INTERNATIONAL MONETARY FUND

# UNITED REPUBLIC OF TANZANIA

## STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

March 4, 2019

## KEY ISSUES

### Context

In the past decade, Tanzania has experienced macroeconomic stability, relatively high rates of economic growth, and improvements in a number of social indicators. However, some recent initiatives have weighed on the business and investment climate, while inefficiencies in fiscal management have led to a build-up of expenditure arrears and delays in VAT refunds. This backlog has also contributed to higher non-performing loans, rising financial sector vulnerabilities, and a slowdown of credit to the private sector.

### Outlook and risks

Looking ahead, the country faces significant development challenges: a large infrastructure deficit, insufficient human capital, poverty, and underemployment. Rich in natural resources and a potential gateway for trade in the region, Tanzania could achieve robust economic growth if policies focus on growth-enhancing public investments and on improving fiscal management and the business environment, all of which could increase competitiveness and leverage much-needed private investments. Alternatively, delays or little progress in implementing structural reforms, unpredictable and interventionist policies, and a rushed scaling-up of public investments that may not have a high rate of return will have a detrimental effect on growth and development.

### Reforms to support inclusive, private sector-led growth and financial stability

Reforms should focus on nurturing the business climate by aligning laws and regulations with those applied in competitive economies, implementing a schedule to clear government spending arrears and VAT refunds, and ensuring that no new arrears are incurred. In addition, there is a need to prioritize public investments with the highest payoff as determined by high quality assessments, clear arrears in the electricity sector and move forward with reforms that can increase distribution efficiency and connectivity, increase private sector participation and reliance on market mechanisms in agriculture, revisit education and visa policies to ensure the availability of required skills in the labor force, reduce vulnerabilities to corruption, and close gender gap. Lastly, it will be important to reduce vulnerabilities in the banking sector by following up on the recommendations of the recent Financial Sector Stability Analysis and ensure exchange rate flexibility to absorb shocks and support the transition to an interest rate-based monetary policy framework.

Approved By
**Annalisa Fedelino (AFR) and Maria Gonzalez (SPR)**

The mission visited Dodoma and Dar Es Salaam during November 26–December 7, 2018, and the discussions continued through February 2019. The mission team comprised Mr. Gelbard (head), Ms. Radzewicz-Bak, Mr. Acevedo, Ms. Bunda (all AFR), and Mr. Iizuka (SPR) and was assisted by Messrs. Mukhopadhyay (Resident Representative) and Rutachururwa (Local Economist). Mr. Odonye (OED) participated in the discussions. The mission met with the Deputy Minister of Finance and Planning, Ms. Kijaji; the Governor of the Bank of Tanzania, Prof. Luoga; the Permanent Secretary of the Ministry of Finance and Planning, Mr. James; the Commissioner General Mr. Kichele; the Director General of the National Bureau of Statistics, Dr. Chuwa; and other senior officials, development partners, and representatives of the private sector and civil society. This report was prepared with research support provided by Ms. Tenison and administrative support by Ms Attey and Mr. Moran.

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**APPENDICES**

# CONTEXT

1. **In recent years, Tanzania has experienced economic stability and measured improvements in social indicators.** Monetary and fiscal policies have been appropriate. Inflation has been kept at single digits, annual GDP growth has averaged about 6 percent, and public debt has been under 40 percent of GDP. Development indicators have improved somewhat: the poverty rate fell from 28.2 percent in 2012 to 26.8 percent in 2016 and the Human Capital Index[1] has remained broadly unchanged, although child mortality declined and enrollment in primary education increased.

2. **The country has significant economic potential, but development challenges abound.** Tanzania has abundant natural resources (i.e. gold and natural gas) and its location is a potential gateway for trade in the region.[2] However, per capita income is about US$1,000, annual population growth is 3 percent, the official unemployment rate is about 10 percent, and the gender inequality gap is sizable. In addition, insufficient infrastructure and human capital pose challenges to the achievement of the Sustainable Development Goals.

3. **The record of economic policy reforms has been mixed.** While macroeconomic management has delivered stability and progress has been made in modernizing the monetary policy framework, fiscal management has been weak in the areas of expenditure control and VAT administration (Appendix I). Regarding other structural policies, the authorities have started implementing a blueprint for deregulation, but recent changes in key legislation, an interventionist stance in some markets, and an overreaching tax administration have negatively affected the business environment.

# RECENT DEVELOPMENTS

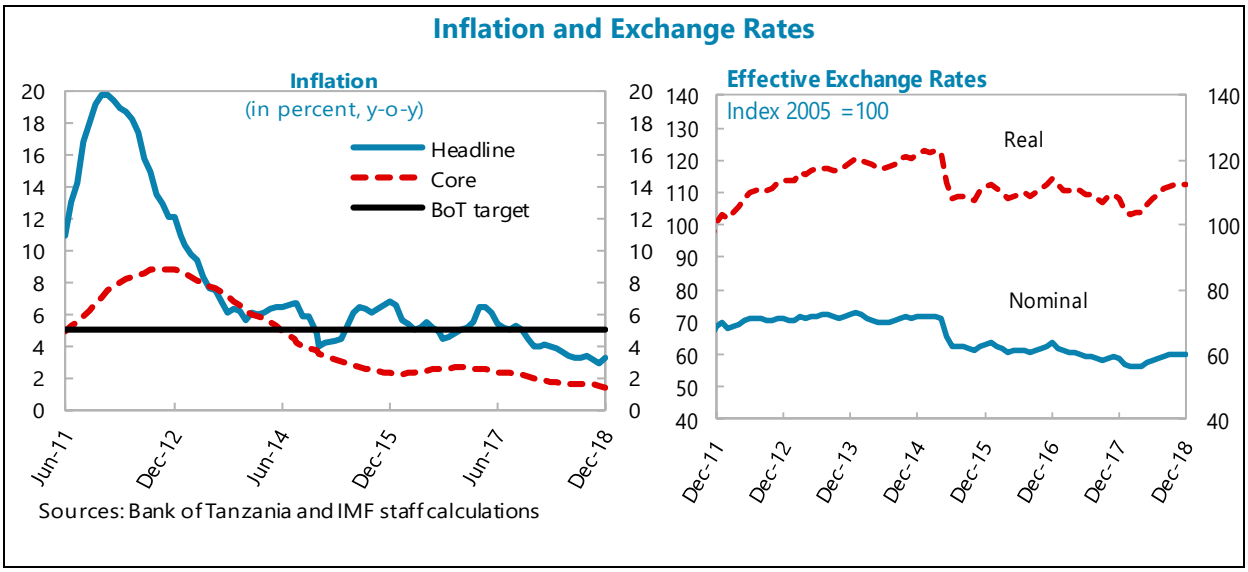
4. **Macroeconomic conditions have remained stable in 2017–18 but there is uncertainty about the pace of economic activity.** Headline inflation has been below the central bank's medium-term target of 5 percent and the exchange rate has been broadly stable (Table 1). Official GDP data point to about 7 percent annual growth, but there are serious weaknesses in the data[3] and other high-frequency indicators point to a more subdued pace of economic activity. For instance, during the 2017/18 fiscal year (July to June), public sector wages, credit to the private sector, and

[1] https://www.worldbank.org/en/data/interactive/2018/10/18/human-capital-index-and-components-2018

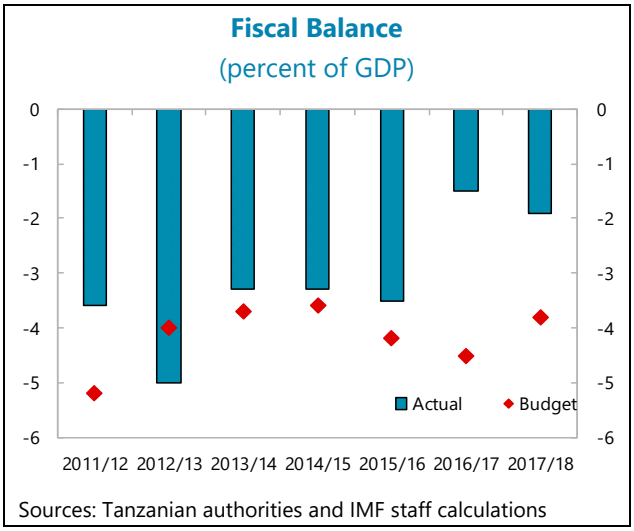
[2] Deep water exploration has confirmed a vast amount of offshore deposits of natural gas (about 50 trillion cubic feet, 7 times larger than onshore reserves). When projects to exploit these resources are developed, they could have a significant effect on growth and fiscal revenues and almost double the country's level of exports. However, discussions with potential investors are still ongoing and, only after that, an investment decision will be made. Production would start about a decade after the investment begin. Given the uncertainty about these projects, they are not reflected in the macroeconomic scenarios discussed in this report.

[3] In February 2019, the authorities finalized a rebasing of the national accounts. Compared to previously reported data, the results show a 3.2 percent increase in the level of GDP for 2012-17 and minor changes in growth figures. However, weaknesses in the quality of the underlying data (e.g. crop data, manufacturing surveys, hotel statistics, employment, production services) affect the quality of the estimates of the level and growth of GDP.

imports fell by 5.3, 2.9, and 7.7 percent in real terms, respectively, while tax revenues grew by 3.1 percent in real terms.[4]




5. **The headline fiscal deficit has been moderate in recent years, but budget planning and expenditure control have been challenging.** Budget plans envisaged deficits of 4.5 and 3.8 percent of GDP in 2016/17 and 2017/18, but outturns have been at around 2 percent of GDP, mainly due to slower than planned implementation of investment projects and successful rationalization of current expenditures (Table 2).[5] However, budget planning and execution have suffered from optimistic revenue projections, weaknesses in expenditure controls, and financing shortfalls, leading to domestic spending arrears (1.1 percent of GDP as of June 2017) and delays in VAT refunds and other reimbursable taxes (e.g. import duties). In addition, there are unresolved government arrears to pensions funds and contingent liabilities related to the state-owned electricity company TANESCO.[6]

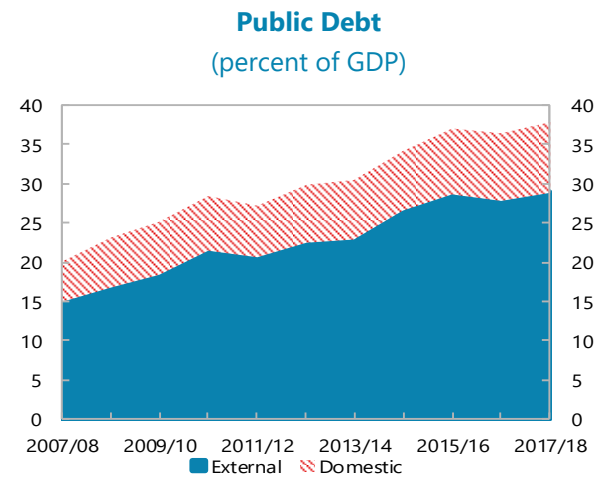



[4] The macroeconomic framework is based on Tanzania's fiscal years. Past GDP data (up to 2017/18) reflect published official statistics and figures for 2018/19 and beyond are IMF staff projections.

[5] In particular, wages and salaries were drastically reduced through the elimination of ghost workers and letting go civil servants who did not have the mandatory educational certificates.

[6] At end-2017/18, government arrears to pension funds and to TANESCO are estimated to be 2.5 and 0.3 percent of GDP, respectively. In addition, TANESCO's arrears to its suppliers are estimated at 0.6 percent of GDP.

6. **Public debt has been increasing but remains manageable**. The stock of public and publicly guaranteed debt rose by about 15 percentage points of GDP during the past decade but has stabilized at around 37 percent of GDP in the last three years. Regarding the composition of the debt, while external commercial borrowing on non-concessional terms has risen to about 25 percent of the total, concessional debt from bilateral and multilateral creditors remains the largest component at about 55 percent of the total and domestic debt is relatively small at 20 percent. The updated Debt Sustainability Analysis suggests that the risk of debt distress is low under the baseline macroeconomic projections and stress tests (Annex I).

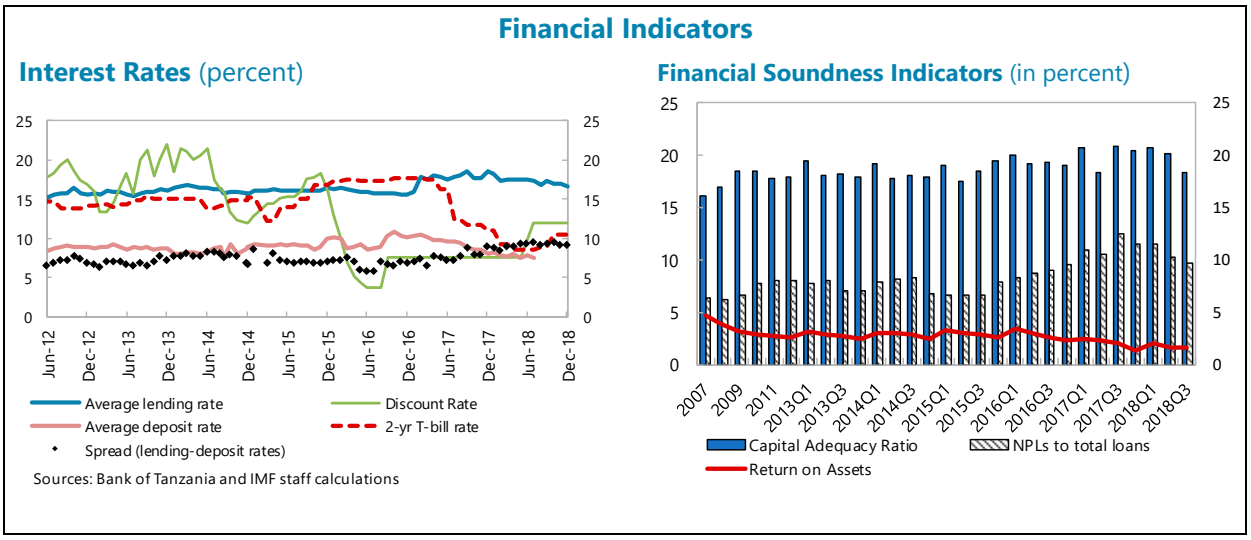


Sources: Tanzanian authorities and IMF staff calculations

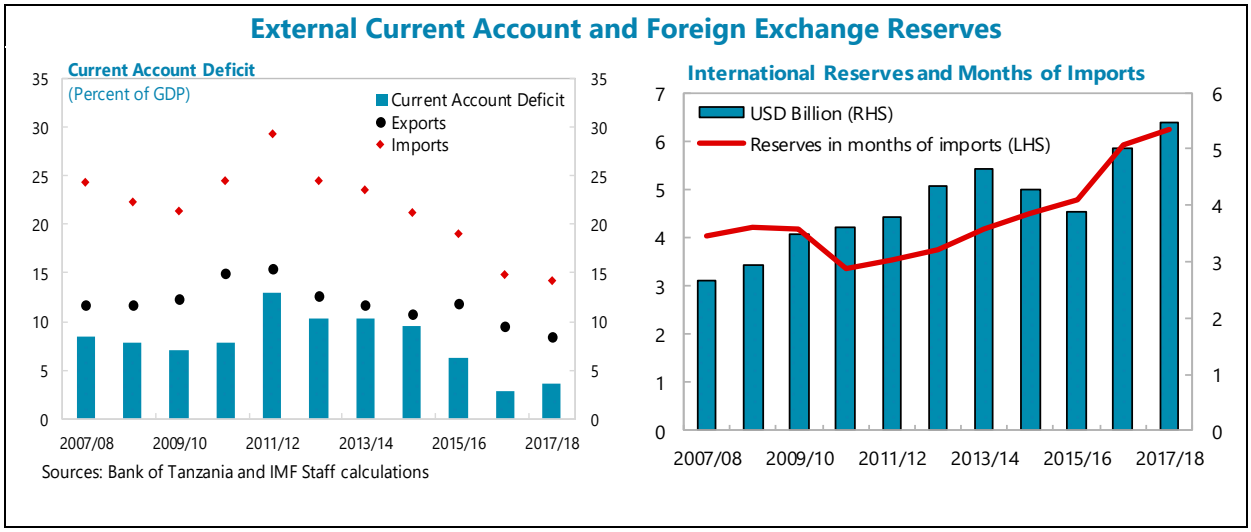
7. **The Bank of Tanzania has maintained an accommodative monetary policy stance.** Slower than planned government's capital spending, lower cash flows in the corporate sector, and transfers of government deposits from commercial banks to the Bank of Tanzania (BoT) led to tight liquidity conditions since early 2017 (Table 3). In response, the BoT eased its stance by reducing its discount rate from 16 to 7 percent and minimum reserve requirements from 10 to 8 percent. These measures helped ease liquidity and put downward pressure on interest rates on deposits, although lending rates did not respond well to lower policy rates owing to a risk premium associated with high nonperforming loans (NPLs) and other structural constraints (i.e. impediments to collateral recovery and creditor rights).

8. **The banking system has been relatively stable despite the closure of some banks and a deterioration in selected soundness indicators.** In the last three years, NPLs rose owing to government spending arrears to suppliers, delays in VAT refunds, and weaknesses in banks' credit risk management (NPLs have declined slightly in recent months because of new guidelines to strengthen credit applications, recovery, and mandatory use of credit reference reports). At the same time, system-wide bank profitability and liquidity ratios have deteriorated (Table 5).[7] In 2018, owing to liquidity and governance problems, the BoT closed five small community banks and resolved two other banks, including a larger one.

[7] To strengthen capital buffers, the BoT introduced in 2017 a capital charge for operational risk and a 2.5 percent buffer above 10 percent and 12 percent of core and total capital, respectively. However, the degree of under-provisioning is deemed to be significant, muffling the comfortable capital buffers.




9. **The external position is broadly in line with fundamentals.** During the past two years, the current account deficit has narrowed to around 3 percent of GDP as imports declined sharply amid substitution of domestic gas for oil imports (Table 4). At the same time, international reserves have stayed above 5 months of imports and are assessed to be broadly adequate, while the real value of the Tanzanian Shilling is broadly in line with fundamentals (Appendix II).[8]




10. **Recent policy and legislative initiatives have had an adverse impact on the business environment.** A drive to reduce tax evasion and boost revenues led to the perception of intrusive and inefficient administration practices, while ambitious development projects contributed to expenditure arrears that damaged the credibility of the government. In addition, new provisions on natural resource and PPP legislations entailing—among other things—a ban on foreign arbitration

[8] The country's de jure exchange rate regime is free-floating. De facto, the exchange rate was classified as a crawl-like arrangement based on narrow fluctuations around a depreciating trend vis-à-vis the US dollar (Annual Report on Exchange Arrangements and Exchange Restrictions, IMF, 2018). The authorities indicated that there are no new restrictions on the making of payments and transfers for current transactions.

and limits on foreign ownership have clouded the investment climate, while amendments to the Statistics Act that severely restrict the production and dissemination of statistics depart from best practice and could have adverse implications.[9] Lastly, since 2016 there has been a more interventionist stance in important agricultural markets.[10]

# OUTLOOK AND RISKS

11. **The macroeconomic outlook hinges on the extent of changes in policies and reforms.** Staff prepared two scenarios. The baseline scenario assumes a continuation of current policies, modest progress with structural reforms, and no changes to recent legislation. It points to a rate of GDP growth of around 4–5 percent in the medium-term[11], a gradual increase in the fiscal deficit, and declining foreign exchange reserves (Tables 1–4). An alternative scenario with bolder economic reforms alongside improvements in the business climate has the potential to boost medium-term growth to about 7 percent. While the policy stance in both scenarios is consistent with debt sustainability, the alternative scenario yields an improved set of macroeconomic indicators relative to the baseline (Box 1).[12] To achieve these outcomes, the alternative scenario also requires a more strategic scaling-up of public investment based on staff's recommendations (see below).

12. **Risks to the outlook are primarily on the downside.** The main risks comprise delays or little progress in improving fiscal management, a hurried scaling-up of public investment on projects that may not have a high rate of return and rely on non-concessional financing, and unpredictable or interventionist policies that worsen the investment climate and could lead to meager (or even negative) growth and potential risks to the balance of payments and debt sustainability. These risks would be higher if reforms to protect macro-financial stability are not undertaken. Additional, although less significant, are the risks of a lower demand for commodity exports or higher external financing costs linked to global conditions (Appendix III). On the upside, higher international commodity prices (especially of gold) could strengthen the balance of payments and stimulate growth.

[9] The mining laws, The Natural Wealth and Resources Law, and the Permanent Sovereignty Law include rigid export valuation procedures and give the government the power to renegotiate or nullify agreements that contain terms it deems to be "unconscionable" and rules out recourse to international arbitration. The PPP Act also requires that disputes be arbitrated by Tanzanian courts, expands local content requirements, and enables exempting unsolicited proposals from competitive bidding processes. The amendment to the Statistics Act criminalizes the dissemination of "any statistical information [...] intended to invalidate, distort or discredit official statistics", and requires authorization by the authorities prior to disseminating any statistics. These provisions are contrary to best international practice.

[10] In 2016-17 the government barred the export of unprocessed coffee beans and centralized the importation of fertilizers, and in 2018 it purchased the entire crop of cashew nuts at a price higher than the one prevalent in the market.

[11] As noted earlier, Staff considers that recent real GDP growth figures do not properly reflect the implied deceleration in activity suggested by other indicators. Therefore, the macroeconomic framework shows a break between historic and projected growth beginning with FY2018/19 (Table 1).

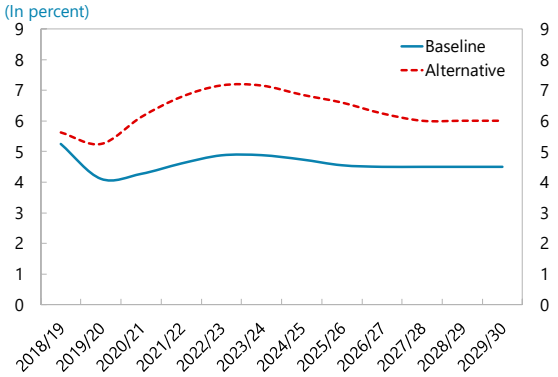
[12] The alternative scenario is consistent with the East African Community (EAC) convergence criteria which indicate that by 2021 the overall fiscal deficit should be below 3 percent of GDP, the present value of debt below 50 percent of GDP, the annual rate of inflation no more than 8 percent, and official reserves equivalent to at least 4.5 months of imports. In particular, the path for the fiscal deficit implies that the public debt is sustainable and serves as an appropriate long-term anchor. In the baseline, however, some of the criteria are not projected to be met (i.e. the fiscal deficit and import cover) because of weaker revenue collection and slower export growth.

## Box 1. Medium-Term Macroeconomic Scenarios

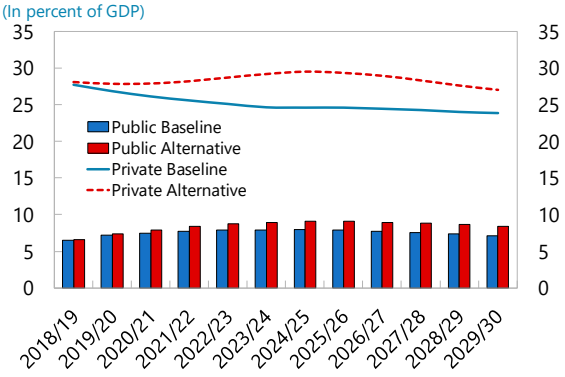
**Under the baseline scenario, economic growth is likely to be rather modest.** A weak business environment and limits to the scale of public investment (from insufficient financing), together with the implementation of projects that may not have high rates of return are likely to constrain annual GDP growth to below the 6.3 percent average rate recorded between 1998 and 2017. At the same time, sluggish exports and a slowdown of aid and foreign investment flows would reduce foreign exchange reserves, while a relatively gradual pace of tax and expenditure reforms coupled with public investment scaling-up would lead to a somewhat higher fiscal deficit compared to the alternative scenario.

**Alternatively, a more ambitious set of fiscal and market-friendly reforms and appropriate public investments would lead to higher potential growth.** The alternative scenario entails a more rigorous implementation of reforms to improve tax administration (e.g. automation and use of risk-based methods) and expenditure management (e.g. clearance of arrears, avoidance of new arrears, and better prioritization of public investments), a revision of recently amended legislation to align it with that of high-growth economies, and reforms to strengthen governance and boost human capital. These policies would be complemented by market-friendly reforms aimed at lowering the cost of doing business and making Tanzania's a top destination for investment in East Africa. In this scenario, the current account deficit would widen initially in line with higher public and private investments but narrow thereafter as exports pick up. The improved economic performance in tandem with the above-mentioned fiscal measures would, in the medium to long term, maintain reserves at over 5 months of imports and keep the fiscal deficit low.

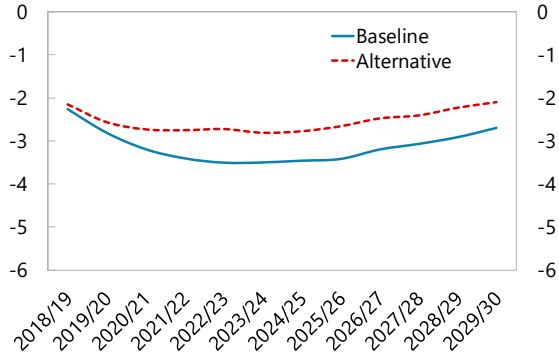
**Real GDP Growth**
(In percent)



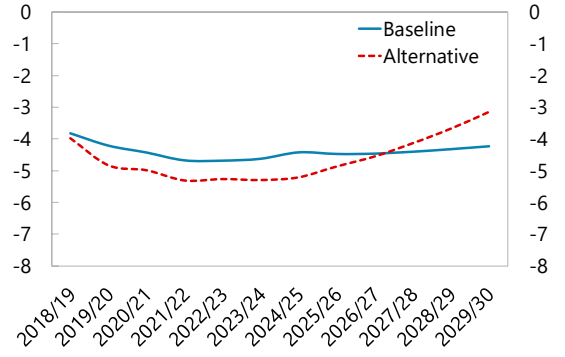

**Public and Private Investment**
(In percent of GDP)




**Overall Fiscal Balance**
(In percent of GDP)




**External Current Account**
(In percent of GDP)




Source: IMF staff projections

***Authorities' Views***

13. **The authorities were more optimistic about growth prospects.** They considered that their recent estimates of economic growth properly reflect economic activity and envisage that real GDP growth will be in the order of 7-8 percent per year in the short to medium-term. They were not convinced that, in the absence of certain reforms staff recommended, growth could be subdued and risks would go unaddressed. They believed that their policies were based on robust public investment plans and would be supported by a rationalization of regulations affecting the business environment. They also noted that fiscal and monetary policies would remain prudent and consistent with the convergence benchmarks of the East African Community (EAC) and that external borrowing will be mainly concessional.

# POLICIES AND REFORMS

14. **The discussions focused on ways to preserve economic stability and set the basis for strong and inclusive growth.** Staff's view is that achieving the authorities' goals to foster industrialization and high and inclusive growth requires a new approach to economic policymaking and bold reforms to foster private sector investment. These reforms would need to be selective, time-bound, and focused on four pillars: (i) improving fiscal and public investment management (mobilizing revenues in a business-friendly manner, clearing and preventing arrears, and prioritizing growth-enhancing investments); (ii) strengthening monetary policy and the contribution of the financial system to growth; (iii) improving governance and the business environment to increase competitiveness and job creation; and (iv) implementing structural and market-friendly reforms to improve human capital (including closing the gender gap) and unlock the potential of key sectors such as agriculture and energy. The authorities agreed with some of the staff's proposals (see authorities' views below).

## A. Fiscal Management

15. **As fiscal execution remains challenging, the fiscal deficit in FY2018/19 is expected to be lower than in the budget.** The government is targeting a budget deficit of 3.2 percent of GDP, but the fiscal outturn between July and November 2018 yielded a deficit of just 0.3 percent of GDP because of a low level of public investment (21 percent of the budgeted amount). Revenue collection remained uneven across various categories, with overall tax proceeds between July and November growing by only 2.6 percent compared to the same period in the previous year (34 percent of the annual budget plan). Grants and project loans are also lower than in the previous year, while foreign financing for some investments is yet to be secured.[13] As a result, even under optimistic assumptions about spending in the remainder of FY2018/19, the staff projects a deficit of about 2.3 percent of GDP.

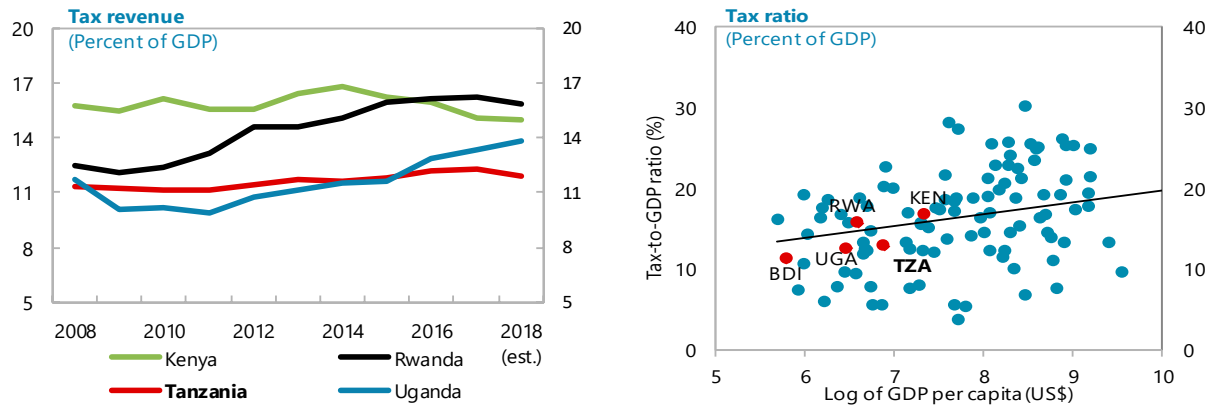
[13] These trends are attributed to the weakening in the business environment.

16. **Staff projects that, in the medium-term, the fiscal deficit will increase slightly reflecting a modest scaling up of public investment.** Staff estimates that tax revenues will increase gradually by 0.7 percentage points of GDP over the medium term based on the assumption that the authorities will implement various tax reforms (see below). At the same time, expenditures are projected to rise at a faster rate, primarily because of higher education spending (both current and capital) and a moderate scaling up of public investment.[14] As a result, the staff projects that the fiscal deficit would rise by about 1.5 percentage points of GDP by 2021/22 (Table 2).

17. **Fiscal reforms are needed in the areas of taxation, expenditure control and public investment management.** The discussions are summarized below:

- **Taxation.** Mobilizing domestic revenue remains critical given the country's infrastructure needs and rapid population growth. Tanzania's low tax ratio (at about 12 percent of GDP) reflects compliance issues, weak governance, and administrative inefficiencies. In this context, the priority reforms are to: (i) repay overdue VAT refunds and revert to risk-based verification and processing of refunds within 90 days as mandated by the law; (ii) remove multiple layers of taxes, fees and levies imposed on the same goods or services and make use of modern technologies to speed up tax payments and reduce the burden of compliance; (iii) procure and implement the Integrated Domestic Revenue Administration System (IDRAS) to speed up tax payments and encourage the use of online tools; and (iv) identify non-registered taxpayers and streamline the registration process for new taxpayers.

**Revenue Performance**




Sources: Tanzanian authorities, World Economic Outlook, and IMF staff calculations

[14] Based on the authorities' projections, the baseline assumes the following investment projects in the medium-term: the portion of the Standard Gauge Railway (SGR) phase I and II connecting Dar es Salaam with Makutupora, the Crude oil pipeline from Hoima (Uganda) to Tanga port, the Rufiji hydropower dam, the expansion of the airport and Air Tanzania's airplane fleet, and the rural electrification. Over the next three years, the total budget costs of those projects are estimated at about US$ 3.7 billion. In addition, staff assumes that up to 1 percent of GDP in public investment will be devoted to the implementation of the fee-free based education program (these expenditures are classified under capital outlays). Beyond this, the projections do not envisage other large projects that the authorities have announced, whose costs and financing have not yet been disclosed (e.g.; the SGR phase III).

- **Expenditure control and budget planning.** A longstanding priority has been to clear expenditure arrears and prevent new ones. In this regard, the authorities should decisively focus on: (i) computing and publishing details on the stock of expenditure arrears (verified and unverified by duration) on a quarterly basis and a repayment schedule for the coming year; and (ii) implementing their strategy on clearance and prevention of arrears by including all categories of expenditure in the Integrated Financial Management Information System (IFMIS) and prohibiting commitments outside the system, monitoring inputs, and enforcing sanctions. Another priority is to improve the credibility of fiscal policy through realistic budget planning by avoiding overoptimistic economic growth assumptions and cautiously estimating the profitability of large taxpayers and the impact of tax reforms. In addition, the main budget documents need to be comprehensive and publicly available. In the period ahead, expenditure management and budget planning should be priorities for technical assistance (Appendix IV).

- **Public Investment management.** Public investment should rely on a more rigorous process of project appraisal, selection, and implementation as envisaged in the authorities' public investment manual. Projects with higher-level strategic objectives (e.g.: securing energy supply) need to be subject to the same cost-benefit and financial sustainability analyses, costs should be exposed in a transparent way, and alternative ways of achieving the objectives should be examined before reaching decisions.[15] In addition, there is a need to set up a dedicated unit to manage public investment projects. As improvements in these areas materialize and the profitability of large projects is ascertained, investments should be prioritized and folded into the budget and the medium-term fiscal framework while considering future spending needs in other critical areas (e.g., education).

***Authorities' Views***

18. **The authorities agreed with the fiscal recommendations.** They stated their intention to improve revenue projections, implement IDRAS, improve the government electronic payment revenue gateway system, and expand the tax base through registration of new taxpayers. They also indicated that they would implement their Strategy for Management of Arrears (which prohibits commitments outside the IFMIS and requires the quarterly publication of information on expenditure arrears), as well as to repay legitimate VAT refunds within the period stipulated by the VAT Act. Regarding public investments, the authorities said that they were improving feasibility studies and project appraisals in line with the Public Investment Manual and that the projects they selected were already based on cost-benefit analysis.

## B. Monetary, Exchange Rate and Financial Sector Policies

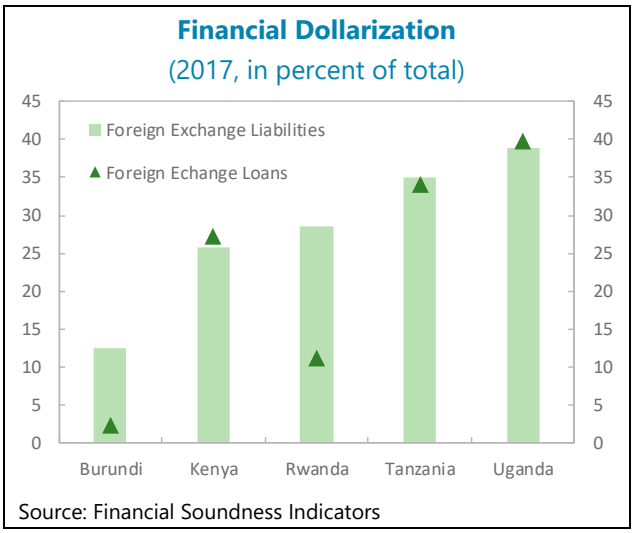
19. **Monetary policy should focus on keeping inflation low and ensuring exchange rate flexibility.** The current accommodative policy stance remains appropriate but may need to be

[15] As two-thirds of the proposed investment projects in infrastructure envisage private sector participation, the responsibility for preparing feasibility studies for potential projects should not be left with private sector sponsors, but rather the government should conduct its own analysis as a basis for assessing value for money and for negotiating with private sector partners.

tightened if inflation pressures were to develop. It will also be important for the BoT to ensure that the exchange rate adjusts to changes in fundamentals while continuing to smooth out short-term fluctuations.

20. **The BoT is in the process of moving from reserve money targeting to interest rate targeting.** Interbank market fragmentation weakens the monetary policy transmission mechanism, affecting the efficacy of policy signaling and limiting the responsiveness of market interest rates to changes in monetary policy. In addition, the practice of forex market interventions to manage domestic currency liquidity leads to volatility in interbank market rates, increasing liquidity risks. In this regard, the BoT has drafted the interbank market's Code of Conduct, set up an electronic interbank trading platform, and plans to introduce a policy rate and standing facilities and use open market operations for liquidity management. There is also a need to prepare a policy framework that limits the extent of central bank intervention. Lastly, developing a true repo market would enhance liquidity distribution—this can start by ensuring the legal effectiveness and enforceability of the Global Master Repurchase Agreement (the international standard legal agreement governing repo transactions).

21. **The banking sector is vulnerable to shocks.** Stress tests conducted as part of the Financial Sector Stability Analysis (FSSA) revealed low resilience to liquidity, credit, and concentration risks, and concerns about the business model of small and state-owned banks (Appendix V).[16, 17] Vulnerabilities are exacerbated by high dollarization (35 percent of banks' liabilities), under-provisioning, and increased household and corporate debts. They are high among smaller and state-owned banks (these account for a small share of the financial system). The larger banks are relatively resilient due to more diversified income streams, higher capital buffers, and lower NPLs. However, confidence spillovers under stressed times could increase the adverse impact of extreme shocks on systemic institutions. The FSSA also noted that the financial regulatory framework is sound but supervisory practices require strengthening. Notably, the above measures on arrears resolution, VAT refunds, and public investment management will strengthen the sector's resilience to shocks.



Source: Financial Soundness Indicators

[16] United Republic of Tanzania : Financial Sector Assessment Program, December 4, 2018, available at https://www.imf.org/en/Publications/CR/Issues/2018/12/04/United-Republic-of-Tanzania-Financial-Sector-Assessment-Program-Press-Release-Staff-Report-46418

[17] The Fund stands ready to consider providing further technical assistance on the implementation of selected FSAP's recommendations (FPAS model, stress testing, banking supervision, AML/CFT, and repo market development).

22. **Financial sector reforms are needed to reduce vulnerabilities.** The near-term priorities are to develop supervisory reporting templates and conduct targeted on-site examinations to ensure implementation of banks' NPLs reduction strategies, implement voluntary out-of-court workout guidelines to help resolve multi-creditor disputes, introduce a Liquidity Coverage Ratio in foreign exchange, avoid forbearance by promptly enforcing corrective regulations on problem banks, and improve AML/CFT supervision.[18] At the same time, crisis preparedness and coordination need to be ramped up by finalizing guidelines for provision of Emergency Liquidity Assistance (ELA) and making the Financial Stability Forum fully operational (i.e., appoint a Board, carry out crisis simulations, and define responsibilities to tackle an unfolding crisis and rules for public support).

23. **There is potential for financial sector development that improves access to finance and supports growth.** The Tanzanian credit market is shallow. With bank assets at 25 percent of GDP, there is potential for the sector to play a larger role in credit provision. Banks focus on short-term products and lending to large borrowers and the government, leaving smaller enterprises underserved. Staff noted that credit bureaus have expanded borrower coverage and began to distribute credit data from retailers—a positive step to enhance coverage of credit information. However, lack of eligible collateral and problems with enforceability of loan agreements adversely affect the cost and availability of credit (the real lending rate is about 13 percent). In this regard, staff urged the authorities to enhance enforcement of collateral recovery, broaden the pool of accepted collateral to movable property, increase the capacity of the judiciary to enforce creditors' rights, and include all credit providers (e.g. non-deposit entities, digital finance) in the regulatory net (Appendix VI).

### *Authorities' Views*

24. **The authorities reaffirmed their commitment to keep inflation low and implement an interest-rate based monetary policy framework.** They emphasized that the central bank will address any inflationary pressures and plan to proceed with the necessary measures to modernize the monetary policy framework, including the implementation of the Code of Conduct for interbank market transactions. They noted that the Global Master Repurchase Agreement has been developed and shared with Tanzania Bankers Association for review and comments.

25. **The authorities agreed on the financial sector reform priorities and indicated that they intend to implement the FSSA recommendations.** They noted that they are recruiting additional staff to strengthen banking supervision and plan to carry out on-site examinations in banks with high NPLs. In addition, the BOT is proceeding with the implementation of Basel III requirements and expect to move forward with other reforms such as the ELA operational framework (including the list of eligible collateral and risk management issues) and the National Risk Assessment Report to inform AML/CFT risk-based supervision. The authorities stated that the Financial Stability Forum for crisis preparedness is operational as some meetings have already taken place and that the framework is expected to be further refined in coming months. Lastly, to improve access to credit,

[18] Implementing a risk-based approach to AML/CFT supervision is needed in addition to strengthening AML/CFT measures to support anti-corruption efforts (Appendix VII).

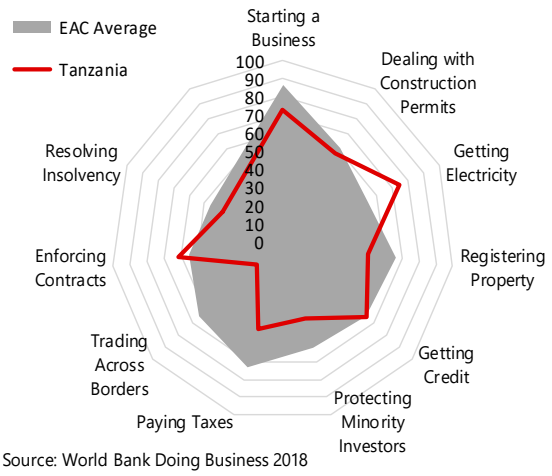
the authorities noted that they have adopted the Microfinance Law which empowers the BOT to supervise and regulate microfinance institutions and remain committed to proceed with the secured transaction law, the collateral registry, and the implementation of a consumer protection framework.

## C. Business Environment

26. **In addition to fiscal arrears and the revised legislation previously mentioned, there are other factors that affect the cost of doing business and competitiveness.** These comprise nontariff trade barriers, difficulties in starting a business and getting permits (mainly due to multiple regulatory agencies with overlapping jurisdictions), onerous regulatory practices and predatory fees weighing on the cost of doing business, difficulties in dealing with insolvency and enforcing property rights (because of long legal proceedings and low recovery values), subpar compensation for land expropriation compared to what is stipulated in the law, and, more generally, governance weaknesses including the application of the rule of law.

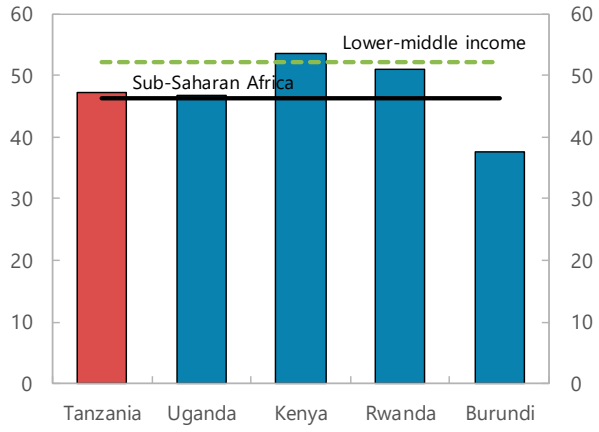
**Doing Business Indicators and Global Competitiveness Index[1]**

**Ease of Doing Business Scores**




Source: World Bank Doing Business 2018

**Global Competitiveness Index**




Source: Global Competitiveness Index 2018

[1] Caution is needed when comparing survey-based indicators across countries. Although they are updated yearly, and survey methodologies are revised frequently, they are partly constrained by the data that can realistically be collected and are based on perceptions. The World Economic Forum's Global Competitiveness report includes several indicators on the quality of institution, which are based on executive opinion surveys.

27. **Growth prospects will largely depend on improvements in the business environment.** During the discussions, the staff reflected to the authorities the perception of investors that the business climate has been deteriorating. In this regard, staff recommended to (i) adopt and publish a timetable to implement the key de-regulations envisaged in the Blueprint for Regulatory Reforms along with clear delineation of responsibilities for streamlining the regulatory regime across various government entities; (ii) remove non-tariff trade barriers (e.g.: requirements on the type, volume, or quality of imported goods) and adopt a risk-based approach for all inspections; (iii) review the legislation mentioned in paragraph 10 above that adversely affected the business environment in

consultation with the private sector and other stakeholders; and (iv) promote rule-based governance, especially by enforcing fair compensation in cases of expropriation and facilitating property registration.[19]

28. **The authorities need to build on their recent progress to improve governance.** Tanzania has comprehensive anti-corruption legislation and a 5-year anti-corruption strategy is being implemented. To ensure the success of the strategy going forward, the authorities need to consistently enforce the anti-corruption legislation, follow best practices in revenue administration and carry it out in a business-friendly manner, strengthen cash management at the treasury, improve transparency in fiscal operations and financial sector oversight, and remove red tape and nontariff trade barriers (Appendix VII).

***Authorities' Views***

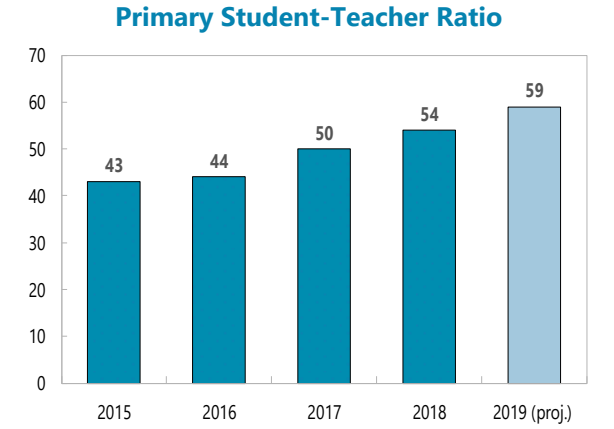
29. **The authorities indicated that they are committed to improve the business environment.** They listed recent initiatives such as reducing the multiplicity of licenses, taxes, and permits; establishing a one-stop center for business permits; and introducing an online registration for business names, incorporation of companies, trademarks, patents, and issuance of industrial licenses. They also indicated that they will implement their Blueprint for Regulatory Reforms, increase the dialogue with the private sector, and set up a government system for e-payments.

## D. Other Structural Reforms

30. **Regarding other structural reforms, those related to human capital formation, energy and agriculture, gender equality, and statistics need to be high on the agenda.** For more than a decade since the early 2000's, Tanzania has followed policies that improved competition and fostered growth. More recently, however, hurried policies that depart from best principles or interfere with markets (as noted in paragraph 10 above) have cast a cloud over future policies and economic prospects, highlighting the need to preserve market mechanisms and reflect on what are the most appropriate reforms to accelerate economic development.

[19] The assessment and recommendations related to governance, the business climate, education, energy, and agriculture were coordinated with World Bank staff.

31. **Well-designed education policies will be critical in the period ahead.** Recent improvements in access to basic education exerted pressure on the education system. The Fee-Free Basic Education Policy triggered a surge in primary and secondary enrollment—a welcomed development though one that has also impacted quality as student-teacher ratios went up and are projected to continue growing.[20] Demographic trends (the fertility rate is 5 children) and improvements in enrollment, retention and transition are expected to continue pressuring the system. In this regard, both a significant increase in budget resources and their effective deployment will be needed to ensure quality education and reduce gender and rural-urban disparities. In addition, it will be important to focus on reducing the student-teacher ratio, accommodating spending pressures, and further reducing gender disparity in educational attendance and outcomes (Appendix VIII).



Sources: Ministry of Education, Science and Technology, Basic Education Statistics, and World Bank

32. **Beyond education, addressing skills mismatches will be equally important.** A restrictive work/visa permits policy aggravates shortages of skills, deters know-how transfer, and perpetuates the country's human capital gap, with adverse effects on private investment. This should be addressed by overhauling the system of visa/work permits for foreign workers and strengthening training and vocational programs. Although the envisaged process of online applications for visa and work permits is welcomed, flexible and transparent policies are critical to attract much-needed skills. Furthermore, it is also important to establish the National and Sector Skills Councils to enhance private-public sector coordination.

33. **The efficiency and expansion of the electricity sector is also vital to Tanzania's development goals.** TANESCO (the state-owned company in charge of electricity sector operations) has faced longstanding financial troubles that constrained investments in generation, transmission and distribution (energy provision is not sufficiently reliable and only 33 percent of the population is connected to the grid). While a recent reduction in energy costs and healthier cash flows have improved TANESCO's finances, further reforms are needed to shore up the company and the sector once and for all, in particular to (i) develop and implement a plan to clear arrears to suppliers; (ii) pay government arrears to TANESCO; (iii) increase connectivity and access to electricity; and (iv) build generation capacity based on cost-benefit analysis and diversified energy sources.

34. **The potential of the agricultural sector is yet to be developed.** The sector accounts for about one-third of economic activity and 67 percent of employment. Developing the agro-processing industrial base and building stronger linkages to markets and other sectors (e.g. tourism) are critical to realize the sector's potential. The main impediments are the lack of predictability in

[20] The increase in enrollment was also helped by other developments such as the improvement in primary retention rates, higher completion rates in primary school, and a higher transition of girls to secondary schooling.

government policies, deviation from market principles, insufficient irrigation (less than 1 percent of arable land), lack of land registration (less than 10 percent of land is registered), and lack of access to credit. In addition, the authorities should avoid interfering with market prices and processes by eliminating export taxes and bans, price controls, and remaining regional transport fees and taxes; foster private sector participation in agricultural markets; and accelerate investments in sustainable irrigation and water resource management.

35. **In addition, closing the gender gap can bring additional economic benefits.** Greater gender-based equality can improve economic efficiency and diversification and support long-term growth. Key constraints in Tanzania comprise discriminatory legal provisions and customary laws, limited access of women to higher education and productive inputs, and insufficient employment opportunities in the formal sector. Results from a decomposition exercise indicate that removing these constraints will advance economic opportunities for women and yield growth dividends of about 0.5 percent of GDP (Appendix IX).

36. **Finally, macroeconomic data are broadly adequate for surveillance but important improvements are needed, notably with respect to the national accounts**. More work is needed to improve the quality and coverage of macroeconomic statistics. In particular, GDP data requires urgent improvements in key sources (e.g. investment, consumption, employment, manufacturing, services) where weak quality constrain the reliability of GDP estimates and growth rates. Improving the use of relevant data from the TRA, timely reviewing quarterly national accounts, and publishing surveys' results in a regular and timely manner will also help. The staff, noting that the recent amendments to the Statistics Act may reinforce doubts about official data and prevent the collection and dissemination of valuable data from non-official sources, urged the authorities to reconsider the amendments and align the law with best international practice.

### *Authorities' Views*

37. **The authorities expressed their preference to consolidate current policies and plans and consider further reforms in the future.** On education, they considered that their strategy to prioritize investments to accommodate enrollment and the current pipeline of teacher training will be sufficient to deal with the increase in demand. They also indicated that the teacher deployment strategy, the counselling and child protection guidelines, and the non-formal schooling program being developed will address gender disparities. On skills development, the authorities committed to develop the Councils but were not concerned about the need to change visa policies. Regarding energy, they indicated that they are working with development partners on strategies to clear TANESCO's arrears and that their goal is to proceed with projects to increase electricity connectivity and accessibility, including an energy source diversification strategy (coal, wind and solar) based on least cost principles. On agriculture, they pointed that they have recently removed some fees and levies and that, while they recognize the role of the market and the private sector, their interventions were aimed at protecting farmers and correcting market failures. Lastly, the authorities justified the amendments to the Statistics Act as a way to preserve the quality and accuracy of data. Regarding this and other recent legislation that in the view of the staff departs from best practice, the authorities did not indicate that they would reconsider them at this point.

# STAFF APPRAISAL

38. **Tanzania has successfully maintained macroeconomic stability in the past decade, alongside some improvement in social indicators.** Growth has been relatively high, inflation has been below 5 percent, fiscal and debt sustainability have been maintained, while the external position has been broadly consistent with fundamentals and desirable policy settings. Social conditions have also improved, although much more remains to be done given a relatively high level of poverty and related challenges.

39. **This progress is being contested by recent policies and changes in legislation.** Unrealistic budgets based on overoptimistic revenue projections and spending in large development projects led to expenditure arrears, while adverse tax administration practices contributed to delays in tax refunds. This backlog also contributed to high non-performing loans, a slowdown of credit to the private sector, and increasing bank vulnerabilities in the financial sector. Fiscal arrears, coupled with amendments to key legislation that departed from good international practice alongside an interventionist stance in some markets have raised uncertainty and increased the cost of doing business.

40. **During the discussions, the authorities indicated their intention to undertake some corrective actions, but risks remain.** While the authorities' intention to proceed with moderate reforms could, if implemented, prevent a further erosion of trust and maintain economic stability, growth is likely to be subpar and vulnerabilities may linger. Moreover, insufficient progress and delays with their approach and/or new legislative setbacks and interventionist policies could further undermine confidence and lead to negative financial and economic spillovers.

41. **To contain these risks and realize Tanzania's development potential, strong and timely actions and a new approach to policymaking are called for.** Fiscal, public investment management, monetary and financial sector reforms remain important. In addition, a new approach with more ambitious reforms and bolder steps than currently planned is required to ensure high growth dividends from public investments, improve the business environment and human capital, strengthen governance, and boost the potential of key sectors.

- **Fiscal reforms.** Realistic budget planning and enhanced expenditure control are key for budget credibility, fiscal transparency, and good governance. Staff welcomes the authorities' intention to implement their strategy for managing arrears, including the quarterly publication of outstanding arrears and their repayment. It will be important to ensure that all categories of expenditure are recorded properly and sanctions for breaching spending controls are enforced. Similarly, there is a need to repay all tax arrears promptly and make full use of risk-based methods to optimize scarce tax administration resources and prevent new arrears.
- **Public investment management.** The authorities' commitment to implement their Investment Manual is a positive step and more needs to be done to operationalize the framework. There is a need for a dedicated unit to manage investments based on a rigorous process of appraisal, evaluation, selection and implementation, as well as to publish any cost-benefit and feasibility

studies for the large projects. This approach will entail a more careful prioritization and a scaling-up in line with improvements in investment management to avoid the risks of inefficient investments and increase growth prospects.

- **Monetary and exchange rate policies.** The staff welcomes the authorities' intention to keep inflation low and transition to an interest rate-based monetary policy framework. To this end, the staff encourages the authorities to proceed with the introduction of a policy rate and standing facilities, use open market interventions for liquidity management, and lower the reliance on foreign exchange operations, all of which would facilitate the transition to the new framework. Complementary steps include developing the interbank and the repo markets to increase financial sector resilience to liquidity shocks. The authorities should also allow the exchange rate to adjust to any changes in fundamentals to absorb shocks.
- **Financial sector reforms.** Banks' vulnerabilities can be contained through strengthened on-site examinations, implementing banks' NPLs reduction strategies, avoiding forbearance by promptly enforcing corrective regulations on problem banks, and making the Financial Stability Forum fully operational and finalizing guidelines for Emergency Liquidity Assistance. Staff urges the authorities to strengthen collateral recovery and the capacity of the judiciary to enforce creditor rights to increase access to finance.
- **Other structural reforms.** The role of government as an enabler of private sector development needs to be reflected in policy and practice. To this end, the main priorities should be to implement a time-bound plan to improve the regulatory environment, strengthen the quality of education and increase related funding, reduce gender inequality, strengthen governance and reduce vulnerabilities to corruption, overhaul the system of visa permits for foreign workers, and strengthen training and vocational programs. In the period ahead, it will also be critical to put TANESCO on a sustainable financial footing, increase connectivity and access to electricity, remove distortive fees and taxes and foster private sector participation in agricultural markets, and promote investments in irrigation. In addition, improving investor confidence will require a revision of recent changes to various laws with a view to aligning them with those of well-performing economies and a consistent, fair, and transparent application of laws and regulations.
- **Statistics.** Lastly, the formulation of credible economic policies requires timely, transparent, and high-quality data. In this regard, urgent steps are required to improve the national accounts. In addition, to improve the quality and instill confidence on official data, the staff urges the authorities to ensure an open and independent statistics agency and to amend the Statistics Act to liberalize the use, production, and publication of data (both official and non-official) and remove the criminalization of publishing statistics that differ from official ones.

42. **The next Article IV Consultation will take place on the standard 12-month cycle.**

## Table 1. Tanzania: Selected Economic Indicators, 2015/16–2021/22 [1]

| | 2015/16 Act. | 2016/17 Act. | 2017/18 Est. | 2018/19 Proj. | 2019/20 Proj. | 2020/21 Proj. | 2021/22 Proj. |
|---|---|---|---|---|---|---|---|
| | (Percent change, unless otherwise indicated) | | | | | | |
| Output, prices and exchange rates | | | | | | | |
| Real GDP[2] | 6.5 | 6.8 | 6.7 | 5.2 | 4.1 | 4.3 | 4.6 |
| CPI (period average) | 6.0 | 5.3 | 4.3 | 3.2 | 4.1 | 4.8 | 5.0 |
| CPI (end of period) | 5.5 | 5.4 | 3.4 | 3.5 | 4.5 | 5.0 | 5.0 |
| Core inflation (end of period) | 3.0 | 1.9 | 1.6 | ... | ... | ... | ... |
| Terms of trade (deterioration, - ) | 1.9 | 2.1 | -6.1 | 0.2 | 3.2 | 0.2 | 0.3 |
| Exchange rate (period average, TSh/USD) | 2,156 | 2,199 | 2,251 | ... | ... | ... | ... |
| Real effective exchange rate (end of period; depreciation = - ) | 0.9 | 0.5 | -1.2 | ... | ... | ... | ... |
| Money and credit | | | | | | | |
| Broad money (M3, end of period) | 12.8 | 6.0 | 6.0 | 10.4 | 10.5 | 10.7 | 10.9 |
| Average reserve money | 7.2 | 1.1 | 4.0 | 6.3 | 7.1 | 7.5 | 7.7 |
| Credit to the private sector (end of period) | 19.0 | 1.3 | 4.0 | 8.5 | 9.4 | 9.5 | 9.7 |
| Overall T-bill interest rate (percent; end of period) | 15.0 | 7.6 | 5.6 | ... | ... | ... | ... |
| Broad money (M3, percent of GDP, end of period) | 22.2 | 21.0 | 20.0 | ... | ... | ... | ... |
| Non-performing loans (percent of total loans, end of period) | 8.7 | 10.6 | 10.3 | ... | ... | ... | ... |
| | (Percent of GDP, unless otherwise indicated) | | | | | | |
| Central government operations | | | | | | | |
| Revenues and grants | 14.2 | 15.6 | 14.9 | 15.0 | 15.2 | 15.3 | 15.5 |
| *Of which:* grants | 0.5 | 1.0 | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 |
| Expenditures | 17.5 | 16.6 | 16.2 | 17.2 | 18.0 | 18.5 | 18.9 |
| Current | 13.2 | 10.2 | 10.2 | 10.6 | 10.8 | 11.0 | 11.2 |
| Development | 4.3 | 6.4 | 6.0 | 6.7 | 7.2 | 7.5 | 7.7 |
| Overall balance[3] | -3.4 | -1.4 | -1.8 | -2.3 | -2.8 | -3.2 | -3.4 |
| Excluding grants[3] | -3.8 | -2.0 | -2.0 | -3.0 | -3.6 | -3.8 | -4.1 |
| Public debt | | | | | | | |
| Gross nominal debt[4] | 37.0 | 36.5 | 35.9 | 35.5 | 35.8 | 36.6 | 37.5 |
| *of which*: external debt[5] | 28.6 | 27.8 | 27.3 | 26.8 | 26.6 | 26.8 | 27.7 |
| Investment and savings | | | | | | | |
| Investment | 32.2 | 30.1 | 34.6 | 34.3 | 34.0 | 33.6 | 33.3 |
| Government | 4.9 | 5.8 | 6.1 | 6.5 | 7.2 | 7.5 | 7.7 |
| Nongovernment | 27.4 | 24.3 | 28.5 | 27.7 | 26.9 | 26.1 | 25.6 |
| Domestic savings | 26.0 | 27.2 | 31.0 | 30.4 | 29.8 | 29.2 | 28.6 |
| External sector | | | | | | | |
| Exports (goods and services) | 19.1 | 16.8 | 15.4 | 14.7 | 14.9 | 15.2 | 15.4 |
| Imports (goods and services) | 24.3 | 18.8 | 18.1 | 17.5 | 17.7 | 18.3 | 18.6 |
| Current account balance | -6.2 | -2.9 | -3.6 | -3.8 | -4.2 | -4.4 | -4.7 |
| Excluding current transfers | -6.3 | -3.2 | -3.9 | -4.1 | -4.5 | -4.7 | -5.0 |
| Gross international reserves | | | | | | | |
| In billions of U.S. dollars | 3.9 | 5.0 | 5.5 | 5.4 | 5.1 | 4.7 | 4.8 |
| In months of next year's imports | 4.8 | 5.9 | 6.2 | 5.8 | 5.0 | 4.3 | 4.0 |
| Memorandum items: | | | | | | | |
| GDP at current prices | | | | | | | |
| Trillions of Tanzanian shillings | 101.4 | 114 | 127 | 139 | 152 | 166 | 183 |
| Millions of U.S. dollars | 47,008 | 51,716 | 56,238 | 60,431 | 64,496 | 68,569 | 73,098 |
| GDP per capita (in U.S. dollars) | 976 | 1,048 | 1,113 | 1,172 | 1,226 | 1,278 | 1,336 |
| Population (million) | 48.2 | 49.4 | 50.5 | 51.6 | 52.6 | 53.6 | 54.7 |

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] Fiscal year (July-June)

[2] Historical figures are up to fiscal year 2017/18 and are based on the official data. A number of high-frequency indicators (e.g.: tax collection, credit to the private sector, currency in circulation) pointed to lower growth in 2017/18.

[3] Actual and preliminary data include adjustment to cash basis.

[4] Excludes liquidity management papers and domestic unpaid claims.

[5] Excludes external debt under negotiation for relief.

## Table 2a. Tanzania: Central Government Operations, 2015/16–2021/22
(Trillions of Tanzanian Shillings)

| | 2015/16 Act. | 2016/17 Act. | 2017/18 Act. | 2018/19 Est. | 2019/20 Proj. | 2020/21 Proj. | 2021/22 Proj. |
|---|---|---|---|---|---|---|---|
| Total revenue | 13.9 | 16.6 | 17.9 | 19.8 | 21.9 | 24.3 | 27.1 |
| Tax revenue | 12.4 | 14.1 | 15.1 | 16.6 | 18.5 | 20.6 | 22.9 |
| Import duties | 0.9 | 1.0 | 1.1 | 1.2 | 1.5 | 1.8 | 2.1 |
| Value-added tax | 3.0 | 3.9 | 4.4 | 4.8 | 5.3 | 5.8 | 6.4 |
| Excises | 2.1 | 2.1 | 2.2 | 2.5 | 2.7 | 3.0 | 3.3 |
| Income taxes | 4.6 | 4.8 | 5.2 | 5.8 | 6.3 | 7.1 | 7.9 |
| Other taxes | 1.8 | 2.2 | 2.2 | 2.4 | 2.6 | 2.9 | 3.2 |
| Nontax revenue | 1.5 | 2.6 | 2.9 | 3.1 | 3.4 | 3.7 | 4.1 |
| Total expenditure | 17.8 | 18.9 | 20.5 | 24.0 | 27.4 | 30.7 | 34.5 |
| Recurrent expenditure | 13.4 | 11.6 | 12.9 | 14.7 | 16.4 | 18.3 | 20.5 |
| Wages and salaries | 5.6 | 5.6 | 5.5 | 6.4 | 7.0 | 7.7 | 8.4 |
| Interest payments | 1.5 | 2.7 | 5.4 | 6.0 | 6.9 | 7.8 | 8.8 |
| Domestic | 1.0 | 1.2 | 1.3 | 1.4 | 1.8 | 2.1 | 2.4 |
| Foreign[1] | 0.5 | 0.5 | 0.7 | 0.8 | 0.9 | 1.0 | 1.3 |
| Goods and services and transfers | 6.3 | 4.3 | 5.3 | 6.0 | 6.7 | 7.5 | 8.4 |
| Development expenditure | 4.3 | 7.3 | 7.6 | 9.3 | 10.9 | 12.5 | 14.0 |
| Domestically financed | 2.9 | 5.1 | 5.4 | 7.2 | 7.9 | 9.5 | 11.4 |
| *Of which*: Clearance of arrears [1] | 1.0 | 0.9 | 1.2 | ... | ... | ... | ... |
| Foreign (concessionally) financed | 1.4 | 2.1 | 2.2 | 2.1 | 3.1 | 2.9 | 2.7 |
| Overall balance before grants | -3.9 | -2.3 | -2.5 | -4.2 | -5.4 | -6.4 | -7.4 |
| Grants | 0.5 | 1.1 | 0.9 | 1.1 | 1.2 | 1.1 | 1.2 |
| Program (including basket grants)[2] | 0.1 | 0.4 | 0.4 | 0.3 | 0.5 | 0.5 | 0.6 |
| Project | 0.4 | 0.7 | 0.6 | 0.8 | 0.7 | 0.6 | 0.6 |
| Net expenditure float[3] | 0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Statistical discrepancy | -0.2 | -0.4 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | -3.4 | -1.6 | -2.3 | -3.1 | -4.3 | -5.3 | -6.2 |
| Financing | 3.4 | 1.6 | 2.3 | 3.1 | 4.3 | 5.3 | 6.2 |
| Foreign (net) | 1.4 | 1.7 | 1.7 | 2.0 | 2.3 | 3.1 | 4.6 |
| Foreign loans | 1.9 | 2.8 | 3.0 | 3.6 | 4.8 | 5.4 | 6.0 |
| Program (including basket loans)[2] | 0.5 | 0.3 | 0.1 | 0.3 | 0.5 | 0.7 | 0.8 |
| Project | 0.8 | 1.3 | 1.5 | 1.3 | 1.7 | 1.6 | 1.6 |
| Nonconcessional borrowing | 0.7 | 1.3 | 1.5 | 2.0 | 2.5 | 3.1 | 3.6 |
| Amortization | -0.6 | -0.9 | -1.3 | -1.7 | -2.5 | -2.3 | -1.4 |
| Domestic (net)[4] | 2.0 | -0.1 | 0.6 | 1.2 | 2.0 | 2.2 | 1.7 |
| Bank financing | 1.5 | -1.1 | -0.3 | 1.0 | 1.6 | 1.7 | 1.0 |
| Nonbank financing | 0.8 | 0.9 | 0.9 | 0.1 | 0.4 | 0.6 | 0.7 |
| Memorandum items: | | | | | | | |
| Overall fiscal balance incl. net arrears accumulation | -3.5 | ... | ... | ... | ... | ... | ... |
| Total public debt (in percent of GDP)[5] | 37.0 | 36.5 | 35.9 | 35.5 | 35.8 | 36.6 | 37.5 |
| Arrears (unpaid claims)[1] | 1.8 | 1.2 | ... | ... | ... | ... | ... |
| Recurrent expenditures (percent of recurrent resources) | 96.5 | 69.0 | 70.6 | 73.4 | 74.2 | 74.3 | 74.3 |
| Priority social spending | 3.4 | 3.4 | 3.7 | 4.1 | 4.5 | 4.9 | 5.4 |
| Nominal GDP | 101.4 | 113.7 | 126.6 | 139.1 | 152.0 | 166.3 | 182.7 |

Sources: Ministry of Finance; Bank of Tanzania; and IMF staff projections.

[1] Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.
[2] Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.
[3] The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.
[4] The figure for 2015/16 includes the repayment of TPDC (0.3 trillion) for the government gas pipeline.
[5] Excludes external debt under negotiation for relief and Treasury bills issued for monetary policy purposes.

## Table 2b. Tanzania: Central Government Operations, 2015/16–2021/22[1]
(Percent of GDP)

| | 2015/16 Act. | 2016/17 Act. | 2017/18 Act. | 2018/19 Est. | 2019/20 Proj. | 2020/21 Proj. | 2021/22 Proj. |
|---|---|---|---|---|---|---|---|
| Total revenue | 13.7 | 14.6 | 14.2 | 14.2 | 14.4 | 14.6 | 14.8 |
| Tax revenue | 12.2 | 12.4 | 11.9 | 12.0 | 12.2 | 12.4 | 12.6 |
| Import duties | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.1 | 1.2 |
| Value-added tax | 2.9 | 3.4 | 3.5 | 3.4 | 3.5 | 3.5 | 3.5 |
| Excises | 2.1 | 1.8 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 |
| Income taxes | 4.5 | 4.2 | 4.1 | 4.1 | 4.1 | 4.2 | 4.3 |
| Other taxes | 1.8 | 1.9 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Nontax revenue | 1.5 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Total expenditure | 17.5 | 16.6 | 16.2 | 17.2 | 18.0 | 18.5 | 18.9 |
| Recurrent expenditure | 13.2 | 10.2 | 10.2 | 10.6 | 10.8 | 11.0 | 11.2 |
| Wages and salaries | 5.6 | 4.9 | 4.4 | 4.6 | 4.6 | 4.6 | 4.6 |
| Interest payments | 1.5 | 1.5 | 1.6 | 1.6 | 1.8 | 1.9 | 2.0 |
| Domestic | 1.0 | 1.1 | 1.0 | 1.0 | 1.2 | 1.2 | 1.3 |
| Foreign[1] | 0.5 | 0.4 | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 |
| Goods and services and transfers | 6.2 | 3.8 | 4.2 | 4.3 | 4.4 | 4.5 | 4.6 |
| Development expenditure | 4.3 | 6.4 | 6.0 | 6.7 | 7.2 | 7.5 | 7.7 |
| Domestically financed | 2.9 | 4.5 | 4.3 | 5.2 | 5.2 | 5.7 | 6.2 |
| *Of which*: Clearance of arrears [1] | 0.9 | 0.8 | 1.0 | ... | ... | ... | ... |
| Foreign (concessionally) financed | 1.4 | 1.9 | 1.8 | 1.5 | 2.0 | 1.8 | 1.5 |
| Overall balance before grants | -3.8 | -2.0 | -2.0 | -3.0 | -3.6 | -3.8 | -4.1 |
| Grants | 0.5 | 1.0 | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 |
| Program (including basket grants)[2] | 0.1 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 |
| Project | 0.4 | 0.6 | 0.4 | 0.5 | 0.4 | 0.3 | 0.3 |
| Net expenditure float[3] | 0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Statistical discrepancy | -0.2 | -0.3 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | -3.4 | -1.4 | -1.8 | -2.3 | -2.8 | -3.2 | -3.4 |
| Financing | 3.4 | 1.4 | 1.8 | 2.3 | 2.8 | 3.2 | 3.4 |
| Foreign (net) | 1.4 | 1.5 | 1.3 | 1.4 | 1.5 | 1.9 | 2.5 |
| Foreign loans | 1.9 | 2.5 | 2.4 | 2.6 | 3.1 | 3.3 | 3.3 |
| Program (including basket loans)[2] | 0.4 | 0.2 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 |
| Project | 0.8 | 1.1 | 1.2 | 0.9 | 1.2 | 1.0 | 0.9 |
| Nonconcessional borrowing | 0.7 | 1.1 | 1.2 | 1.5 | 1.7 | 1.9 | 2.0 |
| Amortization | -0.5 | -0.8 | -1.0 | -1.2 | -1.6 | -1.4 | -0.8 |
| Domestic (net)[4] | 2.0 | -0.1 | 0.5 | 0.8 | 1.3 | 1.3 | 0.9 |
| Bank financing | 1.5 | -0.9 | -0.3 | 0.7 | 1.0 | 1.0 | 0.5 |
| Nonbank financing | 0.8 | 0.8 | 0.7 | 0.1 | 0.3 | 0.3 | 0.4 |
| Memorandum items: | | | | | | | |
| Overall fiscal balance incl. net arrears accumulation | -3.5 | ... | ... | ... | ... | ... | ... |
| Total public debt[5] | 37.0 | 36.5 | 35.9 | 35.5 | 35.8 | 36.6 | 37.5 |
| Arrears (unpaid claims)[1] | 1.8 | 1.1 | ... | ... | ... | ... | ... |
| Recurrent expenditures (percent of recurrent resources) | 96.5 | 69.0 | 70.6 | 73.4 | 74.2 | 74.3 | 74.3 |
| Priority social spending | 3.4 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |

Sources: Ministry of Finance; Bank of Tanzania; and IMF staff projections.

[1] Excludes interest payments on external debt obligations that are under negotiation for relief with a number of creditors.

[2] Basket funds are sector-specific accounts established by the government to channel donor support to fund-specific activities.

[3] The net expenditure float for year Y relates to expenditures recorded in year Y whose financing was recorded in year Y+1, minus the additional financing that occurred in year Y for expenditures that were recorded in year Y-1.

[4] Includes repayment of government gas pipeline in 2015/16.

[5] Excludes external debt under negotiation for relief and Treasury bills issued for monetary policy purposes.

## Table 3. Tanzania: Monetary Accounts, 2016–19

| | 2016 | | 2017 | | 2018 | | 2019 | |
|---|---|---|---|---|---|---|---|---|
| | June | Dec. | June | Dec | June | Dec | June | Dec |
| | Act. | Act. | Act. | Act. | Act. | Act. | Proj. | Proj. |
| | (Trillions of Tanzania shillings, unless otherwise indicated; end of period) | | | | | | | |
| Bank of Tanzania | | | | | | | | |
| Net foreign assets | 7.2 | 8.3 | 10.0 | 12.1 | 11.5 | 10.7 | 11.9 | 11.6 |
| Net international reserves [1] | 7.8 | 8.8 | 10.6 | 12.7 | 12.0 | 11.3 | 12.4 | 12.2 |
| (Billions of U.S. dollars) [1] | 3.6 | 4.1 | 4.8 | 5.7 | 5.3 | 4.9 | 5.3 | 5.2 |
| Net non-reserve foreign assets | -0.6 | -0.5 | -0.6 | -0.5 | -0.5 | -0.6 | -0.5 | -0.6 |
| Net domestic assets | -0.4 | -1.4 | -3.2 | -5.2 | -4.4 | -3.7 | -4.3 | -3.7 |
| Credit to government | 1.6 | 0.7 | -0.7 | -1.9 | -1.1 | -0.2 | -0.2 | 0.5 |
| *Of which:* Excluding counterpart of liquidity paper | 1.7 | 0.8 | -0.1 | -1.5 | -0.5 | -0.2 | -0.2 | 0.5 |
| Other items (net) | -2.1 | -2.2 | -2.6 | -3.4 | -3.4 | -3.5 | -4.2 | -4.3 |
| Reserve money | 6.8 | 6.9 | 6.8 | 7.0 | 7.1 | 7.0 | 7.7 | 7.9 |
| Currency outside banks | 3.7 | 3.6 | 3.6 | 3.8 | 3.9 | 3.9 | 4.2 | 4.2 |
| Bank reserves | 3.0 | 3.2 | 3.2 | 3.1 | 3.2 | 3.1 | 3.4 | 3.6 |
| Currency in banks | 0.6 | 0.7 | 0.7 | 0.9 | 0.7 | 0.9 | 0.8 | 0.8 |
| Deposits | 2.4 | 2.5 | 2.5 | 2.3 | 2.5 | 2.2 | 2.6 | 2.8 |
| Required reserves | 2.0 | 2.0 | 1.6 | 1.7 | 1.7 | 1.7 | 1.9 | 1.9 |
| Excess reserves | 0.4 | 0.6 | 0.9 | 0.6 | 0.8 | 0.5 | 0.7 | 0.9 |
| Memorandum items: | | | | | | | | |
| Average reserve money | 6.6 | 7.0 | 6.7 | 7.0 | 7.0 | 6.9 | 7.4 | 7.9 |
| Monetary Survey | | | | | | | | |
| Net foreign assets | 7.5 | 8.2 | 9.6 | 11.6 | 11.2 | 10.6 | 11.9 | 11.5 |
| Bank of Tanzania [1] | 7.2 | 8.3 | 10.0 | 12.1 | 11.5 | 10.7 | 11.9 | 11.6 |
| Commercial banks | 0.3 | -0.1 | -0.4 | -0.6 | -0.3 | 0.0 | -0.1 | -0.1 |
| Net domestic assets | 15.0 | 14.7 | 14.3 | 13.1 | 14.1 | 15.2 | 16.1 | 17.0 |
| Domestic credit | 21.9 | 20.9 | 21.0 | 20.2 | 21.4 | 22.2 | 23.9 | 24.7 |
| Credit to government (net) | 5.2 | 4.3 | 4.2 | 3.3 | 3.8 | 4.5 | 4.9 | 5.3 |
| Credit to nongovernment sector | 16.7 | 16.6 | 16.9 | 16.9 | 17.5 | 17.7 | 19.0 | 19.3 |
| Other items (net) | -6.9 | -6.3 | -6.7 | -7.0 | -7.3 | -7.0 | -7.8 | -7.1 |
| M3 | 22.5 | 22.9 | 23.9 | 24.7 | 25.3 | 25.8 | 27.9 | 28.5 |
| Foreign currency deposits | 6.3 | 6.3 | 6.2 | 6.4 | 6.3 | 6.8 | 7.3 | 7.5 |
| M2 | 16.2 | 16.6 | 17.7 | 18.3 | 19.0 | 19.0 | 20.6 | 21.1 |
| Currency in circulation | 3.7 | 3.6 | 3.6 | 3.8 | 3.9 | 3.9 | 4.2 | 4.2 |
| Deposits (TSh) | 12.4 | 13.0 | 14.1 | 14.5 | 15.0 | 15.2 | 16.4 | 16.8 |
| Memorandum items: | (12-month percent change, unless otherwise indicated) | | | | | | | |
| M3 growth | 12.8 | 3.4 | 6.0 | 8.0 | 6.0 | 4.5 | 10.4 | 10.5 |
| M3 (percent of GDP) | 22.2 | 20.1 | 21.0 | 21.7 | 20.0 | 20.4 | 20.1 | 20.5 |
| Private sector credit growth | 19.0 | 7.2 | 1.3 | 1.7 | 4.0 | 4.9 | 8.5 | 9.1 |
| Private sector credit (percent of GDP) | 16.4 | 14.6 | 14.8 | 13.3 | 13.9 | 12.7 | 13.7 | 13.9 |
| Velocity of money (nominal GDP/ M3) | 4.7 | 4.7 | 5.0 | 5.0 | 4.7 | 4.8 | 5.1 | 5.1 |
| Average reserve money growth | 7.2 | 1.7 | 1.1 | 0.6 | 4.0 | -1.5 | 6.3 | 13.9 |
| Reserve money multiplier (M3/average reserve money) | 3.4 | 3.3 | 3.6 | 3.5 | 3.6 | 3.7 | 3.8 | 3.6 |
| Nonbank financing of the government (net) [2] | 0.8 | 0.5 | 0.9 | 0.4 | 0.9 | 0.5 | 0.1 | 0.2 |
| Bank financing of the government (net) [2] | 1.5 | -1.0 | -1.1 | -0.9 | -0.3 | 0.3 | 1.0 | 0.9 |
| Bank and nonbank financing of the government (net) [2] | 2.3 | -0.4 | -0.1 | -0.5 | 0.6 | 0.8 | 1.2 | 1.1 |

Sources: Bank of Tanzania and IMF staff estimates and projections.

[1] Includes short-term (less than 1 year) foreign exchange liabilities to residents.

[2] In trillions of Tanzanian shillings; cumulative from the beginning of the fiscal year (July 1).

## Table 4. Tanzania: Balance of Payments, 2015/16–2021/22

| | 2015/16 Act. | 2016/17 Act. | 2017/18 Act. | 2018/19 Proj. | 2019/20 Proj. | 2020/21 Proj. | 2021/22 Proj. |
|---|---|---|---|---|---|---|---|
| | (Millions of U.S. dollars, unless otherwise indicated) | | | | | | |
| Current account | -2,937 | -1,485 | -2,052 | -2,318 | -2,722 | -3,041 | -3,421 |
| Trade balance | -3,317 | -2,775 | -3,162 | -3,423 | -3,768 | -4,298 | -4,726 |
| Exports, f.o.b. | 5,601 | 4,932 | 4,792 | 4,842 | 5,199 | 5,560 | 5,963 |
| Traditional agricultural products | 764 | 866 | 1,102 | 971 | 1,050 | 1,122 | 1,188 |
| Gold | 1,243 | 1,532 | 1,570 | 1,588 | 1,629 | 1,670 | 1,709 |
| Other | 3,593 | 2,534 | 2,120 | 2,283 | 2,520 | 2,769 | 3,066 |
| Imports, f.o.b | -8,918 | -7,707 | -7,954 | -8,264 | -8,966 | -9,859 | -10,689 |
| *Of which:* Oil | -1,984 | -1,943 | -1,993 | -2,014 | -1,852 | -1,938 | -2,022 |
| Services (net) | 887 | 1,775 | 1,692 | 1,760 | 1,927 | 2,114 | 2,349 |
| *Of which:* Travel receipts | 1,932 | 2,231 | 2,317 | 2,449 | 2,629 | 2,860 | 3,060 |
| Income (net) | -841 | -941 | -1,016 | -1,089 | -1,314 | -1,306 | -1,444 |
| *Of which*: Interest on public debt | -285 | -232 | -300 | -285 | -389 | -380 | -517 |
| Current transfers (net) | 334 | 455 | 434 | 434 | 432 | 449 | 401 |
| *Of which*: Official transfers | 32 | 152 | 140 | 133 | 203 | 203 | 208 |
| Capital account | 320 | 423 | 487 | 455 | 415 | 298 | 346 |
| *Of which*: Project grants[1] | 257 | 334 | 424 | 388 | 345 | 225 | 270 |
| Financial account | 2,404 | 2,209 | 1,897 | 1,914 | 1,978 | 2,398 | 3,156 |
| Foreign Direct Investment | 1,463 | 901 | 1,021 | 1,018 | 1,122 | 1,193 | 1,199 |
| Public Sector, net | 616 | 671 | 756 | 881 | 862 | 1,173 | 1,866 |
| Program loans | 207 | 116 | 88 | 172 | 200 | 304 | 361 |
| Non-concessional borrowing | 336 | 476 | 601 | 870 | 1,074 | 1,279 | 1,436 |
| Project loans | 361 | 588 | 651 | 544 | 742 | 652 | 722 |
| Scheduled amortization[2] | -287 | -483 | -583 | -705 | -1,153 | -1,061 | -653 |
| Commercial Banks, net | 234 | 291 | -119 | -5 | 0 | 0 | 0 |
| Other private inflows | 90 | 346 | 240 | 20 | -6 | 31 | 92 |
| Errors and omissions [3] | -155 | 56 | 295 | 0 | 0 | 0 | 0 |
| Overall balance | -368 | 1,203 | 628 | 51 | -328 | -346 | 82 |
| Financing | 368 | -1,203 | -628 | -51 | 328 | 346 | -82 |
| Change in BoT reserve assets (increase= -) | 425 | -1,128 | -545 | 35 | 378 | 379 | -81 |
| Use of Fund credit | -57 | -75 | -83 | -86 | -49 | -34 | 0 |
| Memorandum items: | | | | | | | |
| Gross official reserves (BoT) | 3,874 | 5,000 | 5,484 | 5,449 | 5,071 | 4,692 | 4,773 |
| Months of imports of goods and services | 4.8 | 5.9 | 6.2 | 5.8 | 5.0 | 4.3 | 4.0 |
| Exports of goods and services (percent of GDP) | 19.1 | 16.8 | 15.4 | 14.7 | 14.9 | 15.2 | 15.4 |
| Exports of goods (percent of GDP) | 11.9 | 9.5 | 8.5 | 8.0 | 8.1 | 8.1 | 8.2 |
| Exports excl. gold (percent of GDP) | 9.3 | 6.6 | 5.7 | 5.4 | 5.5 | 5.7 | 5.8 |
| Imports of goods and services (percent of GDP) | -24.3 | -18.8 | -18.1 | -17.5 | -17.7 | -18.3 | -18.6 |
| Imports of goods (percent of GDP) | -19.0 | -14.9 | -14.1 | -13.7 | -13.9 | -14.4 | -14.6 |
| Imports excl. oil (percent of GDP) | -14.8 | -11.1 | -10.6 | -10.3 | -11.0 | -11.6 | -11.9 |
| Current account deficit (percent of GDP) | -6.2 | -2.9 | -3.6 | -3.8 | -4.2 | -4.4 | -4.7 |
| Foreign Direct Investment (percent of GDP) | 3.1 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 |
| Foreign program and project assistance (percent of GDP) | 1.8 | 2.3 | 2.3 | 2.0 | 2.3 | 2.0 | 2.1 |
| Nominal GDP | 47,008 | 51,716 | 56,238 | 60,431 | 64,496 | 68,569 | 73,098 |

Sources: Tanzanian authorities and IMF staff estimates and projections.

[1] The Bank of Tanzania adjusts the estimated outturn to reflect information on project grants provided by ministries.

[2] Relief on some external debt obligations is being negotiated with a number of creditors.

[3] Includes valuation changes in gross reserves resulting from the change in exchange rates among the major currencies.

## Table 5. Tanzania: Financial Soundness Indicators, 2015–18[1]

| | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|
| | Jun | Dec | Jun | Dec | Jun | Dec | Jun | Dec |
| | (Percent, end of period) | | | | | | | |
| Capital adequacy | | | | | | | | |
| Total capital to risk-weighted assets | 17.6 | 19.5 | 19.2 | 19.0 | 18.3 | 20.5 | 20.2 | 18.2 |
| Total capital to total assets | 11.2 | 12.0 | 12.7 | 13.5 | 13.0 | 13.2 | 13.2 | 13.8 |
| Asset composition and quality | | | | | | | | |
| Net loans and advances to total assets | 52.8 | 54.6 | 56.1 | 55.6 | 53.4 | 51.0 | 51.8 | 53.4 |
| Sectoral distribution of loans | | | | | | | | |
| Personal | 17.3 | 18.1 | 20.1 | 18.6 | 18.8 | 20.2 | 27.1 | 29.8 |
| Trade | 21.1 | 19.4 | 19.4 | 20.4 | 21.4 | 20.1 | 20.2 | 18.6 |
| Manufacturing and mining | 13.3 | 12.5 | 12.7 | 11.8 | 13.1 | 12.4 | 12.5 | 14.2 |
| Agricultural production | 8.5 | 7.6 | 7.4 | 6.8 | 7.1 | 6.8 | 6.5 | 5.4 |
| Transport and communication | 7.6 | 7.2 | 7.4 | 7.1 | 5.6 | 5.9 | 5.8 | 7.0 |
| Real Estate | 3.9 | 4.4 | 4.5 | 5.1 | 5.0 | 5.0 | 5.3 | 5.0 |
| Building and construction | 4.7 | 4.7 | 4.6 | 4.5 | 4.5 | 5.1 | 4.7 | 3.6 |
| Foreign exchange loans to total loans | 38.2 | 37.7 | 36.7 | 36.0 | 36.7 | 35.8 | 36.0 | 33.1 |
| Non-performing loans (NPLs) to total loans | 6.7 | 7.9 | 8.7 | 9.6 | 10.6 | 11.5 | 10.3 | 10.4 |
| NPLs net of provisions to capital | 16.2 | 18.6 | 21.1 | 22.1 | 22.1 | 23.0 | 18.6 | 39.2 |
| Large exposures to total capital | 125.8 | 123.3 | 128.5 | 109.6 | 117.4 | 113.6 | 124.6 | 188.5 |
| Net open positions in foreign exchange to total capital | -2.2 | 1.4 | 1.4 | -1.9 | 1.5 | 2.0 | 3.3 | 6.0 |
| Earnings and profitability | | | | | | | | |
| Return on assets | 3.0 | 2.6 | 3.0 | 2.3 | 2.3 | 1.4 | 1.6 | 1.3 |
| Return on equity | 15.8 | 12.4 | 15.3 | 10.7 | 10.4 | 5.9 | 6.7 | 4.5 |
| Interest margin to total income | 65.9 | 66.6.. | 68.1 | 69.7 | 52.8 | 52.0 | 53.7 | 55.0 |
| Noninterest expenses to gross income | 65.1 | 68.4 | 64.7 | 67.6 | 51.5 | 52.2 | 54.6 | 56.2 |
| Personnel expenses to noninterest expenses | 46.0 | 43.8 | 45.4 | 44.7 | 45.5 | 44.6 | 45.7 | 45.0 |
| Liquidity | | | | | | | | |
| Liquid assets to total assets | 30.4 | 30.6 | 30.4 | 28.7 | 30.6 | 32.6 | 30.1 | 28.8 |
| Liquid assets to total short term liabilities | 37.7 | 37.3 | 37.1 | 35.1 | 38.1 | 40.3 | 37.6 | 35.6 |
| Total loans to customer deposits | 76.0 | 78.5 | 85.7 | 86.3 | 83.1 | 81.2 | 83.9 | 84.2 |
| Foreign exchange liabilities to total liabilities | 39.8 | 39.6 | 37.8 | 37.4 | 36.0 | 35.4 | 34.8 | 34.2 |

Source: Bank of Tanzania

[1] Calendar year; end of period claims relative to annual GDP.

# Appendix I. Track Record of Economic Policies and Reforms

| Objectives | Actions/Measures | Progress in Implementation |
|---|---|---|
| **Create fiscal space for higher infrastructure investment** | | |
| Mobilize domestic revenue and improve public investment management | Eliminate/rationalize CIT holidays, ensure regular adjustments of excise rates, develop property taxes. | Good progress was made. The government reviewed tax holidays and exemptions to better align them with international standards, and most exemptions have been eliminated (e.g., exemptions to the armed forces, VAT exemptions on tourism services, income tax exemptions on shares and securities listed in the Dar es Salaam Stock Exchange, and on final gratuity to Members of Parliament), except for those on special economic zones. Except for petroleum products, excise rates are regularly adjusted for inflation. The TRA Act was amended to transfer the mandate to collect property taxes from local governments to the TRA and flat rates for non-valued houses were introduced. The evaluation of properties is proceeding. |
| | Strengthen tax administration by cleaning up taxpayer registration, upgrading the IT system, improving risk management compliance. | The taxpayer register was reviewed to remove duplications and non-existing taxpayers. However, all available sources of information, including third-party data, have not yet been effectively used to regularize new taxpayers. In the IT area, the Government e-Payment Gateway System (GePGs) was developed to facilitate revenue collection. In addition, the new Electronic Revenue Collection System (e-RCS) was launched to capture information on taxpayers and service providers to enhance revenue collection. However, procurement of a new Integrated Domestic Administration System (IDRAS) to replace the current system (ITAX) is yet to be finalized. The TRA developed a compliance risk management system for utilizing external information for tax purposes and sharing information among TRA's departments, although it is not clear if it has been fully implemented. |
| | Improving efficiency in public investment (project appraisal and implementation capacity), careful prioritization and implementation of spending plans, and subjecting large capital expenditure to proper cost-benefit analysis. | A public investment manual has been prepared but its implementation is pending. |
| | | |
| **Rekindle the reform agenda towards high growth and structural transformation** | | |
| Strengthen fiscal risks and debt management | Plan realistic budgets with tighter commitment controls, and improved cash management. | Recent budgets proved to be unrealistic with overoptimistic projections for revenue and public investments. These and other problems with expenditure management led to a continuous accumulation of government spending arrears.<br>The institutional structure to manage PPP projects has not yet been utilized for large infrastructure projects, although it was used for |

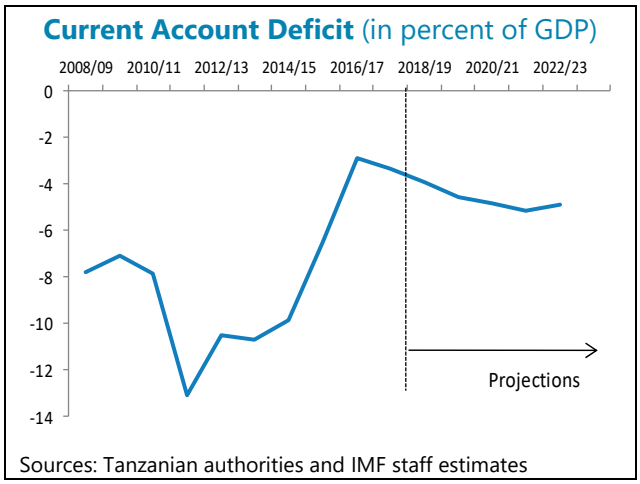
| | | |
|---|---|---|
| | Consider utilizing PPPs for large infrastructure projects, while improving framework for assessing, reporting and managing fiscal risks arising from PPP projects.<br><br>Strengthen monitoring and management of parastatals.<br><br>Publish the Fiscal Transparency Evaluation and an annual fiscal risks statement. | smaller ones in sectors such as. power generation, transport and health, etc. An additional complication was introduced by the recent amendments of the PPP Act that mandate that the settlement of legal disputes should take place within the country.<br><br>Progress has been made. The office of Treasury Registrar developed a Financial Analysis Reporting System (FARS) for parastatals to enter their financial information. The system enables to produce consolidated financial statements, to identify risks, and allow for assessment of their performance.<br><br>Not yet implemented. |
| **Improve the effectiveness of macro-financial policy** | | |
| Modernize the monetary policy framework<br><br>Foster financial development | Develop key interbank and government securities markets.<br><br>Improve coordination between fiscal and monetary policy.<br><br>Improve businesses' access to credit, reduce borrowing costs (due to imperfect information, slow resolution of disputes). | Some progress made. The collateral framework has been expanded to include all government securities, the electronic platform for interbank money market transition has been launched. The operational guidelines and the Code of Conduct for the interbank market are pending.<br><br>Government deposits have been moved to the BoT, but information on long-term projects and rolling spending plans is not regularly shared.<br><br>Rapidly growing mobile banking services have improved access to micro-credit, with the government stepping in to promote financial literacy. Banks' access to the credit information bureaus has increased. The credit bureaus expanded borrower coverage and began to distribute credit data from retailers. Two private bureaus are currently operating, although the collected credit information is incomplete. The authorities adopted the Microfinance Law, which empowers BOT to supervise and regulate microfinance institutions. The secured transaction law and the collateral registry are in progress. |
| **Improve the business environment** | | |
| Long-term competitiveness and job creation | Improve the sustainability and development of the energy sector, including the financial position of TANESCO.<br><br>Remove non-tariff barriers and complete the EAC common market. | Some progress made. The government prepared and adopted a reform strategy for TANESCO's generation, transmission and supply of electricity. Generation and connectivity projects to reduced operational costs are ongoing, but there is no tangible progress to clear TANESCO's arrears with suppliers.<br><br>A blueprint for regulatory reforms to improve the business environment, including non-tariff barriers, was prepared. Some measures have been implemented, but most reforms are pending. |

# Appendix II. External Sector Assessment

*Tanzania's external position is stable and consistent with desirable policy settings. The external position is broadly in line with fundamentals and international reserves exceed the adequate level as estimated by the IMF's methodology. Going forward, the authorities should maintain an ample buffer given the country's increasing recourse to international market financing and plans to liberalize the capital account.*

## Introduction

1. **Tanzania's current account has improved since 2011/12, a trend that is expected to be reversed in the medium-term.** The improvement has been driven by the balance of goods and services. Structural shifts from oil imports to domestically produced gas, and more recently, a tighter control of recurrent fiscal expenditures and sluggish capital expenditure helped reduce imports. In addition, tourism has contributed to higher services receipts. The baseline medium-term scenario envisages a moderate worsening of the current account deficit, as higher imports are expected to be only partially offset by growth in manufactured exports and tourism receipts (near-term prospects for agricultural products are subdued, for instance, because of the recent government decision to purchase cashews at Tsh 3,300 per kilogram to support farmers and interference with other agricultural markets).



Sources: Tanzanian authorities and IMF staff estimates

2. **Some changes in the external balance have been mirrored by changes in the fiscal stance.** For instance, the sluggish rate of execution of capital expenditure projects have helped to improve both the fiscal and the current account balances. In the medium term, an envisaged increase in development expenditure is projected to worsen both the fiscal and the external current balances; trends that are expected to reverse in the long run.

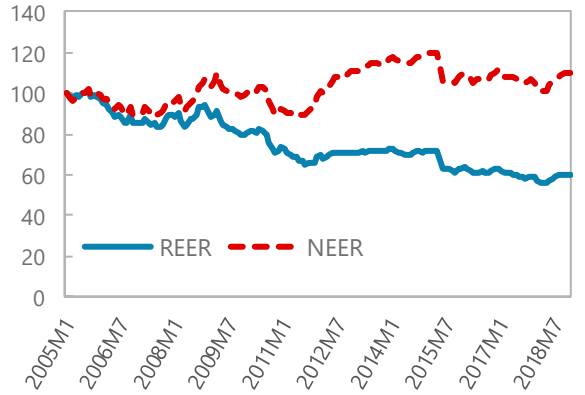
3. **The pattern of financing of the current account has been changing from donor-based to market-based.** In earlier years, the large current account deficit was financed mainly by FDI, grants, and public-sector borrowing. More recently, both grants and FDI have come down, reflecting perceptions of a weakening in the business environment. In addition, large projects have increasingly been financed with public sector borrowing in both concessional and non-concessional terms.[1]

[1] For more details on financing assumptions, see Appendix III (Debt Sustainability Analysis).

4. **Following a depreciation in 2015, the real effective exchange rate has remained stable since then**. The Tanzanian shilling depreciated 10 percent in real terms in response to the strengthening of the U.S. dollar vis-à-vis major currencies in 2015 (the Tanzanian shilling depreciated by more than 20 percent in nominal terms against the dollar over 2015). Since then, prudent macroeconomic policies have continued supporting a relatively stable real exchange rate.

**Real and Nominal Effective Exchange Rates**

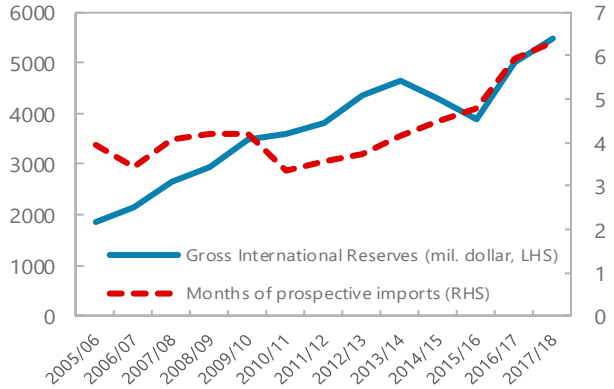
(2005M1 = 100)




Sources: Tanzanian authorities and IMF staff estimates

5. **Tanzania's international reserves have been increasing.** Since 2015/16, the improvement in the current account was partially offset by a deterioration in the capital and financial accounts, leading to an overall surplus in the balance of payments. Considering these developments, the central bank decided to step up its intervention and build up its stock of foreign exchange reserves. At end-2017/18, international reserves stood at 5.9 months of projected imports of goods and services.

**International Reserves**




Sources: Tanzanian authorities and IMF staff estimates

## External Sector Assessment

1. **According to the External Balance Assessment methodology, the external position is broadly in line with fundamentals.** The results are based on the EBA-lite methodology,[1] which comprises three approaches: the real exchange rate model (REER), the current account model (CA), and the external sustainability approach (ES). The CA and the REER models are based on panel regressions. They provide estimates of the current account and exchange rate "norms" consistent with fundamentals and desirable policies. External positions are presented by the gaps between the actual current account and real exchange rate and their corresponding norms. The ES approach estimates a current account norm that would stabilize the net foreign asset (NFA) position at some benchmark level. The result from the CA model is adjusted for the underspending of the development projects contributed

**Real Effective Exchange Rate Overvaluation**

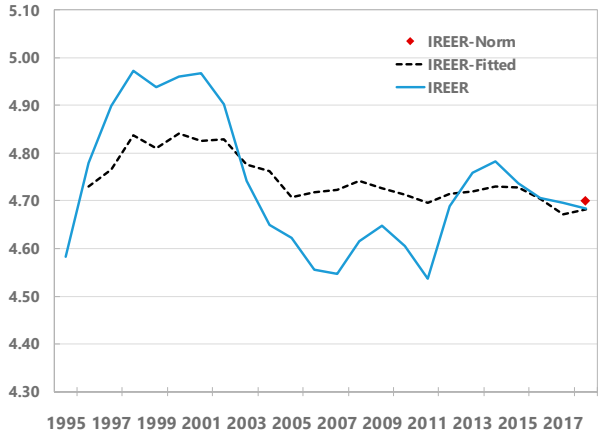
| Model | |
|---|---|
| Real Effective Exchange Rate Index Model | -1.6% |
| Current Account Model | -3.0% |
| External Sustainability Approach | 1.5% |

[1] "Revised EBA-lite Methodology" (June 19, 2018).

to the improvement in the current account in 2018. On balance, these methodologies suggest that the external position is broadly in line with fundamentals.

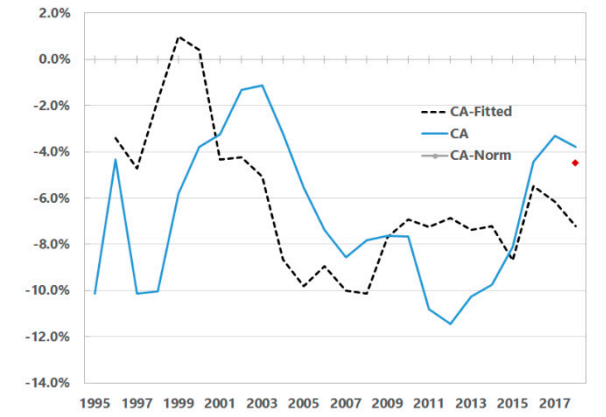
- The REER approach indicates that the real effective exchange is slightly overvalued. It suggests that the Tanzanian shilling would need to appreciate by 1.6 percent in real terms to reach the fitted value of the regression.
- The current account approach indicates that the real effective exchange rate is undervalued. The model estimates the CA norm to be equivalent to -5.1 percent of GDP compared to the estimated -4.5 percent of GDP in 2018[2]. Since the estimated elasticity of the trade balance to changes in the REER is -0.22, this methodology suggests that the Tanzanian shilling would need to appreciate by 6 percent in real terms for the CA to match the fitted value of the regression.
- Finally, the ES approach suggests that the real effective exchange rate of the Tanzania Shilling is almost in line with its long-run equilibrium. With net foreign assets standing at -50 percent of GDP in 2018, the ES approach yields an estimated gap in the current account of 0.3 percent of GDP and suggests that a minor real depreciation of the Tanzanian Shilling would be needed to stabilize the NFP at the current level.

**Real Effective Exchange Rate Estimate**




Sources: Tanzanian authorities and IMF staff estimates

**Current Account Balance Estimate**
(in percent of GDP)




Sources: Tanzanian authorities and IMF staff estimates

2. **Staff assess the real effective exchange rate to be broadly in line with fundamentals.** While the estimations from the three models are somewhat different, the differences are not large, and, all in all there does not seem to be support for a conclusion that the exchange rate is misaligned. In interviews with market participants, most of them have not seen clear pressures in the foreign exchange market. Going forward, while the authorities continue with their efforts to build the market infrastructure for an interest rate-based monetary policy framework (e.g., more transparent bidding platform), they will need to increase the BoT's reliance on open market

[2] The estimated current account deficit for 2018 reflects an under execution of foreign financed development expenditure of about 1 percent of GDP.

operations for liquidity management and lower the amounts and extent of foreign exchange interventions to ensure exchange rate flexibility and prevent any buildup of external imbalances.

## Reserve Adequacy

3. **A recent methodology developed by the IMF is used to assess the adequacy of foreign exchange reserves.** For Tanzania, the relevant approach is the Assessment of Reserve Adequacy in Credit-Constrained-Economies (ARA-CC)[3] which is used for countries with limited access to international capital markets. The purpose of the assessment is to simulate an "optimal" level of reserves by maximizing the net benefit of holding reserves in terms of crisis prevention from large shocks against the opportunity cost of holding additional reserves (in the exercise, the "optimal" level of reserves is higher if the costs of borrowing are lower and the exchange rate is less flexible).

4. **Under this methodology, Tanzania's international reserves are assessed to be adequate.** Reserves at end-June 2018 stood at 5.9 months of next year's imports of goods and services. This is higher than the import coverage range of 2.3–3.3 months suggested by the ARA-CC approach (the cost of holding reserves used for estimating the lower and higher ends of the range are 6.2 and 4 percent, respectively). To underscore the importance of ensuring exchange rate flexibility, a country with the same fundamentals but with a fixed exchange rate regime would require reserves equivalent to 7–10 months of imports.

5. **Notably, the ARA-CC approach may not fully capture all risks.** Besides the risks to the global environment, plans for higher borrowing from financial markets and to liberalize the capital account, together with the high level of dollarization in the banking system, would call for a higher level of reserves than the one suggested by the ARA-CC approach. In this regard, staff considers that the authorities should keep international reserves at least equivalent to 4.5 months of prospective imports of goods and services, i.e. roughly 60 percent higher than the level suggested by the ARA metric (this would also be consistent with the guidelines set up by the East African Monetary Union).

[3] For more details on the ARA-CC approach, see IMF (2014), "Assessing Reserve Adequacy—Specific Proposals.", *IMF Policy Paper*.

# Appendix III. Risk Assessment Matrix[1]

| Source of risks | Likelihood/Horizon | Expected impact if realized | Possible Policy Response |
|---|---|---|---|
| Delays or little progress in improving fiscal management lead to disappointing fiscal revenues, further accumulation of spending arrears and VAT refunds, and protracted under-execution of the development budget. | **High / ST, MT** | **High / ST, MT**<br>Inefficient fiscal management hampers fiscal-monetary policy coordination and implementation, leads to lower public investment and lowers economic growth. | Implement fiscal structural reforms to improve tax administration and policy and expenditure management. |
| Delays in implementing key structural reforms to improve the business climate in Tanzania and/or interventionist policies. | **High / ST, MT**<br>There is a need to bypass political economy considerations and involve experts and stakeholders to ensure the implementation of much-needed structural reforms. | **High / ST/MT**<br>Further delays or no action in pursuing appropriate reforms or interventionist policies will lead to higher risk premiums, subpar medium-term growth and fail to create employment. | Accelerate implementation of reforms to improve the business climate (including revising legislation) and make the country an attractive destination for foreign investment |
| A hurried scaling-up of large infrastructure projects with insufficient evaluation of costs and payoffs. | **Medium / ST, MT** | **High / ST, MT**<br>A hurried scaling-up of public investment projects that do not have a clearly high rate of return would fail to raise potential growth, crowd out recurrent expenditure, increase public debt, and possibly raise concerns about debt sustainability. | Implement all provisions of the Public Investment Management Manual and conduct government's own feasibility studies to properly cost, evaluate, and reprioritize projects with the highest payoffs in terms of potential growth and positive externalities. |
| Delays in dealing with problem banks. | **Low, Medium / ST, MT**<br>The authorities have a broadly adequate legal framework for bank oversight, but proper enforcement is needed. | **Medium / ST, MT**<br>Issues in troubled banks, if left unaddressed, will lower confidence in the financial system, deter deposit and credit growth, and increase potential fiscal costs of bank resolution. | Implement the recent FSAP's recommendations: notably introduce non-formulaic risk rating system in banking supervision and enforce prompt corrective action regulations to ensure timely action, when dealing with problem banks. |
| Rising protectionism and retreat from multilateralism. Escalating and sustained trade actions threaten the global trade system, regional integration, as well as global and regional collaboration. | **High / ST, MT** | **Medium / MT**<br>Negative impact on global growth would lead to lower external demand and make some export-oriented projects unviable. | Allow for exchange rate adjustment, use counter-cyclical measures to support demand, focus on investment projects with high impact on potential growth, and accelerate reforms to improve the business climate. |
| Weaker-than-expected global growth.<br>· In the US, confidence wanes after a long expansion with stretched asset valuations.<br>· In China, insufficient progress in deleveraging and rebalancing reduces growth. | **Medium / ST, MT**<br>**Medium / ST, MT** | **Medium / MT**<br>Weaker global growth would lower external demand and reduce FDI and loans (in particular from China) for infrastructure projects, which -in turn - would lower growth prospects somewhat. | Ensure exchange rate flexibility and apply counter-cyclical fiscal and monetary policies. |
| Sharp tightening of global financial conditions caused by market expectation of tighter U.S. monetary policy triggered by strong wage growth and higher-than-expected inflation | **Low / ST** | **Medium / MT**<br>Tighter global financial conditions would make external budget financing more difficult and costly, delay public investments, and put pressure on the balance of payments and the currency. | Adopt revenue mobilization measures and re-prioritize expenditures. Ensure exchange rate flexibility to maintain an adequate level of international reserves. |

Based on the latest G-RAM (February 2019).

[1/] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

# Appendix IV. Capacity Development Strategy

## A. Background

1. **Tanzania's economic prospects, assuming suitable reforms, are favorable.** Inflation is contained in low single digits, the current account deficit has narrowed to 3.3 percent of GDP, and foreign reserves have increased to over US$5 billion reaching about 4.5–5 months of import coverage. Tanzania has the potential to achieve high growth over the medium term, if policies appropriately focus on growth-enhancing infrastructure investment, improving fiscal management and the business environment, and reforming the energy sector.

## B. Capacity Development Assessment

2. **Despite progress, gaps in institutional capacity and hesitant leadership constrain the pace and scope of reforms.** While there have been advances in some areas such as the adoption and implementation of VAT reforms, a new Budget Law, the operationalization of Basel II financial regulations, and the modernization of the monetary policy framework, much progress is still needed in these and other areas (budget planning, expenditure control, and VAT administration). While many recent setbacks reflect policy priorities that conflict with technical advice, institutional capacity needs to be strengthened. Going forward, there is a need for high-level commitment by the authorities together with delegation of responsibilities to ensure the effective implementation of reforms.

## C. Key Risks and Mitigation Measures

3. **The key risks are limited absorption capacity and political economy constraints**. Absorption capacity could be alleviated by focus on training and hiring of expert staff, including qualified long-term advisors/trainers in some areas. Experts could provide support and training including feedback in areas where reforms could lead to good outcomes yet are not implemented because of unfounded or misguided concerns. There is also a need for regular follow up by the authorities on the implementation of reforms, and more importantly, for high-level recognition of the benefits of reforms that could improve the legitimacy of the government and the business climate.

## D. Going forward

4. **Going forward, resources should be relocated to improve capacity in key fiscal, financial sector, and statistical issues.** Continued support is needed to improve tax administration, budget formulation, expenditure control, and public investment management. In addition, generating more reliable national accounts will be critical, as well as improving the coverage of fiscal and debt statistics. Lastly, further technical assistance to implement the interest-rate based monetary policy framework and the FSAP recommendations will be needed in the period ahead. The volume and timing of TA should be calibrated carefully in line with the authorities' requests and to allow for sufficient support to the authorities in Zanzibar, recognizing that Zanzibar has more severe absorptive capacity constraints than the mainland.

| Priorities | Objectives |
|---|---|
| Public Financial Management | Strengthen budget formulation and implementation, including the medium–term budget framework, cash management, implementation of a Single Treasury Account, and commitment controls; and enhance financial reporting.<br>Improve evaluation, implementation, and monitoring of public investment. |
| Tax Administration | Improve medium-term revenue mobilization through reforms that foster compliance management by adopting risk-based analyses and audits; improve the tax refund system; implement an Integrated Domestic Revenue Administration System (IDRAS); and make better use of information from third parties and the electronic fiscal devices. |
| Macroeconomic statistics | Improve the reliability of GDP statistics and improve coverage of fiscal and debt statistics. |
| Financial sector stability | Complete and implement revisions to risk-based banking supervision and key regulations; follow-up on February 2018 circular on loan classification with specific safeguards designed to prevent its abuse by banks; develop and implement an operational framework for emergency liquidity assistance in relevant currencies; enhance the macroprudential tool-kit by incorporating liquidity and FX risk management tools; operationalize the Tanzania Financial Stability Forum Memorandum of Understanding for financial crises preparedness and management. |
| Monetary and Foreign Exchange Operations | Modernize the monetary policy framework through: designing suitable monetary operations; a greater use of domestic currency instruments for sterilization; establish preconditions for a true repo market; and implement operational arrangements to foster interbank cash market trading. Modernize foreign exchange operations, including by distinguishing between sterilization and intervention operations. |

# Appendix V. Main FSSA Recommendations[1]

*The FSAP focused on financial stability challenges and related advice. The main challenges are the decline in credit growth and banks' asset quality, under-provisioning, low resilience of some smaller banks in the case of adverse shocks, and risks for large banks in case of extreme shocks. The advice centered on measures to reduce nonperforming loans and increase provisioning and institutional and systemic buffers to manage liquidity, credit, and concentration risks as well as improvements in bank supervision. This appendix contains a list of the main measures recommended.*

**Framework for Financial System Oversight**

- Strengthen the framework for stress testing and expand capacity for financial stability analysis.
- Enhance surveillance and the prudential toolkit for oversight and management of FX liquidity risks.

**Banking Supervision**

- Ensure adequate staffing of the supervision function, including for off-site analysis.
- Follow-up on BoT's NPLs circular with further guidance to clarify the conditions for NPLs restructuring.
- Integrate traditional CAMELS supervisory framework with RBS and facilitate the timely conduct of risk self-assessments in banks.
- Enforce existing Prompt Corrective Action regulations and introduce internal guidance to ensure timely action to deal with problem banks.

**Managing Systemic Liquidity (including Emergency Liquidity Assistance)**

- Put in place operational strategy emphasizing the attainment of the price stability objective.
- Develop and publish a foreign exchange intervention policy that limits the extent of central bank intervention in sterilizing balance of payments flows and provision of domestic currency liquidity.
- Streamline the instruments for monetary policy and use Open Market Operations to steer the interbank cash market rate.
- Foster the development of repo markets by adopting standard practices for market valuation of collateral and implement standard margining requirements to limit financial exposure.
- Compile operational framework and establish arrangements for government indemnity.

**Deposit Insurance and Financial Crises Prevention and Management**

- Enhance the operational independence and effectiveness of the Deposit Insurance Board.

[1] United Republic of Tanzania: Financial Sector Assessment Program, December 4, 2018, available at https://www.imf.org/en/Publications/CR/Issues/2018/12/04/United-Republic-of-Tanzania-Financial-Sector-Assessment-Program-Press-Release-Staff-Report-46418

- Operationalize the memorandum of understanding of the Tanzania Financial Stability Forum for coordinating actions in the event of a financial crisis.
- Put in place a comprehensive framework that provides for prompt resolution (e.g., financial stability law).

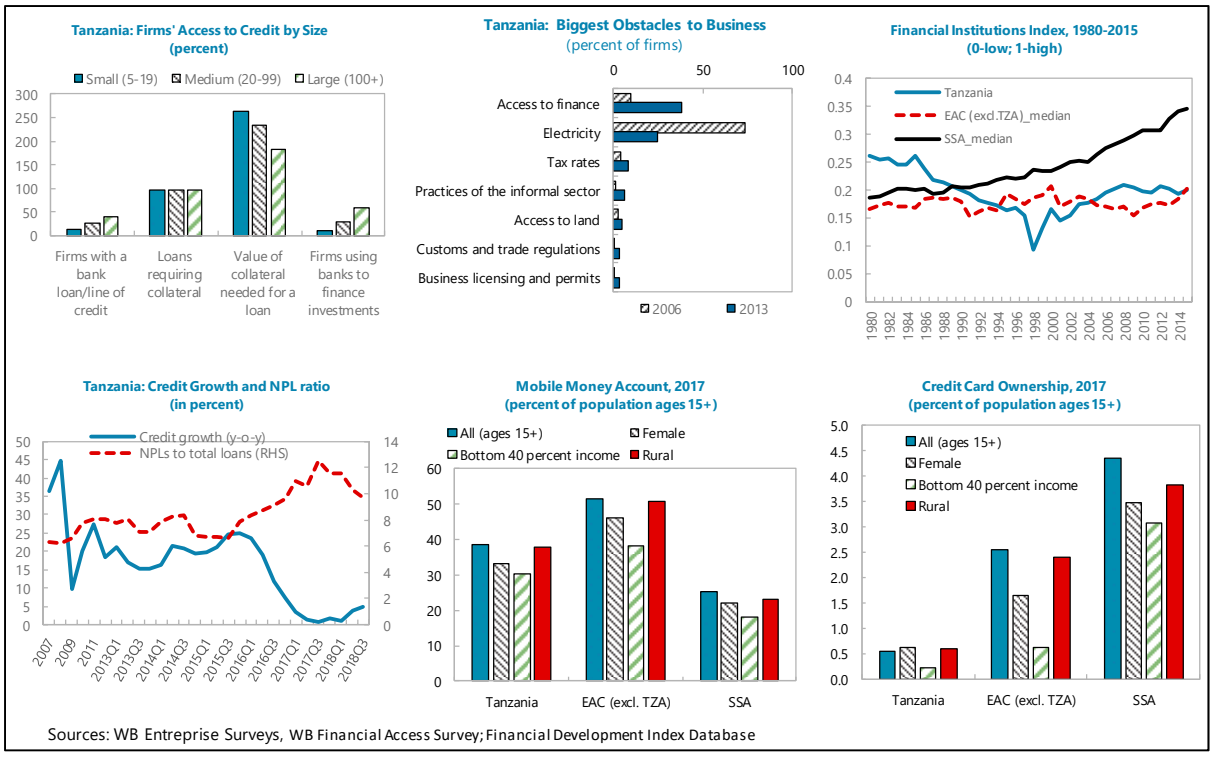
**AML-CFT**

- Adopt the latest National ML/TF Risk Assessment report and implement a comprehensive action plan to mitigate the identified risks.
- Develop capacity to implement risk-based AML/CFT supervision in line with the identified risks.

# Appendix VI. Financial Access and Inclusion

1. **While the provision of financial services has improved over the years, firms' access to finance is relatively limited.** The enterprise sector in Tanzania remains segmented, with access to the financial system limited to large corporates, whereas SMEs have little access to banks' financing – a significant barrier to the growth of the formal enterprise sector (according to the 2013 World Bank Enterprise Survey, access to finance was the most significant business constraint for firms). Only 16.6 percent of them have a bank loan/line of credit –significantly lower than the regional average. Collateral requirements are also high, particularly for small enterprises. Moreover, lending activity has been adversely affected by the recent pickup in NPLs and concerns about the business environment. Lastly, the credit market is shallow, with the share of formal private sector credit to GDP at about 13 percent at end-2018. In fact, a rough index of financial development[1] —- aggregating depth, access, and efficiency—suggests that more can be done to spur financial development.

2. **Regarding individuals, progress has been made in increasing access to formal accounts and financial inclusion.** Over the last decade, the share of the population with access to some form of financial services has increased from 16 to 60 percent, driven almost totally by the expansion of mobile money accounts (MMAs), which have facilitated person-to-person transfers or payments. However, usage of banking services among individuals is low compared to mobile, with only 16.7 percent of adults reported to have or use bank accounts and only 0.5 percent owning a credit card.



Sources: WB Entreprise Surveys, WB Financial Access Survey; Financial Development Index Database

[1] Svirydzenka, K. 2016, "Introducing a New Broad-based Index of Financial Development", IMF Working Paper No. 16/5

### Identifying Constraints to Financial Inclusion of Firms

3. **We apply a micro-founded general equilibrium model[2] to identify ways to boost access to finance for MSMEs.** The model is calibrated to quantify the most binding constraints to financial inclusion and hence to growth and productivity. Three financial frictions are at work: participation costs ($\psi$) limiting access to credit for smaller and poorer entrepreneurs; intermediation costs ($\chi$) due to asymmetric information between banks and borrowers leading to net interest spreads; and imperfect enforceability of contracts ($\lambda$) resulting in collateral requirements and smaller collateral leverage ratios. To carry out the estimation, macroeconomic and financial indicators specific to Tanzania are included in the model to determine parameters values and transition paths.

4. **The results point to high participation costs and high collateral requirements as the main borrowing constraints.** Based on the calibration, the charts in the panel below illustrate the effects of relaxing individually each of the three financial constraints on the number of firms accessing credit, GDP, productivity, income inequality, interest rate spreads, and NPL ratios.

- ***Participation costs***. Lowering participation costs, such as fixed transaction costs, documentation requirements, and other access barriers could lead to higher investment, productivity, and GDP. An important measure that the authorities could undertake in this area is enhancing the coverage of credit information bureaus by expanding the number of credit data sources (e.g., payments via mobile network operators), digital credit by unregulated Fintech companies, micro-finance institutions, and other credit-only companies. To further expand access, saving and credit services could be offered via MMAs.
- ***Collateral constraints***. Policies which could lower collateral requirements (i.e., introduce collateral registries, broaden the pool of accepted collateral to movable property and rights) or improve collateral recovery (i.e., enhance enforcement) could substantially increase the share of firms with access to credit in Tanzania. This, in turn, could enable additional economic activity. In this regard, the recent measures by the authorities to draft a secured transaction law and set up a comprehensive collateral registry are positive steps.
- ***Intermediation costs***. Lowering these costs could yield some benefits in terms of more firms accessing credit. To this end, ongoing reforms are expected to help reduce real lending rates, namely the monetary policy focus on price stability and reforms to reduce risks and inefficiencies in the interbank market, improve the land management system, and strengthen credit underwriting and recovery systems.

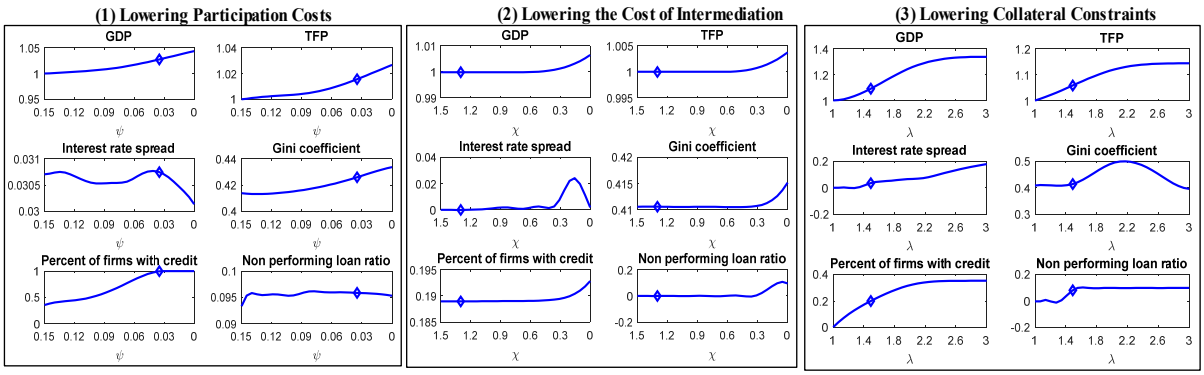
5. **Tackling the inefficiencies in the existing credit infrastructure and problems with enforceability of loan agreements could lower the cost and increase the availability of credit.** The credit bureau system needs to be strengthened. The credit reporting system in Tanzania is based on the BoT's Credit Reference Databank system and two licensed private credit bureaus. Although significant improvement has been made in recent years, financial service providers indicate that the data is incomplete. Moreover, unpredictable court decisions contribute to the high perceived risk of lending and decrease the value of collateral. Weaknesses in the rule of law

[2] Dabla-Norris, E., et al. ,2015, "Identifying Constraints to Financial Inclusion and Their Impact on GDP and Inequality," NBER Working Paper, No. 208.

(Appendix VII) have contributed to many banks limiting their activities to what they perceive as less risky segments of the market. Lastly, efforts are needed to increase the capacity of the judiciary to interpret and efficiently enforce creditors' rights.

6. **Finally, measures to increase intermediation, resolve asset quality issues in pension funds, and develop the stock exchange could increase long-term financing for the private sector.** First, this requires boosting the volume of domestic savings intermediated through the financial system. Strengthening the credit infrastructure and reducing the risk perception in the banking sector will create incentives for banks to lend at longer maturities. Second, pension funds must resolve asset quality issues preventing them from making contributions to domestic long-term finance. Finally, the pool of long-term finance in Tanzania could also grow through policies that increase the number and size of liquid securities issued and traded on the stock exchange.

**Panel charts. Tanzania: Relaxing the Constraints to the Financial Inclusion of Firms**



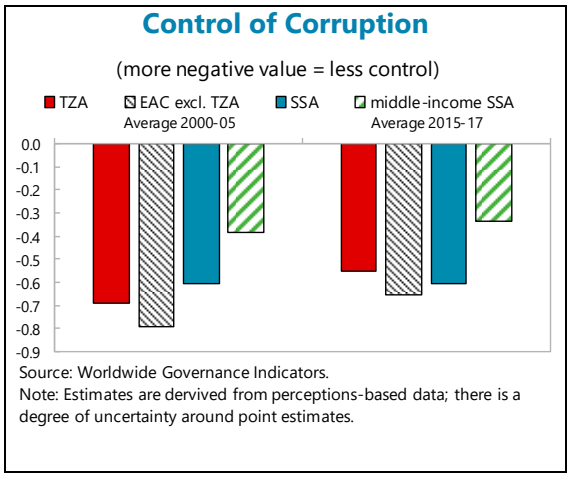

(from left to right, dot indicates initial position)

# Appendix VII. Addressing Governance Vulnerabilities

*Despite recent improvements, governance weaknesses hamper private sector development and competitiveness. In this regard, there is a need to undertake reforms affecting several state functions—government procurement, land administration, taxation and customs—to deal with corruption and inefficiencies in the use of public resources. In addition, it will be critical to ensure the operational independence of the agencies involved in anti-corruption activities, increase their capacity, and transparently apply the rule of law. This appendix discussed the general anti-corruption setting and specific macro-critical areas of governance—fiscal governance, the regulatory framework, the rule of law, and financial sector oversight (including AML/CFT).*

## Anti-Corruption Setting

1. **The country has a comprehensive anti-corruption legislation and the authorities are implementing their third 5-year (2017–22) anti-corruption strategy.** The strategy focuses on promoting transparency in both the public and private sectors. In addition, a special High Court Division for corruption and economic crimes was set up in 2016 to address grand corruption cases. The National Assembly has been active in uncovering several major corruption cases. The perception of accountability (overall, and of public officials) has improved, although statistics on corruption cases were discontinued in the last few years.[1] The government has also taken steps to strengthen its response to money laundering and passed legislation protecting whistleblowers. These steps have been the result of the authorities' drive to root out corruption.




**Nevertheless, there are serious weaknesses in applying and enforcing the existing anti-corruption legislation.** The latest Review of Implementation of the United Nations Convention Against Corruption (UNCAC) highlights weaknesses and recommends legislative amendments.[2] Notably, there is poor coordination between the Prevention and Combatting of Corruption Bureau (PCCB)—Tanzania's anti-corruption agency—and prosecutorial authorities. The Bureau has reportedly limited operational independence in the investigation of corruption (its independence is

[1] The appendix uses several survey-based indicators. Caution is needed when comparing the indicators across countries. Although they are updated yearly, and survey methodologies are revised frequently, they are partly constrained by the data that can realistically be collected and are based on perceptions. The worldwide governance project reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2017, for six dimensions of governance, including control of corruption. They are based on a mix of quantitative measures and survey-based indicators.

[2] Tanzania is a signatory of the United Nations Convention against Corruption (UNCAC) since 9 December 2003 and it subjected itself to the peer review process on compliance.

not enshrined in the Constitution). At a technical level, to prosecute offenders consent must be obtained from the Director of Public Prosecutions (DPP), which could result in a small number of cases being tried. Regarding AML/CFT, the newly established Financial Intelligence Unit executes requests for information from law enforcement agencies, including the PCCB, and refers matters for further investigation[3], but coordination and follow-up is insufficient and the various investigative and prosecutorial bodies need to strengthen capacity on the subject. Other constraints to the investigation/prosecution of corruption and consequent recovery of proceeds of corruption concern tracking cash transactions and identifying illegal properties and inadequate resources in courts and for training prosecutors handling anti-corruption cases.

2. **Institutional strength, independence, and better coordination among the bodies involved will be essential to address these weaknesses.** One important step will be to strengthen the enforcement of existing legislation by ensuring the independence of the concerned institutions and fostering transparency and inter-agency cooperation in the implementation of anti-corruption laws. For instance, closer collaboration is needed between the PCCB and the DPP, as well as between disciplinary bodies and the PCCB. Also, inter-agency coordination could be strengthened by developing guidelines and MOUs to clarify roles and develop mechanisms for information sharing among the difference agencies.

3. **Adequate resources will also be needed for the various institutions to fulfill their roles.** Capacity building is important to avoid inconsistent and ill-founded court decisions and to raise trust in the justice system.

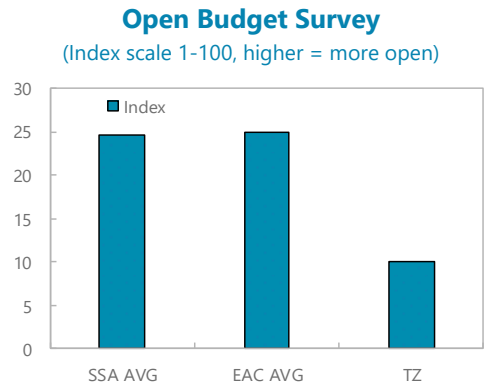
### Fiscal Governance

4. **Weaknesses in fiscal governance relate to spending outcomes, revenue institutions, fiscal transparency and PFM controls.** The recent focus on meeting revenue targets and reducing evasion has led to a perception of abusive tax administration practices and slow progress on voluntary compliance. There is also a disconnect between the revenue collection system and cash management, which contribute to payments' arrears. In addition, there are discrepancies between data on government operations and financing primarily due to lack of a fully integrated set of accounts. The 2015 Fiscal Transparency Evaluation in Tanzania reported low scores for fiscal transparency, and gaps remain in terms of transparency and the structure of some taxes in relation to extractive industries, as highlighted by the latest 2017 Extractive Industries Transparency Initiative (EITI) evaluation report (see also Selected Issues: International Corporate Tax Assessment, March 2019).[4]

[3] The FIU has stepped up on-site inspections and conducted 23 AML/CFT inspections for the past three years.

[4] The latest EITI assessment noted meaningful progress with the 2016 standard implementation. However, several areas require corrective actions: more comprehensive publication of data on production and exports, the management of revenues from extractive industries, and enhanced transparency in contract awards and license allocations. The assessment also calls for the role of SOEs—including transactions, quasi-fiscal expenditures, and revenues that accrue from their activities to the state budget—being comprehensively and publicly addressed.

5. **Reforms to improve tax administration could help strengthen governance and reduce vulnerabilities to corruption.** A robust reform agenda is embedded in Tanzania Revenue Authority (TRA)'s corporate plan, which, if implemented, will enhance vital areas in the authority. Building on that, the TRA should encourage voluntary compliance and ensure full use of risk-based audits. There is also a need to limit discretionary tax incentives and publish a list of existing beneficiaries and prepare a tax expenditure report. Lastly, the authorities should follow up on the recommendations from the latest EITI report to improve extractive sector governance.

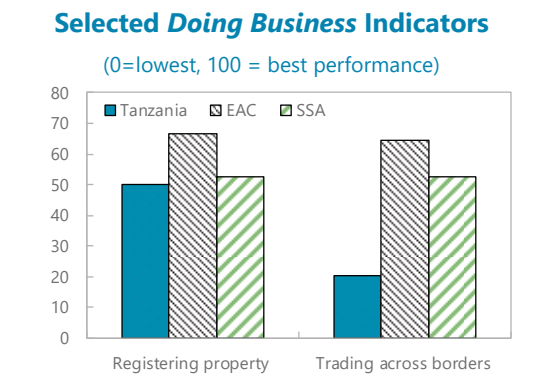


Source: International Budget Partnership

6. **PFM practices should also be improved.** An Arrears Management Strategy was issued in May 2018 to clear the existing arrears stock and prevent new ones. However, there is a need to specify the timeline for verifying all existing arrears, outline steps to protect the projected amounts for arrears clearance, and establish criteria for prioritization. On fiscal transparency, the main budget documents should be more comprehensive and published to empower civil society's ability to exercise oversight of public functions.

## Regulatory Framework

7. **Available data on the ease of doing business suggest weaknesses in trade facilitation and property registration (Figure 3).** Trade costs in Tanzania are much higher than for peers, hindering regional integration.[5] Despite recent infrastructure improvements and a modernization of customs, Tanzania has remained in the bottom 5 percent of performers of trading across borders. Registering property is also difficult (currently Tanzania ranks 146 of 187 economies in terms of ease of registering property according to the Doing Business Report). Burdensome and often unclear regulations, complex tax and border compliance procedures, and a lack of transparency hamper competitiveness and increase the scope for corruption.



Source: World Bank Doing Business Report 2019
Note: There remains some uncertainty around point estimates.

**Concrete steps are needed to improve the business climate, support trade and FDI flows, and reduce vulnerabilities to corruption.** Impact assessments and periodic reviews of regulations, in consultation with the affected parties, would raise public engagement. In addition, an implementation timeline needs to be adopted and published regarding the recent Blueprint on Regulatory Reforms which contains useful reforms to deal with the multiplicity of laws and

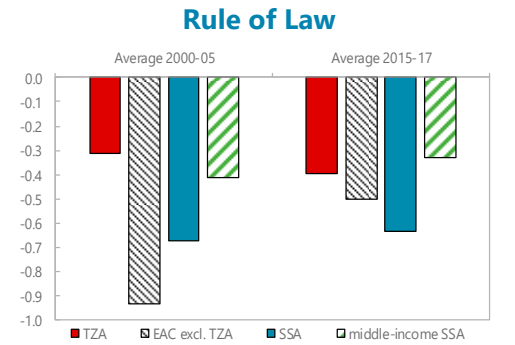
[5] The 2019 WB Doing Report shows that the time to import (measured by the time of border compliance) is over three times longer in Tanzania than the average for SSA countries.

regulations, licenses, permits and certifications, as well as the involvement of regulatory bodies with duplicative mandates.

8. **Further trade reforms are also important.** Measures should be taken to remove trade barriers limiting access to markets for exporters, and reform regulations that increase the price of imported inputs. At the same time, the authorities should conduct a regulatory assessment and remove non-tariff barriers to trade and implement a customs' risk management mechanism to reduce the scope of corruption and economize on scarce customs' capacities and resources.

### Rule of Law

9. **Although the judiciary system has become more accessible and ranks higher than Tanzania's peers, the application of the rule of law has been deficient.** The application of existing laws (e.g., on anti-corruption and economic sabotage) has been perceived as arbitrary given the opacity, suddenness, and severity of decisions. Although the 1999 Land Act allows for compensation at market prices, the law is also enforced selectively and arbitrarily, giving rise to uncertainty. The 2019 Doing Business report identifies the quality of judicial processes as the main obstacle to contract enforcement, with minimum competence and resources missing on important cases (e.g., insolvency, tax).



Source: Worldwide Governance Indicators
Note: Estimates are derived from perceptions-based data; there is a degree of uncertainty around point estimates.

10. **Steps to reduce state contract alteration and improve the quality of the judiciary need to be undertaken.** It is essential to promote rule-based governance by limiting the room for discretion and arbitrary decisions. For instance, court data/statistics should be readily available and published in the annual audit report. Regarding property rights, land rights should be registered in a publicly available register, while enforcing systematic and fair compensation at market prices in cases of expropriation would reduce the incidence of land disputes. In addition, there should be simplified procedures for simple debt enforcement cases as this would have positive effects on investment and access to credit. Lastly, there is a need to build capacity in business law for judges, clerks, lawyers and bailiffs to ensure better monitoring of judicial procedures and execution of judicial decisions.

### Financial Sector Oversight

11. **The 2018 FSSA highlighted weaknesses in financial sector oversight.** The main weaknesses are severe under-staffing of the banking supervision function; lack of enforcement of prompt corrective action procedures and allowing weak banks to linger; weaknesses in the corporate governance framework for commercial banks, particularly regarding conflicts of interest, connected lending;[6] and lending to prominent officials.

[6] Non-performing insider loans were a significant factor in the failed community banks.

12. **Corporate governance shortcomings in banks highlight the need to enhance supervisory processes.** In this regard, the BOT is working to increase staffing and move toward risk-based supervision. The integrated risk-based process will require supervisors to assess more comprehensively corporate governance and risk oversight frameworks in banks and in line with the revised Basel principles. The BoT also plans to enforce corrective action regulations and introduce internal guidance to deal with problem banks. Lastly, the BOT needs to expedite the development and implementation of the Basel II, Pillar III disclosure and transparency standards.

**Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)**

13. **The existing AML/CFT framework[7] is not effective at preventing and deterring the laundering of the proceeds of corruption**. The newly established Financial Intelligence Unit receives suspicious transaction reports and refers matters for further investigation. Given weaknesses in the judicial system and the poor coordination and follow up by the investigative and prosecutorial bodies, including due to the low capacity in investigating money laundering, a very few money laundering cases are brought to court and even fewer are adjudicated. Although the supervision of compliance with AML requirements in banks has improved, there is a need to develop the tools of risk-based AML/CFT supervision to improve its effectiveness. The National ML/TF Risk Assessment (NRA) report prepared from September 2015 to December 2016 is still awaiting government's approval, thus delaying the development of a needed multi-prong action plan to reform the AML/CFT regime to address risks. The NRA report and its executive summary needs to be swiftly adopted and publicly shared.

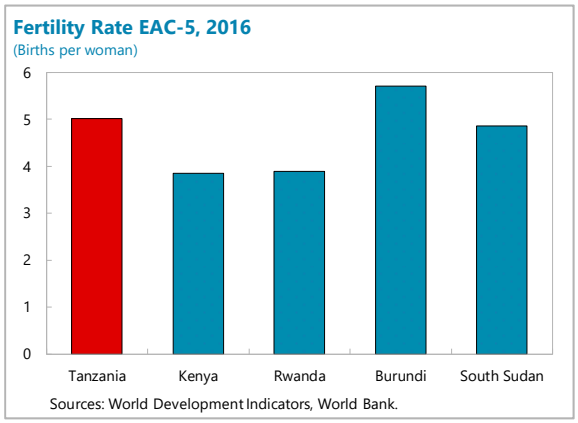
14. **It is essential to further strengthen the AML/CFT framework, including measures to support anticorruption efforts**. Tanzania will undergo a mutual evaluation by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in June 2019 against the 2013 assessment methodology, which emphasizes the risk-based approach to the implementation of the 2012 FATF standard and ensuring the effectiveness in risk-mitigation. The authorities need to address remaining technical deficiencies and mobilize the AML/CFT regime to improve its effectiveness. In particular, the FIU should be given the resources to improve its capacity to implement all facets of its mandate. Given the many threats to the financial system, the FIU could focus more on non-traditional banking mechanisms used to launder funds. As proceeds of corruption pose a significant threat, the authorities are encouraged to strengthen AML measures that support anticorruption efforts. First, preventive measures for domestic politically-exposed persons, including enhanced due diligence requirements, should be enacted and the implementation of these measures by reporting entities need to be vigorously supervised. Second, transparency of companies and trusts should be improved, so that accurate and timely information on beneficial ownership is available to competent authorities without impediments. Third, detection and disruption of money laundering activities should be intensified, leading to sanctioning of criminals, including by depriving of illicit proceeds. In addition, the asset declaration regime for high-level officials should be strengthened.

[7] The recent review of the AML/CFT regime has identified gaps and led to amending the legal and regulatory framework

# Appendix VIII. Key Challenges in Education[1]

*The impressive improvement in basic education enrollment in recent years, combined with rapid population growth, will pose significant challenges to deliver quality education in the period ahead. Improvements in allocative efficiency and additional funds will be needed to ensure the adequate provision of education services.*

1. **Improvements in access to primary and lower secondary education, combined with a teacher hiring freeze and rapid population growth, creates pressures in the education system.** Between 2015 and 2018, the Fee Free Basic Education Policy[2] caused a surge in primary and secondary education enrollment of 17 and 23 percent, respectively.[3] Although this is a positive development, it has had a detrimental effect on quality as the primary student-teacher ratio increased from 43 in 2015 to 54 in 2018 and is projected to reach almost 60 in 2019. The rapid population growth of about 3 percent per year (the fertility rate is 5 children)[4], will double the secondary school age population between 2015 and 2025. Combined with improvements in enrollment, retention and transition, this will result in a tripling of secondary students from about 2 million in 2018 to 6.3 million by 2025, according to the World Bank. These developments have critical medium-term budgetary implications given the need to expand coverage, improve quality, and reduce gender and rural-urban disparities.




2. **Accelerating human capital accumulation is critical for Tanzania's development.** The priority should be to curb the fertility rate, otherwise population growth will overwhelm the government's capacity to provide health and education services.[5] Efforts to increase the educational attainment of girls (see below), and promote family planning will be decisive in reducing the fertility rate, allowing the government to improve and expand basic education with positive effects on health outcomes, labor productivity, higher incomes, and industrialization.[6] To improve the quality

[1] Prepared in close consultation with World Bank staff, based on their projections and estimates.

[2] The Fee Free Basic Education Policy removed all fees and costs associated with basic education in Tanzania guaranteeing free access for all.

[3] The increase in enrollment was also helped by other positive developments such as an improvement in primary education retention rates (from 50 percent in 2016 to 89 percent in 2018), higher completion of primary school, and a higher transition of girls to secondary school.

[4] Tanzania Demographic and Health Survey (DHS) 2015.

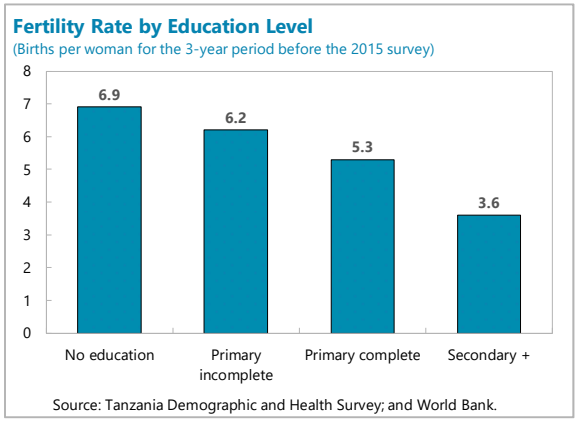
[5] World Bank staff has recommended to curb Tanzania's high fertility rate.

[6] The World Bank estimates that reducing the fertility rate by one child would lead to a 19 percent increase in GDP per capita and lift 6 million out of poverty by 2050 (World Bank, 2018, Demographic Challenges and Opportunities in Tanzania, Policy Note).

of education, it will be important to drastically reduce the student/teacher ratio. A reduction to a level of about 44 will require hiring about 40,000 primary teachers and another 44,000 secondary teachers over the next seven years. To do this in a cost-effective manner, there are some areas where efficiency gains are possible: i) revise the construction parameters of schools to use multipurpose laboratories and in-class libraries; ii) limit the use of boarding schools and teacher-housing; iii) reallocate teachers to use them more effectively; and iv) implement double shifts to reduce school construction needs.[7] Nevertheless, additional resources will be needed to attend to the forthcoming needs; for instance, he World Bank estimated that the budgetary cost just to keep up with the increased demand in lower-secondary education alone would more than double to about 1.7 percent of GDP per year[8] by 2024. That is, the share of education spending in the budget would need to increase to about 5½ percent of GDP compared to the 4½ percent of GDP spent in 2016 provided other education spending remains constant. Such a brisk increase in costs, if not addressed, will pose a serious threat to the quality of education.

3. **Further adding to fiscal pressures are the need for increased allocations for higher education student loans and the rise in higher education enrollment.** Enrollment in public universities increased by 14 percent between 2012 and 2016 thanks to a higher upper secondary school completion rate and an expansion in universities' capacity to accommodate additional students. This led to a 26 percent growth in the number of students eligible for public loans from the Higher Education Students Loans Board (HESLB). In line with the rise in loan beneficiaries, the government augmented the HESLB budget allocation by about 0.3 percent of GDP in 2018, and further increases may be needed in the future. The HESLB has been revamped in recent years to better target students based on financial need and increase timely loan repayment. However, further reforms are needed to refine the targeting mechanism for eligible students (e.g., means-testing), further strengthen loan recovery efforts (especially once the national ID system is fully operational), and explore options for commercial student loans.

4. **Human capital improvements in Tanzania also depends on eliminating gender disparities in educational attendance and outcomes.** Since the female labor force participation in Tanzanian is high at about 84 percent in 2014, raising women's education attainment will have significant positive impacts on productivity, growth and poverty reduction, while helping curb the fertility rate.[9] Despite improvements in recent years, less than half of lower secondary school-aged girls attend




[7] The government has initiated work on some of these issues, but the pace of reform needs to be accelerated.

[8] World Bank, 2018, Tanzania: Fee-Free Basic Education Policy: Fiscal Implications for Lower Secondary Education, Policy Note.

[9] Less educated women tend to have a higher fertility rate, and in Tanzania 36 percent of women are married by 18 years of age, and 27 percent of 15-19-year-old are mothers or pregnant, with nearly 23 percent of all women reporting unsatisfied family planning needs.

school, and gross enrollment in upper-secondary is only 5.6 percent (7.7. percent for boys) in 2018. The World Bank has identified some measures that could reduce the gender gap such as improving/building sanitary facilities in schools to increase girls' attendance, providing a larger share of female teachers, and supporting more gender-friendly teaching practices to promote girls' active participation in class.

# Appendix IX. Gender Inequality[1]

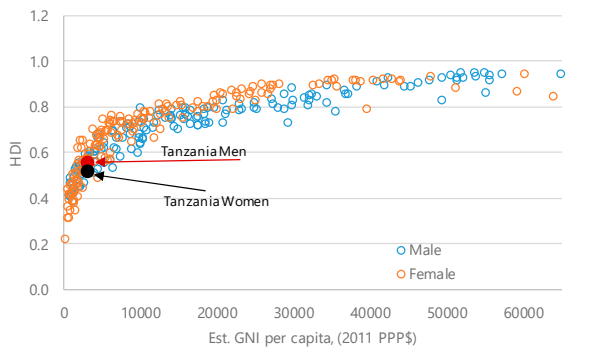
*Closing the gender gap can bring considerable economic benefits. A growing body of literature indicates that greater gender equality can improve economic efficiency and diversification, enhance development outcomes, and support long-term growth and stability.[2] In Tanzania, the key constraints include inconsistent legal provisions and discriminatory customary laws, weak access to higher education and productive inputs, and limited employment opportunities in the formal sector. Results from a decomposition exercise indicate that advancing economic opportunities for women could yield a growth dividend of about ½ percentage point of GDP.*

## A. Introduction

1. **Greater progress on gender equality could increase Tanzania's growth prospects.** Gender inequalities persist—most discernibly in the legal framework, access to higher education and physical assets, and employment opportunities. Customary laws, patriarchal traditions, and some tribal practices are sources of gender biases which constrain female economic empowerment and, in some cases, contribute to poverty, potentially spilling over into future generations.

2. **Gender-based indicators illustrate Tanzania's challenges to reduce gender inequality**. Tanzania's 2017 Gender Inequality Index (GII)[3] points to difficulties in several areas, including high maternal mortality (398 deaths per 100,000 live births), high adolescent birth rate (115.1 births per 1,000 women ages 15–19), and a small share of adult female population with secondary education (11.9 percent). Female labor force participation, although traditionally high in Tanzania, has been declining since 2012. Furthermore, Tanzania's Gender Development Index points to further inequalities in gender-disaggregated GNI per capita and average years of female schooling.[4]

**Human Development Index and GNI per capita**




Source: UN Statistics

[1] This Appendix has benefited from discussions with development partners, including UN Women.

[2] A growing literature associates gender equality with better macroeconomic outcomes and higher productivity. Gender gaps in economic participation artificially restrict the labor market, thereby yielding a less efficient allocation of resources, lower total factor productivity, and a reduction in output growth (Cuberes and Teignier 2016; Esteve-Volart 2004). Conversely, gender equality has been associated with greater diversification of output and export products, improved profitability of firms, and healthier financial assets (IMF 2016; Kazandjian et al. 2016; Christiansen et al, 2016; Olusegun 2017). A greater financial inclusion for women could increase the growth potential of financial services and reduce financial stability risks (Sahay and others, 2015).

[3] The Gender Inequality Index (GII) measures gender gaps in three arears: health, empowerment (education and political representation) and economic status. It can be interpreted as the loss in human development due to inequality in these three categories.

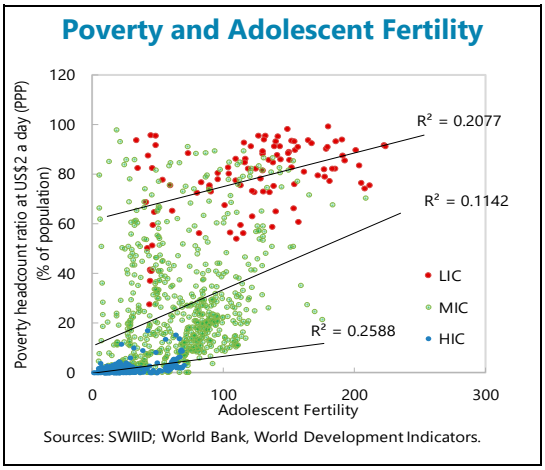
[4] The Gender Development Index (GDI) is based on the gender disaggregated Human Development Index and is defined as the ratio of female to male human development.

3. **This appendix reviews key issues related to unequal economic opportunities for women.** It estimates potential impact on growth if the gender gap were reduced to that of its peer in the region and discusses the benefits of closing gender-based economic and social disparities.

## B. Regulatory Framework and Socio-Cultural Norms

4. **Tanzania's legal framework has yet to be updated to eliminate legal acts that discriminate against women and are inconsistent with the Constitution**. The 2005 Constitution endorsed equal opportunities for both genders, disregarding their tribe, religion, or color (Section 9g). It also prohibited all forms of injustice, discrimination, and oppression against anyone (Section 9h). At that time, progressive provisions were put in place to set 30 percent quotas for women's representation in nationally elected legislative bodies, including Parliament and Attorneys General. However, several longstanding discriminatory legal acts that are inconsistent with the Constitution were not revised. This leaves open the potential for discriminatory practices which would violate women's rights.

5. **In addition, some laws and provisions leave women vulnerable to discriminatory actions.** These include: (i) the *Law of Marriage Act*, which allows for child marriages, an uneven division of matrimonial property, and gives males custody of children; and (ii) the *Inheritance and Probate laws* and the *Local Customary Law* which deny widows property inheritance from their deceased husbands and provide daughters with a much smaller share of such property compared to sons. Based on these laws, forced marriages, especially those of minors, are still common practices in rural communities, where traditional customs prevail. Child brides are most often removed from school—thus cut off from educational and social growth opportunities.




6. **A recently adopted plan makes explicit commitment to "get the right legal framework".** *The National Plan of Action to End Violence Against Women and Children in Tanzania* (2017/18-2021/22) makes several promises to amend discriminatory laws and policies. The changes are expected to tackle Law of Marriage Act, the Inheritance Law, the Law of Child Act, and Customary Declaration Order. Efforts are being also made to revise the *Education Act* to explicitly prohibit child marriage of school girls and raise the age of marriage of girls from 14 to 18. The broader policy objectives, outlined in the plan, set ambitious goals to reduce the prevalence of child marriage, challenge socio-cultural norms that tolerate violence (witchcraft, burning, and genital mutilation), lessen gender-based discrimination, and ensure safety of children (including girls) at schools.[5]

[5] The overall costs of implementing the recently adopted policy in the next 5 years are estimated at TSh 267.4 billion (0.25 percent of GDP). These costs are expected to be covered by the government with contributions from the private sector, international organizations, and development partners.

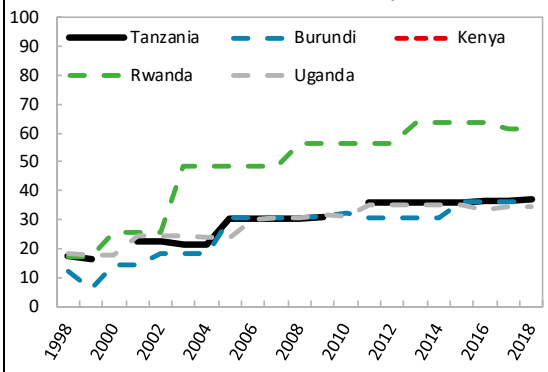
7. **Efforts to change customary practices and certain socio-economic and cultural norms which adversely affect gender equality are also important.** Patriarchal norms are strongly embedded in the structure of the society. Men are socially and economically privileged, resulting in biased perceptions of women's role in families and communities. The situation is exacerbated by limited knowledge of legal, social, and economic rights of women afforded by the legal-regulatory framework at many levels—national and international alike. Furthermore, fear, stigma, and social alienation are reasons as to why cases of violence against women are often underreported. The newly adopted National Plan of Action is an important step but it necessitates strong efforts to raise public awareness.

## C. Economic Opportunities

8. **Gender-based disparities in economic opportunities persist across many aspects of life.** Notably, gender-based differences are stark in education, access to productive inputs, and political empowerment. Domestic chores are predominantly women's task, limiting their productive work elsewhere. Some key differences are summarized below.

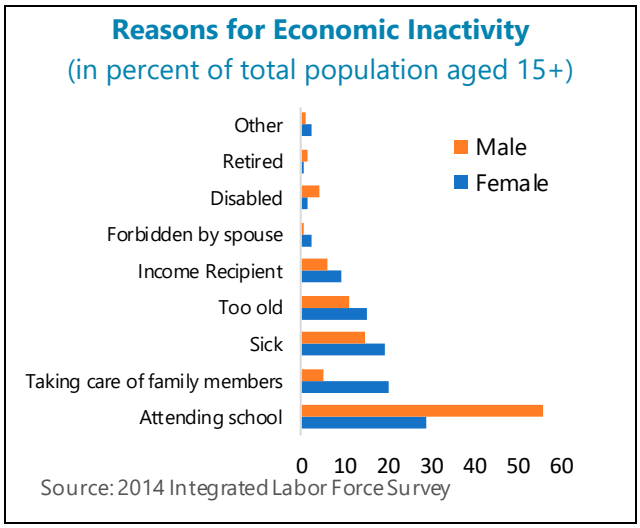
- **Education.** Primary school enrollment has increased sharply in recent years with similar number of girls and boys attending primary and secondary schools; this will need to be reflected in an increase in the female-male enrollment ratio in tertiary education which still stands at single digits. Moreover, young women tend to concentrate in traditional areas of study, such as education, health science, or commerce. This suggests that norms could be driving these choices rather than abilities and economic opportunities. For example, there are less than 30 percent of women enrolled in agricultural studies, yet women comprise of more than half of the agricultural labor force.
- **Access to productive inputs.** In societies with a large agriculture sector, access to land ownership is critical for women's empowerment and plays a key role in poverty reduction, providing collateral for financing of potential business opportunities. Existing discriminatory inheritance laws (mentioned above) which disproportionately favor male heirs reinforce the bias against land tenure for women. Land shortages remain common among women, as they are less likely to hold land than men or secure tenure on the same rights to use. Even if women have access to land, they tend to farm on smaller, more dispersed plots.
- **Political empowerment.** Although the 2005 Constitution imposed a minimum quota of 30 percent of seats in Parliament accorded to women, their representation at local levels remains subdued. However, studies show that women tend to have more impact on local governance in Tanzania when the law allows them rights to greater power in marital relationships and landownership. In addition, as noted in one study, women's participation has still a limited impact on local governance because "Women's participation is usually limited to physical presence" and are underrepresented in higher-level positions.

**Proportion of Seats Held by Women in National Parliaments** (in percent of total)




Source: World Bank
Note: No data shown where data does not exist.

- **Domestic roles.** Women bear the brunt of domestic tasks, which are time—and energy— consuming. These include providing water and firewood, cooking, and caring for the elderly and sick. The latter task is particularly important, as the HIV/ AIDS affects around 1.4 million people in Tanzania (about 3 percent of the total population)[6]. However, such activity is excluded from GDP. Therefore, investing in time-saving infrastructure, such as piped water and more accessible household energy, is essential to increase the capacity of women to participate in income-generating activities. Among women that are 15 years old or more and do not attend school, other reasons for not engaging in market work include illness (19.5 percent), age (15.4 percent), receiving income (9.4 percent), and lack of consent from the spouse (2.3 percent).




## D. Economic Participation

9. **With high female labor force participation, the contribution of women to the economy is considerable.** Women play a vital role in agriculture, trade, and tourism, where they constitute a majority of the labor force. In agriculture, which absorbs two-thirds of the total Tanzanian labor force, women account for more than 52 percent and are mostly concentrated in maize and other food crops production, and to some extent in the processing of agricultural products. Women perform most of the retail trade, as well as much of small value, cross-border exchange. Tourism and food services are dominated by female workers, with a 5:1 ratio. However, cultural biases limit women's presence in tourism services on the largest of Tanzania's islands (Zanzibar), as those jobs are perceived as "inappropriate."[7]

10. **The distribution of economic activity by type of employment is uneven, pointing to important gender differences that drive the wage gap.** Women engage in employment with lower incomes and job security, such as in the household space, while men are better represented among regularly waged workers.[8] Only 10 percent of women have paid jobs, compared to 18 percent of men. The gender disparity is also visible in government employment, parastatals, and other private sector entities' jobs, with less than half of the employed being females.

[6] http://www.unaids.org/en/regionscountries/countries/unitedrepublicoftanzania

[7] By contrast, men dominate manufacturing, construction, transport, and finance.

[8] The 2014 Integrated Labor Force Survey.

**Table 1. Distribution Employed in Labor Force, by Gender (2014)**

| Employment Status | Female | | Male | | Total | |
|---|---|---|---|---|---|---|
| | Number | %% | Number | %% | Number | %% |
| Paid employee | 950,217 | 4.7 | 1,820,658 | 9.1 | 2,770,875 | 13.8 |
| Self-employed | 1,779,351 | 8.9 | 1,955,321 | 9.8 | 3,734,672 | 18.6 |
| Unpaid family helper | 5,100,752 | 25.5 | 2,177,693 | 10.9 | 7,278,445 | 36.3 |
| Agriculture (own farm) | 2,056,419 | 10.3 | 4,189,727 | 20.9 | 6,246,146 | 31.2 |
| **Total** | **9,886,739** | **49.4** | **10,143,399** | **50.6** | **20,030,138** | **100.0** |

*Source: 2014 Integrated Labor Force Survey*

11. **Disparity in earnings reflect distribution in labor force employment.** Women earn considerably less compared to men, which is partly due to the sectoral distribution of employment: the higher salaries are in manufacturing, where women account for about only 14 percent of labor force. On average across all types of employment, women earn about 60 percent of men's salaries. The gap is the widest for self-employees, and it is amplified at higher education levels. In Tanzania, closing the earnings gap is crucial, as women's employment has also been found to reduce child labor (ILO 2010)[9].

**Table 2. Mean Incomes (in Tsh) of Paid, Self, and Agricultural Employed Persons, by Gender (2014)**

| Type of Employment | Female | Male | Ratio (female earnings as percentage of male) |
|---|---|---|---|
| Paid employee (monthly income) | 265,604 | 328,856 | 80.8 |
| Self-employed (monthly income) | 144,300 | 279,636 | 51.6 |
| Agriculture (monthly income) | 92,882 | 150,665 | 61.6 |
| **Total Monthly Income** | **165,920** | **278,748** | **59.5** |

*Source: 2014 Integrated Labor Force Survey*

12. **Data indicate that Tanzanian women are active entrepreneurs.** The share of women-owned enterprises is estimated to have increased from 35 percent in early 1990s to 54.3 percent in 2012 (National Informal Sector Survey, 1991; and Ministry of Industry and Trade, 2012).[10] Most of those enterprises are micro-scale firms: with about 75 percent of them having only one employee and 99 percent less than five. However, most enterprises are concentrated in the informal sector in low growth and profit activities, catering to micro-scale services and products, where entry barriers are low, but price competition is intense.

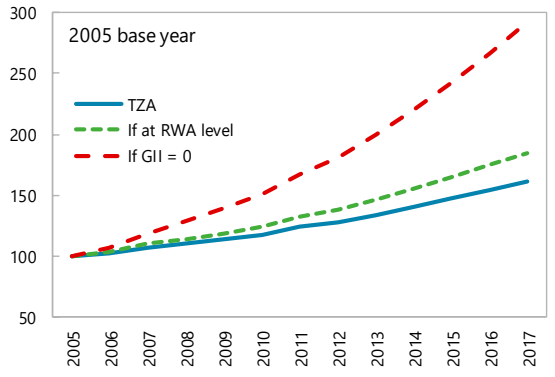
[9] https://www.ilo.org/empelm/pubs/WCMS_143349/lang--en/index.htm

[10] Sources: (i) National Informal Sector Survey, United Republic of Tanzania, 1991; (ii) National Baseline Survey Report for Micro, Small, and Medium Enterprises in Tanzania, Ministry of Industry and Trade, United Republic of Tanzania, 2001.

## E. Impact on Growth

13. **A decomposition exercise shows considerable benefits to economic growth from reducing gender-based disparities.** Using estimates of the determinants of growth in a panel of 119 economies over the period 1990-2014, the potential economic gains from improved gender equality in Tanzania could be substantial. The exercise suggests that gender inequality in the labor market, political representation, educational attainment, and health outcomes in Tanzania have taken a strong toll on growth and that, for instance, growth could be about 0.5 percent of GDP higher if gender inequality were reduced to the level of its peer, Rwanda. As shown in the figure, this could have large positive effects over time.

**Real GDP per capita, 2005-2017**

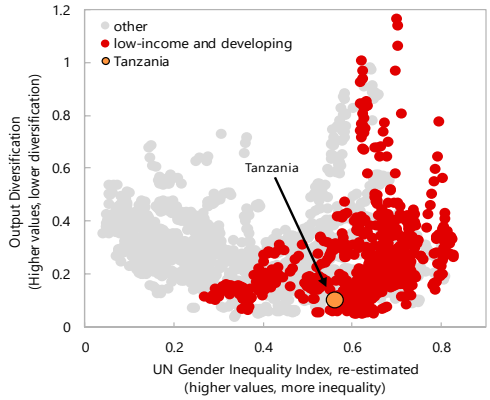



Source: IMF Staff calculations

Based on World Economic Outlook Data available for Tanzania.

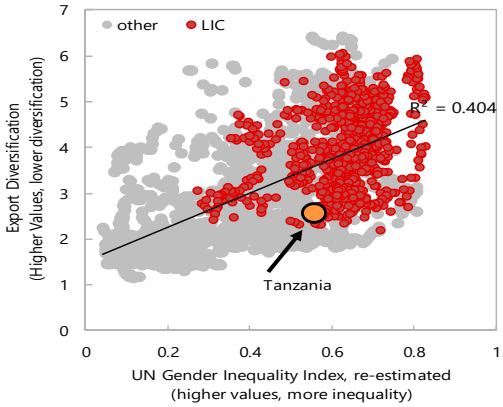
**Global Gender Inequality Indicators**

**Output Diversification and Gender Inequality, 1990-2010**




Sources: World Bank World Development Indicators, United Nations, IMF (2014),

**Export Diversification and Gender Inequality, 1990-2010**




Sources: World Bank World Development Indicators, United Nations, IMF (2014), and IMF staff calculations.

INTERNATIONAL MONETARY FUND


Press Release No. 19/x
FOR IMMEDIATE RELEASE
[March 18, 2019]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

# Appendix X. Draft Press Release

**IMF Executive Board Concludes 2019 Article IV Consultation with the United Republic of Tanzania**

On [March 18, 2019], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the United Republic of Tanzania.

Tanzania has enjoyed macroeconomic stability, relatively high rates of economic growth, and improvements in social indicators over the past decade. Inflation has been kept at single digits, annual GDP growth has averaged about 6.5 percent, foreign reserves have been adequate, and the exchange rate has been broadly stable.

Official data indicate that real GDP growth in 2017 was 6.8 percent, slightly down from the 6.9 percent reported for 2016. However, there are serious weaknesses in the data and other high-frequency indicators point to a much more subdued pace of economic activity. For instance, during the 2017/18 fiscal year (July to June), public sector wages, credit to the private sector, and imports fell by 5.3, 2.9, and 7.7 percent in real terms, respectively.

Monetary and fiscal policies have been prudent and the financial system stable. On the fiscal front, the overall deficit has been moderate at 2 percent of GDP in the past two years and, while public debt has been increasing, it remains manageable at under 40 percent of GDP. The Bank of Tanzania (BoT) is transitioning to interest-rate targeting while maintaining an accommodative monetary policy stance. The banking system has been relatively stable despite the closure of few banks last year, but vulnerabilities have risen as evidenced by a deterioration in some soundness indicators.

Despite economic stability, the business and investment climate has deteriorated. Inefficiencies in fiscal management—unrealistic budgets based on overoptimistic revenue projections and spending in large development projects—led to expenditure arrears, while adverse tax administration practices contributed to delays in tax refunds. This backlog contributed to high non-performing loans, a slowdown of credit to the private sector, and increasing bank vulnerabilities. In addition, amendments to key laws that departed from those in high-

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

performing economies alongside an interventionist stance in some markets have raised uncertainty, increased the cost of doing business, and hindered competitiveness.

Going forward, the pace of economic growth is projected to remain subdued assuming that policies weighing on the business climate are not revised soon and notwithstanding a scaling up of public investment. Furthermore, risks to the outlook are primarily on the downside, although a much more favorable outlook would ensue if a strong package of policies and reforms was adopted.

**Executive Board Assessment**[2]

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

## Tanzania: Selected Economic Indicators, 2015/16–2021/22[1]

| | 2015/16 Act. | 2016/17 Act. | 2017/18 Est. | 2018/19 Proj. | 2019/20 Proj. | 2020/21 Proj. | 2021/22 Proj. |
|---|---|---|---|---|---|---|---|
| | (Percent change, unless otherwise indicated) | | | | | | |
| Output, prices and exchange rates | | | | | | | |
| Real GDP[2] | 6.5 | 6.8 | 6.7 | 5.2 | 4.1 | 4.3 | 4.6 |
| CPI (period average) | 6.0 | 5.3 | 4.3 | 3.2 | 4.1 | 4.8 | 5.0 |
| CPI (end of period) | 5.5 | 5.4 | 3.4 | 3.5 | 4.5 | 5.0 | 5.0 |
| Terms of trade (deterioration, - ) | 1.9 | 2.1 | -6.1 | 0.2 | 3.2 | 0.2 | 0.3 |
| Exchange rate (period average, TSh/USD) | 2,156 | 2,199 | 2,251 | ... | ... | ... | ... |
| Real effective exchange rate (end of period; depreciation = - ) | 0.9 | 0.5 | -1.2 | ... | ... | ... | ... |
| Money and credit | | | | | | | |
| Broad money (M3, end of period) | 12.8 | 6.0 | 6.0 | 10.4 | 10.5 | 10.7 | 10.9 |
| Average reserve money | 7.2 | 1.1 | 4.0 | 6.3 | 7.1 | 7.5 | 7.7 |
| Credit to the private sector (end of period) | 19.0 | 1.3 | 4.0 | 8.5 | 9.4 | 9.5 | 9.7 |
| Overall T-bill interest rate (percent; end of period) | 15.0 | 7.6 | 5.6 | ... | ... | ... | ... |
| Non-performing loans (percent of total loans, end of period) | 8.7 | 10.6 | 10.3 | ... | ... | ... | ... |
| | (Percent of GDP, unless otherwise indicated) | | | | | | |
| Central government operations | | | | | | | |
| Revenues and grants | 14.2 | 15.6 | 14.9 | 15.0 | 15.2 | 15.3 | 15.5 |
| *Of which:* grants | 0.5 | 1.0 | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 |
| Expenditures | 17.5 | 16.6 | 16.2 | 17.2 | 18.0 | 18.5 | 18.9 |
| Current | 13.2 | 10.2 | 10.2 | 10.6 | 10.8 | 11.0 | 11.2 |
| Development | 4.3 | 6.4 | 6.0 | 6.7 | 7.2 | 7.5 | 7.7 |
| Overall balance[3] | -3.4 | -1.4 | -1.8 | -2.3 | -2.8 | -3.2 | -3.4 |
| Excluding grants[3] | -3.8 | -2.0 | -2.0 | -3.0 | -3.6 | -3.8 | -4.1 |
| Public debt | | | | | | | |
| Gross nominal debt[4] | 37.0 | 36.5 | 35.9 | 35.5 | 35.8 | 36.6 | 37.5 |
| *of which*: external debt[5] | 28.6 | 27.8 | 27.3 | 26.8 | 26.6 | 26.8 | 27.7 |
| Investment and savings | | | | | | | |
| Investment | 32.2 | 30.1 | 34.6 | 34.3 | 34.0 | 33.6 | 33.3 |
| Government | 4.9 | 5.8 | 6.1 | 6.5 | 7.2 | 7.5 | 7.7 |
| Nongovernment | 27.4 | 24.3 | 28.5 | 27.7 | 26.9 | 26.1 | 25.6 |
| Domestic savings | 26.0 | 27.2 | 31.0 | 30.4 | 29.8 | 29.2 | 28.6 |
| External sector | | | | | | | |
| Exports (goods and services) | 19.1 | 16.8 | 15.4 | 14.7 | 14.9 | 15.2 | 15.4 |
| Imports (goods and services) | 24.3 | 18.8 | 18.1 | 17.5 | 17.7 | 18.3 | 18.6 |
| Current account balance | -6.2 | -2.9 | -3.6 | -3.8 | -4.2 | -4.4 | -4.7 |
| Excluding current transfers | -6.3 | -3.2 | -3.9 | -4.1 | -4.5 | -4.7 | -5.0 |
| Gross international reserves | | | | | | | |
| In billions of U.S. dollars | 3.9 | 5.0 | 5.5 | 5.4 | 5.1 | 4.7 | 4.8 |
| In months of next year's imports | 4.8 | 5.9 | 6.2 | 5.8 | 5.0 | 4.3 | 4.0 |
| Memorandum items: | | | | | | | |
| GDP at current prices | | | | | | | |
| Trillions of Tanzanian shillings | 101.4 | 114 | 127 | 139 | 152 | 166 | 183 |
| Millions of U.S. dollars | 47,008 | 51,716 | 56,238 | 60,431 | 64,496 | 68,569 | 73,098 |
| GDP per capita (in U.S. dollars) | 976 | 1,048 | 1,113 | 1,172 | 1,226 | 1,278 | 1,336 |
| Population (million) | 48.2 | 49.4 | 50.5 | 51.6 | 52.6 | 53.6 | 54.7 |

Sources: Tanzanian authorities and IMF staff estimates and projections.
[1] Fiscal year (July-June)
[2] Historical figures are up to fiscal year 2017/18, and they are based on the official data, whose quality needs to be improved. For instance, some high-frequency indicators (e.g., wages, tax collection, credit to the private sector, currency in circulation, imports) pointed to lower growth in 2017/18
[3] Actual and preliminary data include adjustment to cash basis.
[4] Excludes liquidity management papers and domestic unpaid claims.
[5] Excludes external debt under negotiation for relief.