International Monetary Fund

Tanzania and the IMF

Press Release:
Press Release: IMF Executive Board Completes Sixth and Final Review Under the Policy Support Instrument for Tanzania and the Second Review Under Standby Credit Facility Arrangement
June 03, 2013

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

May 17, 2013

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.

Letter of Intent

Dar es Salaam
May 17, 2013

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

Dear Madam Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP for the 5th review under the Policy Support Instrument (PSI) and the 1st review under the Standby Credit Facility (SCF) arrangement. It reports on recent economic developments and reviews progress in implementing the Government of the United Republic of Tanzania's economic program under the PSI and the SCF arrangement. It also sets out macroeconomic policies and structural reforms that the Government will pursue in the remaining period of 2012/13 and in 2013/14.

2. Policies have remained broadly on track. Most quantitative targets for end-December 2012 were met, though there were delays in implementation of the structural benchmarks.

3. The Government of Tanzania requests completion of the sixth review under the PSI and the second review under the SCF arrangement based on overall performance under the program and the Government's policy intentions going forward. The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of its program. We stand ready to take any further measures that may become appropriate for this purpose. In this context, we request a modification of performance criteria to reduce the growth rate of reserve money and raise the ENCB ceiling, and to extend the deadline for the structural benchmark on the submission of the VAT bill to Parliament from end-April to end-November 2013.

4. The Government will consult with the IMF at its own initiative or whenever the Managing Director of the IMF requests such a consultation before the adoption of any such measures or changes to the policies described in the attached Memorandum. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. In particular, before signing contracts we will share with Fund staff the terms of new external loans that are close to the concessionality threshold, so that their degree of concessionality can be assessed.

5. Market sentiments in the foreign exchange market have improved following improvements in the current account and disbursement of the ENCB. These factors have helped

to reduce pressure in the foreign exchange market. In this respect, the Government intends to treat the remaining tranches of SCF only as a precautionary line of credit.

6. It is expected that the third and the final review under the SCF arrangement will take place before December 31, 2013. The Government is exploring options for engagement with the IMF after the expiration of the SCF arrangement, including a possible request for a new PSI program. The Government intends to disseminate this letter, the attached MEFP and the Technical Memorandum of Understanding (TMU), 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/	/s/
Dr. William A. Mgimwa (MP)	Prof. Benno Ndulu
MINISTER FOR FINANCE	**GOVERNOR, BANK OF TANZANIA**
UNITED REPUBLIC OF TANZANIA	**UNITED REPUBLIC OF TANZANIA**

Attachments:
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the Program Supported by the PSI and the SCF arrangement.

Attachment I. Memorandum of Economic and Financial Policies

May 17, 2013

I. Macroeconomic Developments and Program Performance

A. Recent Macroeconomic Development

Output and inflation

1. Economic growth remained buoyant during 2012 with a real GDP growth of 6.9 percent, within the projected range of 6.5–7.0 percent. Growth was especially strong in communication, financial intermediation, manufacturing, mining and quarrying, and construction activities.

2. Inflation continued to ease, as a result of improved food supply in the Eastern Africa region, fiscal consolidation, and tight monetary policy. Inflation has declined progressively from a peak of 19.8 percent in December 2011 to the single digits in March 2013. Core inflation (headline excluding food and energy) remained in the single digits throughout the period under review.

Fiscal performance in 2012/13

3. ***Revenues***. During the first half of 2012/13, tax collection was buoyant, but fell short of the program target by a small margin (0.2 percentage point of GDP). The main driver was direct taxes whereas indirect taxes (VAT and excises) underperformed. Among direct taxes, corporate income taxes and withholding taxes performed well, reflecting an upward adjustment of corporate profits in the mining and telecommunication sectors. Intensification of tax audits and collection of tax arrears also contributed to the good tax collection. Nontax revenue (excluding LGAs own sources) underperformed, mainly due to the delay in payments of dividends by some parastatals and delays in the implementation of newly-approved land rents.

4. ***Expenditure***. The Government maintained expenditure in line with resource availability. Recurrent expenditure was 87 percent of the budget estimate during the first half of 2012/13. Wages and salaries and domestic interest payments turned out to be higher than expected due to unexpected new hiring in the national security and larger-than-expected issuances of short-term T-bills for cash managements, but the Government managed to contain other spending. Development expenditure was also below the budget projection because of the shortfalls in disbursements of external non-concessional borrowing (ENCB) and foreign project funds. During the period, financing needs of the state-owned power utility company (TANESCO) have intensified. In order to almost close the estimated TANESCO's financing gap of US$438 million for 2012/13, Government reallocated TSh 405 billion (US$254 million). In addition, US$100 million will be transferred from the central government budget to TANESCO to further enhance the financing of the gap (see ¶36).

5. ***Foreign grants and financing.*** Total grants were higher than projected due to more-than-expected front-loading of general budget and basket grant disbursements. The Government contracted [US$1,363 million] in ENCB, of which US$1,165 million was for the gas pipeline, US$178 million for the Dar es Salaam water project, and US$20 million being the foreign currency component of a government-guaranteed loan for TANESCO (amounting in total to US$65 million).

6. ***Domestic financing***. Net domestic financing of the Government was TSh 505 billion, which was within the adjusted end-December 2012 target. The amount was used mainly to finance development projects following the shortfalls in ENCB.

Monetary policies

7. The Bank's anti-inflationary monetary policy stance adopted since the last quarter of 2011 continued to anchor inflation expectations. In continuation of this policy stance, the Bank raised the minimum reserve requirement on government deposits from 30 percent to 40 percent and reduced the prudential limit on foreign currency net open position from 10 percent to 7.5 percent of core capital in December 2012. These measures were complemented by enhanced open market operations and foreign exchange sales to mop up excess liquidity. As a result reserve money was kept within the targets throughout the period. Annual growth of broad money (M3) was 13.1 percent in December 2012 compared to the projection of 15.1 percent and credit growth was 18.2 percent. The Shilling remained relatively stable during the period, fluctuating within a range of TSh 1,574 and TSh 1,586 against the dollar.

External developments

8. During July 2012-February 2013, the current account deficit narrowed to US$2,445 million from US$3,115 million recorded in the corresponding period of the previous year. Higher exports and lower imports contributed to the improvement. Exports of traditional agricultural products such as cotton, coffee and tobacco, increased thanks to favorable weather conditions, while production and exports of industrial goods benefited from normalization of power supply. Tourism earnings also improved with the increase in international tourist arrivals. On the other hand, imports declined, most notably oil imports, which fell in value terms by 3.8 percent to US$2,435 million and in volume terms to 2.4 million metric tons from 2.9 million metric tons.

9. However, in late 2012 pressures emerged in the foreign exchange market as manifested by widening spreads between exchange rates on the Interbank Foreign Exchange Market (IFEM) and indicative rates quoted among banks on Reuters. Such pressures may be attributed to several factors, including the weakening of market sentiment, the delays in disbursements of external financing (ENCB) and increased demand for foreign exchange to repay part of arrears to energy suppliers and road contractors. These pressures intensified further in mid to late January 2013. Meanwhile, to prevent disorderly depreciation of the shilling, the BoT stepped up its

foreign exchange interventions. As a result, official foreign exchange reserves declined by about US$300 million from end October through mid-February, while net foreign assets of commercial banks declined to US$591 million at the end of February 2013 from US$643 million recorded at the end of December 2012; and the shilling stabilized somewhat. In order to preserve market confidence and bolster international reserves, the authorities decided to draw the full accumulated amount of US$114 million under the SCF arrangement.

B. Program performance

Quantitative targets

10. All quantitative performance/assessment criteria (PC/AC) under the Policy Support Instrument and the SCF arrangement for end-December 2012 were met. Net domestic financing (NDF) was TSh 504.7 billion, below the adjusted ceiling of TSh 600.0 billion. The change in net international reserves (NIR) was above the adjusted program floor by US$45.1 million and average reserve money (ARM) was 2.4 percent below the program ceiling. The continuous PC/AC on non-accumulation of external arrears was met. The continuous PC/AC on external non-concessional debt was met.

11. The indicative target for end-December 2012 on the floor of priority social spending was met with a good margin, while the target for tax revenue was missed by 0.1 percentage point of GDP.

Structural benchmarks

12. Progress has been made in preparing a report identifying steps to be taken to prepare Tanzania's macroeconomic management for the new gas economy. As a first step, the Government has begun its deliberations on managing the gas economy, drawing on the inputs of the technical assistance mission of early 2013. The recommendations of the mission were examined by the government's inter-institutional team, and further work is ongoing leading to the development of government policy in this area.

13. Progress has been made in the establishment of a Debt Management Office (DMO) under the Ministry of Finance. The duly established organizational structure of the DMO was submitted to the President's Office Public Service Management (PO-PSM) in November 2012 and is in the final stage of approval process.

14. The Government compiled and submitted to the Fund quarterly reports on government debt guarantees. The report indicates that there were no new guarantees issued during the first quarter of 2012/13 while in the second quarter the Government guaranteed 85 percent of the US$65 million loan to TANESCO. The Government will continue to share the quarterly data with the IMF, within six weeks from the end of each quarter.

15. The BoT has started compiling quarterly Balance of Payments (BoP) statistics and the data were published in the Bank's Economic Bulletin for the Quarter ending September 2012. The action plan to restore TANESCO's financial viability was prepared in collaboration with the World Bank, and shared with the IMF. The benchmark on submission of new VAT bill to Parliament was delayed to allow sufficient time for a thorough review of the bill and public consultations with stakeholders. Instead of April, the VAT will now be presented to Parliament by end-November 2013, still in time for implementation by the start of the 2014/15 budget cycle.

Prospects for the remainder of FY2012/13

16. The Government envisages the overall fiscal deficit not to exceed 5.8 percent of GDP for the whole year 2012/13. The recently approved World Bank energy support operation loan equivalent to 0.3 percent of GDP will be on lent to TANESCO. Direct taxes are expected to continue to perform well, but the overall domestic revenue would end up being below the target due to the shortfalls in indirect taxes and nontax collection. Spending will be adjusted to available resources while protecting key expenditure items, including investment and priority social spending.

17. In March 2013, the Government raised US$600 million from international capital markets in a private placement underwritten by Standard Bank/Stanbic. The Government is committed to meeting the ENCB cumulative ceiling of US$2,688 million through end-June 2013.

II. ECONOMIC PROGRAM FOR 2013/14 AND THE MEDIUM TERM

18. The primary focus of the 2013/14 budget and the medium term is to consolidate the achievements of preceding years and achieve the aspirations of the Five Year Development Plan 2011/12-2015/16 and MKUKUTA II. GDP is projected at 7.0 percent in 2013 with prospects of picking up further, supported by the implementation of strategies/policies such as Agricultural Sector Development Program (ASDP), Southern Agricultural Corridor of Tanzania (SAGCOT), Special Economic Zones; and infrastructure development. GDP growth is expected to be driven by manufacturing, transport, storage and communications, real estate, renting & business activities; and financial intermediation.

19. Several factors point in the direction of further easing of inflationary pressures in the coming months, including tight monetary policy; fiscal consolidation; continued stability in the world market oil prices; and improved food supply in the EAC region. Based on these factors, the headline inflation is projected to decline to 9.5 percent by end-June 2013 and further to 7.0 percent by December 2013.

20. The current account balance is projected to record a deficit of 14.9 percent of GDP in 2013/14 and decline further in subsequent years, as domestic gas powered electricity generation leads to lower demand for imported petroleum products.

A. Fiscal policies for 2013/14 and medium term

21. The government's policy objectives for 2013/14 and the medium term will focus on maintaining macroeconomic stability, ensuring that spending is in line with available resources and maintaining debt sustainability by strengthening domestic revenue collection and enhancing debt management. This is in line with the overarching objective of the Five Year Development Plan I as well as MKUKUTA II of ensuring economic growth and sustainable poverty reduction.

Budget for 2013/14

22. The overall deficit after grants is projected to narrow to 5.0 percent in 2013/14. This is in line with the objective of maintaining macroeconomic stability with the creation of fiscal buffers in the medium term. The government is planning to implement tax policy measures amounting to 1.2 percent of GDP in addition to the administrative measures estimated to yield 0.3 percent of GDP. In the event of tax revenue shortfalls during the fiscal year (indicative target), the authorities stand ready to reduce non-priority expenditure, including slowing down new recruitment. The deficit will be financed through the projected concessional and non-concessional loans.

Revenues

23. Revenue is projected to increase with continued economic growth and the government's efforts to improve tax and nontax laws and administration. Subsequently, revenue to GDP ratio (including nontax revenue and local governments' own sources) is estimated at 19.9 percent of GDP in 2013/14, rising gradually over the medium term.

- **Tax**. The government will implement the following policy and administrative measures in the medium term: (i) review VAT Act Cap. 148; (ii) develop second Medium and Long term Revenue Mobilization Strategy 2013/14–2017/18; (iii) implement the TRA's fourth (4th) Corporate Plan 2013/14–2017/18; (iv) reduce tax exemptions to 1 percent of the Gross Domestic Product; (v) continue to build staff capacity in specialized sectors i.e oil and gas, coal, mining, real estates, communications, multinationals & financial services; (vi) enhance use of Electronic Fiscal Devices; (vii) widening tax base through formalization of business operating in informal sector.

- **Nontax**. The Government has started to undertake a comprehensive review of the Public Finance Act (PFA) together with reviewing consequential legislations on various public corporations, agencies and special funds, some of which collect fees, levies and duties with a view to enhancing their contributions to the Consolidated Fund. The Non tax revenue collection for 2013/14 is projected at 1.3 percent of GDP while the LGA's own sources estimate is 0.7 percent of GDP. In order to improve non tax revenue collection, the government will continue to strengthen the capacity of MDAs and LGAs to efficiently and effectively administer revenue collections.

24. The cabinet paper on the proposed Tax Administration Act was submitted to the Cabinet during the second week of March, 2013. The Act will put in place unified tax administration procedures related to, among others, taxpayers record keeping, taxpayers complains procedures against the Commissioner of TRA, and imposing of fine and penalties for compliance of tax laws. Attorney General is drafting the bill before submitting to Parliament in the financial year 2013/14.

25. The Government will introduce a new VAT Act to replace the existing VAT Act, 1998 for the purpose of modernization of VAT administration, streamlining of VAT exemptions as well as ensuring that the Act is commensurate with international best practice in VAT administration. The drafting of the new VAT Act is in progress with a draft framework of the law and respective policy paper being developed. It is expected that both internal Government consultation and comments by various stakeholders on the draft will be made before end-September, 2013 so that the VAT Bill could be submitted to the Parliament in November, 2013 for the first reading. The new VAT Act is expected to be in place by July 1, 2014.

Expenditure policies

26. Expenditure is aligned with the Medium Term National Development Plan and MKUKUTA II, which envisage scaling up the implementation of key development projects, improving social services and promoting private sector participation through public private partnership (PPP). Total expenditure is estimated at 29.3 percent of GDP in 2013/14. The increase in recurrent spending is explained by the need to finance one time expenditure related to national referendum, updating voters registry and special constitutional Assembly as well as an increase in the minimum wage. Interest payments on external debt are projected to increase from 1.4 percent of GDP in 2013/14 to 1.8 percent in 2015/16. The increase is largely attributed to repayments of external non concessional borrowing, which started in 2010/11. Domestic interest payments are projected to stabilize at around 1.1 percent in the medium term.

27. Development expenditure is estimated at 9.3 percent in 2013/14, with the main focus on strategic projects including power plants (Kinyerezi I and II), construction of roads, implementation of water projects, and rehabilitation of the central railway line.

28. The government is planning to contract and borrow external non-concessional loans of up to US$700 million in 2013/14. A large part of ENCB will be used to finance two gas power plants with additional generation capacity of 390MW. Donor-funded concessional loans are projected at 2 percent of GDP, while net domestic financing is expected to be 1 percent of GDP.

B. Public Finance Management

29. The government is committed to further strengthen the Public Finance Management (PFM) systems by continuing to implement Public Finance Management Reform Program which is in its fourth phase (PFMRP IV).

30. To improve tracking of domestic arrears, the government has been compiling data from MDAs on unpaid claims—which are yet to be verified as arrears—on a quarterly basis, and has been sharing the data with the IMF and other development partners. Unpaid claims over 90 days old amounted to TSh 490 billion as of end-March 2013, compared with TSh 197 billion at end-June 2012. The Government will develop and implement an expenditure arrears management strategy, including establishing the stock of expenditure arrears through stocktaking, verification and proper classification of the verified unpaid claims, and developing and implementing an arrears liquidation strategy. The Government's efforts to reduce domestic arrears will include the issuance of an internal financial circular re-emphasizing the requirement that all accounting officers make use of the IFMIS to enhance commitment control on all budgeted expenditures. Furthermore, the Accountant General's Department is migrating to IPSAS accrual, whereby all existing arrears will be recognized, audited, and included in the Government's financial statements, and form the basis for payments. The adoption of the IPSAS will strengthen financing plans for multi-year projects and contracting**.**

Public debt management

31. The government has decided to transform its debt management practices to be aligned with the International Sound Practice Framework for Managing Debt. This requires evolving from pure resource mobilization, debt data recording, and debt service, towards a greater emphasis on prudent management of the debt to achieve long-term objectives such as meeting the funding needs of the Government at the lowest possible cost consistent with a prudent degree of risk, and to promote development of the domestic debt market. This can only be achieved through a proper Legal and institutional framework. Therefore, the government decided to consolidate the debt management functions under a one Department as one stop centre for debt management.

32. The approval of the DMO structure will pave the way forward in revising National Debt Strategy of 2002 and amendment of the Government Loans, Guarantees and Grant Act No. 30 of 1974 as amended in 2004 as key prerequisite condition for fully operationalization of the DMO.

33. Government has decided to obtain a sovereign credit rating for Tanzania and subsequently to issue sovereign bond for financing infrastructure projects. Citigroup Global Markets Limited was selected through competitive bidding as an advisor and the rating exercise is expected to be completed early next financial year. This should improve Tanzania's access to international financial markets and enable the government to borrow at more favorable terms.

Fiscal transparency

34. In line with the continuous efforts to improve fiscal transparency, the Ministry of Finance has /published on its internet website the complete 2013/14 budget documents (Volume II–IV) as submitted to the Parliament by the first week of May 2013. The ministry will also publish the 2013/14 budget together with 2012/13 Reallocation warrants as passed by the Parliament in August 2013 and the summary 2013/14 "citizens' budget" in October 2013.

C. Power Sector

35. One of the priorities is to provide abundant supply of electricity to the economy while ensuring financial sustainability of the energy sector. For this purpose, in collaboration with the World Bank the government developed and approved an action plan for TANESCO (structural benchmark) that has been shared with the IMF. A major component of the plan is the expected large decline in the cost of power generation from 2015, when a new gas pipeline is expected to start delivering cheap natural gas from domestic fields to power plants, including two new gas-fuelled plants in Kinyerezi. The construction of these plants has been appropriated in the 2013/14 budget and will be financed by external non-concessional borrowing. At the same time, TANESCO will strengthen its operations to minimize technical losses, and improve collections and recovery of arrears from electricity users. The plan also addresses TANESCO's deficits in the interim period as follows:

36. For the fiscal year 2012/13, TANESCO's financing needs are estimated at US$438 million (including accumulated arrears to suppliers of about US$270 million). TANESCO has already contracted a government guaranteed loan of US$65 million in the domestic market, while the government reallocated an equivalent of US$254 million in the budget from lower priority areas to TANESCO. Another US$100 million will be covered by a slight increase in the budget deficit (from 5.5 percent of GDP to 5.8 percent)—the amount is equal to the World Bank loan approved by its Board on March 26 under the First Power and Gas Sector Development Policy Operation. The remaining US$19 million will be carried over into FY2013/14.

37. For 2013/14, with unchanged electricity tariffs, TANESCO's financing needs are tentatively projected at about US$352 million (including US$19 million from 2012/13), but may be different depending on hydrological conditions and other factors. Given the uncertainty, the central government budget for 2013/14 will include a direct transfer to TANESCO of US$105 million (the amount not to exceed 2.5 percent of total expenditures excluding consolidated fund services, wages and foreign financed development spending), which will be transparently reported. Any remaining financing gaps will be covered within the fiscal year by additional revenue enhancing measures, including an increase in electricity tariffs, for which TANESCO will resubmit its application to EWURA (the national utilities regulator).

D. Monetary, financial sector, and exchange rate policies

Monetary and exchange rate policies

38. The BoT intends to complement the current reserve money targeting framework with a more active use of interest rates in implementing its monetary policy. To this end, BoT has started an internal review of its existing liquidity operations and interest rate structure, to be completed by end-December 2013, as part of the process to develop an active policy rate. The BoT is continuing to enhance its expertise and benefit from technical assistance in support of these objectives.

39. Monetary policy will aim at maintaining single digit inflation and achieving not more than 7.0 percent by end-December 2013, with a view to attaining the inflation rate target of 5 percent in the subsequent years. Accordingly, the target for average reserve money growth (y-o-y) at end-June 2013 is revised from 15.7 percent in the previous MEFP to 14.2 percent, with a further reduction to 10.8 percent by end-December 2013. Credit growth is also expected to slow down from 17.4 percent in June 2013 to 15.2 percent by end-December 2013. The BoT is committed to undertaking further measures to tighten monetary policy stance in the event that the expected inflation is above the stated objectives.

40. The flexibility of the exchange rate will be further enhanced to help cushion against adverse external developments. The BoT will participate in the foreign exchange market only for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate, while continuing to increase the level of international reserves as a share of imports.

Financial sector stability and efficiency

41. Financial soundness indicators show that the banking sector remained sound and stable. As at the end of December 2012, the banking industry was well capitalized with liquidity levels above the regulatory requirements. The overall quality of the loan portfolio improved as reflected by the ratio of non-performing loans to gross loans which decreased to 7.8 percent in March 2013 from 8.3 percent in June 2012. Although the stability of the financial industry looks promising for the near future, risks remain. Thus, the BoT will continue to maintain vigilance over developments in the financial system, including monitoring compliance against the new required minimum core capital for banks. In addition, the BoT will raise Tier 1 and Tier 2 capital ratios by 2.5 percentage points by end June 2013 to conform to best practice recommended by Basel Committee for Effective Banking Supervision. The buffer is expected to support capital sustainability and reduction of dependence on bailout during crisis.

Social security system reforms

42. The Social Security Regulatory Authority (SSRA) is working closely with the Ministry of Finance to address the Government's outstanding liabilities to the Public Service Pensions Fund

(PSPF) related to the legacy of the previous pension scheme.[1] The 2013/14 budget allocates TSh 50 billion repayment of the Government's liabilities, up from TSh 30 billion in 2012/13.

43. The review of the public pension system conducted in collaboration with the World Bank has revealed that all the defined-benefit pension funds have actuarial shortfalls. The Government intends to reform pension entitlement rules to help restore actuarial balance in the funds. The SSRA is preparing new benefits guideline that harmonizes contributions rates and benefit package. Further, SSRA in collaboration with the Ministry of Labour and Employment is developing a Social Security Reform Program that outlines the Social Security Schemes (SSS) reform process. Meanwhile, the Government has approached the World Bank for a possible multi-year loan package which could provide resources to support near-term benefit payments.

Anti-money laundering policies

44. During the discussions of Financial Action Task Force's International Cooperation Review Group (ICRG) which took place in Paris, France February, 2013 on Monitored Jurisdictions which are not Making Sufficient Progress, Tanzania was considered to have taken substantive steps towards implementing its action plan. The only remaining substantive issue to be resolved in Tanzania's Action Plan relates to the adequacy of the framework to implement United Nations Security Council Resolutions (UNSCR) 1267/1373 obligations relating to identification and freezing of terrorist assets.

III. OTHER PROGRAM ISSUES

Statistical issues

45. The Ministry of Finance in collaboration with the National Bureau of Statistics has made progress in compiling fiscal accounts in Government Finance Statistics Manual (GFSM) 2001 format and submitted to the IMF for publication on January, 2013. The 2013/14 budget presented in the GFSM 2001 format will be shared with the IMF by August 2013. Meanwhile, the compilation of quarterly provisional fiscal outturns in the format will be started and shared with the IMF from the first quarter of 2013/14 with the lag of six weeks after each quarter. In the medium term the Government will continue to improve data on public sector financial and nonfinancial assets, including valuation and verification of non-financial assets.

[1] The PSPF was converted to a contributory fund, from a non-contributory scheme, on July 1, 1999. The Government remains in charge of paying pension benefits accrued before the PSPF became a contributory fund. However, no payment has been made by the Government since July 1, 2004. The World Bank estimates that the Government's outstanding liabilities to the PSPF amount to TSh 1.2 trillion (2.5 percent of GDP) as of 2012/13.

46. The Visitors' Survey in the high and low tourist seasons, together with a survey on resident travelers and compilation of the Survey of Companies with Foreign Liabilities (SCLF) will be conducted semi-annually, starting in 2013/14.

47. The Ministry of Finance in collaboration with the BoT started compiling the Gross External Debt Position (GEDP) data on a quarterly basis in September 2012 for publication in the Quarterly External Debt Statistics (QEDS) database, with a view to ensuring consistency in external debt data.

Program monitoring

48. Progress in the implementation of the policies under this program will be monitored through performance criteria (PC), indicative targets (IT), and structural benchmarks (SB) as documented in the attached tables. The third review under the SCF arrangement is expected to be completed by December 31, 2013.

MEFP Table 1. Tanzania: Quantitative Assessment Criteria (AC), Performance Criteria (PC) and Indicative Targets Under the Policy Support Instrument and Stand-by Credit Facility Arrangement
December 2012–December 2013

	December 2012				March 2013				June 2013		September 2013	December 2013
	AC/PC				Indicative Target				PC		Indicative Target	Indicative Target
	Prog [5]	Adjusted Criteria	Actual	Met?	Prog [5]	Adjusted Criteria	Preliminary	Met?	Prog [5]	Revised	Proj	Proj.
	(Billions of Tanzania Shillings; end of period, unless otherwise indicated)											
Net domestic financing of the government of Tanzania (cumulative, ceiling) [1, 2]	300	600	505	✓	400	514	664	X	484	484	100	150
Average reserve money (upper bound) [3]	4,800	4,800	4,685	✓	4,855	4,855	4,669	✓	4,999	4,933	5,195	5,244
Average reserve money target [3]	4,752				4,807				4,949	4,884	5,144	5,192
Average reserve money (lower bound) [3]	4,704				4,759				4,900	4,835	5,092	5,140
Tax revenues (floor; indicative target)[1]	3,961	3,961	3,851	X	5,968	5,968	5,734	X	8,001	8,001	2,369	4,909
Priority social spending (floor; indicative target)[1]	1,033	1,033	1,229	✓	1,550	1,550	1,765	✓	2,066	2,066	570	1,138
	(Millions of U.S. dollars; end of period)											
Change in net international reserves of the Bank of Tanzania (floor) [1, 4]	310	123	166	✓	432	361	546	✓	273	273	64	200
Accumulation of external payment arrears (continuous AC/PC ceiling)	0	0	0	✓	0	0	0	✓	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (continuous AC/PC ceiling) [6,7]	2,688	2,688	1,957	✓	2,688	2,688	2,577	✓	2,688	2,688	3,388	3,388
Memorandum item:												
Foreign program assistance (cumulative grants and loans) [1]	567	567	568		746	746	654		785	785	406	602
External nonconcessional borrowing (ENCB) disbursements to the budget [1]	429	429	39		619	619	640		737	737	167	334

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

[1] Cumulative from the beginning of the fiscal year (July 1).
[2] To be adjusted upward by up to TSh 300 billion for the U.S. dollar equivalent of a shortfall in the combined total of foreign program assistance and ENCB from the amounts shown in the memorandum item. To be adjusted downward by any ENCB disbursed for budget financing above programmed amount for the year as a whole (US$737 million for 2012/13)
[3] Assessment/performance criteria and indicative targets apply to upper bound only.
[4] Floor will be adjusted downward by the amount in U.S. dollars of any shortfall in foreign program assistance and ENCB financing of the government up to the equivalent of TSh 300 billion.
[5] From the fifth review under the PSI and the first review under the SCF arrangement.
[6] Cumulative from July 1, 2010.
[7] The modified cumulative ENCB ceiling of US$3,388 million applies from July 1, 2013.

MEFP Table 2. Structural Benchmarks for Fifth and Sixth Reviews under the PSI and First and Second Reviews under the SCF Arrangement

	Benchmark	Macroeconomic rationale	Date	¶	Status
1)	The Ministry of Finance, Planning Commission, and TRA will prepare a report identifying steps to be taken to prepare Tanzania's macroeconomic management for the new gas economy, and identifying the nature of any corresponding technical assistance needs.	Supports early preparation for major macroeconomic challenges in the years ahead.	End-April 2013	MEFP for 3rd PSI review	Not Met
2)	Establish a new Debt Management Office (DMO) in the Ministry of Finance to consolidate public debt management functions.	Seeks to ensure strong, consolidated monitoring of debt liabilities to underpin sound public debt management.	End-December 2012	36	Not Met
3)	Compile and publish full preliminary balance of payments data on a quarterly basis within 3 months of the end of the relevant quarter.	Seeks to strengthen macroeconomic and policy analysis	End-December 2012 (for data through end-Sept. 2012)	67	Met with delay
4)	Prepare an action plan to restore Tanesco's financial sustainability.	Addresses contingent fiscal liabilities by ensuring financial viability of TANESCO	End-January 2013	42	Met with delay
5)	Submit a new VAT Bill to Parliament	Improve economic efficiency and increase revenue-to-GDP ratio	End-April 2013	23	Not Met Reset to November 2013

Attachment II. Technical Memorandum of Understanding on Selected Concepts and Definitions Used in the Monitoring of the Program Supported by the PSI and the SCF Arrangement

May 17, 2013

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 Tanzania's program supported by the SCF arrangement and PSI, comprising the quantitative assessment criteria under the PSI arrangement; the performance criteria under the SCF arrangement; and the indicative targets and structural benchmarks jointly monitored under the SCF arrangement and PSI.

2. The principal data sources are the standardized reporting forms, 1SRF and 2SRF, as provided by the Bank of Tanzania (BoT) to the IMF, and the government debt tables provided by the Accountant General's office.

II. Definitions

Net international reserves

3. Net international reserves (NIR) of the BoT are defined as reserve assets minus reserve liabilities. The change in NIR is calculated as the cumulative change since the beginning of the fiscal year. 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, of original maturities less than one year; and (ii) outstanding purchases and loans from the IMF.

4. NIR are monitored in U.S. dollars, and for program monitoring purposes assets and liabilities in currencies other than U.S. dollars shall be converted into dollar equivalent values using the exchange rates as of June 30, 2012 (as recorded in the balance sheet of the BoT).

	US$ per currency unit
British pound	1.5607
Euro	1.2589
Japanese yen	0.0126
Australian dollar	1.5106
Canadian dollar	0.9739
Chinese yuan	0.1573
SDR	1.5106

Reserve money and reserve money band

5. Reserve money is defined as the sum of currency issued by the BoT and the deposits of Other Depository Corporations (ODCs) 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 (PSI), performance criterion (SCF), or indicative target.

Net domestic financing of the Government of Tanzania

6. 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 ODCs) and the nonbank public.

7. 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 due from 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

COBELMO (Russia) and the government of Bulgaria; mortgage on acquired sisal estates; compensation claims; and debt of parastatal companies assumed by the government.

8. For 2012/13 and 2013/14, NDF will be measured net of any accumulation of central government claims on the Tanzania Petroleum Development Corporation (TPDC) as a result of the on-lending of an external credit to finance a gas pipeline.

Government deposits at the BoT

9. 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 payment arrears

10. External payment 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. The ceiling on external payment arrears is continuous and applies throughout the year.

Priority social spending

11. Priority social spending comprises spending on agricultural inputs, and central government transfers to local governments for health and education.

Tax revenues

12. Tax revenues include import duties, value-added tax, excises, income tax, and other taxes.

Contracting or guaranteeing of external debt on nonconcessional terms

13. The term "external debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). External debt will be determined on the basis of currency of denomination of the debt. Government external debt is outstanding debt owed or guaranteed by the Government of Tanzania, the Bank of Tanzania, subnational governments, and companies in which the

government has at least 50 percent ownership, unless otherwise stipulated.[2] The ceiling on external debt is continuous and applies throughout the year.

14. Government debt is considered nonconcessional if the grant element is lower than 35 percent, computed using the IMF grant calculator 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 criterion and SCF performance criterion apply not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed for which value has not been received.

Foreign program assistance and program exchange rates

15. Foreign program assistance is defined as budget support and basket grants and loans received by the Ministry of Finance (MoF) 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 assistance does not include nonconcessional external debt as defined in paragraphs 7 and 8. Foreign program assistance is measured excluding bilateral loans in 2012/13 and 2013/14 for purposes of construction of the gas pipeline.

16. The program exchange rate for the period July 1, 2012 through June 30, 2013 is TSh/USD 1605.

III. ADJUSTERS

Net international reserves

17. The end-September 2012, end-December 2012, end-March 2013, and end-June 2013 quantitative targets for the change in the BoT's net international reserves will be adjusted downward by the amount in U.S. dollars of any shortfalls in (a) foreign program assistance and

[2] Excluded for these purposes, except if the government offers an explicit guarantee on the debt, are: Tanzania Investment Bank; Tanzania Port Authority; Tanzania Petroleum Development Corporation; Dar es Salaam Rapid Transport Authority; Economic Processing Zones Authority; National Development Corporation; Small Industries Development Organization; National Housing Corporation; National Identity Authority; Dar es Salaam Water and Sewage Authority; and Tanzania Airport Authority.

(b) external nonconcessional borrowing (ENCB) financing of the government budget in U.S. dollars (up to a limit equivalent to TSh 300 billion at the program exchange rate).

18. The shortfalls will be calculated relative to projections for foreign program assistance shown in table attached to the applicable Letter of Intent and Memorandum of Economic and Financial Polices of the Government of Tanzania titled "Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets under the PSI and SCF arrangement". For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in 2012/13 and 2013/14 for purposes of the gas pipeline.

19. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 16). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

Net domestic financing

20. The end-September 2012, end-December 2012, end-March 2013, and end-June 2013 quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfalls in foreign program assistance and ENCB financing of the government budget in U.S. dollars (up to a limit of TSh 300 billion).

21. The shortfalls will be calculated relative to projections for foreign program assistance and ENCB financing shown in the Table on "Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets under the PSI and SCF arrangement" attached to the MEFP. For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in 2012/13 and 2013/14 for purposes of the gas pipeline. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 16). The cumulative shortfall will be the sum of all quarterly shortfalls in Tanzanian shillings from the beginning of the fiscal year up to the date of assessment.

22. The limits referred to in the previous paragraph will be adjusted downward for any ENCB financing of the government budget in excess of the amount programmed for the year as a whole, indicated in the table referred to in the previous paragraph.

IV. DATA REPORTING REQUIREMENTS

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
The quarterly national account statistics in constant prices.	NBS	Quarterly	3 months
Balance sheet of the BoT (1SRF) and the currency composition of official foreign assets and official foreign liabilities.	BoT	Monthly	1 week
Consolidated accounts of other depository corporations and the depository corporations survey (2SRF and the DCS).	BoT	Monthly	4 weeks
Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	MoF	Monthly	2 weeks
External trade developments.	BoT	Monthly	4 weeks
Balance of payments	BoT	Quarterly	4 weeks
Standard off-site bank supervision indicators for other depository corporations.	BoT	Quarterly	6 weeks
Financial Soundness Indicators 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;	BoT and MoF	Quarterly	4 weeks

Information	Reporting Institution	Frequency	Submission Lag
(iii) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves.[1]			
Amount of payment claims outstanding of more than 30 days, 60 days, and 90 days for all government ministries. For each ministry, total claims outstanding to be divided into: (i) unverified claims; and (ii) claims verified but not yet paid.	MoF	Quarterly	4 weeks
The flash report on revenues and expenditures.	MoF	Monthly	4 weeks
The TRA revenue report	TRA	Monthly	4 weeks
The monthly domestic debt report.[1]	MoF	Monthly	4 weeks
Monthly report on central government operations.	MoF	Monthly	4 weeks
Detailed central government account of disbursed budget support grants and loans, and external debt service due and paid.	MoF	Monthly	4 weeks
Detailed central government account of disbursed donor project support grants and loans.	MoF	Monthly	4 weeks
Statement on new external loans contracted and guarantees provided by the entities listed in paragraph 13 of the TMU during the period including terms and conditions according to loan agreements.	MoF	Quarterly	4 weeks
Report on priority social spending	MoF	Quarterly	6 weeks

[1] The MoF 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 MoF.