

International Monetary Fund

[United Republic of Tanzania](#) and the IMF

United Republic of Tanzania: Letter of Intent

Press Release:
[IMF Executive Board Concludes Third Review of an Arrangement Under the Standby Credit Facility with Tanzania](#)
April, 25, 2014

March 27, 2014

Press Release:
[IMF Executive Board Concludes 2014 Article IV Consultation with Tanzania](#)
May 15, 2014

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

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Letter of Intent

Dar es Salaam
Tanzania

March 27, 2014

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

Dear Madam Lagarde:

The Government of Tanzania requests completion of the last review under the SCF arrangement based on overall performance under the program. In doing so, we request a waiver for the nonobservance of the end-June 2013 performance criterion on net domestic financing, which was breached by 1.2 percent of GDP primarily to offset the revenue shortfalls.

All quantitative indicative targets for September and December 2013 were met with the exception of the floor on tax revenues (addressed through the mid-year budget review), and a marginal breach of the reserve money ceiling in December. A structural benchmark for end-November 2013 on VAT reform was also missed.

In order to meet our deficit target of about 5 percent of GDP for 2013/14; the Government took the following corrective measures: (i) on March 20, 2014, in the context of the mid-year budget review, Cabinet approved revisions to the 2013/14 budget, including downward adjustment to the revenue projections and expenditure cuts; (ii) the Cabinet also approved a policy document outlining the main features of the VAT reform, which the Government plans to submit to Parliament in May 2014; and (iii) to improve TANESCO's financial position and reduce the need for the budget subsidies, electricity tariffs were raised by 40 percent on average starting January 1, 2014.

The Government intends to treat the remaining tranches of the SCF arrangement on a precautionary basis. The Government will continue to maintain close policy dialogue with the Fund. It intends to disseminate this letter and the related Fund staff report, and hereby authorizes the IMF to publish the same on its website after consideration by the Executive Board.

Yours Sincerely,

/s/

Hon. Saada Mkuya Salum (MP)
MINISTER FOR FINANCE
UNITED REPUBLIC OF TANZANIA

/s/

Prof. Benno Ndulu
GOVERNOR, BANK OF TANZANIA
UNITED REPUBLIC OF TANZANIA

Table 1. Quantitative Performance Criteria (PC) and Indicative Targets Under the Stand-by Credit Facility Arrangement June–December 2013

	Standby Credit Facility											
	June 2013				September 2013				December 2013			
	Performance Criteria				Indicative Target				Indicative Target			
	Prog ⁵	Adjusted Criteria	Preliminary	Met?	Prog ⁶	Adjusted Criteria	Preliminary	Met?	Prog ⁶	Adjusted Criteria	Preliminary	Met?
(Billions of Tanzania Shillings; end of period, unless otherwise indicated)												
Net domestic financing of the government of Tanzania (cumulative, ceiling) ^{1,2}	484	484	1,069	X	100	400	99	✓	150	450	382	✓
Average reserve money (upper bound) ³	4,947	4,947	4,898	✓	5,195	5,195	5,137	✓	5,244	5,244	5,250	X
Average reserve money target ³	4,898				5,144				5,192			
Average reserve money (lower bound) ³	4,849				5,093				5,140			
Tax revenues (floor; indicative target) ¹	8,001	8,001	7,785	X	2,369	2,369	2,166	X	4,909	4,909	4,486	X
Priority social spending (floor; indicative target) ¹	2,066	2,066	2,273	✓	570	570	708	✓	1,138	1,138	1,321	✓
(Millions of U.S. dollars; end of period)												
Change in net international reserves of the Bank of Tanzania (floor) ^{1,4}	273	309	597	✓	64	-125	223	✓	200	11	310	✓
Accumulation of external payment arrears (continuous PC ceiling)	0	0	0	✓	0	0	0	✓	0	0	0	✓
Contracting or guaranteeing of external debt on nonconcessional terms (continuous PC ceiling) ^{7,8}	2,688	2,688	2,614	✓	3,388	3,388	2,688	✓	3,388	3,388	2,768	✓
Memorandum item:												
Foreign program assistance (cumulative grants and loans) ¹	785	785	878		406	406	283		602	602	539	
External nonconcessional borrowing (ENCB) disbursements to the budget ¹	737	737	679		167	167	78		334	334	78	

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

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 From the sixth review under the PSI and the second review under the SCF arrangement.

⁷ The ceiling through December 2013 is cumulative from July 1, 2010.

⁸ The cumulative ENCB ceiling of US\$3,388 million through December 2013 applies from July 1, 2013.

Table 2. Structural Benchmarks 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 3 rd 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	Improves economic efficiency and increase revenue-to-GDP ratio	End-November 2013	23	Not Met Measure Delayed to May 2014