

International Monetary Fund

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July 16, 2014

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

June 27, 2014

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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 a policy support instrument 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.

Letter of Intent

June 27, 2014

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

Dear Madam Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) accompanies Tanzania's request for a new Policy Support Instrument (PSI). It reports on recent economic developments and sets out macroeconomic policies and structural reforms that the Government will pursue in the following three years.

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 further measures that may become appropriate for this purpose and that are in line with the Government's policy objectives. 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.

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 after consideration by the Executive Board.

Yours Sincerely,

/s/

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

/s/

Prof. Benno Ndulu
GOVERNOR, BANK 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.

Attachment I. Memorandum of Economic and Financial Policies

June 27, 2014

I. MACROECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Macroeconomic Developments and Outlook

Output and Inflation

1. **Growth.** Economic growth remained strong in 2013, at 7.0 percent compared to 6.9 percent recorded in 2012. The sectors displaying the highest growth rates were communications, financial intermediation, construction, wholesale and retail trade, and manufacturing. Overall economic growth is projected at 7.2 percent in 2014. Downside risks remain, associated with the decline in global prices of traditional exports and gold.
2. **Inflation.** During the second half of 2013, headline and core inflation declined continuously, consistent with the tight monetary policy and softening of supply side shocks. Annual headline and core inflation declined from 12.1 percent and 8.9 percent respectively in December 2012 to 5.6 percent and 4.5 percent in December 2013, but picked slightly to 6.1 percent and 4.7 percent in March 2014. Inflation is projected to reach the medium term target of 5 percent by end-2014. Upward risks stem from the increase in power tariffs, which contributed to an uptick in inflation in January 2014; the food supply situation in other EAC/SADC countries; and uncertainty in the MENA countries, which may exert upward pressure on oil prices.

External Sector Developments

3. **Current Account.** The current account recorded a deficit of US\$4.7 billion in 2013 compared to a deficit of US\$3.5 billion in 2012, mainly driven by the decline in the world market prices of gold and major traditional exports, coupled with higher oil import volumes. Meanwhile, services receipts continued to perform better, supported by high tourist arrivals following a steady increase in recent years. As global economic prospects remain good, exports are expected to maintain moderate increase driven by travel, manufacturing and transportation, whereas import growth is expected to remain subdued on account of the projected decline in the price of oil. Downward risks in the near term stem from the projected decline in gold prices and the continued low price of the major traditional exports, particularly cotton and coffee. The current account balance is projected to record a deficit of 14.5 percent of GDP in FY2013/14 and gradually shrink in subsequent years, as domestic gas powered electricity generation leads to lower demand for imported petroleum products.

Fiscal Performance and Financing in Fiscal Year 2012/13

4. **Fiscal Deficit.** The overall fiscal deficit of the central government amounted to 6.8 percent of GDP. Revenues turned out considerably below budget projections, and fell short of the program target by 0.6 percent of GDP. Income taxes displayed a strong performance, partly explained by enhancement of collection efforts and recovery of tax arrears. Total expenditure was higher than the program target by 0.4 percentage points of GDP. Meanwhile, the stock of domestic unpaid claims (older than 90 days) by the government rose to 1.0 percent of GDP at end-June 2013 from 0.5 percent of GDP the previous year.

5. **Foreign financing.** Net foreign financing disbursements were 0.3 percent of GDP lower than program projections mainly due to shortfall in disbursements of program and non-concessional loans. External non-concessional loan contracting during FY2012/13 was US\$2,000 million, of which US\$1.2 billion for the gas pipeline and US\$600.5 million from international capital markets in a private placement. Cumulatively from July 1, 2010 through June 2013, the Government contracted a total of US\$2,614 million.

6. **Domestic Financing.** Net domestic financing of the government budget amounted to TShs 1,069 billion, in excess of the SCF performance criterion at end June 2013 by 1.2 percent of GDP. This was largely used to offset lower revenues (0.7 percent of GDP) and finance additional domestic expenditure (0.4 percent of GDP).

7. **Government debt.** The total public debt stock stood at \$14,624.9 million or 47.1 percent of GDP at the end of 2012/13. This amount consists of public external debt of \$10,215.9 million, equivalent to 32.9 percent of GDP, and the balance is domestic debt. In present value terms, based on the government's own debt sustainability analysis, the public external debt to GDP ratio at the end of 2012/13 was 19.5 percent, well below the 50 percent threshold used to assess debt sustainability by the IMF and World Bank.

Monetary Policy

8. **Monetary policy stance to date.** Tight monetary policy has helped to bring down inflation. Meanwhile, the exchange rate has remained fairly stable, depreciating by an average of 3.7 percent since December 2012; short term money market rates increased somewhat. Growth of monetary aggregates was broadly in line with the SCF targets for December 2013, with M3 growing at 10.0 percent compared to the projected rate of 10.8 percent and private sector credit at 15.3 percent compared to 15.2 percent projected.

Financial Sector and Capital Account

9. **Financial soundness and development.** In 2013, the banking sector remained profitable and adequately capitalised. Core capital to total risk weighted assets was at 17.6 percent at end-2013, well above the minimum regulatory requirement of 10 percent. Non-performing loans declined to 6.5 per cent at end-2013 from 8.1 per cent at end-2012. Most commercial banks have complied with the new minimum capital requirement of TZS 15 billion (compared with the previous requirement of TZS 5 billion) ahead of the February 2015 deadline. The sector has continued to offer a wide range of products and services in the market, including branchless banking through agent banking, micro-finance and leveraging technological innovations. In addition, in September 2013, the Government launched the Enterprise Growth Market (EGM), which allows small business entities to access capital market.

10. **Portability of pensions.** Implementation of financial sector reforms continues to bear fruit. In August 2013, the Social Security Regulatory Authority (SSRA) issued guidelines on Social Security Schemes, which provide guidance on treatment of members who have been subjected to membership of more than one scheme due to changes in the conditions of employment. This will safeguard the interest of members by protecting their benefit rights acquired through different employment.

11. **East Africa Payment System (EAPS).** Tanzania, Kenya and Uganda have linked their Real Time Gross Settlement Systems to facilitate payments among the EAC countries. The EAPS went live in November 2013 between the three countries above; Rwanda and Burundi will soon join the system. EAPS is expected to enhance trade among member states, by speeding up payments using members' domestic currencies.

12. **Capital account liberalization.** Tanzania has liberalized its capital account to East African Community (EAC) residents to allow freer movement of capital within the region, to facilitate intra EAC trade, financial flows and investments. This achievement is a significant step towards the implementation of the EAC Common Market Protocol. The Government has committed to have full capital account liberalization with the rest of the world by December 2015 in line with the EAC Common Market Protocol.

13. **Anti-Money-Laundering Policies.** Tanzania has implemented the remaining action plan on United Nations Security Council Resolutions (UNSCR) 1267/1373 obligations relating to identification and freezing of terrorist assets. The Prevention of Terrorism Act was amended by Parliament in November 2013. The Prevention of Terrorism Regulations are aligned with the amendments of the parent law and provide for adequate procedures to identify and freeze terrorist assets according to UNSCR 1267/1373.

B. Program Performance Leading to Completion of the final SCF Review

14. **Quantitative performance criteria (PCs).** All quantitative PCs under the Standby Credit Facility (SCF) program for end June 2013 were met, except the ceiling on Net Domestic Financing (NDF) of the Government, which was missed by 1.2 percent of GDP. The cumulative increase in net international reserves (NIR) exceeded the program floor by a good margin. In response to the missed target on the NDF, the government undertook the following actions: (i) instituting revisions to the 2013/14 budget in the context of the mid-year budget review, including downward adjustments to the revenue projections and expenditure cuts of almost 2 percent of GDP to goods and services compared to the initial 2013/14 budget; (ii) obtaining Cabinet approval for the main features of a reform to the VAT regime, which the government will submit to Parliament by June 2014; and (iii) implementing increases in electricity tariffs averaging around 40 percent on January 1, 2014 to improve the financial position of the electricity utility (TANESCO) and to reduce the need for the budget subsidies (Para 35 of this memorandum).

15. **Indicative targets.** Most indicative targets for end-September and December 2013 were met, except for the December 2013 target on average reserve money, which was missed by a small margin, and the September and December 2013 indicative targets on revenues.

16. **Structural benchmark.** Progress was made on the VAT reform, whereby the Government will introduce a new VAT Act to replace the existing one for the purpose of broadening the tax base, reducing exemptions, and modernizing the VAT administration (including through a strengthened mechanism for VAT refunds). The benchmark on submission to parliament by November 2013 was missed. The Cabinet has approved a policy paper outlining the VAT reform, and a draft bill has been shared for comments with stakeholders. The Government is committed to sending the VAT reform bill to parliament during the May/June 2014 session, in time for approval prior to the beginning of the 2014/15 fiscal year.

II. THE ECONOMIC PROGRAM FOR 2014/15 AND THE MEDIUM TERM

17. Over the past decade good progress has been made on MDG indicators. In particular, child mortality and HIV prevalence have declined, while school enrolment increased significantly; and based on the 2011/12 Household Budget Survey the poverty headcount declined from 33.6 percent of the population in 2007 to 28.2 percent in 2011/12. This was made possible by implementing policies and reforms that strengthened macroeconomic stabilization, promoted private sector led growth, and prioritized healthcare, education and poverty reduction. Going forward the Government will continue policies that focus on poverty alleviation by sustaining broad-based growth and by providing sufficient budgetary resources to address the needs of the most vulnerable. The Government continues to implement the five year growth and poverty reduction strategy (MKUKUTA II, July 2010-June 2015) and the Five Year Development Plan

(2011/12-2015/16). As MKUKUTA II approaches its end, the Government is in the initial stages of developing a successor strategy, and is considering ways of harmonizing MKUKUTA and the Five Year Development Plan so as to have a single guiding framework and to conserve resources.

A. Monetary and Exchange Rate Policies

18. **Monetary policy stance for 2014/15.** To safeguard against upward risks to inflation, the Bank will maintain the current stance in order to reduce second round effects of power tariff adjustment, and remain vigilant to take additional measures in the event that supply shocks resurface. Going forward, average reserve money growth is targeted at 13.9 percent for end June 2015, while M3 is projected to grow by 15.5 percent. This is estimated to give room for growth of private sector credit of 16.0 percent.

19. **Modernizing the monetary policy framework.** In the medium term, the BoT intends to move towards an interest rate based framework. Initial steps will include studying the relationship between excess reserves and short-term interest rates, and understanding and strengthening the transmission mechanism (including through a better-functioning interbank cash market). Ultimately, the BoT will begin to use its daily operations in an effort to maintain the interbank cash market rates within a pre-announced target range. One benefit of these reforms is that it will enable the BoT to send clear signals about the stance of monetary policy to the public and the markets.

20. **Exchange rate.** 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. The objective is to attain a minimum level of gross international reserves equivalent to 4 months of imports of goods and services at end-June 2015, in line with the Bank of Tanzania Act.

21. **Banking supervision framework.** The BoT is reviewing various regulations and developing new ones to incorporate developments in the financial sector, requirements of best practice and emerging risks arising from financial innovations. The 2008 regulations have been reviewed, taking into account EAMU harmonization criteria, and a revised version was submitted to the Attorney General's Office on 3rd June 2014. In addition, the consolidated supervision regulations were also submitted to the Attorney General's Office on the same date. Finally, the BoT is in the process of developing new regulations covering different areas including mergers and acquisitions, bank holding companies, and Islamic banking.

B. Fiscal Policies

Developments in 2013/14

22. **Implementation of the 2013/14 budget.** The government remains committed to attaining an overall deficit after grants equivalent to 5.2 percent of GDP in 2013/14. Since the beginning of the fiscal year, the Government has been withholding a portion of the budgetary

allocations, in view of shortfalls in tax revenues and foreign financing. The Cabinet has approved a reduction of expenditures in the context of its mid-year budget review.

23. **Prevention and reduction of arrears.** In an effort to stem the increase in arrears, the Government has continued to take measures, including: (i) identification, verification, and clearance of a significant portion of longstanding domestic arrears; (ii) a halt in the contracting of new multi-year projects solely financed by domestic resources in key ministries; (iii) the establishment of a high-level committee on arrears, involving representatives of the MoF, BoT, Planning Commission, Ministry of Works, and the Accountant General; and (iv) Accounting Officers have been directed to use IFMS generated local purchase orders to avoid awarding unfunded tenders. Preliminary estimates place the outstanding stock of unpaid claims (with duration above 90 days) at TSh1,098 billion at end-March 2013. The Government's objective is not to permit a further net increase in the stock of unpaid claims, and indeed to start reducing it. To that end, an allocation has been included in the budget for 2014/15, with priority to clearing the oldest arrears. In the event that tax revenues exceed the program assumptions (indicative target in Table 1), the overage will be devoted an accelerated net reduction of domestic arrears.

Budget for 2014/15 and Medium-Term Fiscal Policies

24. **Budget for 2014/15.** The Government's fiscal policy in the medium term will continue to foster economic growth and development while ensuring debt sustainability. Fiscal policy in 2014/15 is aimed at ensuring continued deficit reduction, with further gradual reduction envisaged in the coming years. The budget deficit (including grants) for 2014/15 is expected to be 4.9 percent of GDP. Budget preparation takes place against the background of declining budget support grants. A domestic effort to increase revenues is being made through the reform of the VAT and other tax laws, as well as enhanced revenue administration measures, including full application of the tax measures introduced in 2013/14. This creates space for a moderate increase in expenditures as a share of GDP (by comparison to the likely outturn in 2013/14), with a focus on development spending and an allocation for the net reduction of domestic arrears.

25. **Revenues.** Beyond the VAT reform, medium-term efforts to mobilize revenues include: (i) further build-up of staff capacity in specialized sectors (oil and gas, coal, mining, real estates, communications, multinationals & financial services); (ii) enhanced use of Electronic Fiscal Devices; (iii) widening the tax base by bringing more businesses into the formal sector; and (iv) in the context of the review of the Public Finance Act (PFA), reviewing consequential legislations on public corporations, agencies and special funds as pertaining to the collection of non-tax revenues (fees, levies and duties, and ensuing contributions to the consolidated Fund).

26. **Expenditures.** Expenditure policies, consistent with the availability of resources, continue to reflect the priorities embedded in Mkukuta II and the Five Year Development Plan, as well as the Big Results Now initiative, with the overarching objectives of sustaining growth and reducing poverty. These envisage scaling up the implementation of key development projects (e.g., power

generation and transmission, agriculture and irrigation, railroads), facilitated by the Government's commitment to using external non-concessional borrowing for infrastructure projects only; and improvement of critical social services, through targeting a minimum level of priority social spending (indicative target).

C. Public Finance Management

Management of domestic arrears

27. To safeguard the integrity of budget preparation and execution, the Government has continued to establish and verify the stock of arrears, and is developing an arrears liquidation strategy. Payment will be effected through a central budget allocation, after the IAG's verification that the arrears are genuine. Several measures have been taken to prevent further accumulation: (i) revenues have been projected at realistic levels; (ii) budget allocations for projects have been aligned with projected implementation plans; (iii) commitment controls have been strengthened by requiring MDAs to register all commitments in IFMIS, including multi-year contracts, allowances, and utility payments; (iv) efforts to improve cash forecasting and management are underway to ensure that liquidity is available to meet payment obligations as they arise. Under the umbrella of the Public Expenditure Review, with support from East AFRITAC, a survey of payment arrears as of end-March 2014 has begun and is expected to be completed before end-September, with a view to identifying further measures to strengthen the reporting, management, and liquidation strategy of payment arrears.

Public debt management

28. With technical support from the World Bank, East Afritac and the MEFMI, in September 2013, the Government conducted a debt sustainability analysis (DSA), which covers both domestic and external debt. The DSA findings are expected to serve as key inputs for the country's new Public Debt Management (PDM) Strategy that will guide the government borrowing policy going forward. The medium-term debt strategy (MTDS) was also updated in November 2013 with support from a joint IMF-World Bank technical assistance mission. On public debt legislation, the MoF has been working on the revision of the current Loans, Guarantees and Grants Act to incorporate provisions that will insure a greater control of public indebtedness growth, and limit fiscal risks stemming from contingent liabilities. The new Loan, Guarantees and Grants Act, whose draft the Government expects to finalize and submit to Cabinet by 2014/15, will include provisions for a yearly ceiling on the amount of direct public borrowing and a limit on the amount of loan guarantees Government can grant to other public entities such as Public authorities and other bodies (PA&OBs). It will also contain provisions for a greater control by MOF of those projects financed under the Public Private Partnership framework that may have fiscal implications for the Government.

Monitoring and Management of Fiscal Accounts in the Public Sector

29. **Budget documents.** To enhance fiscal transparency, the Ministry of Finance will publish on the Ministry's website the complete 2014/15 budget documents (Volumes II-IV) as submitted and approved by the Parliament by May and August, 2014 respectively. The Ministry will also publish the 2013/14 Reallocation warrants as passed by the Parliament and the summary 2014/15 "citizens' budget" by August 30th 2014. The MoF will continue to publish these documents annually.

30. **Public enterprise financial statements.** To enhance the availability of information on public enterprises, the annual Treasury Registrar Statements transmitted to Parliament and published will be made more comprehensive by including tabular information on each parastatal's revenues, expenditures, and profits and losses (beginning with the September 2014 statements for the year ended June 30th, 2014)

31. **Guarantees.** The Government continues to compile, and to share with IMF staff, a report of all government guarantees on a semi-annual basis. The report indicates that new guarantees thus far during FY2013/14 amount to about US\$ 200 million.

32. **Public Finance Legislation.** The Government is preparing an Amendment to the Public Finance Act to improve management and control of public funds, to ensure compliance with the generally accepted international accounting standards, and to harmonize legislation in this area with other Partner States of the East African Community. A Cabinet Paper for the proposed Amendment will be submitted to Cabinet in June 2014. To complement the Public Finance Act, the Government is preparing a new Budget Act that will strengthen budget formulation, scrutiny, execution, monitoring, controls, transparency, and accountability. The draft bill is expected to be tabled to the Parliament in FY2014/15.

33. **Migration to IPSAS Accrual Accounting.** The Government is committed to comply with the International Public Sector Accounting Standards (IPSAS) on accrual basis of accounting by migrating from IPSAS cash accounting system. Implementation of the five year action plan (2012/2013-2016/2017) is under way, and the Financial Statements for FY2012/13 have been completed.

34. **Program-Based Budgeting.** Efforts are under way to begin planning, authorizing, executing, and monitoring budgetary expenditures in terms of programs, with a focus on outcomes and outputs.

Fiscal Aspects of Energy and Pensions

35. **Power sector.** Significant progress was made toward restoring the financial sustainability of TANESCO (the national utilities company). The independent energy regulator, EWURA, announced an electricity tariff increase by 40 percent on average, effective January 1, 2014. A

new tariff structure that periodically adjusts to inflation and changes in oil prices and the exchange rate, also became effective. During the current fiscal year, to clear part of the stock of past arrears, to cover new losses, and to repay existing loans, TANESCO borrowed an amount equivalent to US\$250 million commercially (of which about US\$84 million in foreign currency) and received a direct budget transfer of TSh124 billion from the World Bank's First Power and Gas Sector DPO approved in the latter part of FY2012/13. An additional US\$170 million (financed by the WB's Second DPO, the African Development Bank, and the government's own resources) is expected to be transferred to TANESCO in the current fiscal year. TANESCO is projected to become profitable starting in 2015, when the costs of power generation are projected to fall with the completion of a new gas pipeline and gas-fueled power plants.

36. **Fiscal framework for managing revenues from natural gas.** With good prospects that favorable exploration outcomes may result in major foreign direct investments in the natural gas sector over the next five years, beginning to generate budget revenue flows around the end of the decade, the Government has already developed a Natural Gas Policy and is committed to further developing a comprehensive policy and legal framework for the management of such resources. In particular, this will comprise a natural gas revenue management framework fully integrated with the budget and underpinned by a Natural Gas Revenue Fund. In this context, the Government will draft a policy on fiscal management of gas revenues (submission to cabinet: structural benchmark for December 2014). The Government will also review the fiscal regime (including tax—notably, the Income Tax Act; production-sharing; and other non-tax instruments) to ensure that it is consistent with major new investments in the sector. The Government intends to enhance transparency in all aspects of managing natural resources, including working to improve disclosure of contracts signed with natural gas companies, consistent with the standards of the Extractive Industries Transparency Initiative.

37. **Pension System.** The Government is considering options for addressing a sizable stock of outstanding liabilities to the Public Service Pension Fund, and to cover future pension obligations to pensioners who accumulated rights under the pre-1999 non-contributory system. To enhance the solvency and efficiency of the pension system more generally, and to harmonize benefits across pension schemes, the following are being explored: (i) revisiting the benefit formulas and contributions rates of all the schemes; (ii) merging the various existing pension schemes into one to improve efficiency of administration and investment; and (iii) improving investment opportunities, while complying with investment guidelines. Approval of the Harmonization Guidelines, containing the proposed reform of benefit structure and parameters for all pension funds, is envisaged by September 2014.

D. Complementary Reforms

Improving business environment in support of private sector development

38. The government agenda of competitiveness aims at, among others, attracting private investment to generate growth and employment. The agenda comprises infrastructure development, institutional and legal reforms, reduction of red tape, improving access of small

and medium enterprises to credit with a view to reducing the costs of doing business. In addition, the Government has developed a policy and legal framework to support the PPP model as an option for providing long-term value and reliability to important infrastructure sectors.

39. To address impediments to the private sector development, a new “lab” on improving the business environment has been added to the Big Results Now initiative. The lab has worked on six broad priority areas: 1) realigning regulations and institutions; 2) access to land, security of tenure; 3) taxation, multiplicity of levies and fees; 4) curbing corruption; 5) labor law and skill-set; and 6) contract enforcement, law and order. The lab has recently concluded the preliminary report, which includes number of specific recommendations in each area. These recommendations are currently being carefully evaluated, prioritized and costed for the subsequent submission to the cabinet for approval.

Statistical Issues

40. The Government has made progress in compiling annual fiscal data for 2012/13 in Government Finance Statistics Manual (GFSM) 2001 format and submitted to the IMF for publication on October, 2013. Meanwhile, the compilation of quarterly provisional fiscal outturns in the format is underway. 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.

41. The annual Survey of Companies with Foreign Liabilities (SCFL) was conducted from June–August 2013 to compile data for 2012. Results revealed that the level of foreign direct investment (FDI) is on the increase, recording inflows of US\$1.8 billion in 2012 compared to US\$1.3 billion in the preceding year. The FDI data from the survey have already been incorporated in the BOP statement. Preparations are underway to conduct the SCFL to collect FDI data for 2013. The BoT is also in the process of developing a centralised database through the BoT Data Warehouse Project, which will eliminate multiple databases and improve efficiency in statistical compilation. The project is expected to be completed by December 2017.

Program monitoring

42. Implementation of the program will be monitored through semiannual reviews based on assessment criteria (AC), indicative targets (IT) and structural benchmarks. Assessment criteria for end-June 2014, end-December 2014 and end-June 2015, and indicative targets for end-September 2014 and end-March 2015 are set as per Table 1. The first, second and third reviews under the PSI are expected to take place by December 31, 2014, June 30, 2015, and December 31, 2015 respectively, on the basis of the assessment criteria and structural benchmarks indicated in Tables 1 and 2, attached.

MEFP Table 1. Tanzania: Quantitative Assessment Criteria (AC) and Indicative Targets(IT) Under the Policy Support Instrument, June 2014–June 2015

	June 2014	Sept. 2014	Dec 2014	March 2015	June 2015
	AC	IT	AC	IT	AC
	Proposed	Proposed	Proposed	Proposed	Proposed
(Billions of Tanzania Shillings; end of period, unless otherwise indicated)					
Net domestic financing of the government of Tanzania (cumulative, ceiling) ^{1,2}	793	143	286	429	572
Average reserve money (upper bound) ^{3,6}	5,685	5,903	6,033	6,219	6,473
Average reserve money target ^{3,6}	5,629	5,845	5,973	6,158	6,409
Average reserve money (lower bound) ^{3,6}	5,573	5,786	5,913	6,096	6,345
Tax revenues (floor; indicative target) ¹	9,410	2,775	5,550	8,324	11,099
Priority social spending (floor; indicative target) ¹	2,200	600	1,200	1,800	2,400
(Millions of U.S. dollars; end of period)					
Change in net international reserves of the Bank of Tanzania (floor) ^{1,4,6}	268	82	314	496	578
Accumulation of external payment arrears (continuous AC ceiling)	0	0	0	0	0
Contracting or guaranteeing of external debt on nonconcessional terms (continuous AC ceiling) ⁵	2,420	2,420	2,420	2,420	2,420
Memorandum item:					
Foreign program assistance (cumulative grants and loans) ¹	907	384	572	675	713
External nonconcessional borrowing (ENCB) disbursements to the budget ¹	675	225	450	675	900

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 The cumulative ENCB ceiling of US\$2,420 million applies from January 1, 2014 through June 30, 2016.

⁶ The figure for end-June 2014 is the authorities' projection and is not an AC for the purposes of the first review.

MEFP Table 2: Structural Benchmarks under the Policy Support Instrument

<i>Measure</i>	<i>Macroeconomic rationale</i>	<i>Target date</i>
Public Finance Management/Fiscal Risks		
Provide an allocation in the 2014/15 budget for centralized clearance of domestic arrears. Any payment from this centralized budget should be backed by a list of verified eligible creditors, in line with the priorities of a repayment strategy	To accelerate clearance of domestic expenditure arrears	June 30, 2014
Prepare and publish a fiscal risk statement or subcomponents of it (e.g., a listing of all PPP projects with their key features and information on government guarantees)	To enhance fiscal risk management	May 30, 2015
Monetary, Financial and Exchange Rate Policies		
Submit the draft regulations on consolidated supervision to Attorney General's Office.	To modernize the BoT's supervisory framework to better supervise consolidated financial firms.	June 30, 2014
Conduct a review of the relationship between the interbank cash market rates and excess reserves of commercial banks as a step to transitioning to a more interest rate-based monetary management framework.	To prepare BoT's gradual shift to a price-based monetary framework.	December 31, 2014

Measure	Macroeconomic rationale	Target date
Pension System		
Approve pension harmonization guidelines.	To limit contingent liabilities	September 2014
Prepare a plan to address the outstanding and future obligations to pre-1999 pensioners of the PSPF.	To limit contingent liabilities	June 30, 2014
Public Debt Management		
Prepare the first quarterly reports on (i) all external debt contracts signed and guaranteed by government, (ii) borrowing by public enterprises, and (iii) projected debt service on public debt.	To enhance public debt management	September, 2014
Public Enterprise Management		
Treasury Registrar to publish the audited accounts of public enterprises	To improve transparency and accountability of public enterprises	September 30, 2015
Include tabular information on each parastatal's revenues, expenditures, and profits and losses in Treasury Registrar Statements to Parliament (beginning with the September 2014 statements for the year ended June 30th, 2014)	To improve transparency and accountability of public enterprises	September 31, 2014
Managing Natural Resource Wealth		
Prepare a policy paper on natural gas revenue management framework that fully integrates with the budget.	To strengthen fiscal sustainability and improve transparency in the use of natural gas resources	March 31, 2015

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

June 27, 2014

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 PSI, comprising the quantitative assessment criteria, the indicative targets and structural benchmarks monitored under the 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 March 31, 2014 (as recorded in the balance sheet of the BoT).

	US\$ per currency unit
British pound	1.6649
Euro	1.3787
Japanese yen	0.0097
Australian dollar	0.9236
Canadian dollar	0.9082
Chinese yuan	0.1608
SDR	1.5456

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 for June and December serves as the assessment criterion and that for March and September, the 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 for the 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. 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

14. 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.¹ The ceiling on

¹ 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, National Development Corporation; National Housing Corporation; and Tanzania Airport Authority.

contracting and guaranteeing external nonconcessional debt is continuous and applies throughout the year.

15. Government debt is considered nonconcessional if the grant element is lower than 35 percent, computed using a discount rate of 5 percent. This PSI assessment criterion applies 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

16. 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 13 and 14.

17. The program exchange rate is TSh/USD1,649.

III. ADJUSTERS

Net international reserves

18. The end-of-quarter 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 (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).

19. 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 Policies of the Government of Tanzania titled "Quantitative Assessment Criteria, and Indicative Targets under the Policy Support Instrument". For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted for the gas pipeline..

20. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 17). 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

21. The end-of-quarter quantitative limits on the net domestic financing of the Government of Tanzania will be adjusted upward for any shortfalls in the combined total of foreign program

assistance and ENCB financing of the government budget in U.S. dollars (up to a limit of TSh 300 billion).

22. The shortfalls will be calculated relative to projections for foreign program assistance and ENCB financing shown in the Table on “Quantitative Assessment Criteria and Indicative Targets under the PSI” attached to the MEFP. For purposes of the adjuster, ENCB is measured excluding any non-concessional financing contracted in for the gas pipeline. Each quarterly shortfall will be converted from U.S. dollars to Tanzanian shillings using the program exchange rate (paragraph 17). 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.

23. 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
Daily excess reserves of commercial banks	BoT	Weekly	1 week
Daily data on transactions through IFEM by exchange rate and volume, separating BoT and commercial bank transactions	BoT	Weekly	1 week
Daily data on reserve money and its components	BoT	Daily	1-day
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	BoT	Monthly	1 week

Information	Reporting Institution	Frequency	Submission Lag
currency composition of official foreign assets and official foreign liabilities.			
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; (iii) stock of external arrears; (iv) new contracting or guaranteeing of external debt on nonconcessional terms; and (v) net international reserves. ¹	BoT and MoF	Monthly	4 weeks
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/AGD	Quarterly	4 weeks
The flash report on revenues and expenditures.	MoF/AGD	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

Information	Reporting Institution	Frequency	Submission Lag
Detailed central government account of disbursed budget support grants and loans, and ENCB, 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 14 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

¹The 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.