Policy Support Instrument.

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

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

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

[6] The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

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

Table 2c. Tanzania: Central Government Operations, 2016/17–2020/21 (GFSM 2014)[1]
(Billions of Tanzanian Shillings)

	2016/17		2017/18		2018/19	2019/20	2020/21
	Prog.[2]	Est.	Prog.[2]	Proj.		Proj.	
Revenue	17,663	17,732	19,779	18,937	21,769	24,857	27,983
Taxes	14,185	14,055	16,075	15,323	17,406	19,897	22,631
Income taxes	4,781	4,830	5,423	5,442	6,221	6,976	7,986
Value-added tax	3,904	3,915	4,290	4,260	4,899	5,721	6,410
Excises	2,225	2,102	2,542	2,251	2,517	2,974	3,332
Import duties	982	998	1,175	1,063	1,188	1,333	1,493
Other taxes	2,294	2,211	2,646	2,307	2,580	2,893	3,411
Grants	1,007	1,092	998	998	1,438	1,527	1,506
Program (including basket grants) 3/	368	359	344	344	382	437	454
Of which: basket grants	186	169	201	201	212	256	264
Projects	639	733	653	653	1,055	1,090	1,052
Other revenue 4/	2,471	2,585	2,706	2,616	2,926	3,433	3,846
LGA (local government authorities)	532	512	687	598	669	750	840
Other	1,939	2,073	2,018	2,018	2,257	2,682	3,005
Expenditure	20,803	18,890	24,582	24,035	28,013	31,784	34,339
Expense	12,215	11,617	13,673	13,673	16,032	18,187	20,486
Wages and salaries (CG, SGs and LGs)	5,843	5,599	6,276	6,276	7,154	8,022	8,987
Interest payments	1,678	1,715	1,803	1,803	2,641	3,043	3,547
Domestic	1,216	1,216	1,130	1,130	1,793	2,020	2,333
Foreign 5/	462	500	673	673	847	1,023	1,214
Goods and services and transfers	4,694	4,302	5,594	5,594	6,238	7,123	7,952
Goods and services	4,694	3,143	5,594	5,594	6,238	7,123	7,952
Subsidies		0					
Grants		1,159					
Social benefits							
Net acquisition of nonfinancial assets	8,588	7,273	10,909	10,362	11,981	13,596	13,853
Domestically financed	6,249	5,141	8,298	7,750	7,519	8,685	8,948
Of which: Clearance of arrears 6/	1,677	964	1,800	1,800	0	0	0
Foreign financed	2,338	2,131	2,611	2,611	4,462	4,912	4,905
Net expenditure float 7/	0	-60	0	0	0	0	0
Statistical discrepancy	0	-377	0	0	0	0	0
Gross Operating Balance	5,448	6,115	6,105	5,264	5,737	6,669	7,497
Net lending/borrowing (before grants)	-4,147	-2,687	-5,801	-6,095	-7,681	-8,454	-7,862
Net lending/borrowing	-3,140	-1,594	-4,803	-5,098	-6,243	-6,927	-6,356
Net financial transactions	-3,140	-1,594	-4,804	-5,098	-6,243	-6,927	-6,356
Net acquisition of financial assets	...	...	...	...	...	...	...
Currency and deposits	...	...	...	...	...	...	...
Share and other equity	...	...	...	...	...	...	...
Net incurrence of liabilities	3,140	1,594	4,804	5,098	6,243	6,927	6,356
Domestic (net)	1,106	-138	1,813	2,108	1,719	2,368	1,916
Excluding gas pipeline	1,135	-111	1,813	2,108	1,719	2,368	1,916
Banking financing	-22	-1,057	1,088	1,238	1,047	1,264	1,179
Nonbanking financing	1,156	946	726	870	673	1,105	737
Credit to TPDC (gas pipeline)	-29	-27	0	0	0	0	0
Foreign (net)	2,034	1,732	2,990	2,990	4,524	4,559	4,440
Foreign loans	2,923	2,635	4,173	4,173	6,271	7,041	6,772
Program (including basket loans) 3/	384	257	1,153	1,153	792	746	907
Of which: basket loans	118	105	355	355	265	279	417
Project	1,395	1,124	1,402	1,402	2,930	3,286	3,172
Nonconcessional borrowing	1,144	1,254	1,618	1,618	2,549	3,009	2,693
Of which: gas pipeline	29	27	0	0	0	0	0
Amortization	-889	-903	-1,183	-1,183	-1,747	-2,482	-2,332
Memorandum items:							
Overall fiscal balance incl. net arrears accumulation	...	...					
Total public debt (in percent of GDP) 8/	37.3	38.1	37.8	38.8	40.7	42.4	43.0
Arrears (unpaid claims) 6/	...	...					
Recurrent expenditures (% of recurrent resources)	73	69	72	76	78	77	77
Priority social spending	3,161	3,405	3,718	3,718	4,158	4,662	5,223
Nominal GDP	108,700	108,351	122,012	120,822	135,110	151,512	169,746

Sources: Ministry of Finance; Bank of Tanzania; and IMF staff projections.
1/ Fiscal year: July-June.
2/ From the sixth review under the Policy Support Instrument.
3/Basket funds are sector-specific accounts establishede by the government to channel donor support to fund-specific activities.
4/ Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local government Authorities' own revenues and the equial amount of transfers, are included starting from FY2009/10.
5/ Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.
6/ Includes domestic expenditure arrears defined as unpaid claims that are overdue by more than 30 days for goods and servises, and more than 90 days for contract works a set out in the government circular No 9 of 8th December 2014.
7/ The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.
8/ Excludes external debt under negotiation for relief and Treasury bills issued for monetary policy purposes.

Table 2d. Tanzania: Central Government Operations, 2016/17–2020/21 (GFSM 2014)[1]

(Percent of GDP)

	2016/17		2017/18		2018/19	2019/20	2020/21
	Prog.[2]	Est.	Prog.[2]	Proj.		Proj.	
Revenue	16.2	16.4	16.2	15.7	16.1	16.4	16.5
Taxes	13.0	13.0	13.2	12.7	12.9	13.1	13.3
Income taxes	4.4	4.5	4.4	4.5	4.6	4.6	4.7
Value-added tax	3.6	3.6	3.5	3.5	3.6	3.8	3.8
Excises	2.0	1.9	2.1	1.9	1.9	2.0	2.0
Import duties	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Other taxes	2.1	2.0	2.2	1.9	1.9	1.9	2.0
Grants	0.9	1.0	0.8	0.8	1.1	1.0	0.9
Program (including basket grants) 3/	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Of which: basket grants	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Projects	0.6	0.7	0.5	0.5	0.8	0.7	0.6
Other revenue 4/	2.3	2.4	2.2	2.2	2.2	2.3	2.3
LGA (local government authorities)	0.5	0.5	0.6	0.5	0.5	0.5	0.5
Other	1.8	1.9	1.7	1.7	1.7	1.8	1.8
Expenditure	19.1	17.4	20.1	19.9	20.7	21.0	20.2
Expense	11.2	10.7	11.2	11.3	11.9	12.0	12.1
Wages and salaries (CG, SGs and LGs)		5.2	5.1	5.2	5.3	5.3	5.3
Interest payments	1.5	1.6	1.5	1.5	2.0	2.0	2.1
Domestic	1.1	1.1	0.9	0.9	1.3	1.3	1.4
Foreign 5/	0.4	0.5	0.6	0.6	0.6	0.7	0.7
Goods and services and transfers	4.3	4.0	4.6	4.6	4.6	4.7	4.7
Goods and services	4.3	2.9	4.6	4.6	4.6	4.7	4.7
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	1.1	0.0	0.0	0.0	0.0	0.0
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	7.9	6.7	8.9	8.6	8.9	9.0	8.2
Domestically financed	5.7	4.7	6.8	6.4	5.6	5.7	5.3
Of which: Clearance of arrears 6/	1.5	0.9	1.5	1.5	0.0	0.0	0.0
Foreign financed	2.2	2.0	2.1	2.2	3.3	3.2	2.9
Net expenditure float 7/	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Gross Operating Balance	5.0	5.6	5.0	4.4	4.2	4.4	4.4
Net lending/borrowing (before grants)	-3.8	-2.5	-4.8	-5.0	-5.7	-5.6	-4.6
Net lending/borrowing	-2.9	-1.5	-3.9	-4.2	-4.6	-4.6	-3.7
Net financial transactions	-2.9	-1.5	-3.9	-4.2	-4.6	-4.6	-3.7
Net acquisition of financial assets	...	...	...	...	...	...	...
Currency and deposits	...	...	...	...	...	...	...
Share and other equity	...	...	...	...	...	...	...
Net incurrence of liabilities	2.9	1.5	3.9	4.2	4.6	4.6	3.7
Domestic (net)	1.0	-0.1	1.5	1.7	1.3	1.6	1.1
Excluding gas pipeline	1.0	-0.1	1.5	1.7	1.3	1.6	1.1
Banking financing	0.0	-1.0	0.9	1.0	0.8	0.8	0.7
Nonbanking financing	1.1	0.9	0.6	0.7	0.5	0.7	0.4
Credit to TPDC (gas pipeline)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	1.9	1.6	2.5	2.5	3.3	3.0	2.6
Foreign loans	2.7	2.4	3.4	3.5	4.6	4.6	4.0
Program (including basket loans) 3/	0.4	0.2	0.9	1.0	0.6	0.5	0.5
Of which: basket loans	0.1	0.1	0.3	0.3	0.2	0.2	0.2
Project	1.3	1.0	1.1	1.2	2.2	2.2	1.9
Nonconcessional borrowing	1.1	1.2	1.3	1.3	1.9	2.0	1.6
Of which: gas pipeline	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.8	-0.8	-1.0	-1.0	-1.3	-1.6	-1.4
Memorandum items:							
Overall fiscal balance incl. net arrears accumulation	...	...					
Arrears (unpaid claims) 6/	...	...					
Recurrent expenditures (% of recurrent resources)	73	69	72	76	78	77	77
Priority social spending	2.9	3.1	3.0	3.1	3.1	3.1	3.1
Nominal GDP	108,700	108,351	122,012	120,822	135,110	151,512	169,746

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

1/ Fiscal year: July-June.

2/ From the sixth review under the Policy Support Instrument.

3/Basket funds are sector-specific accounts establishede by the government to channel donor support to fund-specific activities.

4/ Includes sale of shares in two manufacturing companies amounting to 0.2 percent of GDP in 2015/16. Local government Authorities' own revenues and the equial amount of transfers, are included starting from FY2009/10.

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

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

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

Table 3. Tanzania: Monetary Accounts, 2015–18

(Billions of Tanzania Shillings, unless otherwise indicated; end of period)

	2015	2016				2017					2018	
	Dec.	March	June	Sept.	Dec	March	June		Sept	Dec	March	June
		Act.	Act.	Act.	Act	Act.	Prog.[1]	Act.	Act.	Proj.	Proj.	Proj.
Bank of Tanzania												
Net foreign assets	7,528	7,316	7,146	7,694	8,304	8,850	9,013	10,017	11,302	10,937	10,709	11,129
Net international reserves [2]	8,075	7,881	7,758	8,260	8,838	9,413	9,585	10,594	11,893	11,514	11,289	11,712
(Millions of U.S. dollars) [2]	3,758	3,616	3,560	3,797	4,068	4,233	4,249	4,750	5,315	5,113	4,989	5,151
Net non-reserve foreign assets	-546	-565	-612	-566	-533	-564	-572	-577	-591	-578	-581	-583
Net domestic assets	-695	-794	-373	-1,075	-1,450	-2,493	-1,877	-3,190	-4,751	-3,979	-4,161	-3,817
Credit to government	1,728	1,447	1,545	1,352	669	-31	423	-678	-1,712	-1,029	-415	200
Of which: Excluding counterpart of liquidity paper	1,786	1,473	1,642	1,432	751	544	892	-90	-1,372	-823	-332	240
Other items (net)	-2,423	-2,241	-1,919	-2,426	-2,119	-2,462	-2,300	-2,512	-3,039	-2,950	-3,747	-4,017
Reserve money	6,833	6,523	6,773	6,619	6,854	6,357	7,136	6,827	6,551	6,957	6,547	7,312
Currency outside banks	3,679	3,466	3,740	3,672	3,609	3,395	3,632	3,615	3,609	3,771	3,504	3,869
Bank reserves	3,155	3,056	3,033	2,947	3,246	2,962	3,505	3,212	2,942	3,186	3,043	3,443
Currency in banks	753	656	633	623	697	644	712	734	667	771	822	826
Deposits	2,401	2,401	2,400	2,324	2,549	2,318	2,793	2,478	2,276	2,415	2,221	2,617
Required reserves	2,053	2,059	1,985	1,966	1,963	1,935	1,893	1,935	1,935	1,898	2,012	2,120
Excess reserves	348	342	415	359	586	383	900	543	340	517	210	496
Memorandum items:												
Average reserve money	6,862	6,533	6,624	6,636	6,980	6,434	7,164	6,695	6,793	7,020	6,601	7,090
Monetary Survey												
Net foreign assets	8,244	7,530	7,472	7,737	8,209	8,514	9,075	9,573	10,396	10,237	10,009	10,429
Bank of Tanzania [2]	7,528	7,316	7,146	7,694	8,304	8,850	9,013	10,017	11,302	10,937	10,709	11,129
Commercial banks	716	214	326	44	-95	-336	62	-444	-906	-700	-700	-700
Net domestic assets	13,871	14,119	14,991	14,458	14,551	14,015	15,746	14,308	12,716	13,935	14,075	15,339
Domestic credit	20,374	20,969	21,889	21,340	20,891	20,717	22,846	21,039	19,636	21,585	22,056	23,019
Credit to government (net)	4,882	4,886	5,229	4,717	4,282	4,031	6,003	4,173	3,280	4,860	5,203	5,410
Credit to nongovernment sector	15,493	16,083	16,660	16,623	16,609	16,686	16,843	16,866	16,356	16,725	16,853	17,608
Other items (net)	-6,503	-6,851	-6,898	-6,883	-6,339	-6,702	-7,100	-6,731	-6,920	-7,650	-7,981	-7,679
M3	22,115	21,648	22,463	22,195	22,760	22,529	24,822	23,881	23,112	24,172	24,084	25,768
Foreign currency deposits	6,335	6,161	6,312	6,275	6,237	6,186	6,431	6,194	6,039	6,493	6,524	6,556
M2	15,780	15,488	16,151	15,920	16,523	16,344	18,391	17,687	17,074	17,678	17,560	19,212
Currency in circulation	3,679	3,466	3,740	3,672	3,609	3,395	3,632	3,615	3,609	3,771	3,504	3,869
Deposits (TSh)	12,102	12,021	12,412	12,248	12,915	12,949	14,759	14,072	13,465	13,908	14,055	15,343
Memorandum items:	(12-month percent change, unless otherwise indicated)											
M3 growth	18.8	15.5	12.5	4.3	2.9	4.1	10.5	6.3	4.1	6.2	6.9	7.9
M3 (as percent of GDP) [3]	22.7	22.2	23.1	20.5	21.0	20.8	22.8	22.0	19.1	20.0	19.9	21.3
Private sector credit growth	24.8	23.6	19.1	11.7	7.2	3.7	6.5	1.2	-1.6	0.7	1.0	4.4
Average reserve money growth	14.2	11.8	7.2	-1.5	1.7	-1.5	8.2	1.1	2.4	0.6	2.6	5.9
Reserve money multiplier (M3/average reserve money)	3.2	3.3	3.4	3.3	3.3	3.5	3.5	3.6	3.4	3.4	3.6	3.6
Nonbank financing of the government (net) [4]	136	417	777	299	542	835	1,156	946	274	460	690	870
Bank financing of the government (net) [4]	1,175	1,179	1,522	-512	-947	-1,198	-22	-1,057	-893	687	1,030	1,238
Bank and nonbank financing of the government (net) [4]	1,310	1,596	2,299	-213	-405	-363	1,135	-111	-619	1,147	1,720	2,108
Foreign exchange liabilities to residents (Millions of U.S. dollars)	50.0	7.0	54.0	89.5	101.5	104.5	0.0	110.5	36.1	0.0	0.0	0.0

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

[1] From the sixth review under the Policy Support Instrument.

[2] Includes short-term (less than 1 year) foreign exchange liabilities to residents.

[3] "Program" reflects new GDP data.

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

Table 4. Tanzania: Balance of Payments, 2015/16–2020/21

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

	2015/16	2016/17		2017/18	2018/19	2019/20	2020/21
	Act.	Prog.[1]	Est.	Proj.	Proj.	Proj.	Proj.
Current account	-2,937	-2,425	-1,337	-2,560	-3,384	-3,838	-3,724
Trade balance	-3,317	-3,210	-2,326	-3,515	-4,213	-4,815	-4,972
Exports, f.o.b.	5,601	6,006	5,240	5,601	6,153	6,809	7,498
Traditional agricultural products	764	771	858	913	985	1,057	1,127
Gold	1,243	1,433	1,518	1,554	1,601	1,639	1,678
Other	3,593	3,802	2,864	3,134	3,567	4,113	4,693
Imports, f.o.b	-8,918	-9,217	-7,565	-9,116	-10,366	-11,624	-12,470
Of which: Oil	-1,984	-2,523	-1,801	-2,047	-2,196	-2,166	-2,173
Services (net)	887	1,295	1,639	1,733	1,878	2,020	2,331
Of which: Travel receipts	1,932	2,208	2,116	2,329	2,457	2,600	2,827
Income (net)	-841	-985	-1,106	-1,288	-1,588	-1,616	-1,663
Of which: Interest on public debt	-285	-231	-232	-295	-369	-389	-380
Current transfers (net)	334	476	455	511	538	573	580
Of which: Official transfers	32	166	152	166	186	207	203
Capital account	320	397	457	415	386	492	498
Of which: Project grants[2]	257	333	394	350	318	419	420
Financial account	2,404	2,765	2,216	2,546	3,380	3,862	3,970
Foreign Direct Investment	1,463	1,338	1,273	1,368	1,552	1,976	2,358
Public Sector, net	616	865	787	1,294	2,017	2,068	1,889
Program loans	207	156	116	505	343	314	546
Non-concessional borrowing	336	576	566	719	1,104	1,266	1,100
Project loans	361	534	588	623	1,270	1,383	1,296
Scheduled amortization[3]	-287	-402	-483	-552	-701	-895	-1,053
Commercial Banks, net	142	163	-43	0	0	-75	-125
Other private inflows	90	399	-156	-225	-188	-183	-278
Errors and omissions [4]	-155	0	-130	0	0	0	0
Overall balance	-368	738	1,206	401	382	516	744
Financing	368	-669	-1,206	-401	-382	-516	-744
Change in BoT reserve assets (increase= -)	425	-599	-1,131	-316	-285	-476	-717
Use of Fund credit	-57	-70	-75	-85	-97	-40	-27
Memorandum items:							
Gross official reserves (BoT)	3,870	4,470	5,000	5,316	5,601	6,077	6,794
Months of imports of goods and services	4.8	4.0	5.2	4.9	4.6	4.7	4.7
Exports (percent of GDP)	12.4	12.2	10.6	10.4	10.5	10.7	10.8
Exports excl. gold (percent of GDP)	9.7	9.3	7.6	7.5	7.8	8.1	8.4
Imports (percent of GDP)	-19.8	-18.7	-15.4	-17.0	-17.7	-18.2	-18.0
Imports excl. oil (percent of GDP)	-15.4	-13.6	-11.7	-13.2	-14.0	-14.8	-14.8
Current account deficit (percent of GDP)	-6.5	-4.9	-2.7	-4.8	-5.8	-6.0	-5.4
Foreign program and project assistance (percent of GDP)	1.9	2.4	2.5	3.1	3.6	3.6	3.6
Nominal GDP	45,128	49,304	49,265	53,655	58,552	63,758	69,365

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] From the sixth review under the Policy Support Instrument.

[2] An adjustment to the estimated outturn is made by BoT to reflect unreported project grants.

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

[4] Includes valuation changes in gross reserves resulting from the exchange rate movements of the US$

Table 5. Tanzania: Financial Soundness Indicators, 2012–17
(Percent, end of period)

				2015				2016				2017		
	2012	2013	2014	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Access to bank lending														
Claims on the non-government sector to GDP [1]	14.2	14.6	15.5	14.3	15.2	16.2	16.8	17.4	18.0	18.0	17.9	15.7	15.7	15.6
Claims on the private sector to GDP [1]	13.2	13.9	14.4	13.3	14.2	15.0	15.7	16.2	16.9	17.0	16.9	14.9	15.0	14.9
Capital adequacy														
Capital to risk-weighted assets	17.5	17.9	17.4	19.0	17.6	18.6	18.9	20.0	19.2	19.3	19.9	20.8	18.3	18.9
Capital to assets	10.5	11.0	11.2	12.1	11.2	12.1	12.0	13.0	12.7	13.2	13.5	13.8	13.0	13.6
Asset composition and quality														
Net loans and advances to total assets	49.7	50.8	52.9	53.3	52.8	53.5	54.6	55.1	56.1	56.5	55.6	54.3	53.4	52.7
Sectoral distribution of loans														
Trade	20.9	20.9	21.9	22.5	21.1	21.2	19.4	19.0	19.4	20.3	20.4	23.0	21.4	20.7
Personal	n.a.	n.a.	17.4	16.7	17.3	17.2	18.1	19.0	20.1	18.6	18.6	17.5	18.8	17.3
Manufacturing and mining	11.9	11.9	12.3	12.2	13.3	12.6	12.5	12.8	12.7	11.1	11.8	11.2	13.1	13.0
Agricultural production	10.7	9.3	8.6	8.3	8.5	8.1	7.6	7.6	7.4	6.7	6.8	6.8	7.1	6.9
Transport and communication	6.9	7.0	7.1	7.2	7.6	7.5	7.2	7.6	7.4	7.3	7.1	6.1	5.6	6.0
Real Estate	n.a.	n.a.	4.1	3.9	3.9	4.5	4.4	4.6	4.5	4.7	5.1	5.3	5.0	5.2
Building and construction	4.7	4.9	5.3	5.1	4.7	4.7	4.7	4.6	4.6	4.3	4.5	4.5	4.5	5.1
Foreign exchange loans to total loans	33.5	35.4	36.3	37.5	38.2	38.7	37.7	37.6	36.7	36.1	36.0	36.5	36.7	35.1
Gross nonperforming loans (NPLs) to gross loans	8.1	7.1	6.8	6.7	6.7	6.6	7.9	8.4	8.7	9.1	9.6	11.0	10.6	12.5
NPLs net of provisions to capital	22.5	15.6	16.0	14.8	16.2	14.8	18.6	18.8	21.1	21.7	22.1	24.5	22.1	28.5
Large exposures to total capital	143.7	91.2	123.2	129.6	125.8	117.4	123.3	129.2	128.5	125.9	109.6	104.1	117.4	125.9
Net open positions in foreign exchange to total ca	-1.7	1.5	-2.5	-2.1	-2.2	-2.3	1.4	-1.1	1.4	-2.4	-1.9	2.2	1.5	2.1
Earnings and profitability														
Return on assets	2.6	2.5	2.5	3.3	3.0	2.8	2.6	3.5	3.0	2.5	2.3	2.5	2.3	2.0
Return on equity	13.9	12.8	12.6	17.3	15.8	14.2	12.4	18.2	15.3	12.1	10.7	11.5	10.4	8.7
Interest margin to total income	65.6	67.4	67.8	67.8	65.9	66.4	66.6..	65.7	68.1	69.4	69.7	53.5	52.8	52.3
Noninterest expenses to gross income	67.8	66.9	67.2	63.9	65.1	67.4	68.4	63.2	64.7	66.9	67.6	50.9	51.5	51.9
Personnel expenses to noninterest expenses	42.4	43.4	44.2	46.8	46.0	44.9	43.8	45.5	45.4	44.9	44.7	45.7	45.5	45.4
Liquidity														
Liquid assets to total assets	34.0	32.3	31.0	30.6	30.4	31.0	30.6	29.1	30.4	28.1	28.7	28.9	30.6	31.0
Liquid assets to total short term liabilities	38.4	36.2	35.8	38.9	37.7	37.3	37.3	36.6	37.1	34.2	35.1	36.0	38.1	37.9
Total loans to customer deposits	68.6	71.8	74.3	76.9	76.0	77.0	78.5	82.4	85.7	87.1	86.3	86.0	83.1	84.9
Foreign exchange liabilities to total liabilities	34.4	35.0	35.7	37.6	39.8	41.6	39.6	38.8	37.8	38.9	37.4	37.8	36.0	36.4

Source: Bank of Tanzania

[1] Calendar year; end of period claims relative to annual GDP. Based on new GDP series.

Appendix I. Letter of Intent

Dodoma, December 21, 2017

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

Dear Madam Lagarde:

During the three-year implementation of the current Policy Support Instrument (PSI) program, which started in the mid-2014, Tanzania continued to enjoy strong macroeconomic performance. The economic performance was marked with strong GDP growth, low inflation, improvement in the external accounts with high levels of official foreign reserves, and stability in exchange rate except in few instances, where volatilities were experienced largely caused by external developments and speculative activities in the market. The country also experienced improvement in fiscal discipline and transparency in management of public resources. In addition, access to financial services continued to deepen and the banking sector maintained average capital and liquidity levels above the regulatory requirements, despite recent drop in the quality of assets arising from the increase in non-performing loans.

Between 2014 and 2016, real GDP growth averaged about 7.0 percent, with significant contribution to growth coming from industry, construction, and service activities. Inflation hovered around the single digit level at an average of 6.0 percent and close to the medium-term target of 5 percent, supported by improved food supply, prudent monetary policy stance, streamlined fiscal operations, stability of global oil prices, improvement in domestic power generation and exchange rate stability. The current account deficit narrowed from 11.0 percent of GDP in 2013/14 to 2.8 percent of GDP in 2016/17, lowest level in the recent history, driven largely by decline in imports of capital goods, industrial materials, oil, and service payments, coupled with increase in official transfers and travel and transport receipts. Gross official reserves have also increased reaching USD5,000.4 million at the end of June 2017—sufficient to cover about 5 months of projected imports of goods and services, compared with USD4,637.7 million recorded in June 2014, which was sufficient to cover 4.5 months of imports. The increase in official reserves provided enough buffers against potential external shocks.

Important challenges remain and we are currently discussing a successor 3-year program. It is our intention that pending issues from the current PSI will be addressed in a possible successor arrangement.

Macroeconomic Developments and Outlook

Real GDP is estimated to have grown by 6.8 percent in the first half of 2017 compared with 7.7 percent recorded in the similar period in 2016. Based on recent developments of the leading indicators of economic activities in the first half of 2017, the targeted growth rate has been revised downwards to 7.0 percent against the initial estimate of 7.1 percent. The overall performance of the economy in 2017 and beyond will also be supported by continued improvement in power supply particularly from natural gas; improvement in transportation services; projected rebound of the global economy; and implementation of infrastructural projects under the 2nd Five Year Development Plan.

Headline inflation continued to ease to 4.4 percent in November 2017, supported by improved food supply, while core inflation dropped to 1.4 percent. Inflation is expected to remain in single digit in 2017/18 around the medium-term target of 5.0 percent, aided by expected continued improvement in food supply, stability of the shilling exchange rate and sustained prudence in monetary and fiscal policy. However, upward risks remain due to possible rise in oil prices following recent agreement among OPEC member countries to cut down production.

During 2016/17, current account deficit narrowed significantly to 2.7 percent of GDP from 6.5 percent of GDP in 2015/16. In 2017/18, the current account balance is projected to record a deficit of about 5 percent of GDP as imports are projected to grow much faster than exports. The projected increase in imports is consistent with the continued expansion of economic activities such as implementation of some major investment projects including construction of the Standard Gauge Railway (SGR), Lake Albert (Uganda)—Tanga oil pipeline. Meanwhile, value of oil imports, which has been contained partly associated with the usage of natural gas instead of oil in power generation, is expected to record a marginal increase, driven by expected rise in prices in the world market as import volume is expected to remain broadly unchanged.

In 2016/17, Government revenue increased but fell short of budget estimates. Total domestic revenue collection including Local Governments Authorities (LGAs)' own sources was 15.3 percent of GDP. Tax revenue collection was 12.9 percent of GDP which was 13 percent increase in nominal terms when compared to the same period in 2015/16. Non-tax revenue collection was 71 percent higher when compared to the same period in 2015/16, mostly on account of the transfer of parastatals' past retained earnings. Budget execution in 2016/17 faced challenges, mainly due to external financing shortfalls that led to low execution of capital spending of about 62 percent of the target. Fiscal deficit was much lower than the program on account of underspending which mirrored un-realization of both external and domestic financing.

Monetary policy for 2016/17 remained accommodative especially during the second half of the year following tight liquidity conditions experienced in the first half of the year. The tight liquidity condition emanated largely from cumulative impact of a decline in net foreign budgetary inflows; transfer of public institutions' deposits to the BoT; streamlined expenditure management; and

weak private sector cash flows. In order to address the tight liquidity situation, the BoT reduced the discount rate from 16.0 percent to 12.0 percent in March 2017, and further down to 9.0 percent in August 2017. In addition, the BoT lowered the Statutory Minimum Reserve (SMR) requirements on private sector deposits to 8.0 percent in April 2017 from 10.0 percent. Other policy instruments used by the BoT to inject liquidity into the economy include reverse repo operations, unsterilized purchase of foreign exchange from the domestic market, inward foreign exchange swaps and provision of short-term loans to banks.

The above monetary policy measures helped to boost liquidity among banks and reduced money market interest rates substantially. However, commercial banks' lending rates remained elevated, reflecting increased risk premium, associated with the rise in non-performing loans and other structural factors, which limit transmission of the policy actions. Growth of money supply and credit to the private sector remained significantly lower than the program targets in 2016/17. Growth of extended broad money supply and credit to the private sector slowed down to 6.0 percent and 1.2 percent in 2016/17 respectively, from 12.7 percent and 19.1 percent in 2015/16. Growth of M3 eased further to 5.6 percent in October 2017, while credit to private sector contracted by 1.5 percent. The decline in the growth of credit to private sector reflects cautious approach taken by banks in extending credit, following an increase in non-performing loans and slow growth of private deposits. The shilling value against the U.S. dollar remained stable during 2016/17 and the first 5 months of 2017/18, consistent with improvement in current account balance.

The banking sector has maintained on average capital and liquidity levels above the regulatory requirements. The ratio of core capital and total capital to total risk weighted assets were 18.26 percent and 20.26 percent, respectively, in June 2017, well above the respective minimum regulatory requirement of 10 percent and 12.0 percent. However, the quality of assets as measured by ratio of non-performing loans (NPLs) to gross loans deteriorated from 8.7 percent in June 2016 to 10.6 percent in June 2017 and further to 12.5 percent in September 2017. Banks had to increase provisions for NPLs, which affected their profitability. On the regulatory and supervisory changes for the commercial banks, the BoT has introduced Capital Charge for Operational Risk with effect from August 2017 where banks are required hold capital for operational risk. The BoT introduced the requirement for all banks to hold 2.5 percent capital buffers above the minimum capital requirement ratios of 10 percent and 12 percent for core and total capital respectively.

Program Performance

The assessment criteria for end June 2017 and the indicative targets for end September 2017 on average reserve money and accumulation of net international reserves were met. During the period, average reserve money closed below the upper limit by TZS 540.9 billion and TZS 559.4 billion in June 2017 and September 2017, respectively. Accumulation of NIR was above the floor by more than US$500 million in June 2017 and September 2017, respectively, largely explained by net purchase of foreign exchange from domestic market and receipt of proceeds

from external non-concessional loan. The assessment criteria on tax revenues as of end June 2017 was missed by 0.1 percent of GDP mainly due to decline of importations of the dutiable and taxable goods and decline of sales of goods for local markets faced by companies producing cement, beer and soft drinks. Fiscal deficit was 1.6 percent of GDP against assessment criteria of 3.2 percent of GDP due to un-realization of both external and domestic financing. The assessment criterion on the non-accumulation of domestic payment arrears was missed as the verification of arrears' claims has not been completed. Its completion (by end-March 2018 for half of the claims including the larger ones, and by end-June 2018 for the remainder) is expected to lead to a substantial downward revision of the arrears' stock. Indicative targets on tax revenue and priority social spending as of end September 2017 were missed by 0.2 percent of GDP and 0.1 percent of GDP, respectively, and fiscal deficit was 0.2 percent of GDP compared to indicative target of 1.2 percent of GDP.

The BoT has prepared draft operational guidelines for IBCM (Code of Conduct) and General Master Repurchase Agreement (GMRA) to facilitate operations under a new interest rate based monetary policy framework. The Code of Conduct guidelines will be operational by end-March 2018. The code of conduct stipulates principles for interbank cash market operations, while GMRA shall be applicable to repo markets. The Bank has also developed the IBCM system, which will be ready by end-December 2017. The Bank will start a pilot project of the system by sampling commercial banks from mid-January 2018. IBCM with electronic trading platform will help banks to trade smoothly online and facilitate price discovery. The Bank has also and approved the collateral framework aimed at extending the maturity spectrum of eligible treasury securities by accepting all government securities with prescribed haircuts, from the current arrangement of accepting government securities of 180 days only. The new collateral arrangement will also help to address market segmentation.

Fiscal Policy and Structural Fiscal Reforms

During the first quarter ending September 2017, the Government continued to implement the 2017/18 Budget with the aim of maintaining fiscal deficit under program objective of 3.9 percent of GDP. Total domestic revenue collection fell short of the budget target by 15 percent (0.6 percent of GDP), contributed by decline of sales of goods for local markets faced by companies producing cigarettes, bottled water and alcohol having caused poor performance in the excise duty. Despite this shortfall, there has been significant government effort to improve collection by improving functionality of Electronic Fiscal Device Management Systems to make it easier to track taxpayers' records and usages during tax audits and assessments. Other reasons include general decline of imported goods both dry cargo and wet cargo in volumes and values. Underperformance of expenditure in the first quarter of 2017/18 was a result of performance of domestic revenue, and low disbursement of foreign funds including concessional loans. It is worth noting that during this period there has been substantial build-up of government deposits at the Bank of Tanzania, which can be spent should the intended projects materialize. The Government is confident in implementing prudent fiscal policy leading to realizing revenues projected in 2017/18 budget. The current trend for October and November 2017 shows

improvement in revenue collection which implies high chance of realizing the target, On the other hand, negotiations of other financing sources are ongoing. The Government will continue to do careful prioritization and implementation of expenditures to ensure that spending does not exceed realistic revenue and financing projections.

Good progress has been made in sourcing funds for the implementation of SGR Project. The first phase of the project (DSM–Morogoro), projected to cost US$1.215 billion, is being implemented using government own sources, while the second phase (Morogoro–Makutupora) will be implemented using blended financing from ECA facilities, DFIs as well as other commercial facilities. The total contract price for the second phase excluding VAT, Provisional sums and a contingency is US$1,460 million. For ECA facilities, disbursement is expected to be made in line with the implementation of the project, while DFIs and Other Commercial loans will be disbursed directly to Treasury.

The government is working on the 2018/19 and medium term budget plans, bound to rest on continued implementation of revenue-enhancing measures, continued rationalization of expenditures to create fiscal space for public investment scaling-up while maintaining a low risk of debt distress, enhanced and timely mobilization of external financing, steady upgrading of public financial management, including on the management of domestic spending arrears.

Budget credibility depends greatly on the quality of macroeconomic assumptions and transparency in its execution. Reliable macroeconomic assumptions, improved revenue forecasting and its mobilization and alignment to expenditure needs are critical for better execution of the budget. Being aware of that, the government will continue to enhance human capacity and obtain appropriate tools which will enable availability of adequate tax statistics needed to perform tax policy and other fiscal policy analysis with a view to supporting more realistic expenditure needs consistent with revenue and cash flow forecasts. Further, the government will continue to collaborate with development partners to improve external resources management, integration with budget preparation and implementation, to enhance predictability, accounting for and reporting on of public resources.

The TRA will enhance risk-based audit and compliance management; enhancing administration and monitoring of the block management system; strengthening the capacity to monitor transfer pricing and invoice mispricing by multinationals; and enhancing information sharing and exchange with Government Agencies and Regional Revenue Bodies to combat tax evasion and speed up verification and payment of VAT refunds. The Government will enhance voluntary compliance through strengthening of a Comprehensive Taxpayer Communication Strategy and improving presumptive tax scheme. Providing a single platform for processing clearance of documents through implementation of e-Single Window system for port community and cross border trade; fast track the introduction of Integrated Domestic Revenue Administration System (IDRAS) that will integrate all information available from internal TRA systems such as EFDMS, TANCIS.

The Government policy on management of domestic arrears aims at improving budget credibility, reducing stock of domestic arrears and preventing creation of new arrears. The Government emphasizes on strengthening of cash management function and ensures that MDAs, RSs & LGAs submit credible action plans and cash flow plans as a basis of allocating available resources. Currently, one of the Government's initiatives is to continue with verification of unpaid claims and use the earmarked budget allocations to clear verified stock of arrears (Suppliers, Contractors and Staff) in phases. Other initiatives include: Scrutinizing all MDAs, RSs, and LGAs MTEFs in a view to maintaining credible spending components and reducing less priority expenditure; prohibiting supplying of goods and services for the Government without providing system generated Local Purchase Order (LPO) from the IFMS; strictly subjecting Government commitments to funds availability and awarding of contracts supported by warrants to spend; Government institutions seeking approval from the Minister for Finance and Planning before borrowing as stipulated in the Government Loans Guarantees and Grants Act, CAP 134; and reducing transaction costs in acquisition of Government common supplies by using existing bodies for acquisition.

Initial Government commitment was to issue non-cash bond to clear pension arrears in 2017/18. However, based on new development this has been suspended pending the completion of the pension funds reform. The Government is currently working on various reforms on pension funds system as a whole including possibility of merging it to two and reviewing downward the formula of pension benefits.

Monetary and Financial Sector Policies

The new monetary policy framework, expected to be adopted by March 2018, will use the overnight interbank cash market interest rate as operational target rather than reserve money. The policy rate will be bounded by standing facilities that will be available towards the end of the trading day to take care of liquidity shortages or excesses at a margin that will depend on liquidity conditions and policy stance. The new framework shall apply full allotment system at policy rate within a prescribed business trading hours.

In addressing the problem of high and rising NPLs, the Bank has developed a strategy with all banks with sizable levels of NPLs on the best approach to restructure the non-performing assets. In addition, the Bank has instructed all banks and financial institutions to use credit reference bureau reports when carrying out credit appraisals and required them to implement stringent measures for collection and recovery of NPLs. The Bank will continue to closely monitor the banks as they address the problem of rising NPLs, and plan to implement IFRS 9 in January 2018 in addition to keeping capital charge for operational risk and capital conservation buffer of 2.5 percent. These regulatory changes will increase pressure on capital adequacy ratios and profitability of banks. The Bank will make assessment of the situation and take appropriate measures.

The sector currently has six undercapitalized community banks. The Bank has encouraged the banks, through the Community Banks Association (COBAT) to consider consolidation option

through establishing a Federation of Community Banks as a resolution. COBAT has initiated the process of merging of these banks by engaging various strategic investors. The proposed model is expected to increase the scale of operations and minimize operating costs. The Bank granted an extension period of up to 31st December 2017 as a deadline for all undercapitalized community banks to comply with the minimum capital requirements of Tsh 2.0 billion. The extension period was given after submission of proposals from some community banks and COBAT on possible recapitalization options, either individually or through the federation.

Business Climate and Governance

To simplify business registration, Business Registration Licensing Agency (BRELA) is developing an Online Business Registration System to enable customers to register their business names online. The System is expected to be launched before the end of 2017. Also, through *Regional Communication Infrastructure Programme*, the Government is developing a National Business Portal. The Portal is the system that will provide business-related information and also issue business licenses online. The system is also expected to be launched before the end of 2017. To address the problem of multiple taxes/levies/fees, the Government has taken an initiative to carry out a holistic approach to unveil the red tape in all sectors. The government has prepared a *Blue Print for Regulatory Reforms to Improve Business Environment* which presents key challenges relating to multiple taxes/levies/fees that are affecting the business environment in Tanzania and the recommendation for reforms to improve that. The blue print is ready in place and waiting for approval.

The Government has continued to accord high priority to governance and accountability as means of tackling mismanagement of public resources, corruption, poor service provision, tax evasion, and unnecessary bureaucratic snags, which have negative impact on the achievement of developmental objectives. Governance and accountability are essential elements to ensuring good use of resources, effective participation of the private sector in developing industries and enterprises that spur economic growth and create jobs, and effective participation of citizens in demanding accountability and respecting the rule of law. In a bid to ensuring good governance in the country, the Government has pronounced corruption as an enemy to be fought by everyone at all levels. Misuse of public funds has been controlled through expenditure cuts and proper allocation of resources based on available priorities. For instance, the government has ensured that the money directed to local governments are spent in accordance with the intended purposes to ensure availability of quality services to people including business community. A number of corrupt leaders, officials and businessmen including contractors have been pursued to ensure that there are no hurdles to doing business. The Government so far has ensured that the cases pending in courts are being resolved on time by proving sufficient resources to the legal sector; that people receives satisfactory services from government at all levels including education, health, water, and security; and that tax avoidance and evasion are minimized through use of modern equipment, provision of public education and use of legal measures.

In order to ensure effective private sector participation in the economy, the Government has strived to improve business climate in the country. The predictability of policies is conceived

important for private sector growth. Further, the private sector is being invited to provide their views during preparation of government budget, formulation of various policies, and enactment of laws and their regulations. Also, the government prepares special meetings with the private sector to listen to their complaints with a view to addressing them.

The Government intends to disseminate this letter, as well as the related Fund staff report, and hereby authorizes the IMF to publish the same after consideration by the Executive Board.

Yours Sincerely,

/s/

Dr. Philip I Mpango (MP),
Minister of Finance and Planning
United Republic of Tanzania

/s/

Prof. Benno Ndulu,
Governor, Bank of Tanzania
United Republic of Tanzania

Table 1. Tanzania: Quantitative Assessment Criteria (AC) and Indicative Targets (IT) Under the Policy Support Instrument, December 2016–September 2017

	Dec. 2016				Mar. 2017				Jun. 2017				Sep. 2017			
	IT				IT				AC				IT			
	Program[1]	Adjusted Criteria	Actual	Met?	Program[1]	Adjusted Criteria	Actual	Met?	Program[2]	Adjusted Criteria	Actual	Met?	Program[2]	Adjusted Criteria	Actual	Met?
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)															
Average reserve money (upper bound) [4]	7,729	7,729	6,980	✓	7,925	7,925	6,434	✓	7,236	7,236	6,695	✓	7,352	7,352	6,793	✓
Average reserve money target [4]	7,652				7,846				7,164				7,279			
Average reserve money (lower bound)[4]	7,576				7,768				7,093				7,206			
Tax revenues (floor)[3]	7,086	7,086	7,064	✗	10,672	10,672	10,580	✗	14,185	14,185	14,055	✗	3,822	3,822	3,564	✗
Priority social spending (floor; indicative target)[3]	1,580	1,580	1,758	✓	2,370	2,370	2,585	✓	3,160	3,160	3,405	✓	930	930	835	✗
Accumulation of domestic expenditure arrears (ceiling)[3, 5]	0	0	190	✗	0	0	222	✗	0	0	1,780	✗	0	0	…	
Fiscal balance (cumulative, floor)[3, 8, 9]	-2,403	-2,403	94	✓	-3,650	-3,650	-658	✓	-3,140	-3,179	-1,594	✓	-1,392	-1,443	206	✓
	(Millions of U.S. dollars; end of period)															
Change in net international reserves of the Bank of Tanzania (floor) [3, 6, 7]	310	10	494	✓	439	139	625	✓	600	568	1,044	✓	-98	-103	630	✓
Accumulation of external payment arrears (continuous AC ceiling) [3]	0	0	0	✓	0	0	0	✓	0	0	0	✓	0	0	0	✓
Memorandum items:																
Foreign program assistance (cumulative grants and loans; millions of U.S. dollars)[3]	160	160	78		202	202	147		342	342	265		51	51	29	
o.w. Program grants (millions of U.S. dollars)[3]	34	34	66		50	50	66		167	167	149		51	51	28	
External nonconcessional borrowing (ENCB) disbursements to the budget (millions of U.S. dollars)[3]	629	629	52		944	944	113		507	507	552		139	139	156	
Programmed clearance of domestic spending arrears																
Arrears to PSPF on account of the 1999 reform cleared from the beginning of fiscal year 2016/17 and 2017/18 in each fiscal year (billions of Tanzania shillings)[3]			0				0				0				0	
Amount of loans in arrears made by pension funds to government entities and cleared by the government from the beginning of fiscal year 2016/17 and 2017/18 in each fiscal year (billions of Tanzania shillings)[3]			0				0				0				0	

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

[1] From the fourth review under the Policy Support Instrument.

[2] From the sixth review under the Policy Support Instrument.

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

[4] Assessment criteria and indicative targets apply to upper bound only.

[5] Starting from June 2016, AC for the end of the fiscal year, otherwise IT.

[6] Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government up to the equivalent of US$300 million.

[7] Starting end-December 2015 the NIR target excludes short-term (less than 1 year) foreign exchange liabilities to residents.

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

[9] The deficit in 2016/17 and 2017/18 will be raised by the amount of arrears to PSPF on account of the 1999 reform and the amount of loans in arrears made by pension funds to government entities (recognized by the government) that were cleared during the fiscal year. This adjuster will be capped by the total amount of arrears identified in the strategy to clear arrears to pension funds. The deficit will be increased by any shortfalls in foreign program grants up to a cumulative ceiling of equivalent to US$200 million calculated at the program exchange rate.

Table 2. Tanzania: Structural Benchmarks Under the Policy Support Instrument, June–December 2017			
Measure	***Macroeconomic rationale***	***Target date***	***Status***
Public Financial Management			
Issuance of non-cash bonds in settlement of arrears to PSPF on account of the 1999 reforms as well as to all pension funds on loans made to the government.	To address fiscal risks	End-September 2017	Not met. The government decided to reform first the current pension schemes, including merging them into two.
Monetary and Financial Policies			
Issue operational guidelines for commercial banks outlining new principles for conducting monetary operations under a new interest rate-based monetary policy framework, setting rules for disseminating information on government securities' auction results and overnight interest rates, and establishing eligibility criteria for banks' access to standing facilities.	Operational steps that are needed to move to an interest rate-based monetary policy framework	Seventh Review	In progress. The BoT has prepared draft operational guidelines, which are expected to be operational by March 2018 in line with the expected move to an interest rate-based monetary policy framework.
Expansion of eligible collateral by accepting government securities with longer remaining maturities (i.e.: over 90 days) for the BoT's lending facilities	To improve the functioning of the BoT's lending facilities	Seventh Review	Met
Introduce an electronic platform for the interbank market	To improve price discovery mechanism in the interbank market and enhance transparency of interbank transactions	Seventh Review	In progress. The BoT has developed an electronic platform, a pilot test of which will begin in mid-January.

Appendix II. Capacity Development Strategy—Summary July 2016

Macro-challenges

- **Economic prospects remain favorable, with the newly elected administration emphasizing a program of reforms and infrastructure spending.** Short- to medium-term growth outlook is positive, especially if natural gas production starts as expected in the mid-2020s. Inflation remains contained while the current account deficit has come down on the back of lower oil imports. The new administration, elected in October 2015, has articulated a vision of better governance, particularly with respect to taking strong action on corruption, higher revenue mobilization, and a reorientation of spending from current to capital expenditure.

Key Surveillance/Program Priorities

- **Expenditure and public financial management.** Address suppliers' arrears and arrears to pension funds (prevention and settlement). Improve the composition of spending and investment management. Address fiscal risks.

- **Tax policy and administration.** Expand revenue base and revenue performance to fund development.

- **Debt sustainability.** Maintain current debt vulnerabilities at a low level, build debt management capacity.

- **Monetary policy.** Prepare the transition to an interest rate-based monetary policy framework.

- **External and financial stability.** Prepare for closer EAC integration and capital account liberalization; modernize regulatory and supervisory framework for the financial sector.

TA Priorities

- **General considerations.** Intensity broadly appropriate. Composition could be re-oriented toward key fiscal and monetary reforms while assistance on statistical issues could prioritize improving BOP and national accounts data. Share of TA to Zanzibar to be discussed to ensure it fits into the overall strategy for Tanzania, allows Zanzibar to catch up in certain areas while not crowding out TA to the mainland, and in light of constraints on absorptive capacity in Zanzibar.

- **Fiscal issues.** A short-term priority is to arrest the accumulation of arrears, which requires more credible budgets and better commitment controls, to be achieved through further support on budget preparation, revenue forecasting, and fiscal controls. Better debt and cash management is also desirable, both from a fiscal and monetary perspective. Over the short and medium term, the focus should be on improving revenue through tax policy and

administration reforms and continuing the work on natural resource taxation in anticipation of (possible) natural gas production. Further improving fiscal transparency and addressing fiscal risks are other priority areas for the coming year.

- **Monetary policy issues.** Assist in the transition to a forward-looking, interest rate-based monetary policy framework through (i) improvements in the functioning of money and T-bill markets; (ii) greater use of domestic currency instruments (repos and other operations); and (iii) greater focus on excess reserves of commercial banks to stabilize interest rates. This could be done at country level, or at the EAC level in the context of the convergence process towards a single currency. Support to strengthen forecasting and analytical capacity (i.e., implementing an FPAS model) should continue.

- **Financial sector.** Assistance in work relating to the regional integration, implementation of recently revised regulations on consolidated supervision and the transition to Basel II/III, and enhancing the macroprudential framework. Explore ways to improve oversight of non-bank financial institutions (pension funds, insurance companies).

- **Statistics.** Continue ongoing improvements to compilation of price and national accounts statistics; ensure more timely and comprehensive coverage of fiscal and debt statistics (with a medium-term goal of expanding coverage to the general government and adhering to GFSM 2014 methodology and presentation); and greater support on BOP data from HQ, particularly the financial account in light of capital account liberalization.

Authorities' Views

- The authorities agreed with the priorities noted above. They indicated that technical assistance in support of revenue administration and tax policy reforms, improvements in public financial management, transition to an interest-rate based monetary policy framework, and enhancing the quality of statistics should remain the focus of capacity development efforts.

- The authorities expressed appreciation for the advice the Fund has provided and indicated that such advice is most useful when recommendations in reports are complemented by hands-on training, and appropriate prioritization that recognizes their absorption capacity.

Assessment of Past TA Effectiveness

- **Progress has been mixed.** While there have been important advances in some areas (adoption and implementation of VAT reforms, adoption of a new Budget Law, capital account liberalization, improvements in debt management, adoption of new regulations on financial supervision), progress has been more limited in others, such as fiscal policy formulation and implementation and modernization of the monetary policy framework. This situation may reflect a combination of temporary factors (e.g., a slowdown of reforms observed ahead of the October 2015 elections) and more lasting ones (e.g., insufficient capacity in key agencies).

Risks and Mitigation Measures

The key risks relate to limited implementation and absorption capacity, particularly with key counterparts involved in formulating and implementing reforms while also engaged with program engagement with the Fund; and limits imposed by political economy constraints or excessive caution (e.g., in the monetary area). The main mitigation strategies would be to have regular follow-up that could help take stock of progress, identify bottlenecks and accordingly provide guidance to the authorities on the next steps. Resident experts will likely need to provide intensive support in implementing reforms to allay concerns in areas where the authorities wish to proceed cautiously. Finally, recommendations should be closely aligned with the East African Community (EAC) convergence process to improve traction and motivate reforms.

UNITED REPUBLIC OF TANZANIA

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

December 22, 2017

Approved By
Roger Nord (AFR) and Daria Zakharova (SPR) and Paloma Anós-Casero (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA).

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

This Debt Sustainability Analysis (DSA) update indicates that Tanzania remains at low risk of external debt distress.[1] The medium- and long-term macroeconomic assumptions remain largely unchanged from the previous DSA with the exception of a substantial decrease in the projected current account deficit. All external debt burden indicators remain below their policy-determined thresholds. The public DSA analysis also shows the present value of public debt-to-GDP ratio remains favorable. With the Tanzanian authorities scaling up public investment to finance infrastructure projects envisaged under the FYDP II, the public debt-to-GDP ratio is projected to increase until the large flagship projects are completed, then to decline gradually over the long run. The results of the DSA update underscore that prudent fiscal policy and continued efforts to secure a strong economic growth momentum will be key to the success of the authorities' strategy. Policy measures to raise public domestic revenue in a business-friendly manner, to improve spending efficiency further by focusing on effective public investment management, and to enhance debt management capacity should be pursued. Exposure to volatility in export markets and tightening of financing terms pose downside risks to debt prospects.

[1] This Debt Sustainability Analysis (DSA) updates the previous joint IMF/IDA DSA prepared in June 2016 in the context of the 2016 Article IV consultation and Fourth PSI review (IMF Country Report No. 16/253). The three-year average score of the World Bank's Country Policy and Institutional Assessment (CPIA) for 2014–16 is 3.71, thus this DSA applies policy-dependent thresholds corresponding to medium policy performers.

BACKGROUND AND MACROECONOMIC ASSUMPTIONS

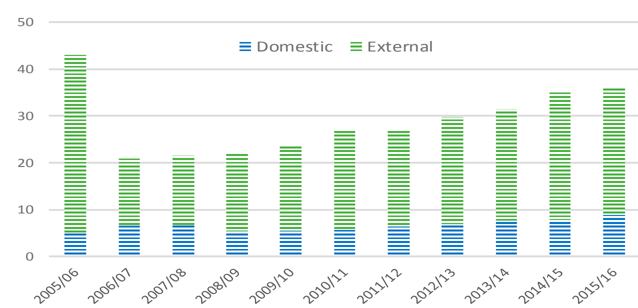
1. **Tanzania's public and publicly guaranteed (PPG) debt to GDP ratio has been increasing in recent years.** Total PPG debt increased by more than 15 percentage points of GDP since 2006/07 to 36.2 percent of the GDP at end-2015/16.[2] Most of the increase (some 13 points) was accounted for by external debt.

2. **While most of Tanzania's PPG external debt is concessional, borrowing on non-concessional terms has increased in recent years.** Official bilateral and multilateral creditors continue to be the major financiers, accounting for more than two thirds of external PPG debt as of end-2015/16. That said, the share of commercial financing has increased to about 30 percent at end-2015/16 from just over 4 percent at end-2010/11. More recently, and to finance high priority infrastructure projects, the authorities raised US$500 million through a commercial loan from Credit Suisse over the period June-August 2017.

3. **Domestic public debt has increased gradually, but remains relatively small.** Domestic debt stood at 9 percent of GDP at end-2015/16, with only about a third stemming from short-term instruments. Commercial banks continue to hold the largest share of government domestic debt. However, adding several outstanding government liabilities and other contingent liabilities currently not accounted for in the domestic debt stock increases it to 14.4 percent of GDP (as reflected in the 2016/17 figures, the first projection year under the current DSA update).[3]

4. **The medium- and long-term macroeconomic projections remain broadly unchanged from the previous DSA** (Box 1) with the exception of a substantial decrease in the projected current account deficit.

Text Figure 1. Tanzania Public Debt, 2005/06 – 2015/16 (in percent of GDP)



Source: Ministry of Finance and Planning, Bank of Tanzania, and IMF staff estimates.

[2] While the DSA tables below have a standardized presentation in calendar year terms, the data for Tanzania are represented in fiscal year terms, i.e., 2016 corresponds to 2015/16 figures.

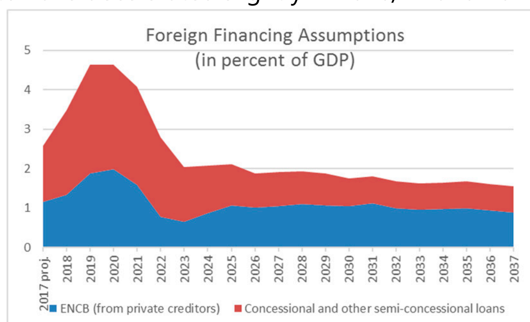
[3] This mainly include arrears to pension funds and loans to government entities, budget expenditure arrears, TANESCO's arrears to its suppliers, and other actual or contingent liabilities.

EXTERNAL DSA

5. **Tanzania's external debt is assessed to be remain "low" in this DSA update.** The present value of the PPG external debt-to-GDP ratio peaks at 19.1 percent in FY20/21, in line with the previous DSA. All debt burden indicators under the baseline scenario and under various bound tests remain below their respective policy-dependent thresholds. However, some ratios breach the respective thresholds under the historical scenario, mainly due to a larger historical current account deficit, which has recently fallen substantially and is projected to remain relatively low throughout the projection period (Figure 1).

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth: Although GDP growth is projected to have decelerated slightly in 2016/17 and 2017/18, it is projected to remain strong in the next few years (around 6½-7 percent), reflecting a scaling up of public investment, mainly in transportation and energy infrastructure. Over the medium term, growth is assumed to revert to its historical average of about 6.5 percent.



Inflation (CPI): CPI inflation is projected at about 5 percent, in line with the authorities' inflation target.

Current account balance: The external current account deficit fell to 2.7 percent of GDP in 2016/17 from 10.7 percent in 2013/14, due to a decline in oil imports partly aided by a shift from imported oil to domestically-produced gas for electricity generation and a contractionary fiscal stance. Considering this, the projected long-term current account deficit has been assumed to narrow by 2½ percentage points of GDP to 5½ percent of the GDP, compared to the previous DSA.

Government balances and domestic borrowing: The fiscal deficit is assumed to widen over the medium-term relative to the 1½ percent of GDP deficit recorded in 2016/17. The initial expansion, reflecting the scale up of public investment to finance infrastructure projects envisaged under the FYDP II, is expected to be followed by a gradual consolidation. The fiscal deficit is projected to fall below 3 percent of GDP by 2022/23, in line with the regional convergence criteria of the East African Monetary Union. Net domestic borrowing is expected to be maintained at around 1 percent of GDP during most of the projection period.

Selected Macroeconomic Indicators, Current vs. Previous DSA

		2015/16	2016/17	2017/18 proj.	2018/19 proj.	2019/20 proj.	2020/21 proj.	Long term (Last 15 years)
Real GDP Growth (percent)	Current DSA	7.0	6.0	6.2	6.5	6.8	6.7	6.5
	Previous DSA	7.1	7.2	7.0	7.0	7.0	7.0	6.5
Inflation (average)	Current DSA	5.5	5.4	5.0	5.0	5.0	5.0	5.0
	Previous DSA	6.4	5.4	5.0	5.0	5.0	5.0	5.0
Fiscal Balance (% of GDP)	Current DSA	-3.5	-1.5	-4.2	-4.6	-4.6	-3.7	-2.2
	Previous DSA	-3.3	-4.6	-4.5	-4.5	-4.5	-3.7	-2.2
Current account (% of GDP)	Current DSA	-6.6	-2.7	-4.8	-5.8	-6.0	-5.4	-5.5
	Previous DSA	-8.6	-9.1	-8.8	-8.6	-8.7	-8.0	-8.0
FDI (% of GDP)	Current DSA	3.2	2.6	2.5	2.7	3.1	3.4	4.0
	Previous DSA	4.5	4.2	4.2	4.2	4.2	4.2	4.0

Sources: Tanzanian authorities and IMF staff estimates and projections.

External financing flows: Reflecting the recent increase in commercial borrowing, the ratio of the ENCB (external non-concessional borrowing) to total annual foreign financing is expected to increase to around 50 percent of in the long term. Although it has dipped recently, owing to worsening investment sentiments, FDI is projected to recover gradually to its historical average of 4 percent of the GDP. As in the previous DSA, access to grants is assumed to taper.

6. **Still, several debt indicators remain sensitive to various shocks.** A one-time depreciation shock is the most extreme scenario among bound tests for most of the ratios, confirming the sensitivity of the Tanzanian economy to shocks stemming from exchange rate volatility. This is especially so for the debt service to revenue indicator; while more costly terms of external finance underscore a degree of vulnerability in the debt to exports measure. While there has been a structural change to a more resilient economy, breaches of the thresholds for the debt-to-exports and debt service-to-revenue ratios under the historical scenario underscore the importance of expanding the export base, boosting public revenue sources and adhering to fiscal consolidation over the medium to longer terms.

PUBLIC DSA

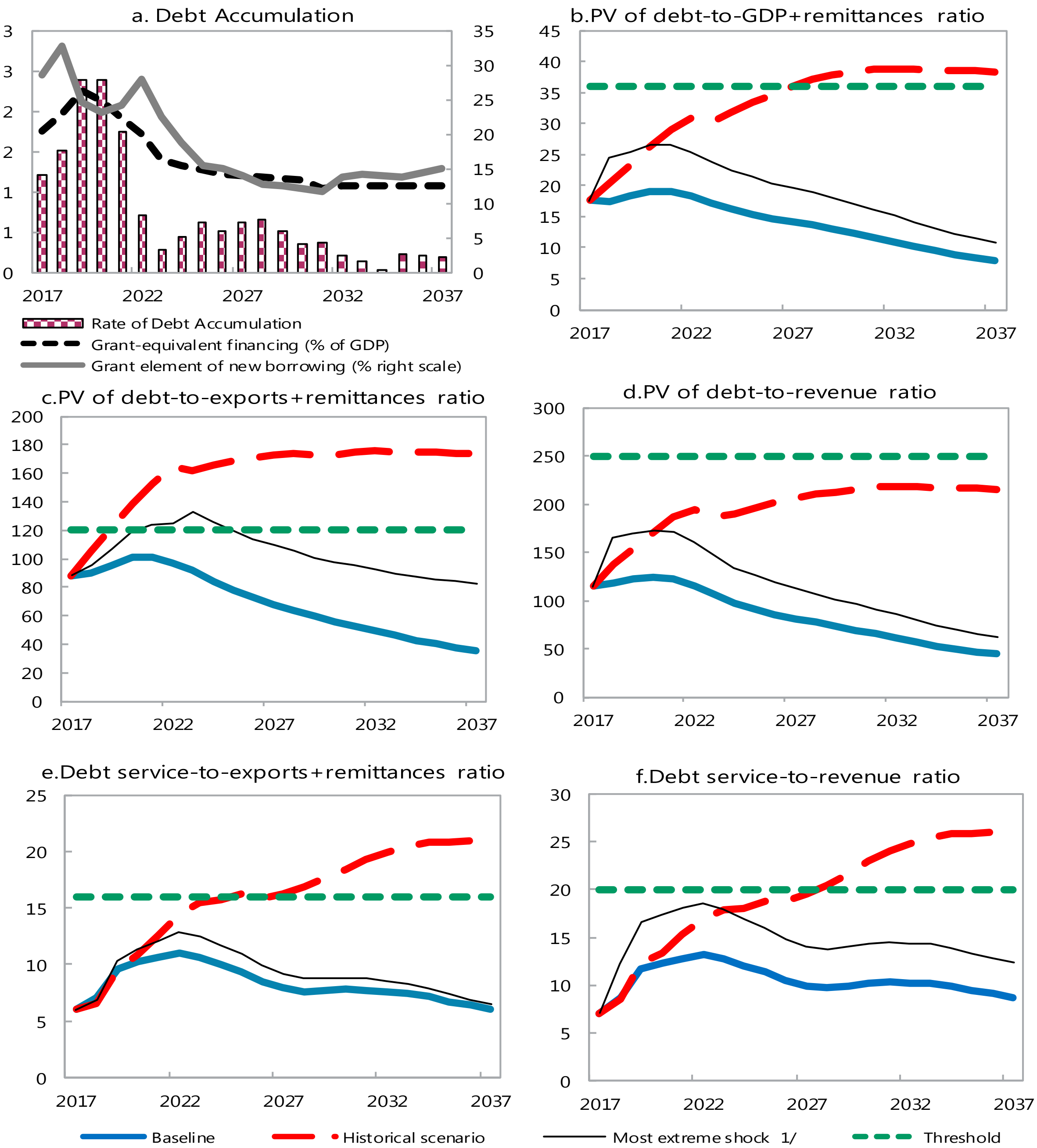
7. **Total public debt and debt service ratios suggest a low level of vulnerability.** Under the baseline scenario, the present value of total public debt as a share of GDP is expected to increase modestly in the next few years (to a peak of 43.6 percent of GDP in 2019/20) and to decline gradually over time, therefore remaining below the benchmark of 56 percent of GDP associated with heightened public debt vulnerabilities for medium performers, and the EAMU convergence criterion of 50 percent (Figure 2).

8. **Bound tests indicate a low level of vulnerability for the projected paths for total public debt indicators.** Under the historical scenario, all three ratios (PV of debt-to-GDP, PV of debt-to-revenue, and debt service-to revenue ratio) would keep growing gradually and reach the highest among alternative scenarios and bound tests at the end of the projection period, highlighting again the importance of implementing the envisaged fiscal consolidation over the medium to long terms.

CONCLUSION

9. **The DSA update indicates that Tanzania continues to face a low risk of external debt distress.** External debt burden indicators remain below the policy-dependent thresholds under the baseline scenario and stress tests. The latter suggests that a potential exchange rate depreciation and a currently narrow export base pose risks to debt vulnerabilities. The results also highlight the importance of maintaining the authorities' strong track record of macroeconomic management—sound fiscal and monetary policies leading to robust growth, relatively low current account, balances, and a strong international reserves' position. To that effect, raising public domestic revenue should be pursued in a business-friendly manner to maintain the economic growth momentum. The scaling-up of development spending to address Tanzania's infrastructure gap needs to be accompanied by improvements in spending efficiency through improved public investment management and enhanced debt management capacity. It is vital to leverage concessional and semi-concessional sources of financing when available and carefully select projects to be financed by commercial loans.

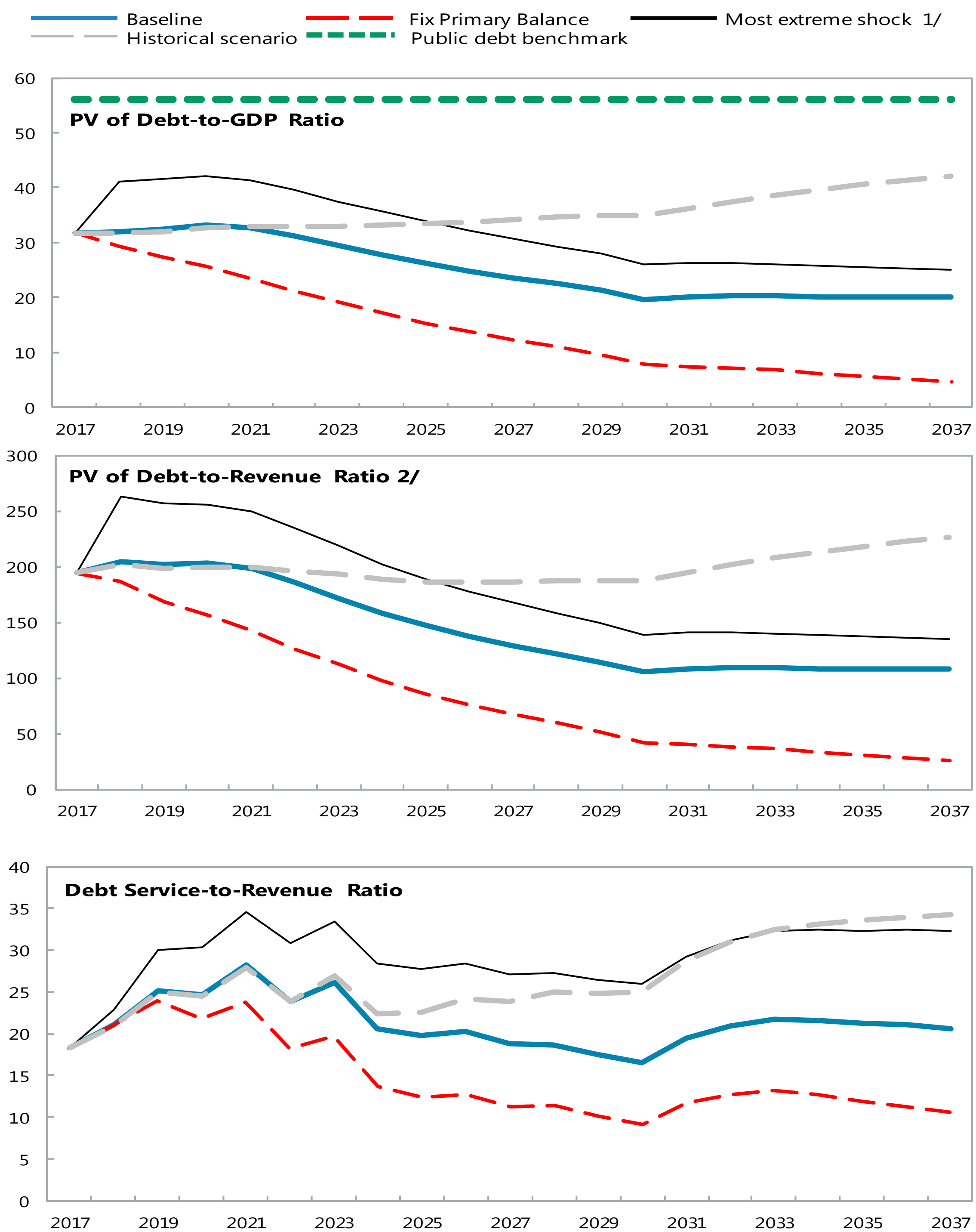
Figure 1. Tanzania: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Tanzania: Indicators of Public Debt under Alternative Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 1. Tanzania: External Debt Sustainability Framework, Baseline Scenario, 2014-2037 1/

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2017-2022			2023-2037
	2014	2015	2016			2017	2018	2019	2020	2021	2022	Average	2027	2037	Average
External debt (nominal) 1/	**27.0**	**30.8**	**33.2**			**33.0**	**33.3**	**34.9**	**36.5**	**36.9**	**35.9**		**29.6**	**22.7**	
of which: public and publicly guaranteed (PPG)	23.7	27.6	27.2			26.9	27.1	28.3	29.3	29.6	28.5		21.3	11.9	
Change in external debt	0.5	3.9	2.4			-0.2	0.3	1.5	1.7	0.3	-1.0		-1.0	-0.3	
Identified net debt-creating flows	3.6	5.5	5.5			-1.7	0.4	1.1	0.8	-0.3	-0.4		-0.4	0.0	
Non-interest current account deficit	**10.4**	**9.4**	**5.9**	**8.7**	**2.0**	**2.3**	**4.3**	**5.2**	**5.4**	**4.7**	**4.8**		**4.9**	**4.9**	5.0
Deficit in balance of goods and services	10.9	9.2	5.4			-0.4	3.9	4.9	5.3	5.0	5.4		5.4	5.3	
Exports	19.1	18.4	19.9			19.8	19.4	19.2	18.8	19.0	18.7		20.8	22.1	
Imports	29.9	27.6	25.3			19.5	23.3	24.1	24.2	24.0	24.1		26.2	27.4	
Net current transfers (negative = inflow)	-1.6	-1.2	-0.7	-2.3	1.0	-0.9	-1.0	-0.9	-0.9	-0.8	-0.8		-0.6	-0.4	-0.5
of which: official	-0.9	-0.6	-0.1			-0.3	-0.3	-0.3	-0.3	-0.3	-0.3		-0.2	-0.1	
Other current account flows (negative = net inflow)	1.1	1.3	1.3			3.6	1.4	1.2	0.9	0.5	0.2		0.1	0.0	
Net FDI (negative = inflow)	**-4.4**	**-3.4**	**-3.2**	**-3.8**	**0.7**	**-2.6**	**-2.5**	**-2.7**	**-3.1**	**-3.4**	**-3.6**		**-4.0**	**-4.0**	-4.0
Endogenous debt dynamics 2/	**-2.4**	**-0.5**	**2.8**			**-1.4**	**-1.4**	**-1.4**	**-1.5**	**-1.6**	**-1.6**		**-1.3**	**-0.8**	
Contribution from nominal interest rate	0.3	0.4	0.6			0.4	0.5	0.6	0.6	0.7	0.7		0.6	0.6	
Contribution from real GDP growth	-1.7	-1.8	-2.3			-1.8	-1.9	-2.0	-2.2	-2.3	-2.2		-1.8	-1.4	
Contribution from price and exchange rate changes	-1.0	0.9	4.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.0**	**-1.6**	**-3.1**			**1.4**	**0.0**	**0.4**	**0.9**	**0.6**	**-0.6**		**-0.6**	**-0.4**	-0.8
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.4	
PV of external debt 4/	...	...	23.9			23.7	23.6	24.8	26.3	26.4	25.7		22.4	18.7	
In percent of exports	...	...	119.8			119.4	121.9	129.5	139.4	139.4	137.5		107.9	84.8	
PV of PPG external debt	**...**	**...**	**17.9**			**17.6**	**17.5**	**18.3**	**19.0**	**19.1**	**18.3**		**14.1**	**7.9**	
In percent of exports	**...**	**...**	**89.9**			**88.7**	**90.1**	**95.5**	**101.1**	**100.9**	**97.6**		**67.8**	**35.7**	
In percent of government revenues	**...**	**...**	**125.4**			**114.5**	**117.7**	**121.7**	**123.7**	**122.6**	**114.9**		**81.1**	**44.2**	
Debt service-to-exports ratio (in percent)	**3.4**	**4.6**	**7.0**			**8.9**	**10.1**	**12.7**	**13.5**	**14.1**	**14.4**		**11.3**	**9.8**	
PPG debt service-to-exports ratio (in percent)	**2.9**	**3.6**	**5.3**			**6.0**	**7.1**	**9.7**	**10.2**	**10.7**	**11.0**		**7.9**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**4.1**	**5.2**	**7.4**			**7.1**	**8.6**	**11.7**	**12.3**	**12.8**	**13.2**		**10.0**	**8.7**	
Total gross financing need (Billions of U.S. dollars)	3.1	3.3	1.9			0.7	1.9	2.9	3.0	2.7	3.0		3.8	8.7	
Non-interest current account deficit that stabilizes debt ratio	9.8	5.5	3.6			2.5	3.9	3.7	3.7	4.4	5.8		5.9	5.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.1	7.0	7.0	6.6	0.6	6.0	6.2	6.5	6.8	6.7	6.6	6.5	6.5	6.5	6.5
GDP deflator in US dollar terms (change in percent)	4.0	-3.1	-12.7	3.2	8.2	3.0	2.6	2.5	2.0	2.0	2.0	2.3	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.3	1.7	1.9	1.1	0.5	1.4	1.6	1.8	2.0	2.0	2.0	1.8	2.1	2.6	2.3
Growth of exports of G&S (US dollar terms, in percent)	6.6	-0.1	1.3	11.3	9.6	-1.0	8.4	10.4	10.4	10.2	10.5	8.2	12.0	10.0	10.7
Growth of imports of G&S (US dollar terms, in percent)	8.5	-4.4	-14.4	10.3	15.2	-16.0	19.2	13.6	12.1	7.2	10.3	7.7	11.3	9.8	10.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	28.6	32.7	24.5	23.2	24.2	27.9	26.9	13.9	15.1	14.7
Government revenues (excluding grants, in percent of GDP)	13.5	12.8	14.3			15.4	14.8	15.0	15.4	15.6	15.9		17.4	17.8	17.5
Aid flows (in Billions of US dollars) 7/	1.3	0.8	0.2			1.1	1.5	1.7	1.7	1.7	1.5		1.5	3.1	
of which: Grants	1.0	0.6	0.2			0.5	0.4	0.7	0.7	0.6	0.7		1.1	2.2	
of which: Concessional loans	0.3	0.2	0.0			0.6	1.0	1.0	1.1	1.0	0.8		0.4	0.9	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.7	2.0	2.3	2.1	1.9	1.7		1.2	1.1	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			48.6	45.6	39.1	37.4	38.3	45.9		41.8	44.5	42.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	46.6	48.4	45.1			49.3	53.7	58.6	63.8	69.4	75.4		113.8	259.5	
Nominal dollar GDP growth	11.3	3.7	-6.7			9.2	8.9	9.1	8.9	8.8	8.7	8.9	8.6	8.6	8.6
PV of PPG external debt (in Billions of US dollars)			8.0			8.5	9.3	10.6	12.0	13.1	13.6		15.8	20.1	
(PVt-PVt-1)/GDPt-1 (in percent)						1.2	1.5	2.4	2.4	1.7	0.7	1.7	0.6	0.2	0.4
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.1		0.1	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	17.9			17.6	17.5	18.3	19.0	19.1	18.2		14.1	7.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	89.5			88.3	89.8	95.1	100.7	100.5	97.3		67.7	35.6	
Debt service of PPG external debt (in percent of exports + remittance	...	...	5.3			6.0	7.1	9.7	10.2	10.6	11.0		7.9	6.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Tanzania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–2037

(in percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	31.4	35.4	36.2			41.1	41.6	42.6	43.6	43.2	41.6		32.6	21.7	
of which: foreign-currency denominated	23.7	27.6	27.2			26.9	27.1	28.3	29.3	29.6	28.5		21.3	11.9	
Change in public sector debt	1.7	4.0	0.7			4.9	0.6	0.9	1.0	-0.4	-1.6		-1.4	-0.7	
Identified debt-creating flows	0.9	4.5	2.6			5.3	0.5	1.0	0.7	-0.1	-0.8		-0.9	-0.6	
Primary deficit	2.0	1.6	2.1	2.7	1.2	0.0	2.9	2.9	2.8	1.9	1.2	1.9	0.7	0.6	0.6
Revenue and grants	15.6	14.0	14.8			16.4	15.7	16.2	16.5	16.5	16.8		18.3	18.6	
of which: grants	2.1	1.2	0.5			1.0	0.8	1.1	1.1	0.9	0.9		0.9	0.8	
Primary (noninterest) expenditure	17.6	15.6	16.9			16.4	18.6	19.0	19.2	18.4	18.0		19.0	19.3	
Automatic debt dynamics	-1.7	1.9	-0.3			-1.7	-2.5	-1.9	-2.0	-2.0	-2.0		-1.6	-1.2	
Contribution from interest rate/growth differential	-1.3	-1.3	-1.7			-1.5	-2.2	-2.0	-2.0	-2.0	-2.0		-1.6	-0.7	
of which: contribution from average real interest rate	0.6	0.7	0.6			0.5	0.2	0.6	0.7	0.7	0.7		0.5	0.7	
of which: contribution from real GDP growth	-2.0	-2.0	-2.3			-2.0	-2.4	-2.5	-2.7	-2.7	-2.7		-2.1	-1.4	
Contribution from real exchange rate depreciation	-0.3	3.2	1.4			-0.1	-0.2	0.1	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.5	1.0	0.8			7.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			6.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.5	1.0	0.8			0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.8	-0.5	-1.8			-0.4	0.1	0.0	0.3	-0.2	-0.8		-0.6	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	26.8			31.8	32.0	32.6	33.3	32.7	31.4		25.5	17.6	
of which: foreign-currency denominated	...	...	17.9			17.6	17.5	18.3	19.0	19.1	18.3		14.1	7.9	
of which: external	...	...	17.9			17.6	17.5	18.3	19.0	19.1	18.3		14.1	7.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.9	4.0	5.3			3.0	6.2	6.9	6.8	6.5	5.2		4.3	3.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	181.4			194.4	204.0	201.5	202.5	198.1	186.4		138.9	94.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	187.8			207.1	215.4	216.4	216.3	209.9	197.3		146.3	99.0	
of which: external 3/	...	...	125.4			114.5	117.7	121.7	123.7	122.6	114.9		81.1	44.2	
Debt service-to-revenue and grants ratio (in percent) 4/	12.1	16.8	21.5			18.3	21.0	25.1	24.7	28.2	24.0		19.6	16.2	
Debt service-to-revenue ratio (in percent) 4/	14.0	18.4	22.2			19.5	22.2	27.0	26.4	29.9	25.5		20.6	17.0	
Primary deficit that stabilizes the debt-to-GDP ratio	0.3	-2.4	1.4			-4.9	2.4	1.9	1.8	2.2	2.8		2.1	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.1	7.0	7.0	6.6	0.6	6.0	6.2	6.5	6.8	6.7	6.6	6.5	6.5	6.5	6.5
Average nominal interest rate on forex debt (in percent)	1.5	1.8	1.9	1.1	0.5	1.2	1.5	1.7	1.9	2.0	1.9	1.7	2.0	2.9	2.3
Average real interest rate on domestic debt (in percent)	9.5	9.4	8.0	4.5	3.8	8.5	2.2	5.0	5.2	5.5	5.7	5.4	4.8	0.8	3.5
Real exchange rate depreciation (in percent, + indicates depreciation	-1.4	14.5	5.4	-1.1	8.0	-0.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.3	5.8	6.7	9.3	2.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percer	-1.4	-5.1	15.5	1.0	5.4	2.6	20.8	9.0	7.8	2.1	4.4	7.8	8.5	6.6	7.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	28.6	32.7	24.5	23.2	24.2	27.9	26.9	13.9	15.1	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 3. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2017-2037 (in percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to-GDP+remittances ratio								
Baseline	18	17	18	19	19	18	**14**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	18	20	23	26	29	31	**36**	38
A2. New public sector loans on less favorable terms in 2017-2037 2	18	18	21	22	24	23	**23**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	18	17	18	19	19	18	**14**	8
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	18	18	21	21	21	20	**15**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	18	19	21	22	22	21	**16**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	18	16	16	17	17	17	**13**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	18	16	17	17	18	17	**14**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	18	24	25	26	27	25	**20**	11
PV of debt-to-exports+remittances ratio								
Baseline	88	90	95	101	101	97	**68**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	88	105	121	138	153	164	**172**	173
A2. New public sector loans on less favorable terms in 2017-2037 2	88	95	107	119	124	124	**109**	82
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	88	89	94	99	99	96	**66**	35
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	88	98	119	121	119	111	**72**	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	88	89	94	99	99	96	**66**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	88	84	85	90	91	88	**63**	34
B5. Combination of B1-B4 using one-half standard deviation shocks	88	81	81	85	85	80	**56**	29
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	88	89	94	99	99	96	**66**	35
PV of debt-to-revenue ratio								
Baseline	114	118	122	124	123	115	**81**	44
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	114	137	154	170	186	194	**207**	215
A2. New public sector loans on less favorable terms in 2017-2037 2	114	125	136	146	151	147	**131**	102
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	114	117	121	123	121	114	**80**	44
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	114	122	137	138	136	126	**86**	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	114	126	140	142	141	132	**93**	50
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	114	110	108	111	111	104	**75**	43
B5. Combination of B1-B4 using one-half standard deviation shocks	114	110	110	113	114	107	**79**	46
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	114	165	169	172	171	160	**113**	61

Table 3. Tanzania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2017-2037 (in percent) (concluded)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to-GDP+remittances ratio								
Baseline	18	17	18	19	19	18	**14**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	18	20	23	26	29	31	**36**	38
A2. New public sector loans on less favorable terms in 2017-2037 2	18	18	21	22	24	23	**23**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	18	17	18	19	19	18	**14**	8
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	18	18	21	21	21	20	**15**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	18	19	21	22	22	21	**16**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	18	16	16	17	17	17	**13**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	18	16	17	17	18	17	**14**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	18	24	25	26	27	25	**20**	11
PV of debt-to-exports+remittances ratio								
Baseline	88	90	95	101	101	97	**68**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	88	105	121	138	153	164	**172**	173
A2. New public sector loans on less favorable terms in 2017-2037 2	88	95	107	119	124	124	**109**	82
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	88	89	94	99	99	96	**66**	35
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	88	98	119	121	119	111	**72**	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	88	89	94	99	99	96	**66**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	88	84	85	90	91	88	**63**	34
B5. Combination of B1-B4 using one-half standard deviation shocks	88	81	81	85	85	80	**56**	29
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	88	89	94	99	99	96	**66**	35
PV of debt-to-revenue ratio								
Baseline	114	118	122	124	123	115	**81**	44
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	114	137	154	170	186	194	**207**	215
A2. New public sector loans on less favorable terms in 2017-2037 2	114	125	136	146	151	147	**131**	102
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	114	117	121	123	121	114	**80**	44
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	114	122	137	138	136	126	**86**	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	114	126	140	142	141	132	**93**	50
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	114	110	108	111	111	104	**75**	43
B5. Combination of B1-B4 using one-half standard deviation shocks	114	110	110	113	114	107	**79**	46
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	114	165	169	172	171	160	**113**	61

Table 4. Tanzania: Sensitivity Analysis for Key Indicators of Public Debt 2017-2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	32	32	33	33	33	31	25	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	32	32	32	33	33	33	36	44
A2. Primary balance is unchanged from 2017	32	29	27	25	23	21	13	4
A3. Permanently lower GDP growth 1/	32	32	33	34	33	32	27	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	32	32	33	34	33	32	26	19
B2. Primary balance is at historical average minus one standard deviations in 2018-201	32	33	34	35	34	33	27	19
B3. Combination of B1-B2 using one half standard deviation shocks	32	32	33	34	33	32	26	18
B4. One-time 30 percent real depreciation in 2018	32	39	39	39	38	36	31	26
B5. 10 percent of GDP increase in other debt-creating flows in 2018	32	42	42	42	42	40	33	23
PV of Debt-to-Revenue Ratio 2/								
Baseline	194	204	201	202	198	186	139	95
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	194	202	198	199	200	197	198	236
A2. Primary balance is unchanged from 2017	194	186	167	154	140	124	73	19
A3. Permanently lower GDP growth 1/	194	204	202	204	200	189	146	116
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	194	205	203	205	201	190	144	104
B2. Primary balance is at historical average minus one standard deviations in 2018-201	194	210	213	213	209	196	147	101
B3. Combination of B1-B2 using one half standard deviation shocks	194	206	206	207	202	191	143	98
B4. One-time 30 percent real depreciation in 2018	194	248	239	235	228	215	170	138
B5. 10 percent of GDP increase in other debt-creating flows in 2018	194	265	260	258	252	238	180	125
Debt Service-to-Revenue Ratio 2/								
Baseline	18	21	25	25	28	24	20	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	21	25	24	28	24	25	34
A2. Primary balance is unchanged from 2017	18	21	24	22	24	18	11	6
A3. Permanently lower GDP growth 1/	18	21	25	25	28	24	20	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	18	21	25	25	29	24	20	17
B2. Primary balance is at historical average minus one standard deviations in 2018-201	18	21	26	26	29	25	21	17
B3. Combination of B1-B2 using one half standard deviation shocks	18	21	25	25	29	25	20	17
B4. One-time 30 percent real depreciation in 2018	18	23	30	30	35	31	28	28
B5. 10 percent of GDP increase in other debt-creating flows in 2018	18	21	29	31	34	32	25	21

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.