International Monetary Fund

Tanzania and the IMF

IMF Executive Board Completes Sixth Review Under the Policy Support Instrument, First Review Under the Exogenous Shock Facility for Tanzania
November 24, 2009

Country's Policy Intentions Documents

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

November 13, 2009

LETTER OF INTENT

Dar es Salaam, Tanzania
November 13, 2009

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

Dear Mr. Strauss-Kahn:

1. Tanzania's program with the Fund has progressed well under the Policy Support Instrument (PSI) and the Exogenous Shock Facility (ESF) arrangement. Sound macroeconomic policies, coupled with the adoption of fiscal stimulus and balance of payment support by the Fund (the ESF arrangement), have greatly assisted in containing shocks which would otherwise erode the hard earned macroeconomic stability. The government will continue to consolidate the achievements made while carefully monitoring the developments of the economic indicators in the wake of the global financial and economic crisis.

2. The year 2008/09 closed with all quantitative performance/assessment criteria being met with good margins, and good progress was made on the structural benchmarks. In October 2009, a small underpayment on World Bank IDA loans due to a technical oversight resulted in accumulation of arrears to the World Bank and nonobservance of the continuous PC/AC on external payments arrears. The remainder of the payment was remitted as soon as we were notified about the oversight. Thus, as the nonobservance was of a temporary nature and was promptly rectified, we are requesting a waiver for the nonobservance of the quantitative PC/AC on external payments arrears.

3. The economic indicators show that there has been fairly good performance during the first half of 2009, implying that the programme is on track. The inflationary pressures has started easing during the second half of 2008/09 and early 2009/10 in line with the general decline in global commodity prices. Nonetheless, food prices have remained relatively high, causing the inflation to linger at a double digit level.

4. Tanzanian benefited from the Fund's balance of payment support through the ESF which boosted the external position at a time when the world is experiencing a declining trend in economic growth emanating from the global financial crisis. The Government provided a countercyclical stimulus to the economy through easing of the fiscal and monetary stance over the last quarter of 2008/09. On the other hand, the value of the shilling against US Dollar remained fairly stable during the period.

5. On the area of public financial management, good progress has been made, in particular, the migration from the Government Finance Statistics (GFS) 1986 to the GFS 2001 economic classification, the establishment of an independent internal audit department

under the Ministry of Finance and Economic Affairs and the recruitment of new PFMRP coordination secretariat.

6. In view of this performance, the Government of Tanzania requests the completion of the sixth review under the PSI and the first review under the ESF arrangement, and the disbursement of the second tranche under the ESF arrangement, equivalent to SDR 39.78 million (equivalent to USD 63.4 million, at the exchange rate of October 15) as continuous support to Tanzania's balance of payments.

7. The Government of Tanzania requests that the end-December performance/assessment criteria on net international reserves be modified to reflect the significantly higher level of international reserves following the SDR allocation. Quantitative indicative targets through end-March 2010 are set out in Table 1 and the Technical Memorandum of Understanding, both attached to this letter. Structural benchmarks are set out in Table 2.

8. 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 2008/09 and describes the objectives and policies that the government is implementing in 2009/10 and the medium term.

9. The Government of Tanzania intends to disseminate this letter, the attached MEFP together with 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

Attachment I. Tanzania: Memorandum of Economic and Financial Policies

I. RECENT MACROECONOMIC DEVELOPMENTS AND PROGRESS UNDER THE PROGRAMME

Recent economic developments

1. GDP grew by 7.4 percent in 2008, slightly higher than the 7.1 percent recorded in 2007, with the economy slowing toward the end of the year. The highest growth was recorded in communication sub-activity (20.5 percent) followed by financial intermediation (11.9 percent) and construction (10.5 percent) sub-activities. The strong performance in communication was mainly explained by increase in mobile phone subscribers and the attendant increase in sales of airtime. The strong performance of financial intermediation mirrored the effect of the ongoing financial sector reforms, strong growth in credit to the private sector and increased competition in insurance services. Despite the good performance of the economy as a whole, a notable slow down of growth was observed in mining and quarrying sub-activities which dropped to 2.5 percent from 10.7 percent in 2007.

2. The inflationary pressures that were experienced in the first half of 2008/09 began to ease in the second half, consistent with the general decline in global commodity prices, especially oil prices. Nevertheless, food inflation remained high due to lower than anticipated food production in some parts of the country, caused mainly by inadequate rains, coupled with food shortages in neighboring countries. While food inflation has remained high, the annual non-food inflation has taken a steep decline from 9.0 percent in September 2008 to 2.0 percent in August 2009. The downward movement in non-food inflation is in part associated with the general decline in global oil prices, during the period.

3. The trade balance improved largely due to bumper harvest of some export crops and a surge in export of manufactured goods, coupled with slow growth in imports of oil and other intermediate goods. The current account deficit however widened in 2008/09, on account of a slowdown in the growth of travel receipts amid the Global Financial Crisis and a sharp increase in service imports. Despite the worsening of the current account balance and a slowdown in foreign direct investment, the overall balance of payments recorded a surplus of USD 19 million, which together with disbursement of the first tranche under the Exogenous Shock Facility arrangement led to an increase of gross international reserves by USD 265 million. The level of gross official reserves at the end of June 2009 was sufficient to cover about 4.6 months of import of goods and services.

Performance under the programme

4. All PSI/ESF programme assessment/performance criteria for June 2009 were attained with good margins. Average reserve money outturn was below target by TSh 72 billion, while net domestic financing of the government budget was below the ceiling by TSh 119 billion. NIR was above target by USD 357 million. In October 2009, the continuous PC/AC on external payments arrears was nonobserved due to a technical oversight that led to a small underpayment on World Bank IDA loans. The obligation was paid, immediately after the oversight was identified and clarified.

Fiscal out-turn for 2008/09

5. The fiscal outturn for the year ending June, 2009 was characterized by a shortfall in revenue collection relative to the budget and under-spending in foreign financed development expenditure. Total domestic revenue collection reached TSh 4,293 billion, implying an 18 percent growth over 2007/08 but a shortfall of 10 percent against budget estimate for 2008/09. The shortfall in collection was caused by impacts of the global financial crisis as well as the fact that some of the new revenue measures did not materialize. The crisis resulted into a slowdown in the expansion of economic activities and revenue collection, particularly custom duties, domestic excises, income taxes and non-tax revenues. To compensate for revenue losses and protect essential expenditures, the Government resorted to domestic borrowing amounting to TSh 323 billion, equivalent to 1.2 percent of GDP.

6. Overall recurrent expenditure was broadly in line with budget estimates, which is a significant improvement in budget execution compared to recent years. However, preliminary data indicate that development expenditure was 14.0 percent lower than budgeted due to non-disbursement of foreign project funds. Total grants were 13 percent less than budgeted primarily due to shortfall in disbursement of project grants. Monthly expenditure patterns showed that there was large expenditure at the end of the fiscal year, resulting into substantial increase in expenditure float in the first quarter of 2009/10.

Public financial management

7. The Government continues with efforts to improve management and controls of public finances at all levels. The Controller and Auditor General (CAG)'s report for the year 2007/08 indicates general improvement in the management and control of public finances particularly in Ministries and Departments. There has been significant improvement in bank reconciliation following the Public Financial Management Reform Programme (PFMRP) supported training for staff from MDAs, RAS, and sub-treasuries. Currently about 95 percent of government transactions are automatically reconciled within Epicor while the remaining transactions are dealt with through adjustment reconciliation module developed recently. During 2008/09, a total of 202 accountants and internal auditors were recruited in order to improve financial management in Local Governments. The recruitment of a new PFMRP coordination secretariat comprised of the programme coordinator, financial expert, procurement specialist and the monitoring and evaluation expert have been finalized and is now fully operational. The Government is also in the process of reviewing Public Finance Act 2001 so as to provide for the establishment of the new and independent department of internal audit outside the Accountant General's (ACGEN) Department, introduction of electronic funds transfer, clarifying the role of CAG following the enactment of the Public Audit Act in August 2008 and give more powers to the Paymaster General and the ACGEN to oversee and monitor the finances of local government authorities. The Public Finance Bill will be tabled in the November 2009 Parliamentary session.

8. As part of improving cash/liquidity management, the Government has identified 36,406 government accounts in commercial banks. An instruction to close 10,555 government bank accounts has been issued and related deposits will be shifted to the central bank by end October.

9. The Government has upgraded budget economic classification from the Government Finance Statistics (GFS) system 1986 to the GFS 2001 economic classification. Thus, the budget books for 2009/10 have been prepared in line with GFS 2001. These changes will provide a comprehensive framework suitable for analyzing and evaluating fiscal policy as well as cross country comparison. Going forward, the 2010/11 budget will be prepared in accordance with the GFS 2001 functional classification.

10. To enhance expenditure control, the Government has connected all sub-treasuries and regional secretariat offices to the main Integrated Financial Management System (IFMS) database in Dar es Salaam. This connectivity has facilitated better expenditure control and enables timely production and consolidation of systems generated reports, including the itemized monthly expenditure and revenue reports. In addition, all local government authorities are required starting this year to prepare their accounts on a full accruals basis, as required by the National Board of Accountants and Auditors (NBAA). Extensive training has been provided in support of this move which is anticipated to result in a significant improvement in the quality of accounting and reporting at the local government level.

Monetary and exchange rate policies

11. The monetary policy stance was slightly relaxed beginning the last quarter of 2008/09 in order to mitigate the downward impact of the global financial crisis on money and credit. Accordingly, the amount of liquidity papers auctioned was reduced to TSh 1,068.0 billion in the second half of 2008/09 compared TSh 1,269.3 billion in a similar period in the preceding year.

12. The reduction of government securities auctioned, coupled with slow down in expansion of credit to the private sector led to an increase in liquidity among banks driving both the inter-bank and government securities interest rates down. The overnight inter-bank rate declined from 6.3 percent in December 2008 to 0.8 percent in first half of August 2009. Likewise the Treasury bills weighted average yield dropped from 11.0 percent in December 2008 to 5.2 percent in the same period. The increase in liquidity among banks was also on account of government spending out of the proceeds from the special bond issued towards the end of the financial year.

13. In addition, the Bank of Tanzania reviewed the Lombard and discount rates with a view to making them more active instruments of monetary policy and to enhance flexibility in provision of liquidity to the economy. Beginning July 2009 the margin applied on the base rate to determine both the Lombard rate and the discount rate was changed from fixed percentage points to a proportion of the base rate implying that the points added to the base rate in order to arrive at both Lombard and discount rates will change according to the size of the base. In addition the margins were made subject to frequent review by the Monetary Policy Committee to make them more reflective of the monetary policy stance. These changes led to a decline of the Lombard rate from 7.35 percent in June to 4.13 percent in July 2009, and a drop in the discount rate from 10.31 percent to 6.95 percent. To depict the more active role taken by the discount rate as an instrument of monetary policy, its name was also changed to Bank Rate. The Bank Rate is now changed bi-weekly.

14. Despite the change in monetary policy stance, the annual expansion of money supply continued to slowdown in the last quarter of 2008/09, partly on account of the increasingly cautious approach taken by banks in lending to the private sector, in the wake of the global financial crisis. Indeed, credit to the non-government sector rose by only 3 percent between December 2008 and July 2009. The growth of reserve money however, took an upward trend in the same period, in line with the adopted policy stance.

15. In the Interbank Foreign Exchange Market (IFEM), the exchange rate continued to be market determined, with sales of foreign exchange being mainly for liquidity sterilization purposes. The Bank made electronic dealing mandatory for all IFEM members using the Reuters platform on 1st April 2009. This move which entails submission of two way quotes by market participants has reduced exchange rate volatility and fostered market competitiveness and transparency. The value of the shilling against U.S. dollar has remained fairly stable since April 2009.

II. PROGRAMME FOR 2009/10

16. Economic activity indicators for the first two quarters of 2009 suggest that growth has been affected by the global financial crisis albeit by a lesser extent than that in advanced and middle income economies. The Government adopted the economic rescue plan, the implementation of which together with front-loading of fiscal expenditure financed by timely disbursements of GBS financing by development partners have helped to lessen the magnitude of the impact. But downside risks and an unusual degree of uncertainty remains, mainly due to a drop in FDI, the slowdown in the private sector credit growth, fiscal revenue shortfalls, and regional food supply shocks. The projection of GDP growth for 2009 remains at 5.0 percent, with a gradual recovery to 6.0 percent envisaged in 2010. In the medium term, real GDP is projected to gradually return to its long term potential to 7½ percent by 2012. Inflation in end-June 2010 is projected to be between 6.0 and 8.0 percent, depending on the severity of the ongoing drought in the region.

17. In 2009/10, the current account deficit is expected to fall. While the growth of travel receipts is expected to pick up, especially in the second half of the year as the global economy stabilizes, lower export prices in the world market and low export volumes projected for some commodities such as coffee and cotton due to unfavorable weather conditions will lead to a modest increase in exports. Imports are expected to increase, as the direct impact of the fiscal stimulus begins to surface, but FDI flows are expected to fall as the recovery of source countries takes time. The overall balance of payments is projected to continue recording surplus, mostly due to the SDR allocation, and official gross reserves remaining sufficient to cover about 5 months of import of goods and services.

Government response to the global financial and economic crisis

18. To weather the impact of the global financial crisis, the Government has began to implement the economic rescue plan. The plan's key objectives are to protect employment and income levels of the population, to ensure food security, and to protect key investments and social service programs. The plan includes loss compensation and guarantees for loan restructuring of the affected sectors, guarantees for exporters and SMEs, and expanded fertilizer subsidy program. These measures will ensure continued credit flows to the affected sectors, providing valuable protection to rural livelihoods.

19. Clear operational guidelines, including conditions of access and procedures for evaluation to ascertain eligibility and penalty in case of misreporting, have been put in place. The guidelines also specify the division of roles between various institutions involved in the execution of the plan. This operational transparency is intended to ensure the effectiveness of the rescue package, as well as the sound management of risks to public finances. The Government is aware of the potential fiscal risks associated with contingent liabilities that may result from the implementation of credit guarantee schemes.

Fiscal and monetary policies

20. The 2009/10 budget estimates domestic revenue as a percent of GDP of 16.7 percent, while expenditure is estimated to be 28.3 percent. The budget incorporates various revenue measures aiming at enhancing revenue collections through expansion of tax base and strengthening tax administration. These measures include revisions of tax rates, for example, the reduction of the VAT rate from 20 percent to 18 percent, fees and other charges under different revenue laws with a view to creating conducive business environment and simplifying tax administration. Expenditure policy is focused on, among others, mitigating the adverse impact of the financial crisis through implementation of the economic rescue plan while protecting all key priorities in the budget.

21. In light of the uncertainty surrounding the pace of the recovery of the economy as well as foreign financing flows and the time needed to fully implement a number of the measures included in the budget to enhance tax compliance, the budget resource envelope will be reevaluated at mid-year. In the event that resources fall short of budgeted amounts, expenditure savings will be identified.

22. The Government has continued to implement the Public Financial Management Reform Programme III with broad objective of improving expenditure control and thus ensuring efficiency, transparency and accountability in the spending public financial resources. Budgetary arrears which include the sum of all verified bills that have been received by the central government spending unit or line ministry, and for which payment has not been made within 30 days during the current fiscal year on wages, domestic interest and goods and services have been paid in the first quarter of fiscal year 2009/2010 and thus generally there are no outstanding budgetary arrears. All the commitments of the previous years have been cleared because the Government set aside funds in fiscal year 2009/2010 for settling these outstanding bills including infrastructure unpaid certificates and teachers salary arrears. However, regarding any outstanding commitments of previous years which have not

been received from spending units on ground of being audited by the Controller and Auditor General and also verified by other government machinery before instruction for payment is made; the MOFEA will pay promptly upon receiving such claims from ministries during the fiscal year 2009/2010. The Government will undertake a bold verification process to ensure the validity of such claims and commit payment in a timely manner once claims have been verified so as to avoid payment delay that could trigger penalties in some contracts. In most cases verification can be completed within 60 days. Further, the Paymaster General issued on September 14, 2009, a circular to all Permanent Secretaries, Independent Agencies, Regions and Local Governments repeating the legal instruction that they are not permitted to sign contracts without adequate funding. In some cases, multi-year contracts need to be signed. In line with Government policies to prioritize infrastructure expenditure, a significant expansion in road projects is envisaged, including many projects designed to support the development of an EAC wide transport network. The current year budget contains the funding needed to cover the anticipated expenditures during FY 2009/10, but additional financing, possibly through the floatation of an infrastructure bond, will be needed as these projects progress.

23. To create fiscal space for countercyclical fiscal policy, a net domestic borrowing of TSh 506 billion in 2009/10, equivalent to 1.6 percent of GDP is envisaged,. Of this amount TSh 300 billion is planned to be provided by the central bank, using the exceptional circumstances provision in the Bank of Tanzania Act. The first tranche of TSh 150 billion was provided in July, and the second tranche of TSh 150 billion will be considered in December depending on the liquidity condition in financial markets and whether exceptional circumstances still apply—the Bank of Tanzania Board approved a set of procedures for the granting of waivers of the BoT Act due to exceptional circumstances which became effective in May 2009.

24. The pressure on headline inflation will remain dominated by food subgroup with major threats coming from the fragility of food supply in the neighboring countries, as well as the uneven weather distribution within the country. The Government’s efforts to ensure adequate food supply in the country, which is part of the rescue plan, are expected to contain inflationary pressures.

25. The Bank of Tanzania is targeting the growth of money supply M2 and M3 at around 21 percent for the year ending June 2010 which will be consistent with adequate supply of credit to the economy. The Bank of Tanzania is aware of the potential risk posed by high liquidity to inflation, and therefore it will remain vigilant—closely monitoring credit growth, and early signs of a possible uptick in non-food inflation or exchange rate pressure—and take appropriate policy measures to contain inflationary pressures that may emerge.

Financial sector stability

26. The second round of the impact of the global financial crisis had a limited impact on the financial stability indicators. All indicators of financial sector stability have remained strong, although nonperforming loans have risen modestly and some banks face significant exposure to large borrowers. 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 Bank of Tanzania continues to monitor the financial system

closely through regular supervision of the banking system and daily monitoring of selected indicators of financial sector performance with a view to spotting signs of weakness and dealing with them in a timely manner. The Bank of Tanzania has established a dedicated Financial Stability Unit that produces regular Financial Stability Reports.

27. Regarding capital account liberalization, the tentative plan for timing and sequencing of the liberalization process, which was completed in February 2009, was adopted by the Bank of Tanzania management and forwarded to the Ministry of Finance and Economic Affairs in August 2009 for further action. It is anticipated that, in line with the harmonization objectives of the EAC, the gradual liberalization of Tanzania's capital account transactions could begin in the coming year.

28. 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 and incorporated into the Bank's Corporate Plan in May 2009. As a first step, the EPA account has been closed and the decision to dissolve Mwananchi Gold Company has been made with legal steps under way. A consultant—M/s Lazard Frères—has been contracted to undertake reconciliation of the external debt under EPA. The exercise started in May 2009 and is expected to be completed after nine months. Options to hosting credit guarantee schemes are being explored.

29. Investment guidelines for pension funds, which incorporate views from stakeholders, have been drafted and will be operational, once the independent pension regulator is appointed. A budget allocation for the pension regulator has been provided and new actuarial reviews of each of the pension funds are underway.

30. Tanzania's financial sector is undergoing a comprehensive update under the joint World Bank-IMF Financial Sector Assessment Program (FSAP). The FSAP update mission found substantial progress in the development and stability of the financial sector and liquidity management and commended a number of ongoing initiatives, notably in the areas of capital account liberalization, payments systems, and access to financial services. Stress tests performed by the FSAP team found the banking system to be generally well capitalized and sound, even though there was a modest increase in non-performing loans in the wake of the global financial crisis. It is anticipated that the final report of the FSAP update will be available in time to contribute to the financial sector development strategy of the new MKUKUTA/MKUZA, which is expected to be approved in early 2010.

Statistical issues

31. The National Bureau of Statistics (NBS) has produced quarterly GDP series for the period from 2001 to the first quarter of 2009 and circulated to stakeholders for comments in August 2009. The dissemination of the final series is expected in October 2009. Finalization of the rebasing of the consumer price index is expected before the end of 2009/10.

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 information up to 2006

will be updated to include new information from the survey that was conducted from May–September 2009. After the update, a new report (Investment Report 2009) will be prepared to include information up to 2008 and will be presented for consideration of the chief executive officers of the participating institutions before December 2009.

III. PROGRAMME MONITORING

33. Quantitative assessment criteria and performance criteria for end-December 2009 and quantitative indicative targets for end-March 2010 will monitor programme 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 second review under the ESF arrangement will take place at the same time as the seventh and the final PSI review.

Table 1. Tanzania: Quantitative Assessment/Performance Criteria and Indicative Targets Under the Policy Support Instrument and the Exogenous Shocks Facility, June 2009 - March 2010

	2009							2010	
	June			September		December		March	
	Assessment/ Performance Criteria		Actual	Indicative Targets	Prel.	Assessment/ Performance Criteria		Proposed Indicative Targets	
	Program	Adjusted				Current	Proposed	Current	Proposed
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)								
Net domestic financing of the government of Tanzania (cumulative, ceiling) 1/ 2/	325	333	214	279	-211	95	95	168	168
Accumulation of budgetary arrears (ceiling; indicative target only)	0	0	0	0	…	0	0	0	0
Average reserve money (upper bound) 3/	2,674	2,674	2,602	2,862	2,846	3,009	3,009	3,089	3,089
Average reserve money target 3/	2,648	…	…	2,833		2,979	2,979	3,058	3,058
Average reserve money (lower bound) 3/	2,622	…	…	2,805		2,949	2,949	3,027	3,028
Net international reserves of the Bank of Tanzania (floor) 4/	2,310	2,304	2,661	2,234	3,292	2,399	2,648	2,478	2,726
Accumulation of external payments arrears (ceiling) 5/	0	0	0	0	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (ceiling) 5/	0	0	0	0	0	0	0	0	0
Memorandum item:									
Foreign program assistance (cumulative grants and loans) 1/	1,109	…	1,103	315	680	818	818	1,139	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 November 13, 2009.

1/ Cumulative from the beginning of the fiscal year (July 1).
2/ To be adjusted upward by up to TSh 250 billion for the U.S. dollar equivalent of a shortfall in foreign program assistance from the amounts shown in the memorandum item.
3/ Assessment criteria and benchmarks apply to upper bound only.
4/ 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 TSh 250 billion.
5/ Continuous PC; excludes debt-service payment arrears pending debt- rescheduling agreements. A temporary nonobservance in October 2009 was resolved on Nov. 2.

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

Measure	Target Date of Implementation	Status
Financial Sector		
Adopt a strategy for refocusing the Bank of Tanzania (BoT) on its core activities.	End-May 2009	In progress. A new corporate plan has been approved that provides for a refocusing of the BoT. A time-bound action plan is expected by end-December. In meantime, BoT has proceeded to implement key components of the refocusing (MEFP ¶28).
Issue investment guidelines for pension funds prepared by the BoT.	End-June 2009	Delayed—Issuance awaits appointment of regulator. New actuarial studies of each of the pension funds are underway.
Prepare an updated financial stability report for the BOT Board, including assessments of risk-based prudential supervision.	End-December 2009	On track.
Fiscal		
Cash Management Unit (CMU) in the Accountant General's Department to produce Government's three month rolling cash-flow forecast.	Continuous	Met.
Prepare a list of outstanding government guarantees and contingent liabilities, including debts held by parastatals.	End-September 2009	Met.
Prepare a functional classification of expenditures consistent with the IMF's *Government Financial Statistics Manual 2001* for the budget for 2010/11.	End-April 2010	On track.

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

November 13, 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 PSI assessment/ESF 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 (5^{th} 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 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 commercial banks) 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; and (iv) the outstanding stock of domestic debt held outside depository corporations excluding: government debt issued for the recapitalization of the NMB and TIB; debt swaps with 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, 1SR, (including counterpart deposits in the BoT of liquidity paper issued for monetary policy purposes), and foreign currency-denominated government deposits at the BoT, including the PRBS accounts and the foreign currency deposit account.

External 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 PSI assessment/ESF 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 2009/10, the end-of-period program exchange rates are set at T Sh 1306 per U.S. dollar, T Sh 1312 per U.S. dollar, T Sh 1319 per U.S. dollar, and T Sh 1325 per U.S. dollar for quarters I–IV, respectively. For 2009/10, the period average program exchange rates are T Sh 1303 per U.S. dollar, T Sh 1309 per U.S. dollar, T Sh 1316 per U.S. dollar, and T Sh 1322 per U.S. dollar for quarters I–IV, respectively. For 2009/10 as a whole, the program average exchange rate is set at T Sh 1312 per U.S. dollar.

III. ADJUSTERS

Net international reserves

12. The end-December 2009 and end-March 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 2009/10, relative to projections shown in the Quantitative PSI Assessment/ESF Performance Criteria and Indicative Targets Table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania.

Net domestic financing

13. The end-December 2009 and end-March 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 PSI Assessment/ESF Performance Criteria and Indicative Targets Table

attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices 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
Commercial banks interest rate structure.	BoT	Monthly	4 weeks
Summary table of: (i) average reserve money; (ii) net domestic financing of the government; (iii) accumulation of	BoT and MoFEA	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
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 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