

June 8, 2020

**Statement by Mr. Mahlinza, Mr. Odonye, and Mr. Jappah on United Republic of
Tanzania
Executive Board Meeting
June 10, 2020**

I. Introduction

1. Our Tanzanian authorities appreciate the Fund's support for their request for debt relief under the Catastrophic Containment Relief Trust (CCRT). They consider the relief as critical to freeing up public resources to address public health needs and help contain the balance of payments needs resulting from the COVID-19 pandemic.
2. Tanzania has had relatively high economic growth over the last decade, averaging 6-7 percent a year. However, the outbreak of the COVID-19 pandemic threatens to reverse the performance, with a significant growth impact in FY20/21. The contraction in tourism and exports occasioned by the suspension of international travel, lower activity in hospitality services, and economic slowdown in major trading partners, have created exceptional fiscal and balance of payments needs. Against this background, the authorities request debt service relief under the CCRT in the amount of SDR 18.6 million to cover repayments to the Fund, falling due in 24 months from April 14, 2020. In parallel, the authorities are engaging the Fund to secure additional support by accessing emergency financing facilities. To ensure transparency and accountability in the use of COVID-related expenditure, the authorities have committed to undertake a post-audit of COVID-19 spending and to publish the letter of request for debt-relief under the CCRT.

II. Impact of the Pandemic

3. While the health system continues to cope with a relatively mild human impact of COVID-19, a prolonged crisis may place a strain on capacity. Nonetheless, budgetary pressures from constrained fiscal revenues and increased spending to mitigate the impact of COVID-19 have increased. Tourism, which constitutes 35 percent of export receipts, has been severely hit by the temporary containment

measures. Consequently, GDP growth is expected to register significant deceleration in FY19/20 and thereafter. Looking ahead, the growth effects of the pandemic are expected to be more pronounced during the peak of the tourism season starting in June. Fiscal revenues are also expected to decline by 0.6 percent of GDP in FY20/21, while spending is expected to increase owing to additional health needs and support to vulnerable households and firms.

4. On the external sector front, the decline in international commodity prices, coupled with the collapse in tourism and export receipts is expected to create balance of payments needs for FY 20/21. The deterioration in external sector performance will result in a fall in foreign exchange reserves from 5.2 months of import cover in FY19/20 to 3.7 months in FY20/21. The combined balance of payments and fiscal financing needs are projected to be US\$693 million (1 percent of GDP) for FY20/21.

III. Policy Response

5. Following the first confirmed case in March 2020, the authorities took immediate steps to contain the pandemic and mitigate its impact on the economy and the vulnerable population. Key measures include restriction on large gathering, temporary closure of academic institutions and non-essential businesses, and the suspension of international air travel.
6. Our authorities attach importance to reducing the effects of the COVID-19 disease on public health. In this regard, they have reallocated funds under the FY19/20 budget to increase spending on health and social protection needs, equivalent to \$8.4 million. They have waived VAT and customs duties on medical equipment supplies; and prioritized the settlement of arrears to the business sector. They have earmarked a higher budgetary allocation (approximately 8.8 percent) for priority social spending, including on health and social protection in FY20/21. The government remains committed to undertake additional measures, should the pandemic continue for an extended period.
7. The Bank of Tanzania (BoT) has implemented several measures to ease liquidity conditions in the monetary sector, including a reduction in the discount rate. They have also reduced reserve requirements to enhance credit to the private sector. The BoT stands ready to help banks deploy regulatory flexibility for loan restructuring, where it is warranted. At the same time, they will continue to pursue strong oversight of these measures to ensure financial sector stability.
8. In addition to the immediate measures aimed at mitigating the impact of COVID-19, the authorities intend to strengthen budget planning and expenditure control as well as tax administration, while improving public investment management. Plans are also advancing to address arrears as well as the delays in VAT refunds, alongside improvements in the business environment. The authorities are also

implementing various governance measures, including in the context of the AML/CFT framework.

IV. Conclusion

9. Our Tanzanian authorities look forward to Executive Directors' favorable consideration of their request for debt relief under the CCRT. They remain confident that Fund support will create the much-needed fiscal space to help alleviate strains on the fiscal position. Finally, they value Fund's support and look forward to further engagement to help address their medium-term macroeconomic objectives.