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June 13, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Tanzania - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Tanzania. A draft decision appears on page 27. It is proposed to bring this subject to the agenda for discussion on Monday, July 11, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Woodward (ext. 73816), or Mr. Gibson (ext. 73251), or Mr. Stillson (ext. 72917).

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TANZANIA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Consultation with Tanzania

Approved by J.B. Zulu and W.A. Beveridge

June 10, 1983

I. Introduction

The 1983 Article IV consultation discussions with Tanzania 1/ were held in Dar es Salaam during the period April 15-29, 1983. The mission had substantive discussions with the Prime Minister, with the Minister of Finance, and with the Governor of the Bank of Tanzania, as well as with senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Messrs. A.C. Woodward (head-AFR), R.T. Stillson (AFR), T.T. Gibson (AFR), R.D. Kibuka (FAD), T. Hatayama (ETR), and Miss A.P. Wood (secretary-AFR). Mr. O.B. Makalou, Deputy Director of the African Department, participated in the concluding meetings. Mr. E.I.M. Mtei, Alternate Executive Director, also participated in the discussions.

On June 4, 1983 the Bank of Tanzania advised the Managing Director that, effective June 6, 1983, the central rate for one hundred U.S. dollars will be equal to Tanzania shillings 1,217.875, representing a depreciation of 20 per cent in terms of the U.S. dollar. The present composition of the basket of currencies and also the system of daily calculations of the cross rates for various currencies would continue unchanged.

Tanzania was overcompensated by SDR 15.9 million in a drawing made on June 4, 1981 under the compensatory financing facility and was advised of this on August 19, 1982. The Tanzanian authorities have proposed that overcompensation would be reversed in installments over a one-year period ending September 30, 1983, but it was pointed out to the authorities that such a schedule would not be consistent with the Executive Board's understanding of a "prompt" repurchase of overcompensation. Two partial repurchases of SDR 2 million were made on December 31, 1982, and

1/ Tanzania continues to avail itself of the transitional arrangements of Article XIV, Section 2.

on May 6, 1983. This leaves an amount of SDR 11.9 million still to be reversed. 1/

II. Background

Economic developments in Tanzania during the last decade were extensively reviewed in the report on the 1982 consultation (SM/82/154, 7/30/82). That report expressed the view, which was supported by the Executive Directors, that the cumulative effects of a serious and long lived misallocation of resources, resulting mainly from inappropriate pricing policies, had led to a crisis affecting, first and foremost, the agricultural sector and eventually the entire economic development of Tanzania.

Tanzania today remains an agricultural country with underutilized resources of labor and land. However, as may be seen from the following table and Chart 1, official purchases by the marketing authorities of the traditional export crops, which comprise the bulk of output of these crops, have, in most cases, fallen since the beginning of the 1970s. This trend continued in 1982. There has also been an alarming deterioration in the quality of Tanzanian coffee, tea, and tobacco, leading to severe declines in the prices offered for these crops (compared with world market prices). In the case of sisal, where production comes from large estates, many estates have been abandoned.

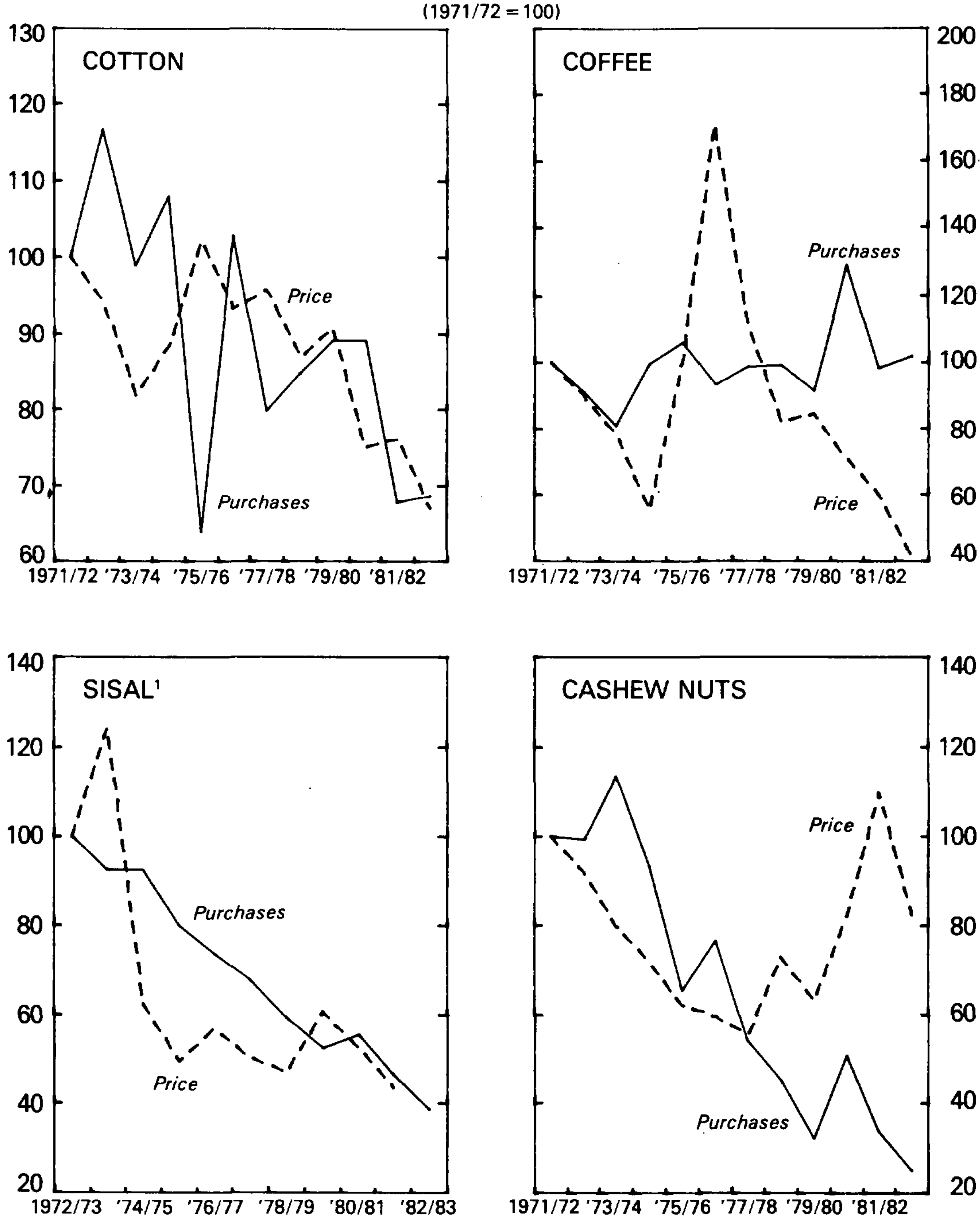
1/ Relations with the Fund are summarized in Appendix I. Lending by the World Bank to Tanzania is summarized in Appendix III.

CHART 1

TANZANIA

INDICES OF OFFICIAL PURCHASES OF PRINCIPAL EXPORTS AND REAL PRODUCER PRICES

(1971/72 = 100)



Source: Data provided by the Tanzanian authorities.
[1] 1972/73=100.

Table 1. Tanzania: Average Purchases of Export Crops by Crop Authorities, 1970/71-1982/83

(In thousands of tons)

	Average 1970/71 to 1973/74	Average 1977/78 to 1980/81	Average 1981/82 to 1982/83 1/
Cotton	71.3	56.4	44.8
Coffee	48.0	54.1	52.4
Sisal	170.3	91.0	66.0
Tea	11.4	17.7	16.0
Cashew nuts	126.6	57.6	37.6
Pyrethrum	3.5	2.4	3.5
Tobacco	14.0	17.0	15.0
Total (index 1970/71 = 100) 2/	80.2	65.8	45.4

Source: Data provided by the Tanzanian authorities.

1/ 1982/83 data are estimates.
2/ Weighted by value of production in 1970/71.

The 1982 Article IV consultation report discussed the reasons for these disappointing trends. Two basically different, but not necessarily mutually exclusive, views were set forth concerning the principal reasons for the decline in production of cash crops. One view which the Tanzanian authorities generally espoused was that the decline in the output of the cash crops can be explained largely by physical factors, which are mainly crop-specific. According to this view, in order to reverse the downward trend of output, there needed to be an alleviation of the foreign exchange constraint and a greater supply of needed inputs. Another view drew the conclusion that the decline in output reflected primarily a highly responsive attitude of peasant farmers to declining financial incentives. The proponents of this view stressed that financial incentives for producing the traditional export crops had declined substantially in real terms during the 1970s, partly reflecting rising costs and inefficiencies of marketing and, more fundamentally, an increasing overvaluation of the shilling; in 1982/83 real prices for these commodities are estimated on the average to be almost 50 per cent below those prevailing in 1970/71, after allowing for officially measured inflation (which is considered to be significantly underestimated). 1/

Various studies have been made which suggest that in the case of food products--maize, paddy, sorghum, and even cassava--about three quarters of production for sale goes through private marketing channels at prices which exceed officially established farmgate prices by considerable margins. Prices prevailing vary from region to region and from year to year, depending on harvest conditions and relative shortages of food in the various regions of the country. One estimate suggests that most parallel market sales of maize in 1983 will probably take place at prices ranging between T Sh 200 and T Sh 400 per bag, compared with an official price of only T Sh 158. Such sales, which include substantial and apparently rising border trade, are not officially permitted and entail considerable risk and costs to the trader.

Over the last decade the share of investment in industry rose sharply. There have been heavy imports of capital goods, whose value tripled in real terms in the course of the 1970s. However, industrial enterprises yield very little in net foreign exchange earnings or savings, and, with the constraints imposed by declining export receipts, capacity utilization in the industrial sector has averaged only about 40 per cent in the last 12 months.

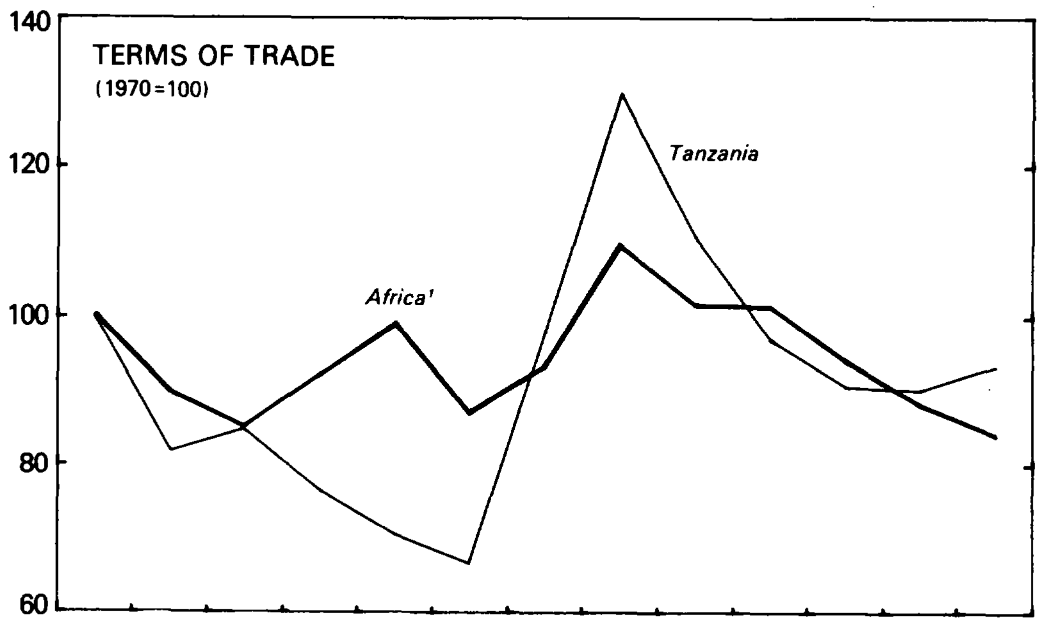
Tanzania's deteriorating agricultural performance has had profound consequences for the balance of payments. In the early years of the decade, based on good export performance, the balance of payments position was fairly strong. However, in 1974 it deteriorated sharply, and the underlying balance of payments position has remained weak ever since, as export crop production continued to decline, despite the temporary respite afforded by the 1976/77 coffee boom. As in the case of other primary producing countries, Tanzania's external terms of trade have shown large fluctuations; they reached a peak in 1976/77 and have since fallen steadily, finishing the decade slightly lower than at the beginning (Chart 2). In 1981 and 1982 there was little change. The main secular deterioration in the balance of payments, however, has been the decline in the volume of exports, amounting during the 1970s to some 50 per cent. The volume of imports declined during the period by 30 per cent through the intensified use of quantitative restrictions. By the end of 1982 these trends had resulted in the exhaustion of foreign reserves, the accumulation of substantial payments arrears, and a level of imports clearly insufficient to sustain the normal operation of the economy. In 1982 grants and project assistance exceeded the value of exports and accounted for almost 50 per cent of the value of imports.

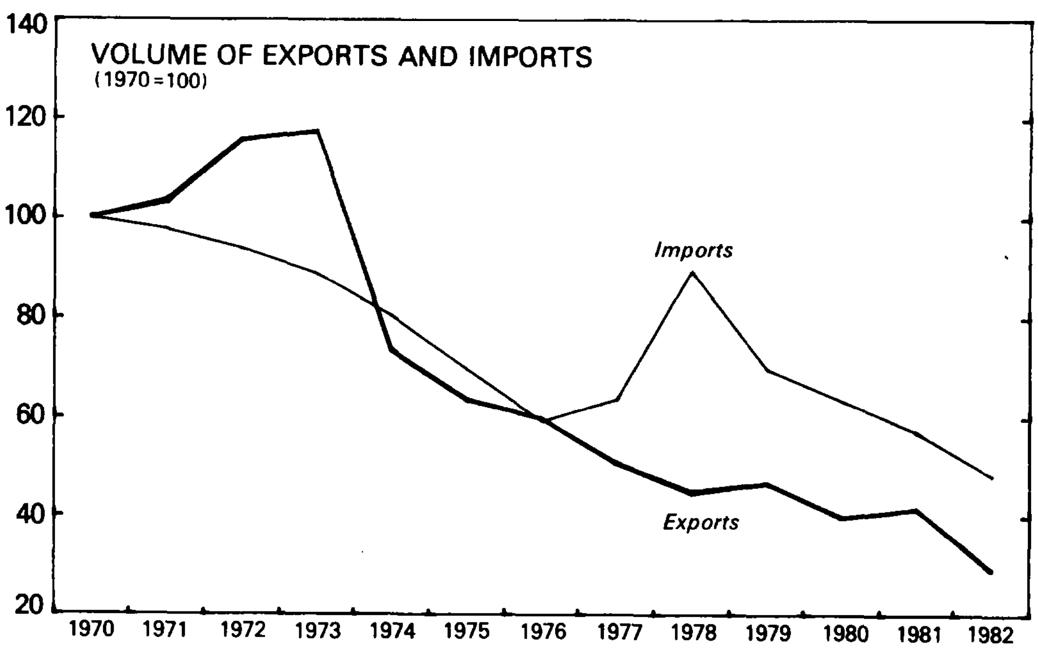
1/ Inflation is not adequately measured by official price indices, which do not take account of the prices of goods which are available only with great difficulty and at very high prices.

CHART 2.

TANZANIA

TERMS OF TRADE AND VOLUME OF EXPORTS AND IMPORTS, 1970-82





Sources: Data provided by the Tanzanian authorities; and staff estimates.
[1]Non-oil-exporting African countries excluding South Africa.

The trends in production and in the external accounts were associated with a major deterioration in the financial accounts. An indication of the worsening in the Government's finances is given by the overall deficit before grants, which rose between 1969/70 and 1979/80 from T Sh 0.5 billion (25 per cent of total expenditure and net lending) to T Sh 7.1 billion (48 per cent of total expenditure and net lending) (Chart 3). In 1980/81 and 1981/82 these trends continued. However, growth in overall expenditure and net lending moderated considerably in 1980/81 but sharply increased again (by 50 per cent) in 1981/82 on account of pronounced fluctuations in defense expenditures and a tripling over a two-year period in transfers, including subsidies, to public enterprises. The overall deficit, which declined in 1980/81, almost doubled in 1981/82. Recourse to nonbank, external, and bank financing retained much the same pattern as in the earlier period, with the latter accounting for about one half of total cash financing. However, there was in addition a substantial fluctuation in the float (checks issued but not cashed). With a lower deficit to finance in 1980/81, the float was reduced by T Sh 600 million, while in 1981/82 the substantially higher levels of expenditure, which were to a significant extent discharged toward the close of the fiscal year, resulted in an increase in the float by about T Sh 3 billion, an exceptionally large increase.

Inflationary pressures, which were moderate in the early years of the 1970s, accelerated sharply in later years. In an effort to combat the impact of this on prices, the Government substantially increased the number of items subject to price control, while import licensing procedures were tightened. However, as the economy faced increasing scarcities and mounting budgetary deficits, these pressures escalated sharply, and have brought official list prices considerably out of line with actual scarcity values. As a result, consumer products are commanding prices which frequently are multiples of officially controlled prices and prices of similar products (converted at the official exchange rate) in neighboring countries. This has led to substantial border trade, mainly in food products but also involving, in some cases, manufactured products, raw materials, and intermediate products, as well as capital goods. The maintenance of low official ex-factory prices and import prices has led to very large untaxed incomes accruing to middlemen.

Tanzania's exchange rate arrangements have been altered several times during the 1970s, but the nominal value of the Tanzania shilling in terms of the U.S. dollar was broadly maintained between T Sh 7.0 and T Sh 8.4. On March 8, 1982 the shilling was devalued by 10 per cent vis-à-vis its intervention currency to T Sh 9.28. There was subsequently a further slide to approximately T Sh 9.7. Effective June 6, 1983 the shilling was again devalued by 20 per cent to T Sh 12.18 per US$1. However, since the inflation rate considerably exceeded the rate of depreciation of the shilling in the official market, there has been a sharp appreciation of the real effective rate. The appreciation has been very marked since 1979 (Chart 4). Between the first quarter of 1970 and the first quarter of 1983 the real effective exchange rate appreciated by 90-130 per cent, depending on whether the index is measured in terms of an import-weighted basket, the U.S. dollar or the Kenya shilling. 1/

With this exchange rate policy, the reduction in imports has been carried out by administrative means; with the exception of a brief period of import liberalization in the aftermath of the coffee boom, the trade and payments system has been increasingly restricted since 1974, with the substitution of specific for open general licensing and a reduction in import licenses and foreign exchange allocations. In addition, the authorities have increasingly confined foreign trade in specific goods to specialized public enterprises. Certain current transactions have been suspended; these principally include tourist allowances (except for religious pilgrimages to Mecca), remittances by residents to their dependents abroad, and dividend payments to nonresident companies. Payments arrears have been incurred since the mid-1970s, and importantly since 1978. At the end of 1982 these amounted to US$403 million, of which US$64 million was in respect of debt service obligations. Moreover, since July 1981 Tanzania has maintained an export rebate scheme under which Tanzanian exporters may claim rebates varying from 5 to 20 per cent of the f.o.b. value of exports, depending on the commodities involved. These practices affecting current payments are subject to Fund approval under Article VIII.

III. Report on the Discussions

The consultation discussions focused on the major re-examination of agricultural policies which has been going on in Tanzania since the last Article IV consultation. The discussions also reviewed in detail the financial policies pursued in 1982/83, the recent economic measures taken by the Government, and the short-term outlook for the economy and the balance of payments.

1. Agricultural policies

The Tanzanian representatives said that since the last Article IV consultation discussions took place there had been a major review of policies relating to agriculture. Extensive discussions took place with

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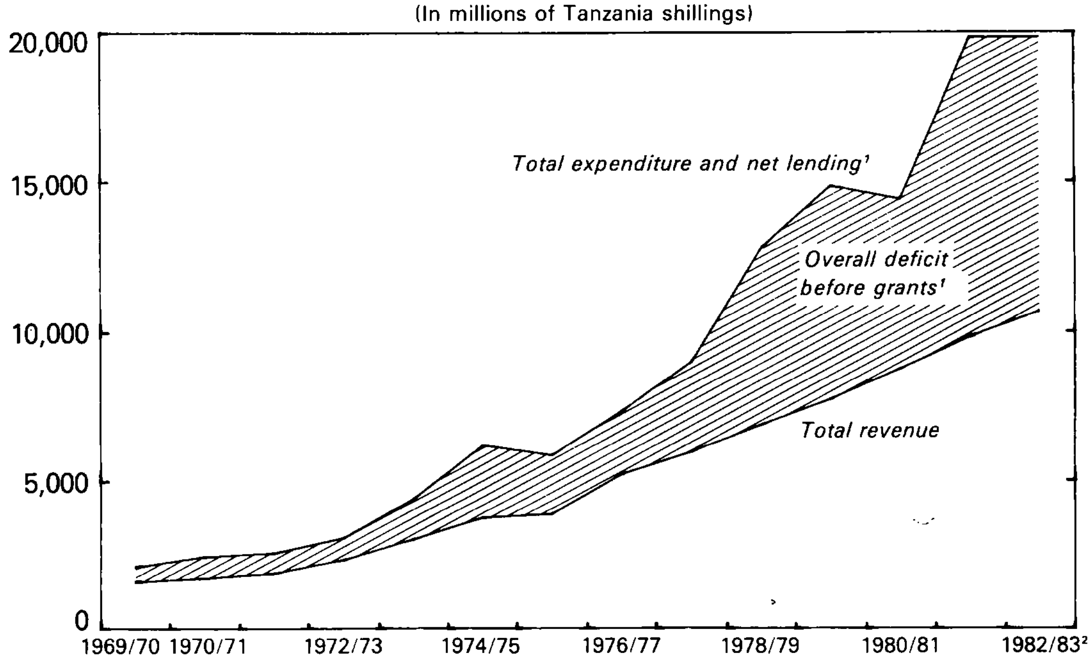
1/ These calculations are based on increases in the official cost-of-living index, which substantially understates the actual inflation rate. After the devaluation of June 6, 1983, the real appreciation in terms of the three indices mentioned above was of the order of 70-100 per cent since the first quarter of 1970.

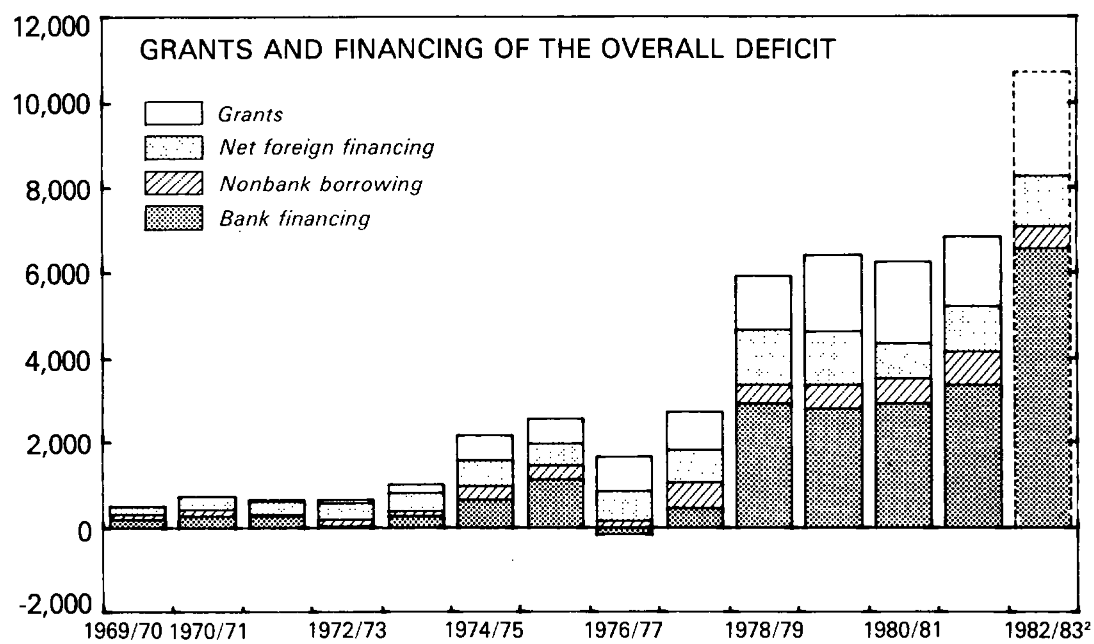
CHART 3

TANZANIA

FISCAL TRENDS, 1969/70-1982/83

(In millions of Tanzania shillings)





Source: Data provided by the Tanzanian authorities.

[1] Checks-issued basis.

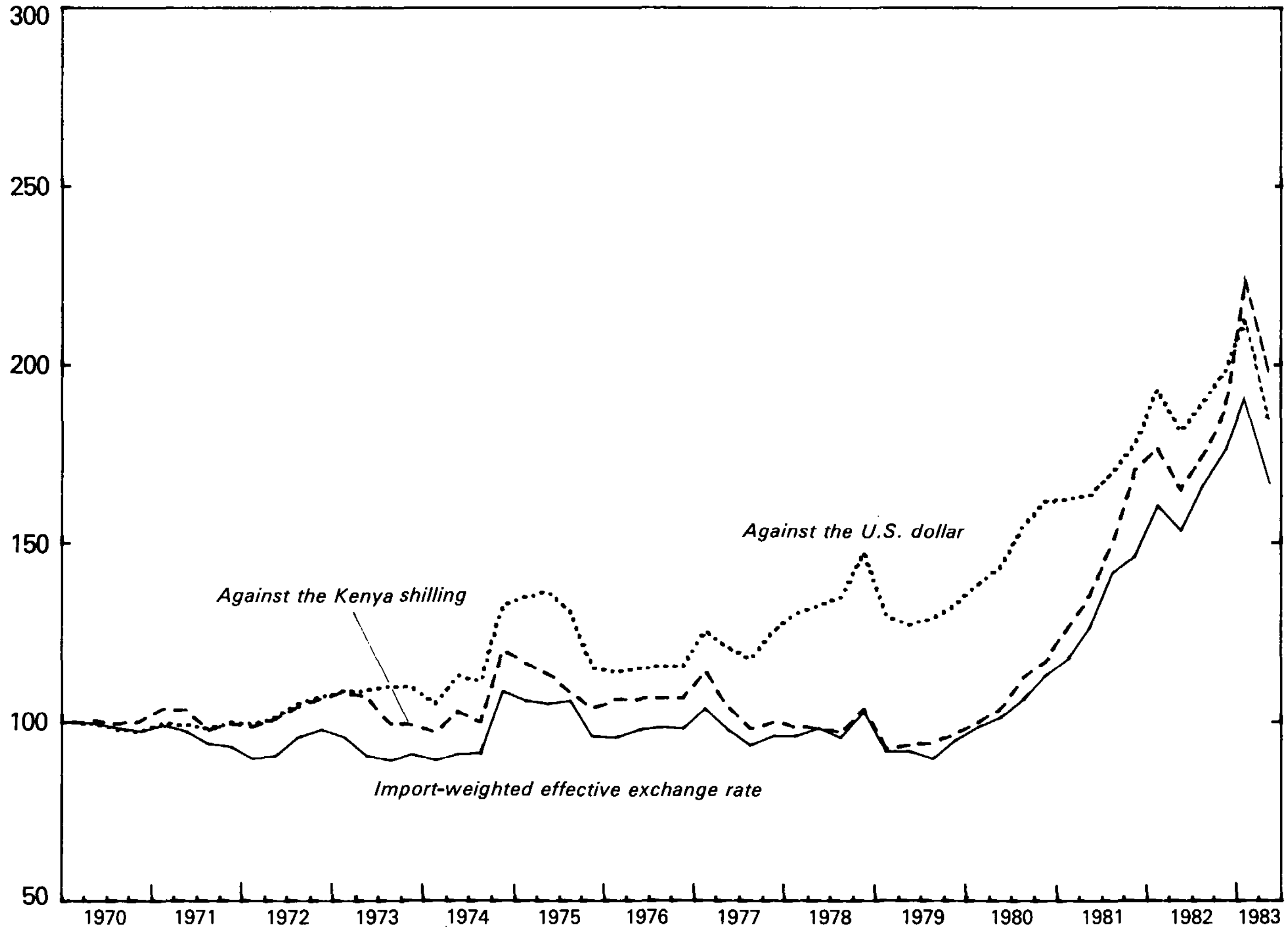
[2] Data for 1981/82 and 1982/83 have been revised substantially. For 1981/82 substantial expenditures were incurred immediately before the close of the fiscal year, and as a result the float (checks issued but not cashed) is estimated to have increased by over T Sh 3 billion. For 1982/83 it is assumed the float will be reduced by T Sh 1.5 billion.

CHART 4

TANZANIA

REAL EXCHANGE RATES, Q1 1970 - Q2 1983[1]

(Q1 1970 = 100)



Source: Staff computations.

[1]Except second quarter 1983, data are quarterly averages; second quarter 1983 is based on June 6, 1983 exchange rates; 1983 price indices are estimates.

the World Bank on the basis of the Bank's Agricultural Sector Report and on the basis of a report of a Presidential Task Force on the National Agricultural Policy. This review of agricultural policies culminated in the issuance of an important government White Paper in March 1983 entitled The Agricultural Policy in Tanzania. This paper recognizes the paramount importance of agriculture to the Tanzanian economy.

Among the important changes to be introduced are those related to land tenure and land use; most important, long-term leases, normally not less than 33 years, would be the norm. This, it was hoped, would encourage farmers to bring about needed land improvement. The White Paper recognizes that, though private medium- and large-scale commercial farms would always remain a small and subsidiary element in the total agricultural sector, they now play an important role in the production of some export crops and should be assisted to expand their contribution to Tanzania's foreign exchange earnings and raw material output. It stressed, however, that new private farms would be expected to provide their own capital; neither individuals nor companies would be given public credit in order to open private farms; nor would new farmers be given foreign exchange priority.

Considerable emphasis was placed on needed changes in marketing arrangements, which the Tanzanian representatives said were recognized to be inefficient. The present marketing arrangements, relying on nationwide crop authorities having the sole legal responsibility for purchasing, processing, and sale of each of the major crops, were set up in the mid-1970s. It was thought at that time that economies of scale would contain rising marketing costs of the then-existing cooperatives, but it is now recognized that the hopes placed in these institutions were entirely exaggerated; indeed, overstaffing, poor accounting practices, inadequate administration and supervision, stock losses, and misuse of resources, coupled with declining volume, have nullified the predictions that savings would occur. The White Paper therefore stresses the urgent need to improve the efficiency of agricultural marketing.

The Tanzanian representatives said that the major change envisaged in crop marketing is the re-establishment of the cooperative societies at the village level (primary societies), regional level (cooperative unions), and national level (apex organization). A new cooperative law has been approved by Parliament, and registration of new primary societies was to begin in May 1983. The primary societies will be integrated with the current village governments and will take over from the crop authorities the functions of buying the crops from farmers and storing them in local warehouses. These societies will sell the crop to the cooperative unions, which will transport it to regional warehouses and resell it to the crop authorities. Membership in the cooperatives will be compulsory, and the prices paid to farmers as well as those paid to the cooperative unions will be fixed. Any profit made by the primary societies will be distributed by the village governments in accordance with local needs. The cooperative structure will be geographically determined, with local societies handling all the crops grown in the region. The primary societies would be permitted to sell food crops to local retailers for local consumption, but the Government would retain the power to direct the unions to sell a certain quantity to the National Milling Corporation (NMC) to meet the needs of the strategic grain reserve and the urban areas. Export crops would still be exported by the crop authorities, except that large commercial producers would be allowed to do their own marketing.

The Tanzanian representatives said that a high-level government commission had examined the possibilities for cost reductions by the marketing authorities that could result from the taking over of local purchasing and distribution by the new cooperatives and from other economies. The commission had recently submitted a report to the Government, with the conclusion that as much as T Sh 600 million per annum could be saved, primarily by the cooperatives taking over the local purchase and distribution of crops. For example, the commission estimated that T Sh 253 million could be saved by the NMC alone, T Sh 120 million of it in respect of transportation costs. The commission felt that local cooperatives would perform these functions at a small fraction of NMC costs. Such savings would substantially offset the present operating losses of the marketing authorities, which were estimated by the Tanzanian authorities to amount in 1982/83 to approximately T Sh 900 million and to a prospective T Sh 1.5 billion in 1983/84. Other savings would result from the transfer of extension services from the crop authorities to the Central Government. The staff mission said that the emphasis on greater efficiency was to be strongly welcomed, but they noted that savings of the order of magnitude envisaged were large in relation to current operating expenditures (approximately 15 per cent of nonprocurement costs). In the staff mission's view, savings of this order of magnitude would not be achieved easily. Moreover, the major part of the savings would be achieved mainly by transferring functions to newly established cooperatives which may incur substantial start-up costs, so that net savings in the first year or two may be small or even negative under the best of circumstances.

With regard to agricultural pricing policy, the Tanzanian representatives emphasized that it was very important not to exaggerate the impact of higher prices on total output. In their view, prices paid to the farmer would affect total output only up to a ceiling imposed by physical and technical factors. The Tanzanian representatives considered that the level of prices was important but not the most important factor in determining output, and that it was necessary, in any case, to take fully into account world prices for export crops, since the decline in these prices necessarily affects the total national income of the country. Increases in producer prices in real terms could therefore only be effected at the expense of other sectors of the economy. Since many in the urban areas were already living at the poverty line, measures taken to depress living standards further would be likely to be met with resistance and possibly severe social unrest. The Tanzanian representatives said that an improvement in agricultural pricing policy could therefore be brought about only gradually as world market prices and productivity improvements allowed and within the context of the reform of the marketing arrangements. Consideration was therefore presently being given to ensuring that 75 per cent of the gross export revenue would be passed on to the producer, or to raising producer prices in real terms by 5 per cent compared with the level prevailing a year ago, whichever provided the most favorable return. The Tanzanian representatives said that, if approved, these prices would apply for the perennial crops for the crop year 1983/84. For the annual crops, prices had already been established which in most cases involved increases that were less than the increase in the cost-of-living index, and the new prices would thus be effective only for the crop year 1984/85.

The staff mission agreed that many factors would play a role in agricultural rehabilitation, but felt that the Tanzanian authorities underrated the crucial importance of pricing policies. It noted that, with the proposals presently under consideration, even considering the devaluation of June 6, 1983, the prospect was for little change, on the average, in real producer prices in the next crop season (1983/84). The mission agreed that larger increases in real producer prices could not be effected in the absence of a significant shift in income distribution, but it felt that this could be brought about, at least in part, at the expense of the large untaxed incomes currently earned by middlemen arbitraging between official and market prices. The mission had no confidence that a radical change in attitude to cash crop production on the part of the farmer could be brought about without quite large increases in producer prices, and it expressed the view that an increase in real producer prices for export crops of some 30-50 per cent in comparison with prices prevailing in 1981/82, as recommended by the World Bank, was likely to be a minimum needed to create the necessary incentives.

2. Financial developments in 1982/83

The Government's Structural Adjustment Program 1/, which was announced approximately a year ago, was concerned, inter alia, with the establishment of a macroeconomic framework designed to restore a better

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1/ The Structural Adjustment Program was drawn up with the help of an independent Advisory Group, which was established with the cooperation of the World Bank and financed by an IDA credit. The terms of reference of the Advisory Group were to analyze the main factors which have held back the productive sectors of the economy and to assess the potential for efficient and equitable growth. On the basis of this analysis, the Advisory Group was to make recommendations to the Government on components of an appropriate multi-year action program for economic rehabilitation.

internal and external balance. The program, which assumed a considerable influx of additional external assistance, called for a sharp deceleration in the rate of growth of the money supply to between 12 and 13 per cent in the second and third years of the program after a somewhat higher rate of growth in the first year of the program, which was thought to be acceptable in order to facilitate restocking and the needed recovery in output. A key element in the program was therefore an improvement in the financial position of the Government and the marketing organizations, whose recourse to bank financing is the major source of the increase in the money supply. However, little progress toward improvement in the financial position of the public sector has so far been possible.

a. Government finances in 1982/83 and the further outlook

The Tanzanian representatives recalled that the budget for 1982/83, which was drawn up in June 1982, aimed to curb both recurrent and developmental expenditures. Total expenditure and net lending were budgeted to fall by almost 4 per cent to T Sh 18.2 billion, with recurrent expenditure to decline by 1 per cent and development expenditure by 5 per cent from the 1981/82 revised estimate. Recourse to bank financing was estimated at T Sh 4.4 billion (Table 2).

The planned reduction in recurrent expenditure was to be achieved despite a rise in government employment by 5 per cent and wage and salary payments by almost 9 per cent, and subsidies, which were for the first time to be paid to the export crop authorities. Total transfers and subsidies to the public enterprises were budgeted at close to T Sh 2 billion. If paid, this would be the second consecutive year for transfer payments of this order of magnitude. Other recurrent expenditures on goods and service purchases (other than for wages) were budgeted to fall substantially despite the 25-30 per cent current rate of inflation. Much of the reduction was attributed to a planned decline in defense spending. Moreover, substantial savings were to be achieved as a result of administrative changes which increased the accountability of authorizing officers.

With regard to development expenditure, the planned 5 per cent reduction from the 1981/82 outturn would eliminate the overambitiousness evident in earlier budgets and reduce appropriations to attainable levels, provided present resource availabilities did not worsen materially. Some 200 on-going or proposed projects were suspended, with the projects suspended being mainly those which had substantial foreign exchange requirements but which were not expected to contribute directly to exports or the revival of the economy. Forty-five new projects had been included.

Apart from the abolition of the cotton export tax, no new revenue measures were introduced with the budget. However, as the year progressed, it appeared that tax revenues might fall below expectations, and in January 1983 revenue measures were introduced which were estimated to generate T Sh 800 million for the balance of the fiscal year. (At an

Table 2. Tanzania: Summary of Central Government Operations, 1979/80-1982/83

(In millions of Tanzania shillings)

	1979/80	1980/81	1981/82		1982/83	
	Preliminary Actual		Budget estimate	Revised estimate	Budget estimate	Revised estimate 1/
Total revenue	7,706	8,742	9,651	9,813	9,476	10,661
Tax revenue	6,815	8,139	8,808	9,078	8,660	10,011
Nontax revenue	891	603	843	735	816	650
Total expenditure and net lending 2/	14,823	14,370	18,562	19,852	18,183	19,242
Recurrent expenditure 2/	9,704	9,656	11,932	14,506	13,404	14,696
Development expenditure	4,947	4,688	6,281	5,329	4,733	4,500
Net lending	172	26	349	17	46	46
Overall deficit (checks-issued basis) 3/	7,117	5,628	8,911	10,039	8,707	8,581
Adjustment to cash and other items (net) 4/	694	-612	-1	3,189	--	-1,500
Overall deficit (checks-cashed basis) 3/	6,423	6,240	8,912	6,850	8,707	10,081
Foreign grants	1,795	1,870	2,931	1,642	2,710	2,412
Net foreign financing	1,268	832	2,430	1,068	1,115	1,179
Gross borrowing	1,341	907	2,568	1,150	1,477	1,289
Repayment	-73	-75	-138	-82	-362	-110
Domestic nonbank financing (net)	557	620	702	750	524	529
Domestic bank borrowing (net)	2,803	2,918	2,849	3,390	4,358	5,961
Memorandum item						
Bank financing plus adjustment items	3,497	2,306	2,848	6,579	4,358	4,461.

Source: Ministry of Finance; and staff estimates.

1/ These estimates are still highly provisional. Recurrent expenditure includes large discretionary funds which may not be fully disbursed and the estimate assumes a reduction in the check float of T Sh 1.5 billion following an exceptionally large increase in the prece ing year.

2/ Includes extrabudgetary expenditures since 1979/80. Expenditure and net lending on checks-issued basis.

3/ Before grants.

4/ Increase in checks-cashed deficit (-). Comprises adjustments from checks-issued to checks-cashed expenditure, expenditure minus revenue of the Production Funds, along with unrecorded items.

annual rate this represented 17 per cent of 1982/83 budgeted revenue.) Sales taxes were raised, mainly for beer, petroleum products, cigarettes, soft drinks, cement, and spirits, together with some other adjustments in fees. 1/

The outlook for expenditures was very difficult to predict with much certainty on the basis of the July/February outturn. So far expenditures for subsidies and other transfers to public enterprises remained undisbursed pending a thorough examination, which was still under way, of claims and the needs of the public enterprises. There were indications that food subsidy payments to the National Milling Corporation should be below the budgeted amount. However, the Tanzanian representatives said that the expectation was that, in the aggregate, budgetary transfers were likely to be made largely in line with the budgetary estimates. With regard to wages and salaries, they said that expenditures appeared to be running about 13 per cent higher than a year earlier, compared with the budget estimate of only 9 per cent, and defense expenditures were also higher than the budget estimate. However, other expenditures--i.e., nonwage expenditures of ministries (excluding defense) and the regions--were expected to register a very substantial decline (in nominal terms) of over 20 per cent. This sharp projected decline is likely to be difficult to realize given the curtailment achieved in recent years and the present rate of inflation. The Tanzanian representatives attributed the possible reduction, however, to the improvement in expenditure control that had been introduced at the beginning of the year. They said that social expenditures (e.g., on education) had been reasonably maintained, but agreed that reductions in expenditures of this order of magnitude could only have been achieved at the expense of substantially inadequate maintenance and other essential recurrent spending.

With regard to development spending, available data did not permit a detailed assessment for the year as a whole, but the Tanzanian representatives believed that, in nominal terms, development spending would be broadly in line with the budget estimate, a departure from previous experience, when development spending had fallen short of budgetary estimates by a large margin.

The Tanzanian representatives were guarded in their revenue estimates for the full year, partly because of the great uncertainties regarding the further outlook for the economy in the absence of a new injection of foreign assistance. There was also concern that the campaign to combat illegal trading and hoarding of goods and currency (see below) might have a detrimental effect on revenue collection. For the fiscal year they estimated revenue at T Sh 10.7 billion compared with an original budget estimate of T Sh 9.5 billion. In the staff's view, however, revenue was holding up remarkably well considering the depressed economy and might exceed these estimates. In particular, income tax, which, with

1/ See Appendix IV.

the present campaign to collect arrears, is being increasingly collected on a presumptive income basis, has been well above earlier projections.

The revised estimate for 1982/83, to which a substantial degree of uncertainty must still be attached, indicates a deficit of about T Sh 9 billion. External financing (grants and net borrowing) is projected at T Sh 3.6 billion. On the assumption that there would be a reduction of the check float by some T Sh 1.5 billion from its exceptionally high level at the end of 1981/82, bank financing is projected to be about T Sh 6 billion for 1982/83, representing the equivalent of 32 per cent of the beginning year broad money stock. The Tanzanian representatives said that bank borrowing of this order of magnitude by the end of the year would imply a very substantial increase in the last four months of the year, in terms of the money stock, and steps might be taken to avoid this, possibly by deferring some expenditures.

Discussing the outlook for 1983/84, the Tanzanian authorities said the prospects were likely to be very difficult. In the absence of additional external assistance, they expected the economy to worsen sharply in the course of 1983, and revenue was expected to decline. At the time of the discussions final decisions had yet to be taken concerning wage policy, producer pricing, and exchange rate policy; therefore there was uncertainty as to the level of export and other subsidies that would be required. The Tanzanian representatives said that preliminary estimates pointed to the possiblity that bank financing of the budget would be of the same order of magnitude or larger than in 1982/83, which they agreed was excessive.

b. Public enterprise finances

The discussions with the Tanzanian authorities focused on the finances of the agricultural marketing authorities, which traditionally have exerted a major impact on monetary developments. The Tanzanian representatives said that the accounts of these authorities had previously been many years out of date, and financial control had been impossible due to lack of current information. However, in 1982 a major effort was undertaken by the Ministry of Agriculture to bring accounts up to date; estimated accounts for all authorities were now available through 1981/82.

The financial performance of the export crop authorities appears to have deteriorated in 1981/82, as producer prices and other costs increased roughly in line with inflation while the domestic currency counterpart of export receipts increased much more slowly. The aggregate operating loses of the export crop authorities for 1981/82 are estimated at about T Sh 350 million compared to a revised estimate of about T Sh 290 million in 1980/81. In 1981/82, however, bank borrowing by the authorities amounted to T Sh 1.2 billion, about 8 per cent of the money supply (compared to T Sh 539.6 million, about 4.4 per cent of the money supply, in

1980/81). One major reason for the large difference between bank borrowing and the estimated loss is the financing required for large unplanned inventory buildups due to breakdowns in processing. For example, the cotton authority sustained an estimated loss of T Sh 125 million but borrowed T Sh 473.7 million from the banking system to finance a large accumulation of unginned cotton at the ginneries as a result of problems with the ginning machinery and transportation. At end-April 1982 the cotton authority's stocks were estimated at T Sh 491.7 million, or 45 per cent of total invested capital. To a smaller degree, a similar problem affected many of the other authorities. The estimated losses and financing do not appear to take into account arrears in payments to farmers, which, in the case of the cotton and coffee authorities, are thought to be large.

The financial performance of the National Milling Corporation showed considerable improvement in 1981/82 over the previous several years; the corporation was able to decrease its overdraft at the National Bank of Commerce by about T Sh 147 million, in contrast to an increase of about T Sh 400 million in 1980/81, and to make a sizable payment on arrears to the Treasury (T Sh 543 million) for counterpart funds from food aid imported in previous years. The improvement in cash flow came about because of a doubling of the consumer price of maize flour (the principal staple of Tanzania and most important product of the NMC), a decline in the amount of domestic maize procurement (on which the NMC sustains a loss), a substantial reduction in interest payments because in 1981 the NBC commuted T Sh 2 billion in overdrafts to a 1 per cent long-term loan, and an increase in total subsidy payments to about T Sh 570 million from about T Sh 360 million in 1980/81. 1/ Estimates are not available for NMC operating losses for 1980/81 or 1981/82.

The outturn for the crop authorities in 1982/83 is likely to have been considerably worse than in 1981/82. The Government recognized the likely deterioration at the beginning of that financial year and allocated, for the first time, subsidies (amounting to T Sh 527 million) to the export crop authorities. In addition, T Sh 375 million was allocated for a subsidy to the NMC for maize flour, the only remaining consumer subsidy. The Tanzanian representatives estimated that the losses of the crop authorities in 1982/83 were likely to be about T Sh 900 million before subsidies. On the basis of existing policies, aggregate losses in 1983/84 were expected to rise to T Sh 1.5 billion.

The Tanzanian representatives agreed that it should be an important aim of policy to bring about a reduction in these large and growing

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1/ The NMC receives a direct subsidy from the budget and a subsidy from the Sugar Development Corporation (SUDECO) equal to T Sh 1 per kilogram of sugar sold. The subsidy from the budget for 1981/82 is estimated at about T Sh 405 million and from SUDECO at about T Sh 165 million.

deficits, and they referred to the recommendations of the Commission on Parastatal Finances on the savings to be expected, inter alia, from the establishment of cooperatives. They noted, moreover, that the ginneries rehabilitation project, begun with assistance from the Netherlands and the United Kingdom, should assist the finances of the troubled cotton industry. The increased emphasis on up-to-date accounting, moreover, should make possible a more careful cost control, thus reducing deficits. However, they agreed that, taking into account the already announced nominal increases in producer prices, relatively large subsidies could again be required in 1983/84. The staff mission reiterated its view that the budget was unable to sustain large subsidies and said it felt that it was important, also, that a substantial cash surplus be created to finance the essential rehabilitation of the agricultural processing and marketing industries and the transportation network in the rural areas, which has been estimated to cost, over a three-year period, some US$270 million over and above current foreign exchange needs for agriculture. The mission did not see how this could be achieved and at the same time adequate financial incentives be provided to the farmer, in the absence of a substantial depreciation of the currency.

c. Money and credit

Analysis of money and credit is very difficult in Tanzania. The data provided by the sole commercial bank are available with great delay, and there are frequently classification problems. The foreign asset position is particularly difficult to interpret, since the balance sheet data differ considerably from statements of correspondent banks.

Money and credit developments are dominated by the Government and the export crop authorities. During the year ended December 1982, credit expanded by 20 per cent, with the Central Government accounting for 85 per cent of the credit expansion (Table 3). Credit to industrial parastatals slowed substantially from the previous year, due to the decline in industrial activity and the large rehabilitation payments from the Government, much of which went to pay off overdrafts of the industrial parastatals. Growth in credit to the export crop authorities accelerated in 1982 as their losses increased while outstanding credit to the NMC declined. Purely private sector credit grew by T Sh 122 million, reversing declines in previous years, but was still insignificant in the total credit expansion. Interest rates were revised upwards on July 1, 1982. Interest rates on deposits were raised generally by from 1 1/2 to 1 3/4 percentage points, with the rate on savings deposits being raised from 6.0 per cent to 7.5 per cent. Lending rates were raised by 1/2 percentage point to between 8.0 and 12.5 per cent per annum.

Total monetary liabilities and currency outstanding grew by only 22 per cent, which implies a large increase in velocity given the 36 per cent official inflation rate (and probably higher actual inflation rate). This is likely to be evidence of a demonetization of the economy, which is showing increasing tendencies toward greater reliance on subsistence production and barter transactions. There may also have been dishoarding of currency issued in previous periods in order to finance current transactions.

Table 3. Tanzania: Monetary Survey, 1980-82 1/

(In millions of Tanzania shillings)

	1980		1981		1982	
	June	Dec.	June	Dec.	June	Dec.
Net foreign assets 2/	-1,690.8	-2,781.9	-2,834.5	-2,757.8	-2,932.5	-3,455.6
Assets	1,610.3	1,353.7	1,978.3	922.5	1,551.7	1,254.7
Bank of Tanzania	760.7	451.3	495.5	336.9	294.5	254.4
National Bank of Commerce	849.6	902.4	1,482.8	585.6	1,257.2	1,000.3
Liabilities	-3,301.1	-4,135.6	-4,812.8	-3,680.3	-4,484.2	-4,710.3
Of which: arrears	-1,881.0	-2,481.9	-2,688.4	-2,499.3	-3,033.4	-3,245.1
Domestic credit	15,023.3	17,719.9	18,602.8	21,874.8	22,747.5	26,317.6
Net claims on Government	9,024.8	11,050.8	11,943.1	14,093.6	15,333.2	17,850.6
Claims on Government	9,340.4	11,347.5	12,278.2	14,507.7	15,755.0	18,832.9
Government deposits	-315.6	-296.7	-335.1	-414.1	-421.8	-982.3
Claims on official entities and private sector	5,998.5	6,669.1	6,659.7	7,781.2	7,414.3	8,467.0
Money plus quasi-money	12,106.8	14,210.0	14,620.5	17,638.2	18,716.9	21,446.2
Money supply	8,472.8	10,149.0	10,187.6	12,377.8	13,031.8	15,023.4
Currency outside banks	3,903.0	4,902.0	4,873.7	6,309.1	6,335.6	7,675.5
Demand deposits	4,5[illegible]9.8	5,247.0	5,313.9	6,068.7	6,696.2	7,347.9
Time and savings deposits	3,634.0	4,061.0	4,432.9	5,260.4	5,685.1	6,422.8
Other items (net) (Minus is net liability)	-1,225.7	-728.0	-1,147.8	-1,478.8	-1,098.1	-1,415.8

Source: Data supplied by the Tanzanian authorities.

1/ Mainland only.

2/ Based on balance sheets; figures differ from monetary movements in the balance of payments, which are based on statements from foreign correspondent banks.

In the nonbank financial sector the largest institution is the Tanzania Rural Development Bank (TRDB), which had loans oustanding amounting to T Sh 815 million at end-September 1981 (the latest available data). Since 1977 this institution has received funds entirely from foreign aid and has provided loans and loan guarantees for crop financing and small loans for rural investment. Loan repayment experience has been very poor, with arrears amounting to as much as 33 per cent of total loans outstanding.

3. The balance of payments

The Tanzanian representatives said that there had been a serious further deterioration in the balance of payments in 1982. In contrast to the expectations of the Structural Adjustment Program, the value of exports fell sharply from US$528 million in 1981 to US$373 million in 1982 (Table 4). Unit values of exports rose slightly, but there was a significant decline in shipments of cotton, coffee, sisal, and unprocessed cashew nuts. The decline in cotton exports was very sharp (from 44.1 thousand tons to 19.6 thousand tons), which the Tanzanian representatives attributed to a virtual cessation of ginning operations as a result of a breakdown of the plant due to maintenance difficulties. The total value of agricultural exports fell from US$329 million in 1981 to US$235 million in 1982. The value of other exports also fell from US$199 million to US$138 million. The value of imports was estimated to have declined sharply from US$1,100 million in 1981 to US$899 million in 1982. 1/ Reflecting the tighter foreign exchange position, foreign exchange allocations to the importation of spare parts and consumer goods, including medicines, were further curtailed while those for petroleum were maintained at virtually the same level as in 1981.

Net receipts from transfers and capital declined sharply in 1982. Official grant receipts were slightly lower than in 1981, and government and parastatal borrowing was sharply lower than in the previous year, when Tanzania received an export rehabilitation credit of US$50 million from the World Bank. These developments led to a further substantial buildup in arrears in 1982, amounting to US$108 million. Of this increase US$12 million was in respect of suppliers' credits and US$60 million in respect of long- and medium-term debt service (including obligations due to the Fund). Total arrears amounted to US$403 million at the end of 1982. The external payments arrears incurred by the Tanzanian Government on account of its loan repayments started in 1981 and increased sharply in 1982. 2/

1/ Customs data are available only up to June 1982 and are thought to be subject to considerable revision. The estimates presented above for 1982 were based on licenses issued.

2/ The counterpart of commercial arrears, totaling US$339 million, is held by the National Bank of Commerce, but no similar deposits are held in respect of arrears on debt service payments for which transfers have not been effected.

Table 4. Tanzania: Summary Balance of Payments, 1980-82

(In millions of U.S. dollars)

	1980	1981	1982 Prel.
Trade account	-710	-572	-526
Exports, f.o.b.	511	528	373
Imports, c.i.f.	-1,221	-1,100	-899
Services (net)	19	70	17
Private transfers (net)	22	24	22
Current account	-669	-478	-487
Government transfers (net)	268	294	292
Of which: program aid	(116)	(91)	(199)
Medium- and long-term borrowing (net)	144	219	76
Government (net)	(113)	(170)	(53)
Nonfinancial public enterprises (net)	(34)	(48)	(22)
Private (net)	(-3)	(1)	(1)
Suppliers' credits (net)	61	101	1
Other capital movements and errors and omissions	-7	-129	-9
SDRs	7	6	--
Overall balance	-196	13	-127
Monetary movements	196	-13	127
Arrears (decrease -)	147	-8	108
Commercial	(147)	(-9)	(45)
Debt service	(--)	(1)	(48)
CF overcompensation	(--)	(--)	(15)
Other reserve movements (increase -)	49	-5	19
Of which: Fund purchases	(52)	(19)	(2)
Memorandum item:			
T Sh/US$1	8.20	8.29	9.33

Sources: Data provided by the Tanzanian authorities; and staff estimates.

The Tanzanian representatives said that there had been considerable concern about the reliability of statistics previously available concerning Tanzania's external indebtedness, and a major effort, which is still ongoing, had been made to compile a more complete inventory of the stock of indebtedness and future debt service obligations. The enquiry has led to a large upward revision of earlier estimates, but the data are still difficult to interpret and further revisions may be forthcoming. Tanzania's long- and medium-term external indebtedness, including debt to the Fund, is now estimated, as of December 31, 1982, to have amounted to US$2.1 billion (Table 5). This excludes short-term indebtedness with an original maturity of less than 12 months, for which data are not available. Scheduled debt service payments (including Fund charges and repurchases) amounted in 1982 to US$159 million, or 32.6 per cent of exports of goods and services, of which 7.2 percentage points were on account of obligations to the Fund.

The Tanzanian representatives said that the balance of payments would undoubtedly continue to be under great strain in 1983. They hoped that there would be a moderate increase in the value of exports, to about US$400 million, compared with US$373 million in 1982, since some specific problems were thought to have been solved; in particular, assistance from the Netherlands and United Kingdom with regard to a rehabilitation of the ginneries should enable processing of cotton to be resumed. Similarly, in the case of coffee, difficulties regarding the processing plant were expected to be overcome. With regard to sisal, the Tanzanian representatives indicated that a bonus scheme had been introduced to provide some additional financial incentive to the cutters. Finally, a scheme had been introduced whereby exporters were allowed to retain a proportion of their export proceeds, in order to encourage exports and facilitate the importation of urgently needed inputs for rehabilitation purposes. It was agreed, however, that, in the absence of a substantial increase in external assistance, shortages of fuel and other essentials would persist. The staff mission felt that the Tanzanian estimate of export receipts was likely to be optimistic; in the mission's view, a significant decline in export receipts was probable. Scheduled debt service payments, moreover, would rise sharply from US$159 million to US$254 million, reflecting the lapse of grace periods associated with a surge in loan disbursement during the 1970s, including the debt to the People's Republic of China in connection with the Tazara Railway. As a consequence, given the mission's projection for exports in 1983, the debt service ratio could be expected to rise sharply to about 58 per cent of exports of goods and services in 1983 from 33 per cent in the previous year. Beyond 1983, it was apparent that the debt service ratio would not decline from its present unsustainable level, unless a major recovery in receipts from exports of goods and services took place.

On the assumption of no further increase in arrears, and with government borrowing and grants at approximately their 1982 level, the value of imports in 1983 would fall quite precipitously, leaving virtually nothing

Table 5. Tanzania: Scheduled Debt Service Profile, 1980-86 1/

(In millions of U.S. dollars)

	1980 2/	1981 2/	1982	1983	1984	1985	1986
Total debt service payments	129.3	123.7	159.0	254.0	265.8	255.3	253.7
Of which: Fund charges and repurchases	38.9	38.2	35.0	35.2	30.6	17.3	5.2
Exports of goods and services	689.9	723.1	488.4	...	...	...	...
Debt service ratio (in per cent)							
Excluding Fund	13.1	11.8	25.4	...	...	...	...
Including Fund	18.7	17.1	32.6	... 3/	...	...	...
Memorandum item:							
External debt outstanding (disbursed only)	2,128.2	2,393.7	2,145.8	1,957.9	1,758.1	1,558.9	1,360.7
Outstanding arrears	303.2	295.5	402.7 4/				

Sources: Data provided by the Tanzanian authorities; IMF Treasurer's Department; and staff estimates.

1/ On account of the outstanding debt as of end-1982. Excludes short-term debt.
2/ Represents actuals.
3/ On the basis of staff estimates of exports of goods and services, the debt service ratio is estimated to rise in 1983 to 58 per cent; on the slightly more optimistic export forecasts of the Tanzanian authorities, the debt service ratio is estimated to rise to 48 per cent.
4/ Includes US$15 million of arrears to the Fund with respect to CF overcompensation.

available in addition to imports of fuel and food and project-related imports. The Tanzanian representatives said that such a development clearly would have the most serious consequences for the Tanzanian economy, making more difficult the eventual rehabilitation of the export sector. In their view, the minimum needs of the economy were US$1,100 million, if a start were to be made on the rehabilitation of the economy. Even this level of imports was substantially lower, in real terms, than that prevailing in 1980 and 1981.

4. Pricing policies and the exchange rate

The Tanzanian representatives said that economic and balance of payments difficulties facing the country had been materially compounded in the recent past because of the hoarding of goods, local currency, and foreign currencies. Smuggling goods abroad, as well as under- and over-invoicing of trade, was widespread, motivated on the one hand by the wish to obtain urgently needed consumer goods and on the other by capital flight considerations.

In an effort to combat these practices and, in particular, to discourage hoarding of goods and smuggling abroad, a campaign had been instituted as a result of which many persons, some in influential positions in Government and parastatal enterprises, had been arrested. As a result of the campaign, the Government had confiscated large stocks of currency, raw materials, capital goods, and consumer goods which had been hoarded, apparently over a long period of time. Intensified efforts had been made to control the borders and prevent the illegal border trade, and there had been a stricter control over regional trade to ensure that goods would not be sold in excess of controlled prices.

The Tanzanian representatives hoped that this campaign would have a salutary effect on inflation and the balance of payments by easing supply conditions. The staff mission agreed that the hoarding of goods and currency, as well as smuggling abroad, had undesirable economic consequences. Border trade permitted the importation for the rural areas of consumer goods not otherwise available, but it resulted in a pattern of imports which was not in accordance with the Government's priorities, while hoarding and capital flight involved a net loss to the economy. The mission pointed out, however, that the practices involved were typical of those encountered in many countries where controlled prices were significantly below actual scarcity values and where the currency was heavily overvalued in the official market. For many products, especially in the rural areas, the public is willing to pay prices considerably higher than official list prices, as a result of which those who were able to obtain goods at officially listed prices, especially imports, are able to obtain large untaxed profits on their resale. The overvaluation of the currency was clearly also reflected by the huge disparity between rates offered outside the official market and the official exchange rate, even allowing for a large risk premium. The mission, therefore, urged the authorities to consider a liberalization of price controls in order to allow more realistic ex-factory pricing, and a substantial devaluation of the currency.

The staff mission said that a substantial devaluation of the currency was justified on several grounds. First, official list prices for goods produced in Tanzania were far below the prices for such goods in neighboring countries; this provided a strong incentive for illicit border trade. Second, as may be seen from Chart 4, the real effective rate for the shilling had appreciated whether measured against the U.S. dollar, the Kenya shilling, or a basket of currencies weighted in accordance with Tanzania's import structure. The real appreciation had been especially marked during the last four years, during which time there had, in addition, been worsening terms of trade and a deteriorating infrastructure. Finally, as noted above, it seems impossible to make an adjustment to producer prices sufficiently large to encourage greater production of export crops while at the same time permitting the marketing and processing enterprises to make an appropriate surplus, without a substantial depreciation of the shilling.

The Tanzanian representatives said that the Government was not opposed to devaluation but felt it was very important to avoid an intensification of inflation. They stressed the importance of avoiding social unrest, especially in the urban areas, which they considered was likely to occur if the prices of imported goods and food products were raised substantially; rather than raise the price of essential goods, they were considering the introduction of *de facto* rationing of scarce consumer goods. On June 4, the Bank of Tanzania advised the Managing Director that, effective June 6, 1983, the shilling would be devalued by 20 per cent in foreign currency terms.

IV. Staff Appraisal

The deteriorating trend in the Tanzanian economy which has been observed for many years continued during the last 12 months. Real output continued to fall, and exports fell sharply, partly as a result of deteriorating infrastructure. Imports are now at a level where, apart from goods financed by foreign aid, only the most basic items can be imported, with no margin available for the rehabilitation of the capital stock which is urgently required to arrest declining output; foreign exchange reserves have been depleted, and arrears are rising rapidly, with the prospect that they will continue to do so. Finally, and not surprisingly, a significant amount of economic activity has shifted to the parallel market and to border trade, as prices that can be obtained in these markets have created massive incentives. While this phenomenon brings some allocative efficiency to a very desperate situation, it deprives the Government of taxes and foreign exchange.

The staff agrees with the authorities that the cumulative effect of external factors, such as the deterioration since 1977 in the terms of trade, the breakdown of the East African Community and the hostilities in Uganda, and, occasionally, climatic conditions, have exerted a profoundly adverse effect on economic developments. The effects of import cutbacks on the operation of the productive base of the economy have been severely disruptive. However, the staff believes that the poor performance of the economy has also resulted from inadequate attention having been paid over the last decade to the needs of the agricultural sector and, more fundamentally, from economic policies which have been insufficiently responsive to market factors.

The staff welcomes the new emphasis on agricultural policies which is evidenced by the issuance of an important White Paper entitled The Agricultural Policy of Tanzania. It believes that changes proposed in land tenure and in agricultural marketing arrangements for large producers should be helpful. Even under the new policy, the bulk of producers and smallholders will continue to face monopsonistic marketing agencies. Thus the staff feels that it would be imprudent to expect a rapid amelioration of the agricultural situation from such institutional changes even if they were accompanied by a shift in resource allocation to the agricultural and related sectors so as to facilitate rehabilitation. Moreover, no increase in production is likely to be sustainable unless there are changes in pricing policies so as to provide adequate financial incentives to the farmer, which are maintained in real terms. The staff notes that producer pricing policy in the last year and that contemplated for the next season has largely halted the severe erosion of real farmgate prices which has taken place over the previous decade, but it does not reverse this erosion. The staff believes that a significant real increase in farmgate prices for export crops of the order of 30-50 per cent would be essential to bring about a change in the attitude of the farmer, who, because of inadequate incentives, has reduced his production of export crops in favor of subsistence farming and production of food products for sale in urban markets.

A crucial factor which has made it difficult to pay adequate prices to farmers and at the same time to ensure that the marketing authorities have a sufficiently large operating surplus to meet essential investment needs is the substantial overvaluation of the Tanzania shilling. The current large deficits of the export crop authorities, expected to be around 7 per cent of the money supply in 1983/84, substantially hinder any effort to improve fiscal and overall credit policies. Although there are institutional and physical problems in the export marketing industries, the deficits result primarily from a severely overvalued exchange rate; institutional reform is unlikely to succeed without adequate exchange rate action. Even using Tanzania's inadequate price indices, since 1970 there was a real effective appreciation of the shilling of the order of 90-130 per cent between the first quarter of 1970 and the first quarter of 1983. Most of this appreciation has occurred since 1977, during a period when there was, in addition, a sizable deterioration in the terms of trade and a worsening in the infrastructure. The staff believes that the restoration of a better external and internal balance is likely to require setting the real exchange rate at a more depreciated level than the level prevailing before the terms of trade and infrastructure deterioration occurred. It therefore considers that the devaluation which occurred on June 6, 1983, involving a 20 per cent depreciation of the currency in foreign currency terms, while representing a step in the right direction, is insufficient to redress the large external and internal imbalances that presently prevail.

Price controls in Tanzania have become largely ineffective, since the general public is prepared to pay considerably above official lists, thereby creating large incomes to those who have access to goods at official prices. The incomes so derived have largely escaped taxation, resulting in erosion of the tax base. The staff is concerned that the campaign against hoarding and illegal trading is likely to lead to further severe declines in productivity. The staff believes that it would be preferable to permit market forces to play their crucial role in the distribution system. Such a policy, if accompanied by measures to liberalize the distribution system and to ensure a more restrained monetary policy, should not result in an undue increase in market prices. Indeed, given the likelihood that such steps, if taken as part of a stabilization and rehabilitation program, would be likely to elicit substantial increases in external financial support, total supply could be expected to increase and the inflation experienced in the last few years may be moderated. This has been the experience of a number of countries that have adopted more realistic pricing and exchange rate policies.

What is likely to be important in determining the course of inflation is the stance of monetary and fiscal policy, especially if confidence can be restored in financial assets. The staff believes that the objectives set forth in the Structural Adjustment Program regarding the growth of the money supply were broadly appropriate. But this requires a determined curtailment of the budgetary deficit and, especially, the recourse to bank bank financing by the Central Government and the public enterprises. The staff notes that the Government has made a considerable effort to curb recurrent expenditures, even to the extent that there may have been substantially inadequate maintenance of existing facilities. However, other expenditures have proved difficult to cut back. Most recently, as losses of public enterprises and marketing boards have mounted, outlays for subsidies and transfers have become unsupportably large and need to be eliminated. Moreover, a continuous review of development spending needs to take place to ensure that planned levels do not exceed available resources and that there is a needed shift in these expenditures in favor of the agricultural sector. In order to supplement revenue, it will be very important to reverse the erosion of the domestic tax base which has come about because controlled ex-factory prices (on which consumption taxes are based) have become a smaller fraction of actual selling prices and as incomes in the essentially untaxed parallel sector of the economy have become a higher proportion of total incomes.

The staff also believes that Tanzania needs to give more attention to domestic resource mobilization through the banking system. It agrees with the Tanzanian authorities that interest rates are not the sole or even the most important factor in determining the level of national savings, but considers that they do play an important role in determining the extent to which these savings are mobilized through the banking system rather than used for the purchase of real assets.

The deterioration in Tanzania's infrastructure will make more difficult a speedy recovery of output. However, the staff believes that a stabilization and recovery program centered on a restoration of realistic price relationships, including an appropriate exchange rate and adequate interest rates, has a good chance of success. The potential for increased agricultural output is considerable. It would be important that the recovery program be supported by institutional reforms designed to free up marketing channels, an investment effort essentially focused on rehabilitating the agricultural sector and transportation, and additional financial assistance on concessional terms from abroad. An important element in such a program would be a timetable for the elimination of Tanzania's payment arrears, which presently constitute an important impediment to the restoration of normal financial relations with trading partners.

It is recommended that the next Article IV consultation with Tanzania be held on the standard 12-month cycle, at which time Tanzania's exchange arrangements, including the restrictions on current payments and transfers, which Tanzania presently maintains inconsistently with Article VIII of the Fund's Articles of Agreement, will be further considered. For the time being, the staff does not recommend approval of these practices.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Tanzania's exchange measures subject to Article VIII, sections 2 and 3, and in concluding the 1983 Article XIV consultation with Tanzania, in the light of the 1983 Article IV consultation with Tanzania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Tanzania maintains restrictions on payments and transfers for current international transactions and multiple currency practices, as described in SM/83/125. The Fund urges Tanzania to pursue policies that would permit the elimination of these practices.

Fund Relations with Tanzania
(As of April 30, 1983)

Date of membership:	September 10, 1962
Quota:	SDR 82.5 million (proposed new quota, SDR 107 million)
Status:	Article XIV
Exchange system:	The Tanzania shilling is pegged to a basket of currencies; on June 6, 1983 the exchange rate in terms of the US$ was US$ 1 = T Sh 12.179
Fund holdings of Tanzania's currency:	SDR 155.01 million, or 183.04 per cent of quota
Of which: compensatory financing facility:	SDR 39.02 million, or 47.30 per cent of quota
supplementary financing facility:	SDR 16.28 million, or 19.73 per cent of quota
Holdings of SDRs:	They had no holdings of SDRs. Their net cumulative allocation is SDR 31.37 million
Gold distribution (four sales):	35,944.820 fine ounces
Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980):	US$6.8 million
Trust Fund loan disbursements:	SDR 40.82 million
Technical assistance	A member of the CBD panel is serving as advisor to the Governor of the Bank of Tanzania and another as advisor on bank supervision.

Fund Relations with Tanzania (concluded)

Staff contacts:	Article IV consultation discussions with Tanzania were held during the period May 25-June 11, 1982; the staff report (SM/82/154) and the accompanying background paper (SM/82/185) were discussed by the Executive Board on September 17, 1982. A stand-by arrangement was approved by the Executive Board on September 15, 1980 (EBS/80/192), but performance criteria were not observed after October 30, 1980. There were missions in April and June 1981 and October 1982, and other contacts with the authorities in Washington to discuss further use of Fund resources.

Tanzania: Basic Data 1/

Area and population

Area	945,100 square kilometers
Population (1981)	
Total (1981)	18.7 million
Growth rate	3.4 per cent

	1978	1979	1980	1981	1982
			(Annual per cent change)		
National consumer price index	12.1	12.9	30.2	25.6	28.9
	1978/79	1979/80	1980/81	1981/82	1982/83
			(In millions of Tanzania shillings)		
Central government budget					
Total revenue	6,883	7,706	8,742	9,813	10,661
Tax revenue	6,000	6,815	8,139	9,078	10,011
Nontax revenue	883	891	603	735	650
Total expenditure and net lending	12,832	14,832	14,370	19,852	19,842
Recurrent expenditure	8,081	9,704	9,656	14,506	14,696
Development expenditure	4,395	4,947	4,688	5,329	5,100
Net lending	356	172	26	17	46
Overall deficit (checks-issued basis) 2/	-5,949	-7,117	-5,628	-10,039	-9,181
Adjustment to cash and other items (net)	12	694	-612	3,189	-1,500
Overall deficit (checks-cashed basis) 2/	-5,937	-6,423	-6,240	-6,860	-10,681
Grants	1,283	1,795	1,870	1,642	2,412
Net foreign borrowing	1,276	1,268	832	1,068	1,179
Domestic nonbank financing	466	559	620	780	529
Domestic bank financing	2,912	2,803	2,918	3,360	6,561

1/ A reliable account of the growth of production during the past decade is not obtainable, mainly because of the lack of data relating to agricultural output. By far the largest part of food production is consumed on the farms and sold on unofficial markets, and estimates or even trends of this output are very unreliable. As a result, national account data do not provide an adequate basis to judge real output developments, and these data are omitted.

2/ Before grants.

Tanzania: Basic Data (concluded)

	1978	1979	1980	1981	1982
Balance of payments	(In millions of U.S. dollars)				
Trade balance	-680	-573	-710	-572	-526
Exports, f.o.b.	(464)	(514)	(511)	(528)	(373)
Imports, c.i.f.	(-1,144)	(-1,087)	(-1,221)	(-1,100)	(-899)
Services (net)	27	37	19	70	17
Private transfers (net)	23	29	22	24	22
Current account	-630	-507	-669	-478	-487
Government transfers	143	146	268	294	292
Medium- and long-term borrowing	140	167	144	219	76
Central Government	(99)	(138)	(113)	(170)	(53)
Other	(41)	(29)	(31)	(49)	(23)
Suppliers' credits (net)	--	57	61	101	1
Other capital movements and errors and omissions	56	21	-7	-129	-9
SDR allocations	--	7	7	6	--
Overall balance	-291	-109	-196	13	-127
Monetary movements	291	109	196	13	127
Arrears (decrease -)	65	91	147	-8	108
Net foreign assets (increase -)	226	18	49	-5	19
	(In millions of Tanzania shillings)				
Monetary survey (end of period)					
Net foreign assets	-991.8	-1,479.6	-2,781.9	-2,757.8	-3,455.6
Of which: arrears	-480.6	-1,282.3	-2,481.9	-2,449.3	-3,245.1
Domestic credit	10,260.3	14,134.9	17,719.9	21,874.8	26,317.6
Government (net)	(4,448.3)	(7,952.8)	(11,050.8)	(14,093.6)	(17,850.6)
Other	(5,812.0)	(6,182.1)	(6,669.1)	(7,781.2)	(8,467.0)
Money plus quasi-money	8,509.5	11,512.5	14,210.0	17,638.2	21,446.2
Currency outside banks	(2,765.0)	(3,750.3)	(4,902.0)	(6,309.1)	(7,675.5)
Demand deposits	(3,200.9)	(4,419.3)	(5,247.0)	(6,068.7)	(7,347.9)
Time and savings deposits	(2,543.6)	(3,342.9)	(4,061.0)	(5,260.4)	(6,422.8)
Other items (net) (net liabilities -)	-759.0	-1,142.8	-728.0	-1,478.8	-1,415.8
	(In annual per cent changes)				
Domestic credit (net)	46.5	37.8	25.4	27.5	24.8
Money plus quasi-money	12.1	35.3	23.4	24.1	21.6
Of which: currency outside banks	23.3	35.6	30.7	28.7	21.7

Financial Relations of the World Bank Group with Tanzania

Date of membership IBRD:	September 10, 1962
Capital subscription IBRD:	SDR 35.0 million

IBRD loans and IDA development credits 1/	Committed	Disbursed
	(In millions of U.S. dollars)	
Agriculture, livestock, and rural development	301.60	193.80
Education	72.34	33.11
Energy	100.19	100.19
Industry	214.58	140.22
Transportation	100.35	82.42
Utilities	20.50	15.79
Program	60.00	59.74
Other	20.00	9.58
Total	889.57	634.85
Repayments	-42.34	
Debt outstanding (including undisbursed)	847.21	

Source: World Bank.

1/ Through May 31, 1983.

Tanzania: Sales Tax and Other Revenue Measures
Enacted in January 1983

Item	Old rate	New rate	Revenue estimates (In millions of T Sh)
Beer	T Sh 24.50/liter	T Sh 36/liter	425.8
Soft drinks	T Sh 4.25/liter	T Sh 6.80/liter	29.9
Cement	T Sh 1.25/bag (50 kilos)	T Sh 6.25/bag	25.0
Cigarettes	Specific rates increased 25 per cent to T Sh 140-430 per 1,000 cigarettes		66.7
Sugar	25 per cent ad valorem	60 per cent ad valorem	19.0
Petroleum	30 per cent/1,000 liters	50 per cent/1,000 liters	120.0
Spirits	Specific rates increased 50 per cent to T Sh 150-200 per liter		26.2
Textiles	Average 70-120 per cent ad valorem	Average 100-125 per cent ad valorem	20.0
Miscellaneous fees and licenses 1/			70.0
Total			802.6

Source: Ministry of Finance.

1/ Includes business licenses, motor vehicle tax, airport tax, entertainment tax, and stamp duty.