

EBS/86/183
Correction 1

CONFIDENTIAL

August 14, 1986

To: Members of the Executive Board
From: The Acting Secretary
Subject: Tanzania - Request for Stand-By Arrangement

The following corrections have been made in EBS/86/183 (8/8/86):

Page i, heading: for "(In consultation with the Legal Department and the
Treasurer's Department)"
read "(In consultation with the Fiscal, Legal, and
Treasurer's Departments)"

Page 29, 1st full para., line 8: for "foreign exchange constrTabn."
read "foreign exchange constraint."

Page 51, para. No. 1, lines 3 and 4: for "the 18-month period ending
March 30, 1988"
read "the 18-month period"

Page 52, para. No. 6, lines 3 and 4: for "will take any further measures"
read "will consider taking any
further measures"

Page 68, Section VIII, line 2: for "(EBM/86/--)" read "(EBM/86/48)"
para. No. 2, line 5: for "SM/86/--," read "SM/86/23,"

Corrected pages are attached.

Att: (5)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

TANZANIA

Request for Stand-By Arrangement

Prepared by the African Department and the Exchange
and Trade Relations Department

(In consultation with the Fiscal, Legal,
and Treasurer's Departments)

Approved by A.D. Ouattara and W.A. Beveridge

August 8, 1986

Contents

	Page
I. Introduction	1
II. Recent Economic Developments	4
1. Developments through 1984/85	4
2. Developments in 1985/86	7
III. Adjustment Program for 1986/87	9
1. Exchange rate and trade policies	12
2. Agricultural sector policies	14
3. Fiscal policies	17
4. Monetary and credit policies	23
5. Domestic pricing and other structural reforms	26
6. Program targets and financing for 1986/87	27
7. Performance criteria and review clauses	29
IV. Medium-Term Outlook	31
V. Staff Appraisal and Recommendations	37
VI. Decision	41
<u>Annex I</u>	
Summary of Financial Program	42
<u>Annex II</u>	
Stand-By Arrangement	47

Annex III

Letter of Intent	51
Memorandum on Economic and Financial Policies	53

Annex IV

Tanzania-Fund Relations	67
-------------------------	----

Annex V

Tanzania - Relations with the World Bank Group	69
--	----

Annex VI

Tanzania - Basic Data	70
-----------------------	----

Text Tables

1. Schedule of Proposed Purchases and Repurchases September 1986-March 1988	2
2. Selected Economic and Financial Indicators, 1982-85, 1986/87	5
3. Gross Domestic Product and Expenditure, 1984-87	11
4. Financial Operations of Major Agricultural Marketing Boards	16
5. Central Government Operations, 1983/84-1986/87	20
6. Cumulative Revenue, Expenditure, Overall Deficit and Bank Credit Targets and Ceilings	22
7. Monetary Survey, 1981-87	24
8. Balance of Payments, 1982-85, 1986/87	28
9. Quantitative Ceilings and Performance Criteria, 1986/87	30
10. Balance of Payments, 1985-91	32
11. Export Projections, 1985-91	33
12. Medium- and Long-Term Debt as of end-1985 and Scheduled Debt Service Payments, 1986-91	36

is also seeking from official creditors a rescheduling of all external payments arrears that have arisen since the late 1970s. On the basis of the banking records, which may underestimate the level of arrears, external payments arrears were estimated at US\$637 million (including US\$17 million to the Fund) as of end December 1985. Arrears recorded by the National Bank of Commerce (NBC) relate to import payments and other current payments as well as to external debt service payments by parastatals which are effected through NBC, and amounted to US\$490 million at end December 1985, of which arrears in respect of commercial transactions and service payments recorded by NBC were about US\$310 million. Arrears recorded by the Bank of Tanzania relate to external debt obligations of the Central Government and are based on checks issued by the Government but not externalized; such arrears stood at US\$147 million at end-1985.

Tanzania's request for a rescheduling from official creditors is expected to cover arrears on all obligations. As regards the nonguaranteed commercial arrears and arrears to multilateral institutions, a means needs to be found of ensuring their orderly settlement. The program assumes that a combination of rescheduling and cash payments in regard to these arrears will be devised to ensure their orderly elimination. In 1986 only small cash payments will be possible given the tight foreign exchange constraint. As a performance criterion, the program specifies that Tanzania would reduce its existing arrears by cash payments by US\$50 million between July 1, 1986 and June 30, 1987, of which the arrears reduction would amount to at least US\$25 million before end-September 1986, and US\$30 million before end-December 1986. In addition, as a performance criterion, no new arrears would be accumulated during the program period except against debt service obligations under Tanzania's request to official creditors, until the Paris Club meets to consider such a request.

In view of this constraint and the evident difficulties that Tanzania has encountered in servicing its external debt obligations, the program establishes strict limits on the contracting of new nonconcessional loans of a maturity of up to and including 15 years. This limit is zero for all government and government (or central bank) guaranteed debt, as well as other public debt, except that producing enterprises in the public sector may contract such loans aggregating no more than US\$50 million. Normal short-term import credits are also allowed under the program.

7. Performance criteria and review clauses

The stand-by arrangement includes the following performance criteria, and the quantitative ceilings are specified in Table 9:

- (i) Ceilings on the net domestic credit of the banking system; through end-December 1986;
- (ii) Subceilings on net bank credit to Government; through June 30, 1987, with March 1987 as an indicative target.

Table 9. Tanzania: Quantitative Ceilings and Performance Criteria, 1986/87

	June 1986 Est. 1/	July- Sept. 1986	July- Dec. 1986	July 86- Mar. 87	July 86- June 87
	1986				
	Performance criteria				
(In millions of U.S. dollars)					
Cumulative reduction of external arrears (end of period) (including IMF)	720	25	30	40	50
New external payments arrears (gross)	--	--	--	--	--
Increase in public and publicly guaranteed short-term external debt 2/	...	--	--	--	--
Government's contracting and guaranteeing of nonconcessional loans of 1-15 years maturity	...	50	50	50	50
(In millions of Tanzania shillings)					
Change in total bank credit 3/	52,212	4,600	6,309
Increase in net central government domestic bank borrowing 3/	33,772	1,600	1,800	...	2,500
Bank credit to specified marketing boards	6,145	1,500	2,550
Indicative total central government expenditure targets	...	9,247	20,075	30,954	49,899
Indicative central government recurrent expenditure targets	...	6,870	14,575	21,954	35,040
Overall central government deficit	...	2,647	5,275	7,904	17,000

1/ Data represent the estimated stocks outstanding at the end of June 1986.

2/ Excludes bridging finance and import-related credits.

3/ Excludes non-negotiable securities issued to cover devaluation losses on nongovernment external payments arrears.

August 8, 1986

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière:

1. Annexed hereto is a Memorandum of Understanding on Economic and Financial Policies describing the economic program that the Government of Tanzania intends to pursue in the 18-month period and the quantitative targets it expects to achieve in the remainder of 1986. The primary objective of the Government is to lay the basis for a rehabilitation and sustainable recovery of the economy within the context of achieving viability of balance of payments. To this end, the Government has adopted policies aimed at improving the competitiveness of the economy by devaluing the Tanzanian shilling, containing the public sector deficit, and ensuring an adequate level of producer incentives. The Tanzanian Government is requesting from its major creditors that these policies are adequately supported by the restructuring of external debt and external payments arrears, and the arranging of new financing on concessional terms.
2. In support of this program, the Government of Tanzania requests herewith a stand-by arrangement for 18 months from the International Monetary Fund in an amount equivalent to SDR 64.2 million.
3. The Government of Tanzania has initiated discussions with the international financial community to secure a restructuring of its external debt and external payments arrears and to obtain new external financing. Already, as a result of the Consultative Group meeting held in Paris on June 10-11 under the aegis of the World Bank, a significant amount of additional balance of payments support on concessional terms has been pledged in support of our program. We are confident that the Paris Club and the official creditors will also be equally sympathetic to our request for debt and arrears rescheduling. This, combined with the expected program loans from the World Bank and the use of Fund resources, would make the program fully financable.
4. For purposes of monitoring the program the attached memorandum envisages various performance criteria, which will govern purchases from the Fund under the requested stand-by arrangement, and some indicative targets that would guide discussions with the Managing Director of the Fund. The performance criteria relate to the monthly adjustment of the exchange rate (paragraph 8 of the attached Memorandum), the completion of the two reviews with the Fund before end-February 1987, and end-July 1987, the reduction in the existing stock of external payments arrears and the avoidance of accumulation of new arrears during the program (paragraph 12), limits on new external debt with an initial maturity of more than one year and up to and including 15 years (paragraph 13), the ceilings on the overall government deficit

(paragraph 22), and limits on external debt of up to one year (excluding bridge finance and normal import credits), the ceilings on net bank credit to Government (paragraph 23), ceilings on total bank credit (paragraph 24), ceilings on total bank credit to specified parastatals (paragraph 15), and understandings regarding multiple currency practices, restrictions on payments and transfers for current international transactions, import restrictions, and new bilateral payments agreements (paragraph 11). In addition, the Memorandum specifies indicative targets in respect of net external assets, investments in government securities by the Coffee Marketing Board and government total and recurrent expenditures.

5. The satisfactory completion of these reviews, along with the observance of the relevant performance criteria, would govern purchases from the Fund under the proposed stand-by arrangement. The first review will focus, inter alia, on the exchange rate and interest rate policies, as well as establish performance criteria for March and June 1987. The second review will be devoted to reaching understandings on the budgetary policies for the fiscal year 1987/88, the exchange and interest policies, and the performance criteria for the rest of the program period. In addition, the Government will consult with the Managing Director no later than November 1986 on the policies set forth in the economic and financial memorandum, including the projected revision of the export policy in August 1986, as well as the results of the approaches to external donors and creditors and their implications for the balance of payments. It is also the Government's intention to use the occasion of that consultation to initiate negotiations with the Fund on a program under the Structural Adjustment Facility.

6. The Government of Tanzania believes that the policies set out in the attached Memorandum on Economic and Financial Policies are adequate to achieve the objectives of its program, but will consider taking any further measures that may become appropriate for this purpose. The Tanzanian Government will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.

Yours sincerely,

C.D. Msuya
Minister of Finance, Economic
Affairs and Planning

Attachment

Tanzania - Fund Relations
(As of July 31, 1986)

I. Membership status

- (a) Date of membership September 10, 1962
(b) Status Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota SDR 107.00 million
- | | <u>SDR
million</u> | <u>Percent of
quota</u> |
|---|------------------------|-----------------------------|
| (b) Total Fund holdings of Tanzanian dollars: | 113.12 | 105.72 |
| (c) Fund holdings subject to repurchase and charges | 6.12 | 5.72 |
| Of which: credit tranche | (--) | (--) |
| supplementary financing facility | (6.12) | (5.72) |
| compensatory financing facility | (--) | (--) |
| (d) Reserve tranche position: | -- | -- |

III. Current Stand-By or Extended Arrangement and Special Facilities

- (a) Current stand-by arrangement: None
(b) Previous stand-by arrangements:

<u>Arrangement</u>	<u>Duration</u>	<u>Amount</u>	<u>Utilization</u> (In millions of SDRs)	<u>Undrawn balance</u>
Stand-by	8/21/75-8/21/76	10.50	--	10.50
Stand-by	9/15/80-6/30/82	179.60	25.00	154.60

(c) Special facilities:

Compensatory financing facility Approval was given on September 15, 1980 for a purchase equivalent to SDR 15.0 million.

IV. SDR Department

- (a) Net cumulative allocation SDR 31.37 million
(b) Holdings: --

Tanzania - Fund Relations (concluded)V. Administered Accounts

(a) Trust fund loans:

(i) Disbursed	SDR 41.04 million
(ii) Outstanding	SDR 33.43 million

(b) SFF Subsidy account:

(i) Payments by Fund	SDR 1.94 million
----------------------	------------------

VI. Overdue Obligations to the Fund
(As of July 31, 1986)

SDR -- million

B. Nonfinancial RelationsVII. Exchange System

The Tanzanian shilling is pegged to a basket of currencies; the middle rate in terms of the U.S. dollar, the intervention currency, was T Sh 40.000 per U.S. dollar as of June 20, 1986.

VIII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on March 20, 1986 (EBM/86/48). The following decision was adopted:

1. The Fund takes this decision relating to Tanzania's exchange measures subject to Article VIII, Section 2 and 3, and in concluding the 1985 Article XIV consultation with Tanzania, in the light of the 1985 Article IV consultation with Tanzania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Tanzania continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2. In addition, exchange restrictions evidenced by the external payments arrears, and a multiple currency practice as described in SM/86/23, are subject to approval under Article VIII, Sections 2(a) and 3. The Fund urges the authorities to adopt adjustment policies which will permit the elimination of these restrictions.

Tanzania is on the 12-month cycle for Article IV consultations.

IX. Technical Assistance

Technical assistance missions from the Bureau of Statistics were undertaken to improve the compilation of monetary aggregates (September 2-18, 1985). A member of the CBD panel of experts is assigned to the Bank of Tanzania as short-term technical advisor on external debt management.