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May 29, 2009

Tanzania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 11, 2009

The following item is a Letter of Intent of the government of Tanzania, which describes the policies that Tanzania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Tanzania, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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APPENDIX I. LETTER OF INTENT

May 11, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. Tanzania has continued to benefit from support by the Fund under the Policy Support Instrument (PSI). The implementation of programme under the PSI has progressed well with sound macroeconomic policies that have contributed to a sustainable high economic growth. The government seeks to consolidate these achievements and explore more initiatives to further promote growth and reduce poverty.
2. During the first half of the fiscal year (July–December 2008), performance under the programme has been good. All but one of the quantitative assessment criteria for end-December 2008 were met and good progress was achieved on the structural benchmarks. The floor on net international reserves was met by a wide margin, while reserve money was held in check. However, net domestic financing of the Government slightly exceeded its ceiling (by less than 0.1 percent of GDP).
3. The economic performance during 2008 was good despite the continued pressures from energy and food prices, as well as the global financial and economic crisis. Some challenges were encountered in the implementation of monetary policy, primarily on account of high inflation and rapid expansion of credit to private sector. Nominal exchange rate remained fairly stable, while interest rates on Treasury securities began to edge upwards in recent months, partly reflecting a tighter stance of monetary policy and the thinness of the financial market.
4. However, the Tanzanian economy is now slowing down, driven by the worsening external environment. To mitigate the adverse impact of the global financial crisis, the Government has taken initiatives, in consultation with Fund staff, that will provide a countercyclical stimulus to the economy, including an easing of the fiscal and monetary stance over the second half of the current fiscal year; but the scope for supportive policies is curtailed by a projected fall in reserves resulting from the sudden deterioration of Tanzania's external environment. Indeed, beginning in early 2009, receipts from traditional exports, tourism, and gem stones exports have started to decline. Foreign direct investment and other foreign inflows are now projected to decline in 2009, leading to a projected deterioration in the balance of payments.

5. Against this background, the government of Tanzania requests access to the Exogenous Shock Facility (ESF) under the High Access Component. This request is for a 12-month ESF arrangement in an amount of 110 percent of quota, the equivalent of SDR 218.79 million (about USD 328 million), to be disbursed in three tranches. In order to ensure full consistency between the PSI and the ESF-supported program, the government also requests an extension of the PSI until May 29, 2010. We would request that the seventh review of the PSI take place by April 30, 2010.

6. Following discussions and consultations with the Fund staff, I hereby transmit the letter of intent and memorandum of economic and financial policies which reviews the implementation of the programme during the first half of 2008/09 and describes the objectives and policies that the government intends to pursue during the remainder of the fiscal year and 2009/10 and over the medium term, including to respond, in a sustainable manner, to the exogenous shock that has affected Tanzania.

7. The Government of Tanzania is confident that the policies set forth in the attached MEFP are adequate to achieve the objectives of its programme but it will, in further consultation with the Fund, take any appropriate measures for this purpose. We will regularly update the Fund on developments in our economic and financial policies, and provide the data needed for the monitoring of the programme. In addition, the Government will consult regularly with the Fund on any relevant developments at the initiative of the Government or the Fund.

8. The Government of Tanzania intends to disseminate this letter and the attached MEFP as well as related Fund staff reports, and hereby authorizes the IMF to publish the same on its website after consideration by the Executive Board.

Yours Sincerely,

/s/

Mustafa H. Mkulo (MP)

**MINISTER FOR FINANCE AND ECONOMIC AFFAIRS
UNITED REPUBLIC OF TANZANIA**

Attachments:

- I. Memorandum of Economic and Financial Policies
- II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the PSI-Supported Program and Twelve-Month Arrangement under the ESF

Attachment I. Tanzania: Memorandum of Economic and Financial Policies

May 11, 2009

I. RECENT MACROECONOMIC DEVELOPMENTS AND PROGRESS UNDER THE PROGRAMME

Recent economic developments

1. Tanzania continued to record impressive economic performance in 2008, with an estimated real GDP growth of 7.5 percent, up from 7.1 percent in 2007. Good performance was recorded in industry and construction (9.6 percent) and services (8.9 percent) particularly in real estate and business services sub-activities. As Tanzania cannot be insulated from the impact of the current global financial and economic crisis, the government has formed a Task Force to monitor and advise on effects of the crisis and measures to mitigate them.
2. The economy continued to experience inflationary pressures that had arisen from the lagged effects of soaring world commodity prices earlier in the year, compounded by severe food supply shocks in the region, and poor short rains in some areas of Tanzania in the last quarter of 2008. As a result, annual inflation rose to 13.5 percent in December 2008, driven by food inflation of 18.6 percent. Non-food inflation, however, was held to just 6.0 percent. The recent easing of global fuel prices, as well as sustained prudent fiscal and monetary policies, are expected to lead to a downward trajectory in inflation in the coming months.

Performance under the program

3. Performance was good under the PSI programme during this period. All but one of the quantitative assessment criteria for the fifth review of the PSI were met (end-December 2008 test date). Despite larger than programmed sales of foreign exchange, the target for net international reserves was met, and the reserve money program was brought back on track, after several months of excess liquidity. Shortfalls in government revenues, however, resulted in net domestic financing slightly missing its target. Government registered a net build up of deposits by TZS 167 billion compared to TZS 174 billion that was envisaged in the programme (see Appendix Table 1). Good progress was also achieved under the programme's structural agenda.

Near-Term Fiscal Policies

4. During the first half of 2008/09, the fiscal outturn was characterized by lower performance against targets, although overall foreign inflows were in line with budget estimates. Total revenue collection was 93 percent of budget projections during the period. While shortfalls were mainly in PAYE; excise duties; and import duty, good performance was recorded in the Value Added Tax. Despite the shortfall, revenue collection in the first half of 2008/09 was 23 percent higher than in the corresponding period of the preceding fiscal year.
5. Total expenditure during July–December 2008 was also below budget estimates, in line with the resource envelope. Disbursement of budget support over the period was slightly higher than projected, but incurred some delays and was mainly received during the second quarter of the year. Total expenditure end June 2009 is projected to be inline with available resources and

incorporates TZS. 53 billion from supplementary budget of February 2009, which allocated TZS. 40 billion for fertilizer subsidies; TZS. 10 billion for livestock development and TZS. 3 billion for TIB recapitalization.

6. Budget support for the whole fiscal year is projected to be higher than the amount budgeted due to new disbursements that were not anticipated in the budget. Project and basket funds are expected to remain within estimates. The additional disbursements of donor grants will offset part of the domestic revenue shortfall, but the government still expects recourse to domestic borrowing of about 1.2 percent of GDP. The higher than programmed deficit spending is expected to have some stimulus effects on the economy.

Public Financial Management

7. Progress has been made in strengthening public financial management systems in order to improve management of public resources and enhance accountability at all levels. This involved establishment of oversight units for procurement and audit in all MDAs; strengthening of the three Parliamentary public accounts committees; creating a Public Procurement Policy Unit at the MoFEA and introducing audit committees in MDAs and LGAs. A separate independent internal audit department—which will report directly to the Paymaster General—is in the process of being established in the Ministry of Finance and Economic Affairs, with the objective of enhancing its independence and accountability.

8. In ensuring efficiency, effectiveness, transparency, and accountability in the use of public financial resources the Government is implementing the Public Financial Management Reform Programme III (PFMRP III) after the completion of the review of PFMRP II strategic plan. The objective of PFMRP III is to improve planning and budgeting tools, including integrating the MTEF and IFMS.

9. As for cash flow management, the Cash Management Unit continues to prepare the three month rolling cash flow forecasts. Efforts have been made to enhance the capacity of the Cash Management Unit, line Ministries and other spending agencies to improve the forecasts, expenditure planning, and implementation. This will also facilitate liquidity forecasting for monetary and fiscal policies. Moreover, MoFEA and the BoT have agreed that, the monthly meetings which are held by the Ministry to determine the resource envelope and expenditure ceilings shall be conducted after the MPC meetings, so as to incorporate the net fiscal flows projected under the monetary plan. Particularly during periods of large fiscal liquidity injections, such as the run-up to the end of the fiscal year, the MoFEA and BoT staff will coordinate closely to ensure that shocks to liquidity can be anticipated and contained.

Monetary and Exchange Rate Policies

10. Monetary developments in the first quarter of 2008/09 were characterized by acceleration in the expansion of credit to the private sector and mounting inflationary pressures. In response to these developments, the Bank of Tanzania increased reserve requirements on central government deposits from 10 percent to 20 percent and abolished acceptance of 50 percent of vault cash as an eligible component of the minimum reserves effective January 2009. These changes were also aimed at limiting the liquidity impact of the idle central government balances in commercial

banks. Consequently, the level of commercial banks' minimum reserve balances at the Bank of Tanzania increased by about TShs 140 billion, while expansion of credit and money supply slowed down.

11. In line with the tightening of monetary policy, interest rates on government securities increased gradually in 2008/09, while the shilling began to weaken against the US dollar in October 2008, after having gained value for about a year. The weakening of the shilling reflected the initial market reaction to global financial crisis which was compounded by activities of speculators who purchased dollars on anticipation of further depreciation.

12. The BoT continued to maintain a flexible exchange rate, while engaging in foreign exchange sales for sterilization purposes. During the first half of 2008/09, the BoT enhanced its foreign exchange sales in a bid to calm the market against speculations of negative impact of the global financial and economic crisis. Throughout the period under review, gross international reserves were maintained above USD 2.7 billion. Going forward, foreign exchange transactions by the Bank will be limited to IFEM counterparties with Reuter's electronic dealing system to enhance transparency and competitive trading. Following the inception of online monitoring of all banks' foreign exchange transactions, the BoT will closely monitor, among others, the activities of hedge funds.

II PROGRAM FOR 2009/10 AND IN THE MEDIUM TERM

13. The economic recession in the developed world is likely to feed into the Tanzanian economy in a number of ways. Based on the macroeconomic projections and policy targets for the period 2009/10–2011/12, real GDP growth is expected to slip to 5.0 percent in 2009 from 7.5 percent in 2008; and begin to recover in 2010. However, the sharp decline in oil import prices provides some relief to these adverse economic effects, while minimal exposure to the toxic assets that have plagued global financial markets has insulated the financial sector from the acute shocks seen in more advanced economies. Although inflation has remained high (13.3 percent in February) because of elevated food prices, non-food inflation declined to just under 5 percent. It is expected that headline inflation will come down later in 2009, as food supplies improve.

14. In spite of the lower oil import bill, the worsening external environment will lead to a deterioration of the balance of payments. Receipts from traditional exports, tourism, and gem stones exports have already begun to slow down, while sources of foreign financing for private investment—FDI and syndicated loans—have begun to dry up.

15. Efforts are being made to ensure that the negative impacts of the global financial and economic crisis are not spread much in the real sector. Among measures that the Government intends to undertake include: ensure food sufficiency, financial stability through daily monitoring of the banking system, strengthening Infrastructural development, promoting domestic tourism and increasing productivity in economic sectors.

Fiscal and monetary policies

16. The 2009/10 budget will aim to continue to provide some stimulus to the economy. The government will also continue to strengthen domestic resource mobilization in the medium term. Areas under consideration include changes to the fiscal regime of the mining sector; non tax revenue; and tax exemptions. Revenue to GDP ratio is projected to rise to 16.3 percent in 2009/10 and further to 17.1 percent by 2011/12. Meanwhile, total expenditure is projected to increase to 27.5 percent of GDP in 2009/10 and maintained broadly at that level through 2011/12. The need to meet infrastructural challenges will imply net domestic financing of 1.6 percent of GDP in 2009/10 and non-concessional financing, from both domestic and foreign sources, of up to 2 percent of GDP over the medium term.

17. The government will continue to implement the Medium Term Pay Policy (MTPP) with a focus on, among others, enhancing salary levels so as to retain the staff while continuing to attract highly qualified ones. Incentives will also be made to attract staffing in the most under served areas especially under education and health sectors. The medium term projection indicates that wages will be around 5.6 percent of GDP in 2009/10, and gradually edge upwards to 6.0 percent for the remaining period.

18. The Government is in the process of approving the Medium Term Public Investment Plan (MPIP), which is expected to be operational in 2009/10. The plan seeks to consolidate the achievements so far attained in growth and economic management by scaling up public investments, particularly in strategic areas. More specifically, the focus of the Plan over the next five years will be in the following investment priority areas: rehabilitation and construction of new transport and communication infrastructure (railways, road, ports) to make Tanzania a transportation hub and international trade gateway; generation, transmission and distribution of low cost energy to attract efficiency seeking industrial and commercial investment capital; rehabilitation and development of new irrigation infrastructure to attain food self sufficiency and make Tanzania a grain reserve and source of industrial feedstock in the region; effective utilization of the country's mineral wealth and leverage its gain for the development of infrastructure; and improvement of the current labour force to acquire the necessary skills for technological and industrial revolution. The Government's medium-term fiscal framework is consistent with the MPIP and the Government expects to contribute 40 percent of overall finance of the Plan.

19. In order to accelerate infrastructural development, the Government in collaboration with other stakeholders, plans to organize an infrastructure round-table to take stock of transport, water, and energy infrastructure; lay out strategies for reducing port congestion in Dar es Salaam port; and assess financing gap and propose alternative financing options.

20. The government seeks to promote Public Private Partnership (PPP) as a way of raising the efficiency of financing the compelling demand for infrastructure development. This will increase participation of the private sector in the implementation of infrastructure projects, while ensuring fair sharing of risks associated with such projects. Following agreement on a broad policy framework for PPPs in early 2008, we expect a detailed PPP policy, including the establishment of a dedicated PPP unit, to be approved by the Government by end-June 2009.

21. With regard to MKUKUTA implementation, the first phase of MKUKUTA is coming to an end in June 2010. Currently the Government is in the process of reviewing MKUKUTA and results from the review will form the basis for designing and implementing the second phase.
22. The Government continues to monitor closely public debt developments. In October 2008 debt sustainability analysis was conducted, and the results from the exercise reveal that the external debt is sustainable. The Government will continue to finance development projects mainly through concessional borrowing. The Government is undertaking a detailed analysis of contingent liabilities, including those arising from government guarantees. A detailed list is expected to be ready by end-September 2009.
23. With the objective of further improving cash management, effective 1st July 2009, all government payments in excess of TSh 10 million will be made through TISS (Tanzanian Interbank Settlement System), which will reduce the expenditure float and improve the predictability of the liquidity impact of government transactions.
24. Efforts are underway to implement the IMF's Government Finance Statistics Manual (GFSM) 2001. As a first step, we plan to introduce an economic classification of expenditure. A migration path has been prepared for incorporating GFSM 2001 in the Integrated Financial Management System (IFMS) and a bridge table will map the budgets submitted by MDAs, Regions and LGAs that are still in GFSM 1986 format. Therefore budget books for 2009/10 will include an economic classification consistent with GFSM 2001. As a second step, we plan to introduce a functional classification of expenditure, which should be ready for the 2010/11 budget.
25. The weak aggregate demand, resulting from the global financial crisis and the prospects for continued low inflation provides a scope for easing monetary policy in the second half 2008/09 and 2009/10. Accordingly, the Bank of Tanzania will reduce the volume of liquidity papers and continue to complement sale of government securities with foreign exchange sales. Consistent with the BoT's primary objective of maintaining price stability, this will also help to reduce pressure on interest rates and provide the market with foreign exchange at the time of scarcity. The Bank will also explore the option of using discount and Lombard rates more actively by altering their respective penal margins—which have so far been fixed—to reflect the monetary policy stance. The Bank of Tanzania will, however, monitor inflation closely and make appropriate adjustments to monetary targets, should inflationary pressures re-emerge.

Financial Sector Stability

26. The impact of the current financial crisis on the capital and financial markets has so far been subdued, mainly on account of the low level of intergration with international markets. All indicators of financial sector stability have remained strong. The Government is aware of the downside risks of the crisis on the economy and is closely monitoring developments in the financial sector with a view to taking timely measures. The BoT has stepped up its regular supervision of the banking system. An early warning system has been set up, using selected indicators of financial sector performance on daily basis to spot signs of weakness.

27. The BOT continues to coordinate the implementation of the Second Generation Financial Sector Reform program. With regard to the credit reference system, the Terms of Reference have been developed for procurement of a consultant who will assist in the establishment of the credit reference databank. Credit reference bureau regulations and licensing guidelines are in the approval process. Meanwhile, the Government is reviewing the recommendation of the consultant on how best to transform Tanzania Investment Bank into a Development Finance Institution with a window for lending to agricultural and industrial sectors. On credit guarantee schemes, work is in progress by a consultant to determine the future structure and modus operandi of the schemes outside the Bank of Tanzania.

28. A review of the legal and regulatory framework of capital and financial account transactions was completed and shared with stakeholders. Their comments and suggestions contributed to the development of a tentative plan for timing and sequencing of capital account liberalization, which was completed in February 2009. The focus now will be laying the foundation for implementing the plan. In addition,, the review of the Bank of Tanzania's functions with the objective of refocusing its mission to its core activities has been completed and a strategy has been prepared to be incorporated into the Bank's Corporate Plan by the end of May 2009.

29. With regard to financial supervision of pension funds, the new Social Security (Regulatory Authority) Act became effective on 1st November 2008. The Ministry of Labor, Employment, and Youth Development is presently finalizing the regulations and in the process of recruiting a CEO of the Regulatory Authority, with the expectation of completing both steps by end-June 2009. Immediately thereafter, the BoT, in consultation with the regulator, will issue investment guidelines for the pension funds.

30. The Bank continued to implement the recommendations of the IMF Safeguards Assessment Mission issued in June 2008. Among those implemented include: audit quality review by a concurrent partner, formal agreement on the modalities for the selection of audit firm subcontracted to conduct audits, majority composition of non-executive directors in the audit committee, draft year end procedures prepared awaiting review by Internal Audit Directorate (IAD) and external auditors, MOU agreed between the MOFEA and the Bank. The MOU was signed on December 4th, 2008 and outstanding obligations settled on 10th December, 2008. The 2007/08 external audit of the BoT has been completed and submitted to the MOFEA. It is expected to be submitted to Parliament by the MOFEA by end-June 2009. Also, capacity building in IAD has commenced by hiring 10 new staff as well as phasing in risk based internal auditing on pilot basis in FY 2008/09. On engaging a consulting firm to conduct a comprehensive risk assessment, following the submission of the TORs "no objection" has been granted by the World Bank to initiate a process to hire a consultant. Finally, a draft policy on whistle-blowing has been prepared awaiting Board approval.

Statistical issues

31. The National Bureau of Statistics (NBS) has produced Tanzania Statistical Master Plan for 2008/09–2012/13 with the aim of strengthening production of core statistics. The recent HBS results will be used to revise and rebase the national accounts, and this will improve GDP and CPI data. The NBS has produced quarterly GDP series from 2001 to 2007. The dissemination of 2001 to 2008 series is expected in July 2009. On BOP statistics, the BoT in collaboration with other participating institutions will continue to conduct annual surveys on departing international visitors in order to improve tourism statistics. Meanwhile, the Government is looking into ways to improve the collection of statistics on foreign remittances to complement the current sources of such information.

32. The Bank of Tanzania, in collaboration with the Tanzanian Investment Center (TIC) and the NBS, continues with surveys that began in 1999 to monitor private capital flows, including foreign direct investment. The 2007 report which covers 2006/07 information is now ready for presentation to chief executive officers of the participating institutions, before being published by June 2009. The survey for 2009, which will cover information through 2007/08, is expected to begin in May 2009 and published by June 2010.

III PROGRAM MONITORING

33. Quantitative assessment criteria and performance criteria for end-June 2009 and end-December 2009 and quantitative indicative targets for end-September 2009 and end-March 2010 will monitor program implementation under the PSI and ESF arrangement in 2009–10 (see Table 1). The government and IMF staff also agreed on the structural benchmarks listed in Table 2. The first and second reviews under the ESF will take place at the same time as the sixth and seventh PSI reviews respectively.

Table 1. Tanzania: Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets Under the PSI and the ESF, 2008/09–2009/10

	2008						2009						2010	
	June		September		December		March		June		September	December		March
	Actual	Revised Data 1/	Actual	Revised Data 1/	Program Assessment Criteria	Prel.	Program Indicative Targets	Proj.	Program Assessment Criteria	Proposed Assessment/Performance Criteria	Proposed Indicative Targets	Proposed Assessment/Performance Criteria	Proposed Indicative Targets	
	(Billions of Tanzania shillings; end of period, unless otherwise indicated)													
Net domestic financing of the government of Tanzania (cumulative, ceiling) 2/ 3/	-346	-346	105	16	-174	-167	-124	-50	0	323	279	95	168	
Accumulation of budgetary arrears (ceiling; indicative target only)	0	0	0	0	0	0	0	0	0	0	0	0	0	
Average reserve money (upper bound) 4/	2,054	2,054	2,350	2,350	2,343	2,318	2,374	2,500	2,463	2,674	2,862	3,009	3,089	
Average reserve money target 4/	---	---	---	---	2,320	---	2,350	---	2,438	2,648	2,833	2,979	3,058	
Average reserve money (lower bound) 4/	---	---	---	---	2,297	---	2,327	---	2,414	2,622	2,805	2,949	3,028	
	(Millions of U.S. dollars; end of period)													
Net international reserves of the Bank of Tanzania (floor) 5/	2,541	2,642	2,535	2,675	2,559	2,855	2,573	2,710	2,587	2,310	2,234	2,399	2,478	
Accumulation of external payments arrears (ceiling) 6/	0	0	0	0	0	0	0	0	0	0	0	0	0	
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling) 6/	0	0	0	0	0	0	0	0	0	0	0	0	0	
<i>Memorandum item:</i>														
Foreign program assistance (cumulative grants and loans) 2/	1,122	1,122	264	289	550	751	777	1,045	1,036	1,109	315	818	1,139	

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU) attached to the Government's letter of May 11, 2009.

1/ Revised data are based on the Standard Reporting Forms covering a broader set of deposit taking institutions, in line with the Fund's 2000 *Monetary and Financial Statistics Manual*.

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

3/ To be adjusted upward by up to T Sh 250 billion for the U.S. dollar equivalent of a shortfall in foreign program assistance from the amounts shown in the memorandum item.

4/ Assessment criteria (performance criteria) and indicative targets apply to upper bound only.

5/ Floors are set US\$200 million below projected levels. Floor will be adjusted downward for any shortfall in foreign program assistance from the amounts shown in the memorandum item up to the equivalent of T Sh 250 billion.

6/ Continuous assessment criterion under the PSI and continuous performance criterion under the ESF; excludes arrears on debt-service payments pending the conclusion of debt-rescheduling agreements.

Table 2. Tanzania: PSI/ESF Structural Benchmarks for 2009/10

Measure	Target Date of Implementation
Financial Sector	
Adopt a strategy for refocusing the Bank of Tanzania on its core activities.	End-May 2009
Issue investment guidelines for pension funds prepared by the Bank of Tanzania.	End-June 2009
Prepare an updated financial stability report for the BOT Board, including assessments of risk-based prudential supervision.	End-December 2009
Fiscal	
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous
Prepare a list of outstanding government guarantees and contingent liabilities, including debts held by parastatals.	End-September 2009
Prepare a functional classification of expenditures consistent with the IMF's <i>Government Financial Statistics Manual 2001</i> for the budget for 2010/11.	End-April 2010

Attachment II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the PSI-Supported Program and Twelve-Month Arrangement under the ESF

May 11, 2009

I. INTRODUCTION

1. The purpose of this Technical Memorandum of Understanding (TMU) is to describe concepts and definitions that are being used in the monitoring of the quantitative assessment criteria, performance criteria, and indicative targets under Tanzania's program supported by the PSI and ESF arrangement. The principal data source is the standardized reporting forms, 1SR and 2SR, as provided by the Bank of Tanzania to the IMF, and the government debt tables provided by the Accountant General's office.

II. DEFINITIONS

Net international reserves

2. Net international reserves (NIR) of the Bank of Tanzania (BoT) are defined as reserve assets minus reserve liabilities. The BoT's reserve assets, as defined in the IMF BOP manual (5th edition) and elaborated in the reserve template of the IMF's special data dissemination standards (SDDS), include (i) monetary gold; (ii) holdings of SDRs; (iii) the reserve position at the IMF; (iv) all holdings of foreign exchange; and (v) other liquid and marketable assets readily available to the monetary authorities. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guaranteed for a third party external liability (assets not readily available). The BoT's reserve liabilities include (i) all short-term foreign exchange liabilities to nonresidents, and (ii) all liabilities to the IMF. Reserve liabilities exclude medium- and long-term foreign liabilities.

Reserve money and reserve money band

3. Reserve money is defined as the sum of currency issued by the BoT, including the vault cash of commercial banks, and the deposits of the commercial banks with the BoT. The reserve money targets are the projected daily averages of March, June, September, and December within a symmetrical one percent band. The upper bound of the band serves as the assessment/performance criterion or indicative target

Net domestic financing of the Government of Tanzania

4. Net domestic financing of the Government of Tanzania (NDF) includes financing of the budget of the central (union) government of Tanzania (“government”) by the banking system (BoT and other depository corporations) and the nonbank public. NDF is calculated as the cumulative change since the beginning of the fiscal year in the sum of (i) loans and advances to the government by the BoT and holdings of government securities and promissory notes (including liquidity paper issued by the BoT for monetary policy purposes), minus all government deposits with the BoT; (ii) all BoT accounts receivable on the Government of Tanzania that are not included under (i) above; (iii) loans and advances to the government by other depository corporations and holdings of government securities and promissory notes, minus all government deposits held with other depository corporations; (iv) all ODC accounts receivable on the Government of Tanzania that are not included under (iii) above; and (v) the outstanding stock of domestic debt held outside depository corporations excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with COMELCO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

Government deposits at the BoT

5. Government deposits at the BoT include government deposits as reported in the BoT balance sheet (ISR), which includes counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes, and foreign currency-denominated government deposits at the BoT, including the PRBS accounts and the foreign currency deposit account.

External payments arrears

6. External payments arrears consist of the total amount of external debt service obligations (interest and principal) of the government and the BoT that have not been paid at the time they are due, excluding arrears on external debt service obligations pending the conclusion of debt-rescheduling arrangements.

Contracting or guaranteeing of external debt on nonconcessional terms

7. The term “debt” will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)). Government debt is outstanding debt owed or guaranteed by the Government of Tanzania or the Bank of Tanzania.

8. Government debt is considered nonconcessional if the grant element is lower than 35 percent, calculated using discount rates based on Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRR), adjusted as appropriate for different maturities. For maturities of less than 15 years, the grant element

will be calculated based on 6-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This assessment/performance criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Decision No. 12274-(00/85)), but also to commitments contracted or guaranteed for which value has not been received.

Budgetary arrears

9. Budgetary arrears are defined as the sum of all verified bills that have been received by a central government spending unit or line ministry, and for which payment has not been made within 30 days during the fiscal year on wages, domestic interest, and goods and services (excluding court awards).

Foreign program assistance

10. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance and Economic Affairs (MoFEA) through BoT accounts and accounts at other depository corporations and is calculated as the cumulative sum, since the beginning of the fiscal year, of the receipts from (i) program loans and (ii) program grants.

Program exchange rate

11. For 2008/09, the end-of-period program exchange rate is set at T Sh 1330 per U.S. dollar for quarter IV. For 2009/10, the end-of-period program exchange rates are set at T Sh 1345 per U.S. dollar, T Sh 1359 per U.S. dollar, and T Sh 1374 per U.S. dollar for quarters I–III, respectively. For 2008/09, the period average program exchange rate is set at T Sh 1315 per U.S. dollar for quarter IV. For 2009/10, the period average program exchange rates are T Sh 1337 per U.S. dollar, T Sh 1352 per U.S. dollar, and T Sh 1366 per U.S. dollar for quarters I–III, respectively. For 2008/09 and 2009/10 as a whole, the program average exchange rates are set at T Sh 1255 per U.S. dollar and T Sh 1359 per U.S. dollar, respectively.

III. ADJUSTERS

Net international reserves

12. The end-June, end-September, and end-December 2009 and end-March and end-June 2010 quantitative targets for the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance in U.S. dollars, up to a limit of T Sh 250 billion, converted into U.S. dollars at the program average exchange rate, for the end-quarter test dates in 2008/09 and 2009/10, relative to projections shown in the Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets Table

attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania.

Net domestic financing

13. The end-June, end-September and end-December 2009 and end-March and end-June 2010 quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfall in foreign program assistance in U.S. dollars, up to a limit of T Sh 250 billion, evaluated using the corresponding program annual average exchange rates, relative to projections shown in the Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Tanzania.

IV. DATA REPORTING REQUIREMENTS

14. For purposes of monitoring the program, the Government of Tanzania will provide the data listed in Table 1 below.

Table 1 Summary of Reporting Requirements

Information	Reporting Institution	Frequency	Submission Lag
Issuance of government securities.	BoT	Bi-weekly	1 week
Yields on government securities.	BoT	Bi-weekly	1 week
Consumer price index.	NBS	Monthly	2 weeks
The annual national account statistics in current and constant prices	NBS	Annually	6 months
Balance sheet of the BoT (1SR)	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SR and the DCS).	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	BoT	Monthly	2 weeks
External trade developments	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for deposit money banks and for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators for deposit money banks and for other depository corporations	BoT	Quarterly	6 weeks
Other depository corporation lending by activity.	BoT	Monthly	4 weeks
Interest rate structure of other deposit institutions.	BoT	Monthly	4 weeks
Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) accumulation of budgetary arrears; (iv) stock of external arrears; (v) new contracting or guaranteeing of external debt on nonconcessional terms; and (vi) net international reserves. The MoFEA and BoT will reconcile data on BoT claims on the government, to ensure that such claims recorded in the BoT balance sheet are the	BoT and MoFEA	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
same as those reported by the Accountant General of the MoFEA.			
The flash report on revenues and expenditures.	MoFEA	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report. As discussed above, the MoFEA 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 MoFEA.	MoFEA	Monthly	4 weeks
Monthly report on central government operations.	MoFEA	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and external debt service due and paid.	MoFEA	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoFEA	Monthly	4 weeks
Statement on new loans contracted during the period including terms and conditions according to loan agreements.	MoFEA	Quarterly	4 weeks