

CONTEXT

1. Tanzania faces development and reform challenges, exacerbated by the pandemic and spillovers from the war in Ukraine, to unleash its economic potential. Tanzania has abundant natural resources, including gold and natural gas, and its location is a potential gateway for regional trade. However, rapid population growth has resulted in a growing number of people below the poverty line and put pressure on the provision of education and health services. Low levels of human capital and an infrastructure deficit limit the country's growth potential and pose challenges to achieve the Sustainable Development Goals (SDGs). The COVID-19 pandemic and the war in Ukraine have exacerbated Tanzania's challenges despite the economy weathering the crisis relatively well.

2. The RCF disbursements helped address fiscal pressures engendered by the pandemic response, but the economic recovery and reform agenda remain unfinished. Fund emergency assistance (0.8 percent of GDP) in 2021 supported the authorities to step-up the pandemic response and build and equip ICUs and emergency facilities, improve sanitation, and reduce congestion in schools. While real GDP growth in 2021 was higher than anticipated, projections for calendar year 2022 have slightly fallen to 4.7 percent, given the remaining effects of the pandemic and the war in Ukraine. Inflation is now expected to be significantly higher at the end of the fiscal year (FY) 2021/22 (6.4 percent) than in the previous fiscal year.

3. In this context, the authorities have requested an ECF arrangement. Following the emergency financing, Upper Credit Tranche quality Fund assistance is requested to help Tanzania resume the medium-term structural reform agenda and address the protracted balance of payments (BOP) need opened by the implementation of the authorities' development plans included in the Five-Year Development Plan III (FYDP III). The BOP need is exacerbated by the pandemic, which has increased demands for spending in health, education, and social protection and impacted tourism, as well as the war in Ukraine, which has triggered a terms of trade deterioration.

RECENT ECONOMIC DEVELOPMENTS

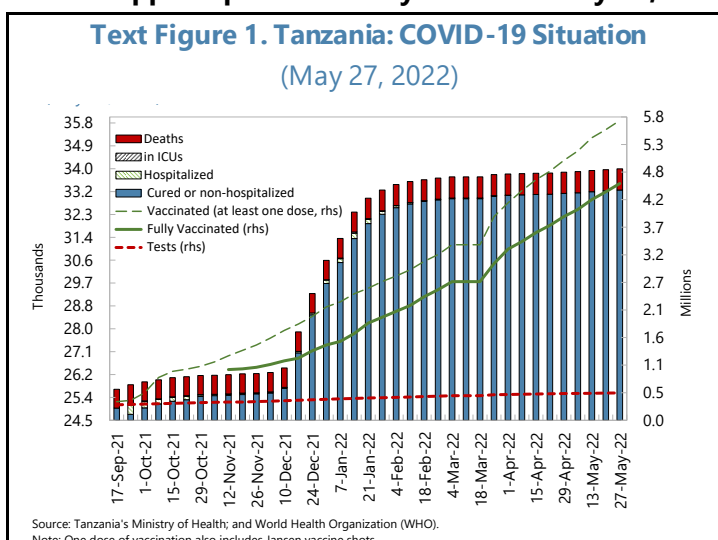
4. Spillovers from the war in Ukraine are stalling the economy's gradual recovery from the COVID-19 pandemic (Text Figure 3). After growth decelerated to 4.8 percent in 2020, the authorities estimate growth at 4.9 percent in 2021.¹ The economic recovery in 2021 was also supported by accommodative monetary policy, which helped private sector credit growth increase to 13.4 percent (y/y) in April 2022, from less than 5 percent throughout most of 2021.

¹ Staff considers that real GDP growth in 2020 does not reflect the impact of the pandemic on activity, as suggested by other indicators, and estimates growth in 2020 to be substantially lower than reported by the authorities. Staff also estimates that the economic rebound in 2021 was lower than indicated by national accounts data.

Inflation increased to 4.0 percent in May 2022 (from 3.2 in April 2021), mainly due to rising oil and food prices and supply chain delays. The war in Ukraine is expected to slow the recovery in 2022 through decreased tourist arrivals, higher fuel and food prices, and disruptions in fertilizer and pesticide markets. Inflationary pressures are also expected from second-round effects.

5. Tanzania's pandemic response has stepped up considerably over the last year, supported by the RCF.

Recently, the government released a fourth version of their COVID-19 Response Plan (TCRP) and passed the FY2021/22 Supplementary Budget in mid-February incorporating additional spending for the COVID-19 response, partly financed by RCF disbursements. As of May 27, 2022, Tanzania has officially reported 34,031 cases and 803 deaths. Since the start of the vaccination campaign in July 2021, about 7.6 percent of the population (4.6 million people) have been inoculated.



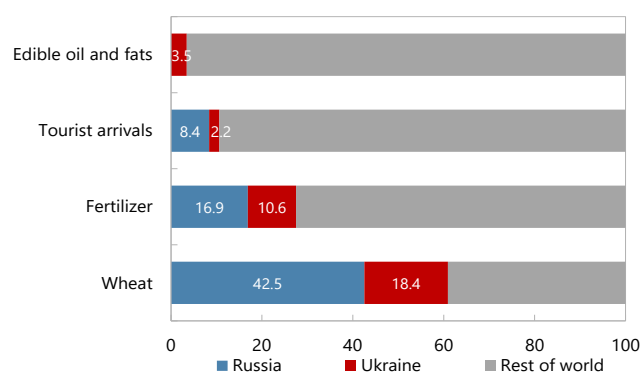
6. The current account deficit widened in 2021 as rising imports more than offset the recovery in exports.

The current account deficit widened to 3 percent of GDP in 2021, from 1.8 percent of GDP in 2020.

Manufacturing exports and a recovery in tourism receipts (which almost doubled in 2021 but remained at about 50 percent of the pre-pandemic level) bolstered exports. Imports of goods and services increased sharply by 27.4 percent y/y in 2021, on the back of large construction and consumer goods imports, and a much larger oil bill due to higher oil prices. In 2022Q1, the current account balance continued to

deteriorate. Despite being boosted by new SDR allocation and RCF disbursements in 2021, gross international reserves declined by about US\$1.2 billion since last September to around US\$5.5 billion in April 2022 (4.8 months of prospective imports).

Text Figure 2. Tanzania: Exposure to Russia and Ukraine
(Percent)



7. The response to the COVID-19 pandemic and the impetus to advance the large public infrastructure projects increased the fiscal deficit in FY2020/21. The FY2020/21 deficit widened by 2 percentage points (pp.) to 3.9 percent of GDP, as revenues contracted by 1.3 pp. of GDP and development spending increased (0.7 pp. of GDP). The authorities and staff project an overall deficit for FY2021/22 of 2.8 percent of GDP. Total and tax revenue collection recovered by approximately 1.1 pp of GDP, despite the acceleration of the pace of VAT refunds (Tsh 950 billion or 0.4 pp of GDP). Grants are expected to increase by 0.2 pp. of GDP, while non-tax revenues remain flat. On the expenditure side, correcting for cash adjustments in FY2020/21, total spending is projected to increase by around 0.2 pp. of GDP, with a larger increase in goods and services spending than in development spending.

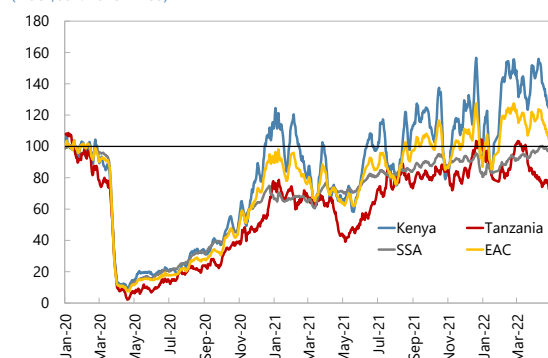
8. Banking sector vulnerabilities persist, despite ongoing reform efforts. A significant financial sector reform program has been undertaken following the 2018 Financial Sector Assessment Program (Annex I), including expanding and improving the quality of data collection and undertaking system stress testing. The Bank of Tanzania (BoT) has also merged small, undercapitalized banks. Despite supportive policy measures that cushioned the pandemic's effects, maintained system liquidity and supported bank profitability, some weaknesses remain. High legacy non-performing loans (NPLs), the undercapitalization of smaller banks, and under provisioning persist; and the ratio of restructured loans and foreign exchange vulnerabilities in the dollarized banking system increased in recent years.

Figure 1. Tanzania: Impact of the Pandemic and Spillovers from the War in Ukraine on Recent Economic Indicators

After slowly recovering from the collapse at the beginning of the pandemic, international flight arrivals have slowed down since March 2022...

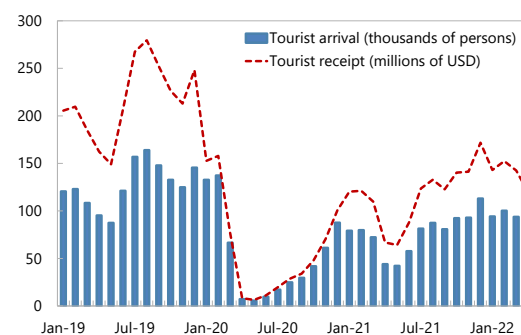
International Flight Arrivals

(Index, Jan. 2020 = 100)



...similarly, tourist arrivals slowed down and remained well below pre-pandemic levels.

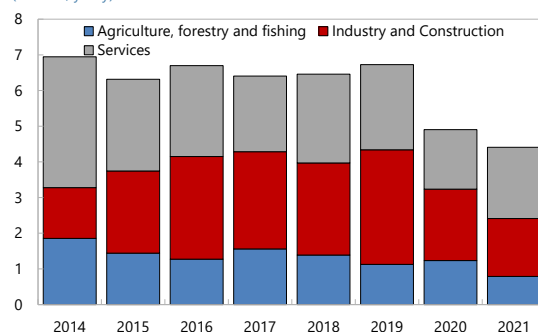
Tourist Arrivals and Receipts



The industry and construction sector was impacted by Covid-19, showing a lower contribution to growth after 2019.

GDP Growth Contribution by Sector

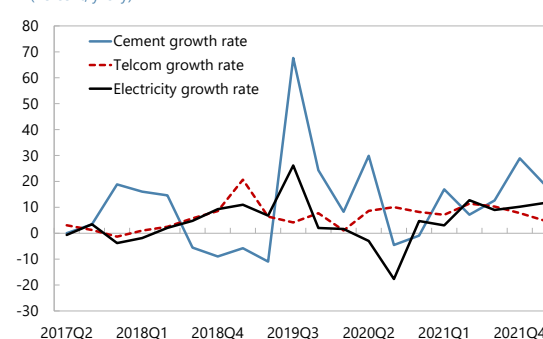
(Percent, y-o-y)



Cement and electricity production show a slow recovery.

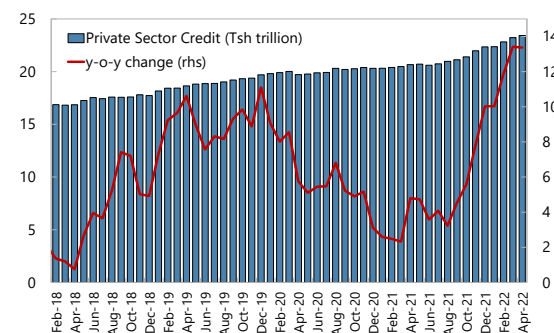
Growth of High-Frequency Indicators

(Percent, y-o-y)



Private sector credit has been recovering since mid-2021...

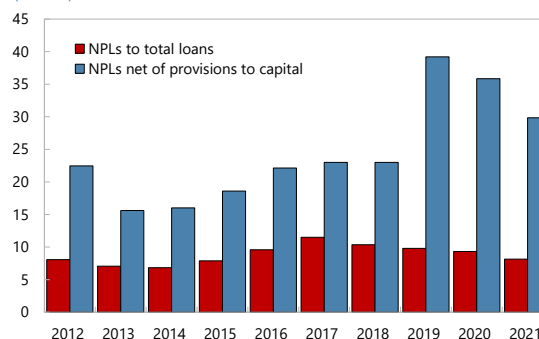
Credit to Private Sector



...however, NPLs remain elevated and provisioning is low.

Non-Performing Loans

(Percent)



Sources: Tanzanian authorities; www.flightradar24.com; and IMF staff calculations and projections.

PROGRAM OBJECTIVES AND POLICIES

9. Fund engagement is needed to assist the recovery, preserve macroeconomic stability, and support structural reforms toward sustainable and inclusive growth. The immediate priority will be to help complete the COVID-19 health and economic response and growth recovery, maintain macroeconomic stability, and help Tanzania cope with spillovers from the war in Ukraine. Over the medium-term, the ECF arrangement will support structural reforms to revitalize the economy and promote sustainable and inclusive growth, while safeguarding macroeconomic and fiscal stability.

10. The authorities' FYDP III envisions strengthening Tanzania's progress and structural reforms towards becoming a competitive, middle-income country (Annex II, MEFP ¶6). Specific FYDP III priorities to promote inclusive growth center around: (i) completing an ambitious ongoing public sector investment program in key infrastructure projects; (ii) deepening industrialization and service provision; (iii) addressing institutional bottlenecks through streamlining business environment procedures; (iv) investing and promoting trade; and (v) improving human development through targeted social spending and developing skills in technical education and vocational training to improve productivity. Key FYDP III strategies are aligned with the relevant SDG goals (MEFP ¶6).

11. Drawing on the authorities' FYDP III, in addition to completing the pandemic response and mitigating spillovers of the war in Ukraine, ECF priorities will focus on three key areas (MEFP ¶7). First, strengthening fiscal space to allow for much needed social spending and high-yield public investment, through improved revenue mobilization and spending quality. Second, resuming and advancing the authorities' structural reform agenda, improving the business environment and competitiveness. Third, strengthening financial deepening and stability, including through enhancing the monetary framework and improving supervision.

A. Supporting the Recovery and Preserving Macro Stability

Supporting Recovery and Mitigation Efforts

12. The ECF arrangement will support the continued implementation of the TCRP. Despite progress in strengthening the health sector response to COVID-19, more resources are needed to achieve the target of vaccinating 70 percent of the adult population by end-June 2023 (MEFP, ¶2), while expanding testing capacity and availability, and hiring additional healthcare personnel.

13. The program will further help safeguard Tanzania's economy from spillovers of the war in Ukraine and protect the most vulnerable. The ECF arrangement will help finance the fiscal package that the authorities have presented in the FY2022/23 Budget draft (MEFP ¶11), including temporary measures until the end of the fiscal year (unless stated otherwise), amounting to 0.7 percent of GDP:

- *Subsidies on the importation of gasoline, diesel and kerosene petroleum products* via the waiving of excise duties, for an estimated total expenditure of Tsh 500 billion or 0.3 percent of GDP (from July until December 2022) to reduce consumer prices.
- *Reduced import duties on cooking oil* by lowering important duty rates for refined edible oil and crude cooking oil, resulting in projected revenue losses of around Tsh 26.9 billion.
- *Fertilizer subsidies* of Tsh 100 billion (0.1 percent of GDP) to support producers of agricultural products and fertilizers to boost local production and substitute part of the imports.
- *Waiving of VAT for locally produced fertilizers and reduction of royalty charges on minerals used in the energy and fertilizer industries*, resulting in projected revenue losses of around Tsh 400 million.
- *Increased envelope for cash transfers for social protection* in the amount of Tsh 524 billion allocated to cash transfers (0.3 percent of GDP), including to support food security.

Program Medium-Term Macro-Framework

14. The macroeconomic framework of the authorities' medium-term program supported by the ECF arrangement is based on a scenario incorporating scarring from the pandemic, spillovers from the war in Ukraine, and active policy reforms (Box 1, Text Table 1):

- *A gradual growth rebound, leveling at 7 percent in the outer years.* Spillovers from the war in Ukraine are expected to keep growth around 4.7 in 2022; growth is expected to accelerate in 2023 and beyond, stabilizing at around 7 percent.²
- *A hump-shaped path of average inflation.* After peaking at 5.3 percent in FY2022/23³, average inflation is expected to stabilize around 4 percent over the medium term, reflecting plans for import substitution, planned investments in agriculture, and the implementation of the interest rate-based monetary policy framework.
- *Investment to increase towards 40 percent of GDP, driven notably by the private sector.* With the expected implementation of the Investment Act and the Blueprint for Regulatory Reforms (MEFP 135), private investment is projected to increase over the medium term by almost 6 pp. of GDP.

² Tanzania has confirmed offshore deposits of natural gas (about 50 trillion cubic feet), which, once developed, will have a significant effect on growth, fiscal revenues, and exports. A memorandum of understanding was signed on June 11 2022 between Equinor, Shell and the Tanzanian government on the development of the LNG project. However, investment will likely take time to materialize. Production and exports of LNG are not expected to begin before 2030 at the earliest. Given the uncertainty, these projects are not reflected in staff's projections.

³ Inflation increases have been contained by the weak exchange rate pass-through, including due to the small share of imports to total consumer goods, as well as the presence of regulated fuel prices.

- *Total revenue would gradually increase by 1.3 pp. of GDP over the course of the program.* Tax and revenue administration reforms are projected to improve tax revenues by about 1 pp. of GDP, contributing to reduce the overall deficit to below 3 percent of GDP.
- *The current account deficit is expected to decline over the medium-term, stabilizing at around 2.5 percent of GDP,* supported by a recovery in the tourism sector and lower imports as the commodity price surge and public investment drive ease. After declining, reserves are expected to recover to 4.5 months of imports over the medium-term, in line with BoT goals and within the adequacy range (Annex III).

Text Table 1. Tanzania: Selected Economic and Financial Indicators Under the ECF Arrangement, 2020/21–2026/27

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP	4.9	4.8	5.0	5.8	6.3	6.6	6.9
GDP deflator	117.5	122.7	129.2	136.1	142.4	148.8	155.6
CPI (period average)	3.3	4.2	5.3	4.4	4.0	4.0	4.0
Credit to the private sector (end of period)	3.6	9.1	10.7	11.5	11.6	11.7	12.0
Fiscal primary balance (percent of GDP)	-2.2	-1.3	-1.8	-1.2	-0.8	-0.5	-0.6
Fiscal overall balance (percent of GDP)	-3.9	-2.8	-3.3	-3.1	-2.7	-2.5	-2.5
Public debt (percent of GDP)	41.5	39.5	38.3	37.2	35.8	34.6	33.6
Current account balance (percent of GDP)	-1.9	-4.5	-4.3	-3.5	-3.1	-2.9	-2.7
Reserves (months of imports)	4.9	4.5	4.2	4.4	4.5	4.5	4.5

Sources: Tanzanian authorities and IMF staff estimates and projections.

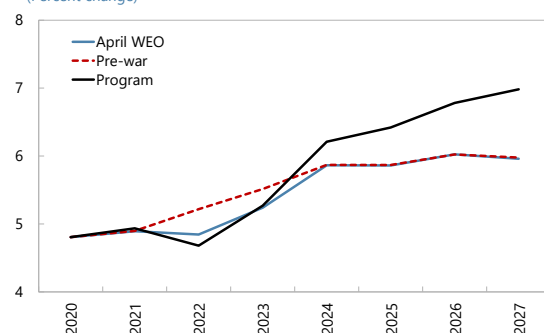
Box 1. Effects of the War in Ukraine and the Program Framework

The war in Ukraine is impacting Tanzania's economy through multiple channels. A deterioration in the terms of trade (oil, food, and fertilizer prices), and disrupted tourist flows from Russia and Ukraine are projected to widen the current account deficit by more than 1 percent of GDP in the next few years, and lead reserves to decline by about US\$800 million over the next few years. The external shock is expected to reduce growth in 2022 and 2023 by about 0.3 pp, relative to the pre-war scenario. The effect on the fiscal path is manageable given the authorities' response so far. Fiscal measures are implemented to safeguard the economy from the spillovers and protect the most vulnerable (¶13). In the financial sector, the war in Ukraine is also expected to cause higher operational costs and hence NPLs to increase (Annex I, ¶6), and particularly affect financial institutions with certain sectoral balance sheet exposures (for example to the energy industry).

The program scenario reflects the effect of the war in Ukraine and the implementation of a structural reform and development agenda to deliver higher growth rates over the medium-term. Fiscal measures to respond to the shock and additional social and development spending under the ECF program, combined with the reforms envisaged in the Business Act and Blueprint, are expected to partly compensate for the effects of the war in 2023, leading to a higher growth path over the medium-term.

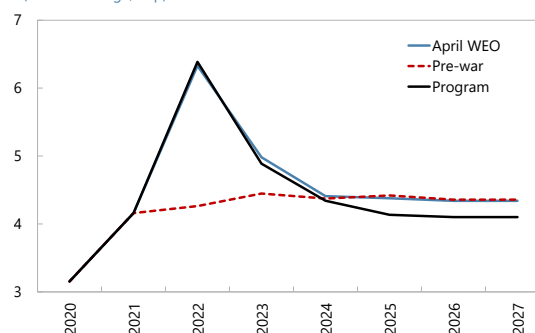
Real GDP Growth

(Percent change)



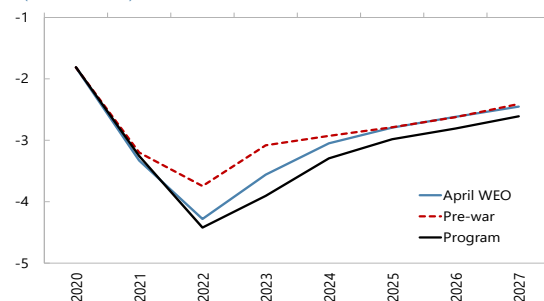
Inflation

(Percent change, eop)



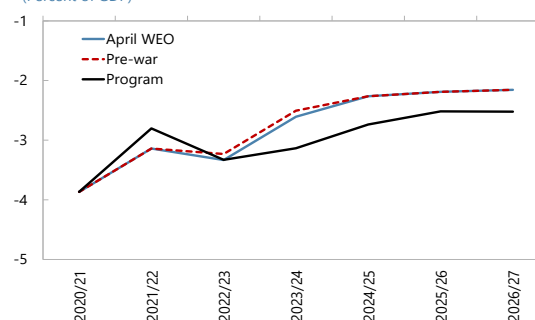
Current Account Balance

(Percent of GDP)



Overall Fiscal Balance

(Percent of GDP)



Sources: Tanzanian authorities; and IMF staff projections

15. External financing will continue to be primarily on concessional terms and grants to preserve debt sustainability. As investment scales up, the current account deficit, assessed to be stronger than the level implied by fundamentals and desirable policies, is expected to converge towards its norm (Annex III). The government will continue to follow a prudent debt management strategy, favoring grants and concessional loans for the external financing of

scaling-up investment plans (MEFP ¶14). However, long-term non- and semi-concessional borrowing will be considered to support critical expenditure needs for high-yield investment projects. Public debt could reach about 42.2 percent of GDP in FY2021/22, higher than 39.7 percent of GDP from FY2020/21. A new DSA (incorporating the recent changes in the IDA terms) shows that Tanzania remains at moderate risk of external debt distress and moderate risk of overall public debt distress, with some space to absorb shocks.

16. The outlook is highly uncertain with risks tilted downward, which may also affect the program (Annex IV). Risks to the outlook include the worsening of the global economic and financial environment due to the war in Ukraine, higher and/or more volatile commodity prices, and lagging vaccination rates; these could worsen the external position, increase financing needs, and undermine the growth recovery. The normalization of monetary policy in advanced economies could pose challenges to the management of foreign exchange reserves and liquidity, while delays in implementing the FSAP reform program could pose a risk to financial sector stability. Contingency measures in case downward risks or financing shortfalls materialize include allowing the exchange rate to fully adjust, while reserve buffers could prevent episodes of disorderly market conditions; financial system preparedness will also be key. On the fiscal front, reprioritizing spending would help protect priority social spending (PSS) while safeguarding fiscal and debt sustainability. Additional fiscal support could be directed to affected sectors through targeted, timely, and transparent measures should those risks materialize.

B. Promoting Sustainable and Inclusive Growth

Fiscal Policies

17. The budget for FY2022/23 submitted to Parliament is fully aligned with program objectives and entails a moderate expansion warranted by the ongoing external shocks (MEFP ¶12). The draft FY2022/23 budget is based on realistic revenue and expenditure projections. The overall deficit is expected to increase by around 0.4 pp. of GDP, to 3.3 percent of GDP, while the domestic primary balance—the program’s operational fiscal tool—is expected to reach 2.3 percent of GDP (MEFP Table 1). Total revenues are projected to increase by 0.2 pp. of GDP on account of higher tax and nontax revenues (some of the tax measures to mitigate the impact of the Ukraine war will be offset by measures including from a stay application of EAC CET rates on certain products, and new domestic tax measures on excise duties, VAT, and individual income tax (¶13; MEFP ¶11)). Total spending is expected to increase by 0.5 pp. of GDP to 18.7 percent of GDP in FY2022/23, with the composition between recurrent and development spending rebalanced towards recurrent spending; the latter is expected to increase by 0.8 pp. of GDP to 11.3 percent of GDP, driven by the increase in PSS.⁴ Should revenue execution fall short

⁴ The preliminary FY2022/23 Budget of March 2022 approved by Parliament incorrectly classified two spending items (transfers to the Higher Education Students Loans Board, HESLB, and the fee-free basic education program for children, *Elimu Msingi Bila Malipo*) as development expenditure. Given the pre-approval of the line ministries’ budget allocations by Parliament with the misclassification, and to avoid delays with the FY2022/23 budget

(continued)

of projections, the program envisages an adjustment to the budget during the mid-year review in February 2023 (MEFP ¶112), reprioritizing spending in line with available resources while protecting PSS.⁵

18. During the program period, key fiscal policy areas will enhance growth while maintaining fiscal and debt sustainability. These policies are: (i) increasing domestic revenue mobilization to open fiscal space, (ii) rebalancing spending towards priority social spending, and (iii) improving the quality of spending including by reducing fiscal risks and improving public investment management to close the infrastructure gap in line with FYDPIII priorities.

19. Fiscal structural reforms and new tax measures are expected to mobilize revenue and open fiscal space over the program period. Beyond a rebound in tax collection accompanying the economic recovery, Tanzania has potential to significantly raise tax revenues (Annex V). Tax policy and revenue administration efforts that could help deliver the envisaged tax-revenue increase under the program include: (i) broadening the tax base through incentivizing more electronic declarations and electronic payments; (ii) bringing the digital economy into the tax net; (iii) controlling and reducing tax exemptions granted in the tax laws; (iv) enhancing tax administration systems and human resource capacity; and (v) improving risk-based programming and recovery action (MEFP ¶126). The program also envisages efforts to recover tax arrears, expand the registration of taxpayers (MEFP ¶123), and improve rationalization of tax and customs exemptions (MEFP ¶124). Two diagnostics (on tax policy and administration), and the preparation and implementation of Medium-Term Revenue Strategy (MTRS) would further boost these efforts (MEFP ¶126).

20. Rebalancing spending towards social spending would help address the increasing demand for public services in education and health. PSS budget execution is expected to reach 5.8 percent of GDP in the current fiscal year, reversing the declining trend. For FY 2022/23, the PSS budget allocation increases in nominal terms reaching 6.7 percent of GDP and is expected to remain at that level during the program, which is significantly higher than the average in recent years, supported by an indicative target (Annex VI). Accordingly, the wage bill for the education and health sectors is expected to increase gradually by 0.7 percentage points of GDP notably due to recruitment to address severe personnel shortages. The FY2022/23 budget envisions appointing 10,000 additional health workers and 15,000 primary and secondary teachers (MEFP ¶124), and significantly reduce shortages in these sectors during the program (Annex VI).

approval, the authorities commit to correct the classification in the FY2022/23 mid-year review report to Parliament in February 2023 (MEFP ¶113). The program will ensure that all forthcoming budgets, including the FY2023/24 Preliminary Budget submission to Parliament by end-February 2023 (Structural Benchmarks Table), will include the correct classification of those two spending items and conform with the GFSM manual 2014 classification.

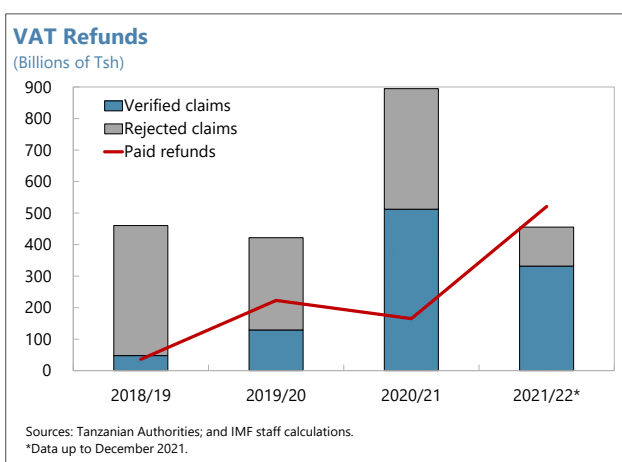
⁵ In the context of the FY22/23 budget, the Parliament passed an amendment to the BoT act which raises the ceiling on government borrowing from the central bank (MEFP ¶115).

21. Improving the quality of spending by reducing fiscal risks requires strengthening expenditure control, budget planning and oversight of SOEs, and monitoring short-term pressures (Box 2). The program addresses the longstanding priority to clear expenditure arrears and prevent new ones through an indicative target on a repayment schedule (MEFP Table 1). The program also addresses strengthening public finance statistics and expanding the coverage of budgetary and financial reports to give a more complete picture of the public sector (MEFP ¶32), and enhancing SOEs and PPPs monitoring and transparency, including by publishing quarterly reports of SOEs' financial performance and liabilities (MEFP ¶33–34). Efforts to improve public investment planning, prioritization, and execution, will be supported by establishing an inventory of large projects and tracking multi-year budgetary commitments (MEFP ¶29). A Public Investment Management Assessment, including a climate module (C-PIMA), is envisioned to modernize and strengthen the quality of public investment management.

Box 2. Fiscal Risks

Fiscal risks have been accumulating over time. There are four main sources:

- *Accumulation of domestic arrears.* As a result of the public infrastructure investment drive and weak expenditure controls, the stock of verified arrears was 1.9 percent of GDP by end-FY2020/21.
- *Unpaid VAT Refunds.* The policy of 100 percent verification of VAT refunds combined with capacity constraints at the Tax Revenue Administration (TRA) resulted in tax arrears of about 0.6 percent of GDP at end-FY2020/21. In the first half of FY2021/22 the government paid about 0.4 percent of GDP in VAT refunds, and the stock of outstanding refunds declined to 0.4 percent of GDP by end-December 2021¹ as a result of the implementation of electronic filing and verification of claims, and the provision of additional resources to clear old claims. While the authorities intend to clear all VAT refunds by end-FY2020/21, challenges in completing verifications and insufficient resources will likely result in 0.1 percent of GDP of outstanding arrears moving to FY2022/23.
- *Contingent liabilities from SOEs and local governments (LGAs).* The Ministry of Financing and Planning (MoFP) has a wide mandate over debt management, as any domestic debt issuance by LGAs and parastatals with weak financials is subject to its approval. All external financing requires government guarantees, which poses risks if SOEs and/or LGAs become insolvent.
- *Outstanding liabilities to social security funds.* In December 2021, the MoFP issued a non-cash bond worth Tsh 2.2 trillion (about 1.3 percent of GDP) to settle arrears to the Public Service Social Security Fund. There is still an outstanding claim of 1.4 percent of GDP that is subject to verification.



Preserving and enhancing fiscal resilience will be important to safeguard fiscal space by:

- *Preventing expenditure arrears through:* (i) developing a plan to reduce the stock of arrears over the next three years with adequate budget allocations; (ii) ensuring that all committed budget expenditures are properly included in IFMIS; (iii) developing properly costed budget baselines and realistic revenue projections; and (iv) amending the definition of arrears as unpaid claims over 30 and 90 days for goods and services and construction work, respectively, and implementing quarterly verification of arrears by the Internal Auditor General.

Box 2. Fiscal Risks (concluded)

- *Implementing a plan for the repayment of arrears on VAT refunds and adopting risk-based procedures on claims verification.*
- *Containing risks emanating from the energy company TANESCO.² Further reforms are required to improve TANESCO's financial footing by implementing a plan to clear its arrears to suppliers and the government arrears to TANESCO and building generation capacity based on cost-benefit analysis and diversified energy sources. It is also important to resolve TANESCO's outstanding debt to the government (about 1.6 percent of GDP).*
- *Accelerating the verification of claims from the social security funds and propose a plan for clearing those arrears.*

¹ Rejection rates of claims after verification have also declined significantly from close to 90 percent in FY2018/19 to 27.2 percent in the first half for this fiscal year.

² At end-2017/18, the government's arrears to TANESCO were estimated to be 0.3 percent of GDP, and TANESCO's arrears to suppliers at end December 2021 stood at US\$400 million or 0.5 percent of GDP.

Structural Reform Agenda

22. Enhancing the business environment will promote private sector development and expand growth potential. In addition to the fiscal reforms outlined above, reforms to improve the business environment include the ongoing reviews of the Tanzania Blueprint for Regulatory Reform (Annex II), and the Investment Act and the National Investment Promotion Policy of 1996. Other reforms include amendments to several business-related laws (MEFP ¶135) as well as: (i) streamlining non-tariff trade barriers and continuing to implement a risk-based approach for all inspections; (ii) enhancing engagement with the private sector and other stakeholders in the formulation of new legislation to improve the business environment; and (iii) improving predictability in government policies (MEFP ¶136).

23. Improving the quality of National Accounts statistics is key to enhance credibility, improve budget forecasting and attract investment. Improving the quality of national account source data, including the use of administrative data from the Tax Revenue Administration, and reconciling national accounts and balance of payment statistics, are key to maintain the country-wide consistency of statistics and provide an accurate economic overview (MEFP ¶137).

24. Tanzania has a comprehensive anti-corruption and AML/CFT strategy and legislation, but implementation and enforcement should be strengthened. Since 2016 the authorities set up a special High Court Division for corruption and economic crimes, increased the judiciary budget, and prepared the National Anti-Corruption Strategy and Action Plan 2017- 22 (NACSAP). A new NACSAP under preparation, focuses on enhancing investigative

capabilities, prevention strategies, and improving adherence to asset declaration of public officials. Further, a recent Mutual Evaluation Report (MER) by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) identified serious weaknesses in Tanzania's AML/CFT framework with high near-term likelihood of Tanzania's public listing by the Financial Action Task Force (FATF) for strategic AML/CFT deficiencies. The authorities have taken some steps to correct the identified deficiencies, including amending the AML/CFT laws in Tanzania and Zanzibar. More work is needed to align the legal framework with the FATF standards and improve the effectiveness of Tanzania's AML/CFT framework, including by adopting policy and procedures for AML/CFT risk-based supervision of banks (MEFP ¶138) and ensuring effective enforcement against money laundering and terrorism financing.

25. The governance commitments in the RCF Letter of Intent are progressing well

(Table 9). The authorities have already published two quarterly reports of RCF spending (December 2021 and May 2022). The posting of all pandemic-related public procurement contracts and related documents (including names of the awarded companies and their beneficial owners) are close to being finalized in June. The audit of the pandemic-related spending financed with the debt relief received under the Catastrophe Containment and Relief Trust was published in April 2022. The audit of all pandemic-related spending is expected to be published by December 2022 (structural benchmark).

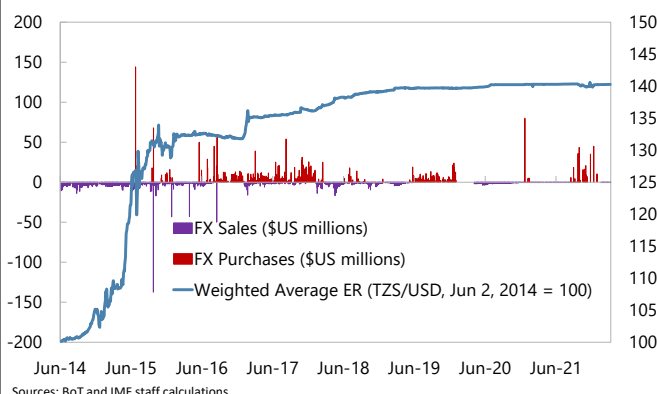
Strengthening Monetary Policy and Financial Stability

26. The BoT is committed to tightening monetary policy should the need arise, while allowing exchange rate flexibility to cushion shocks (MEFP ¶14).

Accommodative monetary policy cushioned the economic effects of the COVID-19 pandemic through loosening liquidity conditions and promoting private sector credit growth, supporting a recovery in credit growth and liquidity conditions. The extent of monetary accommodation has been reduced since March 2022, with the authorities having ceased reverse repo operations since this time, and the current monetary stance aims to contain demand-side inflationary pressures and address second round effects of the

global shocks. The BoT intervenes in the foreign exchange market to smooth exchange rate volatility, and for reserve management needs (Text Figure 5). Going forward, inflation developments, particularly reflecting fuel prices, will also play a key role in exchange rate intervention policy which needs to be mindful of financial dollarization. A layer of financial sector contingency measures (see Annex I, FSAP recommendations) that buttress financial stability will also be key.

Text Figure 5. Exchange Rate and Foreign Exchange Intervention



27. There has been progress in the transition to an interest rate-based monetary policy framework, but important steps remain (Annex VII). With IMF TA support, many components of the financial market infrastructure for the new monetary policy framework are in place and implementing the Forecasting Policy and Analysis System has significantly strengthened the BoT's modelling and forecasting capability. However, further work is needed to implement a comprehensive communication strategy surrounding the monetary policy framework transition, which would include the introduction and announcement of the policy rate. The authorities have committed to implementing some of these steps in conjunction with the publication of the operational guidelines of the new monetary policy framework by June 2023 (MEFP ¶139, structural benchmark).

28. Continued FSAP reform implementation will buttress financial sector stability and mitigate near-term banking sector vulnerabilities (MEFP ¶40). Progress has been made in identifying domestic systemically important banks; improvements to the stress testing and crisis management frameworks are envisaged over the next year; and the draft Emergency Liquidity Assistance framework is undergoing an approval process (expected by end-2022). Going forward, near-term priorities include the continued expansion of the real-time data collection project and ensuring that loan provisioning levels are adequate. Supported by Fund TA, further priorities include enhancing risk-based supervision and solvency stress testing capabilities; reducing NPLs and increasing provisioning (including for restructured loans), and enhancing buffers to manage near-term liquidity, credit, and concentration risks (Annex I).

29. The program will help address reform implementation challenges and ongoing supervisory difficulties. Despite recent improvements, the authorities have recently faced challenges such as capacity constraints in the face of increased supervisory demands; persistence in some banks of inadequate credit underwriting and monitoring processes; and a failure of some financial institutions to meet the timelines of their Capital Restoration Plans. In the context of the program, the authorities will step-up monitoring and enforcement of prudential guidelines, particularly in relation to undercapitalization, NPLs and restructured loans (MEFP ¶142).

PROGRAM MODALITIES AND FINANCING ASSURANCES

30. Program monitoring will be based on semi-annual reviews (MEFP Tables 1 and 2), with two continuous Quantitative Performance Criteria (QPCs) and three QPCs for the end of the second and fourth quarters, and Indicative Targets (ITs) for the end of the first and third quarters. QPCs will be on (i) external payment arrears incurred by the central government or the BoT (zero ceiling); (ii) external borrowing in present value terms of the central government or the BoT (ceiling); (iii) the domestic primary balance excluding grants (floor); (iv) net domestic assets of the BoT (ceiling); and (v) the change in net international reserves of the BoT (floor). Additional ITs are set on a floor for priority social spending, and ceilings for the stock of domestic arrears and

newly disbursed external non-concessional borrowing by the central government or the BoT. Reform progress will be evaluated based on structural benchmarks.

31. Financing needs are expected to be covered by donor and Fund support:

- Based on projected external financing and the fiscal policy path, the financing gap before budget support and IMF financing is estimated at US\$2,103 million over FY2022/23–FY2025/26 (Text Table 2), declining from 0.8 percent of GDP in FY2022/23 to 0.1 percent of GDP in FY2025/26.
- Access to PRGT resources will remain below the annual access limit and the cap of 435 percent of quota during the program, considering Tanzania's moderate overall access to Fund resources and based on planned repayments schedule. Firm commitments of full program financing are in place for the first year of the program, with good prospects for the remainder of the program. The financing gap in the first year of the program is projected to be closed with the ECF arrangement contributing to about 47 percent of the exceptional financing gap.

Text Table 2. Tanzania: Financing Gap and Sources of Financing, 2020/21–2025/26 (Millions of US dollars)						
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
1. Financing Gap Under Program Baseline	23	866	661	659	626	157
<i>In percent of GDP</i>	<i>0.0</i>	<i>1.2</i>	<i>0.8</i>	<i>0.7</i>	<i>0.6</i>	<i>0.1</i>
2. Expected Budget Support	0	300	350	350	313	0
World Bank	0	0	350	350	0	0
Other donors	0	300	0	0	313	0
3. Residual Financing Gap (1-2)	23	566	311	309	313	157
4. IMF Financing	23	566	311	309	313	157
<i>In percent of GDP</i>	<i>0.0</i>	<i>0.8</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>	<i>0.1</i>
ECF (200 percent of quota)	0	0	311	309	313	157
RCF	0	566	0	0	0	0
CCRT	23	0	0	0	0	0
Sources: Tanzanian authorities; development partners; and IMF staff projections.						

32. Capacity development (CD) is crucial for program success. A revised CD strategy was discussed with the authorities, taking stock of new ways of working remotely and evolving needs (Annex VII). Priorities are fully aligned and integrated with program objectives, including strengthening ongoing reforms in tax policy and administration, reliable national accounts and fiscal statistics, PFM, and monetary and financial sector oversight.

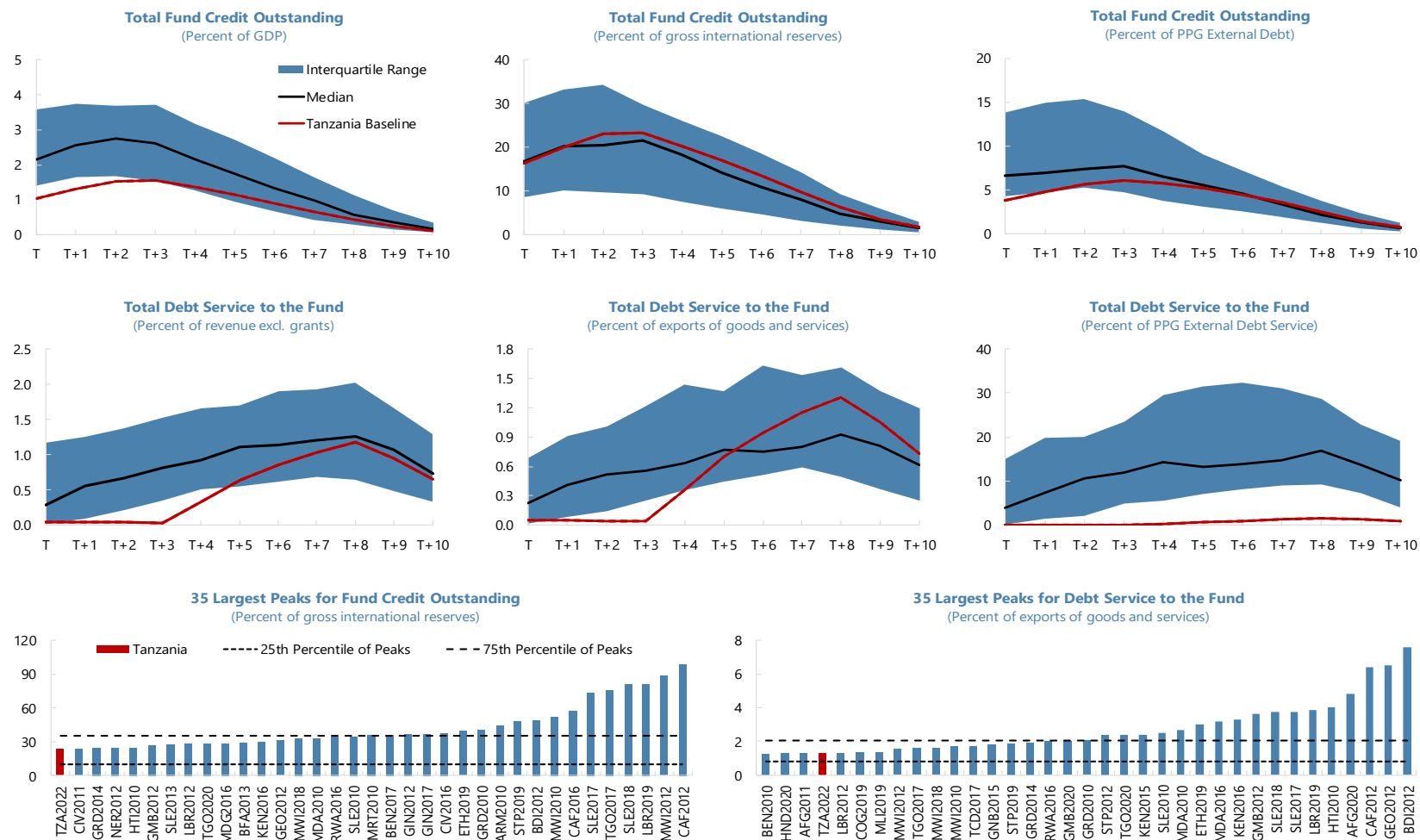
33. Based on the program baseline, the DSA shows that Tanzania remains at moderate risk of external and overall debt distress. No external debt thresholds are breached under the baseline except a one-off breach in the debt service to export ratio in 2023/24, but an extreme shock leads to a breach in the PV of debt-to-exports and debt-service-to-exports thresholds. Discussions to settle disputed external arrears claims by the government of Libya are progressing.⁶

34. SDR Allocation. The BoT has indicated that they intend to use the new SDR allocation of about US\$543 million to boost reserves and have invested them in US money market instruments and treasury bonds. If after the first fiscal year financing fails to materialize as expected, then those investments can be used to close the financing gap without undermining the ECF arrangement.

35. Capacity to repay the Fund is adequate (Table 6 and Text Figure 6). With a disbursement of 200 percent of quota, outstanding credit would peak in 2025/26 at 1.5 percent of GDP (below the median of UCT-quality arrangements for LICs) or 9.7 percent of revenue (excluding grants). Annual repayments are projected to peak at 0.2 percent of GDP and 1.2 percent of government revenue in FY2030/31. Tanzania also has a good track record of IMF repayments. Most of the Capacity to Repay indicators are within the interquartile range for PRGT programs or below the lowest quartile (Text Figure 6). Tanzania's planned arrangement is among the smallest country-programs within the 35 largest peaks for Fund credit outstanding and debt service.

36. The recent safeguards assessment found that the BoT has implemented relatively good safeguards, including on financial reporting and internal audit. To strengthen the legal framework to ensure independent oversight, the BoT will prepare draft amendments to the BoT Act in consultation with IMF staff to strengthen governance arrangements as well as personal and financial autonomy, including addressing the issue of the composition of the Board to be comprised of a clear majority of non-executive (independent) members in line with leading practices. Technical assistance will be requested, as needed, to address governance concerns and improve autonomy provisions. In addition, given that ECF financing is envisaged to be used as direct budget support to the Treasury, the existing MoU between the BoT and the Ministry of Finance and Planning on respective responsibilities for servicing financial obligations to the IMF will be revisited.

⁶ The arrears stem from a US\$101 million loan contracted in 1983. The outstanding amount reflects a 50 percent debt cancellation and US\$40 million debt swap signed in 2005 and a 2009 addendum. Tanzania ceased payments in 2015 during the Libyan civil war. The authorities met with a Libyan delegation in mid-March, 2022 and agreed on the amount of the outstanding debt (US\$61 million). The payment of interest rate penalties is under dispute and negotiations on the matter are ongoing.

Figure 2. Tanzania: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries**Notes:**

- 1) T = date of arrangement approval. PPG = public and publicly guaranteed.
- 2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
- 3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2010 and 2020.
- 4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.

STAFF APPRAISAL

37. Tanzania is facing considerable development and reform challenges to unleash the economy's potential, and spillovers from the war in Ukraine are stalling the economy's gradual recovery from the COVID-19 pandemic causing a protracted BOP need. Growth decelerated to 4.8 percent in 2020, and barely recovered to 4.9 percent in 2021. Tourism receipts in 2021 remained 50 percent below pre-pandemic levels, and the external sector has been hit by surging global fuel prices. The current account deficit and the fiscal deficit more than doubled relative to pre-pandemic years. Rapid population growth has put pressure on the provision of education and health services and low levels of human capital and an infrastructure deficit limit the country's growth potential. Structural reforms need to be accelerated.

38. In this context, the authorities have requested an ECF arrangement. Following the new SDR allocation and emergency financing in 2021 to close immediate financing gaps, the authorities have requested an ECF arrangement to help address protracted balance of payments needs opened by the implementation of their reform agenda summarized in their Five-Year Development Plan III, and to continue the fight against COVID-19 and cope with spillovers from the war in Ukraine.

39. The priorities of the ECF arrangement are aligned with the government's reform agenda and will be supported by appropriate capacity development. These priorities are rebuilding and strengthening fiscal space to allow for much needed investment social spending and investment; resuming and advancing the structural reform agenda; improving the business environment; and strengthening stability and financial sector development. Capacity development, tailored and focused on program objectives, is crucial.

40. The program macroeconomic framework is based on a gradual recovery from the pandemic and implementation of the reform agenda. Growth is expected to recover and accelerate, supported by private and public investment and a recovery of exports. Tax revenue would gradually increase, creating space for investment and additional social spending. Gross official reserves would converge to a level consistent with reserve adequacy.

41. Creating additional fiscal space for priority spending requires raising government revenue, improving the quality of spending, and containing fiscal risks. Revenue mobilization, a key objective of the program, needs to be supported by a comprehensive revenue administration and tax policy strategy. It is crucial to rebalance spending from large development projects towards social spending and contain fiscal risks from the accumulation of domestic arrears and contingent liabilities, including the proper monitoring of PPPs and SOEs, while improving expenditure control and the quality of statistics.

42. The program pays particular attention to the need for higher priority social spending to meet Tanzania's substantial needs. To meet increased demands for spending in health, education, and social protection, the program seeks to ensure adequate levels of social

spending as well as improved efficiency and execution of such spending through strengthened planning, execution, and monitoring.

43. Enhancing the business environment is essential to promote private sector development and expand the growth potential. The authorities are committed to implementing the structural reforms envisaged in their development plan (FYDP III). Improving the quality of National Accounts statistics is also key to enhance credibility, improve budget forecasting and attract investment.

44. The authorities intend to continue progress on budget transparency, beyond COVID-19-related spending. The authorities made important progress publishing information on the use of emergency financing received in 2021 and reiterated their determination to implement the full range of RCF commitments in a timely manner. Building on this progress, budget transparency needs to be strengthened, notably in terms of execution, monitoring, and reporting.

45. Strengthening the implementation and enforcement of the anti-corruption strategy and legislation is crucial. The preparation of the new five-year National Anti-corruption Strategy and Action Plan will focus on measures to continue progress in reducing corruption. The authorities committed to further steps to improve Tanzania's AML/CFT framework including amending relevant laws and adopting policies and procedures for AML/CFT risk-based supervision of banks.

46. The continued progress in improving the monetary framework and strengthening the financial sector is welcome. The BoT is committed to tightening monetary policy should the need arise, while allowing exchange rate flexibility to cushion shocks. Progress in establishing the necessary financial market infrastructure for the new monetary policy framework and implementing the Forecasting Policy and Analysis System framework needs to continue. Addressing reform implementation challenges is necessary to keep up the pace of FSAP reform implementation to buttress financial sector stability and mitigate near-term banking sector vulnerabilities.

47. Prudent debt management is important to preserve debt sustainability. Tanzania's debt is sustainable, and the country is at a moderate risk of debt distress. In view of increased vulnerabilities, it is important that every effort is made to limit non-concessional financing.

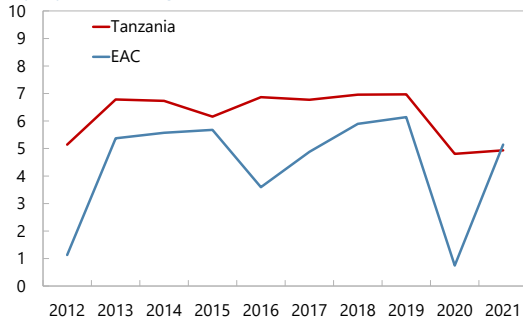
48. Based on the protracted balance of payment need and policy commitments, staff supports the authorities' request for a 40 month-arrangement under the ECF, with access equivalent to 200 percent of SDR 397.8 million quota (SDR 795.58 million).

Figure 3. Real Sector Developments

Despite dipping recently, real GDP growth rate has consistently been at or above the EAC average.

Real GDP

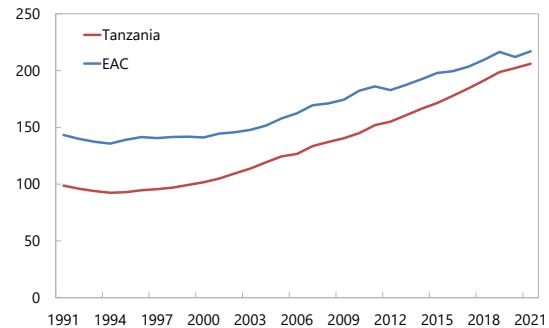
(y-o-y percent change, PPP 2017 international dollars)



However, real GDP per capita is still lagging EAC average, with the spread gradually diminishing.

Real GDP per Capita

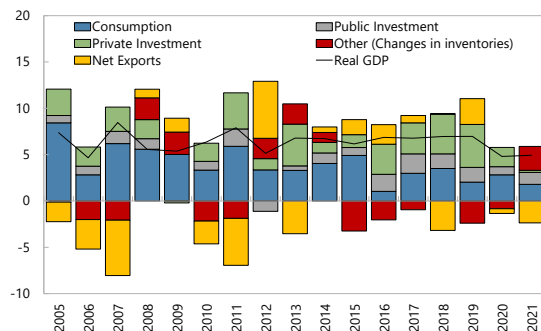
(Index 1990=100, PPP 2017 international dollars)



A contraction in net exports and a deceleration in private investment reduced growth in 2021.

Contributions to Real GDP

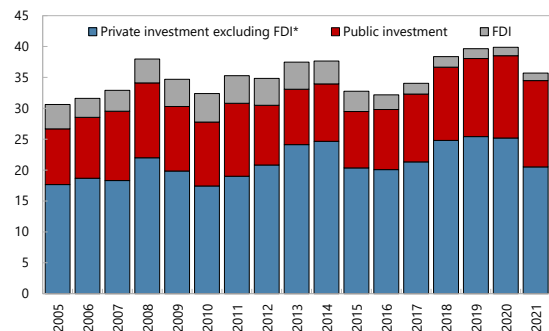
(Demand side, y-o-y percent change)



Public investment has been picking up lately.

Investment

(Percent of GDP)

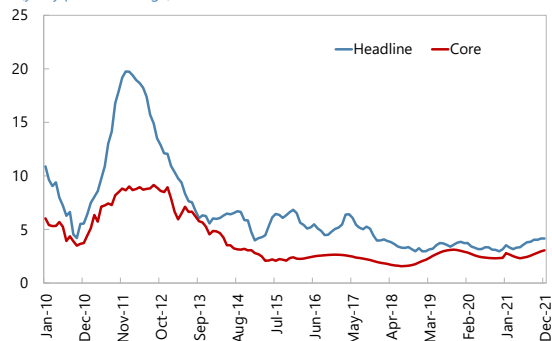


* Including changes in inventories

Inflation has been well anchored at around 4 percent since 2018.

Inflation

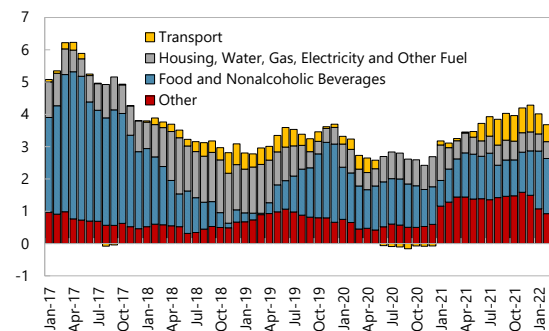
(y-o-y percent change)



Transport and other components have been driving a pick-up in inflation.

Contributions to Inflation

(Percent)

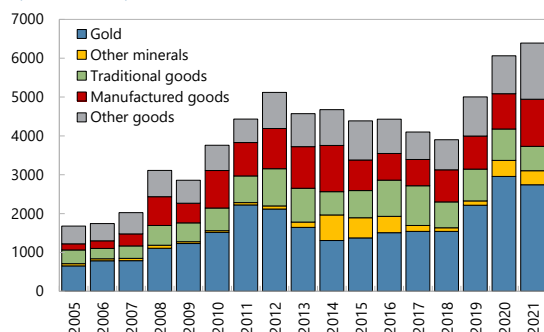


Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 4. External Sector Developments

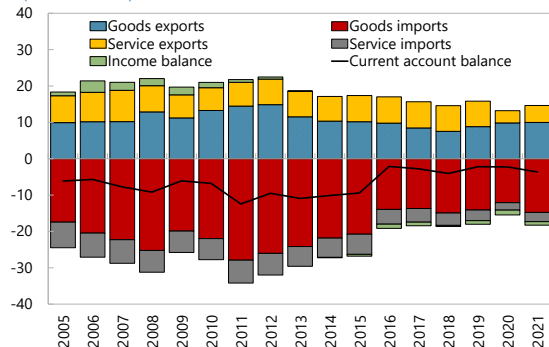
Goods exports have increased since 2018, driven by higher exports of gold and other minerals.

Composition of Goods Exports
(Millions of USD)



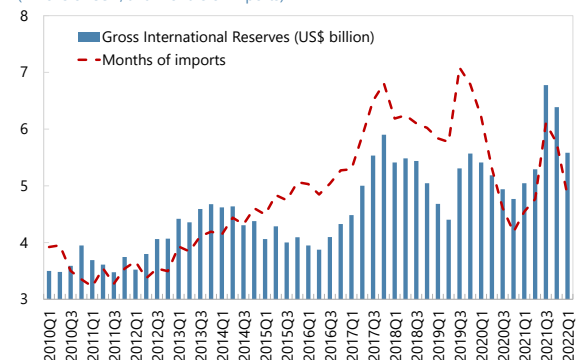
The current account deficit has narrowed since 2015, reflecting mainly lower oil imports.

Current Account Balance Decomposition
(Percent of GDP)



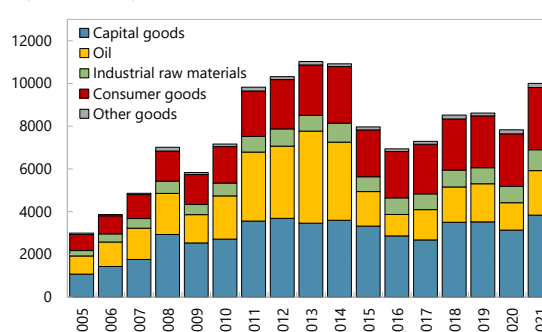
Reserves were boosted by the new SDR allocation and IMF emergency financing in 2021, but have been declining since last September.

Gross International Reserves
(Billions of USD, and months of imports)



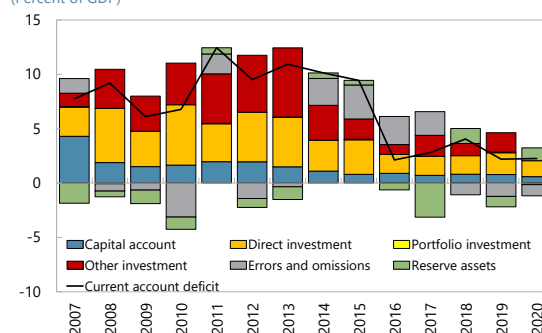
Contraction of the oil-import bill led to contained goods imports between 2015 and 2020.

Composition of Goods Imports
(Millions of USD)



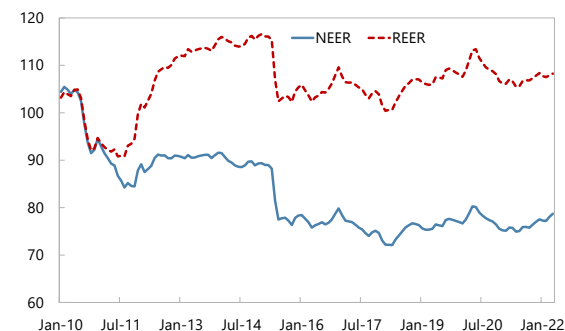
The current account deficit was mainly financed by FDI and public-sector borrowing.

Current Account Deficit and Sources of Financing
(Percent of GDP)



The exchange rate has remained relatively stable since 2015.

Real and Nominal Effective Exchange Rates
(Index, 2010=100)



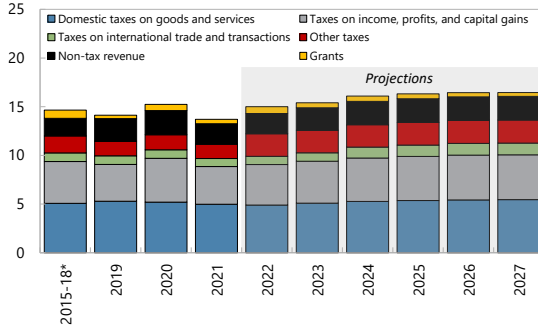
Sources: Tanzanian authorities; and IMF staff calculations and projections.

Figure 5. Fiscal Developments and Projections

While grants are expected to fall gradually, tax revenues are projected to climb to its highest historical levels during the program....

Fiscal Revenues

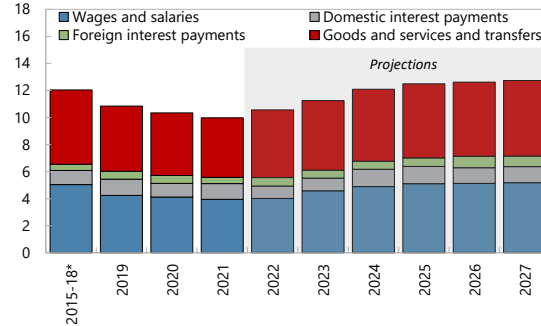
(Percent of GDP)



...allowing for an expected steady increase in the wage bill and other important recurrent expenditure in social projects...

Fiscal Expenditures

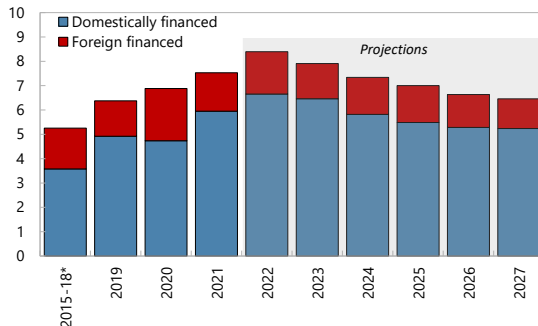
(Percent of GDP)



...and a pick-up in public investment in line with Tanzania's development plan, which is expected to gradually decline over the medium term.

Development Expenditure

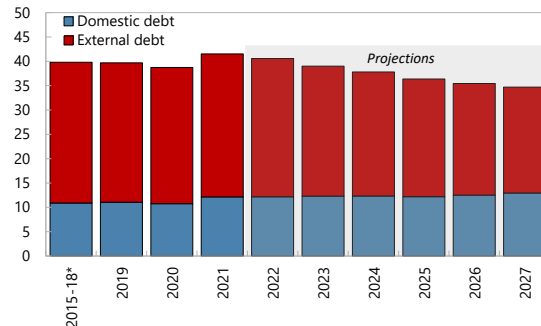
(Percent of GDP)



Public (external) debt is projected to decline in the medium-term, remaining sustainable...

Total Public Debt

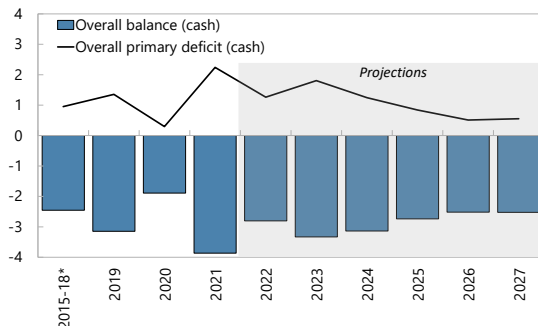
(Percent of GDP)



...amid a projected small primary deficit during the program...

Overall Balance and Primary Deficit

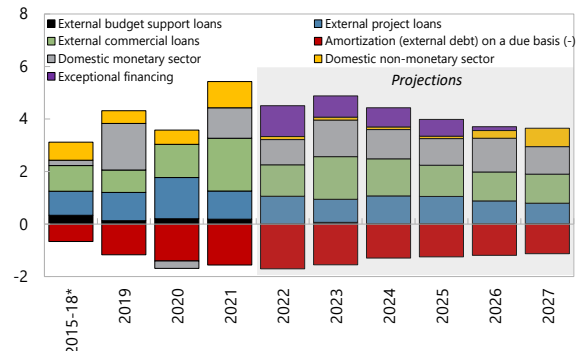
(Percent of GDP)



... and an expected increase in budgetary support from the ECF arrangement and concessional borrowing from other development partners.

Sources of Financing of Overall Balance

(Percent of GDP)



Sources: Tanzanian authorities; and IMF staff calculations and projections.

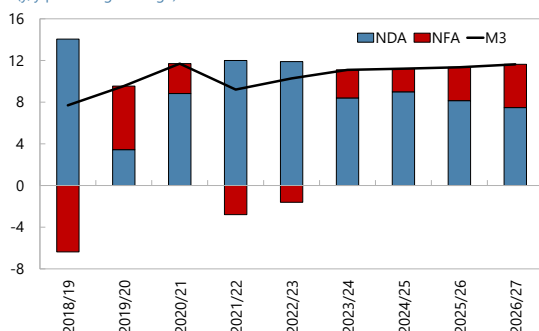
Note: Implies the average of 2015-18 .

Figure 6. Monetary Developments

The contribution of NFA to broad money growth will increase....

Contributions to Broad Money Growth

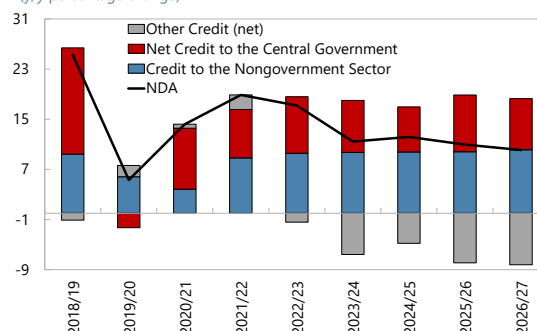
(y/y percentage change)



....and the contribution of private sector credit growth to NDA will remain significant.

Contributions to Net Domestic Assets

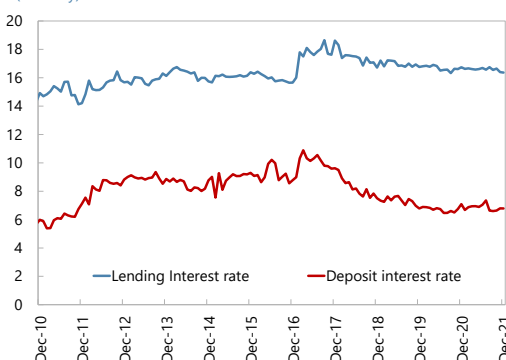
(y/y percentage change)



Lending and deposit rates have remained relatively stable....

Lending and Deposit Rates

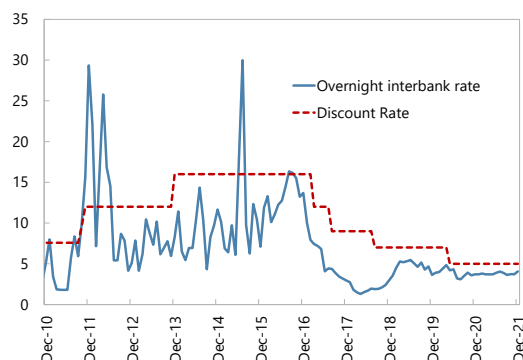
(Monthly)



...as have money markets, in line with the accommodative monetary policy stance.

Interest Rates

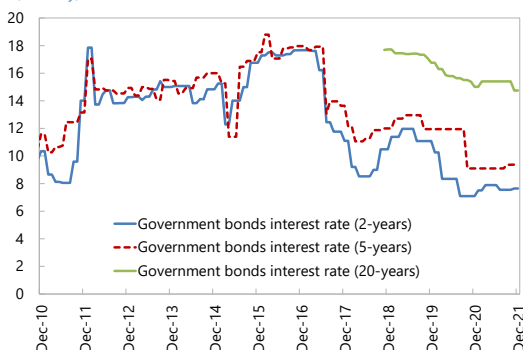
(Monthly)



Government bond yields have fallen across the yield curve...

Government Bond Rates

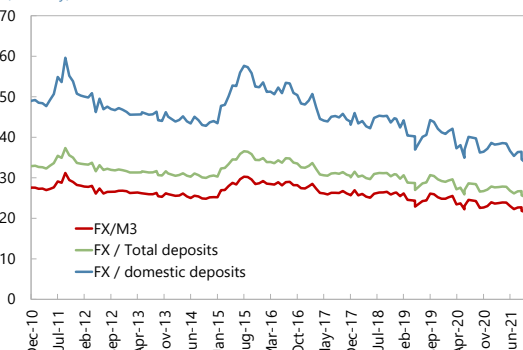
(Monthly)



...as have measures of dollarization.

Dollarization

(Monthly)



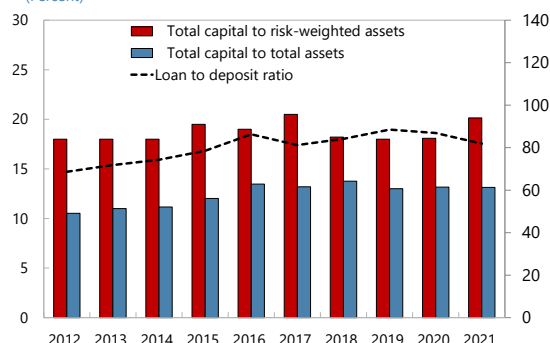
Sources: Tanzanian authorities; and IMF staff calculations.

Figure 7. Financial Sector Developments

The banking sector is in aggregate well capitalized, and not overleveraged.

Capital Adequacy and Leverage

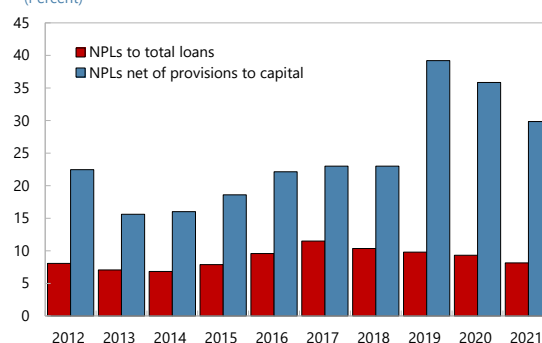
(Percent)



NPLs remain elevated but have come down in recent years.

Non-Performing Loans

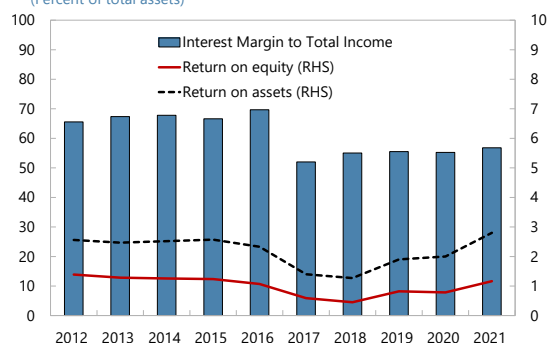
(Percent)



Profitability increased in recent years, with income mostly derived from interest.

Profitability and Source of Income

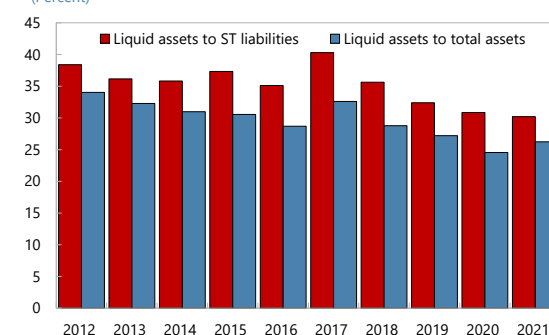
(Percent of total assets)



Liquidity in the sector remains adequate.

Liquid Assets Indicators

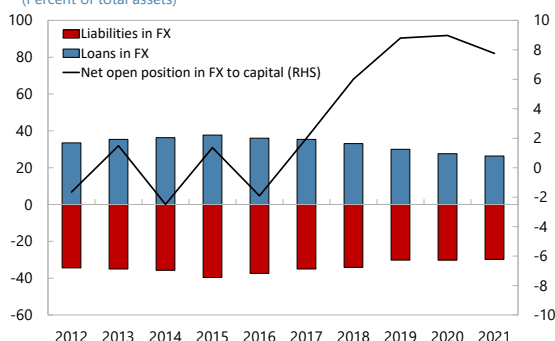
(Percent)



Foreign exchange risks have mounted in recent years.

Banks Exposure to FX

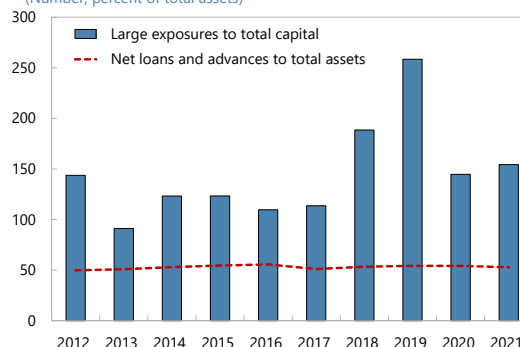
(Percent of total assets)



The loan share in assets is stable, and large exposures have recently fallen.

Asset Quality and Composition

(Number, percent of total assets)



Sources: IMF Financial Soundness Indicators; and IMF staff calculations.

Table 1. Tanzania: Selected Economic Indicators, 2017/18–2026/27 ¹

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent change, unless otherwise indicated)										
Output, Prices and Exchange Rates										
Real GDP ²	6.9	7.0	5.9	4.9	4.8	5.0	5.8	6.3	6.6	6.9
GDP deflator	111.2	112.8	114.3	117.5	122.7	129.2	136.1	142.4	148.8	155.6
CPI (period average) ³	4.3	3.2	3.5	3.3	4.2	5.3	4.4	4.0	4.0	4.0
CPI (end of period) ³	3.4	3.7	3.2	3.6	6.4	4.9	4.3	4.1	4.1	4.1
Core inflation (end of period) ³	1.6	2.8	2.4	2.4	...	...	...	...	...	...
Terms of trade (deterioration, -)	-6.9	-3.5	11.8	5.1	-7.3	-0.2	4.2	2.8	1.9	1.9
Exchange rate (period average, TSh/USD)	2,251	2,294	2,302	2,310	...	...	...	...	...	...
Real effective exchange rate (end of period; depreciation = -)	-1.6	3.3	1.9	2.6	...	...	...	...	...	...
Money and Credit										
Broad money (M3, end of period)	6.0	7.7	9.5	11.7	9.2	10.3	11.1	11.2	11.4	11.6
Average reserve money	4.0	3.2	9.3	2.4	8.4	11.5	11.6	11.8	11.8	12.0
Credit to the private sector (end of period)	4.0	7.6	5.5	3.6	9.1	10.7	11.5	11.6	11.7	12.0
Overall T-bill interest rate (percent; end of period)	5.6	8.7	3.0	4.9	...	...	...	...	...	...
Non-performing loans (percent of total loans, end of period)	10.3	10.7	10.8	9.2	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)										
Central Government Operations										
Revenues and grants	15.2	14.1	15.2	13.7	15.0	15.4	16.1	16.3	16.4	16.5
<i>Of which:</i> grants	0.8	0.3	0.6	0.5	0.7	0.5	0.5	0.5	0.4	0.4
Expenditures	16.5	16.6	16.7	17.1	17.8	18.7	19.2	19.1	19.0	19.0
Current	10.9	10.8	10.3	10.0	10.6	11.3	12.1	12.5	12.6	12.7
Development	5.6	5.8	6.4	7.1	7.2	7.5	7.1	6.6	6.3	6.2
Overall balance	-1.9	-3.1	-1.9	-3.9	-2.8	-3.3	-3.1	-2.7	-2.5	-2.5
Excluding grants	-2.0	-2.9	-2.1	-3.9	-3.5	-3.9	-3.7	-3.2	-3.0	-2.9
Primary balance	-0.3	-1.4	-0.3	-2.2	-1.3	-1.8	-1.2	-0.8	-0.5	-0.6
Excluding grants	-1.0	-1.7	-0.9	-2.7	-2.0	-2.3	-1.8	-1.3	-0.9	-0.9
Public Debt										
Gross nominal debt	40.3	39.5	38.0	39.7	42.2	42.1	41.9	41.3	40.4	39.5
<i>of which:</i> external debt ⁴	29.5	28.6	28.0	29.3	28.4	27.1	26.4	25.6	24.4	22.9
Investment and Savings										
Investment	36.3	39.0	39.8	37.7	36.7	38.0	38.5	39.1	40.0	40.4
Government ⁵	11.4	12.3	13.0	13.7	14.1	14.2	13.6	12.9	12.4	12.1
Nongovernment ⁶	24.9	26.8	26.8	24.0	22.5	23.8	24.9	26.2	27.6	28.3
Domestic savings	33.8	35.5	38.1	35.8	32.2	33.8	34.9	36.0	37.1	37.7
External Sector										
Exports (goods and services)	15.9	14.8	14.9	13.1	13.5	13.5	13.9	14.1	14.2	14.4
Imports (goods and services)	17.7	17.6	15.9	14.4	17.3	17.0	16.5	16.2	16.2	16.2
Current account balance	-2.5	-3.5	-1.7	-1.9	-4.5	-4.3	-3.5	-3.1	-2.9	-2.7
Excluding current transfers	-2.8	-3.6	-2.0	-2.0	-4.6	-4.4	-3.6	-3.1	-3.0	-2.8
Gross international reserves										
In billions of U.S. dollars	5.5	4.4	5.2	5.2	5.2	5.2	5.8	6.5	7.1	7.9
<i>of which:</i> SDR allocation					0.5					
In months of next year's imports	6.4	5.3	6.4	4.9	4.5	4.2	4.4	4.5	4.5	4.5
Memorandum Items:										
Calendar year real GDP growth (percent) ⁷	7.0	7.0	4.8	4.9	4.7	5.3	6.2	6.4	6.8	7.0
GDP at current prices										
Trillions of Tanzanian shillings	123.9	134.5	144.2	155.5	170.2	188.2	209.6	233.2	259.8	290.4
Millions of U.S. dollars	54,963	58,755	62,607	67,356	73,800	81,638	90,051	98,356	107,458	117,792
GDP per capita (in U.S. dollars)	1,020	1,058	1,095	1,144	1,217	1,307	1,400	1,485	1,575	1,677
Population (million)	53.9	55.5	57.2	58.9	60.6	62.4	64.3	66.2	68.2	70.2

Sources: Tanzanian authorities and IMF staff estimates and projections.

¹ Fiscal year (July-June).² Historical figures are based on official data up to the fourth quarter of 2021.³ The inflation index uses price data collected from all 26 regional headquarters of the statistical office in Tanzania Mainland.⁴ Excludes external debt under negotiation for relief.⁵ Includes investments made by parastatals and other public sector insitutions.⁶ Historical figures are based on official data up to 2021.⁷ Fiscal year 2017/18 corresponds to calendar year 2018.

Table 2a. Tanzania: Central Government Operations, 2017/18–2026/27
(Trillions of Tanzanian Shillings)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Trillions of Tanzanian Shillings)										
Total Revenue	17.9	18.5	21.1	20.6	24.4	28.0	32.6	36.9	41.6	46.6
Tax revenue	15.1	15.4	17.5	17.3	20.8	23.7	27.6	31.2	35.3	39.6
Import duties	1.1	1.2	1.3	1.3	1.4	1.6	2.3	2.7	3.1	3.5
Value-added tax	4.4	4.7	5.0	5.0	5.4	6.4	7.3	8.3	9.4	10.6
Excises	2.2	2.4	2.5	2.7	2.9	3.2	3.8	4.2	4.7	5.3
Income taxes	5.2	5.1	6.5	6.0	7.1	8.1	9.3	10.6	12.0	13.4
Other taxes	2.2	2.0	2.2	2.3	3.9	4.3	4.8	5.5	6.1	6.9
Nontax revenue	2.9	3.1	3.6	3.3	3.5	4.4	5.0	5.6	6.3	7.0
Total Expenditure	20.5	22.4	24.1	26.6	30.3	35.3	40.3	44.4	49.3	55.1
Recurrent expenditure	13.5	14.6	14.9	15.5	18.0	21.2	25.3	29.1	32.8	37.0
Wages and salaries	5.5	5.7	5.9	6.1	6.8	8.6	10.3	11.9	13.3	15.1
Of which: COVID-19 related spending	...	...	...	0.0	0.0	...	...	...	...	...
Interest payments	2.0	2.4	2.3	2.5	2.6	2.9	4.0	4.4	5.2	5.7
Domestic	1.3	1.6	1.5	1.8	1.6	1.8	2.7	3.0	3.0	3.4
Foreign ¹	0.7	0.8	0.8	0.7	1.1	1.1	1.3	1.5	2.2	2.3
Goods and services and transfers	6.0	6.5	6.7	6.8	8.5	9.7	11.1	12.8	14.2	16.2
Of which: COVID-19 related spending	...	...	...	0.0	1.7	...	...	...	...	...
Of which: Clearance arrears ¹	...	...	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.0
Development expenditure	6.9	7.8	9.2	11.1	12.3	14.1	15.0	15.3	16.5	18.1
Domestically financed	4.7	5.8	6.1	8.6	9.4	11.4	11.6	11.8	13.1	14.7
Of which: COVID-19 related spending	...	...	...	...	...	...	...	...	...	...
Of which: Clearance of arrears ¹	1.2	0.2	0.5	0.4	0.6	0.6	0.9	0.7	1.0	0.0
Foreign (concessionally) financed	2.2	2.0	3.1	2.4	2.9	2.7	3.3	3.6	3.3	3.4
Overall Balance Before Grants	-2.5	-3.9	-3.1	-6.0	-5.9	-7.2	-7.7	-7.5	-7.7	-8.5
Grants	0.9	0.5	0.9	0.7	1.2	1.0	1.1	1.2	1.1	1.1
Program (including basket grants) ²	0.4	0.2	0.4	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Project	0.6	0.3	0.5	0.5	0.9	0.9	0.9	0.9	0.9	0.9
Net Expenditure Float ³	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical Discrepancy	0.0	-0.8	-0.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (cash basis)	-2.3	-4.2	-2.7	-6.0	-4.8	-6.3	-6.6	-6.4	-6.5	-7.3
Primary Balance (cash basis)	-0.3	-1.8	-0.4	-3.5	-2.1	-3.4	-2.6	-2.0	-1.3	-1.6
Excluding grants	-1.2	-2.3	-1.4	-4.2	-3.3	-4.4	-3.8	-3.1	-2.5	-2.7
Financing	2.3	4.2	2.7	6.0	2.8	4.7	5.0	4.9	6.2	7.3
Foreign (net)	1.7	1.2	2.4	2.7	0.9	1.9	2.5	2.3	2.1	2.2
Foreign loans	3.0	2.8	4.4	5.1	3.8	4.8	5.2	5.2	5.2	5.5
Program (including basket loans) ²	0.1	0.2	0.3	0.3	0.0	0.1	0.0	0.0	0.0	0.0
Of which: basket loans	0.1	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Project	1.5	1.5	2.3	1.7	1.8	1.7	2.2	2.4	2.3	2.3
Nonconcessional borrowing	1.5	1.1	1.8	3.1	2.0	3.1	3.0	2.8	2.9	3.2
Amortization	-1.3	-1.6	-2.0	-2.4	-2.9	-2.9	-2.9	-2.9	-3.1	-3.3
Domestic (net)	0.6	3.0	0.4	3.4	1.8	2.8	2.5	2.6	4.1	5.1
Bank financing	-0.3	2.4	-0.4	1.8	1.6	2.6	2.3	2.4	3.3	3.0
Nonbank financing	0.9	0.7	0.8	1.6	0.2	0.2	0.2	0.2	0.8	2.0
Financing Gap	...	...	...	...	-2.0	-1.5	-1.5	-1.5	-0.4	0.0
External sources of financing the gap	...	...	...	...	0.7	0.8	0.8	0.7	0.0	...
African Development Bank	...	...	...	...	...	...	...	...	...	...
World Bank	...	...	...	...	...	0.8	0.8	...	...	...
Other donors	...	...	...	...	0.7	...	...	...	...	...
Residual financing gap	...	...	...	...	1.3	0.7	0.7	0.7	0.4	0.0
IMF-RCF	...	...	...	...	1.3	...	...	...	...	...
IMF-ECF	...	...	...	...	...	0.7	0.7	0.7	0.4	...
Remaining Financing Gap	...	...	...	...	0.0	0.0	0.0	0.0	0.0	...
Memorandum Items:										
Total public debt (in percent of GDP)	40.3	39.5	38.0	39.7	42.2	42.1	41.9	41.3	40.4	39.5
Domestic arrears stock (verified claims) ^{1,4}	2.3	3.1	0.0	0.0	3.9	3.2	2.1	1.2	0.0	0.0
Priority social spending ⁵	8.8	9.6	9.4	10.1	13.2	12.7	14.0	15.6	17.3	19.3
Rationalization/Reprioritization of spending	...	...	...	...	...	...	...	...	...	...
Nominal GDP	123.9	134.5	144.2	155.5	170.2	188.2	209.6	233.2	259.8	290.4

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

¹ Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

² Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

³ 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

⁴ For 2018/19 the data show unverified arrears while for all other years the stock of arrears includes only verified and accepted arrears.

⁵ Priority social spending comprises central government spending (recurrent and development) on education, health, water, and rural roads, including transfers to local governments.

Table 2b. Tanzania: Central Government Operations, 2017/18–2026/27
(Percent of GDP)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In percent of GDP)										
Total Revenue	14.5	13.8	14.6	13.2	14.3	14.9	15.6	15.8	16.0	16.1
Tax revenue	12.2	11.4	12.1	11.1	12.2	12.6	13.2	13.4	13.6	13.6
Import duties	0.9	0.9	0.9	0.8	0.8	0.9	1.1	1.2	1.2	1.2
Value-added tax	3.6	3.5	3.5	3.2	3.2	3.4	3.5	3.6	3.6	3.6
Excises	1.8	1.8	1.7	1.8	1.7	1.7	1.8	1.8	1.8	1.8
Income taxes	4.2	3.8	4.5	3.9	4.2	4.3	4.5	4.5	4.6	4.6
Other taxes	1.8	1.5	1.5	1.5	2.3	2.3	2.3	2.3	2.4	2.4
Nontax revenue	2.3	2.3	2.5	2.1	2.1	2.3	2.4	2.4	2.4	2.4
Total Expenditure	16.5	16.6	16.7	17.1	17.8	18.7	19.2	19.1	19.0	19.0
Recurrent expenditure	10.9	10.8	10.3	10.0	10.6	11.3	12.1	12.5	12.6	12.7
Wages and salaries	4.5	4.2	4.1	4.0	4.0	4.6	4.9	5.1	5.1	5.2
Of which: COVID-19 related spending	...	...	...	0.0	0.0	...	...	...	...	...
Interest payments	1.6	1.8	1.6	1.6	1.5	1.5	1.9	1.9	2.0	2.0
Domestic	1.1	1.2	1.0	1.2	0.9	0.9	1.3	1.3	1.2	1.2
Foreign ¹	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.9	0.8
Goods and services and transfers	4.8	4.8	4.6	4.4	5.0	5.1	5.3	5.5	5.5	5.6
Of which: COVID-19 related spending	...	...	...	0.0	1.0	...	...	...	...	...
Of which: Clearance of arrears ¹	...	...	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Development expenditure	5.6	5.8	6.4	7.1	7.2	7.5	7.1	6.6	6.3	6.2
Domestically financed	3.8	4.3	4.2	5.6	5.5	6.1	5.5	5.0	5.1	5.1
Of which: Clearance of arrears ¹	1.0	0.2	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.0
Foreign (concessionally) financed	1.8	1.5	2.1	1.6	1.7	1.4	1.6	1.5	1.3	1.2
Overall Balance Before Grants	-2.0	-2.9	-2.1	-3.9	-3.5	-3.9	-3.7	-3.2	-3.0	-2.9
Grants	0.8	0.3	0.6	0.5	0.7	0.5	0.5	0.5	0.4	0.4
Program (including basket grants) ²	0.3	0.1	0.3	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Project	0.5	0.2	0.3	0.3	0.6	0.5	0.4	0.4	0.4	0.3
Net Expenditure Float ³	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical Discrepancy	-0.5	-0.6	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (cash basis)	-1.9	-3.1	-1.9	-3.9	-2.8	-3.3	-3.1	-2.7	-2.5	-2.5
Primary Balance (cash basis)	-0.3	-1.4	-0.3	-2.2	-1.3	-1.8	-1.2	-0.8	-0.5	-0.6
Excluding grants	-1.0	-1.7	-0.9	-2.7	-2.0	-2.3	-1.8	-1.3	-0.9	-0.9
Financing	1.9	3.1	1.9	3.9	1.6	2.5	2.4	2.1	2.4	2.5
Foreign (net)	1.4	0.9	1.6	1.7	0.6	1.0	1.2	1.0	0.8	0.8
Foreign loans	2.4	2.1	3.0	3.3	2.3	2.6	2.5	2.2	2.0	1.9
Program (including basket loans) ²	0.1	0.1	0.2	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Of which: basket loans	0.1	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Project	1.2	1.1	1.6	1.1	1.1	0.9	1.1	1.0	0.9	0.8
Nonconcessional borrowing	1.2	0.9	1.3	2.0	1.2	1.6	1.4	1.2	1.1	1.1
Amortization	-1.1	-1.2	-1.4	-1.6	-1.7	-1.5	-1.3	-1.2	-1.2	-1.1
Domestic (net)	0.5	2.3	0.3	2.2	1.1	1.5	1.2	1.1	1.6	1.7
Bank financing	-0.3	1.8	-0.3	1.2	1.0	1.4	1.1	1.0	1.3	1.0
Nonbank financing	0.8	0.5	0.5	1.0	0.1	0.1	0.1	0.1	0.3	0.7
Financing Gap	...	...	...	...	-1.2	-0.8	-0.7	-0.6	-0.1	0.0
External sources of financing the gap	...	...	...	...	0.4	0.4	0.4	0.3	0.0	...
African Development Bank	...	...	...	...	...	...	...	...	...	...
World Bank	...	...	...	...	...	0.4	0.4	...	...	...
Other donors	...	...	...	...	0.4	...	...	...	...	...
Residual financing gap	...	...	...	...	0.8	0.4	0.3	0.3	0.1	0.0
IMF-RCF	...	...	...	...	0.8	...	...	...	...	...
IMF-ECF	...	...	...	...	...	0.4	0.3	0.3	0.1	...
Remaining Financing Gap	...	...	...	...	0.0	0.0	0.0	0.0	0.0	...
Memorandum Items:										
Total public debt	40.3	39.5	38.0	39.7	42.2	42.1	41.9	41.3	40.4	39.5
Domestic arrears stock (verified claims) ^{1,4}	1.8	2.3	0.0	0.0	2.3	1.7	1.0	0.5	0.0	0.0
Priority social spending ⁵	7.1	7.1	6.5	6.5	7.8	6.7	6.7	6.7	6.6	6.7
Rationalization/Reprioritization of spending	...	...	...	...	...	...	...	...	...	...

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

¹ Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

² Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

³ 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.

⁴ For 2018/19 the data show unverified arrears while for all other years the stock of arrears includes only verified and accepted arrears.

⁵ Priority social spending comprises central government spending (recurrent and development) on education, health, water, and rural roads, including transfers to local governments.

Table 3a. Tanzania: Balance of Payments, 2017/18–2026/27

(Millions of U.S. Dollars, Unless Otherwise Indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Millions of U.S. dollars, unless otherwise indicated)										
Current Account	-1,392	-2,080	-1,067	-1,264	-3,313	-3,521	-3,193	-3,006	-3,113	-3,196
Trade balance	-2,894	-4,130	-2,567	-2,133	-4,352	-4,722	-4,821	-4,841	-5,151	-5,576
Exports, f.o.b.	4,852	4,543	5,869	6,447	6,854	7,434	8,189	9,047	9,977	11,005
Traditional agricultural products	1,056	513	996	578	684	796	831	886	970	1,072
Gold	1,545	1,745	2,591	3,029	3,049	3,241	3,514	3,757	4,065	4,321
Other	2,251	2,284	2,281	2,840	3,121	3,396	3,845	4,403	4,941	5,612
Imports, f.o.b.	-7,746	-8,672	-8,435	-8,581	-11,207	-12,155	-13,010	-13,888	-15,127	-16,581
Of which: Oil	-1,781	-1,748	-1,556	-1,577	-2,330	-2,976	-2,742	-2,560	-2,476	-2,461
Services (net)	1,898	2,462	1,931	1,251	1,571	1,846	2,396	2,767	3,037	3,396
Of which: Travel receipts	2,317	2,528	1,899	872	1,523	1,788	2,374	2,797	3,106	3,478
Income (net)	-830	-789	-895	-841	-958	-1,085	-1,217	-1,388	-1,485	-1,546
Of which: Interest on public debt	-300	-285	-499	-264	-281	-473	-768	-815	-858	-858
Current transfers (net)	434	376	464	459	427	440	448	455	486	530
Of which: Official transfers	140	58	192	63	73	78	79	79	71	71
Capital Account	397	368	362	313	539	535	535	533	533	536
Of which: Project grants ¹	302	304	289	221	270	462	458	452	447	443
Financial Account	1,999	1,281	1,972	1,363	1,862	2,345	2,627	2,498	3,055	3,515
Foreign Direct Investment	955	981	951	803	922	1,110	1,486	1,770	2,042	2,356
Public Sector, net	622	558	1,083	702	470	880	961	832	493	595
Program loans	33	75	79	65	-66	84	84	84	84	84
Non-concessional borrowing	655	503	906	950	884	1,331	1,278	1,170	1,189	1,304
Project loans	651	633	984	723	782	719	958	1,023	933	921
Scheduled amortization ²	-685	-653	-886	-1,035	-1,230	-1,254	-1,359	-1,445	-1,714	-1,714
Commercial Banks, net	-119	-63	66	-64	-348	31	60	-12	78	-38
Other private inflows	542	-194	-129	-76	274	323	120	-91	442	602
Errors and Omissions ³	-377	-566	-455	-389	0	0	0	0	0	0
Overall Balance	628	-997	812	23	-912	-642	-32	25	476	856
Financing	-628	997	-814	-45	46	-20	-628	-651	-633	-856
Change in BoT reserve assets (increase= -)	-545	1,082	-783	-45	46	-20	-628	-651	-633	-801
Use of Fund credit	-83	-85	-32	0.0	0.0	0.0	0.0	0.0	0.0	-55
Financing Gap	0	0	3	23	866	661	659	626	157	0
Exceptional financing	0	0	3	23	866	661	659	626	157	0
IMF Financing	0	0	0	0	566	311	309	313	157	0
of which: IMF ECF						311	309	313	157	
IMF RCF					566					
CCRT debt relief	0	0	3	23	0	0	0	0	0	0
World Bank	0	0	0	0	0	350	350	0	0	0
Global Fund	0	0	0	0	113	0	0	0	0	0
Other donors	0	0	0	0	187	0	0	313	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum Items:										
Gross official reserves (BoT)	5,484	4,402	5,185	5,230	5,184	5,203	5,831	6,482	7,115	7,916
of which: SDR allocation					543					
Months of imports of goods and services	6.4	5.3	6.4	4.9	4.5	4.2	4.4	4.5	4.5	4.5
Exports of goods (percent of GDP)	8.8	7.7	9.4	9.6	9.3	9.1	9.1	9.2	9.3	9.3
Exports excl. gold (percent of GDP)	6.0	4.8	5.2	5.1	5.2	5.1	5.2	5.4	5.5	5.7
Imports of goods and services (percent of GDP)	-17.7	-17.6	-15.9	-14.4	-17.3	-17.0	-16.5	-16.2	-16.2	-16.2
Imports of goods (percent of GDP)	-14.1	-14.8	-13.5	-12.7	-15.2	-14.9	-14.4	-14.1	-14.1	-14.1
Imports excl. oil (percent of GDP)	-10.9	-11.8	-11.0	-10.4	-12.0	-11.2	-11.4	-11.5	-11.8	-12.0
Current account deficit (percent of GDP)	-2.5	-3.5	-1.7	-1.9	-4.5	-4.3	-3.5	-3.1	-2.9	-2.7
Foreign direct investment (Percent of GDP)	1.7	1.7	1.5	1.2	1.3	1.4	1.7	1.8	1.9	2.0
Foreign program and project assistance (percent of GDP)	2.0	1.8	2.5	1.6	1.4	1.6	1.8	1.7	1.4	1.3
Nominal GDP	54,963	58,755	62,607	67,356	73,800	81,638	90,051	98,356	107,458	117,792

Sources: Tanzanian authorities and IMF staff estimates and projections.

¹ The Bank of Tanzania adjusts the estimated outturn to reflect information on project grants provided by ministries.² Relief on some external debt obligations is being negotiated with a number of creditors.³ Includes valuation changes in gross reserves resulting from changes in exchange rates among major currencies.

Table 3b. Tanzania: Balance of Payments, 2017/18–2026/27
(Percent of GDP, Unless Otherwise Indicated)

	2017/18 Act.	2018/19 Act.	2019/20 Act.	2020/21 Est.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.
(Percent of GDP, unless otherwise indicated)										
Current Account	-2.5	-3.5	-1.7	-1.9	-4.5	-4.3	-3.5	-3.1	-2.9	-2.7
Trade balance	-5.3	-7.0	-4.1	-3.2	-5.9	-5.8	-5.4	-4.9	-4.8	-4.7
Exports, f.o.b.	8.8	7.7	9.4	9.6	9.3	9.1	9.1	9.2	9.3	9.3
Traditional agricultural products	1.9	0.9	1.6	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Gold	2.8	3.0	4.1	4.5	4.1	4.0	3.9	3.8	3.8	3.7
Other	4.1	3.9	3.6	4.2	4.2	4.2	4.3	4.5	4.6	4.8
Imports, f.o.b.	-14.1	-14.8	-13.5	-12.7	-15.2	-14.9	-14.4	-14.1	-14.1	-14.1
Of which: Oil	-3.2	-3.0	-2.5	-2.3	-3.2	-3.6	-3.0	-2.6	-2.3	-2.1
Services (net)	3.5	4.2	3.1	1.9	2.1	2.3	2.7	2.8	2.8	2.9
Of which: Travel receipts	4.2	4.3	3.0	1.3	2.1	2.2	2.6	2.8	2.9	3.0
Income (net)	-1.5	-1.3	-1.4	-1.2	-1.3	-1.3	-1.4	-1.4	-1.4	-1.3
Of which: Interest on public debt	-0.5	-0.5	-0.8	-0.4	-0.4	-0.6	-0.9	-0.8	-0.8	-0.7
Current transfers (net)	0.8	0.6	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.5
Of which: Official transfers	0.3	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Account	0.7	0.6	0.6	0.5	0.7	0.7	0.6	0.5	0.5	0.5
Of which: Project grants ¹	0.5	0.5	0.5	0.3	0.4	0.6	0.5	0.5	0.4	0.4
Financial Account	3.6	2.2	3.1	2.0	2.5	2.9	2.9	2.5	2.8	3.0
Foreign Direct Investment	1.7	1.7	1.5	1.2	1.3	1.4	1.7	1.8	1.9	2.0
Public Sector, net	1.1	0.9	1.7	1.0	0.6	1.1	1.1	0.8	0.5	0.5
Program loans	0.1	0.1	0.1	0.1	-0.1	0.1	0.1	0.1	0.1	0.1
Non-concessional borrowing	1.2	0.9	1.4	1.4	1.2	1.6	1.4	1.2	1.1	1.1
Project loans	1.2	1.1	1.6	1.1	1.1	0.9	1.1	1.0	0.9	0.8
Scheduled amortization ²	-1.2	-1.1	-1.4	-1.5	-1.7	-1.5	-1.5	-1.5	-1.6	-1.5
Commercial Banks, net	-0.2	-0.1	0.1	-0.1	-0.5	0.0	0.1	0.0	0.1	0.0
Other private inflows	1.0	-0.3	-0.2	-0.1	0.4	0.4	0.1	-0.1	0.4	0.5
Errors and Omissions ³	-0.7	-1.0	-0.7	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	1.1	-1.7	1.3	0.0	-1.2	-0.8	0.0	0.0	0.4	0.7
Financing	-1.1	1.7	-1.3	-0.1	0.1	0.0	-0.7	-0.7	-0.6	-0.7
Change in BoT reserve assets (increase= -)	-1.0	1.8	-1.3	-0.1	0.1	0.0	-0.7	-0.7	-0.6	-0.7
Use of Fund credit	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	1.2	0.8	0.7	0.6	0.1	0.0
Exceptional financing	0.0	0.0	0.0	0.0	1.2	0.8	0.7	0.6	0.1	0.0
IMF Financing	0.0	0.0	0.0	0.0	0.8	0.4	0.3	0.3	0.1	0.0
of which: IMF ECF						0.4	0.3	0.3	0.1	
IMF RCF					0.8					
CCRT debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0
Global Fund	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Other donors	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Gross official reserves (BoT)	10.0	7.5	8.3	7.8	7.0	6.4	6.5	6.6	6.6	6.7
of which: SDR allocation					0.7					
Months of imports of goods and services	6.4	5.3	6.4	4.9	4.5	4.2	4.4	4.5	4.5	4.5
Exports of goods	8.8	7.7	9.4	9.6	9.3	9.1	9.1	9.2	9.3	9.3
Exports excl. gold	6.0	4.8	5.2	5.1	5.2	5.1	5.2	5.4	5.5	5.7
Imports of goods and services	-17.7	-17.6	-15.9	-14.4	-17.3	-17.0	-16.5	-16.2	-16.2	-16.2
Imports of goods	-14.1	-14.8	-13.5	-12.7	-15.2	-14.9	-14.4	-14.1	-14.1	-14.1
Imports excl. oil	-10.9	-11.8	-11.0	-10.4	-12.0	-11.2	-11.4	-11.5	-11.8	-12.0
Current account deficit	-2.5	-3.5	-1.7	-1.9	-4.5	-4.3	-3.5	-3.1	-2.9	-2.7
Foreign direct investment	1.7	1.7	1.5	1.2	1.3	1.4	1.7	1.8	1.9	2.0
Foreign program and project assistance	2.0	1.8	2.5	1.6	1.4	1.6	1.8	1.7	1.4	1.3
Nominal GDP (Millions of U.S. dollars)	54,963	58,755	62,607	67,356	73,800	81,638	90,051	98,356	107,458	117,792

Sources: Tanzanian authorities and IMF staff estimates and projections.

¹ The Bank of Tanzania adjusts the estimated outturn to reflect information on project grants provided by ministries.

² Relief on some external debt obligations is being negotiated with a number of creditors.

³ Includes valuation changes in gross reserves resulting from changes in exchange rates among major currencies.

Table 4. Tanzania: Central Bank and Depository Corporations Survey, 2017–2022

	2017	2018	2019		2020		2021				2022
	June	June	June	Dec	June	Dec	Mar	June	Sep	Dec	Mar
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
(Trillions of Tanzania shillings, unless otherwise indicated; end of period)											
Bank of Tanzania											
Net Foreign Assets	10.0	11.5	9.4	12.1	11.3	10.3	11.1	11.7	14.0	13.2	11.6
Net international reserves ¹	10.6	12.0	9.9	12.6	11.8	10.9	11.6	12.1	15.3	14.5	12.2
(Billions of U.S. dollars) ¹	4.8	5.3	4.3	5.5	5.2	4.7	5.0	5.3	6.7	6.3	5.3
Net non-reserve foreign assets	-0.6	-0.5	-0.4	-0.6	-0.6	-0.6	-0.5	-0.4	-1.4	-1.3	-0.6
Net Domestic Assets	-3.2	-4.4	-1.5	-4.6	-3.0	-3.1	-3.9	-3.1	-5.9	-4.8	-3.2
Net credit to government	-0.7	-1.1	1.6	-0.6	0.7	0.4	0.1	1.8	-0.4	0.7	0.9
Of which: Excluding counterpart of liquidity paper	-0.1	-0.5	2.0	-0.6	0.8	0.5	0.2	1.9	-0.3	0.8	0.9
Other items (net)	-2.6	-3.4	-3.2	-4.1	-3.8	-3.6	-4.1	-5.1	-5.6	-5.7	-4.2
REPOs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items, excluding REPOs (net)	-2.6	-3.4	-3.2	-4.1	-3.8	-3.6	-4.1	-5.1	-5.6	-5.7	-4.2
Credit to other economic sectors	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Reserve Money	6.8	7.1	8.0	7.5	8.3	7.2	7.2	8.6	8.1	8.4	8.4
Currency outside banks	3.6	3.9	4.1	4.2	4.2	4.5	4.3	4.7	5.0	5.0	4.8
Bank reserves	3.2	3.2	3.8	3.2	4.1	2.7	2.9	3.9	3.1	3.4	3.6
Currency in banks	0.7	0.7	0.8	1.0	0.9	1.0	0.9	0.8	0.9	1.0	0.9
Deposits	2.5	2.5	3.0	2.2	3.1	1.7	2.0	3.0	2.3	2.4	2.7
Required reserves	2.0	2.1	2.3	2.4	2.5	2.4	2.4	2.7	2.6	2.7	0.0
Excess reserves	0.4	0.4	0.7	-0.2	0.7	-0.8	-0.4	0.4	-0.4	-0.3	2.7
Memorandum Items:											
Average reserve money	6.7	7.0	7.2	7.5	7.9	7.5	7.2	8.0	8.0	8.8	8.6
Depository Corporations Survey											
Net Foreign Assets	9.6	11.2	9.6	12.0	11.3	10.7	11.3	12.1	14.1	14.0	11.8
Bank of Tanzania ¹	10.0	11.5	9.4	12.1	11.3	10.3	11.1	11.7	14.0	13.2	11.6
Commercial banks	-0.4	-0.3	0.2	0.0	0.0	0.4	0.2	0.4	0.2	0.7	0.2
Net Domestic Assets	14.3	14.1	17.6	16.3	18.6	19.2	18.9	21.2	19.0	20.6	21.9
Domestic credit	21.0	21.4	25.1	23.6	25.7	26.1	26.2	28.2	27.0	30.0	31.4
Credit to government (net)	4.2	3.8	6.2	3.9	5.8	5.8	5.8	7.6	5.8	7.7	8.2
Credit to nongovernment sector	16.9	17.5	18.9	19.7	19.9	20.3	20.5	20.6	21.1	22.3	23.2
Other items (net)	-6.7	-7.3	-7.5	-7.3	-7.1	-6.9	-7.4	-7.0	-7.9	-9.4	-9.5
M3	23.9	25.3	27.2	28.3	29.8	29.9	30.2	33.3	33.2	34.6	33.8
Foreign currency deposits	6.2	6.3	6.2	7.0	6.6	6.9	7.2	7.7	7.5	7.5	7.2
M2	17.7	19.0	21.0	21.3	23.2	23.0	23.0	25.7	25.6	27.1	26.5
Currency in circulation	3.6	3.9	4.1	4.2	4.2	4.5	4.3	4.7	5.0	5.0	4.8
Deposits (TSh)	14.1	15.0	16.9	17.1	19.0	18.5	18.7	21.0	20.7	22.1	21.7
Memorandum Items:											
(12-month percent change, unless otherwise indicated)											
M3 growth	6.0	6.0	7.7	9.6	9.5	5.7	6.8	11.7	12.7	15.5	11.9
M3 (percent of GDP)	21.0	20.4	20.3	21.1	20.7	20.7	19.4	21.4	21.3	22.2	19.8
Private sector credit growth	1.3	4.0	7.6	11.1	5.5	3.1	2.3	3.6	4.5	10.0	13.4
Private sector credit (percent of GDP)	14.9	14.2	14.0	13.7	13.8	14.1	14.2	14.3	14.7	15.5	16.1
Velocity of money (nominal GDP/ M3)	5.0	5.1	5.2	4.7	4.8	4.7	4.7	4.4	4.9	4.9	4.9
Average reserve money growth	1.1	4.0	3.2	8.2	9.3	0.4	3.0	2.4	8.6	16.6	20.6
Reserve money multiplier (M3/average reserve money)	3.6	3.6	3.8	3.8	3.8	4.0	4.2	4.1	4.1	3.9	3.9
Nonbank financing of the government (net) ²	1.0	0.9	0.7	0.6	0.8	0.8	0.2	0.6	-1.5	0.3	-1.8
Bank financing of the government (net) ²	-1.1	-0.3	2.4	-2.3	-0.4	0.0	0.0	1.8	0.0	1.9	2.4
Bank and nonbank financing of the government (net) ²	-0.1	0.6	3.0	-1.7	0.4	0.8	0.1	2.4	-1.5	2.2	0.7

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

¹ Includes short-term (less than 1 year) foreign exchange liabilities to residents.² In trillions of Tanzanian shillings; cumulative from the beginning of the fiscal year (July 1).

Table 5. Tanzania: Financial Soundness Indicators, 2017–2022

	2017		2018		2019				2020				2021				2022
	Jun	Dec	Jun	Dec	Mar	June	Sept	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
(Percent, end of period)																	
Capital Adequacy																	
Total capital to risk-weighted assets	18.3	20.5	20.2	18.2	18.4	18.1	17.7	18.0	18.7	17.9	18.3	18.1	19.8	17.9	19.9	20.1	21.6
Total capital to total assets	13.0	13.2	13.2	13.8	13.3	12.7	12.9	13.0	13.8	12.8	13.2	13.2	13.8	12.9	12.8	13.1	14.3
Asset Composition and Quality																	
Net loans and advances to total assets	53.4	51.0	51.8	53.4	54.4	52.1	53.7	54.2	55.2	53.3	54.0	54.1	54.6	52.2	52.8	52.8	54.4
Sectoral distribution of loans																	
Personal	18.8	20.1	27.3	28.2	28.6	29.6	29.9	28.5	29.9	31.4	32.0	33.9	35.1	35.5	36.6	36.4	38.9
Trade	21.6	20.4	20.5	18.9	18.2	18.1	17.4	17.5	17.5	16.5	15.7	15.2	15.3	15.5	16.5	16.5	16.5
Manufacturing and mining	13.5	12.8	12.8	14.4	14.2	13.8	13.5	13.0	12.8	13.1	12.0	11.4	11.7	11.9	11.7	11.6	12.8
Agricultural production	7.3	7.0	6.7	5.6	8.5	8.7	9.0	9.4	9.0	7.9	8.4	8.5	7.9	6.8	6.6	7.1	7.6
Transport and communication	5.8	6.0	5.9	7.1	5.3	5.2	5.1	5.5	5.5	5.7	5.8	5.7	5.4	5.3	5.0	4.7	4.8
Real Estate	5.0	5.0	5.4	5.0	4.8	4.5	4.4	4.2	3.7	3.8	3.9	3.8	1.3	3.7	3.3	3.2	3.2
Building and construction	4.7	5.2	4.9	3.8	4.5	4.5	5.7	5.8	4.4	5.4	5.6	5.2	5.0	4.9	4.7	4.6	4.7
Foreign exchange loans to total loans	36.7	35.8	36.0	33.1	30.6	30.6	28.6	30.0	29.4	29.9	27.6	27.6	26.4	26.5	25.7	26.4	27.3
Non-performing loans (NPLs) to total loans	10.6	11.5	10.3	10.4	9.6	10.7	11.1	9.8	10.5	10.8	10.4	9.3	9.3	9.2	8.8	8.2	8.2
NPLs net of provisions to capital	22.1	23.0	18.6	23.0	24.7	22.8	24.2	39.2	39.9	42.9	40.7	35.8	34.4	34.7	33.3	29.9	28.4
Large exposures to total capital	117.4	113.6	124.6	188.5	144.5	143.8	132.6	258.4	165.1	110.8	215.1	144.6	117.5	116.9	139.4	154.3	225.4
Net open positions in foreign exchange to total capital	1.5	2.0	3.3	6.0	5.2	6.6	7.5	8.8	7.1	7.3	6.2	9.0	6.9	6.5	6.9	7.8	5.5
Earnings and Profitability																	
Return on assets	2.3	1.4	1.6	1.3	1.9	2.0	1.8	1.9	2.0	2.2	2.3	2.0	2.5	2.4	2.7	2.8	4.4
Return on equity	10.4	5.9	6.7	4.5	8.1	8.8	7.8	8.2	8.5	9.9	9.6	7.9	10.3	10.5	11.4	11.6	19.5
Interest margin to total income	52.8	52.0	53.7	55.0	55.0	55.8	55.8	55.5	55.1	55.7	55.3	55.2	57.9	57.2	57.1	56.8	54.1
Noninterest expenses to gross income	51.5	52.2	54.6	56.2	56.4	56.7	56.7	56.4	55.2	55.1	53.4	53.7	51.7	51.7	50.9	50.0	44.5
Personnel expenses to noninterest expenses	45.5	44.6	45.7	45.0	47.9	48.8	48.0	47.9	50.8	50.4	50.0	48.9	52.6	52.1	51.9	51.9	52.8
Liquidity																	
Liquid assets to total assets	30.6	32.6	30.1	28.8	27.8	30.4	28.6	27.2	24.8	26.6	25.4	24.6	23.6	26.3	25.8	26.2	25.4
Liquid assets to total short term liabilities	38.1	40.3	37.6	35.6	42.1	45.7	31.0	32.4	31.0	33.4	31.6	30.9	29.7	33.2	30.9	30.2	29.7
Total loans to customer deposits	83.1	81.2	83.9	84.2	79.8	84.5	87.9	88.5	90.1	83.9	87.2	86.9	88.1	81.4	82.4	81.9	85.7
Foreign exchange liabilities to total liabilities	36.0	35.4	34.8	34.2	32.0	30.5	33.0	30.2	30.2	28.6	30.8	30.2	29.5	30.1	29.4	29.8	29.0

Source: Bank of Tanzania

Table 6. Tanzania: Capacity to Repay, 2021/22-2030/31

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
IMF Obligations Based on Existing Credit	0.0	4.3	4.5	4.5	4.5	44.2	84.0	84.0	84.0	84.0
Principal (in millions of SDRs)	0.0	0.0	0.0	0.0	0.0	39.8	79.6	79.6	79.6	79.6
Charges/interest (in millions of SDRs)	0.0	4.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	55.5	111.0	111.0	111.0	111.0
Charges/interest (in millions of U.S. dollars)	0.0	5.9	6.1	6.2	6.2	6.2	6.2	6.2	6.2	6.2
IMF Obligations Based on Existing and Prospective Credit	0.0	4.3	4.5	4.5	4.5	44.2	95.6	141.1	186.5	231.8
Principal (in millions of SDRs)	0.0	0.0	0.0	0.0	0.0	39.8	91.1	136.7	182.0	227.3
Charges/interest (in millions of SDRs)	0.0	4.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	55.5	127.1	190.6	253.9	317.1
Charges/interest (in millions of U.S. dollars)	0.0	5.9	6.1	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Total IMF Existing and Prospective Obligations										
In millions of SDRs	0.0	4.3	4.5	4.5	4.5	44.2	95.6	141.1	186.5	231.8
In millions of U.S. dollars	0.0	5.9	6.1	6.2	6.2	61.7	133.3	196.8	260.1	323.3
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2
In percent of exports of goods and services	0.0	0.1	0.0	0.0	0.0	0.4	0.7	0.9	1.1	1.3
In percent of government revenue	0.0	0.0	0.0	0.0	0.0	0.3	0.6	0.9	1.0	1.2
In percent of quota	0.0	1.1	1.1	1.1	1.1	11.1	24.0	35.5	46.9	58.3
In percent of gross international reserves	0.0	0.1	0.1	0.1	0.1	0.8	1.5	2.1	2.5	2.8
IMF Credit Outstanding Based on Existing and Prospective Drawings (End of Period)										
In millions of SDRs	397.8	626.6	853.3	1080.0	1193.4	1153.6	1062.5	925.9	743.9	516.5
In millions of U.S. dollars	553.8	853.9	1170.9	1495.9	1664.6	1609.1	1482.0	1291.4	1037.6	720.5
In percent of GDP	0.8	1.0	1.3	1.5	1.5	1.4	1.1	0.9	0.7	0.4
In percent of exports of goods and services	5.6	7.8	9.4	10.8	10.9	9.5	7.9	6.2	4.6	2.9
In percent of government revenue	5.2	7.0	8.3	9.6	9.7	8.5	7.1	5.6	4.1	2.6
In percent of quota	100.0	157.5	214.5	271.5	300.0	290.0	267.1	232.8	187.0	129.8
In percent of gross international reserves	10.7	16.4	20.1	23.1	23.4	20.3	17.0	13.5	9.9	6.3
Net Use of IMF Credit¹	0.0	228.8	226.7	226.7	113.4	-39.8	-91.1	-136.7	-182.0	-227.3
Disbursements (millions of SDRs)	0.0	228.8	226.7	226.7	113.4	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of SDRs)	0.0	0.0	0.0	0.0	0.0	39.8	91.1	136.7	182.0	227.3
Disbursements (millions of U.S. dollars)	0.0	311.8	311.1	314.0	158.1	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	55.5	127.1	190.6	253.9	317.1
Memorandum Items:										
Exports of goods and services (millions of U.S. dollars)	9,978	11,005	12,473	13,868	15,292	16,939	18,876	20,746	22,695	24,711
Government revenue (millions of U.S. dollars)	10,565	12,180	14,026	15,565	17,212	18,925	20,931	23,024	25,186	27,554
Quota (millions of SDRs)	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8	397.8
Quota (millions of U.S. dollars)	553.8	542.2	545.8	551.0	554.9	554.9	554.9	554.9	554.9	554.9
Gross international reserves (millions of U.S. dollars)	5,184	5,203	5,831	6,482	7,115	7,916	8,694	9,556	10,453	11,382
GDP (millions of U.S. dollars)	73,800	81,638	90,051	98,356	107,458	117,792	129,536	142,371	155,746	169,576
SDRs per U.S. dollar ²	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

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

¹ Assumes access of 200 percent of quota as ECF disbursements.² July 2022 WEO Update GAS projections.

Table 7. Tanzania: External Financing Requirements and Sources, 2021/22–2026/27
(Millions of U.S. dollars)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Financing Needs	1,310	3,267	3,541	3,821	3,657	3,746
Current account deficit	1,264	3,313	3,521	3,193	3,006	3,113
Reserves accumulation (+ = increase)	45	-46	20	628	651	633
of which: SDR allocation		543				
Financing Sources	1,676	2,401	2,879	3,162	3,032	3,588
Capital account	313	539	535	535	533	533
Financial account	1,363	1,862	2,345	2,627	2,498	3,055
of which: FDI inflow	803	922	1,110	1,486	1,770	2,042
Net Errors and Omissions	-389	0	0	0	0	0
Financing Gap	23	866	661	659	626	157
Additional Financing Sources	23	866	661	659	626	157
IMF (ECF)	0	0	311	309	313	157
IMF (RCF)	0	566	0	0	0	0
IMF (CCRT)	23	0	0	0	0	0
World Bank	0	0	350	350	0	0
Global Fund	0	113	0	0	0	0
Other donors	0	187	0	0	313	0
Remaining Financing Gap	0	0	0	0	0	0

Sources: Tanzanian authorities and IMF staff estimates and projections.

Table 8. Tanzania: Proposed Access and Phasing Under the ECF Arrangement

Availability Date	Condition for Disbursement	Disbursements				Percent of GDP
		Percentage of quota ¹	SDRs (millions)	US dollars (millions) ²	Tsh (billions) ³	
July 18, 2022	Approval of the ECF Arrangement	29.00	115.36	155.50	359.21	0.19
March 29, 2023	Observance of the PCs for end-December 2022, continuous PCs and completion of the first review	28.50	113.37	152.83	353.03	0.19
September 29, 2023	Observance of the PCs for end-June 2023, continuous PCs and completion of the second review	28.50	113.37	152.83	353.03	0.17
March 29, 2024	Observance of the PCs for end-December 2023, continuous PCs and completion of the third review	28.50	113.37	152.83	353.03	0.17
September 27, 2024	Observance of the PCs for end-June 2024, continuous PCs and completion of the fourth review	28.50	113.37	152.83	353.03	0.15
March 27, 2025	Observance of the PCs for end-December 2024, continuous PCs and completion of the fifth review	28.50	113.37	152.82	353.02	0.15
September 26, 2025	Observance of the PCs for end-June 2025, continuous PCs and completion of the sixth review	28.50	113.37	152.82	353.02	0.14
	Total	200.00	795.58	1072.46	2477.37	1.32

Source: IMF staff projections and calculations.

¹ United Republic of Tanzania's quota is SDR 397.8 Million.² US dollar values use the exchange rate to SDR as of June 2, 2022 (1 SDR = 1.348030 US\$).³ Tanzanian shilling values use the exchange rate to US dollar as of March 31, 2022 (1 USD = 2,309.99 Tanzanian shillings).

Table 9. Tanzania: Progress on RCF Disbursements LOI Commitments

Commitment	Status
<ul style="list-style-type: none"> Resume regular reporting of COVID-19 epidemiological data to the WHO. Create pandemic-specific Integrated Financial Management Information Systems (IFMIS) codes to track RCF spending. Starting in September 2021, we also commit to publish quarterly reports of RCF spending within one month after the quarter ends on the website of the Ministry of Finance, as well as the list of financial transfers, all pandemic related public procurement contracts, and related documents, including the names of the awarded companies and their beneficial owners, as well as information on all other pandemic related spending. This website will be easily accessible and searchable and will include the contact details of Tanzania's relevant agencies in charge of receiving whistleblowers' reporting about potential conflict of interest and corruption. Completing and publishing a post-crisis audit of pandemic-related spending by December 2022. We also reiterate our commitment to publish the ongoing audit of the COVID-19 related spending financed with the debt relief received under the IMF's Catastrophe Containment and Relief Trust (CCRT) by April 2022. 	<p>Reporting resumed as of end-September 2021.</p> <p>The IFMIS code to track COVID-19 spending has been prepared with all COVID-19 spending using the project No. 5441.</p> <p>The second quarterly report was published in May 2022 and can be found here:</p> <p>The list of contracts, awarded companies (including beneficial owners) and amounts has been published and can be found here:</p> <p>Some contracts have been posted here: The authorities are working on adding more contracts and correcting missing information about the companies and the owners and adding the contact information of the agencies in charge of whistleblowers.</p> <p>The office of the Controller and Auditor General has started preparatory work to complete the report by December 2022.</p> <p>The office of the Controller and Auditor General is finalizing the report expected to be sent to the President around end-March and then Parliament and publicly available around mid-April and posted here.</p>

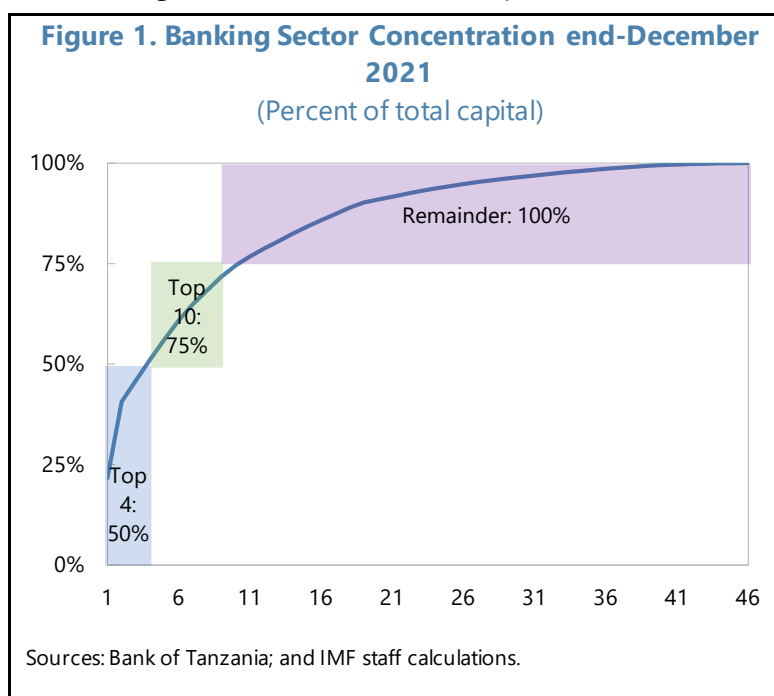
Source: Tanzania Ministry of Finance and Planning

Annex I. Recent Financial Sector Developments and Reform Program

The Tanzanian banking system is highly concentrated and dominated by commercial banking activities. The banking sector is highly dollarized relative to peer countries in the region, with foreign exchange loans and liabilities seemingly well matched for individual financial institutions. Although Financial Soundness Indicators (FSIs) at an aggregate level paint a relatively benign picture, a more granular analysis at an individual bank level reveals emerging problems related to undercapitalization, Nonperforming Loans (NPLs), provisioning and restructured loans.

A. Recent Banking Sector Developments

1. The Tanzanian banking sector consists of 46 financial institutions, and is highly concentrated, particular in commercial banking activities. The sector comprises 34 commercial banks, 5 community banks, 5 microfinance institutions, and 2 development banks. The sector is highly concentrated, with the top 4 banks accounting for over 50 percent of system-wide capital (Figure 1). Commercial banks play a predominant role in the sector and control the vast majority of system-wide assets and liabilities. However, community banks and microfinance institutions respectively play prominent roles in deposit taking and loan extension (Figure 2). Split by ownership, the majority of both deposits and loans is locally owned (Figure 3). The Tanzanian financial sector also has a vibrant fintech component. A reported 33 fintech startups operated in the country as of May 2021.¹ Six mobile money operators offer services in Tanzania, which helps foster financial inclusion throughout the country through greater access to financial services.



2. As in neighboring EAC countries, loans and liabilities in the Tanzanian banking system are both dollarized to a significant extent, although this has come down in recent years (Figures 4 and 5). A significant portion of both loans and liabilities in Tanzania are denominated in foreign exchange. Although these ratios have declined in recent years, Tanzania remains amongst

¹ For further details on the Tanzanian fintech landscape, see [‘Mapping the Tanzanian Fintech Startup Landscape’](#), UN Capital Development Fund, 27th May 2021.

the most dollarized countries in the EAC region. The extent of dollarization could affect banking sector health in the event of a significant exchange rate depreciation, due for example to credit risk from unhedged borrowers.

Figure 2. Deposits and Gross Loans Amounts by Institution Type, end-December 2021
(Percent of total)



Figure 3. Deposits and Gross Loans by Ownership, end-December 2021
(Percent of total)

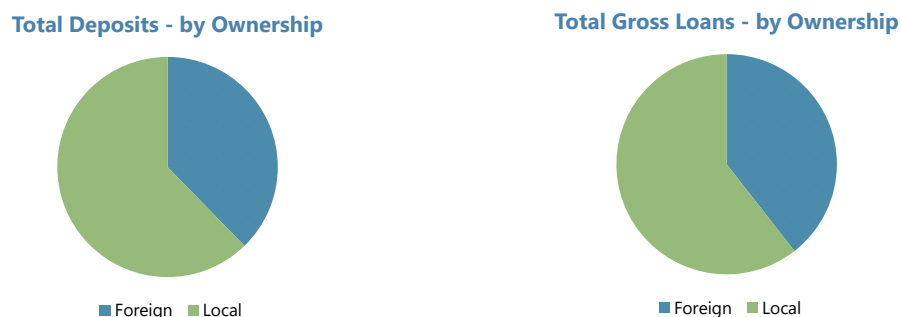
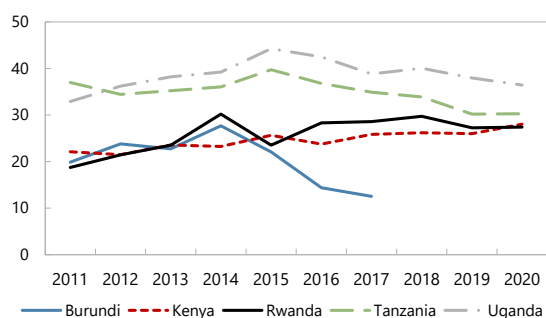
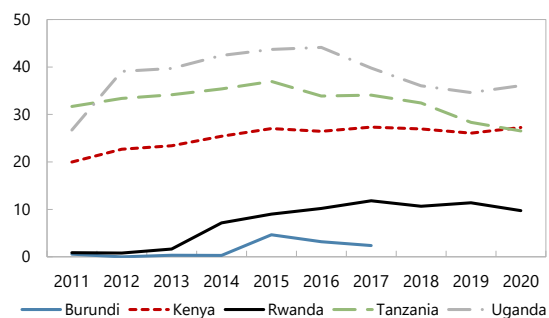


Figure 4. Foreign Exchange Liabilities in the EAC Region
(Percent of total liabilities)



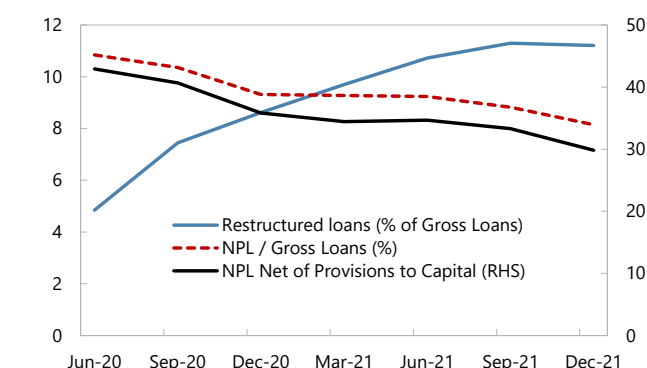
Source: Tanzanian authorities and IMF Staff calculations

Figure 5. Foreign Exchange Loans in the EAC Region
(Percent of total loans)



3. Restructured loans continued to increase throughout the pandemic, even as NPLs net of provisions in relation to capital declined (Figure 6). As part of their policy response to the pandemic, the Bank of Tanzania (BoT) permitted banks to restructure customer's loans on a case-by-case base (see Annex on Authorities' Response to COVID-19). As the pandemic has worn on, the ratio of restructured loans has increased, reaching about 11 percent of gross loans at end-December 2021. The BoT is closely monitoring restructured loans to ensure that they are adequately provisioned.

Figure 6. Provisioning, NPLs and Restructured Loans During the COVID-19 Pandemic
(percent)



Source: Tanzanian authorities and IMF Staff calculations

4. Financial Soundness Indicators (FSIs) at the aggregate level paint a relatively benign picture of financial sector health (see Main Text, Table 5).

At the aggregate sector level, banks appear to remain liquid and capital adequacy appears to be adequate. However, in recent years profitability declined, NPLs started to come down (although they remain at elevated levels), and foreign exchange vulnerabilities ticked upwards.²

5. A granular analysis based on bank balance sheet data reveals mixed results (Figure 7). Relative to their sector peers, several banks appear to be undercapitalized, have relatively elevated nonperforming loan ratios, and perform relatively poorly on liquidity and profitability ratios. There is a wide dispersion of some individual FSI indicators across banks (Figure 7, bottom pane).

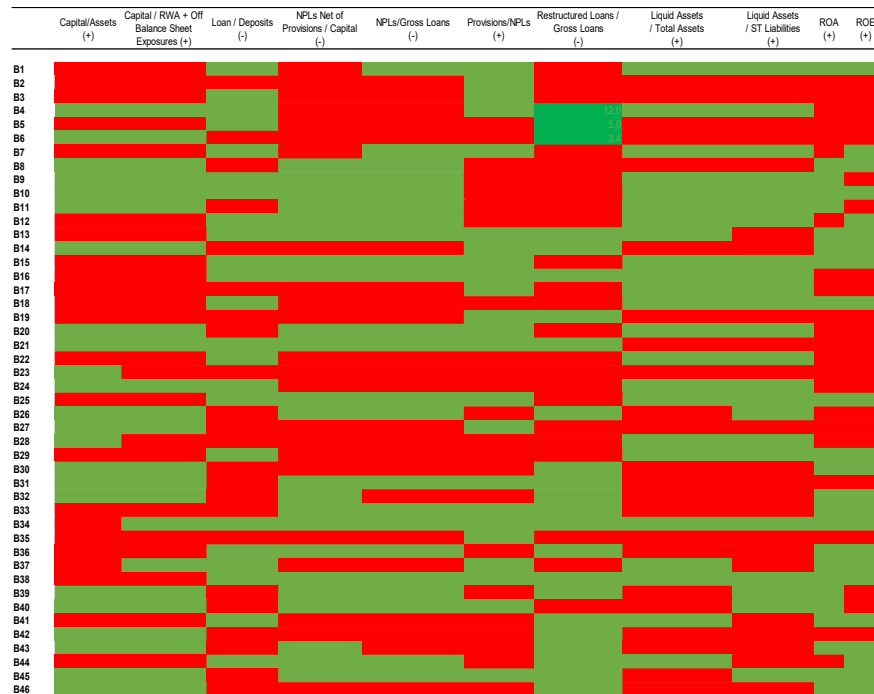
6. The war in Ukraine is also expected to affect the Tanzanian financial sector. The authorities' stress test simulation assessing the potential financial sector spillovers of the war in Ukraine suggests that a severe credit risk shock would see NPLs rise to 15 percent and above, with the capital of 7 small to medium size banks potentially falling below the 10 percent regulatory minimum. In this case, the capital adequacy ratio of the top ten banks would remain above 12 percent. A severe interest rate shock would see about 5 banks experiencing a capital shortfall. Bank liquidity would also be affected. Anecdotal evidence suggests that financial institutions with certain sectoral balance sheet exposures (for example to the energy industry) may be more at risk of experiencing adverse impacts from the Ukraine situation than others.

7. In this context, prudential supervisors must remain watchful that individual bank problems do not morph into systemic, banking sector wide issues. The authorities must step up monitoring and enforcement of prudential guidelines, particularly in relation to undercapitalization (the prompt corrective action guidelines); NPLs and restructured loans, for example strictly enforcing

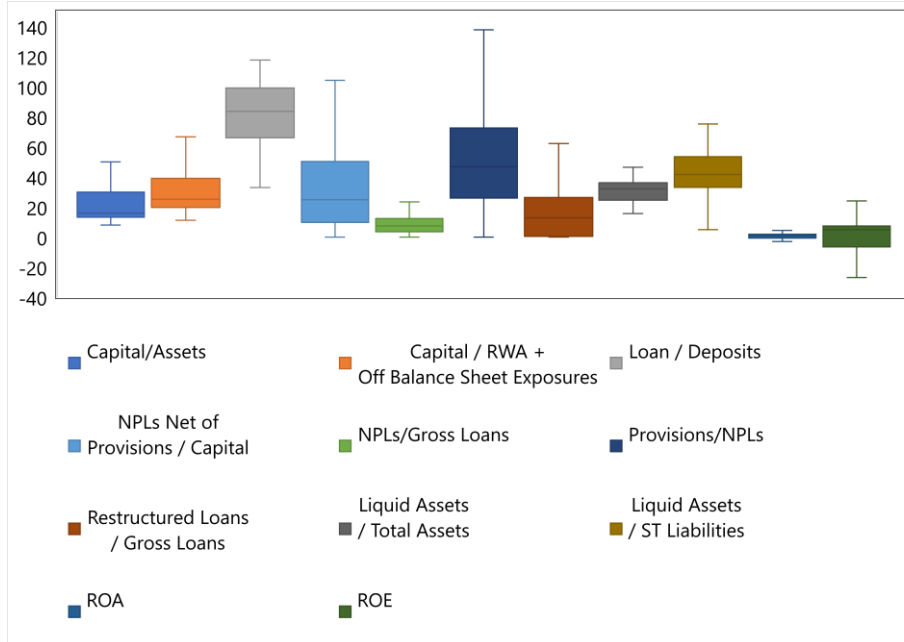
² By economic activity, trade, manufacturing, personal and agriculture loans account for over half of all NPLs.

the limit on the number of times that loans can be restructured and ensuring that NPLs are correctly measured (they may be underreported in the event of evergreening); and provisioning. Regulators need also to be cognizant of potential fiscal-financial risks related to SOE borrowers. Swift action on these fronts would nip in the bud any potential financial stability problems before they spill over to the sector as a whole and assist in reducing credit risk that may contribute to elevated bank lending rates and a weak interest rate monetary policy channel.³

³ As of 31st March 2022, the four undercapitalized banks had a combined market share of 8.5% of total banking sector assets. The capital shortfall accounted for 0.06% and 0.22% of GDP and banking sector assets respectively. The extent of their interlinkages with other banks remains to be assessed.

Figure 7. Detailed Financial Soundness Indicators, end-December 2021 (percent)

Sources: Tanzanian authorities and IMF Staff calculations. Thresholds for each indicator are the median over all banks in the sector. Green indicates that the indicator for an individual institution is above (+) or below (-) the respective threshold.



Sources: Tanzanian authorities and IMF Staff calculations.

B. Financial Inclusion

8. The Bank of Tanzania (BoT) coordinates and regulates financial inclusion activities throughout the country. Based on the findings of the 2017 FinScope survey, Tanzania developed the Second National Financial Inclusion Framework (2018 – 2022). During this period, the BoT introduced several reforms to further promote and better regulate financial inclusion activities throughout the country. These included enacting the microfinance law and regulations; developing financial consumer protection regulations (2019); launching the financial services registry; launching the Women Affairs Committee for Financial Inclusion; and implementing the first phase of the Tanzania Instant Payment System (TIPS).

9. Tanzania has made considerable progress in improving financial inclusion (Table 1). The most recent FinScope survey conducted for Tanzania in 2017 indicates that the country has made substantial progress in improving a variety of financial inclusion indicators.⁴

Table 1. Tanzania: FinScope Survey Highlights

	2013	2017
Percent of population with access to formal financial services	57	86
Percent of population using formal financial services	57.7	65
#of Mobile Network Operators (MNO) agents	153,544	379,254
#of bank agents	591	7,717
Point of sales	2,552	8,474
#of ATMs	1,481	2,017
#of insurance companies	29	31
#of securities brokers	7	12
#of electronic money issuers	4	6
% of the adult population with a registered M-wallet	55	76
% of adults saving through mobile wallets	21	35
% of adults who save formally	30.4	43
% of adults who save in banks	13	16

10. Technological developments will help address some of the ongoing constraints on financial services usage and financial inclusion in Tanzania. The chief constraints on financial services usage and financial inclusion in Tanzania include a lack of financial literacy, unfavorable social norms, collateral constraints, and challenges in reaching unbanked populations in rural areas. Technological developments will assist in addressing these areas. For example, some Tanzanian financial institutions are looking to expand digital solutions such as mobile lending to reach the unbanked population in particular sectors such as agriculture. The planned introduction of a hybrid retail/wholesale Central Bank Digital Currency (CBDC) in Tanzania is also intended to enhance financial inclusion.

⁴ The next FinScope survey for Tanzania is planned for 2023. Usually, the survey is conducted every three years, however the next survey for Tanzania has been delayed due to the COVID-19 pandemic, parliamentary elections, and the national census.

C. Financial Sector Reform Program

11. The FSAP report foresaw several key reform priority areas.⁵ These included measures to reduce nonperforming loans and increase provisioning and buffers to manage liquidity, credit, and concentration risks; strengthening banking supervision and problem bank oversight; and combining measures to deepen financial markets and modernize the monetary policy framework with new prudential tools to enhance systemic liquidity management. The below table reports on progress made on implementing these recommendations as of May 15, 2022, as reported by the authorities.

12. Despite the progress made in reform implementation, much work remains to be done. Broadly speaking, the Tanzanian authorities have made much progress in implementing the FSAP recommendations. Nevertheless, much work remains to be done, for example to enhance the authorities' solvency stress test and network analysis capabilities and implement risk-based supervision. In this context, further addressing supervisory capacity constraints, as well as ongoing technical assistance support from partners, including the IMF, will be key to making further reform progress. The Fund continues to stand ready to further assist the Tanzanian authorities in this regard.

Table 2. Implementation Status of FSAP Recommendations as of 15th May 2022

Recommendations	Steps taken to date and actions planned (including timeframes)
Financial Stability Surveillance	
Expand data collection for liquidity, large exposures, currency, and contagion risk and enhance verification of data quality.	Bank of Tanzania (BoT) has expanded data collection and improved on submission quality, with each bank and financial institution assigned a Relationship Officer responsible for regular data verification. Currently, data is collected from banks through EDI on daily, weekly, monthly and quarterly frequency. However, BoT has embarked on Real Time Data collection and analytics system and with data requirements and API specifications to be completed in the financial year 2021/22. Further improvements are expected when Bank of Tanzania implements Basel II/III by December 2023. The ongoing real time data collection project is expected to provide solutions for issues pertaining to disaggregation of maturities for assets and liabilities in both local and foreign currency, granular data collection for inter-connectedness that will be used for contagion risk assessment.

⁵ United Republic of Tanzania: Financial Sector Assessment Program, December 4, 2018, available at <https://www.imf.org/en/Publications/CR/Issues/2018/12/04/United-Republic-of-Tanzania-Financial-Sector-Assessment-Program-Press-Release-Staff-Report-46418>.

Table 2. Implementation Status of FSAP Recommendations as of 15th May 2022 (continued)	
Strengthen framework for in-house stress testing and develop framework for constrained, bottom-up stress testing.	Technical assistance (TA) on scenario development for aggregated credit risk on probability of default and loss given default was conducted in April 2019. The Bank of Tanzania, utilizing internal technical team conducted stress testing in June 2021, September 2021, December 2021 and March 2022, using satellite models following development of macro-economic and financial shocks. However, a review is required on scenario and shocks development with possible IMF TA on macro and multi-period stress testing. In addition, the Bank has put in place a draft Stress Testing Framework which will be finalized in financial year 2022/23. Further, BoT has issued Stress Testing Guidelines for banks and financial institutions effective from 1 st July 2022 to guide the banks and financial institutions in conducting stress tests, results usage mitigation plan preparation.
Expand in-house capacity for financial stability analysis, including through training and technical assistance.	IMF facilitated a training on Network analysis for EAC Central Banks in September 2019. It was agreed that each Central Bank should adopt "Matlab", a tool to assess interlinkage. BoT, using a Matlab software, conducted Network Analysis for banks in December 2020 and June 2021. In addition, a draft Network Analysis Framework is in place to facilitate conduct of interconnectedness. The framework is expected to be finalized in 2022/23 financial year.
Banking Supervision	
Ensure adequate staffing of the supervision function.	BoT employed 16 staff to the supervision function to address the shortage (30). Further, in 2020 and 2022, 10 and 9 staff, respectively, were deployed to continue addressing on the shortage. Over the last two years, several in-house trainings on offsite and onsite supervision were conducted.
Follow-up NPL guidance issued to banks in February 2018 to further clarify conditions under which NPLs may be restructured.	This was one of the measures undertaken to increase credit to the private sector and reduce non-performing loans. BoT left restructuring criteria to banks to weigh the viability of restructuring of loans based on the needs and conditions of their customers, and limited the number of times that a loan may be restructured.

Table 2. Implementation Status of FSAP Recommendations as of 15th May 2022
(continued)

Revise the RBS framework to introduce a single non-formulaic risk rating system.	BoT uses two rating systems i.e. Supervisory Risk Assessment Framework (SRAF) and CAMELS (31, 32). The plan is to merge CAMELS and SRAF into a single rating framework by the end of December 2024. The merging is expected to commence upon completion of the implementation of Basel II and III standards. BoT will thereafter conduct training for examiners and commercial banks on the new rating framework. Further, BSIS reports will be modified to accommodate new rating framework.
Enforce existing Prompt Corrective Action regulations and introduce internal guidance to ensure timely action to deal with identified problem banks.	Prompt Corrective Action regulations are in place (33) and enforcement is ongoing. The regulations specify actions to be taken for banks with capital deficiencies.
Develop and implement an enforcement policy to ensure effective, consistent and timely corrective action.	Current regulatory framework including Risk Based Supervision provides adequate guidance on taking consistent and timely corrective action.
Managing Systemic Liquidity (including ELA)	
Develop a coherent and transparent operational strategy emphasizing attainment of BoT's price stability objective.	BoT developed an IBCM trading platform, which went live in March 2019. The IFEM code of conduct was reviewed in collaboration with commercial banks and is operational since May 2020. The draft operational framework for interest rate-based monetary policy is undergoing an internal review process before it is cleared by the Management. The Tanzania Annex for adopting GMRA 2011 has been approved by the BoT Management. BoT has also enhanced the Central Depository System Web Portal, an electronic trading platform to include a module that facilitates operations of horizontal repo transactions.
Enhance surveillance and prudential toolkit for oversight and management of FX liquidity risks and support banks' risk management	Prudential instruments are in place e.g. swaps. Other prudential tools have been identified, including forwards. There are plans to conduct a survey among EAC Partner States and banks on the pricing of derivative instruments. BoT plans to adopt guidelines for swaps based on International Swaps and Derivatives Associations (ISDA) Master Agreement in 2022-23 financial year.

Table 2. Implementation Status of FSAP Recommendations as of 15th May 2022 (continued)	
Develop capacity to conduct ELA by compiling comprehensive operational Framework.	A draft Emergency Liquidity Assistance (ELA) framework is in place incorporating eligible collateral for accessing ELA with an operational framework. Strengthening the ELA framework operationalization is underway, in which a framework to identify and monitor DSIBs has been approved and will be operationalized in the 2021/22 financial year. BoT has put in place a draft resolution funding concept note. Requested technical assistance from the World Bank for finalization. A draft ELA framework that will be in line with existing laws is expected to be finalized during 2022/23 financial year.
Establish arrangements for obtaining government indemnity for ELA operations under uncertainty regarding solvency of borrowing entity.	The BoT, Cap. 197 (41) gives authority to the Bank of Tanzania to provide ELA subject to ministerial approval and lodgment of debt securities. BoT has initiated consultation with Ministry of Finance and Planning to secure government indemnity for ELA operations.
Deposit Insurance and Financial Crises Prevention and Management	
Appoint a Board to the DIB.	DIB board of directors was appointed in August 2018.
Operationalize the TFSF MoU for preparing for, and coordinating actions during, a financial crisis.	BoT has a draft banking sector crisis management framework. Through the Forum, each regulator has been tasked to prepare and submit contingent plans to the Bank of Tanzania during 2021/22 financial year. Other activities to be carried out by the TFSF include to coordinate and operationalize a crisis management communication strategy, carry out awareness sessions for internal and TFSF members and conduct a crisis simulation exercise through World Bank technical assistance.
DIB be prepared to make pay outs within a seven-day period	Preparation of draft System Requirement Specifications for Phase One of the project is done. Project to automate DIB business operations, which will accommodate single customer view to facilitate quick verification and compilation of depositors' data for pay out purpose has been initiated. A no objection of E-Government Agency (EGA) to proceed with the project has been granted and the concept note has been approved.
Ensure that the legal framework provides government the ability to provide official financial support under strict conditions.	BoT continues engagement with the MoFP on the legal framework for providing financial support.

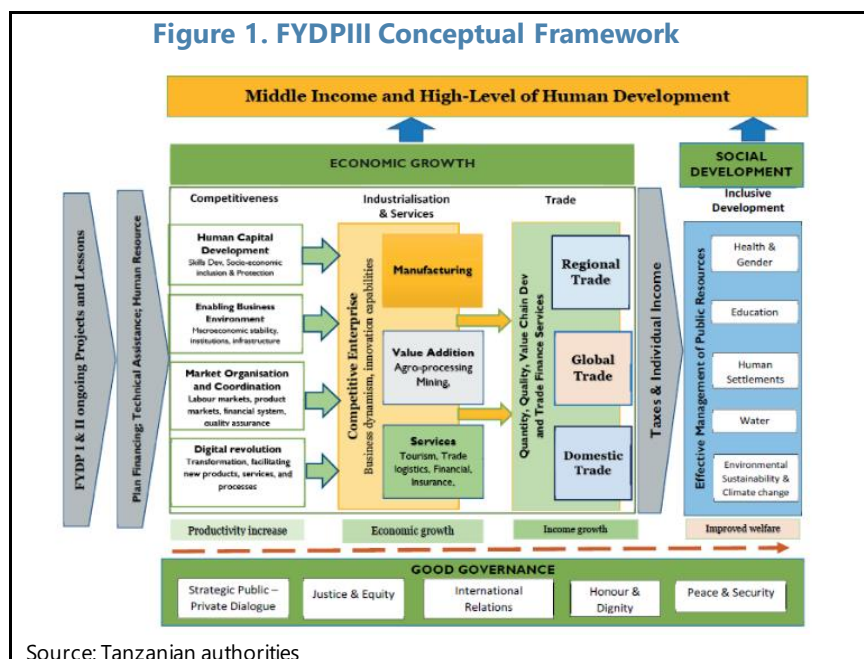
Table 2. Implementation Status of FSAP Recommendations as of 15th May 2022 (concluded)	
AML-CFT	
Adopt the NRA report and establish an action plan.	The NRA report was adopted in May 2019 and uploaded to the BoT website. An Action Plan was approved by the MoFP and is accessible on the Financial Intelligence Unit's website.
Implement risk-based AML/CFT supervision.	BoT conducted Awareness on AML/CFT to MLROs, selected staff from (Directorate of Finance, Directorate of Banking, Directorate of Financial Markets, Directorate of Financial Sector Supervision, Directorate of National Payment Systems, Risk Department, Directorate of Legal Services). Database on AML/CFT statistics and AML/CFT risk-based supervision procedures are activities to be carried out in 2023/24 financial year. Further, AML/CFT examination procedures to be reviewed taking to consideration new developments in law.
Source: Bank of Tanzania	

Annex II. Tanzania's Third Five Year Development Plan

Development of the highly ambitious Third Tanzania Five Year Development Plan (FYDPIII) followed a thorough evaluation of progress achieved in earlier development plans, and a series of stakeholder consultations including with the private sector, civil society, NGOs, and development partners. The FYDPIII seeks to strengthen Tanzania's progress towards becoming a competitive, middle-income country, while at the same time assuring inclusive growth and addressing the fallout of the COVID-19 pandemic and climate-change related natural disasters on the Tanzanian economy.

1. The Third Tanzania National Five-Year Development Plan 2021/22 – 2025/26 (FYDPIII) aims at boosting progress towards Tanzania becoming a competitive, semi-industrialized, middle-income country, while at the same time strengthening human capital and assuring inclusive growth (Figure 1).¹ Factors such as the impact of the COVID-19 pandemic, and climate change-related disasters, notably floods, hindered progress towards achieving the goals of earlier development plans (FYDPI and FYDPII). Implementing the FYDPIII is designed to address the aftermath of these significant events and make further progress towards achieving Tanzania's development vision.

2. The FYDPIII envisages an ambitious set of implementation outcomes (Table 1). For example, the plan seeks accelerate economic growth to average above 8 percent over the medium term; improve the business environment, public revenues, and exports; reduce poverty; improve the human development index; and reduce mortality. Each sub – component of the FYDPIII has its own set of targets, against which progress will be measured.



3. The FYDPIII identifies several priority intervention areas to achieve its objectives. These areas are to be targeted in collaboration with development partner and other stakeholders:

¹ See [Tanzania National Five Year Development Plan 2021/22-2025/26](#). The FYDPIII builds on progress made in earlier development plans (the FYDPI and FYDPII) and is also consistent with other national planning documents, for example, the National Financial Inclusion Framework, and the National Strategy for Gender Development.

- Underpinned by macroeconomic stability, **realizing an inclusive and competitive economy** entails completing an ambitious ongoing public sector investment program in key infrastructure projects² to support market access and ease social service delivery; and addressing institutional bottlenecks through streamlining business environment procedures.
- Deepening industrialization and service provision** through interventions in diverse sectors, including tourism, construction, agriculture, manufacturing, health, and education, with an emphasis on protecting the environment and promoting financial inclusion and the digital economy.
- Investment and trade promotion**, to consolidate business environment reforms under the umbrella of the Blueprint, address bottlenecks impacting investment and business conduct and simplify business and investment processes and boost regional and international trade.
- Improve human development and promote inclusive growth** through targeted interventions in education, health, water supply and sanitation, urban planning and housing, food security/nutrition, and social protection.
- Skills development** to specifically target improvements in technical education, vocational training, and workforce skills to enhance the economy's productivity and competitiveness.

Table 1. Tanzania: Selected FYDPIII Socio-Economic Targets

	2019/20	2025/26
GDP Growth	5.2	8.0
Inflation Rate	3.3	4.4
Domestic Revenue / GDP	14.7	16.9
Tax Revenue / GDP	12.9	14.4
Budget Deficit (%)	-2.6	≤ -3.0
Public Debt (% of GDP)	27.9	28.2
Extended Broad Money Growth (%)	≥ 10.0	≥ 10.0
Foreign Reserves (months of imports)	≥ 4	≥ 4
Human Development Index	0.57	0.6
Proportion of Population Below		
Basic Need Poverty Line (national)	26.4 (2018)	22
Infant Mortality Rate per 1,000 births	36	30
Share of exports in GDP (%)	16.1	28

Source: Tanzanian authorities.

4. The FYDPIII's ambitious scope is reflected in the plan's large resource envelope. The plan's financing needs over its 5-year lifespan amounts to about Tsh 15 tn (about US\$50bn or 70 percent of GDP). Two-thirds of the plan's financing is expected to come from public resources (85 percent of which are to be raised domestically), with the remainder to be financed by the private sector (split evenly between domestic and foreign private sources).

5. In parallel with the ongoing implementation of the TCRP (see Annex on Authorities' Response to COVID-19) and existing transport infrastructure projects, the Tanzanian authorities have identified several priority investment areas. The authorities have committed to implementing FYDPIII in a series of rolling annual plans. Areas to be initially addressed in the first tranche of projects include:

² Key projects in the public investment program include the Standard Gauge Railway (SGR), Ruhidji and Rumakalin Hydropower Projects, the Lindi LNG plant, investments in the national airline ATCL, the Mkulazi sugar processing plant, and development of special economic and export processing zones.

- Social sector investments, including water and sanitation, health, and education.
- Irrigation for crop production, allowing two harvests per year.
- Water, grazing, and veterinary services for livestock production and to ensure the livelihoods of pastoralists.
- Boat and other supplies for the fishing industry.
- Investments in the tourism sector.
- Support for petty traders, especially through constructing formal markets to decongest and improve the informal sector business environment.

6. Promoting private sector development and its involvement is important for the implementation of the FYDP III. The FYDP III considers the limited private sector participation in various development activities as a key obstacle in attaining key targets. In achieving the priority areas of the FYDP III, the Government intends to take solid steps in continue to strengthen the business and investment enabling environment through effective policies to facilitate free private sector competition (Box 1).

Box 1. Reinvigorating the Private Sector

In the past, business environment and competitiveness factors were an obstacle to investment and private sector growth. Legislative initiatives introduced around 2017 had an adverse impact on the business environment.¹ Provisions on natural resource and PPP legislations, including a ban on foreign arbitration and limits on foreign ownership, dampened the investment climate. Policies to reduce tax evasion and boost revenues led to intrusive and inefficient administration practices, resulting in the accumulation of unpaid tax refunds, and increasing compliance costs. Investor confidence and competitiveness have also been affected by unpredictable and burdening regulations, fiscal arrears, and trade barriers.²

There has been recent progress in some of these areas, but more is needed. In 2019, Tanzania began implementing a “Blueprint for Regulatory Reforms” and removed about 80 percent of overlapping fees and charges. However, progress in streamlining licenses and permit has been much slower. In 2021, the government relaxed regulations for foreign work permits, including expanding the number of permits per company and extending the validity of the permits. They also implemented an electronic verification of VAT refunds accelerating the process and providing much-needed liquidity to the private sector. The government is also preparing amendments to the Investment Act and the National Investment Promotion Policy in FY2022/23.

¹ These include the Natural Wealth and Resources (Permanent Sovereignty) Act No. 5 and the Natural Wealth and Resources Contracts (Review and Re-negotiation of Unconscionable Terms) Act No. 6.

² Since 2016 there have also been some indications of a more interventionist stance in important agricultural markets, including the 2016-17 government barring the export of unprocessed coffee beans and centralizing the import of fertilizers, and the 2018 purchase of the entire cashew nut crop at a higher price higher than the one prevalent in the market.

Annex III. External Sector Assessment¹

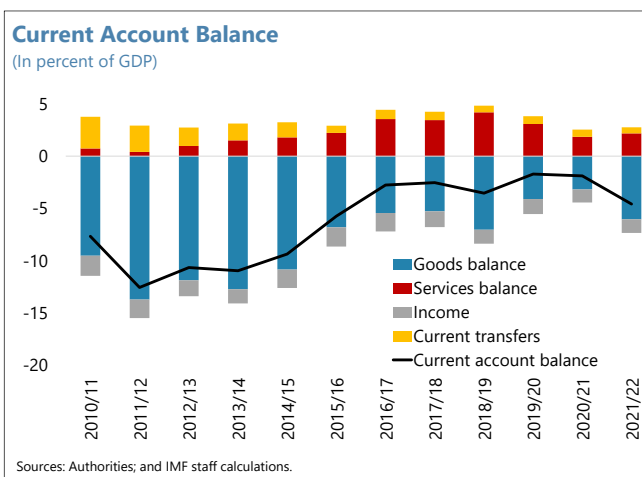
Overall Assessment: Tanzania's external position in 2021 is assessed to have been stronger than the level implied by fundamentals and desirable policies, consistent with its relatively better economic performance, over the last year, compared to peers. International reserves also remained above the adequate level as estimated by the ARA methodology. Going forward, the external positions are expected to deteriorate significantly as the continuing COVID-19 pandemic and the impact of the war in Ukraine are triggering an urgent balance of payments need. The ECF arrangement, if approved, would help close the balance of payments gap and maintain reserve adequacy.

Potential Policy Responses: Going forward, it will be important to ensure exchange rate flexibility which can help as a shock absorber and cushion the economy from external shocks, allowing the exchange rate to gradually appreciate to bring the current account to a level consistent with the norm over the medium term. Moreover, high-yield public investment to address large infrastructure deficit would also help close the current account gap. While the authorities continue with their efforts to move towards an interest rate-based monetary policy framework, a combination of active bank liquidity management relying on open market operations and prudent reserve management will help stabilize real exchange rate developments. Maintaining an adequate level of reserves is important in light of considerable uncertainties.

Current Account

Background. The current account deficit is estimated to have widened to 3 percent of GDP in 2021, up from 1.8 percent of GDP in 2020, as rising imports more than offset an increase in exports.

The current account deficit also reflects a low level of national savings relative to high public investment. The external position is projected to deteriorate further in the near term amidst pandemic-related uncertainty and the spillovers from the war in Ukraine, which are expected to keep tourism well below its pre-crisis levels. Moreover, a combination of expanding capital-goods imports for development projects and sharp increase in commodity prices would push the import bill up. Consequently, the current account deficit is expected to remain high at 4.3 percent of GDP in 2022/23 and slowly decline over the medium-term.



Assessment. The External Balance Assessment methodology suggests external positions are stronger than implied by fundamentals and desirable policies. Based on the Current Account (CA) model, the cyclically adjusted CA is -4 percent of GDP in 2021 and the CA norm is -6 percent of GDP. This indicates a current account gap of 2 percent of GDP in 2021, after including adjustors to the current account for the temporary impact of the pandemic on tourism. The REER model has implied a CA gap of 2.6 in 2021. Both analyses suggest that the external position is stronger than the norm, which values are consistent with fundamentals and desirable policies.

¹ Due to data constraints, the External Sector Assessment does not include an assessment of the position and trajectory of Tanzania's Foreign Assets and Liabilities.

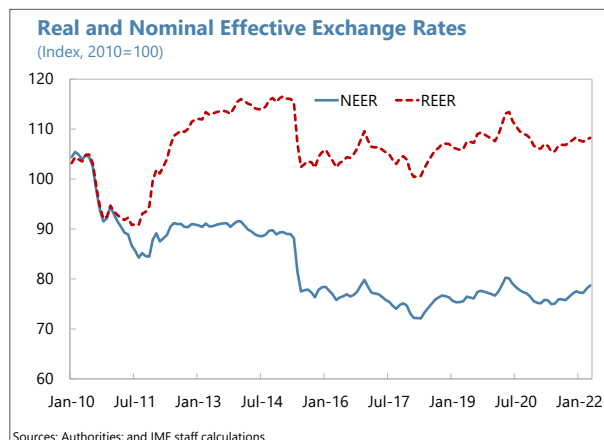
Tanzania: Model Estimates for 2021 (Percent of GDP)

	CA model	REER model
CA-Actual	-3.2	
Cyclical contributions (from model) (-)	0.0	
COVID-19 adjustor (+) 1/	-0.9	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	-4.0	
CA Norm (from model) 2/	-6.0	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-6.0	
CA Gap	2.0	2.6
o/w Relative policy gap	2.1	
Elasticity	-0.12	
REER Gap (in percent)	-16.6	-21.6
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.9 percent of GDP).		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

Real Exchange Rate

Background. The Tanzanian shilling depreciated 11 percent in real terms (more than 20 percent in nominal terms), largely in response to the strengthening of the U.S. dollar vis-à-vis major currencies in 2015. The real exchange rate has remained relatively stable since then, supported by prudent macroeconomic policies. The average real effective exchange rate depreciated by about 3 percent in 2021.

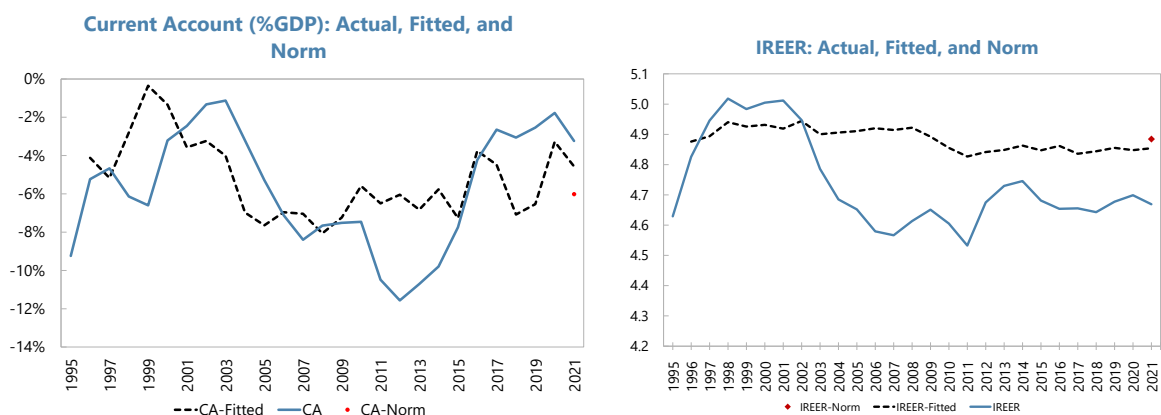
Assessment. The model indicates an undervaluation of the real effective exchange rate in 2021.



- The CA approach indicates that the real effective exchange rate is undervalued in 2021. Using the elasticity of the trade balance to REER changes of -0.12, the Tanzanian shilling would need to appreciate by 16.6 percent.
- The REER approach also points to an undervaluation of the real exchange rate. Staff does not believe results from the REER model are appropriate for Tanzania's assessment as model methodological revisions have resulted in a level-shift of the fitted values and a permanent undervaluation.

Overall, staff assess the real effective exchange rate to be undervalued based on the CA approach but believes that the misalignment is lower than what the model suggests. This is due to uncertainties associated with incorporating the effects of the global pandemic, and the large impact of the policy gaps on the CA gap. For example, including the country sample mean in the desired capital control P^* as suggested in the estimation is not considered appropriate for Tanzania, given the efforts to attract more capital inflows

to finance substantial infrastructure needs. Lowering the level of desirable capital controls significantly reduces the policy and CA gaps, resulting in a smaller misalignment than what the model suggests.



Capital and Financial Accounts: Flows and Policy Measures

Background. In earlier years the large current account deficit was financed mainly by FDI, grants, and concessional public-sector borrowing. More recently, both grants and FDI have declined, reflecting an uncertain and weak business environment. Increasingly, large infrastructure projects are being financed with non-concessional public sector borrowing.

Assessment. The closed capital account has made the financial system less vulnerable to global financial conditions. Going forward, FDI inflows are expected to pick up driven by improved business conditions as well as investment related to public project.

International Reserves

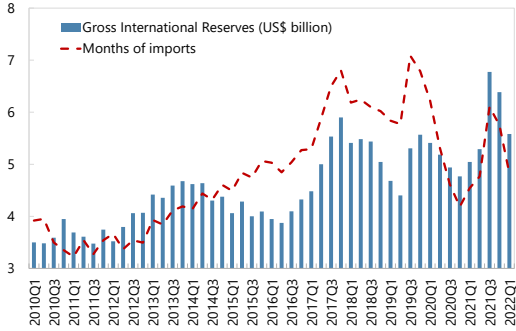
Background. Tanzania's international reserves were boosted by new SDR allocation (US\$543 million) and RCF disbursements (US\$566 million) in 2021. However, due to rising import bill and payments on debt service, international reserves are expected to decline from previous fiscal year and stand at around US\$5.2 billion at the end of FY2021/22, equivalent to 4.5 months of prospective imports.

Assessment. The current level of international reserves is assessed adequate, though the projected reserves in the near term are subject to significant uncertainties. Reserve coverage (4.5 months) is closer to the upper bound of the range in the ARA metric (3.6 to 5.4) for credit-constrained economies that compares the marginal costs of holding reserves against marginal benefits. The authorities' own lower bound of reserves' cover is 4.5 months of prospective imports of goods and services, which is also consistent with the East African Monetary Union convergence criteria.

The ARA-CC approach may not fully capture all risks. As discussed in previous external sector assessments, staff recommends keeping international reserves higher than the level suggested by the ARA metric as Tanzania faces more risks than those factored in the model, for example, plans for higher borrowing from financial markets and to liberalize the capital account and high level of dollarization in the banking system. Besides the common risks of the pandemic and the war in Ukraine, Tanzania remains highly vulnerable to larger-than-expected shocks to the tourism sector, elevated oil prices, and sharp fall in gold prices. Should any of these risks materialize reserve coverage would likely fall below the lower bound of 3.6 months.

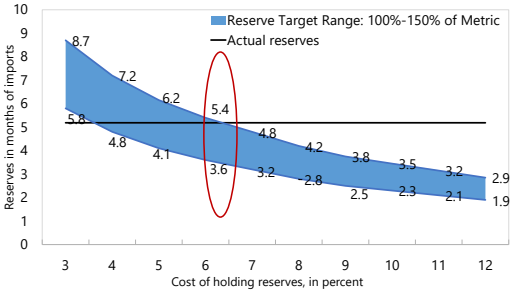
Gross International Reserves

(Billions of USD, and months of imports)



Tanzania Optimal Reserves 1/

(Target range and current levels, in months of imports)



1/ Assuming no IMF program and the unconditional probability of a large shock event is 0.5.
Source: IMF staff calculations.

Annex IV. Risk Assessment Matrix¹

Source of risks	Likelihood	Expected impact if realized	Possible policy response
Conjunctural Risks			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Broader sanctions on Russia combined with Russian countersanctions lead to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers.	High	<p style="text-align: center;">High</p> <ul style="list-style-type: none"> Higher import bills on commodities will worsen external position, push up domestic prices and dampen economic activity. Disrupted tourist flows from Russia and Ukraine and decline in tourists from long-haul destinations. 	<ul style="list-style-type: none"> Provide subsidies on the importation of petroleum products including diesel and kerosine. Reduce import duty on cooking oil. Enhance tourism promotion within the regional markets.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up, which leads to bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises.	High	<p style="text-align: center;">High</p> <ul style="list-style-type: none"> Higher food and energy prices will hurt domestic economic activity and corporate profits. Rising prices would erode household's purchasing power and increase poverty levels. 	<ul style="list-style-type: none"> Ramp up domestic production of some imported commodities, including cooking oil, and wheat. Provide targeted fiscal support as needed and avoid policies that could distort market incentives. Tighten monetary policy if needed to combat inflation.
Abrupt growth slowdown in China. A sharp slowdown of economic activity in China may have spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels	Medium	<p style="text-align: center;">Medium</p> <ul style="list-style-type: none"> Lower trade flows and fewer investment inflows from China. 	<ul style="list-style-type: none"> Improve business environment and competitiveness to attract more foreign investment. Boost regional and international trade.

¹ Based on the latest G-RAM (April 2022). The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of risks	Likelihood	Expected impact if realized	Possible policy response
Conjunctural Risks			
Outbreaks of lethal and highly contagious Covid-19 variants. Outbreaks in low-vaccination-rate countries force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciation and debt stress in some countries.	Medium	Medium <ul style="list-style-type: none"> Slower-than-expected recovery in Tanzania's tourism sector. Businesses providing services in tourism and related industries will face solvency problems. 	<ul style="list-style-type: none"> Accelerate targeted government fiscal and financial support to affected businesses and households. Scale-up health response to the pandemic in line with the National Deployment and Vaccination Plan (NDVP) and the National COVID-19 Response Plan (NCRP). Collect and publish more detailed health data on the pandemic to inform decisions and the public.
Structural Risks			
Cyberthreats. Cyberattacks on critical physical or digital infrastructure trigger financial instability or disruptions in socio-economic activities.	Medium	Medium <ul style="list-style-type: none"> Interruption in economic activity, loss of important data and endanger financial stability. 	<ul style="list-style-type: none"> Step up efforts to strengthen cyber security. Ensure financial service providers frequently test the resilience of their IT systems.
Natural disasters related to climate change. Higher frequency of natural disasters causes severe economic damage to smaller vulnerable economies and accelerate emigration.	Medium	Medium <ul style="list-style-type: none"> Lower agriculture sector output, increase in poverty levels, need for increased development and social spending. 	<ul style="list-style-type: none"> Implement counter-cyclical fiscal and monetary policies, provide fiscal support as needed. Improve economic resilience to shocks, build fiscal and external buffers. Include contingency spending plans in fiscal framework and strengthen food security programs.
A hurried scaling-up of large infrastructure projects.	Medium	Medium <ul style="list-style-type: none"> Low return on public investments, insufficient priority spending, and higher public debt vulnerability. 	<ul style="list-style-type: none"> Implement all provisions of the Public Investment Management Manual and improve costing, evaluation, and prioritization of projects.
Delays in improving fiscal management.	Medium	High <ul style="list-style-type: none"> Low public investment and weak growth. 	<ul style="list-style-type: none"> Implement fiscal structural reforms to improve tax administration and policy and expenditure management.
Delays in implementing key structural reforms.	Medium	High <ul style="list-style-type: none"> Subpar medium-term growth and fail to create employment. 	<ul style="list-style-type: none"> Accelerate the implementation of reforms involving experts and stakeholders to improve the business climate (including revising legislation) and attract foreign investment.

Annex V. Revenue Mobilization and the Tax Frontier in Tanzania

1. Despite development achievements in recent years, tax revenues as share to GDP remain low in Tanzania. In 2019, Tanzania recorded the sixth lowest tax revenue ratio to GDP among 42 SSA selected economies, at 11.4 (Panel I of Figure 1), below the average tax revenue ratio of other EAC members (15.6 percent of GDP) and the SSA average (17.7 percent of GDP). It is also lower than estimated thresholds in the literature (of around 13 to 15 percent of GDP) which enable developing economies to have their own domestic resources to start an accelerated process of growth and development (see, for example, Gaspar, Jaramillo, and Wingender, 2016).²

2. There is potential for increases in Tanzania's tax revenue and improvements in collection. Econometric estimations of the tax-revenue-ratio-to-GDP stochastic frontier in Tanzania suggest a range for the potential tax revenue in the country between 17.5 and 19.6 percent of GDP (Panel II of Figure 1).³ Although Tanzania's estimate is below the potential range of other country groups in SSA, it is closer to the EAC's tax-revenue-ratio-to-GDP potential. Starting from a lower base, reaching its tax-collection potential could create a substantial fiscal space for Tanzania to pursue much needed social and development spending, while keeping its debt at sustainable and relatively low levels. An implementation of development spending plans without an increase in domestic revenue mobilization could otherwise lead to debt sustainability risks going forward.

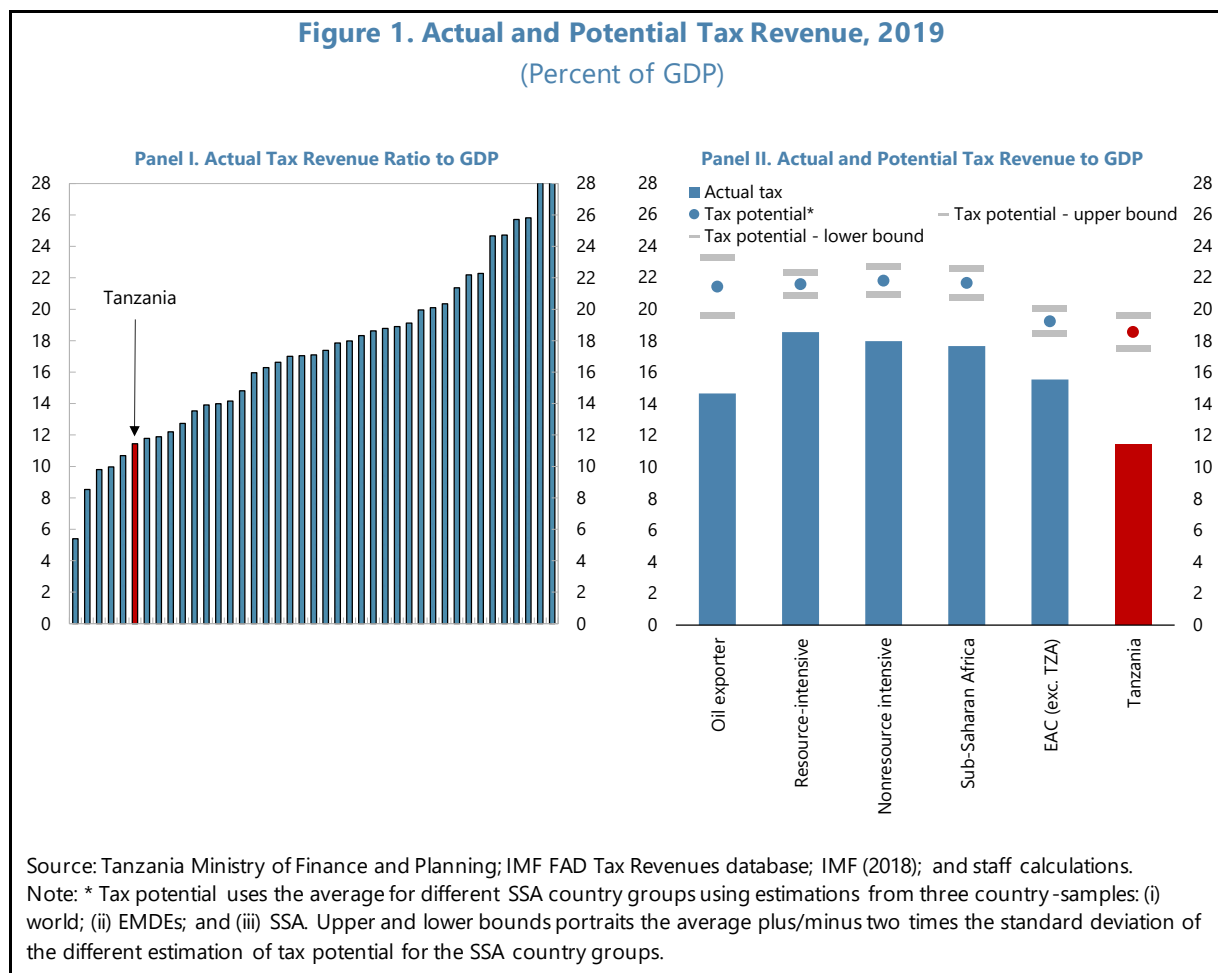
3. The ECF-supported program envisages tax and fiscal structural reforms that would gradually increase Tanzania's tax revenue ratio to GDP, but reaching this potential level will be a gradual process. Increases in revenues during the ECF arrangement are expected to come from fiscal structural reforms, which usually gradually deliver higher revenue collection (Gaspar and Selassie, 2017).⁴ The program is expected to increase the tax-to-GDP ratio above its pre-pandemic level in the fiscal year FY2019/20 (12.1 percent of GDP) by the ECF arrangement's second year (FY 2023/24). From the tax side, excise duties, VAT reforms, the income tax, and digital taxes are those expected to deliver faster and larger increases revenues. Concomitantly, fiscal structural reforms would improve accounting systems and transparency in revenue collection. That is the case, for example, for VAT refunds, whose arrears are normally high and for which there remain statistical

² See Gaspar, Vitor, Laura Jaramillo, and Philippe Wingender, 2016. "Tax Capacity and Growth: Is there a Tipping Point?" IMF Working Papers 2016/234, International Monetary Fund.

³ We apply the methodology of estimating the stochastic frontier as in IMF, 2018. "Domestic Revenue Mobilization in Sub-Saharan Africa: What Are the Possibilities?" Sub-Saharan African Regional Economic Outlook, Chapter 2, April. The range for the potential tax revenue to GDP is obtained through estimations using three country samples (world, emerging and developing economies, and SSA economies). The point estimate for Tanzania in Panel II of Figure 1 reports the average potential tax ratio to GDP using different estimations, with 95% confidence intervals constructed for upper and lower bounds. For other country groups point estimates and bounds are obtained by averaging the country group estimates.

⁴ See Gaspar, Victor and Abebe Alemro Selassie, 2017. "Taxes, Debt and Development: A One-Percent Rule to Raise Revenues in Africa." IMF Blog. December 5, 2017.

issues in terms of *net* VAT collection.⁵ Non-tax revenues including customs collections are also areas in which reforms are intended.⁶



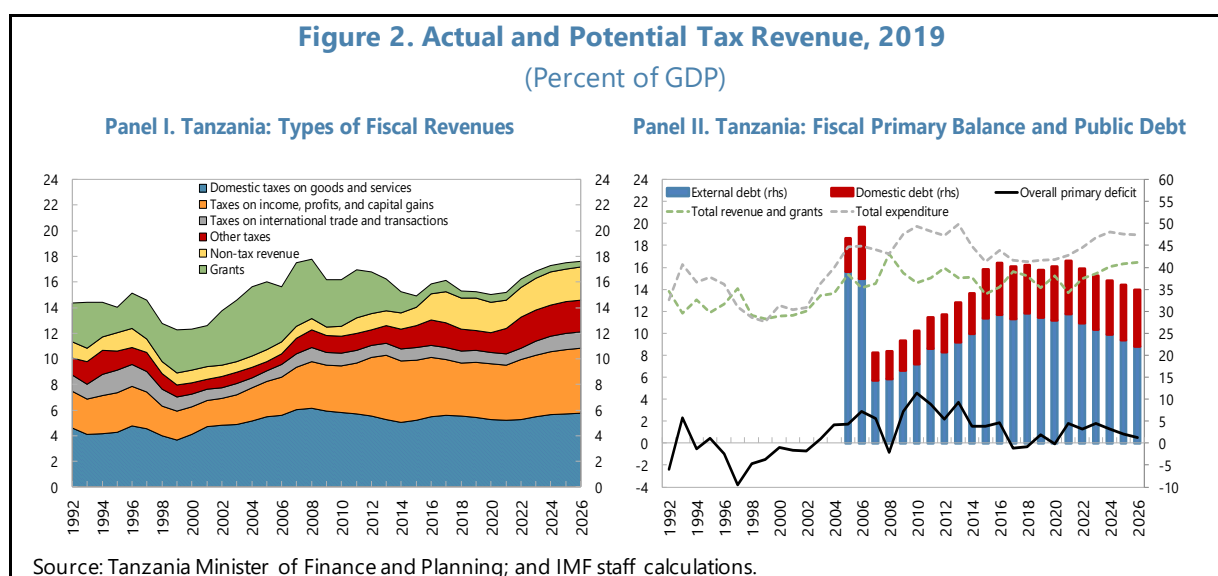
4. Such increases in tax revenues will help compensate for the decline in grants in Tanzania. The contribution of grants and tax- and non-tax revenues to total revenues in Tanzania have changed substantially in the last 30 years (Panel I of Figure 2). For most of the historical series, grants have been an important component of total revenues, keeping the primary and overall fiscal deficits (after grants) at relatively low levels (Panel II of Figure 2). In the 1990s, this corresponded to 2.8 percent of GDP, on average, while in the 2000s, grants increased to an average of 4.4 percent of

⁵ VAT refunds until December 2021 exceeded the amount paid cumulatively in the previous four fiscal years; at this pace refunds are expected to reach or exceed FY2015/16 values (0.3 percent of GDP). While part of the increase is related to payment of VAT arrears, a significant share of the increase, according to the authorities, is due to an improvement in the VAT refunding verification system and, so, a permanent increase in that item. Such an increase calls for improvements in the net VAT revenues statistics, allowing better forecasts of that important revenue item.

⁶ Tanzania performed a TADAT assessment finalized in February 2016. Some of the recommendations of that report remain valid as policy recommendations for structural reforms on revenue administration in the country. At the same, a new TADAT assessment could be performed, or a revenue administration component could be included on CD on tax policy diagnosis envisaged currently in the CD strategy (Annex XI). A PEFA assessment is also currently under way, which could provide additional recommendations on this area.

GDP. However, grants as ratio to GDP are falling more recently and their contribution to total revenues is expected to fall in the medium- to long-term (Panel II of Figure 1). The tax- and fiscal structural reforms envisaged in the ECF arrangement are expected to increase the tax- and non-tax revenue ratio to GDP to compensate for the declining grants.

5. **Moving towards its tax revenue potential would assist Tanzania in keeping the overall primary balance at lower values, maintaining debt sustainability.** Although total spending under the ECF arrangement is expected to be larger than total revenues amid higher social and development spending needs as well as interest payments, given the increase in revenues, the overall primary deficit is expected to remain at low levels (Panel II of Figure 2). Such a combination of tax revenue reforms with well-targeted social spending (e.g., cash transfers) envisaged in the ECF arrangement could also mitigate some of the negative effects of the increase in taxation on income inequality highlighted in the literature (e.g., Melina and Poplawski-Ribeiro, 2021).⁷ The overall fiscal deficit is further expected to remain below the 3-percent-of-GDP fiscal target of the EAC. That level maintains the public debt sustainable in the medium- and long-term with its ratio to GDP declining over time, notably with a reduction of the external (non-concessional) debt.

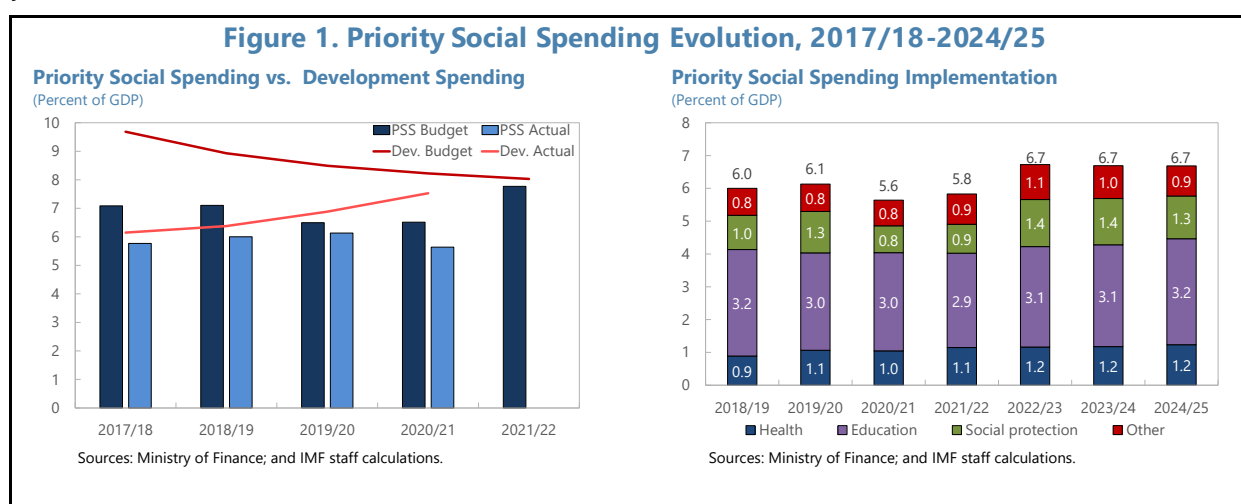


⁷ See Melina, Giovanni, and Marcos Poplawski-Ribeiro, 2021. "Macroeconomic impacts of non-resource revenue mobilization in CEMAC." *Applied Economic Letters*, Vol. 28, No. 9, pp.721–726.

Annex VI. Social Spending

A. Background

1. In recent years, priority social spending (PSS) has taken a back seat to major infrastructure projects.¹ While both the PSS and development spending budgets declined from FY2017/18 until FY2020/21, the actual development spending implementation increased by about 1½ percent of GDP and PSS implementation remained stable until FY2020/21 when PSS spending shrank by ½ pp of GDP. The education sector had been contracting to increase social protection, but all those gains in expanding social assistance were lost during FY2020/21. Perhaps more worrisome is the fact that 0.1 pp of GDP was cut from health spending in FY2020/21, at the peak of the pandemic. The FY2021/22 PSS budget increased to 7.8 percent of GDP, supported partly by RCF disbursements included in the supplementary budget, but the outturn up to March 2022 suggests that actual spending could be about 5.8 percent of GDP. The authorities are committed to rebalance spending towards PSS and spend 6.7 percent of GDP in social sectors in each of the next three fiscal years (2022/23–2024/25).



Education

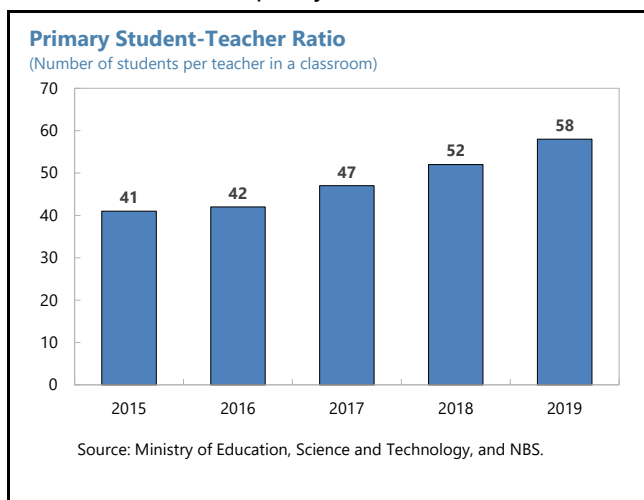
2. Improvements in access to primary and lower secondary education, combined with a teacher hiring freeze and rapid population growth, have strained the education system. The successful introduction in 2015 of the Fee Free Basic Education Policy² (FFBE) caused a surge in primary and secondary education enrollment.³ However, the FFBE policy was not accompanied by an

¹ Priority social spending includes all spending (including wages and transfers) on education, health, social protection and other social spending, which comprises mainly work on rural roads.

² The Fee Free Basic Education Policy removed all fees and costs associated with basic education in Tanzania guaranteeing free access for all.

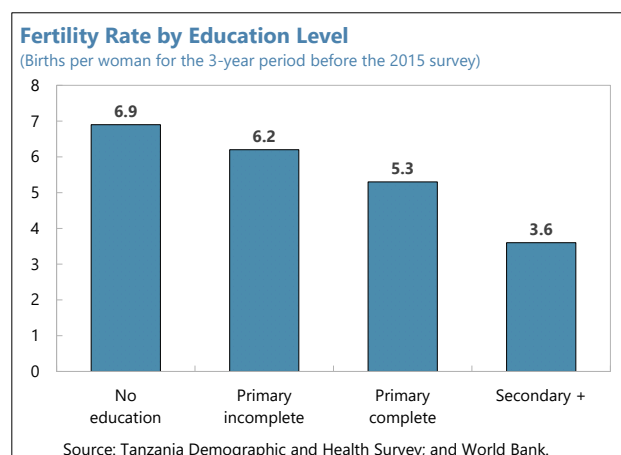
³ The increase in enrollment was also helped by other positive developments such as an improvement in primary education retention rates (from 50 percent in 2016 to 89 percent in 2018), higher completion of primary school, and a higher transition of girls to secondary school.

adequate increase in resources, resulting in a detrimental effect on quality and deficiencies in school infrastructure—the primary student-teacher ratio increased from 41 in 2015 to 58 in 2019. Furthermore, demographic trends—given the population growth of about 3 percent per year and a fertility rate of 5—are expected to double the primary school age population between 2015 and 2025.⁴ The World Bank estimates that these trends, combined with improvements in enrollment, retention, and transition, will result in an estimated tripling of secondary students from about 2 million in 2018 to 6.3 million by 2025; and that in order to reduce the student-teacher ratio to about 44, would require hiring about 40,000 primary teachers and 44,000 secondary teachers over the next few years. The Ministry of Education estimates that the shortage of primary school teachers is about 55,000, and the government intends to significantly reduce that gap over the next three years, starting with hiring 15,000 new primary and secondary teachers in FY2022/23.



3. Improving human capital also depends on eliminating gender disparities in educational attendance and outcomes.

Tanzania's female labor force participation is high at about 84 percent in 2014—raising women's educational attainment will have significant positive impacts on productivity, growth, and poverty reduction, while helping curb rapid population growth. Despite improvements in recent years, less than half of lower secondary school-aged girls attend school, and gross enrollment in upper-secondary was 2 pp lower than for boys in 2018.



4. Spending on tertiary education is high, but it is proportionately lower for primary and secondary levels. The government spends more for each student in tertiary education than the average for the OECD (Figure 2). Spending per student is 4½ higher than in LIDCs, and almost 3 times higher than in the EAC. At the same time, it spends less per student in primary and secondary levels than these two groups with a similar level of development.

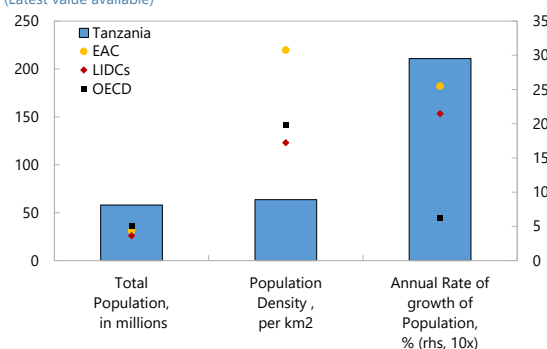
⁴ Tanzania Demographic and Health Survey (DHS) 2015.

Figure 2. Selected Social Spending Indicators

Tanzania's population is larger than in the EAC and LIDCs and is growing fast.

Population Indicators

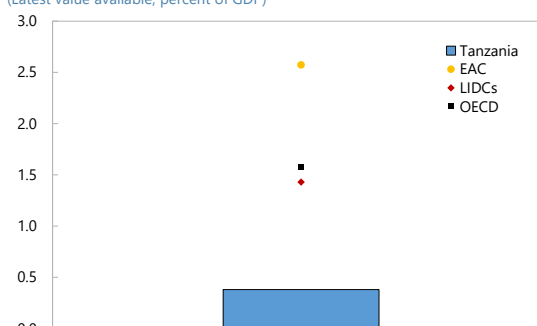
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Social assistance is a small fraction of the EAC average.

Social Assistance Spending

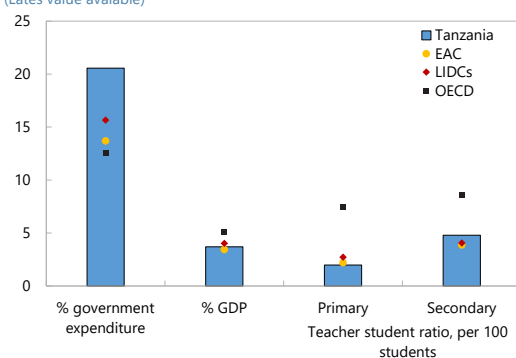
(Latest value available, percent of GDP)



The share of government education spending is relatively high, although education spending as percent of GDO is lower than in LIDCs.

Government Education Expenditure

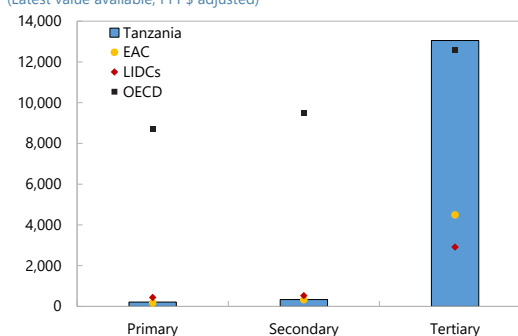
(Latest value available)



Spending per student in tertiary education is even higher than in the OECD, while for primary and secondary Tanzania lags countries with similar level of development.

Government Education Expenditure per Student

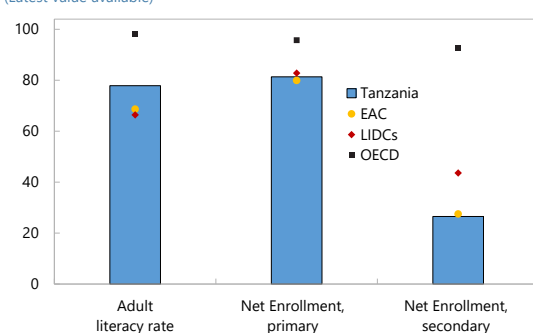
(Latest value available, PPP\$ adjusted)



Enrollment in secondary is lower than in LIDCs, but in line with the EAC.

Education Indicators

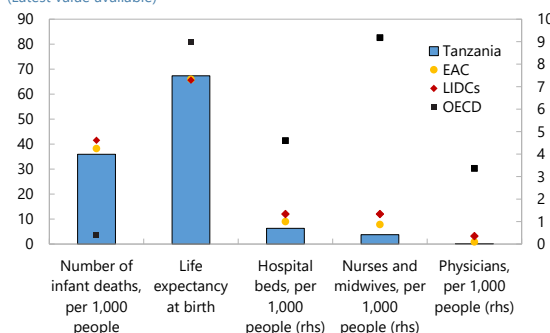
(Latest value available)



Tanzania lags LIDCs and the EAC in number of hospital beds, nurses, and physicians.

Health Indicators

(Latest value available)



Sources: IMF FAD Expenditure Assessment Tool (EAT); World Bank, and World Health Organization.

Health

5. The pandemic has further stressed the health sector. Tanzania's health indicators lag those of countries at a similar stage of development (Figure 2). The number of physicians, nurses, and beds relative to its population is well below that of the EAC and LIDCs, which is explained by lower public sector health spending than in these two groups. The influx of COVID-19 patients and the vaccination campaign have further pressured the health system while also dealing with lower spending (see above). Despite the construction of about 300 new clinics and local health facilities in recent years, only about $\frac{1}{3}$ are fully operational, while the rest are either understaffed or lack sufficient equipment or supplies. The Ministry of Health estimates that Tanzania faces a shortage of 110,000 health workers to fully address the growing needs of the country. The government has committed to significantly increase hiring in the sector over the next three years, and ensure all new medical facilities are fully equipped. The government plans to start by hiring 10,000 additional health workers in FY2022/23 to address these significant shortfalls.

Social Protection

6. Tanzania spends about a third of what the EAC and LIDCs spend in social assistance programs (Figure 2). The Tanzania Social Action Fund (TASAF) has a cash transfer program that aims to improve access to income earning opportunities and social services for targeted poor households while protecting and enhancing children's human capital. The program covers close to 900,000 households, and Tanzania's COVID-19 Socioeconomic Response Plan (TCRP) supported by RCF disbursements sought to further increase coverage by about $\frac{1}{3}$. However, the poverty rate remains high; the World Bank estimates that following the national definition the poverty rate in 2021 was 27 percent, while the poverty rate measured at the international extreme poverty line is close to 50 percent of the population.

B. Recommendations

7. Reversing the declining trend in priority social spending will be critical to achieve sustainable growth and development. Budgetary allocations and implementation need to accommodate the increasing demands for social services. A sufficiently financed education policy, a well-functioning health system, and a strong safety-net will be crucial to promote sustainable and equitable growth and development. The following recommendations will help address these issues.

8. Well-designed education policies will be critical in the period ahead. Increases in budgetary allocations for education to expand coverage, improvements in quality, and reductions in gender and rural-urban disparities are needed. It will be important to increase and improve teacher training to accompany the expansion in hiring to improve the quality of education. To expand access and reduce the student teacher ratio in a cost-effective manner, some efficiency gains could be achieved by: (i) revising the construction parameters of schools to use multipurpose laboratories and in-class libraries; (ii) limiting the use of boarding schools and teacher-housing; (iii) reallocating teachers to use them more effectively; and (iv) implementing double shifts to reduce school

construction needs.⁵ The World Bank has identified measures that could reduce the gender gap in educational attendance and outcomes, such as building and improving sanitary facilities in schools to increase girls' attendance, providing a larger share of female teachers, and supporting more gender-friendly teaching practices to promote girls' active participation in class. A proper balancing between resources for primary and secondary education, and tertiary education could also increase the efficiency of spending. In this regard, further reforms are needed to improve the public program of Higher Education Students Loans Board (HESLB) by refining the targeting mechanism for eligible students (e.g., means-testing), further strengthening loan recovery efforts, and exploring options for commercial student loans. In the medium term, it will also be important to modernize the equipment and technologies used for vocational and technical education. Ensuring quarterly consultations with the private sector on training and vocational programs and following up the recommendations from the National Skills Council will also improve coordination with the broader economy.

9. Improving health and social assistance will also contribute to human capital accumulation and poverty reduction. In the near-term the priority will be to complete the work on the COVID-19 response through a successful vaccination campaign and adequate availability of testing. Continuing to support affected low-income households with cash transfers will also help the economic recovery while protecting the most vulnerable. Over the medium-term it will be key to increase resources for health to keep up with the increasing demand for health services and to reduce gaps in coverage. Expanding TASAF to more families while properly targeting the aid provided will help reduce poverty and inequality and protect the human capital accumulation of poor households.

⁵ The government has initiated work on some of these issues, but the pace of reform needs to be accelerated.

Annex VII. Monetary Policy Framework Transition

The Bank of Tanzania (BoT) is transitioning from reserve money targeting to an interest-rate based monetary policy framework. This Annex examines progress made in the transition and the way forward in the reform process. The authorities are committed to continuing the reform process with the assistance of Fund technical assistance (TA) recommendations and anticipate the transition will be completed in line with the current deadline for full harmonization of East African Community (EAC) monetary policy frameworks in fiscal year 2023/24.

- 1. The objective of Tanzanian monetary policy is to maintain price stability, defined as a low and stable inflation rate over time (a medium-term target of 5 percent).** This inflation target is considered by the Bank of Tanzania (BoT) as appropriate for supporting a sustainable economic growth rate, which is also a monetary policy objective in the broader EAC region. To achieve this objective, the BoT focuses on maintaining an adequate level of liquidity in the economy and ensuring interest and exchange rate stability.
- 2. The BoT's current monetary policy operating framework (known as the Reserve Money Program, RMP), is based on reserve money targeting.** The intermediate and operating targets of monetary policy are M3 and reserve money respectively. In practice, the instruments that the BoT uses to influence these quantities include open market operations; purchases in the inter-bank foreign exchange market; repurchase agreements (repo) and reverse repurchase agreements (reverse repo); the statutory minimum reserve requirement ratio (SMR); the discount rate; and standby credit (intraday and Lombard loan) facilities.
- 3. As with other reserve money targeting frameworks, the RMP suffers from several shortcomings, which motivate the transition towards an interest rate based monetary policy framework.** First, it is vulnerable to destabilizing money demand (velocity and the multiplier) shocks. Although the BoT has shown a degree of flexibility in implementing operational monetary targets in response to these shocks, unstable money demand tends to translate into large swings in short term interest rates. Secondly, these large fluctuations in money demand hinder financial sector development and may further dampen the already limited monetary policy transmission mechanism (e.g. by leading banks to hold large excess reserves and weakening the link between short-term and long-term rates). Thirdly, the RMP's opacity tends to blunt monetary policy effectiveness, particularly in view of the important role of expectations anchoring in the price-setting process. Taken together, these factors motivate the BoT's ongoing gradual transition towards an interest-rate based monetary policy framework (Alexianu 2020).¹
- 4. As has been the case in other EAC countries, The BoT is transitioning towards an interest rate based monetary policy framework, also in line with EAC directives.** The Tanzanian authorities have indicated that the transition to an interest rate-based monetary policy framework is due to be completed in line with the full harmonization of EAC monetary policy, which is currently scheduled for fiscal year 2023/24. Moreover, the Ugandan experience highlights the importance of

¹ See Alexianu, M. (2020), "Monetary Policy in Tanzania: Looking Back on 10-years of BoT and IGC Contributions," International Growth Centre Synthesis Paper, 1st January 2020.

central bank credibility and the potential for the monetary policy framework transition to address the drawbacks of the RMP as currently implemented by the BoT (Alexianu 2020).²

5. With the backing of IMF technical assistance, much progress has been achieved on both operational and technical sides in support of the monetary policy framework transition.

On the operational side, many components of the necessary financial market infrastructure, such as intra-day and rediscount facilities used to meet banks' liquidity needs, are in place. The BoT has also improved monetary policy communication with market participants. On the technical side, the Forecasting Policy and Analysis System (FPAS) has been fully implemented following Fund TA, which has significantly strengthened the BoT's modelling and forecasting capability. The Quarterly Projections Model (QPM) is fully operational and integrated into the policy making process. As such, the FPAS forecasts, which also entail an interest rate path, already inform BoT Monetary Policy Committee (MPC) decisions to a degree.

6. Despite progress, important steps remain for the full implementation of an interest rate-based monetary policy framework (Table 1). Further work is needed to implement a comprehensive communication strategy surrounding the monetary policy framework transition, which would include the introduction and announcement of the policy rate to transparently communicate the BoT's monetary policy stance to the market.³ There is also a need for a formal agreement between the BoT and the Ministry of Finance for sharing the net costs of the full range of liquidity management operations. A range of other reform steps are necessary, including introducing a term deposit auction and/or the issuance of BoT bills, instead of using Treasury bills with short maturities to mop up liquidity. The authorities have undertaken to implement some of these steps in conjunction with the publication of the operational guidelines of the interest rate based monetary policy framework by June 2023 (MEFP ¶139).

Table 1. Tanzania: Forthcoming Milestones in Monetary Policy Framework Transition

Milestone	Target Completion Date
Review the standing facilities framework	12/31/2022
Publish documentation and regulation on the use of standing facilities	12/31/2022
Design and publish monetary policy communication strategy	12/31/2022
Review and update operational strategy in line with moving to interest based monetary policy	12/31/2022
Develop/adjust open market operation instruments	12/31/2022
Developed FX market with flexible exchange rate reflective of underlying market conditions	4/30/2023
Source: IMF Staff	

² Following the transition to inflation targeting, short-term interest rates in Uganda declined substantially and converged around the policy rate. Monetary policy transmission is relatively strong in Uganda compared to other EAC countries.

³ Currently, banks perceive the rate-outcome of BoT reverse repo auctions, which take place several times per week, as the policy rate. Formalizing the overnight IBCM rate as the operating target will enhance monetary policy efficacy and credibility and is needed to signal monetary policy and to steer market rates. Clear communication to markets of the monetary policy stance is likely to become increasingly important during the current period of global volatility and market uncertainty.

Annex VIII. Capacity Development Strategy

1. **Tanzania's economic outlook is favorable if suitable reforms are implemented.**

Tanzania has the potential to achieve high and inclusive growth over the medium term, if policies appropriately focus on domestic resource mobilization, growth-enhancing investment, reliable national accounts and fiscal statistics, and on addressing weaknesses in public financial management (PFM) and improving business environment. To protect financial system stability and foster financial deepening, the reforms contained in the 2019 Financial Sector Stability Assessment should also be undertaken. The monetary policy (MP) framework and strategy of the Bank of Tanzania (BoT) will be strengthened by further developing and finetuning the Bank's Forecasting and Policy Analysis System (FPAS).

2. Despite progress, gaps in institutional capacity need to be addressed. Based on the Fund's results-based management framework and results, implementation of CD milestones and outcomes has slowed since 2017. While there have been advances in some areas such as a new Budget Law, the operationalization of Basel II financial regulations, and the modernization of the monetary policy framework, much progress is still needed in national accounts and government finance statistics (GFS), expenditure control, revenue forecasting, tax administration, and public investment management. Institutional capacity also needs to be strengthened, together with a greater commitment from senior officials and the appropriate delegation of responsibilities to ensure the effective implementation of reforms.

3. Key risks comprise absorption capacity and insufficient ownership. Absorption capacity could be alleviated by focusing on training and hiring of expert staff, including qualified advisors in some areas (given financing constraints, the authorities will need to be in the lead to secure long-term advisors). Experts could provide support and training including the feedback in areas where reforms could lead to good outcomes. There is also a need for more decisive implementation of technical assistance recommendations as well as high-level recognition of their benefits. Institutional capacity and ownership could also be strengthened by the appropriate delegation of responsibilities to ensure the effective implementation of policy reforms together with the involvement of high-level officials in important fora such as AFRITAC East Steering Committees' meetings. The volume and timing of TA should be calibrated carefully in line with the authorities' requests while closer engagement with the IMF will strengthen ownership, and help the authorities pursue these reforms.

4. Going forward, resources should be allocated to improve capacity in key fiscal, financial sector, and statistical issues. Tanzania's CD strategy should focus on revenue mobilization, PFM, and statistics compilation and dissemination. In particular, CD is needed to:

- Mobilize revenue and improve tax administration, customs, budget formulation, expenditure control, auditing capacity, and public investment management, and generate reliable national accounts and fiscal statistics.

- Strengthen national accounts data, particularly i) reconciling balance of payments and national accounts trade data, and ii) reconcile GDP by expenditure and GDP by production, including changes in inventories and statistical discrepancy. In addition, begin revising annual GDP estimates when final government expenditure data becomes available. To supplement the source data for Quarterly GDP, the NBS will continue to engage the Tax Revenue Authority to access administrative data such as turnover data submitted through the VAT returns.
- Strengthen prices data, particularly in developing the agricultural producer price index for Zanzibar and a harmonized CPI covering Zanzibar and mainland Tanzania.
- Improve the quality and coverage of fiscal and public sector debt statistics and finalize the transition to *GFSM2014* and *PSDSG2011*.
- Implement measures underpinning the ongoing transition to an interest-rate based monetary policy framework, including formally adopting and publicly announcing a policy rate and further developing the Bank's Forecasting and Policy Analysis System (FPAS).
- Strengthen Basel II/III implementation and solvency stress testing capabilities, and further incorporate the FSAP recommendations, including on strengthening bank supervision.

These areas will support the Extended Credit Facility (ECF) supported program that is to be negotiated in the first half of 2022.

Key Overall CD Priorities Going Forward

Priorities	Objectives
Revenue Administration	<ul style="list-style-type: none"> • Take stock of recent and planned reforms in terms of revenue administration, including by reviewing some of the 2016 TADAT recommendations in a Tax Policy diagnostic mission. • Enhance revenue mobilization in a business-friendly way by strengthening voluntary registration and compliance, cleaning up and updating the taxpayer database, ensuring adequate staffing and capacity of the Large Taxpayer Department of the TRA, and adopting risk-based procedures in tax auditing and customs. • Enhance greater efficiency of the TRA by expanding Electronic Payment Gateway System for all nontax revenue, enhance and strengthen auditing capacity and investigation functions, while checking whether the TRA still plans to implement an Integrated Domestic Revenue Administration System (IDRAS).

Priorities	Objectives
Tax Policy	<ul style="list-style-type: none"> Take stock of recent and planned tax policy reforms through a diagnostic mission in order to optimize taxation and increase revenue mobilization. Such diagnostic could set the stage for the preparation of a Medium-Term Revenue Strategy (MTRS) for Tanzania.
	<ul style="list-style-type: none">
Public Investment Management	<ul style="list-style-type: none"> Improve costing, prioritization, and implementation of public investments.
Fiscal and Debt Management	<ul style="list-style-type: none"> Strengthen budget formulation, implementation and reporting (including the medium-term budget framework, cash management, revenue forecasting and commitment controls), improve financial risk reporting and coverage, and strengthen risk and cost analysis in debt management office.
Strengthen statistics compilation and dissemination	<ul style="list-style-type: none"> Improve the quality and coverage of the national accounts, prices, BOP, fiscal and debt data. Ensure timely publication of fiscal, BOP, and debt statistics, in line with the recommendations of the e-GDDS framework implemented in 2016.

Annex IX. Enhanced Safeguards for Tanzania

1. The size of Tanzania's *de facto* senior debt plus other multilateral debt as a share of total external debt is above 61 percent at program initiation, remaining below 67 percent over the medium term under the baseline projection (Table 1). Tanzania's average ratio of multilateral debt to total external PPG is around 60 percent, just slightly above the median for LICs, indicating that buffers of restructurable debt remain (Table 1). At program initiation, debt held by institutions afforded preferred creditor status—the IMF, World Bank, and other major development banks—accounts for 45 percent of external debt; adding debt held by other multilaterals brings the total to around 61.6 percent. The combined share of such debt is projected to increase to 66.6 percent of external debt by 2024. Total multilateral debt as a share of GDP is projected to remain close to 18 percent of GDP under the program. The authorities report that there is no collateralized debt in Tanzania. Risks coming from the exposure are contained through the envisaged fiscal consolidation and the reforms to increase revenue collection. To keep medium risk of debt distress under adverse scenarios the program introduces a quantitative performance criterion and an indicative target on external debt. Measures for improving debt coverage and transparency are also envisaged (MEFP ¶14).

Table 1. Tanzania: Debt Composition per Fiscal Year¹
(Millions of U.S. Dollar, Unless Otherwise Indicated)

	Actual	Projections		
	2021	2022	2023	2024
	(In US\$ millions)	(In US\$ millions)		
Total²	26,760	31,187	34,382	37,323
External Debt	19,757	20,995	22,095	23,586
<i>Multilateral creditors³</i>	12,173	13,091	14,605	15,703
o/w: IMF and World Bank	8,851	9,561	10,943	11,972
o/w: IMF	557	557	868	1,178
o/w: World Bank	8,294	9,004	10,074	10,794
o/w: AfDB	317	438	482	471
o/w: Other Multilaterals	3,005	3,091	3,181	3,260
<i>Bilateral creditors</i>	1,300	1,622	1,705	1,682
o/w: Paris Club	743	895	939	931
o/w: Non-Paris Club	557	727	766	751
<i>o/w: Bonds⁴</i>	0	0	0	0
<i>o/w: Loans</i>	6,285	6,282	5,785	6,200
Domestic Debt	7,003	10,193	12,287	13,737
Memorandum Items:				
Collateralized debt ⁵	0	0	0	0
o/w: Related	0	0	0	0
o/w: Unrelated	0	0	0	0
Nominal GDP (US\$, millions)	67,356	73,800	81,638	90,051
Multilateral and Collateralized Debt				
<i>Multilateral debt</i>	12,173	13,091	14,605	15,703
Percent of external debt	61.6	62.4	66.1	66.6
Percent of GDP	18.1	17.7	17.9	17.6
<i>o/w: IMF and WB</i>	8,851	9,561	10,943	11,972
Percent of external debt	44.8	45.5	49.5	50.8
Percent of GDP	12.6	12.9	13.4	13.4
<i>o/w: AfDB</i>	317	438	482	471
Percent of external debt	1.6	2.1	2.2	2.0
Percent of GDP	0.5	0.6	0.6	0.5
<i>o/w: Other Multilaterals</i>	3,005	3,091	3,181	3,260
Percent of external debt	15.2	14.7	14.4	13.8
Percent of GDP	4.3	4.2	3.9	3.7
<i>o/w: Collateralized debt</i>	0.0	0.0	0.0	0.0
Percent of external debt	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0

Source: Tanzanian Authorities & IMF Staff estimates

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/ Excludes public guarantees and other contingent liabilities, which are noted under memo items.

3/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g., Lending Into Arrears).

4/ Debt stock as of end-2020 is old Eurobond; debt service projection includes interest payments for the new Eurobond.

5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

Appendix I. Letter of Intent

Dodoma, June 30, 2022

Ms. Kristalina Georgieva
 Managing Director
 International Monetary Fund
 Washington, DC
 USA

Dear Madam Managing Director,

Tanzania faces balance of payments financing difficulties resulting from the response to the COVID-19 pandemic, spillovers from the war in Ukraine, and addressing socio-economic development needs. The contraction in revenues and increased spending, including to fight the pandemic, widened the overall fiscal balance in the fiscal year 2020/21 to 3.9 percent of GDP, while the current account deficit widened in 2021 as rising imports more than offset the recovery in exports. The country is currently facing rising prices for many of the basic commodity imports, following the effects of the war in Ukraine, while tourism receipts remain well-below pre-pandemic levels. IMF emergency financing under the RCF has been instrumental to address fiscal pressures, preserve macroeconomic stability, and help finance the economic and health response.

To face external financing needs and support our policy agenda, the Government of the United Republic of Tanzania requests financing under the Extended Credit Facility (ECF) in the amount equivalent to SDR 795.58 million, corresponding to 200 percent of quota, over a forty-month period. We are confident that the IMF involvement will play a catalytic role in securing additional financial support from development partners, which we will continue to actively seek during the program.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the policy measures and structural reforms envisaged to help complete the post-COVID-19 health and economic response, preserve macroeconomic stability, and address long-term challenges to support sustainable and inclusive growth, drawing on the reform agenda and development plans envisaged in the National Third Five Year Development Plan (FYDP III). The main priorities under the program are strengthening fiscal space to allow for much-needed social spending and high-yield public investment by improving revenue mobilization and spending quality; resuming and advancing the structural reform agenda to unlock growth potential, improve the business environment and competitiveness; and enhancing financial deepening and stability, including through strengthening the monetary policy framework and improving financial sector supervision.

The proposed program includes a set of quantitative performance criteria and indicative targets set out in the Technical Memorandum of Understanding (TMU), Attachment II. It also includes a series of structural benchmarks covering reform actions that will strengthen Tanzania's economic performance.

We consider that the policies described in the attached MEFP are adequate to achieve program objectives. We stand ready to take additional measures should they be needed to meet the objectives of the program, and we will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached memorandum, in line with Fund policies on such matters. We will provide Fund staff all the data and information needed to assess the performance of the policies, particularly those mentioned in the Technical Memorandum of Understanding.

We will continue to maintain a close policy dialogue with the IMF to maintain macroeconomic stability and strengthen Tanzania's balance of payments position. Furthermore, in line with IMF safeguards policy, the Bank of Tanzania (BoT) commits to comply with the recommendations of the 2022 safeguards assessment of the BoT, including strengthening the legal framework to ensure independent oversight of the BoT.

We agree to the publication of this Letter of Intent and the attached Memorandum of Economic and Financial Policies for FY2022/23–FY2025/26 and Technical Memorandum of Understanding, as well as the IMF staff report related to the request for a 40-month arrangement under the Extended Credit Facility and the Debt Sustainability Analysis, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/

Dr. Mwigulu Lameck Nchemba Madelu (MP.)
Minister of Finance and Planning

/s/

Prof. Florens D.A.M. Luoga
Governor, Bank of Tanzania

Attachments (2)

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and lays out the medium-term economic objectives and the policy framework of the government of Tanzania, for which we are seeking support under a forty-month Extended Credit Facility (ECF) arrangement. The reforms and macroeconomic and structural policies included in this MEFP are consistent with the objectives of the Third National Five-Year Development Plan 2021/22–2025/26 (FYDP III) to raise inclusive growth and become a competitive, middle-income country, and with Tanzania's COVID-19 Response Plan (TCRP) to address the fallout of the COVID-19 pandemic. The policies and reform program presented here aim to preserve macroeconomic stability, create fiscal space, and strengthen financial sector stability and development.

INTRODUCTION

1. **Tanzania is facing considerable development and reform challenges to unleash the economy's potential, which have been exacerbated by the COVID-19 pandemic and the effects of the war in Ukraine.** The country has abundant natural resources, including gold and natural gas, and a strategic geographical location that is a potential gateway for regional trade. However, rapid population growth over the last decade has put pressure on the provision of education and health services. Low levels of human capital and an infrastructure deficit are limiting factors to fully achieve Tanzania's growth potential and the Sustainable Development Goals. The COVID-19 pandemic and the war in Ukraine have exacerbated these challenges, despite the economy weathering the crisis better than most countries.
2. **The RCF disbursements in 2021 helped to address fiscal pressures engendered by the pandemic response and close the balance of payments gap.** The IMF emergency assistance (0.8 percent of GDP) supported the government's pandemic response, including building and equipping ICUs and emergency facilities, improving sanitation, and reducing congestion in schools. The government also transferred about a fifth of the RCF disbursements to Zanzibar to address the archipelago's pandemic needs. The government has also received support from development partners, primarily through vaccines from COVAX, and have already vaccinated about 7.6 percent of the total population or 15.5 of the adult population (above 18 years) and aim to vaccinate 70 percent of the adult population by June 2023.
3. **The ECF arrangement will help the country continue the fight against COVID-19 and assist in coping with the spillovers from the war in Ukraine, support the reform agenda to raise and sustain growth in line with the FYDP III and catalyze donor financing.** In the short-term the ECF arrangement will help continue the health and economic response to the COVID-19 pandemic and cope with the spillovers from the war in Ukraine, while supporting the growth recovery. Drawing from the priorities envisaged in the FYDP III, the ECF arrangement will also support reforms for sustainable and inclusive growth and address long-term challenges through

mobilizing domestic revenue and creating fiscal space for much-needed investment in human and physical capital; and resuming a strong structural reform agenda.

RECENT DEVELOPMENTS

4. The spillovers from the war in Ukraine are stalling the economy's gradual recovery from the COVID-19 pandemic. Growth decelerated to 4.8 percent in 2020, and barely recovered to 4.9 percent in 2021. Tourism receipts in 2021 remained 50 percent below pre-pandemic levels, and the external sector has been hit by surging global fuel prices. Inflation picked up to 3.8 percent in April 2022 (from 3.3 percent in April 2021), due mainly to rising fuel, wheat, and edible oil prices. The current account deficit widened in 2021 as rising imports more than offset the increase in exports. Gross international reserves were boosted in 2021 by the new SDR allocation (about US\$543 million) and the RCF disbursements (about US\$566 million). However, the increase in world commodity prices has increased the import bill and put pressure on reserves, which have declined by about US\$1.2 billion since September 2021 to about US\$5.5 billion in April 2022 (4.8 months of prospective imports). Monetary policy accommodation, which has supported the economy and helped private sector credit growth recover, has started to be reduced in response to rising domestic prices. Meanwhile, banking sector vulnerabilities persist, despite ongoing reform efforts.

5. The response to the COVID-19 pandemic and public investments in infrastructure led to a large expansion of the fiscal deficit in FY2020/21. The FY2020/21 deficit widened by 2 percentage points (pp) to 3.9 percent of GDP as revenues contracted by 1.3 pp of GDP and development spending increased (0.7 pp of GDP). In the first half of FY2021/22, the fiscal deficit increased by about 1 pp of GDP. Although tax collection recovered by 0.4 pp's, net tax revenues remained flat due to the government's acceleration of the pace of VAT refunds (about 0.4 pp of GDP in refunds—more in the last 6 months than during the last five years combined). At the same time, the government increased spending by 1.5 pp of GDP, with around 0.7 pp of GDP allocated toward development spending.

MACROECONOMIC PROGRAM AND TARGETS

I. Program Objectives and Outlook

6. The government is committed to continue supporting the economic recovery, preserving macroeconomic stability, and supporting structural reforms toward sustainable and inclusive growth to become a competitive, middle-income country as laid out in the FYDP III.

The government's vision of the future is outlined in the following FYDP III priority intervention areas: (i) realizing an inclusive and competitive economy by completing an ambitious public sector investment program in key infrastructure projects; (ii) deepening industrialization and service provision through interventions in diverse sectors, including tourism, construction, agriculture, manufacturing, health, and education; (iii) addressing institutional bottlenecks through streamlining business environment procedures, promoting investment and trade, consolidating business

environment reforms under the umbrella of the Blueprint, addressing bottlenecks impacting investment and business conduct and simplifying business and investment processes, and boosting regional and international trade; (iv) improving human development and promoting inclusive growth through targeted interventions in education, health, water supply and sanitation, urban planning and housing, food security/nutrition, and social protection; and (v) supporting skills development to specifically target improvements in technical education, vocational training, and workforce skills to enhance the economy's productivity and competitiveness. Key FYDP III strategies are aligned with and linked directly to the relevant SDG goals.

7. The sequencing of the priorities of the ECF arrangement will be aligned with the government's reform agenda. The immediate priority will be for the ECF arrangement to help complete the COVID-19 health and economic response and growth recovery, maintain macroeconomic stability, and help Tanzania cope with spillovers from the war in Ukraine. Based on the objectives and policies included in the FYDP III, the ECF arrangement will also support reforms for sustainable and inclusive growth and address long-term challenges through: (i) mobilizing domestic revenue and improving spending quality to create fiscal space for much-needed investment in human and physical capital; (ii) resuming and advancing a strong structural reform agenda, improving the business environment and competitiveness, and strengthening governance and reinforcing the anti-corruption framework; and (iii) strengthening financial deepening and stability, including through enhancing the monetary policy framework and improving supervision of the financial sector. ECF financing will help reverse the declining trend in social spending and maintain the public investment drive, while structural and fiscal reforms come into effect mobilizing revenue to sustain the increased social spending.

8. We expect the economy to continue recovering, but it is facing headwinds from the spillover effects of the war in Ukraine. Growth in 2022 is expected to be 4.7 percent, supported by the recovery in tourism, strong public investment, and a rebound in private sector activity. However, headwinds from the war in Ukraine are expected to be a drag on growth, raise inflation, and deteriorate the current account. Average inflation is projected to increase to 5.4 percent in FY2022/23 following the sharp increase in global oil and wheat prices. Pressure on the external position is projected to continue with the current account deficit expected to be 4.2 percent of GDP in FY2022/23, to accommodate large capital-goods imports for major investment projects and rising oil and food-import bills. The fiscal deficit is expected to increase from 2.8 percent of GDP in FY2021/22 to 3.3 percent of GDP in FY2022/23 to continue supporting the economic recovery from the pandemic, to rebalance spending towards priority social spending (while continuing the infrastructure investment plans), and to address the aftershocks of the war in Ukraine.

9. Over the medium-term the program will help revitalize the economy, while safeguarding macroeconomic and fiscal stability. Fiscal support in the near-term will accommodate the health and economic response to the pandemic, while monetary policy will continue to help the recovery of the economy by ensuring adequate liquidity to support credit, while preserving financial sector stability. Over the medium-term, GDP growth is expected to reach its potential of 7 percent, driven by improvements in the business environment and supportive fiscal

policy. Revenues are projected to improve by about 1.3 pp of GDP by the end of the program to accommodate an increase in spending of about 0.3 pp, keeping the overall deficit below 3 percent of GDP and the primary deficit below 1 percent of GDP. The external position is expected to improve with a current account improvement of almost 2 pp over the medium-term supported by a recovery in tourism and lower imports as the public investment drive eases. Reserves are expected to remain above 4 months of imports in line with BoT goals and within the IMF's adequacy range.

II. Program Policies and Risks to the Outlook

10. The government is committed to continue implementing the TCRP to fight the COVID-19 pandemic, including providing adequate fiscal support. Fiscal resources will continue to be dedicated to expanding health and education services, improving water and sanitation facilities and supporting the tourism sector. The government will work to improve and expand preparedness and detection (e.g., boosting testing and contact tracing capacities), expand testing capacity and availability, and hire additional healthcare personnel, and to enhance COVID-19 and vaccination awareness campaigns. Additional resources will also be allocated for lower-level health facilities at the district and local levels to advance in the goal of vaccinating all the population above 18 years by end-2022.

11. The government is also committed to safeguarding the economy from the Ukraine war spillovers and to protect the most vulnerable. Considering the external shocks stemming from the war in Ukraine, additional fiscal support will be provided through:

- *Targeted and temporary subsidies on the importation of diesel, gasoline, and kerosene petroleum products.* The government will set aside up to 100 billion Tanzanian shillings every month from June to December 2022 (with the amount of the subsidy reduced in tandem with the expected global price decrease), for a total of an estimated government expenditure of 500 billion Tanzanian shillings in FY 2022/23.
- *Reduced import duties on cooking oil.* The import duties on cooking oil will be reduced from 35 to 25 percent or 500 US dollars per MT (whichever amount is higher for refined edible oil) and from 25 percent to 0 percent for crude cooking oil, resulting in projected revenue losses of around 26.9 billion Tanzanian shillings.
- *Fertilizer subsidies.* The government is providing a subsidy of 100 billion Tanzania shillings to support the local production of fertilizers and substitute part of the imports given the higher international prices of the product since the war in Ukraine.
- *Cash transfers for social protection.* Beyond those revenue measures, the government will increase cash transfers to the poor and most vulnerable by an additional amount of 8 billion of Tanzania shillings for TASAF (over the additional 516.1 billion shillings allocated to TASAF), in line with plans to increase priority social spending described in Paragraphs 12 and 25 below.

- *Waiving of VAT for locally produced fertilizers and reduction of royalty charges on minerals used in the energy and fertilizer industries, resulting in projected revenue losses of around 400 million Tanzanian shillings.*
- *Offsetting tax measures to mitigate the revenue losses with the fiscal support.* The government has proposed to the Eastern African Community a stay application of CET rate with instead the application of a 35 percent or U.S. dollar 1.5 per square meter rate whichever is higher instead of the current duty rate of 25 percent to ceramic and tiles products to protect domestic producers. Moreover, several new domestic tax measures on excise duties, VAT, individual income tax, withholding taxes, and other central government taxes have been included in the FY2022/23 draft budget law. Combined all those offsetting tax measures are expected to deliver 263 billion Tanzania shillings, which will net out part of the revenue losses of the first two measures described above.

12. The budget for FY2022/23 submitted to Parliament (Prior Action) is fully aligned with program objectives and entails a moderate expansion warranted by the ongoing external shocks. In line with program objectives, the fiscal stance will remain supportive in FY2022/23 to protect the economic recovery. The domestic primary balance will be the main fiscal tool of the program as a Quantitative Performance Criterion (QPC) to safeguard the sustainability of debt (Table 1). The draft FY2022/23 budget is based on realistic revenue and expenditure projections, with the domestic primary deficit projected to be 2.3 percent of GDP (QPC in Table 1). Tax revenues are projected to continue recovering and will reach 12.6 percent of GDP in FY2022/23 supported by strong revenue measures (paragraph 11 above). Spending will increase to 18.7 percent of GDP in FY2022/23, and the government will rebalance the composition of spending to reverse the declining trend in priority social spending (PSS) in budgeting and execution. According to our budget, development spending is expected to fall slightly to 8.0 percent of GDP and recurrent spending to increase to 10.8 percent of GDP to allow for an increase PSS, which is projected to increase to 6.6 percent of GDP (Indicative Target in Table 1). Should revenue projections not materialize in the first half of FY2022/23, widening the primary balance deficit, the government commits to adjust the budget in accordance with Section 6 of the Appropriations Act and share with IMF staff the mid-year review report by mid- February indicating the budgetary changes to reprioritize spending in line with available resources, while protecting PSS. In the event that cuts to PSS are needed, the government commits to share with IMF staff the list of PSS that will be reduced. Over the medium- term the government will gradually increase the wage bill by 0.6 percentage points of GDP to hire more teachers and health care personnel and alleviate significant shortages in those sectors. The domestic primary deficit is projected to narrow to 0.9 percent of GDP by FY2025/26, through efforts to increase domestic revenue mobilization.

13. The government recognizes that the presentation of two development spending items in the FY2022/23 Budget is not classified in line with the statistical guidelines of the Government Finance Statistics Manual (GFSM 2014) and commits to correct the classification during the mid-year budget review process. Two spending items—i.e., transfers to HESLB and the fee-free basic education program for children (Elimu Msingi Bila Malipo)—are de facto transfers and

should be classified as recurrent expenditure, not as development spending in human capital as is presently the case. However, given that their preliminary submission was done according to Tanzania's law by March 11, 2022 and that the Parliament has already pre-approved line ministries' budgetary allocations using that presentation, correcting that statistical misclassification in the Budget's final presentation would reopen those allocation's approvals, calling into question the related Parliamentary decisions and the credibility of the budgetary procedure in Tanzania, and significantly delay the FY2022/23 budget approval. The government agreed with IMF staff that IMF reports will immediately use the correct fiscal classification, and we commit to officially correct the misclassification during the next possible opportunity in the country's budgetary process. Specifically, with the support of IMF Technical Assistance, the government is committed to submit the FY2022/23 mid-year review report to the Parliament with an annex indicating the statistical reclassification of Transfers to HESLB and the fee-free basic education program in the budget execution for FY2022/23 and in future budget drafts, by end-January 2023. The annex will also verify the overall conformity of Tanzania's budgetary presentation with the GFSM 2014. The government is further committed to submit the FY2023/24 Preliminary Budget draft to Parliament with the statistical reclassification of Transfers to HESLB and the fee-free basic education program by end-February 2023 (structural benchmark).

14. The government will seek external financing mainly on concessional terms and through grants to preserve debt sustainability. Tanzania is assessed to have a moderate risk of external debt distress and will continue following a prudent debt management strategy that aims to improve this risk rating. Newly contracted public debt will favor loans offered on concessional terms, which will help improve the current risk rating and debt sustainability. However, some long-term non- and semi-concessional borrowing will be considered to support critical expenditure needs for high-yield investment projects. The government will continue the policy of avoiding all non- concessional short-term external borrowing (with original maturity of less than one year). The government also commits to maintaining a ceiling on new external debt of the central government or the BoT in present value terms as presented in the continuous Performance Criterion in Table 1, to reconcile investment and external financing needs with the goal of preserving debt sustainability.

15. The Parliament recently amended the ceiling on government borrowing from the central bank, as specified by the BoT Act, to bring it into line with that of regional neighboring countries. In the FY22/23 budget, the Parliament passed an amendment which now sets the limit on government borrowing from the central bank at 18 percent of the previous fiscal year's actual domestic revenues. Prior to this, this ceiling was one-eighth of the preceding fiscal year's domestic revenue. This amendment was designed to harmonize the government borrowing limit in Tanzania with that of other East African Community (EAC) countries, and to facilitate government budget execution.

16. The Bank of Tanzania (BoT) stands ready to tighten monetary policy as needed against the backdrop of recent global developments, while allowing exchange rate flexibility to cushion shocks and being mindful of financial dollarization. A tighter monetary policy stance might be needed to address heightened inflationary pressures stemming from the war in Ukraine,

and also in view of the global tightening cycle. Also, given the elevated uncertainty in pandemic and global conditions, the BoT will develop a transparent foreign exchange intervention policy, and allow exchange rate flexibility to absorb external shocks including from higher oil prices, while intervening only to address disorderly market conditions, including given financial stability considerations. A layer of financial sector contingency measures that buttress financial stability will also be key. The BoT will continue to closely monitor financial stability and take measures to ensure nonperforming loans decline below the acceptable level of 5 percent. Monetary policy will continue to aim at maintaining inflation around the 5 percent target through money market operations, while maintaining adequate international reserves.

17. The government will implement economic policies to achieve the objectives and quantitative performance targets set out in the ECF macroeconomic framework for FY2022/23 and the medium-term. The medium-term economic program supported by the ECF is aimed at mitigating the short-term economic impact of the pandemic and the war in Ukraine, maintaining macro-economic stability, and reviving the reform momentum to raise and sustain growth, and reduce poverty. The FYDP III aims at Tanzania becoming a competitive and semi-industrialized middle-income country, while at the same time strengthening human capital and assuring inclusive growth and sets a more ambitious goal of accelerating economic growth to 8 percent in the outer years. The government will continue to discuss medium-term projections with IMF staff and stands ready to refine the medium-term macroeconomic framework in future budget laws.

18. Considering the high uncertainty in the current environment, the government has prepared potential contingency plans if adverse scenarios materialize. An adverse growth outlook and deteriorating macroeconomic conditions could materialize. The worsening economic and financial global environment, due to the war in Ukraine, could significantly impact Tanzania's economy. In addition, lagging vaccination rates and the threat of recurring COVID-19 outbreaks will continue to disrupt trade and undermine the tourism recovery. Higher global oil and food prices and increased volatility in gold prices could worsen the external position and increase financing needs. Additionally, the normalization of monetary policy in advanced economies will pose challenges to the management of foreign exchange reserves and liquidity given Tanzania's relatively high level of financial dollarization. If these risks materialize, the government's response would include the following. Exchange rate flexibility will help to partly absorb further external shocks like higher commodity prices or lower tourism demand, while reserve buffers could be carefully used to prevent episodes of disorderly market conditions. On the fiscal front, reprioritizing spending including infrastructure investments would help protect the most vulnerable, while safeguarding fiscal and debt sustainability. Additional fiscal support could be directed to support the economy and affected sectors through targeted and transparent expenditure measures. Monetary policy will remain data dependent, to ensure that price stability is maintained. The government will ensure that higher fuel and food prices do not risk the financial stability of SOEs and that social protection needs are met without endangering fiscal objectives. The government will also seek additional budget support, for which keeping the IMF supported program on track would be critical.

STRUCTURAL REFORMS

19. The structural reforms agenda will focus on enhancing conditions for sustainable and inclusive growth. The government will (i) implement fiscal policies to promote growth; (ii) unlock Tanzania's growth potential through improvements to the business environment and investment in human capital and supportive infrastructure; and (iii) strengthen monetary policy and financial stability.

III. Fiscal Policies to Promote Growth

20. The focus will be on three key fiscal policy areas to enhance growth while maintaining fiscal and debt sustainability. These are: (i) increasing domestic revenue mobilization to create fiscal space, (ii) rebalancing spending towards priority social spending, and (iii) improving the quality of spending including by reducing fiscal risks and improving public investment management to close the infrastructure gap.

21. In the near-term fiscal support will be used to accommodate the health and economic response to the pandemic and the war in Ukraine. Revenues are projected to improve by about 1.2 pp of GDP by the end of the program, allowing for an increase in spending of about 0.6 pp of GDP, and reducing the overall deficit below 3 percent of GDP over the medium-term. The domestic primary balance will be the fiscal policy tool to anchor public debt at a sustainable level. This fiscal policy measure, which excludes foreign assistance aid and net interest payments, will be combined with a ceiling on contracting new external debt by the central government or the BoT (in PV terms) to maintain the risk of debt distress at a moderate level, while allowing room for critical investments in human and physical capital, given sizable development needs.

22. Beyond the fiscal and debt targets above, the government is committed to fiscal measures and fiscal structural reforms that will assist in achieving the program priorities. Those are: (i) increasing domestic revenue mobilization to open fiscal space, (ii) rebalancing spending towards priority social spending, and (iii) improving the quality of spending including by reducing fiscal risks and improving public investment management to close the infrastructure gap.

Mobilizing Tax Revenue

23. Tax policy and revenue administration efforts in FY2022/23 and during the program period are based on (i) broadening the tax base by reducing the informal sector through incentivizing more electronic declarations and electronic payments; (ii) bringing the digital economy into the tax net; (iii) controlling and reducing tax exemptions granted in the tax laws; (iv) enhancing tax administration systems; (v) enhancing human resource capacity including recruitment and training; (vi) enhancing enforcement on the issuance of electronic fiscal devices (EFD) receipts; and (vii) enhancing risk-based programming and strengthening recovery action.

24. Over the short- and medium term, the government also intends to continue to devote efforts to recover tax arrears and to expand the registration of taxpayers. Efforts will be directed towards expediting verification of VAT refunds through leveraging technology aiming to clear the backlog of VAT refunds by June 2023, mobilizing all recoverable overdue tax debts over the duration of the program and enhance risk-based tax audit mechanisms by December 2022. Regarding the registration of taxpayers, the government will update the taxpayer registry and streamline process for new taxpayers, e.g., using a single point of entry for registration, regulation, and issuance of tax ID numbers by June 2023.

25. The government commits to work towards greater rationalization of tax and customs exemptions and to better supervise the introduction of new exemptions. These efforts constitute both a significant pool of additional revenue and a major axis for strengthening governance and budget transparency. As an initial effort on this area, the government intends to update a study to estimate the size of tax expenditures in Tanzania and proposing a strategy to rationalize tax exemptions. Strengthening analysis and forecasting capacities in terms of revenue is also an important tool to mobilize revenues on which the government will focus on.

26. To pave the way for additional structural reforms of the tax and customs system and administrations in the medium term, the government will conduct analyses with the assistance of technical and financial partners. The themes identified at this stage include: (i) a country tax and revenue administration diagnosis; (ii) an update of the Tax Administration Diagnosis Assessment Tool (TADAT); and (iii) the preparation and implementation of a Medium-Term Revenue Strategy (MTRS).

Rebalancing and Improving the Quality of Spending

27. The government is committed to improve the quality of expenditures by rebalancing and improving spending towards current expenditure, notably the wage bill and social spending. On the wage bill, the government will gradually increase the wage bill on education and health sectors by appointing 10,000 additional health workers and 15,000 primary and secondary teachers to improve quality of education and reduce the student/teacher ratio, notably in rural areas, by June 2023 (structural benchmark). The government intends to continue investing on social sectors to significantly reduce the gaps in teachers and healthcare workers and equip schools and local health facilities over the duration of the program. For FY2022/23, we commit to raising spending on health and education, both in levels, and as a share of GDP, with total social priority spending reaching 6.6 percent of GDP. For the medium-term, we will continue increasing social priority spending in levels, with the goal of stabilizing that as ratio to GDP. The government will further disclose quarterly the amounts spent on each social sector (health, education, social transfers, among others) aiming at least reaching the floor on social spending agreed on the program. The performance in raising and maintaining social spending will be monitored by an indicative target.

28. A sufficiently financed education policy, a well-functioning health system and a strong safety-net will be crucial to promote sustainable and equitable growth and development. The government policies to help address these issues are:

- *Increase budgetary allocations for education to expand coverage, improve quality, and reduce gender and rural-urban disparities.* It will be important to increase and improve teacher training to accompany the expansion in hiring to improve the quality of education. To expand access and reduce the student teacher ratio in a cost-effective manner, some efficiency gains could be achieved by: (i) revising the construction parameters of schools to use multipurpose laboratories and in-class libraries; (ii) leveraging technology for online learning; and (iii) reallocating teachers to use them more effectively.
- *Help reduce the gender gap in educational attendance and outcomes.* This includes building and improving sanitary facilities in schools to increase girls' attendance, providing a larger share of female teachers, and supporting more gender-friendly teaching practices to promote girls' active participation in class.
- *Balance resources between primary, secondary, and tertiary education to increase the efficiency of spending.* In this regard, the government will seek to improve the public program of Higher Education Students Loans Board (HESLB) by refining the targeting mechanism for eligible students (e.g., means-testing) and further strengthening loan recovery efforts.
- *Modernize the equipment and technologies used for vocational and technical education over the medium-term.*
- *Ensure continuous consultations with the private sector on training and vocational programs and follow up on the recommendations from the National Skills Council.*

29. Improving health and social assistance will also contribute to human capital accumulation and poverty reduction. In the near-term, the priority will be to complete the work on the COVID-19 response through a successful vaccination campaign and adequate availability of testing. Continuing to support affected low-income households with cash transfers, through TASAF, will also help the economic recovery while protecting the most vulnerable. Over the medium-term, the government will focus on increasing resources for the health sector to keep up with the increasing demand for health services, and to reduce gaps in coverage. Expanding TASAF to more eligible families, while properly targeting the aid provided will help reduce poverty and inequality and protect the human capital accumulation of poor households.

30. Efforts to modernize and strengthen the quality of development spending and public investment management will be intensified through the preparation of an IMF Public Investment Management Assessment (PIMA). With the assistance of development partners, technical assistance will be provided to perform the assessment and implement the PIMA, including a climate module (C-PIMA) recommendations. The government will further prepare an inventory of

large projects and a statement of multi-year budgetary commitments on the project inventory by June 2023.

Reducing Fiscal Risks

31. The government is engaged in taking all necessary measures to clear existing arrears and prevent them going forward. For that purpose, the government will draft, publish, and begin implementing a plan to clear all existing verified arrears by December 2022 (structural benchmark), and will ensure adequate budget allocations. To prevent the resurgence of expenditure arrears, the government will also develop properly costed budget baselines and realistic revenue projections; and amend the definition of arrears as unpaid claims over 30 and 90 days for goods and services and construction work, respectively. The government's performance in reducing the stock of expenditure arrears will be monitored by an indicative target.

32. Improving financial information systems is one of the government priorities to strengthen budget execution and transparency, reducing fiscal risks. To this end, the government will configure a new functionality of the Integrated Financial Management Information System (IFMIS) to enable all commitments with approved budget allocations to be entered into the system by June 2023.

33. The government is committed to strengthening public finance statistics and completing and expanding the coverage of budgetary and financial reports to give a more complete picture of the financial operations of the public sector. The government will take steps to gradually include all public entities in addition to the central government in order to establish (and periodically update) a public sector balance sheet covering all assets and liabilities. This statistical improvement will also help the process of harmonizing and integrating fiscal statistics from Zanzibar into the General Government reporting. The government will, therefore, implement the provisions of the public finance statistics manual (GFSM 2014), and seek the technical assistance of the IMF to conduct these actions.

34. The government is further committed to increasing transparency by publishing data related to investments made by other public entities (e.g., public enterprises and local governments) or through Public-Private Partnerships (PPPs). The monitoring of PPPs will be strengthened through their full consideration in budget documents, as well as in documents related to public debt sustainability, given their potential as contingent liabilities. Furthermore, the government commits to continue to transparently publish general performance annual report and audited annual financial statements of all SOEs and to publish quarterly management reports of financial performance of SOEs, including their liabilities, starting in FY2022/23.

35. Preserving and enhancing fiscal resilience will be important to safeguard fiscal space in an uncertain external environment. In this regard, the government is committed to implement the following measures to resolve outstanding issues and reduce fiscal risks:

- Preparing and implementing a plan for the repayment of arrears on VAT refunds and continuing to implement a risk-based approach.
- Containing risks emanating from the national energy company (i.e., TANESCO) and the national airline (Air Tanzania), particularly in the current context of pandemic recovery and high oil prices. In the case of TANESCO, further reforms are required to improve the company's financial footing by implementing a plan to clear its arrears to suppliers and the government arrears to TANESCO; and building generation capacity based on cost-benefit analysis and diversified energy sources. Discussions are ongoing between the MoFP and TANESCO to establish the modality for improving the company's financial position. The initiatives include converting Government on lent loan to TANESCO into equity, this will help to improve the company's balance sheet.
- Accelerating the verification of claims from the social security funds and proposing a plan for clearing those arrears. The government will further propose parametric reforms to the public pension system by end-July 2022 in order to safeguard the sustainability of the public pension fund.

IV. Structural Reforms to Unlock Growth Potential

36. Enhancing the business environment is essential to promote private sector development and unleash the growth potential. The government will continue implementing the Blueprint for Regulatory Reforms emphasizing the streamlining of permits and licenses and rationalizing the number of institutions issuing them and conducting oversight. This will include adopting and publishing a timetable to implement the key de-regulations envisaged in the Blueprint for Regulatory Reforms along with a clear delineation of responsibilities for streamlining the regulatory regime across various government entities. Also, the government aims to complete the review of the National Investment Promotion Policy of 1996 and the Tanzania Investment Act of 1997 and submit to Parliament by June 2023 to propose legislative changes and improve the business climate and promote private sector investment. In addition, by June 2023 the government aims to implement 18 amendments to various laws, such as the Tanzania Communications Regulatory (TCRA), the Energy and Water Utilities Regulatory (EWURA), the Copyright Society of Tanzania, Tourism, and the Local Government Acts as outlined in the Blueprint Action Plan in order to improve the business environment and attract private investment. For example, the Local Government Act will be amended to allow one-stop centers, reducing red-tape bureaucracies, and facilitating businesses creation. Moreover, some of the fiscal reforms outlined above will also help improve the business environment: for example, addressing the longstanding issues of VAT refunds and spending arrears will provide liquidity, predictability, and confidence to the private sector, while closing the investment gap will improve competitiveness and open investment opportunities. In addition, the government is committed to consult and engage with relevant stakeholders to address their concerns in the planning and implementation of reforms.

37. The government will examine additional measures to promote a strong and prosperous private sector. These include: (i) streamlining non-tariff trade barriers (e.g.,

requirements on the type, volume, or quality of imported goods) and continue to implement a risk-based approach for all inspections; (ii) enhancing engagement with the private sector and other stakeholders in the formulation of new legislation to improve the business environment; and (iii) improving predictability in government policies.

38. The government is committed to improving the quality of National Accounts statistics to further enhance credibility, improve budget forecasting and attract investment. The government recognizes the importance of improving the overall consistency and transparency of the national accounts statistics. The government will endeavor to regularly improve the quality of national account source data. The government will reconcile external sector data between the national accounts and the balance of payment statistics and publish revised national accounts data by June 2023 (structural benchmark). The government is also committed to continuously update and revise national accounts statistics as source data is updated to maintain the consistency of statistics across the country.

39. The government will strengthen implementation and enforcement of comprehensive anti-corruption strategy and legislation. As part of the National Anti-Corruption Strategy and Action Plan 2023-28 (NACSAP), efforts will be taken towards: (i) enhancing investigative and intelligence capabilities, (ii) building technological and big data capabilities to address new challenges, (iii) focusing on prevention strategies including promotion of society participation in the anti-corruption campaigns, and increasing public awareness of corruption, and enhancing adherence to asset declaration of public officials and the codes of conduct. The government will also work to improve the effectiveness of the AML/CFT framework. In particular, the government will seek to amend the AML/CFT Law to enhance provisions on preventive measures, supervision of designated non-financial sectors, targeted financial sanctions, and beneficial ownership; and adopting policy and procedures for AML/CFT risk-based supervision of banks. The government also commits to resolving governance issues.

40. The government will continue to abide by the governance commitments in the RCF Letter of Intent. In particular, the government will continue the publication of the remaining quarterly reports of RCF spending one month after the quarter ends, following the publication of the first two reports (December 2021 and April 2022). The government will also complete the posting of the list of financial transfers, all pandemic related public procurement contracts and related documents (including the names of the awarded companies and their beneficial owners). The audit of the pandemic-related spending financed with the debt relief received under the Catastrophe Containment and Relief Trust (CCRT) was published in April 2022; and the preparatory work for the audit of all pandemic-related spending is progressing well and expected to be published by December 2022 (structural benchmark). The government will seek technical assistance from the IMF to support efforts to continue to improve governance.

V. Strengthening Monetary Policy and Financial Stability

41. The BoT will continue progress towards transitioning to an interest rate-based monetary policy framework. The transition, combined with new prudential tools to enhance systemic liquidity management, will help deepen financial markets. The BoT intends to implement an interest rate-based monetary policy framework by June 2024, in line with the harmonization of East African Community (EAC) monetary policy, which includes introducing the policy rate and its announcement to the market to transparently communicate the monetary policy stance. As part of the monetary policy framework transition, the BoT intends to (i) further improve monetary policy communication with market participants (ii) introduce the policy rate by the time the operational guidelines are introduced (see below), publish the operational guidelines of the interest rate-based monetary policy framework, including documentation and regulation on the use of standing facilities, and the policy rate by June 2023 (structural benchmark); and (iii) implement measures to enhance collateral recovery and broaden the pool of acceptable collateral to movable collateral.

42. The BoT is committed to continue implementing the FSAP recommendations to enhance financial sector stability and mitigate near-term banking sector vulnerabilities. Key priorities include enhancing risk-based supervision and solvency stress testing capabilities; reducing NPLs and increasing provisioning (including for restructured loans), and enhancing buffers to manage near-term liquidity, credit, and concentration risks, which will be supported by IMF technical assistance. The BoT will re-run its solvency stress test scenario and will step up monitoring and enforcement of prudential guidelines, particularly in relation to undercapitalization, NPLs and restructured loans. The BoT will also continue its efforts to operationalize the ELA framework, and enhance the risk-based supervision (RBS) framework by implementing the Basel II/III risk-based supervision standards and creating a single RBS rating system and improve AML/CFT risk-based supervision. As a first step, the BoT will submit an amendment to the Banking and Financial Institutions Act (BAFIA) to the government to allow compliance with the requirements of capital adequacy as a step to the migration to Basel II/III risk-based supervision standards (structural benchmark).

OTHER AND PROGRAM MONITORING

43. The government will strengthen collaboration and engagement with the IMF and other development partners on the implementation of technical assistance. The government values the technical assistance received from the IMF and other partners and will strive to make headway in removing barriers to implementation, by increasing ownership of TA recommendations at the technical and managerial levels. TA provision will be instrumental for progress to address new needs and challenges arising from the implementation of the economic reform agenda under the ECF arrangement.

44. The government is committed to implementing the recommendations from the recently completed safeguards assessment. Strengthening the legal framework to ensure independent oversight of the BoT will be pursued. Specifically, the BoT will prepare draft

amendments to the BoT Act in consultation with IMF staff to strengthen governance arrangements as well as personal and financial autonomy, including addressing the issue of the composition of the Board to be comprised of a clear majority of non-executive (independent) members in line with leading practices. Technical assistance will be requested as needed to address governance concerns and improve autonomy provisions. In addition, given that IMF financing will be for budget support, the existing MoU between the BoT and the Ministry of Finance and Planning on respective responsibilities for servicing financial obligations to the IMF will be revisited.

45. The government will continue a close policy dialogue with the IMF to maintain macroeconomic stability and strengthen Tanzania's balance of payments position. The government will refrain from measures or policies that would compound our balance of payments difficulties. The government does not intend to impose new, or intensify existing, restrictions on the making of payments and transfers for current international transactions, introduce new, or intensify existing, trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

46. While data provision is broadly adequate for surveillance and program monitoring, the government remains committed to allocate sufficient human, financial, and material resources to the production of statistics. The government will continue to support the National Bureau of Statistics (NBS) in fulfilling its missions and counts on continued technical and financial assistance from development partners. The government will prepare and publish a plan to improve GDP statistics by enhancing key data sources (e.g. surveys on investment, employment, and production by activity) and using relevant data from the TRA by June 2024. The government will continue to collaborate with the IMF and other stakeholders to address shortcomings and strengthen data provisioning, including on technical assistance, and full transparency and access to data and methods.

47. The program will be evaluated based on quantitative performance criteria and structural benchmarks (Tables 1 and 2) and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding (TMU). The first and second reviews are scheduled to be completed on or after March 29, 2023, and September 29, 2023, respectively, based on test dates for periodic performance criteria of end-December 2022 and end-June 2023, respectively.

**Table 1. Tanzania: Quantitative Performance Criteria and Indicative Targets,
September 2022 – June 2023**

(Tsh billions, unless otherwise indicated)

	Sep. 2022 IT	Dec. 2022 QPC	Mar. 2023 IT	Jun. 2023 QPC
Continuous Performance Criteria				
Ceiling on accumulation of new external payment arrears incurred by the central government or the BoT	0	0	0	0
Ceiling on the PV of new external debt contracted by the central government or the BoT (millions of U.S. dollars) 1/	5,053	5,737	6,436	7,057
Performance Criteria				
Floor on domestic primary balance 1/	131	-2,248	-398	-4,376
Ceiling on net domestic assets (NDA) of the BoT	-598	-304	-420	-98
Change in net international reserves of the Bank of Tanzania (floor, millions of U.S. dollars) 2/	-73	-146	-219	-292
Indicative Targets				
Floor on priority social spending 1/	1,557	3,893	7,008	12,653
Ceiling on the stock of expenditure arrears 1/	3,800	3,552	3,343	3,187
Ceiling on the newly disbursed external non-concessional borrowing by the central government or the BoT (millions of U.S. dollars) 1/	1,533	1,631	1,631	1,631
Memorandum Items				
Foreign assistance grants and loans (net) 1/	196	1,507	2,328	3,551
VAT refunds in arrears	710	582	539	432
Expenditure arrears	3,090	2,970	2,803	2,755
Wage bill on education and health workers 1/	476	1,141	2,189	3,358
Sources: Tanzanian authorities; and IMF staff projections.				
1/ The quarterly figures represent cumulative values from the start (July) till the end (June) of each fiscal year FY2022/23 and FY2023/24, respectively.				
2/ Cumulative change from June 2022. A positive change denotes an accumulation of net international reserves.				
Note: Precise definitions of the aggregates shown and details will be included in the Technical Memorandum of Understanding (TMU).				

Table 2. Tanzania: Prior Actions and Structural Benchmarks Through June 2023

Reform Targets	Macroeconomic Rationale	Target Date	Macro Criticality
Prior Action			
1. Submit the FY2022/23 budget to Parliament fully aligned with the program targets and the macroeconomic framework	Improve fiscal management and protect social spending	June 14, 2022	High
Structural Benchmarks			
1. Prepare and begin implementing a plan to clear all expenditure arrears	Improve fiscal management, the business environment and reduce potential for corruption	Dec. 2022	High
2. Publish the operational guidelines of the interest rate-based monetary policy framework, including documentation and regulations on the use of standing facilities	Enhance financial stability and transparency	Jun. 2023	Medium
3. Appoint additional 15,000 teachers for primary education to improve quality of education and reduce the student/teacher ratio, particularly in rural areas. And hire 10,000 additional health workers to address gaps.	Build human capital	Jun. 2023	High
4. Complete and publish the post-crisis audit of pandemic-related spending	Improve fiscal management and enhancing economic governance	Dec. 2022	Medium
5. Reconcile national accounts (NA) and BOP external sector data and publish revised NA historical data	Improve GDP quality and transparency	Jun. 2023	High
6. The BoT will submit an amendment to the Banking and Financial Institutions Act (BAFIA) to the government to allow compliance with the requirements of capital adequacy as a step to the migration to Basel II/III risk-based supervision standards	Enhance financial stability and strengthen bank oversight	Dec. 2022	High
7. Submit the FY2023/24 Preliminary Budget draft to the Parliament with the statistical reclassification of Transfers to HESLB and the fee-free basic education program.	Improve fiscal management and official statistics, and enhance economic governance and transparency	Feb. 2023	High

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) describes concepts and defines the quantitative performance criteria and indicative targets described in the Memorandum of Economic and Financial Policies (MEFP) for the financial program supported by an arrangement under the IMF's Extended Credit Facility (ECF) over the period of July 2022—September 2025.

DEFINITIONS

2. The principal data sources are the standardized reporting forms, 1SR, 2SR, NDF table provided by the Bank of Tanzania (BoT) to the IMF, the government provisional budget execution tables provided by the Ministry of Finance and Planning (MoFP), the government debt tables provided by the Accountant General's office, and the data on the national accounts, inflation and high frequency indicators provided by the National Bureau of Statistics (NBS).

3. The stock of all foreign assets and liabilities will be converted into the U.S. dollars at each test date using the cross-exchange rate referred to in the Text Table 1 below for the various currencies, and then converted into Tanzanian Shillings (TSh) using the program U.S. dollar-Tanzanian Shillings exchange rate for end-June 2022, unless otherwise indicated in the text.

Text Table 1. Tanzania: Program Exchange Rate and Prices (end-June 2022)	
	US\$ per currency unit
British pound	1.2235
Euro	1.0568
Japanese yen	0.0073
Australian dollar	0.6999
Canadian dollar	0.7752
Chinese yuan	0.1507
SDR	1.3474
Swedish Krona	0.0969
Kenyan Shilling	0.0085
South African Rand	0.0609
Gold price	1822.85

4. For purposes of this TMU, "external" and "domestic" shall be defined on a residency basis.

5. Performance criteria included in the program, as defined below, refer to the new external payments arrears, new external debt contracted by the central government or the BoT, domestic primary balance, net domestic assets (NDA) and net international reserves. Performance criteria are set for end-December 2022 and end-June 2023, while indicative targets are set for end-September 2022 and end-March 2023.

6. In addition to the specific PCs listed in paragraph 5, as for any Fund arrangement, continuous PCs also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, such continuous performance criteria cover (i) the non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) the non-introduction or modification of multiple currency practices; (iii) the non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) the non-imposition or intensification of import restrictions for balance of payments reasons. These continuous PCs, given their non-quantitative nature, are not listed in the PC table annexed to the MEFP.

PROVISION OF DATA TO THE FUND

7. The following information will be provided to the IMF staff for the purpose of monitoring the program (see Table 1 for details):

- Data with respect to all variables subject to quantitative periodic performance criteria and indicative targets will be provided to Fund staff monthly or quarterly with a lag of no more than the period specified in Table 1. The authorities will promptly transmit any data revisions to the Fund. As set out below, for continuous performance criteria, the authorities will provide the relevant data to IMF staff immediately.
- For variables assessing performance against program objectives but which are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting.

QUANTITATIVE PERFORMANCE CRITERIA

A. External Debt

Ceiling on Accumulation of New External Payment Arrears Incurred by the Central Government or the Bank of Tanzania

8. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted by the central government or the BoT from their level at end-June 2022. External payment arrears consist of the total amount of external debt service obligations

(interest and principal) of the central government and the BoT that have not been paid at the time they are due, excluding arrears on external debt service obligations pending the conclusion of debt-rescheduling arrangements and arrears previously accumulated and reported to the Executive Board. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external arrears it accumulates.

Ceiling on the Present Value of New External Public and Publicly Guaranteed Debt Contracted by the Central Government or the Bank of Tanzania

Definition, Coverage

9. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688- (14/107), effective June 30, 2015. A debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the government. Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

10. External debt is any debt contracted by the central government or the BoT on both concessional and non-concessional terms with non-residents. For purposes of the program target, the measure of external debt will exclude IMF disbursements.

Concessionality

11. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

12. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD Secured Overnight Financing Rate (SOFR) is 2.7 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -140 basis points. The spread of six-month JPY LIBOR over six-month USD SOFR is -270 basis points. The spread of six-month GBP Sterling Overnight Interbank Average Rate (SONIR) over six-month USD SOFR is -60 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread

over six-month USD SOFR is 15 basis points.¹ Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

13. A ceiling applies to the present value of external debt, newly contracted by the central government or the BoT. The ceiling applies to debt contracted for which value has not yet been received. The quantitative target does not apply to normal import-related commercial debt having a maturity of less than one year, and rescheduling agreements. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external loans it contracts, stating the conditions of these loans.

B. Fiscal Aggregates

Floor on Domestic Primary Balance

14. A floor on domestic primary balance will apply. The domestic primary balance is defined as the overall fiscal balance of the government (central and local governments) excluding foreign assistance grants and net interest payments on public debt.

15. The fiscal balance is the fiscal deficit of the government measured on a cash basis from the financing side and defined as the sum of: (i) net domestic financing (NDF) of the government; (ii) net external financing; and (iii) privatization receipts. Any amounts in foreign currency will be converted into TSh at the exchange rates prevalent on the dates of the transactions.

- i. NDF is calculated as the cumulative change since June 30, 2022, in the sum of:
 - a. Loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued for monetary policy purposes), minus all government deposits with the BoT, which comprise government deposits as reported in the BoT balance sheet, 1SR (including counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes) and foreign currency-denominated government deposits at the BoT (including the PRBS accounts and the foreign currency deposit account).
 - b. All BoT accounts receivable due from the government of Tanzania that are not included under item (a) above.

¹ The program reference rate and spreads are based on the average projected rate for the six-month USD SOFR over the following 5 years from the July 2022 World Economic Outlook (WEO) Update.

- c. Loans and advances to the government by other domestic depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other domestic depository corporations.
 - d. Loans and advances to the government, and holdings of government securities and promissory notes by other public entities (e.g., pension funds) not covered by the central government accounts.
 - e. The outstanding stock of domestic debt held outside domestic depository corporations and other public entities excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COBELMO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.
- ii. Net external financing is measured on a cumulative basis from June 30, 2022, and is defined as the sum of disbursements minus amortization of budget support loans, project loans, external non-concessional borrowing (ENCB) including project ENCB directly disbursed to project implementers; and any other forms of Government external debt. The term “debt” will have the meaning set forth in paragraph 9 above. Government external debt is understood to mean a direct, i.e., not contingent, liability to non-residents of the government of Tanzania.
 - iii. Privatization receipts consist of net proceeds to the government of Tanzania in connection with the sale/purchase of financial assets that are not included in NDF and the sale of intangible nonfinancial assets, such as leases and the sale of licenses with duration of 10 years or longer.

C. Monetary Aggregates

Ceiling on Net Domestic Assets (NDA) of the Bank of Tanzania

16. The target ceiling on NDA of the BoT is evaluated using the end of period stock. The NDA of the BoT are defined as the difference between reserve money and the NFA of the BoT valued in TZS using the program exchange rates as described in text Table 1. The calculation includes net credit to the government, claims on other sectors, claims on banks, other liabilities to banks, deposits and securities other than shares excluded from the monetary base, shares and other equity, and other items (net). As an illustration, at end-April 2022, using the Tanzanian shillings per US dollar exchange rate of 2,299 as of April 30, 2022, NDA of the BoT was TZSh -2,658 billion, calculated as follows:

Text Table 2. Tanzania: Calculating NDA of the BoT (end-April 2022)	
Net Foreign Assets	
USD millions	4,934
TZSh billions (A)	11,343
Reserve Money	
TZSh billions (B)	8,684
Net Domestic Assets	
TZSh billions = (B) - (A)	-2,658

D. International Reserves

Change in Net International Reserves of the BoT

17. Net international reserves (NIR) of the BoT are defined as reserve assets of the BoT minus reserve liabilities of the BoT. The change in NIR is calculated as the cumulative change since June 30, 2022. The BoT's reserve assets, as defined in the IMF BOP Manual (6th edition) and elaborated in the reserve template of the IMF's Special Data Dissemination Standards (SDDS), include: (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps maturing in less than one year and other assets used as collateral or as guarantee for a third-party external liability (assets not readily available). The BoT's reserve liabilities include: (i) all short-term foreign exchange liabilities to nonresidents, except government's foreign currency deposits of residual maturities of more than one year; and (ii) outstanding purchases and loans from the IMF, as recorded in the financial position of Tanzania with the IMF by the Finance Department of the Fund.

18. NIR are monitored in U.S. dollars, and for program monitoring purposes, assets and liabilities in currencies other than U.S. dollars will be converted into dollar equivalent values using

the program exchange rates as of as displayed in the text Table 1. Monetary gold will be valued in USD at the exchange rates and gold prices that prevailed on (see Table 1).

INDICATIVE TARGETS

A. Floor on priority social spending

19. A floor on priority social spending will be set. Priority social spending is defined as central government spending (recurrent and development) for education, health, water, social safety nets (including cash transfers through Tanzania's Social Action Fund -TASAF), rural electrification, agricultural inputs, as well as for upgrading and maintenance of rural roads, including transfers to local governments for health, education, and rural water supply. The indicative target for the floor on priority social spending by the central government will be calculated cumulatively from the beginning of the fiscal year.

B. Ceiling on the stock of domestic arrears

20. Domestic arrears are defined as the sum of expenditure arrears and VAT refunds in arrears. A ceiling applies to the stock of domestic arrears by the government measured cumulatively from the beginning of the fiscal year in July. An unpaid bill is defined as any verified outstanding payment for more than 30 days owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes, and other deductions. For construction work an unpaid bill is defined as any verified outstanding payment for more than 90 days owed by any entity that forms part of the central government. Expenditure arrears are the total stock of unpaid bills at the end of each quarter as verified by the Internal Auditor General. The ceiling on the stock of domestic arrears also includes verified and unpaid VAT refunds outstanding for more than 90 days from the time the taxpayer submitted the refund claim.

C. Ceiling on the new external non-concessional borrowing disbursed by the central government or the Bank of Tanzania

21. For program purposes, the definition of debt is set out in paragraph 9 above. The coverage of new external non-concessional borrowing in this indicative target comprises the central government and the central bank. The ceiling is inserted on disbursed rather than contracted new external non concessional borrowing.

22. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present

value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. IMF disbursements are also excluded from the indicative target.

23. A ceiling applies to new external non-concessional borrowing disbursed by the central government or the Bank of Tanzania. The indicative target will be assessed on a cumulative basis for each test date with disbursements based on the schedule announced in the authorities' borrowing plan for debt disbursements. Any change in the disbursement schedule should be immediately reported to the IMF staff, stating the conditions of the changes in the disbursement schedule.

MEMORANDUM ITEMS

24. Foreign assistance grants and loans are defined as the sum of external budget support (including IMF financing); program, project and basket grants; and concessional loans received by the Ministry of Finance and Planning (MoFP) through BoT accounts and accounts at other depository corporations. This memorandum item is calculated as the cumulative sum of the receipts from program loans and program grants since the beginning of the fiscal year.

25. VAT refunds in arrears and expenditure arrears are defined in Paragraph 20 above. They will be monitored separately as two different memorandum items to indicate transparently their respective clearance scheduling plans.

26. The wage bill on education and health workers will be defined as the sum of budget spending on wages and salaries of public sector employees in education and health sectors—according to economic budgetary classification, including but not limited to employer pension contributions and other social security contributions, and other remunerations (such as bonus payments).

USE OF ADJUSTERS

27. The performance criterion on the present value of newly contracted external public and publicly guaranteed debt will be adjusted in line with deviations from amounts projected. A downward adjustor is applied to cover World Bank lending projects that feature in the authorities' borrowing plan and are expected to be contracted within the program period. The size of this adjustor is limited to the value of the identified projects and should be revisited at each program review to incorporate updated information. Schedule A presents the current PV of World Bank lending projects.

Schedule A. Tanzania: PV of Lending Projects with the World Bank^{2/} (US\$ million)				
	2022		2023	
	End-Sep.	End-Dec.	End-Mar.	End-Jun
World Bank lending projects	494	560	629	689
1/ cumulative flows from July,1, 2022 to September 30, 2022, 31st December 2022, 31st March 2023 and 30th June 2023				

28. The performance criterion on the change in net international reserves will be adjusted downward by the amount (in U.S. dollars) of any shortfalls, up to a limit of US\$500 million, in: (a) foreign program assistance, defined as the sum of budget support grants and loans; and (b) external non-concessional borrowing (ENCB) financing of the government budget, excluding non-concessional foreign program assistance, if any, included in (a), calculated relative to the projections shown in Schedule B below.

Schedule B. Budget Support and External Non-Concessional Borrowing FOR THE Budget^{1/} (US\$ million)				
	2022		2023	
	End-Sep.	End-Dec.	End-Mar.	End-Jun
Budget support grants	0	0	0	0
Budget support loans	0	350	350	350
External non-concessional borrowing	1,252	1,331	1,331	1,331
1/ cumulative flows from July,1, 2022 to September 30, 2022, 31st December 2022, 31st March 2023 and 30th June 2023				

29. The performance criterion on the domestic primary fiscal balance will be adjusted in line with deviations, downward (upward) by any excess (shortfall) in the amount of government spending arrears settled, compared to those displayed in Schedule C below which are based on the figures allocated in the Annual Budget Plan for FY 2022/23 and on the Indicative Target on the decline of the stock of domestic arrears presented in Table 1 of the MEFP.

Schedule C. Payment of Domestic Arrears^{1/} (TSh\$ billion)				
	2022		2023	
	End-Sep.	End-Dec.	End-Mar.	End-Jun
Payment of domestic arrears	118	365	575	730
1/ cumulative flows from July,1, 2022 to September 30, 2022, 31st December 2022, 31st March 2023 and 30th June 2023				

30. The ceiling on NDA of the Bank of Tanzania will be adjusted upward (downward) by the cumulative deviation of actual from projected budget support (official external program support, shown above in Schedule B). This adjustment will be capped at the equivalent of US\$500 million, evaluated at program exchange rates as described in text Table 1.

Table 1. Tanzania: Summary of Reporting Requirements			
Information	Reporting Institution	Frequency	Submission Lag
Consumer price index	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices	NBS	Annually	3 months
The quarterly national account statistics in constant prices	NBS	Quarterly	3 months

Table 1. Tanzania: Summary of Reporting Requirements (continued)

Daily data on reserve money and its components	BoT	Weekly	3 days
Balance sheet of the BoT (1SRF) and the currency composition of official foreign assets and official foreign liabilities	BoT	Monthly	2 weeks
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS)	BoT	Monthly	4 weeks
Information on foreign exchange cashflow, with detailed inflows and outflows (cashflow table)	BoT	Monthly	4 weeks
Information on gross reserves assets and liabilities (NIR table)	BoT	Monthly	4 weeks
Summary of stock and projections of external debt, external arrears, and committed undisbursed loan balances by creditor	MoFP	Quarterly	4 weeks
Yields on government securities	BoT	Monthly	1 week
Daily data on transactions through IFEM by exchange rate and volume, separating BoT and commercial bank transactions	BoT	Monthly	1 week
External trade	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	1 quarter
Standard off-site bank supervision indicators for other depository corporations, including sectoral breakdown of credit and NPLs	BoT	Quarterly	4 weeks
Financial Soundness Indicators for other depository corporations	BoT	Quarterly	4 weeks
Commercial banks interest rate structure	BoT	Monthly	4 weeks
The flash report on revenues and expenditures	MoFP/ACGEN	Monthly	4 weeks
The TRA monthly revenue report	TRA	Monthly	4 weeks
Report on priority social spending with the breakdown by each spending category, with quarterly budget allocation and execution	MoFP	Monthly	4 weeks
Monthly report on central government operations	MoFP	Monthly	6 weeks
The monthly domestic debt report ¹	MoFP	Monthly	4 weeks
Data on external and domestic debt by creditor; amortizations, and interest payments	MoFP	Monthly	6 weeks

Table 1. Tanzania: Summary of Reporting Requirements (concluded)

Detailed central government account of disbursed budget support grants and loans, and ENCB, and external debt service due and paid	MoFP	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 2 of the TMU during the period including terms and conditions according to loan agreements as well as quarterly borrowing plans during the program years	MoFP	Monthly	4 weeks
Report on loans and advances to government by pension funds and other public entities not covered by the central government accounts	MoFP	Monthly	4 weeks
Number of public sector teachers and health workers employed	MoFP	Monthly	4 weeks
Quarterly expenditure arrears verified by the Auditor General	MoFP	Quarterly	4 weeks
Quarterly verified unpaid VAT refunds	TRA	Quarterly	4 weeks
Monthly tourist arrivals	NBS	Monthly	4 weeks
Cement production and consumption (imports, exports, and production)	NBS	Quarterly	4 weeks
Monthly construction inputs from index of construction material sourced from the national construction council (sand, clay and chalk, gravel and stone, lime, paints, putty and varnish etc., plastic kitchen and sanitary ware products, timber and wood products, cut stone and the like, glass, iron and steel sheets, bars, tanks and other products, other metal pipes, tubes, wire, sheets, etc., padlocks, metal mountings, soldering and welding wire, electrical wiring and fittings)	NBS	Monthly	4 weeks
Monthly electricity generation and consumption by sources of production/imports	NBS	Quarterly	4 weeks
Quarterly crop production of maize, cashew nuts, coffee, rice, wheat, cotton)	NBS	Quarterly	4 weeks
Monthly mobile phone airtime use in minutes	NBS	Monthly	4 weeks
Monthly gas consumption (volumes and values) for industry, tourism, and prisons	NBS	Monthly	4 weeks

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